MONETARY POLICY STATEMENT

21 July 2018

On the 20th July 2018 the Monetary Policy Consultative Committee (MPCC) of the Central Bank of Eswatini (Bank) held a meeting to consider the appropriate monetary policy stance for the Bank for the upcoming two months.

The Bank decided to keep the discount rate unchanged at 6.75 per cent.

This monetary policy stance was found appropriate after considering international, regional and domestic economic conditions, which would have an effect on the Bank's price and financial stability mandate. The Bank further reassures the public that the Bank's monetary policy stance remains supportive to economic growth.
Global economic conditions remain buoyant but facing upside risks from the trade war and geopolitical developments. Global growth is expected to increase to 3.9 per cent in 2018 from the 3.7 per cent recorded in 2017. Leading the advance is the recovery of Emerging Market and Developing Economies (EMDEs) whose growth is forecasted to be at 4.9 per cent in 2018.

In addition, the MPCC noted that in recent months global inflation has been fairly stable but with an upward bias. Rising oil prices, US dollar appreciation as a result of higher yields in the US, and trade and geopolitical tensions continue to pose an upside risk to inflation and cloud the global economic outlook.

The South African economy contracted by 2.2 per cent in the first quarter of 2018 from a growth of 3.1 per cent in the last quarter of 2017. The MPCC noted that major contributors to the contraction were mainly mining and manufacturing sectors. Consumer inflation increased to 4.6 per cent in June 2018 from 4.4 per cent in May and remained within the target range of 3-6 per cent. The impact of VAT increase in South Africa appears to be less than anticipated, hence the headline inflation is now expected to average 4.8 per cent in 2018 (down from 4.9 per cent) before increasing to 5.6 per cent (up from 5.2 per cent) in 2019. The South African Reserve Bank noted that rising oil prices and a weaker exchange rate pose an upside risk to the inflation outlook.

Eswatini's headline inflation rate slightly increased from 4.8 per cent in May 2018 to 4.9 per cent in June 2018, due to a rise in prices of food and non-alcoholic beverages. Inflation averaged 4.83 per cent in the second quarter of 2018, which is 0.22 per cent below the forecast of 5.05 per cent for the quarter. Forecasts for the third and fourth quarter have been revised upwards from 5.66 per cent for both quarters to 5.89 per cent and 6.31 per cent, respectively. The Bank expects inflation to average 5.41 per cent in 2018, unchanged from the previous forecast. The Bank also considered the impact of the increase in VAT and utility prices as major contributors to the upward trend in inflation outlook.

Furthermore, credit extended to the private sector has been depressed showing broadly poor economic activity in the country. Credit to the private sector increased by 0.5 per cent from E14.1 billion in April 2018 to E14.2 billion at the end of May 2018. The increase in demand for credit was observed in credit extended to both Other Sectors and Households while credit to the Business sector declined. On the other hand, Credit to the Business Sector fell by 2.3 per cent month-on-month to settle at E6.0 billion. Credit to Households & Non-Profit Institutions Serving Households (NPISH) recorded an increase of 2.2 per cent month-on-month to reach E6.1 billion at the end of May 2018. This development was mainly due to an 8.7 per cent rise in Other Personal (unsecured) Loans.

The country's reserves, as at 13 July 2018, stood at E7.3 billion, enough to cover an estimated 3.5 months of imports of goods and services. The increase in Reserves was on account of South African Customs Union (SACU) receipts inflow in July. At this level the Reserves were above the internationally recommended 3 months of imports of goods and services.

The Bank will continue to monitor developments that will influence the movements of inflation and reassures the public that it will act appropriately if there are significant changes to the inflation outlook.

Majozi V. Sithole
GOVERNOR

CENTRAL BANK
OF ESWATINI
Umntsholi Wemaswati

Umntsholi Building, Mahlokohla Street, Mbabane
P.O. Box 546, Mbabane, Eswatini
(+268) 2408 2000
(+268) 2404 0063
Central Bank of Eswatini
info@centralbank.org.sz