INTEREST RATE

We have cut interest rate from **6.75%** to **6.5%**

INFLATION

Inflation has increased from **1.6%** in May 2019 to **1.7%** in June.

WHAT DOES THIS MEAN?

- Banks will lower their lending rates on loans dispersed to individuals and businesses until the next monetary policy meeting.
- Overall, inflation is low indicating that the growth rate of the cost of goods and services is slow.

WHAT TO EXPECT

- The Bank holds the view that the cost of goods and services will continue to increase at a slower pace.

ECONOMIC ACTIVITY

- Economic activity (GDP) increased by **4.2%** on a year-on-year basis (seasonally adjusted) in the first quarter of 2019. The main contributing sectors were manufacturing, wholesale and retail as well as agriculture and forestry.

CENTRAL BANK OF ESWATINI
Umntsholi Wemaswati

MONETARY POLICY STATEMENT

19 JULY 2019

On the 19th of July 2019, the Central Bank of Eswatini (Bank), together with the Monetary Policy Consultative Committee (MPCC) held a meeting to consider the appropriate monetary policy stance for the upcoming two months. The bank decided to cut the discount rate by 25 basis points from 6.75 per cent to 6.5 per cent after considering the following global, regional and domestic economic developments.

On the global front, growth is seen weakening to 3.6 per cent in 2018 and the forecast for 2019 has also been revised down to 3.3 per cent (from 3.5 per cent). The Bank has also observed heightening uncertainty arising from trade tensions, geopolitical developments and declining business confidence which continue to pose downside risks to the global growth outlook. Inflation in advanced economies is stable and global monetary policy remains largely accommodative.

The South African economy shrank by an annualised 3.2 per cent in the first quarter of 2019, from a 1.4 per cent growth in the previous quarter, mainly due to contractions in manufacturing and mining. GDP growth is expected to average 0.6 per cent in 2019 (down from 1 per cent in May) while the forecasts for 2020 and 2021 remain unchanged at 1.8 per cent and 2.0 per cent, respectively. Consumer prices slightly increased from 4.4 per cent recorded in April 2019 to 4.5 per cent in May 2019. Inflation is expected to average 4.4 per cent in 2019 (down from 4.5 per cent). Forecasts for 2020 and 2021 remain unchanged at 5.1 per cent and 4.6 per cent, respectively.

On the domestic front, macroeconomic conditions are largely supporting a more accommodative monetary policy. Real GDP growth marginally increased by 0.9 per cent (quarter-on-quarter) in the first quarter of 2019 from a 7.2 per cent growth recorded in the fourth quarter of 2018. However, year-on-year growth recorded a 4.2 per cent increase in the first quarter of 2019 from a 2.4 per cent growth recorded in the fourth quarter of 2018. The notable increase on a year-on-year basis largely benefitted from improvements in the secondary sector which expanded by 6.9 per cent (year-on-year) in the first quarter of 2019 compared to 3.8 per cent in the previous quarter. The primary sector increased at a slower rate of 5.6 per cent (year-on-year) in the first quarter of 2019 compared to 6.5 per cent in the previous quarter. Performance in the tertiary sector was recorded at 4.1 per cent in the first quarter of 2019 from 1.2 per cent observed in the previous quarter.

The year-on-year headline inflation rate persisted below 2 per cent in June 2019, recording a marginal increase of 1.7 per cent from 1.6 per cent observed in May 2019. The increase in consumer prices in June 2019 was mainly due to an increase in prices for 'Clothing and Footwear', 'Furnishing, Household Equipment and Household Maintenance' and 'Food and Non-Alcoholic beverages'. The freeze on utility tariffs continues to dampen the country's inflation as seen in the low inflation rate observed in the past few months. The Bank's quarterly inflation is therefore forecasted to average 2.17 per cent in the third quarter of 2019 (down from 5.13 per cent). The downward revision was on the basis of the delayed inclusion of VAT on electricity and the moderating oil prices.

Private Sector Credit grew by 1.8 per cent in May 2019, a recovery from a contraction of 0.8 per cent in April 2019. The increase in demand for credit was observed in all its components, namely; credit to Other Sectors (Local Government, Parastatals and Other Financial Corporations), Businesses and Households. Credit Extended to Other sectors expanded by 8.1 per cent from E2.1 billion in April 2019 to E2.2 billion at the end of May 2019. Credit extended to the Business Sector grew by 0.8 per cent month-on-month to E6.9 billion in May 2019, a turnaround from the decline of 0.4 per cent observed the previous month. Credit extended to Households & Non-Profit Institutions Serving Households (NPISH) amounted to E6.0 billion in May 2019, 0.6 per cent higher than observed the previous month. The country's stock of reserves stood at E6.9 billion as at 12 July 2019, equivalent to 3 months of imports of goods and services.

The current levels of inflation are lower than the Bank's objective of keeping inflation within the range of 3-7 per cent. As such, the Bank is cautious in its approach of implementing monetary policy, with its principal goal of ensuring price stability conducive for economic growth and development.

Furthermore, the current challenges emanating from persistent fiscal challenges weigh heavily on macroeconomic stability. In its assessment, the Bank has observed that the macroeconomic challenges faced are structural in nature and cannot be resolved by monetary policy tools alone.
The Bank wishes to assure the public that the monetary policy stance remains accommodative and supportive for growth. Any developments that would necessitate the Bank to review its current stance will be monitored and an appropriate action taken to foster price and financial sector stability.

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