MONETARY POLICY STATEMENT

25 May 2018

On the 25th May 2018, 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 Bank for the upcoming two months.

The appropriate monetary stance was taken after considering international, regional and domestic economic conditions, which the Bank envisaged would have an effect on its price and financial stability mandate.

The Bank decided to keep the discount rate unchanged at 6.75 per cent. The underlying reasons for maintaining the discount rate are enumerated below:

The MPCC noted that global growth continued to improve owing to an increased momentum in trade and investment, supported by favourable financial conditions. Inflation in most advanced economies is moderating but remains on an upward trajectory, especially in the USA. The rising oil and food prices pose an upside risk to global inflation.

Under regional developments, growth in South Africa firmed up from 2.3 per cent in the third quarter of 2017 to 3.1 percent in the last quarter of 2017. Consumer inflation increased to 4.5 per cent in April 2018 from 3.8 per cent in March 2018, as the impact of VAT increase and other levies became evident. Whilst the inflation forecast for South Africa remains unchanged at 4.9 per cent for 2018 and 5.2 per cent for 2019, the South African Reserve Bank noted that rising oil prices and a weak Rand could result in higher inflation over the medium term.

In Eswatini, headline inflation had an upswing in the month of April 2018, increasing to 4.8 per cent from 4.0 per cent in March 2018. The rise in overall inflation was as a result of a higher increase in the price index for 'Housing and Utilities', which jumped by 13.3 per cent in April 2018 from an increase of 8.1 per cent in March 2018. This was mainly due to a 15 per cent year-on-year increase in the prices for 'actual rentals'. Of note also is that electricity tariffs increased by an average of 15 per cent in April 2018 as part of the two-year-multi-tariff approved by the energy regulator in 2017. Inflation averaged 4.3 per cent in the first quarter of 2018. The Bank's inflation forecasts for the second and third quarter of 2018 remain unchanged at 5.26 per cent and 5.66 per cent, respectively. The proposed increase in Value Added Tax (VAT) and rising oil prices will result in inflation rising over the period of the forecast.

Growth in credit extended to the private sector has shown marginal slowdown. Year-on-year credit extension to the private sector grew by 11.2 per cent in March 2018 compared to a 12.7 per cent growth recorded in January 2018. This was in spite of the accommodative monetary policy stance pursued by the Bank since January 2018. The reduction in demand for credit was observed in Community, Social Services & Personal Services, Real Estate, Mining & Quarrying and Manufacturing.

As at 18 May 2018, the country's reserves were at E6.5 billion, enough to cover an estimated 3.2 months of imports of goods and services. The country's reserves have remained above the internationally recommended 3 months of imports of goods and services, even though next month might be challenging.

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. The Bank further reassures the public that the Bank's monetary policy stance remains supportive to economic growth.

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