

MONETARY POLICY STATEMENT

23 November 2018

On the 23rd of November 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 until the next meeting on 19 January 2019.

The Bank decided to maintain the discount rate 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.

Global growth forecasts for 2018 have been revised downwards to 3.7 per cent from 3.9 per cent. Financial conditions in advanced economies remain accommodative; however, they could rapidly tighten depending on developments in trade tensions, policy uncertainty, and the rising inflation in the USA.

Regionally, the South African economy is in a technical recession following that it shrank by a seasonally adjusted 0.7 per cent in the second quarter of 2018 after a 2.6 per cent contraction in the first quarter of 2018. Consumer prices increased from 4.9 per cent in September 2018 to 5.1 per cent in October 2018. Revised inflation forecasts were observed, and it is now estimated that inflation will average 4.7 per cent in 2018 (from 4.8 per cent), before increasing to 5.5 per cent in 2019 (from 5.7 per cent). The South African Reserve Bank assesses risks to long-term inflation to be on the upside.

On the domestic front, real GDP for Eswatini is projected to contract by 0.4 per cent in 2018 from 1.9 per cent in 2017, mainly due to ongoing government cash flow challenges and the anticipated negative impacts on domestic exports destined to South Africa due to the economic recession.

Annual headline inflation increased to 5.2 per cent in October 2018, from 5.1 per cent recorded in September 2018. The slight increase in consumer inflation was mainly driven by increases in the price indices for 'food and non-alcoholic beverages' and 'clothing and footwear'. The Bank's inflation forecasts for the fourth quarter have been revised downwards from the 5.59 per cent forecasted in September 2018 to 5.45 per cent due to declining international oil prices. Consequently, the Bank's forecast for 2018 is revised downwards to 5.17 per cent from the 5.21 per cent forecasted in September 2018.

Credit extended to the private sector depicted a month-on-month increase of 0.3 per cent to reach E14.4 billion at the end of September 2018. The increase was due to a rise in demand for credit in the Household and Business sectors. However, credit to 'Other sectors' contracted over the review period. Compared to the same period last year, credit extended to the Private Sector depicted an increase of 4.4 per cent.

Gross Official Reserves stood at E7.1 billion at the end of October 2018, depicting a month-on-month increase of 9.8 per cent. The growth was mainly due the quarterly inflow of SACU receipts during the month of October 2018. The Reserves were equivalent to an import cover of 3.3 months, an improvement from the 3.0 months observed in September 2018.

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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