# MONETARY POLICY STATEMENT

**20 September 2018**

On the 20th September 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 taken following an extensive review of the 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 growth outlook remains subdued amid rising tensions over international trade and a protectionist narrative by key economic powers. The MPCC also noted that global inflation outlook remains steady but on an upward trajectory due to rising oil prices. Global inflation rate is expected to average 3.49 per cent in 2018 compared to 3.05 per cent in 2017.

The South African economy is in technical recession, with a -0.7 per cent GDP growth in the second quarter of 2018 following another negative growth of 2.6 per cent in the first quarter of 2018. Leading contributors to the technical recession was the contraction in the growth of the agricultural and manufacturing sectors. A weaker economic growth of 0.7 per cent is expected for South Africa in 2018. The MPCC noted that the South African consumer inflation decreased to 4.9 per cent in August 2018 from 5.1 per cent in July 2018, remaining within the target range of 3-6 per cent. The weaker exchange rate and higher oil prices remain upside risks to the South African inflation outlook, with downside risks being the falling food inflation. Therefore, the South African headline inflation projection for 2018 is unchanged at an average 4.8 per cent, expected to increase to 5.7 per cent 2019.

On the domestic front, real GDP is projected to slow down by -0.4 per cent in 2018 from 1.9 per cent increase in 2017, mainly due to the ongoing government cash flow challenges and the anticipated negative impacts of South Africa's recession on domestic exports to South Africa. The primary sector is expected to mitigate the economic decline in 2018.

Annual headline inflation remained unchanged at 4.9 per cent in August 2018 same as in July 2018 due to a moderation in food inflation which remained in a deflation of 1.1 per cent in August. The increases in administered prices are the main contributors to recent inflation outcomes. The Bank has revised downwards its forecasts for headline inflation. For the third quarter of 2018, the Bank now expects headline inflation to reach 5.14 per cent in the third quarter and 5.60 per cent in the fourth quarter of 2018. The downward revision is in line with the persistently low food inflation, which is expected to remain low for the remainder of the year. Annual average inflation forecast for 2018 has thus been revised down to 5.21 per cent from the 5.41 per cent forecasted at the previous MPCC meeting. Upside risks to the inflation outlook remain. The MPCC noted that fuel prices may rise as crude oil prices continue with their upward trajectory. Furthermore, the above inflation salary adjustments will put pressure on inflation outcomes.

The MPCC observed that private sector credit continues to grow at a slower pace broadly indicative of a deteriorating economic environment. Credit extended to the private sector increased slightly by 1.1 per cent to reach E14.6 billion at the end of July 2018, from E14.5 billion in June 2018. The increase was observed in credit extended to the Business sector while credit extended to both Households and Other Sectors declined. Credit to the Business Sector grew by 7.7 per cent month-on-month to settle at E6.9 billion in July 2018. Credit to Households & Non-Profit Institutions Serving Households (NPISH) contracted by 4.4 per cent month-on-month to reach E5.6 billion. This development was attributed to a fall of 10.3 per cent in Other Personal (unsecured) Loans and 2.7 per cent in Housing Finance.

As at 14 September 2018, the country's Reserves stood at E6 billion, enough to cover an estimated 2.8 months of imports of goods and services. The decline in Reserves was mainly on account of a net outflow of Rands to South Africa combined with a drawdown to finance Government expenditures. At this level, the Reserves were below 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.

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