

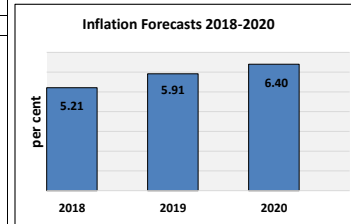
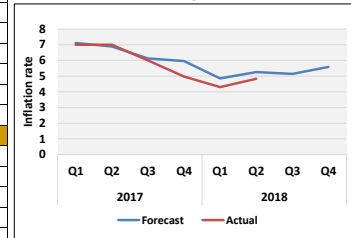


Forecasts notes

Inflation averaged 4.9 per cent in the first two months of the second quarter of 2018, 0.35 per cent below the forecast average of 5.25 per cent for the quarter. The continuous moderation in food inflation which has remained in the deflation zone for the previous four months, which is the main driver of the country's headline inflation and the less effective anticipated impact of 1 percentage point VAT increase in South Africa contributed to the lower inflation outcome. Headline inflation has been revised downwards to 5.14 per cent in the third quarter and 5.60 per cent in the fourth quarter of 2018. The annual average for 2018 is thus expected at 5.21 per cent down from the 5.41 per cent forecasted in July 2018. This downward revision is in line with the persistently low food inflation, which is expected to remain in place for the remainder of the year. Risks emanating from oil supply shocks and the weaker exchange rate, however, remain high with oil prices forecasted to remain elevated in 2019. The Bank's forecasts for 2019 has been reviewed downwards from 6.31 per cent to 5.91 per cent.

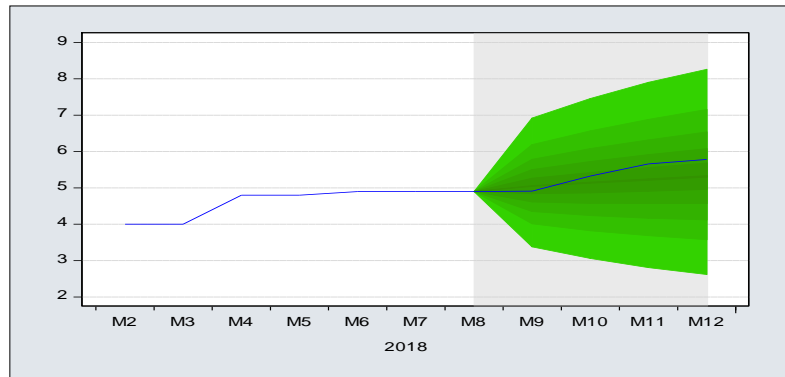
| 2017 CPI (% y/y) | | |
|-------------------------------------|------------------|----------------|
| DATE | Forecasts - 2017 | Actuals - 2017 |
| Quarter 1 Average | 7.11 | 7.00 |
| Quarter 2 Average | 6.89 | 7.00 |
| Quarter 3 Average | 6.13 | 6.00 |
| Quarter 4 Average | 5.96 | 4.97 |
| Annual Average | 6.52 | 6.24 |
| 2018 CPI (% y/y) | | |
| DATE | Forecasts - 2018 | Actuals - 2018 |
| Quarter 1 Average | 4.85 | 4.30 |
| Quarter 2 Average | 5.25 | 4.83 |
| Quarter 3 Average | 5.14 | |
| Quarter 4 Average | 5.59 | |
| Annual Average | 5.21 | |
| MEDIUM TERM CPI PROJECTIONS (% y/y) | | |
| 2018 | 5.21 | |
| 2019 | 5.91 | |
| 2020 | 6.40 | |

Graphs



FAN CHART FOR 2018 INFLATION PROJECTIONS

The Lilangeni remains sensitive developments around the proposed program to expropriate land without compensation by the South Africa government. The current trajectory of persistent weak economic growth in South Africa and the prospects thereof further discourage any potential for the Rand/Lilangeni to appreciate and or at least stabilize. The pace of monetary policy tightening by the US Fed and the spillover effects of the trade tensions by US on other economies pose a downside risk to the Rand/Lilangeni exchange rate.



Even though inflation is forecasted to moderate to 5.21 per cent in 2018 from 5.41 per cent in the beginning of the year, the fan chart indicates that inflation is biased upwards in the outer months of 2018.

Note that the Central Bank of Eswatini will not be held liable for any eventualities resulting from the use of this information. For any enquiries please contact the Research Department at 2408 2244/2415.