CENTRAL BANK OF ESWATINI
Umntsholi Wemaswati

INTEREST RATE

We have reduced the interest rate from **4%** to **3.75%**

INFLATION

Inflation decreased from **4.0%** in May 2020 to **3.8%** in June 2020.

WHAT DOES THIS MEAN?

- Banks will reduce their lending rates on loans dispersed to individuals and businesses until the next monetary policy meeting.
- Overall inflation remains moderate.

WHAT TO EXPECT

The Bank holds the view that the cost of goods and services will continue to increase moderately over the year 2020 with a forecast average of **3.77%.**

ECONOMIC ACTIVITY

Quarterly Gross Domestic Product fell by **6.5** per cent on a year-on-year basis (seasonally adjusted), in the first quarter of 2020, from a revised decline of **1.2** per cent in the last quarter of 2019. On a quarter-on-quarter basis, economic activity contracted by **5.3** per cent (seasonally adjusted) in the first quarter of 2020 from a **0.3** per cent increase in the fourth quarter of 2019.

MONETARY POLICY STATEMENT

24 JULY 2020

On the 24th of July 2020, the Central Bank of Eswatini (Bank), together with the Monetary Policy Consultative Committee (MPCC) held a meeting to consider the appropriate monetary policy stance. The Bank decided to cut the discount rate by 25 basis points from 4.0 per cent to 3.75 per cent after considering various factors.

The MPCC noted that the COVID-19 pandemic continued to threaten the global economy over the current year with the International Monetary Fund's latest data release suggesting deeper downturns than previously anticipated for several economies. The IMF now forecasts global growth to contract by 4.9 per cent (from a 3 per cent contraction in the April forecast) in 2020 before rising to 5.4 per cent (from 5.8 per cent) in 2021. Advanced economies are projected to contract by 8.0 per cent (from a 6.1 per cent contraction in the April forecast) in 2020 whilst emerging market and developing economies are expected to contract by 3 per cent (from a 1 per cent contraction) in 2020. The IMF noted that there is high level of uncertainty around the forecast and that the forecast depends on the depth of the contraction in the second quarter of 2020 as well as the magnitude and persistence of COVID-19.

On a year-on-year basis, the South African economy contracted by 2 per cent in the first quarter of 2020 following another 1.4 per cent contraction in the fourth quarter of 2019. The two largest negative contributors to growth in GDP in the first quarter were mining and manufacturing industries. Economic growth forecasts for South Africa have been further revised down to -7.3 per cent (from -7 per cent) for 2020 and 3.7 per cent (from 3.8 per cent) for 2021. Consumer prices decreased to 2.1 per cent in May 2020 from 3.0 per cent in April 2020. The inflation outlook remains unchanged at 3.4 per cent for 2020 whilst for 2021 it has been marginally revised down to 4.3 per cent (from 4.4 per cent). The South African Reserve Bank (SARB) reduced the repo rate by 25 basis points to 3.5 per cent in July 2020 from 3.75 per cent.

On the domestic front, the economy recorded a technical recession in the first quarter of 2020. Economic activity, as measured by the Quarterly Gross Domestic Product, fell by 6.5 per cent on a year-on-year basis, in the first quarter of 2020, from a revised decline of 1.2 per cent in the last quarter of 2019. The observed slump in overall economic activity was largely attributed to poor performance in the secondary sector amid the COVID-19 pandemic. The secondary sector contracted by a significant 19.3 per cent, year-on-year, in the quarter ended March 2020 owing to poor performance in the 'manufacturing', 'electricity supply' and 'construction' sub-sectors.
Fiscal cash-flow challenges continued to weigh negatively on implementation of public infrastructural projects thereby resulting in constrained output in construction activity. Evidently, construction activity declined by 29 per cent, year-on-year, in the first quarter of 2020 from a 21 per cent increase in the fourth quarter of 2019. The short-medium term growth outlook is expected to remain challenging due to the pandemic.

The year-on-year headline inflation moderated marginally to record 3.8 per cent in June 2020 compared to 4.0 per cent in May 2020. This was mainly driven by slower increases in the price indices for 'transport' (1.7 per cent from 2.2 per cent) and the index for 'furnishing and household equipment' (1.6 per cent from 2.8 per cent). The inflation forecast was revised upwards to 3.77 per cent (from 3.54 per cent) for 2020 and 4.34 per cent (from 3.93 per cent) for 2021. Informing the upward revision were the expected water tariff increase and assumptions of the prolonged COVID-19 pandemic effects.

Private sector credit increased by 1.4 per cent over the month to E14.2 billion at the end of May 2020 from E14.0 billion in April 2020. The monthly increase in private sector credit was observed across all its sub-sectors. Credit extended to the businesses sector improved by 1.6 per cent month-on-month and contracted by 9.5 per cent over the year to close at E6.2 billion at the end of May 2020. Credit extended to the households and non-profit institutions serving households (NPISH) sector stood at E6.6 billion at the end of May 2020, 0.4 per cent higher than the previous month. Credit extended to the “Other Sector” category increased by 5.2 per cent to reach E1.3 billion at the end of May 2020. Non-performing loans increased by 0.6 per cent over the month and by 13.5 per cent over the year to reach E827.0 million at the end of May 2020.

As at 17 July 2020, the country's stock of reserves stood at E7.6 billion, equivalent to 3.2 months of import cover. At this level, reserves are above the IMF benchmark of three months of import cover.

Preliminary figures, as at the end of June 2020, show that Eswatini's total debt stock increased by 3.5 per cent to reach E23.9 billion, an equivalent of 33.4 per cent of GDP. At 33.4 per cent of GDP, the country's debt to GDP is below the 35 per cent threshold; however, caution must be exercised in acquiring new debt to ensure debt sustainability.

The Bank will continue to monitor international and domestic developments that influence the movements of inflation and will act appropriately in line with its mission to foster price and financial stability that is conducive to the economic development in Eswatini.

Majozi V. Sithole
GOVERNOR