



## INTEREST RATE

- The CBE maintained the interest rate at **3.75%** per cent.



## INFLATION

- Headline inflation decreased to **4.6** per cent in December 2020 from **4.9** per cent in November 2020.
- Annual inflation averaged **3.9** per cent in 2020.



## WHAT DOES THIS MEAN?

- Banks are expected to maintain the prime lending rate on loans extended to individuals and businesses at **7.25** per cent until the next monetary policy meeting.
- Overall inflation is moderate.



## WHAT TO EXPECT

- The Bank expects the cost of goods and services to continue increasing moderately over the year 2021 with inflation forecasted to average **5.42** per cent in 2021 (from **5.38** per cent forecasted in November 2020).



## ECONOMIC ACTIVITY

- The Eswatini economy recovered in the third quarter of 2020 increasing by **1.3** per cent on a year-on-year (seasonally adjusted), from a revised decline of **9.1** per cent in the second quarter of 2020.

# MONETARY POLICY STATEMENT

**22 JANUARY 2021**

On the 22nd of January 2021, the Central Bank of Eswatini (Bank), together with the Monetary Policy Consultative Committee (MPCC) held a meeting to consider the appropriate monetary policy stance. Taking into consideration relevant global, regional, and domestic factors, and the price and financial stability mandate, the Bank decided to maintain the discount rate at 3.75 per cent.

The resurgence of COVID-19 is expected to weigh adversely on global economic activity; however, the rollout of vaccines is expected to slow the rate of infection and have a positive effect on global growth prospects generally. Most economies rebounded in the third quarter of 2020 in response to easing lockdown conditions and supportive policies. Monetary policy in advanced economies remains accommodative. The Bank expects the revised IMF forecasts for global economic activity, which would be published on 26 January 2021, to reflect this trend.

The South African Reserve Bank (SARB) forecasts the South African economy to have contracted by 7.1 per cent in 2020, an improvement from the 8.0 per cent reduction forecasted in November 2020. In 2021, the economy is forecasted to grow by 3.6 per cent (up from 3.5 per cent) and moderate to a 2.4 per cent growth in 2022. The annual inflation rate eased marginally to 3.1 per cent in December 2020, from 3.2 per cent in November 2020 remaining closer to the lower band of the SARB's target range of 3-6 per cent. The average inflation for 2020 was 3.3 per cent and consistent with SARB's expectation. The SARB marginally revised up its inflation forecasts to 4.0 per cent for 2021 (from 3.9 per cent forecasted in November 2020) and 4.5 per cent in 2022 (from 4.4 per cent). The SARB Monetary Policy Committee kept the repo rate unchanged at 3.5 per cent in its January 2021 meeting.

The Eswatini economy recovered in the third quarter of 2020 increasing by 1.3 per cent on a year-on-year (seasonally adjusted), from a revised decline of 9.1 per cent in the second quarter of 2020. On a quarter-on-quarter basis, economic activity increased by a seasonally adjusted 10.1 per cent in the third quarter of 2020 from a 7.5 per cent contraction in the second quarter of 2020. The observed growth in economic activity largely benefitted from improvements in all the three sectors of the economy, particularly the secondary sector. The secondary sector expanded by 1.6 per cent, year-on-year, in the third quarter of 2020, from a decline of 25.6 per cent observed in the second quarter of 2020.

The year-on-year headline consumer inflation moderated to 4.6 per cent in December 2020 from 4.9 per cent recorded in the previous month. The lower headline inflation was due to decreasing annual rates in "housing and utilities" which decreased from 6.3 per cent in November 2020 to 5.7 per cent in December 2020 whilst "food and non-alcoholic beverages" fell from 5.7 per cent in November 2020 to 5.1 per cent in December 2020. In 2020, inflation averaged 3.9 per cent. Forecasts indicate that inflation will rise to 5.42 per cent in 2021 (from 5.38 per cent) and will moderate to 5.25 per cent in 2022 (from 5.29 per cent). The upward revision in 2021 is due to an expected increase in oil prices and domestic administered prices whilst the moderation in 2022 is due to an on the expected appreciation of the exchange rate and the prospects of a successful roll-out of COVID-19 vaccine which would normalise global economic activity.

Credit extended to the private sector increased by 3.3 per cent compared to the previous month to settle at E15.5 billion at the end of November 2020. The increase was observed across all sectors. Credit extended to businesses grew by 3.6 per cent monthly to settle at E6.7 billion whilst credit extended to other sectors increased by 4.4 per cent to reach E1.7 billion. Credit extended to households and non-profit institutions serving households (NPISH) improved by 2.9 per cent to settle at E7.1 billion. The stock of non-performing loans declined by 0.3 per cent over the review month to settle at E690.1 million at the end of November 2020, due to a combination of an accommodative monetary policy stance by the Bank and other prudential measures taken by both the Bank and commercial banks.

As at 15 January 2021, the country's stock of reserves stood at E10.6 billion, enough to cover an estimated 4.6 months of imports. Total public debt stood at E25.6 billion as at the end of December 2020, an equivalent of 40.6 per cent of GDP. Preliminary public external debt stood at E9.8 billion at December 2020, an equivalent of 15.6 per cent of GDP whilst outstanding public domestic debt stood at E15.8 billion at the end of December 2020, equivalent to 25 per cent of GDP.

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.

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GOVERNOR