



## INTEREST RATE

The CBE maintained the interest rate at **3.75%**



## INFLATION

Headline inflation remained unchanged at **3.9%** in August 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 remains moderate



## WHAT TO EXPECT

The Bank expects the cost of goods and services to increase moderately over the year 2020 with inflation forecasted at **3.74%** from **3.77%** forecasted in July 2020.



## 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

**18 SEPTEMBER 2020**

On the 18th of September 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 maintain the discount rate at 3.75 per cent after considering global, regional and domestic economic developments.

On the global front, the COVID-19 pandemic had a more negative impact on economic activity in the first half of 2020 than anticipated. The IMF forecasts GDP growth to contract by 4.9 per cent in 2020 with advanced economies expected to contract by 8.0 per cent and emerging markets and developing economies (EMDEs) by 3.0 per cent. Amongst advanced economies and EMDEs the USA contracted by an annualized 31.7 per cent in the second quarter of 2020 (from -5.0 per cent in the first quarter) and China's economy grew by 11.5 per cent in the second quarter of 2020 (from a decline of 10 per cent in the first quarter).

The South African economy shrank by an annualised 51 per cent (quarter-on-quarter) in the second quarter of 2020, from a downwardly revised 1.8 per cent contraction in the previous period. The economy is now forecasted to contract by 8.2 per cent in 2020 compared to the 7.3 per cent contraction forecast in July. Consumer prices rose to 3.2 per cent in July 2020 from 2.2 per cent in June 2020. The South African Reserve Bank left the repo rate unchanged at 3.5 per cent in its September 2020 meeting, following a 25-basis point cut in July.

On the domestic front, the Eswatini economy recorded a technical recession in the first quarter of 2020. Seasonally adjusted quarterly GDP fell by 6.5 per cent on a year-on-year basis in the first quarter of 2020, from a revised 1.2 per cent decline in the last quarter of 2019. On a quarter-on-quarter basis, economic activity contracted by a seasonally adjusted 5.3 per cent in the first quarter of 2020 from a 0.3 per cent increase in the fourth quarter of 2019. The fall in economic activity was largely attributed to poor performance in the secondary sector, which contracted by 19.3 per cent year-on-year in the quarter ended March 2020. Economic growth is forecasted to contract by 5.6 per cent in 2020 before rebounding to 4.5 per cent in 2021.

The year-on-year headline inflation remained unchanged at 3.9 per cent in August 2020. Food inflation declined to 3.8 per cent in August 2020 from 4.1 per cent in the previous month and the 'education' index also decreased to 6.8 per cent in August 2020 from 9.6 per cent in July 2020. The above decreases were offset by increasing rates of growth in the price indices for 'transport', 'clothing and footwear' and 'household furniture and maintenance'. Transport inflation rose to 2.3 per cent in August 2020 from 1.7 per cent in the previous month. In the same line, the price indices for 'clothing and footwear' and 'household furniture and maintenance' grew by 1.0 and 0.5 of a percentage point, between the two months under review, respectively. The inflation forecast for the third quarter of 2020 have been revised slightly downwards from the previous forecast of 4.1 per cent to 4.0 per cent, whilst the fourth quarter was revised slightly upwards to 4.21 per cent (from 4.20 per cent). Consequently, there was a downward revision of the annual inflation forecast for 2020 to 3.74 per cent from the 3.77 per cent forecasted in July 2020.

Credit extended to the private sector increased by 1.7 per cent over the month but contracted by 1.9 per cent over the year to settle at E14.7 billion at the end of July 2020. Growth in private sector credit emanated from increases in credit to the business sector and the household sector while credit to other sectors contracted. Credit to the business sector stood at E6.5 billion at the end of July 2020, depicting a 2.5 per cent increase over the month but a decline of 8.6 per cent compared over the year. Credit extended to households and non-profit institutions serving households (NPISH) sector increased by 2.2 per cent over the month to settle at E6.8 billion and increased by 0.9 per cent over the year. On the other hand, credit to other sectors of the economy declined by 4.3 per cent over the month and 14.1 per cent over the year to settle at E1.4 billion. Non-performing loans declined by 6.3 per cent month-on-month but grew by 11.7 per cent over the year to E850.0 million at the end of July 2020.

As at 11 September 2020, the country's stock of reserves stood at E7.7 billion equivalent to 3.2 months of import cover. Total public debt stood at E23.6 billion as at the end of August 2020, an equivalent of 32.9 per cent of GDP. Preliminary public external debt stood at E9.3 billion at the end of August 2020, an equivalent of 13.0 per cent of GDP. Outstanding public domestic debt stood at E14.3 billion, an equivalent of 19.9 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 economic development in Eswatini.

Majozi V. Sithole  
GOVERNOR