INTEREST RATE

We have reduced the interest rate from

5.5% to **4.5%**

INFLATION

Inflation increased from **2.7%** in January 2020 to **2.8%** in February

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 low indicating that the increase in the costs of goods and services is slow.

WHAT TO EXPECT

The Bank holds the view that the cost of goods and services will continue to increase at a slower pace over the year 2020.

ECONOMIC ACTIVITY

Economic activity, as measured by the Quarterly Gross Domestic Product (QGDP) declined by **2.1%** on a year-on-year basis (seasonally adjusted) in the fourth quarter of 2019, down from a revised **0.4%** increase in the previous quarter.

CENTRAL BANK OF ESWATINI
Umntsholi Wemaswati

MONETARY POLICY STATEMENT

15 APRIL 2020

On the 15th of April 2020, the Central Bank of Eswatini (Bank), together with the Monetary Policy Consultative Committee (MPCC) held an extra ordinary meeting in light of the current economic developments, particularly the coronavirus disease (COVID-19) pandemic effects, to consider the appropriate monetary policy stance. The Bank decided to cut the discount rate by 100 basis points (1 per cent) effective 16 April 2020.

The MPCC noted that on the global front, GDP growth is now projected to contract sharply by 3.0 per cent in 2020 due to the slowdown in economic activity as a result of the COVID-19 pandemic and recover to 5.8 per cent in 2021. There is extreme uncertainty around global growth forecast as the economic fallout interacts with factors that are hard to predict. These include the pathway of the pandemic, the extent of supply disruptions, shifts in spending patterns, confidence effects, behavioral patterns and volatile commodity prices, amongst others. In light of this, risks of a worse outcome dominate. Inflation in advanced economies remains stable while global monetary policy is now largely accommodative in an effort to support economic growth.

The South African Reserve Bank has indicated that the South African economy is forecast to contract by 6.1 per cent in 2020 (from a 0.2 per cent contraction presented in March 2020). The South African economy is forecast to rebound and grow by 2.2 per cent in 2021. Consumer prices increased to 4.6 per cent in February 2020 from 4.5 per cent in January 2020. The inflation outlook has been revised down to 3.6 per cent (from 3.8 per cent) for 2020 and 4.5 per cent (from 4.6 per cent) for 2021.

On the domestic front, the economy is forecast to contract by 6.16 per cent in 2020 from a forecast growth of 2.8 per cent previously. The short-medium term growth outlook is expected to remain challenging as the economy grapples with the impact of COVID-19 on economic activity. Furthermore, emerging debt sustainability concerns are projected to limit growth prospects in the medium term. Current forecasts indicate that the economy will recover and grow by 2.1 per cent in 2021.

The year-on-year headline inflation increased to 2.8 per cent in February 2020 from 2.7 per cent in January 2020. The higher headline inflation was mainly due to an increase in prices indices for 'Clothing and Footwear' and 'Furnishing and Household Equipment'.

Private sector credit declined by 2.6 per cent to E14.2 billion at the end of February 2020 from E14.6 billion in January 2020. The weaker demand for credit was recorded in the business and household sectors. However, credit to other sectors (local government, other financial corporations and parastatals) showed an increase. Year-on-year, credit to the private sector depicted a decline of 3.9 per cent. Credit to the business sector decreased by 5.5 per cent month-on-month and by 4.1 per cent year-on-year to reach E6.5 billion in February 2020. The monthly fall in credit to businesses was mainly discernible in distribution & tourism, community, social & personal services, and agriculture & forestry. Credit to households and non-profit institutions serving households (NPISH) eased by 0.6 per cent over the month but increased by 9.6 per cent over the year to E6.5 billion at the end of February 2020. Other personal (unsecured) loans declined by 4.1 per cent to E2.1 billion in February 2020 from E2.2 billion in January. Non-performing loans (NPLs) fell 9.5 per cent from E1.2 billion in December 2019 to E1.0 billion at the end of January 2020.

As at 9 April 2020, the country's stock of reserves stood at E8.4 billion equivalent, to 3.6 months of import cover, mainly benefiting from an inflow of Southern African Customs Union (SACU) receipts received over the week. Preliminary debt figures indicate that total public debt stood at E22.9 billion, an equivalent of 31.4 per cent of GDP as at the end of March 2020. This shows an increase of 7.0 per cent when compared to E21.4 billion recorded in December 2019. At 31.4 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 mandate to foster price and financial stability that is conducive to the economic development in Eswatini.

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GOVERNOR

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