CENTRAL BANK OF ESWATINI
Umntsholi Wemaswati

MONETARY POLICY STATEMENT

20 MARCH 2020

INTEREST RATE

We have reduced the interest rate from **6.5%** to **5.5%**

INFLATION

Inflation has 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) increased by **0.4%** on a year-on-year basis (seasonally adjusted) in the third quarter of 2019, down from a revised **4.5%** increase in the previous quarter.

On the 20th of March 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 for the upcoming two months. The Bank decided to reduce the discount rate by 100 basis points to 5.5 per cent after considering global, regional and domestic economic developments and especially the impact of the Coronavirus on these.

On the global front, GDP growth is now expected to be lower than the initially projected 3.3 per cent for 2020 (from 2.9 per cent in 2019) due to the slowdown in economic activity as a result of the coronavirus (COVID-19) pandemic. The effects of COVID-19 are likely to be more severe on manufacturing and services. The South African Reserve Bank projects that global growth will come down to 1.1 per cent in 2020. Other factors weighing down on the global economic outlook include geopolitical developments, trade tensions, and high levels of corporate and sovereign debt. Inflation in advanced economies remains stable while global monetary policy is now largely accommodative in an effort to support economic growth.

The South African economy is estimated to have grown by 0.2 per cent in 2019 down from 0.8 per cent growth in 2018. The economy went into a technical recession in the fourth quarter of 2019 having contracted by 1.4 per cent following a revised forecast of a 0.8 per cent contraction in the third quarter. As the impact of the Coronavirus is fully felt, the economy is forecasted to contract by 0.2 per cent in 2020. This is downgrade from the 1.2 per cent growth previously forecasted by the Reserve Bank. The South African economy is expected to continue on a recovery path in the medium term. Recent figures indicate that consumer inflation increased to 4.6 per cent in February 2020 from 4.5 per cent in January 2020. The Reserve Bank sees inflationary pressures declining with the inflation projections revised down to 3.8 per cent for 2020 (from a previous forecast of 4.6 per cent) and 4.6 per cent for 2021 (from a previous forecast of 4.7 per cent). To ease financial conditions in the South African economy, the Reserve Bank reduced the repo rate by 100 basis points to 5.25 per cent from 6.25 per cent.

On the domestic front, revised figures indicate that the economy is estimated to have grown by 1.3 per cent in 2019 from 2.4 per cent in 2018. On a year-on-year basis, GDP growth recorded a 0.4 per cent increase in the third quarter of 2019 following a revised growth of 4.5 per cent in second quarter. The tertiary sector declined by 4.0 per cent (year-on-year) in the third quarter compared to a growth of 2.5 per cent in the previous quarter. The secondary sector, on the other hand, grew at a slower rate of 9.7 per cent (year-on-year) in the third quarter of 2019, from 12.9 per cent in the previous quarter. The primary sector recorded a negative growth of 1.3 per cent (year-on-year) in the third quarter of 2019, same as it was in the previous quarter. The MPCC noted that the forecasts may change due to the impact of the coronavirus on economic activity.

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 price indices for 'Clothing and Footwear' and 'Furnishing and Household Equipment'. The forecasts for 2020 and 2021 have been revised down to 3.2 per cent (from 3.46 per cent) and 4.04 per cent (from 4.12 per cent), respectively, mainly due to a lower than previous assumption on the increases in electricity and water tariffs, rental prices as well as lower crude oil prices.

Private sector credit fell by 1.4 per cent (month-on-month) to E14.6 billion in January 2020 following a 2.6 per cent growth in December 2019. The weaker demand for credit was observed across all sectors of the economy. Credit to the business sector decelerated to E6.8 billion in January 2020, reflecting a decline of 0.8 per cent from 6.9 billion in December 2019. Credit to households and non-profit institutions serving households (NPISH) slipped by a marginal 0.3 per cent to reach E6.6 billion at the end of January 2020 on account of decline in other personal (unsecured) loans. Credit to Other sectors of the economy receded by 9.6 per cent to settle at E1.2 billion at the end of January 2020. Non-performing loans (NPLs) fell from 9.5 per cent (E1.15 billion) in December 2019 to 8.5 per cent (E1.0 billion) in January 2020.

As at 13 March, the country's stock of reserves stood at E5.5 billion, enough to cover an estimated 2.4 months of goods and services. Revised figures indicate that the country's stock of debt (excluding arrears) stood at E21.4 billion, an equivalent of 31.9 per cent of GDP at the end of December 2019. At 31.9 per cent of GDP, the MPCC noted that whilst the country's debt stock was below the threshold of 35 per cent of GDP, the pace of growth has been alarmingly rapid. There is need to exercise caution in the acquisition of new debt in order to improve sustainability.

The Bank has also decided to implement other measures to support the economy in the short to medium term while safeguarding the credibility of the peg. In addition to the cut in the discount rate by 100 basis points, the liquidity requirement will be reduced from the 25 per cent to 20 per cent for commercial banks and from 22 per cent to 18 per cent for development. This is aimed at improving liquidity in financial sector geared towards the real economy. Furthermore, the reserve requirement will be reduced from 6 per cent to 5 per cent. The changes are effective 21 March 2020.

Other measures to ease financial conditions in the economy will be discussed with players in the financial sector and communicated shortly.

The Bank will continue to monitor international and domestic developments that influence the movements of inflation and will act appropriately to foster price and financial stability that is conducive to the economic development in Eswatini. The positive differential between the South African repo rate and the Eswatini discount rate gives the Central Bank monetary policy space should a change in the current stance be required.

Majozi V. Sithole
GOVERNOR

Umntsholi Building, Mahlokohla Street, P.O. Box 546, Mbabane, Eswatini
(+268) 2408 2000
(+268) 2404 7865
Central Bank of Eswatini
info@centralbank.org.sz