CENTRAL BANK OF ESWATINI
Umntsholi Wemaswati

MONETARY POLICY STATEMENT

17 JANUARY 2020

INTEREST RATE

We have maintained the interest rate at

6.5%

INFLATION

Inflation has increased from **1.8%** in November 2019 to **2%** in December 2019

WHAT DOES THIS MEAN?

- Banks will maintain their lending rates on loans dispersed to individuals and business until the next monetary policy meeting.
- Overall, inflation remains low indicating that the growth rate of the cost of goods and services is slow.

WHAT TO EXPECT

- The Bank holds the view that the cost of goods and services will increase at a faster pace in 2020 than in 2019.

ECONOMIC ACTIVITY

Economic activity (GDP) increased by 0.4% on a year-on-year basis (seasonally adjusted) in the fourth quarter of 2019.

On the 17th of January 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 country. After considering global, regional and domestic economic developments, the Bank decided to keep the discount rate unchanged at 6.5 per cent with effect from 18 January 2020.

On the global front, GDP is expected to average 3.0 per cent in 2019, rising to 3.4 per cent in 2020. Recent months data indicates that global trade and manufacturing have somewhat stabilized suggesting upward growth. Downside risks to global growth include geopolitical developments, trade tensions, oil price shocks, and high levels of corporate and sovereign debt. Inflation in advanced economies remains stable while global monetary policy remains largely accommodative.

The South African economy, which is a proxy for regional developments, contracted by 0.6 per cent in the third quarter of 2019 following a growth of 3.2 per cent growth in the second quarter. Growth in the fourth quarter is expected to have picked up; however, electricity supply constraints will likely to keep economic activity muted in the near term. The GDP growth forecast for 2019 has been revised down to 0.4 per cent from 0.5 per cent. Consumer prices decreased from 3.7 per cent in October 2019 to 3.6 per cent in November 2019. The inflation outlook has been revised down to 4.7 per cent for 2020 (from 5.1 per cent) and 4.6 per cent for 2021 (from 4.7 per cent).

On the domestic front, quarterly GDP growth remained in the negative territory declining by 1 per cent in the third quarter of 2019 following a decline of 0.3 per cent in the second quarter. The contraction can be largely attributed to a slower economic activity in the tertiary sector. 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, while the primary sector declined by 1.3 per cent in the same period. Growth is forecasted to grow by 1.4 per cent in 2019, which is one per cent lower than the estimated 2.4 per cent growth for 2018.

Domestic inflation has been on record low levels since May 2018, hovering below 2 per cent, the lowest in the Common Monetary Area (CMA) region. It increased slightly to 2 per cent in December 2019 from 1.8 per cent in November, averaging 2.62 per cent for 2019, against a forecasted 2.61 per cent. The slight increase in December was mainly due to an increase in price indices for 'Miscellaneous Goods and Services', 'Housing and Utilities' and 'Alcoholic Beverages and Tobacco'. The forecasts for 2020 and 2021 are 3.46 per cent and 4.12 per cent respectively, mainly due to a lower than previous assumption on the increases in administered prices.

Private sector credit, which is an engine for growth, is also on a downward spiral. Credit extension fell by 1.9 per cent (month-on-month) to E14.4 billion in November 2019 following a 1.8 per decline in October. This development was on account of weakened demand for credit by the household and business sectors, which fell by 2.7 per cent and 2.3 per cent respectively. These two categories collectively account for more than 90 per cent of total private sector credit in the economy. Year-on-year, credit to the private sector contracted by 1.9 per cent. On a positive note, non-performing loans (NPLs) declined slightly from E1.2 billion the previous month to E1.1 billion at the end of November 2019.

Gross official reserves declined by 14.2 per cent month-on-month and 3.1 per cent year-on-year to E6.1 billion at the end of December 2019, mainly due to rand outflows and government fiscal situation in 2019/20. At this level, the import cover fell from 3.1 months in November 2019 to 2.6 months in December 2019. As at 10 January 2020, reserves had improved to E7.6 billion, due to SACU inflow, equivalent to 3.3 months import cover. The country's debt stock increased to E19.9 billion, an equivalent of 29.9 per cent of GDP at the end of December 2019. This reflects an increase of 8.7 per cent from the E18.3 billion recorded in October, mainly driven by an increase in domestic debt.

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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