INTEREST RATE

Interest rate has not changed. It is still

6.5%

INFLATION

Inflation has decreased from **1.9%** in September 2019 to **1.6%** in October 2019

WHAT DOES THIS MEAN?

- Banks will maintain their lending rates on loans 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 cost of goods and services will continue to increase at a slower pace over the remaining months of 2019.

ECONOMIC ACTIVITY

Economic activity (GDP) increased by **4.2%** on a year-on-year basis (seasonally adjusted) in the first quarter of 2019. The main contributing sectors were manufacturing, wholesale and retail as well as agriculture and forestry.

CENTRAL BANK OF ESWATINI
Umntsholi Wemaswati

MONETARY POLICY STATEMENT

22 November 2019

On the 22th of November 2019, 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 maintain the discount rate at 6.5 per cent after considering global, regional and domestic economic developments.

On the global front, the global economy is estimated to have grown by 3.6 per cent in 2018 and the forecasts for 2019 and 2020 have been revised down to 3.0 per cent (from 3.2 per cent) and 3.4 per cent (from 3.6 per cent), respectively. The Bank has also observed heightening uncertainty arising from trade tensions, geopolitical developments and declining business confidence which continue to pose downside risks to the global growth outlook. Inflation in advanced economies remains stable and below target, while global monetary policy remains largely accommodative with the US having effected cuts in its July, September and October 2019 meetings.

The South African economy grew by an annualised 3.1 per cent in the second quarter of 2019 following a contraction of the same magnitude in the previous quarter. GDP growth forecast for 2019 has been revised down to 0.5 per cent (from 0.6 per cent) while the forecasts for 2020 and 2021 decreased to 1.4 per cent (from 1.5 per cent) and 1.7 per cent (from 1.8 per cent), respectively. Consumer prices decreased from 4.1 per cent in September 2019 to 3.7 per cent in October 2019. The inflation outlook remains unchanged with an average of 4.2 per cent for 2019, 5.1 per cent for 2020 and 4.7 per cent for 2021. The South African Reserve Bank (SARB) maintained its benchmark repo rate at 6.5 per cent.

On the domestic front, revised figures indicate that the economy grew by 2.4 per cent in 2018 from 2 per cent in 2017. On a quarterly basis, real GDP growth marginally increased by 0.5 per cent (quarter-on-quarter) in the second quarter of 2019 from a decline of 0.7 per cent in the first quarter of 2019. On a year-on-year basis, GDP growth recorded a 6.1 per cent increase in the second quarter of 2019 from a 3.3 per cent growth recorded in the first quarter. The notable increase on a year-on-year basis largely benefitted from improvements in the secondary sector which expanded by 12.2 per cent (year-on-year) in the second quarter of 2019 compared to 3.2 per cent in the previous quarter. The primary sector contracted by 1.7 per cent (year-on-year) in the second quarter of 2019 compared to a growth of 10.7 per cent in the previous quarter. Performance in the tertiary sector was recorded at 5.7 per cent in the second quarter of 2019 from 7.1 per cent observed in the previous quarter. The forecast average growth for 2019 is 1.4 per cent, which is a percentage point lower than the estimated 2.4 per cent growth for 2018.

The year-on-year headline inflation rate decreased from 1.9 per cent in September 2019 to 1.6 per cent in October 2019. The decrease was mainly due to a decrease in the prices for 'food and non-alcoholic beverages', 'recreation and culture' and 'miscellaneous goods and services'. The Bank's inflation forecasting model forecasts inflation to average 1.99 per cent in the fourth quarter (down from 2.04 per cent) before increasing to 3.36 per cent in the first quarter of 2020 (from 2.24 per cent). The average inflation for 2019 has therefore been revised down from 2.71 per cent to 2.67 per cent.

Private sector credit expanded by 0.5 per cent (month-on-month) to E15.0 billion in September 2019 from a decline of 0.5 per cent in August 2019. The increase in credit was noticeable in credit to Other Sectors (Local Government, Parastatals and Other Financial Corporations) and Households, which increased by 5.2 per cent over the month to reach E1.5 billion at the end of September 2019 following a contraction of 10 per cent in August 2019. Credit extended to the Business Sector declined by 0.4 per cent in September following a decline of 2.0 per cent in August. Credit extended to Households & Non-Profit Institutions Serving Households (NPISH) grew by 0.3 per cent in September 2019 from 3.5 per cent in August 2019. Non-Performing Loans (NPLs) increased by 8.8 per cent (month-on-month) to E1.1 billion in September 2019.

The country's stock of reserves increased by 38.4 per cent month-on-month to E7.4 billion at the end of October 2019, equivalent to 3.2 months import cover. The growth in Reserves was attributed to an inflow of SACU receipts coupled with Rands purchased from local banks over the month. The Reserves stood at E6.1 billion as at 15 November 2019, equivalent to 2.6 months of imports of goods and services. The decline in reserves was due to sale of Rands to commercial bank and debt repayments over the month.

The country's debt stock increased slightly to 27.9 per cent of GDP in October 2019 from 27.8 per cent of GDP in June 2019. There has been a notable rise of external debt (from E5,3 billion in March 2019 to E8,1 billion in October) on account of drawdowns of external loans to finance infrastructure projects. Domestic debt on the other hand declined slightly from 16.2 per cent of GDP (in August 2019) to 15.8 per cent of GDP in October 2019. The MPCC raised a concern on the rising debt levels especially when not only debt to GDP is considered, but ability to service the debt is considered.

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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