



INTEREST RATE

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



INFLATION

Headline inflation increased to **4.7** per cent in October 2020 from **4.1** per cent in September 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 is on an upward trend.



WHAT TO EXPECT

The Bank expects the cost of goods and services to continue increasing moderately over the year 2020 with inflation forecasted to average **3.84** per cent in 2020 (from **3.74** per cent forecasted in September 2020).



ECONOMIC ACTIVITY

Economic activity, as measured by the Quarterly Gross Domestic Product (QGDP) contracted by **8.2** per cent on a year-on-year basis (seasonally adjusted), in the second quarter of 2020, from a revised decline of **3.6** per cent in the first quarter of 2020. On a quarter-on-quarter basis, GDP declined by **2.9** per cent (seasonally adjusted) in the second quarter of 2020 compared to a revised **1.2** per cent contraction in the first quarter of 2020

MONETARY POLICY STATEMENT

20 NOVEMBER 2020

On the 20th of November 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 unchanged at 3.75 per cent.

The global economy is beginning to recover whilst the risk of COVID-19 resurgence remains high. The IMF estimates that GDP growth is expected to contract by 4.4 per cent in 2020 and recover to 5.2 per cent in 2021. This is mainly due to an estimated 5.8 per cent and 3.3 per cent contraction in 2020 for advanced economies and emerging market & developing economies, respectively. Consumer price inflation is expected to average 0.8 per cent in 2020 for advanced economies, from 1.4 per cent recorded in 2019 and is projected to edge up by 1.6 per cent in 2021. Monetary policy in advanced economies remains accommodative.

The South African economy is forecasted by the South African Reserve Bank (SARB) to contract by 8.0 per cent in 2020, an improvement from the -8.2 per cent forecasted in September 2020. In 2021 the economy is forecasted to grow by 3.5 per cent from a previous forecast of 3.9 per cent. The annual inflation rate marginally decelerated to 3.0 per cent in September 2020, from 3.1 per cent in August 2020 touching the lower band of the SARB's target range of 3-6 per cent. The SARB revised down its inflation forecasts to 3.2 per cent for 2020 (from 3.3 per cent forecasted in September 2020) and 3.9 per cent (from 4.0 per cent) in 2021. The SARB Monetary Policy Committee kept the repo rate steady at 3.5 per cent in November 2020.

The Eswatini economy contracted by 8.2 per cent on a year-on-year (seasonally adjusted) in the second quarter of 2020, from a revised decline of 3.6 per cent in the first quarter of 2020. On a quarter-on-quarter basis, economic activity contracted by a seasonally adjusted 2.9 per cent in the second quarter of 2020, compared to a revised 1.2 per cent contraction in the first quarter of 2020. The fall in economic activity was largely attributed to poor performance in all three sectors of the economy, especially severe in the secondary sector, which further contracted by a significant 24.5 per cent (year-on-year) in the second quarter of 2020 from a 16.4 per cent contraction recorded in the first quarter.

The year-on-year headline consumer inflation rose to 4.7 per cent in October 2020 from 4.1 per cent recorded in the previous month. The inflationary pressures came from 'food non-alcoholic beverages', 'housing and utilities' and 'furnishing and housing equipment' whose indices increased by 4.4 per cent, 6.4 per cent and 5.2 per cent, respectively. The inflation forecast for the fourth quarter of 2020 has been revised upward to 4.65 per cent (from the 4.21 per cent forecasted in September 2020). The upward revision is due to the higher than forecasted inflation outturn for October and that food inflation is expected to continue with the upward trend. Consequently, the 2020 and 2021 average inflation forecasts were revised upward to 3.84 per cent (from 3.74 per cent) and 5.23 per cent (from 4.34 per cent) respectively.

Credit extended to the private sector fell by 0.4 per cent compared to the previous month to settle at E14.8 billion at the end of September 2020. The decline was driven by weak credit extension to the household and business sectors while credit to the other sectors accelerated. Credit to the household and non-profit institutions serving households (NPISH), reflected a 1.2 per cent month-on-month contraction to settle at E6.8 billion. Credit extended to businesses decelerated by 0.3 per cent to settle at E6.5 billion whilst credit to other sectors accelerated by 3.2 per cent to reach E1.6 billion. The stock of non-performing loans declined by 0.9 per cent over the month to settle at E766.4 million, due to a combination of an accommodative monetary policy stance by the Bank and other prudential measures taken by both the Bank and commercial banks.

As at 13 November 2020, reserves stood at E9.3 billion, equivalent to 4.0 months of import cover. Total public debt stood at E25 billion as at the end of October 2020, an equivalent of 39.6 per cent of GDP. Preliminary public external debt stood at E10.8 billion at October 2020, an equivalent of 17.2 per cent of GDP whilst outstanding public domestic debt stood at E14.2 billion at the end of October 2020, an equivalent to 22.5 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 the economic development in Eswatini.

Majozi V. Sithole
GOVERNOR