MONETARY POLICY CONSULTATIVE COMMITTEE (MPCC)

ECONOMIC REVIEW AND INFLATION REPORT

18 SEP 2020

ECONOMIC POLICY, RESEARCH AND STATISTICS DEPARTMENT

CENTRAL BANK OF ESWATINI

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Major Highlights

Real GDP	*Real Gross Domestic Product (GDP) is estimated to have decelerated to 1.3 per cent in 2019 from 2.4 per cent in 2018.*
Quarterly GDP	*Quarterly GDP figures show that GDP fell by 6.5 per cent, on a year-on-year comparison, seasonally adjusted, in the first quarter of 2020 from a revised decline of 1.2 per cent in the fourth quarter of 2019.*
Inflation	*Headline consumer price inflation marginally increased to 3.9 per cent in July 2020 from 3.8 per cent in June 2020.*
Inflation Forecasts	*The country's overall inflation forecast for 2020 has been revised down to 3.74 per cent from 3.77 per cent forecasted in July 2020.*
Foreign reserves	*Gross official reserves increased by 3.2 per cent over the month and by 25.2 per cent over the year to close at E8.1 billion at the end of August 2020, and could cover an estimated 3.4 months of imports of goods and services.*
Exchange rate	*Since the previous MPCC, the Lilangeni weakened against major currencies. The Lilangeni depreciated against the US dollar from a monthly average of E17.14 in June 2020 to E17.28 in August 2020.*
Credit Extension	*Credit extended to the private sector recorded an increase of 1.7 per cent month-on-month but contracted by 1.9 per cent compared over the year to settle at E14.7 billion at the end of July 2020.*
Public Debt	*The country's stock of debt stood at E23.6 billion as at the end of August 2020, an equivalent of 32.9 per cent of GDP.*
Balance of Payments	*The country recorded a trade surplus of E340 million in August 2020, albeit 44.7 per cent lower than the E615 million surplus recorded in the previous month.*

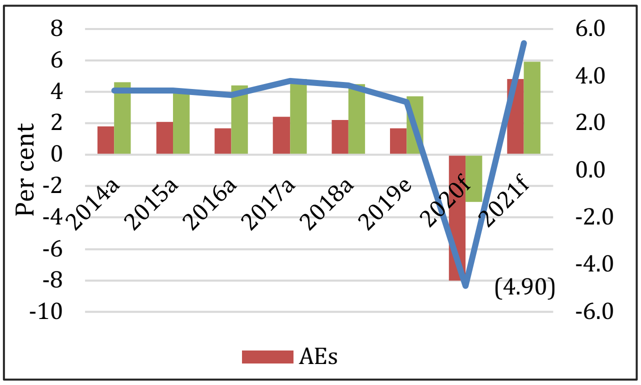
PART A: ECONOMIC REVIEW

1.0 GLOBAL ECONOMIC CONDITIONS

1.1 Global Economic Outlook

According to IMF World Economic Outlook Update, June 2020, Global growth is projected at -4.9 per cent in 2020, 1.9 percentage points below the April 2020 World Economic Outlook (WEO) forecast. The COVID-19 pandemic has had a more negative impact on activity in the first half of 2020 than anticipated and the recovery is projected to be more gradual than previously forecasted.

Figure 1: Latest World Economic Outlook Growth Projections 2020



Source: *IMF World Economic Outlook, June 2020*

In 2021 global growth is projected to grow by 5.4 per cent, 0.4 percentage point lower than the April forecast of 5.8 per cent. The COVID-19 pandemic has dealt a major blow to the global economy and has the potential to cause the deepest global recession since World War II. Advanced economies as well as emerging market and developing economies have employed a wide range of large-scale fiscal and monetary stimulus programmes. The adverse impact on low-income households is particularly acute, imperilling the significant progress made in reducing extreme poverty in the world since the 1990s.

The IMF projects GDP growth in the advanced economy group at -8.0 per cent in 2020, 1.9 percentage points lower than in the April 2020 WEO. There appears to have been a deeper hit to activity in the first half of the year than anticipated.

GDP growth in the group of emerging market and developing economies is forecast at -3.0 per cent in 2020, 2 percentage points below the April 2020 WEO forecast. Growth among low-income developing countries is projected at -1.0 per cent in 2020, 1.4 percentage points below the April 2020 WEO forecast, although with differences across individual countries. Within this group, the hit to activity from domestic disruptions is projected closer to the downside scenario envisaged in April, more than offsetting the improvement in financial market sentiment. The downgrade also reflects larger spill overs from weaker external demand.

As with the April 2020 WEO projections, there is a higher-than-usual degree of uncertainty around the latest forecast. The baseline projection rests on key assumptions about the fallout from the pandemic. In economies with declining infection rates, the slower recovery path in the updated forecast reflects persistent social distancing into the second half of 2020; greater scarring (damage to supply potential) from the larger-than-anticipated hit to activity during the lockdown in the first and second quarters of 2020; and a hit to productivity as surviving businesses ramp up necessary workplace safety and hygiene practices.

In line with sentiment from the IMF, FED, European Central Bank (ECB), regional monetary policy authorities and other world leaders are in a consensus view that the recovery in the global economy will to a large extent be determined by finding a vaccine and or an effective therapy. This is currently work in progress and some health experts from the World Health Organisation indicate that this will take a period not less than year and a half – so around end 2020 – early 2021. Importantly, there is also the issue of global debt distress and limited policy response coupled with the never ending trade tensions between the USA and mainland China.

There is need to respond effectively to external shocks especially when there are imminent domestic vulnerabilities. Moreover, respective economies have to adopt policies and ways to protect and let their economies thrive, the key challenge remains the excessive pressure on fiscal policy space.

According to the IMF, for economies struggling to control infection rates, a prolonged lockdown will inflict an additional toll on activity. Moreover, the latest forecast in the June 2020 WEO assumes that financial conditions, which have eased following the release of the April 2020 WEO will remain broadly at current levels. The recovery is expected to be slow with the level of GDP still lower than the pre COVID-19 projections of January 2020 distracting the world economy as production in all aspects declines tremendously. Meanwhile, global trade is projected to contract by 11.9 per cent this year reflecting considerably weaker demand for goods and services, including tourism. Consistent with the gradual pickup in domestic demand next year, trade growth is expected to increase to 8 per cent (IMF.org/en/Publications/WEO, June 2020).

1.2 Global Inflation Outlook

According to the IMF, inflation projections in the June 2020 WEO have been generally revised downward, with huge cuts for advanced economies evident in 2020. Average inflation in advanced economies is forecast at 0.3 per cent in 2020 following a 1.4 per cent hike in 2019, and is expected to edge up by 1.1 per cent in 2021.

Meanwhile in emerging markets and developing economies, annual inflation was recorded at 5.1 per cent in 2019 and is forecast to decline to 4.4 per cent in 2020 before hiking marginally to 4.5 per cent in 2021. The gradual rise in inflation through to 2021 is consistent with the projected pickup in activity. Nonetheless, the inflation outlook remains muted, reflecting expectations of persistently weak aggregate demand. The IMF highlights that, downward price pressure from the decline in aggregate demand together with the effects of lower fuel prices, seem to have more than offset any upward cost-push pressure from supply interruptions so far (IMF World Economic Outlook, June 2020).

1.3 Review of Global Oil Prices

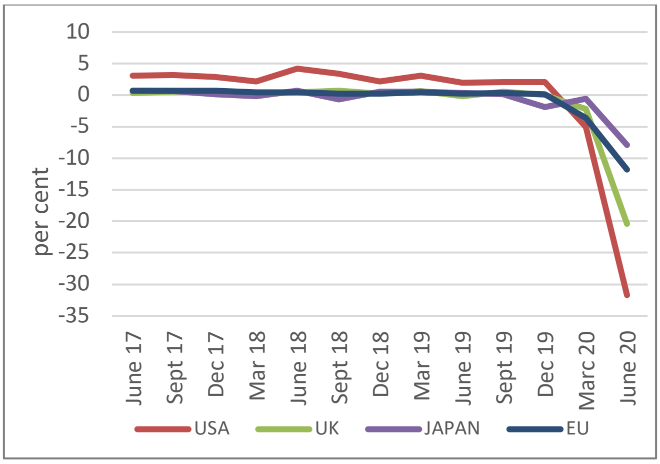
According to the OPEC Monthly Oil Market Report (MOMR) for August 2020, Brent crude and related product prices experienced excessive volatility in 2020, following the unprecedented oil demand shock in the first half of 2020 caused by the COVID-19 pandemic. Crude oil prices reacted abruptly, with the Western Texas Intermediate grade (WTI) collapsing to a negative price of minus $37.63 per barrel (i.e. seller paying the buyer to take the oil inventory) on 20 April 2020, for the first time ever. The other grade, dated Brent crude declined by more than 70 per cent from the start of the year to stand at an 18-year low of $19.33 per barrel on 21 April 2020. The global oil market has started to recover gradually since May 2020, recording three consecutive months of increases, mainly supported by the historic decision of the OPEC and non-OPEC countries participating in the Declaration of Cooperation (DoC) to adjust production, with the goal to restore balance in the market. These efforts were further supported by a few key G20 producers, including the US, Canada and Norway. The oil market was also buoyed by the gradual recovery of global oil demand, particularly from China, and expectations of an inventory drawdown in the second half of 2020.

As at 1 September 2020, Brent crude has been trading around $46.11 a barrel. Meanwhile, the OPEC Reference Basket (ORB) rose by 17.2 per cent, to settle at an average of $43.42 a barrel in August 2020. It is the highest level since February 2020 whilst the WTI has increased by 6.4 per cent, to average $40.77 a barrel (OPEC Monthly Oil Market Report, August 2020).

1.4 Advanced Economies GDP Growth

According to the US Bureau of Economic Analysis (BEA), real GDP in the US decreased at an annual rate of 31.7 per cent in the second quarter of 2020, the “second" estimate showed (previously at 32.9 per cent in the advanced estimate), following a decline of 5.0 per cent in the first quarter of 2020. The downward revision is attributable to a decline in private inventory investment and personal consumption expenditure, which decreased less than previously estimated (US Bureau of Economic Analysis, 2 September 2020).

Figure 2: Advanced Economies GDP Growth Trends



Source: www.tradingeconomics.com

The Eurozone economy shrank by 11.8 per cent on quarter in the three months to June of 2020, slightly less than initial estimates of a 12.1 per cent fall following a 3.6 per cent contraction in the first quarter. It was the biggest contraction on record, pushing the economy to a recession as the coronavirus restrictions hurt most sectors. Declines were broad-based: household consumption went down 12.4 per cent, investment plunged 17 per cent, government spending decreased 2.6 per cent. Also, exports sank 18.8 per cent and imports dropped 18 per cent. Among the bloc's largest economies, Spain posted the biggest decrease in economic activity (-18.5 per cent), followed by France (-13.8 per cent), Italy (-12.8 per cent) and Germany (-9.7 per cent) (Eurostat, 8 September 2020). (Eurostat | Trading economics, 8 September 2020).

According to the UK Office for National Statistics, UK's gross domestic product shrank by 20.4 per cent in the second quarter of 2020 following a 2.2 per cent contraction in the first quarter, a preliminary estimate showed. That was the second consecutive quarterly decline in GDP, officially entering a recession, due to the COVID-19 pandemic and the government measures taken to reduce transmission of the virus. Private consumption accounted for more than 70 per cent of the decline in the GDP, down by 23.1 per cent. There were also notable falls in gross fixed capital formation which declined by 25.5 per cent while government consumption declined by 14.0 per cent. Net external demand contributed positively as imports fell more than exports (UK Office for National Statistics, 24 August 2020).

According to latest data published by the Japanese Cabinet Office, revised GDP numbers show that, the economy shrank by 7.9 per cent in Q2-2020 from a revised -0.6 per cent in Q1-2020. Due to the severe impact of COVID-19 pandemic, this was the third straight decline noted in the quarter under review as private consumption tumbled; government spending decreased by 0.6 per cent and capital expenditure by 4.7 per cent. In addition, exports decreased the most by 18.5 per cent since Q1-2009 and imports decreased by 0.5 per cent vs 4.2 per cent respectively, quarter-on-quarter. Year-on-year, the Japanese economy contracted by 28.1 per cent compared with forecasts of a 28.6 per cent decline in Q2 2020 his was the third straight quarter of contraction and the steepest on record, amid the severe impact of the COVID-19 crisis. There were declines in private consumption, capital expenditure, and government spending (Japan Cabinet Office, 8 September 2020).

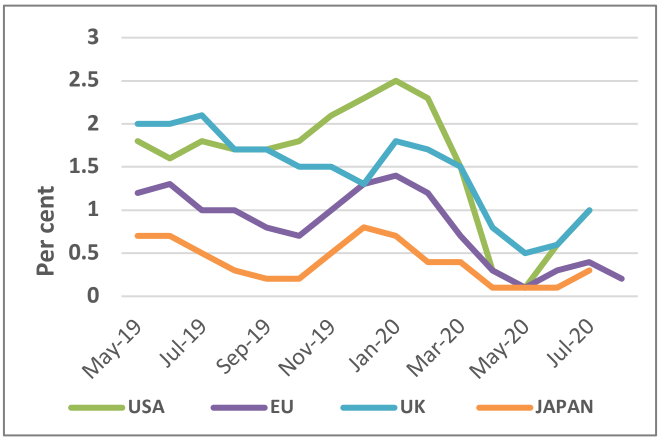
1.5 Advanced Economies CPI

According to the US Bureau of Labour Statistics, US annual inflation rate picked up to 1.0 per cent year-on-year in July 2020, recovering further from May's four-and-a-half-year low. Energy prices dropped by 11.2 per cent following a decline of 12.6 per cent in June, as the declines in gasoline and fuel oil cost eased following the lifting of coronavirus-induced restrictions. At the same time, food prices rose by 4.1 per cent following a 4.5 per cent increase in June boosted by cost for food away from home (US Bureau of Labour Statistics, 24 August 2020).

Annual inflation rate in the Eurozone fell to 0.2 per cent in August 2020, following a 0.4 per cent rise in July 2020. This was the first decline since May 2016, a preliminary estimate showed. Prices fell for both energy products and non-energy industrial goods. At the same time, inflation fell for services and food, alcohol & tobacco. The annual core inflation, which excludes volatile prices of energy, food, alcohol & tobacco and at which the ECB looks in its policy decisions, declined further to 0.4 per cent, the lowest on record (Eurostat, 2 September 2020).

According to the UK Office for National Statistics, the annual inflation rate in the UK jumped to 1 per cent in July 2020 from 0.6 per cent in June. It is the highest reading since March 2020, as the restrictions caused by the coronavirus pandemic have been eased. The largest contributions came from clothing, rising prices at the petrol pump and furniture and household goods (UK Office for National Statistics, 16 July 2020).

Figure 3: Advanced Economies CPI



Source: www.tradingeconomics.com

Consumer price inflation in Japan climbed to 0.3 per cent in July from an over 3-year low of 0.1 per cent year-on-year in June 2020, as the pandemic continued to hamper consumption excluding food. Prices fell at a softer pace for education and for transport &

communication. In contrast, fuel, light & water charges prices dropped further while housing inflation remained unchanged at 0.7 per cent. Food inflation jumped to 1.9 per cent from 1.5 per cent in the previous month (Statistics Japan, 24 August 2020).

1.6 Monetary Policy in Advanced Economies

On 27 August 2020, US Fed Chair Powell announced a robust updating of the Fed's monetary policy framework during his virtual speech at the Jackson Hole Symposium. The Fed's new approach could be viewed as a flexible form of average inflation targeting, allowing inflation to run moderately above or below the Fed’s 2 per cent target for a while. The Statement highlighted that the Fed will allow periods of higher inflation to make up for periods of low inflation. In addition, Powell signalled that the Fed will not be inclined to raise the policy interest rate as quickly as before during periods when the unemployment rate falls steeply.

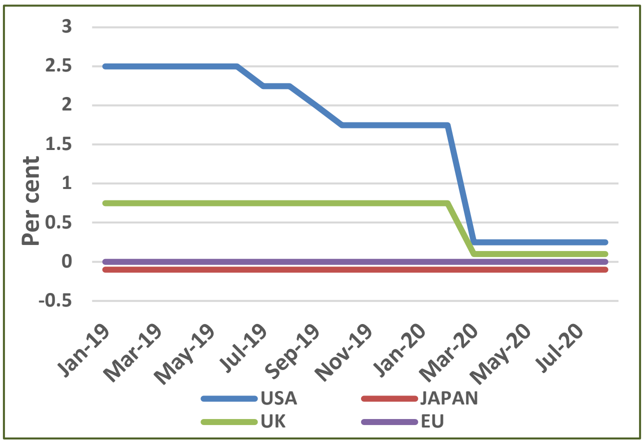
This also means that interest rates would remain low for a longer period despite a rise in inflation. Regarding employment, the revised statement reflects the Fed's view that a robust job market can be sustained without causing an outbreak of inflation and the maximum level of employment is a broad-based and inclusive goal (US Federal Reserve, 27 August 2020).

The Federal Reserve left the target range for its federal funds rate unchanged at 0-0.25 per cent on 29 July 2020 as expected. The federal funds rate will remain near zero until the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals. Federal Reserve officials reiterated their pledge to maintain aggressive measures to support the economy, minutes from the July 28-29 meeting showed. (US Federal Reserve, 24 August 2020).

The European Central Bank (ECB) left its interest rate unchanged at 0 per cent during its July 2020 meeting, as policymakers took a ‘wait-and-see’ approach to assess the effectiveness of a series of unprecedented measures taken over the past four months to support the bloc's economy amid the coronavirus crisis. The ECB also kept the deposit rate unchanged at a record low of -0.5 per cent. In addition, the central bank pledged to buy up to €1.35 trillion worth of debt through June 2021 under its Pandemic Emergency Purchase Programme (PEPP).

ECB officials were slightly more optimistic about the economic outlook but the use of all of the bank's stimulus measures would still be needed to support growth and inflation, the minutes of the ECB's July meeting showed. Policymakers agreed that the flexibility of the PEPP meant that the net purchase envelope should be considered a ceiling rather than a target, suggesting some members were not keen for another increase in the central bank's €1.35 trillion PEPP. Officials also agreed that uncertainty about the economic outlook remained elevated and the recent positive market developments might be based on overly optimistic expectations about the EU recovery package and about progress on developing a vaccine (European Central Bank | Trading Economics, 24 August 2020).

Figure 4: Interest Rates in Advanced Economies



Source: www.tradingeconomics.com

The Bank of England (BOE) voted unanimously to maintain the key bank rate at a record low of 0.1 per cent and the size of its bond-buying programme at £745 billion as expected during its August 2020 meeting. Policymakers said Britain's economy will take longer to recover from the coronavirus-induced recession than initially thought and warned about the risks of cutting interest rates below zero. Meanwhile, the central bank said CPI inflation is expected to fall further below the 2 per cent target, largely reflecting the direct and indirect effects of COVID-19 (Trading Economics, 24 August 2020).

The Bank of Japan (BOJ) kept its key short-term interest rate at -0.1 per cent and maintained the target for the 10-year Japanese government bond yield at around 0 per cent during its July 2020 meeting. Policymakers noted that the outlook for economic activity and prices are extremely unclear, depending on the consequences of the virus and the magnitude of their impacts on domestic and overseas economies (Bank of Japan, 27 July 2020).

2.0 ECONOMIC DEVELOPMENTS IN SOUTH AFRICA

2.1 GDP Growth

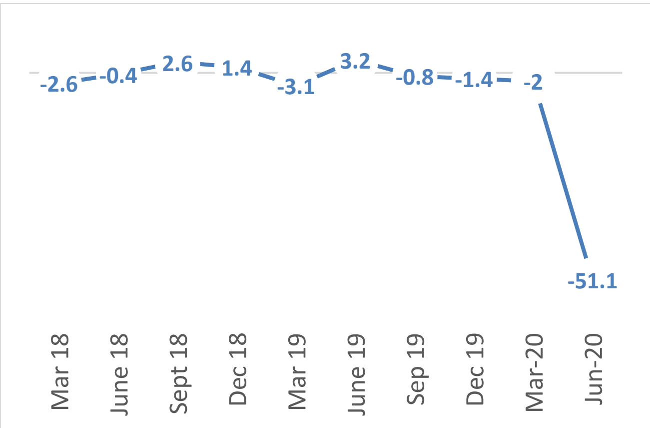
According to the South African Statistics Office, the South African economy The South African economy shrank by an annualized 51 per cent quarter on quarter in the three months to June of 2020, following a downwardly revised 1.8 per cent contraction in the previous period and more than an estimated 47.3 per cent decline.

It was the steepest economic contraction on record, reflecting the severity of the impact of the country's strict lockdown in response to COVID-19. Steep output declines were seen across almost all of the country's sectors, in particular construction (-76.6 per cent vs -4.7 per cent in Q1); manufacturing (-74.9 per cent vs -8.5 per cent); mining (-73.1 per cent vs -21.5 per cent); transport, storage &

communication (-67.9 per cent vs 0.5 per cent) and trade, catering and accommodation (-67.6 per cent vs -0.7 per cent).

The only exception was agriculture, forestry and fishing (15.1 per cent vs 26.8 per cent), which benefited from higher maize exports, as well as rising international demand for citrus fruits and pecan nuts. Year-on-year, the economy shrank 17.1 per cent, following a revised 0.1 per cent growth in the previous period and compared with market expectations of a 16.5 per cent slump (Statistics South Africa, 8 September 2020).

Figure 5: South Africa GDP Growth: Q1 2018 - Q2 2020



Source: www.statisticssouthafrica.com

2.2 SA Unemployment Rate

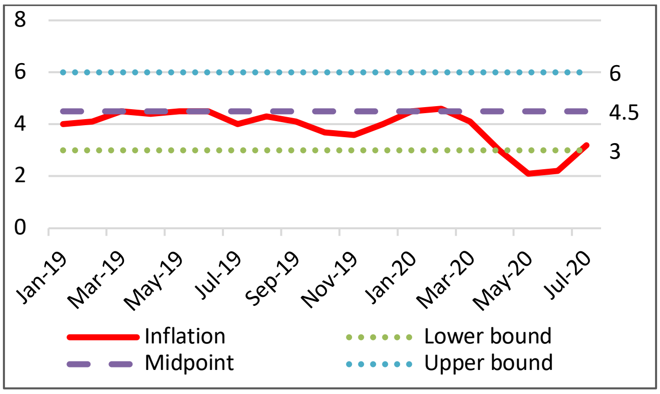
South Africa's unemployment rate rose to 30.1 per cent in the first quarter of 2020 from 29.1 per cent in the previous period and above market expectations of 29.7 per cent. It was the highest jobless rate on record since quarterly data became available in 2008, as the number of unemployed people increased by 344 000 to an all-time high of 7.1 million (Statistics South Africa, 24 August 2020).

2.3 Monetary Policy

The South Africa Reserve Bank (SARB) slashed its key repo rate by 25 basis points (bps) to a new all-time low of 3.5 percent on 23 July 2020, as widely expected. The move followed a 50 bps rate cut on 21 May 2020, amid the coronavirus crisis. Policymakers said that investment, exports and imports will likely fall sharply and job losses are projected to rise even if lockdown restrictions are relaxed further in the coming months. The Committee expects that the domestic economy will shrink by 7.3 per cent in 2020, compared to a previous estimate of a 7 per cent contraction and then grow by 3.7 per cent in 2021 and 2.8 per cent in 2022. Policymakers noted that the economic contraction and slow recovery will keep inflation well below the midpoint of the target range this year.

The Committee also relaxed regulatory requirements on banks aiming to free up more capital for lending by financial institutions to households and firms. Since the beginning of 2020, the SARB has cut its key repo rate by a total of 300 bps (SARB Monetary Policy Statement, 24 July | Trading Economics, 27 July 2020).

Figure 6: SA Inflation Rate; January 2019 - July 2020



Source: Statistics South Africa

The annual inflation rate in South Africa quickened to 3.2 per cent in July 2020 from 2.2 per cent in June, moving back into the SARB's target range of 3-6 per cent. It was the highest rate since March, as lockdown restrictions continued to ease. Main upward pressure came from prices of miscellaneous goods & services, namely funeral expenses, food & non-alcoholic beverages; health and alcoholic beverages & tobacco. In addition, cost remained flat for transport, as higher prices associated to public transport & the purchase of vehicles offset a decrease in those of fuel (Statistics South Africa, 29 July 2020).

3.0 DOMESTIC ECONOMIC DEVELOPMENTS

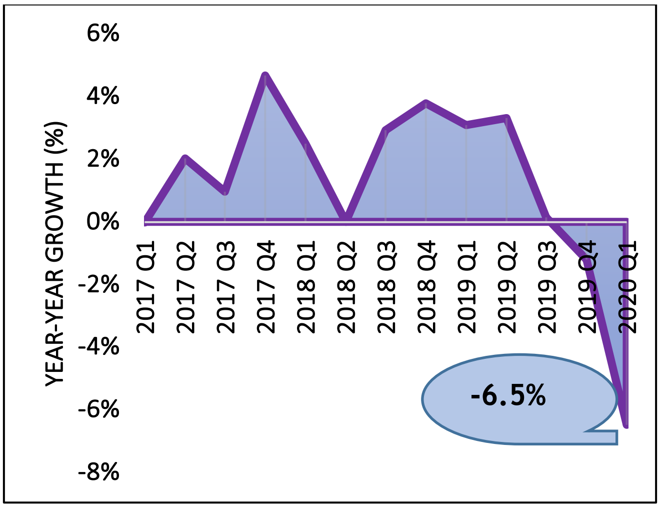
3.1 GDP Growth

According to the Central Statistics Office (CSO), the economy recorded a technical recession in the first quarter of 2020. Economic activity, as measured by the Quarterly Gross Domestic Product (QGDP), fell by 6.5 per cent on a year-on-year basis (seasonally adjusted), in the first quarter of 2020, from a revised decline of 1.2 per cent in the last quarter of 2019. On a quarter-on-quarter basis, economic activity contracted by 5.3 per cent (seasonally adjusted) in the first quarter of 2020 from a 0.3 per cent increase in the fourth quarter of 2019.

The observed slump in overall economic activity was largely attributed to poor performance in the secondary sector. The secondary sector contracted by a significant 19.3 per cent, year-on-year, in the quarter ended March 2020 owing to poor performance in the 'manufacturing', 'electricity supply' and 'construction' sub-sectors. Within the manufacturing sector, notable decreases in economic activity were observed in the 'manufacturing of beverages', 'manufacturing of textiles and wearing apparel' as well as 'manufacturing of wood and paper products'. Fiscal cash-flow challenges continued to weigh negatively on implementation of public infrastructural projects thereby resulting in constrained output in construction activity. Evidently, construction activity declined by 29.0 per cent, year-on-year, in the first quarter of 2020 from a 21.0 per cent increase in the fourth quarter of 2019.

The poor performance in the secondary sector was slightly counteracted by muted growth in the tertiary sector of 0.1 per cent, in the first quarter of 2020. Developments in the tertiary sector were mixed. On the positive side, there was notable growth mainly emanating from the 'financial services', 'human health and social work activities', and 'public administration'. On the contrary, there was a slowdown in economic activity in tourism related activities such as 'arts, entertainment and recreation', 'accommodation and food service activities' largely reflecting first round effects of the COVID-19 pandemic. Other sectors that suffered from weak demand were 'wholesale and retail trade' and 'professional services'.

Figure 7: Quarterly GDP Seasonally Adjusted, Year-on-Year Growth Rates; 2017Q1 to 2020Q1



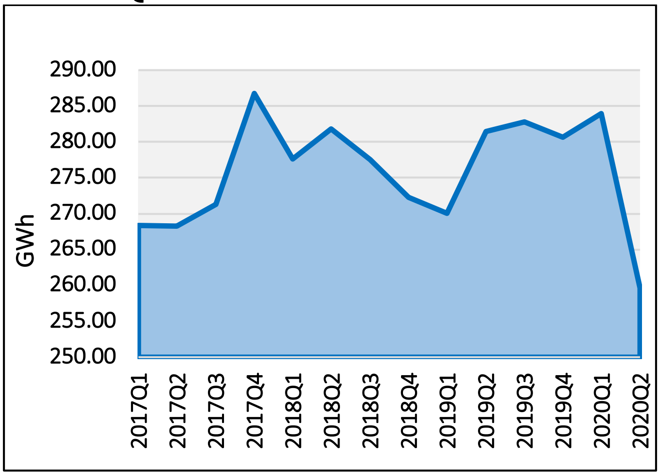
Source: Central Statistics Office (CSO)

3.2 Selected Quarterly Economic Indicators

- **Electricity Consumption**

Total electricity sales (sourced from the Eswatini Electricity Company) decreased by 8.6 per cent in the quarter ended June 2020, compared to a 1.2 per cent increase in the quarter ended March 2020. Partly reflecting the constraints to economic activity as a result of the lockdown effected in March 2020, electricity sales from the 'commercial' and 'irrigation power and bulk' categories declined during the quarter under review, while 'domestic' electricity sales slightly increased. Electricity consumption by the 'commercial' category further fell by 3.7 per cent in the second quarter of 2020 compared to a 3.5 per cent decline in the previous quarter. As some businesses remain closed due to the partial lockdown and controlled measures effected on those that are operating, electricity demand remains fairly lower than in previous years. Evidently, electricity demand by the 'irrigation power and bulk' category mainly dominated by sugar cane farming also significantly fell by 20.6 per cent in the quarter ended June 2020 from a 4.1 per cent increase in the previous quarter end. Notably, total electricity customers continued to rise in the quarter ended June 2020, increasing by 0.6 per cent to 236,475 from the previous quarter. All customer categories recorded marginal growth in the number of customers in the period under review.

Figure 8: Electricity Consumption; 2017Q1 to 2020Q2

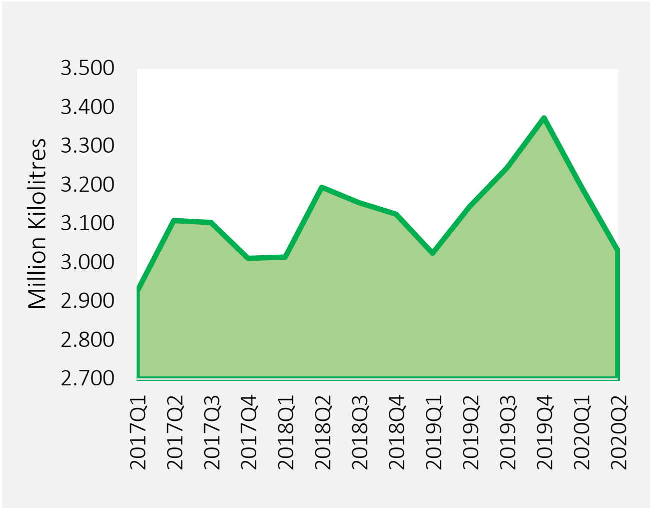


Source: Eswatini Electricity Company

- **Water Consumption**

Total treated water sales (sourced from the Eswatini Water Services Corporation) further declined by 5.3 per cent (seasonally adjusted) in the quarter ended June 2020 from a 5.2 per cent fall in the quarter ended March 2020. Both sales from the 'domestic' and 'commercial' categories declined during the period under review. Treated water sales at residential level slightly fell by 1.6 per cent during the second quarter of 2020, from a 1.2 per cent growth in the first quarter of 2020. Depicting the continued decelerated activity from businesses in the economy during the course of the partial lockdown, treated water sales from the 'commercial' category significantly fell by 16.0 per cent during the quarter ended June 2020 from a 6.0 per cent decline in the previous quarter end. The total number of treated water connections continued on an upward trajectory, increasing by 3.3 per cent to 55,854 in the quarter ended June 2020. Residential connections grew by 3.5 per cent, whilst commercial connections grew marginally by 0.9 per cent in the period under review.

Figure 9: Water Consumption; 2017Q1 to 2020Q2



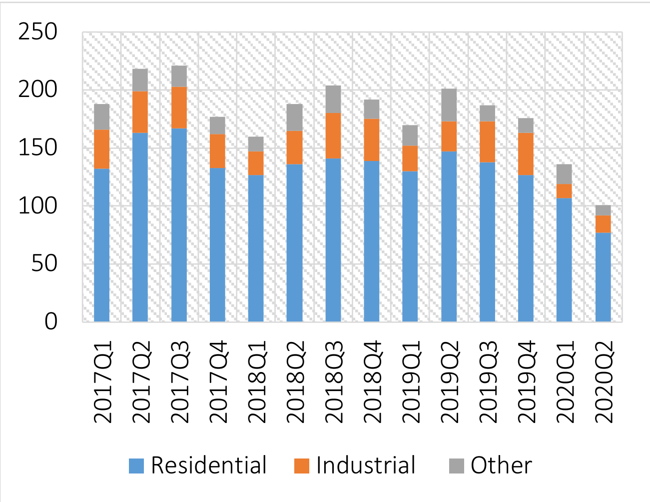
Source: Eswatini Water Services Corporation (EWSC)

- **Construction**

According to preliminary figures sourced from 'municipalities and town boards', total building plans approved further fell to record 101 units in the quarter ended June 2020 from 136 units in the previous quarter end. Reflecting slowed activity at 'household level' due to constrained disposable incomes, residential building plans approved declined to 77 units in the second quarter of 2020 from 107 unit in the previous quarter. Building plans approved from the 'other' category also fell to 9 units from 17 units, during the period under review. On the contrary, 'commercial and industrial' building plans approved rose slightly to 15 units during the quarter ended June 2020 from 12 units in the quarter ended

March 2020. In value terms, total building plans approved fell by approximately 64.4 per cent to E115.4 million in the quarter ended June 2020 from E324.6 million in the previous quarter.

Figure 10: Building Plans Approved; 2017Q1 to 2020Q2

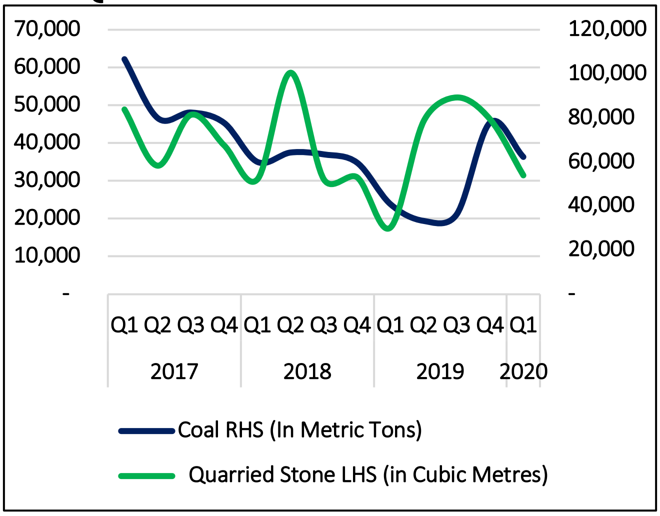


Source: City Councils, Town Councils and Town Boards

- **Mining and Quarrying**

Coal production decreased by approximately 20.0 per cent to record 36,340 metric tonnes in the quarter ended March 2020 compared to 45,445 metric tonnes during the last quarter of 2019. This slump was mainly driven by geological constraints regarding the crown land that continue to affect coal yields. Quarried stone production also declined by 32.0 per cent to 53,945 cubic metres in the first quarter of 2020 from 79,363 cubic metres in the previous quarter. Evidently, the COVID-19 induced partial lockdown on the economy negatively affected construction progress for the currently ongoing public-sector-funded infrastructural projects, particularly the Manzini-Mbadlane roads. It is however important to note that, on a year-on-year comparison, both coal and quarried stone production increased in the period under review.

Figure 11: Mining and Quarrying; 2017Q1 to 2020Q1

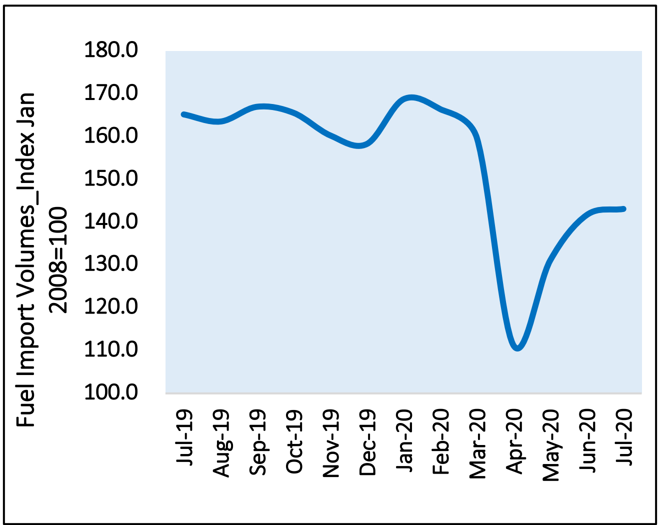


Source: Mining Department

- **Fuel Imports**

Total fuel import volumes (seasonally adjusted) grew at a slower rate of 1.0 per cent in July 2020 from an 8.1 per cent growth in June 2020. Notably, petrol and paraffin import volumes increased between the two months under review, while diesel import volumes dropped. Petrol import volumes grew by 4.1 per cent in July 2020 compared to an 11.1 per cent growth in the previous month, as the economy continues to open up from the lockdown and inward travel restrictions were partially lifted. Similarly, paraffin import volumes rose by 17.8 per cent in July 2020 from a 20.4 per cent decline the previous month. Commercial freight activity largely captured by 'diesel' import volumes fell by 2.0 per cent in July 2020 from a 7.2 per cent increase in the previous month.

Figure 12: Fuel Imports; July 2019 to July 2020



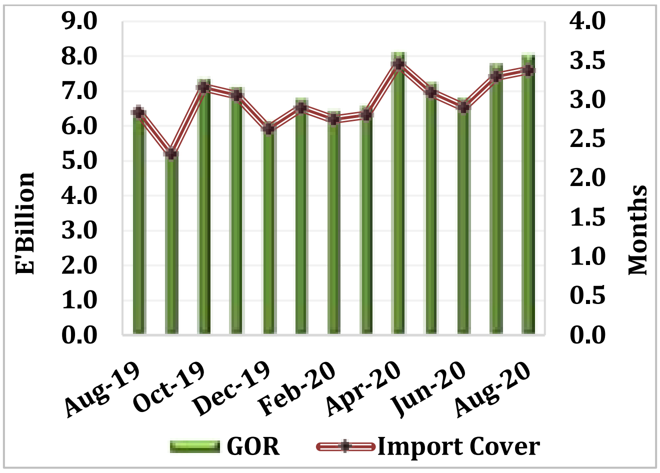
Source: Ministry of Natural Resources and Energy

3.3 Monetary Sector Developments

3.3.1 Gross official Reserves

Gross official reserves increased by 3.2 per cent over the month and by 25.2 per cent over the year to close at E8.1 billion at the end of August 2020. The increase in reserves was due to the inflow of foreign currency from trade with local commercial banks over the review month. As a result, the import cover grew to 3.4 months from 3.3 months the previous month. When expressed in special drawing rights (SDRs), gross official reserves stood at SDR341.7 million, reflecting an increase of 4.9 per cent month-on-month and 10.6 per cent over the year.

Figure 13: Gross Official Reserves & Import Cover

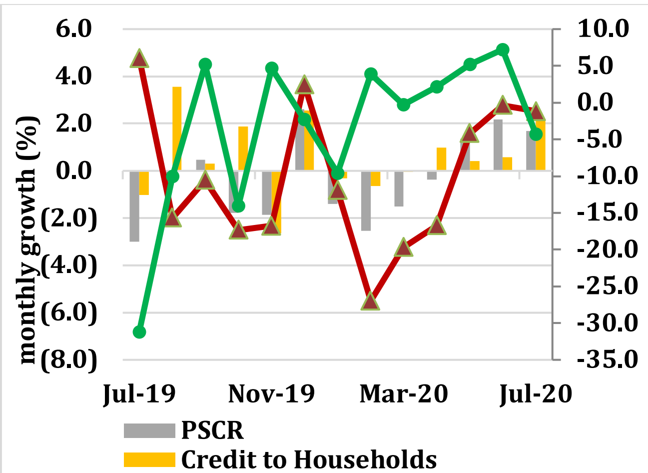


Source: Central Bank of Eswatini

3.3.2 Credit Extension

Credit extended to the private sector recorded an increase of 1.7 per cent month-on-month but contracted by 1.9 per cent compared over the year to settle at E14.7 billion at the end of July 2020. Growth in credit to the private sector emanated from increases in credit to the business sector and the household sector while credit to other sectors of the economy contracted.

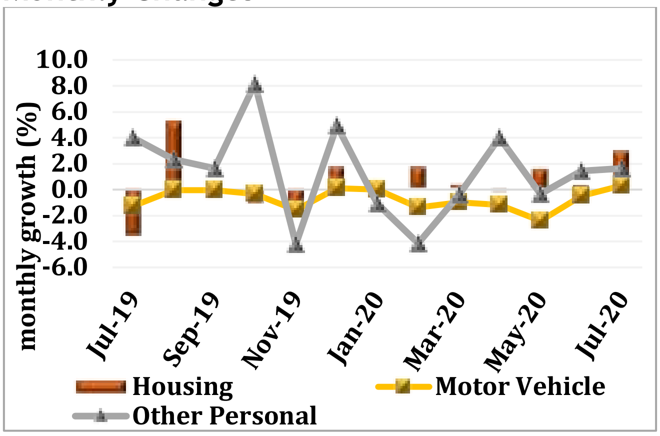
Figure 14: Private Sector Credit: Monthly Changes



Source: Central Bank of Eswatini and Other Depository Corporations

Credit extended to the businesses sector stood at E6.5 billion at the end of July 2020, depicting an increase of 2.5 per cent over the month but a decline of 8.6 per cent compared over the year. The month-on-month increase was on account of a rise in credit to the following industries; manufacturing (8.8 per cent), distribution & tourism (6.3 per cent) and agriculture & forestry (5.6 per cent). The increase in credit was partly offset by contractions in credit to these industries; transport & communication (-6.9 per cent), community, social & personal services sector (-2.1 per cent), real estate (-1.2 per cent), construction (-0.05 per cent) and mining & quarrying (-0.004 per cent).

Figure 15: Household Credit by Product: Monthly Changes



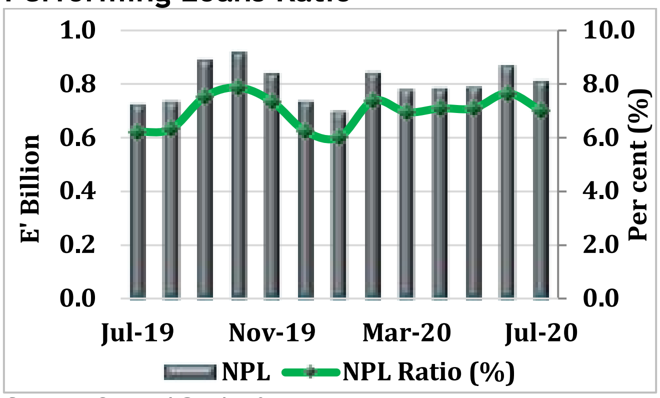
Source: Central Bank of Eswatini and Other Depository Corporations

Credit extended to the households and non-profit institutions serving households (NPISH) sector increased by 2.2 per cent compared to the previous month and by 9.0 per cent on an annual basis to reach E6.8 billion at the end of July 2020. The increase in household credit was driven by all its components; housing loans grew by 3.0 per cent and other personal (unsecured) loans increased by 1.6 per cent while motor vehicle loans accelerated by 0.3 per cent over the review month.

Credit extended to other sectors of the economy amounted to E1.4 billion at end of July 2020, depicting a decline of 4.3 per cent month-on-month and 14.1 per cent year-on-year. The fall in credit emanated from all its components; credit to other financial corporations declined by 4.7 per cent followed by credit to parastatals with a fall of 3.8 per cent while credit to local government decelerated by 0.4 per cent.

Preliminary data indicate an improvement in the service of outstanding loans as non-performing loans declined by 6.3 per cent month-on-month but grew by 11.7 per cent over the year to E 850.0 million at the end of July 2020. Similarly, the non-performing loans ratio fell to 7.0 per cent from 7.7 per cent in June 2020.

Figure 16: Non-Performing Loans and Non-Performing Loans Ratio

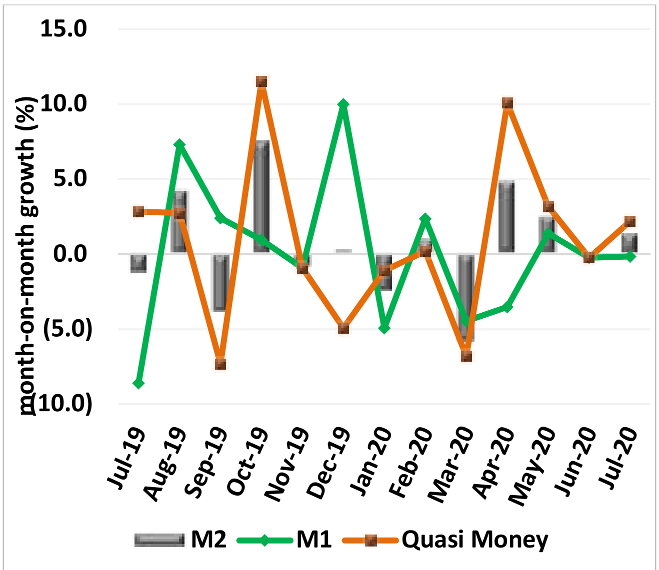


Source: Central Bank of Eswatini

3.3.3 Money Supply

Expansion in credit extended to the private sector contributed towards a rise in broad money supply (M2) over the review month. M2 increased by 1.4 per cent compared to June 2020 and by 7.9 per cent on an annual basis to close at E18.5 billion at the end of July 2020. Responsible for the month-on-month growth in M2 was quasi money supply which outweighed a fall in narrow money supply (M1).

Figure 17: Money Supply: Monthly Changes



Source: Central Bank of Eswatini and Other Depository Corporations

Quasi money supply recorded an increase of 2.2 per cent over the month and 7.0 per cent over the year to reach E12.2 billion at end-July 2020. The growth in quasi money supply emanated from both its components; savings and time deposits which grew by 2.8 per cent and 2.1 per cent, respectively.

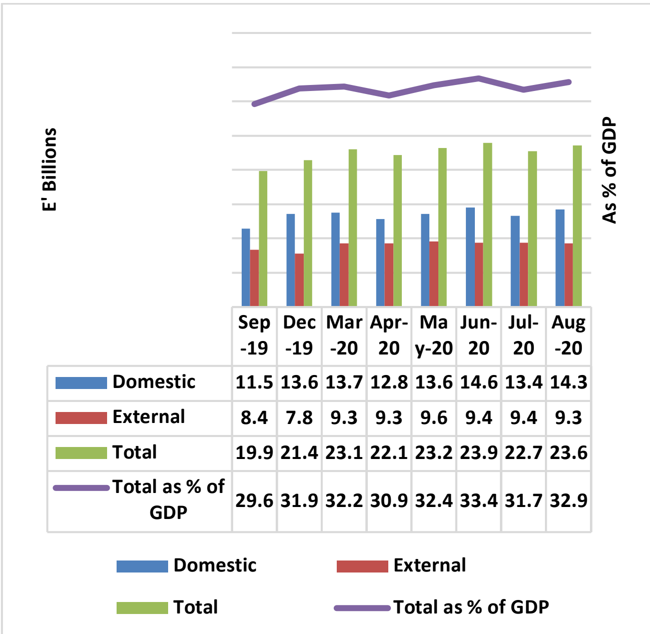
Narrow money supply (M1), on the other hand, decelerated to E6.3 billion in July 2020, depicting a decline of 0.1 per cent month-on-month but reflected an increase of 9.6 per cent over the year. The monthly decline in M1 was due to transferable (demand) deposits which fell by 1.0 per over the review month. The fall in M1 was partially offset by an increase of 6.0 per cent in Emalangeni in circulation.

3.4 Public Debt

3.4.1 Total Public Debt

Eswatini's total debt stock stood at E23.6 billion as at the end of August 2020, an equivalent of 32.9 per cent of GDP. This shows an increase of 4 per cent when compared to E22.7 billion recorded in July 2020.

Figure 18: Total public Debt, August 2020



	Sep -19	Dec -19	Mar -20	Apr-20	May-20	Jun-20	Jul-20	Aug -20
Domestic	11.5	13.6	13.7	12.8	13.6	14.6	13.4	14.3
External	8.4	7.8	9.3	9.3	9.6	9.4	9.4	9.3
Total	19.9	21.4	23.1	22.1	23.2	23.9	22.7	23.6
Total as % of GDP	29.6	31.9	32.2	30.9	32.4	33.4	31.7	32.9

Source: Central Bank of Eswatini

3.4.2 Public External Debt

Preliminary public external debt figures show that external debt stood at E9.3 billion as at end of August 2020, an equivalent of 13.0 per cent to GDP. This shows that external debt has decreased marginally over the month due to a slight strengthening of the Lilangeni against major currencies in which the country's liabilities are denominated.

3.4.3 Public Domestic Debt

Outstanding public domestic debt stood at E14.3 billion at the end of August 2020, an equivalent of 19.9 per cent to GDP. This shows that domestic debt increased by 6.7 per cent from E13.4 billion recorded in July 2020. The increase can be attributed to an additional advance extended to government as well as issuance of Suppliers' bonds.

3.4.4 Advance to Government

During the month of August 2020, the Central Bank of Eswatini extended a further E600 million advance to government, bringing the total advance amount to E1.1 billion thus far.

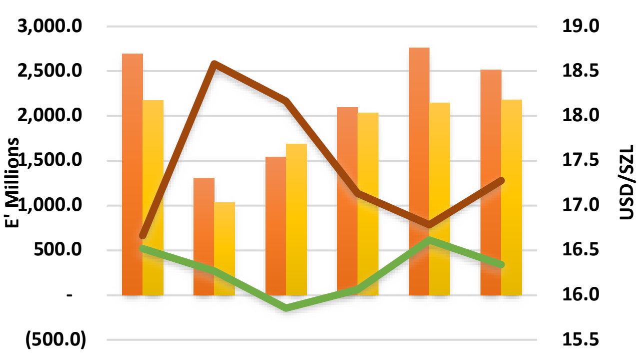
3.5 External Sector

3.5.1 Trade Developments

In August 2020, the country recorded another trade surplus of E340 million, albeit 44.7 per cent lower than the surplus of the previous month. The reduced surplus can be attributed to lower exports of E2.518 billion, which is 8.8 per cent lower month-on-month and 6.7 per cent lower on a year-on-year basis. Imports on the other hand, increased marginally by a monthly 1.5 per cent to E2.178 billion in August but on a yearly basis they were 2.3 per cent lower.

Cumulative trade figures point towards a subdued trade activity for 2020, with export sales being 3.8 per cent lower compared to the first 8 months of 2019. Cumulative exports for 2020 totalled E17.105 billion against E17.788 billion in 2019. Imports in the same comparable period also exhibit a shortfall of 6.9 per cent amounting to E15.126 billion. If trade figures continue on the current trajectory for the remaining 4 months of the year, overall 2020 will result in a sizeable trade surplus.

Figure 19: Merchandise Trade; March to August 2020



	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20
Exports	2,695.0	1,307.7	1,541.1	2,095.2	2,760.5	2,517.8
Imports	2,172.2	1,037.0	1,687.5	2,032.9	2,145.5	2,177.7
Trade Balance	522.8	270.6	(146.4)	62.3	615.0	340.1
Exchange Rate	16.7	18.6	18.2	17.1	16.8	17.3

Source: Eswatini Revenue Authority and Central bank of Eswatini

An in depth review of exports in the month reveal that the decline in exports was due to a 30.7 per cent month-on-month decline in miscellaneous edibles to E1.029 billion, still accounting for 40.9 per cent of total exports; remaining the top export in the country. These were followed by 'sugar and sugar confectionary' goods which recorded a negligible decline of 0.3 per cent to record at E737.5 million. 'Wood and articles of wood' on the contrary logged a monthly 8.13 per cent increase to E158.6 million while textiles also recorded an increase of 9.17 per cent month-on-month to E326.7 million.

Total imports amounted to E2.178 billion from E2.145 billion, due to consumption still being subdued as the economy continues to experience the effects of COVID-19 containment measures. Energy imports being fuel and electricity remain the largest import bill amounting to E344.0 million in August, contributing 15.8 per cent to total imports. Food imports in terms of 'live animals' and 'vegetable products' combined amounted to E192.1 million, 14.9 per cent lower on a monthly comparison. Machinery, mechanical and electrical equipment amounted to E251.1 million higher than that of July of E215.6 million. Imports of 'vehicles other than railway' on the other hand, fell by a meagre 1.8 per cent to E111.5 million in the month of August 2020.

3.5.2 Exchange Rates Developments

Since the last MPCC meeting, the Lilangeni has been volatile but largely remained on a weaker footing against the major trading currencies. Even though global investor sentiments proved stronger for the Rand to appreciate, lower investor confidence towards emerging market assets put emerging market currencies under immense pressure. During this period, the US Dollar had remained on a weaker footing in line with low interest rates which sought to relieve economic pressures related to the global pandemic.

The Rand along with the Lilangeni therefore appreciated as investors responded to higher treasury yields in South Africa, stock prices and higher gold prices which are considered to be safe-haven assets amid the weaker US Dollar. However, this appreciation was short-lived and was far outweighed by the huge depreciation towards the end of August 2020. The Rand's depreciation follows a huge depreciation in the Turkish Lira which put emerging market (EM) currencies (including the Rand) under pressure following mounting concerns about the depleted reserves and the Central Bank policies.

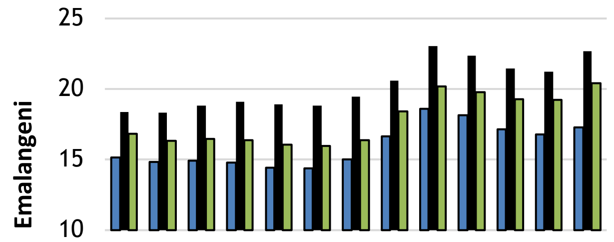
As a result, the Lira's negative drag on emerging market currencies encouraged a negative sentiments towards emerging marketing economies. Further losses of the

Rand came in with the news of the renewed electricity load-shedding and weakening public finances in South Africa. In a bid to ease financial conditions, the SARB further cut interest rates by 25 basis points while further reducing the level of government bond yields, also exerting downward pressure on the rand. As a result, the Lilangeni depreciated from a monthly average of E17.14 in June 2020 to E17.28 in August 2020. Against other major trading partners' currencies, the domestic unit was weaker at an average of E20.43 (from E19.22 in June 2020) and E22.67 (from E21.47 in June 2020) against the Euro and Sterling Pound, respectively.

Going forward, the Rand is still expected to be volatile largely hit hard by consistent uncertainty in global investor sentiments which continuously ride on the back of the coronavirus pandemic effects. However, the easing of lockdown restriction from level 3 to level 2 in South Africa if sustained is expected to limit the volatility and lift the Rand in the short-to-medium term.

In addition the gradual phasing out of global lockdown restrictions together with raised hopes of a coronavirus treatment and the survival of the US-China phase one deal, all pose as upside risks to the Rand. As at the end of August 2020, the local unit stood at E16.91 to the US Dollar, E22.43 to the Pound Sterling and E20.07 to the Euro.

Figure 20: Lilangeni Exchange Rates against Selected Major Currencies



	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20
USD	15.	15	15	15	14	14	15.	16.	18.	18.	17.	16.	17
GBP	18.	18	19	19	19	19	19.	20.	23.	22.	21.	21.	23
Euro	16.	16	16	16	16	16	16.	18.	20.	19.	19.	19.	20

Source: Central Bank of Eswatini

3.6 Financial Stability Developments

3.6.1 Soundness of the Banking System

The first half of 2020 was marred by the evolution of COVID-19. Developments in the banking sector are a result of both seasonality and COVID-19. As at end June 2020, the banking sector assets stood at E21.9 billion, increasing by 7.7 per cent year on year. Loans and overdrafts decreased by 1.7 per cent, settling at 11.8 billion. On the other hand, deposits amounted to 16.9 billion as at end of June 2020, experiencing a 10.5 per cent growth.

3.6.2 Capital Adequacy

The banks complied with minimum capital requirements as at end of June 2020 albeit falling compared to the previous year as a result of weakened profitability and increased provisioning costs. The average industry-wide regulatory tier 1 capital adequacy ratio and total capital adequacy ratio stood at 14.6 per cent and 17.0 per cent respectively, decreasing from the previous year's positions of 16.1 per cent and 18.7 per cent respectively. The leverage ratio followed suite, falling from 12.4 per cent to settle at 10.7 per cent. However, banks resilience to credit risk was improved during the year as non-performing loans (net of specific provisions) to capital fell to 19.4 per cent in June 2020 from 27.1 per cent of June 2019.

3.6.3 Earnings and Profitability

Banking sector earnings and profitability took a knock during the year ending June 2020. The average return on banks' total assets (ROA) and on total equity (ROE) fell from 2.6 per cent and 16.5 per cent respectively at the end of June 2019 to 1.5 per cent and 10.3 per cent respectively in June 2020. During the year, income from interest on loans fell by 10.9 per cent while interest paid on deposits increased by 4.8 per cent. The cut in interest rates has weighed on net interest margins. The cost-to-income ratio also worsened, increasing to 82.8 per cent in June 2020 from 72.8 of June 2019. On average, banks' operating expenses accounted for 55.1 per cent of total income, rising from 49.2 of the previous year. This is a result of increasing inflation and reduced economic activity due to the COVID-19 pandemic. The sector's after-tax profits decreased by 36.0 per cent, reaching E335.5 for the year ended.

3.6.4 Banks' Asset Quality

The asset quality remained relatively unchanged during the year under review. The non-performing loans to total loans ratio stood at 9.3 per cent as at end June 2020, equating E1.1 billion in nominal terms. This may be attributed to reliefs given by banks to COVID-19 affected customers. Businesses contributed 51.4 per cent to total NPLs. Households on the other hand contributed 45.0 per cent to total NPLs as at end June 2020.Specific provisions to total NPLs continued to increase reaching 42.1 per cent in June 2020 from 22.1 per cent in June 2019, showing an improvement in provisioning for losses by banks.

3.6.5 Liquidity Risk

Banks maintained adequate levels of liquid assets amid the COVID-19 pandemic. Aggregate bank liquidity to deposits stood at 38.3 per cent, increasing from 32.8 of the previous year. Government securities represented 47.7 per cent of liquid assets holding of banks. Liquid assets were 42.8 per cent of short-term liabilities, showing banks' ability to meet short-term obligations. As a share of total assets, liquid assets also improved from 24.6 per cent to 29.5 during the year under review. The ratio of loans and advances to deposits fell from 78.9 per cent of June 2019 to 70.2 per cent in June 2020 showing a freeze in lending caused by the pandemic.

3.7 Monetary Policy Transmission Mechanism to the Economy

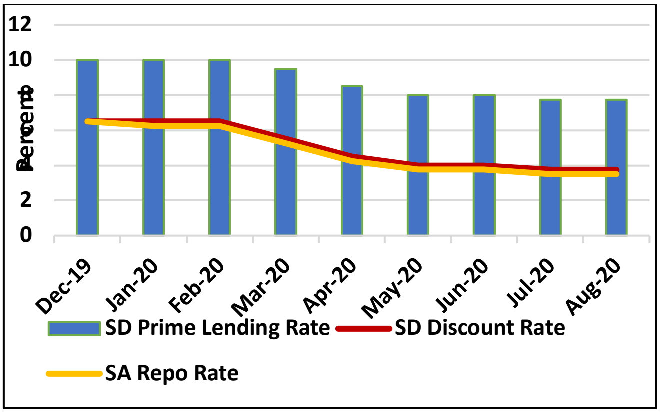
Monetary policy transmission mechanism is the process through which the monetary policy decisions of the Central bank affect the economy. The expansionary monetary policy stance taken by most Central banks in the wake of COVID-19, is expected to be more at play now than any other time in the last ten (10) years. Therefore, when a central bank communicates its monetary policy decision, a sequence of economic events are set in motion.

Basically, an expansionary monetary policy leading to a fall in interest rates, lowers the cost of capital(market interest rates) and causes an increase in investment spending which increases aggregate demand and hence a rise in output. However, this may lead to higher inflation as aggregate demand increases. Although the interest rate channel of monetary policy transmission mechanism was largely emphasized by Keynes, other research also recognized that consumer decisions about housing and consumer durable expenditure can also be categorized as investment decisions. In a nutshell an expansionary monetary policy is expected to increase aggregate demand leading to high inflation rate in the short-run and increase private sector credit leading to high economic growth in the long-run and depreciate the exchange rate leading to an increase in exports, hence increase in the reserves in the short-run and growth in the long-run. Since markets are currently distorted by the COVID-19, the response of some variables to the easing of monetary policy may not be in line with expectations as dictated by the theory.

3.7.1 The Response of Economic Indicators to CBE's Monetary Policy since COVID-19

The lockdown of economies which commenced in March 2020 (27 March 2020 for Eswatini), created a fall in private sector demand. However, higher government spending and private sector spending mainly by Non-governmental organizations towards essential health consumables were on the rise in an effort to combat the crisis. While the COVID-19 shock is primarily a real sector shock, it also had a large impact on the financial sector. In line with central banks worldwide, the Central Bank of Eswatini had cut interest rates by 275 basis points combined in its March, April and July 2020 MPCC meetings.

Figure 21: Interest Rates Trends for SD and RSA: December 2019 to August 2020



Source: Central Bank of Eswatini

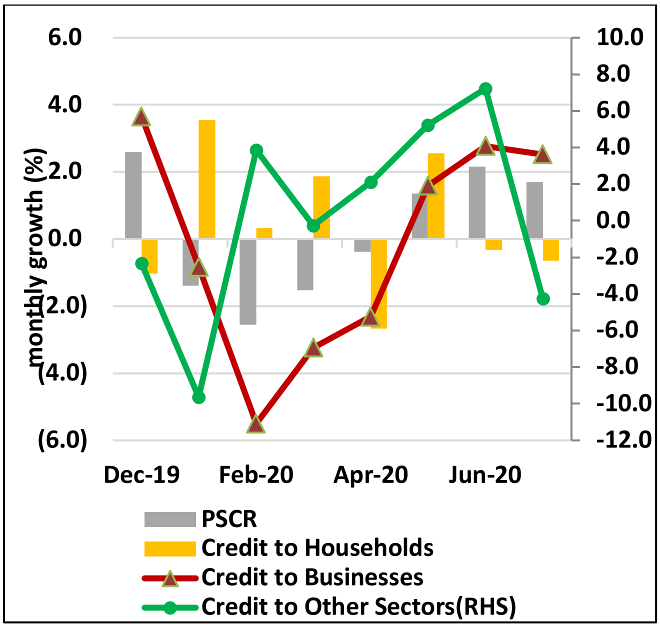
3.7.2 Inflation

Inflation has been on an upward trajectory since October 2019 and worsening from the beginning of the lockdowns. This was partly due to the monetary policy stance taken by the CBE an indication that aggregate demand may have increased following the reduction in the interest rate putting upward pressures on inflation. This confirms the effectiveness of the monetary policy to influence inflation in Eswatini. Inflation marginally increased from 3.9 per cent in April 2020 to 3.8 per cent in June 2020, to average 3.9 per cent in the second quarter of 2020 and is projected to average 4.0 per cent in the third quarter of 2020. Consequently, inflation is projected to be at 4.21 per cent in the fourth quarter of 2020.

3.7.3 Private Sector Credit

The expansionary monetary policy stance taken by the CBE is expected to increase private sector credit, as the cost of borrowing reduces, however with a lag. Credit extended to the private sector recorded a month-on-month expansion of 1.7 per cent at the end of July 2020. Growth in private sector credit emanated from increases in credit to the business sector and household sector while credit to other sectors of the economy contracted. This is an indication that the effects of the reduced policy rate on credit extension to the private sector is being transmitted to the economy, supported by the gradual lifting of lockdowns worldwide.

Figure 22: Private Sector Credit Monthly Changes: October 2019 to March 2020



Credit extended to the businesses sector stood at E6.5 billion at the end of July 2020, depicting an increase of 2.5 per cent over the month. The reduced interest rate is expected to also ease pressure on loan holders, hence reducing Non-Performing Loans (NPLs). Preliminary data indicate an improvement in the service of outstanding loans as non-performing loans declined by 6.3 per cent month-on-month to E 850.0 million at the end of July 2020. Similarly, the non-performing loans ratio fell to 7.0 per cent from 7.7 per cent in June 2020.

3.7.4 The Exchange Rate and Reserves

The Lilangeni which is pegged to the Rand has been volatile but largely remained on a weaker footing against the major trading currencies. The weakening of the Lilangeni/Rand is reacting largely to the effects of COVID-19 and to the accommodative monetary policy taken by South Africa. The accommodative monetary policy in SA encourages capital outflows leading to a depreciation in the Lilangeni/Rand. The Lilangeni depreciated from a monthly average of E17.14 in June 2020 to E17.28 in August 2020. Against other major trading partners' currencies, the domestic unit was weaker at an average of E20.43 (from E19.22 in June 2020) and E22.67 (from E21.47 in June 2020) against the Euro and Sterling Pound respectively. As at the end of August 2020, the local unit stood at E16.91 to the US Dollar, E22.43 to the Pound Sterling and E20.07 to the Euro.

The reduced discount rate is expected to have a positive effect on reserves. Businesses are expected to take advantage of the reduced cost of credit and increase their production for exports, hence increasing foreign earnings. The increase in exports also benefited from the depreciation in the exchange rate. Gross official reserves increased by 3.2 per cent over the month and by 25.2 per cent over the year to close at E8.1 billion at the end of August 2020, as expected. The increase in reserves was due to the inflow of foreign currency from trades with local commercial banks over the review month. As a result, the import cover grew to 3.4 months from 3.3 months the previous month.

3.7.5 Mitigation Measures

Eswatini has already opened some sectors of the economy and this will contribute in improving economic activity and hence increasing output. In neighbouring South Africa, authorities further re-opened the economy by easing lockdown regulations from level 3 to 2, which has enabled most workers to return to work with strict adherence to all COVID-19 health and safety protocols. Since South Africa is our major trading partner, easing restrictions is expected to increase trade.

PART B: INFLATION DEVELOPMENTS

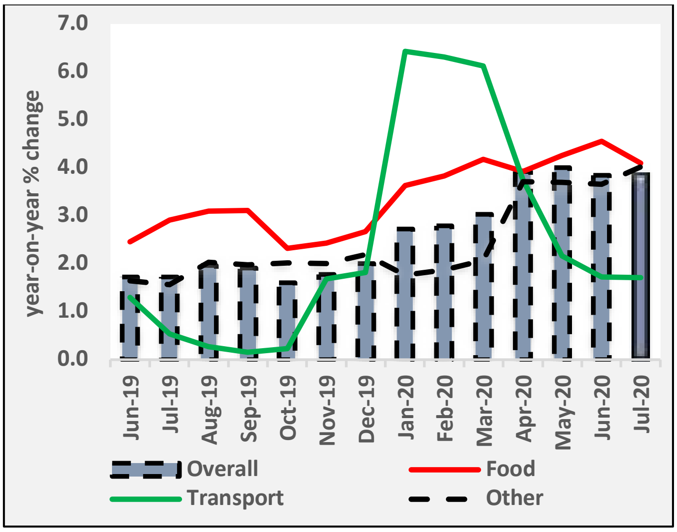
4.1 Headline Inflation

The headline consumer inflation rose slightly to 3.9 per cent in July 2019 from 3.8 per cent in June 2020. The marginal increase was largely attributed to higher utilities' costs following the implementation of a 13.7 per cent water tariff increase in July 2020 as approved by Parliament. As a result, the 'housing and utilities' index, which constitutes the highest weight in in the rebased CPI, rose by 5.9 per cent in the month under review compared to 5.1 per cent in the previous month.

Additional increases were observed in the price indices for 'health' and 'furnishing and household equipment'. The health index rose by 1.8 percentage points to 3.6 per cent in July 2020 reflecting continuous pressure on medical supplies and increasing costs for outpatient medical services in light of ongoing challenges posed by the COVID-19 coronavirus pandemic. Furthermore, the 'furnishing and household equipment' index increased to 2.7 per cent in the month under review from 1.6 per cent in the previous month mainly due to increases in the prices for major household appliances.

The above increases were partially offset by a slowdown in the price indices for 'food and non-alcoholic beverages' and 'clothing and footwear'. Food prices rose at a slower pace of 4.1 per cent in July 2020 compared to 4.6 per cent the previous month. The moderation mainly benefitted from slower increases in the prices of 'other cereal products excluding rice' and 'eggs and dairy products'. On the other hand, the 'clothing and footwear' index recorded a deflation of 0.1 per cent in the month under review, down from 1.3 per cent recorded the previous month.

Figure 23: CPI Components; June 2019 to July 2020



Source: Central Statistical Office

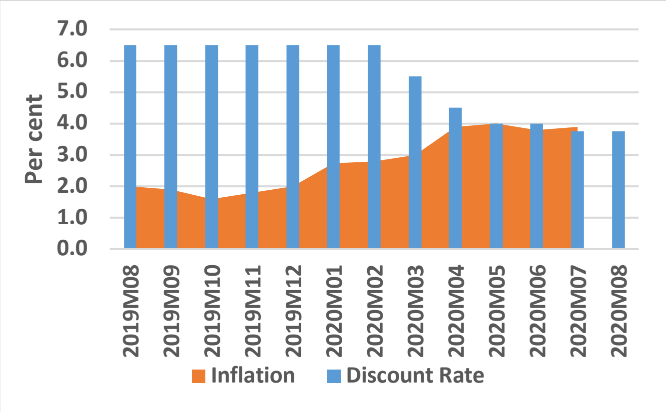
On month-on-month rates, consumer inflation rose marginally by 0.1 per cent in July 2020 from a deflation 0.1 per cent the previous month. Increases were observed in the price indices for 'health', 'housing and utilities' and 'furnishing and household equipment', which grew by 1.9, 0.7 and 1.1 per cent, respectively. On the contrary, prices for 'clothing and footwear' declined by 2.0 per cent on a month-on-month basis in July 2020.

4.2 Inflation and Interest Rate Trends in Eswatini

The bank reduced the discount rate in July 2020 by 25 basis points from 4 per cent to 3.75

per cent whilst the SARB cut the repo rate by 25 basis points to 3.50 per cent in July 2020.

Figure 24: Inflation and Discount Rates



Source: Central Statistics Office and Central Bank of Eswatini

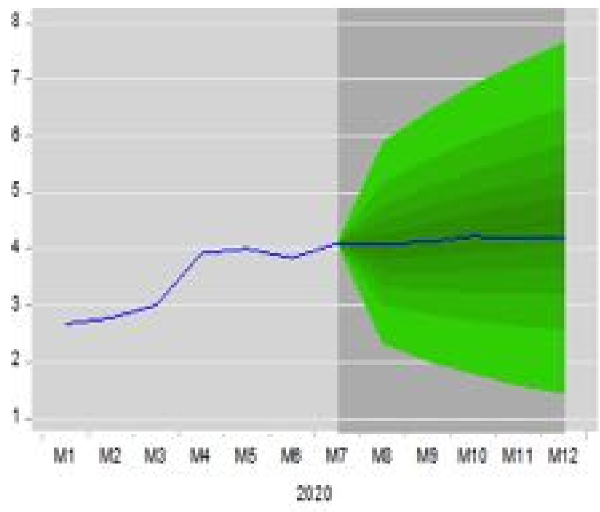
4.3 Inflation Outlook

The country's medium-term inflation outlook largely remains unchanged since the last MPCC meeting while the short-term is marginally lower than previously forecasted. The outlook for both domestic and external factors continue to exert some upward and downward pressures on the inflation forecast but these factors generally balance each other out yielding a marginal downward revision in the third quarter while a higher revision for the fourth quarter is forecasted.

Despite the increase in water tariff, latest inflation figures came out lower than anticipated, due to expected lower food inflation. Brent crude oil prices are expected to recuperate and reach higher levels than previously assumed as the global economy slowly opens up to relief the COVID-19 pandemic effects which curtailed global economic activity. Domestically, the hike in fuel prices announced in September 2020 will exert upward pressures on domestic inflation with the effect expected to be more pronounced in the fourth quarter of the year. Externally, the expected appreciation of the Rand/Lilangeni in the last two quarters of 2020 domestic is expected to slow down domestic inflation. Moreover, the ease of South Africa's lockdown restrictions from level 3 to level 2, is expected to calm existing pressures on the supply of goods and services in the country exerting downward pressure on domestic inflation. As a result, the third quarter of 2020 is expected to be slightly lower than previously forecasted, slowing to 4.00 per cent (from 4.10 per cent) while the fourth quarter is revised slightly upward to 4.21 per cent (from 4.20 per cent). Consequently, the annual inflation forecast for 2020 is revised down to 3.74 per cent from 3.77 per cent forecasted in July 2020.

In the medium-term, inflation is expected to remain unchanged. This muted outlook in the trajectory is an indication that the assumptions and developments leading to the inflation forecasts, have not changed. As previously anticipated, oil prices remain elevated for 2021 and 2022 and the upward adjustment in domestic administered prices is still expected in the next two years. Therefore, inflation forecasts for the medium term have remained unchanged at 4.34 per cent for 2021 and 4.06 for 2022.

Figure 25: Inflation Outlook



Source: Central Bank of Eswatini

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