CENTRAL BANK OF ESWATINI
Umntsholi Wemaswati

MONETARY POLICY STATEMENT

22 MAY 2020

On the 22nd of May 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 reduce the discount rate by 50 basis points to 4.0 per cent after considering global, regional and domestic economic developments.

On the global front, growth is projected to contract by 3.0 per cent from an estimated 2.9 per cent growth in 2019 due to the slowdown in economic activity and recover to 5.8 per cent in 2021 as economic activity normalises. Advanced economies are projected to contract by 6.1 per cent in 2020 whilst emerging market and developing economies are expected to contract by 1 per cent. This is premised on the assumption that the pandemic fades in the second half of 2020 and containment efforts are gradually relaxed and assisted by policy support. Inflation in advanced economies remains stable and below target whilst global monetary policy is now largely accommodative in an effort to support economic activity.

The South African economy contracted by 1.4 per cent in the fourth quarter of 2019 following an upwardly revised 0.8 per cent contraction in the third quarter. Economic growth forecasts for South Africa have been further revised to -7 per cent (from -6.1 per cent) for 2020 and 3.8 per cent (from 2.2 per cent) for 2021. Inflation declined to 4.1 per cent in March 2020 from 4.6 per cent in February 2020. The inflation forecasts have been revised down to 3.4 per cent (from 3.6 per cent) for 2020 and 4.4 per cent (from 4.5 per cent) for 2021. The South African Reserve Bank (SARB) reduced the repo rate by 50 basis points to 3.75 per cent in May 2020 from 4.25 per cent. Cumulatively, the SARB has cut the repo rate by 275 basis points since the beginning of the year.

On the domestic front, the economy contracted by 2.1 per cent in the fourth quarter of 2019 following a 1 per cent decline in the third quarter. The weak growth outcome mainly emanated from poor performance in the secondary sector, largely the manufacturing sector.
The short-medium term growth outlook is expected to remain challenging. Emerging debt sustainability concerns are projected to limit growth prospects in the medium term. Growth prospects are further hampered by the policy measures responding to the outbreak of the COVID-19 pandemic, which has affected both supply and demand of goods and services. Under a pessimistic scenario GDP is expected to contract by 6.16 per cent in 2020 before recovering to 2.1 per cent in 2021.

The year-on-year headline inflation increased to 3.9 per cent in April 2020 from 3.0 per cent in March 2020. The increase mainly resulted from an upswing in the price indices for 'housing and utilities' which, increased from 0.8 per cent in March 2020 to 5.2 per cent in April 2020. Actual rentals for housing contributed to the higher index in this category. The inflation forecast for 2020 has been revised upwards to 3.25 per cent (from 3.22 per cent) whilst for 2021, it is unchanged at 3.93 per cent. The weaker exchange rate and supply shocks due to COVID-19 pandemic pose upside risks to inflation.

Private sector credit declined by 1.5 per cent over the month to E14.0 billion at the end of March 2020 from E14.2 billion in February 2020. A slowdown in credit was observed across all sectors: the business sector, other sectors of the economy (comprising local government, other financial corporations and parastatals), as well as the household sector. Year-on-year, credit to the private sector depicted a decline of 6.3 per cent following another 3.9 per cent decline in the previous month. Credit extended to the business sector decreased by 3.2 per cent to E6.3 billion in March 2020, an improvement from the decline of 5.5 per cent observed the previous month. The fall in credit was mostly evident in the distribution & tourism, manufacturing, agriculture & forestry and mining & quarrying industries. Credit extended to other sectors of the economy decelerated by 0.3 per cent to E1.2 billion at the end of March 2020, following an increase of 3.9 per cent the previous month. As at 15 May, the country's stock of reserves stood at E7.8 billion enough to cover an estimated 3.3 months of imports.

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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INTEREST RATE

We have reduced the interest rate from 4.5 % to **4%**

INFLATION

Inflation increased from **3.0%** in March 2020 to **3.9%** in April 2020

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 moderate with an upward trend.

WHAT TO EXPECT

The Bank holds the view that the cost of goods and services will continue to increase moderately over the year 2020 with a forecast average of 3.54%.

ECONOMIC ACTIVITY

Economic activity, as measured by the Quarterly Gross Domestic Product (QGDP) declined by 2.1% on a year-on-year basis (seasonally adjusted) in the fourth quarter of 2019, down from a revised 0.4% increase in the previous quarter.