



**Forecasts notes**

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.

**2020 INFLATION FORECASTS (% y/y)**

DATE	July	September
Quarter 1 Average	2.83	2.83
Quarter 2 Average	3.92	3.92
Quarter 3 Average	4.10	4.00
Quarter 4 Average	4.20	4.21
Annual Average	3.77	3.74

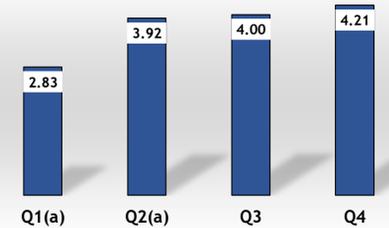
**2021 INFLATION FORECASTS (% y/y)**

DATE	July	September
Quarter 1 Average	4.06	4.06
Quarter 2 Average	4.59	4.59
Quarter 3 Average	4.39	4.39
Quarter 4 Average	4.24	4.24
Annual Average	4.34	4.34

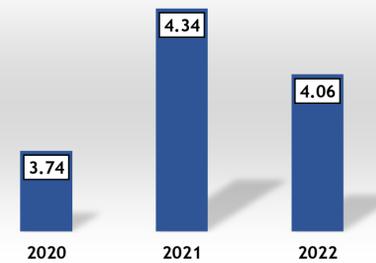
**SHORT-MEDIUM TERM INFLATION FORECASTS (% y/y)**

DATE	July	September
2020	3.77	3.74
2021	4.34	4.34
2022	4.06	4.06

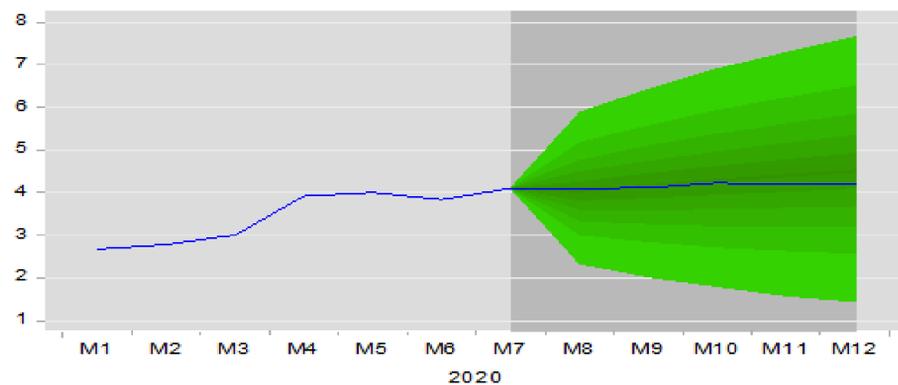
Quarterly Inflation Forecasts 2020



Inflation Forecasts 2020-2022



FAN CHART FOR 2020 INFLATION PROJECTIONS



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