



INTEREST RATE

- The CBE increased its discount rate by **0.25** per cent from **3.75** per cent to **4.0** per cent.



INFLATION

- Headline inflation increased to **3.5** per cent in December 2021 from **3.0** per cent in the previous month.
- Inflation remains moderate.



WHAT DOES THIS MEAN?

- Banks are expected to increase the prime lending rate on loans extended to individuals and businesses to **7.5** per cent until the next monetary policy meeting.



WHAT TO EXPECT

- The Bank expects the cost of goods and services to increase moderately over the year 2022. The inflation forecast for 2022 has been revised up to **4.03** per cent (from **3.78** per cent forecasted in November 2021).



ECONOMIC ACTIVITY

- Economic activity, as measured by the Quarterly Gross Domestic Product grew by a slower **3.1** per cent on a year-on-year basis in the third quarter of 2021, compared to a revised growth of **19.3** per cent in the second quarter of 2021.

MONETARY POLICY STATEMENT

28 JANUARY 2022

On the 28th of January 2022, the Central Bank of Eswatini (Bank), together with the Monetary Policy Consultative Committee (MPCC) held a meeting to consider the appropriate monetary policy stance. Taking into consideration all relevant factors as well as the price and financial stability mandate, the Bank decided to raise the discount rate from 3.75 per cent to 4.0 per cent.

The International Monetary Fund (IMF) estimates the global economy to have grown by 5.9 per cent in 2021 following a 3.1 per cent contraction in 2020. The IMF further revised down its forecast for 2022 to 4.4 per cent (from 4.9 per cent) whilst the forecast for 2023 was upgraded to 3.8 per cent (from 3.6 per cent). Advanced economies are estimated to have grown by 5.0 per cent in 2021 following a 4.5 per cent contraction in 2020 and are forecasted to moderate to 3.9 per cent (from 4.5 per cent) in 2022 and 2.6 per cent (from 2.2 per cent) in 2023. Emerging markets and developing economies are estimated to have expanded by 6.5 per cent in 2021 from a 2.0 per cent contraction in 2020 and are forecasted to grow by 4.8 per cent (from 5.1 per cent) in 2022 and 4.7 per cent (from 4.6 per cent) in 2023. Downside risks to the global outlook include the emergence of new COVID-19 variants and the possibility of a faster normalisation of monetary policy.

The South African economy contracted by 1.5 per cent quarter on quarter seasonally adjusted in the third quarter of 2021 following a 1.1 per cent increase in the second quarter. The South African Reserve Bank (SARB) forecasts the economy to have grown by 4.8 per cent in 2021 (from an initial forecast of 5.2 per cent) and maintained its growth forecast for 2022 at 1.7 per cent and 1.8 per cent for 2023. The SARB revised up its inflation forecast for 2022 to 4.9 per cent (from 4.3 per cent) whilst the forecast for 2023 was marginally revised down to 4.5 per cent (from 4.6 per cent). The SARB Monetary Policy Committee increased the repo rate from 3.75 per cent to 4 per cent in its January 2022 meeting, citing heightened upside risks to inflation. This is a second hike in the repo rate in two sittings.

On the domestic front, Eswatini's economic activity improved by a slower 3.1 per cent on a year-on-year basis (seasonally adjusted) in the third quarter of 2021, compared to a revised growth of 19.3 per cent in the second quarter of 2021. The economy is estimated to have grown by 5.9 per cent (from 1.4 per cent) in 2021 from a contraction of 1.9 per cent in 2020, and forecast to grow by 2.4 per cent in 2022 (from 5.7 per cent previously) and 2.6 per cent (from 2.1 per cent previously) in 2023.

The year-on-year headline consumer inflation increased to 3.5 per cent in December 2021 from 3.0 per cent the previous month. Inflationary pressures emanated from the price indices "food and non-alcoholic beverages" which accelerated to 3.8 per cent in December 2021 from 2.7 per cent in November 2021; "transport" which increased by 0.8 of a percentage point to 5.7 per cent in December 2021, and "housing and utilities" which grew by 3.9 per cent in December 2021, compared to 3.5 per cent in the previous month. Headline inflation averaged 3.73 per cent in 2021. The Bank revised up its inflation forecasts to 4.03 per cent (from 3.78 per cent) for 2022 and 3.88 per cent (from 3.87 per cent) for 2023. Upside risks to inflation include an increase in administered prices, higher oil prices and a weaker exchange rate.

Credit to the private sector declined by 1.6 per cent month-on-month to close at E16.0 billion at the end of November 2021. The decline in private sector credit was due to a dip in credit uptake by the business sector whilst credit to the other sectors of the economy (other financial corporations, parastatals, and local government) and the household sector recorded marginal improvements. Credit extended to the household & non-profit institutions serving households (NPISH) sector amounted to E7.6 billion at the end of November 2021, depicting an increase of 0.4 per cent month-on-month, and credit extended to other sectors of the economy increased by 0.5 per cent to reach E1.5 billion in November 2021. The banking sector's non-performing loans portfolio eased up in November 2021 recording a month-on-month decline of 10.2 per cent to settle at E846.4 million. The NPL ratio currently stands at 6.5 per cent.

As at 21 January 2022, the country's stock of reserves stood at E9.6 billion, enough to cover an estimated 3.8 months of imports. Preliminary figures show that total public debt stood at E28.1 billion (40.4 per cent of GDP) as at end of December 2021, a 4.5 per cent increase compared to the previous month. Total public external debt stood at E11.3 billion (16.3 per cent of GDP) whilst total domestic debt stood at E16.8 billion (24.1 per cent of GDP).

The Bank is of the view that the increase in interest rates will curb capital outflows whilst at the same time interest rates will remain supportive to economic growth. The Bank will further 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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GOVERNOR