



INTEREST RATE

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



INFLATION

Headline inflation decreased to **3.7** per cent in April 2021 from **4.2** per cent in March 2021. Inflation is moderate.



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.



WHAT TO EXPECT

The Bank expects the cost of goods and services to continue increasing moderately over the year 2021 with inflation forecasted to average **3.88** per cent in 2021 (from **4.33** per cent forecasted in March 2021).



ECONOMIC ACTIVITY

Economic activity, as measured by the Quarterly Gross Domestic Product rose by **2.0** per cent on a year-on-year basis (seasonally adjusted) in the fourth quarter of 2020, from a revised growth of **1.7** per cent in third quarter of 2020.

MONETARY POLICY STATEMENT

21 MAY 2021

The Central Bank of Eswatini (Bank), together with the Monetary Policy Consultative Committee (MPCC) held a meeting on 21 May 2021 to determine the appropriate monetary policy stance for the next two months. The MPCC considered that the relevant global, regional, and domestic factors had not sufficiently changed to warrant a change in the accommodative monetary policy stance pursued since the advent of COVID-19 in 2020. Consequently, the Bank decided to keep the discount rate unchanged at 3.75 per cent.

On the global front, the MPCC noted that the recent analysis from the International Monetary Fund (IMF) in the World Economic Outlook Report (April 2021), projected that the global economy will grow by 6 per cent in 2021, from an estimated contraction of 3.3 per cent in 2020. This recovery is seen broadly coming from advanced economies whose GDP growth is projected at 5.1 per cent in 2021 following an estimated 4.7 per cent contraction in 2020. Furthermore, following an estimated 2.2 per cent contraction in 2020, emerging markets and developing economies are projected to grow by 6.7 per cent in 2021 and 5 per cent in 2022. Global inflation pressures remain contained in most countries around the world. Latest projections show that in advanced economies, consumer price inflation is projected at 1.6 per cent in 2021, edging up to 1.7 per cent in 2022, trending below the group's central banks targets. The MPCC further noted that central banks in assessed economies kept their interest rates unchanged in the first quarter of 2021, a stance seen continuing for the better part of 2021.

The South African Reserve Bank (SARB) forecasts the South African economy to grow by 2.7 per cent in the first quarter of 2021 and 4.2 per cent for the whole year (up from a previous forecast of 3.8 per cent recovery). The annual inflation rate increased by 4.4 per cent in April 2021, from 3.2 per cent recorded in March 2021. The SARB marginally revised its inflation forecasts to 4.2 per cent (from 4.3 per cent in March 2021) for 2021 and 4.4 per cent for 2022 and 2023 (unchanged from previous forecasts). The SARB Monetary Policy Committee kept the repo rate unchanged at 3.5 per cent in its May 2021 meeting.

On the domestic front, the MPCC noted that domestic economic activity continued to improve in the fourth quarter of 2020, increasing by 2.0 per cent on a year-on-year basis (seasonally adjusted), from a revised growth of 1.7 per cent in third quarter of 2020. On a quarter-on-quarter basis, economic activity grew by 0.3 per cent (seasonally adjusted) in the fourth quarter of 2020, from 10.4 per cent in the third quarter of 2020. The observed growth in economic activity largely benefitted from improvements in the primary and tertiary sectors of the economy which grew by 5.2 per cent and 3.9 per cent (year-on-year), respectively.

The year-on-year headline consumer inflation decreased to 3.7 per cent in April 2021 from 4.2 per cent in March 2021. Contributing to the slower inflation reading was a decline in the housing and utilities index which fell from 6.9 per cent in March 2021 to 3.8 per cent in April 2021. Core inflation also declined to 2.4 per cent in April 2021 from 3.3 per cent in March 2021. The housing and utilities index is seen weighing down on overall inflation outlook for 2021. As a result, the inflation forecasts have been revised down to 3.76 per cent for the second quarter (from 4.48 per cent), 3.85 per cent for the third quarter (from 4.41 per cent) and 3.79 per cent for the fourth quarter (from 4.36 per cent). Therefore, the annual average inflation forecast for 2021 has also come down to 3.88 per cent from 4.33 per cent projected in March 2021.

Credit extension to the private sector declined by 1.6 per cent from E15.6 billion in February 2021 to E15.3 billion at the end of March 2021. The month-on-month decline was due to a fall in credit extended to business and other sectors (other financial corporations, parastatals and local government) which were counteracted by a small growth in credit to households. Credit extended to the business sector recorded a third consecutive monthly decline, falling by 3.1 per cent compared to contractions of 2.0 per cent and 4.1 per cent in January 2021 and February 2021, respectively. Credit extended to other sectors of the economy shrank by 2.7 per cent over the review month but reflected a robust year-on-year increase of 54.2 per cent to reach E1.9 billion at the end of March 2021. Credit to households grew by 0.1 per cent month-on-month and by 11.4 per cent over the year to reach E7.3 billion at the end of March 2021. Non-performing loans declined by 8.1 per cent month-on-month to reach E685.6 million in March 2021. Consequently, the non-performing loans ratio fell by 0.4 percentage points month-on-month to reach 5.6 per cent.

As at 14 May 2021, the country's stock of reserves stood at E9.0 billion and enough to cover an estimated 3.9 months of imports. Preliminary figures show that total public debt stood at E25.3 million (equivalent to 35.5 per cent of GDP) as at April 2021, a 3.8 per cent contraction compared to the previous month, mainly due to a decline in domestic debt.

The Bank wishes to assure Emaswati that it will continue to pursue a monetary policy stance that will be supportive for the recovery of the economy whilst alert to its price and financial stability mandate.

Majozi V. Sithole
GOVERNOR