CENTRAL BANK OF ESWATINI
Umntsholi Wemaswati

MONETARY POLICY STATEMENT

25 MARCH 2022

INTEREST RATE

- The CBE maintained the interest rate at **4.0 per cent**.

INFLATION

- Headline inflation decreased to **3.3 per cent** in February 2022 from **3.6 per cent** in January 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 **7.5 per cent** until the next monetary policy meeting.

WHAT TO EXPECT

- The Bank expects the cost of goods and services to continue increasing over the year 2022 with inflation forecasted to average **4.20 per cent** in 2022 (from **4.03 per cent** forecasted in January 2022).

ECONOMIC ACTIVITY

- The Eswatini economy grew by a slower **3.1 per cent** on a year-on-year basis (seasonally adjusted) in the fourth quarter of 2021 compared to a revised growth of **19.3 per cent** in the second quarter of 2021.

On the 25th of March 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 relevant global, regional, and domestic economic factors; as well as the price and financial stability mandate, the Bank decided to maintain the discount rate at 4.0 per cent.

The world economy is facing increasing challenges emanating from the COVID-19 pandemic and its variants, rising geopolitical risks and tightening financial conditions. Supply chain disruptions, rising energy and other commodity prices are further weighing down on the economic growth outlook and further increasing uncertainty around the inflation trajectory. The invasion of Ukraine by Russia triggered worldwide condemnation, severe sanctions on Russia including a cut-off from the world's financial system platforms which, continue to negatively affect European economies as well as Russia's key trading partners. According to the IHS Markit and JP Morgan survey released in 2nd March 2022, manufacturing growth picked in February 2022 from 53.2 index points in January 2022 to 53.6 index points. The global economy continues to show encouraging resilience in the face of the Omicron wave of the COVID-19 pandemic, however, overall risks to the growth outlook are a combination of supply chain delays and labour shortages. The Purchasing Managers Index (PMI) marginally rose from 51.3 index points in January to 51.9 index points in February 2022 reflecting the fourth weakest recording since the initial pandemic recovery which started in July 2020.

The South African economy grew by 1.2 per cent quarter-on-quarter seasonally adjusted in the fourth quarter of 2021 from a revised 1.7 per cent contraction in the third quarter. The South African Reserve Bank (SARB) expects the economy to grow by 2.0 per cent in 2022 (from an initial forecast of 1.7 per cent in January). The upward revision can be attributed to factors such as stronger growth in 2021 and higher commodity export prices. On the other hand, GDP growth is projected to be 1.9 per cent in both 2023 and 2024. The SARB revised its inflation forecasts upwards to 5.8 per cent in 2022 (from 4.9 per cent), citing higher food and fuel prices, while headline inflation for 2023 was marginally revised up to 4.6 per cent (from 4.5 per cent). The SARB Monetary Policy Committee increased the repo rate from 4.0 per cent to 4.25 per cent in its March 2022 meeting, citing heightened upside risks to inflation.

On the domestic front, Eswatini' s economic activity grew 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 Ministry of Economic Planning and Development forecasts the economy 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 forecasts a growth of 2.4 per cent in 2022 (from 5.7 per cent) and 2.6 per cent (from 2.1 per cent) in 2023.

The year-on-year headline consumer inflation decreased from 3.6 per cent in January 2022 to 3.3 per cent in February 2022. This was due to notable decreases observed in price indices for 'recreation and culture', 'clothing and footwear' and 'transport'. The index for 'recreation & culture' fell from 6.7 per cent in January 2022 to 5.7 per cent in February 2022, while the index for 'clothing and footwear' fell to 4.6 per cent in February compared to 6.5 per cent in January and the price index for 'transport' also decreased from 5.8 per cent in January to 4.8 per cent in February 2022. The Bank revised its inflation forecasts upwards to average 4.20 per cent for 2022 (from 4.03 per cent in January), while inflation for 2023 is forecasted to average 4.05 per cent (from 3.88 per cent) in 2023 and 4.20 per cent in 2024 (unchanged from previous forecast). Pressures to the inflation outlook include COVID-19 induced shocks and uncertain path of the pandemic, unexpected adjustments in administered prices, continuation of Ukraine-Russia war which has an impact on global oil prices.

Credit to the private sector receded by 2.0 per cent month-on-month to close at E15.8 billion at the end of January 2022. The fall in credit was primarily due to a notable decline in credit to other sectors of the economy while credit to industry recorded a marginal decline. Credit extended to the household & non- profit institutions serving households (NPISH) sector expanded by a marginal 0.8 per cent month-on-month, to reach E7.7 billion at end-January 2022. Credit extended to the business sector declined by 0.5 per cent over the review month and to close at E6.9 billion at the end of January 2022. The fall in credit to the business sector can be attributed to a fall in the following industries: distribution & tourism (-2.8 per cent), construction (-1.8 per cent), real estate (-1.7 per cent), and to a lesser extent agriculture & forestry (-0.01 per cent). The banking sector's non-performing loans portfolio continued to deteriorate at the beginning of the year 2022, recording a 12.5 per cent increase month-on-month to reach the E1.0 billion mark at the end of January 2022, the first since March 2019.

As at 18 March 2022, the country's stock of reserves had fallen to E8.1 billion, enough to cover 3.1 months of imports. Preliminary figures show that total public debt stood at E27.9 billion (35.9 per cent of GDP) as at end of February 2022, a 1.8 per cent increase compared to the previous month while total public external debt stood at E11.4 billion (14.7 per cent of GDP).

The Bank noted that global and domestic developments during this period muted the need to raise interest rates - especially with the economy's delayed recovery and low inflation.

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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