



INTEREST RATE

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



INFLATION

Headline inflation increased to **3.9** per cent in June 2021 from **3.6** per cent in May 2021. Inflation remains 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 **3.92** per cent in 2021 (from **3.88** per cent forecasted in May 2021).



ECONOMIC ACTIVITY

Economic activity, as measured by the Quarterly Gross Domestic Product is estimated to have increased by **9.0** per cent, on a year-on-year and seasonally adjusted basis, in the first quarter of 2021 rising from **3.3** per cent recorded in the previous quarter.

MONETARY POLICY STATEMENT

23 JULY 2021

The Central Bank of Eswatini (Bank), together with the Monetary Policy Consultative Committee (MPCC) held a meeting on 23rd July 2021 and decided to maintain the discount rate at 3.75 per cent. The Bank found this to be an appropriate monetary policy stance after taking into consideration relevant global, regional, and domestic factors (including Covid-19 pandemic effects and recent political riots), and the price and financial stability mandate.

On the global front, the IMF has indicated that global growth estimates published in April 2021 may be maintained in the update to be published this month. In April, the IMF estimated that the global economy contracted by 3.3 per cent in 2020 and forecast 6.0 per cent rebound in 2021. Advanced economies are estimated to have contracted by 4.7 per cent in 2020 and are forecasted to rebound to 5.1 per cent in 2021 before moderating to 3.6 per cent in 2022. Emerging market economies are estimated to have contracted by 2.2 per cent in 2020 and are expected to grow by 6.7 per cent and moderate to 5.0 per cent in 2022. What is principal in the global policy discussions is embedding the vaccine rollouts in national economic recovery strategies.

On the regional front, the South African economy grew by an annualized 4.6 per cent in the first quarter of 2021 following a 5.8 per cent growth in the previous quarter. The South African Reserve Bank (SARB) indicated that the recent unrest negated the positive growth reported for the first quarter. As a result, growth forecasts for 2021 and 2022 remain unchanged at 4.2 per cent and 2.3 per cent, respectively. The annual inflation rate decelerated to 4.9 per cent in June 2021 from 5.2 per cent in May 2021. Average inflation for 2021 was marginally revised upwards to 4.3 per cent (from 4.2 per cent forecasted in May 2021) whilst the forecast for 2022 was revised down to 4.2 per cent (from 4.4 per cent). The SARB Monetary Policy Committee kept the repo rate unchanged at 3.5 per cent in its July 2021 meeting.

The Eswatini economy grew by a seasonally adjusted 9.0 per cent, year-on-year in the first quarter of 2021 from 3.3 per cent in the previous quarter (i.e. fourth quarter of 2020). The growth observed in the quarter under review is largely attributed to strong performance in the secondary sector and base effects. On a quarter-on-quarter basis, GDP grew by 3.8 per cent in the quarter under review compared to 0.8 per cent in the previous quarter. On a year-on-year basis, the secondary sector rebounded from a contraction of 0.6 per cent in the fourth quarter of 2020 to record a 21.0 per cent growth in the first quarter of 2021. The tertiary sector grew by 5.8 per cent on a year-on-year basis, in the first quarter of 2021, from 4.5 per cent in the previous quarter and the primary sector rose from 1.3 per cent in the last quarter of 2020 to 4.3 per cent in the quarter under review.

The year-on-year headline consumer inflation increased from 3.6 per cent in May 2021 to 3.9 per cent in June 2021. The increase mainly came from an uptick in the price indices for “miscellaneous good and services”, which increased from 3.1 per cent in May 2021 to 4.4 per cent in June 2021 and “furnishing and household equipment” which grew from 3.3 per cent in May 2021 to 4.4 per cent in June 2021. The third and fourth quarter inflation forecasts were slightly revised up to 3.95 per cent (from 3.85 per cent) and 3.87 per cent (from 3.79 per cent), respectively. Consequently, the annual average inflation forecast for 2021 is slightly higher at 3.92 per cent from 3.88 per cent projected in May 2021. The upward revision is mainly on account of expected elevated oil prices and supply shocks due to the COVID-19 third wave outbreak which has resulted in the introduction of stricter lockdown measures. The inflation forecasts for 2022 and 2023, remain unchanged at 4.11 per cent and 4.27 per cent, respectively.

Credit extended to the private sector increased by 2.5 per cent at the end of May 2021 compared to the previous month to settle at E15.7 billion. Growth in private sector credit over the review month was bolstered by expansions in credit to the business and household sectors. Credit extended to businesses expanded by 5.6 per cent to reach E6.6 billion at the end of May 2021 whilst credit to households and non-profit institutions serving households (NPISH) closed at E7.4 billion at the end of May 2021, reflecting an increase of 1.6 per cent. Credit extended to other sectors of the economy contracted for the third consecutive month, falling by 4.7 per cent in May 2021 to settle at E1.8 billion. Non-performing loans (NPL) grew by 1.3 per cent relative to the previous month to settle at E750.6 million at the end of May 2021, an NPL ratio of 5.9 per cent.

As at 16 July 2021, the country's stock of reserves stood at E9.2 billion, enough to cover an estimated 4.0 months of imports.

Preliminary figures show that total public debt stood at E25.9 million (36.5 per cent of GDP) as at end of June 2021, a 1.6 per cent expansion compared to the previous month. The rise was on account of the depreciation of the currency and higher domestic debt. Total public external debt stood at E9.8 billion (13.8 per cent of GDP) whilst total domestic debt stood at E16.1 billion (22.7 per cent of GDP).

The Bank will continue to monitor international, regional and domestic developments that influence inflationary pressures and will act appropriately in line with its mission to foster price and financial stability that is conducive to the economic development in Eswatini.

Majozi V. Sithole
GOVERNOR