



INTEREST RATE

- The CBE maintained the interest rate at **3.75%** per cent.



INFLATION

- Headline inflation decreased to **3.3** per cent in October 2021 from **3.6** per cent in the previous month.
- Inflation remains moderate and is forecasted to average **3.7** per cent in the fourth quarter of 2021.



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 on 28 January 2022.



WHAT TO EXPECT

- The Bank expects the cost of goods and services to continue increasing moderately over the remaining months of the year. The inflation forecast for 2021 has been revised down to **3.77** per cent (from **3.93** per cent forecasted in September 2021).



ECONOMIC ACTIVITY

- Economic activity, as measured by the Quarterly Gross Domestic Product grew by a seasonally adjusted **17.5** per cent, year-on-year in the second quarter of 2021 from a revised **5.9** per cent in the previous quarter.

MONETARY POLICY STATEMENT

19 NOVEMBER 2021

On the 19th of November 2021, the Central Bank of Eswatini (Bank), together with the Monetary Policy Consultative Committee (MPCC) held a meeting to consider the appropriate monetary policy stance for the country. 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 3.75 per cent.

The IMF estimates the global economy to have contracted by 3.1 per cent in 2020 and revised down its forecast for 2021 to 5.9 per cent (from 6.0 per cent), whilst the forecast for 2022 remained unchanged at 4.9 per cent. The main reason for the revision is the observed unprecedented supply chain disruptions which affected production and consumption patterns globally. Advanced economies are projected to have contracted by 4.5 per cent in 2020 and are forecasted to rebound to 5.2 per cent in 2021 before moderating to 4.5 per cent in 2022. Emerging market and developing economies are estimated to have contracted by 2.1 per cent in 2020 and are expected to grow by 6.4 per cent in 2021 before moderating to 5.1 per cent in 2022.

The South African economy grew by 1.2 per cent quarter on quarter seasonally adjusted in the second quarter of 2021 following a revised 1.0 per cent expansion in the first quarter of 2021. The South African Reserve Bank (SARB) marginally revised down its growth forecast to 5.2 per cent (from 5.3 per cent) for 2021 whilst the forecasts for 2022 and 2023 remained unchanged at 1.7 per cent and 1.8 per cent respectively. The SARB marginally revised 2021 inflation forecasts upward to 4.5 per cent (from 4.4 per cent forecasted in September 2021) and 4.3 per cent (from 4.2 per cent) for 2022. The SARB Monetary Policy Committee increased the repo rate from 3.5 per cent to 3.75 per cent in its November 2021 meeting.

The Eswatini economy grew by a seasonally adjusted 17.5 per cent, year-on-year in the second quarter of 2021 from a revised 5.9 per cent in the previous quarter. The notable increase underscored the low base effects from the same period the previous year, where economic activity was severely disrupted by strict lockdown restrictions. On a quarter-on-quarter basis, GDP grew by a slower 0.6 per cent (seasonally adjusted) in the second quarter of 2021 from a 2.6 per cent increase in the previous quarter. Even though economic activity in all sectors of the economy rebounded compared to the same period last year, the recovery is still slow owing to some prevailing restrictions that are aimed containing the spread of COVID and structural impediments in the economy.

The Bank has also noted that headline consumer inflation has been on the decline since the last meeting of the MPCC. The year-on-year headline consumer inflation decreased to 3.3 per cent in October 2021 from 3.6 per cent in September (down also from 3.9 per cent in August). A decrease was observed in the price indices for "recreation and culture", which decreased from 7.4 per cent in September 2021 to 3.2 per cent in October 2021, "alcoholic beverages and tobacco" that decreased from 6.3 per cent in September 2021 to 5.4 per cent in October 2021, and "furnishing and household equipment", which decreased from 1.9 per cent in September 2021 to 1.1 per cent in October 2021.

The Bank assessed inflation pressures to have weakened and abating. The recent drop in inflation, strong base effects, relaxation in lockdown restrictions led to a downward revision of the fourth quarter inflation forecasts from 3.9 per cent to 3.4 per cent. Hence, the annual average inflation forecast for 2021 of 3.8 per cent reflecting a decrease from the annual average of 3.9 per cent projected in September 2021. The inflation forecasts for 2022 and 2023 are lower at 3.8 per cent (from 4.1 per cent) and 3.9 per cent (from 4.3 per cent), respectively.

Whilst financial conditions have remained relatively easy over the year, the Bank noted that credit extended to the private sector increased marginally by 0.1 per cent over the month to E16.1 billion at the end of September 2021. The month-on-month increase emanated from credit extended to households & non-profit institutions serving households (NPISH) which, increased by 0.6 per cent to E7.6 billion, while credit extended to businesses declined for the second consecutive month falling by 0.5 per cent to settle at E7.1 billion. Credit extended to other sectors of the economy (other financial corporations, parastatals, and local government) stood at E1.5 billion at the end of September 2021, depicting a marginal decline of 0.1 per cent compared to the August 2021. Non-performing loans (NPLs) increased by 3.8 per cent month-on-month and 20.5 per cent over the year to E923.4 million at the end of September 2021. The rise in NPLs since July 2021 was partly a result of the occurrence of riots that caused damage to property, looting of goods, closure of businesses and ultimate loss of incomes in June 2021.

As at 12 November 2021, the country's stock of reserves stood at E10 billion, enough to cover an estimated 3.9 months of imports. Preliminary figures show that total public debt stood at E26.4 million (37.8 per cent of GDP) as at end of October 2021, a 1.9 per cent decrease compared to the previous month. Total public external debt stood at E10.8 billion (15.5 per cent of GDP) whilst total domestic debt stood at E15.6 billion (22.3 per cent of GDP).

The Bank will 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 of Eswatini.

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GOVERNOR