

Economic Review



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Below are highlights of the domestic economic developments for the reporting period. For detailed analytical work, consult the 2022/23 Annual Economic Review Report in the Bank's website.

Annual GDP Developments

Economic activity, as measured by the Annual Gross Domestic Product, grew marginally by 0.5 per cent in the year 2022, from a revised 10.7 per cent growth in 2021. The realised growth is 0.1 percentage point above the January 2023 forecast (by the Macro-Forecasting Team) of 0.4 per cent.

The subdued growth was mainly attributed to previous year's high base effects, negative impacts of geo-political tensions, tightening financial conditions as well as fiscal challenges due to lower SACU inflows in the fiscal year 2022/23. As a result, the manufacturing sector recorded a marginal decline in 2022 owing to decreases in the 'manufacture of beverages' and 'manufacture of textiles & wearing apparel'. On a positive note, the primary sector output improved mainly driven by agriculture,

particularly the growing of crops and animal production, as well as mining activities.

Economic growth is projected to improve to 4.7 per cent in 2023 from 0.5 per cent in 2022. The strong performance will be driven by the secondary sector, which is expected to grow by 1.2 per cent in 2023, compared to a contraction of 0.6 per cent in the previous year.

Construction activity is also expected to recover in 2023, supported by an improvement in the government cashflow position. This development is anticipated to accelerate the implementation of existing projects as well as uptake of new projects. In the tertiary sector, growth in 2023, is expected to be led by the 'wholesale & retail', 'transport', information & technology' subsectors.

Quarterly GDP Developments

Economic activity, as measured by the Quarterly Gross Domestic Product (QGDP), grew by a slower 1.1 per cent year-on-year (seasonally adjusted) in the first quarter of 2023, down from a revised growth of 6.7 per cent in the fourth quarter of 2022. The slight growth observed in the quarter under review was attributed to positive performance in the primary and tertiary sectors. On a quarter-on-quarter

basis, economic activity grew by 2.5 per cent (seasonally adjusted) in the quarter under review, from a revised contraction of 0.3 per cent in the previous quarter.

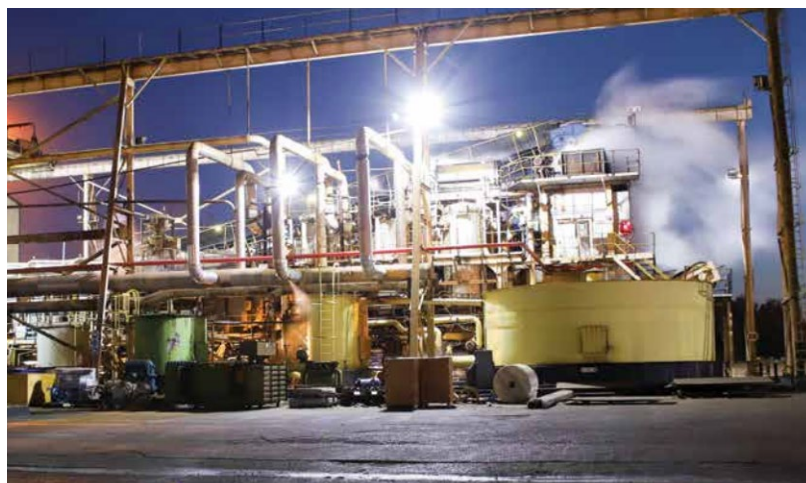
Price Developments

Annual consumer price inflation averaged 4.8 per cent in 2022 - up from an average of 3.7 per cent in 2021. The upsurge in consumer prices was a result of increases in food and transport inflation, which accounted for 65.3 per cent of the overall inflation outcome in 2022 compared to 40.3 per cent in 2021.

In the advent of the Russia-Ukraine conflict, there were notable supply disruptions in commodities particularly those that were sourced from either Russia or Ukraine - causing a notable increase in domestic inflation - particularly food and fuel prices.

Core inflation - which is CPI excluding 'food', 'auto-fuel and energy' - averaged 1.8 per cent in the period under review, compared to an average of 2.5 per cent in the previous period. This reflected that underlying inflationary pressures from the demand side were modest in 2022 - as growth rates in the CPI for 'services' and 'durable products' were broadly contained. Notably, the CPI for administered prices rose significantly by 12.2 per cent in 2022 compared to 6.0 per cent in the previous year. This was due to all administered prices such as bread, fuel, utility tariffs and public transport fares were adjusted upward in the year under review.

In the first three months of 2023, headline inflation averaged 5.5 per cent - which was higher than the 4.3 per cent average registered in the same period in the previous year. Food inflation remains the main driver of inflationary pressures - averaging 16.2 per cent in the first 3 months of 2023.



Mhlume Sugar Mill managed by the the Royal Eswatini Sugar Corporation Limited. Source: RES Corporation.

External Sector Developments

Preliminary external sector data shows that the country recorded an overall balance of payments deficit of E970.1 million in 2022 following a surplus of E220.2 million in the previous year. The deficit posted in 2022 - which is explained as a net E970.1 million contraction in the country's foreign reserves - was on account of transactions with the rest of the world during the year. Specifically, the overall balance of payments deficit in 2022 was mainly due to a significant deficit that was recorded in the current account.

The country registered a current account deficit amounting to E1.919 billion in 2022, compared to a surplus of E1.866 billion in the previous year.

Notably, this was the first current account deficit recorded since 2011. The deficit was largely due to a shrinking merchandise trade surplus and a widening services account deficit - which almost doubled in 2022 when compared with the year 2021. The current account deficit, in 2022, was equivalent to 2.7 per cent of GDP versus a surplus of 2.6 per cent of GDP recorded in 2021.

Monetary Developments

Credit extended to the private sector remained resilient but at a slower pace than in 2021. Partly weakening the growth in credit was the rapid rise in lending rates since January 2022 - in line with the Central Bank's efforts to reduce inflationary pressures.

Private sector credit growth averaged 4.2 per cent in 2022 compared to an average of 8.2 per cent in 2021. However, during the first three months of 2023, credit growth accelerated to reach 10.7 per cent in March 2023. The growth in credit was mainly reflected in the business sector which registered an average growth of 11.1 per cent in 2022 compared to an average of 6.2 per cent in 2021. During the first three months of 2023, credit to the business sector

increased even further to reach 20.8 per cent in March 2023.

In 2022, gross official reserves decelerated from the relatively higher levels observed in 2021. This development was to a large extent influenced by the fall in SACU receipts during the 2022/23 fiscal year - resulting in increased financing needs by the Government, persistent net outflows of foreign currency from trades with local banks - in response to demands from their customers. As a result, the reserves decelerated to a low level of E7.6 billion in December 2022 compared to E9.0 billion in December 2021.

The reserves, therefore, were sufficient to cover 2.5 months of imports in December 2022 compared to 3.5 months covered in December 2021. At this level, the reserves were below the recommended international threshold of 3 months of imports.

At the end of March 2023, gross official reserves stood at E7.6 billion, equivalent to 2.5 months of imports. In the short-term, the reserves position is expected to improve significantly due to the bumper SACU receipts in the 2023/24 fiscal year.

Budget Review

The 2023/24 budget projects a deficit of E1.8 billion - equivalent to 2.2 per cent of GDP - depicting an improvement from the 5.4 per cent of GDP of the previous year. However, the estimated outturn for 2022/23 is 4.8 per cent of GDP. The estimated improvement in the budget deficit was a result of under expenditure on capital projects. This development occurred despite over expenditure in recurrent expenditure - due to a high wage bill driven by cost of living adjustment. The underperformance of capital projects was mainly attributed to a low execution rate of externally financed projects. In 2023/24, the significant recovery in the fiscal position is attributed to a marked improvement in SACU revenues.

Turnaround Strategy

While economic outcomes look positive, the Government will continue to work on fiscal and structural reforms to ensure that expenditures are rationalised, and the deficit is maintained at sustainable levels. Furthermore, pending arrears should be reduced and eventually stopped from accumulating whilst the Government debt is kept at justifiable levels.

In 2023/24, Government is implementing an expansionary fiscal policy that is aimed at addressing the most critical line items and programmes to ensure that operations are not compromised. The line items include enhanced provisions for grants for the elderly, tertiary education scholarships, free primary education grants, youth empowerment programmes, public investment and capital expenditure. Furthermore, Government has established a Revenue Stabilization Fund wherein E1.5 billion from the bumper SACU revenue will be put aside to cater for any reduced SACU receipts in the future. This will ensure that Government remains on a sustainable path for a longer period.

Alongside this effort, Government is also implementing reforms for public enterprises. This initiative seeks to streamline and consolidate public enterprises to increase Government efficiency and reduce unnecessary costs.

Total Public Debt

Preliminary figures show that total public debt is estimated at E32.9 billion or 40.5 per cent of GDP at the end of March 2023, representing an increase of 19.2 per cent from E27.6 billion recorded in March 2022. The rise can largely be attributed to growth in external debt coupled with the continued issuance of Government securities.

Monetary Policy

Objective

The Bank has the goal of attaining price stability as well as a stable and sound financial system that will ensure sustainable economic development. Eswatini's monetary policy objective, as stated in Section 4 (a) of the CBS Order of 1974 (as amended), is to ensure price and financial stability. Monetary policy formulation is, to a large extent, influenced by the country's membership to the Common Monetary Area (CMA). To influence monetary conditions in the country and achieve its mandate, the CBE uses the following tools: (a) Discount rate (which happens to be the major one); (b) Reserve requirement (c); Liquidity requirement; and (d) Open market operations.

Goal

Given the CMA Agreement, the goal of monetary policy in Eswatini is to maintain the parity peg between the Eswatini's Lilangeni and the South

African Rand. This requires that the country's currency in circulation be backed by the South African Rand, as well as keeping adequate level of reserves enough to sustain the peg.

Conduct

Under the membership to the CMA, Eswatini has little scope to undertake discretionary monetary policy in response to domestic developments and other prudential measures. With that level of monetary policy discretion, the Bank has the liberty to use the discount rate as a major policy instrument to fight domestic inflationary pressures and curb capital flight. The discount rate can be at par or at different levels with the repo rate in South Africa, depending on the prevailing domestic macroeconomic fundamentals. In the event a negative differential between the discount rate and the South African repo rate is maintained, the CBE uses the call rate to cushion capital outflows particularly

to the South African markets. The call rate is the rate at which commercial banks are remunerated for keeping their excess liquidity in a call account at the Bank to curtail capital flight. Despite the reduced scope to independently conduct its monetary policy, Eswatini's membership to the CMA has benefitted the country in supporting macroeconomic stability as well as dampening the effects of shocks to the domestic economy.

Monetary Policy Decisions

The Governor makes monetary policy decisions in consultation with the Monetary Policy Consultative Committee (MPCC) in meetings held bi-monthly. In 2022/23, the MPCC held 6 ordinary meetings as per schedule. In these meetings, the MPCC reviewed developments on inflation (including inflation forecasts) as well as other macroeconomic indicators of the domestic, regional and international economies.

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Governor, Dr. Phil Mnisi responding to questions during a Monetary Policy Statement Press Conference.

Members' Attendance of MPCC Meetings - 2022/23

Member	20 May 2022	22 Jul 2022	23 Sep 2022	25 Nov 2022	27 Jan 2023	31 Mar 2023
Dr. Phil Mnisi (Governor and Chairperson)	n/a	+	+	+	+	+
Ms. Felicia Dlamini-Kunene (Deputy Governor)	+	+	+	+	-	+
Mr. Mfan'fikile Dlamini (Assistant Governor)	+	-	+	+	+	+
Mr. Musa Maseko	+	+	+	+	+	+
Dr. Dumsile Dlamini	+	+	+	+	+	+
Ms. Busi Dlamini	+	+	+	+	+	+
Ms. Khetsiwe Dlamini	+	+	+	+	+	+
Mr. Nathi E. Dlamini	+	+	+	+	+	+

Note: (+): Present; (-): Apologies; (n/a) – not applicable as he assumed office on July 1, 2022.

Over the reporting period, the CBE pursued a restrictive monetary policy stance in line with tightening regional and global monetary conditions, increasing the discount rate by a cumulative 275 basis points from 4.0 per cent to 6.75 per cent. The Bank first effected a 50 basis points hike in May 2022 to 4.5 per cent which was followed

by another 50 basis points hike in July 2022, taking the discount rate to 5.0 per cent. The CBE further hiked the discount rate by 100 basis points to 6.0 per cent in September 2022 as inflationary pressures increased - owing to the effects of the Russia-Ukraine conflict. Another hike of 50 basis points in November 2022 saw the discount rate

closing the year at 6.5 per cent. During the first 3 months of 2023, the Bank increased the discount rate with a 25 basis points hike in January. At 31 March 2023 the Bank decided to maintain a differential of 50 basis points between the discount rate and South African repurchase rate. The policy stance is supportive of long-term growth.

The Governor announces the MPCC decisions on the monetary policy stance through a media statement released a day after the MPCC meeting. The statement highlights the considerations that led to the decision on the discount rate.

MPCC Terms of Reference

The MPCC was established under Section 43 of the CBS Order of 1974 (as amended). During the year under review, the MPCC comprised the Governor (Chairman), Deputy Governor, Assistant Governor, and five additional members (appointed by the Minister for Finance) with recognised experience in monetary and financial matters.

Bound by the Code of Conduct, the MPCC acts as an advisory body to the Governor on the appropriate monetary policy stance. Taking the final monetary policy decision remains the prerogative of the Governor. Effectively, the Governor is the sole legal determiner and public announcer of interest rates. The Governor announces the MPCC decisions on the monetary policy stance through a media statement released a day after the MPCC meeting. The statement highlights the considerations that led to the decision on the discount rate. It is released in the local media and in the Bank's website.

Inflation Outlook

The CBE has marginally revised upward its short-term forecast while the medium-term forecast remains relatively unchanged. Upward pressures to inflation proved more persistent in the quarter ended March 2023, as the outturn was slightly higher at 5.58 per cent than the forecasted 5.48 per cent.

The higher-than-forecasted domestic inflation outturn for the first quarter, coupled with the expected higher global Brent crude oil prices in the forecast period presents an expectation of higher inflationary pressures than previously forecasted. As a result, the inflation forecasts for the third and fourth quarters have been revised upward.

South Africa's inflation is forecasted to trend upward partially due to rising food inflation and load shedding. The elevated food prices in South Africa imply higher direct effect on domestic food inflation.

Domestically, administered prices of utilities are still expected to exert upward pressure on domestic inflation in the third quarter. Although surrounded by high uncertainty, the Rand exchange rate on the other hand is expected to slightly improve; thus exerting moderate downward pressure on domestic inflation.

The third quarter inflation is revised upward to 5.65 per cent (from 5.47 per cent); while the fourth quarter is revised upward to 5.76 per cent (from 5.61 per cent). Consequently, the annual average inflation forecast for 2023 is slightly revised upward to 5.71 per cent (from 5.56 per cent).

The inflation rate for 2024 is slightly revised higher but substantially unchanged from the previous forecasts. The marginal increase in the forecasts generally align with the expected rise in global oil prices that are anticipated to moderate towards the year 2025. The Rand is expected to remain weaker and pose upward inflationary pressure, although a moderate improvement in the exchange rate is anticipated later in the same period. With inflationary pressures expected to subside in 2025, the inflation forecast for 2025 is slightly revised downward. In conclusion, inflation for 2024 is forecasted at 5.31 per cent (from 5.29 per cent) while for 2025, it is revised downward to 5.13 per cent (from 5.14 per cent).



Where the Central Bank increases the interest rate, Banks are also expected to increase the prime lending rate on loans extended to individuals and businesses until the next monetary policy meeting.