



Governor's Remarks Tee and Coffee with the Governor 29 April 2024 - 07:30 HRS - MTN Coffee Shop

- Programme Director
- Management & Staff of the Central Bank
- Chairman of Editors Forum
- Editors
- Journalists
- Ladies and Gentlemen

1. INTRODUCTION

1.1 May I welcome you all to this 2nd Edition of the Bank's engagement with the media, following a fruitful one we had last year November. These continuous engagements are testimony of the Bank's commitment to transparency and sharing not only critical information that is of public interest but responding to pertinent queries that journalists may have in relation to the CBE. The media is a valuable stakeholder to the Bank and I wish to appreciate your investment in time towards coming out here today to have coffee with me.

1.2 The event has been appropriately themed 'Tee and Coffee with The Governor' and the rationale behind this is to make the event less formal, more relaxed and allow you to enjoy the ambiance of the Golf Course while discussing pertinent developments within the Bank. I'm sure most of you are aware that I am an avid golfer and wish to encourage you to consider taking up this sport.

1.3 There has been so many developments since our last coffee session, which I will share with you in a bit. These include global and domestic economic developments that have taken, the upcoming 50th Anniversary Celebrations by the Bank and two key meetings that the CBE will host, and all these events will be taking place in the month of May. We will certainly appreciate your support in covering them. I know most of you are keen to get an update about the CBE Complex at Ezulwini, which I will also touch upon briefly.

2. GLOBAL ECONOMIC DEVELOPMENTS

Ladies and gentlemen, let me start by briefly unpacking the global economic developments;

GDP Developments

2.1 According to the IMF's World Economic Outlook (WEO) published in April 2024, global growth is projected to be steady, growing by 3.2% in 2024 and 2025, being the same pace as in 2023. The global economy has been surprising resilient, despite significant Central Bank interest rate hikes to restore price stability.

2.2 The IMF warns that economic growth is sluggish compared to past trends. This slowdown is caused by a mix of immediate issues like higher interest rates and reduced government spending, as well as lingering effects from the COVID-19 pandemic.

2.3 On top of these, other factors are also creating obstacles. Geopolitical tensions, especially the Russia-Ukraine war, Israel-Gaza conflict, amongst others, are disrupting economies. Additionally, slowdowns

in productivity growth and a growing divide between economic blocs are further hindering global progress.

Policymakers Response to the Risks

2.4 The IMF WEO Report mentions that the near-term priority for Central Banks is to ensure that inflation touches down smoothly. This basically entails a soft landing whereby policy rates are neither eased prematurely nor the process delayed for too long thereby causing target undershoots.

2.5 Meantime, as Central Banks take a less restrictive stance, a renewed focus on implementing medium-term fiscal consolidation to rebuild room for budgetary manoeuvre and priority investments, and to ensure debt sustainability, is the right thing to do.

Global Inflation

2.6 According to the IMF, global inflation is expected to decline to 5.9% in 2024 from an annual average of 6.8% in 2023.

2.7 In 2025, global inflation is expected to fall further to 4.5%, noting that across the global economy the inflation rate is projected falling at different speeds.

3. DOMESTIC ECONOMIC DEVELOPMENTS

Distinguished ladies and gentlemen, let me turn to the domestic economic developments;

GDP DEVELOPMENTS

3.1 Economic activity, as measured by the Quarterly Gross Domestic Product (QGDP), grew by 7.0% year-on-year (seasonally adjusted) in

the 4th quarter of 2023, slightly higher than the revised 6.8% recorded in the previous quarter. Growth largely emanated from the tertiary sector, while both the primary and secondary sectors contracted.

3.2 On a quarter-on-quarter basis, economic activity grew at a slower rate of 0.8% (seasonally adjusted) in the 4th quarter of 2023, from a revised growth of 2.4% in the 3rd quarter of 2023.

3.3 As at January 2024, GDP is projected to grow by 4.8%, a slightly upward revision from the previous projection of 4.7% (in September 2023). on the back of strong performance from the secondary and tertiary sectors, whilst weaker performance was envisaged in the primary sector in the period.

3.4 Notably, the 2nd half of the Year 2023 marked the commencement of the Mkhondvo-Ngwavuma Multibillion project, particularly the construction of the Mpakeni Dam. This is expected to be one of the main drivers of growth for the short-to-medium term, coupled with other developments within the sectors of the economy.

3.5 Real GDP growth in 2024 is projected to grow by 4.9%, whilst the outer years 2025 and 2026, were revised upwards to 3.7 and 3.0%, respectively.

Inflation Dynamics

3.6 Ladies and gentlemen, on inflation dynamics - annual headline inflation averaged 4.7% for the financial year 2023/24 down from 5.3% for the previous financial year. It averaged 5.0% for the calendar year 2023 from 4.8% the previous calendar year.

3.7 Headline consumer inflation has been on the decline in the first 3 months of 2024 dropping to 4.1% in March, from 4.3% in February and 4.5% in January.

Public Debt

3.8 Total public debt stood at E34.4 billion as at end March 2024, translating to an equivalent of 37.1% of GDP. This shows a marginal decline of 0.3% when compared to February 2024 and is a result favourable exchange rate movement in the month of March 2024.

Balance of Payments

3.9 Programme Director, I am happy to report that the country's position with the rest of the world continues to be competitive given the healthy trade balance as evidenced by the external sector statistics. In March 2024, the country recorded a trade surplus of E391.8 million, compared to a deficit of E143.5 million in the preceding month.

3.10 Exports were up in the month, totalling E3.6 billion compared to E3.4 billion in February 2024, year-on-year, this was an increase of 2.0%. Imports decreased in the month of March amounting to E3.2 billion from E3.5 billion in the previous month, 15.9% higher, year-on-year.

Private Sector Credit

3.11 Ladies and gentlemen, on credit extension - credit extended to the private sector closed the month of February 2024 at E18.7 billion, slightly lower by 0.02% month-on-month but grew by 7.3% year-on-year.

3.12 The month-on-month decline in private sector credit was evident in credit to businesses whilst credit to other sectors of the domestic economy and households & non-profit Institutions serving households (NPISH) increased. Credit extended to businesses contracted by 1.5% month-on-month and grew by 7.1% year-on-year to close at E9.2 billion at the end of February 2024.

3.13 The month-on-month decline was observed in credit to the following subsectors: distribution & tourism, mining & quarrying, agriculture & forestry as well as community, social & personal services. On the other hand, growth was registered in the following subsectors; manufacturing), construction, transport & communication as well as real estate.

3.14 Non-performing loans rose by 2.6% month-on-month and 7.4% year-on-year to reach E1.1 billion at the end of January 2024, driven by all sectors. The NPLs ratio rose by 0.2 percentage points from 6.8% in December 2023 to 7.0% in January 2024.

External Reserves

3.15 On reserves management, the reserves' import cover declined from 2.5 months at end of March 2023 to 2.3 months at end of March 2024, with 2.6 months average for the 2023/24 financial year.

3.16 As of 18 April 2024, reserves stood at E10.8 billion, equivalent to 3.2 months import cover. The import cover was above the international benchmark of 3.0 months but below the CMA and CBE targets of 4.0 months as well as the SADC macroeconomic convergence target of 6.0 months.

3.17 The Bank continues to explore opportunities to build reserves through:

- accumulation of foreign currency export proceeds from local commercial banks;
- pushing for more diverse trading products to capture all export flows; and
- implementing an optimised portfolio for Special Drawing Rights holdings, amongst other initiatives.

Monetary Policy

3.18 Ladies and gentlemen, turning to monetary policy formulation and implementation - the Bank has the goal of attaining price stability as well as a stable and sound financial system that will ensure sustainable economic growth. Eswatini's monetary policy objective, as stated in Section 4 of the CBS Order of 1974 (as amended), is to ensure price and financial stability.

3.19 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:

- Discount rate (which happens to be the major one);
- Reserve requirement;
- Liquidity requirement; and
- Open market operations.

3.20 The Central Bank of Eswatini pursued a restrictive monetary policy stance in 2023. The discount rate was increased by a cumulative 100

basis points (bps). The Bank first hiked the discount rate by 25 basis points in January 2023 to 6.75%, which was followed by a hike of 50 basis points in March 2023 to 7.25%. Further, the CBE effected another increase of 50 basis points in May 2023 to 7.75%, in line with the tightening regional and global monetary conditions.

3.21 In July 2023, the Bank adopted an easing stance and cut the discount rate by 25 basis points to 7.50%, a stance which it maintained for the remainder of the year and the first three months of the year 2024. When deciding its policy stance, the CBE remains cognisant of the need to strike a balance between anchoring inflation expectations, curbing capital flight and supporting domestic economic growth.

4. CBE's 50TH ANNIVERSARY CELEBRATION

4.1 Ladies and gentlemen, coming to the Bank's 50th Anniversary Celebration, let me report that the 10th of May 2024 is the official date when the CBE will celebrate its Golden Jubilee, a remarkable milestone for the Bank. This celebration will give us an opportunity to reflect on the achievements that have been made in the past 50 years and further look into the future and how the Bank will continue to cement its mandate of fostering price and financial stability that support growth for the Eswatini's economy.

4.2 We are certainly excited about the upcoming celebration and do lookout for the Commemorative Book which will unpack the rich history of the Bank and further give valuable insight about the CBE, from its formative days.

5. CBE NEW COMPLEX

- 5.1 Ladies and gentlemen, I am excited to announce the Bank's ambitious project in Ezulwini – The CBE Ezulwini Complex. The Bank has embarked on a massive project in a strategic area that is fast growing and seems to present itself as a future financial hub for this country. This is where we will develop a world class headquarters for the CBE, an innovation hub, a centre of excellence and a world class museum that will not only look at currency and banking matters, but cover the heritage and history of the nation as well. This will be topped up by world-class recreational facilities with all its amenities, as steps to promoting economic growth through infrastructure development in this area.
- 5.2 What is more exciting about the project is the employment prospects that it has already availed and yet to avail while construction is underway. This will benefit everyone from the major contractors to local residents, who now have a chance to earn a living. The Bank is proud to have contributed in these job opportunities as it has so far engaged a grand total of 40 people, including new hires who are doing part of the paint work. All these are from Ezulwini Constituency and the latest recruits started working on Friday.
- 5.3 We ensure a fair and transparent recruitment process by working together with Ezulwini Inkhundla and Bucopho. This way, everyone has a chance to be considered. We hire people with a variety of skills to meet the different demands of the project. While some specialized

positions might be filled by those from outside the area, the majority of workers are local residents. We're thrilled about the potential for skills transfer during the project. We hope these newfound skills will empower Emaswati to start their own businesses in the future, creating a lasting positive impact.

6. UPCOMING INTERNATIONAL EVENTS

6.1 Before I conclude ladies and gentlemen, let me appraise you about two significant events that the Bank will be hosting in May. One of these is the Alliance for Financial Inclusion (AFI) meeting. AFI is the world's leading organization that promotes the agenda for financial inclusion policy and regulation.

6.2 It is a member-owned network from 84 countries which empowers policymakers to develop evidence-based policy solutions that will increase access and usage of quality financial services for the underserved through the formulation, implementation and global advocacy of sustainable and inclusive policies.

6.3 AFI is important for Eswatini and CBE as being a Global Policy Leadership Alliance, and offers opportunities for peer learning, knowledge exchange and peer transformation. AFI, as a policy leadership alliance owned and led by member Central Banks and financial regulatory institutions, has the common objective of advancing financial inclusion at the country, regional and international levels.

6.4 The second equally important event is the SADC Committee of Central Bank Governors' meeting, which is hosted on a rotational basis

among the 16 SADC Member States. We have the pleasure of hosting it this year and it will tie perfectly with the CBE's 50th Anniversary Celebrations, as the Governors will form part of the celebrations. These meetings provide a platform for the Central Banks to leverage and engage on any developments that be may be consequential to them.

6.5 Some of these include; sharing of latest experiences, progress on three-year study plan that was set on issues such as financial regulation, national payments, currency progress, Central Bank Law, areas of research that the Central Banks may partner to undertake, among many others.

6.6 The CCBG meetings have incorporated a Symposium where external stakeholders are also invited to take part. For this year's Symposium, the Governor of the South African Reserve Bank who is also Chair of the SADC CCBG Lesetja Kganyago will be the keynote speaker. Our chosen topic for the Symposium was derived from the IMF's view on the challenges relating to Monetary Policy, brought about by the volatile economic and political situations, which were exacerbated by the COVID-19 pandemic, the political wars in the Middle East and the Russia-Ukraine conflict, amongst others.

7. CONCLUSION

7.1 Ladies and gentlemen, having touched on all these developments, may I once again thank each one of you for joining us today. We appreciate the role played by the media in disseminating accurate

information to the public and I am happy to open the floor for further engagements.

I Thank You!