Economic Review and Inflation Report

July 2023

Major Highlights	
Real GDP	*Real Gross Domestic Product (GDP) is projected to increase by 0.4 per cent in 2022, from a 7.9 per cent growth in 2021.*
Quarterly GDP	*Economic activity, as measured by the Quarterly Gross Domestic Product grew by 1.1 per cent year on year in the first quarter of 2023, down from a revised growth of 6.7 per cent on a year-on-year basis in the fourth quarter of 2022.*
Inflation	*The country's annual consumer inflation increased from a revised 5.7 per cent in April 2023 to 6.0 per cent in May 2023.*
Inflation Forecasts	*The annual average inflation forecast for 2023 is slightly revised upwards to 5.75 per cent, from 5.71 per cent forecasted in May 2023.*
Foreign Reserves	*The country's stock of gross official reserves declined by 8.1 per cent month-on-month and 6.0 per cent year-on-year to settle at E8.6 billion at the end of May 2023.*
Exchange Rate	*Since the last MPCC meeting, the Rand/Lilangeni suffered losses and depreciated against the currencies of the major trading partners. In June 2023, the Rand/Lilangeni depreciated by 3.5 per cent, trading at an average of E18.77 to the US Dollar .*
Credit Extension	*Credit extended to the private sector increased by 0.7 per cent over the month and 9.4 per cent year-on-year to close at E17.8 billion at the end of May 2023.*
Public Debt	*Preliminary figures indicate that total public debt stood at E33.7 billion as at the end of June 2023 from E34.2 billion in May 2023 (a 1.5 per cent contraction), equivalent to 41.5 per cent of GDP.*
Balance of Payments	*In June 2023, the merchandise trade account recorded a deficit amounting to E148.9 million from a deficit of E81.1 million in May 2023 as exports declined marginally by 0.9 per cent, month-on-month, to E2.758 billion, whilst imports increased by 1.5 per cent to E2.910 billion .*

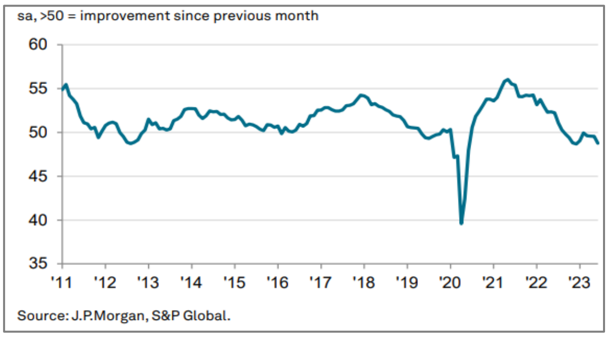
PART A: ECONOMIC REVIEW

1.0 GLOBAL ECONOMIC CONDITIONS

1.1 Global manufacturing Output – May PMI

According to the S&P Global Survey covering over 40 economies published on 3 July 2023, the J.P. Morgan Global Manufacturing PMI posted 48.8 index points in June, down from 49.6 index points in May 2023. This represents a six-month low in the composite index, signalling a worsening in operating conditions for ten consecutive months. Global manufacturing output showed a renewed contraction as new orders fell at the fastest rate for the twelfth successive month.

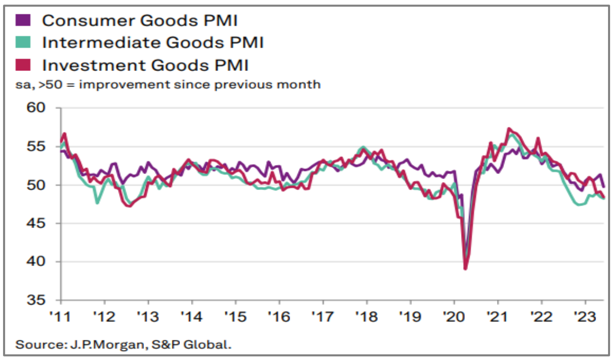
Figure 1: JP Morgan Global Manufacturing PMI; June 2023



Source: J.P.Morgan, S&P Global.

According to the latest survey, the decrease in new order intakes has led to a more cautious approach from manufacturers. As a result of sharp purchasing cutbacks. In addition, manufacturers have adopted the conservative stance amid inventory destocking, employment broadly flat and business optimism dipping to a seven-month low (S&P Global and J.P. Morgan Global Manufacturing PMI,3 July 2023).

Figure 2: Global Manufacturing PMI by Sector; June 2023



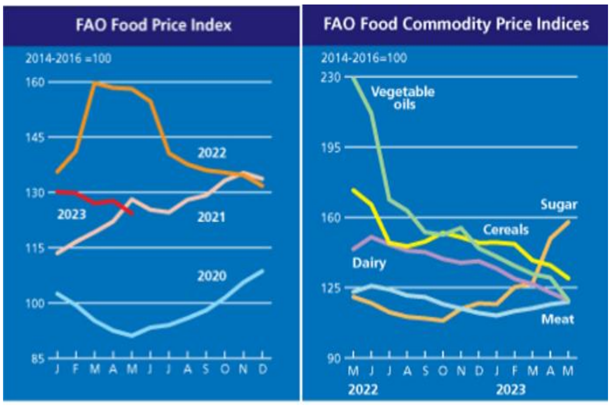
Source: J.P.Morgan, S&P Global.

Meantime, sector data showed that output decreased in the intermediate and investment goods sectors. It stagnated at consumer goods producers amid the sustained weakness of the demand environment (S&P Global and J.P. Morgan Global Manufacturing PMI,3 July 2023).

1.2 World Food Prices

According to the Food and Agriculture Organisation (FAO) of the United Nations, the FAO Food Price Index (FFPI) averaged 124.3 points in May 2023, down 3.4 points (2.6 per cent) from April and as much as 35.4 points (22.1 per cent) from the all-time high it reached in March 2022.

Figure 3: FAO Food Price Developments; 2020 – 2023



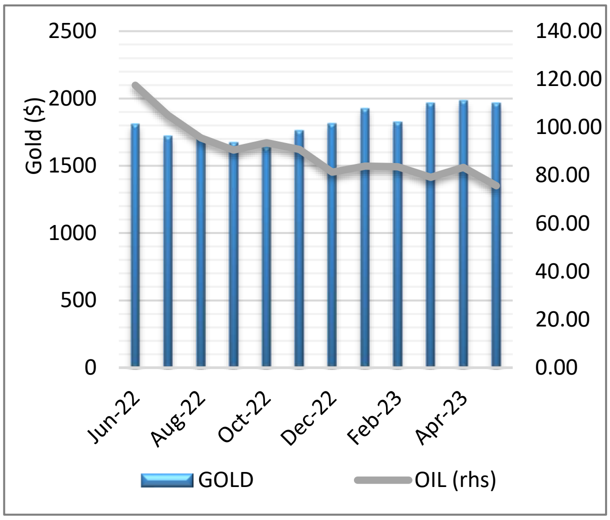
Source: IMF WEO update, April 2023

The decline in May was underpinned by significant drops in the price indices for vegetable oils, cereals and dairy, which were partly counterbalanced by increases in the sugar and meat indices. The FAO Cereal Price Index averaged 129.7 points in May, down 6.5 points from April and as much as 43.9 points below its record-high value one year ago. International wheat prices declined by 3.5 per cent month-on-month, reflecting prospects for ample global supplies in the upcoming 2023/24 season and the extension of the Black Sea Grain Initiative (Food Agricultural Organization Food Price Index, 26 June 2023).

1.3 Review of Global Oil Prices and Gold Price Performance

According to the OPEC Monthly Oil Market Report published on 13 June 2023, the Brent Crude oil price edged lower to average at US$75.69 per barrel in May 2023. Market sentiment weakened due to renewed worries about an economic slowdown worldwide and specifically in China. Meanwhile, the gold bullion price fell by 0.9 per cent to US$1,964.00 per ounce in May 2023, following an average of US$1,983.00 per ounce in April 2023. The strengthening of the US Dollar and related rising opportunity cost posed a drag to gold price trajectory. A near term headwind for gold will be a pause in US Federal Reserve funds rate hikes (OPEC Monthly Oil Market Report, 4 July 2023).

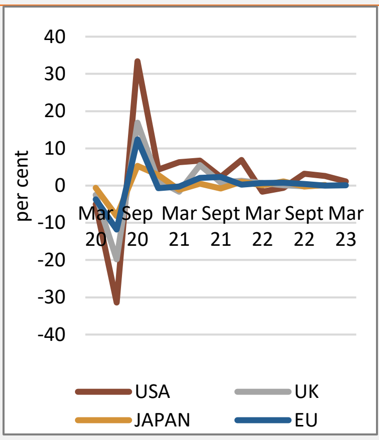
Figure 4: Gold & Brent Crude oil Prices (US Dollars) June 2022 – May 2023



Source: www.gold.org, June 2023

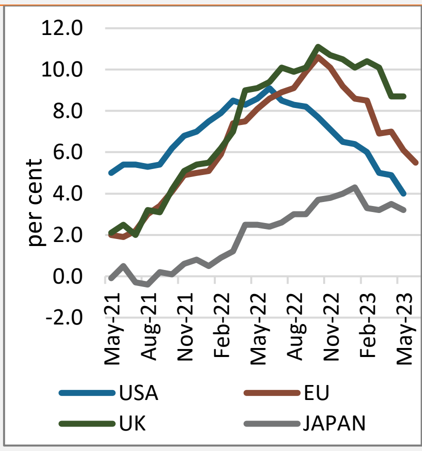
Table 1: Advanced Economies Performance

Figure 5: GDP Growth q-o-q



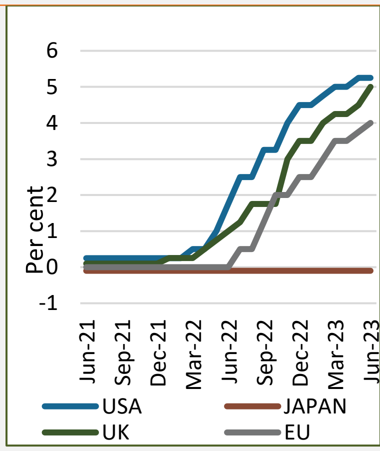
Source: www.BOE.co.uk,BOJ. or.jp, US FED.gov, ECB.europa.eu, May 2023

Figure 6: Inflation Rate



Source: www.eurostat, ukons, usbls, japanmia &c, May 2023

Figure 7: Interest Rates



Source: www.BOE.co.uk,BOJ. or.jp, US FED.gov, ECB.europa.eu, June 2023

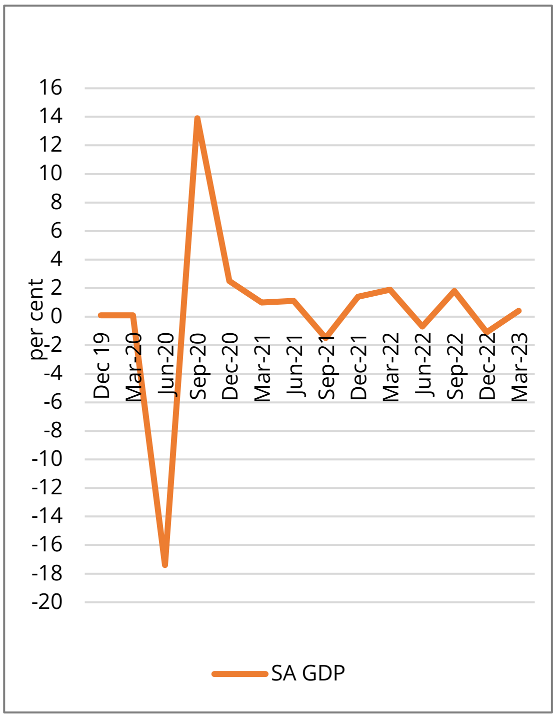
UNITED STATES	US GDP grew at an annual rate of 2.0 per cent quarter-on-quarter in Q1-2023, according to a second estimate, following a 2.6 per cent increase in Q4-2022. Consumer spending unexpectedly hiked by 4.2 per cent coupled with higher net trade. The recovery happened amid high inflation and declining private investment.	US annual inflation rate declined to 4.0 per cent in May 2023, the lowest since March 2021. Main downward pressure came from a decline in energy prices. The latest inflation data supported the argument for the Federal Reserve to consider pausing its current cycle of monetary tightening.	US Federal Reserve left the target for the funds rate unchanged at a range of between 5 - 5.25 per cent, as expected during its monetary Policy meeting in June 2023. The Fed signaled that rates may go up to 5.6 per cent by year-end if inflation does not slow down more.
UNITED KINGDOM	UK GDP expanded by 0.1 per cent quarter-on-quarter in Q1-2023, remaining unchanged from Q4-2022. Growth in Q1 was supported by solid increases in GFCF and expenditure on recreation, communications and housing.	UK inflation rate held steady at 8.7 per cent in May 2023, unchanged from the previous month's 13-month low. This happened amid rising prices for travel, recreation and cultural goods.	The BOE raised its policy rate by 50 basis points to 5.0 per cent during its June 2023 meeting, marking the 13th consecutive hike. This decision pushed borrowing costs to their highest level since the 2008 financial crisis, all in an effort to combat persistent inflation. Policymakers have also pledged to deliver further rate hikes if the ongoing inflationary pressures persist.
EURO	The Eurozone shrank by 0.1 per cent in Q1-2023 following a similar fall in Q4-2022 (2nd est.). The decline in Q1 was due to a decrease in household expenditure as high inflation and borrowing costs proved to be headwinds to spending. In addition, government spend declined as governments rolled back stimulus packages.	Eurozone inflation decreased to 5.5 per cent in June 2023, down from 6.1 per cent in the previous month. Energy prices declined by 5.6 per cent versus -1.8 per cent in May, while prices rose at a softer pace for both food, alcohol & tobacco and non-energy industrial goods.	In June, the ECB raised interest rates by another 25bps, bringing the rate on main refinancing operations to 4 per cent. This is the highest level since the 2008 financial crisis. Meantime, the rate on the deposit facility was raised to a 22-year high of 3.5 per cent. President Lagarde stated that the ECB had more ground to cover and would likely continue raising rates in July.

JAPAN	Japan GDP grew by 0.7 per cent quarter-on-quarter in Q1-2023 after an upwardly revised 0.1 per cent expansion in Q4-2022. This was the second straight quarter of economic growth and marked the steepest pace since Q2-2022. This happened as private consumption rose by 0.5 per cent after a 0.2 per cent expansion in Q4-2022. There was also an upward revision in both capital and government spending.	Japan inflation declined to 3.2 per cent in May 2023 from April's 3-month high of 3.5 per cent. Downward pressure came from slowing costs for household furniture, and decreasing prices for fuel, water and electricity.	The Bank of Japan (BOJ) kept its key short-term interest rate unchanged at -0.1% and that of 10-year bond yields at around 0% in its June meeting. BOJ policy makers added they would patiently continue with monetary easing and respond to uncertainties faced by the economy and the dynamics of prices as well as financial conditions.

2.0 ECONOMIC DEVELOPMENTS IN SOUTH AFRICA

2.1 GDP Growth

Figure 8: South Africa GDP Growth

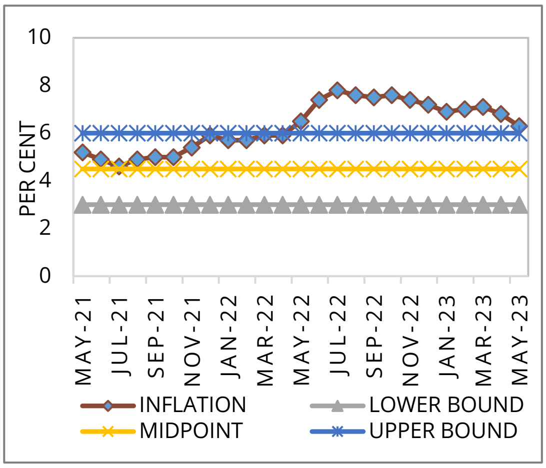


Source: STATS SA

Real GDP rose by 0.4 per cent quarter-on-quarter in the first quarter of 2023 after a downwardly revised 1.1 per cent contraction in Q4-2022 (Stats-SA), avoiding a technical recession despite record levels of power outages. Eight of the ten economic activities reported positive growth rates in the first quarter, with manufacturing (1.5 per cent vs -1.2 per cent in Source: STATS SAQ4) and finance, real estate & business services (0.6 per cent vs -1.6 per cent) making the biggest contributions to growth. GDP advanced by 0.2 per cent in Q1-2023, in line with market estimates, following a downwardly revised 0.8 per cent rise in the previous period. SARB's revised growth forecasts (May 2023) indicate that GDP is expected to grow by 0.3 per cent in 2023, a slight increase from the previous estimate of 0.2 per cent (SARB|South African Statistics, 26 June 2023).

2.2 Inflation Developments

Figure 9: Inflation

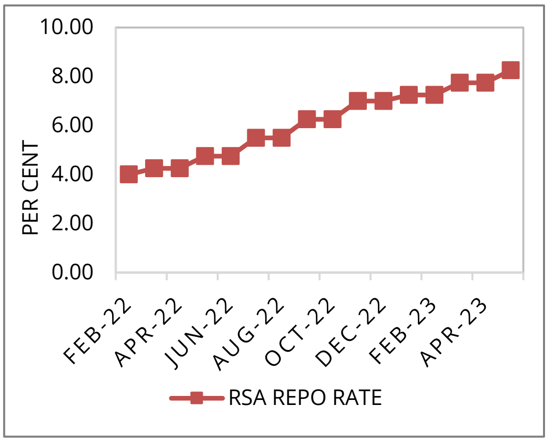


Source: STATS SA

According to Statistics South Africa, South Africa's annual inflation rate eased further to a 13-month low of 6.3 per cent in May 2023, down from 6.8 per cent in April and below market forecasts of 6.5 per cent, moving closer to the upper limit of the SARB's target range of 3 – 6 per cent. Prices slowed down mostly for food & non-alcoholic beverages (11.8 per cent vs 13.9 per cent in April), as most food categories recorded lower annual inflation rates in May, except for sugar, sweets & desserts, and cold beverages. 2023 (Statistics South Africa, 26 June 2023).

2.3 Monetary Policy

Figure 10: Interest rates



Source: SARB

The South Africa Reserve Bank (SARB) decided to increase the repurchase rate by 50 basis points to 8.25 per cent per year, with effect from 26 May 2023. The decision was unanimous. At the current repurchase rate level, policy is restrictive, consistent with elevated inflation and risks.

The policy stance aims to anchor inflation expectations more firmly around the mid-point of the target band and to increase confidence of attaining the inflation target sustainably over time (South African Reserve Bank, 26 June 2023).

3.0 Economic Developments in Selected SACU Member Countries (Namibia, Lesotho & Botswana)

Table 2: Developments in SACU Member States

Botswana	GDP expanded by 5.6 per cent q-o-q in Q1-2023 following a contraction of 2.3 per cent in Q4-2022 amid a slowing contribution from the mining sector.	Annual inflation rate eased to an over 2-year low of 5.7 per cent in May, from 7.9 per cent in April, amid slowing cost for transportation and food.	The central bank of Botswana held its benchmark interest rate steady at 2.65 per cent in June, to continue supporting the economy while containing inflation pressures.
Lesotho[1]	GDP contracted by 1.7 per cent in Q4-2022 following a 2.1 per cent expansion in Q3-2022, amid subdued contribution from the tourism sector.	Annual inflation rate edged higher to 6.9 per cent in May from 6.7 per cent in April 2023. Amid rising prices for food and utilities.	The Central Bank of Lesotho during it meeting held in May 2023 decided to raise the bank rate by 25 bps to 7.75 per cent.
Namibia	GDP expanded by 5.81 per cent q-o-q in Q1-2023 following a 1.83 per cent contraction in Q4-2022 amid a good performance by the mining and quarrying sectors.	Annual Inflation rate increased to 6.3 per cent in May from 6.1 per cent in April. Prices remained elevated for food & non-alcoholic beverages or recreation & culture.	The Bank of Namibia decided to increase the repo rate to 7.75 per cent in June aimed at anchoring inflation expectations and safeguarding the currency peg with the SA Rand while supporting the economy.

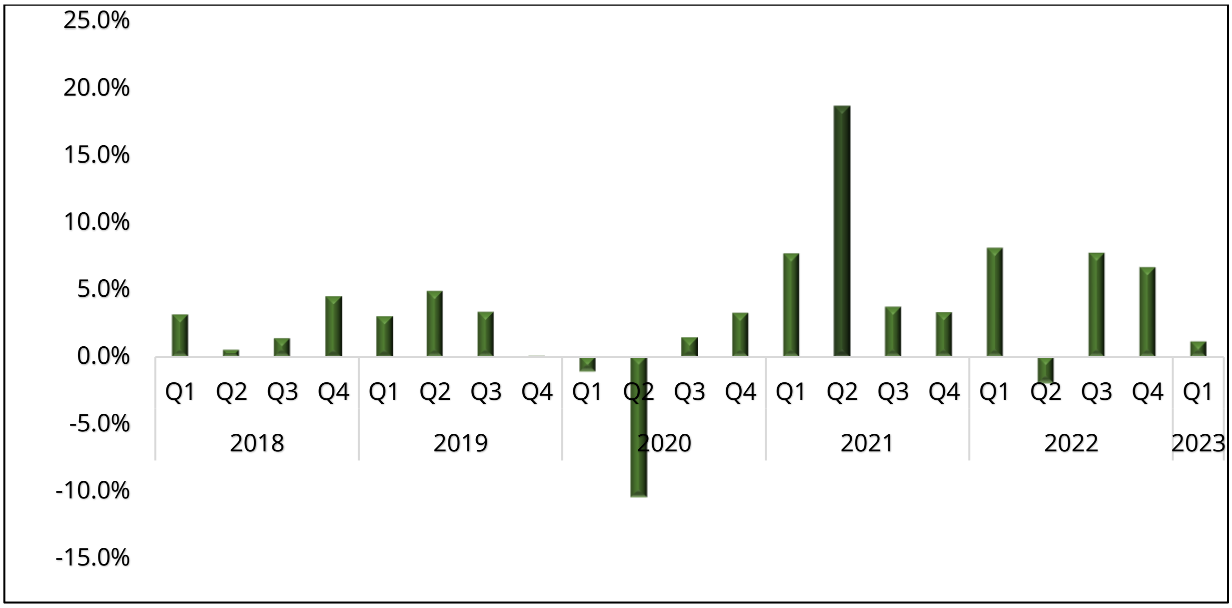
4.0 DOMESTIC ECONOMIC DEVELOPMENTS

4.1 GDP Growth

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 first quarter, from a revised contraction of 0.3 per cent in the previous quarter.

[1] Unfortunately, we could not find from Lesotho Bureau of Statistics' release calendar when the Q1-2023 figure will be announced.

Figure 11: Quarterly GDP Growth (year-on-year), Seasonally Adjusted; 2018Q1 to 2023Q1



Source: Central Statistics Office

Table 3: Sectoral GDP

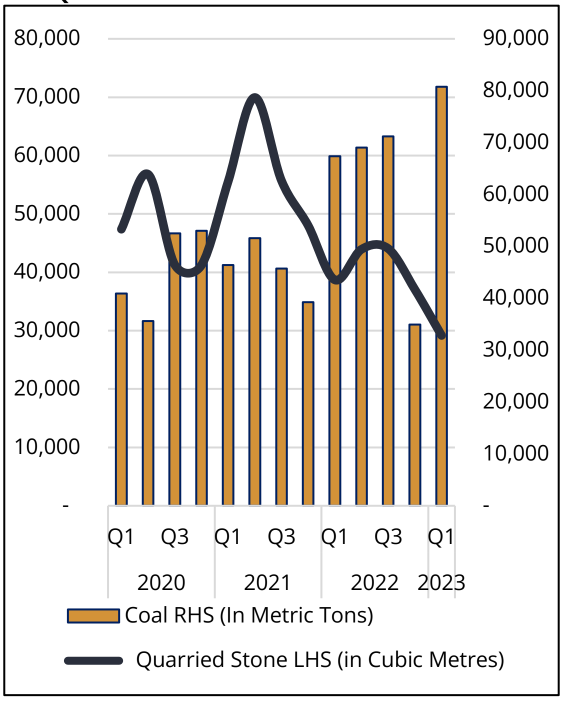
SECTOR	PERFORMANCE	DRIVERS
PRIMARY	The primary sector grew by a slower 3.4 per cent, year-on-year in the first quarter of 2023, from a revised growth of 5.0 per cent in the fourth quarter of 2022.	*I. Positive performance was mainly observed in the 'growing of crops', 'animal production', and 'mining & quarrying' subsectors. The 'growing of crops' subsector grew by 9.3 per cent in the quarter under review, rebounding from a decline of 0.9 per cent, mainly benefitting from developments in sugarcane production.* *II. The 'animal production' subsector grew by 2.4 per cent in the quarter under review, from 11.3 per cent in the previous quarter, owing to increases in both 'home and commercial' cattle slaughters.* *III. The 'mining & quarrying' subsector grew by 14.4 per cent largely attributable to a 19.8 per cent increase in coal production in the first quarter of 2023. This acceleration benefitted from resumption of the mining of crown land, following temporally stoppages experienced in the previous quarter.*
SECONDARY	The secondary sector remained suppressed, declining by a steeper 10.1 per cent in the first	*I. The persistent poor performance of the sector partially emanated from the 'manufacturing' subsector, which contracted by 12.1 per cent, year-on-year in the first quarter of 2023, from a revised decline of 1.4 per cent in the last quarter of 2022.*

	quarter of 2023, from a revised contraction of 0.4 per cent in the previous quarter.	II. *Slower growth was noted in the 'manufacture of beverages', 'manufacture of textiles' and 'processing & preserving of fruits and vegetables' subsectors, all of which are export oriented. Moreover, the 'water & sewerage' subsector declined by 17.0 per cent in the quarter under review, from a 2.6 per cent growth in the previous quarter, owing to a slowdown in demand for treated water from domestic industries. The decrease in demand for treated water by commercial customers was driven by a reported closure of some businesses and lower consumption in January due to the festive shut down.* III. *On the other hand, within the secondary sector, there was positive performance in the 'electricity supply' and 'construction' subsectors. Electricity generation improved by 16.1 per cent while construction activities rose by a slower 2.7 per cent yon a year-on-year basis in the quarter under review.*
TERTIARY	The tertiary sector, accounting for approximately 61 per cent of total industries, grew by a slower 8.6 per cent year-on-year, in the first quarter of 2023, from a revised growth of 11.2 per cent in the previous quarter.	I. *The observed growth largely benefitted from increased economic activity in the 'wholesale & retail', 'accommodation & food services', 'information & communication' and 'financial & insurance services' subsectors.* II. *Activity from the 'wholesale & retail trade' subsector grew by a slower 4.1 per cent in the quarter under review, from 18.3 per cent in the previous quarter. Notably, the 'accommodation & food services' subsector rose by 27.9 per cent in the first quarter of 2023, reflecting continued recovery of the subsector post-COVID-19.* III. *The increasing usage of digital platforms continues to contribute positively in the use of data services, thereby supporting strong growth in the 'information and communication' subsector. Other improvements were noted in the 'financial & insurance services' subsector which grew by 28.5 per cent in the quarter under review, mainly benefitting from increases in 'insurance and pension funding' activities.*

4.2 Selected Quarterly Economic Indicators

MINING AND QUARRY

Figure 12: Coal and Quarry Production; 2020Q1 to 2023Q3

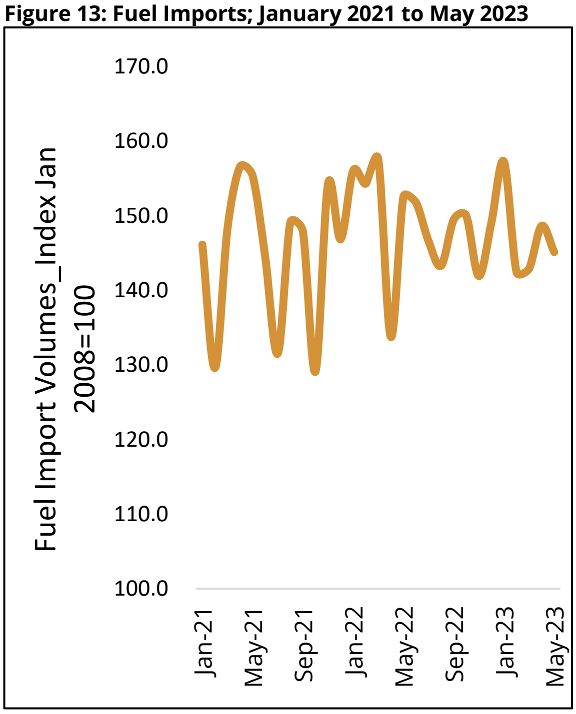


Source: Mining Department

Following a decline of 51.0 per cent in the quarter ended December 2022, coal production strongly rebounded by 131.3 per cent to record 71,763 metric tonnes in the first quarter of 2023. This was mainly driven by full resumption of the mining of crown land, following mining stoppages experienced in the previous quarter. In addition, the subsector has also been awarded another license for the mining of a bigger portion of crown land, which further contributed to the observed growth. On the contrary, quarried stone production further contracted by 21.3 per cent to 32,826 metric tonnes in the quarter ended March 2023, compared to 41,684 cubic metres in the previous quarter. The moderation in quarry production depicts muted performance in construction activities particularly public-sector financed road infrastructure projects.

FUEL IMPORTS

Figure 13: Fuel Imports; January 2021 to May 2023



Source: Ministry of Natural Resources and Energy

Total fuel import volumes, sourced from the Ministry of Natural Resources and Energy, declined by 2.4 per cent (seasonally adjusted) in May 2023, compared to a growth of 4.0 per cent recorded in April 2023. Notably, all the fuel categories declined during the two months under review. Petrol import volumes fell by 3.2 per cent in May 2023, from an increase of 0.7 per cent in the previous month. Diesel import volumes fell by 6.5 per cent in May 2023, from a higher growth of 11.4 per cent in April 2023, indicating a slight drop-in commercial freight activity. Similarly, paraffin import volumes decreased by 8.4 per cent in the month under review, compared to a growth of 16.9 per cent in the previous month.

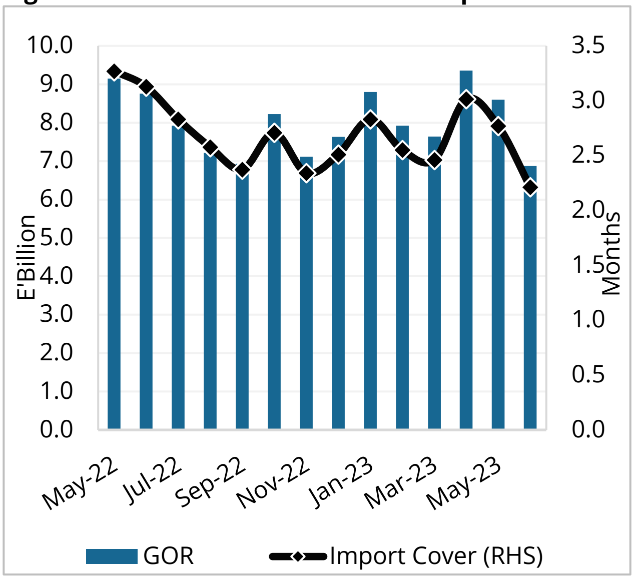
4.3 Monetary Sector Developments

4.3.1 Gross official Reserves

Gross official reserves amounted to E8.6 billion at the end of May 2023, reflecting declines of 8.1 per cent month-on-month and 6.0 per cent from May 2022. The fall in reserves over the review month was due to net Rand outflows from trades with local commercial banks as well as drawdowns for budgetary obligations. The reserves import cover fell from 3.0 months in April 2023 to 2.8 months at the end of May 2023.

As at 30 June 2023, gross official reserves had fallen to E6.9 billion - equivalent to 2.2 months import cover - mainly due to foreign currency outflows from trades with local banks coupled with drawdowns by government for budgetary commitments.

Figure 14: Gross Official Reserves & Import Cover

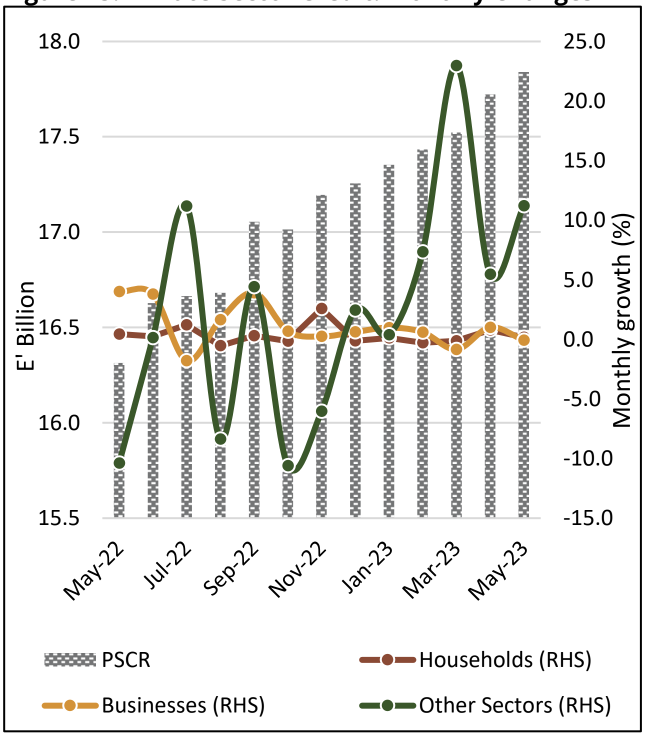


Source: Central Bank of Eswatini

4.3.2 Credit Extension

Credit extension to the private sector increased by 0.7 per cent over the month and 9.4 per cent year-on-year to close at E17.8 billion at the end of May 2023. Growth in private sector credit was boosted by improvements in credit to other sectors of the economy and the household & non-profit institutions serving households (NPISH) sector. However, there was a decline in credit to the business sector over the review month. In real terms, private sector credit was 3.4 per cent higher. Credit extended to other sectors of the domestic economy grew by 11.2 per cent month-on-month and 42.6 per cent over the year to E1.1 billion at the end of May 2023. Growth emanated from credit to other financial corporations and parastatals which improved by 13.4 per cent to E677.0 million and 11.2 per cent to E341.6 million, respectively. Credit to local government, however, declined by 7.9 per cent to E62.5 million.

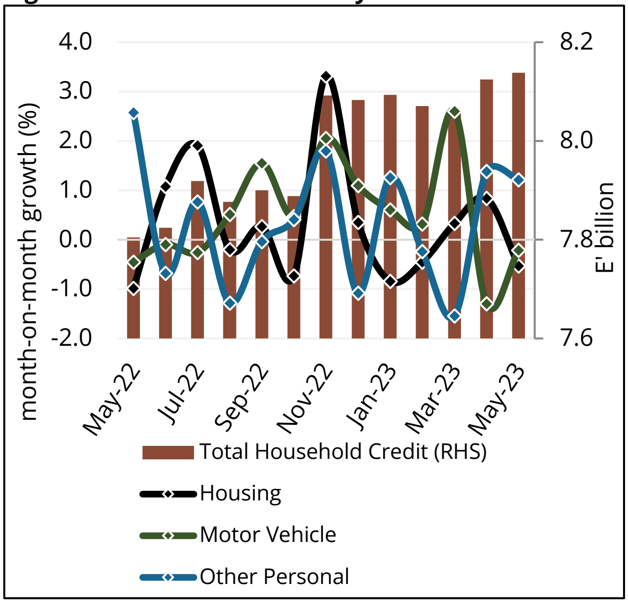
Figure 15: Private Sector Credit: Monthly Changes



Source: Central Bank of Eswatini and Other Depository Corporations

4.3.2.1 Household Credit

Figure 16: Household Credit by Product:



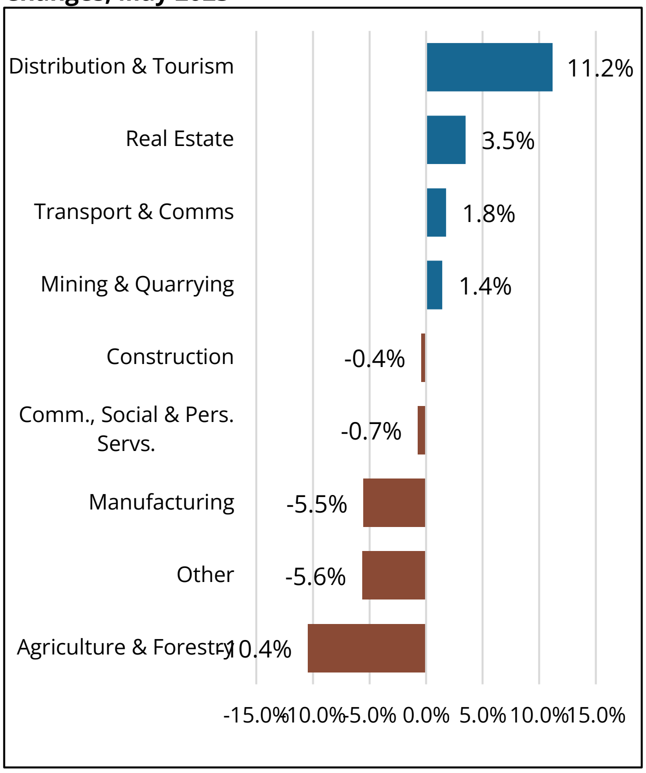
Source: Central Bank of Eswatini & Other Depository Corporations

Credit extended to households & NPISH closed at E8.1 billion at the end of May 2023, reflecting an increase of 0.2 per cent from April 2023 and 4.3 per cent over the year. The month-on-month rise was solely due to other personal (unsecured) loans, which rose by 1.2 per cent to E3.1 billion. In contrast, housing and motor vehicle loans declined by 0.5 per cent to E4.0 billion and 0.2 per cent to E975.0 million, respectively.

4.3.2.2 Credit to Businesses

Credit extended to the business sector stood at E8.6 billion at the end of May 2023, reflecting a decline of 0.1 per cent over the review month and up by 11.2 per cent from May 2022. The fall was driven by credit to the following subsectors: agriculture & forestry (-10.4 per cent), manufacturing (-5.5 per cent), community, social & personal services (-0.7 per cent), and construction (-0.4 per cent). An analysis on credit to businesses by size reveal that credit to small and medium enterprises (SMEs) grew by 0.9 per cent month-on-month and 21.0 per cent year-on-year, supported by credit to construction (3.9 per cent), real estate (3.6 per cent), community, social & personal services (2.2 per cent), distribution & tourism (2.1 per cent), and agriculture & forestry (0.9 per cent). With regards to large enterprises, credit declined by 0.5 per cent over the month but was 7.4 per cent higher year-on-year. Responsible for the fall in monthly credit to large businesses were the following subsectors: agriculture & forestry (-12.6 per cent),

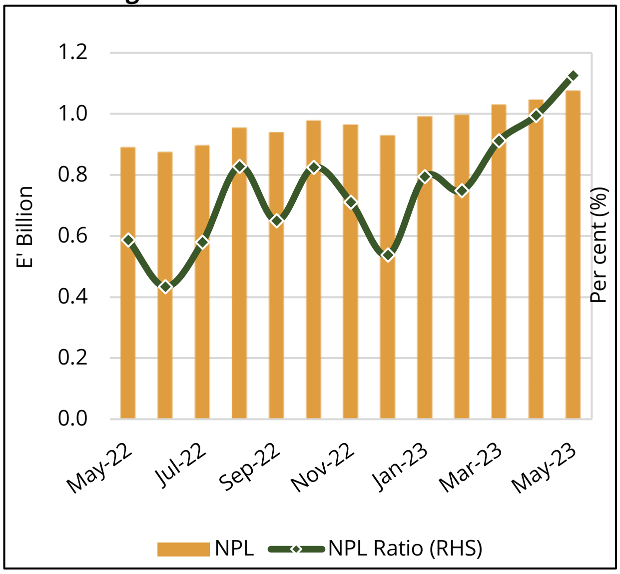
Figure 17: Business Credit by Industry: Monthly Changes, May 2023



Source: Central Bank of Eswatini and Other Depository Corporations manufacturing (-5.7 per cent), community, social & personal services (-4.3 per cent), and construction (-1.9 per cent).

4.3.3 Non-Performing Loans

Figure 18: Non-Performing Loans and Non-Performing Loans Ratio



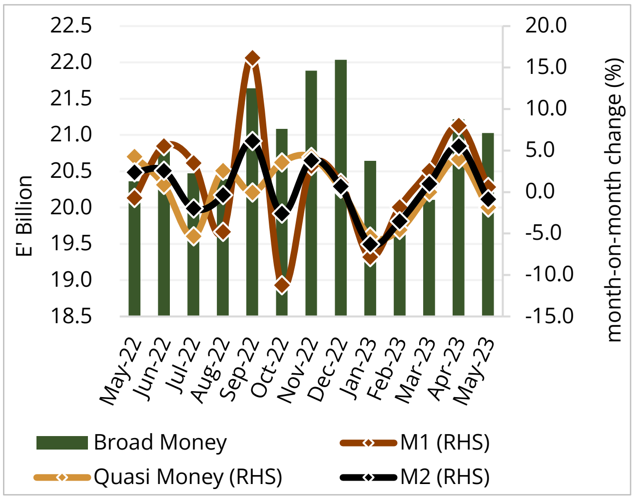
Source: Central Bank of Eswatini

Non-performing loans (NPLs) grew by 2.7 per cent from April 2023 and 19.9 per cent over the year to close at E1.1 billion at the end of May 2023. The increase emanated from the business (8.1 per cent) and other (6.8 per cent) sectors while NPLs of the household sector fell by 10.3 per cent. The NPL ratio rose to 7.5 per cent in May 2023 from 7.3 per cent the previous month and 6.7 per cent in May 2022.

4.3.4 Broad Money Supply

Broad money supply (M2) amounted to E21.0 billion at the end of May 2023, depicting a decline of 0.9 per cent over the month and an increase of 3.3 per cent year-on-year. The month-on-month decrease was driven by quasi money supply while narrow money supply (M1) improved. In real terms, M2 was down 2.7 per cent year-on-year.

Figure 19: Money Supply



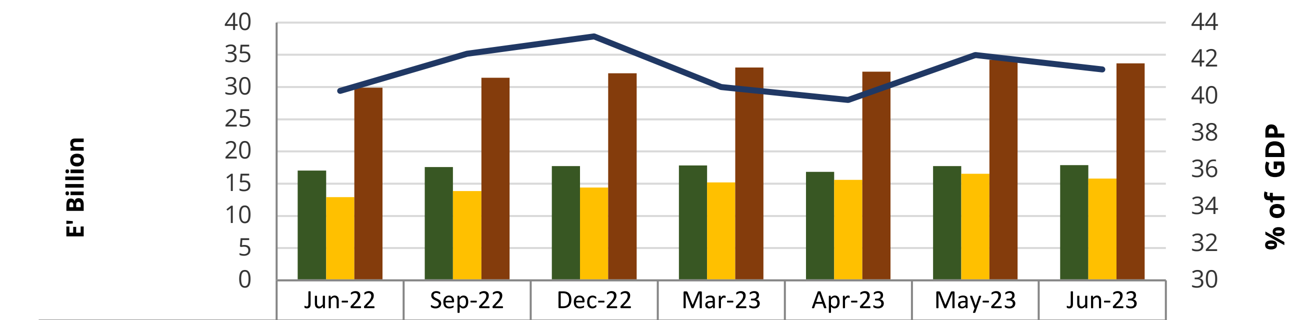
Source: Central bank of Eswatini & Other Depository Corporations

4.4 Public Finance

4.4.1 Total Public Debt

Preliminary figures for the end of June 2023 show that total public debt stood at E33.7 billion, translating to an equivalent of 41.5 per cent of GDP. During this period, total public debt decreased by 1.5 per cent when compared to E34.2 billion recorded in May 2023. The decrease can be attributed to a decline in external debt. On annual basis, public debt increased by 12.7 per cent from E29.9 billion.

Figure 20 Total Public Debt; January 2022 to June 2023



	Jun-22	Sep-22	Dec-22	Mar-23	Apr-23	May-23	Jun-23
Domestic	17.0	17.6	17.8	17.8	16.8	17.7	17.9
External	12.9	13.9	14.4	15.2	15.6	16.5	15.8
Total	29.9	31.5	32.2	33.0	32.4	34.2	33.7
% of GDP (RHS)	40.3	42.3	43.3	40.5	39.8	42.2	41.5

Source: Ministry of Finance and Central bank of Eswatini

4.4.2 Public External Debt

Preliminary figures show that public external debt stood at E15.8 billion - an equivalent of 19.5 per cent of GDP as at end June 2023. External debt decreased by 4.2 per cent in the period under review from E16.5 billion recorded the previous month. The decrease was largely due to the appreciation of the local currency against the US Dollar and other major foreign currencies in which the country's external liabilities are denominated. External debt increased by 22.5 per cent from E12.9 to E15.8 billion.

4.4.3 Domestic Debt

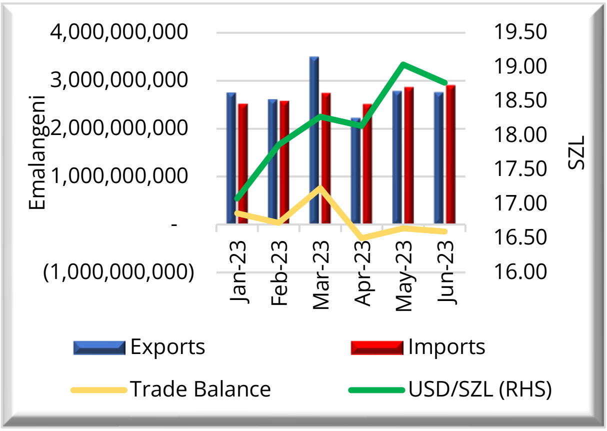
Domestic debt stood at E17.9 billion as at end of June 2023, equivalent to 22 per cent of GDP. This depicts an increase of 1.1 per cent when compared to the E17.7 billion recorded in May 2023. Domestic debt increased due to bonds issuances as well as additional Central Bank Advance to Government during the month. This was, however, offset by bond maturity as well as decline in T-bills holdings as the paper continued to perform poorly during the review period. Domestic debt slightly rose by 5 per cent between June 2022 and 2023.

4.5 External Sector Developments

In the month of June 2023, Eswatini recorded a merchandise trade deficit amounting to E148.9 million, as exports declined marginally by 0.9 per cent, month-on-month, to E2.758 billion, whilst imports increased by 1.5 per cent to E2.910 billion. Worth noting is that the South African market accounted for 69.8 per cent and 80.6 per cent of exports and imports respectively, for the review period. On a year-on-year comparison, exports declined by a mere 0.4 per cent, whilst imports increased notably by 13.1 per cent, due to inflationary pressures and to a lesser extent, the weaker Lilangeni against the US Dollar.

Year-to-date data from January 2023 to June 2023 indicates that the country recorded a cumulative trade surplus of E513.7 million, as cumulative exports amounted to E16.631 billion, depicting a significant increase of 13.8 per cent from the previous year earnings for the same period. On the other hand, year-to-date imports were valued at E16.117 billion, reflecting a rise of 3.9 per cent from the cumulative bill recorded in the preceding year, as Eswatini partially benefited from the weaker Lilangeni against the US Dollar, which has prevailed for the better part of the first half of 2023.

Figure 21: Merchandise Trade; January 2023 – June 2023



Source: Central Bank of Eswatini Database

A closer look at major export baskets for June 2023 reflects that 'soft-drink concentrates' generated income valued at E1.094 billion, depicting a month-on-month decline of 7.7 per cent, due to weaker international demand, which moves in tandem with the approach towards the peak of the winter season. On year-on-year comparison, income earned from the sale of 'soft-drink concentrates' increased by 7.9 per cent, partially benefitting from the depreciation of the Lilangeni against the US Dollar. 'Sugar and sugar products' sold abroad were valued at E619.5 million, marking a notable increase of 7.2 per cent, month-on-month, due to a rise in volumes supplied abroad, despite declining significantly by 10.3 per cent on a year-on-year. 'Wood and articles of wood' exported amounted to E210.9 million, reflecting a marginal decline of 1.9 per cent from previous month earnings, regardless of the 18.5 per cent increase realized on a year-on-year comparison due to a rise in volumes supplied to the South African market. Textile goods sold abroad yielded income amounting to E31.4 million, depicting an increase of 3.0 per cent on a month-on-month comparison, despite recording a notable 12.1 decrease on an annual comparison.

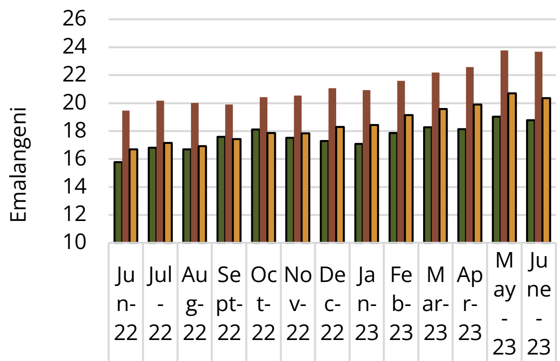
On the other side of the coin, 'Fuel and electricity' purchased abroad increased by 4.9 per cent month-on-month, to E591.3 million, whilst increasing by a wider 6.3 per cent on a year-on-year comparison, becoming the country's leading import for the month of June 2023. 'Food and beverages' imported were valued at E548.6 million, reflecting a notable decline of 14.8 per cent on a month-on-month basis, in line with a drop in cereals, eggs, milk, flour and beverages purchased outside the country. On an annual comparison, 'food and beverages' sourced abroad recorded a rise of 10.8 per cent, due to notable price increases observed across majority of food items. Textile imports, primarily input materials, declined notably by 7.7 per cent on a month-on-month landscape, to E260.4 million, despite increasing significantly by 33.8 per cent on an annual basis, due to a rise in cotton and man-made staple fibres purchased abroad. Expenditure on 'machinery and electrical appliances' was valued at E285.5 million, reflecting a month-on-month increase of 5.8 per cent, and a wider rise of 20.9 per cent on an annual landscape due to inflationary effects. 'Vehicles and other transport means' imported amounted to E155.0 million, depicting a 11.4 per cent rise month-on-month, and a larger increase of 32.7 per cent on an annual basis, attributed to significant rise in vehicles purchased abroad.

4.6 Exchange Rates Developments

Since the last MPCC meeting, the Rand/Lilangeni weakened against the major trading currencies. When compared to April 2023, in June 2023 the Rand/Lilangeni depreciated by 3.5 per cent, trading at an average of E18.77 to the US Dollar. Against the Pound Sterling the domestic unit depreciated by 0.3 per cent to settle at an average of E23.69 while against the Euro, it depreciated by 1.7 per cent to average E20.35. The Rand along with the Lilangeni depreciated due to negative political and economic factors in South Africa. Among the economic factors is the continuous energy crisis which, remained a persistent threat of ESKOM's ability to provide stable electricity supply. Investor confidence, as a result suffered significantly leading to capital outflows from South Africa. The depreciation continued following insinuations by the United States that arms had been shipped from South Africa to Russia to aid its war against Ukraine.

While the Rand/Lilangeni was somewhat supported by the weakening of the US Dollar as global sentiments improved due to falling US inflation, its recovery proved weaker than the exchange rate in April 2023. Political developments in South Africa also cushioned the performance of the Rand/Lilangeni, as the government of South Africa presented a neutral position in relation to the Ukraine-Russia war. As a result, the Lilangeni/Rand ended the month of June 2023 trading at E18.76 to the US Dollar, at E23.66 to the Pound Sterling and at E20.37 to the Euro. The Rand/Lilangeni is expected to remain volatile with the Fed's monetary policy direction and global events being the key determinants of its performance. Last but not the least, positive performance of the Rand outlook lies on efforts to improve the electricity supply by ESKOM in South Africa.

Figure 22: Lilangeni Exchange Rates against Selected Major Currencies



	Jun-22	Jul-22	Aug-22	Sept-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	June-23
USD	15	16	16	17	18	17	17	17	17	18	18	19	19
GBP	19	20	20	19	20	20	21	20	21	22	22	23	24
Euro	16	17	16	17	17	17	18	18	19	19	19	20	20

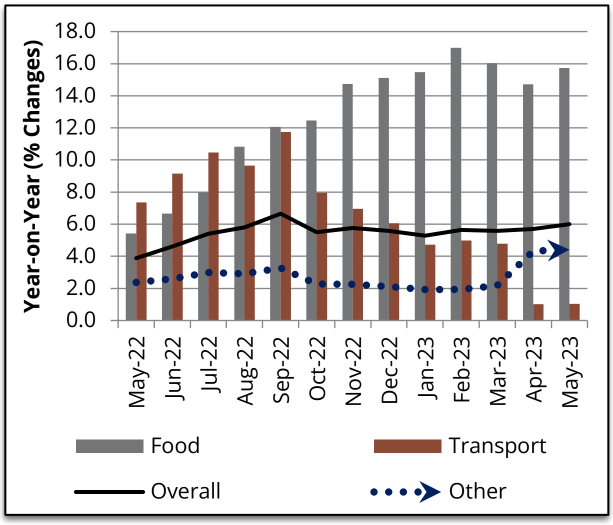
Source: Central Bank of Eswatini

PART B: INFLATION DEVELOPMENTS

5.1 Headline Inflation

The country's annual consumer inflation increased to 6.0 per cent in May 2023, from a revised 5.7 per cent observed in April 2023. Increases were noted in the price indices for 'household furniture & maintenance', 'food & non-alcoholic beverages' and 'alcoholic beverages & tobacco'. The index for 'household furniture and maintenance' jumped to 10.8 per cent in the month under review, from 4.1 per cent in the previous month, mainly driven by growth in the prices of 'major household appliances' and 'bedroom furniture'. Food inflation remained in double-digit growth rates, rising to 15.7 per cent in May 2023 compared to 14.7 per cent in the previous month, owing to increases in the prices for 'bread & cereals', 'fruit' and 'coffee, tea & cocoa'. Furthermore, upward pressures also came from the price index for 'alcoholic beverages & tobacco' which grew by 1.6 percentage points to record 2.6 per cent in May 2023, benefitting from a rise in the price for 'wine'.

Figure 23: Inflation Trends and Components; May 2022 to May 2023



Source: Central Statistics Office (CSO)

The above increases were partially offset by decreasing rates of growth in the price indices for 'health' and 'housing & utilities'. The growth rate of the price index for 'health' significantly dropped to 0.9 per cent in May 2023, from 22.4 per cent in the previous month. This was driven by a 26.0 per cent drop in 'outpatient medical services' between the two months under review. Following the notable jump in the price index for 'housing & utilities' in April 2023, driven by the implementation of the electricity & water tariffs and housing rentals, the index eased to 5.7 per cent in May 2023. This was driven by observed decreases in the prices for 'solid fuels' during the month under review.

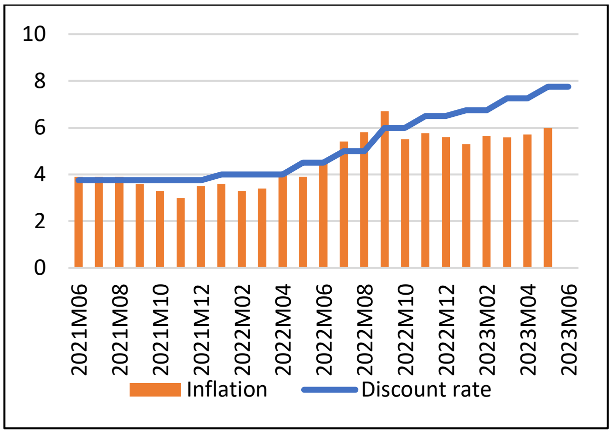
On a month-on-month basis, consumer prices slowed to 0.1 per cent in May 2023 from 1.4 per cent in the previous month. Contributing to the slowdown was the price index for 'housing & utilities' that recorded a 0.3 per cent deflation in the month under review, down from 6.6 per cent in the previous month. On the contrary, increases were noted in the price indices for 'transport' and 'household furniture & maintenance' which grew by 1.3 and 0.8 percentage points, respectively, between the two months under review.

Core inflation, which is CPI excluding volatile item such as food, auto-fuel, and energy, increased to 2.4 per cent in May 2023, from 2.2 in the previous month. On a month-on-month comparison, core inflation grew by a slower 0.1 per cent in the month under review.

5.2 Inflation and Interest Rate Trends in Eswatini

The Bank increased the discount rate by 50 bps to 7.75 per cent in May 2023. In line with a hike of 50 bps by the SARB to 8.25 per cent, the differential of -50 bps was maintained with the SARB repo rate.

Figure 24: Inflation and Discount Rates



Source: Central Statistics Office and Central Bank of Eswatini

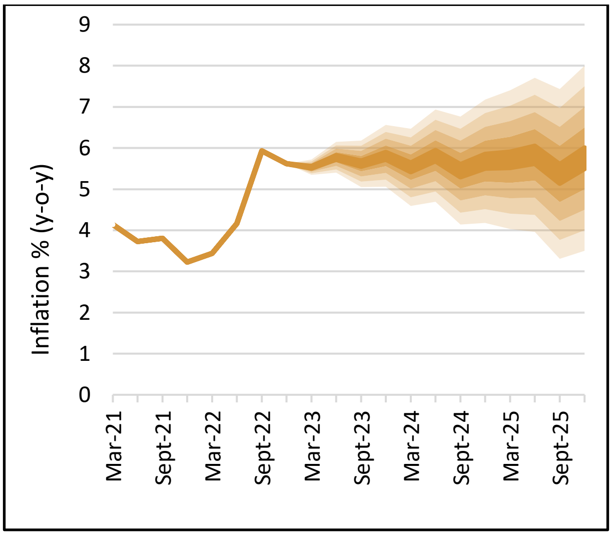
5.3 Inflation Outlook

The Bank has slightly revised up its short-term forecasts while the medium-term remains relatively unchanged. Although inflation outturn for May 2023 was slightly higher than the forecast for the same period, upward pressures to the inflation outlook still prove persistent. Relative to the previous meeting of the MPCC, global Brent crude oil prices have moderated although expected to remain elevated due to the expected fall in the global oil inventories. As a result, global oil prices for the third and fourth quarter of 2023 are forecasted to be slightly higher than previously expected.

In South Africa, the rise in food prices has caused inflation to remain elevated and is expected to trend upwards in the short-to-medium term. In its assessment the SARB evaluates the risks to inflation to be on the upside given the sticky nature of petrol and food price inflation. Domestically, administered prices of utilities are still expected to exert upward pressure on domestic inflation and the effect mostly pronounced in the outer years of the forecast period. The general upward shift in the trend of the exchange rate mainly caused by the negative investor sentiments arising from poor economic outlook in South Africa, remains an upward risk to domestic inflation. Although expected to improve over time, the Rand exchange rate remains weaker when compared to the previous forecast period. The third quarter of 2023 is revised up to 5.75 per cent (from 5.65 per cent). The fourth quarter of 2023 is also revised up to 5.85 per cent (from 5.76 per cent). Consequently, the annual average inflation forecast for 2023 is slightly revised upwards to 5.75 per cent (from 5.71 per cent).

The inflation rate for 2024 is also slightly revised up. The slight upward revision in the forecasts generally aligns with elevated global oil prices that are expected to moderate towards the year 2025. The Rand is still expected to remain weaker and pose upward inflationary pressure on inflation, although a slight improvement in the exchange rate is expected when compared to 2023. With inflationary pressures expected to moderate in 2025, the inflation forecast for 2025 is thus unchanged from the previous projection. Therefore, inflation for 2024 is forecasted at 5.35 per cent (from 5.31 per cent) while for 2025 is unchanged at 5.13 per cent.

Figure 25: Inflation Outlook



Source: Central Bank of Eswatini

References

Botswana Annual Consumer Inflation rate, May 2023. Available: https://www.statsbots.org.bw/sites/default/files/publications/consumer (Accessed 26 June 2023)

Botswana Monetary Policy Stance, May 2023. Available from: https://www.bankofbotswana.bw/ (Accessed 26 June 2023).

Botswana Quarterly GDP growth, Q1-2023. Available from: https://www.statsbots.org.bw/sites/default/files/Gross%20Domestic%20Product%20Q4%20222.pdf (Accessed 26 June 2023)

Gold Price Monthly movements, May 2023. Available from: https://www. https://www.gold.org/goldhub/gold-focus/2023/05/ (Accessed 4 July 2023)

OPEC Monthly Oil Market report, May 2023 -Brent Crude and Gold Price movements. Available from: https://www.opec.org|marketwatch|gold.org (Accessed 8-9 May 2023)

Eurozone Annual Inflation Rate - CPI, June 2023. Available from: https://tradingeconomics.com/euro-area/inflation-cpi (Accessed 4 July 2023)

Eurozone GDP Growth, Q1-2023, 2nd estimate. Available from: https://www.ec.europa.eu/eurostat/(Accessed 4 July 2023)

Eurozone Interest Rate, June 2023. Available from: https://tradingeconomics.com/euro-area/interest-rate (Accessed 4 -5 July 2023)

Japan GDP Growth, Q1-2023, second estimate. Available from: http://www.esri.cao.go.jp/cabinet office Japan (Accessed 4 -5 July 2023).

Japan Interest Rates, June 2023. Available from: https://www.boj.or.jp/en/mopo/index.htm/ (Accessed 4 July 2023).

Japan’s Consumer price inflation (CPI), May 2023. Available from: http://www.stat.go.jp/english/data/ (Accessed 4-5 July 2023).

Lesotho Quarterly GDP growth, Q4-2022. Available from: https://www.bos.gov.ls/Publications.htm (Accessed 29 May 2023)

Lesotho Annual consumer inflation rate, May 2023. Available from: https://www.bos.gov.ls/Publications.htm|https://tradingeconomics.com/lesotho/inflation-rate (Accessed 26 June 2023).

Bank of Lesotho Monetary policy stance, May 2023. Available from: https://centralbank.org.ls/index.php/monetary-policy/mpc-statements/ May 2023 (Accessed 26 May 2023)

Namibia Q1-2023 quarterly GDP Growth. Available from: https://tradingeconomics.com/gdp-quarter (Accessed 29 May 2023)

Namibia Annual Inflation Rate, May 2023. Available from: https://tradingeconomics.com/namibia/inflation-rate (Accessed 26 June 2023)

Namibia Monetary Policy stance, June 2023. Available from: https://www.bon.com.na/ (Accessed 26 June 2023)

S&P Global and JP Morgan Global Manufacturing PMI, 3 July 2023. Available from: https://www.pmi.spglobal.com/Public/Home/PressRelease/ (Accessed 5 July 2023)

United Kingdom GDP Growth q-o-q, Q4-2023. Published by the Office for National Statistics. Available from: https://www.ons.gov.uk/economy/grossdomesticproductgdp (Accessed 4 July 2023)

United Kingdom Consumer inflation rate, May 2023. Published by the Office for National Statistics.

Available from: https://data.gov.uk/dataset/cpi (Accessed 4 -5 July 2023).

UK Interest Rates - Bank of England Interest Rate, June 2023. Available from: https://www.bankofengland.co.uk/monetary-policy-summary-statement/2023/June 2023|https://tradingeconomics.com/united-kingdom/interest-rate (Accessed 4 July 2023).

South Africa GDP growth, Q1-2023. Available from: http://www.statssa.gov.za/||www.tradingeconomics (Accessed 26 June – 4 July 2023).

South Africa Monetary Policy stance, May 2023. Available from: https://www.resbank.co.za (Accessed 26 June 2023).

South Africa Consumer prices, May 2023. Available from: http://www.statssa.gov.za/|https://www.statssa.gov.za/publications/P0141/P0141May2023.pdf (Accessed April - 26 June 2023).

USA GDP Growth, second estimate, Q1-2023. Available from: https://www.bea.gov/news/2023/gross-domestic-product-first-quarter-2023-advance-estimate (Accessed 4 July 2023).

US FED Monetary Policy Stance, June 2023. Available from: https://www.federalreserve.gov › monetary policy and https://tradingeconomics.com/united-states/interest-rate (Accessed 4 July 2023).

USA CPI-Inflation, May 2023. Available from: https://www.bls.gov/ (Accessed 4 July 2023)

World Food Prices Report, May 2023. Available from: https://www.fao.org/worldfoodsituation/foodpricesindex/en/ (Accessed 26 June 2023)