Monetary Policy Statement

20 September 2024

Interest Rate

7.25%

The Central Bank of Eswatini (CBE) reduced the interest rate to **7.25 per cent.**

What does this mean?

Banks are expected to reduce the prime lending rate on loans extended to individuals and businesses to **10.75 per cent** until the next monetary policy meeting.

Inflation

4.1%

Headline inflation decreased to **4.1 per cent** in August 2024 from **4.2 per cent** in July 2024.

Inflation Outlook

The CBE revised its inflation forecasts for 2024 to **4.2 per cent** (from 4.4 per cent forecasted in July 2024).

Economic Activity

Economic activity, as measured by the Quarterly Gross Domestic Product grew by 7.0 per cent year-on-year (seasonally adjusted) in the fourth quarter of 2023, slightly higher than the revised growth of 6.8 per cent recorded in the previous quarter.

Bek'e-Langa

Re-imagining Central Bank for a sustainable future

On the 20th of September 2024, the Central Bank of Eswatini (Bank), together with the Monetary Policy Consultative Committee (MPCC) held a meeting to consider the appropriate monetary policy stance. Taking into consideration relevant global, regional, and domestic economic factors; as well as the price and financial stability mandate, the Bank decided to reduce the discount rate by 25 basis points to 7.25 per cent effective 21 September 2024.

On the global front, economic growth remains broadly subdued. In advanced economies (AEs), the US economy grew by an annualised 3.0 per cent in the second quarter of 2024 while the United Kingdom (UK) and Eurozone (EU) recorded marginal growth of 0.6 per cent and 0.2 per cent, respectively, in the same period. Amongst the emerging markets and developing economies (EMDEs), China recorded a steady growth of 0.7 per cent in the second quarter of 2024. Though inflation in AEs and EMDEs has generally moderated, it exhibits mixed patterns and remains above target (an average of 2 per cent) in some economies. Upside risks to the outlook persist, which include amongst others, geopolitical tensions that may lead to perpetuated supply chain disruptions. Global monetary policy conditions have been broadly easing with AEs including the UK, EU and the US having started reducing their interest rates.

On the regional front, the South African economy grew by 0.4 per cent in the second quarter of 2024 following a revised flat reading in the first quarter, as the country experienced no load-shedding throughout the entire quarter. The South African Reserve Bank (SARB) maintained its growth forecast for 2024 at 1.1 per cent while the forecasts for 2025 and 2026 were both revised up by 0.1 percentage point to 1.6 per cent and 1.8 per cent, respectively. South Africa's annual inflation rate fell to 4.4 per cent in August 2024 from 4.6 per cent in July 2024, going below the SARB's target of 4.5 per cent. The SARB revised down its short-medium term inflation forecast to 4.6 per cent (from 4.9 per cent) for 2024, 4.0 per cent (from 4.4 per cent) for 2025 and 4.4 per cent (from 4.5 per cent) for 2026. The SARB reduced the repo rate by 25 basis points to 8.0 per cent in its 19 September 2024 MPC meeting.

Domestically, economic activity as measured by the quarterly gross domestic product grew by 7.0 per cent year-on-year (seasonally adjusted) in the fourth quarter of 2023 following a revised growth of 6.8 per cent in the third quarter. The primary sector contracted by 5.8 per cent in the fourth quarter of 2023 compared to a 1.0 per cent growth in the previous quarter. The contraction was due to a decline in forestry and animal production. The secondary sector contracted by 1.5 per cent in the fourth quarter of 2023 from a growth of 1.6 per cent in the third quarter while the tertiary sector grew by 11.9 per cent in the fourth quarter of 2023 following a 11.6 per cent growth in the previous quarter.

Annual consumer price inflation remained on a downward trajectory, declining to 4.1 per cent in August 2024, compared to 4.2 per cent in July 2024. Food inflation remains on a downward trend, declining by 0.4 of a percentage point to record 3.5 per cent in August 2024, the lowest level since March 2022. Disinflationary pressures also came from the price indices for 'household furniture & maintenance' and 'recreation & culture', which fell by 0.8 and 1.1 percentage points, respectively, between the two months under review. The above decreasing rates of growth were partially offset by an increase in the price indices for 'clothing & footwear' and miscellaneous goods & services'. These indices increased to 3.3 per cent and 8.2 per cent in August 2024, respectively.

The Bank revised down its headline inflation forecasts to 4.2 per cent (from 4.4 per cent forecasted in July 2024) for 2024, 4.9 per cent (from 5.0 per cent) for 2025 and 4.8 per cent (from 4.9 per cent) for 2026. The downward revision was on account of the expected moderation in food inflation, oil prices, South Africa inflation, and an exchange rate appreciation in the short-medium term.

Credit extended to the private sector declined by 2.0 per cent month-on-month to E19.9 billion in July 2024. Credit extended to businesses decreased by 2.0 per cent month-on-month to E10.2 billion at the end of July 2024 and credit extended to households & NPISH also recorded a decline of 1.6 per cent to E8.6 billion over the same period. Credit extended to the other sectors of the economy declined by 6.0 per cent to close at E1.0 billion at the end of July 2024. The banking sector's non-performing loans (NPLs) rose by 0.2 of a percentage point to reach 6.9 per cent and 4.0 per cent year-on-year to E1.2 billion in July 2024. The increase in NPLs was primarily driven by credit extended to households and other sectors of the economy while credit extended to businesses receded.

As at 13 September 2024, gross official reserves stood at E9.5 billion equivalent to an import cover of 2.5 months. As at the end of August 2024, total public debt stood at E34.3 billion, growing by 3.31 per cent from E33.2 billion in July. The current level is equivalent to 37.0 per cent of GDP.

The Bank will continue to monitor international, regional 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 and job creation in Eswatini.

Dr. Phil Mnisi
GOVERNOR