



Monetary Policy Statement

27 January 2023

Interest Rate

6.75%

The CBE increased its interest rate to **6.75 per cent** from **6.5 per cent**.

Inflation

5.6%

Headline inflation decreased to **5.6 per cent** in December 2022 from **5.8 per cent** in the previous month.

What does this mean?

Banks are expected to increase the prime lending rate on loans extended to individuals and businesses to **10.25 per cent** until the next monetary policy meeting.

What to expect

The CBE expects the cost of goods and services to increase moderately in 2023. The CBE maintained its inflation forecasts for 2023 at **5.5 per cent**.

Economic Activity

Economic activity, as measured by the Quarterly Gross Domestic Product grew by **1.1 per cent** on a year-on-year basis in the third quarter of 2022, from a revised decline of **0.1 per cent** in the second quarter of 2022.

On the 27th of January 2023, the Central Bank of Eswatini's Monetary Policy Consultative Committee (MPCC) held a meeting to consider the appropriate monetary policy stance guided by the price and financial stability mandate. Taking into consideration relevant global, regional, and domestic economic factors, the Central Bank of Eswatini (Bank) decided to increase the discount rate by 25 basis points from 6.5 per cent to 6.75 per cent.

On the global front, tighter financial conditions, continuing Russia-Ukraine conflict and lingering COVID-19 pandemic continue to weigh down on growth prospects. The J.P. Morgan Manufacturing Purchasing Managers' Index (PMI), contracted for the last month of 2022. This is in line with the downgrade in global forecasts in their October World Economic Outlook. In respect of advanced economies, growth remained relatively robust only for the US (for the fourth quarter of 2022), whilst the UK and Japan recorded contractions for the last quarter of 2022. Price developments in these economies showed signs of easing albeit still in double digits for the UK and down to 6.5 per cent for the US.

The South African economy grew by 1.6 per cent in the third quarter of 2022 following a 0.7 per cent contraction in the second quarter of 2022. The South African Reserve Bank (SARB) revised up its growth forecast to 2.5 per cent for 2022 (from 1.8 per cent in the November forecasts), whilst the forecasts for 2023 was revised down to 0.3 per cent (from 1.1 per cent) and 0.7 per cent for 2024 (from 1.4 per cent). South Africa's annual inflation rate moderated to 7.2 per cent in December 2022 from 7.4 per cent the previous month. Overall inflation averaged 6.9 per cent in 2022. The SARB maintained its inflation forecasts at 5.4 per cent for 2023 and revised up the forecasts for 2024 to 4.8 per cent (from 4.5 per cent). The forecast for 2025 was unchanged at 4.5 per cent. The SARB increased the repo rate from 7.0 per cent to 7.25 per cent in January 2023.

On the domestic front, quarterly Gross Domestic Product (GDP), recorded an increase of 1.1 per cent on a year-on-year basis (seasonally adjusted), in the third quarter of 2022, from a revised decline of 0.1 per cent in the second quarter of 2022. The slight growth observed in the quarter under review is attributed to positive performance in the primary and tertiary sectors.

The domestic economy is estimated to have grown by 0.4 per cent in 2022 from 1.2 per cent prior on account of sluggishness observed in agriculture and agro-processing subsectors, mainly the sugar industry resulting from unfavourable weather conditions, arson attacks and labour industrial action. The economy is forecasted to rebound and grow by 4.5 per cent in 2023 on account of broad-based recovery in all sectors.

Overall inflation slowed down to 5.6 per cent in December 2022 from 5.8 per cent in the previous month. The lower headline inflation was due to a lower rate of change in price indices for; transport, which decreased from 7.0 per cent in November 2022 to 6.1 per cent in December; recreation and culture, which decreased from 2.4 per cent in November 2022 to 1.8 per cent in December 2022 and alcohol beverages and tobacco, which decreased from 3.2 per cent in November 2022 to 2.7 per cent in December 2022. The decrease in the aforementioned indices was slightly counteracted by increasing rates in the price indices for food and non-alcoholic beverages which increased from 14.7 per cent in November 2022 to 15.1 per cent in December 2022. The annual average inflation rate for 2022 is recorded at 4.8 per cent.

The Bank maintained its inflation forecasts at 5.5 per cent for 2023 whilst the forecasts for 2024 was marginally reviewed up to 5.2 per cent (from 5.0 per cent). Inflationary risks to the outlook remain elevated due to a high inflation outlook in South Africa which would transmit to domestic inflation through imports, weaker Rand outlook, high oil prices and other domestic administered price increases.

At the end of November 2022, credit extension to the private sector amounted to E17.2 billion, reflecting an increase of 1.1 per cent over the month. The month-on-month rise was a result of improvements in credit to households & non-profit institutions serving households (NPISH) and business. In contrast, credit to other (unclassified) sectors of the economy receded over the review month. Credit extended to households & NPISH grew by 2.6 per cent in November 2022 from a decline of 0.2 per cent the previous month to E8.1 billion whilst credit extended to other sectors of the domestic economy regressed by 6.0 per cent month-on-month to settle at E678.8 million at the end of November 2022. Credit extended to businesses amounted to E8.4 billion at the end of November 2022, depicting a modest increase of 0.2 per cent from the previous month.

The stock of non-performing loans amounted to E1.0 billion at the end of November 2022, depicting a month-on-month decline of 1.4 per cent. Consequently, the NPL ratio improved from 7 per cent to 6.9 per cent. The improvement in the quality of the loan book was mainly on account of improved loan service by parastatals and businesses.

As of 20 January 2023, gross official reserves rose to E 8.1 billion equivalent to an import cover of 2.7 months. Total public debt increased by 0.8 per cent to E31.6 billion at end December 2022 from E31.0 billion the previous month. This was equivalent to 42.7 per cent of GDP.

The Bank will further 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 in Eswatini.

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