



# Monetary Policy Statement

22 September 2023

## Interest Rate

# 7.50%

The CBE maintained the discount rate at **7.50 per cent**.

## Inflation

# 4.0%

Headline inflation decreased to **4.0 per cent** in August 2023 from **4.5 per cent** in July 2023.

## What does this mean?

Banks are expected to maintain the prime lending rate on loans extended to individuals and businesses at **11.0 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 revised down its inflation forecasts for 2023 to **4.93 per cent** (from 5.55 per cent).

## Economic Activity

Economic activity, as measured by the Quarterly Gross Domestic Product, 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.

On the 22<sup>nd</sup> of September 2023, 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 maintain the discount rate at 7.50 per cent.

On the global front, the IMF marginally reviewed up its growth forecast for 2023 to 3.0 per cent (from 2.8 per cent forecasted in April) whilst the forecast for 2024 remains unchanged at 3 per cent. Tighter monetary policy conditions continue to weigh down on global growth prospects. Advanced economies are forecasted to grow by 1.5 per cent (from 1.3 per cent) in 2023 and 1.4 per cent in 2024 whilst Emerging Markets & Developing Economies (EMDEs) are expected to grow by 4.0 per cent (from 3.9 per cent) in 2023 and 4.1 per cent (from 4.2 per cent) in 2024. Global inflation is forecasted lower at 6.8 per cent (from 7 per cent) for 2023 whilst the forecast for 2024 was marginally revised up to 5.2 per cent (from 4.9 per cent). Risks to the outlook remain elevated and persistent. They include the possibility of the expected El Nino drought and the Russia Ukraine war which could intensify, further raising food and fuel prices.

On the regional front, the South African economy grew by 0.6 per cent quarter-on-quarter in the second quarter of 2023 after a 0.4 per cent growth in the first quarter. The South African Reserve Bank (SARB) marginally revised up its growth forecast for 2023 to 0.7 per cent (from 0.4 per cent forecasted in July) whilst the forecasts for 2024 and 2025 were left unchanged at 1 per cent and 1.1 per cent, respectively. South African inflation increased to 4.8 per cent in August 2023 from 4.7 per cent in July 2023. The SARB revised down its inflation forecasts for 2023 to 5.9 per cent (from 6.0 per cent in July) whilst the forecast for 2024 increased to 5.1 per cent (from 5.0 per cent). The inflation forecast for 2025 was left unchanged at 4.5 per cent. The SARB maintained the repo rate at 8.25 per cent in September 2023.

On the domestic front, gross domestic product (GDP) grew by 0.5 per cent in 2022 compared to a growth of 10.7 per cent in 2021. On a quarterly basis, GDP 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 first quarter 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 of 2023, from a revised contraction of 0.3 per cent in the previous quarter. The economy is forecasted to grow by 4.7 per cent (from 4.5 per cent forecasted in January) in 2023 and 4.9 per cent (from 5.1 per cent) in 2024.

The country's headline consumer inflation decelerated to 4.0 per cent in August 2023 from 4.5 per cent the previous month. Decreases were observed in prices indices for; "food and non-alcoholic beverages" which decreased from 13.0 per cent in July 2023 to 10.7 per cent in August 2023; "transport" which fell from -2.4 per cent in July 2023 to -2.7 per cent and "health" which decreased from 1.0 per cent in July 2023 to 0.8 per cent. These decreases were mainly counteracted by increases in the price indices for; "clothing and footwear" which increased to 6.0 per cent in August 2023 from 5.2 per cent the previous month and "furnishing & household equipment" which grew from 6.5 per cent in July 2023 to 7.2 per cent in August 2023. The Bank revised down its inflation forecast to 4.93 per cent (from 5.55 per cent) for 2023 and 4.68 per cent (from 5.36 per cent) for 2024. Risks to the inflation outlook include supply chain disruption due to the Russia-Ukraine war, oil prices uncertainty and the possibility of drier weather conditions which will affect food production.

Credit extended to the private sector grew by 0.8 per cent month-on-month in July 2023 from 1.7 per cent the previous month. Credit extended to other (unclassified) sector of the domestic economy expanded by 2.3 per cent month-on-month to close at E1.1 billion at the end of July 2023 whilst credit extended to the business sector closed at E9.2 billion, reflecting a growth of 1.5 per cent from the previous month. Credit extended to households & NPISH stood at E8.1 billion at the end of July 2023 depicting a marginal month-on-month decline of 0.3 per cent. The quality of the banking sector's loan book deteriorated over the review month with non-performing loans (NPLs) rising by 2.4 per cent over the month to reach E1.1 billion and was observed across all loans categories.

As at 15 September 2023, gross official reserves stood at E8.6 billion, an equivalent to an import cover of 2.7 months. Preliminary figures show that total public debt grew by 5.1 per cent to E33.3 billion in August 2023 from E31.7 billion in July 2023, translating to 41.0 per cent of GDP.

The Bank will 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.

Dr. Phil Mnisi  
Governor