Monetary Policy Statement

22 November 2024

Interest Rate

7.0%

The Central Bank of Eswatini (CBE) reduced the interest rate to **7.0 per cent.**

What does this mean?

Banks are expected to reduce the prime lending rate on loans extended to individuals and businesses to **10.50 per cent** until the next monetary policy meeting.

Inflation

3.3%

Headline inflation decreased to **3.3 per cent** in October 2024 from **3.6 per cent** in September 2024.

What to expect?

The CBE expects the cost of goods and services to increase moderately in 2024. The CBE revised its inflation forecasts for 2024 to **4.02 per cent** (from 4.2 per cent forecasted in September 2024).

Economic Activity

As measured by Gross Domestic Product, economic activity is expected to grow by a lower 3.6 per cent in 2024 from 5.0 per cent in 2023 before growing by a sizeable 8.3 per cent in 2025.

On the 22nd November 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 from 7.25 per cent to 7.0 per cent with effect from 23 November 2024.

On the global front, the IMF forecasts global economic growth to remain stable at 3.2 per cent in 2024 and 2025. Advanced Economies (AEs) are forecasted to grow by 1.8 per cent in 2024 and 2025 while Emerging Market and Developing Economies (EMDEs) are expected to grow by 4.2 per cent in 2024 and 2025. The IMF forecast global inflation to decelerate from an annual average of 6.7 per cent in 2023 to 5.8 per cent in 2024 and 4.3 per cent in 2025. Inflation in AEs is expected to moderate from 4.6 per cent in 2023 to 2.6 per cent in 2024 and 2.0 per cent in 2025. In EMDEs inflation is expected to moderate from 8.1 per cent in 2023 to 7.9 per cent in 2024 and 5.9 per cent in 2025. Global monetary policy conditions are generally easing but remain at restrictive levels.

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) kept its growth forecast for 2024 steady at 1.1 per cent while the forecast for 2025 was revised up by 0.1 percentage point to 1.1 per cent and the forecast for 2026 was left unchanged at 1.8 per cent. South Africa's annual inflation rate fell to 2.8 per cent in October 2024 from 3.8 per cent the previous month. The SARB revised down its inflation forecast to 4.5 per cent (from 4.6 per cent forecasted in September) for 2024 while the forecast for 2025 was kept steady at 4.0 per cent. The forecast for 2026 was revised up to 4.6 per cent (from 4.4 per cent). The SARB reduced the repo rate by 25 basis points to 7.75 per cent in its 21st November 2024 meeting.

Domestically, economic activity is forecasted to grow by 3.6 per cent in 2024, from 5.0 per cent in 2023 before growing by a sizeable 8.3 per cent in 2025. The expected moderation in 2024, is on account of high base effects in the services sector in 2023 (which was an election year), coupled with a slow start in the implementation of mega projects. The expected high acceleration in economic growth in 2025 is largely accounted for by construction activity earmarked for the medium-term. Downside risks to the growth outlook include slow or postponed public projects implementation, unfavorable weather conditions and geopolitical tensions, amongst others.

Headline consumer inflation persisted on a downward trajectory, further declining by 0.3 of a percentage point to record 3.3 per cent in October 2024 from 3.6 per cent in September 2024. The 'transport' index dipped into a 0.1 per cent deflation in October 2024, down from a growth of 1.3 per cent in the previous month, owing to downward adjustments in petrol and diesel prices effective on the 4th of October 2024. Similarly, the 'housing & utilities' inflation slowed by 0.5 of a percentage point to record a lower 6.2 per cent during the month under review, owing to a decline in 'liquid fuels' and 'solid fuels'. The above decreases were somewhat counteracted by an increase in food inflation, which grew by 0.5 of a percentage point to record 3.7 per cent in October 2024. In addition, the index for 'restaurants & hotels' increased from 25.5 per cent to 28.9 per cent, between the two months under review, as accommodation services prices remained on an upturn post-COVID. The Bank revised down its headline inflation forecasts to 4.02 per cent (from 4.20 per cent forecasted in September 2024) for 2024, 4.7 per cent (from 4.91 per cent) for 2025 and 4.57 per cent (from 4.75 per cent) for 2026. The downward revision was on account of the expected low oil prices and an exchange rate appreciation in the short-medium term.

Credit extended to the private sector amounted to E19.9 billion at the end of September 2024, down 0.7 per cent from the previous month. Credit extended to businesses declined by 1.4 per cent monthon-month to settle at E10.3 billion at the end of September 2024 and credit extended to the other sectors of the domestic economy also contracted by 5.8 per cent to close at E1.1 billion. Credit extended to households and nonprofit organisations serving households (NPISH) expanded by 0.8 per cent month-on-month to close at E8.6 billion at the end of September 2024. The banking sector's nonperforming loans declined by 1.5 per cent over the month and grew by 3.2 per cent from the previous year to settle at E1.2 billion at the end of September 2024. The improvement in loan service was driven by the household and business sectors while loan service remained weak in the other sectors of the economy.

As at 15th November 2024, gross official reserves stood at E12.3 billion equivalent to an import cover of 3 months. As at the end of October 2024, total public debt stood at E33.9 billion, falling by 2.0 per cent from E34.6 billion in September 2024. The current level is equivalent to 36.5 per cent of GDP.

In taking the decision to reduce interest rates, the Bank cautiously considered the likely increase in domestic administered prices and geopolitical tensions, which can cause supply chain disruptions. In addition, the Bank will continue to ensure that the credibility of the peg is safeguarded. Therefore, we 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 in Eswatini.

Dr. Phil Mnisi
GOVERNOR

Bek'e-Langa
Re-imagining Central Bank for a sustainable future