MONETARY POLICY CONSULTATIVE COMMITTEE (MPCC)

ECONOMIC REVIEW AND INFLATION REPORT

22 July 2022

ECONOMIC POLICY, RESEARCH AND STATISTICS DEPARTMENT

CENTRAL BANK OF ESWATINI

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Major Highlights

Real GDP	*Real Gross Domestic Product (GDP) is estimated to have increased by 5.9 per cent in 2021, reflecting an upward revision from an expansion of 1.4 per cent estimated in August 2021.*
Quarterly GDP	*GDP is estimated to have increased by 4.5 per cent, on a year-on-year and seasonally adjusted basis, in the first quarter of 2022 from a revised growth of 2.0 per cent in the fourth quarter of 2021.*
Inflation	*The country's annual consumer inflation marginally declined to 3.9 per cent in May 2022 from 4.0 per cent in April 2022.*
Inflation Forecasts	*The annual average inflation forecast for 2022 is revised up to 4.15 per cent, from 4.10 per cent forecasted in May 2022.*
Foreign reserves	*The country's stock of gross official reserves stood at E8.7 billion at the end of June 2022, depicting a decline of 4.4 per cent month-on-month and growth of 5.3 per cent year-on-year. At this level, the reserves were enough to cover 3.3 months of imports of goods and services, lower than the 3.4 months recorded in May 2022.*
Exchange rate	*Since the last MPCC meeting, the Rand/Lilangeni regressed and lost against the major trading currencies. The local unit weakened significantly by 5.2 per cent to the US Dollar, by 0.2 per cent to the Pound Sterling and by 2.7 per cent to the Euro. Thus, compared to April 2022, in June 2022 the local unit traded at a month average of E15.78 per US Dollar unit and at E19.42 and E16.25 per Pound Sterling and Euro respectively.*
Credit Extension	*Credit extended to the private sector amounted to E16.3 billion, representing an increase of 1.5 per cent month-on-month and 3.9 per cent year-on-year.*
Public Debt	*At the end of June 2022, total public debt stood at E29.2 billion, an depicting a 0.7 per cent increase when compared to E29 billion recorded in May 2022.*
Balance of Payments	*In June 2022, the trade account registered a surplus of E149.9 million, the first positive monthly trade balance since February 2022, following a E 440.9 million deficit in May 2022.*

PART A: ECONOMIC REVIEW

1.0 GLOBAL ECONOMIC CONDITIONS

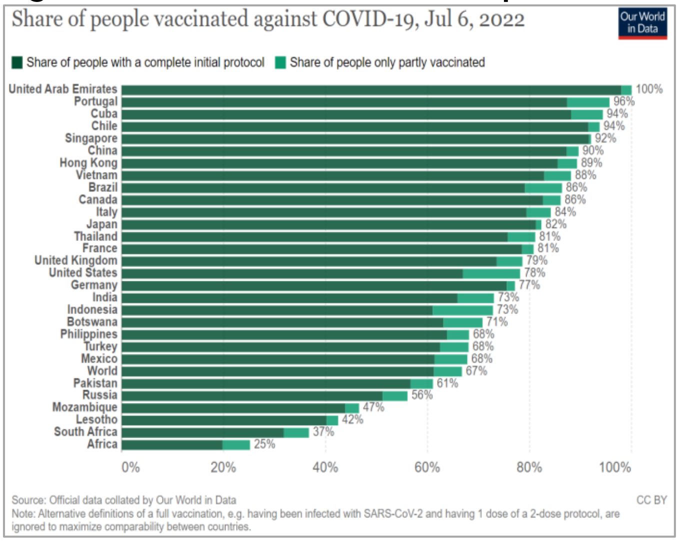
1.1 Covid-19 Updates

As of 7 July 2022, global COVID-19 cases stood at 557,755,807 with 6,367,279 deaths, and 531,626,776 recoveries. The US remained the most affected nation with 89,930,463 confirmed cases, whilst deaths and recoveries were recorded at 1,044,557 and 85,508,961, respectively.

Meantime, worthy to note is that in recent days China is fighting emerging COVID-19 flare-ups across the country with mass testing and fresh restrictions. Its industrial province, Shanghai which has recently had containment lockdown restrictions eased, has again been rocked by new cases of the coronavirus. Confirmed cases in China have been recorded at 226,300, new cases at 124, recoveries at 220,265 and deaths at 5,226. (Worldometers.info/coronavirus, 7 July 2022).

According to ourworldindata, 66.7 per cent of the world population has received at least one dose of a COVID-19 vaccine, while 12.13 billion doses have been administered globally and 5.51 million are now administered each day. Only 20.2 per cent of people in low-income countries have received at least one dose.

Figure 1: COVID-19 Vaccination Update



Source: https://ourworldindata.org/covid-vaccinations, 6 July 2022

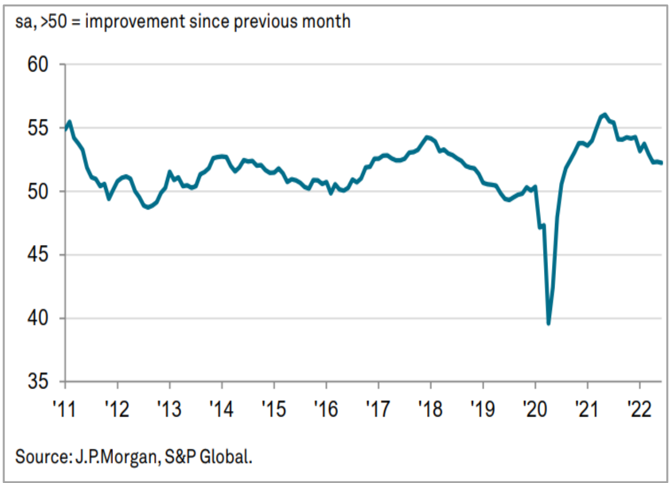
In terms of the percentage of a country's population that has been vaccinated, the United Arab Emirates is currently in the lead at 100 per cent of total population. It is followed by Portugal at 96 per cent, Cuba and Chile at 94 per cent, Singapore at 92 per cent, China at 90 per cent, and Hong Kong at 89 per cent (ourworldindata.org, 6 July 2022).

According to the Eswatini's Ministry of Health COVID-19 report, the total number of confirmed cases were recorded at 73,177; whilst recoveries and deaths amounted to 71,657 and 1,416. The percentage of the total population fully vaccinated to date stands at 31.7 per cent, equivalent to 368,173 people respectively (Eswatini COVID-19: World meter, 7 July 2022).

1.2 Overview of Global Economic Developments

A latest report released by S & P Global in association with ISM and IFPSM on 1 July 2022, shows that the J.P. Morgan Global Manufacturing PMI dropped to a 52.2 index points in June 2022 from 52.3 index points in May 2022. This is the lowest recording in a 22-month period even though the index remained above the neutral mark of 50.0 index points.

Figure 2: J.P. Morgan Global Manufacturing PMI; 2011 - June 2022



The report highlights that, 24 countries out of a total of 29 covered by the survey registered PMI readings that are above 50 which is the "no-change" level. In June 2022, global manufacturing output increased for the first time in three months with China being the major driver of the rebound.

According to the S & P Global, the China General Manufacturing PMI rose to 51.7 index points in June 2022 from 48.1 index points in May 2022, marking the highest reading for 13 months. The easing of regional COVID-19 lockdowns and other restrictions contributed to the recovery in manufacturing output growth as demand also improved.

Following three months of contraction, production in the manufacturing sector gradually moved toward normality. The recovery of manufacturing demand was not as strong as that of supply, but the subindex for total new orders rose above 50 index points for the first time in four months, and the gauge for new export orders returned to positive territory for the first time since last July 2020.

Meantime, the improvement in manufacturing supply and demand did not spill over into the labour market, as companies remained sceptical regarding recruitment expansion. The gauge for employment remained in negative territory for the 10th time in the past 11 months. The J.P. Morgan Report highlights that divergence between input and output prices continued in June. The prices of raw materials and freight remained high, adding to manufacturers' costs. The gauge for input costs remained in expansionary territory for the 25th consecutive month. As the recovery in demand was limited, the measure for output prices remained in contractionary territory for the second month.

However, the survey results showed that consumer goods companies had stronger bargaining power than their investment and intermediate goods counterparts. Notably, deteriorating household income and expectations caused by a weak labour market dampened the demand recovery. Therefore, policymakers have the challenge to develop and implement policies that will be supportive and targeted at employees including low-income groups impacted by the disease outbreaks (J.P. Morgan Global Manufacturing PMI, 6 July 2022).

1.3 Review of Global Oil Prices and Gold Price Performance

According to OPEC's Monthly Oil Market Report (MOMR) released on 14 June 2022 (new report out on 12 July 2022) crude oil prices recorded solid gains in May, benefitting from strong physical crude market fundamentals. Brent crude rose by 5.7 per cent to average $111.96 a barrel month-on-month in May compared to a monthly average of $105.92 a barrel in April 2022. Oil future prices rallied in the review month buoyed by tightening oil product markets, near-term global oil supply risks amid continued geopolitical tensions in Europe. In addition, the prospect of a firm recovery in demand for oil following Chinese authorities' gradual easing of COVID-19- related lockdowns measures will also support an upward trajectory in the oil prices going forward.

The report highlights that world oil demand growth for 2022 remains broadly unchanged, standing at 3.4 million barrels per day (mb/d). On a quarter-on-quarter basis, demand has been revised to 1.8 mb/d in the Organisation for Economic Cooperation and Development (OECD) and 1.6 mb/d in non-OECD for the second half of 2022, reflecting the lockdown effects in some parts of China leading to lower-than-expected demand.

Meanwhile, the world oil supply forecast for non-OPEC countries in 2022 is revised down by 0.25 mb/d to 2.1 mb/d. Russia's liquids production for 2022 is revised down by 0.25 mb/d. The US liquids supply growth forecast for 2022 remains marginally unchanged at 1.3 mb/d. The main drivers of liquids supply growth in 2022 are expected to be the US, Brazil, Canada, Kazakhstan, Guyana and China, while declines are expected mainly in Russia, Indonesia and Thailand. In May, OPEC-13 crude oil production decreased by 176 tb/d m-o-m to average 28.51 mb/d (OPEC Monthly Oil Market Report, 23 June 2022).

Regarding developments relating to gold bullion, according to a gold update report produced by the World Gold Council, the gold bullion price fell by 3.8 per cent to a monthly average of $1,839.00 per ounce in May 2022, from a monthly average of $1,911.30 per ounce in April 2022. Weaker investor interest weighed on gold in May with strong bi-directional equity volatility failing to support gold prices as short-term momentum waned in the review month. In recent days central banks have stepped up their responses to soaring inflation, showing greater growing concern and resolve in bringing consumer prices down.

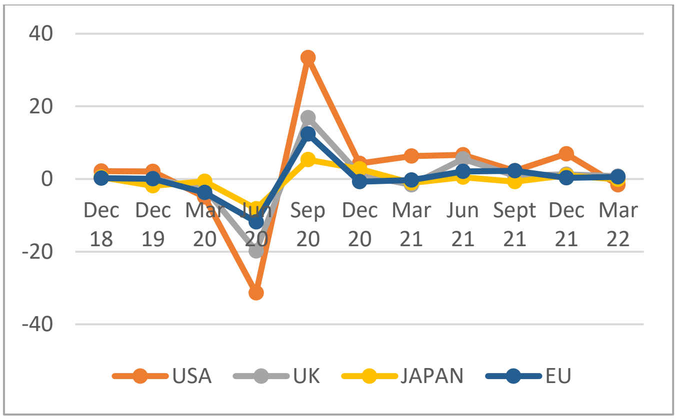
Notably, amid these changes and concerns, the gold price in dollar terms remains steady, but far higher in other currencies. According to Bloomberg, gold has been well supported by inflation, widespread recession fears and geopolitical risks, whilst higher interest rates continue to be a headwind. Gold remains an attractive hedge asset for both retail and institutional investors seeking protection and liquidity in this turbulent environment (www.opec.org|indexmundi.com|gold.org/goldhub/data/gold-prices|tradingeconomics, 23 June 2022).

1.4 Advanced Economies GDP Growth

According to the US Bureau of Economic Analysis's third estimate, the US economy contracted at a revised annual rate of 1.6 per cent quarter-on-quarter in the first three months of 2022 compared to a second estimate of 1.5 per cent growth. This follows a 6.9 per cent expansion in the fourth quarter of 2021. The fall in GDP is attributable to a significant drag coming from trade where imports surged more than initially anticipated. Furthermore, there were decreases in wholesale trade, mining, utilities, and construction (US Bureau of Economic Analysis, 29 June 2022).

The Eurozone economy expanded by 0.6 per cent quarter-on-quarter in the first quarter of 2022 compared to a previous estimate of a 0.3 per cent expansion. In the fourth quarter of 2021 GDP grew by a downwardly revised 0.2 per cent with net trade and inventories being the main drivers of expansion. Meantime, exports increased by 0.4 per cent while imports fell by 0.6 per cent. The economic outlook for the Eurozone is subdued due to the impact of the war in Ukraine which has continued to pile further upward pressures on commodity prices, causing renewed supply disruptions and increasing uncertainty. In addition, the ECB will provide headwinds to the growth outlook as it is set to end 8 years of negative interest rates, in an attempt to curb record inflation. This will likely weigh on consumer spending and investment in the medium term (Eurostat|EU Commission|Trading Economics, 24 June 2022).

Figure 3: Advanced Economies GDP Growth Trends



Source: www.ec.europa.eu/eurostat|www.bea|www.ons.uk|www.mofa.go.jp.com

The British economy grew by 0.8 per cent quarter-on-quarter in the first three months of 2022, in line with a preliminary estimate following a 1.3 per cent expansion in the fourth quarter. Main contribution was the services sector, which expanded by 0.4 per cent. Production went up by 3 per cent within manufacturing, while household consumption increased by 0.6 per cent, partially offset by large movements in international trade flows. According to UK Office for National Statistics, GDP growth is currently 0.7 per cent above its pre-coronavirus level. However, a slowdown is expected in the coming months due to the impact of the war in Ukraine and as rising inflation hurts consumers' purchasing power (UK Office for National Statistics, 30 June 2022).

Japan's economy shrank by 0.1 per cent quarter-on-quarter in the first three months of 2022, compared with an advance estimate of a 0.2 per cent contraction in the first quarter, following an upwardly revised 1.0 per cent expansion in the fourth quarter of 2021. The latest slump in GDP is due to an upward revision to private consumption, a sharp rebound in government spending. In addition, the effects of COVID-19 in the country's service sector and surging commodity prices created new pressures for the economy, raising concerns about a protracted downturn. Furthermore, the lockdown in China, U.S. rate hikes and the Ukraine crisis could weigh on external demand. Declines in household and corporate real income due to worsening terms of trade may hamper recovery in domestic demand (Japan Cabinet Office, 24 June 2022).

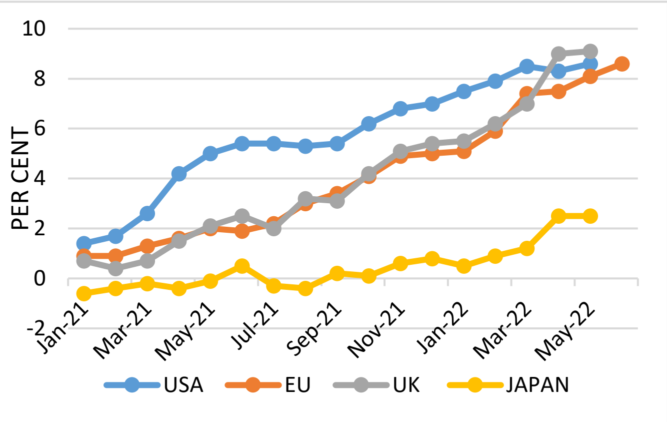
1.5 Advanced Economies CPI

Annual inflation rate in the US accelerated to 8.6 per cent in May 2022, the highest since December of 1981. This is attributable to a 34.6 per cent rise in energy prices, the most since September 2005 due to a 48.7 per cent rise in gasoline prices, followed by a 106.7 per cent hike in fuel oil, the largest on record. In addition, electricity rose by 12 per cent, the largest yearly increase since August 2006 followed by 30.2 per cent rise in May 2022, the most since July 2008. Meanwhile, food prices rose by 10.1 per cent, a first hike of more than 10 per cent since March 1981. Other increases were observed in cost of shelter, household furnishings and operations used cars and trucks and airline fares while the price new vehicles eased marginally.

Meanwhile, core inflation slowed for a second month to 6 per cent. Consumer prices have surged at the fastest pace in more than 40 years, overshadowing an otherwise strong US economy. Supply chain disruptions brought on by the Covid-19 pandemic and Russia's invasion of Ukraine have left the US President Biden administration scrambling for solutions (U.S. Bureau of Labour Statistics|Trading Economics, 20 June 2022).

In the Eurozone annual inflation rate accelerated to a fresh record high of 8.6 per cent in June 2022 from 8.1 per cent in May. There was a broad-based increase in prices, with main upward pressure coming from a 39.1 per cent increase in energy prices, food, alcohol & tobacco rising by a combined by 7.5 per cent. Meanwhile, services rose by 3.5 per cent whilst non-energy industrial goods rose by 4.2 per cent. Moreover, the inflation rate still stood above the European Central Bank's (ECB) target of 2.0 per cent and the Bank announced its intention to begin to raise borrowing costs in July to restore the target (Eurostat|Trading economics, 6 July 2022).

Figure 4: Advanced Economies CPI



Source: *www.tradingeconomics.com*

Annual inflation rate in the UK increased to 9.1 per cent in May 2022 from a 9.0 per cent rise in April 2022. Prices accelerated for housing and utilities, transport, food & non-alcoholic beverages, furniture & household goods. Meanwhile inflation was steady for education and communication. On a monthly basis, consumer prices rose by 0.7 per cent, with main upward pressure coming from food and non-food inflation (UK Office for National Statistics | Trading Economics, 6 July 2022).

In Japan annual inflation rate rose to 2.5 per cent in May 2022, unchanged from April's seven and a half year high, and was also the 9th straight month of rises in consumer prices. Food inflation was recorded at its highest in 7 years, at 4.1 per cent with additional pressure coming from rising cost of fuel, light and water charges, clothing, furniture and recreation. Core consumer prices rose by 2.1 per cent year-on-year in May, the same pace as in April, which was the most since March 2015, while it was above the BoJ's 2 per cent target for the second straight month. On a monthly basis, consumer prices went up by 0.2 per cent in May, the least since January 2022, after a 0.4 per cent hike in April (Japan Ministry of Internal Affairs & Communications|Trading Economics, 24 June 2022).

1.6 Monetary Policy in Advanced Economies

The US Federal Reserve (FED) Open Market Committee (FOMC) decided to raise the target range for the federal funds rate by 75 basis points to a range of between 1.5 - 1.75 per cent during its June 2022 meeting. The Federal Reserve highlighted that the inflation rate has unexpectedly accelerated to 41 year-highs in May 2022. The Central bank chair, Jerome Powel mentioned that the bank anticipates that ongoing increases in the target range will be appropriate, and focus will be on incoming data as they respond to the evolving outlook.

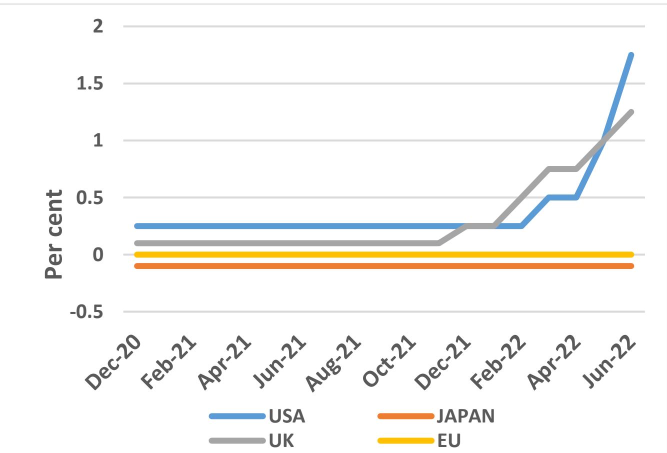
In addition, the FED has highlighted and acknowledged that steep interest rate hikes may cause a recession in the US and avoiding such a development depends on factors that are beyond the central bank's control. Furthermore, the war in Eastern Europe and related events are creating additional upward pressure on inflation and are likely to weigh on economic activity (US Federal Reserve |Trading Economics, 24 June 2022).

The European Central Bank (ECB) left its key interest rates unchanged at 0.0 per cent at its June 2022 meeting. The ECB announced that it will end net asset under its Asset Purchase Purchasing (APP) as of 1 July 2022 and intends to raise the key ECB interest rates by 25bps in

July as inflation in the Eurozone shows no signs of stabilizing. The central bank further highlighted that it expects to raise borrowing rates again in September 2022 and the rise could be bigger than the one in July, if the inflation outlook deteriorates (European Central Bank I Trading Economics, 24 June 2022).

The Bank of England (BOE) raised the Bank Rate by 25 basis points to 1.25 per cent at its June 2022 meeting. This is the 5th consecutive rate hike, raising borrowing costs to the highest level since 2009. The BOE's officials highlighted that global inflationary pressures have intensified significantly, and that the bank was committed to bringing inflation back to the 2 per cent target in an aggressive manner if necessary. The central bank now expects inflation to be over 9 per cent during the next few months and to rise to slightly above 11 per cent in October 2022 (Bank of England|Trading Economics, 24 June 2022).

Figure 5: Interest Rates in Advanced Economies



Source: www.BOE.co.uk,BOJ. or.jp, US FED.gov, ECB.europa.eu, June 2022

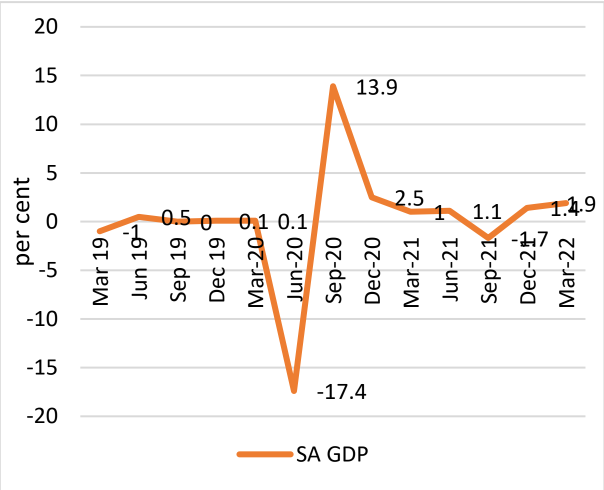
The Bank of Japan (BOJ) left its short-term interest rate unchanged at -0.1 per cent and kept the target for the 10-year Japanese government bond yield at around zero per cent during its June 2022 meeting. Meanwhile, the central bank submitted that it would offer to buy unlimited amounts of bonds to defend an implicit 0.25 per cent ceiling around its 0 per cent target every market day, re-emphasizing its policy adopted in April 2022. Policymakers noted that the country's economy was at recovery path despite some weaknesses attributed to COVID-19 and surging commodity prices. The BOJ maintained that it will not hesitate in taking extra measures to assist the economy if necessary (Bank of Japan | Trading Economics, 24 June 2022).

2.0 ECONOMIC DEVELOPMENTS IN SOUTH AFRICA

2.1 GDP Growth

According to the South African Statistics Office, the South African economy advanced by 1.9 per cent quarter-on-quarter in the three months to March 2022, following an upwardly revised 1.4 per cent expansion the fourth quarter of 2021 helped by the easing of all remaining Covid-19 restrictions. Eight out of ten sectors recorded growth, notably manufacturing output that rose by 4.9 per cent in the first of 2022 compared to a 2.4 per cent expansion in the fourth quarter of 2021; trade, catering and accommodation rose by 3.1 per cent compared to a 3.9 per cent expansion in the fourth quarter. In addition, finance, real estate and business services advanced by 1.7 per cent compared to a 0.7 per cent contraction in the previous period; and transport, storage and communication advanced by 1.8 per cent compared to a 2.9 per cent expansion in the fourth quarter of 2021. Year-on-year, the economy expanded by 3 per cent, accelerating from a 1.7 per cent expansion in the previous period. The statistics agency mentioned that the economy is about the same size as it was before the pandemic (Statistics South Africa, 24 June 2022).

Figure 6: South Africa GDP Growth



Source: www.statisticssouthafrica.com

2.2 Monetary Policy

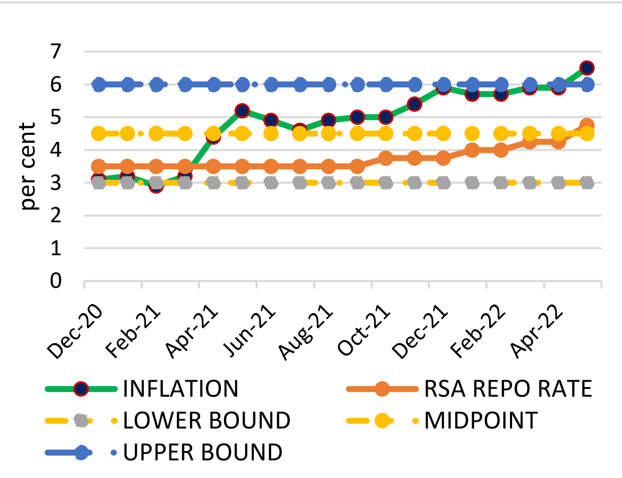
The South Africa Reserve Bank (SARB) raised its benchmark repo rate by 50 basis points to 4.75 per cent during its meeting held on 19 May 2022. This is the 4th consecutive hike and the biggest in over six years, due to heightened inflation risks stemming from geopolitical tensions. Policymakers further highlighted that, the overall risks to the medium-term growth outlook are assessed to be balanced, while the risks to the inflation outlook are assessed to the upside. Headline CPI forecast has been revised higher to 5.9 per cent in 2022 (vs 5.8 per cent in March), 5 per cent in 2023 (vs 4.6 per cent) and 4.7 per cent in 2024 (vs 4.6 per cent). Meanwhile, GDP growth projections were cut to 1.7 per cent in 2022 from an earlier estimate of 2 per cent, mainly due to a combination of short-term factors including flooding in the key KwaZulu-Natal province and the resumption of power blackouts. However, the GDP growth forecasts were kept unchanged at 1.9 per cent for 2023. The implied policy rate path of the central bank model indicates a gradual normalization through 2024 (South African Reserve Bank, 20 May 2022).

2.3 Inflation and Unemployment

The South African consumer inflation hiked to 6.5 per cent in May 2022, from 5.9 per cent in April and March, above market expectations of 6.2 per cent and breaking through the upper limit of the South African Reserve Bank's target range of 3-6 per cent.

It was the highest reading since January of 2017 as prices for goods and services continued to accelerate. Main upward pressure came from rising costs for transportation, edging by 15.7 per cent from 14.7 per cent in April, on account of fuels, food & non-alcoholic beverages (7.6 per cent vs 6 per cent in April), notably sunflower oil rising by 40 per cent - the product with the highest weight in the oils and fats category. Costs were also higher for housing & utilities (4.9 per cent vs 4.8 per cent), namely electricity and other fuels (14.4 per cent); and miscellaneous goods & services (3.9 per cent vs 3.8 per cent). The annual core inflation, which excludes prices of food, non-alcoholic beverages, fuel and energy, rose to 4.1 per cent in May, the highest since August of 2019, from 3.9 per cent in April 2022. On a monthly basis, consumer prices were up by 0.7 per cent, after increasing by 0.6 per cent in April and above market forecasts of a 0.3 per cent rise (Statistics South Africa, 24 June 2022).

Figure 7: SA Inflation & Repo Rate; December 2020 - May 2022



Source: South African Reserve Bank

2.4 South Africa Unemployment Rate

According to Statistics South Africa, the unemployment rate eased to 34.5 per cent in the first quarter of 2022, following a record increase of 35.3 per cent in the fourth quarter of 2021. The number of unemployed persons decreased by 60 000 to 7.9 million, employment rose by 370 000 to 14.9 million and the labour force went up by 310 000 to 22.8 million.

Among sectors, job gains were seen mostly in community and social services (+281 000), manufacturing (+263 000) and trade (+98 000). By contrast, positions were cut primarily in private households (-186 000), finance (-72 000) and construction (-60 000). The expanded definition of unemployment, including people who have stopped looking for work, was at 45.5 per cent, down from 46.2 per cent in the fourth quarter of 2021. The youth unemployment rate, measuring jobseekers between 15 and 24 years old, fell to 63.9 per cent in the first quarter of 2022, the lowest in a year, from a record high of 66.5 per cent in the last quarter (Statistics South Africa, 24 June 2022).

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

3.1 Quarterly GDP Growth

The economy in Lesotho contracted by 0.1 per cent in the first quarter of 2022 following a revised 0.9 per cent expansion in the fourth quarter (up from a -0.28 per cent). The weakening of economic performance is attributed to a 48.0 per cent decline in the Health and Education sectors with the health sector recording a shrinkage in hospital activities. This happened as COVID-19 pressures eased and further capturing the exit of one of the biggest hospitals from Lesotho (Lesotho Bureau of Statistics, 6 July 2022).

Botswana's GDP expanded by 6.5 per cent in the first quarter of 2022 compared to a 2.8 per cent contraction in the fourth quarter of 2021.

The main contributors were a 17.5 per cent increase in Defense and Public administration, followed by a 13.3 per cent increase in Mining & Quarrying output. The latter was mainly influenced by the substantial increase in the Diamond and Coal real value added by 24.0 and 6.0 percent respectively (Statistics Botswana, 30 June 2022)

Namibia's GDP contracted by -0.56 per cent in the first quarter of 2022[1] compared to a 2.64 per cent expansion in the fourth quarter of 2021, due to a deteriorating external balance of goods and services as imports increased during the period under review (https://nsa.org.na/page/publications/Central Bureau of Statistics of Namibia, 30 June 2022).

3.2 Annual Inflation Rate

The annual inflation rate in Namibia eased to 5.4 per cent in May 2022 from a rise of 5.6 per cent in April 2022. Subdued price increases were recorded for housing & utilities at 1.3 per cent in May from a 1.7 per cent rise in April; transport slowing to 16.7 per cent compared to a 18.9 per cent hike in April; and furnishings and household equipment rising by 7.5 per cent following a 7.7 per cent hike in April 2022. On a month-on-month basis, the inflation rate slowly increased by 0.1 per cent compared to a 1.4 per cent hike recorded in April 2022 Central Bureau of Statistics, Namibia | Trading Economics, 7 July 2022).

In Lesotho annual inflation rate increased to 7.8 per cent in May following a 7.3 per cent hike in April 2022, amid a rise in the prices of food and non-alcoholic beverages, clothing and footwear and utility costs and petroleum products (Lesotho Bureau of Statistics, 7 July 2022).

The annual inflation rate in Botswana advanced to 11.9 per cent in May 2022 compared from 9.6 per cent in April 2022, registering an increase of 2.3 percentage point. Major contributions came from transport at 7.2 per cent; housing, water, electricity, gas & other fuels combined inflation rose to 1.4 per cent; food & non-alcoholic beverages rose by 1.1 per cent and miscellaneous goods & services hiked to 0.8 per cent (statsbots.org.bw/sites/default/files/publications/consumer, 7 July 2022).

3.3 Monetary Policy Stance

The Bank of Namibia raised its annual interest rate by 50 basis points to 4.75 per cent during its June 2022 meeting from 4.25 per cent increase in the previous meeting, in line with South African Reserve Bank's monetary policy stance. The Bank's policymakers highlighted that the current stance was appropriate to

[1] Quarterly GDP estimates are released with a time lag of maximum 90 days from the reference quarter;www.nsa.org.na (Namibia Statistics Agency).

meet the country's international financial obligations, while at the same time safeguarding the one-to-one link between the Namibian Dollar and the South African Rand (Bank of Namibia- https://www.bon.com.na/Bank/Monetary-Policy/Monetary-Policy-Statements/2022-Monetary-Policy-Statements.aspx, 15 June 2022).

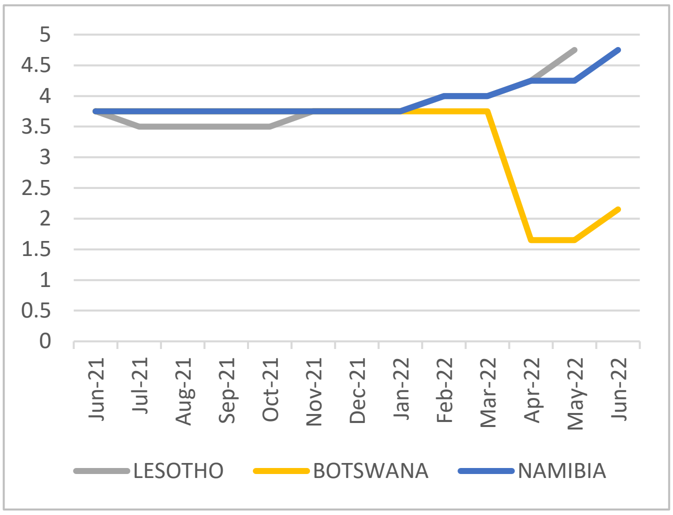
The Central Bank of Lesotho (CBL) during its meeting held on 24 May 2022 decided to raise the bank rate from 4.25 per cent to 4.75 per cent. The CBL mentioned that at the latest level, the rate will ensure that the domestic cost of funds remain aligned with the rest of the region. The CBL MPC in reaching the decision considered among other indicators, Net International Reserve (NIR) position, regional inflation and interest rate outlook, domestic economic conditions, and the global economic outlook (Bank of Lesotho, 24 May 2022).

At the meeting held on 16 June 2022, the Monetary Policy Committee (MPC) of the Bank of Botswana decided to increase the Monetary Policy Rate (MoPR) by 50 basis points from the prevailing 1.65 per cent to 2.15 per cent. The BOB expects inflation to remain elevated in the short term, though to fall to within its 3-6 per cent objective in the third quarter of 2023.

Furthermore, the BOB MPC noted the growth-enhancing economic transformation reforms and supportive macroeconomic policies currently being implemented. These include accommodative monetary conditions, improvements in household utilities, reforms to further improve the business environment and government interventions against COVID-19, including effective vaccination rollout programme.

Policy makers said that risks to the inflation outlook were still assessed to be elevated due to factors that include: the potential increase in international commodity prices beyond current forecasts; persistence of supply and logistical constraints to production; the economic and price effects of the ongoing Russia-Ukraine war and the uncertain COVID-19 profile; domestic risk factors relating to possible regular annual administered price adjustments, short-term unintended consequences of import restrictions (for example, shortages in supplies leading to price increases); as well as second-round effects of the recent increase in public service salaries, administered prices and inflation expectations, which could lead to generalised higher price adjustments (Bank of Botswana-https://www.bankofbotswana.bw/, 16 June 2022).

Figure 8: Interest Rates in other SACU countries



Source: Central Bank of Lesotho, Bank of Botswana and Bank of Namibia

4.0 DOMESTIC ECONOMIC DEVELOPMENTS

4.1 GDP Growth

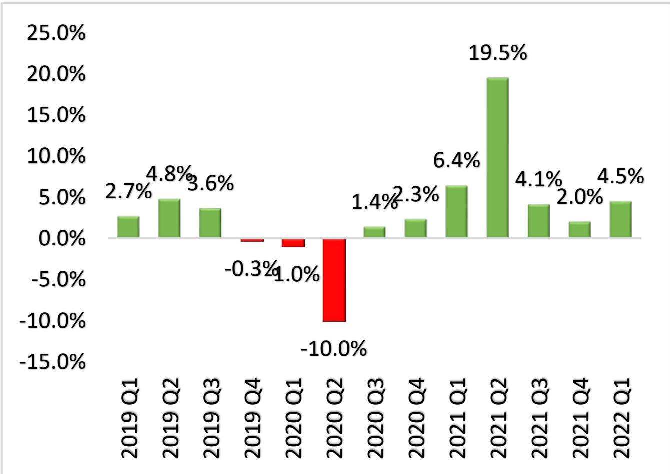
GDP is estimated to have increased by 4.5 per cent, on a year-on-year and seasonally adjusted basis, in the first quarter of 2022 from a revised growth of 2.0 per cent in the fourth quarter of 2021. The pick-up in economic activity was mainly supported by resilient growth in the primary and secondary subsectors. On a quarter-on-quarter basis, GDP rose by 4.4 per cent, seasonally adjusted, recovering from a decline of 1.0 per cent in the previous quarter.

The primary sector grew by 20.1 per cent, year-on-year, in the first quarter of 2022 from a revised growth of 2.7 per cent in the fourth quarter of 2021. Significant growth was observed in the 'animal production', 'forestry activities' and 'mining & quarrying'. On animal production, all categories (i.e. cattle, pigs, goat and sheep) reported double digit growth in the number of slaughters. Forestry activities continued to benefit from strong external demand coupled with continuous easing of restrictions locally and regionally. The 'mining & quarrying' subsector rose by 28.1 per cent largely benefitting from higher volumes of coal production in the period under review.

The secondary sector also started on a high note as it recorded a 11.2 per cent year-on-year increase in the first quarter of 2022 compared to 4.7 per cent in the fourth quarter of 2021. Notable growth was observed in the 'manufacturing' and 'electricity supply' subsectors. The export-oriented manufacturing sector rose by 11.6 per cent in the period under review largely driven by 'manufacturing of food and beverages' and 'manufacturing of wood products'. On the contrary, there was notable 33.0 per cent decline in the 'manufacturing of textile' subsector. Electricity supply rebounded with a 32.8 per cent year-on-year growth in the quarter under review from a decline of 35.5 per cent in the previous quarter. Sustained rains resulted in improved dam levels, which, in turn, supported growth in hydro-power generation. On the other hand, 'water supply' and 'construction' grew by 8.5 per cent and 3.2 per cent, respectively.

The tertiary sector recorded a contraction of 0.2 per cent year-on-year, in the period under review following another decline of 1.0 per cent in the previous quarter. The sustained contraction was largely due to poor performance in the 'wholesale & retail', 'financial services mainly insurance & pension services', 'real estate' and 'education & health services'. On a positive note, there was stronger recovery from 'tourism activities' and 'transport services' benefitting from further easing of COVID-19 restrictions effected in December 2021. Other services that recorded positive performance included 'professional & technical services' and 'public administration'.

Figure 9: Quarterly GDP Growth (year-on-year), Seasonally Adjusted; 2019Q1 to 2022Q1



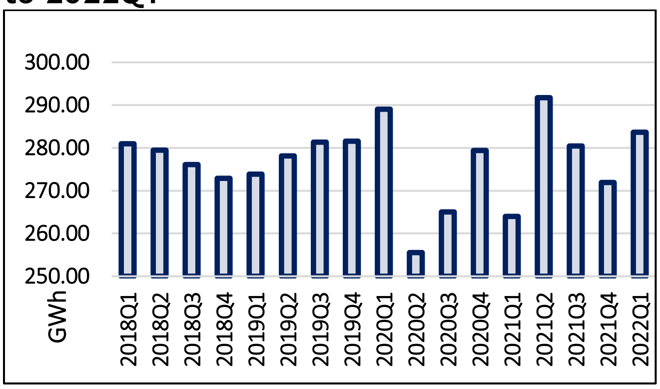
Source: Central Statistics Office (CSO)

4.2 Selected Quarterly Economic Indicators

- **Electricity Consumption**

Total electricity sales (sourced from the Eswatini Electricity Company, EEC) depicted a strong rebound of 4.3 per cent (seasonally adjusted) in the quarter ended March 2022 compared to a decline of 3.0 per cent in the quarter ended December 2021. Notably, all three (3) electricity customers' categories recorded an increase in electricity sales during the quarter under review. Domestic electricity sales rose by 2.0 per cent in the first quarter of 2022 from a contraction in the previous two consecutive quarters, depicting an increase in demand from households in the economy. Similarly, electricity sales to commercial (non-agricultural) customers grew by a significant 9.1 per cent during the quarter under review, from a negative growth of 6.1 per cent in the previous quarter. The acceleration in commercial sales can largely be attributed to the continued easing of COVID-19 restrictions, which led to some businesses resuming normal operations. In addition, sales to the 'irrigation power and bulk' category accelerated by 5.7 per cent in the first quarter of 2022 picking up from a decline of 2.3 per cent in the previous quarter. This indicates improved activity from irrigated farms, particularly sugar cane production. The total number of electricity customers rose by 1.4 per cent to record 258,304 during the quarter under review, owing to increases in 'domestic' and 'commercial' categories.

Figure 10: Electricity Consumption; 2018Q1 to 2022Q1

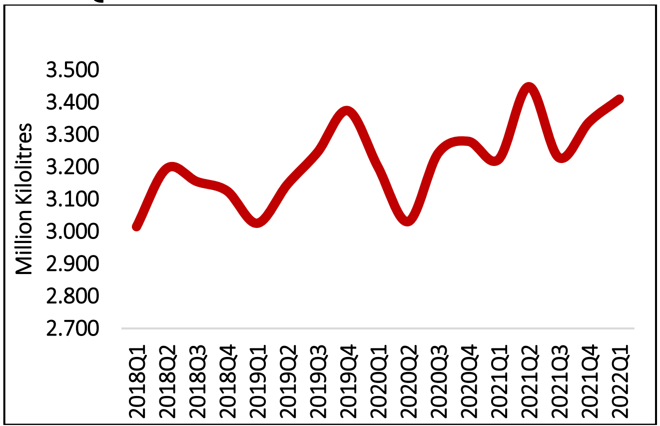


Source: Eswatini Electricity Company

- **Water Consumption**

Figures sourced from the Eswatini Water Services Corporation (EWSC) indicated that total treated water consumption increased by a slower 2.1 per cent (seasonally adjusted) in the quarter ended March 2022 compared to 3.4 per cent in the quarter ended December 2021. Water sales to residential households grew by 3.1 per cent in the first quarter of 2022 compared to a growth of 4.5 per cent in the fourth quarter of 2021. Similarly, the demand for treated water by the industries continued on an upward trajectory, as sales to the 'commercial' category rose by 1.1 per cent during the quarter under review. The total number of treated water customers grew by 2.3 per cent to 62,869 at the end of the quarter under review.

Figure 11: Water Consumption; 2018Q1 to 2022Q1

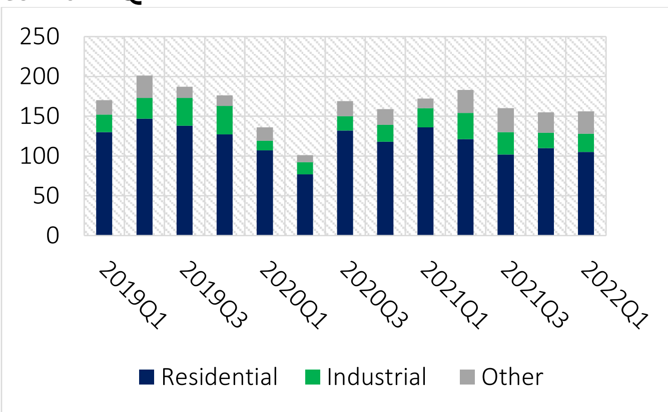


Source: Eswatini Water Services Corporation (EWSC)

- **Construction**

Preliminary figures sourced from 'Municipalities and Town boards' in Eswatini, reflect a stagnation in planned construction activity in the private sector. The total number of building plans approved stood at 156 units in the first quarter of 2022 compared to 155 units in the fourth quarter of 2021. Buildings plans approved from the 'industrial' category rose to 23 units in the quarter ended March 2022 from 19 units recorded in the previous quarter. Correspondingly, 'other' building plans approved mainly constituting of institutional housing and religious structures also increased to 28 units in the quarter under review from 26 units in the previous quarter. On the contrary, residential buildings, which account for a majority of the total buildings approved, declined by 4.5 per cent to record 105 units, from 110 units, between the two quarters under review. In terms of value, total building plans approved grew by 25.3 per cent to record E239.1 million in the quarter under review compared to E178.7 million in the previous quarter.

Figure 12: Building Plans Approved; 2019Q1 to 2022Q1

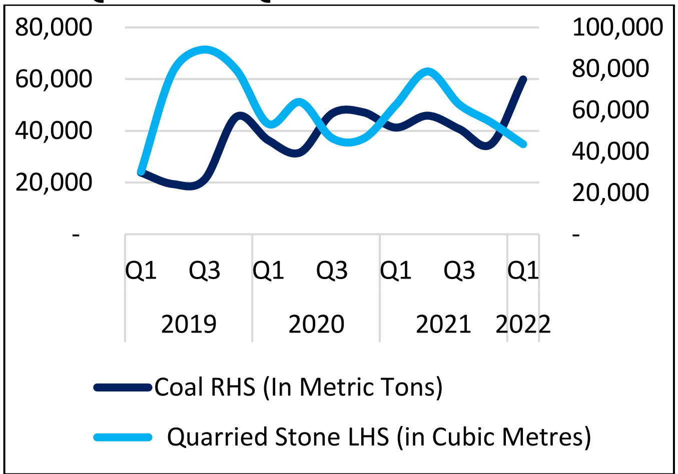


Source: City Councils, Town Councils and Town Boards

- **Mining and Quarrying**

Developments in mining activity were mixed in the quarter ended March 2022. Coal production significantly rose by 71.6 per cent to 59, 884 metric tonnes in the first quarter of 2022 from 34, 897 metric tonnes recorded in the fourth quarter of 2021. The increase in coal production can largely be attributed to the successful mining of a high yield crown land, following the award of a mining license for that area issued in October 2021. However, quarried stone production further declined by 19.4 per cent to 43,535 cubic metres in the quarter ended March 2022, compared to 54, 008 cubic metres in the previous quarter. This decrease resulted from slow uptake of newer mega public capital projects, particularly road infrastructure, as most projects such as the Manzini - Mbadlane road had reached completion stage and were not replaced by projects of the same magnitude in terms of quarry demand.

Figure 13: Coal and Quarry Production; 2019Q1 to 2022Q1

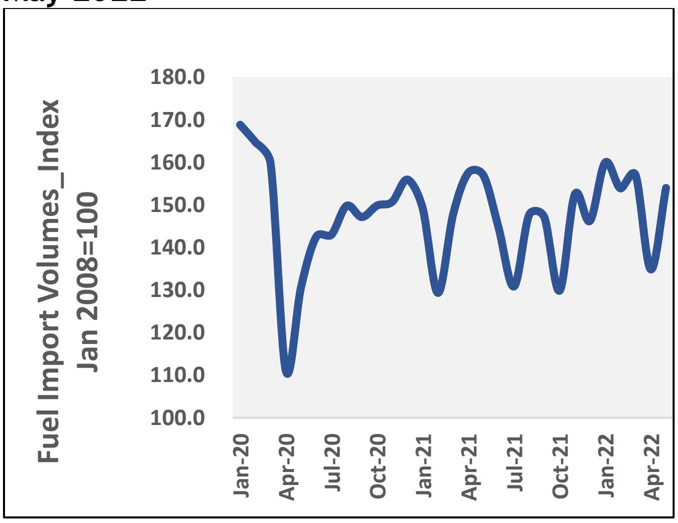


Source: Mining Department

- **Fuel Imports**

Total fuel import volumes (sourced from the Ministry of Natural Resources and Energy, MNRE) rose by a significant 14.2 per cent (seasonally adjusted) in May 2022, compared to a decline of 14.1 per cent in April 2022. Diesel imports continue to drive increases in total fuel import volumes. Diesel import volumes grew by 9.0 per cent during the period under review reflecting sustained positive performance in commercial freight activities. Similarly, petrol import volumes recorded growth of 4.4 per cent in May 2022 from a significant decrease of 10.1 per cent in the previous month. On the contrary, paraffin import volumes declined by 3.1 per cent in the month under review. Notably, fuel import volumes have increased despite the negative effects of the pandemic coupled with the disruptions caused by the socio-political riots. However, sustainability of supply remains uncertain as bad weather experienced in South Africa continues to cause episodes of supply disruptions in South Africa's ports where fuel is sourced.

Figure 14: Fuel Imports; January 2020 to May 2022



Source: Ministry of Natural Resources and Energy

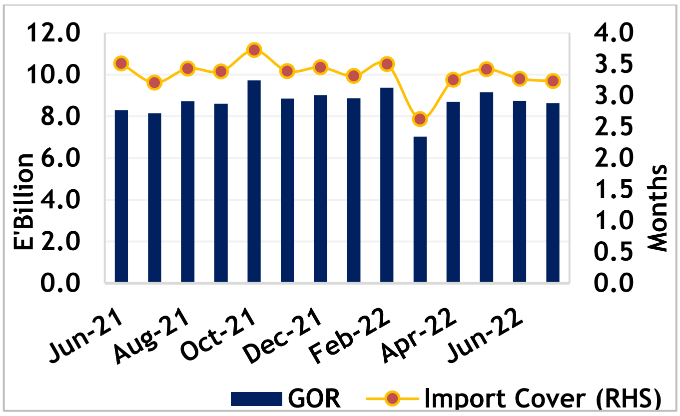
4.3 Monetary Sector Developments

4.3.1 Gross official Reserves

The country's stock of gross official reserves stood at E8.7 billion at the end of June 2022, depicting a decline of 4.4 per cent month-on-month and growth of 5.3 per cent year-on-year. The month-on-month decline in reserves was on account of the net outflows of Rands from trades with commercial banks. At this level, the reserves were enough to cover 3.3 months of imports of goods and services, lower than the 3.4 months recorded in May 2022.

As at 01 July 2022, the reserves fell further to E8.6 billion, enough to cover 3.2 months of imports, mainly driven by net outflows of Rands from trades with commercial banks as mentioned above.

Figure 15: Gross Official Reserves & Import Cover



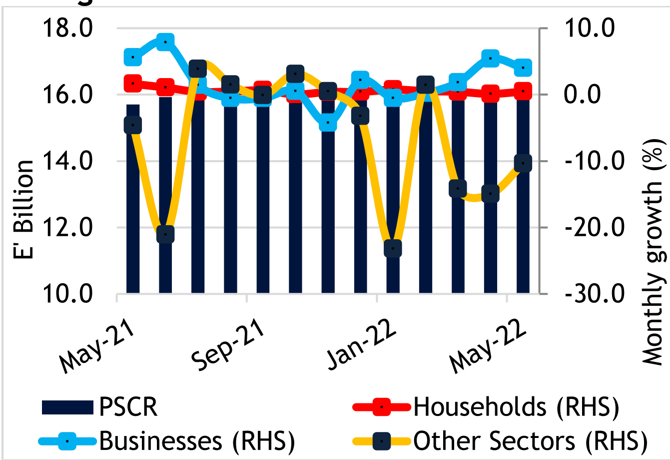
Source: Central Bank of Eswatini

4.3.2 Credit Extension

During the month under review, credit extended to the private sector amounted to E16.3 billion, representing an increase of 1.5 per cent month-on-month and 3.9 per cent year-on-year. The improvement in private sector credit was observed in credit to businesses and households & non-profit institutions serving households (NPISH). Credit to other sectors of the domestic economy, on the contrary, decreased over the review month.

In real terms, year-on-year growth in private sector credit reflected a slight decline of 0.05 per cent, down from an increase of 0.8 per cent recorded in April 2022.

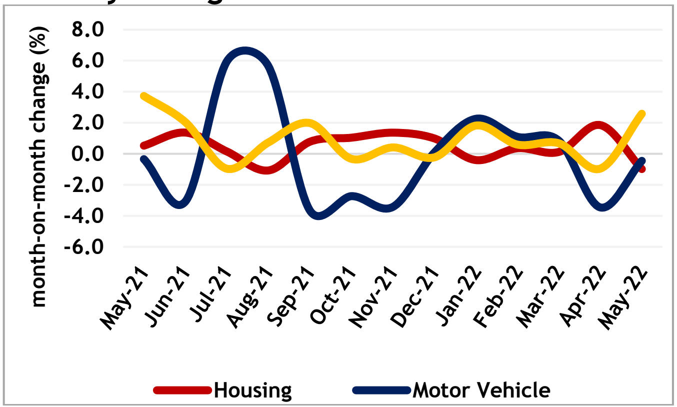
Figure 16: Private Sector Credit: Monthly Changes



Source: Central Bank of Eswatini and Other Depository Corporations

As at end of May 2022, credit extended to households and non-profit institutions serving households (NPISH) improved by 0.5 per cent compared to April 2022 and 5.9 per cent over the year to E7.8 billion. Growth was on account of other personal (unsecured) loans which rose by 2.6 per cent. Housing and motor vehicle loans, on the other hand, fell by 1.0 per cent and 0.5 per cent, respectively.

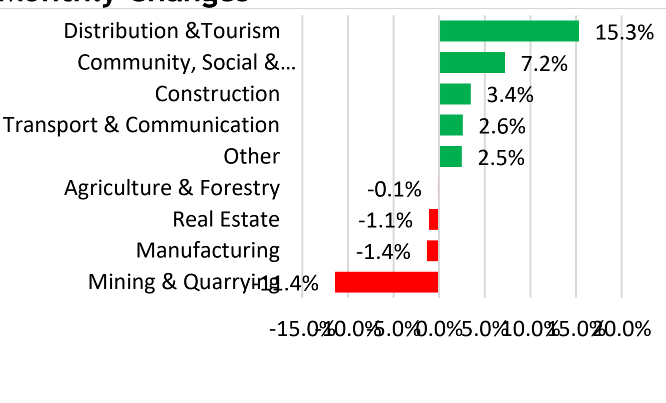
Figure 17: Household Credit by Product: Monthly Changes



Source: Central Bank of Eswatini & Other Depository Corporations

Credit extended to businesses closed the review month at E7.8 billion, reflecting growth of 4.0 per cent relative to April 2022 and 18.3 per cent over the year. Accounting for the growth was credit to the following subsectors; distribution & tourism (15.3 per cent), community, social & personal services (7.2 per cent), construction (3.4 per cent) as well as transport & communication (2.6 per cent). A decline was however, observed in the following subsectors; mining & quarrying (-11.4 per cent), manufacturing (-1.4 per cent), real estate (-1.1 per cent) and agriculture & forestry (-0.1 per cent).

Figure 18: Business Credit by Industry: Monthly Changes

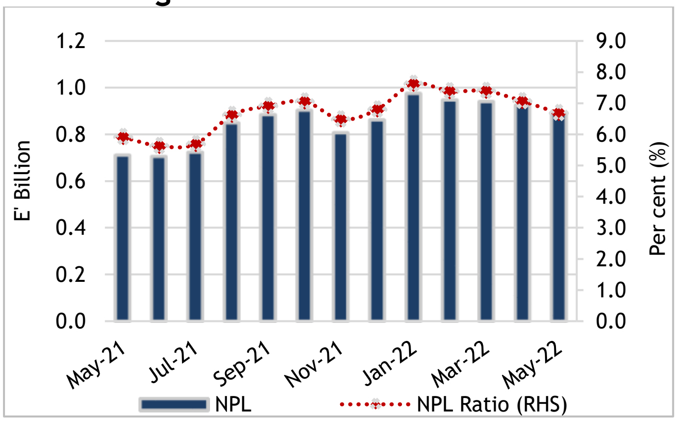


Source: Central Bank of Eswatini and Other Depository Corporations

Credit extended to other sectors of the domestic economy fell by 10.4 per cent from April 2022 and 57.6 per cent over the year to settle E758.3 million at the end of May 2022. The reduction was observed in other financial corporations and local government, which fell by 17.7 per cent and 8.6 per cent, respectively. Credit to parastatals, on the other hand, grew by 4.1 per cent over the review month.

The banking sector's loan book improved over the month under review, as non-performing loans depicted a decline of 3.5 per cent month-on-month, however, over the year grew by 23.9 per cent to reach E930.2 million at the end of May 2022. The non-performing loans ratio was at 6.7 per cent at the end of May 2022, lower than the 7.1 per cent observed in April 2022.

Figure 19: Non-Performing Loans and Non-Performing Loans Ratio



Source: Central Bank of Eswatini

4.3.3 Money Supply

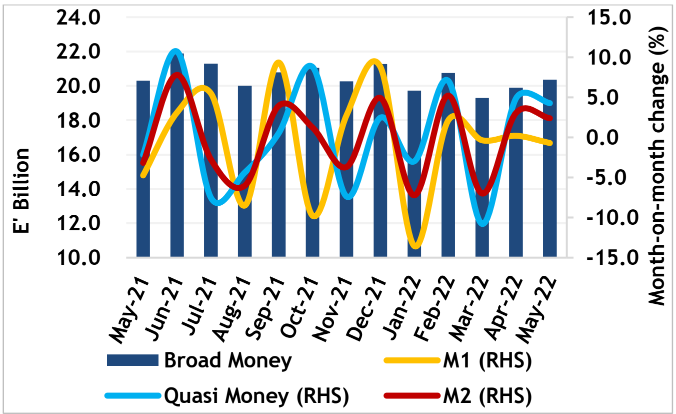
Broad money supply (M2) improved by 2.4 per cent from April 2022 and 0.3 per cent year-on-year to settle at E20.4 billion at the end of May 2022. Growth in M2 was registered in quasi money supply while narrow money supply (M1) decreased over the month under review.

In real terms, annual growth in broad money supply continued on a downward trend since November 2021. As a result, compared to May 2021, M2 decreased by a further 3.6 per cent.

Quasi money supply stood at E12.9 billion at the end of May 2022, increasing by 4.3 per cent month-on-month and 2.9 per cent year-on-year. Growth in quasi money supply was driven by both components; time and savings deposits. As a result, time and savings deposits grew by 4.9 per cent to E10.9 billion and 1.1 per cent to E2.0 billion, respectively.

Narrow money supply (M1) reached E7.5 billion at the end of May 2022, down by 0.7 per cent from the previous month and 4.0 per cent over the year. The decline in M1 was driven by Emalangeni outside depository corporations, which declined by 9.4 per cent month-on-month to E672.8 million. Transferable (demand) deposits, on the other hand, rose by 0.2 per cent to E6.8 billion at the end of May 2022.

Figure 20: Money Supply: Monthly Changes



Source: Central Bank of Eswatini and Other Depository Corporations

4.4 Soundness of the Banking Sector

The banking system remained sound and stable in Q1-2022. During the quarter under review, banking sector assets decreased by 6.5 percent, mainly as a result of a fall in deposits. Banks complied with minimum capital requirements, improving from Q4-2020 positions. Banks' asset quality, earnings and profitability deteriorated during the quarter. Banks continued to maintain adequate liquidity, marginally falling from the previous quarter positions.

4.4.1 Banking sector assets

During Q1-2022, banking sector assets decreased by 6.5 percent to settle at E24.1 billion. Loans and advances marginally decreased by 0.1 percent to stand at E13.3 billion. On the funding side, total deposits decreased by 9.8 percent to settle at E18.7 billion while total shareholder funds increased by 1.5 percent to stand at E3.7 billion.

4.4.2 Capital Adequacy

The banks complied with minimum capital requirements as at end March 2022, showing improvements when compared to the previous quarter. The improvement was a result of the fall in asset base while total regulatory capital increased. As such, the average industry-wide regulatory tier 1 capital adequacy ratio and total capital adequacy ratio stood at 16.3 percent and 18.7 percent respectively, increasing from the previous quarter's positions of 15.7 percent and 17.9 percent respectively.

4.4.3 Earnings and Profitability

Banking sector earnings and profitability deteriorated during the quarter ending March 2022. The average return on banks' total assets (ROA) marginally fell from 1.89 percent to stand at 1.86 percent. Return on total equity (ROE) also decreased from 13.34 percent to 12.10 percent. This was a result of increases in operating costs. The total cost-to-income ratio worsened during the quarter, increasing from 75.72 percent of Q4-2021 to 76.95 percent in Q1-2022. Banks' operating expenses accounted for 57.25 percent of total income, increasing from the previous quarter position of 53.46 percent.

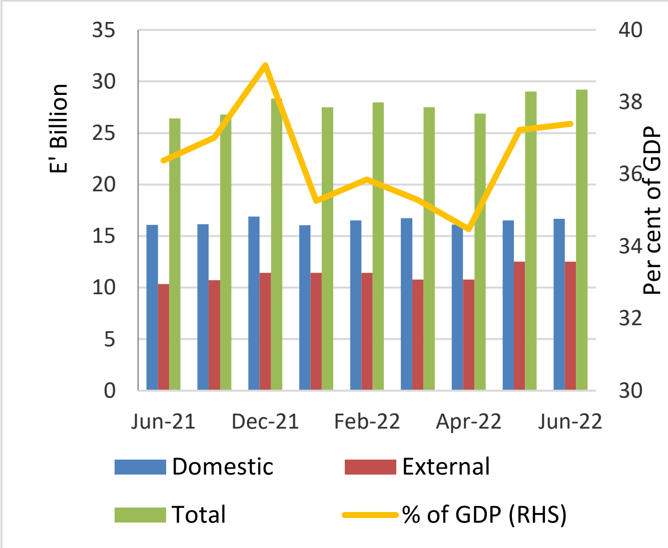
4.4.3 Liquidity Risk

Banks maintained adequate levels of liquidity during the quarter under review. Aggregate bank liquidity to total deposits fell from 39.3 percent of Q4-2021 to stand at 37.8 percent in Q1-2022, remaining above the regulatory minimum. Government securities represented 58.7 percent of liquid assets held by banks. As a share of total assets, liquid assets also decreased from 40.2 percent to 39.2 percent. The ratio of loans and advances to deposits increased to 70.8 percent from 64.0 percent of the previous quarter.

4.5 Public Debt

At the end of June 2022, total public debt stood at E29.2 billion, increasing by 8.2 per cent from E26.9 billion recorded at end of April 2022. The surge came from the external debt component, as Government fully disbursed the African Development Bank and World Bank Group budget support loans within the period, while the domestic component contributed slightly. At this level, total public debt was equivalent to 37.4 per cent of GDP, surpassing the 35 per cent sustainability threshold of Government.

Figure 21: Total Public Debt; June 2021 to June 2022



Source: Central Bank of Eswatini

During the period, external debt increased by 15.7 per cent from E10.8 billion to E16.6 billion, resulting from the two loans mentioned above, as well as depreciation of the local currency against the major currencies that Eswatini loans are denominated. On the other hand, domestic debt increased by 3.7 per cent from E16.1 billion to E16.7 billion.

On a month-on-month basis, total public debt made a slight upward movement between May and June 2022, from E29.0 billion to E29.2 billion due to domestic debt. External debt remained constant, when domestic debt rose by 1.2 per cent from E16.5 billion to E16.7 billion because of an advance from Central Bank to Government and issuance of Securities. Annually, total debt increased by 10.6 per cent from E26.4 billion to E29.2 billion, between June 2021 and June 2022.

4.6 External Sector Developments

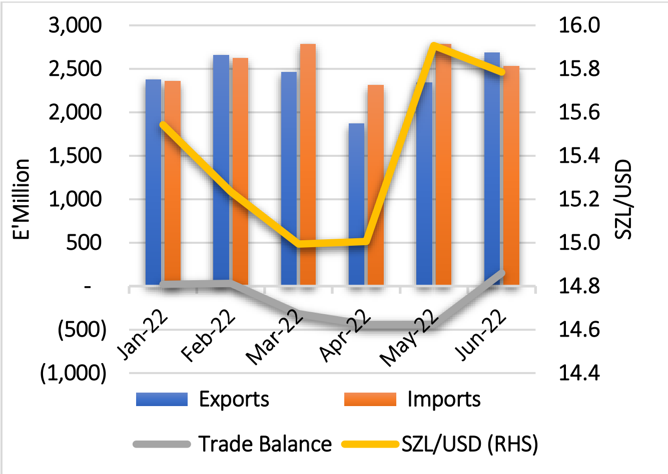
In June 2022, the trade account registered a surplus of E149.9 million, the first positive monthly trade balance since February 2022. Exports in the month were valued at E2.683 billion, reflecting a month-on-month increase of 14.6 per cent when compared to May 2022, while on a year-on-year basis, exports were 26.4 per cent higher. Imports for the month, amounted to E2.533 billion, indicative of a fall of 8.9 per cent when compared to the previous month. Year-on-year, imports grew by 13.3 per cent. The trade balance, year-on-year, posted a surplus of E149.9 million compared to a deficit of E112.8 million in June of the previous year.

Seasonally adjusted exports data indicates that exports amounted to E2.870 billion, a growth of 8.8 per cent in exports for the month of June 2022 when compared to May 2022, while on a year-on-year basis, exports grew by 22.7 per cent. Seasonally adjusted imports were valued at E2.548 billion, reflecting a 7.0 per cent decline month-on-month and a 13.6 per cent increase year-on-year. The seasonally adjusted trade balance for June 2022 is E176.9 million.

Year-to-date exports as at June 2022 amounted to E14.386 billion, 8.3 per cent higher than exports recorded as at June 2021. Imports as at June 2022 were valued at E15.385 billion, 11.5 per cent higher than imports of June 2021. The cumulative trade account balance as at June 2022, registered a deficit of E998.3 million.

South Africa remained the country's major trading partner, absorbing 67.1 per cent of exports and 74.6 per cent of imports from the same origin.

Figure 22: Merchandise Trade; January 2021 - June 2022



Source: Eswatini Revenue Authority and Central bank of Eswatini

An analysis of exports composition depicts that in the month of June 2022, exports of 'soft drink concentrates' accounted for 37.5 per cent of total exports. Sales of 'soft drink concentrates' amounted to E1.006 billion, lower month-on-month by 6.3 per cent, and higher year-on-year by 23.8 per cent. Export receipts from 'sugar and sugar products' totaled E699.1 million, more than doubling in June 2022 when compared to May 2022, owing to a recovery in the sugar industry after suffering from the effects of the unfavourable weather conditions, arson attacks and industrial strike action in the sugar sector in 2021, which affected sugar exports in the preceding months. Sugar exports grew by 29.4 per cent year-on-year. Exports of 'textile and textile apparel', which grew by 13.9 per cent month-on-month and by 3.1 per cent year-on-year, were valued at E267.5 million in June 2022. 'Wood and wood articles' exports amounted to E172.8 million in the month, 2.2 per cent lower when compared to May 2022, and falling by 2.2 per cent when compared to May 2021.

The analysis of imports indicated that invoices from 'energy products' grew by 2.4 per cent month-on-month, and by 35.2 per cent year-on-year, amounting to E519.0 million in June 2022. Imports of 'machinery and electrical equipment' in June 2022, were up by 15.0 per cent compared to the previous month and by 15.7 per cent when compared to the same period last year. Import invoices from 'animal and vegetable products' totaled E240.3 million in the review month, falling by 12.2 per cent month-on-month, and recording a growth of 28.8 per cent year-on-year. 'Textile and textile apparel' imports which were valued at E194.7 million in the month, grew by 34.5 per cent when compared to the preceding month and were up by 10.2 per cent year-on-year. Imports of 'vehicles' were E114.6 million in the review month, recording a 2.3 per cent decline month-on-month and a decrease of 28.1 per cent year-on-year.

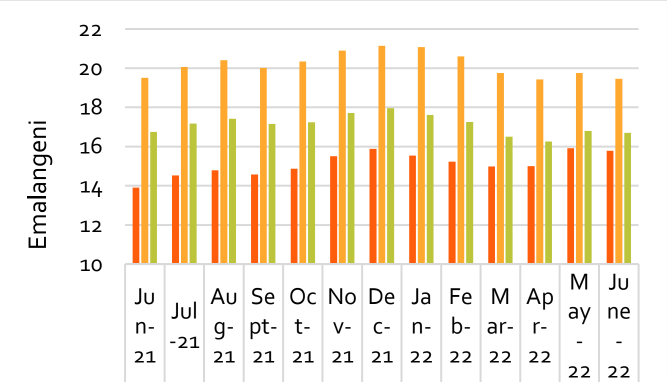
4.7 Exchange Rates Developments

Since the last MPCC meeting, the Rand/Lilangeni regressed and lost against the major trading currencies. The local unit weakened significantly by 5.2 per cent to the US Dollar, by 0.2 per cent to the Pound Sterling and by 2.7 per cent to the Euro. Thus, compared to April 2022, in June 2022 the local unit traded at a month average of E15.78 per US Dollar unit and at E19.42 and E16.25 per Pound Sterling and Euro respectively. The Rand/Lilangeni weakened on the back of global monetary policy developments coupled with negative South African economy growth prospects. While South Africa's monetary policy has remained supportive of the Rand, the Rand suffered under the prospects of a more aggressive interest rate hike by the US Fed that attracts investors to the US Dollar as a safe haven thus its bolstering. Further negative pressures emanated from the suppressed energy supply in South Africa resulting in severe load shedding, affecting economic activity and growth prospects. Also, the floods that affected mainly the Kwazulu-Natal province, came in as economic growth risks were high and deterrent to the Rand/Lilangeni appreciation.

With these developments, the Rand/Lilangeni ended June 2022 weaker than the end-period in April 2022; trading at E16.19 to the US Dollar, at E19.67 to the Pound Sterling and at

E16.91 to the Euro. Looking ahead, negative economic growth prospects due to the floods, power supply effects, and US monetary policy hawkish behaviour pose as negative risks to the Lilangeni/Rand performance prospects.

Figure 23: Lilangeni Exchange Rates against Selected Major Currencies



	Jun-21	Jul-21	Aug-21	Sept-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	June-22
USD	13.	14.	14.	14.	14.	15.	15.	15.	15	15	15.	15.	15.
GBP	19.	20.	20.	20.	20.	20.	21.	21.	21	20	19.	19.	19.
Euro	16.	17.	17.	17.	17.	17.	17.	17.	17	17	16.	16.	16.

PART B: INFLATION DEVELOPMENTS

5.1 Headline Inflation

The country's annual consumer inflation slightly moderated to 3.9 per cent in May 2022 from 4.0 per cent in April 2022. The decrease in consumer price index was mainly driven by a decrease observed in the price index for 'goods'. Inflation for 'goods' receded to 5.4 per cent in May 2022, from 6.1 per cent in April 2022, owing to slower increases in the prices for 'food & non- alcoholic beverages' and 'Household furniture & maintenance'.

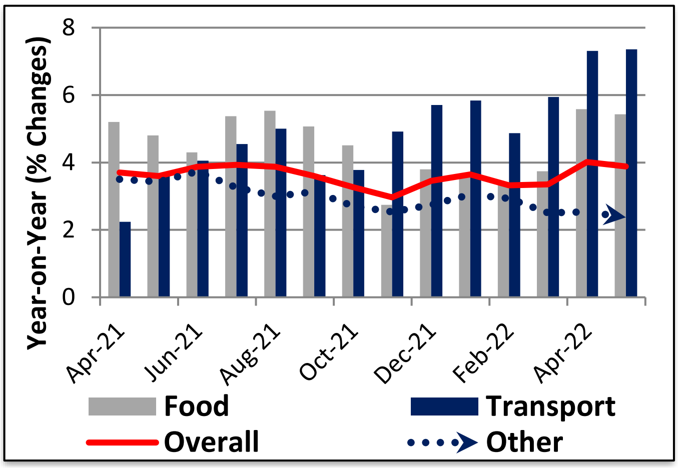
Food inflation slightly decreased to 5.4 per cent in May 2022, from 5.6 per cent in April 2022, largely driven by slower increases in the prices for 'bread & cereals', 'fish & seafood', and 'fruits'. Similarly, the index for 'Household furniture & maintenance' recorded a deflation of 1.2 per cent in the month under review, compared to a 4.5 per cent increase recorded in April 2022.

On the contrary, inflation for 'services' accelerated to 1.7 per cent in the period under review, from 1.0 per cent in the previous month. Mixed developments were observed within the services category of inflation. On the one hand, inflationary pressures to the services inflation emanated from the price indices for 'transport' and 'Health'. Transport inflation grew to 7.4 per cent in May 2022, compared to 7.3 per cent recorded in April 2022. The increase in the 'transport' index can largely be attributed to base effects from lower prices of fuel in the same period last year. In addition, the index for 'Health' rose significantly by 22.2 per cent in May 2022, compared to a marginal 0.7 per cent recorded in the previous month. The acceleration in health services inflation was a result of significant increases observed in prices for medical services. On the other hand, deflationary pressures mainly came from the index for 'Housing & Utilities', which declined by 0.1 of a percentage point to 3.2 per cent in the period under review.

On a month-on-month comparison, consumer prices recorded a deflation 0.1 per cent in May 2022, from a 1.3 per cent increase in April 2022. Contributing to the decrease in monthly inflation were deflations observed in the price indices for 'food & non-alcoholic beverages' and 'Household furniture & maintenance', together with zero growth observed in 'Transport' and 'Housing & Utilities'.

Core inflation (which is CPI excluding volatile items such as food, auto-fuel and energy) decreased to 1.6 per cent in May 2022 from 1.7 per cent in April 2022, owing to inflation of durable goods. The CPI for durable goods indicated a deflation of 1.1 per cent in the period under review, compared to 2.0 per cent in previous month. Of note is that the CPI for semi durable goods sustained an upward trend and recorded 3.5 per cent in May 2022, from 3.1 per cent in April 2022, partially offsetting developments in CPI for durable goods. On a month-on-month basis, core inflation recorded a deflation of 0.1 per cent in May 2022.

Figure 24: Inflation Trends and Components; May 2021 to May 2022

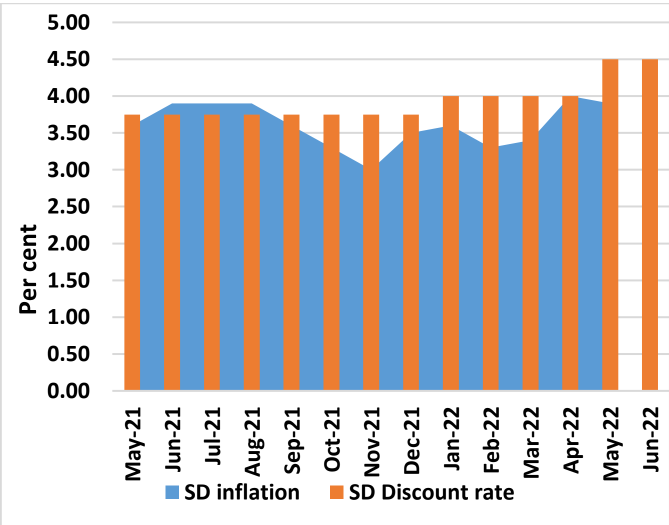


Source: Central Statistics Office (CSO)

5.2 Inflation and Interest Rate Trends in Eswatini

The Bank increased the discount rate by 50 basis points to 4.5 per cent in May 2022 following a hike of the same magnitude by the SARB to 4.75 per cent thus maintaining a -25 bps differential with the SARB repo rate.

Figure 25: Inflation and Discount Rates



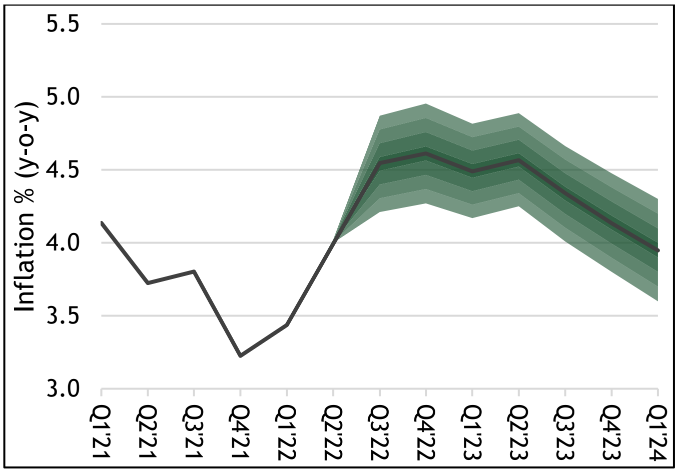
Source: Central Statistics Office and Central Bank of Eswatini

5.3 Inflation Outlook

The Bank has revised upwards its short-to-medium term forecasts reflecting persistent inflationary pressures. While overall risks to the inflation outlook are assessed to be skewed to the upside, actual inflation for May 2022 came out lower than previously forecasted. This therefore shows that downward pressures somewhat outweighed the persisting inflationary pressures. Hence the second quarter for 2022 is revised downwards, but still showing an upward trend when compared to the previous quarter. Inflation is forecasted to remain elevated due to: expected further increase in South Africa's and domestic fuel prices due to the extended Russia-Ukraine war which continues to suppress global Brent Crude Oil supplies. Also, the supply of other inputs such as fertilizer and wheat have been put under pressure due to the war. As a result, food prices are also expected to remain elevated due to the persistent high input costs. Moreover, higher inflation in South Africa which mainly transmit via import of finished goods is expected to influence domestic inflation to the upside. These risks are, however, counteracted by the expected stronger Rand and the dissipating effects of COVID-19 as measures to recover from the pandemic continue to be put in place, especially in the short-term.

As a result, the annual average inflation forecast for 2022 is revised up to 4.15 per cent, from 4.10 per cent forecasted in May 2022. The third quarter of 2022 is also revised up to 4.55 per cent (from 4.35 per cent) and the fourth quarter of 2022 to 4.61 per cent (from 4.48 per cent). In the medium term, inflation for 2023 is forecasted to be higher than previously expected and the forecast for 2024 is marginally higher. In this period, the Rand is expected to remain weaker, exerting upward pressure on inflation. Increases in domestic administered prices pose as an upside risk. However, while Brent oil prices are revised up for 2023 exerting inflationary pressures, a slower increase in 2024 is expected, somewhat cushioning against the inflationary pressures. Therefore, inflation for 2023 is forecasted at 4.38 per cent (from 4.02 per cent) and 2024 at 4.20 per cent (from 4.17 per cent).

Figure 26: Inflation Outlook



Source: Central Bank of Eswatini

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