MONETARY POLICY CONSULTATIVE COMMITTEE (MPCC)

ECONOMIC REVIEW AND INFLATION REPORT

25 November 2022

ECONOMIC POLICY, RESEARCH AND STATISTICS DEPARTMENT

CENTRAL BANK OF ESWATINI
Umntsholi Wemaswati

Major Highlights

Real GDP	*Real Gross Domestic Product (GDP) is estimated to have increased by 7.9 per cent in 2021, compared to a contraction of 1.6 per cent realised in 2020.*
Quarterly GDP	*On a quarterly basis, GDP contracted by 1.6 per cent (year-on-year), in the second quarter of 2022, from a revised growth of 5.0 per cent in the first quarter of 2022.*
Inflation	*The country's annual consumer inflation increased from 5.8 per cent in August 2022 to 6.7 per cent in September 2022.*
Inflation Forecasts	*The Bank maintained its annual average inflation forecast for 2022 at 4.8 per cent.*
Foreign reserves	*The country's stock of gross official reserves grew by 18.7 per cent to close at E8.2 billion at the end of October 2022 from E 6.9 billion in September 2022. At E8.2 billion, the reserves were sufficient to cover an estimated 2.8 months of imports in October 2022, compared to 2.4 months in September 2022.*
Exchange rate	*Since the last MPCC meeting, the Rand/Lilangeni extended its losses and depreciated further against the major trading currencies. In October 2022, the local unit weakened by 8.5 per cent to the value of E18.10 to the US Dollar on a month average. Against the Pound Sterling and Euro, the local currency depreciated by 2.1 per cent and 5.5 per cent respectively, reaching a rate of E20.44 to the Pound Sterling and E17.85 to the Euro.*
Credit Extension	*Total credit extended to the private sector amounted to E17.1 billion in September 2022, up by 2.2 per cent compared to August 2022 and 5.7 per cent year-on-year.*
Public Debt	*Preliminary figures indicate that total public debt stood at E30.4 billion as at the end October 2022, an equivalent of 41.0 per cent of GDP. This shows an increase by 2.4 per cent from E29.7 billion recorded in August 2022.*
Balance of Payments	*In September 2022, Eswatini recorded a trade deficit of E79.7 million from a surplus of E263.1 million in the previous month.*

PART A: ECONOMIC REVIEW

1.0 GLOBAL ECONOMIC CONDITIONS

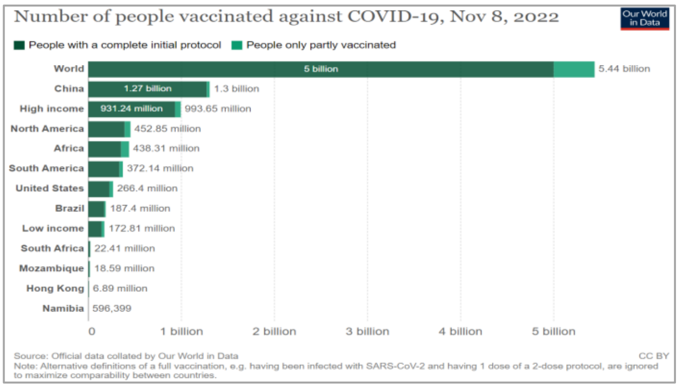
1.1 Covid-19 Updates

As of 9 November 2022, global COVID-19 cases stood at 638,557,302 with 6,608,369 deaths, and 618,344,540 recoveries. The US remained the most affected nation with 99,697,922 confirmed cases, whilst recoveries stood at 97,287,141 and deaths at 1,098,524 (Worldometers.info/coronavirus, 9 November 2022).

Latest statistics show that 5.44 billion of the world population has been vaccinated against COVID-19. China currently has 1.3 billion of its citizens vaccinated amid a recurring COVID-19 challenge with the government continuing to implement its Zero COVID-19 strategy.

In the high-income group of countries, 993.65 million people have been vaccinated whilst in the low-income group 172.81 million have been vaccinated. Closer home, South Africa has 22.41 million of its people vaccinated whilst Eswatini has vaccinated 492,451 of its people (ourworldindata.org|covidvax.live, 8 November 2022).

Figure 1: COVID-19 Vaccination Update



As of 8 November 2022, the total number of monkeypox cases reported by Centres for disease control (CDC) around the world stood at 78,599 worldwide. The following represents the top 10 countries that have high number of cases reported: The US has reported 28,730 cases followed by Brazil with 9,367 cases. Spain has reported 7,336 cases, France 4,097 cases, the UK 3,701 cases, Germany 3,670 cases, Colombia 3,523 cases, Peru 3,048 cases, Mexico 2,901 cases and Canada 1,444 cases.

In Africa the numbers are smaller. Leading cases were noted in Nigeria recorded at 583, the Democratic Republic of Congo at 206, Ghana at 107, Central African Republic and Cameroon are at 12 cases, respectively. South Africa has reported 5 cases while Mozambique has reported one. Eswatini has not registered any positive case of Monkeypox (https://www.cdc.gov/poxvirus/monkeypox/response, 8 November 2022).

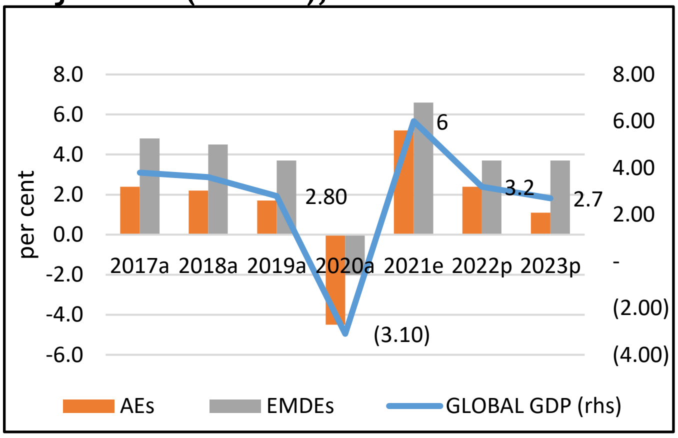
1.2 Overview of Global Economic Developments

According to the IMF's World Economic Outlook (WEO) Report published on 11 October 2022, global growth is forecasted to slow from 6.0 per cent in 2021 to 3.2 per cent in 2022. For 2023 global growth has been revised down by 0.2 per centage points from the 2.9 per cent projected in the July 2022 IMF WEO to 2.7 per cent, as the IMF highlights that global economic activity is experiencing a broader-based and sharper-than-expected slowdown.

The downgrade in global growth for 2023 year primarily reflects the continuing cost-of-living crisis, tightening financial conditions in most regions, Russia's invasion of Ukraine, and the lingering COVID-19 pandemic which all weigh heavily on the outlook.

Furthermore, the latest forecast represents the weakest growth profile since 2001 except for the global financial crisis and the acute phase of the COVID-19 pandemic. The forecasts also capture the significant slowdowns in GDP growth for the world's three largest economies.

Figure 2: IMF Global GDP Growth and Projections (revised); 2017 - 2023



a=actual; e=estimate; p=projection

Source: IMF WEO Update, 11 October 2022

In advanced economies (AEs) GDP growth is forecasted to increase by a slower 2.4 per cent in 2022 following a 5.2 per cent expansion in 2021. Growth is expected to further edge lower to a 1.1 per cent expansion in 2023. The IMF notes that the US GDP contraction in the first half of 2022, the Euro area contraction also in the H2-2022, and a prolonged COVID-19 outbreak coupled with stringent lockdowns in China will negatively impact on the growth outlook.

In emerging market and developing economies GDP growth is estimated at 2.1 per cent in 2021 and is forecasted to increase by 3.7 per cent both in 2022 and 2023, respectively. The IMF highlights that a third of the world economy currently faces two consecutive quarters of negative growth (IMF World Economic Outlook Update, 11 October 2022).

1.3 Global Inflation Outlook

The IMF's World Economic Outlook (WEO) for October 2022 indicates that annual global inflation is forecasted to rise from 4.7 per cent in 2021 to 8.8 per cent in 2022 before moderating to 6.5 per cent in 2023.

Upside inflation surprises have been most widespread among advanced economies (AEs), with greater variability in EMDEs. Annual inflation in AEs is expected to hike to 7.2 per cent in 2022 and edge lower to 4.4 per cent in 2023. In the US, stubbornly high inflation is blamed on earlier stimulus packages and supply chain issues. In the EU, runaway inflation is blamed primarily on the effects of the Russia-Ukraine war, leading to high energy and food prices.

Annual inflation in EMDEs is expected to hike to 9.9 per cent in 2022 and edge lower to 8.1 per cent in 2023. Main upward pressure is coming from rising food and energy prices. The persistent inflationary environment has triggered a tightening of global financial conditions especially by central banks around the world (IMF World Economic Outlook Update, 11 October 2022).

1.4 Review of Global Oil Prices and Gold Price Performance

According to OPEC+'s Monthly Oil Market Report (MOMR) published on 12 October 2022, the brent crude oil monthly price has dropped to \$90.57 a barrel in September 2022 from an average of \$95.64 a barrel in August 2022. The brent crude price has dropped to its lowest monthly average since January 2022, amid continuing selloffs in futures/contracts.

This has been exacerbated by growing concerns about slowing global economic growth and energy demand. More so, central banks worldwide continued to raise their benchmark interest rates in order to contain high inflation. This policy stance contributed to weakening global manufacturing activity as market liquidity decline.

Meantime, according to the September 2022 World Gold Council Report, the gold bullion price fell for the sixth consecutive month, dropping by 2.6 per cent. Gold bullion price averaged to a monthly price of \$1,671.8 an ounce in September compared to an average \$1,715.90 an ounce in August 2022. The gold price dropped on the back of twin headwinds of a surging US dollar and higher bond yields (OPEC MOMR, 25 October 2022|World Gold Council, 30 October 2022).

1.5 Advanced Economies GDP Growth

According to the US Bureau of Economic Analysis the US economy grew by an annualized 2.6 per cent quarter-on-quarter in the third quarter of 2022, rebounding from a 0.6 per cent contraction in the second quarter of 2022. The economy was largely boosted by a narrowing trade deficit as net trade contributed 2.77 percentage points to Q3 GDP compared to 1.16 percentage points contributed in Q2-2022.

Meantime, exports went up by 14.4 per cent in Q3 from 13.8 per cent in Q2, led by petroleum products, nonautomotive capital goods and financial services. Imports on the other hand, sank by 6.9 per cent in Q3 from 2.2 per cent in Q2-2022. Finally, consumer spending grew at a slower pace, rising by 1.4 per cent compared to a 2 per cent increase in the second quarter of 2022, but remained resilient as higher outlays on services (led by health care) offset a decrease in goods (US Bureau of Economic Analysis, 9 November 2022). According to the IMF GDP growth forecasts released in October 2022, the US economy is expected to grow by 1.6 per cent in 2022, followed by a lower 1.0 per cent expansion in 2023 (IMF World Economic Outlook, 11 October 2022).

According to Eurostat, the Eurozone economy expanded by 0.2 per cent quarter-on-quarter in the three months to September 2022, following a 0.7 per cent growth in the second quarter, in line with market expectations, flash estimates showed. This was the weakest

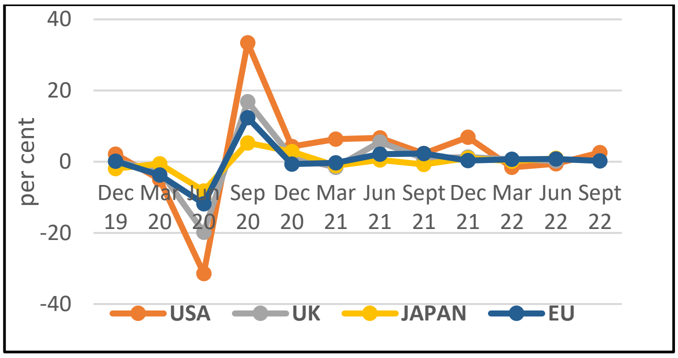
GDP growth since the rebound from COVID-19 restrictions in Q2-2021 and indicators are pointing to a shift from expansion to a contraction in Q4-2022, as the inflation rate continues to break records with the energy prices remaining elevated and the ECB on a hiking cycle.

Considering the bloc's biggest economies, the GDP growth rates in Italy and Germany surprised on the upside by growing at 0.5 per cent and 0.3 per cent, respectively. The GDP of Spain and France grew by only 0.2 per cent as a post-COVID-19 boom in the tourism and leisure industries faded. On the other hand, smaller economies contracted including Latvia by 1.7 per cent, Belgium by 0.1 per cent, and Austria by 0.1 per cent (Eurostat | EU Commission | Trading Economics, 9 November 2022).

According to the IMF GDP growth forecasts released in October 2022, the Eurozone economy is expected to grow by 3.1 per cent in 2022, followed by a significant deep of 0.5 per cent expansion in 2023 (IMF World Economic Outlook, 11 October 2022).

According to a second estimate, the economy unexpectedly expanded by 0.2 per cent quarter-on-quarter in the April-June quarter, better than an earlier estimate of a 0.1 per cent contraction. This follows a 0.7 per cent expansion in the first quarter of 2022. Positive contributions to the improved Q2 growth number include upward revisions to services which grew by 0.2 per cent, from initial estimates of a 0.4 per cent drop, while human health, and social work; financial and insurance improved (UK Office for National Statistics, 9 November 2022). According to the IMF GDP growth forecasts released in October 2022, the UK economy is expected to grow by 3.6 per cent in 2022, followed by a lower 0.3 per cent expansion in 2023 (IMF World Economic Outlook, 11 October 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 Japan economy grew by 0.9 per cent quarter-on-quarter in Q2-2022, compared with the flash data of a 0.5 per cent expansion and after an upwardly revised 0.1 per cent growth in the first quarter. The latest figure was above market consensus of a 0.7 per cent increase, growing for the third straight quarter. There was an upward revision in private consumption to 1.2 per cent from an earlier estimate of 1.1 per cent and after a 0.3 per cent increase in Q1 following a lifting of all COVID-19 restrictions. Government spending was also revised higher to a 0.7 per cent increase from a 0.5 per cent rise in flash data and after a 0.4 per cent rise in Q1. Net trade also contributed positively, with growth in exports stable at 0.9 per cent, while imports went up at a softer rate of 0.7 per cent from a 3.5 per cent increase in Q1-2022.

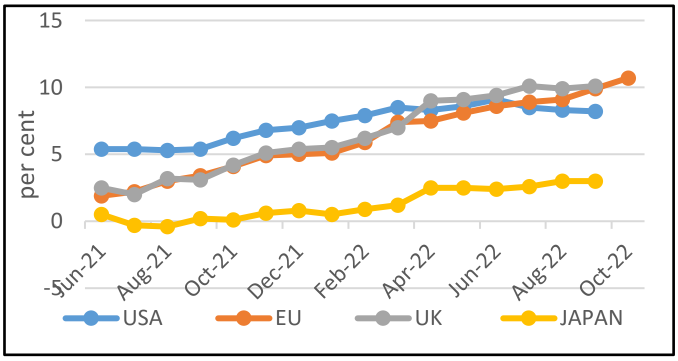
In the longer term, the economic outlook remains uncertain as the global economy weakens amid a resurgence of infections in some countries, persistent supply chain issues, and rising raw material prices that are negatively impacting on households' living costs (Japan Cabinet Office, 9 November 2022). According to the IMF GDP growth forecasts released in October 2022, the Japanese economy is expected to grow by 1.7 per cent in 2022, followed by a 1.6 per cent expansion in 2023 (IMF World Economic Outlook, 11 October 2022).

1.5 Advanced Economies CPI

Annual inflation rate in the US eased to 8.2 per cent in September 2022 compared to an 8.3 per cent hike in August. Notably, energy inflation increased by a lower 19.8 per cent compared to a 23.8 per cent hike in August due to some slowing in price hikes for gasoline and fuel oil. A small slowdown was also seen in the cost of food, slowing to 11.2 per cent in September from 11.4 per cent in August, which was the highest since 1979. Meanwhile, the core rate which excludes volatile food and energy, rose to 6.6 per cent, the highest since August of 1982 (US Bureau of Labour Statistics | Trading Economics, 19 October 2022).

Annual inflation rate in the Eurozone continued to break record high levels and jumped to 10.7 per cent in October 2022 from 9.9 per cent in September. Prices of energy continue to have the biggest impact, followed by food, alcohol & tobacco, non-energy industrial goods and services. Compared to the previous month, consumer prices were up by 1.5 per cent, the highest increase in seven months (Eurostat, 31 October 2022).

Figure 4: Advanced Economies CPI



Source: *www.tradingeconomics.com*

The annual inflation rate in the UK rose to 10.1 per cent in September 2022 after rising to 9.9 per cent in August, returning to the 40-year high hit in July. The largest contribution to the increase came from a 14.8 per cent rise in food prices (namely oils and fats and dairy products) in September following a 13.4 per cent increase in August 2022. Consumer costs for housing and utilities also grew by 20.2 per cent in September following a 20.0 per cent increase in the previous month, amid soaring prices for electricity, gas, and home fuels.

On the other hand, cooler price growth for motor fuels further slowed inflation for transportation, that edged lower by 10.6 per cent from a 12 per cent hike in August 2022. Meantime, the annual core rate, which excludes energy, food, alcohol, and tobacco, rose to a record-high of 6.5 per cent. On a monthly basis, consumer prices rose by 0.5 per cent in September, unchanged from the previous month (UK Office for National Statistics, 19 October 2022).

Japan's annual inflation rate remained at 3.0 per cent in September 2022 unchanged from August's near 8-year high figure. This happened amid high food prices and raw materials as well as Yen weakness. Main upward pressure came from rising food prices at 4.2 per cent; fuel, light & water charges at 14.9 per cent. Cost for electricity rose by 21.5 per cent and gas at 19.4 per cent; transport & communication at 0.6 per cent; housing at 0.6 per cent; furniture & household utensils at 6.6 per cent; culture & recreation at 2.2 per cent and miscellaneous at 1.2 per cent. Year-on-year, core consumer prices rose by 3.0 per cent, the most since September 2014 and above the Bank of England's target rate of 2.0 per cent for sixth straight month (Trading Economics, 9 November 2022).

1.6 Monetary Policy in Advanced Economies

The US Federal Reserve raised the federal funds rate (FFR) by 75 bps to the 3.75-4.0 per cent range during its November 2022 meeting. It marks a sixth consecutive rate hike and the fourth straight ¾ point increase, pushing borrowing costs to a new high since 2008 as the FED tries to bring runaway inflation under control by slowing the economy.

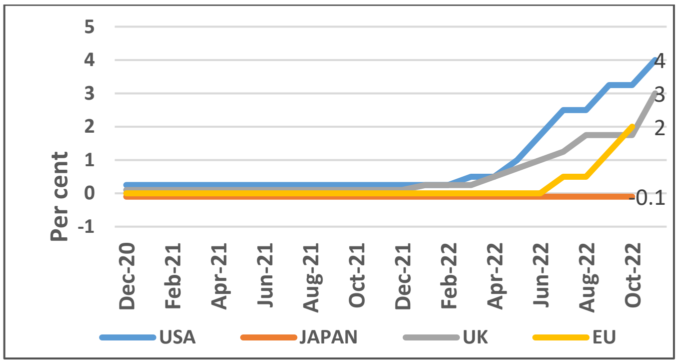
According to the FED policy makers, the ongoing increases in the target range will be appropriate and when deciding on the size of the increase, the FED will consider the cumulative tightening of monetary policy. In addition, the Fed will consider the lags with which monetary policy affects economic activity and inflation, and economic and financial developments, when deciding on the size of further increases.

The US economy has seen the inflation rate surging to the highest in 40 years, putting a squeeze on American households and businesses. The Fed aims to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 per cent (US Federal Reserve, 9 November 2022).

The European Central Bank raised its key interest rates by 75 bps during its 27 October 2022 meeting, following a similar move in September and bringing borrowing costs to the highest since early 2009 as it battles high inflation and a looming recession. The decision came in line with forecasts. The refinancing rate now stands at 2 per cent from 1.75 per cent, the deposit facility at 1.5 per cent, and the marginal lending is at 2.25 per cent. The central bank highlighted that it expects to raise interest rates further and will base future increases on the evolving inflation and economy, on a meeting-by-meeting basis (European Central Bank I Trading Economics, 27 October 2022).

Meantime, the minutes of the September 2022 ECB Monetary Policy meeting showed that, policy makers were concerned about hiking food, energy, gas and services prices across Europe. ECB authorities highlighted that, inflation will likely stay above the central bank's target for an extended period and that growth concerns should not prevent a needed increase in interest rates. Furthermore, policy makers highlighted that the central bank's response to upside deviations from the ECB's target must be as forceful as it had been when inflation had been too low, as inflationary pressures resulting from the depreciation of the euro might increase further (European Central Bank, 19 October 2022).

Figure 5: Interest Rates in Advanced Economies



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

The Bank of England (BOE) raised interest rates by 75 bps to 3 per cent during its 2 November 2022 meeting. This represented the largest rate hike since 1989, raising interest rates to the highest level since late 2008, aiming to combat stubbornly high inflation amid weakening economic outlook. The central bank also said further rate increases may be required for a sustainable return of inflation to target.

Looking ahead, the Bank of England expects GDP to continue to fall throughout 2023 and H1-2024, as high energy prices and materially tighter financial conditions weigh on spending. Meanwhile, consumer prices will start to retreat from early 2023, before dropping sharply to levels way below the 2% target in two years' time (Bank of England, 2 November 2022).

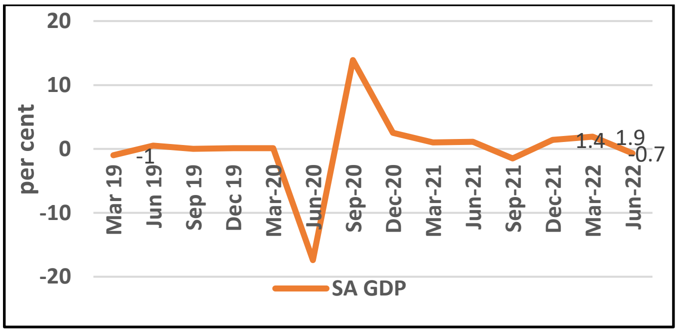
The Bank of Japan (BOJ) maintained its key short-term interest rate at -0.1 per cent and the interest for 10-year bond yields around 0 per cent in during its October 2022. BOJ officials cited rising prices of energy, food, and durable goods as driving factors that were considered, whilst the economy is expected to be under downward pressure from high commodity prices due to the ongoing war in Ukraine. In a quarterly outlook report, the board reviewed its 2022 GDP growth forecast to 2.0 per cent from 2.4 per cent previously, due to the spread of COVID-19 this summer and slowdowns in overseas economies (Bank of Japan | Trading Economics, 9 November 2022).

2.0 ECONOMIC DEVELOPMENTS IN SOUTH AFRICA

2.1 GDP Growth

According to the South African Statistics Office, GDP contracted by 0.7 per cent quarter on quarter in the second quarter of 2022, following a 1.9 per cent expansion in the first quarter. Meanwhile, markets had expected a 0.8 per cent contraction. Notably, value added declined in eight of the ten major sectors, with the sharpest contractions occurring in manufacturing, agriculture, mining and domestic trade. These sectors were hardest hit by the floods in Kwazulu-Natal, severe load-shedding and the slowdown in global demand. The drag stemming from these sectors were contained by stronger growth in transport, storage and communications as well as finance, real estate, and business services.

Figure 6: South Africa GDP Growth



Source: www.statisticssouthafrica.com

The latest GDP numbers are indeed better than market expectations, reflecting pockets of resilience within the economy. The economy is expected to return to growth in the second half of the year as the impact of the floods fade and the intensity of load-shedding hopefully eases. Weaker global demand and falling international commodity prices will continue to weigh on exports, but moderate job gains and higher wages should offer consumers some buffer against higher inflation and rising interest rates (Statistics South Africa, 8 September 2022).

2.2 Monetary Policy

The South Africa Reserve Bank (SARB) raised its benchmark repo rate by 75 basis points (bps) to 6.25 per cent in September 2022 from 5.5 per cent in the previous month. This is the 6th consecutive hike since policy normalization began in a year earlier in November to anchor inflation expectations more firmly around mid-point of the target band.

The vote was not unanimous, with three members favouring the 75-bps hike, while the other two favoured hikes of 100- and 50-bps, respectively. The committee stressed that the risks to the inflation outlook remain tilted mainly to the upside as global producer inflation and food prices continue to surprise on the high side (South African, 21 September 2022).

The South African Reserve Bank (SARB) revised headline inflation higher for 2022 to 6.5 per cent (previously 5.9 per cent), above the central bank's 3-6 per cent target range. Inflation is expected to remain elevated in 2023 at 5.7 per cent (previously 5 per cent) as food, fuel and core inflation continue to add to the upside.

2.3 Inflation Rate

Headline inflation is expected to move closer to the targeted 4.5 per cent midpoint in 2024, averaging 4.7 per cent. Core inflation is also forecasted to accelerate over the next two years, pushed higher by a rise in the price of both core goods and services, rising to 4.3 per cent (previously 3.9 per cent) and 5.6 per cent (previously 5.1 per cent) in 2022 and 2023, respectively. In 2024, core inflation is forecasted to average 4.9 per cent (previously 4.8 per cent) (South African Reserve Bank, 22 September 2022).

According to Statistics South Africa, the annual inflation rate further eased for the second month to 7.5 per cent in September 2022, from 7.6 per cent in August. The inflation rate is still above the upper limit of the South African Reserve Bank's target range of 3-6 per cent. Prices slowed further for transportation, at 17.9 per cent in September following a 21.2 per cent rise in August 2022. Subdued transport inflation is mainly due to easing fuel prices, at 34.1 per cent from 43.2 per cent in August 2022.

Meanwhile, price pressures intensified for other CPI items including food & non-alcoholic beverages rising by 11.9 per cent compared to a 11.3 per cent hike in August. Notably, oils & fats rose by 29 per cent and bread & cereals rose by 19.3 per cent. Alcoholic beverages & tobacco rose by 5.9 per cent from a 5.2 per cent rise in August; housing & utilities at 4.2 per cent against 4 per cent; restaurants & hotels at 7.9 per cent compared to a 5.8 per cent hike in August (Statistics South Africa, 20 October 2022).

2.4 Unemployment Rate

According to Statistics South Africa, the unemployment rate eased to 33.9 per cent in the second quarter of 2022, down from 34.5 per cent in the first quarter and a record high of 35.3 per cent in the fourth quarter of 2021. Employment rose by 648,000 to 15.562 million and the labour force went up by 780,000 to 23.556 million.

Among sectors, job gains were mainly observed in community and social services (+276,000), followed by trade (+169,000), finance (+128,000) and construction (+104,000). The youth unemployment rate, measuring jobseekers between 15 and 24 years old, fell to 61.4 per cent in the second quarter of 2022, the lowest in almost two years (Statistics South Africa, 9 November 2022).

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

3.1 Quarterly GDP Growth

According to an IMF publication on Sub-Saharan Africa (SSA) Regional Outlook, SSA faces the most challenging economic environments in years. Last year, activity finally bounced back, lifting GDP growth in 2021 to 4.7 per cent. However, growth in 2022 is expected to slow sharply to 3.6 per cent, as a worldwide slowdown, tighter global financial conditions, and a dramatic pickup in global inflation spill into a region already wearied by an ongoing series of shocks. Rising food and energy prices are impacting the region's most vulnerable, and public debt and inflation are at levels not seen in decades (IMF Regional Economic Outlook, 11 October 2022).

According to the latest report released by the Lesotho Statistics Office, on a quarter-on-quarter seasonally adjusted basis, the country's GDP contracted by 0.3 per cent in the second quarter of 2022, the same decline recorded in the first quarter of 2022. Main sectors contributing to the decline in GDP growth include Agriculture, Forestry & Fishing which grew by a lower 3.7 per cent in Q2-2022 compared to a 4.1 per cent increase in Q1 and Manufacturing growth slowed to 14.3 per cent from 15.9 per cent in Q1-2022.

Meanwhile, Electricity and Water output decreased to 4.4 per cent in Q2 from 5 per cent in Q1-2022, whilst Finance and Insurance sector contribution decreased to 11.1 per cent compared to 11.7 per cent in the first quarter of 2022 (Lesotho Bureau of Statistics| www.centralbank.org.ls, 9 November 2022).

Botswana's economy contracted by 1.5 per cent quarter-on-quarter in Q2-2022 following a 6.5 per cent expansion in the first quarter of 2022. The main contributor to the downturn in the economy was a 3.4 per cent decline in Mining & Quarrying, mainly influenced by the decrease in the diamond and gold real value added by 5.0 and 18.9 per cent, respectively. Meanwhile, other industries recorded growth levels of more than 0.7 per cent (Central Statistics Office, Botswana| https://www.statsbots.org.bw/latest-publications, 20 October 2022).

According to a latest Report released by the Central Bureau of Statistics of Namibia, the country's economy grew by 2.72 per cent quarter-on-quarter in Q2-2022, following a 0.56 per cent contraction in the first quarter of 2022. Economic activity benefitted from an improvement in contributions by Mining & Quarrying which grew by 29.4 per cent in Q2-2022 compared to a 21.3 per cent increase in Q1. In addition, Hotel and Restaurant's output grew by 8.9 per cent in Q2 following a lower 3.7 per cent growth in Q1-2022 (Central Bureau of Statistics of Namibia|Bank of Namibia| Trading Economics, 20 October 2022).

3.2 Annual Inflation Rate

Inflation has been increasing in sub-Saharan Africa since the start of the pandemic. Median inflation reached almost 9 per cent as of July 2022 compared with a pre-pandemic (2009–19) average of a little more than 5 per cent. While inflation is currently at its highest in a decade, it remains below the peak of 12 per cent (median) in the region during the global financial crisis. With limited domestic demand pressures, external factors such as global commodity prices and supply chain disruptions have been the major drivers of inflation over the past year (International Monetary Fund (IMF)- "Tackling Rising Inflation in Sub-Saharan Africa, 11 October 2022).

Annual inflation rate in Namibia eased marginally to 7.1 per cent in September 2022 from an over five-year high of 7.3 per cent in August. Transport, Food and Non-alcoholic beverages components continued to be the main contributors to the annual inflation rate with a contribution of 2.8 per cent and 1.7 per cent, respectively. On a monthly basis, consumer prices edged up by 0.1 per cent, after increasing by 0.3 per cent in the previous month (Central Bureau of Statistics, Namibia | Trading Economics, 20 October 2022).

In Lesotho, annual inflation rate decreased further to 9.2 per cent in September 2022 following a 9.4 per cent in August 2022. Main contributors to the latest inflation number included Food and Non-alcoholic beverages, Clothing and Footwear, Housing and Utilities (Lesotho Bureau of Statistics, 20 October 2022).

Annual inflation rate in Botswana fell to 13.8 per cent in September 2022 from a near 14-year high of 14.6 per cent in August, mainly due to a 36.2 per cent slowdown in Transportation prices, from 39.8 per cent in August 2022. This is attributed to a drop-in retail pump prices for petrol and diesel in September. Prices also increased at a softer pace for Services and Miscellaneous Goods, at 9.4 per cent compared to a 9.8 per cent rise in August. Meanwhile, prices continued to accelerate for Food & Non-alcoholic beverages, at 14.8 per cent in September following a 13.2 per cent rise previously. On a monthly basis, consumer prices were up by 0.3 per cent, the same pace as in August 2022 (Statistics Botswana, 20 October 2022).

3.3 Monetary Policy Stance

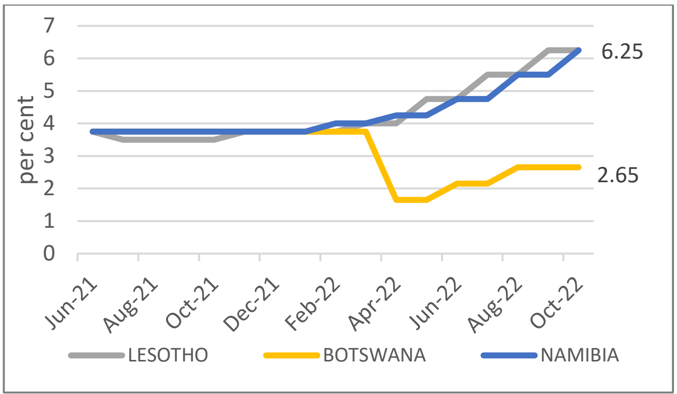
The Bank of Namibia (BON) raised its key lending rate by 75 bps to 6.25 per cent during its October 2022 meeting. According to the BON this decision was taken with due consideration of the persistent inflationary pressure and was deemed appropriate to safeguard the one-to-one link between the Namibian Dollar and the South African Rand, while meeting the country's international obligations. Moreover, the BON added, this monetary policy stance was necessary to narrow the current negative real policy interest rate and was consistent with that taken around the globe and, in the region, with policymakers acting with resolve to slow and eventually reverse the current acceleration in inflation (Bank of Namibia, 27 October 2022).

The Central Bank of Lesotho, during it meeting held on 27 September 2022 decided to raise the bank rate by 75 bps to 6.25 per cent. The Bank considered and noted that global economic activity has generally slowed down and global financial markets continue to display uncertainties. Furthermore, domestic economic activity has declined, while inflationary pressures remain elevated (Bank of Lesotho, 27 September - 9 November 2022).

The Central Bank of Botswana kept its benchmark interest rate (also known as the monetary policy rate - MoPR)) steady at 2.65 per cent during its October 2022 meeting, following a 50 bps rate hike in August. The central bank highlighted that, the decision was aimed at continuing to support an emerging economic recovery against a backdrop of strong inflationary pressures and global uncertainties.

The bank further said that elevated inflation in the short term was primarily due to supply-side factors and related second-round effects, but that demand remained modest. The Central bank forecasts headline inflation rate to fall back to within its 3-6 per cent objective range from the third quarter of 2024 (Bank of Botswana|Trading Economics, 20 October - 9 November 2022).

Figure 7: 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

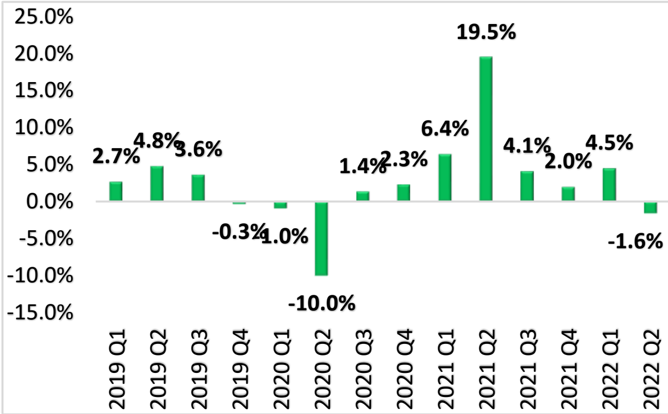
Economic activity, as measured by the Quarterly Gross Domestic Product (QGDP), contracted by 1.6 per cent on a year-on-year basis (seasonally adjusted), in the second quarter of 2022, from a revised growth of 5.0 per cent in the first quarter of 2022. The observed moderation was mainly driven by slower growth from the primary and secondary subsectors. On a quarter-on-quarter basis, GDP declined by 5.5 per cent, seasonally adjusted, from a growth of 5.3 per cent in the previous quarter.

The primary sector grew by a slower 6.0 per cent, year-on-year, in the second quarter of 2022 compared to a revised growth of 14.3 per cent in the first quarter of 2022. Slower growth was noted in 'growing of crops on Swazi Nation Land', 'animal production' and 'forestry' subsectors. Unfavorable weather conditions, coupled with high feed costs, resulted in the 'animal production' sub sector increasing by a slower 1.1 per cent in the second quarter of 2022, from a higher growth of 11.2 per cent in the previous quarter. The 'forestry' subsector grew by a slower 13.9 per cent in the second quarter of 2022 compared to a growth of 28.1 per cent in the previous quarter. Similarly, the year-on-year growth rate in 'mining and quarrying' activities receded to 15.5 per cent in the quarter under review, compared to 26.4 per cent in the previous quarter.

The secondary sector contracted by 8.8 per cent year-on-year, in the second quarter of 2022 from a revised growth of 16.5 per cent in the first quarter, largely attributed to poor performance in 'manufacturing' and 'construction' subsectors. Following five quarters of resilient growth, manufacturing output declined by 11.8 per cent in quarter ended June 2022 reflecting a moderation in external demand. Subsectors that performed poorly during the quarter under review included 'manufacture of beverages', 'manufacture of textiles' and 'manufacture of wood and wood products' all of which are export-oriented. Construction activity remained on a downtrend declining by 15.4 per cent in the quarter ended June 2022. The contraction in construction activity can mainly be attributed to a slowdown in the implementation of public-sector projects in line with the fiscal cashflow position, while the implementation of private sector projects remains muted due to prevailing uncertainty. Moreover, the 'water and sewerage' subsector recorded an 8.0 per cent contraction, year-on-year, in the second quarter of 2022 compared to a growth of 10.0 per cent in the previous quarter, as demand for treated water fell for both households and industries. On a positive note, however, the electricity supply subsector recorded a significant 73.5 per cent growth reflecting a notable growth in power generation in the quarter under review, which aided a 12.0 per cent decline in import volumes (on a year-on-year basis).

The tertiary sector output grew by 1.1 per cent year-on-year, during the quarter under review, from a revised decline of 2.3 per cent in the previous quarter. Sectors that recorded notable positive performance included 'information and communication', 'financial and insurance' and 'real estate activities'. The increased usage of digital platforms continues to contribute significantly to the usage of data services thereby supporting strong growth in the 'information and communication' subsector. Negative performance was observed in the 'wholesale & retail' and 'transport & storage' subsectors which can be attributed to weak domestic demand and poor performance in the manufacturing and construction sub-sectors.

Figure 8: Quarterly GDP Growth (year-on-year), Seasonally Adjusted; 2019Q1 to 2022Q2



Source: Central Statistics Office (CSO)

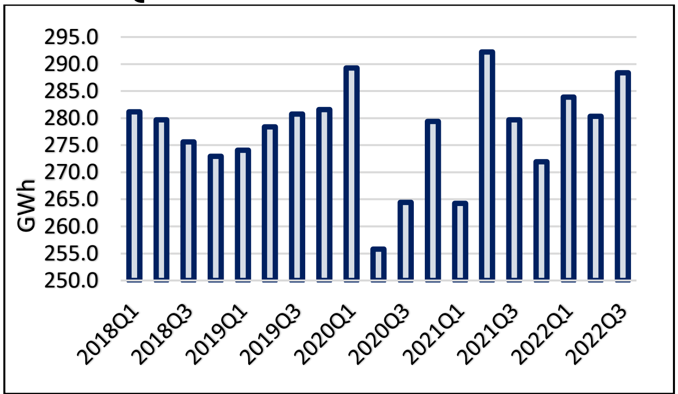
4.2 Selected Quarterly Economic Indicators

- **Electricity Consumption**

Total electricity sales (sourced from the Eswatini Electricity Company, EEC) rose by 2.9 per cent (seasonally adjusted) in the quarter ended September 2022, compared to a decline of 1.3 per cent in the quarter ended June 2022. The recovery can be largely attributed to an increase in electricity demand by 'irrigation power & bulk' as well as 'commercial' customers. Sales to the 'irrigation power & bulk' category accelerated by 6.9 per cent in the quarter under review, from a decline of 6.6 per cent in the previous quarter, indicating improved activity in irrigated farms, particularly those used for sugarcane farming. On the other hand, electricity sales to commercial (non-agricultural) customers increased by 4.4 per cent in the quarter ended

September 2022, compared to a 1.2 per cent increase in the previous quarter. Domestic electricity sales continued to grow steadily, increasing by a modest 0.5 per cent in the third quarter of 2022. The total number of electricity customers receded by 12.3 per cent to 265,148 in the quarter under review owing to significant decreases in the number of 'domestic' customers.

Figure 9: Electricity Consumption; 2018Q1 to 2022Q3

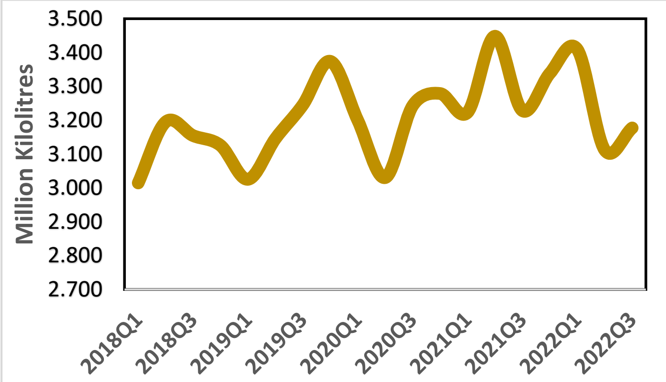


Source: Eswatini Electricity Company

- **Water Consumption**

Figures sourced from the Eswatini Water Services Corporation (EWSC) indicated that total treated water consumption increased by 2.1 per cent (seasonally adjusted) in the quarter ended September 2022, compared to a decline of 8.7 per cent in the quarter ended June 2022. Water sales to residential households grew by 2.2 per cent in the quarter under review, compared to a decline of 9.3 per cent in the previous quarter. Similarly, the demand for treated water by the commercial category rose by 2.0 per cent during the quarter under review, up from a decline of 8.0 per cent in the previous quarter. The total number of treated water customers grew by a marginal 0.5 per cent to record 62,263 at the end of the third quarter of 2022.

Figure 10: Water Consumption; 2018Q1 to 2022Q3

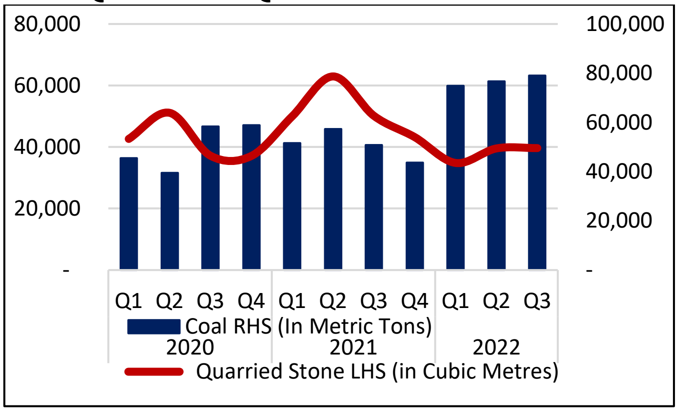


Source: Eswatini Water Services Corporation (EWSC)

- **Mining and Quarrying**

Developments in mining activity were positive during the quarter ended September 2022. Coal production increased by 3.1 per cent to 63,277 metric tonnes in the third quarter of 2022, from 61,390 metric tonnes recorded in the second quarter of 2022. The subsector continues to benefit from the mining of a high yield crown land since the first quarter of 2022. Quarried stone production on the other hand, slightly rose by 0.3 per cent to 49,566 cubic metres in the quarter under review, compared to 49,441 cubic metres recorded in the previous quarter. This increase benefitted from the ongoing construction projects i.e, Manzini golf course Interchange, pro-base road project together with the road rehabilitation projects being done around the country. However, the magnitude of the ongoing projects remained significantly lower than those of the previous the previous year as implementation rate for capital projects remain constrained by fiscal cashflow challenges.

Figure 11: Coal and Quarry Production; 2019Q1 to 2022Q3

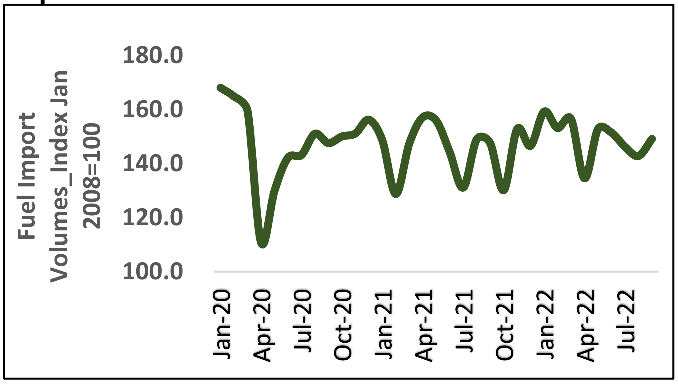


Source: Mining Department

- **Fuel Imports**

Total fuel import volumes (sourced from the Ministry of Natural Resources and Energy, MNRE) rebounded by 4.4 per cent (seasonally adjusted) in September 2022, from a decline of 2.4 per cent recorded in August 2022. This was mainly driven by a 5.6 per cent increase in diesel import volumes during the month under review, reflecting an upturn in commercial freight activity in the domestic economy. On the same note, petrol import volumes rose by 2.8 per cent in September 2022, compared to a 2.0 per cent decline in the previous month. Overall, fuel demand benefitted from the gradual recovery in activity of the manufacturing sector, coupled with decreases in domestic fuel prices in August and September. On the contrary, paraffin import volumes fell by a slower 2.1 per cent in September 2022, from a significant decline of 12.7 per cent recorded in August 2022.

Figure 12: Fuel Imports; January 2020 to September 2022



Source: Ministry of Natural Resources and Energy

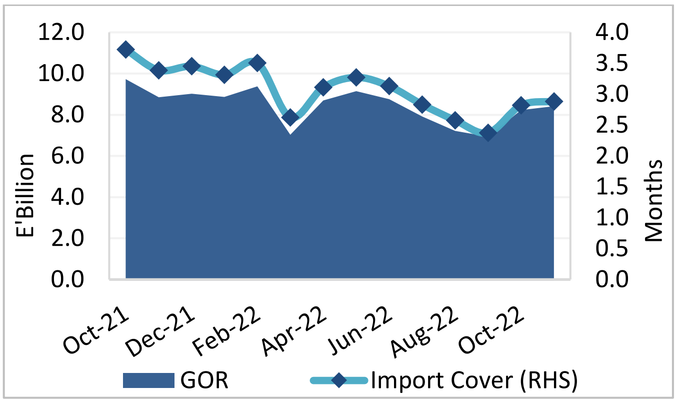
4.3 Monetary Sector Developments

4.3.1 Gross official Reserves

Gross official reserves grew by 18.7 per cent month-on-month, however, over the year declined by 15.4 per cent to close at E8.2 billion at the end of October 2022. The increase in reserves was mainly due to the quarterly inflow of Southern African Customs Union (SACU) receipts, net inflow of Rands from trades with local banks as well as revaluation gains from the depreciation of the Lilangeni/Rand exchange rate against major trading currencies over the review month. At E8.2 billion, the reserves were sufficient to cover an estimated 2.8 months of imports in October 2022, compared to 2.4 months in September 2022.

Latest available data indicate that as at 4 November 2022, gross official reserves increased to E8.4 billion - equivalent to 2.9 months import cover - on account of the weekly net foreign currency inflows from trades with the banks.

Figure 13: Gross Official Reserves & Import Cover

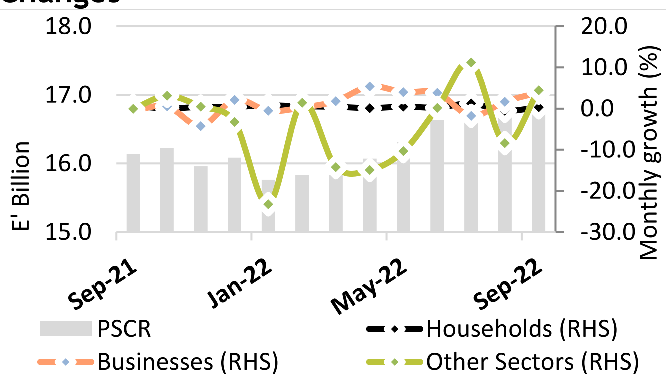


Source: Central Bank of Eswatini

4.3.2 Credit Extension

Total credit extended to the private sector amounted to E17.1 billion in September 2022, up by 2.2 per cent compared to August 2022 and 5.7 per cent year-on-year. The increase in credit was realised across all sectors, namely, other (unclassified) sectors of the economy, business sector as well as the household & non-profit institutions serving households (NPISH). In real terms, annual growth in private sector credit remained negative, at -1.0 per cent year-on-year from -2.4 per cent in August 2022.

Figure 14: Private Sector Credit: Monthly Changes

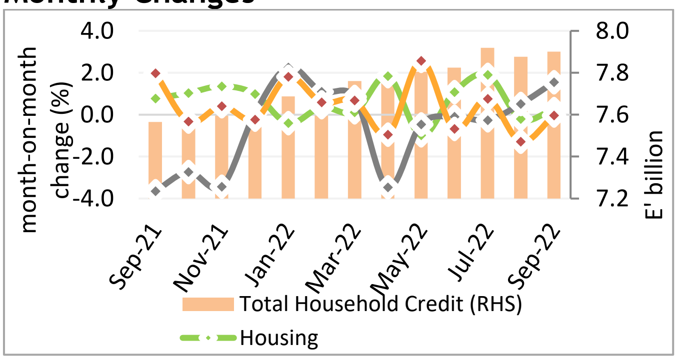


Source: Central Bank of Eswatini and Other Depository Corporations

Credit extended to other sectors of the domestic economy expanded by 4.4 per cent over the review month to close at E807.9 million at the end of September 2022, however, year-on-year, it was down by 45.6 per cent. The month-on-month increase was due to higher demand in credit by other financial corporations and parastatals while credit to local government receded. Credit to other financial corporations and parastatals grew by 7.1 per cent to E510.8 million and 0.2 per cent to E253.1 million, respectively. However, credit to local government declined by 0.4 per cent to settle at E44.0 million in September 2022.

Credit extended to the household & NPISH sector grew by a marginal 0.3 per cent month-on-month and 4.4 per cent year-on-year to close at E7.9 billion at the end of September 2022. Growth in credit to the household sector emanated from higher motor vehicle and housing loans; motor vehicle loans increased by 1.6 per cent to E922.8 million while housing loans expanded by 0.3 per cent to E3.9 billion. Other personal (unsecured) loans, on the other hand, declined by 0.04 per cent to settle at E3.0 billion at end-September 2022.

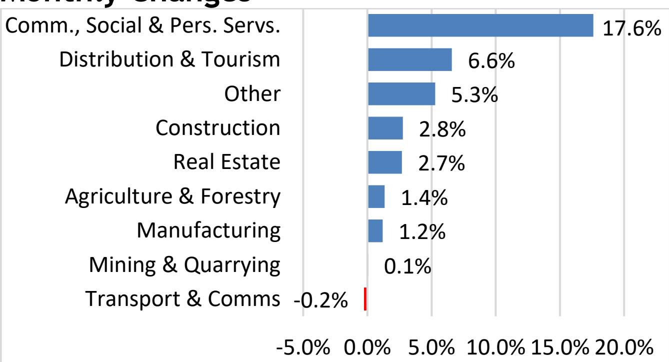
Figure 15: Household Credit by Product: Monthly Changes



Source: Central Bank of Eswatini & Other Depository Corporations

Credit extended to the business sector rose to E8.3 billion at the end of September 2022, depicting growth of 3.9 per cent compared to August 2022 and 17.8 per cent year-on-year. Expansions in credit were realised across all industries, except credit to the transport & communications industry. Major contributors to the increase were community, social & personal services with a month-on-month growth of 17.6 per cent and distribution & tourism with a 6.6 per cent increase in credit extension. Credit to transport & communications, however, contracted by 0.2 per cent in September 2022.

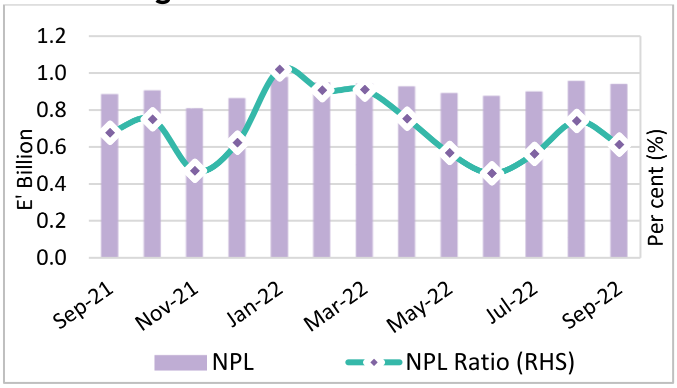
Figure 16: Business Credit by Industry: Monthly Changes



Source: Central Bank of Eswatini and Other Depository Corporations

The quality of the banking sector's loan book, as measured by non-performing loans (NPLs), slightly improved over the review month. Non-performing loans decreased by 1.6 per cent over the month to close at E978.4 million at the end of September 2022, however, were higher by 6.0 per cent compared to September 2021. The decline in NPLs was due to improved loan service by the business sector resulting in lower NPLs in the agriculture & forestry (-14.3 per cent), distribution & tourism (-4.1 per cent), and transport & communications (-3.1 per cent) industries. Subsequently, the NPLs ratio fell from 7.0 per cent in August 2022 to 6.8 per cent in September 2022.

Figure 17: Non-Performing Loans and Non-Performing Loans Ratio



Source: Central Bank of Eswatini

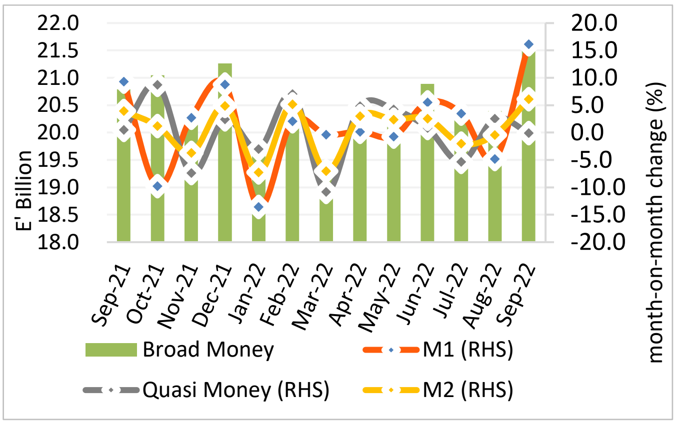
4.3.3 Money Supply

Broad money supply (M2) amounted to E21.6 billion in September 2022, higher by 6.1 per cent month-on-month and 4.1 per cent over the year. The month-on-month increase in M2 was driven by narrow money supply (M1) while quasi money contracted. In real terms, M2 declined by 2.6 per cent year-on-year, an improvement from the fall of 3.9 per cent recorded the previous month.

Narrow money supply (M1) expanded by 16.2 per cent over the month and 6.6 per cent year-on-year to reach E9.0 billion at the end of September 2022. The month-on-month rise in M1 was evident in both currency in circulation and transferable (demand) deposits. Currency in circulation rose by 19.2 per cent to E803.2 million. Transferable (demand) deposits grew by 15.9 per cent to reach E8.2 billion at the end of September 2022.

Quasi money supply contracted by 0.05 per cent over the review month and was higher by 2.4 per cent over the year at E12.6 billion at the end of September 2022. Responsible for the decline in quasi money were savings deposits which fell by 5.3 per cent to settle at E2.0 billion in September 2022. Time deposits on the other hand, rose by 1.0 per cent to reach E10.7 billion over the review period.

Figure 18: Money Supply: Monthly Changes



Source: Central Bank of Eswatini and Other Depository Corporations

4.4 Banking Sector Performance

The banking system remained sound and stable in Q3-2022. During the quarter under review, banking sector assets increased by 4.5 per cent. Banks complied with minimum capital requirements, though falling from Q2-2022 positions. Banks' asset quality, earnings and profitability deteriorated during the quarter. Banks continued to maintain adequate liquidity levels, though continuing to fall since Q4-2021.

4.4.1 Banking Sector Assets

During Q3-2022, banking sector assets increased by 4.5 per cent to settle at E27.3 billion. Loans and advances increased by 1.8 per cent to reach E14.4 billion. On the funding side, total deposits increased by 1.4 per cent to settle at E20.6 billion while total shareholders' funds marginally increased by 1.2 per cent to stand at E3.7 billion.

4.4.2 Capital Adequacy

The banks complied with minimum capital requirements as at end Q3-2022, though falling from the previous quarter positions. The decrease is attributable to increases in the banking sector's risk-weighted assets (RWA). As such, the average industry-wide regulatory tier 1 capital adequacy ratio and total capital adequacy ratio fell from 15.5 per cent and 17.6 per cent respectively, to settle at 14.8 per cent and 17.0 per cent, respectively.

4.4.2 Capital Adequacy

The banks complied with minimum capital requirements as at end Q3-2022, though falling from the previous quarter positions. The decrease is attributable to increases in the banking sector's risk-weighted assets (RWA). As such, the average industry-wide regulatory tier 1 capital adequacy ratio and total capital adequacy ratio fell from 15.5 per cent and 17.6 per cent respectively, to settle at 14.8 per cent and 17.0 per cent respectively.

4.4.3 Earnings and Profitability

Banking sector earnings and profitability deteriorated during the quarter ending September 2022. The average return on banks' total assets (ROA) marginally decreased to 2.0 per cent from 2.1 per cent. Return on total equity (ROE) also fell from 15.1 per cent to

14.3 per cent. The total cost-to-income ratio worsened to 76.4 per cent during the quarter under review from 75.3 per cent reported in June 2022. Banks' operating expenses accounted for 54.1 per cent of total income, decreasing marginally from the previous quarter's position of 54.6 per cent.

4.4.4 Liquidity Risk

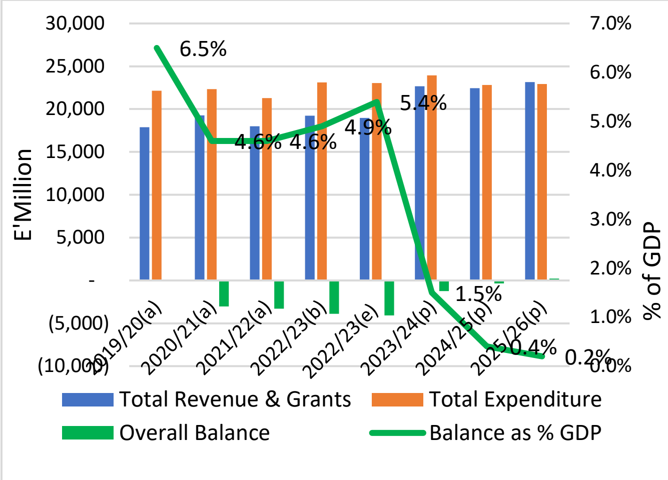
Banks maintained adequate levels of liquidity during the quarter under review. Aggregate bank liquidity to total deposits continued its downward trend, falling from 37.7 per cent of June 2022 to stand at 32.2 per cent in September 2022, but still remained above the regulatory minimum. Government securities represented the largest portion of liquidity held by banks, accounting for 64.9 per cent. As a share of total assets, liquid assets decreased from 29.2 per cent to 24.3 per cent in September 2022. The ratio of loans and advances to deposits marginally increased from 69.9 per cent to 70.2 per cent during the quarter under review.

4.5 Public Finance

4.5.1 Budget Execution

The mid-term outturn at the end of September 2022 indicates that the budget was at 44 per cent execution, with E10.15 billion being committed. Expenditure has been driven by the wage bill due to the granting of CoLA above the budgeted 3 per cent. Domestic revenue collection has been revised downwards from the original budget due to poor collections. At the end of September 2022, E7.8 billion had been collected, of which E2.9 billion was from SACU.

Figure 19: Budget Summary: 2019/20 - 2025/26



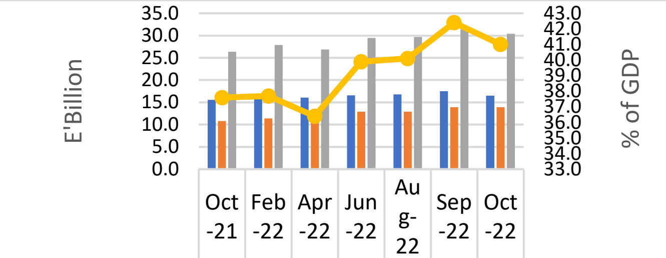
Therefore, the financing gap at the end of September 2022 was E2.35 billion, translating to 6.3 per cent of GDP. Despite adhering to the overall expenditure ceiling, the projected shortfall in revenue is expected to increase the budget deficit to E4.070 billion, or 5.4 per cent of GDP at the end of the financial year.

At the beginning of October 2022, Government was operating on a cash flow deficit of E3.0 billion. If the budget is fully executed without any additional sources of financing, by the end of the financial year, domestic arrears are projected to reach E4.6 billion. It is therefore critical for Government to raise at least E5 billion in order to avoid further accumulation of arrears.

4.5.2 Budget Execution

Preliminary figures indicate that total public debt stood at E30.4 billion as at the end of October 2022, an equivalent of 41.0 per cent of GDP. This shows an increase of 2.4 per cent from E29.7 billion recorded in August 2022, as a result of disbursements for projects, and the depreciation of the Lilangeni. However, month-on-month, a decline of 3.3 per cent was recorded from September to October 2022. The decline was a result of a fall in domestic debt.

Figure 20: Total Public Debt October 2021 to October 2022



	Oct -21	Feb -22	Apr -22	Jun -22	Aug-22	Sep -22	Oct -22
Domestic	15.6	16.5	16.1	16.6	16.8	17.5	16.5
External	10.8	11.4	10.8	12.9	12.9	13.9	13.9
Total	26.4	27.9	26.9	29.5	29.7	31.4	30.4
% of GDP	37.6	37.7	36.4	39.9	40.1	42.4	41.0

Source: Central Bank of Eswatini

Critical debt ratios indicate that public finances have reached unsustainable level, with Gross Financing Needs (fiscal deficit + debt amortization + other financing needs) exceeding the recommended 10 per cent to 21 per cent of GDP. Total public debt to GDP is at 41.0 per cent at the end of October 2022, surpassing the domestic policy of 35 per cent of GDP, but within the Bretton Woods 50 per cent recommended.

4.6 External Sector Developments

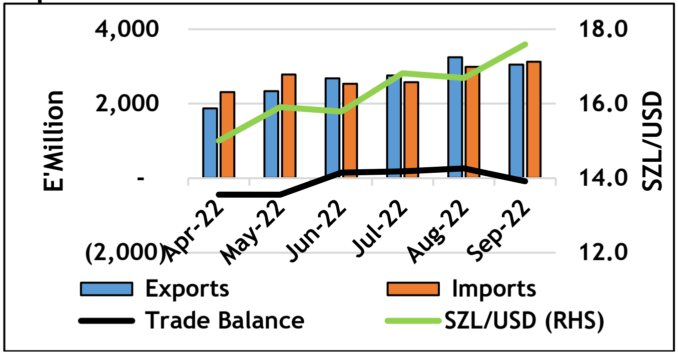
In September 2022, Eswatini recorded a trade deficit of E79.7 million from a surplus of E263.1 million in the previous month. The deterioration in the merchandise trade balance was due to a 6.3 per cent month-on-month decline in exports to E3.046 billion, while year-on-year exports exhibited an increase of 6.5 per cent. Imports on the other hand increased by 4.6 per cent month-on-month to E3.126 billion and on a yearly comparison imports were 18.8 per cent higher, contributing to the deficit observed in the trade balance.

Seasonally adjusted trade data recorded a trade deficit of E199.2 million from a surplus of E94.9 million in the previous month. This trade gap resulted from seasonally adjusted imports which increased by 7.9 per cent month-on-month to E2.992 billion, while seasonally adjusted exports demonstrated a decline of 2.6 per cent compared to the previous month to settle at E2.792 billion.

Cumulative trade balance for January to September 2022 reflects a deficit of E632.4 million, a turnaround from the surplus of E653.4 million logged in the same period of 2021. Exports to date recorded a growth of 8.3 per cent year-on-year when compared to the first 9 months of 2021 to E23.442 billion. Cumulative imports grew by a higher 14.7 per cent to E24.074 billion compared to the same period in the previous year.

The country's major exports continue to be dominated by 'soft drink concentrates', 'sugar', 'textile', and 'wood and articles of wood'. Of these, only 'Soft drink concentrates' recorded an increase in the month of September amounting to E1.379 billion, up by 13.0 per cent. While 'sugar and sugar' confectionary in the month of September fell by 40.0 per cent to E548.6 million, underpinning the deficit observed in the trade balance. When compared on an annual basis 'sugar and sugar confectionary' exports were also lower by 24.2 per cent. 'Textile and textile apparel' also recorded a decline, falling by 6.3 per cent monthly to E288.0 million, year-on-year this decline was more pronounced at 16.4 per cent. 'Wood and articles of wood' were no exception, contracting by 1.3 per cent month-on-month, however, year-on-year only increased by 1.0 per cent.

Figure 21: Merchandise Trade; April 2022 - September 2022



Source: Eswatini Revenue Authority and Central bank of Eswatini

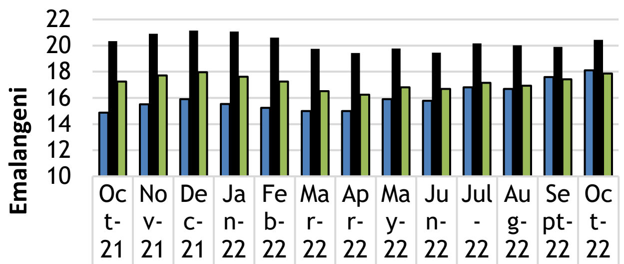
Imports in the period increased by 4.6 per cent month-on-month, the biggest contributor being 'energy products', encompassing fuel and electricity, which amounted to E730.7 million in September accounting for 23.4 per cent of all imports for the month. Other significant import lines include food items in terms of 'meat and vegetables' which amounted to E235.8 million, 13.7 per cent higher than the previous month. 'Textile and apparel' including inputs for the sector increased by 4.2 per cent month-on-month to E311.0 million whiles 'machinery and equipment' increased to E267.8 million, a 7.7 per increase from August 2022. Although vehicle imports remain significant, the country imported 8.9 per cent less in the month of E138.1 million, while importing 0.9 per cent less in the same period of 2021.

4.7 Exchange Rates Developments

Since the last MPCC meeting, the Rand/Lilangeni extended its losses and depreciated further against the major trading currencies. In October 2022, the local unit weakened by 8.5 per cent to trade at E18.10 against the US Dollar on a month average. Against the Pound Sterling and Euro, the local currency depreciated by 2.1 per cent and 5.5 per cent respectively, reaching a rate of E20.44 to the Pound Sterling and E17.85 to the Euro. The losses of the local unit are linked mainly to global monetary policies and economic activity developments in South Africa. With the aim to curb the high inflation and inflation expectations, interest rate hikes in the US have been unusually fast and substantial. With the intensifying observations of a global recession, global markets' preferences are shifting to more secure assets, boosting the US Dollar demand as it is regarded as a safe-haven asset. This led to the detriment of emerging market currencies such as the Rand.

Also contributing to the depreciation of the Rand/Lilangeni were domestic factors in South Africa involving the suppressed ESKOM power supply and paralyzed commercial rail and port services by Transnet. The continued electricity supply shortage and Transnet strike action led to a negative reaction by the markets, dampening South Africa's economic growth prospects. As a result, at the end of October 2022 the Rand/Lilangeni was weaker than the end-period in August 2022; trading at E18.24 to the US Dollar, at E21.17 to the Pound Sterling and at E18.16 to the Euro. The Rand/Lilangeni exchange rate outlook remains a factor of economic growth prospects due power supply effects, political developments and US monetary policy direction.

Figure 22: Lilangeni Exchange Rates against Selected Major Currencies



	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sept-22	Oct-22
USD	14.	15.	16	15.	15.	14.	15.	15.	15.	16.	16.	17.	18.
GBP	20.	20.	21	21.	20.	19.	19.	19.	19.	20.	20.	19.	20.
Euro	17.	17.	18	17.	17.	16.	16.	16.	16.	17.	16.	17.	17.

Source: Central Bank of Eswatini

PART B: INFLATION DEVELOPMENTS

5.1 Headline Inflation

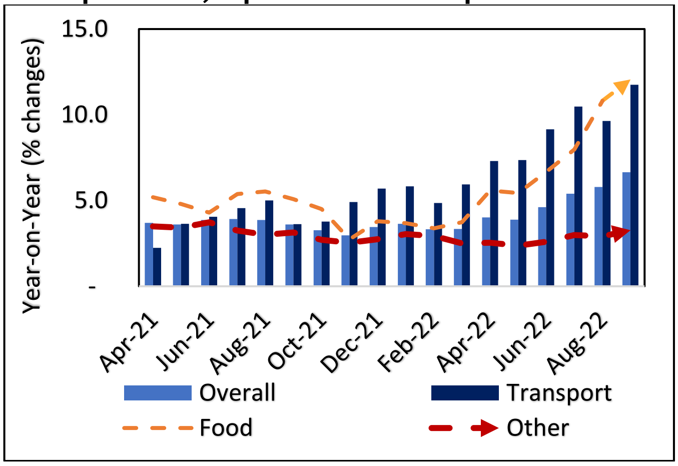
The country's annual consumer prices remained on an upward trend, increasing to 6.7 per cent in September 2022 compared to 5.8 per cent in August 2022. Increases were noted in the price indices for 'transport', 'food & non-alcoholic beverages', 'alcoholic beverages & tobacco' and 'recreation & culture'. Transport inflation rose by 11.8 per cent year-on-year in September 2022 from 9.6 per cent recorded in the previous month. The rise was mainly driven by a 9.9 per cent (year-on-year) jump in the prices of purchasing of motor vehicles during the month under review, picking up from 0.3 per cent in the previous month. Notably, this increase was partially offset by a 150 cents per litre decrease in fuel prices effective on the 2nd of September 2022. Similarly, food inflation remained elevated at double digits, recording 12.1 per cent in September 2022 compared to 10.8 per cent in August 2022, benefitting from increases in the prices for 'bread & cereals', 'milk, eggs & cheese' and 'fish & seafood'. Furthermore, increases were noted in the price indices for 'alcoholic beverages & tobacco' and 'recreation & culture', which grew by 2.1 and 5.1 percentage points, respectively, between the two months under review.

The observed increases were somewhat counteracted by decreasing rates of growth in the price indices for 'household furniture & maintenance' and 'restaurants & hotels'. The index for 'household furniture & maintenance' slowed to 4.8 per cent in September 2022, from 5.1 per cent in the previous month, owing to decreases in the prices for furniture and furnishings. Other deflationary pressures came from the price index for 'restaurants & hotels' that fell by 0.1 of a percentage point to 0.4 per cent, during the period under review.

On month-on-month basis, consumer prices grew by 0.9 per cent in September 2022 compared to 0.6 per cent in the previous month. Contributing to the increase were increases in the price indices for 'transport', 'alcoholic beverages & tobacco' and 'clothing & footwear'. Transport prices remained elevated, rising by 1.5 percentage points to record 1.8 per cent between the two months under review. Moreover, the price index for 'alcoholic beverages & tobacco' and 'clothing & footwear' grew by 2.3 and 1.9 percentage points, respectively, during the same period.

These increases were partially counteracted by an observed decline in the price index for 'food & non-alcoholic beverages', which fell by 1.9 percentage points to 1.1 per cent in September 2022.

Figure 23: Inflation Trends and Components; April 2021 to September 2022



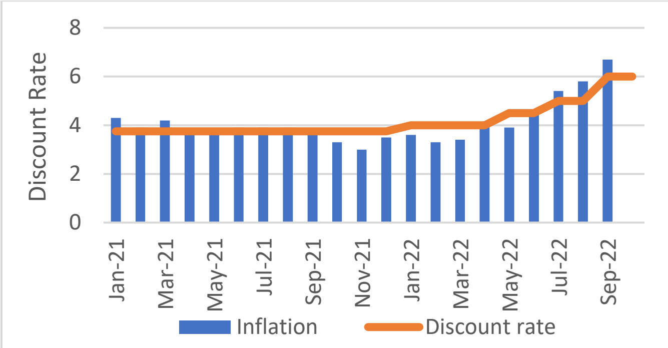
Source: Central Statistics Office (CSO)

Core inflation, which is CPI excluding volatile items such as food, auto-fuel and energy, grew by 2.8 per cent in September 2022 from 2.5 per cent in the previous month. CPI for services remained unchanged at 1.7 per cent whilst the CPI for goods increased by 0.7 percentage points to 10.0 per cent, during the month under review. On a monthly basis, core inflation fell by 0.1 of a percentage points to 0.5 per cent in September 2022.

5.2 Inflation and Interest Rate Trends in Eswatini

The Bank increased the discount rate by 100 bps to 6.0 per cent in September 2022 following a hike of 75 bps by the SARB to 6.25 per cent thus reducing the differential with the SARB repo rate to -25 bps differential.

Figure 24: Inflation and Discount Rates



Source: Central Statistics Office and Central Bank of Eswatini

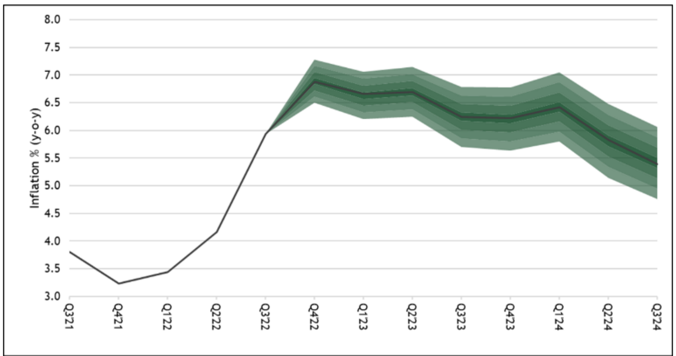
5.3 Inflation Outlook

The country's overall inflation is on an upward trend with persistent peaks initially recorded in the third quarter of 2022. Short-to-medium term risks to the inflation outlook continue to be on the upside and have since intensified, although with high uncertainty. The unprecedented supply bottle necks for oil and food inputs emanating from the ongoing Ukraine-Russia war have strongly amplified the uncertainty surrounding the inflation outlook. However, non-fundamental pressures led to a slower inflation outturn, as a result, in October 2022 the inflation rate reached 5.5 per cent, slightly lower than the Bank's forecast of 5.9 per cent. The Bank has therefore kept its short-term inflation forecast practically unchanged and the medium-term revised upwards. The country's inflation is expected to remain elevated due to: the potential increase in international commodity prices including South Africa's inflation which persistently transmits to domestic inflation through imported finished goods and services. The recent and expected increase in South Africa's fuel prices coupled with the weakening Rand outlook are expected to exert further upward pressure on overall domestic inflation.

While adjustment on domestic administered prices are likely to emanate from an increase in domestic fuel prices as global Brent crude oil prices increase, the lower inflation outturn produced a lower inflation outlook trend. Thus, the annual average inflation forecast for 2022 is almost unchanged at 4.80 per cent, from 4.79 per cent forecasted in September 2022, while the fourth quarter of 2022 is revised down to 5.7 per cent (from 5.9 per cent).

In the medium term, inflation for 2023 and 2024 are higher than the previous forecasts. This upward revision also aligns with more pronounced second-round effects which will, in turn, generate persistent inflationary pressures. In this forecast period, the Rand is expected to remain weaker, exerting upward pressure on inflation. Increases in domestic administered prices are expected to continue as an upside risk. Although the forecasts for 2024 is revised upward, it is still lower than the forecast rate for 2023. This is partly due to expected Brent oil prices being lower for 2024 than 2023. Overall Brent crude oil prices though, are expected to remain elevated. Therefore, inflation for 2023 is forecasted at 5.5 per cent (from 5.3 per cent) and 2024 at 5.0 per cent (from 4.8 per cent).

Figure 25: Inflation Outlook



Source: Central Bank of Eswatini

Bank of England Interest Rate, September 2022. Available from: https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2022/August-2022 (Accessed 20 October 2022).

Botswana Annual Inflation rate, September 2022. Available: https://www.statsbots.org.bw/sites/default/files/publications/consumer (Accessed 20 October - 9 November 2022)

Botswana Monetary Policy Stance, October 2022. Available from: https://www.bankofbotswana.bw| https://tradingeconomics.com/botswana/interest-rate/ (Accessed 20 October 2022).

Botswana Quarterly GDP growth, Q2-2022. Available from: https://www.statsbots.org.bw/sites/default/files/Gross%20Domestic%20Product%20Q2%2022.pdf (Accessed 20 October 2022)

Bank of Lesotho Monetary policy stance, 27 September 2022. Available from: https://centralbank.org.ls/index.php/monetary-policy/mpc-statements/27 September 2022 (Accessed 27 September – 9 November 2022)

Brazil Monetary Policy stance, October 2022. Available from: https://tradingeconomics.com/brazil/interest-rate (Accessed 9 November 2022)

Brazil Consumer prices, September 2022. Available from: https:// https://tradingeconomics.com/brazil/inflation-cpi (Accessed 9 November 2022)

Brazil GDP, Q2-2022. Available from: https://tradingeconomics.com/brazil/gdp (Accessed 20 October - 9 November 2022).

Brent Crude and Gold Price movements, October 2022. Available from: (https://www.marketwatch.com/investing/future/brent|www.opec.org (Accessed 30 October – 9 November 2022).

China Consumer prices, October 2022. Available from http://www.stats.gov.cn/enGLISH/PressRelease/|www.tradingeconomics.com/china/inflation-cpi (Accessed 9 November 2022).

China GDP, Q3-2022. Available from: https://tradingeconomics.com/china/gdp-growth (Accessed 9 November 2022).

China Monetary Policy – PBOC Statement, October 2022. Available from: https://tradingeconomics.com/china/interest-rate (Accessed 9 November 2022)

Eswatini COVID-19 Vaccination update, November 2022. Available from: https://covidvax.live/location/swz, (Accessed 9 November 2022)

Eurozone CPI, October 2022. Available from: https://tradingeconomics.com/euro-area/inflation-cpi (Accessed 31 October 2022)

Eurozone GDP Growth, Q3-2022- flash estimate. Available from: https://www.ec.europa.eu/eurostat/(Accessed 31 October – 9 November 2022)

Eurozone Unemployment Rate, September 2022. Available from: https://www.ec.europa.eu/eurostat/(Accessed 9 November 2022)

Eurozone Interest Rate, October 2022. Available from: https://tradingeconomics.com/euro-area/interest-rate (Accessed 27 October 2022)

IMF Global GDP Growth forecasts, October 2022. Available from: https://www.imf.org/en/Publications/WEO (Accessed, 11 October 2022)

IMF Global GDP Growth Inflation Outlook, October 2022. Available from: https://www.imf.org/en/Publications/WEO October 2022 (Accessed, 11 October 2022)

Global COVID-19 Cases – Update, November 2022. Available from: https://www.worldometers.info/coronavirus/ (Accessed 9 November 2022)

Global COVID-19 vaccinations – percentage share of population vaccinated, November

2022. Available from: https://ourworldindata.org/covid-vaccinations (Accessed 9 November 2022)

Gold bullion price developments, August – September 2022. Available from: |https//www.gold.org/goldhub/research/gold-demand-trends/gold-demand-trends-q1-2022| https://www.marketwatch.com/investing (Accessed 23 October 2022)

Inflation in Sub-Saharan Africa, October 2022. International Monetary Fund (IMF). 2022. "Tackling Rising Inflation in Sub-Saharan Africa." In Regional Economic Outlook: Sub-Saharan Africa—Living on the Edge, Washington, DC, October (Accessed, 20 October 2022)

India GDP Growth, Q2-2022. Available from: https://tradingeconomics.com/india/gdp-growth-annual (Accessed 20 October - 9 November 2022).

India Annual inflation rate, September 2022. Available from: https://tradingeconomics.com/india/inflation-rate (Accessed 9 November 2022).

India Monetary Policy Stance, October 2022. Available from: Available from: https://tradingeconomics.com/india/interest-rate (Accessed 9 November 2022).

Japan GDP Growth, second estimate, Q2-2022. Available from: http://www.esri.cao.go.jp/index-e.htm (Accessed 23 October – 9 November 2022).

Bank of Japan Monetary Policy stance, October 2022. Available from: https://tradingeconomics.com/japan/interest-rate (Accessed 2 November 2022)

Japan Interest Rates, October 2022. Available from: https://www.boj.or.jp/en/mopo/index.htm/ (Accessed 9 November 2022).

Japan's consumer price inflation (CPI), September 2022. Available from: http://www.stat.go.jp/english/data/ (Accessed 9 November 2022).

Japan Unemployment Rate, September 2022. Available from: https://tradingeconomics.com/japan/unemployment-rate (Accessed 2 November 2022).

Lesotho Annual GDP growth q-o-q, Q2-2022. Available from: http://www.lbs.org.ls (Accessed 20 October – 9 November 2022)

Lesotho Annual inflation rate, September 2022. Available from: https://tradingeconomics.com/lesotho/inflation-rate (Accessed 20 October 2022).

Monkeypox disease outbreak, October 2022. Available from: https://www.cdc.gov/poxvirus/monkeypox/response/2022/world-map.html (Accessed October 2022)

Namibia Q2-2022 GDP Growth q-o-q. Available from: https://tradingeconomics.com/gdp-quarter (Accessed 20 October - 9 November 2022)

Namibia Annual Inflation Rate, September 2022. Available from: https://tradingeconomics.com/namibia/inflation-rate (Accessed 20 October 2022)

Namibia Monetary Policy stance, October 2022. Available from: https://www.bon.com.na/ (Accessed 27 October 2022)

Russia GDP Growth, Q2-2022 y-o-y, Available from: https://tradingeconomics.com/russia/gdp-growth-annual (Accessed 20 October - 9 November 2022)

Russia Inflation Rate, September 2022, Available from: https://tradingeconomics.com/russia/inflation-rate (Accessed 9 November 2022)

Reserve Bank of Russia Monetary Policy stance, October 2022. Available from: https://www.reserve- bank-Russia-interest-rate/ (Accessed 9 November 2022)

Reserve Bank of India Monetary Policy stance, August 2022. Available from:

https://tradingeconomics.com/india/interest-rate (Accessed 23 September 2022)

Sub-Saharan Africa (SSA) Regional Outlook, October 2022. Available from: https://www.imf.org/en/Publications/REO/SSA/Issues/2022/10/14/regional-economic-outlook-for-sub-saharan-africa-october-2022 (Accessed 20 October 2022)

South African GDP, Q2-2022. Available from: http://www.statssa.gov.za/ (Accessed 23 September 2022).

South Africa Monetary Policy and stance and GDP growth outlook, September 2022 Available from: https://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/Monetary%21Policy%21Statement%2022%21SEPTEMBER%212022.pdf (Accessed 23 October 2022).

South Africa Consumer prices, September 2022. Available from: http://www.statssa.gov.za/ (Accessed 20 October 2022).

South African Unemployment, Q2-2022. Available from: http://www.statssa.gov.za/ (Accessed 20 October – 9 November 2022).

United Kingdom GDP Growth, Q2-2022. Published by the Office for National Statistics. Available from: https://data.gov.uk/data/search; https://data.gov.uk/dataset/gdp_and_the_labour_market (Accessed 19 October – 9 November 2022).

United Kingdom Consumer inflation rate, September 2022. Published by the Office for National Statistics. Available from: https://data.gov.uk/data/search; https://data.gov.uk/dataset/cpi| 3.source: https://tradingeconomics.com/united-kingdom/inflation-cpi (Accessed 19 October 2022).

Bank of England Interest Rate, November 2022. Available from: https://tradingeconomics.com/united-kingdom/interest-rate (Accessed 9 November 2022).