

MONETARY POLICY CONSULTATIVE COMMITTEE (MPCC)

ECONOMIC REVIEW AND INFLATION REPORT

23 September 2022



ECONOMIC POLICY, RESEARCH AND
STATISTICS DEPARTMENT



CENTRAL BANK
OF ESWATINI
Umntsholi Wemaswati



Domestic Major Highlights

Real GDP	<i>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.</i>
Quarterly GDP	<i>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.</i>
Inflation	<i>The country's annual consumer inflation increased from 4.6 per cent in June 2022 to 5.4 per cent in July 2022.</i>
Inflation Forecasts	<i>The annual average inflation forecast for 2022 is revised up to 4.69 per cent, from 4.38 per cent forecasted in July 2022.</i>
Foreign reserves	<i>The country's stock of gross official reserves declined by 10.6 per cent from July 2022 and 18.8 per cent over the year to E7.1 billion at the end of August 2022. At this level, the reserves were enough to cover 2.5 months of imports of goods and services, lower than the 2.8 months recorded in July 2022.</i>
Exchange rate	<i>Since the July 2022 MPCC meeting, the Rand, along with the Lilangeni, weakened against the major trading currencies. When comparing August 2022 against June 2022, the Rand depreciated by 5.8 per cent to average E16.69 against the US Dollar, 2.8 per cent to average E20.01 against the Pound Sterling, and 1.4 per cent to average E16.92 against the Euro, respectively.</i>
Credit Extension	<i>Credit extended to the private sector amounted to E16.7 billion, representing an increase of 0.2 per cent month-on-month and 3.4 per cent year-on-year.</i>
Public Debt	<i>At the end of August 2022, total public debt stood at E29.7 billion, depicting a 0.3 per cent increase when compared to E29.6 billion recorded in June 2022.</i>
Balance of Payments	<i>In August 2022, the trade account registered a trade surplus of E264.5 million, following a surplus of E182.5 million in July 2022.</i>

PART A: ECONOMIC REVIEW

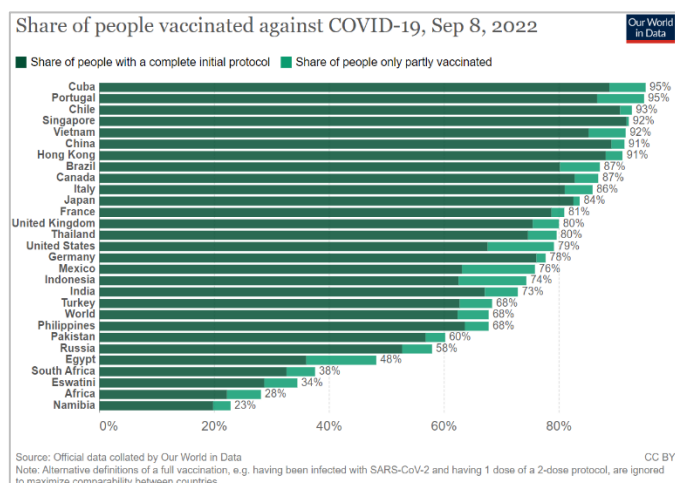
1.0 GLOBAL ECONOMIC CONDITIONS

1.1 Covid-19 Updates

As of 9 September 2022, global COVID-19 cases stood at 612,754,591 with 6,512,838 deaths, and 590,689,024 recoveries. The US remained the most affected nation with 96,959,165 confirmed cases, whilst recoveries stood at 92,951,124 and deaths at 1,074,787 (Worldometers.info/coronavirus, 9 September 2022).

Notably, 67.7 per cent of the world population has received at least one dose of a COVID-19 vaccine. 12.62 billion doses have been administered globally, 4.5 million are now administered each day. Only 21 per cent of people in low-income countries have received at least one dose (ourworldindata.org, 7 September 2022).

Figure 1: COVID-19 Vaccination Update



As if the current COVID-19 was not enough, the globe has seen early in this year a rise of the monkeypox virus and it has now been reported very close to our shores. WHO has not declared

the monkeypox a pandemic yet, but it has started monitoring and reporting the daily cases as the risk it poses rises.

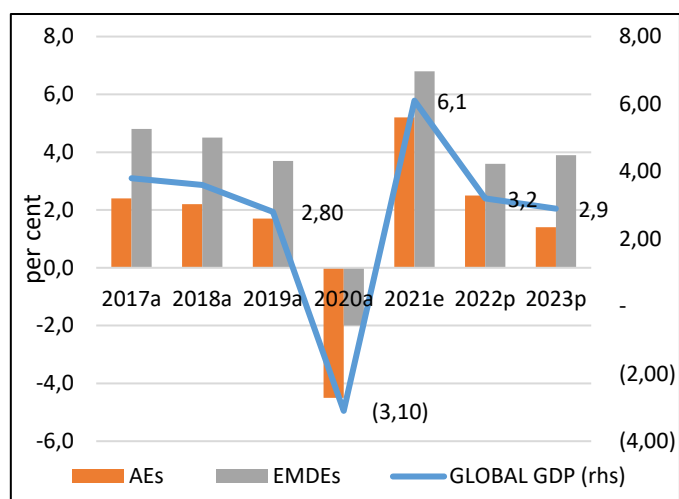
As of 8 September 2022, 54,911 total cases were reported globally. The US leads with confirmed monkeypox cases reported by its Centre for Disease Control (CDC) at 21,504; Spain comes second with 6,749 of its people affected; Brazil cases at 5,525; France at 3,646; Germany at 3,518; UK at 3,484; Peru at 1,724; Canada at 1,317; Netherlands at 1,195 and Colombia at 938 cases.

In addition to the top 10, focusing on Africa: Leading cases were noted in the Democratic Republic of Congo (195), Nigeria (220), Ghana (76) and Central African Republic (8). Closer home South African has reported 5 cases and no fatalities (<https://www.cdc.gov/poxvirus/monkeypox/response>, 8 September 2022). According to Eswatini Ministry of Health the country has not registered any positive case of Monkeypox.

1.2 Overview of Global Economic Developments

According to the IMF's World Economic Outlook (WEO) Update, July 2022, global growth is forecasted to slow by 3.2 per cent in 2022, then moderates to 2.9 per cent in 2023. This is lower by 0.4 and 0.7 percentage point in 2022 and 2023, respectively than the projections in the April 2022 World Economic Outlook.

Figure 2: Global GDP Growth and Projections; 2017 - 2023



a=actual; e=estimate; p=projection

Source: IMF WEO Update, 27 July 2022

The IMF highlights that the latest projections reflect stalling economic growth in some of the world's largest economies. GDP growth in advanced economies is expected to grow by a lower 2.5 per cent in 2022 compared to an earlier estimate of a 3.3 per cent expansion, while the global economy is forecasted to grow by 1.4 per cent in 2023, lower than 1.5 per cent in the April estimates. The United States is expected to grow annually by 2.3 per cent in 2022, down from 3.7 per cent projected in April, Japan will grow by a lower 1.7 per cent against 2.4 per cent and the Eurozone will grow by a subdued 2.6 per cent compared to 2.8 per cent earlier.

In emerging markets and developing economies (EMDEs), GDP growth is forecasted at 3.6 per cent in 2022 and is expected to grow by 3.9 per cent in 2023, reflecting downgrades of 0.2 per cent and 0.5 per cent from the April 2022 estimates, respectively. Most noticeable,

is that China will grow by 3.3 per cent in 2022 following a projected 4.4 per cent in April, having experienced an unexpected slowdown in economic activity. China has been experiencing new outbreaks of COVID-19 that has led to stringent lockdowns, a situation that has been exacerbated by additional negative spill over effects from the Ukraine war in Eastern Europe.

Meantime, within the EMDEs bloc, India is expected to grow by 7.4 per cent in 2022, downwardly revised from a projected 8.2 per cent expansion in the April estimates. Many of the downside risks flagged in the IMF's April 2022 World Economic Outlook (WEO) have begun to materialize. According to the IMF, a global recession is on the cards in 2023, on account of elevated risks, a more universal spread of inflation, more substantial interest rate hikes, a slowdown in China's economic growth, and escalating sanctions related to the war in Ukraine (IMF World Economic Outlook Update, 27 July 2022).

1.3 Review of Global Oil Prices and Gold Price Performance

According to a latest MarketWatch report published on 7 September 2022 (noting that the OPEC's Monthly Oil Market Report (MOMR) will be released on 13 September 2022), the Brent crude oil price has been on a downward trend for the fourth straight month. It edged lower to average \$95.64 a barrel in August 2022 following a decline to average \$105.10 a barrel in July. Investors have been trying to balance

supply-side issues/challenges against fears that a prolonged global economic slowdown will hurt fuel demand. In addition, further headwinds are associated with the fresh COVID-19 outbreaks in major Chinese cities of Shenzhen, Guangzhou and Dalian where millions of the populace have been placed under strict lockdowns, compounding worries of weak economic activity in the world's largest oil importer after the US.

As of 7 September 2022, Brent crude oil was trading at \$94.15 a barrel (www.marketwatch|opec.org|OPEC Monthly Oil Market Report, 11 August - 7 September 2022).

Regarding developments relating to gold bullion, according to a monthly gold update report published on 7 September 2022 by the World Gold Council at gold.org, the gold bullion price fell further in August 2022. Interest Rates and the strength of the dollar against major currencies suppressed gold, which fell by 2 per cent month on month to average \$1715.90 an ounce after averaging \$1722.00 an ounce in July 2022. The latest monthly average price represents a fourth consecutive monthly decline in gold bullion price, against a backdrop of continued higher yields and a stronger US dollar (i.e., opportunity costs drivers) as the US FED reaffirmed its commitment to further monetary policy tightening. As of 7 September, gold bullion was trading at \$1722.00 an ounce. According to the latest gold.org report, the

gold bullion price could remain under pressure if central banks continue to hike aggressively but the risk of either stagflation or outright recession could offset this, as gold has historically outperformed in such environments

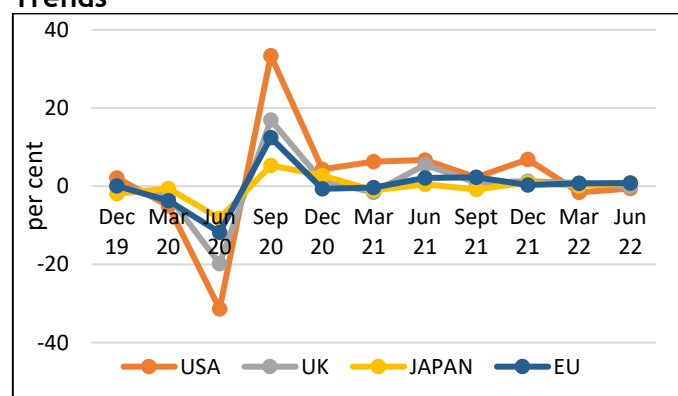
(<https://www.marketwatch.com/investing/future/gold|gold.org/prices>, 24 August - 7 September 2022).

1.4 Advanced Economies GDP Growth

According to the US Bureau of Economic Analysis, the US economy contracted by an annualised 0.6 per cent quarter on quarter in Q2-2022, much less than a previous estimate of a 0.9 per cent contraction, following a 1.6 per cent decline in the first quarter of 2022. The lower decline is primarily attributable to upward revisions to consumer spending and inventories, as the US economy technically entered a recession. Notably, personal consumption expenditure grew by 1.5 per cent, higher than 1 per cent in the advance estimate led by food services and accommodations while spending on goods went down by 2.4 per cent after contracting by 4.4 per cent in the advance estimate. In addition, private inventory investment was revised higher though remained a drag mainly due to retail trade. Meanwhile, residential investment sank by 16.2 per cent much worse than a 14 per cent contraction in the advance estimate (US Bureau of Economic Analysis, 7 September 2022)

According to Eurostat's third estimate, the Eurozone economy expanded by 0.8 per cent quarter on quarter in the second quarter of 2022, higher than a 0.6 per cent rise in the second estimate, and the strongest growth rate in three quarters. This follows a 0.7 per cent expansion in the first quarter of 2022. Household spending was the main driver of the expansion, increasing by 1.3 per cent, prompted by the easing of COVID-19 restrictions and the summer tourism season. Furthermore, government spending went up by 0.6 per cent and gross fixed capital formation grew by 0.9 per cent.

Figure 3: Advanced Economies GDP Growth Trends



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

The United Kingdom economy contracted by 0.1 per cent quarter-on-quarter in the second quarter of 2022, marking the first contraction in more than a year, and compared to a 0.8 per cent expansion in the first quarter. The largest contributors were services going down by 0.4 per cent, with the largest negative contribution from human health and social work activities, reflecting a reduction in

coronavirus activities and falling household consumption spending (UK Office for National Statistics, 12 August 2022).

Japan's 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, 8 September 2022).

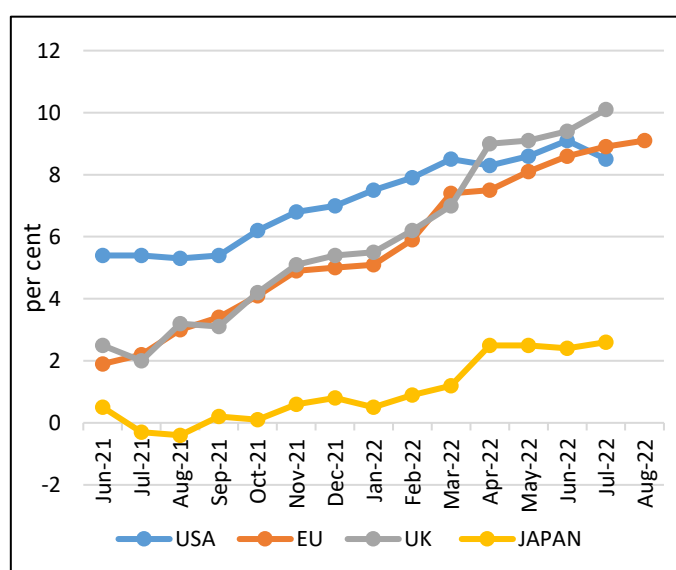
1.5 Advanced Economies CPI

Annual inflation rate in the US slowed more than expected to 8.5 per cent in July 2022 from an over 40-year high of 9.1 per cent in June. This is attributable to a slowdown in energy

prices, mainly due to a big slowdown in gasoline costs, fuel oil, and natural gas while electricity prices accelerated. Costs also slowed for new vehicles and airline fares. On the other hand, inflation continued to rise for food, shelter and used cars and trucks. Core inflation was steady, offering some support that inflation has finally peaked (US Bureau of Labour Statistics | Trading Economics, 10 August 2022).

In the Eurozone annual inflation rate accelerated to 9.1 per cent in August, a new record high, after increasing to 8.9 per cent in July 2022, preliminary estimates showed. The cost of energy remained elevated while prices of food and services continue to accelerate. Excluding energy, inflation increased to 5.8 per cent in August following an increase to 5.4 per cent in July 2022. On a month-on-month basis, consumer inflation advanced to 0.5 per cent (Eurostat, 31 August 2022).

Figure 4: Advanced Economies CPI



Source: www.tradingeconomics.com

The annual inflation rate in the UK hiked to 10.1 per cent in July 2022 from 9.4 per cent in June, the highest inflation rate since 1982 and above market forecast of 9.8 per cent. Prices rose faster for housing & utilities, recreation & culture, food & non-alcoholic beverages and restaurant & hotels. Meantime, transportation prices eased by 14.8 per cent (UK Office for National Statistics, 17 August - 7 September 2022).

The annual inflation rate in Japan rose to 2.6 per cent in July 2022 from 2.4 per cent in June. This was the 11th straight month of increase in consumer prices and the fastest pace since April 2014. This happened amid surging fuel and food cost following Russia's invasion of Ukraine as well as a sharply weakening yen. Main upward pressure primarily came from cost of food, fuel, light and water charges, clothes, housing, furniture, education, culture & recreation, and miscellaneous. On the flip side, cost continued to fall for both transport and medical care.

Core consumer prices were at 2.4 per cent, the most since December 2014, from 2.2 per cent in June and matching forecasts, while remaining above the BoJ's 2 per cent target for the fourth straight month (Japan Ministry of Internal Affairs & Communications | Trading Economics, 18 August 2022).

1.6 Monetary Policy in Advanced Economies

Federal Reserve officials maintained their hawkish view and were committed to getting inflation back to the 2 per cent target, minutes

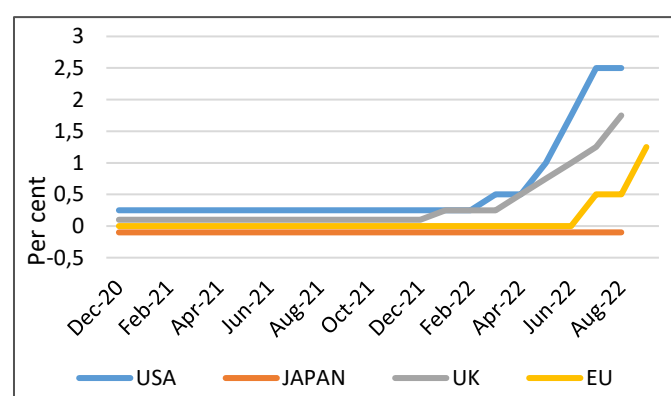
from the 26 - 27 July 2022 meeting showed. Participants at the session said that for the central bank to scale back its rate hikes, inflation reports due to be released before the next meeting would need to confirm that the pace of price growth was cooling. Policymakers have, however, constantly avoided putting exact numbers on the size of the next rate hike in September. The minutes also noted that as the stance of monetary policy tightens further, at some point, it would likely become appropriate to slow the pace of policy rate increases and gauge the effects of such tightening on growth and inflation. The Fed has lifted its benchmark overnight interest rate by 225 points this year to a target range of 2.25 per cent to 2.50 per cent (US Federal Reserve | Trading Economics, 17 August - 7 September 2022).

The European Central bank (ECB) at its meeting on 8 September 2022 raised main interest rates by 75bps, following a 50bps rate hike in July, and matching expectations. The main refinancing rate is now at 1.25 per cent, the marginal lending facility at 1.5 per cent, and the deposit facility at 0.75 per cent. Policymakers also said that interest rates should rise further over the next several meetings, aiming to reduce demand and guard against the risk of a persistent upward shift in inflation expectations (European Central Bank | Trading Economics, 8 September 2022).

The Bank of England (BOE) raised the Bank Rate by 50 basis points to 1.75 per cent at its

August 2022 meeting. This was the sixth consecutive rate hike and pushing borrowing costs to the highest level since 2009. The BOE expects CPI inflation to rise to 13.3 per cent in October, and to remain at very elevated levels throughout much of 2023, before falling to the 2 per cent target two years ahead. Looking at growth, the United Kingdom is now projecting to enter a recession in the fourth quarter which would last for five quarters (Bank of England | Trading Economics, 4 August 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) at its July 2022 Monetary Policy Meeting decided to maintain its key short-term interest rate at -0.1, and that for its 10-year bond yields around 0 per cent. Data showed the central bank was forced to take up a record US\$116 billion worth of Japanese government bonds in June. Further, the BOJ reiterated that it is in no rush to withdraw stimulus as slowing global growth clouds the outlook for the still-weak economy. 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).

The BOJ, however, downwardly revised its 2022 growth forecasts to 2.4 per cent from a growth forecast of 2.9 per cent made in the April 2022 meeting. Bank Officials cited a slowdown in global economies and persistent supply chain issues which has been impacted by the Russia - Ukraine war (Bank of Japan | Trading Economics, 29 July 2022).

2.0 ECONOMIC DEVELOPMENTS IN SOUTH AFRICA

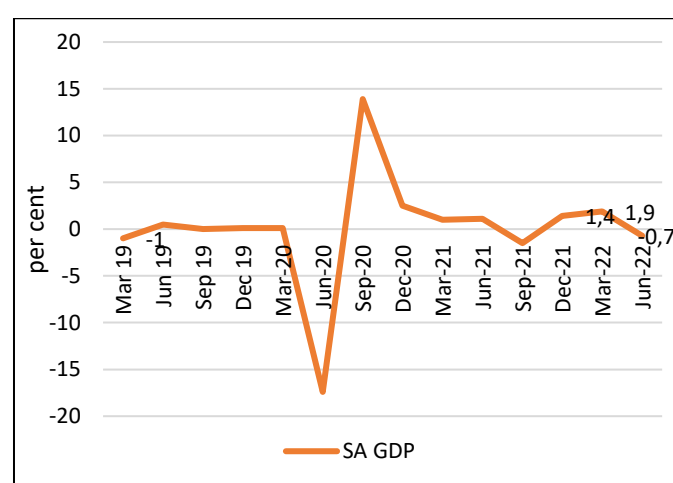
2.1 GDP Growth

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 growths in transport, storage and communications as well as finance, real estate, and business services.

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).

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 75 basis points (bps), increasing the repo rate to 5.5 per cent and the prime lending rate to 9 per cent during its meeting on 21 July 2022. The rate hike was above market forecasts of a 50bps hike.

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 July 2022).

The South African Reserve Bank (SARB) revised headline inflation forecasts higher for 2022 to 6.5 per cent (previously 5.9%), 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%) as food, fuel and core inflation continue to add to the upside.

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%) and 5.6 per cent (previously 5.1%) in 2022 and 2023, respectively. In 2024, core inflation is forecasted to average 4.9 per cent (previously 4.8%).

The SARB indicated that global producer and food price inflation has intensified over the past few months, and the upward pressure will likely continue. The uncertainty regarding the duration of the Russia-Ukraine war raises concerns about the impact on global commodity prices. The longer the tensions persist, the higher prices are likely to be.

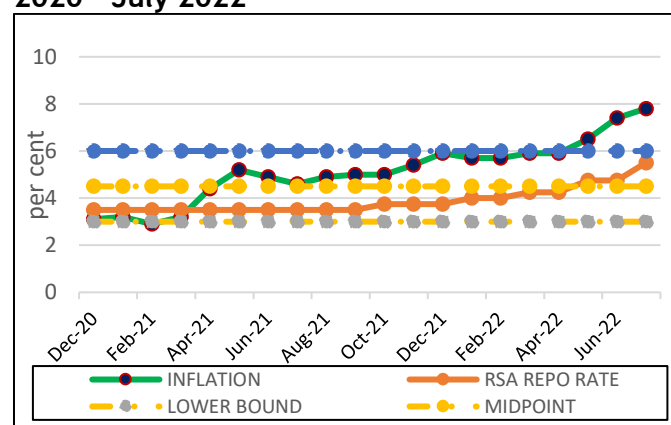
2.3 Inflation Rate

According to Statistics South Africa, the annual inflation rate accelerated to 7.8 per cent in July 2022 from 7.4 per cent in May 2022, above

market expectations of 7.7 per cent and the upper limit of the South African Reserve Bank's target range of 3 -6 per cent.

This represents the highest inflation reading since May 2009 boosted by an acceleration in transport prices, hiking by 25 per cent in July compared to 20 per cent in June. The main contributors especially on transport was rising fuel prices. In addition, food & non-alcoholic beverages rose by 9.7 per cent after rising by 8.6 per cent in May, particularly oils and fats that rose by 36.2 per cent.

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



Source: South African Reserve Bank

Annual core inflation, which excludes prices of food, non-alcoholic beverages, fuel and energy, rose to 4.6 per cent in July, the highest since October 2017, from 4.4 per cent in the prior month. On a monthly basis, consumer prices went up by 1.5 per cent, after increasing by 1.1 per cent in June (Statistics South Africa, 24 August 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, following a decline of 34.5 per cent in the first quarter of 2022. The number of unemployed persons increased by 132,000 to 7.994 million, 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). However, manufacturing (-73,000) and transport (-54,000) reported declines, amid disruptions caused by rolling blackouts and severe flooding in KwaZulu-Natal. The expanded definition of unemployment, including people who have stopped looking for work, was at 44.1 per cent, down from 45.5 per cent in the first quarter. 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, 23 August 2022)

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

3.1 Quarterly GDP Growth

The economy in Lesotho contracted by 0.14 per cent in the first quarter of 2022 after an increase of 0.9 per cent in the fourth quarter of 2021. Negative contributions came from contractions recorded in the following sectors: Real Estate, Finance, Construction, Education and health while the agriculture sector

remained constant (Lesotho Bureau of Statistics| www.centralbank.org.ls, 24 August 2022).

Botswana's GDP grew by 6.5 per cent in the first quarter of 2022 compared to a contraction of 2.8 per cent in the fourth quarter of 2021. The turnaround in growth is attributable to real value added of the Mining & Quarrying and Manufacturing sectors which rose by 23.2 per cent and 10.3 per cent respectively. (Central Statistics Office, Botswana, 24 August 2022).

Namibia's GDP contracted by 0.56 per cent in the first quarter of 2022 after expanding by 2.64 per cent in the fourth quarter of 2021. Economic activity was impacted by swings in rainfall pattern as well as high prices for energy products such fuel and gas and supply disruptions around the world. Risks to domestic growth are dominated by possible new waves of coronavirus infections, vaccine hesitancy, supply chain disruptions and the slow pace of vaccinations in Namibia (Central Bureau of Statistics of Namibia| Bank of Namibia| Trading Economics, 8 September 2022)

3.2 Annual Inflation Rate

The annual inflation rate in Namibia increased to 6.8 per cent in July 2022 compared to an increase of 6.0 per cent in June 2022. The acceleration was mainly driven by an increase in the inflation for transport, on account of a rise in international oil prices, as well as higher food inflation. Namibia's overall inflation is

now projected to average around 5.8 per cent for 2022, with higher rates in the second half of the year than in the first half (Central Bureau of Statistics, Namibia | Trading Economics, 18 July 2022).

In Lesotho, annual inflation rate increased to 9.8 per cent in July 2022 from 8.8 per cent in June 2022. Prices for Food and Non-alcoholic Beverages increased by 8.4 per cent, Clothing and footwear increased by 8.5 per cent, Housing, Water, Electricity, Gas and Other Fuels rose by 19.8 per cent, Transport prices rose by 20 per cent and Education rose by 5 per cent (Lesotho Bureau of Statistics, 25 July 2022).

The annual inflation rate in Botswana increased from 12.7 per cent in June to 14.3 per cent in July 2022, the highest value since December 2008 (13.7 per cent), remaining above the Bank's medium-term objective range of 3 - 6 per cent, and significantly higher than the 8.9 per cent in July 2021. The rise in inflation mainly reflects broad-based increase in the annual price changes for most categories of goods and services and, in particular, the upward adjustment in domestic fuel prices and Air Botswana passenger fares, (Statistics Botswana, 16 August 2022).

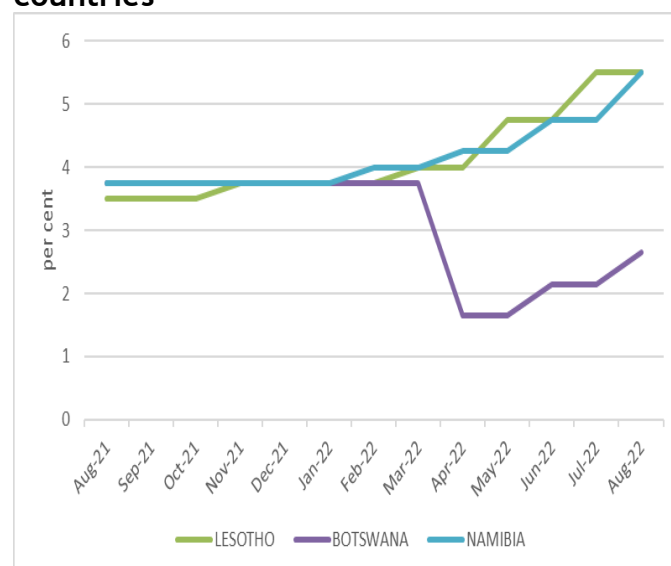
3.3 Monetary Policy Stance

The Bank of Namibia raised its key lending rate by 75bps to 5.50 per cent during its August 2022 meeting, following a similar decision by the South African Reserve Bank in July. It was the fourth consecutive rate hike so far this

year, pushing borrowing costs to levels not seen since February 2020. Policymakers said the decision was taken with due consideration of the persistent inflationary pressures and is deemed appropriate to safeguard the one-to-one link between the Namibian Dollar and the South African rand, while meeting the country's international financial obligations (Bank of Namibia, 10 August 2022).

The Central Bank of Lesotho (CBL) during its meeting held on 26 July 2022 decided to raise the bank rate from 4.75 per cent to 5.50 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, 26 July 2022).

Figure 8: Interest Rates in other SACU countries



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

At the meeting held on 25 August 2022, the Monetary Policy Committee (MPC) of the Bank of Botswana decided to increase the Monetary Policy Rate (MoPR) by 50 basis points from 2.15 per cent to 2.65 per cent. The bank mentioned that inflation was expected to remain elevated in the short-term, though to fall to within its 3-6 per cent objective in the third quarter of 2023.

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 relate 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, 24 August 2022).

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.

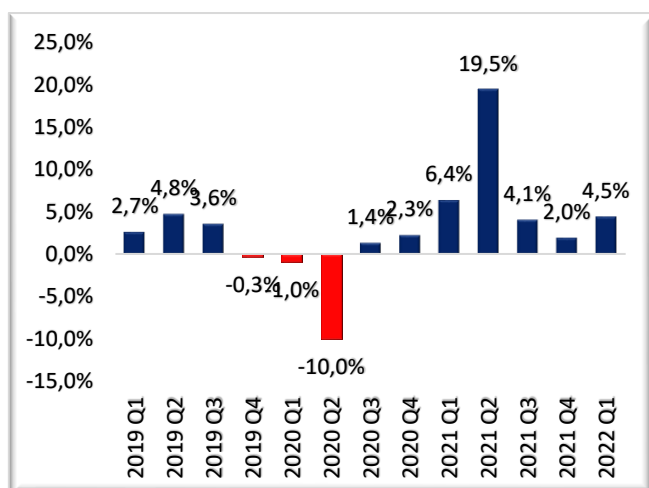
The primary sector grew by 20.1 per cent, year-on-year, in the first quarter of 2022 from a revised growth of 2.7 per cent in the fourth quarter of 2021. Significant growth was observed in the 'animal production', 'forestry activities' and 'mining & quarrying'. On animal production, all categories (i.e. 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 a 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.

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



Source: Central Statistics Office (CSO)

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’.

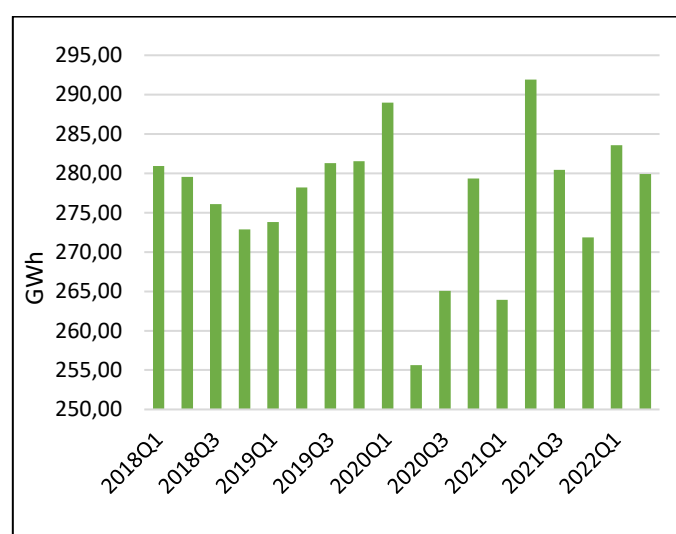
4.2 Selected Quarterly Economic Indicators

• Electricity Consumption

Total electricity sales (sourced from the Eswatini Electricity Company) declined by 1.3 per cent (seasonally adjusted) in the quarter ended June 2022 compared to a rebound of 4.3 per cent that was recorded in the quarter ended March 2022. The ‘irrigation power & bulk’ category fell by 6.7 per cent during the quarter under review, compared to a strong growth of 6.5 per cent in the previous quarter, attributable to lower demand for electricity in irrigated farms. On the other hand, electricity sales to the ‘commercial’ category grew by a slower 1.2 per cent in the second quarter of 2022, from a higher growth of 9.1 per cent in the first quarter of the same year. Similarly, domestic electricity sales maintained an upward trend, increasing to 3.6 per cent in the quarter ended June 2022 from 2.0 per cent in the previous quarter end. The total number of connections accelerated by 17.1 per cent to

record 302,425 units in the quarter ended June 2022, compared to 258,425 units recorded in the previous quarter. The ‘domestic’ category, which accounts for more than 90 per cent of total connections rose by 18.4 per cent in the quarter under review, thereby resulting in the notable increase in the total number of connections.

Figure 10: Electricity Consumption; 2018Q1 to 2022Q2



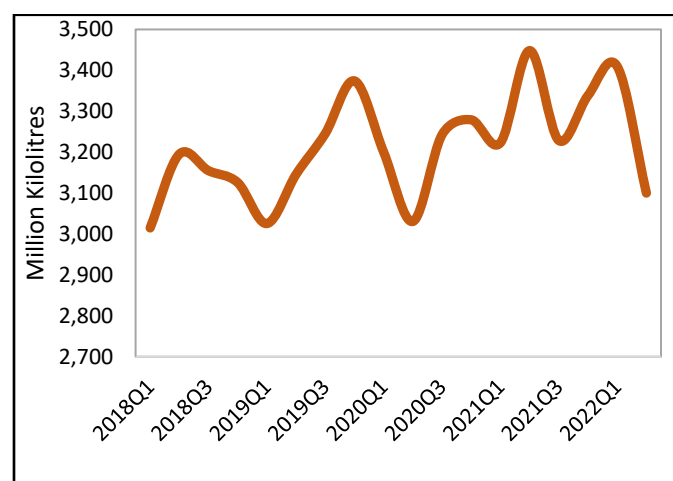
Source: Eswatini Electricity Company

• Water Consumption

Statistics sourced from the Eswatini Water Services Corporation (EWSC) indicate that total treated water sales decreased by 9.1 per cent (seasonally adjusted) in the second quarter of 2022, from a growth of 2.1 per cent in the first quarter of 2021. Decreases were observed for both ‘domestic’ and ‘commercial’ categories. Treated water sales to domestic households declined by 9.3 per cent in the quarter ended June 2022 from a growth of 2.9 per cent in the previous quarter. Demand for treated water by the ‘commercial’ category

remained volatile, declining by 8.0 per cent during the quarter under review, following a 1.1 per cent increase observed in the previous quarter. The total number of treated water connections fell marginally by 1.4 per cent to 61,967 in the quarter ended June 2022, as connections from both ‘residential’ and ‘commercial’ declined during the period under review.

Figure 11: Water Consumption; 2018Q1 to 2022Q2



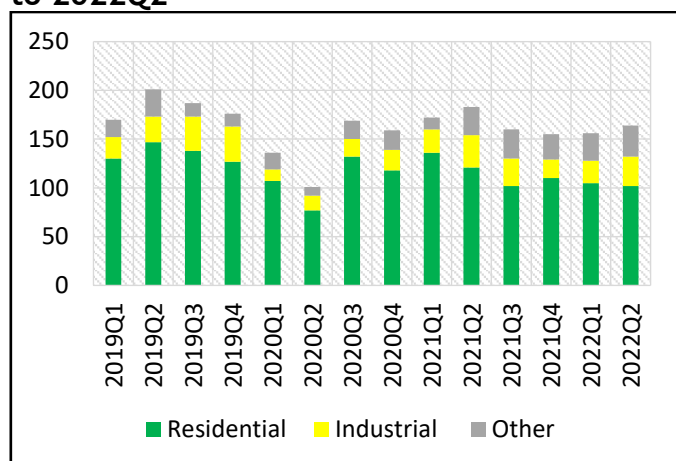
Source: Eswatini Water Services Corporation (EWSC)

• Construction

Preliminary figures sourced from ‘Municipalities and Town boards’ in Eswatini, reflect a slight improvement in planned construction activity in the private sector. Evidently, the total number of building plans approved increased by 5.1 per cent to record 164 units in the second quarter of 2022 compared to 156 units in the first quarter of 2022. Buildings plans approved from the ‘industrial’ category rose to 30 units in the quarter ended June 2022 from 23 units recorded in the previous quarter. Other

building plans approved increased to 32 units in the quarter under review from 28 units in the previous quarter, mainly constituting institutional housing and religious structures. On the contrary, residential building plans, which account for most of the total buildings approved, declined by 2.9 per cent to record 102 units, from 105 units, between the two quarters under review. In terms of value, total building plans approved grew by 6.0 per cent to record E198.4 million in the quarter under review compared to E187.2 million in the previous quarter.

Figure 12: Building Plans Approved; 2019Q1 to 2022Q2



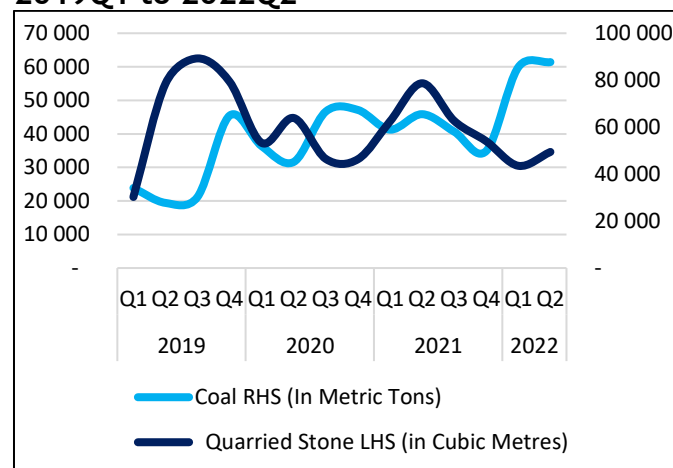
Source: City Councils, Town Councils and Town Boards

• Mining and Quarrying

Figures sourced from the Mining Department reflect an improvement in mining activity in the quarter ended June 2022. Coal production grew by a slower 2.5 per cent to 61,390 metric tonnes in the second quarter of 2022 from 59,884 metric tonnes recorded in the first quarter of 2022. The positive performance in domestic coal mining activity continues to largely benefit from the successful mining of a

high yield crown land, following the award of a mining license for that area issued in October 2021. Similarly, quarried stone production increased by 13.4 per cent to 49,441 cubic meters in the quarter ended June 2022, compared to 43,535 cubic metres in the previous quarter end. This improvement benefitted from a pick-up in the construction and rehabilitation of road infrastructure projects, such as the Nhlangano-Sicunusa road and other rural road infrastructure projects, resulting in improved quarried stone demand.

Figure 13: Coal and Quarry Production; 2019Q1 to 2022Q2



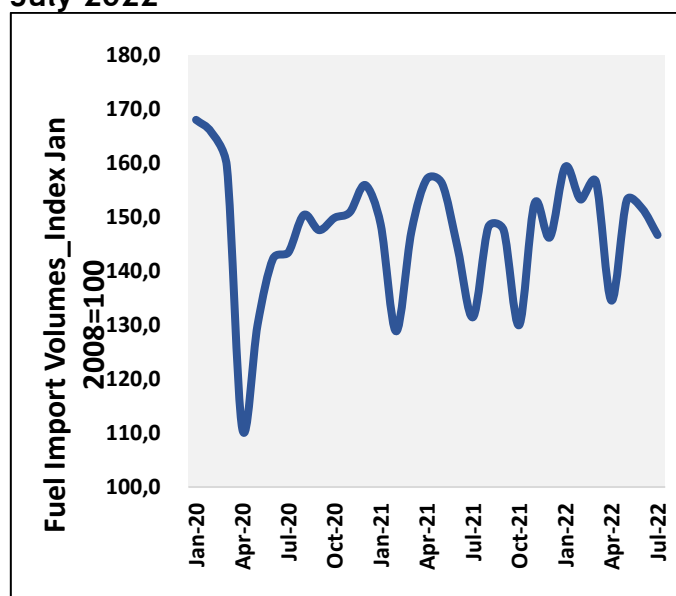
Source: Mining Department

• Fuel Imports

Total fuel import volumes (sourced from the Ministry of Natural Resources and Energy, MNRE) maintained a negative trajectory decreasing by 3.2 per cent (seasonally adjusted) in July 2022, compared to a decline of 1.0 per cent recorded in June 2022. This was mainly driven by a 5.2 per cent decrease in diesel import volumes during the month under review, reflecting a slowdown in commercial freight activity in the domestic economy. On

the contrary, petrol import volumes rebounded by 1.4 per cent in July 2022, picking up from the 7.5 per cent contraction observed in the previous month. Similarly, paraffin import volumes grew by 4.1 per cent during the month under review, from an 8.8 per cent decline in the previous month. Notably, the demand for fuel is relatively strained, partially attributed to the continued uncertainties on oil supply following the Russia Ukraine war, which has resulted in international oil prices rising significantly and translating to historically high fuel prices in the country.

Figure 14: Fuel Imports; January 2020 to July 2022



Source: Ministry of Natural Resources and Energy

4.3 Monetary Sector Developments

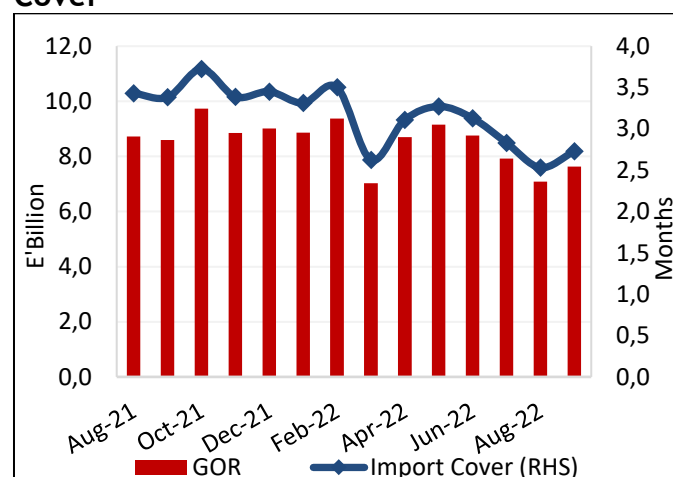
4.3.1 Gross official Reserves

Preliminary data indicates that the country's gross official reserves declined by 10.6 per cent from July 2022 and 18.8 per cent over the year to E7.1 billion at the end of August 2022. The fall in reserves was mainly due to net outflows from foreign currency trades between

the Central Bank and local commercial banks. As a result, the reserves import cover fell from 2.8 months in July 2022 to 2.5 months in August 2022.

As at 2 September 2022, gross official reserves stood at E7.6 billion, equivalent to 2.7 months of import cover.

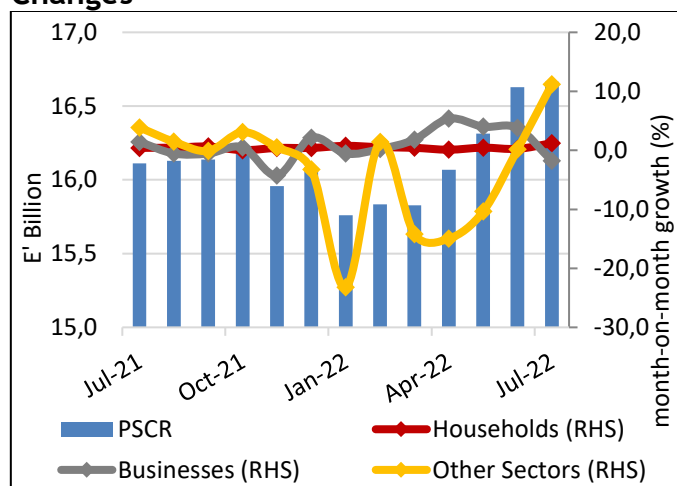
Figure 15: Gross Official Reserves & Import Cover



Source: Central Bank of Eswatini

4.3.2 Credit Extension

Credit extended to the private sector continued on a steady ascend to record its fourth consecutive increase. Private sector credit grew by 0.2 per cent over the month and 3.4 per cent year-on-year to E16.7 billion at the end of July 2022. Growth was observed in credit to other sectors of the economy and households & non-profit Institutions serving households (NPISH) while credit to businesses declined. In real terms however, annual growth in private sector credit further fell from -0.2 per cent in June 2022 to -2.0 per cent in July 2022 as domestic inflation rose by 0.8 percentage points to 5.4 per cent in July 2022.

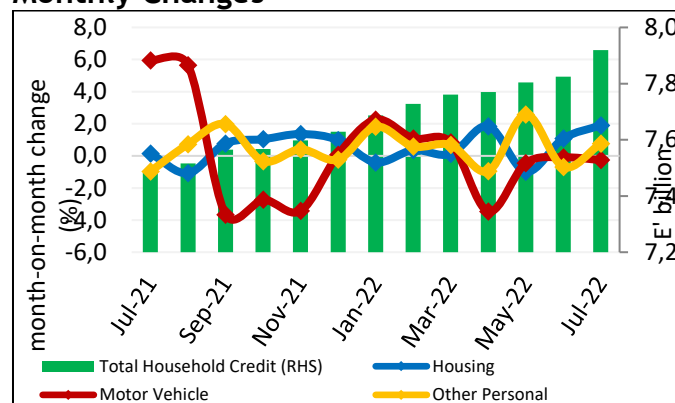
Figure 16: Private Sector Credit: Monthly Changes

Source: Central Bank of Eswatini and Other Depository Corporations

Credit extended to other sectors of the economy improved by 11.2 per cent moth-on-month and fell by 42.4 per cent over the year to E844.5 million at the end of July 2022. The month-on-month increase was supported by credit to other financial corporations which grew by 23.2 per cent to E542.5 million. Credit to parastatals and local government on the other hand, contracted by 6.0 per cent to E261.8 million and 1.7 per cent to E40.2 million, respectively.

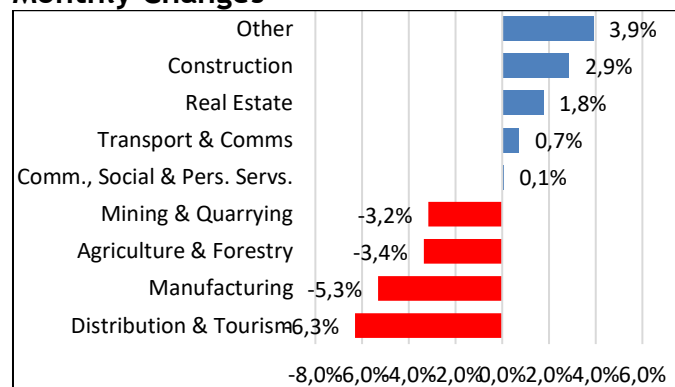
Credit extended to household & non-profit institutions serving households (NPISH) amounted to E7.9 billion in July 2022, reflecting an increase of 1.2 per cent over the month and 5.8 per cent year year-on-year. Growth was observed in housing and other personal (unsecured) loans which overshadowed the fall in motor vehicle loans. Housing and other personal (unsecured) loans grew by 1.9 per cent to E3.9 billion and 0.8 per cent to E3.1 billion, respectively. Motor

vehicle loans however, fell by 0.3 per cent to E903.4 million.

Figure 17: Household Credit by Product: Monthly Changes

Source: Central Bank of Eswatini & Other Depository Corporations

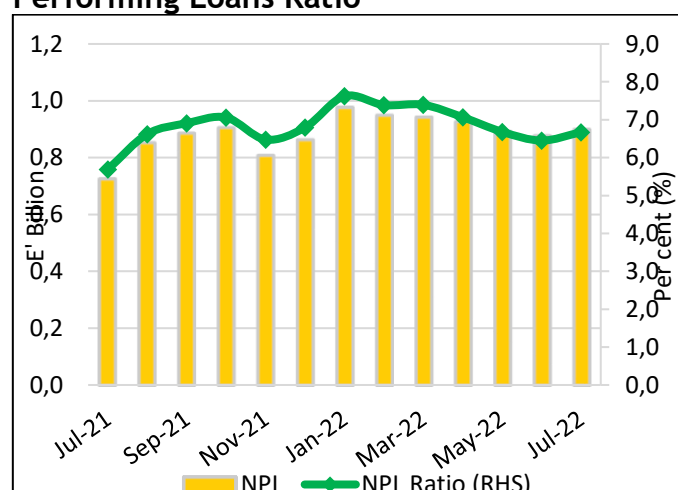
Credit extended to the businesses contracted by 1.8 per cent from June 2022, however, increased by 10.3 per cent over the year to close at E7.9 billion at the end of July 2022. The month-on-month decline was observed in credit to the distribution & tourism, manufacturing, agriculture & forestry, as well as mining & quarrying industries. Growth was however, observed in credit to the construction, real estate, transport & communication, and community, social & personal services industries.

Figure 18: 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, deteriorated over the review month. Non-performing loans increased by 2.4 per cent month-on-month and 22.7 per cent year-on-year to E937.1 million at the end of July 2022. The month-on-month rise in non-performing loans was registered in the following sectors: parastatals (5.6 per cent), households & NPISH (4.3 per cent), private financial corporations (2.2 per cent), as well as businesses (1.3 per cent). As a result, the non-performing loans ratio rose by 0.2 percentage points to 6.7 per cent in July 2022.

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



Source: Central Bank of Eswatini

4.3.3 Money Supply

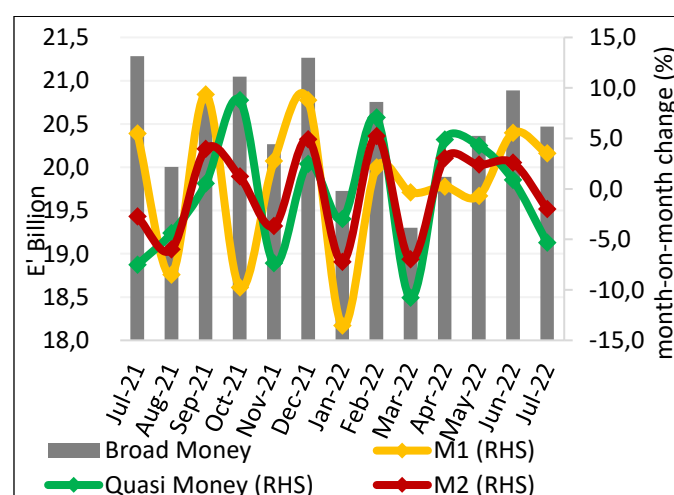
Broad money supply (M2) stood at E20.5 billion at the end of July 2022, down by 2.0 per cent from June 2022 and 3.8 per cent over the year. The month-on-month fall in M2 was driven by quasi money supply while narrow money supply (M1) expanded, as depositors preferred to hoard cash over long-term investments. In real terms, year-on-year growth in M2 remained

suppressed, recording a decline of 9.2 per cent for two-months, consecutively.

Quasi money supply contracted by 5.3 per cent relative to June 2022 and 4.0 per cent year-on-year to settle at E12.3 billion at the end of July 2022, on account of time deposits. Time deposits, which are fixed longer-term investments, fell by 6.7 per cent to E10.2 billion whilst near-cash savings deposits grew by 2.0 per cent to E2.1 billion.

Narrow money supply (M1), which is cash and near-cash money, recorded an increase of 3.5 per cent over the month and fell by 3.5 per cent year-on-year to E8.2 billion at the end of July 2022. The month-on-month growth in M1 was supported by both components, currency in circulation and transferable (demand) deposits. Currency in circulation grew by 10.8 per cent to E765.4 million while transferable deposits rose by 2.8 per cent to E7.4 billion at the end of July 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 Q2-2022. During the quarter under review, banking sector assets increased by 8.6 per cent as deposits recovered from the previous quarter fall. Banks complied with minimum capital requirements, falling from Q1-2022 positions. Banks' asset quality, earnings and profitability improved during the quarter. Banks continued to maintain adequate liquidity, though continuing to fall since Q4-2021.

4.4.1 Banking sector assets

During Q2-2022, banking sector assets increased by 8.6 per cent to settle at E26.1 billion. Loans and advances increased by 7.0 per cent to reach a high of E14.2 billion. On the funding side, total deposits increased by 8.4 per cent to settle at E20.3 billion, recovering from the 9.4 per cent decrease of the previous quarter. Total shareholder funds marginally decreased by 0.6 per cent to stand at E3.7 billion, after the payment of dividends.

4.4.2 Capital Adequacy

The banks complied with minimum capital requirements as at end Q2-2022, though falling from the previous quarter positions. The decrease is explained by the payment of dividends coupled with increases in the sector's asset base. As such, the average industry-wide regulatory tier 1 capital adequacy ratio and total capital adequacy ratio fell from 16.3 per cent and 18.7 per cent

respectively, to settle at 15.5 per cent and 17.6 per cent respectively.

4.4.3 Earnings and Profitability

Banking sector earnings and profitability improved during the quarter ending June 2022. The average return on banks' total assets (ROA) marginally increased to 2.1 per cent from 1.9 per cent. Return on total equity (ROE) also improved to 15.1 per cent from 12.1 per cent. There was an improvement in efficiency ratios during the quarter. The total cost-to-income ratio reduced from 77.0 per cent of Q1-2022 to 75.3 per cent during Q2-2022. Banks' operating expenses accounted for 54.6 per cent of total income, also decreasing from the previous quarter position of 57.3 per cent.

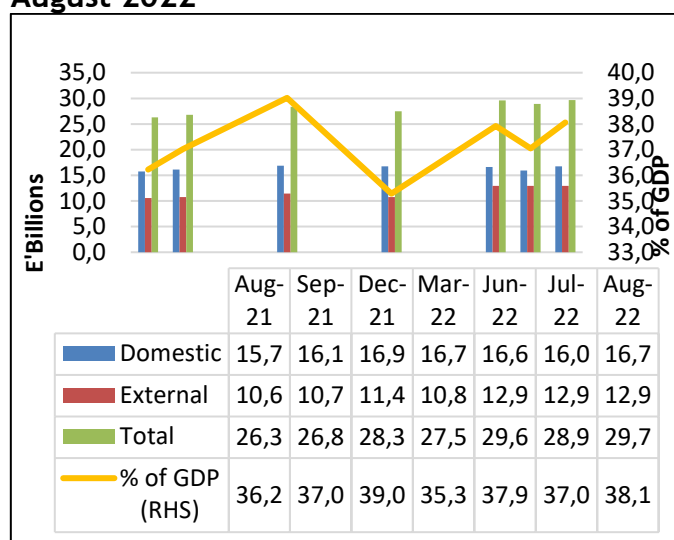
4.4.3 Liquidity Risk

Banks maintained adequate levels of liquidity during the quarter under review. Aggregate bank liquidity to total deposits continued its downward trajectory, falling from 39.2 per cent of Q1-2022 to stand at 37.7 per cent in Q2-2022, but still remaining above the regulatory minimum. Government securities represented 56.1 per cent of liquid assets held by banks. As a share of total assets, liquid assets also decreased from 30.5 per cent to 29.2 per cent. The ratio of loans and advances to deposits marginally fell from 70.8 per cent to 69.9 per cent during the quarter under review.

4.5 Public Debt

At the end of August 2022, total public debt stood at E29.7 billion, increasing marginally by 0.3 per cent from E29.6 billion recorded in June 2022. At this level, total public debt was equivalent to 38.1 per cent of GDP. Month-on-month, public debt increased slightly by 2.7 per cent from E28.9 at the end of July 2022. The changes in debt mainly came from an increase in domestic debt, while external debt stood constant. Annually, total public debt increased by 12.9 per cent from E26.3 billion to E29.7 billion.

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



Source: Central Bank of Eswatini

Between June and August 2022, Public External Debt stood at E12.9 billion an equivalent of 16.6 per cent of GDP, due to inactivity in disbursements and debt service.

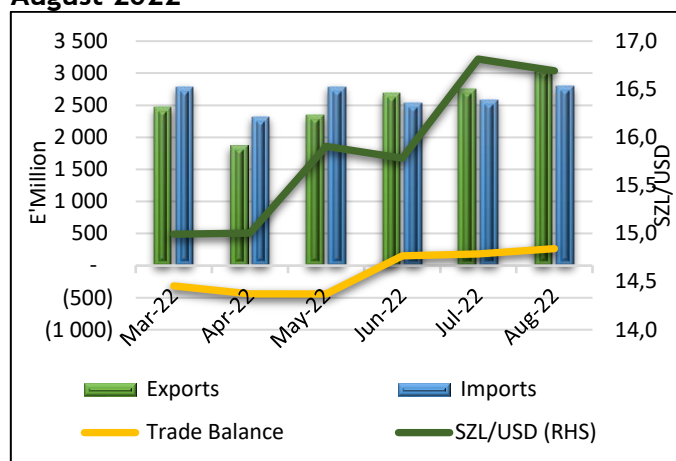
Public Domestic Debt outstanding stood at E16.7 billion at the end of August, an equivalent of 21.5 per cent of GDP. From the previous reporting period, domestic debt increased by 0.6 per cent from E16.6 billion to

E16.7 billion. Month-on-month, debt increased by 4.9 per cent compared to the E16.0 billion recorded in July 2022. The increase was due to an additional advance accessed by Government from the CBE Advance Facility.

4.6 External Sector Developments

In the month of August 2022, Eswatini recorded a trade surplus of E264.5 million, wider than the surplus of E182.5 million from the previous month. Exports in the month amounted to E3.063 billion, 11.1 per cent higher than July 2022 figures. Imports also strengthened during the month, recording an 8.7 per cent increase month-on-month. Year-on-year exports declined by 4.6 per cent, while imports were up 9.4 per cent. South Africa remains the country's main trading partner with 66.3 per cent of exports destined to that market and 74.4 per cent of imports originating from the same market.

Year-to-date figures indicate that exports which were E20.207 billion were 7.6 per cent higher as at August 2022 when compared to the eight months to August 2021. Imports which amounted to E20.758 billion as at August 2022 registered a 13.1 per cent increase when compared to August 2021, resulting in a year-to-date trade deficit balance of E551.4 million. Seasonally adjusted data indicates that the country recorded a E96.0 million trade surplus position for the month of August 2022, with seasonally adjusted exports amounting to E2.725 billion for the month and imports seasonally adjusted to total E2.629 billion.

Figure 22: Merchandise Trade; March 2022 - August 2022

Source: Eswatini Revenue Authority and Central bank of Eswatini

A further analysis of exports shows that exports of 'soft drink concentrates' increased by 3.2 per cent month-on-month and declined by 8.2 per cent year-on-year, to total E1.204 billion in the month of August 2022. 'Sugar and sugar products' exports rebounded in the month amounting to E915.2 million, 26.0 per cent higher than the previous month's figure and 5.4 per cent higher than figures from the same period last year. Exports of 'textile and textile apparel' grew by 2.6 per cent on a month-on-month basis, but declined by 23.7 per cent on a year-on-year basis, recording E307.3 million for the month of August 2022. 'Wood and wood article' exports were flat both month-on-month and year-on-year amounting to E204.2 million in the reporting month.

The imports analysis indicates that imports of 'energy products' which amounted to E537.5 million in August 2022, were down by 9.2 per cent month-on-month and up by 37.6 per cent year-on-year. 'Textile and textile apparel' imports amounted to E297.4 million in the month, recording an increase of 44.1 per cent

compared to July 2022, and that of 27.3 per cent compared to August last year. 'Machinery and electrical equipment' imports were valued at E245.5 million in the review period, decreasing month-on-month by 7.8 per cent and increasing year-on-year by 1.2 per cent. Imports of 'animal and vegetable products' declined both month-on-month and year-on-year, by 4.1 and 12.3 per cent, respectively. Imports of 'vehicles' amounted to E147.6 million, up 43.3 per cent compared to July 2022, and down 2.9 per cent when compared to August 2021.

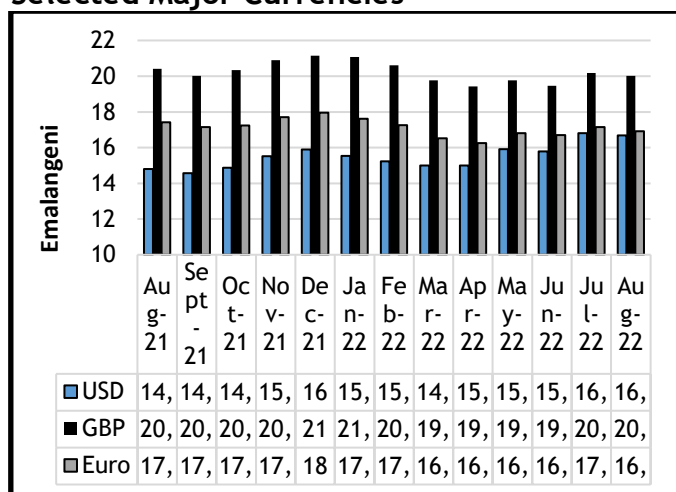
4.7 Exchange Rates Developments

Since the July 2022 MPCC meeting, the Rand along with the Lilangeni weakened against the major trading currencies. When comparing August 2022 against June 2022, the Rand depreciated by 5.8 per cent to average E16.69 against the US Dollar, 2.8 per cent to average E20.01 against the Pound Sterling and 1.4 per cent to average E16.92 against the Euro, respectively. The Rand/Lilangeni exchange rate was negatively affected by geopolitical events particularly the Russia/Ukraine war. This saw a general strengthening of US Dollar which is considered to be a safe haven or risk-free asset as concerns about a global recession continue to mount amid soaring energy prices. The depreciation was also exacerbated by the global increase in inflation which has prompted a faster normalization of monetary policy among major central banks hence discouraging

investor sentiment towards emerging market assets like the Rand.

In the period under review, the US Federal Reserve hiked interest rate by 75 basis points (the fourth hike in the year), the European Central Bank by 50 basis points and the Bank of England expected to raise the Bank rate in its August meeting. In the short to medium-term, the performance of the Rand depends on the possibility of global economic recession, US monetary policy developments, power supply economic growth prospects in South Africa. The Rand/Lilangeni closed the month of August 2022 at E16.96 to the US Dollar, E19.81 against the Pound Sterling and E16.99 against the Euro.

Figure 23: Lilangeni Exchange Rates against Selected Major Currencies



Source: Central Bank of Eswatini

PART B: INFLATION DEVELOPMENTS

5.1 Headline Inflation

The country's annual consumer inflation remained on an upward trajectory, increasing to 5.4 per cent in July 2022 from 4.6 per cent in June 2022. Contributing to the observed growth were the price indices for 'food & non-alcoholic beverages', 'transport' and 'household furniture & maintenance'. The index for 'food & non-alcoholic beverages' rose by 8.0 per cent in July 2022, compared to 6.7 per cent in the previous month. Food price increases continue to be noted in the prices for edible oils, which remain elevated on the back of the Russia-Ukraine War, coupled with the government's approval of a 20.76 per cent hike in the price of bread effective 13th July 2022. Similarly, transport inflation further grew to 10.5 per cent during the month under review, from 9.2 per cent in the previous month, mainly benefitting from persistent increases in the prices for 'fuel & lubricants for personal transport equipment'. Additional inflationary pressures emanated from the price indices for 'household furniture & maintenance' and 'clothing & footwear', which increased by 4.2 and 1.5 per centage points to record 5.2 and 5.3 per cent, respectively, between the two months under review.

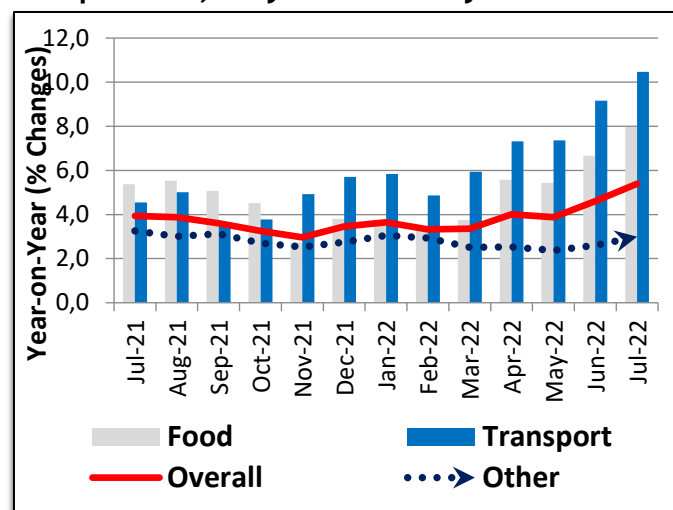
On the contrary, decreasing rates of growth were noted in the price indices for 'recreation & culture' and 'restaurants & hotels', thereby counteracting the above increases. The index

for ‘recreation & culture’ recorded a deflation of 0.8 per cent in July 2022, from a 2.9 per cent growth in the previous month, owing to decreases in the prices for ‘other recreational items & equipment’. Also, the index for ‘restaurants & hotels’ declined by 0.4 of a percentage point to record 0.4 per cent during the period under review.

On month-on-month basis, consumer prices remained unchanged at 0.9 per cent in July 2022, same as in the previous month. Slower increases were noted in the price indices for ‘housing & utilities’ and ‘clothing & footwear’, which fell by 0.6 and 1.4 percentage points, respectively, between the two months under review. These decreasing rates of growth were fully counteracted by increases in the price indices for ‘food & non-alcoholic beverages’ and ‘recreation & culture’, both increasing by 1.1 percentage points, during the same period.

Core inflation, which is CPI excluding volatile items such as food, auto-fuel and energy, rose to 1.9 per cent in July 2022 compared to 1.6 per cent in the previous month. Inflation for services remained unchanged at 1.7 per cent whilst goods inflation increased by 1.4 percentage points to 8.0 per cent, during the month under review. On a monthly basis, core inflation rose by 0.1 of a percentage point to 0.3 per cent in July 2022.

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

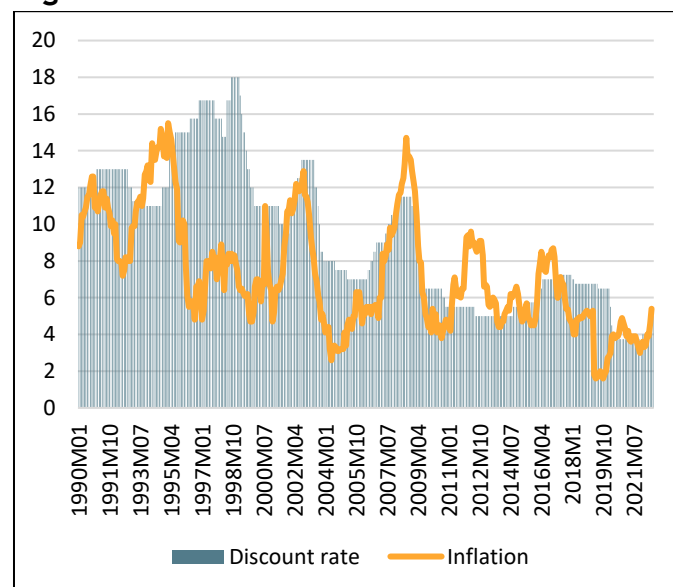


Source: Central Statistics Office (CSO)

5.2 Inflation and Interest Rate Trends in Eswatini

The Bank increased the discount rate by 50 basis points to 5.0 per cent in July 2022 following a hike of 75 basis points by the SARB to 5.5 per cent thus maintaining a -50 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

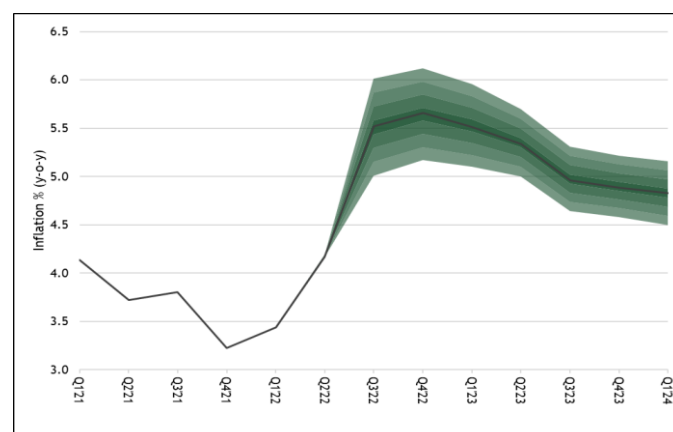
The country's overall inflation is on an upward trend driven mainly by increases in food and transport inflation. As a result, the July 2022 inflation outturn reached 5.4 per cent, slightly higher than the Bank's forecast. The Bank has revised upwards its short-to-medium term inflation forecasts. The upward revision is a result of the persistent upside pressures which generally continue to weigh on the domestic consumer price inflation. Among the upside factors is the escalating inflation in South Africa which transmits to domestic inflation through imported finished goods and services. Also, the supply of key inputs such as fertilizer and wheat remain under pressure due to the ongoing war between Russia and Ukraine. As a result, food inflation is expected to remain elevated hence an increase in overall inflation. Another factor is the weakening Rand outlook which is expected to exert further upward pressure on domestic inflation especially in the forecast period.

While the outlook for global Brent Crude Oil prices suggests slower increases than previously expected, they remain elevated. The recent and expected further decreases in South Africa's and domestic fuel prices due to the slower increases in global Brent Crude Oil prices are expected to exert minimal downside pressure on inflation. As a result, the annual average inflation forecast for 2022 is revised up to 4.69 per cent, from 4.38 per cent forecasted in July 2022. The third quarter of 2022 is also revised up to 5.52 per cent (from 4.92 per cent) and the fourth quarter of 2022 to 5.66 per cent (from 4.98 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. Therefore, inflation for 2023 is forecasted at 5.18 per cent (from 4.52 per cent) and 2024 at 4.73 per cent (from 4.21 per cent).

Figure 26: Inflation Outlook



Source: Central Bank of Eswatini

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