

Monetary Policy Statement

ECONOMICS | ESWATINI

The CBE hikes after holding steady for more than a year

- The Central Bank of Eswatini (CBE) Monetary Policy Committee (MPC) increased interest rates by 25 basis points (bps), raising the repo to 7%, while the prime rate increase to 10.25%. This is the CBE's first hike after more than a year of steady rates.
- The decision follows a similar move by the South African Reserve Bank (SARB), which raised its repo rate to 7.25%.
- While headline inflation rose in August, it remains relatively subdued, hovering below 3% throughout 2026, despite strong supply-side pressures.
- The MPC revised its short- and long-term inflation forecasts lower due to modest inflation outcomes in recent months, subdued food prices and a firm exchange rate.
- Despite the downward revision, the CBE acknowledges that the risks to inflation remain tilted to the upside due to the disruptions in the Middle East and anticipated El Niño threat.
- Given the heightened uncertainty surrounding the inflation outlook and the fluid external environment, the possibility of an additional 25-bps rate increase in November cannot be discounted, especially if inflationary risks continue to build.

September 2026

Hike:
+25 bps

Repo rate (%)

7%

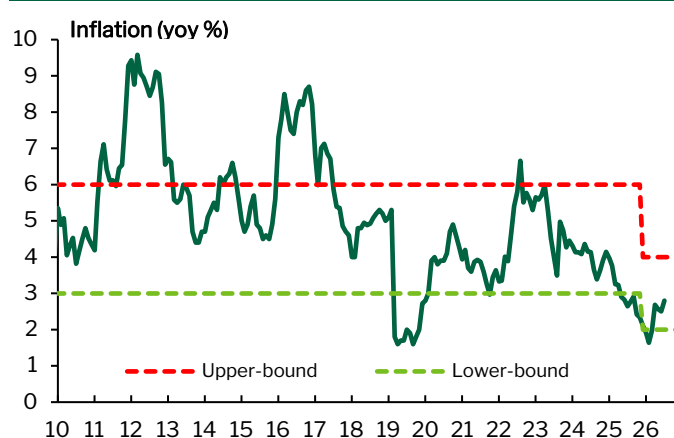
Prime rate (%)

10.50%

The CBE's inflation outlook:

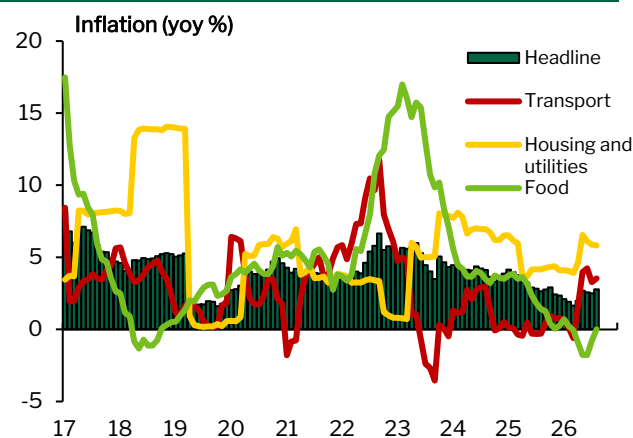
Headline inflation rose to 2.8% yoy in August from 2.5% in July, reaching its highest level since October 2025, largely due to persistent price pressures in housing and utilities as well as rising transport costs. Housing and utilities remained the dominant driver of inflation, contributing 1.7 percentage points to the headline rate as inflation in this category stayed elevated at 5.8%. Transport inflation also inched higher to 3.5% from 3.3%, reflecting higher fuel and air transport costs amid rising global energy prices. Fuel inflation rose further, albeit modestly to 19.5% (from 19.4%), while air transport inflation accelerated sharply to 28% (from 19%). Food inflation provided an important offset to inflation for much of 2026. Between March and July, food prices remained in deflation, reaching a low of -1.8% in both May and June. This helped cushion some of the upward pressure stemming from elevated housing, utilities, and transport costs. While the deflationary trend began to unwind in August, with prices rising from -0.8% in July to 0%, food inflation remained subdued, thus limiting its contribution to inflation and keeping overall price pressures contained.

Chart 1: Inflation has remained subdued at below 3%



Source: Ministry of Economic Planning and Development and Nedbank

Chart 2: Housing and transport led the rise in inflation



Source: Ministry of Economic Planning and Development and Nedbank

The MPC acknowledged that risks to the inflation outlook have risen primarily due to elevated global oil prices because of persistent geopolitical tensions in the Middle East, and the potential impact of El Niño-related weather disruptions. Despite these risks, the Committee revised its inflation forecasts over the short- and medium-term, citing a slower-than-expected uptrend in inflation in recent months as food inflation remained moderate, and more favourable exchange-rate developments. The Bank now expects inflation to average 2.5% in 2026, down from its previous forecast of 3%, while the forecasts for 2027



(3.9% from 4.4%) and 2028 (3.45% from 3.55%) were also revised lower. The MPC nevertheless cautioned that the inflation outlook remains highly uncertain, with risks remaining skewed to the upside.

The Bank maintained an optimistic view of the domestic economy, expecting real GDP growth to firm from 4.8% in 2025 to 5.3% in 2026 before moderating to 4.1% in 2027. Economic activity remained resilient in early 2026, supported by stronger performance in the secondary sector and positive contributions from the primary and tertiary sectors. The Bank also highlighted continued growth in private-sector credit, suggesting that domestic demand conditions remain supportive. However, it acknowledged that the outlook is subject to downside risks stemming from a weaker global environment, softer regional growth prospects and the potential adverse impact of the El Niño weather conditions.

While the Committee emphasised the upside risks to the inflation outlook, recent inflation dynamics suggest that the pass-through from higher global energy prices to domestic consumer prices has remained relatively muted. Headline inflation has remained below 3% throughout 2026 despite elevated oil prices, stronger fuel inflation, and robust growth in private-sector credit. Credit growth accelerated further into double-digit territory in July, increasing from 10.1% yoy in June to 11.4%. Moreover, the CBE revised its inflation forecasts lower, signalling that underlying price pressures remain contained. Taken together, these developments suggest that the latest rate hike was primarily a precautionary response to rising external risks rather than a reaction to broad-based domestic inflationary pressures.

Our inflation outlook:

Risks to the inflation outlook remain tilted to the upside, although the balance of risks has become more nuanced in recent weeks. The primary threat stems from elevated global oil prices, which will result in more domestic fuel price increases and additional pressure on transport and production costs. An agreement between the US and Iran to reopen the Strait of Hormuz and de-escalate hostilities remains elusive, suggesting that energy markets will remain vulnerable to further disruptions and price volatility.

Chart 3: Inflation is expected to remain well contained

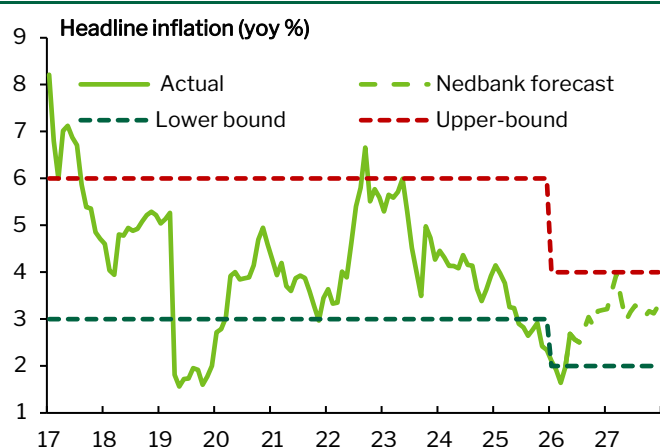
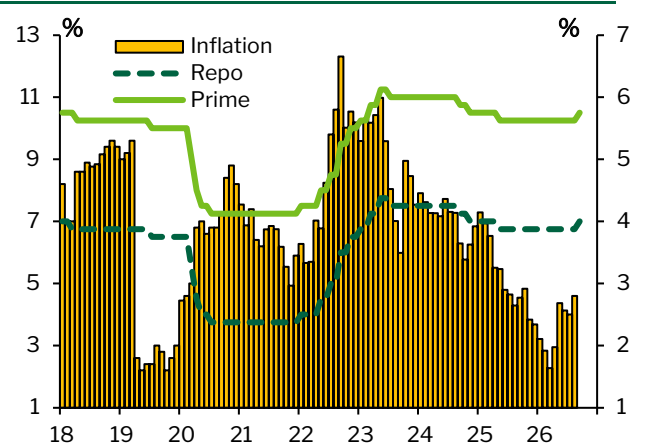


Chart 4: Another 25-bps hike likely in November



While having remained in deflation for much of this year, the anticipated El Niño event presents a significant upside risk to the outlook. The adverse weather could disrupt regional agricultural production and place upward pressure on food prices. Any resulting increase in food inflation is likely to be gradual, with the impact on consumer prices becoming more evident during 2027.

Looking ahead, inflation will remain sensitive to developments in global oil markets, particularly given the potential for higher fuel and transport costs to filter through to consumer prices. However, the experience of 2026 thus far suggests that the pass-through from external cost shocks has been relatively limited. Despite a sharp increase in oil prices and a significant acceleration in fuel inflation, headline inflation has remained below 3% throughout the year. Furthermore, inflation has stayed subdued despite robust growth in private-sector credit, which has expanded at a double-digit pace over the past three months. This suggests that underlying demand-driven inflationary pressures remain muted and that stronger domestic demand has had only a limited impact on broader price pressures. The exchange-rate peg to the rand has also continued to provide an important anchor for price stability by containing imported inflation. Nevertheless, Eswatini's inflation outlook remains closely linked to external developments, particularly movements in global energy prices and inflation trends in South Africa. While these factors could place upward pressure on prices, current evidence and the CBE's own forecasts suggests that inflation is likely to remain relatively contained.

Against this backdrop, we expect inflation to rise modestly over the coming months, **ending 2026 at 3.2%**. Inflationary pressures are expected to remain elevated in early 2027, reflecting lagged pass-through of higher fuel prices. However, subdued domestic demand conditions should help contain second-round effects and limit the extent to which imported inflation becomes entrenched. Thereafter, inflation is projected to moderate gradually as the impact of current energy price



shocks dissipates. This outlook remains highly contingent on developments in global energy markets, weather-related shocks associated with El Niño, and inflation dynamics in South Africa. Our forecast shows inflation **averaging 3.3% in 2027**.

Outlook and implications

We expect the CBE to maintain a cautious policy stance over the remainder of the year as risks to the inflation outlook remain tilted to the upside. The recent rate increase underscores the MPC's concern over the deterioration in the external environment, particularly the persistence of elevated oil prices amid ongoing geopolitical tensions in the Middle East. Although diplomatic channels between the US and Iran remain open, negotiations have recently lost momentum, with key differences continuing to hinder progress. Consequently, energy markets remain vulnerable to further disruptions and heightened price volatility. In addition, recent tightening by major global central banks, together with the prospect of further policy rate increases, could place renewed pressure on emerging market currencies, adding to imported inflation risks. Upside risks to fuel and transport costs are therefore expected to persist in the near term. Further risks stem from the anticipated El Niño event and its potential impact on regional agricultural production and food prices.

On balance, we expect the CBE to lean against the inflation risks. At this stage, however, the likelihood of further tightening remains finely balanced. Given the elevated uncertainty surrounding global energy markets and the broader inflation outlook, **a further 25-bps rate increase at the November MPC meeting cannot be ruled out**, particularly if inflationary pressures intensify or the SARB delivers additional policy tightening.



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