MPC Preview

ECONOMICS | ESWATINI | MONETARY POLICY

CBE likely to raise rates despite easing external pressures

- We expect the **Central Bank of Eswatini (CBE)** to raise its policy rate by **25 bps to 7.25%** at its **November Monetary Policy Committee (MPC)** meeting, matching the expected similar move by the South African Reserve Bank (SARB).
- Inflation accelerated notably in October, breaching the 3% level for the first time since March 2025 due to persistent increases in housing and transport costs.
- Although some external headwinds have eased recently, the outlook remains highly uncertain. The absence of a durable diplomatic resolution between the US and Iran, together with ongoing vulnerabilities in shipping through the Strait of Hormuz, continue to pose risks to global energy prices.
- In addition, tighter global financial conditions could place pressure on the exchange rate, while prevailing El Niño conditions pose upside risks to food inflation.
- Subdued food prices, the relative resilience of the lilangeni (pegged to rand at one to one), and modest underlying demand have helped limit the pass-through of external cost shocks to domestic inflation. However, the durability of these disinflationary forces remains uncertain, particularly with respect to food prices and exchange-rate developments.
- We forecast inflation to **average 2.7% in 2026 and 4.1% in 2027**, before easing noticeably in 2028.
- Against this backdrop and given the need to safeguard the exchange-rate peg, we expect the CBE to maintain a cautious policy stance.

Recent inflation trends

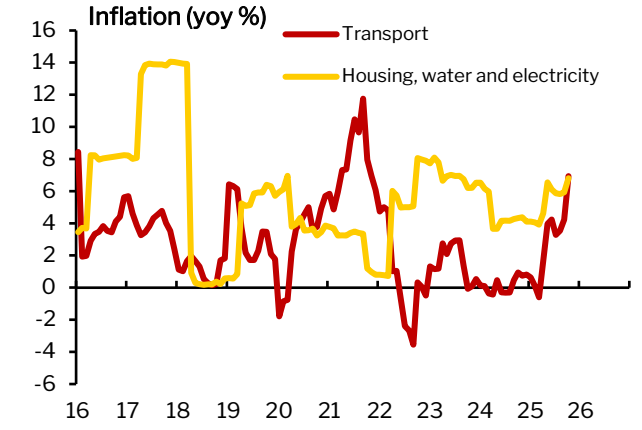
Headline inflation rose notably from 2.9% yoy in September to 3.4% in October, its highest level since March 2025. The acceleration was driven by a limited number of components. **Housing and utilities**, which carries the largest weight in the consumer basket, increased sharply 6.8% in October following a marginal rise of 5.9% in September. Housing and utilities contributed 1.9 percentage points (ppts) to headline inflation in October, by far the largest contribution among all categories. **Restaurants and hotels** also recorded strong growth during the months, rising from 1% in September to 2.6%, although its overall contribution to the headline figure was negligible.

Chart 1: Headline inflation accelerated sharply in October



Source: Ministry of Economic Planning and Nedbank

Chart 2: Housing and transport remain key drivers

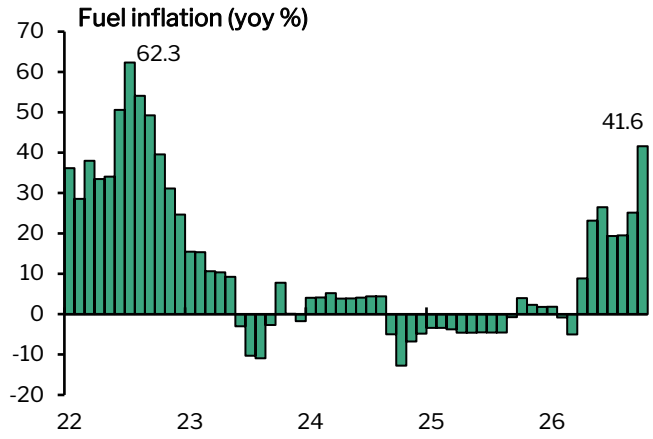


Source: Ministry of Economic Planning and Nedbank

Unsurprisingly, **transport inflation** accelerated sharply, rising from 4.2% to 6.9%, its highest level since November 2022, reflecting continued volatility in global energy markets. The category contributed 1.1 ppts to headline inflation during the month. At local pumps, fuel prices increased substantially in October, with petrol prices rising by E3.43 per litre from E25.97 to E29.40 (up 13.2% mom), while diesel prices increased by E3.40 per litre from E28.85 to E32.25 (up 11.8%). As a result, fuel inflation accelerated to a new record high of 41.6% in October, up from 25.1% in the previous month. Despite the significant surge in fuel inflation, the current inflationary response remains notably less severe than during the 2022 energy shock. Nevertheless, domestic pump prices have now surpassed their previous peaks. In October 2026, petrol and diesel prices stood well above the respective highs of E23.85 and E24.40 recorded in July 2022. This suggests that, although pass-through

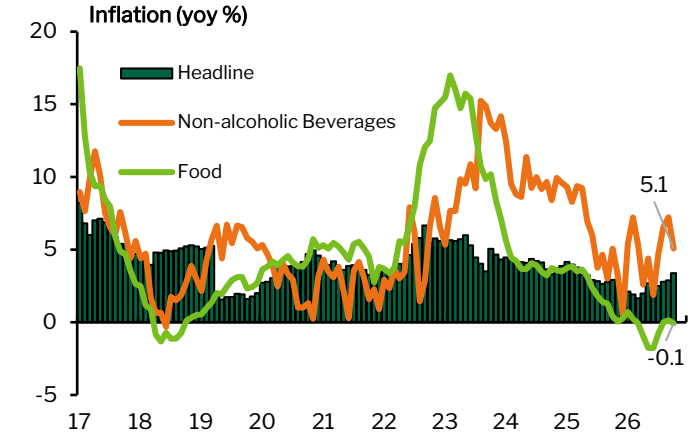
to broader inflation has been more moderate than during the previous shock, households and businesses continue to face a substantial fuel-cost burden. The persistent increase in transport costs is likely to place further pressure on consumer spending and operating margins in the months ahead.

Chart 3: Milder fuel price shock but a heavier cost burden



Source: Ministry of Economic Planning and Nedbank

Char 4: Food inflation remains notably subdued



Source: Ministry of Economic Planning and Nedbank

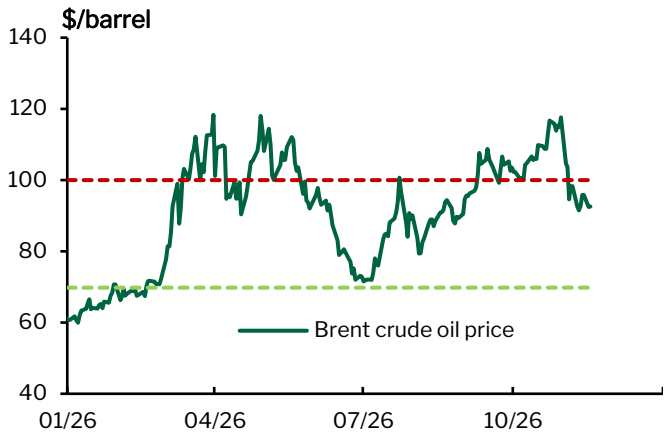
Food inflation continued to offset the impact of elevated housing and utilities, as well as transport costs, reversing the previous month's growth and falling back into deflation. The divergence in the underlying trend persisted. Inflation for non-alcoholic beverages accelerated by 5.1%, still robust but at a notably slower pace than the 7.2% in September. Overall, food-related price pressures continue to help contain headline inflation.

Price pressures across most other expenditure categories either moderated or remained relatively subdued during the month.

The inflation outlook

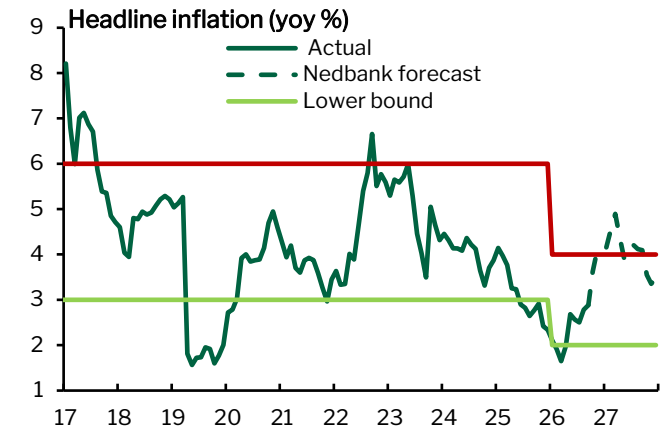
Since the September MPC meeting, the external inflation environment has become somewhat less challenging, with global oil prices retreating below US$100 per barrel amid reduced fears of military escalation in the Middle East. Nevertheless, geopolitical tensions remain elevated, and the outlook for energy prices is still heavily dependent on developments in the region. Inflation trends within the Common Monetary Area (CMA) have also diverged. Following peaks of 3.7% and 5% in June 2026, inflation in Lesotho and SA, respectively, has eased, while price pressures in Namibia have continued to intensify. In Eswatini, inflation has largely accelerated more gradually, despite rising more sharply to 3.4% in October, its highest level this year. This comparatively moderate increase suggests that the pass-through of external cost pressures to domestic prices has, thus far, remained relatively contained.

Chart 4: Oil prices have fallen below the $100 mark



Source: LSEG and Nedbank

Chart 5: Inflation is expected to breach 4% temporarily



Source: CBE and Nedbank

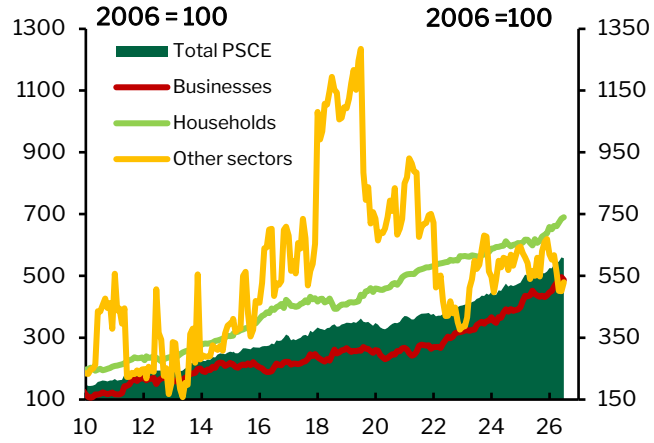
Overall, risks to the inflation outlook remain tilted to the upside, although some of the external pressures that informed the previous MPC assessment have moderated. Global oil market conditions have somewhat improved since the last meeting, as output volumes in the major Persian Gulf producers rebounded to the highest level since the war began. Fears of a further escalation in the US–Iran conflict have been dampened by US President Donald Trump's recent utterances suggesting that his administration will be more focused on domestic issues in its final two years. However, the absence of a durable diplomatic resolution between the US and Iran, and the continued vulnerability of shipping through the Strait of Hormuz leave global energy supplies exposed to more intense disruption. Although oil prices have eased since the previous MPC meeting, the risk of renewed geopolitical tensions and energy supply shocks remains a key source of upside risk to the inflation outlook.

Domestic fuel prices came under renewed upward pressure at the start of the fourth quarter, following a substantial fuel price adjustment in October. Prices remained unchanged in November, maintaining transport costs at elevated levels. Looking ahead, the recent moderation in global oil prices could ease pressure on domestic fuel costs. However, the extent of any pass through will be dictated by the sustainability of the decline, as well as exchange-rate developments.

Food-price pressures remain subdued. However, the outlook for food prices remains subject to considerable uncertainty. El Niño conditions have become established and are expected to persist into early 2027, raising the risk of below-average rainfall and elevated temperatures across much of Southern Africa during the summer planting season. The drier conditions could constrain agricultural output, tighten regional food supplies and place upward pressure on food prices, particularly if production shortfalls materialise among key regional producers. While the impact on consumer prices is unlikely to be immediate, the lower harvest could contribute to a gradual build-up in regional food-price pressures over the course of 2027.

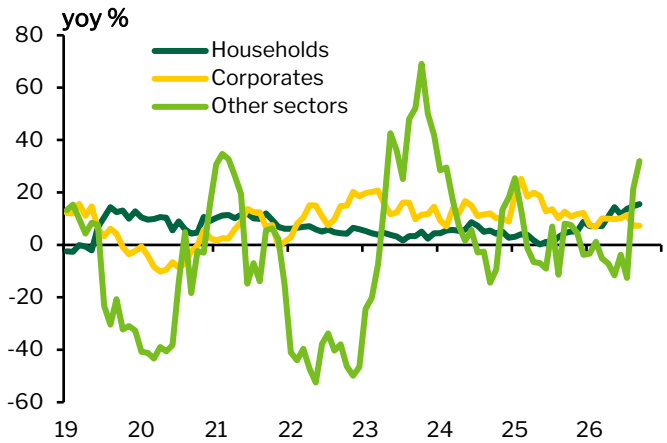
Among the demand-pull drivers of inflation, private-sector credit continued to expand in September, increasing by 12.3% yoy. The expansion was supported by strong growth in household lending, which rose by 15.7%, the strongest annual growth rate since November 2016, when household credit expanded by 22.1%. Credit extended to businesses increased by a more moderate 7.7%. Meanwhile, credit to other sectors recorded a particularly sharp acceleration, rising by 31.6% following a period of contraction between December 2025 and July 2026. The return to double-digit growth in this category over the past two months is notable, with the latest expansion marking its strongest pace since December 2023.

Chart 7: Private sector credit has advanced notably



Source: CBE and Nedbank calculations

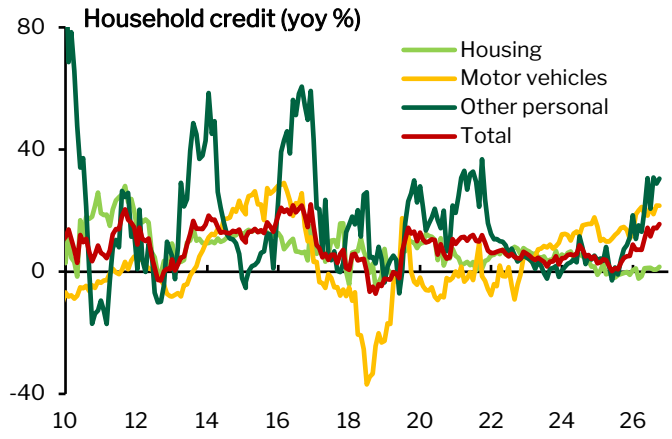
Chart 8: Households and "other sectors" led the rise



Source: CBE and Nedbank calculations

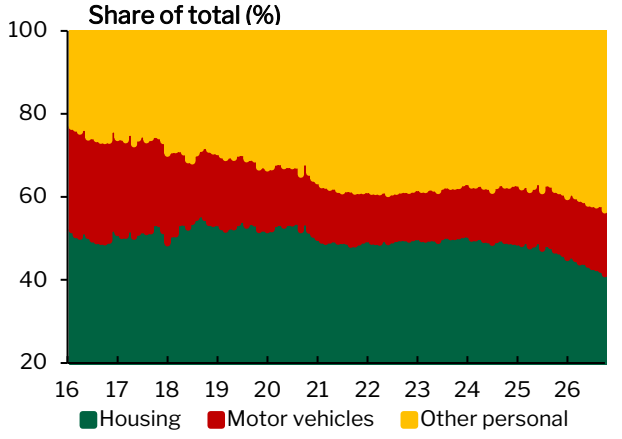
A closer look at household credit dynamics reveals a particularly robust trend in personal and vehicle financing. While housing credit remained relatively subdued, edging up by 1.6% in September from 0.7% previously, motor vehicle financing rose by 21.6%, slightly softer than the previous 21.7%. Other personal lending, which largely comprises unsecured loans, also continued to expand at a robust pace, increasing from 28.8% to 30.4%. In terms of the composition of outstanding household credit, housing and other personal loans account for the largest shares at 41.3% and 43.3%, respectively, while motor vehicle financing constitutes the remaining 15.4%.

Chart 9: Unsecured lending is rising the fastest



Source: CBE and Nedbank

Chart 10: Composition of household credit



Source: CBE and Nedbank

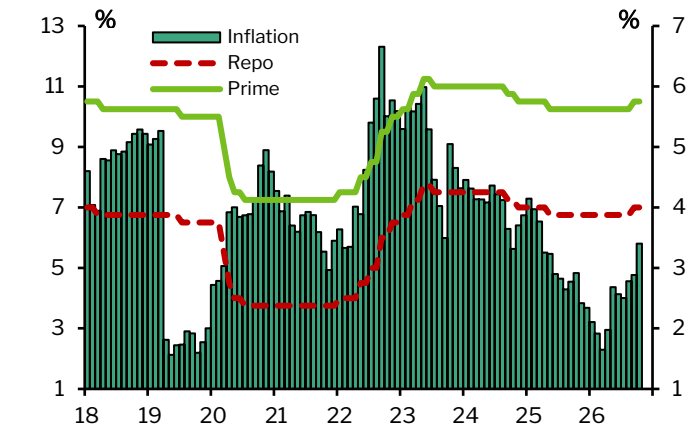
Notwithstanding the robust expansion in private-sector credit, particularly household lending, demand-driven inflationary pressures have remained relatively contained. This is notable given the strong pace of economic activity, with real GDP expanding by 6.5% in the second quarter of 2026. Sustained growth in household credit, especially the rapid expansion in unsecured lending, would typically support household consumption and generate demand-side inflationary pressures. However, the relatively muted response of consumer prices suggests that the pass-through from stronger credit growth and economic activity to domestic inflation has, thus far, been limited.

Looking ahead, we forecast inflation to **average 2.7% in 2026**, before **accelerating to 4.1% in 2027** and moderating noticeably in **2028**. However, the outlook remains surrounded by significant uncertainty, with risks predominantly on the upside. Potential sources of inflationary pressure include a rebound in global oil prices, currency depreciation associated with tighter US monetary conditions, and elevated food inflation resulting from the potential impact of El Niño. The materialisation of these risks will depend on developments in global financial conditions, commodity markets and regional weather patterns. Although softer external price pressures have provided some relief to the outlook in the near term, inflation remains vulnerable to renewed supply-side shocks and the emergence of second-round effects that could place upward pressure on prices.

Monetary policy implications

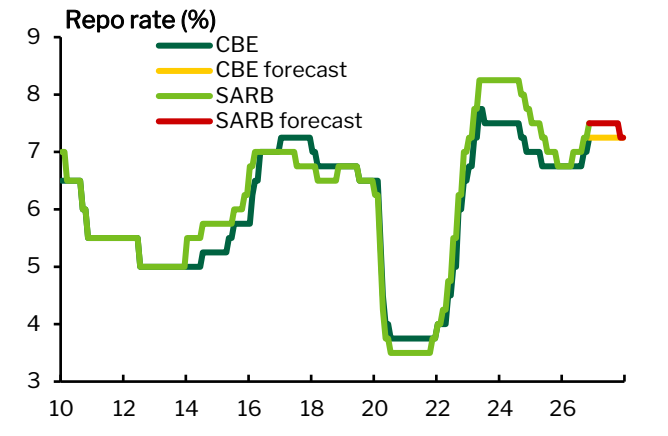
We expect the **CBE to maintain a tightening bias,** with the balance of risks to the inflation outlook firmly tilted to the upside. While food inflation remains relatively subdued and weak domestic demand should continue to contain underlying price pressures, the outlook remains vulnerable to renewed increases in global oil prices, exchange rate depreciation due to tighter global financial conditions, and weather-related disruptions to regional and global food production.

Chart 11: Policy rates just 25-bps above January 2026 levels



Source: CBE and Nedbank forecasts

Chart 12: Another 25-bps hike likely next week



Source: CBE and Nedbank forecasts

Against this backdrop, the balance of probabilities is tilted in a favour of another interest rate hike, with the **CBE raising its policy rate by 25 basis points to 7.25% in November**. Given the uncertainty surrounding the global inflation and interest rate outlook, the CBE's decision will remain data-dependent, with the extent of further tightening contingent on how these risks evolve and their eventual pass-through to domestic prices. We expect the CBE to match interest rate tightening by the SARB to maintain foreign exchange reserves at a level sufficient to preserve the one-to-one currency peg.

GROUP ECONOMIC UNIT

Analysts/Economists:	Telephone numbers:	Emails:
Liandra da Silva	+27 10 228 3527	liandrad@nedbank.co.za
Isaac Matshego	+27 10 234 8358	isaacmat@nedbank.co.za

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