

The Kingdom of Swaziland



Major Highlights

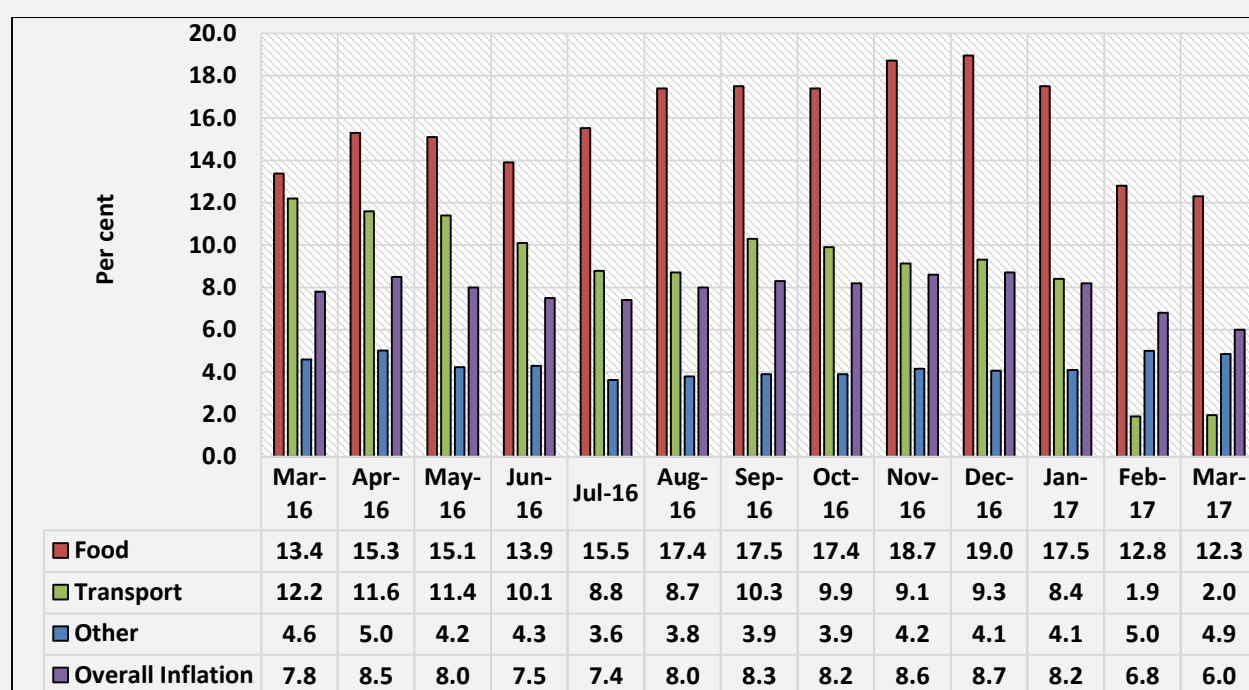
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|---|------------------------------------|---------------|
| ❖ Annual consumer inflation declined to 6.0 per cent in March 2017 from 6.8 per cent in February 2017. | Inflation rate (% y/y) | 6.0 (Mar) ↓ |
| ❖ Discount and prime lending rates remained unchanged in April 2017. | Prime Lending (%) | 10.75 |
| | Discount rate (%) | 7.25 |
| ❖ During the month of April 2017, the external value of the Lilangeni weakened against major currencies. | Exchange rate (US\$) | 13.34 (Apr) ↑ |
| ❖ Credit to the Private Sector amounted to E12.5 billion at the end of March 2017, lower than the E12.6 billion recorded at the end of February 2017. | Private Sector Credit (% y/y) | 7.0 (Mar) ↑ |
| ❖ Broad Money Supply (M2) fell by 4.8 per cent (m/m) at the end of March 2017 to settle at E14.4 billion. | Broad Money (M2) (% y/y) | 12.8 (Mar) ↑ |
| ❖ Gross Official Reserves stood at E8.2 billion at the end of April 2017, 11.8 per cent higher than the E7.3 billion recorded in March 2017. | Reserves (months of import cover) | 3.8 (Apr) ↑ |
| ❖ At the end of April 2017, preliminary debt figures indicate that total public debt stood at E10.69 billion, higher than the E10.45 billion recorded in March 2017. | Total Public Debt (% to GDP) | 18.3 (Apr) ↓ |
| ❖ In the fourth quarter of 2016, Swaziland's current account registered a surplus of E1.59 billion, a significant increase from the revised E912.1 million reported in the third quarter. | Current Account Balance (% of GDP) | 2.9 (Dec) ↑ |

NB: The table shows the most recent available data.

1 Inflation developments

Annual consumer inflation declined to 6.0 per cent in March 2017 from 6.8 per cent in February 2017. The notable slowdown mainly benefited from a decrease in food inflation. Though remaining at double digits, food inflation continued to moderate decreasing from 12.8 per cent in February 2017 to 10.3 per cent in March 2017. With a better anticipated harvest (due to improved weather conditions) the drastic effects of the El’Nino-induced drought on food prices are gradually fading. Notable moderations were observed in the prices of ‘rice and other cereals’, ‘oils and fats,’ ‘milk and milk products’ and ‘fruits’. On the other hand, transport inflation was estimated at 2.0 per cent in March 2017 compared to 1.8 per cent in February 2017. A further slowdown was observed in the price indices for ‘clothing and footwear’ and ‘recreation and culture’.

Figure 1: Inflation Trends; March 2016 to March 2017

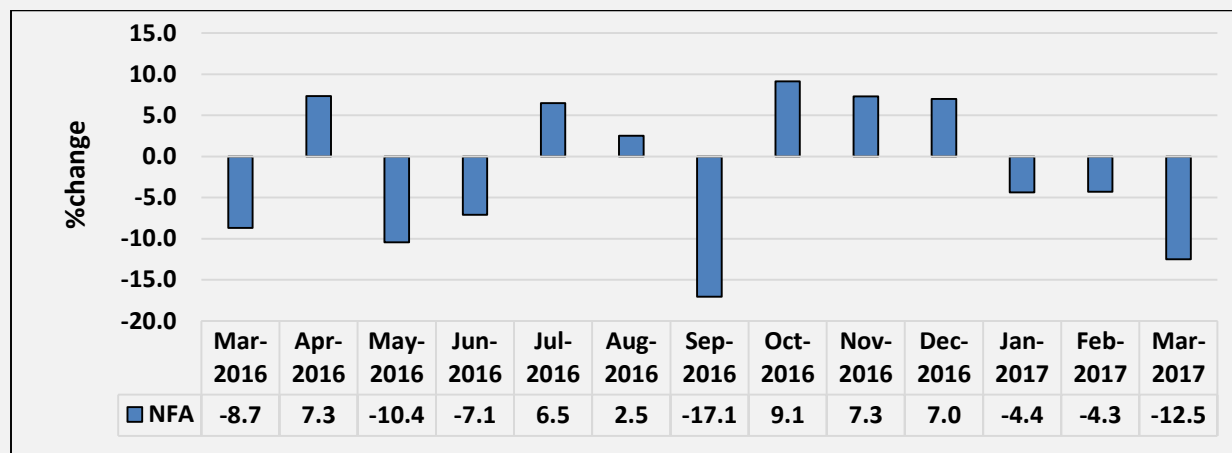


Source: Central Statistical Office

On month-on-month basis, consumer inflation increased by 0.1 per cent in March 2017 compared to 1.1 per cent in February 2017. Marginal increases were noted in the price indices for ‘alcoholic beverages and tobacco’, ‘transport’ and ‘food and non-alcoholic beverages’. Slight decreases were observed in the price indices of ‘health’ and ‘recreation and culture’. Core inflation (which is defined as inflation excluding food, non-alcoholic beverages, auto-fuel and energy) grew by 4.6 per cent in March 2017, slightly lower than the 4.7 per cent recorded the previous month.

Money Supply and Banking Developments

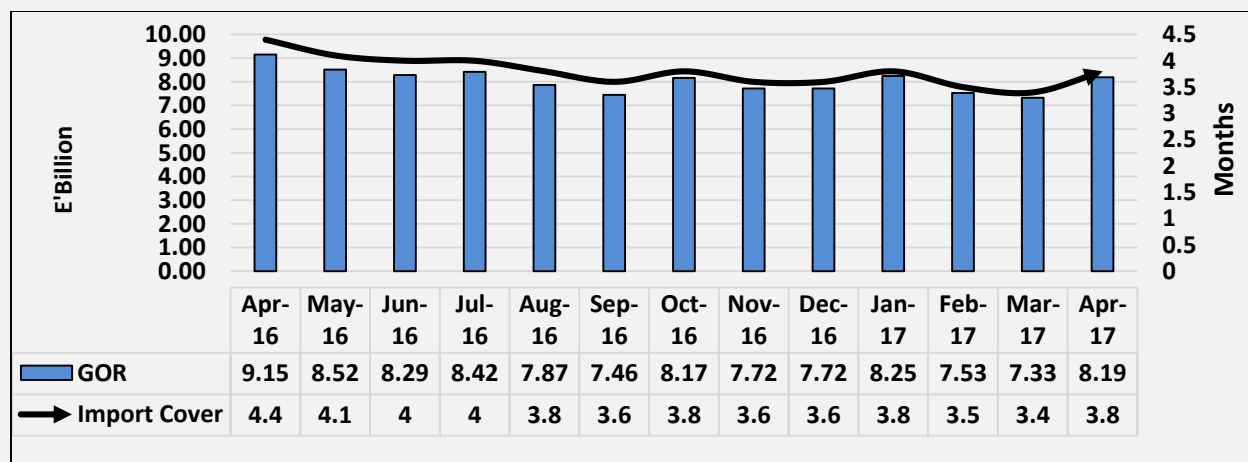
Figure 2: Net Foreign Assets Monthly Changes: March 2016 to March 2017



Source: Central Bank of Swaziland

Net Foreign Assets as at the end of March 2017 depicted a 12.5 per cent contraction from the preceding month to close at E7.1 billion. The reduction was observed in both Net Foreign Holdings of Other Depository Corporations and the Official Sector. Net Foreign Holdings of Other Depository Corporation receded by 45.1 per cent to close at E1.0 billion on account of a fall in their deposits placed with banks in the Common Monetary Area (CMA) over the month of March 2017. Net Official Assets declined by 3.0 per cent month-on-month to reach E6.1 billion, mainly on account of payment of Government’s budgetary obligations over the month under review. Net Foreign Assets in Special Drawing Rights (SDR) amounted to SDR390.5 million at the end of March 2017, contracting by 14.9 per cent from the previous month. Compared year-on-year, Net Foreign Assets in Emalangeni terms decelerated by 18.9 per cent and by 7.2 per cent in SDR terms.

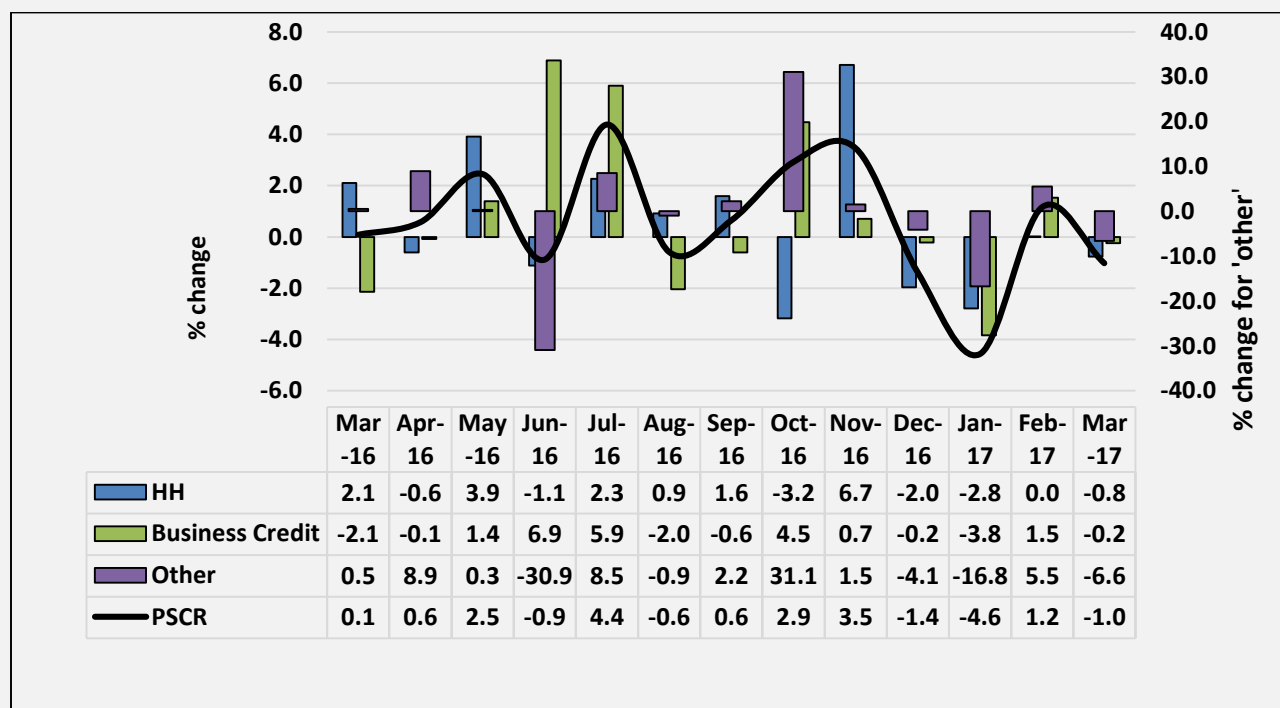
Figure 3: Gross Official Reserves and Import Cover: March 2016 to April 2017



Source: Central Bank of Swaziland

Gross Official Reserves reflected a month-on-month expansion of 11.8 per cent at the end of April 2017 to settle at E8.2 billion, higher than the E7.3 billion observed at the end of March 2017. At this level the Reserves were equivalent to an import cover of 3.8 months, higher than the 3.4 months registered at the end of March 2017. The growth in reserves was mainly fuelled by the quarterly inflow of SACU receipts at the beginning of April 2017. When valued in Special Drawing Rights (SDRs), the reserves stood at SDR449.7 million reflecting a month-on-month growth of 11.2 per cent. However, when compared over the year, the reserves reflected a contraction of 10.5 per cent when valued in Emalangeni terms and 1.2 per cent in SDRs terms.

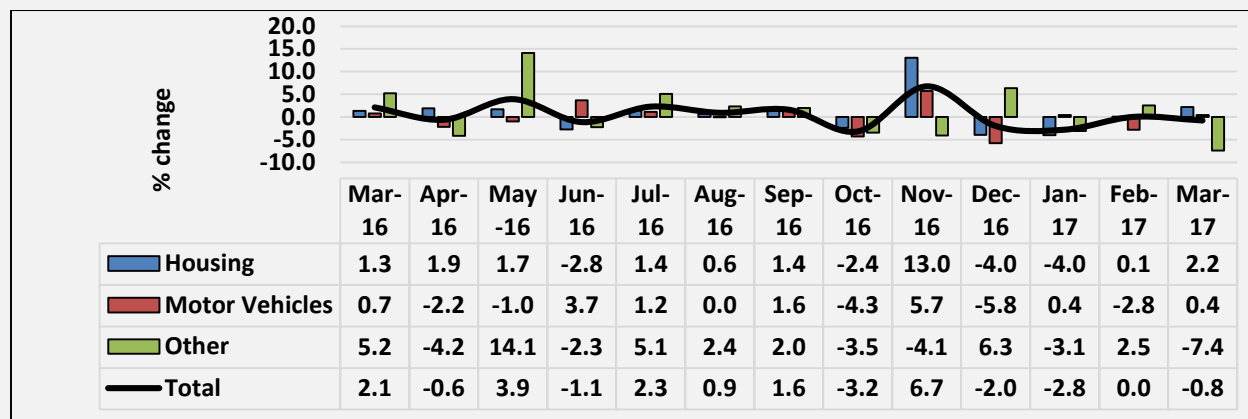
Figure 4: Private Sector Credit Monthly Changes; March 2016 to March 2017



Source: Central Bank of Swaziland

Credit Extended to the Private Sector stood at E12.5 billion over the month of March 2017, depicting a month-on-month reduction of 1.0 per cent. The contraction emanated from all components of Private Sector Credit namely; Credit Extended to Other Sectors (-6.6 per cent), Credit Extended to Businesses (-0.2 per cent) and Credit Extended to Households and Non-Profit Institutions Serving Households (NPISH) (-0.8 per cent). On the other hand, when compared over the same period last year, Private Sector Credit grew by 7.0 per cent. Credit to Businesses closed at E5.7 billion at the end of March 2017, reflecting a decline of 0.2 per cent from February 2017. The reduction in credit to Businesses was predominantly due to a decline in credit to these subsectors; Community, Social and Personal Services (-12.9 per cent), Construction (-0.7 per cent) as well as Manufacturing (-0.5 per cent).

Figure 5: Household Credit Monthly Changes: March 2016 to March 2017



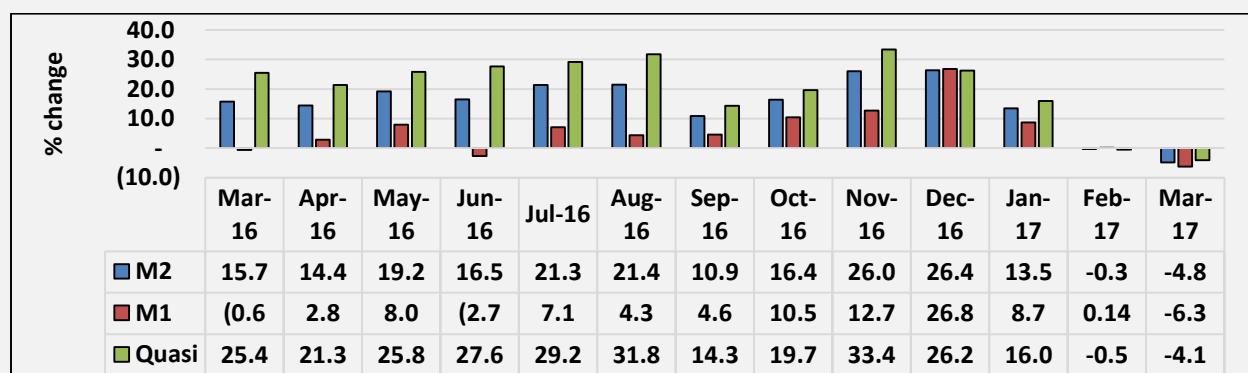
Source: Central Bank of Swaziland

Credit Extended to Households & NPISH went down by 0.8 per cent as at the end of March 2017 to settle at E5.7 billion. The fall was observed in credit extended to Other (Unsecured) Loans which decelerated by 7.4 per cent to close at E1.4 billion. In contrast, Mortgage Finance grew by 2.2 per cent to E3.0 billion and Motor Vehicle Finance rose by 0.4 per cent to close at E1.3 billion. Credit Extended to Other Sectors amounted to E1.0 billion at the end of March 2017, depicting a month-on-month decline of 6.6 per cent from the previous month. The contraction was due to a fall in credit demand by these sectors; Local Government (-15.8 per cent), Public Nonfinancial Corporations (-1.7 per cent) and Other Financial Corporations (-7.7 per cent).

Net Government Balances held with the banking sector reached E798.7 million at the end of March 2017.

At this level, the balances were 33.0 per cent lower than in the previous month. The monthly decrease in Net Government Balances was mainly due to Government deposits with the banking sector which fell by 8.6 per cent. Claims on Government also depicted a decline at the end of March 2017, decreasing by 0.2 per cent month-on-month. When compared over the year, Net Government Balances with the banking sector decelerated by 71.5 per cent.

Figure 6: Money Supply Monthly Changes; March 2016 to March 2017



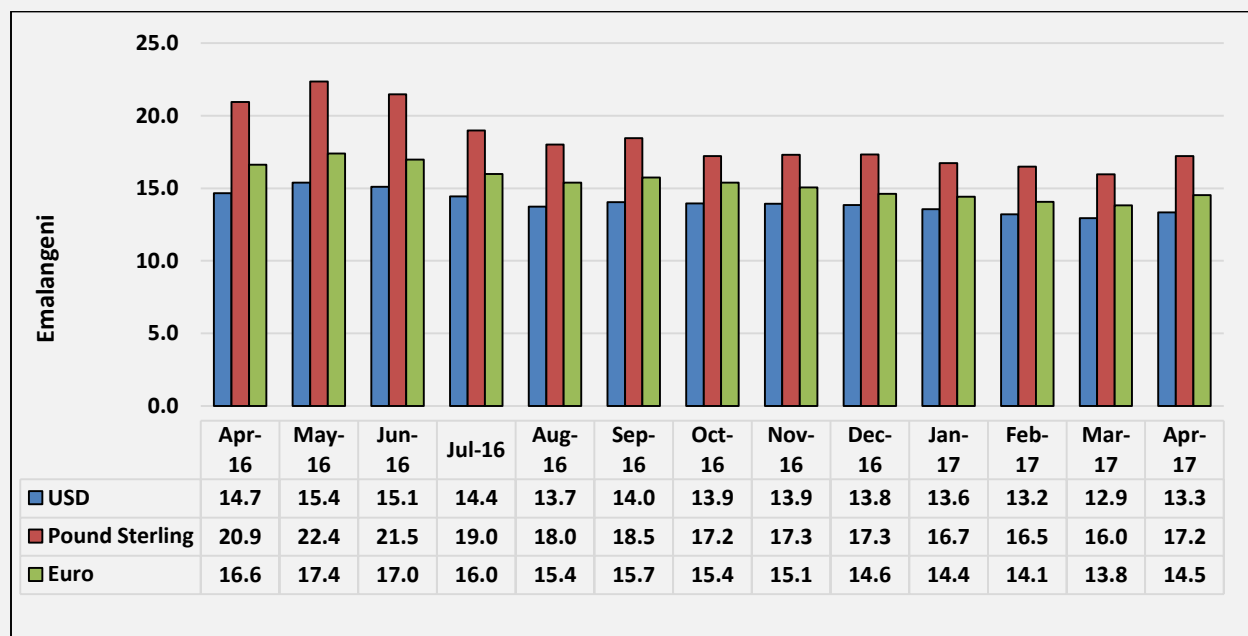
Source: Central Bank of Swaziland

Broad Money Supply (M2) shrank by 4.8 per cent as at the end of March 2017 to settle at E14.4 billion. The month-on-month decline emanated from both Quasi money and Narrow Money supply at the end of March 2017. Compared over the year, M2 grew by 12.8 per cent.

M1 recorded a month-on-month contraction of 6.3 per cent to E4.7 billion at the end of March 2017, mainly driven by a decline of 7.3 per cent in Transferable Deposits to E4.1 billion. Currency Outside Depository Corporation on the contrary rose by 1.4 per cent to E594.5 million.

Quasi Money Supply reflected a month-on-month decline of 4.1 per cent at the end of March 2017 to reach E9.7 billion. The contraction was mainly attributed to Time Deposits which receded by 5.4 per cent to E7.9 billion. Savings Deposits on the other hand, increased by 2.1 per cent to settle at E1.8 billion over the month under review.

Figure 7: Average Exchange Rates; April 2016 to April 2017

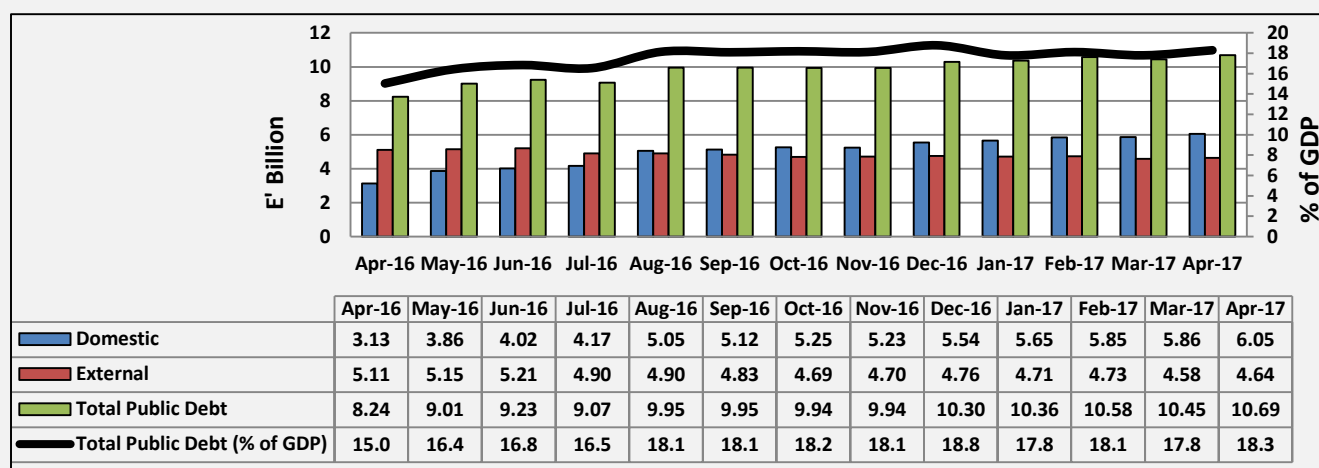


Source: Central Bank of Swaziland

The average exchange rate of the Lilangeni against major currencies weakened in the month of April 2017 compared to March 2017. Compared to March 2017, the local unit depreciated by 3.1 per cent to average E13.34 to the US Dollar, 7.5 per cent to average E17.22 to the Pound Sterling and by 5.1 per cent to average E14.52 to the Euro. The move by two of the big three credit ratings agencies (Standard & Poor’s and Fitch) to downgrade South Africa’s credit sovereignty to junk status, after the cabinet reshuffle had a profound knock-on effect on the Rand exchange rate. As at the end of April, the Lilangeni was trading at E13.53 to the US dollar, E17.06 to the Pound Sterling and E14.48 to the Euro.

Public Debt

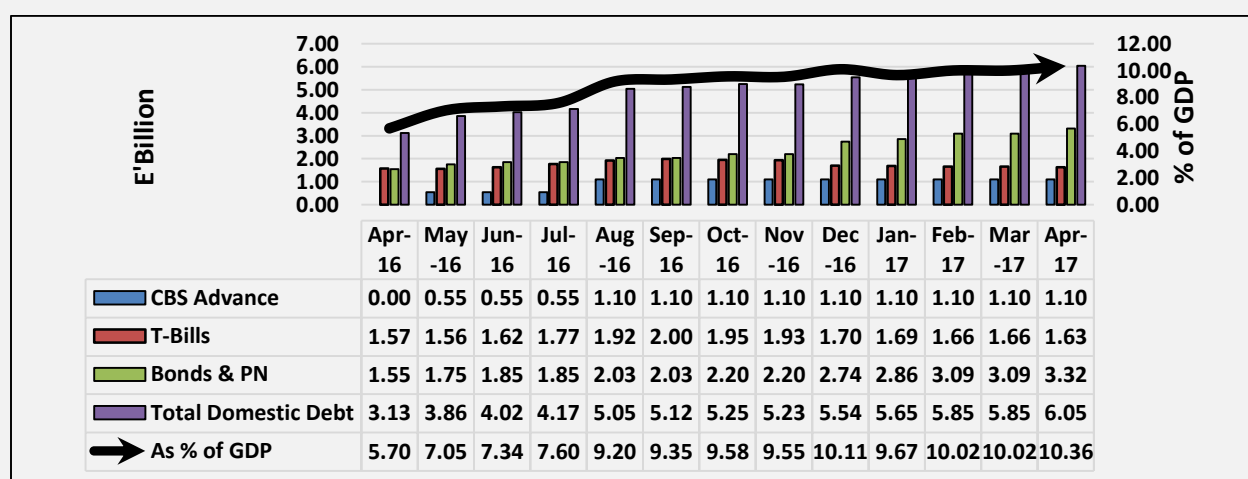
Figure 8: Total Public Debt: April 2016 to April 2017



Source: Ministry of Finance and Central Bank of Swaziland

As at the end of April 2017, preliminary debt figures indicate that total public debt stood at E10.69 billion, representing 18.3 per cent of GDP. This reflects a marginal increase of 2.4 per cent from the previous month. The increase largely stems from a surge in domestic debt. External debt as at end of April 2017 stood at E4.64 billion, an equivalent of 7.9 per cent of GDP. This indicates a marginal increase from the E4.58 billion reported in March 2017.

Figure 9: Public Domestic Debt; April 2016 to April 2017



Source: Ministry of Finance and Central Bank of Swaziland

Domestic debt stood at E6.05 billion as at end of April 2017, an equivalent of 10.4 per cent of GDP. This represents a 3.2 per cent increase from March 2017 and is mainly attributed to accumulation of domestic debt.

Table 1: Government Securities Outstanding By Holder as At 30th April 2017 (E' Million)

| Holder | Treasury Bills | Government Bonds | Promissory Notes | Total | Share of Holdings (%) |
|------------------|------------------|------------------|------------------|------------------|-----------------------|
| CBS | 2,030 | 845 | 0 | 2,875 | 0.06 |
| Commercial banks | 1,289,888 | 1,036,828 | 0 | 2,326,716 | 47.02 |
| NBFIs | 241,052 | 1,956,604 | 0 | 2,197,656 | 44.41 |
| Other | 97,980 | 138,890 | 184,523 | 421,393 | 8.51 |
| Total | 1,630,950 | 3,133,167 | 184,523 | 4,948,640 | 100 |

Source: Ministry of Finance and Central Bank of Swaziland

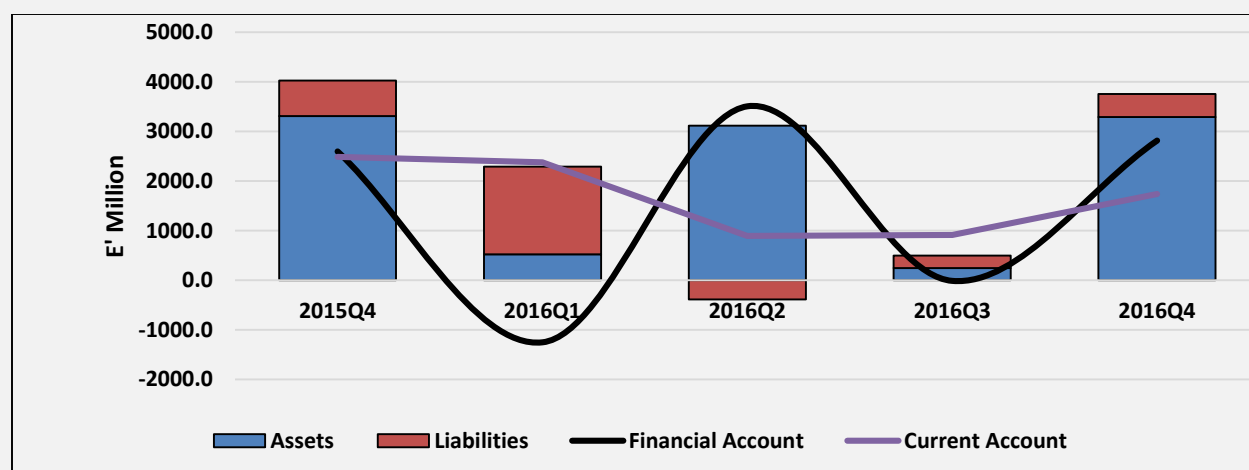
While commercial banks continued to dominate participation in Government securities on the shorter end of the yield curve, non-bank financial institutions dominate on the longer term securities.

The External Sector

During the third quarter of 2016 the overall balance of payments depicted an overall surplus of E313.1 million, leading to a net increase in reserve assets of E313.1 million excluding valuation changes. The growth in the the current account surplus was the main driver in explaining the overall balance.

In the final quarter of 2016, the country's current account surplus grew by 74.7 per cent to E1.593 billion from the last quarter. This jump in the current account surplus was attributable to a wider positive trade account balance coupled with a net inflow in the secondary income account during the period. The surplus in the fourth quarter was equivalent to 2.9 per cent of GDP from 1.7 per cent in the previous quarter.

Figure 11: Current Account Quartely Changes: December 2015 to December 2016



Source: Central Bank of Swaziland and Swaziland Revenue Authority

The trade account registered a E1.636 billion surplus in the fourth quarter of 2016 following a much lower E519.5 million surplus in the preceding quarter. The widening of the positive trade balance was partly due to a fall in imports by 3.3 per cent quarter-on-quarter after a 5.7 per cent rise in the third quarter. Merchandise export receipts, on the other hand, grew by 15 per cent quarter-on-quarter to E7.002 billion in the fourth quarter, reflecting slower growth when compared with the 26.6 per cent quarterly growth in quarter three. Of the total income from exports during the period, 82 per cent was from sales in the South African market. An annual comparison shows a 12.8 per cent increase in export receipts in the fourth quarter against the 11.3 per cent recorded in the third quarter.

Export proceeds from miscellaneous edibles increased to E3.977 billion in the fourth quarter, an impressive 40.3 per cent quarter-on-quarter growth from the previous quarter. This growth is the largest of the four quarters of the year 2016 due to increases in volume sales. On the contrary, receipts from the export of sugar and sugar confectionary fell by a quarterly 3.5 per cent to E1.413 billion in the fourth quarter. From a year ago, exports of sugar and sugar confectionary rose by a significant 26.9 per cent. Data shows that all wood and wood products exports are destined to the South African market alongside 98 per cent of textiles now destined to the same market. During the fourth quarter, export proceeds from wood and wood articles registered a 5.2 per cent quarter-on-quarter decline to E327.3 million against a 2.2 per cent rise in the previous quarter. Textiles and articles of textiles eased to a slower 5.2 per cent quarterly growth during the quarter under review following a notable 28.8 per cent growth in the third quarter.

Merchandise import payments edged down by 3.3 per cent to E5.366 billion during the fourth quarter, benefitting from the stronger lilangeni against major world currencies. Fuel import payments rose by a meagre 1.8 per cent quarter-on-quarter to E609.6 million down from a 11.1 per cent increase in the third quarter. Payments for vehicles bought from South Africa slowed down by 36.7 per cent from the third quarter to E330.7 million in the final quarter of 2016.

The services account recorded a significantly lower deficit in the final quarter of 2016. The country remains the net importer of services despite the account deficit narrowing from E1.106 billion in the third quarter to E666.4 million in the fourth quarter. Services inflows declined by 11.6 per cent quarter-on-quarter to E340.9 million with outflows, on other hand, contracting by a wider 32.5 per cent to E1.007 billion as the main importing categories of the services account which include; transport, travel and other business services all slowed down during the quarter. The transport services deficit contracted by 17.7 per cent to E370.7 while travel services recorded a deficit of E75.4 million in the fourth quarter.

The primary income (formerly income account) reflected a larger deficit from E128.9 to E801.5 million in the final quarter of 2016. The increase of E508.2 million in investment income and of E366.5 million in other primary income were the main contributors. The compensation of employees category recorded an increase in income receivable of E73.1 million albeit not enough to offset the overall deficit observed in the account.

In the fourth quarter of 2016 compensation of employees inflows amounted to E105.6 million while outflows were lower at E32.5 million from E47.8 million recorded in the previous quarter. Investment income outflows amounted to E689.8 million on account of an increase in reinvested earnings of E630.4 million combined with dividend pay-outs of E50.4 million. Interest earned by the official sector constituted 74.9 per cent of investment income inflows which totalled E181.7 million in the quarter. Other primary income includes rent, taxes and subsidies. Outflows from this subcategory dominated by taxes on products and production recorded a 22.5 per cent quarter-on-quarter increase to E485.5 million, while inflows grew by a meagre 2.2 per cent to E119.0 million. This net income payable contributed to the overall deficit in the primary income account.

Secondary income (formerly current transfers), in the fourth quarter of 2016, recorded as a surplus of E1.570 billion. Inflows recorded a 25.6 per cent year-on-year decline to E1.744 billion after posting flat growth in the previous year. This year-on-year decline is a result of reduced SACU revenue receipts in the fiscal year 2016/17 compared to 2015/16 under general government. Although lower, SACU still accounts for 67.2 per cent of the inflows in the overall account. Secondary income outflows grew to E174.4 million in the fourth quarter of 2016 from E75.8 million in the third quarter. Government subscriptions to international organisations and social contributions dominated the outflows recorded in the account. Preliminary data shows that the country is still a net receiver of transfers in all the functional categories of the secondary income account.

In the fourth quarter, the financial account reflected a net outflow of E1.558 billion, higher than E1.208 billion for the third quarter of 2016. This is attributed to the net acquisition of foreign assets in the 'other investment' sub-account, which was significantly higher than the corresponding net incurrence of liabilities. Foreign assets in the financial account amounted to net outflow of E2.029 billion against a E471 million net inflow of liabilities.

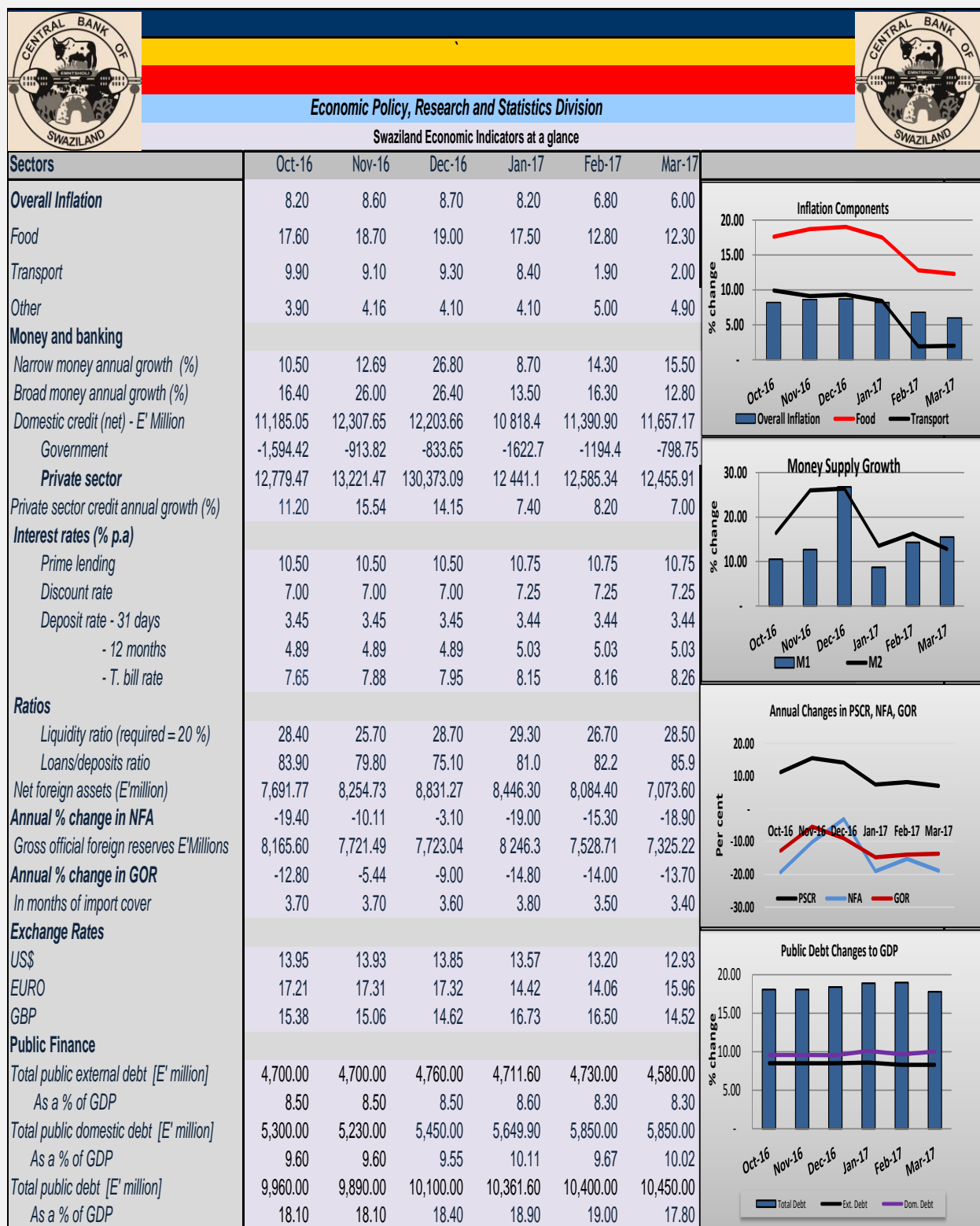
Direct investment registered a net incurrence of E835.7 million FDI liabilities during the fourth quarter. This mainly influenced by FDI liabilities inflows surging by E861.2 million from liabilities outflows of E38.7 million in September. The increase in FDI liabilities inflows was accounted for by the E630.4 million increase in reinvested earnings during the quarter from a mild increase of E167.5 million previously. During the same period, FDI recorded a net increase of E25.6 million in net acquisition of FDI assets, a turnaround from the net contraction of E131.8 million net acquisition in the previous quarter.

The net inflow in the foreign portfolio investment account persisted during the quarter ending December, though subdued, with a net inflow of E92.8 million from a net inflow of E288.7 million in quarter three.

The 'other investment' account resulted in a net increase in foreign assets of E2.124 billion emanating from an acquisition of assets amounting to E1.734 billion, while liabilities incurred receded by E390.2 million during the same period. Acquisition of assets moderated in December 2016 on a net basis when compared

to the E2.596 billion assets acquired in September, while the liabilities side registered a turnaround from the E293.0 million increase in liabilities incurred in the previous quarter. Attributed to the net acquisition of financial assets were trade credits and advances during the quarter amounting to E2.311 billion though muffled by a net contraction of E606.4 million in currency and deposits assets.

Other investment liabilities swung from a net increase of E293.0 million to a net decline of E390.2 million in December. The net decline was however stifled by positive liabilities of E186.3 million incurred through government loans as official government received more drawdowns than repayments of loans. In the quarter ending December 2016 disbursements amounted to E286.2 million against repayments of E100 million.



NB: The table shows data up to the end of March 2017 for consistency.