

Recent Economic Developments

AUGUST/SEPTEMBER 2019



CENTRAL BANK
OF ESWATINI
Umntsholi Wemaswati



MAJOR HIGHLIGHTS

<ul style="list-style-type: none"> Quarterly GDP increased by 6.1 per cent on a year-on-year basis (seasonally adjusted) in the second quarter of 2019, up from a revised 3.3 per cent in the previous quarter. 	GDP Growth rate (% y/y)	6.1 (June) ▲
<ul style="list-style-type: none"> The country's headline inflation rate increased to 2.0 per cent in August 2019, from the 1.7 per cent recorded in July 2019. 	Inflation rate (% y/y)	2.0 (Aug) ▲
<ul style="list-style-type: none"> Discount and prime lending rates were unchanged in September 2019. 	Prime Lending (%)	10.00 —
	Discount rate (%)	6.50 —
<ul style="list-style-type: none"> The Lilangeni/Rand exchange rate strengthened against the major trading currencies in the month of September 2019. 	Exchange rate (US\$)	14.84 (Sept) ▼
<ul style="list-style-type: none"> Credit Extended to the Private Sector decelerated by 0.5 per cent month-on-month to close at E14.9 billion in August 2019 from E15.0 billion the previous month. 	Private Sector Credit (% m/m)	0.5 (Aug) ▼
<ul style="list-style-type: none"> Broad Money Supply (M2) improved by 4.3 per cent to reach E17.9 billion at the end of the month under review, up from E17.1 billion observed in July 2019. 	Broad Money (M2) (% m/m)	4.3 (Aug) ▲
<ul style="list-style-type: none"> Gross Official Reserves closed at E5.2 billion at the end of September 2019 declining from E6.5 billion in August 2019, equivalent to a monthly fall of 18.7 per cent. 	Reserves (months of import cover)	2.3 (Sept) ▼
<ul style="list-style-type: none"> Preliminary debt figures indicate that total public debt stood at E19.6 billion, an equivalent of 29.8 per cent of GDP as at end of September 2019. 	Total Domestic Debt (% of GDP)	29.8 (Sept) ▲
<ul style="list-style-type: none"> In the month of August 2019, Eswatini recorded a trade surplus of E473.5 million, a turnaround from the E87.7 million trade deficit recorded in July 2019. 	Trade Balance (% of GDP)	0.71 (Aug) ▲

NB: The table shows the most recent available data.

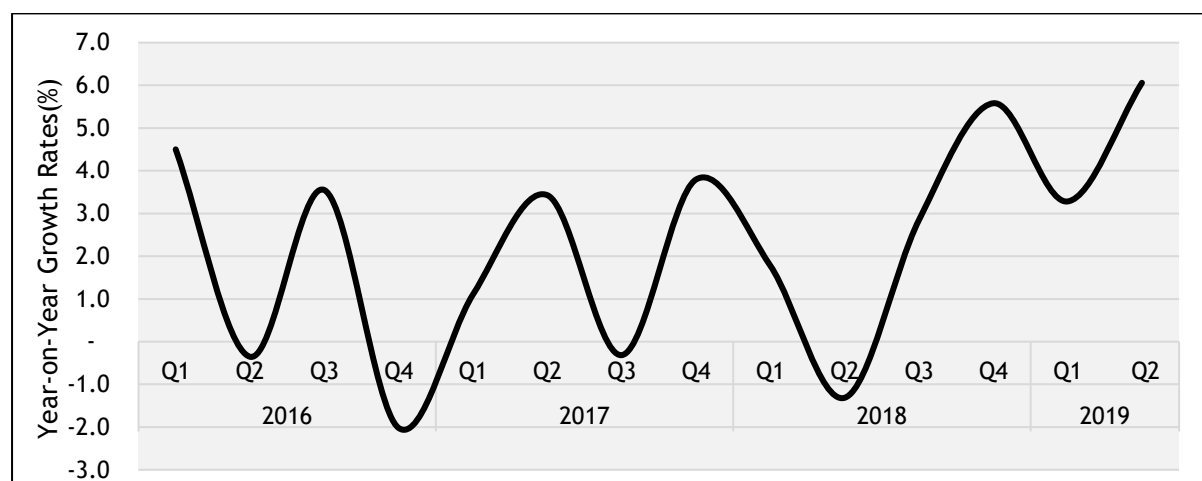


1 ESWATINI GROSS DOMESTIC PRODUCT (GDP) DEVELOPMENTS

Eswatini Quarterly Gross Domestic Product (QGDP) increased by 6.1 per cent on a year-on-year basis (seasonally adjusted) in the second quarter of 2019, up from a revised 3.3 per cent in the previous quarter. On a quarter-on-quarter basis, economic activity expanded by 0.5 per cent (seasonally adjusted) in the second quarter of 2019, from a decline of 0.7 per cent in the first quarter of 2019. The significant increase on a year-on-year basis largely benefitted from improvements in the secondary sector which grew by 12.2 per cent, year-on-year from a decrease of 3.2 per cent in the first quarter. Significant growth was observed in the ‘manufacturing’ and ‘electricity supply’ sub-sectors.

Economic activity in the tertiary sector grew at slower rate of 5.7 per cent, year-on-year, compared to 7.1 per cent observed in the first quarter of 2019. Growth in the sector was mainly driven by the financial, transport, information and communication (ICT) and public administration sub-sectors. On the other hand, the primary sector contracted by 1.7 per cent, year-on-year, in the second quarter of 2019, down from 10.7 per cent in the previous quarter. The decrease mainly resulted from a significant decline in the mining and quarry sector. In addition, the Agriculture and forestry sub-sector decreased by 1.1 per cent in the second quarter of 2019, down from 11.4 per cent in the previous quarter.

Figure 1: Real GDP Seasonally Adjusted Year-on-Year Growth: 2016Q1-2019Q2



Source: Central Statistics Office (CSO)

Total electricity sales (seasonally adjusted) grew by 1.3 per cent in the quarter ended June 2019 from a marginal growth of 0.2 per cent in the previous quarter. Growth in electricity consumption was mainly driven by increases from both the ‘domestic’ and ‘commercial’ categories. Domestic electricity sales rose by 4.4 per cent during the second quarter of 2019, while electricity sales from the ‘commercial’ category grew significantly

by 25.7 per cent. However, electricity sales from the ‘irrigation power and bulk’ category (which accounts for more than 50 per cent) declined by 4.7 per cent, during the period under review.

Total treated water sales (seasonally adjusted) rebounded by 7.0 per cent in the quarter ended June 2019, following three consecutive declines observed in the previous quarters. While treated water sales from the ‘domestic’ category remained flat during the quarter review, treated water sales from the ‘commercial’ category grew by 4.0 per cent. The increase in water consumption was broadly in line with an increase in the number of connections. Total connections grew by 6.3 per cent to 49,593 in the quarter ended June 2019 from 46,647 in the quarter ended March 2019.

Figures sourced from the Ministry of Natural Resources indicate a 3.3 per cent month-on-month increase in total fuel import volumes (seasonally adjusted) in July 2019, from a 3.4 per cent decline in June 2019. Petrol import volumes grew by 1.2 per cent in July 2019, up from a 2.8 per cent in the previous month. Reflecting an improvement in commercial road freight activity, diesel import volumes increased by 5.3 per cent in July 2019 from a 4.0 per cent decline in June 2019. Between June and July 2019, paraffin import volumes accelerated by a seasonally adjusted 17.9 per cent.

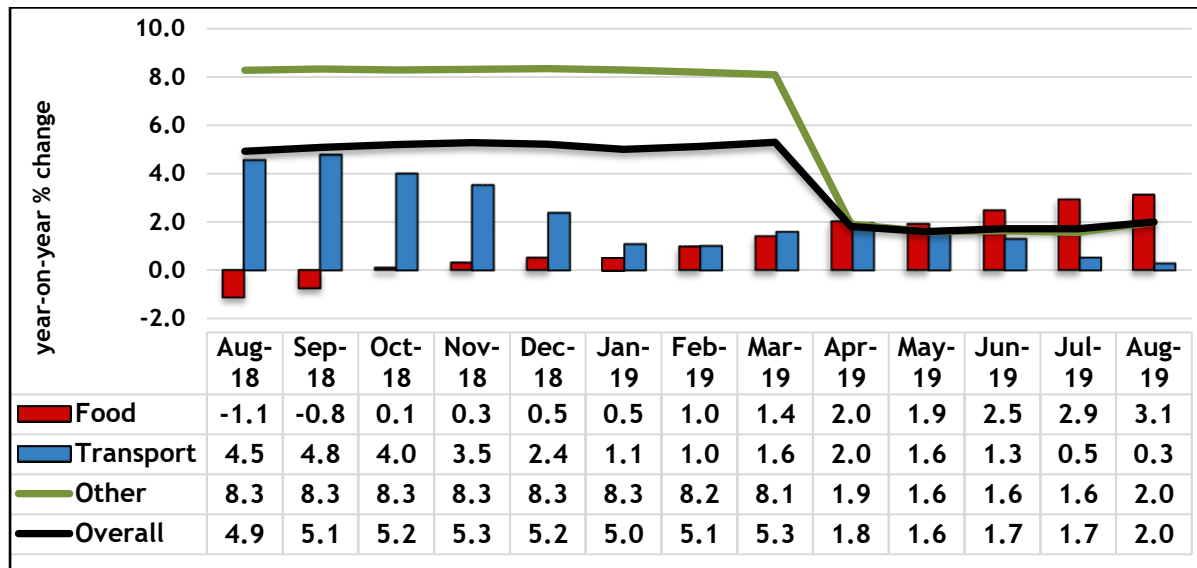
2 INFLATION DEVELOPMENTS

The country’s headline inflation rate increased to 2.0 per cent in August 2019, following a flat growth rate of 1.7 per cent recorded in June and July 2019. The moderate acceleration in consumer price inflation mainly resulted from an increase in the price index for education. Tuition fees and related costs for tertiary education rose significantly by 18.1 per cent, year-on-year. As a result, the price index for ‘education’ rose from 6.9 per cent in July 2019 to 9.6 per cent in August 2019. Additional inflationary pressures emanated from the price indices for ‘food and non-alcoholic beverages’ and ‘clothing and footwear’. Food inflation maintained a gradual upward trend increasing by 0.2 of a percentage point to 3.1 per cent in August 2019 largely driven by increases in the prices of ‘bread and cereals’ and ‘fish and other seafood’ products. On the other hand, the index for ‘clothing and footwear’ grew by 1.0 percentage point.

The above increases were partially offset by decreasing rates of growth in the price indices for ‘miscellaneous goods and services’ and ‘transport’. The index for ‘miscellaneous goods and services’ recorded a deflation of 0.1 per cent in August 2019, down from an increase 0.7 per cent in the previous month. Transport inflation further declined to 0.3 per cent in August 2019 from 0.5 per cent in July 2019. The deceleration mainly benefitted from

relatively lower fuel prices in the month under review compared to the same period the previous year.

Figure 2: Inflation Trends: August 2018 to August 2019



Source: Central Statistical Office

On month-on-month basis, consumer inflation increased by 0.3 per cent in August 2019 from 0.1 per cent in the previous month. The price indices for 'education' and 'clothing and footwear' grew by 2.6 and 0.6 per cent, respectively, whilst food inflation grew by a slower 0.1 per cent between the two months under review.

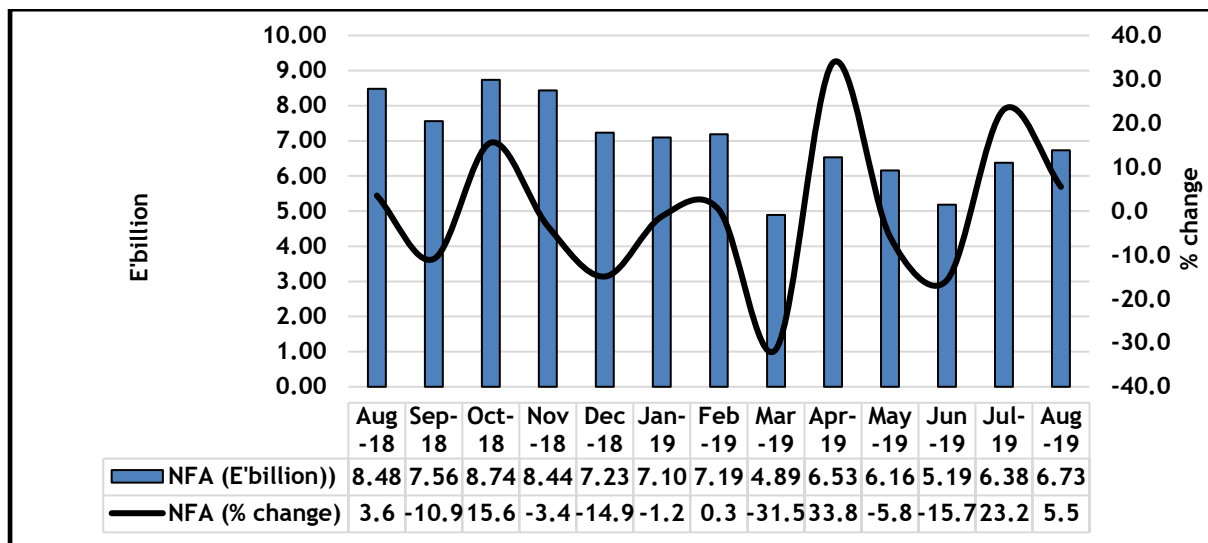
Core inflation, which is CPI excluding volatile items such as food, fuel and energy, grew by 2.0 per cent in August 2019, from 1.6 per cent in July 2019. On month-on-month rates, core inflation slightly grew by 0.5 per cent in August 2019 from zero growth in the previous month.

3 MONEY SUPPLY AND BANKING DEVELOPMENTS

The Country's Net Foreign Assets advanced to E6.7 billion at the end of August 2019, increased by 5.5 per cent from E6.4 billion in July 2019. The increase resulted from both Net Foreign Assets of Other Depository Corporations and those of the Official Sector. Annually, Net Foreign Assets shrank by 20.6 per cent. Net Foreign Assets of Other Depository Corporations amounted to E1.3 billion at the end of August 2019, 5.9 per cent higher than the previous month. Growth was mainly due to an accumulation of Other Depository Corporations' balances held abroad.

Net Official Assets expanded by 5.4 per cent to close at E5.4 billion at the end of August 2019 from E5.1 billion the previous month.

Figure 3: Net Foreign Assets Monthly Changes: August 2018 to August 2019

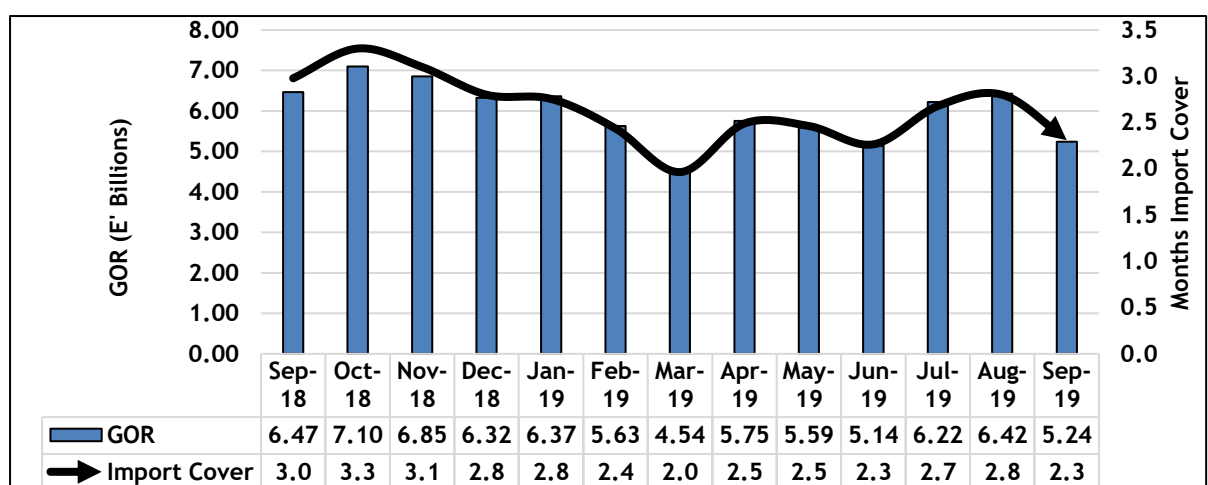


Source: Central Bank of Eswatini

In Special Drawing Rights (SDRs), Net Foreign Assets depicted a 1.3 per cent month-on-month contraction to settle at SDR322.4 million. Compared to the previous year, Net Foreign Assets in SDR terms decreased by 21.9 per cent.

Gross Official Reserves closed at E5.2 billion at the end of September 2019 declining from E6.5 billion in August 2019, equivalent to a monthly fall of 18.7 per cent. The reserves were enough to cover 2.3 months of imports, lower than the 2.8 months recorded in August 2019. Explaining the contraction was an outflow of Rands purchased by commercial banks from the Central Bank. In SDR terms, the reserves stood at SDR253.3 million portraying a month-on-month shrinkage of 18.0 per cent. On an year-on-year basis, the reserves decelerated by 22.1 per cent in SDR terms and by 18.9 per cent in Emalangeni terms.

Figure 4: Gross Official Reserves and Import Cover: September 2018 to September 2019



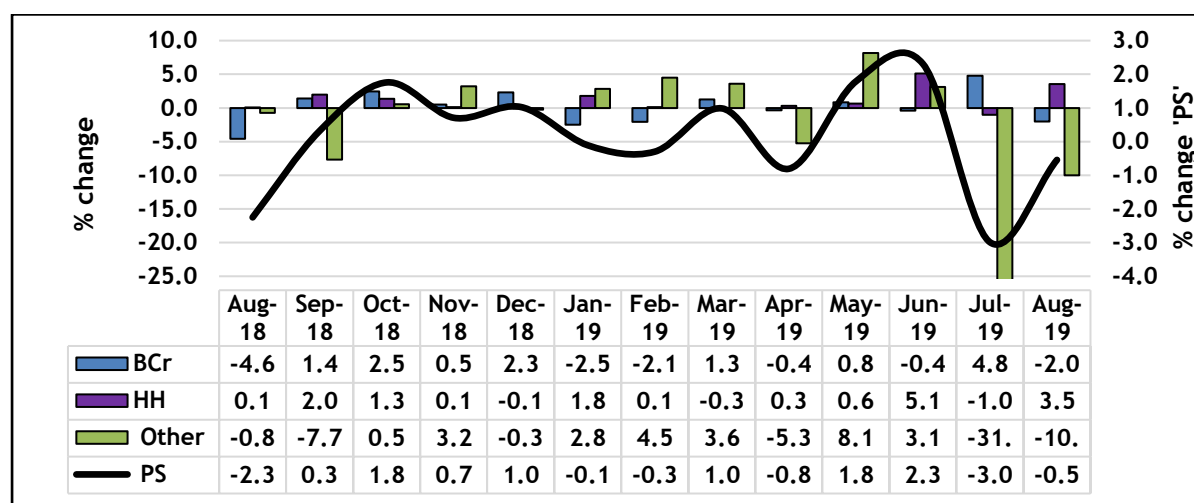
Source: Central Bank of Eswatini

Credit Extended to the Private Sector decelerated by 0.5 per cent month-on-month to close at E14.9 billion in August 2019 from E15.0 billion the previous month. The decline was largely driven by credit to Other Sectors (Other Financial Corporations, Public Nonfinancial Corporations and Local Government) followed by credit to the Business Sector. However, credit to Households & Non-Profit Institutions Serving Households (NPISH) strengthened over the month under review. On an annual basis, Private Sector credit grew by 4.1 per cent.

Credit Extended to the Business Sector decelerated to E7.0 billion in August 2019 from E7.2 billion the previous month, reflecting a downturn of 2.0 per cent. The reduction resulted from credit to the following industries; Mining & Quarrying (-7.9 per cent), Distribution & Tourism (-3.8 per cent), Agriculture & Forestry (-2.5 per cent), Construction (-2.2 per cent) and Real Estate (-0.9 per cent). However, an increase in credit was observed in the following sectors; Community, Social & Personal Services (1.0 per cent), Manufacturing (0.3 per cent) as well as Transport & Communication (0.2 per cent).

Credit Extended to Other Sectors amounted to E1.4 billion at the end of August 2019, reflecting a 10.0 per cent fall from the E1.6 billion recorded in July 2019. The decline was observed in credit to Public Nonfinancial Corporations which fell by 14.3 per cent, followed by credit to Other Financial Corporations with a fall of 8.0 per cent and credit to Local Government which dropped by 1.9 per cent. Year-on-year, credit to Other Sectors receded by 30.4 per cent.

Figure 5: Private Sector Credit Monthly Changes: August 2018 to August 2019



Source: Central Bank of Eswatini

BCr- Business Credit

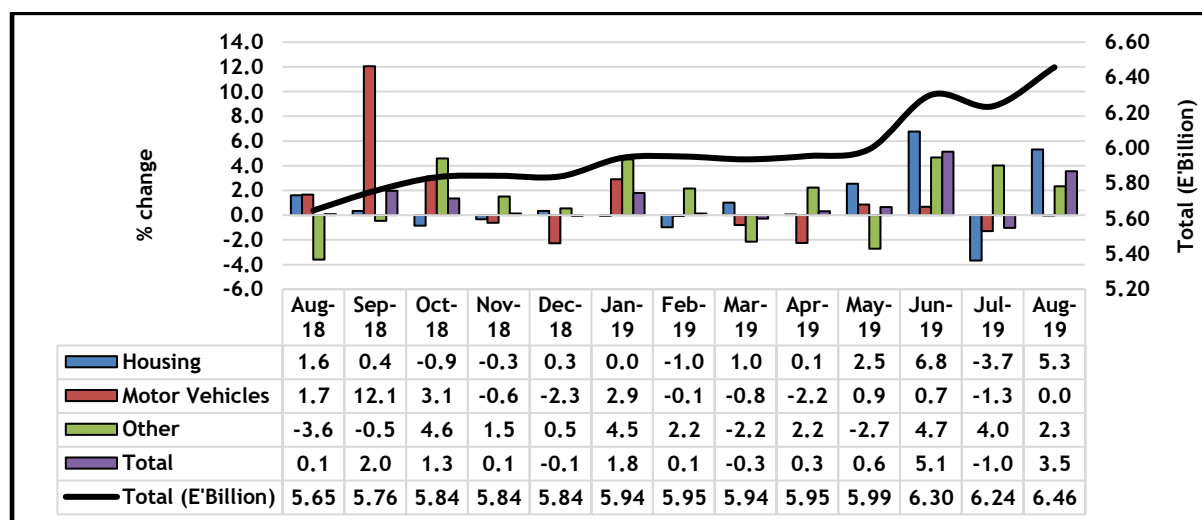
HH-Household Credit

PS- Private Sector Credit



Credit Extended to Households & NPISH registered an increase of 3.5 per cent month-on-month to close at E6.5 billion at the end of August 2019 from E6.2 billion observed the previous month. The improvement was observed in all components; Housing Loans increased by 5.3 per cent, Other Personal (unsecured) Loans went up by 2.3 per cent, and Motor Vehicles Loans grew by 0.03 per cent. Annually, credit to Households surged up by 14.4 per cent.

Figure 6: Household Credit Monthly Changes: August 2018 to August 2019



Source: Central Bank of Eswatini

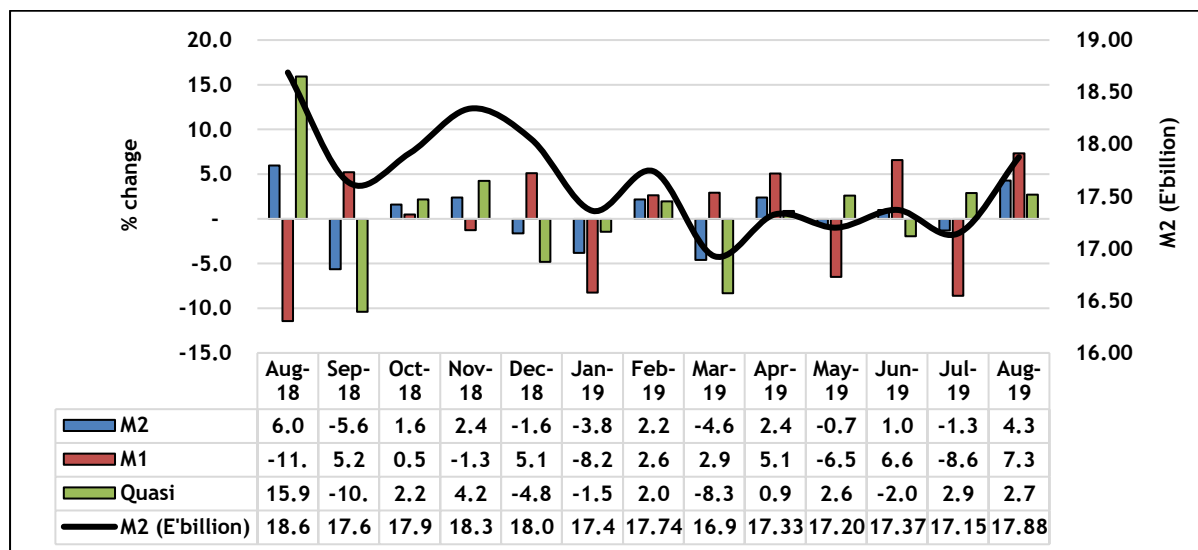
Net Claims on Government with the banking system stood at E2.6 billion at the end of August 2019, 18.8 per cent higher than the E2.2 billion recorded the preceding month. This development was on account of higher growth in claims on Government compared to Government deposits in the month under review. Year-on-year, net claims on Government grew by 35.8 per cent.

Broad Money Supply (M2) improved by 4.3 per cent to reach E17.9 billion at the end of the month under review, up from E17.1 billion observed in July 2019. The growth emanated from a rise in both Narrow Money Supply (M1) and Quasi Money Supply in August 2019. Annually, M2 fell by 4.3 per cent.

Narrow Money Supply (M1) edged higher by 7.3 per cent to reach E6.2 billion at the end of August 2019. The upsurge was registered in both components of M1, Currency Outside Depository Corporations and Transferable (demand) deposits. Currency Outside Depository Corporations rose by 12.3 per cent to E745.4 million and Transferable (demand) deposits grew by 6.7 per cent to E5.5 billion. Compared to the previous year, M1 expanded by 9.2 per cent.

Quasi Money Supply expanded by 2.7 per cent month-on-month to close at E11.7 billion at the end of August 2019, from E11.4 billion the past month. This advancement was driven by a 3.3 per cent rise in Time Deposits. The growth in Money Supply was moderated by a 0.1 per cent decline in Savings Deposits over the month under review. Year-on-year, Quasi Money receded by 10.3 per cent.

Figure 7: Money Supply Monthly Changes: August 2018 to August 2019



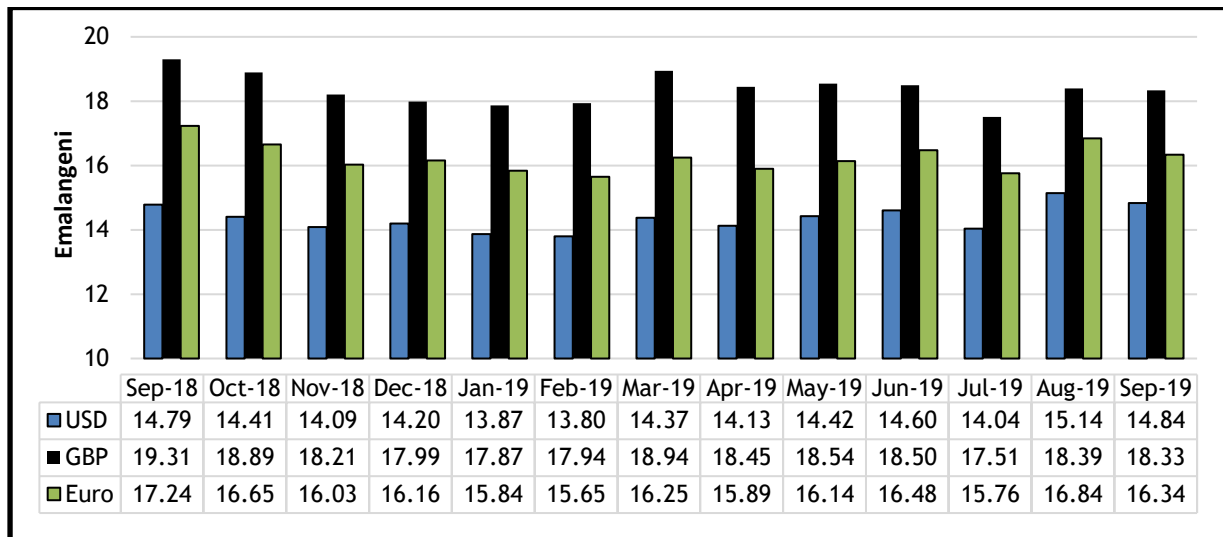
Source: Central Bank of Eswatini

During the month of September 2019, the Lilangeni/Rand exchange rate strengthened against the major trading currencies. Compared to the previous month, the Lilangeni appreciated from a monthly average of E15.14 in August 2019 to E14.84 to the US Dollar in September 2019. The local unit largely strengthened in line with mounting pressure to impeach US President, as well as an improvement in global risk sentiments, which further benefited emerging market currencies. The better than expected growth outcome for the second quarter of 2019 in South Africa also strengthened the Lilangeni/Rand performance. However, downward volatility emanating from a shock increase in global risk aversion driven by rising oil prices following a drone strike on Saudi Arabia's major oil refinery and the uncertainty regarding the US-China trade war negotiations, put pressure on the Rand to depreciate. The depreciation in the month, was however, not enough to offset the appreciation recorded in the period under review.

Political differences in the United Kingdom (UK) about Brexit and the developments around this issue continue to drive the sterling's performance in currency market. The Prime Minister's suspension of parliament in a bid to force through Brexit with or without a deal put pressure on the Pound Sterling. Hence, the Lilangeni appreciated by 0.33 per cent to average E18.33 in September 2019 from an average of E18.39 in August 2019. The domestic

unit when compared to the Euro also strengthened from an average of E16.84 in August 2019 to E16.34 in September 2019. The local unit ended the month at E15.18 to the US Dollar, E18.67 to the Pound Sterling and E16.61 to the Euro.

Figure 8: Average Exchange Rates: September 2018 to September 2019.

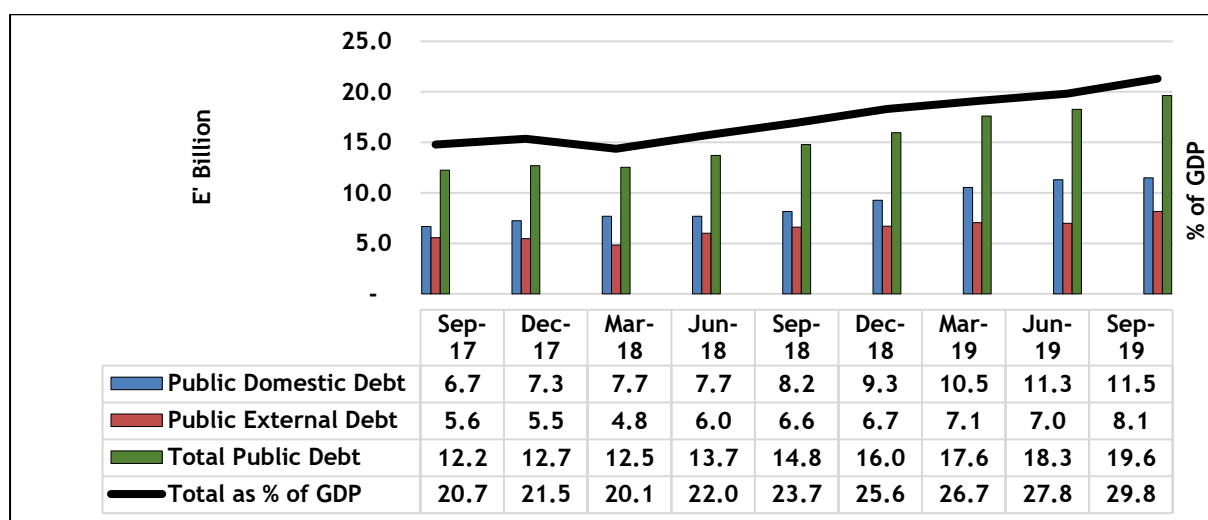


Source: Central Bank of Eswatini

3 PUBLIC DEBT

Preliminary debt figures indicate that total public debt stood at E19.6 billion, an equivalent of 29.8 per cent of GDP as at end of September 2019. This shows an increase of 7.1 per cent when compared to E18.3 billion recorded in the previous quarter.

Figure 9: Total Public Debt: 2017Q3 to 2019Q3

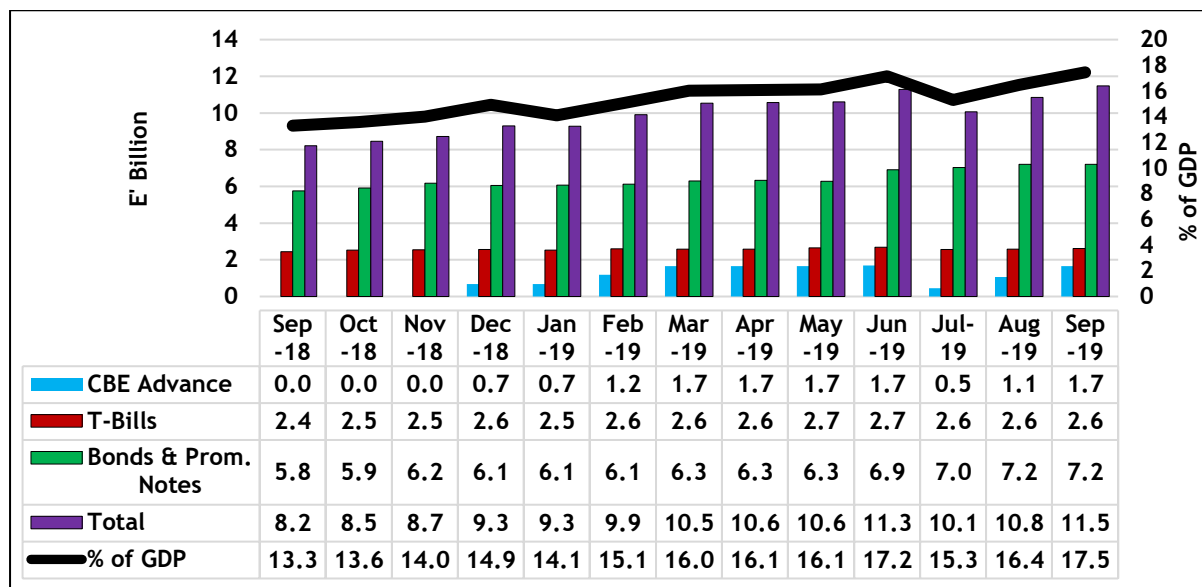


Source: Ministry of Finance and Central Bank of Eswatini

Preliminary figures for external debt stood at E8.1 billion at the end of September 2019, an equivalent of 12.4 per cent of GDP. This denotes an increase of 15.7 per cent when compared to E7.0 billion recorded at the end of June 2019. The increase can be attributed to drawdowns made on two new loan as well as on on-going project loans. The increase in external debt has also been coupled by a slight weakening of the Lilangeni in the past month against major foreign currencies in which the country’s liabilities are denominated.

Domestic debt outstanding stood at E11.5 billion at the end of September 2019, an equivalent of 17.5 per cent of GDP. This reflects an increase of 6.5 per cent from the E10.8 billion recorded in August 2019. The increase is as a result of an additional advance extended to government by the Central Bank of Eswatini.

Figure 10: Total Domestic Debt: September 2018 to September 2019



Source: Ministry of Finance and Central Bank of Eswatini

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.



Table 1: Domestic Debt Instruments Outstanding by Holder as at 30 September 2019
(E' Million)

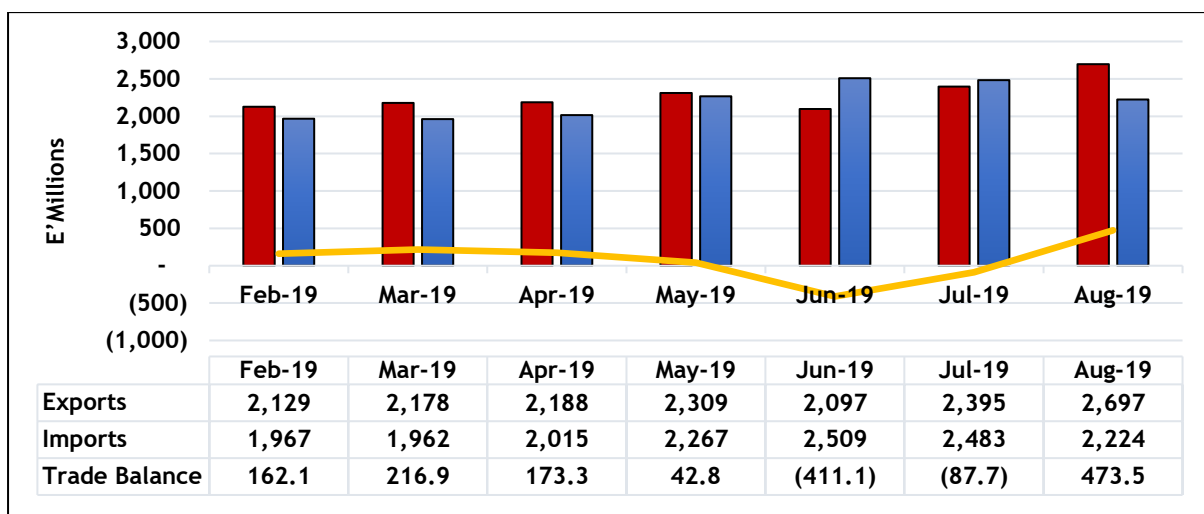
Holder	Treasury Bills	Government Bonds	Promissory Notes	CBE Advance	Total	Share of Holdings (%)
CBE	2.2	1,293.6	0	1,660.00	2,955.8	25.8
Commercial banks	1,320.2	902.7	0	0	2,222.9	19.4
NBFIs	1,131.2	4,115.5	80.00	0	5,246.6	45.7
Other	106.2	865.1	-	0	1,051.3	9.2
	2,559.8	7,176.9	80.00	1,660.00	11,476.7	100

Source: Central Bank of Eswatini

4 THE EXTERNAL SECTOR

In the month of August 2019, Eswatini recorded a trade surplus of E473.5 million, a turnaround from the E87.7 million trade deficit recorded in July 2019. Export earnings amounted to E2.697 billion, which represents a monthly increase of 12.6 per cent. The import bill for the month amounted to E2.223 billion, depicting a monthly decrease of 10.4 per cent. As at August 2019, cumulative export earnings for 2019 amounted to E17.952 billion and these were 18.9 per cent higher than the E14.423 billion recorded in August 2018. The cumulative import bill for 2019 amounted to E17.485 billion for the month ending August 2019, about 11.6 per cent higher compared to E15.672 billion recorded in August 2018. As a result, the cumulative trade balance as at August 2019 was a surplus of E467 million against a deficit of E1.249 billion in the same period in 2018.

Figure 11: Merchandise Trade Account: February 2019 to August 2019



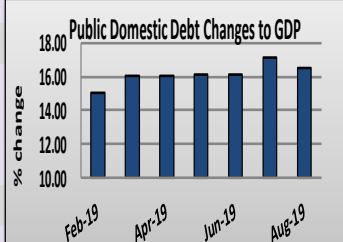
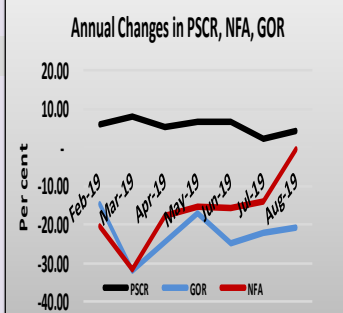
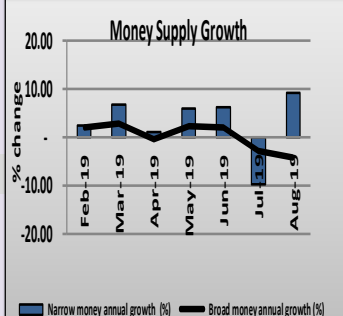
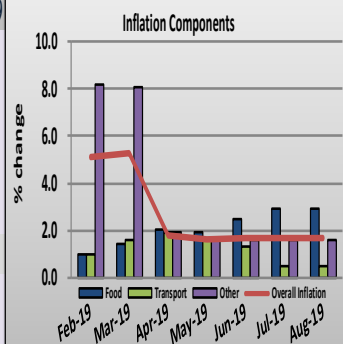
Source: Central Bank of Eswatini

An Analysis of major export indicates that miscellaneous edibles amounted to E1.169 billion, with percentage contribution of 43.3 per cent towards total exports earnings and a monthly increase of 6.8 per cent. Sugar and sugar confectionery products amounted to E769.6 million which represents a monthly increase of 22.3 per cent. Textile and textile apparel increased by 8.8 per cent to post E364 million in the month under review, while Wood and wood articles decreased marginally by 1.4 per cent from E142.7 million in July 2019 to E140.8 million in August 2019.

On the imports side: Electricity and other energy products increased by 21.2 per cent in August 2019 amounting to E414.3 million, which is higher than E341.7 million recorded in July 2019. Nuclear reactors, boilers, electric and non-electric machinery imports (which feed into the operations of the manufacturing sector), were valued at E246.5 million, representing a monthly decline of 16.0 per cent in August 2019. Vehicles imports dipped by 30.3 per cent, from E203.8 million to E142.0 million in August 2019. Cotton and cotton products (imports inclusive of fabric which is utilised by the textile sector) declined by 50.0 per cent, making up 3.8 per cent of total imports in August 2019. These imports amounted to E85.1 million.



Economic Policy, Research and Statistics Division							
Kingdom of Eswatini Economic Indicators at a glance							
Sectors	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19
Overall Inflation	5.1	5.3	1.8	1.6	1.7	1.7	1.7
Food	1.0	1.4	2.0	1.9	2.5	2.9	2.9
Transport	1.0	1.6	2.0	1.6	1.3	0.5	0.5
Other	8.2	8.1	1.9	1.6	1.6	1.6	1.6
Money and banking							
Narrow money annual growth (%)	2.48	6.76	1.04	5.83	6.21	-9.85	9.25
Broad money annual growth (%)	1.87	2.81	-0.53	2.20	2.07	-2.79	-4.34
Domestic credit (net) - E' Million	17,821.07	18,537.65	17,682.50	18,338.29	18,565.35	17,139.23	17,462.30
Government	3,011.19	3,581.67	2,847.77	3,238.07	3,116.53	2,151.95	2,556.45
Private sector	14,809.89	14,955.99	14,835.20	15,100.22	15,448.82	14,987.28	14,905.84
Private sector credit annual growth (%)	6.03	8.02	5.14	6.51	6.61	2.32	4.11
Interest rates (% p.a)							
Prime lending	10.25	10.25	10.25	10.25	10.25	10.00	10.00
Discount rate	6.75	6.75	6.75	6.75	6.75	6.50	6.50
Deposit rate - 31 days	2.24	2.24	2.24	2.24	2.24	3.18	3.18
- 12 months	4.59	4.59	4.59	4.59	4.59	3.74	3.74
- T. bill rate	7.85	7.65	7.92	7.91	7.55	7.84	7.84
Ratios							
Liquidity ratio (required = 20 %)	29.05	31.83	31.85	31.29	31.51	33.60	35.76
Loans/deposits ratio	73.96	78.40	75.76	77.39	78.40	79.95	77.67
Net foreign assets (E'million)	7,190.79	4,888.19	6,530.58	6,143.83	5,178.10	6,377.40	6,729.87
Annual % change in NFA	-14.73	-32.00	-24.42	-17.10	-24.70	-22.10	-20.64
Gross official foreign reserves E'Millions	5,627.13	4,539.08	5,751.98	5,591.98	5,141.52	6,221.33	6,451.84
Annual % change in GOR	-20.30	-31.56	-17.66	-15.38	-15.60	-13.98	-0.33
In months of import cover	2.49	1.96	2.49	2.42	2.26	2.74	2.84
Exchange Rates							
US\$	13.79	14.37	14.13	14.42	14.60	14.04	15.14
EURO	15.65	16.25	15.89	16.14	16.48	15.76	16.84
GBP	17.94	18.94	18.45	18.54	18.50	17.51	18.39
Public Finance							
Total public domestic debt [E' million]	9,907.89	10,537.81	10,570.17	10,600.57	11,284.50	10,064.91	10,843.41
As a % of GDP	15.06	16.02	16.07	16.11	16.11	17.15	16.48



NB: For consistency, the table shows data up to the end of August 2019.

