

Recent Economic Developments

FEBRUARY/MARCH 2019



CENTRAL BANK
OF ESWATINI
Umntsholi Wemaswati



MAJOR HIGHLIGHTS

| | | |
|--|--------------------------------------|----------------|
| Economic activity is estimated to have grown by 1.5 per cent (Q/Q Seasonally Adjusted) in the fourth quarter of 2018 after growing by 3.7 per cent in the third quarter of 2018. | GDP Growth (% q/q) | 1.5 (2018Q4) ▽ |
| Headline consumer inflation rose slightly to 5.1 per cent in February 2019 from 5.0 per cent in January 2019 | Inflation rate (% y/y) | 5.1 (Feb) △ |
| Discount and prime lending rates were unchanged in March 2019. | Prime Lending (%) | 10.25 — |
| | Discount rate (%) | 6.75 — |
| In March 2019, the Lilangeni/Rand exchange rate against major external currencies generally weakened. | Exchange rate (US\$) | 14.37 (Mar) ▽ |
| Credit Extended to the Private Sector contracted by 0.3 per cent when compared to the previous month. | Private Sector Credit (% m/m) | -0.3 (Feb) ▽ |
| Broad Money Supply (M2) expanded by 2.2 per cent to reach E17.7 billion at the end of February 2019. | Broad Money (M2) (% m/m) | 2.2 (Feb) △ |
| Gross Official Reserves closed at E4.5 billion at the end of March 2019 declining from E5.6 billion in February 2019 | Reserves (months of import cover) | 2.0 (Mar) ▽ |
| Outstanding domestic debt as at end of March 2019 stood at E10.34 billion, an equivalent of 15.7 per cent of GDP rising from E9.83 billion recorded in February 2019. | Total Domestic Debt (% of GDP) | 15.7 (Mar) △ |
| The trade balance continued to recover in the month of March, posting a higher surplus of E211.9 million. | Merchandise Trade Balance (% of GDP) | 0.32 (Mar) △ |

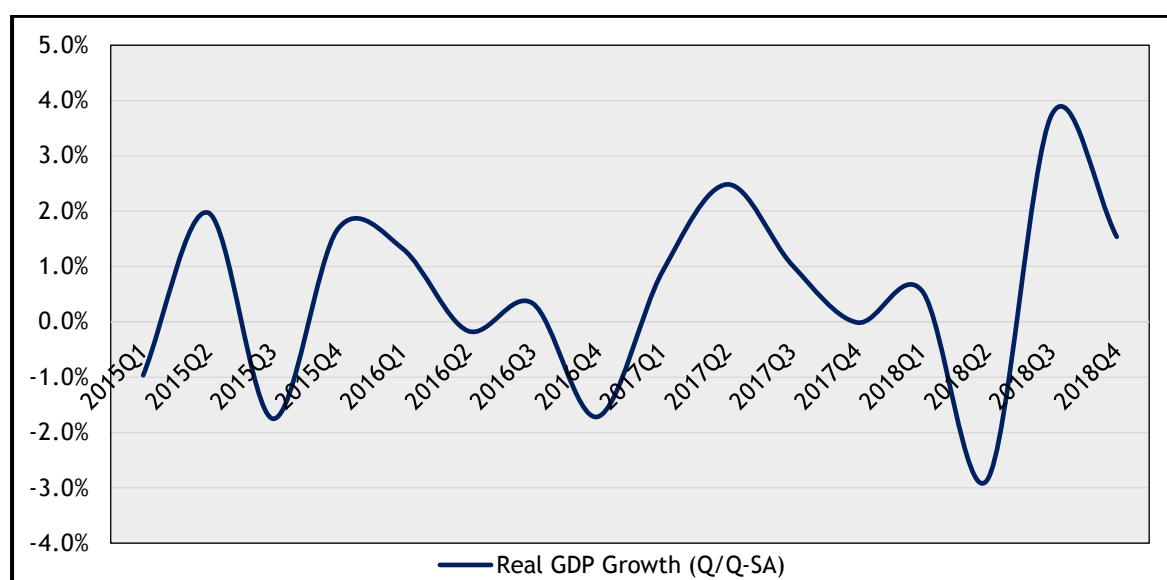
NB: The table shows the most recent available data.



1 QUARTERLY GDP DEVELOPMENTS

Recent trends reflect that; after recording a negative growth of about 3 per cent in the second quarter of 2018, the economy had a stronger rebound in the second half of the year. Economic activity is estimated to have increased by 3.7 per cent in the third quarter of 2018 before slowing to 1.5 per cent in the last quarter of 2018. Positive growth was mainly observed in the ‘wholesale and retail’, ‘communication’ and ‘financial services’. Sectors that performed poorly included ‘manufacturing’, ‘mining and quarrying’, ‘hotels and restaurants’ and ‘construction’.

Figure 1: Seasonally Adjusted Quarterly GDP Growth: 2015 First Quarter 1 to 2018 Fourth Quarter



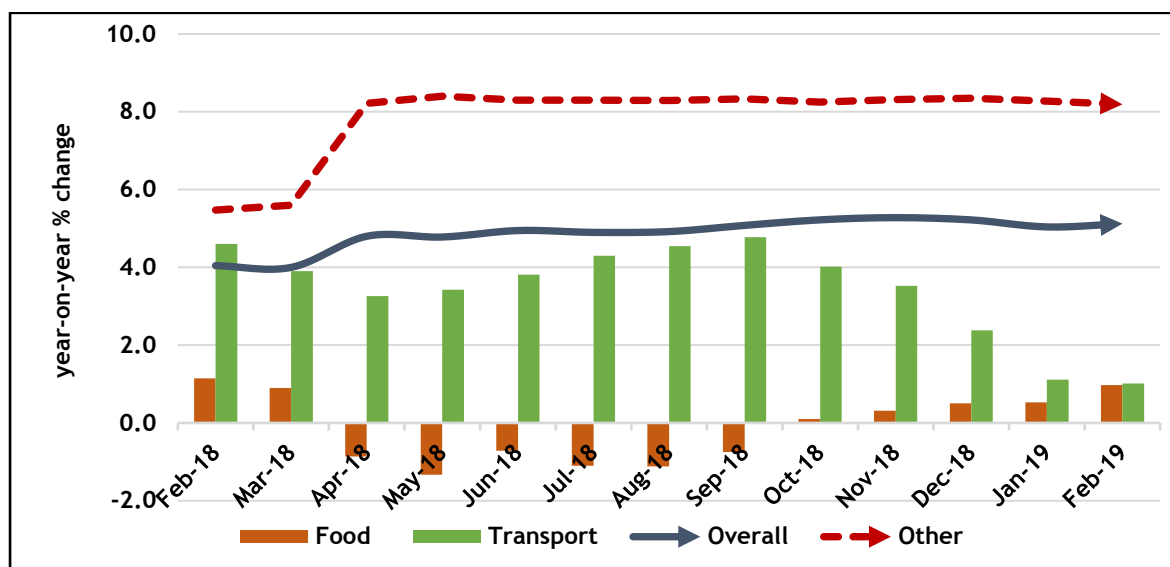
Source: Central Statistical Office

2 INFLATION DEVELOPMENTS

Inflationary pressures remained modest in the opening months of 2019. Headline consumer inflation rose slightly to 5.1 per cent in February 2019 from 5.0 per cent in January 2019. The increase mainly resulted from a gradual uptick in food prices. Food inflation grew slightly to 1.0 per cent in February 2019 from 0.5 per cent the previous month, mainly attributable to an increase in the prices of ‘meat’, ‘fruits’ and ‘coffee, tea and cocoa’ products. Further increases were observed in the price indices for ‘clothing and footwear’ and ‘furnishing and household equipment’, which grew by 0.4 and 0.2 of a percentage point, respectively.

The above increases were partially offset by decreases in the price indices for ‘restaurants and hotels’ and ‘miscellaneous goods and services’. The index for ‘restaurants and hotels’ grew at a rate of 0.6 per cent in February 2019 compared to 1.4 per cent the previous month, benefitting from a slowdown in prices for catering services. On the other hand, the index for ‘miscellaneous goods and services’ slowed to 0.2 per cent in February 2019 from 0.7 per cent the previous month.

Figure 2: Inflation Trends: February 2018 to February 2019



Source: Central Statistical Office

On month-on-month rates, consumer inflation was 0.6 per cent in February 2019 from a deflation of 0.2 per cent in January 2019. This growth was mainly driven by the increase in the price indices for ‘food and non-alcoholic beverages’ and ‘clothing and footwear’. Food prices grew by 0.3 per cent in February 2019 from a deflation of 0.1 per cent in the previous month. The index for ‘clothing and footwear’ on the other hand recorded a 0.1 per cent growth in February 2019 from a deflation of 0.5 per cent in the previous month.

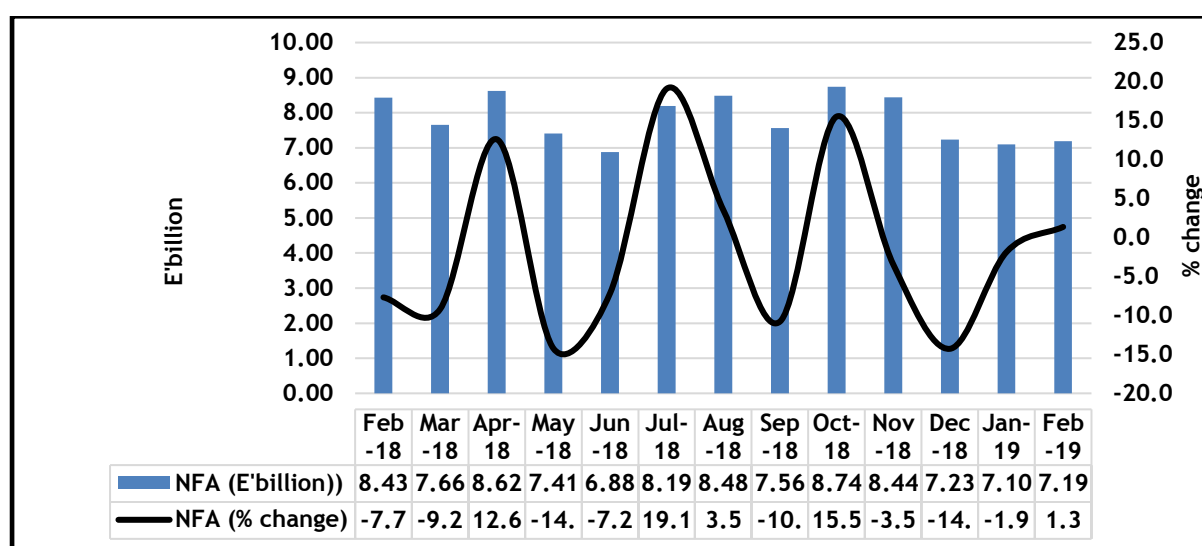
Core inflation, which is measured as the CPI excluding food and non-alcoholic beverages, auto-fuel and energy, declined to 6.8 per cent in February 2019 from 6.9 per cent in January 2019. On month-on-month rates, core inflation rose by 1.1 per cent in February 2019.

3 MONEY SUPPLY AND BANKING DEVELOPMENTS

The Country’s Net Foreign Assets increased to E7.2 billion in February 2019 from E7.1 billion in January 2019 reflecting a monthly increase of 1.3 per cent. Net Foreign Assets of Other Depository Corporations mirrored a prominent increase, which outweighed the

contraction in Net Official Assets. However, an annual contraction of 14.7 per cent was observed in Net Foreign Assets. Net Foreign Assets of Other Depository Corporations grew by 46.6 per cent month-on-month to E2.5 billion at the end of February 2019. This was explained by an increase in investment in the Common Monetary Area (CMA) and abroad. Net Official Assets on the other hand, closed at E4.7 billion in February 2019 reflecting a decline of 13.0 per cent month-on-month. The contraction of Net Official Assets was due to the drawdown by Government for budgetary purposes. In Special Drawing Rights (SDRs), the value of Net Foreign Assets closed at SDR368.2 million at the end of February 2019 recording a monthly downturn of 3.7 per cent. When compared to February 2018, Net Foreign Assets fell by 25.8 per cent in SDR terms.

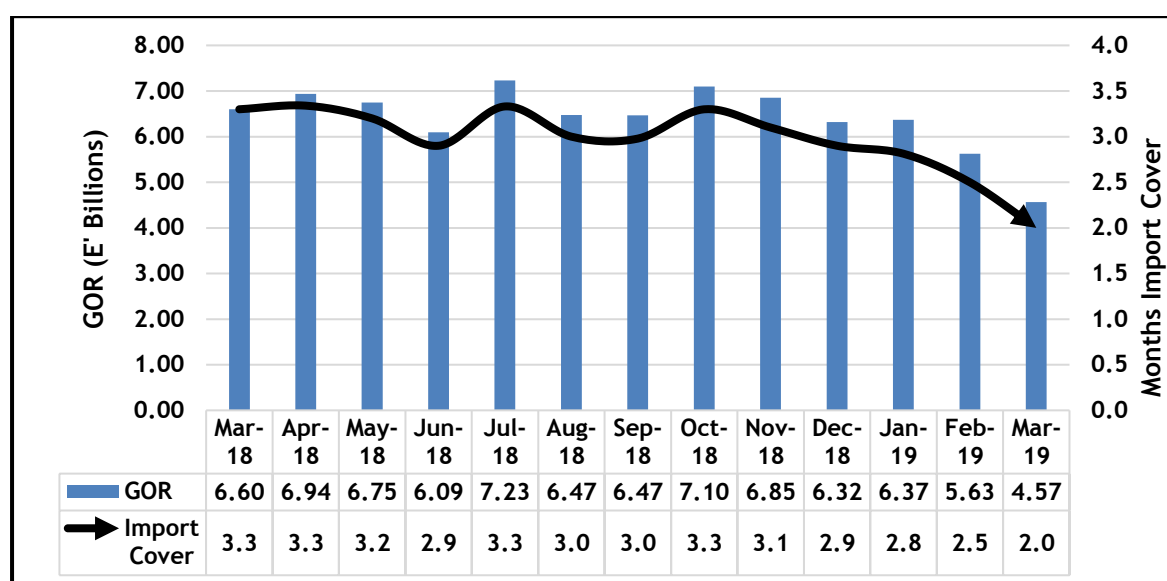
Figure 3: Net Foreign Assets Monthly Changes: February 2018 to February 2019



Source: Central Bank of Eswatini

Gross Official Reserves closed at E4.5 billion at the end of March 2019 declining from E5.6 billion in February 2019. This was equivalent to a 19.3 per cent contraction. Consequently, the Reserves were enough to cover 2.0 months of imports, lower than the 2.5 months recorded in February 2019. In SDRs terms, the Reserves stood at SDR226.5 million portraying a month-on-month fall of 21.4 per cent. Annually, the Reserves decelerated by 41.0 per cent in SDRs terms and by 31.6 per cent in Emalangeni terms.

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



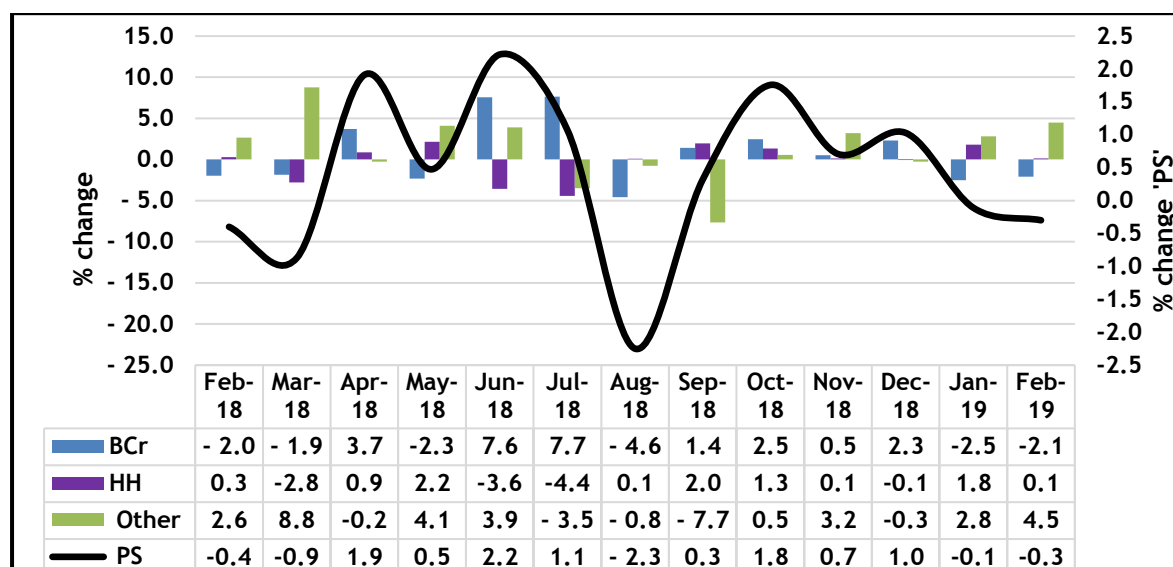
Source: Central Bank of Eswatini

Credit Extended to the Private Sector contracted by 0.3 per cent when compared to the previous month closing at E14.8 billion at the end of February 2019. The month-on-month fall in Private Sector Credit was explained by the decline in credit extended to Businesses. However, growth was recorded in credit to Other Sectors and Households & Non-Profit Institutions Serving Households (NPISH). Year-on-year, Private Sector Credit expanded by 6.0 per cent.

Credit Extended to Businesses decelerated to E6.7 billion from E6.9 billion observed the previous month, showing a decrease of 2.1 per cent. The decline in credit to Businesses was accounted for by these subsectors: Construction (-3.6 per cent), Distribution & Tourism (-1.8 per cent), Transport & Communication (-1.3 per cent), Mining & Quarrying (-1.1 per cent), Real Estate (-0.8 per cent) and Community, Social & Personal Services (-0.4 per cent). However, there was an increase in credit to the Manufacturing (9.3 per cent) and Agriculture & Forestry (2.7 per cent) subsectors over the review month. Year-on-year, credit to Businesses increased by 12.0 per cent.

Credit Extended to Other Sectors rose to E2.1 billion at the end of February 2019 from E2.0 billion the previous month, reflecting a 4.5 per cent expansion. Explaining the growth was credit to Other Financial Corporations which advanced by 6.3 per cent and credit to Local Government which grew by 1.9 per cent. On the other hand, credit to Public Non-Financial Corporations deteriorated by 0.2 per cent. When compared to the previous year, credit to Other Sectors fell by 15.3 per cent.

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

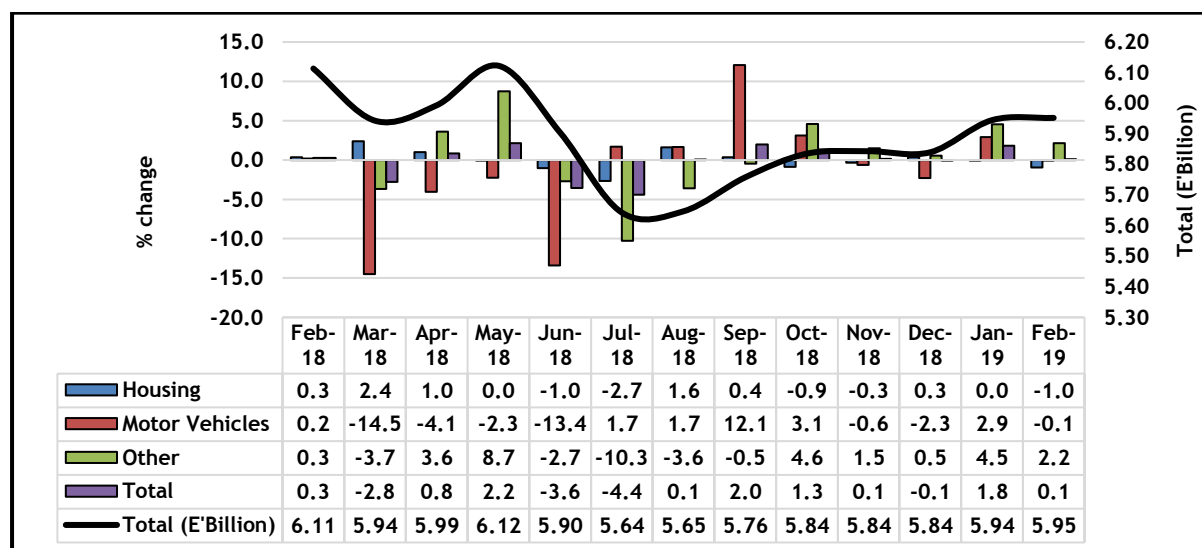


Source: Central Bank of Eswatini

BCr: Credit Extended to Business HH: Credit Extended to Households PS: Private Sector Credit

Credit Extended to Households & NPISH amounted to E6.0 billion at the end of February 2019, representing growth of 0.1 per cent month-on-month. The expansion was characterized by an increase of 2.2 per cent in credit to Other Personal (unsecured) Loans over the review month. Housing and Motor Vehicle Finance, on the contrary, fell by 1.0 per cent to E3.1 billion and by 0.1 per cent to E1.0 billion, respectively.

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



Source: Central Bank of Eswatini

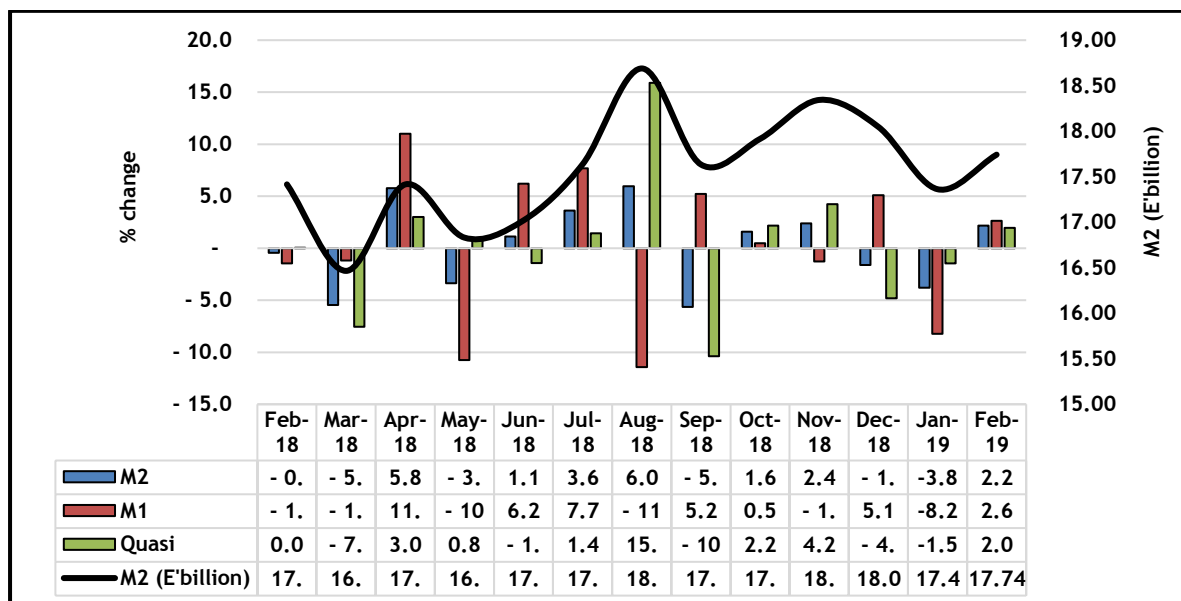
Net Claims on Government with the banking system closed at E3.0 billion at the end of February 2019 reflecting an increase of 48.3 per cent compared to the previous month. Accounting for the increase were claims on Government, which grew by 15.4 per cent.

However, Government deposits closed the review month at E2.6 billion depicting a decline of 8.4 per cent. Annually, net claims on Government continued to trend downwards.

Broad Money Supply (M2) expanded by 2.2 per cent to reach E17.7 billion at the end of February 2019. Both Narrow Money Supply (M1) and Quasi Money Supply increased over the review month. When compared to the previous year, M2 increased by 1.9 per cent. Narrow Money Supply (M1) as at February 2019 closed at E5.9 billion reflecting an increase of 2.6 per cent over the month. This was on account of Emalangeni Outside Depository Corporations, which increased by 9.8 per cent. Transferable (demand) Deposits rose by 1.8 per cent to reach E5.2 billion on the period under review. Year-on-year, M1 rose by 2.5 per cent.

Quasi Money Supply improved from E11.6 billion in January 2019 to E11.9 billion at the end of February 2019. This reflected an increase of 2.0 per cent month-on-month. Accounting for the increase was both Time and Savings Deposits, which rose by 2.2 per cent and 0.8 per cent, respectively. When compared to the previous year, Quasi Money Supply increased by 1.6 per cent.

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



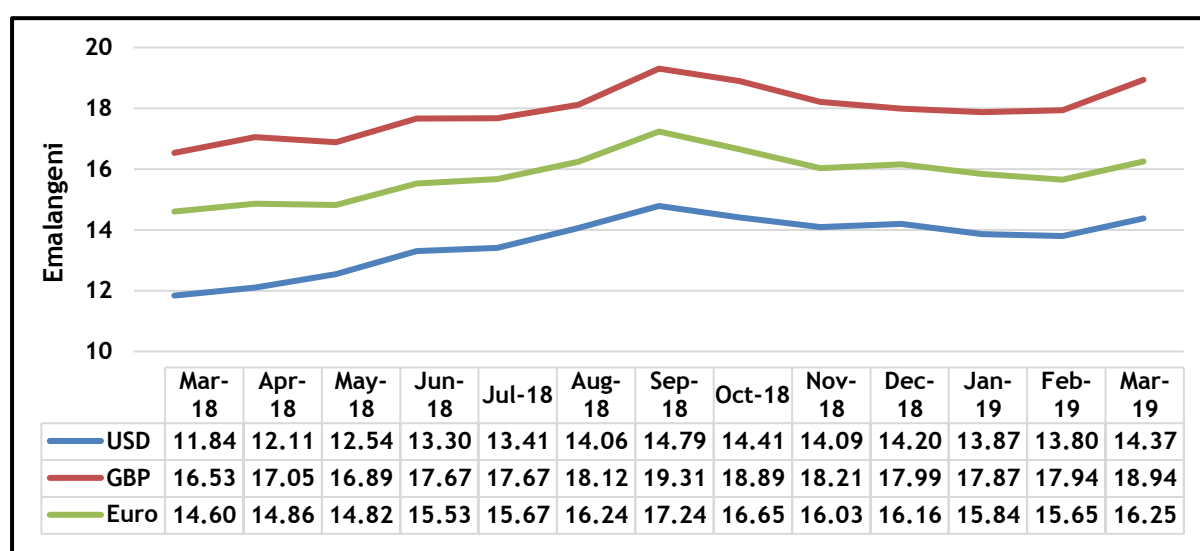
Source: Central Bank of Eswatini

During the month of March 2019, the Lilangeni/Rand exchange rate generally weakened against major external currencies. Against the US Dollar the Lilangeni depreciated by 4.2 per cent to average E14.37 to the US Dollar from an average of E13.80 in February 2019. The Lilangeni generally tumbled due to unfavorable swings in global growth estimates fueled by weaker growth in China and Europe, while the US data proved stronger than anticipated. As a result of these swings in the market which are mostly perpetuated by the growing

concerns about global growth, investor sentiments shifted more towards the US Dollar. Delayed resolution to the trade debacle between the US-China trade relations, continue to influence investor sentiments at the expense of emerging market currencies.

On the domestic front, developments surrounding the proposal to nationalize the South African Reserve Bank and the ongoing electricity supply uncertainty further put pressure on the Rand along which has seen the Lilangeni depreciate against the major currencies. Against the Pound Sterling the local unit weakened by 5.6 per cent to average E18.94 from an average of E17.94 in February 2019. The Euro on the other hand was weaker at E16.25 down from an average of E15.65 in February 2019. The Lilangeni closed the month under review at E14.58 to the US Dollar, E19.07 to the Pound Sterling and E16.25 to the Euro after closing the month of February 2019 at E13.96 to the US Dollar, E18.57 to the Pound Sterling and E15.86 to the Euro.

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



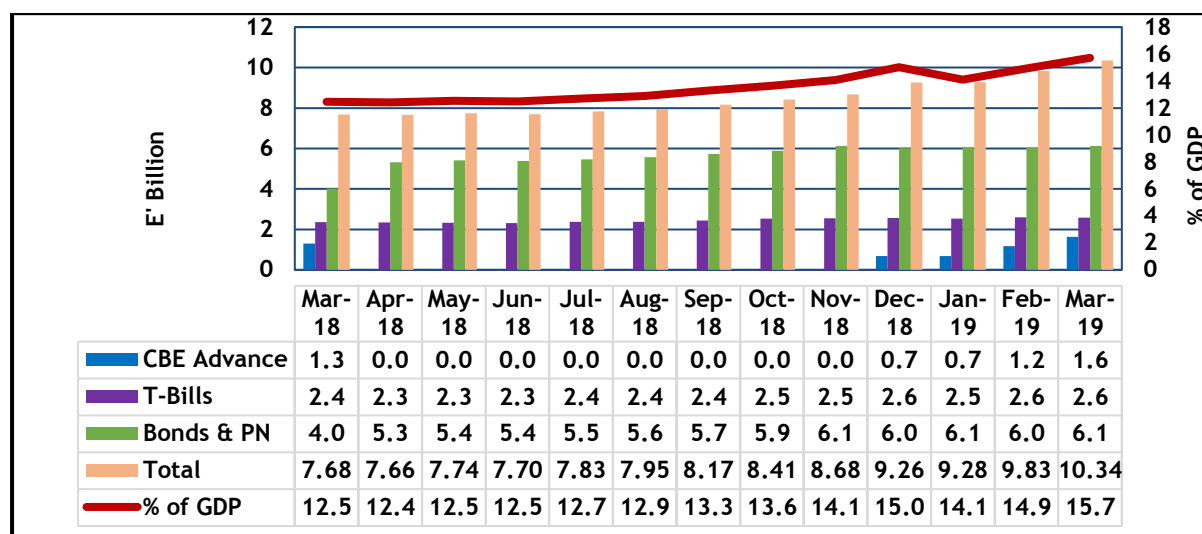
Source: Central Bank of Eswatini

3 PUBLIC DEBT

Outstanding domestic debt as at end of March 2019 stood at E10.34 billion, an equivalent of 15.72 per cent of GDP. This reflects an increase of 5.2 per cent when compared to E9.83 billion recorded in February 2019. The slight increase is due to a further advance extended to government as well as private placements under the Supplier's Bond programme during the month under review.



Figure 9: Domestic Debt Instruments Outstanding: March 2018 to March 2019



Sources: Ministry of Finance and Central Bank of Eswatini

The Central Bank of Eswatini extended a further E450 million advance to government during the month of March 2019. The advance will attract an interest rate equivalent to the prevailing discount rate; which is currently at 6.75 per cent. During the month of February, a total of E78 million was issued through private placement in Supplier's bonds.

On 26 March 2019, the Central Bank of Eswatini, on behalf of the Government of Eswatini, issued an Infrastructure bond (10 Year, SGIFB004 re-opening) amounting to E150 million at a coupon rate of 9.75 per cent. This auction was unsuccessful under public auction due to pricing. The lowest bid was at 10.65 per cent and the highest at 12.75 per cent which pricing was not reflective of prevailing market developments.

Table 1: Domestic Debt Instruments Outstanding by Holder as at 31 March, 2019 (E'Million)

| Holder | Treasury Bills | Government Bonds | Promissory Notes | CBE Advance | Total | Share of Holdings (%) |
|------------------|----------------|------------------|------------------|----------------|-----------------|-----------------------|
| CBE | 2.7 | 1,293.6 | 0.0 | 1,630.0 | 2,926.3 | 27.8 |
| Commercial Banks | 1,775.5 | 861.2 | 0.0 | 0.0 | 2,636.7 | 25.0 |
| NBFIs | 684.6 | 3,831.2 | 0.0 | 0.0 | 4,515.8 | 42.9 |
| Other | 124.9 | 194.1 | 135.0 | 0.0 | 454.0 | 4.3 |
| Total | 2,587.7 | 6,180.1 | 135.0 | 1,630.0 | 10,532.8 | 100 |

Source: Ministry of Finance and Central Bank of Eswatini

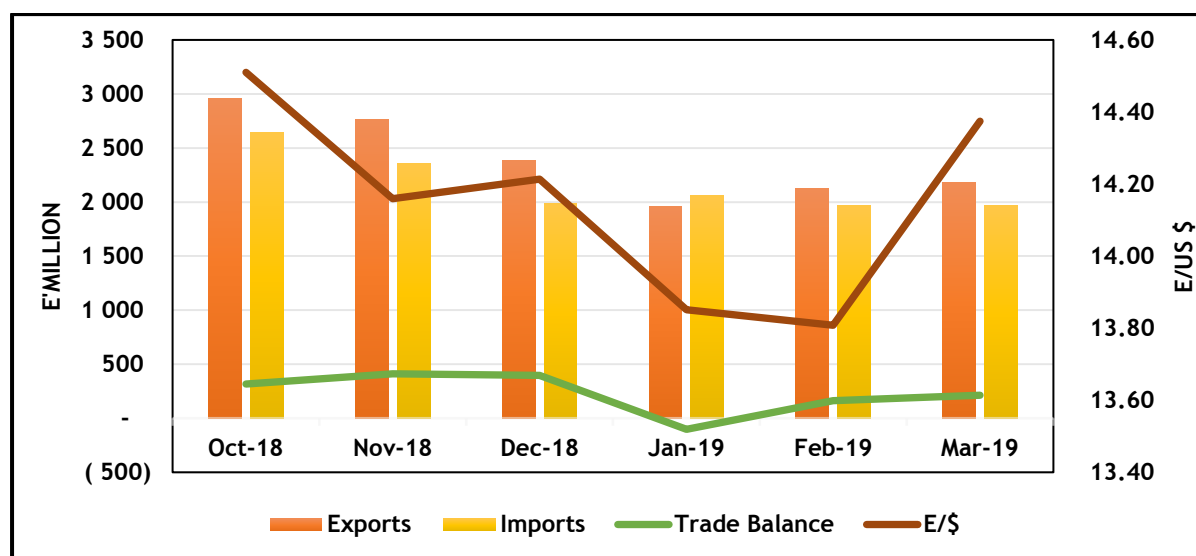
While commercial banks continued to dominate participation in Government securities on the shorter end of the yield curve, non-bank financial institutions dominate on the longer term securities.

4 THE EXTERNAL SECTOR

The trade balance continued to recover in the month of March posting an even higher surplus of E211.9 million, up by 30.7 per cent from the surplus posted in February. Considering the first three months of the year, the country posted a merchandise trade surplus of E271.6 million against shortfall of E384.9 million during the same period in 2018. The balance benefitted from higher export earnings versus a steady import bill. Export earnings for the month improved by 2.3 per cent month-on-month from E2.129 billion in February to E2.179 billion in March. The invoices from imports remained steady in the month, recording E1.967 billion similar to the previous month.

An analysis of exports for the third month of 2019 indicates that miscellaneous edibles remained the leading export in Eswatini in the month. Receipts from the export of these products amounted to E1.074 billion, increasing by 10.9 per cent month-on-month when compared to the previous month. Exports of sugar and sugar confectionery products took a dip in the third month of the year, declining by 18 per cent to total E448.7 million. Wood and wood products earnings were valued at E125.7 million in the month, rising by 5.8 per cent month-on-month when compared to proceeds from the previous month. Textile and textile apparel exports amounted to E297.1 million in March, reflecting a 16.7 per cent increase month-on-month.

Figure 10: Merchandise Trade: September 2018 - February 2019



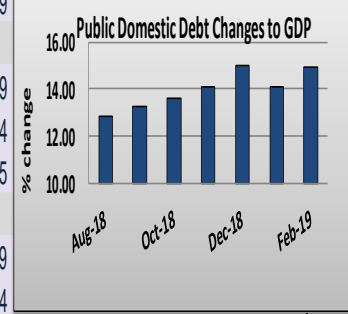
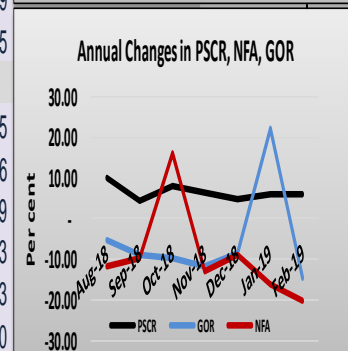
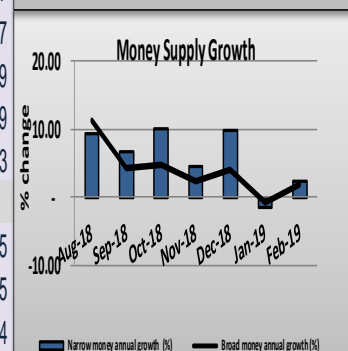
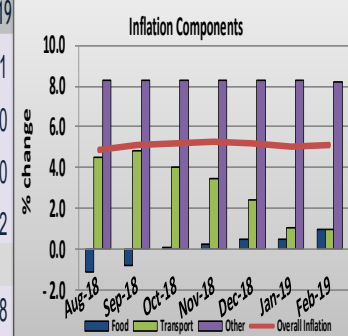
Source: Central Bank of Eswatini



In the month, 77.2 per cent of imports were from South Africa, as the country remains the number one trading partner of Eswatini. The leading import commodity in the third month of 2019 was energy products, which accounted for 17.2 per cent of total imports. This category comprised of electricity imports, which accounted for 23.2 per cent of the energy products import invoices. Energy product imports were E338.3 million, up by 26.7 per cent month-on-month from February. The vehicles import bill increased by a small margin in the month to E145.1 million from E139.2 million in February. Imports of nuclear reactors, boilers and machinery, being imports that are inputs of the manufacturing sector, declined in the month, falling from E242.6 million to E211.3 million. Importation of plastics and plastic products decreased by 10.8 per cent in the third month of the year. These imports were to the value of E80.5 million during the month.



| Economic Policy, Research and Statistics Division | | | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Kingdom of Eswatini Economic Indicators at a glance | | | | | | | |
| Sectors | Aug-18 | Sep-18 | Oct-18 | Nov-18 | Dec-18 | Jan-19 | Feb-19 |
| Overall Inflation | 4.9 | 5.1 | 5.2 | 5.3 | 5.2 | 5.0 | 5.1 |
| Food | -1.1 | -0.8 | 0.1 | 0.3 | 0.5 | 0.5 | 1.0 |
| Transport | 4.5 | 4.8 | 4.0 | 3.5 | 2.4 | 1.1 | 1.0 |
| Other | 8.3 | 8.3 | 8.3 | 8.3 | 8.3 | 8.3 | 8.2 |
| Money and banking | | | | | | | |
| Narrow money annual growth (%) | 9.30 | 6.70 | 10.20 | 4.50 | 9.80 | -1.60 | 2.48 |
| Broad money annual growth (%) | 11.40 | 4.30 | 4.70 | 2.40 | 4.10 | -0.80 | 1.87 |
| Domestic credit (net) - E' Million | 16 199.37 | 16 376.23 | 15 438.73 | 16 115.97 | 17 300.38 | 16 884.14 | 17 821.07 |
| Government | 1 881.93 | 2 013.08 | 823.10 | 1 396.90 | 2 429.91 | 2 029.88 | 3 011.19 |
| Private sector | 14 317.44 | 14 363.16 | 14 615.63 | 14 719.06 | 14 870.47 | 14 854.26 | 14 809.89 |
| Private sector credit annual growth (%) | 10.10 | 4.39 | 8.00 | 6.20 | 4.72 | 5.90 | 6.03 |
| Interest rates (% p.a) | | | | | | | |
| Prime lending | 10.25 | 10.25 | 10.25 | 10.25 | 10.25 | 10.25 | 10.25 |
| Discount rate | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 |
| Deposit rate - 31 days | 2.24 | 2.24 | 2.24 | 2.24 | 2.24 | 2.24 | 2.24 |
| - 12 months | 4.59 | 4.59 | 4.59 | 4.59 | 4.59 | 4.59 | 4.59 |
| - T. bill rate | 7.55 | 7.60 | 7.73 | 7.81 | 7.77 | 7.79 | 7.85 |
| Ratios | | | | | | | |
| Liquidity ratio (required = 20 %) | 28.60 | 30.13 | 27.30 | 29.35 | 30.60 | 29.30 | 29.05 |
| Loans/deposits ratio | 73.80 | 77.26 | 76.90 | 76.36 | 74.20 | 76.96 | 73.96 |
| Net foreign assets (E'million) | 8 480.50 | 7 564.92 | 8 737.83 | 8 435.80 | 7 230.42 | 7 095.15 | 7 190.79 |
| Annual % change in NFA | -5.50 | -8.85 | -9.70 | -11.90 | -8.60 | 22.30 | -14.73 |
| Gross official foreign reserves E'Millions | 6 473.30 | 6 466.92 | 7 100.81 | 6 854.29 | 6 321.37 | 6 365.63 | 5 627.13 |
| Annual % change in GOR | -11.80 | -9.98 | 16.20 | -13.00 | -8.80 | -16.30 | -20.30 |
| In months of import cover | 3.00 | 2.98 | 3.30 | 3.10 | 2.80 | 2.80 | 2.49 |
| Exchange Rates | | | | | | | |
| US\$ | 14.06 | 14.77 | 14.41 | 14.10 | 14.20 | 13.87 | 13.79 |
| EURO | 16.24 | 17.24 | 16.67 | 16.03 | 16.16 | 17.87 | 17.94 |
| GBP | 18.11 | 19.31 | 18.89 | 18.21 | 17.99 | 15.84 | 15.65 |
| Public Finance | | | | | | | |
| Total public domestic debt [E' million] | 7 948.30 | 8 169.43 | 8 413.24 | 8 680.55 | 9 260.84 | 9 276.44 | 9 827.89 |
| As a % of GDP | 12.89 | 13.25 | 13.64 | 14.08 | 15.02 | 14.10 | 14.94 |



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

