

Recent Economic Developments

OCTOBER/NOVEMBER 2019



CENTRAL BANK
OF ESWATINI
Umntsholi Wemaswati



MAJOR HIGHLIGHTS

<ul style="list-style-type: none"> Annual consumer inflation maintained a downward trajectory, declining to 1.6 per cent in October 2019. 	Inflation rate (% y/y)	1.6 (Oct) ▾
<ul style="list-style-type: none"> Discount and prime lending rates were unchanged in November 2019. 	Prime Lending (%)	10.00 —
	Discount rate (%)	6.50 —
<ul style="list-style-type: none"> The performance of Lilangeni/Rand against the major trading currencies was mixed; stronger against US Dollar and Euro, but weaker against the Sterling Pound. 	Exchange rate (US\$)	14.81 (Nov) ▾
<ul style="list-style-type: none"> Credit extended to the private sector was E14.7 billion at the end of October 2019, falling by 1.8 per cent from the previous month. 	Private Sector Credit (% m/m)	-1.8 (Oct) ▾
<ul style="list-style-type: none"> Broad money supply (M2) accelerated by 7.5 per cent month-on-month to settle at E18.5 billion at the end of October 2019. 	Broad Money (M2) (% m/m)	7.5 (Oct) ▲
<ul style="list-style-type: none"> Gross official reserves amounted to E7.0 billion at the end of November 2019, a decline of 5.0 per cent. 	Reserves (months of import cover)	3.0 (Nov) ▾
<ul style="list-style-type: none"> Outstanding domestic debt stood at E11.2 billion; an increase of 6.1 per cent and an equivalence of 16.7 per cent of GDP at end of November 2019. 	Total Domestic Debt (% of GDP)	16.7 (Nov) ▲
<ul style="list-style-type: none"> The country recorded a trade surplus of E479.1 million in October 2019 compared to E716.2 million recorded in the previous month. 	Trade Balance (% of GDP)	0.73 (Oct) ▾

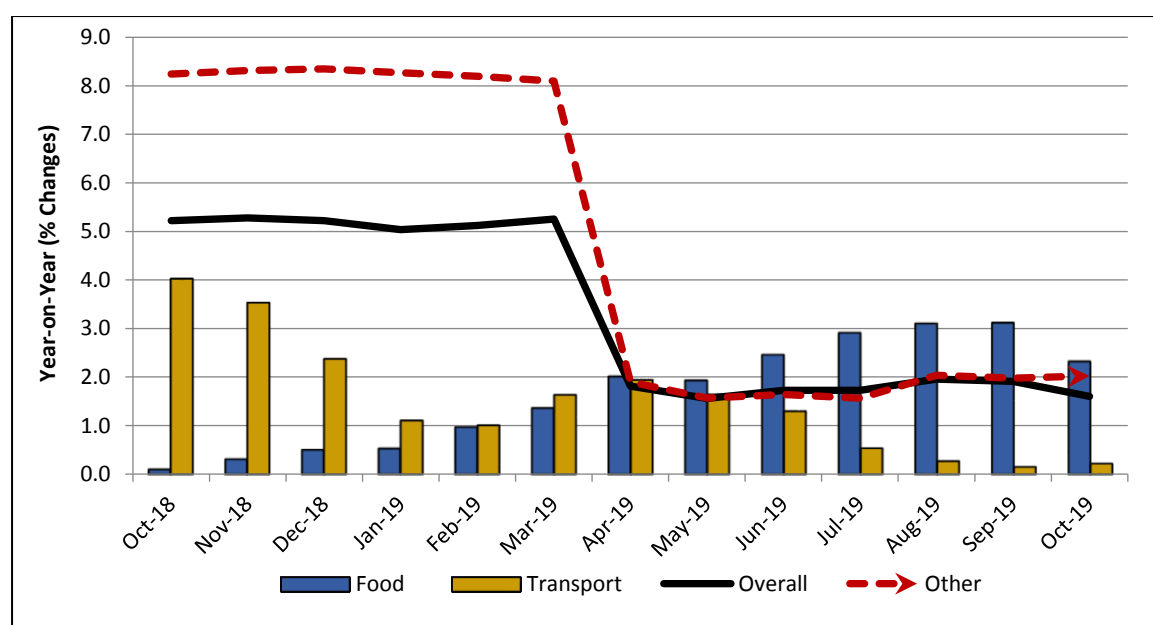
NB: The table shows the most recent available data.

1 INFLATION DEVELOPMENTS

Annual consumer inflation maintained a downward trajectory, declining to 1.6 per cent in October 2019 from 1.9 per cent in September 2019. The deceleration mainly resulted from a moderation in food price inflation, which slowed to 2.3 per cent in October 2019 from 3.1 per cent in the previous month. The decrease in food inflation benefited from slower increases observed in the prices of ‘cereal products’, ‘meat products’, ‘vegetables’ and ‘sugar and sugar confectionary products’. In addition to the moderation in food price inflation, there were slower increases in the price indices for ‘furnishing and household equipment’ and ‘recreation and culture’. These indices slowed by 0.3 and 0.7 of a percentage point, respectively.

The above decreases were partially counteracted by increases in the price indices for ‘health’, ‘clothing and footwear’ and ‘alcoholic beverages and tobacco’. The health index rose from 0.5 per cent in September 2019 to 1.2 per cent in October 2019 mainly due to a 5.9 per cent, year-on-year, increase in prices for pharmaceutical products. ‘Clothing and footwear’ and ‘alcoholic beverages and tobacco’ recorded increases of 0.3 and 1.3 percentage points, respectively.

Figure 1: Inflation Trends: October 2018 to October 2019



Source: Central Statistical Office and Central Bank of Eswatini

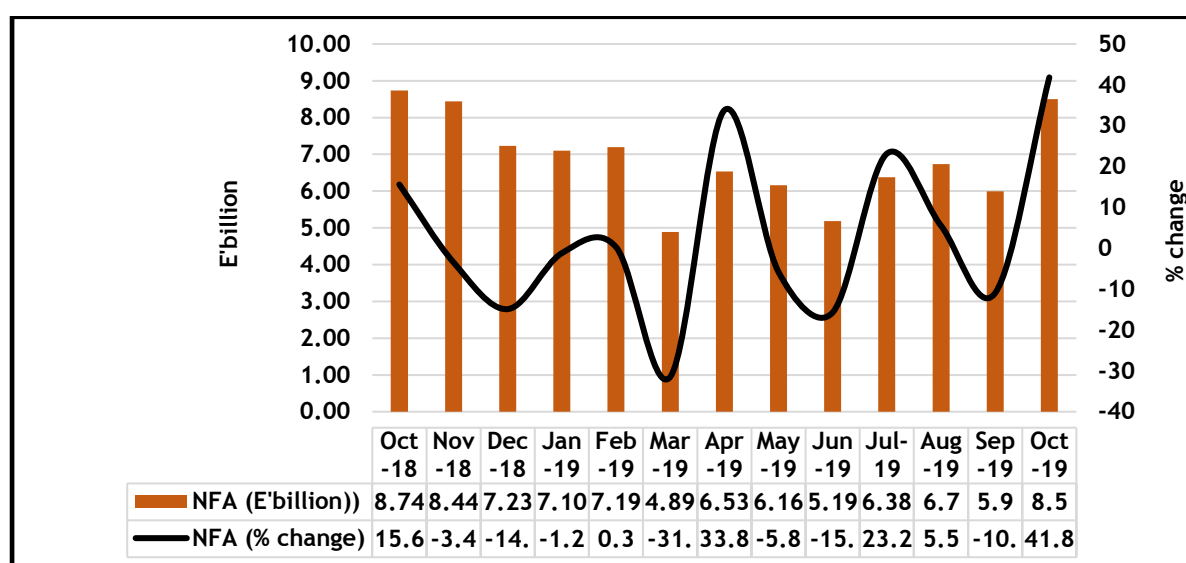
On month-on-month basis, consumer inflation recorded a deflation of 0.1 per cent in October 2019 compared to a growth rate of 0.1 per cent in September 2019. Food inflation recorded zero growth in October 2019 from 0.4 per cent in the previous month, while the index for ‘household furniture and maintenance’ further declined to a deflation of 0.7 per cent during the same period. The above decreases were counteracted by slight increases in the price indices for ‘housing and utilities’ and ‘health care which grew by 0.2 and 0.8 of a percentage point, respectively.

Core inflation, which is CPI excluding volatile items such as food, fuel and energy, slightly rose to 2.0 per cent in October 2019, from 1.9 per cent in September 2019. On month-on-month rates, core inflation slightly increased to 0.1 per cent in October 2019.

2 MONEY SUPPLY AND BANKING DEVELOPMENTS

Net foreign assets recovered from a fall of 10.9 per cent recorded in September 2019 to a growth of 41.8 per cent at the end of October 2019. This resulted in net foreign assets rising from E6.0 billion in September 2019 to E8.5 billion at the end of October 2019. The expansion was due to both net foreign assets of the official sector and those of other depository corporations. Annually, net foreign assets declined by 2.7 per cent. Net official assets accelerated by 47.9 per cent month-on-month to reach E6.3 billion, mainly boosted by the quarterly inflow of Southern African Customs Union (SACU) revenues at the beginning of October 2019.

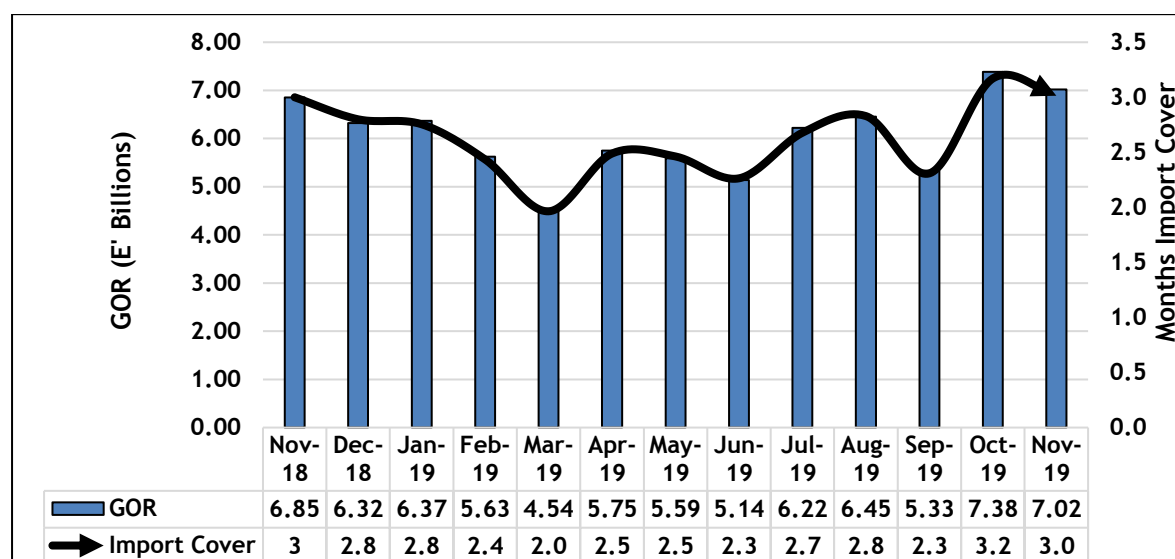
Figure 2: Net Foreign Assets Monthly Changes: October 2018 to October 2019



Source: Other Depository Corporations and Central Bank of Eswatini

Net foreign holdings of other depository corporations rose by 26.5 per cent from the previous month to close at E2.2 billion in October 2019. The improvement was driven by a rise in other depository corporation's investments within the Common Monetary Area (CMA) as well as abroad over the review month. Valued in special drawing rights (SDRs), net foreign assets were equivalent to SDR407.2 million, representing growth of 40.7 per cent month-on-month. When compared over the year, net foreign assets in SDR terms receded by 4.5 per cent.

Figure 3: Gross Official Reserves and Import Cover: November 2018 to November 2019



Source: Central Bank of Eswatini

Gross official reserves amounted to E7.0 billion at the end of November 2019 reflecting a decline of 5.0 per cent from the E7.4 billion observed in October 2019. The reserves were sufficient to cover 3.0 months of imports, lower than the 3.2 months registered the previous month. Valued in SDR terms, the reserves stood at SDR348.7 million depicting a 1.4 per cent fall over the review month. Annually, the reserves grew by 2.4 per cent in Emalangeni terms but contracted by 3.1 per cent in SDR terms.

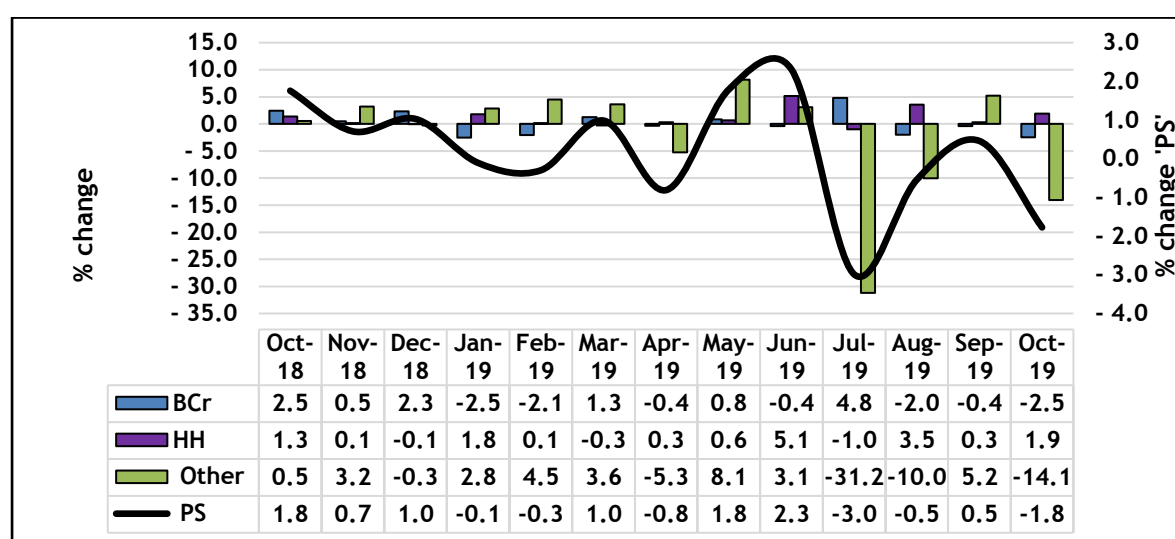
Credit extended to the private sector amounted to E14.7 billion at the end of October 2019, depicting a fall of 1.8 per cent from the previous month. The decline was observed in credit to other sectors and businesses. Credit to households & non-profit institutions serving households (NPISH) on the other hand, trended upwards over the month under review. Over the year, credit extended to the private sector rose by 0.6 per cent.

Credit extended to businesses amounted to E6.8 billion at the end of October 2019, 2.5 per cent lower than the E7.0 billion registered in September 2019. The fall in credit to businesses was mainly observed in credit to the following sectors; manufacturing (-5.6 per cent), agriculture & forestry (-2.3 per cent), distribution & tourism (-2.3 per cent),

community, social & personal services (-1.2 per cent) and transport & communication (-0.2 per cent). However, an increase in credit extension was observed in the construction (10.7 per cent) and real estate (7.9 per cent) sectors while mining & quarrying remained relatively unchanged. Year-on-year, credit to businesses expanded by 0.8 per cent.

Credit extended to other sectors stood at E1.3 billion at the end of October 2019, contracting by 14.1 per cent from September 2019. Contributing to the decline were all its components; credit to public non-financial corporations fell by 23.4 per cent, followed by credit to other financial corporations at 9.3 per cent and lastly, credit to local government with a decline of 2.6 per cent.

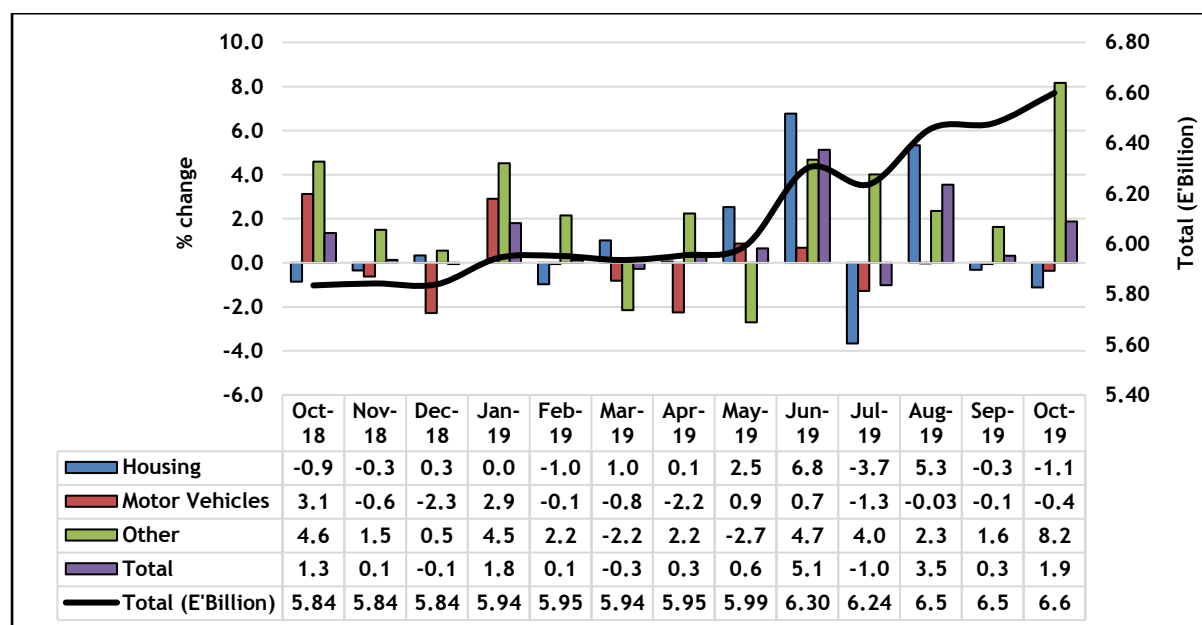
Figure 4: Private Sector Credit Monthly Changes: October 2018 to October 2019



Source: Central Bank of Eswatini (BCr: Business Credit HH: Household Credit PS: Private Sector Credit)

Credit extended to households & NPISH edged up by 1.9 per cent to E6.6 billion at the end of October 2019 from E6.5 billion the previous month. The escalation in credit to households was driven by other personal (unsecured) loans which grew by 8.2 per cent to E2.2 billion. Mortgage loans on the contrary, fell by 1.1 per cent month-on-month to E3.4 billion and Motor vehicle loans by 0.4 per cent to E1.0 billion. On an annual basis, credit to households accelerated by 13.1 per cent.

Figure 5: Household Credit Monthly Changes: October 2018 to October 2019



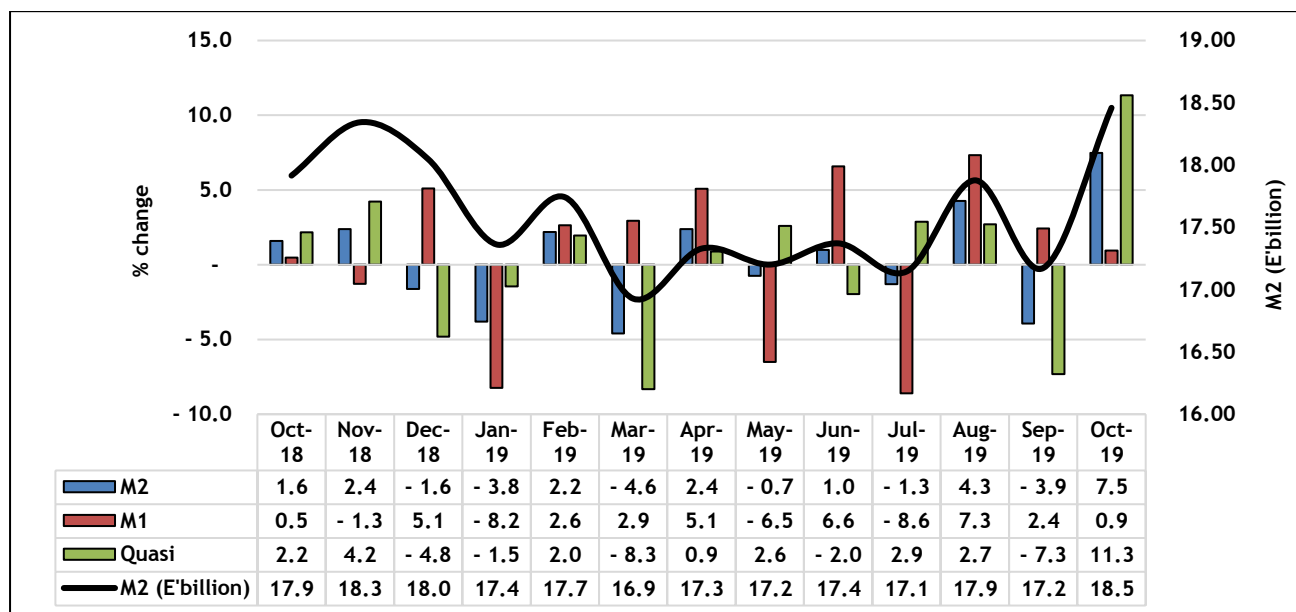
Source: Other Depository Institutions and Central Bank of Eswatini

Net claims on Government with the banking sector regressed by 33.5 per cent month-on-month to settle at E2.0 billion at the end of October 2019. This contraction was attributed to a reduction in claims on Government by the banking sector, which went down by 19.5 per cent, as well as Government deposits which fell by 2.1 per cent. When compared annually, net claims on Government continued on an upward trend. Broad money supply (M2) accelerated by 7.5 per cent month-on-month to settle at E18.5 billion at the end of October 2019. The improvement stemmed from both quasi money supply and narrow money supply. Compared over the year, M2 grew by 3.0 per cent.

Quasi money supply amounted to E12.0 billion at the end of October 2019, depicting a month-on-month increase of 11.3 per cent, on account of time deposits which improved by 14.7 per cent to settle at E10.1 billion. Savings deposits on the contrary, fell by 3.7 per cent to E1.9 billion at the end of October 2019. Year-on-year, quasi money supply rose by 1.1 per cent.

Narrow money supply (M1) stood at E6.4 billion at the end of October 2019 rising by 0.9 per cent, due to a rise in both its components; Emalangeni outside depository corporations and transferable (demand) deposits. Emalangeni outside depository corporations rose by 4.7 per cent to E752.6 million while transferable (demand) deposits expanded by 0.5 per cent to settle at E5.7 billion. Annually, M1 grew by 6.8 per cent.

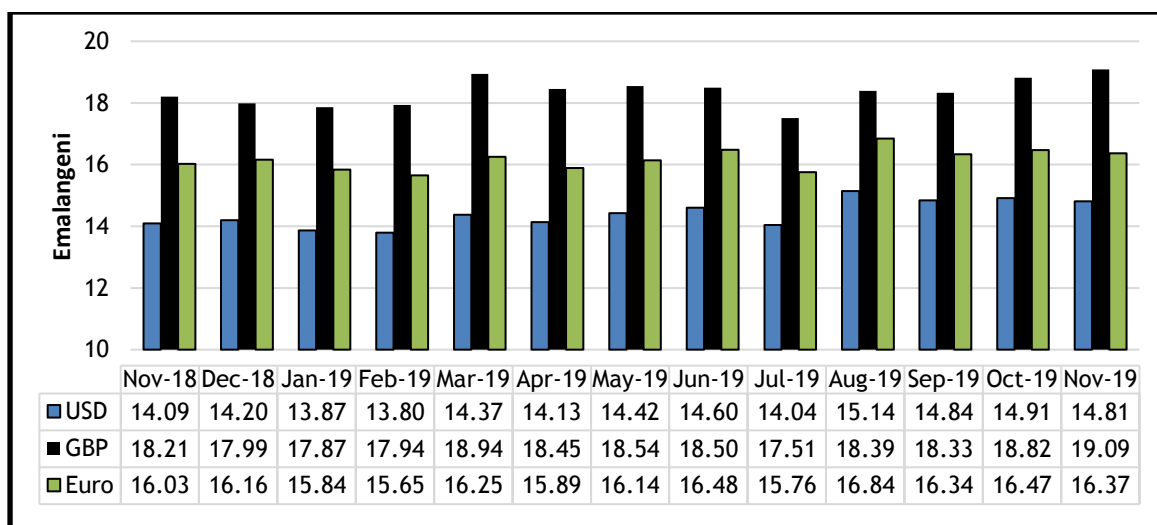
Figure 6: Money Supply Monthly Changes: October 2018 to October 2019



Source: Other Depository Institutions and Central Bank of Eswatini

During the month of November 2019, the performance of Lilangeni/Rand against the major trading currencies was mixed. The Lilangeni was somewhat stronger at a monthly average of E14.81 to the US Dollar compared to E14.91 recorded in October 2019, and again slightly stronger against the Euro at an average of E16.37 compared to E16.47 recorded in October 2019. Against the Sterling Pound, the local unit depreciated from E18.82 to E19.09 in November 2019. The mixed performance of the Lilangeni was a result of the Rand experiencing pressure both from economic and political developments taking place in South Africa and in the country’s major trading partners.

Figure 7: Average Exchange Rates: November 2018 to November 2019.



Source: Central Bank of Eswatini

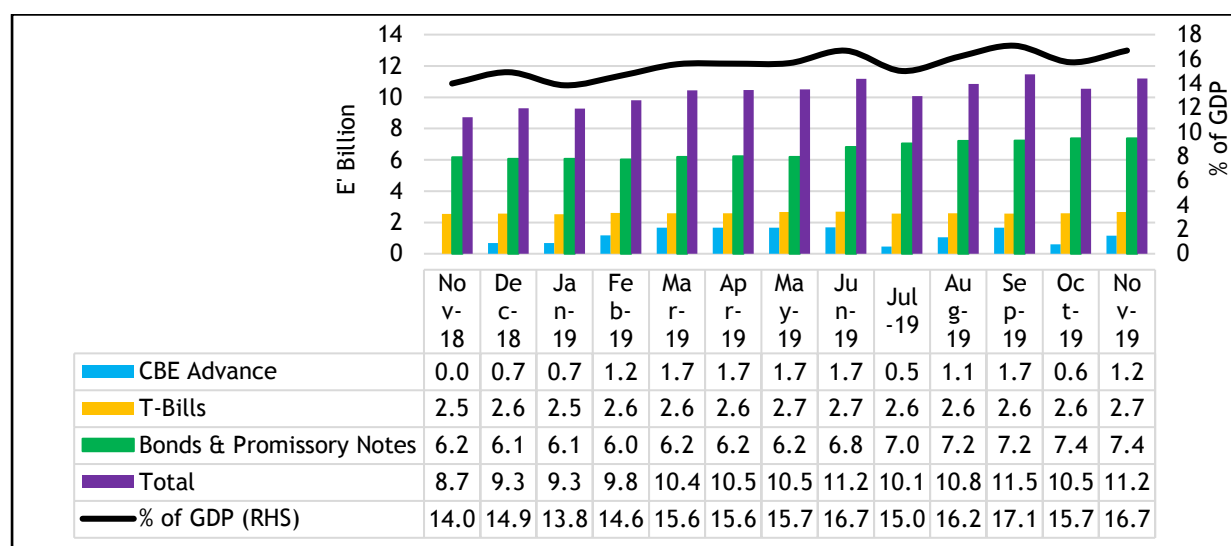
During November 2019, the Rand, hence Lilangeni, benefitted from the talks that indicated some progress towards the ending of the trade war between the US and China. The end of the trade war will benefit emerging economies such as South Africa. Investors also welcomed the news of the appointment of the new CEO for Eskom in South Africa, with expectations of an improvement in the performance of the electricity company. On the negative side, the Rand continued to suffer under the troubled state owned enterprises mainly Eskom and South African Airways. The heavy reliance by the state owned enterprises on South Africa’s government for funding worsens investor confidence in South Africa’s economy while threatening the investment grade credit rating. In November 2019, Moody’s decided not to change South Africa’s investment grade credit rating, however, the outlook was changed to negative.

The Rand/Lilangeni is expected to remain volatile as South Africa pursues restorative policies in the near term and as the world waits in anticipation for the progress in trade war talks as well as Brexit developments. The local unit ended November 2019 at E14.75 to the US Dollar, E19.03 to the Pound Sterling and E16.23 to the Euro.

3 PUBLIC DEBT

Outstanding domestic debt stood at E11.2 billion, an equivalent of 16.7 per cent of GDP as at end of November 2019, depicting an increase of 6.1 per cent when compared to E10.5 billion recorded in October 2019. The increase was due to an additional advance extended to Government as well as an improved uptake of treasury bills in the month under review.

Figure 8: Total Domestic Debt: November 2018 to November 2019



Source: Ministry of Finance and Central Bank of Eswatini

During the month of November 2019, the Government further requested for an additional advance from the Central Bank amounting to E560 million which, was accessed in three different tranches. The Central Bank will on behalf of Government issue an Infrastructure bond on 20 December 2019. Funds raised from this bond will be used to construct factory shells for potential investors such as Kellogg Company. This will be a reopening of a bond that was first issued on 28 September 2018. The amount on offer is E100 million with a coupon rate of 9.5 per cent and the maturity date for this bond is 28 September 2024.

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

Holder	Treasury Bills	Government Bonds	Promissory Notes	CBE Advance	Total	Share of Holdings (%)
CBE	4.3	1,298.8	0	1,160.00	2,463.1	22.0
Commercial banks	1,507.7	827.7	0	0	2,335.4	20.9
NBFIs	1,014.0	4,356.7	0	0	5,370.7	48.0
Other	140.6	826.0	55.00	0	1,021.6	9.1
	2,666.6	7,309.2	55.00	1,160.00	11,190.8	100

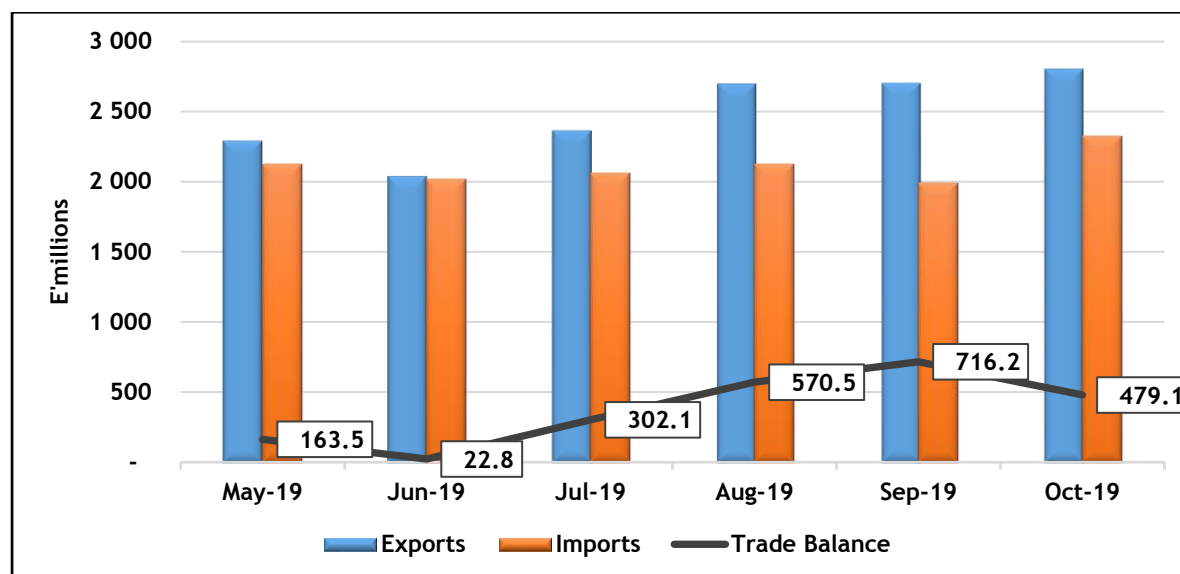
Source: Central Bank of Eswatini

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

In the month of October 2019, the country recorded a reduced trade surplus of E479.1 million compared to E716.2 million recorded in the previous month. Exports for the month increased marginally, amounting to E2.803 billion, from E2.702 billion in September 2019, all below the E2.900 billion of the same period in 2018. Exports to-date amounted to E23.350 billion, which is 19.7 per cent higher than cumulative exports earnings up to October 2018. The import bill surged in the month of October 2019 to register E2.324 billion, which represents a monthly increase of 17 per cent. On a year-on-year basis, the import bill declined by 12.1 per cent. Cumulative imports to-date, were valued at E20.545 billion, almost at par with those as at October 2018, of E20.562 billion. Year-to-date trade surplus is valued at E2.805 billion.

Figure 9: Merchandise Trade Account: May 2019 to October 2019

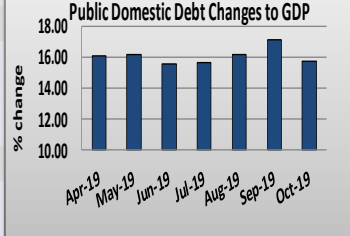
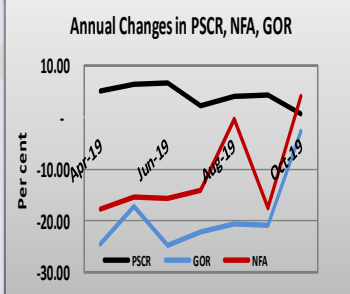
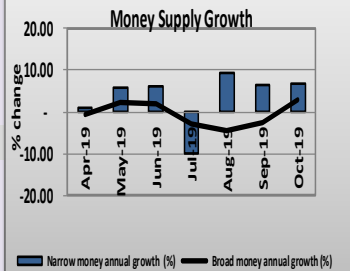
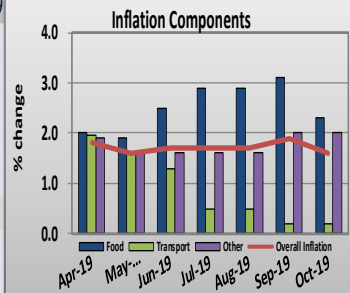


Source: Central Bank of Eswatini

An analysis of exports for the month of October 2019 indicates that miscellaneous edibles increased by 27.2 per cent, to record E1.431 billion from E1.125 billion in September 2019. Recording an increased share of total exports in the month, accounting for 51 per cent of total exports from 42 per cent the previous month, and 52 per cent in the corresponding period in 2018. Sugar and sugar products export earnings amounted to E488 million in October 2019, reflecting a 37.2 per cent monthly decline. Textile and textile apparel increased by 25.6 per cent in the month of October 2019, amounting to E395.6 million. Wood and wood articles were valued at E155.3 million in the month of October, up from the E137.1 million of the previous month.

On imports, energy products decreased by 12 per cent to settle at E316.8 million in October 2019. Machinery, appliances and electrical materials imports were worth E290.6 million in October 2019, up by 46.2 per cent when compared with September 2019. Vehicle imports charted an upward turn in October 2019, amounting to E120.9 million from E99.9 million in the preceding month while plastic and plastic articles imports declined by 27.5 per cent, amounting to E106.7 million.

Economic Policy, Research and Statistics Division							
Kingdom of Eswatini Economic Indicators at a glance							
Sectors	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
Overall Inflation	1.8	1.6	1.7	1.7	1.7	1.9	1.6
Food	2.0	1.9	2.5	2.9	2.9	3.1	2.3
Transport	2.0	1.6	1.3	0.5	0.5	0.2	0.2
Other	1.9	1.6	1.6	1.6	1.6	2.0	2.0
Money and banking							
Narrow money annual growth (%)	1.04	5.83	6.21	-9.85	9.25	6.30	6.83
Broad money annual growth (%)	-0.53	2.20	2.07	-2.79	-4.34	-2.60	3.04
Domestic credit (net) - E' Million	17 682.50	18 338.29	18 565.35	17 139.23	17 462.30	18 045.54	16 751.23
Government	2 847.77	3 238.07	3 116.53	2 151.95	2 556.45	3 071.31	2 042.78
Private sector	14 835.20	15 100.22	15 448.82	14 987.28	14 905.84	14 974.23	14 708.45
Private sector credit annual growth (%)	5.14	6.51	6.61	2.32	4.11	4.30	0.64
Interest rates (% p.a)							
Prime lending	10.25	10.25	10.25	10.00	10.00	10.00	10.00
Discount rate	6.75	6.75	6.75	6.50	6.50	6.50	6.50
Deposit rate - 31 days	2.24	2.24	2.24	3.18	3.18	3.18	3.18
- 12 months	4.59	4.59	4.59	3.74	3.74	3.74	3.74
- T. bill rate	7.92	7.91	7.55	7.84	7.84	7.74	7.80
Ratios							
Liquidity ratio (required = 20 %)	31.85	31.29	31.51	33.60	35.76	31.90	35.07
Loans/deposits ratio	75.76	77.39	78.40	79.95	77.67	81.30	74.23
Net foreign assets (E'million)	6 530.58	6 143.83	5 178.10	6 377.40	6 729.87	5 993.10	8 500.07
Annual % change in NFA	-24.42	-17.10	-24.70	-22.10	-20.64	-20.70	-2.71
Gross official foreign reserves E'Millions	5 751.98	5 591.98	5 141.52	6 221.33	6 451.84	5 332.74	7 382.67
Annual % change in GOR	-17.66	-15.38	-15.60	-13.98	-0.33	-17.50	3.97
In months of import cover	2.49	2.42	2.26	2.74	2.84	2.35	3.17
Exchange Rates							
US\$	14.13	14.42	14.60	14.04	15.14	14.84	14.91
EURO	15.89	16.14	16.48	15.76	16.84	16.34	16.47
GBP	18.45	18.54	18.50	17.51	18.39	18.33	18.82
Public Finance							
Total public domestic debt [E' million]	10 570.17	10 600.57	11 284.50	10 064.91	10 843.41	11 456.90	10 544.95
As a % of GDP	16.07	16.11	15.57	15.62	16.17	17.09	15.73



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