

Recent Economic Developments

JULY/AUGUST 2020



CENTRAL BANK
OF ESWATINI

Umntsholi Wemaswati



MAJOR HIGHLIGHTS

<ul style="list-style-type: none"> Quarterly GDP fell by 6.5 per cent on a year-on-year basis (seasonally adjusted), in the first quarter of 2020, from a revised decline of 1.2 per cent in the last quarter of 2019. 	GDP Growth rate (% y/y)	6.5 (2020Q1) ▾
<ul style="list-style-type: none"> Headline consumer inflation rose slightly to 3.9 per cent in July 2020 from 3.8 per cent in June 2020. 	Inflation rate (% y/y)	3.9 (July) ▲
<ul style="list-style-type: none"> The discount and subsequently the prime lending rates were cut in July 2020 by 25 basis points. 	Prime Lending (%)	7.25 ▾
	Discount rate (%)	3.75 ▾
<ul style="list-style-type: none"> In the month of August 2020, the Lilangeni/Rand exchange rate depreciated against the major trading currencies. 	Exchange rate (US\$)	17.28 (Aug) ▾
<ul style="list-style-type: none"> Credit extended to the private sector grew by 1.7 per cent month-on-month to settle at E14.7 billion at the end of July 2020. 	Private Sector Credit (% m/m)	1.7 (July) ▲
<ul style="list-style-type: none"> Broad money supply (M2) amounted to E18.5 billion at the end of July 2020, reflecting a month-on-month increase of 1.4 per cent. 	Broad Money (M2) (% m/m)	1.4 (July) ▲
<ul style="list-style-type: none"> The country's stock of gross official reserves improved by 8.1 per cent on month-on-month and by 31.1 per cent on an annual basis to reach E8.5 billion at the end of August 2020. 	Reserves (months of import cover)	3.5 (Aug) ▲
<ul style="list-style-type: none"> Total public debt stock stood at E23.6 billion as the end of August 2020, an equivalent of 32.9 per cent of GDP. 	Total Public Debt (% of GDP)	32.9 (Aug) ▲
<ul style="list-style-type: none"> Eswatini recorded a trade surplus of E340 million, a significant reduction from the trade surplus of E615.0 million registered in July 2020. 	Trade Balance (% of GDP)	0.5 (Aug) ▾

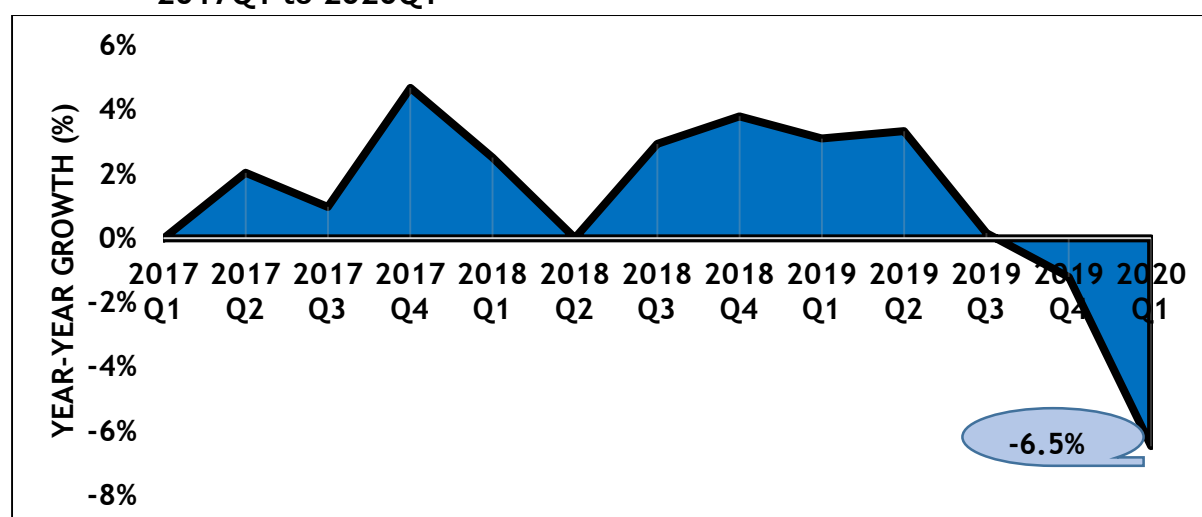
NB: The table shows the most recent available data.

1 ESWATINI GROSS DOMESTIC PRODUCT (GDP) DEVELOPMENTS

According to the Central Statistics Office (CSO), the economy recorded a technical recession in the first quarter of 2020. Economic activity, as measured by the Quarterly Gross Domestic Product (QGDP), fell by 6.5 per cent on a year-on-year basis (seasonally adjusted), in the first quarter of 2020, from a revised decline of 1.2 per cent in the last quarter of 2019. On a quarter-on-quarter basis, economic activity contracted by 5.3 per cent (seasonally adjusted) in the first quarter of 2020 from a 0.3 per cent increase in the fourth quarter of 2019.

The observed slump in overall economic activity was largely attributed to poor performance in the secondary sector. The secondary sector contracted by a significant 19.3 per cent, year-on-year, in the quarter ended March 2020 owing to poor performance in the ‘manufacturing’, ‘electricity supply’ and ‘construction’ sub-sectors. Within the manufacturing sector, notable decreases in economic activity were observed in the ‘manufacturing of beverages’, ‘manufacturing of textiles and wearing apparel’ as well as ‘manufacturing of wood and paper products. Fiscal cash-flow challenges continued to weigh negatively on implementation of public infrastructural projects thereby resulting in constrained output in construction activity. Evidently, construction activity declined by 29.0 per cent, year-on-year, in the first quarter of 2020 from a 21.0 per cent increase in the fourth quarter of 2019.

Figure 1: Quarterly GDP, Seasonally Adjusted, Year-on-Year Growth Rates; 2017Q1 to 2020Q1



Source: Central Statistics Office (CSO)

Muted growth was observed in the tertiary sector at 0.1 per cent, in the first quarter of 2020. Notable growth emanated mainly from the ‘financial services’, ‘human health and social work activities’, and ‘public administration’. On the contrary, there was a slowdown

in economic activity in tourism related activities such as ‘arts, entertainment and recreation’, ‘accommodation and food service activities’ largely reflecting first round effects of the COVID-19 pandemic. Other sectors that suffered from weak demand were ‘wholesale and retail trade’ and ‘professional services’.

Total electricity sales (sourced from the Eswatini Electricity Company) decreased by 8.6 per cent in the quarter ended June 2020, compared to a 1.2 per cent increase in the quarter ended March 2020. Partly reflecting the constraints to economic activity as a result of the lockdown effected in March 2020, electricity sales from the ‘commercial’ and ‘irrigation power and bulk’ categories declined during the quarter under review, while ‘domestic’ electricity sales slightly increased. Electricity consumption by the ‘commercial’ category further fell by 3.7 per cent in the second quarter of 2020 compared to a 3.5 per cent decline in the previous quarter. As some businesses remain closed due to the partial lockdown and controlled measures effected on those that are operating, electricity demand remains fairly lower than in previous years. Evidently, electricity demand by the ‘irrigation power and bulk’ category mainly dominated by sugar cane farming also significantly fell by 20.6 per cent in the quarter ended June 2020 from a 4.1 per cent increase in the previous quarter end. Notably, total electricity customers continued to rise in the quarter ended June 2020, increasing by 0.6 per cent to 236,475 from the previous quarter. All customer categories recorded marginal growth in the number of customers in the period under review.

Total treated water sales (sourced from the Eswatini Water Services Corporation) further declined by 5.3 per cent (seasonally adjusted) in the quarter ended June 2020 from a 5.2 per cent fall in the quarter ended March 2020. Both sales from the ‘domestic’ and ‘commercial’ categories declined during the period under review. Treated water sales at residential level slightly fell by 1.6 per cent during the second quarter of 2020, from a 1.2 per cent growth in the first quarter of 2020. Depicting the continued decelerated activity from businesses in the economy during the course of the partial lockdown, treated water sales from the ‘commercial’ category significantly fell by 16.0 per cent during the quarter ended June 2020 from a 6.0 per cent decline in the previous quarter end. The total number of treated water connections continued on an upward trajectory, increasing by 3.3 per cent to 55,854 in the quarter ended June 2020. Residential connections grew by 3.5 per cent, whilst commercial connections grew marginally by 0.9 per cent in the period under review.

Total fuel import volumes (seasonally adjusted) grew at a slower rate of 1.0 per cent in July 2020 from an 8.1 per cent growth in June 2020. Notably, petrol and paraffin import volumes increased between the two months under review, while diesel import volumes dropped. Petrol import volumes grew by 4.1 per cent in July 2020 compared to an 11.1 per

cent growth in the previous month, as the economy continues to open up from the lockdown and inward travel restrictions were partially lifted. Similarly, paraffin import volumes rose by 17.8 per cent in July 2020 from a 20.4 per cent decline the previous month. Commercial freight activity largely captured by ‘diesel’ import volumes fell by 2.0 per cent in July 2020 from a 7.2 per cent increase in the previous month.

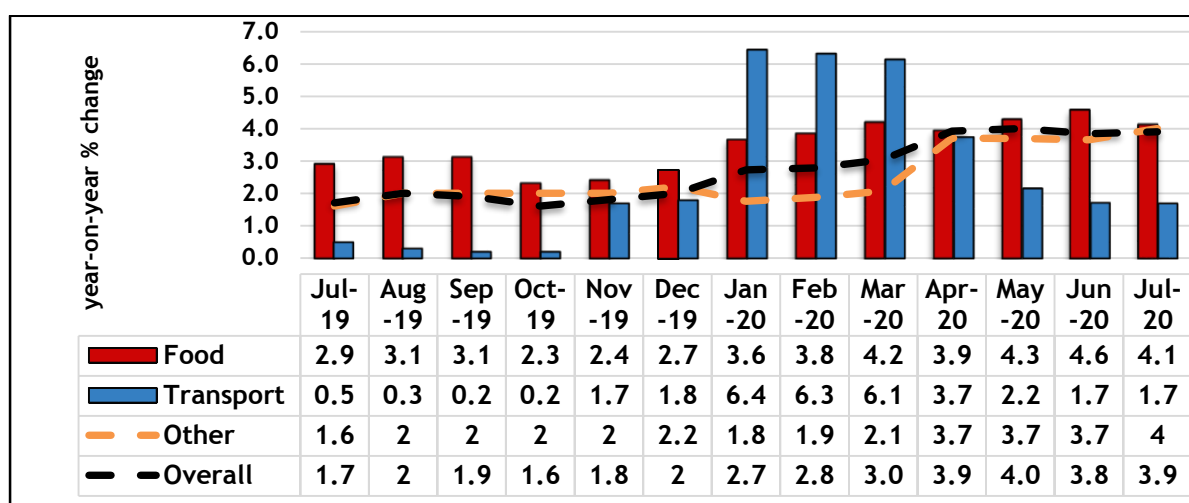
2 PRICE DEVELOPMENTS

The headline consumer inflation rose slightly to 3.9 per cent in July 2020 from 3.8 per cent in June 2020. The marginal increase was largely attributed to higher utilities’ costs following the implementation of a 13.7 per cent water tariff increase in July 2020 as approved by Parliament. As a result, the ‘housing and utilities’ index, which constitutes the highest weight in the rebased CPI, rose by 5.9 per cent in the month under review compared to 5.1 per cent in the previous month.

Additional increases were observed in the price indices for ‘health’ and ‘furnishing and household equipment’. The health index rose by 1.8 percentage points to 3.6 per cent in July 2020 reflecting continuous pressure on medical supplies and increasing costs for outpatient medical services in light of ongoing challenges posed by the COVID-19 coronavirus pandemic. Furthermore, the ‘furnishing and household equipment’ index increased to 2.7 per cent in the month under review from 1.6 per cent in the previous month mainly due to increases in the prices for major household appliances.

The above increases were partially offset by a slowdown in the price indices for ‘food and non-alcoholic beverages’ and ‘clothing and footwear’. Food prices rose at a slower pace of 4.1 per cent in July 2020 compared to 4.6 per cent the previous month. The moderation mainly benefitted from slower increases in the prices of ‘other cereal products excluding rice’ and ‘eggs and dairy products’. On the other hand, the ‘clothing and footwear’ index recorded a deflation of 0.1 per cent in the month under review, down from 1.3 per cent recorded the previous month.

Figure 2: Inflation Trends: July 2019 to July 2020



Source: Central Statistical Office and Central Bank of Eswatini

On month-on-month rates, consumer inflation rose marginally by 0.1 per cent in July 2020 from a deflation of 0.1 per cent the previous month. Increases were observed in the price indices for ‘health’, ‘housing and utilities’ and ‘furnishing and household equipment’, which grew by 1.9, 0.7 and 1.1 per cent, respectively. On the contrary, prices for ‘clothing and footwear’ declined by 2.0 per cent on a month-on-month basis in July 2020.

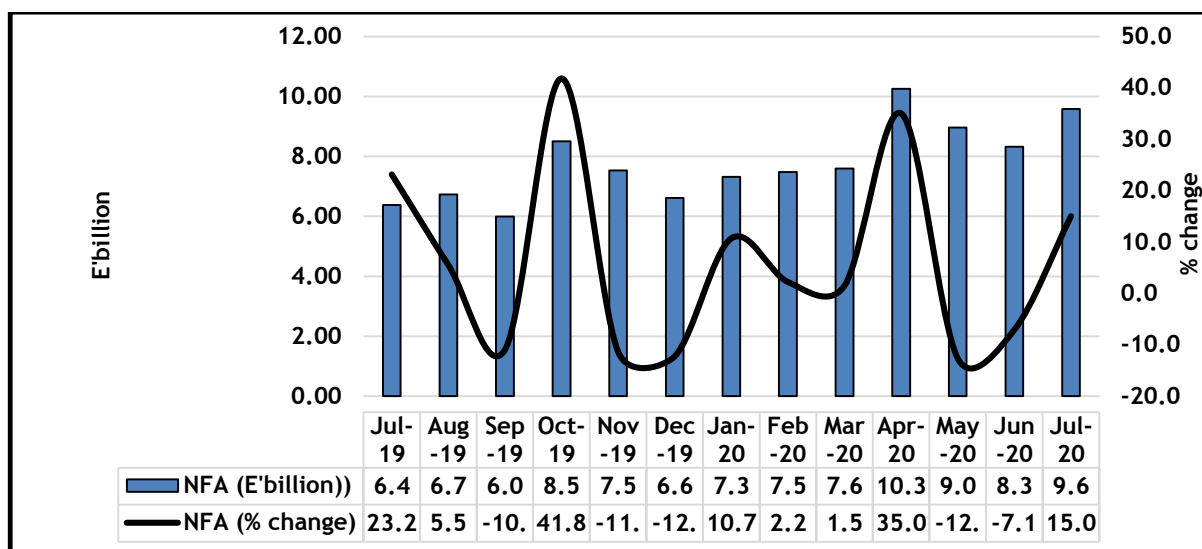
3 MONEY SUPPLY AND BANKING DEVELOPMENTS

Net foreign assets stood at E9.6 billion at the end of July 2020, depicting an increase of 15.0 per cent over the month and 44.6 per cent over the year. Expressed in special drawing rights (SDR), net foreign assets amounted to SDR398.4 million, reflecting an increase of 14.2 per cent month-on-month and 17.5 per cent year-on-year. The increase in net foreign assets was observed on both its components; net official assets and net foreign assets of other depository corporations.

Net official assets grew by 20.9 per cent month-on-month to close at E6.9 billion at the end of July 2020. The increase was on account of the quarterly inflow of southern African customs union revenues in early July 2020. Similarly, the net foreign assets of other depository corporations recorded an increase of 2.3 per cent over the review month to close at E2.7 billion at the end of July 2020. This was driven by an increase in other depository corporations deposits held outside the country over the review month.

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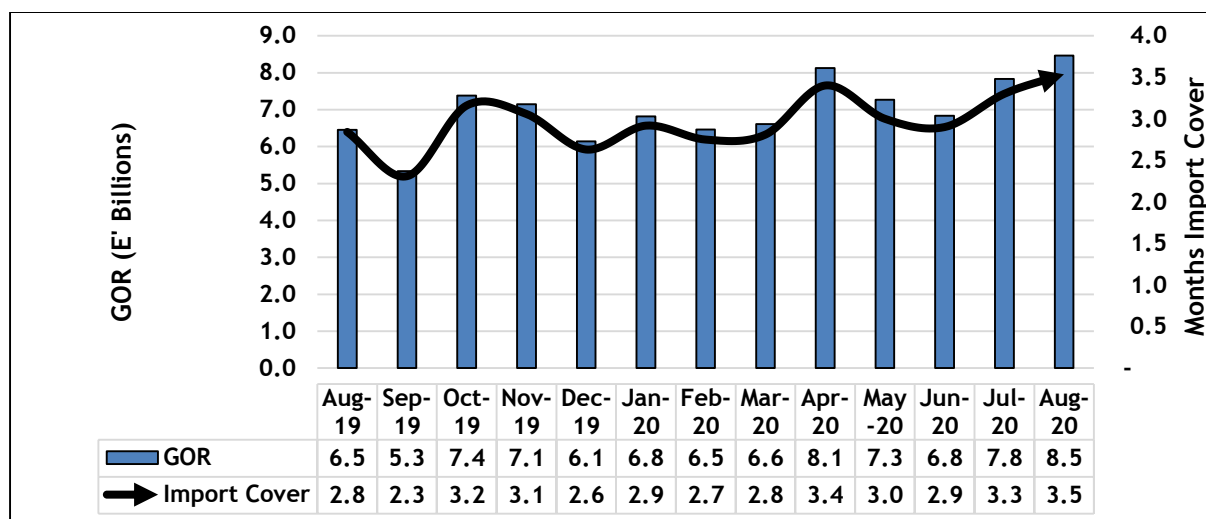
Figure 3: Net Foreign Assets Monthly Changes: July 2019 to July 2020



Source: Other Depository Corporations and Central Bank of Eswatini

The country's stock of gross official reserves improved by 8.1 per cent compared to July 2020 and rose by 31.1 per cent on an annual basis to reach E8.5 billion at the end of August 2020. Accounting for the increase was an inflow of Rands purchased from the local commercial banks over the review month. As a result, the level of import cover improved to 3.5 months in August 2020 compared to 3.3 months the previous month. In SDR terms, gross official reserves increased by 9.9 per cent over the month and by 15.8 per cent over the year to reach SDR357.9 million at the end of August 2020.

Figure 4: Gross Official Reserves and Import Cover: August 2019 to August 2020



Source: Central Bank of Eswatini

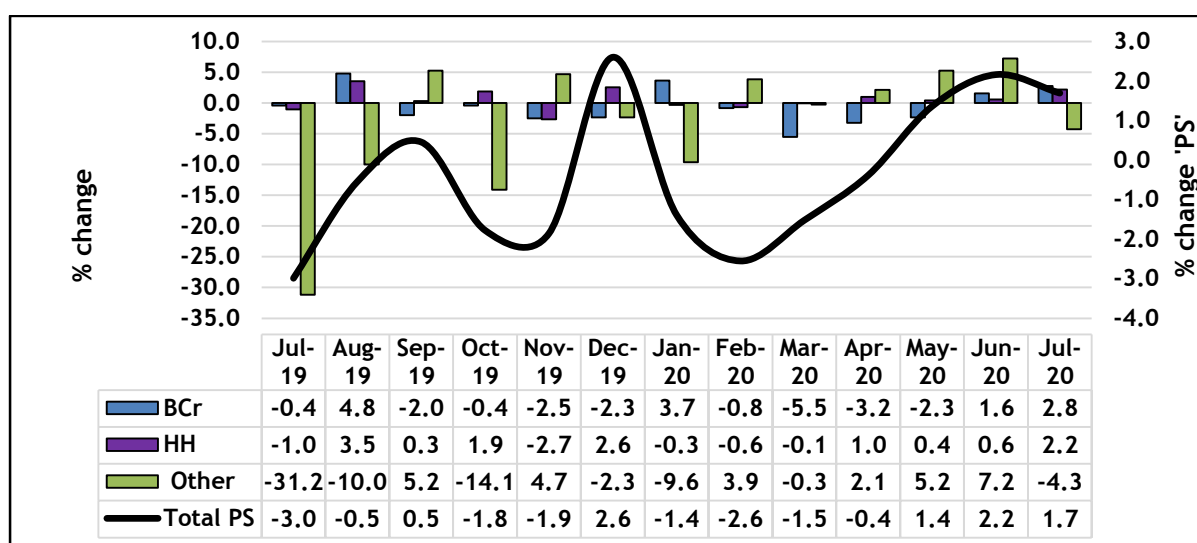
Over the month of July 2020, credit extended to the private sector increased by 1.7 per cent month-on-month but declined by 1.9 per cent over the year to settle at E14.7

billion. Responsible for the monthly increase was credit extended to businesses and households while credit to other sectors of the economy contracted.

Credit extended to the business sector increased by 2.5 per cent month-on-month but declined by 8.6 per cent over the year to reach E6.5 billion at the end of July 2020. Responsible for the rise were increases in credit to the following industries; manufacturing (8.8 per cent), distribution & tourism (6.3 per cent) as well as agriculture & forestry (5.6 per cent). On the contrary, a decline in credit to the following industries was observed; transport & communication (-6.9 per cent), community, social & personal services sector (-2.1 per cent), real estate (-1.2 per cent), construction (-0.05 per cent) and mining & quarrying (-0.004 per cent).

Credit extended to other sectors of the economy, on the other hand, fell by 4.3 per cent over the month and by 14.1 per cent over the year to settle at E1.4 billion at the end of July 2020 as all its components declined. Credit to other financial corporations fell by 4.7 per cent to E0.8 billion. Credit to public non-financial corporations declined by 3.8 per cent to E0.5 billion over the review month. Credit to local government contracted by 0.4 per cent to E0.04 billion at the end of July 2020.

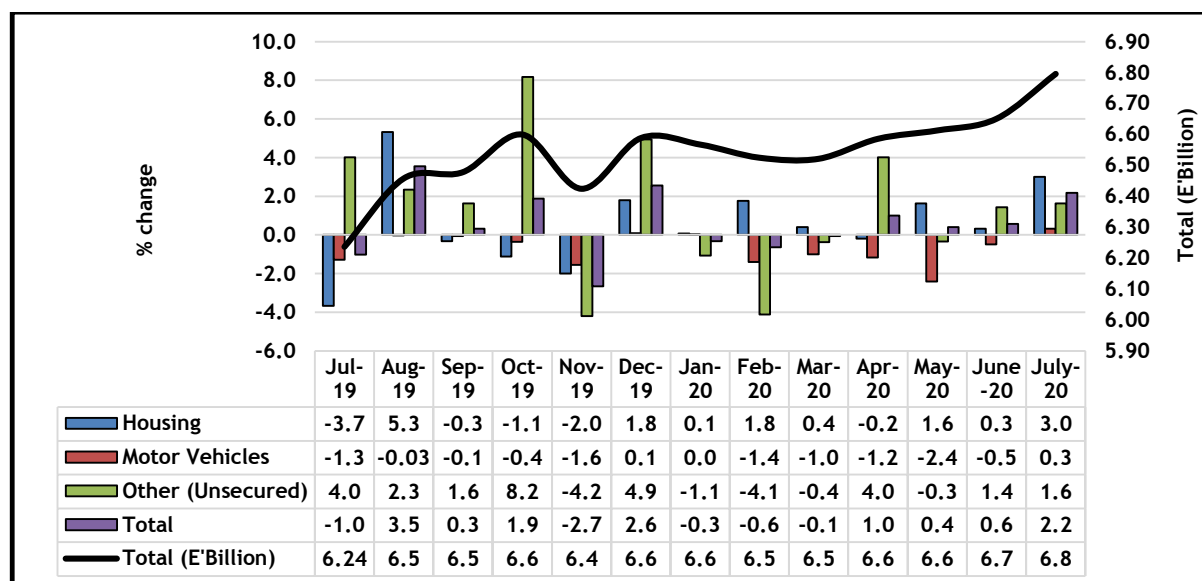
Figure 5: Private Sector Credit Monthly Changes: July 2019 to July 2020



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

Credit extended to the households & non-profit institutions serving households (NPISH) recorded an increase of 2.2 per cent over the month and 9.0 per cent on a year-on-year basis to reach E6.8 billion in July 2020, owing to improvements in credit to all its components. Credit for housing grew by 3.0 per cent to E3.7 billion. Other personal (unsecured) loans rose by 1.6 per cent to reach E2.2 billion while credit for motor vehicles increased by a marginal 0.3 per cent to E0.9 billion in July 2020.

Figure 6: Household Credit Monthly Changes: July 2019 to July 2020



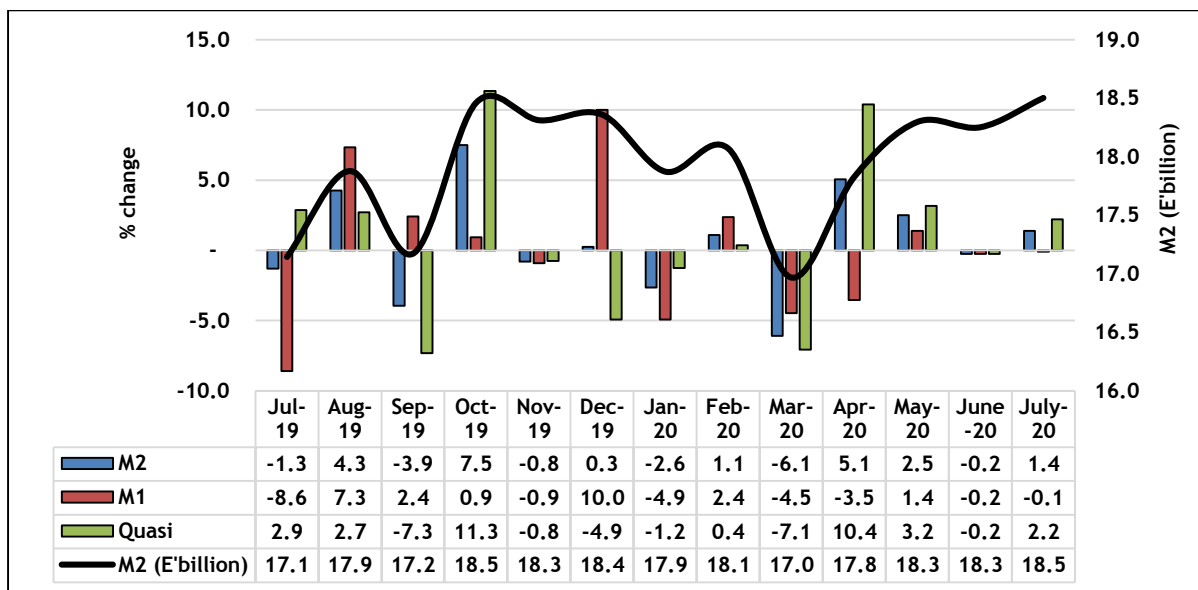
Source: Central Bank of Eswatini and Other Depository Institutions

Broad money supply (M2) amounted to E18.5 billion at the end of July 2020, reflecting a month-on-month increase of 1.4 per cent and an annual growth of 7.9 per cent. The increase was in line with the rise in credit extended to the private sector over the month. Notably, quasi money supply increased, while narrow money supply (M1) contracted.

Quasi money supply grew by 2.2 per cent over the month and by 7.0 per cent over the year to reach E12.2 billion at the end of July 2020 as both its components improved. Savings deposits grew by 2.8 per cent to reach E2.1 billion. Similarly, time deposits increased by 2.1 per cent to E10.1 billion at the end of the review month.

Narrow money supply (M1), on the other hand, declined by a marginal 0.1 per cent over the review month but reflected an increase of 9.6 per cent compared over the year to settle at E6.3 billion. Responsible for the decline were transferable (demand) deposits, which contracted by 1.0 per cent to E5.5 billion in July 2020. On the contrary, Emalangeni in circulation recorded an increase of 6.0 per cent month-on-month and 29.4 per cent over the year to reach E0.9 billion at the end of the review month.

Figure 7: Money Supply Monthly Changes: July 2019 to July 2020



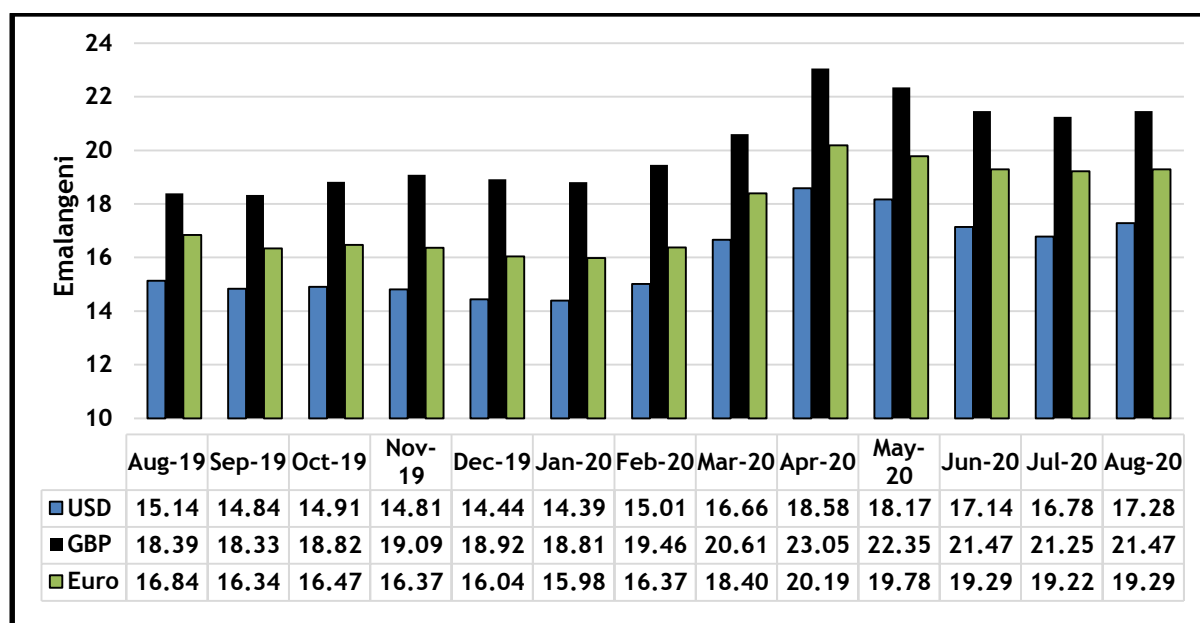
Source: Other Depository Institutions and Central Bank of Eswatini

Net claims on government by the banking sector stood at E588.1 million at the end of July 2020, reflecting a decline of 68.6 per cent month-on-month and 55.8 per cent over the year. This development was due to a fall in claims on government and a rise in government deposits over the review month. Claims on government declined by 18.5 per cent to E5.2 billion as government settled part of its advance from the Central Bank while government deposits increased by 2.3 per cent to E4.6 billion; in line with the inflow of SACU revenue at the beginning of July 2020.

During the month of August 2020, the Lilangeni/Rand exchange rate depreciated against the major external currencies reversing the major gains recorded in the previous two-month period. The Rand depreciated on the back of a generally stronger rebound of the US Dollar, record high gold prices and higher US treasury yields as investors seek better safe-havens. Emerging market (EM) currencies (including the Rand) were under pressure from mounting concerns about the depleted reserves and the Central Bank policies in Turkey. While South Africa's economic developments are not directly linked to Turkish developments, the Rand often comes under significant pressure if broader sentiment towards EMs turn sour. Incidentally, the Rand's depreciation follows a huge depreciation in the Turkish Lira that resulted in a negative drag on investor sentiments towards EM assets. Meanwhile the US-China trade debacle, further precipitated the Rand's downward trend. Against the US Dollar, the Lilangeni depreciated by a monthly average of 2.1 per cent from E16.78 recorded in July 2020. The domestic unit also depreciated against the Pound Sterling and the Euro by 1.0 per cent and 0.4 per cent to close the month of August 2020 at averages

of E21.47 and E19.29 respectively. On a year-on-year basis the Lilangeni/Rand remains on a weaker footing depreciating by 14.2 per cent against the US Dollar in August slightly lower than the annualized 14.9 per cent depreciation recorded in July 2020. The local unit ended the period trading at E17.29 to the US Dollar, E19.40 to the Euro and at E21.25 to the Pound Sterling.

Figure 8: Average Exchange Rates: August 2019 to August 2020.



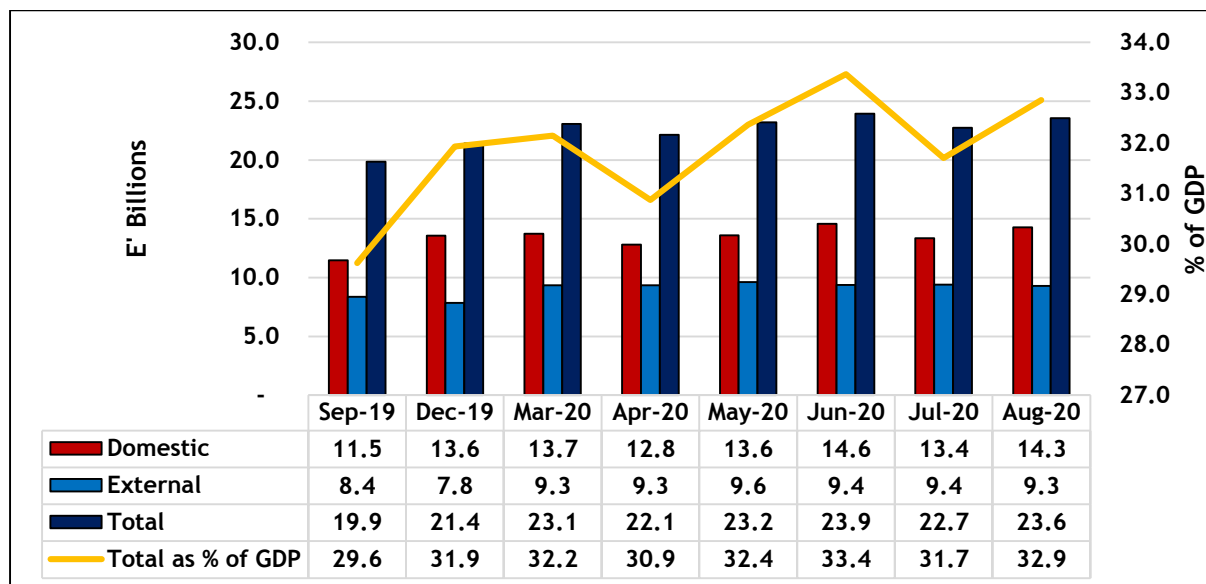
Source: Central Bank of Eswatini

4 TOTAL PUBLIC DEBT

Eswatini's total debt stock stood at E23.6 billion as at the end of August 2020, an equivalent of 32.9 per cent of GDP. This shows an increase of 4 per cent when compared to E22.7 billion recorded in July 2020.

Preliminary public external debt figures show that external debt stood at E9.3 billion as at the end of August 2020, an equivalent of 13.0 per cent to GDP. This shows that external debt has decreased marginally over the month due to a slight strengthening of the Lilangeni against major currencies in which, the country's liabilities are denominated.

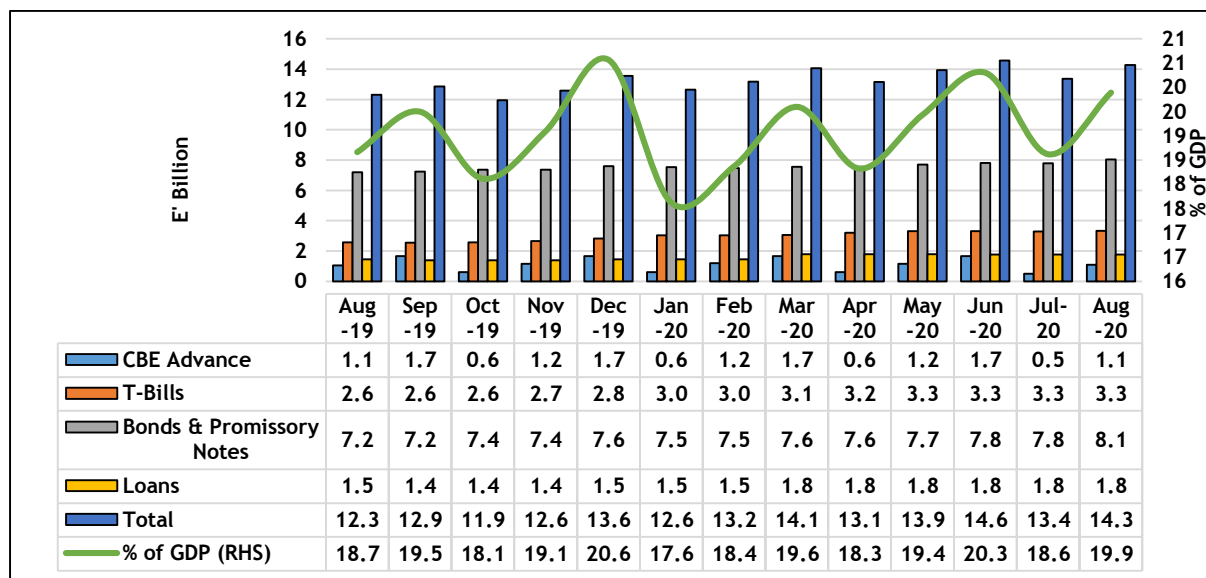
Figure 9: Total Public Debt: September 2019 to August 2020



Source: Ministry of Finance and Central Bank of Eswatini

Outstanding public domestic debt stood at E14.3 billion at the end of August 2020, an equivalent of 19.9 per cent to GDP. This shows that domestic debt increased by 6.7 per cent from E13.4 billion recorded in July 2020. The increase can be attributed to an additional advance extended to government as well as issuance of Suppliers' bonds.

Figure 10: Total Domestic Debt: August 2019 to August 2020

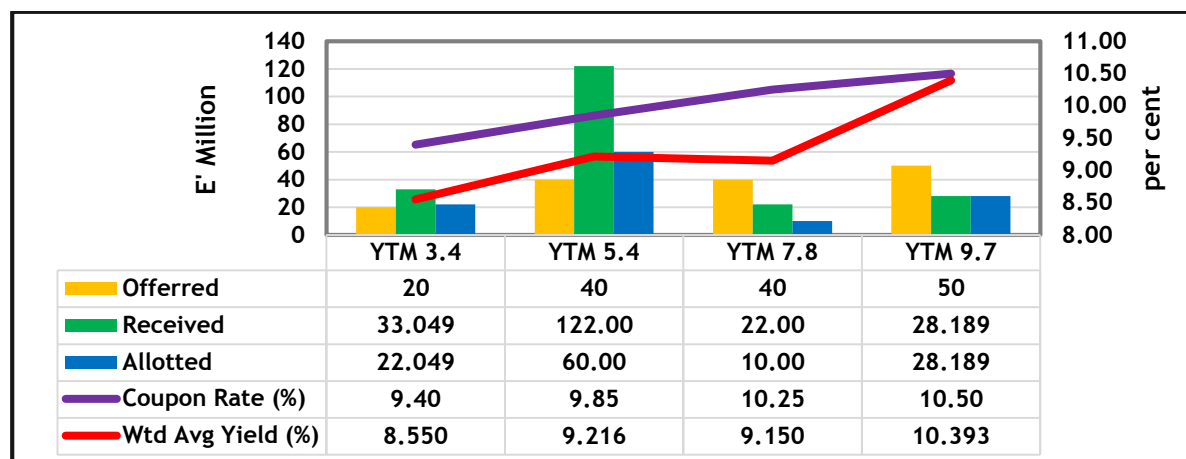


Source: Ministry of Finance and Central Bank of Eswatini

During the month of August 2020, the Central Bank of Eswatini extended a further E600 million advance to government, bringing the total advance amount to E1.1 billion thus far. Over the same period, a total of E310 million was issued in Suppliers' bonds while E40 million of the same reached maturity.

The Central Bank on behalf of the Government re-opened four bonds in the month of August 2020. In total, an amount of E150 million was on offer where E205.2 million was received in bids and E120.2 million was allotted, resulting in an allotment ratio of 80.16 per cent. While these bond issuances do not form part of August 2020 domestic debt stock because the funds will be received on 01 September 2020; the bonds auction performance can be summarized as below:

Figure 11: Multiple Bond Auction Summary-August 2020



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.

Table 1: Domestic Debt Instruments Outstanding by Holder as at 31 August 2020 (E' Million).

Holder	Treasury Bills	Government Bonds	Promissory Notes	CBE Advance	Total	Share of Holdings (%)
CBE	3.0	1,299.0	0	1,100.0	2,402.0	19.0
Commercial banks	2,206.6	1,032.6	0	0	3,239.2	25.6
NBFIs	1,019.4	4,904.4	0	0	5,923.8	46.8
Other	109.5	835.7	154.1	0	1,099.2	8.7
	3,338.5	8,071.7	154.1	1,100.0	12,664.2	100

Source: Central Bank of Eswatini.

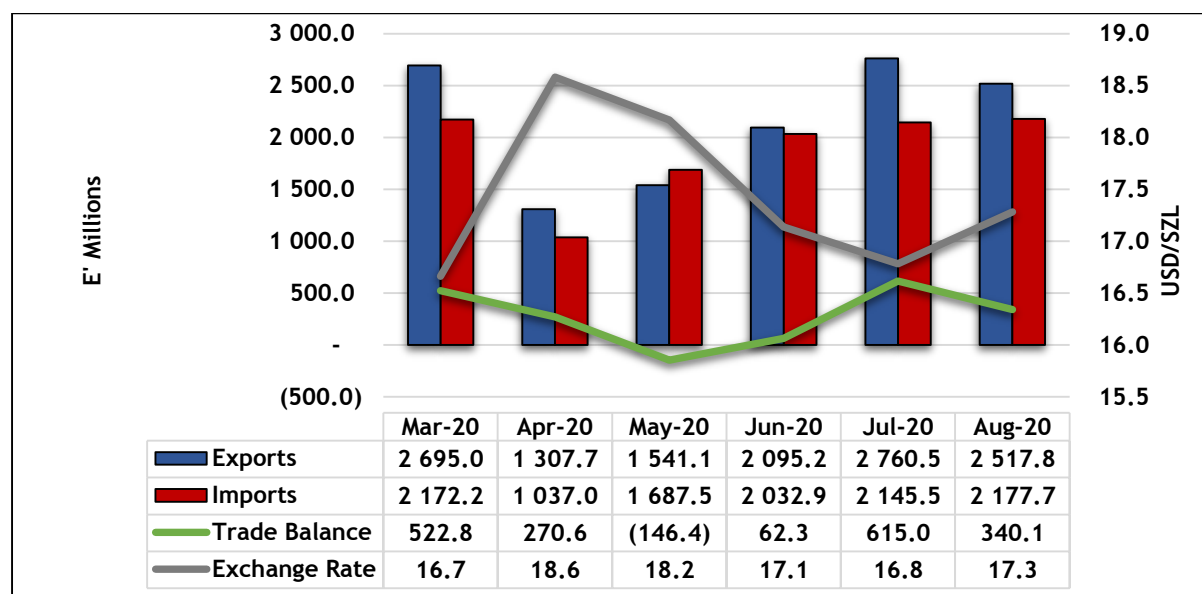
5 THE EXTERNAL SECTOR

In August 2020, the country recorded another trade surplus of E340 million, albeit 44.7 per cent lower than the surplus of the previous month. The reduced surplus can be attributed to lower exports of E2.518 billion, which is 8.8 per cent lower month-on-month and 6.7 per cent lower on a year-on-year basis. Imports on the other hand, increased marginally by a monthly 1.5 per cent to E2.178 billion in August but on a yearly basis they were 2.3 per cent lower.

Cumulative trade figures point towards a subdued trade activity for 2020, with export sales being 3.8 per cent lower compared to the first 8 months of 2019. Cumulative exports for 2020 totaled E17.105 billion against E17.788 billion in 2019. Imports in the same comparable period also exhibit a shortfall of 6.9 per cent amounting to E15.126 billion. If trade figures continue on the current trajectory for the remaining 4 months of the year, overall 2020 will result in a sizeable trade surplus.

An in-depth review of exports in the month reveal that the decline in exports was due to a 30.7 per cent month-on-month decline in miscellaneous edibles to E1.029 billion, still accounting for 40.9 per cent of total exports; remaining the top export in the country. These were followed by ‘sugar and sugar confectionary’ goods which recorded a negligible decline of 0.3 per cent to record at E737.5 million. ‘Wood and articles of wood’ on the contrary logged a monthly 8.13 per cent increase to E158.6 million while textiles also recorded an increase of 9.17 per cent month-on-month to E326.7 million.

Figure 12: Merchandise Trade Account; March 2020 to August 2020.



Source: Central Bank of Eswatini

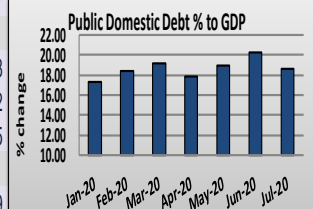
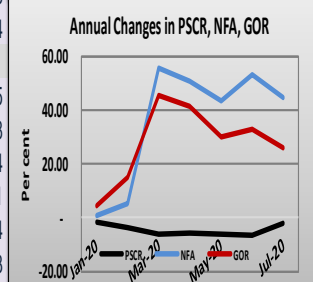
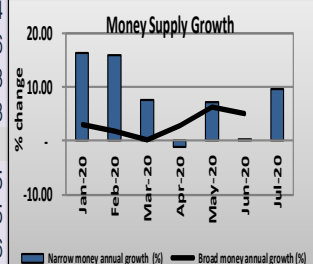
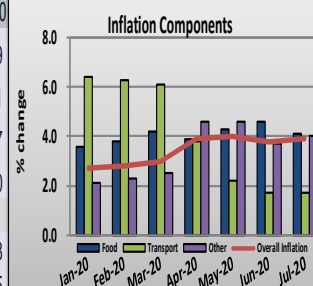
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Total imports amounted to E2.178 billion from E2.145 billion, due to consumption still being subdued as the economy continues to experience the effects of COVID-19 containment measures. Energy imports being fuel and electricity remain the largest import bill amounting to E344.0 million in August, contributing 15.8 per cent to total imports. Food imports in terms of 'live animals' and 'vegetable products' combined amounted to E192.1 million, 14.9 per cent lower on a monthly comparison. Machinery, mechanical and electrical equipment amounted to E251.1 million higher than that of July of E215.6 million. Imports of 'vehicles other than railway' on the other hand, fell by a meagre 1.8 per cent to E111.5 million in the month of August 2020.



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Economic Policy, Research and Statistics Department							
Kingdom of Eswatini Economic Indicators at a glance							
Sectors	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20
Overall Inflation	2.7	2.8	3.0	3.9	4.0	3.8	3.9
Food	3.6	3.8	4.2	3.9	4.3	4.6	4.1
Transport	6.4	6.3	6.1	3.8	2.2	1.7	1.7
Other	2.1	2.3	2.5	4.6	4.6	3.7	4.0
Money and banking							
Narrow money annual growth (%)	16.28	15.97	7.63	-1.18	7.17	0.31	9.58
Broad money annual growth (%)	2.94	1.85	0.25	2.88	6.30	5.00	7.85
Domestic credit (net) - E' Million	17,338.96	17,310.80	16,324.09	14,692.87	15,737.16	16,332.26	15,294.04
Government	2,733.13	3,077.48	2,306.89	729.25	1,583.04	1,871.67	588.06
Private sector	14,605.83	14,233.32	14,017.20	13,963.62	14,154.12	14,460.59	14,705.98
Private sector credit annual growth (%)	-1.67	-3.89	-6.28	-5.87	-6.27	-6.40	-1.88
Interest rates (% p.a)							
Prime lending	10.00	10.00	9.00	8.00	7.50	7.50	7.25
Discount rate	6.50	6.50	5.50	4.50	4.00	4.00	3.75
Deposit rate - 31 days	3.18	3.18	2.75	1.99	1.43	1.43	1.26
- 12 months	3.74	3.74	3.52	2.93	2.59	2.59	2.13
- T. bill rate	7.82	7.80	7.61	6.54	5.68	5.23	5.34
Ratios							
Liquidity ratio (required = 20 %)	37.13	36.93	35.07	36.90	37.85	36.90	35.35
Loans/deposits ratio	76.70	74.75	77.82	72.92	73.47	71.02	71.48
Net foreign assets (E'million)	7,156.85	7,482.88	7,597.20	9,835.63	8,957.81	8,325.88	9,577.34
Annual % change in NFA	0.88	5.16	55.83	50.80	43.55	53.11	44.61
Gross official foreign reserves E'Millions	6,653.26	6,464.33	6,605.33	8,129.84	7,270.28	6,830.07	7,828.24
Annual % change in GOR	4.52	14.88	45.52	41.34	30.01	32.84	25.83
In months of import cover	2.85	2.78	2.81	3.46	3.09	2.90	3.27
Exchange Rates							
US\$	14.39	15.01	16.66	18.58	18.17	17.14	16.78
EURO	15.98	16.37	18.40	20.19	19.78	19.29	19.22
GBP	18.81	19.46	20.61	23.05	22.35	21.47	21.25
Public Finance							
Total public domestic debt [E' million]	12,641.27	13,178.67	13,732.30	12,816.77	13,602.30	14,565.44	13,357.69
As a % of GDP	17.34	18.37	19.14	17.87	19.00	20.30	18.62



NB: For consistency, the table shows data up to the end of June 2020.