

# Recent Economic Developments

JUNE/JULY 2020



CENTRAL BANK  
OF ESWATINI  
Umntsholi Wemaswati



## MAJOR HIGHLIGHTS

<ul style="list-style-type: none"> <li>Headline consumer inflation slightly moderated to 3.8 per cent in June 2020 compared to 4.0 per cent in May 2020.</li> </ul>	Inflation rate (% y/y)	3.8 (June) ▼
<ul style="list-style-type: none"> <li>The discount and subsequently the prime lending rates were cut in July 2020 by 25 basis points.</li> </ul>	Prime Lending (%)	7.25 ▼
	Discount rate (%)	3.75 ▼
<ul style="list-style-type: none"> <li>In the month of July 2020, the Lilangeni/Rand exchange rate strengthened against the major trading currencies.</li> </ul>	Exchange rate (US\$)	16.78 (July) ▲
<ul style="list-style-type: none"> <li>Credit extended to the private sector grew by 2.2 per cent month-on-month to settle at E14.5 billion at the end of June 2020.</li> </ul>	Private Sector Credit (% m/m)	2.2 (June) ▲
<ul style="list-style-type: none"> <li>Broad money supply (M2) stood at E18.25 billion at the end of June 2020, 0.2 per cent higher than in May 2020.</li> </ul>	Broad Money (M2) (% m/m)	0.2 (June) ▼
<ul style="list-style-type: none"> <li>Gross official reserves amounted to E7.8 billion at the end of July 2020 depicting an increase of 14.8 per cent compared to June 2020.</li> </ul>	Reserves (months of import cover)	3.3 (July) ▲
<ul style="list-style-type: none"> <li>Total debt stock stood at E22.7 billion at the end of July 2020, an equivalent of 31.7 per cent of GDP.</li> </ul>	Total Public Debt (% of GDP)	31.7 (July) ▼
<ul style="list-style-type: none"> <li>Eswatini recorded a trade surplus of E630.2 million, a significant increase from the trade surplus of E62.3 million registered in June 2020.</li> </ul>	Trade Balance (% of GDP)	0.9 (July) ▲

*NB: The table shows the most recent available data.*

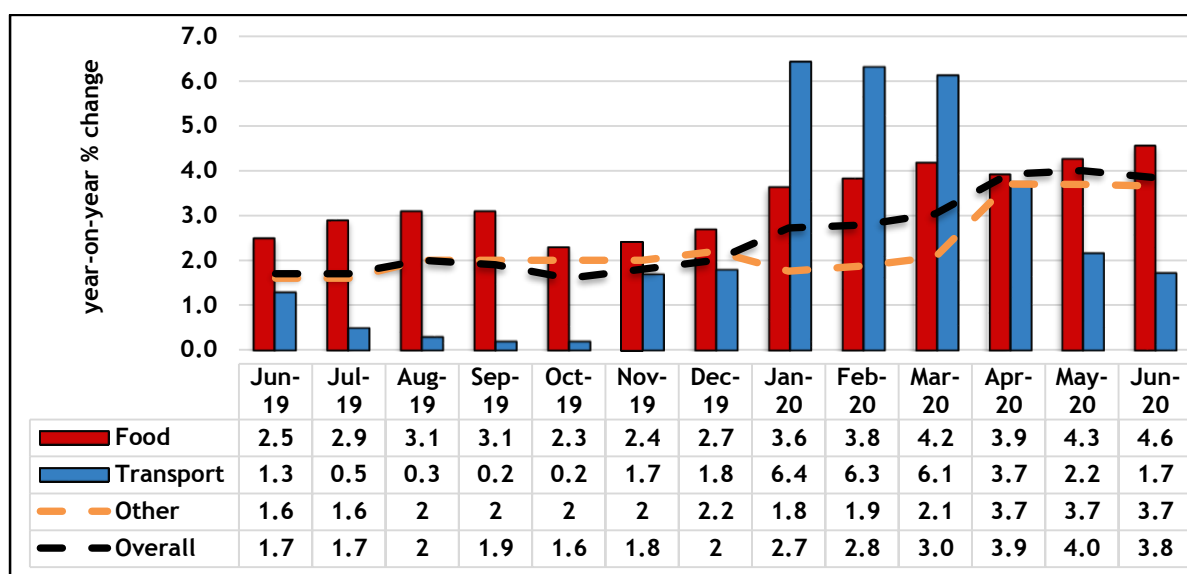
## 1 PRICE DEVELOPMENTS

The headline consumer inflation slightly moderated to 3.8 per cent in June 2020 compared to 4.0 per cent in May 2020. This was mainly driven by slower increases in the price indices for ‘transport’ and ‘furnishing and household equipment’. Transport inflation continued on a downward trajectory, declining to 1.7 per cent in June 2020 from 2.2 per cent in the previous month benefitting from relatively lower fuel prices in the period under review as well as decreases in prices of spare parts and accessories for transport equipment. The index for ‘furnishing and household equipment’ declined to 1.6 per cent in June 2020, down from 2.8 per cent in May 2020. This was due to a drop in the prices for ‘household equipment’ and ‘household textiles’. Additional deflationary pressures emanated from the price indices for ‘communications’ and ‘miscellaneous goods and services’, which decreased by 0.2 and 1.1 percentage points, respectively.

On the contrary, there was a modest increase in the price index for ‘food and non-alcoholic beverages’, ‘alcoholic beverages’ and ‘clothing and footwear’. Food inflation grew by 4.6 per cent in June 2020 from 4.3 per cent in the previous month, owing to increases in the prices for ‘bread and cereals’, ‘sugar’ and ‘other food products’ in the consumer basket. On the other hand, the index for ‘alcoholic beverages’ and ‘clothing and footwear’ increased by 0.4 of a percentage point to 2.2 and 1.3 per cent, respectively in the period under review.

On month-on-month, consumer inflation recorded a deflation of 0.1 per cent in June 2020, from a 0.1 per cent growth in May 2020. Slower increases were observed in the price indices for ‘transport’ and ‘furnishing and household equipment’, which declined by 0.4 and 0.9 percentage points, respectively, during the period under review. The above decreases were counteracted by modest increases in the price indices for ‘food and non-alcoholic beverages’, ‘health’ and ‘recreation and culture’.

Figure 1: Inflation Trends: June 2019 to June 2020



Source: Central Statistical Office and Central Bank of Eswatini

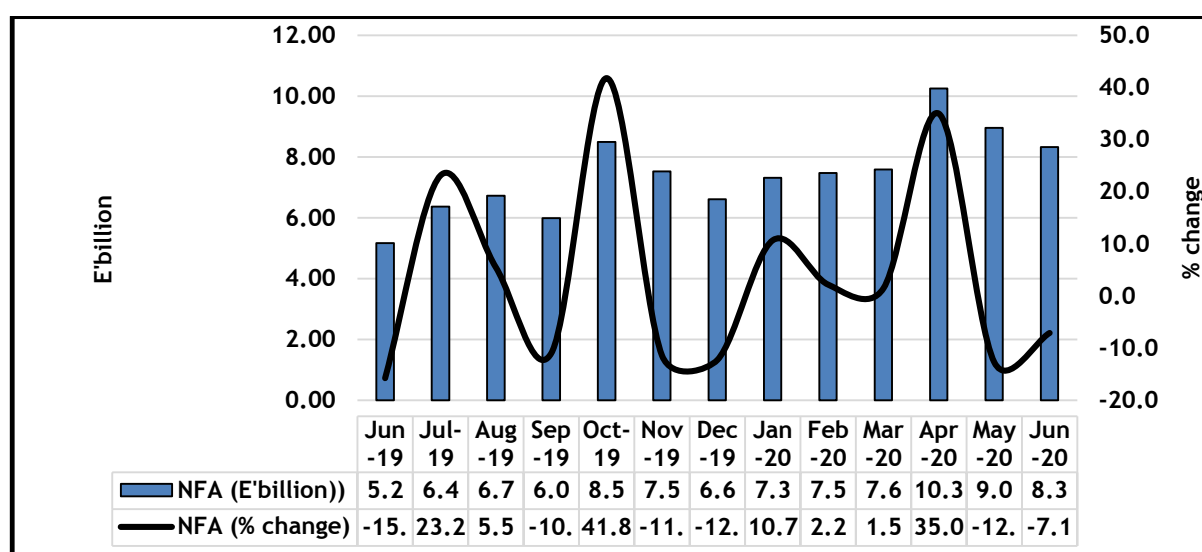
## 2 MONEY SUPPLY AND BANKING DEVELOPMENTS

Net foreign assets depicted a month-on-month decrease of 7.1 per cent and growth of 53.1 per cent over the year, to close at E8.3 billion at the end of June 2020, down from E9.0 billion observed in May 2020. In special drawing rights (SDRs), net foreign assets contracted by 6.6 per cent to settle at SDR348.9 million at the end of June 2020, lower than the SDR373.5 million recorded in May 2020. The decline was registered in net foreign assets of the official sector offsetting growth depicted in other depository corporations.

Net official foreign assets amounted to E5.7 billion at the end of June 2020, representing a 13.0 per cent decline compared to E6.5 billion recorded in May 2020. The monthly reduction was, to a large extent, on account of payment of government's budgetary commitments. On the other hand, Net foreign assets of other depository corporations amounted to E2.6 billion at the end of June 2020, depicting an expansion of 9.1 per cent from May 2020. Growth was attributed to an increase in other depository corporations' holdings of foreign investments over the review month.

RED - June/July 2020

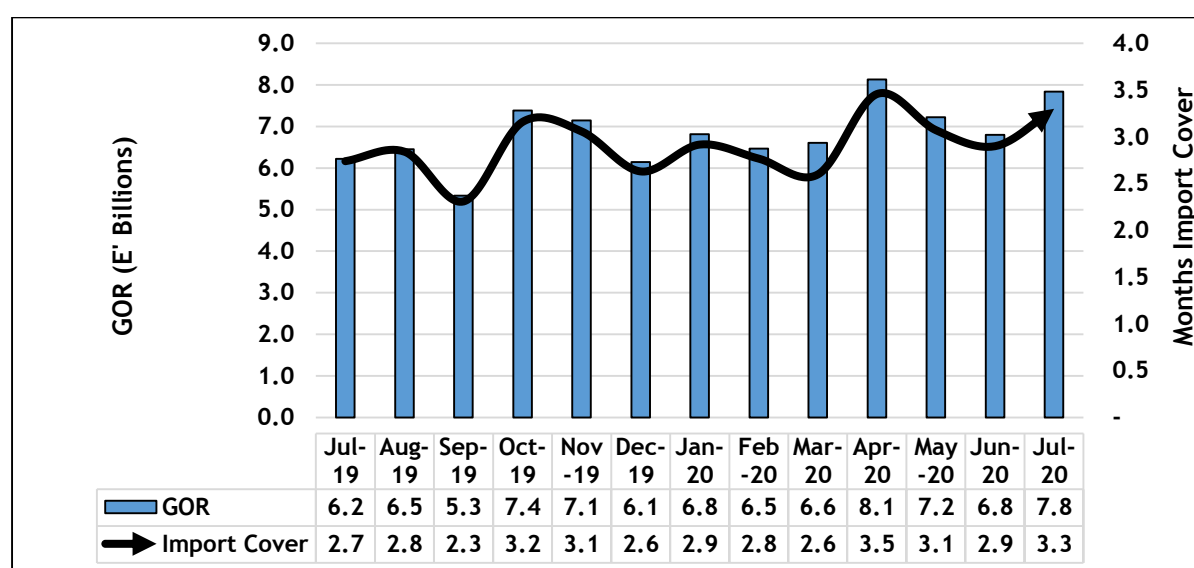
Figure 2: Net Foreign Assets Monthly Changes: June 2019 to June 2020



Source: Other Depository Corporations and Central Bank of Eswatini

Gross official reserves stood at E7.8 billion at the end of July 2020 reflecting growth of 14.6 per cent from June 2020 and 25.8 per cent over the year. The increase in reserves mainly emanated from the quarterly Southern African Customs Union (SACU) receipts at the beginning of July 2020. Consequently, the import cover went up from 2.9 months in June 2020 to 3.3 months at the end of July 2020. When valued in special drawing rights (SDRs), the reserves amounted to SDR325.7 million at the end of July 2020, reflecting a month-on-month improvement of 13.8 per cent.

Figure 3: Gross Official Reserves and Import Cover: July 2019 to July 2020



Source: Central Bank of Eswatini

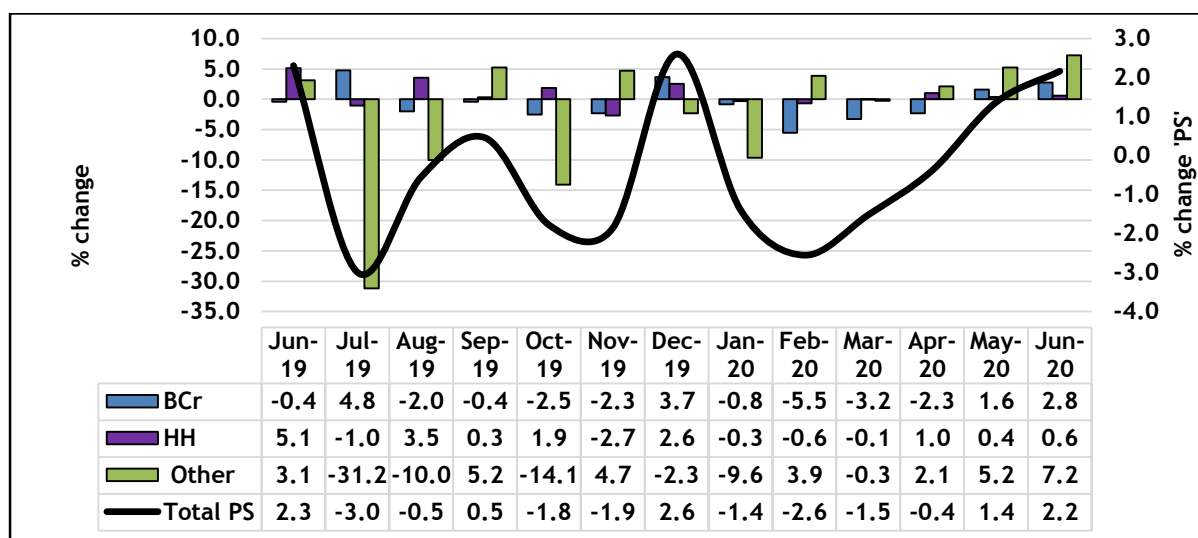
## RED - June/July 2020

Credit extended to the private sector rose by 2.2 per cent month-on-month but fell by 6.4 per cent over the year to close at E14.5 billion at the end of June 2020. The monthly increase was observed in all components of private sector credit namely, credit to other sectors, businesses and households & non-profit institutions serving households (NPISH).

Credit extended to businesses grew by 2.8 per cent from May 2020 but fell by 6.6 per cent annually to settle at E6.4 billion at the end of June 2020. The increase was recorded in the following subsectors; distribution & tourism (10.7 per cent), construction (4.9 per cent), manufacturing (3.5 per cent), agriculture & forestry (1.4 per cent), transport & communication (0.8 per cent) as well as the real estate (0.6 per cent). A decline was however, observed in credit to community, social & personal services sector (-0.6 per cent).

Credit extended to other sectors reached E1.4 billion at the end of June 2020, reflecting a month-on-month growth of 7.2 per cent and a contraction of 38.2 per cent annually. The improvement was attributed to credit to other financial corporations and public non-financial corporations which, grew by 12.7 per cent and 0.4 per cent, respectively. The expansion was partly dampened by a fall in credit to local government, which declined by 3.7 per cent.

Figure 4: Private Sector Credit Monthly Changes: June 2019 to June 2020



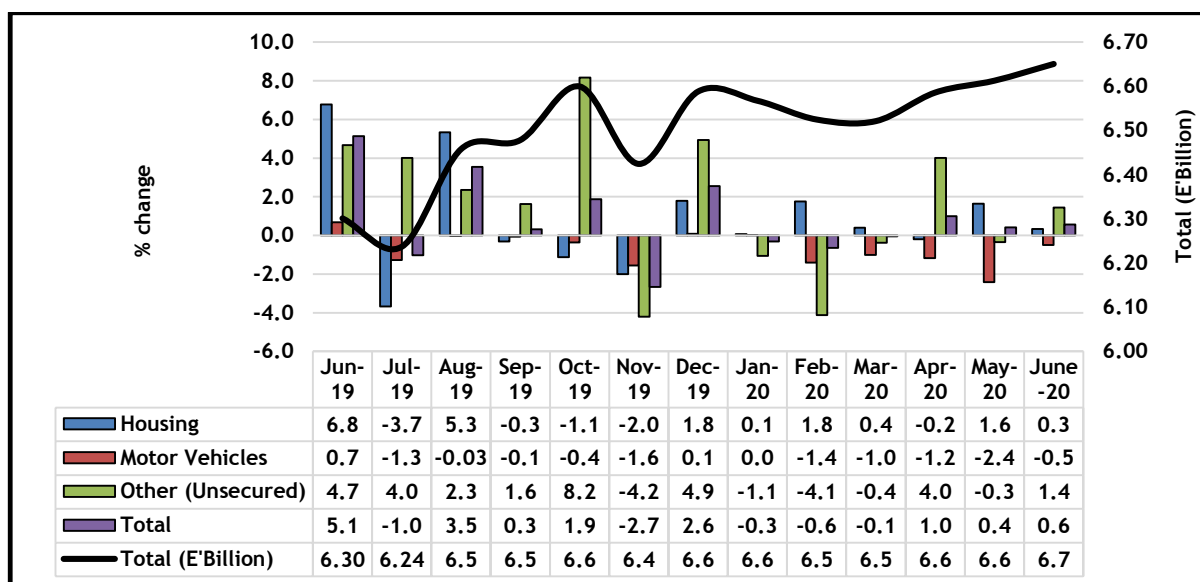
Source: Central Bank of Eswatini (BCr: Business Credit HH: Household Credit PS: Private Sector Credit)

Credit extended to households & NPISH amounted to E6.7 billion at the end of June 2020, depicting a month-on-month growth of 0.6 per cent and 5.6 per cent over the year. The month-on-month increase was on account of other (unsecured) loans and mortgage finance whilst motor vehicle finance contracted. Notably, other (unsecured) loans expanded by 1.4 per cent to E2.2 billion whilst mortgage finance rose by 0.3 per cent to

## RED - June/July 2020

reach E3.6 billion. Motor vehicle finance on the contrary, declined by 0.5 per cent to E917.8 million at the end of June 2020.

Figure 5: Household Credit Monthly Changes: June 2019 to June 2020



Source: Central Bank of Eswatini and Other Depository Institutions

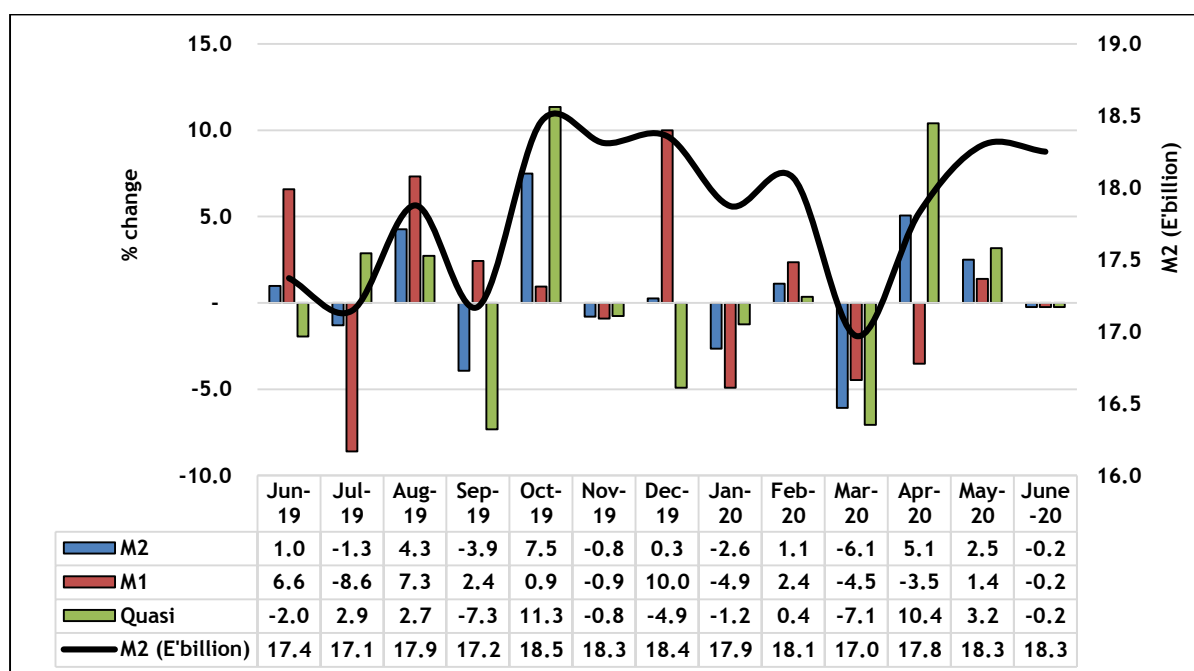
Broad money supply (M2) depicted a reduction of 0.2 per cent from May 2020, but grew by 5.0 per cent over the year to settle at E18.25 billion at the end of June 2020. The month-on-month decline was registered in both components of M2, narrow money supply (M1) and quasi money supply.

Narrow money supply (M1) amounted to E6.3 billion at the end of June 2020 reflecting a month-on-month decline of 0.2 per cent and growth of 0.3 per cent annually. The monthly reduction in M1 was driven by transferable (demand) deposits which declined by 0.4 per cent to E5.5 billion over the month under review. Emalangeni outside depository corporations on the other hand, rose by 1.0 per cent to close at E810.2 million at the end of June 2020.

Quasi money supply decelerated by 0.2 per cent over the review month and increased by 7.7 per cent year-on-year to close at E11.9 billion at the end of June 2020. The decrease was observed in time deposits which fell by 0.3 per cent to close at E9.9 billion at the end of June 2020. Savings deposits however, improved by 0.1 per cent to reach E2.0 billion over the month under review.

RED - June/July 2020

Figure 6: Money Supply Monthly Changes: June 2019 to June 2020



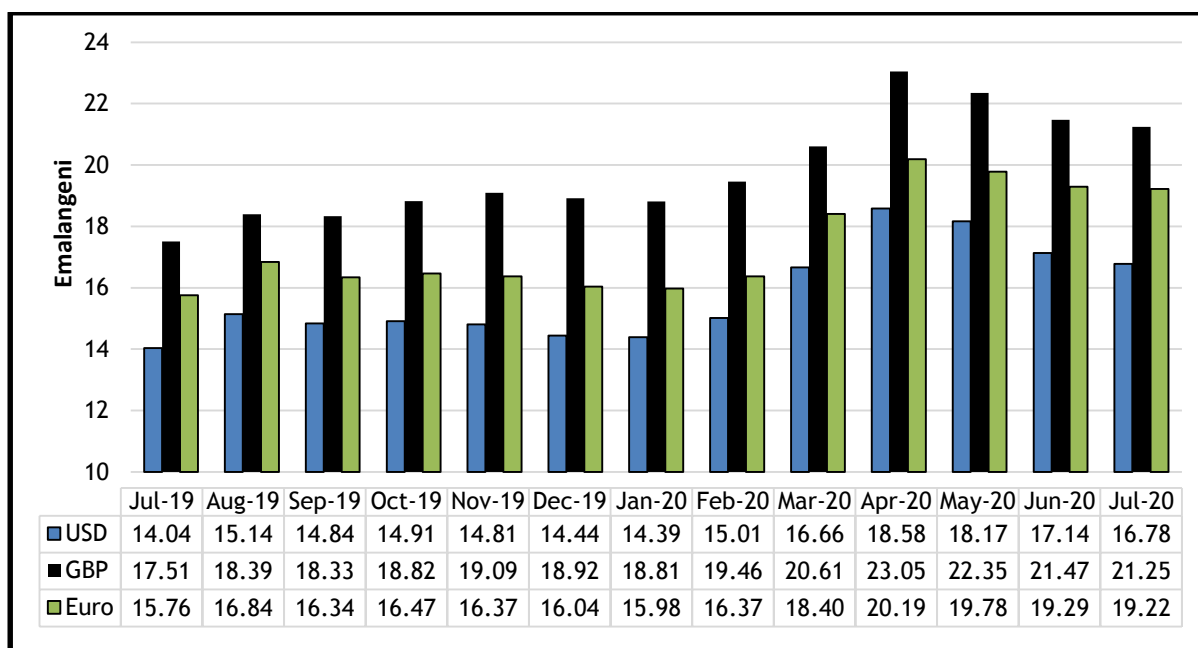
Source: Other Depository Institutions and Central Bank of Eswatini

Net claims on government by the banking sector depicted an expansion of 18.2 per cent when compared with May 2020 but fell by 20.7 per cent over the year to settle at E1.9 billion at the end of June 2020. The increase was mainly driven by a rise of 7.8 per cent in claims on government whilst government deposits increased by 4.0 per cent at the end of June 2020.

During the month of July 2020, the Lilangeni/Rand exchange rate extended its recovery against the major external currencies. By the end of the month, the local unit was trading below the E17 per US dollar-mark outweighing some of its previous losses. The persistent strengthening in the Rand is on account of a generally weaker US Dollar, which is driven by high uncertainty about the global economy. The rise in coronavirus infections in the U.S which, is threatening to dampen growth and keep interest rates at their lowest has augured well for the Rand. Consequently, the US dollar experienced pressure as investors turned to gold as a safe-haven. With the South African treasury yields on the upside and outperforming those of developed economies, the Rand further got impetus and sprung into positive territory reflecting a general recovery in global risk appetite. When compared against the US Dollar, the Lilangeni strengthened by 2.1 per cent up from the E17.14 monthly average recorded in June 2020. It also edged higher against the Pound Sterling and the Euro by 1.0 per cent and 0.4 per cent to close the month of July 2020 at averages of E21.25 and E19.22, respectively.



Figure 7: Average Exchange Rates: July 2019 to July 2020.



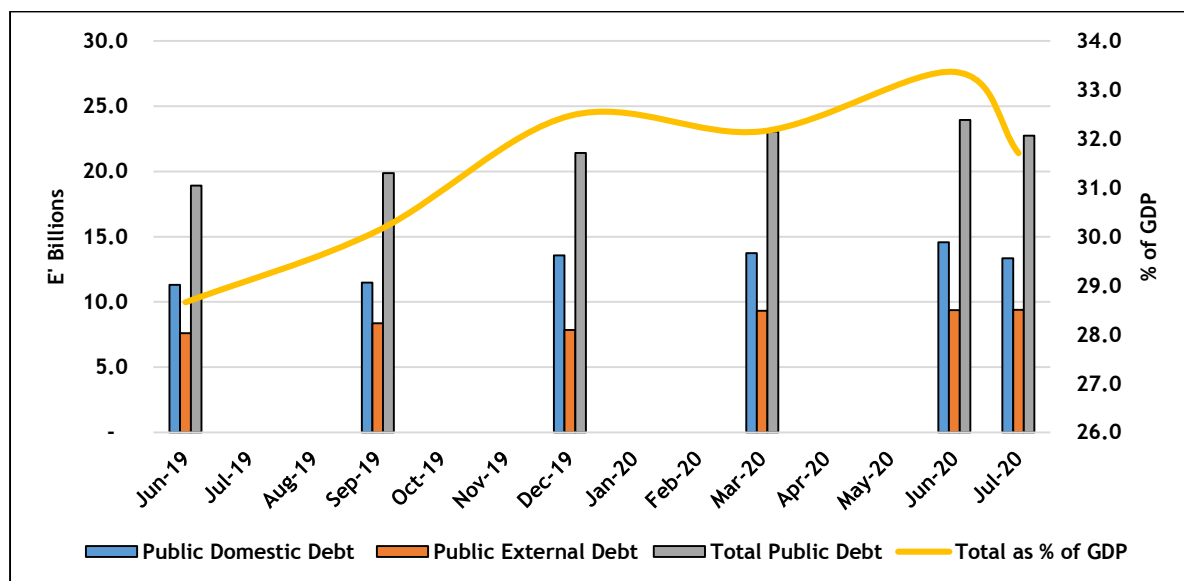
Source: Central Bank of Eswatini

Despite the Rand/Lilangeni's continued rally against the major currencies in the month, there was a subsequent depreciation, which limited any significant gains. The reversal of the appreciation was largely in line with the poor second quarter gross domestic product in South Africa and the threat of the renewal of the US-China trade war debacle which pose as a threat to emerging market economies regional trade for South Africa (hence Rand performance). On a year-on-year basis, the Rand/Lilangeni remained weaker by 14.9 per cent but much higher than the annualized 17.4 per cent depreciation recorded for June 2020, especially against the US Dollar. The local unit ended the review period trading at E16.73 to the US Dollar, E19.92 to the Euro and at E21.99 to the Pound Sterling.

### 3 TOTAL PUBLIC DEBT

Eswatini's total public debt stock stood at E22.7 billion at the end of July 2020, an equivalent of 31.7 per cent of GDP. This shows a decrease of 5 per cent when compared to E23.9 billion recorded in June 2020 mainly driven by decline in domestic debt. Public external debt stands at E9.4 billion as at end of July 2020, an equivalent of 13.1 per cent to GDP. This shows that external debt has remained constant over the past months as no repayments and disbursements were recorded.

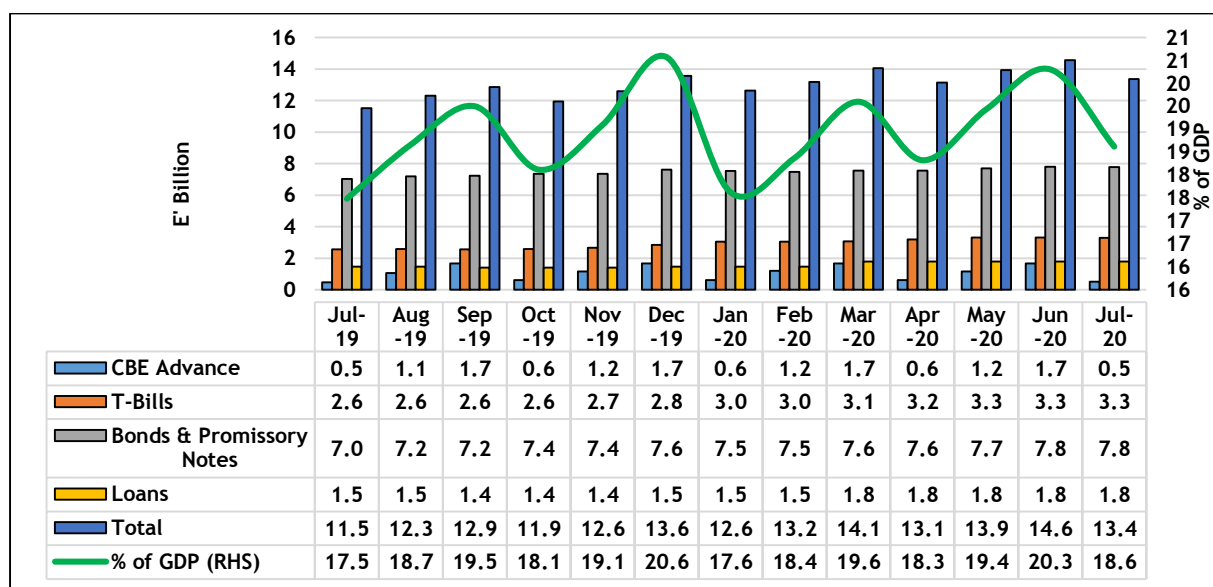
Figure 8: Total Public Debt: June 2019 to July 2020



Source: Ministry of Finance and Central Bank of Eswatini

Outstanding public domestic debt stood at E 13.4 billion at the end of July 2020, an equivalent of 18.6 per cent to GDP. This shows a decrease of 8.2 per cent from E14.6 billion recorded in June 2020. The decrease is due to repayment of the Central Bank of Eswatini advance by government during the month of July 2020 as well as maturing of two suppliers' bonds.

Figure 9: Total Domestic Debt: June 2019 to June 2020



Source: Ministry of Finance and Central Bank of Eswatini

During the month of June 2020, the Central Bank extended an additional advance of E510 million to government, bringing the total advance amount to its ceiling of E1.66 billion. 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 July 2020**

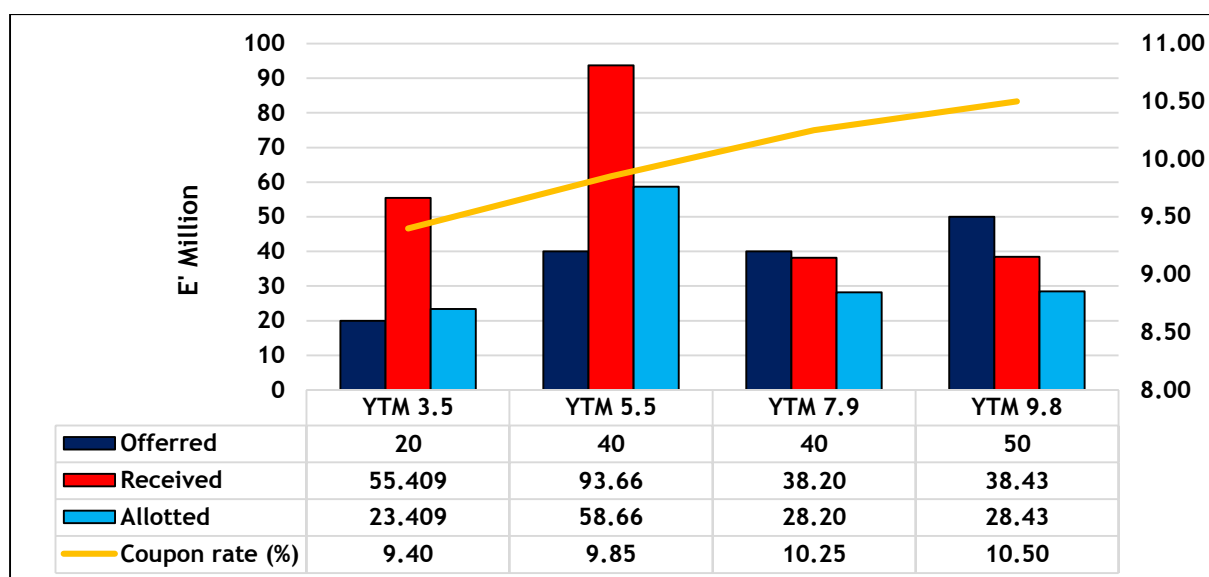
(E' Million)

Holder	Treasury Bills	Government Bonds	Promissory Notes	CBE Advance	Total	Share of Holdings (%)
CBE	2.7	1,298.9	0	500.0	1,801.6	15.6
Commercial banks	2,218.5	902.6	0	0	3,121.1	27.0
NBFIs	945.5	4,590.8	0	0	5,536.3	47.9
Other	127.9	824.1	154.1	0	1,106.0	9.6
	3,294.6	7,616.3	154.1	500.0	11,565.0	100

Source: Central Bank of Eswatini

During the month of July 2020, two Suppliers' bonds amounting to E160 million reached maturity. Over the same period, the Central Bank on behalf of the Government re-opened four bonds. In total, an amount of E150 million was on offer where E225.7 million was received in bids and E138.7 million was allotted, resulting in an allotment ratio of 92.5 per cent.

**Figure 10: Multiple Bond Auction Summary**



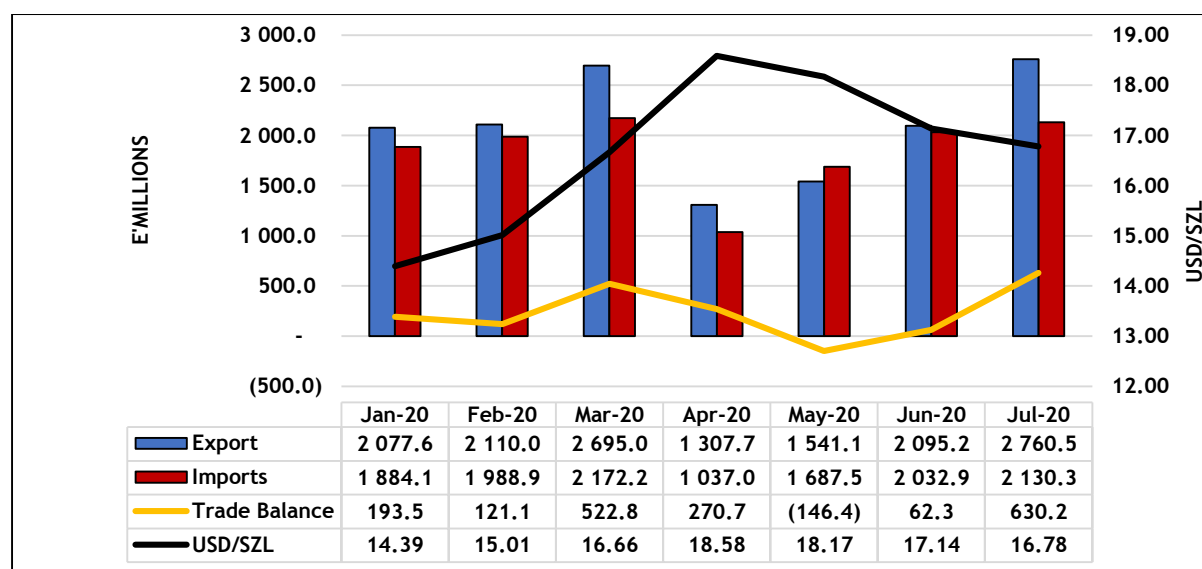
Source: Central Bank of Eswatini

#### 4 THE EXTERNAL SECTOR

In the month of July 2020, the country's merchandise trade balance exhibited significant signs of recovery as COVID-19 restrictions continued to be relaxed. In the month of July 2020, Eswatini registered a trade surplus amounting to E630.2 million, which marked a significant rise from a surplus of the E62.3 million recorded in the previous month as the country returned to its pre-COVID-19 trade levels. Exports sales increased significantly by 31.8 per cent month-on-month to E2.761 billion, while the import bill for the same period increased marginally by 4.8 per cent to E2.130 billion.

Cumulative trade figures indicate that export sales to date are closing the gap on income generated in the first seven months of the previous year, as they now lag by a marginal 3.3 per cent, to settle at E14.587 billion. On the other hand, cumulative imports lag the previous year by 7.7 per cent, at E12.933 billion. The cumulative trade surplus recorded E1.654 billion, depicting a 54.2 per cent increase relative to the previous year, due to a stronger than expected recovery of exports from the lockdown aimed at curbing the pandemic.

Figure 11: Merchandise Trade Account; January 2020 to July 2020.



Source: Central Bank of Eswatini

Export sales reflected a year-on-year increase of 16.8 per cent, which is attributed to a 21.3 per cent increase in exports of 'Sugar and sugar products'. Additional sugar contracts to supply abroad secured in April 2020 coupled with the depreciation of the lilangeni against major currencies contributed to the rise in sugar and related product exports. However, month-on-month sugar export earnings declined by 12.9 per cent, to E732.8 million. Sales from 'Soft drink concentrates' increased by a notable 44.0 per cent month-on-month, to register E867.3 million. Low base effects contributed to this significant hike, whilst declining

## RED - June/July 2020

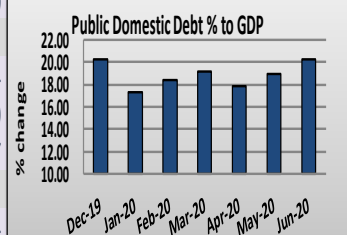
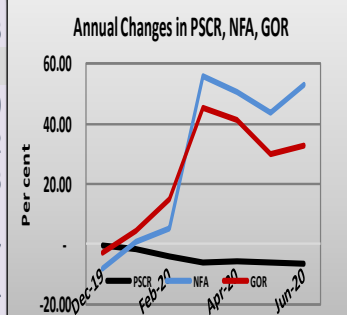
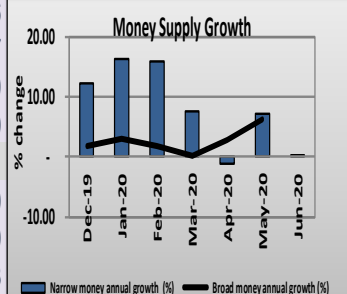
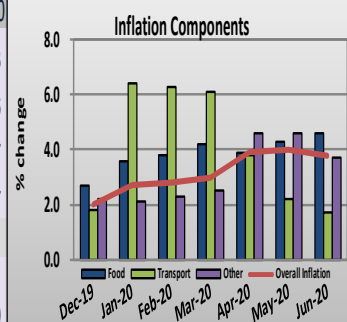
by 16.8 per cent on a year-on-year basis. Textile goods sold abroad increased considerably by 25.0 per cent month-on-month to E299.3 million, despite undergoing a year-on-year decline of 10.6 per cent. 'Wood and wood products' exports increased by 11.0 per cent month-on-month due to a low base effect, while increasing marginally by 2.9 per cent on a year-on-year basis.

The import bill declined by 2.4 per cent year-on-year, as 'Fuel products and electrical energy' remained the country's leading import, with a month-on-month increase of 4.6 per cent to E321.0 million. On a year-on-year basis, this class of goods declined by a notable 24.6 per cent, due to a fall in demand for fuel, as cross-border travel continues to be partially restricted. Imports of 'Textile inputs' increased by 26.8 per cent month-on-month to E238.5 million, due to a low base effect and at the same time, spiked by 16.8 per cent on a year on-year basis, due to a need to supply textile outputs abroad by the end of September 2020 - when existing contracts become due for renewal. 'Machinery, appliances and electrical equipment,' imports increased by 5.5 per cent month-on-month to E215.6 million, while remaining relatively flat on a year-on-year basis. 'Vehicles and other transport means' imports increased slightly by 1.7 per cent month-on-month to E113.6 million, despite dipping by 17.6 per cent on a year-on-year basis, due to a 14.8 per cent decline in vehicles and parts purchased abroad.



## RED - June/July 2020

Economic Policy, Research and Statistics Department							
Kingdom of Eswatini Economic Indicators at a glance							
Sectors	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
<b>Overall Inflation</b>	2.0	2.7	2.8	3.0	3.9	4.0	3.8
Food	2.7	3.6	3.8	4.2	3.9	4.3	4.6
Transport	1.8	6.4	6.3	6.1	3.8	2.2	1.7
Other	2.2	2.1	2.3	2.5	4.6	4.6	3.7
<b>Money and banking</b>							
Narrow money annual growth (%)	12.22	16.28	15.97	7.63	-1.18	7.17	0.31
Broad money annual growth (%)	1.72	2.94	1.85	0.25	2.88	6.30	5.00
Domestic credit (net) - E' Million	18,151.27	17,338.96	17,310.80	16,324.09	14,692.87	15,737.16	16,332.26
Government	3,339.77	2,733.13	3,077.48	2,306.89	729.25	1,583.04	1,871.67
<b>Private sector</b>	14,811.50	14,605.83	14,233.32	14,017.20	13,963.62	14,154.12	14,460.59
Private sector credit annual growth (%)	-0.40	-1.67	-3.89	-6.28	-5.87	-6.27	-6.40
<b>Interest rates (% p.a)</b>							
Prime lending	10.00	10.00	10.00	9.00	8.00	7.50	7.50
Discount rate	6.50	6.50	6.50	5.50	4.50	4.00	4.00
Deposit rate - 31 days	3.18	3.18	3.18	2.75	1.99	1.43	1.43
- 12 months	3.74	3.74	3.74	3.52	2.93	2.59	2.59
- T. bill rate	7.64	7.82	7.80	7.61	6.54	5.68	5.23
<b>Ratios</b>							
Liquidity ratio (required = 20 %)	36.66	37.13	36.93	35.07	36.90	37.85	36.90
Loans/deposits ratio	75.97	76.70	74.75	77.82	72.92	73.47	71.02
Net foreign assets (E'million)	6,609.96	7,156.85	7,482.88	7,597.20	9,835.63	8,957.81	8,325.88
<b>Annual % change in NFA</b>	-7.93	0.88	5.16	55.83	50.80	43.55	53.11
Gross official foreign reserves E'Millions	6,143.86	6,653.26	6,464.33	6,605.33	8,129.84	7,270.28	6,830.07
<b>Annual % change in GOR</b>	-2.81	4.52	14.88	45.52	41.34	30.01	32.84
In months of import cover	2.63	2.85	2.78	2.81	3.46	3.09	2.90
<b>Exchange Rates</b>							
US\$	14.44	14.39	15.01	16.66	18.58	18.17	17.14
EURO	16.04	15.98	16.37	18.40	20.19	19.78	19.29
GBP	18.92	18.81	19.46	20.61	23.05	22.35	21.47
<b>Public Finance</b>							
Total public domestic debt [E' million]	13,562.52	12,641.27	13,178.67	13,732.30	12,816.77	13,602.30	14,565.44
As a % of GDP	20.23	17.34	18.37	19.14	17.87	19.00	20.30



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