

Recent Economic Developments

MAY/JUNE 2020



CENTRAL BANK OF ESWATINI
Umntsholi Wemaswati



MAJOR HIGHLIGHTS

<ul style="list-style-type: none"> 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. 	Quarterly GDP (% y/y)	6.5 (Mar) ▼
<ul style="list-style-type: none"> Headline inflation continued on a steady upward trajectory, increasing to 4.0 per cent in May 2020, from 3.9 per cent in April 2020. 	Inflation rate (% y/y)	4.0 (May) ▲
<ul style="list-style-type: none"> The discount and subsequently the prime lending rates were cut in May 2020 by 50 basis points. 	Prime Lending (%)	7.50 ▼
	Discount rate (%)	4.00 ▼
<ul style="list-style-type: none"> In the month of June 2020, the Lilangeni/Rand exchange rate strengthened against the major trading currencies. 	Exchange rate (US\$)	17.14 (June) ▲
<ul style="list-style-type: none"> Credit extended to the private sector grew by 1.4 per cent month-on-month to settle at E14.2 billion at the end of May 2020. 	Private Sector Credit (% m/m)	1.4 (May) ▲
<ul style="list-style-type: none"> Broad money supply (M2) reached E18.3 billion at the end of May 2020, 2.5 per cent higher than in April 2020. 	Broad Money (M2) (% m/m)	2.5 (May) ▲
<ul style="list-style-type: none"> Gross official reserves amounted to E6.8 billion at the end of June 2020 depicting a decrease of 6.1 per cent compared to last month. 	Reserves (months of import cover)	2.9 (June) ▼
<ul style="list-style-type: none"> Preliminary figures reveal that total debt stock stood at E23.9 billion at the end of June 2020, an equivalent of 33.4 per cent of GDP. 	Total Domestic Debt (% of GDP)	33.4 (June) ▲
<ul style="list-style-type: none"> Eswatini recorded a trade surplus E89.2 million, a turnaround from the trade deficit of E146.4 million registered in May 2020. 	Trade Balance (% of GDP)	0.12 (June) ▲

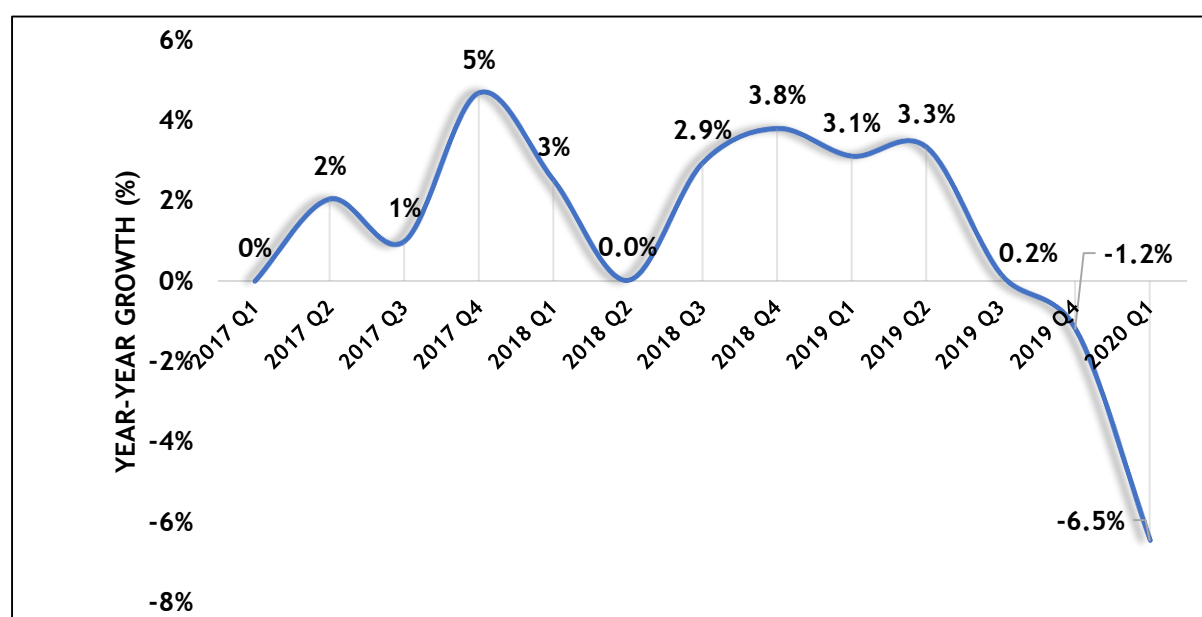
NB: The table shows the most recent available data.

1 GDP DEVELOPMENTS

New quarterly national accounts data released by the Central Statistics Office (CSO) indicate that the economy recorded a technical recession in the first quarter of 2020. Economic activity, as measured by the seasonally adjusted Quarterly Gross Domestic Product (QGDP), fell by 6.5 per cent on a year-on-year basis, 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 in the first quarter of 2020 from a 0.3 per cent increase in the fourth quarter of 2019.

Poor performance of the secondary sector was largely accountable for the observed slump in overall economic activity. The secondary sector contracted by a significant 19.3 per cent, year-on-year, in the quarter ended March 2020 owing to weak 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. The output for electricity supply decreased due to a 16.4 per cent decline in hydro-power generation. 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 per cent, year-on-year, in the first quarter of 2020 from a 21 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

Growth in the tertiary sector was subdued recording 0.1 per cent, in the first quarter of 2020 mainly due to a significant slowdown in tourism related activities largely reflective of the first round effects of the COVID-19 pandemic. Other sectors that suffered from weak demand were ‘wholesale and retail trade’ and ‘professional services’.

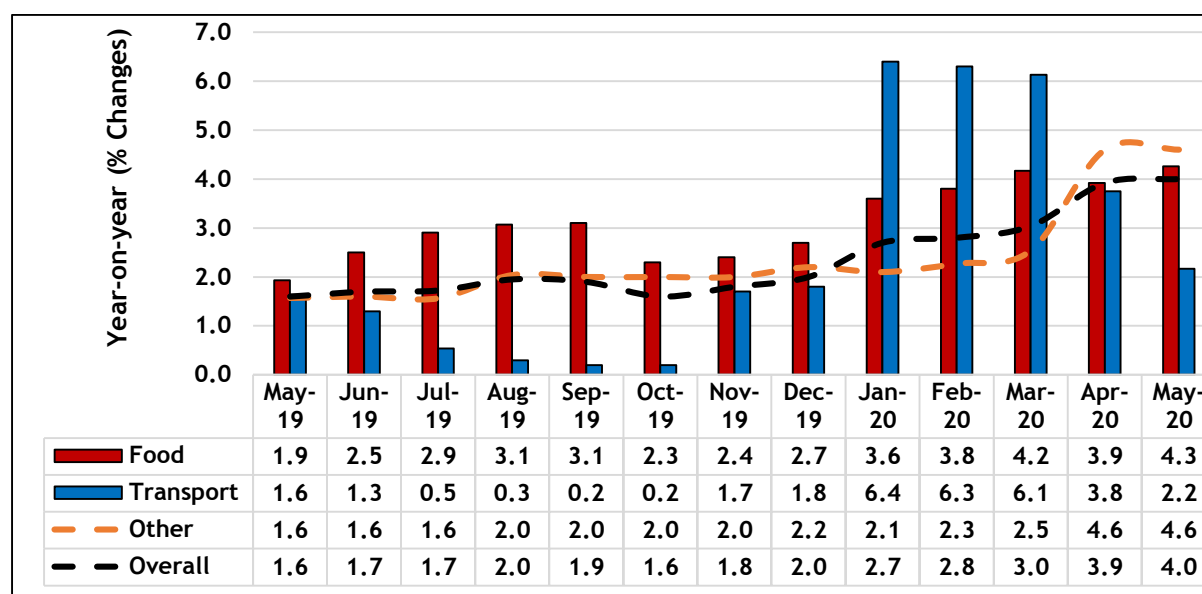
2 PRICE DEVELOPMENTS

Headline consumer inflation continued on a steady upward trajectory, increasing to 4.0 per cent in May 2020, from 3.9 per cent in April 2020. Inflationary pressures were mainly observed in food prices. Food inflation rose to 4.3 per cent in May 2020 compared to 3.9 per cent in April 2020, owing to increases in the prices of ‘fruits’ and ‘rice and other cereals’. The increase in the prices of cereals can be mainly attributed to supply disruptions triggered by the COVID-19 outbreak, which has affected trade supplies and increased demand for essential products such as basic food items like cereals of which the country is a net importer. The increase in the prices of fruits, on the other hand, prospectively benefited from increased demand for Vitamin C products (mainly fruits), which has heightened as a preventive measure during the coronavirus outbreak. Additional modest inflationary pressures were observed in the price indices for ‘furnishing and household equipment’ and ‘miscellaneous goods and services’. Increases were also observed in the indices of ‘furnishing and household equipment’ and ‘miscellaneous goods and services’.

The above increases were partially offset by the decreasing rates of growth in the price indices for ‘transport’ and ‘restaurants and hotels’. Favourable international oil prices in the opening three months of 2020 resulted in a further reduction in domestic fuel prices of 100 cents per litre effected in May 2020. As a result, transport inflation slowed to 2.2 per cent in the month under review, from 3.7 per cent in the previous month. On the other hand, the negative effect of the COVID-19 pandemic on the hospitality industry resulted in a moderation in the growth rates for the price index for ‘restaurants and hotels’, which declined by 1.0 percentage point to 1.4 per cent in May 2020.

Core inflation, which is CPI excluding volatile items such as food, fuel and energy, decreased to 4.3 per cent in May 2020, from 4.4 per cent in the previous month. On a month-on-month basis, core inflation slowed to a 0.1 per cent deflation in May 2020.

Figure 2: Inflation Trends: May 2019 to May 2020



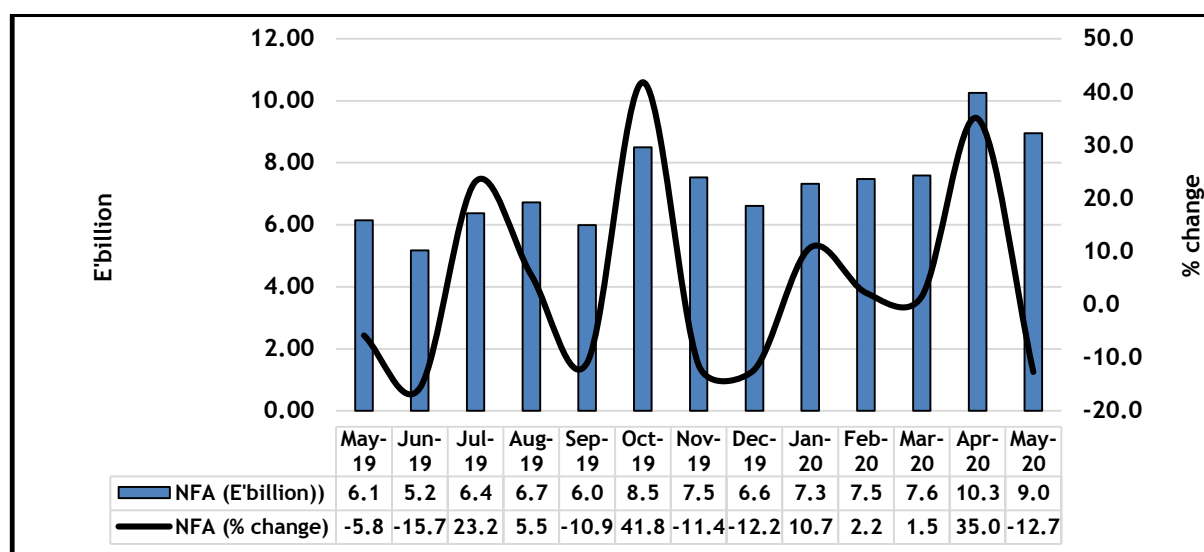
Source: Central Statistical Office and Central Bank of Eswatini

3 MONEY SUPPLY AND BANKING DEVELOPMENTS

The country's net foreign assets settled at E9.0 billion at the end of May 2020 portraying a contraction of 12.7 per cent over the month and a growth of 43.6 per cent over the year. Accounting for the decline were both net official assets and net foreign assets of other depository corporations. Net official assets depicted a 15.1 per cent contraction to close at E6.5 billion over the review month. Owing to the contraction in net official assets was payment of government's budgetary commitments.

Net foreign assets of other depository corporations stood at E2.4 billion at the end of May 2020 reflecting a fall of 5.2 per cent due to a reduction in other depository corporations' balances held abroad as well as their foreign currency holdings. Net foreign assets valued in special drawing rights (SDR) amounted to SDR373.5 million, 9.2 per cent lower than the previous month but 20.7 per cent higher than the previous year.

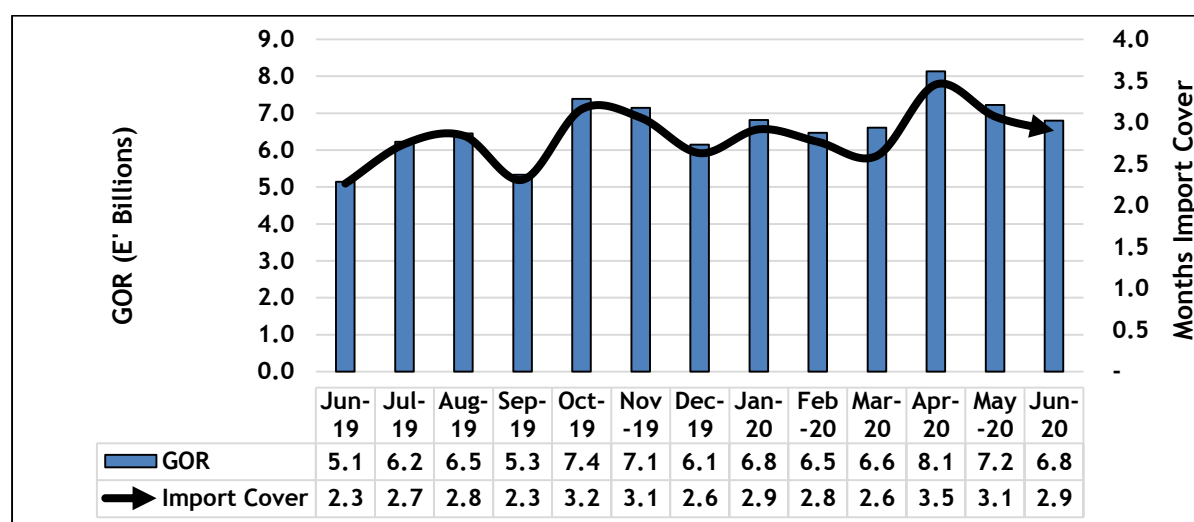
Figure 3: Net Foreign Assets Monthly Changes: May 2019 to May 2020



Source: Other Depository Corporations and Central Bank of Eswatini

Gross official reserves amounted to E6.8 billion at the end of June 2020 depicting a decrease of 6.1 per cent compared to last month and an increase of 32.8 per cent compared to the previous year. Consequently, the estimated import cover of goods and services stood at 2.9 months of imports over the review month, lower than the 3.1 months of import recorded in May 2020. Contributing to the fall was mainly the financing of government's external obligations and the outflow of Rands to local commercial banks over the review month. Valued in SDR, the reserves closed at SDR286.2 million at the end of June 2020 depicting a decline of 5.6 per cent from the previous month and growth of 9.4 per cent from the previous year.

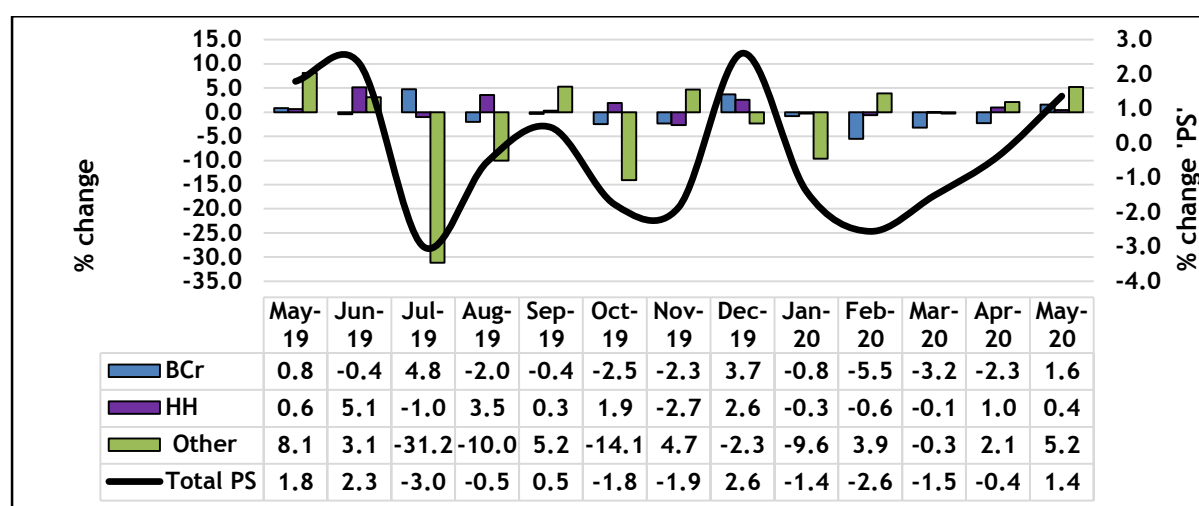
Figure 4: Gross Official Reserves and Import Cover: June 2019 to June 2020



Source: Central Bank of Eswatini

Credit extended to the private sector recorded an increase of 1.4 per cent month-on-month and a decline of 6.3 per cent year-on-year to settle at E14.2 billion at the end of May 2020. All components of credit to the private sector accounted for the monthly increase namely; credit to other sectors, credit to business and, credit to household and non-profit institutions serving households.

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



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

Notably, credit extended to other sectors reflected a month-on-month expansion of 5.2 per cent and a contraction of 40.6 per cent over the year to settle at E1.3 billion at the end of May 2020. The monthly improvement was on account of credit to other financial corporations and credit to local government which increased by 13.6 per cent and 1.6 per cent, respectively. On the other hand, credit to public non-financial corporations fell by 4.2 per cent.

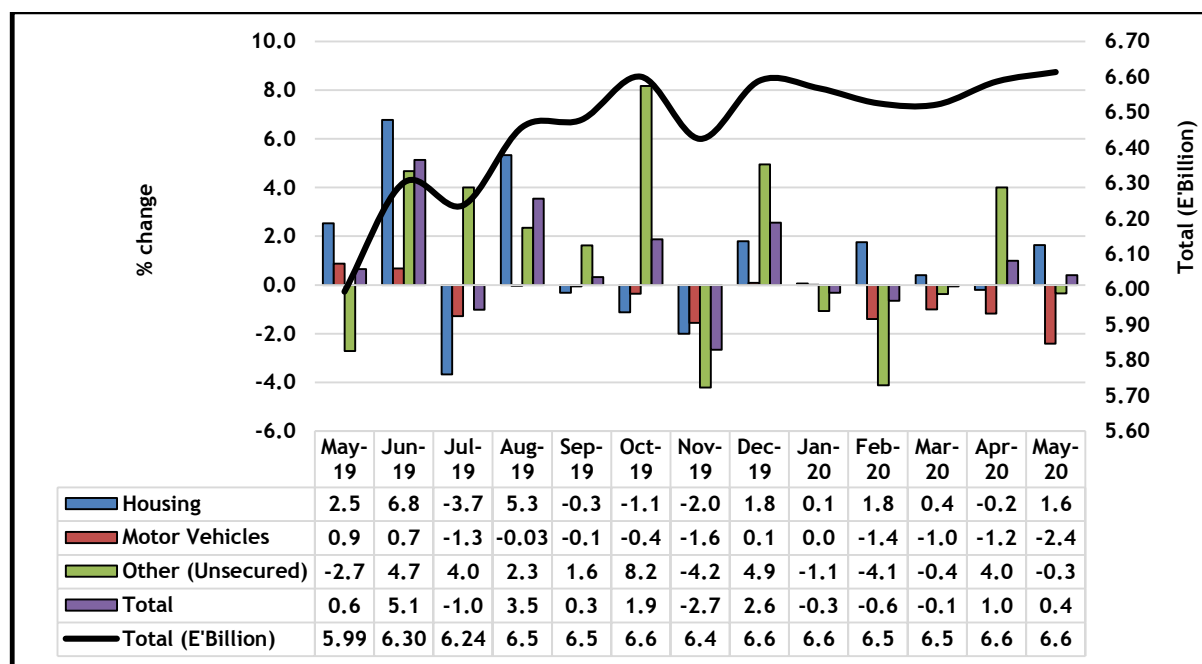
Credit extended to businesses settled at E6.2 billion at the end of May 2020, reflecting growth of 1.6 per cent over the month and a decline of 9.5 per cent over the year. The sectors that contributed to the monthly increase in credit to businesses were namely; manufacturing (9.6 per cent), distribution & tourism (6.8 per cent), community, social & personal services (5.9 per cent) and transport & communication (4.8 per cent). In contrast, a reduction was observed in these sectors; construction (-3.7 per cent), agriculture & forestry (-2.3 per cent), and real estate (-1.2 per cent). Credit to the mining & quarrying sector remained flat.

Credit extended to households & NPISH grew by 0.4 per cent over the month and 10.3 per cent over the year to close at E6.6 billion at the end of May 2020. This development

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was attributed to housing loans, which grew by 1.6 per cent to E3.5 billion over the review month. The increase was partly offset by a decline in credit for motor vehicles (-2.4 per cent) to E922.3 million and credit to other (unsecured) personal loans (-0.3 per cent) to E2.1 billion.

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

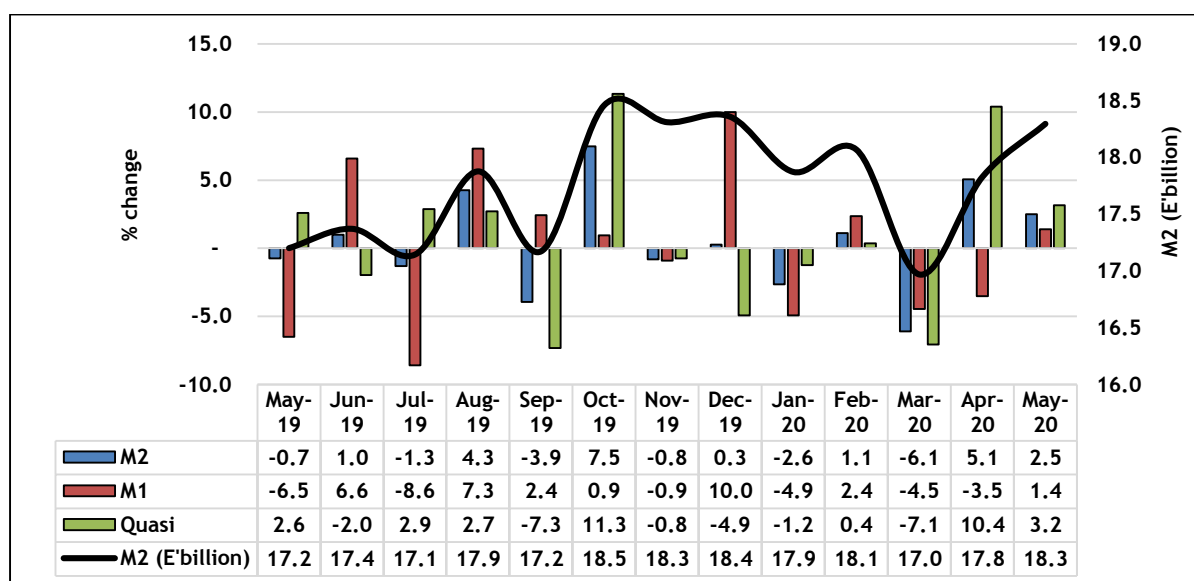


Source: Central Bank of Eswatini and Other Depository Institutions

Broad money supply (M2) reached E18.3 billion at the end of May 2020, 2.5 per cent higher than in April 2020 and 6.3 per cent higher than in May 2019. Increases were observed in both components of M2; quasi money supply and narrow money supply. Quasi money supply expanded by 3.2 per cent over the month and 5.8 per cent over the year to close at E11.9 billion at the end of May 2020. The month-on-month growth was explained by a 3.9 per cent rise in time deposits to close at E9.9 billion. On the contrary, saving deposits fell by 0.4 per cent to close at E2.0 billion over the review month.

Narrow money supply (M1) stood at E6.4 billion at the end of May 2020. At this level, M1 was 1.4 per cent higher month-on-month and 7.2 per cent year-on-year. The monthly increase in M1 was due to both components, Emalangeni outside depository corporations and transferable (demand) deposits, which grew by 5.2 per cent to E801.9 million and 0.9 per cent to E5.6 million respectively.

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

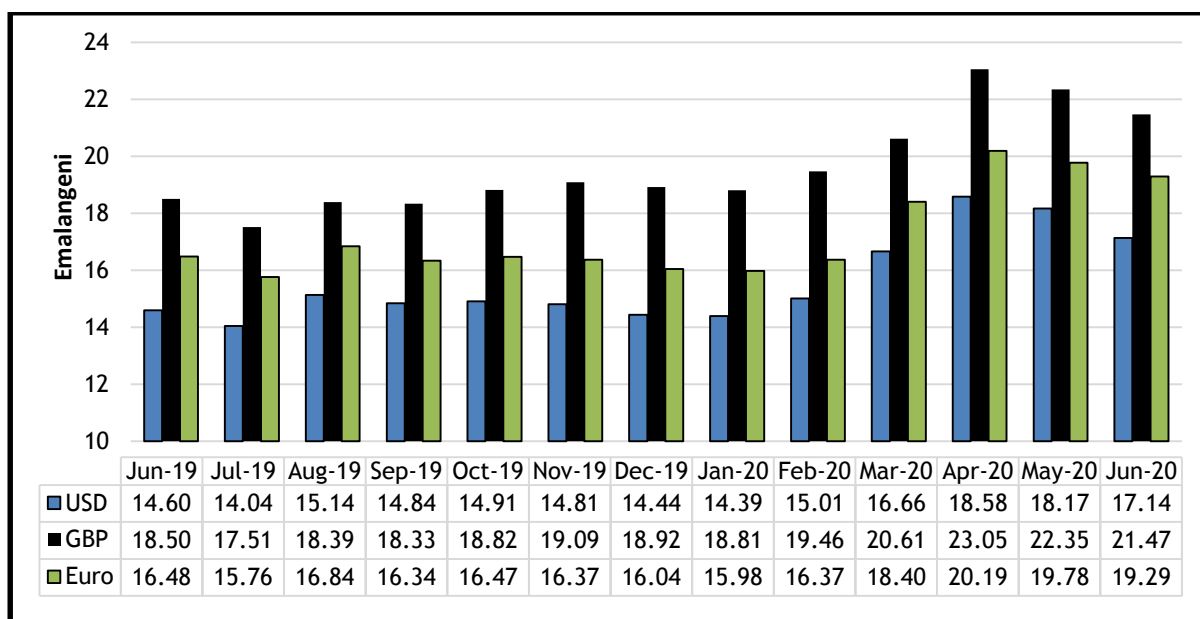


Source: Other Depository Institutions and Central Bank of Eswatini

Net claims on government with the banking system settled at E1.6 billion over the month ended May 2020, reflecting a 118.8 per cent increase month-on-month and a decline of 25.9 per cent year-on-year. Owing to the monthly increase was a 14.6 per cent growth in claims on government whilst government deposits decreased by 2.4 per cent.

During the month of June 2020, the Lilangeni/Rand exchange rate strengthened against the major trading currencies. The Rand along with the Lilangeni rallied as optimism about global growth recovery continues to grow following the easing of coronavirus lockdown restrictions by most countries which prompted massive purchase of emerging market assets. As a result, the South African Treasury Bonds whose yields are higher than those of developed economies became more attractive to investors and exceeded market expectations. In addition, the South African Reserve Bank's commitment to cushion the bond market against any fiscal negative risks, ensured positive investor confidence on the Rand. Compared to the US Dollar, the Lilangeni strengthened by 5.7 per cent up from the E18.17 monthly average recorded in May 2020. It also appreciated against the Pound Sterling and the Euro by 3.9 per cent and 2.5 per cent to close the month of June 2020 at averages of E21.47 and E19.29 respectively. On a year-on-year basis, however, the Lilangeni remained weaker by 17.4 per cent especially against the US Dollar.

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



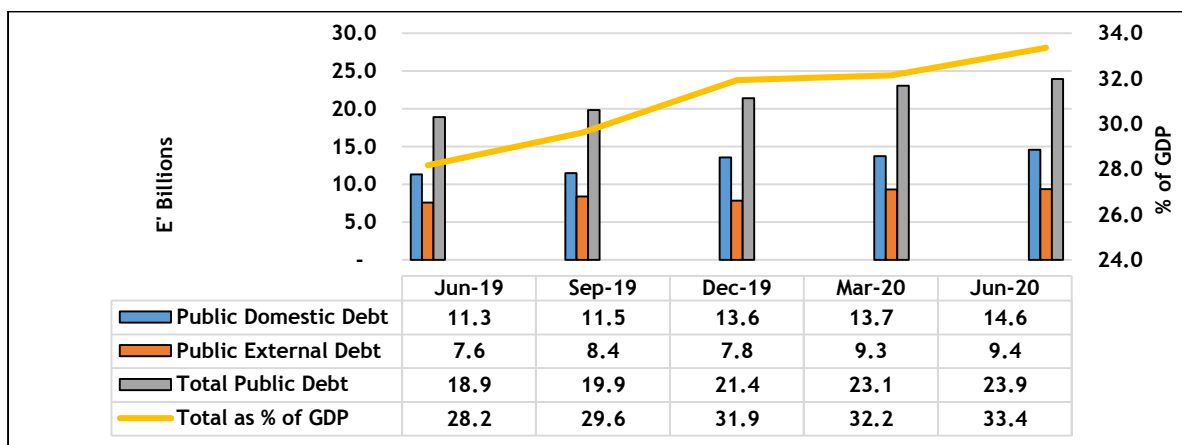
Source: Central Bank of Eswatini

Despite the two months' rally, the local unit is faced with the negative prospect of the US-China trade war as well the negative implications of the coronavirus which have lingered in some sectors of the global economy. Hence, the outlook for the Rand hinges more on the economic outcomes related to the pandemic. The threat of the second-round effects of the COVID-19 will exert further downward pressures on the outlook of the Rand. As at the end of June 2020, the local unit stood at E17.29 to the US Dollar, E21.25 to the Pound Sterling and E19.40 to the Euro.

4 TOTAL PUBLIC DEBT

Preliminary figures show that Eswatini's total debt stock stood at E23.9 billion at the end of June 2020, an equivalent of 33.4 per cent of GDP. This shows an increase of 3.5 per cent when compared to E23.1 billion recorded in May 2020. Public external debt stood at E9.4 billion as at the end of June 2020, an equivalent of 13.1 per cent to GDP. This denotes an increase of 3 per cent when compared to E9.3 billion recorded in the previous quarter ended March 2020.

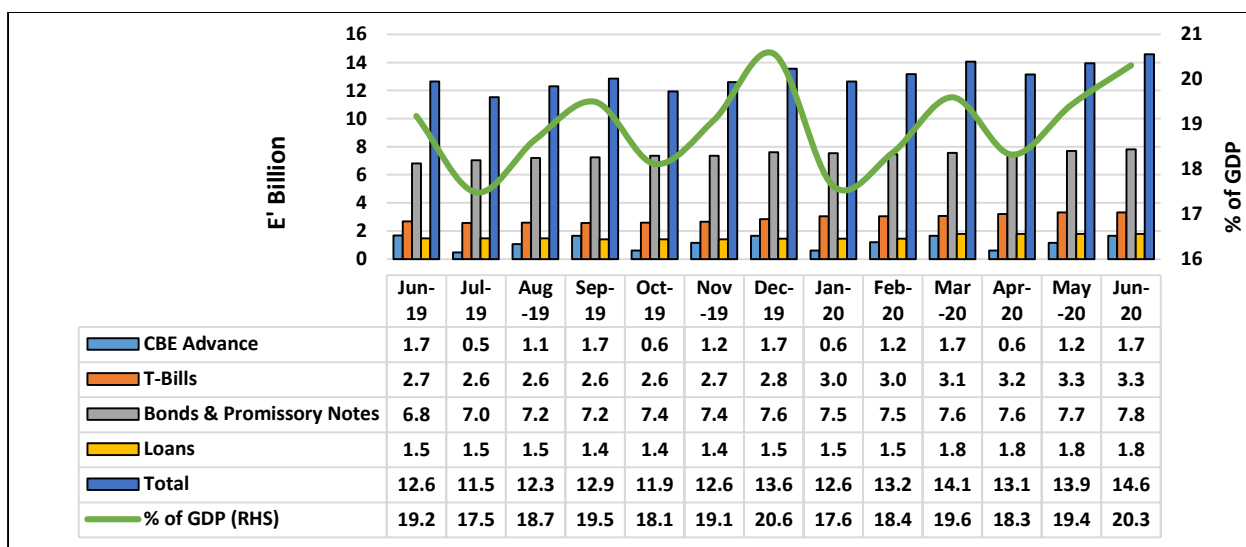
Figure 9: Total Public Debt: June 2019 to June 2020



Source: Ministry of Finance and Central Bank of Eswatini

Outstanding public domestic debt stood at E 14.6 billion at the end of June 2020, an equivalent of 20.3 per cent to GDP. This shows an increase of 5.0 per cent from E13.9 billion recorded in May 2020. The increase is due to an additional advance extended to government and issuance of suppliers’ bonds amounting to E157 million during the month of June 2020.

Figure 10: 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 30 June 2020

(E' Million)

Holder	Treasury Bills	Government Bonds	Promissory Notes	CBE Advance	Total	Share of Holdings (%)
CBE	3.6	1,298.9	0	1,660.0	2,962.5	23.2
Commercial banks	2,271.8	902.6	0	0	3,174.4	24.8
NBFIs	909.9	4,607.4	0	0	5,517.3	43.2
Other	135.7	828.8	154.1	0	1,118.6	8.8
	3,321.0	7,637.7	154.1	1,660.0	12,772.8	100

Source: Central Bank of Eswatini

In July 2020, the Central Bank will on behalf Government, issue multiple bonds totaling E150 million. A summary of the upcoming bonds auction can be presented in Table 2.

Table 2: Upcoming Bonds Auction in July 2020

Issue Type	Coupon	Amount (E 'Million)	Maturity Date
SG040 Re-opening	9.40%	20	31 Jan 2024
SG041 Re-opening	9.85%	40	31 Jan 2026
SG035 Re-opening	10.25%	40	29 Jun 2028
SG047 Re-opening	10.50%	50	31 May 2030

Source: Central Bank of Eswatini

5 THE EXTERNAL SECTOR

In the month of June 2020, the country's merchandise trade balance exhibited significant signs of recovery as COVID-19 restrictions continued to be relaxed. Eswatini recorded a trade surplus of E89.2 million, a turnaround from the trade deficit of E146.4 million registered in May 2020. Exports in the month grew by a notable 36.0 per cent to E2.095 billion, while imports in the same period increased by 18.9 per cent to E2.006 billion reaching pre-COVID-19 levels. The regains in trade are reflective of economic activity resumption in the country and the rest of the world.

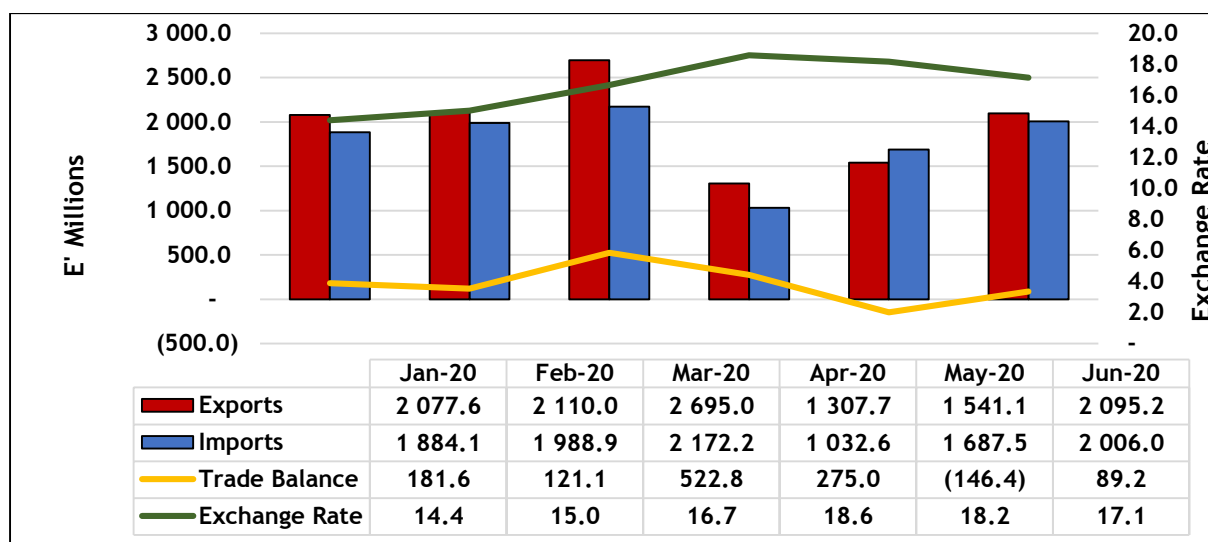
Cumulative trade figures however, still show that 2020 is lagging behind relative to 2019 owing to the current pandemic. Exports to date are 7.1 per cent lower at E10.771 billion

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while imports to date are 9.0 per cent below the comparable half-year of 2019. The cumulative trade balance for the first six months of 2020 remained in a surplus of E1.055 billion, higher than the surplus of E891.6 million recorded in the previous year. The surplus was driven by a bigger gap between the cumulative imports and exports for 2020, even though imports and exports for the first 6 months of 2020 remain subdued when compared to the same period in 2019.

Export earnings in June rose to E2.095 billion, a 36.0 per cent monthly increase, however only increasing by 2.7 per cent year-on-year. Miscellaneous edibles, one of the country's main exports recorded its first increase of 21.9 per cent month-on-month to E671.8 million, the first upswing after two consecutive months of decreases. Sugar and sugar confectionary goods, outperformed miscellaneous edibles by recording a 70.0 per cent month-on-month growth to E849.8 million largely driving the growth of exports for the month. Textile and other apparel exports also rebounded by recording a monthly 53.5 per cent increase to E239.5 million, while wood and other wood products only increased by 6.0 per cent to E132.3 million, having normalised in the previous month to pre-COVID levels.

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



Source: Central Bank of Eswatini

Imports for the month of June grew from E1.688 billion to E2.006 billion, however, year-on-year were marginally lower by 0.5 per cent. Energy imports, which include both fuel and electricity, increased by 16.9 per cent in the month to E279.9 million driven by normalising economic activity post lockdown. Pharmaceutical product imports increased from E37.3 million to E119.8 million as expected given the pandemic; making June 2020 the highest historic level of pharmaceutical imports. 'Machinery and mechanical equipment' combined with 'electric machinery and equipment' amounted to E204.4 million, representing a growth

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of 8.0 per cent month-on-month. Food imports in terms of 'live animal' and 'vegetable product' imports also increased by an average of 19.6.0 per cent to record E230.4 million in the month of June.



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Economic Policy, Research and Statistics Department								
Kingdom of Eswatini Economic Indicators at a glance								
Sectors	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	
Overall Inflation	1.8	2.0	2.7	2.8	3.0	3.9	4.0	
Food	2.4	2.7	3.6	3.8	4.2	3.9	4.3	
Transport	1.7	1.8	6.4	6.3	6.1	3.8	2.2	
Other	2.0	2.2	2.1	2.3	2.5	4.6	4.6	
Money and banking								
Narrow money annual growth (%)	7.23	12.22	16.28	15.97	7.63	-1.18	7.17	
Broad money annual growth (%)	-0.18	1.72	2.94	1.85	0.25	2.88	6.30	
Domestic credit (net) - E' Million	17,212.44	18,151.27	17,338.96	17,310.80	16,324.09	14,692.87	15,737.16	
Government	2,776.94	3,339.77	2,733.13	3,077.48	2,306.89	729.25	1,583.04	
Private sector	14,435.50	14,811.50	14,605.83	14,233.32	14,017.20	13,963.62	14,154.12	
Private sector credit annual growth (%)	-1.90	-0.40	-1.67	-3.89	-6.28	-5.87	-6.27	
Interest rates (% p.a)								
Prime lending	10.00	10.00	10.00	10.00	9.00	8.00	7.50	
Discount rate	6.50	6.50	6.50	6.50	5.50	4.50	4.00	
Deposit rate - 31 days	3.18	3.18	3.18	3.18	2.75	1.99	1.43	
- 12 months	3.74	3.74	3.74	3.74	3.52	2.93	2.59	
- T. bill rate	7.69	7.64	7.82	7.80	7.61	6.54	5.68	
Ratios								
Liquidity ratio (required = 20 %)	39.75	36.66	37.13	36.93	35.07	36.90	37.85	
Loans/deposits ratio	74.19	75.97	76.70	74.75	77.82	72.92	73.47	
Net foreign assets (E'million)	7,531.89	6,609.96	7,156.85	7,482.88	7,597.20	9,835.63	8,957.81	
Annual % change in NFA	-10.72	-7.93	0.88	5.16	55.83	50.80	43.55	
Gross official foreign reserves E'Millions	7,143.57	6,143.86	6,653.26	6,464.33	6,605.33	8,129.84	7,270.28	
Annual % change in GOR	4.22	-2.81	4.52	14.88	45.52	41.34	30.01	
In months of import cover	3.06	2.63	2.85	2.78	2.81	3.46	3.09	
Exchange Rates								
US\$	14.81	14.44	14.39	15.01	16.66	18.58	18.17	
EURO	16.37	16.04	15.98	16.37	18.40	20.19	19.78	
GBP	19.01	18.92	18.81	19.46	20.61	23.05	22.35	
Public Finance								
Total public domestic debt [E' million]	12,590.47	13,562.52	12,641.27	13,178.67	13,732.30	12,816.77	13,602.30	
As a % of GDP	18.78	20.23	17.34	18.37	19.14	17.87	19.00	

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