

Recent Economic Developments

October/November 2020



CENTRAL BANK
OF ESWATINI
Umntsholi Wemaswati



MAJOR HIGHLIGHTS

<ul style="list-style-type: none"> The overall consumer price inflation accelerated to 4.7 per cent in October 2020 from 4.1 per cent in September 2020. 	Inflation rate (% y/y)	4.7 (Oct) ▲
<ul style="list-style-type: none"> The discount and subsequently the prime lending rates were left unchanged in November 2020. 	Prime Lending (%)	7.25
	Discount rate (%)	3.75
<ul style="list-style-type: none"> In the month of November 2020, the Lilangeni/Rand exchange rate strengthened against the major external currencies. 	Exchange rate (US\$)	15.59 (Nov) ▼
<ul style="list-style-type: none"> Credit extended to the private sector increased to E15.0 billion at the end of October 2020. 	Private Sector Credit (% m/m)	1.2 (Oct) ▲
<ul style="list-style-type: none"> Broad money supply (M2) depicted an increase of 4.1 per cent month-on-month to close at E19.8 billion at the end of October 2020. 	Broad Money (M2) (% m/m)	4.1 (Oct) ▲
<ul style="list-style-type: none"> Gross official reserves were lower at E9.6 billion at the end of November 2020 reflecting a month-on-month contraction of 11.1 per cent. 	Reserves (months of import cover)	4.2 (Nov) ▼
<ul style="list-style-type: none"> Total debt stock for the country increased from E25.0 billion recorded in the previous month to E26.0 billion at the end of November 2020. 	Total Public Debt (% of GDP)	41.3 (Nov) ▲
<ul style="list-style-type: none"> In November 2020, Eswatini recorded a trade surplus of E569.8 million, 5.6 per cent higher than the surplus recorded in the previous month. 	Trade Balance (% of GDP)	0.90 (Nov) ▲

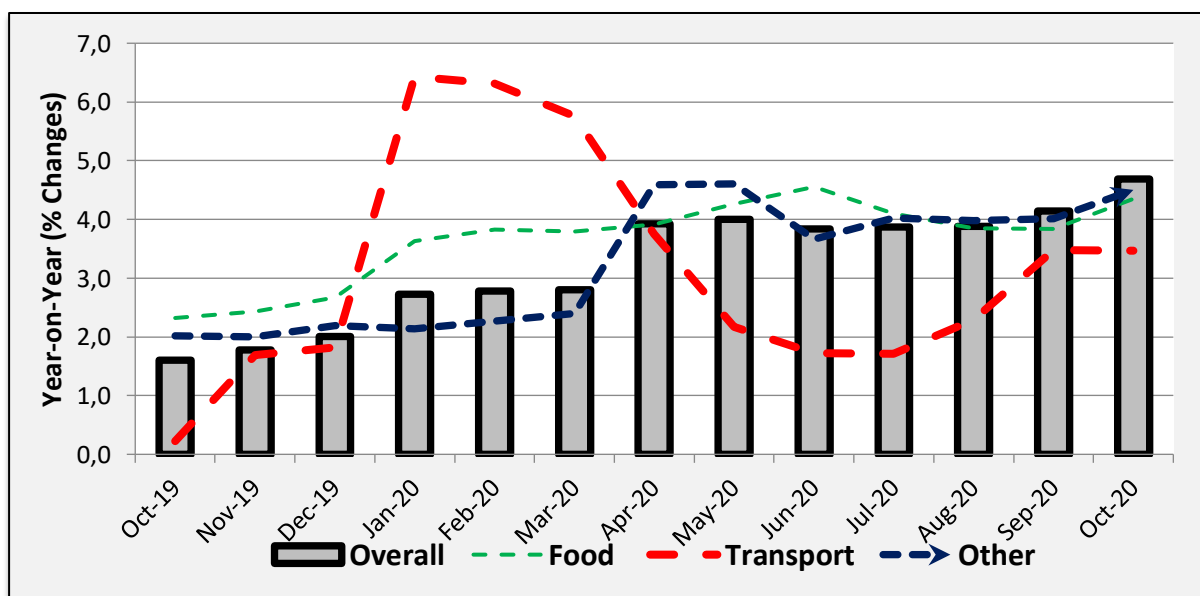
NB: The table shows the most recent available data.

1 PRICE DEVELOPMENTS

The annual consumer price inflation accelerated to 4.7 per cent in October 2020 from 4.1 per cent in September 2020. The increase is mainly attributed to increases in the price indices for ‘housing and utilities’ and ‘food and non-alcoholic beverages’. The ‘housing and utilities’ index grew by 6.4 per cent in October 2020 compared to 5.9 per cent in the previous month. The increase was mainly due to a 7.9 per cent year-on-year increase in prices for ‘actual rentals for housing’. Food inflation was also higher at 4.4 per cent in October 2020 compared to 3.8 per cent the previous month. Increases in the prices of rice, bread, vegetables, sugar products and ‘fish and sea food products’ were the main contributors to the upsurge in food inflation. In addition, the price indices for ‘furnishing, household equipment and maintenance’ and ‘recreation and culture’ increased by 2.1 and 4.2 percentage points, respectively, during the period under review.

The above increases were slightly offset by decreasing rate of growth in the price index for ‘health care’. Following an uptrend during the peak of the COVID-19 pandemic (i.e. July and August 2020), price increases in the ‘health care’ category eased to 2.7 per cent in October 2020 from 3.6 per cent in September 2020. The slowdown mainly benefited from a moderation in prices of ‘pharmaceutical products’ in the period under review.

Figure 1: Inflation Trends: October 2019 to October 2020



Source: Central Statistical Office and Central Bank of Eswatini

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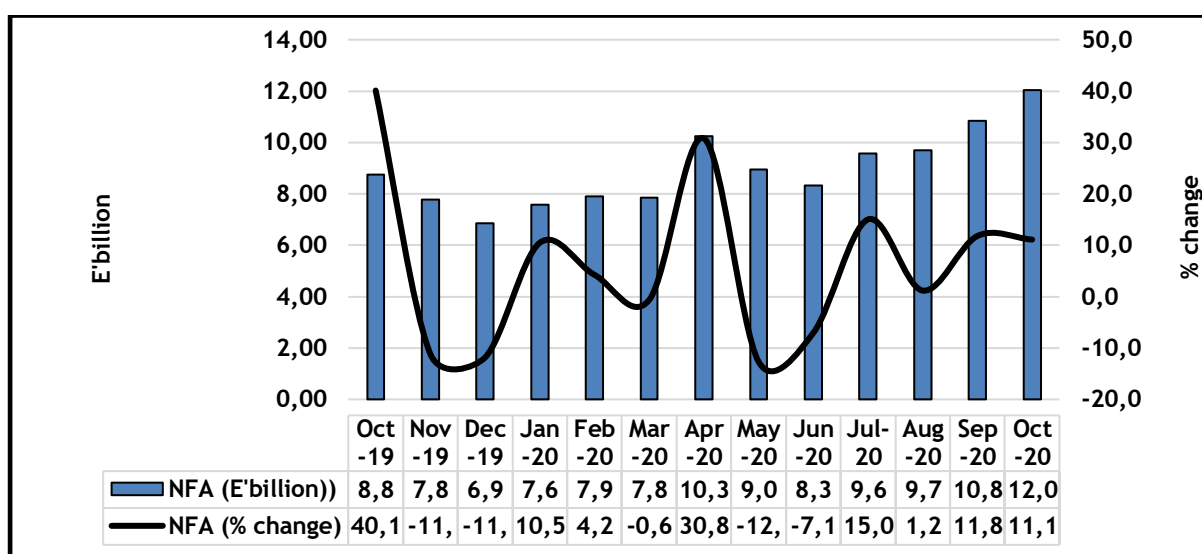
On month-on-month rates, consumer inflation rose to 0.5 per cent in October 2020 from 0.4 per cent in the previous month. This was driven by increases in the price indices for ‘housing and utilities’, ‘household furniture and maintenance’ and ‘recreation and culture’ that grew by 0.6, 1.8 and 4.4 percentage points, respectively. However, the month-on-month inflation was moderated by decreases in the price indices for ‘transport’ and ‘clothing and footwear’, which fell by 1.2 and 0.5 of a percentage point, respectively, during the same period under review.

Core inflation, which is measured as the CPI excluding food and non-alcoholic beverages, auto-fuel and energy, further increased to 5.0 per cent in October 2020 from 4.5 per cent in September 2020. On month-on-month basis, core inflation rose by 0.5 per cent in October 2020 compared to 0.2 per cent recorded in the previous month.

2 MONEY SUPPLY AND BANKING DEVELOPMENTS

The country’s net foreign assets increased by 11.1 per cent month-on-month and 37.5 per cent year-on-year to settle at E12.0 billion at the end of October 2020. The increase was mainly attributed to a rise in net foreign official assets whilst net foreign assets of other depository corporations contracted when compared to the previous month. Net foreign official assets rose by 18.1 per cent from the previous month and 44.7 per cent annually to reach E9.5 billion at the end of October 2020. The increase was mainly on account of the quarterly inflow of Southern African Customs Union (SACU) revenues at the beginning of October 2020.

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

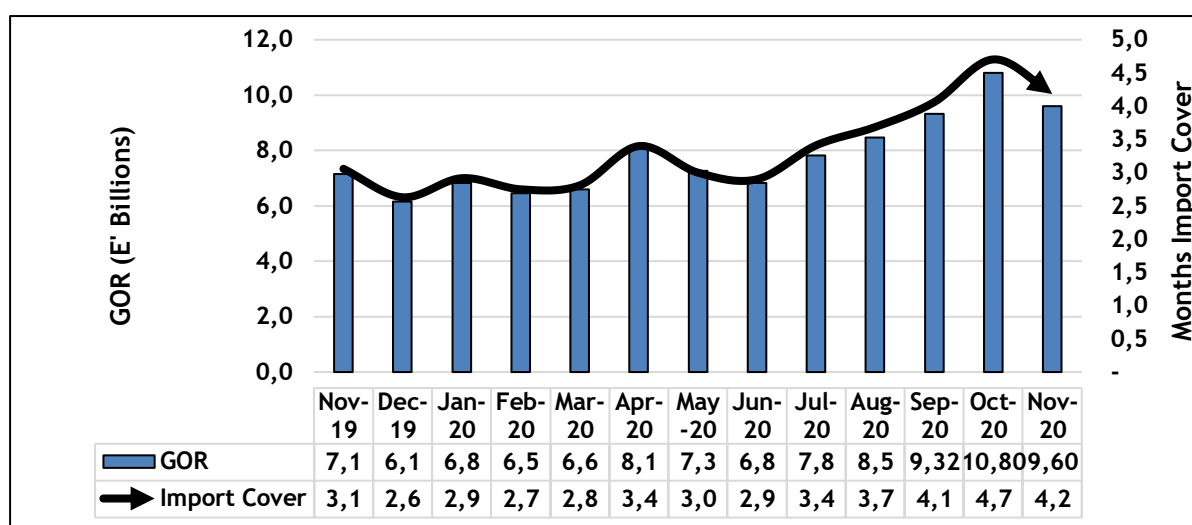


Source: Other Depository Corporations and Central Bank of Eswatini

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Net foreign assets of other depository corporations declined by 9.5 per cent over the month but increase by 15.3 per cent over the year to settle at E2.5 billion at the end of October 2020. The month-on-month reduction was due to a fall in other depository corporations' investments in the Common Monetary Area (CMA) and their foreign currency holdings. In Special Drawing Rights (SDRs), net foreign assets were valued at SDR522.9 million at the end of October 2020, depicting an increase of 13.6 per cent month-on-month and 24.7 per cent year-on-year.

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



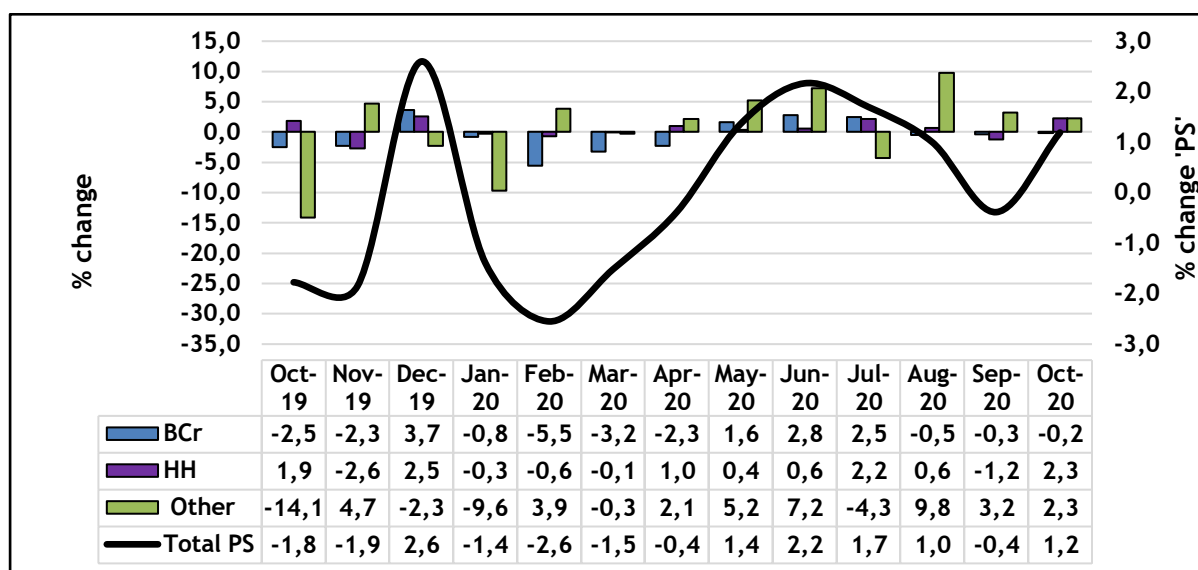
Source: Central Bank of Eswatini

Gross official reserves stood at E9.6 billion at the end of November 2020 reflecting a contraction of 11.1 per cent month-on-month and growth of 34.4 per cent over the year. At this level the reserves were enough to cover 4.2 months of imports, lower than the 4.7 months registered in October 2020. When valued in SDRs, the reserves amounted to SDR435.9 million at the end of November 2020, depicting a decline of 7.1 per cent month-on-month and an increase of 22.8 per cent annually.

Credit extended to the private sector amounted to E15.0 billion at the end of October 2020, increasing by 1.2 per cent month-on-month and 1.8 per cent over the year. The month-on-month improvement in private sector credit was reflected in credit to other sectors and households & non-profit institutions serving households (NPISH). Credit to businesses on the other hand, depicted a decline over the month under review. Credit extended to other sectors reached E1.6 billion at the end of October 2020, representing an expansion of 2.3 per cent month-on-month and 22.5 per cent annually. Accounting for the month-on-month increase was credit to other financial corporations which grew by 4.1 per cent. Credit to local government and public non-financial corporations on the other hand, fell by 7.1 per cent and 0.3 per cent, respectively.

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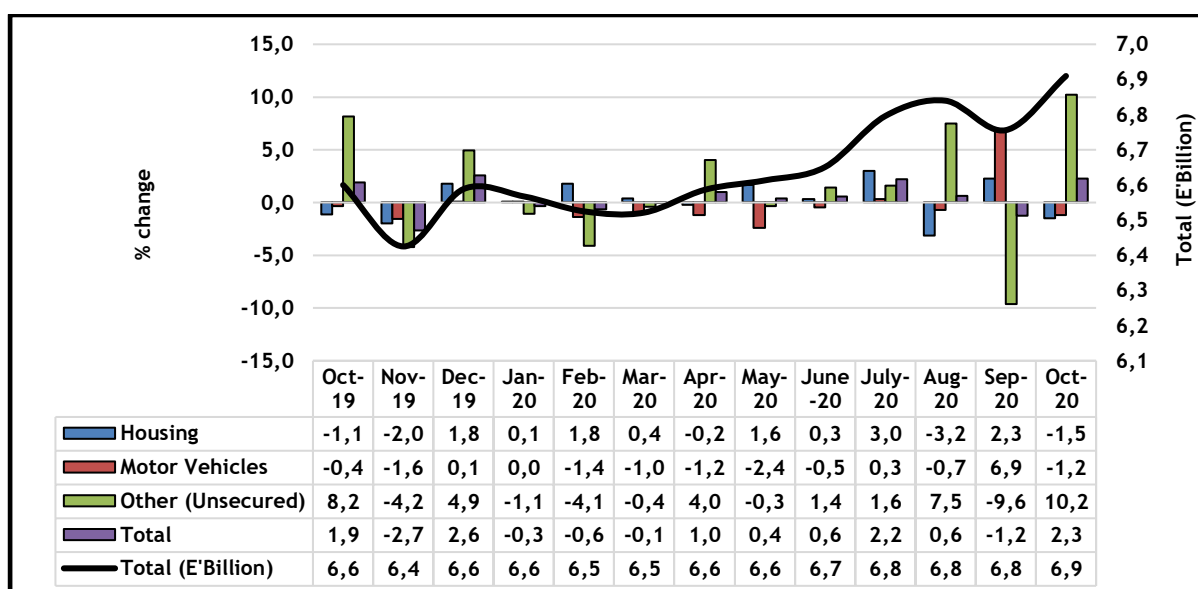
Figure 4: Private Sector Credit Monthly Changes: October 2019 to October 2020



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

Credit extended to households & NPISH grew by 2.3 per cent over the month and 4.7 per cent over the year to reach E6.9 billion at the end of October 2020. The month-on-month improvement was due to other personal (unsecured) loans, which grew by 10.2 per cent to reach E2.4 billion at the end of October 2020. Housing and motor vehicle loans, however, fell by 1.5 per cent to E3.6 billion and 1.2 per cent to E1.0 billion, respectively.

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



Source: Central Bank of Eswatini and Other Depository Institutions

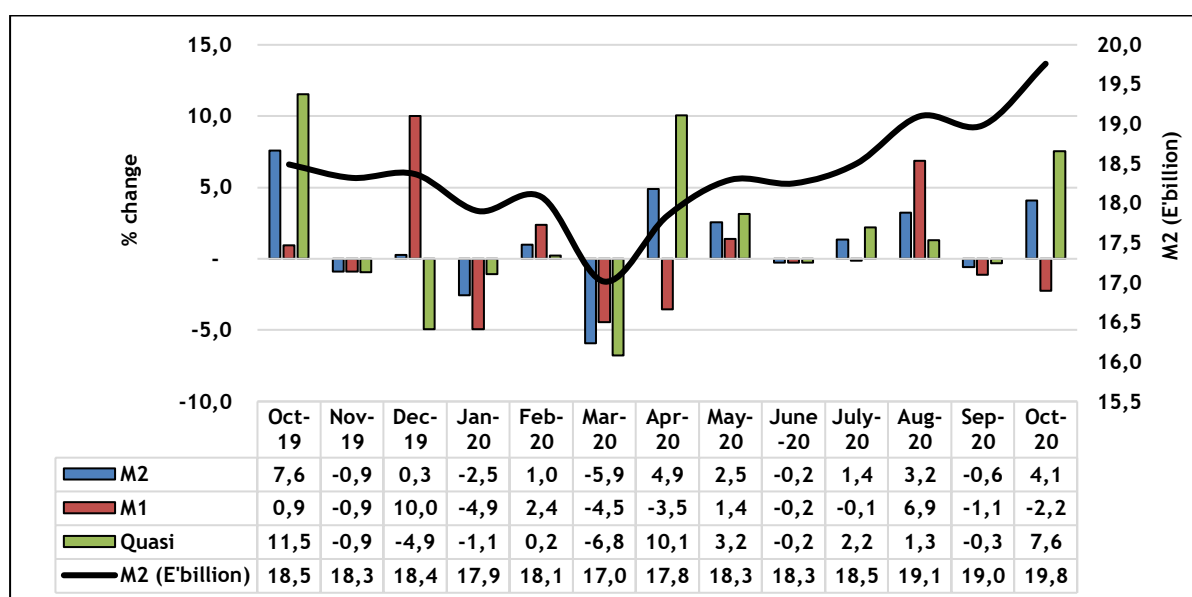
Credit extended to businesses amounted to E6.5 billion at the end of October 2020, depicting a contraction of 0.2 per cent from the previous month and 5.0 per cent over the year. The following subsectors accounted for the decline in credit to businesses ;

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manufacturing (-10.4 per cent), construction (-3.0 per cent), transport & communication (-0.9 per cent) as well as mining & quarrying (-0.7 per cent). The decrease was partly offset by a rise in credit to the following subsectors; real estate (8.6 per cent), distribution & tourism (3.0 per cent), agriculture & forestry (2.3 per cent) as well as community, social & personal services (1.1 per cent).

Broad money supply (M2) depicted an increase of 4.1 per cent month-on-month and 6.9 per cent over the year to close at E19.8 billion at the end of October 2020. The month-on-month growth was attributed to quasi money supply whilst narrow money supply (M1) reflected a decline. Quasi money supply amounted to E13.2 billion at the end of October 2020, representing growth of 7.6 per cent on a monthly basis and 9.4 per cent annually. The month-on-month expansion was driven by both time and savings deposits. Time deposits increased by 8.8 per cent month-on-month and 9.7 per cent year-on-year to E11.1 billion whilst savings deposits increased by a lesser margin of 1.5 per cent month-on-month and 8.2 per cent over the year to settle at E2.1 billion at the end of October 2020. Narrow money supply (M1) contracted by 2.2 per cent month-on-month but increased by 2.0 per cent over the year to settle at E6.5 billion at the end of October 2020. The month-on-month decrease was due to transferable (demand) deposits which fell by 4.2 per cent and 1.8 per cent over the year to E5.6 billion. Emalangenzi outside depository corporations on the contrary, increased by 10.5 per cent from the previous month and 30.6 per cent year-on-year to reach E982.9 million at the end of October 2020.

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



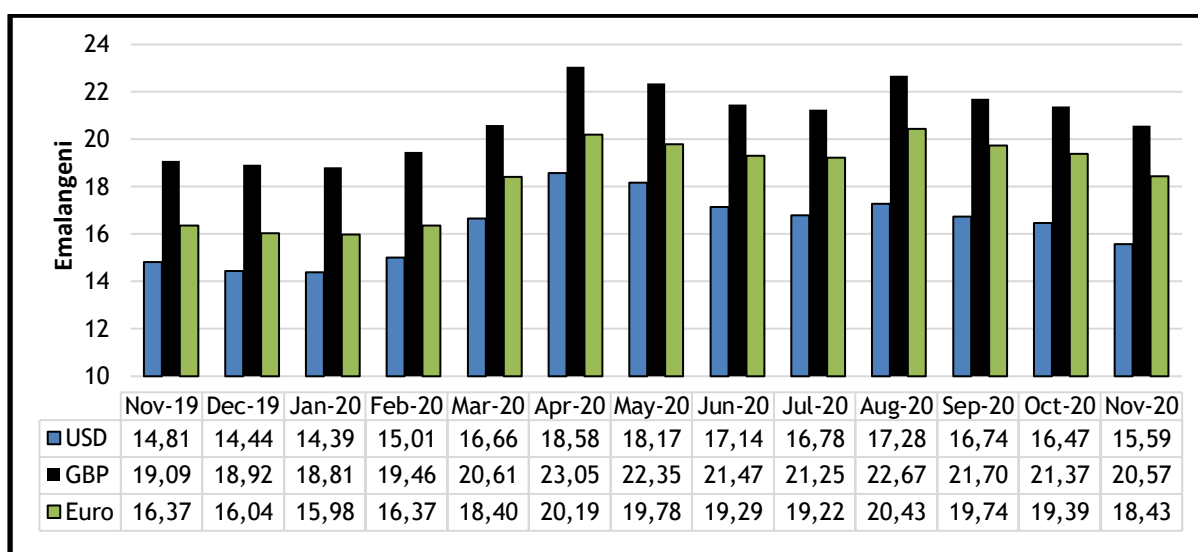
Source: Other Depository Institutions and Central Bank of Eswatini

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Net claims on government with other depository corporations stood at -E1.1 billion at the end of October 2020 from -E512.5 million observed in September 2020. An analysis of the components of net claims on government revealed that both claims on government and government deposits depicted a decline from the previous month by 14.3 per cent and 4.6 per cent, respectively.

During the month of November 2020, the Lilangeni/Rand appreciated against the major trading partners' currencies. The Rand has since extended its previous gains especially against the continuously weakening US Dollar, reflecting improved investor sentiments towards emerging markets, which are to a large extent linked to the outcome of the November US elections. The Biden win drove investors towards higher-yielding assets, which supported demand for the Rand. Further, the appreciation of the local unit is attributed to the strong build-up of market optimism around the prospect of a viable Covid-19 vaccine, which bolstered investor risk appetite for emerging market economies' assets and also bodes well for improved global economic recovery outlook.

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



Source: Central Bank of Eswatini

Regionally, the positive Purchasing Managers Index (PMI) data for the South African manufacturing sector as well as the South African Reserve Bank's decision to leave interest rates unchanged in the face of the accommodative monetary policy in advanced economies, supported the Rand performance. Compared to the month of October 2020, the Lilangeni/Rand appreciated on average by 5.4 per cent, to reach E15.59 (up from E16.47) against the US Dollar and against the Pound Sterling and the Euro, the local unit

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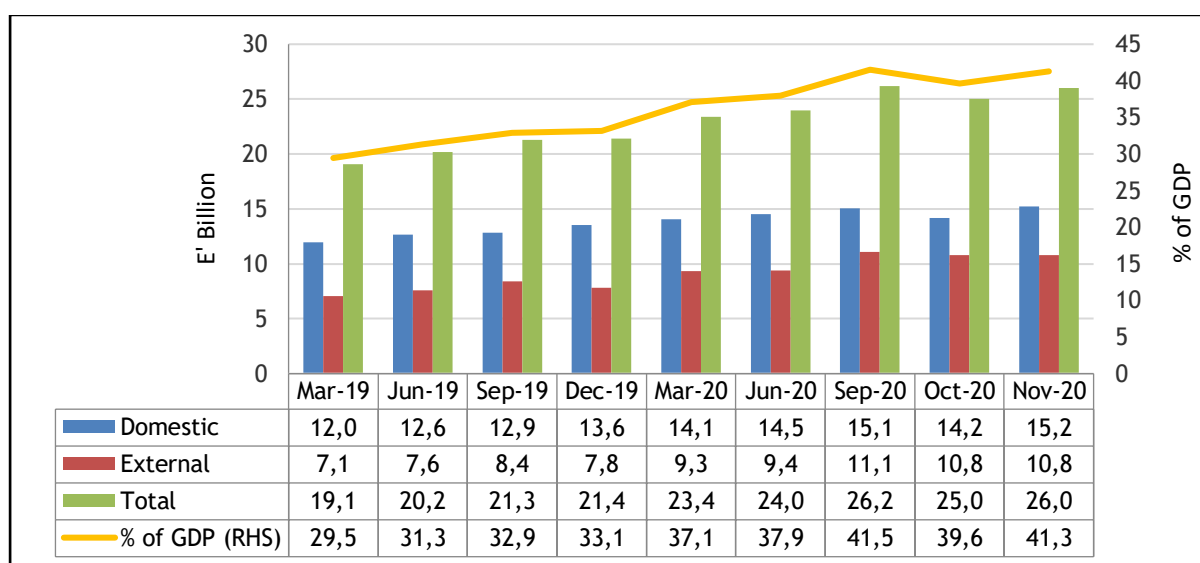
strengthened by 3.8 per cent and 5.0 per cent averaging of E20.57 and E18.43 in November 2020 respectively.

The local unit's strong performance was despite rating agencies Fitch and Moody's decision to downgrade South Africa's long-term sovereign debt credit rating to junk status. The local unit opened the month of October 2020 at 16.41 to close the month of November at 15.24 to the US dollar. To the Euro and Pound Sterling the local unit opened the month of October at 19.16 and 21.18 respectively to close the month of November 2020 at 18.26 and 20.32 respectively.

3 TOTAL PUBLIC DEBT

Total debt stock for the country stood at E26.0 billion at the end of November 2020, an equivalent of 41.3 per cent to GDP. This was an increase of 4.1 per cent when compared to E25.0 billion recorded in the previous month, due to an increase in public domestic debt.

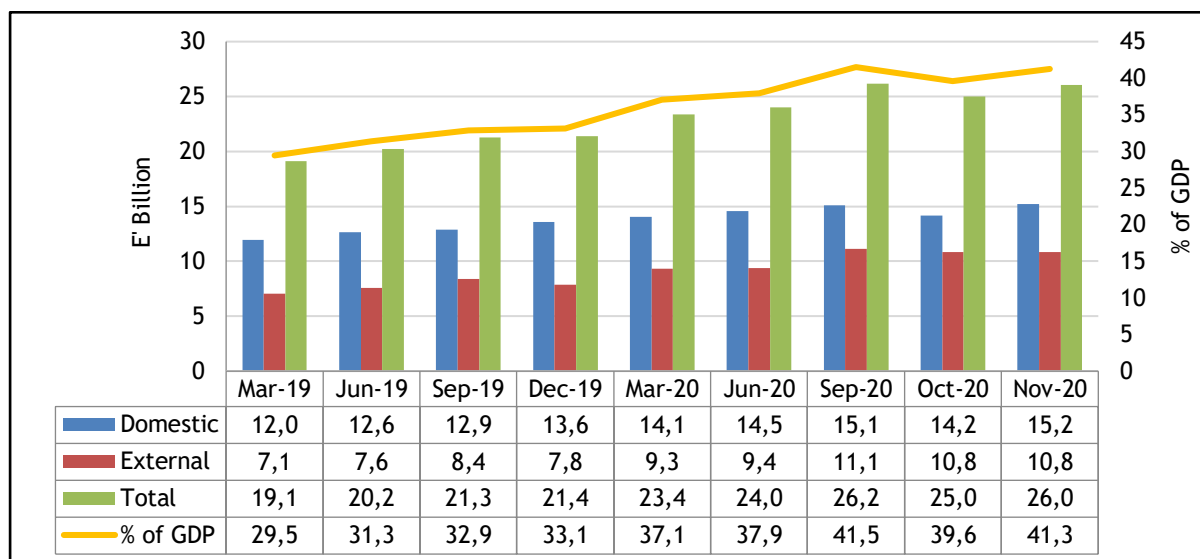
Figure 8: Total Public Debt: March 2019 to November 2020



Source: Ministry of Finance and Central Bank of Eswatini

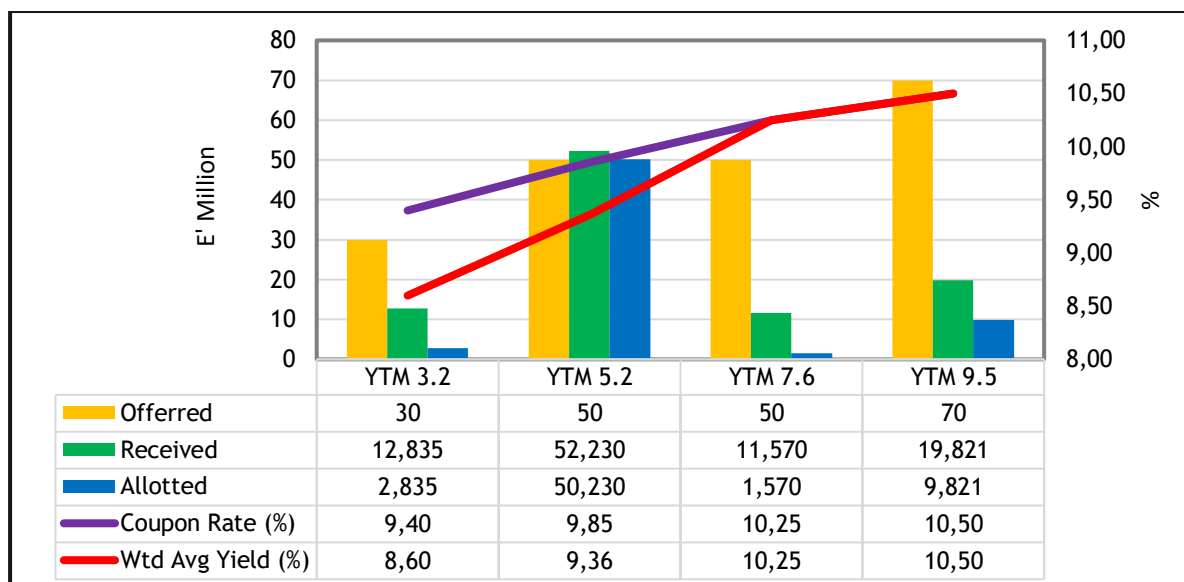
Total public external debt remained unchanged at E10.8 billion an equivalent of 17.2 per cent to GDP over the past month. This is because there have been no major flows recorded in the month of November 2020. Outstanding public domestic debt reached E15.2 billion, an equivalent of 24.1 percent to GDP. This shows an increase of 7.3 per cent from E14.2 billion recorded in October 2020. This increase is mainly due to additional advance extended to government as well as bonds issuances.

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

Source: Ministry of Finance and Central Bank of Eswatini

During the month of November 2020, the CBE extended a further E560 million to government, bringing the total advance to E1.1 billion and a total of E700 million was issued in Suppliers' bonds. In the month of November 2020, a total of E326 million in bonds reached maturity. During the same month, the Central Bank on behalf of Government re-opened four Plain Vanilla bonds with an amount totaling E200 million on offer. A total of E96.45 million was received in bids while E64.45 million was allotted.

Figure 10: Government Bond Auction Summary: November 2020

Source: Central Bank of Eswatini Notes: YTM (Years to Maturity)

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 November 2020 (E' Million).

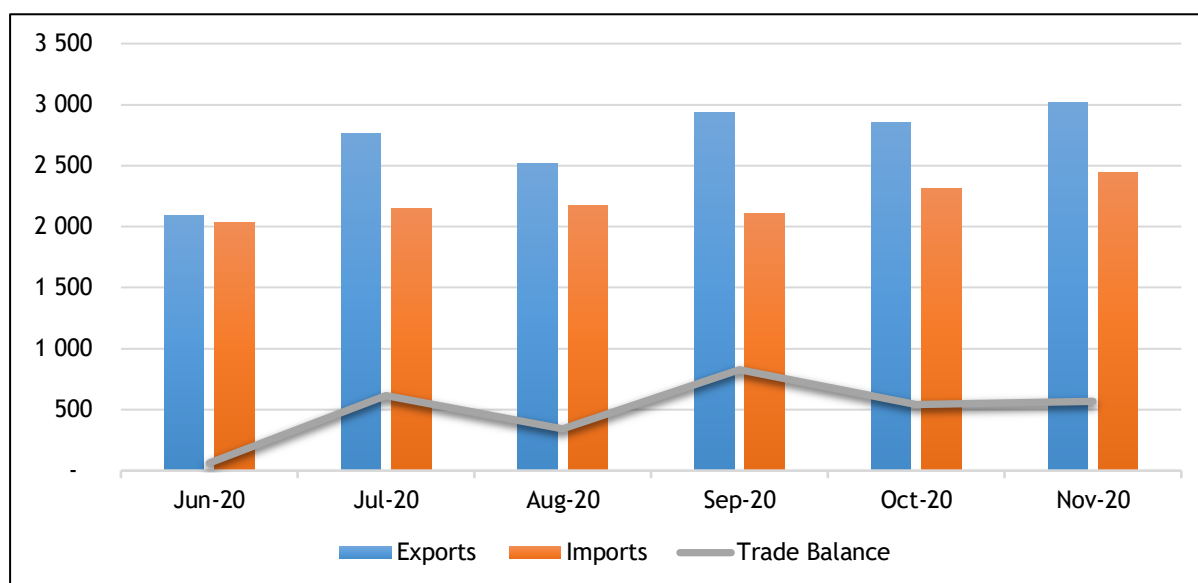
Holder	Treasury Bills	Government Bonds	Promissory Notes	CBE Advance	Total	Share of Holdings (%)
CBE	10.2	1,294.0	0	1,060.0	2,364.1	17.6
Commercial banks	2,405.6	1,586.1	0	0	3,991.7	29.6
NBFIs	1,162.0	4,854.7	0	0	6,016.7	44.7
Other	132.1	824.1	135.0	0	1,091.2	8.1
	3,709.9	8,558.9	135.0	1,060.0	13,463.7	100

Source: Central Bank of Eswatini.

4 THE EXTERNAL SECTOR

In November 2020, Eswatini recorded a trade surplus of E569.8 million, 5.6 per cent higher than the surplus recorded in the previous month. The trade surplus was double that of the same period last year, as the gap between exports and imports widened, buoyed by an accelerated growth in merchandise exports during the year. Exports for the month amounted to E3.016 billion, increasing by 5.7 per cent month-on-month and 10.9 per cent year-on-year. Imports were valued at E2.446 billion in the month, 5.7 per cent higher than the imports of the previous month while shrinking by 0.7 per cent year-on-year.

Year-to-date trade figures indicate subdued trade for 2020 as the year draws to a close, indicative of the prevailing global pandemic effects on economic activity. Export proceeds for the year to November 2020 were amounted to E25.367 billion, which is 2.7 percent lower when compared to E26.069 billion in November 2019. Cumulative import payments in November 2020 amounted to E21.727 billion, falling short by 5.6 per cent when compared to figures for the same period last year. The cumulative trade balance benefitted from the subdued imports for the year, posting a surplus balance of E3.640 billion as at November 2020, 19.0 per cent higher than the surplus recorded in November of last year.

Figure 10: Merchandise Trade Account; June 2020 to November 2020.

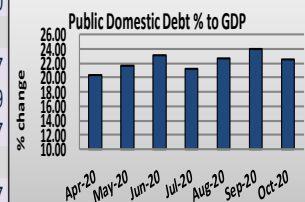
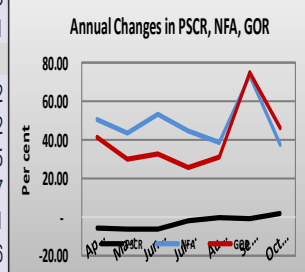
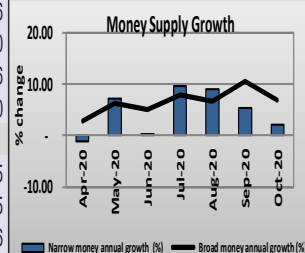
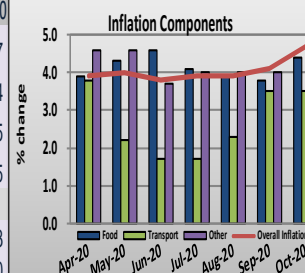
Source: Central Bank of Eswatini

A further analysis of November trade figures indicates that the exports of miscellaneous edibles increased by 9.5 per cent month-on-month and 47.6 per cent year-on-year to E1.675 billion, accounting for 55.5 per cent of total export receipts for the month. Export earnings from sugar and sugar products dipped month-on-month by 2.9 per cent to E515.1 million and down 35.9 per cent when compared on an annual basis. Exports of wood and wood articles increased by 9.2 per cent month-on-month, amounting to E161.0 million in November 2020. Earnings from textile and textile apparel exports fell by a marginal 1.0 per cent in the month to E409.8 million.

Imports of energy products, which includes fuel and electricity, decreased by 6.6 per cent month-on-month to E303.3 million in the month of November 2020. Imports of nuclear boilers, electrical machinery and equipment increased from E256.0 million in the month of October 2020 to E251.8 million in the review month. Textile and textile apparel imports increased by 6.4 per cent to E226.5 million in the month. Imports of cereal amounting to E153.5 million, accounted for 6.3 per cent of total imports in the month. The figure depicts a 29.1 per cent month-on-month and 66.5 per cent year-on-year increase in imports of cereal in November. Imports of vehicles increased by 14.4 per cent month-on-month to E123.8 million.

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Economic Policy, Research and Statistics Department							
Kingdom of Eswatini Economic Indicators at a glance							
Sectors	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20
Overall Inflation	3.9	4.0	3.8	3.9	3.9	4.1	4.7
Food	3.9	4.3	4.6	4.1	3.9	3.8	4.4
Transport	3.8	2.2	1.7	1.7	2.3	3.5	3.5
Other	4.6	4.6	3.7	4.0	4.0	4.0	4.5
Money and banking							
Narrow money annual growth (%)	-1.18	7.17	0.31	9.58	9.12	5.30	2.03
Broad money annual growth (%)	2.88	6.30	5.00	7.85	6.76	10.50	6.90
Domestic credit (net) - E' Million	14,692.87	15,737.16	16,332.26	15,294.04	16,009.29	14,378.10	13,829.56
Government	729.25	1,583.04	1,871.67	588.06	1,156.35	-417.49	-1,142.30
Private sector	13,963.62	14,154.12	14,460.59	14,705.98	14,852.94	14,795.60	14,971.86
Private sector credit annual growth (%)	-5.87	-6.27	-6.40	-1.88	-0.35	-1.19	1.80
Interest rates (% p.a)							
Prime lending	8.00	7.50	7.50	7.25	7.25	7.25	7.25
Discount rate	4.50	4.00	4.00	3.75	3.75	3.75	3.75
Deposit rate - 31 days	1.99	1.43	1.43	1.26	1.26	1.26	1.26
- 12 months	2.93	2.59	2.59	2.13	2.13	2.13	2.13
- T. bill rate	6.54	5.68	5.23	5.34	5.21	4.94	5.01
Ratios							
Liquidity ratio (required = 20 %)	36.90	37.85	36.90	35.35	38.58	35.80	39.22
Loans/deposits ratio	72.92	73.47	71.02	71.48	69.59	69.30	67.52
Net foreign assets (E'million)	9,835.63	8,957.81	8,325.88	9,577.34	9,689.49	10,832.71	12,035.15
Annual % change in NFA	50.80	43.55	53.11	44.61	38.70	73.40	37.47
Gross official foreign reserves E'Millions	8,129.84	7,270.28	6,830.07	7,828.24	8,460.77	9,321.95	10,797.81
Annual % change in GOR	41.34	30.01	32.84	25.83	31.14	74.80	46.26
In months of import cover	3.46	3.09	2.90	3.27	3.53	4.10	4.70
Exchange Rates							
US\$	18.58	18.17	17.14	16.78	17.28	16.74	16.47
EURO	20.19	19.78	19.29	19.22	20.42	19.74	19.39
GBP	23.05	22.35	21.47	21.25	22.67	21.69	21.37
Public Finance							
Total public domestic debt [E' million]	12,816.77	13,602.30	14,570.20	13,357.69	14,271.59	15,071.17	14,177.17
As a % of GDP	20.32	21.57	23.10	21.18	22.63	23.90	22.48



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