Recent Economic Developments

SEPTEMBER/OCTOBER 2018

CENTRAL BANK OF ESWATINI
Umntsholi Wemaswati

MAJOR HIGHLIGHTS

• The country's annual consumer inflation grew by 0.2 percentage points to reach 5.1 per cent in September 2018, from 4.9 per cent in August 2018.	Inflation rate (% y/y)	5.1 (Sep) ↑
• Discount and prime lending rates were unchanged in September 2018.	Prime Lending (%)	10.25 ——
	Discount rate (%)	6.75 ——
• During the month of October 2018, the Lilangeni/Rand exchange rate appreciated on average against major currencies.	Exchange rate (US$)	14.51 (Oct)↓
• Credit Extended to the Private Sector expanded by 0.3 per cent to reach E14.4 billion at the end of September 2018.	Private Sector Credit (% m/m)	0.3 (Sep) ↑
• Broad Money Supply (M2) recorded a month-on-month reduction of 4.4 per cent at the end of September 2018 to reach E17.9 billion.	Broad Money (M2) (% m/m)	-4.4 (Sep) ↓
• Gross Official Reserves reflected a month-on-month expansion of 9.8 per cent at the end of October 2018 to settle at E7.1 billion.	Reserves (months of import cover)	3.3 (Oct) ↑
• Preliminary figures indicate that total public debt stood at E13.8 billion, an equivalent of 22.3 per cent of GDP at end of October 2018.	Total Public Debt (% of GDP)	22.3(Oct) ↑
• Latest trade data indicates that as at September 2018 Eswatini recorded a merchandise trade deficit of E127.3 million from a surplus of E16.8 million in the previous month.	Merchandise Trade Balance (% of GDP)	0.21 (Sep) ↓

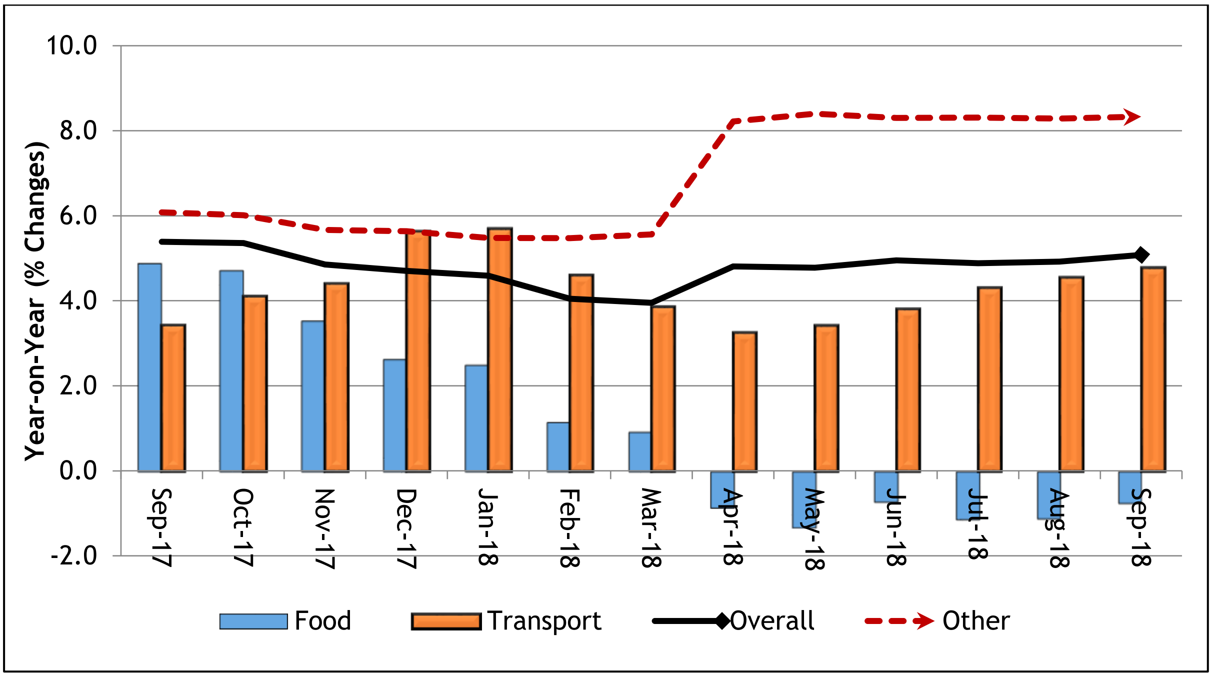
NB: The table shows the most recent available data.

1 Inflation Developments

The country's annual consumer inflation grew by 0.2 percentage points to reach 5.1 per cent in September 2018, from 4.9 per cent in August 2018. The above growth emanated from increasing price indices for 'food and non-alcoholic beverages', 'transport', 'clothing and footwear' and 'furnishing and household equipment'. Food inflation rose from a deflation of 1.1 per cent in August 2018 to a deflation of 0.7 per cent in September 2018. The growth was mainly a result of an increase in the price indices for 'bread and cereals', 'fish and seafood' and 'sugar and confectionary products'.

Additional inflationary pressures to the annual consumer inflation were exerted by developments in the price index for transport, which rose by 0.3 of a percentage point to 4.8 per cent in September 2018 from 4.5 per cent in the previous month. The price index for 'clothing and footwear' increased to a deflation of 0.5 per cent in September 2018 from a deflation of 1.0 in the previous month whilst the index for 'furnishing and household equipment' grew by 3.3 per cent in September 2018 compared to 2.7 per cent in the previous month.

Figure 1: Inflation Trends: September 2017 to September 2018



Source: Central Statistical Office

The above increases were partially countered by decreases observed in the price indices for 'alcoholic beverages and tobacco' and 'recreation and culture'. Alcoholic beverages and tobacco inflation slowed by 0.5 of a percentage point to 2.9 per cent in September 2018.

The index for 'recreation and culture' decreased by 0.4 of a percentage point to 3.5 per cent in September 2018 from 3.9 per cent in the previous month.

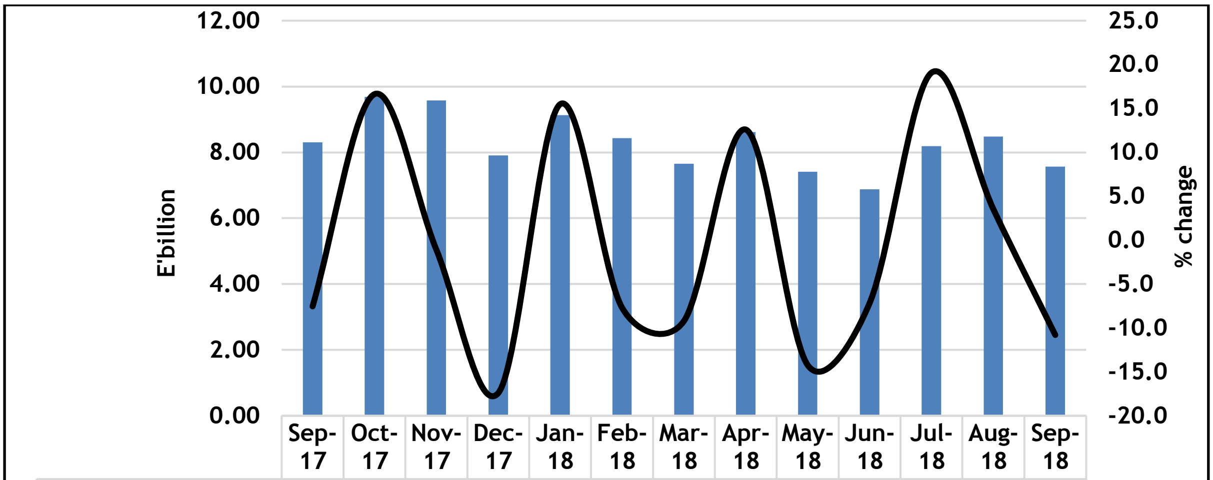
On month-on-month rates, headline inflation increased by 0.2 per cent in September 2018 from 0.1 per cent in August 2018. The month-on-month increase was a result of increases observed in the price indices for 'food and non-alcoholic beverages' and 'furnishing and household equipment', which grew by 0.4 and 0.5 per cent respectively during the period under review. The above increases were however countered by decreases observed in the price indices for 'alcoholic beverages and tobacco' and 'recreation and culture' which both decreased by 0.2 per cent on a month-on-month basis.

Core inflation, which is measured as the 'CPI excluding food and non-alcoholic beverages, auto-fuel and energy', increased marginally to 7.4 per cent in September 2018, from 7.3 per cent recoded in August 2018. On month-on-month rates, core inflation maintained a flat growth of 0.1 per cent in September 2018 same as it was in the previous month.

2 Money Supply and Banking Developments

Net Foreign Assets amounted to E7.6 billion at the end of September 2018, 10.8 per cent lower than the previous month. The fall was observed in both Net Foreign Holdings of Other Depository Corporations and those of the Official Sector. Net Foreign Holdings of Other Depository Corporations reached E2.0 billion at the end of September 2018, 31.1 per cent lower compared to August 2018. The reduction was as a result of a fall in their deposits placed with banks in the Common Monetary Area (CMA) coupled with their holdings of foreign currency at the end of September 2018. Net Official Holdings shrank by 0.1 per cent month-on-month to reach E5.6 billion at the end of the review month. The value of Net Foreign Assets in Special Drawing Rights (SDRs), amounted to SDR380.5 million, 7.9 per cent lower than the previous month. Compared year-on-year, Net Foreign Assets in Emalangeni terms went down by 8.8 per cent and by 12.7 per cent in SDR terms.

Figure 2: Net Foreign Assets Monthly Changes: September 2017 to September 2018

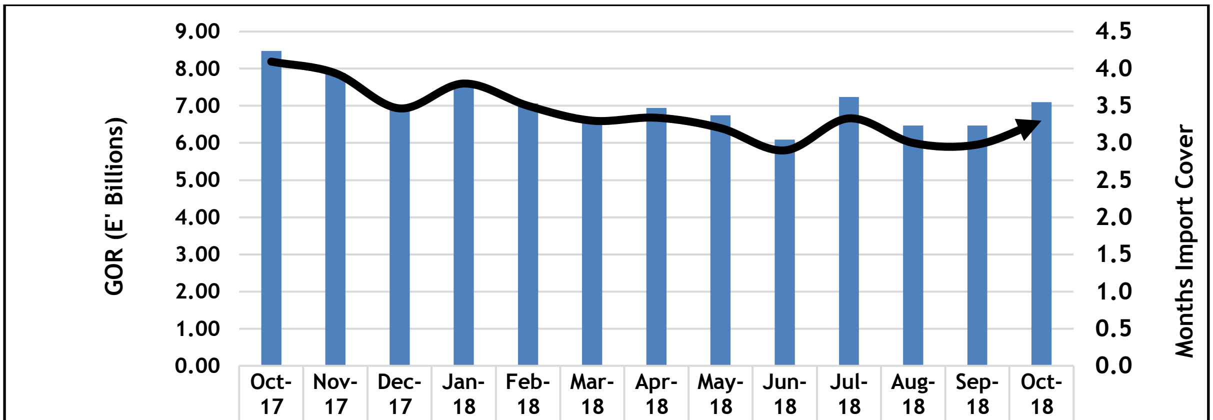


	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
NFA (E'billion))	8.30	9.68	9.58	7.91	9.13	8.43	7.66	8.62	7.41	6.88	8.19	8.48	7.56
NFA (% change)	-7.5	16.6	-1.1	-17.4	15.5	-7.7	-9.2	12.6	-14.2	-7.2	19.1	3.5	-10.8

Source: Central Bank of Eswatini

Gross Official Reserves reflected a month-on-month expansion of 9.8 per cent at the end of October 2018 to settle at E7.1 billion, higher than the E6.5 billion observed at the end of September 2018. At this level the Reserves were equivalent to an import cover of 3.3 months, higher than the 3.0 months registered at the end of September 2018. The improvement in Reserves was fuelled by the quarterly inflow of the Southern African Customs Union receipts at the beginning of October 2018. When valued in SDRs, the Reserves stood at SDR346.5 million reflecting a month-on-month growth of 6.5 per cent. However, when compared over the year, the Reserves reflected a contraction of 16.2 per cent when valued in Emalangeni terms and 18.9 per cent in SDRs terms.

Figure 3: Gross Official Reserves and Import Cover: October 2017 to October 2018



	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
GOR	8.48	7.88	6.93	7.61	7.06	6.60	6.94	6.75	6.09	7.23	6.47	6.47	7.10
Import Cover	4.1	3.9	3.5	3.8	3.5	3.3	3.3	3.2	2.9	3.3	3.0	3.0	3.3

Source: Central Bank of Eswatini

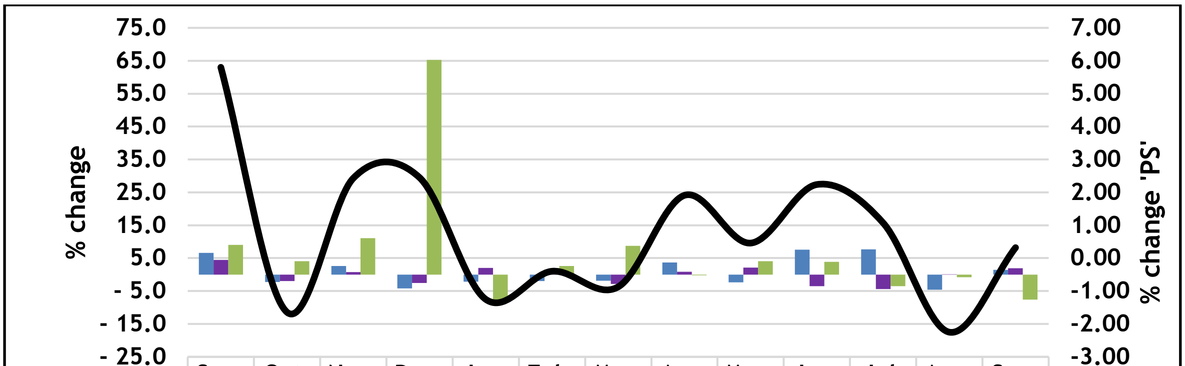
Credit Extended to the Private Sector expanded by 0.3 per cent to reach E14.36 billion at the end of September 2018, higher than the E14.32 billion observed in August 2018. The expansion stemmed from credit to Households & Non-profit Making Institutions Serving Households (NPISH) and Businesses. In contrast, credit to Other Sectors registered a decline at the end of September 2018. When compared over the same period last year, Private Sector Credit expanded by 4.4 per cent.

Credit Extended to Households & NPISH stood at E5.8 billion at the end of September 2018, reflecting growth of 2.0 per cent compared to August 2018. The rise was attributed to Motor Vehicle finance and Housing finance at the end of the review month. Motor Vehicle finance grew by 12.1 per cent to settle at E997.6 million and Housing finance by 0.4 per cent to E3.2 billion. Other Personal (unsecured) loans on the other hand, contracted by 0.5 per cent to close the review month at E1.6 billion. Year-on-year, credit to Households & NPISH declined by 7.2 per cent.

Credit Extended to Businesses stood at E6.7 billion at the end of September 2018, depicting an increase of 1.4 per cent compared to August 2018. This was due to a rise in credit extended to these sectors; Distribution & Tourism (6.5 per cent); Community, Social & Personal Services (6.4 per cent) and Transport & Communications (0.6 per cent). However, there was a slowdown in credit to these sectors; Mining & Quarrying (-5.1 per cent), Construction (-4.6 per cent), Agriculture & Forestry (-1.4 per cent), Real Estate (-0.9 per cent) as well as Manufacturing (-0.4 per cent). Compared annually, credit to Businesses increased by 2.5 per cent.

Credit Extended to Other Sectors reached E1.9 billion at the end of September 2018, decreasing by 7.7 per cent month-on-month. The contraction was due to a fall in credit extended to these sectors; Local Government (-49.3 per cent) and Public Nonfinancial Corporations (-26.6 per cent). Credit to Other Financial Corporations on the other hand, improved by 1.7 per cent over the month under review. Compared over the year, credit to Other Sectors accelerated by 86.6 per cent.

Figure 4: Private Sector Credit Monthly Changes: September 2017 to September 2018

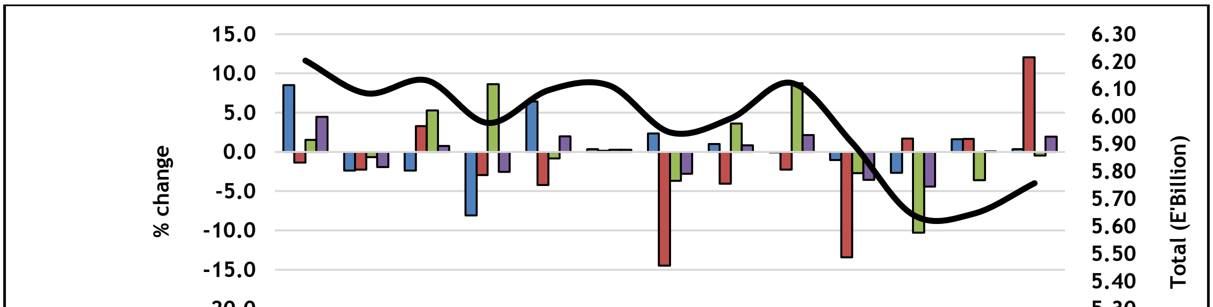


	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
BCr	6.6	- 2.3	2.6	- 4.2	- 2.2	- 2.0	- 1.9	3.7	-2.34	7.6	7.7	- 4.6	1.4
HH	4.5	-1.9	0.8	-2.5	2.0	0.3	-2.8	0.8	2.12	-3.5	-4.4	0.1	2.0
Other	9.0	4.0	11.1	65.3	- 8.2	2.6	8.8	-0.2	4.08	3.9	- 3.5	- 0.8	- 7.7
PS	5.80	-1.64	2.43	2.45	-1.25	-0.40	-0.87	1.91	0.46	2.2	1.1	- 2.3	0.3

Source: Central Bank of Eswatini
BCr: Credit Extended to Business HH: Credit Extended to Households PS: Private Sector Credit

Net Government Balances held with the banking sector reached E2.0 billion at the end of September 2018. At this level the balances were 7.0 per cent higher than in the previous month. The monthly growth in Net Government Balances was mainly due to the combined effect of a rise in claims on Government and a fall in Government deposits. When compared over the year, Net Government Balances depicted an expansion.

Figure 5: Household Credit Monthly Changes: September 2017 to September 2018



	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
Housing	8.5	-2.4	-2.4	-8.1	6.4	0.3	2.4	1.0	0.0	-1.0	-2.7	1.6	0.4
Motor Vehicles	-1.4	-2.3	3.3	-2.9	-4.2	0.2	-14.5	-4.1	-2.3	-13.4	1.7	1.7	12.1
Other	1.6	-0.7	5.3	8.6	-0.8	0.3	-3.7	3.6	8.7	-2.7	-10.3	-3.6	-0.5
Total	4.5	-1.9	0.8	-2.5	2.0	0.3	-2.8	0.8	2.2	-3.6	-4.4	0.1	2.0
Total (E'Billion)	6.20	6.08	6.13	5.98	6.10	6.11	5.94	5.99	6.12	5.90	5.64	5.65	5.76

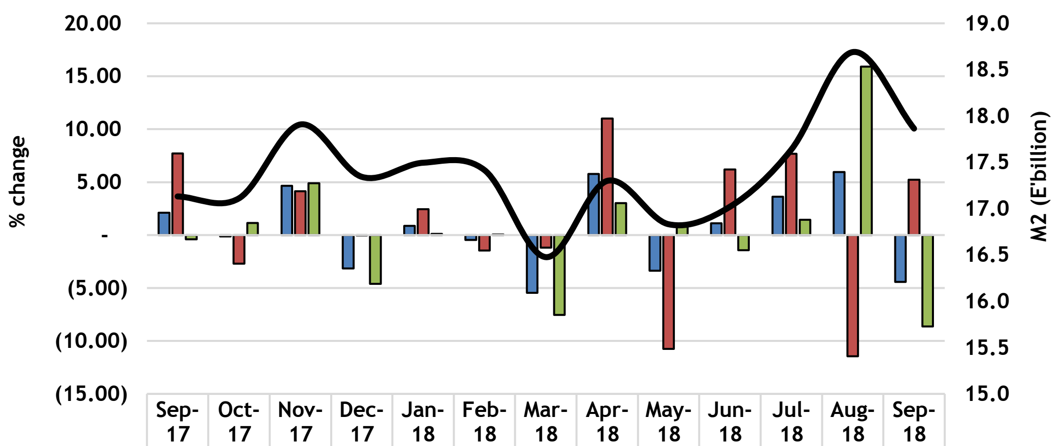
Source: Central Bank of Eswatini

Broad Money Supply (M2) recorded a month-on-month reduction of 4.4 per cent at the end of September 2018 to reach E17.9 billion, due to Quasi Money Supply. Narrow Money Supply on the other hand, trended upwards at the end of the review month. Compared over the year, M2 grew by 4.3 per cent.

Quasi Money Supply reflected a fall of 8.6 per cent from August 2018 to settle at E11.9 billion at the end of September 2018. The decrease was mainly attributed to Time Deposits which went down by 10.0 per cent to E10.2 billion. Savings Deposits on the other hand, edged up by 0.2 per cent to settle at E1.7 billion over the month under review. Over the year, Quasi Money Supply expanded by 3.1 per cent.

M1 improved by 5.2 per cent from the previous month to settle at E6.0 billion at the end of September 2018. An analysis of the components of M1 reflected that Transferable Deposits expanded by 5.4 per cent to E5.3 billion and Currency Outside Depository Corporation increased by 4.2 per cent to E687.1 million at the end of September 2018. On an annual basis, M1 grew by 6.7 per cent.

Figure 6: Money Supply Monthly Changes: September 2017 to September 2018



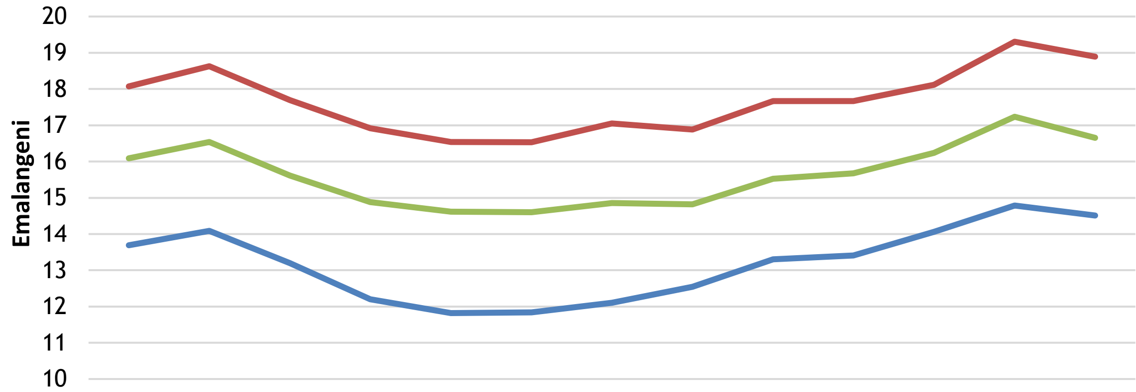
	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
M2	2.11	-0.12	4.66	-3.15	0.88	-0.45	-5.46	5.77	-3.35	1.12	3.63	5.97	-4.42
M1	7.72	-2.71	4.15	-0.00	2.43	-1.46	-1.18	11.02	-10.7	6.20	7.69	-11.4	5.22
Quasi	(0.4	1.14	4.89	-4.62	0.12	0.05	-7.55	3.02	0.81	-1.42	1.44	15.91	-8.62
M2 (E'billion)	17.1	17.1	17.9	17.3	17.5	17.4	16.5	17.3	16.8	17.0	17.6	18.7	17.9

Source: Central Bank of Eswatini

During the month of October 2018, the Lilangeni/Rand exchange rate appreciated on average against major currencies. Throughout the month, the local unit was volatile taking knocks and gains from political and policy developments in South Africa and in some developed economies. On average, the local unit was stronger against the US Dollar by 1.9

per cent to average E14.51 in October 2018 when compared to September 2018. Against other major currencies, the Lilangeni appreciated by 2.1 per cent to average E18.89 against the Pound Sterling and by 3.3 per cent to average E16.67 against the Euro, compared to the previous month. The rand continued to gain from the South African President announcement of the economy stimulus package, but took a knock towards the exit of the former Finance minister of South Africa. The rand, however, gained ground upon appointment of the new Finance minister Tito Mboweni. South Africa's Midterm Budget Policy Statement delivered during the month, gave indications of a wider budget deficit than previously projected, raising the country's fiscal uncertainty. Externally, the rand took pressure from the rising US bond yields, but was somewhat favored by the political uncertainties associated with the Brexit. Amid these developments Lilangeni ended the month with a depreciation; trading at E14.67 to the US Dollar, E18.65 to the Pound Sterling and E16.65 to the Euro.

Figure 7: Average Exchange Rates: October 2017 to October 2018.



	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
USD	13.69	14.09	13.20	12.20	11.82	11.84	12.11	12.54	13.30	13.41	14.06	14.79	14.51
GBP	18.07	18.63	17.70	16.92	16.54	16.53	17.05	16.89	17.67	17.67	18.12	19.31	18.89
Euro	16.09	16.54	15.61	14.88	14.61	14.60	14.86	14.82	15.53	15.67	16.24	17.24	16.65

Source: Central Bank of Eswatini

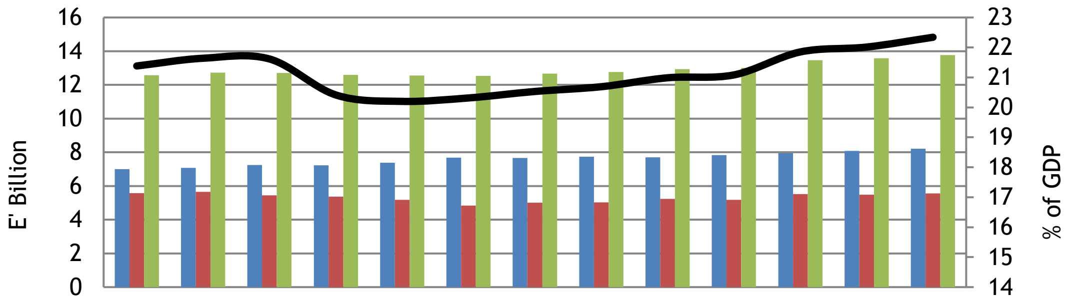
The local unit continues to take pressure from political and policy risks, both in South Africa and abroad. The widening of the budget deficit of South Africa threatens South Africa's investment grade credit ratings that currently remains one notch above the junk status. Furthermore, the interest rate differential between South Africa and US remains a negative risk on the rand as markets expect interest rates to increase further in the US.

3 Public Debt

Preliminary figures indicate that total public debt stood at E13.8 billion, an equivalent of 22.3 per cent of GDP at end of October 2018. This reflects an increase of 1.5 per cent from the revised figure of E13.6 billion recorded in September 2018.

At the end of October 2018, external debt stood at E5.6 billion, an equivalent of 9.0 per cent of GDP. This shows that external debt increased by 1.8 per cent over the past month. The increase is mainly a result of a depreciation of the Lilangeni against the US Dollar and other major currencies in which the countries liabilities are denominated.

Figure 8: Total Public Debt: October 2017 to October 2018

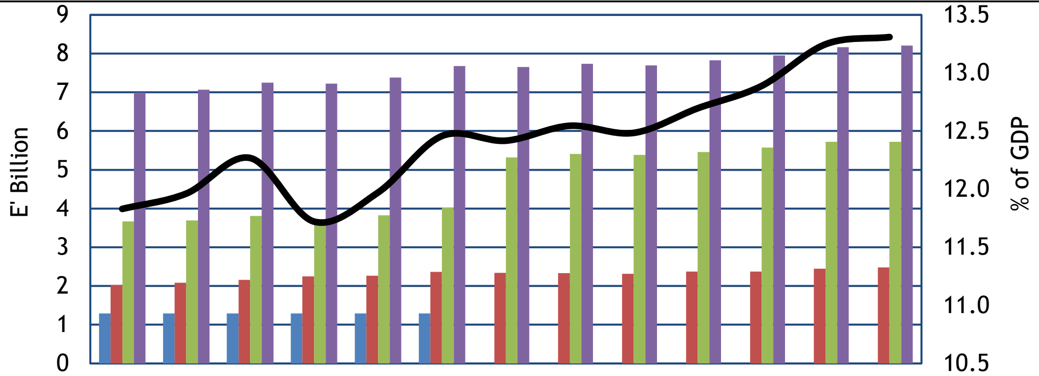


	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
Domestic	7.0	7.1	7.3	7.2	7.4	7.7	7.7	7.7	7.7	7.8	7.9	8.1	8.2
External	5.6	5.6	5.5	5.4	5.2	4.8	5.0	5.0	5.2	5.2	5.5	5.5	5.6
Total	12.6	12.7	12.7	12.6	12.6	12.5	12.7	12.8	12.9	13.0	13.5	13.6	13.8
% of GDP	21.4	21.6	21.6	20.4	20.2	20.3	20.5	20.7	21.0	21.1	21.9	22.0	22.3

Sources: Ministry of Finance and Central Bank of Eswatini

Domestic debt stood at about E8.2 billion at the end of October 2018, equivalent to 13.3 per cent of GDP. Domestic debt increased by 0.5 per cent when compared to September 2018. The marginal increase was a result of increased uptake of the 91 Days Treasury Bills, as the Auction Committee applied the “green-shoe option” which allows allotment of up-to 50 per cent over and above the amount on offer.

Figure 9: Domestic Debt Instruments Outstanding as at 31 October 2018

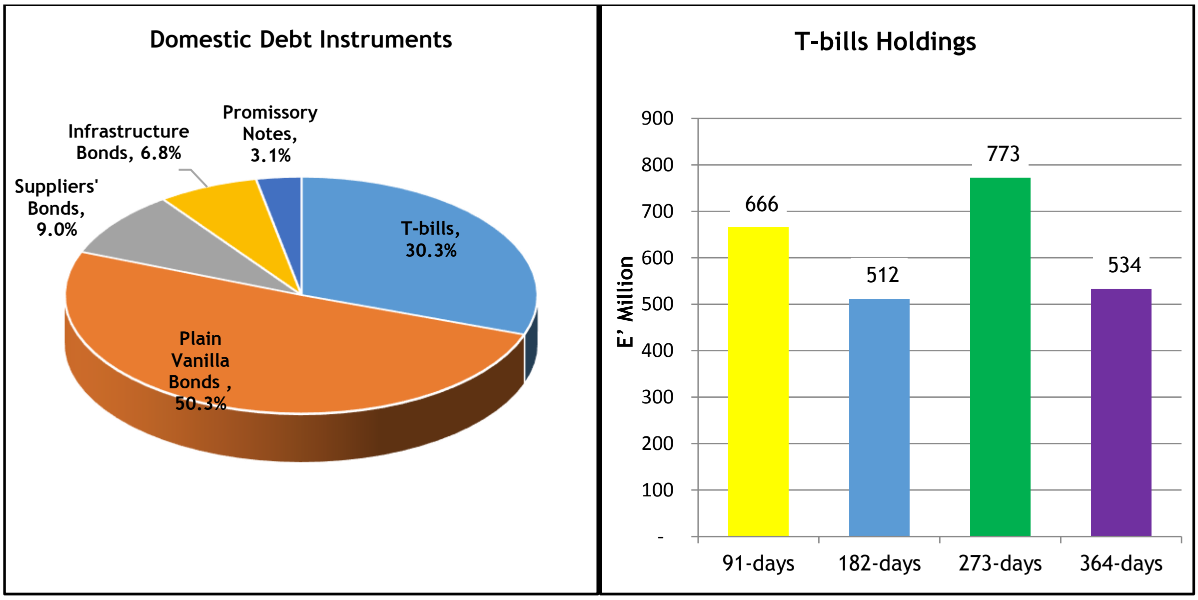


	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
CBS Advance	1.3	1.3	1.3	1.3	1.3	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
T-Bills	2.0	2.1	2.2	2.2	2.3	2.4	2.3	2.3	2.3	2.4	2.4	2.4	2.5
Bonds & PN	3.7	3.7	3.8	3.7	3.8	4.0	5.3	5.4	5.4	5.5	5.6	5.7	5.7
Total	6.99	7.07	7.25	7.23	7.38	7.68	7.66	7.74	7.70	7.83	7.95	8.17	8.21
% of GDP	11.8	12.0	12.3	11.7	12.0	12.5	12.4	12.5	12.5	12.7	12.9	13.2	13.3

Sources: Ministry of Finance and Central Bank of Eswatini

The Plain Vanilla Bond accounts for over 50 per cent of the total domestic debt instruments issued. This Instrument is mainly used for financing general government operations. Treasury Bills, which are used for similar purpose, amount to 30 per cent, whilst the Suppliers' and Infrastructure Bonds account for 9 per cent and 6.8 per cent, respectively. The remainder is made up of Promissory Notes, which have been offered to specific suppliers to Government.

Figure 10: Domestic Debt Holding by Type as at 31 October 2018



Sources: Ministry of Finance and 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 October, 2018 (E' Million)

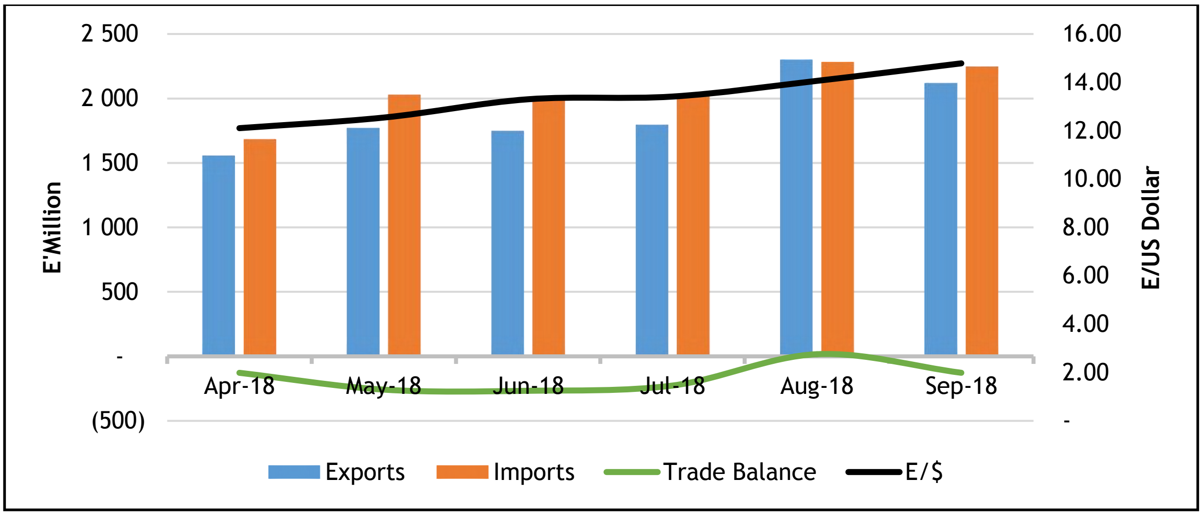
Holder	Treasury Bills	Government Bonds	Promissory Notes	Total	Share of Holdings (%)
CBS	3.6	1,293.4	0.0	1,296.1	15.7
Commercial banks	1,660.9	766.2	0.0	2,427.2	29.4
NBFIs	743.7	3,239.7	0.0	3,983.4	48.2
Other	124.4	172.1	252.6	549.1	6.7
Total	**2,532.7**	**5,471.4**	**219.4**	**8,256.7**	**100**

Source: Ministry of Finance and Central Bank of Eswatini

4 The External Sector

Latest trade data indicates that as at September 2018 Eswatini recorded a merchandise trade deficit of E127.3 million from a surplus of E16.8 million in the previous month. Exports contracted by 7.8 per cent month-on-month to E2.119 billion while imports narrowed by 1.6 per cent to E2.246 billion. Cumulative year-to-date balance in the merchandise trade amounted to a deficit of E1.374 billion in September 2018.

Figure 12: Merchandise Trade: April 2018 to September 2018



Source: Central Bank of Eswatini

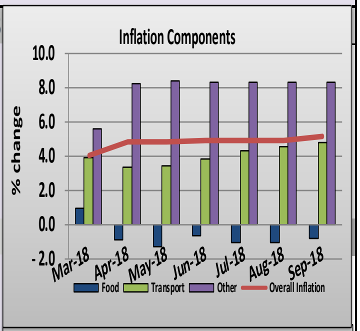
Miscellaneous edibles continue to be the leading export commodity followed by sugar. Export proceeds from miscellaneous edibles decreased to E821.8 million in September 2018, a 15 per cent month-on-month slump from the previous month. On the contrary, receipts from the exports of sugar and sugar confectionary surged by a 9 per cent month-on-month to E625.3 million during the review month. Textiles and articles of textiles posted a 29 per cent month-on-month drop to E144.6 million in September. These products were mainly destined to China, South Africa, Taiwan, United Kingdom and the US. During the same period, export proceeds from wood and wood articles amounted to E112.5 million, depicting a month-on-month decline of 1.5 per cent from August 2018. Data shows that all wood and wood products exports are destined to the South African market.

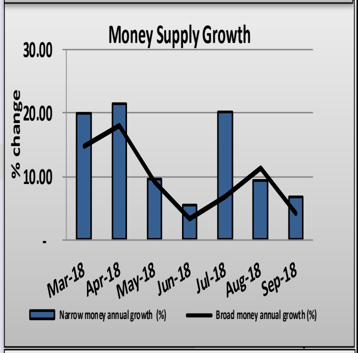
On the import side, the main commodities that were imported include cereals, mineral fuels, vehicles other than railway equipment, nuclear reactors, electrical machinery and equipment, iron and steel, cotton, plastic and plastic products, electricity, and essential oils. All these products accounted for 61 per cent of the total import bill for September 2018.

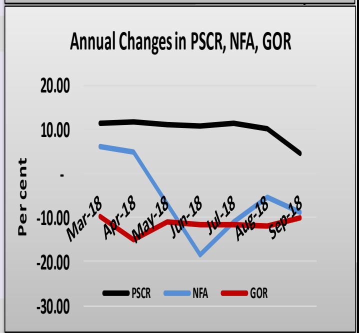
Economic Policy, Research and Statistics Division

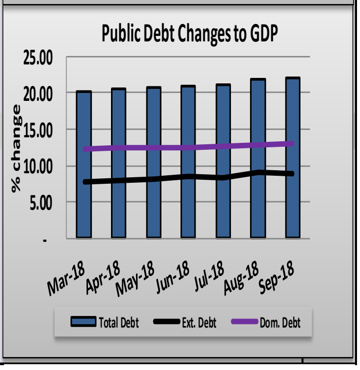
Kingdom of Eswatini Economic Indicators at a glance

Sectors	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
Overall Inflation	4.0	4.8	4.8	4.9	4.9	4.9	5.1
Food	0.9	-0.9	-1.3	-0.7	-1.1	-1.1	-0.8
Transport	3.9	3.3	3.4	3.8	4.3	4.5	4.8
Other	5.6	8.2	8.4	8.3	8.3	8.3	8.3
Money and banking							
Narrow money annual growth (%)	19.90	21.50	9.50	5.60	20.20	9.30	6.70
Broad money annual growth (%)	14.70	18.00	9.20	3.40	6.80	11.40	4.30
Domestic credit (net) - E' Million	14 981.03	13 269.69	14 280.72	16 022.23	16 158.70	16 199.37	16 376.23
Government	1 135.70	-840.02	103.94	1 530.70	1 511.70	1 881.93	2 013.08
Private sector	13 845.33	14 109.71	14 176.78	14 491.54	14 647.00	14 317.44	14 363.16
Private sector credit annual growth (%)	11.20	11.80	10.95	10.70	11.20	10.10	4.39
Interest rates (% p.a)							
Prime lending	10.25	10.25	10.25	10.25	10.25	10.25	10.25
Discount rate	6.75	6.75	6.75	6.75	6.75	6.75	6.75
Deposit rate - 31 days	2.53	2.24	2.24	2.24	2.24	2.24	2.24
- 12 months	4.92	4.59	4.59	4.59	4.59	4.59	4.59
- T. bill rate	7.79	7.78	7.70	7.61	7.67	7.55	7.60
Ratios							
Liquidity ratio (required = 20 %)	28.10	26.30	29.24	28.30	31.20	28.60	30.13
Loans/deposits ratio	81.10	78.70	81.18	81.90	80.00	73.80	77.26
Net foreign assets (E'million)	7 655.91	8 620.39	7 410.77	6 879.06	8 191.00	8 480.50	7 564.92
Annual % change in NFA	6.10	4.90	-6.97	-18.60	-11.10	-5.50	-8.85
Gross official foreign reserves E'Millions	6 600.80	6 940.45	6 608.54	6 091.78	7 232.40	6 473.30	6 466.92
Annual % change in GOR	-9.90	-15.20	-10.97	-11.50	-11.70	-11.80	-9.98
In months of import cover	3.20	3.30	3.20	2.90	3.30	3.00	2.98
Exchange Rates							
US$	11.83	12.11	12.54	13.30	13.41	14.06	14.77
EURO	14.60	14.86	14.82	15.53	15.67	16.24	17.24
GBP	16.53	17.05	16.89	17.67	17.67	18.11	19.31
Public Finance							
Total public external debt [E' million]	4 845.40	5 003.20	5 022.41	5 244.00	5 172.40	5 526.60	5 493.10
As a % of GDP	7.80	8.00	8.10	8.50	8.40	9.00	8.91
Total public domestic debt [E' million]	7 682.60	7 657.67	7 736.80	7 699.00	7 829.71	7 948.30	8 082.30
As a % of GDP	12.30	12.42	12.55	12.48	12.70	12.89	13.11
Total public debt [E' million]	12 528.00	12 660.87	12 759.21	12 943.00	13 002.11	13 474.90	13 575.41
As a % of GDP	20.10	20.53	20.69	20.99	21.08	21.85	22.01









NB: For consistency, the table shows data up to the end of September 2018.