

The Kingdom of Swaziland



Major Highlights

❖ <i>The country's headline inflation increased to 8.0 per cent in August 2016 from 7.4 per cent in July 2016.</i>	Inflation rate (% y/y)	8.0 (Aug) ↑
❖ <i>Discount and prime rates remained at 7 per cent and 10.5 per cent respectively in September 2016.</i>	Prime Lending (%)	10.5
	Discount rate (%)	7.0
❖ <i>During the month of September 2016 the external value of the Lilangeni weakened against major currencies.</i>	Exchange rate (US\$)	14.03 (Sep) ↑
❖ <i>Credit to the Private Sector amounted to E12.3 billion at the end of August 2016, 0.6 per cent lower than recorded at the end of July 2016.</i>	Private Sector Credit (% y/y)	9.4 (Aug) ↑
❖ <i>Broad Money Supply (M2) expanded by 5.7 per cent (m/m) at the end of August 2016 to settle at E15.1 billion.</i>	Broad Money (M2) (% y/y)	21.4 (Aug) ↑
❖ <i>Gross Official Reserves closed at E7.5 billion at the end of September 2016, lower than the E7.9 billion recorded in August 2016.</i>	Reserves (months of import cover)	3.6 (Sep) ↓
❖ <i>At the end of September 2016, preliminary debt figures indicate that total public debt remained unchanged at E8.8 billion.</i>	Total Public Debt (% to GDP)	16.1 (Sep)
❖ <i>In the first quarter of 2016, Swaziland's current account shrank to a surplus of E811.2 million, a significant 62 per cent drop from a surplus of E2.59 billion realised in the last quarter of 2015.</i>	Current Account Balance (% of GDP)	1.5 (Mar) ↓

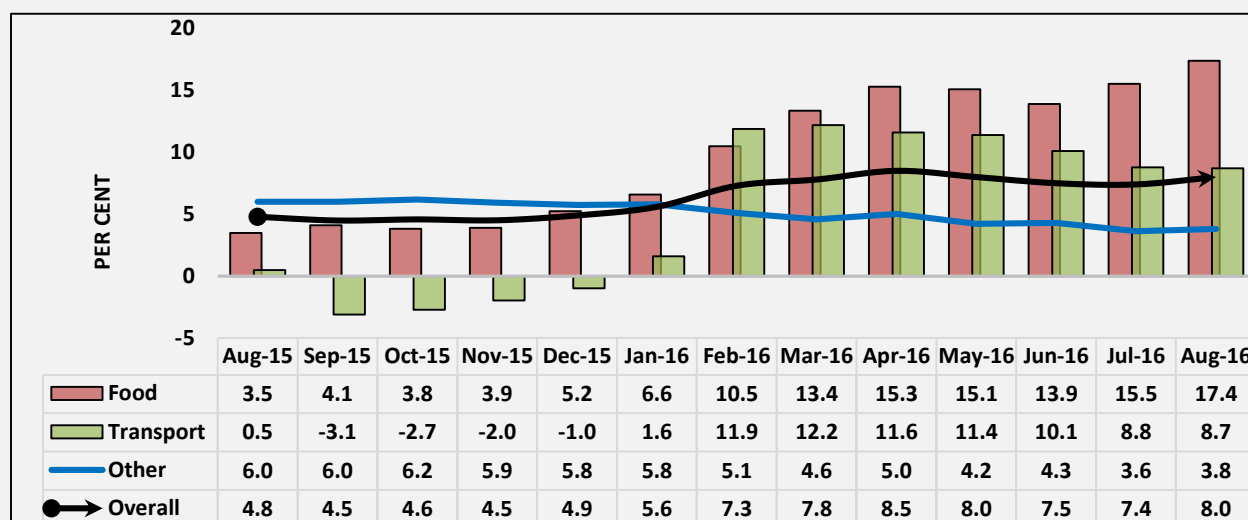
NB: The table shows the most recent available data.

1 Inflation developments

Following three months of moderation, the annual consumer inflation rose to 8.0 per cent in August 2016 from 7.4 per cent in July 2016. Inflationary pressures continued to be driven by prices of goods which remained at double digits, rising from 11.8 per cent in July 2016 to 13.1 per cent in August 2016. This increase was mainly driven by food inflation which rose to 17.4 per cent in August 2016 from 15.5 per cent in July 2016 on the back of increases in the prices of rice, fruits, vegetables and oils and fats. Further increases were observed in the price indices for ‘clothing and footwear’, ‘miscellaneous goods and services’ and ‘furnishing and household equipment’.

The above increases were partially offset by decreases in the price indices for education and transport. The education index grew at a slower rate of 2.4 per cent from 3.1 per cent the previous year. This slowdown mainly benefited from slower increases in fees for tertiary education which rose by an average of 6.7 per cent in August 2016 compared to 13.4 per cent the previous month. Transport inflation decreased marginally from 8.8 per cent in July to 8.7 per cent in August 2016 benefiting from slower increases in the prices of spare parts and accessories for personal transport equipment.

Figure 1: Inflation Trends; August 2015 to August 2016

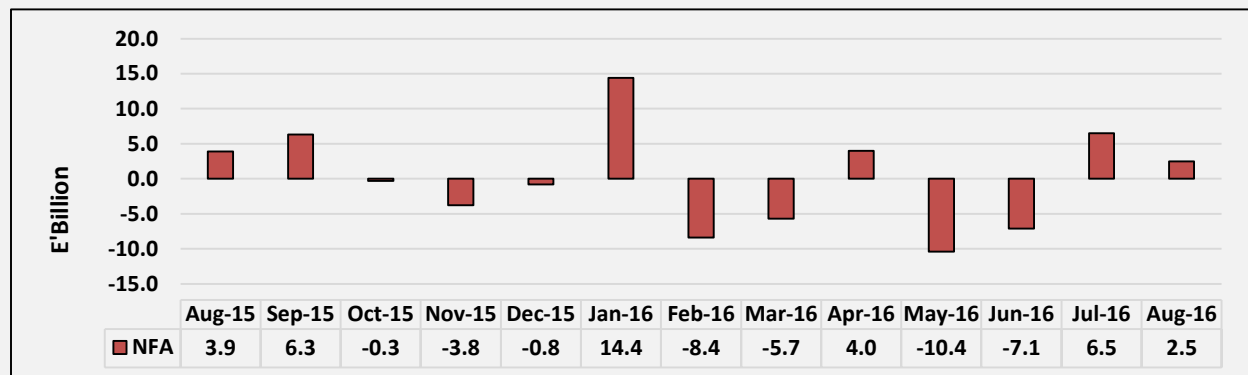


Source: Central Statistical Office

On month-on-month rates, inflation rose by 0.8 per cent in August 2016 compared to 0.3 per cent in July 2016. Notable increases were observed in the price indices for ‘food and non-alcoholic beverages’ (which grew by 1.9 per cent) and ‘miscellaneous goods and services’ (which grew by 1.5 per cent). Inflationary pressures were also observed in prices for semi-durable and durable products. Core inflation (which is defined as inflation excluding food, non-alcoholic beverages, auto-fuel and energy) rose slightly from 4.3 per cent in July 2016 to 4.4 per cent in August 2016. On a month-on-month basis, core inflation was also higher at 0.4 per cent in August 2016 compared to 0.1 per cent in July 2016.

2 Money Supply and Banking

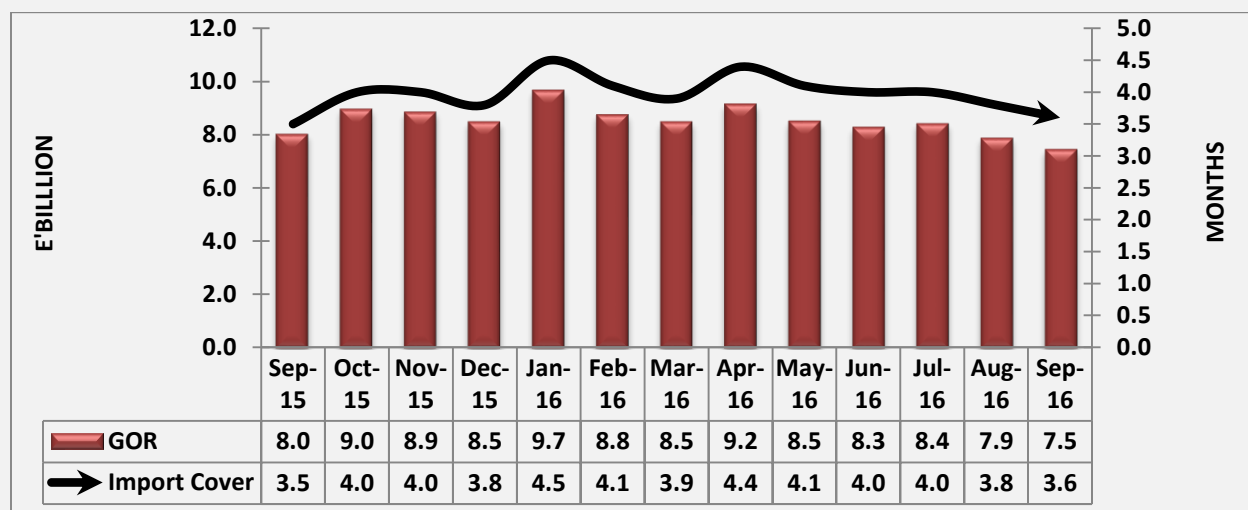
Figure 2: Net Foreign Assets Monthly Changes; August 2015 to August 2016



Source: Central Bank of Swaziland

The Country’s Net Foreign Assets grew by 2.5 per cent to settle at E8.5 billion at the end of August 2016. The growth was mainly attributed to an increase in Net Foreign Assets of Other Depository Corporations coupled with a fall in Net Official Assets over the period under review. Net Foreign Assets of Other Depository Corporations registered a significant growth of 55.9 per cent over the review month to settle at E2.1 billion. The expansion was mainly attributed to an increase in Commercial Banks’ investments in the Common Monetary Area (CMA) and other Foreign Banks over the month of August 2016. In contrast, Net Official Assets decelerated by 7.9 per cent to E6.4 billion due to payment of Government’s external obligations during the review month. Valued in Special Drawing Rights (SDRs), Net Foreign Assets declined by 2.1 per cent to reach SDR416 million, over the month under review. When compared year-on-year, Net Foreign Assets decelerated by 6.2 per cent when valued in Emalangenzi and by 14.4 per cent in SDR terms.

Figure 3: Gross Official Reserves and Import Cover; September 2015 to September 2016



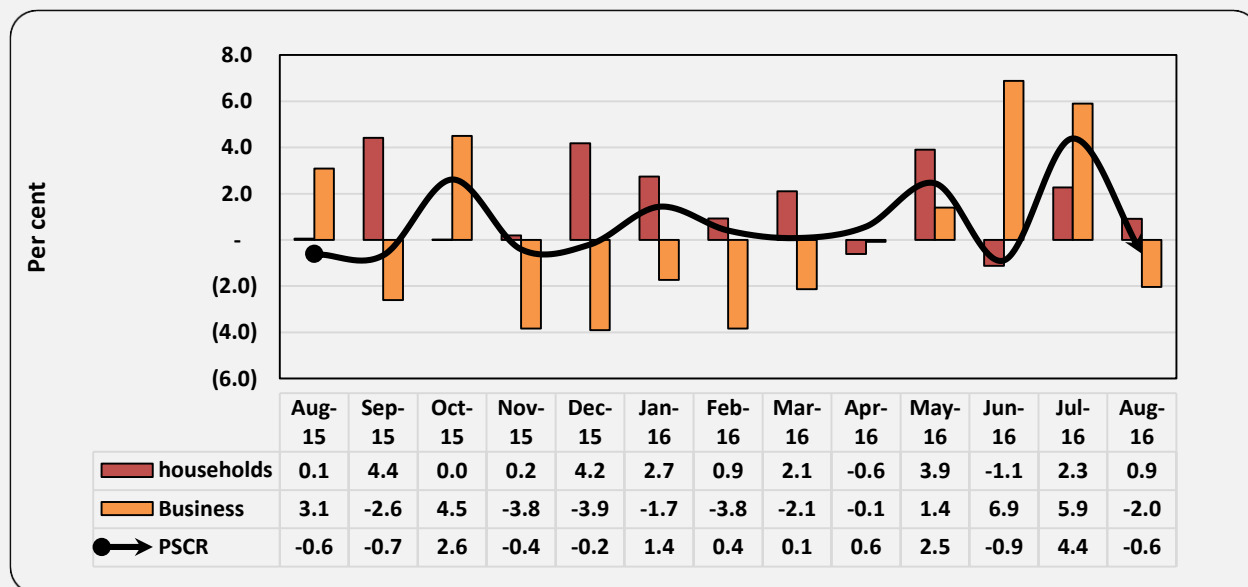
Source: Central Bank of Swaziland

Gross Official Reserves contracted by 5.3 per cent to reach E7.5 billion at the end of September 2016 from E7.9 billion recorded at the end of August 2016. The contraction mainly emanated from payment of Government’s external obligations during the month of September 2016. At this level, the Reserves were sufficient to cover 3.6 months of import of goods and services, lower than the 3.8 months observed at the end of August 2016. When valued in Special Drawing Rights (SDRs), the Reserves amounted to SDR386.3 months reflecting an increase of 0.3 percent when compared with the previous month. Compared over the same period last year, the Reserves decelerated by 7 per cent in Emalangeni terms and by 6.2 per cent in SDRs terms.

However, Gross Official Reserves rose to E8.5 billion in the week ended 7th October 2016, 13.3 per cent higher than the level recorded at the end of September 2016. The growth in the Reserves was primarily on account of an inflow of the Southern African Customs Union (SACU) revenue at the beginning of October 2016. With this increase, the Reserves were sufficient to cover 4.1 months of import of goods and services.

Credit Extended to the Private Sector stood at E12.3 billion decreasing by 0.6 per cent month-on-month over the month of August 2016. The contraction was mainly discernable in credit extended to Businesses and Other Sectors (mainly Other Financial Corporations) over the review month. Credit Extended to Other Resident Sectors (Households & Nonprofit Institutions Serving Households) on the other hand, reflected an expansion during the month of August 2016. Year-on-Year, Private Sector Credit grew by 9.4 per cent.

Figure 4: Private Sector Credit Monthly Changes; August 2015 to August 2016



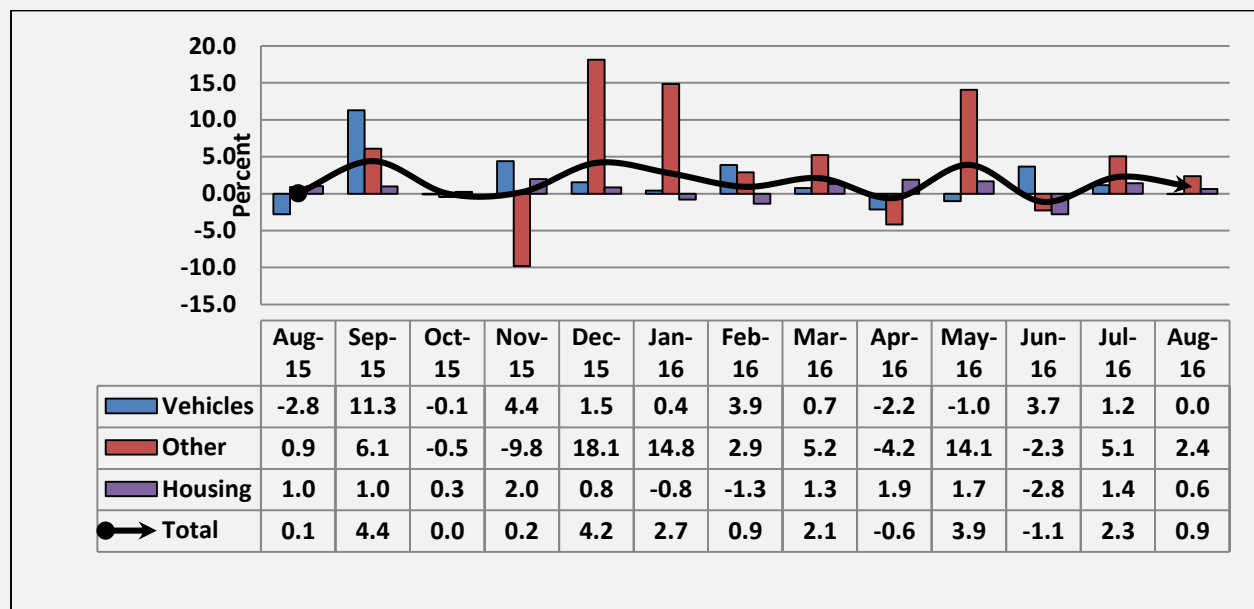
Source: Central Bank of Swaziland 2016

Credit Extended to Businesses amounted to E5.6 billion at the end of August 2016, depicting a decline of 2.0 per cent when compared with the previous month. The decline was largely underpinned by credit extended to these sectors; Distribution and Tourism (-8.9 per cent), Community, Social & Personal Services (-3.3 per

cent) as well as Mining and Quarrying (-2.2 per cent). However, an improvement was registered in these sectors; Manufacturing sector by 5.7 per cent (mainly fruit and vegetables and meat processing) and Construction by 4.7 per cent over the review month.

Credit Extended to Households & NPISH settled at E5.8 billion at the end of August 2016 from E5.7 billion at the end of July 2016, reflecting growth of 0.9 per cent. The rise was mainly due to an increase in Other (unsecured) loans and Housing loans, offsetting a contraction in Motor Vehicle Finance over the month under review. Other (unsecured) loans accelerated by 2.4 per cent to E1.5 billion and Housing Loans by 0.6 per cent to E2.8 billion. In contrast, Motor Vehicle Finance decelerated by 0.02 per cent to settle at E1.4 billion at the end of August 2016.

Figure 5: Household Credit Monthly Changes; August 2015 to August 2016

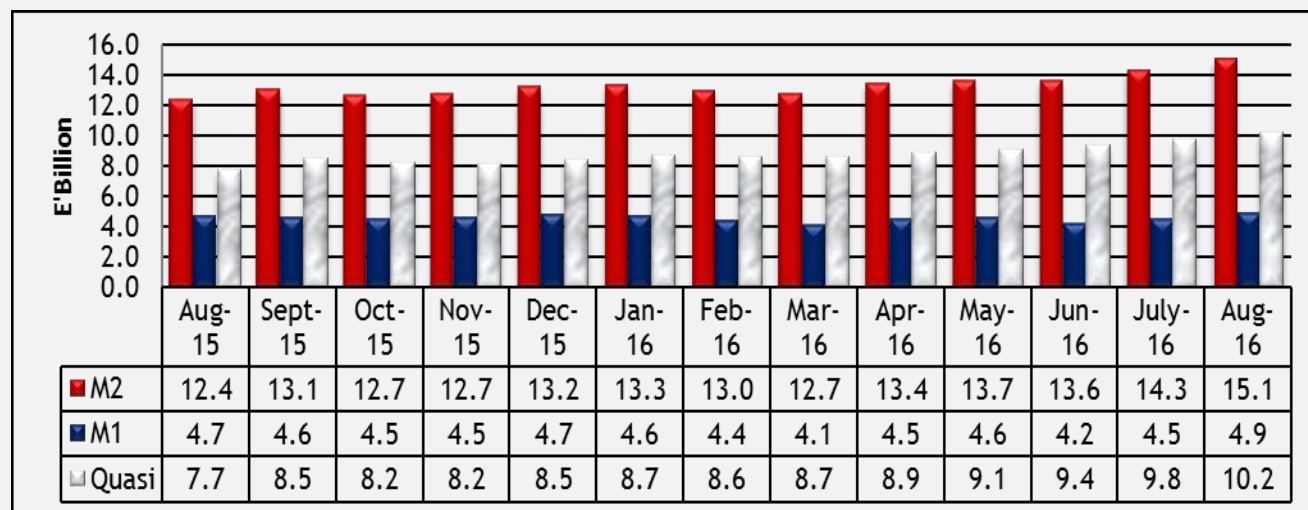


Source: Central Bank of Swaziland

Credit Extended to Other Sectors decreased from E949.7 million recorded in July 2016 to close the month of August 2016 at E940.8 million depicting a reduction of 0.9 percent. The reduction was observed in credit extended to Other Financial Corporations which contracted by 2.2 per cent. Credit Extended to Public Nonfinancial Corporations and Local Government however depicted an improvement over the month under review.

Net Government Balances with the banking system decelerated by 41.4 per cent to settle at E2.1 billion over the review month. The contraction was mainly attributed to a reduction in Government deposits by 0.9 per cent coupled with an increase in claims on Government over the review month. Over the year, Net Government Balances decelerated by 66.7 per cent.

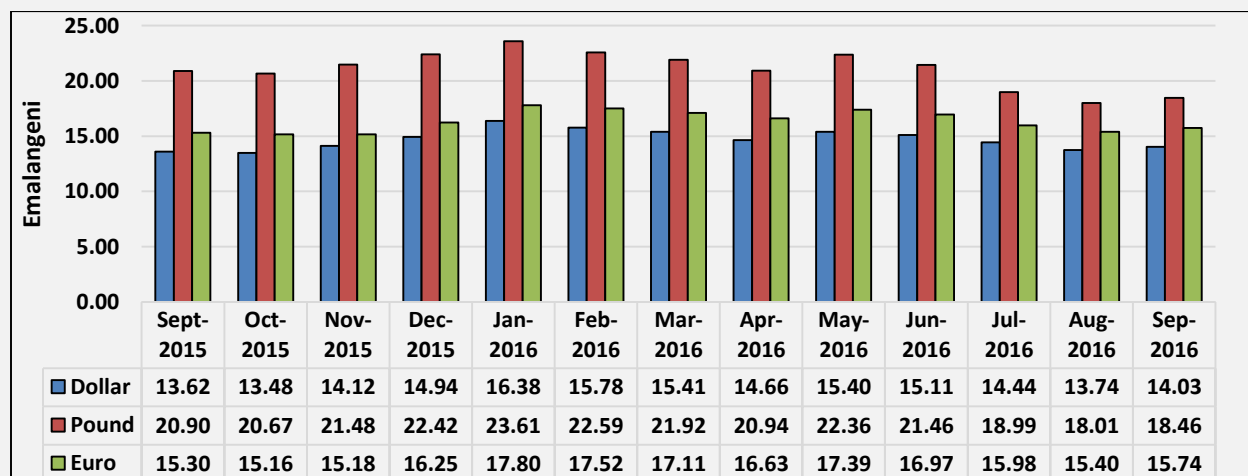
Figure 6: Money Supply Monthly Changes; August 2015 to August 2016



Source: Central Bank of Swaziland

Broad Money Supply (M2) expanded by 5.7 per cent to E15.1 billion as at August 2016, mainly driven by a rise in both its components, Narrow Money Supply (M1) and Quasi Money. M1 edged up by 8.7 per cent to E4.9 billion on account of a rise in Transferable Deposits which overshadowed a fall in Currency Outside Depository Corporation over the month of August 2016. Transferable Deposits reflected an upsurge of 12.2 per cent to E4.3 billion whilst Currency Outside Depository Corporations shrank by 11.8 per cent to E580.1. Quasi Money recorded an increase of 4.3 per cent to settle at E10.2 billion over the review month, mainly driven by growth in Time and Savings Deposits. Time Deposits increased by 4.6 per cent to E8.4 billion and Savings Deposits by 2.4 per cent to E1.8 billion. Over the year, M2 expanded by 21.4 per cent, M1 by 4.3 per cent and Quasi Money by 31.8 per cent.

Figure 7: Average Exchange Rates; September 2015 to September 2016



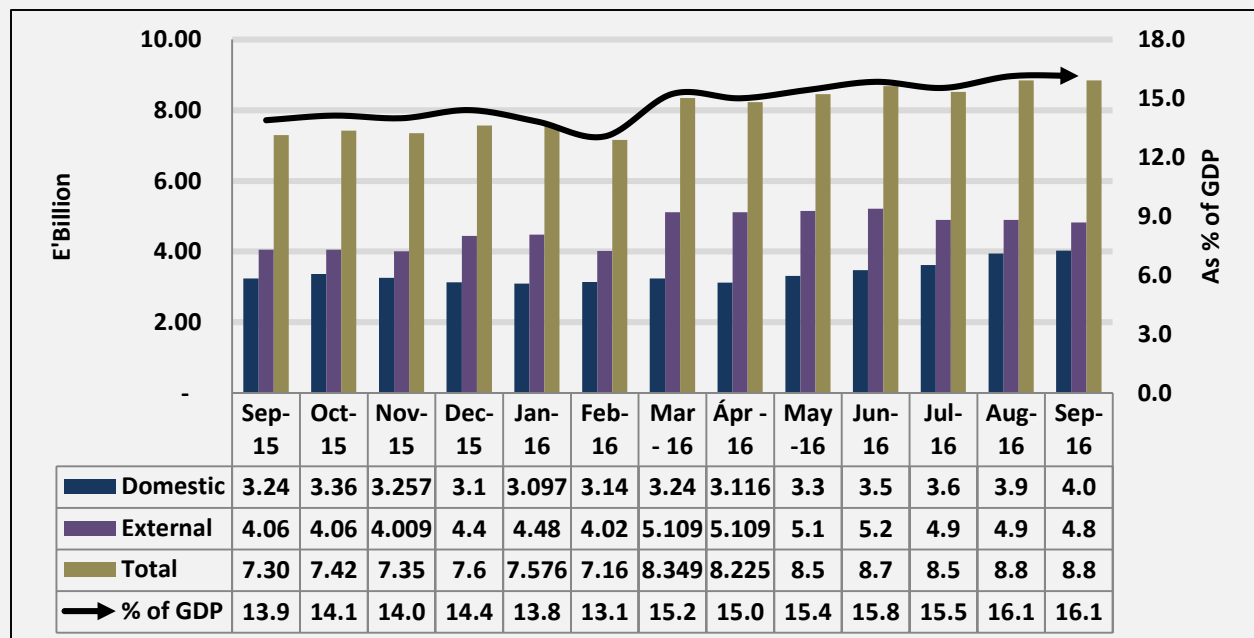
Source: Central Bank of Swaziland

During the month of September 2016, the external value of the Lilangeni weakened against major currencies. The domestic unit weakened by 2.1 per cent to average E14.03 against the US Dollar, by 2.5 per cent to average E18.46 to the Pound, and by 2.2 per cent to average E15.74 to the Euro in the month of September 2016. The Lilangeni lost value against the US Dollar in September, partly due to the South African Rand being undervalued and the political turmoil in SA. The local unit ended the period under review at E14.02 to the US Dollar, E18.16 to the Pound Sterling and E15.68 to the Euro.

3 Public Debt

As at the end of September 2016, preliminary debt figures indicate that total public debt stood at E8.8 billion. This shows that total public debt has remained unchanged over the past month since it was also recorded at E8.8 billion at the end of August 2016. Although new debt has been issued and debt service has been made in the month under review, the net effect of these transactions has been minimal to warrant a change in the stock of debt.

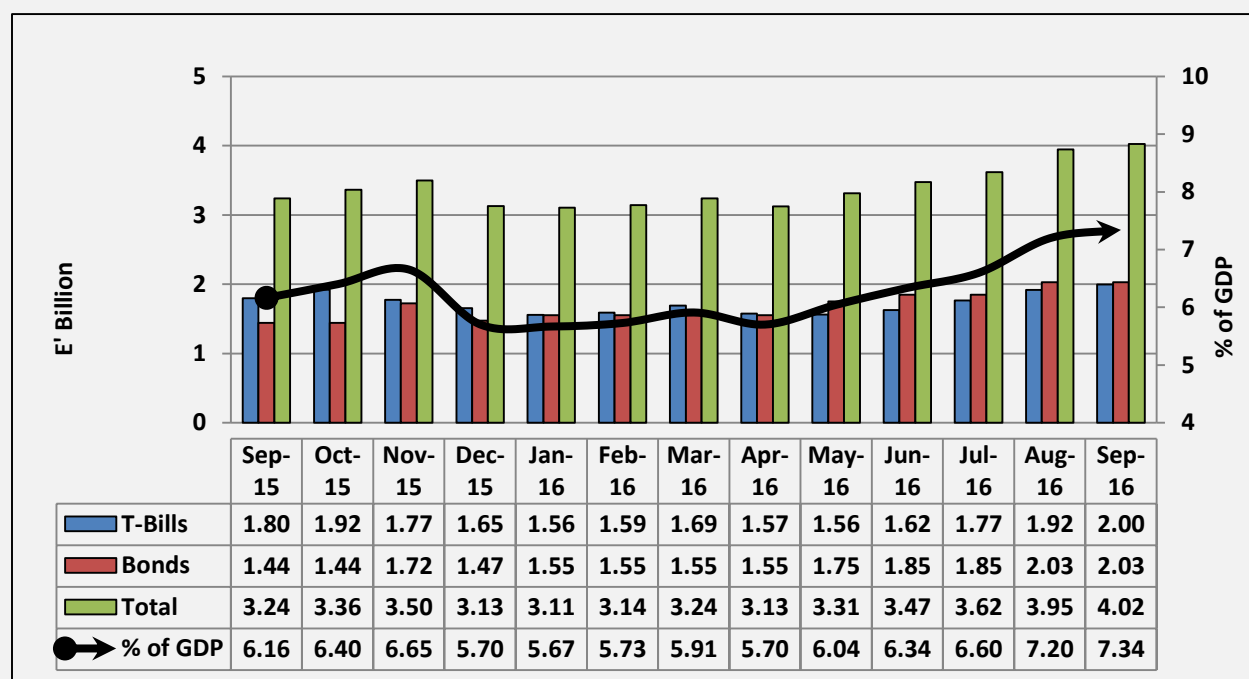
Figure 8: Total Public Debt; September 2015 to September 2016



Source: Ministry of Finance and Central Bank of Swaziland

External debt as at end of September 2016 stood at E4.8 billion an equivalent of 8.8 per cent of GDP. This indicates a marginal decline of about 2 per cent when compared to the previous month where external debt was recorded at E4.9 billion. The decline can be attributed to a slight recovery of the Lilangeni against major currencies in which the country’s liabilities are denominated.

Figure 9: Public Domestic Debt; September 2015 to September 2016



Source: Ministry of Finance and Central Bank of Swaziland

As at the end of September 2016, domestic debt rose in nominal terms to E4.02 billion compared to E3.95 recorded in August 2016. This shows a marginal increase of about 2 per cent bringing domestic debt to 7.34 percent to GDP. The increase can be attributed to a slight improvement in the uptake of Treasury Bills in the month under review. Of the outstanding domestic debt, E1.99 billion accounts for treasury bills while E2.03 billion accounts for bonds. 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: Public Domestic Debt Outstanding by Holder as at 30th September 2016 (E'000)

Holder	Government Bonds	Treasury Bills	Total	Share of Holding (%)
Commercial Banks	596,758	1,545,898	2,142,655	53.24
NBFI's	1,274,766	368,572	1,643,338	40.83
Other	156,493	81,929	238,423	5.92
TOTALS	2,028,017	1,996,400	4,024,417	100

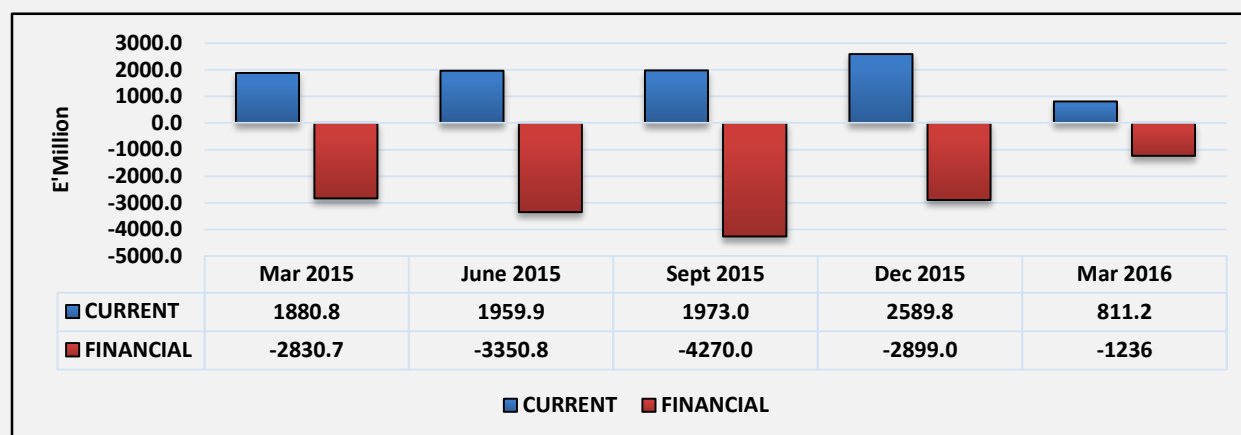
Source: Ministry of Finance and Central Bank of Swaziland

On behalf the government, the Central Bank will at the end of October 2016 issue a 10-year bond amounting to E150 million at a fixed coupon rate of 10.75 per cent.

4 The External Sector

Swaziland's balance of payments registered a surplus for the second consecutive quarter, for the quarter ending March 2016. The overall balance posted a surplus of E288.1 million, up from a E167.8 million surplus in the previous quarter. This surplus was equivalent to 0.5 per cent of GDP against a surplus of 0.3 per cent in the previous quarter. The net inflow in the overall balance was underpinned by surpluses recorded in the merchandise trade, income and current transfers of the current account.

Figure 10: Current and Financial Accounts Quarterly Changes; March 2015 to March 2016.



Source: Central Bank of Swaziland and Swaziland Revenue Authority

In the first quarter of 2016, Swaziland's current account shrank to E811.2 million, a significant 62 per cent drop from the last quarter of 2015. This decline in the current account surplus was mainly due to a reduction in the surpluses recorded both in the trade account and the current transfers account during the first quarter. As a percentage of GDP, the surplus in the first quarter is equivalent to 1.5 per cent compared to 4.2 per cent in the previous quarter.

The trade account recorded a lower surplus amounting E1.005 billion during the first quarter compared to the E1.595 billion posted in the fourth quarter of 2015. Exports have been benefiting largely from the weaker Lilangeni exchange rate against major world currencies. However, the strengthening of the local currency during the review period has slightly affected the size of the country's income from exports. Notably is that during the first quarter of every year there is reduced economic activity, which would explain the current results in the trade account. Receipts from merchandise exports fell by 15.3 per cent quarter-on-quarter to E5.500 billion while import payments fell by 8.2 per cent. An annual analysis however shows that exports rose by 7.2 per cent.

Miscellaneous edibles, which partly consist of soft drink concentrates, recorded a 24.6 per cent quarter-on-quarter fall in exports proceeds to E2.761 billion during the first quarter. A yearly analysis shows that miscellaneous edibles grew by a significant 16 per cent from a year ago. On a positive note, export receipts

from sugar and sugar confectionary grew by a significant 14.3 per cent quarter-on-quarter to E1.273 billion in the period under review. Of these receipts, 63.5 per cent came from trade with South Africa, depicting a decline from the 77.9 per cent recorded previously. Textiles and articles of textiles posted a 14.6 per cent quarter-on-quarter drop in receipts to E555.9 million. Data show that a significant share of close to 100 per cent of textiles is now exported to South Africa. The South African market also benefits from wood and wood products coming from Swaziland on a large scale.

The deficit in the services account decreased by 6.6 per cent quarter-on-quarter to E771.1 million in the first quarter of the year. This improvement in the deficit was due to a E200 million reduction in services outflows in the quarter ending March 2016 from E1.523 in the previous quarter. Services inflows fell by E145.7 million to E552.2 million, illustrating that the country continues to be a net importer of services. Preliminary data show that the income account deteriorated to a deficit of E1.018 billion during the first quarter compared to the E903.6 million posted in the fourth quarter of 2015. A year-on-year analysis reflects a 20.6 per cent worsening of this account. Income inflows amounted to E1.209 billion against outflows of E2.227 billion over the same period. Contributing largely to the outflows were dividends paid and remitted branch profits to non-resident shareholders. The financial account recorded a deficit of E1.236 billion following a deficit of E2.899 billion in the previous quarter, exacerbated by net outflows recorded in all the sub accounts in the review period.

After posting net inflows in the preceding two quarters, foreign direct investment (FDI) in Swaziland recorded a net outflow of E290 million in the first quarter of 2016, buoyed by a contraction in reinvested earnings during the quarter. Reinvested earnings posted a net outflow of E353.4 million, a turnaround from the net inflow of E615.1 million in the last quarter of the previous year. Other capital liabilities (loans and trade credits) registered a net inflow amounting to E145.3 million by the end of the first quarter from a net outflow of E2.2 million in the previous quarter. Portfolio investments recorded a subdued net outflow of E611.7 million in the quarter under review against an outflow of E1.444 billion in the previous quarter, owing to net outflows recorded in both equity and debt securities assets that are held in South African money markets. The net outflow of equity securities assets amounted to E509.6 million, down from a net outflow of E1.524 billion in the quarter ending December 2015. A turnaround in the flow of debt securities assets was observed in the quarter under review, recording a net outflow of E102.2 million from a net inflow of E79.8 million in the preceding quarter.

The deficit in the ‘other investment’ category of the financial account narrowed to E334.3 million in the quarter under review, down from E2.044 billion in the previous quarter, owing mainly to a turnaround of E460.1 million net inflow in investment assets during the period. Assets held by the banking sector registered a net outflow of E161.7 million in the review quarter, swinging from a net inflow of E409.2 million in the last quarter of 2015. Flows in claims held by the private sector from non-residents swayed to a net inflow of

E621.8 million in March 2016, compared to a net outflow of E3.036 billion in the previous quarter. Government continued servicing its foreign debt obligation and making drawdowns on available loan facilities during the review quarter. Public and publicly guaranteed debt posted a net outflow of E76.6 million in the period ending March 2016, higher than the E48.5 million net outflow in the previous quarter. Repayments amounted to E77.7 million against drawdowns of E1.2 million.

Recent Economic Developments August/September, 2016

CENTRAL BANK OF SWAZILAND	CENTRAL BANK OF SWAZILAND						CENTRAL BANK OF SWAZILAND
Economic Policy, Research and Statistics Division							
Swaziland Economic Indicators at a glance							
Sectors	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	
Overall Inflation	7.8	8.5	8.0	7.5	7.4	8.0	<p style="text-align: center;">Inflation</p>
Food	13.4	15.3	15.1	13.9	15.5	17.4	
Transport	12.2	11.6	11.4	10.1	8.8	8.7	
Other	4.6	5.0	4.2	4.3	3.6	3.8	
Money and banking							<p style="text-align: center;">Money Supply Growth</p>
Narrow money annual growth (%)	-0.6	2.8	8.0	-2.7	7.1	4.3	
Broad money annual growth (%)	15.7	14.4	19.2	16.5	21.3	21.4	
Domestic credit (net) - E' Million	8 839.1	8 961.9	10 002.5	10 078.0	10 300.2	11 100.1	
Government	-2 802.8	-2 746.7	-1 993.2	-1 811.5	-2 110.4	-1 237.1	<p style="text-align: center;">Changes in NFA, (GOR and PSCR - right column)</p>
Private sector	11 641.9	11 708.6	11 995.6	11 889.4	12 410.6	12 337.2	
Private sector credit annual growth (%)	9.3	10.0	10.0	5.0	9.4	9.4	<p style="text-align: center;">Public Debt Changes to GDP</p>
Interest rates (% p.a)							
Prime lending	10.00	10.00	10.50	10.50	10.50	10.50	
Discount rate	6.50	6.50	7.00	7.00	7.00	7.00	
Deposit rate - 31 days	3.06	3.06	3.45	3.45	3.45	3.45	<p style="text-align: center;">Ratios</p>
- 12 months	4.48	4.48	4.89	4.89	4.89	4.89	
- T. bill rate	6.7	6.9	7.0	7.2	7.2	7.3	
Exchange Rates							
US\$	15.41	14.66	15.40	15.11	14.44	13.74	<p style="text-align: center;">Public Finance</p>
EURO	17.11	16.63	17.39	16.97	15.98	15.40	
GBP	21.92	20.94	23.12	21.46	18.99	18.01	
Public Finance							
Total public external debt [E' million]	5 108.6	5 100.8	5 146.5	5 212.2	4 898.7	4 898.1	<p style="text-align: center;">Public Finance</p>
As a % of GDP	9.9	9.9	9.9	10.1	8.9	8.9	
Total public domestic debt [E' million]	3 240.0	3 116.1	3 313.1	3 473.4	3 615.9	3 945.2	
As a % of GDP	6.3	6.0	6.4	6.7	6.6	7.2	<p style="text-align: center;">Public Finance</p>
Total public debt [E' million]	8 348.9	8 224.7	8 459.5	8 685.6	8 514.6	8 843.3	
As a % of GDP	16.1	15.9	16.3	16.8	15.5	16.1	

NB: The table shows data up to the end of August 2016 for consistency.