MONETARY POLICY CONSULTATIVE COMMITTEE (MPCC)

ECONOMIC REVIEW AND INFLATION REPORT

24 September 2021

ECONOMIC POLICY, RESEARCH AND STATISTICS DEPARTMENT

CENTRAL BANK OF ESWATINI

Umntsholi Wemaswati

Major Highlights

Real GDP	*Real Gross Domestic Product (GDP) is estimated to have contracted by 2.4 per cent in 2020, reflecting an upward revision from a contraction of 5.6 per cent in the previous forecast.*
Quarterly GDP	*Economic activity as measured by the Gross Domestic Product (GDP) is estimated to have increased by 9.0 per cent, on a year-on-year and seasonally adjusted basis, in the first quarter of 2021 rising from 3.3 per cent recorded in the previous quarter.*
Inflation	*Headline consumer inflation remained unchanged at 3.9 per cent in July 2021, same as in June 2021.*
Inflation Forecasts	*The country's overall inflation forecast for 2021 has been revised slightly upwards to 3.94 per cent from 3.90 per cent forecasted in July 2021.*
Foreign reserves	*Gross official reserves increased by 7.1 per cent over the review month to E8.7 billion at the end of August 2021 and could cover an estimated 3.7 months of imports of goods and services.*
Exchange rate	*Since the July 2021 MPCC meeting, the Rand/Lilangeni depreciated against the US Dollar. The Lilangeni depreciated by 6.4 per cent from an average of E13.90 in June 2021 to E14.79 in August 2021.*
Credit Extension	*Credit extended to the private sector increased by 0.3 per cent month-on-month and 8.6 per cent over the year to reach E16.0 billion at the end of July 2021.*
Public Debt	*The country's stock of debt stood at E26.3 billion in August 2021 translating to 37.0 per cent of GDP, a 3.0 per cent increase from the E25.5 billion recorded in July 2021.*
Balance of Payments	*The country recorded a merchandise trade surplus of E637.5 million in August 2021, from a surplus of E305.1 million the previous month.*

PART A: ECONOMIC REVIEW

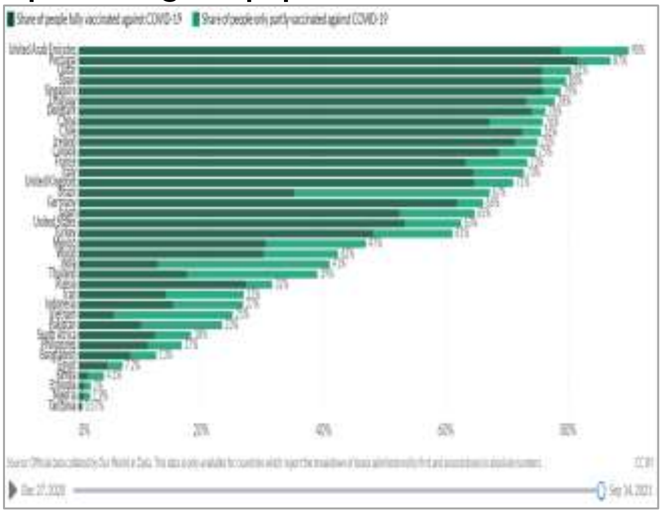
1.0 GLOBAL ECONOMIC CONDITIONS

1.1 Covid-19 Updates

The overall number of global COVID-19 cases has reached 226,841,570, deaths have increased to 4,666,318, while recoveries stand at 203,606,166 as of 15 September 2021. The US remains the world's most affected nation, having confirmed cases totalling 42,296,591 with 682,449 deaths reported. The US, India, Brazil, and the UK, in that order are the hardest hit. In South Africa, COVID-19 confirmed cases have been recorded at 2,864,534 million, recoveries at 2,688,692 with 85,302 deaths reported and is still the most affected African country in the COVID-19 pandemic era (worldmeters.info/coronavirus, 15 September 2021).

According to the "ourworldindata", as at 15 September 2021, 42.2 per cent of the world population has received at least one dose of a COVID-19 vaccine. Meanwhile, 5.79 billion doses have been administered globally, and 31.56 million are now administered each day. Only 1.9 per cent of people in low-income countries have received at least one dose. As indicated in the graph below, the United Arab Emirates is the leading country in terms of share of people vaccinated against COVID-19, followed by Portugal and Uruguay.

Figure 1: Global Coronavirus (COVID-19) Vaccinations - Share of people vaccinated as a percentage of population



Source: https://www.ourworldindata.org/covid-vaccinations

N.B. Alternative definitions of a full vaccination, e.g. having been infected with SARS-CoV-2 and having 1 dose of a 2-dose protocol, are ignored to maximize comparability between countries

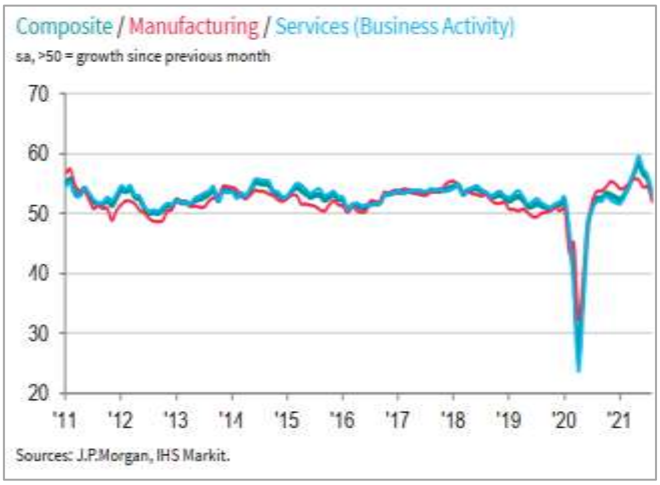
1.2 Overview of Global Economic Developments

In the face of headwinds presented by the Delta variant of the COVID-19 virus, the global economic recovery is moving forward, although uneven and at slower pace. Prospects in advanced economies with high vaccination rates remain bright, however near-term prospects in emerging markets and developing economies with low vaccination rates are not so rosy.

According to an HIS Markit survey of purchasing managers released on 3 September 2021, global economic expansion slowed to a seven-month low as growth eased across manufacturing and services sectors. The J.P. Morgan Global Composite PMI, posted 52.6 index points in August, down from 55.8 index points in July 2021. While the Markit report highlights that, the headline index has signalled expansion in each of the past 14 successive months, there was some evidence from companies that; supply chain disruptions (especially at manufacturers), COVID-19 issues and signs of labour and skill shortages all impacted on growth during the period under review. Slowing growth was observed in the US and Japan while there was an economic slump in China.

Meantime, whilst the services sector rose at the slowest pace since February 2021, it did however outperform manufacturing production. Rates of growth eased across the consumer, intermediate and investment goods sub-industries.

Figure 2: J.P. Morgan Global Composite Output index by Sub-sectors; 2011 - 2021



Sources: J.P. Morgan, HIS Markit

J.P. Morgan Global Services Business Activity Index fell sharply to a 7-month low of 52.9 index points in August 2021, down from 56.3 index points in July. The financial services sector was the only category covered to register an acceleration in growth. Looking ahead, the Markit report indicates that, while global supply constraints and rising cost pressures may provide challenges, the current expansion is likely to maintain a similar course over the coming months (Markit Economics, 7 September 2021).

1.3 Review of Global Oil Prices and Gold Price Performance

According to OPEC's Monthly Oil Market Report for August 2021, the global oil market has seen a significant improvement in its fundamentals this year, translating to lower crude oil volatility compared with 2020. Brent crude oil prices rose in July 2021 as the dated Brent averaged $73.53 per barrel, compared to an average of $73.41 a barrel in June 2021, as declining oil inventories continued to support oil prices.

Moreover, reduced uncertainty in the market also resulted to oil product prices rebounding strongly, surpassing levels reached before the onset of the COVID-19 pandemic. As of 7 September 2021, Brent crude was trading at $71.85 a barrel. Meantime, the gold bullion price edged lower to a monthly average of $1,783.30 per ounce in July 2021 from an average of $1,834.57 per ounce in June. The precious metal's appeal has been blunted by the strength of the US Dollar, which makes it more expensive to international buyers.

Moreover, a rise in bond yields in recent weeks has also dented the price of the gold bullion. According to the financial times dated 20 August 2021, gold has fallen by 14 per cent since it hit a record of more than $2,000.00 per ounce. Gold bullion as of 7 September 2021 was trading around $1810.38 an ounce (www.opec.org/opec_web/en/|Indexmundi.com|denvergold.org|Financial Times|www.macrotrends.net|Trading Economics, 20 August – 7 September 2021).

1.4 Advanced Economies GDP Growth

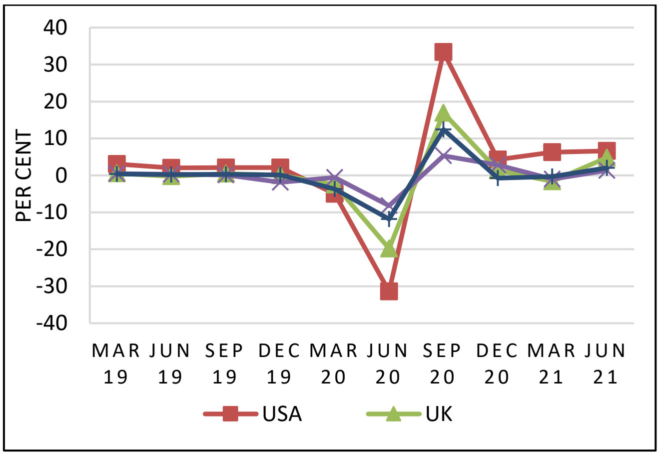
According to the US Bureau of Economic Analysis, the US economy advanced at an annual rate of 6.6 per cent in the second quarter of 2021 above the 6.5 per cent estimated in the previous month. This was in reflection of the continued economic recovery, reopening of establishments and continued government response related to the COVID-19 pandemic. Positive contributions came from revisions to non-residential fixed investment at 9.3 per cent, and state & local government spending at 0.3 per cent. Imports slowly increased by 6.7 per cent (US Bureau of Economic Analysis I Trading Economics, 26 August 2021).

In the Eurozone, economic activity expanded by 2.0 per cent in the second quarter of 2021, following a 0.3 per cent contraction in the first quarter of 2021. The block's economic recovery gained momentum on the back of the continued re-opening efforts, supported by the rapid pace of COVID-19 vaccination and ongoing government support. Among the block's biggest economies, Germany, France and Spain returned to growth, while Italy's expansion gathered pace (Eurostat|Trading Economics, 19 August 2021).

In the United Kingdom, GDP grew by 4.8 per cent in the second quarter of 2021, recovering from a 1.6 per cent contraction in the first three months of 2021, as activity and demand rebounded following the easing of coronavirus restrictions in the UK. Notably, household consumption increased by 7.3 per cent from -4.6 per cent in the first quarter, while public spending advanced by 6.1 per cent from 1.5 per cent in the first quarter (UK Office for National Statistics|Trading Economics, 19 August 2021).

The Japanese economy advanced by 0.3 per cent in the second quarter of 2021, after a downwardly revised 0.9 per cent contraction in the first quarter. This happened as domestic demand edged up, contributing 0.6 per cent to the GDP growth, a preliminary estimate showed. Meantime, private consumption, capital expenditure and government spending all rebounded, as the Japanese economy recovered from the COVID-19 initial hit (Cabinet Office of Japan|Trading Economics, 19 August 2021).

Figure 3: Advanced Economies GDP Growth Trends



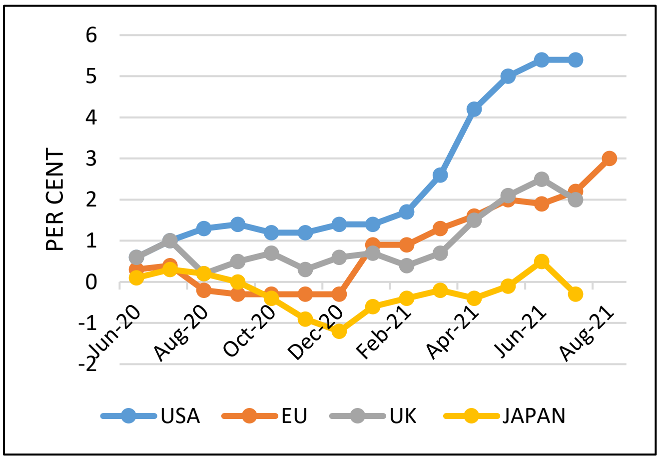
Source: www.ec.europa.eu/eurostat|www.bea|www.ons.uk|www.mofa.go.jp.com

1.5 Advanced Economies CPI

Annual inflation rate in the US was recorded at 5.4 per cent in July 2021, unchanged from June's 13-year high, reflecting the re-opening of the economy and continued supply constraints. Main upward pressure came from rising food prices, cost of new vehicles and shelter. Meantime, inflation moderated for energy, and transportation services. Inflation in the US and worldwide has been rising in recent months as economies bounce back faster than expected from the pandemic. In the process, this has unleashed constrained demand and pushed up a wide range of price increases, especially for food, metals and commodities (US Bureau of Labour Statistics, 19 August 2021).

The annual inflation rate in the Eurozone accelerated to 3.0 per cent in August 2021, from 2.2 per cent in July, a preliminary estimate showed. At this rate, it represents the highest inflation rate recorded since November 2011, which could be a source of debate in upcoming ECB monetary policy meetings. Prices have been rising recently due to a steady recovery in domestic demand and a low base year caused by the COVID-19 crisis. Upward pressures came from increasing energy cost, services cost, food prices and non-energy industrial goods (Eurostat, 1 September 2021).

Figure 4: Advanced Economies CPI



Source: *www.tradingeconomics.com*

The annual inflation rate in the UK eased to 2 per cent in July 2021, from 2.5 per cent in June, falling back to the Bank of England's target. The latest reading reflects base effects as inflation rose rapidly in July 2020. Inflation was further dragged down by a slowdown in clothing and footwear prices, and a variety of recreational goods and services (UK Office for National Statistics, 1 September 2021).

In Japan, annual inflation declined to 0.3 per cent in July 2021, following a revised 0.5 per cent in June 2021. This was the tenth consecutive month of decrease in consumer prices, amid weakening consumption due to the ongoing COVID-19 pandemic. Moreover, there was a further decline in the transportation and communications costs, coupled with a fall in food prices (Ministry of Internal Affairs & Communications|Trading economics, 1 September 2021).

1.6 Monetary Policy in Advanced Economies

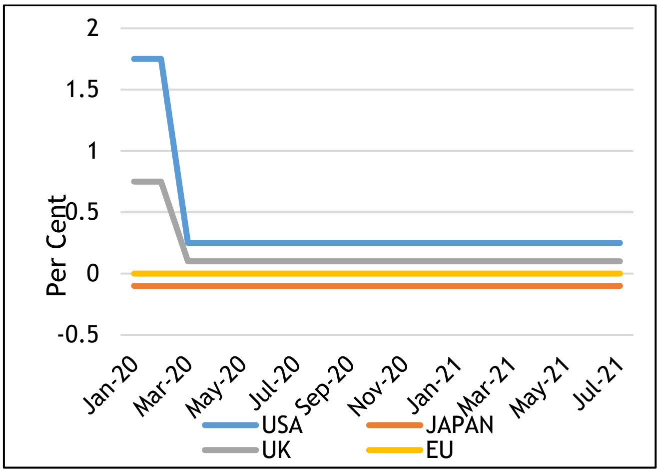
The US Federal Reserve (US Fed) left its target range for its federal funds rate unchanged at a range of between 0-0.25 per cent during its July 2021 meeting. However, the Fed will continue to hold the target range for federal funds rate at its current level until the economy reaches conditions consistent with maximum employment, and inflation has reached 2 per cent. Officials also noted progress on vaccinations and strong policy support that has led to a recovery in economic activity and employment. The US Fed further highlighted that bond purchases will also remain at a rate of $120 billion a month, with no reference to when it may begin to discuss a tapering of its asset purchases (US Federal Reserve|Trading Economics).

In remarks to the annual Jackson Hole economic conference that ended on 27 August 2021, Fed Chair, Jerome Powell indicated that, the Fed will remain cautious in any eventual decision to raise interest rates. He emphasized that they were working on nursing the economy to full employment. Powell further stressed that while an announcement of scaling back asset purchases may be imminent (the likely timing of a tapering announcement is Q4-2021) markets should not interpret this as signal of imminent rate increases. Put simply, the time window between the announcement of tapering and the start of the hike cycle can be extended.

Furthermore, the Chair, highlighted that, they wanted to avoid chasing "transitory" inflation and potentially discouraging job growth in the process. Moreover, on the separate and potentially imminent decision by the US central bank to begin reducing its $120 billion in monthly (asset) purchases of US Treasuries and mortgage-backed securities, Powell said he agreed with the majority of his colleagues, that if job growth continues, asset taper could be appropriate this year (US Federal Reserve|www.reuters.com/business/feds-powell, 30 August 2021).

The European Central Bank (ECB) decided to maintain the interest rate unchanged at zero per cent during its July 2021 meeting. However, it revised its forward guidance on interest rates. The ECB expects interest rates to remain at their present or lower levels (zero per cent) until it sees inflation reaching 2 per cent. The pace of its Asset Purchases Programme (APP) was retained at €20 billion per month, extending through to 2023 (European Central Bank, 21 July 2021).

Figure 5: Interest Rates in Advanced Economies



Source: www.tradingeconomics.com

The Bank of England (BOE) left its benchmark interest rate on hold at a record low of 0.1 per cent, and also maintained its asset purchase programme at £875 billion. The Bank's policy makers reiterated that, they do not intend to tighten monetary policy in the near term until there is significant progress in eliminating spare capacity in the economy. The BOE highlighted that, it would start reducing its stock of bonds when the policy rate reaches 0.5 per cent. The central bank further indicated that it expects inflation to peak at 4 per cent in late 2021 and early 2022, much higher than 2.5 per cent in its May forecast (Bank of England|Trading Economics, 31 August 2021).

The Bank of Japan (BOJ) left its short-term interest rate unchanged at -0.1 per cent and maintained the target for the 10-year government bond yield at around zero per cent during its July 2021 meeting. In a quarterly economic report, the BOJ slashed its projected GDP growth rates for 2021 to 3.8 per cent from 4.0 per cent in a forecast made in April 2021, amid the impact of COVID-19. The Bank however, maintained its view that, the economy was headed for a moderate recovery as vaccinations accelerate (Bank of Japan|Trading Economics, 31 August 2021).

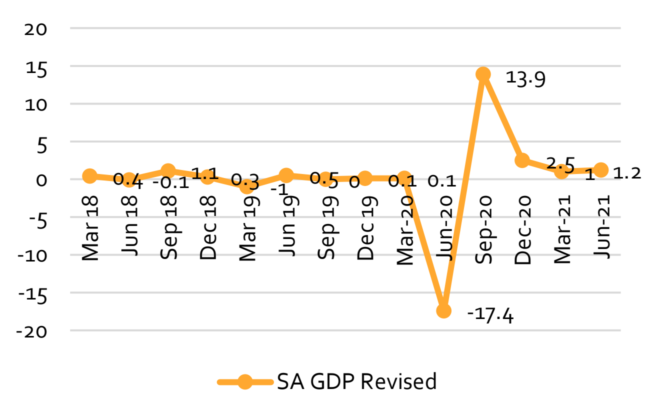
2.0 ECONOMIC DEVELOPMENTS IN SOUTH AFRICA

2.1 GDP Growth

According to Statistics South Africa, the South African economy grew by 1.2 per cent quarter on quarter seasonally adjusted in the second quarter of 2021 (rebased to 2015 now not annualised), following a revised 1.0 per cent expansion in the first quarter of 2021. (Previously reported as a 4.6 per cent expansion in Q1-2021 from 5.8 per cent in Q4-2020).

Six industries recorded positive growth between the first quarter of 2021 and the second quarter of 2021. The largest positive contributors to GDP growth in the second quarter were the transport, personal services and trade industries. The transport industry increased by 6.9 per cent, with the personal services industry increasing by 2.5 per cent while the trade industry increased by 2.2 per cent. Worth noting is that, Statistics South Africa no longer reports an annualised growth rate and now uses 2015 as the base year for the data (Statistics South Africa, 7 September 2021).

Figure 6: South Africa GDP Growth



Source: *www.statisticssouthafrica.com*

2.2 Monetary Policy

The South African Reserve Bank's Monetary Policy Committee (SARB MPC) kept the repo rate unchanged at 3.5 per cent at its July 2021 meeting as the COVID-19 virus continues to weigh on global prospects and the recent unrest in parts of the country likely to disrupt the ongoing recovery. The repo rate has remained unchanged since July 2020. The SARB highlighted that the risks to the medium-term domestic growth outlook were assessed to be balanced. Furthermore, the implied policy rate path of the Quarterly Projection Model (QPM) indicated an increase of 25 basis points in the fourth quarter of 2021 and in each quarter of 2022 (Statistics South Africa, 1 September 2021).

2.3 Inflation and Unemployment

The annual consumer inflation rate in South Africa edged down to 4.6 per cent in July 2021, drawing closer to the mid-point of the South African Reserve Bank's (SARB) target range of 3-6 per cent, from 4.9 per cent in June 2021. The slowdown in consumer prices was mainly driven by a slower increase in the price index for 'transport'.

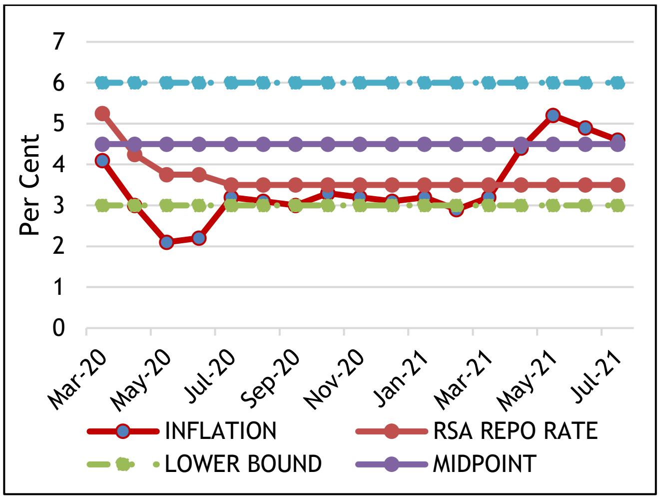
Transport inflation decelerated to 8.0 per cent in July 2021 from 12.3 per cent in June 2021. Lower transport prices resulted from slower increases in the prices for fuel and public transport. Year-on-year, increases on fuel prices eased to 15.2 per cent in July 2021 from 27.5 per cent in the previous month due to a combination of base effects and a cumulative 19 cents per litre decrease in the price of fuel, effected over the past two months to July 2021.

The above decreases were partially offset by the price index for 'housing & utilities', which rose by 3.8 per cent in July 2021, compared to 2.6 per cent recorded in the previous month, owing to increases in the prices for electricity. The National Energy Regulator of South Africa (NERSA) approved an electricity tariff increase of 15.63 per cent to ESKOM for 2021/22 financial year, which was effected in July 2021 for customers that buy through municipalities. On the other hand, food inflation remained unchanged at 6.7 per cent for the period under review, contributing 1.1 of a percentage point to the overall inflation outcome.

On a month-on-month basis, consumer inflation grew by 1.1 per cent in July 2021 from 0.2 per cent in June 2021. Month-on-month increases were observed in the prices of electricity and water tariffs, which pushed the month-on-month index for 'housing & utilities' by 3.0 percentage points in July 2021. Core inflation (which is inflation excluding food, non-alcoholic beverages, petrol, and energy), declined to 3.0 per cent in July 2021, from 3.2 per cent in the previous month. On a monthly basis, core inflation increased by a 0.5 per cent in the month under review (Statistics South Africa, 1 September 2021).

SA's official unemployment rate spiked to 34.4 per cent in the second quarter of 2021 from 32.6 per cent in the first quarter. According to Statistics South Africa, it is the highest unemployment rate since comparable data began in 2008, amid the worsening pandemic crisis. The number of unemployed persons jumped by 584 000 to 7.8 million, employment fell by 54 000 to 14.9 million. Jobless losses were concentrated in the financial sector, losing 278 000, followed by community and social service losing 166 000 and manufacturing losing 83 000. The youth unemployment rate, measuring job-seekers between 15 and 24 years old, hit a new record high of 64.4 per cent (Statistics South Africa, 1 September).

Figure 7: SA Inflation Rate and Target range; Mar 2020 - Jul 2021



Source: South African Reserve Bank

3.0 DOMESTIC ECONOMIC DEVELOPMENTS

3.1 GDP Growth

Economic activity as measured by the Gross Domestic Product (GDP) is estimated to have increased by 9.0 per cent, on a year-on-year and seasonally adjusted basis, in the first quarter of 2021 rising from 3.3 per cent recorded in the previous quarter. The significant growth observed in the quarter under review is largely attributed to strong performance in the secondary sector. On a quarter-on-quarter basis, GDP grew by 3.8 per cent in the quarter under review compared to 0.8 per cent in the previous quarter.

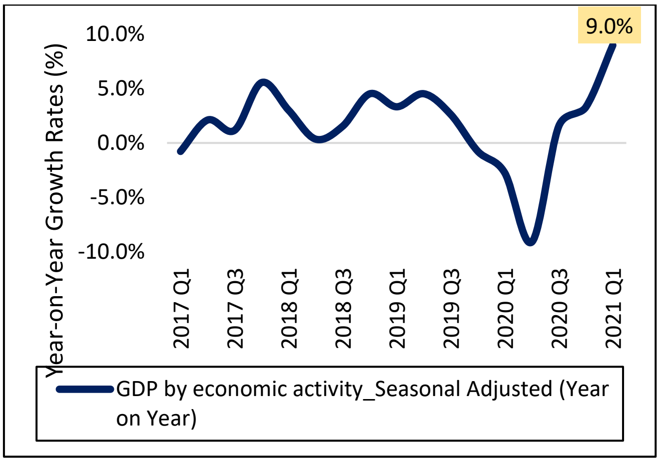
The secondary sector rebounded from -0.6 per cent in the fourth quarter of 2020 to record a 21.0 per cent growth in the first quarter of 2021. The growth largely benefitted from increased economic activity under the manufacturing and construction subsectors. The manufacturing subsector rose by 22.7 per cent year-on-year in the quarter under review compared to 0.7 per cent in the previous quarter. Subsectors that depicted significant improvement within the manufacturing sector included: 'manufacturing of food and beverages', 'manufacturing of wood and wood products' as well as 'manufacturing of textile and wearing apparels'. These subsectors, which are export-oriented, benefitted from improved demand from key export destination markets following the easing of lockdown measures in key destination markets in the region.

The construction sector, on the other hand, rebounded from a year-on-year decline of 16.6 per cent recorded in the fourth quarter of 2020 to an increase of 6.1 per cent in the quarter under review. Construction activity benefitted from continuous construction of road infrastructure in the country and was also buoyed by an improvement in input supplies of construction material, which was highly disrupted during lockdowns associated with the COVID-19 pandemic outbreak. Electricity supply remained strong with a year-on-year growth of 31.6 per cent in the first quarter of 2021, which benefitted from good dam water levels that supported effective hydro-power generation.

The tertiary sector grew by 5.8 per cent on a year-on-year basis, in the first quarter of 2021, from 4.5 per cent in the previous quarter. Developments within this sector were mixed with positive performance observed in the 'financial services', 'information and communication' and 'public administration' subsectors. The information and communication subsector, continued to benefit strongly from the increased demand and usage of data and online services, which has become a new normal necessitated by coping measures in the advent of the COVID-19 coronavirus pandemic outbreak. Subsectors that performed poorly within the tertiary sector included: 'Wholesale and retail trade', 'Transport and storage', 'Accommodation and food services activities', 'Professional and technical services' and 'Arts and culture'. Tourism subsectors continued to be negatively affected by travel restrictions, social distancing and other containment measures aimed at limiting the spread of the COVID-19 coronavirus.

The primary sector remained resilient rising from 1.3 per cent in the last quarter of 2020 to 4.3 per cent in the quarter under review. Strong positive performance was observed in the 'forestry' and 'mining and quarrying' subsectors.

Figure 8: Quarterly GDP Trends; 2017 Q1 to 2021Q1



Source: Central Statistics Office (CSO)

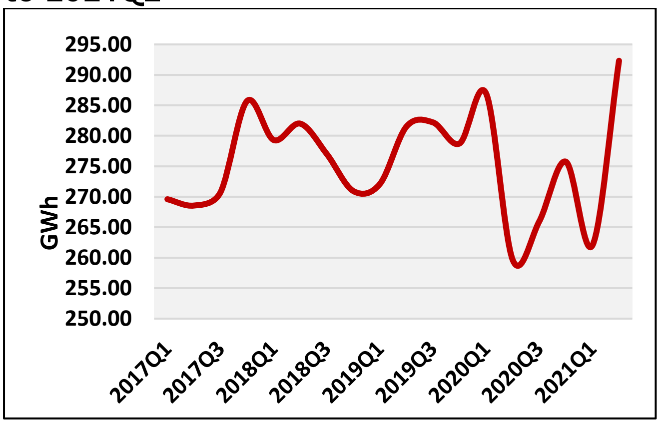
3.2 Selected Quarterly Economic Indicators

- **Electricity Consumption**

According to figures sourced from the Eswatini Electricity Company, total electricity sales grew by 11.6 (seasonally adjusted) per cent in the quarter ended June 2021 from a decline of 5.0 per cent in the quarter ended March 2021. The upward movement in electricity sales volumes can largely be attributed to more sales volumes recorded in all electricity categories. Electricity sales to the 'irrigation power and bulk' category grew by 14.3 per cent to record 140 GWh in the quarter ended June 2021, from a decline of 10.1 per cent in the quarter ended March 2021. This increase reflects a rebound in manufacturing and agricultural economic activity, particularly irrigated farms, in the quarter under review. Similarly, electricity sales from the 'commercial' category grew by a significant 10.3 per cent in the second quarter of 2021, from a 3.4 per cent decrease in the first quarter of 2021. The increases in the commercial category indicates significant efforts by companies to adapt to the new normal, following being hit hard by the COVID-19 restrictions. Similarly, 'domestic' electricity sales grew by 5.8 per cent in the second quarter of 2021 from a 1.9 per cent increase in the previous quarter.

Total electricity customers continued to rise in the quarter ended June 2021, increasing by 1.4 per cent to 249,563 customers. Total electricity consumers were driven by marginal increases in all categories of electricity consumption.

Figure 9: Electricity Consumption; 2017Q1 to 2021Q2

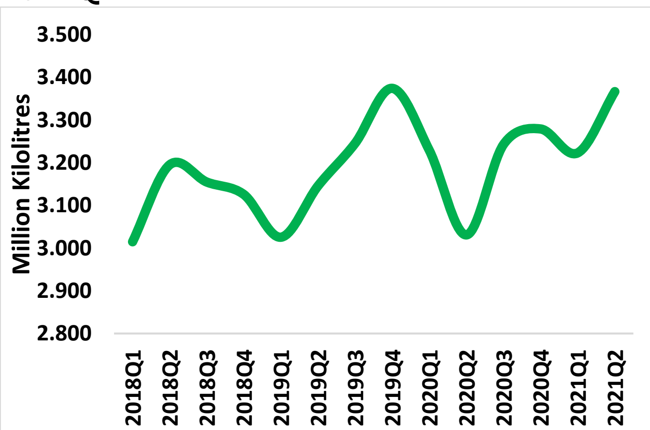


Source: Eswatini Electricity Company

- **Water Consumption**

According to Eswatini Water Services Corporation (EWSC), total treated water consumption grew by 4.4 per cent (seasonally adjusted) in the second quarter of 2021, from a 1.7 per cent decline recorded in the first quarter of 2021. Contributing to the increase in water sales volumes was significant growth observed in the 'commercial' category. Following a 2.1 per cent increase recorded in the first quarter of 2021, commercial sales volumes further grew by a significant 7.0 per cent in the second quarter of 2021. The increase reflects a rebound in economic activity of the manufacturing and agricultural subsectors of the economy. Water sales to the 'domestic' category recorded a 0.4 per cent increase in the quarter ended June 2021, compared to a 1.3 per cent decline recorded in the previous quarter. The total number of water connections declined by 9.2 per cent to 54,317 connections in the quarter ended June 2021.

Figure 10: Water Consumption; 2018Q1 to 2021Q2

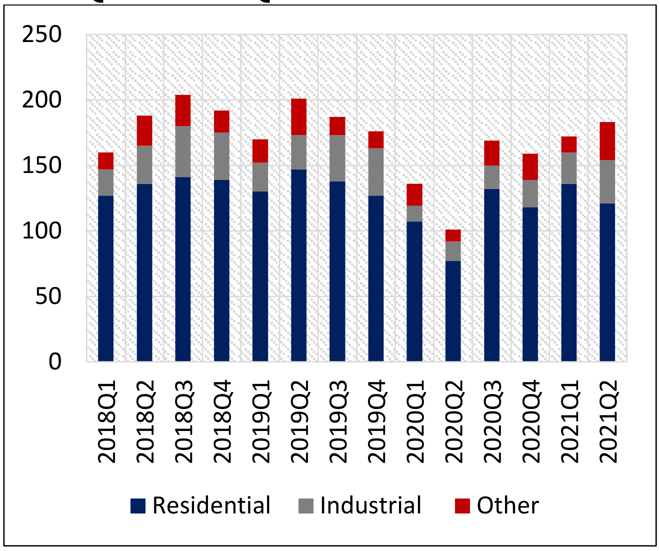


Source: Eswatini Water Services Corporation (EWSC)

- **Construction**

Preliminary figures sourced from 'municipalities and town boards' indicate that total building plans approved grew by 6.4 per cent to 183 units in the quarter ended June 2021 from 172 units in the quarter ended March 2021. Growth was noted in the 'other' and 'industrial' categories of building plans approved. Total approved building plans from the 'other' category, mainly constituted by institutional housing, increased to 29 units in the second quarter of 2021, from 12 units in the first quarter. Similarly, approved building plans from the 'industrial' category increased to 33 units in the quarter under review compared to 24 units recorded in the previous quarter. On the contrary, residential building plans declined to 121 units in the quarter ending June 2021, from 136 units in the quarter ended March 2021. In terms of value, total building plans approved rose to E340.0 million in the quarter ended June 2021, compared to E178.4 million recorded in the previous quarter of 2021.

Figure 11: Building Plans Approved; 2018Q1 to 2021Q2

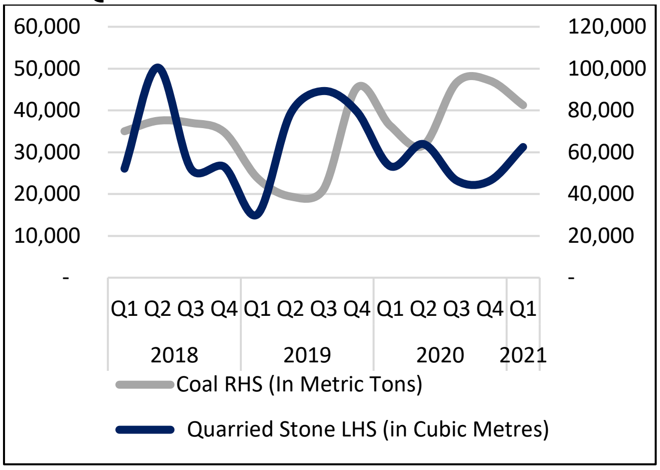


Source: City Councils, Town Councils and Town Boards

- **Mining and Quarrying**

Coal production declined by 12.4 per cent to 41,262 metric tonnes in the quarter ended March 2021 from 47,123 metric tonnes in the quarter ended December 2021. Although the reported geological constraints still persist, volumes remain relatively higher when compared to the same quarter in the previous year, thereby reflecting improvements in coal mining in the country. On the other hand, quarried stone production rose significantly by 34.8 per cent to 62,484 cubic metres in the quarter under review from 46,463 cubic metres in the previous quarter. This improvement benefitted from accelerated progress in construction activity during the quarter under review, particularly the on-going public-sector-funded infrastructural projects; Manzini-Mbadlane roads and the completion of the Big-Bend-Lukhula road.

Figure 12: Mining and Quarrying; 2018Q1 to 2020Q1

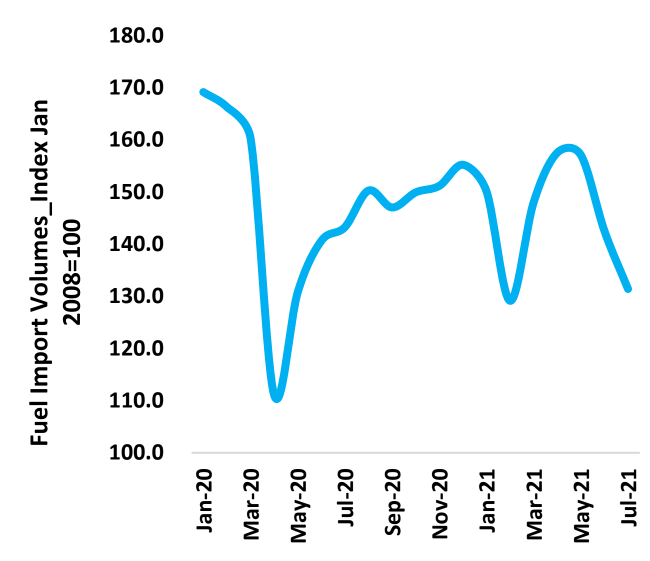


Source: Mining Department

- **Fuel Imports**

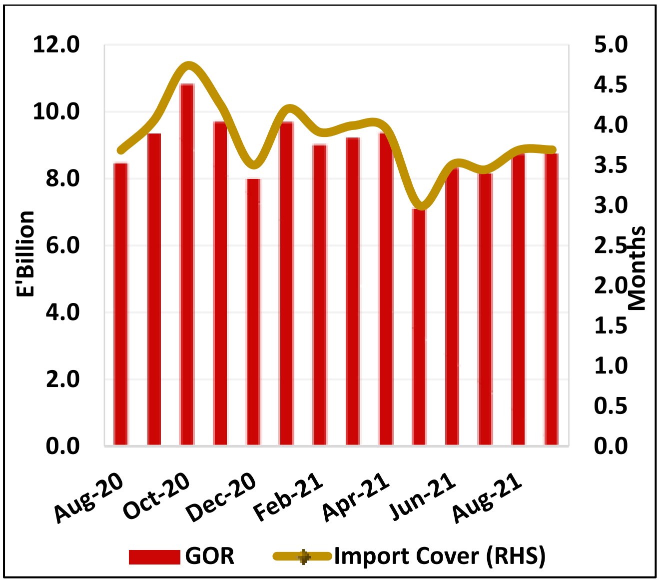
Figures sourced from the Ministry of Natural Resources and Energy (MNRE) indicated a 7.8 per cent decline in total fuel imports for the month of July 2021 compared to a 9.3 per cent decline in the June 2021. All categories of fuel Import volumes recorded significant decreases during the month under review. Diesel import volumes fell by 9.2 per cent in July 2021, following a 9.0 per cent decline in June 2021. The drop in diesel import volumes reflects slow economic activity in the transport sector, particularly commercial freight and some industries in the manufacturing sector. Similarly, petrol and paraffin import volumes continued on a downward trend, decreasing by 6.5 and 10.7 per cent, respectively, during the month under review.

Figure 13: Fuel Imports; Jan 2020 to June 2021



Source: Ministry of Natural Resources and Energy

Figure 14: Gross Official Reserves & Import Cover



Source: Central Bank of Eswatini

3.3 Monetary Sector Developments

3.3.1 Gross official Reserves

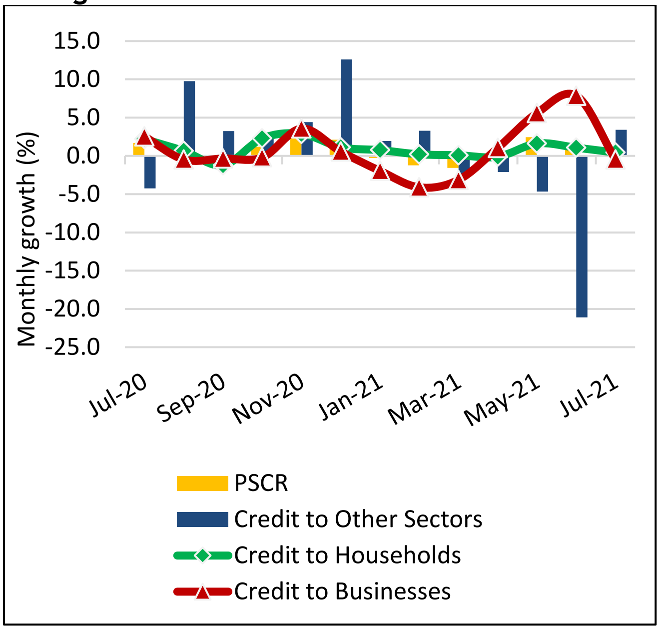
Preliminary figures indicate that gross official reserves grew by 7.1 per cent month-on-month and 3.1 per cent over the year to close at E8.7 billion at the end of August 2021. Growth in reserves over the review month was mainly attributed to the increase in the country's SDR allocation by the IMF. As a result, the reserves import cover rose from 3.4 months in July 2021 to 3.7 months at the end of August 2021.

As at 10 September 2021, gross official reserves stood at E8.7 billion, equivalent to 3.7 months of import cover, mainly due to foreign exchange trades between the Central Bank and local commercial banks.

3.3.2 Credit Extension

Credit extended to the private sector amounted to E16.0 billion at the end of July 2021, depicting an increase of 0.3 per cent over the month and 8.6 per cent year-on-year. The month-on-month improvement was due to a rise in credit to the other sectors of the economy (other financial corporations, parastatals, and local government) and households & non-profit institutions serving households (NPISH) sector while credit to the business sector contracted.

Figure 15: Private Sector Credit: Monthly Changes

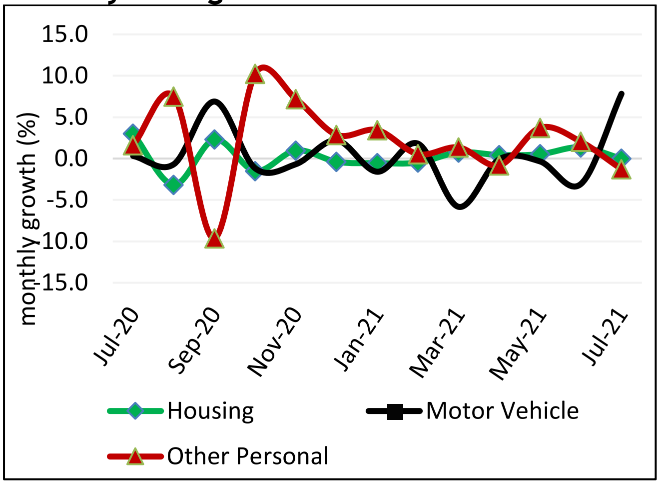


Source: Central Bank of Eswatini and Other Depository Corporations

Credit extended to other sectors improved by 3.4 per cent month-on-month and 6.4 per cent year-on-year to reach E1.5 billion at the end of July 2021. Growth was driven by credit to other financial corporations and parastatals which grew by 5.6 per cent and 0.1 per cent, respectively. However, the increase in credit to other sectors was partly offset by credit to local government declining by 8.5 per cent.

Credit extended to the households and non-profit institutions serving households (NPISH) sector amounted to E7.5 billion at the end of July 2021, depicting an increase of 0.4 per cent over the month and 10.1 per cent year-on-year. The month-on-month growth was due to motor vehicle loans rising by 7.8 per cent. However, a fall was observed in these components of household loans; other personal (unsecured) loans declined by 1.3 per cent while housing loans contracted by 0.02 per cent.

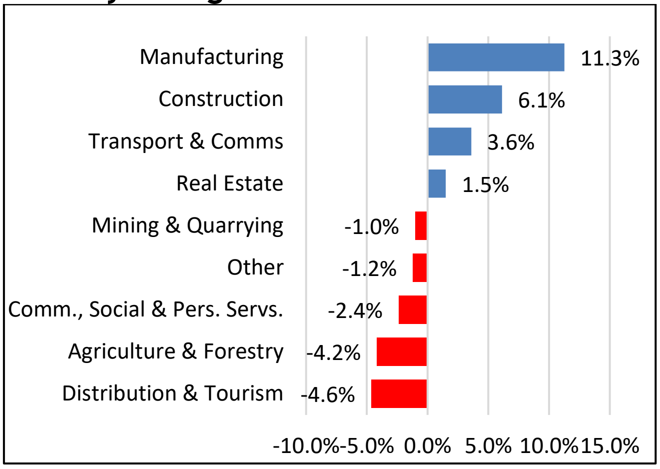
Figure 16: Household Credit by Product: Monthly Changes



Source: Central Bank of Eswatini & Other Depository Corporations

Credit extended to the business sector closed at E7.0 billion at the end of July 2021, reflecting a marginal decline of 0.5 per cent over the month and an increase of 7.5 per cent compared over the year. Responsible for the fall was credit to the following subsectors: distribution & tourism, agriculture & forestry, community & social services, and mining & quarrying. However, there were improvements in credit to manufacturing, construction, transport & communications, as well as real estate.

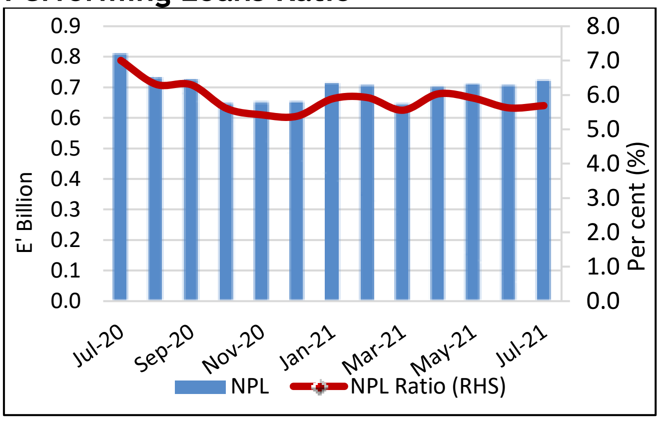
Figure 17: Business Credit by Industry: Monthly Changes



Source: Central Bank of Eswatini and Other Depository Corporations

Non-performing loans amounted to E763.6 million at the end of July 2021, depicting a month-on-month increase of 2.4 per cent and a year-on-year decline of 10.2 per cent. Subsequently, the non-performing loans ratio rose by 0.1 percentage point over the month but fell by 1.3 percentage points year-on-year to reach 5.7 per cent at the end of July 2021.

Figure 18: Non-Performing Loans and Non-Performing Loans Ratio



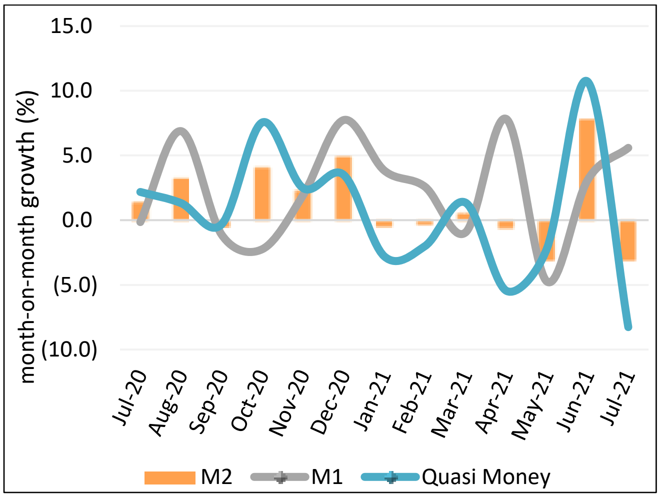
Source: Central Bank of Eswatini

3.3.3 Money Supply

Broad money supply (M2) registered a month-on-month decline of 3.2 per cent and growth of 14.5 per cent over the year to settle at E21.2 billion at the end of July 2021. The month-on-month fall in M2 was due to quasi money supply whilst narrow money supply (M1) expanded.

Quasi money supply declined by 8.3 per cent over the month under review but reflected a year-on-year increase of 4.5 per cent to reach E12.7 billion in July 2021. Both components of quasi money trended in opposing directions over the review month, with time deposits declining by 9.8 per cent while savings deposits grew by 1.5 per cent.

Figure 19: Money Supply: Monthly Changes



Source: Central Bank of Eswatini and Other Depository Corporations

Narrow money supply (M1) stood at E8.5 billion at the end of July 2021, depicting an expansion of 5.6 per cent month-on-month and 33.8 per cent year-on-year. The month-on-month rise in M1 was observed in both transferable (demand) deposits and Emalangeni in circulation. Transferable (demand) deposits grew by 5.9 per cent while

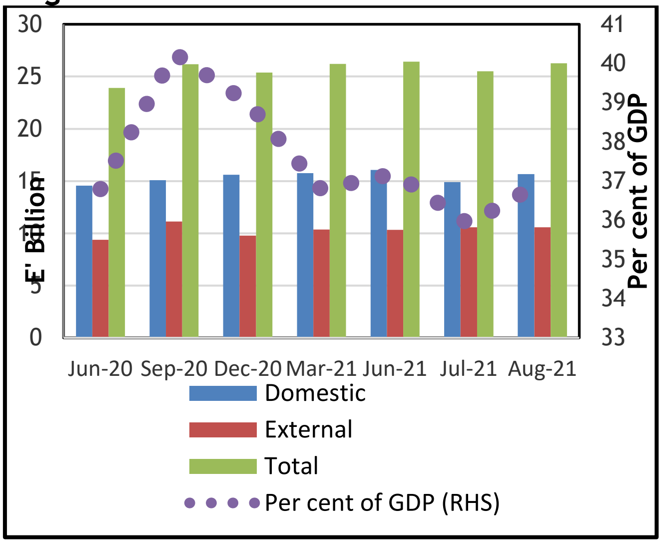
Emalangeni in circulation went up by 2.9 per cent over the review month.

3.4 Public Debt

3.4.1 Total Public Debt

At the end of August 2021, total public debt stood at E26.3 billion translating to 37.0 per cent of GDP, showing insignificant change from the E26.4 billion recorded in June 2021. However, from July 2021, total debt increased by 3.0 per cent from E25.5 billion to E26.3 billion in August 2021. The slight increase was a result of continued issuance of Government Securities

Figure 20: Total Public Debt: June 2020 to August 2021



Source: Central Bank of Eswatini

3.4.2 Public External Debt

Total public external debt stood at E10.6 billion at the end of August 2021, an equivalent of 14.9 per cent of GDP, an increase of 2.8 per cent from E10.3 billion recorded in June 2021. This was a result of drawdown on foreign loans as well as minor depreciation of the local Lilangeni. There was no change between July and August 2021.

3.4.3 Public Domestic Debt

Total public domestic debt slightly decreased by 2.5 per cent from E16.1 billion in June 2021 to E15.7 billion at the end of august 2021 as Government repaid the CBE E1.5 billion Advance in full at the end of June 2021. However, continued issuance of Treasury Bills and Bonds, plus a E500 million CBE Advance to Government, increased domestic debt from E14.9 billion in July 2021 to E15.7 billion at the end of August 2021, an equivalent of 22.1 per cent of GDP.

3.4.4 Issuance Plan for the 2021/22 Fiscal Year

The Auction Committee re-opened the Multiple Bond Programme of the following tenors (3, 5, 7 & 10 years) totalling E200 million during August 2021. The auctions performed well as a total of E213.81 million bids were received, and E163.81 million was raised, resulting in an allotment rate of 82 per cent.

Since the beginning of the 2021/22 financial year, 3 auctions of multiple bonds with the tenors (3, 5, 7 & 10 years) totalling E600 million have been issued. The auctions were held in the months of May, June & August 2021. Total bids received amounted to E590 million, giving a bid-cover-ratio of 98 per cent. The auctions fairly performed as a total of E452 million was raised, out of the required E600 million, representing an allotment rate of 75 per cent overall.

On the other hand, Plain Vanilla Bonds issued through private placements amounted to E100 million. Suppliers' Bonds (through private placements) totalling E475 million have also been issued since the beginning of the financial year, as Government tapped into the market as and when the need arose.

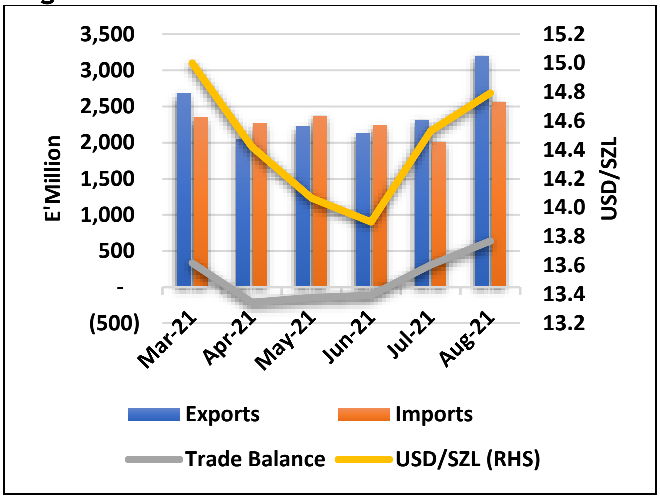
The next bonds auction will be held in October 2021.

3.5 External Sector

3.5.1 Trade Developments

During the month of August 2021, the country posted a merchandise trade surplus of E637.5 million, from a surplus of E305.1 million the previous month. Merchandise exports during the month, increased by 38.3 per cent, month-on-month and 18.5 per cent year-on-year, amounting to E3.195 billion, the highest monthly exports figure recorded in the year so far. The increase was influenced by a significant month-on-month surge in Eswatini's four major export commodities. Imports during the month increased by 27.6 per cent month-on-month and 14.7 per cent year-on-year, totalling E2.558 billion.

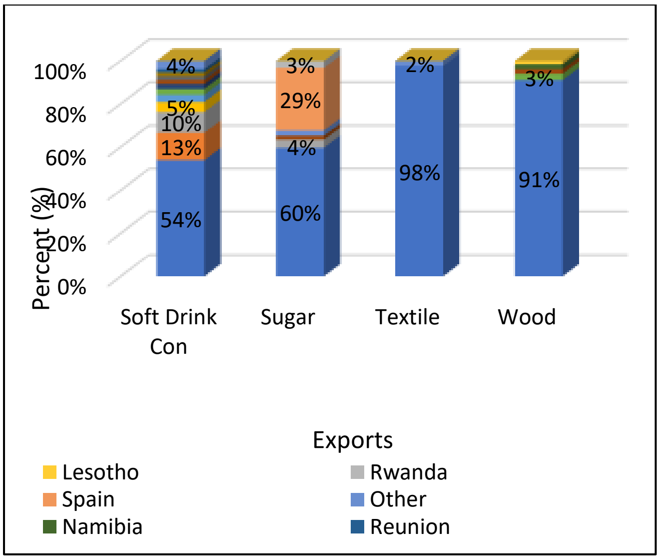
Figure 21: Merchandise Trade; May 2021 to August 2021



Source: Eswatini Revenue Authority and Central bank of Eswatini

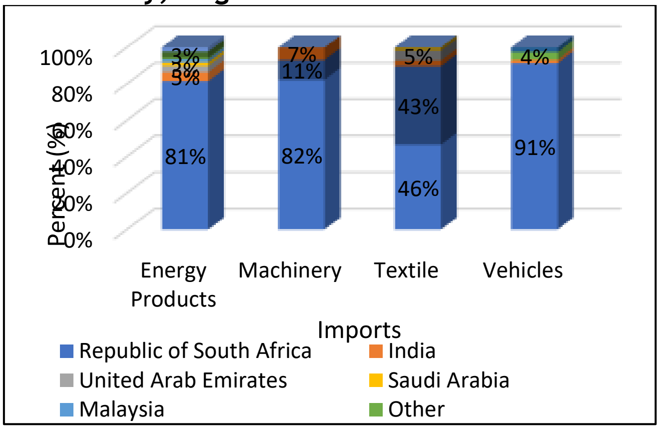
South Africa remained the country's main trading partner, with 64.3 per cent of exports destined for that market, and 76.7 per cent of imports coming from the market in August 2021. In the month, exports to South Africa increased by 29.4 per cent and imports by 37.3 per cent, month-on-month.

Figure 22: Trading Partner by Export Commodity; August 2021



Source: Central bank of Eswatini

Figure 23: Trading Partner by Import Commodity; August 2021



Source: Central bank of Eswatini

Year-to-date figures, indicate that the trade balance as at August 2021, was a surplus of E425.0 million, a switch from the deficit trend that has prevailed since the start of the year, and lower than the surplus of E1.999 billion posted in the same period last year. Cumulative export numbers as at August 2021, were valued at E18.784 billion, increasing by 9.8 per cent when compared to figures as at August 2020. Cumulative import figures as at August 2021 amounted to E18.359 billion, 21.5 per cent greater, than figures reported as at August 2020.

An analysis of exports for the month of August 2021, shows that exports of 'soft drink concentrates' which amounted to E1.310 billion, posted a significant month-on-month increase of 32.5 per cent and that of 26.9 per cent, year-on-year. 'Sugar and sugar products' export receipts recorded a 72.5 per cent month-on-month increase and a 17.8 per cent year-on-year growth, totalling E868.5 million in the month. Exports of 'textile and textile apparel' were valued at E402.6 million, up month-on-month by 15.7 per cent and year-on-year by 23.2 per cent. Exports of 'wood and wood articles' also grew in the month, increasing by 25.3 per cent when compared to the preceding month, and by 29.2 per cent year-on-year.

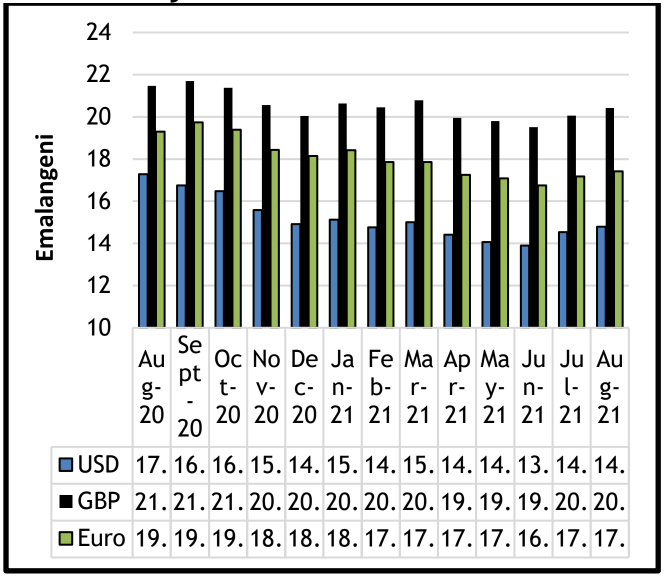
Analysis of import numbers reported in the month, indicates that invoices from 'energy products' imports increased to total E390.7 million in August 2021, higher by 13.1 per cent when compared to July 2021, and higher by 16.2 per cent when compared to August 2020. Fuel imports came solely from South Africa in the month, as there was no need for alternative sources, following the stabilisation in the political unrests both in South Africa and Eswatini. Imports of 'machinery and electrical equipment' were E242.7 million in the review month, reflecting a 58.1 per cent month-on-month increase and a 3.4 per cent year-on-year decrease. 'Textile and textile apparel' imports amounted to E233.6 million in the month, down by 9.0 per cent, month-on-month and up by 8.4 per cent, year-on-year. Imports of 'vehicles' were higher by 54.8 per cent, month-on-month, and 36.3 per cent, year-on-year.

3.5.2 Exchange Rates Developments

The Rand/Lilangeni weakened against the US Dollar, depreciating by about 6.4 per cent since the last MPCC meeting. In August 2021, the domestic currency averaged E14.79 to the US Dollar. The Rand/Lilangeni was volatile, touching above E15 per US Dollar unit during the period, but continued to be affected by external forces and eventually losing some ground by end of August 2021. The currency depreciation was mainly on the markets' hope for US interest rates to be hiked though not realised due to unimpressive economic data in the US. The appointment of the new Finance minister in RSA came with uncertainties that were however contained with the new minister's reassuring statement on policy continuity in fiscal restraint. These developments led to the Rand/Lilangeni to also depreciate by 4.7 per cent and 3.9 per cent against the Pound Sterling and Euro respectively.

The uncertainties that came with the global spread of the delta variant of Covid-19 especially in the US and the improving economy of South Africa supported the performance of the Rand somewhat towards the end the period. The Rand/Lilangeni ended August 2021 trading at E14.62 against the US Dollar, E20.17 against the Pound Sterling and at E17.30 against the Euro.

Figure 24 : Lilangeni Exchange Rates against Selected Major Currencies



Source: Central Bank of Eswatini

3.6 Soundness of the Banking Sector

The banking system remained sound and stable in Q2-2021. In the quarter under review, banking sector assets continued to increase. Banks complied with minimum capital requirements, though falling from the previous quarter position. Banks' earnings and profitability deteriorated as costs of political unrest began to unfold. Asset quality remained unchanged, however total non-performing loans increased. Banks continued to maintain adequate liquidity levels reflecting an improvement from the preceding quarter.

3.6.1 Banking Sector Assets

During the second quarter of the year, banking sector assets grew by 7.9 per cent to settle at E27.1 billion. Loans and advances also increased by 7.8 per cent to stand at E13.3 billion. However, balances with the central bank fell by 7.0 per cent while investment in government securities and balances with banks abroad increased by 0.3 per cent and 59.7 per cent respectively. On the funding side, total deposits increased by 6.3 per cent to settle at E21.7 billion while total shareholder funds marginally increased by 0.9 per cent to stand at E3.4 billion.

3.6.2 Capital Adequacy

The banks complied with minimum capital requirements as at end June 2021, marginally falling from the previous quarter position. The decrease was a result of the payment of dividends by banks, which cut regulatory capital while risk weighted assets increased. The average industry-wide regulatory tier 1 capital adequacy ratio and total capital adequacy ratio stood at 13.8 per cent and 16.0 per cent respectively, falling from the previous quarter's positions of 14.6 per cent and 16.9 per cent respectively. Banks' resilience to credit risk worsened during the quarter as non-performing loans (net of specific provisions) to capital increased from 4.2 per cent in Q1-2021 to 8.4 per cent recorded in Q2-2021.

3.6.3 Earnings and Profitability

Banking sector earnings and profitability deteriorated during the quarter ending June 2021. The average return on banks' total assets (ROA) and on total equity (ROE) stood at 1.6 per cent and 12.5 per cent respectively, falling from 1.8 per cent and 13.6 per cent respectively of Q1-2021. This was mainly a result of banks increasing loan loss provisions due to the political unrest. However, only one of the four banks have effected the costs of the unrest. The cost-to-income ratio deteriorated from 76.3 per cent in March 2021 to 78.8 per cent in June 2021. On average, banks' operating expenses accounted for 53.6 per cent of total income, a marginal improvement from the 53.7 per cent of the previous quarter.

3.6.4 Liquidity Risk

Banks maintained adequate levels of liquidity during the quarter under review. Aggregate bank liquidity to total deposits fell from 43.1 per cent of the previous quarter to 39.0 per cent in Q2-2021, complying with the regulatory minimum. Government securities represented 50.8 per cent of liquid assets held by banks. Liquid assets were 51.2 per cent of short-term liabilities, improving from 42.0 per cent of the previous quarter. As a share of total assets, liquid assets fell from 35.0 per cent to 31.2 per cent during the quarter. The ratio of loans and advances to deposits marginally improved from 60.5 per cent to settle at 61.3 per cent.

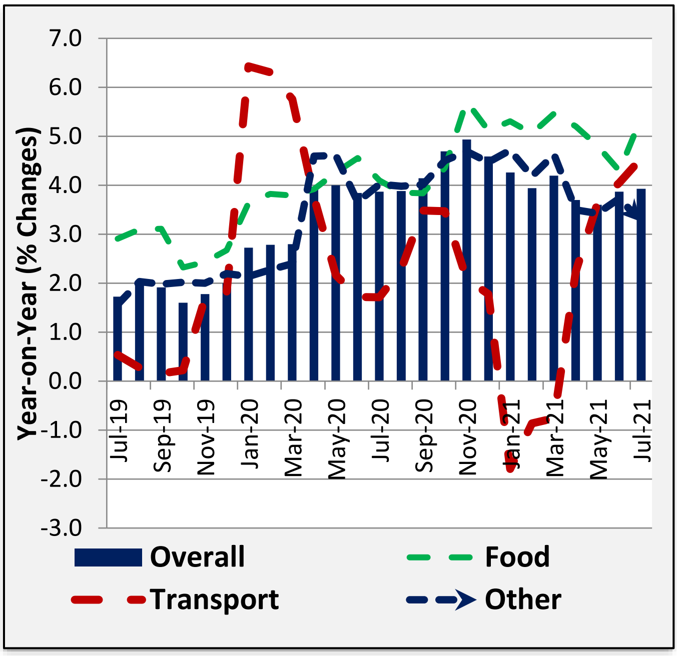
PART B: INFLATION DEVELOPMENTS

4.1 Headline Inflation

Headline consumer inflation remained unchanged at 3.9 per cent in July 2021, same as in June 2021. The index for 'housing & utilities' declined to 3.5 per cent in July 2021 from 4.3 per cent in the previous month, driven by slower increases in the prices for 'water supply' and 'solid fuels'. Notably, the increase in the price index for water supply receded from a high of 29.2 per cent observed throughout the second quarter of 2021 to 13.7 per cent in July 2021, mainly driven by base effects. The sharp slowdown relates to the timing of implementing the 13.7 per cent two-year tariff approved by Parliament in 2020, which was effected in July 2020 for the first year and in April 2021 for the second financial year. Additional deflationary pressures emanated from the price index for 'furnishing & household equipment', which fell by 3.0 percentage points to 1.4 per cent in July 2021. The deceleration mainly came from decreases in the prices for 'furniture & furnishings' and 'household textiles'.

The above decreases were fully counteracted by increasing rates of growth in the price indices for 'food & non-alcoholic beverages', 'transport' and 'recreation & culture'. Following three months of consecutive declines, food inflation rose by 1.1 percentage points to 5.4 per cent in July 2021. Increases were noted in the prices for 'meat', 'milk & other dairy products' and 'vegetables'. Transport inflation maintained an upward trend, increasing to 4.6 per cent in July 2021 from 4.1 per cent in the previous month, owing to increases in the prices of 'purchase of motor vehicles' during the period under review. In addition, the price index for 'recreation & culture', which has remained volatile during the COVID-19 pandemic, further grew by 3.2 percentage points to record 4.5 per cent between the two months under review.

Figure 25: CPI Inflation; July 2019 to July 2021



Source: Central Statistical Office

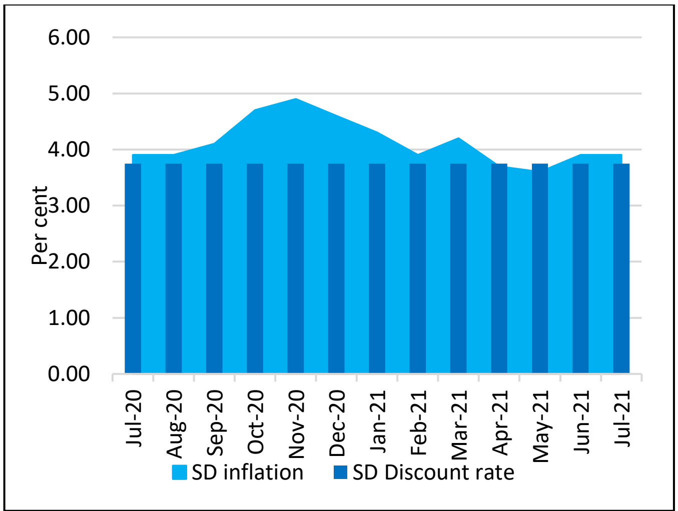
On month-on-month basis, consumer prices grew by 0.2 per cent in July 2021, same as in the previous month. Decreases were noted in the price indices for 'clothing & footwear', 'housing & utilities' and 'furnishing & household equipment', which declined by 2.8, 0.5 and 2.0 percentage points, respectively, between the two months under review. On the other hand, food inflation rose from a deflation of 0.1 per cent in June 2021 to a 1.0 per cent growth in July 2021, while the price index for 'transport' rose from zero growth to 0.5 per cent, during the same period.

Core inflation, which is CPI excluding volatile items such as food, fuel and energy, declined to 2.5 per cent in July 2021 from 2.7 per cent in June 2021. Contributing to this decline was a 0.1 of a percentage point decrease in the prices for 'services' to 0.5 per cent during the month under review. On month-on-month basis, core inflation recorded zero growth during the period under review.

4.2 Inflation and Interest Rate Trends in Eswatini

The Bank maintained the discount rate in July 2021 at 3.75 per cent and the SARB also kept the repo rate steady at 3.50 per cent in July 2021.

Figure 26: Inflation and Discount Rates



Source: Central Statistics Office and Central Bank of Eswatini

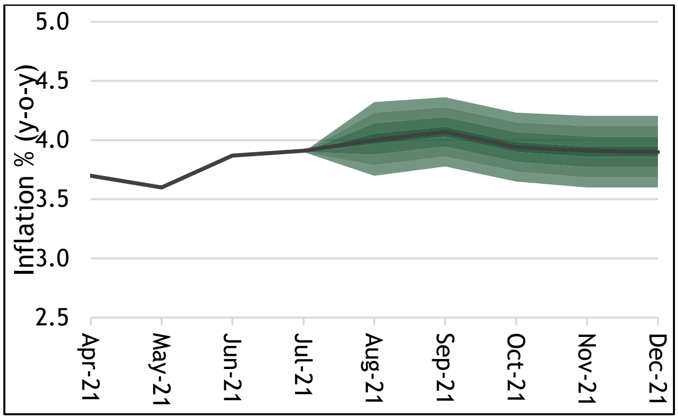
4.3 Inflation Outlook

Inflation forecasts have been slightly revised upwards for the short-term and remain unchanged in the medium-term compared to the July 2021 forecasts. However, the second quarter of 2021 came lower at 3.67 per cent, compared to the previous forecast of 3.72 per cent. From the previous assessment and the assumptions thereto, domestic administered prices continue to exert minimal pressure on the overall inflation in the short-term. Also, external factors such as Brent crude oil prices and fuel prices in the neighbouring South Africa remain on the upside and in line with previous assessment. As previously stated, these exert direct and indirect inflationary pressures on domestic inflation outlook. On the downside, the vaccines rollout is expected to restore supply chain and compel countries including Eswatini and its trading partners to relax lockdown regulations and consequently putting downward pressures on inflation in the fourth quarter of 2021. However, the persisting upward pressures outweighed the downward pressures in the short-term.

The upward revision in the short-term is also supported by the slight depreciation noted in the Rand outlook especially in the short-term. As a result, inflation rate for the third quarter of 2021 is slightly revised up to 3.99 per cent (from 3.95 per cent), the fourth quarter of 2021 is up to 3.92 per cent (from 3.87 per cent). Therefore, the annual average inflation forecast for 2021 is slightly higher at 3.94 per cent from 3.90 per cent forecasted in July 2021.

In the medium-term, underlying assumptions in the form of stronger Rand, elevated Brent crude oil prices are expected to remain unchanged from the previous assessment and in line with the projected economic recovery. Therefore, inflation forecasts for 2022 and 2023 remain unchanged at 4.11 per cent and 4.27 per cent, respectively.

Figure 27: Inflation Outlook



Source: Central Bank of Eswatini

References

Bank of England Interest Rate, July 2021. Available from: https://tradingeconomics.com/united-kingdom/interest-rate (Accessed 1 September 2021).

Brazil Consumer prices, July 2021. Available from: https://tradingeconomics.com/brazil/inflation-cpi (Accessed 20 August 2021).

Brazil GDP, Q2-2021. Available from: https://tradingeconomics.com/brazil/gdp (Accessed 7 September 2021).

Brazil Monetary Policy, July 2021. Available from: https://tradingeconomics.com/brazil/interest-rate (Accessed 7 September 2021)

Brent Crude Oil Price latest, September 2021. Available from: https://www.opec.org/opec_web/en/|https://indexmundi.com|trading economics (Accessed 7 September 2021).

Brent Crude Oil price movements, September 2021. Available from: https://momr.opec.org/pdf-download/index.php|https://www.tradingeconomics.com/topics/oil-market-report https://www.indexmundi.com/commodities/?commodity=gold&months=60&commodity=crude-oil-brent (Accessed 20 August – 7 September 2021)

Global COVID-19 Cases – Update, September 2021. Available from: https://www.worldometers.info/coronavirus/ (Accessed 7 September 2021)

Global COVID-19 vaccinations – percentage share of population vaccinated, September 2021. https://ourworldindata.org/covid-vaccinations (Accessed 7 September 2021)

China Consumer prices, July 2021. Available from http://www.stats.gov.cn/enGLISH/PressRelease/ (Accessed 20 August 2021).

China GDP, Q2-2021. Available from: https://tradingeconomics.com/china/gdp-growth (Accessed 20 August 2021)

China Monetary Policy tools, August 2021. Available from: and https://tradingeconomics.com/china/interest-rate (Accessed 7 September 2021).

European Central Bank Monetary Policy Decisions, July 2021. Available from: https://www.ecb.europa.eu/press/pr/ecb. (Accessed 20 August 2021)

Eurozone CPI, July 2021. Available from: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Inflation_in_the_euro_area (Accessed 20 August 2021) https://tradingeconomics.com/euro-area/inflation-cpi

Eurozone GDP Growth, Q2-2021. Available from: https://ec.europa.eu/eurostat/documents/ (Accessed 7 September 2021)

Gold price movements, September 2021. Available from: Gold miners lose their lustre as price of precious metal drops | Financial Times (ft.com)| www.macrotrends.net/1333/historical-gold-prices and https://www.gold.org/goldhub/data/gold-prices| https://www.indexmundi.com/commodities/?commodity=gold&months=60&commodity=crude-oil-brent (Accessed 1 September 2021).

India CPI, July 2021. Available from: https://tradingeconomics.com/india/inflation-cpi (Accessed 20 August 2021)

India GDP Growth, Q1-2021. Available from: https://Tradingeconomics.com/india/gdp (Accessed 20 August 2021)

India Interest rate, July 2021. Available from: https://tradingeconomics.com/india/interest-rate (Accessed 20 August 2021)

Japan GDP Growth, Q2-2021. Available from: http://www.esri.cao.go.jp/index-e.htm (Accessed 20 August 2021)

Japan Interest Rates, July 2021. Available from: https://www.boj.or.jp/en/mopo/index.htm/ (Accessed 20 August 2021)

Japan's consumer price inflation (CPI), July 2021. Available from: http://www.stat.go.jp/english/data/ (Accessed 20 August 2021)

JP Morgan Global Composite PMI, August 2021. Available from: https://www.markiteconomics.com/Public/Release/PressReleases-4 August 2021 (Accessed 31 August 2021)

Russia CPI, July 2021. Available from: https://tradingeconomics.com /Russia/inflation-cpi (Accessed 20 August 2021)

Russia GDP Growth, Q1-2021. Available from: http//www.world-news-monitor.com) (Accessed 20 August 2021)

Russia Interest rate, July 2021. Available from: https://tradingeconomics.com/russia/interest-rate (Accessed 20 August 2021)

South Africa Consumer prices, July 2021. Available from: http://www.statssa.gov.za/ |

https://tradingeconomics.com/south-africa/inflation-cpi (Accessed 20 August 2021).

South Africa Monetary Policy and stance and GDP growth outlook, July 2021. Available from: https://www.resbank.co.za/ (Accessed 27 July 2021).

South Africa Unemployment Rate, Q2-2021. Available from: https://www.statssa.gov.za/ (Accessed 7 September 2021).

South African GDP, Q2-2021. Available from: https://www.statssa.gov.za/ (Accessed 7 September 2021).

United Kingdom CPI, July 2021. Available from: https://tradingeconomics.com/united-kingdom/inflation-cpi|www.uons.org (Accessed 1 September 2021).

United Kingdom GDP Growth, Q2-2021 – advance estimate. Published by the Office for National Statistics. Available from: https://data.gov.uk/data/search; https://data.gov.uk/dataset/gdp_and_the_labour_market (Accessed 31August 2021).

United Kingdom Interest Rates, July 2021. Available from: www.bankofengland.com (Accessed 1 September 2021).

US FED Monetary Policy Stance, July 2021. Available from: https://tradingeconomics.com/united-states/interest-rate (Accessed 1 September 2021).

USA CPI-Inflation, July 2021. Available from: https://www.bls.gov/news.release/cpi.nr0.htm (Accessed 27 July 2021)

USA GDP Growth, Q2-2021, second estimate. Available from: https://www.bea.gov/news/2021/gross-domestic-product-second-quarter-2021 (Accessed 1 September 2021).

US Federal Reserve Bank of Kansas City, Powell Speech on "Macroeconomic Outlook, Uneven and Uncertain, 27 August 2021. Available from: https://www.federalreserve.gov/newsevents/speech/powell20210827a.htm (Accessed 31 August 2021)