

## The Kingdom of Swaziland



### Major Highlights

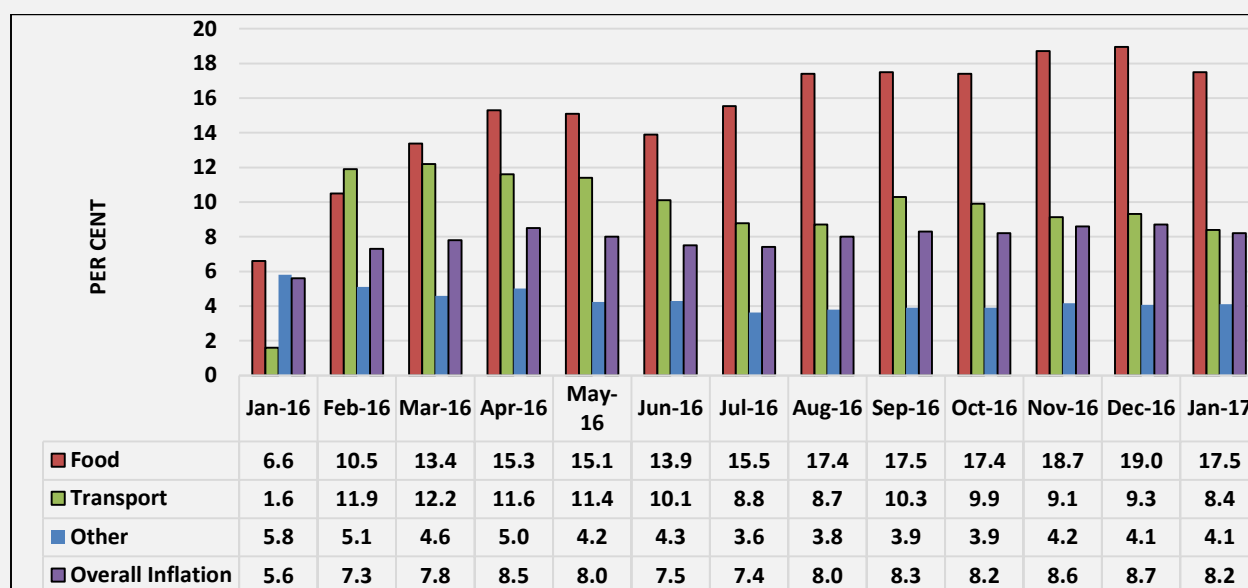
❖ <i>The country's annual consumer inflation slightly moderated to 8.2 per cent in January 2017 from 8.7 per cent recorded in December 2016.</i>	Inflation rate (% y/y)	8.2 (Jan) ↓ 2016 Annual Av: 7.8%
❖ <i>Discount and prime lending rates remained unchanged in February 2017.</i>	Prime Lending (%)	10.75
	Discount rate (%)	7.25
❖ <i>During the month of January 2017, the external value of the Lilangeni strengthened against major currencies.</i>	Exchange rate (US\$)	13.20 (Jan) ↓
❖ <i>Credit to the Private Sector amounted to E12.4 billion at the end of January 2017, lower than the E13.0 billion recorded at the end of December 2016.</i>	Private Sector Credit (% y/y)	7.4 (Jan) ↑
❖ <i>Broad Money Supply (M2) fell by 9.4 per cent (m/m) at the end of January 2017 to settle at E15.1 billion.</i>	Broad Money (M2) (% y/y)	13.5 (Jan) ↑
❖ <i>Gross Official Reserves stood at E7.6 billion at the end of February 2017, 7.5 per cent lower than the E8.2 billion recorded in January 2017.</i>	Reserves (months of import cover)	3.6 (Feb) ↓
❖ <i>At the end of February 2017, preliminary debt figures indicate that total public debt stood at E10.11 billion, lower than the E10.36 billion recorded in January 2017.</i>	Total Public Debt (% to GDP)	18.5 (Feb) ↓
❖ <i>In the third quarter of 2016, Swaziland's current account registered a surplus of E320.0 million, a significant increase from a revised E126.2 million reported in the second quarter.</i>	Current Account Balance (% of GDP)	0.6 (Sep) ↑

NB: The table shows the most recent available data.

## 1 Inflation developments

The country's annual consumer inflation slightly moderated to 8.2 per cent in January 2017 from 8.7 per cent recorded in December 2016. Deflationary pressures emanated from the price indices for 'food and non-alcoholic beverages', 'transport' and 'housing and utilities'. Food inflation which had remained on the upward trajectory as the effects of the drought manifested since July 2016, slightly decelerated to 17.5 per cent in January 2017 from 19.0 per cent in December 2016. Contributing to this decline were observed slower increases in the prices for bread, cereals, meat, fish and oils as the effects of the drought were slightly moderated. The price index for 'transport' also slowed to 8.4 per cent in January 2017 from 9.3 per cent in the previous month, owing to slower growth rates in the prices for road and air transport services. Additional pressures were observed in the 'housing and utilities' index which declined to 3.4 per cent in January 2017 from 3.6 per cent in December 2016. The above decreases were slightly counteracted by increasing rates of growth in the price indices for 'furniture and household equipment' and 'clothing and footwear' which grew by 0.9 and 0.7 percentage points, respectively.

Figure 1: Inflation Trends; January 2016 to January 2017

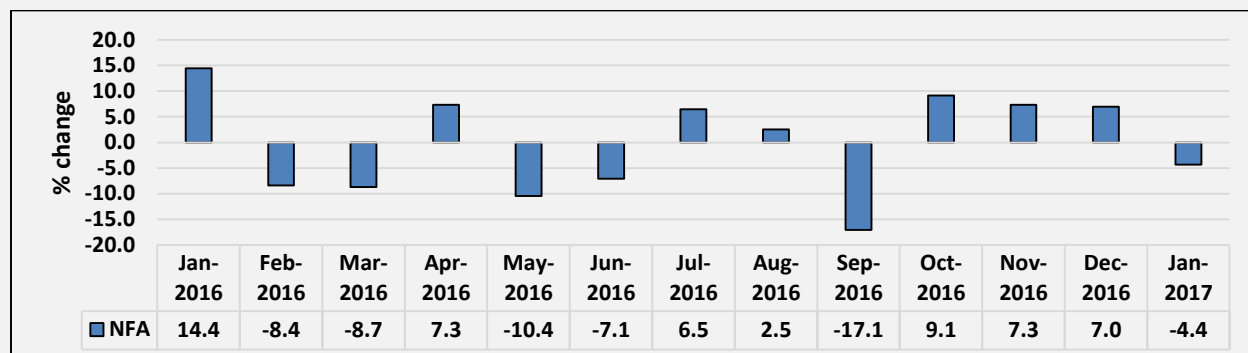


Source: Central Statistical Office

On month-on-month rates, inflation increased at a slower rate of 0.1 per cent in January 2017 compared to 0.3 per cent in December 2016. This decline was mainly driven by a slower increase in the price index for 'food and non-alcoholic beverages'. Core inflation (which is defined as inflation excluding food, non-alcoholic beverages, auto-fuel and energy) was unchanged at 4.8 per cent in December 2016, the same rate as in the previous month. On a month-on-month rates, core inflation recorded zero-growth in December 2016.

## 2 Money Supply and Banking

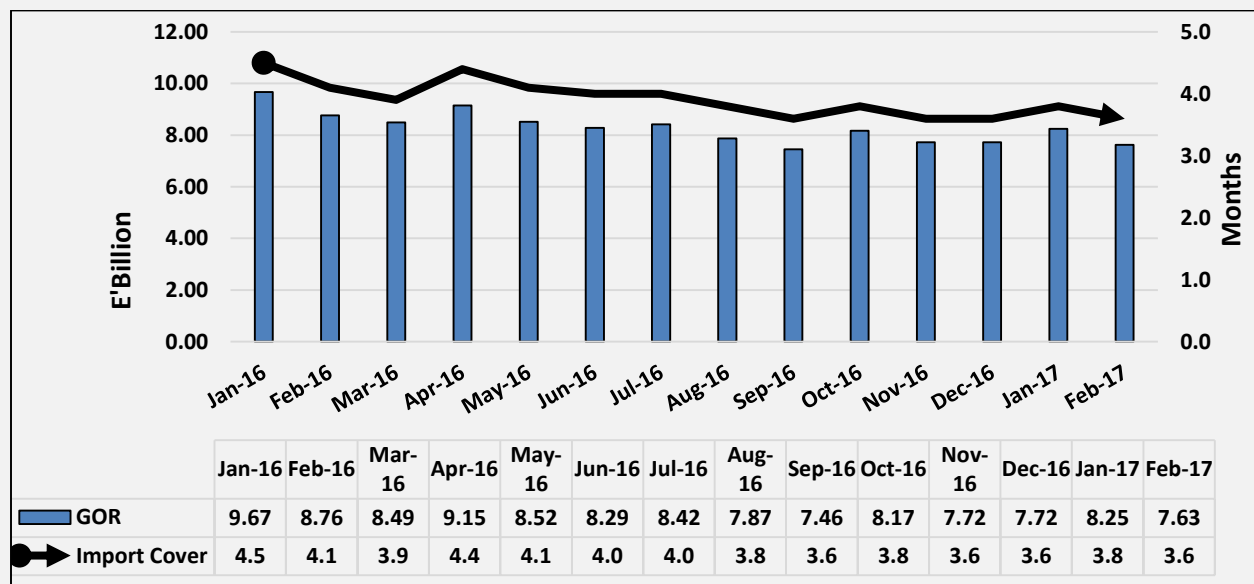
Figure 2: Net Foreign Assets Monthly Changes: January 2016 to January 2017



Source: Central Bank of Swaziland

Net Foreign Assets stood at E8.4 billion at the end of January 2017, reflecting a decline of 4.4 per cent when compared with the previous month. The month-on-month contraction in net foreign assets was on account of a fall in net foreign holdings of Other Depository Corporations. Net foreign holdings of Other Depository Corporations therefore, fell by 36.9 per cent to E1.5 billion over the review month. The contraction was mainly driven by a fall in commercial banks’ foreign currency holdings and their external deposits. Net official assets on the other hand, grew by 7.7 per cent month-on-month, mainly boosted by the inflow of the quarterly receipts from the Southern African Customs Union (SACU) at the beginning of January 2017. When valued in Special Drawing Rights (SDR), net foreign assets closed at SDR462.2 million, 3.4 per cent lower than recorded at the end of December 2016.

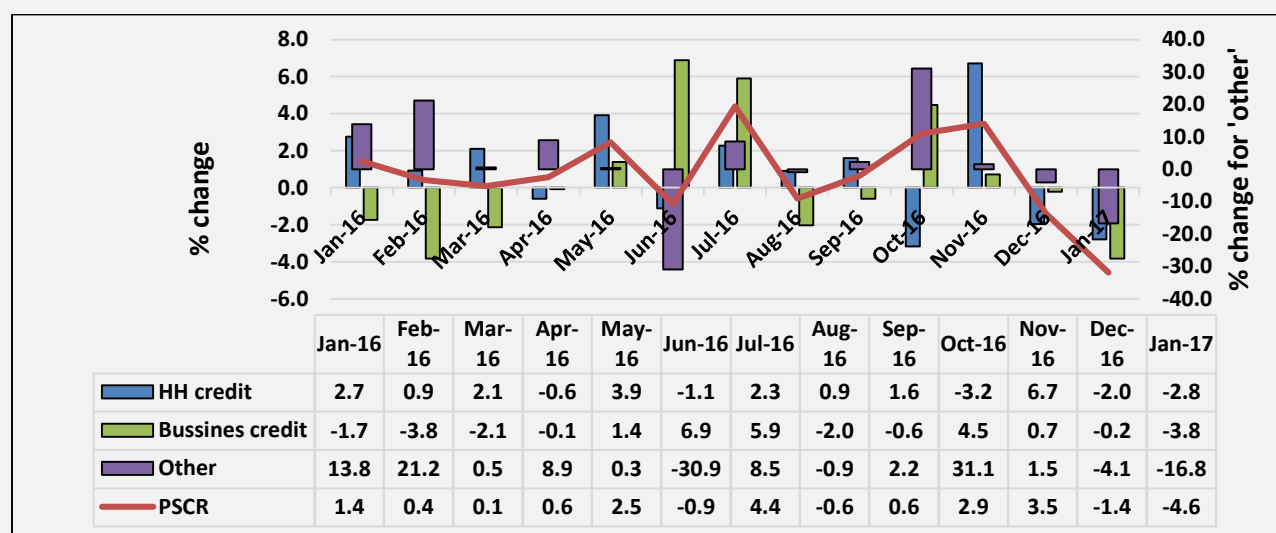
Figure 3: Gross Official Reserves and Import Cover: February 2016 to February 2017.



Source: Central Bank of Swaziland

Gross Official Reserves contracted by 7.5 per cent to reach E7.6 billion at the end of February 2017 from E8.2 billion recorded at the end of January 2017. The contraction mainly emanated from payment of Government’s external obligations during the month of February 2017. At this level, the Reserves were sufficient to cover 3.6 months of import of goods and services, lower than the 3.8 months cover observed at the end of January 2017. When valued in Special Drawing Rights (SDRs), the Reserves amounted to SDR433.2 months reflecting a contraction of 4 per cent when compared with the previous month. Compared over the same period last year, the Reserves decelerated by 12.9 per cent in Emalangeni terms but grew by 9.1 per cent in SDRs terms.

**Figure 4: Private Sector Credit Monthly Changes; January 2016 to January 2017.**



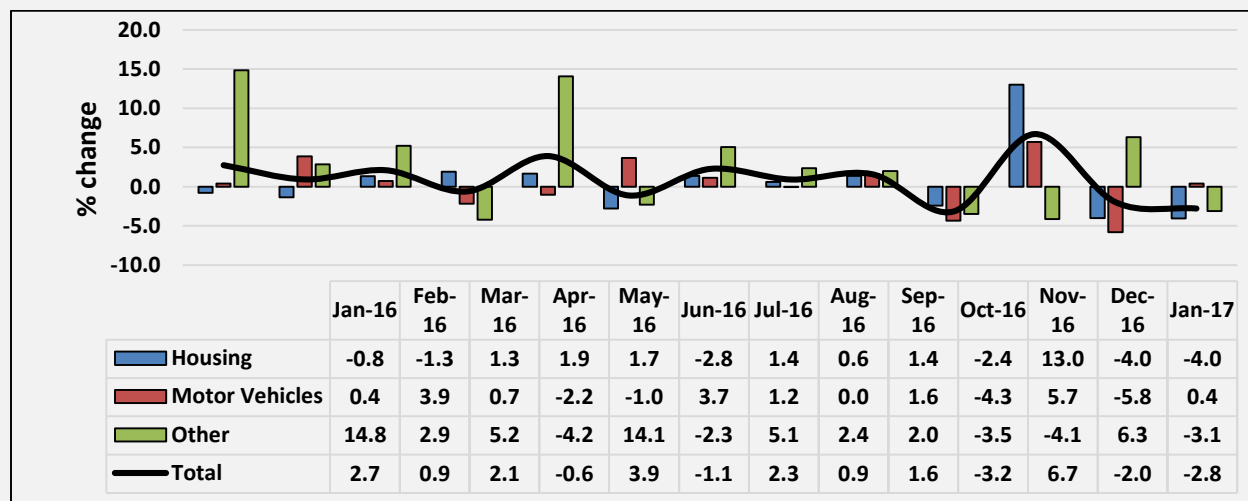
Source: Central Bank of Swaziland

Credit Extended to the Private Sector amounted to E12.4 billion, 4.6 per cent lower than recorded at the end of the previous month, but 7.4 per cent higher when compared over the year. The month-on-month contraction in credit to the private sector was driven by a contraction in credit extended to Households & Nonprofit Institutions Serving Households, Business and Other Sectors.

Credit Extended to Businesses closed at E5.6 billion at the end of January 2017, lower than the E5.9 billion recorded at the end of December 2016. The fall in credit to businesses was primarily driven by a fall in credit to the manufacturing sector (-34.9 per cent), real estate (-8 per cent), distribution and tourism (-3 per cent), mining and quarrying (-1.6 per cent), transport and communications (-1.3 per cent) as well as community, social and personal services (-1.1 per cent) sectors. On the other hand, growth in credit extension was observed in the agriculture and forestry (9.2 per cent) and construction (2.5 per cent) sectors. When compared on an annual basis, credit to businesses grew by 6.1 per cent.

Credit Extended to Households & Non Profit Making Serving Households (NPISH) amounted to E5.8 billion at the end of January 2017, from E5.9 billion recorded at the end of December 2016. The contraction was due to a decline in mortgage finance and other (unsecured) loans. Mortgage finance fell by 4 per cent while unsecured loans declined by 3.1 per cent over the review month. Motor vehicle finance on the other hand grew by 0.4 per cent month-on-month to close at E1.4 billion. When compared over the year, household credit increased by 8.7 per cent.

Figure 5: Household Credit Monthly Changes: January 2016 to January 2017

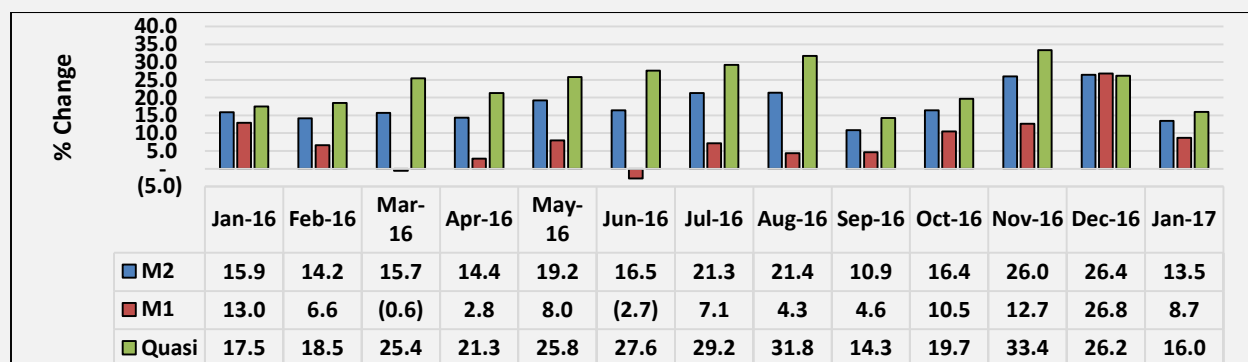


Source: Central Bank of Swaziland

Credit Extended to Other Sectors contracted by 16.8 per cent from the previous month to close at E1 billion at the end of January 2017. The fall in credit to other sectors was on account of a decline in credit to Other Financial Corporations which fell by 25 per cent month-on-month to E658.9 million at the end of January 2017. Credit to Public Non-Financial Corporations and Local Government on the other hand increased by 5.1 per cent and 2.8 per cent respectively. When compared over the year, credit to other sectors reflected growth of 7.4 per cent.

Net Government Balances closed at E1.6 billion at the end of January 2017, from E833.7 million recorded at the end of December 2016. The improvement in net government balances was driven by growth in government’s deposits placed with the banking sector which outpaced the rise in the banking sector’s claims on government. Government deposits amounted to E5.1 billion at the end of the review month, higher than the E4.2 billion recorded at the end of December 2016. The government deposits were boosted by the inflow of the revenue from SACU at the beginning of January 2017. Claims of the banking sector on government increased by 4 per cent month-on-month to close at E3.5 billion. When compared over the year however, net government balances with the banking sector fell by 58.3 per cent.

Figure 6: Money Supply Monthly Changes; January 2016 to January 2017



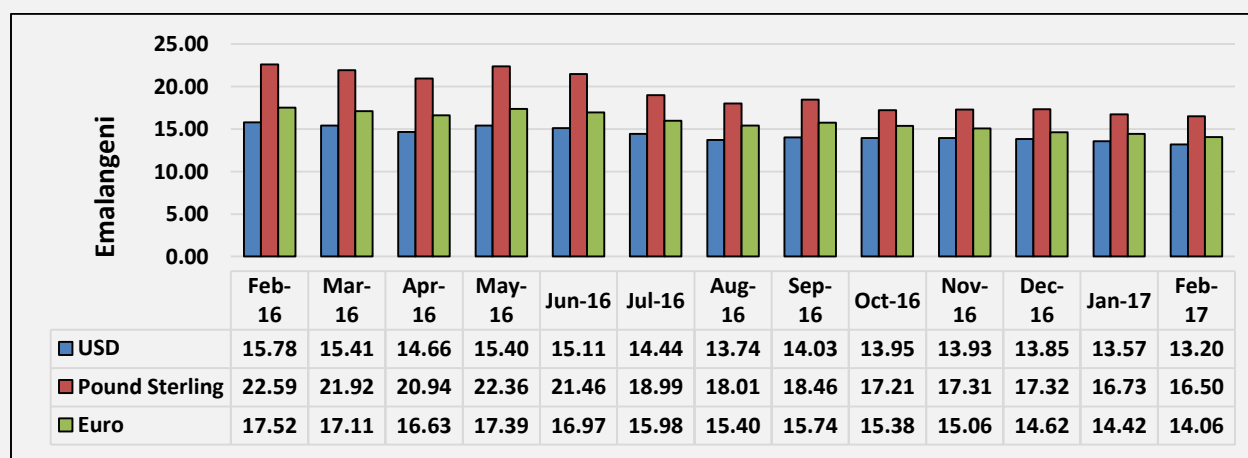
Source: Central Bank of Swaziland

Broad Money Supply (M2) fell by 9.4 per cent month-on-month to close at E15.1 billion. The fall in M2 was reflected in both its components, narrow money supply (M1) and quasi money supply. When compared over the year however, M2 depicted growth of 13.5 per cent.

M1 contracted by 16.4 per cent to close at E5 billion at the end of January 2017. The decline in M1 was primarily observed in transferable deposits which decreased by 17.6 per cent to E4.5 billion. Currency outside depository corporations also declined by 5.8 per cent over the month to close at E573.6 million. When compared over the year however, M1 depicted an expansion of 8.7 per cent.

Quasi Money Supply shrank by 5.5 per cent in the review month, having fallen by 2.1 per cent in the preceding month. The decrease in quasi money supply was largely on account of time deposits which fell by 5.8 per cent to E8.4 billion. Savings deposits fell by 3.8 per cent month-on-month to settle at E1.7 billion at the end of January 2017. When compared over the year however, quasi money supply was 16 per cent higher than observed at the end of January 2016.

Figure 7: Average Exchange Rates; February 2016 to February 2017



Source: Central Bank of Swaziland

The average exchange rate of the Lilangeni against major currencies strengthened in the month of February 2017 compared to January 2017. The US dollar strengthened from an average of E13.57 recorded in the previous review period to an average of E16.20 recorded in the period under review. Against the Pound Sterling the local unit averaged E16.50 and E14.06 against the Euro.

The local unit strengthened following the delivery of a decent budget by the South African Finance Minister. The US dollar generally weakened as it grappled with polarised change in US leadership and the easing of the French political risk buoying South African exports to France.

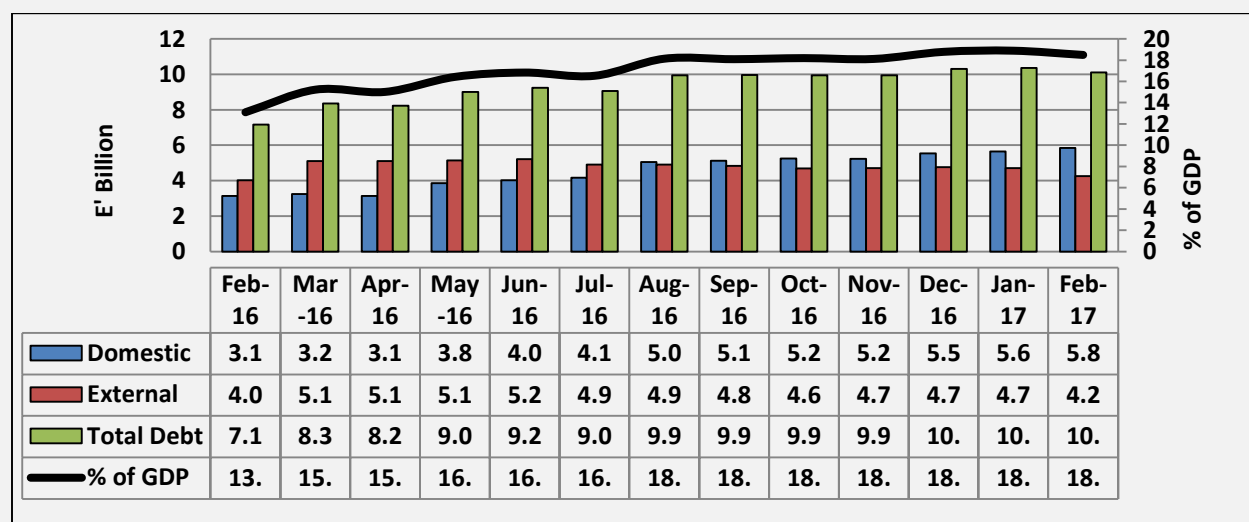
The local unit ended the period under review at E12.99 to the US dollar, E16.14 to the Pound Sterling and E13.76 to the Euro after closing the previous period at E13.50 to the US dollar, E16.87 to the Pound Sterling and E14.43 to the Euro.

### 3 Public Debt

As at the end of February 2017, preliminary debt figures indicate that total public debt stood at E10.11 billion, representing 18.5 per cent of GDP. This reflects a marginal decrease of 2.4 per cent from the previous month. The decrease largely stems from the strengthening of the Lilangeni against other major currencies in which the country’s liabilities are denominated.

External debt as at end of February, 2017 stood at E4.25 billion, an equivalent of 7.8 per cent of GDP. This indicates a decline of about 9.7 per cent from the previous month. The decline was mainly attributable to the appreciation of the Lilangeni (SZL) against the USD and other major currencies in which the country’s external liabilities are denominated.

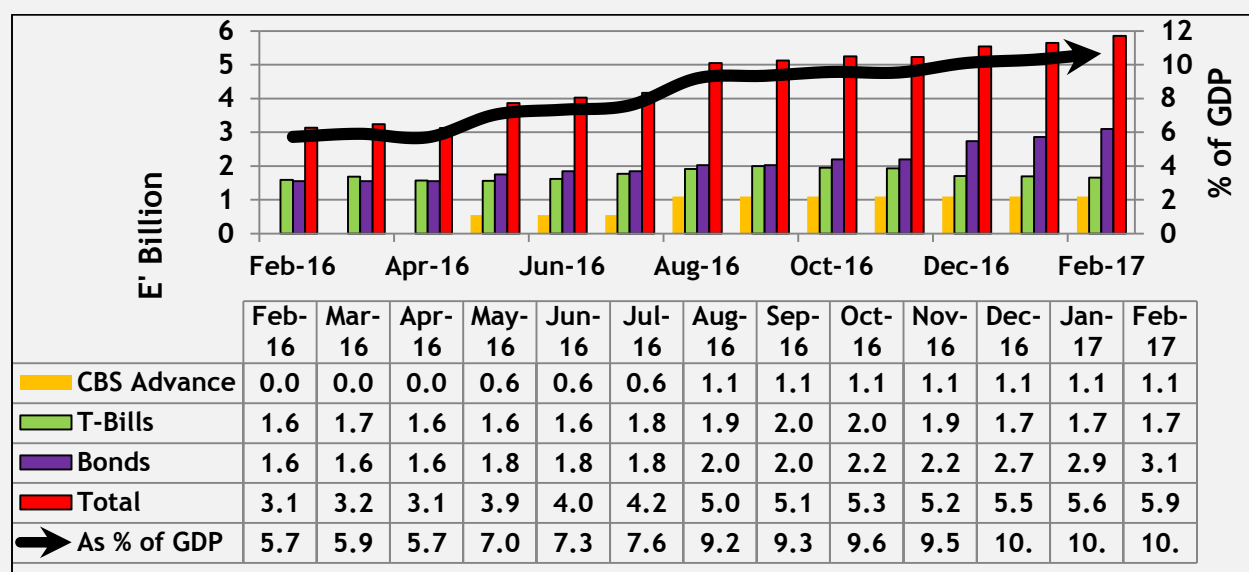
Figure 8: Total Public Debt: February 2016 to February 2017



Source: Ministry of Finance and Central Bank of Swaziland

Domestic debt stood at E5.85 billion as at the end of February 2017, an equivalent of 10.7 per cent of GDP. This represents a 3.7 per cent increase from January 2017 and is mainly attributed to the continued issuance of suppliers' bond and 5-Year bond amounting to E150 million. Of the outstanding public domestic debt, E1.10 billion accounts CBS Advance to Government, treasury bills stood at E1.66 billion and the remaining E3.09 billion accounts for Government Bonds.

Figure 9: Public Domestic Debt; February 2016 to February 2017



Source: Ministry of Finance and Central Bank of Swaziland

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: Government Securities Outstanding By Holder as At 28<sup>th</sup> February 2017 (E' Million)

Holder	Treasury Bills	Government Bonds	Total	Share of Holdings (%)
CBS	2.4	0.0	2.4	0.05
Commercial banks	1,308.7	856.8	2,165.6	45.58
NBFIs	265.0	2,209.2	2,294.2	48.28
Other	82.5	207.0	289.5	6.09
<b>Total</b>	<b>1,659.0</b>	<b>3,093.0</b>	<b>4,752.0</b>	<b>100</b>

Source: Ministry of Finance and Central Bank of Swaziland

The Bank, on behalf of the Ministry of Finance successfully auctioned a 5-Year bond this month. On offer was E150 million and E167.3 million worth of bids was received while E129.3 million was allotted.

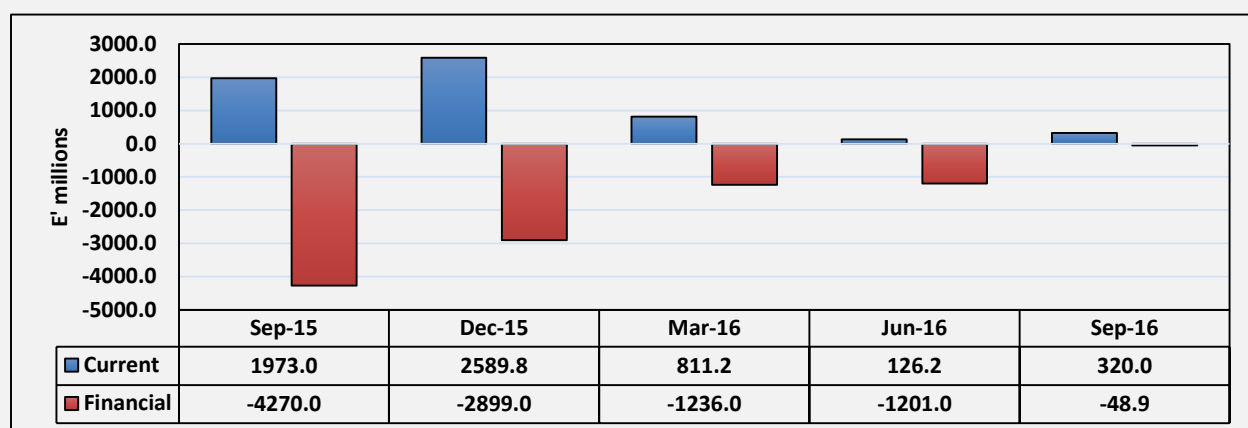


## The External Sector

Preliminary data for the quarter ending September 2016 indicate that Swaziland’s overall balance of payments recorded its second consecutive deficit in 2016, posting a substantial net outflow of E642.1 million from the E188.6 million deficit in June 2016. As a share of GDP, the deficit was equivalent to 1.2 per cent up from 0.3 per cent reported previously. Major factors underpinning the overall deficit were the persistent net outflows in the services account and the income account as well as a net outflow recorded in the financial account.

Preliminary data show that the current account during the quarter ending September 2016 registered a surplus of E320.0 million from a revised E126.2 million surplus in the second quarter. This surplus accounts for 0.6 per cent of GDP from 0.2 per cent in the second quarter. The increase in the surplus was buoyed by a notable turnaround in the direction of the trade balance to a surplus on the back of better export performance having recorded a deficit in the previous quarter.

Figure 11: Current and Financial Accounts Quarterly Changes: September 2015 to September 2016



Source: Central Bank of Swaziland and Swaziland Revenue Authority

The country’s trade account switched to a surplus of E600.1 million in the third quarter after reporting a negative trade balance of E342.8 million in the second quarter. Mainly driving this result were merchandise exports which soared by a significant 25 per cent to E6.2 billion in the review period, a complete turnaround from the 10 per cent decline in export proceeds recorded in the second quarter. South Africa is traditionally Swaziland’s destination for exports. During the third quarter, 64.1 per cent of total receipts were received from South Africa, a meagre drop from the 66.3 per cent reported previously. The figures suggest that exports have benefitted from the weaker lilangeni when compared with other major world currencies.

Export receipts from miscellaneous edibles grew by a considerable 15.7 per cent quarter-on-quarter to E2.8 billion in quarter three following a 11.3 per cent drop in the second quarter. On a year-on-year basis, receipts from miscellaneous edibles grew albeit at a slower pace of 3.6 per cent compared to the 5.5 per cent increase

in the previous quarter. The robust growth in exports is also reflected in the 51.3 per cent quarter-on-quarter upsurge in sugar and sugar confectionery export receipts to E1.5 billion in the third quarter. For the sugar industry, the third quarter marks the end of their contractual agreements with their customers and thus most of their obligations were fulfilled during this period. Income from textiles shows a notable 28.8 per cent quarterly rise to E765.7 million during the review period coming from a 6.9 per cent increase in the second quarter. A major portion of the increase is reflected in a 27.3 per cent hike in receipts from the South African market which now absorbs close to 100 per cent of the textile exports from Swaziland.

**Total merchandise imports totalled E5.6 billion in the third quarter, a 5.5 per cent quarter-on-quarter growth from the previous quarter.** These were mainly driven by purchases of fuel and vehicles other than railway or tramway rolling stock, and parts and accessories thereof which collectively make up 20.2 per cent of total imports. The third quarter increase is, however, relatively less noteworthy when compared with the 16 per cent hike in the second quarter. On an annual basis, imports rose 21.1 per cent from a slightly wider 25.3 per cent increase in the second quarter.

**The services account recorded a deficit of E970.9 million in the third quarter, up from E443.3 million in the second quarter.** This deficit was 1.3 per cent lower when compared to the same period of the previous year. The widening quarter-on-quarter deficit was a result of an increase in services outflows of E1.7 billion against services inflows of E774.8 million in the quarter. Transportation services posted a net outflow of E3.8 million, a turnaround from the net inflow of E16.5 million recorded in the second quarter. Transportation services inflows amounted to E202.1 million, 5.0 per cent higher than the previous quarter, with outflows rising by 17.1 per cent quarter-on-quarter to E205.9 million. Travel related services data recorded a net outflow of E107.5 million in the review quarter, versus outflows amounting to E185.8 million. Services outflows grew by E711.9 million in the third quarter, a turnaround from the downward trend observed in the first two quarters of 2016. Notably, management and technical services outflows also contributed to the deficit in this account.

**The income account posted a deficit of E762.7 million in the third quarter, a deterioration compared to the E621.9 million deficit in the previous quarter.** Income inflows grew in the quarter ending September 2016, however hardly enough to dampen the size of the deficit. These inflows amounted to E1.8 billion, with main contributors being investment income specifically reimbursement of office float, these being funds sent back to direct investment enterprises for operations. Other contributors to the income inflows include compensation of employees and other investment interest receipts of E47.8 million and E326.9 million, respectively. Income outflows expanded to E2.6 billion in the third quarter, from E1.7 billion in the second quarter. The increase in income outflows was a result of dividends and distributed branch profits which registered E2.3 billion. These are funds remitted to non-residents in the period resulting in the deterioration of the deficit observed in this account.

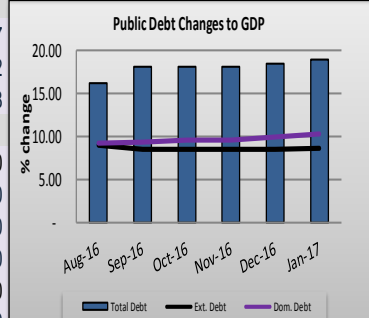
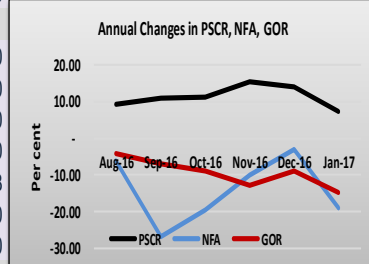
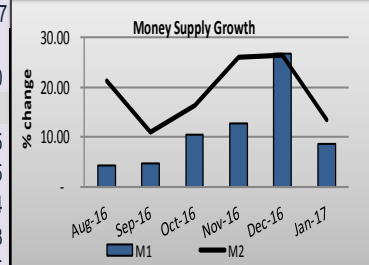
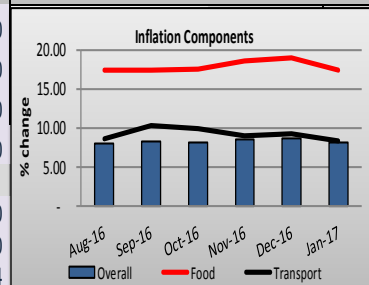
The current transfers account recorded a net inflow of E1.5 billion in the third quarter, 5.2 per cent lower than the preceding quarter and 30.4 per cent lower than the same period last year. Current transfers inflows recorded a meagre 0.2 per cent quarter-on-quarter rise in the quarter to E1.9 billion, owing to the unchanged SACU inflow for the 2016/17 fiscal year. Current transfers outflows increased in the review quarter to E468.2 million, a 22.0 per cent quarterly growth from the preceding period, effectively reducing the size of the incessant surplus recorded in this account.

During this quarter, the financial account net outflow improved markedly relative to the previous quarter easing to E48.9 million from a net outflow of E1.201 billion posted in June. The reduced net outflow in this account was influenced by a turnaround in the balance recorded in direct investment, coupled with a subdued deficit in the 'other investment' account.

Foreign direct investment posted a net inflow amounting to E212.7 million in the quarter ending September 2016 compared to a net outflow of E336.4 million in the second quarter. Reinvested earnings recorded a net inflow of E171.1 million in the review quarter, a turnaround from the net outflow of E370.0 million in the preceding period. Other capital between related resident and non-resident companies edged up to a net inflow of E57.0 million from a net inflow of E30.1 million in the previous quarter.

The net inflow in the portfolio investment account was muted in the third quarter of 2016, decreasing to E187.4 million from a net inflow of E412.3 million in the preceding quarter. This was attributed to movements recorded in the assets component of this account, mainly underpinned by the net inflows posted in debt securities assets. Government foreign liabilities, which include public and publicly guaranteed debt, registered a net outflow of E40.5 million, reflecting higher repayments compared to drawdowns during the quarter. Repayments amounted to E53.6 million against disbursements of E13.1 million.

CENTRAL BANK OF SWAZILAND						
Economic Policy, Research and Statistics Division						
Swaziland Economic Indicators at a glance						
Sectors	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17
<b>Overall Inflation</b>	8.00	8.30	8.20	8.60	8.70	8.20
<i>Food</i>	17.40	17.50	17.60	18.70	19.00	17.50
<i>Transport</i>	8.70	10.30	9.90	9.10	9.30	8.40
<i>Other</i>	3.80	3.90	3.90	4.16	4.10	4.10
<b>Money and banking</b>						
<i>Narrow money annual growth (%)</i>	4.30	4.60	10.50	12.69	26.80	8.70
<i>Broad money annual growth (%)</i>	21.40	10.90	16.40	26.00	26.40	13.50
<i>Domestic credit (net) - E' Million</i>	11,098.94	11,962.81	11,185.05	12,307.65	12,203.66	10 818.4
<i>Government</i>	-1,238.30	-453.80	-1,594.42	-913.82	-833.65	-1622.7
<b>Private sector</b>	12,337.24	12,416.61	12,779.47	13,221.47	130,373.09	12 441.1
<i>Private sector credit annual growth (%)</i>	9.40	10.90	11.20	15.54	14.15	7.40
<b>Interest rates (% p.a)</b>						
<i>Prime lending</i>	10.50	10.50	10.50	10.50	10.50	10.75
<i>Discount rate</i>	7.00	7.00	7.00	7.00	7.00	7.25
<i>Deposit rate - 31 days</i>	3.45	3.45	3.45	3.45	3.45	3.44
- 12 months	4.89	4.89	4.89	4.89	4.89	5.03
- T. bill rate	7.22	7.35	7.65	7.88	7.95	8.15
<b>Ratios</b>						
<i>Liquidity ratio (required = 25 %)</i>	27.00	29.00	28.40	25.70	28.70	29.30
<i>Loans/deposits ratio</i>	79.90	84.00	83.90	79.80	75.10	81.0
<i>Net foreign assets (E'million)</i>	8,499.55	7,049.17	7,691.77	8,254.73	8,831.27	8,446.30
<b>Annual % change in NFA</b>	-6.20	-26.80	-19.40	-10.11	-3.10	-19.00
<i>Gross official foreign reserves E'Millions</i>	7,870.96	7,455.24	8,165.60	7,721.49	7,723.04	8 246.3
<b>Annual % change in GOR</b>	-4.00	-7.00	-8.90	-12.80	-9.00	-14.80
<i>In months of import cover</i>	3.80	3.60	3.80	3.60	3.60	3.80
<b>Exchange Rates</b>						
<i>US\$</i>	13.74	14.03	13.95	13.93	13.85	13.57
<i>EURO</i>	15.40	15.74	17.21	17.31	17.32	14.42
<i>GBP</i>	18.01	18.46	15.38	15.06	14.62	16.73
<b>Public Finance</b>						
<i>Total public external debt [E' million]</i>	4,898.10	4,700.00	4,700.00	4,700.00	4,650.00	4,711.60
<i>As a % of GDP</i>	8.90	8.50	8.50	8.50	8.50	8.60
<i>Total public domestic debt [E' million]</i>	3,945.20	5,300.00	5,300.00	5,230.00	5,450.00	5,649.90
<i>As a % of GDP</i>	9.20	9.35	9.60	9.60	9.90	10.30
<i>Total public debt [E' million]</i>	8,843.30	9,960.00	9,960.00	9,890.00	10,100.00	10,361.60
<i>As a % of GDP</i>	16.10	18.10	18.10	18.10	18.40	18.90



**NB: The table shows data up to the end of January 2017 for consistency.**