

# Recent Economic Developments

JANUARY/FEBRUARY 2020



CENTRAL BANK OF ESWATINI  
Umntsholi Wemaswati



## MAJOR HIGHLIGHTS

<ul style="list-style-type: none"> <li>The headline consumer inflation rose to a 10-month high, recording 2.7 per cent in January 2020 from 2.0 per cent in December 2019.</li> </ul>	Inflation rate (% y/y)	2.7 (Jan) <span style="color: blue;">▲</span>
<ul style="list-style-type: none"> <li>Discount and prime lending rates were unchanged in January 2020.</li> </ul>	Prime Lending (%)	10.00 <span style="color: blue;">▬</span>
	Discount rate (%)	6.50 <span style="color: blue;">▬</span>
<ul style="list-style-type: none"> <li>In the month of February 2020, the Lilangeni/Rand exchange rate against the major trading currencies depreciated.</li> </ul>	Exchange rate (US\$)	15.01 (Feb) <span style="color: blue;">▼</span>
<ul style="list-style-type: none"> <li>Credit extended to the private sector declined by 1.4 per cent to E14.6 billion at the end of January 2020.</li> </ul>	Private Sector Credit (% m/m)	1.4 (Jan) <span style="color: blue;">▼</span>
<ul style="list-style-type: none"> <li>Broad money supply (M2) contracted by 2.6 per cent to close the month of January 2020 at E17.9 billion.</li> </ul>	Broad Money (M2) (% m/m)	-2.6 (Jan) <span style="color: blue;">▼</span>
<ul style="list-style-type: none"> <li>Gross official reserves decreased by 2.4 per cent to settle at E6.5 billion over the month ended February 2020.</li> </ul>	Reserves (months of import cover)	2.8 (Feb) <span style="color: blue;">▼</span>
<ul style="list-style-type: none"> <li>As at end of February 2020, the outstanding domestic debt stood at E13.2 billion.</li> </ul>	Total Domestic Debt (% of GDP)	18.1 (Feb) <span style="color: blue;">▲</span>
<ul style="list-style-type: none"> <li>In February 2020, Eswatini recorded a lower trade surplus of E102.7 million, compared to E181.6 million recorded in January 2020.</li> </ul>	Trade Balance (% of GDP)	0.16 (Feb) <span style="color: blue;">▼</span>

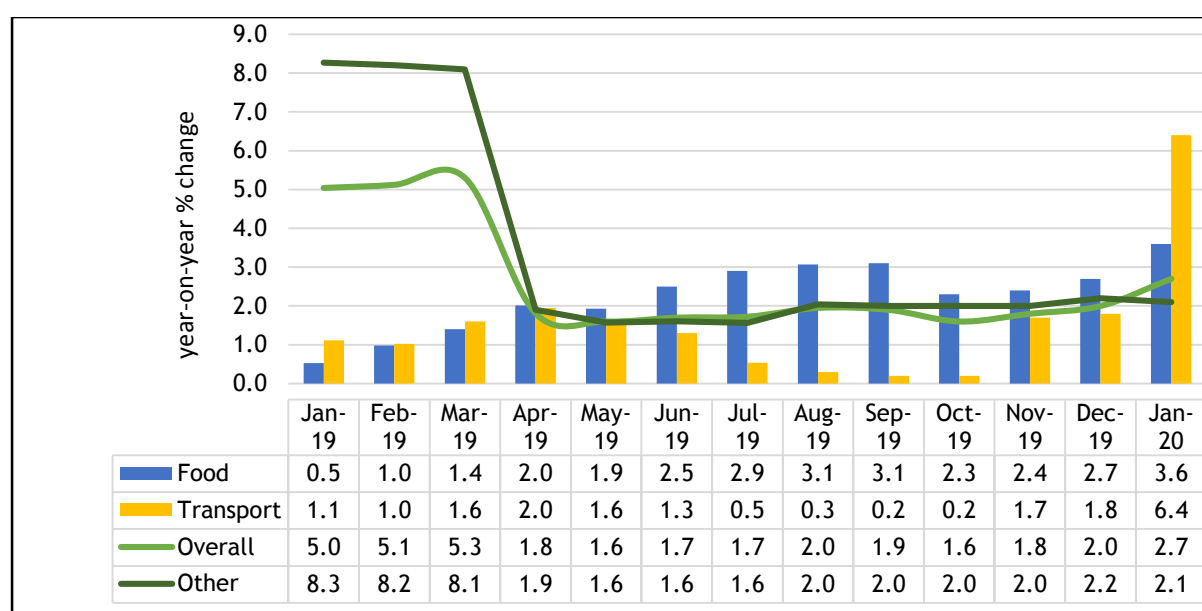
*NB: The table shows the most recent available data.*

## 1 DOMESTIC ECONOMY

The headline consumer inflation rose to a 10-month high, recording 2.7 per cent in January 2020 from 2.0 per cent in December 2019. The increase in consumer inflation was mainly driven by increases in administered prices, which increased by 3.2 per cent in January 2020 from 1.6 per cent in December 2019. Among the significant administered prices' category was 'transport services', which grew by 8.1 per cent in the period under review following the final approval and implementation of hikes in public transport fares. (Public transport fares by road for short distances increased by approximately 30 per cent effective January 2020). The increase in prices for transport services, coupled with, the low base effects from the previous year in fuel prices, resulted in an acceleration in transport inflation from 1.8 per cent in December 2019 to 6.4 per cent in the period under review. In addition, food prices grew by 3.6 per cent in January 2020 compared to 2.7 per cent in the previous month. The increase in food inflation was mainly driven by increases in the prices of 'meat and meat products', 'dairy products' and 'sugar and sugar products'.

The above increases were partially offset by a slowdown in the price index for 'clothing and footwear'. There was a decrease in the prices of footwear items and a slower increase in the prices of garments. As a result, the index for 'clothing and footwear' moderated to 0.4 per cent in January 2020 from 2.1 per cent in the previous month.

Figure 1: Inflation Trends: January 2019 to January 2020



Source: Central Statistical Office and Central Bank of Eswatini

## RED - January/February 2020

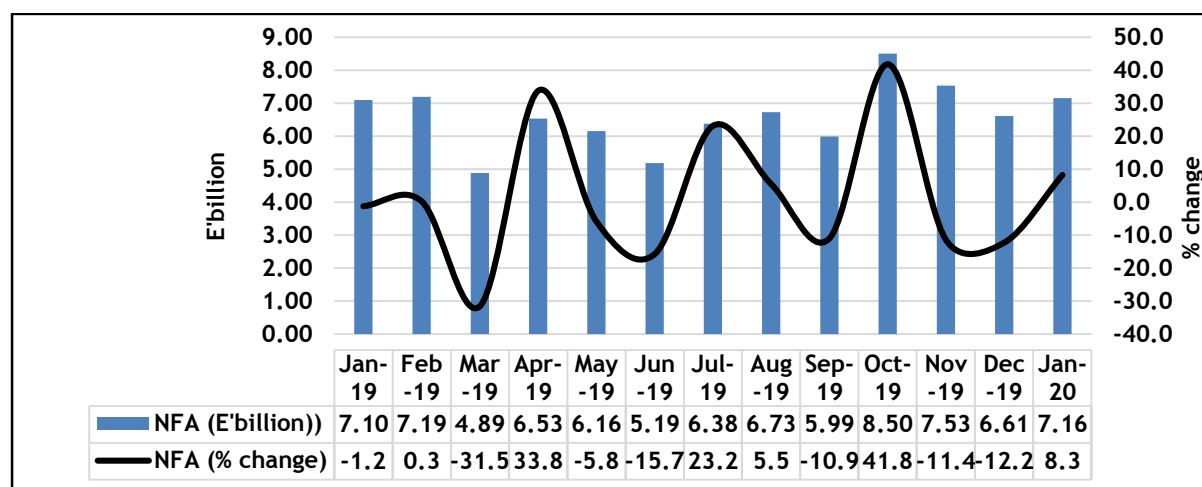
On month-on-month rates, consumer inflation increased by 0.6 per cent in January 2020 compared to 0.3 per cent the previous month. Transport inflation rose by 3.6 per cent, month-on-month, in January 2020, in line with the hikes in public transport fares effected over the month under review. The increase in transport inflation was partially counteracted by a 2.2 per cent month-on-month decline in the index for ‘clothing and footwear’.

Core inflation, which is CPI excluding volatile items such as food, fuel and energy, increased to 2.8 per cent in January 2020, from 2.3 per cent in December 2019, broadly in line with increases in the prices of ‘services’. On month-on-month rates, core inflation increased by 0.4 per cent in January 2020 from 0.2 per cent the previous month.

## 2 MONEY SUPPLY AND BANKING DEVELOPMENTS

The country’s net foreign assets stood at E7.2 billion in January 2020 depicting an expansion of 8.3 per cent month-on-month, from E6.6 billion the previous month, and by 0.9 per cent from E7.1 billion in January 2019. The increase in net foreign assets was observed in both net official assets and net foreign assets of other depository corporations.

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



Source: Other Depository Corporations and Central Bank of Eswatini

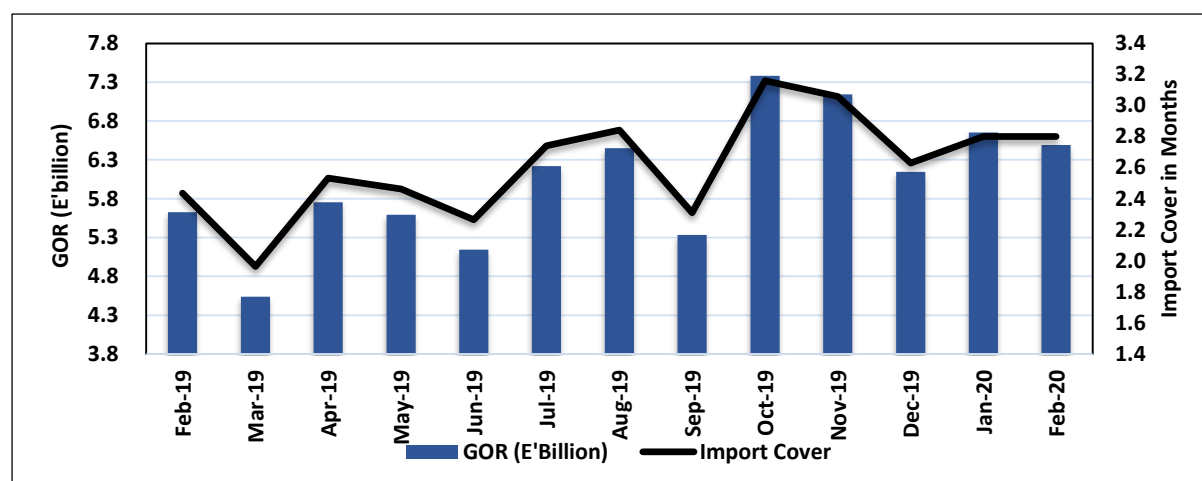
Net official assets reflected a 10.7 per cent growth to E5.6 billion at the end of January 2020. Net official assets were mainly boosted by the quarterly inflow of the Southern African Customs Union (SACU) revenue at the beginning of January 2020. Net foreign assets of other depository corporations closed at E1.6 billion at the end of January 2020, 0.5 per cent higher than the previous month. This was due to an increase in other depository corporations’ investments held in the Common Monetary Area (CMA). In special drawing

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rights (SDR), net foreign assets closed at SDR348.2 million at the end of January 2020, recording a decline of 2.2 per cent from the previous month. Compared to January 2019, net foreign assets valued in SDR declined from SDR382.4 million, recording a decrease of 8.9 per cent.

Gross official reserves decreased by 2.4 per cent to settle at 6.5 billion over the month ended February 2020, lower than the E6.7 billion recorded the previous month. The contraction was mainly on account of the net outflow of Rands to local commercial banks. As a result, the estimated import cover of goods and services stood at 2.8 months, maintaining the same level as that realised in January 2020. Valued in SDR, the reserves amounted to SDR302.9 million over the review month. On an annual basis, gross official reserves in Emalangenzi terms increased by 15.4 per cent from E5.6 billion in January 2019 and by 5.1 per cent in SDR terms rising from SDR288.1 million in January 2019.

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



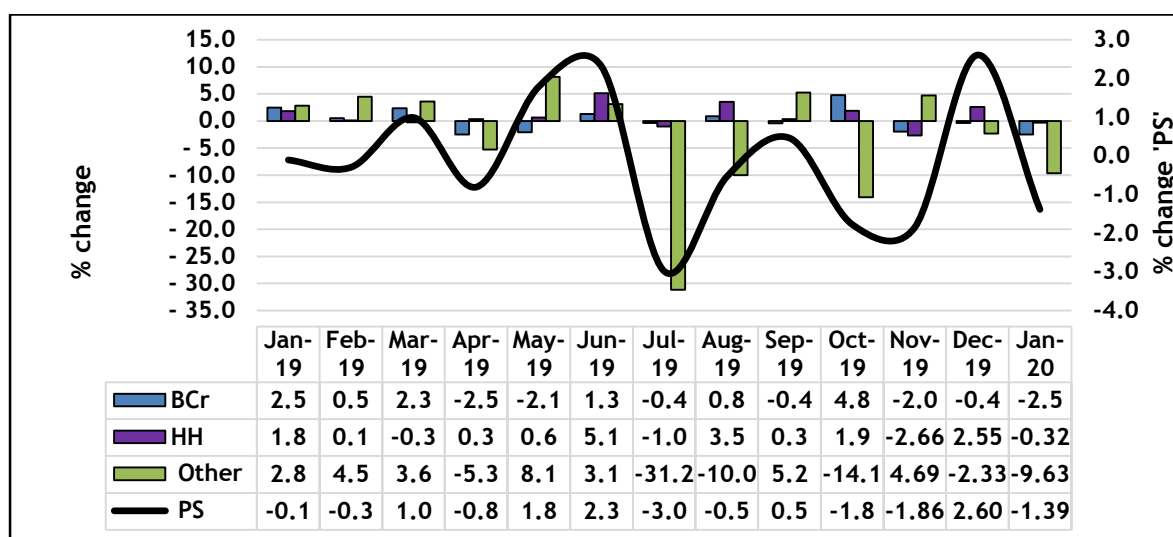
Source: Central Bank of Eswatini

Credit extended to the private sector declined by 1.4 per cent to E14.6 billion at the end of January 2020 from E14.8 billion in December 2019, and on a year-on-year basis private sector credit fell by 1.7 per cent from E14.9 billion in January 2019. The fall was driven by all its components, namely; credit to other sectors, credit to businesses and credit to households & non-profit institutions serving households (NPISH). Credit extended to other sectors decelerated by 9.6 per cent to close the month of January 2020 at E1.2 billion from E1.3 billion registered in December 2019. Explaining the contraction was credit to public non-financial corporations (-15.5 per cent), credit to other financial corporations (-6.0 per cent) and credit to local government (-0.8 per cent).



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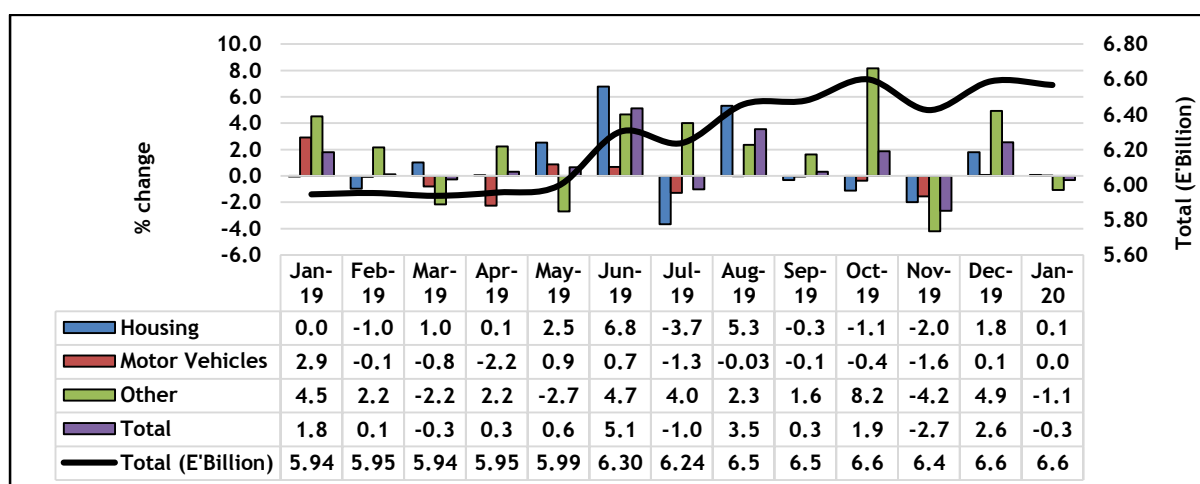
Figure 4: Private Sector Credit Monthly Changes: January 2019 to January 2020



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

Credit extended to businesses reached E6.8 billion at the end of January 2020, down from E6.9 billion shown in December 2019. This represented a contraction of 0.8 per cent. The decline in credit was reflected in the following industries; agriculture & forestry (-14.7 per cent), distribution & tourism (-5.6 per cent), community, social & personal services (-5.5 per cent), transport & communication (-4.6 per cent), manufacturing (-2.9 per cent), real estate (-0.3 per cent) as well as mining & quarrying (-0.1 per cent). The construction sector on the contrary, increased by 8.9 per cent over the review month.

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



Source: Central Bank of Eswatini and Other Depository Institutions

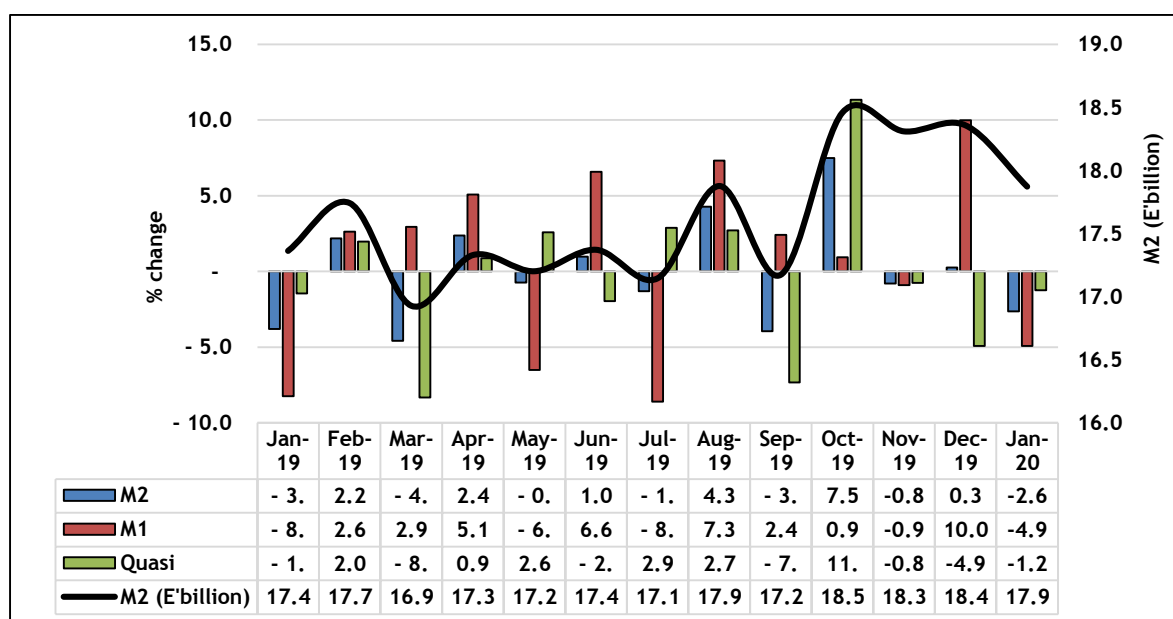
Credit extended to households & NPISH decreased by 0.3 per cent to close at E6.6 billion at the end of January 2020. Contributing to the fall was credit to other personal (unsecured) loans which fell by 1.1 per cent to E2.2 billion. Housing loans, on the other

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hand, improved by 0.1 per cent month-on-month to E3.4 billion whilst motor vehicle loans remained flat at E1.0 billion.

Net claims on government with the banking system amounted to E2.7 billion in January 2020, 18.2 per cent lower than December 2019. This development was on account of both claims on government and government deposits falling by 15.3 per cent and 11.6 per cent, respectively over the review month. On year-on-year basis, net claims on government grew by 34.6 per cent from E2.0 billion recorded in January 2019.

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



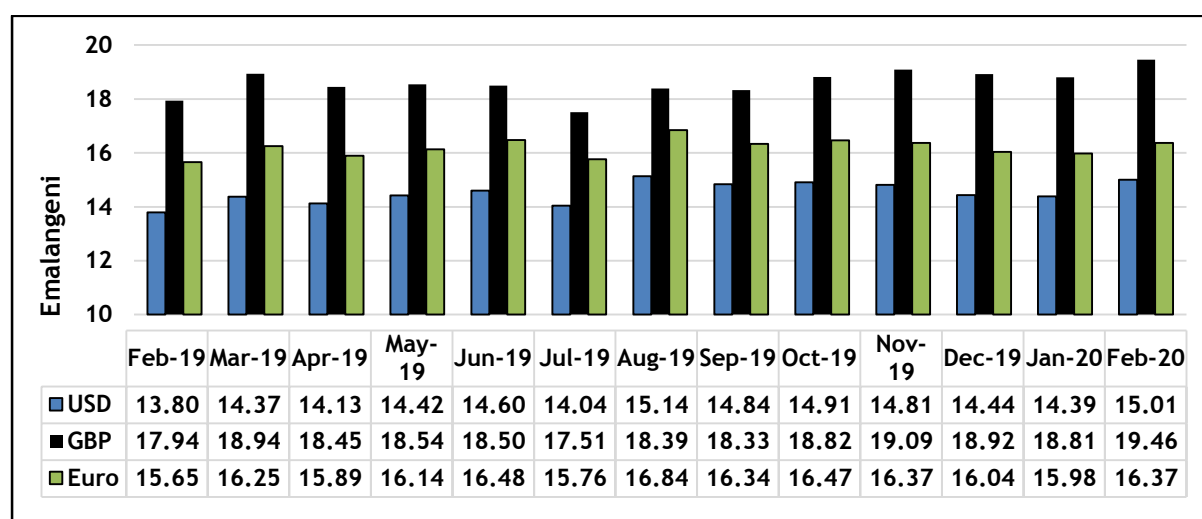
Source: Other Depository Institutions and Central Bank of Eswatini

Broad money supply (M2) contracted by 2.6 per cent to close the month of January 2020 at E17.9 billion from E18.4 billion the previous month. The fall emanated from a decrease in both narrow money supply (M1) and quasi money supply. Over the year, M2 expanded by 2.9 per cent from E17.4 billion reached in January 2019. Narrow money supply (M1) settled at E6.6 billion over the review month reflecting a 4.9 per cent decrease from the E7.0 billion observed in December 2019. The decline was on account of both transferable (demand) deposits and Emalangeni outside depository corporations. Transferable (demand) deposits fell by 5.2 per cent to reach E6.0 billion whilst Emalangeni outside depository corporations trended downwards by 2.3 per cent to E698.8 million. Quasi money supply amounted to E11.2 billion at the end of January 2020, 1.2 per cent lower than the preceding month, driven by both its components; savings and time deposits. Savings deposits fell by 2.2 per cent to E1.8 billion whilst time deposits depicted a 1.1 per cent decrease to E9.4 billion, over the month under review.

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During the month of February 2020, the Lilangeni/Rand suffered great losses and depreciated against the major trading partners. Against the US Dollar, the Lilangeni/Rand depreciated by 4.31 per cent reaching an average of E15.01 per US Dollar. The Lilangeni/Rand fell under the pressure of the fast spreading coronavirus COVID-19 and the growing concerns on South Africa's credit ratings. While the spread of the virus to the other parts of the world especially outside China has negative effects on Emerging Market currencies including the Rand, the unfavourable performance of South Africa's economy aggravated the Rand losses. The ongoing cuts in electricity supply that shrank economic activity especially in key sectors of the economy prompted a downward review of South Africa's economic outlook by Moody's, intensifying fears of a possible downgrade of South Africa's sovereign credit rating to a junk status. Against the Euro, the Lilangeni/Rand depreciated and traded at an average of E16.37 from E15.98 in the previous month. The Lilangeni/Rand weakened against the Sterling Pound and traded at an average of E19.46 from E18.81 recorded in February 2020.

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



Source: Central Bank of Eswatini

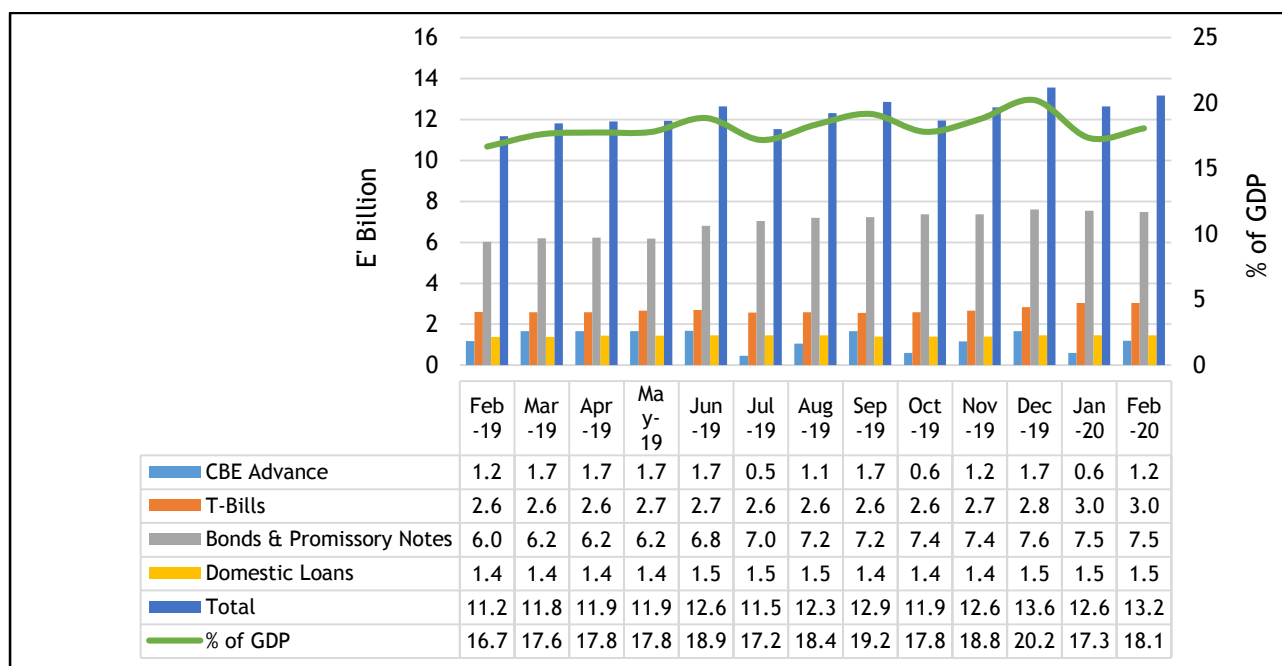
The Lilangeni/Rand will continue to take the pressure as the global economy struggles amid the spread of COVID-19. The South African budget speech delivered in February 2020 as market experts see it, failed to live up to market expectations as it did not improve the negative investor sentiments toward the economy, instead it raised more speculation of a credit ratings downgrade by Moody's to be heard in March 2020 which remains a risk on the Lilangeni/Rand. The Lilangeni/Rand ended February 2020 at E15.60 to the US Dollar, E20.09 to the Pound Sterling and E17.15 to the Euro.



### 3 PUBLIC DOMESTIC DEBT

As at end of February 2020, outstanding domestic debt stood at E13.2 billion, an equivalent of 18.1 per cent of GDP. This reflects an increase of 4.8 per cent when compared to E12.6 billion recorded in January 2020. The increase is attributed to a E600 million additional CBE advance extended to government in the month of February 2020.

Figure 8: Total Domestic Debt: February 2019 to February 2020



Source: Ministry of Finance and Central Bank of Eswatini

The Central Bank will, on behalf of government conduct the last issuance in 2019/2020 of the Infrastructure Bond amounting to E100 million at 9.75% coupon rate. This will be a reopening on 26 March 2020 and maturing 31 July 2026. The purpose of the issuance is to finance infrastructure projects, which seek to stimulate economic, business and social development.

**Table 1: Domestic Debt Instruments Outstanding by Holder as at 29 February 2020**  
(E' Million)

Holder	Treasury Bills	Government Bonds	Promissory Notes	CBE Advance	Total	Share of Holdings (%)
CBE	5.1	1,298.8	0	1,200.0	2,503.9	21.4
Commercial banks	1,900.6	802.6	0	0	2,703.2	23.1
NBFIs	993.7	4,367.7	0	0	5,361.4	45.7
Other	146.3	827.2	179.1	0	1,152.7	9.8
	3,045.8	7,296.3	179.1	1,200.0	11,721.2	100

Source: Central Bank of Eswatini

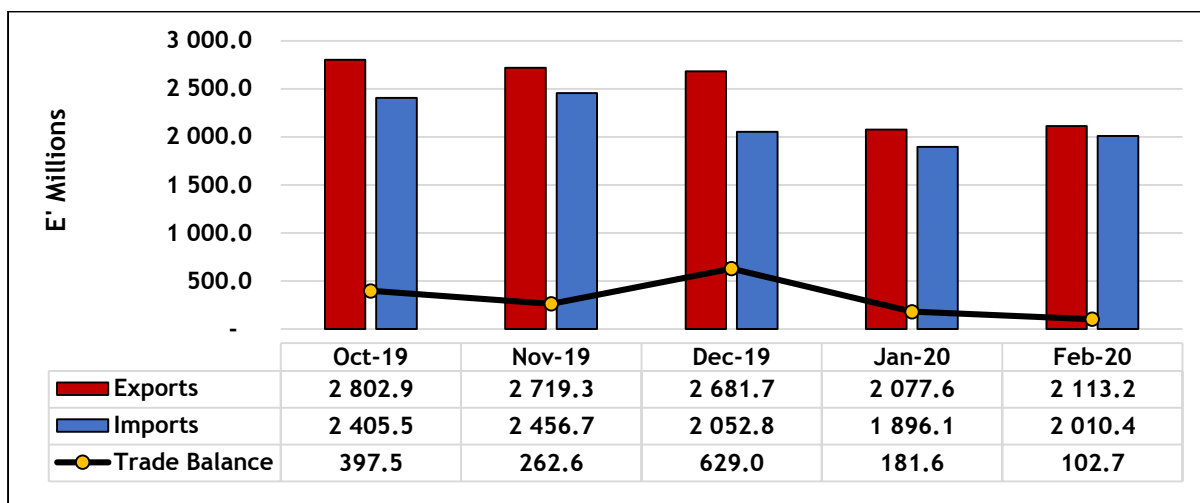
While commercial banks continued to dominate participation in Government securities on the shorter end of the yield curve, non-bank financial institutions dominate on the longer term securities.

#### 4 THE EXTERNAL SECTOR

In February 2020, Eswatini recorded a trade surplus amounting to E102.7 million, dipping month-on-month by 43.4 per cent from E181.6 million in January 2020. The substantial decline in the trade surplus for the month was attributable to the significant rise in the import bill which outpaced export earnings by E78.8 million. Month-on-month, exports increased marginally by 1.7 per cent, totalling E2.113 billion in February 2020 from E2.078 billion in January of the same year. Imports on the other hand, increased by 6.0 per cent to record E2.010 billion in the review month compared to E1.896 billion the preceding month.

An analysis of the country's major exports indicates that, for the month of February, soft drink concentrate products, which accounted for 40.4 per cent of total export receipts in the month, declined by 8.2 per cent to register E853.5 million. Exports of sugar and sugar products, which accounted for 26.7 per cent of total export earnings in the month, rose by 2.6 per cent to record E564.2 million in February from 549.9 million in January. Earnings from textile and textile apparel amounted to E287.4 million in the month of February, higher than those of previous month, which were valued at E232.3 million. Exports of wood and wood articles recorded a monthly increase of 4.8 per cent, from E119.7 million in January 2020 to E125.4 million in February 2020.

Figure 10: Merchandise Trade Account; October 2019 to February 2020

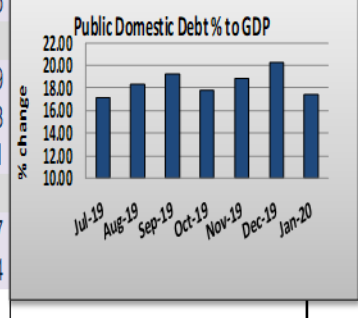
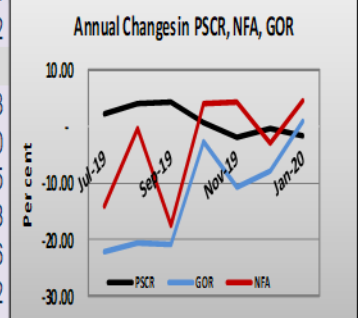
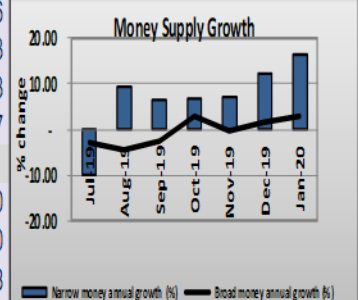
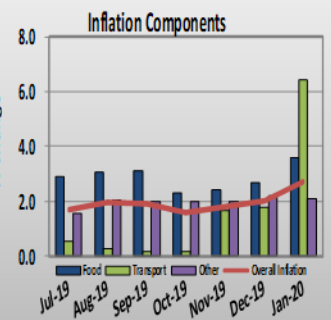


Source: Central Bank of Eswatini

An analysis of the country's major imports for the second month of the year indicates that, 'fuel, fuel lubricants and electrical energy' remained Eswatini's leading import category accounting for 15.8 per cent of total import invoices for the month, despite undergoing a monthly dip of 14.5 per cent to total E316.9 million in February. Imports of vehicles and other transport rose by 22.8 per cent registering E105.1 million for the review month. Invoices from machinery, appliances and electrical material imports increased significantly by 33.4 per cent, posting E227.9 million in the month of February 2020.

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Economic Policy, Research and Statistics Department							
Kingdom of Eswatini Economic Indicators at a glance							
Sectors	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20
<b>Overall Inflation</b>	1.7	2.0	1.9	1.6	1.8	2.0	2.7
Food	2.9	3.1	3.1	2.3	2.4	2.7	3.6
Transport	0.5	0.3	0.2	0.2	1.7	1.8	6.4
Other	1.6	2.0	2.0	2.0	2.0	2.2	2.1
<b>Money and banking</b>							
Narrow money annual growth (%)	-9.85	9.25	6.30	6.83	7.23	12.22	16.28
Broad money annual growth (%)	-2.79	-4.34	-2.60	3.04	-0.18	1.72	2.94
Domestic credit (net) - E Million	17 139.23	17 462.30	18 045.54	16 751.23	17 212.44	18 151.27	17 338.96
Government	2 151.95	2 556.45	3 071.31	2 042.78	2 776.94	3 339.77	2 733.13
Private sector	14 987.28	14 905.84	14 974.23	14 708.45	14 435.50	14 811.50	14 605.83
Private sector credit annual growth (%)	2.32	4.11	4.30	0.64	-1.90	-0.40	-1.67
<b>Interest rates (% p.a)</b>							
Prime lending	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Discount rate	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Deposit rate - 31 days	3.18	3.18	3.18	3.18	3.18	3.18	3.18
- 12 months	3.74	3.74	3.74	3.74	3.74	3.74	3.74
- T. bill rate	7.84	7.84	7.74	7.80	7.69	7.64	7.82
<b>Ratios</b>							
Liquidity ratio (required = 20 %)	33.60	35.76	31.90	35.07	39.75	36.66	37.13
Loans/deposits ratio	79.95	77.67	81.30	74.23	74.19	75.97	76.70
Net foreign assets (E'million)	6 377.40	6 729.87	5 993.10	8 500.07	7 531.89	6 609.96	7 156.85
Annual % change in NFA	-22.10	-20.64	-20.70	-2.71	-10.72	-7.93	0.88
Gross official foreign reserves E'Millions	6 221.33	6 451.84	5 332.74	7 382.67	7 143.57	6 143.86	6 653.26
Annual % change in GOR	-13.98	-0.33	-17.50	3.97	4.22	-2.81	4.52
In months of import cover	2.74	2.84	2.35	3.17	3.06	2.63	2.85
<b>Exchange Rates</b>							
US\$	14.04	15.14	14.84	14.91	14.81	14.44	14.39
EURO	15.76	16.84	16.34	16.47	16.37	16.04	15.98
GBP	17.51	18.39	18.33	18.82	19.01	18.92	18.81
<b>Public Finance</b>							
Total public domestic debt [E' million]	11 527.02	12 305.52	12 856.63	11 944.68	12 590.47	13 562.52	12 641.27
As a % of GDP	17.19	18.35	19.18	17.82	18.78	20.23	17.34



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