

Recent Economic Developments

JUNE/JULY 2022



CENTRAL BANK
OF ESWATINI
Umntsholi Wemaswati



MAJOR HIGHLIGHTS

<ul style="list-style-type: none"> GDP is estimated to have increased by 4.5 per cent, on a year-on-year and seasonally adjusted basis, in the first quarter of 2022 from a revised growth of 2.0 per cent in the fourth quarter of 2021. 	Quarterly GDP (% y/y)	4.5 (Mar) ▲
<ul style="list-style-type: none"> The headline consumer inflation accelerated to 4.6 per cent in June 2022, compared to 3.9 per cent in May 2022. 	Inflation rate (% y/y)	4.6 (June) ▲
<ul style="list-style-type: none"> Discount and prime lending rates were increased to 5.00 per cent and 8.50 per cent in July 2022 respectively. 	Prime Lending (%)	8.50 ▲
	Discount rate (%)	5.00 ▲
<ul style="list-style-type: none"> In the month of July 2022, the Lilangeni/Rand exchange rate weakened against the major trading currencies. 	Exchange rate (US\$)	16.81 (July) ▼
<ul style="list-style-type: none"> Credit extended to the private sector improved by 1.9 per cent month-on-month to settle at E16.6 billion at the end of June 2022. 	Private Sector Credit (% m/m)	1.9 (June) ▲
<ul style="list-style-type: none"> Broad money supply (M2) stood at E20.9 billion at the end of June 2022, higher by 2.6 per cent from the previous month. 	Broad Money (M2) (% m/m)	2.6 (June) ▲
<ul style="list-style-type: none"> Gross official reserves amounted to E7.9 billion at the end of July 2022, representing a month-on-month contraction of 9.6 per cent. 	Reserves (months of import cover)	2.8 (July) ▼
<ul style="list-style-type: none"> Preliminary figures for the end of July 2022 indicate that total public debt is estimated at E28.9 billion, an equivalent of 37.0 per cent of GDP. 	Total Public Debt (% of GDP)	37.0 (July) ▼
<ul style="list-style-type: none"> Eswatini recorded its second consecutive trade surplus in the month of July 2022 amounting to E398.5 million from a surplus of E227.8 million recorded in June. 	Trade Balance (% of GDP)	0.5 (July) ▲

NB: The table shows the most recent available data.

1 Quarterly GDP Developments

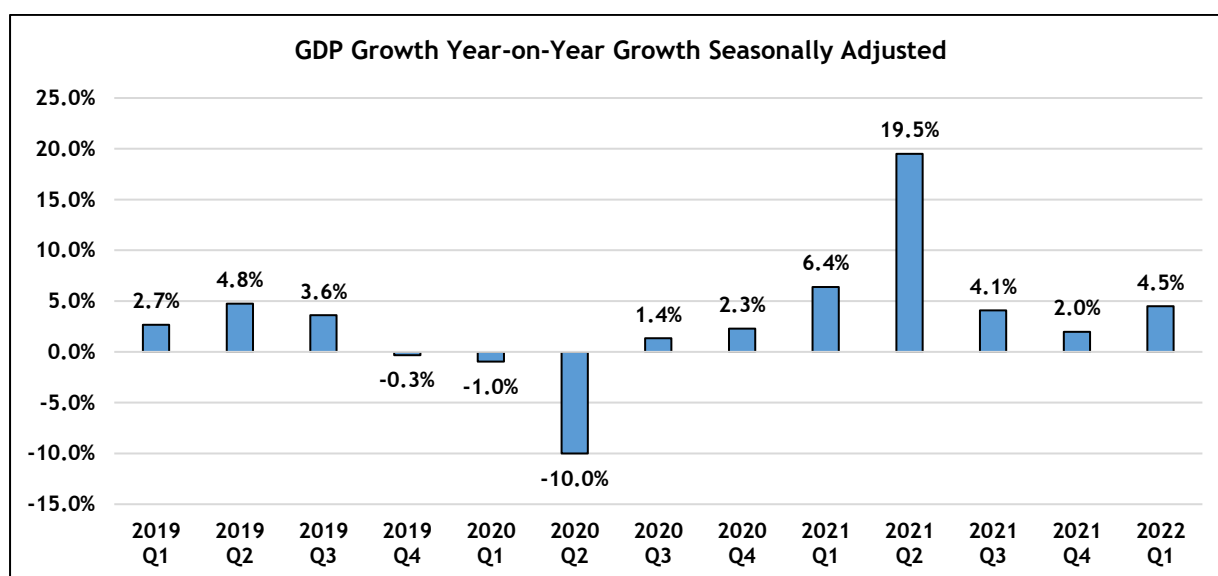
GDP is estimated to have increased by 4.5 per cent, on a year-on-year and seasonally adjusted basis, in the first quarter of 2022 from a revised growth of 2.0 per cent in the fourth quarter of 2021. The pick-up in economic activity was mainly supported by resilient growth in the primary and secondary subsectors. On a quarter-on-quarter basis, GDP rose by 4.4 per cent, seasonally adjusted, recovering from a decline of 1.0 per cent in the previous quarter.

The primary sector grew by 20.1 per cent, year-on-year, in the first quarter of 2022 from a revised growth of 2.7 per cent in the fourth quarter of 2021. Significant growth was observed in the ‘animal production’, ‘forestry activities’ and ‘mining & quarrying’. On animal production, all categories (i.e. cattle, pigs, goat and sheep) reported double digit growth in the number of slaughters. Forestry activities continued to benefit from strong external demand with continuous easing of restrictions locally and regionally. The ‘mining & quarrying’ subsector rose by 28.1 per cent largely benefiting from higher volumes of coal production in the period under review.

The secondary sector also started on a high note as it recorded a 11.2 per cent year-on-year increase in the first quarter of 2022 compared to 4.7 per cent in the fourth quarter of 2021. Notable growth was observed in the ‘manufacturing’ and ‘electricity supply’ subsectors. The export-oriented manufacturing sector rose by 11.6 per cent in the period under review largely driven by ‘manufacturing of food and beverages’ and ‘manufacturing of wood products’. On the contrary there was notable 33.0 per cent decline in the ‘manufacturing of textile’ subsector. Electricity supply rebounded with a 32.8 per cent year-on-year growth in the quarter under review from a decline of 35.5 per cent in the previous quarter. Sustained rains resulted in improved dam levels, which in turn supported growth in hydro-power generation. On the other hand, ‘water supply’ and ‘construction’ grew by 8.5 per cent and 3.2 per cent, respectively.

The tertiary sector recorded a contraction of 0.2 per cent year on year, in the period under review following another decline of 1.0 per cent in the previous quarter. The sustained contraction was largely due to poor performance in the ‘wholesale & retail’, ‘financial services mainly insurance & pension services’, ‘real estate’ and ‘education & health services’. On a positive note, there was stronger recovery from ‘tourism activities’ and ‘transport services’ benefiting from further easing of COVID-19 restrictions effected in December 2021. Other services that recorded positive performance included ‘professional & technical services’ and ‘public administration’.

Figure 1: Quarterly GDP Growth: March 2019 to March 2022



Source: Central Statistical Office and Central Bank of Eswatini

2 PRICE DEVELOPMENTS

The headline consumer inflation accelerated to 4.6 per cent in June 2022, compared to 3.9 per cent in May 2022. The increase was largely attributed to an upsurge in food and transport inflation. The price index for ‘food & non-alcoholic beverages’ grew by 6.7 per cent in June 2022 from 5.4 per cent in the previous month. Notable increases in the review month were observed in the prices of ‘bread & cereals’, ‘eggs, milk & dairy products’ ‘oils & fats’ and ‘sugar confectionary products’. The prices for edible oils remained significantly elevated with a year-on-year growth rate of 34.2 per cent in the month under review, largely driven by the Russia-Ukraine War, which has led to supply disruptions from the two World’s largest exporters of edible oils. Similarly, the War has resulted in an escalation in international oil prices, which, coupled with a volatile exchange rate, has resulted in a continuous upward adjustment in domestic fuel prices. As a result, transport inflation remained on an upward trajectory rising to 9.2 per cent in June 2022 compared to 7.4 per cent in May 2022. The prices for fuels and lubricants was recorded to be higher by 50.6 per cent in June 2022 compared to the same period the previous year.

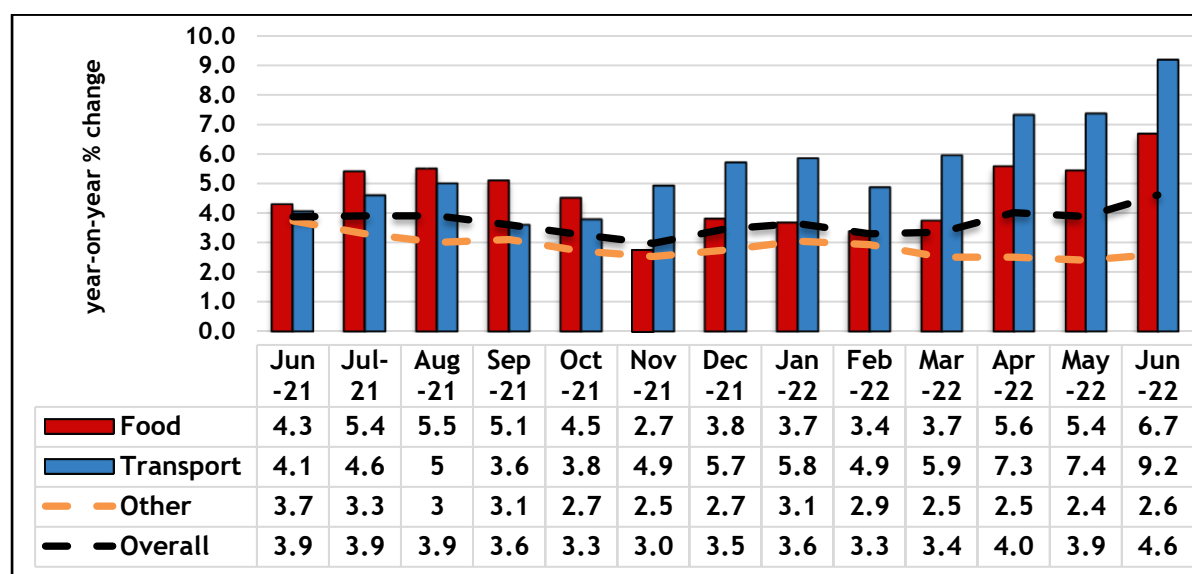
The above increases were partially offset by slower increases in the price indices for ‘alcoholic beverages & tobacco’ and ‘recreation & culture’. The growth rate of the index of ‘alcoholic beverages & tobacco’ slowed to 0.6 per cent in June 2022 compared to 1.0 per cent in the previous month. On the other hand, the index for recreation & culture’ grew at a slower rate of 2.9 per cent in the month under review compared to 4.6 per cent in the previous month.

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On month-on-month basis, consumer prices increased by 0.9 per cent in June 2022 compared to a 0.1 per cent deflation in May 2022. Contributing to the increase were the price indices for ‘transport’ and ‘food & non-alcoholic beverages’, which grew by 1.7 and 1.1 percentage points, respectively. On the contrary, these increases were moderated by slower growth in the indices for ‘alcoholic beverages & tobacco’ and ‘recreation & culture’ which recorded deflations of 0.1 and 0.3 per cent, respectively.

Core inflation, which is CPI excluding volatile items such as food, auto-fuel and energy, was unchanged at 1.6 per cent in June 2022 same as it was in the previous month in line with muted developments in the CPI for services.

Figure 2: Inflation Trends: June 2021 to June 2022



Source: Central Statistical Office and Central Bank of Eswatini

3 MONEY SUPPLY AND BANKING DEVELOPMENTS

The country’s net foreign assets receded by 1.4 per cent month-on-month and 13.9 per cent year-on-year to E9.1 billion at the end of June 2022. Responsible for the decline in net foreign assets was net official assets whilst net foreign assets of other depository corporations expanded over the month under review.

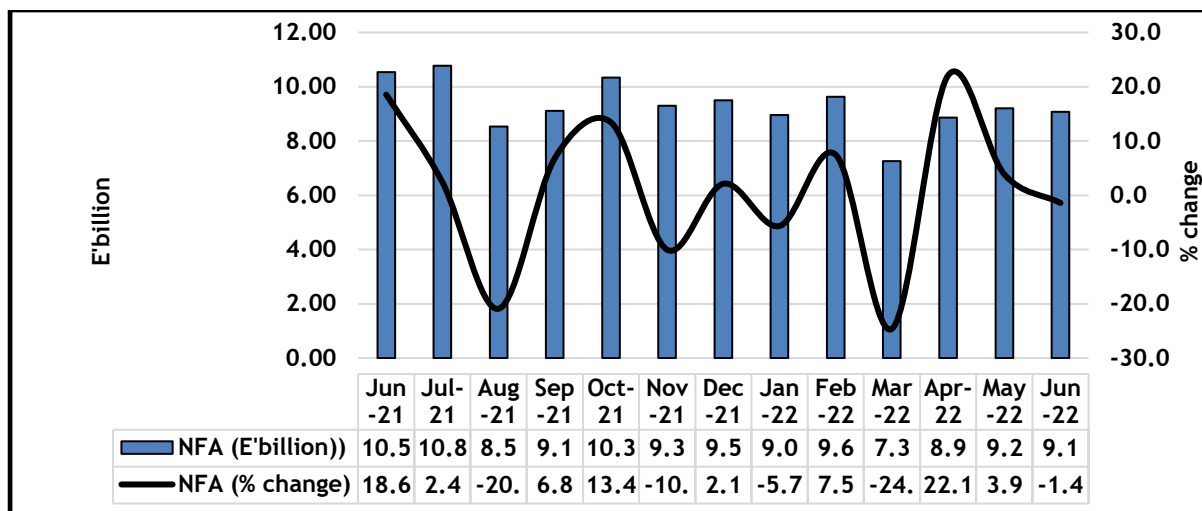
Net foreign assets of the official sector settled at E6.3 billion at the end of June 2022, lower by 6.9 per cent from May 2022 and 8.8 per cent over the year. The month-on-month fall in net foreign official assets was on account of the disbursement of the government budget support funding received in May 2022.

Net foreign assets of other depository corporations, however, grew by 14.1 per cent month-on-month from May 2022 and fell by 23.9 per cent over the year to E2.7 billion at the end

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of June 2022. This development was due to an increase in deposits held by banks in the Common Monetary Area and abroad. In special drawing rights (SDR), net foreign assets fell to SDR416.5 million at the end of June 2022, equivalent to a decline of 4.5 per cent month-on-month and 19.5 per cent year-on-year.

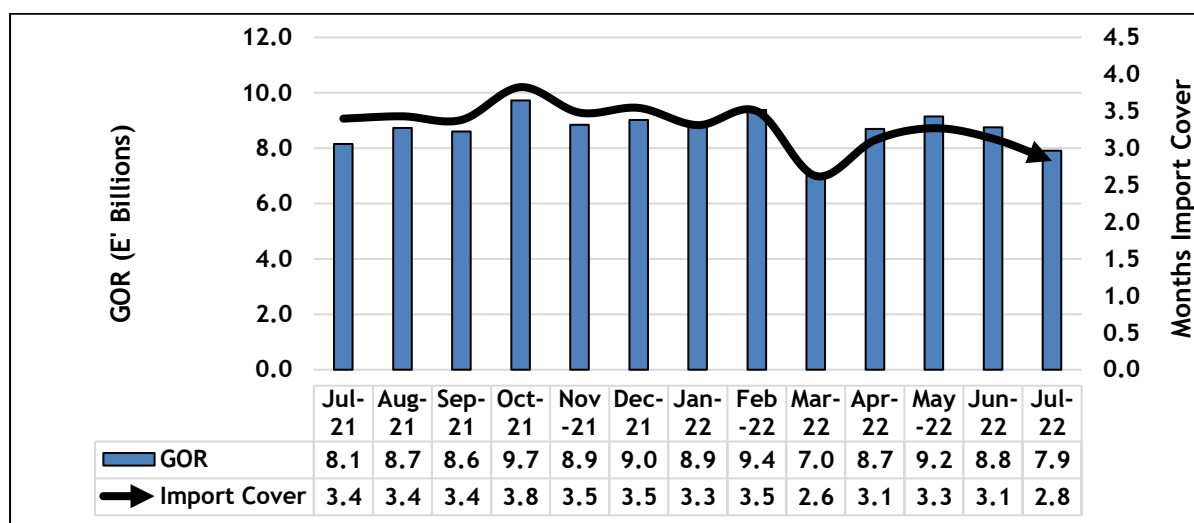
Figure 3: Net Foreign Assets Monthly Changes: June 2021 to June 2022



Source: Other Depository Corporations and Central Bank of Eswatini

Gross official reserves amounted to E7.9 billion at the end of July 2022, representing a month-on-month contraction of 9.6 per cent and 2.9 per cent over the year. At this level, the reserves were estimated to cover 2.8 months imports of goods and services, lower than the 3.1 months registered in June 2022. Valued in SDR, gross official reserves were equivalent to SDR363.1 million at the end of July 2022, down by 9.6 per cent month-on-month and 7.1 per cent year-on-year.

Figure 4: Gross Official Reserves and Import Cover: July 2021 to July 2022



Source: Central Bank of Eswatini

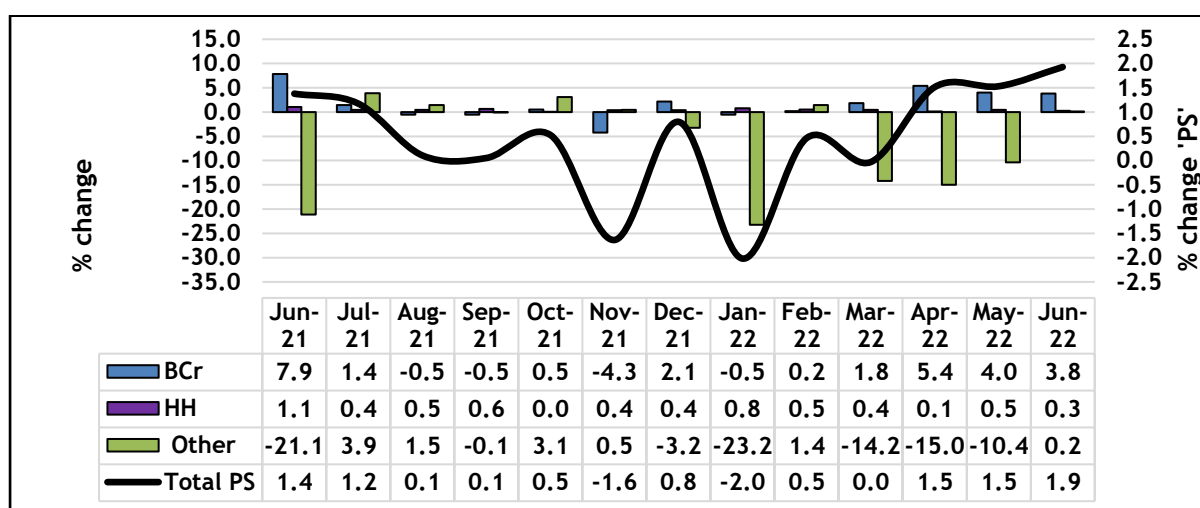
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Credit extended to the private sector improved by 1.9 per cent month-on-month and by 4.4 per cent over the year to settle at E16.6 billion at the end of June 2022. Growth in private sector credit emanated from all components; credit to businesses, credit to households & non-profit institutions serving households (NPISH) and credit to other sectors of the domestic economy.

Credit extended to businesses stood at E8.0 billion at the end of June 2022, reflecting an increase of 3.8 per cent month-on-month and 13.9 per cent year-on-year. The month-on-month growth in credit to business was observed in the following subsectors: distribution & tourism (10.2 per cent), agriculture & forestry (9.2 per cent), manufacturing (3.9 per cent), and real estate (1.8 per cent). However, the growth in business sector credit was partially offset by a reduction in credit to the following subsectors: mining & quarrying (-25.7 per cent), community, social & personal services (-10.4 per cent), construction (-3.0 per cent), as well as transport & communication (-0.6 per cent).

Credit extended to other sectors increased by 0.2 per cent month-on-month and decreased by 46.2 per cent year-on-year, to close at E759.5 million at the end of June 2022. The expansion in credit to other sectors was observed in credit to public non-financial corporations (parastatals) and other financial corporations, which rose by 0.9 per cent to E278.4 million and 0.2 per cent to E440.2 million, respectively. On the other hand, credit to local government fell by 5.1 per cent to E40.9 million over the month under review.

Figure 5: Private Sector Credit Monthly Changes: June 2021 to June 2022



Source: Central Bank of Eswatini

(BCr: Business Credit HH: Household Credit PS: Private Sector Credit)

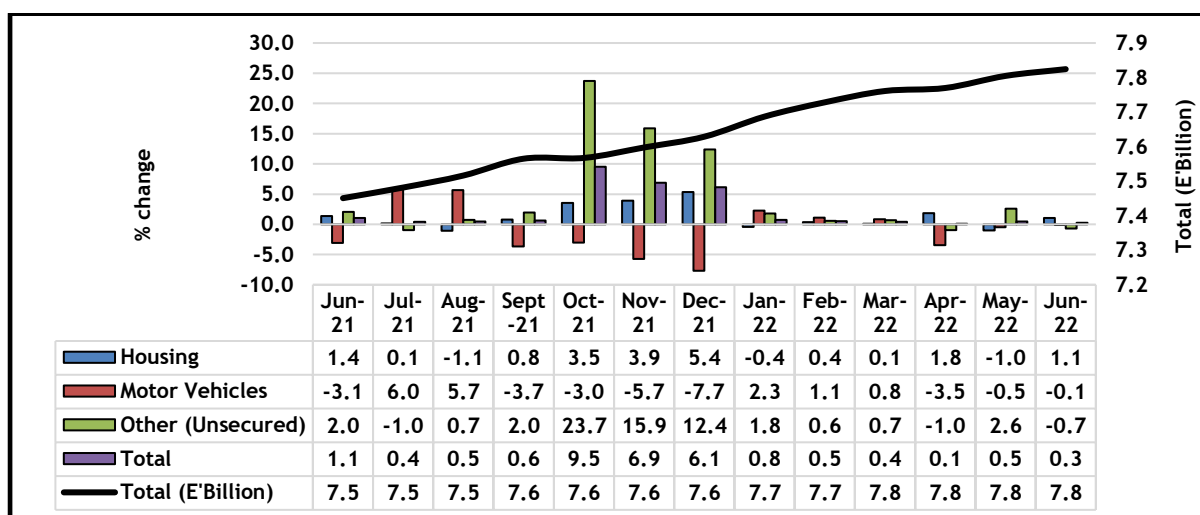
Net claims on government with the banking industry improved by 48.8 per cent from May 2022 and by 57.7 per cent over the year to settle at E2.2 billion at the end of June

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2022. The growth was on account of an increase in claims on government coupled with a decline in government deposits over the month under review. Claims on government grew by 4.5 per cent to close at E7.8 billion whilst government deposits fell by 6.1 per cent to E5.7 billion at the end of June 2022.

Credit extended to households & NPISH grew by 0.3 per cent relative to May 2022 and 5.0 per cent over the year to settle at E7.8 billion at the end of June 2022. The month-on-month improvement was recorded in housing loans, which grew by 1.1 per cent to E3.9 billion at the end of June 2022. On the other hand, credit to other personal (unsecured) loans and motor vehicle loans fell by 0.7 per cent to E3.0 billion and 0.1 per cent to E905.6 million, respectively.

Figure 6: Household Credit Monthly Changes: June 2021 to June 2022



Source: Central Bank of Eswatini and Other Depository Institutions

Broad money supply (M2) stood at E20.9 billion at the end of June 2022, higher by 2.6 per cent from the previous month but lower by 4.6 per cent over the year. The month-on-month improvement in M2 was observed in both its components; narrow money supply (M1) and quasi money supply; supported by the increase in credit extended to the private sector.

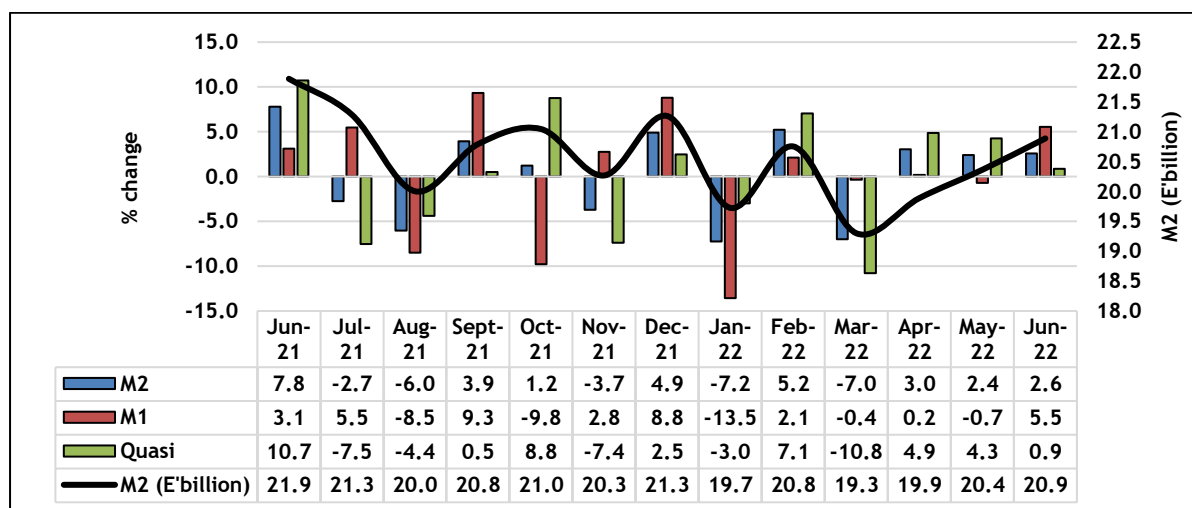
Narrow money supply (M1) grew by 5.5 per cent over the month but was down by 1.7 per cent year-on-year to reach E7.9 billion at the end of June 2022. Growth in M1 was registered in both transferable (demand) deposits and Emalangeni in circulation. Transferable deposits rose by 5.8 per cent to E7.2 billion while Emalangeni in circulation rose by 2.6 per cent to E690.5 million.

Quasi money supply reflected an increase of 0.9 per cent over the month and a decline of 6.2 per cent year-on-year to close at E13.0 billion at the end of June 2022, on account

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of both components. Time deposits grew by 0.9 per cent to E11.0 billion and savings deposits expanded by 0.4 per cent to E2.0 billion over the review month.

Figure 7: Money Supply Monthly Changes: June 2021 to June 2022

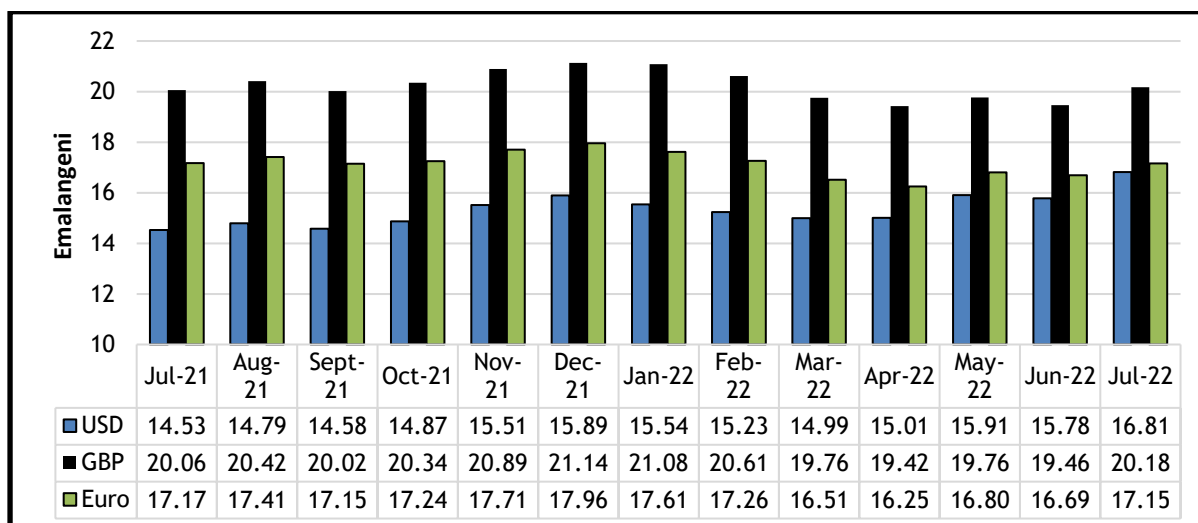


Source: Other Depository Institutions and Central Bank of Eswatini

During the month of July 2022, the Rand/Lilangeni exchange rate weakened against major trading currencies. The domestic currency depreciated by 6.5 per cent in June 2022 and traded at a month average of E16.81 per US Dollar. Despite the SARB's decision to raise the repo rate by 75 basis points to 5.50 per cent per annum in its July 2022 meeting, the depreciation continued unabated. The depreciation of the Rand/Lilangeni exchange rate continued to be negatively affected by geopolitical events particularly the Russia/Ukraine war. This has seen a general strengthening of US Dollar which is considered to be a safe haven or risk-free asset as concerns about a global recession continue to mount amid soaring energy prices. The depreciation is also exacerbated by the global increase in inflation which has prompted a faster normalization of monetary policy among major central banks hence discouraging investor sentiment towards emerging market assets like the Rand.

In the month under review, the US Federal Reserve hiked interest rate by 75 basis points (the fourth hike in the year), the European Central Bank by 50 basis points and the Bank of England is expected to raise the Bank rate in its August meeting. Hence the domestic currency also weakened by 3.7 per cent against the Pound Sterling and 2.8 per cent against the Euro to close the month of July 2022 at monthly averaged of E20.18 against the Pound Sterling and E17.15 against the Euro. The depreciation of the Rand/Lilangeni is further influenced by the escalating power supply interruptions in South Africa which negatively affects economic growth prospects hence investor sentiment. At the end of the month, the Rand/Lilangeni was trading at E16.40 to the US Dollar, at E20.08 to the Pound Sterling and at E16.81 to the Euro.

Figure 8: Average Exchange Rates: July 2021 to July 2022

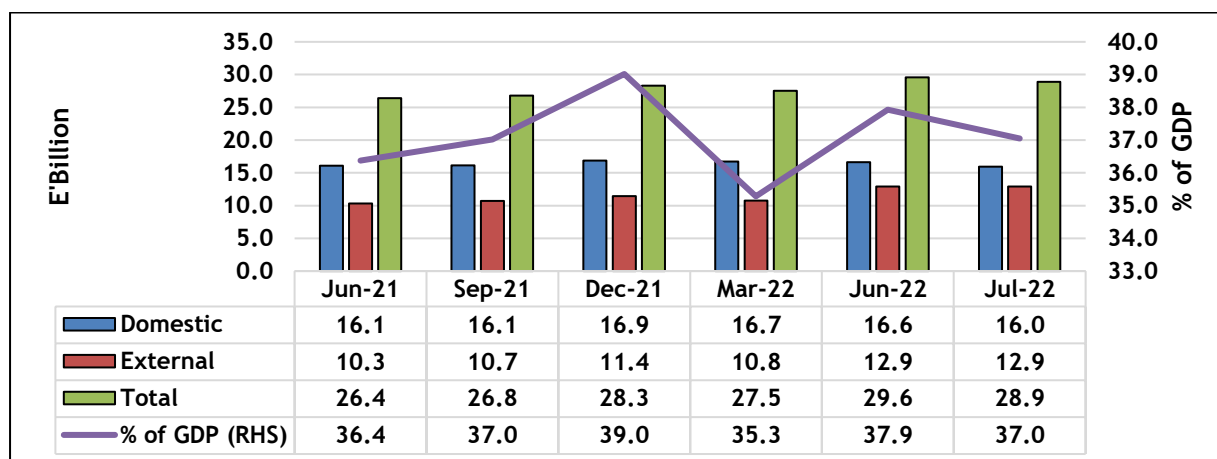


Source: Central Bank of Eswatini

4 TOTAL PUBLIC DEBT

Preliminary figures for the end of July 2022 indicate that total public debt is estimated at E28.9 billion, an equivalent of 37.0 per cent of GDP. This depicts a marginal decrease of 2.3 per cent when compared to E29.6 billion recorded in June 2022 due to a slight decrease in domestic debt.

Figure 9: Total Public Debt: June 2021 to July 2022



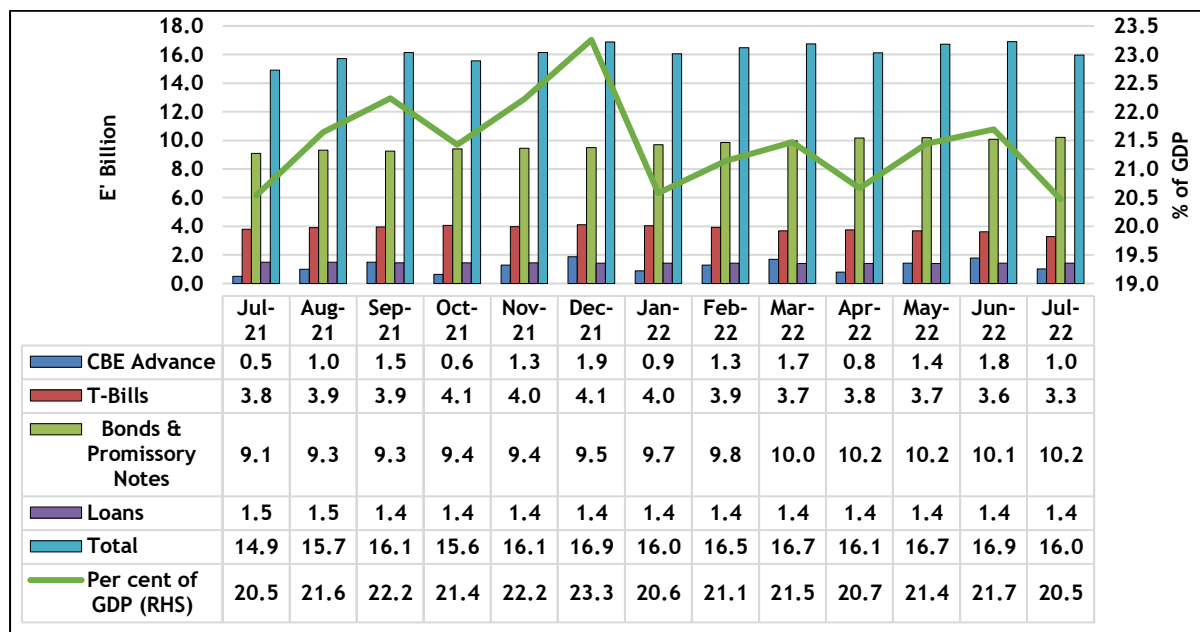
Source: Ministry of Finance & Central Bank of Eswatini

Preliminary figures show that public external debt stood at E12.9 billion, an equivalent of 16.6 per cent of GDP. This shows that public external debt remained constant in the month under review. Outstanding public domestic debt stood at E16.0 billion, an equivalent of 20.5 per cent of GDP. This shows a decline of 2.3 per cent compared to E16.6 billion recorded in June 2022. The decrease is due to payment of the advance facility by

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government. During the month of July 2022, the government accessed a further E640 million from the Advance facility bringing the total advance to E1.0 billion.

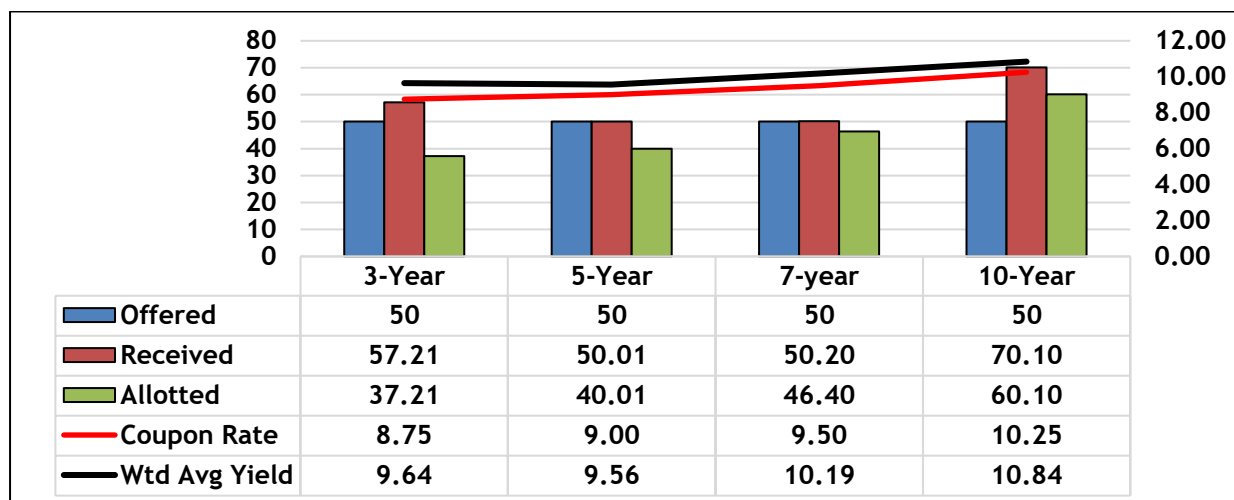
Figure 10: Outstanding Domestic Debt; July 2021 to July 2022



Source: Ministry of Finance & Central Bank of Eswatini

During the month of July 2022, the Central Bank re-opened four Plain Vanilla Bonds on behalf of government. A total of E200 million was on offer and the bonds carried four different tenures. Total bids received amounted to E227.5 million giving a bid-cover-ratio of 114 per cent and allotments made amounted to E187.5 million giving an allotment ratio of 92 per cent. The bonds analysis is as presented below:

Figure 11: Summarised Details of the Auctions: July 2022



Source: Ministry of Finance & Central Bank of Eswatini

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

Table 1: Domestic Debt Instruments Outstanding by Holder as at 31 July 2022 (E' Million)

Holder	Treasury Bills	Government Bonds	Promissory Notes	CBE Advance	Total	Share of Holdings (%)
CBE	2.0	1,293.9		1,029.0.0	2,324.9	16.0
Commercial banks	1,964.7	2,097.4			4,062.0	27.9
NBFIs	1,158.9	5,908.3			7,067.1	48.5
Other	135.6	909.3	58.0		1,102.9	7.6
TOTALS	3,261.1	10,208.9	58.0	1,029.0.0	14,556.9	100

Source: Ministry of Finance & Central Bank of Eswatini

5 THE EXTERNAL SECTOR

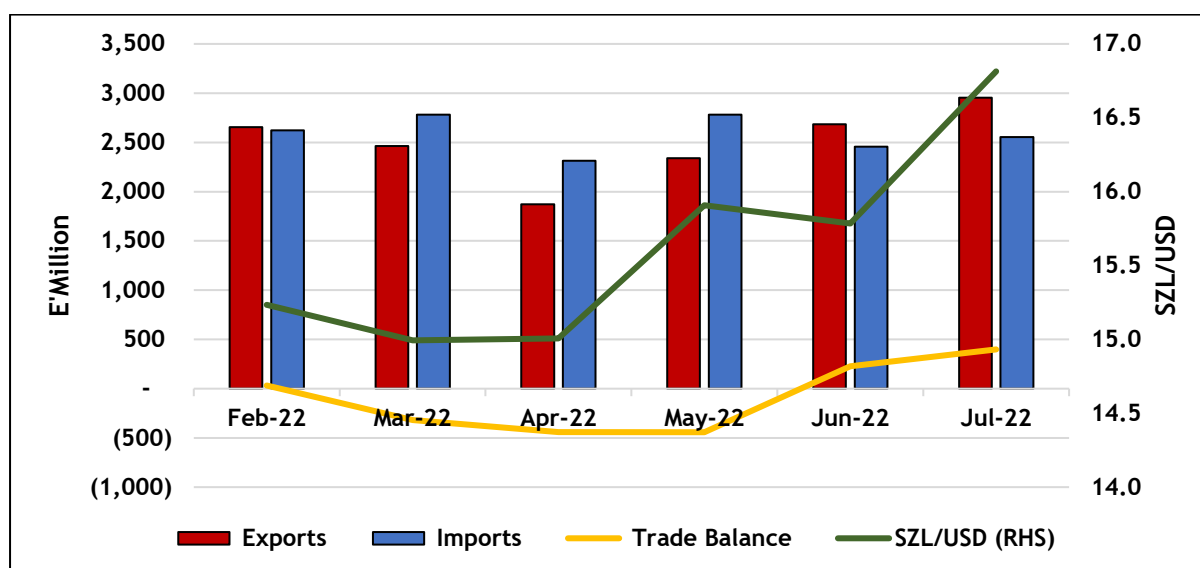
Eswatini recorded its second consecutive surplus in the month of July 2022 amounting to E398.5 million from a surplus of E227.8 million recorded in June. The trade balance surplus when compared annually widened by 30.5 per cent. Exports increased by 10.0 per cent month-on-month to E2.953 billion, when compared on an annual basis, exports expanded by 30.3 per cent. Imports also increased in the month by a 3.9 per cent to E2.555 billion, year-on-year however, imports increased by a significant 24.6 per cent.

Seasonally adjusted trade data registered a trade surplus of E411.8 million in the month of July 2022, with seasonally adjusted exports rising by 4.1 per cent month-on-month to E3.071 billion while on an annual basis they were 30.2 per cent higher. Seasonally adjusted imports on the other hand increased by 4.9 per cent month-on-month to E2.659 billion in the same month and on a year-on-year basis imports were 28.0 per cent higher.

Cumulative trade balance for January to July 2022 recorded a much wider deficit of E521.9 million compared to the same period in 2021. Cumulative exports as at July 2022, were valued at E17.343 billion indicating an increase of 11.25 per cent year-on-year. While cumulative imports for the same period amounted to E17.865 billion, 13.6 per cent higher than the comparable period of the previous year.

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Figure 12: Merchandise Trade: February 2022 - July 2022



Source: Central Bank of Eswatini

South Africa remains as Eswatini's main trading partner, with July 2022 trade data showing that 76.2 per cent of imports originated from that economy, while absorbing 62.6 per cent of exports, slightly lower than 66.8 per cent in June. Explaining the slight shift in the direction of trade is the observed depreciation in the SZL against the USD making non-CMA exports more competitive.

The country has four major exports which account for more than 80 per cent of total exports, all of which recorded increases in the month of July 2022. Leading these are 'soft drink concentrates' which posted a 16.9 per cent month-on-month increase to E1.182 billion; accounting for 40.0 per cent of total exports for the month. 'Sugar and sugar confectionary' depicted a more modest growth of 3.9 per cent over the month to E726.5 million, a 44.2 per cent year-on-year improvement which is explained by low base effects from 2021 which was characterized by negative weather conditions and difficult labour relations experienced in 2021. Sugar and related products accounted for 24.6 per cent of total exports in the period under review. 'Textile and textile apparel' exports also improved in the month to E299.6 million, a 13.7 per cent increase month-on-month, while 'wood and wood articles' exports amounted to E203.1 million also rising by 13.3 per cent from June 2022. On an annual basis wood and related products increased by notable 24.3 per cent.

Eswatini's import composition is more diverse with major import products being 'mineral fuels', 'machinery and electrical equipment', 'animal and vegetable products', 'textile and textile apparel' and lastly 'vehicles. Imports of 'Mineral fuels' which include fuel, electric energy and lubricants grew by 6.2 per cent month-on-month to E554.4 million and grew by 37.7 per cent year-on-year, on account of sustained high crude oil prices.

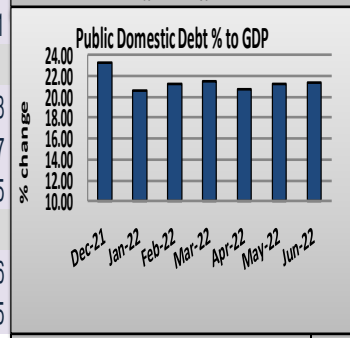
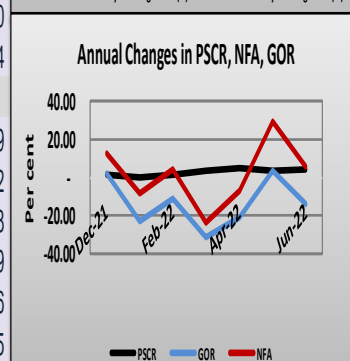
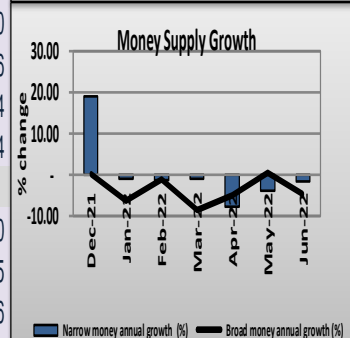
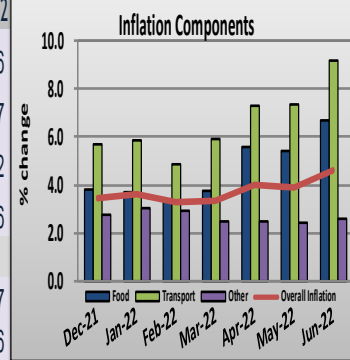
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Payments for the import of machinery and electric equipment amounted to E274.8 million, a 32.3 per cent month-on-month hike, while food imports in the form of meat and vegetables fell by 9.6 per cent to E216.1 million. 'Textile and textile apparel' and 'vehicle' imports for July 2022 amounted to E208.1 and E106.9 million respectively, also exhibiting slight increases contributing to the overall rise in imports for the month.



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Economic Policy, Research and Statistics Department							
Kingdom of Eswatini Economic Indicators at a glance							
Sectors	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
Overall Inflation	3.5	3.6	3.3	3.4	4.0	3.9	4.6
Food	3.8	3.7	3.4	3.7	5.6	5.4	6.7
Transport	5.7	5.8	4.9	5.9	7.3	7.4	9.2
Other	2.7	3.1	2.9	2.5	2.5	2.4	2.6
Money and banking							
Narrow money annual growth (%)	18.93	-0.98	-1.4	-0.9	-7.9	-4.0	-1.7
Broad money annual growth (%)	0.27	-6.46	-1.2	-8.6	-5.2	0.3	-4.6
Domestic credit (net) - E' Million	18,538.31	17,246.52	18,306.0	18,796.3	18,004.7	17,761.7	18,783.0
Government	2,453.41	1,486.41	2,472.9	2,968.1	1,936.9	1,447.8	2,154.6
Private sector	16,084.91	15,760.11	15,833.1	15,828.2	16,067.8	16,313.8	16,628.4
Private sector credit annual growth (%)	1.81	0.02	1.7	3.3	4.8	3.9	4.4
Interest rates (% p.a)							
Prime lending	7.25	7.50	7.5	7.5	7.5	8.0	8.0
Discount rate	3.75	4.00	4.0	4.0	4.0	4.5	4.5
Deposit rate - 31 days	1.26	1.35	1.4	1.4	1.4	1.6	1.6
- 12 months	2.13	2.51	2.5	2.5	2.5	3.0	3.0
- T. bill rate	5.42	5.32	5.5	5.8	5.8	6.1	6.4
Ratios							
Liquidity ratio (required = 20 %)	40.09	40.34	41.6	38.2	38.9	38.7	36.9
Loans/deposits ratio	65.73	70.45	68.3	72.8	73.1	72.5	72.2
Net foreign assets (E'million)	9,499.09	8,960.57	9,630.1	7,259.1	8,862.4	9,205.5	9,074.8
Annual % change in NFA	2.41	-22.61	-11.2	-31.0	-20.5	3.6	-13.9
Gross official foreign reserves E'Millions	9,015.18	8,864.32	9,372.1	7,022.1	8,699.0	9,150.0	8,753.6
Annual % change in GOR	13.03	-8.34	4.1	-23.7	-6.9	29.1	5.5
In months of import cover	3.55	3.31	3.5	2.6	3.1	3.3	3.1
Exchange Rates							
US\$	15.89	15.54	15.2	15.0	15.0	15.9	15.8
EURO	17.96	17.61	17.3	16.5	16.2	16.8	16.7
GBP	21.14	21.08	20.6	19.8	19.4	19.8	19.5
Public Finance							
Total public domestic debt [E' million]	16,884.63	16,047.15	16,510.01	16,739.61	16,112.59	16,518.57	16,648.16
As a % of GDP	23.30	20.58	21.18	21.47	20.67	21.19	21.35



NB: For consistency, the table shows data up to the end of June 2022.