

Recent Economic Developments

MAY/JUNE 2021



CENTRAL BANK
OF ESWATINI
Umntsholi Wemaswati



MAJOR HIGHLIGHTS

<ul style="list-style-type: none"> The country's headline inflation slowed to 3.6 per cent in May 2021 compared to 3.7 per cent in April 2021. 	Inflation rate (% y/y)	3.6 (May) ▾
<ul style="list-style-type: none"> Discount and prime lending rates were left unchanged in May 2021. 	Prime Lending (%)	7.25 —
	Discount rate (%)	3.75 —
<ul style="list-style-type: none"> In June 2021, the Rand/Lilangeni extended its previous gains against major trading currencies; appreciated by 1.2 per cent against the US Dollar. 	Exchange rate (US\$)	13.90 (June) ▲
<ul style="list-style-type: none"> Credit extended to the private sector recorded an increase of 2.5 per cent month-on-month to settle at E15.7 billion at the end of May 2021. 	Private Sector Credit (% m/m)	2.5 (May) ▲
<ul style="list-style-type: none"> Broad money supply (M2) reached E20.3 billion at the end of May 2021, 3.2 per cent lower than in April 2021. 	Broad Money (M2) (% m/m)	3.2 (May) ▾
<ul style="list-style-type: none"> Gross official reserves accelerated by 16.1 per cent month-on-month to settle at E8.2 billion at the end of June 2021. 	Reserves (months of import cover)	3.6 (June) ▲
<ul style="list-style-type: none"> As at the end of June 2021 public domestic debt was recorded at E16.1 billion an equivalent of 22.7 per cent of GDP 	Total Domestic Debt (% of GDP)	22.7 (June) ▲

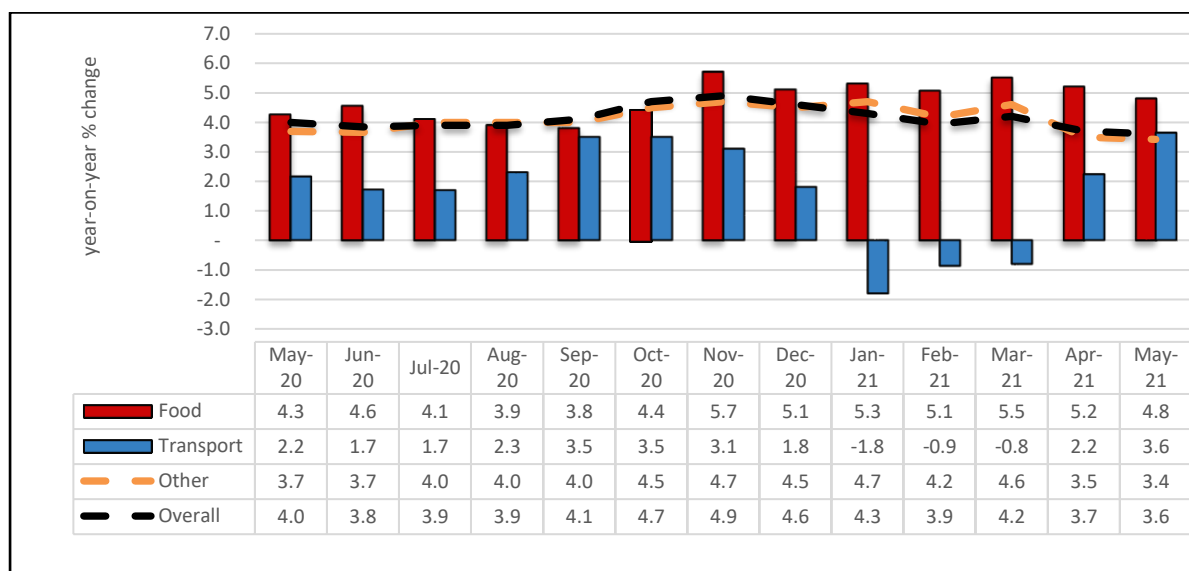
NB: The table shows the most recent available data.

1 PRICE DEVELOPMENTS

The country's headline inflation grew by a slower 3.6 per cent in May 2021 compared to 3.7 per cent in April 2021. Downward pressures on the consumer price index mainly emanated from the indices for 'food & non-alcoholic beverages', 'clothing & footwear' and 'household furniture & maintenance'. Food inflation slowed to 4.8 per cent in May 2021 from 5.2 per cent in the previous month, owing to decreases in the prices of 'rice', 'fruit', 'vegetables' and 'coffee, tea & cocoa'. There was also a slowdown in prices for semi-durables such as clothing and furniture. The price index for 'clothing & footwear' also declined by 0.8 of a percentage points to 5.9 per cent while 'furnishing & household equipment' fell by 1.1 per cent to 3.3 per cent in the period under review.

The above decreases were slightly offset by increases in the price indices for 'transport', 'housing & utilities' and 'recreation & culture'. Transport inflation continued on an upward trajectory since February 2021, increasing to 3.6 per cent in May 2021 from 2.2 per cent in the previous month. Fuel prices were approximately 20 per cent higher than the same period the previous year in May 2021, while prices for spare parts have also been on an upward trajectory throughout the year. Furthermore, inflationary pressures also came from the price indices for 'housing & utilities' and 'recreation & culture', increasing by 0.2 and 1.2 percentage points, respectively, during the same period under review.

Figure 1: Inflation Trends: May 2020 to May 2021



Source: Central Statistical Office and Central Bank of Eswatini

On month-on-month basis, consumer prices remained unchanged in May 2021 from an increase of 0.5 percentage points in the previous month. Slower increases were noted in the price indices for 'housing & utilities', 'transport' and 'alcoholic beverages & tobacco', which

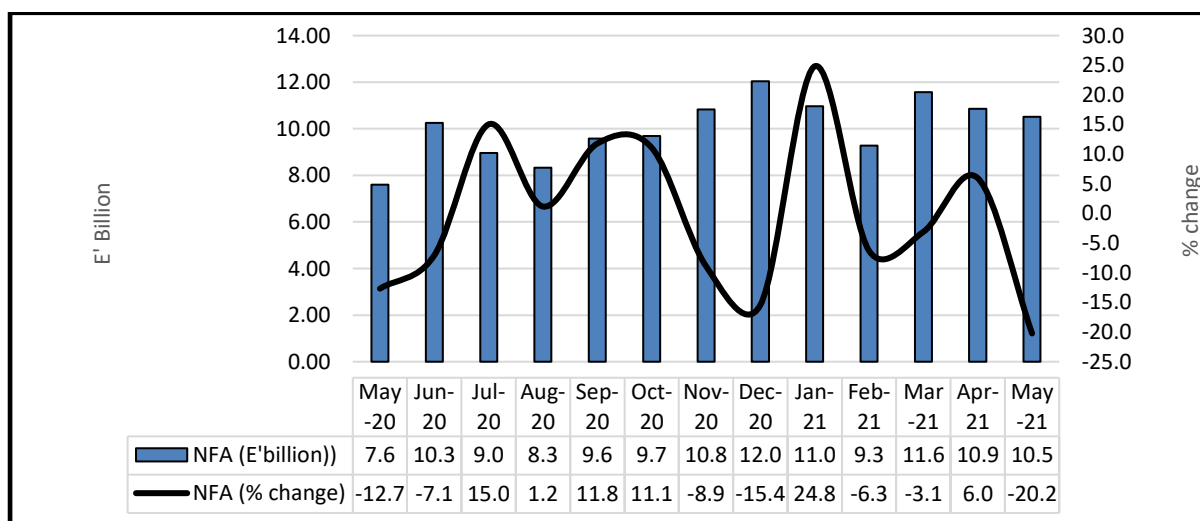
fell by 1.2, 1.2 and 2.5 percentage points, respectively, during the period under review. On the contrary, these decreases were counteracted by increasing rates of growth in the price indices for ‘miscellaneous goods & services’ and recreation & culture’.

Core inflation, which is CPI excluding volatile items such as food, fuel and energy, slightly edged up to 2.5 per cent in May 2021 from 2.4 per cent in April 2021. This increase resulted from a 0.2 of a percentage point increase in the prices for ‘services’ to 0.6 per cent during the month under review. On month-on-month basis, core inflation remained unchanged in May 2021 from 0.5 per cent in the previous month.

2 MONEY SUPPLY AND BANKING DEVELOPMENTS

The country’s net foreign assets settled at E8.9 billion at the end of May 2021, representing a contraction of 20.2 per cent from the previous month and 0.8 per cent year-on-year. The month-on-month decline was driven by net foreign official assets whilst net foreign assets of other depository corporations reflected marginal growth. Net foreign official assets reflected a reduction of 28.1 per cent from April 2021 and 12.0 per cent year-on-year to reach E5.8 billion at the end of May 2021. The month-on-month contraction in net foreign official assets was mainly on account of payment of government’s fiscal obligations as well as outflows from foreign exchange trades between the Central Bank and commercial banks.

Figure 2: Net Foreign Assets Monthly Changes: May 2020 to May 2021



Source: Other Depository Corporations and Central Bank of Eswatini

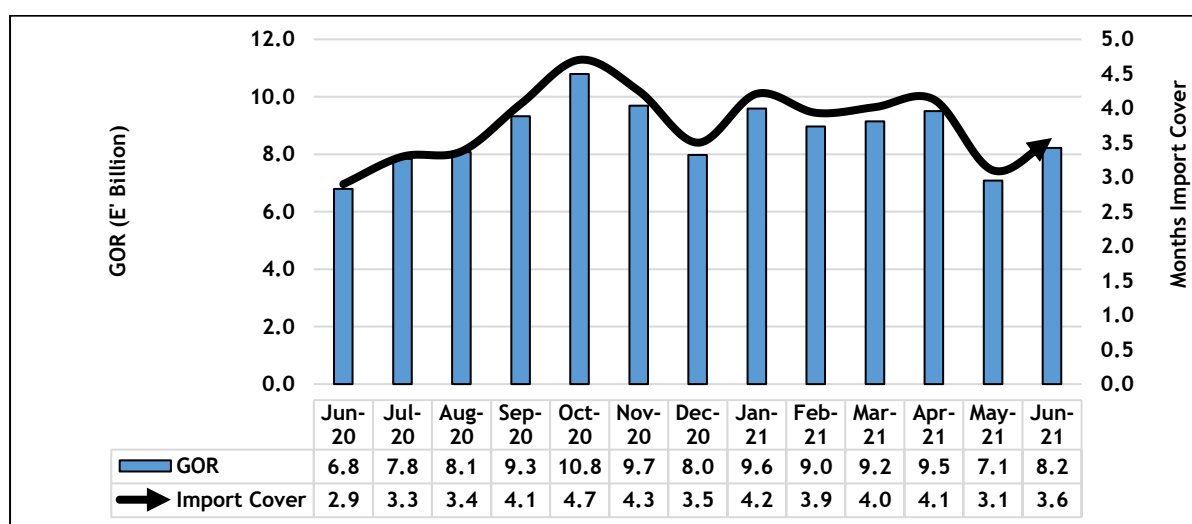
Net foreign assets of other depository corporations stood at E3.1 billion at the end of May 2021 representing a marginal growth of 0.04 per cent over the month under review and 29.4 per cent compared to May 2020. Net foreign assets valued in special drawing rights (SDR)

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amounted to SDR447.9 million, 16.4 per cent lower than the previous review month but 19.9 per cent higher compared to May 2020.

Gross official reserves accelerated by 16.1 per cent month-on-month and 20.4 per cent year-on-year to settle at E8.2 billion at the end of June 2021. Growth in reserves was mainly on account of foreign exchange proceeds from government projects' funding as well as revaluation gains from the depreciation of the Lilangeni/Rand against its major trading currencies over the month under review. The reserves were therefore, enough to cover 3.6 months of imports, higher than the 3.1 months registered in May 2021. Valued in SDR, the reserves closed at SDR403.7 million at the end of June 2021, 13.1 per cent and 41.1 per cent higher than the previous review month and year, respectively.

Figure 3: Gross Official Reserves and Import Cover: June 2020 to June 2021

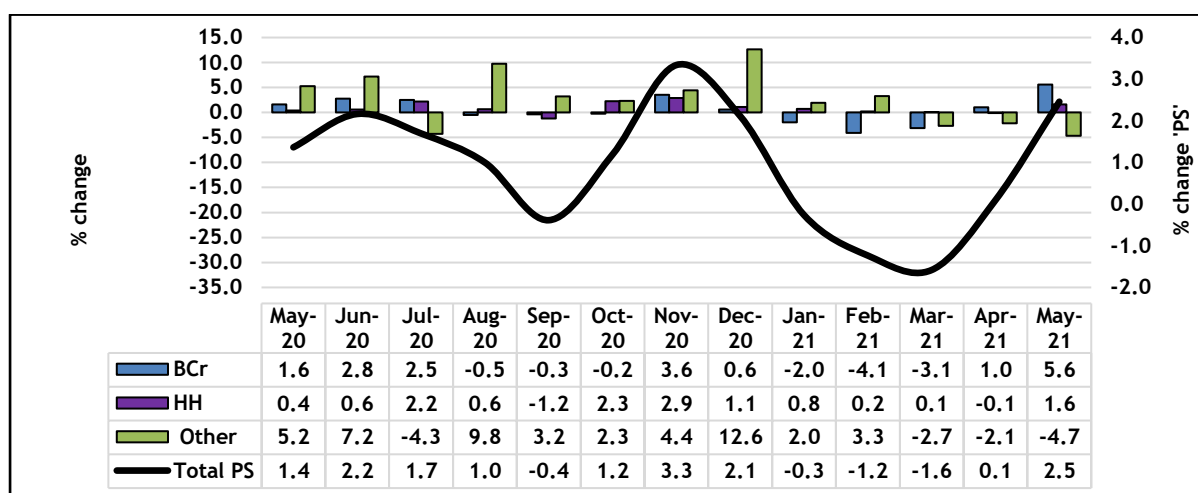


Source: Central Bank of Eswatini

Credit extended to the private sector recorded an increase of 2.5 per cent month-on-month and 11.0 per cent year-on-year to settle at E15.7 billion at the end of May 2021. The month-on-month increase in credit to the private sector was discernible in credit to businesses as well as households & non-profit institutions serving households (NPISH) whilst credit to other sectors of the economy declined. Credit extended to businesses reached E6.5 billion at the end of May 2021, reflecting growth of 5.6 per cent from April 2021 and 5.5 per cent year-on-year. The month-on-month improvement in credit to businesses was recorded in these subsectors; distribution & tourism (10.6 per cent), construction (6.1 per cent), agriculture & forestry (5.2 per cent), transport & communication (3.6 per cent), community, social & personal services (3.5 per cent) as well as manufacturing (2.0 per cent). In contrast, a reduction was observed in these subsectors; real estate (-1.8 per cent) and mining & quarrying sector (-1.1 per cent).

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Figure 4: Private Sector Credit Monthly Changes: May 2020 to May 2021

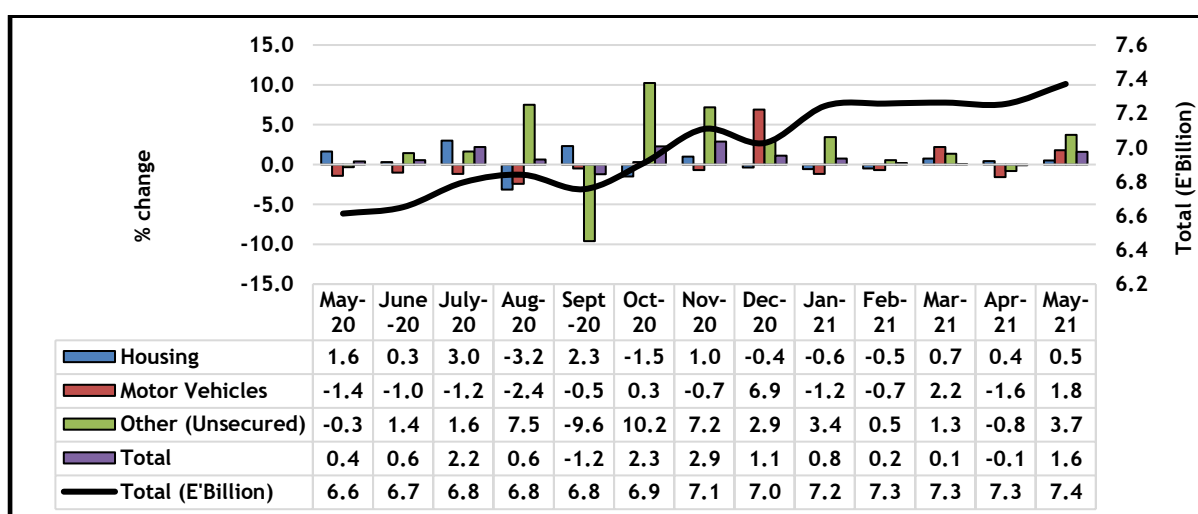


Source: Central Bank of Eswatini

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

Credit extended to households & NPISH grew by 1.6 per cent from April 2021 and 11.5 per cent year-on-year to close at E7.4 billion at the end of May 2021. The month-on-month increase was on account of other personal (unsecured) loans and housing loans, which grew by 3.7 per cent to E2.8 billion and 0.5 per cent to E3.6 billion, respectively. Motor vehicle loans however, contracted by 0.3 per cent month-on-month to E920.9 million at the end of May 2021. Credit extended to other sectors reflected a month-on-month contraction of 4.7 per cent and an improvement of 33.9 per cent over the year to settle at E1.8 billion at the end of May 2021. The month-on-month contraction was on account of credit to parastatals and other financial corporations which fell by 14.4 per cent and 1.2 per cent, respectively. Credit to local government however, expanded by 6.8 per cent month-on-month.

Figure 5: Household Credit Monthly Changes: May 2020 to May 2021

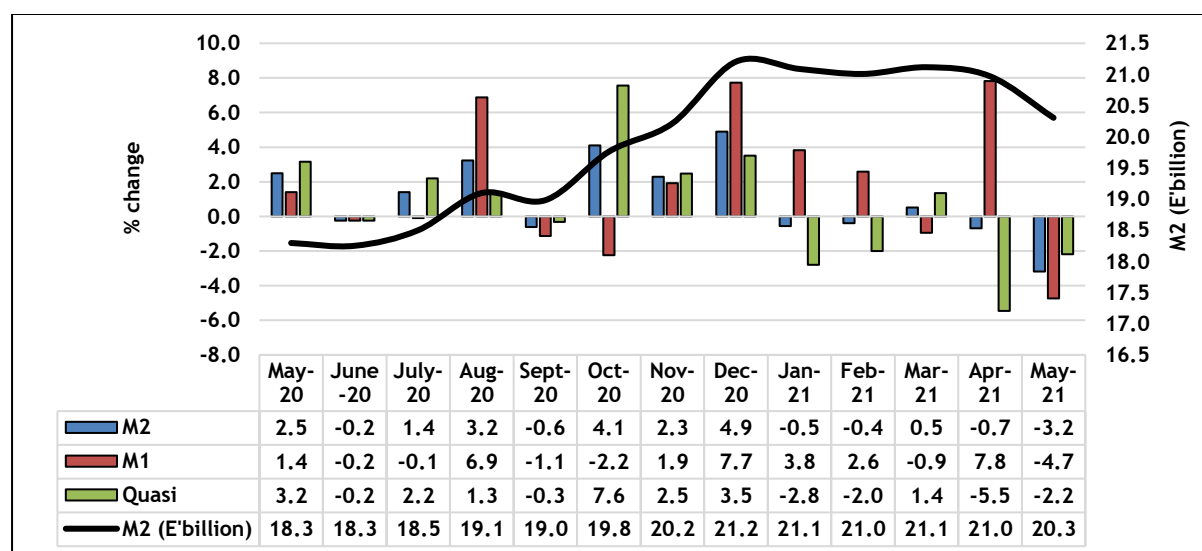


Source: Central Bank of Eswatini and Other Depository Institutions

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Broad money supply (M2) reached E20.3 billion at the end of May 2021, 3.2 per cent lower than in April 2021 and 11.0 per cent higher compared to May 2020. The contraction was registered in both narrow money (M1) and quasi money supply. Narrow money supply (M1) stood at E7.8 billion at the end of May 2021, reflecting a decline of 4.7 per cent month-on-month and an increase of 22.5 per cent year-on-year. The month-on-month fall in M1 was registered in both components; Emalangeni outside depository corporations and transferable (demand) deposits. As a result, Emalangeni outside depository corporations decelerated by 5.1 per cent month-on-month to E789.5 million whilst transferable deposits decreased by a lesser margin of 4.7 per cent month-on-month to E7.0 billion at the end of May 2021.

Figure 6: Money Supply Monthly Changes: May 2020 to May 2021



Source: Other Depository Institutions and Central Bank of Eswatini

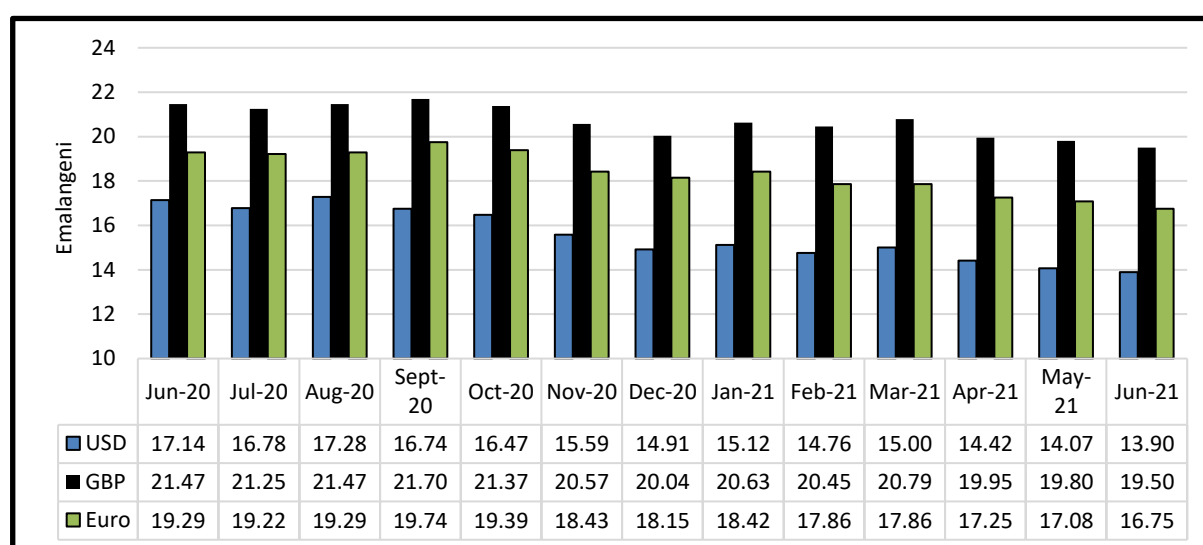
Quasi money supply receded by 2.2 per cent month-on-month, but rose by 4.9 per cent compared to May 2020 to settle at E12.5 billion at the end of May 2021. The month-on-month reduction was observed in time and savings deposits, which fell by 2.5 per cent to E10.6 billion and 0.1 per cent to E1.9 billion, respectively.

During the month of June 2021, the Rand along with the Lilangeni extended its previous gains against the major trading currencies. Compared to the previous month, the rand appreciated by 1.2 per cent to average E13.90 against the US Dollar, 1.5 per cent to average E19.50 against the Pound Sterling and 1.9 per cent to average E16.75 against the Euro. The Rand continues to rise on the back of strong appetite for riskier emerging market assets largely driven by the accommodative monetary policy setting and low yields among advanced economies. Also supportive of the positive sentiments of the Rand was South

Africa's improving current account surplus which continued to benefit from high prices of key export commodities. The growth in exports has ultimately yielded positive results for domestic economic growth in South Africa and augured well for the Rand.

Despite the appreciation of the currency, concerns about rising COVID-19 infections and the implementation of lockdown restrictions in South Africa linked with the outbreak of the third wave exerted downward pressures to the Rand's appreciation. As at the end of June 2021, the local unit stood at E14.27 to the US Dollar, E19.75 to the Pound Sterling and E16.99 to the Euro.

Figure 7: Average Exchange Rates: June 2020 to June 2021.

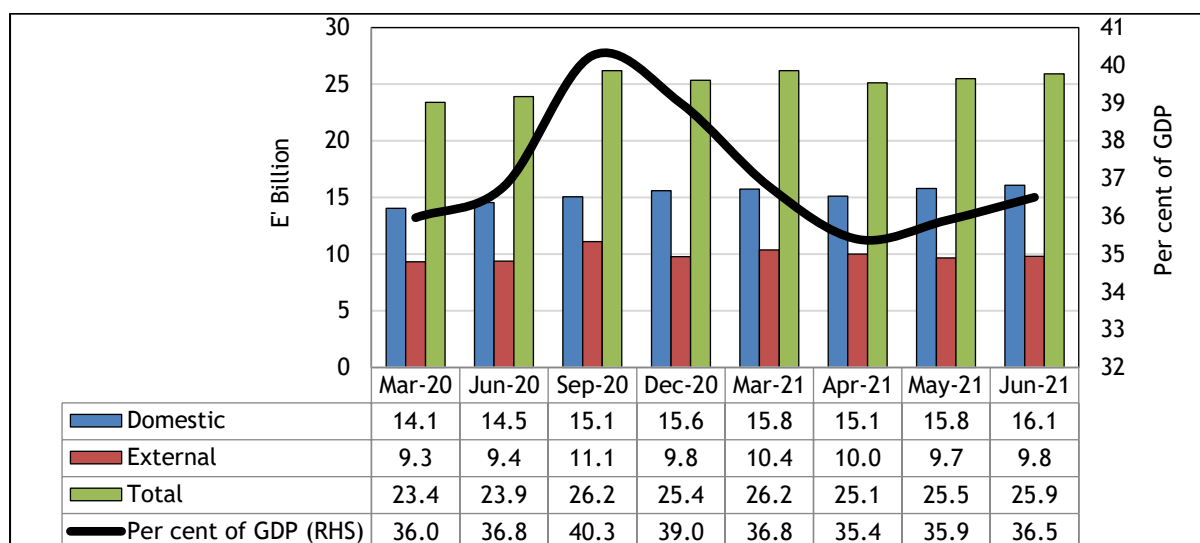


Source: Central Bank of Eswatini

3 TOTAL PUBLIC DEBT

Preliminary figures as at the end of June 2021, show that total public debt stood at E25.9 billion translating to 36.5 per cent of GDP. This shows a marginal increase of 1.6 per cent from the revised figure of E25.5 billion recorded in May 2021. The increase in total public debt is due to increases in both external and domestic debt. The figures show that public external debt stood at E9.8 billion as at end of June 2021, an equivalent of 13.8 per cent of GDP. This shows that public external debt marginally increased by 1 per cent when compared to the previous month. The increase is mainly attributed to the depreciation of the local currency against the US dollar and other major currencies in which the country's external liabilities are denominated.

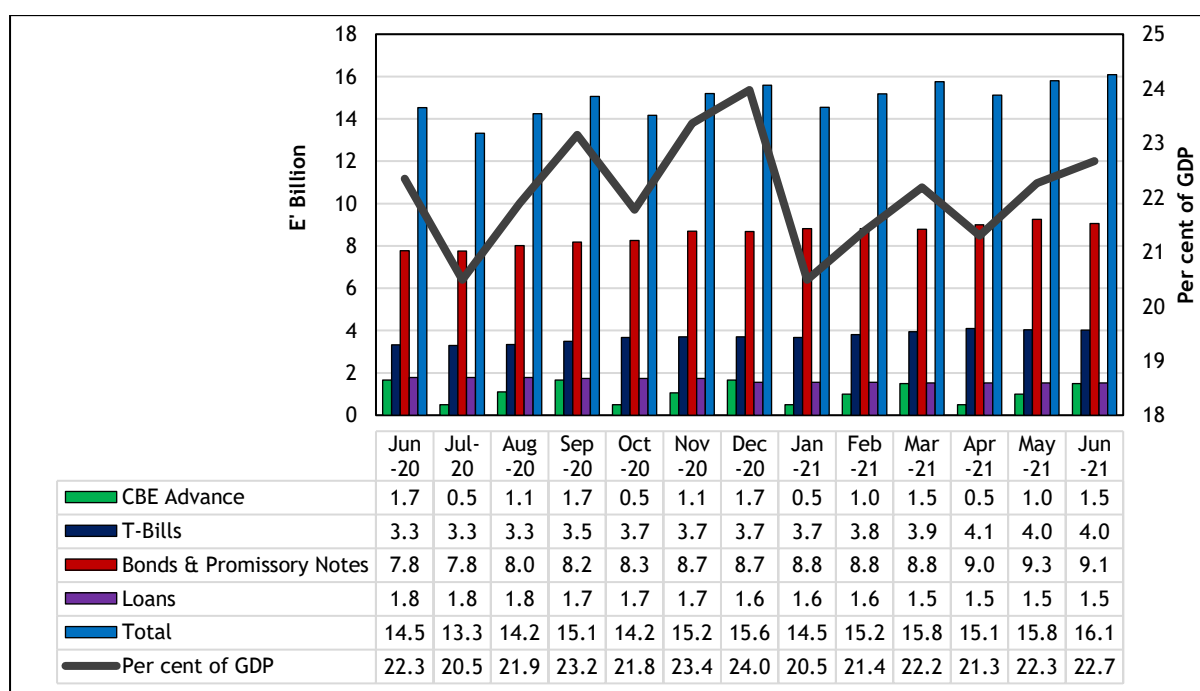
Figure 8: Total Public Debt: March 2020 to June 2021



Source: Ministry of Finance and Central Bank of Eswatini

Outstanding public domestic debt was recorded at E16.1 billion at the end of June 2021, an equivalent of 22.7 per cent of GDP. When compared to the E15.8 billion recorded in May 2021, it shows that public domestic debt increased by 1.9 per cent in the month under review. The increase was a result of an additional E500 million CBE Advance accessed by government during the month being reviewed, a E100 million Suppliers' Bond issuance as well as Plain Vanilla Bonds issuances. The increase was, however, offset by a E347 million Plain Vanilla Bond maturity during the month.

Figure 9: Total Domestic Debt: June 2020 to June 2021

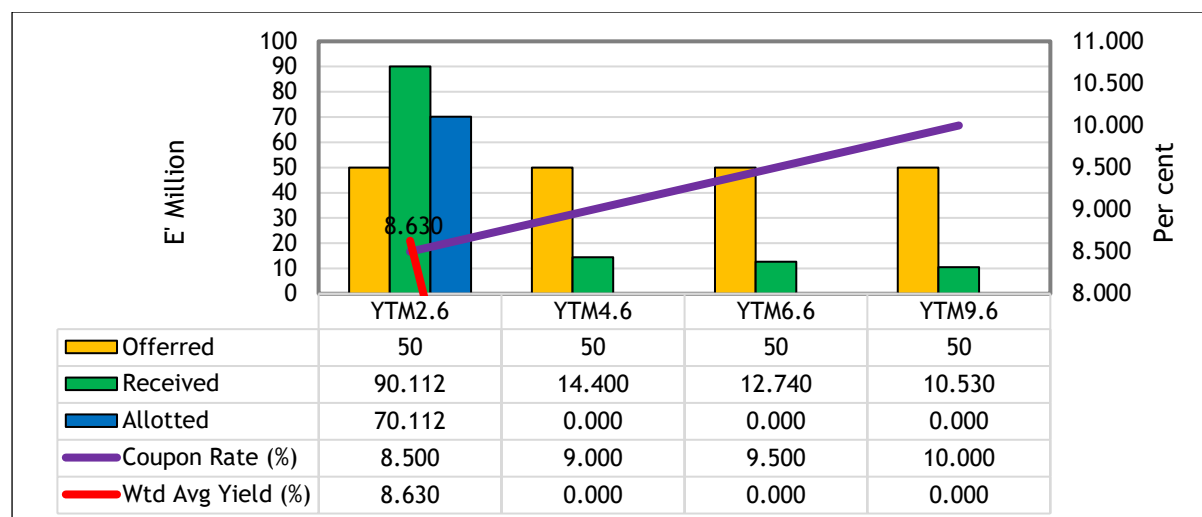


Source: Ministry of Finance and Central Bank of Eswatini

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During the month of June 2021, the CBE, on behalf of Government issued multiple bonds of various tenors (3, 5, 7 & 10 years) totaling to E200 million. A total of E127.782 million was received in bids representing a bid cover ratio of 64 per cent. Of these, E70.112 million was allotted, giving an allotment rate of 35 per cent.

Figure 10: Multiple Bond Auction Summary; June 2021



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.

Table 1: Domestic Debt Instruments Outstanding by Holder as at 30 June 2021

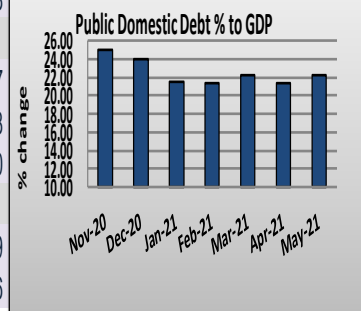
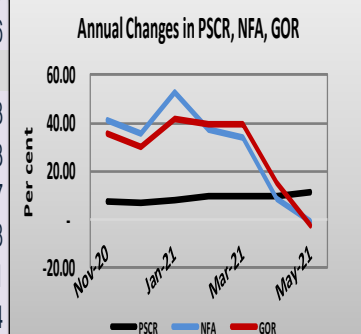
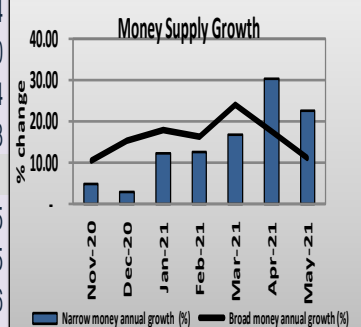
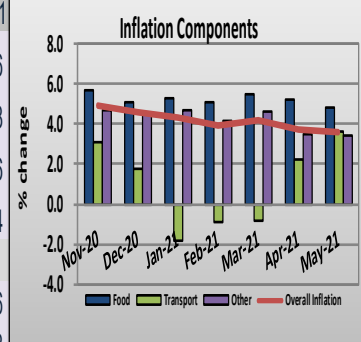
(E' Million)

Holder	Treasury Bills	Government Bonds	Promissory Notes	CBE Advance	Total	Share of Holdings (%)
CBE	3.1	1,293.9	0	1,500.0	2,797.0	19.2
Commercial banks	2,631.8	1,732.1	0	0	4,363.9	29.9
NBFIs	1,285.6	5,126.5	0	0	6,412.1	44.0
Other	97.1	813.0	96.3	0	1,006.4	6.9
	4,017.6	8,965.5	96.3	1,500.0	14,579.4	100

Source: Central Bank of Eswatini

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Economic Policy, Research and Statistics Department							
Kingdom of Eswatini Economic Indicators at a glance							
Sectors	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21
Overall Inflation	4.9	4.6	4.3	3.9	4.2	3.7	3.6
Food	5.7	5.1	5.3	5.1	5.5	5.2	4.8
Transport	3.1	1.8	-1.8	-0.9	-0.8	2.2	3.6
Other	4.7	4.5	4.7	4.2	4.6	3.5	3.4
Money and banking							
Narrow money annual growth (%)	4.90	2.78	12.24	12.50	16.60	30.35	22.46
Broad money annual growth (%)	10.30	15.45	17.80	16.20	24.10	17.54	10.98
Domestic credit (net) - E' Million	14,936.97	17,038.60	15,228.88	15,965.91	16,418.88	15,276.60	16,560.74
Government	-534.86	1,239.66	-528.71	402.99	1,102.06	-55.11	852.00
Private sector	15,471.83	15,798.95	15,757.59	15,562.92	15,316.83	15,331.72	15,708.74
Private sector credit annual growth (%)	7.10	6.67	7.89	9.30	9.30	9.80	10.98
Interest rates (% p.a)							
Prime lending	7.25	7.25	7.25	7.25	7.25	7.25	7.25
Discount rate	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Deposit rate - 31 days	1.26	1.26	1.26	1.26	1.26	1.26	1.26
- 12 months	2.13	2.13	2.13	2.13	2.13	2.13	2.13
- T. bill rate	4.81	4.76	4.90	4.89	4.71	4.92	4.96
Ratios							
Liquidity ratio (required = 20 %)	38.87	40.20	38.15	38.58	43.06	41.59	35.23
Loans/deposits ratio	67.56	63.79	64.52	63.35	62.09	61.67	66.53
Net foreign assets (E'million)	10,968.02	9,275.42	11,577.97	10,850.55	10,514.36	11,142.33	8,887.87
Annual % change in NFA	41.05	35.32	52.89	37.46	34.10	8.63	-0.78
Gross official foreign reserves E'Millions	9,689.79	7,976.03	9,670.35	9,006.03	9,198.35	9,345.03	7,085.31
Annual % change in GOR	35.64	29.80	41.87	39.32	39.26	14.95	-2.54
In months of import cover	4.25	3.50	4.25	3.95	3.99	4.06	3.08
Exchange Rates							
US\$	15.59	14.91	15.12	14.76	15.00	14.42	14.07
EURO	18.43	18.15	18.42	17.86	17.86	17.25	17.08
GBP	20.57	20.04	20.63	20.45	20.79	19.95	19.80
Public Finance							
Total public domestic debt [E' million]	15,195.10	15,595.03	14,547.32	15,186.73	15,755.10	15,121.86	15,809.49
As a % of GDP	24.99	23.98	21.49	21.39	22.19	21.29	22.26



NB: For consistency, the table shows data up to the end of May 2021.