

## The Kingdom of Swaziland



## Major Highlights

❖ Annual consumer inflation increased to 7.1 per cent in May 2017 from 7.0 per cent in April 2017.	Inflation rate (% y/y)	7.1 (May) ↑
❖ Discount and prime lending rates remained unchanged in June 2017.	Prime Lending (%)	10.75
	Discount rate (%)	7.25
❖ During the month of June 2017, the external value of the Lilangeni strengthened against major currencies.	Exchange rate (US\$)	12.90 (Jun) ↓
❖ Credit to the Private Sector amounted to E12.8 billion at the end of May 2017, higher than the E12.6 billion recorded at the end of April 2017.	Private Sector Credit (% y/y)	6.5 (May) ↑
❖ Broad Money Supply (M2) went up by 5.1 per cent (m/m) at the end of May 2017 to settle at E15.4 billion.	Broad Money (M2) (% y/y)	12.9 (May) ↑
❖ Gross Official Reserves stood at E6.9 billion at the end of June 2017, 7.2 per cent lower than the E7.4 billion recorded at the end of May 2017.	Reserves (months of import cover)	3.2 (Jun) ↓
❖ At the end of June 2017, preliminary figures indicate that total public debt was maintained at E11.23 billion	Total Public Debt (% to GDP)	19.2 (Jun)
❖ In the first quarter of 2017, preliminary data indicate that the current account balance recorded a surplus of E1.492 billion from a wider surplus of E1.738 billion in the last quarter of 2016.	Current Account (% of GDP)	2.5 (Mar) ↓

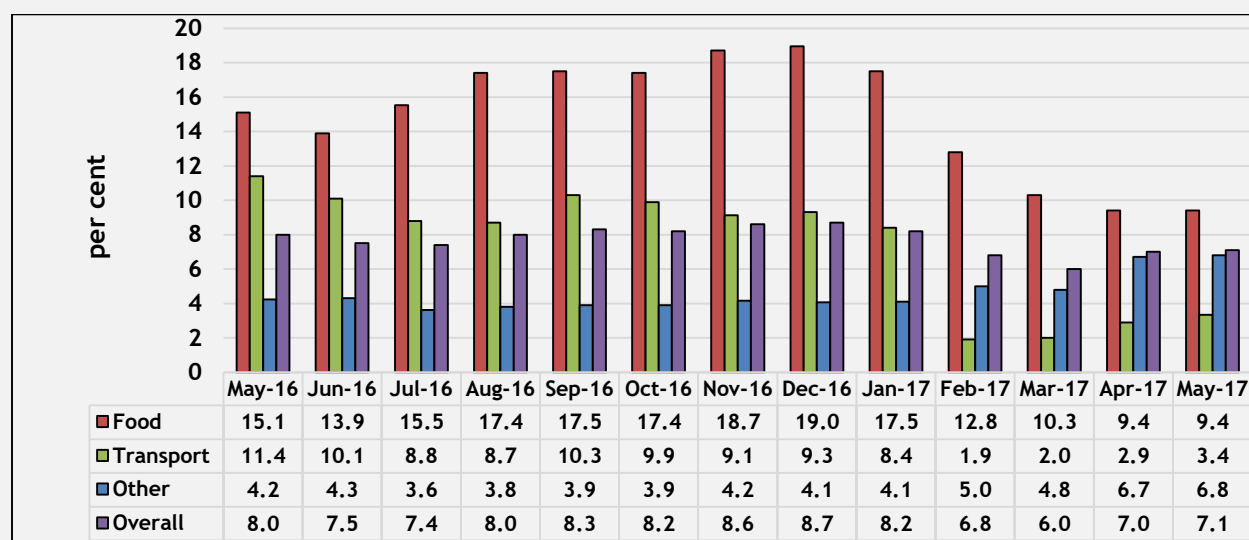
NB: The table shows the most recent available data.

## 1 Inflation Developments

The country's annual inflation rate slightly increased to 7.1 per cent in May 2017 from 7.0 per cent recorded in April 2017. Contributing to this growth were increases in the price indices for 'transport' and 'miscellaneous goods and services'. Transport inflation grew by 3.3 per cent in May 2017 from 2.9 per cent in April 2017, mainly driven by price increases in the purchase of vehicles and the operation of personal transport equipment. The 'miscellaneous goods and services' index on the other hand grew by 4.6 per cent in May 2017 from 4.0 per cent in the previous month, owing to price increases in personal care. Additional inflationary pressures emanated from the restaurants and hotels index, which grew by 2.1 per cent from 0.7 per cent between the two months.

The above mentioned increases were slightly offset by a decreasing rate of growth in the price index for 'recreation and culture' which slowed to 5.4 per cent in May 2017 from 7.7 per cent. This benefited mainly from slower price increases in the prices of audio visual, photographic and information processing equipment. Flat growth observed in the price indices for 'food and non-alcoholic beverages' and 'housing and utilities' also contributed to the slower growth in overall headline inflation.

Figure 1: Inflation Trends: May 2016 to May 2017



Source: Central Statistical Office

Month-on-month rates indicate that consumer inflation declined to 0.3 per cent in May 2017, from a high of 2.8 per cent recorded in April 2017. Slower increases in the price indices for ‘food and non-alcoholic beverages’ and ‘housing and utilities’ were the major contributors to the monthly decline. Food inflation declined to 0.4 per cent in May 2017 from 1.5 per cent in April 2017 as a result of slower price increases of meat and vegetables. Deflationary pressures also emanated from the ‘housing and utilities index’ which dropped to 0.1 per cent in May 2017 from 7.7 per cent in the previous month owing to slower growth in the prices for actual rentals for housing.

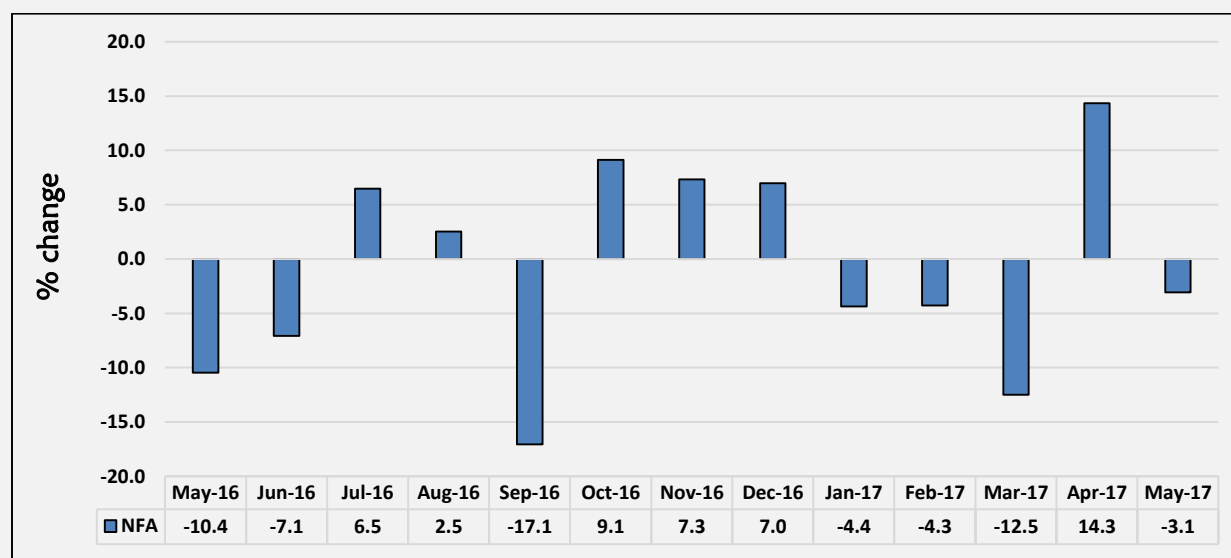
Core inflation, which is measured as the CPI excluding food and non-alcoholic beverages, auto-fuel and energy increased to 6.2 per cent in May 2017 slightly up from 6.1 per cent in the previous month. On month-on-month rates, core inflation grew by 0.2 per cent in the period under review.

## 2 Money Supply and Banking Developments

Net Foreign Assets went down by 3.1 per cent month-on-month to settle at E8.0 billion at the end of May 2017, lower than the E8.2 billion observed in the previous month. The contraction was driven by a decrease in Net Foreign Assets of the Official Sector whilst Net Foreign Assets of Other Depository Corporations recorded an increase over the review month. Net Official Assets declined by 10.9 per cent to settle at E6.3 billion at the end of May 2017. The contraction was mainly on account of settlement of Government's outstanding debts over the review month. Net Foreign Assets of Other Depository Corporations on the other hand expanded by 46.0 per cent to reach E1.6 billion at the end of May 2017, due to a rise in investment in the Common Monetary Area (CMA) as well as those held abroad.

Valued in Special Drawing Rights (SDRs), Net Foreign Assets declined from the SDR451.4 million observed in the previous month to reach SDR437.6 million in May 2017. Compared over the same period last year, Net Foreign Assets in Emalangeni terms contracted by 4.9 per cent but increased by 15.5 per cent in SDRs.

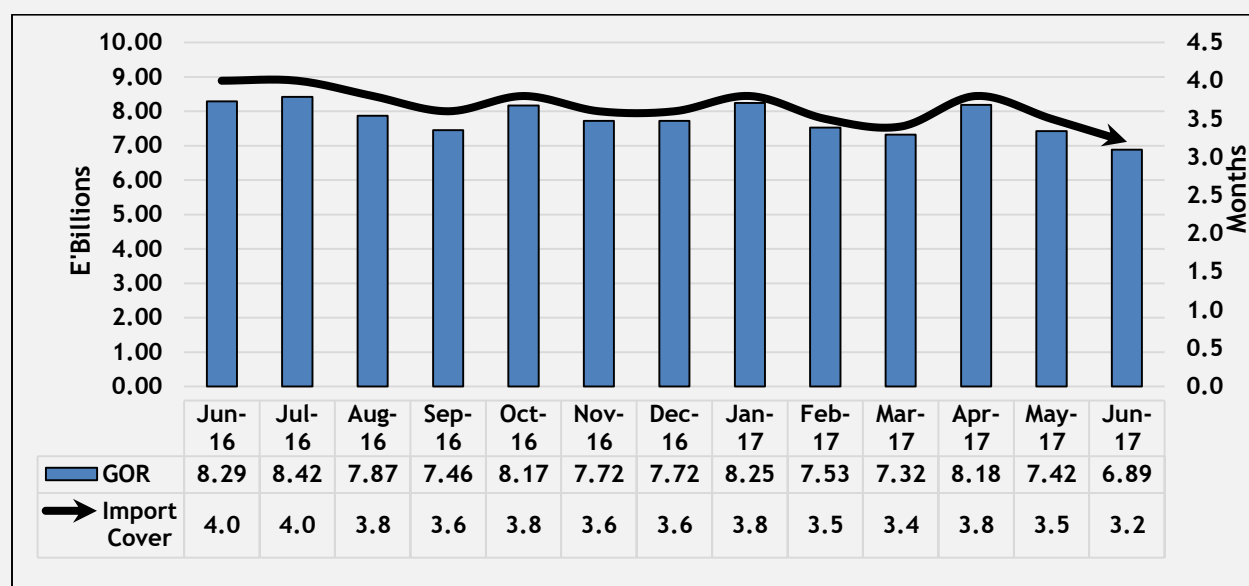
Figure 2: Net Foreign Assets Monthly Changes: May 2016 to May 2017



Source: Central Bank of Swaziland

Gross Official Reserves declined by 7.2 per cent to reach E6.9 billion at the end of June 2017, down from the E7.4 billion registered at the end of May 2017. This resulted in the import cover declining from the 3.5 months observed in May 2017 to 3.2 months at the end of June 2017. The value of the Reserves in Special Drawing Rights (SDRs) amounted to SDR377.0 million at the end of June 2017 from SDR407.8 million observed in the previous month. Compared over the year, the Reserves contracted by 16.9 per cent when valued in Emalangeni terms and by 6.7 per cent in SDRs terms.

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



Source: Central Bank of Swaziland

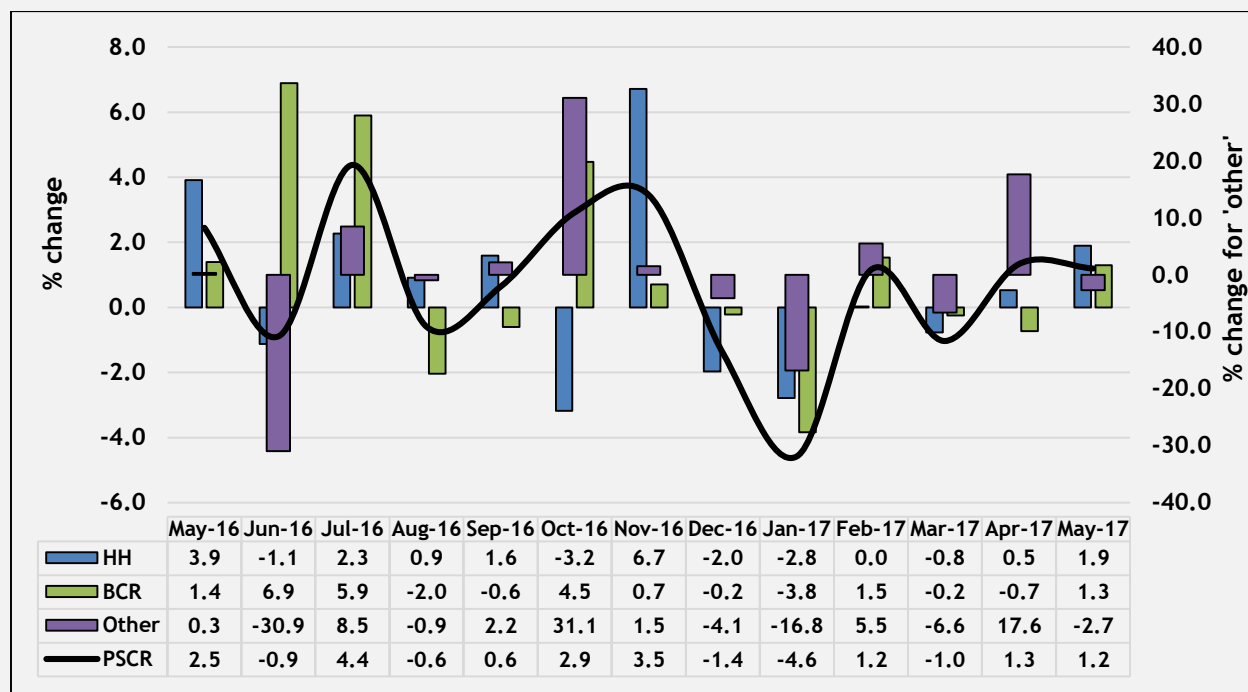
Credit Extended to the Private Sector expanded by 1.2 per cent month-on-month to settle at E12.8 billion at the end of May 2017, higher than the E12.6 billion recorded at the end of April 2017. The increase over the month of May 2017 was mainly driven by Credit to Households & Non-Profit Institutions Serving Households (NPISH) which represented the highest growth (1.9 per cent) followed by credit to businesses (1.3 per cent). In contrast, credit to Other Sectors trended in the opposite

direction and recorded a contraction of 2.7 per cent as at end of May 2017. When compared over the year, Private Sector Credit grew by 6.5 per cent.

Credit Extended to Businesses amounted to E5.8 billion depicting growth of 1.3 per cent compared to the previous month. The rise was largely observed in these subsectors; Real Estate (3.2 per cent), Distribution and Tourism (2.5 per cent) and Agriculture and Forestry (1.9 per cent). Credit Extended to Other Sectors trended downwards by 2.7 per cent to settle at E1.2 billion at the end of May 2017. The deceleration in Credit to Other Sectors was mainly driven by the State and Local Government (-24.6 per cent) and Other Financial Corporations (-9.0 per cent). However, Credit to the Public Non-Financial Corporations accelerated by 18.3 per cent when compared with the preceding month.

Net Government Balances with Other Depository Corporations contracted by 64.4 per cent from the level recorded in the previous month to settle at E484.9 million at the end of May 2017. The reduction was mainly on account of Government deposits which shrank by 18.1 per cent surpassing growth of 0.2 per cent in claims on Government. When compared over the year, Net Government balances were down by 75.7 per cent.

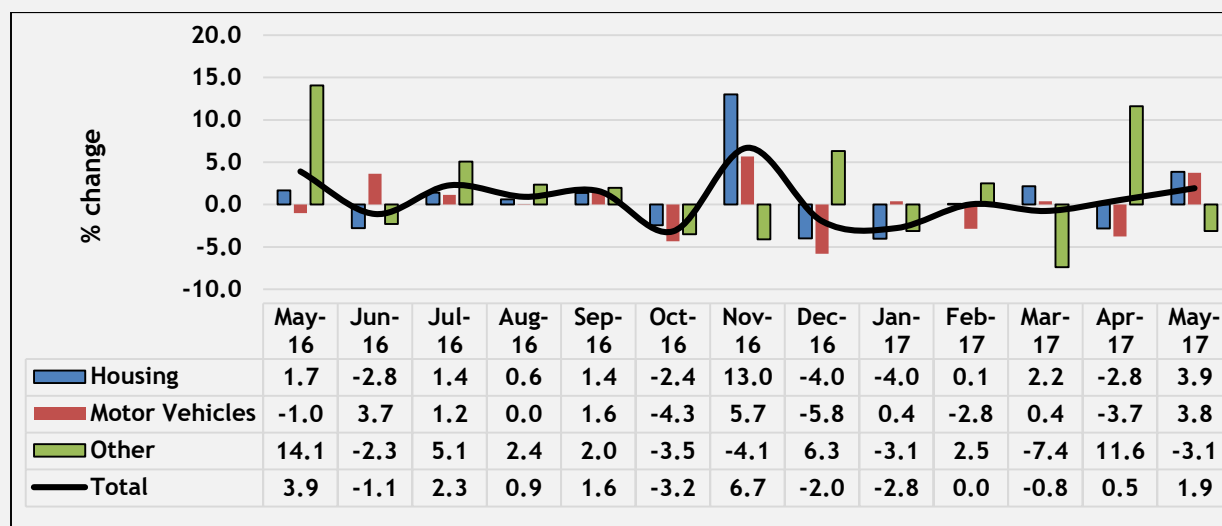
Figure 4: Private Sector Credit Monthly Changes: May 2016 to May 2017



Source: Central Bank of Swaziland

Credit Extended to Households & NPISH closed the month under review by an amount of E5.9 billion, reflecting a 1.9 per cent growth from the previous month. The monthly expansion was mainly on account of Mortgage Loans and Motor Vehicle Finance whilst Other (unsecured) Loans contracted. Consequently, Mortgage Loans accelerated by 3.9 per cent month-on-month to reach E3.0 billion alongside a 3.8 per cent rise in Motor Vehicle Finance to reach E1.3 billion. Credit to Other (Unsecured) Loans however shrank by 3.1 per cent over the review month to reach E1.5 billion.

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



Source: Central Bank of Swaziland

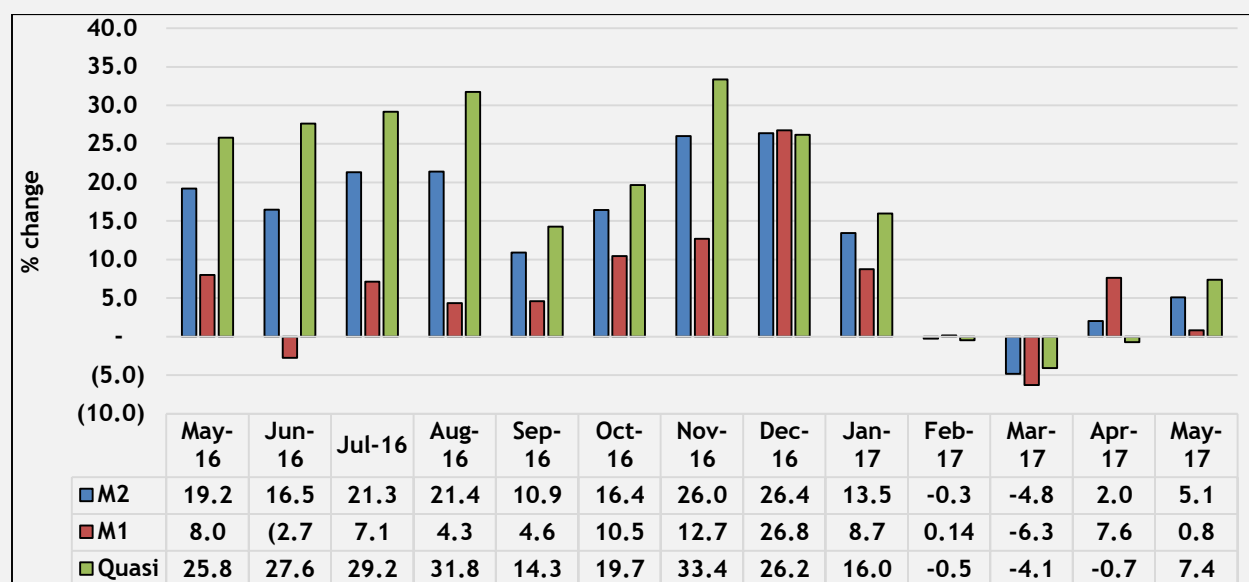
Broad Money Supply (M2) rose to E15.4 billion at the end of May 2017 from E14.7 billion registered at the end of April 2017. At this amount M2 went up by 5.1 per cent due to increases in Quasi Money Supply and Narrow Money Supply (M1). Compared over the year M2 expanded by 12.9 per cent.

Quasi Money Supply reflected a growth rate of 7.4 per cent from April 2017 to settle at E10.3 billion over the month under review, driven by Time and Savings Deposits. As a result, Time deposits accelerated by 8.5 per cent to E8.5 billion and Savings Deposits by 2.5 per cent to reach E1.8 billion.

M1 depicted a growth of 0.8 per cent month-on-month to close the month under review at E5.1 billion. The increase in M1 was evident in Transferable deposits which grew by 1.7 per cent over the month to E4.6 billion. However, Currency Outside Depository Corporations, decelerated by 6.1 per cent to E557.8 million at the end of May 2017.



Figure 6: Money Supply Monthly Changes: May 2016 to May 2017



Source: Central Bank of Swaziland

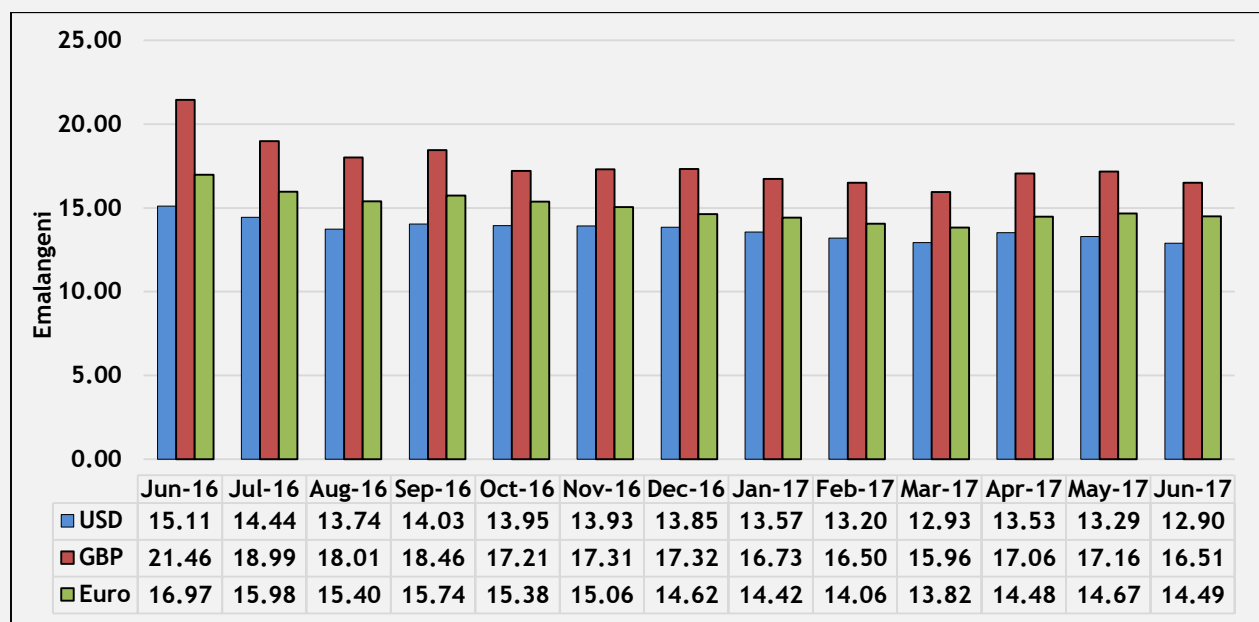
The Lilangeni/Rand showed slight gains against major currencies during the month of June 2017. Even though the Rand was somewhat favoured by the high yield differential of emerging market economies, the performance of the Rand against the US Dollar, British Pound and the Euro was somehow affected by internal political tensions and economic drivers in South Africa. The stock markets' reaction towards the changes in South Africa's Mining Charter also weighed heavily on the Rand. The local unit appreciated by 2.9 per cent to average E12.90 per US dollar in June.

Relative to other major currencies, the Lilangeni appreciated by 3.8 per cent and 1.2 per cent against the British Pound and Euro respectively. The increasing political uncertainties in the UK contributed to the Pound falling against the Euro, hence the Rand gained more strength.

The Rand exchange rate outlook remains negative with risks stemming from various anticipated developments such as the threat of the Reserve Bank's constitutional mandate, possibility of further downgrades, economic recession and political

uncertainties in South Africa. The prospects of higher interest rates in USA and UK and the uncertainty of Brexit negotiations all pose external negative risks to the performance of the Rand.

Figure 7: Average Exchange Rates: June 2016 to June 2017



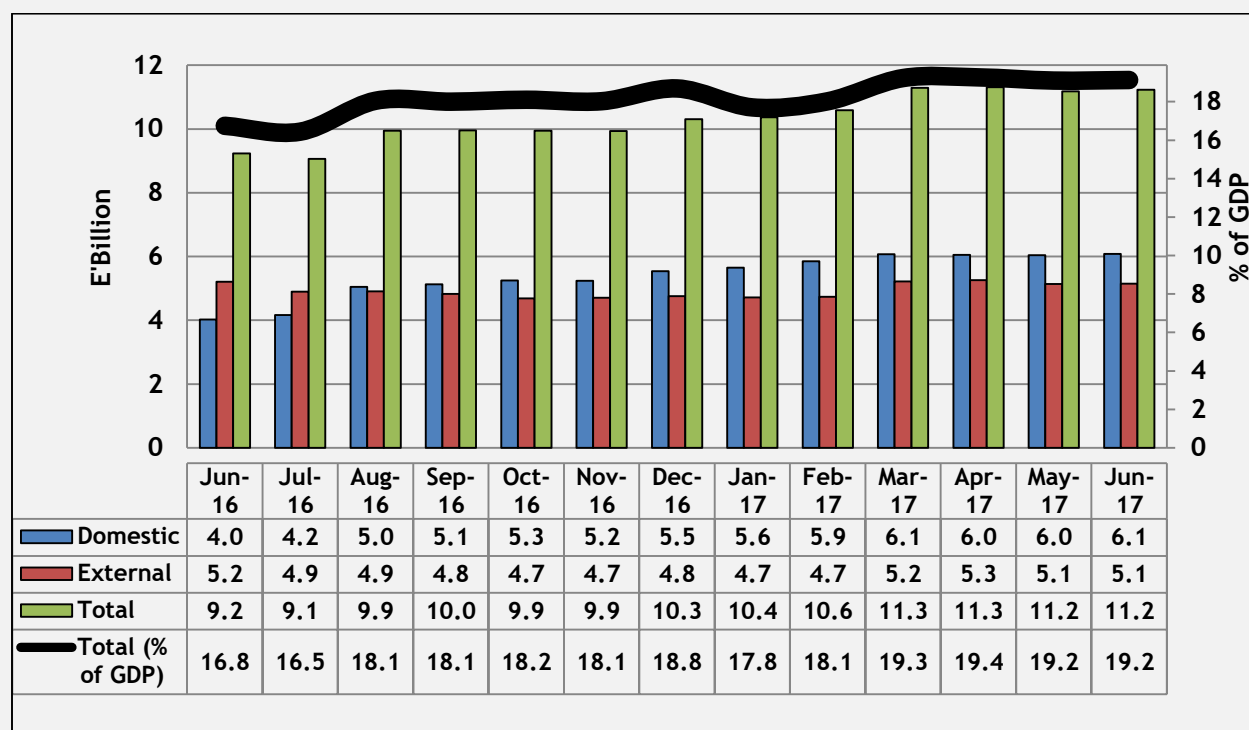
Source: Central Bank of Swaziland

### 3 Public Debt

Preliminary figures for the end of June 2017 indicate that total public debt was maintained at E11.23 billion, an equivalent of 19.2 per cent of GDP. This is the same figure reported in May 2017.

External debt as at the end of June, 2017 stood at E5.15 billion, an equivalent of 8.8 per cent of GDP. This figure indicates that external debt has remained fairly stable over the month under review when compared to E5.14 billion that was recorded in May 2017.

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

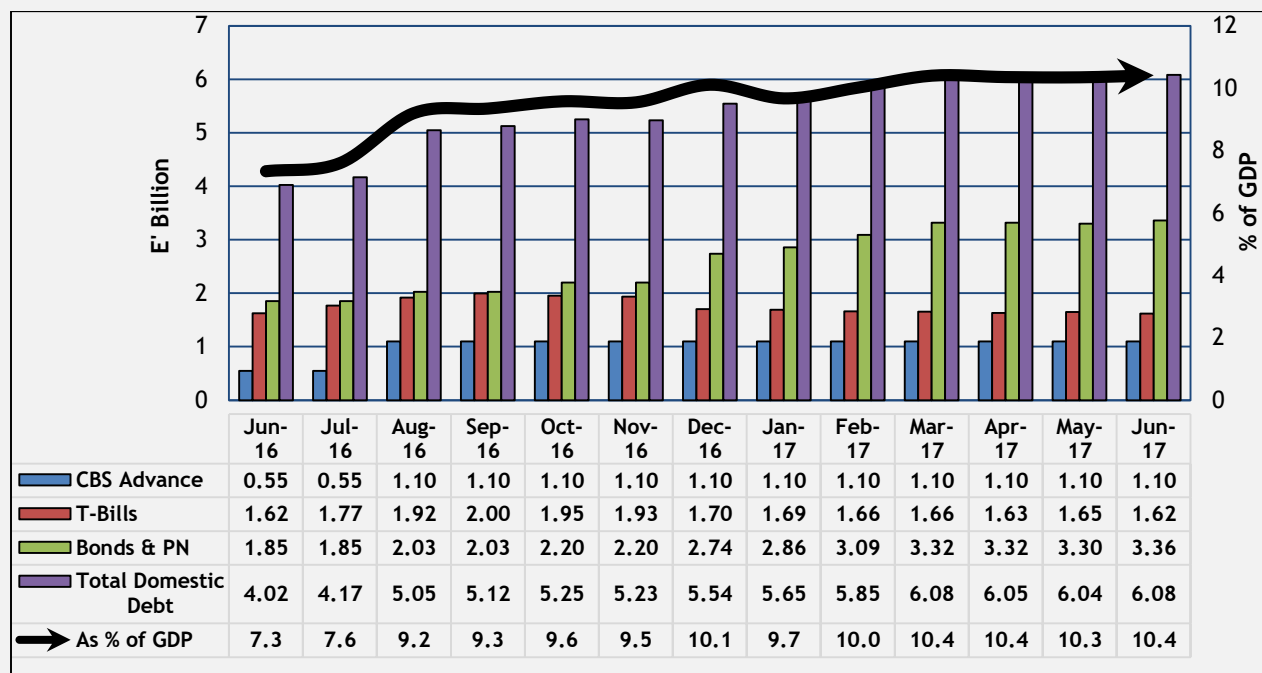


Source: Ministry of Finance and Central Bank of Swaziland

Domestic debt stood at E6.08 billion as at the end of June 2017, an equivalent of 10.4 per cent of GDP. This figure indicates that domestic debt marginally increased over the month under review when compared to E6.04 billion that was recorded in May 2017. The increase was mainly a result of a 7-Year Bond issued during the month which

was, nevertheless, offset by a 3-Year Bond amounting to E70.11 million which matured on 30th June 2017.

Figure 9: Public Domestic Debt: May 2016 to May 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.

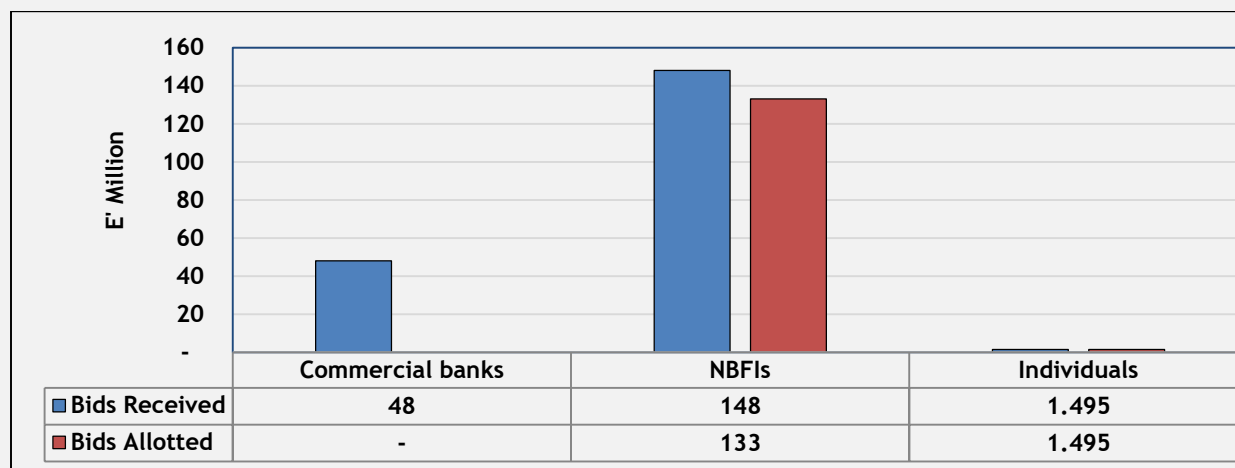
Table 1: Domestic Debt Instruments Outstanding by Holder as at 30 June 2017 (E' Million)

Holder	Treasury Bills	Government Bonds	Promissory Notes	CBS Advance	Total	Share of Holdings (%)
CBS	2.7	0.8	0	1,100.0	1,103.5	18.14
Commercial banks	1,272.9	1,001.8	0	0	2,274.7	37.41
NBFIs	260.0	2,054.6	0	0	2,314.6	38.06
Other	84.1	140.3	164.5	0	388.9	6.39
<b>Total</b>	<b>1,619.7</b>	<b>3,197.5</b>	<b>164.5</b>	<b>1,100.0</b>	<b>6,081.7</b>	<b>100</b>

Source: Ministry of Finance and Central Bank of Swaziland

The Central Bank on behalf of Government auctioned a 7-year bond amounting to E150 million on 27<sup>th</sup> June 2017. The bond will mature on 30<sup>th</sup> June 2024. The coupon rate was fixed at 10.25 per cent. Total bids received totalled to E197.50 million, resulting in a bid-cover ratio of 131.7 per cent. Bids allotted amounted to E134.50 million, indicating an allotment rate of 89.7 per cent. The weighted average yield accepted was recorded at 10.63 per cent.

Figure 10 : 7-Year Bond Bids Analysis by Creditor Category



Source: Central Bank of Swaziland

The Government of Swaziland in conjunction with the Central Bank of Swaziland (as Agent to Government) formally launched a E2 billion Infrastructure Bond Programme in the beginning of July 2017. The Programme is expected to run between 3 and 5 years wherein Government will be tapping into the market at regular intervals when there is a need to finance the projects stipulated in the prospectus. The first Bond under this Programme will be issued on 26<sup>th</sup> July 2017. The drive to venture in such an endeavour has been informed by investors’ appetite during roadshows which are part of the “Book Building Exercise” prior to issuance of Government securities.

The Programme will run concurrently with the normal (Plain Vanilla) Issuance Programme as both issuances play different roles towards the development of the economy and implementation of monetary policy. Funding for the Infrastructure Bond will be used to finance targeted infrastructure projects in key sectors of the economy that support investment and employment creation. All investors; local and abroad are invited to participate in these Programmes as efforts are being made to develop the economy and reach the level of other more developed economies as we strive to meet the country’s vision to attain the First World status by 2022.

## 4 The External Sector

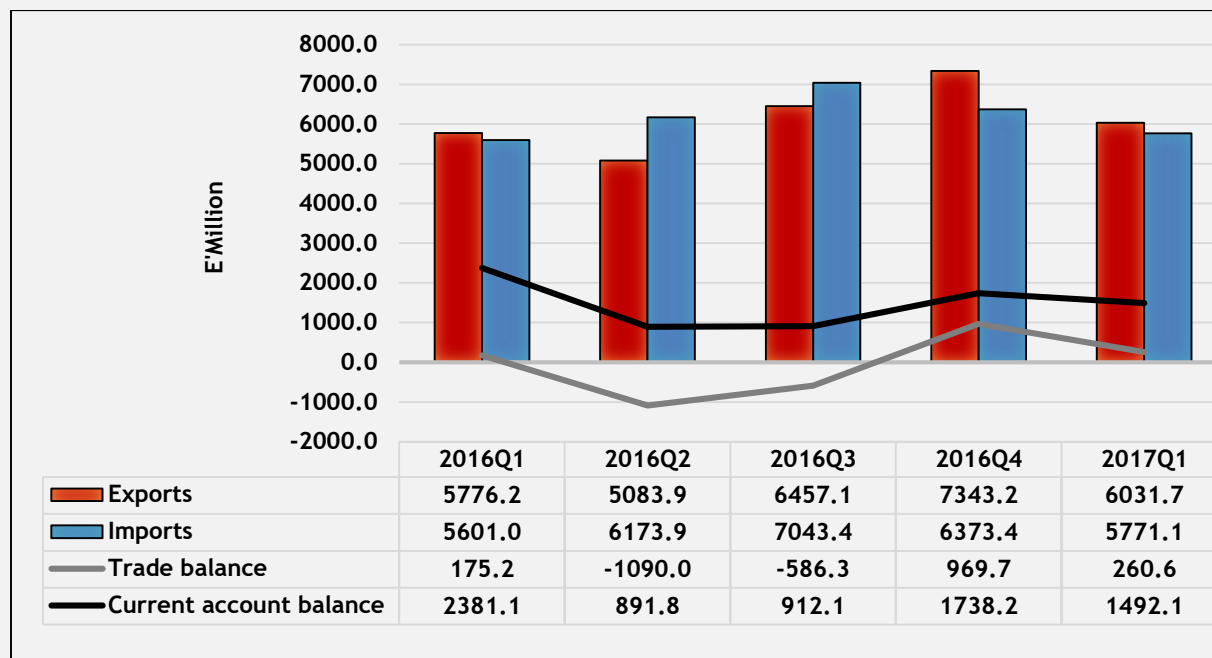
Preliminary data for the quarter ending March 2017 indicate that Swaziland's current account balance decelerated to a surplus of E1.492 billion from a wider surplus of E1.738 billion in the last quarter of 2016. This was on account of a subdued trade balance (goods and services) of E260.6 million recorded in the quarter ending March 2017 which fell by over three folds from the E969.7 million surplus posted in the fourth quarter of 2016.

In the first quarter of 2017, the merchandise trade account recorded a narrow E926.2 million surplus when compared with the E1.648 billion surplus in the last quarter of 2016. The slowdown in the merchandise trade balance emanated from a 19.5 per cent quarter-on-quarter decline in exports from Swaziland to the world. Imports, on the other hand, decelerated by a lower margin relative to exports, falling by 12 per cent quarter-on-quarter to E4.722 billion in March 2017.

The net outflow in the services account remained almost flat, declining by 0.1 per cent quarter-on-quarter from a net outflow of E666.4 million in the quarter ending December 2016. The primary income account, though subdued, receded by 25.5 per cent to settle at E441.3 million.

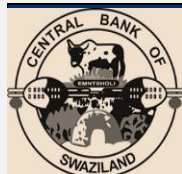
Despite the muted surplus recorded in the current account, the secondary income account continued to shore up the performance of the current account during this period. The surplus in this account posted a quarterly 6.5 per cent increase to E1.673 billion during the quarter ending March 2017, mainly supported by the slight increase in total inflows. Inflows in this account are attributed to SACU inflows which account for over 50 per cent of total inflows in this account.

Figure 11 : Current Account Quarterly Changes: March 2016 to March 2017

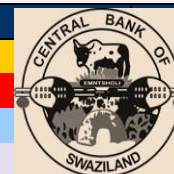


Source: Central Bank of Swaziland



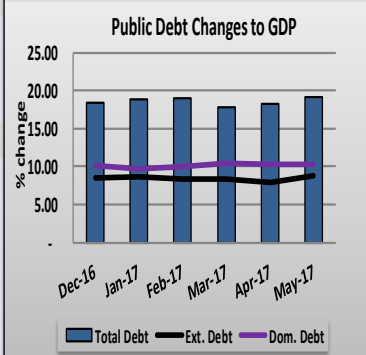
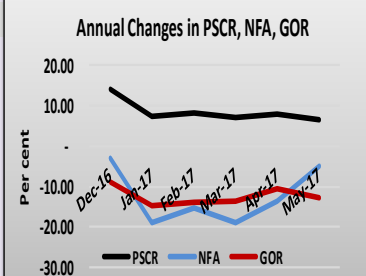
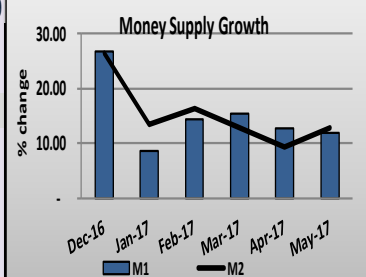
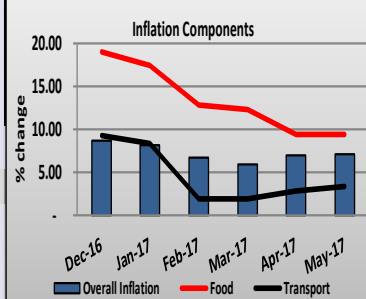


## Economic Policy, Research and Statistics Division



## Swaziland Economic Indicators at a glance

Sectors	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17
<b>Overall Inflation</b>	8.70	8.20	6.80	6.00	7.00	7.10
Food	19.00	17.50	12.80	12.30	9.40	9.40
Transport	9.30	8.40	1.90	2.00	2.90	3.40
Other	4.10	4.10	5.00	4.90	6.70	6.80
<b>Money and banking</b>						
Narrow money annual growth (%)	26.80	8.70	14.30	15.50	12.80	12.00
Broad money annual growth (%)	26.40	13.50	16.30	12.80	9.40	12.90
Domestic credit (net) - E' Million	12,203.66	10,818.40	11,390.90	11,657.17	11,271.25	12,292.53
Government	-833.65	-1622.7	-1194.4	-798.75	-1351.23	-484.89
Private sector	13,373.09	12,441.10	12,585.34	12,455.91	12,622.49	12,777.42
Private sector credit annual growth (%)	14.15	7.40	8.20	7.00	7.80	6.50
<b>Interest rates (% p.a)</b>						
Prime lending	10.50	10.75	10.75	10.75	10.75	10.75
Discount rate	7.00	7.25	7.25	7.25	7.25	7.25
Deposit rate - 31 days	3.45	3.44	3.44	3.44	3.44	3.44
- 12 months	4.89	5.03	5.03	5.03	5.03	5.03
- T. bill rate	7.95	8.15	8.16	8.26	8.38	8.14
<b>Ratios</b>						
Liquidity ratio (required = 20 %)	28.70	29.30	26.70	28.50	30.30	31.20
Loans/deposits ratio	75.10	81.0	82.2	85.9	83.2	79.7
Net foreign assets (E'million)	8,831.27	8,446.30	8,084.40	7,073.60	8,088.38	7,966.30
<b>Annual % change in NFA</b>	-3.10	-19.00	-15.30	-18.90	-13.60	-4.90
Gross official foreign reserves E'Millions	7,723.04	8,246.3	7,528.71	7,325.22	8,188.41	7,422.63
<b>Annual % change in GOR</b>	-9.00	-14.80	-14.00	-13.70	-10.50	-12.80
In months of import cover	3.60	3.80	3.50	3.40	3.80	3.50
<b>Exchange Rates</b>						
US\$	13.85	13.57	13.20	12.93	13.53	13.29
EURO	17.32	14.42	14.06	15.96	14.48	14.67
GBP	14.62	16.73	16.50	14.52	17.06	17.16
<b>Public Finance</b>						
Total public external debt [E' million]	4,760.00	4,711.60	4,730.00	4,580.00	4,640.00	5,140.00
As a % of GDP	8.50	8.60	8.30	8.30	7.90	8.80
Total public domestic debt [E' million]	5,450.00	5,649.90	5,850.00	5,850.00	6,050.00	6,044.00
As a % of GDP	10.11	9.67	10.02	10.40	10.36	10.35
Total public debt [E' million]	10,100.00	10,361.60	10,400.00	10,450.00	10,690.00	11,184.00
As a % of GDP	18.40	18.90	19.00	17.80	18.30	19.20



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