

Recent Economic Developments

APRIL/MAY 2021



CENTRAL BANK OF ESWATINI
Umntsholi Wemaswati



MAJOR HIGHLIGHTS

<ul style="list-style-type: none"> Annual consumer inflation eased to 3.7 per cent in April 2021 from 4.2 per cent in March 2021. 	Inflation rate (% y/y)	3.7 (Apr) ▼
<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 the month of May 2021, the Lilangeni/Rand strengthened against the major trading currencies. The local unit strengthened by 2.4 per cent against the US Dollar compared to an average of 14.42 recorded in April 2021. 	Exchange rate (US\$)	14.07 (May) ▲
<ul style="list-style-type: none"> Credit extended to the private sector amounted to E15.3 billion at the end of April 2021, a 0.1 per cent increase over the month. 	Private Sector Credit (% m/m)	0.1 (Apr) ▲
<ul style="list-style-type: none"> Broad money supply (M2) settled at E21.0 billion at the end of April 2021 reflecting a contraction of 0.7 per cent month-on-month. 	Broad Money (M2) (% m/m)	0.7 (Apr) ▼
<ul style="list-style-type: none"> Gross official reserves contracted by 24.4 per cent month-on-month to reach E7.1 billion at the end of May 2021. 	Reserves (months of import cover)	3.1 (May) ▼
<ul style="list-style-type: none"> As at the end of May 2021 outstanding public domestic debt was recorded at E15.8 billion increasing from 14.9 billion observed at the end of April 2021 an equivalent of 22.2 per cent of GDP. 	Total Domestic Debt (% of GDP)	22.2 (May) ▲
<ul style="list-style-type: none"> In May 2021, Eswatini recorded a merchandise trade deficit of E147.6 million, a narrower deficit compared to the deficit of E212.0 million registered in April 2021. 	Trade Balance (% of GDP)	0.1 (May) ▼

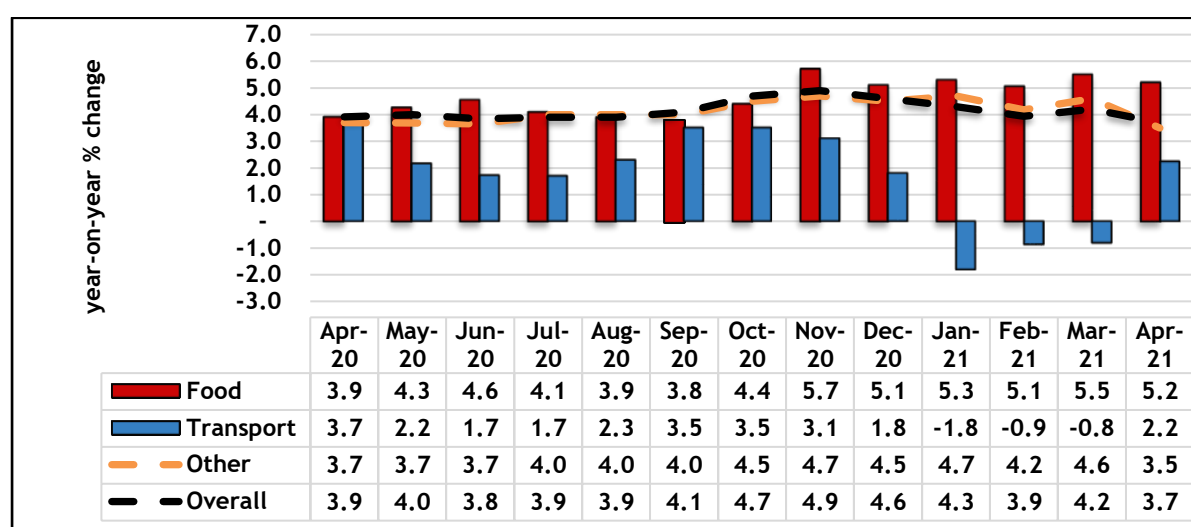
NB: The table shows the most recent available data.

1 PRICE DEVELOPMENTS

Annual consumer inflation eased to 3.7 per cent in April 2021 from 4.2 per cent in March 2021. The deceleration in consumer prices largely benefitted from slower growth in prices for house rentals attributed to COVID-19-induced weak demand in the economy, which has limited the scope of hiking rental fees. In addition, food inflation declined slightly to 5.2 per cent in April 2021 from 5.5 per cent in the previous month, largely due to a slower increase in prices of cereal & 'bakery products', 'fish & sea foods' and 'fruits'. Furthermore, there was a slowdown in prices for 'furnishings & household equipment' and 'recreation & culture', which declined by 0.5 and 0.8 of a percentage point, respectively.

On the contrary, inflationary pressures were observed in prices for 'transportation' and 'utilities'. Transport inflation rose by 2.2 per cent in April 2021, picking up from a 0.8 per cent deflation recorded in the previous month. The increase resulted from the E1.00/litre upward adjustment in petrol prices effected in April 2021 as international oil prices accelerated notably. The cost of utilities increased notably following the implementation of a 3 and 13.7 per cent hike in electricity and water tariffs, respectively. Inflationary pressures were also observed in the price indices for 'alcoholic beverages & tobacco' and 'clothing and footwear'; the index for 'alcoholic beverages & tobacco' rose to 8.2 per cent in April 2021 from 5.3 per cent in the previous month, reflecting the impact of supply disruptions associated with COVID-19 related lockdown measures on the production and selling of alcohol regionally and locally. The index for 'clothing and footwear' grew by 6.7 per cent from 5.8 per cent, between the two months under review.

Figure 1: Inflation Trends: April 2020 to April 2021



Source: Central Statistical Office and Central Bank of Eswatini

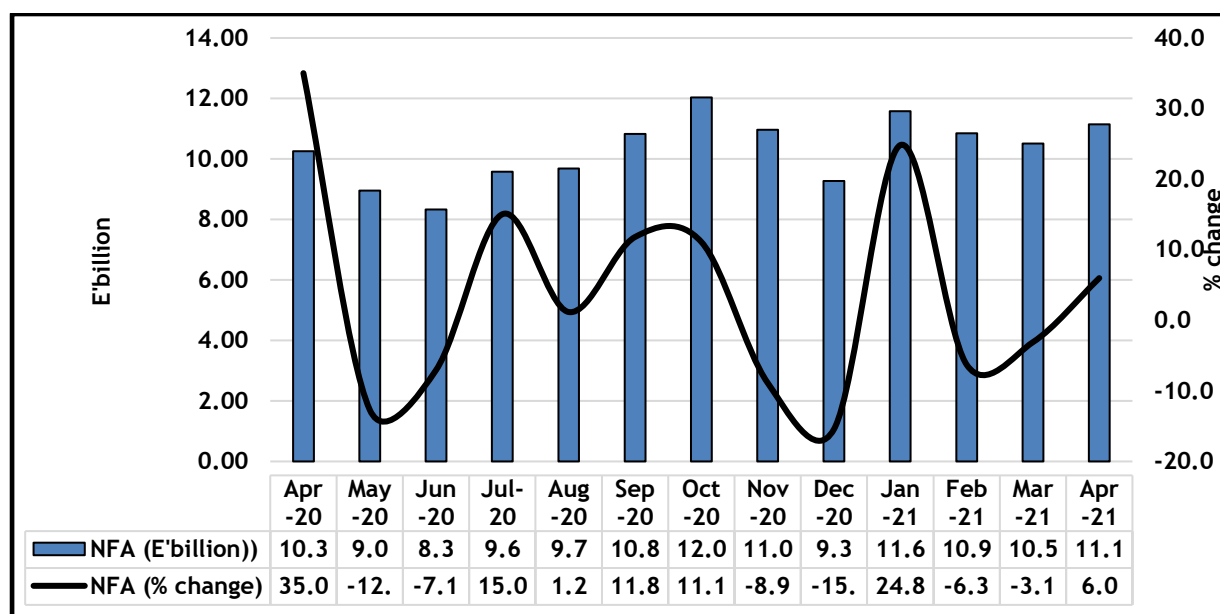
On month-on-month basis, consumer prices increased by 0.6 per cent in April 2021 same as in the previous month. Increases were noted in the price indices for ‘alcoholic beverages and tobacco’, ‘transport’ and ‘housing and utilities’, which grew by 3.4, 1.0 and 1.9 percentage points, respectively, during the period under review. These increases were counteracted by decreasing rates of growth in the price indices for ‘food and non-alcoholic beverages’, recreation and culture’ and ‘household furniture and maintenance’.

Core inflation, which is CPI excluding volatile items such as food, fuel and energy, remained on a gradual downward trajectory, declining to 2.4 per cent in April 2021 from 3.3 per cent in March 2021. The decrease reflected that demand pressures remain muted as prices for services slowed to 0.4 per cent in the month under review compared to 2.6 per cent in the previous month. In April 2021, core inflation grew by 0.5 per cent from the previous month.

2 MONEY SUPPLY AND BANKING DEVELOPMENTS

The country’s net foreign assets increased by 6.0 per cent month-on-month and 8.6 per cent year-on-year to settle at E11.1 billion at the end of April 2021. The month-on-month growth was attributed to a rise in net foreign holdings of both the official sector and other depository corporations over the review period. Net foreign assets of other depository corporations improved by 18.5 per cent compared to the previous month and 22.6 per cent over the year to close at E3.1 billion at the end of April 2021. The month-on-month growth was due to a notable rise in other depository corporations’ deposits placed within the Common Monetary Area.

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



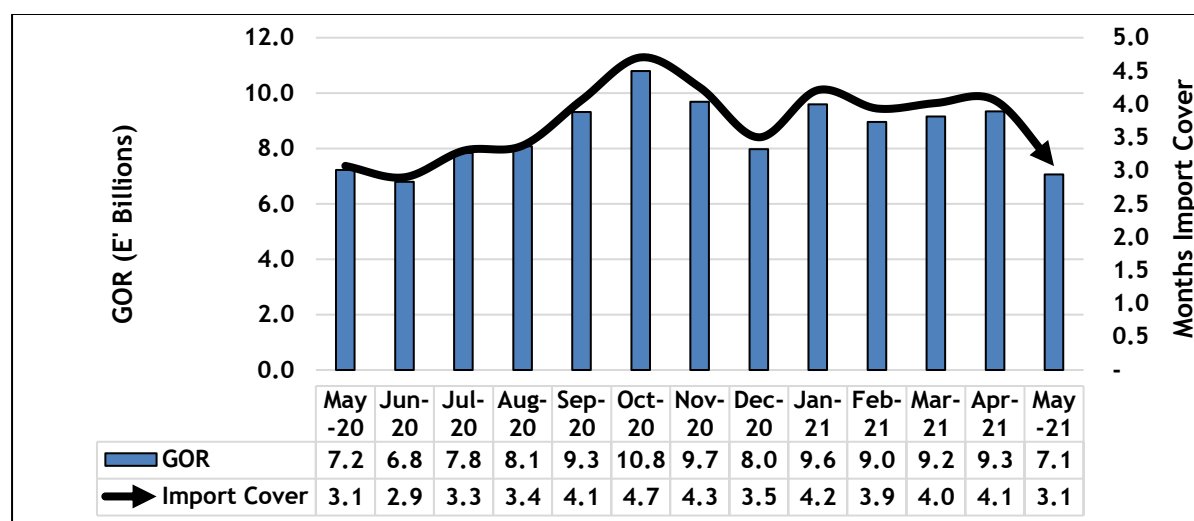
Source: Other Depository Corporations and Central Bank of Eswatini

RED - April/May 2021

Net official assets reached E8.0 billion at the end of April 2021, up by 1.8 per cent over the month and 4.0 per cent annually. The increase was mainly on account of the quarterly inflow of Southern African Customs Union (SACU) revenues at the beginning of April 2021. In special drawing rights (SDR), net foreign assets were valued at SDR535.9 million at the end of April 2021, equivalent to an increase of 6.6 per cent month-on-month and 30.3 per cent year-on-year.

Gross official reserves contracted by 24.4 per cent month-on-month and 2.8 per cent year-on-year to reach E7.1 billion at the end of May 2021. At this level, the reserves were enough to cover 3.1 months, lower than the 4.1 months registered the previous month. The decline in reserves was largely explained by a net outflow from foreign exchange trades with commercial banks over the month under review. Valued in special drawing rights (SDRs), the reserves stood at SDR356.2 million at the end of May 2021, depicting a month-on-month decrease of 20.8 per cent and growth of 17.5 per cent year-on-year.

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



Source: Central Bank of Eswatini

Credit extended to the private sector amounted to E15.3 billion at the end of April 2021, higher by 0.1 per cent over the month and 9.8 per cent over the year. The month-on-month expansion in private sector credit was reflected in credit to businesses whilst credit to other sectors and households & non-profit institutions serving households (NPISH) declined over the review month.

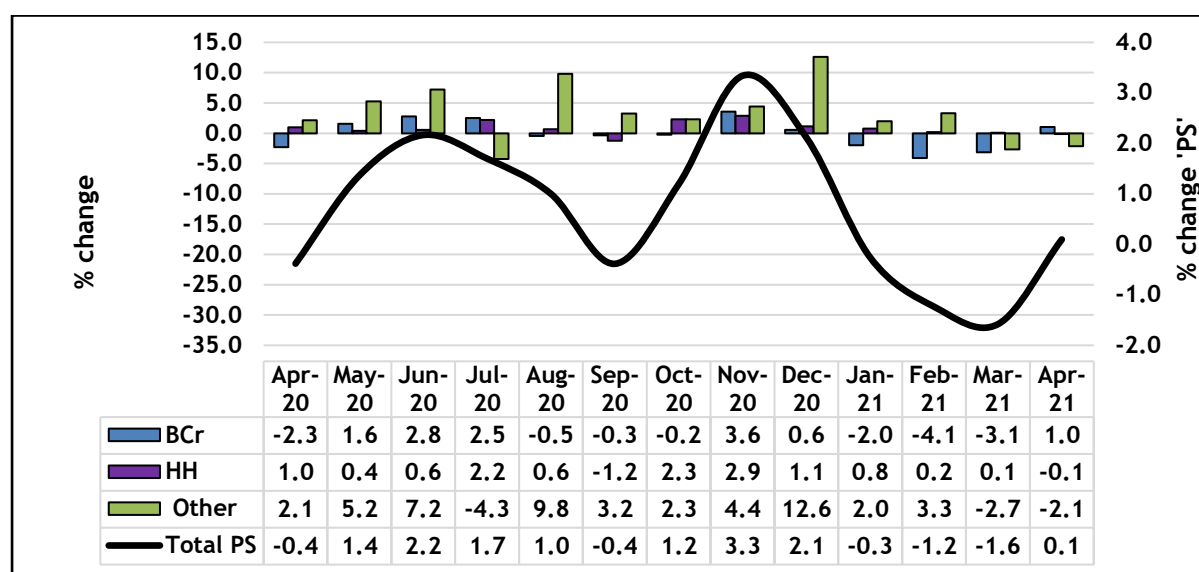
Credit extended to businesses grew by 1.0 per cent month-on-month and 1.5 per cent year-on-year to settle at E6.2 billion at the end of April 2021. Accounting for the increase in credit to businesses were the following subsectors; real estate (7.7 per cent), manufacturing (6.7 per cent), mining & quarrying (0.7 per cent) and transport & communication (0.4 per

RED - April/May 2021

cent). Partly offsetting the increase were the following subsectors; construction (-9.5 per cent), agriculture & forestry (-6.7 per cent), distribution & tourism (-1.5 per cent) and community, social & personal services (-1.5 per cent).

Credit extended to other sectors recorded a decline of 2.1 per cent over the month but grew by 47.8 per cent over the year to reach E1.9 billion at the end of April 2021. Explaining the month-on-month fall was credit to other financial corporations and local government falling by 7.8 per cent and 3.4 per cent, respectively. On the other hand, credit to public non-financial corporations improved by 15.9 per cent over the review month.

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



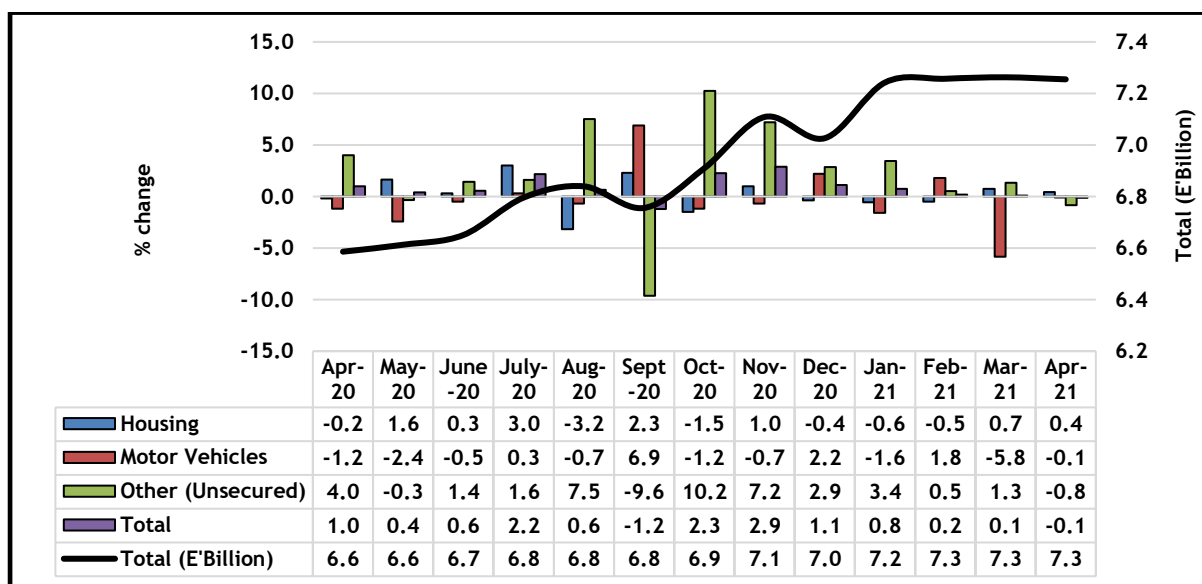
Source: Central Bank of Eswatini

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

Credit extended to households & NPISH stood at E7.3 billion at the end of April 2021, reflecting a month-on-month fall of 0.1 per cent but grew by 10.2 per cent year-on-year. The month-on-month decline was observed in other personal (unsecured) loans and motor vehicle finance whilst mortgage finance grew over the review month. Other personal (unsecured) loans fell by 0.8 per cent to E2.7 billion and motor vehicle finance by 0.1 per cent to E924.1 million at the end of April 2021. Mortgage finance on the contrary, improved by 0.4 per cent to E3.6 billion over the review period. Net claims on government by the banking sector declined to E55.1 million at the end of April 2021 from E1.1 billion the previous month and E723.4 million in April 2020. This was a result of a fall of 13.6 per cent in claims on government alongside a 1.8 per cent increase in government deposits.

RED - April/May 2021

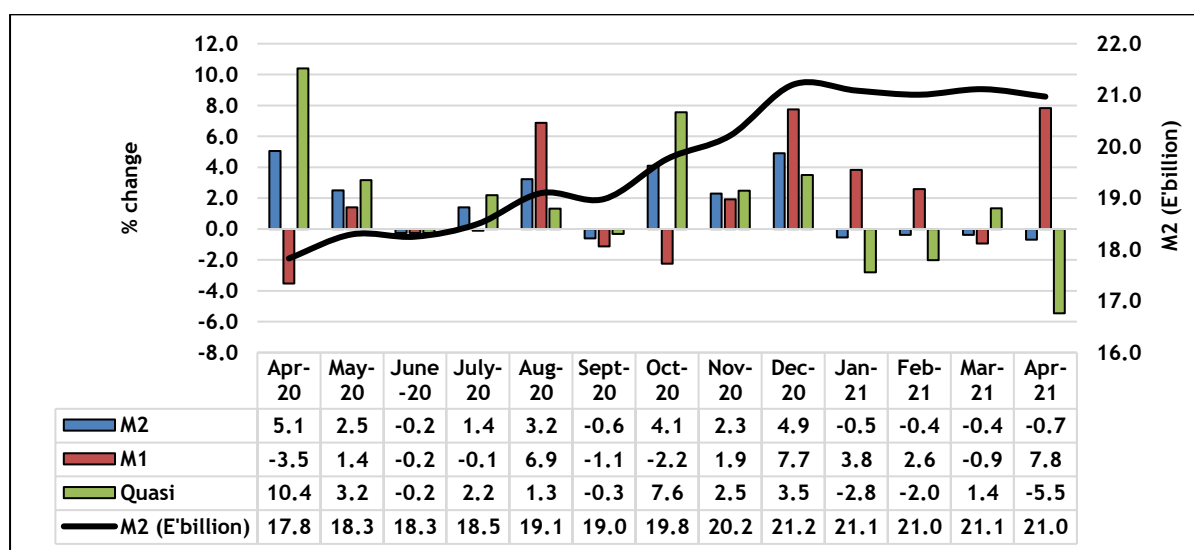
Figure 5: Household Credit Monthly Changes: April 2020 to April 2021



Source: Central Bank of Eswatini and Other Depository Institutions

Broad money supply (M2) settled at E21.0 billion at the end of April 2021 reflecting a contraction of 0.7 per cent month-on-month but growth of 17.5 per cent year-on-year. The month-on-month fall in broad money supply was evident in quasi money supply whilst narrow money supply (M1) grew over the review period. Quasi money supply recorded a decrease of 5.5 per cent month-on-month and growth of 10.6 per cent over the year to settle at E12.8 billion at the end of April 2021, on account of both time deposits and savings deposits. Time deposits declined by 6.2 per cent month-on-month to E10.9 billion and savings deposits by 0.8 per cent over the month to E1.9 billion at the end of April 2021.

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

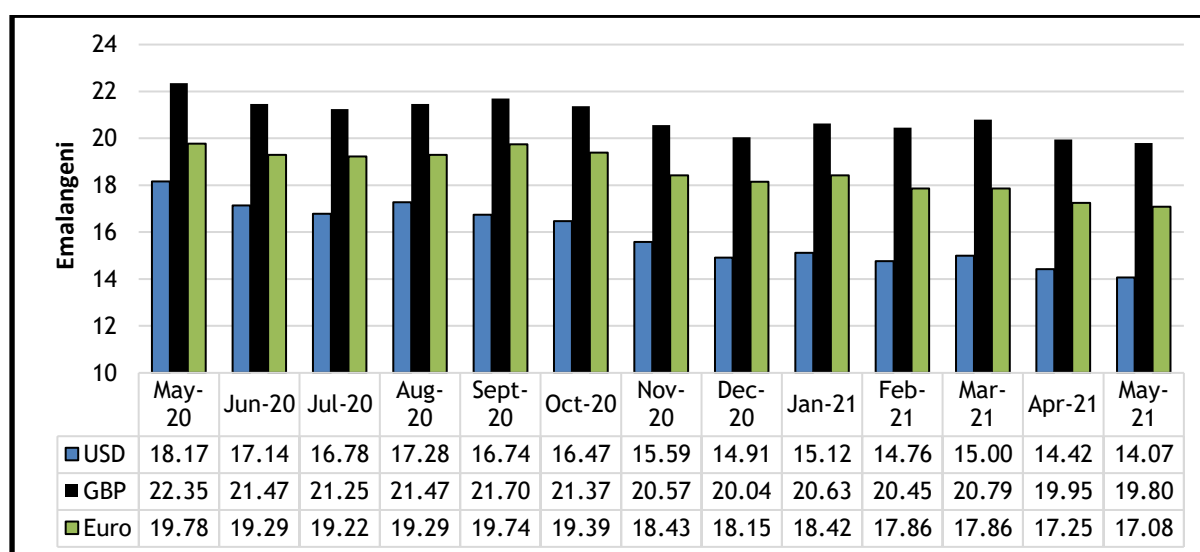


Source: Other Depository Institutions and Central Bank of Eswatini

During the month of May 2021, the Rand/Lilangeni extended its strength against the major trading currencies. In the month, the Rand along with the Lilangeni was unfazed by the rising Covid-19 infections in South Africa (SA) and continued to recover along the pre-COVID-19 levels breaking through to below the E14-mark per US Dollar (a rate last seen in February 2019). The local unit was generally buoyed by US's prolonged accommodative monetary policy stance vis-à-vis South Africa's. Compared to the previous month, the domestic currency was stronger by 2.5 per cent against the US Dollar; closing the month of May 2021 at an average of E14.07 to the US Dollar. The Rand/Lilangeni appreciation was mainly supported by the improved investor sentiments towards emerging markets currencies as investors continued to favour higher yielding riskier emerging market assets.

These sentiments, though rent-seeking, were precipitated by rising global commodity prices which have provided significant support to South Africa's mining sector and precious metal's exports, amid soft U.S treasury yields which, prompted the Rand to climb higher. The Rand also benefited from positive sentiments that arose from Moody's decision to keep South Africa's sovereign credit rating unchanged at Ba2 negative, allowing SA to repair its fiscus. Further, the lower than anticipated U.S employment data released, which reduced prospects of interest rates increases by the U.S monetary authorities. When compared to the Pound Sterling the local unit strengthened by 0.7 per cent and by 1.0 per cent against the Euro over the period. At the end of May 2021, the local unit stood at E13.76 to the US Dollar, E19.52 to the Pound Sterling and E16.78 to the Euro.

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

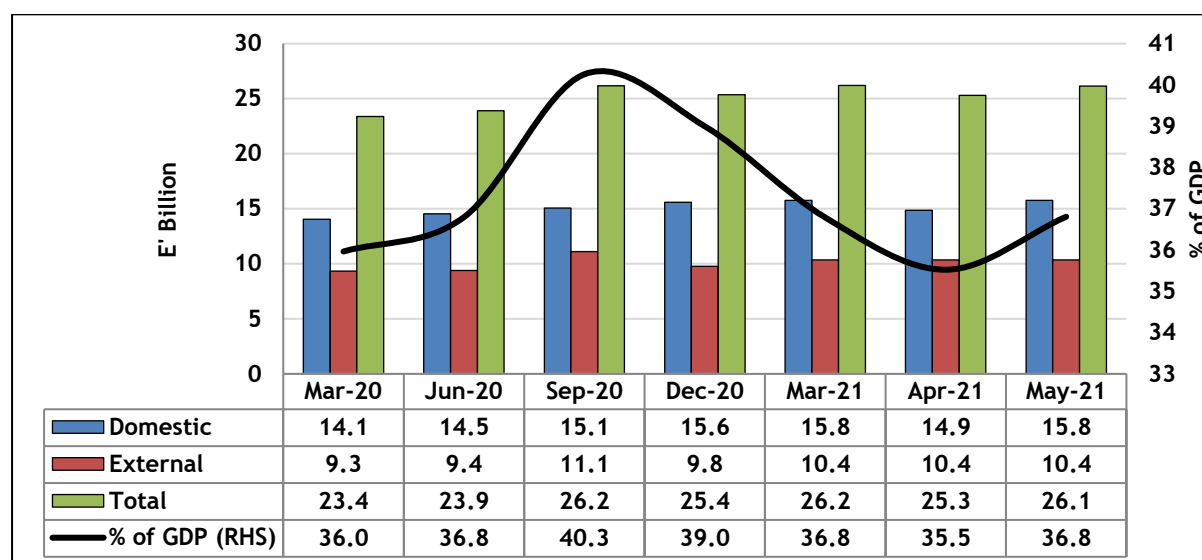


Source: Central Bank of Eswatini

3 TOTAL PUBLIC DEBT

Preliminary figures as at end May 2021, show that total public debt stood at E26.1 billion translating to 36.8 per cent of GDP. This shows an increase of 3.2 per cent from E25.3 billion recorded in April 2021. The increase in total public debt is due to an increase in domestic debt. Preliminary figures for external debt show that public external debt stood at E10.4 billion, an equivalent of 14.6 per cent of GDP. This shows that public external debt still remains constant in the period under review.

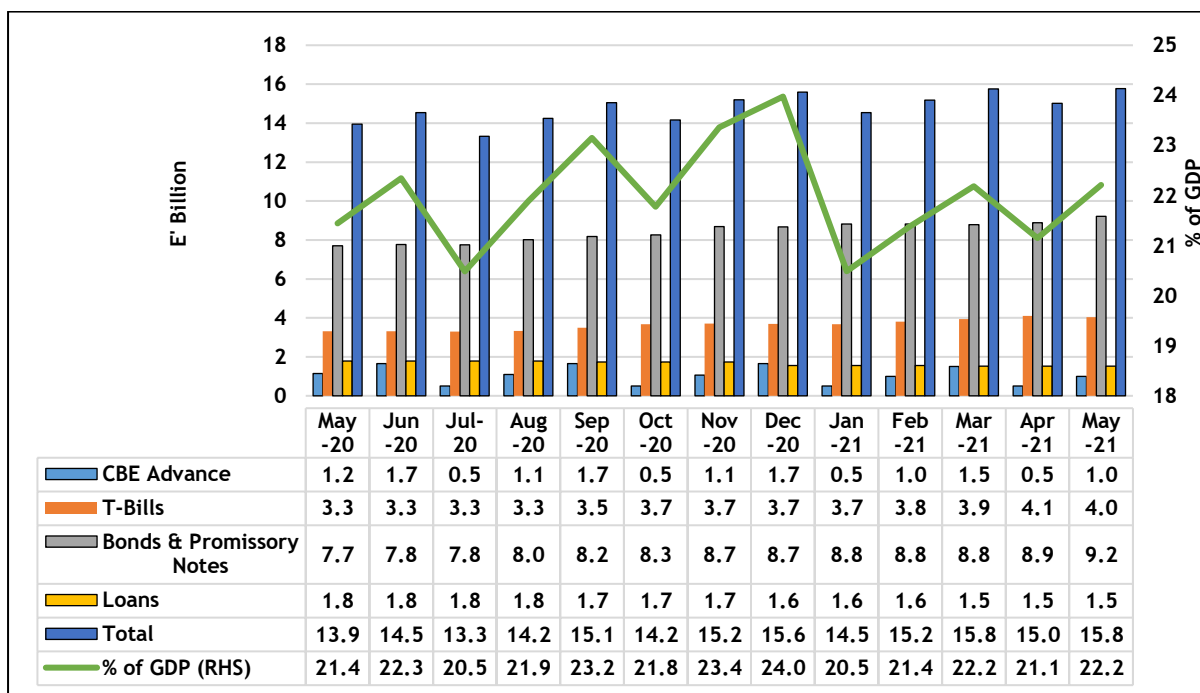
Figure 8: Total Public Debt: March 2020 to May 2021



Source: Ministry of Finance and Central Bank of Eswatini

Outstanding public domestic debt was recorded at E15.8 billion at the end of May, an equivalent of 22.2 per cent of GDP. When compared to E14.9 billion recorded in April 2021, public domestic debt increased by 6.0 per cent in the month under review. The increase is due to an additional advance taken up by government as well as bonds issuance. Government accessed an additional E500 million from the CBE Advance window, bringing the total advance amount to E1.0 billion as at end May 2021.

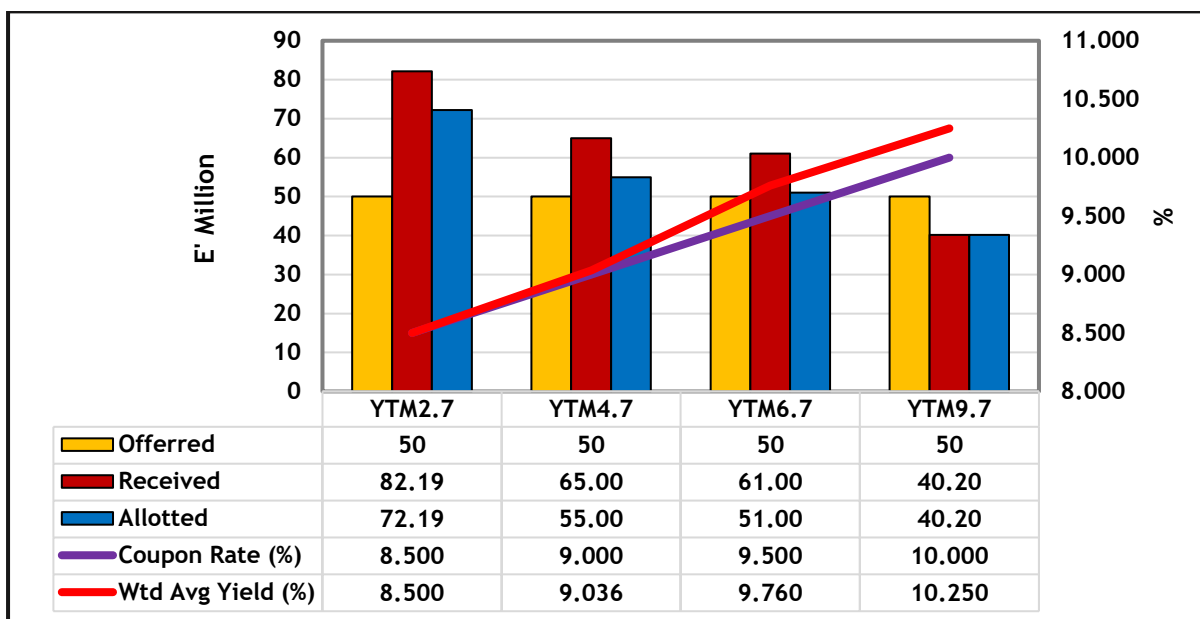
Figure 9: Total Domestic Debt: May 2020 to May 2021



Source: Ministry of Finance and Central Bank of Eswatini

During the month of May 2021, the CBE, on behalf of Government issued multiple bonds of various tenors (3, 5, 7 & 10 years) totaling E200 million. A total of E248.4 million was received in bids and a total of E218.4 million was allotted, giving an allotment rate of 109.2 per cent. This was the first bond auction for 2021/22 financial year. A summary of the bond auction is presented below:

Figure 10: Multiple Bond Auction Summary



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 31 May 2021
(E' Million)

Holder	Treasury Bills	Government Bonds	Promissory Notes	CBE Advance	Total	Share of Holdings (%)
CBE	3.1	1,293.9	0	1,000.0	2,297.0	16.1
Commercial banks	2,647.2	1,732.1	0	0	4,379.3	30.6
NBFIs	1,285.6	5,303.7	0	0	6,589.3	46.1
Other	97.1	813.0	116.0	0	1,026.1	7.2
	4,033.0	9,142.7	116.0	1,000.0	14,291.7	100

Source: Central Bank of Eswatini

4 THE EXTERNAL SECTOR

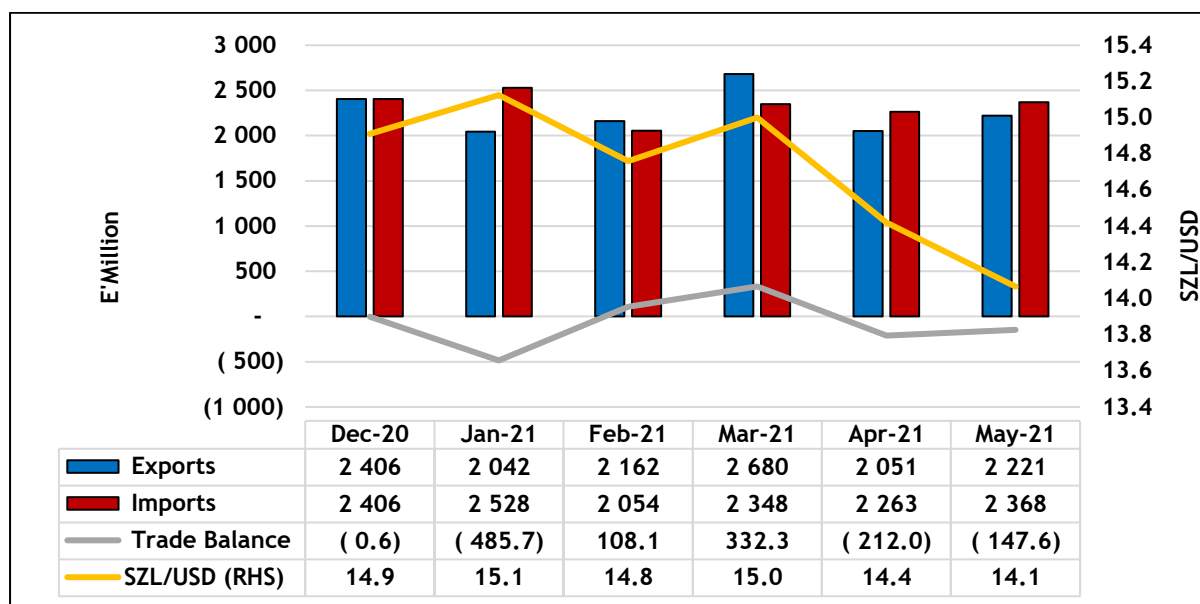
In the month of May 2021, Eswatini recorded a merchandise trade deficit of E147.6 million, a narrower deficit compared to the deficit of E212.0 million registered in the month of April 2021. Export receipts for the month amounted to E2.221 billion, up from the previous month by 8.3 per cent. Invoices for imports totalled E2.368 billion in the review month, recording an increase of 4.7 per cent month-on-month.

Year-to-date trade figures indicate that exports as at May 2021, which amounted to E11.156 billion, were 14.6 per cent higher when compared to exports in the five months to May 2020. Imports during the five months to May 2021 totalled E11.561 billion, 31.8 per cent higher than imports for the months January to May 2020. The trade balance for the cumulative trade figures as at May 2021 was a deficit of E404.8 million.

An analysis of leading export commodities indicates that exports of 'Soft Drink Concentrates' increased by 10.1 per cent month-on-month and 82.9 per cent year-on-year in May 2021. 'Sugar and Sugar Products' exports which amounted to E422.3 million in May, increased by 5.2 per cent monthly and declined by 15.5 per cent annually. Exports of 'Wood and Wood Articles' were valued at E193.5 million, having increased by 14.9 per cent in May when compared to April, whereas the exports increased by 54.9 per cent on an annual basis. Receipts from exports of 'Textile and Textile Apparel' totalled E264.6 million in May,

declining by 5.5 per cent month-on-month, although increasing by 69.6 per cent on a year-on-year basis, synonymous with the Covid-19 pandemic recovery.

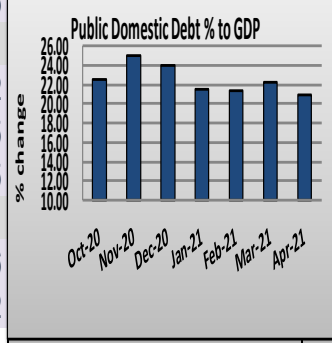
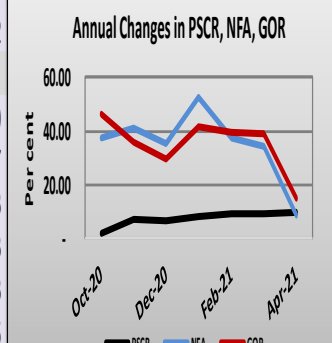
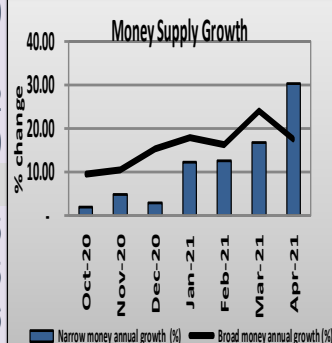
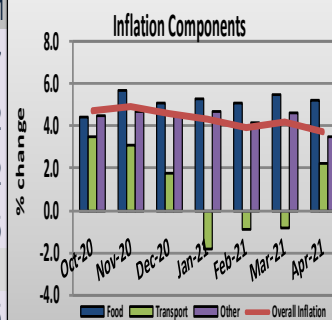
Figure 11: Merchandise Trade Account; December 2020 to May 2021



Source: Central Bank of Eswatini

A review of leading imports for the month, shows that 'Energy Products' imports amounted to E348.1 million, reflecting an 8.6 per cent month-on-month increase against a year-on-year increase of 45.7 per cent. Imports of 'Textile and Textile Apparel' were valued at E241.6 million in the month of May, an increase of 13.0 per cent when compared to April 2021, against an increase of 25.9 per cent when compared to May 2020. Invoices from 'Machinery and Electrical Equipment' amounted to E296.0 million, 14.5 per cent higher month-on-month and up by 55.9 per cent, year-on-year. Imports of 'Vehicles' which amounted to E156.9 million, remained flat month-on-month but increased by 184.4 per cent year-on-year. The overall year-on-year figures show significant growth as trade was subdued during the same period last year and has since recovered as Covid-19 protocols have been eased.

Economic Policy, Research and Statistics Department							
Kingdom of Eswatini Economic Indicators at a glance							
Sectors	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21
Overall Inflation	4.7	4.9	4.6	4.3	3.9	4.2	3.7
Food	4.4	5.7	5.1	5.3	5.1	5.5	5.2
Transport	3.5	3.1	1.8	-1.8	-0.9	-0.8	2.2
Other	4.5	4.7	4.5	4.7	4.2	4.6	3.5
Money and banking							
Narrow money annual growth (%)	2.03	4.90	2.78	12.24	12.50	16.60	30.35
Broad money annual growth (%)	9.40	10.30	15.45	17.80	16.20	24.10	17.54
Domestic credit (net) - E' Million	13,829.56	14,936.97	17,038.60	15,228.88	15,965.91	16,418.88	15,276.60
Government	-1,142.30	-534.86	1,239.66	-528.71	402.99	1,102.06	-55.11
Private sector	14,971.86	15,471.83	15,798.95	15,757.59	15,562.92	15,316.83	15,331.72
Private sector credit annual growth (%)	1.80	7.10	6.67	7.89	9.30	9.30	9.80
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	4.84	4.81	4.76	4.90	4.89	4.71	4.92
Ratios							
Liquidity ratio (required = 20 %)	39.22	38.87	40.20	38.15	38.58	43.06	41.59
Loans/deposits ratio	67.52	67.56	63.79	64.52	63.35	62.09	61.67
Net foreign assets (E'million)	12,035.15	10,968.02	9,275.42	11,577.97	10,850.55	10,514.36	11,142.33
Annual % change in NFA	37.47	41.05	35.32	52.89	37.46	34.10	8.63
Gross official foreign reserves E'Millions	10,797.81	9,689.79	7,976.03	9,670.35	9,006.03	9,198.35	9,345.03
Annual % change in GOR	46.26	35.64	29.80	41.87	39.32	39.26	14.95
In months of import cover	4.70	4.25	3.50	4.25	3.95	3.99	4.06
Exchange Rates							
US\$	16.47	15.59	14.91	15.12	14.76	15.00	14.42
EURO	19.39	18.43	18.15	18.42	17.86	17.86	17.25
GBP	21.37	20.57	20.04	20.63	20.45	20.79	19.95
Public Finance							
Total public domestic debt [E' million]	14,177.17	15,195.10	15,595.03	14,547.32	15,186.73	15,755.10	14,856.86
As a % of GDP	22.48	24.99	23.98	21.49	21.39	22.19	20.92



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