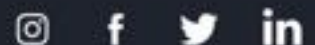


# Recent Economic Developments

JUNE/JULY 2021



CENTRAL BANK  
OF ESWATINI  
Umntsholi Wemaswati



## MAJOR HIGHLIGHTS

<ul style="list-style-type: none"> <li>Quarterly Gross Domestic Product (QGDP) rose by 9.0 per cent on a year-on-year basis (seasonally adjusted) in the first quarter of 2021.</li> </ul>	QGDP (% y/y)	9.0 (Mar) ▲
<ul style="list-style-type: none"> <li>The country's annual consumer inflation rose to 3.9 per cent in June 2021 from 3.6 per cent in May 2021.</li> </ul>	Inflation rate (% y/y)	3.9 (June) ▲
<ul style="list-style-type: none"> <li>Discount and prime lending rates were left unchanged in July 2021.</li> </ul>	Prime Lending (%)	7.25 —
	Discount rate (%)	3.75 —
<ul style="list-style-type: none"> <li>In July 2021, the Rand/Lilangeni weakened against the major trading currencies; depreciated by 4.5 per cent against the US Dollar.</li> </ul>	Exchange rate (US\$)	14.53 (July) ▼
<ul style="list-style-type: none"> <li>Credit extended to the private sector increased by 1.4 per cent month-on-month to close the month of June 2021 at E15.9 billion</li> </ul>	Private Sector Credit (% m/m)	1.4 (June) ▲
<ul style="list-style-type: none"> <li>Broad money supply (M2) closed the month of June 2021 at E21.9 billion from E20.3 billion the previous month</li> </ul>	Broad Money (M2) (% m/m)	7.8 (June) ▲
<ul style="list-style-type: none"> <li>Gross official reserves stood at E8.0 billion at the end of July 2021, reflecting a contraction of 3.9 per cent from June 2021</li> </ul>	Reserves (months of import cover)	3.4 (July) ▼
<ul style="list-style-type: none"> <li>As at the end of July 2021, outstanding public domestic debt stood at E14.9 billion an equivalent of 21.0 per cent of GDP</li> </ul>	Total Domestic Debt (% of GDP)	21.0 (July) ▼
<ul style="list-style-type: none"> <li>In the month of July, the merchandise trade account recorded a trade surplus of E305.1 million</li> </ul>	Trade Balance (% of GDP)	0.43 (July) ▲

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

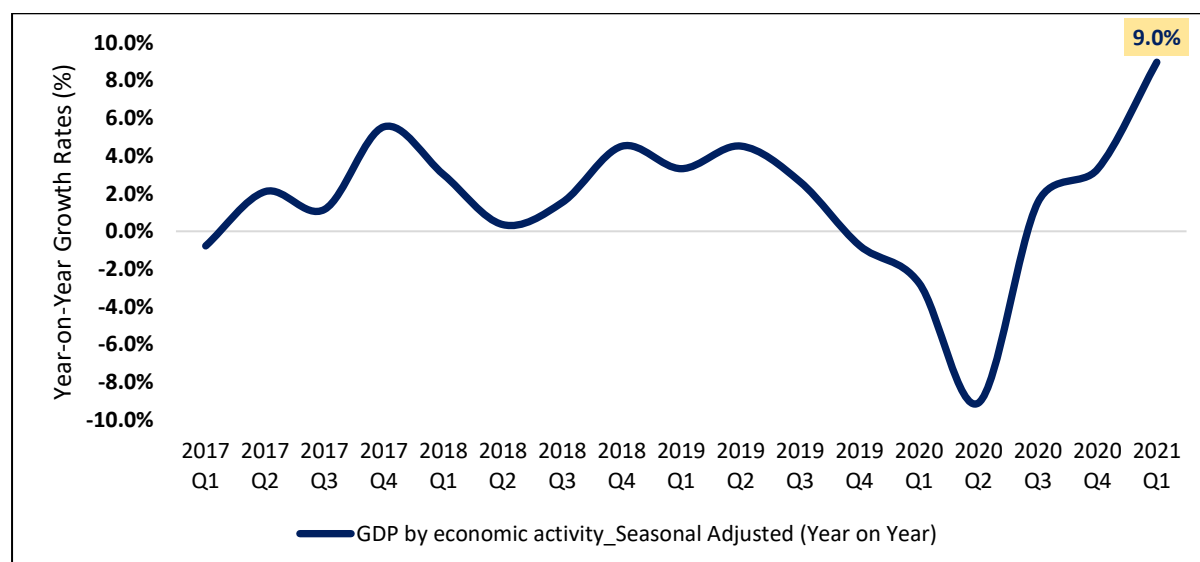


## 1 GDP DEVELOPMENTS

Economic activity as measured by the Gross Domestic Product (GDP) is estimated to have increased by 9.0 per cent, on a year-on-year and seasonally adjusted basis, in the first quarter of 2021 rising from 3.3 per cent recorded in the previous quarter. The significant growth observed in the quarter under review is largely attributed to strong performance in the secondary sector. On a quarter-on-quarter basis, GDP grew by 3.8 per cent in the quarter under review compared to 0.8 per cent in the previous quarter.

The secondary sector rebounded from -0.6 per cent in the fourth quarter of 2020 to record a 21.0 per cent growth in the first quarter of 2021. The growth largely benefitted from increased economic activity under the manufacturing and construction subsectors. The manufacturing subsector rose by 22.7 per cent year-on-year in the quarter under review compared to 0.7 per cent in the previous quarter. Subsectors that depicted significant improvement within the manufacturing sector included: ‘manufacturing of food and beverages’, ‘manufacturing of wood and wood products’ as well as ‘manufacturing of textile and wearing apparels’. These subsectors, which are export-oriented, benefitted from improved demand from key export destination markets following the easing of lockdown measures in key destination markets in the region.

Figure 1: Quarterly GDP Trends; 2017 Q1 to 2021Q1



Source: Central Statistical Office

The construction sector also, rebounded from a year-on-year decline of 16.6 per cent recorded in the fourth quarter of 2020 to an increase of 6.1 per cent in the quarter under review. Construction activity benefitted from continuous construction of road infrastructure

in the country and improvement in input supplies of construction material. The sector was disrupted significantly during lockdowns which, were associated with the COVID-19 pandemic outbreak. Electricity supply remained strong with a year-on-year growth of 31.6 per cent in the first quarter of 2021, which benefitted from good dam water levels that supported effective hydro-power generation.

The tertiary sector grew by 5.8 per cent on a year-on-year basis, in the first quarter of 2021, from 4.5 per cent in the previous quarter. Developments within this sector were mixed. Positive performance was observed in the 'financial services', 'information and communication' and 'public administration' subsectors. The information and communication subsector, continued to benefit strongly from the increased demand and usage of data and online services, which has become a new normal necessitated by coping measures in the advent of the COVID-19 coronavirus pandemic outbreak. Subsectors that performed poorly within the tertiary sector included: 'Wholesale and retail trade', 'Transport and storage', 'Accommodation and food services activities', 'Professional and technical services' and 'Arts and culture'. Tourism subsectors continued to be negatively affected by travel restrictions, social distancing and other containment measures aimed at limiting the spread of the COVID-19 coronavirus.

The primary sector remained resilient rising from 1.3 per cent in the last quarter of 2020 to 4.3 per cent in the quarter under review. Strong positive performance was observed in the 'forestry' and 'mining and quarrying' subsectors.

## 2 PRICE DEVELOPMENTS

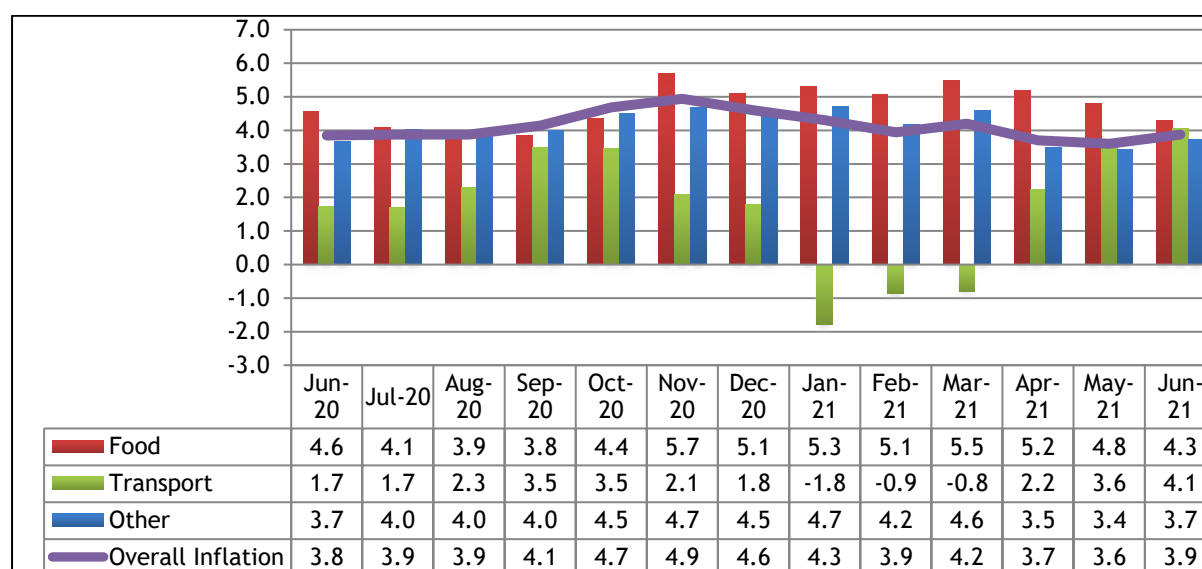
The country's annual consumer inflation rose to 3.9 per cent in June 2021 from 3.6 per cent in May 2021. The uptick in consumer inflation is mainly attributed to moderate increases observed in the price indices for 'housing & utilities', 'transport' and 'household furniture & maintenance'. The index for 'housing & utilities', which accounts for 27.7 per cent of the consumption basket, increased by 0.3 of a percentage point to 4.3 per cent in June 2021. The rise was largely driven by growth in the prices of solid fuels and materials for maintenance and repair of dwellings. Transport inflation remained on an upward trajectory rising to 4.1 per cent in June 2021 from 3.6 per cent in the previous month, on the back of higher fuel prices (on a year-on year basis) as well as a continuous increase in the purchasing prices for vehicles. Fuel prices were 20 per cent higher than the same period the previous year, tracking the strong rebound in international oil prices. Furthermore, the index for 'household furniture & maintenance' rose by 1.1 percentage points, during the period under review.



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The above increases were partially offset by slower growth in the price index for ‘food & non-alcoholic beverages’. Food inflation declined for the third consecutive month, recording 4.3 per cent in June 2021 from 4.8 per cent in May 2021. Slower increases were noted in the prices of ‘cereal products’, ‘poultry’, ‘eggs & egg-based products’ as well as ‘coffee, tea & cocoa’.

**Figure 2: Inflation Trends: June 2020 to June 2021**



Source: Central Statistical Office and Central Bank of Eswatini

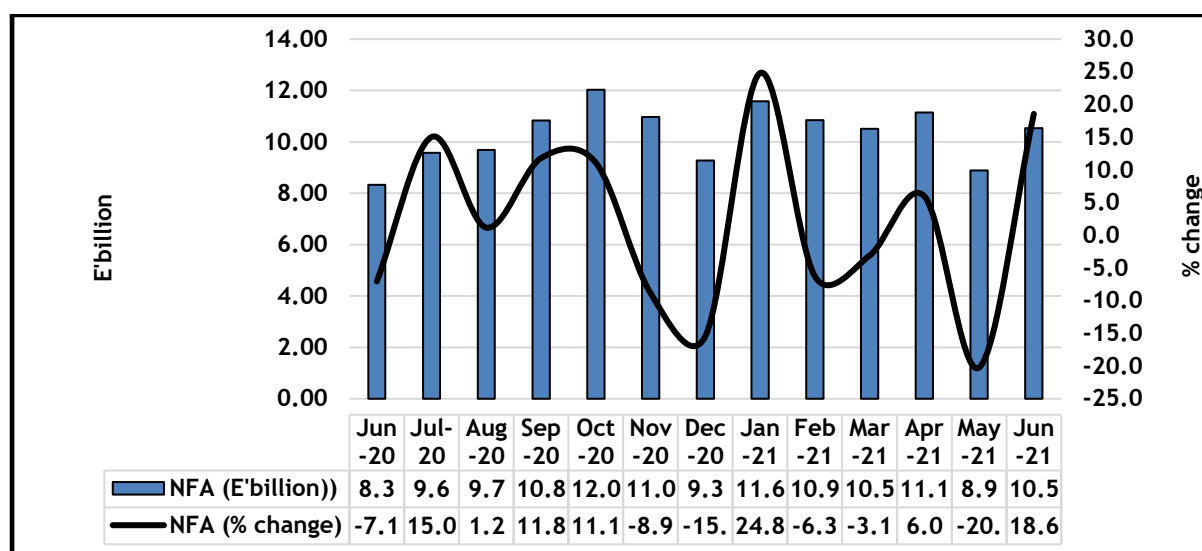
On month-on-month basis, consumer prices slightly rose to 0.2 per cent in June 2021 from the zero-growth recorded in May 2021. Inflationary pressures emanated from the price indices for ‘housing and utilities’ and ‘clothing and footwear’, which increased by 0.4 and 1.4 percentage points, respectively, between the two months under review. These increases were slightly counteracted by slower growth in the price index for ‘miscellaneous goods & services’, which fell to 0.3 per cent in June 2021 from 1.6 per cent in the previous month.

Core inflation, which is CPI excluding volatile items such as food, fuel and energy, further rose to 2.7 per cent in June 2021 from 2.5 per cent in May 2021. This increase resulted from a 0.2 of a percentage point increase in the prices for ‘goods’ to 6.2 per cent during the month under review. On month-on-month basis, core inflation grew by 0.2 per cent in June 2021.

### 3 MONEY SUPPLY AND BANKING DEVELOPMENTS

The country's net foreign assets stood at E10.5 billion at the end of June 2021, reflecting growth of 18.6 per cent month-on-month and 26.6 per cent over the year. Responsible for the expansion were both net foreign assets of the official sector and other depository corporations. Net foreign official assets improved by 20.9 per cent relative to the previous review month and 22.3 per cent year-on-year to settle at E7.0 billion at the end of June 2021. Growth in net foreign official assets was mainly on account of an inflow of 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. Net foreign assets of other depository corporations grew by 14.3 per cent from May 2021 and 35.7 per cent over the year to close at E3.6 billion at the end of June 2021. The increase was on account of other depository corporations' investments in the Common Monetary Area.

Figure 3: Net Foreign Assets Monthly Changes: June 2020 to June 2021



Source: Other Depository Corporations and Central Bank of Eswatini

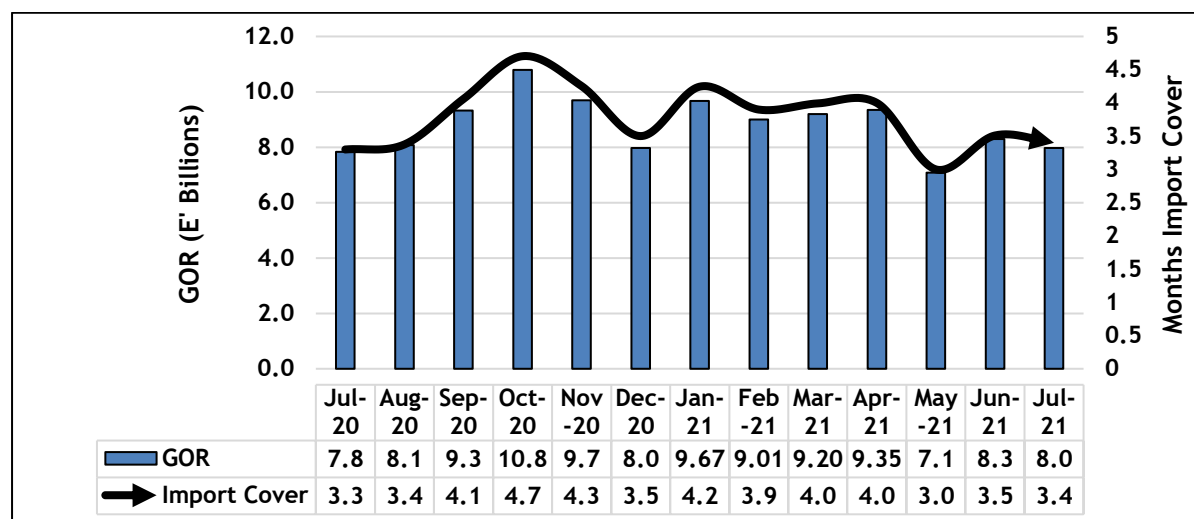
In special drawing rights (SDR), net foreign assets were valued at SDR517.4 million at the end of June 2021, higher by 15.5 per cent from May 2021 and 48.3 per cent compared to June 2020.

Gross official reserves stood at E8.0 billion at the end of July 2021, reflecting a contraction of 3.9 per cent from June 2021 and growth of 1.9 per cent over the year. The reduction in reserves was mainly attributed to payment of government's fiscal obligations as well as foreign currency outflows to commercial banks over the period under review. Consequently, the import cover declined from 3.5 months in June 2021 to 3.4 months at the end of July 2021. When valued in special drawing rights (SDRs), the reserves

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amounted to SDR382.4 million at the end of July 2021, reflecting a month-on-month reduction of 6.2 per cent and growth of 17.4 per cent over the year.

Figure 4: Gross Official Reserves and Import Cover: July 2020 to July 2021

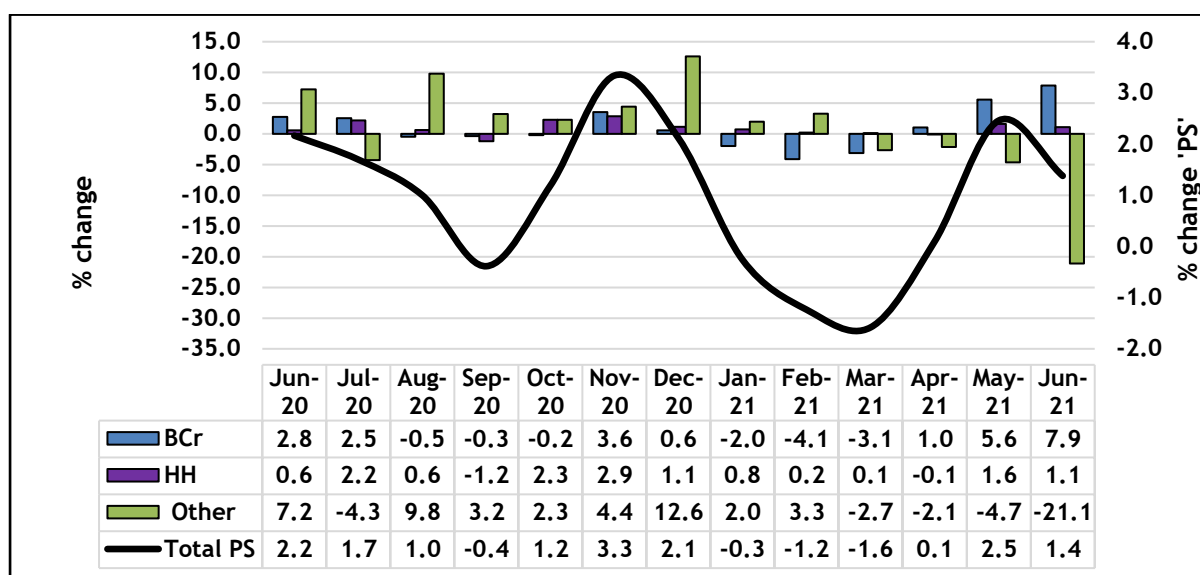


Source: Central Bank of Eswatini

Credit extended to the private sector increased by 1.4 per cent month-on-month and 10.1 per cent year-on-year to close the month of June 2021 at E15.9 billion. The month-on-month growth was attributed to credit to businesses and households & non-profit institutions serving households (NPISH). This development was however, partly dampened by a fall in credit to other sectors of the domestic economy. Credit extended to businesses amounted to E7.1 billion at the end of June 2021, increasing by 7.9 per cent over the review month and 10.8 per cent year-on-year. Growth was observed across all subsectors, largely in the mining & quarrying sector (mainly gold and other minerals), distribution & tourism (mainly wholesale and retail trade) as well as agriculture & forestry (mainly citrus, sugarcane and forestry).

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Figure 5: Private Sector Credit Monthly Changes: June 2020 to June 2021



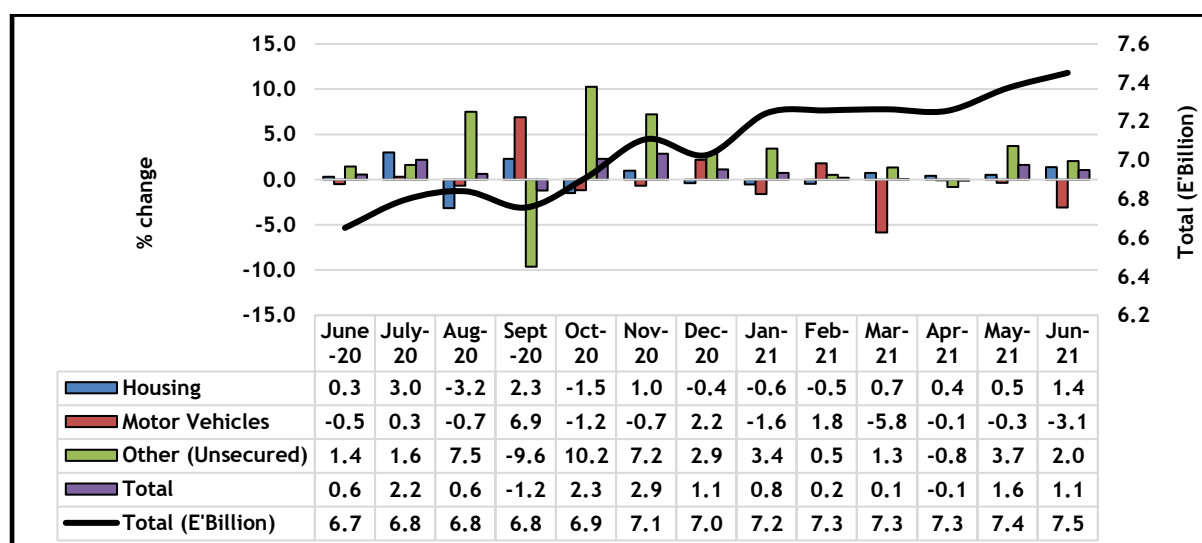
Source: Central Bank of Eswatini

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

Credit extended to households & NPISH stood at E7.5 billion at the end of June 2021, higher by 1.1 per cent over the review month and 12.0 per cent year-on-year. The month-on-month improvement was driven by other personal (unsecured) loans and housing finance whilst motor vehicle finance declined. Other personal (unsecured) loans and housing finance grew by 2.0 per cent to E2.9 billion and 1.4 per cent to E3.7 billion, respectively. Motor vehicle finance on the other hand, fell by 3.1 per cent to E892.5 million at the end of June 2021. Credit extended to other sectors recorded a decline of 21.1 per cent relative to May 2021 and 1.5 per cent compared to June 2020 to close at E1.4 billion at the end of June 2021. The month-on-month contraction was on account of credit to other financial corporations, which fell by 29.5 per cent to E918.1 million over the review month. Credit to local government and parastatals, however, grew by 4.0 per cent to E43.3 million and 1.3 per cent to E449.3 million, respectively.



Figure 6: Household Credit Monthly Changes: June 2020 to June 2021

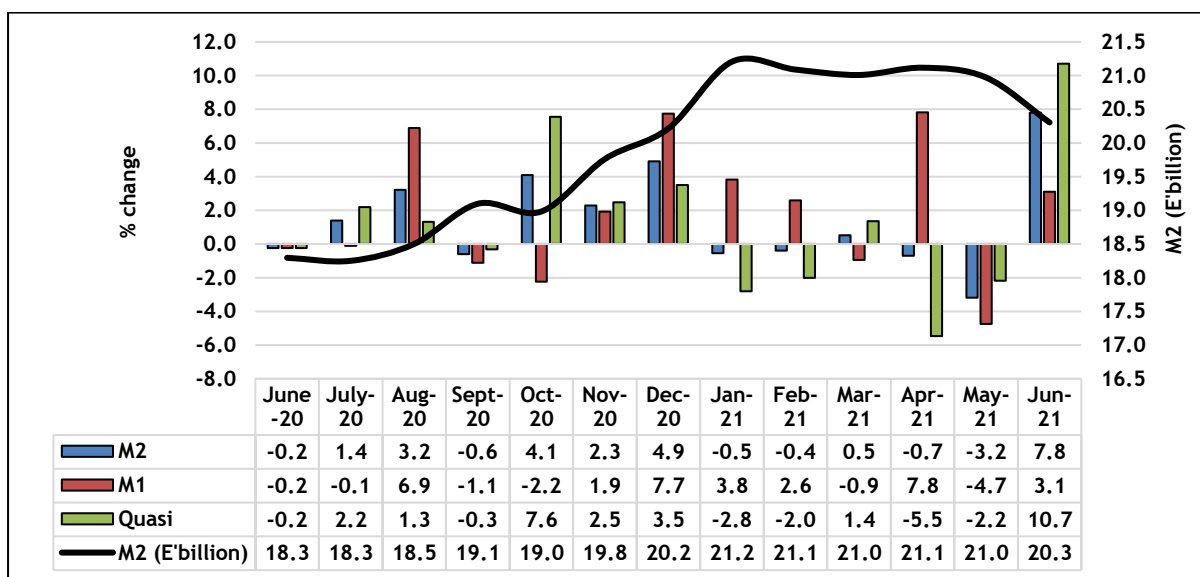


Source: Central Bank of Eswatini and Other Depository Institutions

Net claims on government with the banking industry grew by a notable 60.4 per cent from the previous month and fell by 27.0 per cent from June 2020 to settle at E1.4 billion at the end of June 2021. The month-on-month growth resulted from a 7.2 per cent rise in claims on government alongside a 0.1 per cent drawdown in government deposits.

**Broad money supply (M2) closed the month of June 2021 at E21.9 billion from E20.3 billion the previous month.** At this level, M2 was higher by 7.8 per cent from May 2021 and 19.9 per cent year-on-year. Growth was driven by both components; quasi money and narrow money supply (M1). Quasi money supply improved by 10.7 per cent month-on-month and 16.4 per cent year-on-year to close the review month at E13.9 billion, on account of time deposits. Time deposits rose by 13.0 per cent to E12.0 billion at the end of June 2021. Savings deposits however, fell by 1.8 per cent to E1.9 billion at the end of June 2021. Narrow money supply (M1) amounted to E8.0 billion at the end of June 2021, representing an expansion of 3.1 per cent month-on-month and 26.6 per cent over the year. Growth was observed in both components; Emalangeni outside depository corporations and transferable deposits, which rose by 5.0 per cent to E829.1 million and 2.9 per cent to E7.2 billion at the end of June 2021.

Figure 7: Money Supply Monthly Changes: June 2020 to June 2021

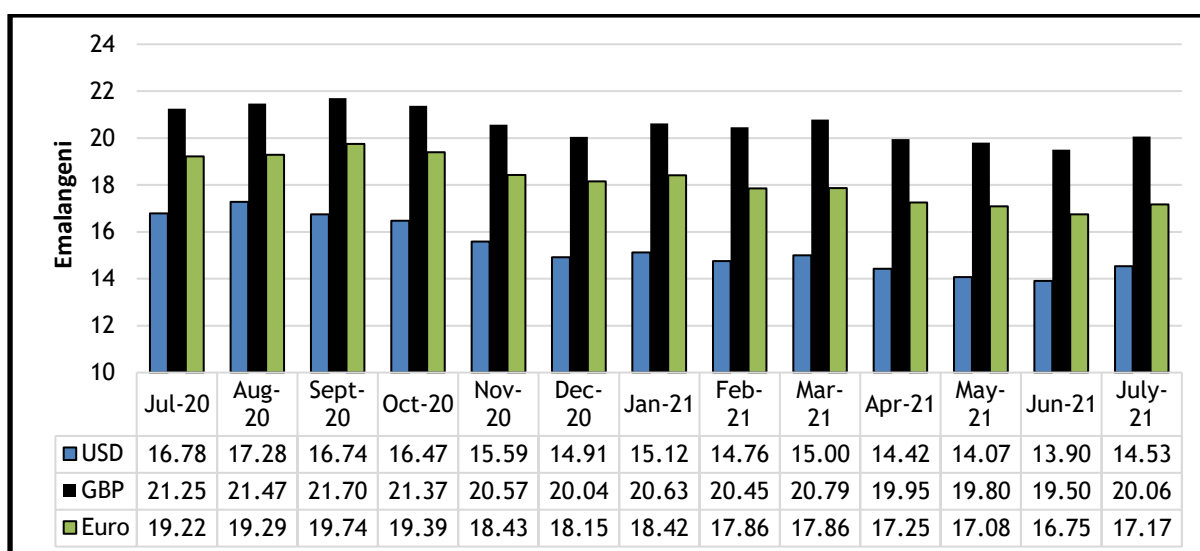


Source: Other Depository Institutions and Central Bank of Eswatini

During the month of July 2021, the Rand/Lilangeni weakened against the major trading currencies. Compared to June 2021, the Lilangeni depreciated by 4.5 per cent to an average of E14.53 against the US Dollar, 2.9 per cent to settle at an average of E20.06 against the Pound Sterling and 2.5 per cent to average E17.17 against the Euro. After appreciating consistently for three months, the Lilangeni weakened in response to political and economic developments. While commodity prices continued to somewhat favour the performance of the Lilangeni, the financial markets sentiments were negatively affected by concerns of the weak economic growth concerns due to enforcement of restrictions in response to the third wave of COVID-19 and the civil unrest that left the currency vulnerable. The Lilangeni losses worsened as the US Dollar advanced against emerging economies currencies on back of US economic recovery and the SA monetary policy decision to leave interest rates unchanged prompting investors to reconsider emerging economy currencies.

The improved vaccination roll-out coupled with the under control civil unrest, all pose as positive factors to the Lilangeni’s appreciation ahead. As at the end of July 2021, the local unit stood at E14.61 to the US Dollar, E20.38 to the Pound Sterling and E17.36 to the Euro.

Figure 8: Average Exchange Rates: July 2020 to July 2021.

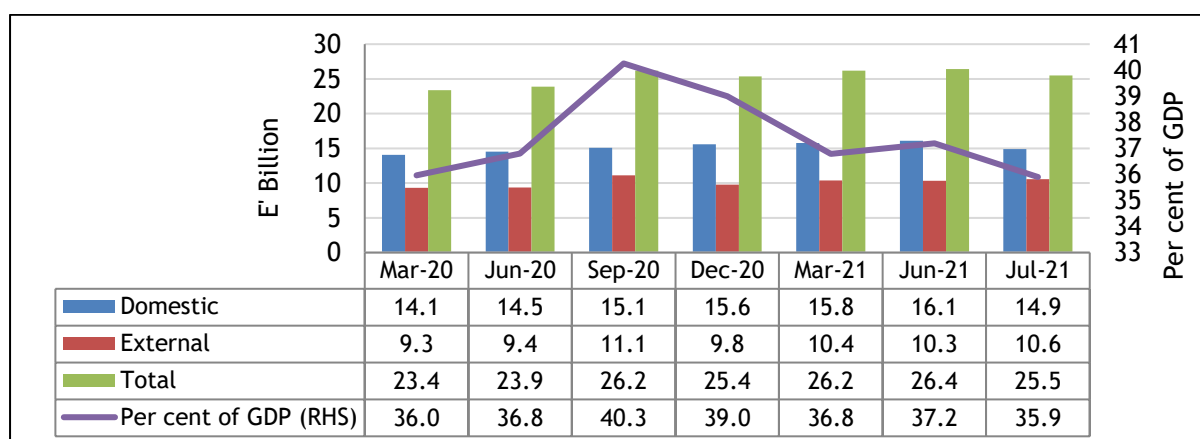


Source: Central Bank of Eswatini

#### 4 TOTAL PUBLIC DEBT

As at the end of July 2021, preliminary figures show that total public debt stood at E25.5 billion translating to 35.9 per cent of GDP. This shows a marginal decrease of 3.4 per cent when compared to a revised E26.4 billion recorded in June 2021. The decrease in total public debt is largely due to a decline in domestic debt. The preliminary figures show that public external debt stood at E10.6 billion, an equivalent of 14.9 per cent of GDP. This shows that public external debt increased by 3 per cent when compared to the previous month. The increase is mainly attributed to drawdowns made on project loans as well as the depreciation of the local currency against the US dollar and other major currencies in which the country's external liabilities are denominated.

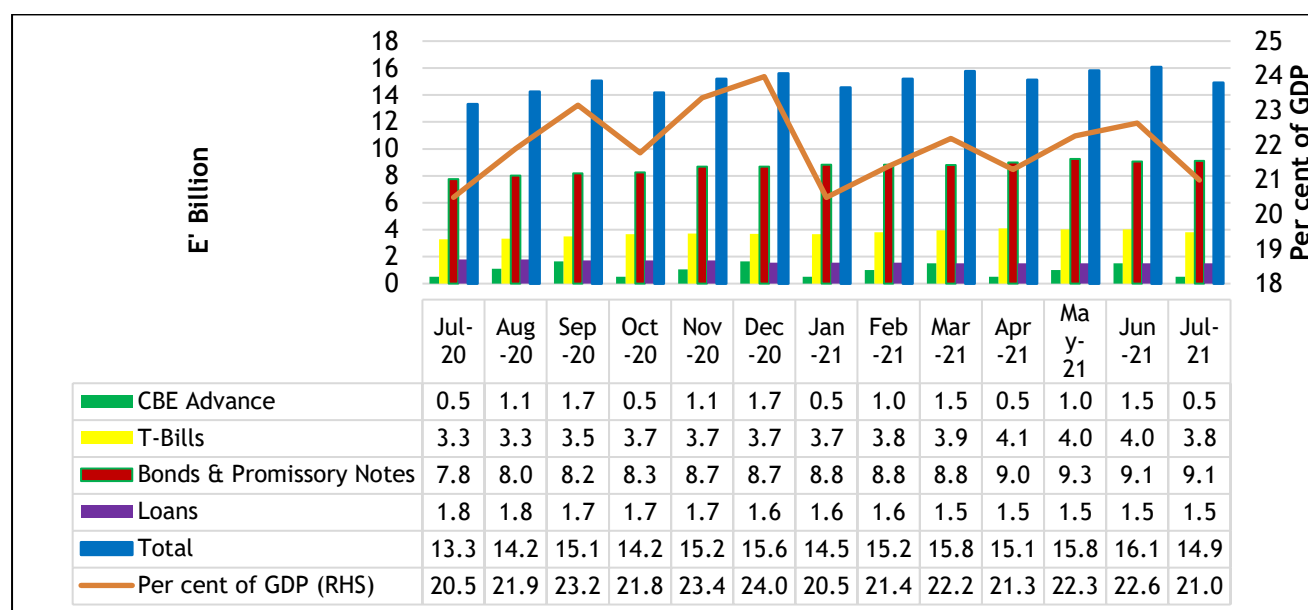
Figure 9: Total Public Debt: March 2020 to July 2021



Source: Ministry of Finance and Central Bank of Eswatini

As at the end of July 2021 outstanding public domestic debt stood at E14.9 billion an equivalent of 21.0 per cent of GDP. When compared to the previous month, this shows a decline of 7.2 per cent. This decrease is as a result of full settlement of the CBE Advance amounting to E1.5 billion by Government. During the same month, government re-accessed an advance of E500 million from the Central Bank. Towards the end of August 2021, the Central Bank will again on behalf of Government issue four Plain Vanilla Bonds of tenures 3, 5, 7, and 10 years totaling an amount of E200 million.

Figure 10: Total Domestic Debt: July 2020 to July 2021



Source: Ministry of Finance and 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 2021

(E' Million)

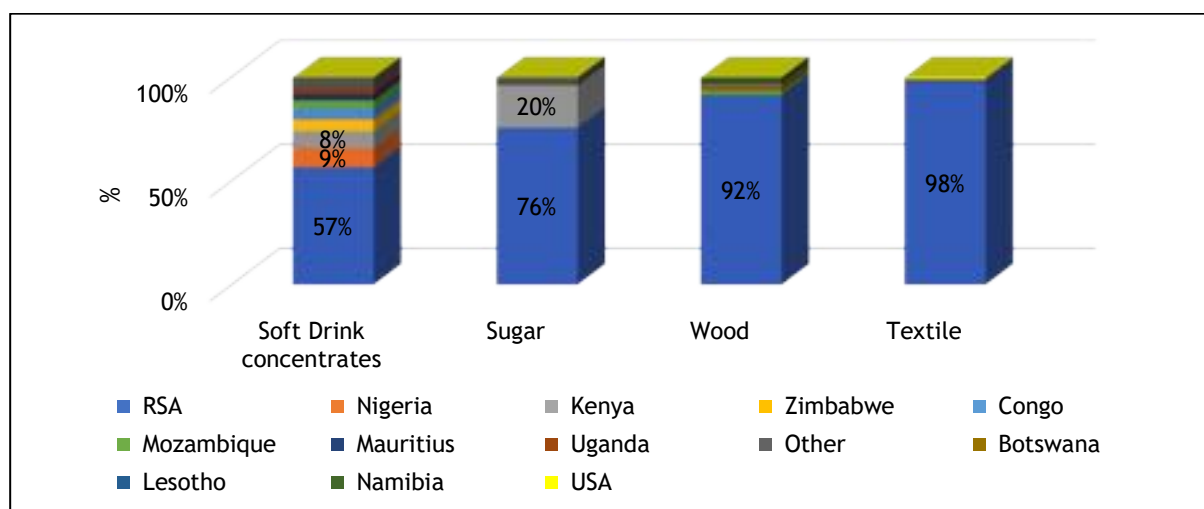
Holder	Treasur y Bills	Government Bonds	Promissory Notes	CBE Advance	Total	Share of Holdings (%)
CBE	4.8	1,293.9	0	500.0	1,798.7	13.4
Commercial banks	2,365.0	1,674.1	0	0	4,039.0	30.1
NBFIs	1,308.7	5,111.7	0	0	6,420.4	47.9
Other	126.2	930.9	96.0	0	1,153.1	8.6
	3,804.7	9,010.6	96.0	500.0	13,411.2	100

Source: Central Bank of Eswatini

## 5 EXTERNAL SECTOR

In the month of July, the merchandise trade account posted a trade surplus amounting to E305.1 million, a turnaround from the deficit of E112.8 million in the previous month. Exports increased, month-on-month, by 8.8 per cent to total E2.310 billion. Year-on-year, exports recorded figures lower by 2.3 per cent. Imports dipped by 10.3 per cent, month-on-month, amounting to E2.005 billion. Year-on-year, imports decreased by 8.1 per cent. The decline can be attributed to the civil unrests which plagued Eswatini and South Africa in the review month.

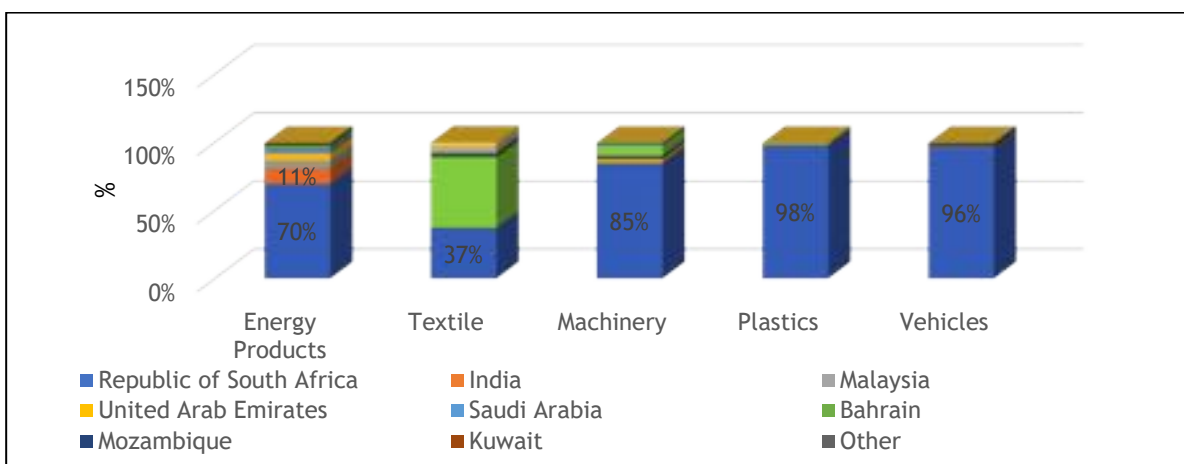
**Figure 11: Trading Partners by Export Commodity; July 2021**



Source: Central Bank of Eswatini

Trade with the major trading partner South Africa declined over the quarter ending July 2021. In the review month, trade with South Africa accounted for 68.7 per cent of exports and 71.2 per cent of imports. Month-on-month, exports to South Africa increased by 6.1 per cent, while imports declined by a significant 14.8 per cent. The civil unrests that occurred in July affected the importation of fuel from South Africa, leading to the decline in imports coming from that country.

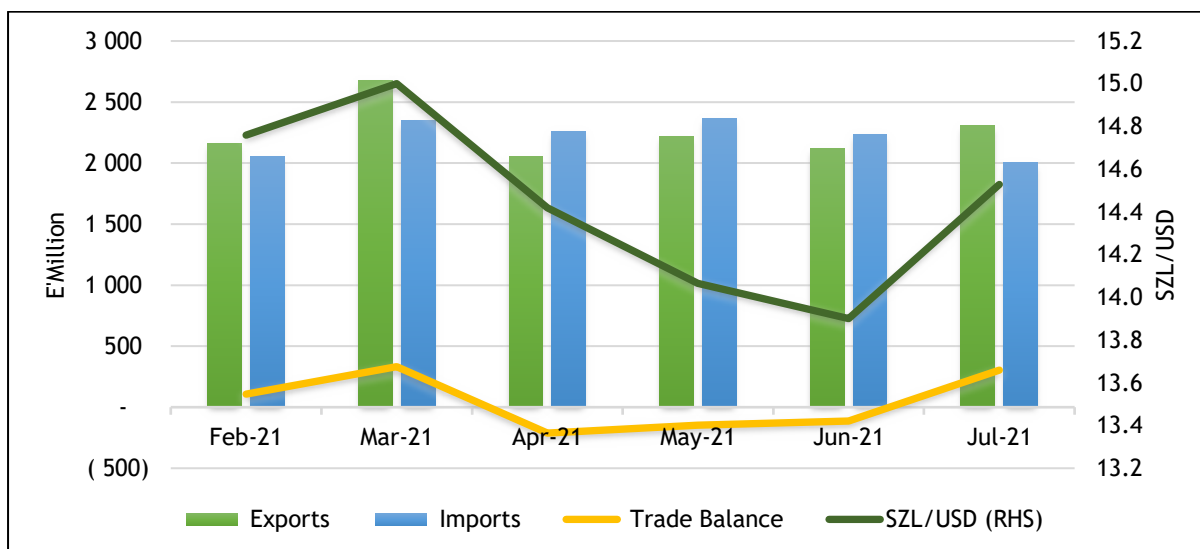
**Figure 12: Trading Partners by Import Commodity; July 2021**



Source: Central Bank of Eswatini

Cumulative trade numbers indicate higher export receipts, which amounted to E15.589 billion for January to July 2021, 6.9 per cent higher than the same period last year. Cumulative import amounted to E15.801 billion, 22.2 per cent higher than the same period in 2020. The cumulative trade balance has maintained a deficit state to date, amounting to E212.5 million as at July 2021.

**Figure 13: Merchandise Trade; February to July 2021**



Source: Central Bank of Eswatini

A detailed analysis of exports for the month of July shows that exports of ‘soft drink concentrates’ amounted to E989.1 million, higher month-on-month, by 21.7 per cent and lower year-on-year by 25.6 per cent. Exports of ‘sugar and sugar products’ were E503.6 million in the review month, lower both month-on-month and year-on-year by 6.8 and 31.9

## RED - June/July 2021

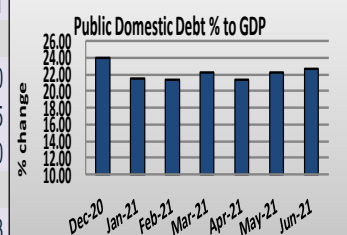
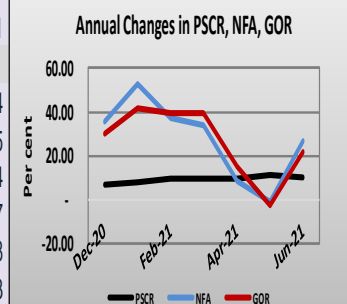
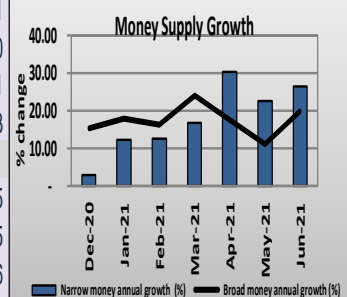
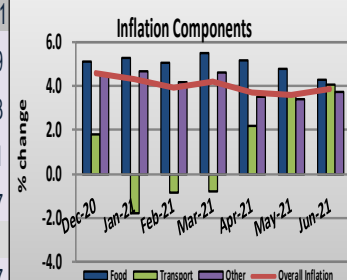
per cent respectively. 'Wood and wood articles' sales totalled E163.6 million in the month, recording a decrease of 10.5 per cent, month-on-month and an increase of 11.2 per cent, year-on-year. Receipts from 'textile and textile apparels' were valued at E348.0 million in July 2021, registering an increase of 34.1 per cent when compared to the previous month, and an increase of 16.3 per cent when compared to July of the previous year.

An analysis of import invoices indicates that, imports of 'energy products' dipped by 10.0 per cent in July 2021, amounting to E345.5 million, with a consequence of the disruptions in fuel supply in the review month owing to civil unrests in both Eswatini and South Africa. This resulted in the need to import fuel from alternative source, hence in the review month, the country recorded fuel imports of E3.2 million from Mozambique whilst no fuel was imported from Mozambique in the previous month. Year-on-year, imports of 'energy products' increased by 2.7 per cent. 'Textile and textile apparel' imports amounted to E256.6 million, reflecting an increase of 18.3 per cent, month-on-month, and 7.6 per cent, year-on-year. Invoices from 'machinery and electrical equipment' were E153.5 million in the month of July, down from E204.4 million the previous month. Imports of 'plastic and plastic articles' increased in the month, amounting to E115.8 million an increase of 14.5 per cent when compared to June 2021 and 18.3 per cent when compared to July 2020. 'Vehicles' purchases amounted to E98.1 million in July 2021, down 38.5 per cent month-on-month.



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Economic Policy, Research and Statistics Department							
Kingdom of Eswatini Economic Indicators at a glance							
Sectors	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21
<b>Overall Inflation</b>	4.6	4.3	3.9	4.2	3.7	3.6	3.9
Food	5.1	5.3	5.1	5.5	5.2	4.8	4.3
Transport	1.8	-1.8	-0.9	-0.8	2.2	3.6	4.1
Other	4.5	4.7	4.2	4.6	3.5	3.4	3.7
<b>Money and banking</b>							
Narrow money annual growth (%)	2.78	12.24	12.50	16.60	30.35	22.46	26.57
Broad money annual growth (%)	15.45	17.80	16.20	24.10	17.54	10.98	19.92
Domestic credit (net) - E' Million	17,038.60	15,228.88	15,965.91	16,418.88	15,276.60	16,560.74	17,292.01
Government	1,239.66	-528.71	402.99	1,102.06	-55.11	852.00	1,366.70
Private sector	15,798.95	15,757.59	15,562.92	15,316.83	15,331.72	15,708.74	15,925.31
Private sector credit annual growth (%)	6.67	7.89	9.30	9.30	9.80	10.98	10.13
<b>Interest rates (% p.a)</b>							
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	4.76	4.90	4.89	4.71	4.92	4.96	4.81
<b>Ratios</b>							
Liquidity ratio (required = 20 %)	40.20	38.15	38.58	43.06	41.59	35.23	38.04
Loans/deposits ratio	63.79	64.52	63.35	62.09	61.67	66.53	63.25
Net foreign assets (E'million)	9,275.42	11,577.97	10,850.55	10,514.36	11,142.33	8,887.87	10,537.84
<b>Annual % change in NFA</b>	35.32	52.89	37.46	34.10	8.63	-0.78	26.57
Gross official foreign reserves E'Millions	7,976.03	9,670.35	9,006.03	9,198.35	9,345.03	7,085.31	8,300.78
<b>Annual % change in GOR</b>	29.80	41.87	39.32	39.26	14.95	-2.54	21.53
In months of import cover	3.50	4.25	3.95	3.99	4.06	3.08	3.51
<b>Exchange Rates</b>							
US\$	14.91	15.12	14.76	15.00	14.42	14.07	13.90
EURO	18.15	18.42	17.86	17.86	17.25	17.08	16.75
GBP	20.04	20.63	20.45	20.79	19.95	19.80	19.50
<b>Public Finance</b>							
Total public domestic debt [E' million]	15,595.03	14,547.32	15,186.73	15,755.10	15,121.86	15,809.49	16,074.53
As a % of GDP	23.98	21.49	21.39	22.19	21.29	22.26	22.64



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

