



Monthly ECONOMIC REVIEW

August 2018

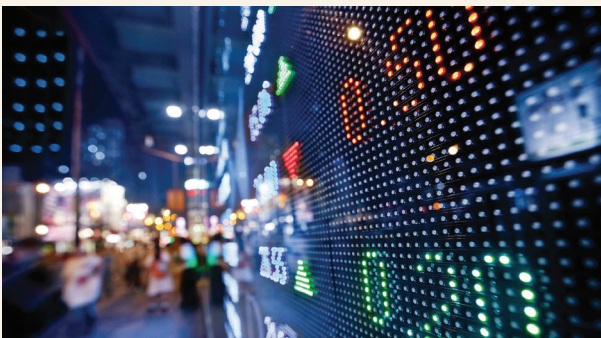
CENTRAL BANK OF LESOTHO

I. ECONOMIC ACTIVITY

Economic activity increased in the month of August 2018. The increase was mainly supported by activities in the manufacturing and production side of the economy, while the demand driven activity continued to be on the downturn.

Overall Performance Index

Economic performance as measured by the monthly indicator of economic activity (MIEA), increased by 0.5 per cent in August 2018 signalling increased economic activity in the economy. The observed increase was attributed to significant positive contributions of the ten component time series which make up the MIEA, while the remaining four components showed marginal negative contributions to the overall index.



Domestic Demand Category

The domestic demand side of the economy continued to be under pressure though with a muted percentage change as compared to the previous month. The domestic demand category observed a negative growth of 0.5 per cent in August 2018. The negative growth mainly represented the challenges faced by the government especially in terms of employment creation, given the fact that the government remains the most key player in our economy. However, the private sector remained firm as evidenced by positive contributions from PAYE. Moreover, VAT collections and imports of goods and services contributed positively to the overall domestic demand signalling increased purchasing power in the economy.

Manufacturing & Production Category

The manufacturing and production index increased, by 1.3 per cent, year-on-year basis in August 2018. The growth was attributable to increased demand for inputs into production (water and electricity), signalling increased economic activity in the economy. On the contrary, the contribution of



exports of textiles to the US market was negative, indicating reduced output by the textile and clothing industries during the month of August. This emanated from labour disputes experienced in

the review month, which pushed for closure of firms for a period of two weeks while wage negotiations were under way between the employers and the labour unions.

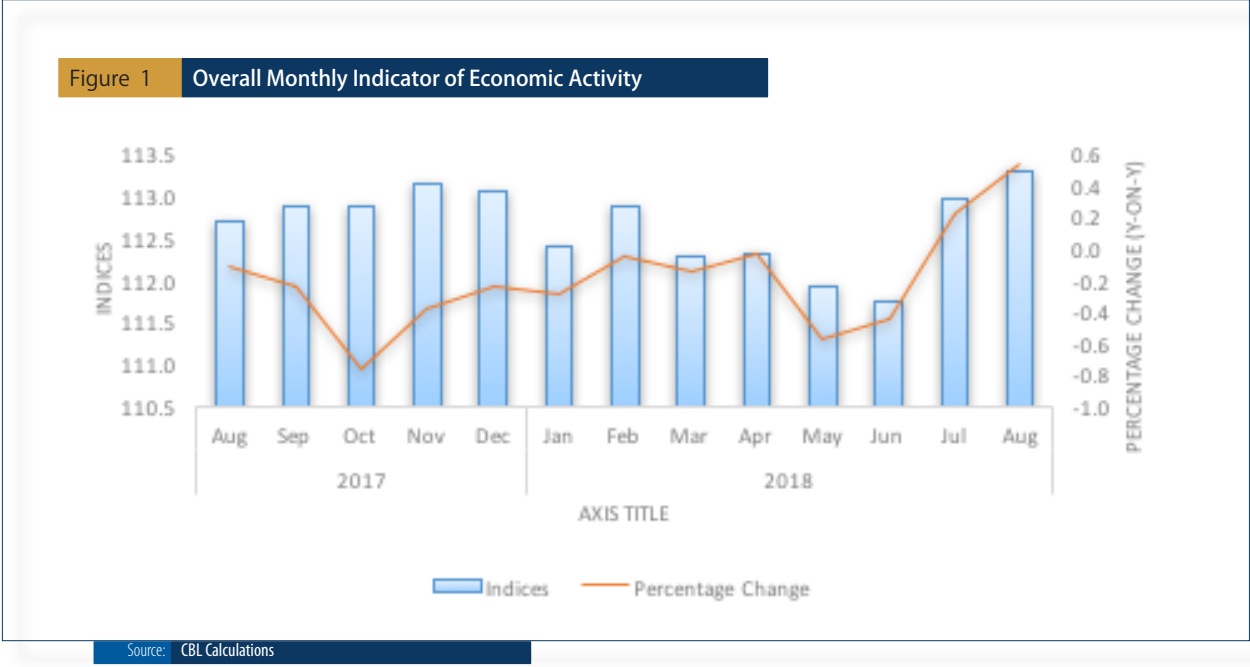


Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2018							
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
CIEA	112.4	112.8	112.3	112.3	111.9	111.7	112.9	113.3
year-on year changes	-0.3	-0.1	-0.2	0.0	-0.1	-0.5	0.2	0.5
Domestic Demand Category	111.9	112.7	111.1	110.6	111.0	112.4	112.8	112.6
year on year changes	-2.5	-2.2	-2.9	-2.7	-2.7	-0.8	-0.6	-0.5
Manufacturing & Production Category	104.5	104.6	104.6	102.9	102.6	102.7	102.8	104.1
year on year changes	1.8	1.7	2.6	0.7	-0.3	0.5	0.3	1.3

Source: CBL Calculations

II. INFLATION AND PRICES

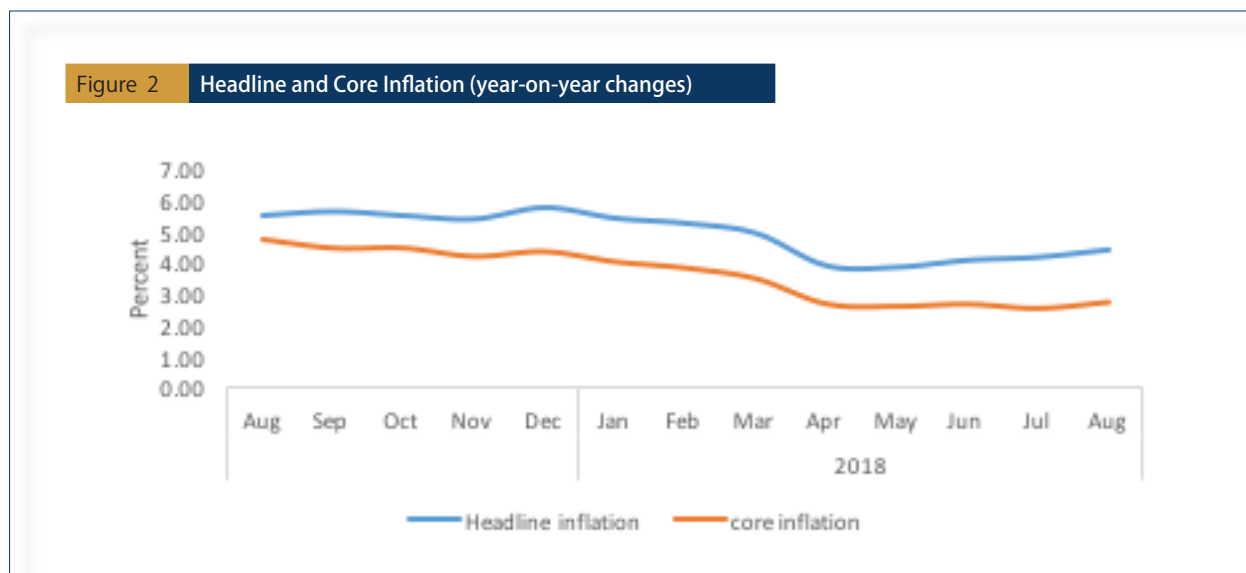
Headline Inflation

The headline inflation accelerated from 4.1 per cent in July 2018 to 4.4 per cent in August 2018. The main contributors to the acceleration in the headline inflation were, "Food & Non-alcoholic beverages" and "Housing, Water, Electricity, Gas and Other Fuels" divisions both contributed 1.4 percentage points. The second largest contributor is the "Transport" division with 0.5 percentage points while the "Alcohol & tobacco", "Recreation & culture" and "Miscellaneous good and services" contributed 0.2 percentage points each.

Core Inflation

Core inflation, which excludes the CPI items with extreme price changes, also accelerated from 2.5 per cent in July to 2.7 per cent in August 2018.

The main drivers behind the acceleration, was the Loti-US Dollar exchange rate depreciation from July to August 2018 and the increase in the energy prices, especially the fuel prices and the second round effects through transport. Food prices, however, have declined during the review month.



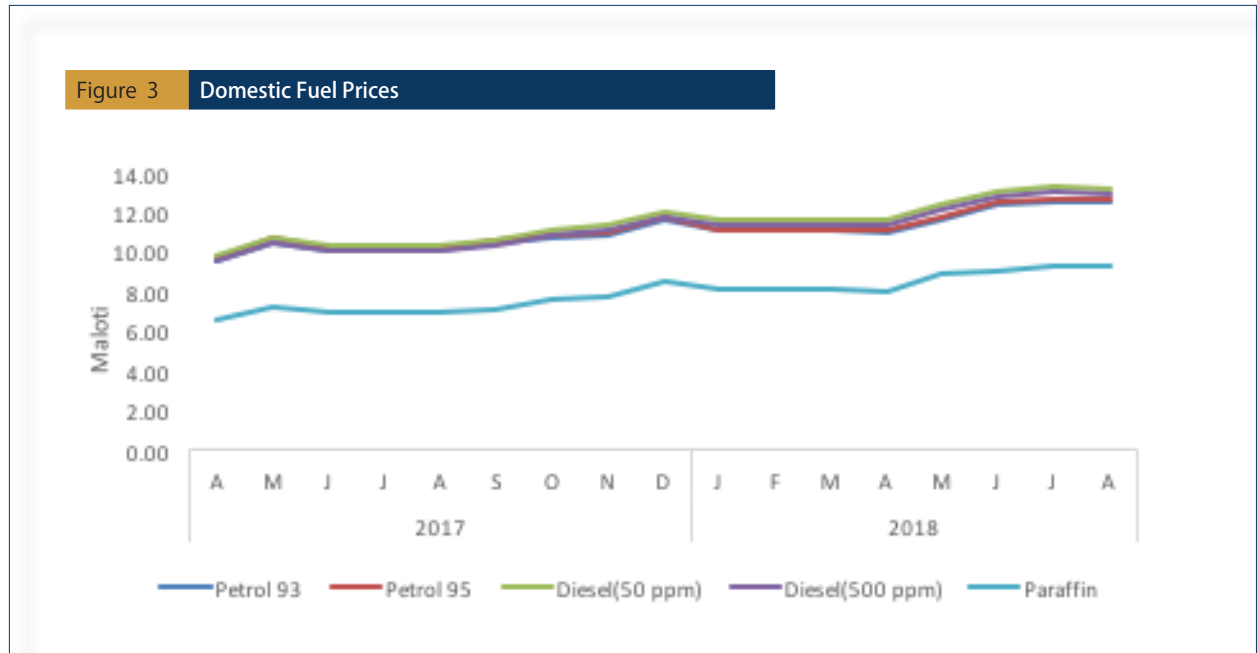
Source: Lesotho Bureau of Statistics & CBL Computations

Domestic Fuel Prices

While the pump prices of petrol and paraffin remained the same between July and August 2018, the price of diesel declined.

Both Petrol 93 and Petrol 95 remained the same at M12.55 per litre in August 2018 from its July position.

Both grades of diesel declined in August 2018, with 50mp grade declining by 75 cents per litre while the 500mp fell by 77 cents per, respectively, during the review month. The price of illuminating paraffin remained the same in August 2018 at M9.30 per litre.



III. MONETARY AND FINANCIAL INDICATORS

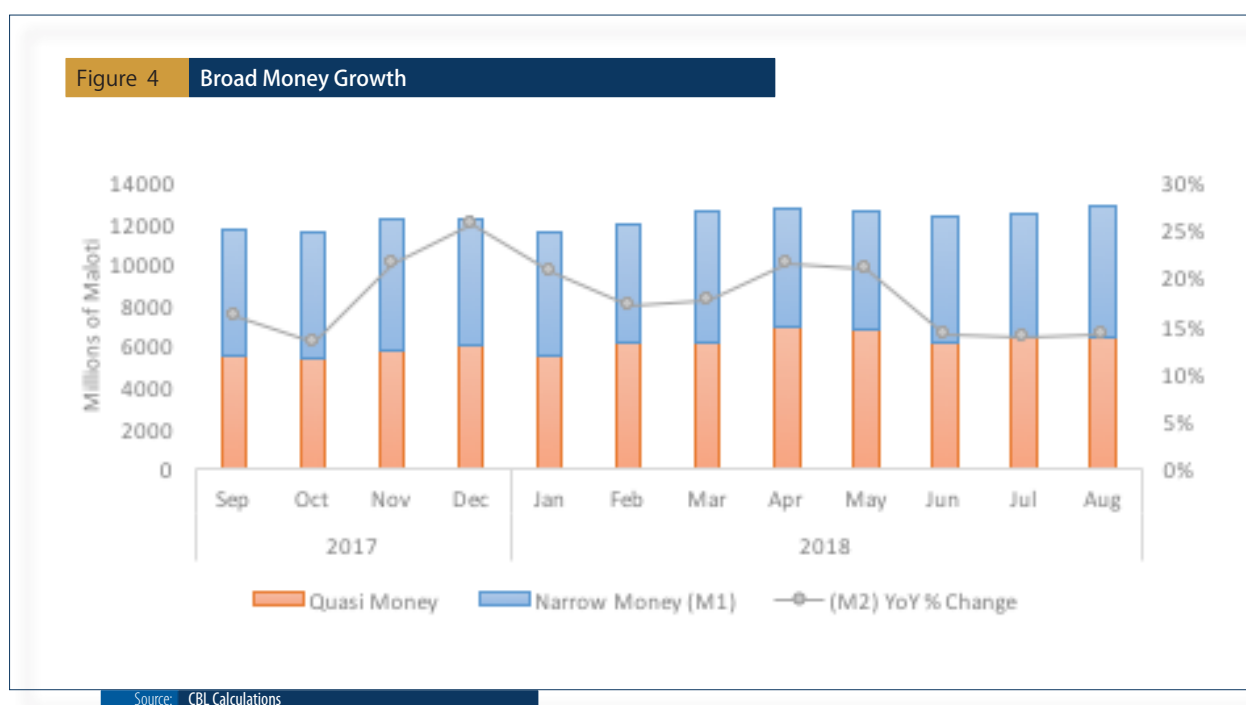
Broad Money (M2)

Money supply increased by 3.2 per cent in August 2018 following a growth of 0.7 per cent during the previous month. This was at the back of a 1.5 per cent and 0.3 per cent increase in overall Net Foreign Assets (NFA) and domestic claims respectively.

Components of Money Supply

Narrow money increased by 5.9 per cent in August, following an increase in transferable deposits included in broad money.

Quasi Money rose by 0.8 per cent in August as a result of an increase in other deposits by business enterprises.



Determinants of Money Supply

Domestic claims, including net claims on government, increased by 0.3 per cent in August 2018, stemming from an increase in net claims on government, coupled with an escalation in claims on private sector.

During the month under review, the overall banking system NFA increased by 1.5 per cent. This was attributed to the increase in deposits held with South African banks, which lead to 14.3 per cent rise in commercial banks NFA. However, Central NFA moderated the impact.

Credit

Private Sector Credit

Credit to private sector registered an increase of 1.9 per cent in August 2018. Credit to households increased by 1.6 per cent, whereas credit to business enterprises rose by 2.5 per cent.

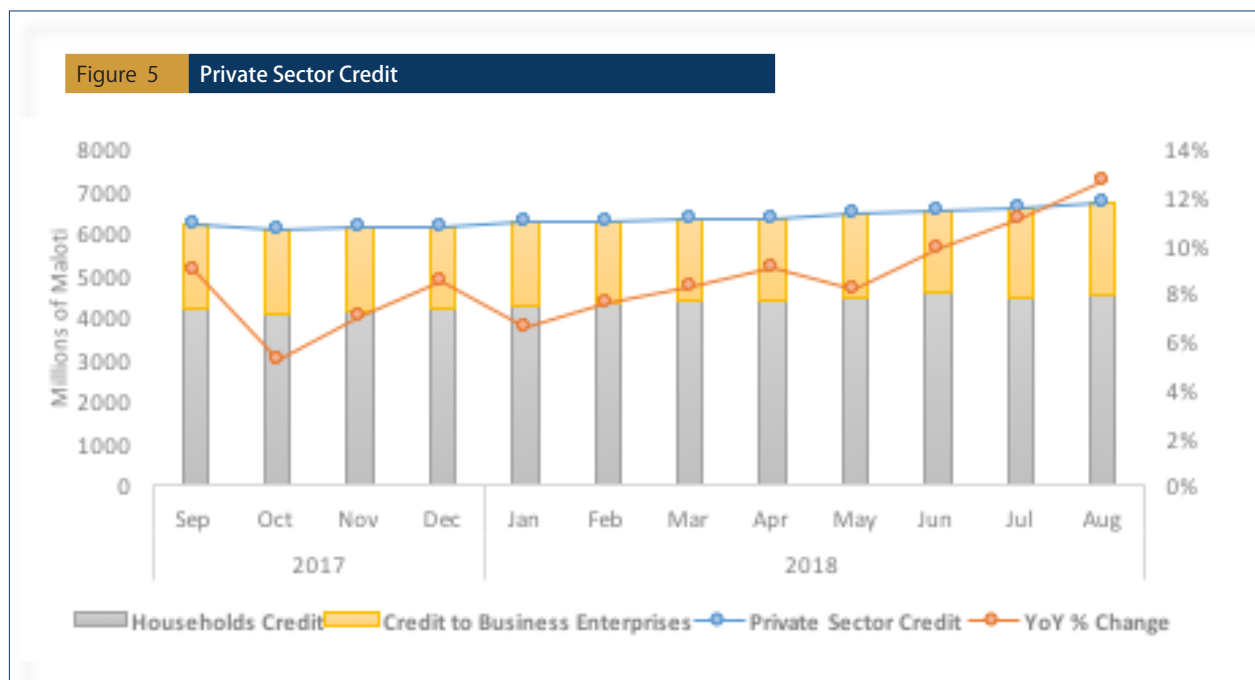
Credit to Households

Household credit increased by 1.6 per cent, mainly driven by 15.1 per cent increase in mortgage loans. Conversely, Personal loans fell by 2.9 per cent during the month.

Credit to Business Enterprises

Credit extended to business sector increased by 2.5 per cent during the period under review. Mining, real

estate and business services, and transport, storage and communications continue to record the largest shares of credit extended to business enterprises.



Loans

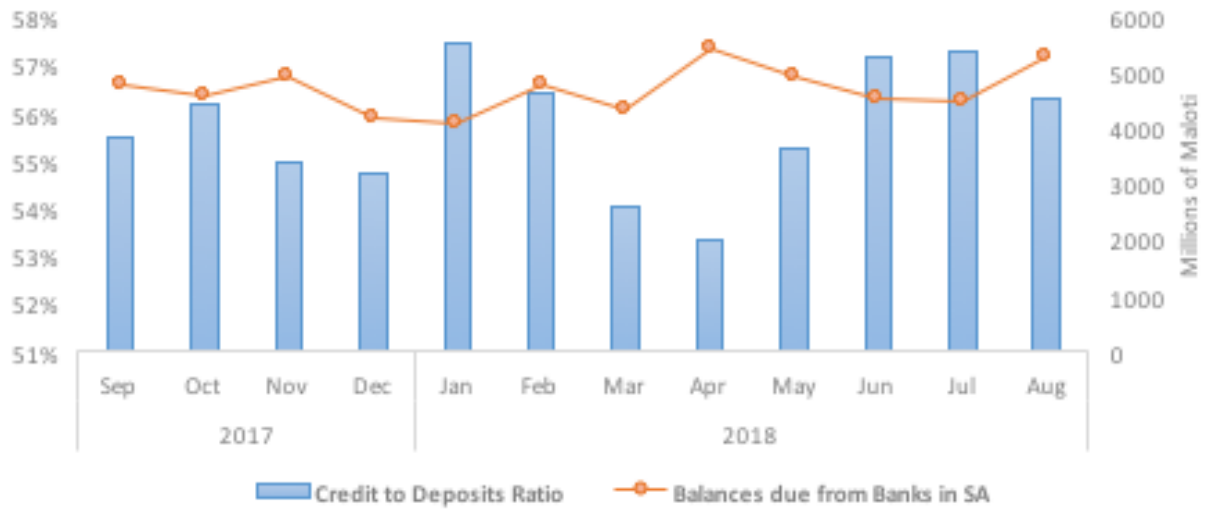
Non-Performing Loans

The overall non-performing loans as share of total loans to private sector increased slightly in August as it registered 4.1 per cent compared to 3.9 per cent registered in July. As a share of total credit extended to business enterprises, non-performing loans accounted for 5.2 per cent in August up from 4.7 recorded in July. Non-performing loans to personal loans remained stable at 2.4 per cent, whereas non-performing loans to mortgage declined from 6.3 per cent in July to 5.6 per cent in August.

Sources of Funds

The credit to deposit ratio declined from 57.2 per cent in July, to 56.3 per cent in August. This was in light of an increase in total deposits, despite a rise in private sector credit. Total Deposits increased by 3.8 per cent, due to increase in holdings by business enterprises.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The CBL policy rate remained stable at 6.50 per cent between July and August 2018. Similarly, Commercial banks' prime lending rate remained unchanged at 11.19 during the same period. The 1-year deposit rate increased from 4.19 per cent to 4.22 per cent during the review period. The 91-day T-bill rate fell by 4.4 basis points, from 6.59 per cent to 6.54 per cent, between July and August 2018.

Foreign Exchange Rates

The loti weakened against major trading currencies in August 2018. The rand hence the loti suffered due to heightening policy uncertainty in South Africa, more especially with regard to land distribution coupled with the release of higher than expected figures for US GDP, which supported the Dollar.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

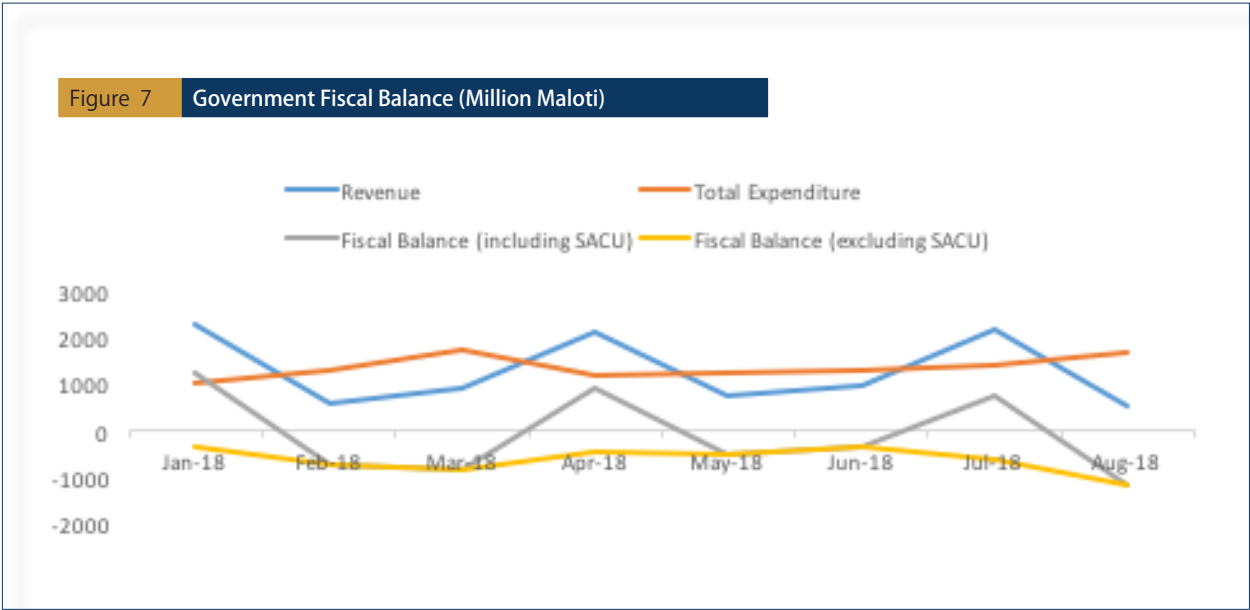
The total Government expenditure recorded 16.9 per cent of GDP during the month of August, 2018 compared with 14.1 registered in the previous month. The spending on the development projects increased by more twofold. This spending mainly went towards construction and maintenance, plus subvention to parastatals and subnational level. The recurrent spending rose by 3.0 per cent, largely driven by 'tertiary education sponsorship', 'purchase of health services', 'international travel as well as, rental cost.

Total Revenue

Total Government revenue declined significantly during the month. The decrease was observed in almost all revenue components, except excise tax, whose significant rise was mainly attributable to motor vehicle assurance.

Fiscal Balance

The net operating balance registered a deficit equivalent to 7.0 per cent of GDP in August 2018. This was higher, at 11.7 per cent of GDP when acquisitions of non-financial assets were included. Furthermore, the primary balance was almost the same as the fiscal balance at 11.6 per cent of GDP. This largely reflected the concessionality of Government debt as presented below.



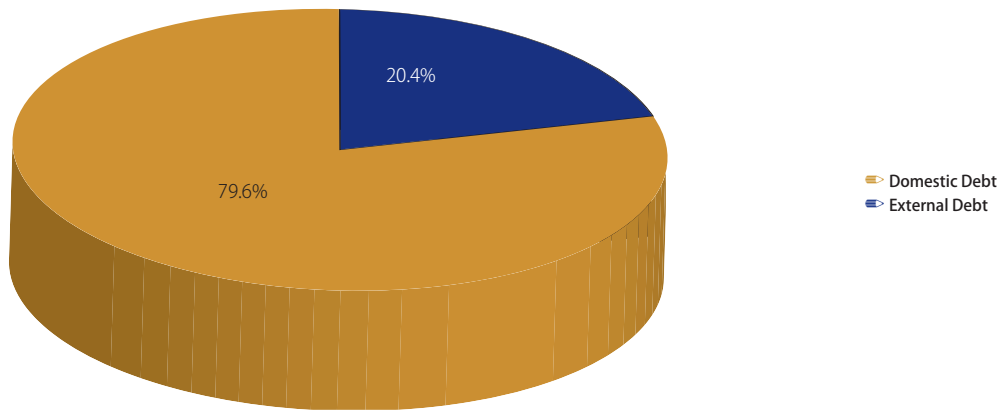
Source: Central Bank of Lesotho & Ministry of Finance

V. PUBLIC DEBT

The public debt stock stood at M14.16 billion in August, 2018. This was equivalent to 35.9 per cent of GDP, compared with the revised 35.7 per cent of GDP recorded in July 2018. The stock increased marginally by 0.5 per cent, due to slight growth in both debt categories. The external debt continued to take the largest share at 79.6 per cent of the total

outstanding stock, corresponding to a 0.6 per cent surge, due to disbursement of new concessional loans and the marginal depreciation of Loti against major currencies. The domestic debt rose by 0.1 per cent, which was because of an increase in short term Treasury Bills held by non-banks.

Figure 8 Public Debt



Source: Central Bank of Lesotho & Ministry of Finance

Appendix: Key Economic Indicators

		Mar 18	Apr 18	May 18	Jun 18	Jul 18	Aug 18
Economic Activity		-0.2	0.0	-0.6	-0.5	0.2	0.5
MIEA (% change, Y/Y)							
Consumer price Index (% change)	Headline Inflation (year-on-year)	4.8	4.8	3.8	4.0	4.1	4.4
	Core Inflation	3.5	2.7	2.6	2.7	2.5	2.7
Exchange Rates (Monthly End Period)	EUR	14.63	15.01	14.68	16.04	15.66	16.27
	GBP	16.69	17.07	16.75	18.11	17.65	18.13
	USD	11.87	12.42	12.57	13.76	13.40	14.09
Interest Rates	CBL Rate	7.00	6.75	6.50	6.50	6.50	6.50
	91 day Treasury bill rate	6.22	6.20	6.16	6.88	6.59	6.54
	Prime lending rate	11.63	11.56	11.44	11.31	11.19	11.19
	1 year deposit rate	4.65	4.51	4.23	4.30	4.19	4.22
Private sector Credit (Millions of Maloti)		6314.94	6316.28	6455.74	6507.85	6583.37	6708.85
	Households	4340.64	4391.81	4418.42	4532.01	4453.21	4525.79
	Business Enterprises	1974.30	1924.46	2037.32	1975.83	2130.17	2183.06
Bank Deposit Liabilities (Millions of Maloti)		11562.05	11689.27	11570.79	11284.82	11383.06	11814.23
Credit to Deposit Ratio (%)		54.1	53.3	55.2	57.6	57.6	56.3
Fiscal Operations	Total Revenue	897.84	2115.85	733.20	958.84	2149.74	510.89
	Total Expenditure	1391.2	1276.93	1084.57	1229.41	1306.48	1665.86
	O/W Capital	197.69	0.03	133.01	64.96	150.03	468.93
Total Public Debt (Millions of Maloti)		12942.60	13045.41	13167.92	14141.71	14094.66	14159.71
	External Debt	10026.45	10364.66	10409.57	11224.54	11213.73	11275.51
	Concessional	7749.66	8068.73	8110.81	8889.19	8881.90	8939.52
	Non-concessional	2276.78	2295.93	2298.76	2335.35	2331.83	2335.99
	Domestic Debt	2701.84	2577.94	2635.84	2917.17	2880.92	2884.20

Source: Central Bank of Lesotho

Explanatory Box

Indicator of Economic Activity

The Indicator of Economic Activity is an index constructed from 14-time series variables. Key considerations in the choice of the variables were (1) the frequency with which the data is available and (2) the extent of their ripple effect to other sectors of the economy.

The variables can be grouped into two important economic categories – the domestic demand category and the manufacturing & production category. This enables the determination of whether the economic activity is affected by the demand components, the production components or both sides of the activity.

Core Inflation

Lesotho's core inflation is the 30% trimmed mean of the headline inflation.

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Enquiries relating to this Publication should be addressed to:

Public Relations Office
Corporate Affairs Department
Central bank of Lesotho

Central Bank of Lesotho

Corner Airport and Moshoeshoe Roads • Maseru Central • P. O. BOX 1184 • Maseru 100

Phone: (+266) 2231 4281 / 2223 2000 • Fax: (+266) 2231 0051 • E-mail: info@centralbank.org.ls

