



Monthly ECONOMIC REVIEW

February 2019

CENTRAL BANK OF LESOTHO

I. ECONOMIC ACTIVITY

Economic activity remained positive in February 2019, following improvements registered in the previous month. The major driver behind the observed trend continued to come from high domestic demand while the production side remained under pressure.

Overall Performance Index

Economic performance as measured by the monthly indicator of economic activity (MIEA), increased by 1.1 per cent in February 2019, compared with a growth of 0.9 per cent realised in the previous month. Ten of the fourteen component variables that make up the MIEA contributed positively to the overall index, while the four variables contributed negatively. Domestic demand variables together with the transportation and construction variables remained supportive to the observed increase, as signified by positive contributions from fuel consumption and cement imports, respectively. In addition, credit to the private sector contributed positively to the overall index.

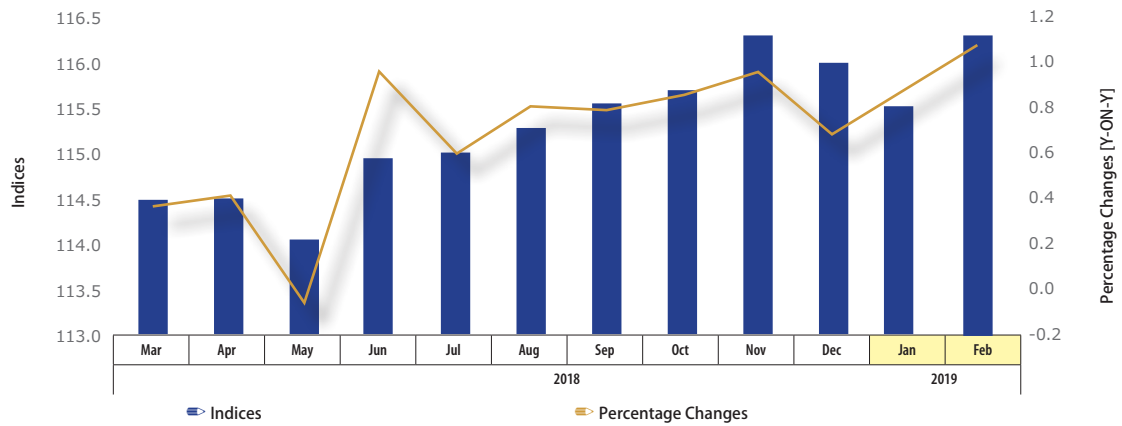
Domestic Demand Category

The domestic demand index picked up significantly compared with the previous month. This category was estimated to have grown by 2.7 per cent. The growth mainly represented major positive contributions from VAT and PAYE collections, use of goods and services, and imports of goods and services. The observed trend signalled strong demand for goods and services in the economy. However, compensation of employees from the government side continued to be on the down turn.

Manufacturing & Production Category

The production index continued to decline in the review month. The index declined by 1.1 per cent in February 2019 as opposed to a decline of 0.7 per cent in the preceding month. The decline continued to be attributable to significant negative contributions from water and electricity consumption used for industrial purposes, indicative of sluggish production in the economy.

Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2018						2019	
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
CIEA	115.1	115.4	115.7	115.8	116.2	115.9	115.6	116.2
year-on year changes	0.7	0.9	0.9	1.0	1.0	0.7	0.9	1.1
Domestic Demand Category	113.0	112.8	112.9	113.5	113.9	113.3	113.5	115.6
year on year changes	-0.1	0.0	0.2	0.9	0.9	0.6	1.7	2.7
Manufacturing & Production Category	108.4	109.0	109.4	108.9	109.4	108.5	108.2	107.9
year on year changes	1.4	1.8	1.3	0.4	0.6	0.0	-0.7	-1.1

Source: CBL Calculations

II. INFLATION AND PRICES

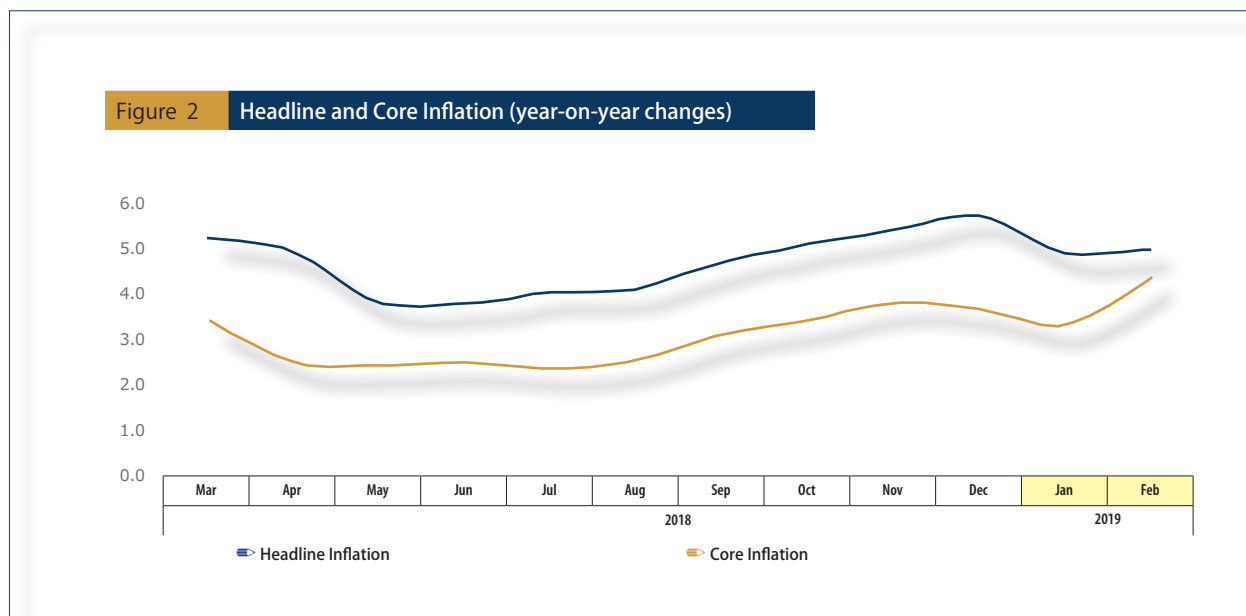
Headline Inflation

The headline inflation rate remained unchanged in February 2019 at 5.0 per cent. The major contributors to this level of inflation rate were Food and non-alcoholic beverages (2.1pp); Housing, electricity, gas & other fuels (1pp), Clothing & footwear (0.4pp). The Transport, Recreation and culture, as well as, the Furniture, household's equipment & routine maintenance of household divisions contributed 0.3 percentage points, each to headline inflation. Other components contributed minimally to the headline inflation rate.

The main drivers behind the recent trends in headline inflation rate were increased staple food prices as the demand for food increased during the peak lean seasons. Nonetheless, falling energy prices have moderated the impact of the staple food prices in the month under review since November 2018.

Core Inflation

Core inflation, which excludes the CPI items with extreme price changes, also accelerated from 3.4 per cent in January 2019 to 4.3 per cent in February 2019.

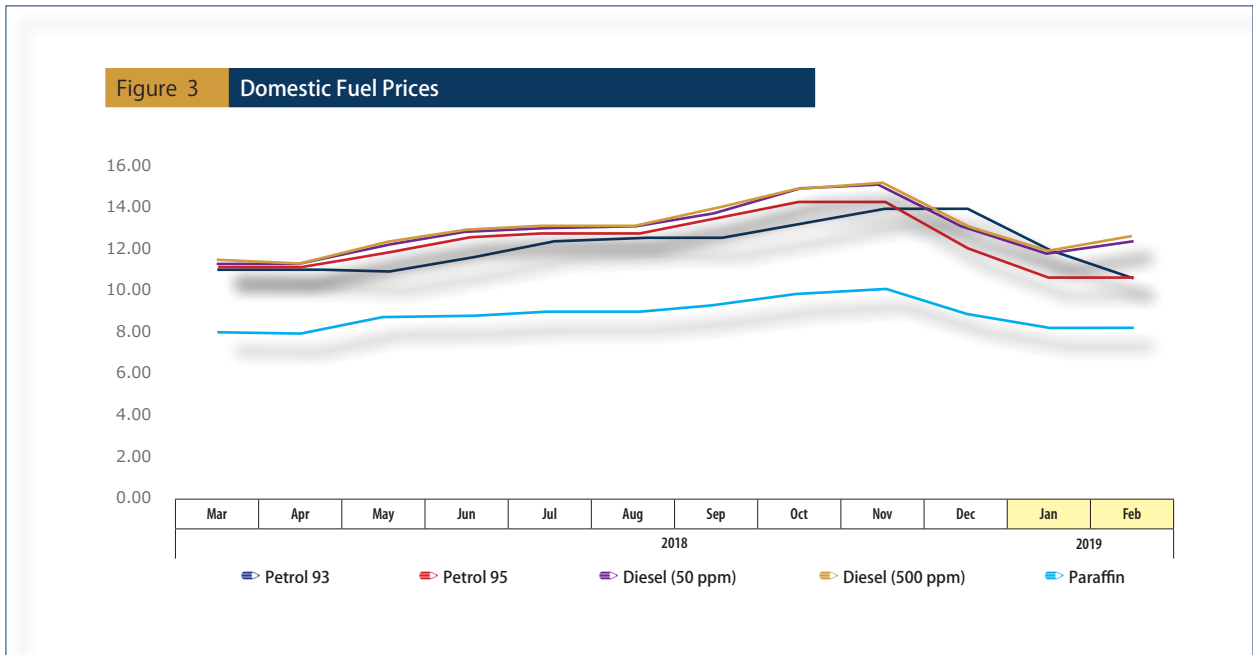


¹ pp means percentage point

Domestic Fuel Prices

Some of the domestic fuel prices increased in February 2019 from their January 2019 levels, while others remained the same. Nonetheless, the price of petrol95 decreased by M0.10 per litre. The price of petrol93 remained the same in February from its January level of M10.65 per litre each.

While the price of diesel50 remained the same in February 2019 from its January 2019 level, the price of diesel500 increased by M0.55 per litre during the period. The price of illuminating paraffin also declined by M0.05 per litre in February 2019 from its January 2019 level.



Source: Lesotho Petroleum Fund

III. MONETARY AND FINANCIAL INDICATORS

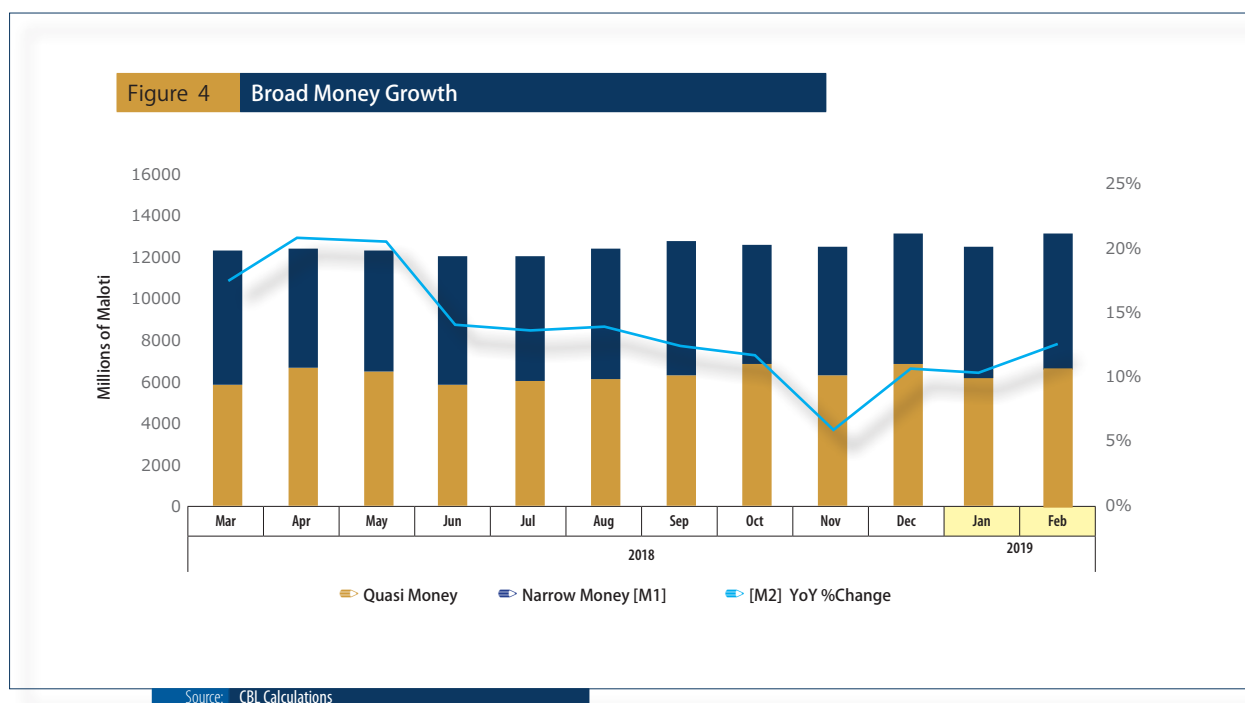
Broad Money (M2)

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The broad money supply (M2) increased by 3.6 per cent in February 2019. This was mainly due to a 15.9 per cent rise in Domestic Credit, complemented by a muted growth of 0.2 per cent in Net Foreign Assets.

Components of Money Supply

Both components of money supply rose in the month under review. In particular, narrow money (M1) and other deposits increased by 4.2 per cent and 3.1 per cent, respectively. The increase in M1 was due to the growth in both the currency in circulation and demand deposits, while a rise in other deposits was at the back of a growth in call deposits held by business enterprises and savings deposits of the households.



Determinants of Money Supply

Domestic Credit grew by 15.9 per cent in February, from a fall of 9.5 per cent in January 2019. This was on account of an increase in net credit to central government, resulting mainly from a decline in government deposits with the central bank. Similarly, the net foreign assets (NFA) slightly increased by 0.2 per cent, in contrast to a contraction of 5.8 per cent in the previous month. This was due to an increase in commercial banks' NFA, resulting from a significant growth in other deposits held in South Africa, while a decline in central bank's NFA moderated the overall banking system's NFA.

Credit

Private Sector Credit

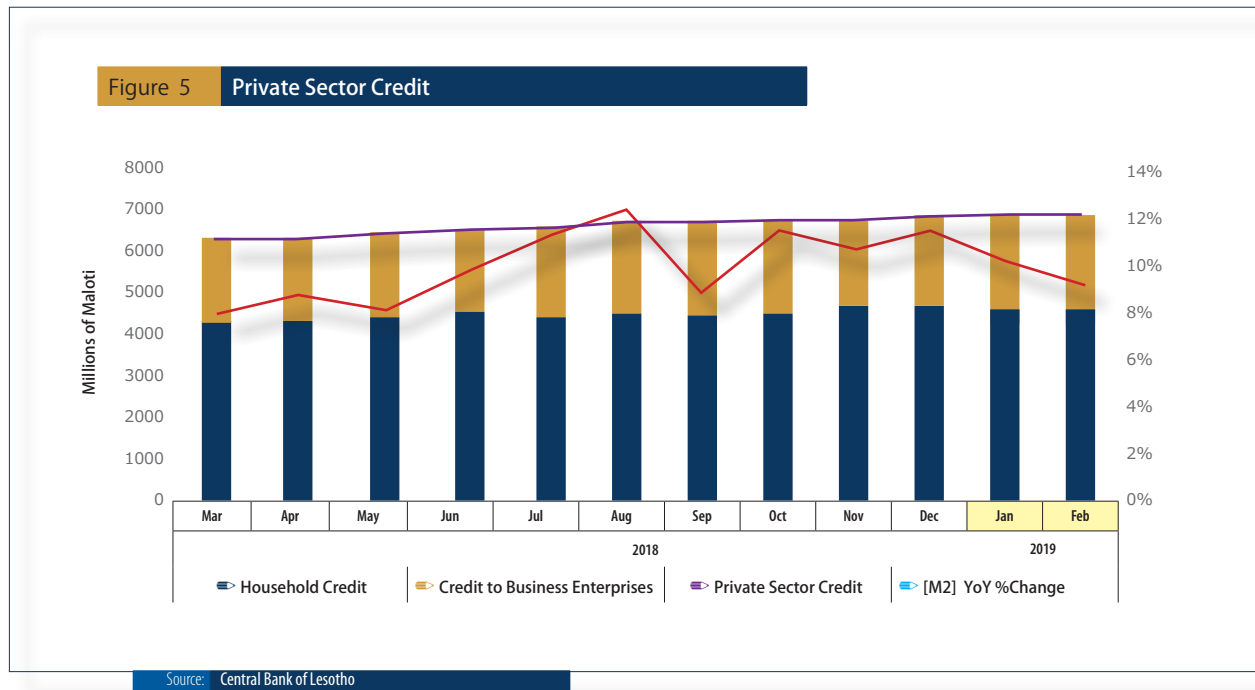
Credit to the private sector declined marginally by 0.04 per cent during the period under review. This was largely driven by a 3.4 per cent fall in credit extended to business enterprises, moderated by a 1.5 per cent rise in households' credit. Year-on-year total credit to the private sector expanded by 9.3 per cent.

Credit to Households

Credit extended to households rose by 1.5 per cent in February, following a growth of 0.8 per cent recorded in January 2019. The growth was supported by both mortgages and personal loans, which increased by 0.2 per cent and 1.9 per cent, respectively.

Credit to Business Enterprises

Credit extended to business enterprises fell by 3.4 per cent following an increase of 0.4 per cent in January 2019. The decline was underpinned by credit extended to Real Estate and Business Services, and Transport, Storage and Communications sectors.



Loans

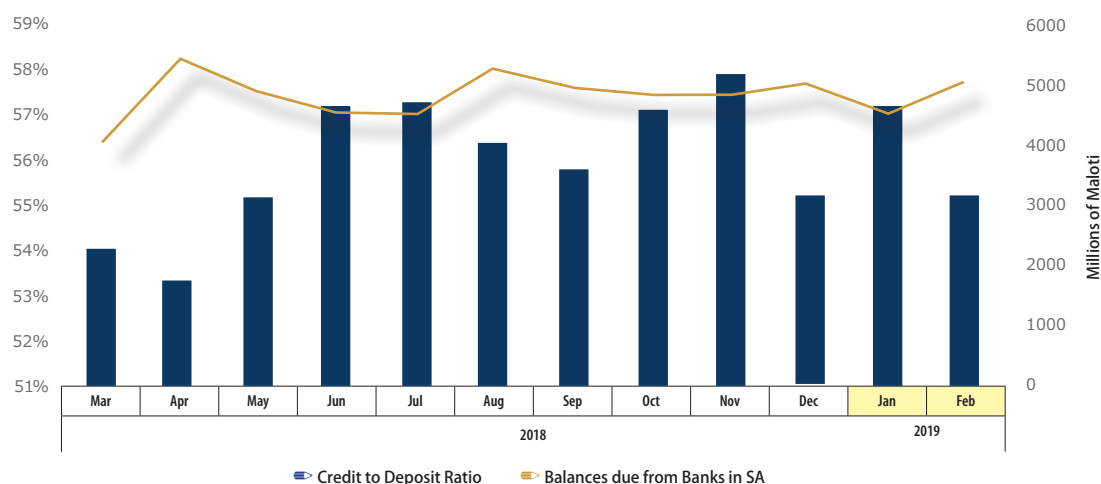
Non-Performing Loans

As a share of total loans granted, non-performing loans (NPLs) remained unchanged at 3.5 per cent between January and February 2019. The mortgage related NPLs improved slightly from 6.7 per cent in January to 6.4 per cent in February, while the business and personal NPLs moderated the development.

Sources of Funds

The credit to deposits ratio fell from 57.1 per cent to 55.2 per cent in between January and February 2019. This was due to a decline in private sector credit coupled with an increase in total deposits in commercial banks.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The Monetary Policy Committee (MPC) of the Central Bank of Lesotho (CBL) at its sitting of January 29, 2019 kept the policy rate unchanged at 6.75 per cent. Therefore, short-term interest rates remained unchanged with an exception of 91-day T-Bill rate and 1-year deposit rate, which declined from 6.63 per cent and 4.36 per cent to 6.60 per cent and 4.32 per cent, respectively, between January and February 2019.

Foreign Exchange Rates

The currency appreciated by 2.64 per cent against the dollar, 1.01 per cent against the pound and by 5.78 per cent against the euro, respectively, between January 2019 and December 2018. Domestically the loti was supported by a more than expected fall in inflationary pressures. On the international sphere, a decline in the value of the three major trading currencies was to the advantage of loti. Major currencies weakened due to the elevated risks in the global financial markets, fears of slowing global growth, and specific challenges to the US, UK and the Euro Area. The US dollar was affected negatively by the volatile stock markets, due to uncertain trade negotiations and the longest government shutdown in history. The developments surrounding Brexit deal, which were uncertain continued to pile pressure on the value of pound. The euro was hurt by weaker than expected performance of the economy, which pointed to slowdown in growth driven in part by Germany.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

Government expenditure rose by 4.9 per cent in February, 2019 compared with an increase of 70.1 per cent in the previous month. This was due to the acquisition of non-financial assets which grew by 30.3 per cent. This mainly involved spending on development projects.

The other categories of expenses, nevertheless, declined marginally by 1.5 per cent.

Total Revenue

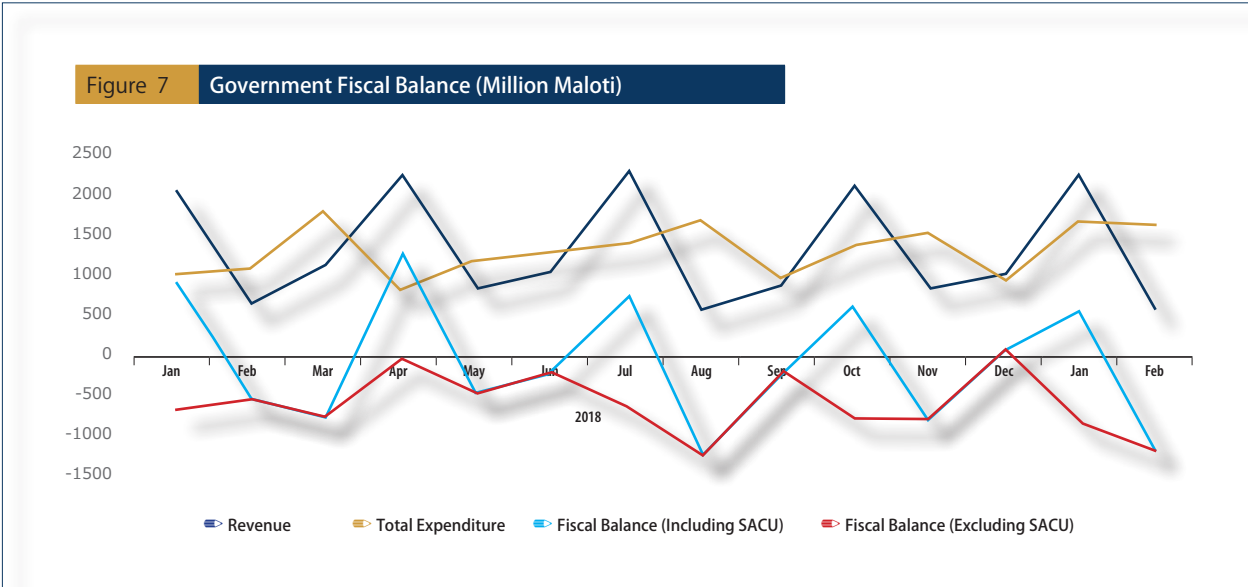
Total Government revenue, excluding SACU receipts, fell by 74.6 per cent during the month under review compared with a rise of 110.8 per cent in January, 2019. The main drivers of the decrease in revenue emanated from a decline in most components, with the exception of sale of electricity from 'Muela. Accordingly, tax revenue declined by 20.6 per cent,

property income by 91.2 per cent, while SACU receipts were not collected during this month.

Fiscal Balance

The gross operating balance during the month of February 2019 registered a deficit of 6.8 per cent of GDP relative to a surplus of 8.8 per cent of GDP in the previous month. The spending on non-financial assets increased the net borrowing (deficit) to 10.9 per cent of GDP. As a result, this exerted pressure on the already fragile fiscus.

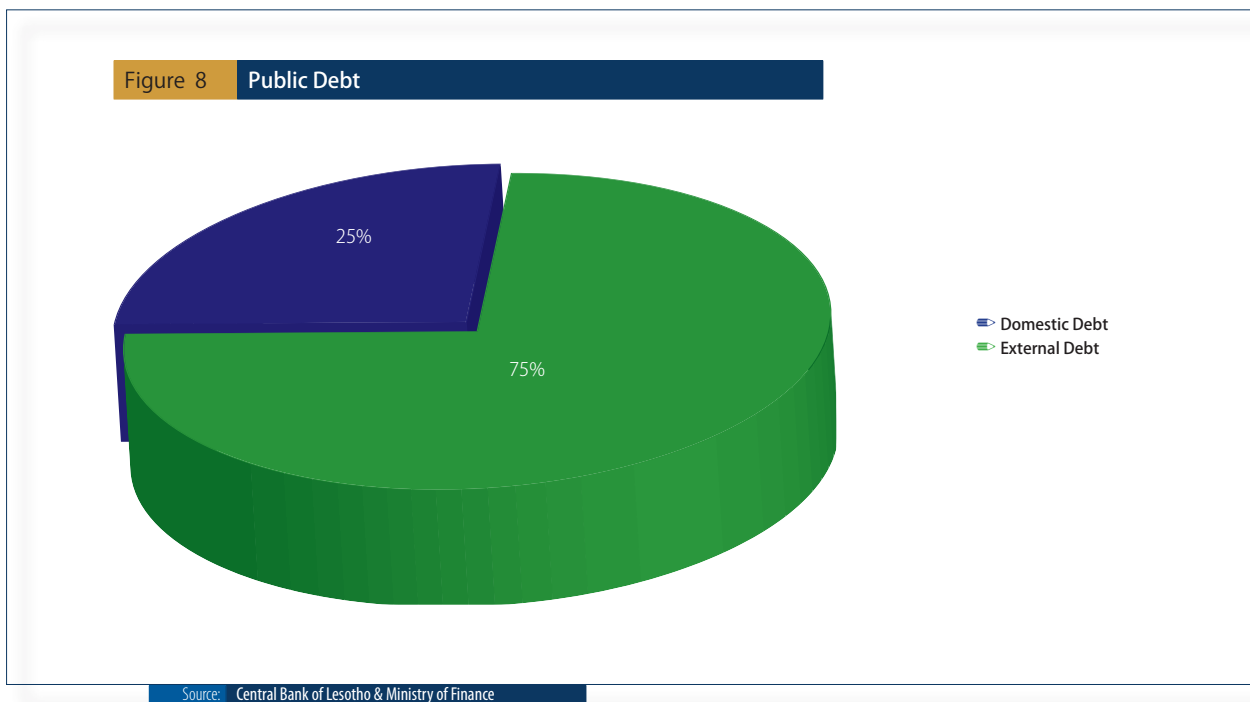
Nevertheless, total financing (or net financial assets) of the fiscal balance registered an increase of 2.2 per cent of GDP. This rise in net financial assets was driven by a sharp fall in liabilities (on net basis), which emanated from a significant fall in 'other accounts payable' and issuance of Treasury bonds during the review period.



V. PUBLIC DEBT

The public debt stock was recorded at 43.0 per cent of GDP in February, 2019 compared with the revised 40.0 per cent of GDP in January, 2019. The said revision has been due to the updated nominal GDP at current prices. The stock of public debt has thus increased by 7.5 per cent, which was attributable to a rise in the domestic debt stock of Treasury bonds held by both banks and non-bank institutions.

The domestic debt increased by 17.9 per cent due to newly issued bonds. By February 2019 the stock of bills (monetary) stood at less than M900.00 million. As a result, the share of domestic debt to the total public debt stock moved up to 25.0 per cent. The external debt stock rose by 4.0 per cent.



Appendix: Key Economic Indicators

	Sep 18	Oct 18	Nov 18	Dec 18	Jan 19	Feb 19		
Economic Activity MIEA (% change, Y/Y)	0.9	0.9	1.0	0.7	0.9	1.1		
Consumer price Index (% change)	<i>Headline Inflation (year-on-year)</i>		5.3	5.0	5.7	4.9	5.0	
	<i>Core Inflation</i>		3.5	3.1	3.8	3.7	3.4	4.3
Exchange Rates (Monthly End Period)	<i>EUR</i>		16.64	17.21	16.01	16.18	15.80	15.68
	<i>GBP</i>		18.86	19.27	18.18	18.03	17.84	17.97
	<i>USD</i>		14.49	14.77	14.09	14.21	13.84	13.82
Interest Rates	<i>CBL Rate</i>		6.50	6.50	6.75	6.75	6.75	6.75
	<i>91 day Treasury bill rate</i>		6.59	6.56	6.69	6.69	6.70	6.60
	<i>Prime lending rate</i>		6.56	6.75	11.25	11.25	11.44	11.44
	<i>1 year deposit rate</i>		6.69	6.75	4.19	4.19	4.36	4.34
Private sector Credit (Millions of Maloti)			6.69	6.75	6,774.95	6,793.04	6,844.78	6,842.06
	<i>Households</i>		6.70	6.75	4,658.90	4,683.52	4,736.54	4,806.15
	<i>Business Enterprises</i>		6.60	2,200.41	2,116.05	2,109.52	2,106.82	2,034.60
Bank Deposit Liabilities (Millions of Maloti)	12,126.08	11,912.00	11,797.76	12,387.65	12,003.84	12,390.29		
Credit to Deposit Ratio (%)	55.67	57.04	57.86	55.23	57.12	55.21		
Fiscal Operations	<i>Total Revenue</i>		821.92	2,008.44	790.01	990.54	2,088.10	531.31
	<i>Total Expenditure</i>		1,002.62	1,367.37	1,511.11	898.00	1,527.58	1,602.80
	<i>O/W Capital</i>		148.81	149.02	179.39	176.64	309.31	402.96
Total Public Debt (Millions of Maloti)			14,711.37	14,513.20	14,472.52	15,500.20	14,798.82	15,156.51
	<i>External Debt</i>		11,667.13	11,546.46	11,504.72	12,328.61	11,050.59	11,371.83
	<i>Concessional</i>		9,332.50	9,246.48	9,205.53	10,041.21	8,771.11	8,801.35
	<i>Non-concessional</i>		2,334.63	2,299.98	2,296.19	2,287.40	2,279.47	2,570.48
	<i>Domestic Debt</i>		3,044.24	2,966.74	2,967.80	3,171.60	3,748.23	3,784.68

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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