



Monthly ECONOMIC REVIEW

July 2018

CENTRAL BANK OF LESOTHO

I. ECONOMIC ACTIVITY

Economic activity increased marginally in the month of July 2018. The hike emanated mostly from the manufacturing and production side of the economy, whereas the demand side of the economy continued to be under pressure.

Overall Performance Index

Economic performance as measured by the monthly indicator of economic activity (MIEA), increased slightly by 0.1 per cent in July 2018 signalling increased economic activity in the economy. Nine of the fourteen component time series which make up the MIEA showed positive contributions, while the remaining five components contributed negatively to the overall Indicator.



Domestic Demand Category

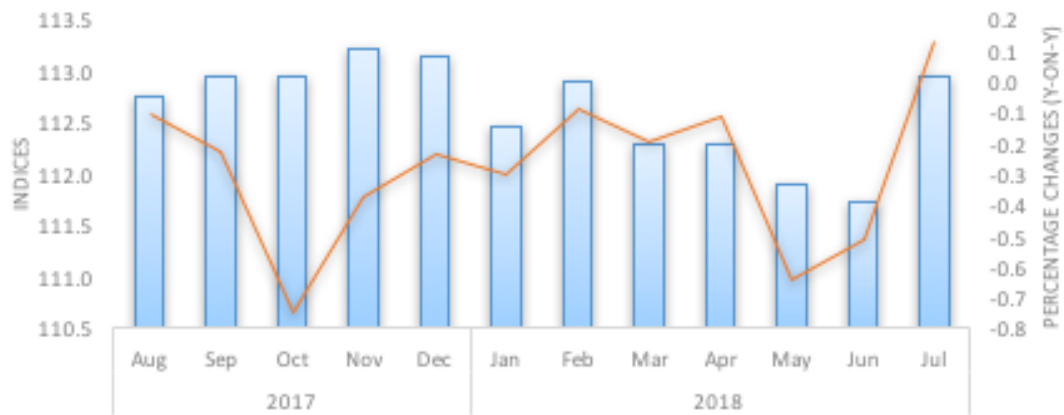
The domestic demand side of the economy continued to be under pressure and it had been registering negative growth since the second half of 2017. The domestic demand category observed a negative growth of 0.8 per cent in July 2018, the main contributor to the negative growth was the fall in compensation of employees, implying a decline in new recruitments from the government sector, while use of goods and services, PAYE and VAT collections remained firm.

Manufacturing & Production Category

The manufacturing and production index increased by 0.3 per cent year-on-year basis in July 2018. The growth was attributable to increased utilities (water and electricity) consumption, signalling increased economic activity from other spheres of production in the economy as evidence by increased demand for inputs of production. On the contrary, the contribution of exports of textiles to the US market was negative indicating reduced demand for our textile and clothing products.



Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2017		2018					
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
CIEA	113,1	112,4	112,9	112,3	112,3	111,9	111,7	112,9
year-on year changes	-0,2	-0,3	-0,1	-0,2	-0,1	-0,6	-0,5	0,1
Domestic Demand Category	113,1	112,0	112,7	111,1	110,6	110,9	112,3	112,7
year on year changes	-1,2	-2,5	-2,2	-3,0	-2,9	-2,8	-0,9	-0,8
Manufacturing & Production Category	104,1	104,5	104,4	104,6	102,9	102,6	102,7	102,8
year on year changes	1,1	1,8	1,7	2,6	0,7	-0,3	0,5	0,3

Source: CBL Calculations

II. INFLATION AND PRICES

Headline Inflation

Lesotho's headline inflation accelerated from 4.0 per cent in June 2018 to 4.1 per cent in July 2018. The main contributors to the acceleration in the headline inflation were, "Food & Non-alcoholic beverages (1.6 percentage points)", "Housing, Water, Electricity, Gas and Other Fuels (a percentage point)" while both "Furnishings, Household Equipment and Routine Maintenance of the House" and "Transport" contributed 0.3 percentage points to the headline inflation. "Alcohol and Tobacco", "Clothing and Footwear", "Recreation and culture", as well as "Miscellaneous good and services" contributed 0.2 percentage points each.

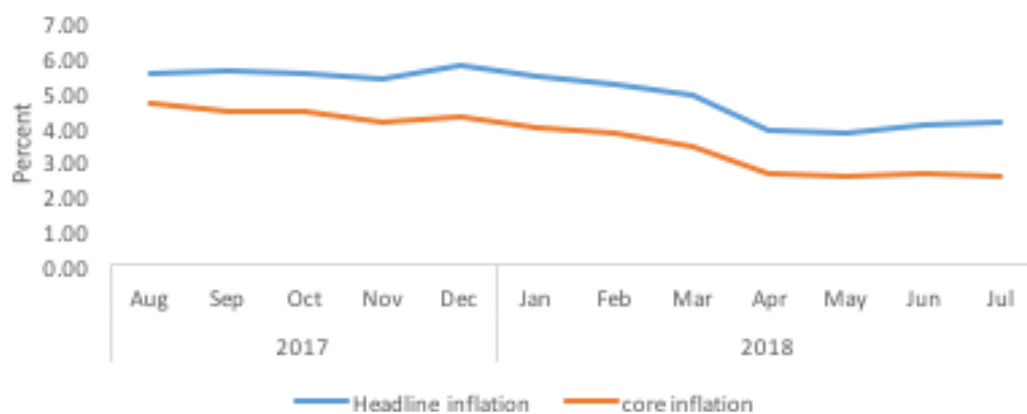
Nonetheless, "Health", "Commutation" and "Restaurant and Hotels" recorded zero contributions each to the headline inflation.

Core Inflation

Core inflation, which excludes the CPI items with extreme price changes, however, decelerated from 2.7 per cent in June to 2.5 per cent in July 2018.

The main contributors behind this development, was the Loti-US Dollar exchange rate depreciation from May to June 2018 and the increase in the in the transport and energy prices, especially the fuel prices. Food prices, however, have declined from June to July 2018 at the back of good harvest of Maize in South Africa.

Figure 2 Headline and Core Inflation (year-on-year changes)

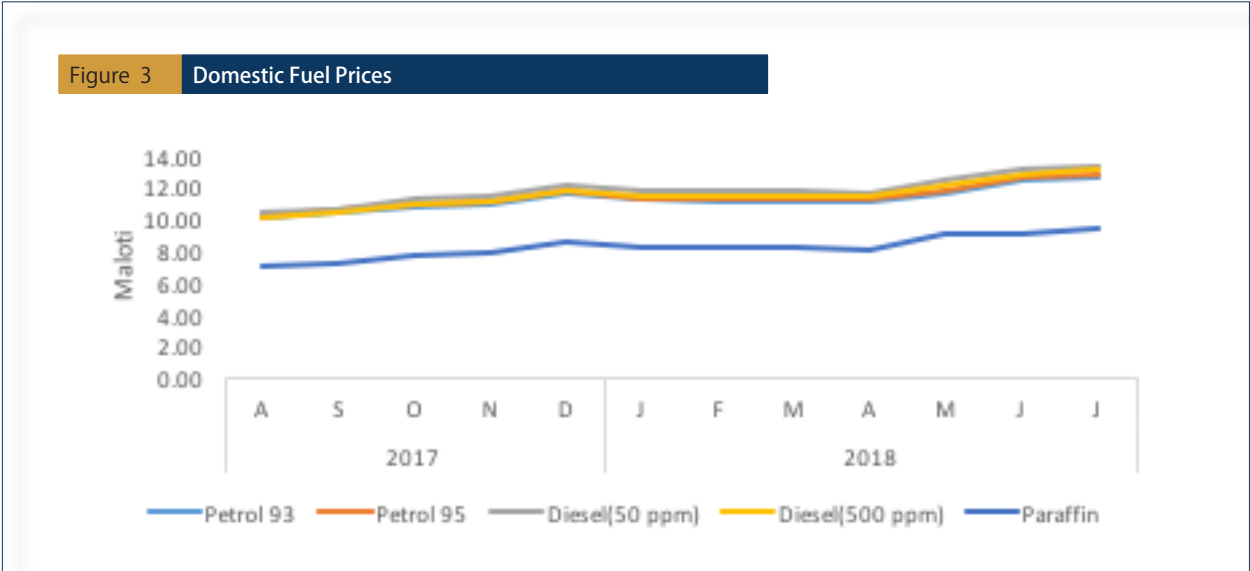


Source: Lesotho Bureau of Statistics & CBL Computations

Domestic Fuel Prices

All domestic fuel prices increased further in July 2018, albeit at slower pace relative to June 2018, except for the paraffin which increased relatively faster. Both Petrol 93 and Petrol 95 increased by M0.20 per

litre to M12.55 per litre for Petrol 93 and M12.70 for Petrol 95 per litre. Both grades of diesel, (50mp and 500mp) increased by M0.25 per litre to M13.30 and M13.05, respectively. Illuminating paraffin increased by M0.25 per litre to M9.30..



Source: CBL Calculations

III. MONETARY AND FINANCIAL INDICATORS

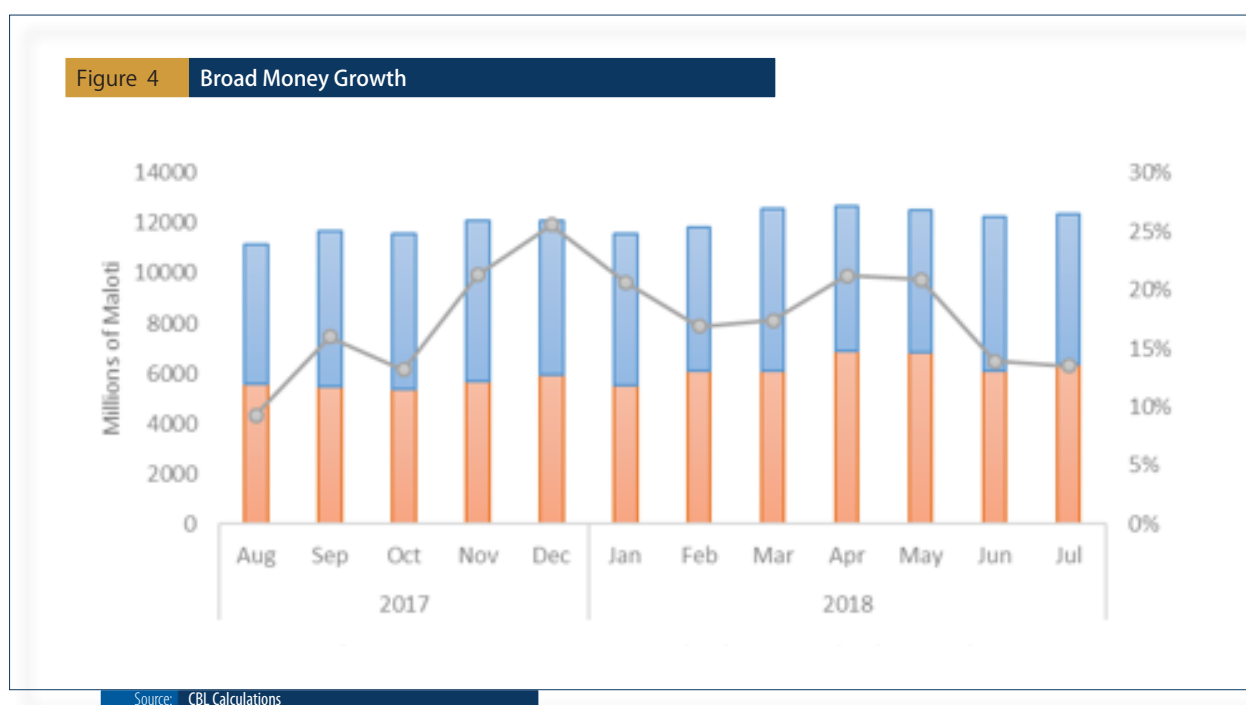
Broad Money (M2)

Money supply increased slightly by 0.7 per cent in July 2018 from a decline of 2.7 per cent in the previous month. The increase in money supply was at the back of a 6.9 per cent increase in Net Foreign Assets (NFA) and this was moderated by a 15.5 per cent fall in domestic claims.

Components of Money Supply

Narrow money declined by 2.7 per cent in the review month, due to a fall in both currency in circulation and demand deposits.

On the contrary, Quasi Money grew by 4.1 per cent in July, following an increase in other deposits by business enterprises.



Determinants of Money Supply

Domestic claims declined significantly by 15.5 per cent during the month under review. This was due to a drastic fall in Central Bank’s net claims on central government.

During the month under review, the overall banking system NFA increased by 6.9 per cent. This is attributable to improvement in official reserves following receipts of SACU revenue.

Credit

Private Sector Credit

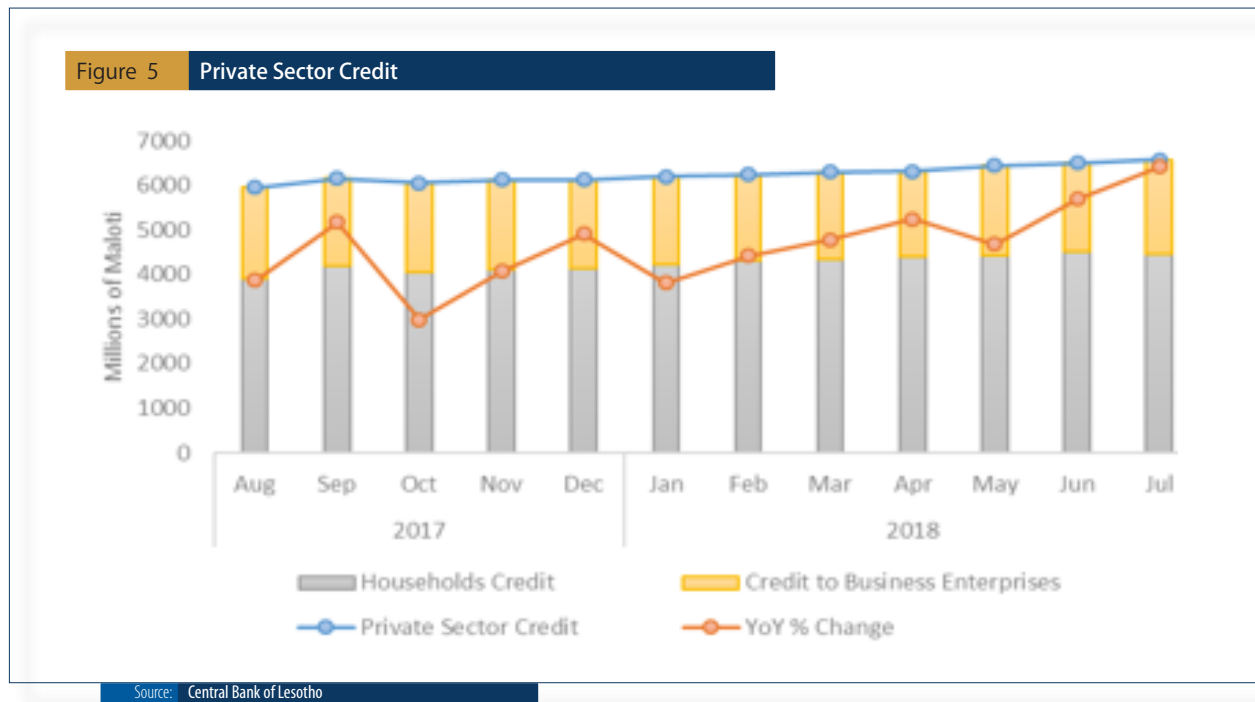
Credit to private sector continued to grow as it registered 0.9 per cent increase compared to 0.8 per cent growth realised in June 2018. The growth in private sector credit was mainly driven by loans extended to business enterprises, which improved by 1.9 per cent.

Credit to Households

Household credit increased albeit at a muted pace of 0.5 per cent. Personal loans rose by 0.5 per cent between June and July 2018, while mortgages increased by 0.4 per cent.

Credit to Business Enterprises

Total credit extended to business sector grew by 1.9 per cent during the month under review. The improvement in business sector credit was mainly caused by increase in credit extended to Mining, Real Estate and wholesale, retail, hotel and restaurant.



Loans

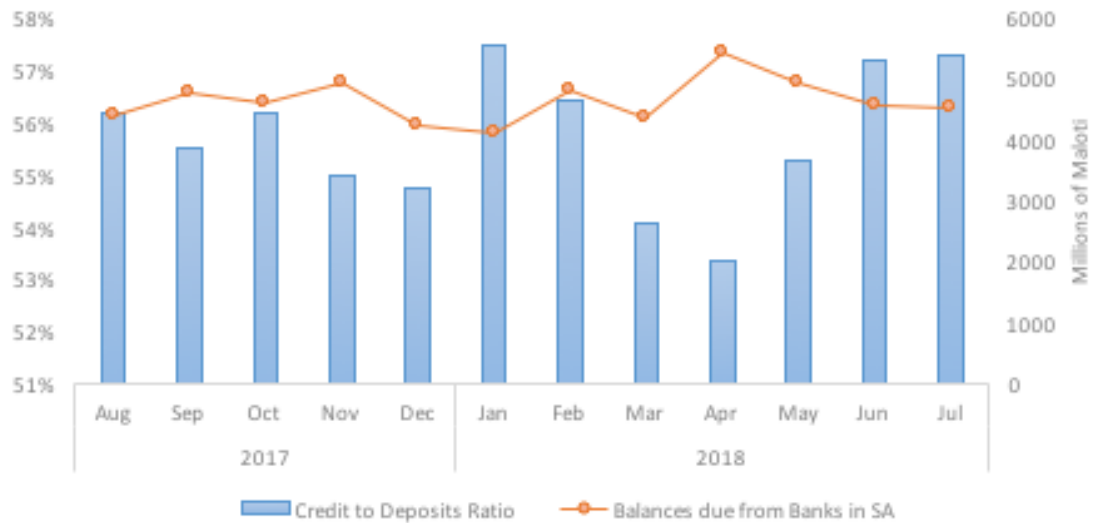
Non-Performing Loans

The overall non-performing loans as share of total loans to private sector declined slightly in July as it registered 3.93 per cent compared to 4.00 per cent registered in June. As a share of total credit extended to business enterprises, non-performing loans accounted for 4.47 per cent in July up from 2.69 recorded in June. On the contrary, non-performing loans to households fell from 3.62 per cent in June to 3.47 per cent in July.

Sources of Funds

The credit to deposit ratio remained unchanged at 57.6 per cent in July. Total Deposits showed a marginal growth of 0.9 per cent during the month of July. This was a result of an increase in other deposits by business enterprises.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The Central Bank of Lesotho (CBL) policy rate remained constant at 6.50 per cent between June and July 2018. On the other hand, the Commercial banks' prime lending rate declined to 11.19 per cent in July, from 11.31 per cent observed in June 2018. In the similar manner, the 1-year deposit rate fell to 4.19 per cent in the review month from 4.30 per cent recorded in the previous month. The 91-day T-bill rate declined by 29 basis points to 6.59 per cent between June and July 2018.

Foreign Exchange Rates

The loti strengthened against major trading currencies in July 2018. This movement occurred ahead of the release of the CPI series, which increased slightly, and causing the SARB to hold repo rate constant. In addition, the rand/loti strengthened further after South Africa secured positive deals at the BRICS summit.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

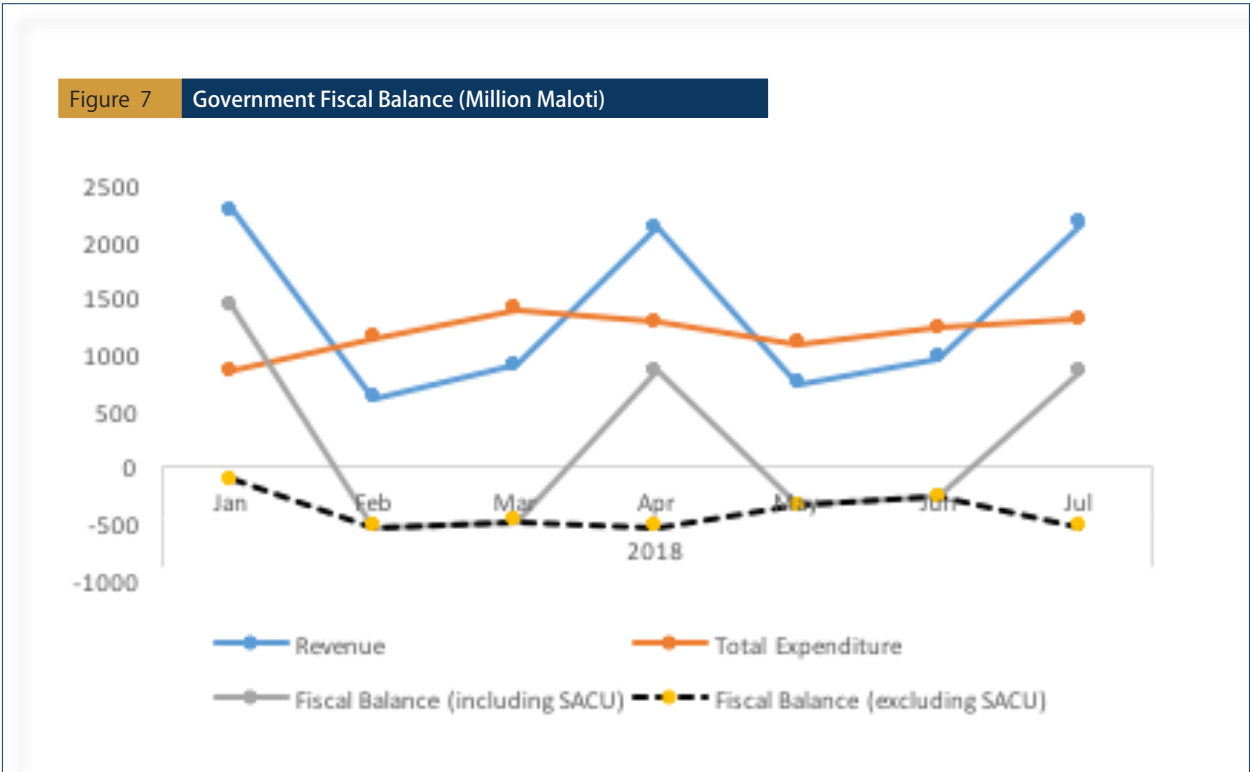
Total Government spending increased by 6.3 per cent in July 2018. The rise was predominantly due to ‘buildings and structure’ and ‘machinery and equipment’ which both increased by more than 100 per cent respectively as budget execution set in motion. However, the recurrent expenses declined by 0.7 per cent as a result of a significant fall in the ‘use of goods and services’, ‘interest payments’, subsidies, and ‘other expense’. Nonetheless, Compensation of employees increased by 20.9 per cent, while the ‘social benefits’ rose by 61.5 per cent.

Total Revenue

The total revenue increased by 124.2 per cent in July 2018 due to SACU receipts, which replenish on the first month of every quarter. This compares with a rise of 30.8 per cent realised in the previous month. All other revenue items declined with exception of ‘property income on rent’ and VAT, which expanded by 41.3 per cent and 13.8 per cent, respectively.

Fiscal Balance

As a result of SACU receipts, the Government budgetary operations realised a fiscal surplus equivalent to 64.5 per cent of the total outlays for the month. This is almost the same level as the primary balance, which stood at 65.5 per cent. The primary balance measures the current fiscal stance that excludes debt financing.



Source: Central Bank of Lesotho & Ministry of Finance

V. PUBLIC DEBT

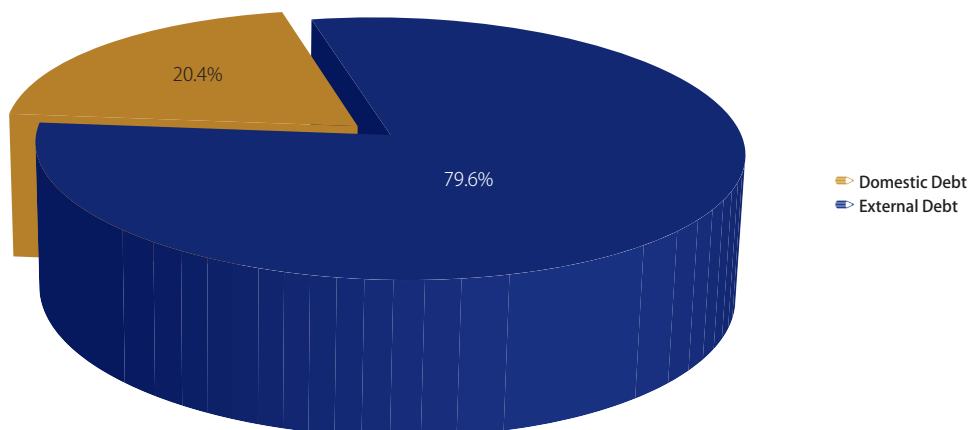
In July 2018, the stock of public debt was estimated at 35.7 per cent of GDP, which was 0.3 per cent decline from the previous month. The decrease was mainly due to currency appreciation since external debt accounted for 79.6 per cent of the total public debt stock. As a result, the 'concessional and non-concessional' external debt registered a marginal fall of 0.1 per cent and 0.2 per cent respectively.

The weighted average interest rate on external debt was estimated at 1.7 per cent, resulting in interest

payment worth M9.59 million. The residual maturity of external debt ranged from 12.2 years to 31.7 years, a declining trend compared to June 2018.

The domestic debt declined by 1.2 per cent in July 2018 in contrast to the revised rise of 10.7 in June 2018. The outstanding stock of Treasury Bills slightly increased by 0.1 per cent in July 2018 compared with 3.7 per cent in June 2018. There was no change in the Treasury Bonds.

Figure 8 Public Debt



Source: Central Bank of Lesotho & Ministry of Finance

Appendix: Key Economic Indicators

		Feb 18	Mar 18	Apr 18	May 18	Jun 18	Jul 18
Economic Activity MIEA (% change, Y/Y)		-0.1	-0.2	-0.1	-0.6	-0.5	0.1
Consumer price Index (% change)	Headline Inflation (year-on-year)	5.2	4.8	4.8	3.8	4.0	4.1
	Core Inflation	3.8	3.5	2.7	2.6	2.7	2.5
Exchange Rates (Monthly End Period)	EUR	14.37	14.63	15.01	14.68	16.04	15.66
	GBP	16.25	16.69	17.07	16.75	18.11	17.65
	USD	11.76	11.87	12.42	12.57	13.76	13.40
Interest Rates	CBL Rate	7.00	7.00	6.75	6.50	6.50	6.50
	91 day Treasury bill rate	6.24	6.22	6.20	6.16	6.88	6.50
	Prime lending rate	11.56	11.63	11.56	11.44	11.31	11.19
	1 year deposit rate	4.30	4.65	4.51	4.23	4.30	4.19
Private sector Credit (Millions of Maloti)		6246.76	6326.25	6313.33	6472.27	6537.27	6596.43
	Households	1974.30	1924.46	2037.32	2090.01	4532.01	2130.17
	Business Enterprises	4351.95	4388.86	4434.96	4447.26	1975.83	4466.26
Bank Deposit Liabilities (Millions of Maloti)		10964.18	11562.05	11689.27	11570.79	11284.82	11383.06
Credit to Deposit Ratio (%)		56.4	54.1	53.3	55.2	57.6	57.6
Fiscal Operations	Total Revenue	601.89	897.84	2115.85	733.20	958.84	2149.74
	Total Expenditure	1136.54	1391.2	1276.93	1084.57	1229.41	1306.48
	O/W Capital	58.17	197.69	0.03	133.01	64.96	150.03
Total Public Debt (Millions of Maloti)		12728.29	12942.60	13045.41	13167.92	14141.71	14094.66
	External Debt	9971.44	10026.45	10364.66	10409.57	11224.54	11213.73
	Concessional	7683.14	7749.66	8068.73	8110.81	8889.19	8881.90
	Non-concessional	2288.30	2276.78	2295.93	2298.76	2335.35	2331.83
	Domestic Debt	2346.50	2701.84	2577.94	2635.84	2917.17	2880.92

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.

© 2018 July Central Bank of Lesotho

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without fully acknowledging the Monthly Economic Review of Central Bank of Lesotho as the source.

The contents of this publication are intended for general information only and are not intended to serve as financial or other advice. While every precaution is taken to ensure the accuracy of information, the Central Bank of Lesotho shall not be liable to any person for inaccurate information or opinions contained in this publication.

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

