



Monthly ECONOMIC REVIEW

June 2018

CENTRAL BANK OF LESOTHO

The Bank launches the Monthly Indicator of Economic Activity (MIEA) as the anchor of the Monthly Economic Review

Introductory Note

One of the Bank's strategic objectives is to adapt to changing stakeholder needs. The Bank also strives to be the trusted authority on economic analysis and reporting. The Bank has noted that its various stakeholders need economic information regularly. The Bank is pleased to be able to respond to this need through the re-launch of the *Monthly Economic Review (MER)*. Our readers would recall the MER as a short articles periodical on topical issues. We have shifted the focus from the short articles to a snapshot of key economic indicators.

Economic activity has for a long time been available annually with the release of the national accounts data. A few years back the Bank developed a quarterly indicator while the quarterly national accounts were published for the first time at the end of last year (2017).

It is with a sense of responsibility and pride to advise that the Bank has developed a monthly indicator of economic activity (MIEA), which will be the staple feature of this publication.

We trust that our valued stakeholders will find value in the shorter and more regular frequency of the update.



I. ECONOMIC ACTIVITY

Economic activity increased in the month of June 2018. The hike was mainly on account of positive pressure from both the demand and manufacturing & production sides of the economy.

Overall Performance Index

Economic performance is measured by the monthly indicator of economic activity (MIEA). The year-on-year increase in the MIEA was 0.3 per cent for the month of June 2018. Eight of the fourteen component time series which make up the MIEA showed positive contributions, while the remaining six components contributed negatively to the overall Indicator.

Domestic Demand Category

The domestic demand side of the economy contributed immensely to the observed increase in the overall economic performance index, and the largest positive contributions emanated mostly from significant increases in VAT collections, followed by personal income tax, and government expenditure. This is reflected by a 1.1 per cent increase in the domestic demand index in June 2018.

Manufacturing & Production Category

The manufacturing and production index increased by 0.5 per cent year-on-year basis in June 2018. The growth was attributable to, amongst others, increases in industrial electricity and water consumption.

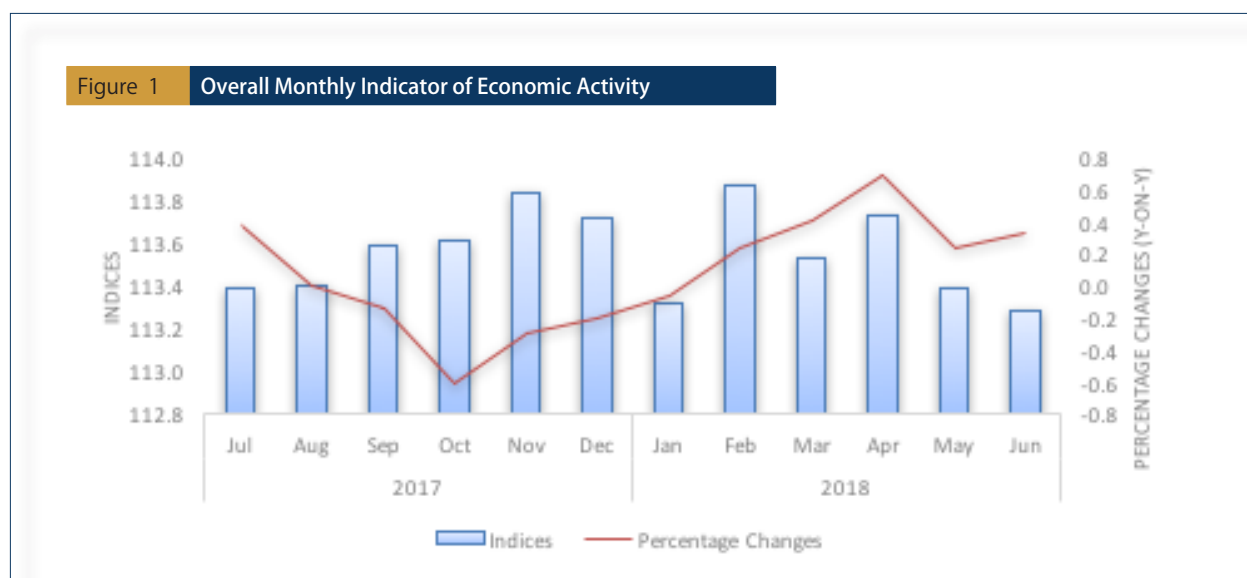


Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2017		2018					
	Nov	Dec	Jan	Feb	Mar	Apr	May	June
MIEA	113.8	113.7	113.3	113.9	113.5	113.7	113.4	113.3
year-on year changes	-0.3	-0.2	-0.1	0.2	0.4	0.7	0.2	0.3
Domestic Demand Category	114.7	114.4	114.0	114.9	114.0	114.1	114.4	115.7
year on year changes	-0.9	-1.0	-1.6	-1.2	-1.3	-0.7	-0.5	1.1
Manufacturing & Production Category	104.4	104.1	104.5	104.4	104.6	102.9	102.6	102.7
year on year changes	0.6	1.1	1.8	1.7	2.6	0.7	-0.3	0.5

Source: CBL Calculations

II. INFLATION AND PRICES

Headline Inflation

Lesotho's headline inflation accelerated from 3.8 per cent in May 2018 to 4.0 per cent in June 2018. The increases in prices for "Food & Non-alcoholic beverages", "Alcohol and Tobacco", "Housing, Water, Electricity, Gas and Other Fuels" and "Transport" contributed to increasing headline inflation between May and June 2018. Nonetheless, "Furnishings, Household Equipment and Routine Maintenance of the Houses", "Recreation and culture", Restaurant and hotels "and "Miscellaneous good and services" moderated the increase..

Core Inflation

Core inflation, which excludes the CPI items with extreme price changes, also rose from 2.6 per cent in May 2018 to 2.7 per cent in June 2018.

The main drivers behind the acceleration, was the Loti-US Dollar exchange rate depreciation from May to June 2018 and the increase in the energy prices, especially the fuel prices. Food prices have also been rising in South Africa and this has fed into Lesotho's increasing food price trends during the review period.

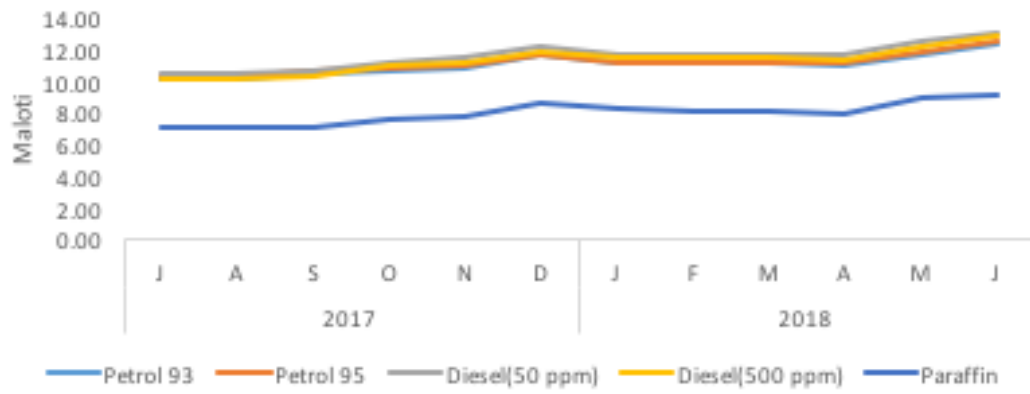


Source: Lesotho Bureau of Statistics & CBL Computations

Domestic Fuel Prices

Domestic fuel prices increased in June 2018. Petrol 93 increased by M0.75 per litre to M12.35 and petrol 95 increased by M0.70 per litre to M12.50. Both grades of diesel, (50mp and 500mp) increased by M0.65 per litre to M13.05 and M12.80, respectively. Illuminating paraffin increased by M0.10 per litre to M9.05.

Figure 3 Domestic Fuel Prices



Source: CBL Calculations

III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

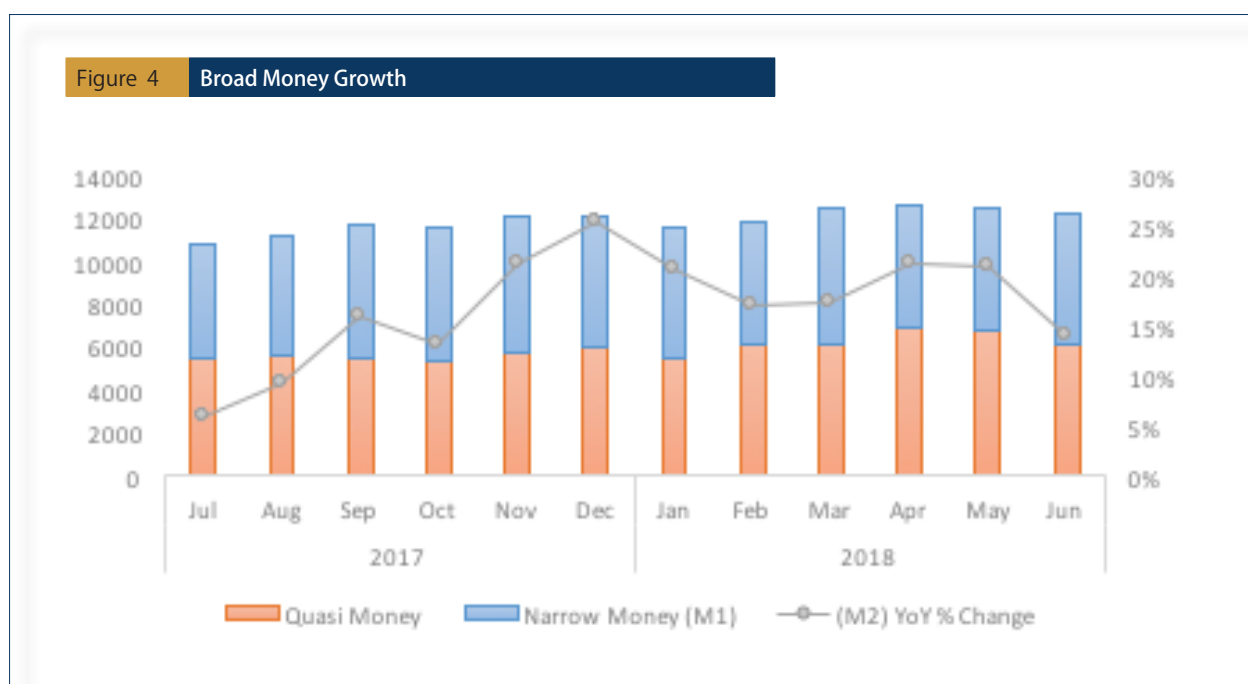
Money supply declined by 2.1 per cent in June 2018 following a fall of 1.1 per cent during the previous month. This was because of a 0.1 per cent decline in overall Net Foreign Assets (NFA), which was moderated by a 2.3 per cent growth in domestic claims.

Domestic Demand Category

Components of Money Supply

Narrow money increased by 8.0 per cent in June, due to an increase in transferable deposits included in broad money.

Quasi Money declined by 10.4 per cent in June as a result of a fall in other deposits by business enterprises.



Source: CBL Calculations



Determinants of Money Supply

Domestic claims, including net claims on government, increased by 2.3 per cent in June 2018, following an increase in commercial banks net claims on government, coupled with a moderate increase in claims on private sector.

During the month under review, the overall banking system NFA declined by 0.1 per cent. This was attributed to the decline in deposits held with South African banks, which lead to 7.9 per cent reduction in commercial banks NFA. However, Central NFA moderated the impact..

Private Sector Credit

The manufacturing and production index increased by 0.5 per cent year-on-year basis in June 2018. The growth was attributable to, amongst others, increases in industrial electricity and water consumption.

Credit to private sector registered an increase of 0.8 per cent in June 2018. Credit to households increased by 2.6 per cent, whereas credit to business enterprises declined by 3.0 per cent. The overall non-performing loans stood at 4.0 per cent of credit extended.

Credit to Households

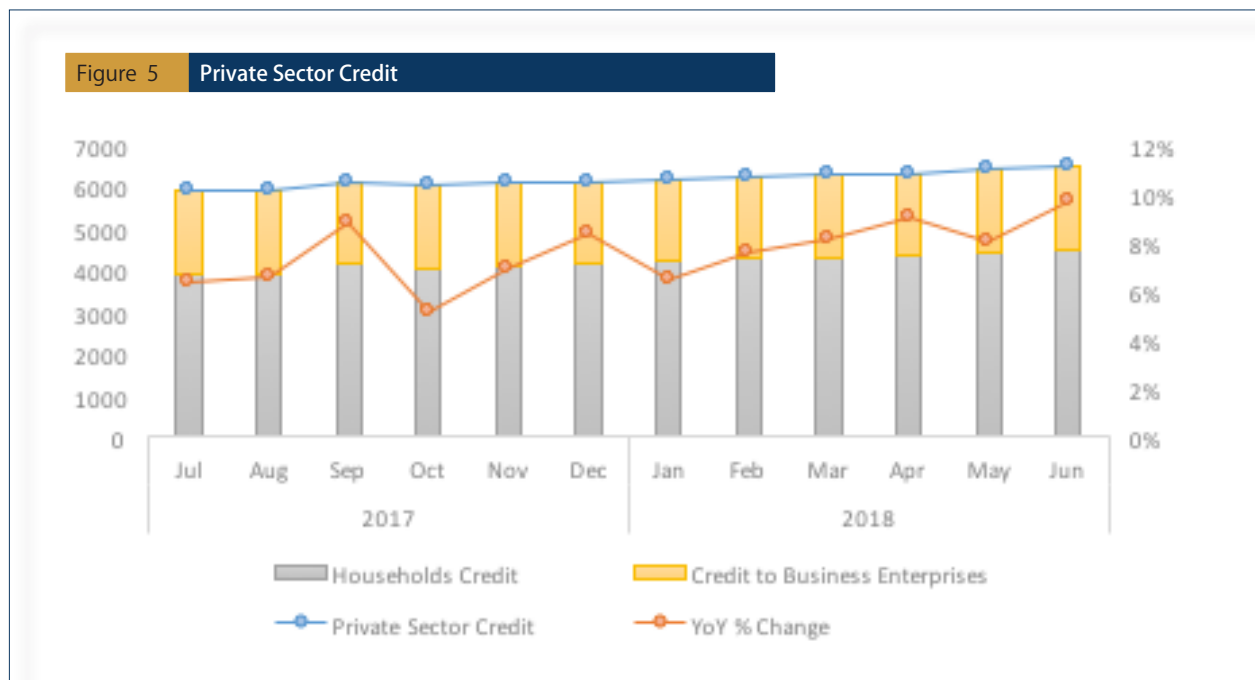
Personal loans rose by 3.3 per cent during the month of June, whereas mortgage loans increased at 0.9 per cent.

Non-performing loans were 2.7 per cent and 5.4 per cent of personal and mortgage loans extended, respectively.

Credit to Business Enterprises

Credit extended to business sector increased by 0.3 per cent during the period under review. Non-performing loans to credit extended to business enterprises recovered from 5.8 per cent in May to 2.7 per cent in June 2018.

Mining, and wholesale, retail, hotel and restaurant recorded the biggest expansion in credit.



Source: Central Bank of Lesotho

Sources of Funds

The credit to deposit ratio rose from 55.2 per cent in May, to 57.2 per cent in June. This was in light of a decline in total deposits, coupled with a slight increase in credit to the private sector. Total Deposits fell by 2.5 per cent in June following a decline of 1.0 per cent in May 2018, and this was mainly at the back of decline in other deposits by business enterprises.

Interest Rates

The CBL policy rate remained stable at 6.50 per cent between May and June 2018, while Commercial banks' prime lending rate declined from 11.44 per cent in May to 11.31 per cent in June. On the contrary, the 1-year deposit rate increased from 4.23 per cent to 4.30 per cent during the review period. The 91-day T-bill rate also increased by 71.6 basis points, from 6.16 per cent to 6.88 per cent, between May and June 2018.

Foreign Exchange Rates

The loti depreciated against major trading currencies during the review period. The US dollar strengthened against the loti/rand as the Fed raised interest rates, coupled with a rise in US yields during the review period. The Euro accelerated after Italy's euro-sceptic coalition government confirmed to pursue structural reforms. In addition, the European Central Bank (ECB) made an official announcement to end their asset-purchase program, which boosted the currency further. In response, the pound sterling gained upon release of the data showing a significant increase in UK's retail sales; which raised market expectations for a rate hike as early as August.

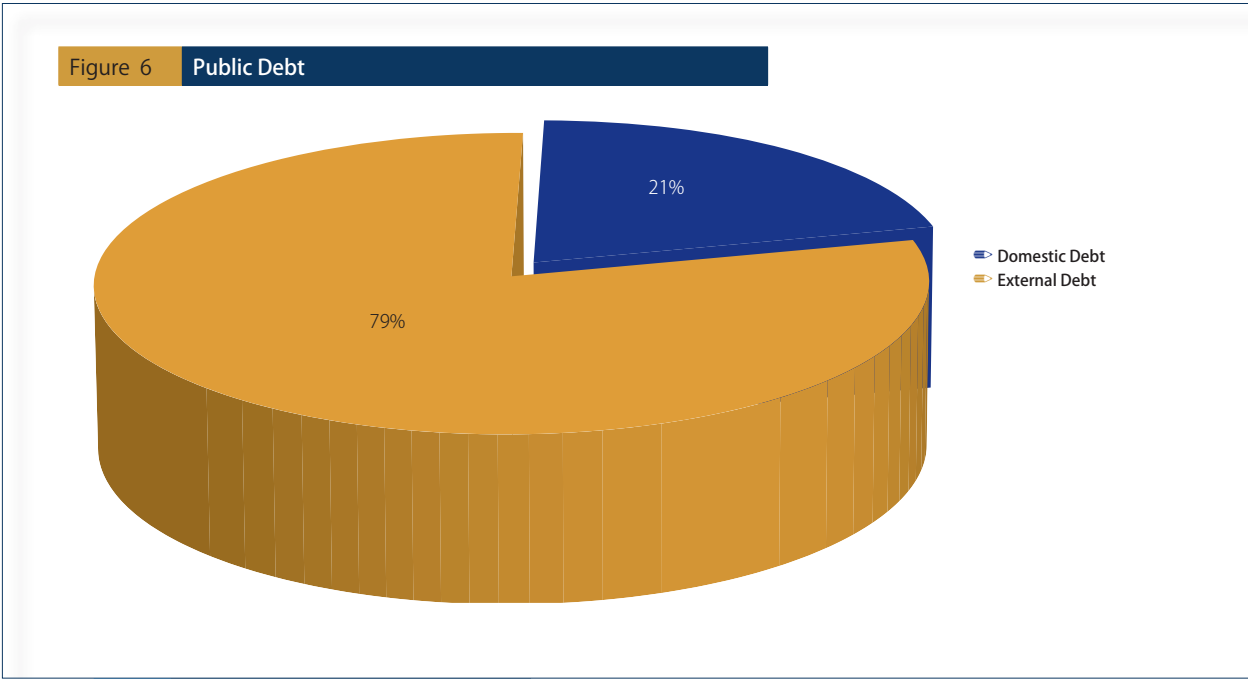
IV. PUBLIC DEBT

The public debt stock stood at M13.15 billion, which is an equivalent of 33.3 per cent of GDP. The gross borrowing (disbursements) for the month was recorded at M32.10 million, while the redemption constituted M60.40 million. The public debt stock consisted of 78.7 per cent external public debt leaving the residual to the domestically issued debt stock.

The currency mix under foreign denominated public debt constituted 45.5 per cent of special drawing rights, 15.4 per cent of Euro loans, 13.7 per cent of US dollar loans, 7.0 per cent of loans in African Development Bank's Units of Accounts, 5.5 per cent

of Chinese Yuan, and other currencies attributed the tune of 12.9 per cent. The weighted average interest rate on external debt was 1.8 per cent, which yielded a payment of M19.10 million. The average residual maturity of external debt ranged from the lowest 12.28 years to the peak of 31.93 years.

The domestic debt, in terms of Treasury Bills, accumulated by M170.00 million of the new debt, and with it M137.00 million was the maturing debt during the month of June, 2018. The outstanding stock of Bills amounted to M865.66 million. The Treasury Bonds expanded by M25.49 leaving the total outstanding stock of Bonds at M1,26 billion.



Source: Central Bank of Lesotho

Appendix: Key Economic Indicators

		Jan 18	Feb 18	Mar 18	Apr 18	May 18	Jun 18
Economic Activity		-0.1	0.2	0.4	0.7	0.2	0.3
MIEA (% change, Y/Y)							
Consumer price Index (% change)	Headline Inflation (year-on-year)	5.3	5.2	4.8	3.8	3.8	4.0
	Core Inflation	4.0	3.8	3.5	2.7	2.6	2.7
Exchange Rates (Monthly End Period)	EUR	14.78	14.37	14.63	15.01	14.68	16.04
	GBP	16.81	16.25	16.69	17.07	16.75	18.11
	USD	11.86	11.76	11.87	12.42	12.57	13.76
Interest Rates	CBL Rate	7.00	7.00	7.00	6.75	6.50	6.50
	91 day Treasury bill rate	6.26	6.24	6.22	6.20	6.16	6.88
	Prime lending rate	11.50	11.56	11.63	11.56	11.44	11.31
	1 year deposit rate	4.30	4.30	4.65	4.51	4.23	4.30
Private sector Credit (Millions of Maloti)		6,211.93	6,246.76	6,314.94	6,316.28	6,455.74	6,507.85
	Households	4,223.82	4,308.53	4,340.64	4,391.81	4,418.42	4,532.01
	Business Enterprises	1,988.11	1,938.22	1,974.30	1,924.46	2,037.32	1,975.83
Bank Deposit Liabilities (Millions of Maloti)		10,707.60	10,964.18	11,562.05	11,689.27	11,570.79	11,284.82
Credit to Deposit Ratio (%)		57.4	56.4	54.1	53.3	55.2	57.2
Total Public Debt (Millions of Maloti)		12,422.56	12,317.94	12,728.29	12,942.60	13,045.41	13,167.92
	EXTERNAL DEBT	10,039.76	9,971.44	10,026.45	10,364.66	10,409.57	10,376.53
	Concessional	7,737.03	7,683.14	7,749.66	8,068.73	8,110.81	8,080.71
	Non-concessional	2,302.73	2,288.30	2,276.78	2,295.93	2,298.76	2,295.82
	DOMESTIC DEBT	2,382.80	2,346.50	2,701.84	2,577.94	2,635.84	2,791.39
	Treasury bonds	957.84	957.84	1,097.44	1,097.44	1,097.44	1,255.60
	Central Bank (IMF-ECF)	736.36	721.89	729.70	705.87	703.98	670.13
	Treasury bills	688.59	666.77	874.70	774.63	834.43	865.66

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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