



Monthly ECONOMIC REVIEW

April 2019

CENTRAL BANK OF LESOTHO

I. ECONOMIC ACTIVITY

Economic activity registered a relatively lower growth rate in April 2019 compared with that observed in the previous month. The major driver behind the observed growth continued to be supported by domestic demand while the production side remained sluggish.

Overall Performance Index

Economic performance as measured by the monthly indicator of economic activity (MIEA), increased by 1.0 per cent in April 2019, compared with a growth of 1.3 per cent in March 2019. The growth was attributed to positive contributions from the nine component variables of the fourteen variables, that make up the index, while the remaining five variables contributed negatively. Domestic demand variables together with the transportation subsector continued to support the observed economic performance. In addition, credit to the private sector showed a substantial positive growth supporting economic activity further in the review month.

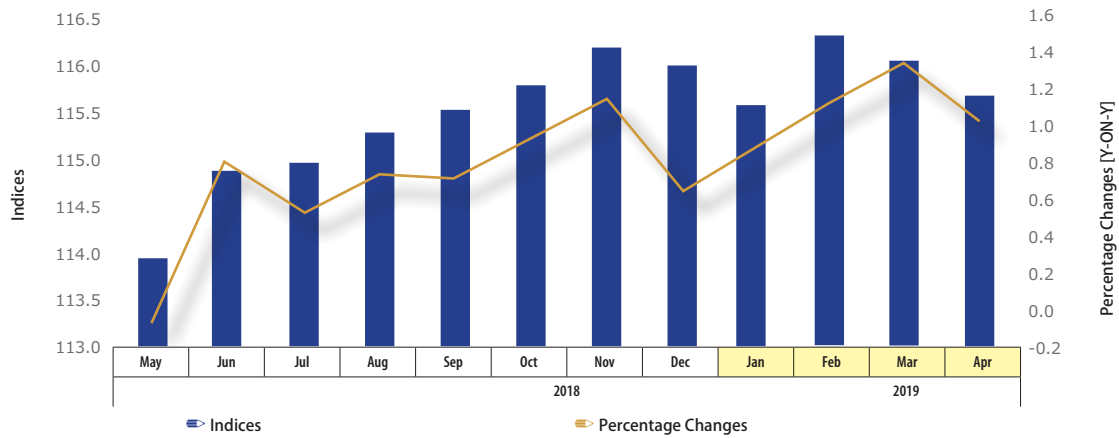
Domestic Demand Category

The domestic demand index showed a sustained positive growth in the month of April 2019 compared with the previous month. This category was estimated to have grown by 3.1 per cent compared with the 3.7 per cent growth in March 2019. The development mainly represented major positive contributions from VAT and PAYE collections and imports of goods and services. The observed trend signalled strong demand for goods and services in the economy. However, government performance remained sluggish in the review month as shown by negative contribution from the government use of goods and services.

Manufacturing & Production Category

The production index continued to decline in the review month. The index declined by 2.1 per cent in April 2019 following a decline of 1.8 per cent in the preceding month. The decline continued to emanate from electricity and water consumption used for production purposes, thus signalling a persistent deterioration in domestic production.

Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2018				2019			
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
CIEA	115.6	115.8	116.2	115.9	115.6	116.2	115.9	115.6
year-on year changes	0.9	1.0	1.1	0.8	1.0	1.1	1.3	1.0
Domestic Demand Category	112.8	113.5	113.9	113.2	113.5	115.6	115.2	114.1
year on year changes	0.2	0.9	0.9	0.6	1.7	2.7	3.7	3.1
Manufacturing & Production Category	109.2	109.2	108.7	109.3	108.2	108.2	107.1	106.8
year on year changes	1.3	0.4	0.7	0.1	-0.6	-0.9	-1.8	-2.1

Source: CBL Calculations

II. INFLATION AND PRICES

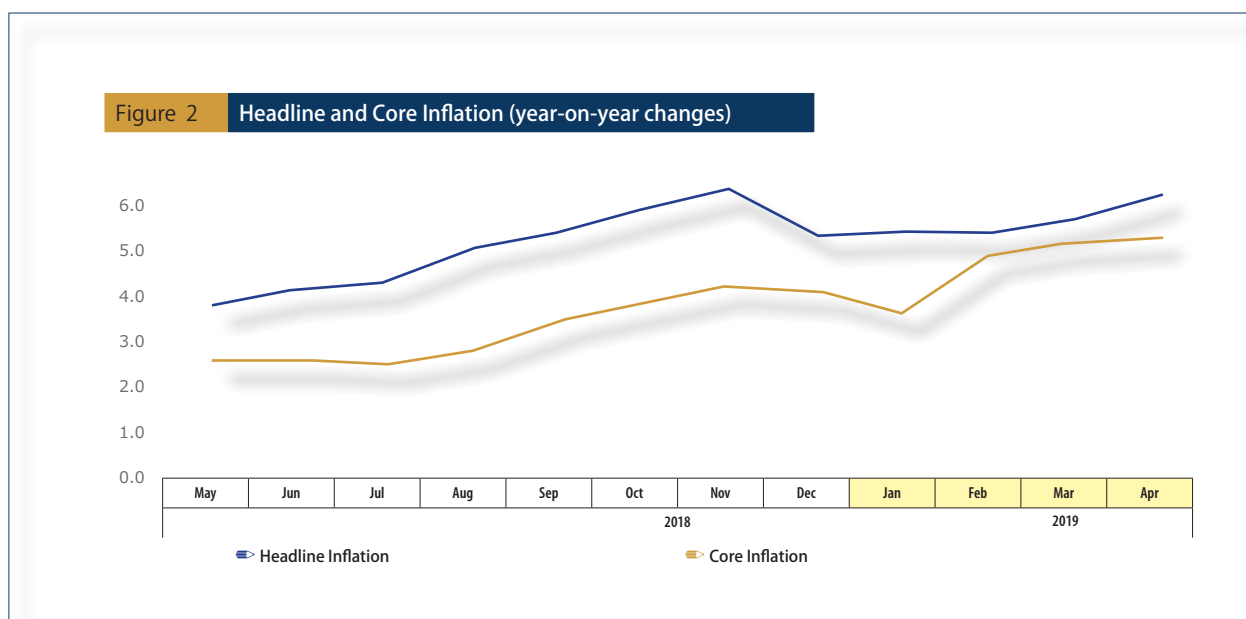
Headline Inflation

The headline inflation rate accelerated to 5.6 per cent in April 2019 from 5.2 per cent estimated in March 2019. The Food and non-alcoholic beverages, Housing, electricity, gas and other fuels and the Transport divisions contributed significantly to the acceleration in headline inflation in April 2019. Nonetheless, Clothing and footwear, Communications, as well as Miscellaneous goods and services divisions moderated the increase in inflation.

Core Inflation

Core inflation, which excludes the CPI items with extreme price changes, also accelerated slightly from 4.5 per cent in March 2019 to 4.6 per cent in April 2019.

The main drivers behind acceleration in headline inflation rate were high food prices, especially maize meal and the increases in energy prices. Nonetheless, the exchange rate appreciation¹ moderated the impact of the food and energy prices increase during the review month.

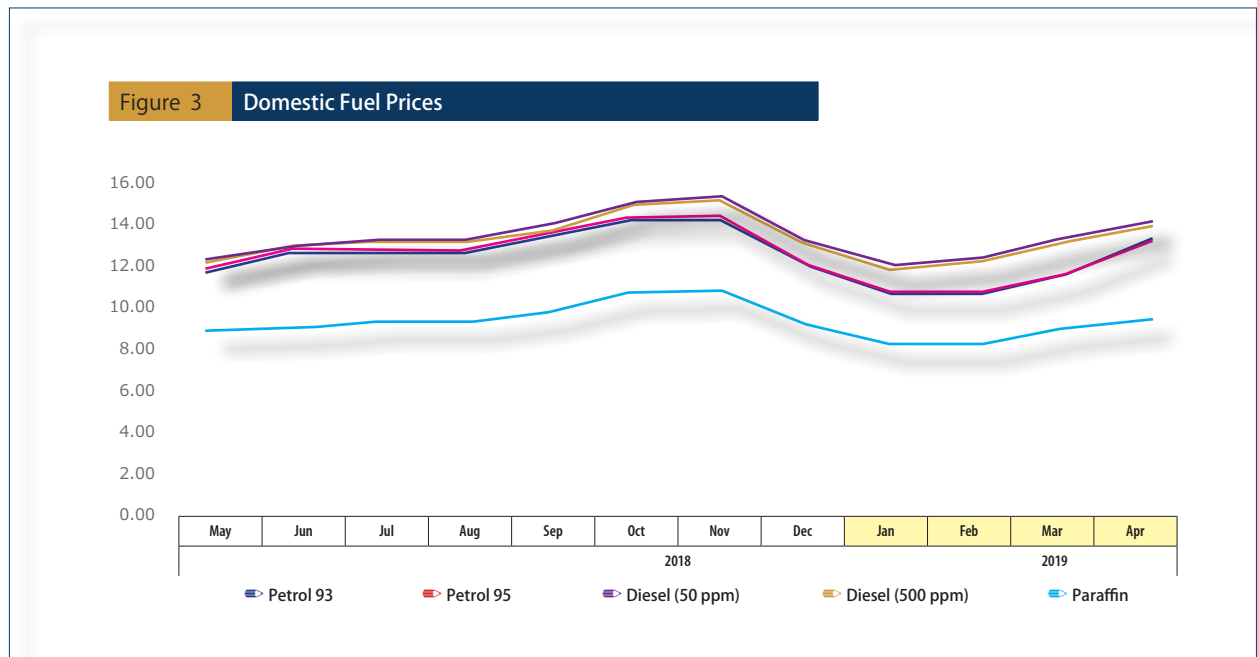


¹ End of period exchange rate

Domestic Fuel Prices

All of the domestic fuel prices increased in April 2019 from their levels observed in March 2019. The prices of both petrol grades - (petrol93 and petrol95) increased by M1.50 per litre and M1.45 per litre to reach M12.95 per litre and M12.90 per litre,

respectively. The prices of the two diesel grades, diesel50 and diesel500, increased by M0.80 per litre and M0.75 per litre respectively. The price of illuminating paraffin increased by M0.35 per litre to M9.35 in April 2019.



Source: Lesotho Petroleum Fund

III. MONETARY AND FINANCIAL INDICATORS

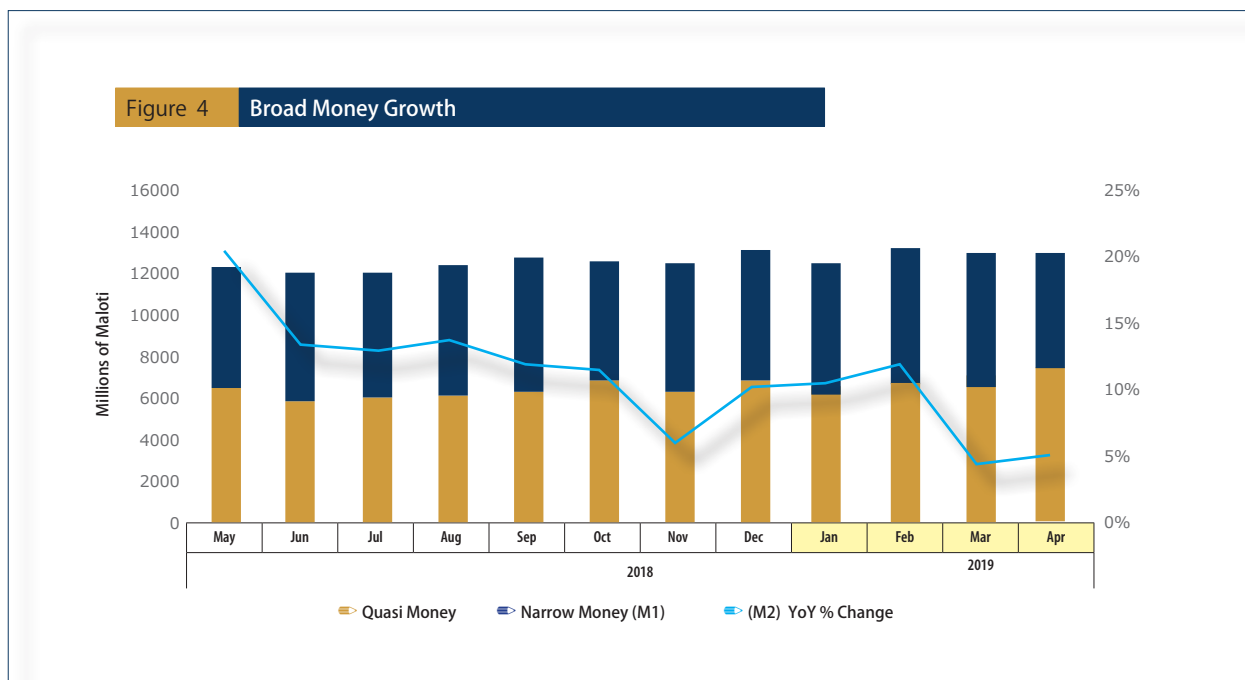
Broad Money (M2)

In April 2019, broad money (M2) rebounded to an increase of 1.5 per cent from a decline of 1.3 per cent in March 2019. This was mainly due to a growth of 9.0 per cent in net foreign assets (NFA), which was partially offset by a 21.2 per cent decline in net domestic credit. The rise in NFA was influenced by a growth in both central bank and commercial banks' NFA coupled with an overall decline in foreign liabilities. The fall in net domestic credit was at the back of a decline in the net government position

with the banking system, which was caused by receipts of SACU revenue in April 2019.

Components of Money Supply

Considering the components of money supply, the rise in M2 was due to a growth of 5.6 per cent in other deposits, moderated by a 3.2 per cent decline in M1. The rise in other deposits was at the back of a significant increase in both time and call deposits held by business enterprises with commercial banks.



Source: CBL Calculations

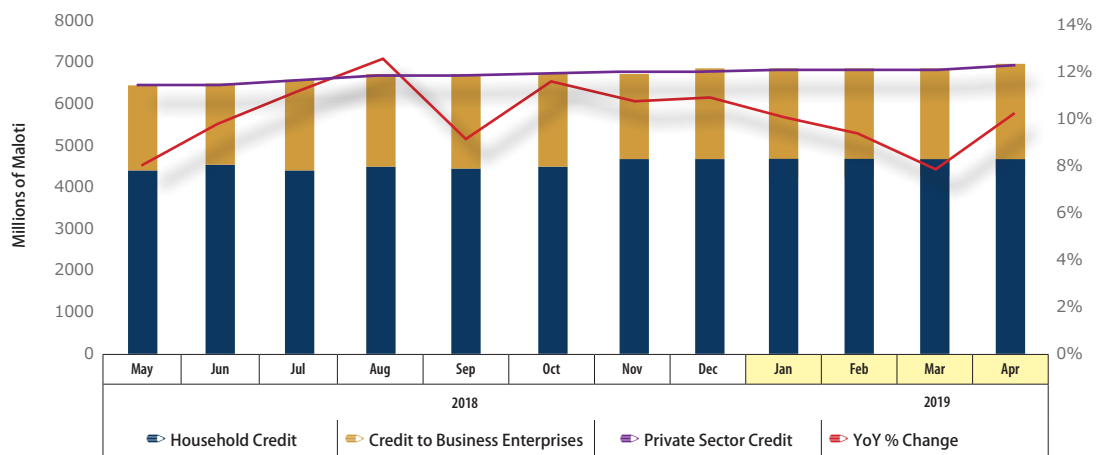
Credit

Private Sector Credit

Credit to the private sector picked up in the month of April 2019, increasing by 2.1 per cent from a fall of 0.3 per cent in the preceding month. The rise in private sector credit was at the back of an increase of 5.3 per cent in credit extended to business enterprises, indicating an improved position after

five consecutive months of negative growth. A substantial amount of growth in credit to business enterprises was liable to the mining and quarrying sector, which increased by 17.4 per cent, followed by the construction sector with an increase of 8.3 per cent. Private sector credit was further enhanced by the growth in households' credit, which saw an increase of 0.8 per cent in April 2019.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

Loans

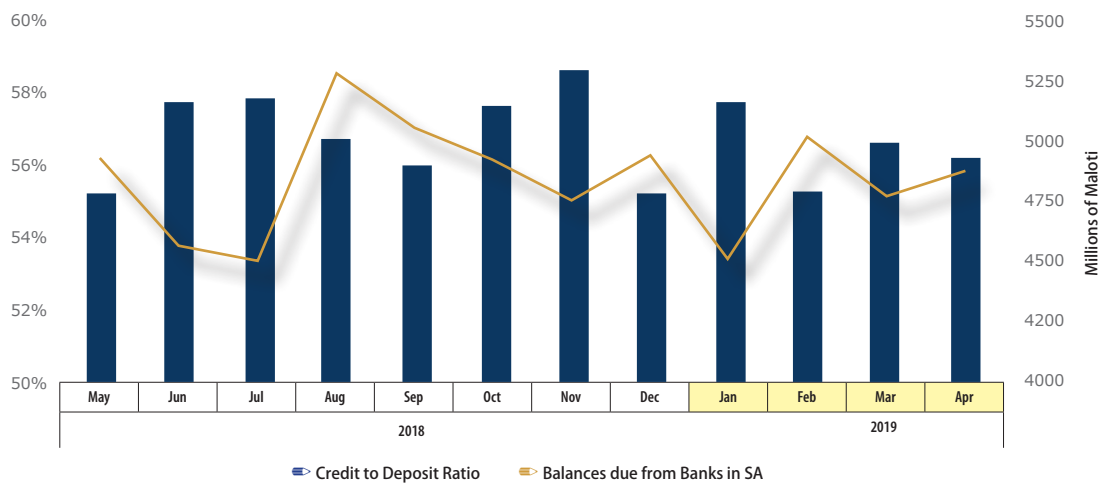
Non-Performing Loans

Total non-performing loans (NPLs) as a share of total loans and advances continued on a downward trajectory as they declined to 3.3 per cent from 3.4 per cent recorded in March 2019. NPLs emanating from business enterprises contributed to the fall in overall NPLs. In particular, business enterprises NPLs as a share of total loans dropped from 1.1 per cent to 1.0 per cent. On the contrary, households NPLs as a share of total loans increased from 2.2 per cent to 2.3 per cent.

Sources of Funds

The credit to deposits ratio declined marginally from 56.3 per cent to 56.1 per cent between March 2019 and April 2019. This was on account of a sluggish growth in credit compared to a stronger increase in total deposits held by commercial banks.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The Central Bank of Lesotho's Monetary Policy Committee (MPC) kept the policy rate at 6.75 per cent, following its sitting of 2nd April 2019. The 91-day T-Bill rate declined marginally by 0.04 percentage points to 6.56 per cent in the month under review. Moreover, the prime lending rate and the one-year deposit rate remained unchanged at 11.44 per cent and 4.3 per cent respectively.

Foreign Exchange Rates²

The rand, hence, the loti, depreciated against the major global trading currencies in April 2019, relative to March 2019. It depreciated by 1.78 per cent against the dollar, 2.83 per cent against the pound and 2.33 per cent against the euro. The rand weakened as there were signs of weakening manufacturing output in China- the Manufacturing PMI rose less than expected.

¹ Monthly average exchange rate.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

Total Government spending slowed in April 2019. Recurrent expenditure declined by 29.2 per cent in the month under review as opposed to a decline of 16.6 per cent in the preceding month. The reduction in recurrent expenditure mainly reflected a fall in expenditure on compensation of employees, use of goods and services and interest payments by 35.0 per cent, 99.4 per cent and 81.4 per cent respectively. The decline was coupled with no spending on social benefits.

Capital expenditure declined significantly by 87.3 per cent during the month under review. The significant decrease in capital expenditure stemmed from no spending on capital projects.

Arrears in this first fiscal month were observed under recurrent expenditure and they constituted 0.01 per cent of GDP.

Total Revenue

Total Government revenue collection in the month under review was 24.9 per cent of GDP following 15.5 per cent of GDP in the previous month. This is equivalent to 60.7 per cent increase compared to an increase of more than 100.0 per cent in March 2019.

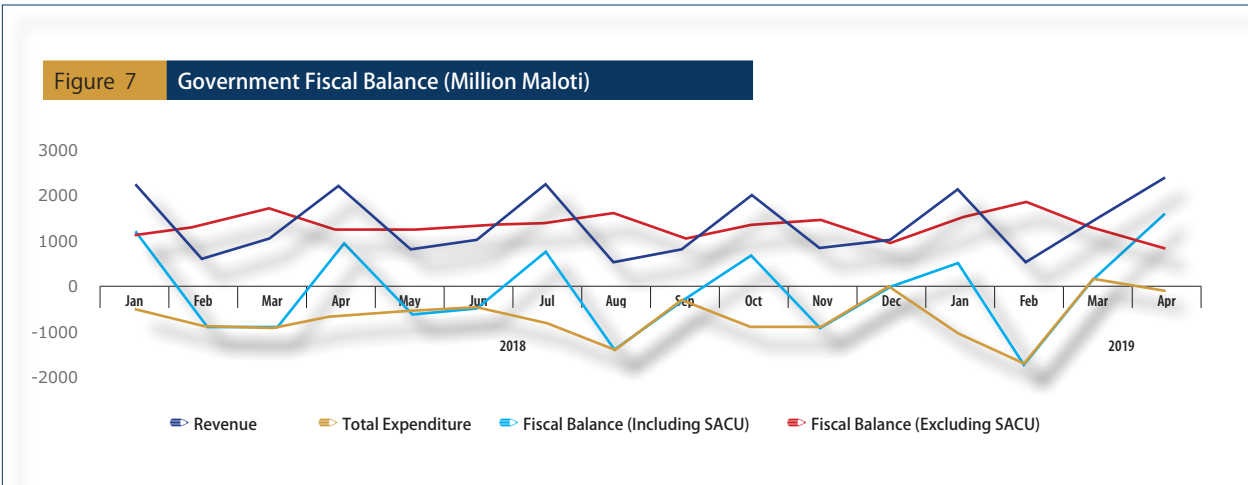
The main share of Government revenue in April 2019 comes from SACU receipts which accounts for 68.3 per cent of total revenue.

However, tax revenue underperformed during the first month of the fiscal year with all components of tax revenue declining. Nonetheless, other revenue increased by 97.9 per cent owing to dividends pay-out.

Fiscal Balance

Overall fiscal operations resulted into a surplus of 16.9 per cent of GDP, which is higher than the surplus of 2.1 per cent of GDP recorded in the preceding month. Fiscal balance surplus follows the surplus on gross operating balance of 17.2 per cent owing largely to an expansion in revenue and a contraction in expenses.

Financing recorded an increase of 14.6 per cent of GDP in April 2019 compared to 5.2 per cent of GDP in March 2019. This was due to an increase in net acquisition of financial assets caused by SACU receipts, while the net incurrence of liabilities declined mainly due to low accumulation of arrears in this month.

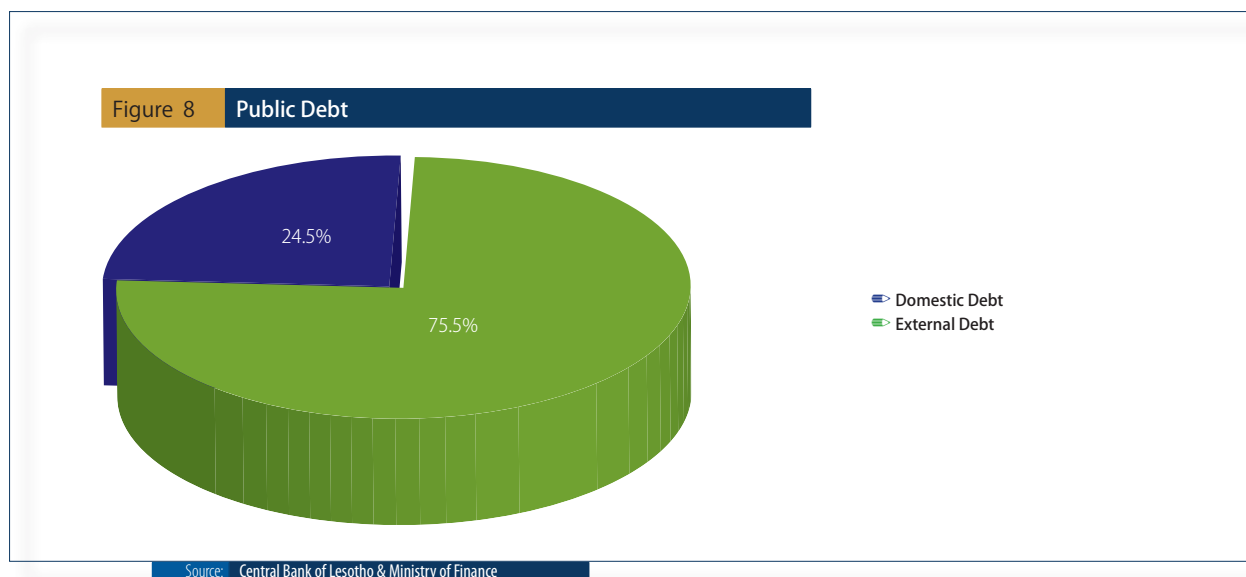


Source: Central Bank of Lesotho & Ministry of Finance

V. PUBLIC DEBT

The public debt stock rose marginally by 0.9 per cent recording 42.8 per cent of GDP. The rise in debt stock was a result of an increase in external debt. The increase in external debt was due to a depreciation of the local currency against major global trading currencies, while the decline in

domestic debt was on account of a fall in the IMF extended credit facility loan. Consequently, the share of external debt and domestic debt stood at 75.5 per cent and 24.5 per cent of total outstanding debt respectively.



Appendix: Key Economic Indicators

		18-Nov	18-Dec	19-Jan	19-Feb	19-Mar	19-Apr
Economic Activity MIEA (% change, Y/Y)		1.1	0,8	1.0	1.1	1.3	1.0
Consumer price Index (% change)	Headline Inflation (year-on-year)	5.7	4.9	5	5	5.2	5.6
	Core Inflation	3.8	3.7	3.4	4.3	4.5	4.6
Exchange Rates (Monthly End Period)	EUR	16.01	16.18	15.8	15.68	16.26	16.05
	GBP	18.18	18.03	17.84	17.97	18.96	16.63
	USD	14.09	14.21	13.84	13.82	14.39	14.31
Money Supply (Millions of Maloti)	M2	12,821.30	13,400.60	12,837.73	13,305.55	13,135.38	13,332.46
	M1	6,279.43	6,158.64	5,992.88	6,245.79	6,087.97	5,890.57
	Quasi Money	6,541.87	7,241.96	6,844.85	7,059.76	7,047.41	7,441.90
Interest Rates	CBL Rate	6.75	6.75	6.75	6.75	6.75	6.75
	91 day Treasury bill rate	6.69	6.69	6.7	6.6	6.6	6.56
	Prime lending rate	11.25	11.25	11.44	11.44	11.44	11.44
	1 year deposit rate	4.19	4.19	4.36	4.34	4.34	4.34
Private sector Credit (Millions of Maloti)		6,774.95	6,793.04	6,844.78	6,842.06	6,822.54	6,968.55
	Households	4,658.90	4,683.52	4,736.54	4806.15	4789.86	4,828.40
	Business Enterprises	2,116.05	2,109.52	2,106.82	2,034.60	2032.68	2,140.15
Bank Deposit Liabilities (Millions of Maloti)		11,797.76	12,387.65	12,003.84	12,390.29	12,153.23	12,411.43
Credit to Deposit Ratio (%)		57.86	55.23	57.12	55.21	56.25	56.08
Fiscal Operations	Total Revenue	790.01	990.54	2,088.1	531.31	1,419.19	2,280.18
	Total Expenditure	1,511.11	898.00	1527.58	1,602.80	1,146.45	737.27
	O/W Capital	179.39	176.64	309.31	402.96	145.71	28.61
Total Public Debt (Millions of Maloti)		14,472.52	15,500.20	14,798.82	15,156.51	15,534.97	15,674.31
	External Debt	11,504.72	12,328.61	11,050.59	11,371.83	11,651.54	11,841.46
	Concessional	9,205.53	10,041.21	8,771.11	8,801.35	9,121.81	9,314.38
	Non-concessional	2,296.19	2,287.40	2,279.47	2,570.48	2,529.73	2,527.08
	Domestic Debt	2,967.80	3,171.60	3,748.23	3,784.68	3,883.43	3,832.85
	Memo Item: Arrears					223.22	0.85

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.

Government Budgetary Operations

In the process of improving compilation of Government expenditure using Government Finance Statistics Manual 2014 (GFSM 2014) of the International Monetary Fund, the Government spending for the month of March 2019 has been disaggregated into due-for-payments and commitments (normal payment delays or arrears).

The due-for-payments spending transactions refer to the payment instructions from the Government's IFMIS system to the Central Bank of Lesotho for actual payment process. The commitments are described as pending spending transactions in respect of delivered goods and services, which have passed their due date for payments, and hence, the arrears. The data on these components (arrears and due-for-payments) fulfil the aim of GFSM 2014 which requires the Governments to compile the spending, among others, using accrual basis method of recording.

However, in terms of Lesotho's expenditure data, interest payments of loans are still being compiled using cash basis method of recording. All other expenditure components (including use of goods and services, compensation of employees, and social benefits) are in accrual basis.

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