



Monthly ECONOMIC REVIEW

November 2019

CENTRAL BANK OF LESOTHO

I. ECONOMIC ACTIVITY

Economic activity continued on a steady growth rate in November 2019. Activity was mostly supported by high domestic demand while production side continued to be under pressure in the review month.

Overall Performance Index

Growth in economic activity as measured by the monthly indicator of economic activity (MIEA), remained unchanged at 0.1 per cent in November 2019. The growth was attributed to positive contributions from eight variable components that make up the MIEA while the other six variables moderated the positive performance. This continued to benefit from domestic demand, increased activity in the construction sector, as indicated by high imports of cement and metallic products. In addition, credit to the private sector contributed positively to the overall economic activity in the month under review, together with high consumption of fuels indicative of increased activity in the transport subsector.

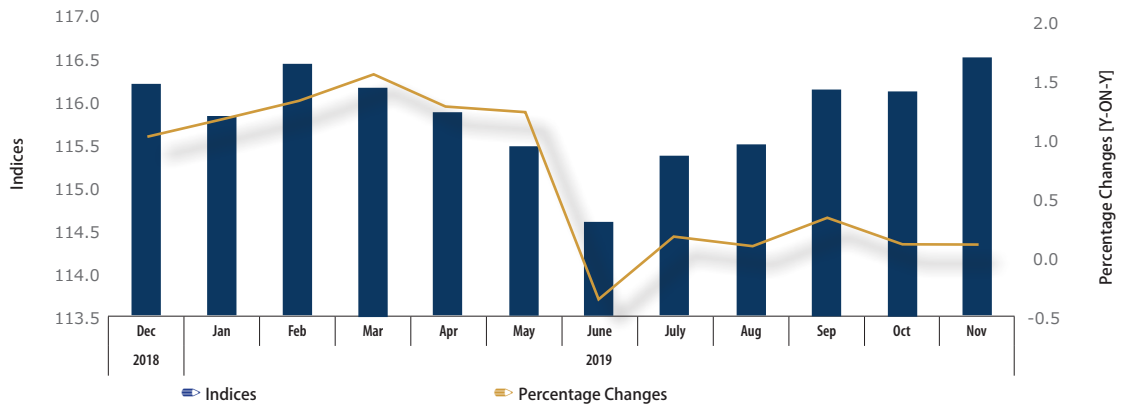
Domestic Demand Category

The domestic demand index registered a slightly lower growth rate of 1.0 per cent in November 2019 relative to the 1.4 per cent realised in the previous month. The growth was mainly attributable to positive contributions from government compensation of employee, PAYE collections, signifying increased earnings. Imports of goods and services also contributed positively, signalling increased consumption during the month under review. However, VAT collections contributed negatively for the second consecutive month moderating the growth in the demand side.

Manufacturing & Production Category

The production index continued on the stable negative growth for the third month in a row. The index declined by 2.6 per cent in November, the same rate recorded in October. The decline came as a result of negative contributions from water and electricity consumption used for production purposes, as well as, exports of textiles. The observed trend suggests the productive activity in the economy continues to be under pressure.

Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2019							
	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov
CIEA	115.9	115.5	114.6	115.4	115.5	116.1	116.1	116.5
year-on year changes	1.2	1.2	-0.4	0.2	0.1	0.3	0.1	0.1
Domestic Demand Category	114.4	113.8	112.5	114.2	114.4	115.2	115.2	115.1
year on year changes	3.2	2.2	0.0	1.0	1.3	1.9	1.4	1.4
Manufacturing & Production Category	106.8	106.8	105.1	105.6	105.3	105.9	105.4	106.2
year on year changes	-1.6	-0.9	-2.5	-2.0	-2.9	-2.6	-2.6	-2.6

Source: CBL Calculations

II. INFLATION AND PRICES

Headline Inflation

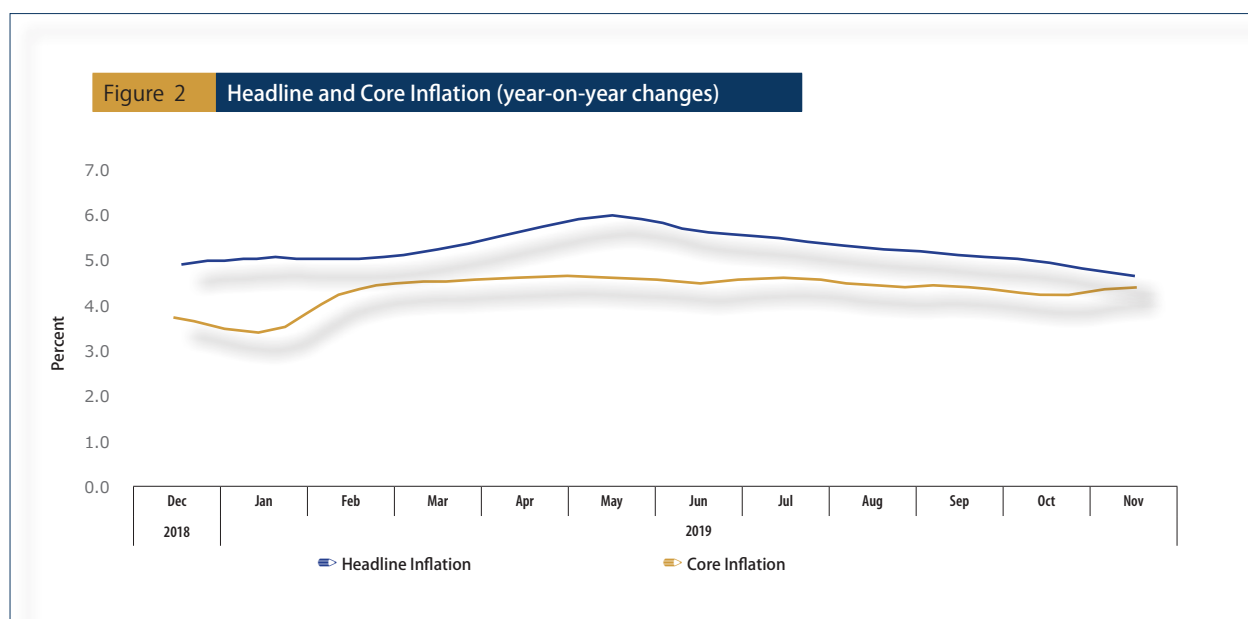
The headline inflation rate decelerated to 4.6 per cent in November 2019 from 4.9 per cent in October 2019. The 0.3 percentage points decrease was mainly due to the contribution of Housing, electricity, gas & other fuels, Food & Non-alcoholic beverages and Transport.

Nonetheless, Furnishings, Household Equipment and Routine Maintenance of household, Clothing & Footwear as well as Recreation and Culture

moderated the disinflation during the review period. The deceleration in inflation rate was mainly attributed to the fall in the energy prices, especially the fuels and lubricants, food prices such as vegetables, as well as, bread and cereals during the review period.

Core Inflation

Nonetheless, the core inflation, which excludes the CPI items with extreme price changes, accelerated from 4.2 per cent in October 2019 to 4.4 per cent in November 2019.

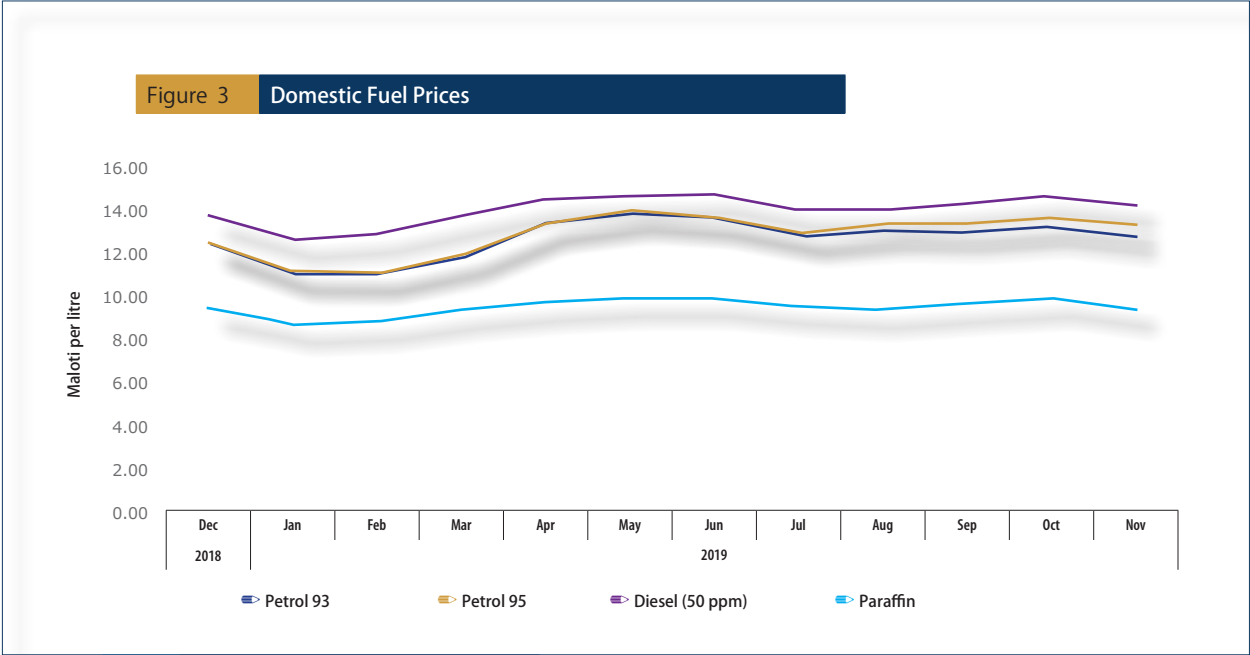


Source: Lesotho Bureau of Statistics & CBL Computation

Domestic Fuel Prices

All of the domestic fuel prices decreased from October 2019 to November 2019. The pump prices of petrol93 and petrol95 decreased by 40 lisente, and 35 lisente per litre to reach M12.35 and M12.80 per litre November 2019, respectively. The price of

diesel50 also decreased by 40 lisente per litre and was M13.70 per litre during the review period. The price of illuminating paraffin decreased by 40 lisente per litre from M9.50 per litre in October 2019 and was sold at M9.10 per litre at the pump in November 2019.



Source: Petroleum Fund

III. MONETARY AND FINANCIAL INDICATORS

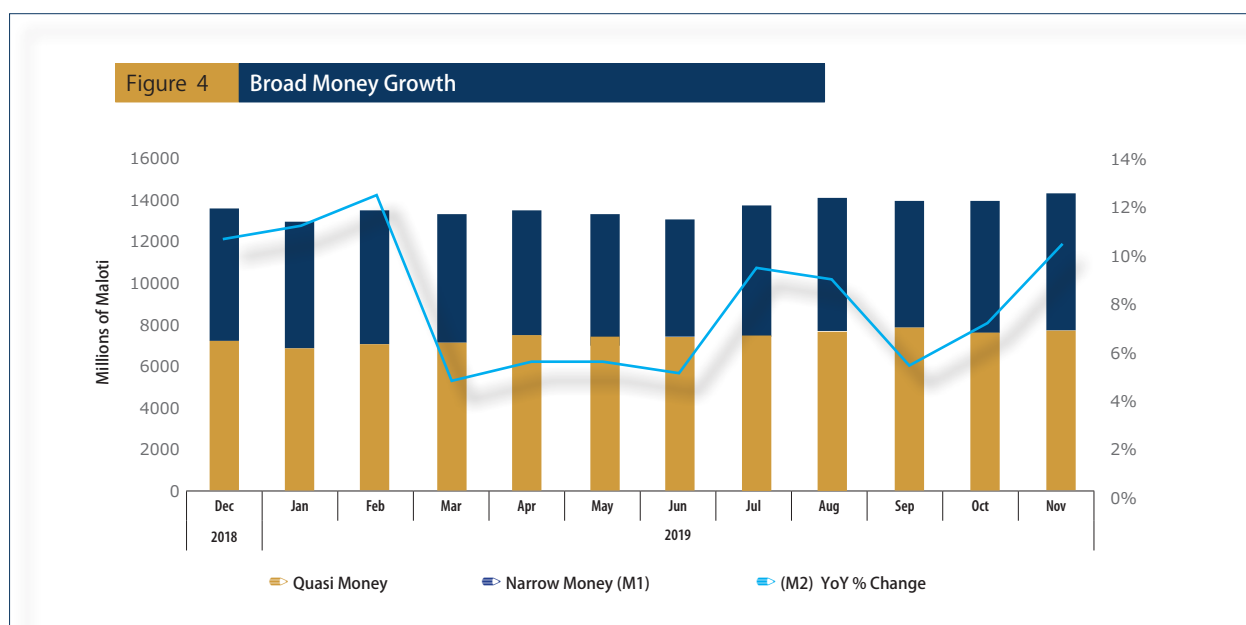
Broad Money (M2)

Broad money supply grew by 2.3 per cent in November 2019 compared to an increase of 0.1 per cent in the previous month. This was on account of a 38.0 per cent growth in net domestic assets (NDA) which was moderated by a 3.1 per cent decline in net foreign assets (NFA). The growth in NDA was mainly due to a fall in government deposits held by the Central Bank. On the contrary, the decline in NFA was caused by a fall in central bank NFA, moderated

by a slight increase in commercial banks' NFA.

Components of Money Supply

During the month under review, narrow money and quasi money grew by 4.6 per cent and 0.4 per cent, respectively. The increase in both components of money supply was mainly due to a growth in deposit holdings of business enterprises held with commercial banks.



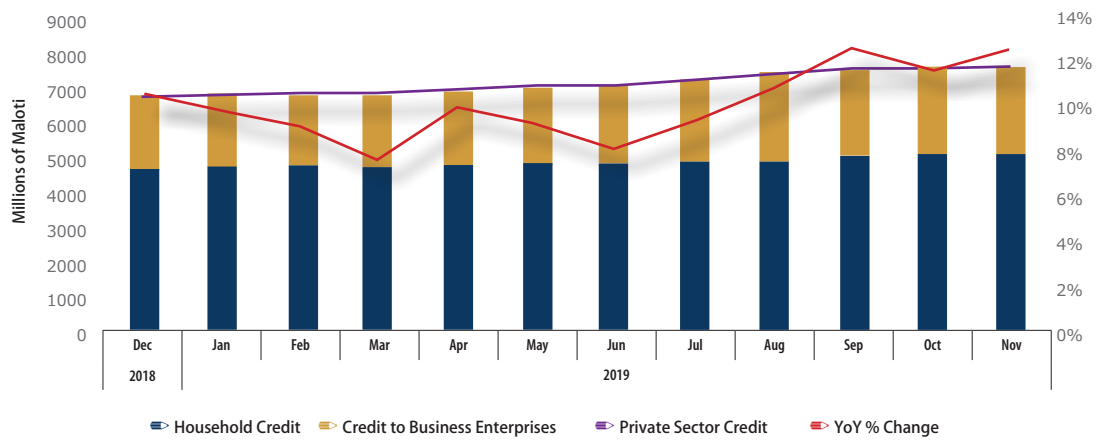
Private Sector Credit

Total credit granted to private sector increased by 1.3 per cent in November, compared to a decline of 0.3 per cent observed in October 2019. On a year-on-year basis, credit extended to the private sector expanded by 12.6 per cent in November 2019.

Credit to households increased by 1.2 per cent in contrast to a decrease of 1.5 per cent in the previous period. The observed increase in households'

credit was at the back of an increase in personal loans and mortgages by 1.4 per cent and 0.3 per cent, respectively. Furthermore, credit to business enterprises grew for the second month in a row, registering a 1.6 per cent increase in November 2019, following a rise of 2.4 per cent in the previous month. Much of credit extended to business enterprises was towards mining and quarrying, and real estate and business services sectors with the shares of 28.1 per cent and 20.5 per cent, respectively.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

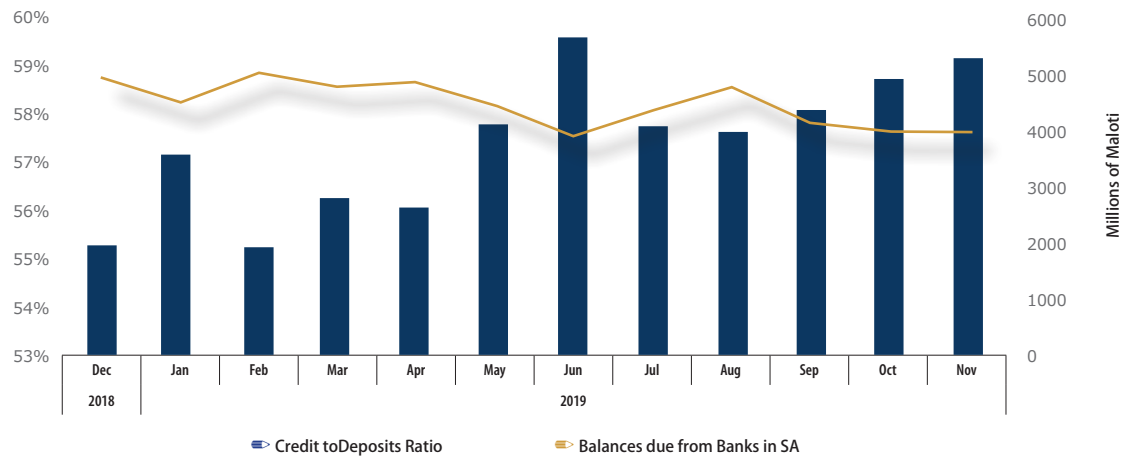
Non-Performing Loans

Total non-performing loans (NPLs), as a share of total loans granted by commercial banks, was recorded at 3.4 per cent in the review period, maintaining a constant growth trajectory for three consecutive months. The NPLs from business enterprises as a percentage of total loans granted to business enterprises, declined marginally from 3.5 per cent in October to 3.2 per cent in November 2019. Regarding households NPLs, mortgage NPLs increased from 7.9 per cent to 8.1 per cent during the same period, whereas NPLs due to personal loans remained unchanged at 1.9 per cent in November 2019.

Sources of Funds

The credit to deposit ratio of commercial banks rose from 58.7 per cent to 58.9 per cent between October and November 2019. This reflected a higher growth rate in the extension of credit relative to deposits.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The Central Bank of Lesotho (CBL)'s policy rate remained unchanged at 6.50 per cent between October and November 2019. However, the 91-day T-Bill discount rate declined marginally from 6.33 to 6.28. The commercial banks' lending and deposits rates remained the same, with the exception of the 1-year deposit rate, which declined from 4.32 in October to 4.24 in November 2019.

Foreign Exchange Rates¹

The rand, hence the loti strengthened against the US dollar and euro, while it weakened against the pound in November 2019. The rand appreciated by the average rate of 0.80 per cent against the US dollar and 0.85 per cent against the euro. The gains emanated from the Moody's decision to keep South Africa credit rating to investment grade. The rand, on the contrary depreciated by 1.10 per cent against the pound.

¹ Monthly average exchange rate.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

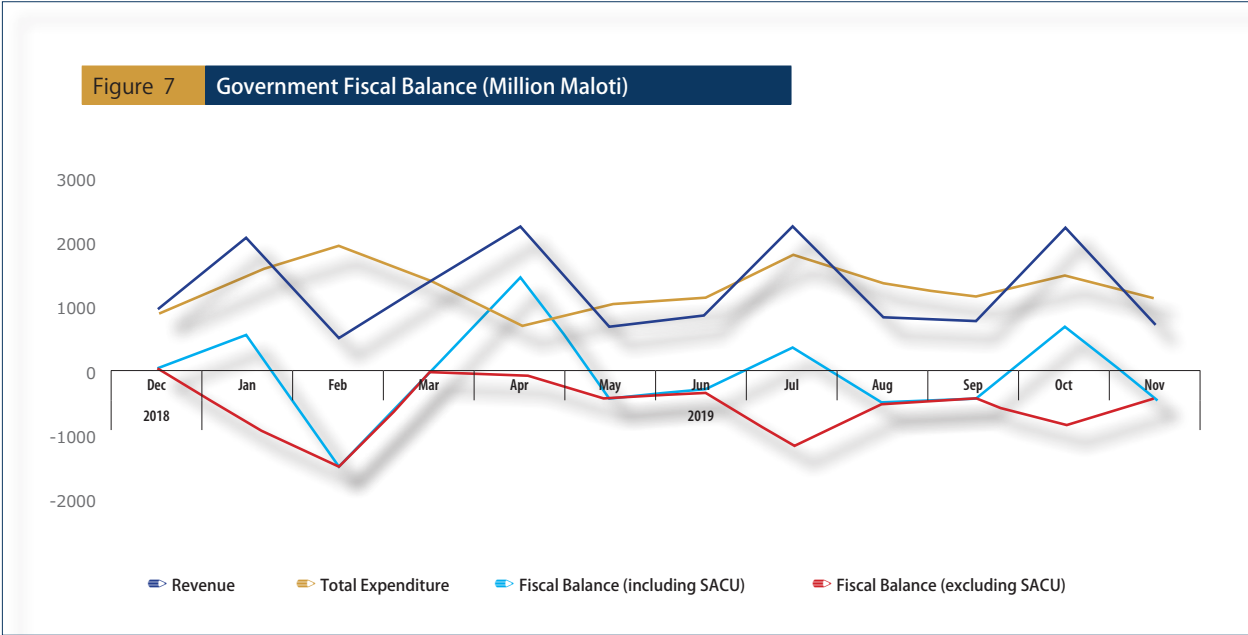
Government total spending fell by 23.5 per cent in November 2019 compared to a revised rise of 25.5 per cent in October 2019. This was as a result of lower spending in the following categories; use of goods and services, subsidies to parastatals, machinery and equipment, and current grants to extra-budgetary units and local governments entities.

Total Revenue

Government revenue declined by 66.4 per cent during the month under review, in contrast to a significant rise in the previous month. In the absence of SACU receipts this month, income tax and mining royalties moderated the reduction in revenue.

Fiscal Balance and Financing

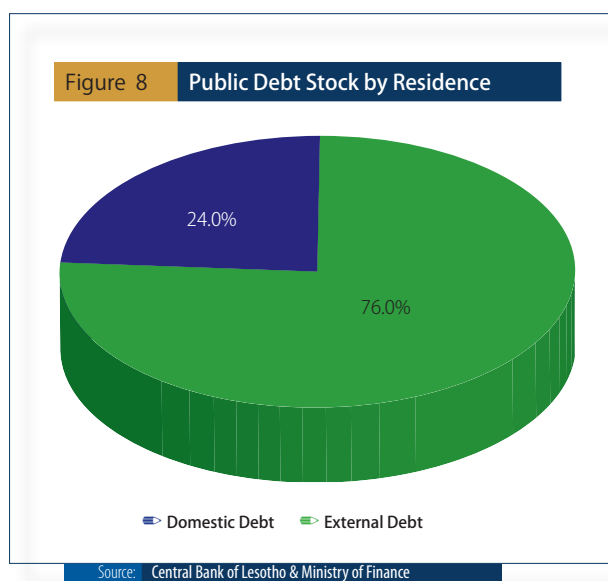
Government budgetary operations recorded a monthly fiscal deficit of 4.4 per cent of GDP during the month under review, compared to a revised surplus of 8.0 per cent of GDP in the previous month. This fiscal deficit was financed by withdrawal of Government deposits in the banking system, coupled with issuance of new external debt. The arrears on Government spending remained constant at 0.4 per cent of GDP.



V. PUBLIC DEBT

The public debt stock was estimated to be 45.9 per cent of GDP in November 2019, compared with the revised 45.7 per cent of GDP in the previous month. This was equivalent to 0.3 per cent increase during the month, relative to the revised decline of 0.4 per cent in the previous month. This was mainly due to the increase in the suppliers' credit and concessional loans.

Moreover, the domestic debt stock expanded on account of short term Treasury Bills held by the banks and long term Treasury Bonds held by the non-bank institutions.



Appendix: Key Economic Indicators

		19-Jun	19-Jul	19-Aug	19-Sep	19-Oct	19-Nov
Economic Activity MIEA (% change, Y/Y)		-0.4	0.2	0.1	0.3	0.1	0.1
Consumer price Index (% change)	Headline Inflation (year-on-year)	5.6	5.4	5.2	5.1	4.9	4.6
	Core Inflation	4.5	4.6	4.5	4.4	4.2	4.4
Exchange Rates (Monthly End Period)	EUR	16.48	15.26	16.85	16.55	16.49	16.12
	GBP	18.49	18.61	18.61	18.69	18.85	18.91
	USD	14.59	16.85	15.26	15.19	14.91	14.66
Money Supply (Millions of Maloti)	M2	12859.94	13487.74	12,131.97	13793.02	13802.25	14,123.09
	M1	5499.41	5971.71	5,288.50	6015.94	6190.99	6,478.16
	Quasi Money	7360.54	7516.03	6,843.47	7777.08	7611.26	7,644.93
Interest Rates	CBL Rate	6.75	6.50	6.50	6.50	6.50	6.50
	91 day Treasury bill rate	6.69	6.38	6.34	6.34	6.34	6.28
	Prime lending rate	11.44	11.44	11.19	11.19	11.19	11.19
	1 year deposit rate	4.34	4.34	4.32	4.32	4.32	4.24
Private sector Credit (Millions of Maloti)		7075.82	7218.47	7,390.62	7573.90	7554.94	7652.84
	Households	4887.66	4926.18	4,956.49	5163.48	5086.65	5145.54
	Business Enterprises	2188.16	2292.29	2,434.13	2410.42	2468.29	2507.30
Bank Deposit Liabilities (Millions of Maloti)		12209.38	11856.65	12,977.39	12849.65	12,748.92	13024.80
Credit to Deposit Ratio (%)		59.54	56.96	56.95	58.94	58.72	58.76
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-257.31	412.89	-472.64	-411.33	733.09	-405.35
	Total Revenue	893.00	2,261.20	893.67	796.34	2,248.96	754.56
	Total Expenditure	1,150.30	1,848.31	1,366.31	1,207.68	1,515.87	1,159.92
	O/W Capital	92.42	398.50	416.20	223.28	204.53	134.29
Total Public Debt (Millions of Maloti)		16,049.71	15,896.75	16,706.42	16,788.97	16,726.42	16,783.48
	Total External Debt	12,067.52	11,948.86	12,715.12	12,695.81	12,687.09	12,754.76
	External Debt						
	Concessional	9,557.28	9,448.45	10,169.88	10,197.77	10,190.40	10,232.74
	Non-concessional	2,510.24	2,500.41	2,545.23	2,498.04	2,496.69	2,522.03
Domestic Debt		3,982.19	3,947.89	3,991.31	4,093.16	4,039.33	4,028.72
Memo Item: Arrears (Millions of Maloti)		56.07	58.39	57.54	59.40	36.20	35.88

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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