



Monthly ECONOMIC REVIEW

September 2018

CENTRAL BANK OF LESOTHO

I. ECONOMIC ACTIVITY

Growth in economic activity remained unchanged in the month of September 2018. The increase continued to be supported by manufacturing activity, while the demand driven activity continued to be on the decline though showing an improvement compared to the previous month.

Overall Performance Index

Economic performance as measured by the monthly indicator of economic activity (MIEA), increased by 0.6 per cent in September 2018, which is the same rate observed in the previous month signalling a steady and stable activity in the economy. The observed increase emanated from significant positive contributions of the eleven components time series of the fourteen that make up the MIEA. The other three components showed negative contributions to the overall index.



Domestic Demand Category

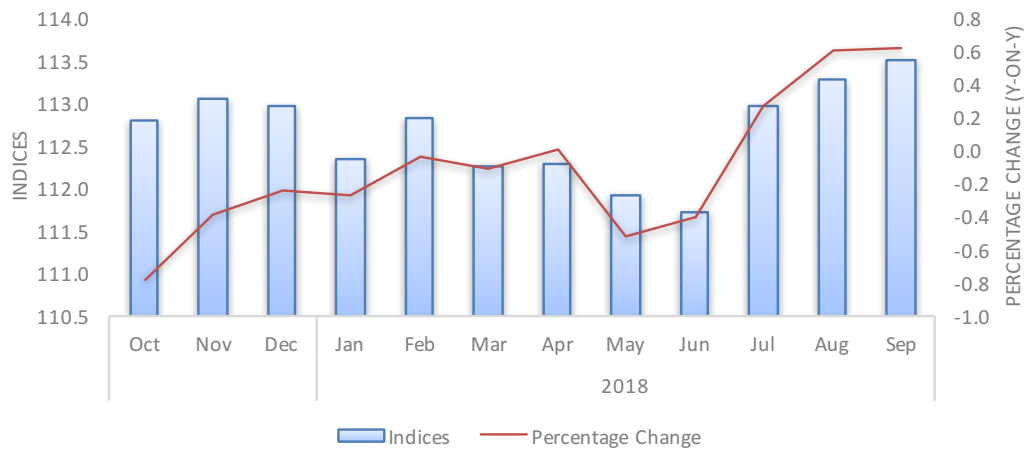
The domestic demand side of the economy continued to be under pressure though with a muted negative percentage change as compared to the previous month. The domestic demand category observed a negative growth of 0.1 per cent in September 2018. The negative growth mainly represented the challenges faced by the government. However, the private sector remained strong as evidenced by positive contributions from income tax generated from the sector. Moreover, VAT collections and imports of goods and services contributed positively to the overall domestic demand signalling strong demand for goods and services.

Manufacturing & Production Category

The manufacturing and production index grew at a moderated rate of 0.8 per cent in September 2018. The growth was attributable to positive contributions from water and electricity consumption. However, exports of textiles and clothing continued to register negative contributions which partly emanated from instabilities observed in the clothing and textile industries in the previous month.



Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2018							
	Feb	Feb	Mar	Apr	May	Jun	Jul	Sep
CIEA	112.8	112.3	112.3	111.9	111.7	113.0	113.3	113.5
year-on year changes	0.0	-0.1	0.0	-0.5	-0.4	0.3	0.6	0.6
Domestic Demand Category	112.6	111.1	110.7	111.0	112.4	112.9	112.7	112.7
year on year changes	-2.2	-2.9	-2.6	-2.6	-0.7	-0.4	-0.3	-0.1
Manufacturing & Production Category	104.4	104.6	102.9	102.6	102.7	102.8	104.1	104.4
year on year changes	1.7	2.6	0.7	-0.4	0.5	0.3	1.3	0.8

Source: CBL Calculations

II. INFLATION AND PRICES

Headline Inflation

The headline inflation accelerated from 4.7 per cent in August 2018 to 5.0 per cent in September 2018. The major contributors to the acceleration in headline inflation were; “Food & Non-alcoholic beverages” and “Housing, Water, Electricity, Gas and Other Fuels” divisions which contributed 1.6 percentage points and 1.5 percentage points, respectively. The third largest contributor was the “Transport” division with 0.5 percentage points. “Clothing & Footwear”, and “Furnishings, Household Equipment and Routine Maintenance of the Household” and “Recreation & culture” contributed 0.3 percentage points each to headline inflation.

Core Inflation

Core inflation, which excludes the CPI items with extreme price changes also accelerated from 2.7 per cent in August 2018 to 3.1 per cent in September 2018.

The main drivers behind the acceleration, was the Loti-US Dollar exchange rate depreciation from July to August 2018 and the increase in the energy prices, especially the fuel prices as international oil prices continued to rise. The second round effects were also felt through the transport sector during the month under review.

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



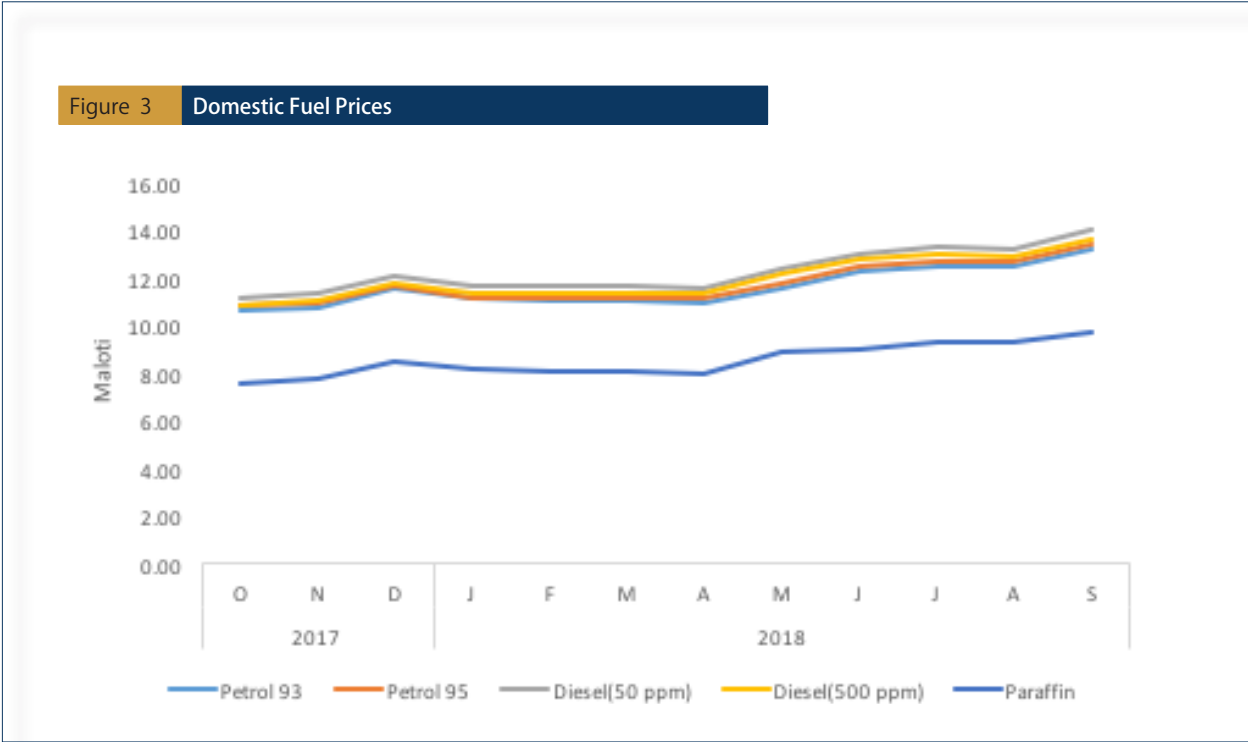
Source: Lesotho Bureau of Statistics & CBL Computations

Domestic Fuel Prices

All energy prices increased by an average of 5.3 per cent from August to September 2018.

Both grades of petrol - the Petrol93 and Petrol95 - increased by 65 lisente per litre and 70 lisente per

litre, respectively from August 2018 to September 2018. During the same period, both grades of diesel increased by 80 lisente per litre and 65 lisente per litre for Diesel (50ppm) and diesel (500 ppm), respectively. The price of illuminating paraffin increased by 45 lisente during the review month.



III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

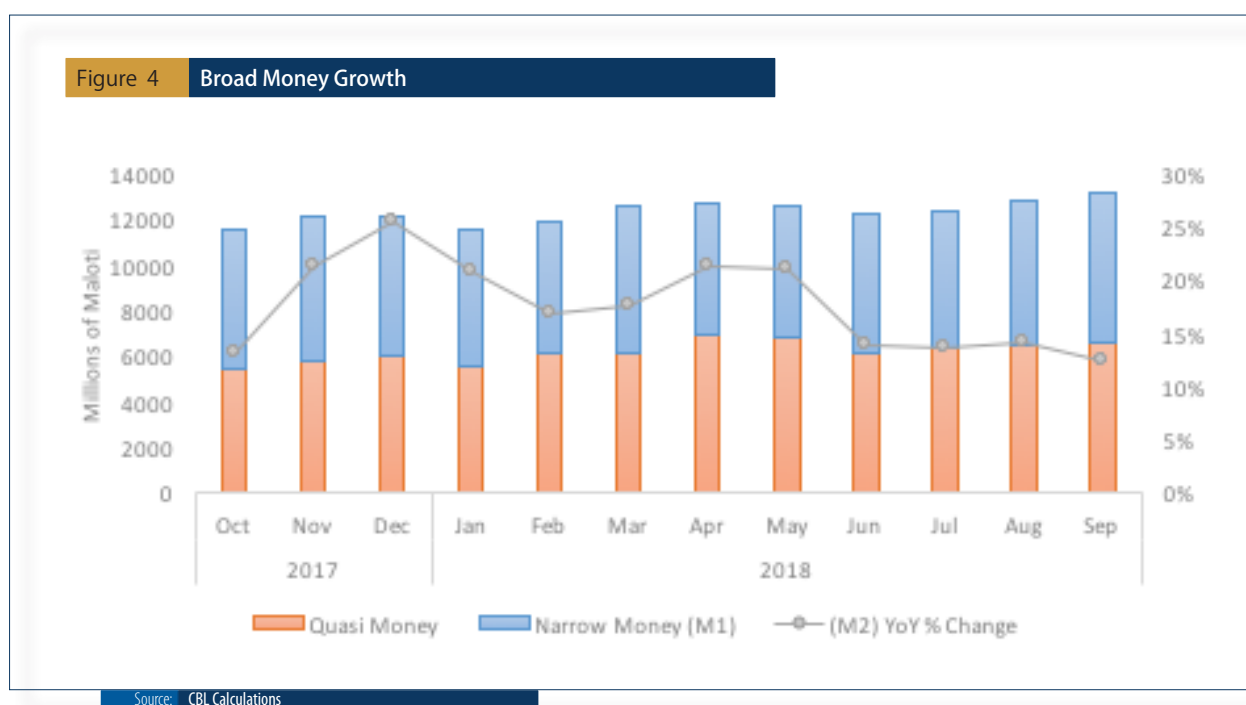
Broad Money (M2)

Money supply rose by 2.9 per cent between August and September 2018. This was due to a significant growth in net domestic assets of 58.3 per cent, while net foreign assets moderated the increase.

Components of Money Supply

Narrow money (M1) increased by 3.8 per cent during the month under review. This was due to a rise in both currency in circulation and demand deposits.

Similarly, other deposits increased by 2.0 per cent because of a growth in deposits held by business enterprises.



Determinants of Money Supply

Domestic claims increased significantly by 58.3 per cent in September. This was at the back of a decline in central government deposits with the central bank.

During the period under review, overall banking system NFA declined by 7.4 per cent. This was mainly attributable to a deterioration of central bank official reserves.

Credit

Private Sector Credit

Credit to the private sector registered a marginal decline of 0.1 per cent, because of a fall in credit extended to households.

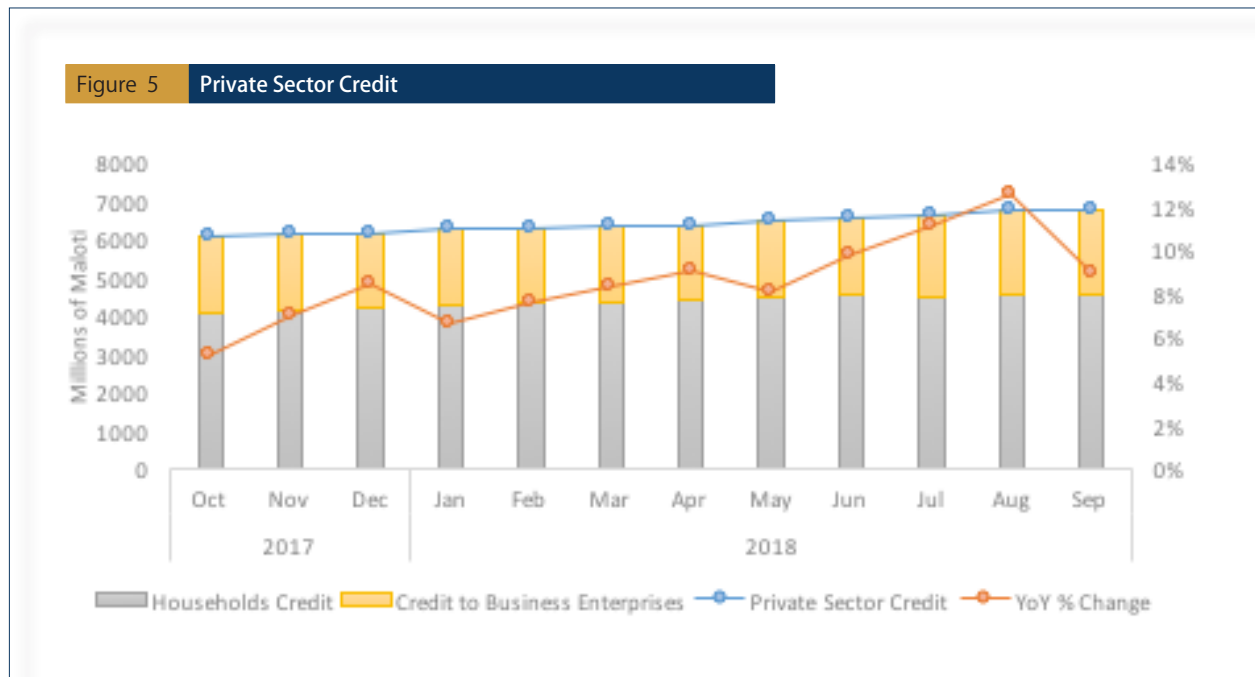
Credit to Households

Credit to household declined slightly by 0.4 per cent during the month. The decline mainly emanated from mortgages, which declined by 10.5 per cent. On the other hand, personal loans improved by 3.7 per cent in September.

Credit to Business Enterprises

Credit extended to business enterprises increased marginally by 0.8 per cent during the review period.

The improvement was mainly driven by Agriculture and Mining sectors.



Loans

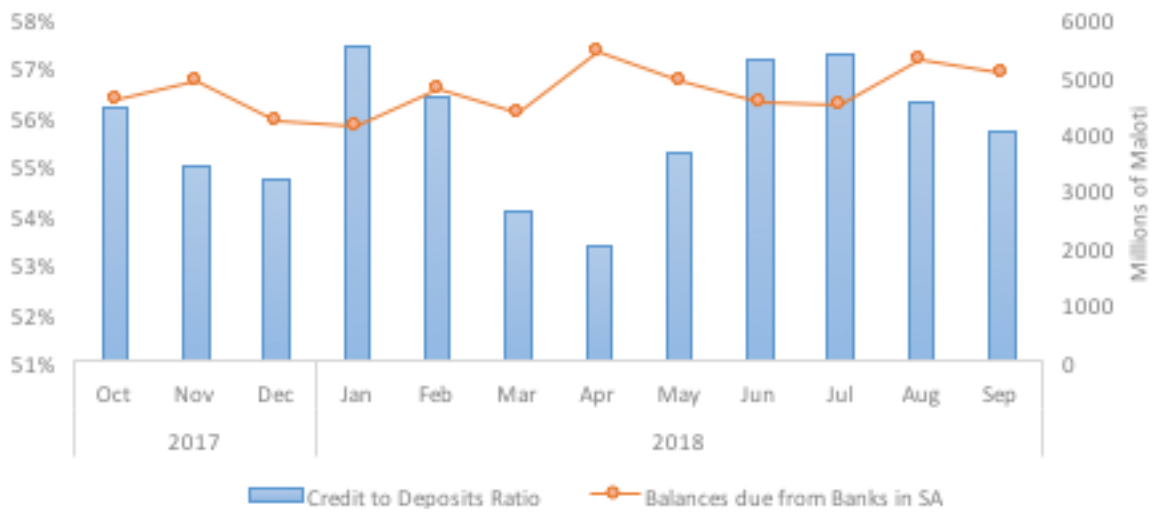
Non-Performing Loans

The overall non-performing loans remained stable at 4.2 per cent as a share of total loans extended to private sector. As a share of total credit extended to business enterprises, non-performing loans stood at 5.1 per cent during the review period. Moreover, households' non-performing loans increased significantly from 3.4 per cent to 3.8 per cent in September.

Sources of Funds

The credit to deposit ratio declined to 55.7 per cent in September compared to 56.3 per cent observed in August 2018. Total Deposits showed an increase of 3.8 per cent in September, mostly driven 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 flat at 6.50 per cent while the 91-day T-bill rate increased slightly from 6.54 per cent to 6.56 per cent between August and September 2018. The prime lending rate remained unchanged at 11.19 per cent during the same period. The 1-year deposit rate however declined marginally from 4.22 per cent to 4.19 per cent.

Foreign Exchange Rates

The loti continued to depreciate against major trading currencies in September 2018 in response to a deepening financial challenges in some emerging market economies. In particular, the South Africa and Turkish economies were vulnerable to significant capital outflows, thus the rand/loti registered losses during the month after the data showed the economy fell into a technical recession.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

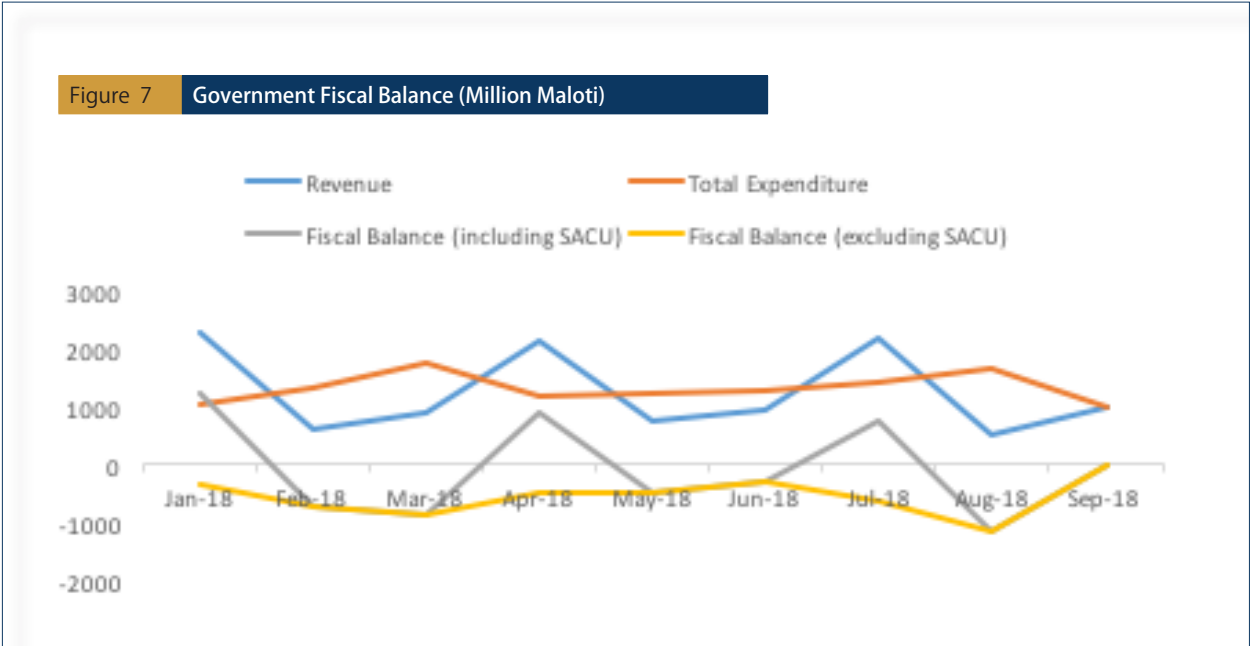
During the month of September, 2018 Government spending decreased significantly by 40.1 per cent as a result of a fall in both expenses and non-financial assets. The capital spending was directed towards infrastructure projects including Rural Electrification, Rural Community Roads, Renovation or Construction of Police Stations, and Construction of Royal Palace. The expenses fell significantly due to a decline in 'tertiary education sponsorship', 'purchase of health services,' and 'travel and transport'. Nevertheless, 'compensation of employees' and 'interest payments' recorded an expansion. The liability item that recorded outstanding expenditure payments, 'other accounts payable', declined to a negative figure, reflecting settlement of accumulated arrears.

Total Revenue

Total Government revenue rose by 85.5 during the month under review compared to a fall of 75.0 per cent in the month of August, 2018. The main drivers of the increase in revenue were income tax, VAT and 'LHDA Water Royalties'. The actual reduction on the 'other accounts payable' contributed positively to VAT revenue collection, in particular. The 'LHDA Water Royalties' usually expands the Government deposit with a lag of two months. Thus, the September receipts corresponded to July's water transfer to South Africa.

Fiscal Balance

The net operating balance registered a surplus equivalent to 1.5 per cent of GDP that declined to a marginal net lending of 0.04 per cent of GDP when non-financial assets were acquired. Similarly, the primary balance recorded a surplus of 0.7 per cent of GDP. The small variance between net lending and primary balance is explained by marginal interest payments on loans, which are highly concessional.

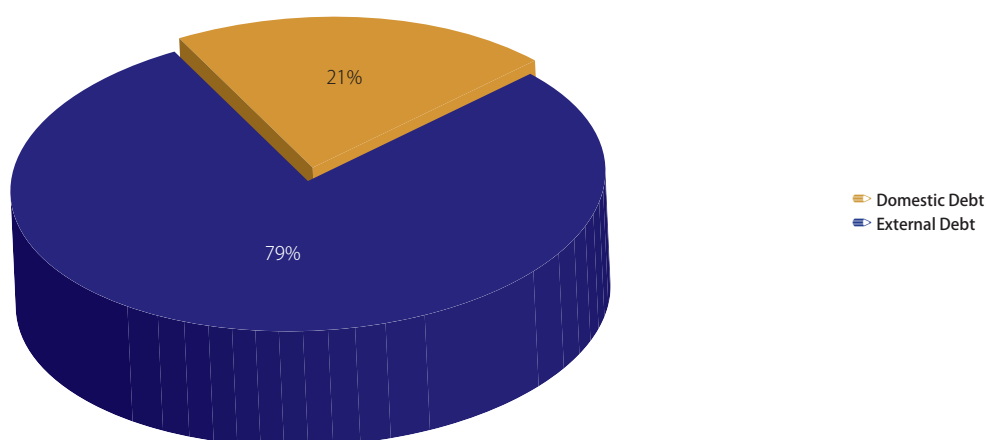


V. PUBLIC DEBT

The public debt stock stood at 39.1 per cent of GDP in September, 2018 compared with the revised 37.0 per cent of GDP in August 2018. The stock increased by 5.5 per cent mainly driven by external public debt. The external debt from multilateral creditors (excluding IMF Extended Credit Facility, ECF) was

significantly affected by exchange rate depreciation of Loti against major foreign currencies. The domestic debt (including IMF ECF) expanded marginally by 1.6 due to issuance of M100.40 million of Treasury Bonds. Treasury Bonds support fiscal operations.

Figure 8 Public Debt



Source: Central Bank of Lesotho & Ministry of Finance

Appendix: Key Economic Indicators

		Apr 18	May 18	Jun 18	Jul 18	Aug 18	Sep 18
Economic Activity		0.0	-0.5	-0.4	0.3	0.6	0.6
MIEA (% change, Y/Y)							
Consumer price Index (% change)	Headline Inflation (year-on-year)	4.8	3.8	4.0	4.1	4.4	5.0
	Core Inflation	2.7	2.6	2.7	2.5	2.7	3.1
Exchange Rates (Monthly End Period)	EUR	15.01	14.68	16.04	15.66	16.27	17.21
	GBP	17.07	16.75	18.11	17.65	18.13	19.27
	USD	12.42	12.57	13.76	13.40	14.09	14.77
Interest Rates	CBL Rate	6.75	6.50	6.50	6.50	6.50	6.50
	91 day Treasury bill rate	6.20	6.16	6.88	6.59	6.54	6.56
	Prime lending rate	11.56	11.44	11.31	11.19	11.19	11.19
	1 year deposit rate	4.51	4.23	4.30	4.19	4.22	4.19
Private sector Credit (Millions of Maloti)		6316.28	6455.74	6507.85	6583.37	6708.85	6699.39
	Households	4,391.81	4,418.42	4,532.01	4,453.21	4,525.79	4,498.98
	Business Enterprises	1,924.46	2,037.32	1,975.83	2,130.17	2,183.06	2,200.41
Bank Deposit Liabilities (Millions of Maloti)		11,689.27	11,570.79	11,284.82	11,383.06	11,814.23	12,126.08
Credit to Deposit Ratio (%)		53.34	55.24	57.60	57.60	56.32	55.67
Fiscal Operations	Total Revenue	2115.85	733.20	958.84	2149.74	510.89	1002.03
	Total Expenditure	1276.93	1084.57	1229.41	1306.48	1665.86	998.37
	O/W Capital	0.03	133.01	64.96	150.03	468.93	148.81
Total Public Debt (Millions of Maloti)		13045.41	13167.92	14141.71	14094.66	14159.71	15420.88
	External Debt	10364.66	10409.57	11224.54	11213.73	11275.51	12400.12
	Concessional	8068.73	8110.81	8889.19	8881.90	8939.52	10086.49
	Non-concessional	2295.93	2298.76	2335.35	2331.83	2335.99	2313.63
	Domestic Debt	2577.94	2635.84	2917.17	2880.92	2884.20	3020.76

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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