



# Monthly ECONOMIC REVIEW

January 2019

CENTRAL BANK OF LESOTHO

## I. ECONOMIC ACTIVITY

Economic activity picked up in the month of January 2019 compared with a lower positive growth observed in December 2018. The major driver behind the observed trend continued to come from high domestic demand while the production side contracted in the review month.

### Overall Performance Index

Economic performance as measured by the monthly indicator of economic activity (MIEA), increased by 0.9 per cent in January 2019, compared with a growth of 0.7 per cent in December. Nine of the fourteen component variables that make up the MIEA contributed positively to the overall index, while the five variables contributed negatively. In addition to the domestic variables, construction activity picked up in the month of January as evidenced by significant positive contribution from imports of cement, whereas imports of metallic products remained sluggish. The transport sector remained firm as portrayed by a positive contribution from consumption of petrol and diesel. Moreover, private sector credit contributed to the observed growth in the overall index.

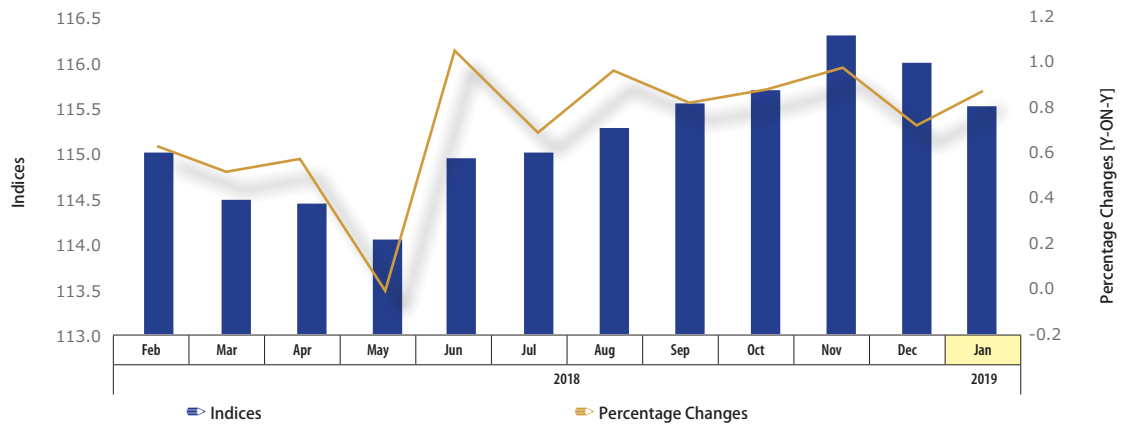
### Domestic Demand Category

The domestic demand index increased by more than double in the month of January as compared with the previous month. This category was estimated to have grown by 1.7 per cent. The growth mainly represented major positive contributions from VAT and PAYE collections, use of goods and services, and imports of goods and services. The observed trend signalled strong demand for goods and services in the economy. However, compensation of employees from the government side continued to show negative contributions.

### Manufacturing & Production Category

The production index declined in the review month. The index declined by 0.4 per cent in January 2019 as opposed to the unchanged index in the previous month. The decline was attributable to significant negative contributions from water and electricity consumption, which was used mainly for industrial purposes, indicative of low production in the economy.

**Figure 1 Overall Monthly Indicator of Economic Activity**



Source: CBL Calculations

**Table 1: Summary of the Monthly Indicator of Economic Activity**

Indices	2018							2019
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
<b>CIEA</b>	115.0	115.1	115.4	115.7	115.8	116.2	115.9	115.6
year-on year changes	1.0	0.7	0.9	0.9	0.9	1.0	0.7	0.9
<b>Domestic Demand Category</b>	112.4	113.0	112.8	112.9	113.5	113.9	113.3	113.6
year on year changes	-0.4	-0.1	0.0	0.2	0.9	0.9	0.6	1.7
<b>Manufacturing &amp; Production Category</b>	108.4	108.4	109.0	109.4	108.9	109.4	108.5	108.5
year on year changes	1.8	1.4	1.8	1.3	0.4	0.6	0.0	-0.4

Source: CBL Calculations

## II. INFLATION AND PRICES

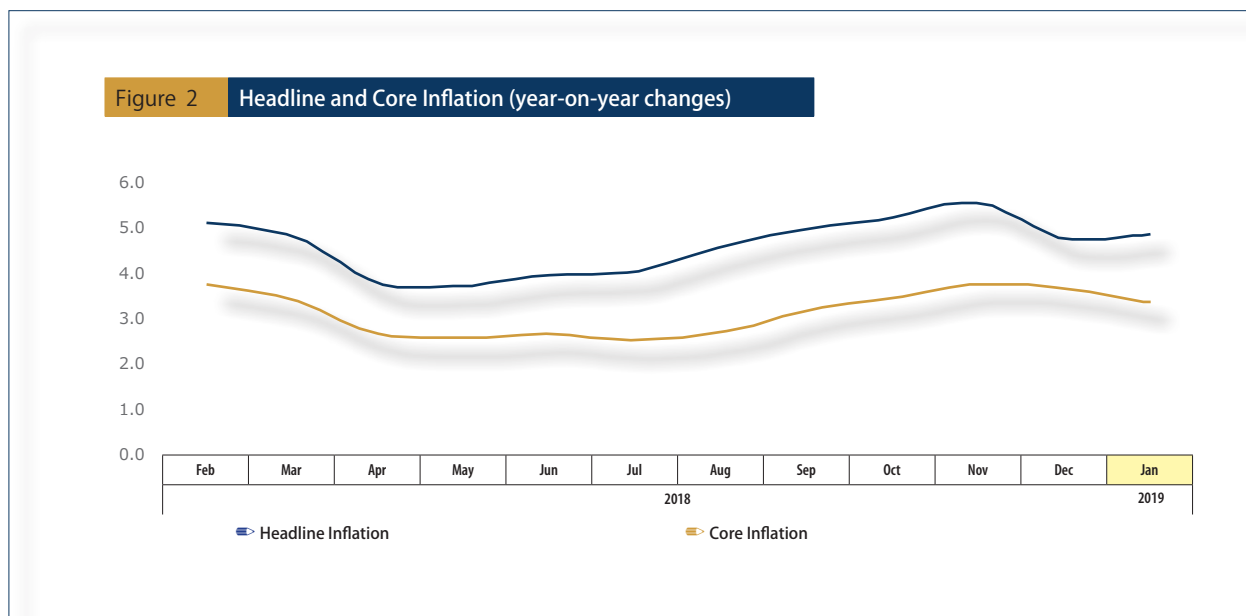
### Headline Inflation

The headline inflation was estimated at 5.0 per cent in January 2019 from 4.9 per cent recorded in December 2018. The major contributors to the one percentage point acceleration in headline inflation were Food and non-alcoholic beverages (1.9pp<sup>1</sup>); Housing, electricity, gas and other fuels (1.3pp), Clothing and footwear (0.4pp). The Transport, Recreation and culture as well as the Furniture, household's equipment and routine maintenance of household divisions contributed 0.3 percentage points each to headline inflation.

### Core Inflation

Core inflation, which excludes the CPI items with extreme price changes, also decelerated from 3.7 per cent in December 2018 to 3.4 per cent in January 2019.

The main drivers behind the acceleration in headline inflation were food prices, especially maize prices that were generally high in Southern Africa. Nonetheless, energy prices have moderated the impact of the rising food prices in the month under review since November 2018.

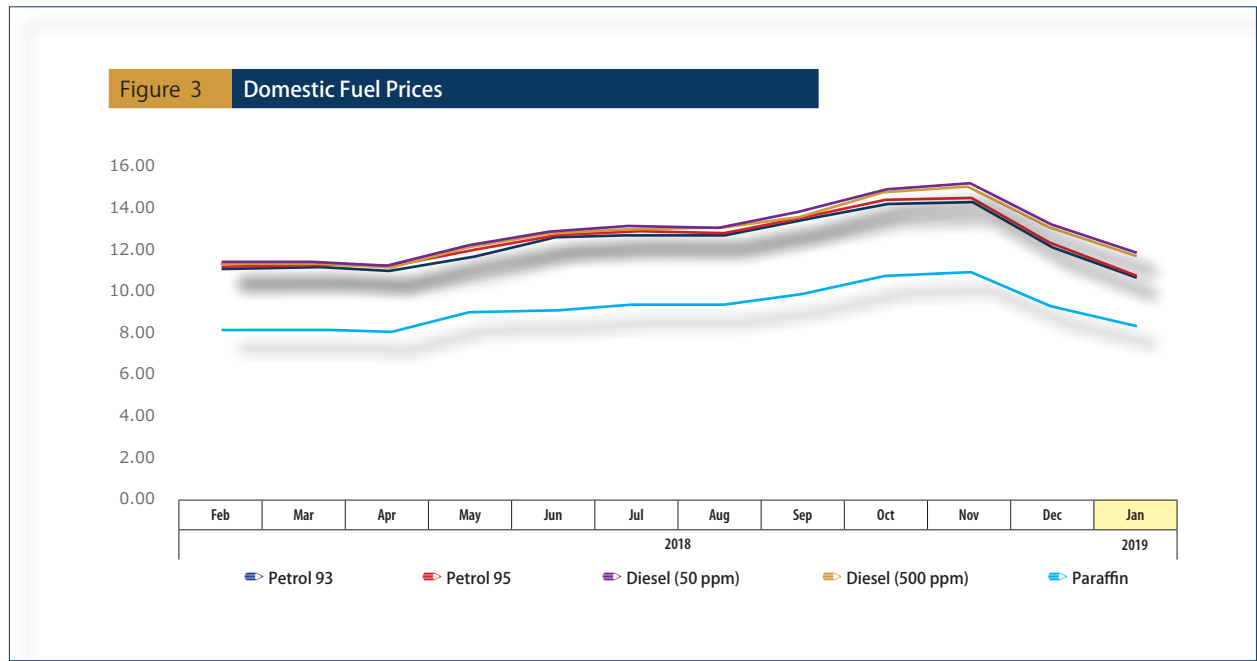


<sup>1</sup> pp means percentage point

## Domestic Fuel Prices

All domestic fuel prices continued to decrease in January 2019 from their December 2018 levels. Both grades of petrol (petrol95 and petrol93) declined by M1.30 per litre each.

Both grades of diesel (diesel50 and diesel500) decreased by M1.15 per litre each in January 2019 from December 2018 levels. The price of illuminating paraffin also declined by 85 lisente per litre in January 2019 from its December 2018 levels.



Source: Lesotho Petroleum Fund

### III. MONETARY AND FINANCIAL INDICATORS

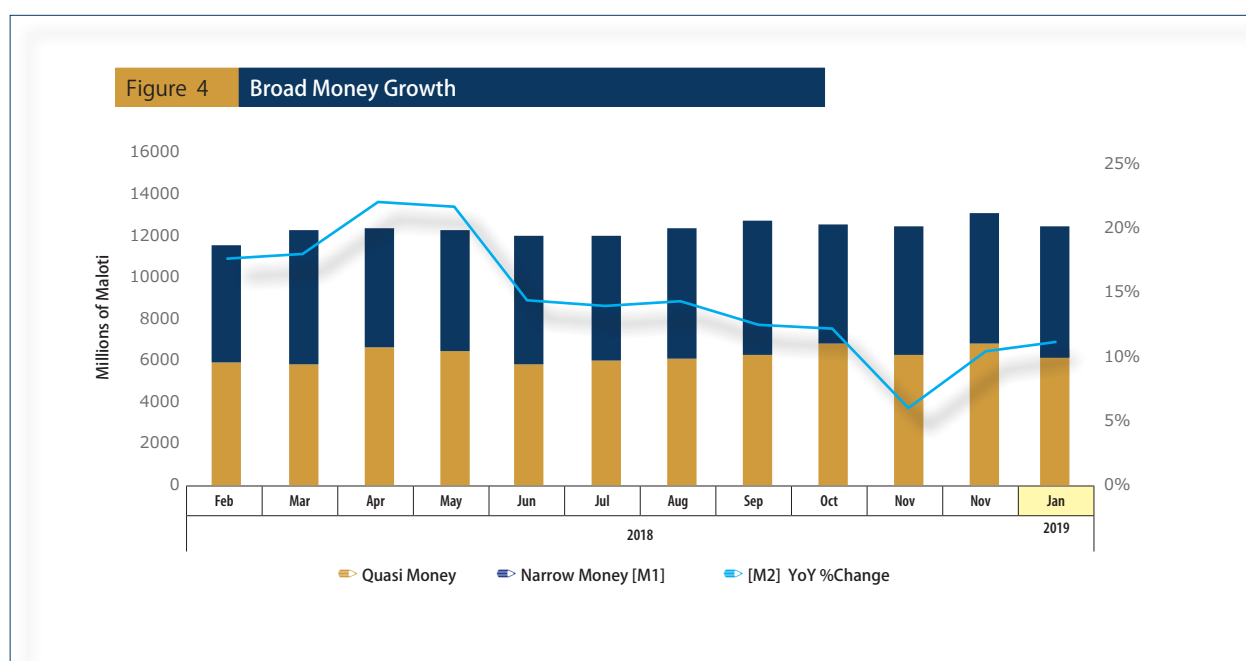
#### Broad Money (M2)

##### Broad Money (M2)

The broad money supply (M2) contracted by 4.2 per cent in January 2019. This was due to a 5.8 per cent fall in net foreign assets (NFA), mainly driven by a decrease in commercial banks' NFA. However, the decline in NFA was partially offset by an increase in net domestic assets (NDA).

##### Components of Money Supply

Both components of money supply declined in the month under review. Narrow money (M1) and other deposits contracted by 2.7 per cent and 5.5 per cent respectively. The decline in M1 was due to a fall in currency in circulation while other deposits fell because of a decline in call deposit holdings by business enterprises.



##### Determinants of Money Supply

The net foreign assets (NFA) declined by 5.8 per cent in January 2019, compared to an increase of 3.7 per cent recorded in December 2018. Both the CBL and commercial banks' NFA declined, although notable decline of 15.4 per cent was observed in the commercial banks. The notable drop in commercial banks' NFA was at the back of a decline in foreign assets held by the commercial banks.

#### Credit

##### Private Sector Credit

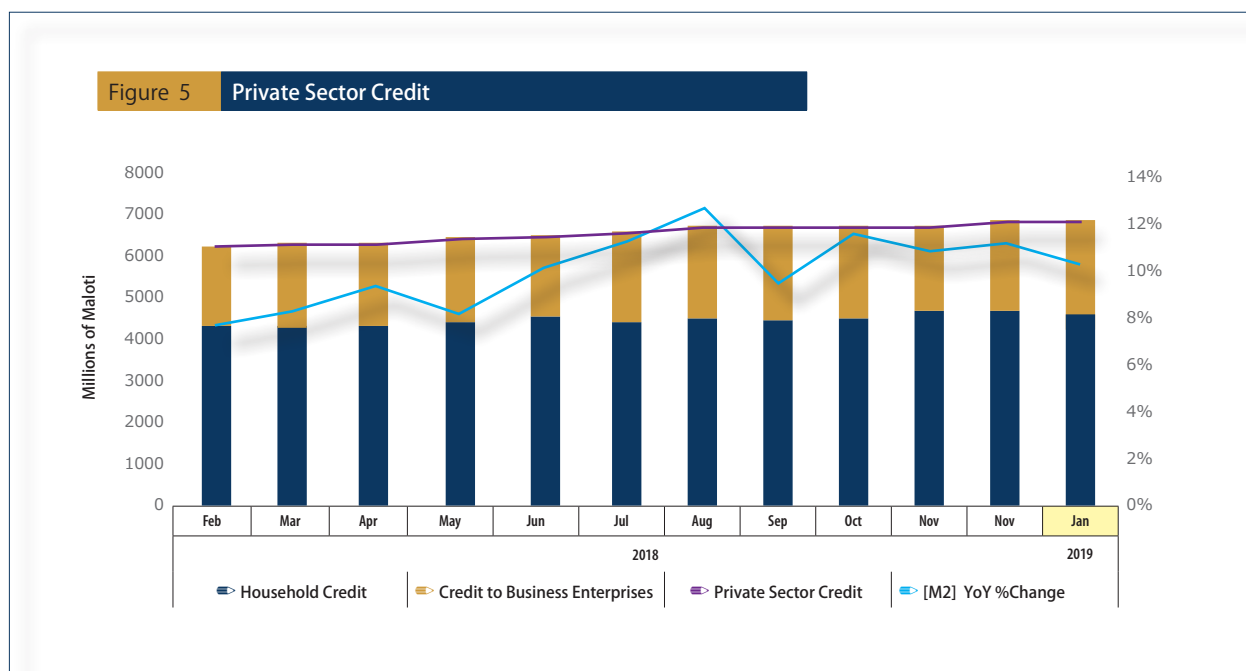
Credit to the private sector increased marginally by 0.5 per cent during the first month of 2019. This was at the back of 0.8 per cent increase in credit extended to households, while that of business enterprises contracted by 0.1 per cent. Year-on-year total credit given out to the private sector expanded by 9.9 per cent.

### Credit to Households

Credit extension to households rose slightly by 0.8 per cent in the month under review. The growth was supported by both mortgages and personal loans, which realized increases of 0.9 per cent and 0.8 per cent respectively.

### Credit to Business Enterprises

Credit extended to business enterprises rebounded after falling two consecutive months. Credit to business enterprises registered an increase of 0.4 per cent in January 2019. The growth was underpinned by expansion in credit extended given out to Transport, Storage and Communications sector.



Source: Central Bank of Lesotho

## Loans

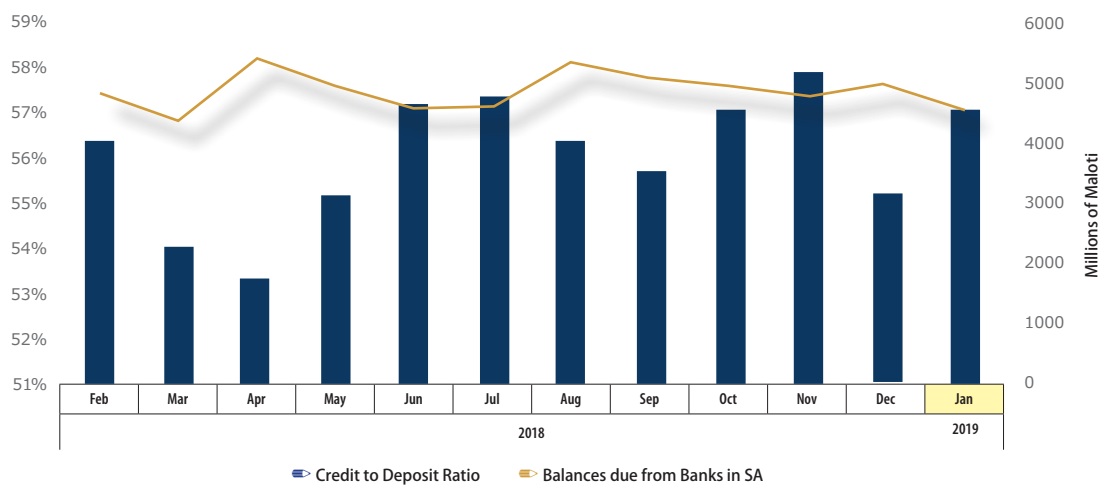
### Non-Performing Loans

The non-performing loans continued to improve in the review period. As a share of total loans granted, non-performing loans registered 3.5 per cent in January 2019 compared to 3.7 per cent in December 2018. The improvement comes from both households and loans extended to business enterprises.

## Sources of Funds

The credit to deposits ratio improved to 57.1 per cent from 55.2 per cent in between December 2018 and January 2019. This was due mainly to a decline in total deposits in commercial banks.

**Figure 6 Credit to Deposit Ratio**



Source: Central Bank of Lesotho

### Interest Rates

The Monetary Policy Committee (MPC) of the Central Bank of Lesotho (CBL) in its sitting of January 29, 2019 kept its policy rate unchanged at 6.75 per cent. Most short-term interest rates increased in the month under review. The prime lending rate rose by 0.25 percentage points to 11.44 per cent. In addition, the 1-year deposit rate inched up by 17 percentage points to 4.36 per cent while the 91-day T-bill rate increased marginally from 6.69 per cent to 6.70 per cent.

### Foreign Exchange Rates

The Loti appreciated by 2.6 per cent against the Dollar, by 1.0 per cent against the Pound and by 5.8 per cent against the Euro respectively during the period between January 2019 and December 2018. The appreciation was supported by a more than expected fall in inflationary pressures. On the other hand the three major currencies weakened due to the elevated risks in the global financial markets, fears of slowing global growth, and specific challenges to the US, UK and the Euro Area. The US Dollar was affected negatively by the volatile stock markets, due to uncertain trade negotiations and the longest government shutdown in history. The developments surrounding Brexit deal, which were uncertain continued to pile pressure on the value of Pound. The Euro was hurt by weaker than expected performance of the economy, which pointed to slowdown in growth driven in part by Germany.

## IV. GOVERNMENT BUDGETARY OPERATIONS

### *Total Expenditure*

Government spending increased by 70.1 per cent in January 2019 compared to a fall of 40.6 per cent in the last month of 2018. This rise was attributable to large expansion in both expenses and non-financial assets.

The expenses were mainly driven by all components except use of goods and services that declined marginally by 3.1 per cent – and thus marking the second month of the decline on a continuous basis. The surge on expenses emanated from the expansion of more than 100.0 per cent in social benefits, subsidies, grants, interest payments, other expense, and compensation of employees. In particular, the significant increase in interest payments was due to the discounted Treasury Bills for fiscal policy financing that were issued during the month under review. This discount registered 0.4 per cent of GDP.

Furthermore, the non-financial assets also registered a large increase of 75.1 per cent during the month under review relative to a fall of 1.5 per cent in December 2018. The drivers of this expansion included an increase in spending on nonresidential buildings and other machinery and equipment.

### *Total Revenue*

Total Government revenue increased by 110.8 per cent in January 2019 compared with a rise of 25.4 per cent December, 2018. This significant rise was on account of rent from non-produced non-financial assets (including, mining royalties and surface rent), and SACU receipts. However, the main domestic taxes, income tax and VAT including excise taxes, under performed during the month under review, with income tax declining by 51.6 per cent and excise taxes by 46.2 per cent.

### *Fiscal Balance*

The month of January 2019 marked the second month in which the Government has registered surpluses under gross operating balance. Thus, in January 2019, the surplus was 8.8 per cent of GDP compared with the surplus of 2.7 per cent of GDP in the previous month. Although both revenue and expenses expanded, the revenue increased much higher, owing to SACU receipts. Furthermore, the significant performance in revenue managed to finance non-financial assets, and thus leaving the surplus of 5.7 per cent of GDP under net lending or borrowing in January 2019 compared with the marginal surplus of 0.9 per cent of GDP in December 2018.

Similarly, the financing recorded a rise to the tune of M561.88 million in net financial assets, which was equivalent to 5.7 per cent of GDP compared with 2.2 per cent of GDP in the previous month. This rise emanated from a sharp expansion amounting to M1.1 billion or an equivalent of 11.2 per cent of GDP in net acquisition of financial assets while the net incurrence of liabilities increased by M540.07 million, or equivalently 5.5 per cent of GDP. Both financial assets and liabilities were mainly driven by

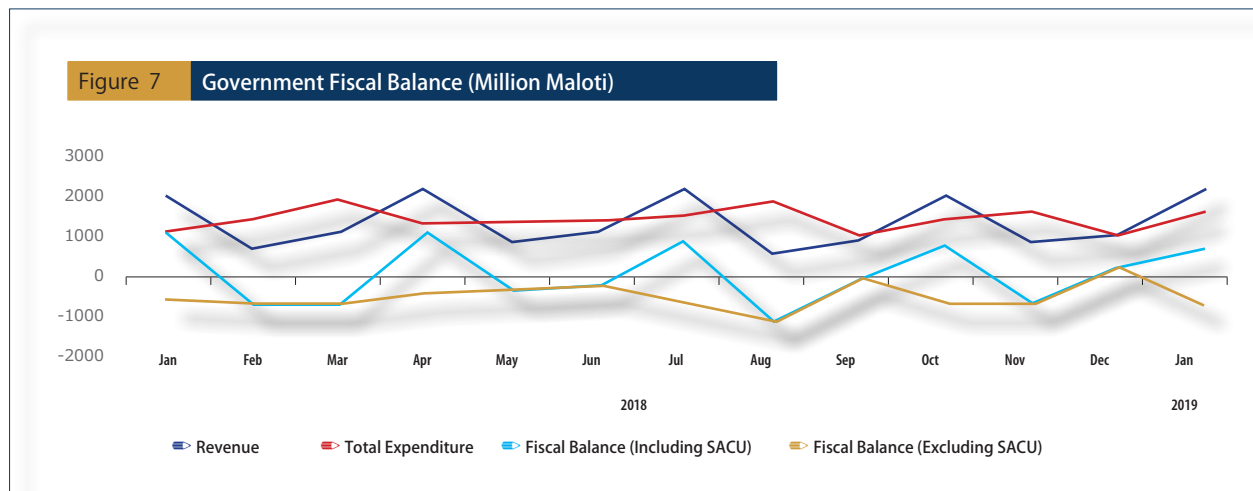


issuance of Treasury Bills for fiscal financing to the tune of M600 million (or 1.5 per cent of GDP). SACU receipts also contributed to the rise in financial assets, net of spending.

The month of January 2019 has marked the quality Government Finance Statistics (GFS) whose above the line items (revenue minus expenditure) have successfully balanced with the below the line items (financial assets minus liabilities). Thus, the statistical discrepancy recorded a marginal negative of 0.01 per cent of GDP in January 2019 relative to the

negative 1.3 per cent of GDP in the previous month. This negative refers to the minor financing items (or below the line items) that the GFS compilation has failed to track their transaction.

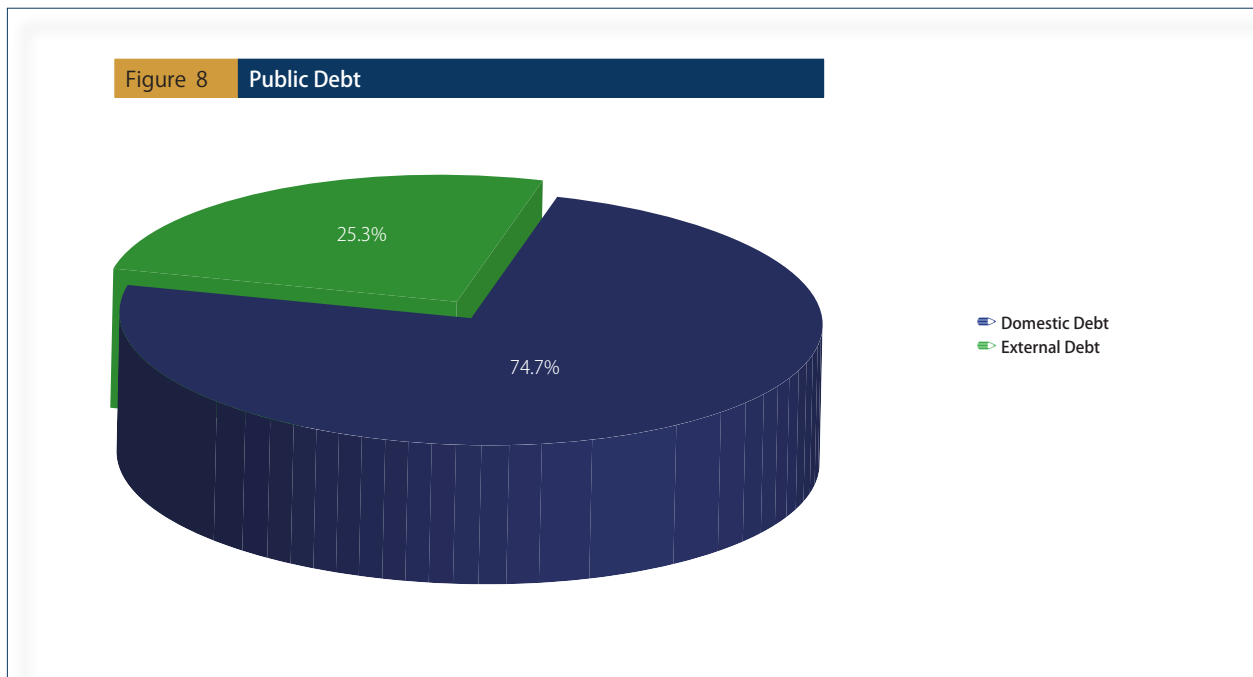
Nevertheless, total financing (or net financial assets) of the fiscal balance registered an increase of 2.2 per cent of GDP. This rise in net financial assets was driven by a sharp fall in liabilities (on net basis), which emanated from a significant fall in 'other accounts payable' and issuance of Treasury bonds during the review period.



## V. PUBLIC DEBT

The public debt stock registered 37.5 per cent of GDP in January 2019 while in December 2018 it recorded 39.3 per cent of GDP. This decline was mainly attributed to a fall of 10.4 per cent in all components of external debt. The domestic debt, nevertheless, accumulated by 18.2 per cent because

of the expansion of 95.8 per cent (or M600 million) in the bank holding of Treasury Bills, particularly, for fiscal financing. Thus, the share of the domestic debt increased from 20.5 per cent in the previous month to 25.3 per cent in January 2019.



## Appendix: Key Economic Indicators

		Aug 18	Sep 18	Oct 18	Nov 18	Dec 18	Jan 19
Economic Activity MIEA (% change, Y/Y)		0.5	0.7	0.7	0.7	0.4	-0.2
Consumer price Index (% change)	Headline Inflation (year-on-year)	0.9	0.9	0.9	1.0	0.7	0.9
	Core Inflation	5.0	5.3	5.0	5.7	4.9	5.0
Exchange Rates (Monthly End Period)	EUR	3.1	3.5	3.1	3.8	3.7	3.4
	GBP	17.21	16.64	17.21	16.01	16.18	15.80
	USD	19.27	18.86	19.27	18.18	18.03	17.84
Interest Rates	CBL Rate	6.50	6.50	6.50	6.75	6.75	6.75
	91 day Treasury bill rate	6.56	6.59	6.56	6.69	6.69	6.70
	Prime lending rate	11.19	11.19	11.19	11.25	11.25	11.44
	1 year deposit rate	4.19	4.19	4.19	4.19	4.19	4.36
Private sector Credit (Millions of Maloti)		6,708.85	6,699.39	6,747.35	6,774.95	6,793.04	6,829.72
	Households	4,498.98	4,502.74	4,498.98	4,658.90	4,683.52	4,722.90
	Business Enterprises	2,200.41	2,244.62	2,200.41	2,116.05	2,109.52	2,106.82
Bank Deposit Liabilities (Millions of Maloti)		11,814.23	12,126.08	11,912.00	11,797.76	12,387.65	12,003.84
Credit to Deposit Ratio (%)		56.32	55.67	57.04	57.86	55.23	57.12
Fiscal Operations	Total Revenue	527.76	821.92	2,008.44	790.01	990.54	2,088.10
	Total Expenditure	1,667.29	1,002.62	1,367.37	1,511.11	898.00	1,527.58
	O/W Capital	468.93	148.81	149.02	179.39	176.64	309.31
Total Public Debt (Millions of Maloti)		14,766.13	14,711.37	14,513.20	14,472.52	15,500.20	14,798.82
	External Debt	11,809.70	11,667.13	11,546.46	11,504.72	12,328.61	11,050.59
	Concessional	9,443.29	9,332.50	9,246.48	9,205.53	10,041.21	8,771.11
	Non-concessional	2,366.41	2,334.63	2,299.98	2,296.19	2,287.40	2,279.47
	Domestic Debt	2,956.43	3,044.24	2,966.74	2,967.80	3,171.60	3,748.23

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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Enquiries relating to this Publication should be addressed to:

**Statistics Division**  
Research 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](mailto:info@centralbank.org.ls)

