



# Monthly ECONOMIC REVIEW

August 2019

CENTRAL BANK OF LESOTHO

## I. ECONOMIC ACTIVITY

Economic activity registered zero growth in the review month, which represents a slowdown from the meagre 0.1 per cent reported for the month of July 2019. Economic activity was supported by domestic demand, while production activity remained subdued.

### Overall Performance Index

Economic performance as measured by the monthly indicator of economic activity (MIEA), in August 2019, grew at the rate of 0.0 per cent, which is a slowdown from the 0.1 per cent that was recorded in July. The growth was attributed to positive contributions from the seven of the fourteen component variables that make up the index, while the other seven contributed negatively. Economic activity continued to be supported by domestic demand. Despite the sluggish growth, observation of the individual components points to an increased construction activity.

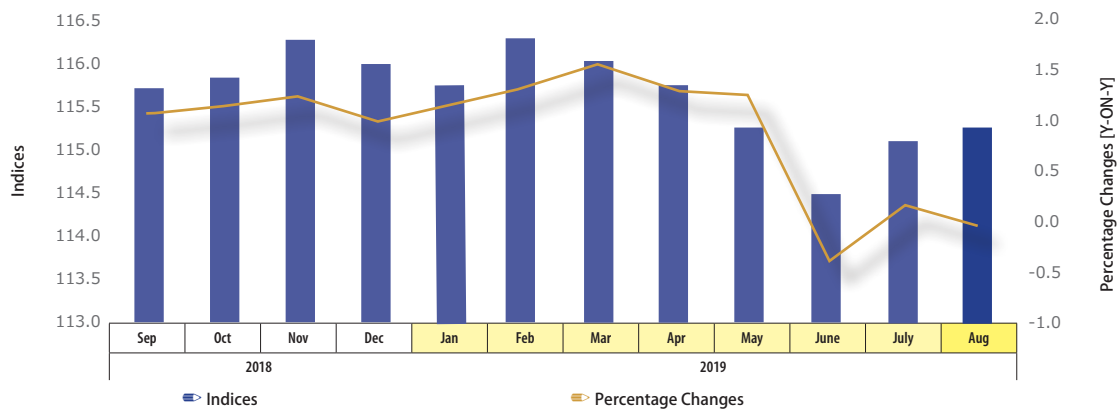
### Domestic Demand Category

The domestic demand index showed a comparatively higher growth in August 2019 compared than in July 2019. This index was estimated to have grown by 1.3 per cent. The growth was mainly attributable to positive contributions from government compensation of employee, PAYE collections. Imports of goods and services also contributed positively though with a slightly lower figure.

### Manufacturing & Production Category

The production index continued to decline in the review month. This is the eighth successive month of the sustained decline, signifying a gloomy business and investment environment. The index declined by 3.1 per cent in August 2019 following 2.2 per cent decrease in the preceding month. The deterioration was reflected in significant negative contributions from water and electricity consumption used for industrial purposes, indicative of a low production activity in the economy, while exports of textiles showed marginal positive contribution.

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



Source: CBL Calculations

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

| Indices  | 2019  |       |       |       |       |       |       |       |
|--|-------|-------|-------|-------|-------|-------|-------|-------|
|  | Jan   | Feb   | Mar   | Apr   | May   | Jun   | Jul   | Aug   |
| <b>CIEA</b>                                    | 115.7 | 116.3 | 116.1 | 115.8 | 115.4 | 114.5 | 115.3 | 115.4 |
| year-on year changes                           | 1.1   | 1.2   | 1.5   | 1.2   | 1.2   | -0.4  | 0.1   | 0.0   |
| <b>Domestic Demand Category</b>                | 113.6 | 115.5 | 115.3 | 114.4 | 113.7 | 112.4 | 114.2 | 114.3 |
| year on year changes                           | 1.6   | 2.6   | 3.7   | 3.2   | 2.2   | 0.0   | 1.0   | 1.3   |
| <b>Manufacturing &amp; Production Category</b> | 108.2 | 107.9 | 107.2 | 106.8 | 106.8 | 105.1 | 105.5 | 105.2 |
| year on year changes                           | -0.4  | -0.6  | -1.4  | -1.8  | -1.1  | -2.7  | -2.2  | -3.1  |

Source: CBL Calculations

## II. INFLATION AND PRICES

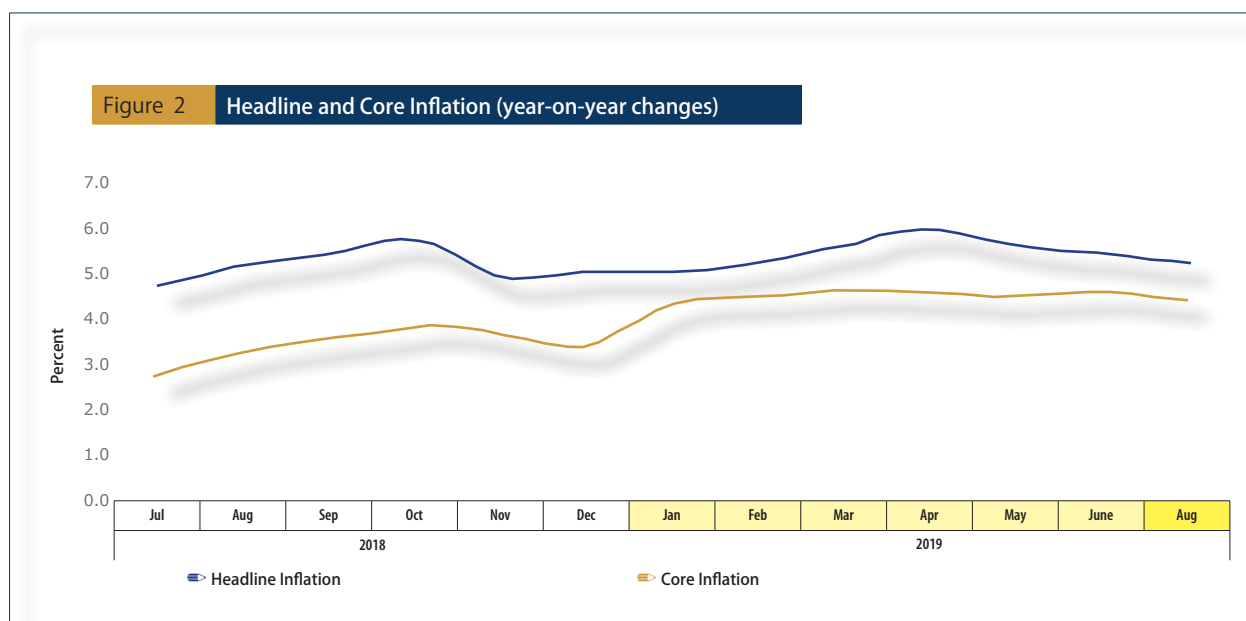
### Headline Inflation

The headline inflation rate decelerated from 5.4 per cent in July 2019 to 5.2 per cent in August 2019. The 0.2 percentage points decrease was mainly due to the contribution of *housing, electricity, gas & other fuels, clothing & footwear and transport*. Nonetheless, food & non-alcoholic beverages moderated the decrease in inflation rate during the review period.

The main drivers behind the deceleration in inflation during the review period is the fall in energy prices, in particular fuels and lubricants, while the rise in food prices, especially maize prices and the rand-US dollar exchange rate depreciation moderated the deflation.

### Core Inflation

The core inflation, which excludes the CPI items with extreme price changes, decelerated to 4.4 per cent in August 2019 from 4.6 per cent estimated in July 2019.

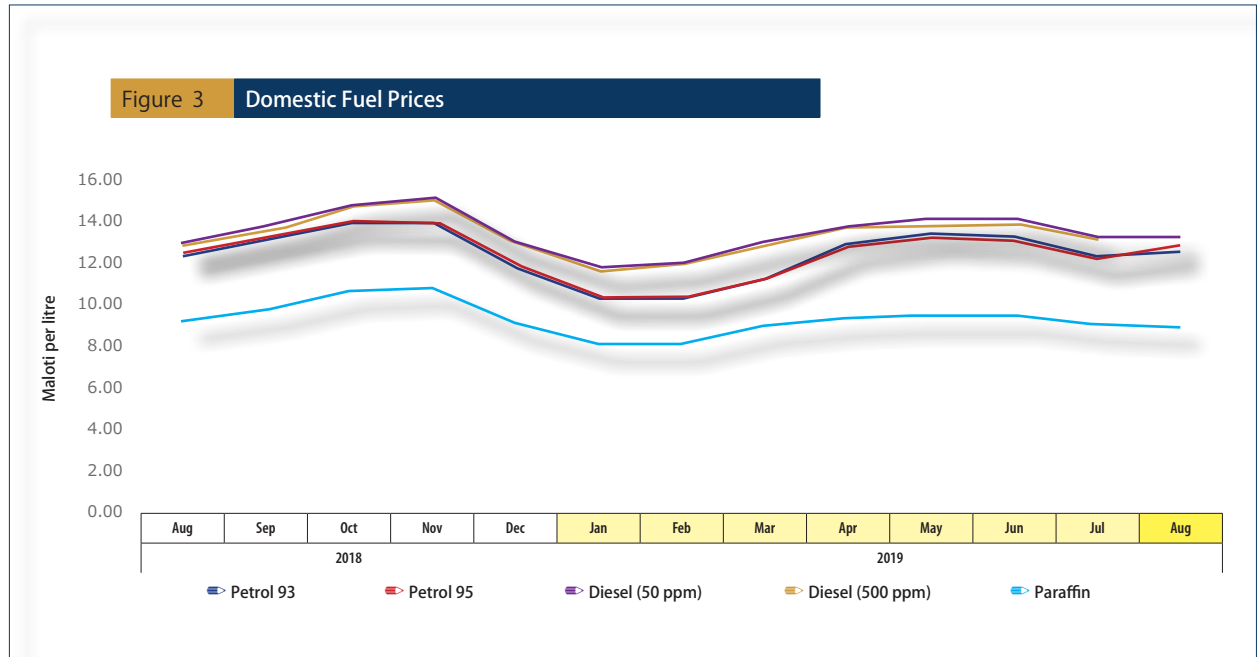


<sup>1</sup> pp means percentage point.

## Domestic Fuel Prices

Some of the domestic fuel prices decreased while some increased during the review period. The pump price of petrol93 and petrol95 increased by 15 lisente and 40 lisente, respectively. Their respective pump prices were M12.65 per litre and M12.85 per

litre in August 2019. The price of diesel50, however, decreased by 5 lisente to reach M13.45 per litre in August 2019 at the pump. The price of illuminating paraffin also decreased by 10 lisente from M9.10 per litre in July 2019 to reach M9.00 per litre in August 2019.



Source: Petroleum Fund

### III. MONETARY AND FINANCIAL INDICATORS

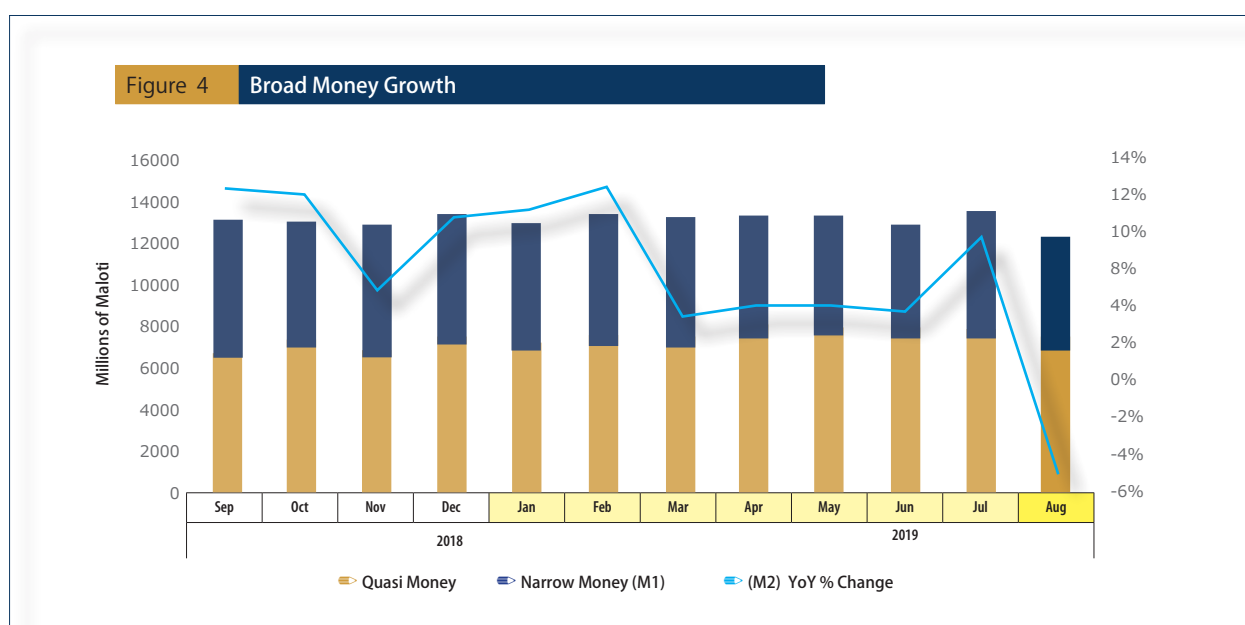
#### Broad Money (M2)

Broad money supply (M2) declined by 10.1 per cent in August 2019 compared to an increase of 4.9 per cent recorded during the previous month. This was due to a 1.3 per cent decline in net foreign assets (NFA) as well as a 50.7 per cent fall in net domestic assets (NDA). The decline in NFA was a result of a 5.2 per cent fall in Central Bank NFA, that was moderated by 8.2 per cent increase in commercial banks NFA. The decline in net domestic assets was

mainly reflective of growth in government deposits at the Central Bank.

#### Components of Money Supply

In terms of components of broad money, narrow money and quasi money fell by 11.4 per cent and 8.9 per cent respectively during the month under review. The fall in both components of money supply was due to a decrease in deposit holdings of business enterprises held with commercial-banks.



#### Credit

##### Private Sector Credit

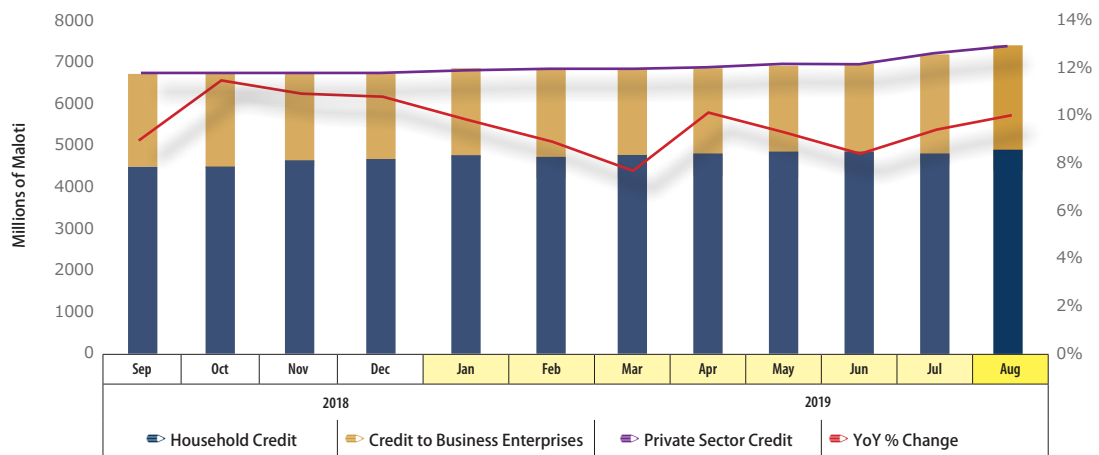
Total credit granted to the private sector improved by 2.4 per cent in August compared to an increase of 2.0 per cent observed in July. However, year-on-year, credit extended to the private sector expanded by 9.9 per cent in August 2019 compared with a growth of 9.4 per cent in the similar month a year ago.

Credit extended to households slightly rose by 0.6 per cent in the month under review, following 0.8 per cent in the previous month.

Contrary to a 1.3 per cent growth registered during the previous month, mortgages declined by 3.5 per cent in August.

Further, credit granted to business enterprises grew by 6.2 per cent compared to a 4.8 per cent increase in July 2019. Mining and quarrying sector were the major beneficiaries of credit to business enterprises, as it rose by 10 per cent during the month under review.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

## Loans

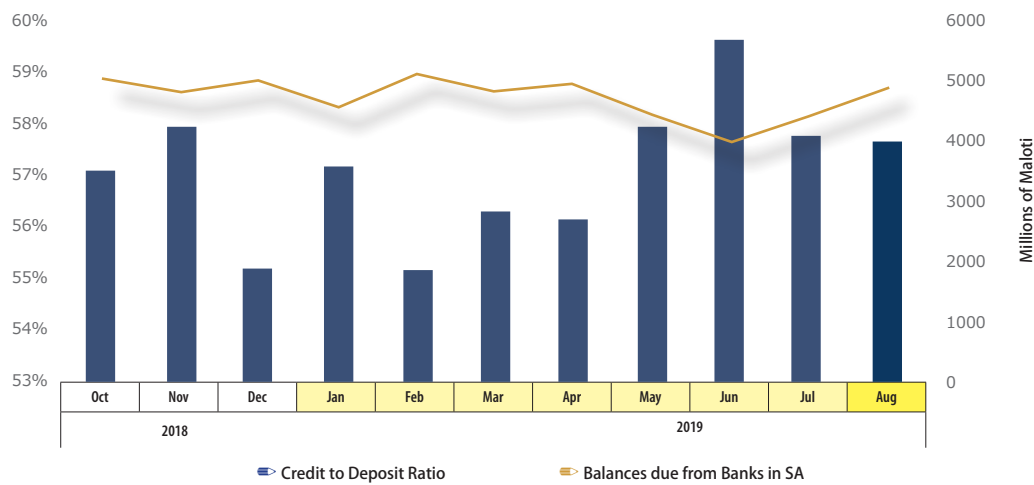
### Non-Performing Loans

Total non-performing loans (NPLs) as a percentage of total loans granted by commercial banks remained unchanged at 3.5 per cent between July and August 2019. The NPLs from business enterprises as a percentage of total loans granted to business enterprises declined slightly from 3.6 per cent to 3.4 per cent during the same period. Similarly, NPLs from households fell to 3.5 per cent in August, from 3.6 per cent in the previous month.

## Sources of Funds

The credit to deposit ratio of commercial banks fell slightly from 57.7 per cent to 57.6 per cent between July and August. The decline was caused by an increase in total deposits that outweighed growth in total credit.

**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 July and August 2019. During the same period, 91-day T-Bill discount rate declined marginally from 6.38 per cent to 6.34 per cent. However, all the commercial banks' deposits and lending rates, save for prime lending rate remained unchanged during the review month.

## Foreign Exchange Rates<sup>2</sup>

The rand hence the loti depreciated against the major global trading currencies in August 2019. In particular, it depreciated by 8.0 per cent against the US dollar, 5.2 per cent against the pound, and by 7.1 per cent against the euro. In the preceding month, the rand was generally strong as it appreciated against all major currencies.

The weakened performance was driven by the massive selloff of rand denominated securities in South Africa, including Treasury bonds.

On the international space, there was growing risk aversion due to the fears of global growth slowdown and escalating trade tensions between the US and China. This had a negative effect on the currencies in the emerging market countries, including rand.

<sup>2</sup> Monthly average exchange rate.

# IV. GOVERNMENT BUDGETARY OPERATIONS

## Total Expenditure

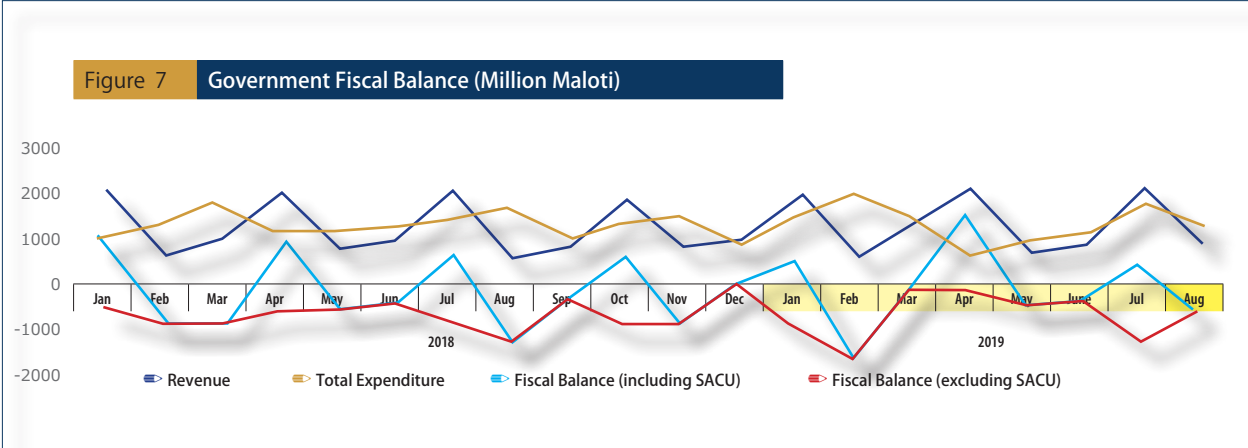
Government total spending fell by 24.5 per cent during the month in contrast to the 54.5 per cent increase in July 2019. This lower spending was observed in all components of expenses including compensation of employees and use of good and services. The decrease in compensation of employees represented a reversion to normalcy following the payments of arrears to salary adjustment that was effected in July. The use of goods and services, omitted among others, purchase of health services. Unlike expenses, the non-financial assets rose by 16.9 per cent in the month under review, compared with the twofold increase in the previous month. A share of non-financial assets in the total expenditure increased from 18.9 per cent in the previous month to 29.3 per cent in August 2019.

## Total Revenue

Government revenue decreased by 60.5 per cent in August 2019. This also represented a reversion to the normalcy following the month in which SACU transfers were received. The main drivers of a fall in revenue included mining royalties, road maintenance levy, petroleum levy and water royalties. Apart from these levies, tax revenue in general increased largely due to income tax and VAT.

## Fiscal Balance and Financing

Government budgetary operations recorded a fiscal deficit equivalent to 4.9 per cent of GDP during the month under review, relative to a fiscal surplus of 5.3 per cent of GDP in July 2019. This deficit was financed by a drawdown of Government deposits in the banking system coupled with incurrence of new foreign debt.

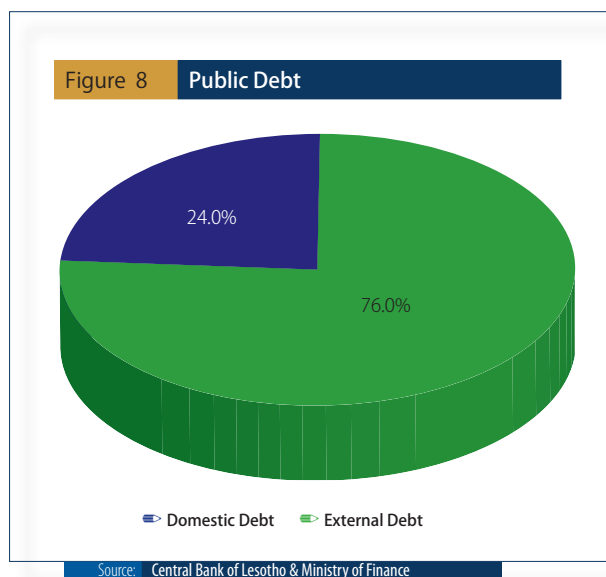




## V. PUBLIC DEBT

The public debt stock stood at 44.9 per cent of GDP in August 2019 compared with 43.1 per cent of GDP in July 2019. It increased by 4.2 per cent in the month under review in contrast to 0.9 per cent fall in the previous month. This rise was mainly due to acquisition of new external debt including

suppliers' credit and concessional multilateral loans. The domestic debt, on the contrary, fell marginally due to maturing Treasury bills for monetary policy operations. Consequently, external debt continued to take a larger share of 76.0 per cent out of total public sector debt.



## Appendix: Key Economic Indicators

|   |                                   | 19-Mar           | 19- Apr  | 19-May   | 19-Jun   | 19-Jul   | 19-Aug    |         |
|---|-----------------------------------|------------------|----------|----------|----------|----------|-----------|---------|
| Economic Activity MIEA (% change, Y/Y)        |                                   | 1.5              | 1.2      | 1.2      | -0.4     | 0.1      | 0.0       |         |
| Consumer price Index (% change)               | Headline Inflation (year-on-year) | 5.2              | 5.6      | 5.9      | 5.6      | 5.4      | 5.2       |         |
|   | Core Inflation                    | 4.5              | 4.6      | 4.7      | 4.5      | 4.6      | 4.5       |         |
| Exchange Rates (Monthly End Period)           | EUR                               | 15.8             | 15.68    | 16.26    | 16.48    | 15.26    | 16.85     |         |
|   | GBP                               | 17.84            | 17.97    | 18.96    | 18.49    | 18.61    | 18.61     |         |
|   | USD                               | 13.84            | 13.82    | 14.39    | 14.59    | 16.85    | 15.26     |         |
| Money Supply (Millions of Maloti)             | M2                                | 13135.38         | 13332.46 | 13189.50 | 12859.94 | 13487.74 | 12,131.97 |         |
|   | M1                                | 6087.97          | 5890.57  | 5596.30  | 5499.41  | 5971.71  | 5,288.50  |         |
|   | Quasi Money                       | 7047.41          | 7441.89  | 7593.20  | 7360.54  | 7516.03  | 6,843.47  |         |
| Interest Rates                                | CBL Rate                          | 6.75             | 6.75     | 6.75     | 6.75     | 6.50     | 6.50      |         |
|   | 91 day Treasury bill rate         | 6.70             | 6.56     | 6.42     | 6.69     | 6.38     | 6.34      |         |
|   | Prime lending rate                | 11.44            | 11.44    | 11.44    | 11.44    | 11.44    | 11.19     |         |
|   | 1 year deposit rate               | 4.36             | 4.34     | 4.34     | 4.34     | 4.34     | 4.32      |         |
| Private sector Credit (Millions of Maloti)    |                                   | 6817.38          | 6968.55  | 7078.69  | 7075.82  | 7218.47  | 7,390.62  |         |
|   | Households                        | 4789.86          | 4828.40  | 4861.62  | 4887.66  | 4926.18  | 4,956.49  |         |
|   | Business Enterprises              | 2027.52          | 2140.15  | 2217.07  | 2188.16  | 2292.29  | 2,434.13  |         |
| Bank Deposit Liabilities (Millions of Maloti) |                                   | 12390.29         | 12121.37 | 12382.49 | 12209.38 | 11856.65 | 12,977.39 |         |
| Credit to Deposit Ratio (%)                   |                                   | 56.25            | 56.08    | 57.77    | 59.54    | 56.96    | 56.95     |         |
| Fiscal Operations                             | Fiscal Balance                    | -25.46           | 1526.92  | -348.17  | -257.34  | 484.38   | -448.03   |         |
|   | Total Revenue                     | 1419.19          | 2264.83  | 669.18   | 893.00   | 2261.20  | 893.67    |         |
|   | Total Expenditure                 | 1444.64          | 737.91   | 1017.35  | 1150.33  | 1776.82  | 1,341.69  |         |
|   | O/W Capital                       | 344.43           | 28.61    | 37.11    | 92.42    | 336.34   | 393.34    |         |
| Total Public Debt (Millions of Maloti)        |                                   | 16007.40         | 15909.52 | 16171.01 | 15913.93 | 15765.88 | 16432.37  |         |
|   | Total External Debt               | 12087.00         | 11962.84 | 12271.32 | 11892.13 | 11821.31 | 12489.88  |         |
|   | External Debt                     | Concessional     | 9517.92  | 9414.26  | 9713.58  | 9381.89  | 9319.63   | 9476.73 |
|   |                                   | Non-concessional | 2569.08  | 2548.58  | 2557.74  | 2510.24  | 2501.68   | 3013.15 |
|   | Domestic Debt                     |                  | 3920.41  | 3946.68  | 3899.69  | 4021.80  | 3944.56   | 3942.49 |
| Memo Item: Arrears (Millions of Maloti)       |                                   | 223.22           | 0.85     | 5.98     | 56.07    | 58.39    | 57.54     |         |

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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