



# Monthly ECONOMIC REVIEW

December 2019

CENTRAL BANK OF LESOTHO

## I. ECONOMIC ACTIVITY

Economic activity maintained growth rate realised in November 2019. Growth continued to be subdued given a slow performance from the demand side, which undermined production.

### Overall Performance Index

Economic performance as measured by the monthly indicator of economic activity (MIEA), did not show signs of recovery in December, following consecutive low growth in the previous two months. Economic activity remained sustained by relatively low positive contributions from eight of the fourteen components that make up the MIEA. Domestic demand was subdued in the review month. In addition, the transport and construction subsectors performed poorly, with relatively low contributions from fuel consumption and cement imports, respectively.

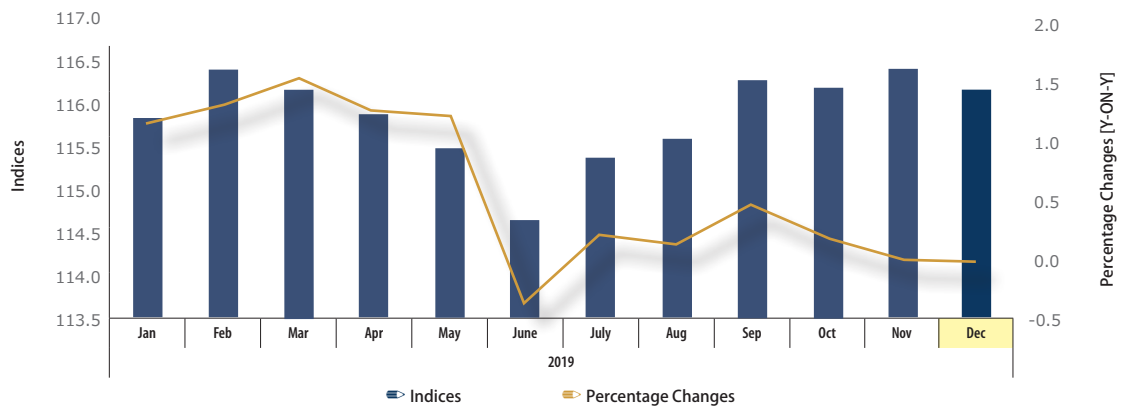
### Domestic Demand Category

The domestic demand index maintained the same rate observed in November 2019. This index was estimated to have grown by 0.8 per cent in December 2019. The growth continued to be attributable to positive contributions from government compensation of employees, PAYE collections, signifying increased earnings which may translates into increased employment levels both by the government and the private sector. Imports of goods and services also contributed positively, though at a low rate, compared to last month indicative of relatively restrained demand for goods and services in the month under review. However, VAT collections contributed negatively, moderating the growth in the demand side.

### Manufacturing & Production Category

The production index continued on the sustained downward trajectory in the review month, with a slightly bigger percentage of a decline. The index declined by 2.7 per cent in December 2019 following a decline of 2.6 per cent in the preceding month. The decline came as a result of negative contributions from utilities consumption used for industrial purposes together with output from the textiles and clothing industry.

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



Source: CBL Calculations

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

Indices	2019							
	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
<b>CIEA</b>	115.5	114.7	115.4	115.6	116.4	116.2	116.5	116.2
year-on year changes	1.2	-0.3	0.2	0.1	0.5	0.2	0.0	0.0
<b>Domestic Demand Category</b>	113.8	112.5	114.2	114.5	115.6	115.4	114.9	114.4
year on year changes	2.2	0.0	0.9	1.4	2.3	1.6	0.8	0.8
<b>Manufacturing &amp; Production Category</b>	106.9	105.1	105.6	105.4	106.0	105.5	106.2	105.4
year on year changes	-0.9	-2.5	-2.0	-2.8	-2.6	-2.6	-2.6	-2.7

Source: CBL Calculations

## II. INFLATION AND PRICES

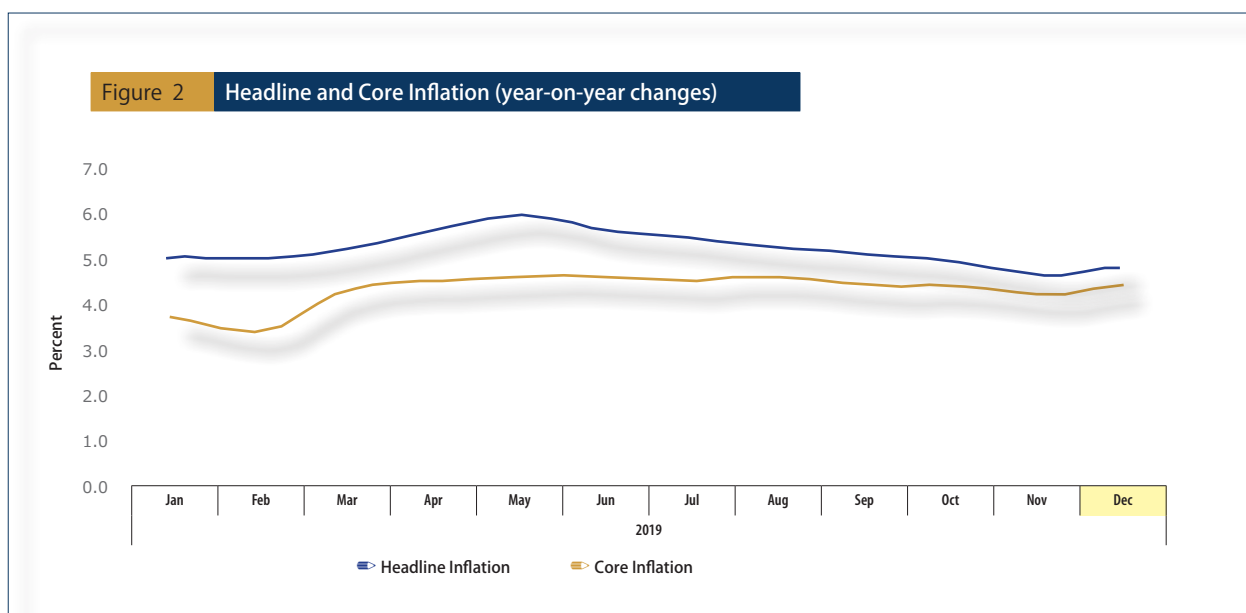
### Headline Inflation

The headline inflation rate accelerated from 4.6 per cent in November 2019 to 4.8 per cent in December 2019.

The acceleration of inflation rate during the review period was mainly attributed to the rising food prices, especially white maize meal price. Moreover, energy prices especially the price of international crude oil also drove the prices of domestic fuels up, but the Loti-US dollar exchange rate moderated the impact during the review period.

### Core Inflation

The core inflation, which excludes the CPI items with extreme price changes, also accelerated from 4.4 per cent in November 2019 to 4.5 per cent in December 2019.

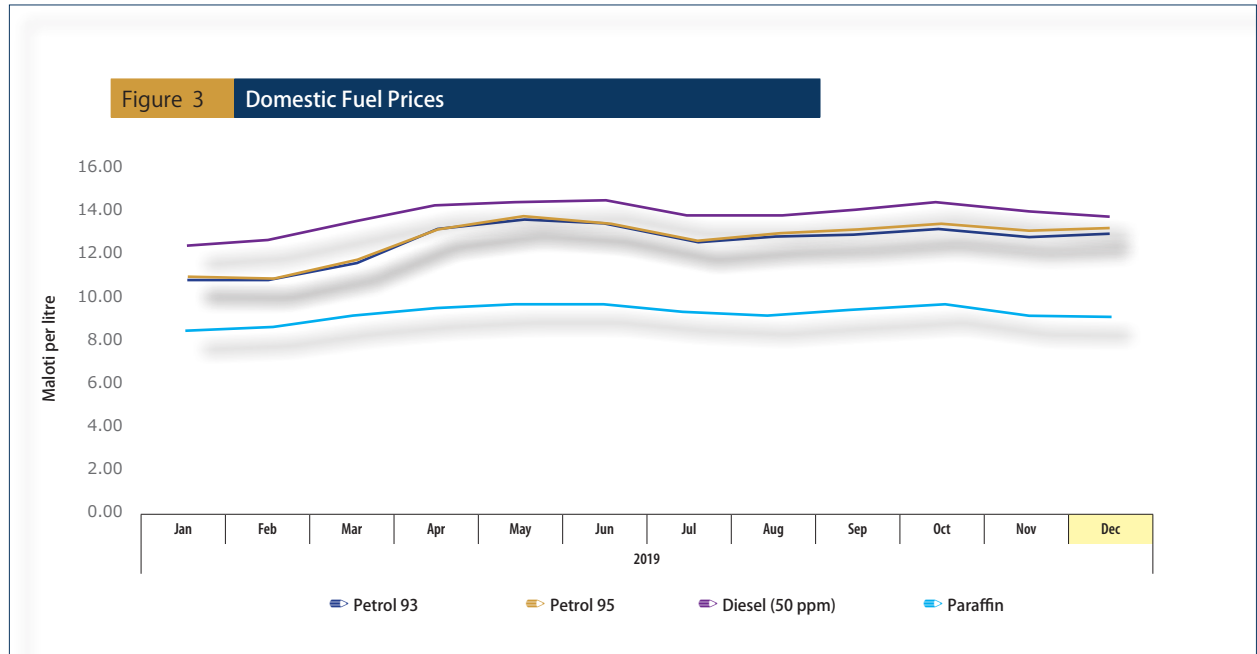


Source: Lesotho Bureau of Statistics & CBL Computation

## Domestic Fuel Prices

During the review period, some domestic fuel prices increased while others fell relative to the preceding month. The pump prices of both petrol grades increased by M0.30 per litre and M0.20 per litre for petrol93 and petrol95 from their November

2019 levels to reach M12.65 per litre and M13.00 per litre, respectively. The price of diesel50, however, declined by M0.20 per litre and was sold at M13.50 per litre at the pump during the review period. The price of illuminating paraffin also declined by M0.15 per litre by December 2019 and was sold at M8.95 per litre at the pump.



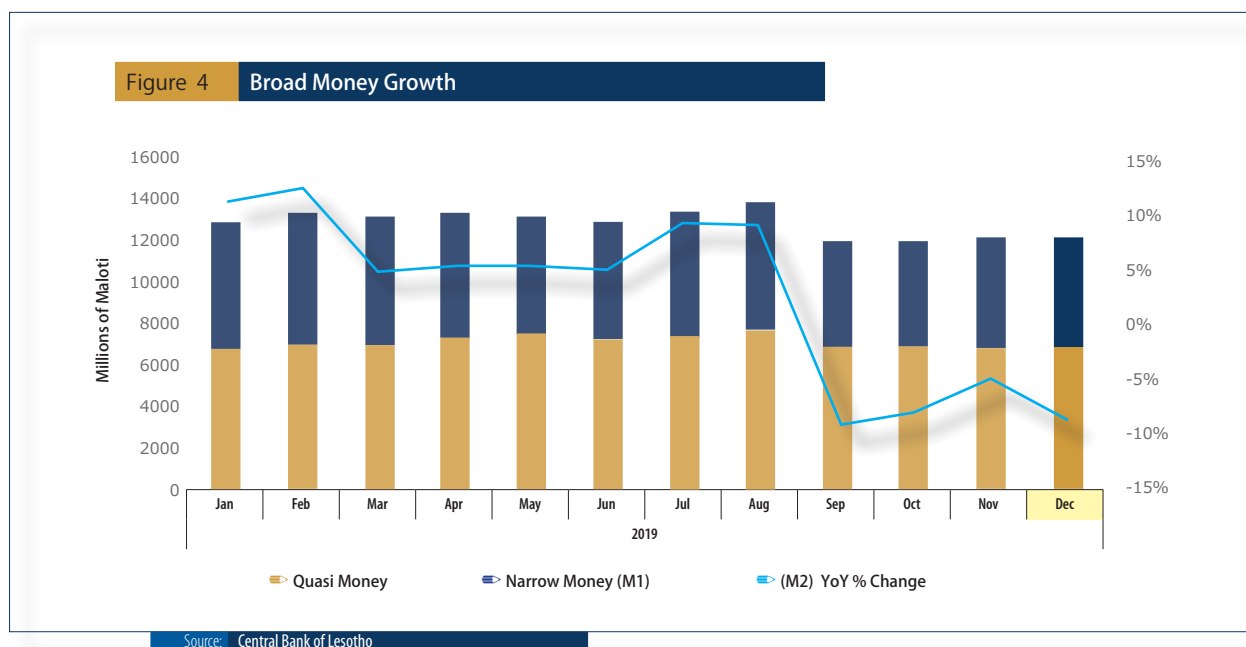
### III. MONETARY AND FINANCIAL INDICATORS

#### Broad Money (M2)

Broad money grew slightly by 0.1 per cent in December 2019 compared to an increase of 2.6 per cent in the previous month. This was on account of a marginal growth of 0.04 per cent in net domestic assets (NDA), whereas the net foreign assets remained flat during the review period. The growth in NDA was due to a fall in government deposits held by the Central Bank.

#### Components of Money Supply

During the month under review, narrow money grew by 0.3 per cent while the quasi money fell by 0.1 per cent. The increase in narrow money was mainly due to a growth in deposit holdings of business enterprises by commercial banks. The fall in quasi money was because of a decline in deposits of public nonfinancial corporations with commercial banks.



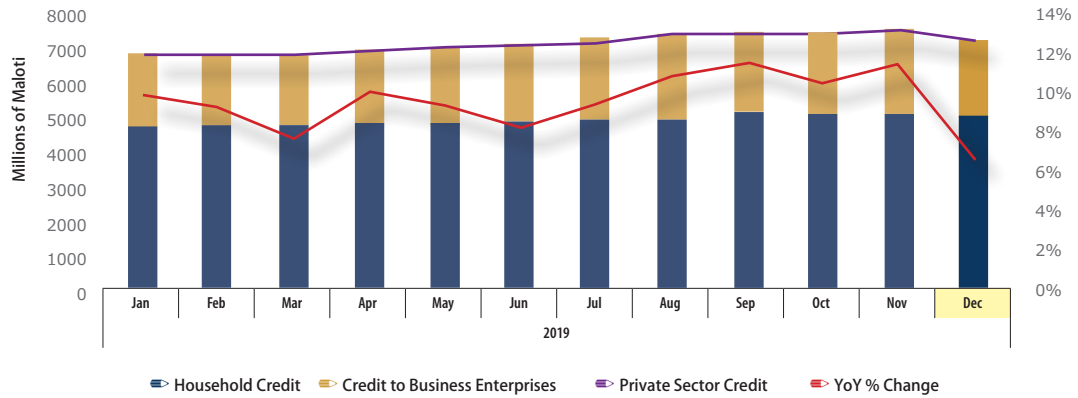
#### Private Sector Credit

Total credit granted to private sector registered a decline of 4.3 per cent in December, compared to a rise of 1.3 per cent observed in November 2019. On a year-on-year basis, credit extended to the private sector grew by 6.5 per cent in December 2019.

Credit to households fell by 1.3 per cent in the month under review compared to an increase of 1.2 per cent in the previous period. The slowdown

in households' credit was at the back of a fall in personal loans and mortgages by 0.6 per cent and 3.4 per cent, respectively. Similarly, credit to business enterprises declined by 10.6 per cent in December 2019, following a rise of 1.7 per cent in the previous month. Much of credit extended to business enterprises was towards real estate, transport, storage and communication, and mining and quarrying with the shares of 23.3 per cent, 19.5 per cent and 19.3 per cent, respectively.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

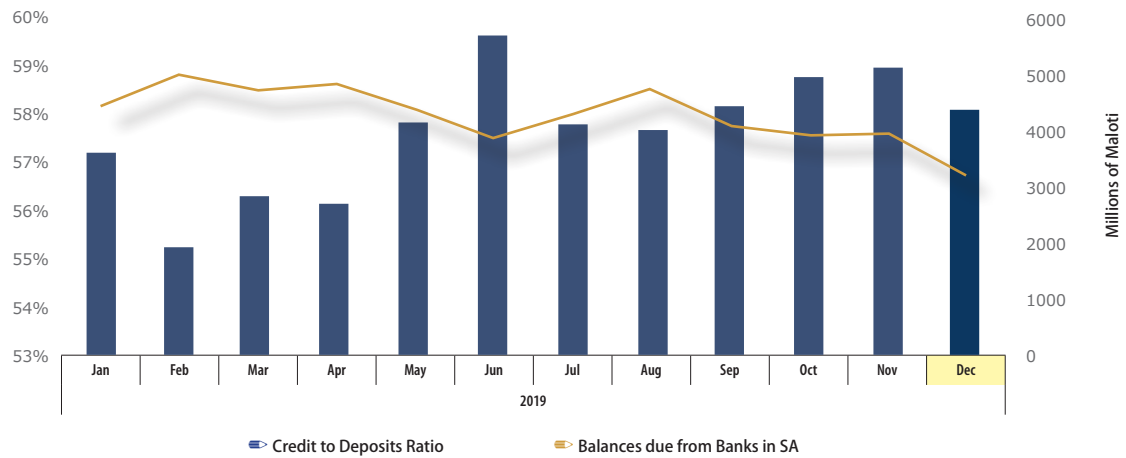
### Non-Performing Loans

Total non-performing loans (NPLs) as a share of total loans granted by commercial banks remained stable at 3.4 per cent between November and December 2019. The NPLs from business enterprises as a percentage of total loans granted to business enterprises stood at 3.4 per cent in December 2019. The households and mortgage NPLs registered 1.7 per cent and 8.5 per cent, respectively, during the review.

### Sources of Funds

The credit to deposit ratio of commercial banks fell from 58.2 per cent to 56.8 per cent between November and December 2019. This reflects a decline in credit extended coupled with a growth in total 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 November and December 2019. However, the 91-day T-Bill discount rate declined marginally from 6.28 per cent to 6.26 per cent. The prime lending rate and 1 year deposits rates remained unchanged at 11.19 per cent and 4.24 per cent, respectively.

## Foreign Exchange Rates<sup>1</sup>

The rand, hence the loti strengthened against the major trading currencies in December 2019, after showing a mixed performance in the preceding month. In particular, it appreciated by an average of 4.41 per cent against the US dollar, 2.54 per cent against the pound, and 2.50 per cent against the euro. The rand was supported by the lifting of global sentiment, driven by signing of preliminary trade agreement between the US and China. The Fitch, maintaining South Africa credit rating, which affirmed the positive long term foreign and domestic currency debt ratings further strengthened the rand. However, the rand remained volatile and was more sensitive to weak economic data.

<sup>1</sup> Monthly average exchange rate.

# IV. GOVERNMENT BUDGETARY OPERATIONS

## Total Expenditure

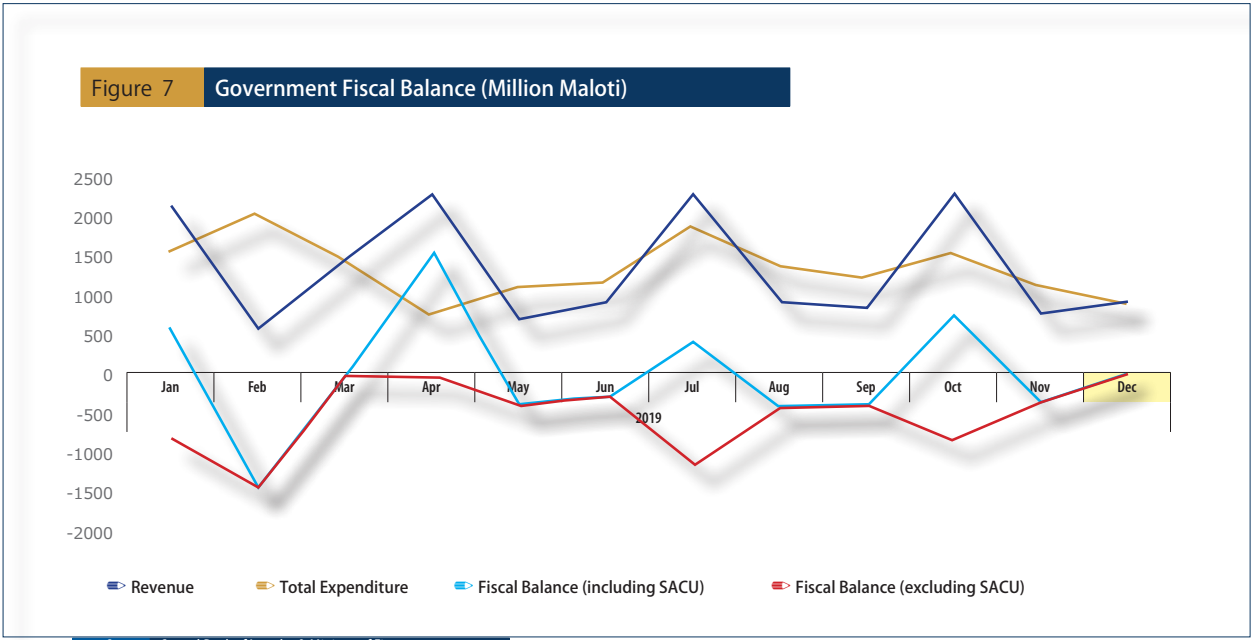
Government total expenditure fell by 19.2 per cent in December 2019, following a revised decrease of 27.6 per cent in November 2019. The reduction in total expenditure was mainly due to lower spending on the use of goods and services, compensation of employees, grants, non-residential buildings and other structures. This was also attributed to non-payments of social benefits during the month as those are usually paid in advance in November.

## Total Revenue

Government revenue went up by 17.1 per cent in the review month, relative to a decline of 66.4 per cent in the previous month. The main contributing categories were, among others, income tax, mining royalties and grants from foreign governments.

## Fiscal Balance and Financing

Government budgetary operations registered a balanced budget in December, compared with a revised fiscal deficit of 3.7 per cent of GDP in the preceding month. The arrears on Government spending registered 0.5 per cent of GDP.

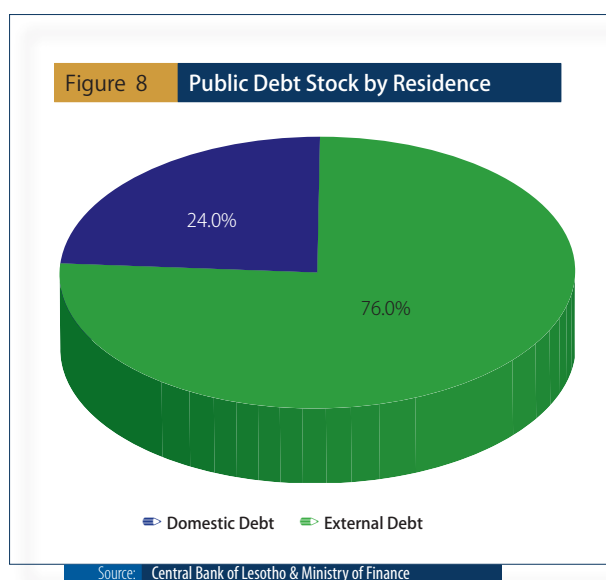




## V. PUBLIC DEBT

The public debt stock was projected to be 45.7 per cent of GDP in December 2019, compared with the revised 44.9 per cent of GDP in November 2019. It thus increased by 1.6 per cent in the month, relative to a marginal accumulation of 0.3 per cent in the previous month. The rise in debt stock was attributable to expansion in the external loan.

Moreover, the domestic debt stock increased on account of a 5-year and 10-year Treasury bonds (re-opening).



## Appendix: Key Economic Indicators

		19-Jul	19-Aug	19-Sep	19-Oct	19-Nov	19-Dec	
Economic Activity MIEA (% change, Y/Y)		0.2	0.1	0.5	0.2	0.0	0.0	
Consumer price Index (% change)	Headline Inflation (year-on-year)	5.4	5.2	5.1	4.9	4.6	4.8	
	Core Inflation	4.6	4.4	4.4	4.2	4.4	4.5	
Exchange Rates (Monthly End Period)	EUR	15.3	16.8	16.5	16.5	16.1	15.7	
	GBP	18.6	18.6	18.7	18.8	18.9	18.4	
	USD	16.9	15.3	15.2	14.9	14.7	14.0	
Money Supply (Millions of Maloti)	M2	13,865.35	11,897.68	11,878.98	12,185.65	12,195.22	13,865.35	
	M1	6,184.74	4,988.34	4,973.33	5,319.82	5,333.90	6,184.74	
	Quasi Money	7,680.61	6,909.34	6,905.65	6,865.83	6,861.32	7,680.61	
Interest Rates	CBL Rate	6.5	6.5	6.5	6.5	6.5	6.5	
	91 day Treasury bill rate	6.3	6.3	6.3	6.3	6.3	6.3	
	Prime lending rate	11.2	11.2	11.2	11.2	11.2	11.2	
	1 year deposit rate	4.3	4.3	4.3	4.2	4.2	4.3	
Private sector Credit (Millions of Maloti)		7,218.47	7,451.61	7,493.09	7,475.56	7,575.04	7,251.33	
	Households	4,926.18	4,956.49	5,163.48	5,086.65	5,145.54	5,078.99	
	Business Enterprises	2,292.29	2,495.11	2,329.62	2,388.90	2,429.50	2,172.34	
Bank Deposit Liabilities (Millions of Maloti)		12,672.67	12,977.39	12,849.65	12,888.72	13,024.80	12,772.12	
Credit to Deposit Ratio (%)		57.0	57.4	58.3	58.0	58.2	56.8	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	412.89	-472.64	-411.33	733.09	-342.38	-2.46	
	Total Revenue	2,261.20	893.67	796.34	2,248.96	754.56	883.60	
	Total Expenditure	1,848.31	1,366.31	1,207.68	1,515.87	1,096.94	886.06	
	O/W Capital	398.50	416.20	223.28	204.53	134.29	105.16	
Total Public Debt (Millions of Maloti)		15,896.75	16,706.42	16,788.97	16,726.42	16,783.48	17,057.4	
	Total External Debt	11,948.86	12,715.12	12,695.81	12,687.09	12,754.76	13,013.53	
	External Debt	Concessional	9,448.45	10,169.88	10,197.77	10,190.40	10,232.74	10,504.19
		Non-concessional	2,500.41	2,545.23	2,498.04	2,496.69	2,522.03	2,509.34
	Domestic Debt		3,947.89	3,991.31	4,093.16	4,039.33	4,028.72	4,043.87
Memo Item: Arrears (Millions of Maloti)		58.39	57.54	59.40	36.20	35.88	47.95	

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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