



Monthly ECONOMIC REVIEW

September 2019

CENTRAL BANK OF LESOTHO

I. ECONOMIC ACTIVITY

Economic activity picked up in September 2019 following a slight increase observed in August. The observed recovery was supported by a strong domestic demand together with transport and construction subsectors while the production side remained sluggish.

Overall Performance Index

Economic performance, as measured by the monthly indicator of economic activity (MIEA), increased by 0.3 per cent in September 2019, compared with a marginal increase of 0.1 per cent in August. The growth was attributed to positive contributions from all the variables that make up the MIEA, with the exception of three variables which contributed negatively. Economic activity continued to be supported by high domestic demand, increased activity in the transportation sector as indicated by high consumption of fuels, and increased construction activity as shown by positive contributions from imports of cement and metallic products used mainly for construction purposes.

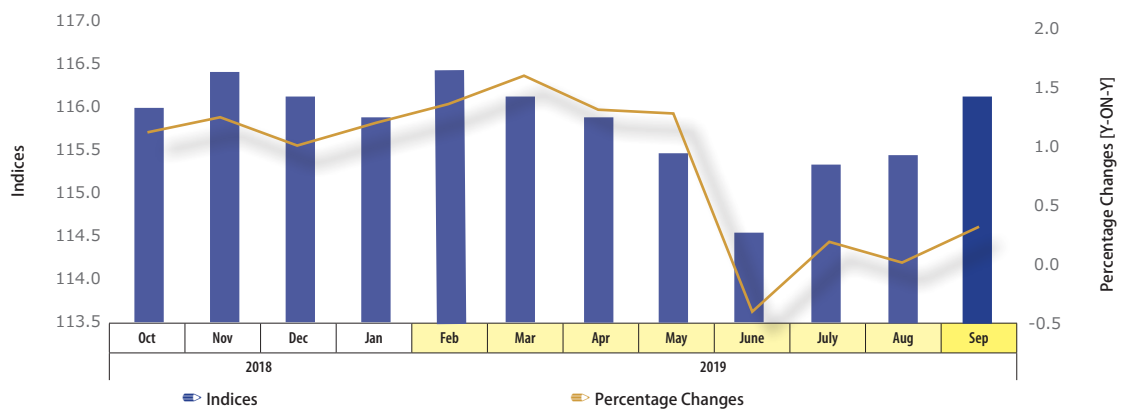
Domestic Demand Category

The domestic demand index exhibited a positive growth in September 2019 compared to the figure observed in the preceding month. This index was estimated to have grown by 1.9 per cent relative to 1.3 per cent realised in August. The growth was mainly attributable to positive contributions from government compensation of employee and PAYE collections, signifying increased earnings, and hence relatively higher employment levels. Imports of goods and services also contributed positively, indicative of increased demand for goods and services.

Manufacturing & Production Category

The production index continued to decline in the review month, though at the muted rate. The index declined by 2.8 per cent in September 2019 following a decline of 3.0 per cent in the preceding month. The deterioration was reflected in significant negative contributions from water and electricity consumption used for production purposes, and this is in line with a reduced electricity supply, which caused one of the mines to halt production due to power shortages in September. On the contrast manufacturing of textiles and clothing moderated the decline of the production index as shown by positive contributions from exports of textiles and clothing.

Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2019							
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept
CIEA	116.4	116.1	115.8	115.4	114.6	115.3	115.4	116.1
year-on year changes	1.3	1.5	1.2	1.2	-0.4	0.1	0.1	0.3
Domestic Demand Category	115.6	115.3	114.4	113.8	112.4	114.2	114.3	115.2
year on year changes	2.6	3.7	3.2	2.2	0.0	0.9	1.3	1.9
Manufacturing & Production Category	107.9	107.2	106.8	106.8	105.1	105.5	105.2	105.9
year on year changes	-0.6	-1.3	-1.7	-1.1	-2.7	-2.2	-3.0	-2.8

Source: CBL Calculations

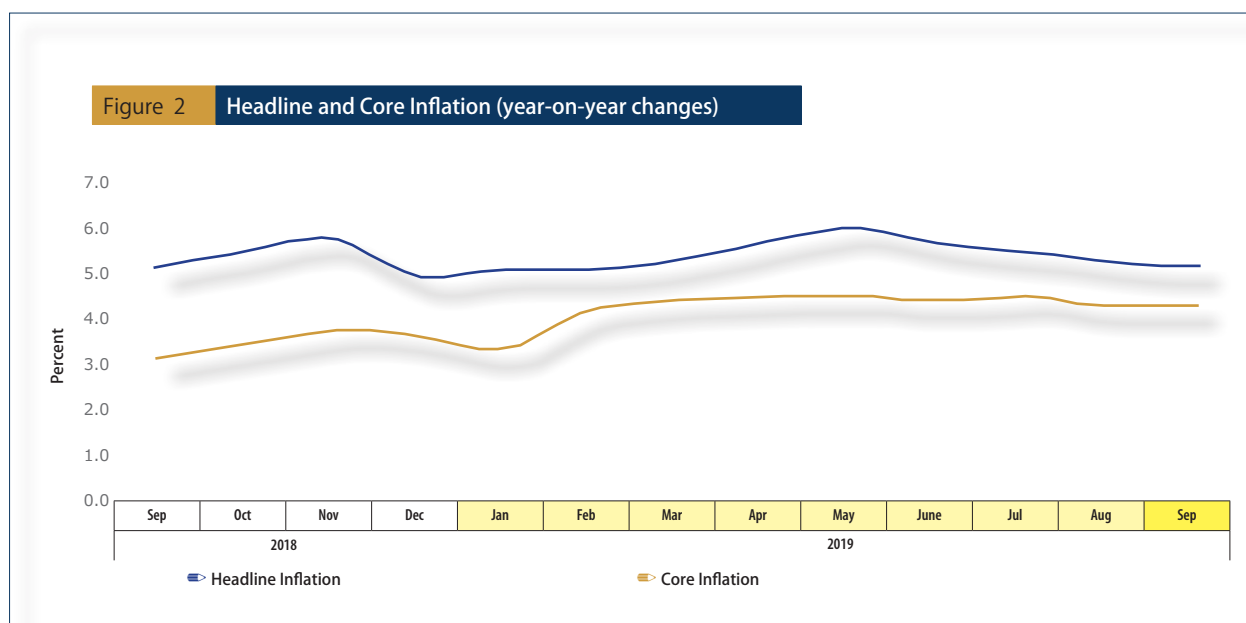
II. INFLATION AND PRICES

Headline Inflation

The headline inflation rate decelerated from 5.2 per cent in August 2019 to 5.1 per cent in September 2019. The 0.1 percentage point decrease was mainly due to the contribution of Housing, electricity, gas & other fuels, Clothing & footwear and Transport. Nonetheless, Food & Non-Alcoholic beverages moderated the disinflation rate during the review period. This fall in inflation rate was on the back of the decline in the energy prices, in particular fuels and lubricants, despite above 7.0 per cent appreciation of the rand against the USD dollar during the review period.

Core Inflation

The core inflation, which excludes the CPI items with extreme price changes, remained stable at 4.4 per cent in September 2019 from its estimated level in August 2019.

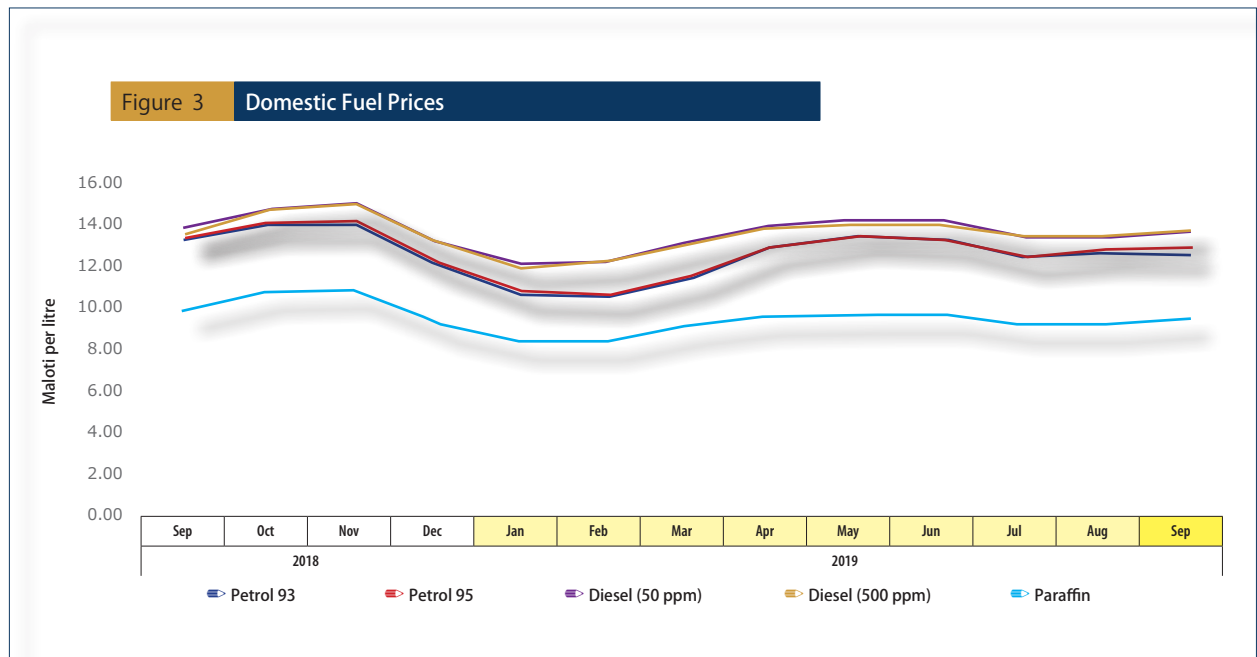


Source: Lesotho Bureau of Statistics & CBL Computation

Domestic Fuel Prices

During the month of September 2019, the prices of some domestic fuel prices decreased, others remained stable while some increased. The pump price of petrol93 decreased by 10 lisente to reach M12.55 per litre during the review period

while petrol95 remained stable at M12.85 per litre in September 2019 for its August 2019 level. Nonetheless, diesel50 price increased by 30 lisente and was M13.75 per litre during the review period. The price of illuminating paraffin also increased by 25 lisente from M9.00 per litre in August 2019 to reach M9.25 per litre in September 2019.



Source: Petroleum Fund

III. MONETARY AND FINANCIAL INDICATORS

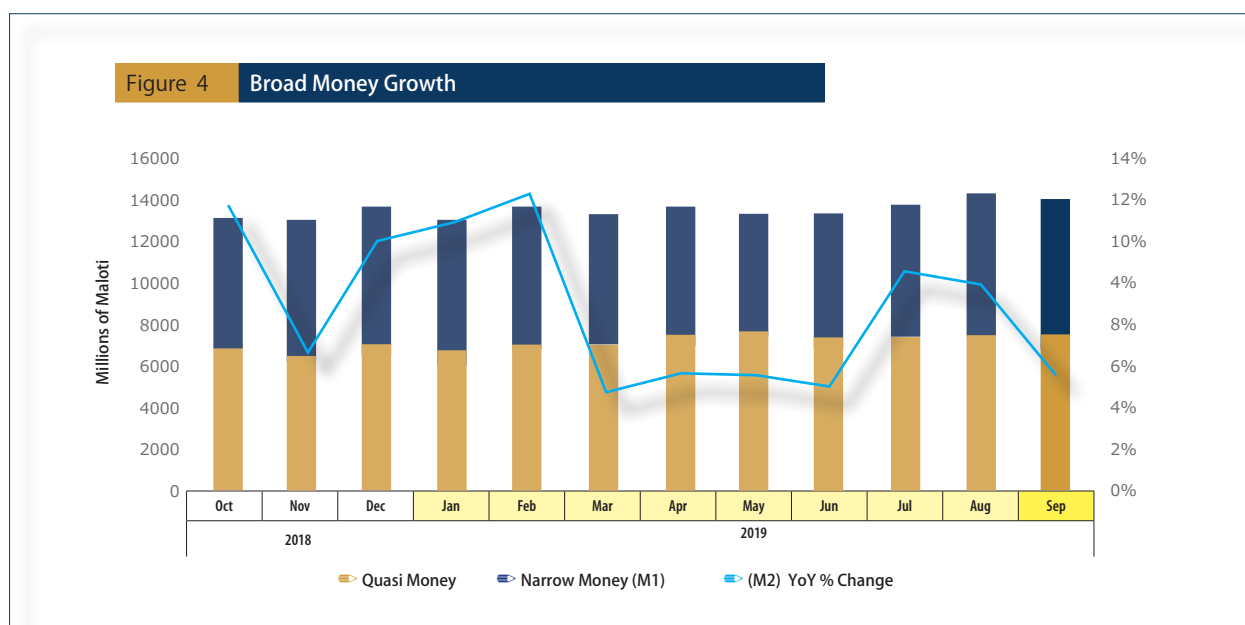
Broad Money (M2)

Broad money supply (M2) declined by 10.1 per cent in September 2019 in contrast to an increase of 2.8 per cent during the previous month. This was due to a 3.4 per cent decline in net foreign assets (NFA), notwithstanding that net domestic assets increased by 10.0 per cent. The decline in NFA stemmed from a fall of 2.2 per cent and 6.0 per cent in Central Bank and commercial banks' NFA, respectively. Conversely, the

increase in NDA was mainly as a result of a growth in net claims on central government, complemented by an improvement in private sector credit.

Components of Money Supply

During the review period, narrow money fell by 2.7 per cent, and was moderated by 1.3 per cent growth in quasi money. The decline in narrow money was mainly due to a fall in deposit holdings of business enterprises with commercial-banks.



Credit

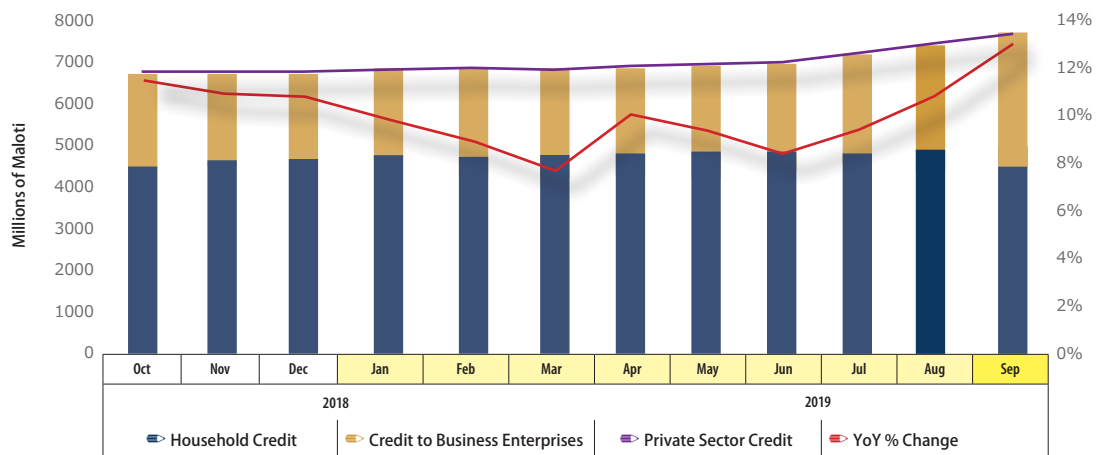
Private Sector Credit

Total credit granted to private sector improved by 1.6 per cent in September following an increase of 3.2 per cent observed in August 2019. On a year-on-year basis, credit extended to the private sector maintained an upwards trajectory from June 2019 to date, recording an increase of 12.7 per cent in September 2019.

Credit extended to households accelerated by 4.2 per cent in September 2019, following a marginal growth of 0.6 per cent in the previous month. The observed upsurge in households' credit was at the back of a 5.1 per cent rise personal loans and 1.3 per cent rise in mortgage loans.

Furthermore, credit granted to business enterprises fell by 3.4 per cent, in contrast to an increase of 8.9 per cent in August 2019. Much of credit extended to business enterprises was towards mining and quarrying, and real estate and business services sectors with the shares of 26.7 per cent and 23.7 per cent, respectively.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

Loans

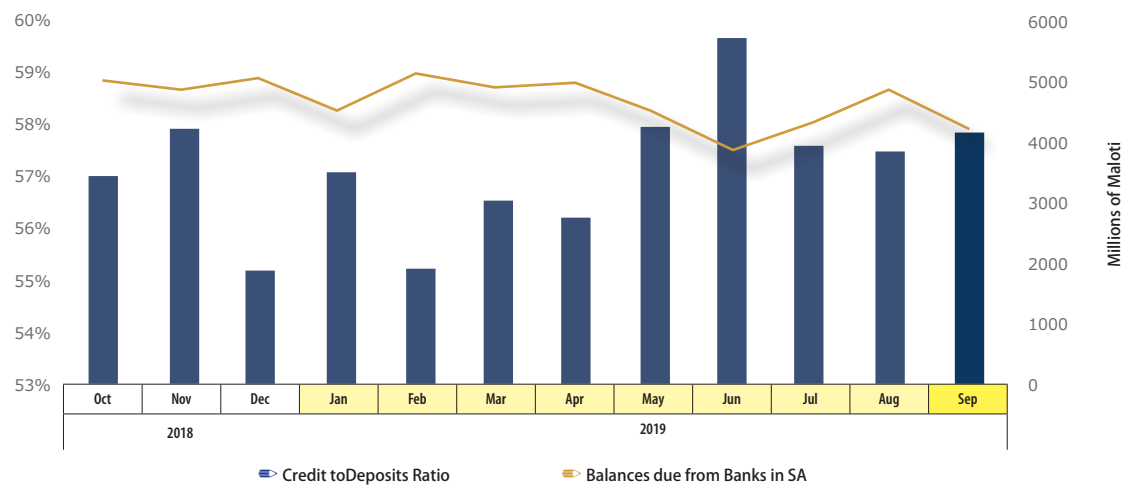
Non-Performing Loans

Total non-performing loans (NPLs), as a share of total loans granted by commercial banks, remained unchanged at 3.4 per cent between August and September 2019. The NPLs from business enterprises as a percentage of total loans granted to business enterprises increased from 3.3 per cent to 3.5 per cent during the same period. Regarding households NPLs, mortgage NPLs increased by 0.3 percentage points to 8.3 per cent, whereas NPLs due to personal loans fell by 0.2 percentage points to 1.8 per cent in September 2019.

Sources of Funds

The credit to deposit ratio of commercial banks rose from 57.4 per cent to 58.9 per cent between August and September 2019. This was due to an increase in private sector credit coupled with a decline 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 August and September 2019. Similarly, the 91-day T-Bill discount rate, prime lending rate and 1-year deposit rate remained stable at 6.34 per cent, 11.19 per cent and 4.23 per cent, respectively.

Foreign Exchange Rates¹

The rand, hence the loti, strengthened against the major global currencies in September 2019. It appreciated by the average of 2.1 per cent, 0.6 per cent and 3.2 per cent against the US dollar, pound and euro, respectively. Generally, the rand recovered from the weakened performance in August 2019.

The rand was supported by improved risk appetite in the global markets. In particular, there was increased fund inflows into emerging markets in search for higher yields. Currently there are low yields in the sovereign treasury securities in the advanced economies. However, the gains in rand were moderated by the attack on Saudi Arabia oil facilities, which led to a spike in the oil prices.

¹ Monthly average exchange rate.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

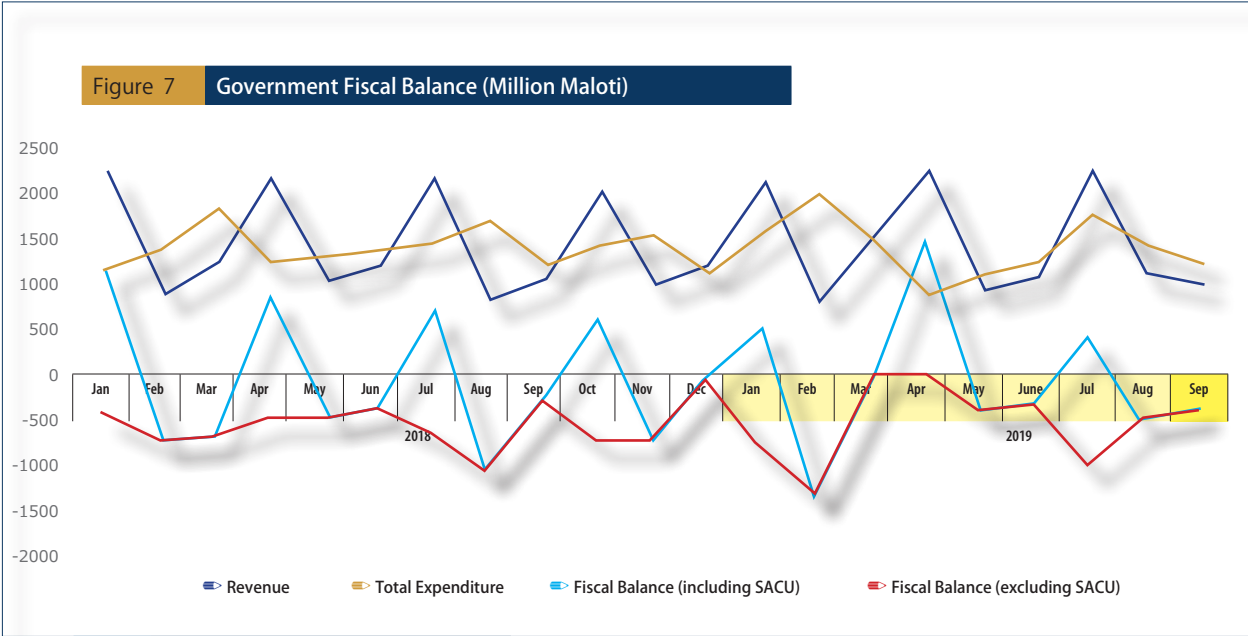
Government total spending decreased by 15.5 per cent in September following a revised decline of 24.8 per cent in the previous month. The fall in total spending was mainly due to lower spending on non-financial assets. However, the expenses contrarily increased by 3.7 per cent mainly driven by the use of goods and services, interest payments and subsidies.

Total Revenue

Government revenue decreased by 60.5 per cent during the month, following a fall worth 60.5 per cent in August 2019. The driving factors included taxes (mainly income tax and VAT), other revenue and grants.

Fiscal Balance and Financing

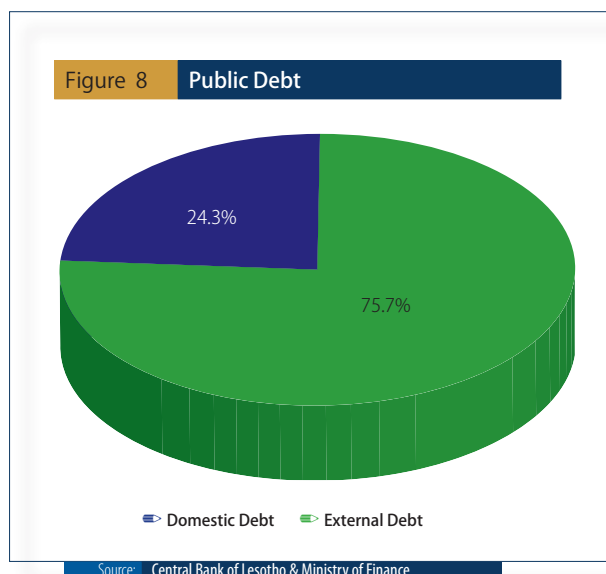
Government budgetary operations registered a monthly fiscal deficit equivalent to 3.7 per cent of GDP during the month, compared with a deficit of 4.9 per cent of GDP in August 2019. This deficit was mainly financed by drawdown of Government deposits in the banking sector and issuance of Treasury bonds. The arrears on Government spending increased by 3.2 per cent in September relative to a fall of 1.5 per cent in the previous month.



Source: Central Bank of Lesotho & Ministry of Finance

V. PUBLIC DEBT

The public debt stock increased by 1.1 per cent, an equivalent of 46.1 per cent of GDP in September 2019, compared with 45.6 per cent of GDP in the previous month. This was mainly driven by currency depreciation and a 1.7 per cent rise in domestic debt stock.



Appendix: Key Economic Indicators

		19-Apr	19-May	19-Jun	19-Jul	19-Aug	19-Sep	
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)	5.6	5.9	5.6	5.4	5.2	5.1	
	Core Inflation	4.6	4.7	4.5	4.6	4.5	4.4	
Exchange Rates (Monthly End Period)	EUR	15.68	16.26	16.48	15.26	16.85	16.55	
	GBP	17.97	18.96	18.49	18.61	18.61	18.69	
	USD	13.82	14.39	14.59	16.85	15.26	15.19	
Money Supply (Millions of Maloti)	M2	13332.46	13189.50	12859.94	13487.74	12,131.97	13793.02	
	M1	5890.57	5596.30	5499.41	5971.71	5,288.50	6015.94	
	Quasi Money	7441.89	7593.20	7360.54	7516.03	6,843.47	7777.08	
Interest Rates	CBL Rate	6.75	6.75	6.75	6.50	6.50	6.50	
	91 day Treasury bill rate	6.56	6.42	6.69	6.38	6.34	6.34	
	Prime lending rate	11.44	11.44	11.44	11.44	11.19	11.19	
	1 year deposit rate	4.34	4.34	4.34	4.34	4.32	4.32	
Private sector Credit (Millions of Maloti)		6968.55	7078.69	7075.82	7218.47	7,390.62	7573.90	
	Households	4828.40	4861.62	4887.66	4926.18	4,956.49	5163.48	
	Business Enterprises	2140.15	2217.07	2188.16	2292.29	2,434.13	2410.42	
Bank Deposit Liabilities (Millions of Maloti)		12121.37	12382.49	12209.38	11856.65	12,977.39	12849.65	
Credit to Deposit Ratio (%)		56.08	57.77	59.54	56.96	56.95	58.94	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	1,526.92	-348.14	-257.31	475.10	-449.81	-338.82	
	Total Revenue	2,264.83	669.18	893.00	2,261.20	893.67	796.34	
	Total Expenditure	737.91	1,017.32	1,150.30	1,786.09	1,343.48	1,135.16	
	O/W Capital	28.61	37.11	92.42	336.34	393.34	149.90	
Total Public Debt (Millions of Maloti)		16,013.38	16,274.89	16,016.19	15,888.65	16,690.37	16,872.08	
	Total External Debt	12,066.70	12,375.20	11,994.39	11,901.66	12,656.99	12,771.91	
	External Debt	Concessional	9,518.12	9,817.46	9,484.15	9,401.25	10,111.76	10,269.71
		Non-concessional	2,548.58	2,557.74	2,510.24	2,500.41	2,545.23	2,502.20
	Domestic Debt		3,946.68	3,899.69	4,021.80	3,986.98	4,033.38	4,100.17
Memo Item: Arrears (Millions of Maloti)		0.85	5.98	56.07	58.39	57.54	59.40	

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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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