



Monthly ECONOMIC REVIEW

October 2018

CENTRAL BANK OF LESOTHO

I. ECONOMIC ACTIVITY

Economic activity growth registered a marginal increase in October 2018 relative to the previous month. The demand side supported the growth, while the manufacturing and production portrayed a slight decline.

Overall Performance Index

Economic performance as measured by the monthly indicator of economic activity (MIEA), increased by 0.8 per cent in October 2018, compared with the growth of 0.7 per cent in September. Ten of the fourteen components that make up the MIEA increased while the remaining four contributed negatively to the overall index.



Domestic Demand Category

The domestic demand picked up in the month of October after a series of downturns. This category was estimated to have grown by 0.7 per cent in the review month. The growth mainly represented major positive contributions from VAT collections and imports of goods and services, a move signalling strong demand for goods and services. Moreover, contribution from private sector credit remained firm.

Manufacturing & Production Category

The manufacturing and production index declined by 0.1 per cent in October 2018. The decline was attributable to the slowdown in the water and electricity subsectors. Exports of textiles and clothing also registered a decline.

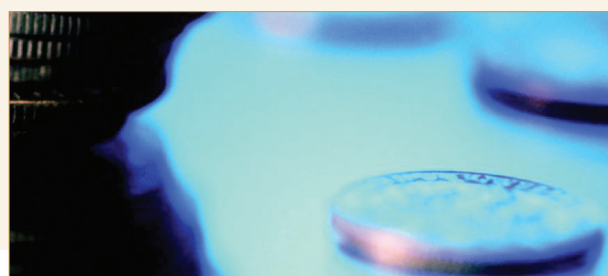
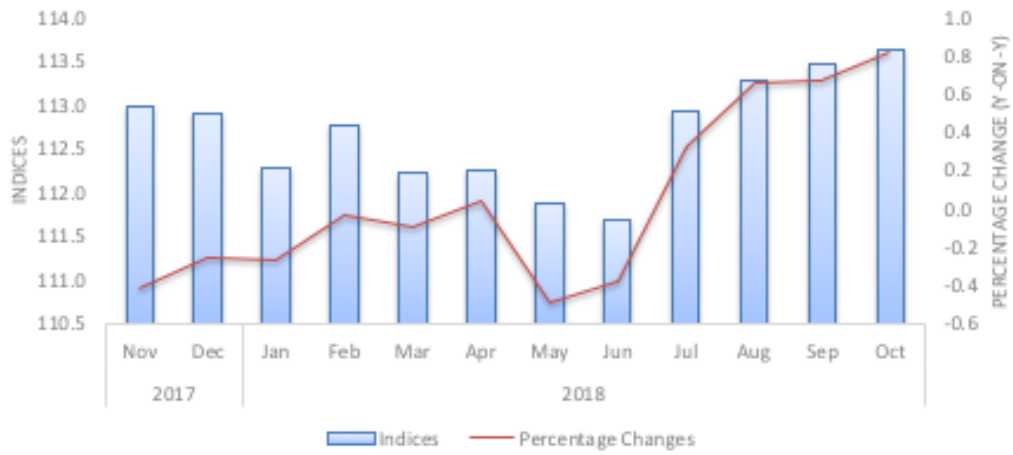


Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2018							
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
CIEA	112.2	112.3	112.9	111.7	112.9	113.3	113.5	113.6
year-on year changes	-0.1	0.0	-0.5	-0.4	0.3	0.7	0.7	0.8
Domestic Demand Category	112.1	110.7	111.1	112.4	112.9	112.7	112.8	113.4
year on year changes	-2.8	-2.6	-2.5	-0.6	-0.3	-0.2	0.0	0.7
Manufacturing & Production Category	104.6	102.9	102.5	102.7	102.8	104.1	104.4	104.0
year on year changes	2.6	0.7	-0.4	0.5	0.3	1.3	0.0	-0.1

Source: CBL Calculations

II. INFLATION AND PRICES

Headline Inflation

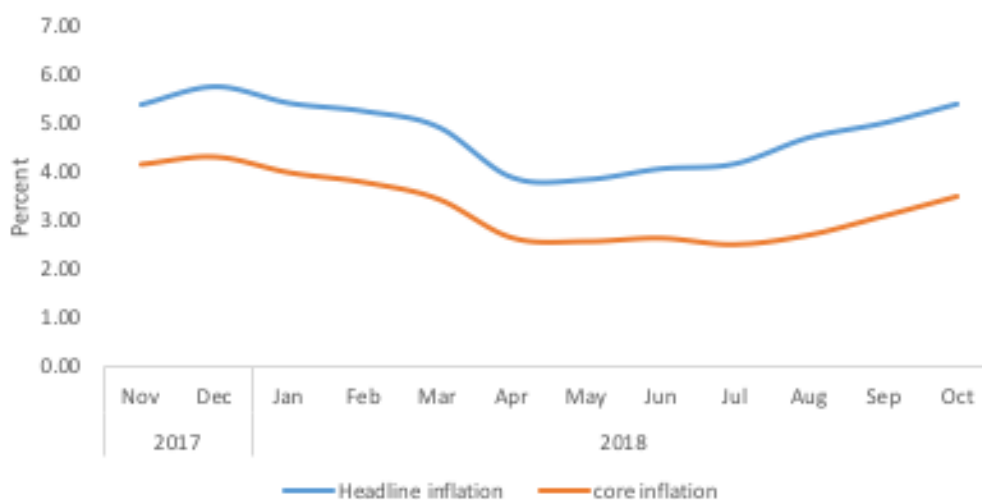
The headline inflation accelerated from 5.0 per cent in September 2018 to 5.4 per cent in October 2018. The major contributors to the acceleration in headline inflation were; “Food & Non-alcoholic beverages” and “Housing, Water, Electricity, Gas and Other Fuels” divisions which contributed 1.7 percentage points and 1.6 percentage points respectively. The third largest contributor was the “Transport” division with 0.5 percentage points. “Clothing & Footwear”, “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 3.1 per cent in September 2018 to 3.5 per cent in October 2018.

The main drivers behind the acceleration were the increase in the energy prices despite the appreciation of the Loti against major currencies, especially the US dollar. The energy prices, especially the fuel prices continued to rise in line with international oil prices. 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)

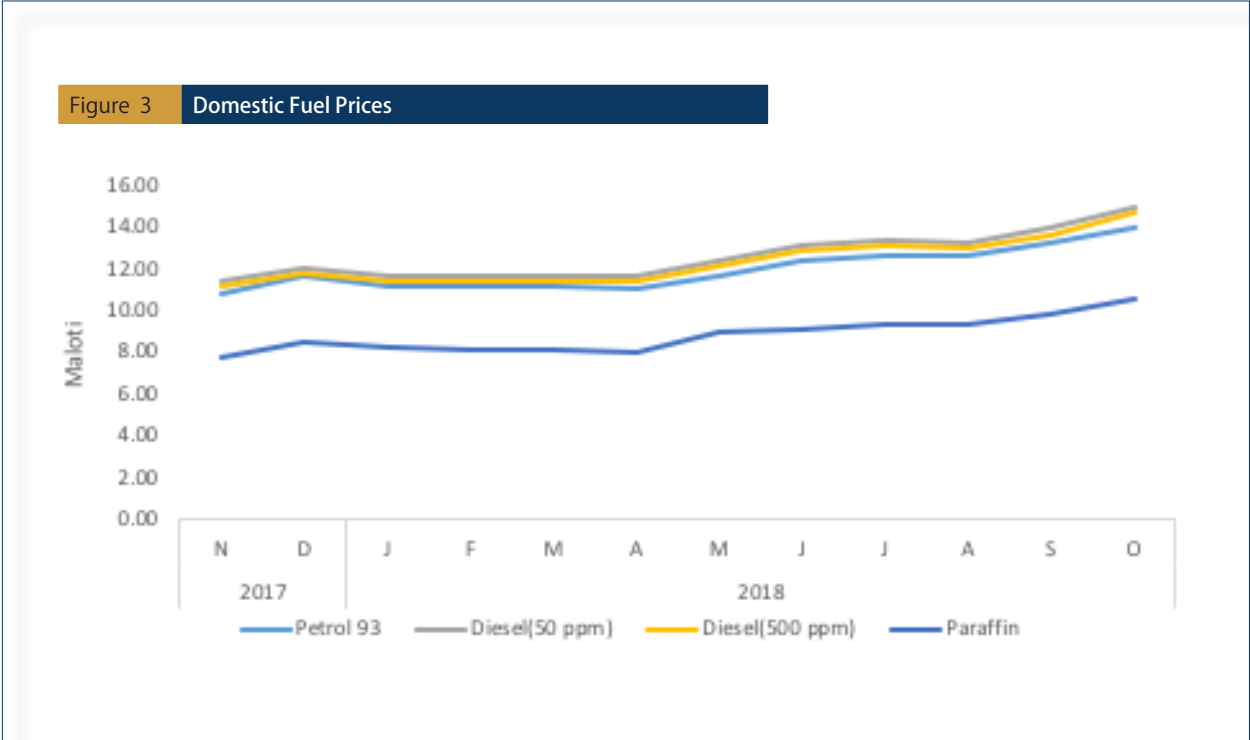


Source: Lesotho Bureau of Statistics & CBL Computations

Domestic Fuel Prices

Liquid fuel prices continued to rise in October 2018 from their September levels. The pump price of petrol increased by M0.75 per litre from September to October 2018.

Both grades of diesel increased by M0.90 per litre and M1.05 per litre for Diesel (50 ppm) and Diesel (500 ppm) from September to October 2018, respectively. The price of illuminating paraffin increased by M0.80 per litre in October 2018 from its September level.



Source: Lesotho Petroleum Fund

III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

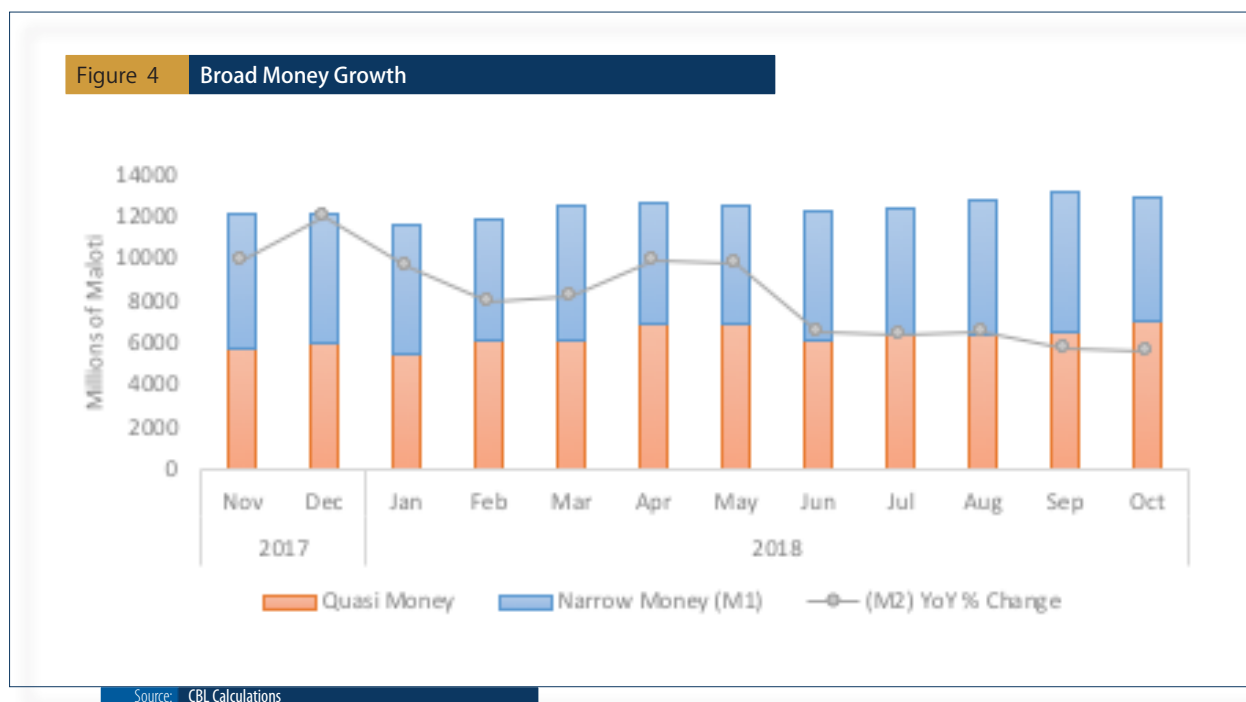
Broad Money (M2)

Money supply declined by 1.4 per cent between September and October 2018. This was due to a fall in net domestic assets, while net foreign assets moderated the decline.

Components of Money Supply

Narrow money (M1) declined by 10.4 per cent during the month under review because of a drop in demand deposits.

Conversely, other deposits increased by 7.5 per cent as deposits held by business enterprises grew.



Determinants of Money Supply

Domestic claims declined by 10.07 per cent in October 2018. This was at the back of an increase in central government deposits with the central bank.

During the period under review, overall banking system NFA increased by 3.58 per cent. This was mainly attributed to an improvement in central bank official reserves.

Credit

Private Sector Credit

Credit to the private sector registered a mild growth of 0.72 per cent, mainly due to an increase in credit extended to business sector.

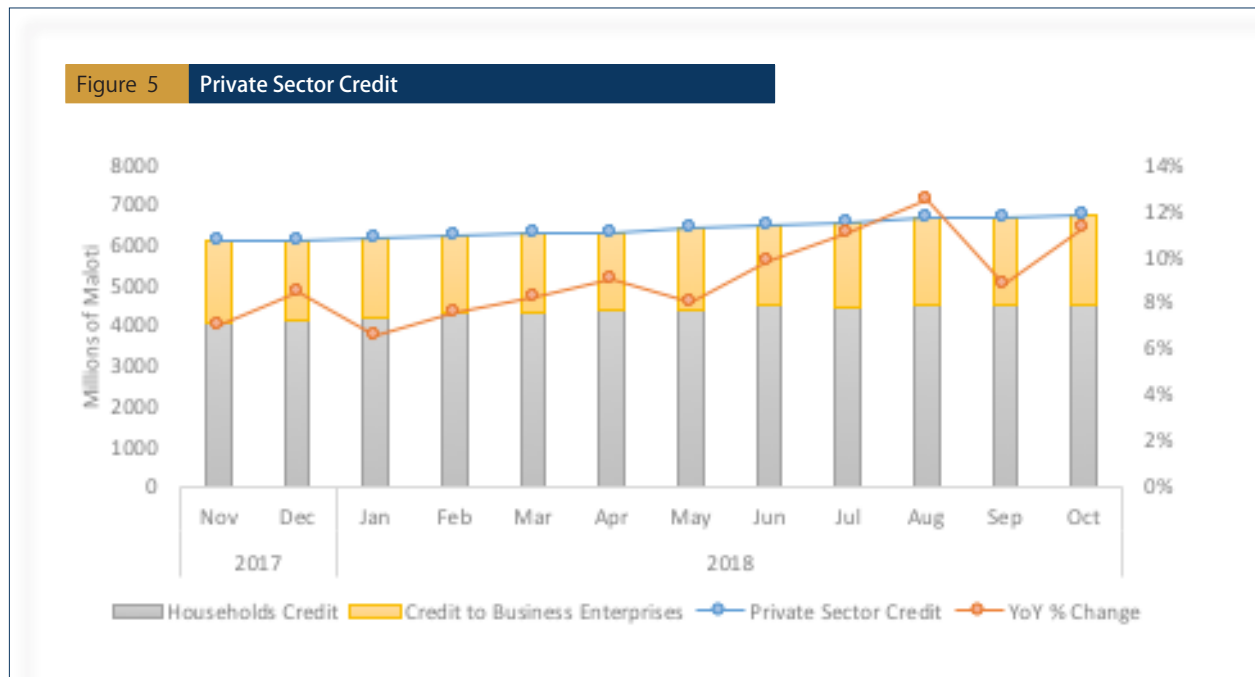
Credit to Households

Credit to household increased slightly by 0.08 per cent during the month under review. The increase mainly emanated from personal loans, which increased by 0.81 per cent. On the other hand, mortgage loans declined by 1.9 per cent in October.

Credit to Business Enterprises

Credit extended to business enterprises increased by 2.0 per cent during the review period. The

improvement was driven mainly by real estate and business services sector.



Loans

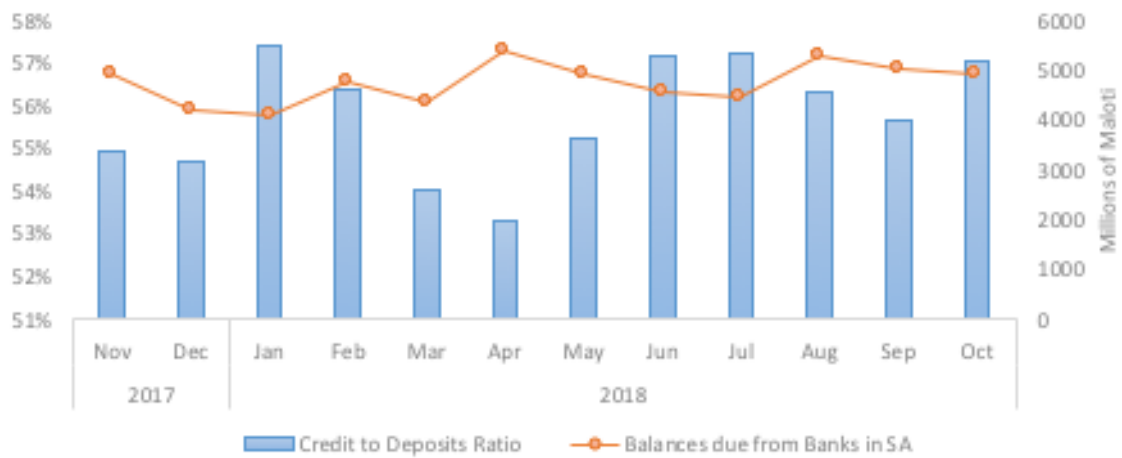
Non-Performing Loans

The overall non-performing loans declined slightly to 4.1 per cent as a share of total loans extended to private sector. The ratio of non-performing loans to total credit extended to business enterprises stood at 5.3 per cent. Moreover, non-performing personal loans stood at 2.7 per cent, whereas the non-performing mortgage loans registered 6.6 per cent in October 2018.

Sources of Funds

The credit to deposit ratio increased to 57.0 per cent in October 2018 compared to 55.7 per cent observed in September 2018 as total deposits declined while credit extended to private sector increased, albeit slightly.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The Central Bank of Lesotho (CBL) policy rate remained unchanged at 6.50 per cent while the 91-day T-bill rate increased from 6.56 per cent to 6.59 per cent between September and October 2018. The prime lending rate and the 1-year deposit rate remained unchanged at 11.19 per cent and 4.19 per cent respectively during the same period.

Foreign Exchange Rates

The loti appreciated against major trading currencies in October 2018. However, it remained volatile due to swings in the global financial markets and trade tensions. The gain of rand, hence, was underpinned by both domestic and international developments.

Domestically, the rand strengthened as markets cheered changes introduced to ministry of Finance portfolio. Moreover, the decision by Moody's not to release a rating action results supported the rand. The markets viewed this development as buying more time for SA to improve its policy environment ahead of ratings results publication.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

Government spending increased by 36.4 per cent in October 2018 mainly due to an expansion in expenses following a 39.9 per cent reduction experienced in September 2018. Expenses increased significantly by 42.7 per cent while non-financial assets increased marginally by 0.1 per cent. All components of expenses increased except for interest payments which fell by 73.4 per cent. Marginal increase of 0.1 per cent in non-financial assets was due to an increase in nonresidents' buildings and transport equipment. All other components of non-financial assets decreased.

Total Revenue

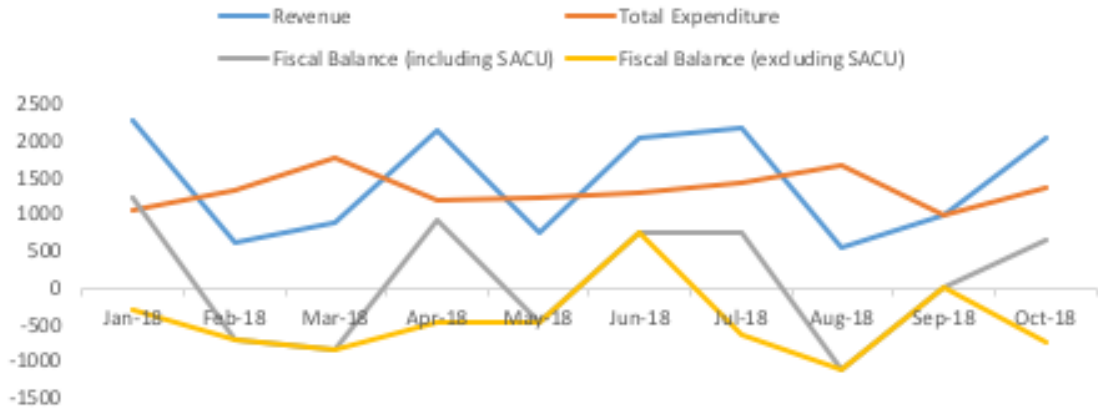
Total Government revenue rose by 102.2 per cent during the month under review compared with 85.5

per cent rise in September 2018. The main drivers behind the increase in revenue were receipt of SACU revenue during the month, other revenue and grants. The main contributor under other revenue was the mining royalties. Tax revenue decreased by 45.7 per cent, with all its components falling except excise tax which increased by 7.9 per cent.

Fiscal Balance

The net operating balance registered a surplus equivalent to 8.2 per cent of GDP that increased to a net lending of 6.7 per cent of GDP when non-financial assets were acquired. Similarly, the primary balance recorded a surplus of 6.9 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.

Figure 7 Government Fiscal Balance (Million Maloti)



Source: Central Bank of Lesotho & Ministry of Finance

V. PUBLIC DEBT

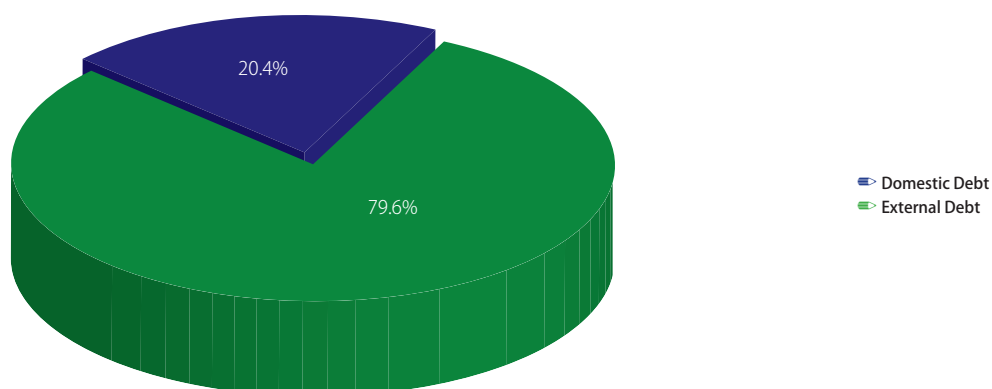
The public debt stock recorded 36.8 per cent of GDP in October 2018 compared with the revised 37.3 per cent of GDP in September 2018. The stock decreased by 1.3 per cent, which was driven by a fall in both the external debt and the domestic debt.

The 1.0 per cent fall in external debt was a result of a decline in loans from bilateral creditors, multilateral creditors and suppliers' credit, which were all

affected by the Loti appreciation against major currencies in which the external debt is contracted.

The fall in the domestic debt by 2.5 per cent was due to a fall in Treasury bills. There was no issuance of bonds in the month under review. The external debt continued to take the largest share of 79.6 per cent of the total outstanding stock of public debt.

Figure 8 Public Debt



Source: Central Bank of Lesotho & Ministry of Finance

Appendix: Key Economic Indicators

		May 18	Jun 18	Jul 18	Aug 18	Sep 18	Oct 18
Economic Activity		-0.5	-0.4	0.3	0.7	0.7	0.8
MIEA (% change, Y/Y)							
Consumer price Index (% change)	Headline Inflation (year-on-year)	3.8	4.0	4.1	4.4	5.0	5.3
	Core Inflation	2.6	2.7	2.5	2.7	3.1	3.5
Exchange Rates (Monthly End Period)	EUR	14.68	16.04	15.66	16.27	17.21	16.64
	GBP	16.75	18.11	17.65	18.13	19.27	18.86
	USD	12.57	13.76	13.40	14.09	14.77	14.49
Interest Rates	CBL Rate	6.50	6.50	6.50	6.50	6.50	6.50
	91 day Treasury bill rate	6.16	6.88	6.59	6.54	6.56	6.59
	Prime lending rate	11.44	11.31	11.19	11.19	11.19	11.19
	1 year deposit rate	4.23	4.30	4.19	4.22	4.19	4.19
Private sector Credit (Millions of Maloti)		6455.74	6507.85	6583.37	6708.85	6699.39	6747.35
	Households	4,418.42	4,532.01	4,453.21	4,525.79	4,498.98	4502.74
	Business Enterprises	2,037.32	1,975.83	2,130.17	2,183.06	2,200.41	2244.62
Bank Deposit Liabilities (Millions of Maloti)		11,570.79	11,284.82	11,383.06	11,814.23	12,126.08	11912.00
Credit to Deposit Ratio (%)		55.24	57.60	57.60	56.32	55.67	57.04
Fiscal Operations	Total Revenue	733.20	958.84	2149.74	510.89	1002.03	2026.11
	Total Expenditure	1084.57	1229.41	1306.48	1665.86	998.37	1367.37
	O/W Capital	133.01	64.96	150.03	468.93	148.81	149.02
Total Public Debt (Millions of Maloti)		13167.92	14141.71	14094.66	14159.71	15420.88	14513.20
	External Debt	10409.57	11224.54	11213.73	11275.51	12400.12	11546.46
	Concessional	8110.81	8889.19	8881.90	8939.52	10086.49	9246.48
	Non-concessional	2298.76	2335.35	2331.83	2335.99	2313.63	2299.98
	Domestic Debt	2635.84	2917.17	2880.92	2884.20	3020.76	2966.74

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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