



# Monthly ECONOMIC REVIEW

July 2019

CENTRAL BANK OF LESOTHO

## I. ECONOMIC ACTIVITY

Economic activity picked up slightly in July 2019 compared with a contraction realised in the previous month. The observed growth was supported by domestic demand while the production side remained sluggish in the review month.

### Overall Performance Index

Economic performance as measured by the monthly indicator of economic activity (MIEA), increased marginally by 0.1 per cent in July 2019, compared with a contraction of 0.5 per cent in June. The growth was attributed to positive contributions from the eight of the 14 component variables that make up the index, while the remaining six variables contributed negatively. Contrary to the previous month, domestic demand supported the observed growth.

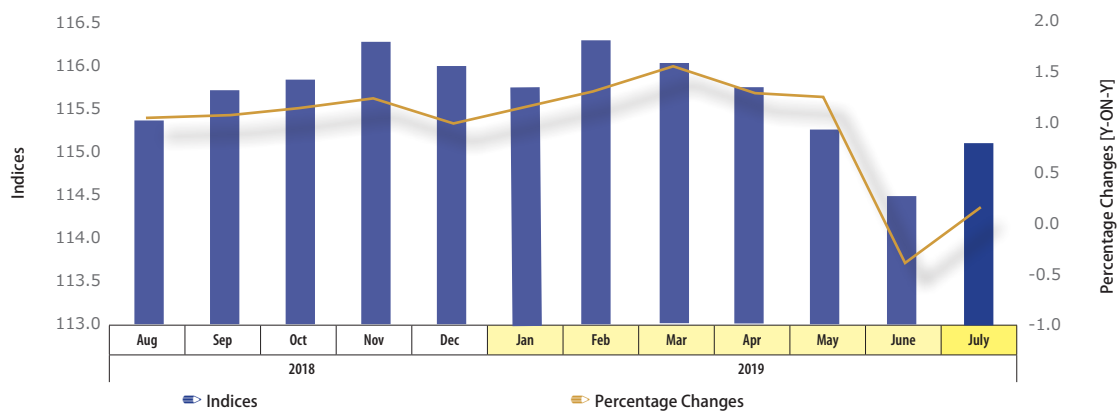
### Domestic Demand Category

The domestic demand index showed a positive growth in July in contrast to the dip observed in the previous month. This index was estimated to have grown by 1.0 per cent. The growth was mainly attributable to positive contributions from VAT and PAYE collections, government compensation of employees, and imports of goods and services.

### Manufacturing & Production Category

The production index continued to decline in the review month. The index declined by 2.4 per cent in July 2019 following a decline of 2.8 per cent 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.

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



Source: CBL Calculations

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

	2018	2019						
Indices	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
<b>CIEA</b>	116.0	115.7	116.3	116.0	115.7	115.3	114.4	115.2
year-on year changes	0.9	1.0	1.2	1.4	1.2	1.1	-0.5	0.1
<b>Domestic Demand Category</b>	113.3	113.6	115.6	115.2	114.4	113.1	112.4	114.1
year on year changes	0.6	1.7	2.7	3.7	3.2	2.2	-0.1	1.0
<b>Manufacturing &amp; Production Category</b>	108.5	108.3	107.9	107.2	106.8	106.8	105.1	105.5
year on year changes	0.2	-0.5	-0.8	-1.6	-1.9	-1.2	-2.8	-2.4

Source: CBL Calculations

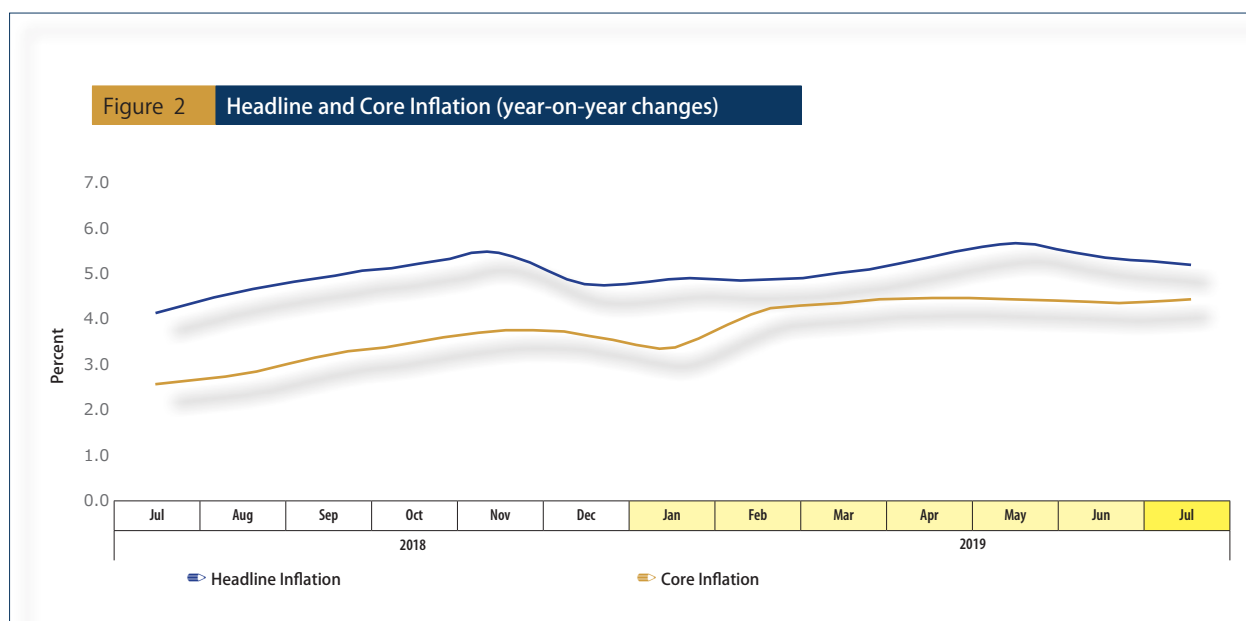
## II. INFLATION AND PRICES

### Headline Inflation

The headline inflation rate decelerated to 5.4 per cent in July 2019 from 5.6 per cent estimated in June 2019. The main drivers behind the slowdown during the review period were retreating food prices, especially maize meal and the decline in energy prices, in particular fuels and lubricants. The other components that contributed to the moderation are Transport and Recreation and Culture divisions. The components that posed upward inflationary pressures were Clothing & Footwear, Furnishings, Household Equipment and Routine Maintenance of the House and Miscellaneous goods and services.

### Core Inflation

The core inflation, which excludes the CPI items with extreme price changes, accelerated to 4.6 per cent in July 2019 from 4.5 per cent estimated in June 2019.

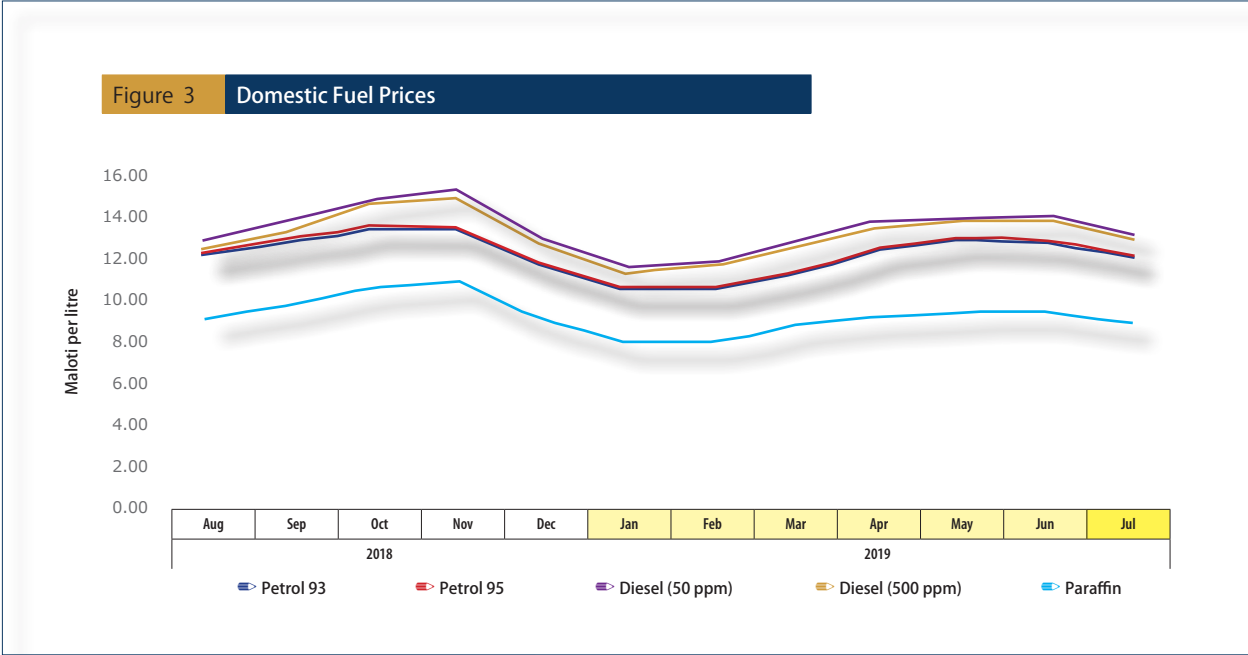


Source: Lesotho Bureau of Statistics & CBL Computations

### Domestic Fuel Prices

The pump price of all domestic fuel components decreased in July 2019 from the levels observed in June 2019. The prices of both petrol grades (petrol93 and petrol95) decreased by M0.70 per litre to reach M14.50 per litre and M12.45 per litre, respectively.

The prices of both diesel grades (diesel(50) and diesel (500)) also declined by M0.70 per litre and their respective pump prices were M13.50 and M13.20. The wholesale price of illuminating paraffin also decreased by M0.45 per litre in July 2019 and was at M9.10 per litre.



Source: Petroleum Fund

### III. MONETARY AND FINANCIAL INDICATORS

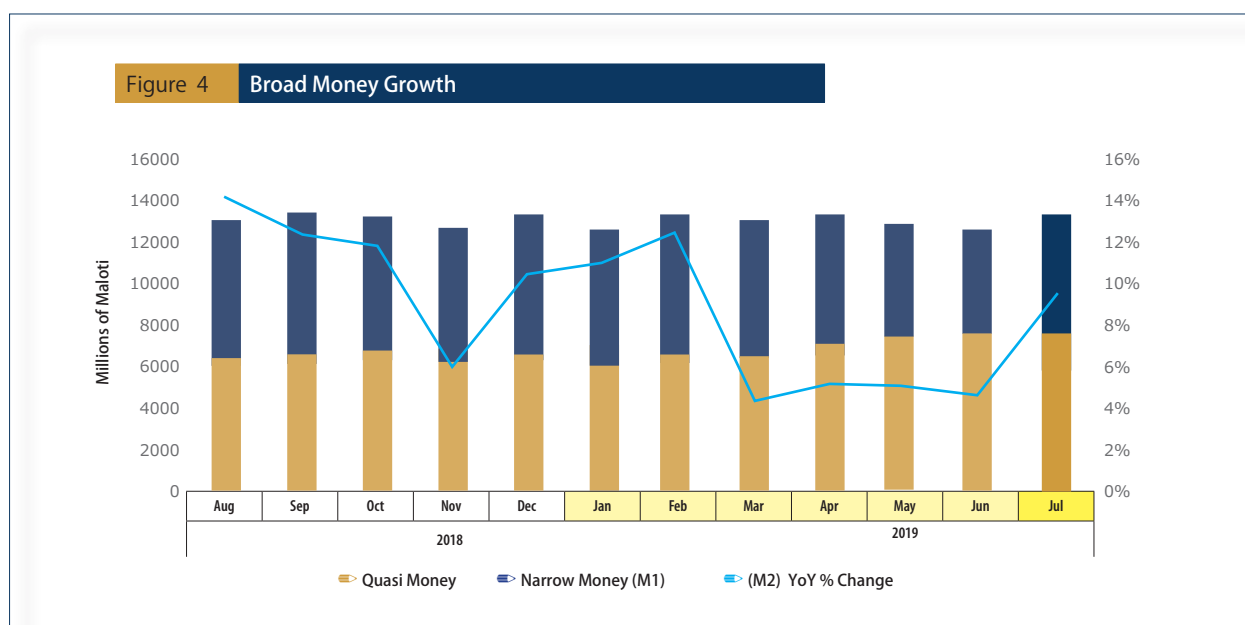
#### Broad Money (M2)

Broad money supply (M2) rebounded in July 2019 after declining for four successive months. During the review period, broad money grew by 4.9 per cent from a decline of 1.7 per cent in the previous month. This was underpinned by a 6.0 per cent growth in net foreign assets (NFA) even though net domestic assets (NDA) fell by 13.2 per cent. Both the central bank and other depository corporations NFA increased by 3.8 per cent and 12.0 per cent, respectively, during the review period. In contrast,

the decline in NDA was driven by improvement in the net government position with the banking system.

#### Components of Money Supply

During the review period, narrow and quasi money rose by 8.6 per cent and 2.1 per cent, respectively. The growth in both components of money supply was due to an increase in deposit holdings of business enterprises held with commercial banks.



#### Credit

##### Private Sector Credit

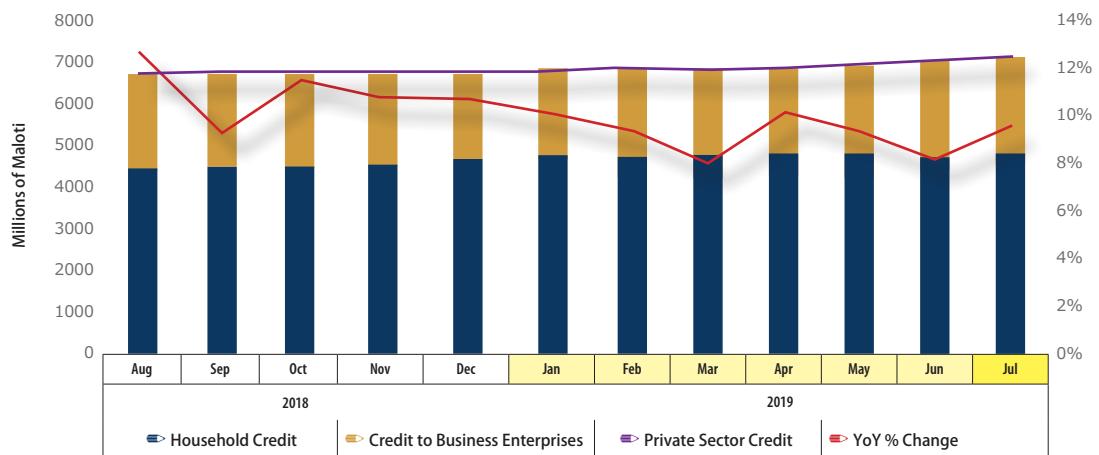
Total credit granted to the private sector improved by 2.0 per cent in July. However, year-on-year, credit extended to the private sector rose by 9.4 per cent in July 2019 following the growth of 11.1 per cent in the similar month a year ago.

Credit extended to households accelerated by 0.8 per cent in the month under review, compared with 0.5 per cent in the previous month. Mortgages

increased by 1.3 per cent, while personal loans decelerated to 0.6 per cent in July from 0.8 per cent realized in June.

Further, credit granted to business enterprises recovered in the review period, increasing by 4.8 per cent in contrast to a decline of 1.3 per cent in June 2019. Mining and quarrying sector contributed the most to the overall increase in credit to business enterprises as it rose by 29.0 per cent during the month under review.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

## Loans

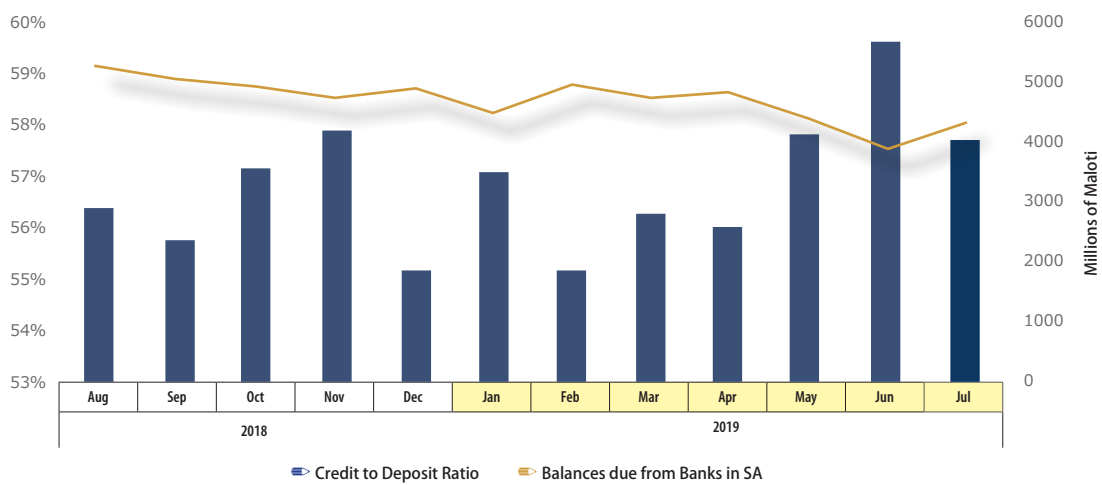
### Non-Performing Loans

Total non-performing loans (NPLs) as a percentage of total loans granted by commercial banks inched up by 0.1 percentage points to 3.5 per cent in July. The NPLs from business enterprises as a percentage of total loans granted to business enterprises remained unchanged at 3.6 per cent in the month under review. On the other hand, NPLs from households rose to 3.5 per cent in July, from 3.3 per cent in the previous month, thus pushing up the overall banking industry's NPLs.

## Sources of Funds

The credit to deposit ratio of commercial banks fell from 59.5 per cent to 57.7 per cent between June and July. The decline was caused by a significant growth of 6.1 per cent in total deposits, whereas total credit only grew by 2.0 per cent.

**Figure 6 Credit to Deposit Ratio**



Source: Central Bank of Lesotho

### Interest Rates

The Central Bank of Lesotho (CBL)'s monetary policy committee, in its sitting of July 23, 2019 cut the CLB's policy rate from 6.75 per cent to 6.50 per cent. In the similar manner, the 91-day treasury bill rate declined by 11 basis points between June and July. However, all the commercial banks' deposits and lending rates remained unchanged during the review month.

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

The value of rand strengthened in July 2019, following the weak performance observed in June 2019. In particular, the rand appreciated by the average of 3.8 per cent against the US dollar, 5.3 per cent against the pound and 4.4 per cent against the euro. The strong performance of rand was mainly on account of key policy rate cut in South Africa to boost growth. The other factors that contributed to strong performance of rand include the widening trade account surplus in South Africa, and the increased speculation that the US Fed will revert the monetary policy easing starting in July 2019.

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

# IV. GOVERNMENT BUDGETARY OPERATIONS

## Total Expenditure

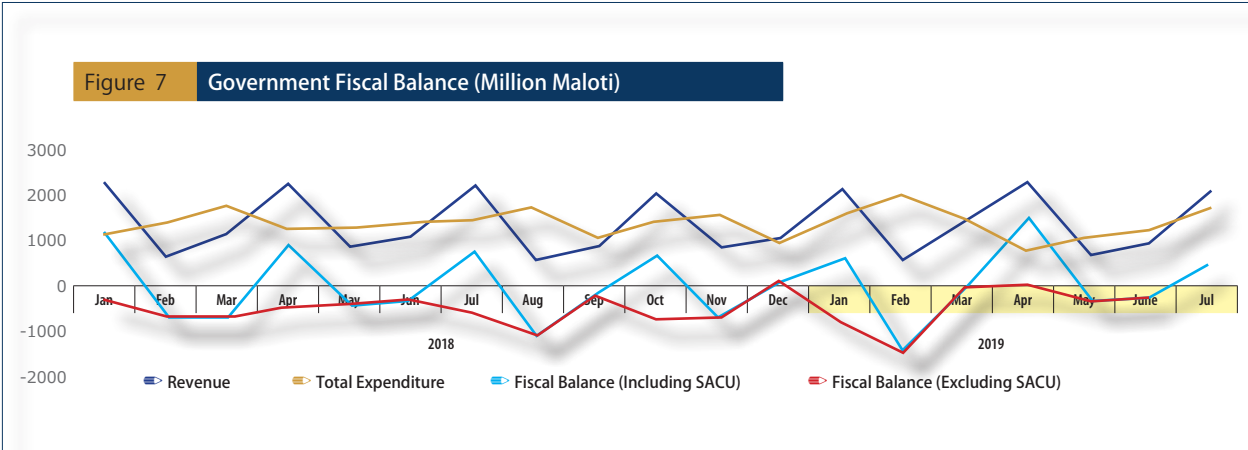
Government total spending grew by 54.5 per cent during July 2019, compared with a revised increase of 13.1 per cent in June 2019. This high total spending was due to a hike in expenses, mainly, wages and salaries, Government pension contribution, travel and transport, grants to local governments and extra-budgetary units, school feeding program, public assistance in kind, students' loan bursary, and non-life insurance premiums. In addition, fixed non-financial assets, particularly, other structures and transport equipment, also contributed to an increase in total spending.

## Total Revenue

Government revenue increased by more than 100.0 per cent in July 2019 following remittances from SACU. This compares with 33.4 per cent recorded in June 2019. This also benefited from a rise in receipts from naturally-occurring non-financial assets including mining royalties, surface rent and ground rent; electricity sales from 'Muela; and excise taxes.

## Fiscal Balance and Financing

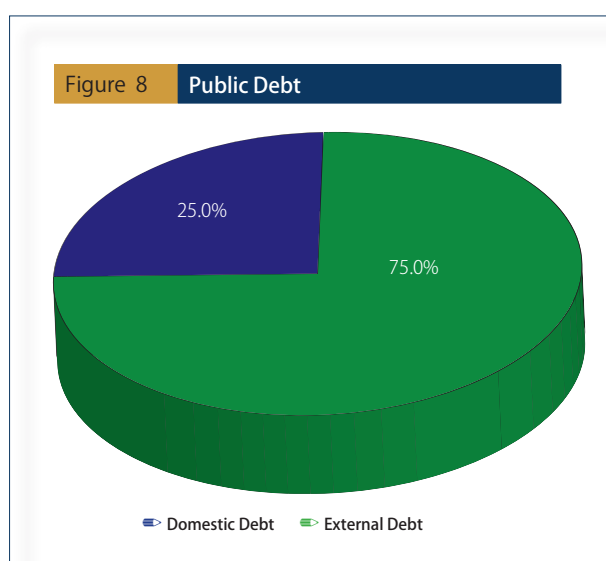
Government budgetary operations registered fiscal surplus equivalent to 5.3 per cent of GDP during the month under review, relative to a revised deficit of 2.8 in June 2019. High revenues as reflected in the positive net financial assets pushed up the fiscal surplus. However, government budgetary operations continue to accumulate arrears, though relatively lower at 0.6 per cent of GDP.





## V. PUBLIC DEBT

The public debt stock was recorded at 43.1 per cent of GDP in July 2019. This was equivalent to 0.9 per cent decline from the level observed in the previous month. This fall was recorded in both external and domestic debt categories. The decline in external debt was on account of a slight appreciation of Loti against major currencies, while domestic component was attributed to a mismatch between maturing securities and new issuance.



Source: Central Bank of Lesotho & Ministry of Finance

## Appendix: Key Economic Indicators

		19-Feb	19-Mar	19-Apr	19-May	19-Jun	19-Jul	
Economic Activity MIEA (% change, Y/Y)		1.2	1.4	1.2	1.1	-0.5	0.1	
Consumer price Index (% change)	Headline Inflation (year-on-year)	5.0	5.2	5.6	5.9	5.6	5.4	
	Core Inflation	4.3	4.5	4.6	4.7	4.5	4.6	
Exchange Rates (Monthly End Period)	EUR	16.18	15.8	15.68	16.26	16.48	15.26	
	GBP	18.03	17.84	17.97	18.96	18.49	18.61	
	USD	14.21	13.84	13.82	14.39	14.59	16.85	
Money Supply (Millions of Maloti)	M2	13305.55	13135.38	13332.46	13189.50	12859.94	13487.74	
	M1	6245.79	6087.97	5890.57	5596.30	5499.41	5971.71	
	Quasi Money	7059.75	7047.41	7441.89	7593.20	7360.54	7516.03	
Interest Rates	CBL Rate	6.75	6.75	6.75	6.75	6.75	6.50	
	91 day Treasury bill rate	6.69	6.70	6.56	6.42	6.69	6.38	
	Prime lending rate	11.25	11.44	11.44	11.44	11.44	11.44	
	1 year deposit rate	4.19	4.36	4.34	4.34	4.34	4.34	
Private sector Credit (Millions of Maloti)		6842.06	6817.38	6968.55	7078.69	7075.82	7218.47	
	Households	4807.46	4789.86	4828.40	4861.62	4887.66	4926.18	
	Business Enterprises	2034.60	2027.52	2140.15	2217.07	2188.16	2292.29	
Bank Deposit Liabilities (Millions of Maloti)		12390.29	12121.37	12382.49	12209.38	11856.65	12672.67	
Credit to Deposit Ratio (%)		55.21	56.25	56.08	57.77	59.54	56.96	
Fiscal Operations	Fiscal Balance	-1451.94	-25.46	1526.92	-348.17	-257.34	484.38	
	Total Revenue	545.88	1419.19	2264.83	669.18	893.00	2261.20	
	Total Expenditure	1997.83	1444.64	737.91	1017.35	1150.33	1776.82	
	O/W Capital	797.99	344.43	28.61	37.11	92.42	336.34	
Total Public Debt (Millions of Maloti)		15561.57	16007.40	15909.52	16171.01	15913.93	15765.88	
	Total External Debt	11776.90	12087.00	11962.84	12271.32	11892.13	11821.31	
	External Debt	Concessional	9206.89	9517.92	9414.26	9713.58	9381.89	9319.63
		Non-concessional	2570.01	2569.08	2548.58	2557.74	2510.24	2501.68
	Domestic Debt		3784.68	3920.41	3946.68	3899.69	4021.80	3944.56
Memo Item: Arrears (Millions of Maloti)			223.22	0.85	5.98	56.07	58.39	

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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