



# Monthly ECONOMIC REVIEW

June 2019

CENTRAL BANK OF LESOTHO

## I. ECONOMIC ACTIVITY

Economic activity contracted in June 2019 following a positive growth observed in the previous month. The decline was on account of poor performance from both the demand, and the production and manufacturing sides of the economy.

### Overall Performance Index

Economic performance as measured by the monthly indicator of economic activity (MIEA), declined by 0.7 per cent in June 2019, in contrast to a growth of 1.0 per cent realised in May. The negative growth was as a result of sluggish domestic demand and weak performance of the manufacturing and production side of the economy. Out of the fourteen variables that make up the index, seven contributed negatively.

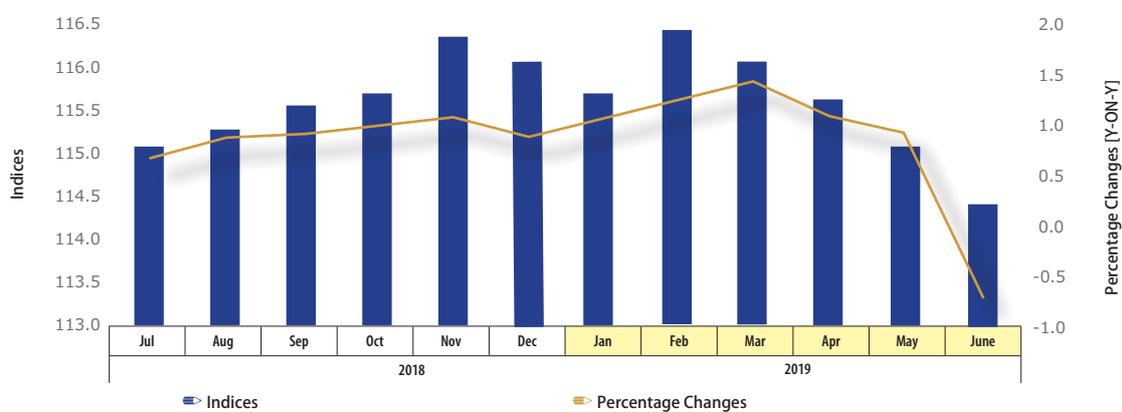
### Domestic Demand Category

The domestic demand index showed a negative growth for the first time in 2019 in June. This category was estimated to have declined by 0.6 per cent compared with 1.8 per cent growth in May 2019. The growth represented negative contributions from government use of goods and services, and PAYE. PAYE signals reductions in earnings, which translate into lower levels of employment in the country. In addition, VAT collections and imports of goods and services showed a relatively lower contributions, signalling lower domestic demand.

### Manufacturing & Production Category

The production and manufacturing index declined significantly in the review month. The index declined by 2.8 per cent in June 2019 as opposed to a decline of 1.3 per cent in the preceding month. The decline continued to emanate from declines in electricity and water consumption used for production purposes, thus signalling a persistent deterioration in domestic production. In addition, export of textiles contributed negatively during the review month, indicating reduced output in the textile and clothing industries. This observation is in line with reduced employment in these industries.

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



Source: CBL Calculations

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

Indices	2018		2019					
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
<b>CIEA</b>	116.3	116.0	115.7	116.3	116.0	115.6	115.1	114.2
year-on year changes	1.1	0.9	1.0	1.2	1.4	1.1	1.0	-0.7
<b>Domestic Demand Category</b>	113.9	113.3	113.6	115.6	115.2	114.2	113.2	111.7
year on year changes	1.0	0.6	1.7	2.7	3.7	3.1	1.8	-0.6
<b>Manufacturing &amp; Production Category</b>	109.2	108.5	108.3	107.9	107.2	106.8	106.8	105.1
year on year changes	0.7	0.2	-0.5	-0.8	-1.6	-1.9	-1.3	-2.8

Source: CBL Calculations

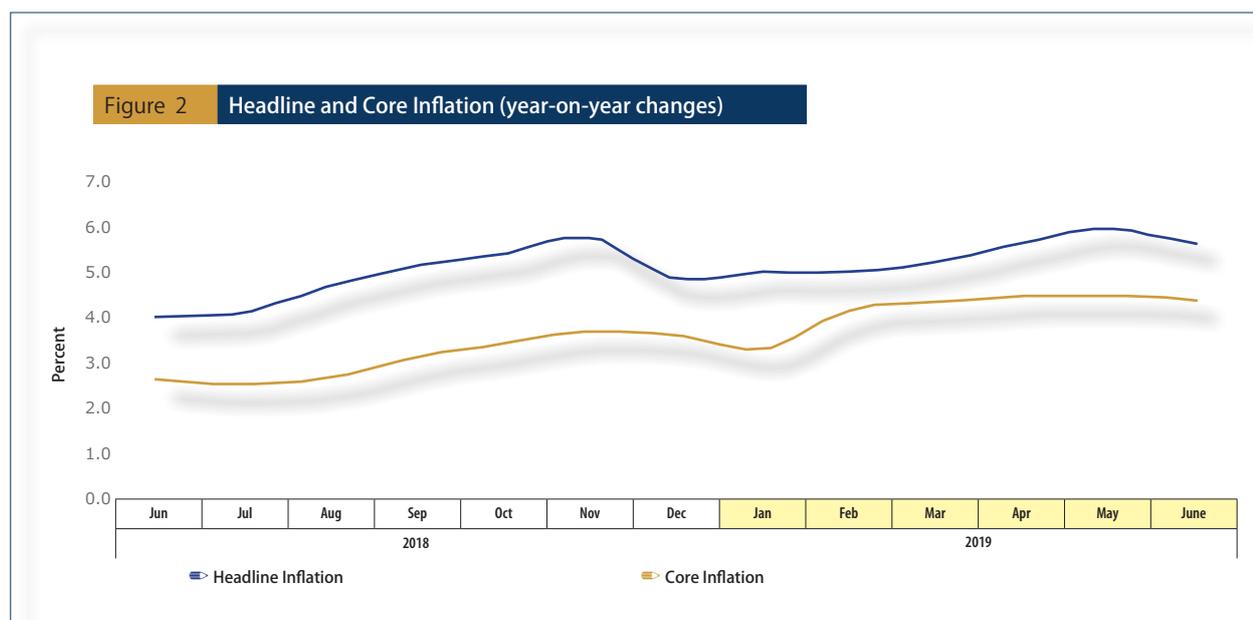
## II. INFLATION AND PRICES

### Headline Inflation

The headline inflation rate decelerated to 5.6 per cent in June 2019 from 5.9 per cent estimated in May 2019. The 0.3 percentage point decrease was mainly due to the contribution of Food and non-alcoholic beverages (0.14pp<sup>1</sup>), Housing, electricity, gas & other fuels (0.16pp) and Transport (0.05) divisions. Other divisions such as Clothing & Footwear, Recreation & culture, and Miscellaneous goods and services moderated the increase. The main drivers behind deflation during the review period were retreating food prices, especially maize meal and the decline in the prices of international petroleum products.

### Core Inflation

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



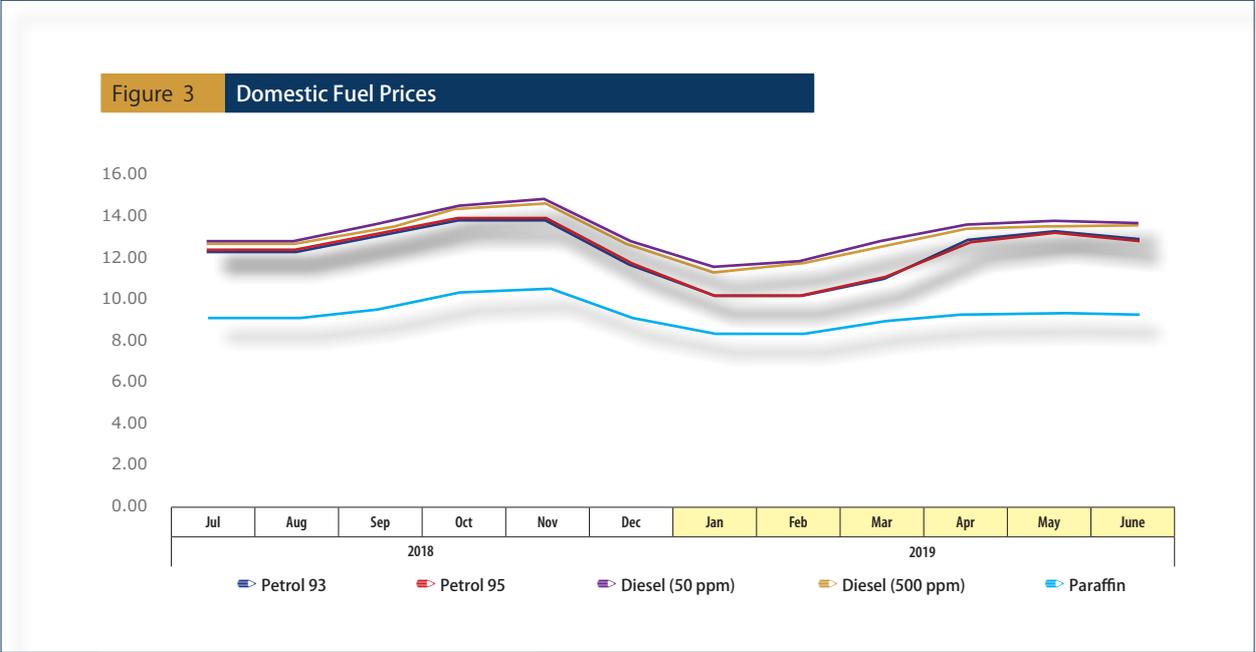
Source: Lesotho Bureau of Statistics & CBL Computations

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

### Domestic Fuel Prices

All of the domestic fuel prices decreased in June 2019 from the levels observed in May 2019. The prices of both petrol grades (petrol93 and petrol95) decreased by M0.25 per litre to reach M13.15 per litre and M13.20 per litre, respectively. The prices

of both diesel grades (diesel(50) and diesel(500)) also declined by M0.05 per litre and their respective pump prices were M14.10 and M13.80. The price of illuminating paraffin also decreased by M0.05 per litre in June 2019 and was at M9.45 per litre at the pump.



Source: Petroleum Fund

### III. MONETARY AND FINANCIAL INDICATORS

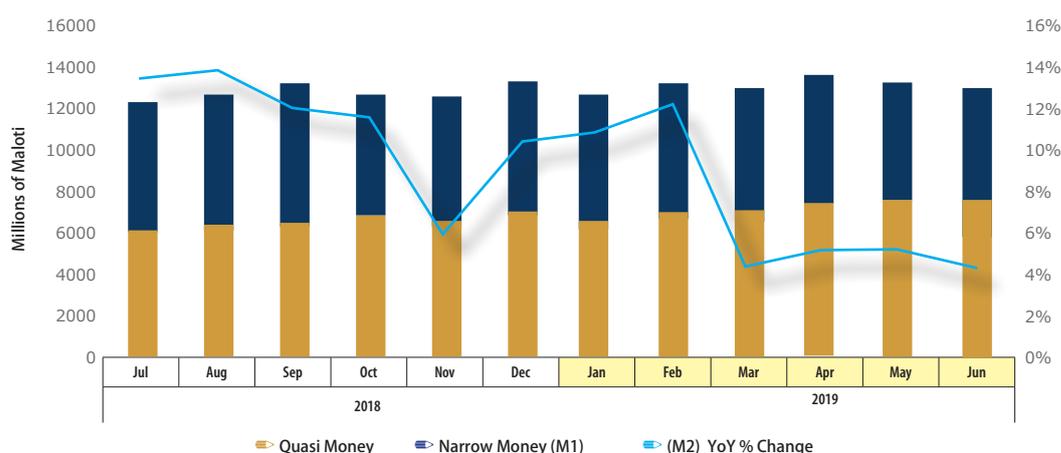
#### Broad Money (M2)

The broadly defined money supply (M2) declined by 2.5 per cent in June 2019 following a decline of 1.1 per cent recorded in May 2019. This was at the back of a 4.3 per cent decline in net foreign assets (NFA) despite a 11.1 per cent growth in net domestic assets (NDA). The fall in NFA was on account of a decrease in Central bank and commercial banks' NFA by 2.9 per cent and 7.8 per cent, respectively. On the contrary, the expansion in NDA was mainly due to an improvement in the net government position with the banking system.

#### Components of Money Supply

The narrow money and the quasi money fell by 1.7 per cent and 3.1 per cent, respectively. The contraction in both components of money supply reflected a sizable decline in demand and call deposits held by business enterprises in commercial banks.

Figure 4 Broad Money Growth



Source: CBL Calculations

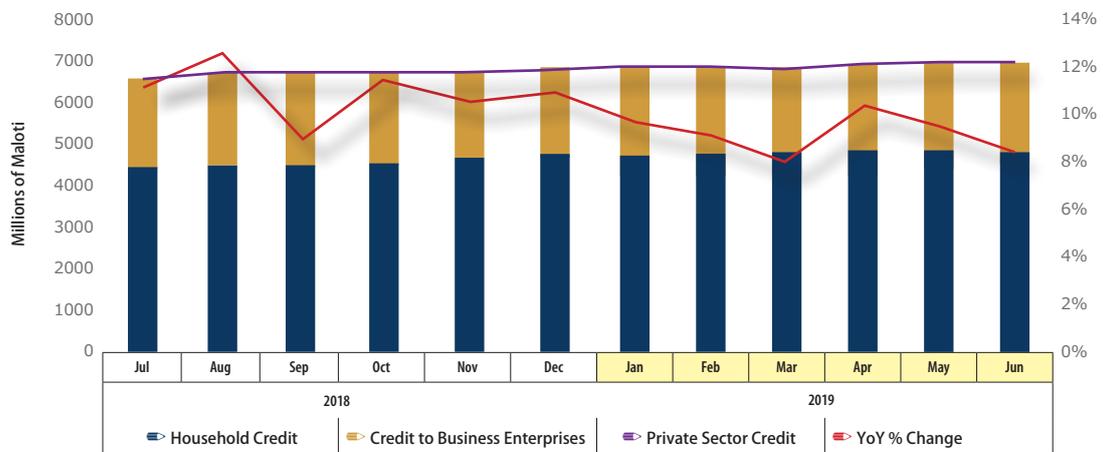
#### Credit

##### Private Sector Credit

Credit extended to the private sector remained unchanged between May and June 2019. Credit extended to households marginally rose by 0.5 per cent, and was offset by a 1.3 per cent fall in credit to business enterprises. Mining and quarrying sector received the largest share of credit extended to business enterprise, followed by real estate and business services, and construction sector.

Considering the household credit extension, a mild increase was due to 0.8 per cent rise in personal loans, which was moderated by a 0.4 per cent fall in mortgages.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

## Loans

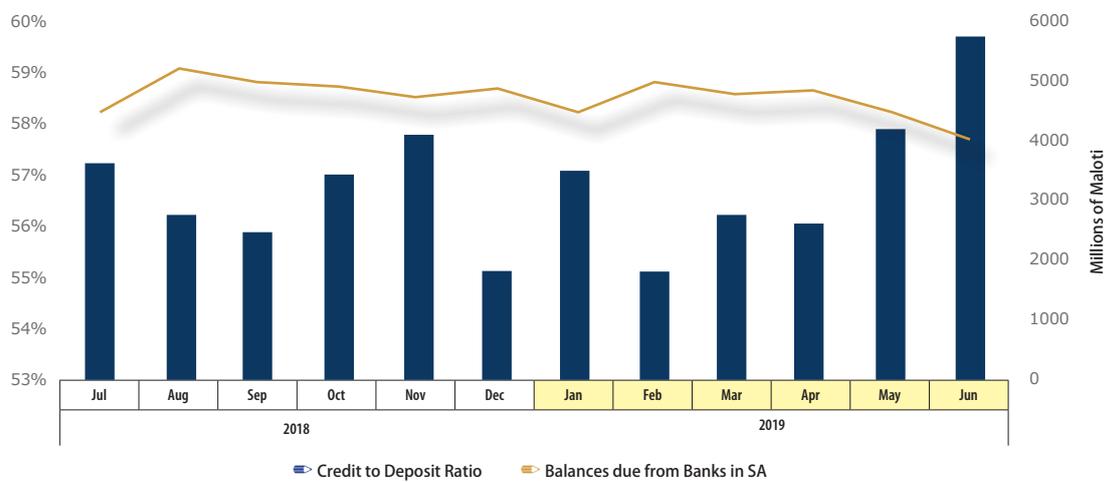
### Non-Performing Loans

Overall non-performing loans (NPLs), as a share of total loans granted by commercial banks, slightly increased from 3.3 per cent registered in May to 3.4 per cent in June 2019. The NPLs stemming from business enterprises and mortgages recorded increases of 0.1 and 0.5 percentage points respectively while the NPLs coming from personal loans declined by 0.1 percentage points thus moderating the rise in overall NPLs.

## Sources of Funds

The commercial banks' credit to deposit ratio continued on an upward trajectory from 58 per cent in May to 59.7 per cent in June 2019. This was as a result of a drop in deposits held with commercial banks, whereas the credit extended remained stable between May and June 2019.

**Figure 6 Credit to Deposit Ratio**



Source: Central Bank of Lesotho

## Interest Rates

The Central Bank of Lesotho (CBL)'s policy rate and the prime lending rate remained flat at 6.75 per cent and 11.44 per cent, respectively, between May and June 2019. Conversely, the 91-day T-Bill rate increased by 8 basis points to 6.49 per cent, while the 1-year deposits rate remained unchanged at 4.34 per cent during the review month.

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

The rand remained under pressure in June 2019 as it performed poorly against the major global currencies. The rand, hence the loti, depreciated by the average of; 0.60 per cent against the dollar, 0.38 per cent against the pound, and by 0.63 per cent against the euro. It was negatively affected by weakened economic activity, as indicated by a larger than expected decline in the real GDP in the first quarter. The South African government unveiled plans to support Eskom, but the plan was seen as fiscally unsustainable, and raised the fears of sovereign credit downgrade by the Moody's. The other factor that hit confidence in rand was policy uncertainty over SARB independence.

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

# IV. GOVERNMENT BUDGETARY OPERATIONS

## Total Expenditure

Government increased its spending by 13.0 per cent during the month of June 2019 compared with the rise of 37.9 per cent in May 2019. The driving forces constituted outlays on non-financial assets at more than 100.0 per cent and expenses at 7.9 per cent. In general, high spending has been observed on purchase of health services under operating costs, transport equipment in the fixed assets category, other machinery and equipment (fixed assets), and travel and transport expenses. In particular, purchase of health services has taken 24.7 per cent of the total expenses, which is equivalent to 22.7 per cent of the total expenditure in June 2019. Thus, the Government continues to invest more on the social protection initiatives.

## Total Revenue

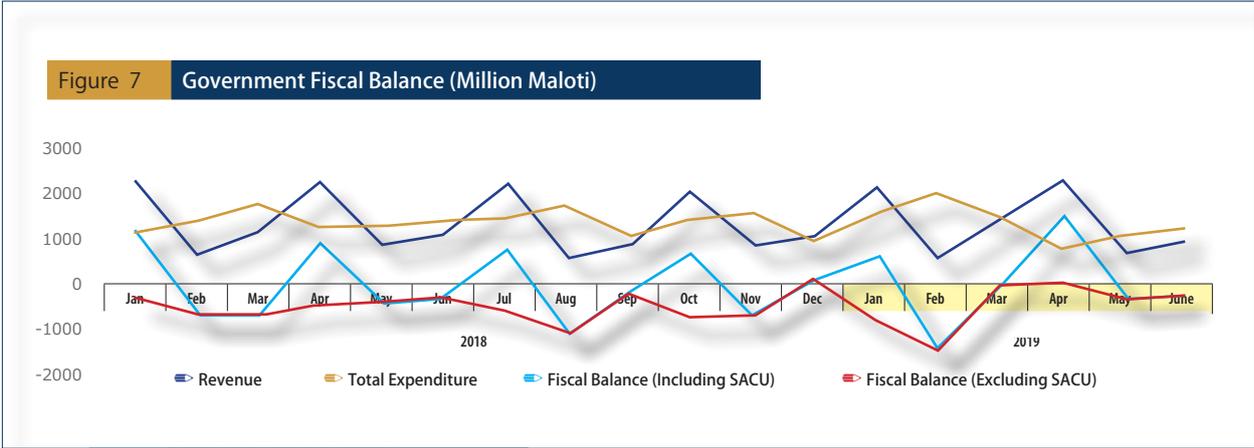
Government expanded its revenue collection by 33.4 per cent during the month under review, while in the previous month, the revenue collection

declined significantly by 70.5 per cent. The contributing factors emanates from tax revenue, in particular, company tax, personal income tax and VAT. SACU receipts remained constant as it did in the previous month.

## Fiscal Balance and Financing

The ratio of operating balance to GDP stood at a deficit of 1.8 per cent in the month under review compared to a deficit of 3.4 per cent in May 2019. Thus, the failure by the Government to finance the recurrent spending with the revenue collection forced the Government to borrow even further to finance non-financial assets. The fiscal deficit registered 2.8 per cent of GDP during the month of June, while the in previous month the deficit was even higher at 3.8 per cent of GDP.

The deficit was therefore financed mostly by drawing down Government deposits in the banking system and with incurrence of domestic securities.



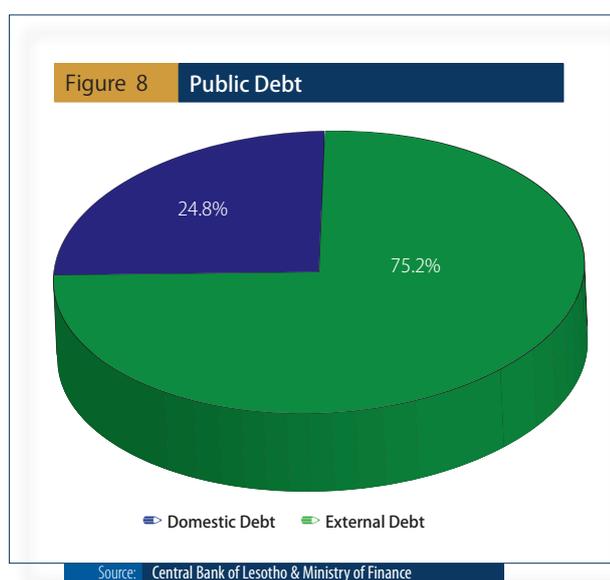
Source: Central Bank of Lesotho & Ministry of Finance

## V. PUBLIC DEBT

The stock of public debt marginally fell by 0.1 per cent during the month under review, whilst the month before, it increased slightly by 1.0 per cent. It thus stood at 43.7 per cent of GDP in June 2019 compared to the 43.8 per cent in May 2019. This fall is attributable to a decline of 0.7 per cent under external debt stock, driven mainly by exchange rate effect that affected concessional and non-concessional loans of bilateral and multilateral

creditors. The debt stock in respect of export-import creditors and financial institutions (commercial banks) remained constant.

The domestic debt stock, nevertheless, increased moderately by 1.6 per cent due to bank and non-bank holding of securities. Thus, the stock of securities included newly issued 5-year bonds and 10-year re-opening bonds.



## Appendix: Key Economic Indicators

		19-Jan	19-Feb	19-Mar	19- Apr	19-May	19-Jun
Economic Activity MIEA (% change, Y/Y)		1.1	0,8	1.0	1.1	1.3	1.0
Consumer price Index (% change)	Headline Inflation (year-on-year)	5.0	5.0	5.2	5.6	5.9	5.6
	Core Inflation	3.4	4.3	4.5	4.6	4.7	4.5
Exchange Rates (Monthly End Period)	EUR	16.01	16.18	15.8	15.68	16.26	16.48
	GBP	18.18	18.03	17.84	17.97	18.96	18.49
	USD	14.09	14.21	13.84	13.82	14.39	14.59
Money Supply (Millions of Maloti)	M2	12,837.73	13,305.55	13,135.38	13,332.46	13,189.50	12,859.94
	M1	5,992.88	6,245.79	6,087.97	5,890.57	5,596.30	5,499.41
	Quasi Money	6,844.85	7,059.75	7,047.41	7,441.89	7,593.20	7,360.54
Interest Rates	CBL Rate	6.75	6.75	6.75	6.75	6.75	6.75
	91 day Treasury bill rate	6.69	6.69	6.70	6.56	6.42	6.69
	Prime lending rate	11.25	11.25	11.44	11.44	11.44	11.44
	1 year deposit rate	4.19	4.19	4.36	4.34	4.34	4.34
Private sector Credit (Millions of Maloti)		6,844.78	6,842.06	6,817.38	6,968.55	7,078.69	7,075.82
	Households	4,737.96	4,807.46	4,789.86	4,828.40	4,861.62	4,887.66
	Business Enterprises	2,106.82	2,034.60	2,027.52	2,140.15	2,217.07	2,188.16
Bank Deposit Liabilities (Millions of Maloti)		11,973.35	12,390.29	12,121.37	12,382.49	12,209.38	11,856.65
Credit to Deposit Ratio (%)		57.12	55.21	56.25	56.08	57.77	59.54
Fiscal Operations	Fiscal Balance	568.85	-1,451.94	-25.46	1,526.92	-348.17	-256.94
	Total Revenue	2,096.47	545.88	1,419.19	2,264.83	669.18	893.00
	Total Expenditure	1,527.62	1,997.83	1,444.64	737.91	1,017.35	1,149.94
	O/W Capital	309.31	797.99	344.43	28.61	37.11	92.42
Total Public Debt (Millions of Maloti)		14,926.12	15,479.88	15,922.59	15,878.56	16,030.84	16,012.37
	External Debt	11,206.06	11,695.21	12,002.19	11,917.81	12,131.15	12,049.05
	Concessional	8,682.06	9,125.20	9,433.11	9,354.47	9,573.41	9,505.42
	Non-concessional	2,524.00	2,570.01	2,569.08	2,563.34	2,557.74	2,543.63
	Domestic Debt	2,967.80	3,720.05	3,784.68	3,920.41	3,960.75	3,899.69
Memo Item (Millions of Maloti)	Arrears			223.22	0.85	5.98	56.07

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 starting from 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