



# Monthly ECONOMIC REVIEW

October 2019

CENTRAL BANK OF LESOTHO

## I. ECONOMIC ACTIVITY

Economic activity increase at a lower rate in October 2019, after the slight increase observed in September. Growth was supported mainly by strong domestic demand, while the production side remained weak.

### Overall Performance Index

Economic performance as measured by the monthly indicator of economic activity (MIEA), increased by 0.2 per cent in October 2019, compared with an increase of 0.3 per cent in September. The growth was attributed to positive contributions from eight components that make up the MIEA with the exception of six variables, which contributed negatively. Economic activity continued to be supported by high domestic demand, increased activity in the construction sector as indicated by high imports of cement and metallic products used for construction purposes. In addition, credit to the private sector contributed positively to the overall economic activity in the month under review.

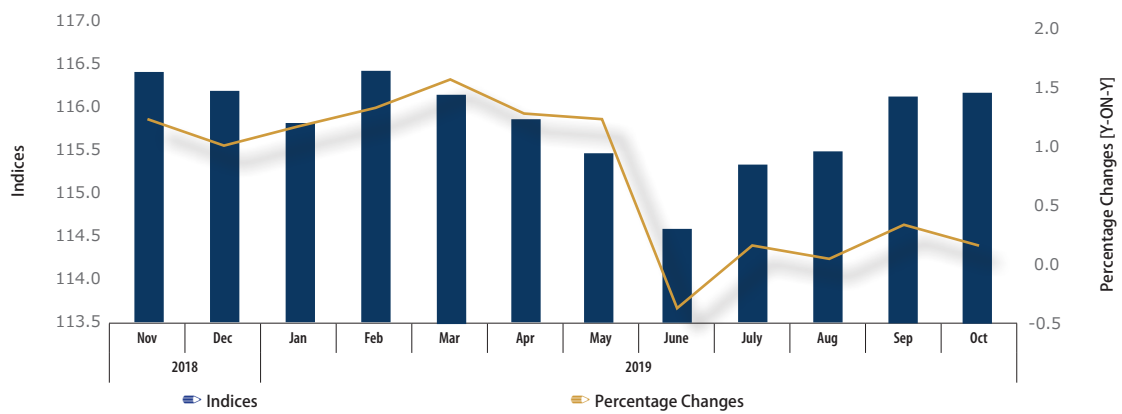
### Domestic Demand Category

The domestic demand index showed a positive growth in the month under review though slightly lower than the growth observed in September 2019. This index was estimated to have grown by 1.4 per cent relative to 1.9 per cent realised in the preceding month. The growth was mainly attributable to positive contributions from Government compensation of employee, PAYE collections signifying increased earnings that translates into increased employment levels by both the Government and the private sector. Imports of goods and services also contributed positively indicative of increased 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 a downward trajectory in the review month, albeit with a slightly smaller percentage of a decline. The index declined by 2.5 per cent in October 2019 following a decline of 2.7 per cent in the preceding month. The decline came as a result of negative contributions from water and electricity consumption used for production purposes. On the flipside, 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							
	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct
<b>CIEA</b>	116.1	115.8	115.5	114.6	115.3	115.5	116.1	116.2
year-on year changes	1.5	1.2	1.2	-0.4	0.2	0.0	0.3	0.2
<b>Domestic Demand Category</b>	115.3	114.4	113.8	112.4	114.2	114.3	115.1	115.1
year on year changes	3.7	3.2	2.2	0.0	0.9	1.3	1.9	1.4
<b>Manufacturing &amp; Production Category</b>	107.1	106.8	106.8	105.1	105.6	105.2	105.9	105.6
year on year changes	-1.3	-1.6	-1.0	-2.6	-2.1	-2.9	-2.7	-2.5

Source: CBL Calculations

## II. INFLATION AND PRICES

### Headline Inflation

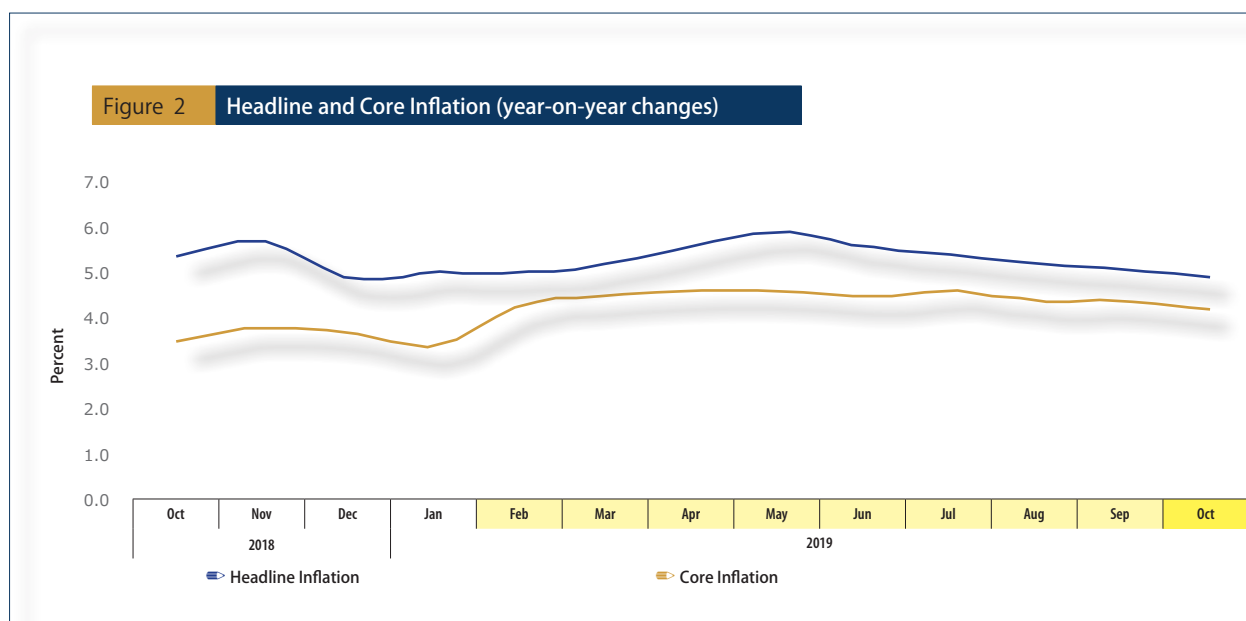
The headline inflation rate decelerated from 5.1 per cent in September 2019 to 4.9 per cent in October 2019. The 0.2 percentage points decrease was mainly due to the contribution of Housing, electricity, gas & other fuels, Transport, Furnishings, Household Equipment and Routine Maintenance of the Household, as well as, Miscellaneous goods and services.

Nonetheless, Food & Non-Alcoholic beverages and Clothing & Footwear moderated the deceleration in inflation rate from September to October 2019.

The disinflation was mainly attributed to the fall in the energy prices, in particular international crude prices, which was moderated by the appreciation of Loti-US dollar exchange rate during the review period.

### Core Inflation

The core inflation, which excludes the CPI items with extreme price changes, also decelerated from 4.4 per cent in September 2019 to 4.2 per cent in October 2019.

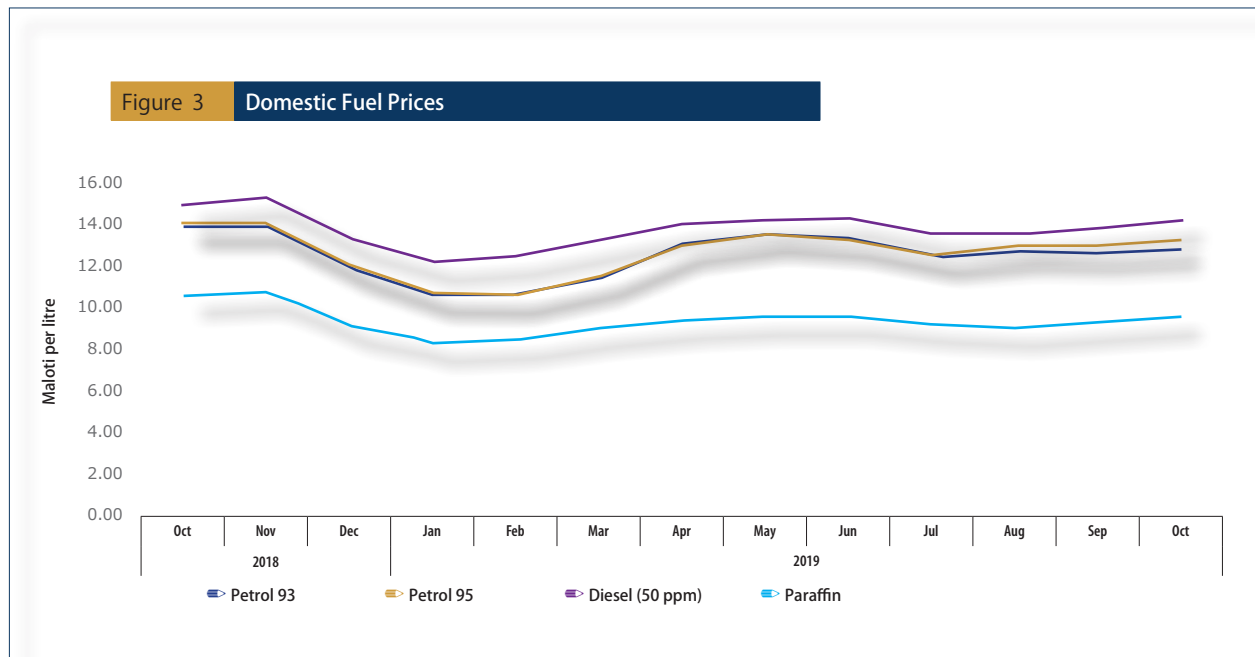


Source: Lesotho Bureau of Statistics & CBL Computation

## Domestic Fuel Prices

The domestic fuel prices increased across the board in October 2019 from their September levels. The pump price of petrol93 increased by 20 lisente per litre to reach M12.75 per litre October 2019, while petrol95 increased by 30 lisente per litre and was

sold at M13.15 per litre at the pump. The price of diesel50 price increased by 35 lisente per litre and was M13.70 per litre during the review period. The price of illuminating paraffin also increased by 25 lisente per litre from M9.25 per litre in September 2019 and was sold at M9.50 per litre at the pump.



Source: Petroleum Fund

### III. MONETARY AND FINANCIAL INDICATORS

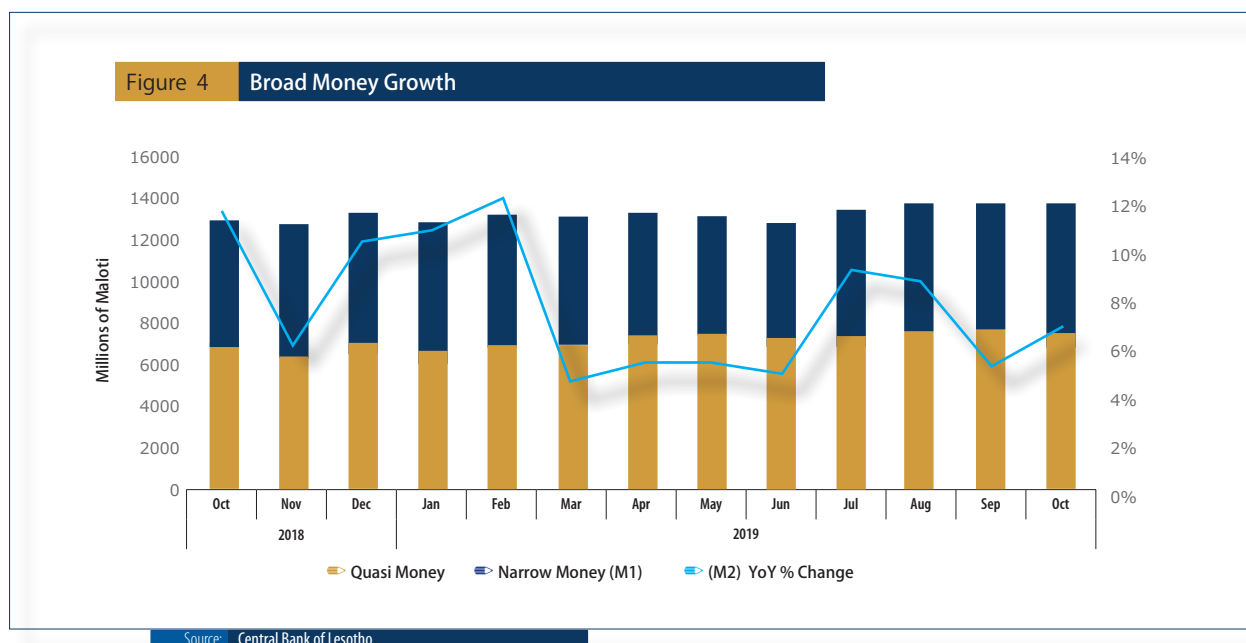
#### Broad Money (M2)

Contrary to the previous month's decline of 0.5 per cent, broad money supply (M2) increased marginally by 0.1 per cent in October 2019. This was on account of a 6.3 per cent growth in net foreign assets (NFA), which was moderated by a 76.4 per cent decline in domestic claims. The growth in NFA was due to a growth in Central Bank NFA that was moderated by a decline in commercial banks NFA.

The decline in domestic claims was caused by a build-up of government deposits following SACU revenue receipt.

#### Components of Money Supply

During the month under review, narrow money grew by 2.9 per cent. The increase in narrow money was mainly due to a growth in deposit holdings of business enterprises held with commercial-banks.



#### Credit

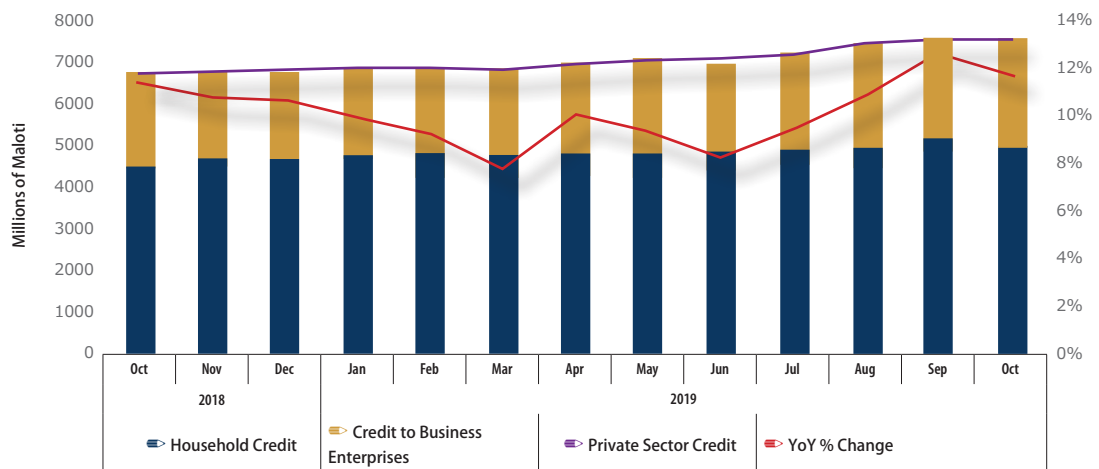
##### Private Sector Credit

Total credit granted to private sector registered a moderate decline of 0.3 per cent between September and October 2019. This compares to a 1.6 per cent increase observed in September. On a year-on-year basis, credit extended to the private sector grew by 11.8 per cent in October 2019. Credit extended to households decelerated by 1.5 per cent in October compared to an increase of 4.2 per cent in September. The observed decline in

households' credit was at the back of a 3.4 per cent decrease in personal loans while mortgages grew by 4.9 per cent.

Contrary to a decline in credit extended to households, credit to business enterprises increased by 2.4 per cent during the review month. Much of credit extended to business enterprises was towards mining and quarrying, and real estate and business services sectors, with the shares of 29.1 per cent and 21.3 per cent, respectively.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

## Loans

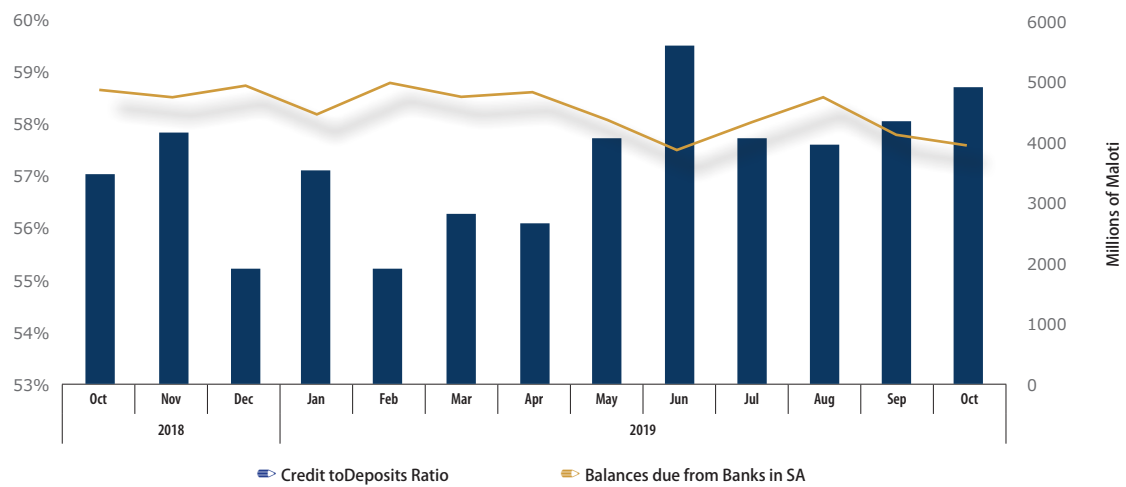
### Non-Performing Loans

Total non-performing loans (NPLs) as a share of total loans granted by commercial banks remained unchanged at 3.4 per cent between September and October 2019. The NPLs from business enterprises as a percentage of total loans granted to business enterprises also remained unchanged at 3.5 per cent during the same period. Regarding households NPLs, mortgage NPLs decreased from 8.3 per cent in September to 7.9 per cent in October whereas NPLs due to personal loans remained unchanged at 1.9 per cent in October 2019.

## Sources of Funds

The credit to deposit ratio of commercial banks rose from 58.1 per cent to 58.7 per cent between September and October 2019. This was due to a decrease in deposit that outweighed a fall in credit.

**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 September and October 2019. Similarly, the 91-day T-Bill discount rate, prime lending rate and 1-year deposit rate remained unchanged at 6.34 per cent, 11.19 per cent and 4.32 per cent, respectively.

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

The Rand, hence the Loti depreciated by 0.5 per cent, 0.43 per cent and 0.97 against the Dollar, the Pound and the Euro respectively in October 2019 after appreciating by 2.1 per cent, 0.6 per cent and 3.2 per cent, respectively, in September 2019. Both domestic and international developments influenced the Rand negatively. On the domestic front, increased government budget for Eskom, together with the worsening debt-to-GDP outlook weighed negatively on the Rand. In addition, the Rand was further dragged by international developments such as the global recession concerns and the ongoing trade war between China and the US.

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

# IV. GOVERNMENT BUDGETARY OPERATIONS

## Total Expenditure

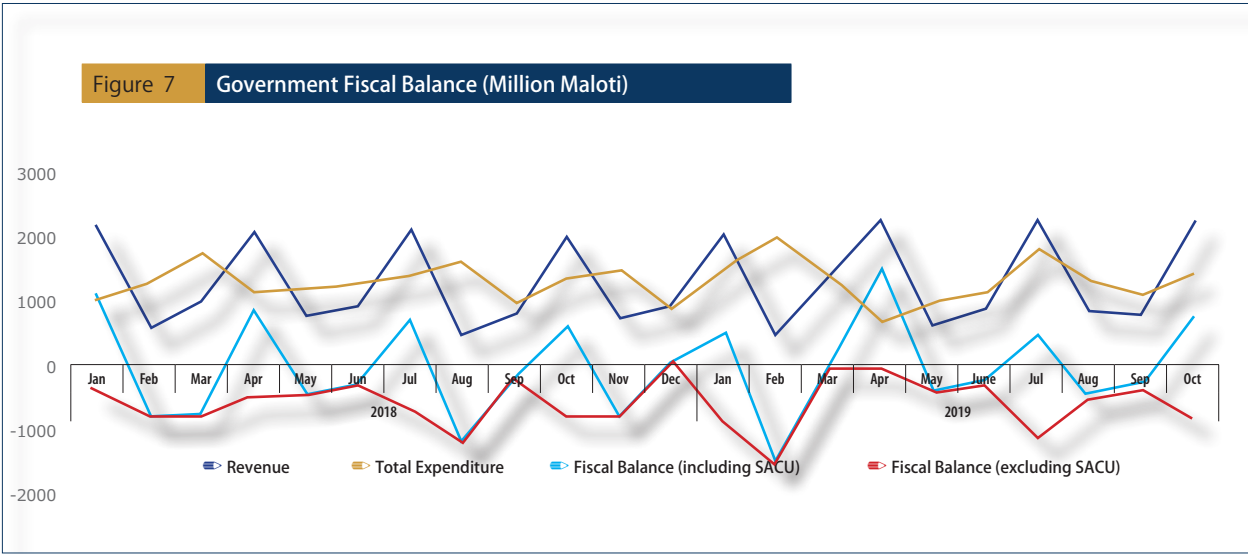
Government total spending increased by 29.6 per cent in October 2019, relative to a fall of 15.6 per cent in September 2019. The high spending was mainly driven by operating costs, subsidy to non-financial state-owned enterprises, current grants to extra-budgetary entities, non-residential buildings and other machinery and equipment.

## Total Revenue

Government revenue increased significantly in review month, in contrast to a decline of 10.9 per cent in the previous month. The main drivers included SACU receipts, income tax, and mining royalties.

## Fiscal Balance and Financing

As a consequence, Government budgetary operations was estimated to have recorded a monthly fiscal surplus equivalent to 8.5 per cent of GDP in the review month, relative to 3.7 per cent of GDP in the previous month. This surplus was resulted in accumulation of Government deposits in the banking system. The arrears on Government spending accounted for 0.4 per cent of GDP during the month, compared to 0.6 per cent of GDP in September 2019.

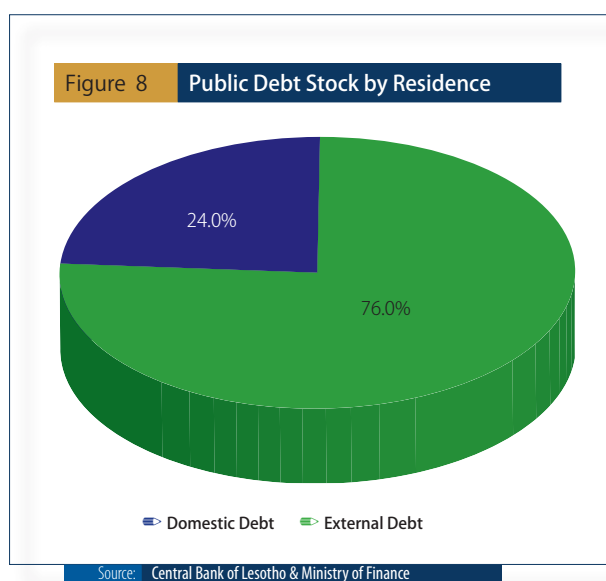


Source: Central Bank of Lesotho & Ministry of Finance



## V. PUBLIC DEBT

The public debt stock was estimated to have increased by 0.2 per cent to 46.0 per cent of GDP in October 2019. This followed the revised 0.5 per cent in observed in September 2019. The accumulation was on account of expansion in the multilateral concessional loans, particularly by African Development Fund and the World Bank – IDA.



## Appendix: Key Economic Indicators

		19-May	19-Jun	19-Jul	19-Aug	19-Sep	19-Oct	
Economic Activity MIEA (% change, Y/Y)		1.2	-0.4	0.2	0.0	0.3	0.2	
Consumer price Index (% change)	Headline Inflation (year-on-year)	5.9	5.6	5.4	5.2	5.1	4.9	
	Core Inflation	4.7	4.5	4.6	4.5	4.4	4.2	
Exchange Rates (Monthly End Period)	EUR	16.26	16.48	15.26	16.85	16.55	16.49	
	GBP	18.96	18.49	18.61	18.61	18.69	18.85	
	USD	14.39	14.59	16.85	15.26	15.19	14.91	
Money Supply (Millions of Maloti)	M2	13189.50	12859.94	13487.74	12131.97	13793.02	13802.25	
	M1	5596.30	5499.41	5971.71	5288.50	6015.94	6190.99	
	Quasi Money	7593.20	7360.54	7516.03	6843.47	7777.08	7611.26	
Interest Rates	CBL Rate	6.75	6.75	6.50	6.50	6.50	6.50	
	91 day Treasury bill rate	6.42	6.69	6.38	6.34	6.34	6.34	
	Prime lending rate	11.44	11.44	11.44	11.19	11.19	11.19	
	1 year deposit rate	4.34	4.34	4.34	4.32	4.32	4.32	
Private sector Credit (Millions of Maloti)		7078.69	7075.82	7218.47	7390.62	7573.90	7554.94	
	Households	4861.62	4887.66	4926.18	4956.49	5163.48	5086.65	
	Business Enterprises	2217.07	2188.16	2292.29	2,434.13	2410.42	2468.29	
Bank Deposit Liabilities (Millions of Maloti)		12382.49	12209.38	11856.65	12977.39	12849.65	12748.92	
Credit to Deposit Ratio (%)		57.77	59.54	56.96	56.95	58.94	58.72	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-348.14	-257.31	475.05	-449.78	-338.01	779.05	
	Total Revenue	669.18	893.00	2261.20	893.67	796.34	2248.96	
	Total Expenditure	1017.32	1150.30	1786.15	1343.45	1134.36	1469.92	
	O/W Capital	37.11	92.42	336.34	393.34	149.90	159.01	
Total Public Debt (Millions of Maloti)		16308.40	16049.71	15896.75	16706.42	16788.97	16820.78	
	Total External Debt	12449.58	12067.52	11948.86	12715.12	12695.81	12780.68	
	External Debt	Concessional	9891.84	9557.28	9448.45	10169.88	10197.77	10287.63
		Non-concessional	2557.74	2510.24	2500.41	2545.23	2498.04	2493.04
	Domestic Debt	3858.82	3982.19	3947.89	3991.31	4093.16	4040.10	
Memo Item: Arrears (Millions of Maloti)		5.98	56.07	58.39	57.54	59.40	36.20	

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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