



Monthly ECONOMIC REVIEW

March 2019

CENTRAL BANK OF LESOTHO

I. ECONOMIC ACTIVITY

Economic activity increased slightly in March 2019 compared with a growth observed in the previous month. The major driver behind the growth continued to come from high domestic demand while the production side remained under pressure in the review month.

Overall Performance Index

Economic performance as measured by the monthly indicator of economic activity (MIEA), increased by 1.2 per cent in March 2019, compared with a growth of 1.1 per cent realised in the previous month. Nine of the fourteen component variables that make up the MIEA contributed positively to the overall index, while the remaining five variables contributed negatively. Like in the previous month, Domestic demand variables together with the transportation and construction variables remained supportive to the observed increase, as signified by positive contributions from fuel consumption and cement imports, respectively.

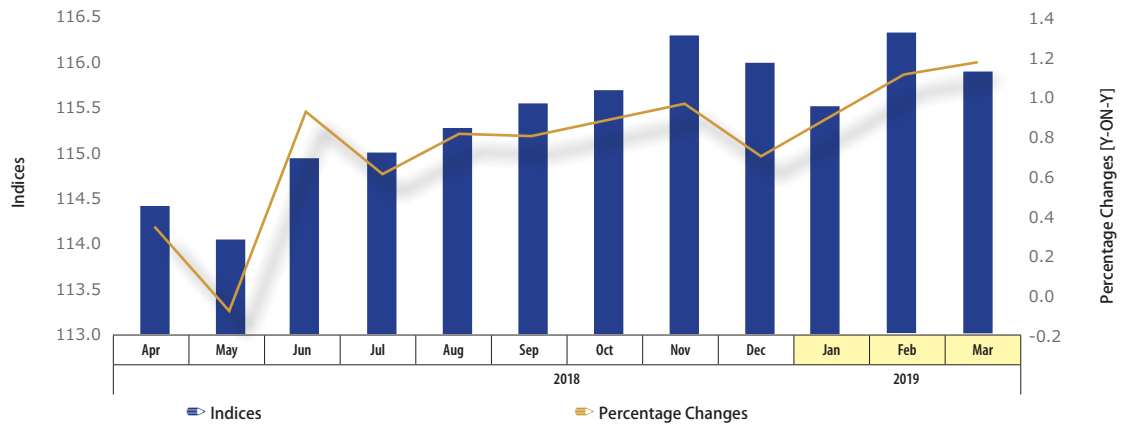
Domestic Demand Category

The domestic demand index continued to register positive growth in March as compared with the previous month. This category was estimated to have increased by 3.7 per cent. The development mainly represented major positive contributions from VAT and PAYE collections, use of goods and services, and imports of goods and services. The observed trend signalled strong demand for goods and services in the economy. For the first time in more than a year, compensation of employees from the government side contributed positively to the index.

Manufacturing & Production Category

The production index continued to decline in the review month. The index declined by 1.9 per cent in March 2019 as opposed to a decline of 0.9 per cent in the preceding month. The decline continued to be attributable to 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

Indices	2018					2019		
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
CIEA	115.3	115.6	115.8	116.2	115.9	115.6	116.2	115.7
year-on year changes	0.9	0.9	1.0	1.0	0.8	0.9	1.1	1.2
Domestic Demand Category	112.8	112.8	113.5	113.9	113.2	113.5	115.6	115.2
year on year changes	0.0	0.2	0.9	0.9	0.6	1.7	2.7	3.7
Manufacturing & Production Category	108.9	109.2	108.8	109.3	108.5	108.2	107.9	107.0
year on year changes	1.7	1.3	0.4	0.6	0.1	-0.6	-1.0	-1.9

Source: CBL Calculations

II. INFLATION AND PRICES

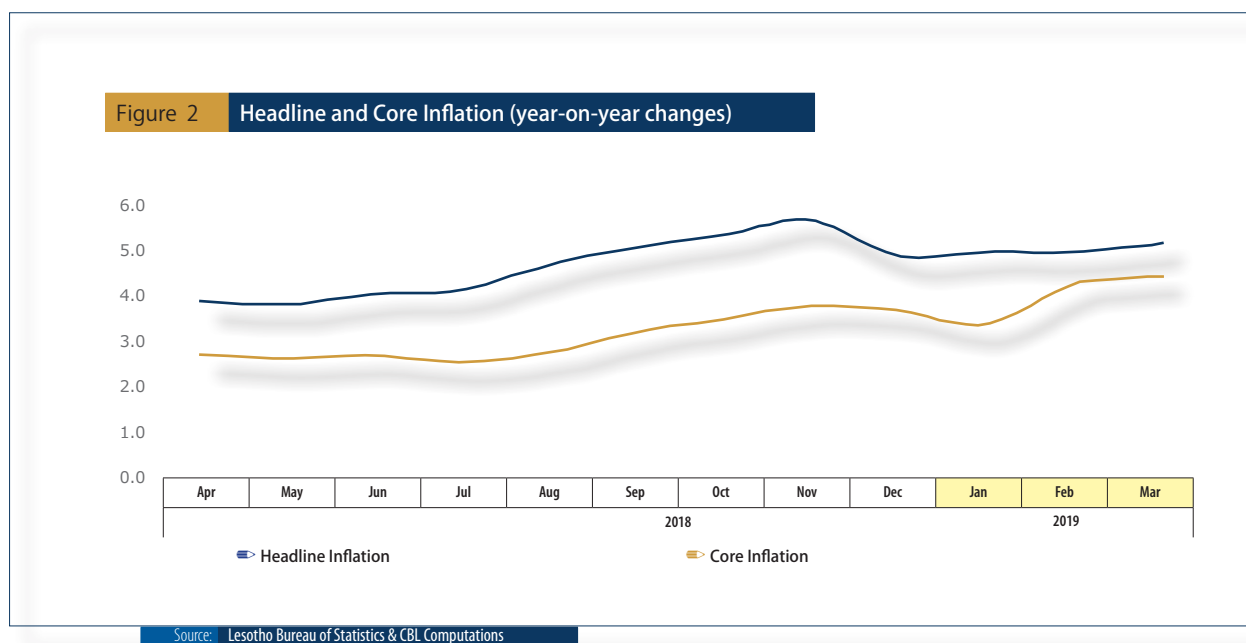
Headline Inflation

The headline inflation rate accelerated to 5.2 per cent in March 2019 from 5.0 per cent estimated for February 2019. The 0.2 percentage point increase was mainly due to the contribution of food and non-alcoholic beverages (0.22pp), transport (0.07pp) and clothing and footwear (0.03pp) divisions. Other divisions such as housing, electricity, gas and other fuels, education, recreation and culture, alcoholic beverages and tobacco, miscellaneous goods and services moderated the increase.

Core Inflation

Core inflation, which excludes the CPI items with extreme price changes, also accelerated from 4.3 per cent in February 2019 to 4.5 per cent in March 2019.

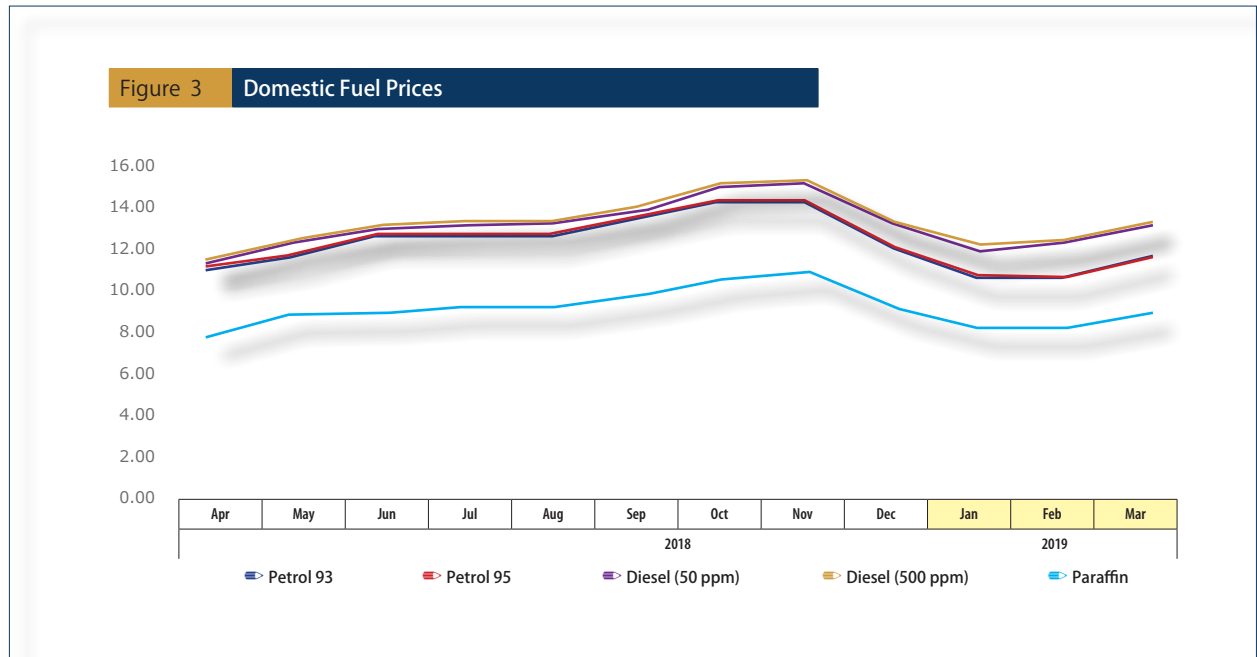
The main drivers behind acceleration were increased demand for staple food, which pushed prices during the peak lean seasons. Energy prices also contributed to the trends in inflation rate from February to March 2019.



Domestic Fuel Prices

All of the domestic fuel prices increased in March 2019 from their levels observed in February 2019. The prices of both petrol grades (petrol93 and petrol95) increased by M0.80 per litre to reach M11.65 per litre in March 2019, respectively. The

prices of both diesel grades also increased by M0.80 per litre, with the pump price of diesel50 selling for M13.20 per litre, while and diesel500 at M12.95 per litre in March 2019. The price of illuminating paraffin also increased by M0.65 per litre in March 2019 from its February 2019 level.



Source: Lesotho Petroleum Fund

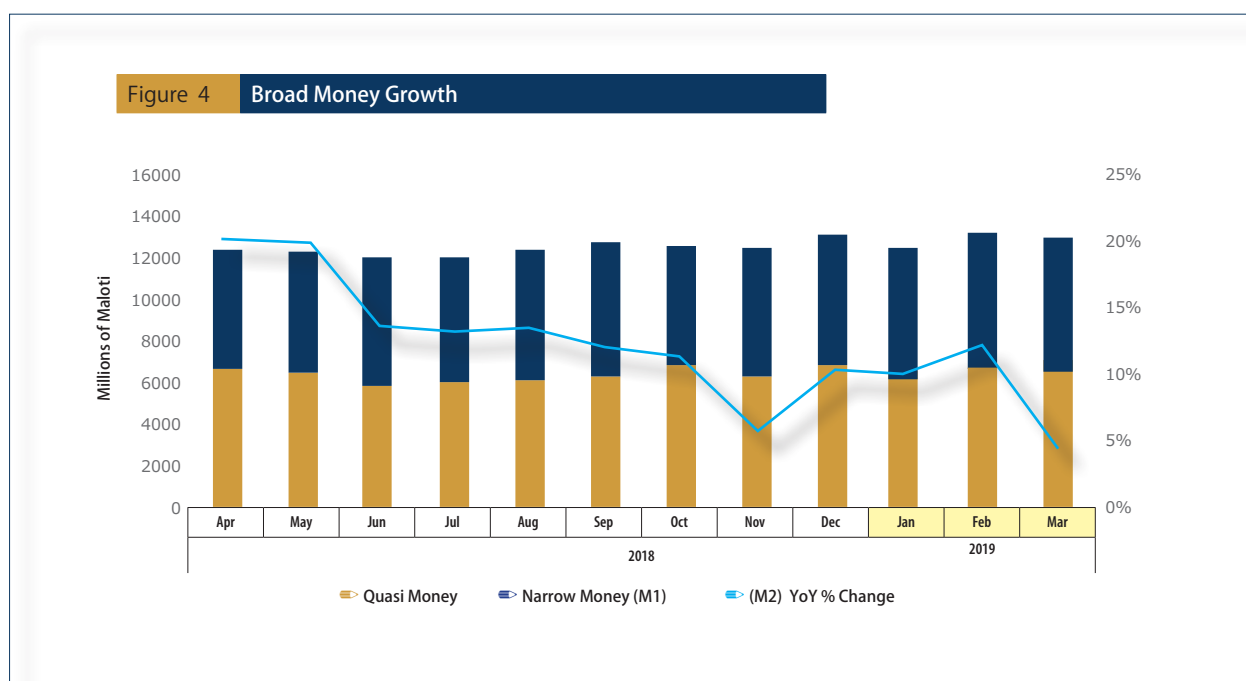
III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

In March 2019, the broadly defined money supply (M2) fell by 1.3 per cent. This was chiefly due to a contraction of 0.2 per cent in net domestic credit, which was partially offset by a 1.2 per cent growth in net foreign assets. The fall in net domestic credit was largely driven by a decline in credit extended to the private sector, as well as improvement in the net government position with the banking system.

Components of Money Supply

Both components of money supply rose in the month under review. In particular, narrow money (M1) and other deposits increased by 4.2 per cent and 3.1 per cent, respectively. The increase in M1 was due to the growth in both the currency in circulation and demand deposits, while a rise in other deposits was at the back of a growth in call deposits held by business enterprises and savings deposits of the households.



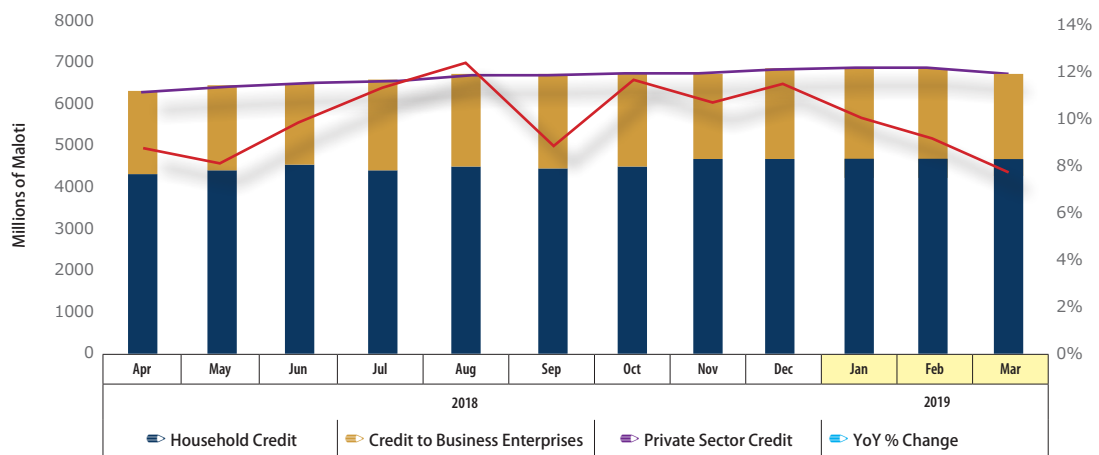
Credit

Private Sector Credit

Credit to the private sector fell for the second month in a row. In March 2019, total credit extended to the private sector contracted by 0.3 per cent, following a decline of 0.04 per cent in the previous month. The decline in private sector credit was caused by a fall in overall credit extended to households, which contracted by 3.4 per cent. A significant decline in

households' credit came from mortgages, which fell by 3.4 per cent, while personal expanded by 0.7 per cent, moderating a decline in credit granted to households. Credit granted to business enterprises continued to show a downward trend, as it fell by 0.1 per cent, marking the fifth consecutive month of negative growth. Total credit to the private sector, however, expanded by 7.8 per cent in March 2019 compared with the same period a year ago.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

Loans

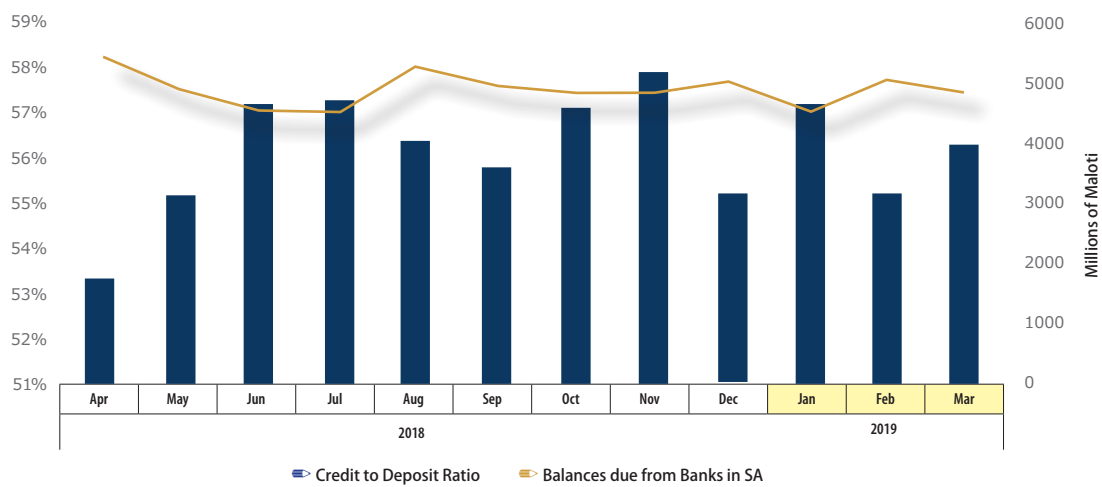
Non-Performing Loans

Overall non-performing loans (NPLs) declined marginally to 3.4 per cent in March 2019, compared with 3.5 per cent observed in the preceding month. The NPLs related to business enterprises improved from 4.2 per cent to 3.8 per cent in during the period under review, while households NPLs inched up to 4.8 per cent from 4.3 per cent observed in the previous month.

Sources of Funds

The credit to deposits ratio improved slightly from 55.2 per cent to 56.3 per cent in between February and March 2019. The improvement was due to a decline of 2.1 per cent in total deposits, despite a decline of 0.3 per cent in private sector credit extended by commercial banks.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The Monetary Policy Committee (MPC) of the Central Bank of Lesotho (CBL) at its sitting of April 1, 2019 kept the policy rate unchanged at 6.75 per cent. The 91-day T-Bill rate declined marginally by 3 basis points to 6.60 per cent while the commercial banks' lending and deposit rates remained constant.

Foreign Exchange Rates

Following an impressive start to the first two months of the year, the rand (hence loti) depreciated by 4.17 per cent against the dollar, by 3.71 per cent against the euro and by 5.48 per cent against the pound, in March 2019. The developments in rand exchange rate were shaped by the forthcoming sovereign credit ratings assessment by the Moody's. Moreover, unstable power supply disrupted economic activity, and was seen weighing on the economic growth in the near future. The external forces also contributed to weakened rand, including faster than expected decline in China's exports, and lowered growth forecasts in the Euro Area by the European Central Bank. These developments added to the fears of slowing global economic growth. The higher than expected increase in the real GDP was not sufficient to save the unit.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

Government expenditure (including arrears) decreased by 28.5 per cent in March 2019 relative to a rise of 4.9 per cent in February 2019. The decline was observed in both expenses and non-financial assets.

The non-financial assets decreased significantly by 63.8 per cent during the month under review. This was as a result of slowdown in implementation of capital projects, with more pronounced in infrastructure related projects.

Similarly, the expense category declined by 16.6 per cent. This was also observed in almost all categories of expenses, with the biggest fall recorded in grants to extra-budgetary units. The use of goods and services also fell as Government applied restraints on operating costs (65.1%) and international travel and transport (27.0%).

The fiscus also continued to accumulate arrears estimated at 2.4 per cent of GDP. Those were distributed as 53.6 per cent on non-financial assets and the remaining 46.4 per cent on expenses.

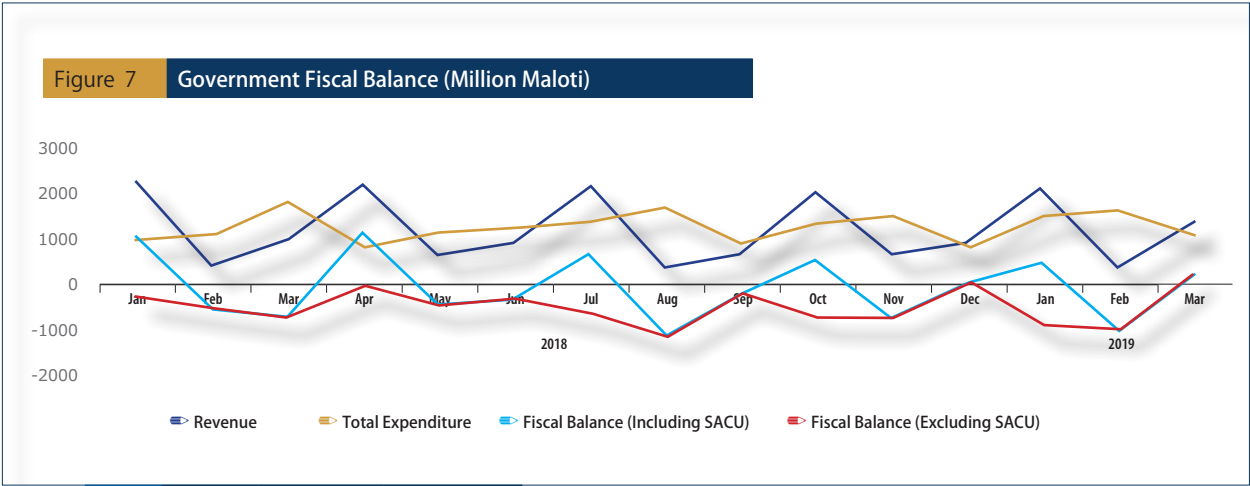
Total Revenue

Total Government revenue increased drastically by more than 100.0 per cent in March 2019 compared to a fall of 74.6 per cent during the previous month. This was on account of increases in tax and non-tax revenue.

The tax revenue benefited from a more than quadruple rise in income tax, 61.4 per cent in VAT, and 27.6 per cent in excise tax. The other revenue category particularly water royalties and proceeds from electricity sales, also increased significantly.

Fiscal Balance

The Government experienced surplus equivalent to 4.6 per cent of GDP under gross operating balance during the review period, in contrast to a deficit of 7.3 per cent of GDP in the previous month. Part of the surplus financed acquisition of non-financial assets and the remainder used to accumulate deposits with the banking sector.



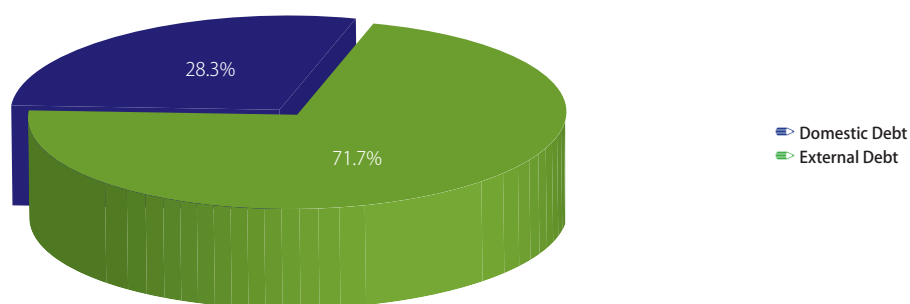
Source: Central Bank of Lesotho & Ministry of Finance

V. PUBLIC DEBT

The public debt stock, as a ratio of GDP, was recorded at 44.1 per cent in March 2019 following the 43.0 per cent in February 2019. This was equivalent to 2.4 per cent increase that was mainly attributable to both external and domestic trajectories.

The hike in external debt was due to higher disbursements for ongoing capital projects, while the growth in domestic debt was on account of issuance of treasury bonds during the period. As a consequence, the share of domestic debt went up to 28.3 per cent of total outstanding debt.

Figure 8 Public Debt



Source: Central Bank of Lesotho & Ministry of Finance

Appendix: Key Economic Indicators

		Oct 18	Nov 18	Dec 18	Jan 19	Feb 19	Mar 19
Economic Activity MIEA (% change, Y/Y)		0.9	1.0	0.7	0.9	1.1	1.2
Consumer price Index (% change)	Headline Inflation (year-on-year)	5.0	5.7	4.9	5.0	5.0	5.2
	Core Inflation	3.1	3.8	3.7	3.4	4.3	4.5
Exchange Rates (Monthly End Period)	EUR	17.21	16.01	16.18	15.80	15.68	16.26
	GBP	19.27	18.18	18.03	17.84	17.97	18.96
	USD	14.77	14.09	14.21	13.84	13.82	14.39
Interest Rates	CBL Rate	6.50	6.75	6.75	6.75	6.75	6.75
	91 day Treasury bill rate	6.65	6.69	6.69	6.70	6.60	6.60
	Prime lending rate	11.19	11.25	11.25	11.44	11.44	11.44
	1 year deposit rate	4.19	4.19	4.19	4.36	4.34	4.34
Private sector Credit (Millions of Maloti)		6,747.35	6,774.95	6,793.04	6,844.78	6,842.06	6,822.54
	Households	4,498.98	4,658.90	4,683.52	4,736.54	4,806.15	4,789.86
	Business Enterprises	2,200.41	2,116.05	2,109.52	2,106.82	2,034.60	2,032.68
Bank Deposit Liabilities (Millions of Maloti)		11,912.00	11,797.76	12,387.65	12,003.84	12,390.29	12,153.23
Credit to Deposit Ratio (%)		57.04	57.86	55.23	57.12	55.21	56.25
Fiscal Operations	Total Revenue	2,008.44	790.01	990.54	2,088.10	531.31	1,419.19
	Total Expenditure	1,367.37	1,511.11	898.00	1,527.58	1,602.80	1,146.45
	O/W Capital	149.02	179.39	176.64	309.31	402.96	145.71
Total Public Debt (Millions of Maloti)		14,513.20	14,472.52	15,500.20	14,798.82	15,156.51	16,134.97
	External Debt	11,546.46	11,504.72	12,328.61	11,050.59	11,371.83	11,651.54
	Concessional	9,246.48	9,205.53	10,041.21	8,771.11	8,801.35	9,121.81
	Non-concessional	2,299.98	2,296.19	2,287.40	2,279.47	2,570.48	2,529.73
	Domestic Debt	2,966.74	2,967.80	3,171.60	3,748.23	3,784.68	4,483.43
	Memo Item: Arrears						223.22

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) fulfill 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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