



Monthly ECONOMIC REVIEW

May 2019

CENTRAL BANK OF LESOTHO

I. ECONOMIC ACTIVITY

Economic activity remained subdued, as it moderated slightly in the month of May 2019 compared with a growth observed in the previous month. The observed growth continued to be supported by demand side variables, while the production and manufacturing side of the economy remained on the downturn.

Overall Performance Index

Economic performance as measured by the monthly indicator of economic activity (MIEA), increased at a lower rate of 0.9 per cent in May 2019, compared with a growth of 1.0 per cent in April 2019. The positive contributions came from the eight component variables that make up the index, while the other six variables contributed negatively. Domestic demand continued to support growth as indicated by positive contributions from imports of goods and services and VAT collections. In addition, the transport and construction subsectors remained supportive as evidenced by increased consumption of fuel and imports of cement, respectively.

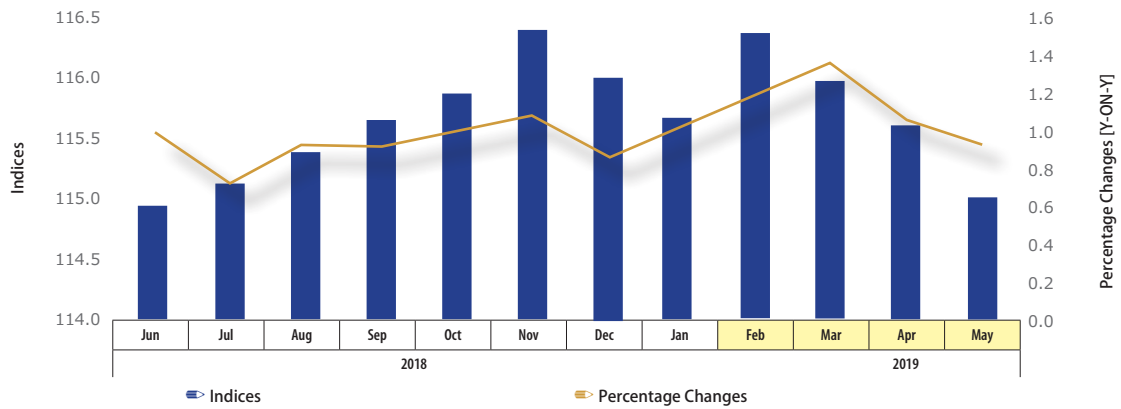
Domestic Demand Category

The domestic demand index showed a subdued positive growth in May 2019 compared with the previous month. This category was estimated to have grown by 1.8 per cent compared with 3.1 per cent growth in April 2019. The growth represented positive contributions from VAT collections and imports of goods and services. The observed trend signalled strong demand for goods and services in the economy. However, the PAYE contributed negatively signalling some shrinkage in earnings, which is highly correlated to employment levels in the economy.

Manufacturing & Production Category

The production and manufacturing index continued to decline in the review month, though moderately. The index declined by 1.4 per cent in May 2019 following 2.0 per cent observed in the preceding month. The decline continued to emanate from declines in the use of electricity and water consumption in the production sector, thus signalling a persistent decline in domestic production.

Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2018					2019		
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
CIEA	115.9	116.3	116.0	115.6	116.3	115.9	115.6	115.1
year-on year changes	1.0	1.1	0.8	1.0	1.2	1.4	1.0	0.9
Domestic Demand Category	113.5	113.9	113.3	113.5	116.0	115.2	114.1	113.1
year on year changes	0.9	1.0	0.6	1.7	2.7	3.7	3.1	1.8
Manufacturing & Production Category	108.7	109.2	108.5	108.3	107.9	107.2	106.8	106.7
year on year changes	0.4	0.7	0.2	-0.5	-0.8	-1.7	-2.0	-1.4

Source: CBL Calculations

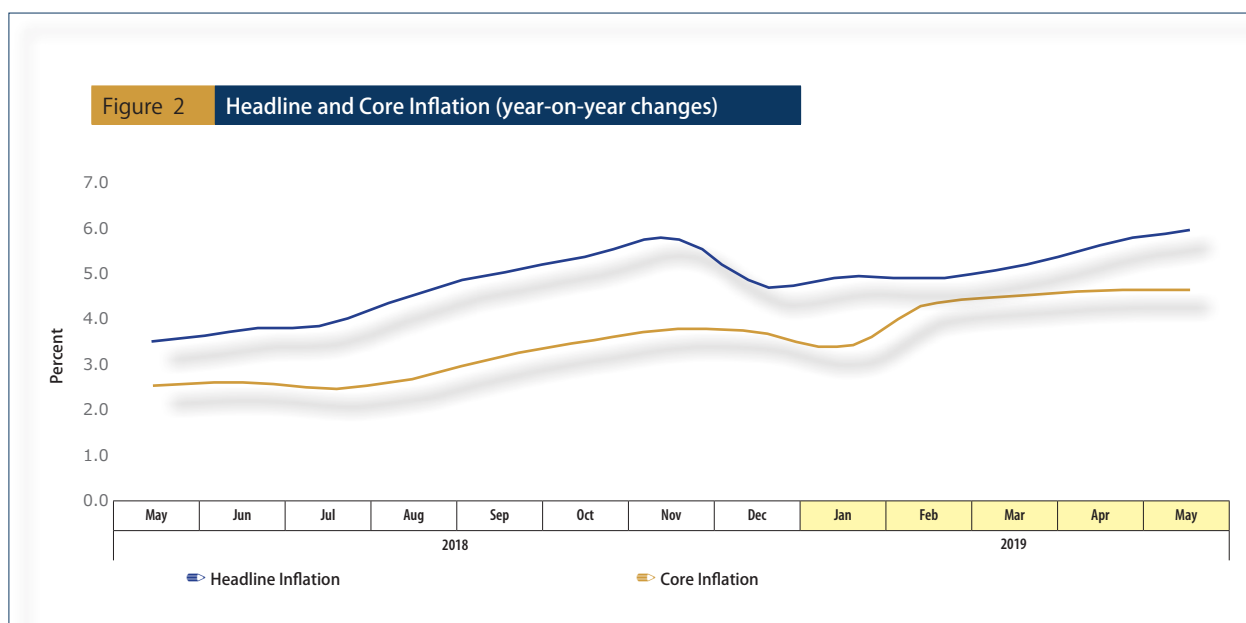
II. INFLATION AND PRICES

Headline Inflation

The headline inflation rate accelerated to 5.9 per cent in May 2019 from 5.6 per cent estimated in April 2019. The 0.3 percentage point increase was mainly due to the contribution of Food and non-alcoholic beverages (0.14pp), and Housing, electricity, gas and other fuels (0.22pp) divisions. Other divisions such as, Education, Recreation and culture, and Furnishings, Household Equipment and Routine Maintenance of the House moderated the increase. The main drivers behind acceleration in headline inflation rate were high food prices, especially maize meal and the increases in energy prices.

Core Inflation

Core inflation, which excludes the CPI items with extreme price changes, remained unchanged at 4.6 per cent in May 2019 from the April 2019 estimate.



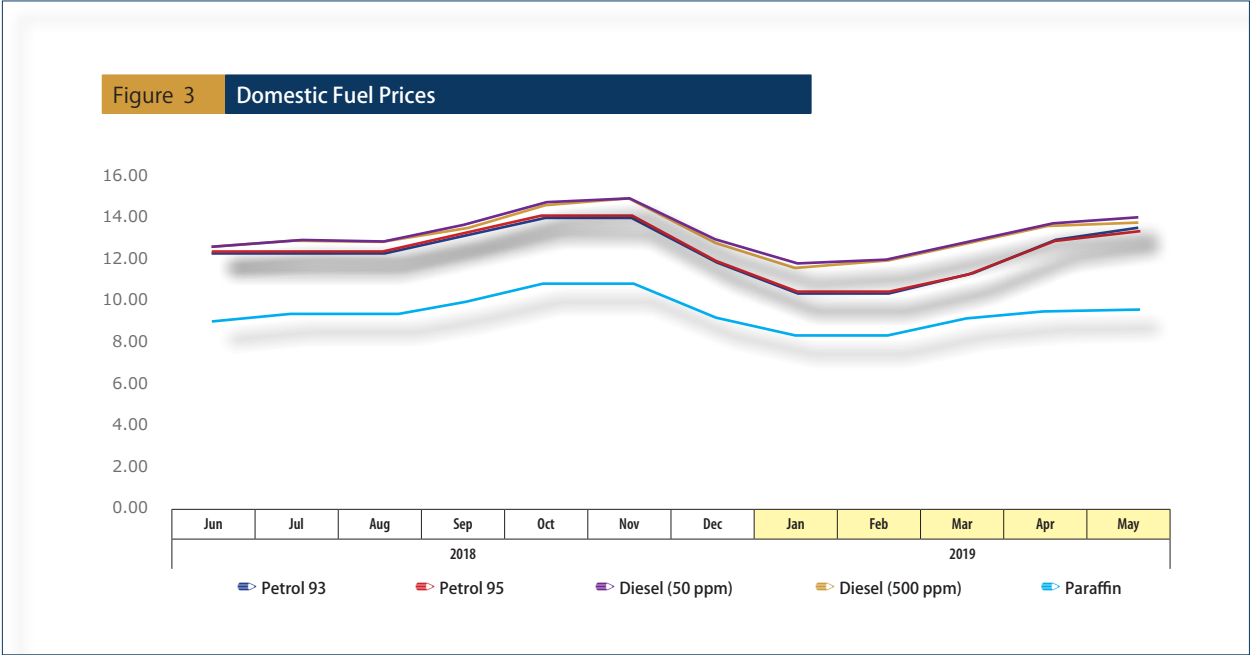
Source: Lesotho Bureau of Statistics & CBL Computations

¹ pp means percentage point.

Domestic Fuel Prices

All of the domestic fuel prices increased in May 2019 from their levels observed in April 2019. The prices of both petrol grades (petrol93 and petrol95) increased by M0.50 per litre to reach M13.45 per litre and M13.40 per litre, respectively. The prices

of both diesel grades also increased by M0.15 per litre and their respective pump prices were M14.15 and M13.85. The price of illuminating paraffin also increased by M0.15 per litre in May 2019 and was at M9.50 per litre at the pump.



Source: Lesotho Petroleum Fund

III. MONETARY AND FINANCIAL INDICATORS

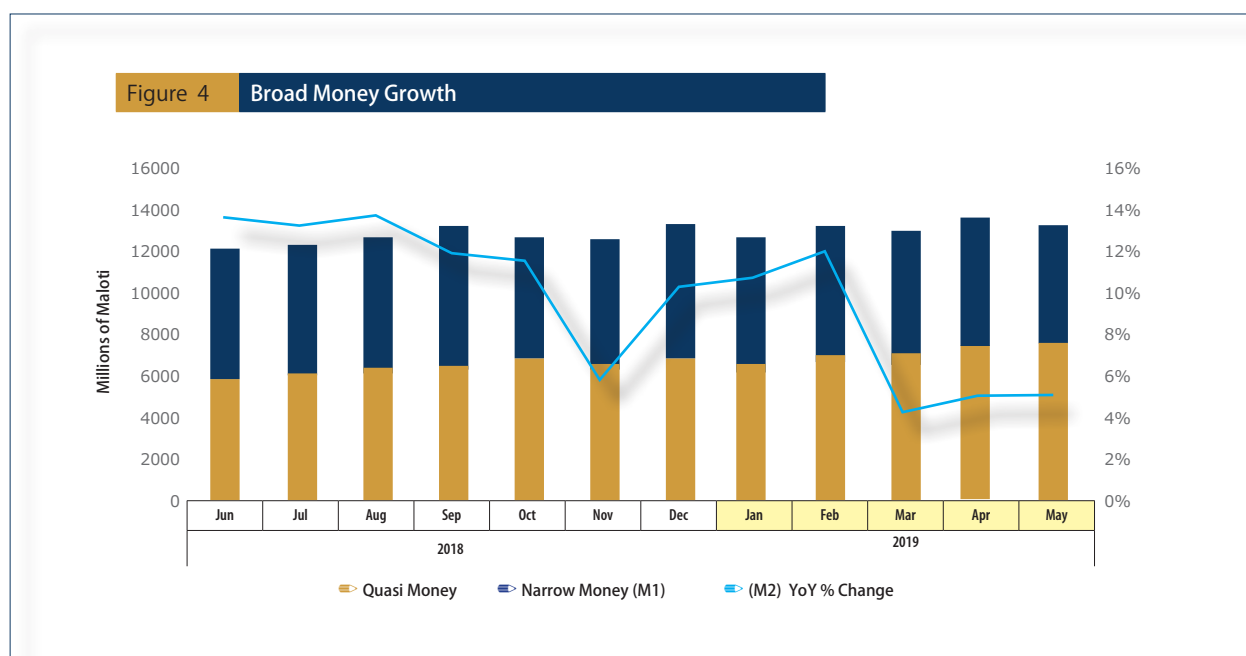
Broad Money (M2)

The broadly defined money supply (M2) declined by 1.1 per cent in May 2019. This was underpinned by a 3.7 per cent decline in net foreign assets (NFA) despite a 16.4 per cent growth in net domestic assets (NDA). The fall in NFA was at the back of a decrease in Central bank and commercial banks' NFA by 1.0 per cent and 5.4 per cent, respectively. On the other hand, the expansion in NDA was due to an improvement in the net government position with the banking system, as well as, the growth in

credit extended to the private sector.

Components of Money Supply

Considering the components of money supply, the fall in M2 was at the back of a 5.0 per cent decrease in narrow money (M1), while other deposits (call, savings and time deposits) picked up slightly, thus moderating the decline. The contraction of narrow money reflected a sizable decline in business enterprises' demand deposits held in commercial banks.



Credit

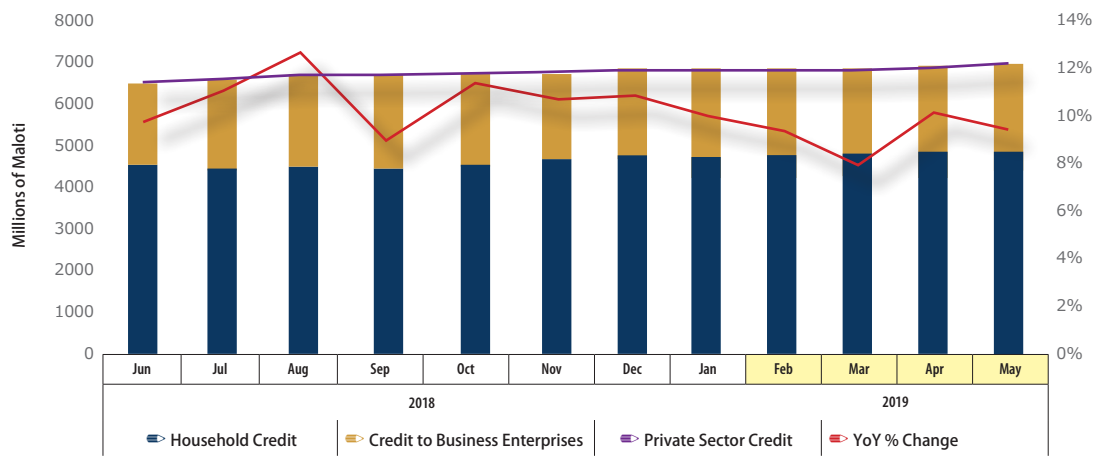
Private Sector Credit

Credit extended to the private sector expanded by 1.6 per cent in the month under review. Similar to the previous month, the major contribution to the rise in private sector credit came from business enterprises. In May 2019, credit extended to business enterprises grew for the second month in a row, as it registered 3.6 per cent increase following a 5.6 surge in April 2019. This comes after a run of negative growth since the beginning of the year. Mining

and quarrying sector received the largest share of credit extended to business enterprise in May 2019, followed by construction and manufacturing sectors.

Similarly, credit granted to household sector slowed from 0.8 per cent to 0.7 per cent in the period under review. The slowdown came as a result of a decline of 0.6 per cent in unsecured personal loans which is the component that makes up more than 70 per cent of household credit.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

Loans

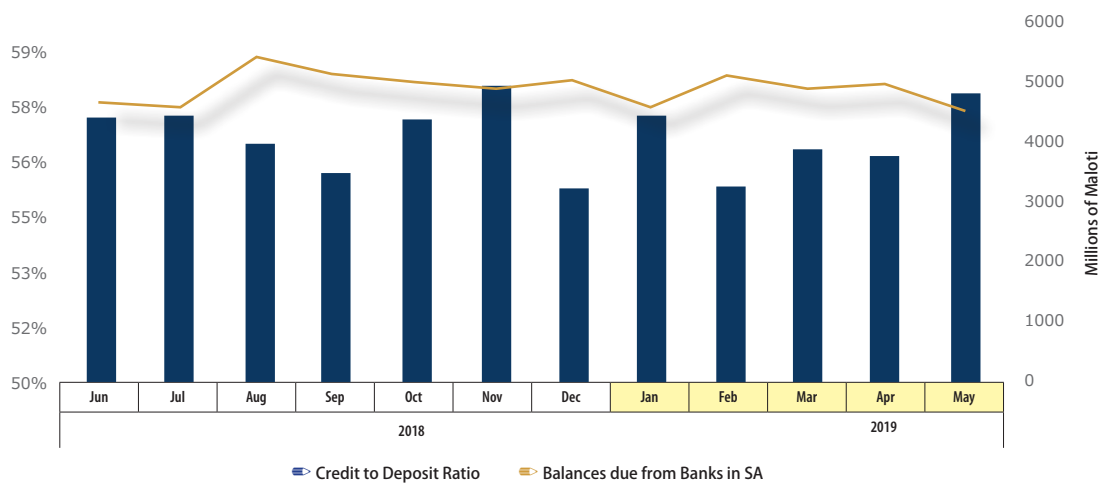
Non-Performing Loans

Overall non-performing loans (NPLs) to total loans granted by commercial banks remained constant at 3.3 per cent in May 2019. However, NPLs stemming from business enterprises inched up from 1.0 per cent to 1.1 per cent as a share of total loans extended, while households NPLs dropped slightly from 2.3 per cent to 2.2 per cent.

Sources of Funds

The commercial banks' ratio of loans granted to total deposits improved from 56.1 per cent to 57.8 per cent in the review month. Nevertheless, the rise in credit to deposits ratio does not necessarily reflect an increase in credit extended but rather a contraction in banks' total deposit liabilities.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The Central Bank of Lesotho (CBL)'s policy rate remained constant in May 2019. This follows a decision by the CBL's Monetary Policy Committee (MPC) on its 77th sitting of May 28, 2019 to keep the rate unchanged at 6.75 per cent. The 91-day T-Bill rate continued to decline month on month as it fell marginally by 7 basis points to 6.49 per cent subsequent to a 4 basis points decrease in the preceding month. The commercial banks' lending and deposits rates on the other hand remained the same between April 2019 and May 2019.

Foreign Exchange Rates²

The rand hence the loti depreciated by the average of 1.90 per cent against the US dollar, 0.30 per cent against the pound, and by 1.44 per cent against the euro, in May 2019. The rand's weakened performance followed the appreciation of the currency in April 2019, against the major currencies. The escalating trade tensions between the US and China, had a downward pressure on the value of rand. The declines were moderated by the election of market friendly president in South Africa, following elections held in May 2019.

² Monthly average exchange rate.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

Government expenditure increased by 37.9 per cent in May 2019 relative to a decline of 48.9 per cent in April 2019. The increase is observed in both expenses and non-financial assets. Recurrent and capital expenditures constituted 96.4 per cent and 3.6 per cent of total expenditure respectively.

The increase in expenses is observed under all components of expenses except for grants and other expense which recorded a decline. In particular, major increase is observed in travel and transport component, both domestic and international, as well as subsidies to public corporations.

The non-financial assets increased by 29.7 per cent during the month under review relative to a 91.7 per cent decline in the previous month. This was a result of implementation of capital projects, in particular infrastructure related projects.

Government accumulated arrears in the month under review which increased by more than 100.0 per cent and is observed under expenses, particularly use of goods and services.

Total Revenue

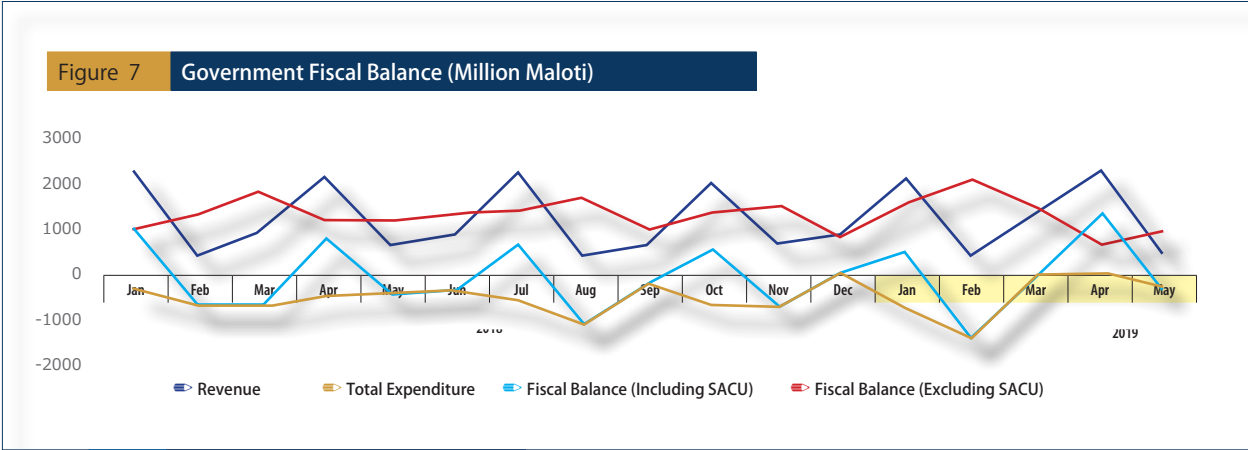
Government collected revenue declined by 70.5 per cent in the month under review relative to 59.6 per cent increase in the previous month. This was

equivalent to 7.3 per cent of GDP. The decline was a result of a fall in grants and other revenue, following higher revenue due to receipts from SACU which are collected every first month of the quarter. With the exclusion of SACU receipts, revenue recorded a decline of just 5.5 per cent.

Conversely, tax revenue collection improved by 21.2 per cent as opposed to 66.5 per cent decline recorded in the previous month. The increase in tax revenue was attributable to personal income tax and value added tax which increased by 82.8 per cent and 20.6 per cent respectively.

Fiscal Balance and Financing

As a result of an increase in total expenditure that offset an increase in revenue, fiscal balance recorded a deficit of 3.8 per cent of GDP during the month under review as opposed to a surplus worth 16.7 per cent of GDP recorded in the previous month. Gross operating balance experienced a deficit of 3.4 per cent of GDP in contrast to 17.0 per cent of GDP in the previous month. Financial assets dropped to 3.0 per cent of GDP from an increase of 15.5 per cent of GDP in the preceding month. The decline was a result of the drawdown in government deposits in the banking sector, while the decline in net incurrence of liabilities is mainly due to low disbursements (new debt) of foreign loans.

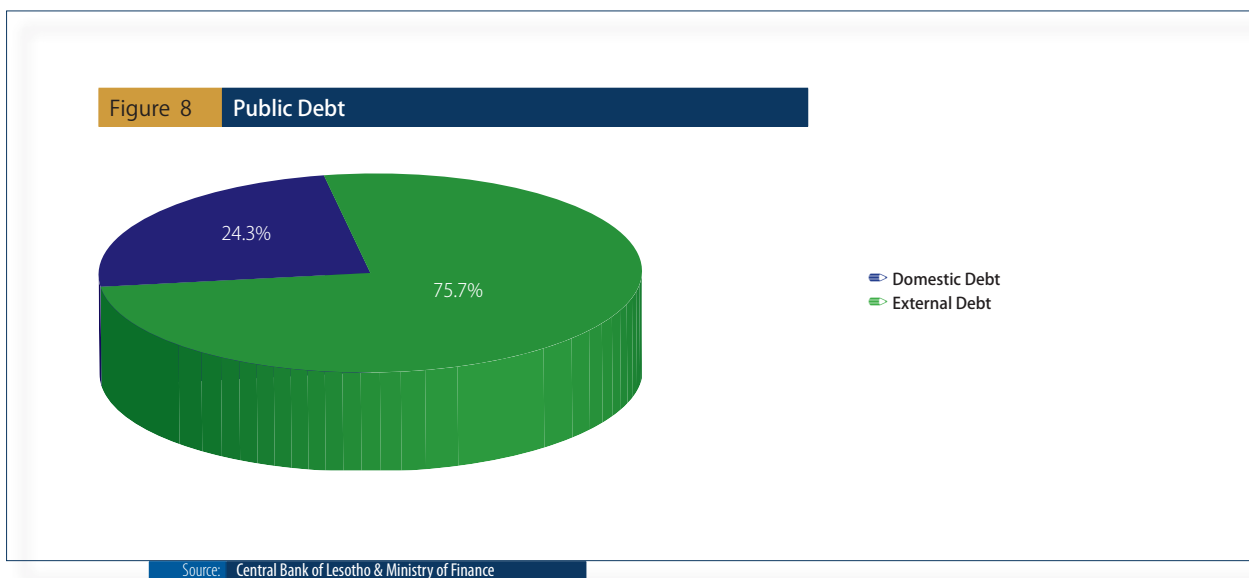


Source: Central Bank of Lesotho & Ministry of Finance

V. PUBLIC DEBT

The stock of debt slightly increased by 1.0 per cent to reach 43.8 per cent of GDP, as opposed to a decline of 0.3 per cent marking 43.4 per cent of GDP in the previous month. The increase in debt stock was observed under external debt at 1.8 per cent while domestic debt declined by 1.5 per cent.

The increase in external debt was on account of new debt coupled with the exchange rate effect. The decline in domestic debt was attributed to a fall in both long term and short term debt by banks, including the IMF extended credit facility loan. As a consequence, the share of external debt went up to 75.7 per cent from 75.1 per cent while domestic debt went down to 24.9 per cent from 25.5 per cent of total outstanding debt.



Appendix: Key Economic Indicators

		18-Dec	19-Jan	19-Feb	19-Mar	19-Apr	19-May	
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)	4.9	5.0	5.0	5.2	5.6	5.9	
	Core Inflation	3.7	3.4	4.3	4.5	4.6	4.6	
Exchange Rates (Monthly End Period)	EUR	16.18	15.8	15.68	16.26	16.05	16.40	
	GBP	18.03	17.84	17.97	18.96	16.63	18.50	
	USD	14.21	13.84	13.82	14.39	14.31	14.71	
Money Supply (Millions of Maloti)	M2	13,400.60	12,837.73	13,305.55	13,135.38	13,332.46	13,189.50	
	M1	6,158.64	5,992.88	6,245.79	6,087.97	5,890.57	5,596.30	
	Quasi Money	7,241.96	6,844.85	7,059.76	7,047.41	7,441.90	7,593.20	
Interest Rates	CBL Rate	6.75	6.75	6.75	6.75	6.75	6.75	
	91 day Treasury bill rate	6.69	6.7	6.6	6.6	6.56	6.49	
	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)		6,793.04	6,844.78	6,842.06	6,822.54	6,968.55	7,064.33	
	Households	4806.15	4789.86	4,828.40	4789.86	4,828.40	4,847.26	
	Business Enterprises	2,034.60	2032.68	2,140.15	2032.68	2,140.15	2,217.07	
Bank Deposit Liabilities (Millions of Maloti)		12,387.65	12,003.84	12,390.29	12,153.23	12,411.43	12,247.42	
Credit to Deposit Ratio (%)		55.23	57.12	55.21	56.25	56.08	57.77	
Fiscal Operations		990.54	2,088.1	531.31	1,419.19	2,280.18	1,419.19	2,280.18
		898.00	1527.58	1,602.80	1,146.45	737.27	1,146.45	737.27
		176.64	309.31	402.96	145.71	28.61	145.71	28.61
Total Public Debt (Millions of Maloti)		15,500.20	14,798.82	15,156.51	15,534.97	15,674.31	16,030.84	
	External Debt	12,328.61	11,050.59	11,371.83	11,651.54	11,841.46	12,131.15	
	Concessional	10,041.21	8,771.11	8,801.35	9,121.81	9,314.38	9,573.41	
	Non-concessional	2,287.40	2,279.47	2,570.48	2,529.73	2,527.08	2,557.74	
	Domestic Debt	3,171.60	3,748.23	3,784.68	3,883.43	3,832.85	3,899.69	
	Memo Item: Arrears				223.22	0.85	5.98	

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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