



Monthly ECONOMIC REVIEW

December 2018

CENTRAL BANK OF LESOTHO

I. ECONOMIC ACTIVITY

Economic activity contracted in December 2018, following positive growth observed in November. The major driver behind the observed negative growth was poor performance from the manufacturing and production side of the economy, while the demand side maintained a positive growth, though at a slower pace.

Overall Performance Index

Economic performance as measured by the monthly indicator of economic activity (MIEA) fell marginally, by 0.2 per cent, in contrast to a 0.4 per cent growth registered in November. Eight of the fourteen component variables that make up the MIEA contributed positively to the overall index, while the six variables contributed negatively.



Domestic Demand Category

The domestic demand pressures were muted in the month of December as compared to the previous month. This category was estimated to have grown by 0.6 per cent. Similar to the previous month, the growth mainly represented major positive contributions from VAT collection, 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. However, compensation of employees from the government side registered negative contributions, indicating that the government continued to be under duress.

Manufacturing & Production Category

The manufacturing and production index declined further in the review month. The index declined by 2.4 per cent in December 2018, following a 1.0 per cent decrease observed in the previous month. This was attributable to significant negative contributions from water and electricity consumption, which are used mainly for industrial purposes. However, the exports of clothing and textiles also contributed to the observed decline. This is normal this time of the year as the sector closes early for end of the year festivities.

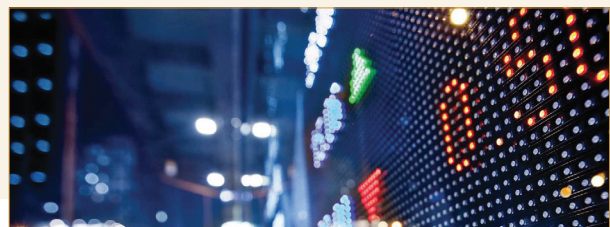


Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2018							
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
CIEA	112.0	112.9	113.0	113.3	113.5	113.7	113.6	113.0
year-on year changes	-0.2	0.8	0.5	0.7	0.7	0.7	0.4	-0.2
Domestic Demand Category	111.1	112.4	113.0	112.8	112.9	113.5	113.9	113.3
year on year changes	-2.4	-0.4	-0.1	0.0	0.2	0.9	0.9	0.6
Manufacturing & Production Category	104.3	103.5	103.4	103.3	103.9	104.2	103.8	103.4
year on year changes	0.5	1.1	0.8	1.2	0.8	-0.1	-1.0	-2.4

Source: CBL Calculations

II. INFLATION AND PRICES

Headline Inflation

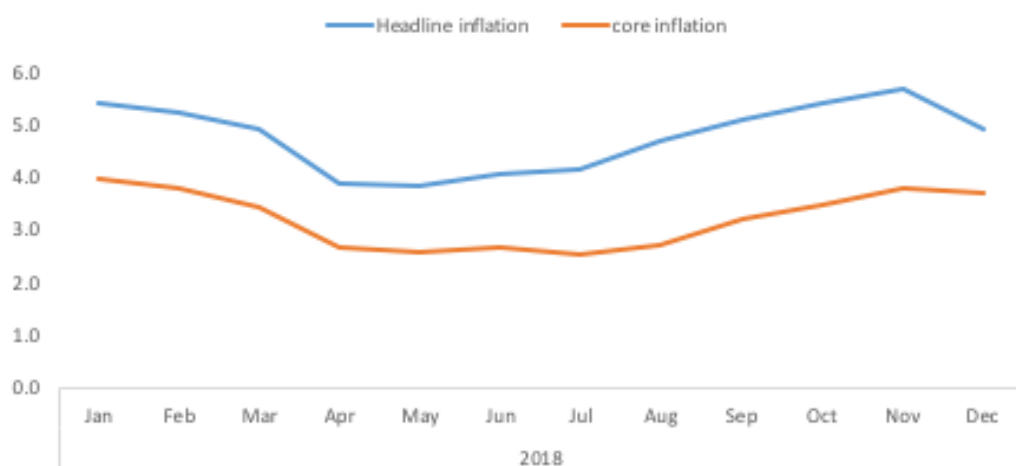
The headline inflation decelerated from 5.6 per cent in November 2018 to 4.9 per cent in December 2018. The major contributors to the disinflation in headline inflation were; "Housing, Water, Electricity, Gas and Other Fuels", "Transport" and "Food & Non-alcoholic beverages" divisions. Nonetheless, "Clothing & footwear", "Furnishings, Household Equipment and Routine Maintenance of the House", "Recreation and Culture" moderated the deceleration in headline inflation.

Core Inflation

Core inflation, which excludes the CPI items with extreme price changes, also decelerated from 3.8 per cent in November 2018 to 3.7 per cent in December 2018.

The main drivers behind the deceleration were the declining international petroleum prices, as well as, the firmer rand/ US dollar exchange rate. Food prices also declined in the month under review relative to the month of November 2018.

Figure 2 Headline and Core Inflation (year-on-year changes)

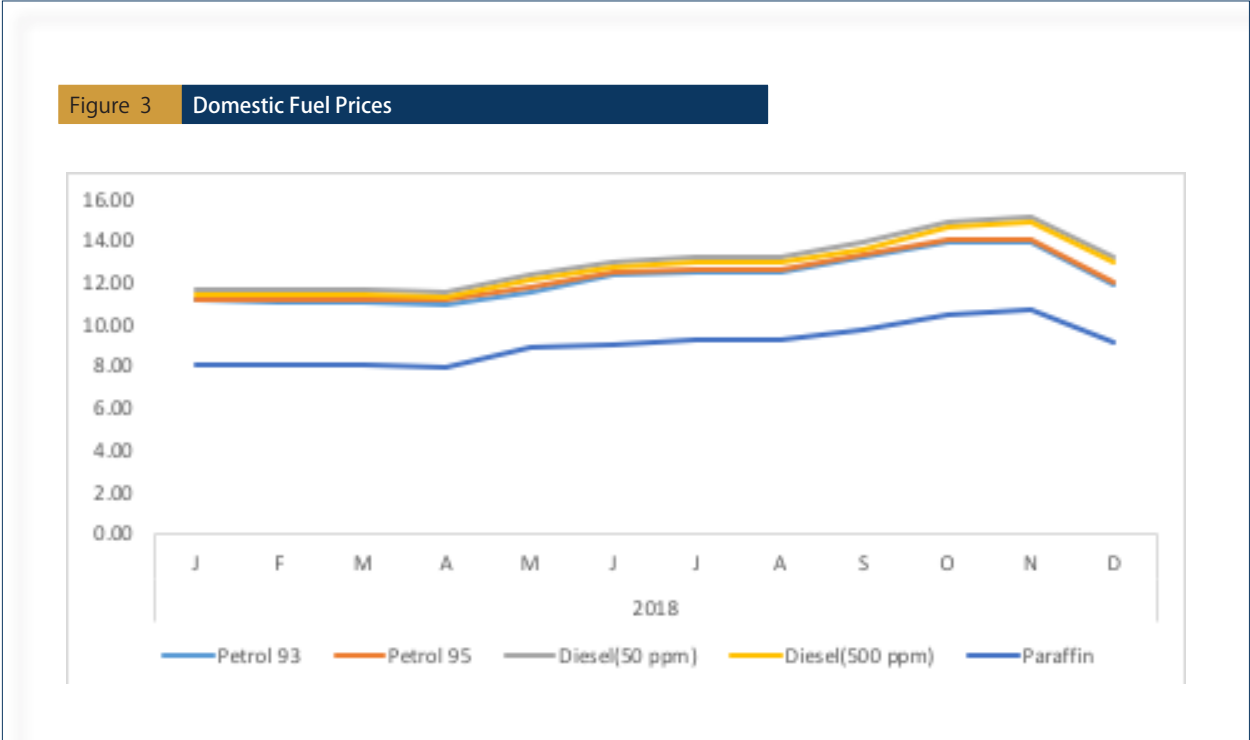


Source: Lesotho Bureau of Statistics & CBL Computations

Domestic Fuel Prices

All domestic fuel prices decreased in December 2018 from their November levels. Both grades of petrol (petrol 95 and petrol 93) declined by M2.00 per litre each.

Both grades of diesel (diesel 50 and diesel 500) decreased by M1.90 per litre each from November 2018 to December 2018. The price of illuminating paraffin also declined by M1.55 per litre in December 2018 from its November 2018 level.



III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

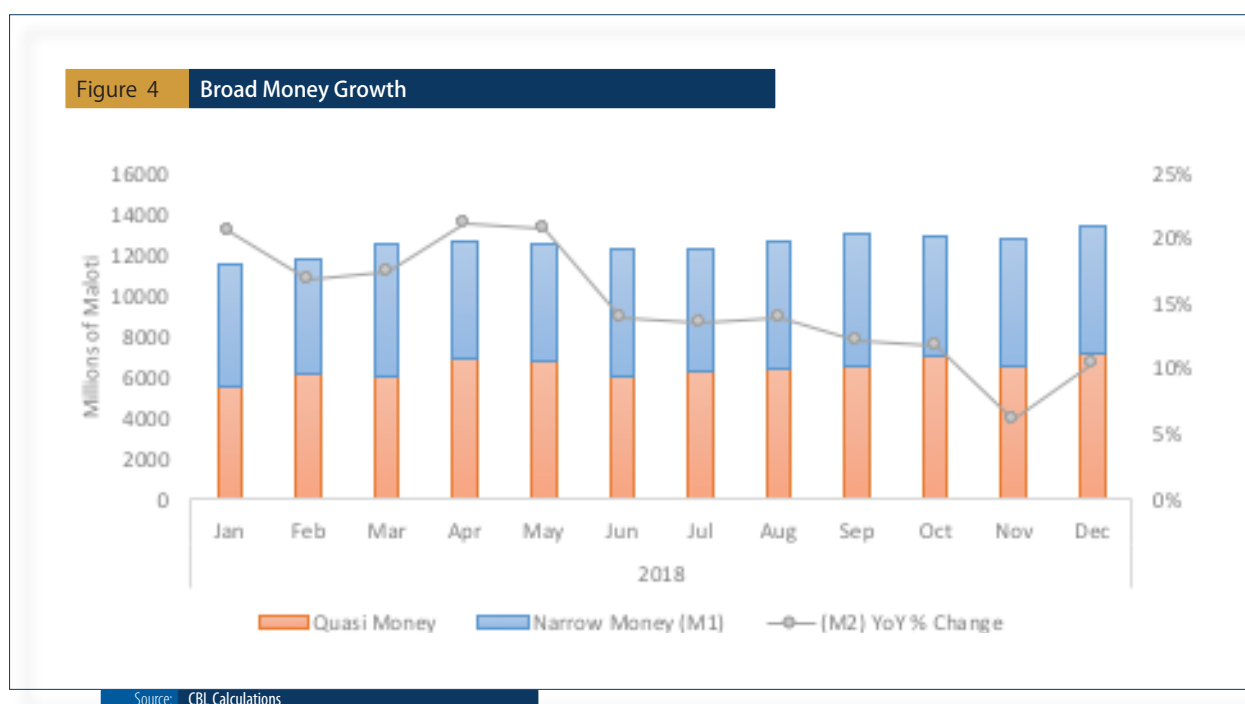
Broad Money (M2)

The broadly defined money supply grew by 4.31 per cent in December 2018. The growth mainly came from improvement of 4.72 per cent in net foreign assets and a muted increase in net domestic assets.

Components of Money Supply

Narrow money (M1) fell by 1.88 per cent during the review period, following a decline in both currency in circulation and demand deposits.

Conversely, other deposits increased significantly by 10.26 per cent because of improvement in call deposits held by business enterprises.



Determinants of Money Supply

Net foreign assets improved by 4.72 per cent in December. This was at the back of an increase in foreign assets held by both the central bank and other depository corporations. Net domestic assets remained stable during the month under review.

Credit

Private Sector Credit

Credit to the private sector improved during the month of December. This was due to a strong growth in household credit, while credit to the business sector declined slightly.

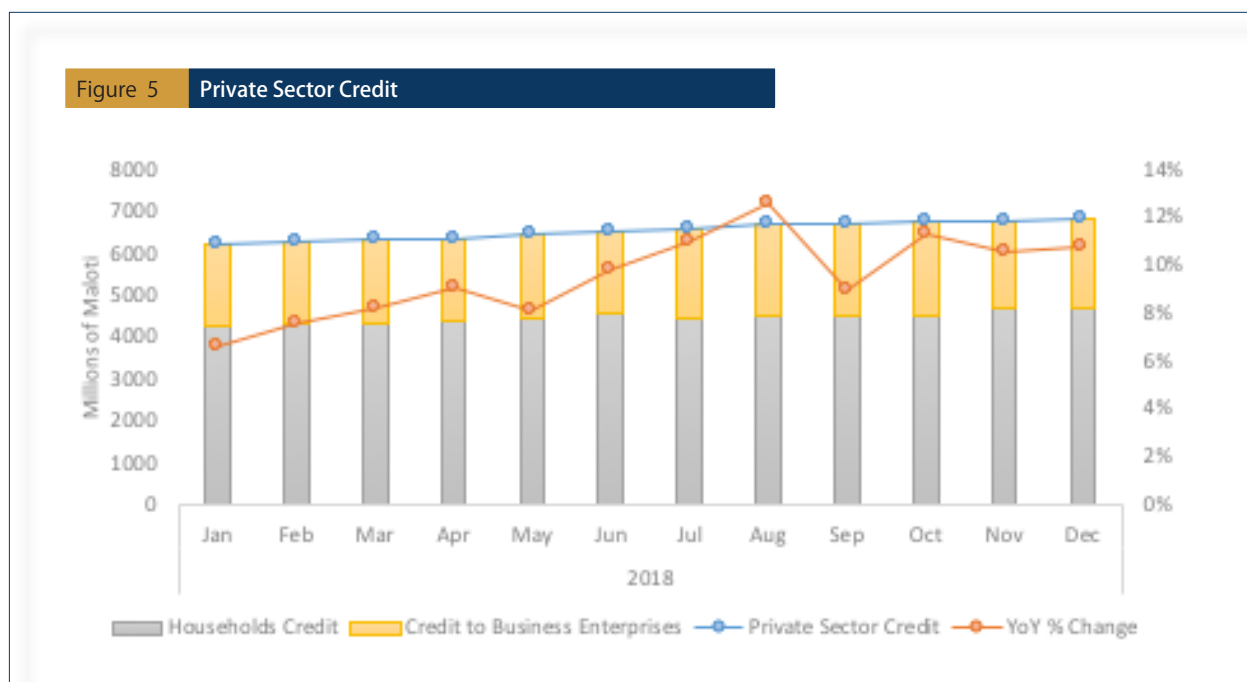
Credit to Households

Credit extended to households increased by 3.28 per cent in December. The major contribution to the increase came from a 3.83 per cent growth in personal loans, as well as, 1.66 per cent improvement in mortgages.

Credit to Business Enterprises

Credit extended to business enterprises decreased marginally by 0.31 per cent following a 5.73 per cent decline in November. Credit extended to business enterprises continued to fall in the current review period, as it declined

marginally by 0.31 per cent following a 5.73 per cent decline in November. This was mainly at the back of a decline in credit extend to manufacturing and construction sectors.



Loans

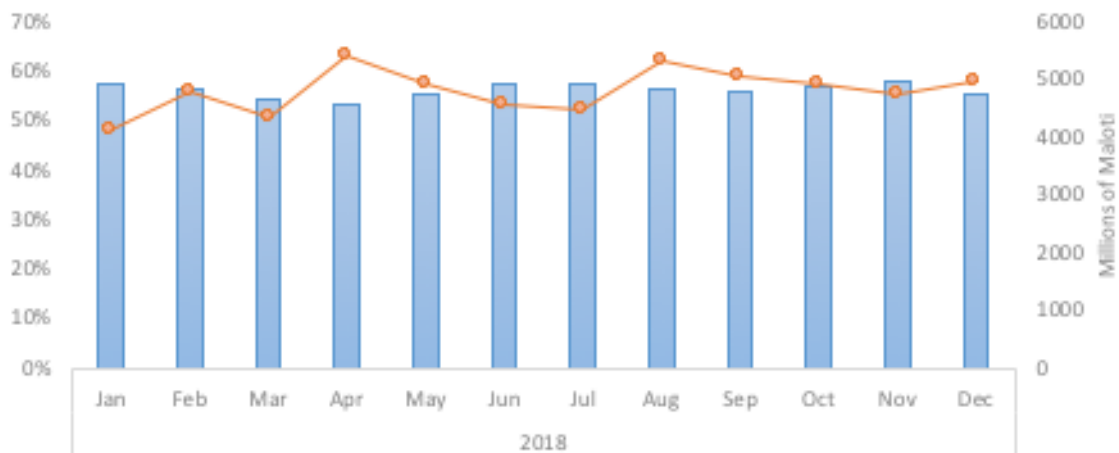
Non-Performing Loans

The total non-performing loans as a share of total loans extended fell from 3.99 per cent to 3.69 per cent in December. The main contributor to the decline was the improved performance in loans granted to the business sector.

Sources of Funds

The credit to deposits ratio decreased from 57.9 per cent to 55.2 per cent between November and December. This was due to a large growth in deposits, while credit increased moderately.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The Central Bank policy rate remained constant at 6.75 per cent in December. In the similar manner, all other short-term interest rates remained unchanged throughout the period under review. For example, the 91-day T-bill rate and the prime lending rate remained flat at 6.69 per cent and 11.19 per cent respectively.

Foreign Exchange Rates

The loti (pegged one to one with the rand) displayed mixed performance with major world currencies in December 2018. It depreciated against the dollar and euro at the backdrop of subsiding uncertainties pertaining to trade and politics in the US and the Euro Area, respectively. The US has reached a trade truce with China, which lifted the dollar, although the recent partial government shutdown moderated the gains. The uncertainty on the Brexit deal negotiations has led to the depreciation of pound, hence to the advantage of loti. Conversely, the value of loti was determined by growing risk aversion towards the assets in the emerging markets.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

Government spending declined significantly by 40.6 per cent in December 2018, in contrast to 10.5 per cent increase observed in November. This was on account of a fall in expenses and non-financial assets. The major contribution came from the huge decrease of 45.8 per cent on expenses, which was mainly driven by all components except 'interest payments' that considerably expanded. The 'other expenses', 'social benefits', grants, and 'use of goods and services' fell by more than 50.0 per cent as a result of some items which alternate their spending. Under 'use of goods and services', all subcategories declined including 'travel and transport' category. In the same way, the nonfinancial assets fell marginally by 1.5 per cent. This was explained by decline in spending on 'nonresidential buildings' and 'machinery and equipment'.

Total Revenue

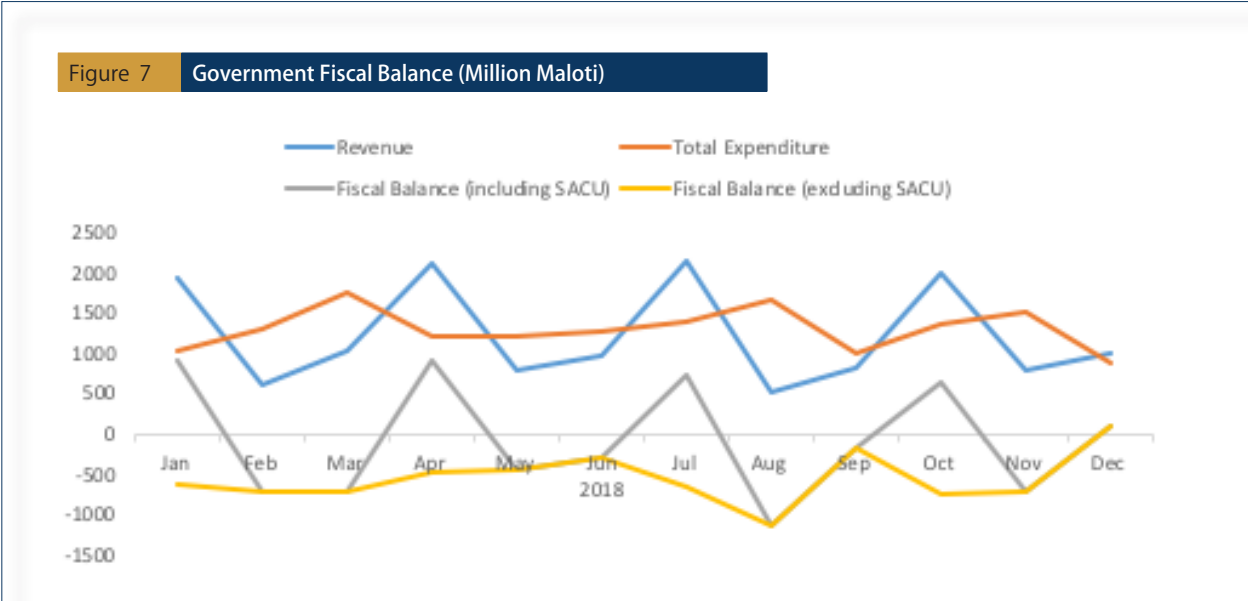
Total Government revenue increased by 25.4 per cent during the month under review compared with the revised fall of 60.7 per cent, recorded in November 2018. This surge was mainly attributable to good performance on 'income tax', 'excise tax' and 'capital grants from foreign donors'. The

expansion on 'income tax' emanated from 'company tax' and 'withholding tax', while 'oil levy' and 'road maintenance levy' contributed to the rise in 'excise tax'. Other components of revenue that contributed to the expansion in total revenue included mining royalties and water royalties'.

Fiscal Balance

The primary balance registered a surplus equivalent to 1.2 per cent of GDP compared with the revised deficit of 7.2 per cent of GDP in November. Moreover, the Government 'gross operating balance' registered a surplus of 2.7 per cent of GDP during the month under review relative to the revised deficit of 5.5 per cent of GDP in the previous month. Thus, the positive fiscal balance was mainly driven by significant reduction in spending coupled with high performance on revenue.

Nevertheless, total financing (or net financial assets) of the fiscal balance registered an increase of 2.2 per cent of GDP. This rise in net financial assets was driven by a sharp fall in liabilities (on net basis), which emanated from a significant fall in 'other accounts payable' and issuance of Treasury bonds during the review period.



Source: Central Bank of Lesotho & Ministry of Finance

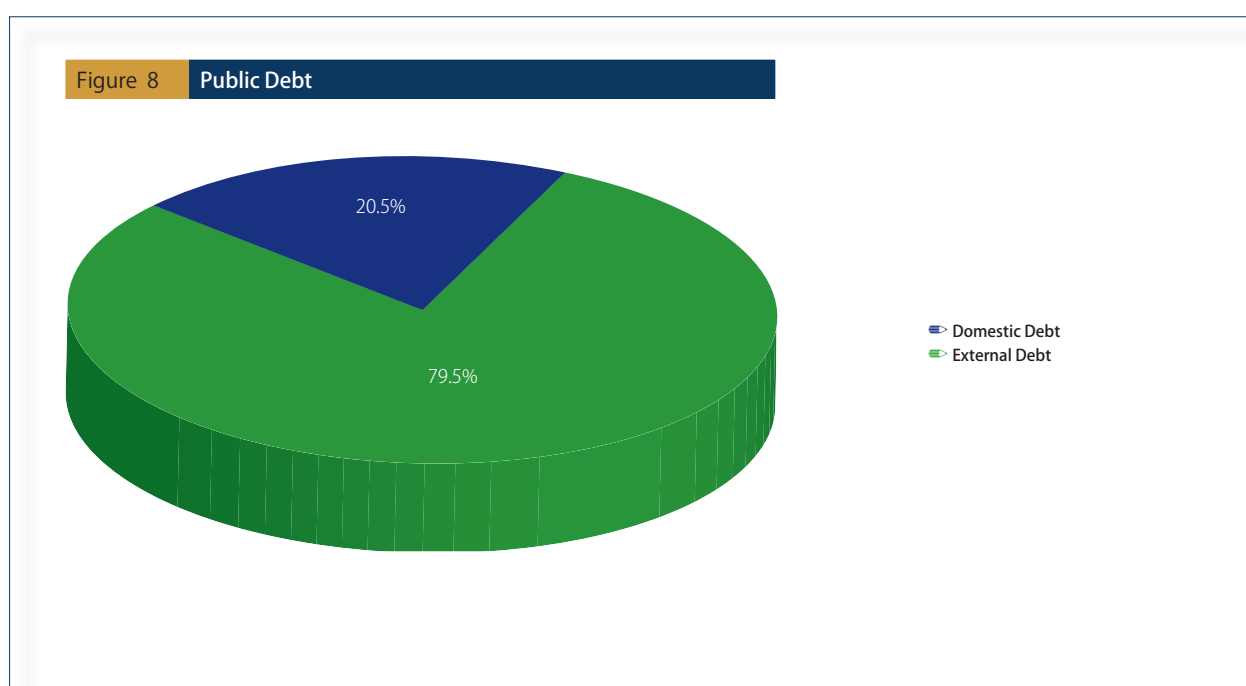
V. PUBLIC DEBT

The public debt stock increased to 39.3 per cent of GDP during the month under review compared with 36.7 per cent of GDP in November 2018. It grew by 7.1 per cent mainly due to the increase in both external and domestic component. The external debt continued to take the largest share of 79.5 per cent of the total outstanding stock of public debt.

The upsurge in external debt was mostly

pronounced in concessional loans, which rose by 10.3 per cent, as a result of currency depreciation, plus new disbursements.

The domestic debt also increased by 6.9 per cent owing to Treasury bonds issued to finance fiscal operations. The securities holding of nonbank public grew by 16.4 per cent while the banks holding only increased by 2.7 per cent.



Appendix: Key Economic Indicators

	Jul 18	Aug 18	Sep 18	Oct 18	Nov 18	Dec 18	
Economic Activity MIEA (% change, Y/Y)	0.5	0.7	0.7	0.7	0.4	-0.2	
Consumer price Index (% change)	<i>Headline Inflation (year-on-year)</i>	4.4	5.0	5.3	5.0	5.7	4.9
	<i>Core Inflation</i>	2.7	3.1	3.5	3.1	3.8	3.7
Exchange Rates (Monthly End Period)	<i>EUR</i>	16.27	17.21	16.64	17.21	16.01	16.18
	<i>GBP</i>	18.13	19.27	18.86	19.27	18.18	18.03
	<i>USD</i>	14.09	14.77	14.49	14.77	14.09	14.21
Interest Rates	<i>CBL Rate</i>	6.50	6.50	6.50	6.50	6.75	6.75
	<i>91 day Treasury bill rate</i>	6.54	6.56	6.59	6.56	6.69	6.69
	<i>Prime lending rate</i>	11.19	11.19	11.19	11.19	11.25	11.25
	<i>1 year deposit rate</i>	4.22	4.19	4.19	4.19	4.19	4.19
Private sector Credit (Millions of Maloti)		6,583.37	6,708.85	6,699.39	6,747.35	6,774.95	6793.04
	<i>Households</i>	4,525.79	4,498.98	4,502.74	4,498.98	4,658.90	4683.52
	<i>Business Enterprises</i>	2,183.06	2,200.41	2,244.62	2,200.41	2,116.05	2109.52
Bank Deposit Liabilities (Millions of Maloti)	11,383.06	11,814.23	12,126.08	11,912.00	11,797.76	12387.65	
Credit to Deposit Ratio (%)	57.60	56.32	55.67	57.04	57.86	55.23	
Fiscal Operations	Total Revenue	2,150.34	527.76	821.92	2,008.44	790.01	990.54
	Total Expenditure	1,401.78	1,667.29	1,002.62	1,367.37	1,511.11	898.00
	O/W Capital	231.09	468.93	148.81	149.02	179.39	176.64
Total Public Debt (Millions of Maloti)		13,633.44	14,766.13	14,711.37	14,513.20	14,472.52	15,500.20
	<i>External Debt</i>	10,767.44	11,809.70	11,667.13	11,546.46	11,504.72	12,328.61
	<i>Concessional</i>	8,488.60	9,443.29	9,332.50	9,246.48	9,205.53	10,041.21
	<i>Non-concessional</i>	2,278.84	2,366.41	2,334.63	2,299.98	2,296.19	2,287.40
	<i>Domestic Debt</i>	2,866.01	2,956.43	3,044.24	2,966.74	2,967.80	3,171.60

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.

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