



Monthly ECONOMIC REVIEW

November 2018

CENTRAL BANK OF LESOTHO

I. ECONOMIC ACTIVITY

Economic activity was muted in the month of November 2018 relative to the previous month. The major blow from the observed growth emanated from the manufacturing and production side of the economy, while the demand side maintained a stable growth.

Overall Performance Index

Economic performance as measured by the monthly indicator of economic activity (MIEA), increased by 0.3 per cent in November 2018, compared with a 0.7 per cent increase realised in October 2018. Ten of the fourteen components that make up the MIEA contributed positively, though at a slower rate, while the remaining four components contributed negatively to the overall index.



Domestic Demand Category

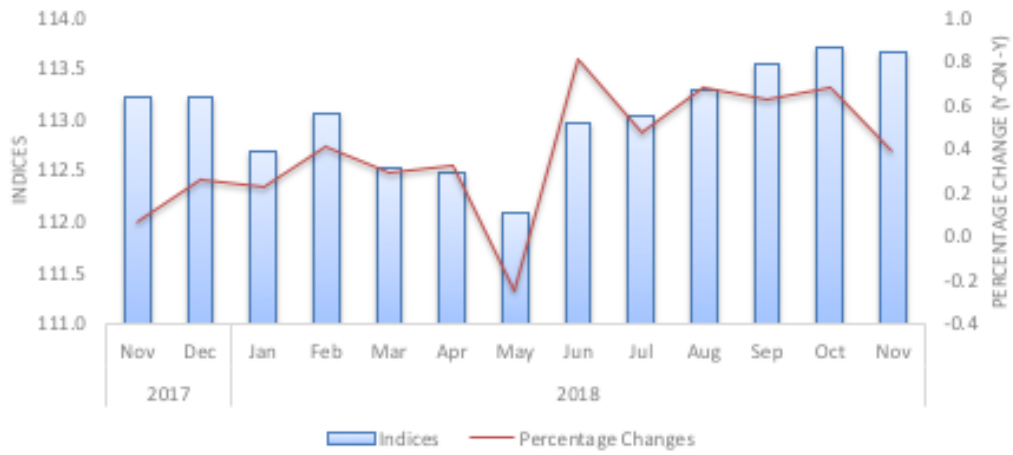
The domestic demand remained unchanged in the month of November as compared to the previous month. This category was estimated to have grown by 0.8 per cent. The growth mainly represented major positive contributions from VAT and PAYE collections, use of goods and services, and imports of goods and services. The observed trend signalled strong demand for goods and services in the economy. However, compensation of employees from the government side contributed negatively indicating the importance role of the private sector in the economy.

Manufacturing & Production Category

The manufacturing and production index showed a significant dip in the review month. The index declined by 1.0 per cent in November 2018 as opposed to a slight decline of 0.1 per cent observed in the previous month. The decline was attributable to negative contributions from the industrial water and electricity consumption components, and the exports of textiles destined to the US market. This shows that the domestic production remained weak during the month.



Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2018							
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
CIEA	112.5	112.1	113.0	113.0	113.3	113.6	113.7	113.7
year-on year changes	0.3	-0.2	0.8	0.5	0.7	0.6	0.7	0.4
Domestic Demand Category	110.7	111.1	112.4	113.0	112.8	112.8	113.5	113.9
year on year changes	-2.5	-2.5	-0.5	-0.2	-0.1	0.1	0.8	0.8
Manufacturing & Production Category	104.3	103.5	103.4	103.3	103.9	104.2	103.7	103.1
year on year changes	2.0	0.6	1.2	0.8	1.2	0.8	-0.1	-0.1

Source: CBL Calculations

II. INFLATION AND PRICES

Headline Inflation

The headline inflation accelerated from 5.3 per cent in October 2018 to 5.6 per cent in November 2018. The major contributors to the acceleration in headline inflation were; “Food & Non-alcoholic beverages” and “Housing, Water, Electricity, Gas and Other Fuels” divisions which contributed 1.9 percentage points and 1.8 percentage points respectively. The third largest contributor was the “Transport” division with 0.5 percentage points. “Clothing & Footwear” and “Recreation & culture”

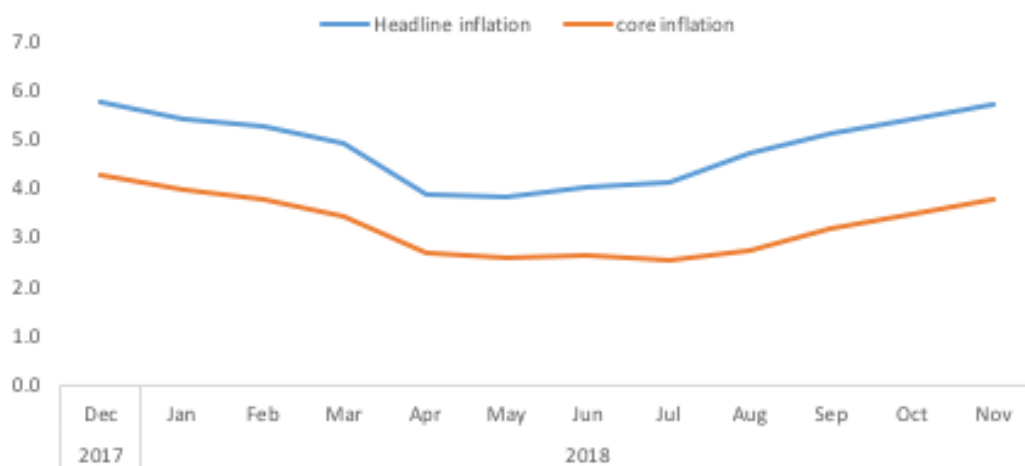
contributed 0.3 percentage points each to headline inflation.

Core Inflation

Core inflation, which excludes the CPI items with extreme price changes, also accelerated from 3.5 per cent in October 2018 to 3.8 per cent in November 2018.

The main drivers behind the acceleration were the increase in the food prices due to weaker exchange rate.

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

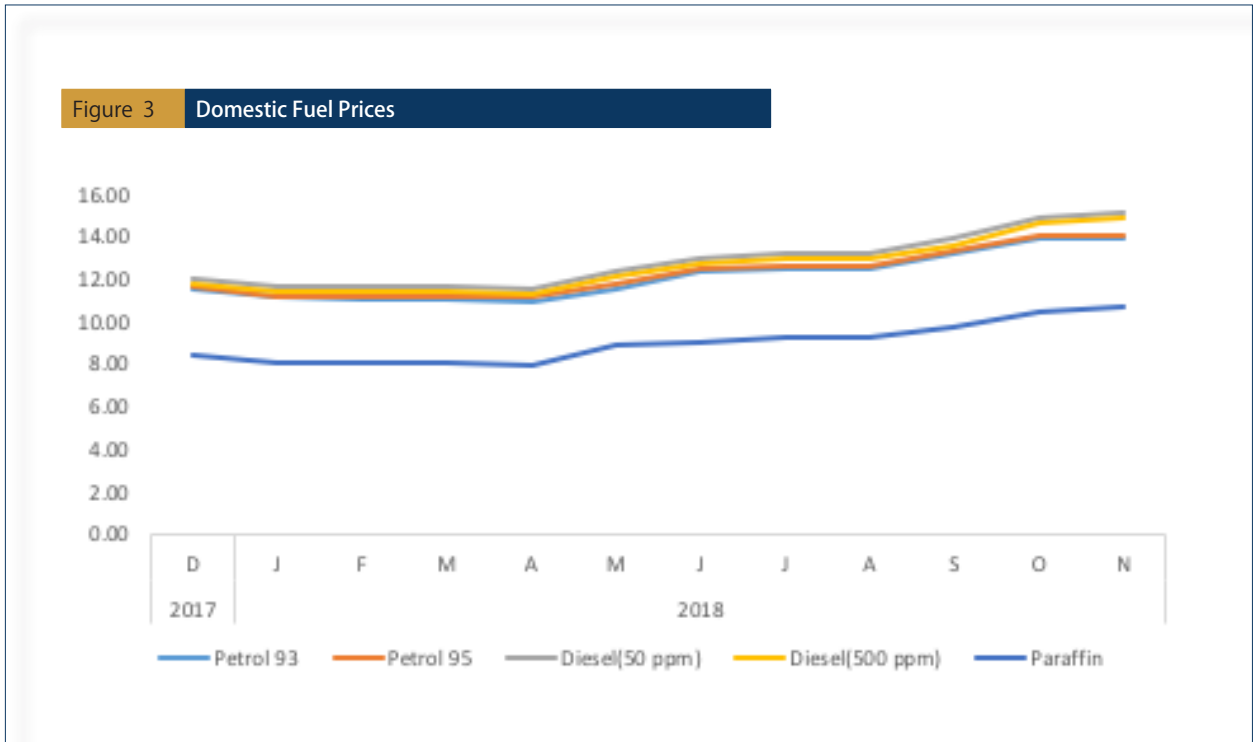


Source: Lesotho Bureau of Statistics & CBL Computations

Domestic Fuel Prices

While some components of fuel prices increased in November 2018 from the October 2018 levels, the price of petrol remained unchanged during the month of November.

Both grades of diesel (diesel50 and diesel500) increased by M0.30 per litre and M0.25 per litre for Diesel (50 ppm) and Diesel (500 ppm) from October 2018 to November 2018, respectively. The price of illuminating paraffin increased by M0.15 per litre in November 2018 from its October 2018 level.



Source: Lesotho Petroleum Fund

III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

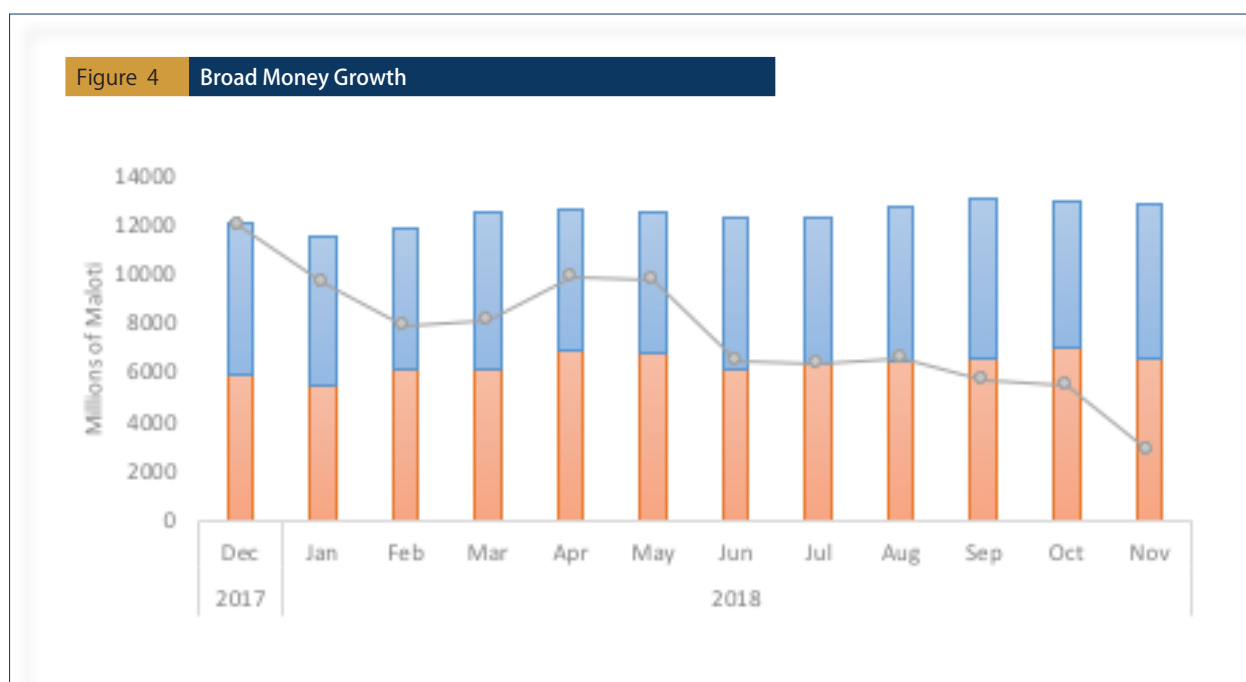
Broad Money (M2)

Money supply declined slightly by 0.68 per cent between October and November 2018. This was due to a fall in net foreign assets, while net domestic assets moderated the decline.

Components of Money Supply

Narrow money (M1) grew by 6.76 per cent during the month under review following an increase in demand deposits.

On the contrary, other deposits decreased by 6.91 per cent as deposits held by business enterprises fell.



Determinants of Money Supply

Net domestic assets increased by 8.7 per cent in November 2018. This was at the back of a decrease in central government deposits with the central bank.

During the period under review, overall banking system NFA recorded a slight decrease of 1.86 per cent. This was mainly on account of a fall in both CBL and banking system NFA.

Credit

Private Sector Credit

Similar to the previous month, credit to the private sector registered a mild growth of 0.48 per cent, mainly due to a moderate increase in credit extended to households.

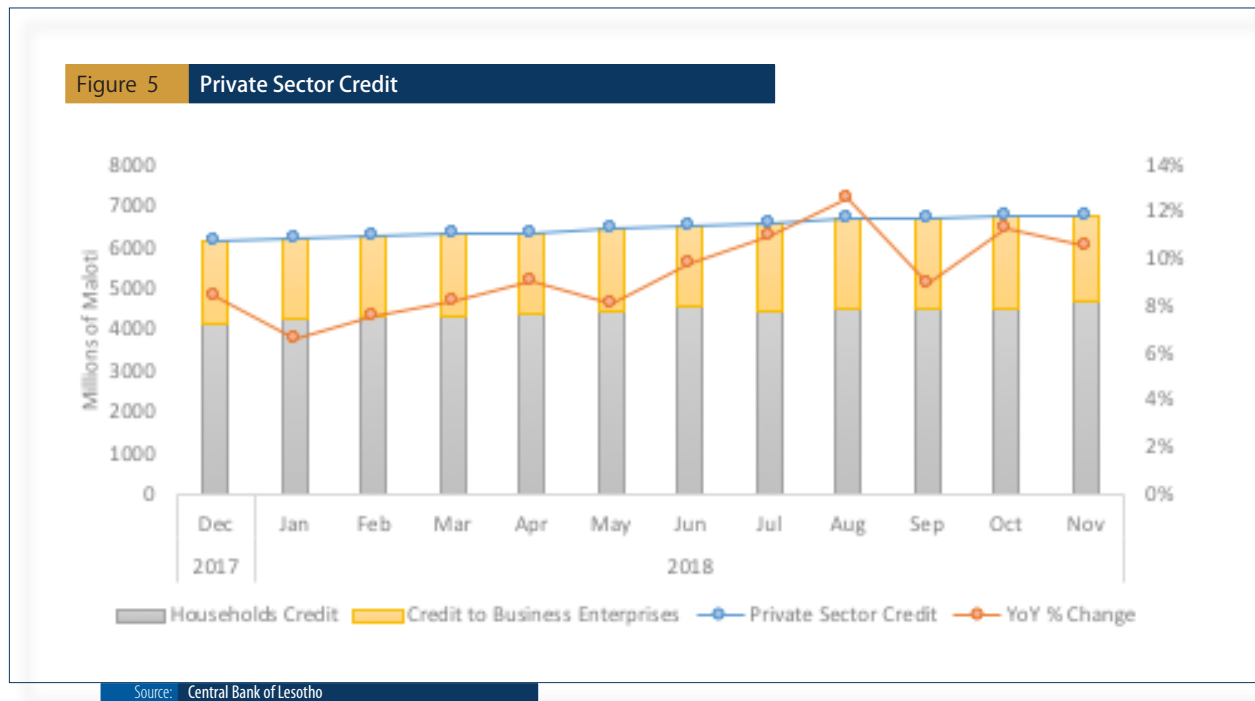
Credit to Households

Credit to household increased by 3.63 per cent during the month under review. The increase mainly emanated from personal loans, which increased by 0.69 per cent. Moreover, mortgages registered a moderate growth.

Credit to Business Enterprises

Credit extended to business enterprises decreased by 5.73 per cent during the review period. This was

mainly at the back of a decline in credit extended to mining.



Loans

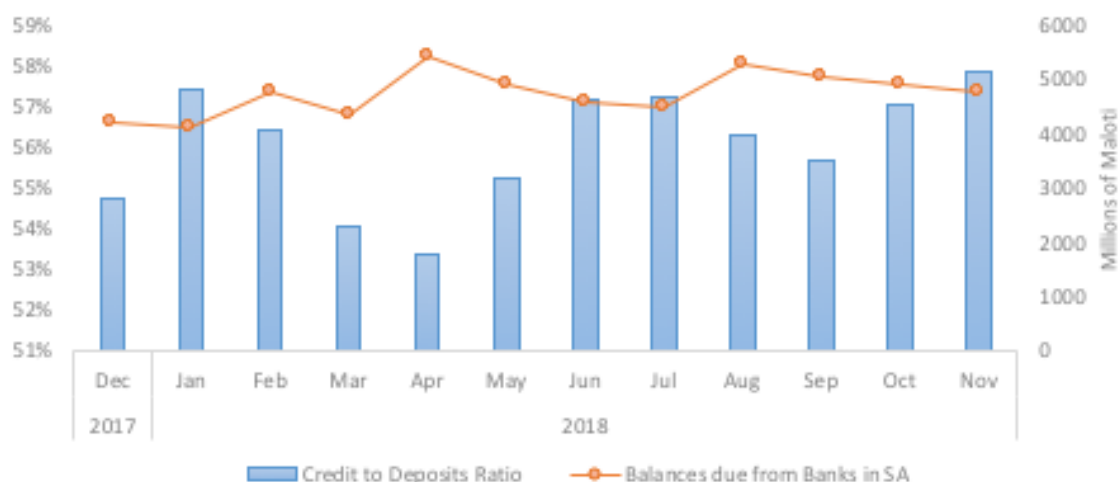
Non-Performing Loans

The total non-performing loans as a share of total loans extended declined marginally from 4.1 per cent to 3.9 per cent in during the month under review. The overall decline was driven by a fall in households' non-performing loans, while business sector moderated the decline.

Sources of Funds

The ratio of credit to deposits increased from 57.0 per cent to 57.9 per cent in between October and November. This was due to a moderate growth in credit accompanied by a decline in total deposits.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The Central Bank of Lesotho (CBL) raised its policy rate from 6.50 per cent to 6.75 per cent in November. In the similar manner, the 91-day T-bill rate increased from 6.59 per cent to 6.69 per cent between October and November. Moreover, the prime lending rate increased marginally from 11.19 to 11.25, while the 1-year deposit rate remained flat at 4.19 per cent during the period under review.

Foreign Exchange Rates

The loti appreciated against the dollar, the pound and the euro between October and November 2018. The appreciation against the dollar was largely due to high demands for risky assets, due to dovish Fed comments regarding policy rate (Fed funds rate). This also benefited from the ongoing negotiations on the Brexit plan, which weighted on the value of pound as well as that of the euro in addition to the unsustainable budget deficit challenges facing Italy.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

Government spending increased by 10.5 per cent in November 2018, following 36.4 per cent growth observed in October 2018. The main drivers were spending on expenses and nonfinancial assets. The rise in expenses, on the one hand, was as a result of 'Government's pension contribution' to the Pension Fund, 'tertiary education sponsorship', 'Old Age Pension', and 'legal compensation', amongst others. The nonfinancial assets, on the other hand, increased on account of high construction and maintenance of fixed assets. The period also marked the implementation stage of Government projects.

Total Revenue

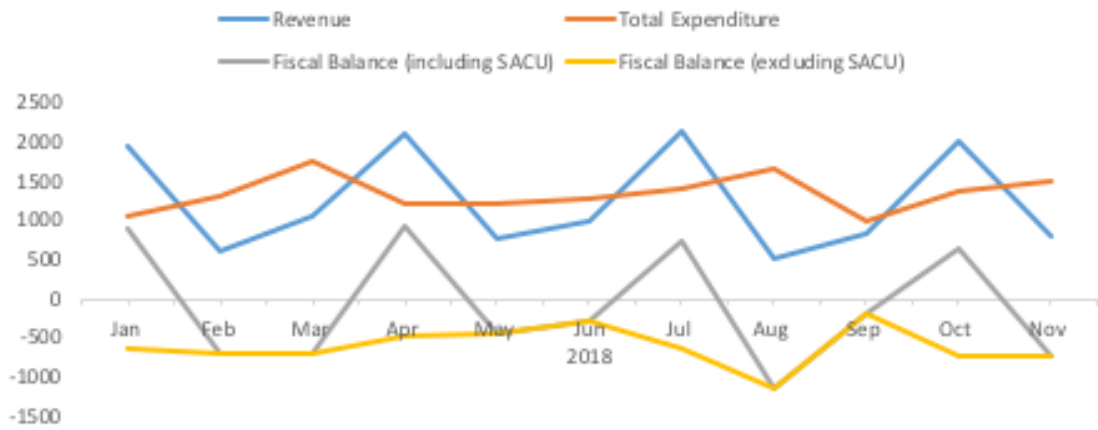
Total Government revenue decreased by 59.5 per cent during the month under review, in contrast to a 98.2 per cent surge observed in the previous month. This sharp decline was mainly attributable to the absence of 'SACU receipts' during this month.

However, the other components of revenue, in particular, income tax, VAT and Oil levy increased by 38.3 per cent, 43.7 per cent, and 23.3 per cent, respectively. The good performance under VAT reflected high consumption spending at the year-end.

Fiscal Balance

The Government 'gross operating balance' recorded a monthly deficit of 5.2 per cent of GDP. A reduction of 'nonfinancial assets' from 'gross operating balance' produced a deficit of 7.07 per cent of GDP, referred to a net borrowing. The primary deficit was 6.9 per cent of GDP. The marginal difference between the primary deficit and the net borrowing was due to the insignificant increase in interest payments on the external public debt. Other accounts payable were over paid by M14.73 million. These were mostly financed through drawing down government deposits within the banking system .

Figure 7 Government Fiscal Balance (Million Maloti)



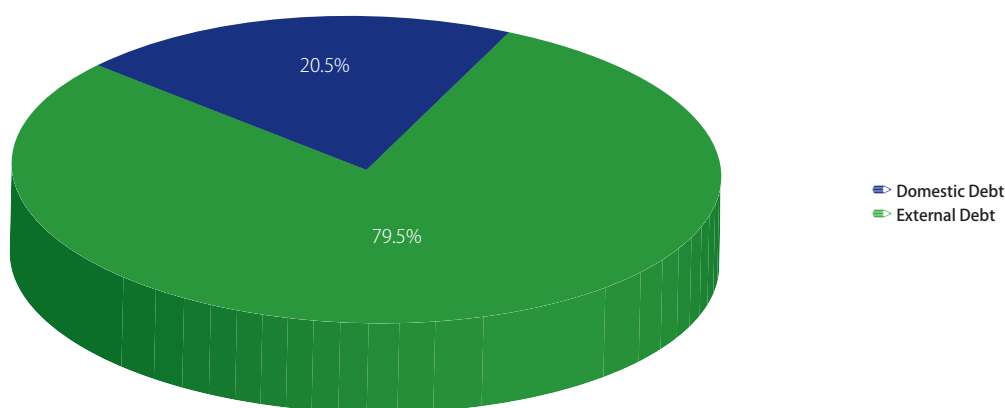
Source: Central Bank of Lesotho & Ministry of Finance

V. PUBLIC DEBT

The public debt stock stood at 36.7 per cent of GDP in November 2018, which was slightly below 36.8 per cent of GDP recorded in October 2018. It declined marginally by 0.3 per cent, which was due to the fall in external debt. The fall in external debt was pronounced in concessional loans and suppliers'

credit, largely due to currency appreciation. The domestic debt increased slightly by 0.04 per cent as a result of short term Treasury Bills held by non-bank creditors. The external debt continued to take the largest share of 79.5 per cent of the total outstanding stock of public debt.

Figure 8 Public Debt



Source: Central Bank of Lesotho & Ministry of Finance

Appendix: Key Economic Indicators

	Jun 18	Jul 18	Aug 18	Sep 18	Oct 18	Nov 18	
Economic Activity MIEA (% change, Y/Y)	0.8	0.5	0.7	0.6	0.7	0.3	
Consumer price Index (% change)	<i>Headline Inflation (year-on-year)</i>	4.1	4.4	5.0	5.3	5.0	5.7
	<i>Core Inflation</i>	2.5	2.7	3.1	3.5	3.1	3.8
Exchange Rates (Monthly End Period)	<i>EUR</i>	15.66	16.27	17.21	16.64	17.21	16.01
	<i>GBP</i>	17.65	18.13	19.27	18.86	19.27	18.18
	<i>USD</i>	13.40	14.09	14.77	14.49	14.77	14.09
Interest Rates	<i>CBL Rate</i>	6.50	6.50	6.50	6.50	6.50	6.75
	<i>91 day Treasury bill rate</i>	6.59	6.54	6.56	6.59	6.56	6.69
	<i>Prime lending rate</i>	11.19	11.19	11.19	11.19	11.19	11.25
	<i>1 year deposit rate</i>	4.19	4.22	4.19	4.19	4.19	4.19
Private sector Credit (Millions of Maloti)		6,507.85	6,583.37	6,708.85	6,699.39	6,747.35	6,774.95
	<i>Households</i>	4,453.21	4,525.79	4,498.98	4,502.74	4,498.98	4,658.90
	<i>Business Enterprises</i>	2,130.17	2,183.06	2,200.41	2,244.62	2,200.41	2,116.05
Bank Deposit Liabilities (Millions of Maloti)	11,284.82	11,383.06	11,814.23	12,126.08	11,912.00	11,797.76	
Credit to Deposit Ratio (%)	57.60	57.60	56.32	55.67	57.04	57.86	
Fiscal Operations	Total Revenue	982.31	2,150.34	527.76	1,013.39	2,008.44	813.71
	Total Expenditure	1,279.19	1,401.78	1,667.29	1,002.62	1,367.37	1,511.11
	O/W Capital	104.76	231.09	468.93	148.81	149.02	179.39
Total Public Debt (Millions of Maloti)		14,161.67	13,633.44	14,766.13	14,711.37	14,513.20	14,472.52
	<i>External Debt</i>	11,244.50	10,767.44	11,809.70	11,667.13	11,546.46	11,504.72
	<i>Concessional</i>	8,909.15	8,488.60	9,443.29	9,332.50	9,246.48	9,205.53
	<i>Non-concessional</i>	2,335.35	2,278.84	2,366.41	2,334.63	2,299.98	2,296.19
	<i>Domestic Debt</i>	2,917.17	2,866.01	2,956.43	3,044.24	2,966.74	2,967.80

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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