



Monthly ECONOMIC REVIEW

July 2020

CENTRAL BANK OF LESOTHO

I. ECONOMIC ACTIVITY

Economic performance is expected to have recovered in July 2020 with the easing of restrictions and resumption of some activities following the nationwide lockdowns of the previous months. Both domestic demand and manufacturing exhibited positive contributions to economic activity as the economy recorded growth for the first time in 2020.

Overall Performance Index

In July 2020, economic activity estimated by the monthly indicator of economic activity (MIEA), recovered significantly as all sectors of the economy were operating close to normal. The index recorded a 10.6 per cent increase after being on the decline for the rest of the first half of the year, dominated mostly by the COVID-19 pandemic restrictions. Both domestic demand and manufacturing sides of the economy received boosts from easing of the lockdown restrictions after the first half of the year. Despite the improved performance in July, pre-pandemic output levels have not been close to attainment.

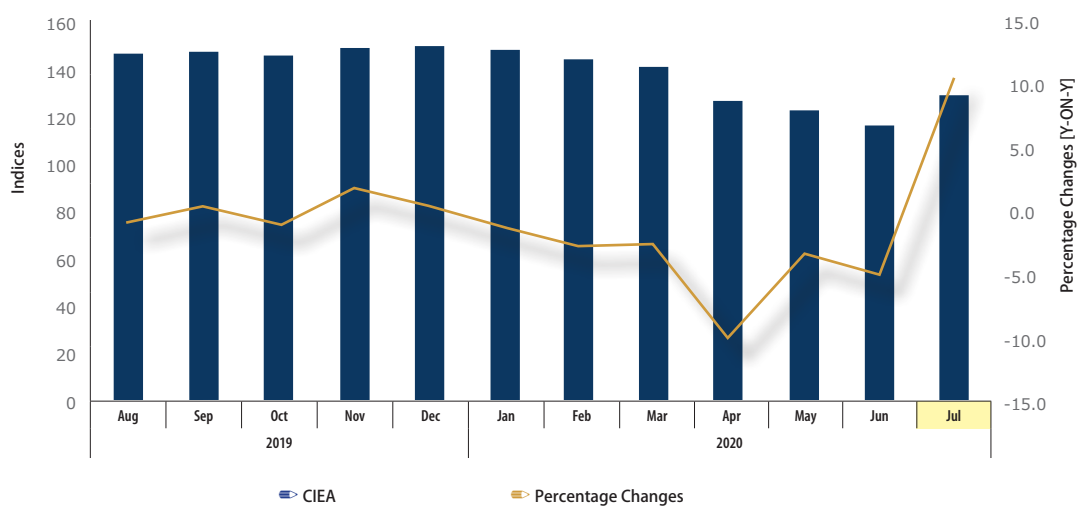
Domestic Demand Category

Domestic demand index recorded a 2.4 per cent growth in July as the economy started a recovery path. After being under pressure from the close of 2019, the recovery in July in domestic demand was boosted mainly by tax collections, both VAT and incomes taxes as well as increasing demand for goods and services as indicated by positive contributions by imports from South Africa (SA).

Manufacturing & Production Category

Production recovered very significantly in July, with a 19.7 per cent growth in the index. The recovery comes after a 2.6 per cent decline in the index recorded during the previous month. Production was boosted mostly by the recommencement of most of operations in the textile industry around the country. Demand for exports of textiles both abroad and regionally boosted the performance of the industry as markets around the world started to open more for economic activity.

Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2019			2020				
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
MIEA	150.8	149.2	145.3	141.8	127.5	123.5	117.6	130.0
Monthly changes	0.6	-1.1	-2.6	-2.5	-10.1	-3.1	-4.8	10.6
Domestic Demand Category	136.7	136.0	126.4	122.2	115.2	113.4	105.2	107.7
Monthly changes	-2.7	-0.5	-7.0	-3.4	-5.7	-1.5	-7.3	2.4
Manufacturing & Production Category	116.7	120.5	119.5	113.0	95.3	82.1	78.0	93.4
Monthly changes	1.6	3.3	-0.9	-5.4	-15.7	-16.0	-2.6	19.7

Source: CBL Calculations

II. INFLATION AND PRICES

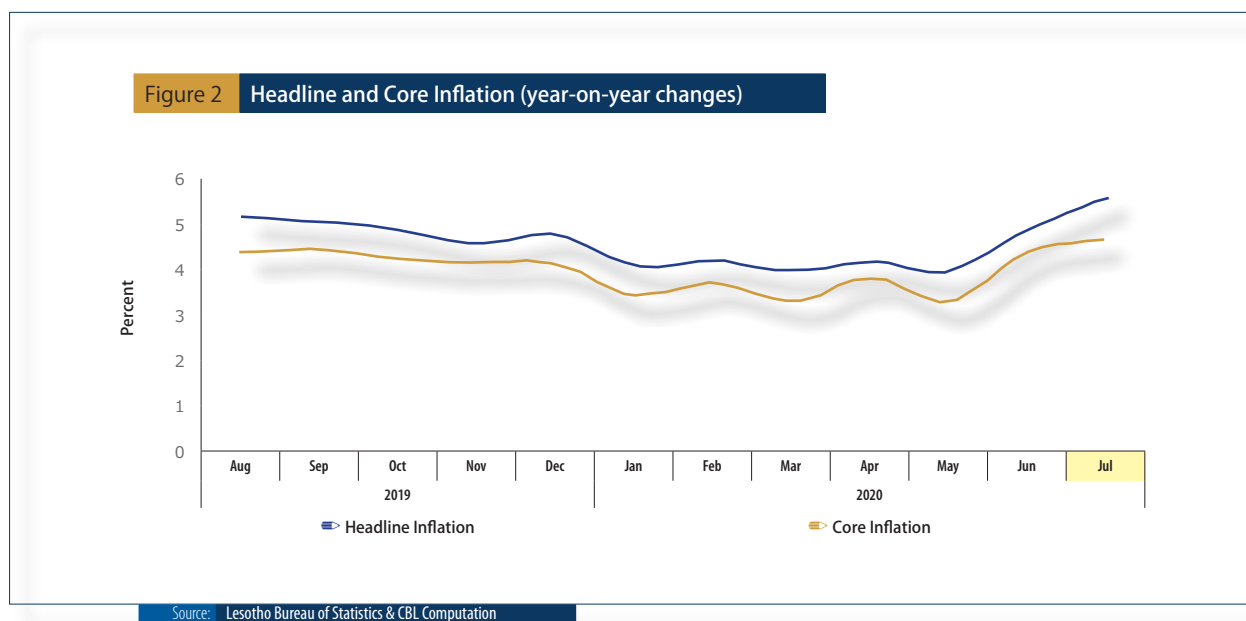
Headline Inflation

The headline inflation rate accelerated to 5.6 per cent in July 2020 from 4.9 per cent estimated in June 2020. The major contributors to acceleration were Food & Non-Alcoholic beverages, Transport as well as Housing, electricity gas & other fuels. Nonetheless, clothing & footwear component marginally moderated the acceleration in inflation rate during the review period.

The rising food and energy prices are mainly driven by increased demand amid supply disruptions as lockdown measures were gradually eased.

Core Inflation

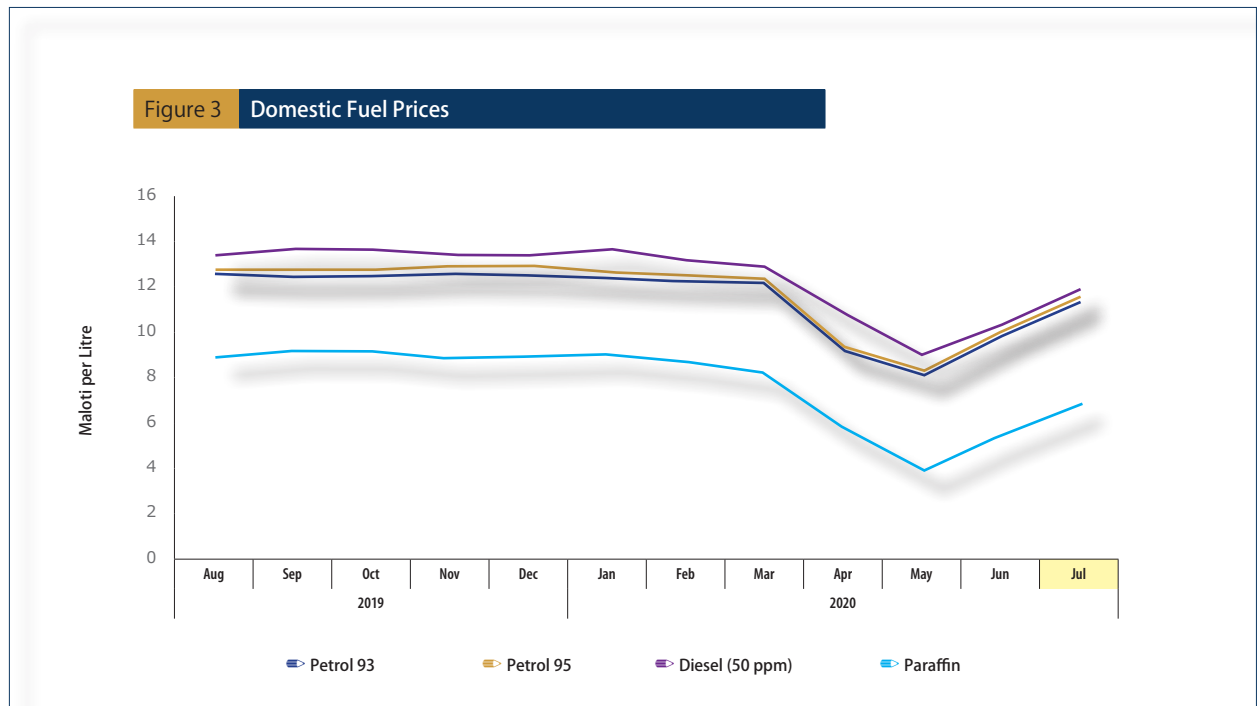
The core inflation, which excludes the CPI items with extreme price changes, also accelerated from 4.4 per cent in June 2020 to 4.7 per cent in July 2020.



Domestic Fuel Prices

The domestic fuel products' prices continue to increase from their record lows in 2020. The retail price of both grades of petrol (petrol93 and petrol95) increased by M1.55 per litre and M1.50 per

litre to reach M11.40 per litre and M11.60 per litre, respectively. The price of diesel50 also increased by M1.55 per litre to reach M11.95 per litre at the pump in July 2020. The wholesale price of illuminating paraffin also increased by M1.40 per litre to reach M6.85 per litre during the review period.



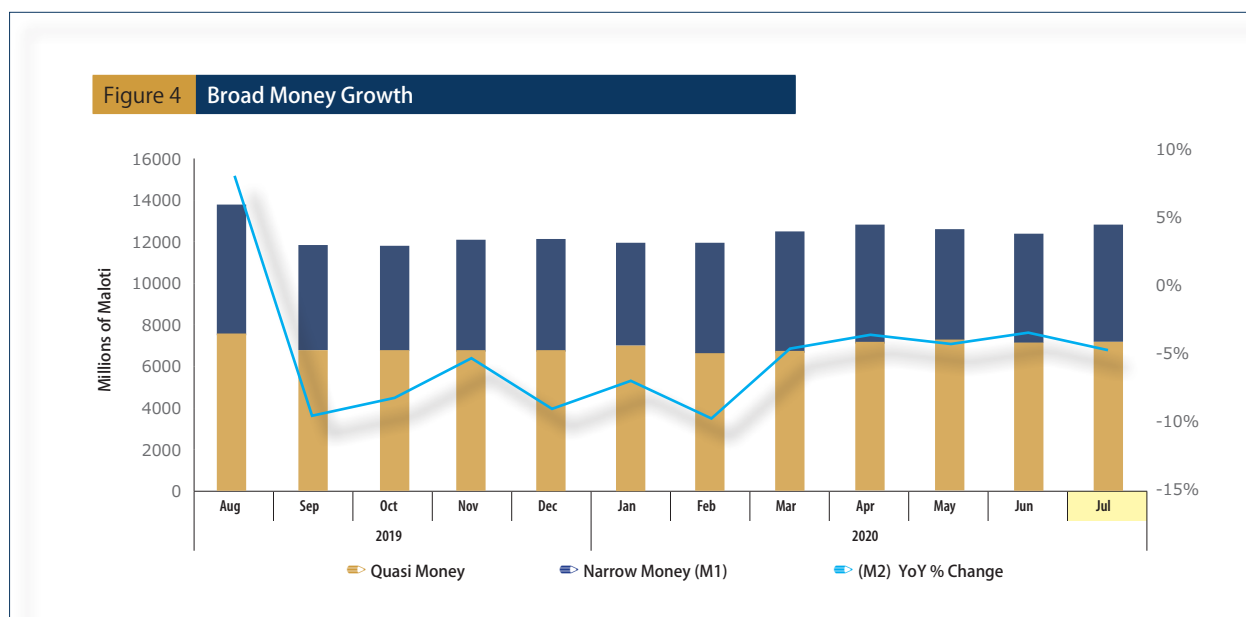
III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

The broadly defined money supply (M2) rebounded in July 2020, following two consecutive declines in May and June 2020. During the month under review, M2 picked up by 1.1 per cent, following a decline of 1.7 per cent in the preceding month. The growth in M2 stemmed from 8.1 per cent rise in net foreign assets (NFA). This was chiefly due to the improvement in the central bank's NFA, following receipt of SACU revenue in July 2020. However, a decline of 25.0 per cent in net domestic assets (NDA), as a result of an increase in government deposits held with the central bank, moderated the increase in M2.

Components of Money Supply

Of the two components of M2, narrow money (M1) contributed positively to the observed increase in broad money supply. Narrow money, which comprises currency in circulation and demand deposits held with commercial banks, rose by 4.6 per cent while quasi money fell by 1.5 per cent month on month. While both components of M1 increased, the main contributor to the growth in M1 was a 4.0 per cent increase in demand deposits, especially those held by business enterprises.



Private Sector Credit

During the period under review, total credit granted to the private sector recovered from a decline of three successive months. Total private sector credit expanded slightly by 0.5 per cent in July 2020, compared to a decline of 4.0 per cent recorded in June 2020. This was driven by improvement in loans

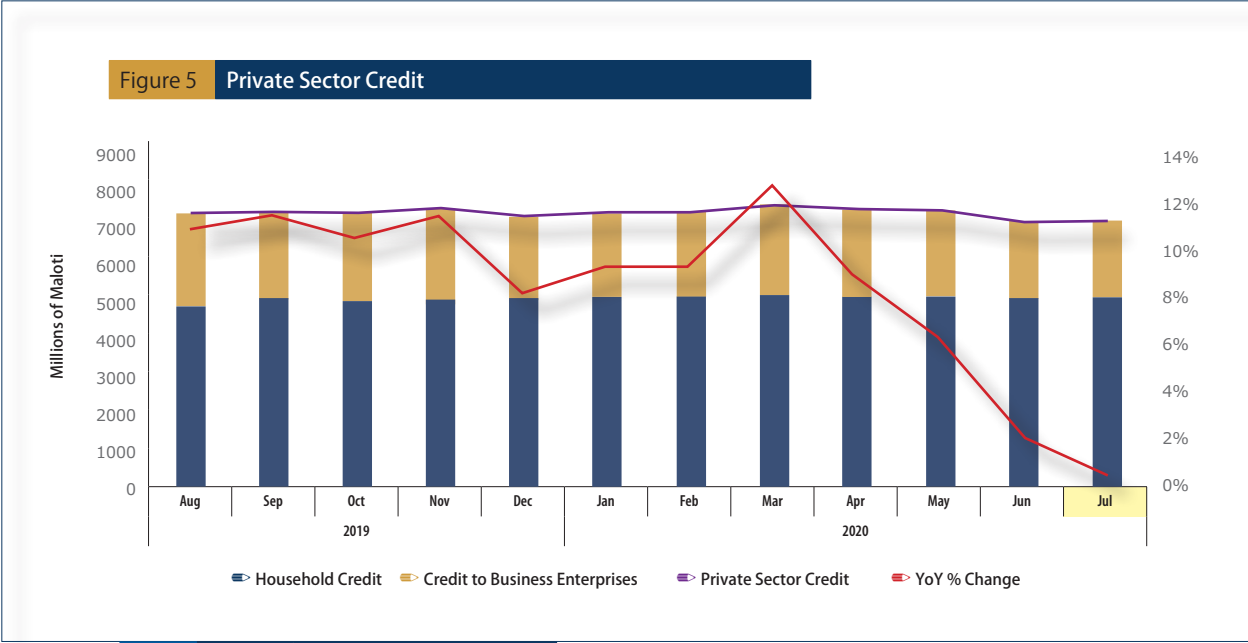
and advances granted to both business enterprises and households. Compared to a year ago, total credit extended to private sector also improved by 0.5 per cent.

Credit extended to business enterprises improved marginally by 0.7 per cent during the month under review, from a decline of 11.5 per cent registered in

the preceding month. This was a result of an increase in credit to the mining and quarrying sector, which increased by 9.0 per cent.

Similarly, total loans and advances granted to the household sector were higher by 0.4 per cent in

July 2020 compared with a decline of 0.7 per cent observed in June 2020. The increase in household credit was at the back of a 2.9 per cent growth in mortgages, while personal loans contracted by 0.4 per cent.



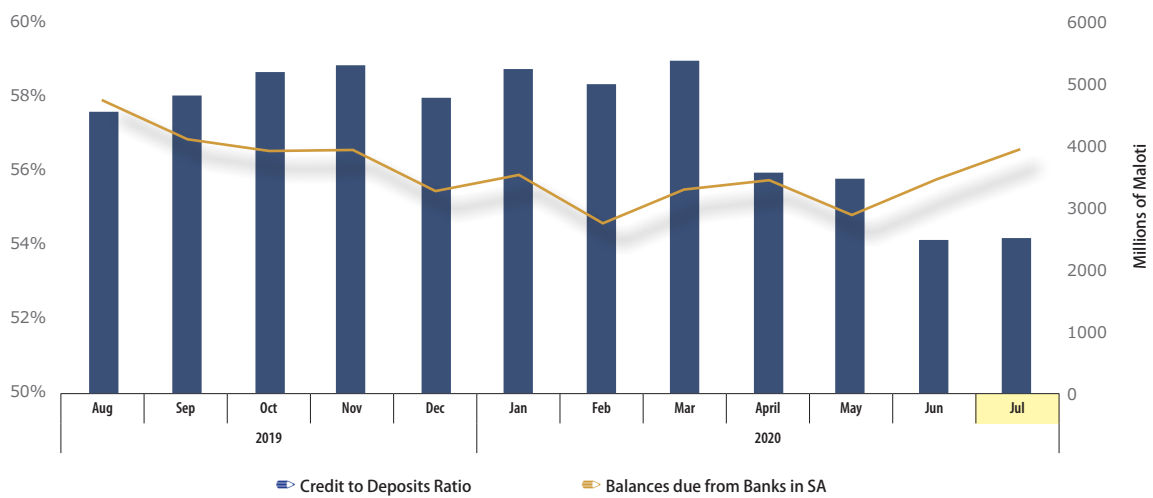
Non-Performing Loans

The nonperforming loan (NPL) as a ratio of total loans worsened during the month under review, as it increased to 4.4 per cent from 4.1 per cent registered in the preceding month. Both the households and business enterprises contributed to the observed increase in NPL ratio. The ratio of business enterprises' NPLs as a ratio of total loans and advances granted to business enterprises rose to 4.5 per cent, from 4.2 per cent observed in June 2020. The main contributing sector was the real estate and business services sector. Equally, the NPL ratio from households' sector rose by 0.1 percentage points to 4.5 per cent month on month.

Sources of Funds

During the review period, total customers' deposits held with the commercial banks rose marginally by 0.3 per cent, following a 1.2 per cent decline in the previous month. The improvement in total deposits came mainly from savings and fixed time deposits held by households, which grew by 4.1 per cent and 4.8 per cent, respectively. The ratio of total credit extended by commercial banks to total customer deposits remained the same at 54.2 per cent in July 2020.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

Majority of domestic short-term interest rates continued to fall during the month under review. The monetary policy committee (MPC) of the Central Bank of Lesotho (CBL) lowered the CBL’s key policy rate by 25 basis points to 3.50 per cent, following the MPC sitting of July 28, 2020. The discount rate on the domestic 91-day T-Bills dropped by 0.14 percentage points to 3.56 per cent between June and July 2020. Likewise, the prime lending rate declined marginally to 8.38 per cent from 8.44 per cent recorded in June 2020, while all the commercial banks’ deposit rates remained unchanged.

Rand Exchange rate July 2020

The rand hence the loti strengthened against major global trading currencies in July 2020. Particularly, it appreciated by; 2.1 per cent to the average of 16.7509 against the US dollar, 0.84 per cent to the average of 21.2582 against the pound, and 0.2 per cent to the average of 19.2258 against the euro. The exchange rate of the rand extended the gains made in June 2020. The rand gained alongside other emerging economies currencies, and was driven by rising risk appetite in the global markets. The market sentiment was underpinned by positive data on the economy, which pointed to the moderate recovery in the global economy, and the expectations of more policy stimulus. The market confidence was further boosted by positive progress on covid-19 vaccine development.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

Government total expenditure rose by 86.1 per cent in July 2020 following a revised fall of 18.0 per cent in June 2020. The increase was driven mainly by expenses related to dwellings, other structures, compensation of employees, use of goods and services, as well as current grants to extra-budgetary units.

Outlays by Functions

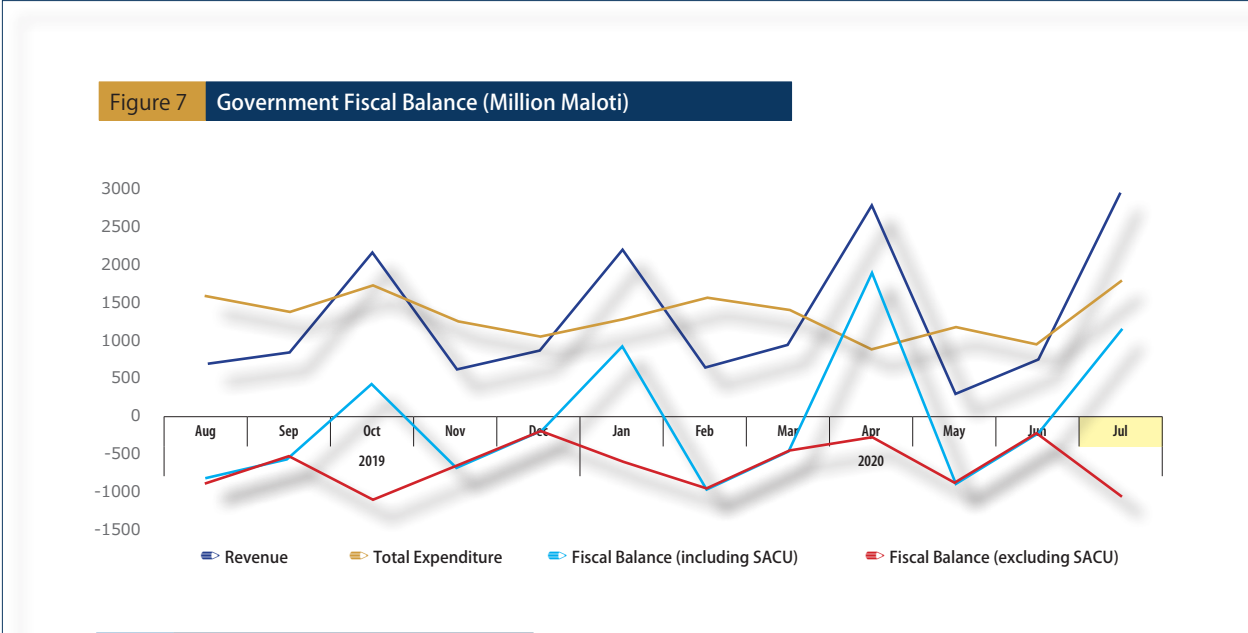
The Government outlays were directed towards recurrent spending at 79.1 percentage share out of total expenditure in July 2020 compared with 90.5 percentage share in June 2020. In terms of the spending share among the functions, general public services received more funds, followed by health, and economic affairs, while environmental protection accounted for the smallest share.

Total Revenue

Government revenue grew drastically in July following receipt of SACU revenue. This was further augmented by personal income tax, withholding tax, VAT, oil levy, petroleum levy, mining royalties, and LHDA water royalties received during the month.

Fiscal Balance and Financing

Following SACU revenue and notwithstanding higher expenditure, government operations resulted in a surplus, part of which build official reserves and deposits in the banking system. Other accounts payable also rose by 1.9 per cent of GDP largely due to unused funds transferred into the bank accounts of the Government-owned projects and state-owned entities.

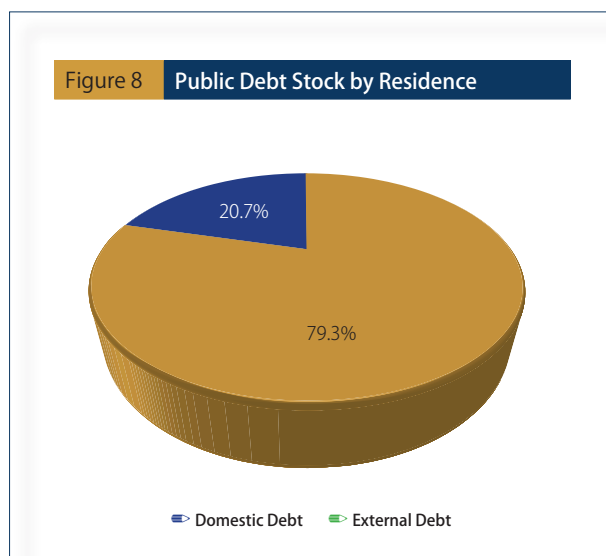


Source: Central Bank of Lesotho & Ministry of Finance

V. PUBLIC DEBT

The public debt stock was recorded at 59.0 per cent of GDP in July compared with a 58.4 per cent of GDP in June 2020. It expanded by 5.3 per cent in the month under review while in the June 2020 it fell by 0.1 per cent. The increase was mainly

attributed to growth in external component, both concessional and non- concessional loans. The redemption of the realised stock of arrears on goods and services constituted about 3.1 per cent of GDP, no outstanding stock remained.



Appendix: Key Economic Indicators

		20-Feb	20-Mar	20-Apr	20-May	20-Jun	20-Jul	
Economic Activity MIEA (% change, Y/Y)		-2.6	-2.5	-10.1	-3.1	-4.8	10.6	
Consumer price Index (% change)	Headline Inflation (year-on-year)	4.2	4.0	4.2	4.0	4.9	4.0	
	Core Inflation	3.7	3.3	3.8	3.8	4.4	3.8	
Exchange Rates (Monthly End Period)	EUR	17.12	19.57	19.74	19.43	19.47	20.06	
	GBP	20.06	22.12	22.71	21.57	21.33	22.27	
	USD	15.58	17.84	18.16	17.45	17.39	16.94	
Money Supply (Millions of Maloti)	M2	12,031.82	12,582.63	12,909.96	12,682.16	12,467.68	12,600.56	
	M1	5,310.62	5,774.30	5,622.80	5,236.58	5,216.40	5,455.47	
	Quasi Money	6,721.20	6,808.33	7,287.16	7,445.58	4,121.66	7,145.10	
Interest Rates	CBL Rate	6.25	4.25	4.25	3.75	3.75	3.50	
	91 day Treasury bill rate	6.15	6.11	5.04	3.86	3.70	3.56	
	Prime lending rate	11.00	10.19	9.19	8.56	8.44	8.38	
	1 year deposit rate	3.74	3.94	3.97	3.58	3.58	3.58	
Private sector Credit (Millions of Maloti)		7,480.37	7,695.44	7,582.96	7,522.51	7,191.51	7,260.58	
	Households	5,234.31	5,160.28	5,231.35	5,214.07	5,148.32	5,202.86	
	Business Enterprises	2,246.07	2,423.99	2,351.61	2,308.43	2,043.19	2,057.72	
Bank Deposit Liabilities (Millions of Maloti)		12,888.35	13,113.62	13,113.62	13,588.00	13,419.99	13,458.87	
Credit to Deposit Ratio (%)		58.04	59.00	55.99	55.80	54.20	54.20	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-864.11	-415.97	1,984.72	-890.54	-223.13	1,186.03	
	Total Revenue	683.31	1,003.95	2,889.87	327.83	779.63	3,051.44	
	Total Expenditure	1,547.41	1,419.93	905.15	1,218.37	1,002.77	1,865.40	
	O/W Capital	255.00	546.53	82.95	62.22	151.86	384.04	
Total Public Debt (Millions of Maloti)		18,217.21	19,464.41	19,589.20	19,124.23	19,108.71	20,112.00	
	Total External Debt	14,296.68	15,172.30	15,353.30	14,918.81	14,905.35	15,941.29	
	External Debt	Concessional	11,722.62	12,463.45	12,624.05	12,222.14	12,195.72	12,604.97
		Non-concessional	2,574.06	2,708.84	2,729.24	2,696.42	2,709.63	3,336.31
	Domestic Debt		3,920.53	4,292.11	4,235.90	4,205.42	4,203.36	4,170.71
Memo Item: Arrears (Millions of Maloti)		36.12	38.21	0.24	40.30	147.85	56.94	

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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