



# Monthly ECONOMIC REVIEW

December 2020

CENTRAL BANK OF LESOTHO

## I. ECONOMIC ACTIVITY

Economic activity was estimated to have grown further in December 2020 compared to the previous month. Both domestic demand and production contributed positively to growth.

### Overall Performance Index

As estimated by the Monthly Indicator of Economic Activity (MIEA), economic performance continued to grow in December 2020. The overall index expanded by 4.6 per cent compared to 1.4 per cent growth in November. Both demand and manufacturing contributed positively to growth as the economy was operating close to normalcy. The construction subsector also contributed positively to the overall index, as seen in growth in imports of cement and metal products used for construction purposes.

### Domestic Demand Index

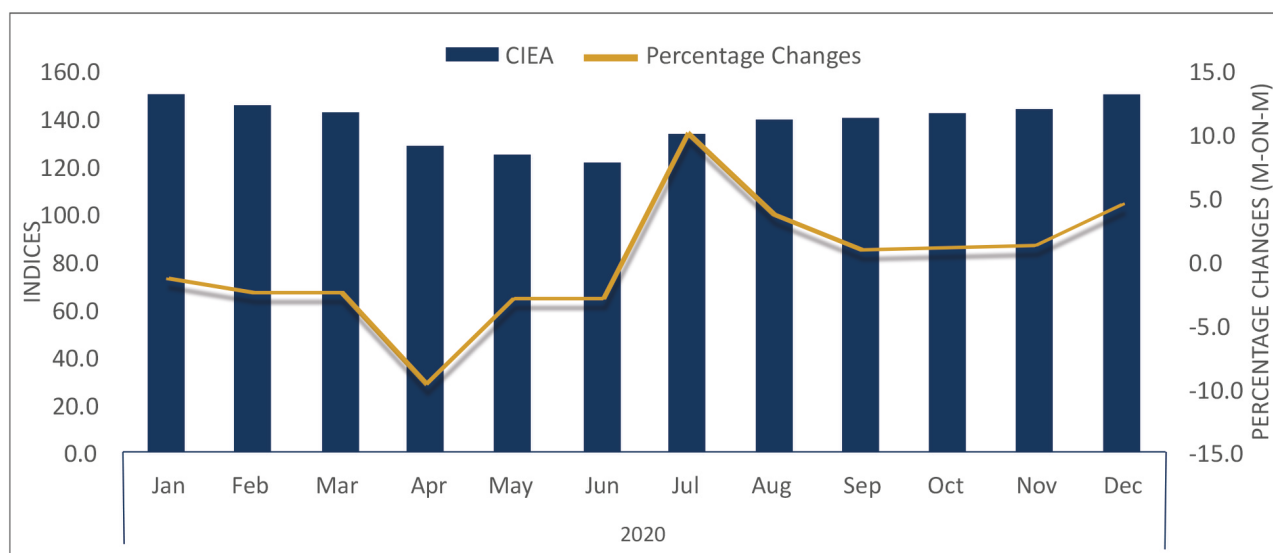
The domestic demand index grew by 3.6 per cent in December 2020. This was, however, a slower rate compared to the 5.2 per cent rate observed in November 2020. Growth in December was

supported by increased private consumption and Government spending, as evidenced by increases in purchases of goods and services, compensation of employees, as well as, tax collections – both VAT and income taxes. However, reduced demand for imports from SA moderated this positive developments.

### Manufacturing and Production Index

The manufacturing index increased by 3.9 per cent in December 2020 in contrast to the 2.5 contraction in November 2020. The index had been contracting for three consecutive months before picking up in December. This showed that our production side of the economy was the hardest hit by the restrictions imposed to contain the pandemic. The clothing and textiles manufacturing, together with high demand for raw materials drove the growth of the index during the review month. This was reflected by positive contributions by clothing and textile exports to the US market and imports from SA, respectively.

Figure 1 Overall Monthly Indicator of Economic Activity



Source Central Bank of Lesotho (CBL) Calculations

Table 1 Summary of the Monthly Indicator of Economic Activity

Indices	2020							
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>CIEA</b>	124.9	121.5	133.6	138.6	140.1	141.7	143.7	150.3
Monthly changes	-2.9	-2.7	9.9	3.8	1.0	1.2	1.4	4.6
<b>Domestic Demand Category</b>	113.8	105.5	107.6	113.6	126.2	136.4	143.5	148.7
Monthly changes	-1.5	-7.3	2.1	5.5	11.1	8.0	5.2	3.6
<b>Manufacturing &amp; Production Category</b>	81.5	79.8	93.2	107.0	105.6	103.6	101.0	104.9
Monthly changes	-15.8	-2.1	16.7	14.9	-1.3	-1.9	-2.5	3.9

Source CBL Calculations

## II. INFLATION AND PRICES

### Headline Inflation

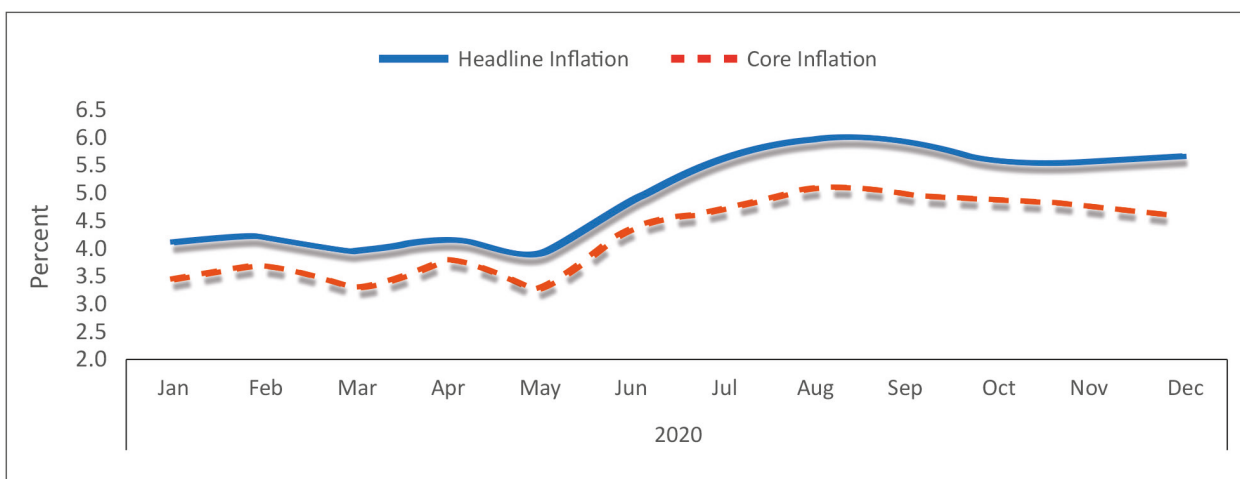
The headline inflation rate increased by a 0.1 percentage point in December 2020 from 5.6 per cent recorded in November 2020. The main drivers of the acceleration in CPI inflation during the review period were food and fuel prices. Food prices rose because of increasing international food prices, as well as, depletion of stocks from previous harvest while supply was disrupted<sup>1</sup>. Moreover, the increases in fuel

prices were mainly at the back of news on advances of COVID-19 vaccines, in addition to the expected extensions of cuts from oil producers.

### Core Inflation

The core inflation, however, declined by 0.2 percentage points from 4.8 per cent in November 2020 to 4.6 per cent in December 2020.

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



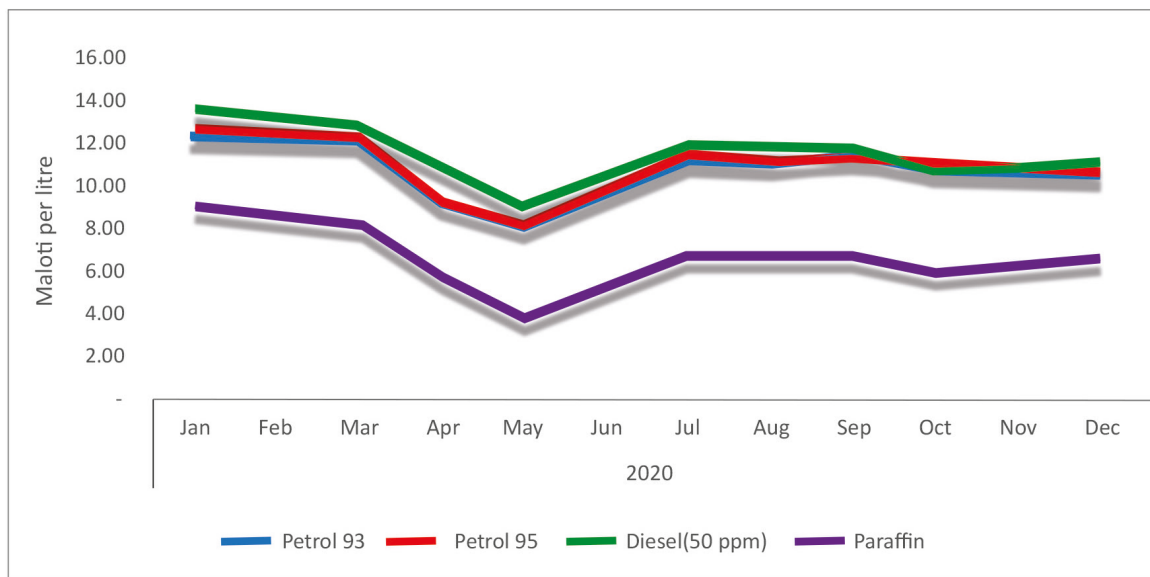
Source Lesotho Bureau of Statistics & CBL Computations

## Domestic Fuel Prices

During the review period, some prices of domestic fuel products decreased while others increased. The pump prices of petrol grades (petrol93 and petrol95) decreased by M0.10 per litre and were M10.70 per

litre and M10.80 per litre at the pump, respectively. Nonetheless, the price of diesel50 increased by M0.15 per litre per litre to reach M11.10 per litre at the pump during the review period. Moreover, the wholesale price of illuminating paraffin also increased by M0.25 per litre during the review period to M6.60 per litre.

Figure 3 Domestic Fuel Prices)



Source Petroleum Fund

### III. MONETARY AND FINANCIAL INDICATORS

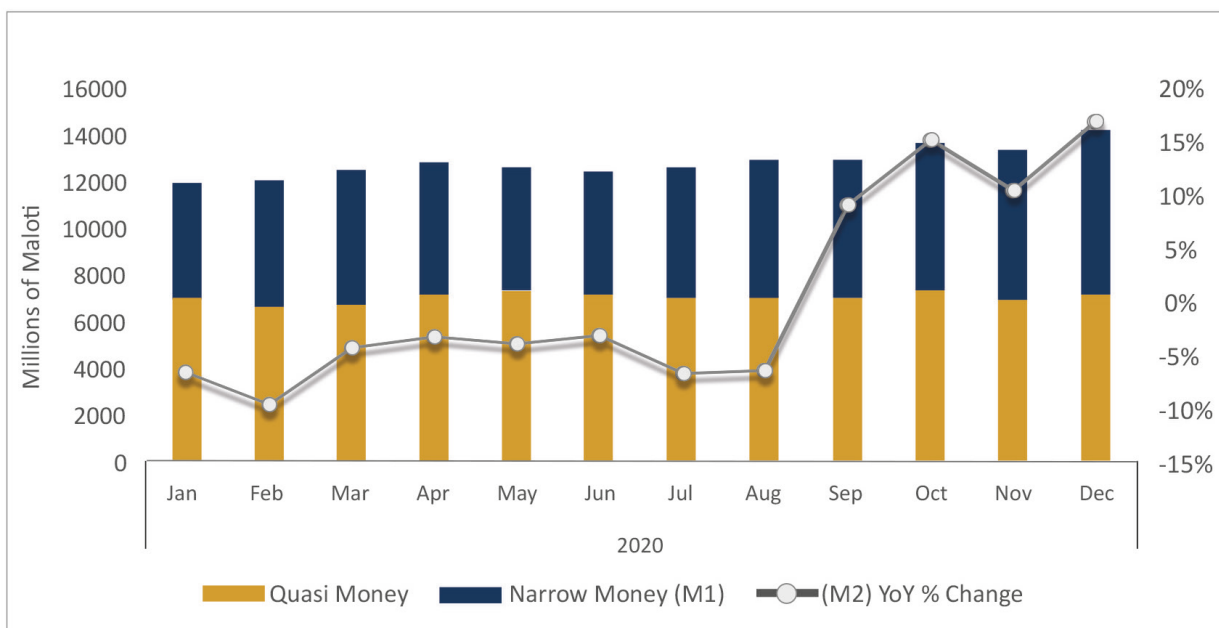
#### Broad Money (M2)

Broad measure of money supply (M2), rose by 6.0 per cent in December 2020 from a fall of 1.7 per cent observed during the previous month. This was due to 2.7 per cent increase in net domestic assets (NDA), moderated by 0.2 per cent decline in overall net foreign assets (NFA). The growth in NDA benefitted from a decline in deposits of central government, while private sector credit remained relatively unchanged.

#### Components of Money Supply

Regarding the components of money supply, both narrow money (M1) and quasi money rose by 9.1 per cent and 3.2 per cent, respectively, during the month under review. The upsurge in the M1 was mainly on account of a significant growth in transferable deposits held by business enterprises. The rise in quasi money was at the back of an increase in call deposits held by business enterprises.

Figure 4 Broad Money Growth



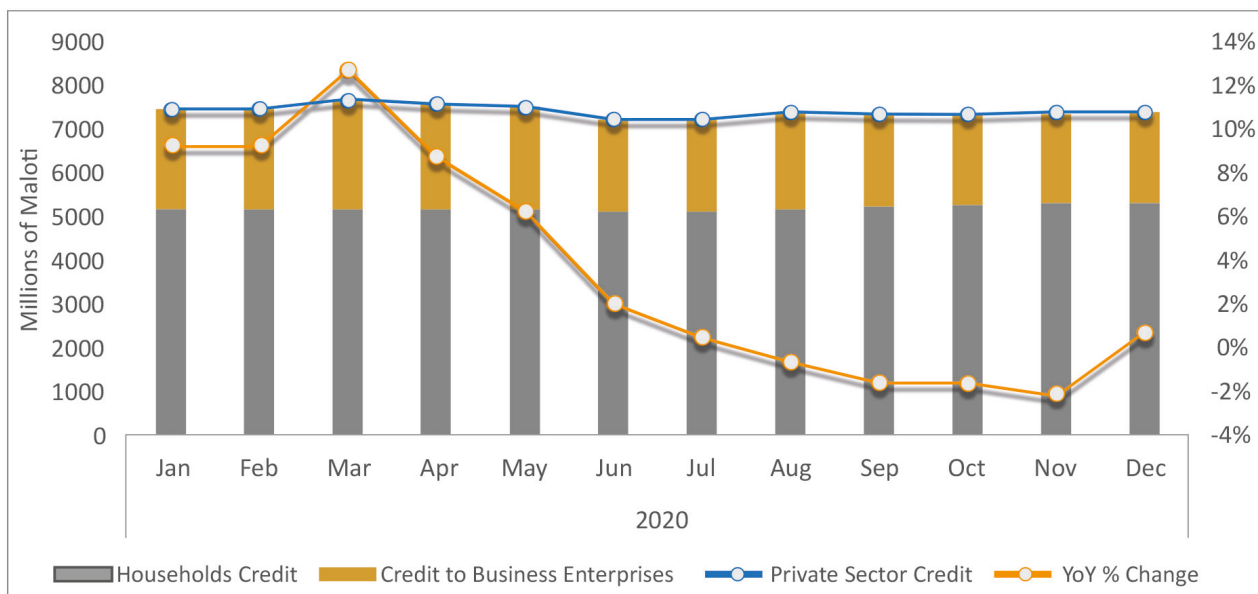
Source Central Bank of Lesotho

## Private Sector Credit

Private sector credit fell albeit at a muted pace of 0.02 per cent in December 2020, following an increase of 0.7 per cent realised in November 2020. The decline in private sector credit stemmed from 1.0 per cent fall

in credit extended to business enterprises, moderated by 0.4 per cent growth in credit to households. Households credit benefitted from 0.2 per cent and 0.8 per cent growth in personal loans and mortgages, respectively. On a year-on-year basis, credit extended to the private sector rose by 0.01 per cent.

Figure 5 Private Sector Credit



Source Central Bank of Lesotho

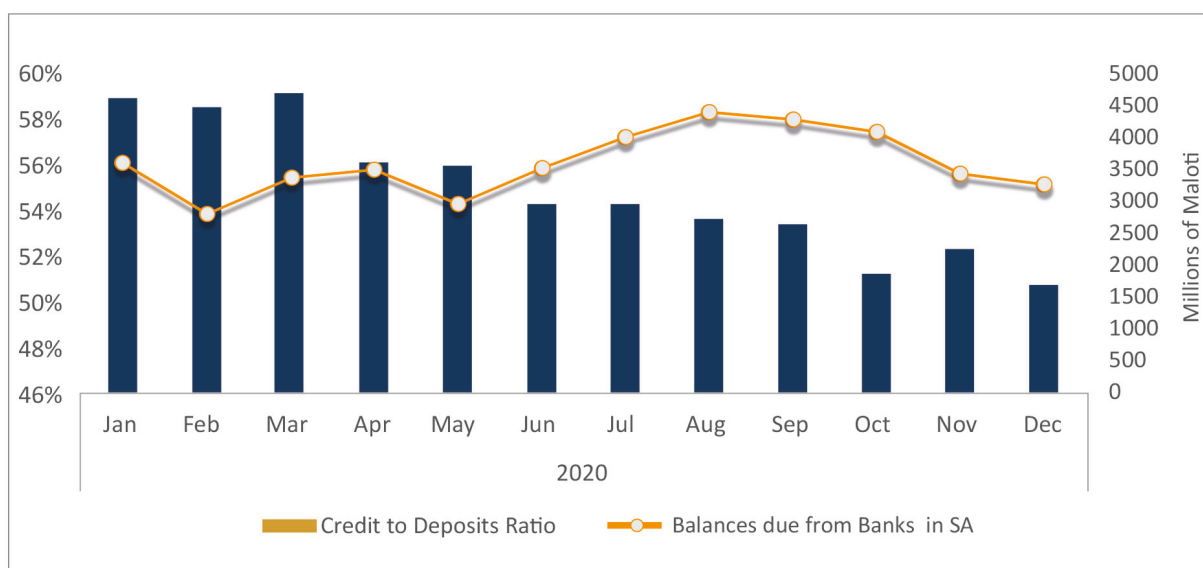
## Non-Performing Loans

Total non-performing loans (NPL) as a ratio of total loans remained unchanged at 4.2 per cent between November and December 2020. This was on account of no change in business NPLs, personal loan NPLs as well as mortgages NPLs during the review period.

## Sources of Funds

Commercial banks' deposit liabilities rose by 3.4 per cent in December compared to a decline of 1.4 per cent observed in November 2020. Credit to deposit ratio fell from 52.2 per cent in November to 50.7 per cent in December, mainly at the back of an increase in overall deposits, whereas credit extended to private sector remained roughly unchanged.

Figure 6 Credit to Deposit Ratio



Source Central Bank of Lesotho

## Interest Rates

The Central Bank of Lesotho's policy rate remained unchanged at 3.50 per cent between November and December 2020 and most short-term interest rates remained unchanged. However, the 91-day T-Bill rate declined from 3.26 per cent to 3.20 per cent between November and December 2020.

## Rand Exchange rate January 2021

The rand hence the loti strengthened further against major global trading currencies in last month of 2020. Particularly, the rand appreciated by; 4.17 per cent against the US dollar to the average of 14.90, 2.56 per cent against the pound to the average of 20.01, and by 1.50 per cent against the euro to the average of 18.13.

Relatively, in November 2020 the rand appreciated by 5.56 per cent, 3.89 per cent and 5.07 per cent, against the US dollar, pound and the euro, respectively. The rand gained alongside other emerging market currencies, driven by improving risk appetite in the global markets. It rose despite concerns of rising public debt, a resurgence of COVID-19 cases and as new strains of COVID-19 emerged in South Africa. The rand was, amongst others, driven by prospects of geopolitical stability, and successful COVID-19 vaccine trials. These developments have driven market sentiment for risky assets in the global markets. Furthermore, the prospect of prolonged lower policy rates in the advanced economies boosted demand for emerging market securities through search for yield, including in South Africa.



## IV. GOVERNMENT BUDGETARY OPERATIONS

### Total Expenditure<sup>2</sup>

Government total spending increased by 25.6 per cent in December 2020, relative to a decline of 24.2 per cent in November 2020. On the year-to-date changes, the Government expenditure registered a decrease of 3.2 per cent in December 2020, following a fall of 12.6 per cent in December 2019.

### Government Revenue

The Government revenue increased by 43.1 per cent in December 2020 relative to a decline of 78.3 per cent in November 2020. This was attributable to receipts of income tax, company tax, withholding tax, and road maintenance levy. In terms of year-to-date changes, revenue increased by 12.7 per cent in December 2020, following a rise of 4.3 per cent in December 2019.

### Fiscal Balance and Financing

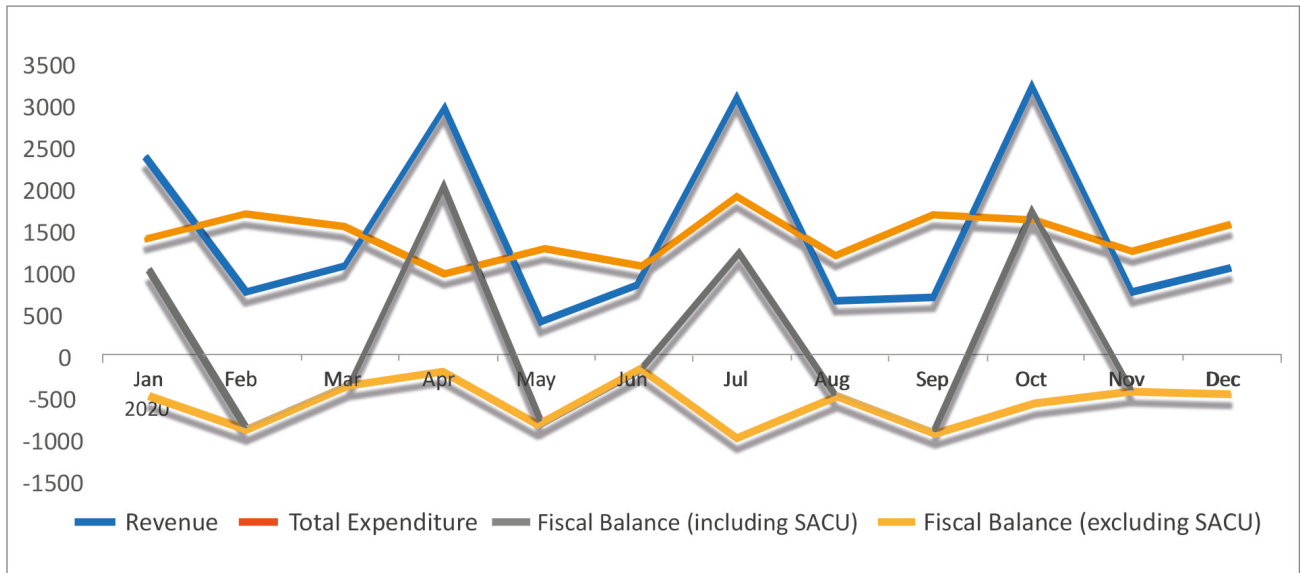
The Government budget operations recorded a deficit equivalent to 6.0 per cent of GDP in December 2020 compared to a deficit of 5.9 per cent of GDP in the previous month. This fiscal deficit was largely financed by drawdown of Government deposits in the banking system coupled with issuance of Treasury bonds.

### Outlays by Functions

The Government utilised the funds to support its functions. The recurrent outlays out of the total outlays took a share of 90.8 percentage points. Education received the largest share, followed by health within the social sector. The bulk of education spending was expended on compensation of employees, while health went towards procurement of goods and services.

<sup>2</sup> The year-to-date refers to an accumulation within a fiscal year, starting from April.

Figure 7 Government Fiscal Balance (Million Maloti)



Source CBL and MOF

Table 2: Cross-Classification of Government Outlays (Percent Change)

Economic Item / Function	Compensation of Employees	Use of Goods and Services	Consumption of Fixed Capital	Interest	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services	9.4%	16.6%	-	0.0%	5.5%	72.5%	0.0%	95.4%	20.0%	17.5%
Defense	6.9%	3.4%	-	0.0%	0.0%	0.0%	0.0%	0.0%	9.7%	4.7%
Public Order and Safety	17.0%	9.1%	-	0.0%	0.0%	1.8%	0.0%	0.0%	38.4%	12.7%
Economic Affairs	6.8%	18.0%	-	100.0%	0.0%	1.6%	22.2%	0.0%	3.2%	10.9%
Environmental Protection	0.1%	0.1%	-	0.0%	0.0%	0.0%	0.0%	4.0%	0.0%	0.1%
Housing and Community Amenities	0.8%	1.9%	-	0.0%	0.0%	0.0%	0.0%	0.0%	20.8%	2.1%
Health	6.0%	47.3%	-	0.0%	76.5%	0.0%	4.6%	0.0%	0.0%	22.8%
Recreation, Culture, and Religion	0.7%	1.7%	-	0.0%	0.0%	2.1%	0.0%	0.0%	4.6%	1.3%
Education	33.9%	1.5%	-	0.0%	18.0%	22.0%	0.0%	0.0%	3.4%	18.0%
Social Protection	18.4%	0.6%	-	0.0%	0.0%	0.0%	73.2%	0.6%	0.0%	9.9%
<b>Share per Economic Item</b>	<b>43.3%</b>	<b>34.7%</b>	<b>0.0%</b>	<b>0.9%</b>	<b>4.7%</b>	<b>8.2%</b>	<b>2.4%</b>	<b>0.4%</b>	<b>5.5%</b>	<b>100.0%</b>

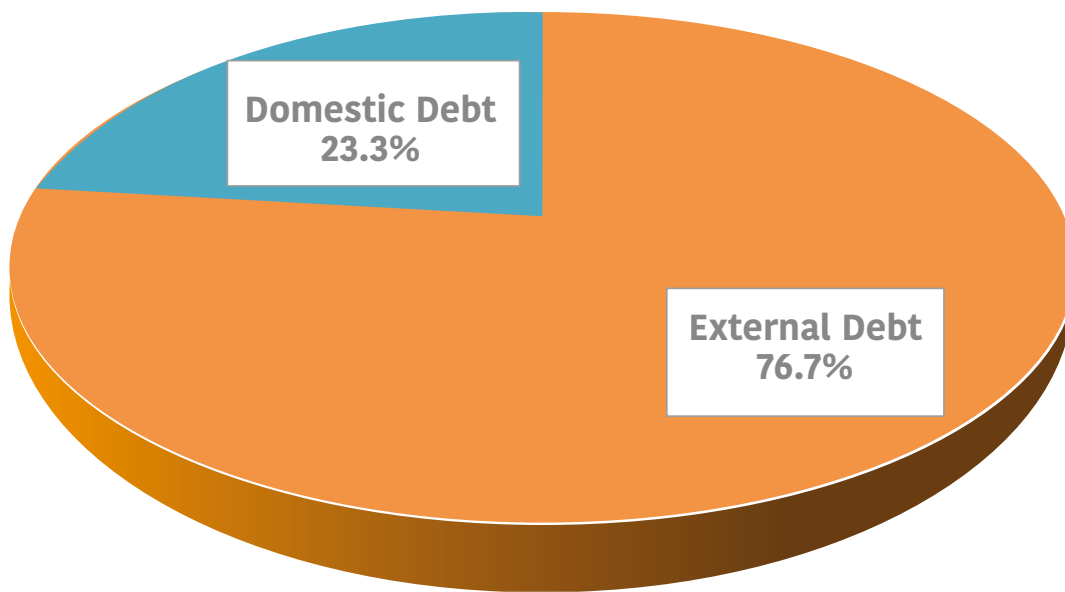
Source CBL and MOF

## V. PUBLIC DEBT

The public debt stock was estimated at 63.2 per cent of GDP in December 2020, compared to 63.3 per cent of GDP in November 2020. This declined slightly by 0.1 per cent during the month under review, relative to an insignificant rise of 0.2 per cent in the previous month.

This reduction was on account of valuation gains. The arrears worth 5 per cent of GDP were redeemed during the period.

Figure 9 Public Debt Stock by Residence



Source CBL and MOF

<b>Appendix: KEY ECONOMIC INDICATORS</b>							
		<b>20-Jul</b>	<b>20-Aug</b>	<b>20-Sep</b>	<b>20-Oct</b>	<b>20-Nov</b>	<b>20-Dec</b>
<b>Economic Activity (MIEA (% change, M/M))</b>		9.9	3.8	1.0	1.2	1.4	4.6
<b>Consumer price Index (% change)</b>	Headline Inflation (year-on-year)	5.6	6.0	5.9	5.6	5.6	5.7
	Core Inflation	4.7	5.1	5.0	4.9	4.8	4.6
<b>Exchange Rates (Monthly End Period)</b>	EUR	20.06	20.02	19.67	19.00	18.38	18.06
	GBP	22.27	22.35	21.59	21.07	20.44	20.07
	USD	16.94	16.78	16.80	16.24	15.34	14.69
<b>Money Supply (Millions of Maloti)</b>	M2	12,600.56	12,986.69	13,000.90	13,700.84	13,473.79	14,282.90
	M1	5,455.47	5,828.06	5,829.60	6,255.99	6,370.50	6,950.30
	Quasi Money	7,145.10	7,158.62	7,171.29	7,444.85	7,103.29	7,332.60
<b>Interest Rates</b>	CBL Rate	3.50	3.50	3.50	3.50	3.50	3.50
	91 day Treasury bill rate	3.56	3.37	3.36	3.35	3.26	3.32
	Prime lending rate	8.38	8.19	8.19	8.19	8.19	8.19
	1 year deposit rate	3.58	3.58	3.79	3.79	3.79	3.53
<b>Private sector Credit (Millions of Maloti)</b>		7,260.58	7,407.30	7,374.16	7,356.12	7,411.95	7,410.42
	Households	5,198.39	5,252.82	5,294.51	5,319.51	5,375.24	5,394.98
	Business Enterprises	2,057.72	2,154.48	2,079.65	2,036.61	2,036.70	2,015.45
<b>Bank Deposit Liabilities (Millions of Maloti)</b>		13,458.87	13,913.83	13,905.94	14,448.27	14,244.97	14,732.28
<b>Credit to Deposit Ratio (%)</b>		54.2	53.51	53.30	51.10	52.20	50.68
<b>Fiscal Operations (Millions of Maloti)</b>	Fiscal Balance	1,184.12	-567.78	-996.19	1,610.86	-502.09	-510.43
	Total Revenue	3,049.51	562.29	630.92	3,181.93	689.39	986.59
	Total Expenditure	1,865.39	1,130.07	1,627.11	1,571.08	1,191.48	1,497.01
	O/W Capital	384.04	119.77	247.86	157.7	65.02	165.53
<b>Total Public Debt (Millions of Maloti)</b>		20,071.08	21,541.34	21,509.18	21,527.55	21,568.09	21,544.83
External Debt	Total External Debt	16,479.79	16,409.27	16,516.52	15,941.29	16,570.59	16,515.41
	Concessional	12,848.38	12,831.05	12,883.27	12,604.97	12,887.58	12,845.59
	Non-concessional	3,631.40	3,578.22	3,633.25	3,336.31	3,683.01	3,669.82
Domestic Debt		4,202.90	5,061.56	5,099.91	5,011.03	4,997.50	5,029.42
<b>Memo Item: Arrears (Millions of Maloti)</b>		56.94	114.55	78.9	201.82	164.58	151.78



# 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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