Monthly
ECONOMIC REVIEW
February 2021
CENTRAL BANK OF LESOTHO

I. ECONOMIC ACTIVITY

Economic activity increased slightly in February as the country relaxed some of the restrictions, which were imposed in the previous month in an effort to curb the spread of COVID-19. Activity was mainly driven by domestic demand in the review month, while the production side remained under pressure.

Overall Performance Index

Overall performance of the economy, as estimated by the Monthly Indicator of Economic Activity (MIEA), increased in February. The index grew by 0.9 per cent in February 2021 in contrast to the 3.6 contraction that was recorded in January 2021. The partial easing of hard lockdown restrictions introduced in January in response to the second wave of the COVID-19 pandemic boosted domestic demand while the production side remained sluggish. The observed growth was also supported by the construction subsector as reflected by positive contributions from imports of cements and metal products.

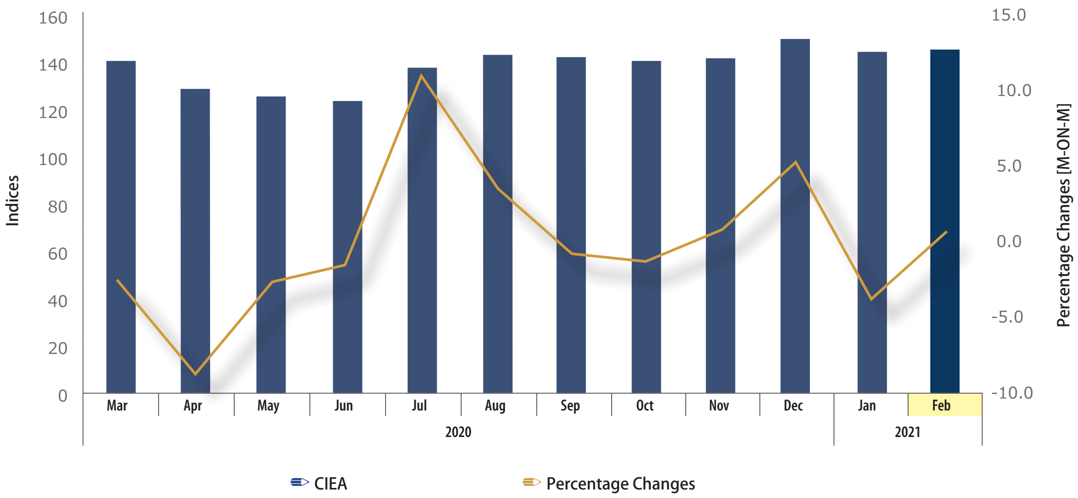
Domestic Demand Index

The domestic demand index was estimated to have recovered from the slump of the previous month. The index grew by 1.2 per cent in February 2021 after declining by 3.5 per cent in January. Recovery was boosted by the government sector (purchases and compensation of employees), income taxes as well as demand for imports.

Manufacturing and Production Category

The manufacturing index contracted in February after withstanding the lockdown restrictions of January. The index contracted by 2.0 per cent in contrast to the 1.5 per cent growth recorded in January 2021. A decline in both the use of utilities (water and electricity) in industrial production and textile exports into US markets led to the decline in the index as most economies around the world had gone back to COVID-19 second wave induced lockdowns. The demand for imports from SA, which reflects the use of raw materials in production, however remained resolute and cushioned the decline.

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

	2020						2021	
Indices	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**
CIEA	139.3	144.7	143.8	142.3	143.6	151.6	146.0	147.3
Monthly changes	11.3	3.8	-0.6	-1.1	0.9	5.5	-3.6	0.9
Domestic Demand Category	119.4	126.2	134.7	137.6	143.1	151.8	146.5	148.3
Monthly changes	5.4	5.7	6.7	2.2	4.0	6.1	-3.5	1.2
Manufacturing & Production Category	93.0	106.9	105.4	103.3	100.7	104.7	106.2	104.1
Monthly changes	16.6	14.9	-1.4	-2.0	-2.6	4.0	1.5	-2.0

Source: CBL Calculations

II. INFLATION AND PRICES

Headline Inflation

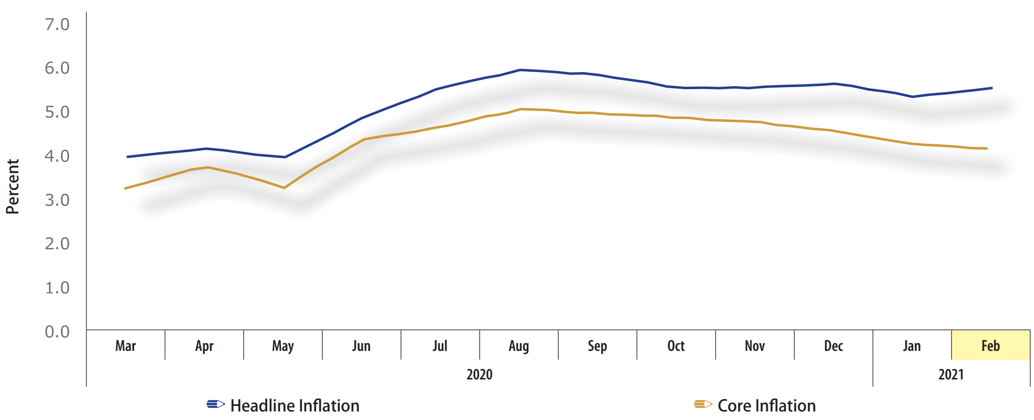
Headline inflation increased from 5.4 per cent in January 2021 to 5.6 per cent in February 2021. More than 80 per cent of the overall Consumer Price Index (CPI) inflation basket contributed to the increase in inflation during the review period. Nonetheless, Health, Recreation & culture and Hotels & Restaurants moderated the increase in headline inflation during the period.

The main determinants of headline inflation acceleration were higher demand for staple food, as well as, high international food prices, which increased food prices during the review period. Moreover, a stronger rebound in fuel demand as COVID-19 virus infections slowed down and economic activity picked up buoyed international crude oil prices. Crude oil supply-tightness that was induced by production cuts by OPEC+ alliance, coupled with a weaker US dollar, also led to fuel prices rise, which spilled over into the domestic price movements during the review period.

Core Inflation

Core inflation, however, declined from 4.3 per cent in January 2021 to 4.2 per cent in February 2021.

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

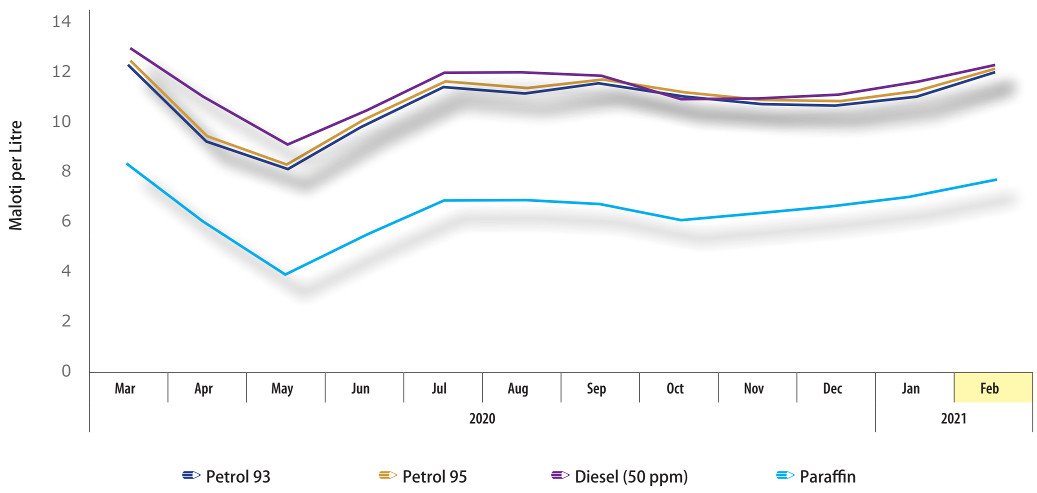


Source: Lesotho Bureau of Statistics & CBL Computation

Domestic Fuel Prices

The prices for all domestic fuel components increased in February 2021. The pump prices of both petrol grades (petrol93 and petrol95) increased by M0.95 per litre to reach M12.05 per litre and M12.15 per litre, respectively. The price of diesel50 also increased by M0.70 per litre per litre to reach M12.30 per litre during the review period. In addition, the wholesale price of illuminating paraffin increased by M0.60 to M7.65 per litre per litre during the review period.

Figure 3 Domestic Fuel Prices



Source: Lesotho Bureau of Statistics & CBL Computation

III. MONETARY AND FINANCIAL INDICATORS

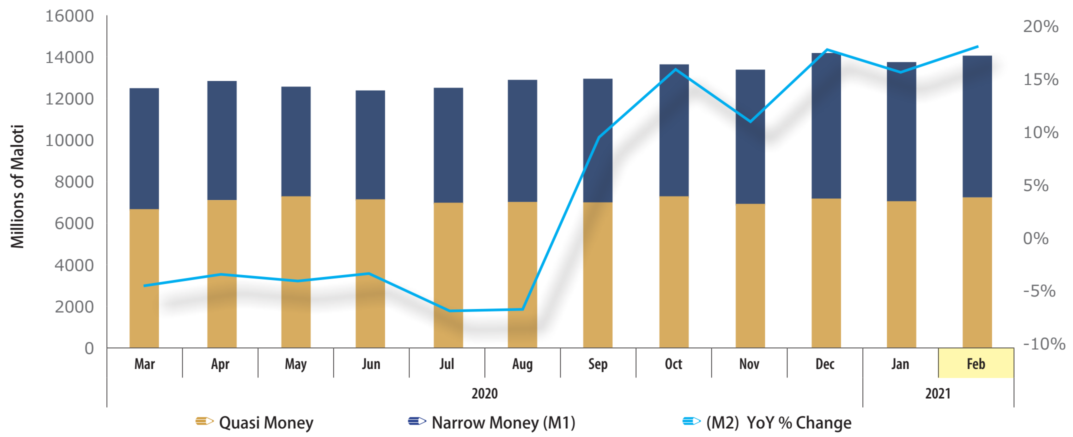
Broad Money (M2)

The broadly defined money supply (M2) rebounded from a decline of 3.3 per cent in January 2021 to an increase of 2.3 per cent in February 2021. The growth in M2 was due to a rise of 24.1 per cent in Net Domestic Assets (NDA), resulting from the drawdown of government deposits with the central bank. However, this was moderated by a decline of 5.0 per cent in Net Foreign Assets (NFA).

Components of Money Supply

In respect of the broad money components, both narrow money (M1) and quasi money registered a growth in the review period. Quasi money increased by 2.8 per cent, mainly driven by a rise in call deposits held by the business sector. Narrow money also increased by 1.7 per cent, following a rise in both currency in circulation and transferable deposits held chiefly by the non-profit institutions.

Figure 4 Broad Money Growth



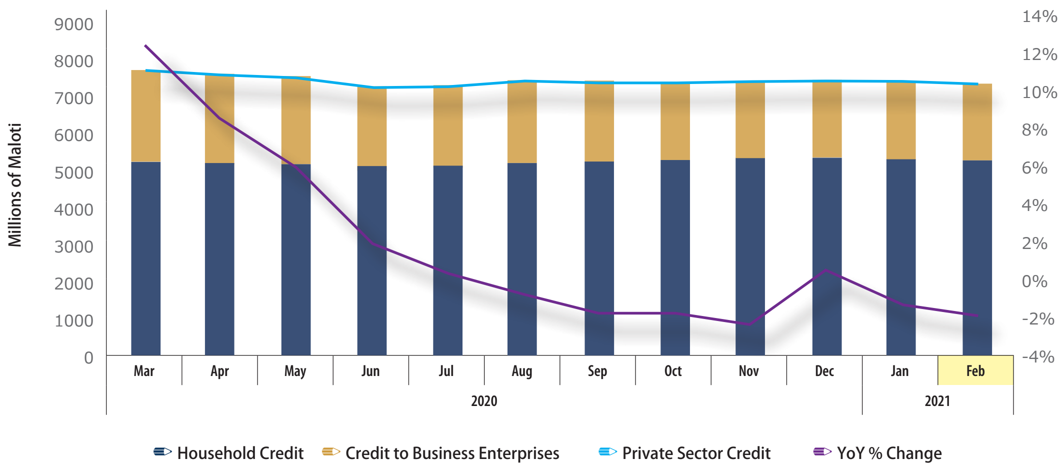
Source: Central Bank of Lesotho

Private Sector Credit

The total credit extended to the private sector continued to decline for three consecutive months up to February 2021. Private sector credit fell by 0.6 per cent in the current period, following a decline of 0.2 per cent in January 2021. This was on account of a decline in both credit extended to households and business enterprises.

The overall credit extended to households dropped by 0.5 per cent, following a decline of 0.6 per cent in the previous month. The drop in credit to the household sector was underpinned by a 0.8 per cent fall in personal loans, which was moderated by a 0.3 per cent growth in mortgages. Similarly, growth in credit granted to business enterprises decreased by 0.9 per cent, in contrast to a growth of 0.9 per cent in January 2021. This was largely attributable to the fall in credit extended to mining & quarrying, and real estate & business services sectors. Measured on year-on-year, growth in private sector credit fell by 1.7 per cent during the month under review.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

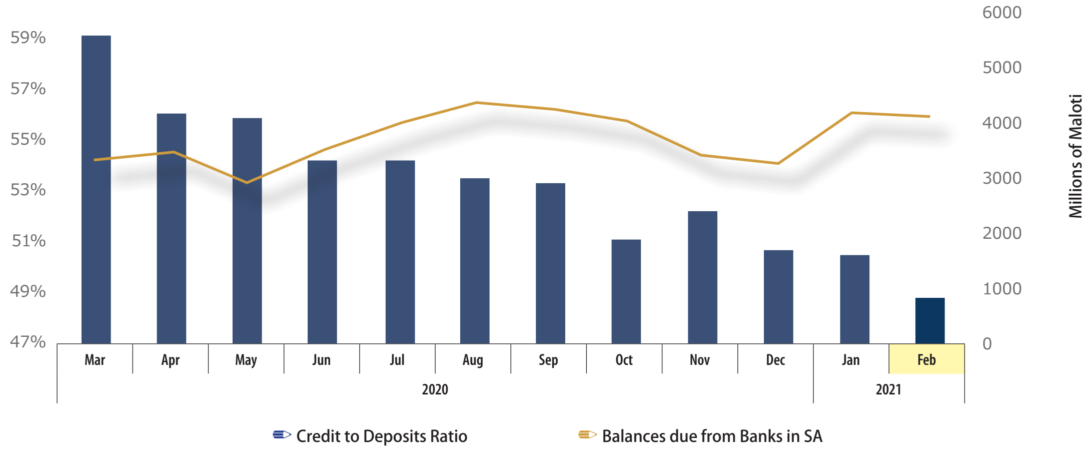
Non-Performing Loans

The ratio of Non-Performing Loans (NPLs) to total loans deteriorated during the review period, as it increased from 4.1 per cent to 4.7 per cent between January and February 2021. The rise in NPL's was due to the increase in both the business NPL's and household NPL's. Between the first two months of the year, NPLs from business enterprises increased from 3.2 per cent to 5.1 per cent. Similarly, NPLs arising from households increased from 4.4 per cent to 4.6 per cent during the same period.

Sources of Funds

Commercial banks' deposit liabilities increased by 2.8 per cent in February 2021, compared to a decline of 0.2 per cent in the previous month. Moreover, the credit to deposit ratio declined from 50.5 per cent in January 2021 to 48.8 per cent in the current period. This was at the back of a decline in credit extension in February 2021 relative to the growth in commercial banks' deposit liabilities.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

Most short-term interest rates remained the same between the first two months of the year. The Central Bank of Lesotho's Monetary Policy Committee (MPC), in its sitting of the 26th January 2021, left the CBL policy rate unchanged at 3.50 per cent. The 91-day T-Bill rate rose by 5 basis points to 3.32 per cent while the one year deposit rate declined by 26 basis points to 3.53 per cent and the prime rate remained unchanged at 8.19 per cent.

Foreign Exchange

The rand hence the loti appreciated against the major trading currencies in February 2021, following the weaker performance in the January 2021. Particularly, the rand appreciated by; 2.3 per cent against the US dollar to the average of 14.76, 0.7 per cent against the pound to the average of 20.47, and 3.0 per cent against the euro to the average of 17.86. The rand was supported by improved national debt outlook in the medium term in South Africa. There is also a likelihood that South Africa will cut an issuance of new debt. Furthermore, the South African bond yields were still relatively high, hence minimizing capital outflows due to rising bond yields in the advanced economies.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure[1]

Government total spending increased significantly by 55.1 per cent in February 2021, following a rise of 6.8 per cent in January 2021. This increase was mainly driven by operating costs, grants to extra-budgetary units, NMDS[2] student grants, domestic travel and transport, other structures, and GOL[3] funded projects. In terms of year-to-date changes, the Government expenditure increased by 4.5 per cent in February 2021, in contrast to a decline of 19.4 per cent in February 2020.

Outlays by Functions

The recurrent outlays were estimated at 92.9 percentage points of the total outlays. The largest spending went towards health, followed by general public services function.

Total Revenue

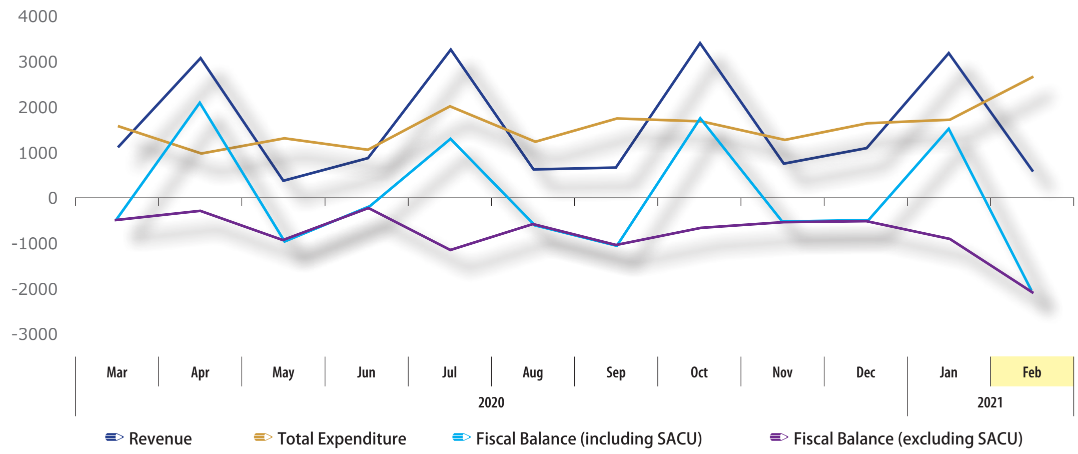
The Government revenue fell by 82.2 per cent in February 2021, relative to a drastic increase in the previous month. This decline in revenue was largely normalisaton following receipts of SACU[4] inflow beginning of the quarter, plus the once off compensation of seigniorage revenue that was received in January 2021. On the year-to-date changes, revenue rose by 14.0 per cent in February 2021 compared with an increase of 5.4 per cent in February 2020.

Fiscal Balance and Financing

The Government budget operations were estimated to have registered a deficit equivalent to 23.4 per cent of GDP during the month under review, in contrast to a revised surplus of 16.9 per cent of GDP in the previous month. This fiscal deficit was financed by a drawdown of Government deposits in the banking system. Further deposits were used to redeem short-term Government securities and external debt.

[1] The year-to-date refers to an accumulation within a fiscal year, starting from April.
[2] NMDS refers to National Manpower Development Secretariat that is found under the Ministry of Development Planning.
[3] GOL stands for Government of Lesotho.
[4] SACU entails the Southern African Customs Union.
[5] GDP represents gross domestic product.

Figure 7 Government Fiscal Balance (Million Maloti)



Source: CBL and Ministry of Finance (MOF)

Table 2: Cross Classification of Expenditure by Function and Economic Item (Percentage Change)

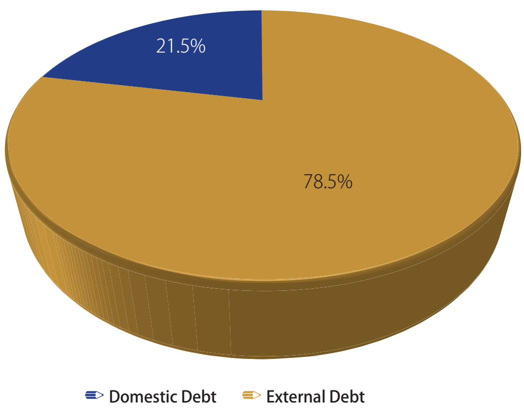
Function \ Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services	9.7%	11.3%	3.5%	84.4%	0.0%	0.0%	17.3%	**19.6%**
Defense	5.8%	5.3%	0.0%	0.0%	0.0%	0.0%	0.3%	**3.1%**
Public Order and Safety	20.4%	7.0%	0.0%	1.5%	0.0%	0.0%	11.8%	**8.7%**
Economic Affairs	11.8%	16.3%	0.0%	2.5%	-2.1%	99.7%	20.3%	**17.6%**
Environmental Protection	0.1%	0.3%	0.0%	0.0%	0.0%	0.1%	0.2%	**0.1%**
Housing and Community Amenities	0.9%	2.3%	0.0%	5.9%	0.0%	0.0%	39.4%	**3.0%**
Health	5.7%	54.8%	68.9%	0.0%	0.8%	0.0%	0.0%	**19.7%**
Recreation, Culture, and Religion	0.7%	0.5%	0.0%	0.9%	0.0%	0.0%	5.6%	**0.6%**
Education	24.1%	1.4%	27.5%	0.0%	0.0%	0.0%	5.1%	**9.9%**
Social Protection	20.9%	0.8%	0.0%	4.8%	101.4%	0.2%	0.0%	**17.7%**
Share per Economic Item	31.5%	24.1%	6.6%	15.5%	10.0%	9.1%	3.2%	100.0%

Source: CBL and MOF

V. PUBLIC DEBT

The public debt stock was estimated at 69.0 per cent of GDP in February 2021, which was down from 69.8 per cent of GDP in January 2021. The monthly changes depicted a contraction of 1.2 per cent in the month under review owing to redemption of fiscal Treasury bills held by the banking sector. On an annual basis, public debt stock increased by 17.6 per cent in February 2021 compared with a rise of 15.7 per cent in February 2020.

Figure 8 Public Debt Stock by Residence



Source: CBL & MOF

Appendix: Key Economic Indicators

		20-Sep	20-Oct	20-Nov	20-Dec	21-Jan	21-Feb
Economic Activity *(MIEA (% change, M/M)*		-0.6	-1.1	0.9	5.5	-3.6	0.9
Consumer price Index *(% change)*	*Headline Inflation (year-on-year)*	5.9	5.6	5.6	5.7	5.4	5.6
	Core Inflation	5.0	4.9	4.8	4.6	4.3	4.2
Exchange Rates *(Monthly End Period)*	*EUR*	19.67	19.00	18.38	18.06	15.05	18.08
	GBP	21.59	21.07	20.44	20.07	20.67	20.81
	USD	16.80	16.24	15.34	14.69	18.28	14.93
Money Supply (Millions of Maloti)	*M2*	13,000.90	13,700.84	13,473.79	14,282.90	13,811.68	14,125.57
	M1	5,829.60	6,255.99	6,370.50	6,950.30	6,603.45	6,717.11
	Quasi Money	7,171.29	7,444.85	7,103.29	7,103.29	7,208.23	7,408.45
Interest Rates	*CBL Rate*	3.50	3.50	3.50	3.50	3.50	3.50
	91 day Treasury bill rate	3.36	3.35	3.26	3.20	3.20	3.32
	Prime lending rate	8.19	8.19	8.19	8.19	8.19	8.19
	1 year deposit rate	3.79	3.79	3.79	3.79	3.27	3.53
Private sector Credit *(Millions of Maloti)*		7,374.16	7,356.12	7,411.95	7,410.42	7,397.41	7,350.61
	Households	5,294.51	5,319.51	5,375.24	5,394.98	5,363.47	5,335.20
	Business Enterprises	2,079.65	2,036.61	2,036.70	2,015.45	2,033.94	2,015.41
Bank Deposit Liabilities *(Millions of Maloti)*		13,905.94	14,448.27	14,244.97	14,732.28	14,705.08	15,113.90
Credit to Deposit Ratio (%)		53.30	51.10	52.20	50.68	50.48	48.77
Fiscal Operations *(Millions of Maloti)*	*Fiscal Balance*	-996.19	1,620.76	-502.09	-512.51	1,406.10	-1,948.49
	Total Revenue	630.92	3,183.75	689.39	986.59	3,007.88	535.75
	Total Expenditure	1,627.11	1,562.99	1,191.48	1,499.10	1,601.77	2,484.23
	O/W Capital	247.86	157.70	65.02	165.53	168.03	242.73
Total Public Debt *(Millions of Maloti)*		21,509.18	21,527.55	21,568.09	21,544.83	21,681.20	21,420.95
	Total External Debt	16,409.27	16,516.52	16,570.59	16,515.41	16,646.80	16,817.19
External Debt	*Concessional*	12,831.05	12,883.27	12,887.58	12,845.59	12,919.07	13,037.37
	Non-concessional	3,578.22	3,633.25	3,683.01	3,669.82	3,727.73	3,779.82
Domestic Debt		5,099.91	5,011.03	4,997.50	5,029.42	5,034.39	4,603.76
Memo Item: Arrears *(Millions of Maloti)*		78.90	201.82	164.58	151.78	216.76	155.17

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. This core inflation measure excludes the consumer price index (CPI) items with extreme price changes.

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 financial information system (known as IFMIS) 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.

Apart from spending by economic classification above, the database on the spending by functions was rebuilt starting from the April 2019 onwards while at the same time the historical data was compiled bit by bit. Thus, the table on the classification of outlays by functions of government (known as COFOG) was last updated by Ministry of Finance in 2008/09, just before the implementation of new IFMIS chart of accounts.

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