



Monthly ECONOMIC REVIEW

January 2021

CENTRAL BANK OF LESOTHO

I. ECONOMIC ACTIVITY

Economic activity was estimated to have declined in January 2021. Demand shrank as lockdown restrictions were reinstated owing to the second wave of the COVID-19 pandemic.

Overall Performance Index

As estimated by the Monthly Indicator of Economic Activity (MIEA), economic performance declined by 3.0 per cent in January 2021, in contrast to the 4.6 per cent growth recorded in December 2020. Demand was under pressure after reintroduction of hard lockdown owing to the emergence of the COVID-19 second wave. Manufacturing, however, remained resolute during the review month, albeit at a slower growth. The transport sub-sector (represented by negative contributions in fuels) and construction sub-sector were also adversely affected by the lockdown, hence contributing to the decline in the index.

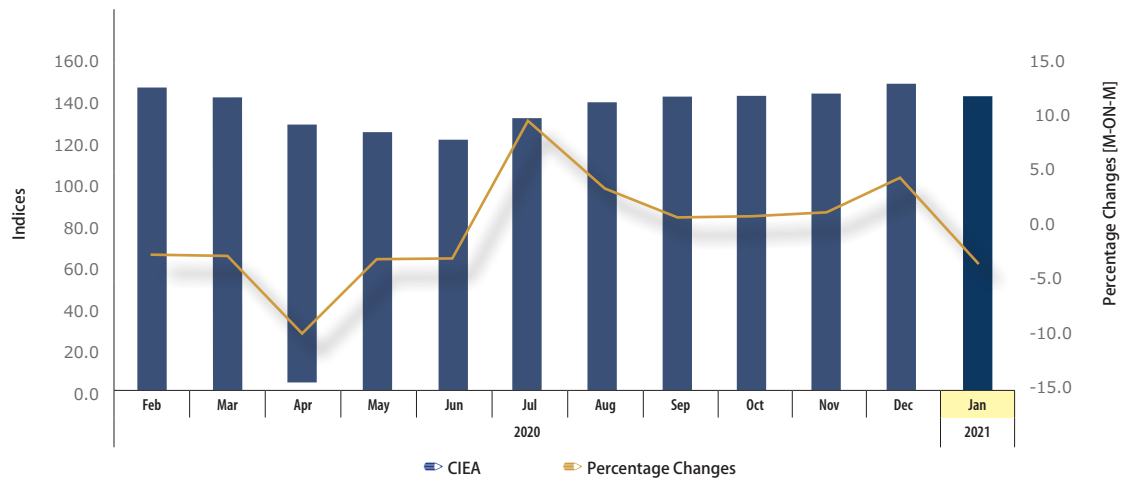
Domestic Demand Category

The domestic demand index recorded a sharp decline of 8.0 per cent in January 2021. This was in contrast to the 3.6 per cent growth recorded in December 2020. Reduced demand for imports coupled with relatively low collection of taxes were the main contributors to the observed decline in the index during the month as the country was operating strictly under essential service provision. However, Government activity (both purchases and compensation of employees) and PAYE moderated the decline in the overall index.

Manufacturing and Production Category

Despite the return to the hard lockdown during January, the manufacturing index grew by 1.5 per cent in the review month. This was, however, a slower rate compared with the 3.6 per cent growth recorded in December 2020. Manufacturing was mostly boosted by textile exports into US markets. However, domestic production, represented by usage of water and electricity, remained under pressure.

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							2021
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
CIEA	121.6	133.7	138.7	140.1	141.7	143.7	150.3	145.9
Monthly changes	-2.7	10.0	3.7	1.0	1.1	1.4	4.6	-3.0
Domestic Demand Category	105.7	107.8	113.7	126.2	136.5	143.7	148.8	137.0
Monthly changes	-7.3	2.0	5.4	11.1	8.1	5.2	3.6	-8.0
Manufacturing & Production Category	79.8	93.1	106.9	105.5	103.4	100.8	104.8	106.3
Monthly changes	-2.1	16.7	14.9	-1.3	-22.0	-2.5	3.9	1.5

Source: Central Bank of Lesotho (CBL) Calculations

II. INFLATION AND PRICES

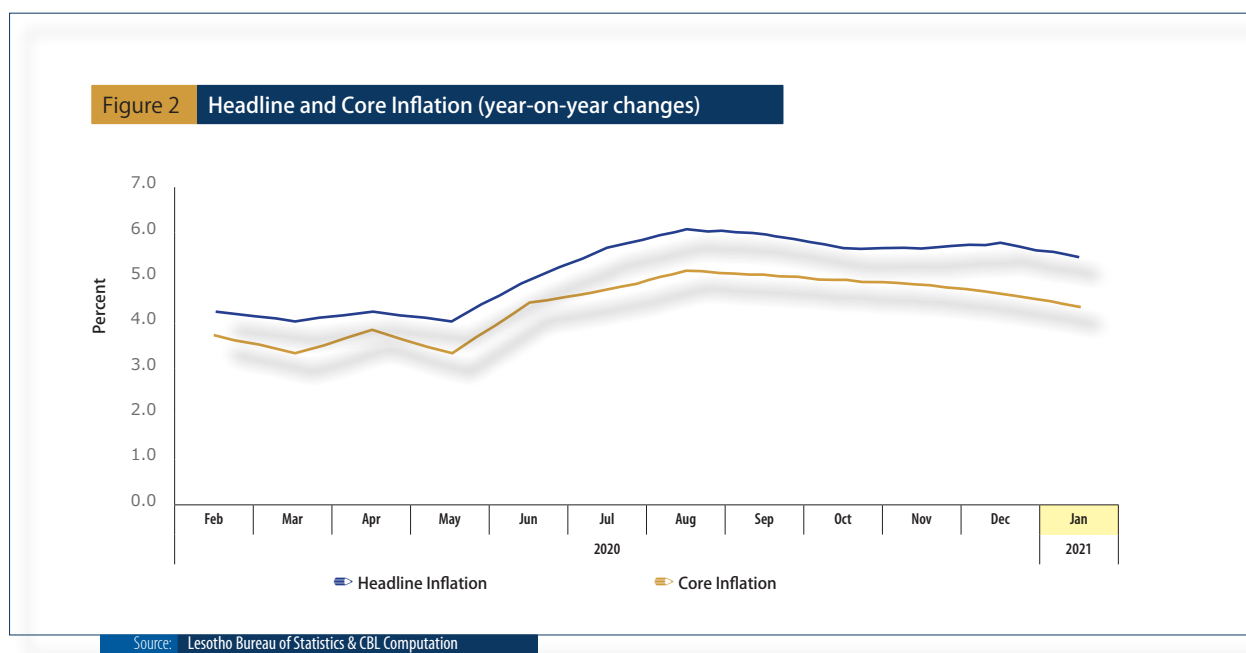
Headline Inflation

In January 2021, the headline inflation rate decelerated by 0.3 percentage points to reach 5.4 per cent from its December 2020 rate. The major components of inflation that contributed to the disinflation during the review period were Education, Clothing & footwear, Recreation & Culture and Health. Nonetheless, Food & Non-Alcoholic beverages, Utilities, Transport and Furniture, household's equipment & routine maintenance and recreation components, moderated the deceleration in the headline inflation during the period.

The main determinants of headline inflation deceleration during the review period were lower demand for services, as the Government of Lesotho was under relatively strict movement restrictions across the country in an effort to curb the spread of the second wave of COVID-19. Nonetheless, the increases in international fuel and food prices, which was buoyed by continued production cuts by OPEC+ alliances, spilled over into domestic fuel and food prices, moderating the disinflation in the month under review.

Core Inflation

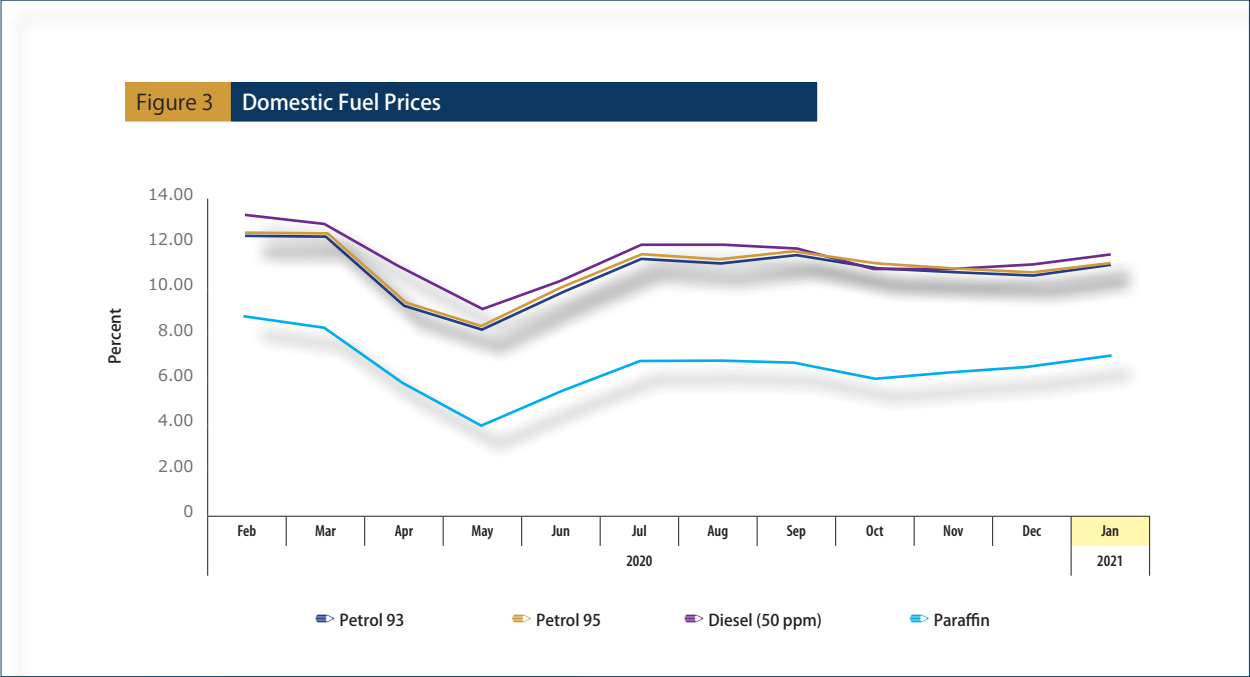
Core inflation declined from 4.6 per cent in December 2020 to 4.3 per cent in January 2021.



Domestic Fuel Prices

All domestic fuel components' prices increased during the review period. The pump prices of both petrol grades (petrol93 and petrol95) increased by M0.40 per litre to reach M11.10 per litre and

M11.20 per litre, respectively, at the pump. The price of diesel50 also increased by M0.50 per litre to reach M11.60 per litre during the review period. In addition, the wholesale price of illuminating paraffin increased by M0.45 to M7.05 per litre during the review period.



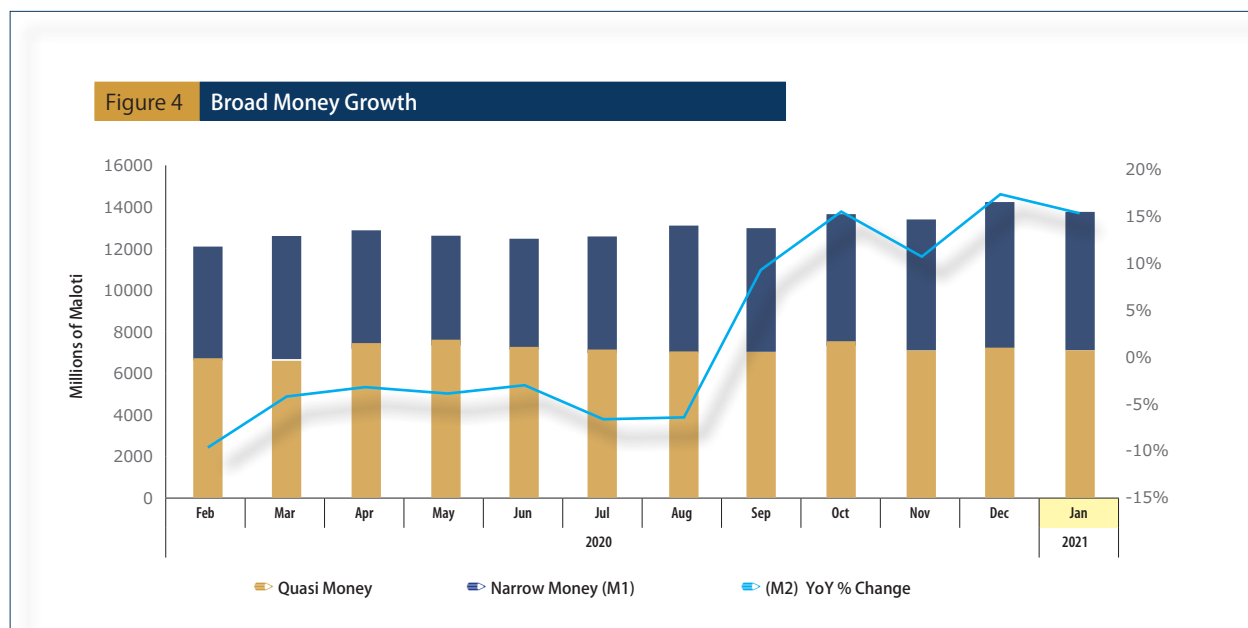
III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

Growth in broadly defined money supply (M2) fell by 3.3 per cent in January 2021, from an increase of 6.0 per cent in December 2020. The contraction in M2 was attributable to a 73.0 per cent decline in net domestic assets (NDA), while a 10.1 per cent expansion in net foreign assets (NFA) lessened the fall in M2. The observed decrease in NDA was due to an improvement of 32.6 in government deposits.

Components of Money Supply

Over the first month of the year, both components of money supply declined. Narrow money (M1) and quasi money fell by 5.0 per cent and 1.7 per cent, respectively. The decline in M1 was on account of a drop in currency in circulation and transferable deposits by 12.3 per cent and 3.2 per cent, respectively. The contraction in transferable deposits was on the back of huge withdrawals by business enterprises during the review period. In the similar manner, the fall in other deposits was driven by call deposits withdrawals by business enterprises.



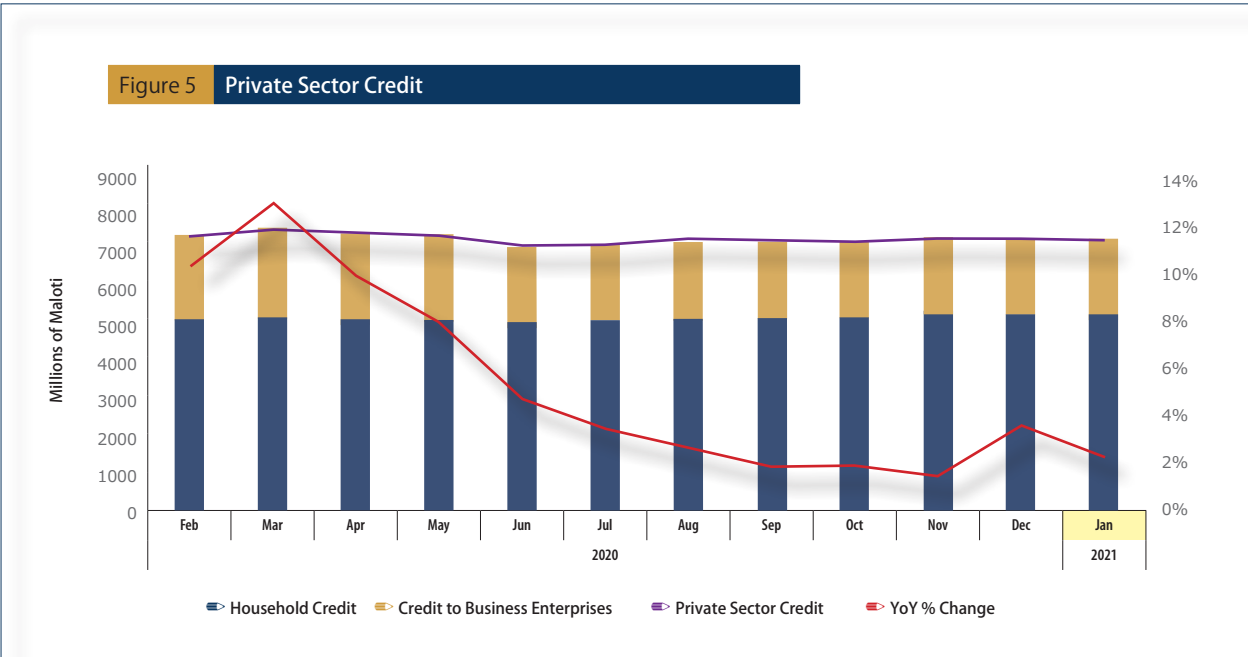
Private Sector Credit

Credit extended to the private sector continued to fall during the month under review. Growth in private sector credit fell by 0.2 per cent in January 2021, which represents the second consecutive month of negative growth. The overall decline in private sector credit resulted mainly from household credit, which forms the largest component of private

sector credit. Household credit dropped by 0.6 per cent in January 2021, in contrast to an improvement of 0.4 per cent realised in December 2020. This was driven by a decline of 0.9 per cent in personal loans, which was moderated by a 0.3 per cent growth in mortgages. Growth in credit granted to business enterprises rebounded from a contraction of 1.0 in December 2020 to an improvement of 0.9 per cent in January 2021, thus lessening the fall in overall

credit extended to the private sector. Measured on year-over-year, growth in private sector credit fell by

1.1 per cent during the month under review.



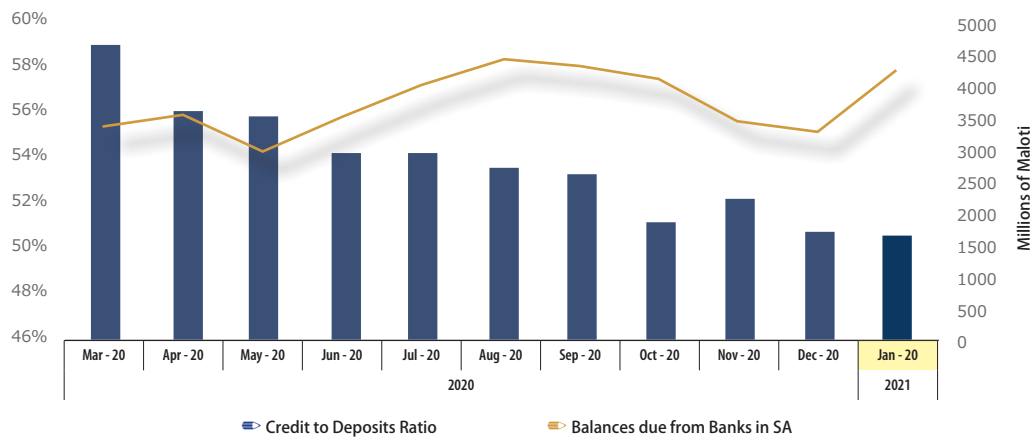
Non-Performing Loans

The ratio of non-performing loans (NPLs) to total loans declined slightly to 4.1 per cent in January 2021, from 4.2 per cent recorded in December 2020. The improved performance in banks’ loan portfolio during the review period was observed in both business enterprises and household loans. NPLs from business enterprises dropped from 3.5 per cent to 3.2 per cent, between December 2020 and January 2021. Similarly, NPLs arising from households declined from 4.6 per cent to 4.5 per cent during the same period.

Sources of Funds

During the month under review, commercial banks’ deposit liabilities fell marginally by 0.2 per cent, in contrast to an improvement of 3.4 per cent in the previous month. This, coupled with a slight decline in credit extension in January 2021, led to a minor fall in credit to deposit ratio to 50.5 per cent from 50.7 per cent recorded in December 2020.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

Most short-term interest rates remained the same between December 2020 and January 2021. 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 7 basis points to 3.27 per cent, while prime rate and the one year deposit rates remained flat at 8.19 per cent and 3.79 per cent, respectively.

Foreign Exchange

The rand, hence, the loti weakened against the major global trading currencies in January 2021, relative to the robust performance in the previous month. Particularly, it depreciated by 1.44 per cent against

the US dollar to the average of 15.11, 3.04 per cent against the pound to the average of 20.62, and 1.51 per cent against the euro to the average of 18.40. In December 2020, the rand had appreciated by 4.17 per cent, 2.56 per cent and 1.50 per cent against the US dollar, pound and euro, respectively. The value of rand declined as investors were cautious of spiking COVID-19 cases, and concerns over unsustainable public debt levels in South Africa. Furthermore, the rand suffered alongside other emerging market currencies, due to selloff of rand denominated assets. There were generally investment portfolio adjustments to take advantage of the rising bond yields in the advanced economies. The bond yields were supported by higher inflation expectations and monetary and fiscal stimulus negotiations in the advanced economies.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure¹

Government total spending increased slightly by 1.6 per cent in January 2021, after an increase of 25.8 per cent in December 2020. This increase was brought about by domestic NMDS student grants, current grants to Extra-budgetary units, subsidies to nonfinancial public corporations, Old Age Pension Scheme, and Public Assistance in Cash. In terms of year-to-date changes, the Government expenditure decreased by 1.6 per cent in January 2021, compared with a fall of 16.9 per cent in January 2020.

Outlays by Functions

The recurrent outlays out of the total outlays took a share of 92.1 percentage points. Education received the largest share, followed by general public services function.

Total Revenue

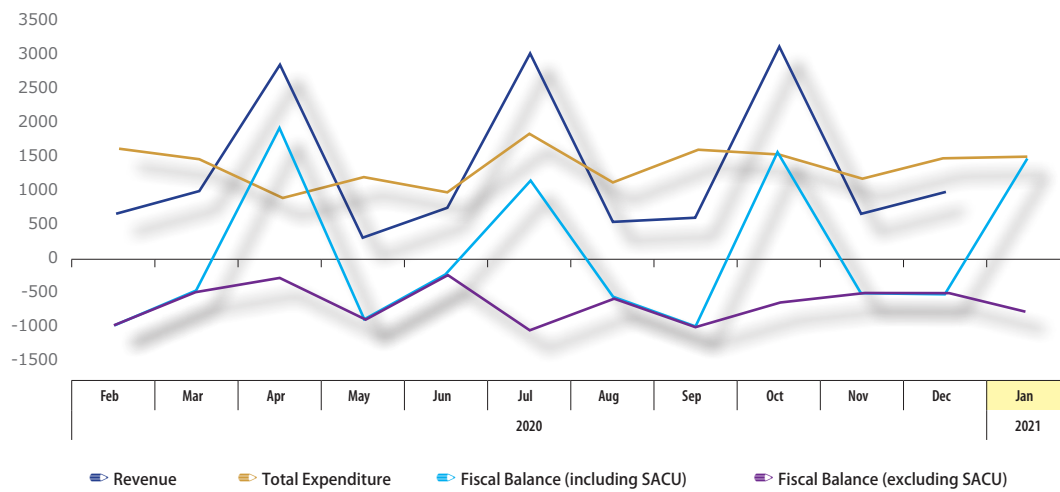
The Government revenue increased significantly by more than 100.0 per cent in the month under review, owing largely to SACU receipts. Other contributors to revenue included Rand Monetary Compensation, and mining royalties. On the year-to-date changes, revenue increased by 15.7 per cent in January 2021, compared with 5.2 per cent rise during the same period last year.

Fiscal Balance and Financing

The Government budget operations recorded a surplus equivalent to 17.8 per cent of GDP in January 2021 compared with a revised deficit of 6.2 per cent of GDP in the previous month. This fiscal surplus was used to redeem Government securities and foreign loans. It also contributed to a rise in the Government deposits in the banking system.

¹ 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 Ministry of Finance (MOF)

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

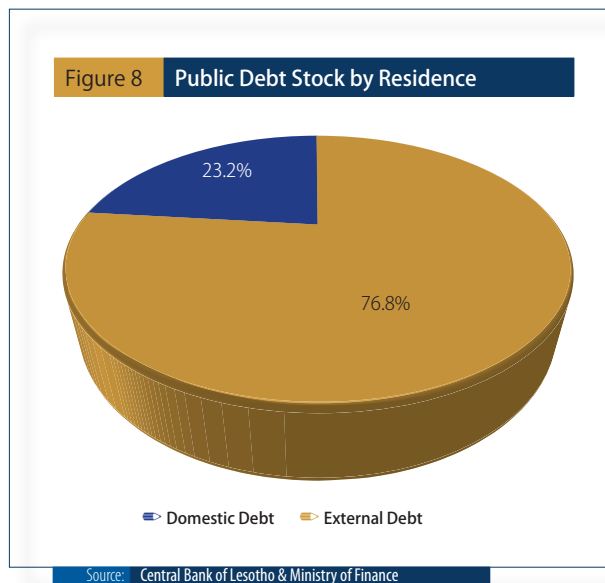
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		13.4%	16.5%	1.9%	73.7%	0.0%	0.8%	22.3%	17.6%
Defense		7.9%	6.7%	0.0%	0.0%	0.0%	0.0%	1.6%	4.4%
Public Order and Safety		20.3%	10.6%	0.0%	2.1%	0.0%	0.0%	6.1%	10.2%
Economic Affairs		7.8%	7.1%	2.3%	1.2%	0.0%	99.2%	6.3%	15.2%
Environmental Protection		0.1%	0.1%	0.0%	0.9%	0.0%	0.0%	0.0%	0.1%
Housing and Community Amenities		0.9%	3.6%	0.0%	0.0%	0.0%	0.0%	20.3%	1.7%
Health		7.0%	44.7%	31.3%	0.0%	0.7%	0.0%	34.5%	16.8%
Recreation, Culture, and Religion		0.9%	1.1%	0.0%	0.6%	0.0%	0.0%	5.4%	0.8%
Education		32.3%	8.9%	64.5%	0.0%	0.0%	0.0%	3.5%	21.3%
Social Protection		9.4%	0.6%	0.0%	21.5%	99.3%	0.0%	0.0%	12.0%
Share per Economic Item		36.8%	21.3%	11.5%	11.1%	6.1%	10.3%	3.0%	100.0%

Source: Central Bank of Lesotho (CBL) Calculations

V. PUBLIC DEBT

The public debt stock was estimated at 69.8 per cent of GDP in January 2021, compared with 69.4 per cent of GDP estimated in December 2020. This was equivalent to 0.6 per cent increase in contrast to a slight decline of 0.1 per cent in the previous

month. The increase was due to disbursed external debt, which was moderated by amortisation. On an annual basis, public debt stock amassed by 34.6 per cent in January 2021 after an expansion of 6.1 per cent in January 2020.



Appendix: Key Economic Indicators

		20-Aug	20-Sep	20-Oct	20-Nov	20-Dec	21-Jan	
Economic Activity (MIEA (% change, M/M))		3.8	1.0	1.2	1.4	4.6	-5.5	
Consumer price Index (% change)	Headline Inflation (year-on-year)	6.0	5.9	5.6	5.6	5.7	5.4	
	Core Inflation	5.1	5.0	4.9	4.8	4.6	4.3	
Exchange Rates (Monthly End Period)	EUR	20.02	19.67	19.00	18.38	18.06	15.05	
	GBP	22.35	21.59	21.07	20.44	20.07	20.67	
	USD	16.78	16.80	16.24	15.34	14.69	18.28	
Money Supply (Millions of Maloti)	M2	12,986.69	13,000.90	13,700.84	13,473.79	14,282.90	13,811.68	
	M1	5,828.06	5,829.60	6,255.99	6,370.50	6,950.30	6,603.45	
	Quasi Money	7,158.62	7,171.29	7,444.85	7,103.29	7,103.29	7,208.23	
Interest Rates	CBL Rate	3.50	3.50	3.50	3.50	3.50	3.50	
	91 day Treasury bill rate	3.37	3.36	3.35	3.26	3.20	3.20	
	Prime lending rate	8.19	8.19	8.19	8.19	8.19	8.19	
	1 year deposit rate	3.58	3.79	3.79	3.79	3.79	3.27	
Private sector Credit (Millions of Maloti)		7,407.30	7,374.16	7,356.12	7,411.95	7,410.42	7,397.41	
	Households	5,252.82	5,294.51	5,319.51	5,375.24	5,394.98	5,363.47	
	Business Enterprises	2,154.48	2,079.65	2,036.61	2,036.70	2,015.45	2,033.94	
Bank Deposit Liabilities (Millions of Maloti)		13,913.83	13,905.94	14,448.27	14,244.97	14,732.28	14,705.08	
Credit to Deposit Ratio (%)		53.51	53.30	51.10	52.20	50.68	50.48	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-567.78	-996.19	1,620.76	-502.09	-512.51	1,484.81	
	Total Revenue	562.29	630.92	3,183.75	689.39	986.59	3,007.88	
	Total Expenditure	1,130.07	1,627.11	1,562.99	1,191.48	1,499.10	1,523.06	
	O/W Capital	119.77	247.86	157.70	65.02	165.53	168.03	
Total Public Debt (Millions of Maloti)		21,541.34	21,509.18	21,527.55	21,568.09	21,544.83	21,681.20	
	Total External Debt	16,479.79	16,409.27	16,516.52	16,570.59	16,515.41	16,646.80	
	External Debt	Concessional	12,848.38	12,831.05	12,883.27	12,887.58	12,845.59	12,919.07
		Non-concessional	3,631.40	3,578.22	3,633.25	3,683.01	3,669.82	3,727.73
	Domestic Debt		5,061.56	5,099.91	5,011.03	4,997.50	5,029.42	5,034.39
Memo Item: Arrears (Millions of Maloti)		114.55	78.90	201.82	164.58	151.78	216.76	

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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Enquiries relating to this Publication should be addressed to:

Statistics Division

Research Department, Central Bank of Lesotho

Central Bank of Lesotho

Corner Airport and Moshoeshoe Roads • Maseru Central • P. O. BOX 1184 • Maseru 100

Phone: (+266) 2231 4281 / 2223 2000 • Fax: (+266) 2231 0051 • E-mail: info@centralbank.org.ls