



# Monthly ECONOMIC REVIEW

CENTRAL BANK OF LESOTHO

July 2021

## I. ECONOMIC ACTIVITY

Economic activity remained weak in July 2021. Both domestic demand and production categories were sluggish as the third wave of the COVID-19 pandemic forced the economy into some stricter containment measures.

### Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) declined by 0.3 per cent in July compared to the 0.6 per cent decline in June 2021. Both the demand and production categories contributed to the decline. In addition, the financial and construction subsectors remained slow, whereas the transport subsector remained resilient.

### Domestic Demand Category

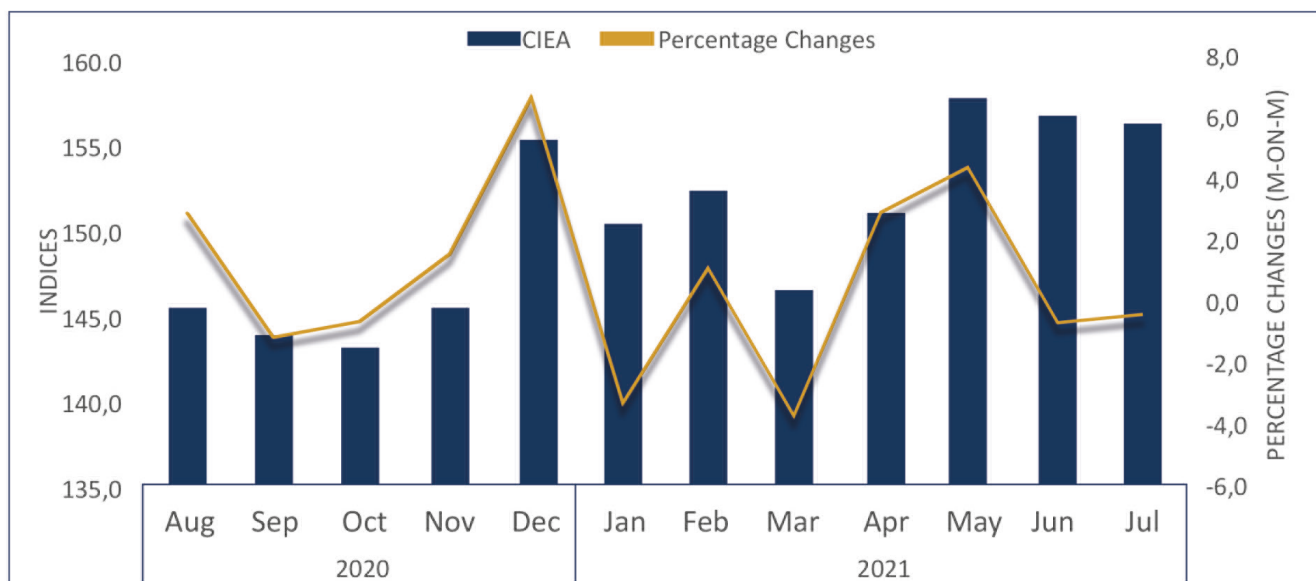
The domestic demand index declined by 0.4 per cent in July 2021, which is a slower rate compared to the 4.9 per cent contraction recorded in June 2021. The decline in the index was mainly a result of subdued demand for imports from South Africa (SA). However, Government activity in the form of

purchases of goods and services, as well as collection of both pay-as-you-earn (PAYE) and value added tax (VAT) moderated the decline.

### Manufacturing and Production Category

The manufacturing index contracted for the first time in three months. The index recorded a steep 5.3 per cent decline in July, in contrast to the 7.7 per cent growth recorded in June 2021. The decline in the index was mainly as a result of a slowdown in production activity, coupled with, a fall in exports of clothing and textiles to the United States (US) market. Even though there were positive contributions from imports of raw materials and electricity usage, they were not significant enough to offset the contraction.

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			
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
<b>CIEA</b>	155.4	150.4	152.3	146.5	151.0	157.8	156.9	156.4
Monthly changes	6.9	-3.2	1.3	-3.8	3.0	4.5	-0.6	-0.3
<b>Domestic Demand Category</b>	156.2	153.1	154.0	142.8	142.8	148.9	141.6	141.1
Monthly changes	7.8	-2.0	0.6	-7.3	0.0	4.3	-4.9	-0.4
<b>Manufacturing &amp; Production Category</b>	107.0	109.0	108.2	101.9	105.5	111.2	119.8	113.4
Monthly changes	6.2	1.8	-0.7	-5.9	3.6	5.4	7.7	-5.3

Source: CBL Calculations

## II. INFLATION AND PRICES

### Headline Inflation

The headline inflation rate declined by 0.5 percentage points, decelerating from 6.0 per cent in June 2021 to 5.5 per cent in July 2021. The decline was broad-based but the major contributors were Food & Non-Alcoholic beverages, Transport Housing, Water, Electricity, Gas and Other Fuels, and Alcohol and Tobacco components. However, clothing and footwear, as well as, Restaurant and hotels marginally moderated the disinflation.

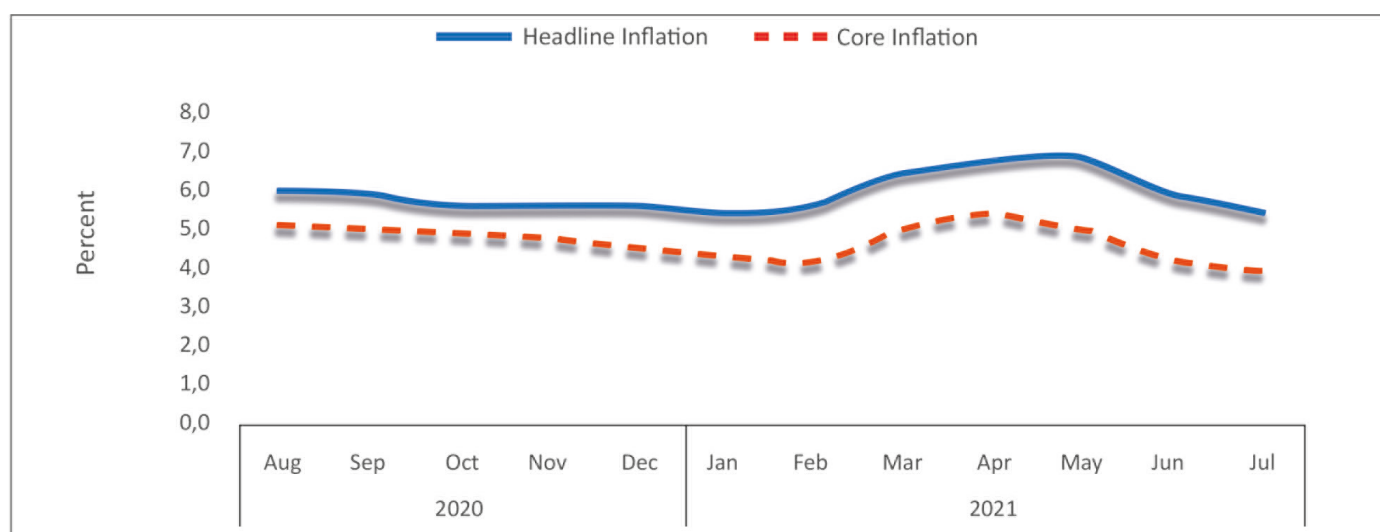
The disinflation during the review period reflected declining international food prices. This was due

to better cereal production from United States and Argentina and cancelled grain import orders from China. In addition, the exchange rate appreciation of the South African Rand against the U.S dollar contributed to falling domestic prices, amid favorable harvest conditions, domestic availability of grain and limited food import demand. Fading role of base effect and moderate crude oil price increase during the review month also led to falling inflation rate.

### Core Inflation

The core inflation rate declined from 4.2 per cent in June 2021 to 3.9 per cent in July 2021.

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



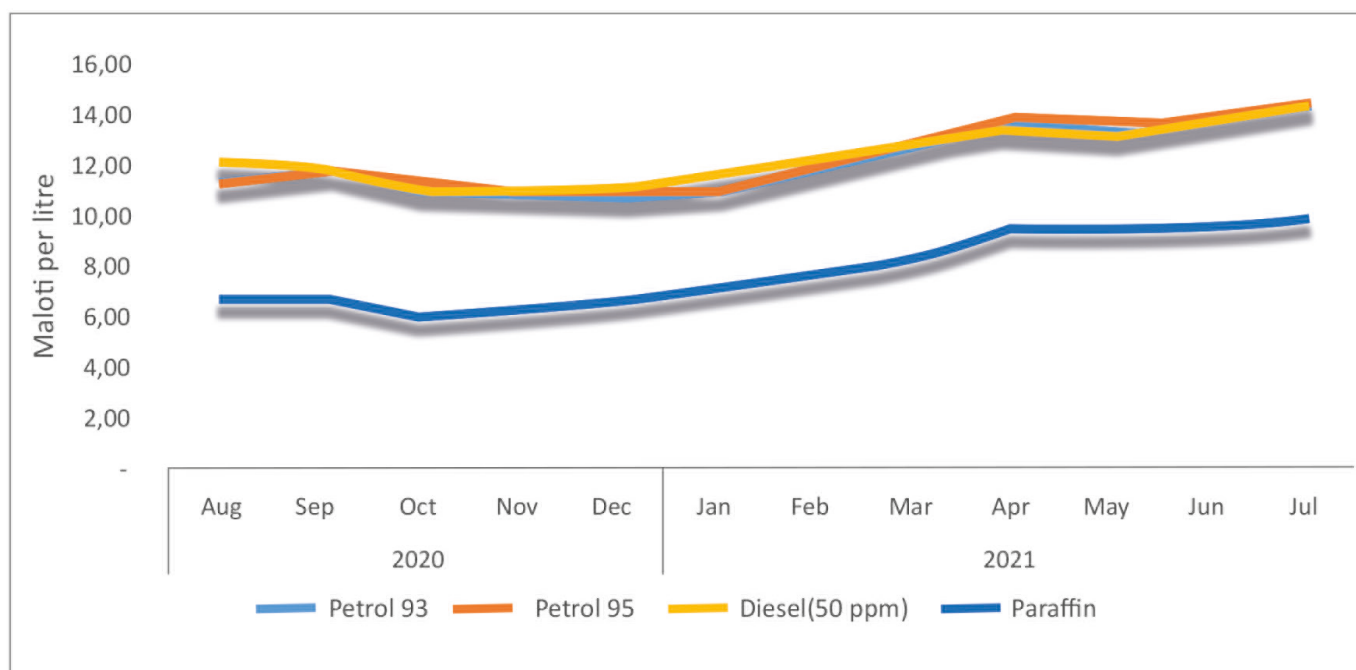
Source Lesotho Bureau of Statistics & CBL Computations

## Domestic Fuel Prices

The prices of domestic petroleum products increased during the review period. The pump prices of both grades of petrol ( [petrol] \_93 and [petrol] \_95) increased by M0.65 per litre and were M14.25

and M14.35 per litre, respectively. The price of [diesel] \_50 also increased by M0.65 per litre and was sold at M14.25 per litre at the pump. The retail price of illuminating paraffin also increased by M0.40 per litre and was sold at M9.90 per litre.

Figure 3 Domestic Fuel Prices)



Source Petroleum Fund

### III. MONETARY AND FINANCIAL INDICATORS

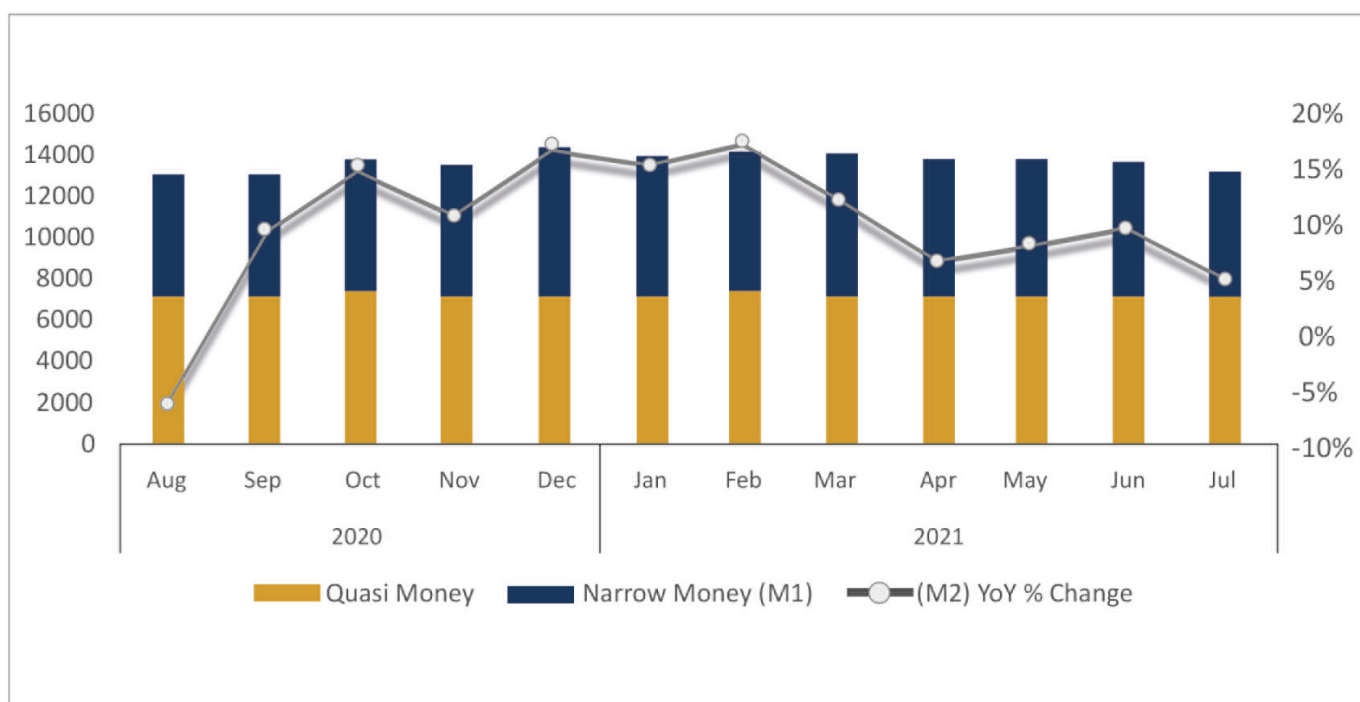
#### Broad Money (M2)

Broad money supply (M2) recorded fifth consecutive decline since March 2021 as it fell by 3.1 per cent in July 2021. This compares to a relatively moderate decrease of 0.6 per cent observed during the previous month. This was on account of a 27.0 per cent fall in net domestic assets (NDA) following a substantial increase in government deposits with the banking sector. This was however, slightly moderated by 3.4 per cent growth in overall banking system net foreign assets (NFA). The growth in NDA was supported by receipt of SACU revenue compared to relatively slower government spending. The increase in overall NFA also benefitted from receipt in SACU revenue which resulted in Central Bank NFA increasing by 10.9 per cent while commercial banks NFA fell by 8.1 per cent.

#### Components of Money Supply

components, the decline in M2 was attributable to a decline in both narrow money (M1) and quasi money of 2.9 per cent and 3.2 per cent, respectively. The fall in narrow money was at the back of a decline in demand deposits, moderated by a slight increase in currency in circulation. Business enterprises withdrawals from their call accounts deposits led to a decline in quasi money.

Figure 4 Broad Money Growth



Source Central Bank of Lesotho

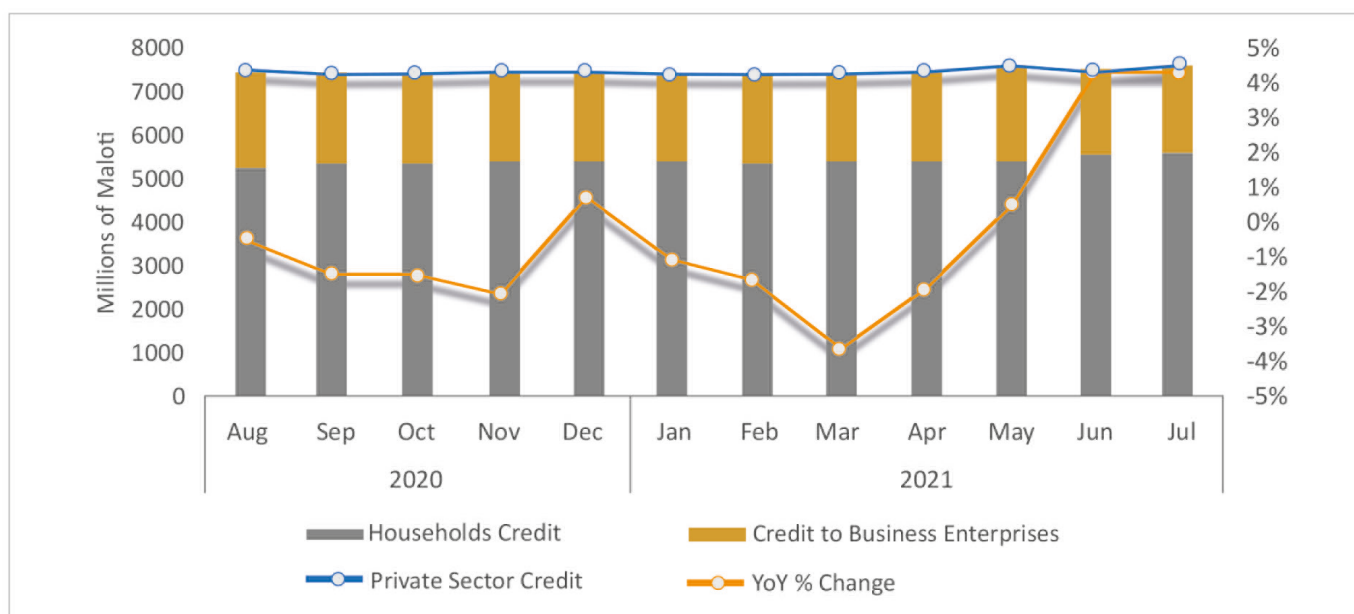
## Private Sector Credit

Following an increase of 0.2 per cent in June 2021, total private sector credit grew by 0.5 per cent in July 2021. This moderate growth in private sector credit was supported by a 1.3 per cent rise in household credit which was mostly boosted by growth in personal loans while mortgage loans declined during the month under review. Similar to the previous month, credit

extended to business enterprises declined, albeit at a relatively slower rate of 1.8 per cent compared to the 4.5 per cent decline observed in June 2021.

In particular, the fall in business credit was mainly attributable to the decline in credit extended to the mining, construction and wholesale & retail trade sectors. On annual basis, private sector credit rose by 4.3 per cent.

Figure 5 Private Sector Credit



Source Central Bank of Lesotho

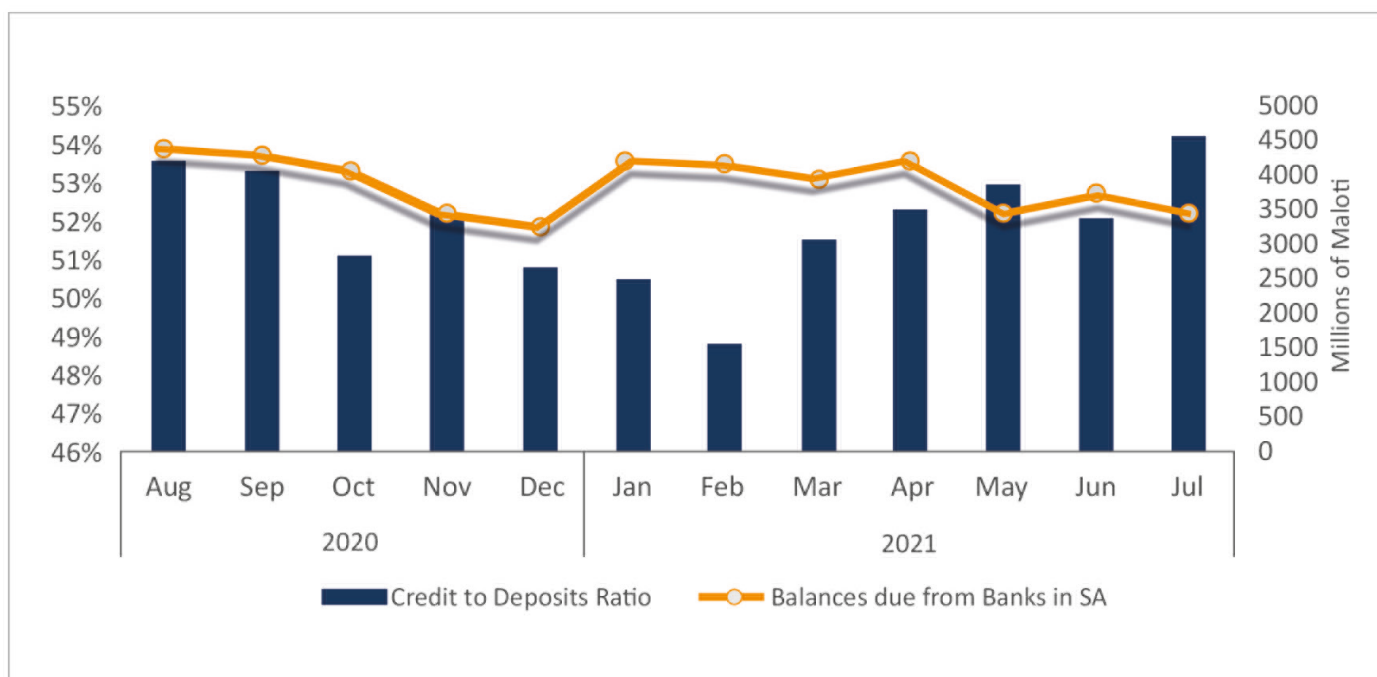
## Non-Performing Loans

The total non-performing loans (NPLs) as a ratio of total loans rose marginally from 4.7 per cent in June 2021 to 4.8 per cent in July 2021. This was on account of the worsening of business enterprises NPLs as a ratio of total loans, while household NPLs improved slightly. With respect to the households related NPLs, mortgages rose from 9.4 per cent in June 2021 to 10.1 per cent during the review month. On the contrary, personal loans NPLs improved from 2.8 per cent to 2.5 per cent during the same time period.

## Sources of Funds

Commercial banks' credit to deposit ratio improved from 52.1 per cent in June 2021 to 54.2 per cent during the period under review. This was mainly due to a sharp fall in deposits coupled with a marginal growth in credit extended to private sector. The fall in total deposits followed withdrawals from call accounts mainly by business enterprises.

Figure 6 Credit to Deposit Ratio



Source Central Bank of Lesotho

## Interest Rates

The CBL policy rate remained at 3.50 per cent between June and July 2021. As a result, most short-term interest rates also remained unchanged during the same period. However, the 91-day T-Bill rate increased from 3.27 per cent to 3.35 per cent between June and July 2021.

## Rand Exchange rate January 2021

The rand hence the loti continued to strengthen against the major global trading currencies in July

2021. In Particular, the rand appreciated by; 1.1 per cent to the average of 13.91 against the US dollar, 1.5 per cent to the average of 19.51 against the pound, and 1.9 per cent to the average of 16.75 against the euro. The rand was generally supported by higher commodity prices. The other factors that supported the rand included the current account surplus as global recovery boosted exports from SA. The data on business confidence also pointed to improving business environment in the country. However, the rand reacted negatively to hawkish tone of the Fed with regard to interest rates, and tightening of COVID-19 restrictions in SA.



## IV. GOVERNMENT BUDGETARY OPERATIONS

### Total Expenditure<sup>1</sup>

Government total expenditure was estimated to have increased by 21.7 per cent in July 2021 while in June 2021 it rose by 38.4 per cent. The main drivers of this increase included use of goods and services, students' grants, and, current grants to extra-budgetary units. Regarding annual changes, total expenditure, rose by 2.4 per cent in July 2021 in contrast to a fall of 5.8 per cent in July 2020.

### Outlays by Functions

The share of the development outlays to total outlays continued to increase since May 2021. It registered 15.7 per cent in July 2021, which was up from 10.6 per cent in June 2021. This rise was primarily driven by maintenance and construction of new infrastructure.

### Total Revenue<sup>2</sup>

The Government revenue increased significantly during the month under review owing to SACU

receipts, property income from mining royalties and surface rent, and water royalties from 'Muela hydropower. In the previous month, the total revenue increased by 41.6 per cent. However, the domestic revenue fell by 25.9 per cent in July 2021. In terms of year-on-year basis, the total revenue declined by 26.1 per cent in the current month in contrast to a rise of 30.8 per cent in July 2020.

### Fiscal Balance and Financing<sup>3</sup>

The fiscal operations registered an increase in both domestic financial assets and total liabilities. A rise in financial assets indicated a buildup of Government deposits. The liabilities, similarly, rose in respect of domestic other accounts payable that were linked to the projects accounts transfers to the commercial banks, coupled with new external debt.

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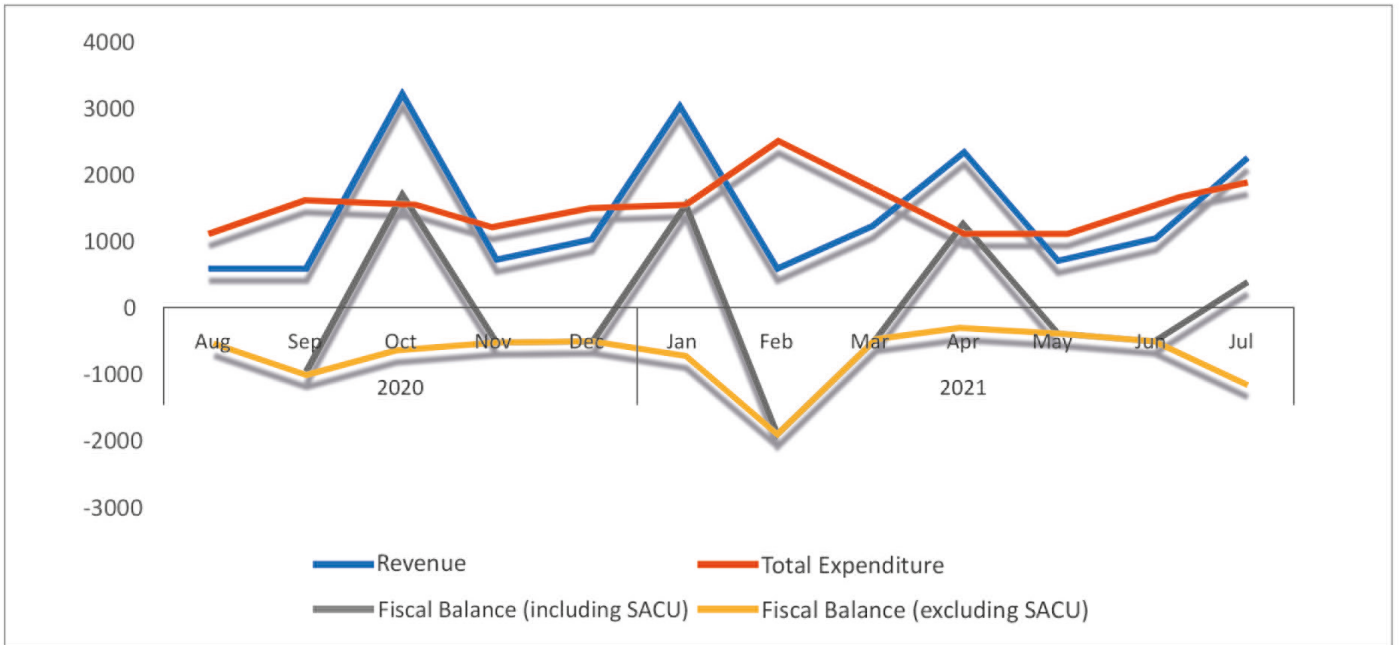
<sup>1</sup>The year-to-date refers to an accumulation within a fiscal year, starting from April.

<sup>2</sup>SACU receipts are usually received once in a quarter, in particular, in the first month of the quarter. They thus affect total revenue irregularly.

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<sup>3</sup>All financing items are on net basis

Figure 7 Government Fiscal Balance (Million Maloti)



Source CBL and MOF

Table 2 Cross-Classification of Government Outlays (Percent 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	9.5%	9.6%	1.3%	63.1%	0.0%	0.1%	21.8%	14.9%
Defense	7.5%	3.3%	0.0%	0.0%	0.0%	25.4%	0.0%	6.3%
Public Order and Safety	14.9%	8.2%	0.0%	0.0%	0.0%	0.0%	18.2%	9.3%
Economic Affairs	7.6%	7.8%	0.9%	2.7%	0.0%	74.1%	27.0%	18.3%
Environmental Protection	0.1%	0.0%	0.0%	0.2%	0.0%	0.0%	0.0%	0.1%
Housing and Community Amenities	0.7%	0.3%	0.0%	21.5%	0.0%	0.0%	26.5%	6.8%
Health	7.2%	68.4%	97.2%	0.0%	0.0%	0.5%	5.0%	22.4%
Recreation, Culture, and Religion	0.9%	0.3%	0.0%	2.5%	0.0%	0.0%	1.1%	0.8%
Education	29.9%	1.1%	0.6%	9.9%	0.0%	0.0%	0.3%	10.7%
Social Protection	21.7%	0.9%	0.0%	0.0%	100.0%	0.0%	0.0%	10.6%
<b>Share per Economic Item</b>	<b>31.3%</b>	<b>19.6%</b>	<b>6.0%</b>	<b>10.0%</b>	<b>3.6%</b>	<b>13.0%</b>	<b>16.5%</b>	<b>100.0%</b>

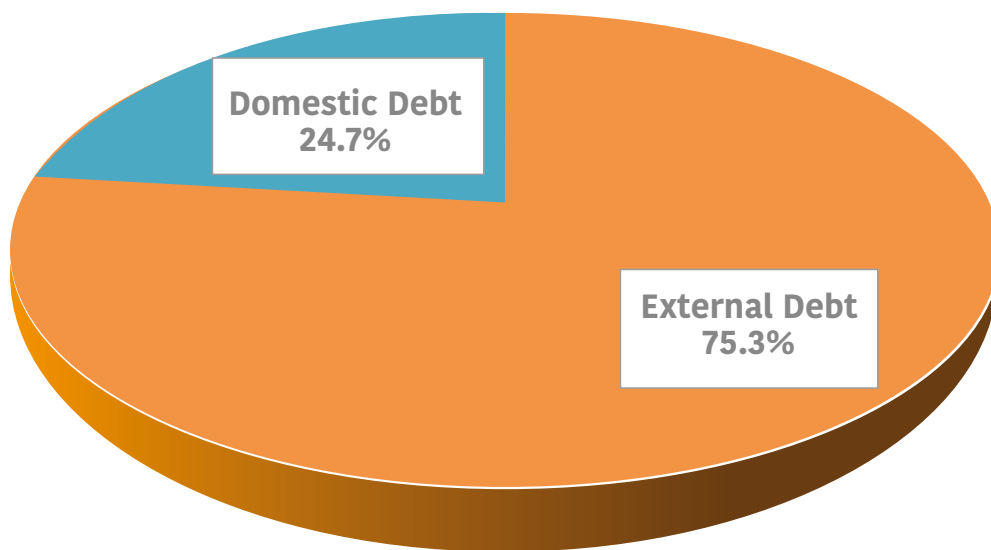
Source CBL and MOF

## V. PUBLIC DEBT

The public debt stock was estimated at 58.9 per cent of GDP in July 2021, following the revised 57.1 per cent of GDP in June 2021. This increase was mainly due to disbursement of new external debt under suppliers' credit and other loans from multilateral creditors.

Regarding the year on year changes, the public debt stock fell by 4.5 per cent in the current month relative to a rise of 22.8 per cent in July 2020.

Figure 9 Public Debt Stock by Residence



Source CBL and MOF

**Appendix: KEY ECONOMIC INDICATORS**

		21-Feb	21-Mar	21-Apr	21-May	21-Jun	21-Jul
<b>Economic Activity (MIEA (% change, M/M))</b>		1.3	-3.8	3.0	4.5	-0.6	-0.3
<b>Consumer price Index (% change)</b>	Headline Inflation (year-on-year)	5.6	6.5	6.7	6.9	6.0	5.5
	Core Inflation	4.2	5.1	5.5	5.0	4.2	3.9
<b>Exchange Rates (Monthly End Period)</b>	EUR	15.05	18.08	17.31	17.36	16.79	16.97
	GBP	20.67	20.81	20.32	19.95	19.51	19.77
	USD	18.28	14.93	14.76	14.37	13.76	14.28
<b>Money Supply (Millions of Maloti)</b>	M2	13,811.68	14,125.57	14,098.67	13,731.05	13,722.26	13,636.94
	M1	6,603.45	6,717.11	6,862.16	6,532.57	6,453.22	6,458.09
	Quasi Money	7,208.23	7,408.45	7,236.52	7,198.49	7,269.04	7,178.85
<b>Interest Rates</b>	CBL Rate	3.50	3.50	3.50	3.50	3.50	3.50
	91 day Treasury bill rate	3.2	3.32	3.25	3.23	3.22	3.27
	Prime lending rate	8.19	8.19	8.19	8.19	8.19	8.19
	1 year deposit rate	3.27	3.53	3.53	3.53	3.53	3.53
<b>Private sector Credit (Millions of Maloti)</b>		7,397.41	7,350.61	7,403.74	7,435.59	7,552.91	7,535.35
	Households	5,335.20	5,365.92	5,402.70	5,365.92	5,413.48	5,492.47
	Business Enterprises	2,015.41	2,037.82	2,032.89	2,037.82	2,139.43	2,042.89
<b>Bank Deposit Liabilities (Millions of Maloti)</b>		14,705.08	15,113.90	14,429.00	14,244.98	14,291.53	14,466.44
<b>Credit to Deposit Ratio (%)</b>		50.48	48.77	51.5	52.3	52.9	52.06
<b>Fiscal Operations (Millions of Maloti)</b>	Fiscal Balance	-1,933.91	-534.43	1,223.53	-386.28	-511.28	338.46
	Total Revenue	568.20	1,210.32	2,316.84	729.88	1,033.61	2,267.60
	Total Expenditure	2,502.11	1,744.74	1,093.31	1,116.16	1,544.89	1,929.14
	O/W Capital	260.61	324.41	154.08	128.75	305.10	356.41
<b>Total Public Debt (Millions of Maloti)</b>		18,527.47	18,245.62	17,853.24	17,493.64	18,051.10	18,635.21
External Debt	Total External Debt	14,009.29	13,665.43	13,343.69	13,031.35	13,380.73	14,026.42
	Concessional	10,880.09	10,647.14	10,372.65	10,102.10	10,428.82	10,745.95
	Non-concessional	3,129.20	3,018.29	2,971.04	2,929.25	2,951.91	3,280.47
Domestic Debt		4,518.18	4,580.18	4,509.56	4,462.29	4,670.37	4,608.79
<b>Memo Item: Arrears (Millions of Maloti)</b>		133.57	33.82	0.00	0.00	0.00	0.00



## 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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