



Monthly ECONOMIC REVIEW

June 2021

CENTRAL BANK OF LESOTHO

I. ECONOMIC ACTIVITY

Economic activity deteriorated in June 2021, in contrast to the two preceding months that reported positive growth. The poor performance was as a result of sluggish demand, despite relatively strong performance from the manufacturing and production side.

Overall Performance Index

Economic performance, as estimated by the Composite Indicator of Economic Activity (CIEA), was estimated to have contracted by 0.5 per cent in June 2021. Despite the robust performance of the manufacturing subsector in the review month, demand was slow and hence undermined the performance of the entire economy. This could be explained by the impact of COVID-19 induced restrictions. There were, however, positive contributions from the transport and construction subsectors, whereas the financial sector was subdued.

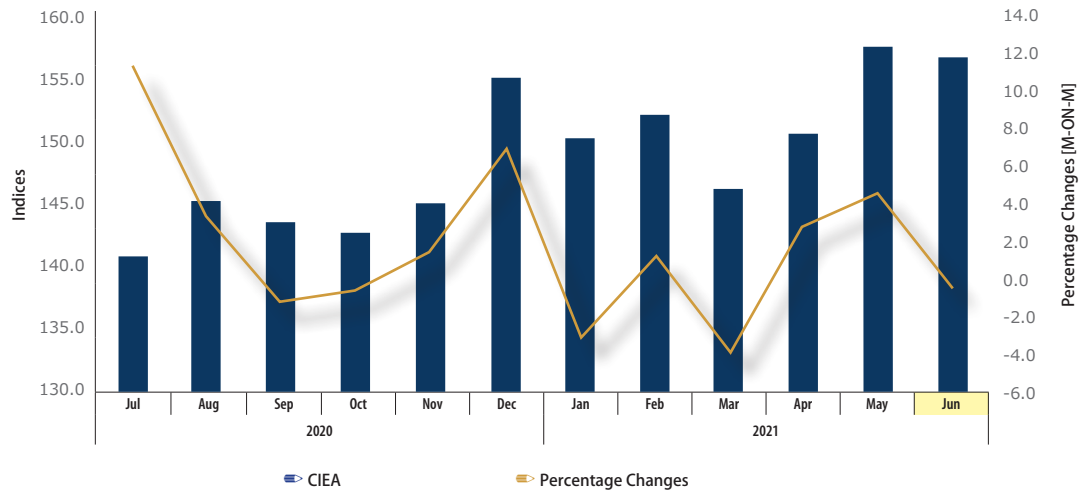
Domestic Demand Category

The domestic demand index recorded a negative growth of 4.9 per cent in the review month in contrast to the 4.4 per cent growth recorded in May. The decline in the index, on the one hand, mainly emanated from a fall in government activity (purchases of goods and services). On the other hand, there were positive contributions from government's categories, such as, compensation of employees, imports of goods and services from South Africa (SA) and a marginal increase in tax collections – both pay-as-you-earn (PAYE) and value added tax (VAT). Tax collections were affected by the slump in government activity.

Manufacturing and Production Category

The performance of the supply side of the local economy remained firm during the month. The manufacturing and production category grew by 7.9 per cent in June 2021, following the 5.5 per cent growth recorded in May. The index was boosted mainly by exports of clothing and textiles to the United States (US) and imports of raw materials from SA. The use of utilities (water and electricity) in production also contributed positively to the growth in the index, albeit at a slower rate compared to the observed increase in imports and exports.

Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2020		2021					
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
CIEA	145.1	155.1	150.2	152.1	146.3	150.6	157.5	156.7
Monthly changes	1.6	6.9	-3.1	1.3	-3.9	3.0	4.6	-0.5
Domestic Demand Category	144.9	156.2	153.2	154.0	142.7	142.6	148.8	141.6
Monthly changes	4.9	7.8	-1.9	0.5	-7.3	-0.1	4.4	-4.9
Manufacturing & Production Category	100.5	107.0	109.0	108.4	101.8	105.3	111.1	119.9
Monthly changes	0.5	6.4	1.9	-0.6	-6.1	3.5	5.5	7.9

Source: Central Bank of Lesotho (CBL) Calculations

II. INFLATION AND PRICES

Headline Inflation

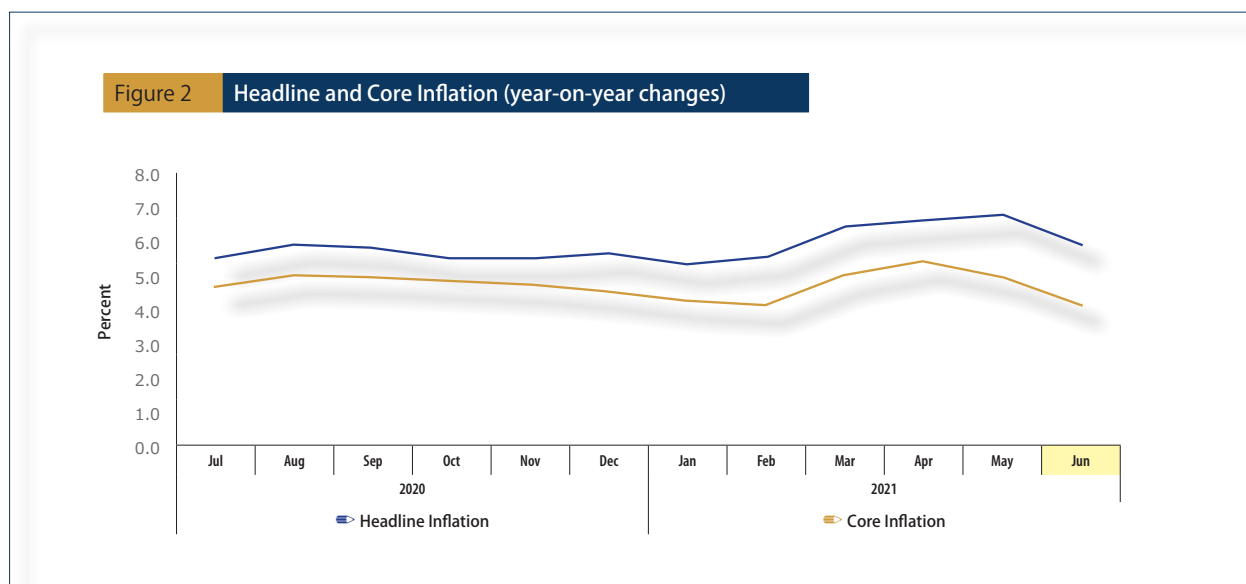
The headline inflation rate decelerated from 6.9 per cent in May 2021 to 6.0 per cent in June 2021. The disinflation was broad-based with the major effect emanating from the Food & Non-Alcoholic beverages, Housing, Water, Electricity, Gas and Other Fuels, and Transport components.

The major causes of deceleration in inflation during the review period was the diminishing role of base

effect, despite rising international crude oil price. The favorable supply prospects with above average yields, and the moderate strengthening of the South African rand, hence loti against the U.S dollar led to the fall in food prices in South Africa, from which Lesotho imports food mostly.

Core Inflation

Core inflation also decelerated from 5.0 per cent in May 2021 to 4.2 per cent in June 2021.

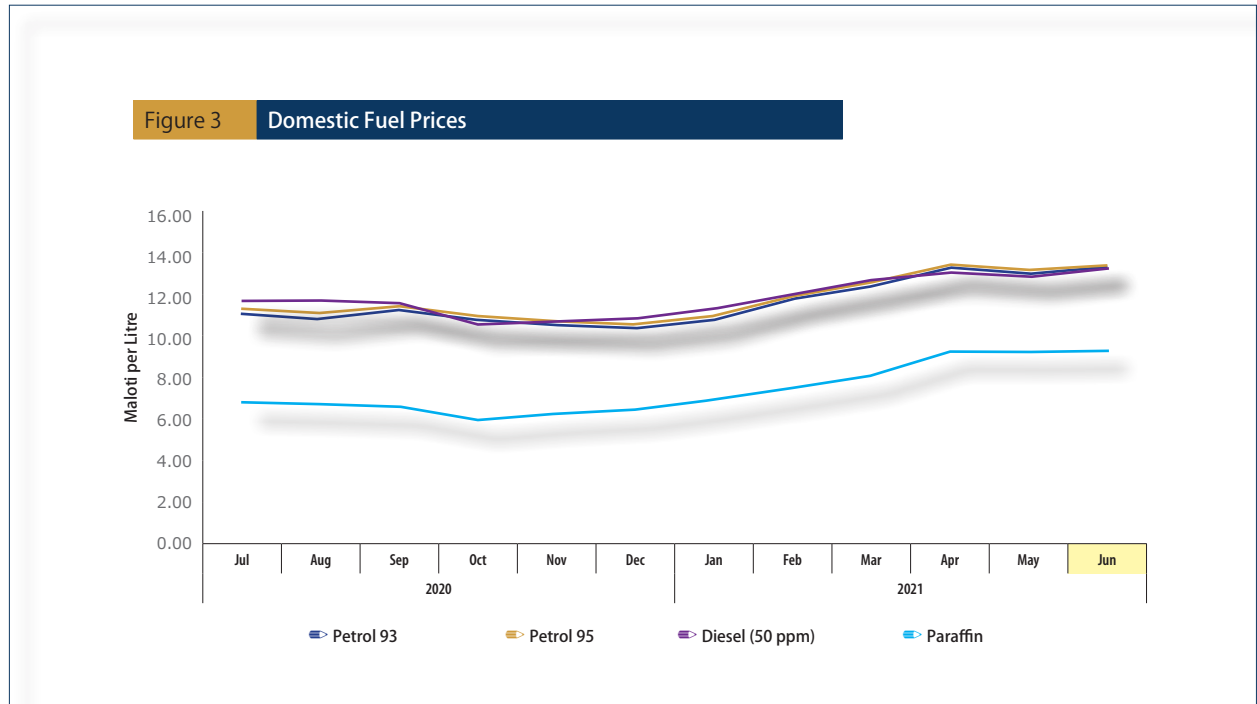


Source: Lesotho Bureau of Statistics & CBL Computations

Domestic Fuel Prices

Prices of all domestic fuel products increased in June 2021 from their levels in May 2021. While price of petrol93 increased by M0.25 per litre, the price of petrol95 increased by M0.20 per litre and their

respective pump prices were M13.60 per litre and M13.70 per litre. The price of diesel50 increased by M0.45 per litre and was M13.60 at the pump. The illuminating paraffin price increased by M0.10 per litre to reach the retail price of M9.50 per litre.



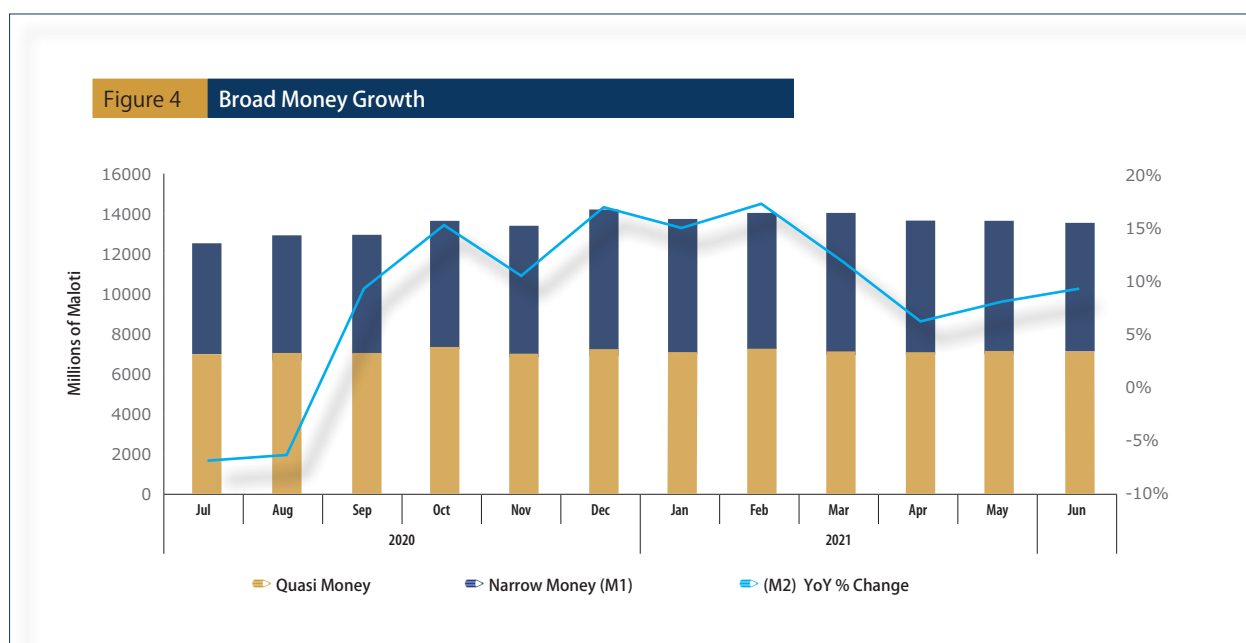
III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

Broad money supply (M2) fell by 0.6 per cent in June 2021, compared to a marginal decline of 0.1 per cent in May. This was due to a fall of 0.8 per cent in net foreign assets (NFA), which was moderated by 0.2 per cent growth in net domestic assets (NDA). The decline in NFA stemmed from a 4.8 per cent contraction in the central bank’s NFA, whereas the commercial banks’ NFA rose by 6.0 per cent. In contrast, NDA rose due to an increase of 3.5 per cent in credit to central government.

Components of Money Supply

In relation to broad money components, the decline in M2 was ascribed to a fall of 1.2 per cent quasi money, while narrow money (M1) improved by 0.1 per cent. The fall in quasi-money was on the back of a decline in other deposits held by public non-financial institutions and business enterprises. The slight growth in narrow money resulted from an increase in transferable deposits.



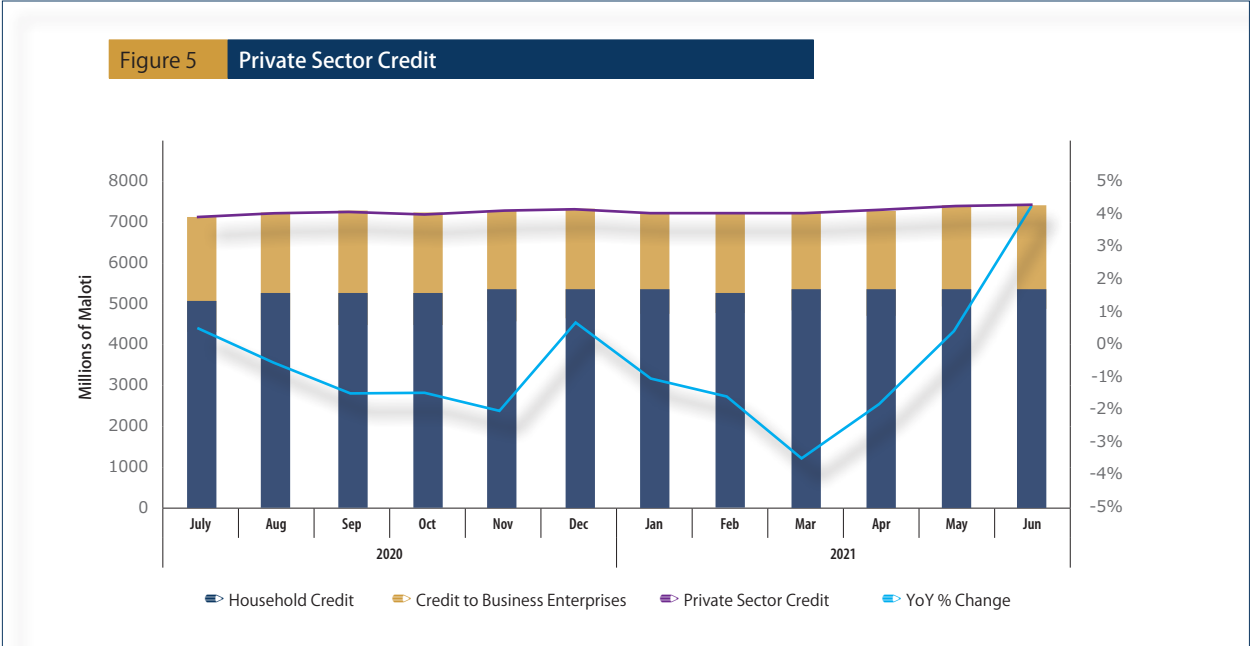
Private Sector Credit

Total credit extended to the private sector declined by 0.2 per cent in June 2021, following a growth of 1.6 per cent realised in May 2021. This was as a result of a fall in credit extended to business enterprises, moderated by an increase in households’ credit. In particular, business sector credit declined by 4.5 per cent, from a growth of 5.2 per cent recorded in

the previous month. The fall in business credit was mainly attributable to the decline in credit extended to the wholesale & retail trade, transport, storage & communications, and mining sectors. However, credit to agriculture, hunting, forestry & fishing remained on an upward trajectory since February, increasing by 16.4 per cent during the review period. On the contrary, credit to households rose by 1.5 per cent in June, following a growth of 0.2 per cent recorded in May 2021. The growth in households’

credit benefitted from 9.7 per cent growth in mortgage loans, while personal loans declined by

1.3 per cent. Annually, private sector credit rose by 4.3 per cent.



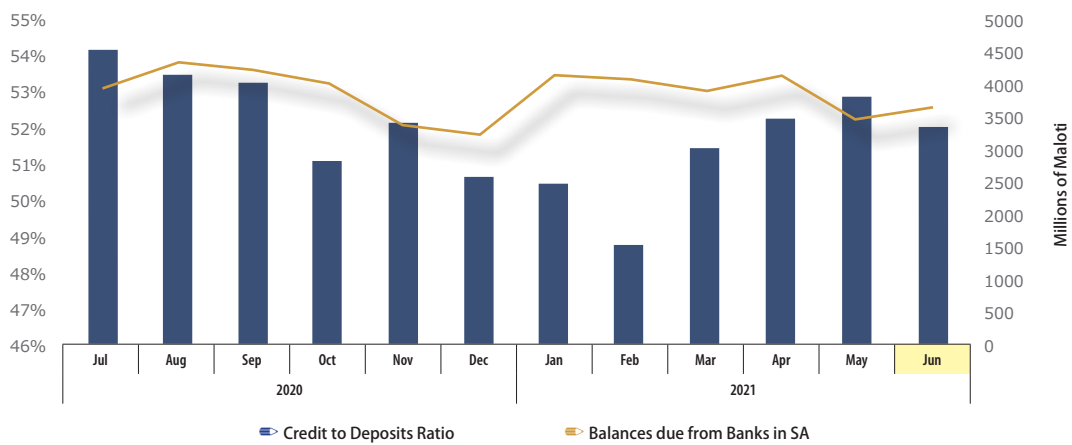
Non-Performing Loans

The total non-performing loans (NPLs) as a ratio of total loans improved from 4.9 per cent in May, to 4.7 per cent in June. This was on account of a decline in Households’ NPLs as a ratio of household loans while business enterprises ratio remained unchanged. With respect to the households related NPLs, personal and mortgage NPL’s fell by 0.1 percentage points and 1.0 percentage point and stood at 2.8 per cent and 9.4 per cent, respectively.

Sources of Funds

Commercial banks’ credit to deposit ratio declined from 52.9 per cent in May, to 52.1 per cent in June. This was due to a fall in credit extension coupled with an increase in total deposits. The rise in total deposits benefitted from a 15.7 per cent increase in government deposits held with banks.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The CBL policy rate remained at 3.50 per cent between May and June 2021. As a result, most short-term interest rates remained unchanged during the same period. However, the 91-day T-Bill rate increased by five basis points from 3.22 per cent in May to 3.27 per cent in June, 2021.

Foreign Exchange

The rand hence the loti strengthened against the major global trading currencies in June 2021. It continued on a stronger path following the robust performance in the previous month. Particularly, 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 Expenditure¹

Government total expenditure was estimated to have increased by 38.4 per cent in June 2021, following a rise of 2.1 per cent in May 2021. This increase was mainly driven by Government's contribution towards social security, domestic travel and transport, operating costs, and, subsidies to non-financial public enterprises.

Outlays by Functions

The share of the development outlays to total outlays increased from 7.9 per cent in the previous month to 19.7 per cent during the month under review. This rise was attributable to infrastructure-based projects that received the largest share of 51.3 per cent out of total capital expenditure. The main projects included industrial infrastructure, electricity generation infrastructure, and rural electrification.

Total Revenue

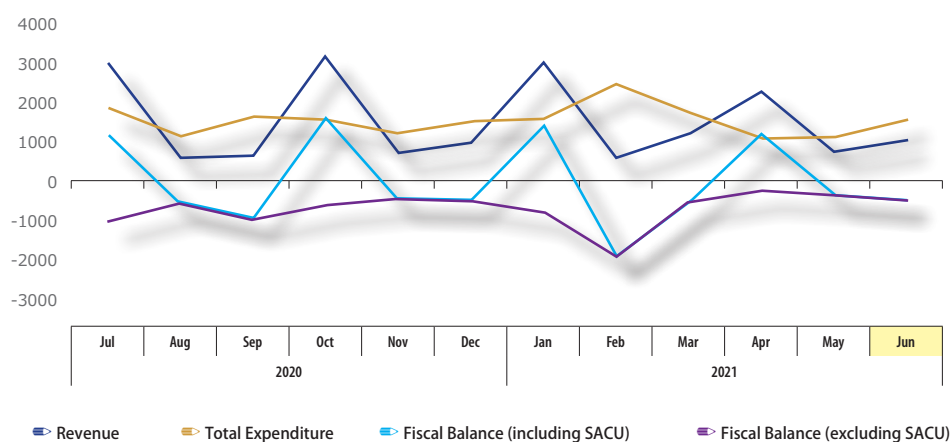
The Government revenue increased by 41.6 per cent in the current month mainly due to income tax, value-added tax, and, rent from mining, surface and ground. The previous month recorded a decline of 68.5 per cent under total revenue including SACU receipts and a fall of 10.4 per cent for domestic total revenue.

Fiscal Balance and Financing

The fiscal operations realized a decrease in domestic assets, reflecting a drawdown of Government deposits. Contrarily, the liabilities experienced a rise, largely driven by issuance of domestic Treasury bonds and foreign loans disbursements during the review month.

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

Figure 7 Government Fiscal Balance (Million Maloti)



Source: Central Bank of Lesotho & Ministry of Finance

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

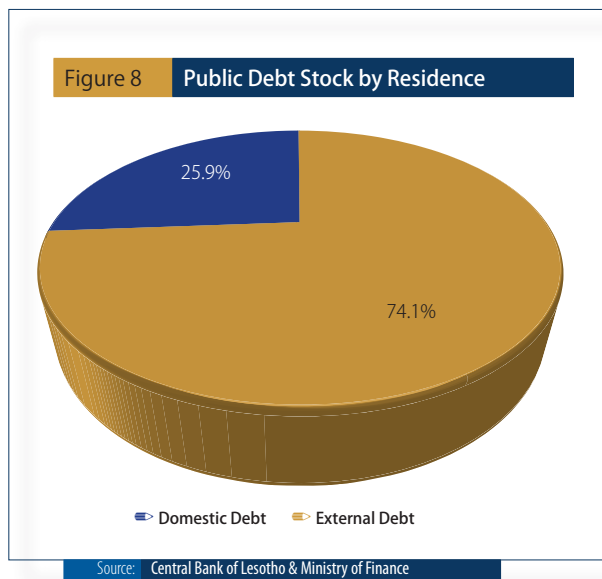
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		9.9	10.3	0.9	95.9	0.0	2.4	14.6	11.2
Defense		6.7	4.8	0.0	0.0	0.0	0.0	0.1	3.7
Public Order and Safety		13.7	6.8	0.0	0.0	0.0	0.0	19.6	9.3
Economic Affairs		6.8	6.8	0.0	3.7	1.6	96.9	57.1	19.2
Environmental Protection		0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Housing and Community Amenities		0.7	1.5	0.0	0.0	0.0	0.0	2.3	0.7
Health		6.4	64.3	99.1	0.0	1.2	0.7	1.3	18.9
Recreation, Culture, and Religion		0.8	1.8	0.0	0.4	0.0	0.0	4.8	1.1
Education		27.5	2.0	0.0	0.0	0.0	0.0	0.2	13.0
Social Protection		27.5	1.9	0.0	0.0	97.1	0.0	0.0	22.7
Share per Economic Item		46.5	11.9	8.1	3.6	10.0	9.0	10.9	100.0

Source: CBL and MOF

V. PUBLIC DEBT

The public debt stock was estimated at 57.5 per cent of GDP in June 2021, which was up from the revised 55.7 per cent of GDP in May 2021. This was equivalent to a rise of 3.2 per cent, resulting from an issuance of domestic securities and new external

debt. In terms of year on year changes, public debt stock declined by 4.9 per cent in the month under review compared with a rise of 18.2 per cent in June 2020.



Appendix: Key Economic Indicators

		21-Jan	21-Feb	21-Mar	21-Apr	21-May	21-Jun	
Economic Activity (MIEA (% change, M/M))		-3.1	1.3	-3.9	3.0	4.6	-0.5	
Consumer price Index (% change)	Headline Inflation (year-on-year)	5.4	5.6	6.5	6.7	6.9	6.0	
	Core Inflation	4.3	4.2	5.1	5.5	5.0	4.2	
Exchange Rates (Monthly End Period)	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	
Money Supply (Millions of Maloti)	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	
Interest Rates	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	
Private sector Credit (Millions of Maloti)		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	
Bank Deposit Liabilities (Millions of Maloti)		14,705.08	15,113.90	14,429.00	14,244.98	14,291.53	14,466.44	
Credit to Deposit Ratio (%)		50.68	50.48	48.77	51.50	52.30	52.9	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	1,414.47	-1,933.91	-534.43	1,223.53	-386.28	-511.28	
	Total Revenue	3,034.13	568.20	1,210.32	2,316.84	729.88	1,033.61	
	Total Expenditure	1,619.65	2,502.11	1,744.74	1,093.31	1,116.16	1,544.89	
	O/W Capital	185.91	260.61	324.41	154.08	128.75	305.10	
Total Public Debt (Millions of Maloti)		19,093.51	18,527.47	18,245.62	17,853.24	17,493.64	18,048.10	
	Total External Debt	14,009.29	13,665.43	13,343.69	13,031.35	13,380.73	13,571.98	
	External Debt	Concessional	10,880.09	10,647.14	10,372.65	10,102.10	10,428.82	10,558.54
		Non-concessional	3,129.20	3,018.29	2,971.04	2,929.25	2,951.91	3,013.44
	Domestic Debt		5,020.98	4,518.18	4,580.18	4,509.56	4,462.29	4,667.37
Memo Item: Arrears (Millions of Maloti)		0.85	133.57	33.82	0.00	0.00	0.00	

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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