



Monthly ECONOMIC REVIEW

March 2020

CENTRAL BANK OF LESOTHO

I. ECONOMIC ACTIVITY

Economic activity declined further in March 2020 following a marginal dip observed in the previous month. The observed performance was attributable to poor activity by both the domestic demand and production sides of the economy in the review month.

Overall Performance Index

Economic performance as measured by the monthly indicator of economic activity (MIEA), declined by 0.6 per cent in March 2020, relative to 0.2 per cent decrease in the previous month. Ten of the fourteen component variables that make up the MIEA contributed negatively to the overall index, while the remaining four variables moderated the decrease. Like in the previous month, the sluggish performance was observed in both the Domestic demand and production side of the economy. In particular, the transportation weighed in to the poor performance as indicated by negative contribution from fuel consumption. However, the construction subsector showed some mixed signals, with cement imports contributed positively though marginally, while metallic imports of construction related goods contributed negatively.

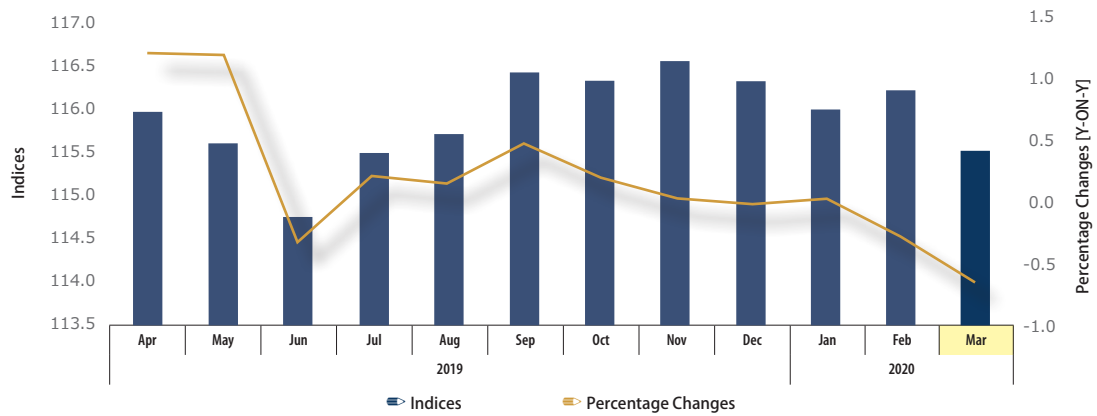
Domestic Demand Category

The domestic demand index showed a deteriorated performance for the second consecutive month in March. This category registered a negative growth of 1.9 per cent compared with a unit decline in February 2020. The performance represented major reduction in government activity as indicated by negative contributions from government use of goods and services and compensation of employees. In addition, VAT collection contributed to the poor performance in the demand side as shown by negative contributions, and all these demonstrated low domestic demand in the review month.

Manufacturing & Production Category

The production index continued to decline in the review month. The index declined by 1.2 per cent in March 2020 as opposed to a decline of 1.3 per cent in the preceding month. The decline continued to be attributable to significant negative contributions from water and electricity consumption used for industrial purposes, indicative of a low production activity in the economy. Textiles and clothing exports also contributed negatively to the production index in the review month.

Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2019					2020		
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
CIEA	115.7	116.4	116.3	116.6	116.3	116.0	116.2	115.5
year-on year changes	0.2	0.5	0.2	0.1	0.0	0.1	-1.2	-0.6
Domestic Demand Category	114.7	115.7	115.5	115.0	114.6	114.7	114.4	113.2
year on year changes	1.6	2.4	1.7	0.9	0.9	0.9	-1.0	-1.9
Manufacturing & Production Category	105.4	106.1	105.6	106.3	105.5	105.7	106.5	106.0
year on year changes	-2.7	-2.5	-2.5	-2.5	-2.7	-2.3	-1.3	-1.2

Source: CBL Calculations

II. INFLATION AND PRICES

Headline Inflation

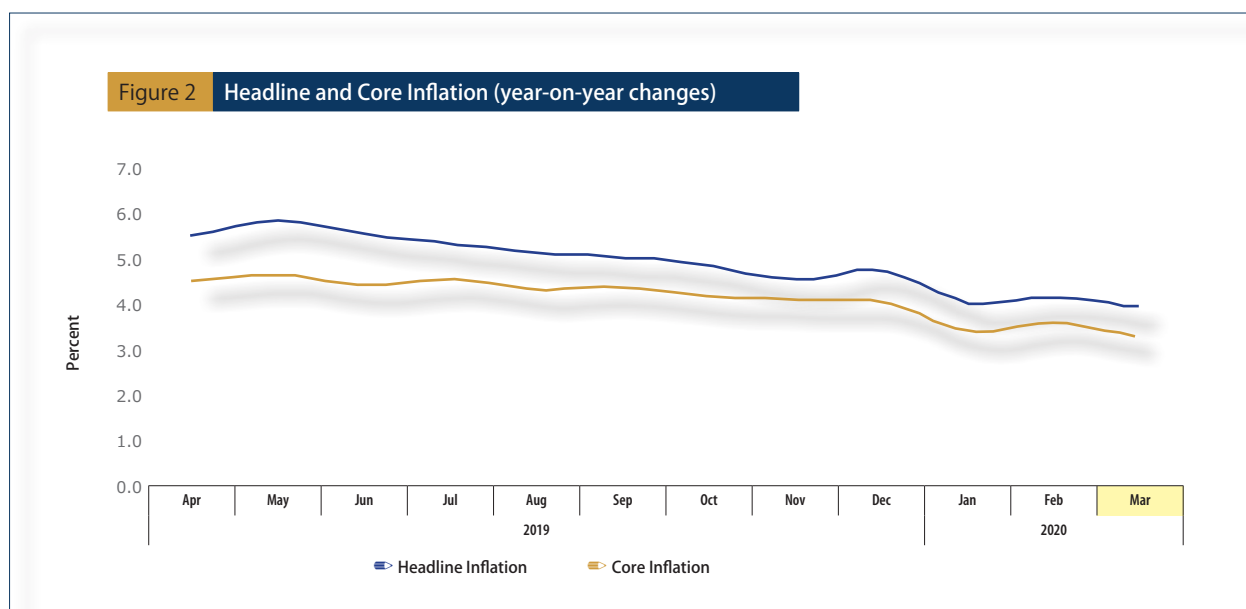
The headline inflation rate decelerated from 4.2 per cent in February 2020 to 4.0 per cent in March 2020. The major contributors to the 0.2 percentage points decline were Food & Non-Alcoholic beverages, Housing, electricity gas & other fuels and Clothing & footwear. Nonetheless, Transport component moderated the deceleration during the review period.

The main determinants of the disinflation during the review period were the improved prospects

for 2020 harvest coupled with increased imports of maize, which bolstered domestic prices in South Africa and hence Lesotho, as well as, the decline in international price of crude oil. Nonetheless, the weak loti-US dollar exchange rate moderated the downward pressure on headline inflation.

Core Inflation

The core inflation, which excludes the CPI items with extreme price changes, also decelerated from 3.7 per cent in February 2020 to 3.3 per cent in March

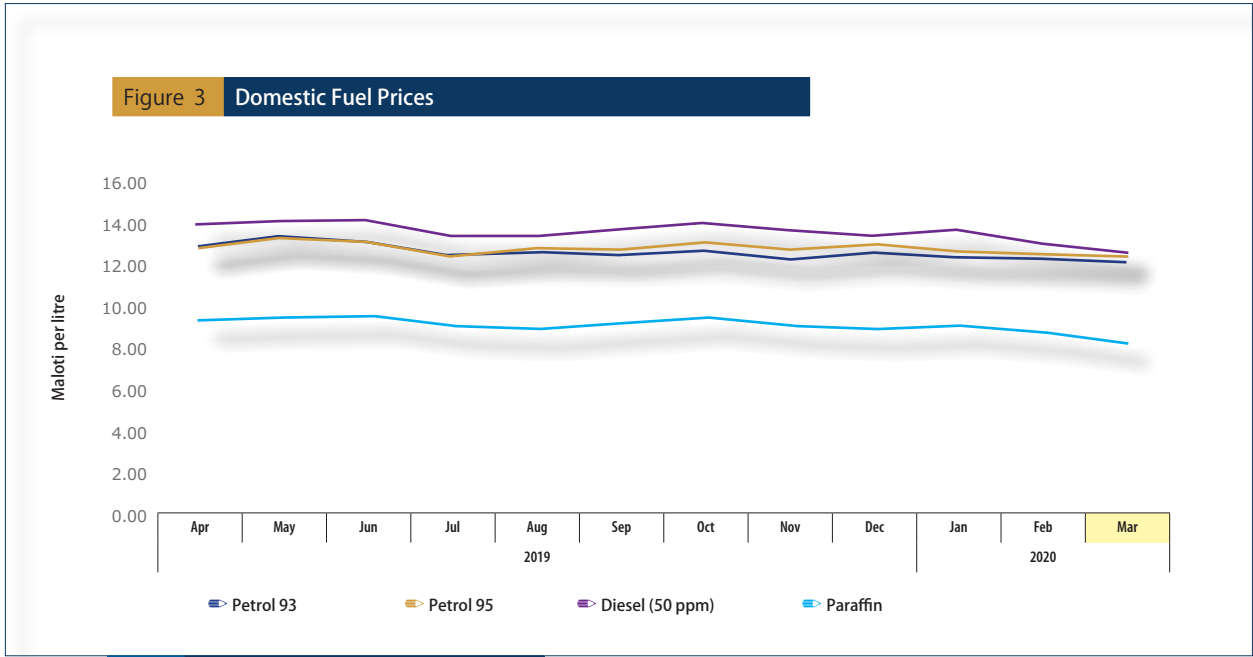


2020.

Domestic Fuel Prices

Fuel prices decreased in March 2020 from the levels recorded in the preceding month. Both pump prices of petrol grades (petrol93 and petrol95) decreased

by 10 lisente per litre to reach M12.30 per litre and M12.40 per litre, respectively. The price of diesel50 also decreased by 35 lisente per litre at the pump during the review period. The wholesale price of illuminating paraffin also fell by 50 lisente per litre to M8.30 per litre during the review period.



Source: Petroleum Fund

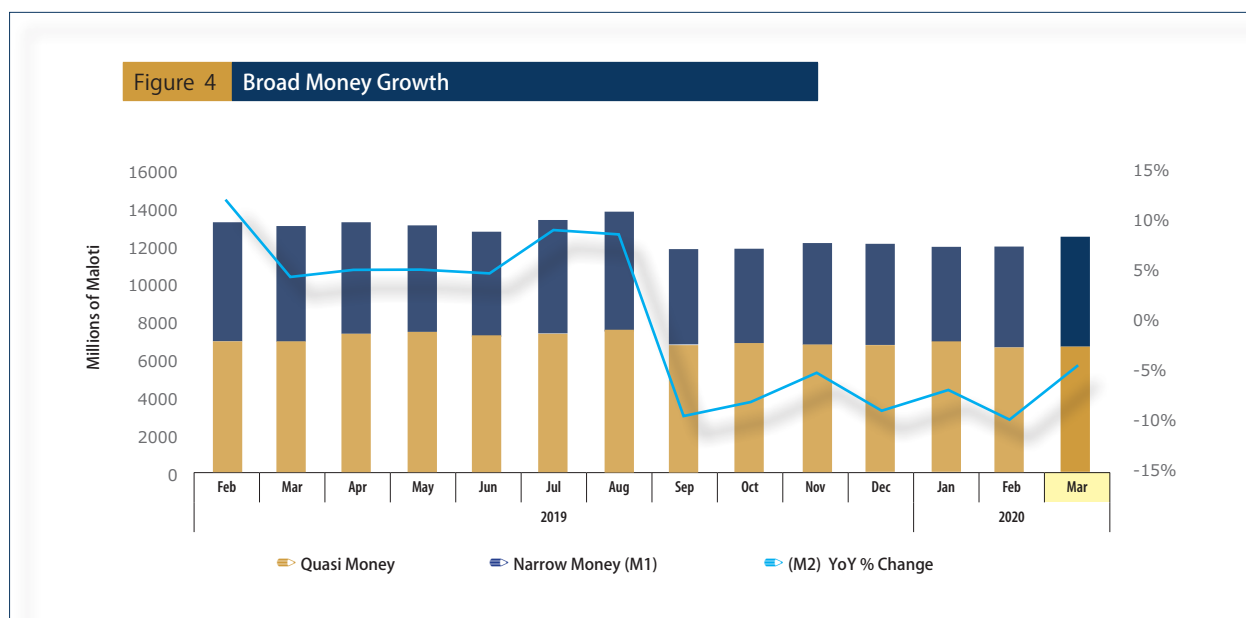
III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

Broad money supply (M2) grew by 4.6 per cent in March 2020, following an increase of 0.3 per cent in the previous month. This was on account of a 4.0 per cent increase in net foreign assets (NFA) which was moderated by a 2.3 per cent decline in net domestic assets (NDA). The growth in NFA was mainly due to the increase Central Bank’s holdings of foreign securities, as well as, foreign deposits.

Components of Money Supply

During the month under review, narrow money (M1) increased by 8.7 per cent while quasi money increased by 1.3 per cent. The rise in Narrow money was at the back of an increase in both the currency in circulation and demand deposits held with commercial banks.



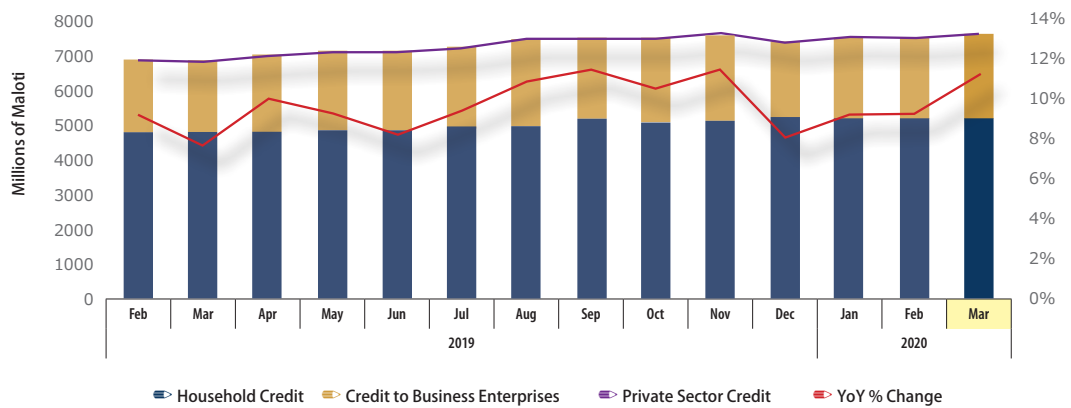
Source: Central Bank of Lesotho

Private Sector Credit

During the review period, total credit extended to the private sector grew by 1.4 per cent, in contrast to a decrease of 0.02 per cent in January 2020. On a year-on-year basis, private sector credit increased by 12.8 per cent in the month under review.

Overall credit extended to households fell by 1.2 per cent in March 2020. This was at the back of a decline in personal loans while mortgages registered a growth. On the contrary, credit extended to business enterprises grew by 7.9 per cent, compared to a 0.5 per cent decline registered in the previous month. The rise in credit extended to business enterprises was underpinned by the increase in demand for credit in the mining and electricity, gas and water sectors.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

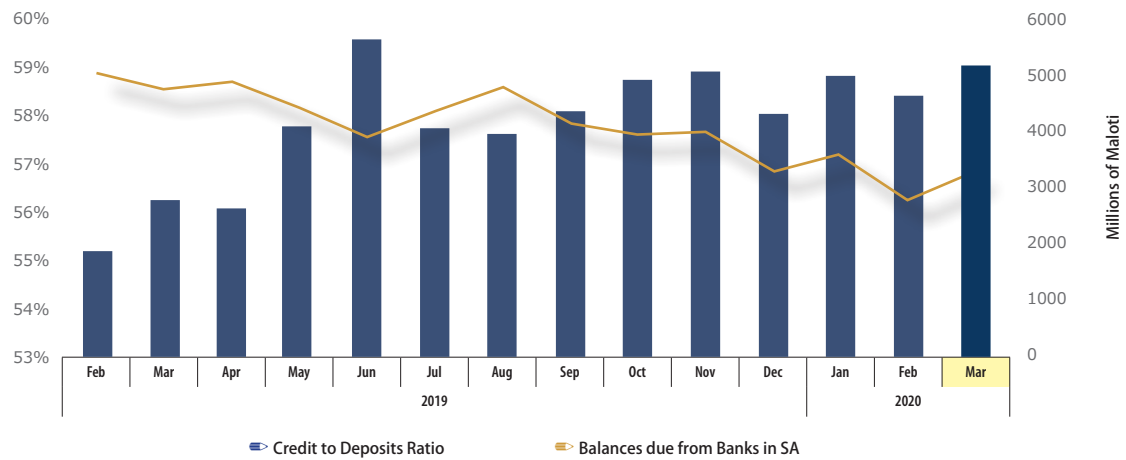
Non-Performing Loans

Total non-performing loans (NPLs) as a share of total loans granted by commercial banks remained unchanged at 3.6 per cent between February and March 2020. The households related NPLs decreased during the review period and this was on account of a decline in personal loans NPLs. However, NPLs resulting from business enterprises remained unchanged at 3.4 per cent between February and March 2020.

Sources of Funds

The commercial banks' credit to deposit ratio slightly increased from 58.4 per cent to 59.0 per cent between February and March. This was attributable to a growth in total credit extended by commercial banks relative to the growth in total deposits.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The Central Bank of Lesotho (CBL)'s policy rate declined drastically by 200 basis points to 4.25 per cent in March 2020 compared to 6.25 observed during the previous month. Similarly, the 91-day T-Bill discount rate declined slightly from 6.15 per cent in January to 6.11 per cent during the review period. Furthermore, the prime lending rate declined while the one-year deposit grew slightly.

Foreign Exchange Rates¹

The value of rand hence the loti remained under pressure against the major world trading currencies in March 2020, following a weakened performance in the previous month. Particularly, it depreciated by 11.3 per cent against the US dollar to 16.69, 5.8 per cent against the pound to 20.58 and by 12.6 per cent against the euro to 18.43, on average. The rapid spread of coronavirus globally led to selloff of risky assets, leaving currencies, especially in the emerging economies, vulnerable. Other factors that weakened the rand included the publication of the fourth quarter 2019 GDP, which showed that the country was in technical recession, the implementation of nationwide lockdown due to coronavirus, power cuts through load shedding, and the failure of stimulus programs from advanced economies to calm financial markets.

¹ Monthly average exchange rate.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

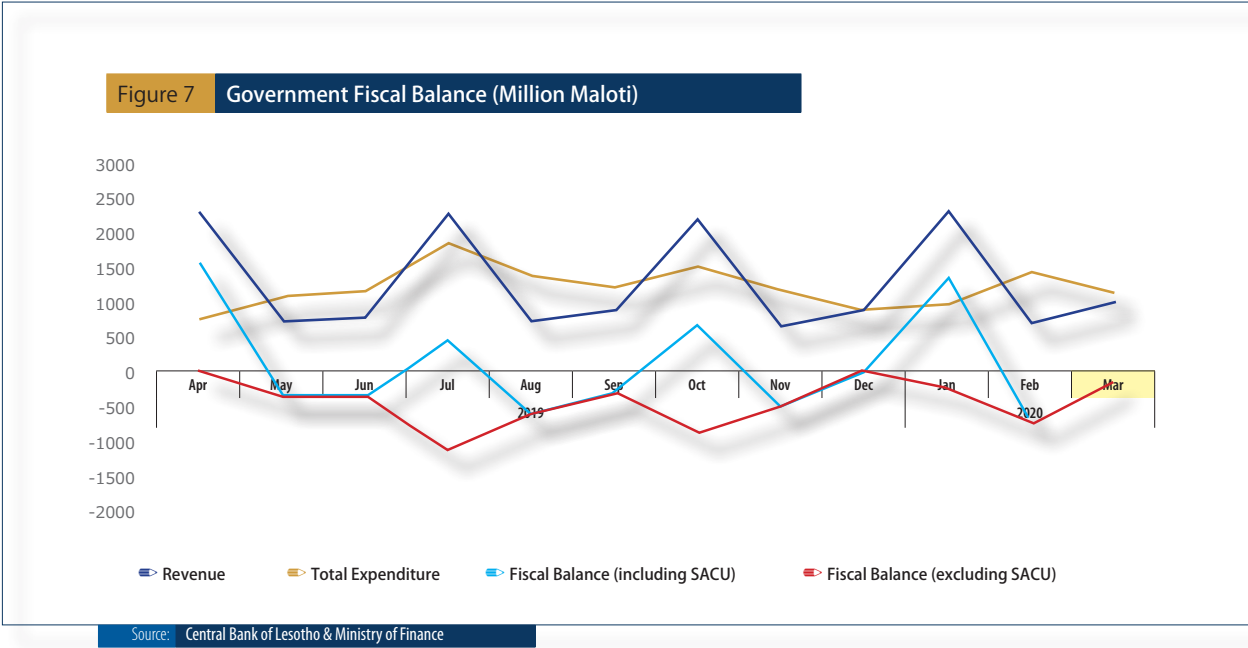
Government total expenditure declined by 18.9 per cent in March 2020 relative to sharp rise of 46.8 per cent in February 2020. This reduction in spending was driven in part by most items under expense, and also, by other machinery and equipment.

Total Revenue

Government revenue rose by 46.9 per cent in the month, owing to high performance in income tax, VAT and other revenue components. In the previous month, total revenue fell by a revised 70.2 per cent.

Fiscal Balance and Financing

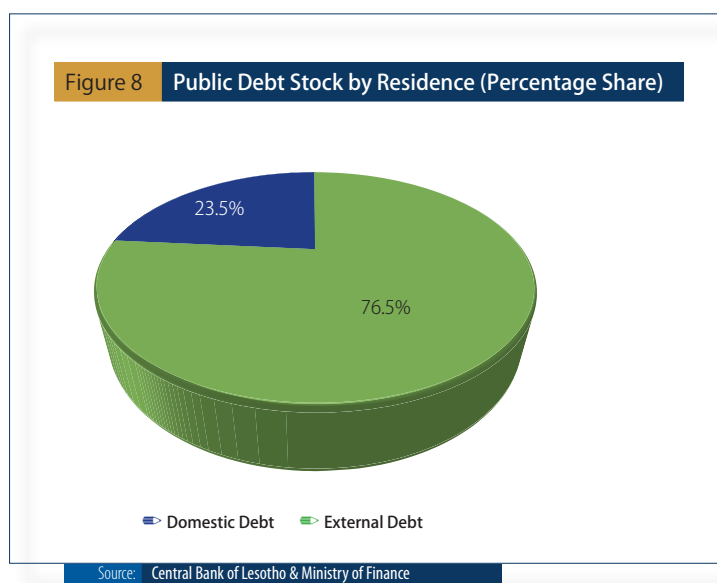
The fiscal balance during the month was estimated to have registered a deficit equivalent to 1.5 per cent of GDP compared with the revised 7.5 per cent of GDP in February 2020. This deficit was financed through the drawdown of Government deposits in the banking system and issuance of Government securities.



V. PUBLIC DEBT

The public debt stock was projected at 45.8 per cent of GDP in March 2020 compared with 44.6 per cent of GDP recorded in February 2020. This was equivalent to 2.6 per cent growth in the month,

owing to an increase in the securities held mainly by non-bank institutions. Accordingly, the domestic stock of debt rose from 22.2 percentage share of the total debt to 23.5 per cent.



Appendix: Key Economic Indicators

		19-Oct	19-Nov	19-Dec	20-Jan	20-Feb	20-Mar	
Economic Activity MIEA (% change, Y/Y)		0.2	01	0.0	0.1	-0.2	-0.6	
Consumer price Index (% change)	Headline Inflation (year-on-year)	4.9	4.6	4.8	4.1	4.2	4.0	
	Core Inflation	4.2	4.2	4.1	3.5	3.7	3.3	
Exchange Rates (Monthly End Period)	EUR	16.49	16.12	15.72	16.00	17.12	19.57	
	GBP	18.85	18.91	18.43	18.84	20.06	22.12	
	USD	14.91	14.66	14.01	14.42	15.58	17.84	
Money Supply (Millions of Maloti)	M2	12,185.65	12,195.22	13,865.35	11,990.97	12,031.82	12,582.63	
	M1	5,319.82	5,333.90	6,184.74	4,884.31	5,310.62	5,774.30	
	Quasi Money	6,865.83	6,861.32	7,680.61	7,106.67	6,721.20	6,808.33	
Interest Rates	CBL Rate	6.50	6.50	6.50	6.25	6.25	4.25	
	91 day Treasury bill rate	6.34	6.28	6.26	6.17	6.15	6.11	
	Prime lending rate	11.19	11.19	11.19	11.19	11.00	10.19	
	1 year deposit rate	4.32	4.24	4.24	4.20	3.74	3.94	
Private sector Credit (Millions of Maloti)		7,475.56	7,575.04	7,251.33	7,371.95	7,480.37	7,695.44	
	Households	5,086.65	5,145.54	5,078.99	5,113.65	5,234.31	5,160.28	
	Business Enterprises	2,388.90	2,429.50	2,172.34	2,258.30	2,246.07	2,423.99	
Bank Deposit Liabilities (Millions of Maloti)		12,888.72	13,024.80	12,772.12	12,807.85	12,888.35	13,113.62	
Credit to Deposit Ratio (%)		58.00	58.16	56.77	58.77	58.04	59.00	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	677.24	-509.81	1.02	1,327.76	-734.92	-146.38	
	Total Revenue	2,193.11	650.10	887.08	2,293.72	683.31	1,003.95	
	Total Expenditure	1,515.87	1,159.92	886.06	965.96	1,418.23	1,150.33	
	O/W Capital	204.53	134.29	105.16	98.78	128.17	309.82	
Total Public Debt (Millions of Maloti)		16,726.42	16,783.48	17,057.4	16,448.90	17,422.29	17,881.92	
	Total External Debt	12,687.09	12,754.76	13,013.53	13,011.46	13,553.53	13,687.88	
	External Debt	Concessional	10,190.40	10,232.74	10,504.19	10,505.95	10,499.15	10,681.26
		Non-concessional	2,496.69	2,522.03	2,509.34	2,505.52	3,054.38	3,006.62
	Domestic Debt	4,039.33	4,028.72	4,043.87	3,437.44	3,868.76	4,194.04	
Memo Item: Arrears (Millions of Maloti)		36.20	35.88	47.95	42.81	36.12	38.21	

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.

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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