



# Monthly ECONOMIC REVIEW

May 2021

CENTRAL BANK OF LESOTHO

## I. ECONOMIC ACTIVITY

Economic performance continued to improve further in May 2021, building on the gains of the previous month. Performance was boosted by both demand and manufacturing as lockdown restrictions continued to loosen.

### Overall Performance Index

As estimated by the Monthly Composite Indicator of Economic Activity (MIEA), economic performance was estimated to have improved further in May 2021, with a month-on-month percentage change of 4.6 per cent from 2.9 per cent recorded in April 2021. Both the components of demand and manufacturing contributed positively to the observed growth as the economy was operating at near normalcy. The transport subsector also supported growth as reflected by positive contribution in fuel consumption. In addition, the construction subsector performed satisfactorily as evidenced through positive contributions in imports of construction materials.

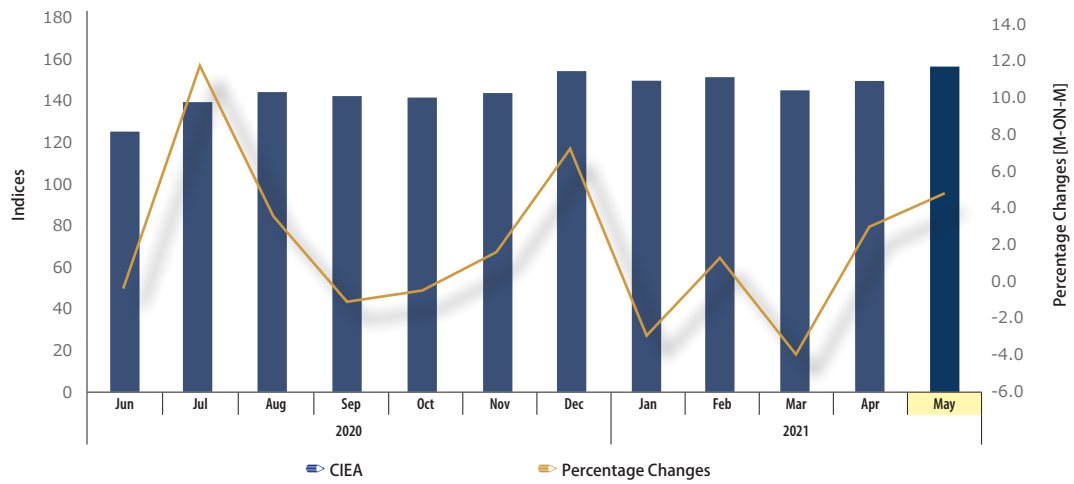
### Domestic Demand Category

The demand side of the economy continued to recoup in May 2021. The domestic demand index grew by a robust 4.5 per cent in May, following a flat growth in the previous month. The index was boosted mainly by imports of goods and services from South Africa (SA), collection of Value Added Taxes (VAT), and Pay-As-You-Earn (PAYE) reflecting improved earnings in the review month. Government activity (both purchases and compensation of employees) also contributed to the growth in the index even though relatively marginal.

### Manufacturing and Production Category

The supply side of the economy was also estimated to have grown in the review month. The manufacturing & production index grew further by 5.5 per cent in May of 2021 in comparison to the 3.3 per cent growth realised in the preceding month. Growth in the index emanated from positive contributions in all the four variables that make the index; utilities (industrial usage of water and electricity), exports of textiles and clothing to the United States (US) market, as well as imports of raw materials from SA.

**Figure 1 Overall Monthly Indicator of Economic Activity**



Source: CBL Calculations

**Table 1: Summary of the Monthly Indicator of Economic Activity**

Indices	2020			2021				
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
<b>CIEA</b>	141.9	144.2	154.3	149.7	151.5	145.4	149.7	156.6
Monthly changes	-0.5	1.6	7.0	-3.0	1.2	-4.0	2.9	4.6
<b>Domestic Demand Category</b>	137.9	144.7	155.7	152.8	153.4	142.3	142.3	148.6
Monthly changes	2.2	3.9	7.6	-1.9	0.4	-7.3	0.0	4.5
<b>Manufacturing &amp; Production Category</b>	99.7	100.2	107.1	109.4	108.8	101.8	105.2	111.0
Monthly changes	0.5	0.6	6.9	2.2	-0.6	-6.4	3.3	5.5

Source: Central Bank of Lesotho (CBL) Calculations

## II. INFLATION AND PRICES

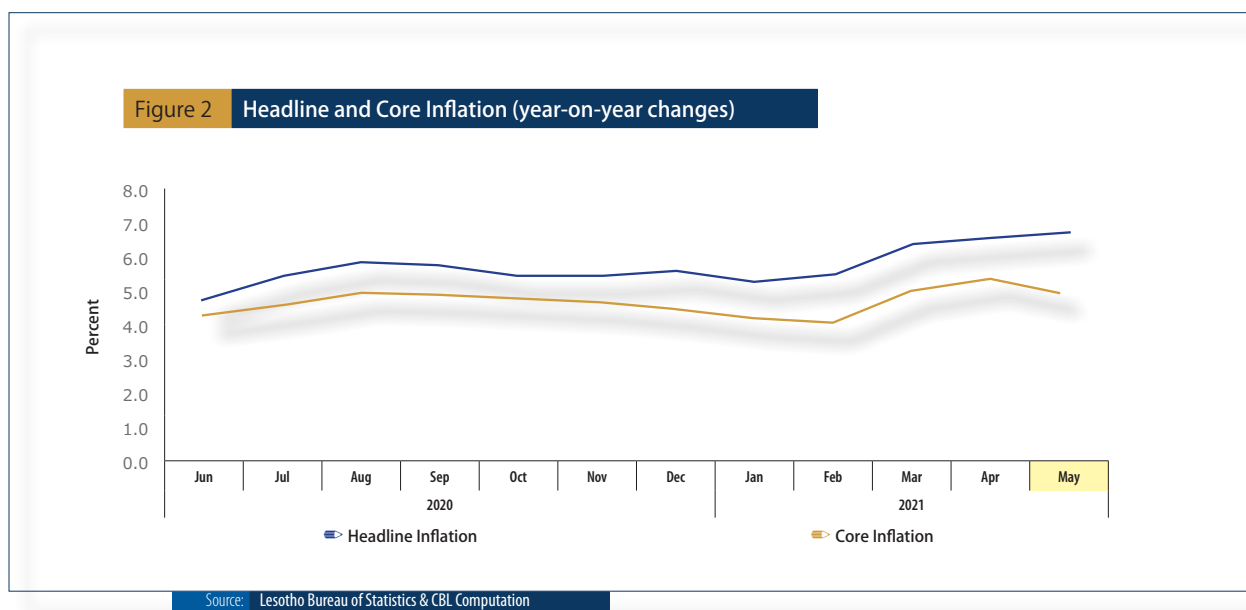
### Headline Inflation

The headline inflation rate continued to rise for the fifth consecutive month in May 2021. It accelerated from 6.7 per cent in April to 6.9 per cent in May 2021. The Housing, Water, Electricity, Gas and Other Fuels, and Transport components largely contributed to the observed acceleration. The rise was, however, moderated by disinflation contributed by three-quarters of the overall CPI basket, especially Food & Non-Alcoholic beverages, Clothing & Footwear, Furnishings, Household Equipment and Routine Maintenance of the Household, Recreation & Culture and Miscellaneous goods and services during the review period.

The major factors that drove inflation higher in May 2021 are the rising international crude oil price and the low base-effect. The former is mainly driven by massive Organization of the Petroleum Exporting Countries Plus (OPEC+) production cuts though easing and global demand led recovery that is partially induced by growing vaccine rollout. Nonetheless, the South African rand (ZAR), hence loti appreciation against the U.S dollar dampened the effect of the rising international petroleum prices.

### Core Inflation

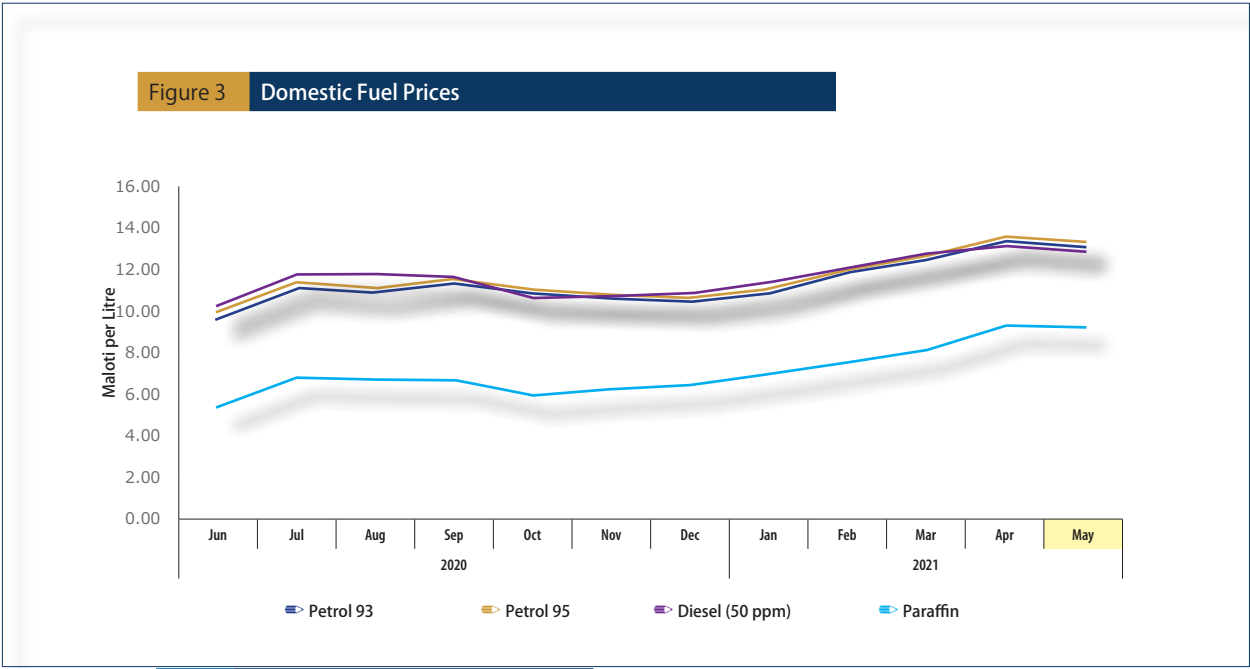
Core inflation, however, decelerated from 5.5 per cent in April 2021 to 5.0 per cent in May 2021.



### Domestic Fuel Prices

The domestic fuel prices increased from March to April. During the review period, prices of all domestic fuel components declined. Both grades of petrol (petrol93 and petrol95) decreased by M0.25 per

litre and were selling at M13.35 and M13.50 per litre, respectively, at the pump. The price of diesel50 also declined by M0.25 per litre to reach M13.15 per litre at the pump during the review period. The retail price of illuminating paraffin declined by M0.05 per litre to M9.40 per litre during the review month.



Source: Lesotho Bureau of Statistics & CBL Computation

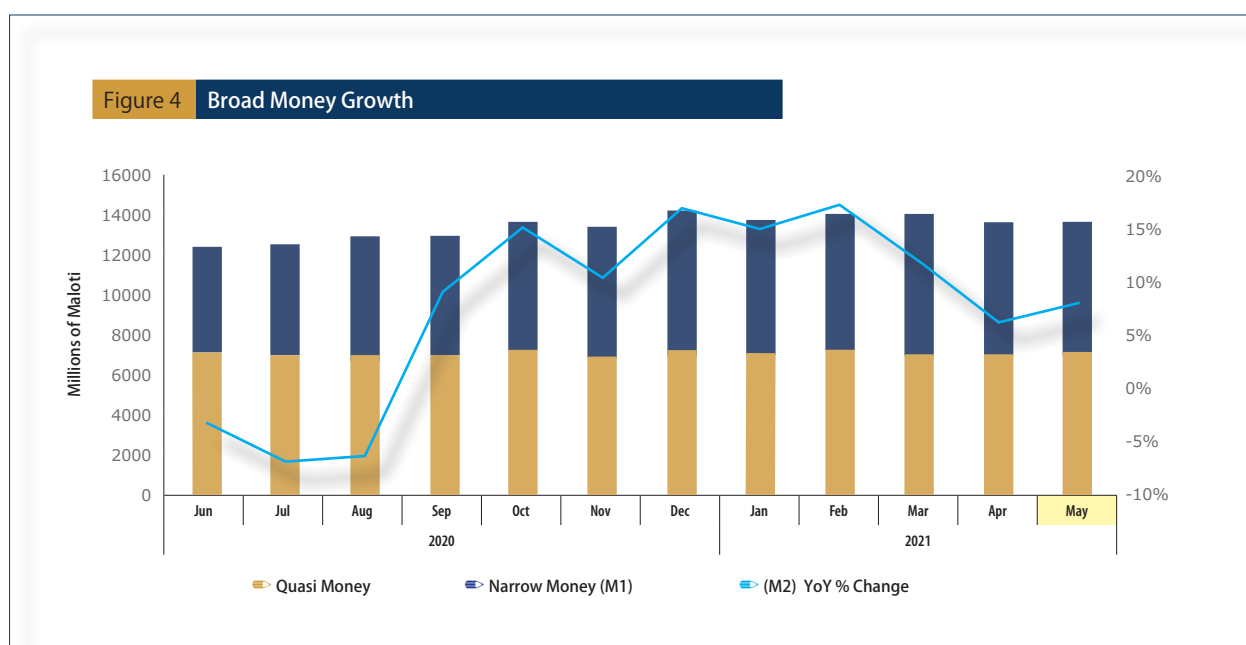
### III. MONETARY AND FINANCIAL INDICATORS

#### Broad Money (M2)

Broad money supply (M2) fell marginally by 0.1 per cent in May 2021, compared to a decline of 2.6 per cent in April. This was induced by a fall of 2.5 per cent in net foreign assets (NFA), moderated by 11.1 per cent growth in net domestic assets (NDA). The decline in NFA was caused by a contraction in both the central bank and commercial bank’s NFA of 3.0 per cent and 1.7 per cent, respectively.

#### Components of Money Supply

In terms of the broad money components, the decline in M2 was ascribed to a fall of 1.2 per cent in narrow money (M1), while quasi money improved by 1.0 per cent. The fall in M1 was on the back of a decline in currency in circulation and transferable deposits held by households and non-profit organisations. However, the rise in quasi money was largely due to an increase in call deposits held by business enterprises.

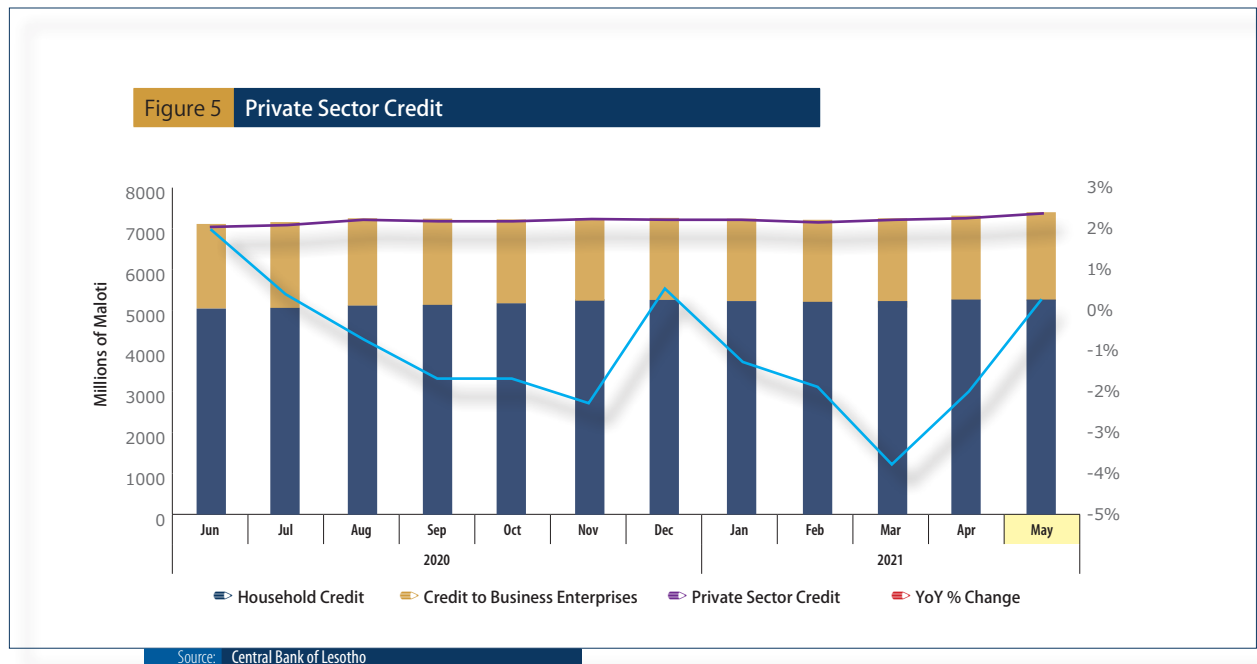


#### Private Sector Credit

Total credit extended to the private sector increased by 1.6 per cent in the review period, following a growth of 0.4 per cent realised in the previous month. This was on account of an increase in credit extended to business enterprises and resident households.

On one hand, business sector credit grew by 5.24 per cent in the current period, compared to a decline of 0.2 per cent recorded in the previous month. Growth in business credit was mainly attributable to the rise in credit granted to the wholesale & retail trade and mining sectors. On the other hand, credit to households increased by 0.2 per cent in May, down from 0.7 per cent recorded in April 2021. This was due to 1.1 per cent growth in mortgages, while

personal loans declined by 0.1 per cent. Moreover, private sector credit increased by 0.4 per cent on year-on-year, compared to a decline of 1.9 per cent in the preceding period.



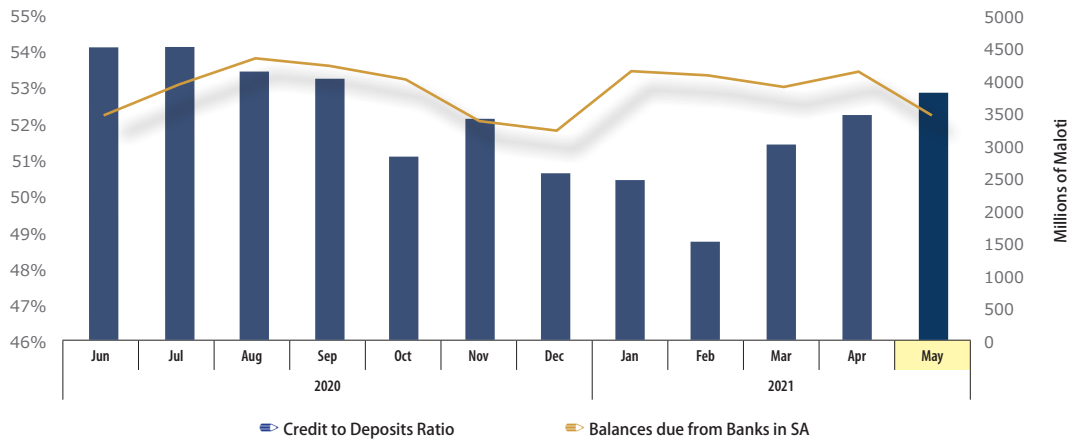
### Non-Performing Loans

The total non-performing loans (NPLs) as a ratio of total loans remained stable at 4.9 per cent between April and May 2021. Households' NPLs as a ratio of household loans increased slightly from 4.7 per cent in April 2021 to 4.8 per cent in May, while business enterprises' ratio remained unchanged at 5.3 per cent. With respect to the households related NPLs, mortgage NPL's increased by 0.4 percentage points and stood at 10.4 per cent, while personal NPLs declined from 3.0 per cent to 2.9 per cent between the two periods.

### Sources of Funds

Commercial banks' deposit liabilities rose by a marginal 0.3 per cent in May 2021, compared to a decline of 1.3 per cent in the previous month. Moreover, the credit to deposit ratio increased from 52.3 per cent to 52.9 per cent between April and May 2021. This was on the back of a rise in private sector credit, in spite of the growth in total deposits.

**Figure 6 Credit to Deposit Ratio**



Source: Central Bank of Lesotho

## Interest Rates

The CBL policy rate remained at 3.50 per cent between April and May 2021, and as a result, most short-term interest rates remained unchanged during the same period. However, the 91-day T-Bill rate declined from 3.23 per cent in April 2021 to 3.22 per cent in May, while the 31-day deposit rate increased by 0.03 percentage points to 0.69 per cent in May 2021.

## Foreign Exchange

The rand hence the loti strengthened against the major global trading currencies in May 2021, continuing on a stronger path from the previous month. Particularly, the rand appreciated by; 2.4 per cent to the average of 14.06 against the US dollar, 0.7 per cent to the average of 19.80 against the pound and 1.0 per cent to the average of 17.08 against the euro. A host of international and domestic developments in South Africa supported the rand. On the domestic front, there were signs of strong economic recovery as the South African Reserve Bank lifted growth forecasts for 2021, the booming asset prices and unchanged credit ratings by ratings agencies supported the rand. On the international side, the dovish monetary policy stance in the advanced economies and improving risk appetite due to increased COVID-19 vaccination drive also played a major role.

## IV. GOVERNMENT BUDGETARY OPERATIONS

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

Government total expenditure was estimated to have increased by 2.1 per cent in May 2021, in contrast to a revised fall of 37.3 per cent in April 2021. This rise was mainly attributable to government efforts to mitigate the impact of COVID-19 as well as, external interest payments, and NMDS<sup>2</sup> students' grants.

### Outlays by Functions

The share of the recurrent outlays to total outlays increased to 92.1 per cent as a result of high spending on current grants to extra-budgetary units under housing and community amenities function, and purchase of health services.

### Total Revenue

The Government revenue declined by 68.5 per cent in the current month following a 91.4 per cent increase in the previous month. This decrease was attributable to income tax, value added tax, and water royalties. When excluding SACU receipts<sup>3</sup>, the domestic revenue declined by 10.4 per cent during the month under review compared to a fall of 32.7 per cent in the previous month.

### Fiscal Balance and Financing

The fiscal operations experienced a rise in domestic and foreign liabilities (on net basis) that were needed to finance the Government expenditures. However, Government deposits in the banking system increased due to disbursements receipts on foreign loans vis-à-vis amortisation.

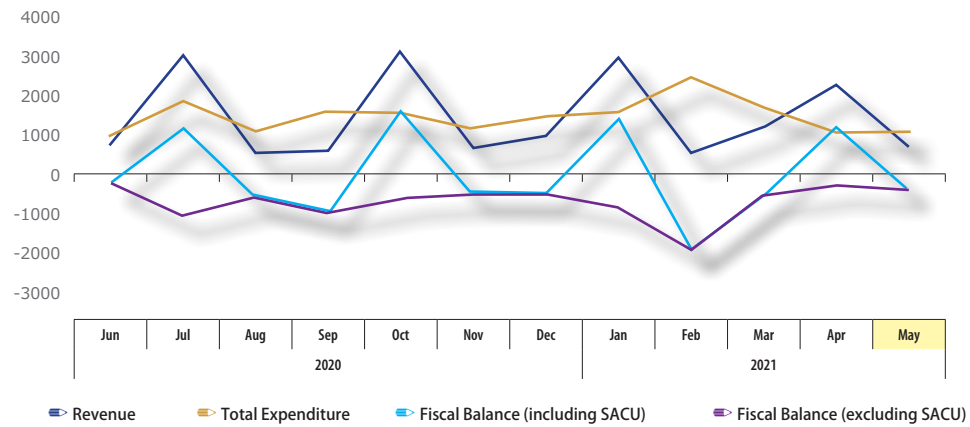
<sup>1</sup> The year-to-date refers to an accumulation within a fiscal year, starting from April.

<sup>2</sup> NMDS stands for National Manpower Development Secretariat.

<sup>3</sup> SACU receipts are usually received once in a quarter, in particular, in the first month of the quarter.



**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)**

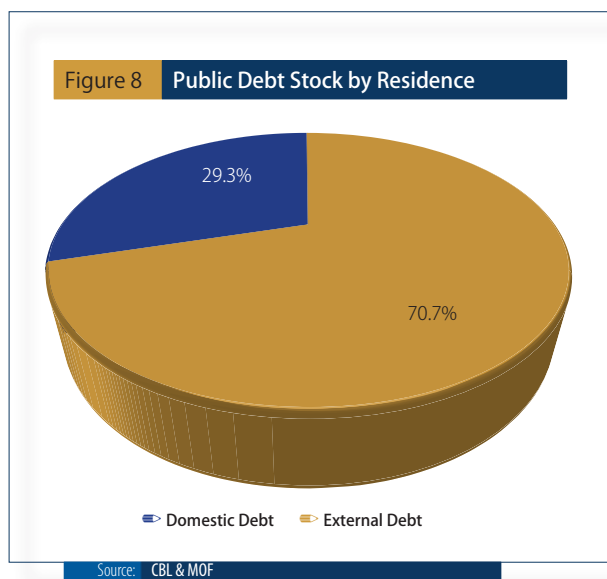
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		10.3%	20.8%	9.9%	3.7%	0.0%	0.0%	15.0%	9.8%
Defense		7.9%	2.2%	0.0%	0.0%	0.0%	0.0%	0.0%	4.6%
Public Order and Safety		16.0%	7.9%	0.0%	0.0%	0.0%	0.0%	50.5%	13.7%
Economic Affairs		7.8%	11.0%	32.6%	8.1%	0.0%	100.0%	29.3%	19.1%
Environmental Protection		0.1%	0.1%	0.0%	0.9%	0.0%	0.0%	0.0%	0.2%
Housing and Community Amenities		0.8%	1.2%	0.0%	46.3%	0.0%	0.0%	1.7%	6.5%
Health		7.1%	53.0%	0.0%	0.0%	0.0%	0.0%	2.1%	10.5%
Recreation, Culture, and Religion		0.9%	1.1%	0.0%	1.0%	0.0%	0.0%	0.0%	0.7%
Education		31.8%	1.5%	57.5%	20.0%	0.0%	0.0%	1.4%	20.5%
Social Protection		17.3%	1.2%	0.0%	20.1%	100.0%	0.0%	0.0%	14.5%
<b>Share per Economic Item</b>		<b>54.2%</b>	<b>12.2%</b>	<b>0.7%</b>	<b>12.4%</b>	<b>2.5%</b>	<b>9.9%</b>	<b>8.0%</b>	<b>100.0%</b>

Source: CBL and MOF

## V. PUBLIC DEBT

The public debt stock was estimated at 62.8 per cent of GDP in May 2021, following 63.4 per cent of GDP in April 2021. This was equivalent to a 1.0 per cent decline from the position registered in April, due to exchange rate appreciation and retirement of government securities. In terms of year on year

changes, public debt stock increased marginally by 0.4 per cent in May 2021 relative to a rise of 16.5 per cent in May 2020. The share of domestic debt to total debt has rather remained constant from the previous month.



## Appendix: Key Economic Indicators

		20-Dec	21-Jan	21-Feb	21-Mar	21-Apr	21-May	
Economic Activity (MIEA (% change, M/M))		7.0	-3.0	1.2	-4.0	2.9	4.6	
Consumer price Index (% change)	Headline Inflation (year-on-year)	5.7	5.4	5.6	6.5	6.7	6.9	
	Core Inflation	4.6	4.3	4.2	5.1	5.5	5.0	
Exchange Rates (Monthly End Period)	EUR	18.06	15.05	18.08	17.31	17.36	16.79	
	GBP	20.07	20.67	20.81	20.32	19.95	19.51	
	USD	14.69	18.28	14.93	14.76	14.37	13.76	
Money Supply (Millions of Maloti)	M2	14,282.90	13,811.68	14,125.57	14,098.67	13,731.05	13,722.26	
	M1	6,950.30	6,603.45	6,717.11	6,862.16	6,532.57	6,453.22	
	Quasi Money	7,103.29	7,208.23	7,408.45	7,236.52	7,198.49	7,269.04	
Interest Rates	CBL Rate	3.50	3.50	3.50	3.50	3.50	3.50	
	91 day Treasury bill rate	3.20	3.20	3.32	3.25	3.23	3.22	
	Prime lending rate	8.19	8.19	8.19	8.19	8.19	8.19	
	1 year deposit rate	3.79	3.27	3.53	3.53	3.53	3.53	
Private sector Credit (Millions of Maloti)		7,410.42	7,397.41	7,350.61	7,403.74	7,435.59	7,552.91	
	Households	5,363.47	5,335.20	5,365.92	5,402.70	5,365.92	5,413.48	
	Business Enterprises	2,033.94	2,015.41	2,037.82	2,032.89	2,037.82	2,139.43	
Bank Deposit Liabilities (Millions of Maloti)		14,732.28	14,705.08	15,113.90	14,429.00	14,244.98	14,291.53	
Credit to Deposit Ratio (%)		50.68	50.48	48.77	51.50	52.30	52.9	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-512.51	1,414.47	-1,933.91	-534.43	1,223.53	-386.36	
	Total Revenue	1,004.47	3,034.13	568.20	1,210.32	2,316.84	729.88	
	Total Expenditure	1,516.97	1,619.65	2,502.11	1,744.74	1,093.31	1,116.23	
	O/W Capital	183.41	185.91	260.61	324.41	154.08	128.83	
Total Public Debt (Millions of Maloti)		19,673.87	20,157.95	19,652.34	19,370.49	19,277.02	19,076.21	
	Total External Debt	13,631.19	14,072.54	14,009.29	13,665.43	13,571.98	13,477.68	
	External Debt	Concessional	10,595.67	10,954.88	10,880.09	10,647.14	10,558.54	10,465.57
		Non-concessional	3,035.52	3,117.66	3,129.20	3,018.29	3,013.44	3,012.11
	Domestic Debt		6,042.68	6,085.41	5,643.05	5,705.06	5,705.03	5,598.53
Memo Item: Arrears (Millions of Maloti)		17.60	0.85	133.57	33.82	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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