



Monthly

ECONOMIC REVIEW

NOVEMBER 2021

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY

Overall economic activity rebounded in November 2021 from the preceding five months of lacklustre performance. Improved activity was driven by strong performance from both the demand and production sides of the economy.

Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) signalled strong performance in the economy in November 2021. The index grew by a significant 7.1 per cent and this was in contrast to the 0.4 per cent decline recorded in the preceding month. The strong performance in the review month was broad based as both demand and production picked up, supported by relatively relaxed COVID-19 restrictions. The transport subsector also contributed positively to the observed growth, as evidenced by positive contributions in consumption of liquid fuels.

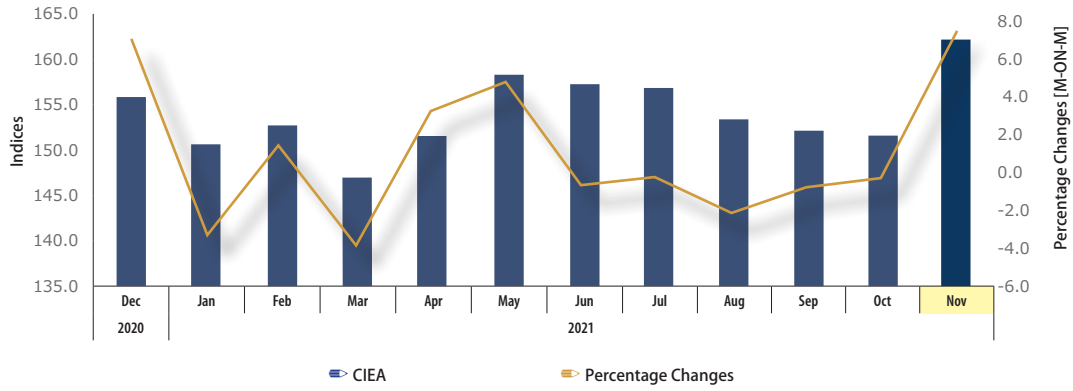
Domestic Demand Category

The domestic demand index improved in November 2021. The index grew by a robust 12.2 per cent in the review month, recouping from two months of negative growth in September and October, where it had contracted by 0.7 per cent and 2.9 per cent, respectively. The improved performance in demand mainly emanated from higher demand for imports from South Africa, and to a lesser extent, collection of pay-as-you-earn (PAYE) taxes. However, value added tax (VAT) and government activity (both purchases and compensation of employees) moderated the growth in the index, albeit marginally.

Manufacturing and Production Category

The production index grew further in November 2021. The index recorded a growth rate of 15.3 per cent, compared to a growth of 6.7 per cent growth registered in the preceding month. The strong performance in the review month was mainly a result of a growth in inputs of raw materials into production and exports of textiles and clothing into the United States (US) market, and to a smaller extent, the use of electricity in production, whereas the use of water in production processes contributed negatively.

Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2021							
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
CIEA	151.3	158.2	157.2	156.7	153.2	152.0	151.4	162.2
Monthly changes	3.0	4.6	-0.7	-0.3	-2.2	-0.8	-0.4	7.1
Domestic Demand Category	143.0	149.2	141.8	141.3	141.6	140.6	136.6	153.2
Monthly changes	-0.1	4.3	-5.0	-0.4	0.2	-0.7	-2.9	12.2
Manufacturing & Production Category	105.4	111.1	119.6	113.4	107.3	102.1	108.9	125.6
Monthly changes	3.6	5.4	7.6	-5.2	-5.4	-4.9	6.7	15.3

Source: Central Bank of Lesotho (CBL) Calculations

II. INFLATION AND PRICES

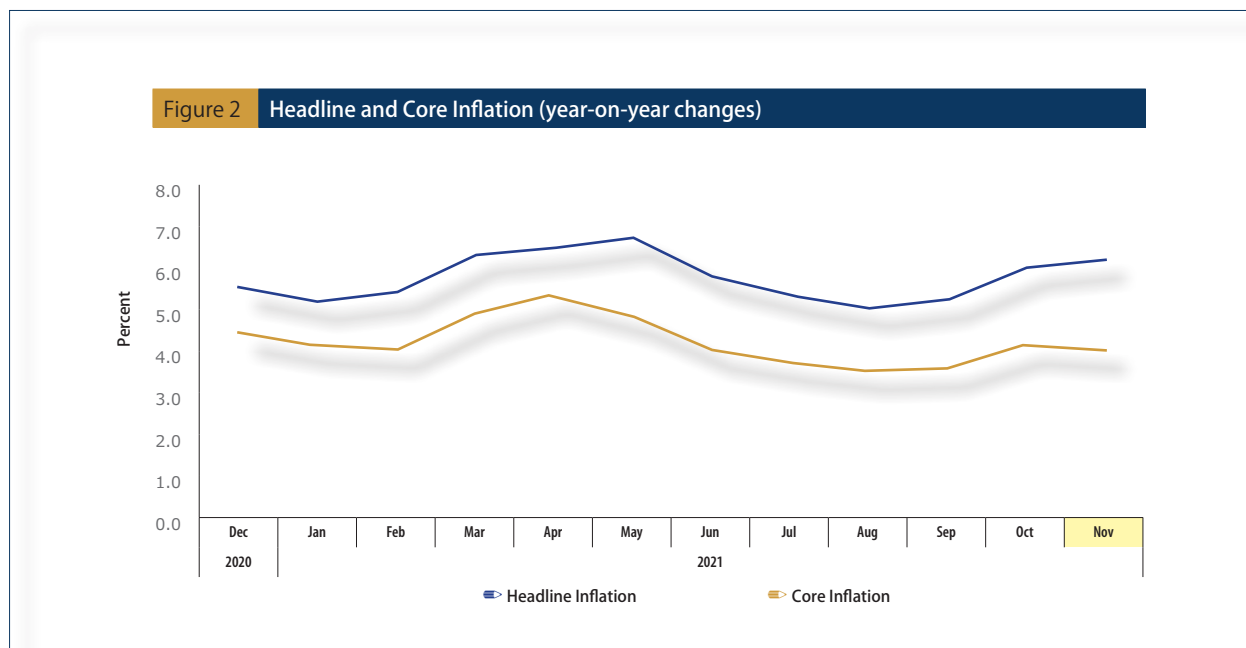
Headline Inflation

Consumer prices have accelerated in November 2021 and were up by 6.4 per cent from 6.2 per cent recorded in October 2021. The 0.2 per cent increase in headline inflation mainly emanated from Housing, Water, Electricity, Gas and Other Fuels, Transport, Furnishings, Household Equipment and Routine Maintenance of the Household, Clothing & Footwear and Recreation and culture components. Nonetheless, Food & Non-Alcoholic category moderated inflation acceleration during the review period.

The acceleration in headline inflation was mainly driven by rising international crude oil price, coupled with exchange depreciation during the review period. Moreover, the increased demand for household semi-durables and recreation for the festive season also contributed to the acceleration in headline inflation rate during the review period.

Core Inflation

The core inflation rate, however, decelerated from 4.3 per cent in October 2021 to 4.2 per cent in November 2021.

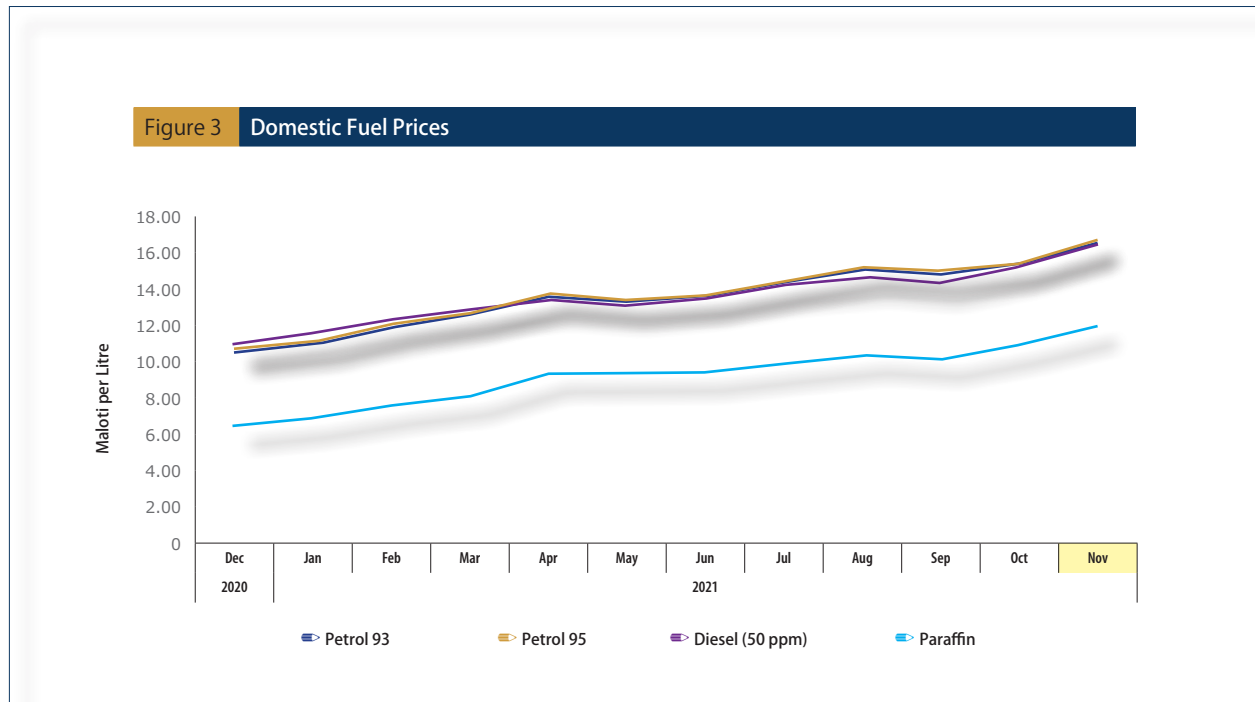


Source: Lesotho Bureau of Statistics & CBL Computation

Domestic Fuel Prices

All prices of domestic petroleum products increased from October 2021 to November 2021. Prices of both grades of petrol (*petrol₉₃* and *petrol₉₅*) increased by M1.25 and M1.30 per litre each and were sold at

M16.60 and M16.80 per litre at the pump. The price of *diesel₅₀* also increased by M1.40 per litre to reach M16.65 per litre at the pump. In addition, the retail price of illuminating paraffin increased by M1.10 per litre and was sold at M12.10 per litre during the review period.



Source: Petroleum Fund

III. MONETARY AND FINANCIAL INDICATORS

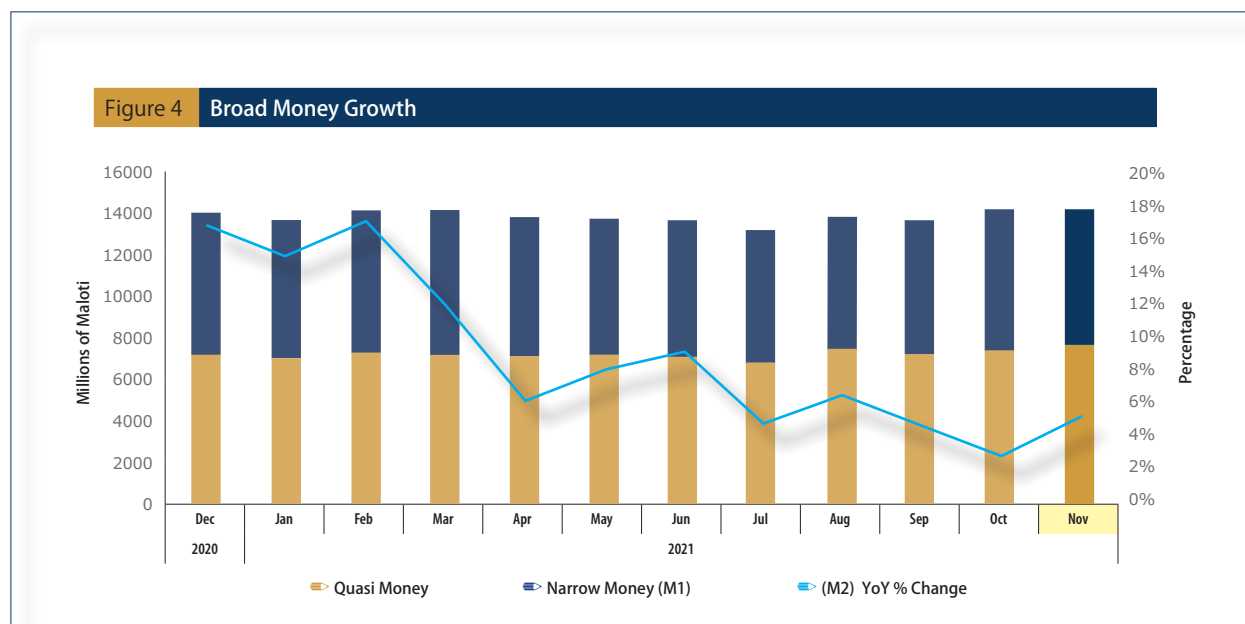
Broad Money (M2)

In November 2021, broad measure of money supply (M2) recorded a relatively moderate growth of 0.7 per cent, following an increase of 3.5 per cent in October 2021. This was on account of a 16.1 per cent increase in net domestic assets (NDA), which was moderated by 3.1 per cent fall in net foreign assets (NFA). The growth in NDA resulted mainly from a drawdown of government deposits from the Central Bank in order to finance fiscal operations, coupled with a relatively slower growth of private sector credit. Overall NFA declined following a fall

in Central Bank NFA while commercial banks NFA recorded a slight growth during the month under review.

Components of Money Supply

In relation to the components of broad money, the narrow money (M1) fell by 3.1 per cent while quasi money rose by 4.0 per cent. The fall in M1 was due to a decline in demand deposits mainly held by business enterprises while a rise in other deposits also held by business enterprises led to an increase in quasi money.



Source: Central Bank of Lesotho

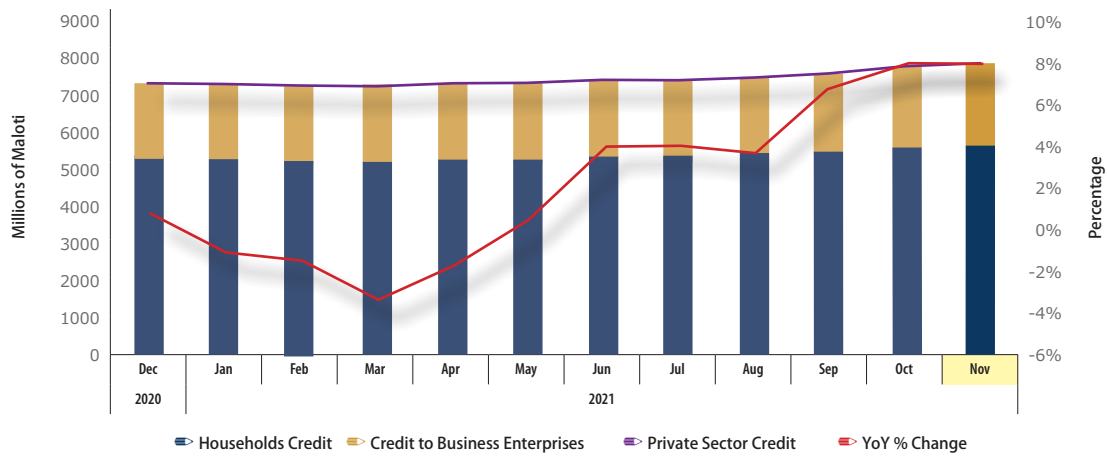
Private Sector Credit

Total credit extended to the private sector rose by 0.8 per cent in November 2021, following a growth of 1.1 per cent registered in the previous month. The slight growth in private sector credit was supported by a 1.1 per cent increase in credit extended to households while credit to business enterprises declined by 0.02 per cent during the month under review. The households' credit was boosted mainly by personal loans, which rose by 1.4 per cent while

mortgages recorded a moderate growth of 0.3 per cent.

In terms of distribution of credit extended to business enterprises, real estate and business services accounted for the largest share, followed by wholesale and trade sectors while agriculture accounted for the smallest share. On a year-on-year basis, private sector credit grew by 8.4 per cent in November 2021.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

Non-Performing Loans

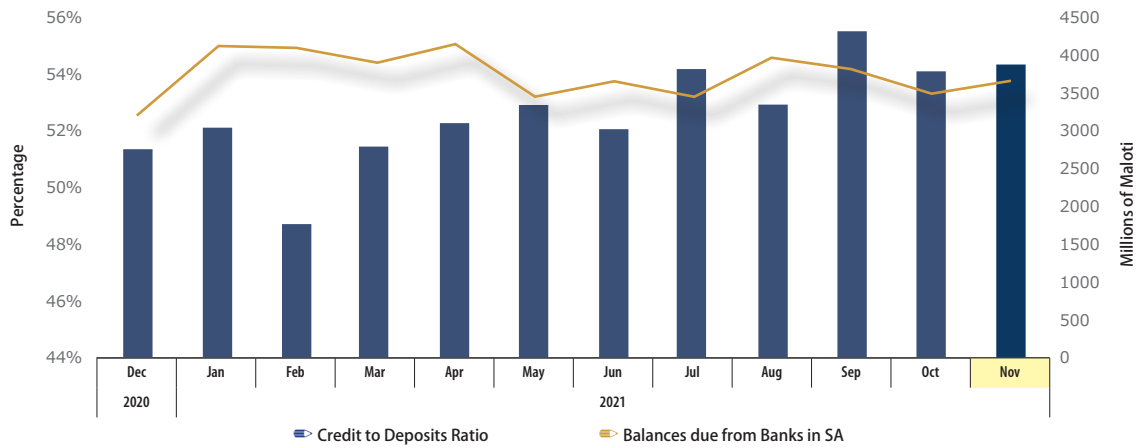
The total non-performing loans (NPLs), as a ratio of total loans, declined marginally from 4.4 per cent in October 2021 to 4.3 per cent in November 2021. On the one hand, the households' NPLs, as a ratio of households' credit, improved as a result of a fall in both the mortgage and personal loans NPLs. On the other hand, the improvement in business enterprises' NPLs as a fraction of loans to businesses was explained by a relatively higher growth in

business loans that outpaced the growth in business enterprises' NPLs.

Sources of Funds

The credit to deposit ratio slightly rose between October and November 2021. It increased from 54.1 per cent in October to 54.4 per cent in November. This was due to a relatively moderate growth in private sector credit, while total deposits remained largely unchanged.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

During its November 2021 sitting, the Monetary Policy Committee (MPC) of the Bank hiked the CBL policy rate by 25 basis points. As a result, the CBL policy rate rose from 3.50 per cent in October 2021 to 3.75 per cent during the review period. Notwithstanding the change in the policy rate, nearly all short-term rates remained unchanged between October and November 2021.

Foreign Exchange

The rand hence the loti weakened against the major global trading currencies in November 2021, extending losses in October 2021. Particularly the rand depreciated by 4.5 per cent to the average of 15.53 against the US dollar, 1.4 per cent to the average of 20.64 against the pound, and 2.8 per cent to the average of 17.71 against the euro. The rand was negatively affected by deterioration in the investor confidence, which led to sell-off of rand denominated securities. The market sentiment suffered from re-emergence of COVID-19 infections in most parts of the world. The emergence of Omicron variant of COVID-19 pandemic also dampened market confidence, and led to a sharp decline in commodity prices. The rand was further under-pressure from expected roll back of monetary stimulus in the US and other advanced economies.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure¹

Government total expenditure was estimated to have increased by 22.4 per cent in November 2021 relative to a marginal rise of 3.3 per cent in October 2021. Both expense and nonfinancial assets increased in the month under review. The drivers of the increase included interest payments, social benefits, other expense as well as fixed assets.

Outlays by Functions

The biggest share of total outlays was directed towards recurrent outlays at 91.4 percentage share, mainly owing to social protection and educational functions.

Total Revenue²

The Government revenue increased by 27.4 per cent during the month under review following 25.8 per cent rise in the previous month. The increase was a result of a good performance of all components of revenue but grants.

Fiscal Balance and Financing³

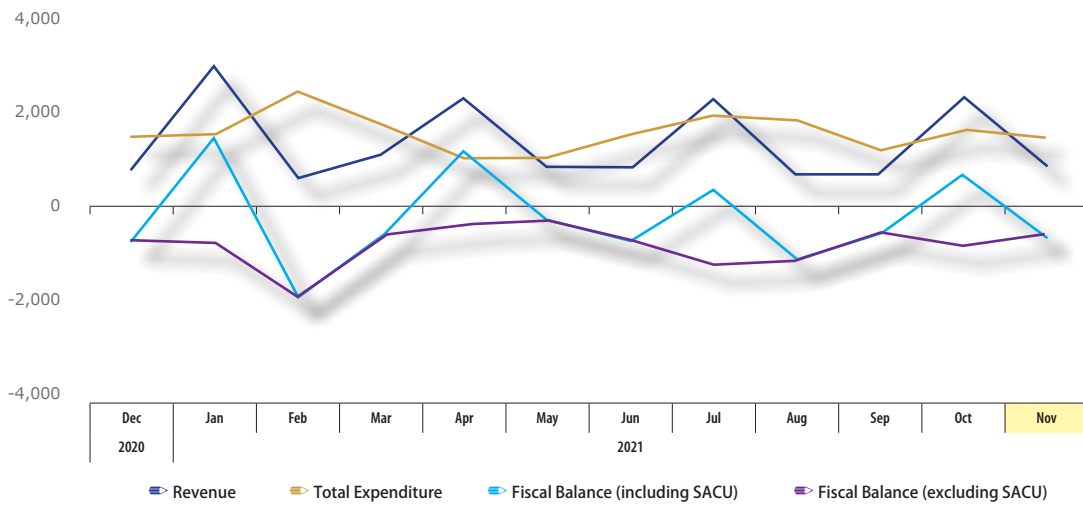
The fiscal operations registered a decline in domestic financial assets and rise in total liabilities. A fall in financial assets followed withdrawal of Government deposits to finance spending, coupled with a decrease in other accounts receivable related to income tax and water royalties from 'Muela hydropower. The rise in liabilities was largely due to new external debt and pending expenditure under commitments.

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

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

³ All financing items are on net basis.

Figure 7 Government Fiscal Balance – excluding SACU Receipts (Million Maloti)



Source: Central Bank of Lesotho & Ministry of Finance

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

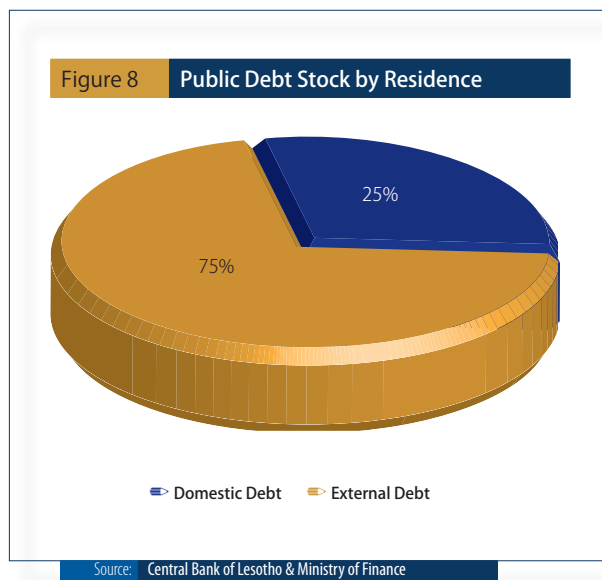
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		10.1%	12.1%	4.0%	3.5%	0.0%	14.9%	13.8%	9.0%
Defense		6.5%	4.9%	0.0%	0.0%	0.0%	0.0%	1.6%	3.9%
Public Order and Safety		15.3%	7.3%	0.0%	0.0%	0.0%	0.0%	28.6%	10.7%
Economic Affairs		9.3%	26.0%	0.0%	4.3%	0.2%	81.5%	49.6%	16.8%
Environmental Protection		0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
Housing and Community Amenities		0.7%	0.3%	0.0%	2.7%	0.0%	0.0%	5.8%	1.2%
Health		6.9%	43.7%	0.0%	0.0%	5.4%	1.5%	0.2%	12.1%
Recreation, Culture, and Religion		0.9%	1.2%	0.0%	45.7%	0.0%	0.0%	0.0%	5.6%
Education		30.2%	1.7%	96.0%	43.9%	0.0%	0.0%	0.3%	20.4%
Social Protection		19.9%	2.8%	0.0%	0.0%	94.4%	2.1%	0.0%	20.2%
Share per Economic Item		43.9%	19.2%	2.1%	10.9%	11.5%	3.3%	9.0%	100.0%

Source: CBL and MOF

V. PUBLIC DEBT

The public debt stock was estimated at 57.1 per cent of GDP in November 2021, compared with 57.2 per cent of GDP in October 2021. Regarding the year on year changes, the public debt stock recorded a

slight increase of 0.1 per cent during the month under review relative to a decline of 4.0 per cent in October 2021.



Appendix: Key Economic Indicators

		21-May	21-Jun	21-Jul	21-Aug	21-Sep	21-Oct	21-Nov	
Economic Activity (MIEA (% change, M/M))		-4.6	0.6	-0.4	-2.2	-0.8	-0.4	7.4	
Consumer price Index (% change)	Headline Inflation (year-on-year)	6.9	6.0	5.5	5.2	5.4	6.2	6.4	
	Core Inflation	5.0	4.2	3.9	3.6	3.7	4.3	4.2	
Exchange Rates (Monthly End Period)	EUR	16.79	16.97	17.32	17.26	17.53	17.72	18.22	
	GBP	19.51	19.77	20.34	20.09	20.38	20.97	21.41	
	USD	13.76	14.28	14.58	14.60	15.12	15.24	16.05	
Money Supply (Millions of Maloti)	M2	14,098.67	13,731.05	13,722.26	13,636.94	13,624.50	14,096.69	14,190.67	
	M1	6,862.16	6,532.57	6,453.22	6,458.09	6,289.92	6,619.57	6,417.32	
	Quasi Money	7,236.52	7,198.49	7,269.04	7,178.85	7,334.58	7,477.12	7,773.35	
Interest Rates	CBL Rate	3.50	3.50	3.50	3.50	3.50	3.50	3.75	
	91 day Treasury bill rate	3.25	3.23	3.22	3.27	3.45	3.35	3.35	
	Prime lending rate	8.19	8.19	8.19	8.19	8.19	8.19	8.19	
	1 year deposit rate	3.53	3.53	3.53	3.53	3.53	3.53	3.53	
Private sector Credit (Millions of Maloti)		7,403.74	7,435.59	7,552.91	7,535.35	7,888.82	7,975.30	8,038.00	
	Households	5,402.70	5,365.92	5,413.48	5,492.47	5,697.47	5,722.52	5,785.78	
	Business Enterprises	2,032.89	2,037.82	2,139.43	2,042.89	2,191.35	2,252.78	2,252.22	
Bank Deposit Liabilities (Millions of Maloti)		14,429.00	14,244.98	14,291.53	14,466.44	14,234.28	14,750.70	14,750.30	
Credit to Deposit Ratio (%)		51.5	52.3	52.9	52.06	55.5	54.1	54.41	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-690.28	378.73	-1,100.95	-488.39	683.07	662.36	-531.25	
	Total Revenue (with SACU receipts)	880.42	2,355.54	744.13	758.06	2,316.11	2,232.82	948.94	
	Total Expenditure	1,570.70	1,976.81	1,845.08	1,246.46	1,633.04	1,570.45	1,480.19	
	O/W Capital	305.10	399.94	504.12	155.37	214.43	214.48	163.46	
Total Public Debt (Millions of Maloti)		17,549.26	18,118.92	18,407.56	18,383.51	18,801.57	19,286.46	20,200.32	
	Total External Debt	13,087.00	13,448.50	13,736.60	13,712.60	14,051.20	14,342.20	15,129.60	
	External Debt	Concessional	10,104.30	10,441.90	10,548.20	10,524.60	10,876.00	11,141.30	11,790.20
		Non-concessional	2,982.70	3,006.60	3,188.40	3,188.00	3,175.20	3,200.90	3,339.40
	Domestic Debt	4,462.26	4,670.42	4,670.96	4,670.91	4,750.37	4,944.26	5,070.72	
Memo Item: Arrears (Millions of Maloti)		0.00	0.00	0.00	0.00	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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