



Monthly ECONOMIC REVIEW

CENTRAL BANK OF LESOTHO

October 2020

I. ECONOMIC ACTIVITY

Economic activity was estimated to have continued on the recovery path in October 2020 from the adverse effects of the pandemic. The growth was attributed to satisfactory performance from the demand side of the economy, while the production side remained sluggish.

Overall Performance Index

As estimated by the Monthly Indicator of Economic Activity (MIEA), economic performance increased further by 1.7 per cent in October after recording a 0.5 per cent growth in September 2020. Out of the fourteen variables that makeup the index, five carried significant positive contributions, while nine contributed negatively to the overall index. Domestic demand continued to boost activity as the government further relaxed lockdown restrictions. In addition, the construction subsector weighed in to the improved performance as indicated by positive contributions from imports of cement and metallic products used for construction purposes.

Domestic Demand Index

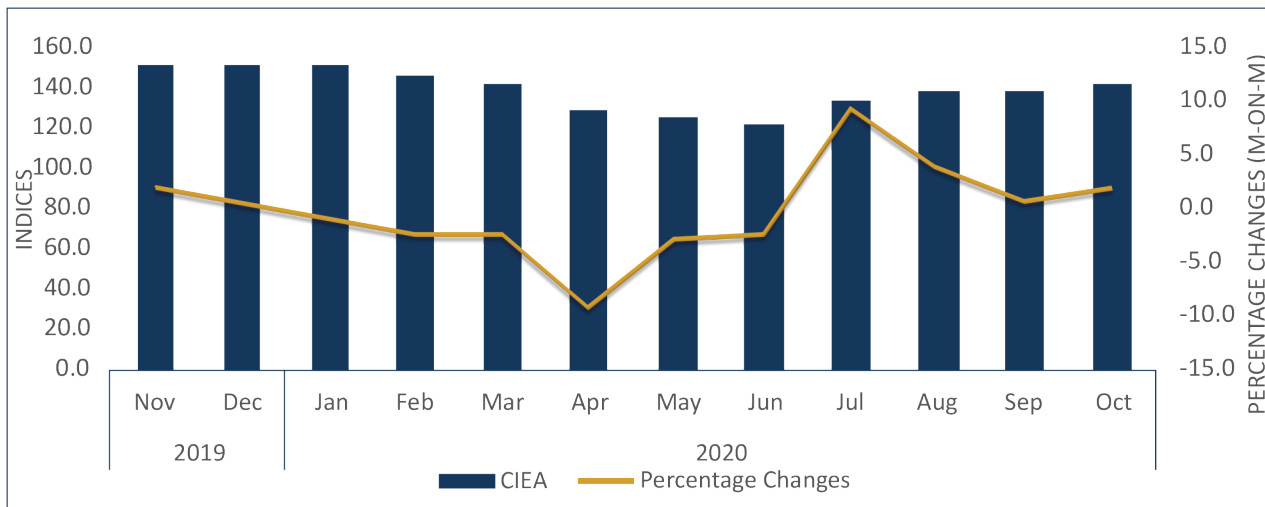
The domestic demand index continued with a robust growth in the review month though slightly below that recorded in the previous month. The index grew by 8.2 per cent following a 11.1 per cent growth recorded in September 2020. The index was mainly driven by positive contributions from Government compensation of employees and the personal income taxes. In addition, VAT collection supported the growth of the index and this was indicative of increasing demand for goods and services in the economy during the review month.

Manufacturing and Production Index

The production index contracted in October 2020. The index contracted by 1.7 per cent following a 2.3 per cent decline in September 2020. The continued decline in the index was brought mainly by a fall in exports of textiles and clothing to the US market signaling reduced orders in the textile and clothing manufacturing firms. Imports of raw materials and usage of electricity for

industrial purposes also contributed to the contraction in the production index.

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							
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
CIEA	141.9	128.6	124.9	121.5	133.0	137.8	138.5	140.9
Monthly changes	-2.5	-9.4	-2.9	-2.7	9.4	3.6	0.5	1.7
Domestic Demand Category	122.1	115.1	113.3	105.0	107.6	113.5	126.2	136.5
Monthly changes	-3.4	-5.7	-1.5	-7.3	2.5	5.5	11.1	8.2
Manufacturing & Production Category	112.8	97.1	81.4	79.6	92.1	105.0	102.6	100.8
Monthly changes	-5.4	14.0	-16.1	-2.2	15.6	14.1	-2.3	-1.7

Source CBL Calculations

II. INFLATION AND PRICES

Headline Inflation

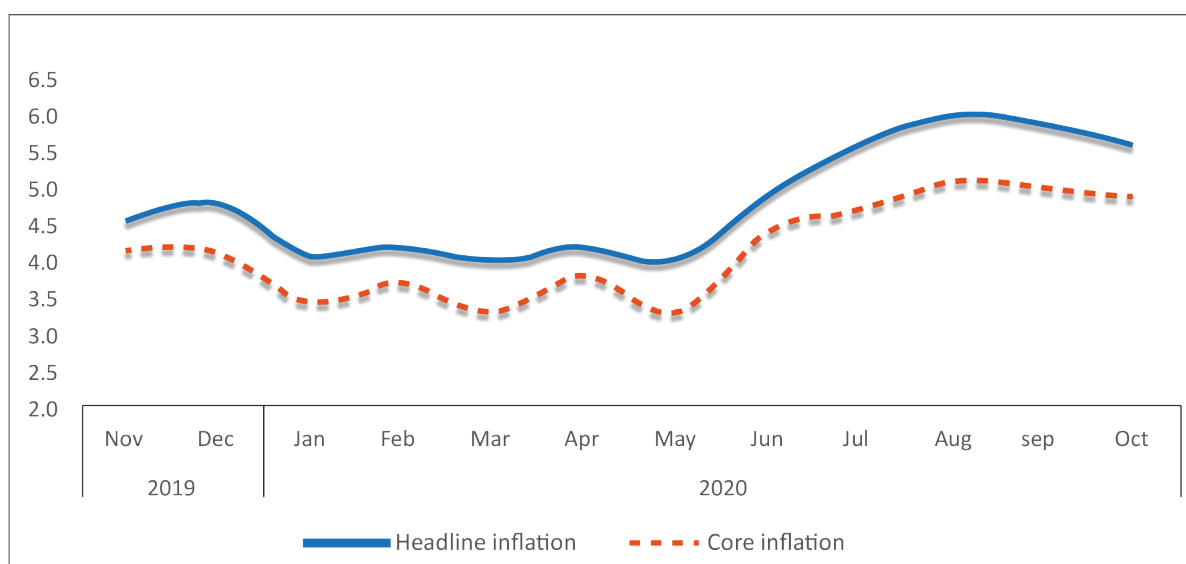
The headline inflation rate declined to 5.6 per cent in October 2020 from 5.9 per cent in September 2020. The major contributors to disinflation during the review period were Clothing & Footwear, Housing, electricity gas & other fuels, Furnishings, Household Equipment and Routine Maintenance of the House and Transport components. These components make up about 38.8 per cent of the total CPI basket.

The notable decline in energy prices was mainly underpinned by increased production in Lybia and lower demand from high oil consumers as second wave of COVID-19 related lockdowns took place in most European countries.

Core Inflation

The core inflation, which excludes the CPI items with extreme price changes, also declined from 5.0 per cent in September 2020 to 4.9 per cent in October 2020.

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



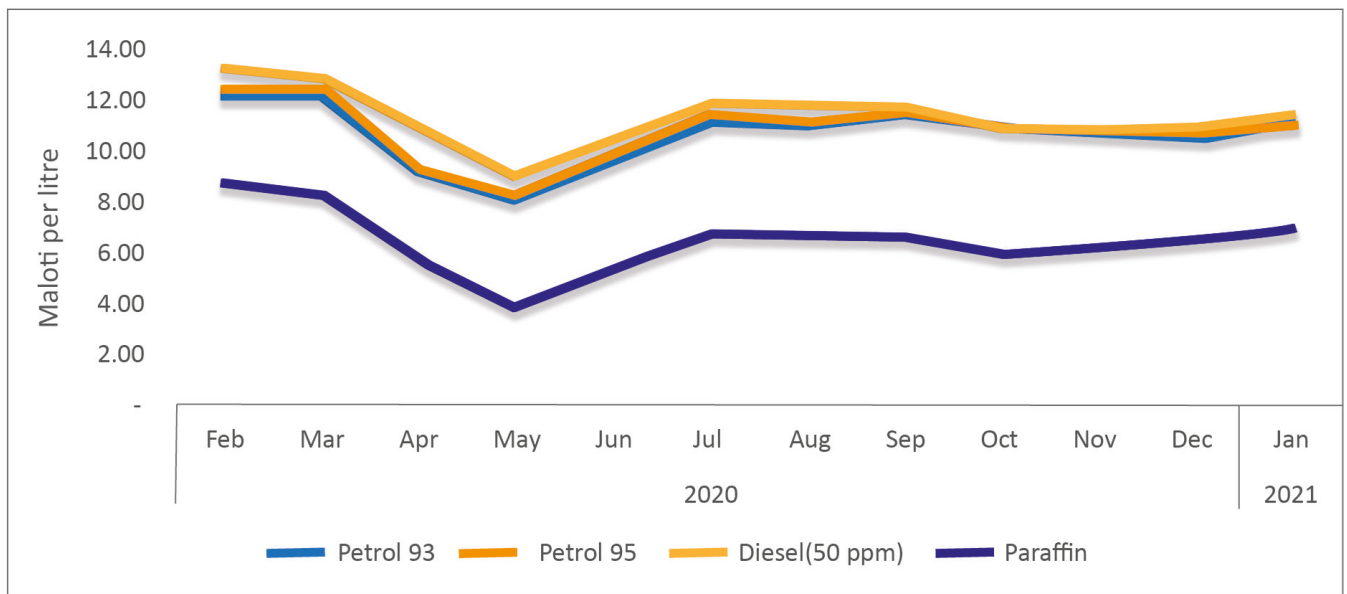
Source Lesotho Bureau of Statistics & CBL Computations

Domestic Fuel Prices

The prices of petrol grades (petrol93 and petrol95) decreased in October 2020 by M0.50 per litre, and were sold at M11.10 per litre and M11.20 per litre, respectively. The price of diesel50 also declined by

M0.95 per litre to reach M10.90 per litre at the pump during the review period. The wholesale price of illuminating paraffin also declined by M0.70 per litre during the review period.

Figure 3 Domestic Fuel Prices)



Source Petroleum Fund

III. MONETARY AND FINANCIAL INDICATORS

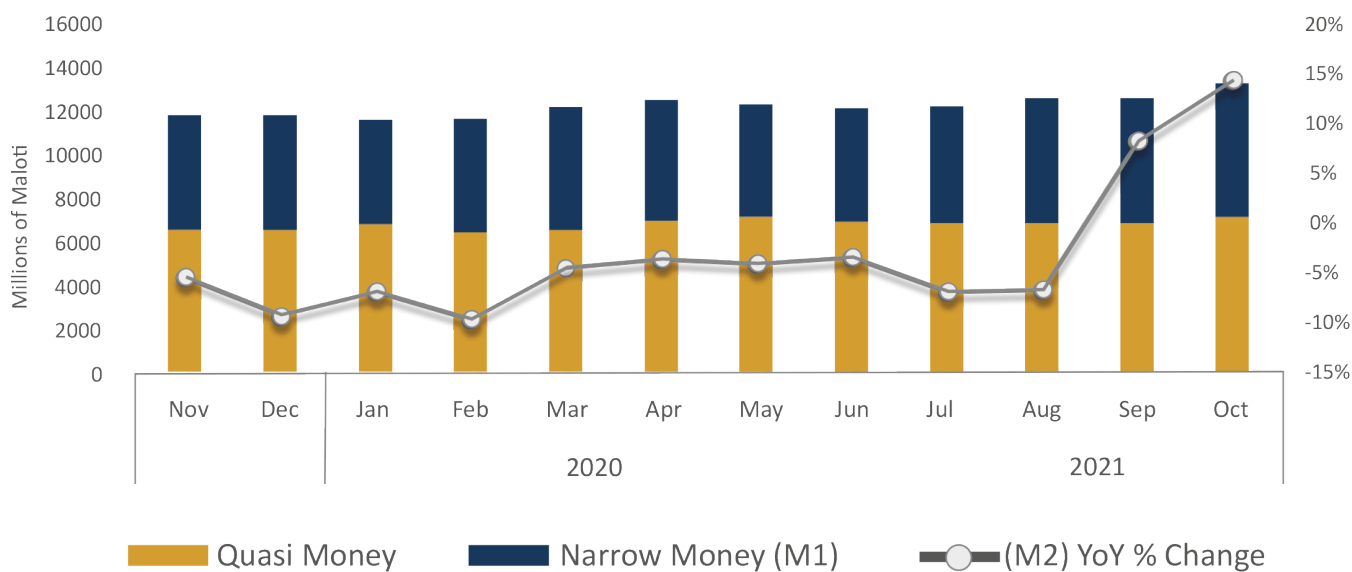
Broad Money (M2)

During the month under review, broad money supply (M2) rose by 5.4 per cent compared to a muted growth of 0.1 per cent observed during the previous month. This was on account of a 12.4 per cent rise in net foreign assets (NFA) following SACU revenue receipt while the fall in net domestic assets (NDA) moderated the growth of money supply. The fall in NDA was mainly due to the build-up of government deposits within the banking system.

Components of Money Supply

In relation to components of money supply, narrow money (M1) as well as quasi money grew by 7.3 per cent and 3.8 per cent, respectively. The rise in the narrow measure of money supply during the review period was on account of an increase in both currency in circulation and demand deposits, while observed increase in quasi money was boosted by long term deposits of business enterprises held by commercial banks.

Figure 4 Broad Money Growth



Source Central Bank of Lesotho

Private Sector Credit

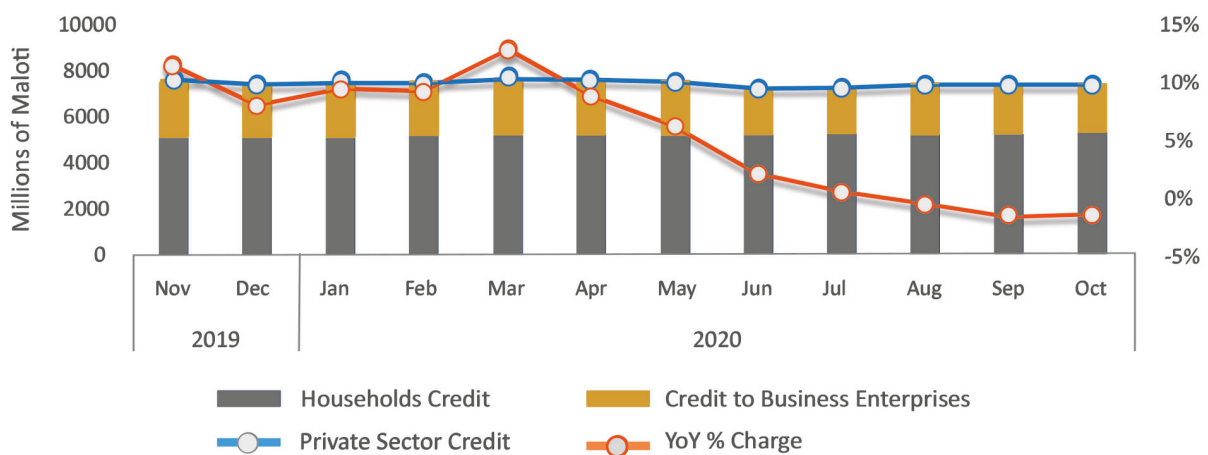
Similar to the previous month, credit extended to the private sector declined. In particular, private sector credit recorded a 0.2 per cent fall in October 2020 compared to a decline of 0.5 per cent observed in September 2020. This follows a 2.1 per cent decline in credit extended to business enterprises. However, credit extended to households somewhat moderated the fall in private sector credit as it grew by 0.5 per cent. On a year-on-year basis, credit extended to the private sector contracted by 1.6 per cent.

Credit extended to business enterprises fell by 2.1 per cent in the review period, up from a relatively

bigger decline of 3.5 per cent in the preceding month. Economic activities that recorded the largest fall in credit were within construction as well as real estate and business services.

Total loans and advances granted to the household sector grew moderately by 0.5 per cent in October, compared to an equally slight growth of 0.8 per cent in September 2020. Similar to the previous month, growth in household credit was supported by both personal loans and mortgages, which rose by 0.3 per cent and 1.0 per cent, respectively.

Figure 5 Private Sector Credit



Source Central Bank of Lesotho

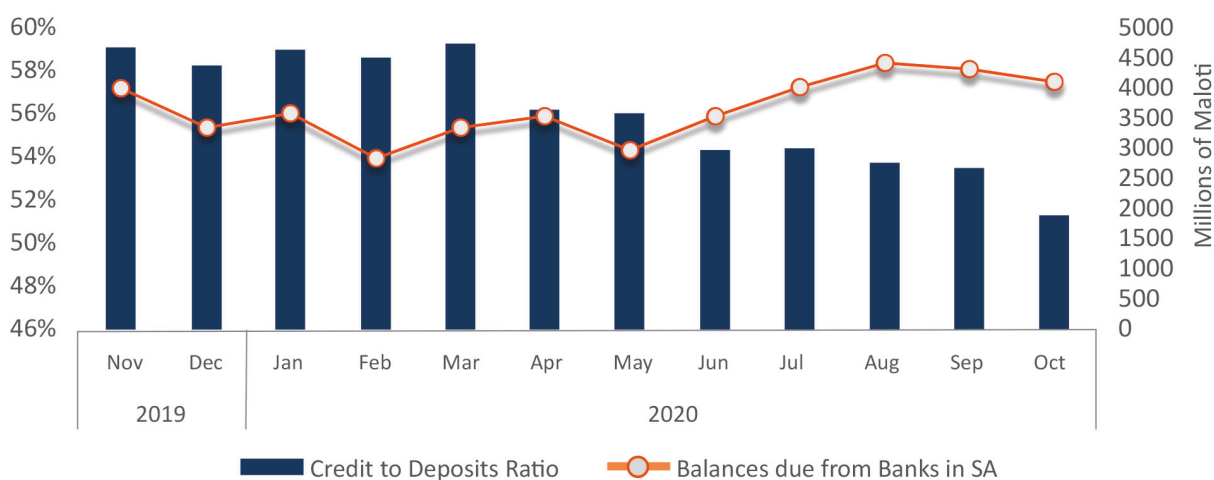
Non-Performing Loans

Total non-performing loans (NPL) as a ratio of total loans remained unchanged at 4.3 per cent between September and October 2020. The NPLs from business enterprises also remained constant at 4.0 per cent during the same period. With regards to the household related NPLs, mortgage NPLs as well as personal loans NPLs remained unchanged at 9.7 per cent and 2.7 per cent respectively.

Sources of Funds

Commercial banks' deposit liabilities rose by 3.9 per cent in October, up from a decrease of 0.1 per cent in September 2020. This was due to a notable rise in demand and call deposits held by businesses enterprises. Moreover, the credit to deposit ratio recorded a third consecutive fall as it declined from 53.3 per cent in September to 51.1 per cent in October 2020. This was at the back of a decline in credit extension coupled with a notable growth in deposits.

Figure 6 Credit to Deposit Ratio



Source Central Bank of Lesotho

Interest Rates

The Central Bank of Lesotho's policy rate remained unchanged at 3.50 per cent between October and September 2020 and most short-term interest rates remained unchanged. However, the 91-day T-Bill rate declined slightly from 3.37 per cent to 3.36 per cent between September and October 2020.

Rand Exchange rate January 2021

The rand hence the loti strengthened against major trading currencies in October 2020. It continued on a stronger path, strengthening further from impressive performance observed in September 2020. Particularly, the rand appreciated by; 1.68 per cent to the average of 16.45 against the US dollar, 1.55 per

cent to the average of 21.35 against the pound, and 1.82 per cent to the average of 19.37 against the euro. The rand gained amid improving appetite for risky assets in the global markets, during the review period. The market sentiment was lifted by positive progress in the fiscal stimulus negotiations in the US, as well as progress on the research with regard to COVID-19 vaccine.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure¹

Government total spending declined by 3.4 per cent in October 2020, after an increase of 44.0 per cent in September 2020. The fall in expenditure was due to non-financial assets, in particular fixed assets, while expenses increased. On the year-to-date changes, the spending decreased by 6.6 per cent relative to an increase of 9.2 per cent in October 2019.

Outlays by Functions

The Government recurrent outlays continued to take the largest share of the total spending. In particular, during the review period, recurrent outlays accounted for 90.5 per cent of total spending as opposed to a share of 85.1 per cent in September 2020. In terms of the spending share among the ten COFOG functions, general public services ranked first, followed by education while recreation and, environmental protection continue to account for the smallest share.

Total Revenue

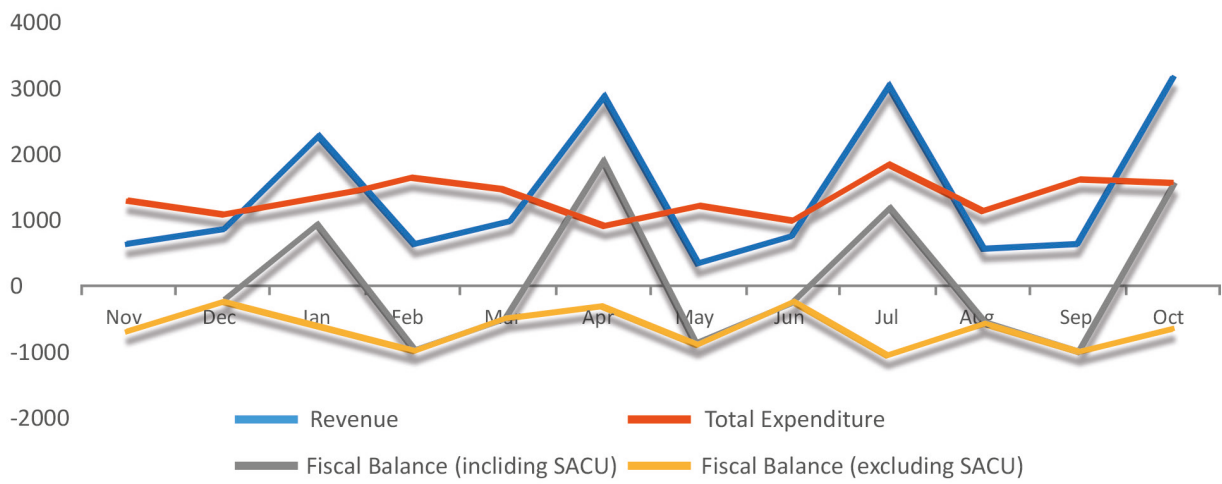
Government revenue rose significantly following SACU receipt. Non-SACU revenue increased by 48.8 per cent relative to a revised increase of 12.2 per cent in the previous month. The surge in non-SACU revenue was mainly driven by all components of tax revenue as well as mining royalties and water royalties. In terms of year-to-date changes, revenue increased by 13.3 per cent in October 2020, which was up from 6.7 per cent experienced last year.

Fiscal Balance and Financing

The government budget operations recorded a fiscal deficit equivalent to 11.6 per cent of GDP during the month under review compared with a fiscal deficit of 6.6 per cent of GDP in the preceding month. This deficit was financed by drawing down Government deposits in the banking system. Regarding the year-to-date changes, there was a fiscal surplus of 3.1 per cent of GDP in October 2020 subsequent to a deficit of 2.2 per cent of GDP in September 2019.

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

Figure 7 Government Fiscal Balance (Million Maloti)



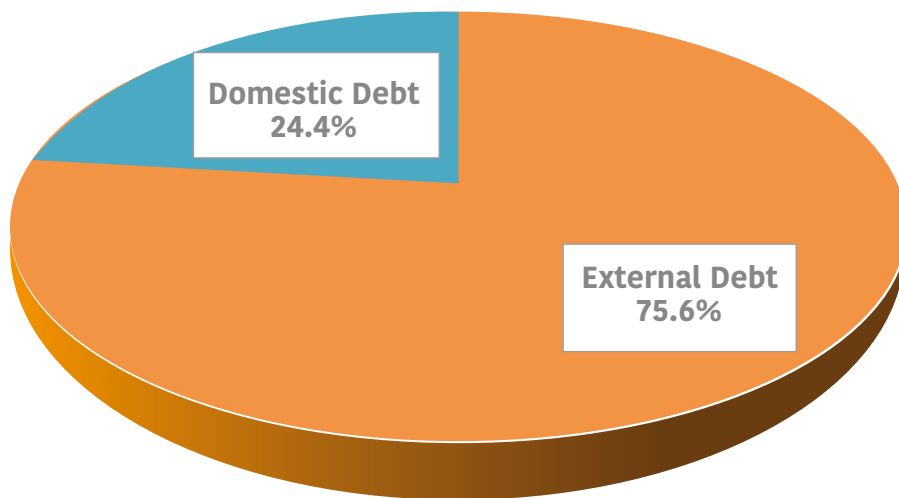
Source CBL and MOF

V. PUBLIC DEBT

The public debt stock was estimated at 63.1 per cent of GDP in October 2020, equivalent to an increase of 0.1 per cent. This marginal increase was due to accumulation of new external debt from multilateral creditors and Export Import Bank of China. However,

domestic debt moderated the growth in total public debt. In terms of shares, the external debt stock continued to take the largest share of 75.7 per cent of total public debt stock.

Figure 9 Public Debt Stock by Residence



Source CBL and MOF

Appendix: KEY ECONOMIC INDICATORS							
		20-May	20-Jun	20-Jul	20-Aug	20-Sep	20-Oct
Economic Activity (MIEA (% change, M/M))		2.9	2.7	9.4	3.6	0.5	1.7
Consumer price Index (% change)	Headline Inflation (year-on-year)	4.0	4.9	5.6	6.0	5.9	5.6
	Core Inflation	3.3	4.4	4.7	5.1	5.0	4.9
Exchange Rates (Monthly End Period)	EUR	19.57	19.74	20.06	20.02	19.67	19.00
	GBP	22.12	22.71	22.27	22.35	21.59	21.07
	USD	17.84	18.16	16.94	16.78	16.80	16.24
Money Supply (Millions of Maloti)	M2	12,582.63	12,909.96	12,600.56	12,986.69	13,000.90	13,700.84
	M1	5,774.30	5,622.80	5,455.47	5,828.06	5,829.60	6,255.99
	Quasi Money	6808.33	7,287.16	7,145.10	7,158.62	7,171.29	7,444.85
Interest Rates	CBL Rate	4.25	4.25	3.50	3.50	3.50	3.50
	91 day Treasury bill rate	6.11	5.04	3.56	3.37	3.36	3.35
	Prime lending rate	10.19	9.19	8.38	8.19	8.19	8.19
	1 year deposit rate	3.94	3.97	3.58	3.58	3.79	3.79
Private sector Credit (Millions of Maloti)		7,695.44	7,582.96	7,260.58	7,407.30	7,374.16	7,356.12
	Households	5,160.28	5,231.35	5,198.39	5,252.82	5,294.51	5,319.51
	Business Enterprises	2,423.99	2,351.61	2,057.72	2,154.48	2,079.65	2,036.61
Bank Deposit Liabilities (Millions of Maloti)		13,113.62	13,113.62	13,458.87	13,913.83	13,905.94	14,448.27
Credit to Deposit Ratio (%)		59.00	55.99	54.2	53.51	53.30	51.10
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-894.23	-222.64	1,184.12	-567.78	-996.19	1,610.86
	Total Revenue	327.83	779.63	3,049.51	562.29	630.92	3,181.93
	Total Expenditure	1,222.06	1,002.26	1,865.39	1,130.07	1,627.11	1,571.08
	O/W Capital	62.45	151.37	384.04	119.77	247.86	157.70
Total Public Debt (Millions of Maloti)		19,123.07	19,107.58	20,071.08	21,541.34	21,509.18	21,527.55
External Debt	Total External Debt	14,917.65	14,904.35	15,868.18	16,479.79	16,409.27	16,516.52
	Concessional	12,220.99	12,194.59	12,538.20	12,848.38	12,831.05	12,883.27
	Non-concessional	2,696.67	2,709.63	3,336.31	3,631.40	3,578.22	3,633.25
Domestic Debt		4,205.42	4,203.36	4,202.90	5,061.56	5,099.91	5,011.03
Memo Item: Arrears (Millions of Maloti)		43.99	147.62	56.94	114.55	78.90	201.82

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 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 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.

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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