



# Monthly ECONOMIC REVIEW

September 2020

CENTRAL BANK OF LESOTHO

## I. ECONOMIC ACTIVITY

Economic activity recorded positive growth in September, though significantly lower than the two preceding months. Both demand and production drove the growth in activity.

### Overall Performance Index

The monthly indicator of economic activity (MIEA) recorded a 1.1 per cent growth in September 2020. The growth rate is, however, considerably slower than the 3.6 per cent recorded in the preceding month. The index continued an upward trajectory that started in July. It is the demand category components that have contributed more to this month's activity while the production and manufacturing category contributed more in the months of July and August.

### Domestic Demand Category

With the opening of the economy following the easing of lockdown restrictions for major industries, the demand in September grew by a buoyed 11.1 per cent. This showed significant improvement

from the 5.5 per cent recorded in August. The sustained growth was a result of improvements in tax collections, both income and sales taxes, as deferment of tax collections came to an end, as well as, demand for goods and services locally. Both inland and import taxes have showed significant growth compared to the previous month. Government's spending on goods and services also increased in the review month.

### Manufacturing & Production Category

The index on manufacturing was under pressure for the first time after the pandemic. The index contracted by a 2.3 per cent in comparison to the 14.1 per cent growth recorded in August 2020. The manufacturing industry still performed satisfactorily despite the contraction in the whole index, with textile exports to the US and inputs from SA, as well as, industrial use of electricity contributing positively despite a lackluster performance by the industrial use of water. Number of orders in the US markets continued to grow as the economies around the world are now trading.

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



Source: CBL Calculations

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

Indices	2020							
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
<b>MIEA</b>	145.6	142.0	128.7	124.9	121.5	133.0	137.8	139.3
Monthly changes	-2.6	-2.5	-9.4	-2.9	-2.7	9.4	3.6	1.1
<b>Domestic Demand Category</b>	126.4	122.1	115.0	113.3	105.0	107.6	113.5	126.2
Monthly changes	-7.0	-3.4	-5.8	-1.5	-7.3	2.5	5.5	11.1
<b>Manufacturing &amp; Production Category</b>	119.3	112.9	97.1	81.5	79.6	92.1	105.1	102.6
Monthly changes	-0.8	-5.4	-14.0	-16.1	-2.2	15.7	14.1	-2.3

Source: CBL Calculations

## II. INFLATION AND PRICES

### Headline Inflation

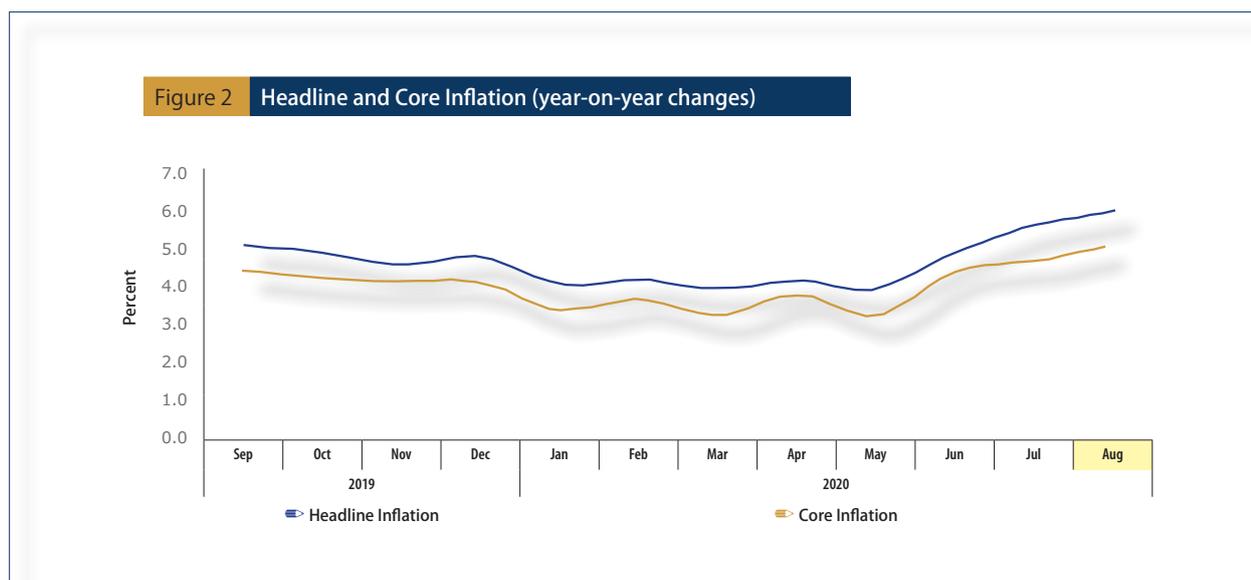
The headline inflation rate slowed down to 5.9 per cent in September 2020 from 6.0 per cent in August 2020. The major contributors to deceleration during the review period were Clothing & Footwear, Housing, electricity gas & other fuels. Nonetheless, transport component marginally moderated the fall in inflation rate during the review period.

The fall in food prices were mainly underpinned by 2020 record-high maize grain output in South Africa coupled with weaker import demand as COVID-19 induced income and job losses continued to take a toll on the economy. The oil market oversupply,

which was met with weak financial markets and reduced demand for oil, especially as China scaled down buying, led to the fall in energy prices during the review period. Nonetheless, exchange rate movements moderately reduced the fall as Rand slightly depreciated against the U.S dollar during the review period.

### Core Inflation

The core inflation, which excludes the CPI items with extreme price changes, also edged downward from 5.1 per cent in August 2020 to 5.0 per cent during the review period.

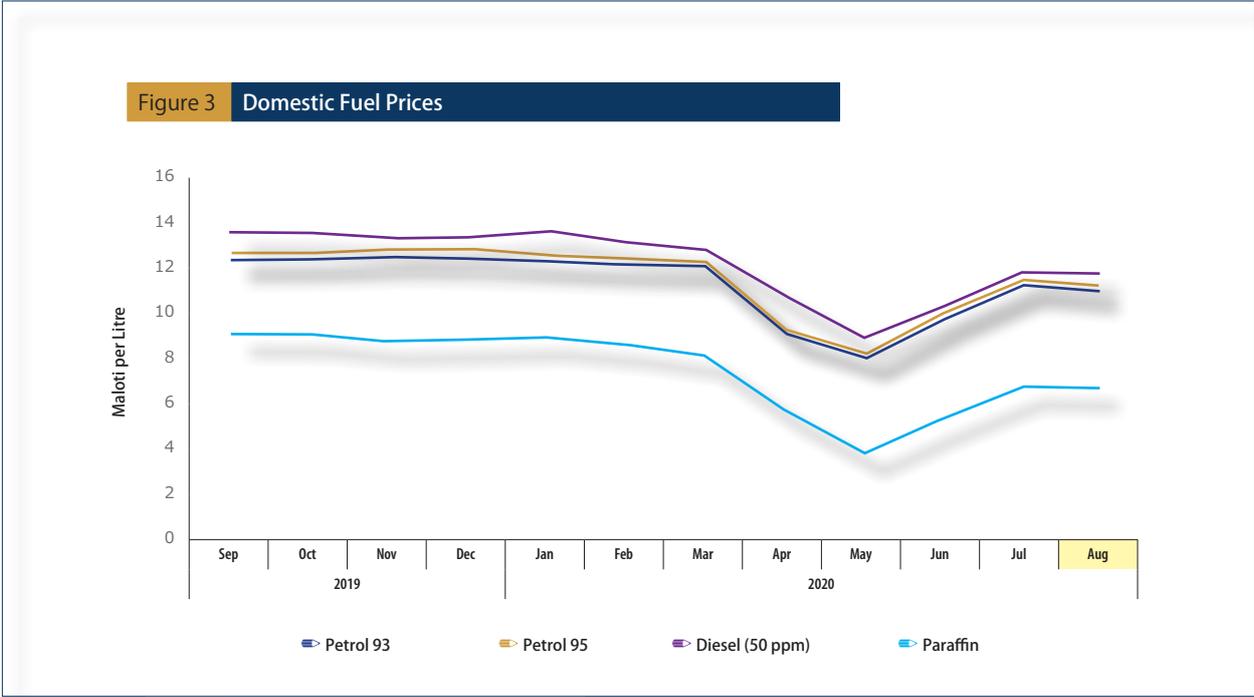


Source: Lesotho Bureau of Statistics & CBL Computation

### Domestic Fuel Prices

Some domestic fuel products' prices increased, and others fell during period under review. Both pump prices of petrol grades (petrol93 and petrol95) increased by M0.40 per litre and M0.35 per litre to reach M11.60 per litre and M11.70 per litre, respectively.

Nonetheless, the price of diesel50 fell by M0.15 per litre to reach M11.85 per litre at the pump in September 2020. The wholesale price of illuminating paraffin also declined by M0.10 per litre during the review period.



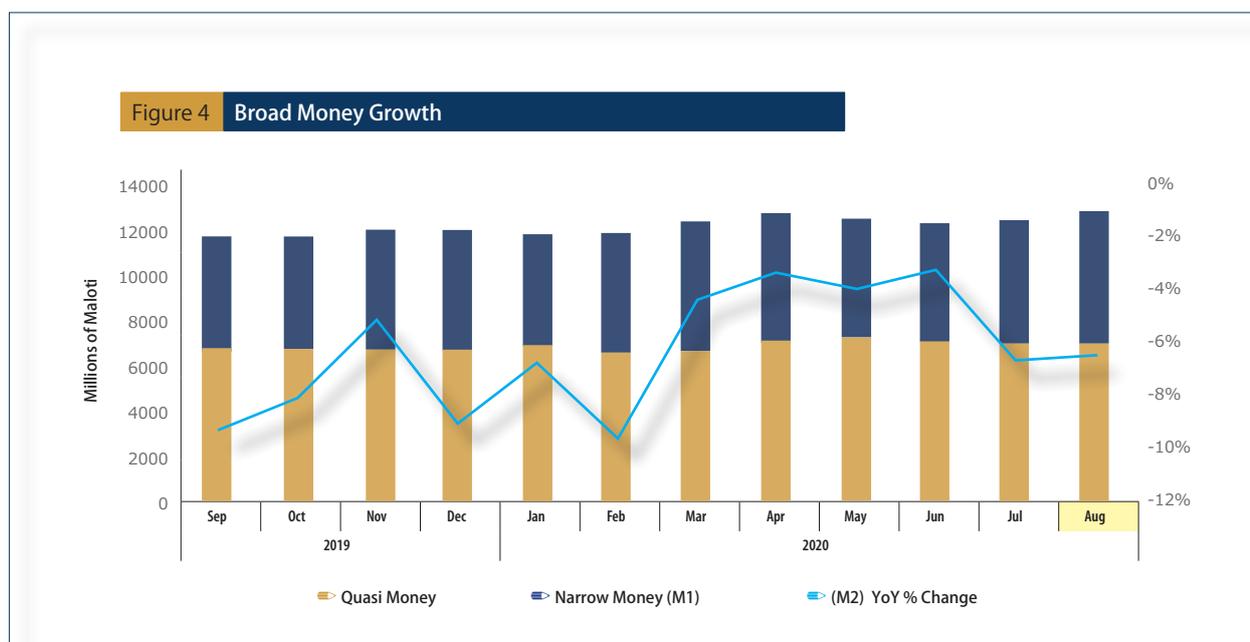
### III. MONETARY AND FINANCIAL INDICATORS

#### Broad Money (M2)

Broad money supply (M2) continued to rise for three consecutive months to September 2020. In particular, M2 increased by a muted 0.1 per cent in the review period, down from 3.1 per cent observed in August 2020. The slight increase in M2 was attributed to a growth of 16.1 per cent in net domestic assets (NDA), which was moderated by a decline of 3.9 per cent in net foreign assets (NFA). The monthly growth in NDA was mainly due to the fall in government deposits with the central bank.

#### Components of Money Supply

Considering the components of money supply, narrow money (M1) remained flat in the current period while quasi money grew by a marginal 0.2 per cent. The recorded growth in quasi money was at the back of an increase in deposits of private business enterprises and households held with the commercial banks.



#### Private Sector Credit

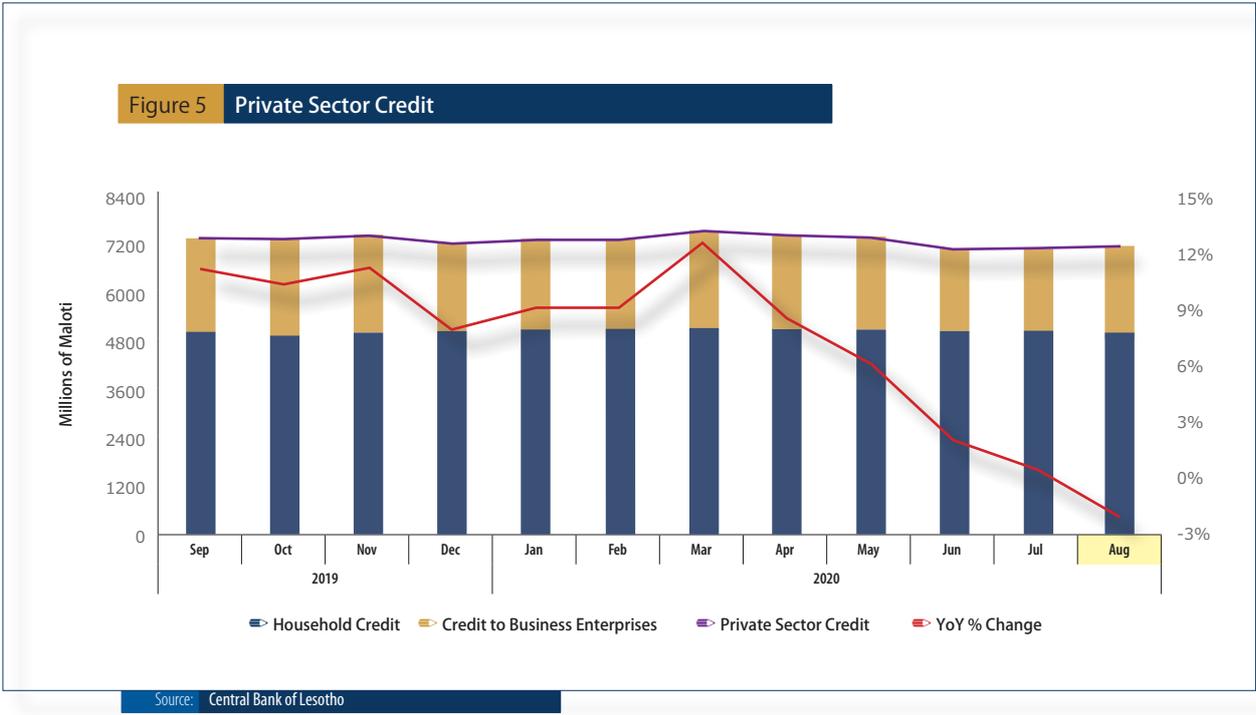
The total private sector credit recorded a decline of 0.5 per cent in September 2020, compared to an increase of 2.1 per cent registered in the previous month. The decline in private sector credit was particularly due to the fall in credit to business enterprises, while household credit increased. On

a year-on-year basis, credit extended to the private sector contracted by 1.6 per cent.

Credit extended to business enterprises fell by 3.5 per cent in the review period, down from a growth of 4.7 per cent in the preceding month. Economic activities that recorded the largest fall in credit were within mining & quarrying and transport storage & communication sectors.

Total loans and advances granted to the household sector grew by 0.8 per cent in September, compared to an increase of 1.0 per cent in August 2020. The

growth in household credit was supported by both personal loans and mortgages, which increased by 0.9 per cent and 0.4 per cent, respectively.



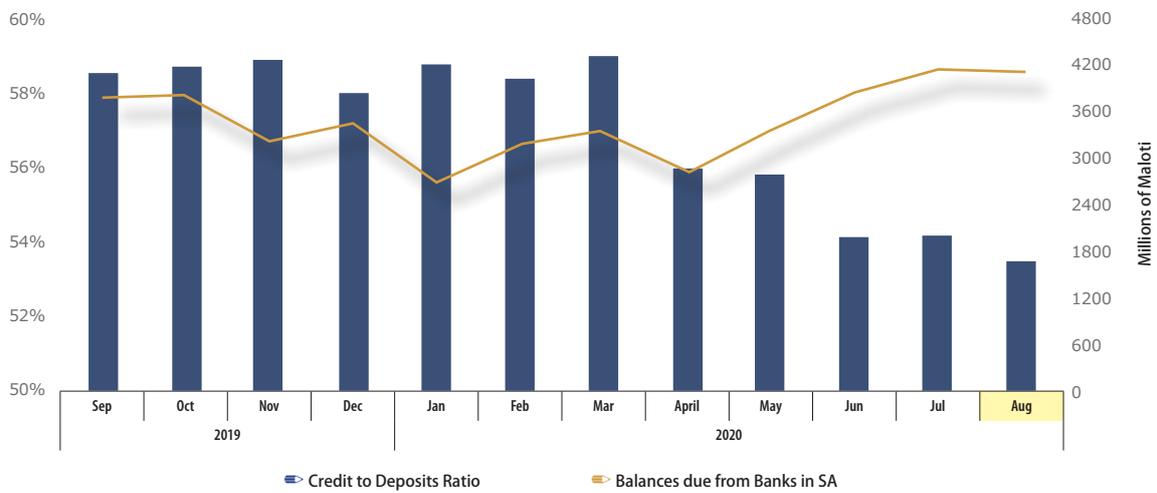
### Non-Performing Loans

Total non-performing loans (NPL) as a ratio of total loans remained stable at 4.3 per cent between August and September 2020. The NPLs from business enterprises were also stable at 4.0 per cent. With regards to the household related NPLs, mortgage NPLs improved slightly from 9.9 per cent in August to 9.7 per cent in the review period, while NPLs from personal loans moderated the improvement.

### Sources of Funds

Commercial banks' deposit liabilities fell by a marginal 0.1 per cent in September, down from an increase of 3.4 per cent in August. This was largely on account of a decline in demand and call deposits of businesses and statutory bodies held with the commercial banks. Moreover, the credit to deposit ratio declined from 53.5 per cent in the past month to 53.3 per cent in September 2020. This was at the back of a decline in credit extension, notwithstanding the fall in total deposits.

**Figure 6 Credit to Deposit Ratio**



Source: Central Bank of Lesotho

## Interest Rates

The Central Bank of Lesotho’s policy rate remained at 3.50 per cent in the review period, and most short-term interest rates remained flat. However, the 91-day T-Bill rate and the 1-year deposit rate rose, picking up from 3.37 per cent and 3.58 per cent to 3.61 per cent and 3.79 per cent, respectively.

## Rand Exchange rate September 2020

The rand hence the loti strengthened against major global trading currencies in September 2020, following a weakened performance in the preceding month. In particular, the rand appreciated

by 2.88 per cent to the average of 16.7311 against the US dollar, 4.12 per cent to the average of 21.6892 against the pound and 3.21 per cent to the average of 19.7290 against the euro. The value of rand increased alongside other emerging market currencies. It was driven by positive progress on the COVID-19 vaccine, and this boosted market appetite for risky assets. The rand was also driven by South African Reserve Bank’s decision to keep the repo rate unchanged in September meeting, while major central Banks were dovish. South Africa relaxed most of lockdown restrictions. This was viewed to support economic activities, especially tourism and related industries in the value chain.

# IV. GOVERNMENT BUDGETARY OPERATIONS

## Total Expenditure

Government total spending rose by 44.0 per cent in September 2020 following a fall of 39.4 per cent in August 2020. The increase in expenditure was largely due to employer pension contribution, operating costs, subsidies to non-financial public enterprises and students loan bursary. On the basis of year-to-date changes, the spending decreased by 5.0 per cent relative to a rise of 5.0 per cent observed in September 2019.

## Outlays by Functions

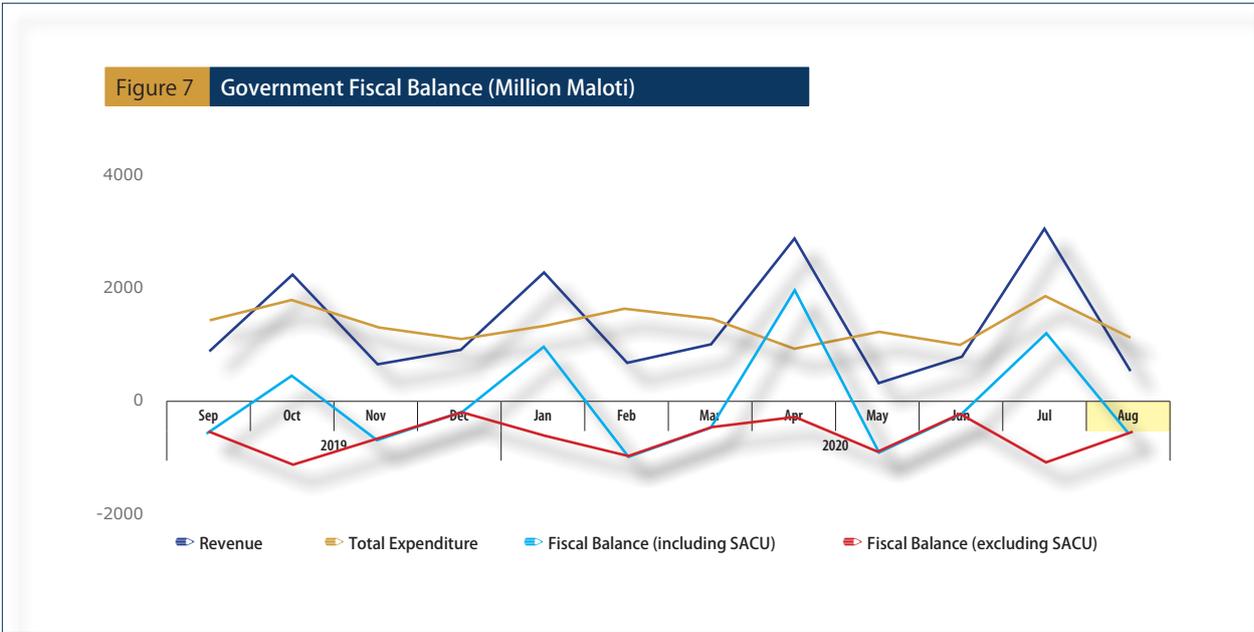
The Government recurrent outlays continued to take the largest share of the total spending at 85.1 per cent in September 2020, compared with 89.3 per cent in August 2020. Regarding the spending share among the ten COFOG functions, economic affairs ranked first, followed by health while recreation and environmental ranked last.

## Government Revenue

Government revenue increased by 12.5 per cent in the month under review relative to a decline of 81.4 per cent in the previous month. The surge in revenue was mainly driven by company tax, VAT and mining royalties. In terms of year-to-date changes, revenue increased by 5.4 per cent in September 2020, which was down from a rise of 6.4 per cent experienced last year.

## Fiscal Balance and Financing

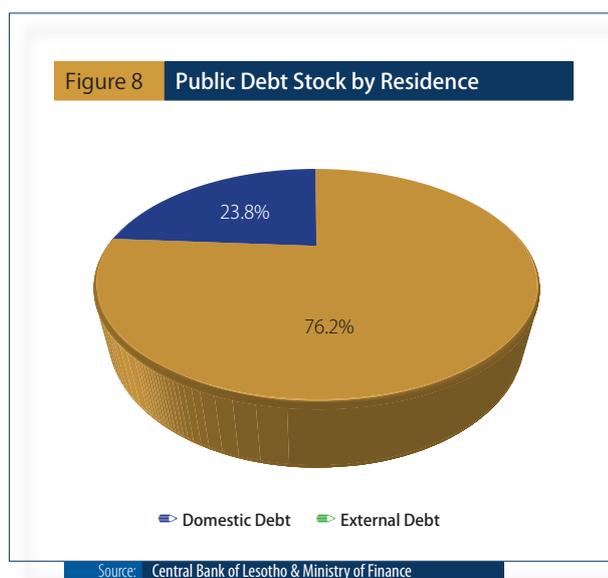
The government budget operations recorded a fiscal deficit equivalent to 11.6 per cent of GDP during the month under review compared with a fiscal deficit of 6.6 per cent of GDP in the preceding month. This deficit was financed by drawing down Government deposits in the banking system. Regarding the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



## V. PUBLIC DEBT

The public debt stock maintained a record of 62.8 per cent of GDP in the month under review as in the previous month. It increased marginally by 0.1 per cent largely due to issuance of Treasury bonds, and with it, the domestic debt stock rose by 1.4 per cent. The realised prior years' arrears that were all redeemed constituted an insignificant ratio to GDP.

The external debt stock continued to take the largest share of 76.2 per cent of total public debt stock. The accumulation of outstanding debt that suddenly breached the threshold since August 2020 will require the Government to employ precautionary measures to contain debt within sustainable levels.



## Appendix: Key Economic Indicators

		20-Apr	20-May	20-June	20-July	20-Aug	20-Sep	
Economic Activity MIEA (% change, Y/Y)		-2.6	-2.5	-10.1	-3.1	-4.8	10.6	
Consumer price Index (% change)	Headline Inflation (year-on-year)	4.2	4.0	4.2	4.0	4.9		
	Core Inflation	3.7	3.3	3.8	3.8	4.4		
Exchange Rates (Monthly End Period)	EUR	17.12	19.57	19.74	19.43	19.47	20.06	
	GBP	20.06	22.12	22.71	21.57	21.33	22.27	
	USD	15.58	17.84	18.16	17.45	17.39	16.94	
Money Supply (Millions of Maloti)	M2	12,031.82	12,582.63	12,909.96	12,682.16	12,467.68	12,600.56	
	M1	5,310.62	5,774.30	5,622.80	5,236.58	5,216.40	5,455.47	
	Quasi Money	6,721.20	6,808.33	7,287.16	7,445.58	4,121.66	7,145.10	
Interest Rates	CBL Rate	6.25	4.25	4.25	3.75	3.75	3.50	
	91 day Treasury bill rate	6.15	6.11	5.04	3.86	3.70	3.56	
	Prime lending rate	11.00	10.19	9.19	8.56	8.44	8.38	
	1 year deposit rate	3.74	3.94	3.97	3.58	3.58	3.58	
Private sector Credit (Millions of Maloti)		7,480.37	7,695.44	7,582.96	7,522.51	7,191.51	7,260.58	
	Households	5,234.31	5,160.28	5,231.35	5,214.07	5,148.32	5,202.86	
	Business Enterprises	2,246.07	2,423.99	2,351.61	2,308.43	2,043.19	2,057.72	
Bank Deposit Liabilities (Millions of Maloti)		12,888.35	13,113.62	13,113.62	13,588.00	13,419.99	13,458.87	
Credit to Deposit Ratio (%)		58.04	59.00	55.99	55.80	54.20	54.20	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-864.11	-415.97	1,984.72	-890.54	-223.13	1,186.03	
	Total Revenue	683.31	1,003.95	2,889.87	327.83	779.63	3,051.44	
	Total Expenditure	1,547.41	1,419.93	905.15	1,218.37	1,002.77	1,865.40	
	O/W Capital	255.00	546.53	82.95	62.22	151.86	384.04	
Total Public Debt (Millions of Maloti)		18,217.21	19,464.41	19,589.20	19,124.23	19,108.71	20,112.00	
	Total External Debt	14,296.68	15,172.30	15,353.30	14,918.81	14,905.35	15,941.29	
	External Debt	Concessional	11,722.62	12,463.45	12,624.05	12,222.14	12,195.72	12,604.97
		Non-concessional	2,574.06	2,708.84	2,729.24	2,696.42	2,709.63	3,336.31
	Domestic Debt	3,920.53	4,292.11	4,235.90	4,205.42	4,203.36	4,170.71	
Memo Item: Arrears (Millions of Maloti)		36.12	38.21	0.24	40.30	147.85	56.94	

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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