



# Monthly ECONOMIC REVIEW

February 2020

CENTRAL BANK OF LESOTHO

## I. ECONOMIC ACTIVITY

Economic activity weakened in February 2020 following a stagnation observed in the previous month. This was observed in both the demand and supply sides of the economy.

### Overall Performance Index

The monthly indicator of economic activity (MIEA), declined marginally by 0.3 per cent in February 2020. This negative growth was recorded in seven of the fourteen component variables that make up the MIEA, while the other seven variables moderated the impact. Both domestic demand and production side variables contributed to the dip in overall performance. Transport sector variables also contributed to the decline as demonstrated by negative contribution from fuel consumption. However, the construction subsector moderated the decline as shown by positive contributions from cement and metallic production used for construction purposes.

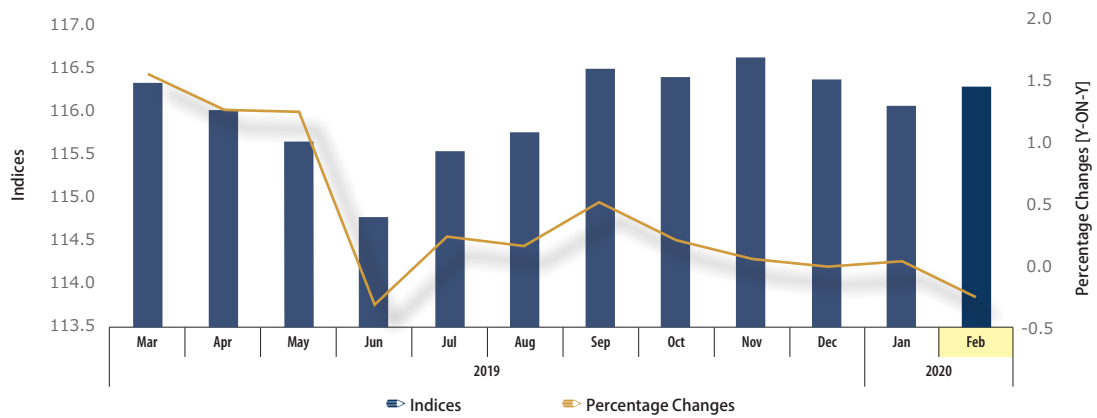
### Domestic Demand Category

The domestic demand index was estimated to have declined by 1.0 per cent in February as opposed to an increase observed in the previous month. The negative growth was mainly due to a relatively low government activity as indicated by a significant negative contribution from the government use of goods and services. In addition, VAT collections showed a marginally reduced domestic demand in the economy. However, imports of goods and services and compensation of employees moderated the impact on domestic demand index by registering positive contributions.

### Manufacturing & Production Category

The production index remained under pressure in the review month though with a slightly reduced negative figure. The index declined by 1.4 per cent in February 2020 following 2.4 per cent registered in the preceding month. The decrease continued to be attributable to significant negative contributions from water and electricity consumption used for industrial purposes together with textile and clothing exports to the US market reflecting reduced consumer demand for Lesotho's clothing and textiles.

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



Source: CBL Calculations

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

| Indices  | 2019  |       |       |       |       |       | 2020  |       |
|--|-------|-------|-------|-------|-------|-------|-------|-------|
|  | Jul   | Aug   | Sep   | Oct   | Nov   | Dec   | Jan   | Feb   |
| <b>CIEA</b>                                    | 115.5 | 115.7 | 116.4 | 116.3 | 116.6 | 116.3 | 116.0 | 116.2 |
| year-on year changes                           | 0.2   | 0.2   | 0.5   | 0.2   | 0.0   | 0.0   | 0.0   | -0.3  |
| <b>Domestic Demand Category</b>                | 114.3 | 114.6 | 115.7 | 115.5 | 115.0 | 114.6 | 114.7 | 114.4 |
| year on year changes                           | 1.1   | 1.5   | 2.4   | 1.7   | 0.9   | 0.9   | 0.9   | -1.0  |
| <b>Manufacturing &amp; Production Category</b> | 105.7 | 105.4 | 106.0 | 105.6 | 106.3 | 105.5 | 105.7 | 106.5 |
| year on year changes                           | -2.0  | -2.7  | -2.5  | -2.5  | -2.5  | -2.7  | -2.4  | -1.4  |

Source: CBL Calculations

## II. INFLATION AND PRICES

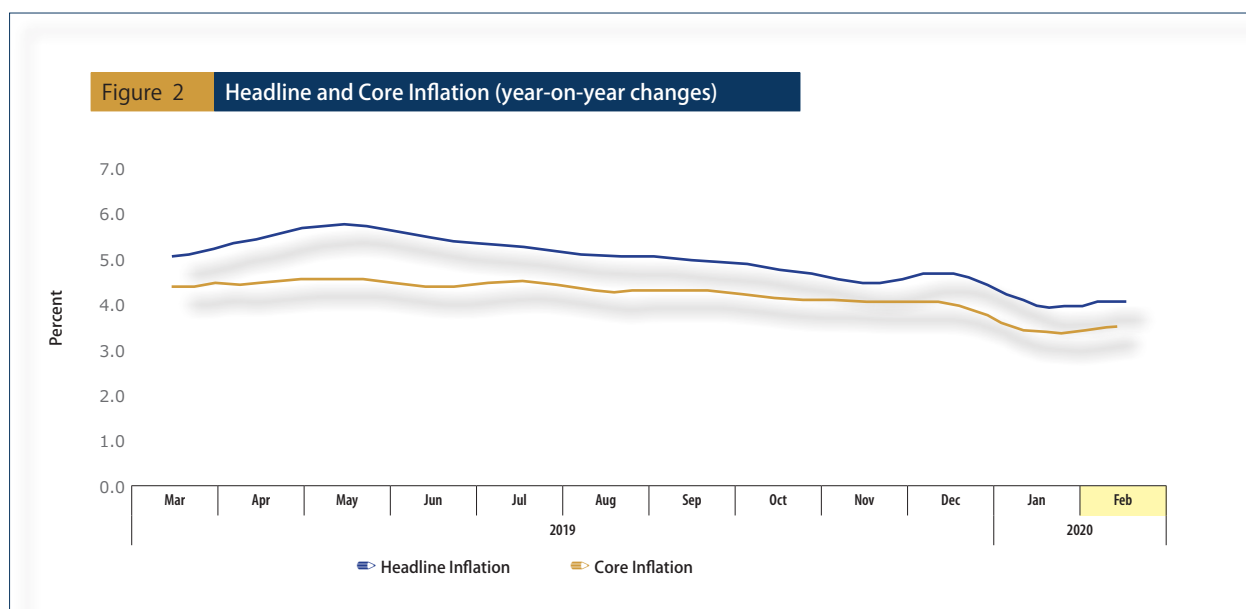
### Headline Inflation

The headline inflation rate in February 2020 increased by 0.1 percentage points from the 4.1 to 4.2 per cent. The main contributor to the acceleration was the housing, electricity, gas & other fuels and health components. The acceleration was however, moderated by food and non-alcoholic beverages, alcoholic beverages & tobacco and clothing & footwear components.

The prospect of good harvest in the 2019/20 crop year continued to ease the pressures on food prices. Despite the declining CPI figures for most of the components, the weak exchange rate between the Loti and the US Dollar was the main driver of the increase in the inflation rate in February.

### Core Inflation

The core inflation, which excludes the CPI with extreme price changes, accelerated by 0.2 percentage points from 3.5 in January to 3.7 per cent in February.

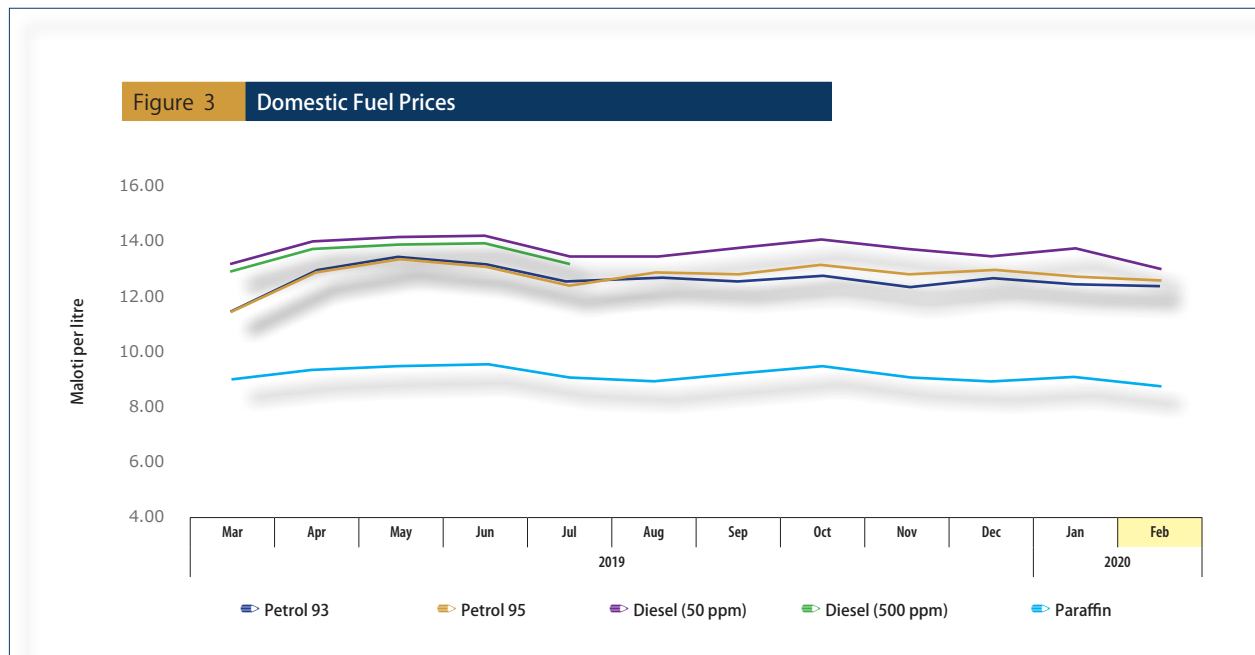


## Domestic Fuel Prices

The overall fuel prices declined in February 2020 compared to the preceding month. Pump prices of petrol grades decreased by M0.10 per litre and M0.20 per litre for petrol93 and petrol95 respectively in February 2020 from their levels in the preceding month; they sold for M12.40 and M12.55 respectively.

The pump price of diesel50 also decreased by M0.70 per litre during the review period and sold for M13.05. The wholesale price of illuminating paraffin also decreased by M0.30 to M8.80 per litre in February 2020.

The overall decline in the fuel prices was a reflection of the falling oil prices globally.



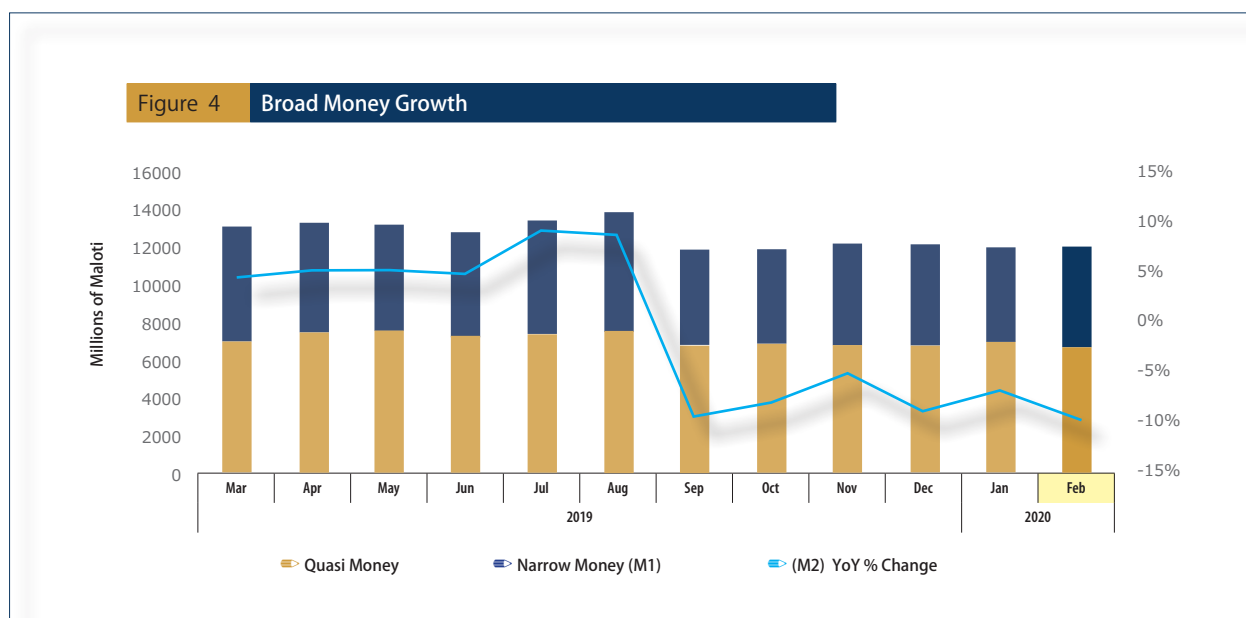
### III. MONETARY AND FINANCIAL INDICATORS

#### Broad Money (M2)

Broad money supply (M2) grew slightly by 0.3 per cent in February 2020, following a decline of 1.7 per cent in the first month of the year. This was on account of a 14.1 per cent growth in net domestic assets (NDA), which was moderated by a 3.5 per cent decline in net foreign assets (NFA). The growth in NDA was due to the increased holding of government securities by commercial banks coupled with a fall in government deposits held with the Central Bank.

#### Components of Money Supply

During the month under review, narrow money (M1) increased by 8.7 per cent while quasi money declined by 5.4 per cent. The rise in Narrow money was at the back of an increase in both the currency in circulation and business enterprises' demand deposits held with commercial banks.

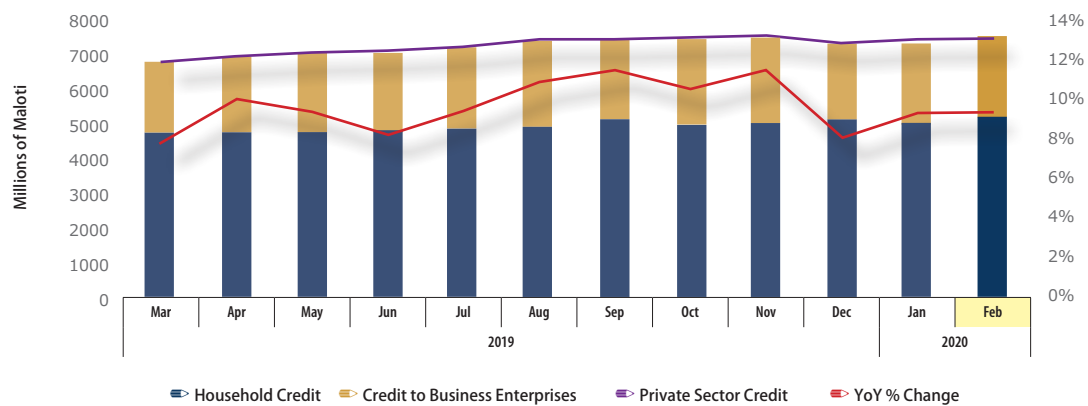


#### Private Sector Credit

During the review period, total credit extended to the private sector declined marginally by 0.02 per cent, following an increase of 1.7 per cent in January 2020. On a year-on-year basis, private sector credit increased by 9.3 per cent in the month under review. Overall credit extended to households rose by 0.2 per cent in February 2020. This was supported by a

rise in both personal loans and mortgages of 0.2 per cent and 0.1 per cent, respectively. On the contrary, credit extended to business enterprises fell by 0.5 per cent, following a 4.0 per cent growth registered in the previous month. The decline in credit extended to business enterprises was underpinned by the fall in demand for credit in the mining and quarrying sector.

**Figure 5 Private Sector Credit**



Source: Central Bank of Lesotho

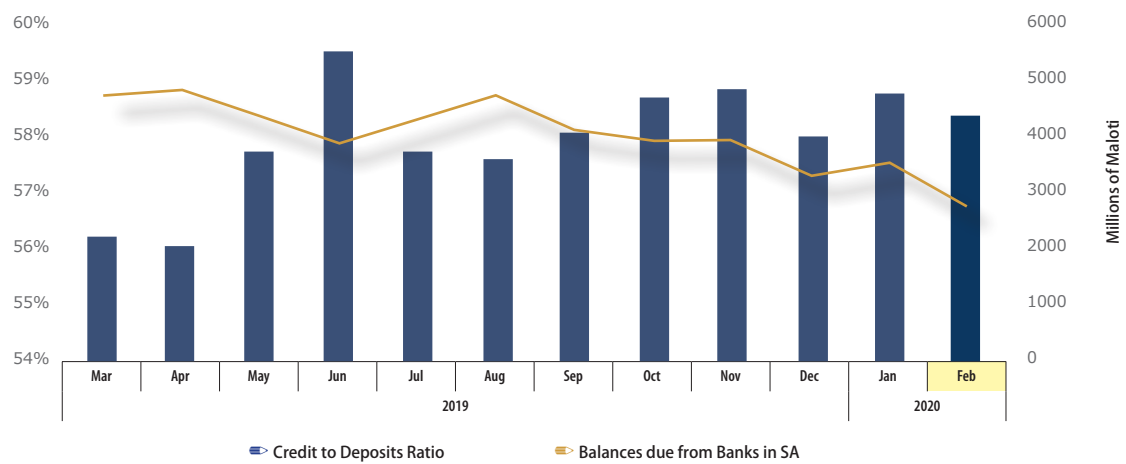
### Non-Performing Loans

Total non-performing loans (NPLs) as a share of total loans granted by commercial banks increased marginally to 3.6 per cent in February 2020, compared with 3.5 per cent recorded in the preceding month. The households related NPLs increased during the review period and this was due to an increase in mortgage NPLs and Personal loan NPLs from 8.6 per cent and 1.8 per cent to 9.0 per cent and 2.0 per cent, respectively. Conversely, NPLs resulting from business enterprises improved slightly from 3.6 per cent in January 2020 to 3.4 per cent in February 2020.

### Sources of Funds

The commercial banks' credit to deposit ratio fell marginally from 58.8 per cent to 58.4 per cent in the first two months of the year. This was on account of a fall 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 remained at 6.25 per cent between January and February 2020. However, the 91-day T-Bill discount rate declined slightly from 6.17 per cent in January to 6.15 per cent during the review period. Furthermore, the prime lending rate and the one-year deposit rate also declined by 19 basis points and 46 basis points, respectively.

## Foreign Exchange Rates<sup>1</sup>

The Loti weakened against the major currencies in February 2020. It depreciated by 4.05 per cent to the average of 15.00 against the US Dollar, 3.24 per cent to the average of 19.45 against the British Pound, and by 2.22 per cent to the average of 16.36 against the Euro. The depreciation was a result of the heightened general assets selloff from the emerging economies, which adversely affected the Rand. The selloff was due to magnified volatility and risks at the back of the COVID-19 outbreak. Furthermore, the fears of a credit rating downgrade in South Africa put more pressure on the Rand.

<sup>1</sup> Monthly average exchange rate.

# IV. GOVERNMENT BUDGETARY OPERATIONS

## Total Expenditure

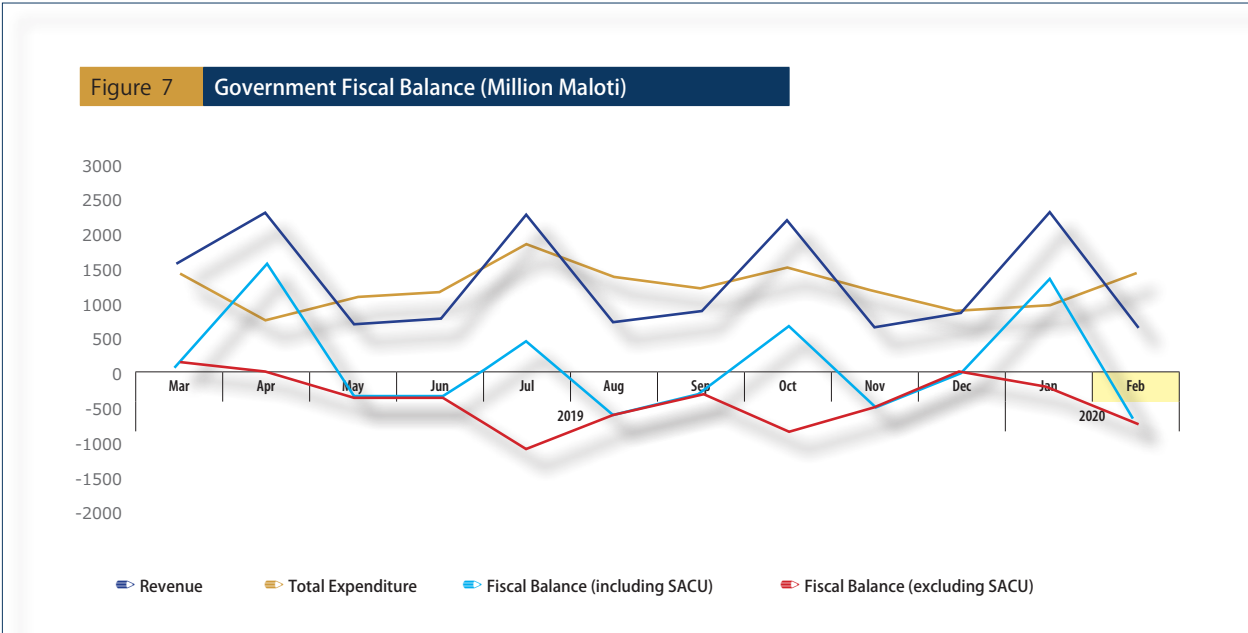
Government total expenditure increased significantly by 46.8 per cent in February 2020, following 9.0 per cent growth recorded in January 2020. The increase in spending was mainly attributable to, payments related to development expenditure, in addition to the regular expenses.

## Total Revenue

Government revenue declined significantly by 71.6 per cent during the month, in contrast to a fall of more than 100.0 per cent in January 2020. This was mainly on account of low collections from VAT, excise tax, taxes on international trade, and mining royalties, amongst others. However, taxes on income and LHWP water royalties moderated the reduction in Government revenue.

## Fiscal Balance and Financing

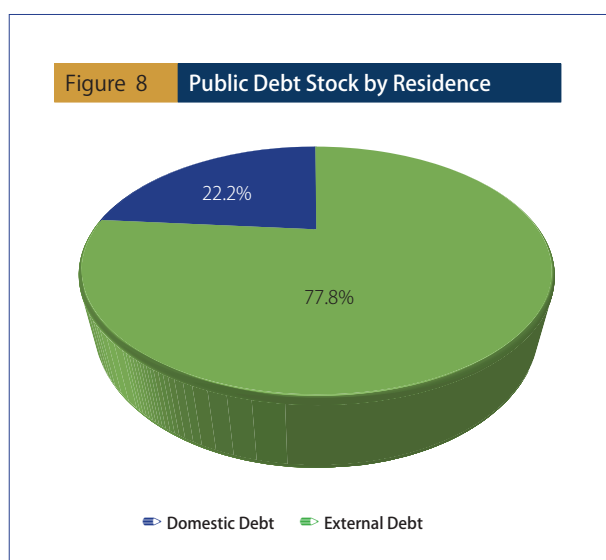
As a result of the foregoing, the government budgetary operations recorded a fiscal deficit equivalent to 7.8 per cent of GDP in the month, compared to a revised surplus of 13.7 per cent of GDP that was in January 2020. This fiscal deficit was financed through issuance of fiscal Treasury bills coupled with drawdown of the Government deposits in the banking system. Consequently, government liabilities increased by 0.9 per cent of GDP while the corresponding acquisition of financial assets fell by 2.2 per cent of GDP.





## V. PUBLIC DEBT

The public debt stock was projected at 44.6 per cent of GDP in February 2020, up from 42.1 per cent of GDP observed in January 2020. This was equivalent to 5.9 per cent increase compared with 3.6 per cent in the preceding month. This was mainly driven by government securities issued during the month, in addition to new disbursement plus in currency depreciation that affected the external debt component.



## Appendix: Key Economic Indicators

|   |                                   | 19-Sep           | 19-Oct    | 19-Nov    | 19-Dec    | 20-Jan    | 20-Feb    |           |
|---|-----------------------------------|------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Economic Activity MIEA (% change, Y/Y)        |                                   | 0.5              | 0.2       | 0.0       | 0.0       | 0.0       | -0.3      |           |
| Consumer price Index (% change)               | Headline Inflation (year-on-year) | 5.1              | 4.9       | 4.6       | 4.8       | 4.1       | 4.2       |           |
|   | Core Inflation                    | 4.4              | 4.2       | 4.4       | 4.1       | 3.5       | 3.7       |           |
| Exchange Rates (Monthly End Period)           | EUR                               | 16.55            | 16.49     | 16.12     | 15.72     | 16.00     | 17.12     |           |
|   | GBP                               | 18.69            | 18.85     | 18.91     | 18.43     | 18.84     | 20.06     |           |
|   | USD                               | 15.19            | 14.91     | 14.66     | 14.01     | 14.42     | 15.58     |           |
| Money Supply (Millions of Maloti)             | M2                                | 11,878.98        | 12,185.65 | 12,195.22 | 13,865.35 | 11,990.97 | 12,031.82 |           |
|   | M1                                | 4,973.33         | 5,319.82  | 5,333.90  | 6,184.74  | 4,884.31  | 5,310.62  |           |
|   | Quasi Money                       | 6,905.65         | 6,865.83  | 6,861.32  | 7,680.61  | 7,106.67  | 6,721.20  |           |
| Interest Rates                                | CBL Rate                          | 6.50             | 6.50      | 6.50      | 6.50      | 6.25      | 6.25      |           |
|   | 91 day Treasury bill rate         | 6.34             | 6.34      | 6.28      | 6.26      | 6.17      | 6.15      |           |
|   | Prime lending rate                | 11.19            | 11.19     | 11.19     | 11.19     | 11.19     | 11.00     |           |
|   | 1 year deposit rate               | 4.32             | 4.32      | 4.24      | 4.24      | 4.20      | 3.74      |           |
| Private sector Credit (Millions of Maloti)    |                                   | 7,493.09         | 7,475.56  | 7,575.04  | 7,251.33  | 7,371.95  | 7,480.37  |           |
|   | Households                        | 5,163.48         | 5,086.65  | 5,145.54  | 5,078.99  | 5,113.65  | 5,234.31  |           |
|   | Business Enterprises              | 2,329.62         | 2,388.90  | 2,429.50  | 2,172.34  | 2,258.30  | 2,246.07  |           |
| Bank Deposit Liabilities (Millions of Maloti) |                                   | 12,849.65        | 12,888.72 | 13,024.80 | 12,772.12 | 12,807.85 | 12,888.35 |           |
| Credit to Deposit Ratio (%)                   |                                   | 58.31            | 58.00     | 58.16     | 56.77     | 58.77     | 58.04     |           |
| Fiscal Operations (Millions of Maloti)        | Fiscal Balance                    | -313.82          | 677.24    | -509.81   | 1.02      | 1,334.98  | -765.49   |           |
|   | Total Revenue                     | 893.85           | 2,193.11  | 650.10    | 887.08    | 2,300.94  | 652.74    |           |
|   | Total Expenditure                 | 1,207.68         | 1,515.87  | 1,159.92  | 886.06    | 965.96    | 1,418.23  |           |
|   | O/W Capital                       | 223.28           | 204.53    | 134.29    | 105.16    | 98.78     | 128.17    |           |
| Total Public Debt (Millions of Maloti)        |                                   | 16,788.97        | 16,726.42 | 16,783.48 | 17,057.4  | 16,448.90 | 17,422.29 |           |
|   | Total External Debt               | 12,695.81        | 12,687.09 | 12,754.76 | 13,013.53 | 13,011.46 | 13,553.53 |           |
|   | External Debt                     | Concessional     | 10,197.77 | 10,190.40 | 10,232.74 | 10,504.19 | 10,505.95 | 10,499.15 |
|   |                                   | Non-concessional | 2,498.04  | 2,496.69  | 2,522.03  | 2,509.34  | 2,505.52  | 3,054.38  |
|   | Domestic Debt                     |                  | 4,093.16  | 4,039.33  | 4,028.72  | 4,043.87  | 3,437.44  | 3,868.76  |
| Memo Item: Arrears (Millions of Maloti)       |                                   | 59.40            | 36.20     | 35.88     | 47.95     | 42.81     | 36.12     |           |

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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