



Monthly ECONOMIC REVIEW

AUGUST 2021

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY

Economic activity remained sluggish for the third consecutive month in August 2021. The observed performance was largely attributable to poor performance by the production side of the economy, despite a marginal improvement in domestic demand during the review period.

Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) index declined further in August 2021. The index contracted by 2.2 per cent compared to a relatively negligible rate of 0.4 per cent decline recorded in July 2021. The observed decline reflected subdued activity in the production side, while domestic demand increased slightly. In addition, credit to the private sector contributed negatively, worsening the impact on the overall index.

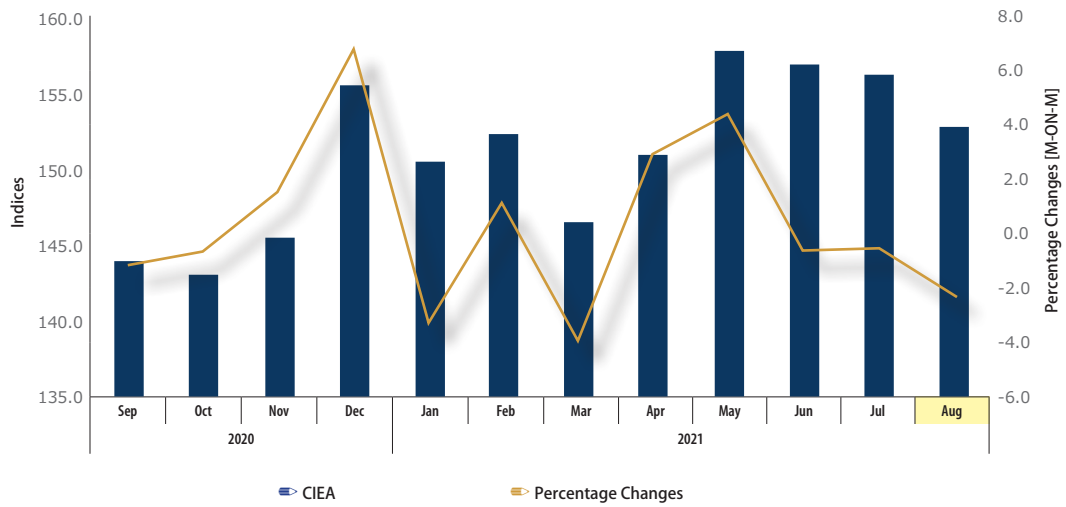
Domestic Demand Category

The domestic demand index improved marginally by 0.2 per cent in the month under review, following two consecutive months of negative growth. All the variables that make up the index supported the increase though with relatively small magnitudes. The registered growth in the index signalled improved demand for goods and services in the economy.

Manufacturing and Production Category

The production index contracted further in August 2021. The index recorded a 6.1 per cent decline in August 2021, following 5.2 per cent decline recorded in July. The poor performance in production was mainly attributable to a considerable decline in water consumption during the review period. On the contrary, imports of raw materials, electricity consumption, and exports of clothing and textiles contributed positively, albeit not significant enough to offset the decline effected by a reduction in water consumption.

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		2021					
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
CIEA	150.5	152.4	146.6	151.0	157.9	157.0	156.4	152.9
Monthly changes	-3.3	1.2	-3.8	3.0	4.6	-0.6	-0.4	-2.2
Domestic Demand Category	153.2	154.1	142.8	142.8	149.0	141.7	141.1	141.4
Monthly changes	-2.0	0.6	-7.3	0.0	4.3	-4.9	-0.4	0.2
Manufacturing & Production Category	109.0	108.2	101.9	105.5	111.2	119.8	113.6	106.7
Monthly changes	1.8	-0.7	-5.9	3.6	5.4	7.7	-5.3	-6.1

Source: Central Bank of Lesotho (CBL) Calculations

II. INFLATION AND PRICES

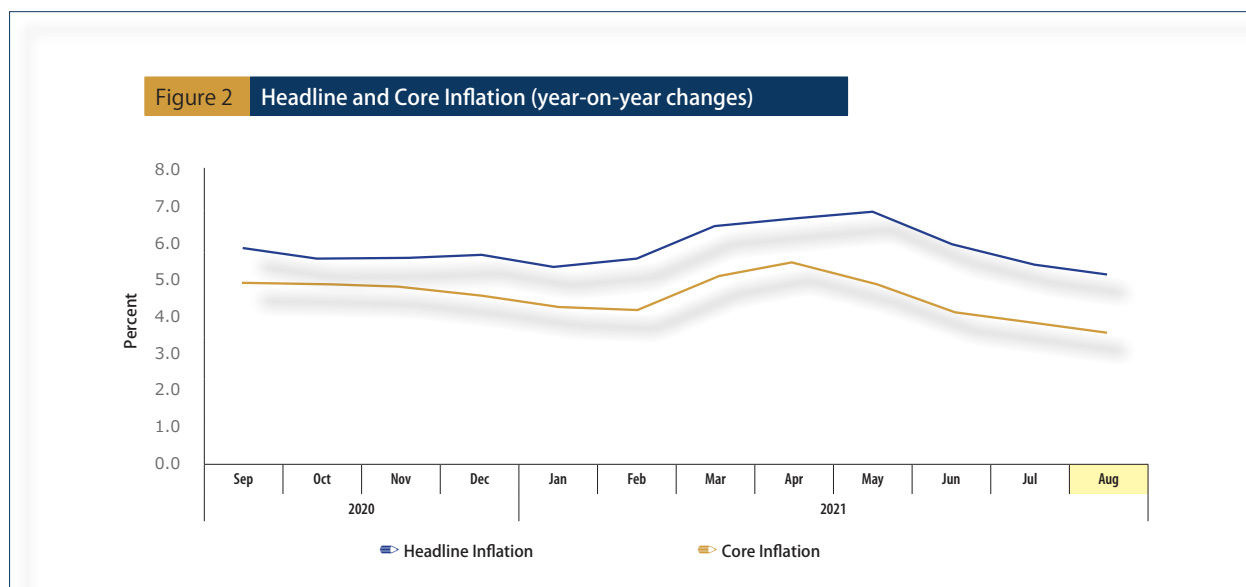
Headline Inflation

The headline inflation declined by 0.3 per cent from its 5.5 per cent rate recorded in July 2021 to 5.2 per cent in August 2021. Over two-thirds of the overall CPI inflation components contributed to the disinflation. The major contributors were Food & Non-Alcoholic beverages and Housing, Water, Electricity, Gas and Other Fuels, and Alcohol and Tobacco components. However, Transport and Recreation and Culture moderated the disinflation during the review period.

The disinflation during the review period was mainly driven by falling international food prices. The Loti to US dollar exchange rate appreciation during the review period supported the deceleration in the inflation rate, despite increasing prices of international crude oil prices. The continued diminishing role of base effect also led to the disinflation during the review period.

Core Inflation

The core inflation rate also declined to 3.6 per cent in August 2021 from 3.9 per cent in July 2021.

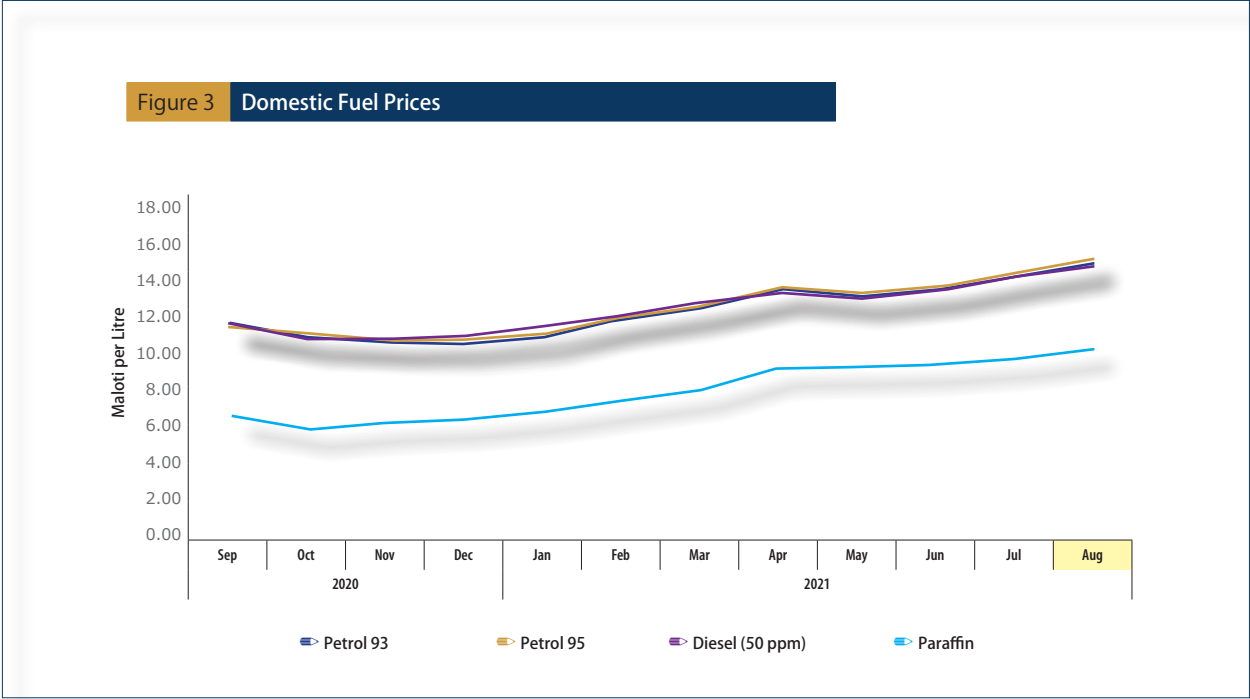


Source: Lesotho Bureau of Statistics & CBL Computation

Domestic Fuel Prices

The domestic fuel prices increased across the board from July to August 2021. The pump prices of both grades of petrol (*petrol₉₃* and *petrol₉₅*) increased by M0.85 and M0.90 per litre, respectively. They were

sold at M15.10 per litre and M15.25 per litre each. The price of *diesel₅₀* also increased by M0.50 per litre to reach M15.35 per litre at the pump. The illuminating paraffin also increased by M0.50 per litre, and was sold at M10.40 per litre at the retail stores.



III. MONETARY AND FINANCIAL INDICATORS

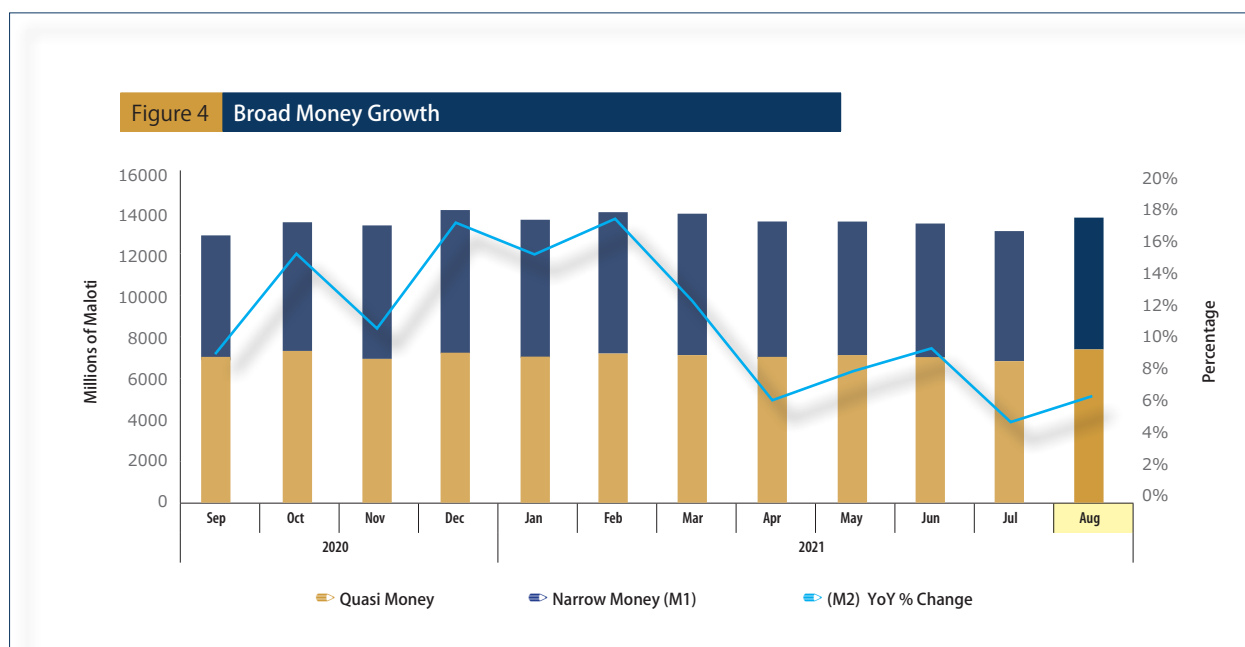
Broad Money (M2)

Following five consecutive declines, broad money supply (M2) registered a 4.71 per cent growth in August 2021. This was on account of a substantial increase of 23.99 per cent in net domestic assets (NDA), while the net foreign assets (NFA) moderated the growth as it fell by 2.50 per cent during the period under review. The growth in NDA followed a significant drawdown of government deposits at the Central Bank to finance government operations. The NFA fall on the other hand was on account of a

drawdown on foreign assets while foreign liabilities grew.

Components of Money Supply

In terms of broad money supply components, the growth in M2 was attributable to an increase of 9.01 per cent in quasi money, notwithstanding the 0.06 per cent decline in narrow money (M1). The increase in quasi money was mainly supported by a rise in the call accounts held by business enterprises with the local banks.



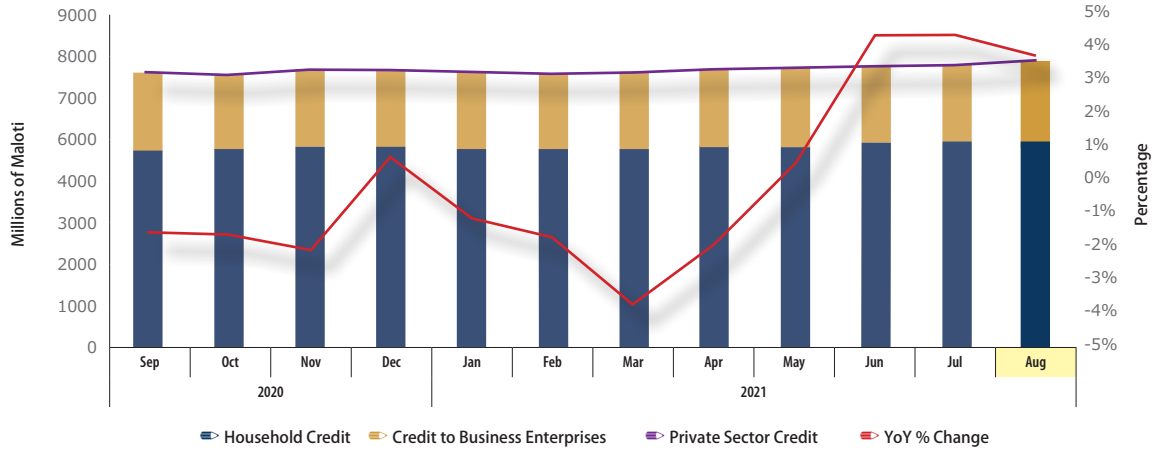
Private Sector Credit

Private sector credit grew by 1.51 per cent during the review period compared to a moderate increase of 0.5 per cent in July 2021. This growth in private sector credit was supported by a 5.80 per cent growth in business enterprises credit recorded during the month under review. On the contrary, credit extended to households recorded a slight decline of 0.04 per cent in August compared to a

1.30 per cent growth observed during the previous month.

In particular, the increase in business credit was mainly attributable to the rise in credit extended to businesses under construction, mining & quarrying, as well as, transport, storage & communications sectors. On annual basis, private sector credit rose by 4.0 per cent.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

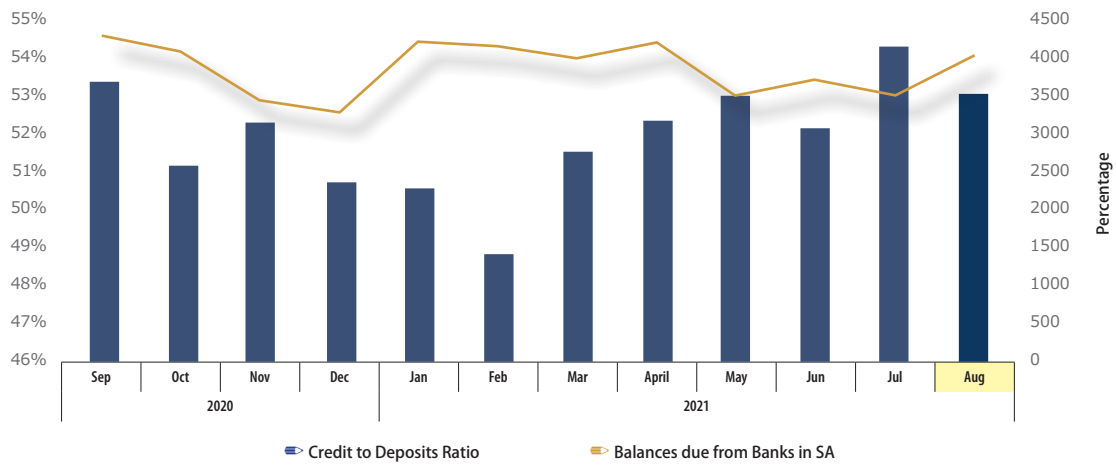
Non-Performing Loans

The total non-performing loans (NPLs) as a ratio of total loans improved slightly as it fell from 4.8 per cent in July 2021 to 4.7 per cent in August 2021. This was on account of a decline in business enterprises' NPLs as a ratio of total loans to businesses, while household NPLs remained largely unchanged. The improvement in the businesses enterprises NPLs came at the back of NPLs related to transport, storage and communications sector.

Sources of Funds

Commercial banks' credit to deposit ratio fell from 54.2 per cent in July 2021 to 52.9 per cent during the review period. This was mainly due to a relatively higher growth in deposits notwithstanding an increase in private sector credit. The increase in deposits benefited from a growth in call account deposits by business enterprises.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The CBL policy rate remained unchanged at 3.50 per cent between July and August 2021. Consequently, most short-term interest rates also remained unchanged during the same period. However, the 91-day T-Bill rate increased from 3.35 per cent to 3.52 per cent between July 2021 and August 2021.

Foreign Exchange

The rand, hence the loti, weakened against the major global trading currencies in August 2021. It continued on a weaker path from the previous

month. Particularly, the rand depreciated by; 1.7 per cent to the average of 14.77 against the US dollar, 1.6 per cent to the average of 20.38 against the pound, and 1.2 per cent to the average of 17.37 against the euro. The rand suffered steep losses due to social unrest, property damage and looting in some parts of South Africa, in July 2021. The tightening of restrictive measures in relation to resurgence of Covid-19 infections dampened market confidence, hence weakening of the unit. The performance of rand was also negatively affected by quantitative easing tapering talks in the advanced economies. Relative to the previous month, the rand fell at a weaker pace.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure¹

Government total expenditure was estimated to decrease by 11.2 per cent in August 2021, in contrast to 27.7 per cent increase recorded in July 2021. The major drivers for the fall were use of goods and services, subsidies to nonfinancial corporations, and, current grants to local governments. On an annual basis, total expenditure, rose by 52.64 per cent in August 2021 in contrast to a fall of 30.8 per cent in August 2020.

Outlays by Functions

The share of the development outlays to total outlays decreased from 15.7 per cent in the previous month to 7.2 per cent during the month under review. This was on account of a slowdown in execution of projects in housing & community amenities and health sectors.

Total Revenue²

The domestic revenue increased by 2.7 per cent during the current month as opposed to a fall of 25.9 per cent in the previous month. On year-on-year basis, the total revenue increased by 35.5 per cent in August 2021 compared to a fall of 21.4 per cent in August 2020.

Fiscal Balance and Financing³

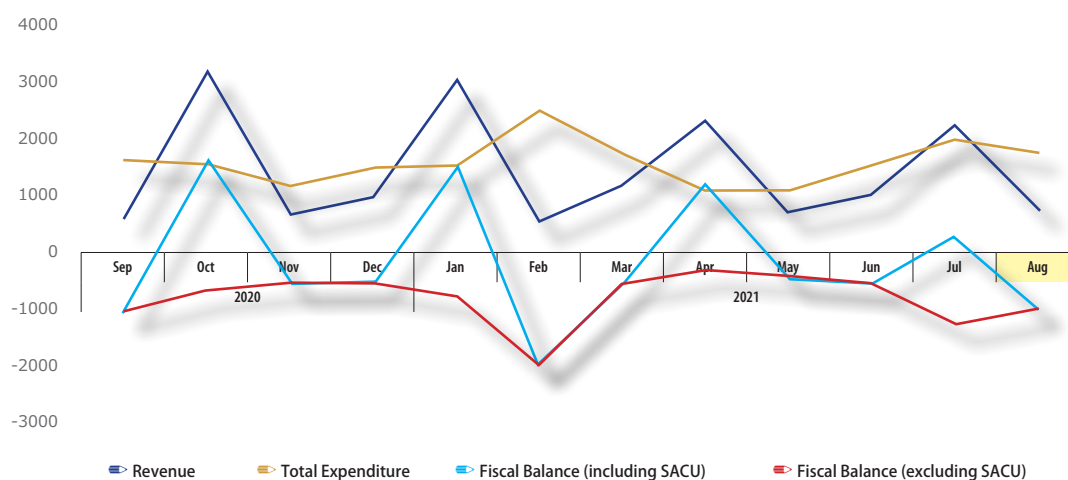
The performance of fiscal operations led to a decrease in domestic assets, due to a drawdown of Government deposits. The liabilities, similarly, declined largely driven by domestic other accounts payable despite acquisition of new external debt.

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 (Million Maloti)



Source: Central Bank of Lesotho & Ministry of Finance

Table 2: Cross-Classification of Government Outlays (Percentage Change)

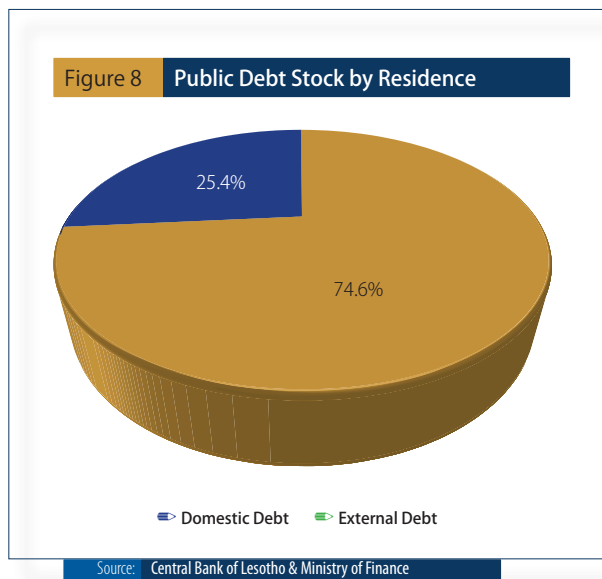
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		10.2%	12.9%	0.0%	5.9%	0.0%	13.0%	6.7%	8.5%
Defense		8.2%	4.0%	0.0%	0.0%	0.0%	0.0%	0.5%	3.5%
Public Order and Safety		16.5%	11.1%	0.0%	0.0%	0.0%	0.0%	7.6%	9.4%
Economic Affairs		8.3%	23.7%	1.6%	2.4%	2.7%	87.0%	45.3%	23.2%
Environmental Protection		0.1%	0.1%	0.0%	0.8%	0.0%	0.0%	0.0%	0.1%
Housing and Community Amenities		0.9%	0.6%	0.0%	13.2%	0.0%	0.0%	38.0%	10.9%
Health		7.9%	43.9%	57.5%	0.0%	0.0%	0.0%	0.7%	14.2%
Recreation, Culture, and Religion		0.9%	0.5%	0.0%	3.8%	0.0%	0.0%	0.9%	0.9%
Education		33.1%	1.8%	41.0%	36.2%	0.0%	0.0%	0.2%	16.1%
Social Protection		13.9%	1.4%	0.0%	37.6%	97.3%	0.0%	0.0%	13.2%
Share per Economic Item		32.8%	18.8%	5.5%	7.2%	5.8%	4.8%	25.1%	100.0%

Source: CBL and MOF

V. PUBLIC DEBT

The public debt stock was estimated at 58.1 per cent of GDP in August 2021, following the revised 58.2 per cent of GDP in July 2021. Thus, it declined by 0.1 per cent, mainly due to new external debt under loans from multilateral creditors, and currency

depreciation. Regarding the year on year changes, the public debt stock fell by 9.1 per cent in the current month relative to a rise of 21.1 per cent in July 2020.



Appendix: Key Economic Indicators

		21-Mar	21-Apr	21-May	21-Jun	21-Jul	21-Aug	
Economic Activity (MIEA (% change, M/M))		1.2	-3.8	4.6	-0.6	-0.4	-2.2	
Consumer price Index (% change)	Headline Inflation (year-on-year)	6.5	6.7	6.9	6.0	5.5	5.2	
	Core Inflation	5.1	5.5	5.0	4.2	3.9	3.6	
Exchange Rates (Monthly End Period)	EUR	17.31	17.36	16.79	16.97	17.32	17.26	
	GBP	20.32	19.95	19.51	19.77	20.34	20.09	
	USD	14.76	14.37	13.76	14.28	14.58	14.60	
Money Supply (Millions of Maloti)	M2	13,811.68	14,125.57	14,098.67	13,731.05	13,722.26	13,636.94	
	M1	6,603.45	6,717.11	6,862.16	6,532.57	6,453.22	6,458.09	
	Quasi Money	7,208.23	7,408.45	7,236.52	7,198.49	7,269.04	7,178.85	
Interest Rates	CBL Rate	3.50	3.50	3.50	3.50	3.50	3.50	
	91 day Treasury bill rate	3.20	3.32	3.25	3.23	3.22	3.27	
	Prime lending rate	8.19	8.19	8.19	8.19	8.19	8.19	
	1 year deposit rate	3.27	3.53	3.53	3.53	3.53	3.53	
Private sector Credit (Millions of Maloti)		7,397.41	7,350.61	7,403.74	7,435.59	7,552.91	7,535.35	
	Households	5,335.20	5,365.92	5,402.70	5,365.92	5,413.48	5,492.47	
	Business Enterprises	2,015.41	2,037.82	2,032.89	2,037.82	2,139.43	2,042.89	
Bank Deposit Liabilities (Millions of Maloti)		14,705.08	15,113.90	14,429.00	14,244.98	14,291.53	14,466.44	
Credit to Deposit Ratio (%)		50.48	48.77	51.5	52.3	52.9	52.06	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-534.43	1,223.53	-386.28	-511.28	294.93	-965.67	
	Total Revenue	1,210.32	2,316.84	729.88	1,033.61	2,267.60	785.95	
	Total Expenditure	1,744.74	1,093.31	1,116.16	1,544.89	1,972.67	1,751.62	
	O/W Capital	324.41	154.08	128.75	305.10	399.94	504.12	
Total Public Debt (Millions of Maloti)		18,245.62	17,910.39	17,549.26	18,118.92	18,407.56	18,383.51	
	Total External Debt	13,665.43	13,400.80	13,087.00	13,448.50	13,736.60	13,712.60	
	External Debt	Concessional	10,647.14	10,374.90	10,104.30	10,441.90	10,548.20	10,524.60
		Non-concessional	3,018.29	3,025.90	2,982.70	3,006.60	3,188.40	3,188.00
	Domestic Debt	4,580.18	4,509.59	4,462.26	4,670.42	4,670.96	4,670.91	
Memo Item: Arrears (Millions of Maloti)		33.82	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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