



Monthly

ECONOMIC REVIEW

OCTOBER 2021

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY

Overall economic performance remained sluggish in October 2021. The relatively low economic activity was mainly attributable to a decline in the performance of the demand side, whereas production, somewhat cushioned the decline.

Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) index continued to decline in October 2021. The index declined for a fifth consecutive month, recording a 0.4 per cent contraction in the review month. This was, however, a slower rate of decline in comparison to the 0.8 per cent negative growth registered in the preceding month. The poor performance in October emanated mainly from the demand side, coupled with a slowdown in the performance of the transport sector. The production side nevertheless cushioned the decline in the overall index.

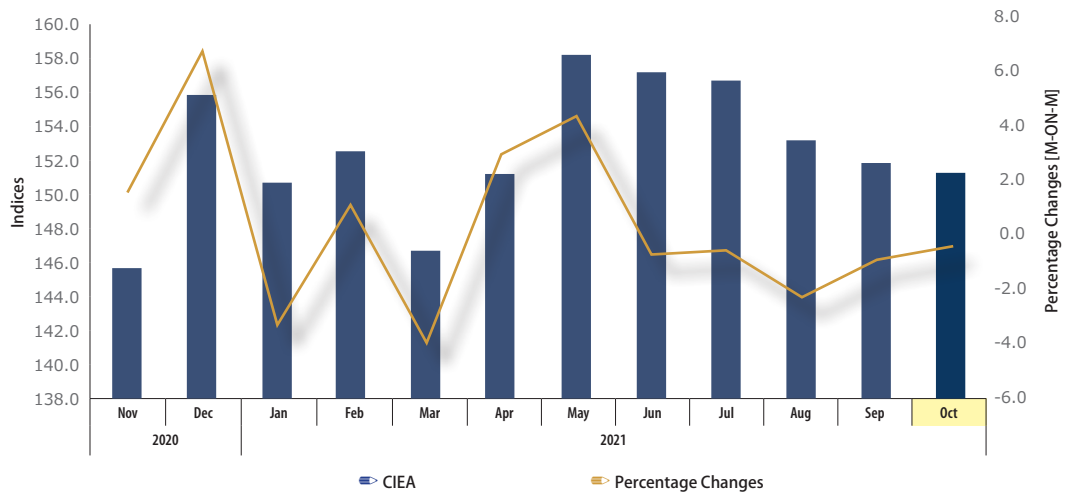
Domestic Demand Category

The domestic demand index continued to fall in October. After contracting by 0.7 per cent in September, the index declined further by 2.8 per cent in the review month. Major contributions to the weak performance was explained by a relatively lower government compensation of employees in addition to a reduced value-added-tax collections. Positive contributions from government purchases of goods and services, demand for imports from South Africa and collection of pay-as-you-earn were however not significant enough to offset the overall decline.

Manufacturing and Production Category

The production index rebounded from three consecutive months of negative growth. The index, in particular, grew by 6.7 per cent, which was in contrast to the 4.9 per cent contraction recorded in September 2021. The strong performance was mainly a result of positive contributions from industrial use of electricity, exports of clothing and textiles, as well as, demand for inputs into production. Water usage in production, however, contributed negatively to the index.

Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

| Indices | 2021 | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|-------|-------|
| | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct |
| CIEA | 146.6 | 151.1 | 158.0 | 157.1 | 156.5 | 153.0 | 151.7 | 151.2 |
| Monthly changes | -3.8 | 3.0 | 4.6 | -0.6 | -0.4 | -2.2 | -0.8 | -0.4 |
| Domestic Demand Category | 142.9 | 142.9 | 149.0 | 141.7 | 141.2 | 141.4 | 140.5 | 136.5 |
| Monthly changes | -7.3 | 0.0 | 4.3 | -4.9 | -0.4 | 0.2 | -0.7 | -2.8 |
| Manufacturing & Production Category | 101.9 | 105.5 | 111.3 | 119.8 | 113.6 | 107.4 | 102.2 | 109.0 |
| Monthly changes | -5.9 | 3.6 | 5.4 | 7.6 | -5.2 | -5.4 | -4.9 | 6.7 |

Source: Central Bank of Lesotho (CBL) Calculations

II. INFLATION AND PRICES

Headline Inflation

The headline inflation rate increased from 5.4 per cent in September 2021 to 6.2 per cent in October 2021. The 0.8 percentage increase in the headline inflation mainly emanated from *Transport, Housing, Water, Electricity, Gas and Other Fuels and Clothing & Footwear* components. Nonetheless, *Food & Non-Alcoholic* moderated the disinflation during the review period.

The major determinants for the acceleration in headline inflation rate mainly emanated from steep rise in international crude oil price, which was, however, moderated by the exchange appreciation

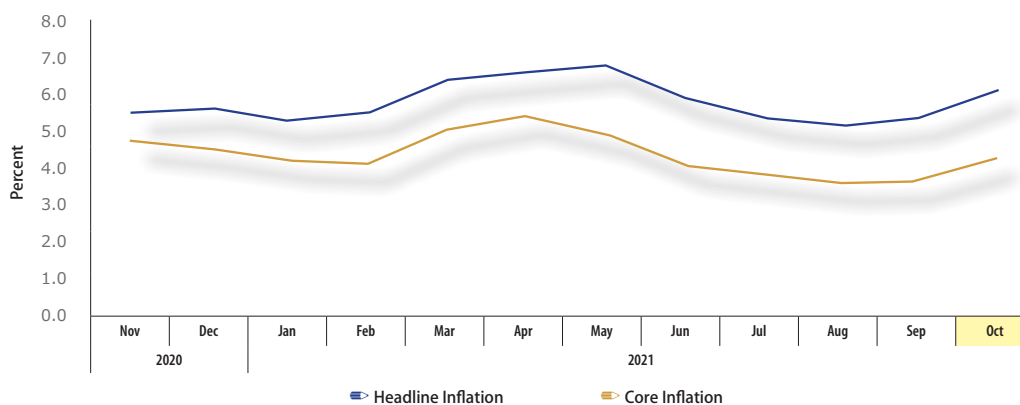
during the review period. Moreover, the increase in administered prices such as electricity and passenger road levy largely contributed to the acceleration in inflation rate during the review period.

Nonetheless, food prices moderated the acceleration in inflation rate during the review period as markets and milling subsectors were well-supplied in South Africa, and hence, Lesotho. This followed an above average production during the 2020/2021 harvest.

Core Inflation

The core inflation rate also rose from 3.7 per cent in September 2021 to 4.3 per cent in October 2021.

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

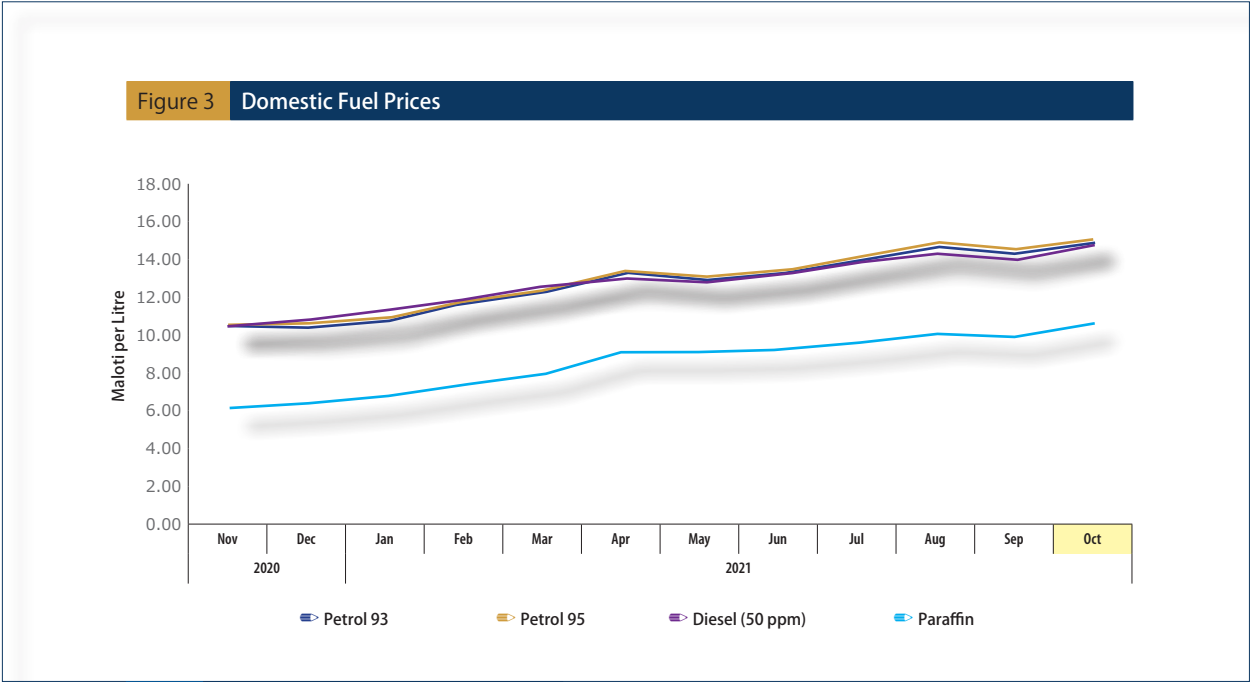


Source: Lesotho Bureau of Statistics & CBL Computation

Domestic Fuel Prices

The Prices of all domestic petroleum fuel components increased during the review period. Both pump prices of petrol grades (*petrol₉₃* and *petrol₉₅*) increased by M0.45 per litre and were sold

at M15.35 and M15.50 per litre, respectively. The price of *diesel₅₀* also increased by M0.80 per litre and was sold at M15.25 per litre at the pump. In addition, the retail price of illuminating paraffin increased by M0.80 per litre and was sold at M11.00 per litre during the review period.



III. MONETARY AND FINANCIAL INDICATORS

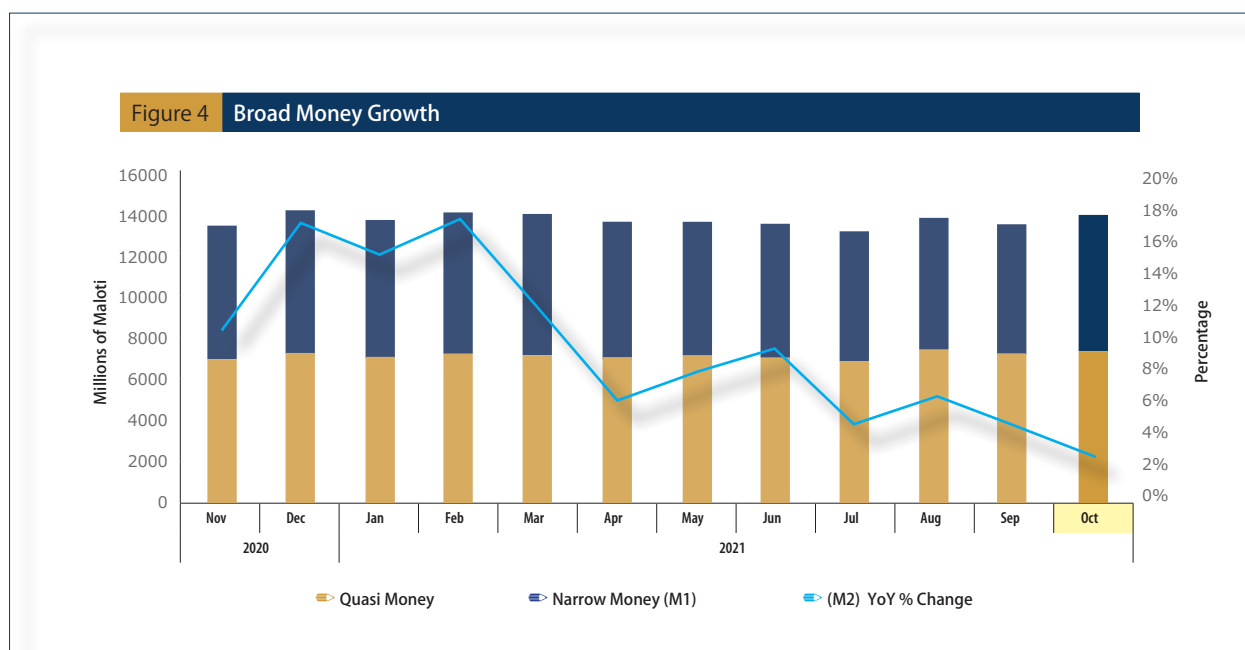
Broad Money (M2)

The broad measure of money supply (M2) expanded by 3.5 per cent in October 2021, following a contraction of 1.6 per cent in September 2021. The expansion stemmed from 8.3 per cent increase in Net Foreign Assets (NFA), lessened by a fall of 28.8 per cent in Net Domestic Assets (NDA). The rise in NFA benefitted from a growth in both the Central Bank and commercial banks' NFA. On the contrary, NDA declined mainly due to a fall in net credit to central government, which was under-pinned by an

increase in government deposits with central bank following receipt of SACU revenue.

Components of Money Supply

Considering the components of broad money, the narrow money (M1) and quasi money rose by 5.2 per cent and 1.9 per cent, respectively. The growth in M1 was at the back of a rise in transferable deposits held by business enterprises. The quasi money benefitted from an increase in call and fixed time deposits held by business enterprises and public non-financial institutions.



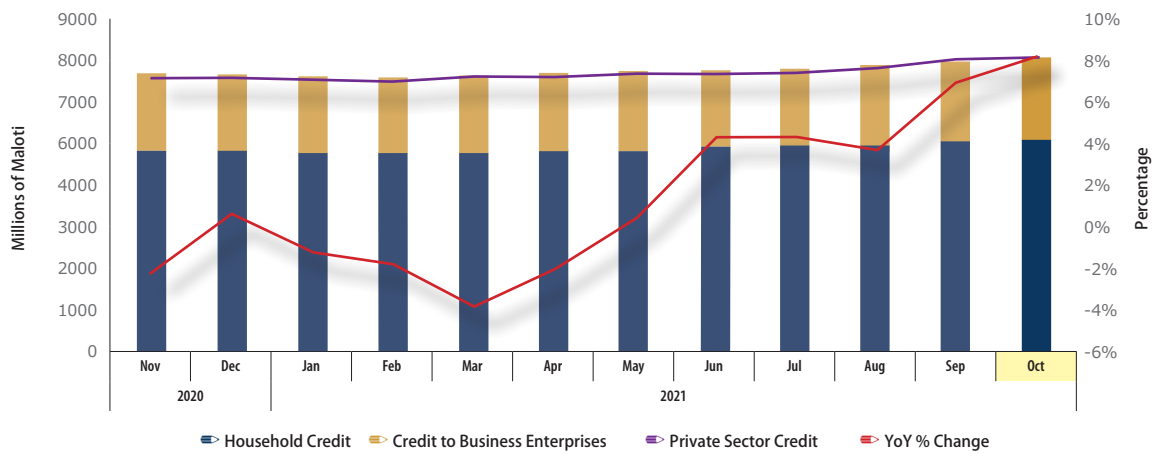
Private Sector Credit

Total credit extended to the private sector marginally rose by 1.1 in October 2021, following a 2.7 per cent growth observed in the previous month. This was mainly at the back of an increase in credit extended to business enterprises of 2.8 per cent, complemented by a muted growth of 0.4 per cent in households' credit. The households' credit benefitted from an acceleration in mortgage

loans of 1.7 per cent, while personal loans remained relatively unchanged.

Credit to business enterprises was mainly towards the manufacturing sector, wholesale, retail trade, restaurants & hotels and agriculture that recorded an increase of 11.8 per cent, 11.7 per cent and 6.9 per cent, respectively. On a year-on-year basis, private sector credit grew by 8.4 per cent in October.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

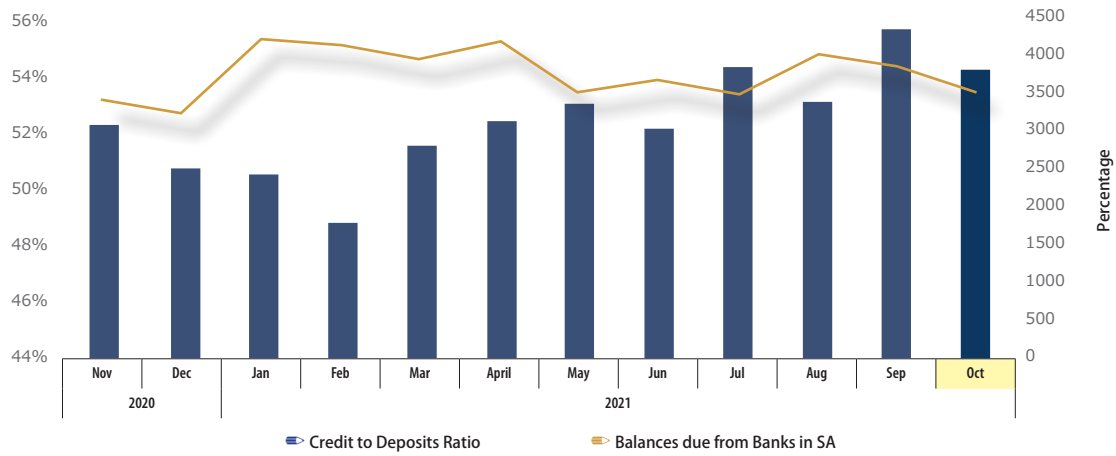
Non-Performing Loans

The total non-performing loans (NPLs), as a ratio of total loans, fell from 4.6 per cent in September 2021 to 4.4 per cent in October 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 declined from 55.5 per cent recorded in September 2021 to 54.1 per cent in October 2021. This was due to relatively higher growth in deposits, notwithstanding an increase in private sector credit. The increase in deposits benefited from a growth in deposits held by business enterprises and public non-financial institutions.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The CBL policy rate remained stable at 3.50 per cent between September and October 2021. As a result, most short-term interest rates also remained unchanged during the same period. However, the 91-day T-Bill rate declined by 10 basis points from 3.45 per cent in September to 3.35 per cent in October.

Foreign Exchange

The rand, hence, the loti weakened against the major global trading currencies in October 2021. Particularly the rand depreciated by; 0.2 per cent to the average of 14.86 against the US dollar, 0.1 per cent to the average of 20.35 against the pound, and 0.2 per cent to the average of 17.23 against the Euro. Specifically, for this month, the rand was negatively affected by disruptions in the global supply chains, global growth slowdown and escalating global inflation risks. The rand was volatile during the review period and was driven mainly by expected monetary policy path of the US and other advanced economies. The Fed was expected to start tapering its asset purchases programme in the near term.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure¹

Government total expenditure was estimated to have decreased by 0.7 per cent in October 2021, a marginal fall compared to 27.8 per cent decline in September 2021. The drivers for the fall were current transfers to extra-budgetary units, capital transfers to local governments, as well as, school feeding program.

Outlays by Functions

The proportion of development expenditure in total expenditure climbed from 7.7 per cent in the previous month to 9.6 per cent in the current month. Responsible sectors for the increase were economic affairs and general public services.

Total Revenue²

The Government revenue in October 2021 was estimated to have declined by 30.3 per cent, in contrast to 8.0 per cent increase observed in September 2021. The reduction in revenue was realised in all components of revenue, with more pronounced in grants at 36.1 per cent and tax revenue at 27.3 per cent.

Fiscal Balance and Financing³

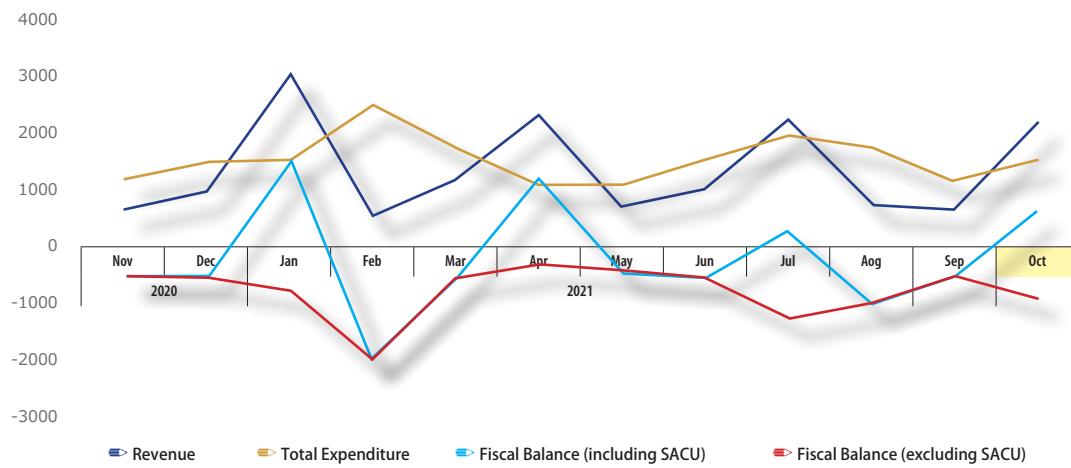
The performance of fiscal operations led to an increase in domestic financial assets, which translated into an accumulation of Government deposits within the banking sector. However, the increase in liabilities, as a result of accumulation of arrears and acquisition of new external debt, moderated the gains.

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

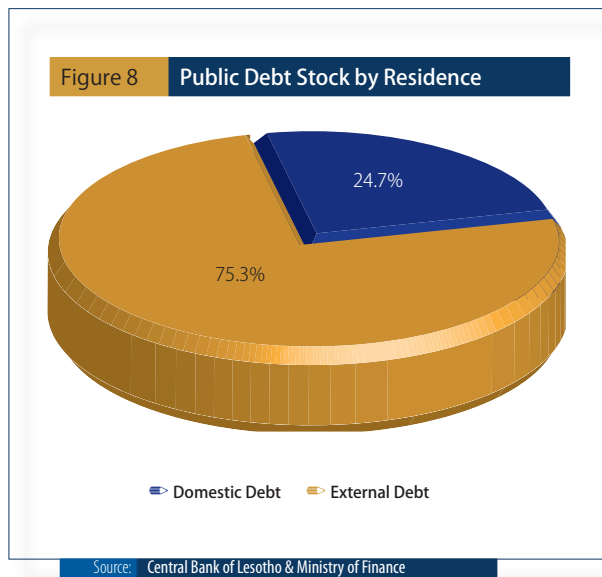
| Function | Economic Item | Compensation of Employees | Use of Goods and Services | Subsidies | Grants | Social Benefits | Other Expenses | Net Investment in Nonfinancial Assets | Share per Function |
|-----------------------------------|---------------|---------------------------|---------------------------|-------------|--------------|-----------------|----------------|---------------------------------------|--------------------|
| General Public Services | | 10.8% | 22.1% | 0.0% | 57.8% | 0.0% | 0.0% | 24.5% | 19.2% |
| Defense | | 6.8% | 6.8% | 0.0% | 0.0% | 0.0% | 0.0% | 0.5% | 3.8% |
| Public Order and Safety | | 15.8% | 12.9% | 0.0% | 5.1% | 0.0% | 0.0% | 23.4% | 11.4% |
| Economic Affairs | | 7.3% | 10.3% | 6.4% | 3.3% | 2.2% | 99.4% | 42.3% | 21.1% |
| Environmental Protection | | 0.1% | 0.1% | 0.0% | 0.6% | 0.0% | 0.0% | 0.0% | 0.2% |
| Housing and Community Amenities | | 0.8% | 0.7% | 0.0% | 21.4% | 0.0% | 0.0% | 6.1% | 4.3% |
| Health | | 7.1% | 43.5% | 66.8% | 0.0% | 0.0% | 0.0% | 2.9% | 12.8% |
| Recreation, Culture, and Religion | | 0.8% | 0.7% | 0.0% | 5.0% | 0.0% | 0.0% | 0.2% | 1.2% |
| Education | | 30.5% | 2.0% | 26.7% | 6.7% | 0.0% | 0.0% | 0.0% | 13.9% |
| Social Protection | | 20.0% | 0.9% | 0.0% | 0.0% | 97.8% | 0.6% | 0.0% | 12.2% |
| Share per Economic Item | | 38.0% | 17.2% | 3.4% | 15.1% | 4.5% | 11.4% | 10.3% | 100.0% |

Source: CBL and MOF

V. PUBLIC DEBT

The public debt stock was estimated at 60.4 per cent of GDP in October 2021, up from 59.5 per cent of GDP in September 2021. In nominal terms, it increased by 1.5 per cent, as a result of external debt disbursements under active loans from multilateral

creditors and suppliers credit. However, on a year-on-year basis, the public debt stock fell by 4.0 per cent relative to a rise of 18.9 per cent in October 2020.



Appendix: Key Economic Indicators

| | | 21-Apr | 21-May | 21-Jun | 21-Jul | 21-Aug | 21-Sep | 21-Oct | |
|---|------------------------------------|------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Economic Activity (MIEA (% change, M/M)) | | -3.8 | -4.6 | 0.6 | -0.4 | -2.2 | -0.8 | -0.4 | |
| Consumer price Index (% change) | Headline Inflation (year-on-year) | 6.7 | 6.9 | 6.0 | 5.5 | 5.2 | 5.4 | 6.2 | |
| | Core Inflation | 5.5 | 5.0 | 4.2 | 3.9 | 3.6 | 3.7 | 4.3 | |
| Exchange Rates (Monthly End Period) | EUR | 17.36 | 16.79 | 16.97 | 17.32 | 17.26 | 17.53 | 17.72 | |
| | GBP | 19.95 | 19.51 | 19.77 | 20.34 | 20.09 | 20.38 | 20.97 | |
| | USD | 14.37 | 13.76 | 14.28 | 14.58 | 14.60 | 15.12 | 15.24 | |
| Money Supply (Millions of Maloti) | M2 | 14,125.57 | 14,098.67 | 13,731.05 | 13,722.26 | 13,636.94 | 13,624.50 | 14,096.69 | |
| | M1 | 6,717.11 | 6,862.16 | 6,532.57 | 6,453.22 | 6,458.09 | 6,289.92 | 6,619.57 | |
| | Quasi Money | 7,408.45 | 7,236.52 | 7,198.49 | 7,269.04 | 7,178.85 | 7,334.58 | 7,477.12 | |
| Interest Rates | CBL Rate | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | |
| | 91 day Treasury bill rate | 3.32 | 3.25 | 3.23 | 3.22 | 3.27 | 3.45 | 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) | | 7,350.61 | 7,403.74 | 7,435.59 | 7,552.91 | 7,535.35 | 7,888.82 | 7,975.30 | |
| | | 5,365.92 | 5,402.70 | 5,365.92 | 5,413.48 | 5,492.47 | 5,697.47 | 5,722.52 | |
| | | 2,037.82 | 2,032.89 | 2,037.82 | 2,139.43 | 2,042.89 | 2,191.35 | 2,252.78 | |
| Bank Deposit Liabilities (Millions of Maloti) | | 15,113.90 | 14,429.00 | 14,244.98 | 14,291.53 | 14,466.44 | 14,234.28 | 14,750.70 | |
| Credit to Deposit Ratio (%) | | 48.77 | 51.5 | 52.3 | 52.9 | 52.06 | 55.5 | 54.1 | |
| Fiscal Operations (Millions of Maloti) | Fiscal Balance | 1,223.53 | -386.28 | -537.09 | 290.79 | -982.44 | -486.13 | 662.36 | |
| | Total Revenue (with SACU receipts) | 2,316.84 | 729.88 | 1,033.61 | 2,267.60 | 785.95 | 700.86 | 2,232.82 | |
| | Total Expenditure | 1,093.31 | 1,116.16 | 1,570.70 | 1,976.81 | 1,768.39 | 1,186.99 | 1,570.45 | |
| | O/W Capital | 154.08 | 128.75 | 305.10 | 399.94 | 504.12 | 155.37 | 214.48 | |
| Total Public Debt (Millions of Maloti) | | 17,910.39 | 17,549.26 | 18,118.92 | 18,407.56 | 18,383.51 | 18,801.57 | 19,286.46 | |
| | Total External Debt | 13,400.80 | 13,087.00 | 13,448.50 | 13,736.60 | 13,712.60 | 14,051.20 | 14,342.20 | |
| | External Debt | Concessional | 10,374.90 | 10,104.30 | 10,441.90 | 10,548.20 | 10,524.60 | 10,876.00 | 11,141.30 |
| | | Non-concessional | 3,025.90 | 2,982.70 | 3,006.60 | 3,188.40 | 3,188.00 | 3,175.20 | 3,200.90 |
| | Domestic Debt | 4,509.59 | 4,462.26 | 4,670.42 | 4,670.96 | 4,670.91 | 4,750.37 | 4,944.26 | |
| 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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