



# Monthly ECONOMIC REVIEW

April 2021

CENTRAL BANK OF LESOTHO

## I. ECONOMIC ACTIVITY

Economic activity improved in April 2021, after suffering the adverse effects of the second wave of the COVID-19 pandemic. With the hard lockdown being eased, both demand and supply regained the losses of the preceding months.

### Overall Performance Index

The economic performance, measured by the Composite Indicator of Economic Activity (CIEA), showed some positive signs in April 2021. The overall index grew by 4.5 per cent in the review month in contrast to the 1.6 per cent decline recorded in March 2021. Both demand and manufacturing components contributed to the improved performance in the review month. Both transport and construction subsectors also contributed to the improvement in economic performance.

### Domestic Demand Category

Domestic demand was estimated grown by 1.3 per cent in April in contrast to the 3.1 per cent contraction recorded in March. As restrictions eased, government activity (both purchases of goods and services and compensation of employees), imports of goods and services, and collection of income tax, pay-as-you-earn (PAYE), all contributed to the realised growth in the index. However, Value Added Tax (VAT) collections moderated the growth by contributing negatively to the index.

### Manufacturing and Production Category

The manufacturing index also recouped in the review month with a growth of 6.5 per cent. This was in contrast to the two preceding months of negative growth in the index. The index had contracted by 1.4 and 4.0 per cent in February and March, respectively. With the enhanced roll out of the COVID-19 vaccination, coupled with a slowdown in the number of new infections in the major trading partners, international demand for Lesotho exports was boosted as shown in arrest of the decline in exports of textile and clothing exports to United States market. Utilities and imports of raw materials also contributed positively to the manufacturing index.

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



Source: CBL Calculations

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

Indices	2020				2021			
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
<b>CIEA</b>	143.8	142.2	143.5	151.4	145.9	147.3	145.0	151.4
Monthly changes	-0.6	-1.1	0.9	5.6	-3.6	0.9	-1.6	4.5
<b>Domestic Demand Category</b>	134.4	137.2	142.6	151.2	146.2	147.9	143.4	145.2
Monthly changes	6.8	2.1	3.9	6.0	-3.3	1.2	-3.1	1.3
<b>Manufacturing &amp; Production Category</b>	105.4	103.3	100.6	104.6	106.1	104.6	100.5	107.1
Monthly changes	-1.4	-2.0	-2.6	3.9	1.5	-1.4	-4.0	6.5

Source: Central Bank of Lesotho (CBL) Calculations

## II. INFLATION AND PRICES

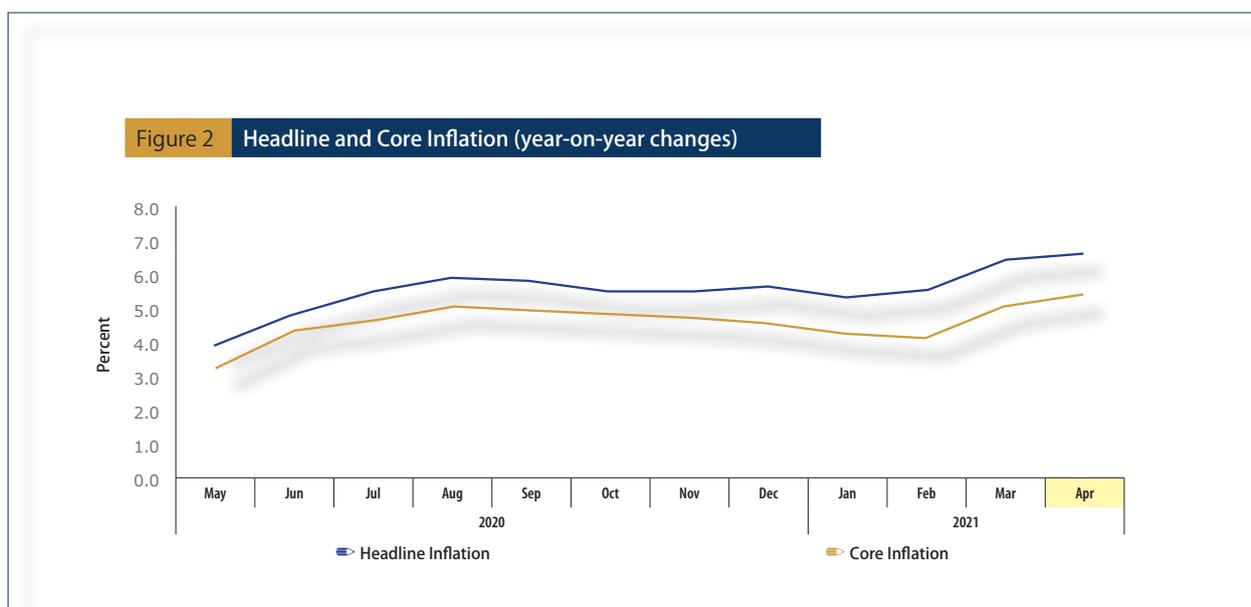
### Headline Inflation

The headline inflation rate accelerated from 6.5 per cent in March 2021 to 6.7 per cent in April 2021, continuing its fourth consecutive rise in 2021. The major contributors were Housing, Water, Electricity, Gas and Other Fuels, Transport, Clothing & Footwear and Furnishings, Household Equipment and Routine Maintenance of the Household. However, Food & Non-Alcoholic beverages and Alcohol and Tobacco moderated the acceleration during the review period.

The main determinants of the accelerating headline inflation come mainly from rise in international oil prices and the role of base effects<sup>1</sup>. Nonetheless, expectations of bumper harvest in Southern African region as well as a fall in international food prices moderated the rise.

### Core Inflation

Core inflation also accelerated from 5.1 per cent in March 2021 to 5.5 per cent in April 2021.



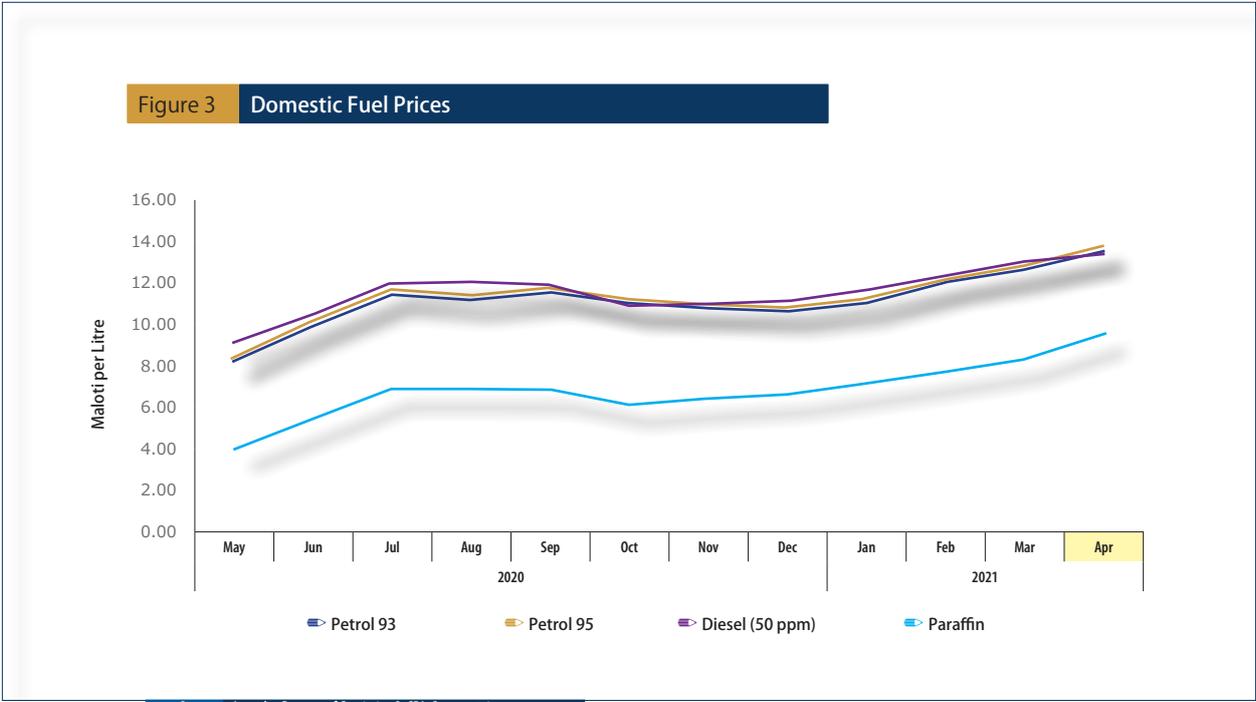
Source: Lesotho Bureau of Statistics & CBL Computation

<sup>1</sup> A base effect is the effect on the year-on-year rate of inflation when an unusually large month-on-month change of 12 months earlier drops out of the index.

### Domestic Fuel Prices

The domestic fuel prices increased from March to April 2021. The petrol grades (petrol93 and petrol95) increased by M0.90 per litre and M0.95 per litre, respectively, and were sold at M13.60 and M13.65

per litre at the pump. The price of diesel50 also increased by M0.45 per litre to reach M13.40 during the review period. The retail price of illuminating paraffin increased by M1.20 per litre to M9.45 per litre during the review period.



Source: Lesotho Bureau of Statistics & CBL Computation

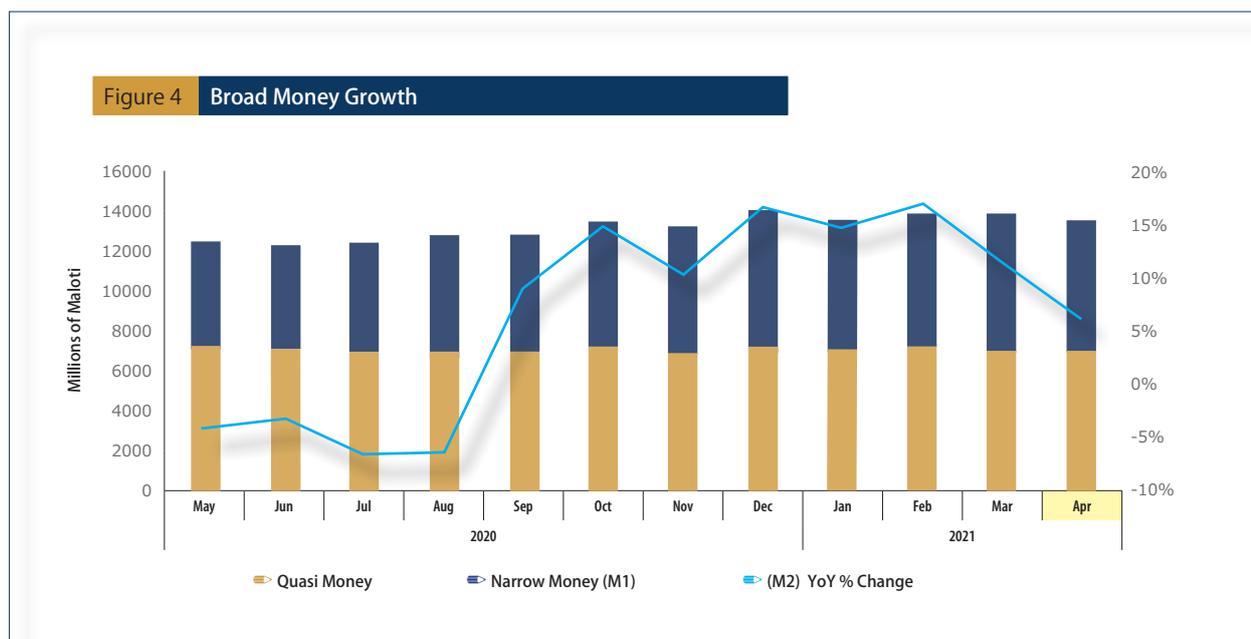
### III. MONETARY AND FINANCIAL INDICATORS

#### Broad Money (M2)

The broad measure of money supply (M2) fell by 2.6 per cent in April, following a decline of 0.2 per cent in March 2021. The decrease in M2 was due to a fall of 17.6 per cent in net domestic assets (NDA), which was moderated by a 1.3 per cent growth in net foreign assets (NFA). The fall in NDA was on account of a contraction in net claims on government which stemmed from a 17.4 per cent increase in government deposits. The growth in government deposits benefited from SACU<sup>2</sup> revenues received in April 2021.

#### Components of Money Supply

In relation to broad money components, both the narrow money (M1) and quasi money contracted by 4.8 per cent and 0.5 per cent, respectively. The fall in M1 was at the back of a decline in transferable deposits held by business enterprises and non-profit organisations. The decline in quasi money was explained by a fall in fixed time deposits held by statutory bodies.



#### Private Sector Credit

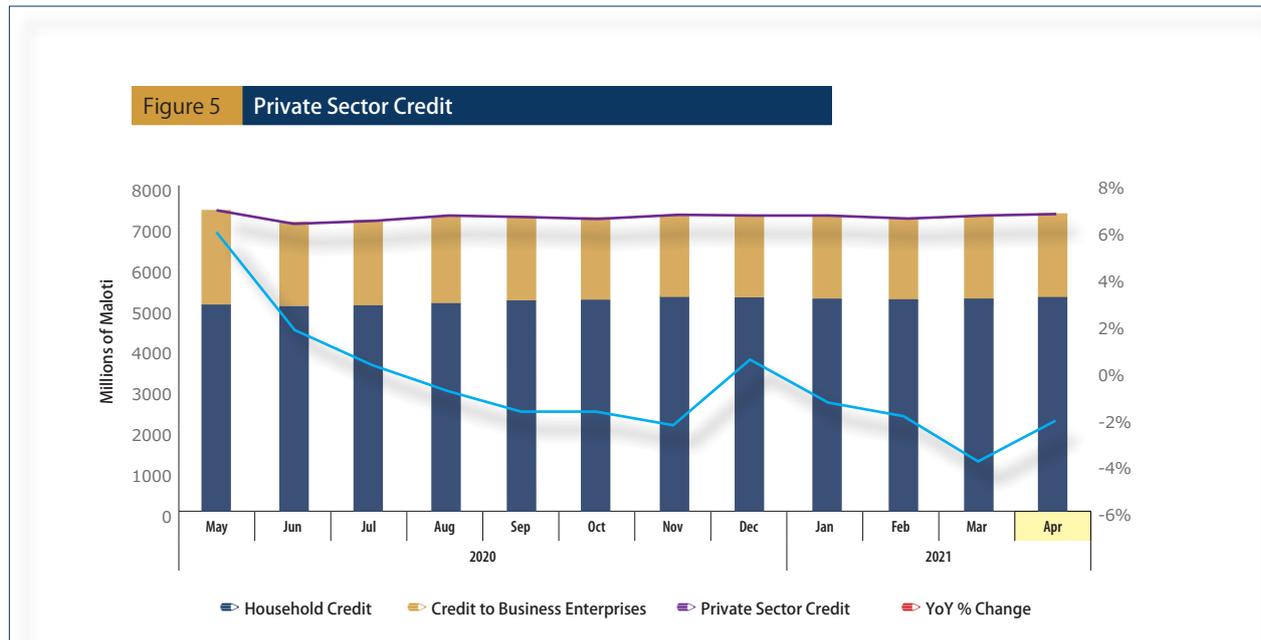
During the month under review, total credit extended to the private sector rose slightly by 0.4 per cent, compared to a growth of 0.7 per cent realised in the previous month. This was due to an increase in credit extended to households, whereas credit extended to business enterprises recorded a decline.

The overall households credit rose by 0.7 per cent, compared to 0.6 per cent in the previous month. This was supported by a growth of 0.8 per cent and 0.5 per cent in personal loans and mortgages, respectively. On the contrary, credit extended to business enterprises registered a decline of 0.2 per cent between April and March 2021. The decline in credit to business enterprises was underpinned by a fall in credit extended to manufacturing,

<sup>2</sup> SACU stands for the Southern African Customs Union.

construction, wholesale and retail trade, as well as, real estate and business services sectors. On annual

basis, private sector credit fell by 2.0 per cent during the month under review



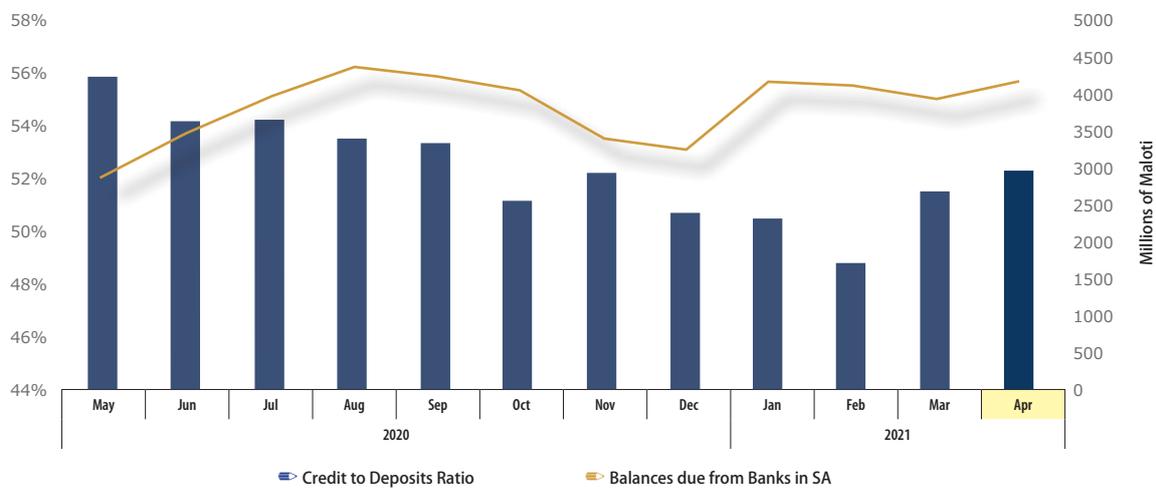
### Non-Performing Loans

The ratio of Non-Performing Loans (NPLs) to total loans remained unchanged at 4.7 per cent between March and April. In particular, households’ NPLs as a ratio of total loans remained stable at 4.7 percent, while business enterprises’ ratio rose marginally by 0.13 percentage points and stood at 5.3 per cent. Regarding households NPLs, both mortgage and personal NPLs remained unchanged at 10 per cent and 3 per cent, respectively, during the review month.

### Sources of Funds

Commercial banks’ deposit liabilities fell by 1.3 per cent in April 2021, compared to a decline of 4.5 per cent in the previous month. Moreover, the credit to deposit ratio rose from 51.5 per cent observed in March, to 52.3 per cent in April 2021. This was at the back of a modest growth in private sector credit coupled with a fall in deposits.

**Figure 6 Credit to Deposit Ratio**



Source: Central Bank of Lesotho

## Interest Rates

Most short-term interest rates remained unchanged between March and April 2021. The CBL policy rate remained stable at 3.50 per cent. However, the 91-day T-Bill rate (and, hence, the Lombard rate) declined from 3.25 per cent in March to 3.23 per cent in April 2021.

## Foreign Exchange

The rand hence the loti strengthened against the major global trading currencies in April 2021, following a mixed performance in the previous month. Particularly, it appreciated by; 3.84 per cent against the US dollar to the average of 14.41, 3.95 per cent against the pound to the average of 19.93, and 3.2 per cent against the euro to the average of 17.82. The rand was driven by a strong economic activity in South Africa, pointing to economic recovery. The rand was also supported by rising commodity prices and increased liquidity in the global markets. The macroeconomic policy stimulus and low interest rates in the advanced economies were responsible for high liquidity levels.

## IV. GOVERNMENT BUDGETARY OPERATIONS

### Total Expenditure

Government total spending decreased by 28.5 per cent in April 2021, following a decline of 30.3 per cent in March 2021. Both expenses and nonfinancial assets decreased, with a significant decline of 45.4 per cent being observed under nonfinancial assets. All categories under expenses declined except for grants and other expense. While all categories under nonfinancial assets declined except for buildings and structure.

### Outlays by Functions

The recurrent outlays to total outlays took a share of 87.2 percentage points. Out of total outlays, economic affairs received the largest share, followed by education, with environmental protection receiving the least share.

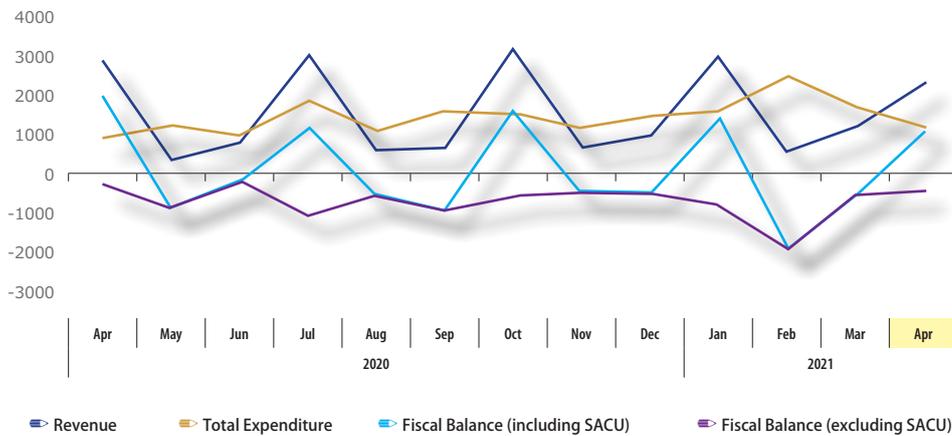
### Total Revenue

The Government revenue increased by 91.4 per cent in the current month as opposed to a significant increase of more than 100.0 per cent in the previous month. This was largely on account of receipt of SACU revenue.

### Fiscal Balance and Financing

Consequently, to receipts of SACU revenue, coupled with relatively lower spending, fiscal operations realised a built-up in Government deposits in the banking system.

**Figure 7 Government Fiscal Balance (Million Maloti)**



Source: CBL and Ministry of Finance (MOF)

**Table 2: Cross Classification of Expenditure by Functions and Economic Item (Percentage Change)**

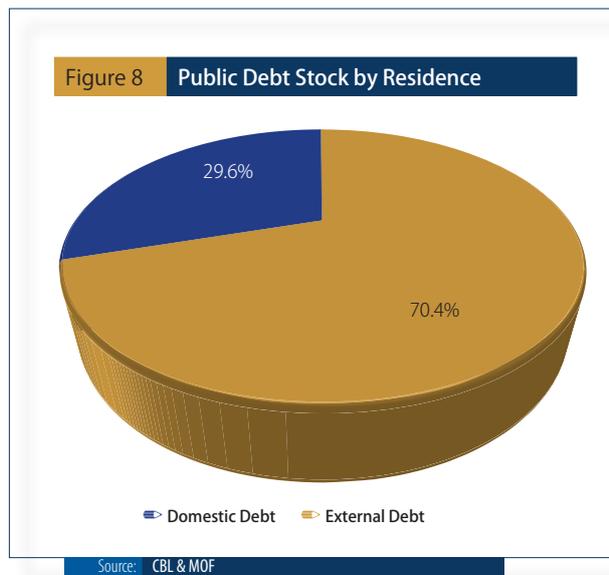
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		8.8%	12.6%	0.0%	82.7%	0.0%	1.6%	3.5%	16.2%
Defense		8.0%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	4.2%
Public Order and Safety		15.8%	12.1%	0.0%	9.1%	0.0%	0.0%	13.3%	11.8%
Economic Affairs		10.1%	20.9%	3.9%	2.8%	5.7%	98.4%	78.9%	24.9%
Environmental Protection		0.1%	0.0%	0.0%	0.4%	0.0%	0.0%	0.0%	0.1%
Housing and Community Amenities		1.0%	1.7%	0.0%	4.7%	0.0%	0.0%	4.0%	1.7%
Health		7.0%	44.5%	0.0%	0.0%	0.0%	0.0%	0.3%	6.4%
Recreation, Culture, and Religion		0.9%	0.4%	0.0%	0.2%	0.0%	0.0%	0.0%	0.5%
Education		31.5%	4.2%	96.1%	0.0%	0.0%	0.0%	0.0%	19.5%
Social Protection		16.7%	3.4%	0.0%	0.0%	94.3%	0.0%	0.0%	14.6%
<b>Share per Economic Item</b>		<b>51.7%</b>	<b>6.2%</b>	<b>3.1%</b>	<b>12.5%</b>	<b>6.1%</b>	<b>7.6%</b>	<b>12.8%</b>	<b>100.0%</b>

Source: CBL and MOF

## V. PUBLIC DEBT

The public debt stock was estimated at 63.4 per cent of GDP in April 2021, compared with 63.7 per cent of GDP in March 2021. The reduction of 0.5 per cent monthly changes was due to amortisation and the exchange rate effect. On year on year basis, public

debt stock declined by 0.9 per cent in April 2021 compared with a rise of 21.1 per cent in April 2020. The share of domestic debt to total debt remained unchanged from the previous month.



## Appendix: Key Economic Indicators

		20-Nov	20-Dec	21-Jan	21-Feb	21-Mar	21-Apr	
Economic Activity (MIEA (% change, M/M))		-1.1	0.9	5.5	-3.6	1.6	4.5	
Consumer price Index (% change)	Headline Inflation (year-on-year)	5.6	5.7	5.4	5.6	6.5	6.7	
	Core Inflation	4.8	4.6	4.3	4.2	5.1	5.5	
Exchange Rates (Monthly End Period)	EUR	18.38	18.06	15.05	18.08	17.31	17.36	
	GBP	20.44	20.07	20.67	20.81	20.32	19.95	
	USD	15.34	14.69	18.28	14.93	14.76	14.37	
Money Supply (Millions of Maloti)	M2	13,473.79	14,282.90	13,811.68	14,125.57	14,098.67	13,731.05	
	M1	6,370.50	6,950.30	6,603.45	6,717.11	6,862.16	6,532.57	
	Quasi Money	7,103.29	7,103.29	7,208.23	7,408.45	7,236.52	7,198.49	
Interest Rates	CBL Rate	3.50	3.50	3.50	3.50	3.50	3.50	
	91 day Treasury bill rate	3.26	3.20	3.20	3.32	3.25	3.23	
	Prime lending rate	8.19	8.19	8.19	8.19	8.19	8.19	
	1 year deposit rate	3.79	3.79	3.27	3.53	3.53	3.53	
Private sector Credit (Millions of Maloti)		7,411.95	7,410.42	7,397.41	7,350.61	7,403.74	7,435.59	
	Households	5,375.24	5,394.98	5,363.47	5,335.20	5,365.92	5,402.70	
	Business Enterprises	2,036.70	2,015.45	2,033.94	2,015.41	2,037.82	2,032.89	
Bank Deposit Liabilities (Millions of Maloti)		14,244.97	14,732.28	14,705.08	15,113.90	14,429.00	14,244.98	
Credit to Deposit Ratio (%)		52.20	50.68	50.48	48.77	51.50	52.30	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-502.09	-512.51	1,414.47	-1,933.91	-533.74	1,069.55	
	Total Revenue	707.27	1,004.47	3,034.13	568.20	1,210.32	2,316.84	
	Total Expenditure	1,209.36	1,516.97	1,619.65	2,502.11	1,744.06	1,247.29	
	O/W Capital	82.90	183.41	185.91	260.61	324.41	177.22	
Total Public Debt (Millions of Maloti)		20,125.33	19,673.87	20,157.95	19,652.34	19,093.49	19,277.02	
	Total External Debt	14,081.86	13,631.19	14,072.54	14,009.29	13,665.43	13,571.98	
	External Debt	Concessional	10,990.41	10,595.67	10,954.88	10,880.09	10,647.14	10,558.54
		Non-concessional	3,091.45	3,035.52	3,117.66	3,129.20	3,018.29	3,013.44
	Domestic Debt		6,043.47	6,042.68	6,085.41	5,643.05	5,428.06	5,705.03
Memo Item: Arrears (Millions of Maloti)		164.58	151.78	216.76	155.17	99.70	191.00	

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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