



Monthly ECONOMIC REVIEW

DECEMBER 2021

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY

Overall economic activity continued to grow in December 2021, albeit at a moderated rate compared to the preceding month. Both demand and production supported growth as recovery continued.

Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) index signalled strong activity in December 2021. The index grew by 3.2 per cent in the review month. However, this was a slower growth rate compared with 7.0 per cent growth recorded in November 2021. Growth was supported mainly by manufacturing, and to a relatively lesser extent, domestic demand. The construction and financial subsectors also contributed positively to the observed growth, whereas the transport industry showed mixed signals.

Domestic Demand Category

Growth in domestic demand was muted a bit in December 2021 as domestic demand index grew by a slower rate of 4.3 per cent as compared to the 11.9 per cent growth rate recorded in November. The slowdown in growth of domestic demand was attributable to negative contributions from government activity and value added tax collections, even though demand for imports from SA, coupled with pay-as-you-earn (PAYE) continued to support growth.

Manufacturing and Production Category

The performance of the production and manufacturing index remained strong in December 2021. In particular the index expanded by 6.7 per cent, albeit at a slower rate compared with 14.9 per cent growth in the preceding month. Growth was mainly a result of increased demand for clothing and textiles exports to the United States (US) markets as movement restrictions continued to be eased in major trading partners. The use of utilities in production (water and electricity) also supported the realised growth.

Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2021							
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
CIEA	158.4	157.4	156.8	153.5	152.2	151.6	162.2	167.4
Monthly changes	4.6	-0.7	-0.3	-2.2	-0.8	-0.4	7.0	3.2
Domestic Demand Category	149.4	141.8	141.3	141.8	140.7	136.7	153.0	159.5
Monthly changes	4.3	-5.1	-0.3	0.3	-0.7	-2.9	11.9	4.3
Manufacturing & Production Category	110.8	119.4	113.2	107.1	101.9	108.8	125.0	133.3
Monthly changes	5.4	7.7	-5.2	-5.3	-4.9	6.8	14.9	6.7

Source: Central Bank of Lesotho (CBL) Calculations

II. INFLATION AND PRICES

Headline Inflation

The headline inflation accelerated to 6.8 per cent in December 2021 from 6.4 per cent recorded in November 2021. The major contributions emanated from Housing, Water, Electricity, Gas and Other Fuels, Clothing & Footwear, Furnishings, Household Equipment and Routine Maintenance of the Household components. Nonetheless, Food & Non-Alcoholic beverages and to a lesser extent Transport categories moderated the increase in inflation rate during the review period.

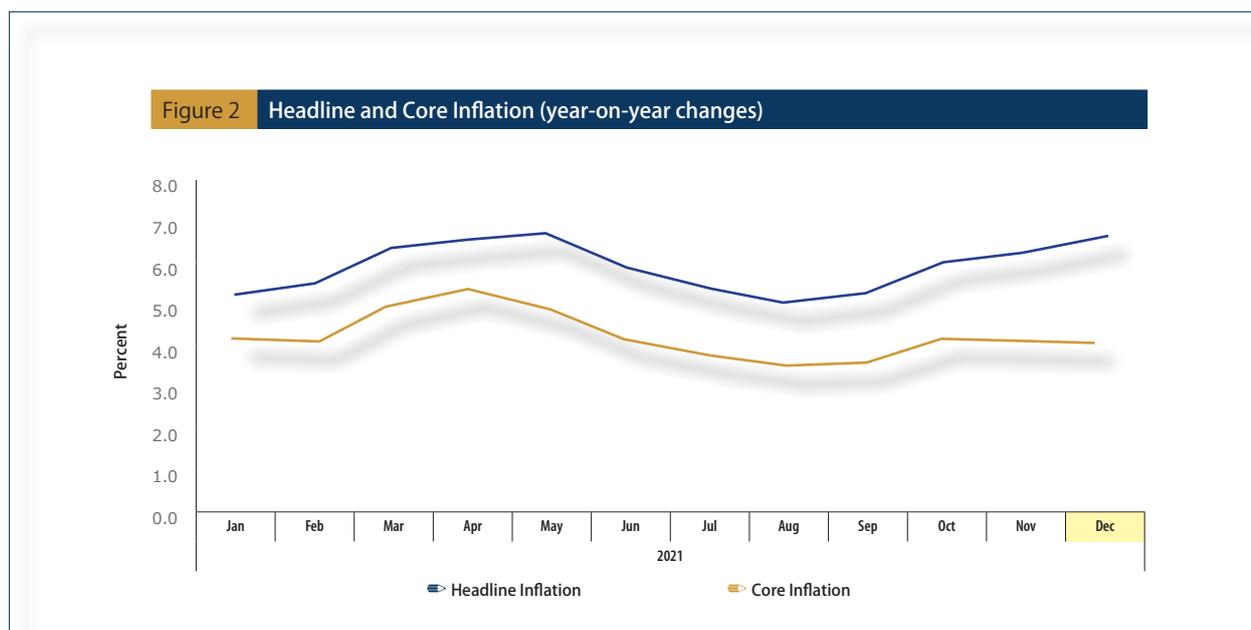
The rise in headline inflation was mainly attributed to rising international crude oil prices and natural gas

prices around the globe during the review period and exchange depreciation. The rise in the cost of inputs for clothing and logistic bottlenecks also added more weight to inflation rate acceleration.

Nonetheless, food prices moderated the acceleration in headline inflation rate amid ample supply conditions and decline in international food prices in December 2021.

Core Inflation

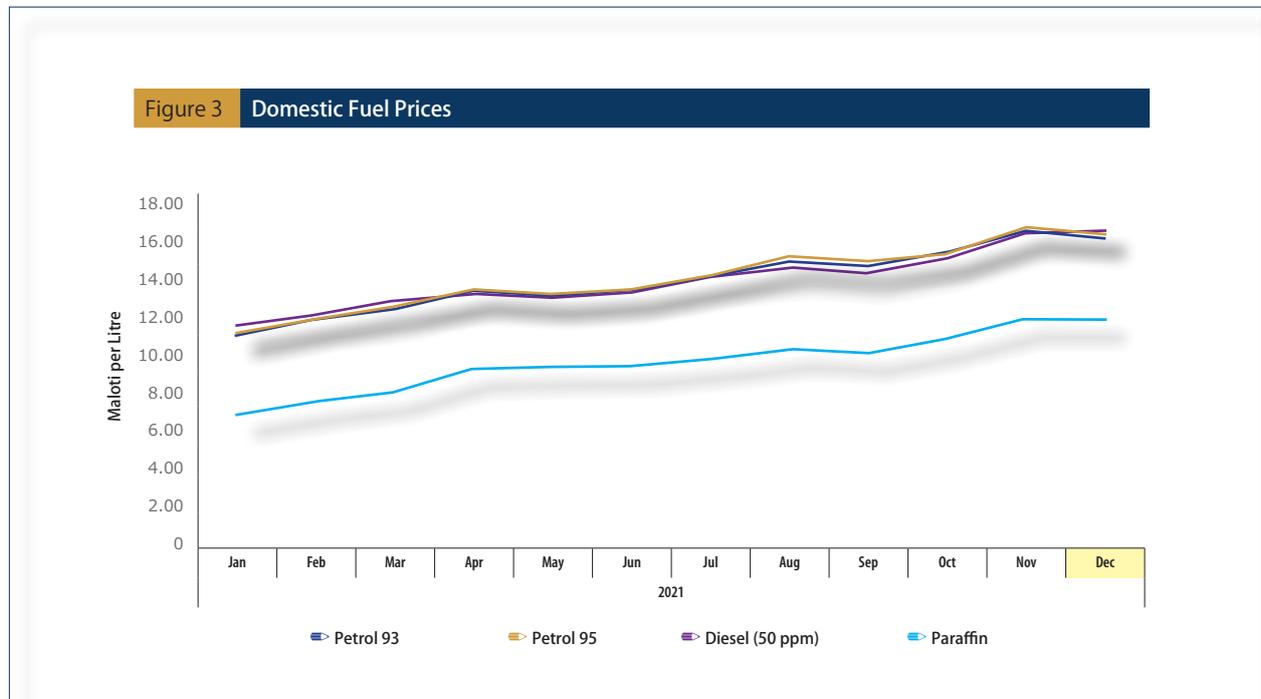
Underlying inflation pressures in the economy were muted in December 2021 as core inflation rate remained at 4.2 per cent in December in 2021.



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.



Source: Petroleum Fund

III. MONETARY AND FINANCIAL INDICATORS

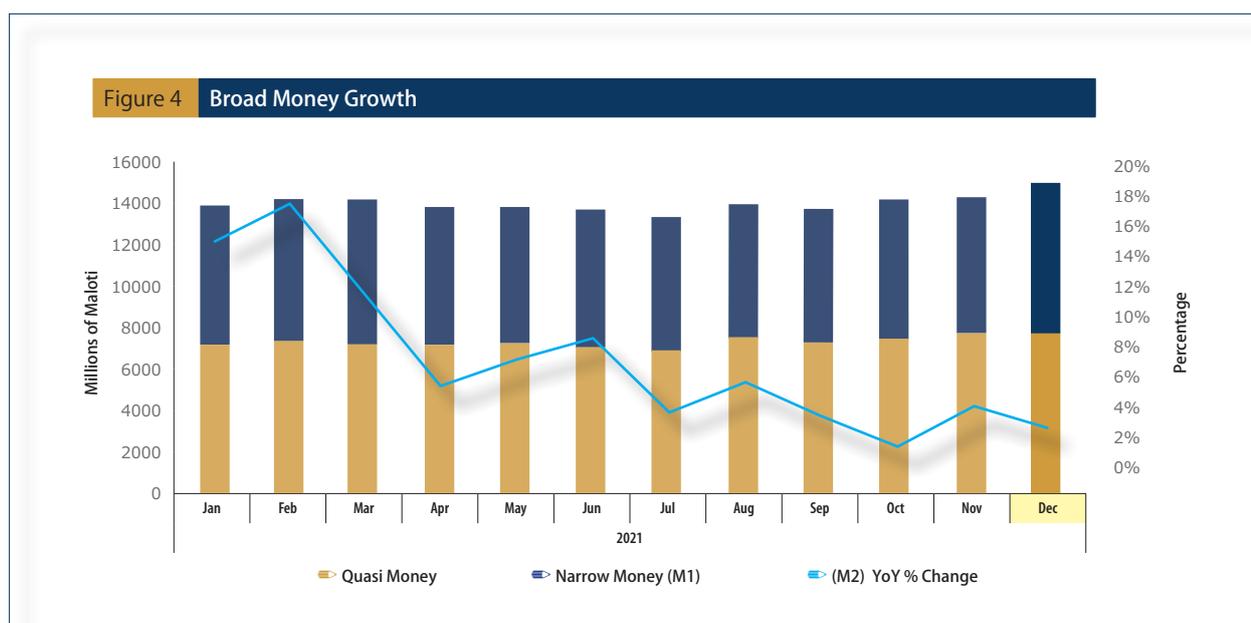
Broad Money (M2)

The broadly defined money supply (M2) accelerated by 4.8 per cent in the last month of 2021, from a modest growth of 0.7 per cent recorded in November 2021. The increase was driven by a 21.0 per cent growth in net domestic assets (NDA), while a 0.3 per cent contraction in net foreign assets lessened the overall increase in M2. The observed improvement in NDA was mainly brought about by an increase in holding of government securities by the commercial banks, as well as a drawdown of government deposits from both the Central Bank and the commercial banks. In contrast, net foreign

assets (NFA) declined during the month under review, and this was mainly as a result of growth in foreign liabilities of the commercial banks.

Components of Money Supply

The monthly growth in narrow money (M1) increased notably by 11.0 per cent in December 2021, whereas quasi money fell by 0.3 per cent during the same period. The main contributor to the observed increase in M1 was an increase of 19.4 per cent in demand deposits held by business enterprises. This was in part due to higher consumer spending during the last month of the year.



Source: Central Bank of Lesotho

Private Sector Credit

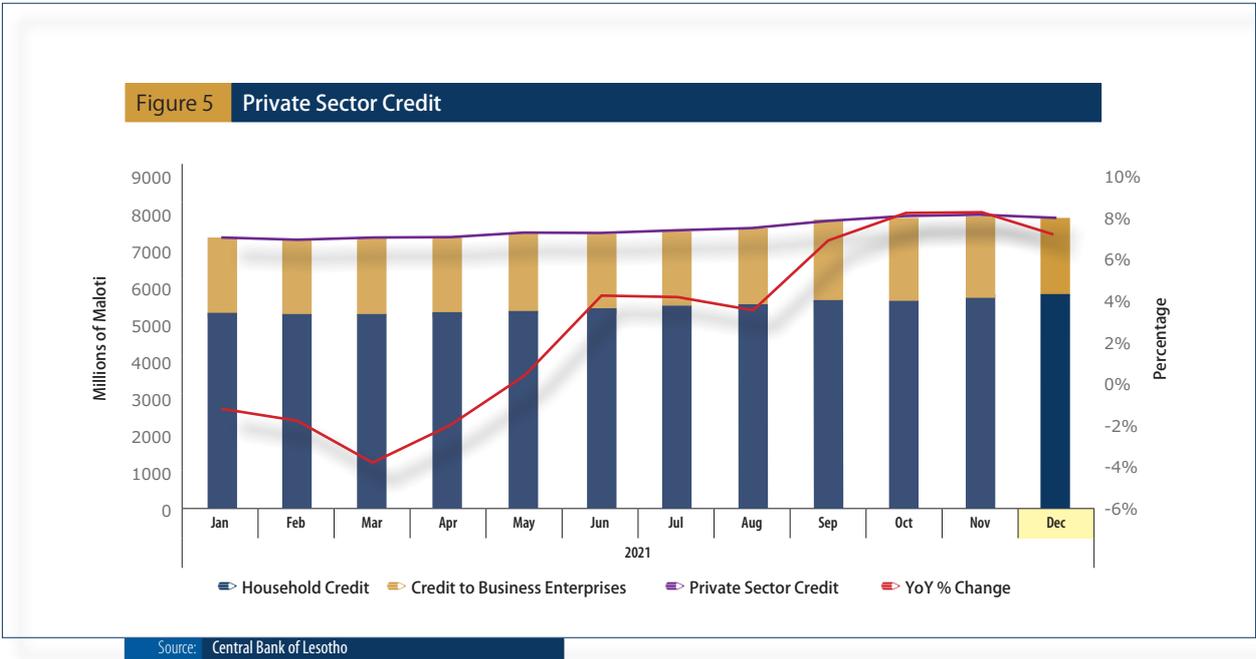
After five consecutive months of growth, private sector credit contracted by 1.1 per cent in December 2021. The decline was driven by 8.0 per cent fall in credit extended to private businesses. Notably, total loans and advances granted to mining and real estate sectors fell by 30.2 per cent and 10.0 per cent, respectively. On the contrary, growth in households' credit expanded by 1.6 per cent in December 2021,

following an increase of 1.1 per cent in November 2021. The growth in households' credit was supported by both personal loans and mortgages, which improved by 2.0 per cent and 0.5 per cent, respectively.

With regards to the distribution of credit extended to business enterprises by the banks, real estate and business services continued to account for the largest share of 22.7 per cent, followed by transport,

storage and communication sector with a share of 21.1 per cent. As in the previous month, the electricity, gas and water sector received the least

share of 0.3 per cent. Measured on a year-on-year, private sector credit expanded by 7.3 per cent in December 2021.



Non-Performing Loans

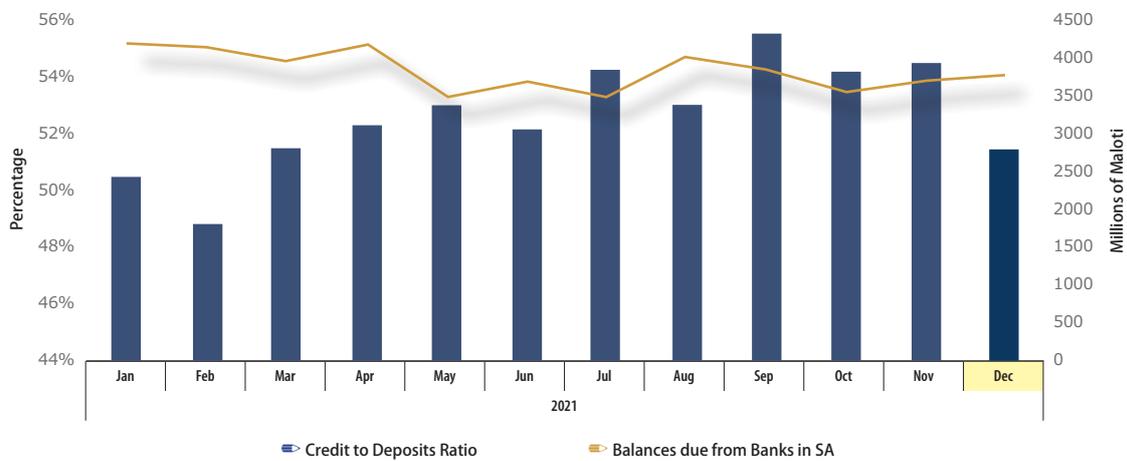
The ratio of non-performing loans (NPLs) to total loans granted by the commercial banks continued to fall as it declined from 4.3 per cent to 4.1 per cent in December 2021, following a 0.1 percentage point decline in November. The total NPLs arising from business enterprises contracted by 0.9 percentage points to 4.1 per cent, while households’ NPLs increased slightly. The fall in construction sector NPLs contributed the most to the observed decline in business enterprises’ NPLs. During the month

under review, NPLs from mortgages increased by 0.2 percentage points to 9.7 per cent, whereas personal loans NPLs remained unchanged at 2.2 per cent.

Sources of Funds

The credit to deposit ratio fell to a nine-month low in December 2021, registering 51.4 per cent, from 54.4 per cent observed in the previous month. This was mainly due to low credit extension during the review period, coupled with a significant growth in deposit liabilities held with the commercial banks.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The last sitting of the Monetary Policy Committee (MPC) of the Central Bank of Lesotho (CBL) was in November 2021, hence the CBL policy rate remained unchanged at 3.75 per cent in December 2021. However, the prime lending rate increased by 0.25 percentage points to 8.44 per cent during the review period. The one-year deposit rate at the commercial banks however, declined by 0.33 percentage points to 3.20 per cent. In line with the region, the 91-day T-Bill rate increased from 3.35 per cent in November to 4.06 per cent in December 2021.

Foreign Exchange

In December 2021, the rand and therefore the loti lost momentum against its major trading currencies compared to a month earlier. On average, the rand depreciated by 2.20 per cent against the dollar, by 2.40 per cent against the pound and by 1.34 per cent against the Euro.

The Rand remained under pressure due to both domestic and international factors. Domestically, the Rand was weakened by amongst others; weaker than expected manufacturing output, power disruptions, as well as, the rising inflation figures. On the international front, the Rand was negatively affected by the stronger dollar amid higher US treasury yields and the Federal Reserve Bank's communication that it would gradually increase its policy rates and reduce its asset purchases. The Rand also depreciated alongside other emerging market currencies amid mounting concerns over the global increase in COVID-19 cases during the review month.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure¹

Government total expenditure was estimated to have decreased by 22.6 per cent in December 2021 in contrast to a 27.5 per cent growth in November 2021. Both expense and non-financial assets decreased in the month under review. Transfers to extra budgetary units, old-age pensions, school feeding program, student grants, and fixed assets all contributed to the decline.

Outlays by Functions

The share of development outlays to total outlays declined to 7.5 per cent due to a decline in economic affairs, as transport component declined by 20.0 per cent.

Total Revenue

The Government revenue rose by 10.5 per cent during the month under review, compared with 27.6 per cent rise in the previous month. The increase was mainly due to income tax, property income, as well as water royalties.

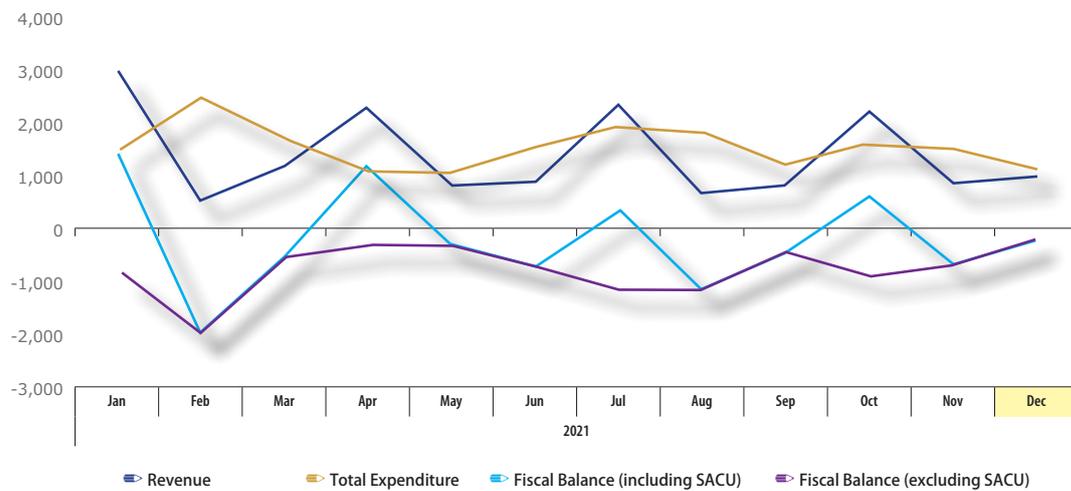
Fiscal Balance and Financing²

The fiscal operations registered a decline in both domestic financial assets and total liabilities. The decline in financial assets was attributed to the withdrawal of government deposits to finance fiscal operations. The decrease in liabilities was a result of amortization coupled with retirement of domestic other accounts payable that were linked to the payment of previous months' expenditure under commitments.

¹ The year-to-date refers to an accumulation within a fiscal year, starting from April.

² All financing items are on net basis.

Figure 7 Government Fiscal Balance – excluding SACU Receipts (Million Maloti)



Source: Central Bank of Lesotho & Ministry of Finance

Table 2: Cross Classification of Expenditure by Function and Economic Item (Percent Change)

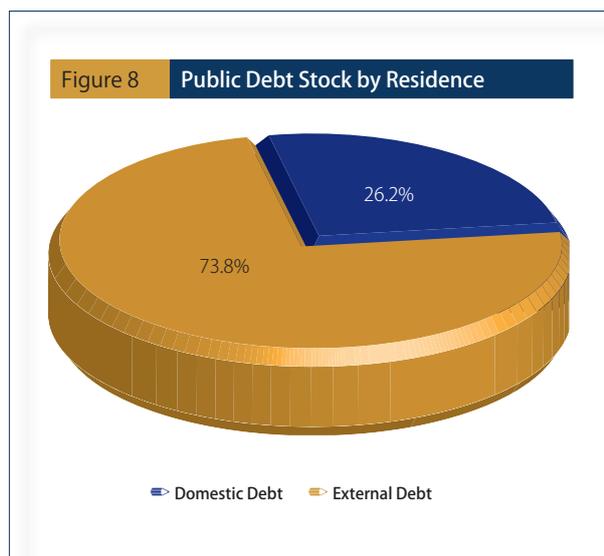
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		9.5%	11.9%	0.0%	8.7%	0.0%	32.2%	26.1%	11.8%
Defense		6.6%	6.3%	0.0%	0.0%	0.0%	0.0%	2.0%	5.6%
Public Order and Safety		15.2%	5.1%	0.0%	0.0%	0.0%	0.0%	23.9%	12.1%
Economic Affairs		9.3%	12.0%	0.0%	4.4%	0.0%	0.0%	26.5%	11.6%
Environmental Protection		0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
Housing and Community Amenities		0.7%	0.2%	0.0%	0.0%	0.0%	0.0%	5.0%	1.0%
Health		7.8%	61.6%	0.0%	0.0%	12.5%	0.0%	16.4%	24.6%
Recreation, Culture, and Religion		0.9%	0.6%	0.0%	86.9%	0.0%	0.0%	0.0%	5.2%
Education		32.2%	1.5%	0.0%	0.0%	0.0%	0.0%	0.1%	17.5%
Social Protection		17.6%	0.8%	0.0%	0.0%	87.5%	67.8%	0.0%	10.6%
Share per Economic Item		52.9%	30.1%	0.0%	5.2%	1.2%	0.0%	10.5%	100.0%

Source: CBL and MOF

V. PUBLIC DEBT

The public debt stock was estimated at 52.1 per cent of GDP in December 2021, up from the revised 51.3 per cent of GDP in November 2021. The increase was due to loans from multilateral creditors, as well as,

Treasury bills. In terms of year-over-year fluctuations, the public debt stock increased by 5.0 per cent in December 2021 compared to a fall of 0.9 per cent in the preceding month.



Appendix: Key Economic Indicators

		21-Jul	21-Aug	21-Sep	21-Oct	21-Nov	21-Dec	
Economic Activity (MIEA (% change, M/M))		-0.4	-2.2	-0.8	-0.4	6.8	3.2	
Consumer price Index (% change)	Headline Inflation (year-on-year)	5.5	5.2	5.4	6.2	6.4	6.8	
	Core Inflation	3.9	3.6	3.7	4.3	4.2	4.2	
Exchange Rates (Monthly End Period)	EUR	17.32	17.26	17.53	17.72	18.22	18.07	
	GBP	20.34	20.09	20.38	20.97	21.41	21.5	
	USD	14.58	14.6	15.12	15.24	16.05	15.95	
Money Supply (Millions of Maloti)	M2	13,722.26	13,636.94	13,624.50	14,096.69	14,190.67	14,867.90	
	M1	6,453.22	6,458.09	6,289.92	6,619.57	6,417.32	7,120.26	
	Quasi Money	7,269.04	7,178.85	7,334.58	7,477.12	7,773.35	7,747.64	
Interest Rates	CBL Rate	3.50	3.50	3.50	3.50	3.75	3.75	
	91 day Treasury bill rate	3.22	3.27	3.45	3.35	3.35	4.06	
	Prime lending rate	8.19	8.19	8.19	8.19	8.19	8.44	
	1 year deposit rate	3.53	3.53	3.53	3.53	3.53	3.2	
Private sector Credit (Millions of Maloti)		7,552.91	7,535.35	7,888.82	7,975.30	8,038.00	7,951.85	
	Households	5,413.48	5,492.47	5,697.47	5,722.52	5,785.78	5,879.24	
	Business Enterprises	2,139.43	2,042.89	2,191.35	2,252.78	2,252.22	2,072.61	
Bank Deposit Liabilities (Millions of Maloti)		14,291.53	14,466.44	14,234.28	14,750.70	14,750.30	15,449.52	
Credit to Deposit Ratio (%)		52.9	52.06	55.5	54.1	54.41	51.38	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	294.93	-965.67	-410.54	614.68	-637.14	-168.5	
	Total Revenue (with SACU receipts)	2,267.60	785.95	835.92	2,247.72	903.43	1,003.40	
	Total Expenditure	1,972.67	1,751.62	1,246.46	1,633.04	1,540.57	1,171.90	
	O/W Capital	399.94	504.12	155.37	214.43	163.46	158.46	
Total Public Debt (Millions of Maloti)		18,407.56	18,383.51	19,244.46	19,286.46	20,200.32	20,193.71	
	Total External Debt	13,736.60	13,712.60	14,299.90	14,342.20	15,129.60	14,858.80	
	External Debt	Concessional	10,548.20	10,524.60	11,115.20	11,141.30	11,790.20	11,567.90
		Non-concessional	3,188.40	3,188.00	3,184.70	3,200.90	3,339.40	3,290.90
	Domestic Debt	4,670.96	4,670.91	4,944.56	4,944.26	5,070.72	5,334.91	
Memo Item: Arrears (Millions of Maloti)		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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Enquiries relating to this Publication should be addressed to:

Statistics Division

Research Department, Central Bank of Lesotho

Central Bank of Lesotho

Corner Airport and Moshoeshoe Roads • Maseru Central • P. O. BOX 1184 • Maseru 100

Phone: (+266) 2231 4281 / 2223 2000 • Fax: (+266) 2231 0051 • E-mail: info@centralbank.org.ls