



Monthly ECONOMIC REVIEW

January 2020

CENTRAL BANK OF LESOTHO

I. ECONOMIC ACTIVITY

Economic activity remained under pressure in January 2020. The production side continued to undermine growth, however, the demand side moderated the downward pressure.

Overall Performance Index

Economic performance as measured by the Monthly Indicator of Economic Activity (MIEA) remained stagnant in January 2020, registering no growth compared to the 0.1 per cent marginal growth recorded in December 2019. The performance reflected mixed results from both the demand and supply (manufacturing) sides. Eight out of a total fourteen variables from the demand side showed positive contributions to the overall index. In addition, the construction and financial services subsectors showed positive contributions as evidenced by imports of cements and metal products, and credit extension respectively. However, the sluggish performance from activities in the production side undermined performance from the demand side.

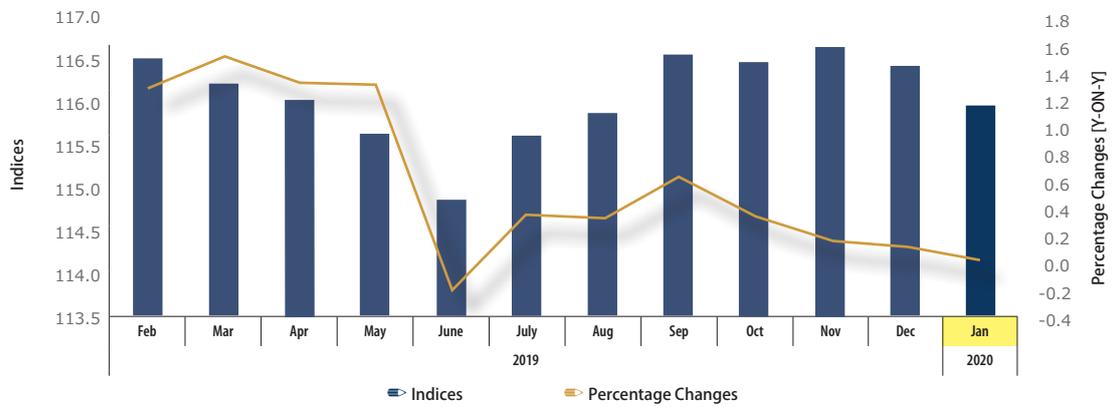
Domestic Demand Category

The index of domestic demand grew by a moderate 0.7 per cent in January 2020, following the 0.9 per cent recorded in December 2019. Government of Lesotho's compensation of employees, value added tax (VAT) collections, as well as, imports from South Africa all contributed to the growth in the index, even though government activity continued to be under pressure.

Manufacturing & Production Category

The production index continued to be under pressure with a consistent downward trajectory. The index declined by 2.2 per cent in the review month following a decline of 2.3 per cent in the preceding month. The use of utilities (water and electricity) for industrial purposes, as well as, textile and clothing exports to the US markets continued to be on the downward trend, all contributing negatively to the industry.

Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2019							2020
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
CIEA	114.8	115.6	115.9	116.6	116.5	116.7	116.4	115.9
year-on year changes	-0.2	0.4	0.3	0.6	0.3	0.2	0.1	0.0
Domestic Demand Category	112.8	114.4	114.7	115.8	115.6	115.1	114.7	114.5
year on year changes	0.2	1.2	1.6	2.4	1.7	0.9	0.9	0.7
Manufacturing & Production Category	105.6	106.1	106.0	106.5	106.1	106.8	106.0	106.1
year on year changes	-2.3	-1.7	-2.3	-2.2	-2.2	-2.1	-2.3	-2.2

Source: CBL Calculations

II. INFLATION AND PRICES

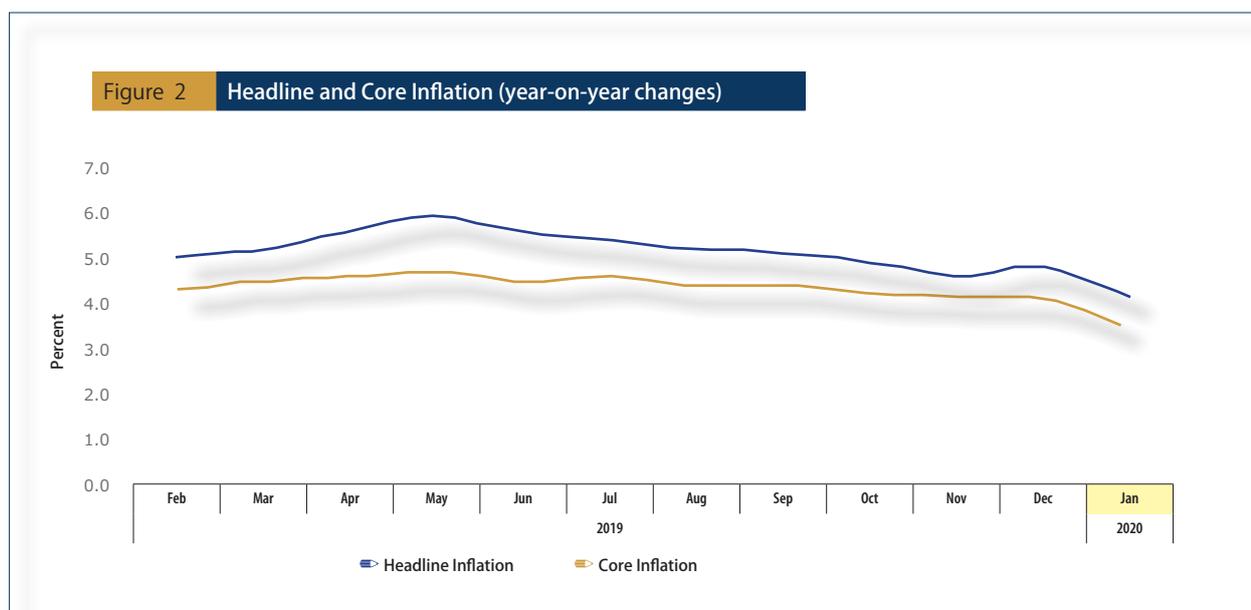
Headline Inflation

The headline inflation rate decelerated from 4.8 per cent in December 2019 to 4.1 per cent in January 2020. The major contributors to the 0.7 percentage points decline were Food & Non-Alcoholic Beverages and Furnishings, Household Equipment and Routine, Recreation & Culture, as well as, Miscellaneous goods and services. Nonetheless, this was moderated by Clothing & Footwear and Education.

The deceleration of inflation during the review period largely reflected bolstered market expectations of improved production for the 2020 crops and consequent increased supply. Nonetheless, the weaker currency offset the impact of declining food prices.

Core Inflation

The core inflation, which excludes the Consumer Price Index (CPI) with extreme price changes, also decelerated from 4.1 per cent in December 2019 to 3.5 per cent in January 2020.

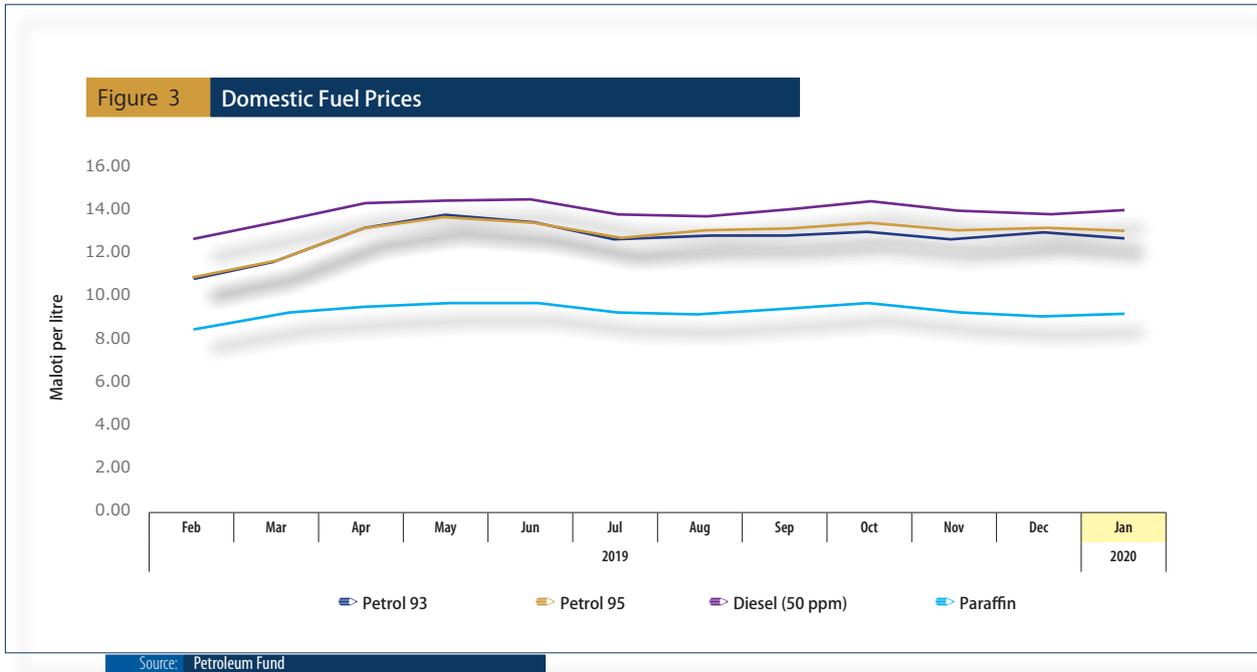


Source: Lesotho Bureau of Statistics & CBL Computation

Domestic Fuel Prices

The fuel prices showed mixed trends in January 2020 compared to the preceding month. Pump prices of both petrol grades decreased by M0.15 per litre and M0.25 per litre for petrol93 and petrol95,

respectively in January 2020 from their levels in the preceding month. However, the price of diesel50 increased by M0.25 per litre pump during the review period. The wholesale price of illuminating paraffin also increased by M0.15 to M9.10 per litre in January 2020.



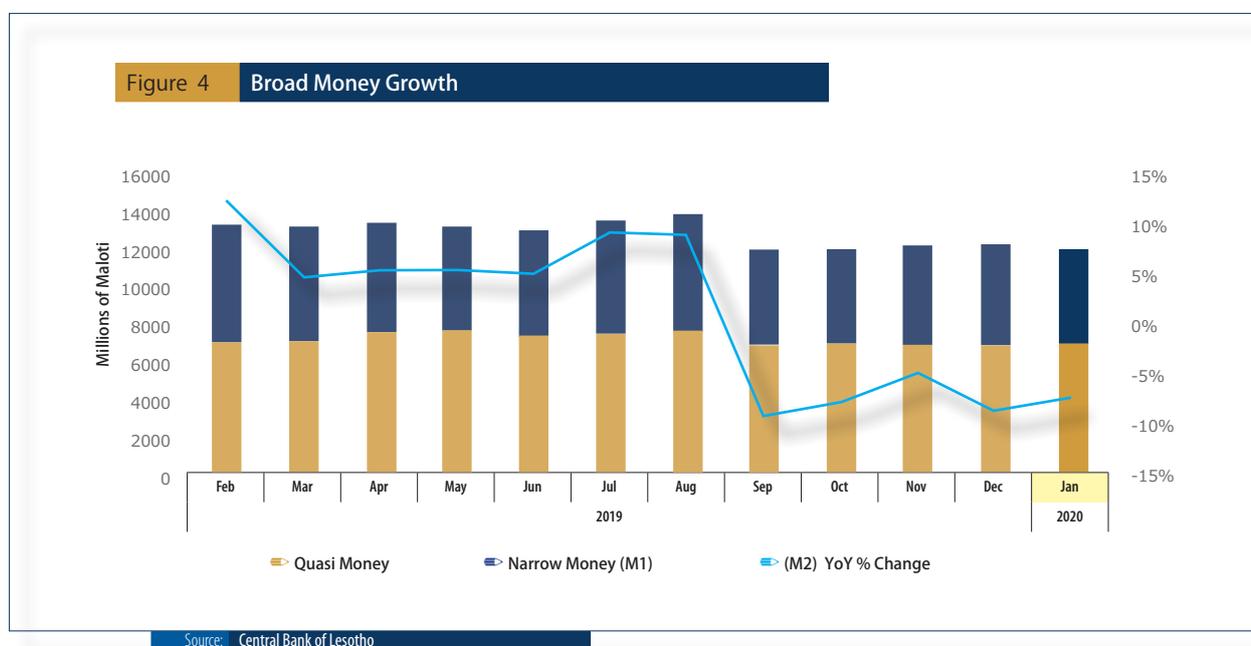
III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

The broadly defined money supply (M2) fell by 1.7 per cent in the first month of 2020, following a mild increase in the last month of 2019. The decline came as a result of a 44.4 per cent fall in net domestic assets (NDA), which was however moderated by a 6.9 per cent increase in net foreign assets (NFA). The decline in NDA was a result of a build-up in government deposits and a decline in government securities held by commercial banks.

Components of Money Supply

Narrow money (M1) fell by 8.4 per cent while quasi money increased by 3.6 per cent in the review period. Both currency in circulation and demand deposits fell, leading to the overall decline in M1 in January 2020. The decline in narrow money was mainly due to large withdrawals of business enterprises' demand deposits held with commercial banks.

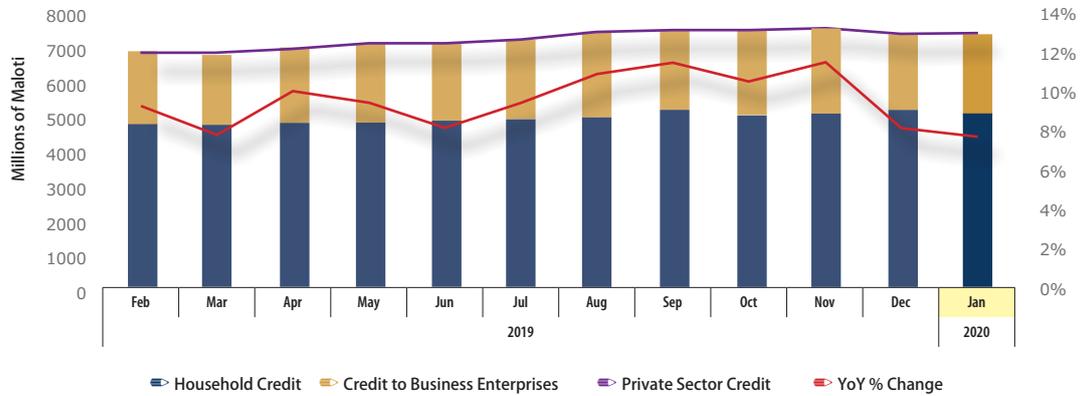


Private Sector Credit

In January 2020, total credit extended to the private sector rebounded marginally, as it increased by 0.2 per cent, following a decline of 4.3 per cent in December 2019. Measured on year-on-year, credit extended to the private sector increased by 7.7 per cent in the month under review.

Overall credit granted to households declined by 1.5 per cent in the review period. This was mainly driven by a 2.1 per cent decline in personal loans, despite a 0.8 per cent growth in mortgages. Conversely, credit extended to business enterprises grew by 4.0 per cent in January, in contrast to a fall of 10.6 per cent in the previous month. The expansion in credit extended to business enterprises during the review period was largely attributable to increased credit to the mining and quarrying sector.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

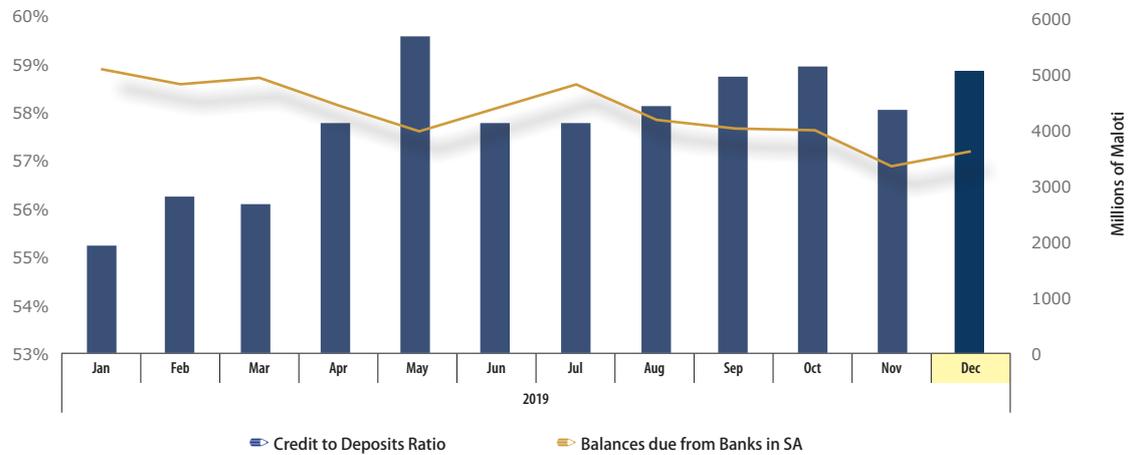
Non-Performing Loans

Total non-performing loans (NPLs) as a share of total loans granted by commercial banks, increased marginally to 3.5 per cent in January 2020, compared with 3.3 per cent recorded in the previous month. The NPLs from business enterprises as a percentage of total loans extended to business enterprises increased slightly from 3.4 per cent in December 2019 to 3.6 per in January 2020. Similarly, the NPLs from households and mortgage increased from 1.7 per cent to 1.9 per cent and 8.5 per cent to 8.6 per cent, respectively.

Sources of Funds

The commercial banks' credit to deposit ratio rose from 58.0 per cent to 58.8 per cent between December 2019 and January 2020. This was as a result of a rise in total credit extended by commercial banks relative to a growth in total deposits.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The Central Bank of Lesotho (CBL)’s monetary policy committee cut its policy rate by 25 basis points to 6.25 per cent during the review period. Consequently, the 91-day T-Bill discount rate declined slightly from 6.26 per cent to 6.17 per cent between December 2019 and January 2020. However, the prime lending rate maintained the rate observed in December 2019, while the one-year deposit rate declined from 4.24 per cent to 4.20 per cent.

Foreign Exchange Rates¹

The rand hence the loti, strengthened against major trading currencies in January 2020. In particular, it appreciated by 0.15 per cent against the dollar, 0.82 per cent against the pound and 0.49 per cent against the euro. The rand strengthened following a trade agreement between the US and China. Market sentiment became bullish in the wake of the first phase agreement between US and China, which increased investor risk appetite for emerging market currencies. However, rand remained sensitive to a host of domestic and international developments. It reacted negatively to unstable power supply in South Africa which disrupted economic activity. Furthermore, the outbreak of coronavirus led to a bleak global economic outlook, leading to sell-off of rand-denominated assets, among others.

¹ Monthly average exchange rate.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

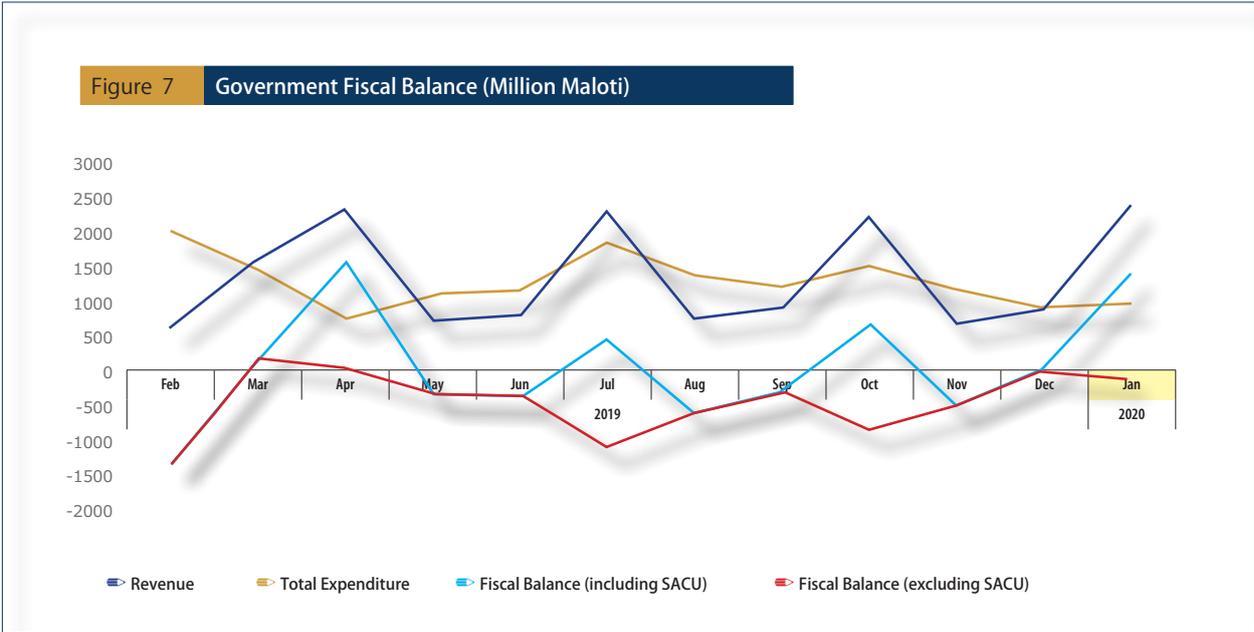
Government total expenditure increased by 9.0 per cent in January 2020 following a revised fall of 21.7 per cent in December 2019. The increase in total expenditure was driven mainly by operating costs, domestic travel and transport, domestic interest payments, and current grants to extra-budgetary units. The non-financial assets, on the contrary, declined by 6.1 due to other structures that fell significantly.

Total Revenue

Government revenue more than doubled in the month under review compared with a revised increase of 36.5 per cent in the previous month. This rise was mainly attributable to mining royalties, surface rent, VAT, and SACU receipts.

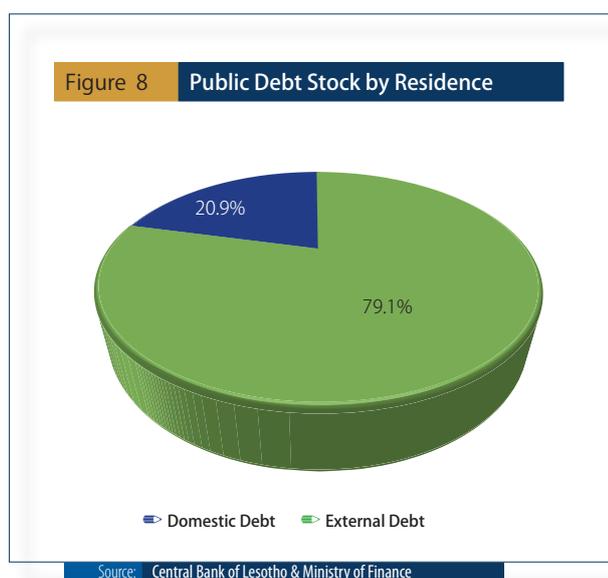
Fiscal Balance and Financing

Government budgetary operations registered a fiscal surplus equivalent to 14.3 per cent of GDP in the month under review, relative to a balanced-budget status that was experienced in the preceding month. The surplus contributed to a rise in the government deposits in the banking system.



V. PUBLIC DEBT

The public debt stock was projected to have declined to 42.1 per cent of GDP in January 2020, from 45.7 per cent of GDP in December 2019. The fall was mainly attributable to the redemption of fiscal Treasury bills, which resulted in a 15.0 per cent decrease in the domestic debt. In addition, the external debt components also declined in response to currency appreciation.



Appendix: Key Economic Indicators

		19-Aug	19-Sep	19-Oct	19-Nov	19-Dec	20-Jan	
Economic Activity MIEA (% change, Y/Y)		0.3	0.6	0.3	0.2	0.1	0.0	
Consumer price Index (% change)	Headline Inflation (year-on-year)	5.2	5.1	4.9	4.6	4.8	4.1	
	Core Inflation	4.4	4.4	4.2	4.4	4.1	3.5	
Exchange Rates (Monthly End Period)	EUR	16.8	16.5	16.5	16.1	15.7	16.0	
	GBP	18.6	18.7	18.8	18.9	18.4	18.8	
	USD	15.3	15.2	14.9	14.7	14.0	14.4	
Money Supply (Millions of Maloti)	M2	11,897.68	11,878.98	12,185.65	12,195.22	13,865.35	11,990.97	
	M1	4,988.34	4,973.33	5,319.82	5,333.90	6,184.74	4,884.31	
	Quasi Money	6,909.34	6,905.65	6,865.83	6,861.32	7,680.61	7,106.67	
Interest Rates	CBL Rate	6.5	6.5	6.5	6.5	6.5	6.25	
	91 day Treasury bill rate	6.3	6.3	6.3	6.3	6.3	6.17	
	Prime lending rate	11.2	11.2	11.2	11.2	11.2	11.19	
	1 year deposit rate	4.3	4.3	4.2	4.2	4.3	4.20	
Private sector Credit (Millions of Maloti)		7,451.61	7,493.09	7,475.56	7,575.04	7,251.33	7,371.95	
	Households	4,956.49	5,163.48	5,086.65	5,145.54	5,078.99	5,113.65	
	Business Enterprises	2,495.11	2,329.62	2,388.90	2,429.50	2,172.34	2,258.30	
Bank Deposit Liabilities (Millions of Maloti)		12,977.39	12,849.65	12,888.72	13,024.80	12,772.12	12,807.85	
Credit to Deposit Ratio (%)		57.4	58.3	58.0	58.2	56.8	58.8	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-628.25	-313.63	677.32	-509.75	1.15	1,393.90	
	Total Revenue	738.06	894.04	2193.20	650.16	887.21	2,359.86	
	Total Expenditure	1,366.31	1,207.68	1,515.87	1,159.92	886.06	965.96	
	O/W Capital	416.20	223.28	204.53	134.29	105.16	98.78	
Total Public Debt (Millions of Maloti)		16,706.42	16,788.97	16,726.42	16,783.48	17,057.4	16,448.90	
	Total External Debt	12,715.12	12,695.81	12,687.09	12,754.76	13,013.53	13,011.46	
	External Debt	Concessional	10,169.88	10,197.77	10,190.40	10,232.74	10,504.19	10,505.95
		Non-concessional	2,545.23	2,498.04	2,496.69	2,522.03	2,509.34	2,505.52
	Domestic Debt		3,991.31	4,093.16	4,039.33	4,028.72	4,043.87	3,437.44
Memo Item: Arrears (Millions of Maloti)		57.54	59.40	36.20	35.88	47.95	42.81	

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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