



# Monthly ECONOMIC REVIEW

March 2021

CENTRAL BANK OF LESOTHO

## I. ECONOMIC ACTIVITY

Economic activity was under pressure in March 2021. Despite lockdown restrictions being relaxed both sides (demand and manufacturing) were under pressure and lost on the gains from the previous month.

### Overall Performance Index

As estimated by the Monthly Indicator of Economic Activity (MIEA), economic performance was estimated to have declined by 1.5 per cent in March 2021, in contrast to the 0.9 per cent growth recorded in the preceding month. Both demand and manufacturing were under pressure in the review month. The transport subsector was also under pressure, as indicated by negative contributions from domestic fuel consumption, though the construction subsector remained firm in the review month.

### Domestic Demand Index

The demand side of the economy was estimated to have declined by 3.0 per cent in March 2021. This was in contrast to the 1.2 per cent growth realised in February 2021. The slump in the index was driven mainly by a decline in contributions of Value added Tax (VAT) collections and imports of goods and services from South Africa. However, Government activity (purchases and compensation of employees) and collection of Pay-As-You-Earn (PAYE) taxes moderated the decline in the index.

### Manufacturing and Production Category

The Manufacturing continued to be under pressure in March 2021. The index declined further by 3.9 per cent in March 2021 following the contraction of 1.4 per cent in February 2021. The decline in the review month was mainly due to poor performance of all variables included in the index: utilities (water and electricity), textile exports and imports of raw materials.

**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		
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
<b>CIEA</b>	144.7	143.9	142.3	143.6	151.5	146.0	147.3	145.1
Monthly changes	3.9	-0.6	-1.1	0.9	5.5	-3.6	0.9	-1.5
<b>Domestic Demand Category</b>	125.9	134.4	137.3	142.7	151.3	146.2	147.9	143.5
Monthly changes	5.8	6.8	2.1	4.0	6.0	-3.3	1.2	-3.0
<b>Manufacturing &amp; Production Category</b>	106.9	105.4	103.4	100.8	104.7	106.2	104.0	97.8
Monthly changes	14.9	-1.4	-2.0	-2.5	3.9	1.4	-1.4	-3.9

Source: Central Bank of Lesotho (CBL) Calculations

## II. INFLATION AND PRICES

### Headline Inflation

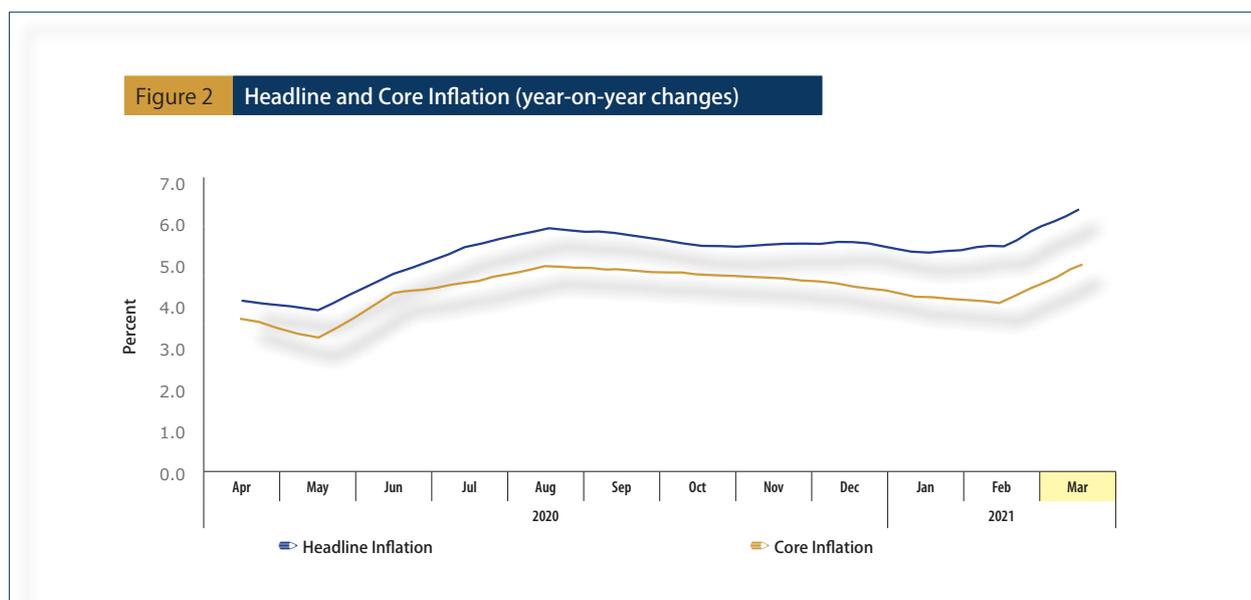
Headline inflation increased from 5.6 per cent in February 2021 to 6.5 per cent in March 2021. The main contributors were Housing, Water, Electricity, Gas and Other Fuels, Food & Non-Alcoholic beverages, Education, and Clothing & Footwear. Nonetheless, the Transport category moderated the increase in headline inflation between February and March 2021.

Tightening food supplies and firm demand across the globe, including in South Africa is one factor in rising and high international food prices. This spilled

over into domestic food prices during the review period. Moreover, the expected rise in crude oil demand due to increased COVID-19 vaccination rates and rising global economic activity buoyed international crude oil prices. Global oil prices were further increased by the ongoing crude oil production limits from members of the Organization of the Petroleum Exporting Countries (OPEC) and partner countries (OPEC+).

### Core Inflation

Core inflation also increased from 4.2 per cent in February 2021 to reach 5.1 per cent in March 2021.

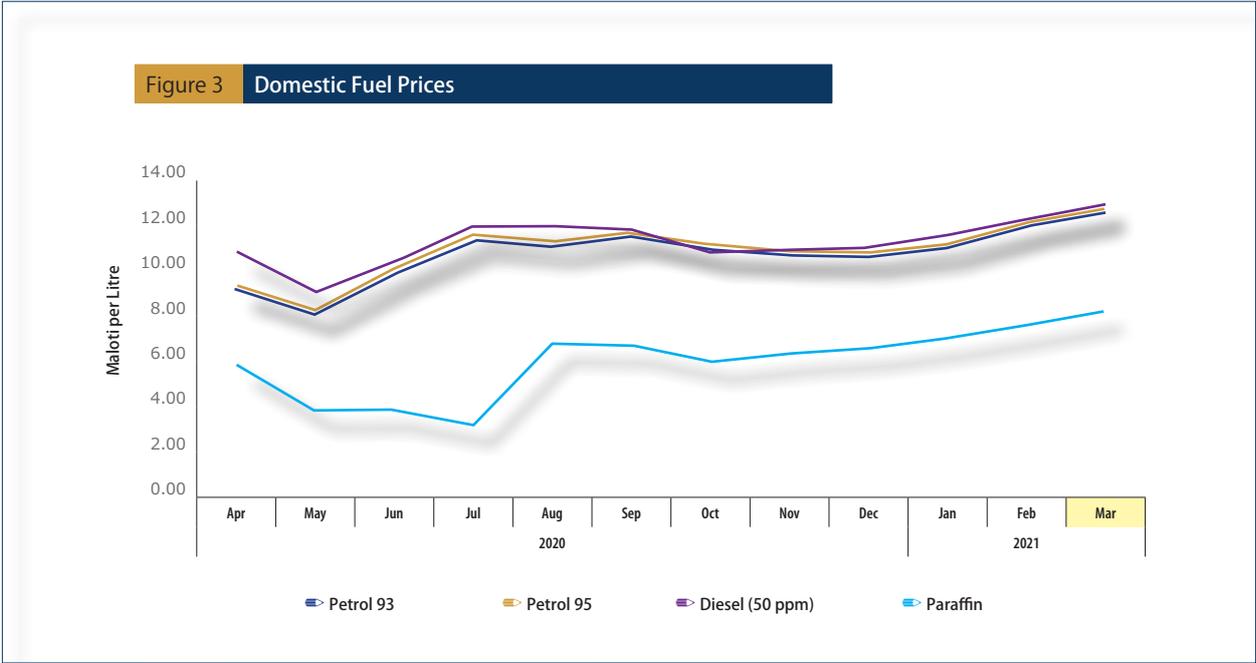


Source: Lesotho Bureau of Statistics & CBL Computation

### Domestic Fuel Prices

In March 2021, prices for domestic fuel components increased. Both petrol grades (petrol93 and petrol95) increased by M0.65 per litre and were sold at M12.70 per litre and M12.80 per litre at the pump,

respectively. The price of diesel50 also increased by M0.65 per litre to reach M12.95 per litre during the review period. The wholesale price of illuminating paraffin increased by M0.60 to M8.25 per litre during the review period.



Source: Lesotho Bureau of Statistics & CBL Computation

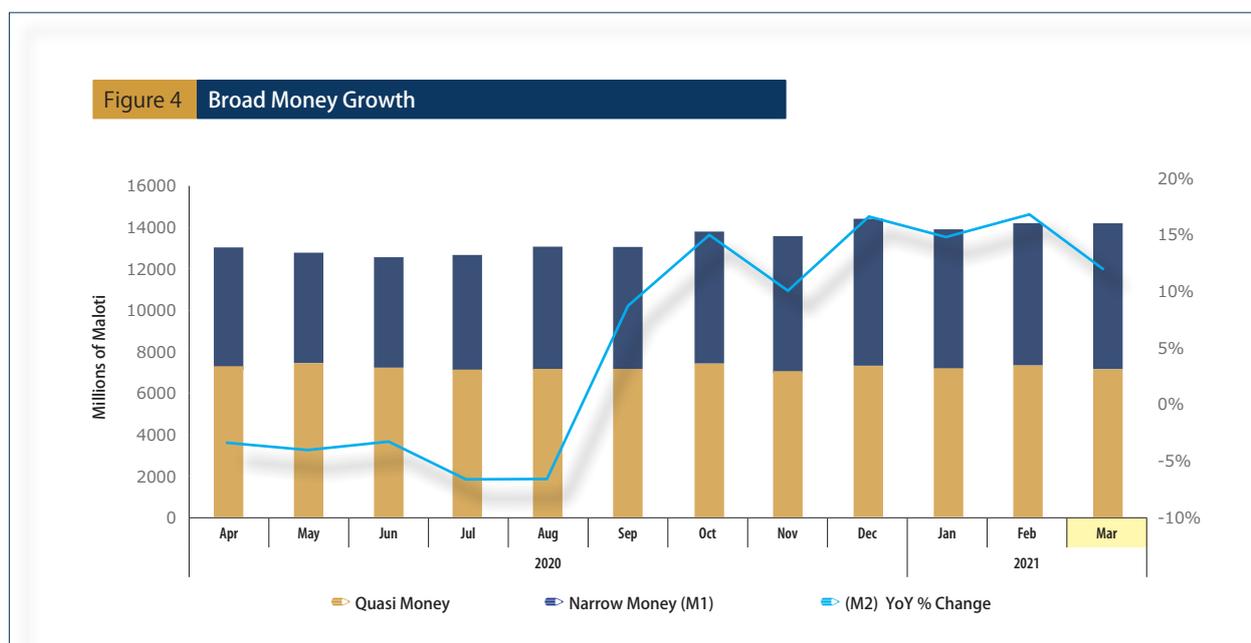
### III. MONETARY AND FINANCIAL INDICATORS

#### Broad Money (M2)

The broad money supply (M2) declined slightly by 0.2 per cent in March compared to an increase of 2.3 per cent observed in February 2021. The decrease in M2 was on account of a 3.7 per cent fall in net foreign assets (NFA) which was moderated by a 16.1 per cent growth in net domestic assets (NDA). The rise in NDA follows drawdown of government deposits coupled with a slight growth in private sector credit.

#### Components of Money Supply

In relation to broad money components, narrow money (M1) grew by 2.2 per cent while on the contrary, quasi money registered a 2.3 per cent fall in the review period. The growth in M1 was at the back of 8.9 per cent and 0.6 per cent growth in currency in circulation and demand deposits, respectively. However, quasi money declined as a result of a fall in call deposits held by business enterprises during the month under review.



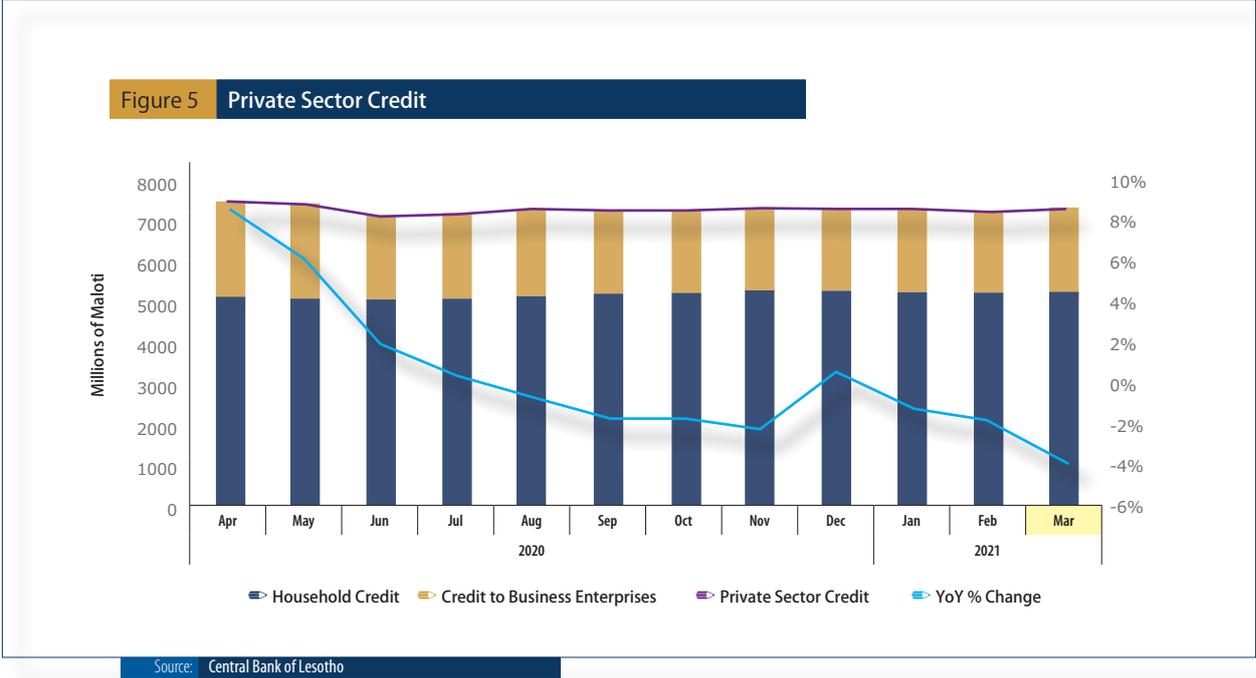
#### Private Sector Credit

During the month under review, total credit extended to the private sector rebounded slightly by 0.7 per cent compared to past three months of consecutive declines. This was due to an increase in both credit extended to households and business enterprises.

The overall credit extended to households rose by 0.6 per cent in March 2021, following a decline of 0.5 per cent in the previous month. The growth in credit to the household sector was underpinned by a 0.6 per cent and 0.5 per cent growth in personal loans and mortgages respectively. In relation to credit extended to business enterprises, it recorded a 1.1 per cent growth between February and March 2021. The business enterprise credit growth during the period under review was supported by rise in

credit extended to mining, manufacturing, as well as, construction sectors. However, measured on

year-on-year, growth in private sector credit fell by 3.7 per cent during the month under review.



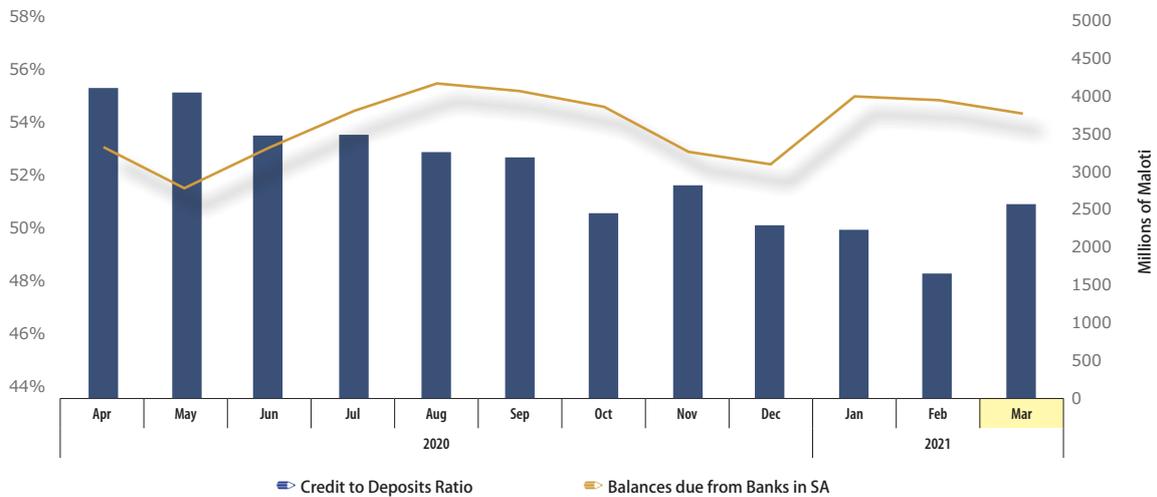
### Non-Performing Loans

The ratio of non-performing loans (NPLs) to total loans continued to deteriorate for the third month in a row. In particular, NPLs as a ratio of total loans worsened from 4.7 per cent experienced in February 2021 to 4.9 per cent registered in March 2021. The rise in NPL's was due to the increase in both the business and household NPL's. This was on account of a moderate increase of business enterprises NPLs from 5.1 per cent to 5.2 per cent between February and March 2021. Similarly, NPLs from household grew by from 4.6 per cent to 4.8 per cent during the same period.

### Sources of Funds

Commercial banks' deposit liabilities fell by 4.5 per cent in March 2021, compared to a growth of 2.8 per cent in the previous month. Moreover, the credit to deposit ratio rose from 48.8 per cent observed during the previous month to 51.4 per cent during the month under review. 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

Similar to the previous month, most short-term interest rates remained unchanged between February and March 2021. The Central Bank of Lesotho’s Monetary Policy Committee (MPC), in its sitting of the 30th March 2021, left the CBL policy rate unchanged at 3.50 per cent. However, the 91-day T-Bill rate (and hence the Lombard rate<sup>1</sup>) declined from 3.32 per cent in February 2021 to 3.25 per cent in March 2021.

## Foreign Exchange

The rand hence the loti displayed a mixed performance in March 2021, following a strong performance in February 2021. Generally, it depreciated by 1.5 per cent to the average of 14.98 against the dollar, 1.4 per cent to the average of 20.75 against the pound, while it appreciated by 0.2 per cent to the average of 17.83 against the euro. The rand reacted negatively to rising bond yields in the advanced economies, due to high inflation expectations. There was market rotation from relatively risky assets in favour of less risky assets in the advanced economies. The euro was under pressure from the resurgence of COVID-19 infections, hence its weakness against the rand.

<sup>1</sup> Lombard rate refers to a 91-day Treasury bill discount rate plus 400 basis points; hence, it changes with fluctuations in 91-day T-bill rate.

## IV. GOVERNMENT BUDGETARY OPERATIONS

### Total Expenditure<sup>2</sup>

Government total spending decreased by 30.3 per cent in March 2021, after a significant increase of 54.5 per cent in February 2021. The fall was observed in expenses while on the contrary nonfinancial assets increased. All categories under expenses declined except for interest payments. In terms of year-to-date changes, the Government expenditure increased by 6.9 per cent in March 2021, relative to a decline of 18.5 per cent in March 2020.

### Outlays by Functions

The recurrent outlays to total outlays took a share of 88.6 percentage points. Education received the largest share, followed by social protection, while environmental protection received the least share.

### Total Revenue

The Government revenue surged by more than 100.0 per cent in the month under review, contrary to a decline of 81.3 per cent in the previous month. This was mainly on account of the rand monetary compensation plus domestic tax revenue. On the year-to-date changes, revenue rose by 15.8 per cent in March 2021 following an increase of 2.6 per cent in March 2020.

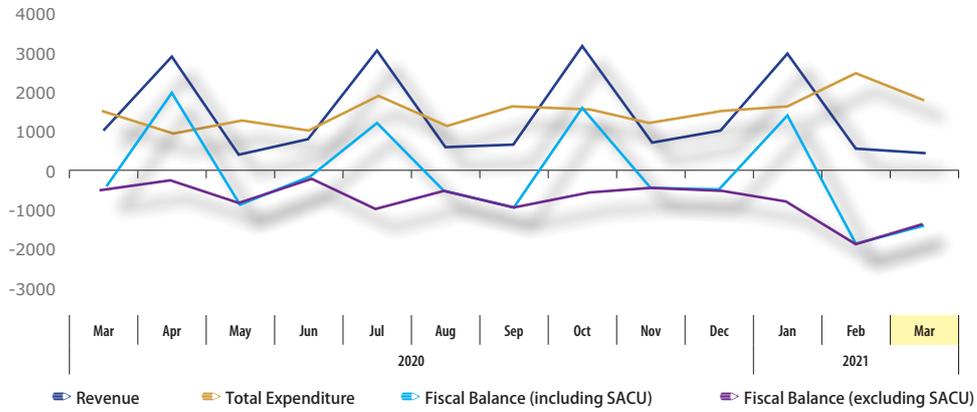
### Fiscal Balance and Financing

The fiscal budget was estimated to have registered a budget deficit of equivalent to 7.1 per cent of GDP during the review month, following a revised budget deficit of 25.7 per cent of GDP in the previous month. This fiscal deficit was financed by a drawdown of Government deposits in the banking system.

<sup>2</sup> The year-to-date refers to an accumulation within a fiscal year, starting from April.

<sup>3</sup> GDP represents gross domestic product.

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



Source: CBL and Ministry of Finance (MOF)

**Table 2: Cross Classification of Expenditure by Function 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		12.4%	22.1%	6.6%	42.0%	0.0%	92.7%	35.4%	19.6%
Defense		7.3%	8.4%	0.0%	0.0%	0.0%	0.0%	2.5%	5.1%
Public Order and Safety		16.4%	10.0%	0.0%	5.9%	0.0%	0.0%	12.3%	11.0%
Economic Affairs		7.2%	16.2%	0.0%	5.7%	6.0%	6.1%	34.5%	12.8%
Environmental Protection		0.1%	0.3%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
Housing and Community Amenities		0.7%	0.6%	0.0%	0.0%	0.0%	0.0%	9.6%	1.9%
Health		6.4%	33.7%	82.5%	0.0%	2.1%	0.0%	0.3%	14.0%
Recreation, Culture, and Religion		0.8%	5.5%	0.0%	3.7%	0.0%	0.0%	2.2%	2.2%
Education		31.0%	2.2%	10.9%	42.6%	0.0%	0.0%	3.1%	16.9%
Social Protection		17.7%	1.0%	0.0%	0.0%	91.9%	1.3%	0.1%	16.4%
<b>Share per Economic Item</b>		<b>38.9%</b>	<b>23.1%</b>	<b>4.2%</b>	<b>8.1%</b>	<b>10.1%</b>	<b>0.8%</b>	<b>14.9%</b>	<b>100.0%</b>

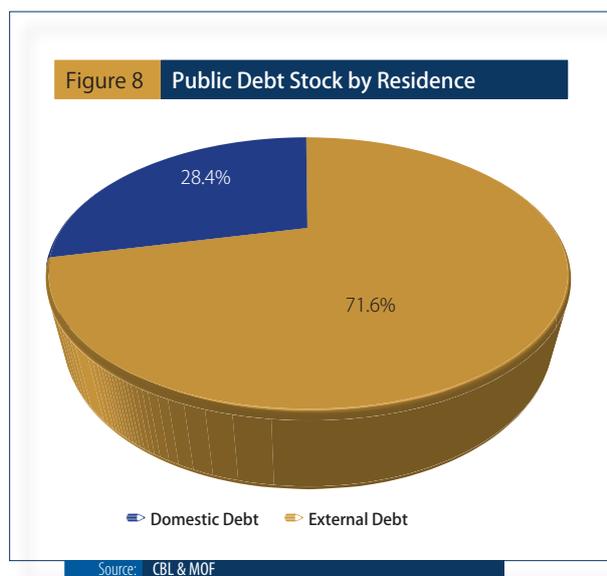
Source: CBL and MOF<sup>4</sup>

<sup>4</sup> MOF refers to Ministry of Finance.

## V. PUBLIC DEBT

The public debt stock was estimated at 62.8 per cent of GDP in March 2021, compared with a revised 63.7 per cent of GDP in February 2021. The monthly changes of 1.5 per cent was due to amortisation and the exchange rate effect. On year-on-year basis,

public debt stock declined by 1.3 per cent in March 2021 relative to a rise of 19.5 per cent in March 2020. The share of domestic debt to total debt increased from 21.5 per cent to 28.4 per cent mainly driven by issuance of Treasury bonds.



## Appendix: Key Economic Indicators

		20-Oct	20-Nov	20-Dec	21-Jan	21-Feb	21-Mar	
Economic Activity (MIEA (% change, M/M))		-1.1	0.9	5.5	-3.6	-3.6	-1.5	
Consumer price Index (% change)	Headline Inflation (year-on-year)	5.6	5.6	5.7	5.4	5.6	6.5	
	Core Inflation	4.9	4.8	4.6	4.3	4.2	5.1	
Exchange Rates (Monthly End Period)	EUR	19.00	18.38	18.06	15.05	18.08	17.31	
	GBP	21.07	20.44	20.07	20.67	20.81	20.32	
	USD	16.24	15.34	14.69	18.28	14.93	14.76	
Money Supply (Millions of Maloti)	M2	13,700.84	13,473.79	14,282.90	13,811.68	14,125.57	14,098.67	
	M1	6,255.99	6,370.50	6,950.30	6,603.45	6,717.11	6,862.16	
	Quasi Money	7,444.85	7,103.29	7,103.29	7,208.23	7,408.45	7,236.52	
Interest Rates	CBL Rate	3.50	3.50	3.50	3.50	3.50	3.50	
	91 day Treasury bill rate	3.35	3.26	3.20	3.20	3.32	3.25	
	Prime lending rate	8.19	8.19	8.19	8.19	8.19	8.19	
	1 year deposit rate	3.79	3.79	3.79	3.27	3.53	3.53	
Private sector Credit (Millions of Maloti)		7,356.12	7,411.95	7,410.42	7,397.41	7,350.61	7,403.74	
	Households	5,319.51	5,375.24	5,394.98	5,363.47	5,335.20	5,365.92	
	Business Enterprises	2,036.61	2,036.70	2,015.45	2,033.94	2,015.41	2,037.82	
Bank Deposit Liabilities (Millions of Maloti)		14,448.27	14,244.97	14,732.28	14,705.08	15,113.90	14,429.00	
Credit to Deposit Ratio (%)		51.10	52.20	50.68	50.48	48.77	51.50	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	1,620.76	-502.09	-512.51	1,414.47	-1,933.91	-533.74	
	Total Revenue	3,201.63	707.27	1,004.47	3,034.13	568.20	1,210.32	
	Total Expenditure	1,580.87	1,209.36	1,516.97	1,619.65	2,502.11	1,744.06	
	O/W Capital	175.58	82.90	183.41	185.91	260.61	324.41	
Total Public Debt (Millions of Maloti)		20,675.44	19,848.33	19,391.98	19,880.94	19,375.34	19,093.49	
	Total External Debt	14,837.10	14,081.86	13,631.19	14,072.54	14,009.29	13,665.43	
	External Debt	Concessional	11,656.85	10,990.41	10,595.67	10,954.88	10,880.09	10,647.14
		Non-concessional	3,180.25	3,091.45	3,035.52	3,117.66	3,129.20	3,018.29
	Domestic Debt		5,838.35	5,766.47	5,760.79	5,808.41	5,366.05	5,428.06
Memo Item: Arrears (Millions of Maloti)		201.82	164.58	151.78	216.76	155.17	99.70	

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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