



Monthly ECONOMIC REVIEW

CENTRAL BANK OF LESOTHO

September 2021

I. ECONOMIC ACTIVITY

General economic activity remained weak in September 2021. The poor performance was mainly underpinned by the production side, and to a lesser extent the demand side.

Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) index continued to decline in September 2021. In particular, the index contracted albeit at a slower pace of 1.0 per cent in September compared to the 2.2 per cent decline in the previous month. Both demand and production drove the decline in overall activity. The financial subsector also contributed negatively to the economy while the transport and construction subsectors remained resolute.

Domestic Demand Category

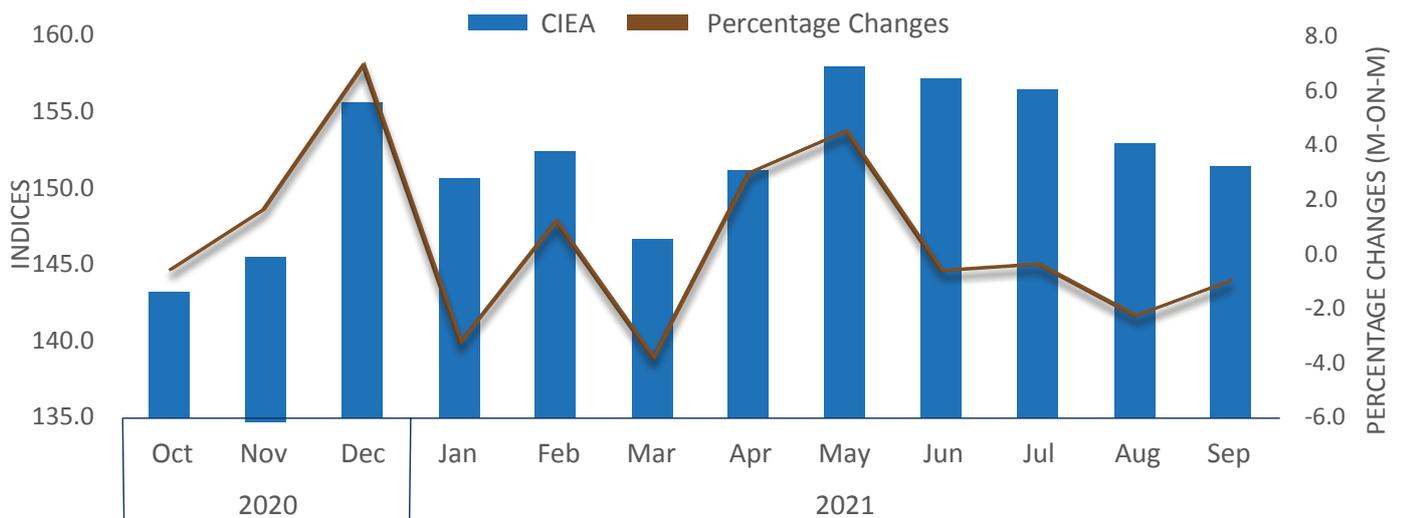
Following a slight improvement in the domestic demand index in August, the gains were lost in September. The index contracted by 0.6 per cent in review month, in contrast to a 0.2 per cent growth in August.

The major contributions to the decline emanated from compensation of employees by the government. This was, however, moderated by a marginal positive contribution from government purchases of goods and services, imports of goods and services, as well as, tax collections.

Manufacturing and Production Category

The manufacturing and production index continued to decline in September 2021, though at a slower rate, relative to the preceding month. The index contracted by 5.1 per cent in the review month, in comparison to the 5.4 per cent negative growth in August. The poor performance was attributable to negative contributions from clothing and textiles exports and use of water for production purposes, but was moderated by electricity consumption 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	2021							
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
CIEA	152.4	146.6	151.1	158.0	157.0	156.4	152.9	151.4
Monthly changes	1.2	-3.8	3.0	4.6	-0.6	-0.4	-2.2	-1.0
Domestic Demand Category	154.1	142.8	142.9	149.0	141.7	141.2	141.4	140.5
Monthly changes	0.6	-7.3	0.0	4.3	-4.9	-0.4	0.2	-0.6
Manufacturing & Production Category	108.2	101.9	105.5	111.2	119.8	113.6	107.4	101.9
Monthly changes	-0.7	-5.9	3.6	5.4	7.7	-5.2	-5.4	-5.1

II. INFLATION AND PRICES

Headline Inflation

The headline inflation rate accelerated from 5.2 per cent in August to 5.4 per cent in September 2021. The 0.2 percentage points increase in the headline inflation mainly emanated from Housing, Water, Electricity, Gas & Other Fuels, Clothing & Footwear and Alcohol & Tobacco components

Nonetheless, Food & Non-Alcoholic Beverages, Transport, Recreation and Culture and Miscellaneous goods & services moderated the disinflation during the review period.

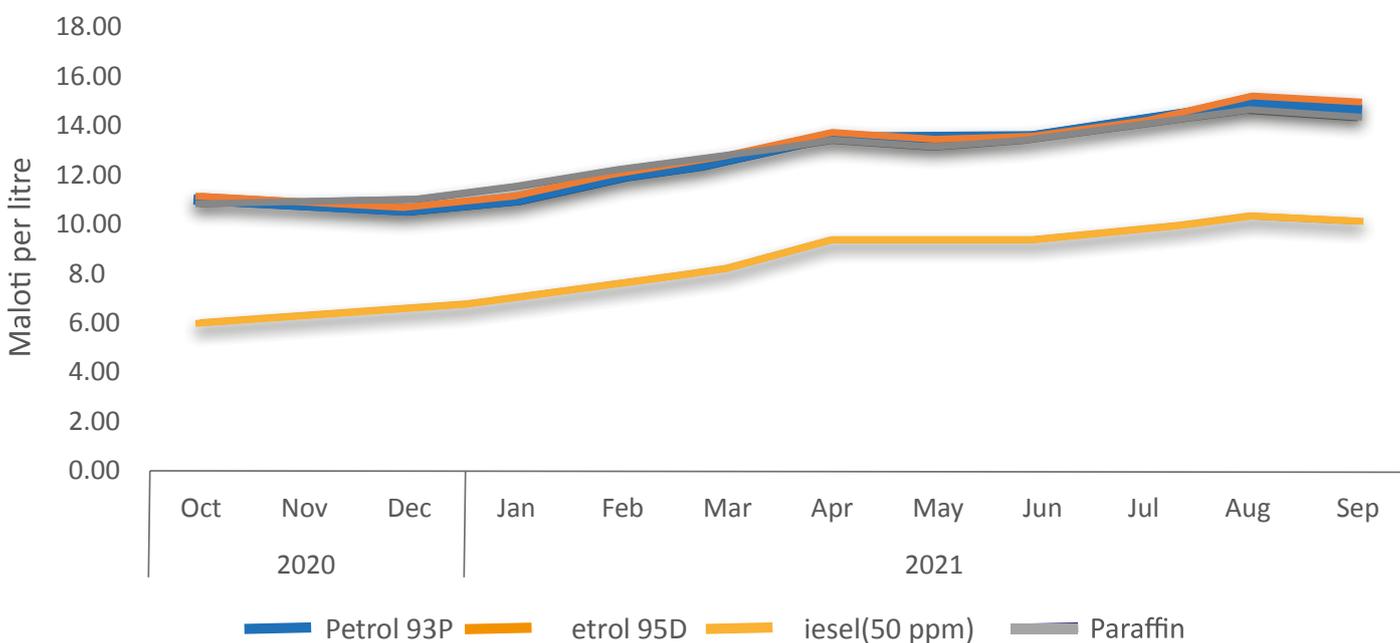
The major determinant for the headline acceleration was the rise in international crude oil price, which was moderated by the exchange rate appreciation during the review period.

Food prices from both the international and regional markets also moderated the rise in inflation during the same period. At the regional level, food prices fell mainly at the back of above average production in the 2020/2021 harvest season, as well as, the well-supplied markets in the food import-dependent neighbours of South Africa, such as Lesotho.

Core Inflation

The core inflation rate also rose marginally from 3.6 per cent in August 2021 to 3.7 per cent in September 2021.

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



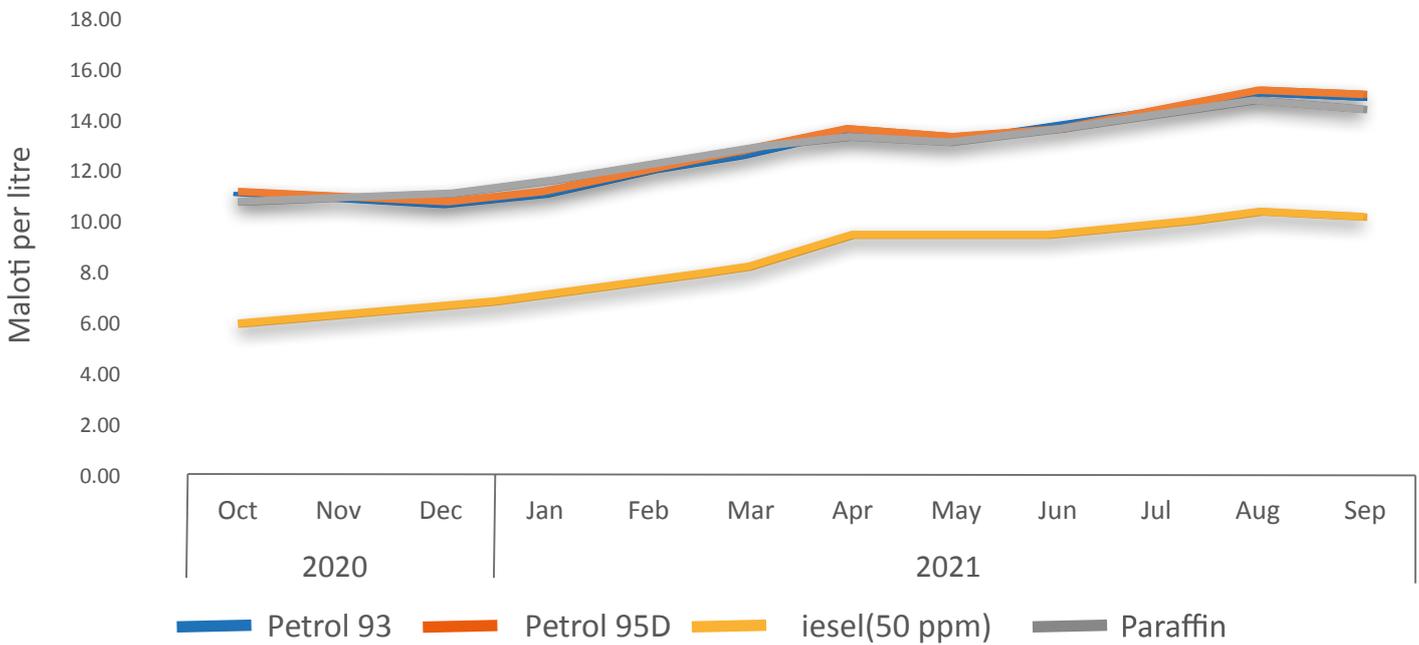
Source Lesotho Bureau of Statistics & CBL Computations

Domestic Fuel Prices

The prices for all domestic petroleum fuel components declined during the review period. Both pump prices petrol grades (petrol₉₃ and petrol₉₅) decreased by M0.20 per litre. They were sold at M14.90 per litre and

M15.05 per litre, respectively, at the pump. The price of diesel₅₀ also decreased by M0.30 per litre and was sold at M14.45 per litre at the pump. The retail price of illuminating paraffin declined by M0.50 per litre and was sold at M10.20 per litre during the review period.

Figure 3 Domestic Fuel Prices)



Source Petroleum Fund

III. MONETARY AND FINANCIAL INDICATORS

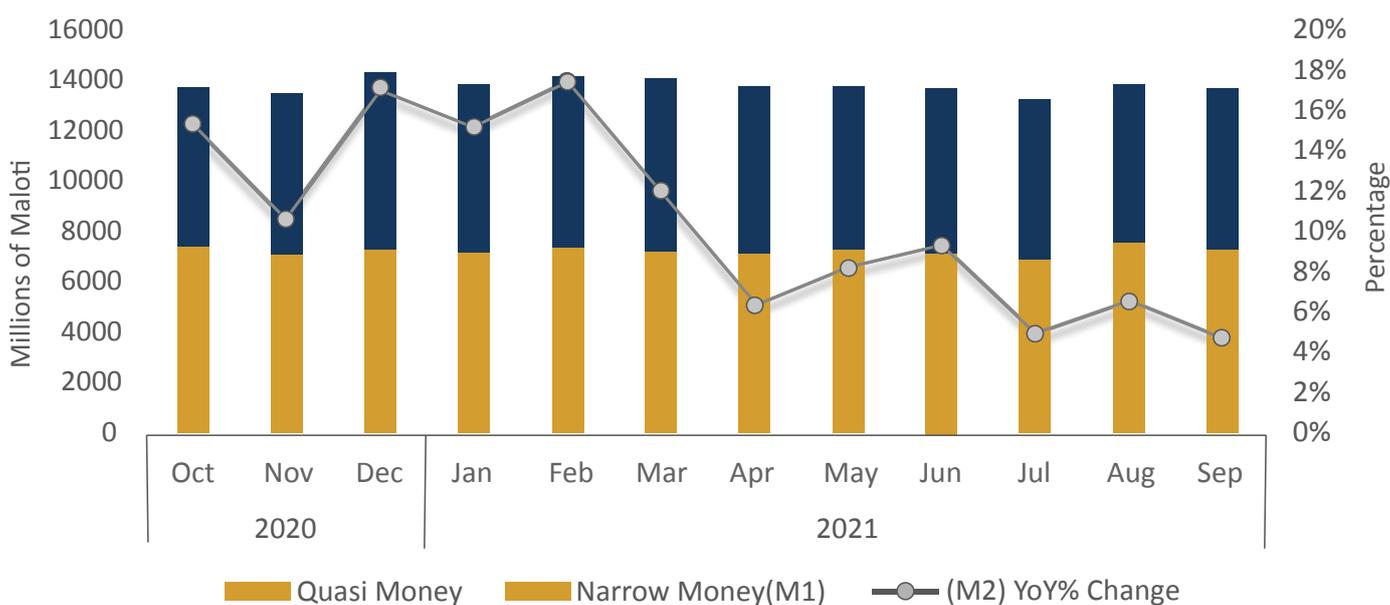
Broad Money (M2)

The broad measure of money supply (M2) contracted by 1.59 per cent in September 2021, following a growth of 4.71 per cent in August 2021. The contraction came on the back of a fall in both the Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of 2.2 per cent and 4.7 per cent, respectively. The observed decline in NFA resulted from a decline in commercial banks' NFA, while the central bank's NFA moderated the decline. With regards to NDA developments, the major reasons for the contraction were a drawdown of government deposits at the Central, as well as, a significant growth in private sector credit during the review period.

Components of Money Supply

Considering the components of broad money, the contraction in quasi money contributed to the fall in M2 while narrow money (M1) moderated the decline. In particular, the contraction in quasi money came as a result of large call deposits withdrawals by business enterprises and public non-financial institutions during the month under review.

Figure 4 Broad Money Growth



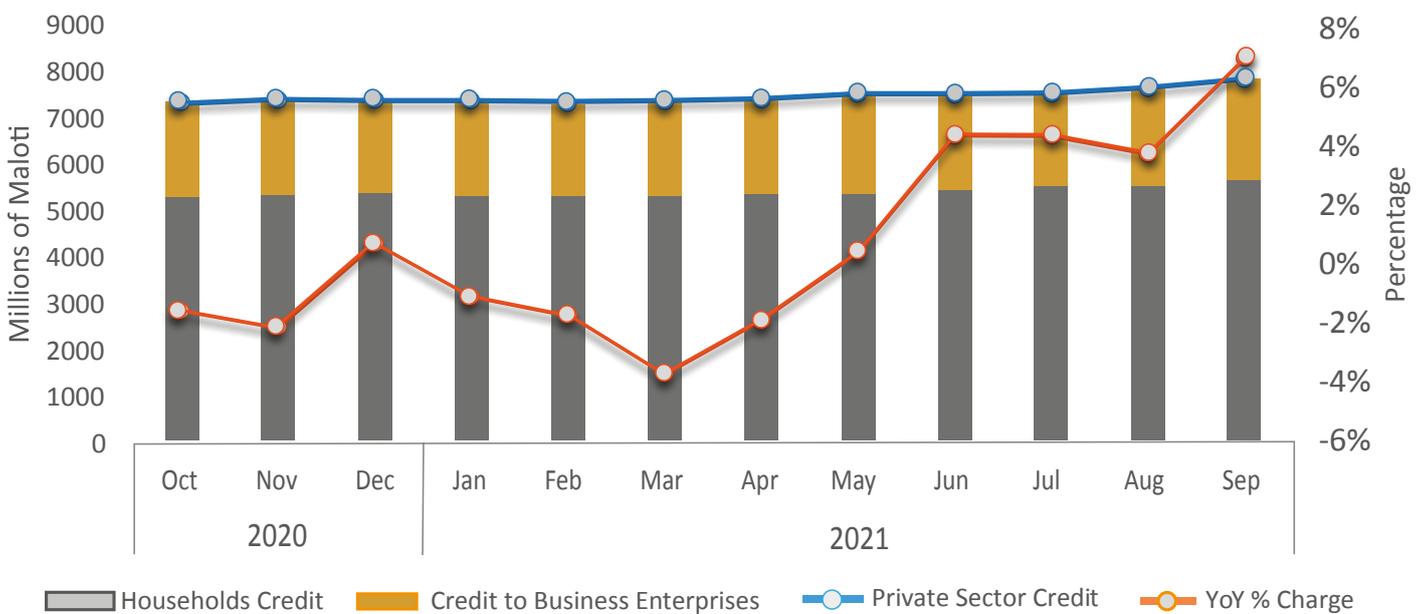
Source Central Bank of Lesotho

Private Sector Credit

Total credit extended to the private sector accelerated by 2.67 in September 2021, following a growth of 1.51 per cent observed in the previous month. The recovery of households' credit boosted the overall credit extended to the private sector during the review period. Total loans and advances extended to the households' sector improved by 2.44 per cent in September, from a moderate contraction of 0.04 per cent in August as both personal loans and mortgages grew by 3.12 per cent and 0.36 per cent, respectively.

Similarly, demand for business loans increased, during the month under review, as credit extended to business enterprises rose by 3.27 per cent. Notable increase in credit to business enterprises was observed on mining & quarrying, Agriculture and Manufacturing sectors, with monthly growths of 26.1 per cent, 16.5 per cent and 17.6 per cent, respectively. Compared with a year ago, private sector credit grew by 7.0 per cent in September.

Figure 5 Private Sector Credit



Source Central Bank of Lesotho

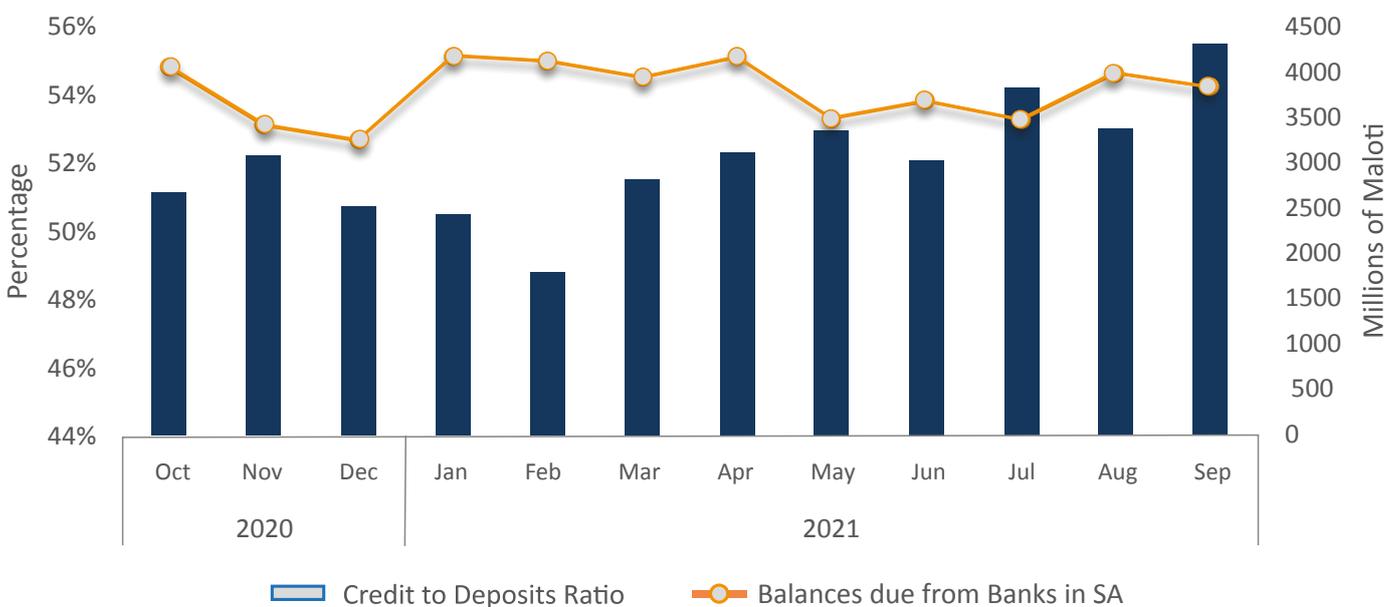
Non-Performing Loans

The aggregate non-performing loans (NPLs) as a fraction of total loans granted by commercial banks fell by 0.1 percentage points to 4.6 per cent in September 2021, following a decline of the same margin in the preceding month. The decline in NPLs during the month under review came as a result of a fall in NPLs arising from households' mortgages and personal loans. On the contrary, NPLs from business enterprises remained unchanged. The NPLs of business enterprises continued to be dominated by the construction and real estate sectors.

Sources of Funds

The ratio of commercial banks' loans to deposit ratio improved notably from 52.9 per cent recorded in August 2021 to 55.5 per cent in September 2021. The improvement was a result of a significant demand for credit from both households and businesses, coupled with large withdrawals of deposits held by business enterprises.

Figure 6 Credit to Deposit Ratio



Source Central Bank of Lesotho

Interest Rates

The money market rates remained at historic lows during the review month. The monetary policy committee of the Central Bank of Lesotho, in its sitting of November 23, 2021, left the policy rate unchanged at 3.5 per cent. As a result, majority of short-term interest rates remained unchanged as well. The prime lending rate and the one-year deposit rates stayed at 8.19 per cent and 3.53 per cent, respectively. However, the 91-day T-Bill rate declined from 3.52 per cent to 3.45 per cent between August and September 2021.

Foreign Exchange

The rand, hence, the loti strengthened against the major global trading currencies in September 2021, a slight improvement from a decline in the previous

month. In particular, the rand appreciated by; 0.2 per cent to the average of 14.57 against the US dollar, 0.2 per cent to the average of 20.01 against the pound and 0.1 per cent to the average of 17.14 against the euro. Easing of lockdown restrictions and positive progress in the vaccination programmes in South Africa boosted the market confidence, hence the value of rand. The rand was further supported by trade during the month under review. International developments also played a role in strengthened rand, including improvement in the risk appetite, and search for yield. The yields in the major advanced economies were generally low, in line with lower policy rates. However, the rand was volatile due to power shortages in South Africa, challenges in the real estate markets in China, escalating inflation risks globally, as well as, fears of global recovery slowdown and tapering talks in the advanced economies among others.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure¹

Government total expenditure was estimated to have decreased by 33.0 per cent in September 2021, whereas in August 2021 it declined by 10.5 per cent. The major drivers for the fall were use of goods and services, subsidies to nonfinancial corporations, current grants to extra-budgetary units, current grants to local governments, as well as, students' grants. Annually, total expenditure fell by 28.0 per cent in September 2021, contrary to an increase of 15.0 per cent in September 2020.

Outlays by Functions

The share of the development outlays to total outlays increased to 7.7 per cent during the month under review from 7.2 per cent in the previous month. Responsible functions for the increase were public order and safety, as well as, housing & community amenities functions.

Total Revenue²

The Government revenue declined by 10.8 per cent in the current month following a decline of 65.3 per cent in the previous month. All components of revenue declined, with tax revenue being hit the hardest. In particular, personal income tax fell by 54.8 per cent while withholding tax fell by 97.1 per cent. On year-on-year basis, the total revenue increased by 8.0 per cent in September 2021 compared to a fall of 27.4 per cent in September 2020.

Fiscal Balance and Financing³

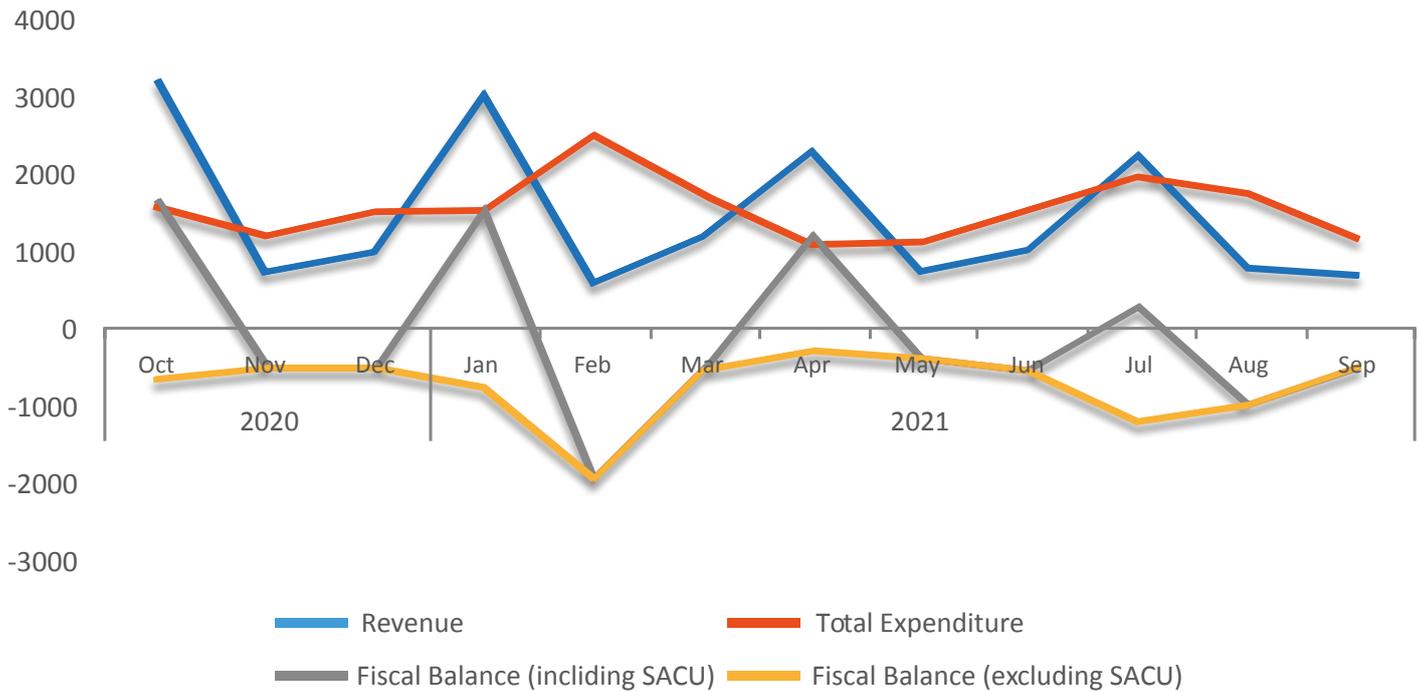
The fiscal operations resulted in a decrease in domestic assets, reflecting a drawdown of Government deposits. The liabilities, conversely, increased as a result of accumulation of domestic other accounts payable, issuance of Treasury bonds and acquisition of new external debt.

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 CBL and Ministry of Finance (MOF)

Table 2 Cross-Classification of Government Outlays (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	9.6%	26.6%	0.0%	30.8%	0.0%	31.5%	35.6%	15.9%
Defense	7.7%	5.2%	0.0%	0.0%	0.0%	0.0%	0.9%	5.5%
Public Order and Safety	15.4%	9.1%	0.0%	0.0%	0.0%	16.8%	22.7%	13.1%
Economic Affairs	7.8%	7.3%	16.6%	43.8%	0.0%	19.1%	27.1%	9.8%
Environmental Protection	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
Housing and Community Amenities	0.8%	0.5%	0.0%	0.0%	27.2%	0.0%	11.0%	4.1%
Health	7.2%	47.4%	0.0%	0.0%	0.0%	0.0%	2.6%	15.2%
Recreation, Culture, and Religion	0.9%	0.5%	0.0%	25.3%	0.0%	0.0%	0.0%	1.0%
Education	30.7%	1.5%	83.4%	0.0%	0.0%	0.0%	0.1%	17.7%
Social Protection	19.8%	1.8%	0.0%	0.0%	72.8%	32.6%	0.0%	17.6%
Share per Economic Item	54.8%	23.1%	0.6%	1.6%	8.7%	0.1%	11.1%	100.0%

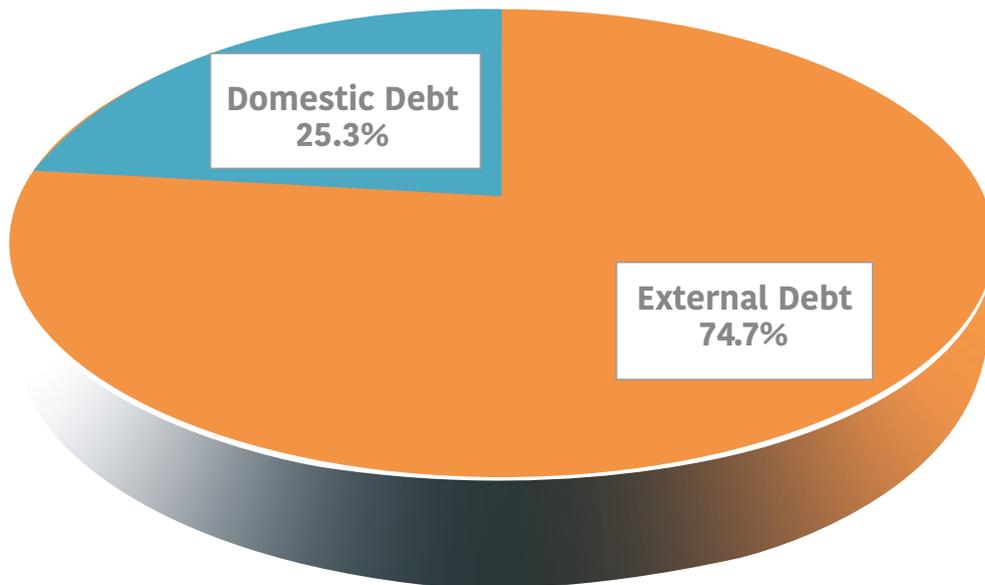
Source CBL and MOF

V. PUBLIC DEBT

The public debt stock was estimated at 59.5 per cent of GDP in September 2021, following the revised 58.2 per cent of GDP in August 2021. This represented an increase of 2.3 per cent, which was mainly due to external debt disbursements under active loans from

multilateral creditors. Measured year-on-year, the public debt stock fell by 7.6 per cent relative to a rise of 21.2 per cent in September 2020.

Figure 8 Public Debt Stock by Residence



Source CBL and MOF

Appendix: KEY ECONOMIC INDICATORS		21-Apr	21-May	21-Jun	21-Jul	21-Aug	21-Sep
Economic Activity (MIEA (% change, M/M))		-3.8	-4.6	0.6	-0.4	-2.2	-1.0
Consumer price Index (% change)	Headline Inflation (year-on-year)	6.7	6.9	6.0	5.5	5.2	5.4
	Core Inflation	5.5	5.0	4.2	3.9	3.6	3.7
Exchange Rates (Monthly End Period)	EUR	17.36	16.79	16.97	17.32	17.26	17.53
	GBP	19.95	19.51	19.77	20.34	20.09	20.38
	USD	14.37	13.76	14.28	14.58	14.60	15.12
Money Supply (Millions of Maloti)	M2	14,125.57	14,098.67	13,731.05	13,722.26	13,636.94	13,624.50
	M1	6,717.11	6,862.16	6,532.57	6,453.22	6,458.09	6,289.92
	Quasi Money	7,408.45	7,236.52	7,198.49	7,269.04	7,178.85	7,334.58
Interest Rates	CBL Rate	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
	Prime lending rate	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
Private sector Credit (Millions of Maloti)	Private sector Credit (Millions of Maloti)	7,350.61	7,403.74	7,435.59	7,552.91	7,535.35	7,888.82
	Households	5,365.92	5,402.70	5,365.92	5,413.48	5,492.47	5,697.47
	Business Enterprises	2,037.82	2,032.89	2,037.82	2,139.43	2,042.89	2,191.35
Bank Deposit Liabilities (Millions of Maloti)	Bank Deposit Liabilities (Millions of Maloti)	15,113.90	14,429.00	14,244.98	14,291.53	14,466.44	14,234.28
Credit to Deposit Ratio (%)	Credit to Deposit Ratio (%)	48.77	51.5	52.3	52.9	52.06	55.5
Fiscal Operations (Millions of Maloti)	Fiscal Balance	1,223.53	-386.28	-511.28	294.93	-965.67	-483.57
	Total Revenue	2,316.84	729.88	1,033.61	2,267.60	785.95	700.86
	Total Expenditure	1,093.31	1,116.16	1,544.89	1,972.67	1,751.62	1,184.43
	O/W Capital	154.08	128.75	305.10	399.94	504.12	155.37
	Total Public Debt (Millions of Maloti)	Total Public Debt (Millions of Maloti)	17,910.39	17,549.26	18,118.92	18,407.56	18,383.51
External Debt	Total External Debt	13,400.80	13,087.00	13,448.50	13,736.60	13,712.60	14,051.20
	Concessional	10,374.90	10,104.30	10,441.90	10,548.20	10,524.60	10,876.00
	Non-concessional	3,025.90	2,982.70	3,006.60	3,188.40	3,188.00	3,175.20
Domestic Debt		4,509.59	4,462.26	4,670.42	4,670.96	4,670.91	4,750.37
Memo Item: Arrears (Millions of Maloti)		0.00	0.00	0.00	0.00	0.00	0.00

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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