



Monthly ECONOMIC REVIEW

June 2020

CENTRAL BANK OF LESOTHO

I. ECONOMIC ACTIVITY

Economic activity is estimated to have continued on a downward trajectory in June 2020. Both demand and production sides continued to depict contracting performances.

Overall Performance Index

As estimated by the monthly index of indicator of economic activity (MIEA), economic performance has contracted further by 3.0 per cent in June, after a 2.9 per cent decline in May 2020. The MIEA index has contracted for the sixth consecutive month. The six months have coincided with the world's struggle with the duration of COVID-19 pandemic which has necessitated restriction aimed at curbing the spread of the virus. Both domestic demand and production side continued to contract, with twelve out of a total fourteen variables all contributing negatively to the index in the review month.

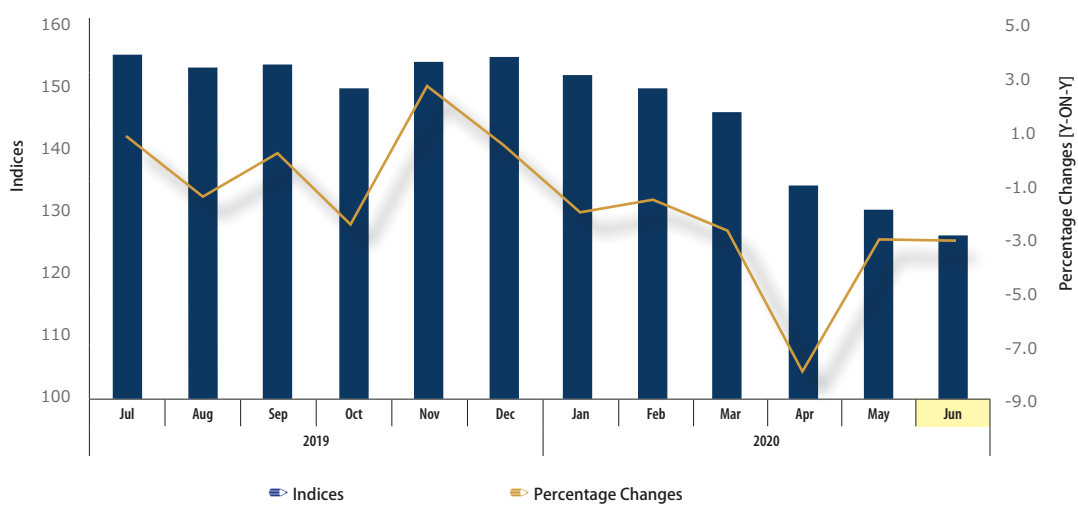
Domestic Demand Category

The index for domestic demand contracted by 1.3 per cent in June 2020, following the 1.4 per cent contraction in the previous month. Government of Lesotho (GoL) purchase of goods and services, compensation of employees, VAT and personal income tax collections as well as imports from SA all contributed negatively to the index.

Manufacturing & Production Category

The production index contracted by 3.9 per cent in the review month compared with a significant decline of 16.3 per cent that was recorded in the preceding month. The use of utilities (water and electricity) for industrial production and textile exports to the US markets continued to be under pressure, all reflecting negative contributions to the index.

Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2019			2020				
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
MIEA	154.2	155.2	152.2	150.0	146.1	134.4	130.5	126.6
Monthly changes	2.8	0.6	-1.9	-1.5	-2.6	-8.0	-2.9	-3.0
Domestic Demand Category	156.7	153.4	146.5	140.1	131.4	129.9	128.1	126.4
Monthly changes	4.6	-2.1	-4.5	-4.3	-6.2	-1.2	-1.4	-1.3
Manufacturing & Production Category	118.7	120.9	125.3	125.2	118.2	101.9	85.3	82.0
Monthly changes	5.4	1.8	3.7	-0.1	-5.6	-13.8	-16.3	-3.9

Source: CBL Calculations

II. INFLATION AND PRICES

Headline Inflation

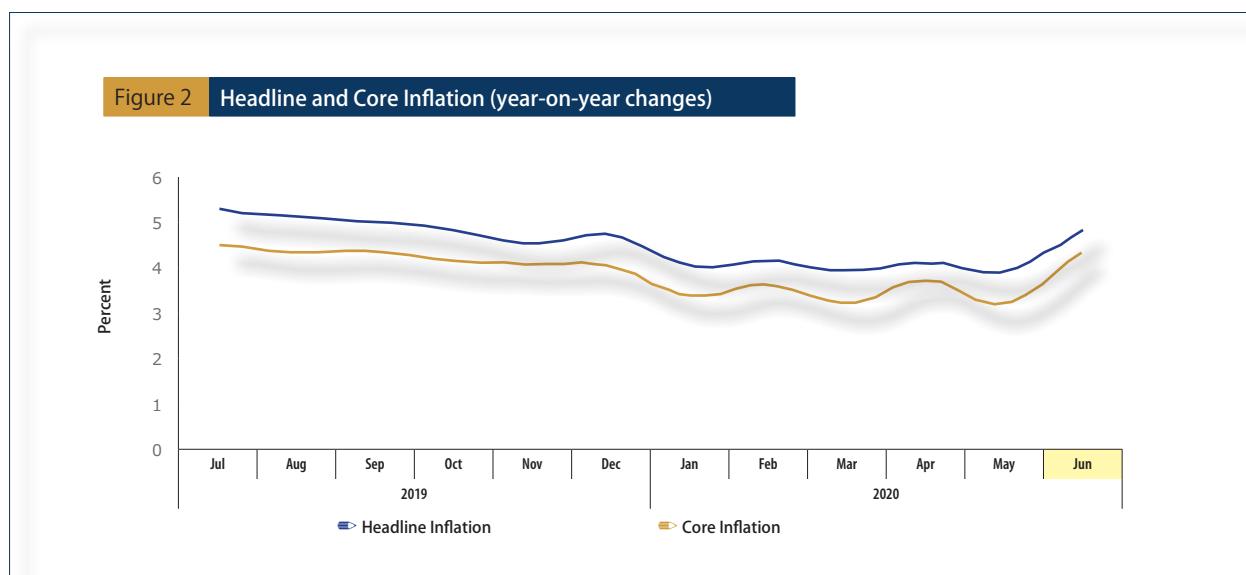
The headline inflation rate accelerated to 4.9 per cent, a 0.9 percentage points increase from 4.0 per cent estimated in May 2020. The major contributors to acceleration were Food & Non-Alcoholic beverages, Clothing & footwear as well as Transport. Nonetheless, Housing, electricity gas & other fuels component moderated the acceleration in inflation rate during the review period.

The main drivers of the inflation acceleration during the review period was food prices. This was mainly driven by an uptick in consumer demand as the

effects of pandemic-related lockdown measures took hold and consumers sought to purchase in bulk in preparation of the movement restrictions. Nonetheless, the significant fall in international crude oil price moderated the effect of rising food prices, albeit at a slower pace relative to May 2020, during the review period.

Core Inflation

The core inflation, which excludes the CPI items with extreme price changes, also accelerated from 3.3 per cent in May 2020 to 4.4 per cent in June 2020.

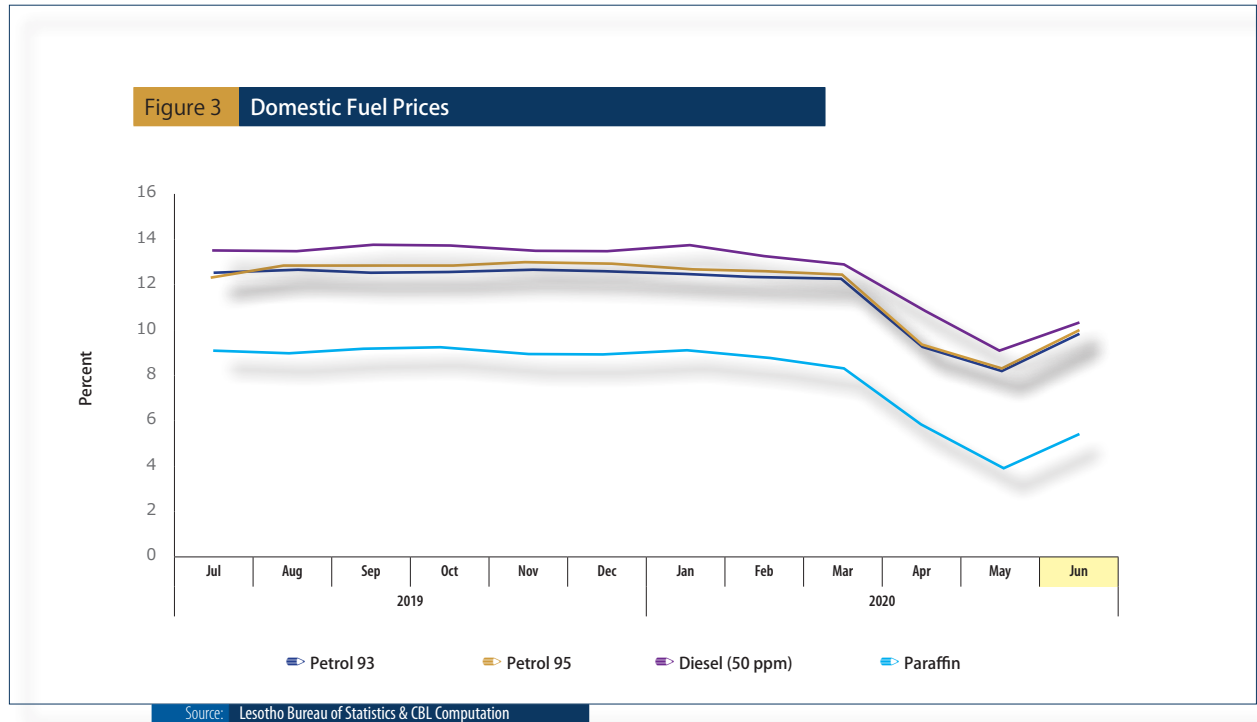


Source: Lesotho Bureau of Statistics & CBL Computation

Domestic Fuel Prices

All the fuel components' prices increased in June 2020 from their levels in the preceding period. Both pump prices of petrol grades (petrol93 and petrol95) increased by M1.65 per litre and M1.80

per litre to reach M9.85 per litre and M10.10 per litre, respectively. The price of diesel50 also increased by M1.30 per litre to reach M10.440 per litre at the pump during the review period. The wholesale price of illuminating paraffin increased by M1.55 per litre to reach M5.45 per litre during the review period.



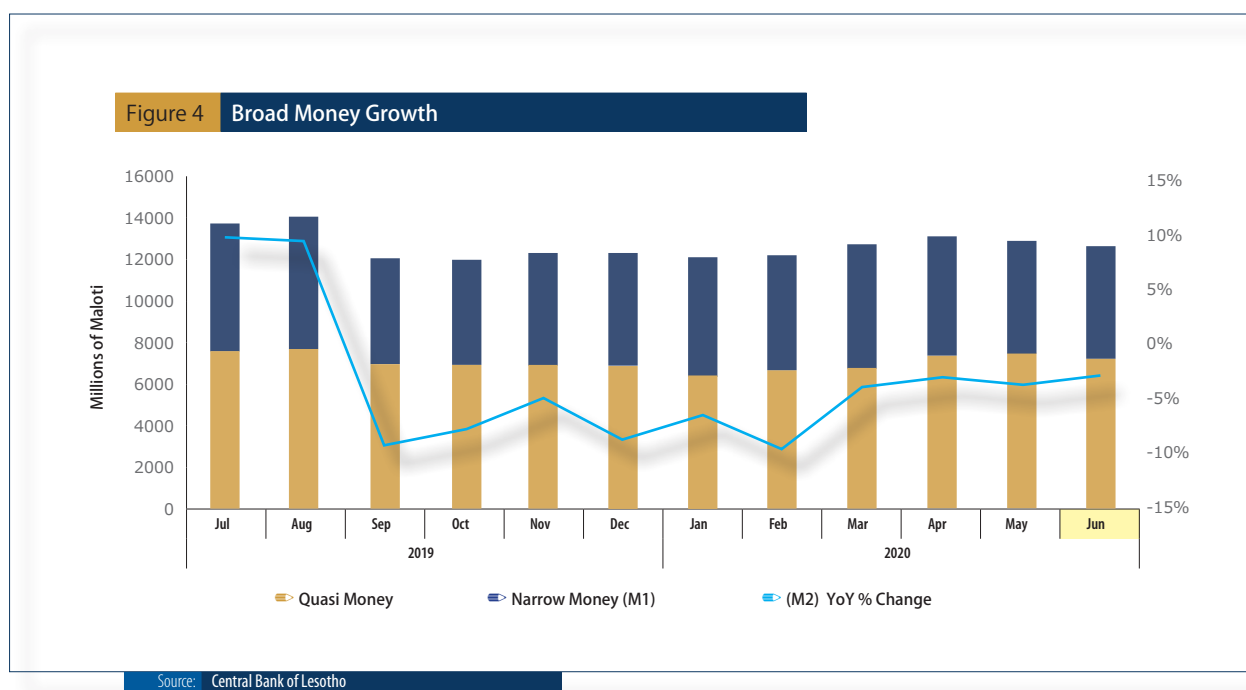
III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

Broad money supply (M2) decreased by 1.7 per cent in June 2020, following a decrease of 1.8 per cent in the previous month. The fall in M2 was due to a 14.9 per cent fall in net domestic assets (NDA) that was moderated by a growth in net foreign assets (NFA) of 2.7 per cent. The fall in NDA was mainly on account of a decline in private sector credit observed in June.

Components of Money Supply

In terms of components of money supply, narrow money (M1) and quasi money declined by 0.4 per cent and 2.6 per cent respectively during the month under review. The fall in narrow money was at the back of a decline in demand deposits held with commercial banks. On the other hand, the decline in quasi money was due to the decrease in other deposits held by business enterprises.

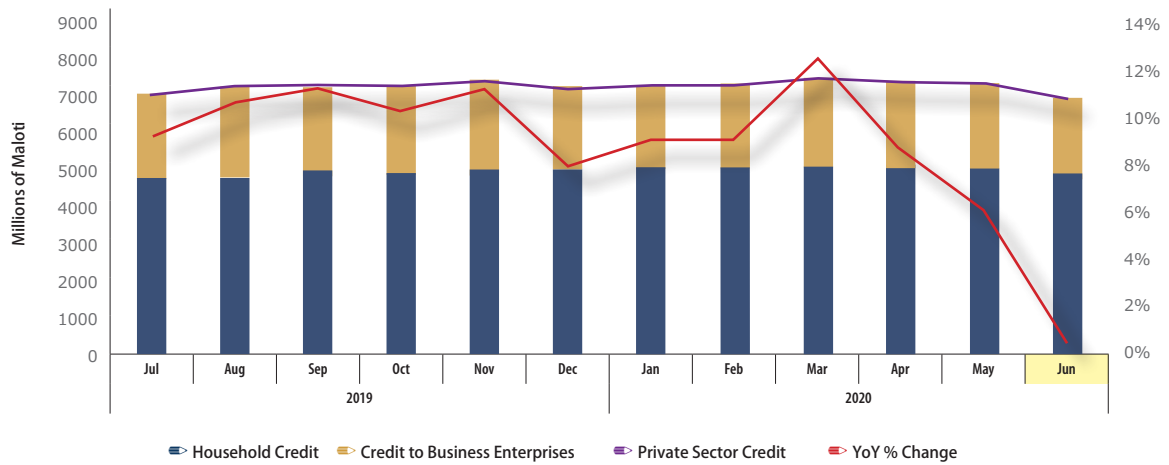


Private Sector Credit

Total credit extended to the private sector declined by 5.5 per cent during the month under review, compared to a decrease of 0.8 per cent in May 2020. This was on account of a fall in household credit as well as credit extended to business enterprises. On a year-on-year basis, private sector credit decreased by 0.2 per cent in the review period.

In terms of credit extended to households, it dropped by 2.8 per cent in June 2020 following a fall in personal loans while mortgage loans grew albeit moderately. Similarly, credit extended to business enterprises fell drastically by 11.5 per cent, compared to a relatively moderate decline of 1.8 per cent recorded in the previous month. The decline in business credit was mainly on account of a decline in credit extended to mining sector.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

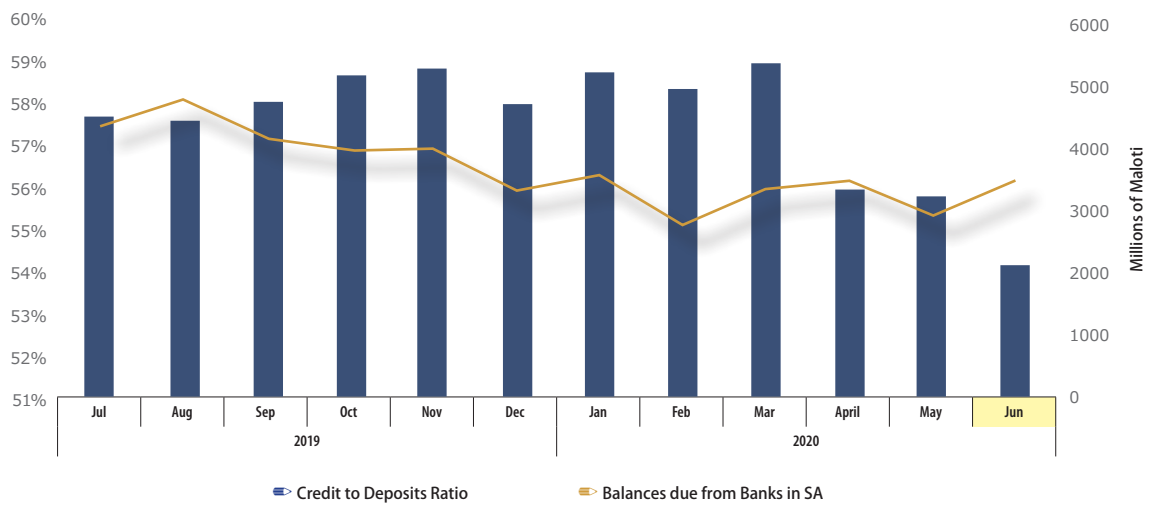
Non-Performing Loans

Total non-performing loans (NPLs) as a share of total loans granted by commercial banks grew slightly from 3.8 per cent to 4.2 per cent between May and June 2020. Similar to the previous month, the households related NPLs rose slightly in June and this was due to an increase in mortgage NPLs from 2.2 per cent to 2.5 per cent between May and June 2020. Furthermore, NPLs related to business enterprises increased from 3.5 per cent to 4.2 during the same time period.

Sources of Funds

The commercial banks' credit to deposit ratio declined from 55.8 per cent to 54.2 per between May and June 2020. This was at the back of a decline in credit extension especially to business enterprises by banks notwithstanding a fall in total deposits.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The Central Bank of Lesotho (CBL)'s policy rate remained unchanged at 3.75 per cent between May and June 2020. The 91-day T-Bill discount rate continued to decline from 3.86 per cent recorded in May to 3.70 per cent in June 2020. Furthermore, the prime lending rate declined from 8.56 per cent to 8.44 per cent. However, the one-year deposit rate remained unchanged at 3.58 per cent.

Rand Exchange rate June 2020

The rand hence the loti continued on a strengthening path against the major trading currencies in June 2020, extending gains from May 2020. Particularly, the rand appreciated by 5.7 per cent to the average of 17.11 against the US dollar, 3.98 per cent to the average of 21.44 against the pound, and by 2.6 per cent to the average of 19.26 against the euro. The value of rand was boosted by the search for yield and improving risk sentiment in the global markets. The effects of low interest rates in the advanced economies and excess liquidity created by quantitative easing, led to increased capital inflows in the emerging markets hence strengthening their currencies. In addition, the lifting of the lockdown in most countries raised hopes of speedy global recovery from covid-19 pandemic, improving market sentiments. The rand further benefited from strong metal prices in the global markets.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

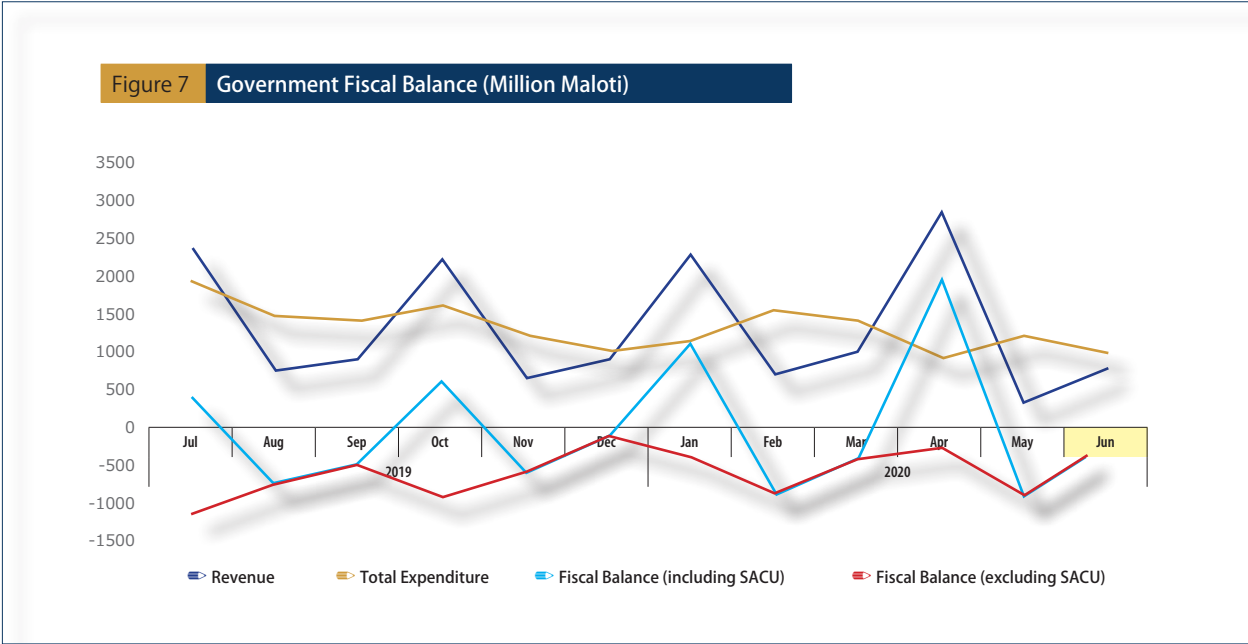
Government total expenditure declined by 17.7 per cent in June 2020 relative to a revised increase of 34.6 per cent in May 2020. The decline was due to expenses, with all but one component falling, while non-financial assets increased.

Total Revenue

Government revenue increased to M779.63 million from M327.83 million in June 2020, while in May 2020 it declined to M327.83 million from M644.74 million. The increase mostly came from income taxes, company tax, VAT and dividends.

Fiscal Balance and Financing

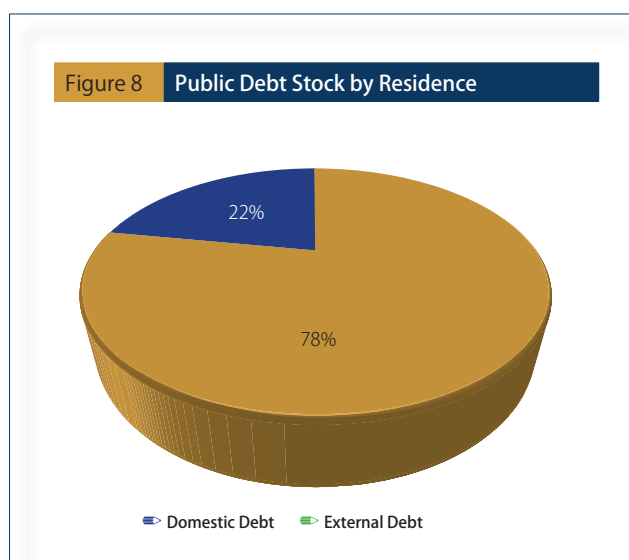
The increase in revenue failed to overcome the decline in expenditure and the result was a fiscal deficit of 2.6 per cent of GDP in the month relative to a revised deficit of 10.4 per cent of GDP in the previous month. The fiscal deficit was financed by new external debt and a drawdown of Government deposits in the banking system, evidenced by the fall in financial assets. Liabilities, however, increased not only because of the new debt but also due to a rise in other accounts payable that was mainly driven by unused funds in the bank accounts of the Government-owned projects and state-owned entities.



V. PUBLIC DEBT

The public debt stock remained constant at 56.1 per cent of GDP from the revised ratio in May to June 2020. Thus representing a marginal fall of 0.1 per cent in the month. External debt slightly declined

by 0.1 per cent mainly because of revaluations. While domestic debt remained constant, placing domestic debt at 22.0 per cent to total debt.



Appendix: Key Economic Indicators

		20-Jan	20-Feb	20-Mar	20-Apr	20-May	20-Jun	
Economic Activity MIEA (% change, Y/Y)		-1.9	-1.5	-2.6	-8.0	-2.9	-3.0	
Consumer price Index (% change)	Headline Inflation (year-on-year)	4.1	4.2	4.0	4.2	4.0	4.9	
	Core Inflation	3.5	3.7	3.3	3.8	3.8	4.4	
Exchange Rates (Monthly End Period)	EUR	16.00	17.12	19.57	19.74	19.43	19.47	
	GBP	18.84	20.06	22.12	22.71	21.57	21.33	
	USD	14.42	15.58	17.84	18.16	17.45	17.39	
Money Supply (Millions of Maloti)	M2	11,990.97	12,031.82	12,582.63	12,909.96	12,682.16	12,467.68	
	M1	4,884.31	5,310.62	5,774.30	5,622.80	5,236.58	5,216.40	
	Quasi Money	7,106.67	6,721.20	6,808.33	7,287.16	7,445.58	4,121.66	
Interest Rates	CBL Rate	6.25	6.25	4.25	4.25	3.75	3.75	
	91 day Treasury bill rate	6.17	6.15	6.11	5.04	3.86	3.70	
	Prime lending rate	11.19	11.00	10.19	9.19	8.56	8.44	
	1 year deposit rate	4.20	3.74	3.94	3.97	3.58	3.58	
Private sector Credit (Millions of Maloti)		7,371.33	7,480.37	7,695.44	7,582.96	7,522.51	7,191.51	
	Households	5,113.65	5,234.31	5,160.28	5,231.35	5,214.07	5,148.32	
	Business Enterprises	2,258.30	2,246.07	2,423.99	2,351.61	2,308.43	2,043.19	
Bank Deposit Liabilities (Millions of Maloti)		12,807.85	12,888.35	13,113.62	13,113.62	13,588.00	13,419.99	
Credit to Deposit Ratio (%)		58.77	58.04	59.00	55.99	55.80	54.20	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	1,157.36	-864.11	-415.97	1,984.72	-890.54	-223.13	
	Total Revenue	2,293.72	683.31	1,003.95	2,889.87	327.83	779.63	
	Total Expenditure	1,136.36	1,547.41	1,419.93	905.15	1,218.37	1,002.77	
	O/W Capital	236.64	255.00	546.53	82.95	62.22	151.86	
Total Public Debt (Millions of Maloti)		16,104.58	18,217.21	19,464.41	19,589.20	19,124.23	19,108.71	
	Total External Debt	12,664.56	14,296.68	15,172.30	15,353.30	14,918.81	14,905.35	
	External Debt	Concessional	10,159.82	11,722.62	12,463.45	12,624.05	12,222.14	12,195.72
		Non-concessional	2,504.74	2,574.06	2,708.84	2,729.24	2,696.42	2,709.63
	Domestic Debt	3,440.03	3,920.53	4,292.11	4,235.90	4,205.42	4,203.36	
Memo Item: Arrears (Millions of Maloti)		42.81	36.12	38.21	0.24	40.30	147.85	

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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