



Monthly ECONOMIC REVIEW

May 2020

CENTRAL BANK OF LESOTHO

I. ECONOMIC ACTIVITY

Economic activity continued to contract further in May 2020, albeit at a slower rate compared to April. The “covid-19” pandemic continued to affect activity adversely as lockdown continued into the review month. Easing of movement restrictions moderated the decline in activity though.

Overall Performance Index

Economic activity, as measured by the Monthly Indicator of Economic Activity (MIEA) index, contracted by 1.0 per cent in May 2020 after a 1.4 per cent decline recorded in the preceding month. The contraction in activity was a result of weak performance in both production and domestic demand sides.

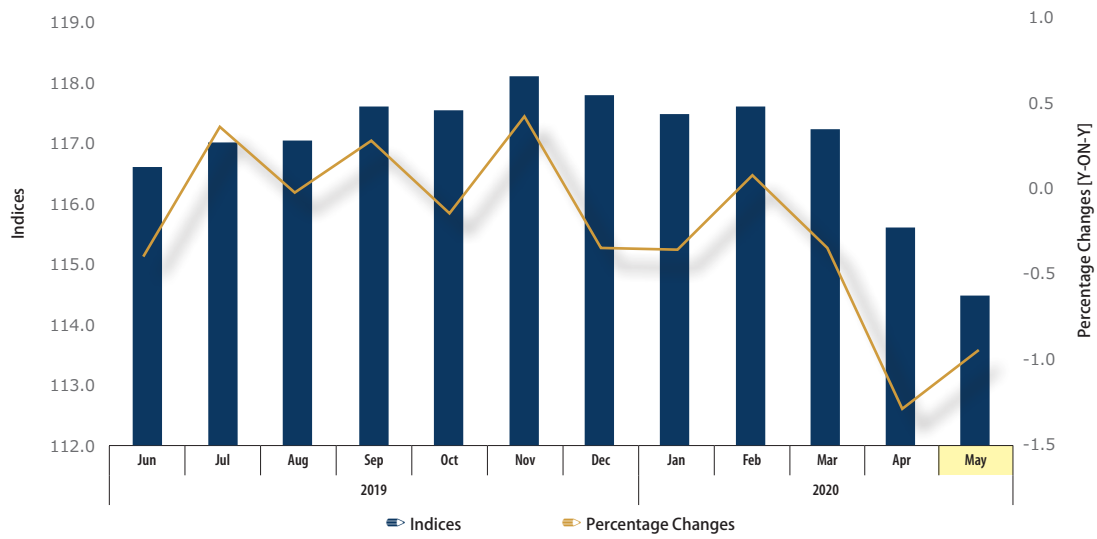
Domestic Demand Category

Demand continued to be subdued in May 2020. Domestic demand index showed a decline of 0.3 per cent in May 2020, compared to a 1.4 per cent recorded in April. The lockdown brought about by the “covid-19” pandemic continued to impact negatively on domestic demand for goods and services. However, improvement in government purchases and income taxes brought about the slight recovery in the index.

Manufacturing & Production Category

The production index continued to decline in the review month. The index declined by 1.8 per cent, after registering the same decline in the preceding month. The decline emanated from poor performances from utilities and demand for textile exports to the US, both affected mainly by the lockdown due to the “covid-19” pandemic.

Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2019			2020				
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
MIEA	117.5	118.1	117.8	117.4	117.6	117.2	115.6	114.5
Monthly changes	-0.1	0.5	-0.3	-0.3	0.2	-0.3	-1.4	-1.0
Domestic Demand Category	121.4	121.4	120.9	120.4	120.3	119.8	118.2	117.8
Monthly changes	-0.2	0.1	-0.4	-0.4	0.0	-0.5	-1.4	-0.3
Manufacturing & Production Category	108.1	109.1	108.3	108.5	109.2	108.6	106.6	104.7
Monthly changes	-0.4	0.9	-0.7	0.2	0.6	-0.5	-1.8	-1.8

Source: CBL Calculations

II. INFLATION AND PRICES

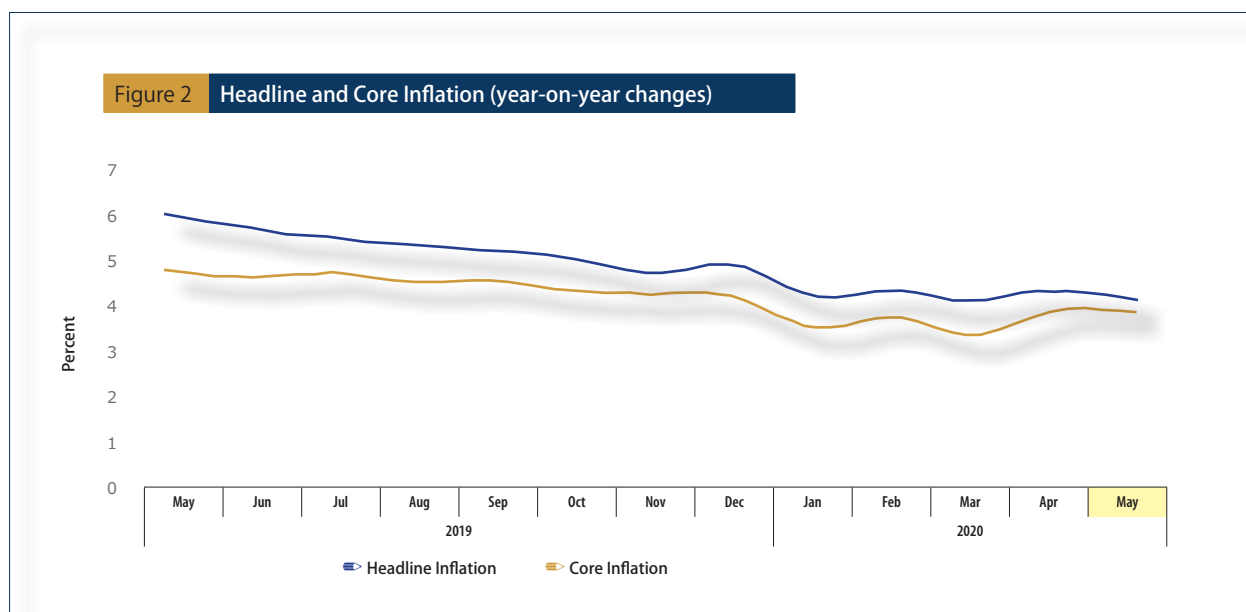
Headline Inflation

From 4.2 per cent estimated in April 2020, the headline inflation rate decelerated to 4.0 per cent in May 2020. The major contributors to the 0.2 percentage points' decrease were Housing, electricity gas & other fuels and Transport categories. Nonetheless, Food & Non-Alcoholic beverages component moderated the deceleration in inflation rate during the review period.

The main drivers of the disinflation during the review period was energy prices. This due to significant fall in international crude oil prices mainly triggered by low global demand as COVID-19 continued to have an effect. Nonetheless, this was moderated by the rise in food prices across all categories despite the fall in Maize prices during the review period.

Core Inflation

The core inflation, which excludes the CPI items with extreme price changes, remained constant at 3.8 per cent in May 2020 compared with the estimated figure in April 2020.

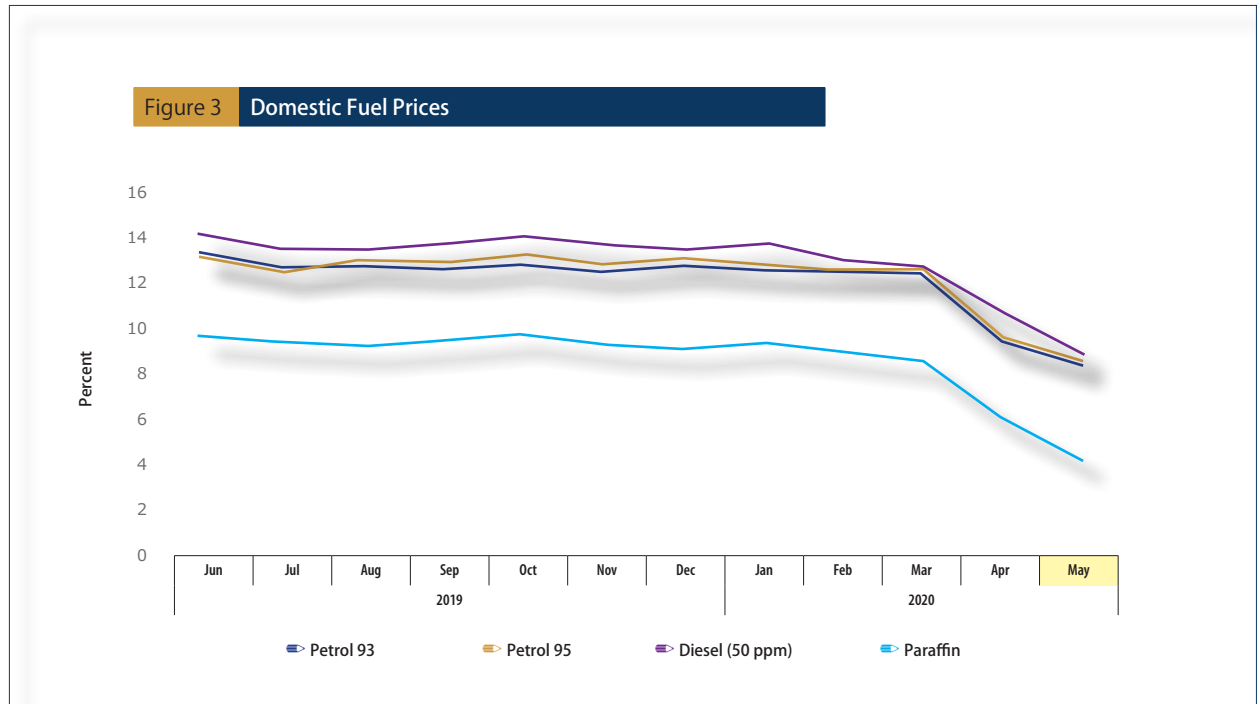


Source: Lesotho Bureau of Statistics & CBL Computation

Domestic Fuel Prices

All the fuel components' prices declined in May 2020 from their levels in the preceding period. Both pump prices of petrol grades (petrol93 and petrol95) decreased by M1.10 per litre to reach

M8.20 per litre and M8.30 per litre, respectively. The price of diesel50 also decreased by M1.80 per litre at the pump during the review period. The wholesale price of illuminating paraffin also fell by M1.95 per litre to reach M3.90 per litre during the review period.



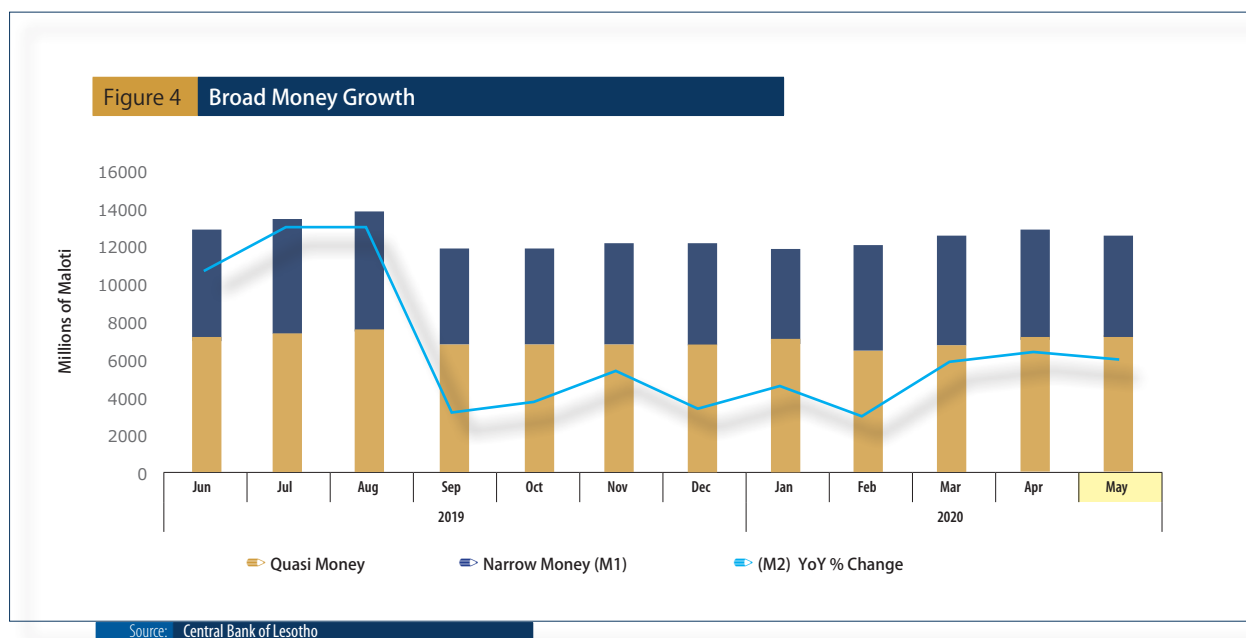
III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

Broad money supply (M2) decreased by 1.8 per cent in May 2020, following an increase of 2.6 per cent in the previous month. The fall in M2 was due to a decrease of 6.2 per cent in net foreign assets (NFA), which was moderated by an increase of 16.6 per cent in net domestic assets (NDA). The fall in NFA was at the back of a fall in both Central Bank and commercial banks NFAs, while the decline in NDA was caused by the drawdown of government deposits with the central bank.

Components of Money Supply

In terms of components of money supply, narrow money (M1) declined by 6.2 per cent in May 2020 while quasi money grew by 2.2 per cent. The fall in narrow money was at the back of a decline in both currency in circulation and demand deposits held with commercial banks. On the contrary, the growth in quasi money was due to an increase in deposits by business enterprises.

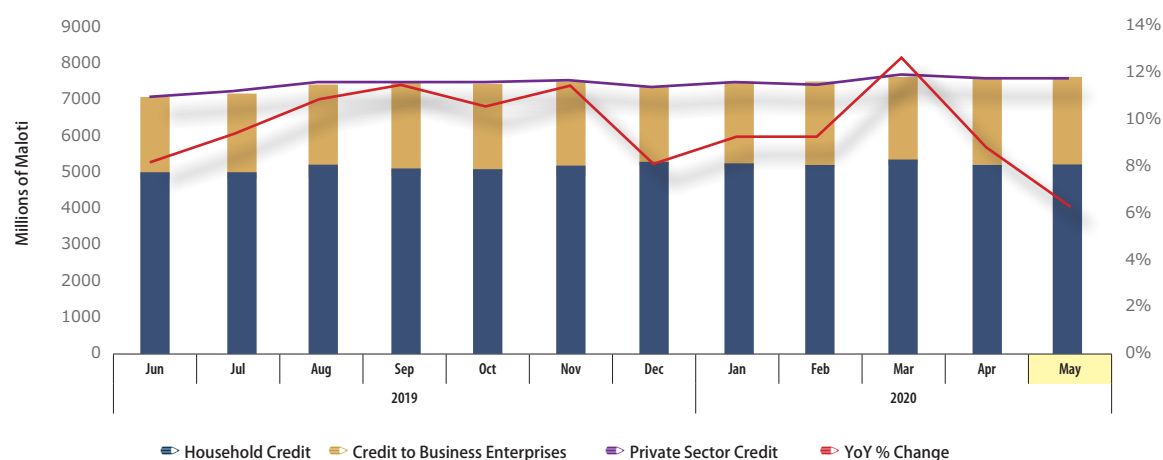


Private Sector Credit

Similar to the previous month, total credit extended to the private sector declined by 0.8 per cent during the month under review, compared to an increase of 1.4 per cent in April 2020. On a year-on-year basis, private sector credit increased by 1.2 per cent in the review period.

Overall credit extended to households dropped by 0.3 per cent in May 2020. This follows a decline in both personal loans and mortgages by 0.4 per cent and 0.02 per cent, respectively. Similarly, credit extended to business enterprises fell by 1.8 per cent, compared to a decline of 3.0 per cent recorded in the previous month. The decline in business credit was underpinned by the fall in demand for credit within the real estate and business services as well as electricity, gas and water sectors.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

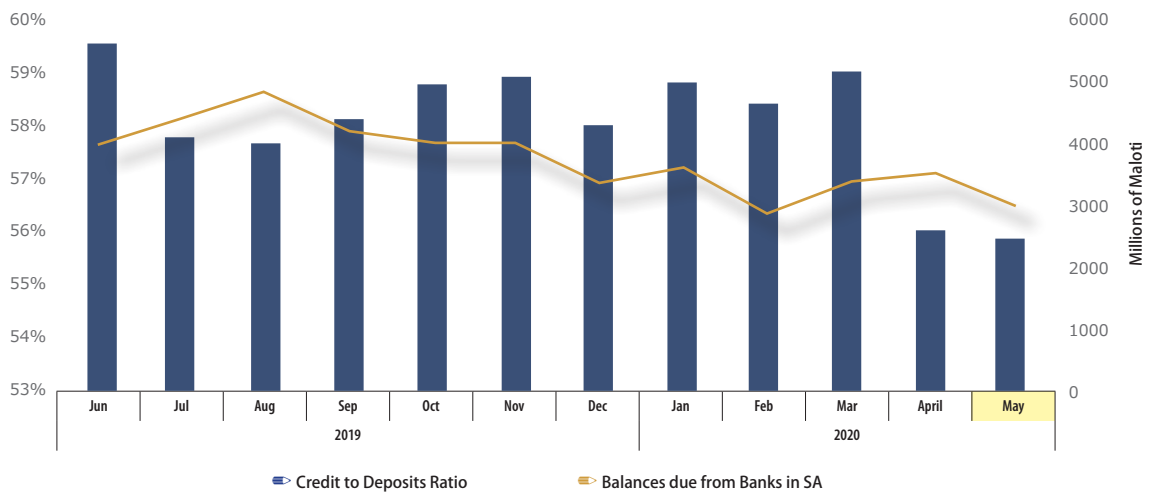
Non-Performing Loans

Total non-performing loans (NPLs) as a share of total loans granted by commercial banks remained unchanged at 3.8 per cent between April and May 2020. The households related NPLs increased during the review period and this was due to a rise in personal NPLs and mortgage NPLs from 2.1 per cent and 8.9 per cent to 2.2 per cent and 9.4 per cent, respectively. Furthermore, NPLs resulting from business enterprises decreased from 3.8 per cent in April to 3.5 per cent in May 2020.

Sources of Funds

The commercial banks' credit to deposit ratio declined from 56.0 per cent in the past month to 55.8 per cent May 2020. This was on account of a fall in total credit extended by commercial banks relative to the growth 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 at 4.25 per cent between April and May 2020. The 91-day T-Bill discount rate fell drastically from 5.04 per cent observed in April to 3.86 per cent. Furthermore, the prime lending rate declined from 9.19 per cent to 8.56 per cent. Similarly, the one-year deposit rate declined from 3.97 per cent to 3.58 per cent.

Rand Exchange rate May 2020

The rand hence the loti strengthened against major trading currencies in May 2020, following weak performance in April 2020. Generally, the rand appreciated by; 2.27 per cent to the average of 18.15 against the US dollar, 2.98 per cent against the pound to the average of 22.33, and 1.91 per cent to the average of 19.78 against the euro. The increase in the value of rand was driven by both domestic developments in South Africa and global events. In South Africa, the indication of a pause to repo rate cuts by South African Reserve Bank (SARB), after May 2020 decision, supported the rand. The other factors supporting rand included improvement of risk appetite in the global economy and financial markets. The market sentiment was lifted by progress in the development of covid19 injections, positive data on economic activity in China, and easing of lockdown measures in most countries, among others.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

Government total expenditure increased by 35.1 per cent in May 2020 relative to a revised fall of 36.4 per cent in April 2020. This rise was mainly attributable to pension contribution by the Government, non-resident interest payments, wages and salaries in cash, students’ loans and subsidies to non-financial corporations.

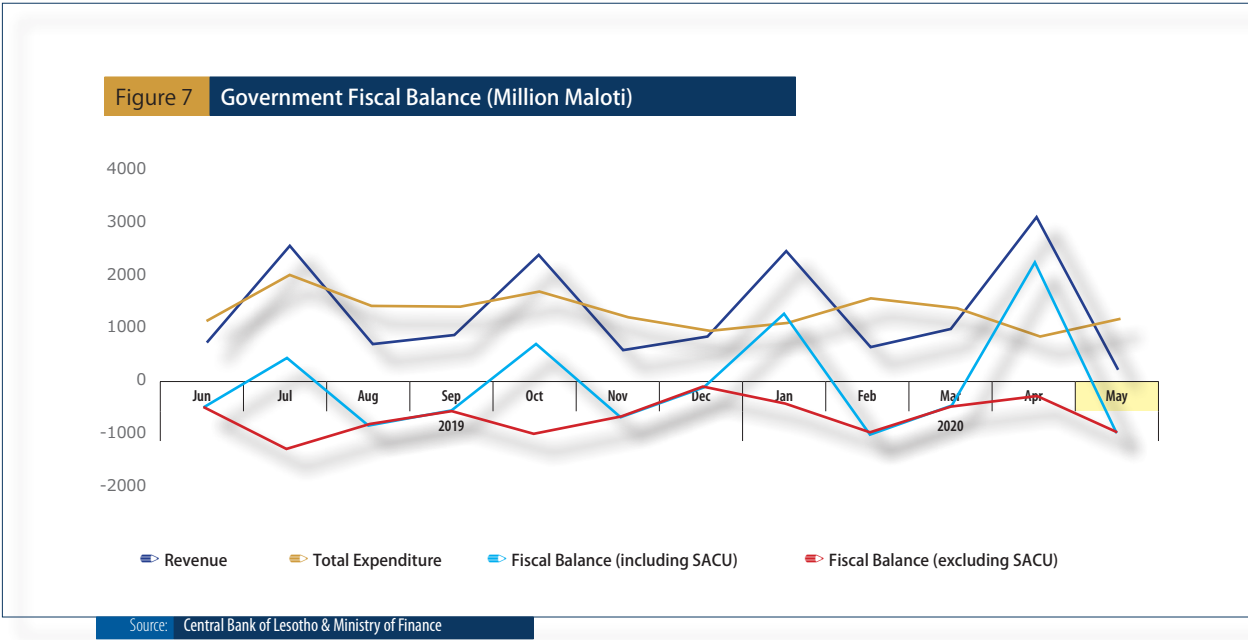
Total Revenue¹

Government revenue decreased drastically by 88.7 per cent in the month following the increase of more than 100.0 per cent in the previous month. The most affected components of revenue were

income taxes, VAT, mining royalties, coupled with those categories that were linked to SACU receipts in the previous month.

Fiscal Balance and Financing

The underperformance in revenue has led to a high fiscal deficit of 9.1 per cent of GDP in the month relative to a revised surplus of 20.4 per cent of GDP in the previous month. The main reason was the slowdown in the economic activity provided that the country was forced into a national lockdown by COVID-19 pandemic. Apart from fiscal financing, the Government deposits in the banks were further used to repay past years arrears of 0.5 per cent of GDP on goods and services.

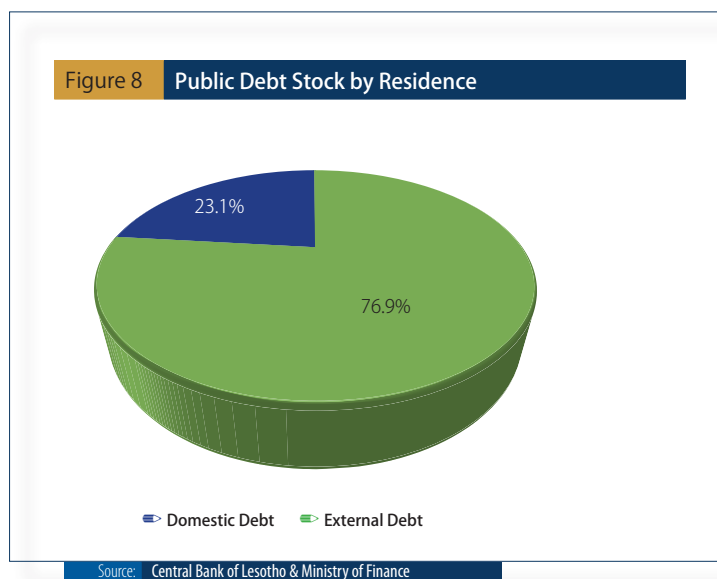


¹ Total revenue includes SACU receipts that are shared once in a quarter. See explanatory notes for more details.

V. PUBLIC DEBT

The public debt stock was projected at 45.9 per cent of GDP in May 2020, which was up from 45.7 per cent of GDP in April 2020. It thus expanded marginally by 0.4 per cent in the month, as a result of new external debt from European Investment Bank,

International Development Association and OPEC. Domestic debt remained constant at 10.6 per cent of GDP, given the full redemption of new stock of arrears on goods and services, among other factors.



Appendix: Key Economic Indicators

		19-Dec	20-Jan	20-Feb	20-Mar	20-Apr	20-May	
Economic Activity MIEA (% change, Y/Y)		-0.3	-0.3	0.2	-0.3	-1.4	-1.0	
Consumer price Index (% change)	Headline Inflation (year-on-year)	4.8	4.1	4.2	4.0	4.2	4.0	
	Core Inflation	4.5	3.5	3.7	3.3	3.8	3.8	
Exchange Rates (Monthly End Period)	EUR	15.72	16.00	17.12	19.57	19.74	17.45	
	GBP	18.43	18.84	20.06	22.12	22.71	21.57	
	USD	14.01	14.42	15.58	17.84	18.16	19.43	
Money Supply (Millions of Maloti)	M2	13,865.35	11,990.97	12,031.82	12,582.63	12,909.96	12,682.16	
	M1	6,184.74	4,884.31	5,310.62	5,774.30	5,622.80	5,236.58	
	Quasi Money	7,680.61	7,106.67	6,721.20	6,808.33	7,287.16	7,445.58	
Interest Rates	CBL Rate	6.50	6.25	6.25	4.25	4.25	3.75	
	91 day Treasury bill rate	6.26	6.17	6.15	6.11	5.04	3.86	
	Prime lending rate	11.19	11.19	11.00	10.19	9.19	8.56	
	1 year deposit rate	4.24	4.20	3.74	3.94	3.97	3.58	
Private sector Credit (Millions of Maloti)		7,251.33	7,371.95	7,480.37	7,695.44	7,582.96	7,522.51	
	Households	5,078.99	5,113.65	5,234.31	5,160.28	5,231.35	5,214.07	
	Business Enterprises	2,172.34	2,258.30	2,246.07	2,423.99	2,351.61	2,308.43	
Bank Deposit Liabilities (Millions of Maloti)		12,772.12	12,807.85	12,888.35	13,113.62	13,602.63	13,588.00	
Credit to Deposit Ratio (%)		56.77	58.77	58.04	59.00	55.99	55.80	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-127.16	1157.36	-864.11	-415.97	1,987.19	-891.43	
	Total Revenue	887.08	2,293.72	683.31	1,003.95	2,889.87	327.83	
	Total Expenditure	1,014.24	1,136.36	1,547.41	1,419.93	902.69	1,219.26	
	O/W Capital	233.33	236.64	255.00	546.53	82.95	62.22	
Total Public Debt (Millions of Maloti)		17,057.40	16,448.90	17,422.29	17,881.92	17,856.69	17,931.04	
	Total External Debt	13,013.53	13,011.46	13,553.53	13,687.88	13,709.38	13,795.63	
	External Debt	Concessional	10,504.19	10,505.95	10,499.15	1,0681.26	10,706.12	10,748.43
		Non-concessional	2,509.34	2,505.52	3,054.38	3,006.62	3,003.26	3,047.20
	Domestic Debt		4,043.87	3,437.44	3,868.76	4,194.04	4,147.31	4,135.42
Memo Item: Arrears (Millions of Maloti)		47.95	42.81	36.12	38.21	0.24	40.30	

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 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.

Thus, all other expenditure components are in accrual basis while interest payments on loans are still being compiled using cash basis method of recording.

In terms of revenues, SACU receipts are shared in the first month of the quarter among the member states, and hence, leading to a drastic rise in total revenue in the month of interest and to a significant fall in the subsequent month.

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