

# Central Bank of Lesotho



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## QUARTERLY ECONOMIC REVIEW

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March 2021

MASERU KINGDOM OF LESOTHO

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# 1. Executive Summary

The global economic activity improved slightly in the first quarter of 2021, even though it was uneven. In particular, recovery gathered momentum in some major economies including the United States (US) and China, driven by increased policy support, while it was still weak in the majority of other countries. The Covid-19 pandemic continued to hurt economic activity, with resurgence of infections in most countries. The unemployment conditions improved slightly during the review quarter, driven mainly by measures taken to return to normalcy but remained higher than the pre-crises levels. In addition to accommodative policies, the major events that can have a lasting effect on the global economy took place during the quarter. Commodity prices were increasing, save for gold. The price of gold fell by 5.4 per cent in the first quarter of 2021, after increasing by 0.7 per cent in the previous quarter. Price of platinum grew by 8.4 per cent, mainly due to the prospect of strong global recovery, which also led to price of crude oil increasing by 19.8 per cent, following the increase of 20.6 per cent in the last quarter of 2020.

According to the CBL's Quarterly Index of Economic Activity (QIEA), the domestic economic activity was subdued in March 2021 as evidenced by a sluggish 0.2 per cent growth, following a 2.2 per cent growth recorded in the last quarter of 2020. This was largely attributable to reintroduction of a lockdown, which resulted in demand and supply pressures. Labour markets also continued to perform poorly as all three categories of interest; LNDC-assisted companies, Government employment and migrant mineworkers recorded losses in the number of employed people. Inflationary pressures remained elevated in the review quarter. Comparatively, Lesotho and South Africa's inflation rates both grew even though the gap between the two was one of the widest recorded in recent history.

The broad measure of money supply declined by 1.3 per cent in the first quarter of 2021 in contrast to a growth of 9.9 per cent in December 2020. This was on account of a fall in domestic claims, which was moderated by a rise in net foreign assets. Private sector credit fell by 0.1 per cent in March 2021, compared to a growth of 0.5 per cent in the fourth quarter of 2020. However, credit extended to business enterprises moderated the fall. In relation to local banks funding base, total deposits held by both the private and public sectors declined reflective of a subdued economic activity. The monetary policy remained largely accommodative as Central Bank of Lesotho's policy rate remained unchanged.

The government budgetary operations were estimated to have registered a deficit equivalent to 9.0 per cent of GDP during the first quarter of 2021, compared with a revised surplus of 12.9 per cent of GDP in the last quarter of 2020. This deficit was, in large part, due to high spending that was experienced during the quarter, reflecting the end of the fiscal year 2020/21. Public debt stock was estimated at 62.8 per cent of GDP, following a revised 63.8 per cent of GDP in December 2020.

Lesotho's external sector position recorded a deficit equivalent to 9.3 per cent of GDP during the review period, following three consecutive quarters of surpluses. This was despite an improvement in the current account balance which benefited from a decline in the goods account deficit, together with increased surpluses in the primary and secondary income accounts. The observed deterioration was mainly attributed to the decline in capital account inflows along with the reduction in financial account outflows during the first quarter of 2021. In spite of that, reserves coverage increased from 4.3 months

to 4.5 months of imports, mainly as a result of the reduced import bill during the quarter review quarter.

## 2. International Economic Developments

There was improvement in the global economic activity in the first quarter of 2021, although it was uneven. Recovery gathered momentum in some major economies including the US and China, driven by increased policy support, while it was still weak in the majority of other countries. The Covid-19 pandemic continued to hurt economic activity, with resurgence of infections in most countries. The unemployment situation improved slightly during the quarter, driven by measures taken to return to normalcy including easing of lockdown measures in most countries, coupled with vaccination drive. However, the unemployment rate remained higher than the pre-crisis levels. In addition to accommodative policies, the major events that supported the global economy recovery took place during the quarter. They included signing of pandemic relief package Act and unveiling of Infrastructure development plan in the US, and unveiling of the 14th Development Plan and vision 2035 plan documents in China.

Inflationary pressures were building up during the quarter; however, inflation remained below official target in most countries. A number of countries eased lockdown measures, boosting consumer demand, hence, leading to the increase in prices. The rising inflation also reflected the effect of increased policy stimulus in the global economy, while there were supply constraints. The monetary policy was accommodative globally, supported by low interest rates and asset purchases programmes, especially in the advanced economies. The monetary policy stance was in line with supporting economic recovery, from the negative effects of Covid-19 pandemic. During the first quarter of 2021, there were no changes made to the monetary policy stance and monetary policy path was expected to be accommodative in the medium term.

**Table 1: Key World Economic Indicators**

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	Q4	Q1	Q4	Q1	Q4	Q1	Q4	Q1
	2020	2021	2020	2021	2020	2021	2020	2021
<b>United States</b>	-2.4	0.4	1.4	2.6	0.00	0.00	6.7	6.0
<b>Euro Area</b>	-4.9	-1.8	-0.3	1.3	0.00	0.00	8.3	8.1
<b>Japan</b>	-1.4	-1.3	-1.2	-0.2	-0.10	-0.10	2.9	2.6
<b>United Kingdom</b>	-7.3	-6.1	0.6	0.7	0.10	0.10	5.1	4.8
<b>China</b>	6.5	18.3	0.2	0.4	3.85	3.85	5.2	5.3
<b>India</b>	0.5*	1.6	4.6	5.2	4.00	4.00	N/A	N/A
<b>South Africa</b>	-4.1	N/A	3.1	3.2	3.50	3.50	32.5	32.6

**Source:** Bloomberg, STATSSA and SARB, OECD National Accounts Statistics (database), US Bureau of Economic Analysis, National Bureau of Statistics China, Statistics Bureau of Japan, Government of India Department of Labour, United Kingdom Office for National Statistics

\*Updated

## **ADVANCED ECONOMIES**

### **United States (US)**

There was a rebound in the economic activity during the first quarter of 2021 in the US. The real GDP increased by 0.4 per cent year on year, in contrast to a decline of 2.4 per cent in the last quarter of 2020. The increase was driven by consumption, investment and government spending. There was however, a decline in exports and inventory investment, which together with rising imports moderated growth. The rebound in the GDP growth, to some extent, reflected the vaccination efforts, government stimulus support in the form of relaxed monetary and fiscal policy and reopening of the economy in the US. The unemployment rate fell to 6.0 per cent in the first quarter of 2021, from 6.7 per cent in the quarter ending in December 2020. The decline was driven by strong job creation, as the economy gradually returned to normalcy from the effects Covid-19 pandemic.

The annual inflation rate for the US rose to 2.6 per cent during the quarter ending in March 2021, from 1.4 per cent in the preceding quarter. The increase was mainly driven by the gasoline, fuel oil, and vehicles' costs. The rising inflationary pressures reflected an increase in demand while supply was lower. Supply weakened as the aftermath of the disruptions of global supply chains from Covid-19 pandemic. The Federal Open Market Committee (FOMC) kept the Fed funds rate unchanged at the range of 0.0 - 0.25 per cent during the first quarter of 2021. It also maintained the asset purchases programmes unchanged. It indicated that it would continue with accommodative monetary policy stance in the near future to support economic recovery.

### **Euro Area**

Economic activity improved slightly in the first quarter of 2021 in the Euro Area, although it remained in the negative territory. The annual real GDP contracted by 1.8 per cent, a smaller decline compared with 4.9 per cent in the previous quarter. There was an increase in the manufacturing output, investment spending and trade, which was driving growth. The services sector was, however, under pressure due to the Covid-19 pandemic and ongoing lockdowns in some countries in the region. The unemployment rate was recorded at 8.1 per cent during the first quarter of 2021, down from 8.3 per cent in the previous quarter. This was in line with the improvement in the economic activity during the quarter.

The annual inflation rate was 1.3 per cent during the first quarter of 2021, a rebound from a decline of 0.3 per cent in the previous quarter. It was mainly boosted by increase in the costs of services and energy. The European Central Bank maintained the key policy rate unchanged at zero per cent in the review quarter. It also made no changes to its asset purchases programmes, including emergency asset purchases programme. The move by the Bank was to maintain accommodative monetary policy stance to support economic recovery.

### **Japan**

The negative effects of Covid-19 pandemic and measures to curb its spread continued to hurt economic activity in Japan during the first quarter of 2021. The real GDP contracted by 1.3 per cent year on year in the first quarter of 2021, a slight change from a decline of 1.4 per cent in the previous quarter. It was driven by a decline in consumption spending, investment spending, including public investment, and government spending. The decline was moderated by a slowdown in the imports

growth during the quarter. The unemployment rate fell to 2.6 per cent in the first quarter of 2021, from 2.9 per cent in the fourth quarter of 2020. This was generally in line with gradually reopening of the economy from Covid-19 induced lockdowns.

Consumer inflation declined by 0.2 per cent year on year during the first quarter of 2021, a smaller decline compared with 1.2 per cent in the previous quarter. There was a decline in the prices of food, while prices of energy, transport and communications declined at the weaker pace. However, the costs of housing, household utensils and furniture increased slightly during the quarter, with moderating effect. The Bank of Japan left the key policy rate unchanged at -0.1 per cent during the review quarter. The Bank also maintained its yield curve control through asset purchases programme, to bring its long term rates close to zero per cent. The Bank maintained accommodative monetary policy stance to support economic recovery and achieve price stability at 2.0 per cent target.

### **United Kingdom (UK)**

The UK economy was under pressure in the first quarter of 2021, as some parts of the country were under lockdown. The real GDP contracted by 6.1 per cent, slightly better than 7.3 per cent in the previous quarter. The decline was driven by lower consumption and investment spending, while there was an increase in the public spending with moderating effects. The unemployment rate fell to 4.8 per cent during the review quarter, from 4.9 per cent in the last quarter of 2020. There was an increase in the jobs created during the quarter, due to gradual reopening of the economy.

Inflation rate in the UK increased to 0.7 per year on year in quarter ending in March 2021 up from 0.6 per cent in the previous quarter. The increase resulted mostly from energy costs, especially motor fuels which increased at the faster pace. The prices of food declined during the review period, with the offsetting effect on inflation. The Bank of England did not make any changes to its key policy rate of 0.1 per cent during the first quarter of 2021. The Bank also maintained the size of the asset purchases programme. The monetary policy stance was accommodative to support economic recovery and drive inflation towards the target of 2.0 per cent.

## **EMERGING MARKET ECONOMIES**

### **China**

Economic activity rose at the faster pace during the first quarter of 2021 in China. The annual real GDP increased at the record rate of 18.3 per cent, accelerating from 6.5 per cent in the fourth quarter of 2020. There was growth across all major sectors, supported by strong demand in China and abroad. The jump in economic growth rate was to some extent a result of the base effects, as there was contraction in the economic activity in the same period the previous year. Generally, the macroeconomic policies were accommodative supporting the strong recovery of the economy. The unemployment rate was recorded at 5.3 per cent during the first quarter of 2021, rising marginally from 5.2 per cent in the previous quarter. The unemployment rate increased due to uncertainty created by the Covid-19 pandemic on the economy.

Inflation rate rose to 0.4 per cent year on year in the first quarter of 2021, from 0.2 per cent in the previous quarter. It was driven mainly by non-food prices, including transport and communications,



clothing and fuel, while food prices declined during the quarter, led by pork prices. The rising inflationary pressures reflected strengthening demand in China. The People's Bank of China left the key policy rate unchanged at 3.85 per cent in the first quarter of 2021. The Bank maintained accommodative monetary policy stance to support the recovery of the economy.

## **India**

India's economy was in the recovery path in the first quarter of 2021, after exiting recession in the previous quarter. The real GDP increased by 1.6 per cent year on year in the review period, the rate faster than 0.5 per cent growth in the quarter ending in December 2020. The increase in the GDP was driven by both private and public spending, with acceleration in investment spending. The contribution of trade was negative, as imports rose faster than increase in exports. Growth was supported by easing of restriction measures and increased fiscal support in the economy.

The annual inflation rate climbed to 5.5 per cent in the first quarter of 2021, from 4.6 per cent in the previous quarter. It was driven by increase in the cost of fuel, housing and clothing and footwear, as well as, easing declines in the prices of food. The Reserve Bank of India kept its repo rate unchanged at 4.00 per cent during the quarter under review. The Bank maintained accommodative monetary policy stance to support the economy, to recover from the disruptions caused by Covid-19.

## **South Africa**

There were signals of strengthening economic activity in South Africa during the first quarter of 2021. The composite Purchasing Manager's Index (PMI) for South Africa rose to 50.3 in March 2021 from 50.1 in the previous month, driven by increase in both manufacturing and services PMIs. The manufacturing sector registered annual growth of 4.6 per cent in March 2021, rebounding from a decline of 2.5 per cent in the previous month. The retail sales rose by 2.3 per cent year on year in February 2021, recovering from a decline of 3.7 per cent in the previous month. Both imports and exports increased in March 2021, but exports rose at the faster pace. The unemployment rate in South Africa increased to 32.6 per cent in the first quarter of 2021, from 32.5 per cent in the last quarter of 2020. There were more job losses reported during the quarter, especially in construction, trade, transport and agriculture due to Covid-19 pandemic.

The annual inflation rate for South Africa was recorded at 3.2 per cent during the first quarter of 2021, rising slightly from 3.1 per cent in the previous quarter. Inflationary pressures emanated from rising food prices and transport costs, specifically increase in fuel prices. The prices also rose for health care due to Covid-19 pandemic. The Reserve Bank of South Africa kept the key policy rate unchanged at 3.5 per cent in the first quarter of 2021. The Bank maintained accommodative stance to support economic recovery.

## **COMMODITIES**

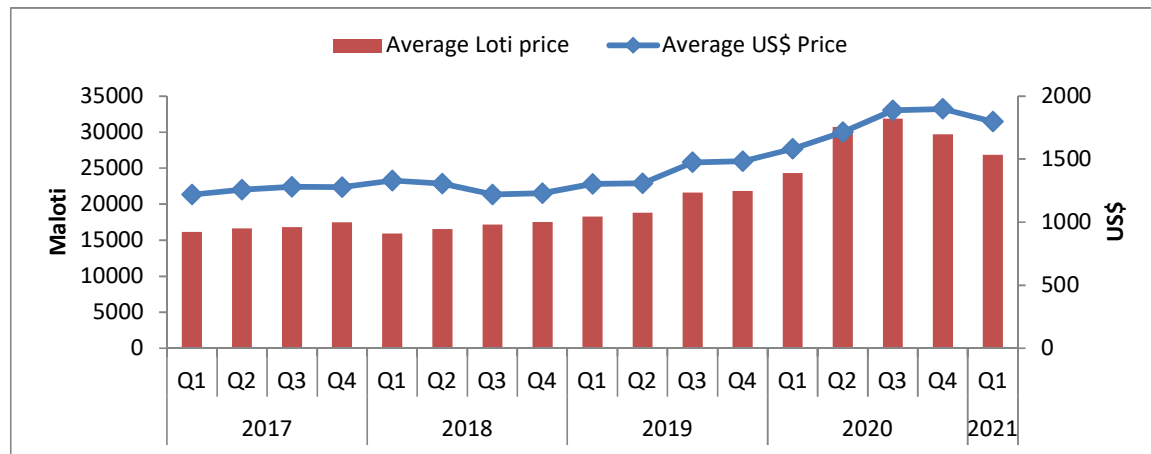
### **Minerals**

#### ***Gold***

The price of gold fell by 5.4 per cent to 1,796.96 US dollars per ounce in the first quarter of 2021, after increasing by 0.7 per cent in the previous quarter. The fall in the price of gold was mainly driven by waning demand for investment purposes, as reflected in the massive outflows of gold backed

Exchange Traded Funds (ETFs). There was generally market rotation from safe haven assets to risky assets, as risk appetite improved, due to lifting of lockdown measures and prospects of economic recovery. However, strong consumer demand of the metal for jewellery, together with central bank demand for reserves, had offsetting effect on the price of gold. On the supply side, there was increased production of gold, however, there was a decline in the recycling sector. Expressed in Maloti terms, the price of gold declined by 9.5 per cent in the review period, extending a decline of 6.9 per cent in the previous period.

**Figure 1: Average Price of Gold**

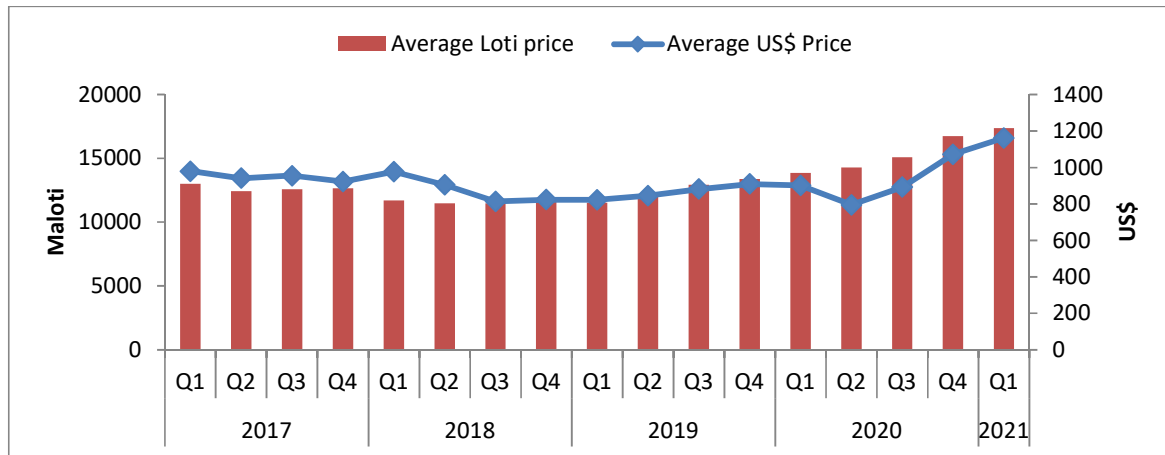


**Source:** Bloomberg

***Platinum***

Price of platinum was 1,161.62 US dollars per ounce in the first quarter of 2021, up by 8.4 per cent from 1,072.12 US dollars in the previous quarter. It was mainly driven by the prospect of strong global recovery, given global vaccination programmes and increased government stimulus measures. There was a strong demand for the commodity from industrial use, automotive and jewellery sectors. The platinum market was also in deficit, as demand rose faster than increase in the supply. In Maloti terms, the price of platinum rose by 3.6 per cent during the review quarter.

**Figure 2: Average Price of Platinum**



Source: Bloomberg

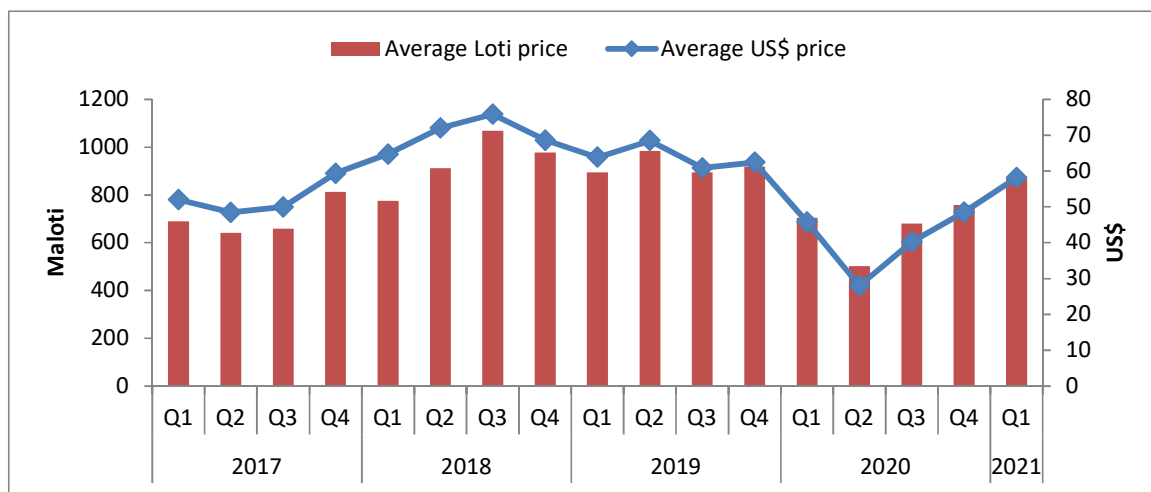
## Energy

### Oil

The price of crude oil increased by 19.8 per cent to 58.14 US dollars per barrel in the review period, following the increase of 20.6 per cent in the last quarter of 2020. The demand was supported by improved economic activity globally, prospects of strong economic recovery, and intensified vaccination programmes among others. The supply side factors also played a major role in strong oil prices. The OPEC+ countries decided to cut oil output during the review period. In Maloti terms, the price of oil increased by 14.6 per cent from 11.6 per cent in the previous quarter.

**Figure 3: Average Price of Oil**

Source: Bloomberg

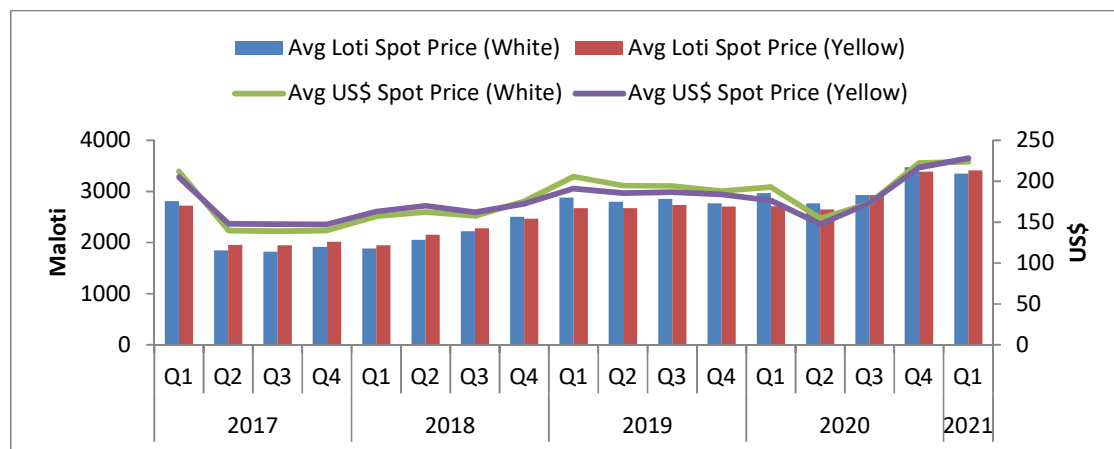


## Agricultural Products

### Maize

The price of maize increased during the first quarter of 2021. In particular, the price of white maize increased by 0.6 per cent to 223.55 US dollars a ton, slowing down from the increase of 28.4 per cent in the previous quarter. Similarly, the price of yellow maize rose by 5.4 per cent to 228 US dollars per ton, slowing down from the increase of 25.0 per cent in the previous quarter. The price of maize was supported by strong demand for feeding and gasoline. On the supply side, there was lower supply on the account of dry weather spells in most key producing countries. In Maloti terms, the price of white maize declined by 3.8 per cent, while the price of the yellow maize increased by 0.8 per cent.

**Figure 4: Average Price of Maize**

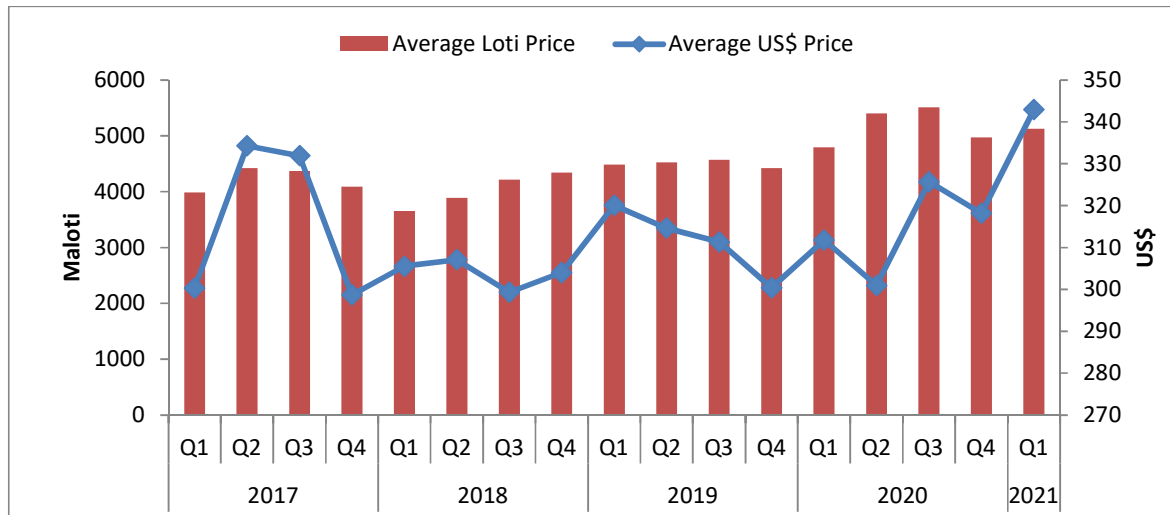


Source: Bloomberg

### Wheat

The price of wheat increased by 7.8 per cent to 342.92 US dollars per ton during the first quarter of 2021, a rebound from 2.3 per cent decline in the previous quarter. Price of wheat was supported by strong demand from China for livestock feeding. On the supply side, Ukraine imposed quota on wheat exports, which had effect on the global supply. Russia also unveiled its plan to raise wheat export tax. Global wheat stocks were lower than expected, while demand increased amid measures implemented to return to normalcy. In Maloti terms, the price increased only by 3.1 per cent, rebounding from a decline of 9.7 per cent in the previous quarter.

**Figure 5: Average Price of Wheat**

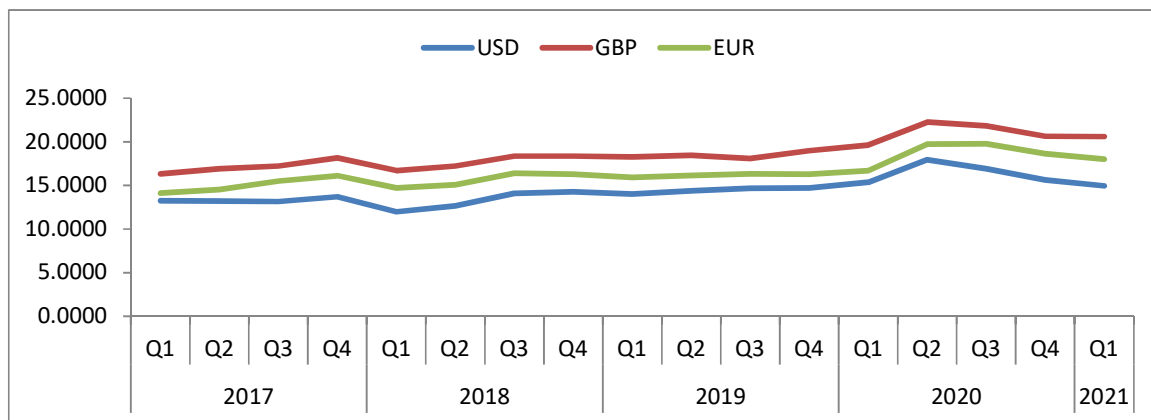


Source: Bloomberg

### EXCHANGE RATES

The rand hence the loti strengthened against the major global trading currencies during the first quarter of 2021. Particularly, it appreciated by 3.8 per cent to the average of 14.95 against the US dollar, 0.4 per cent to the average of 20.61 against the pound, and 2.1 per cent to the quarterly average of 18.03 against the euro. The rand strengthened for five consecutive quarters, and was among the best performing emerging markets currencies. In the first quarter of 2021 particularly, the rand was supported by improved national debt outlook in the medium term in South Africa, and strong commodity prices. Furthermore, the South African bond yields were still relatively high, hence minimizing capital outflows due to rising bond yields in the advanced economies.

**Figure 6: Nominal Exchange Rate of Loti against Major Trading Currencies**



Source: Bloomberg

### 3. Real Sector Developments

#### OVERVIEW

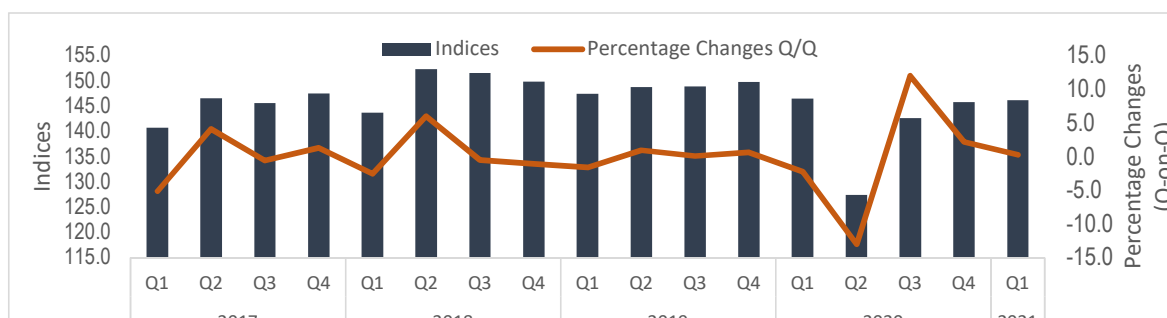
Domestic economic activity was restrained in the quarter ending in March 2021. This was due to reintroduction of restrictions in an effort to curb the spread of the second wave of Covid-19. Labour markets also continued to be under pressure as all three categories of interest; LNDC-assisted companies, government employment and migrant mineworkers recorded losses in the number of employed people. Inflationary pressures continued to tighten up in the review quarter. Food and non-food inflation both grew, with food inflation growing faster. Core inflation also accelerated in the review quarter. Comparatively, Lesotho and South Africa’s inflation rates both grew even though the gap between the two was one of the widest in history.

#### OUTPUT DEVELOPMENTS

As measured by the QIEA, economic performance was estimated to have been subdued in the first quarter of 2021. The QIEA index grew by 0.2 per cent in the review quarter in comparison to the 2.2 per cent growth recorded in the last quarter of 2020. The re-introduction of hard lockdown, owing to the pandemic, affected negatively both demand and manufacturing sides of the economy.

The domestic demand index grew by a slower rate of 1.5 per cent in relation to the 13.7 per cent growth recorded in the quarter ending in December 2020. Government activity (purchases and compensation of employees) and pay-as-you-earn (PAYE) were the main contributors to the observed growth, whereas Value Added Tax (VAT) collections and imports from South Africa were the main drawbacks to the index. With regard to the manufacturing and production side, the index grew by 0.8 per cent in the review quarter compared to the 1.1 per cent growth in the previous quarter. This was a result of negative contributions from exports of textiles to the US market, utility consumption and imports of raw materials resulting from a decline in the number of orders for Lesotho’s textile and clothing products from the US market. In addition, the transport subsector undermined growth as indicated by negative contributions from fuel consumption in the review quarter indicative of a slowdown in economic activity during the review quarter. On the contrary, the construction subsector remained resolute as indicated by positive contributions from cement and metallic products imports.

**Figure 7: Quarterly Indicator of Economic Activity**



Source: Central Bank of Lesotho

**Table 2: Contributions to Growth**

Indices	2020				2021
	Q1	Q2	Q3	Q4	Q1
<b>CIEA</b>	<b>146.4</b>	<b>127.4</b>	<b>142.7</b>	<b>145.8</b>	<b>146.2</b>
Quarter-on-quarter changes	-2.3	-13.0	12.0	2.2	0.2
<b>Domestic Demand</b>	<b>129.0</b>	<b>116.5</b>	<b>126.4</b>	<b>143.8</b>	<b>145.9</b>
Quarter-on-quarter changes	-6.6	-9.8	8.6	13.7	1.5
<b>Manufacturing and Production Category</b>	<b>116.5</b>	<b>86.0</b>	<b>101.9</b>	<b>103.0</b>	<b>103.9</b>
Quarter-on-quarter changes	3.2	-26.2	18.4	1.1	0.8

**Source:** Central Bank of Lesotho

## EMPLOYMENT DEVELOPMENTS

Employment by LNDC-assisted firms further declined by an estimated 15.1 per cent during the review period compared to the moderate decline of 0.7 per cent in the previous quarter. This was at the back of medium-term impact of Covid-19 lockdown measures in both Lesotho and South Africa, as well as, Lesotho's other trading partners. Some firms had to cut jobs during the review period in an effort to reduce production costs as demand for Lesotho's textiles and clothing exports declined in SA and the United States. However, declined employment levels were broad-based signalling the severity of the Covid-19 pandemic.

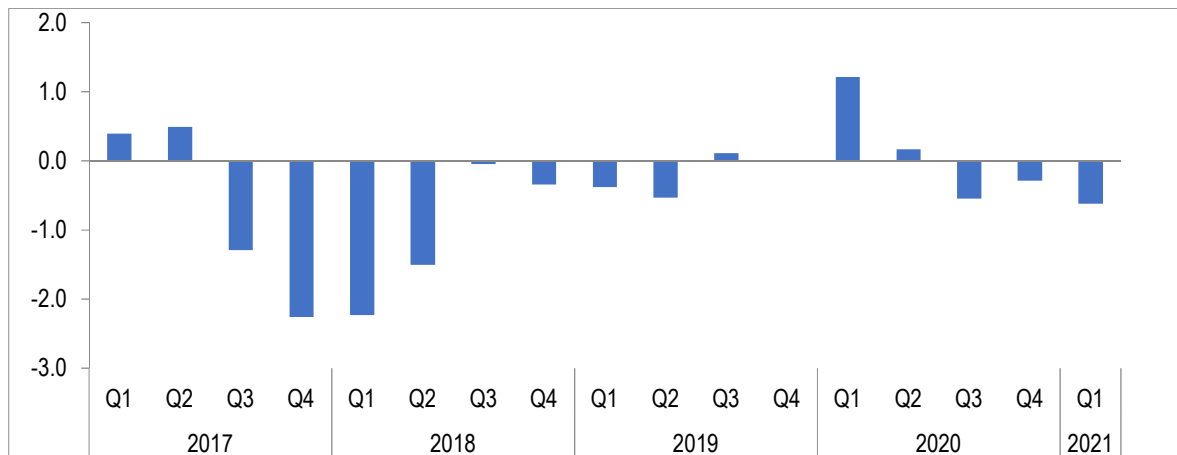
**Table 3: Employment by LNDC-Assisted Companies**

Industry	2020				2021	% Changes	
	Q1	Q2	Q3	Q4	Q1	Q/Q	Y/Y
Knit Garments.....	30371	27757	26596	27630	25567	-7.5	-16.8
Woven Garments.....	15675	14145	15130	15718	15180	-3.4	-3.2
Footwear.....	1287	1006	986	1024	1130	10.3	-12.2
Fabrics, Yarn etc.....	1767	1754	1718	1785	338	-81.1	-80.9
Construction.....	334	399	399	399	335	-16.0	0.3
Food & Beverages.....	444	700	704	704	639	-9.2	43.9
Electronics.....	1828	1018	1008	1008	1032	2.4	-43.5
Retail.....	179	186	186	186	191	2.7	6.7
Hotel Accom.....	394	394	394	394	287	-27.2	-27.2
Other.....	1349	1326	1259	1259	1139	-9.5	-15.6
<b>TOTAL.....</b>	<b>53988</b>	<b>48685</b>	<b>48380</b>	<b>50107</b>	<b>45838</b>	<b>-8.5</b>	<b>-15.1</b>

**Source:** Lesotho National Development Corporation

Public sector employment further declined by 0.6 per cent in the first quarter of 2021 compared with a contraction of 0.3 per cent in the fourth quarter of 2020. The decline mainly emanated from the teachers and civil servants' categories.

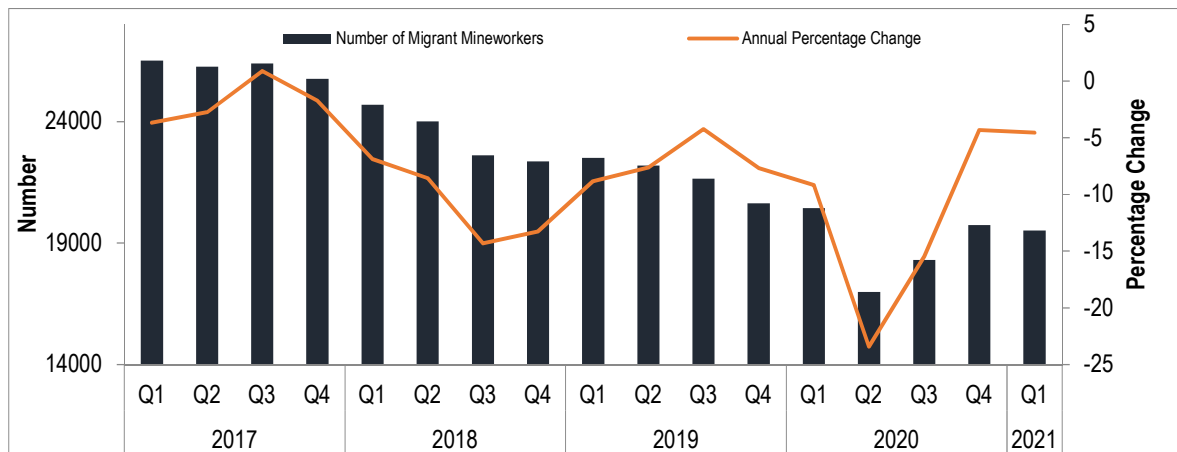
**Figure 8: Government Employment (Annual Percentage Changes)**



Source: Ministry of Finance

The number of migrant mineworkers declined by 4.6 per cent in the first quarter of 2021 compared with a decline of 4.3 per cent in the fourth quarter of 2020. The mining sector experienced weaker performance during the quarter under review as demand for gold, among others, fell at the back of lacklustre demand for precious metals. The weaker demand reflected the global uncertainty on economic recovery despite renewed confidence in the wake of Covid-19 vaccinations rollout.

**Figure 9: Migrant Mineworkers (Annual Percentage Changes)**



Source: The Employment Bureau of Africa (TEBA)

## PRICE DEVELOPMENTS

The inflation rate, measured as the annual percentage change in consumer price index (CPI) accelerated to 6.5 per cent in the quarter ending in March 2021 from 5.7 per cent in the quarter ending in December 2020. The major contributors to the acceleration during the review period were Food and non-alcoholic beverages.



The main determinants of the inflation rate acceleration were the rising international food prices, as well as, continued disruption of trade logistics. This was exacerbated by the increased price of crude oil, which was buoyed by the increased economic activity across the globe and the continued cut in production of crude oil by major oil-exporting countries and its allies.

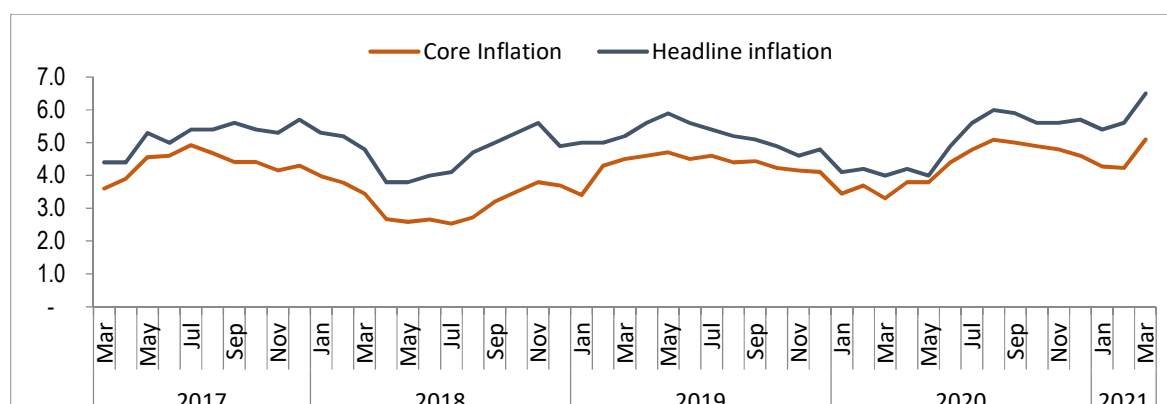
**Table 4: Inflation Rate (Annual Percentage Changes)**

	Weight	2020		2021		
		Nov	Dec	Jan	Feb	Mar
<b>All items</b>	<b>100</b>	5.6	5.7	5.4	5.6	6.5
Food and non-alcoholic beverages	36.1	13.3	13.4	13.4	13.5	14.5
Alcoholic beverages & Tobacco	3.3	4.6	4.9	5.0	5.4	5.5
Clothing & footwear	13.6	3.1	2.4	1.8	2.0	2.5
Housing, water, electricity, gas & other fuels	12.4	-4.2	-4.0	-3.9	-3.5	-0.8
Furniture, households equipment & routine maintenance	8.5	2.5	2.2	2.3	2.5	2.6
Health	1.5	3.8	3.3	3.2	3.1	3.2
Transport	4.8	2.3	2.6	3.1	3.9	2.2
Communications	2.1	0.6	0.6	0.6	0.6	0.6
Recreation & Culture	5.7	3.4	0.8	0.5	0.0	0.5
Education	4.2	4.0	4.0	-0.1	-0.1	2.2
Restaurant & Hotels	1.0	3.0	2.4	2.6	2.4	3.8
Miscellaneous goods & services	7.3	2.4	2.1	2.0	2.4	3.0

**Source:** Bureau of Statistics

Headline and core consumer price inflation both accelerated during the first quarter of 2021 from the levels recorded in the fourth quarter of 2020. The former accelerated from 5.7 per cent in December 2020 to 6.5 per cent at the end of March 2021, while the latter increased from 4.6 per cent in December 2020 to 5.1 per cent in March 2021.

**Figure 10: Core vs Headline Inflation**



**Source:** CBL Computations

Food and non-food inflation accelerated during the review period, with the former increasing by 1.1 percentage points while the latter increased by 0.6 percentage points. In the food component, the acceleration was broad-based while in the non-food component some items increased except for the education and transport sectors.



## 4. Monetary and Financial Developments

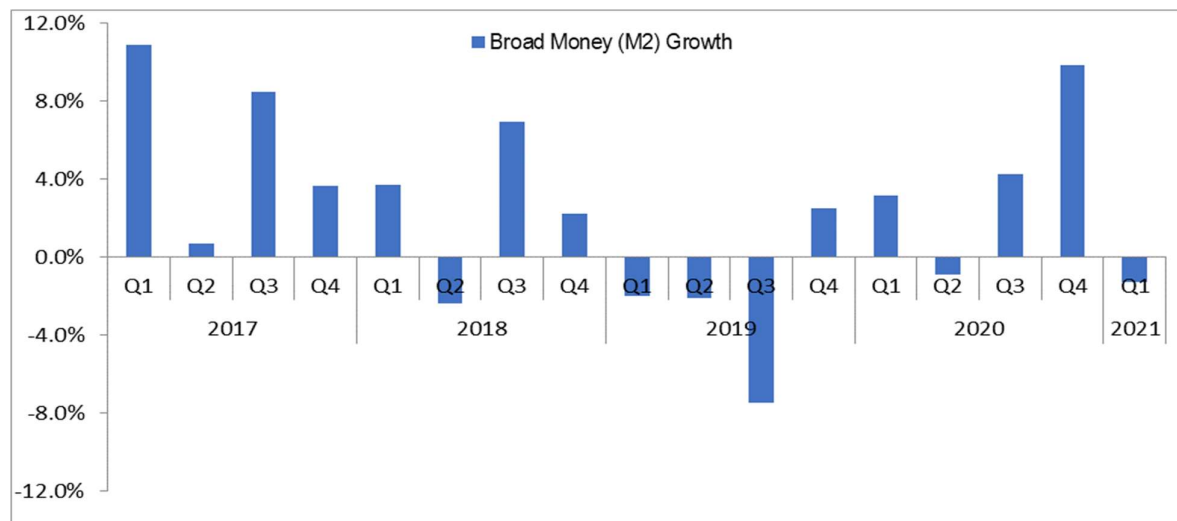
### OVERVIEW

During the review quarter, broad money declined as a result of fall in domestic claims, while the rise in net foreign assets moderated the decline. Private sector credit contracted, mainly due to a fall in credit extended to households. The total deposits held by both the private and public sectors also declined. Central Bank of Lesotho's policy rate remained unchanged.

### BROAD MONEY (M2)

The broadly defined money supply (M2) fell by 1.3 per cent in the first quarter of 2021 in contrast to a growth of 9.9 per cent in December 2020. The drop in M2 was due to a decline of 0.3 per cent in domestic claims, which was, however, moderated by 0.7 per cent growth in net foreign assets. On a year-on-year basis, M2 rose by 12.1 per cent, following a 17.1 per cent growth in the fourth quarter of 2020. In real terms, M2 contracted by 7.8 per cent, following an increase of 4.2 per cent in December 2020.

**Figure 13: Broad Money (M2) (Quarterly Changes)**



**Source:** Central Bank of Lesotho

### Determinants of M2

#### *Domestic Claims*

The domestic claims fell by 0.3 per cent in March 2021 compared to a growth of 4.0 per cent in December 2020. This was due to a contraction of 2.4 per cent in claims on other sectors, stemming mainly from a 59.5 per cent fall in claims on other financial corporations (collective investment schemes in particular). Moreover, private sector credit also declined by 0.1 per cent, from an increase of 0.5 per cent in the preceding quarter. The fall in claims on other sectors was abated by a growth in net claims on government resulting from a fall in government deposits with both the Central Bank

and commercial banks. On an annual basis, domestic claims decreased by 11.8 per cent in March 2021, following a decline of 3.7 per cent in the last quarter of 2020.

**Table 5: Domestic Claims (Million Maloti: End Period)**

	2020				2021	Changes(%)	
	Q1	Q2	Q3	Q4	Q1	Quarterly	Annual
<b>Domestic Claims</b>	<b>6002.15</b>	<b>4272.77</b>	<b>5106.94</b>	<b>5312.44</b>	<b>5296.61</b>	<b>-0.30</b>	<b>-11.75</b>
<b>Net Claims on Government</b>	<b>-1886.68</b>	<b>-3250.19</b>	<b>-2606.87</b>	<b>-2455.51</b>	<b>-2285.33</b>	<b>6.93</b>	<b>-21.13</b>
<b>Commercial Banks Net Claims</b>	<b>440.56</b>	<b>52.96</b>	<b>-44.24</b>	<b>389.84</b>	<b>222.07</b>	<b>-43.03</b>	<b>-49.59</b>
Claims on Central Government	2028.14	2051.63	2037.71	2132.91	1817.47	-14.79	-10.39
Liabilities to Central Government	1587.58	1998.67	2081.94	1743.07	1595.39	-8.47	0.49
<b>Central Bank Net Claims</b>	<b>-2327.24</b>	<b>-3303.15</b>	<b>-2562.63</b>	<b>-2845.35</b>	<b>-2507.40</b>	<b>11.88</b>	<b>-7.74</b>
Claims on Central Government	593.31	492.49	785.71	855.25	842.43	-1.50	41.99
Liabilities to Central Government	2920.55	3795.64	3348.35	3700.60	3349.83	-9.48	14.70
<b>Claims on Other Sectors</b>	<b>7888.83</b>	<b>7522.95</b>	<b>7713.82</b>	<b>7767.95</b>	<b>7581.94</b>	<b>-2.39</b>	<b>-3.89</b>
Claims on OFCs	145.41	232.18	276.19	266.77	108.16	-59.45	-25.61
Claims on Public Nonfinancial Corps	47.98	63.25	58.62	87.00	65.90	-24.25	37.36
Claims on St & Local Government	0.00	0.00	0.00	0.00	0.00		
<b>Claims on Private Sector</b>	<b>7695.44</b>	<b>7227.52</b>	<b>7379.01</b>	<b>7414.18</b>	<b>7407.87</b>	<b>-0.09</b>	<b>-3.74</b>
Claims on Business Enterprises	2423.99	2043.19	2079.65	2015.45	2037.82	1.11	-15.93
Claims on Households	5271.46	5184.32	5299.36	5398.73	5370.05	-0.53	1.87

**Source:** Central Bank of Lesotho

### *Net Foreign Assets*

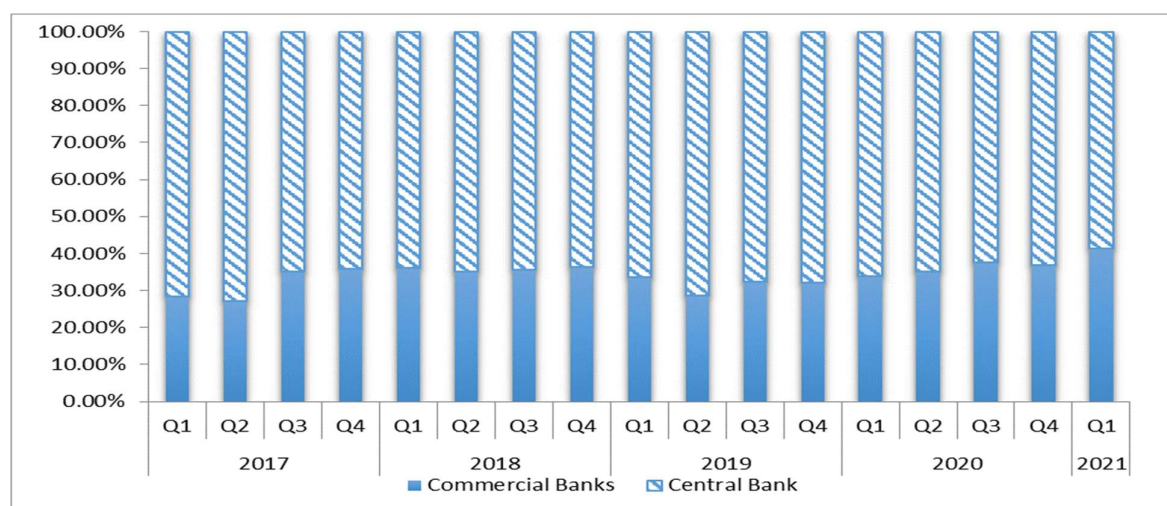
The growth in total net foreign assets (NFA) slowed down from 4.3 per cent realised in December 2020 to 0.8 per cent in March 2021. During the quarter under review, commercial banks' NFA rose by 13.1 per cent, and was moderated by a decline of 6.4 per cent in Central Bank's NFA. The rise in commercial banks' NFA benefited from the placement of proceeds from matured Government securities abroad, in light of low domestic demand for credit, and a drawdown in deposits held with the Central Bank. The rise in commercial banks' placements abroad, coupled with an increase in government spending abroad, resulted in a decline in Central Bank's NFA. Annual growth in NFA decelerated to 14.7 per cent, from 20.7 per cent in December 2020.

**Table 6: Net Foreign Assets (Million Maloti: End Period)**

	2020				2021	Changes (%)	
	Q1	Q2	Q3	Q4	Q1	Quarterly	Annual
<b>Commercial Banks</b>	<b>5138.76</b>	<b>5755.04</b>	<b>6247.28</b>	<b>6374.23</b>	<b>7210.31</b>	<b>13.12</b>	<b>40.31</b>
Claims on Non-residents	5510.98	6028.01	6529.04	6679.44	7584.51	13.55	37.63
Liabilities to Non-residents	372.22	272.97	281.76	305.20	374.20	22.61	0.53
<b>Central Bank</b>	<b>10077.75</b>	<b>10656.94</b>	<b>10344.71</b>	<b>10937.57</b>	<b>10237.23</b>	<b>-6.40</b>	<b>1.58</b>
Claims on Non-residents	11477.62	11903.50	12398.33	12680.16	11963.77	-5.65	4.24
Liabilities to Non-residents	1399.86	1246.56	2053.62	1742.59	1726.54	-0.92	23.34
<b>Net Foreign Assets Total</b>	<b>15216.52</b>	<b>16411.98</b>	<b>16591.99</b>	<b>17311.80</b>	<b>17447.54</b>	<b>0.78</b>	<b>14.66</b>

**Source:** Central Bank of Lesotho

**Figure 14: Net Foreign Assets (Percentage shares)**



**Source:** Central Bank of Lesotho

### Components of M2

Considering the components of money supply, both narrow money (M1) and quasi money dropped in the first quarter of 2021. M1 fell by 1.3 per cent in March 2021, from an increase of 19.2 per cent in December 2020, owing to a decline in transferable deposits held mainly by the mining and wholesale industries. Quasi money fell by 1.3 per cent following a decrease in call deposits of the mining industry.

**Table 7: Components of Money Supply (Million Maloti: End Period)**

	2020				2021	Changes (%)	
	Q1	Q2	Q3	Q4	Q1	Quarterly	Annual
<b>Broad Money (M2)</b>	<b>12582.63</b>	<b>12467.68</b>	<b>13000.90</b>	<b>14282.90</b>	<b>14098.69</b>	-1.29	12.05
<b>Narrow Money (M1)</b>	<b>5774.30</b>	<b>5216.40</b>	<b>5829.60</b>	<b>6950.30</b>	<b>6862.16</b>	-1.27	18.84
Currency Outside DCs	1095.25	1094.74	1236.02	1370.83	1379.51	0.63	25.95
Transferable Deposits	4679.04	4121.66	4593.58	5579.47	5482.65	-1.74	17.17
<b>Quasi Money</b>	<b>6808.33</b>	<b>7251.28</b>	<b>7171.29</b>	<b>7332.60</b>	<b>7236.52</b>	-1.31	6.29
Other Deposits Commercial Banks	6765.16	7209.11	7135.73	7299.95	7210.75	-1.22	6.59
Other Deposits Central Bank	43.17	42.18	35.56	32.65	25.78	-21.05	-40.29

**Source:** Central Bank of Lesotho

### CREDIT EXTENSION

Private sector credit declined slightly by 0.1 per cent from a growth of 0.5 per cent in the fourth quarter of 2020. The marginal fall in private sector credit was attributable to a contraction in loans and advances extended to households, lessened by a rise in loans to the business sector. Credit extension declined by 3.7 per cent on an annual basis, compared to a growth of 0.7 per cent in December 2020.

Measured in real terms, private sector credit fell by 6.6 per cent in the review period, following a decline of 5.2 per cent in the preceding quarter.

### Trends of Credit Extended to Business Enterprises

Credit extended to business enterprises rose by 1.1 per cent in the quarter ending in March 2021, following a decline of 3.1 per cent in the fourth quarter of 2020. Almost every sector experienced an improvement in credit extension, with an exception of Agriculture and Mining sectors. Much of extended credit was tilted towards financing of the working capital of the businesses than investment capital. On a year-on-year basis, business sector credit fell by 15.9 per cent, compared to 7.2 per cent recorded in the previous quarter.

**Table 8: Credit Extension by Economic Activity (Million Maloti)**

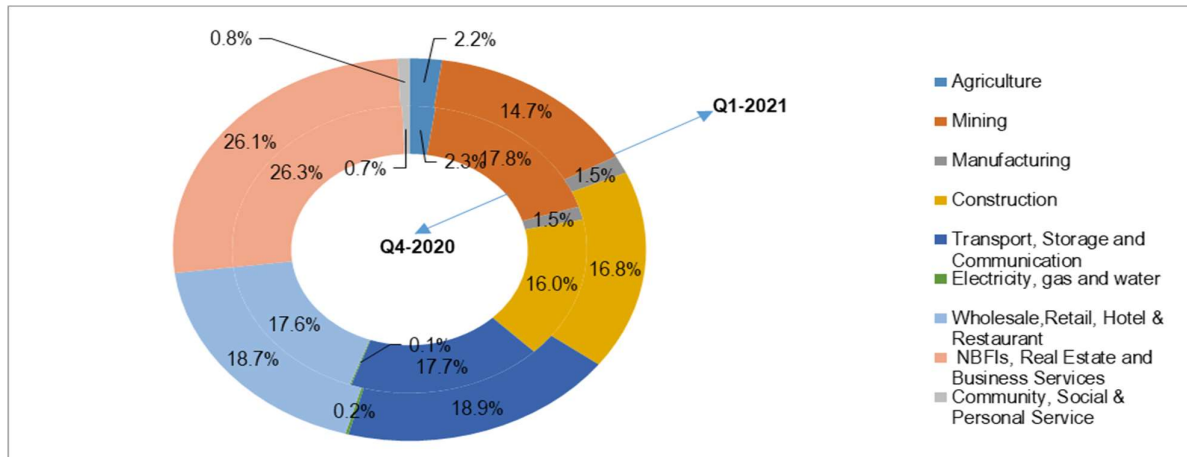
SECTOR	2020			2021		Changes (%)	
	Q1	Q2	Q3	Q4	Q1	Quarterly	Annual
Agriculture	28.37	29.73	35.41	47.22	45.00	-4.71	58.60
Mining	713.77	355.95	379.55	359.16	299.42	-16.63	-58.05
Manufacturing	38.83	41.36	34.49	29.74	30.86	3.77	-20.51
Electricity, gas and water	20.17	4.52	3.31	2.42	4.15	71.29	-79.42
Construction	331.56	354.72	357.86	321.87	343.09	6.59	3.48
Wholesale, Retail, Hotel & Restaurant	380.54	377.86	363.79	354.36	380.62	7.41	0.02
Transport, Storage and Communication	403.56	385.83	354.75	357.52	385.41	7.80	-4.50
NBFIs, Real Estate and Business Services	490.67	476.13	534.57	530.03	532.84	0.53	8.60
Community, Social & Personal Service	16.52	17.09	15.92	13.41	16.42	22.43	-0.58
<b>All Sectors</b>	<b>2423.99</b>	<b>2043.19</b>	<b>2079.65</b>	<b>2015.74</b>	<b>2037.82</b>	<b>1.10</b>	<b>-15.93</b>

**Source:** Central Bank of Lesotho

### Distribution of credit Extended to Business Enterprises

Regarding the sectoral distribution of credit to business enterprises, the largest proportion of credit was allocated to the non-bank financial institutions, real estate and business services sector, with a share of 26.1 per cent. This was followed by transport, storage and communication sector, with a share of 18.9 per cent, and wholesale, retail, hotel and restaurant sector with a share of 18.7 per cent. The allocation of credit to the agricultural sector weakened by 0.1 percentage points and stood at 2.2 per cent of the total credit to business enterprises.

**Figure 15: Distribution of Credit (Percentage Shares)**

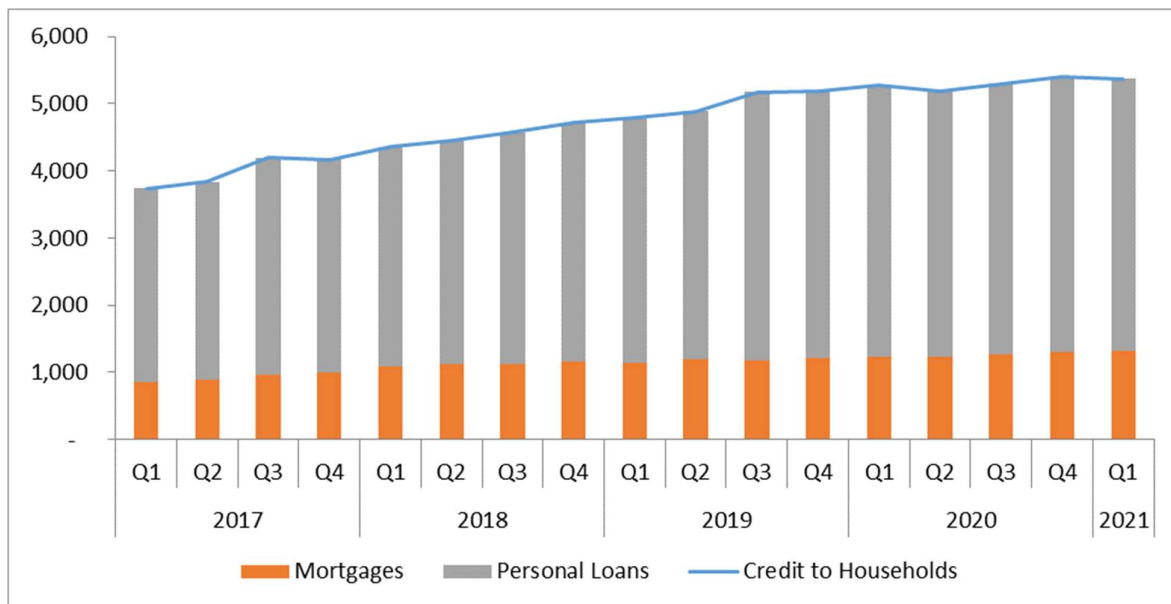


Source: Central Bank of Lesotho

**Credit extended to Households**

The total loans and advances extended to the households contracted by 0.1 per cent, relative to a growth of 1.9 per cent recorded in December 2020. Personal loans remained the most dominant category of household credit and decreased by 1.0 per cent in the first quarter of 2021, while mortgage loans rose by 1.0 per cent. Higher loan repayments that occurred during the quarter, relative to new disbursements underpinned the fall in personal loans. The increase in mortgages benefitted from newly awarded home loans, coupled with disbursements on existing projects. Compared to the same period a year ago, the overall credit extended to the household sector grew by 1.9 per cent.

**Figure 16: Credit Extension to Household (Million Maloti)**



Source: Central Bank of Lesotho

## LIQUIDITY OF COMMERCIAL BANKS

### Components of liquidity

The banking sector liquidity declined during the first quarter of the year, as evidenced by a fall in the liquidity ratio from 43.0 per cent to 41.4 per cent. This was at the back of a fall in the commercial banks' holding of liquid assets, notwithstanding the fall in total deposits. The commercial banks' credit to deposit ratio improved from 49.9 per cent in December 2020 to 51.1 per cent in March 2021, due to a fall in total deposits while private sector credit remained largely unchanged. Annually, the credit to deposit ratio declined by 7.1 percentage points, underpinned by enormous growth in the deposit liabilities.

**Table 9: Components of Liquidity (Million Maloti)**

	2020				2021
	Q1	Q2	Q3	Q4	Q1
<b>Credit to Deposit Ratio</b>	<b>58.19%</b>	<b>53.34%</b>	<b>52.62%</b>	<b>49.94%</b>	<b>51.07%</b>
Private Sector Credit	7588.93	7116.56	7275.07	7309.67	7303.71
Total Deposits	13040.98	13341.85	13824.64	14636.53	14301.28
<b>Liquidity Ratio</b>	<b>44.30%</b>	<b>46.89%</b>	<b>49.40%</b>	<b>42.99%</b>	<b>41.43%</b>
Notes and Coins	579.30	539.87	495.97	707.97	597.53
Net Balance due from banks in Lesotho	47.86	46.78	-0.95	-2.73	-253.58
Net Balance due from banks in SA	3219.61	3461.19	4237.32	3197.43	3866.53
Surplus funds	-97.11	156.67	59.69	257.04	-102.86
Government Securities	2028.14	2051.63	2037.71	2132.91	1817.47
<b>Total</b>	<b>5777.80</b>	<b>6256.15</b>	<b>6829.74</b>	<b>6292.62</b>	<b>5925.09</b>

**Source:** Central Bank of Lesotho

### Commercial Banks Sources of Funds

The commercial banks' total deposit liabilities declined by 2.3 per cent in the quarter ending in March 2021. This was primarily influenced by a fall in transferable and other deposits held by business enterprises of 6.8 per cent and 9.0 per cent, respectively. Government deposits also fell by 8.5 per cent on the back of withdrawals by ministries and extra-budgetary institutions, and transfers to government accounts held at Central Bank. Annually, total deposits rose by a marginal 0.7 per cent.



**Table 10: Sources of funds for ODCs (Million Maloti)**

	2020				2021	Changes (%)	
	Q1	Q2	Q3	Q4	Q1	Quarterly	Annual
<b>Transferable Deposits Incl. in BM</b>	<b>4679.04</b>	<b>4121.66</b>	<b>4593.58</b>	<b>5579.47</b>	<b>5482.65</b>	<b>-1.74</b>	<b>17.17</b>
Other Financial Corporations	31.56	40.30	76.33	79.32	79.26	-0.08	151.10
Public Nonfinancial Corporations	297.07	44.10	83.50	31.41	33.90	7.91	-88.59
Private Sector	4333.88	4030.40	4381.48	5431.75	5345.29	-1.59	23.34
Other NFCs	3014.48	2598.91	2887.94	3893.93	3627.80	-6.83	20.35
Other Sectors (Households)	1319.40	1431.50	1493.54	1537.82	1717.48	11.68	30.17
<b>Other Deposits Incl. in BM</b>	<b>6765.16</b>	<b>7209.11</b>	<b>7135.73</b>	<b>7299.95</b>	<b>7210.75</b>	<b>-1.22</b>	<b>6.59</b>
Other Financial Corporations	257.84	62.01	132.05	92.48	148.26	60.32	-42.50
Public Nonfinancial Corporations	281.32	319.29	224.40	221.14	338.64	53.13	20.37
Private Sector	6226.00	6827.80	6779.29	6986.33	6723.85	-3.76	8.00
Other NFCs	4052.88	4684.58	4486.65	4723.34	4296.97	-9.03	6.02
Other Sectors (Households)	2173.12	2143.21	2292.64	2262.99	2426.88	7.24	11.68
<b>Deposits excluded in MB</b>	<b>1596.78</b>	<b>2011.08</b>	<b>2095.32</b>	<b>1757.12</b>	<b>1607.88</b>	<b>-8.49</b>	<b>0.70</b>
<b>Total Deposits</b>	<b>13040.98</b>	<b>13341.85</b>	<b>13824.64</b>	<b>14636.53</b>	<b>14301.28</b>	<b>-2.29</b>	<b>9.66</b>

Source: Central Bank of Lesotho

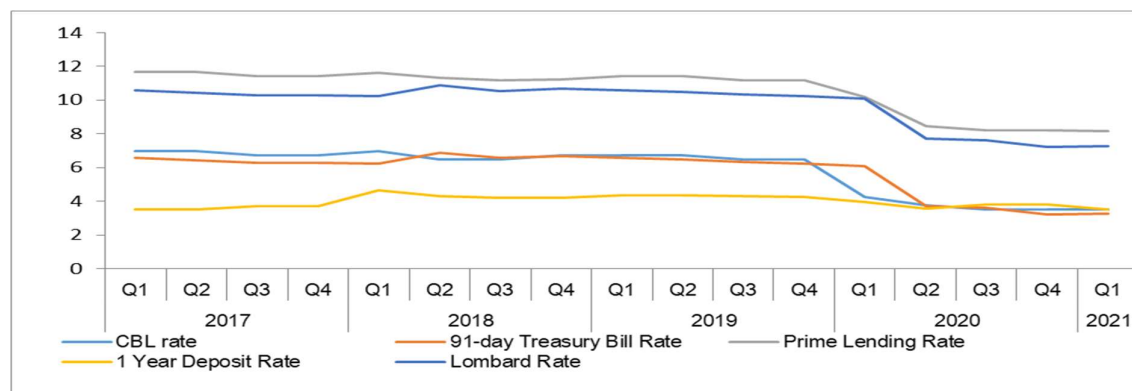
## MONEY AND CAPITAL MARKET DEVELOPMENTS

### Money Market

#### Interest Rates

The Central Bank of Lesotho's policy rate remained unchanged at 3.50 per cent in the first quarter of 2021. The average prime lending rate also remained stable at 8.19 per cent, whereas one-year deposit rate declined by 26 basis points to 3.53 per cent. The 91-day Treasury bill rate rose by 5 basis points to 3.25 per cent, albeit, remaining within the desired range of +/- 200 basis points to the South African counterpart rate.

**Figure 17: Short Term Interest Rates (Per Cent per Annum)**



Source: Central Bank of Lesotho

**Table 11: Interest rates**

	2020				2021
	Q1	Q2	Q3	Q4	Q1
<b>Central Bank</b>					
CBL rate	4.25	3.75	3.50	3.50	3.50
T-Bill Rate - 91 days	6.11	3.70	3.61	3.20	3.25
Lombard Rate	10.11	7.70	7.61	7.20	7.25
<b>Commercial Banks</b>					
Call	0.81	0.99	0.99	0.99	0.99
Time:					
31 days	0.69	0.67	0.67	0.67	0.67
88 days	1.94	1.88	1.88	1.88	1.64
6 months	2.97	3.00	3.00	3.00	3.10
1 year	3.94	3.58	3.79	3.79	3.53
Savings	1.26	0.70	0.70	0.70	0.70
Prime	10.19	8.44	8.19	8.19	8.19
<b>South Africa</b>					
Repo	5.25	3.75	3.50	3.50	3.50
T-Bill Rate - 91 days	5.60	4.09	3.47	3.87	3.81
Prime	8.75	7.25	7.00	7.00	7.00

**Source:** Central Bank of Lesotho

### *Holding of Treasury Bills*

The total holding of government treasury bills declined by 34.0 per cent in the first quarter of 2021 as a result of matured fiscal Treasury Bills worth M430 million. Holding of Treasury Bills by the banking sector fell by 35.1 per cent while non-bank sector recorded a decline of 30.5 per cent. The banking sector's share of Treasury Bills holdings stood at 74.6 per cent, while the non-banking sector acquired the remaining share of 25.4 per cent. The overall holding of T-Bills decreased by 32.5 per cent year-on-year.

**Table 12: Holding of Bills (Million Maloti)**

	2020				2021
	Q1	Q2	Q3	Q4	Q1
<b>Treasury Bills</b>	<b>1305.67</b>	<b>1311.80</b>	<b>1312.05</b>	<b>1335.09</b>	<b>881.62</b>
Banking System	1067.74	1071.36	997.00	1013.05	657.91
Non-Bank Sector	237.93	240.44	315.05	322.04	223.71
<b>Memorandum Item</b>					
Yield Bills (91-days)	6.20	3.73	3.38	3.23	3.28

**Source:** Central Bank of Lesotho

## Holding of Treasury Bonds

The total holdings of government bonds rose by 3.6 per cent, following the auction of a newly issued bond worth M100 million in March 2021. Banking sector's holding of treasury bonds rose by 2.2 per cent while the non-banking sector recorded a growth of 4.8 per cent. The banking sector's share of government bond holdings stood at 45.8 per cent, while the remaining 54.1 per cent was attributable to non-banking sector. On a year-on-year basis, the holdings of government bonds increased by a substantial 20.7 per cent.

**Table 13: Holding of Bonds (Million Maloti)**

	2020				2021
	Q1	Q2	Q3	Q4	Q1
<b>Holding of Treasury Bonds</b>	<b>2382.73</b>	<b>2382.10</b>	<b>2476.80</b>	<b>2776.80</b>	<b>2876.80</b>
Banking System	980.03	981.19	1012.60	1290.94	1319.11
Non-Bank Sector	1402.70	1400.91	1464.20	1485.87	1557.69

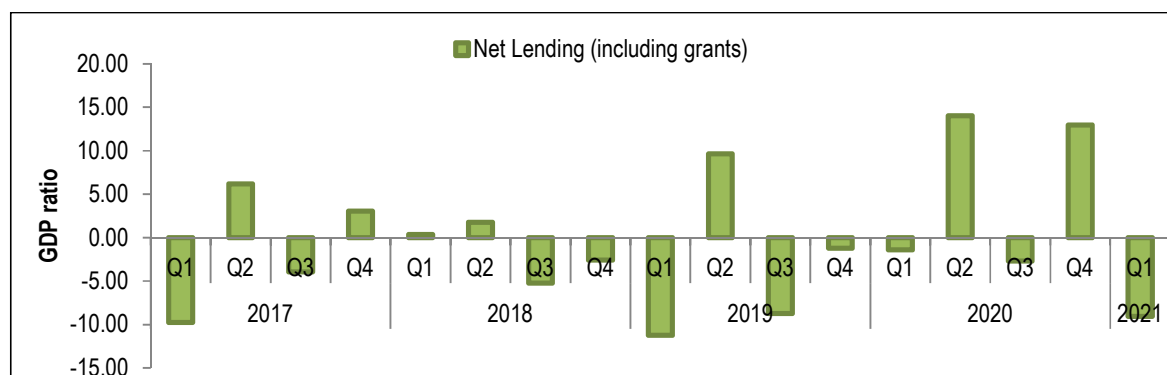
**Source:** Central Bank of Lesotho

## 5. Government Finance

### OVERVIEW

The Government budgetary operations were estimated to have registered a deficit equivalent to 9.0 per cent of GDP during the first quarter of 2021, compared to a revised surplus of 12.9 per cent of GDP in the last quarter of 2020. This deficit was, in large part, due to high spending that was experienced during the quarter, coinciding with the end of the fiscal year 2020/21. This included commitments of 6.3 per cent of GDP. Public debt stock was estimated at 62.8 per cent of GDP, following a revised 63.8 per cent of GDP in December 2020.

**Figure 18: Fiscal Balance (Percent of GDP)**

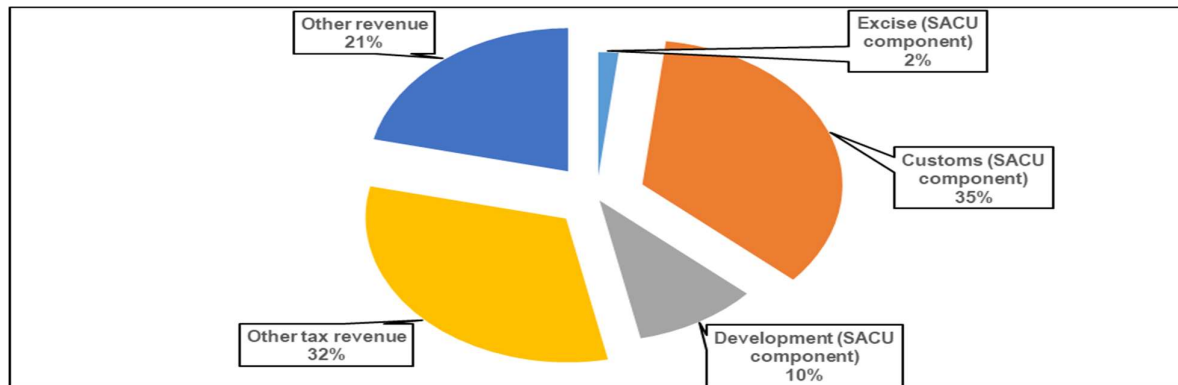


**Source:** Central Bank of Lesotho and Ministry of Finance

## REVENUE<sup>1</sup>

The Government revenue declined by 2.1 per cent during the quarter ending in March 2021, in contrast to a revised upsurge of 14.4 per cent in the previous quarter. The main contributing revenue categories included VAT, excise taxes, capital grants from foreign governments and from international organisations, property income in the form of mining royalties and surface rent, and Lesotho Highlands Water royalties. On a year-on-year basis, revenue increased significantly by 20.9 per cent.

**Figure 19: Total Revenue (Million Maloti)**



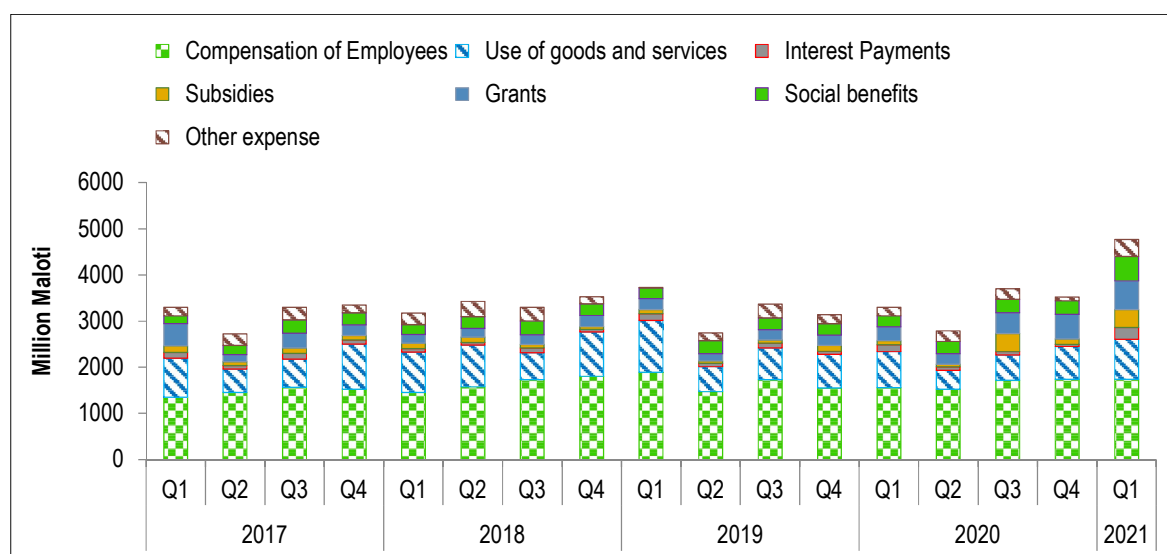
**Source:** Central Bank of Lesotho and Ministry of Finance

## TOTAL EXPENDITURE

The Government expenditure increased by 39.4 per cent during the quarter ending in March 2021, contrary to a revised decline of 12.5 per cent in the quarter ending in December 2020. This rise was noticed under both expense and nonfinancial assets categories. The main drivers included wages and salaries in kind, public assistance in cash, social safety nets, employer social compensation, transfers to institutions caring for orphans, buildings and structures, plus, machinery and equipment. The safety nets were particularly in connection with Covid-19 social protection. Concerning year-on-year changes, the total expenditure rose by 33.9 per cent, that was mainly attributable to subsidies to non-financial corporations, current grants to extra-budgetary units, public assistance in cash and in kind, and safety nets.

<sup>1</sup> SACU receipts have been disaggregated into three components: excise tax, customs and other imports duties, and grants from international organisations. They are received during the first month of each quarter, making four inflows in a fiscal year.

**Figure 20: Total Expense (Million Maloti)**



Source: Central Bank of Lesotho and Ministry of Finance

**Table 14: Statement of Government Operations (Million Maloti)**

	2020				2021	Q-to-Q	Y-on-	GDP
	Q1	Q2	Q3	Q4	Q1	(%)	Y (%)	ratio (%)
<b>Total Revenue</b>	<b>3980.98</b>	<b>4050.97</b>	<b>4296.36</b>	<b>4913.37</b>	<b>4812.64</b>	<b>-2.1</b>	<b>20.9</b>	<b>63.9</b>
Tax revenue	3308.75	3050.75	3409.45	3784.57	3782.71	0.0	14.3	50.2
Income Tax	979.86	756.99	848.62	1014.83	1104.96	8.9	12.8	14.7
Value Added Tax	768.97	424.46	679.51	850.10	700.28	-17.6	-8.9	9.3
SACU Receipts Components	1217.77	1756.49	1756.49	1756.49	1756.49	0.0	44.2	23.3
Other tax revenue	342.15	112.82	124.83	163.16	220.99	35.4	-35.4	2.9
Grants	363.19	558.44	553.34	568.37	565.70	-0.5	55.8	7.5
o/w SACU Receipts Component	338.78	488.65	488.65	488.65	488.65	0.0	44.2	6.5
Other revenue	309.04	441.78	333.57	560.43	464.22	-17.2	50.2	6.2
<b>Total Expense</b>	<b>3299.97</b>	<b>2788.77</b>	<b>3701.61</b>	<b>3519.27</b>	<b>4770.12</b>	<b>35.5</b>	<b>44.6</b>	<b>63.4</b>
Compensation of Employees	1554.18	1524.92	1717.95	1739.65	1740.03	0.0	12.0	23.1
Use of goods and services	785.21	409.28	545.87	709.04	864.95	22.0	10.2	11.5
O/W Purchase of Health Services	267.30	153.00	118.03	95.38	165.63	73.7	-38.0	2.2
Interest Payments	145.78	69.31	76.77	46.68	255.98	448.4	75.6	3.4
Subsidies	89.87	58.18	387.00	119.57	391.60	227.5	335.7	5.2
Grants	298.52	233.46	452.51	532.93	617.60	15.9	106.9	8.2
Social benefits	240.28	262.63	293.37	294.29	531.01	80.4	121.0	7.1
Other expense	186.13	231.00	228.14	77.12	368.95	378.4	98.2	4.9
<b>Net Operating Balance</b>	<b>681.01</b>	<b>1262.21</b>	<b>594.75</b>	<b>1394.10</b>	<b>42.52</b>	<b>-</b>	<b>-</b>	<b>0.6</b>
<b>Total Nonfinancial Assets</b>	<b>803.31</b>	<b>350.17</b>	<b>803.11</b>	<b>421.53</b>	<b>723.77</b>	<b>71.7</b>	<b>-9.9</b>	<b>9.6</b>
Fixed Assets	803.31	350.17	803.11	421.53	723.77	71.7	-9.9	9.6
Non-Produced Assets	0.00	0.00	0.00	0.00	0.00	-	-	0.0
<b>Expenditure</b>	<b>4103.28</b>	<b>3138.94</b>	<b>4504.72</b>	<b>3940.80</b>	<b>5493.89</b>	<b>39.4</b>	<b>33.9</b>	<b>73.0</b>
<b>Primary balance</b>	<b>23.48</b>	<b>981.34</b>	<b>-131.59</b>	<b>1019.25</b>	<b>-425.26</b>	<b>-</b>	<b>-</b>	<b>-5.6</b>
<b>Net lending/borrowing</b>	<b>-122.30</b>	<b>912.04</b>	<b>-208.36</b>	<b>972.57</b>	<b>-681.25</b>	<b>-</b>	<b>-</b>	<b>-9.0</b>
<b>Financing</b>	<b>-575.87</b>	<b>1089.28</b>	<b>-363.45</b>	<b>966.87</b>	<b>-825.92</b>	<b>-</b>	<b>-</b>	<b>-11.0</b>

Net Acquisition of Financial assets O/W Domestic Currency and	-336.73	1323.49	191.74	-567.22	-548.18	-	-	-7.3
Deposits	-353.67	1298.42	195.45	-567.22	-544.83	-	-	-7.2
Net Incurrence of Liabilities O/W Domestic Other Accounts	239.15	234.21	555.19	-1534.09	277.73	-	-	3.7
Payable	156.19	289.67	-206.22	-814.12	988.60	-	-	13.1
Statistical Discrepancy	453.57	-177.25	155.09	5.70	144.67	-	-	1.9
<b>Memo Items</b>								
SACU receipts	1556.55	2245.13	2245.13	2245.13	2245.13	0.0	44.2	29.8
GDP (quarterly, red colour = forecast)	8594.42	6509.20	7767.42	7513.95	7528.98	-	-	-

**Source:** Central Bank of Lesotho and Ministry of Finance

## TOTAL OUTLAYS BY FUNCTIONS OF GOVERNMENT<sup>2</sup>

Total outlays by functions of Government surged by 38.6 per cent during the quarter under review, mainly because of high spending in both current and capital outlays. Under the current outlays, most resources were directed towards health and general public services sectors, while in terms of capital outlays, sectors of general public service and public order and safety spent the most. Regarding the proportional share to the total spending, the current outlays took 91.5 per cent. In regards to year-on-year changes, total outlays rose by 49.0 per cent, owing to general public services, and recreational services.

**Table 15: Total Outlays by Functions of Government (Million Maloti)**

	2020				2021 Q1	Q-to-Q (%)	Y-on- Y (%)	GDP ratio (%)
	Q1	Q2	Q3	Q4				
<b>Current Outlays</b>	<b>3284.35</b>	<b>2692.45</b>	<b>3588.68</b>	<b>3278.44</b>	<b>4557.33</b>	<b>39.0</b>	<b>38.8</b>	<b>60.5</b>
General public services	475.31	350.40	520.65	662.09	830.47	25.4	74.7	11.0
Defense	153.09	137.24	155.23	147.03	189.25	28.7	23.6	2.5
Public order and safety	294.29	278.41	330.53	315.76	388.00	22.9	31.8	5.2
Economic affairs	524.37	416.08	528.79	285.06	700.06	145.6	33.5	9.3
Environmental protection	3.57	2.63	4.45	4.54	4.86	6.9	36.1	0.1
Housing and community amenities	82.17	27.46	74.32	33.11	38.79	17.2	-52.8	0.5
Health	606.20	382.69	750.64	555.48	739.80	33.2	22.0	9.8
Recreation, culture and religion	25.91	22.05	25.06	20.19	45.14	123.6	74.2	0.6
Education	586.35	559.39	643.84	695.76	781.78	12.4	33.3	10.4
Social protection	533.09	516.09	555.15	559.41	839.17	50.0	57.4	11.1
<b>Capital Outlays</b>	<b>60.11</b>	<b>0.00</b>	<b>5.59</b>	<b>315.74</b>	<b>425.44</b>	<b>34.7</b>	<b>607.8</b>	<b>5.7</b>
General public services	16.52	0.00	2.25	107.89	121.96	13.0	638.3	1.6
Defense	0.00	0.00	0.00	8.64	5.95	-31.1	-	0.1
Public order and safety	15.40	0.00	0.39	78.80	103.26	31.0	570.5	1.4
Economic affairs	9.01	0.00	1.58	22.59	86.43	282.6	859.0	1.1
Environmental protection	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Housing and community amenities	2.28	0.00	1.37	89.50	66.24	-26.0	2805.0	0.9
Health	10.14	0.00	0.00	1.03	14.48	1299.3	42.8	0.2
Recreation, culture and religion	5.94	0.00	0.00	3.70	12.81	246.0	115.5	0.2
Education	0.82	0.00	0.00	3.59	14.32	299.1	1650.6	0.2
Social protection	0.00	0.00	0.00	0.00	0.00	-	-	0.0

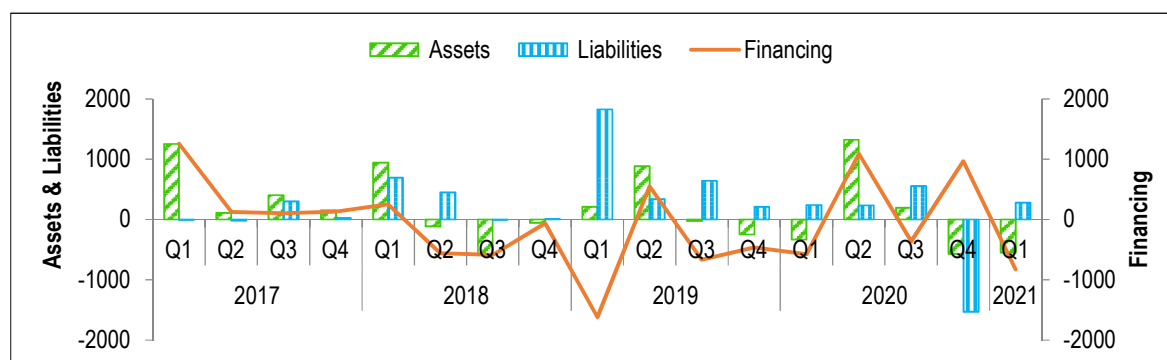
<sup>2</sup> This COFOG excludes interest payments and financing items (ie loan principal repayments and payment of arrears). The classification of Lesotho's COFOG is compatible with the IMF's GFS manual of 2014.

	2020				2021	Q-to-Q	Y-on-	GDP
	Q1	Q2	Q3	Q4	Q1	(%)	Y (%)	ratio (%)
<b>Total Outlays</b>	<b>3344.46</b>	<b>2692.45</b>	<b>3594.27</b>	<b>3594.18</b>	<b>4982.77</b>	<b>38.6</b>	<b>49.0</b>	<b>66.2</b>
General public services	491.82	350.40	522.91	769.98	952.43	23.7	93.7	12.7
Defense	153.09	137.24	155.23	155.67	195.21	25.4	27.5	2.6
Public order and safety	309.70	278.41	330.92	394.56	491.26	24.5	58.6	6.5
Economic affairs	533.38	416.08	530.37	307.65	786.48	155.6	47.5	10.4
Environmental protection	3.57	2.63	4.45	4.54	4.86	6.9	36.1	0.1
Housing and community amenities	84.45	27.46	75.69	122.60	105.04	-14.3	24.4	1.4
Health	616.34	382.69	750.64	556.52	754.28	35.5	22.4	10.0
Recreation, culture and religion	31.85	22.05	25.06	23.89	57.95	142.5	81.9	0.8
Education	587.17	559.39	643.84	699.35	796.09	13.8	35.6	10.6
Social protection	533.09	516.09	555.15	559.41	839.17	50.0	57.4	11.1
<b>Unidentified Outlays</b>	<b>758.82</b>	<b>446.49</b>	<b>910.45</b>	<b>346.62</b>	<b>511.12</b>	<b>47.5</b>	<b>-32.6</b>	<b>6.8</b>

### FINANCIAL ASSETS AND LIABILITIES<sup>3</sup>

The Government financial flows registered a decline mainly due to a drawdown in currency and deposits, redemption of long-term securities, and amortisation of external debt. However, some financial instruments moderated this decrease. They included other account payable, disbursements on foreign loans, and foreign financial assets. The other accounts payable category, an equivalent of 13.1 per cent of GDP, mainly depicted transactions that failed to be paid within the quarter. About 7.5 per cent of GDP in terms of arrears on goods and services that were realised were also redeemed.

**Figure 21: Total Financing (Million Maloti)**



**Source:** Central Bank of Lesotho and Ministry of Finance

### TOTAL PUBLIC DEBT<sup>4</sup>

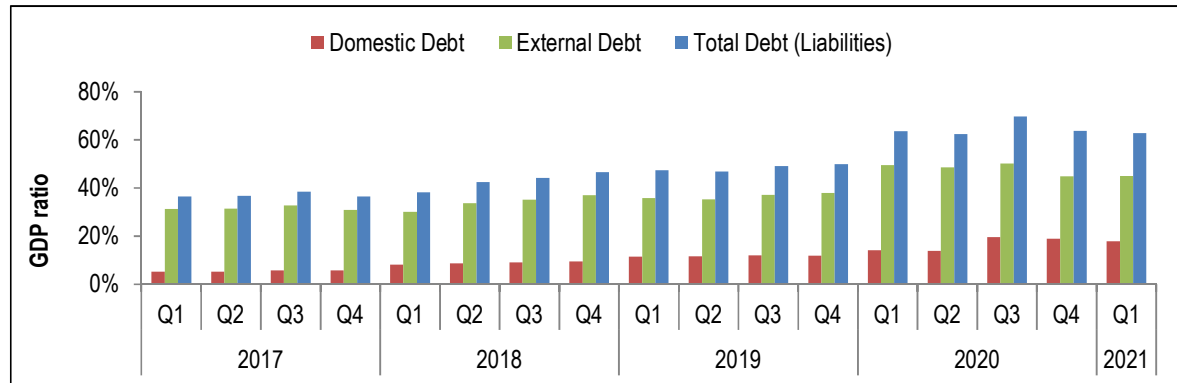
The stock of public debt was estimated at 62.8 per cent of GDP in the quarter ending in March 2021 compared to 63.8 per cent in the quarter ending in December 2020. This was equivalent to a 1.5 per

<sup>3</sup> All categories are on net terms. The difference between financing and net lending is captured under other accounts payable. However, existing statistical discrepancy caters for some funds in the banks that are totally unexplained as they are highly aggregated.

<sup>4</sup> All categories are on net terms. The stock of public external debt is converted using an end-of-period exchange rate.

cent contraction during the quarter under review, following an 8.5 per cent in the previous quarter. The major reduction of the public debt stock largely resulted from revaluation gains, which reduced external component, plus a decline in domestic debt. In terms of year-on-year basis, the public debt stock decreased by 1.3 per cent in the quarter under review relative to a rise of 13.7 per cent in December 2020.

**Figure 22: Outstanding Public Debt (Million Maloti)**



Source: Central Bank of Lesotho and Ministry of Finance

**Table 16: Public Debt Stock (Million Maloti)**

	2020				2021	Q-to-Q (%)	Y-on-Y (%)	Debt / GDP (%)
	Q1	Q2	Q3	Q4	Q1			
<b>Total Public Debt</b>	<b>19344.31</b>	<b>18977.26</b>	<b>21189.01</b>	<b>19391.98</b>	<b>19093.49</b>	<b>-1.5</b>	<b>-1.3</b>	<b>62.8</b>
<b>EXTERNAL DEBT</b>	<b>15052.20</b>	<b>14773.90</b>	<b>15223.73</b>	<b>13631.19</b>	<b>13665.43</b>	<b>0.3</b>	<b>-9.2</b>	<b>45.0</b>
Bilateral Loans	1223.43	1149.80	1118.26	975.64	982.61	0.7	-19.7	3.2
Concessional	1223.43	1149.80	1118.26	975.64	982.61	0.7	-19.7	3.2
Non-concessional	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Multilateral Loans	12652.06	12427.47	12399.03	11090.74	11108.39	0.2	-12.2	36.6
Concessional	11118.16	10912.81	10907.51	9620.03	9664.54	0.5	-13.1	31.8
Non-concessional	1533.89	1514.65	1491.52	1470.71	1443.85	-1.8	-5.9	4.8
Financial Institutions	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Concessional	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Non-concessional	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Suppliers' Credit	1176.72	1196.63	1706.44	1564.81	1574.43	0.6	33.8	5.2
<b>DOMESTIC DEBT</b>	<b>4292.11</b>	<b>4203.36</b>	<b>5965.28</b>	<b>5760.79</b>	<b>5428.06</b>	<b>-5.8</b>	<b>26.5</b>	<b>17.9</b>
Banks	2652.11	2562.01	4246.47	4095.44	3728.78	-9.0	40.6	12.3
Long-term	1584.37	1490.65	3189.03	3049.82	3070.87	0.7	93.8	10.1
Treasury bonds	980.55	981.71	1012.60	1096.06	1124.24	2.6	14.7	3.7
Central Bank (IMF-ECF)	603.82	508.94	2176.43	1953.76	1946.64	-0.4	222.4	6.4
Short-term (t-bills)	1067.74	1071.36	1057.44	1045.63	657.91	-37.1	-38.4	2.2
Non-bank	1640.00	1641.35	1718.81	1665.35	1699.28	2.0	3.6	5.6
Short-term (t-bills)	237.93	240.44	254.61	261.60	223.71	-14.5	-6.0	0.7
Long-term (t-bonds)	1402.07	1400.91	1464.20	1403.74	1475.57	5.1	5.2	4.9
<b>DEBT INDICATORS</b>								
External Debt-to-Total Debt	77.8	77.9	71.8	70.3	71.6	-	-	-
Domestic Debt-to-Total Debt	22.2	22.1	28.2	29.7	28.4	-	-	-
Concessional Debt-to-External Debt	82.0	81.6	79.0	77.7	77.9	-	-	-
External Debt Service-to-GDP	2.5	2.8	2.7	1.9	2.4	-	-	-



External Debt Service-to-Revenue	5.3	4.4	4.8	2.9	3.7	-	-	-
External Debt Service-to-Exports	5.2	9.2	5.2	3.3	5.3	-	-	-

**Source:** Central Bank of Lesotho and Ministry of Finance

## 6. Foreign Trade and Payments

### OVERVIEW

During the first quarter of 2021, the external sector position recorded a deficit after three consecutive quarters of surpluses. This was despite an improvement in the current account balance. A deficit equivalent to 9.3 per cent of GDP was recorded in the review quarter from a surplus of 18.1 per cent in the last quarter of 2020. The observed deterioration was mainly attributed to the decline in capital account inflows together with the reduction in financial account outflows during the first quarter of 2021.

### CURRENT ACCOUNT

A current account surplus amounting to M83.62 million was realised in the first quarter of 2021, following a deficit of M147.13 in the previous quarter. The current account benefited from a decline in the goods account deficit, together with increased surpluses in the primary and secondary income accounts during the same quarter. However, the services account deficit widened and partly offset the impact of these observed improvements on the current account balance. As a share of GDP, the current account surplus accounted for 1.1 per cent in the first quarter of 2021, against a deficit equivalent to 2.0 per cent of GDP in the previous quarter.

**Table 17: Current Account Balance (Million Maloti)**

	2020				2021	% Changes	
	Q1	Q2	Q3	Q4	Q1	Q/Q	Y/Y
<b>Current Account</b>	<b>76.44</b>	<b>127.23</b>	<b>-743.12</b>	<b>-147.13</b>	<b>83.62</b>	<b>156.8</b>	<b>9.4</b>
<b>(a) Goods</b>	<b>-2,366.67</b>	<b>-2,735.67</b>	<b>-3,578.55</b>	<b>-3,051.97</b>	<b>-2,958.20</b>	<b>3.1</b>	<b>-25.0</b>
Merchandise exports, f.o.b.	4,122.97	1,962.37	3,987.25	4,298.70	3,350.16	-22.1	-18.7
Of which diamonds	1,066.43	525.57	1,153.46	1,217.29	919.79	-24.4	-13.8
Of which textiles & clothing	2,095.24	928.34	2,211.63	2,424.11	1,778.78	-26.6	-15.1
Of which water	234.78	255.44	253.07	287.56	281.90	-2.0	20.1

Of which agriculture	86.51	81.75	86.50	105.53	71.17	-32.6	-17.7
Of which re-exports	36.31	19.52	36.87	34.59	83.48	141.3	129.9
Other exports	603.70	151.75	245.72	229.62	215.04	-6.3	-64.4
Merchandise imports, f.o.b.	6,489.64	4,698.04	7,565.80	7,350.67	6,308.36	-14.2	-2.8
<b>(b) Services</b>	<b>-1,555.22</b>	<b>-1,394.96</b>	<b>-1,628.09</b>	<b>-1,606.35</b>	<b>-1,659.82</b>	<b>-3.3</b>	<b>-6.7</b>
<b>(c) Primary Income</b>	<b>1,768.48</b>	<b>1,512.66</b>	<b>1,688.67</b>	<b>1,716.03</b>	<b>1,743.52</b>	<b>1.6</b>	<b>-1.4</b>
<b>(d) Secondary Income</b>	<b>2,229.85</b>	<b>2,745.19</b>	<b>2,774.86</b>	<b>2,795.16</b>	<b>2,958.11</b>	<b>5.8</b>	<b>32.7</b>

**Source:** Central Bank of Lesotho

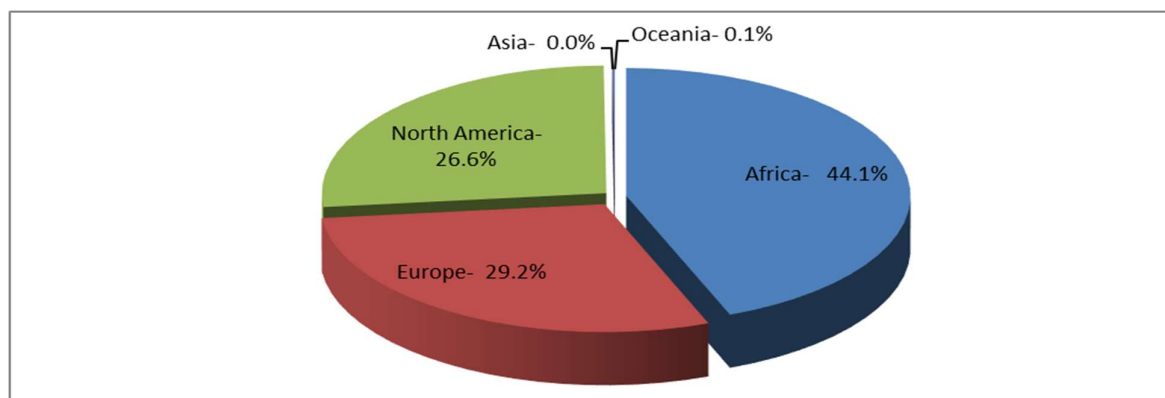
### Merchandise Exports

Merchandise exports fell by 22.1 per cent in the quarter ending March 2021, from a 7.8 per cent growth in the fourth quarter of 2020. The decline in merchandise exports was largely due to a fall in textiles and clothing, diamonds and agricultural exports, and a marginal decline in water exports. Clothing and textile exports fell by 26.6 per cent as a result of the closure of some clothing and textile firms, as well as, halted production due to the nationwide lockdown to arrest the Covid-19 infections during the quarter under review. Diamond exports declined by 24.4 per cent during the first quarter of 2021, after increasing by 5.5 per cent in the previous quarter, as the restriction of movements coupled with the exchange rate appreciation weighed negatively on production and sales for diamonds. Agricultural exports decreased by 32.6 per cent during the quarter under review compared to an increase of 22.0 per cent in the preceding quarter. This followed vegetables import restrictions imposed by the government in the first quarter of 2021, which led to higher demand for locally produced vegetables. Meanwhile, re-exports expanded more than twofold, following a 6.2 per cent fall in the previous quarter. This was largely due to re-exports of machinery and construction equipment to South Africa. Year on year, merchandise exports plummeted by 18.7 per cent in the quarter under review following a marginal decline of 0.3 per cent in the quarter ending in December 2020. Expressed as a share of GDP, merchandise exports constituted 44.5 per cent compared with a revised 57.2 per cent in the previous quarter.

### Direction of Trade – Exports

In the first quarter of 2021, the largest share of Lesotho's exports, 44.1 per cent, went to Africa following a 34.6 share in the previous quarter. South Africa was the largest recipient of these exports. Europe was the second largest destination of Lesotho's exports at 29.2 per cent. This had declined from a share of 31.9 per cent in the preceding quarter, with the largest negative contribution coming from a decline in diamond exports to Belgium. The third largest recipient was America, which received 26.6 per cent of total exports following a 32.9 per cent share in the last quarter of 2020. This resulted from a significant decline in clothing and textile exports to the US. Asia and Oceania remained the least recipients of Lesotho's exports, constituting minimal shares of 0.04 per cent and 0.1 per cent, respectively.

**Figure 23: Direction of Merchandise Exports (Percentage Share)**



**Source:** Central Bank of Lesotho

### **Merchandise Imports**

Merchandise imports continued to decline during the first quarter of 2021. They fell by 14.2 per cent, following a 2.8 per cent drop in the previous quarter. The reduction was broad-based with almost all categories of imports declining during this period, as the country embarked on lockdown restrictions in the wake of the second wave of the Covid-19 pandemic. Significant declines were observed on imports of textiles and clothing, vegetables, machinery, as well as, photographic and medical equipment. On an annual basis, merchandise imports contracted by 2.8 per cent, after increasing by 11.1 per cent in the preceding quarter. As a share of GDP, merchandise imports were equivalent to 83.4 per cent, falling from a share of a revised 97.8 per cent in the previous quarter.

### **Services account**

Lesotho continued to be a net importer of services in the first quarter of 2021. The services account deficit widened by 3.3 per cent, after falling by 1.3 per cent in the previous quarter. This resulted from a significant increase in payments of telecommunication services, as well as, an increase in payments for official international travel. However, the increase was dampened by a decline in payments on freight services in line with reduced imports during the quarter under review. On an annual basis, the services account deficit widened by 6.7 per cent, higher than a 1.5 per cent deficit expansion in the fourth quarter of 2020. As a percentage of GDP, the deficit on the services account amounted to 22.0 per cent during the quarter under review, compared to a revised 21.4 per cent in the previous quarter.

### **Primary Income Account**

During the review period, the surplus on the primary income account grew at the same rate of 1.6 per cent as in the quarter ending in December 2020. Positive contributions came from increased compensation of employees from Basotho migrant workers in South Africa, together with a rise in

interest receipts on commercial banks' investments held abroad. The increase was however offset by a fall in interest receipts on central bank's investments held abroad, and the receipts for Lesotho Highlands Water Project – Phase I maintenance and operational related costs. On an annual basis, the surplus on the primary income account contracted by 1.4 per cent, following a marginal decline of 0.4 per cent in the previous quarter. As a percentage of GDP, the surplus was 23.2 per cent, relatively higher than a revised 22.8 per cent share in the in the preceding quarter.

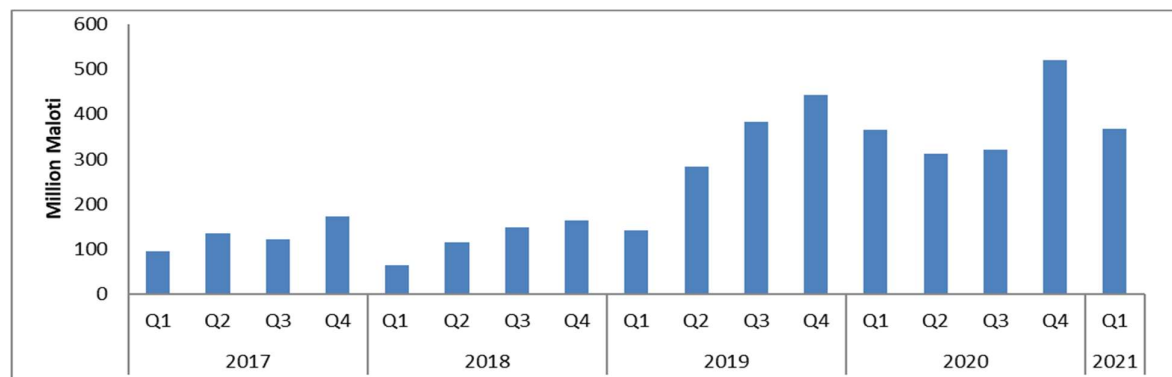
### Secondary Income Account

The secondary income account surplus rose by 5.9 per cent during the first quarter of 2021, following a 0.7 per cent growth in the previous quarter. The secondary income account was mainly supported by the rand compensation receipts, as well as, lower subscriptions to international organisations during the review period. Year-on-year, the surplus on the secondary income account rose by 32.7 per cent, following a 33.5 per cent increase in the previous quarter. As a proportion of GDP, the surplus on the secondary income account amounted to 39.3 per cent, from a revised 37.2 per cent share in the previous quarter.

### CAPITAL ACCOUNT

During the first quarter of 2021, the surplus on the capital account declined by 29.3 per cent, easing from a 62.6 per cent increase in the quarter ending in December 2020. This reflected a decline in transfers for advance infrastructure related to the Lesotho Highlands Water Project – Phase II, as activities slowed due to the re-imposition of stricter Covid-19 lockdown measures during the review period. Furthermore, there was a decline in grants to government for capital related projects during the same quarter. Year on year, the surplus on the capital account increased 1.1 per cent, which was significantly lower than a 17.5 per cent rise in the previous quarter. As a share of GDP, the surplus on the capital account amounted to 4.9 per cent, following a revised 6.9 per cent share in the preceding quarter.

**Figure 24: Capital Account (Million Maloti)**



Source: Central Bank of Lesotho

## FINANCIAL ACCOUNT

During the first quarter of 2021, financial account outflows recorded M301.40 million compared with outflows of M1,540.81 million in the preceding quarter. Expressed as a share of GDP, the financial account outflows constituted 2.3 per cent compared to a revised 22.3 per cent in the last quarter of 2020.

**Table 18: Financial Account Balance** (*Million Maloti*)

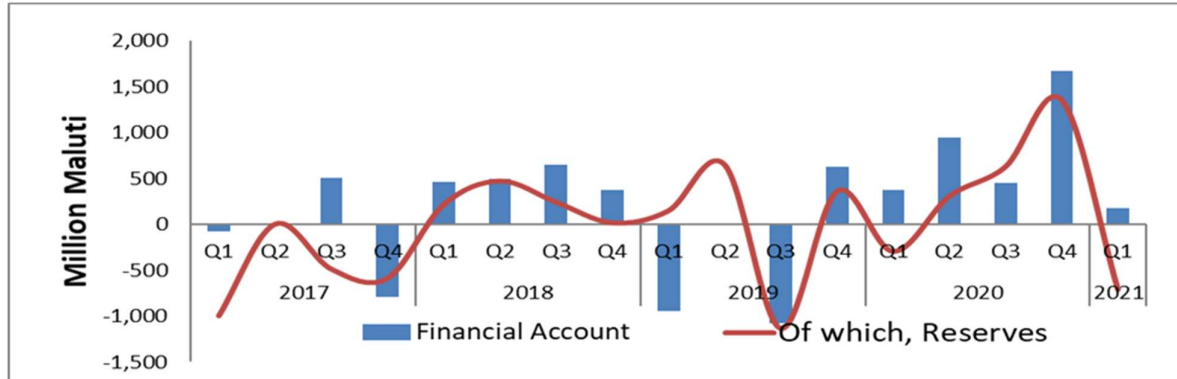
	2020				2021
	Q1	Q2	Q3	Q4	Q1
<b>Financial account</b>	<b>376.78</b>	<b>947.73</b>	<b>450.65</b>	<b>1540.81</b>	<b>301.40</b>
Direct Investments, net	-128.90	-128.90	-128.90	-128.90	-128.90
Portfolio Investments, net	7.10	7.10	7.10	7.10	7.10
Financial Derivatives, net	0.00	0.00	0.00	0.00	0.00
Other Investments, net	788.48	759.78	-58.89	443.07	998.20
Of which Loans	103.60	140.58	-644.44	223.80	31.45
Claims on Non Residents	34.48	34.48	34.48	34.48	34.48
Liabilities to Non Residents	-69.12	-106.10	678.92	-189.32	3.03
Of which Currency and Deposits	758.94	693.26	659.61	292.33	1,039.81
Claims on Non Residents	708.33	594.01	668.40	315.77	1,108.81
Liabilities to Non Residents	-50.61	-99.25	8.79	23.44	69.00
Reserve Assets	-289.90	309.75	631.34	1,219.54	-575.00

**Source:** Central Bank of Lesotho

The observed deterioration in financial account outflows was mainly explained by the decline in reserves assets despite significant outflows of foreign assets recorded by commercial banks. Reserves assets fell because of a drawdown in government deposits to finance higher expenditures in the review quarter. The surge in foreign assets held by commercial banks was influenced by amongst others, more placements in foreign countries as a means of managing excess liquidity while also seeking for higher yields abroad. During the same period, there was an increase in foreign loans held by the government, following a reduction in external debt in the previous quarter. Specifically, there were

higher disbursement of foreign loans by the government, which outweighed the foreign loan repayments made during the same quarter. Expressed as a share of GDP, the financial account outflows amounted to 15.7 per cent compared to a revised 11.3 per cent in the previous quarter.

**Figure 25: Financial Account (Million Maloti)**

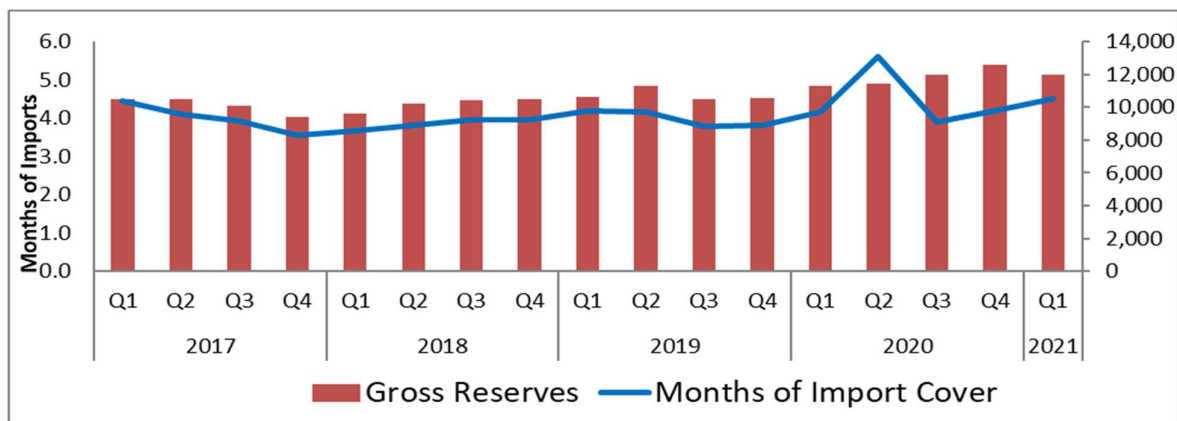


Source: Central Bank of Lesotho

## RESERVE ASSETS

The stock of foreign reserves fell to M12.01 billion during the quarter ending in March 2021, from M12.68 billion in the previous quarter. Despite this decline, reserve coverage rose to 4.5 months of imports in the first quarter of 2021 from 4.3 months in the preceding quarter, mainly as a result of the reduced import bill during the quarter review quarter.

**Figure 26: Reserves Assets**



Source: Central Bank of Lesotho