



# Monthly ECONOMIC REVIEW

August 2020

CENTRAL BANK OF LESOTHO

## I. ECONOMIC ACTIVITY

Economic activity continued on a recovery path in August in 2020 building on the recovery registered in July 2020. The improved performance was attributable to both demand and production as they continued to show positive signs of recovery.

### Overall Performance Index

The overall monthly indicator of economic activity (MIEA) continued on an upward trajectory in August 2020. The index recorded a 3.6 per cent increase in August 2020. The growth was slower compared to the 9.5 per cent recorded in July 2020. This was mainly on account of production side of the economy as more firms continued to return to pre-pandemic operations level.

### Domestic Demand Category

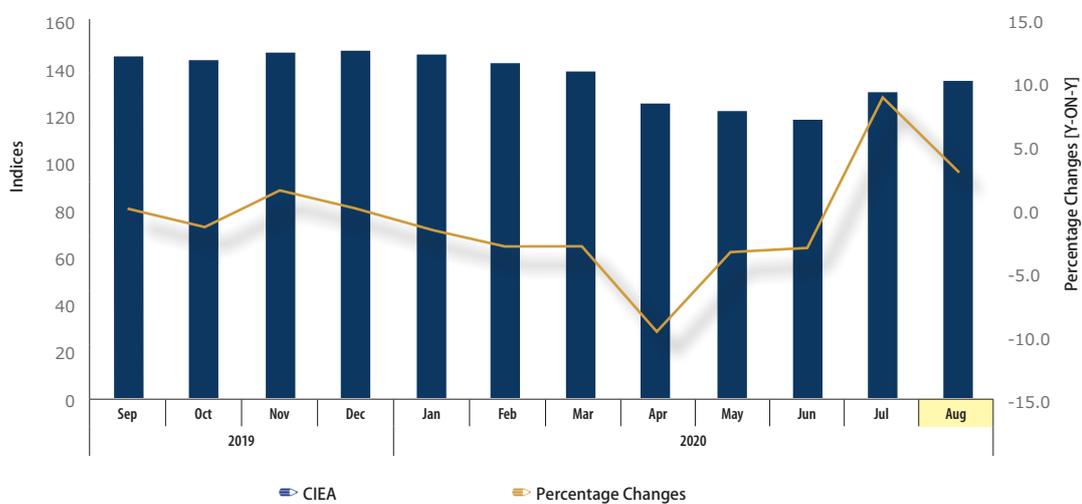
Domestic demand index recorded a 2.4 per cent increase in August 2020. The index of domestic demand continued to grow as movement restrictions were getting looser. After

recording an increase of 2.5 per cent in July, the index's growth rate accelerated to faster 5.6 per cent growth rate in August. Growth emanated mainly from imports of goods and services from South Africa (SA). Credit extension by the financial sector, as well as VAT collections also boosted domestic demand.

### Manufacturing & Production Category

Manufacturing and production category continued to be the main contributor in the recovery of the economy. The index grew by 14.1 per cent in August after growing by 15.7 per cent in the preceding month. The manufacturing industry continued to recover after most textiles industries had their short-term and medium-term orders back in schedule after the cancellations due to the COVID-19 pandemic. Textile exports into the US markets showed recovering patterns as orders improved - after lifting of mobility and activity restrictions that had stifled much of international trade were relaxed worldwide.

**Figure 1 Overall Monthly Indicator of Economic Activity**



Source: CBL Calculations

**Table 1: Summary of the Monthly Indicator of Economic Activity**

Indices	2019			2020				
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
<b>MIEA</b>	149.5	145.7	142.1	128.7	124.9	121.6	133.1	137.9
Monthly changes	-1.0	-2.6	-2.5	-9.4	-2.9	-2.7	9.5	3.6
<b>Domestic Demand Category</b>	135.9	126.4	122.1	115.1	113.3	105.0	107.6	113.6
Monthly changes	-0.5	-7.0	-3.4	-5.8	-1.6	-7.3	2.5	5.6
<b>Manufacturing &amp; Production Category</b>	120.4	119.4	112.9	97.1	81.5	79.7	92.1	105.1
Monthly changes	3.3	-0.8	-5.4	-14.0	-16.1	-2.2	15.7	14.1

Source: CBL Calculations

## II. INFLATION AND PRICES

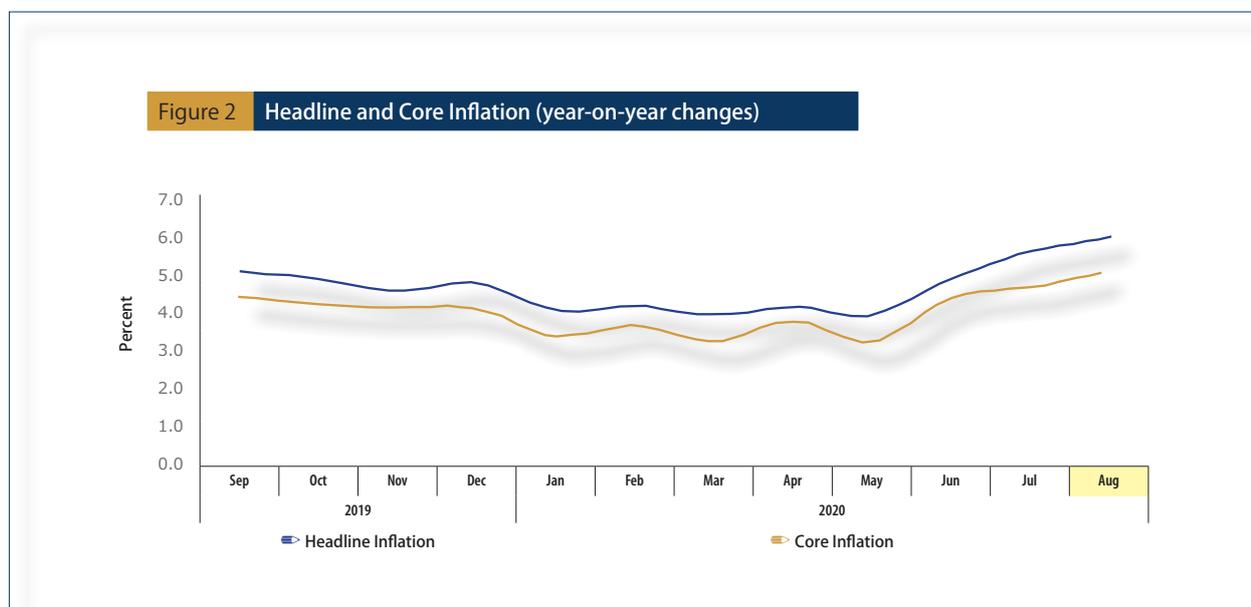
### Headline Inflation

The headline inflation rate accelerated to 6.0 per cent in August 2020 from 5.6 per cent estimated in July 2020. The major contributors to acceleration in inflation were Food & Non-Alcoholic beverages, Transport as well as Housing, electricity gas & other fuels. Nonetheless, clothing & footwear component continued to marginally moderate the acceleration in inflation rate during the review period.

The rising food and energy prices were mainly driven by continued increased demand, which outweighed an increase in supply during the period, as economies began to uplift restrictions that were put in place due to and to curb covid-19.

### Core Inflation

The core inflation, which excludes the CPI items with extreme price changes, also accelerated from 4.7 per cent in July to reach 5.1 per cent in August 2020.

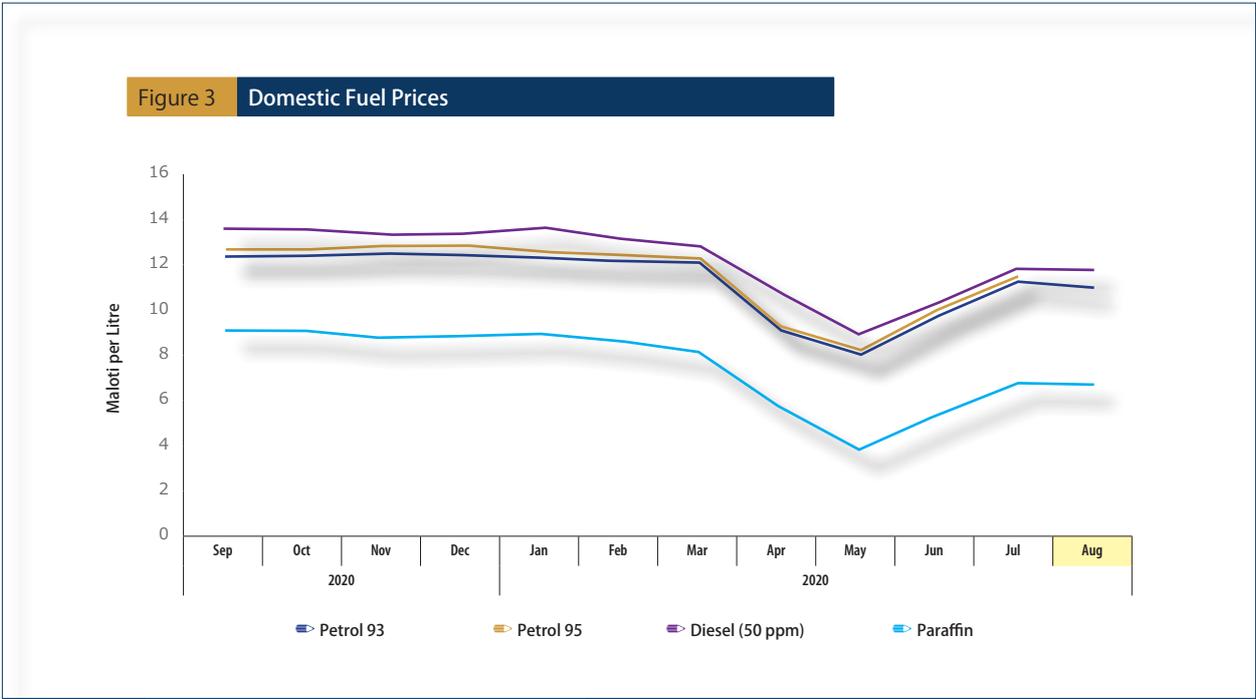


Source: Lesotho Bureau of Statistics & CBL Computation

### Domestic Fuel Prices

Some of the domestic fuel products' prices rose, while others increased during the review period. Both pump prices of petrol grades (petrol93 and petrol95) decreased by M0.20 per litre and M0.25

per litre to reach M11.20 per litre and M11.35 per litre, respectively. The price of diesel50, however, increased by M0.05 per litre to reach M12.005 per litre at the pump in August 2020. The wholesale price of illuminating paraffin remained unchanged at M6.85 per during the review period.



### III. MONETARY AND FINANCIAL INDICATORS

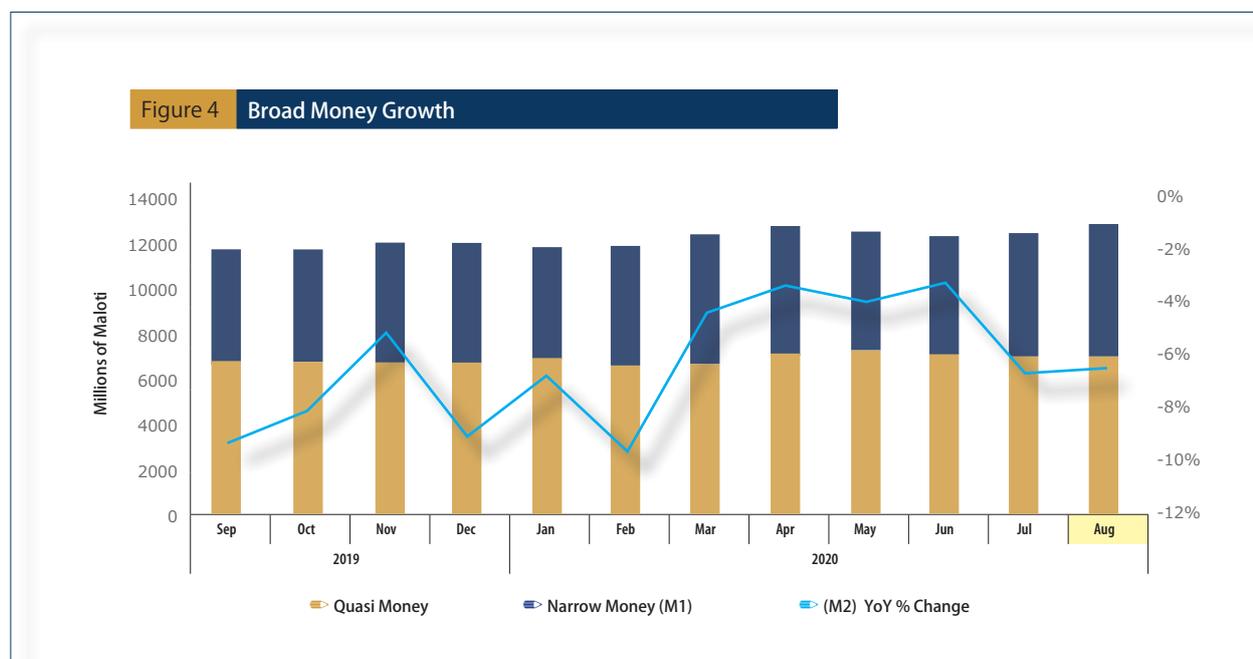
#### Broad Money (M2)

Growth in broad money supply (M2) improved further during the month under review. Between July and August 2020, growth in M2 accelerated by 3.1 per cent, compared to an increase of 1.1 per cent observed in the previous period. The pick-up in M2 was on account of a growth in both net foreign assets (NFA) and net domestic assets (NDA), which improved by 1.7 per cent and 2.4 per cent respectively. Growth in NFA resulted mainly from commercial banks, as a result of an increase in their placements with banks in South Africa. With regards

to the NDA, the major driver was higher government deposits following receipts of relief funds from the International Monetary Fund (IMF).

#### Components of Money Supply

Both components of money supply grew during the review period, with narrow money (M1) improving by 6.8 per cent, while quasi money grew marginally by 0.2 per cent. The significant rise in M1 was at the back of an expansion in transferable deposits of private business enterprises and households held with commercial bank.



Source: Central Bank of Lesotho

#### Private Sector Credit

The growth in private sector credit was muted during the review period. Month-on-month growth in overall credit extended to the private sector improved slightly by 0.6 per cent, compared with an increase of 0.5 per cent registered in the preceding period. The main driver of private sector credit was business enterprises, while growth in household

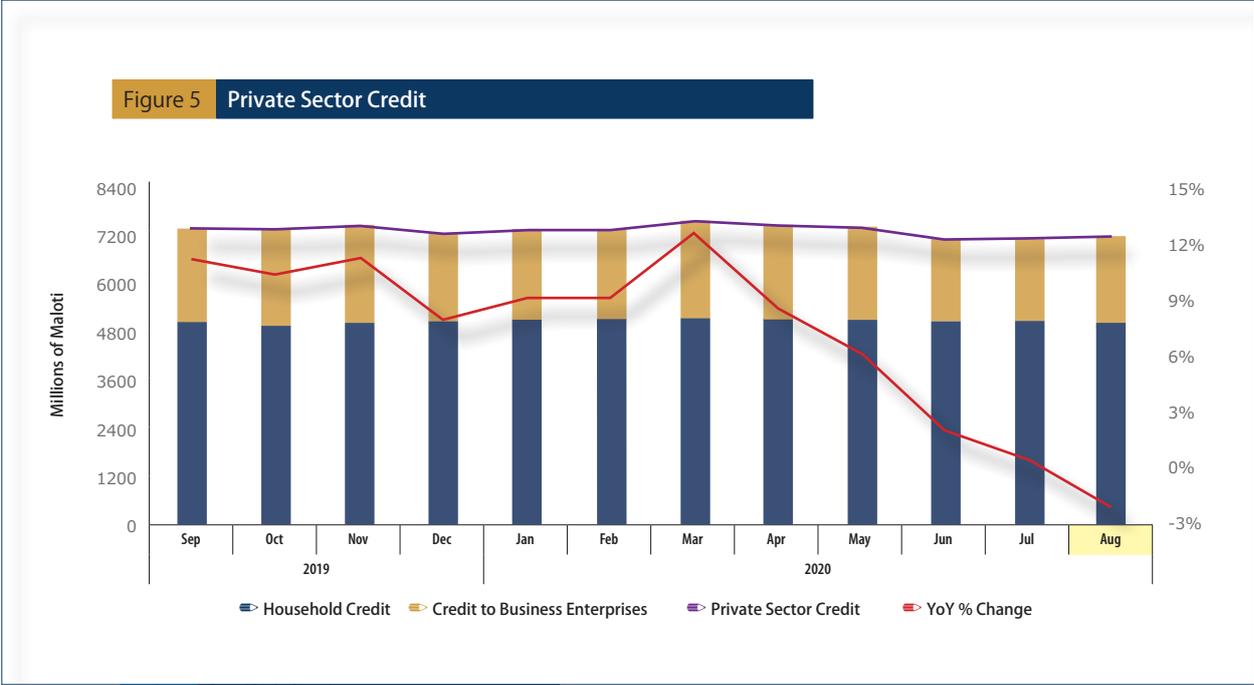
credit contracted during the same period. On a year-on-year basis, credit extended to the private sector shrank by 2.0 per cent.

Total loans and advances granted to business enterprises increased significantly by 4.7 per cent compared with a muted growth of 0.7 per cent in the previous month. This represents the largest growth in credit extended to business enterprises

since March 2020 before the effects of the COVID-19 pandemic became evident. The rise in loans and advances to mining & quarrying and construction sectors helped boost the overall credit to business enterprises.

On the contrary, credit granted to the household sector contracted by 1.0 per cent in August, in

contrast to a mild recovery of 0.5 per cent in July 2020. On one hand, personal loans continued to show a downward trend, as they fell by 1.3 per cent in August, which represents the fifth consecutive month of negative growth. On the other hand, mortgages moderated the overall decline in household credit with a growth of 0.1 per cent.



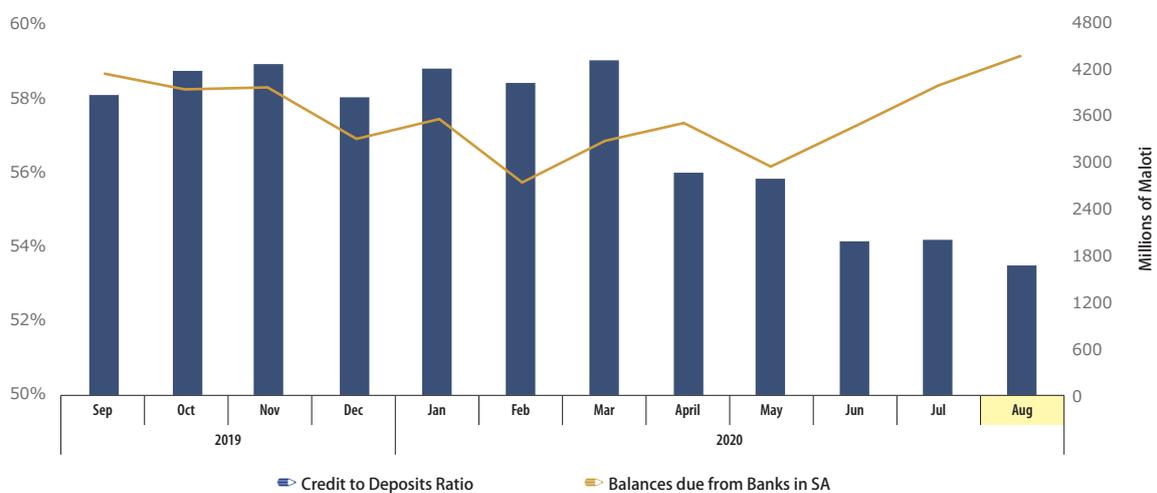
### Non-Performing Loans

The commercial banks quality of loans deteriorated slightly in August 2020, as evidenced by an increase in overall nonperforming loans (NPL) as a ratio of total loans to 4.4 per cent from 4.3 per cent observed in July 2020. The increase in NPLs from the household sector contributed to the observed rise in overall NPLs during the period under review. On the contrary, the NPLs from business enterprises improved from 4.5 per cent to 4.0 per cent, thus helped moderate the increase in total NPLs for August.

### Sources of Funds

The total commercial banks deposit liabilities grew by 3.4 per cent in August, compared with a marginal increase of 0.3 per cent in July. This was chiefly due to a 12.9 per cent increase in demand deposits of private business enterprises held in commercial banks. As a result of a moderate growth in credit extension and significant rise in total customer deposits with the commercial banks, the credit to deposit ratio fell to 53.5 per cent, from 54.2 per cent recorded in the previous period.

**Figure 6 Credit to Deposit Ratio**



Source: Central Bank of Lesotho

### Interest Rates

During the period under review, most short-term interest rates remained unchanged. The Central Bank of Lesotho’s policy rate remained at 3.50 per cent while the domestic 91-day T-Bill discount rates declined by 19 basis points to 3.37 per cent in August 2020. All commercial banks’ deposits and lending rates remained flat during the review period.

### Rand Exchange rate August 2020

The rand hence the loti weakened against major global trading currencies in August 2020. This followed a moderately stronger performance in the previous month. In particular, the rand depreciated

by 2.85 per cent to the average of 17.2280 against the US dollar, 6.41 per cent to the average of 22.6210 against the pound and 6.02 per cent to the average of 20.3828 against the euro. The weakness of rand in the review period was driven by a surge in covid19 cases globally, which threatened global economic recovery. A surge in COVID-19 cases created uncertainty in global growth and raised concern on the possibility of new lockdowns. The bleak fiscal position outlook for South Africa, especially with regard to financing had a negative effect on rand exchange rate. The other major factors driving rand were volatility in the emerging markets, which soured sentiment, as well as rising tensions between the US and China with regard to trade, technology and geo-politics.

# IV. GOVERNMENT BUDGETARY OPERATIONS

## Total Expenditure

Government total expenditure declined by 39.4 per cent in August 2020 compared to an increase of 86.1 per cent in July 2020. The decline was observed under GOL pension contribution, international travel, operating costs, subsidies to non-financial enterprises and current grants to extra-budgetary entities.

## Outlays by Functions

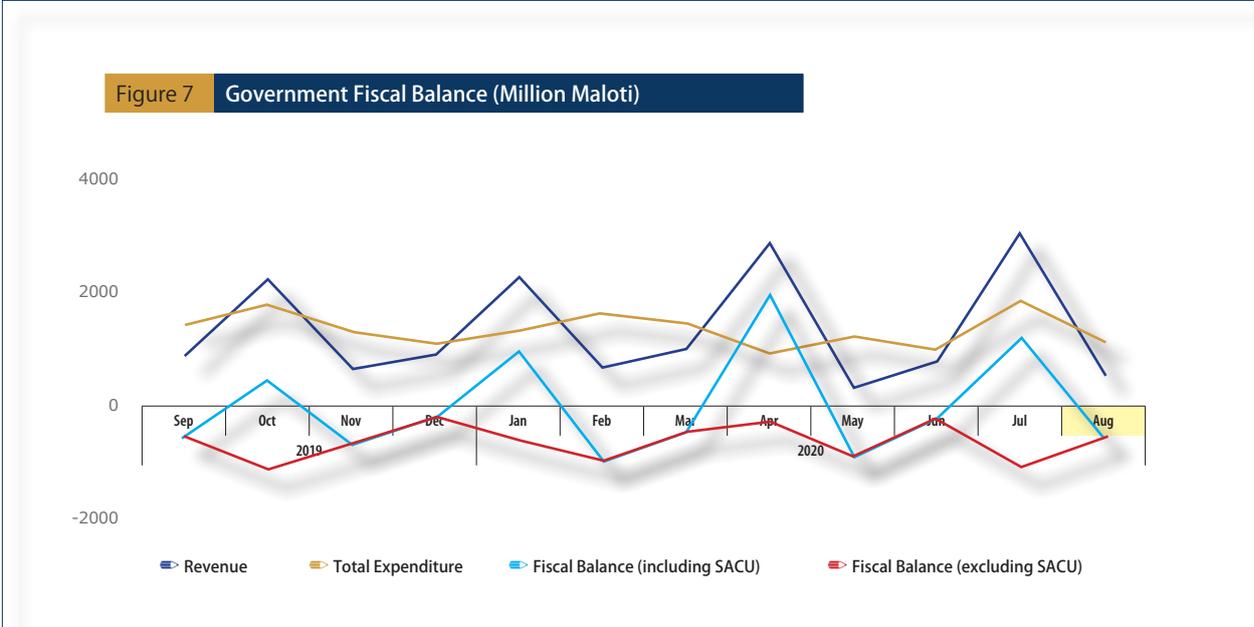
The Government outlays were directed towards recurrent spending at 89.2 percentage share out of total expenditure in August 2020 compared with 79.7 percentage share in July 2020. In terms of the spending share among the functions, education received more funds while environmental protection received the least.

## Total Revenue

Government revenue, excluding SACU receipts, underperformed in the month under review, recording a fall of 81.4 per cent after an increase of more than 100.0 per cent in the previous month. The fall in revenue was due to underperformance of all revenue components coupled with no proceeds from SACU, which are received every first month of the quarter.

## Fiscal Balance and Financing

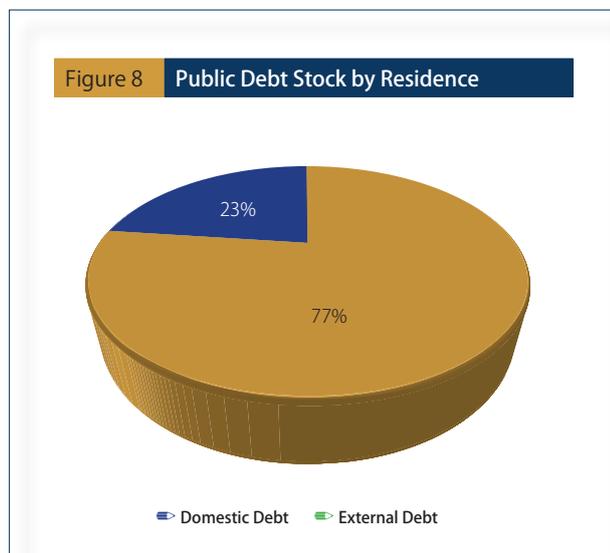
Given the performance of revenue and expenditure above, the fiscal balance during the month registered a deficit of 6.6 per cent of GDP compared with the surplus of 13.9 per cent of GDP in the preceding month. This deficit was financed by drawing down Government deposits in addition to acquisition of new domestic debt securities.



## V. PUBLIC DEBT

The public debt stock was recorded at 62.8 per cent of GDP in the month under review compared with 59.0 per cent of GDP in July 2020. The 6.4 per cent growth between the two months was caused by an

expansion in domestic debt by 20.6 per cent, while external debt increased by 2.7 per cent. In particular, the increase in domestic debt was driven by the IMF loan).



## Appendix: Key Economic Indicators

		20-Mar	20-Apr	20-May	20-Jun	20-Jul	20-Aug	
Economic Activity MIEA (% change, Y/Y)		-2.6	-9.4	-2.9	-2.7	9.5	3.6	
Consumer price Index (% change)	Headline Inflation (year-on-year)	4.0	4.2	4.0	4.9	5.6	6.0	
	Core Inflation	3.3	3.8	3.8	4.4	4.7	5.1	
Exchange Rates (Monthly End Period)	EUR	19.57	19.74	19.43	19.47	20.06	20.02	
	GBP	22.12	22.71	21.57	21.33	22.27	22.35	
	USD	17.84	18.16	17.45	17.39	16.94	16.78	
Money Supply (Millions of Maloti)	M2	12,582.63	12,909.96	12,682.16	12,467.68	12,600.56	12,986.68	
	M1	5,774.30	5,622.80	5,236.58	5,216.40	5,455.47	5,828.06	
	Quasi Money	6,808.33	7,287.16	7,445.58	4,121.66	7,145.10	7,158.62	
Interest Rates	CBL Rate	4.25	4.25	3.75	3.75	3.50	3.50	
	91 day Treasury bill rate	6.11	5.04	3.86	3.70	3.56	3.37	
	Prime lending rate	10.19	9.19	8.56	8.44	8.38	8.19	
	1 year deposit rate	3.94	3.97	3.58	3.58	3.58	3.58	
Private sector Credit (Millions of Maloti)		7,695.44	7,582.96	7,522.51	7,191.51	7,260.58	7,301.67	
	Households	5,160.28	5,231.35	5,214.07	5,148.32	5,202.86	5,147.19	
	Business Enterprises	2,423.99	2,351.61	2,308.43	2,043.19	2,057.72	2,154.48	
Bank Deposit Liabilities (Millions of Maloti)		13,113.62	13,113.62	13,588.00	13,419.99	13,458.87	13,913.83	
Credit to Deposit Ratio (%)		59.00	55.99	55.80	54.20	54.20	53.50	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-415.97	1,984.72	-890.54	-223.13	1,186.03	-564.03	
	Total Revenue	1,003.95	2,889.87	327.83	779.63	3,051.44	566.04	
	Total Expenditure	1,419.93	905.15	1,218.37	1,002.77	1,865.40	1,130.07	
	O/W Capital	546.53	82.95	62.22	151.86	384.04	199.77	
Total Public Debt (Millions of Maloti)		19,464.41	19,589.20	19,124.23	19,108.71	20,112.00	21,339.46	
	Total External Debt	15,172.30	15,353.30	14,918.81	14,905.35	15,941.29	16,370.10	
	External Debt	Concessional	12,463.45	12,624.05	12,222.14	12,195.72	12,604.97	12,735.88
		Non-concessional	2,708.84	2,729.24	2,696.42	2,709.63	3,336.31	3,634.21
	Domestic Debt		4,292.11	4,235.90	4,205.42	4,203.36	4,170.71	5,029.36
Memo Item: Arrears (Millions of Maloti)		38.21	0.24	40.30	147.85	56.94	114.55	

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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