



Monthly ECONOMIC REVIEW

April 2020

CENTRAL BANK OF LESOTHO

I. ECONOMIC ACTIVITY

Economic activity contracted further in April 2020 compared with a slight dip observed in the previous month. The decline was because of poor performance by both the demand, and the production sides of the economy.

Overall Performance Index

Economic performance as measured by the monthly indicator of economic activity (MIEA), declined by 1.3 per cent in April 2020, following a contraction of 0.5 per cent in March. The negative growth was as a result of sluggish domestic demand and weak performance of the manufacturing and production side of the economy. The poor activity in the economy point to the lockdown which was experienced during April as a result of Government efforts to curb the spread of COVID-19 pandemic.

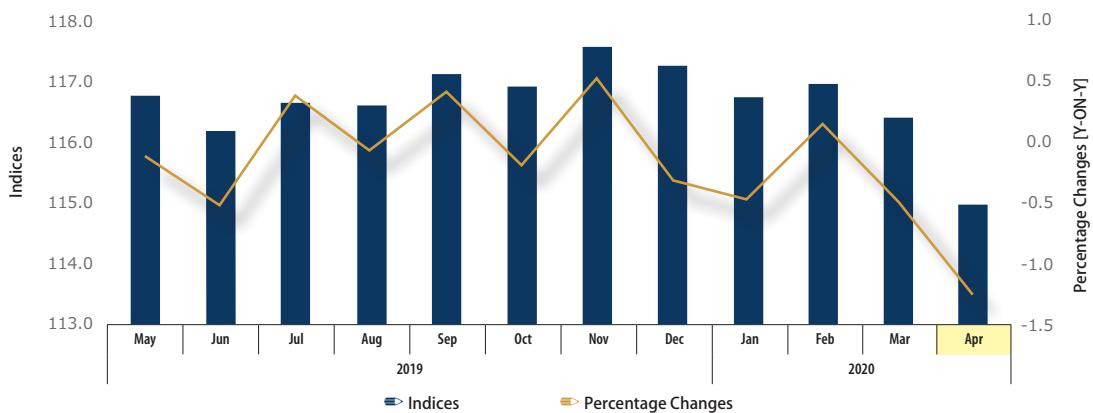
Domestic Demand Category

The domestic demand index showed a negative growth in April. This category was estimated to have declined by 1.3 per cent compared with 0.7 per cent dip in March 2020. The negative growth represented a slowdown in government activity, together with a fall in imports due to the fact that only imports of essential services were allowed during the lockdown.

Manufacturing & Production Category

The production index declined significantly in the review month. The index declined by 1.8 per cent in April 2020 relative to a decline of 0.6 per cent in the preceding month. The decline continued to emanate from declines in electricity and water consumption used for production purposes, thus signalling a persistent decline in domestic production. In addition, export of textiles contributed negatively during the review month indicating paused production in the textiles and clothing industries during the lockdown.

Figure 1 | Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2019				2020			
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
MIEA	117.2	117.0	117.7	117.3	116.8	117.0	116.5	115.0
Monthly changes	0.5	-0.2	0.6	-0.3	-0.4	0.2	-0.5	-1.3
Domestic Demand Category	121.6	121.3	121.3	120.8	120.2	120.4	119.6	118.0
Monthly changes	0.2	-0.3	0.1	-0.4	-0.5	0.1	-0.7	-1.3
Manufacturing & Production Category	107.9	107.4	108.4	107.6	107.6	108.3	107.6	105.7
Monthly changes	0.6	-0.5	0.9	-0.7	0.0	0.6	-0.6	-1.8

Source: CBL Calculations

II. INFLATION AND PRICES

Headline Inflation

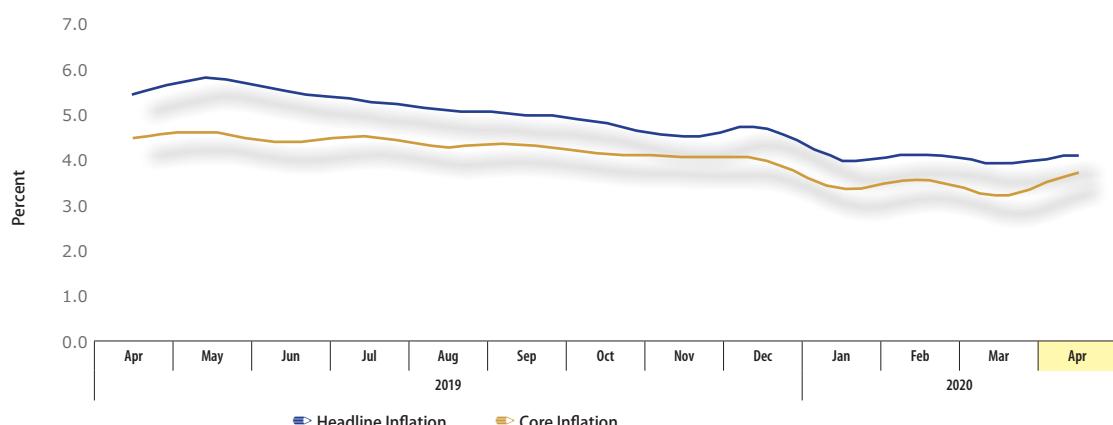
The headline inflation rate accelerated from 4.0 per cent in March 2020 to 4.2 per cent in April. The main determinants of the inflation acceleration during the review period was food prices. This was at the back of panic buying as food supply chains were expected to be disrupted due to containment measures related to COVID-19. Nonetheless, this was moderated by the significant fall in international

crude oil price which was mainly affected the Russia- Saudi Arabia oil price war as well as the effect of COVID-19.

Core Inflation

The core inflation, which excludes the CPI items with extreme price changes, also accelerated from 3.3 per cent in March 2020 to 3.8 per cent in April 2020.

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

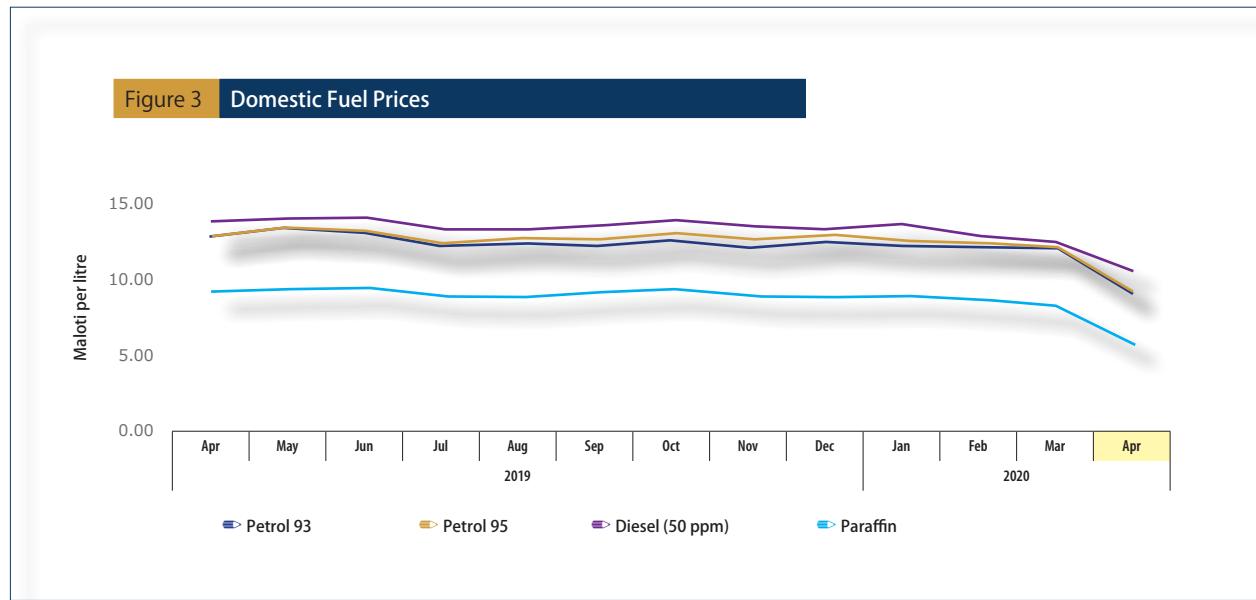


Source: Lesotho Bureau of Statistics & CBL Computation

Domestic Fuel Prices

All the fuel components' prices decreased in April 2020 from their levels in the preceding period. Both pump prices of petrol grades (petrol93 and petrol95) decreased by M3.00 per litre and M3.05

per litre to reach M9.30 per litre and M9.40 per litre, respectively. The price of diesel50 also decreased by M2.00 per litre at the pump during the review period. The wholesale price of illuminating paraffin also fell by M2.45 per litre to reach M5.85 per litre during the review period.



III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

Broad money supply (M2) increased by 2.6 per cent in April 2020, following an increase of 4.6 per cent in the previous month. The rise in M2 was due to an increase of 12.3 per cent in net foreign assets (NFA), which was moderated by a decline of 44.7 per cent in net domestic assets (NDA). The rise in NFA, on the one hand, was mainly attributable to the growth in central bank NFA, while the decline in NDA on the other hand, was caused by the build-up of government deposits with the central bank, following the receipt of SACU revenue.

Components of Money Supply

Contrary to the rise of 8.7 per cent registered in the previous month, narrow money (M1) fell by 2.6 per cent in April 2020, while quasi money increased by 7.0 per cent. The fall in narrow money was at the back of a decline in currency in circulation and demand deposits held with commercial banks, particularly belonging to business enterprises. Conversely, the rise in quasi money was due to an increase in deposits by other financial corporations.



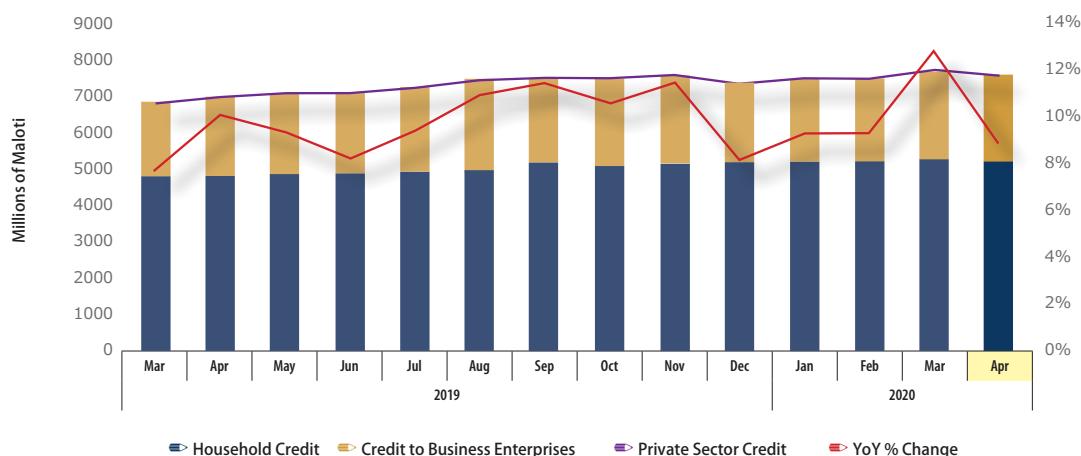
Source: Central Bank of Lesotho

Private Sector Credit

Total credit extended to the private sector declined by 1.4 per cent in the period under review, compared to an increase of 2.8 per cent in March 2020. On a year-on-year basis, private sector credit increased by 8.8 per cent in the review period.

Overall credit extended to households dropped by 0.7 per cent in April 2020. This was on account of a decline in both personal loans and mortgages by 0.8 per cent and 0.3 per cent, respectively. Moreover, credit extended to business enterprises fell by 3.0 per cent, in contrast to an increase of 7.9 per cent registered in the previous month. The decline in business credit was underpinned by the fall in demand for credit within the mining and quarrying sector.

Figure 5 | Private Sector Credit



Source: Central Bank of Lesotho

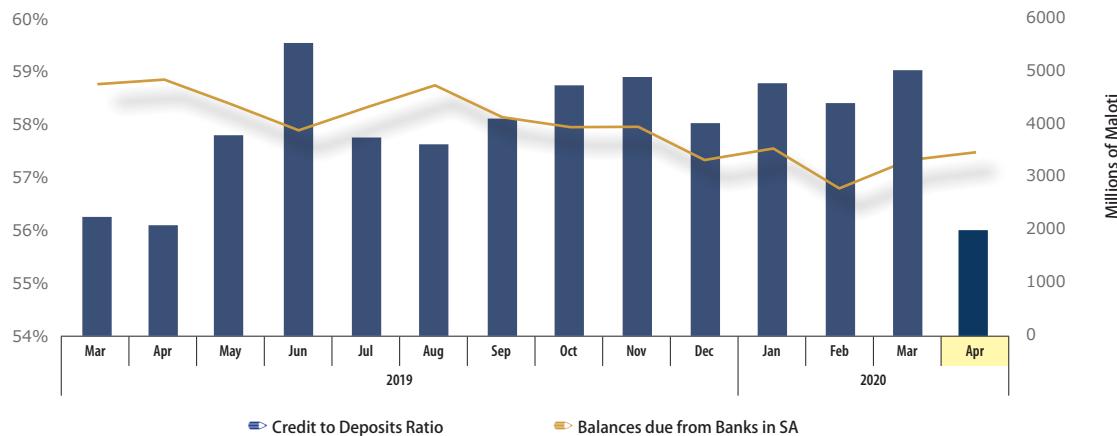
Non-Performing Loans

Total non-performing loans (NPLs) as a share of total loans granted by commercial banks increased marginally to 3.8 per cent in April 2020, compared with 3.5 per cent recorded in the previous month. The households related NPLs increased during the review period and this was because of a rise in the component due to both personal loans and mortgage loans that grew from 1.9 per cent and 8.9 per cent to 2.1 per cent and 9.3 per cent, respectively. Furthermore, NPLs resulting from business enterprises increased slightly from 3.4 per cent in March to 3.8 per cent in April 2020.

Sources of Funds

The commercial banks' credit to deposit ratio dropped from 59.0 per cent in the past month to 56.0 per cent in the review period. 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 was reduced by 100 basis points from 5.25 per cent to 4.25 per cent between March and April 2020. During the same period, the 91-day T-Bill discount rate declined from 6.11 per cent to 5.04 per cent. Furthermore, the prime lending rate declined by 100 basis points, while the one-year deposit rate grew by 3 basis points in April 2020.

Foreign Exchange Rates¹

The rand hence the loti remained in the weakened position in April 2020. It depreciated by 11.3 per cent against the dollar to the average of 18.57, by 11.8 per cent against the pound to the average of 23.01, and by 9.4 per cent against the euro to the average of 20.16. The investor risk appetite was still depressed by the negative effects of covid-19 pandemic on the global economy and markets. Furthermore, the Fitch downgraded South Africa further into junk status and maintained negative outlook for its sovereign credit rating.

¹ Monthly average exchange rate.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

Government total expenditure declined by 26.0 per cent in April 2020, following a revised decrease of 17.7 per cent in March 2020. The main drivers of this fall in spending included wages and salaries, withheld government pension contribution, use of goods and services, interest payments (domestic and external), and fixed assets categories.

Total Revenue

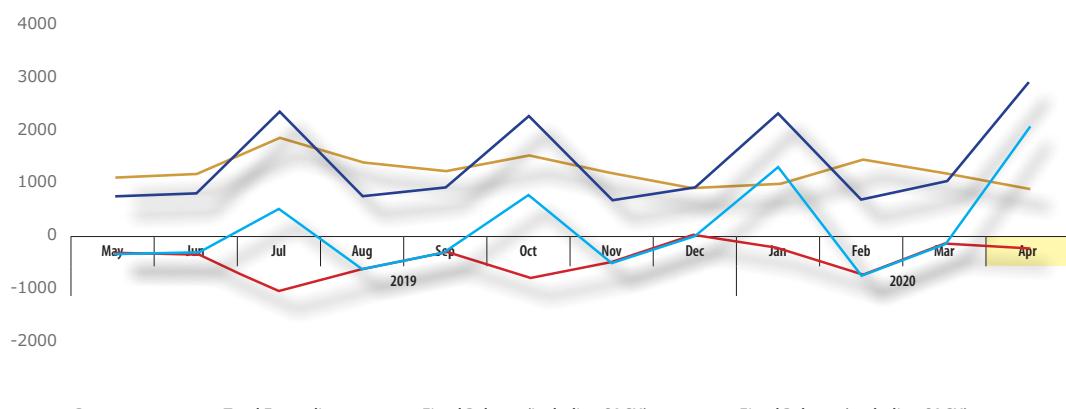
Government revenue increased exponentially by more than 100.0 per cent in the month compared with a rise of 46.9 per cent in the previous month. This was largely attributable to the receipts from

SACU revenue during the month. The other revenue components, including LHWP water royalties also increased. Thus, the rise in taxes pool.

Fiscal Balance and Financing

The fiscal balance during the month under review recorded a significant surplus of 20.7 per cent of GDP in April 2020 relative to a revised deficit of 1.7 per cent of GDP in March 2020. The contributors of this surplus were, among others, a fall in both expenses and non-financial assets that were moderated by high tax receipts (mainly SACU). As a result, there was accumulation of currency and deposits while the net incurrence of liabilities declined, with more observed in domestic other accounts payable.

Figure 7 | Government Fiscal Balance (Million Maloti)

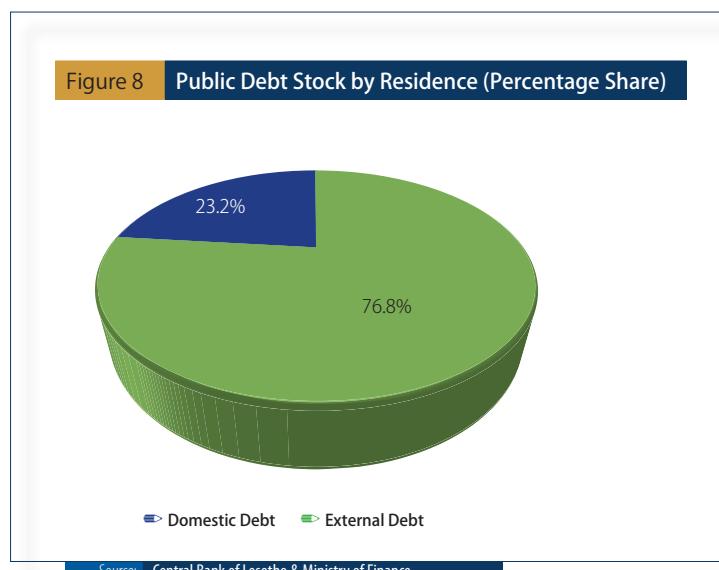


Source: Central Bank of Lesotho & Ministry of Finance

V. PUBLIC DEBT

The public debt stock was estimated at 45.7 per cent of GDP in April 2020, compared with 45.8 per cent of GDP recorded in March 2020. This was equivalent

to 0.1 per cent decrease. The domestic debt fell by 1.1 per cent of GDP while on a contrary, the external debt increased marginally by 0.2 per cent of GDP.



Appendix: Key Economic Indicators

		19-Nov	19-Dec	20-Jan	20-Feb	20-Mar	20-Apr
Economic Activity MIEA (% change, Y/Y)		0.6	-0.3	-0.4	0.2	-0.5	-1.3
Consumer price Index (% change)	Headline Inflation (year-on-year)	4.6	4.8	4.1	4.2	4.0	4.2
	Core Inflation	4.2	4.1	3.5	3.7	3.3	3.8
Exchange Rates (Monthly End Period)	EUR	16.12	15.72	16.00	17.12	19.57	19.74
	GBP	18.91	18.43	18.84	20.06	22.12	22.71
	USD	14.66	14.01	14.42	15.58	17.84	18.16
Money Supply (Millions of Maloti)	M2	12,195.22	13,865.35	11,990.97	12,031.82	12,582.63	12,909.96
	M1	5,333.90	6,184.74	4,884.31	5,310.62	5,774.30	5,622.80
	Quasi Money	6,861.32	7,680.61	7,106.67	6,721.20	6,808.33	7,287.16
Interest Rates	CBL Rate	6.50	6.50	6.25	6.25	4.25	4.25
	91 day Treasury bill rate	6.28	6.26	6.17	6.15	6.11	5.04
	Prime lending rate	11.19	11192	11.19	11.00	10.19	9.19
	1 year deposit rate	4.24	4.24	4.20	3.74	3.94	3.97
Private sector Credit (Millions of Maloti)		7,575.04	7,251.33	7,371.95	7,480.37	7,695.44	7,582.96
	Households	5,145.54	5,078.99	5,113.65	5,234.31	5,160.28	5,231.35
	Business Enterprises	2,429.50	2,172.34	2,258.30	2,246.07	2,423.99	2,351.61
Bank Deposit Liabilities (Millions of Maloti)		13,024.80	12,772.12	12,807.85	12,888.35	13,113.62	13,602.63
Credit to Deposit Ratio (%)		58.16	56.77	58.77	58.04	59.00	55.99
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-509.81	1.02	1295.23	-737.27	-164.75	2,025.17
	Total Revenue	650.10	887.08	2,293.72	683.31	1,003.95	2,889.87
	Total Expenditure	1,159.92	886.06	998.49	1420.58	1168.70	864.71
	O/W Capital	134.29	105.16	98.78	128.17	295.32	44.97
Total Public Debt (Millions of Maloti)		16,783.48	17,057.4	16,448.90	17,422.29	17,881.92	17,856.69
	Total External Debt	12,754.76	13,013.53	13,011.46	13,553.53	13,687.88	13,709.38
External Debt	Concessional	10,232.74	10,504.19	10,505.95	10,499.15	10,681.26	10,706.12
	Non-concessional	2,522.03	2,509.34	2,505.52	3,054.38	3,006.62	3,003.26
Domestic Debt		4,028.72	4,043.87	3,437.44	3,868.76	4,194.04	4,147.31
Memo Item: Arrears (Millions of Maloti)		35.88	47.95	42.81	36.12	38.21	0.24

Source: Central Bank of Lesotho

Notes



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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