



# Monthly ECONOMIC REVIEW

November 2020

CENTRAL BANK OF LESOTHO

## I. ECONOMIC ACTIVITY

Economic activity maintained recovery trajectory in November 2020. Growth was attributed to good performance by both the demand and supply sides of the economy during the review month.

### Overall Performance Index

The overall monthly indicator of economic activity (MIEA) continued to grow in November 2020. The index recorded a 7.1 per cent increase following a marginal 1.7 per cent registered in the previous month. Both the demand and supply sides continued to be of major importance in the recovery path of the economy. This partly benefited from the construction subsector as indicated by positive contributions by cement imports and metallic product used for construction purposes. On the contrary, the transport sector continues to struggle as indicated by negative contributions from fuel consumption post pandemic period.

### Domestic Demand Index

The domestic demand index remained firm in the review period. The index increased by a significant 14.0 per cent in November 2020 after recording an 8.1 per cent growth in October. Tax collections, imports from South Africa (SA), as well as, government compensation of employees contributed positively to the index, signaling strong demand for goods and services in the economy during the review month.

### Manufacturing and Production Index

The manufacturing and production index improved by 8.1 per cent in November. This growth came after a negative growth of 1.7 per cent in the index in October 2020. Industrial usage of electricity and imports of inputs from SA contributed positively into the index as economic interactions within the country and abroad continued to increase. However, industrial usage of water and textile exports into the United States (US) markets moderated the recovery.

Figure 1 Overall Monthly Indicator of Economic Activity



Source Central Bank of Lesotho (CBL) Calculations

Table 1 Summary of the Monthly Indicator of Economic Activity

Indices	2020							
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
<b>CIEA</b>	128.6	124.9	121.6	133.1	137.9	138.6	141.0	151.0
Monthly changes	-9.4	-2.9	-2.6	9.4	3.6	0.5	1.7	7.1
<b>Domestic Demand Category</b>	115.1	113.2	104.9	107.5	113.5	126.2	136.4	155.5
Monthly changes	-5.8	-1.6	-7.4	2.5	5.6	11.1	8.1	14.0
<b>Manufacturing &amp; Production Category</b>	97.1	81.5	79.8	92.3	105.2	102.7	101.0	109.1
Monthly changes	-14.0	-16.0	-2.1	15.7	14.0	-2.3	-1.7	8.1

Source CBL Calculations

## II. INFLATION AND PRICES

### Headline Inflation

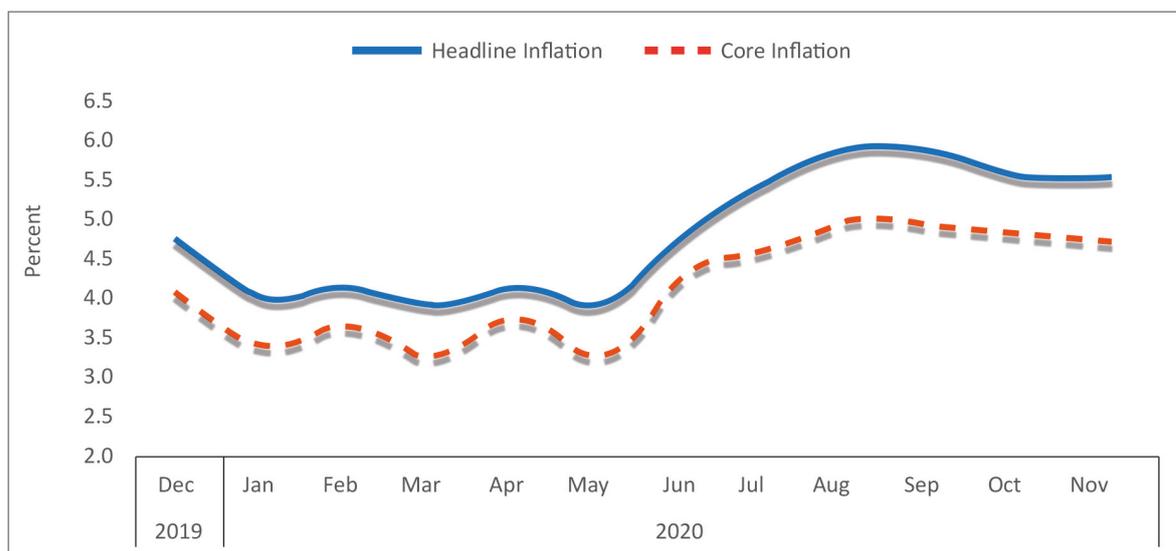
The headline inflation rate remained stable from October to November 2020 at 5.6 per cent. The main drivers of the acceleration in CPI inflation during the review period were food prices and increased demand for non-durable household goods. Food prices rose because of increasing international food prices, which dampened the regional supply of cereals. However,

decline in energy prices, which were mainly underpinned by increase in oil supply versus lower demand moderated the increase in inflation during the review period.

### Core Inflation

The core inflation, however, declined by 0.1 percentage points from 4.9 per cent in October 2020 to 4.8 per cent in November 2020.

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



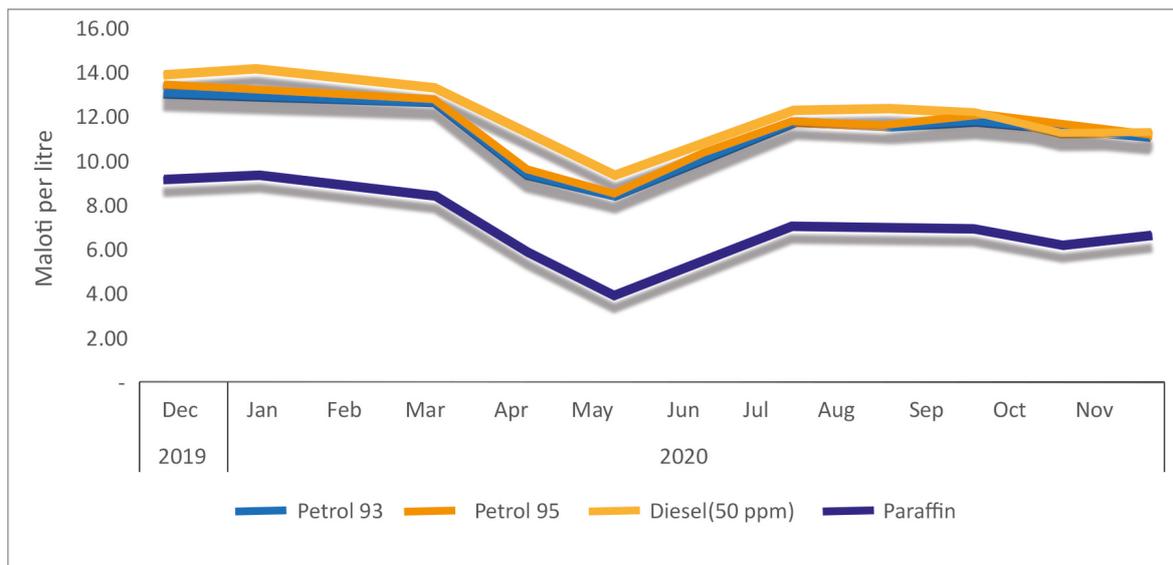
Source Lesotho Bureau of Statistics & CBL Computations

## Domestic Fuel Prices

While some prices of the domestic fuel products decreased in November 2020, others increased. Both pump prices of petrol grades (petrol93 and petrol95) decreased by M0.30 per litre and were priced at

M10.80 per litre and M11.90 per litre, respectively, at the pump. However, the price of diesel50 increased by M0.05 per litre per litre to reach M10.95 at the pump during the review period. The wholesale price of illuminating paraffin also increased by M0.30 per litre during the review period.

Figure 3 Domestic Fuel Prices)



Source Petroleum Fund

### III. MONETARY AND FINANCIAL INDICATORS

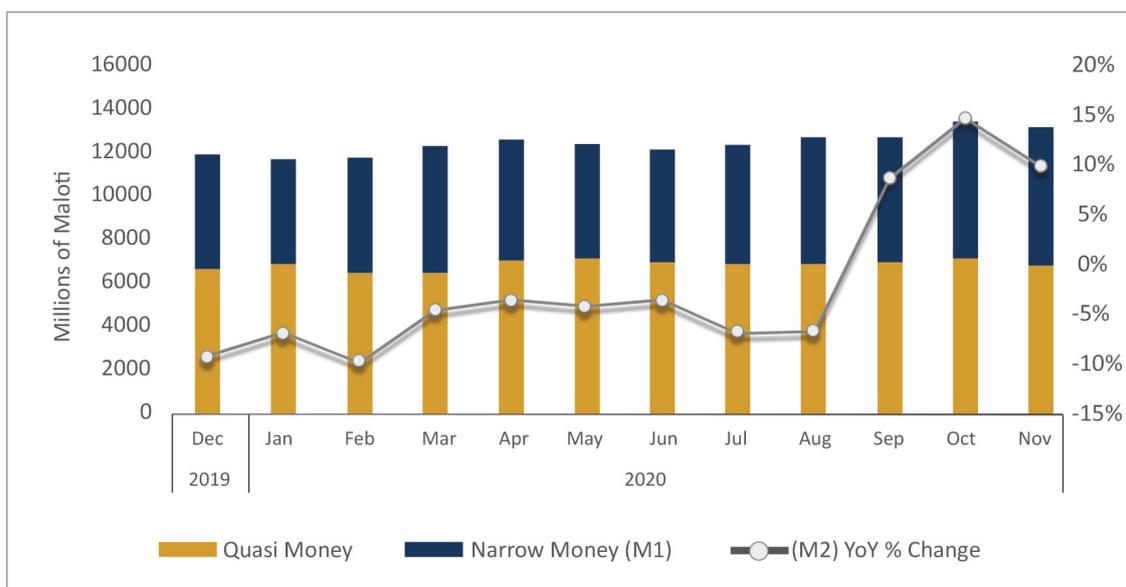
#### Broad Money (M2)

Broad measure of money supply (M2), declined by 1.7 per cent in November 2020, compared with a growth of 5.4 per cent observed during the previous month. This was at the back of a 5.6 per cent fall in overall net foreign assets (NFA) following a decline in Central Bank as well as commercial banks NFA. However, this was moderated by a 16.6 per cent growth in net domestic assets (NDA) as a result of moderate increase in private sector credit coupled with relatively high government spending.

#### Components of Money Supply

In terms of money supply components, narrow money (M1) increased by 1.8 per cent, while quasi money fell by 4.6 per cent during the month under review. The rise in the M1 was mainly on account of a significant growth in currency in circulation while a fall in quasi money was attributable to a decline in long term deposits held by private sector.

Figure 4 Broad Money Growth



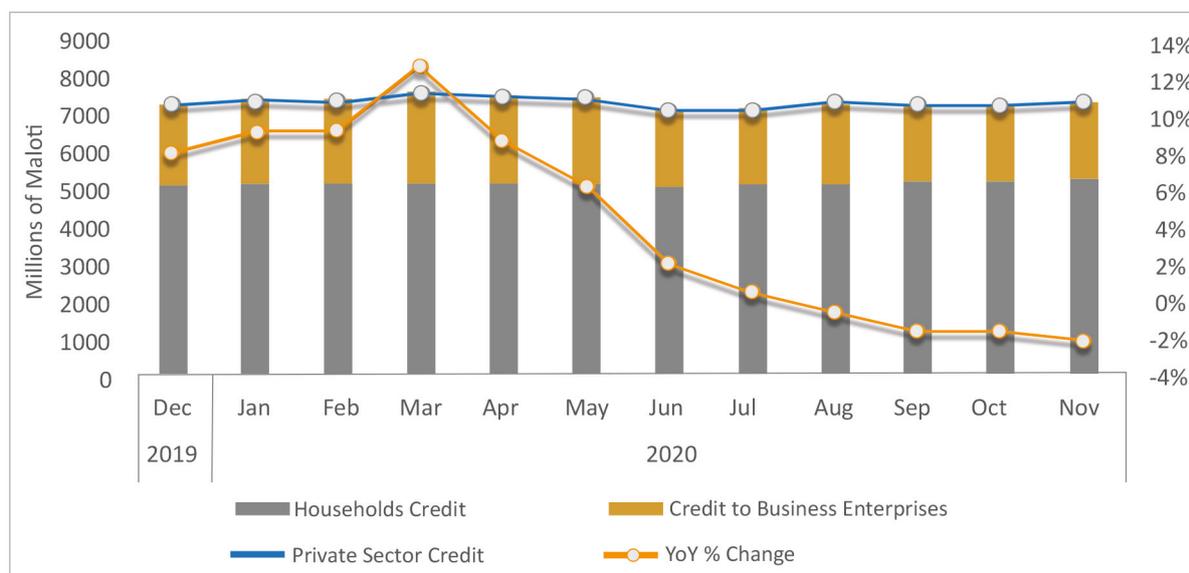
Source Central Bank of Lesotho

## Private Sector Credit

Contrary to the previous month, private sector credit grew slightly during the review period. In particular, private sector credit recorded a 0.8 per cent rise in November 2020 compared to a decline of 0.2 per cent observed in October 2020. Growth in private sector credit was supported by a 1.1 per cent increase in credit extended to households, while credit to business enterprises remained unchanged between October and November 2020. On a year-on-year basis, credit extended to the private sector contracted by 2.2 per cent.

Credit extended to business enterprises remained unchanged in the review period. However, loans and advances granted to households grew by 1.1 per cent following a 1.1 per cent and 0.8 per cent increase in personal loans and mortgages, respectively.

Figure 5 Private Sector Credit



Source Central Bank of Lesotho

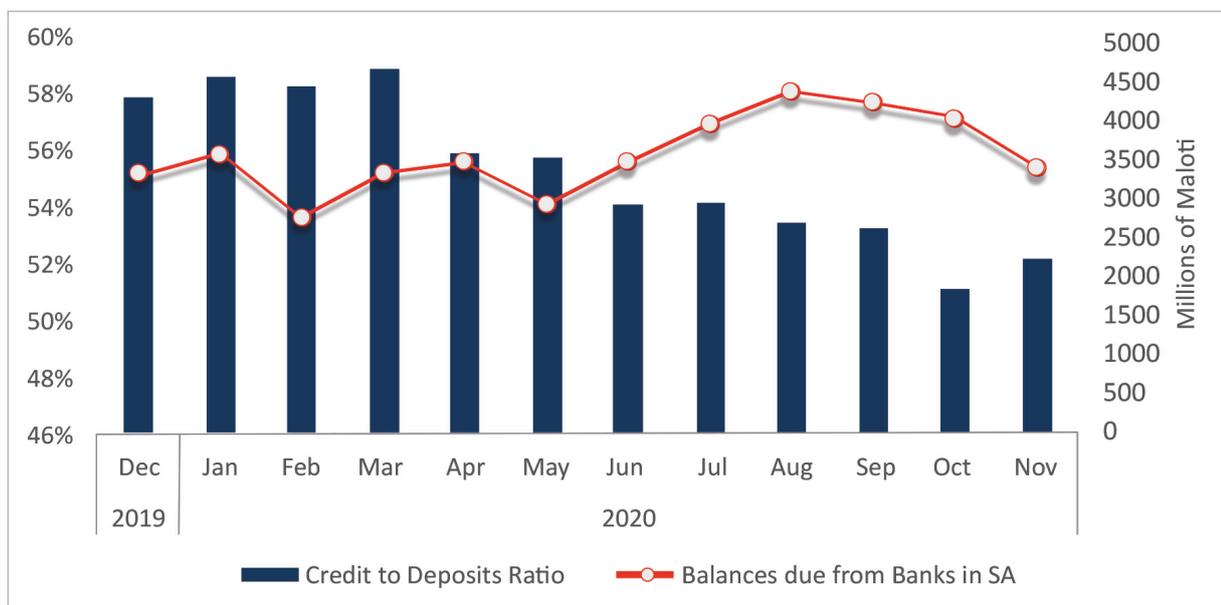
## Non-Performing Loans

Total non-performing loans (NPL) as a ratio of total loans registered a slight decline from 4.3 per cent observed in October 2020 to 4.2 per cent in November 2020. This was on account of improvement in business enterprises as well as mortgages NPLs while personal loans NPLs recorded a slight growth. The NPLs from business enterprises declined from 4.1 per cent to 3.7 percent between October and November 2020. With regards to the household related NPLs, mortgage NPLs declined from 9.7 per cent to 9.4 per cent while personal loans NPLs marginally rose from 2.7 per cent to 2.8 per cent during the same time period.

## Sources of Funds

Commercial banks' deposit liabilities fell by 1.4 per cent in November and this compares to a 3.9 per cent rise observed during the previous month. This was due to a notable fall in call deposits held by businesses enterprises. Moreover, the credit to deposit ratio rose from 51.1 per cent to 52.2 per cent between October and November 2020. This was at the back of a growth in credit extension coupled with a fall in total deposits.

Figure 6 Credit to Deposit Ratio



Source Central Bank of Lesotho

## Interest Rates

The Central Bank of Lesotho's policy rate remained unchanged at 3.50 per cent between October and November 2020 and most short-term interest rates remained unchanged. However, the 91-day T-Bill rate declined from 3.36 per cent to 3.26 per cent between October and November 2020.

## Rand Exchange rate January 2021

The rand, hence, the loti continued on a stronger path in November 2020, following an impressive performance in the preceding month. Particularly, the rand appreciated by; 5.49 per cent against the US dollar to the average of 15.55, 3.84 per cent against the pound to the average of 20.53, and 4.98 per cent against the euro to the average of 18.41. Internationally,

the rand gained alongside other emerging market currencies due to improvement in the risk sentiment. The risk appetite increased in the global markets driven by, amongst others, developments in the US elections and positive developments with regards to the COVID-19 vaccine. Domestically, the rand was supported by decision by the South African Reserve Bank (SARB) to hold repo rate unchanged at 3.5 per cent in November 2020, and by signalling a rate hike in the near future. The SARB also slightly raised the country's economic growth outlook in the short to medium term.

## IV. GOVERNMENT BUDGETARY OPERATIONS

### Total Expenditure<sup>1</sup>

Government total spending declined by 24.2 per cent in November 2020, compared with a decrease of 3.4 per cent in October 2020. The contributing factors included other structures, other machinery and equipment, use of goods and services, and grants to extra-budgetary units. On the year-to-date changes, the Government expenditure recorded a lower decrease of 9.8 per cent as opposed to a fall of 12.6 per cent experienced in November 2019.

### Outlays by Functions

The share of Government recurrent outlays out of total spending continued to increase as it recorded 95.4 per cent in November 2020 following 90.5 per cent in October 2020. The main drivers, among others, were social protection, education, health and general public services. protection continue to account for the smallest share.

### Total Revenue

The Government revenue decreased by 26.6 per cent in November 2020 relative to a rise of 48.8 per cent in October 2020. The reason for the decline was attributable mainly to income tax, VAT, and LHWP water royalties. In terms of year-to-date changes, revenue rose by 6.0 per cent in November 2020 compared with an increase of 34.3 per cent in October 2020.

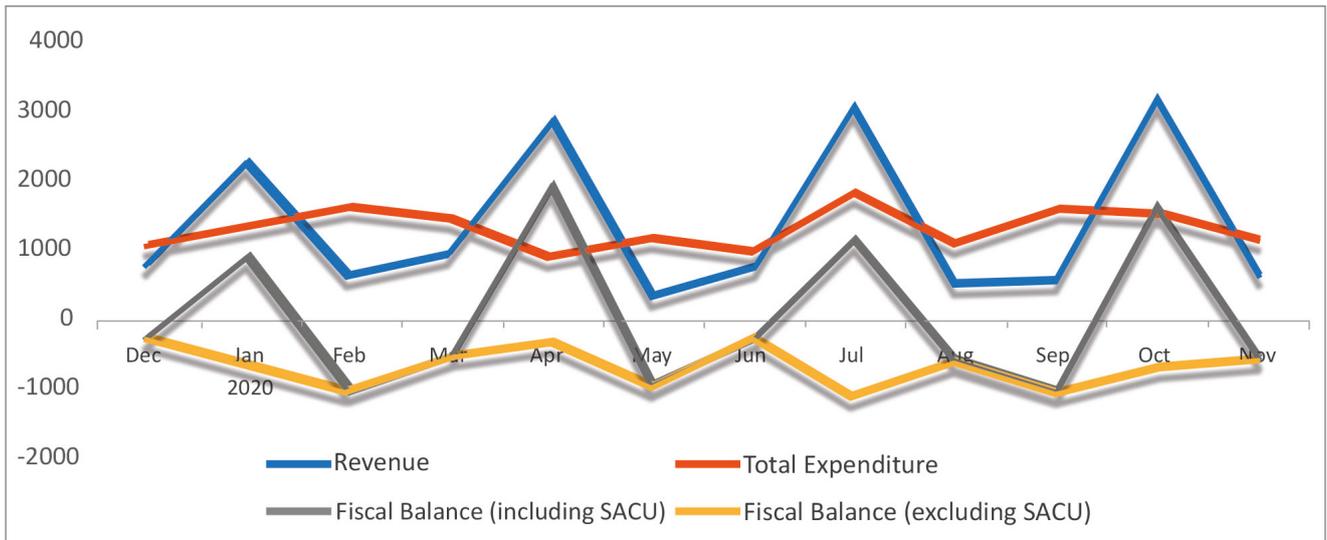
### Fiscal Balance and Financing

The Government budget operations registered a deficit of 5.9 per cent of GDP during the month under review following a deficit of 7.4 per cent of GDP in the previous month. This fiscal deficit was mainly financed by drawdown of Government deposits in the banking system.

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<sup>1</sup> The year-to-date refers to an accumulation within a fiscal year, starting from April.

Figure 7 Government Fiscal Balance (Million Maloti)



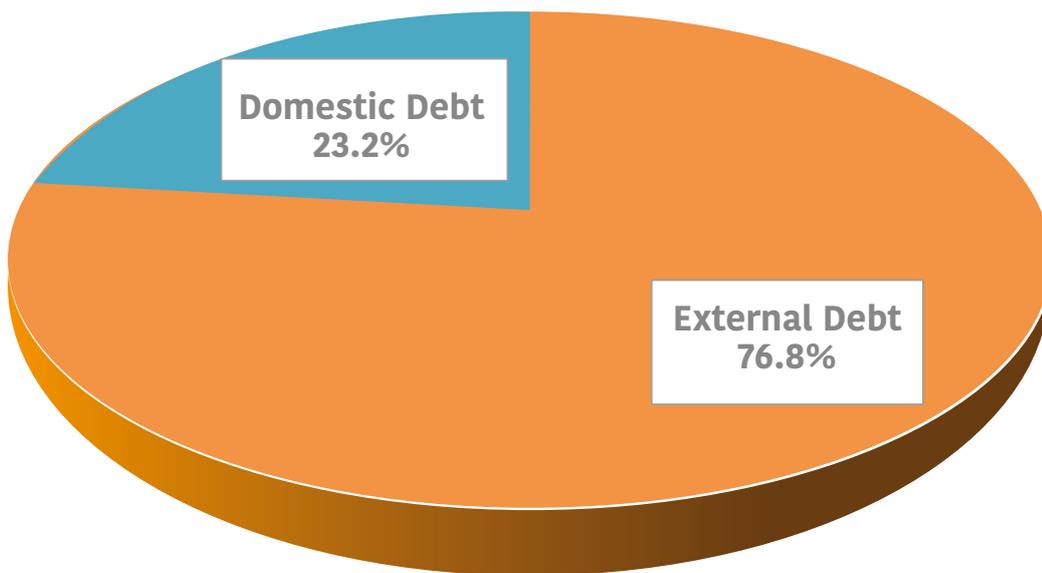
Source CBL and MOF

## V. PUBLIC DEBT

The public debt stock was estimated to remain rather constant at 63.1 per cent of GDP in November 2020, as compared to October 2020. Regarding the monthly changes, it increased marginally by 0.2 per cent during the month under review, following an insignificant rise

of 0.1 per cent in the previous month. This increase emanated from an external share during the month.

Figure 9 Public Debt Stock by Residence



Source CBL and MOF

Appendix: KEY ECONOMIC INDICATORS							
		20-Jun	20-Jul	20-Aug	20-Sep	20-Oct	21-Nov
<b>Economic Activity (MIEA (% change, M/M))</b>		-2.6	9.4	3.6	0.5	1.7	7.1
<b>Consumer price Index (% change)</b>	Headline Inflation (year-on-year)	4.9	5.6	6.0	5.9	5.6	5.6
	Core Inflation	4.4	4.7	5.1	5.0	4.9	4.8
<b>Exchange Rates (Monthly End Period)</b>	EUR	19.74	20.06	20.02	9.67	19.00	18.38
	GBP	22.71	22.27	22.35	21.59	21.07	20.44
	USD	18.16	16.94	16.78	16.80	16.24	15.34
<b>Money Supply (Millions of Maloti)</b>	M2	12,909.96	12,600.56	12,986.69	13,000.90	13,700.84	3,473.79
	M1	5,622.80	5,455.47	5,828.06	5,829.60	6,255.99	6,370.50
	Quasi Money	7,287.16	7,145.10	7,158.62	7,171.29	7,444.85	7,103.29
<b>Interest Rates</b>	CBL Rate	4.25	3.50	3.50	3.50	3.50	3.50
	91 day Treasury bill rate	5.04	3.56	3.37	3.36	3.35	3.26
	Prime lending rate	9.19	8.38	8.19	8.19	8.19	8.19
	1 year deposit rate	3.97	3.58	3.58	3.79	3.79	3.79
<b>Private sector Credit (Millions of Maloti)</b>		7,582.96	7,260.58	7,407.30	7,374.16	7,356.12	7,411.95
	Households	5,231.35	5,198.39	5,252.82	5,294.51	5,319.51	5,375.24
	Business Enterprises	2,351.61	2,057.72	2,154.48	2,079.65	2,036.61	2,036.70
<b>Bank Deposit Liabilities (Millions of Maloti)</b>		13,113.62	13,458.87	13,913.83	13,905.94	14,448.27	14,244.97
<b>Credit to Deposit Ratio (%)</b>		55.99	54.2	53.51	53.30	51.10	52.20
<b>Fiscal Operations (Millions of Maloti)</b>	Fiscal Balance	-222.63	1,184.12	-567.78	-996.19	1,612.68	-502.09
	Total Revenue	779.63	3,049.51	562.29	630.92	3,183.75	689.39
	Total Expenditure	1,002.26	1,865.39	1,130.07	1,627.11	1,571.08	1,191.48
	O/W Capital	151.37	384.04	119.77	247.86	157.70	65.02
<b>Total Public Debt (Millions of Maloti)</b>		19,107.58	20,071.08	21,541.34	21,509.18	21,527.55	21,568.09
External Debt	Total External Debt	14,904.35	15,868.18	16,479.79	16,409.27	16,516.52	16,570.59
	Concessional	12,194.59	12,538.20	12,848.38	12,831.05	2,883.27	12,887.58
	Non-concessional	2,709.63	3,336.31	3,631.40	3,578.22	3,633.25	3,683.01
Domestic Debt		4,203.36	4,202.90	5,061.56	5,099.91	5,011.03	4,997.50
<b>Memo Item: Arrears (Millions of Maloti)</b>		147.62	56.94	114.55	78.90	201.82	164.58



## 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. This core inflation measure excludes the CPI items with extreme price changes.

## 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.

Apart from spending by economic classification above, the database on the spending by functions was rebuilt starting from the April 2019 onwards while at the same time the historical data was compiled bit by bit. Thus, the table on the classification of outlays by functions of government (known as COFOG) was last updated by Ministry of Finance in 2008/09, just before the implementation of new IFMIS chart of accounts.

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