



# Monthly ECONOMIC REVIEW

JULY 2022

CENTRAL BANK OF LESOTHO  
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## I. ECONOMIC ACTIVITY

Economic activity remained subdued in July 2022. The lacklustre performance was broad-based as both the production and demand sides of the economy continued to register negative growth.

### Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) exhibited a further slowdown in economic performance. The index contracted by 2.6 per cent, the rate slightly lower than the 3.5 per cent decline recorded in the preceding month. Both manufacturing and demand contributed to the decline. However, the construction subsector remained resolute as indicated by increased fuel consumption.

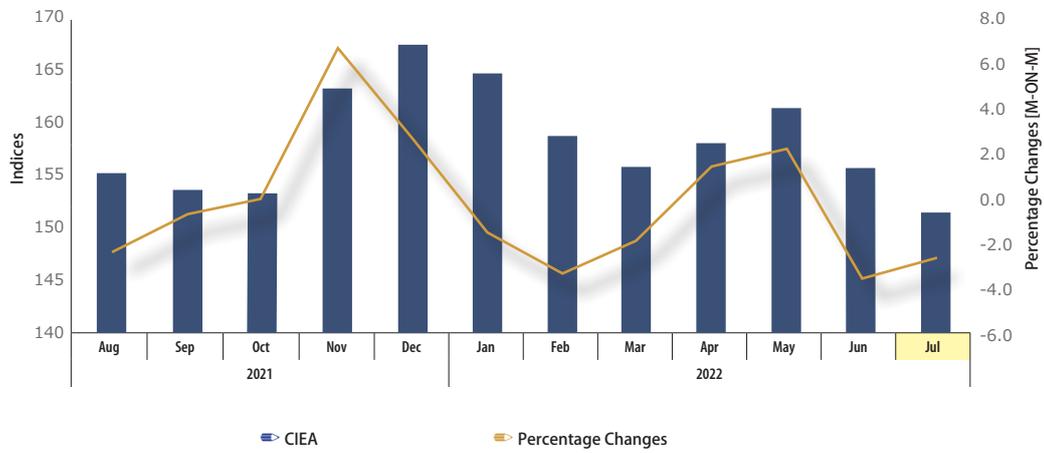
### Domestic Demand Category

Demand remained sluggish in July 2022. The index for domestic demand declined by 6.0 per cent, following a 6.7 per cent decline in the previous month. Poor performance of the overall index came as a result of reduced real earnings, demand for external goods and services, as reflected by a rather muted contribution from sales taxes.

### Manufacturing and Production Category

Manufacturing activity fell in the review month. The index of production declined by 5.9 per cent, contrary to the 1.4 per cent growth recorded in June. The decline was evidenced in low imports of raw materials, a relatively low demand for clothing and textiles in the US markets, as well as usage of water in the production process. Electricity usage in the manufacturing industries, however, cushioned the overall decline.

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



Source: CBL Calculations

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

Indices	2021	2022						
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
<b>CIEA</b>	166.9	164.2	158.6	155.5	157.6	161.0	155.3	151.3
Monthly changes	2.5	-1.6	-3.4	-1.9	1.4	2.1	-3.5	-2.6
<b>Domestic Demand Category</b>	156.0	161.7	146.6	145.4	148.6	162.6	151.8	142.7
Monthly changes	2.1	3.7	-9.4	-0.8	2.2	9.4	-6.7	-6.0
<b>Manufacturing &amp; Production Category</b>	129.2	131.3	127.5	121.4	119.3	115.2	116.8	110.0
Monthly changes	6.3	1.6	-2.9	-4.8	-1.7	-3.4	1.4	-5.9

Source: Central Bank of Lesotho (CBL) Calculations

## II. INFLATION AND PRICES

### Headline Inflation

The overall consumer price index rose by 9.8 per cent in July 2022 from 8.8 per cent in June 2022. The 1.0 percentage increase in consumer prices was broad-based. The major contributors to the rise in inflation were Food and non-alcoholic beverages, Transport, Housing, Water, Electricity, Gas and other fuels and Furnishings, household equipment and routine maintenance.

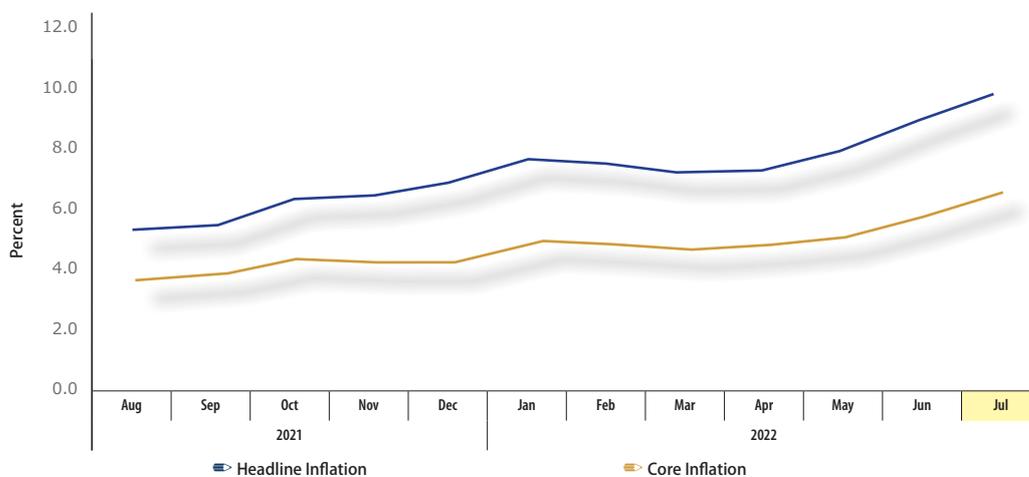
The major determinants behind an increase in inflation were rising prices of food and international

oil prices. During the review month, the taxi fares, as well as spare parts and maintenance of vehicle prices increased. The exchange rate depreciation against the U.S dollar also added to the hike in consumer prices.

### Core Inflation

Underlying inflation pressures, measured by core inflation, increased from 5.6 per cent in June 2022 to 6.5 per cent in July 2022.

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

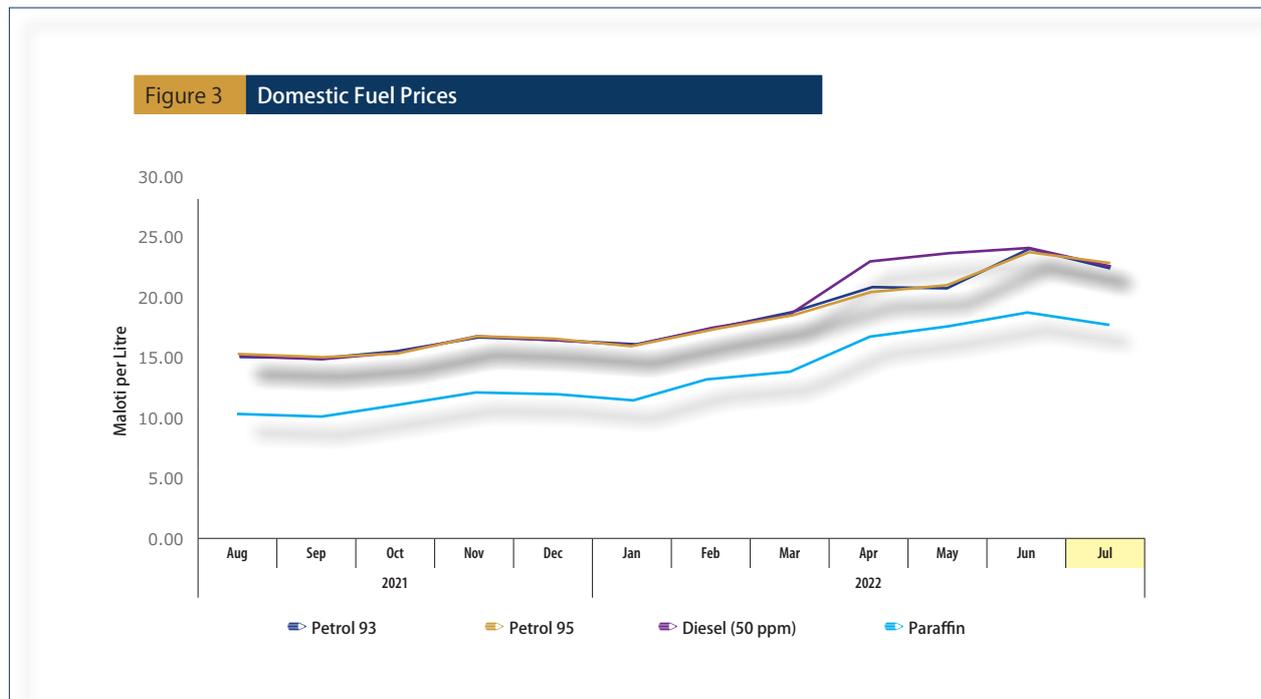


Source: Lesotho Bureau of Statistics & CBL Computation

## Domestic Fuel Prices

Despite the rising crude oil price and exchange rate depreciation, the prices of all domestic petroleum products decreased in July 2022. This was mainly due to implementation of the government subsidy to cushion consumers from steep rises in crude oil price, which was impacting negatively on consumer

welfare. Prices of both grades of petrol (*petrol<sub>93</sub>* and *petrol<sub>95</sub>*) were then reduced by M1.50 each. They were M22.20 and M22.65 per litre, respectively. The price of *diesel<sub>50</sub>* was also reduced by M1.50 to M23.05 per litre at the pump. The price of illuminating paraffin also decreased by M1.10 and was sold at M17.80 per litre in the retail market.



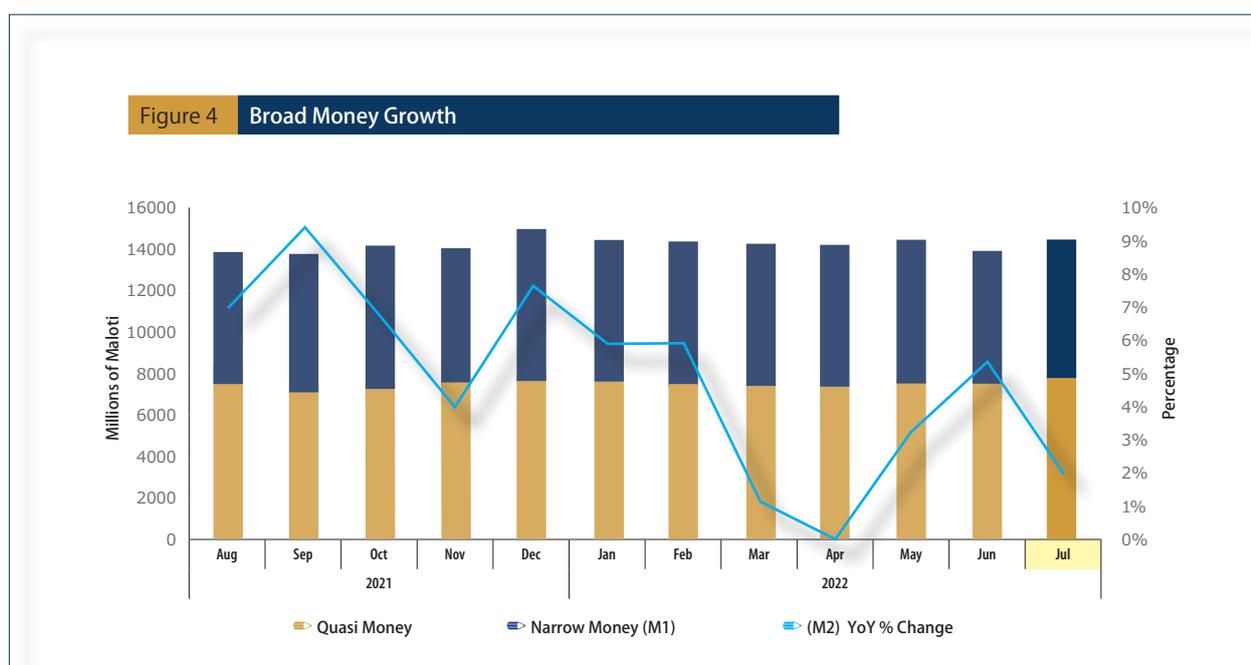
### III. MONETARY AND FINANCIAL INDICATORS

#### Broad Money (M2)

The broadly defined money supply (M2) rose by 4.0 per cent in July, in contrast to a fall of 2.9 per cent in June 2022. This emanated from an increase of 8.9 per cent in net foreign assets (NFA), notwithstanding a fall of 14.6 per cent in net domestic assets (NDA). NFA benefitted from a growth in both the central bank and commercial banks' NFA, while the fall in NDA was underpinned by an increase in government deposits held with the central bank.

#### Components of Money Supply

Narrow money (M1) and quasi money rose by 2.3 per cent and 5.0 per cent, respectively. The growth in M1 was supported by an increase in transferable deposits held by other financial corporations and business enterprises. Quasi money rose because of an increase in call and fixed time deposits held by business enterprises.



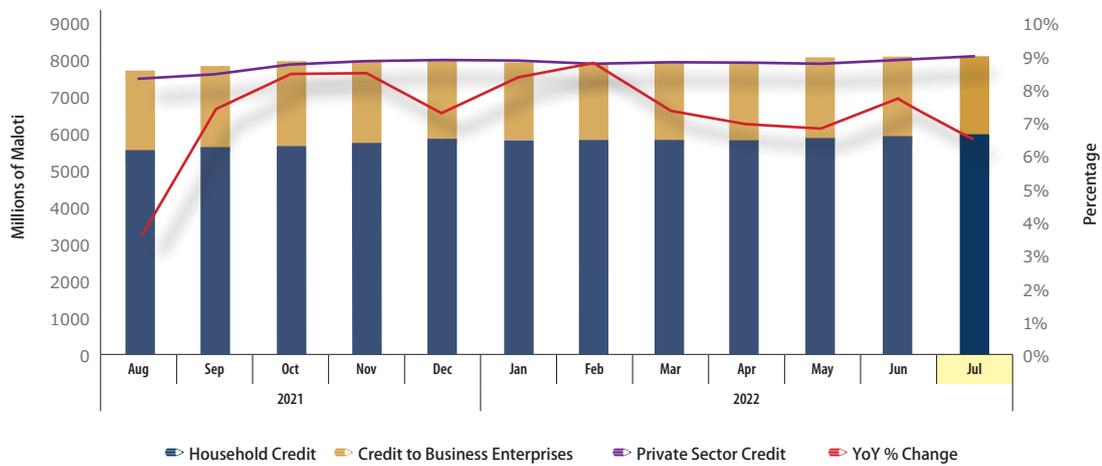
Source: Central Bank of Lesotho

#### Private Sector Credit

The total loans and advances extended to the private sector fell by 0.7 per cent in July 2022, contrasted with a growth of 0.6 per cent in the preceding month. This was due to a fall of 0.5 per cent and 1.1 per cent in household credit and loans to business enterprises, respectively. The contraction in household credit stemmed from a fall of 1.3 per cent in personal loans, whereas mortgage loans rose by 1.7 per cent.

Considering the allocation of credit to business enterprises, real estate & business services, retail, hotel & restaurant, as well as, mining & quarrying, received the largest shares of 24.4 per cent, 23.8 per cent and 20.7 per cent, respectively. The community, social & personal services sector continued to receive the lowest share of 0.4 per cent in the review period. On a year-on-year basis, private sector credit increased by 6.5 per cent in July 2022.

**Figure 5 Private Sector Credit**



Source: Central Bank of Lesotho

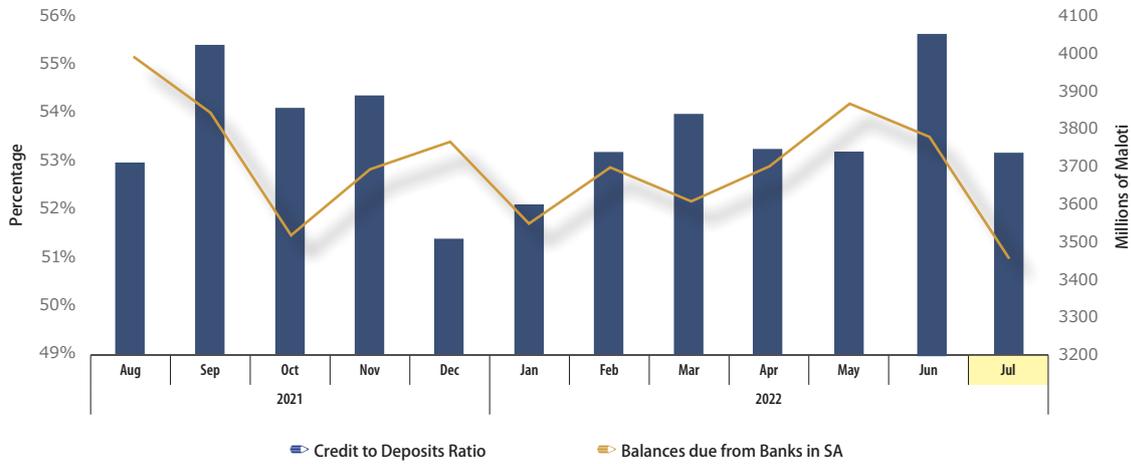
### Non-Performing Loans

The total non-performing loans (NPLs) as a ratio of total loans increased from 4.6 per cent to 4.9 per cent between June and July 2022. This was due to a rise in both the business and household sector NPL's. Business sector NPL's increased from 5.5 per cent to 6.3 per cent, mainly reflecting a rise in NPL's from the mining, construction and transport, storage and communications sectors. Household sector NPL's rose from 4.3 per cent to 4.4 per cent, on the back of an increase in personal loans NPLs during the review period.

### Sources of Funds

The credit to deposit ratio declined from 55.7 per cent in June 2022 to 53.2 per cent in July 2022. This was due to a fall in private sector credit coupled with an increase in total deposits.

**Figure 6 Credit to Deposit Ratio**



Source: Central Bank of Lesotho

## Interest Rates

The CBL policy rate rose by 75 basis points from 4.75 per cent in June to 5.50 per cent in July 2022. The average prime lending rate also rose by 75 basis points to 9.00 per cent, while 1-year deposit improved by 7 basis points and stood at 3.48 per cent in July 2022. The discount rate for the 91-day T-bill increased by 49 basis points to 4.94 per cent during the review period.

## Foreign Exchange

The value of the rand hence loti depreciated against the dollar, pound and euro in July 2022. The loti depreciated by 6.6 per cent, 3.7 per cent and 2.7 per cent, respectively, against the dollar, pound and euro. This followed an appreciation of 0.59 per cent, 1.52 per cent and 0.59 per cent against the dollar, pound and euro respectively, the preceding month.

The loti was weakened to a large extent by international developments, and to a lesser extent by domestic developments. On the international front, the loti depreciated on account of the stronger dollar, which was supported by US interest rate hikes and hawkish communications of the Federal Reserve in a bid to tackle the increasing consumer prices. This was coupled with fears of a global recession, which resulted in investors shifting sentiment from risky emerging market currencies to the safer haven asset such as the US dollar.

Domestically, the rand suffered as a result of continued power outages as the power supply company embarked on a series of load shedding spree.

## IV. GOVERNMENT BUDGETARY OPERATIONS

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

Government total expenditure was estimated to increase by 72.2 per cent in July 2022, compared to a fall of 17.8 per cent in June 2022. Both current and development spending contributed to higher total spending, particularly, operating costs, grants to extra budgetary units, student grants and buildings and structures.

### Outlays by Functions

The share of capital outlays to total outlays marginally increased from 6.1 per cent in the preceding month to 6.5 per cent in the current month. Recreation, culture and religion was the responsible function for the increase.

### Total Revenue

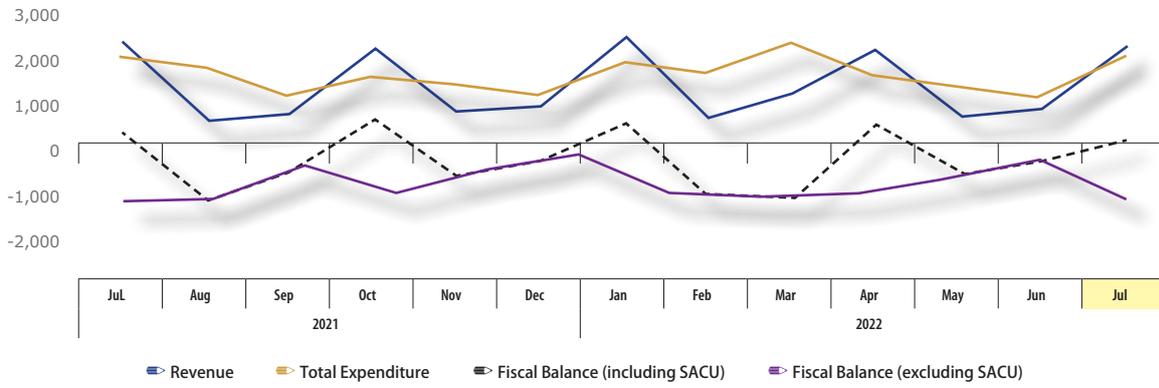
The Government revenue, excluding SACU receipts, decreased by 5.0 per cent in the review month, from 18.7 per cent increase recorded in the previous month. This was due to shortfalls in mining royalties and value added taxes. With SACU receipts, the total revenue increased drastically.

### Fiscal Balance and Financing

The fiscal operations reflected an increase in both financial assets and liabilities. The expansion under domestic assets mainly emanated from a built-up in Government deposits given the receipts from SACU Revenue Pool. An increase in liabilities was due to issuance of Treasury Bills coupled with an increase in other accounts payable.

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

**Figure 7 Government Fiscal Balance – Excluding SACU Receipts (Million Maloti)**



Source: Central Bank of Lesotho & Ministry of Finance

**Table 2: Classification of Expenditure by Function and Economic Item (Percentage Change)**

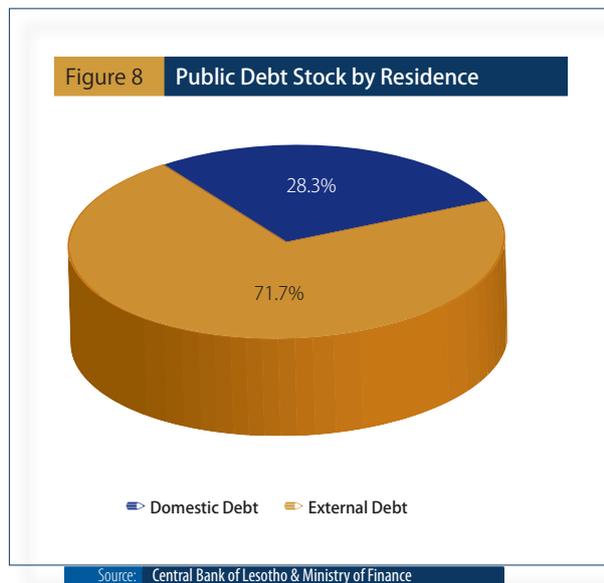
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		16.2%	12.7%	4.6%	45.8%	0.0%	1.1%	6.7%	15.6%
Defense		6.1%	6.4%	0.0%	19.3%	0.0%	25.8%	0.0%	9.6%
Public Order and Safety		18.7%	9.1%	0.0%	1.7%	0.0%	0.2%	5.7%	9.3%
Economic Affairs		7.3%	12.2%	4.7%	6.5%	0.0%	72.8%	17.4%	17.5%
Environmental Protection		0.1%	0.1%	0.0%	0.5%	0.0%	0.0%	0.0%	0.1%
Housing and Community Amenities		0.6%	0.4%	0.0%	7.4%	0.0%	0.0%	52.1%	6.4%
Health		6.5%	55.7%	41.4%	0.0%	0.0%	0.0%	3.1%	15.3%
Recreation, Culture, and Religion		0.8%	0.8%	0.0%	1.3%	0.0%	0.0%	15.0%	2.1%
Education		27.1%	1.0%	49.3%	17.6%	0.0%	0.0%	0.0%	14.2%
Social Protection		16.7%	1.6%	0.0%	0.0%	100.0%	0.0%	0.0%	10.0%
<b>Share per Economic Item</b>		<b>36.0%</b>	<b>19.9%</b>	<b>3.8%</b>	<b>13.7%</b>	<b>3.7%</b>	<b>13.4%</b>	<b>9.7%</b>	<b>100.0%</b>

Source: CBL and MOF

## V. PUBLIC DEBT

The ratio of public debt stock to GDP remained muted and was estimated at 53.2 per cent in July 2022 from the revised 53.0 per cent in June 2022.

The marginal increase of 0.2 per cent was a result of issuance of Treasury Bills.



## Appendix: Key Economic Indicators

		22-Jan	22-Feb	22-Mar	22-Apr	22-May	22-Jun	22-July	
Economic Activity (MIEA (% change, M/M))		-1.6	-3.4	-1.9	1.4	2.1	-3.5	-2.6	
Consumer price Index (% change)	Headline Inflation (year-on-year)	7.6	7.5	7.2	7.3	7.8	8.8	9.8	
	Core Inflation	4.9	4.9	4.6	4.7	5.0	5.6	6.5	
Exchange Rates (Monthly End Period)	EUR	17.36	17.27	16.19	16.60	16.75	17.08	16.83	
	GBP	20.88	20.65	19.15	19.78	19.69	19.91	20.03	
	USD	15.56	15.43	14.58	15.77	15.67	16.43	16.54	
Money Supply (Millions of Maloti)	M2	14,378.20	14,259.33	14,105.47	14,037.84	14,232.41	13,815.35	14,372.60	
	M1	6,814.43	6,749.37	6,640.23	6,610.03	6,585.97	6,303.45	6,485.86	
	Quasi Money	7,563.77	7,509.96	7,465.25	7,427.80	7,646.45	7,511.90	7,886.74	
Interest Rates	CBL Rate	3.75	4.00	4.25	4.25	4.75	4.75	5.50	
	91 day Treasury bill rate	4.09	4.16	4.45	4.45	4.43	4.45	4.94	
	Prime lending rate	8.44	8.69	8.69	8.00	8.00	8.25	9.00	
	1 year deposit rate	2.80	2.90	2.75	2.75	3.41	3.41	3.48	
Private sector Credit (Millions of Maloti)		8,007.95	8,005.69	7,959.63	7,961.09	8,072.73	8,124.05	8,070.42	
	Households	5,878.69	5,893.88	5,884.56	5,889.53	5,907.73	5,981.28	5,949.52	
	Business Enterprises	2,123.95	2,105.67	2,068.10	2,065.66	2,159.07	2,136.76	2,114.33	
	Non-profit Organisations	5.31	6.14	6.97	5.90	5.93	6.01	6.57	
Bank Deposit Liabilities (Millions of Maloti)		15,319.10	14,972.33	14,708.53	14,879.60	15,097.49	14,714.39	15,318.09	
Credit to Deposit Ratio (%)		52.13	53.18	53.99	53.25	53.19	55.67	53.19	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	551.62	-911.81	-994.11	542.73	-613.04	-215.80	254.97	
	Total Revenue (with SACU receipts)	2,426.86	749.71	1,272.19	2,169.27	788.61	935.86	2,238.58	
	Total Expenditure	1,875.24	1,661.52	2,266.30	1,626.54	1,401.64	1,151.66	1,983.61	
	OW Capital	184.97	450.57	716.48	60.29	248.42	84.49	218.26	
Total Public Debt (Millions of Maloti)		20,051.26	20,183.60	19,446.21	19,218.61	19,650.24	19,730.05	19,816.15	
	Total External Debt	14,745.60	14,694.10	13,874.30	13,822.10	14,263.20	14,313.50	14,210.30	
	External Debt	Concessional	11,195.60	11,101.00	10,386.50	10,365.50	10,590.60	10,650.80	10,548.30
		Non-concessional	3,550.00	3,593.10	3,487.80	3,456.60	3,672.60	3,662.70	3,662.00
	Domestic Debt	5,305.66	5,489.50	5,571.91	5,396.51	5,387.04	5,416.55	5,605.85	
Memo Item: Arrears (Millions of Maloti)		2.33	0.59	0.00	0.00	0.00	0.00	0.00	

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. This core inflation measure excludes the consumer price index (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 financial information system (known as IFMIS) 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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