



Monthly ECONOMIC REVIEW

AUGUST 2023

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY

Economic activity contracted in August 2023, after improving in the previous month. This contraction was on both demand and manufacturing, which reflected signs of depression in the review month.

Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) experienced a significant drop, declining by 2.0 per cent during the assessment period. This was in contrast to the prior month's 4.9 per cent increase. The subdued performance, primarily, stemmed from weakened demand in the economy, and to a lesser extent, a slowdown in production and manufacturing, as well as construction and transport subsectors. However, the decline was partially offset by the improvement in the service sector.

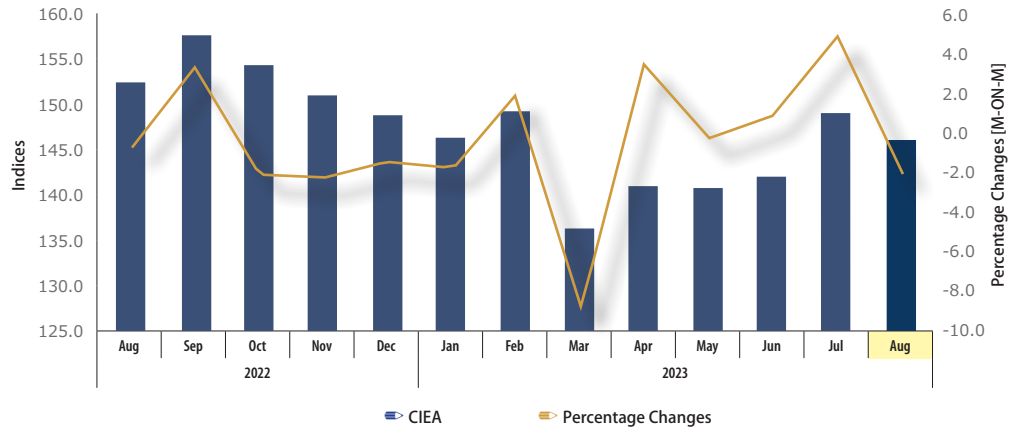
Domestic Demand Category

There was a slowdown in demand-side activities. The index for domestic demand decreased by 3.2 per cent, following a notable 7.2 per cent decline observed in the previous month. The poor performance of the index was primarily attributed to negative contribution from government activities, sales taxes, and a relatively subdued contribution from demand for imports of goods and services from SA.

Manufacturing and Production Category

The production side of the economy also shrank in the review period. The index of production decreased by 1.7 per cent, following a significant 6.8 per cent decline in the preceding month. This decline was primarily driven by decreased imports of raw materials from South Africa and a relatively lower demand for clothing and textiles in the US market.

Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2023							Aug
	Jan	Feb	Mar	Apr	May	Jun	Jul	
CIEA	146.4	149.3	136.3	141.1	140.8	142.1	149.1	146.1
Monthly changes	-1.7	2.0	-8.8	3.5	-0.2	0.9	4.9	-2.0
Domestic Demand Category	149.2	147.5	136.2	141.8	153.2	154.4	143.2	138.7
Monthly changes	2.2	-1.1	-7.7	4.1	8.1	0.7	-7.2	-3.2
Manufacturing & Production Category	97.9	106.6	105.1	108.9	102.2	105.2	98.1	96.5
Monthly changes	3.9	8.9	-1.4	3.7	-6.2	2.9	-6.8	-1.7

Source: Central Bank of Lesotho (CBL) Calculations

II. INFLATION AND PRICES

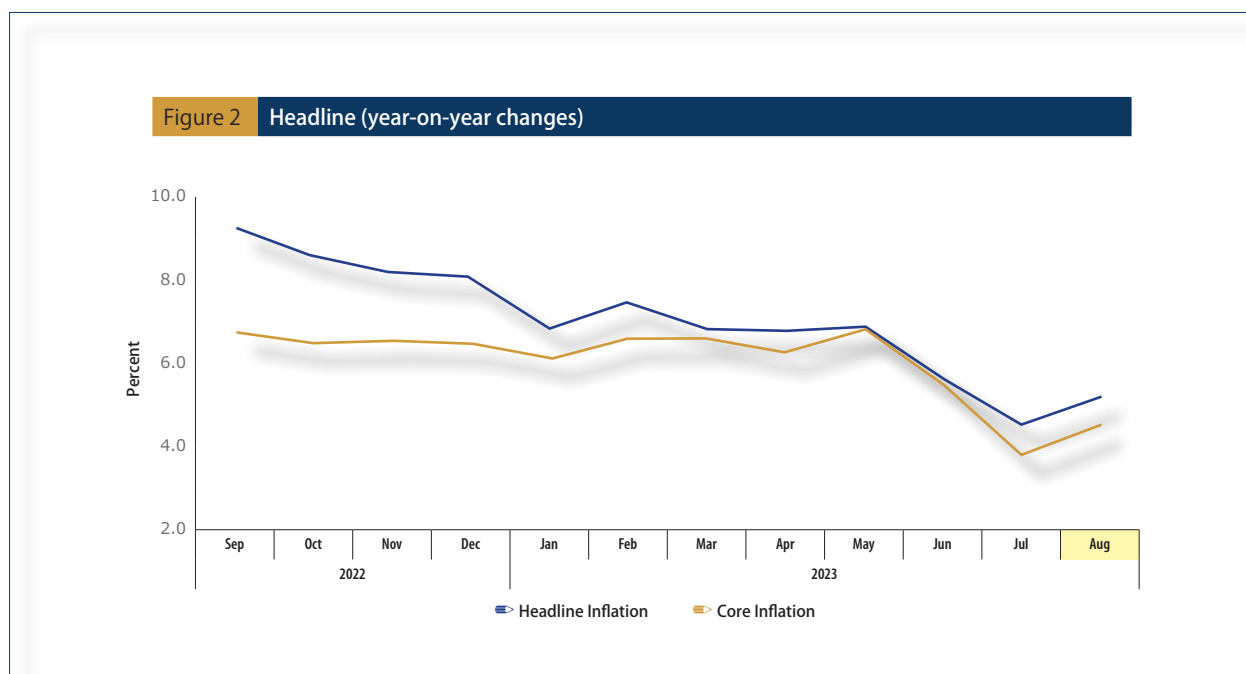
Headline Inflation

The headline inflation rate increased from 4.5 per cent in July 2023, to 5.2 per cent in August 2023. The 0.7 percentage increase was mainly due to contributions from Education, Transport, and Housing, Water, Electricity, Gas and other categories. Meanwhile, Food & Non-Alcoholic beverages, Alcoholic beverages & Tobacco and Clothing & Footwear slightly moderated the increase in headline inflation.

The major determinants of a rise in inflation during the review period were mainly due to increases in international crude oil prices, weak exchange rate, in as well as, increased education fees.

Core Inflation

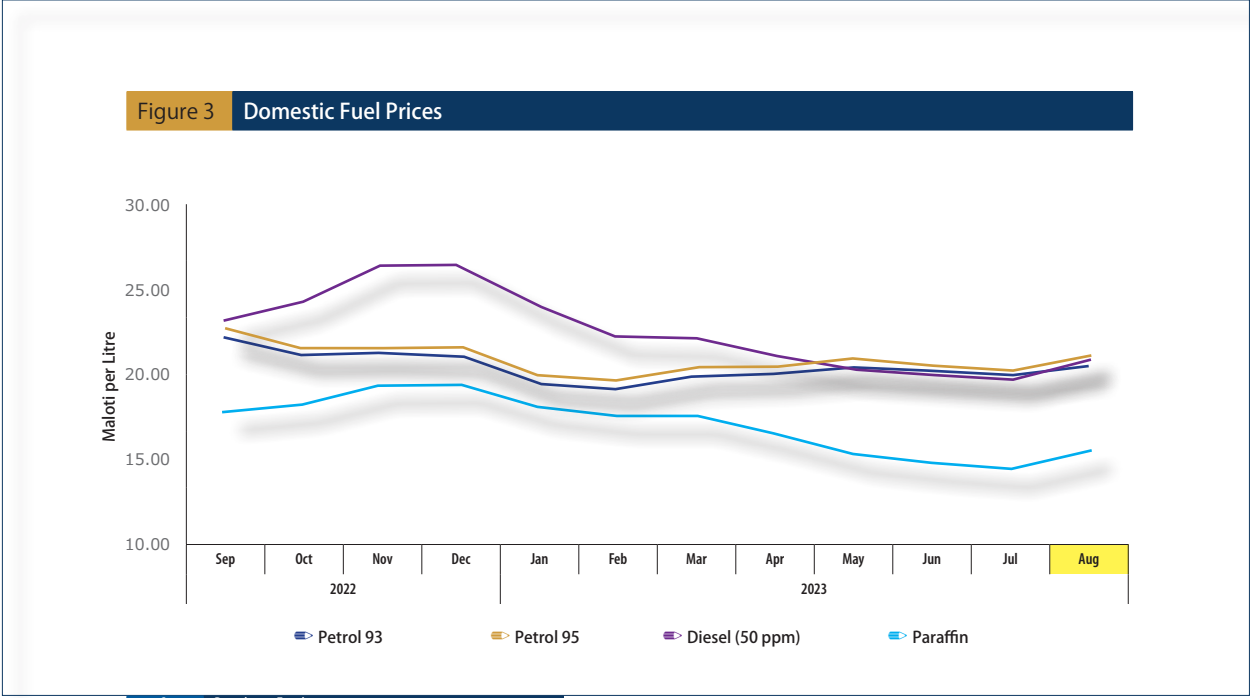
Core inflation, measured as the trimmed mean, increased from 3.8 per cent in July 2023 to 4.5 per cent in August 2023.



Domestic Fuel Prices

The prices of all petroleum products increased during the review period. The prices of both grades of petrol (*petrol₉₃* and *petrol₉₅*) increased by M0.70, and M0.75 and were M20.50 per litre and M21.00

per litre, respectively. The pump price of *diesel₅₀* also increased by M1.10 selling at M20.85 per litre. The price of illuminating paraffin also increased by M1.00 and was sold at 15.50 per litre in the retail market.



Source: Petroleum Fund

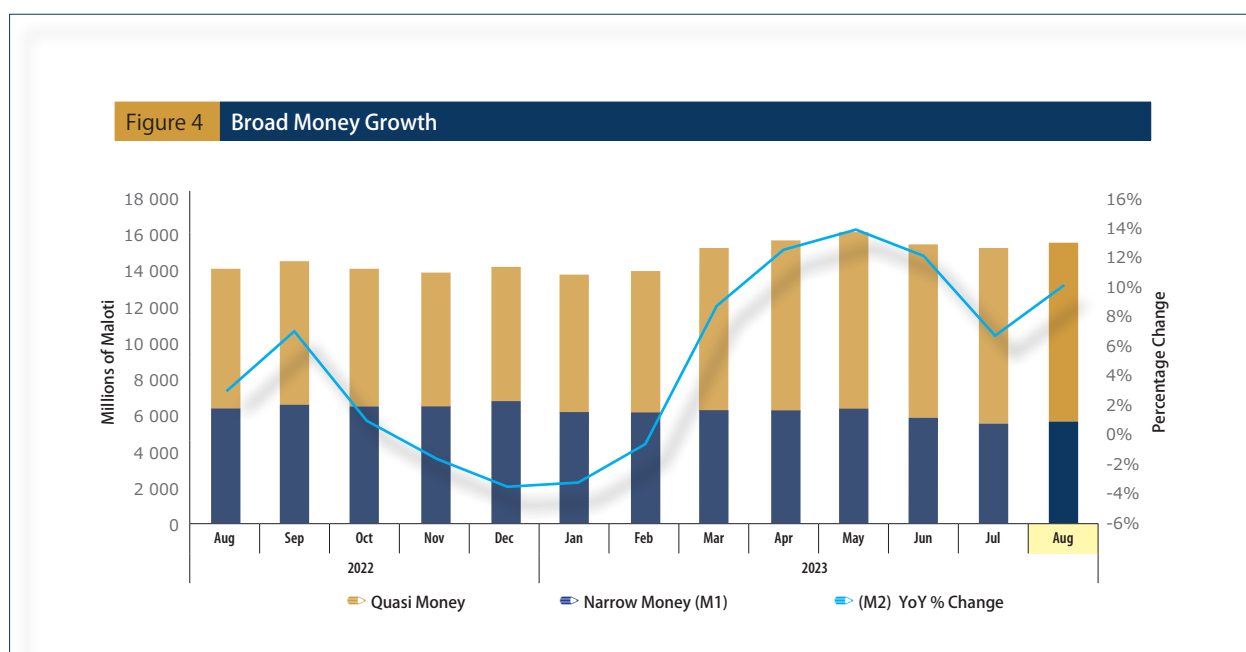
III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

The broadly defined money supply (M2) increased by 2.3 per cent, in contrast to a decline of 1.0 per cent in July 2023. A 17.9 per cent rise in net domestic assets (NDA), and an increase of 0.8 per cent in net foreign assets (NFA) led to this increase. The hike in NDA was on account of a fall in government deposits held at the central bank, coupled with a rise in private sector credit, while the growth in NFA was attributed to a surge in NFA from commercial banks.

Components of Money Supply

In terms of money supply components, narrow and quasi money increased. Narrow money increased by 1.1 per cent, mainly because of transferable deposits. Quasi money, on the other hand, increased by 3.0 per cent, mainly due to increases in call, fixed-term and savings deposits.

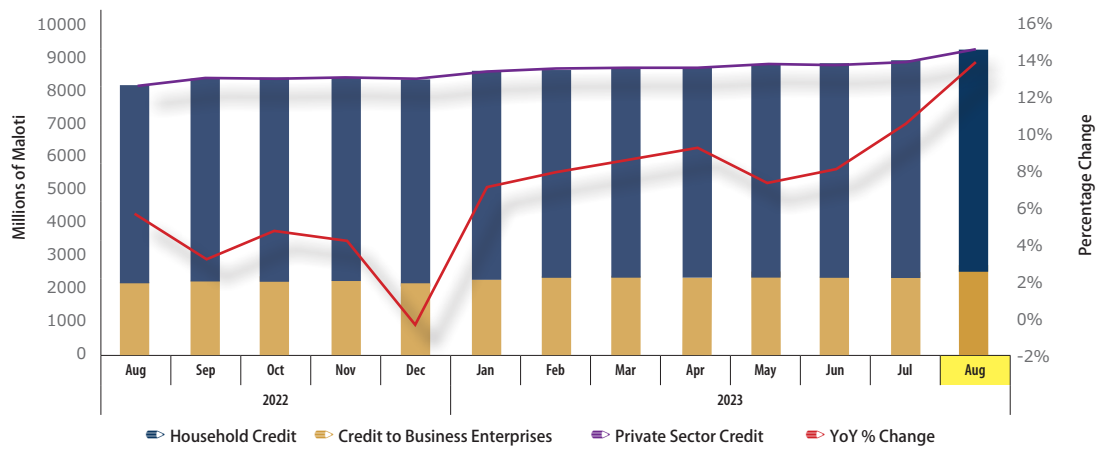


Private Sector Credit

Credit to private sector increased by 3.8 per cent after a 1.5 per cent growth in the previous month. This was attributed to improved credit extended to households and businesses by 2.1 per cent and 8.5 per cent, respectively. A rise in household credit was driven by a 6.2 per cent hike in mortgage loans and a 0.7 per cent increase in personal loans. As far as businesses are concerned, the increase was mainly

observed in the mining and construction industries. Regarding credit distribution, wholesale & retail trade, restaurants & hotels received the largest share of loans of 25.6 per cent, followed by real estate & business services at 21.6 per cent, and mining & quarrying at 18.2 per cent. The least share of 0.2 per cent of loans were given to electricity, gas, and water. On a year on year basis, private sector credit increased by 14.0 per cent.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

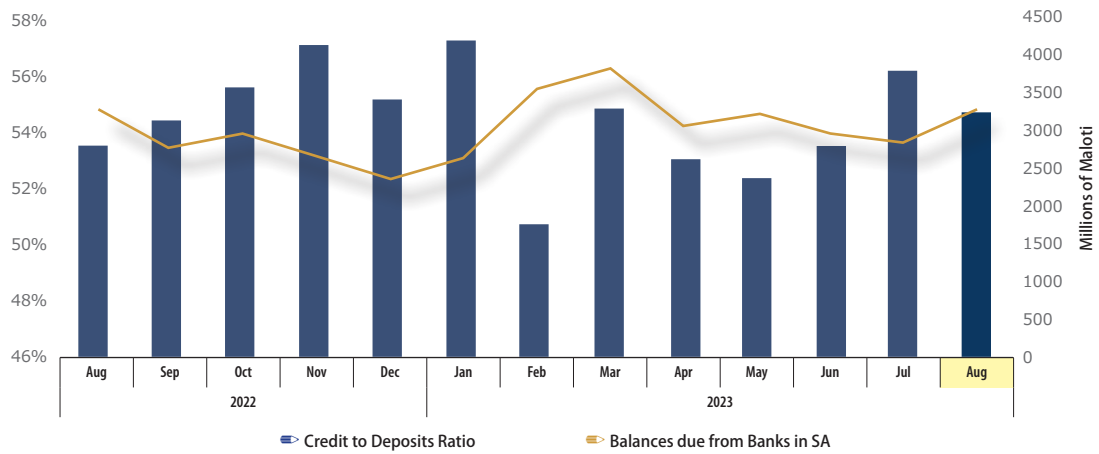
Non-Performing Loans

There was a fall in non-performing loans (NPLs) in households and business enterprises, which caused the proportion of NPLs to total loans to decrease from 4.0 per cent to 3.6 per cent. Among the business sector, the construction, wholesale & retail trade, restaurants & hotels, and real estate & business services were the sectors with the highest NPLs.

Sources of Funds

The credit-to-deposit ratio fell from 55.2 per cent to 53.8 per cent, as total deposits outpaced an increase in credit.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

A 7.75 per cent CBL policy rate was maintained in August 2023. As a result, the prime lending rate and 1-year deposit rate remained at 11.25 per cent and 4.74 per cent, respectively. However, the 91-day Treasury bills discount rate decreased by 10 basis points, to 7.65 per cent.

Foreign Exchange

The value of the rand weakened against its three major trading currencies in August 2023. Relative to the previous month, rand depreciated by 3.20 per cent against the dollar, 1.92 per cent against the euro and 1.86 per cent against the pound.

The weaker rand was due to the energy crisis (stage 6 of loading shedding) which continued to negatively affect South African the economy. There was also a decline in mining output, which negatively affected prospects for exports, and therefore, weakened the rand.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

Government spending increased significantly by 40.9 per cent in August 2023, compared with a rise of 11.1 per cent in July 2023. The higher expenditure was mainly driven by spending, on goods and services, buildings and structures, and machinery and equipment spending. This was reflective of government priorities, which focused more on health, economic affairs and housing sectors.

Total Revenue

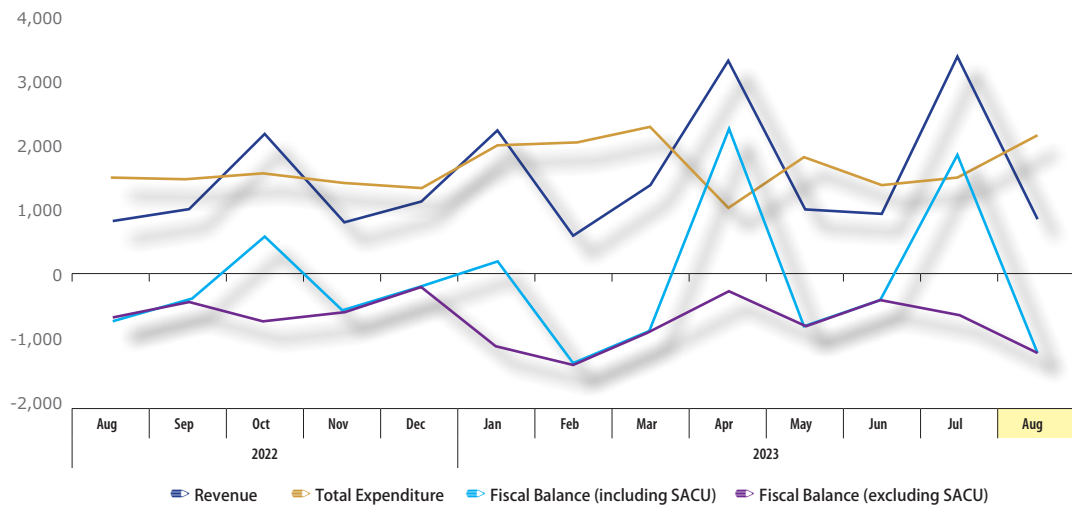
Total revenue increased marginally by 0.8 per cent in August, relative to a fall of 5.5 per cent in the previous month. This was due to the slight increases in income tax and VAT, which were moderated by a decline in mining royalties.

Fiscal Balance and Financing¹

The higher spending coupled with lower revenues led to fiscal deficit which was financed by drawing down government deposits, and eventually increasing liabilities as government issued securities to finance some of the operations. However, the amortization during the month moderated the rise in liabilities.

¹ All financing items are on net basis.

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



Source: Central Bank of Lesotho & Ministry of Finance

Table 2: Cross-Classification of Government Outlays (Percentage Change)

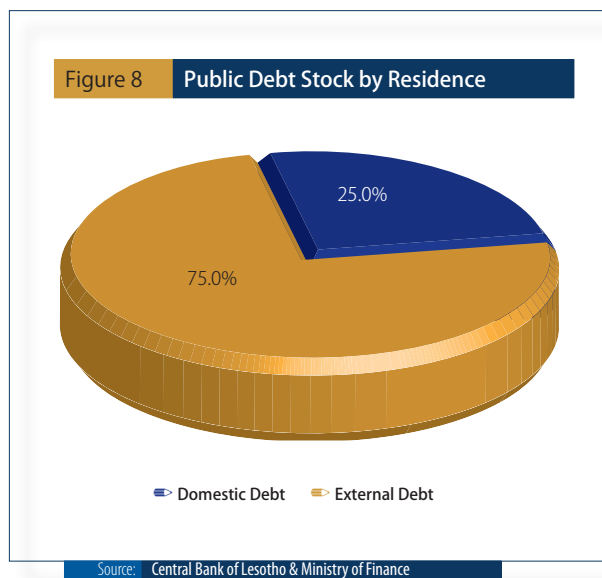
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		12.2%	16.3%	0.0%	70.0%	93.9%	99.9%	3.1%	32.6%
Defense		0.9%	0.7%	0.0%	0.0%	0.0%	0.0%	0.5%	0.5%
Public Order and Safety		21.4%	14.4%	0.0%	4.4%	0.0%	0.0%	30.4%	13.7%
Economic Affairs		7.5%	24.4%	0.0%	25.6%	0.0%	0.1%	62.2%	15.3%
Environmental Protection		0.6%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%
Housing and Community Amenities		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Health		5.9%	43.0%	69.9%	0.0%	6.1%	0.0%	3.4%	17.8%
Recreation, Culture, and Religion		0.5%	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%
Education		25.9%	0.6%	30.1%	0.0%	0.0%	0.0%	0.4%	11.0%
Social Protection		25.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	8.6%
Share per Economic Item		34.3%	25.1%	6.2%	5.6%	5.3%	15.2%	8.2%	100.0%

Source: CBL and MOF

V. PUBLIC DEBT

Public debt stock was estimated at 56.4 per cent of GDP during the month. This was equivalent to 2.5 per cent growth from 55.1 per cent of GDP in the previous month. This rise in debt stock was largely

attributable to exchange rate effects on external debt, which was, however, moderated by a fall in domestic debt.



Appendix: Key Economic Indicators

		23-Feb	23-Mar	23-Apr	23-May	23-Jun	23-Jul	23-Aug	
Economic Activity (MIEA (% change, M/M))		2.0	-8.8	3.5	-0.2	0.9	4.9	-2.0	
Consumer price Index (% change)	Headline Inflation (year-on-year)	7.4	6.8	6.7	6.9	5.6	4.5	5.2	
	Core Inflation	6.6	6.5	6.2	6.8	5.5	3.8	4.5	
Exchange Rates (Monthly End Period)	EUR	19.18	19.31	18.20	21.08	18.72	18.19	18.77	
	GBP	21.66	21.97	20.56	24.41	23.63	23.41	23.84	
	USD	17.91	17.73	17.08	19.74	20.09	20.01	20.48	
Money Supply (Millions of Maloti)	M2	14,141.10	15,306.80	15,786.76	16,201.65	15,515.84	15,357.08	15,706.25	
	M1	6,227.78	6,379.53	6,323.64	6,508.33	5,952.76	5,675.13	5,735.00	
	Quasi Money	7,913.32	8,927.27	9,463.13	9,693.32	9,563.08	9,681.95	9,971.24	
Interest Rates	CBL Rate	7.25	7.25	7.50	7.75	7.75	7.75	7.75	
	91 day Treasury bill rate	6.70	6.59	6.88	7.65	7.70	7.75	7.65	
	Prime lending rate	10.75	10.75	11.00	11.25	11.25	11.25	11.25	
	1 year deposit rate	4.57	4.57	4.66	4.74	4.74	4.74	4.74	
Private sector Credit (Millions of Maloti)		8,650.73	8,655.54	8,707.27	8,768.07	8,797.65	8,927.85	9,262.85	
	Households	6,307.99	6,310.80	6,354.30	6,387.72	6,453.02	6,580.68	6,715.65	
	Non-profit Organisations	2,342.75	2,344.73	2,352.97	2,380.35	2,344.63	2,347.17	2,547.19	
Bank Deposit Liabilities (Millions of Maloti)		17,044.60	15,761.98	16,411.18	16,719.35	16,417.51	15,883.39	16,902.53	
Credit to Deposit Ratio (%)		49.82	53.87	52.06	51.46	52.59	55.19	53.82	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-1,436.62	-893.83	2,301.52	-798.06	-422.52	1,905.53	-1,257.51	
	Total Revenue (with SACU receipts)	611.21	1,402.28	3,361.18	1,034.05	972.49	3,455.90	926.40	
	Total Expenditure	2,047.83	2,296.11	1,059.66	1,832.10	1,395.00	1,550.37	2,183.91	
	O/W Capital	375.92	604.08	39.70	326.56	319.08	133.44	174.91	
Total Public Debt (Millions of Maloti)		21,340.84	21,039.76	23,401.60	23,813.11	23,938.41	22,455.00	23,007.20	
	Total External Debt	15,631.00	15,347.13	17,706.20	18,079.60	17,888.00	16,671.70	17,255.40	
	External Debt	Concessional	11,395.56	10,955.73	13,258.80	13,632.50	13,533.00	12,478.00	12,917.90
		Non-concessional	4,235.45	4,391.40	4,447.40	4,447.10	4,355.00	4,193.70	4,337.50
	Domestic Debt	5,709.84	5,692.63	5,695.40	5,733.51	6,050.41	5,783.30	5,751.80	
Memo Item: Arrears (Millions of Maloti)		0.00	155.46	0.00	0.00	0.00	0.00	46.50	

Source: Central Bank of Lesotho

ⁱ Not Available.

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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