



Monthly

ECONOMIC REVIEW

DECEMBER 2023

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY

Domestic economic activity increased in December 2023, driven by heightened construction and transportation activities, alongside an increased activity in the financial services and manufacturing subsectors. However, domestic demand weakened during the review month.

Overall Performance Index

After a contraction of 0.9 per cent in November 2023, the composite Indicator of economic activity rebounded with a 2.1 per cent growth in December 2023. This improvement was driven by an upswing in the transport, financial services, and construction subsectors, indicated by higher fuel consumption, increased credit extended to households, and a rise in construction materials. Similarly, positive performance in the manufacturing and production subsector, enhanced augmentation further during the assessed month. Nonetheless, the overall growth was slowed by lacklustre performance in domestic demand, which underperformed in December.

Domestic Demand Category

The index gauging the demand for goods and services ticked down by 2.8 per cent in December 2023, down from 0.4 per cent growth in November. The contraction was driven by a decrease in government activities, evident by a negative contribution from the compensation of employees and the use of goods and services.

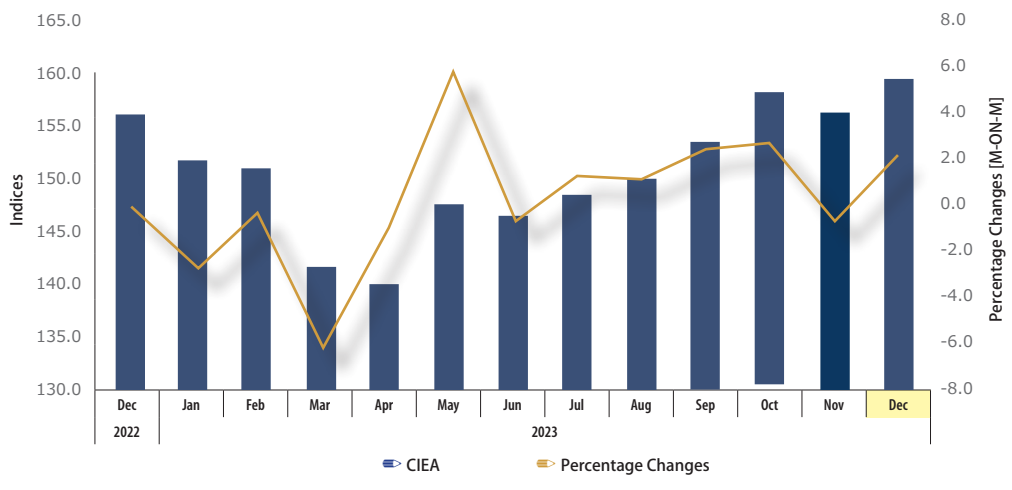
Similarly, domestic demand moderated during the review month, as evidenced by diminished positive contributions from imports of goods and services from South Africa, as well as reduced collection of Value Added Tax (VAT) and Pay as You Earn (PAYE). The performance was rather bleaker than what was anticipated, and that could have been attributed to the delayed salary payments during the assessed month.

Manufacturing and Production Category

The manufacturing and production indicator exhibited a more subdued growth of 1.2 per cent, a decrease from the 2.8 per cent growth observed in the previous month. The observed growth primarily stemmed from a slight increase in the importation of raw materials and exports of textiles to the South African market.

The increased consumption of water and electricity, particularly the ones used for production purposes supported the improvement in the index during December 2023. However, the overall growth trajectory was moderated by a persistent decline in textile exports, particularly to the US market. This decline was primarily due to a steady decline in the number of orders, which resulted from escalating shipping costs.

Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Composite Indicator of Economic Activity and its Sub-components

Indices	2023							
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
CIEA	147.7	146.6	148.6	150.0	153.5	157.5	156.1	159.4
Monthly changes	5.5	-0.7	1.3	1.0	2.4	2.6	-0.9	2.1
Domestic Demand Category	149.1	137.6	133.9	135.8	143.6	156.4	157.0	152.7
Monthly changes	9.9	-7.7	-2.7	1.4	5.7	9.0	0.4	-2.8
Manufacturing & Production Category	111.8	111.6	103.7	99.8	93.6	98.9	101.6	102.8
Monthly changes	-3.8	-0.2	-7.1	-3.8	-6.2	5.7	2.8	1.2

Source: Central Bank of Lesotho (CBL) Calculations

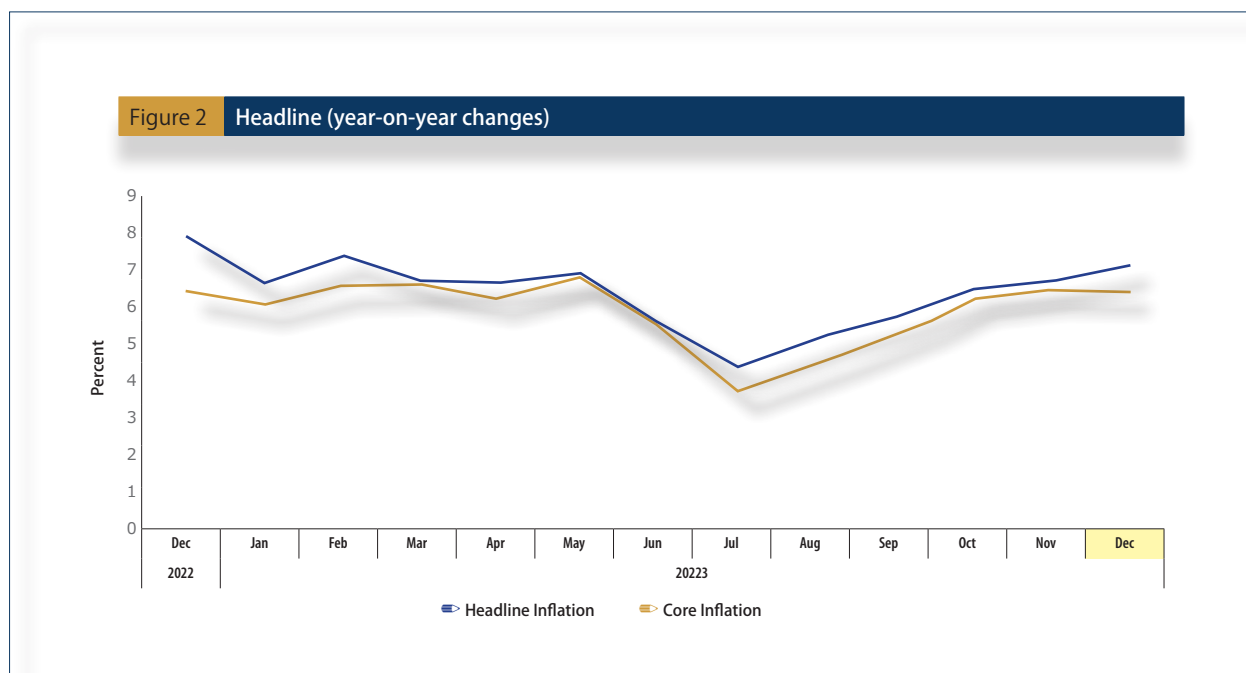
II. INFLATION AND PRICES

Headline Inflation

The headline inflation rose to 7.2 per cent in December 2023 from 6.8 per cent in November 2023. The major contributors were Food & Non - Alcoholic beverages, Alcoholic beverages and Tobacco, Clothing and footwear, Education & Housing electricity, gas & other fuels category. This rise in inflation was because of supply constraint of meat products due to avian influenza and the subsequent culling of birds, fruit products as well as weaker exchange rate.

Core Inflation

Core inflation, a gauge of the underlying inflationary pressures in the economy, and measured as the trimmed mean, remained constant at 6.4 per cent in December 2023. This constant rate is at the back of an increase in food prices and highly moderated by restaurant and hotels categories.

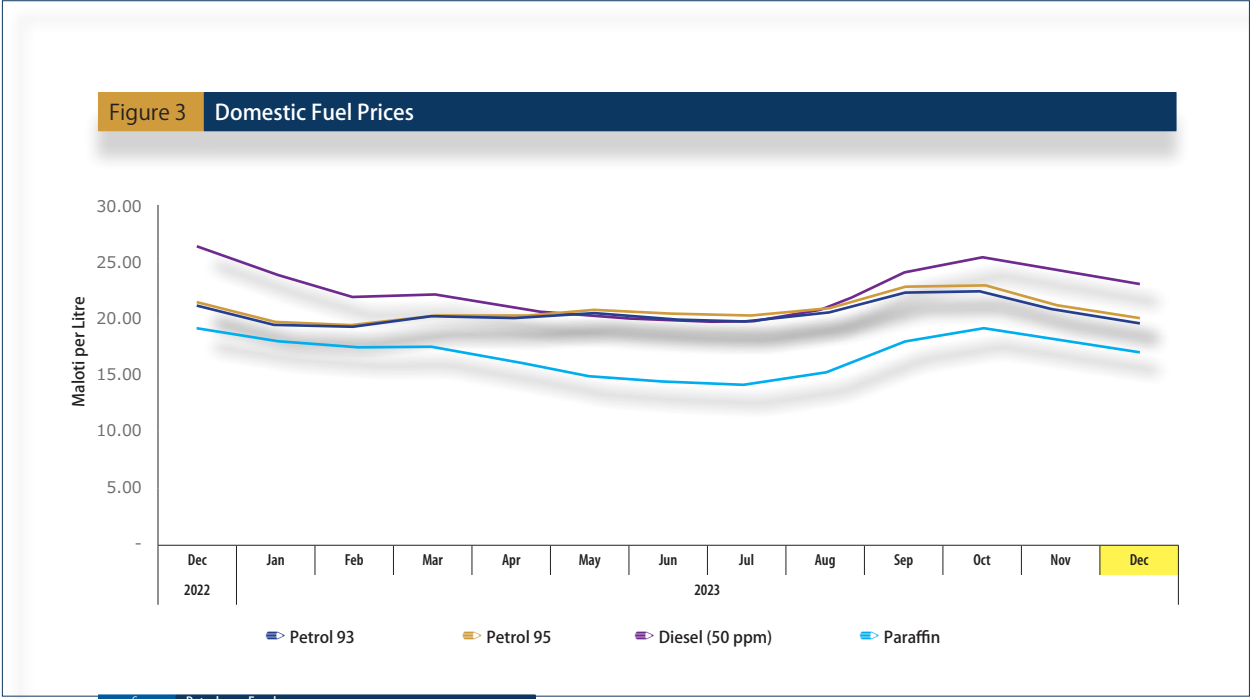


Source: Lesotho Bureau of Statistics & CBL Computation

Domestic Fuel Prices

The prices of all petroleum products decreased during the review period. Both grades of petrol (*petrol₉₃* and *petrol₉₅*), decreased by M0.90 and were

M19.75 per litre and M22.25 per litre, respectively. The pump price of *Diesel₅₀* decreased by M1.15 selling at M23.00 per litre while the price of illuminating paraffin also decreased by M0.90 and was sold at 17.40 per litre in the retail market.



Source: Petroleum Fund

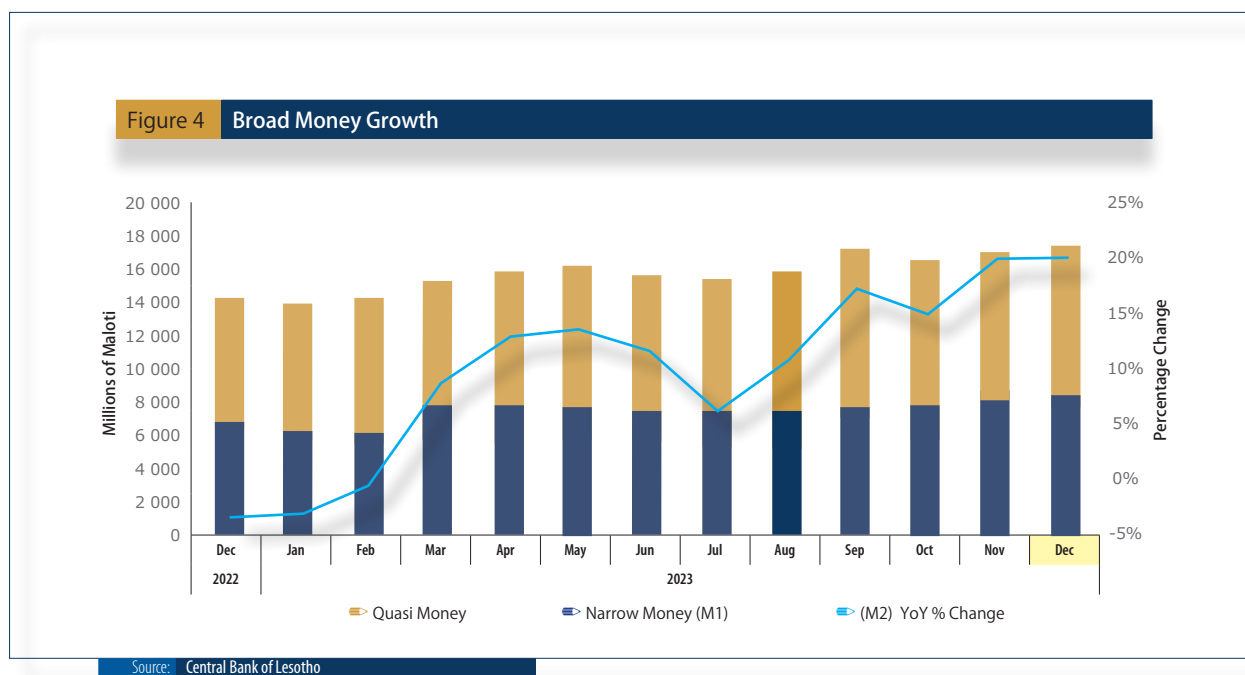
III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

The broadly defined money supply (M2) increased by 2.5 per cent following an increase of 2.5 per cent, in November 2023. Net domestic assets (NDA) increased by 3.6 per cent after a notable growth of 25.8 per cent, while net foreign assets (NFA) declined by 1.5 per cent from a fall of 0.1 per cent. NDA increased due to a fall in government deposits held at the central bank, coupled with an increase in private sector credit, while NFA declined due to a fall in claims on non-residents.

Components of Money Supply

In terms of the components of the money supply, narrow money expanded by 7.1 per cent while quasi money fell by 1.6 per cent. A surge in transferable deposits held by business enterprises led to the increase in narrow money. Conversely, the fall in quasi money was due to a reduction in call deposits held by business enterprises.

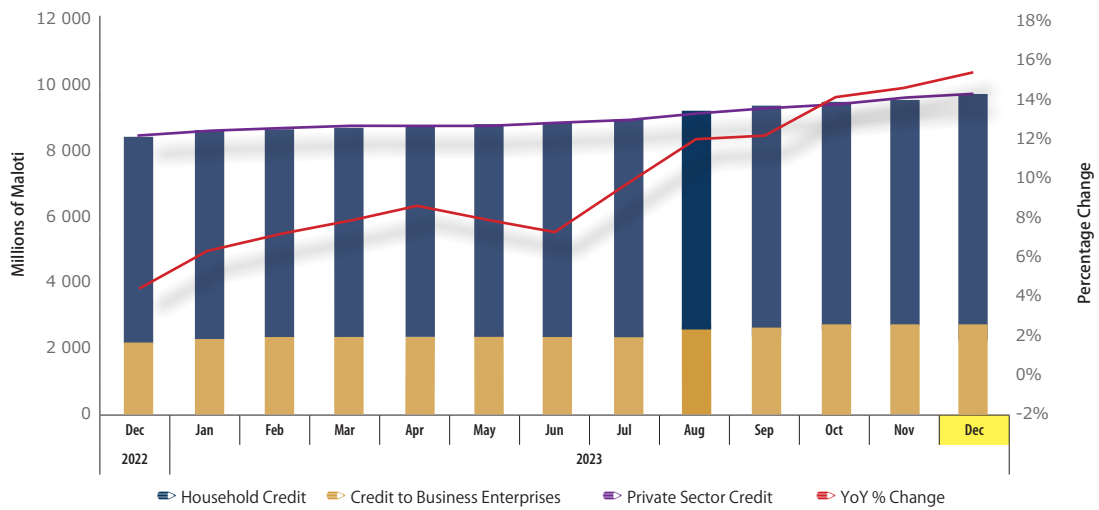


Private Sector Credit

The total amount of loans and advances in the private sector rose by 0.8 per cent, after increasing by 1.4 per cent in the previous month. This was attributed to improved credit extended to households and businesses by 1.0 per cent and 0.4 per cent, respectively. The rise in personal loans was distributed as 0.9 per cent and a 1.1 per cent increase

in mortgage loans. In terms of credit distribution, the industries with the highest proportion of loans were wholesale and retail trade, restaurants & hotels at 25.0 per cent, real estate & business services at 19.9 per cent, and mining & quarrying at 17.3 per cent. The least share of 0.3 per cent of loans went to community, social and personal services. On a year-on-year basis, private sector credit increased by 16.1 per cent.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

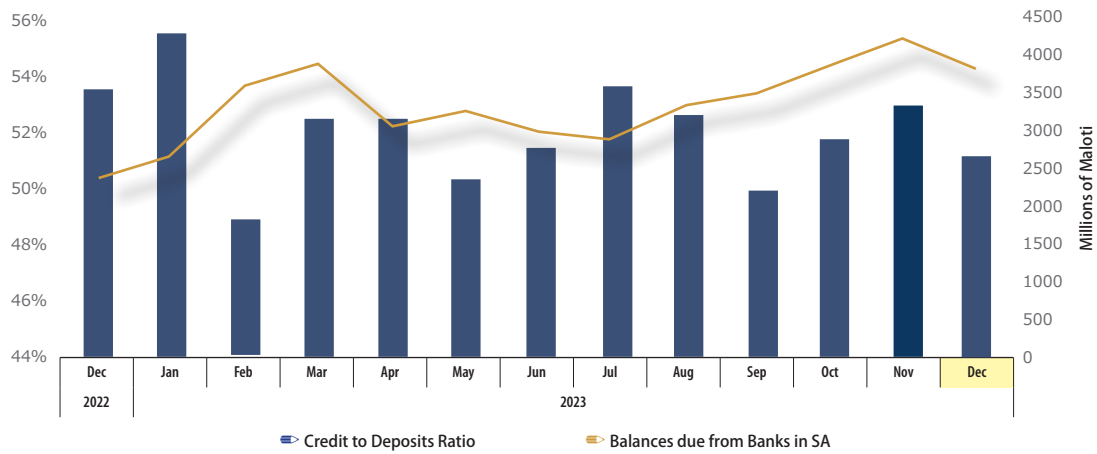
Non-Performing Loans

The share of non-performing loans (NPLs) to total loans grew from 3.5 per cent to 3.9 per cent of total loans because of an increase in NPLs from households and businesses. Among the business sector, the highest proportion of NPLs was observed in the construction, wholesale & retail trade, restaurants & hotels, and real estate & business services sectors.

Sources of Funds

The credit-to-deposit ratio fell to 51.2 per cent from 52.9 per cent due to an increase in total deposits, primarily driven by transferable deposits held by businesses, this was despite an uptick in credit to businesses and households.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

All the short-term rates did not change between November and December 2023. The CBL policy rate remained unchanged at 7.75 per cent. The rates for prime lending, 1-year deposit and the 91-day Treasury bills discount rate all stayed constant at 11.25 per cent and 4.74 per cent and 7.12 per cent, respectively.

Foreign Exchange

In December 2023, the rand, hence, loti performed relatively well against major currencies. It strengthened against the euro, pound, and the dollar. The local currency appreciated by 0.7 per cent against the dollar, 6.1 per cent against the euro, and 2.6 per cent against the pound.

The rand was primarily supported by temporary reprieve in energy crisis in South Africa. This was complemented by favourable economic data, including the decline in inflation for November 2023, driven by low fuel prices. The drop in producer inflation further boosted investor confidence in the country. Additionally, the rand benefited from the decline in the dollar index following the dovish US Federal Reserve decision to keep interest rates unchanged in December.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

Government spending declined by a massive 25.4 per cent, following a prior decrease of 16.8 per cent in November 2023. This reduction was primarily driven by decreased funding for old age pensions resulting from expedited payments made in November 2023, student grants, operating costs, and subsidies to nonfinancial corporations. A further examination of spending by functions showed the economic affairs, general public services, and education as the largest recipients of expenditure during the month.

Total Revenue

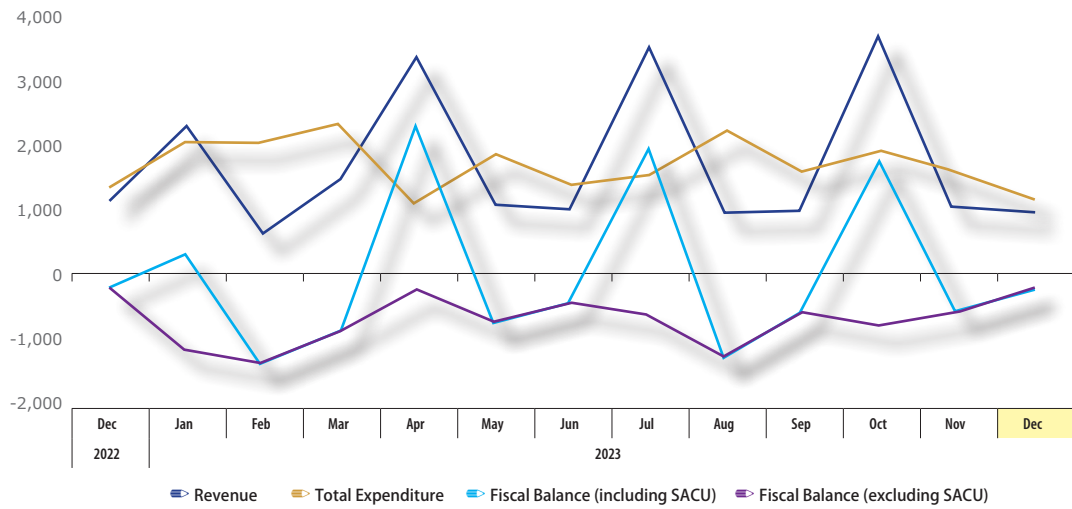
Government revenue experienced a further decline of 6.2 per cent after falling by 10.4 per cent. This decrease in revenue was primarily due to lower collections in VAT, excise taxes, and mining royalties.

Fiscal Balance and Financing¹

To finance the fiscal deficit arising from government operations, prior savings were utilised, and thereby drawing down deposits, and by extension, foreign reserves.

¹ All financing items are on net basis.

Figure 7 Government Fiscal Balance (Million Maloti)



Source: Central Bank of Lesotho & Ministry of Finance

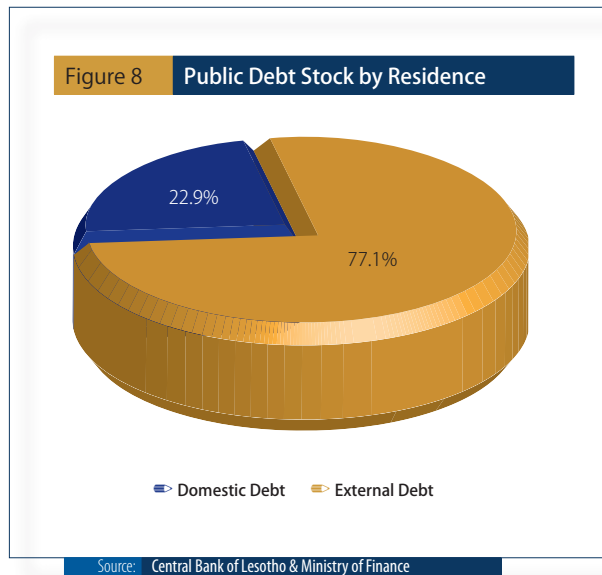
Table 2: Cross Classification of Expenditure by Function and Economic Item (Percentage Change)

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		13.3%	15.7%	0.0%	49.2%	86.3%	100.0%	1.5%	19.9%
Defense		1.1%	0.5%	0.0%	0.0%	0.0%	0.0%	1.4%	0.8%
Public Order and Safety		23.1%	21.9%	0.0%	1.6%	0.0%	0.0%	21.2%	18.9%
Economic Affairs		10.2%	43.7%	0.0%	19.7%	0.0%	0.0%	69.4%	22.1%
Environmental Protection		0.8%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%
Housing and Community Amenities		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Health		7.8%	16.1%	97.3%	0.0%	13.7%	0.0%	0.0%	12.1%
Recreation, Culture, and Religion		0.6%	0.6%	0.0%	0.0%	0.0%	0.0%	1.3%	0.5%
Education		33.2%	1.4%	2.7%	29.4%	0.0%	0.0%	5.4%	20.3%
Social Protection		10.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	5.1%
Share per Economic Item		51.1%	26.5%	3.2%	8.7%	5.3%	0.0%	5.2%	100.0%

Source: CBL and MOF

V. PUBLIC DEBT

The public debt stock rose by 0.2 per cent to reach 59.8 per cent of GDP. This increase was due to disbursement of ongoing development projects.



Appendix: Key Economic Indicators

		23-Jun	23-Jul	23-Aug	23-Sep	23-Oct	23-Nov	23-Dec	
Economic Activity (MIEA (% change, M/M))		-0.7	1.3	1.0	2.3	2.6	-0.9	2.1	
Consumer price Index (% change)	Headline Inflation (year-on-year)	5.6	4.5	5.2	5.8	6.5	6.8	7.2	
	Core Inflation	5.5	3.8	4.5	5.3	6.1	6.4	6.4	
Exchange Rates (Monthly End Period)	EUR	19.31	18.20	21.08	20.28	19.83	19.18	20.34	
	GBP	21.97	20.56	24.41	23.53	23.19	23.00	23.60	
	USD	17.73	17.08	19.74	18.98	19.06	18.54	18.67	
Money Supply (Millions of Maloti)	M2	15,306.80	15,786.76	16,201.65	15,515.84	15,357.08	15,706.25	17,180.65	
	M1	6,379.53	6,323.64	6,508.33	5,952.76	5,675.13	5,735.00	8,448.94	
	Quasi Money	8,927.27	9,463.13	9,693.32	9,563.08	9,681.95	9,971.24	8,731.71	
Interest Rates	CBL Rate	7.75	7.75	7.75	7.75	7.75	7.75	7.75	
	91 day Treasury bill rate	7.70	7.75	7.65	8.65	7.41	7.12	7.12	
	Prime lending rate	11.25	11.25	11.25	11.25	11.25	11.25	11.25	
	1 year deposit rate	4.74	4.74	4.74	4.74	4.74	4.74	4.74	
Private sector Credit (Millions of Maloti)		8,799.42	8,929.65	9,264.30	9,408.42	9,522.85	9,655.44	9,736.03	
	Households	2,344.63	2,347.17	2,547.19	2,573.41	2,656.17	2,707.48	2,717.72	
	Non-profit Organisations	6,454.79	6,582.48	6,717.10	6,835.01	6,866.67	6,947.96	7,018.31	
Bank Deposit Liabilities (Millions of Maloti)		16,778.74	16,353.27	17,308.64	18,549.36	18,080.49	17,945.47	18,679.67	
Credit to Deposit Ratio (%)		51.46	53.60	52.56	49.84	51.78	52.91	51.19	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-417.56	1,913.13	-1,269.59	-638.07	1,767.10	-569.09	-233.75	
	Total Revenue (with SACU receipts)	977.44	3,463.50	914.32	973.20	3,645.74	993.76	931.83	
	Total Expenditure	1,395.00	1,550.37	2,183.91	1,611.27	1,878.64	1,562.85	1,165.58	
	O/W Capital	319.08	133.44	174.91	149.72	155.61	93.42	59.72	
Total Public Debt (Millions of Maloti)		25,045.63	23,755.19	24,860.18	24,407.21	24,413.11	24,301.30	24,387.00	
	Total External Debt	18,194.40	17,161.50	18,034.30	18,111.80	18,820.40	18,753.70	18,839.40	
	External Debt	Concessional	13,715.80	12,776.10	13,486.20	13,577.50	14,256.50	14,192.00	14,164.90
		Non-concessional	4,478.60	4,385.40	4,548.10	4,534.30	4,563.90	4,561.70	4,674.50
	Domestic Debt	6,851.23	6,593.69	6,825.88	6,295.41	5,592.71	5,547.60	5,547.60	
Memo Item: Arrears (Millions of Maloti)		0.00	0.00	46.50	60.07	29.07	40.18	44.61	

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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