



Monthly ECONOMIC REVIEW

FEBRUARY 2023

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY

Economic performance improved in February 2023. The slight recovery was mainly driven by increased activity in the manufacturing and production side of the economy.

Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) exhibited improvement in the overall economic performance in February 2023. The index was estimated to have grown by 1.0 per cent, contrary to a 2.6 per cent decline in the preceding month. Growth was anchored mainly on manufacturing performance. The strong world economic performance in the review period affected clothing and textile manufacturing positively. Domestic demand, however, contributed negatively to the overall index in the review month. Moreover, the construction and transport industries also contributed negatively to the index.

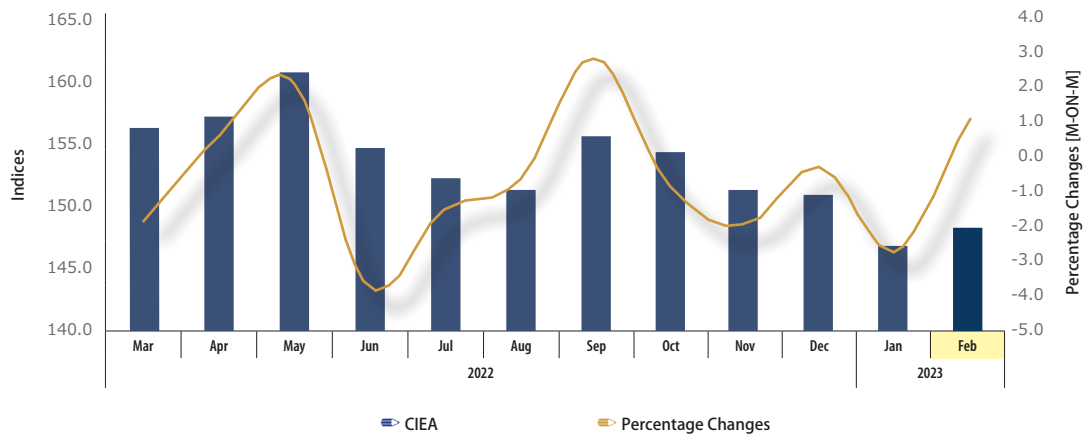
Domestic Demand Category

Domestic demand contracted in the review month. The demand index declined by 1.3 per cent, in contrast to a 0.2 per cent increment recorded in the previous month. Contraction in activity was mainly a result of negative contributions by the Government's purchases of goods and services, imports of goods and services, as well as real earnings (as seen through pay-as-you-earn). However, public servants' earnings and retail activity remained strong in the review month.

Manufacturing and Production Category

The manufacturing and production category continued to grow in the month under review. The manufacturing index grew further by 3.6 per cent, in comparison to the 1.1 per cent growth recorded in January 2023. Growth was driven by a rebound in exports of clothing and textiles to the US market. However, there was pressure on the industrial use of utilities (both water and electricity).

Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2022						2023	
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
CIEA	152.2	151.2	155.5	154.3	151.2	150.8	146.9	148.3
Monthly changes	-1.5	-0.7	2.9	-0.8	-2.0	-0.3	-2.6	1.0
Domestic Demand Category	142.5	145.3	151.6	152.5	150.6	149.0	149.3	147.3
Monthly changes	-6.0	2.0	4.3	0.6	-1.2	-1.1	0.2	-1.3
Manufacturing & Production Category	110.6	107.9	106.2	102.5	99.0	97.3	98.4	101.9
Monthly changes	-2.5	-2.4	-1.6	-3.4	-3.4	-1.7	1.1	3.6

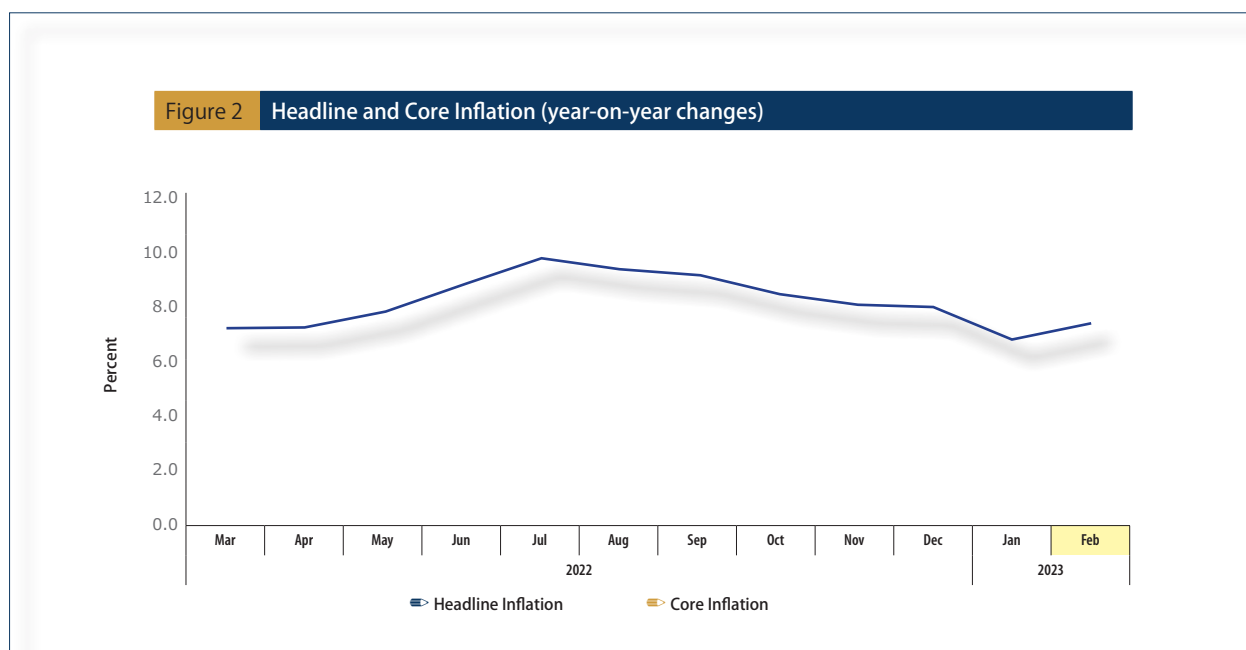
Source: Central Bank of Lesotho (CBL) Calculations

II. INFLATION AND PRICES

Headline Inflation

The inflation rate rose by 0.6 percentage points from January 2023, to reach an estimated 7.4 per cent in February 2023. Even though inflationary pressures were broadly based during the review period, Food & Non-alcoholic beverage; Housing, Water, Electricity, Gas and Other fuels, as well as Clothing & Footwear largely contributed to the acceleration in consumer prices.

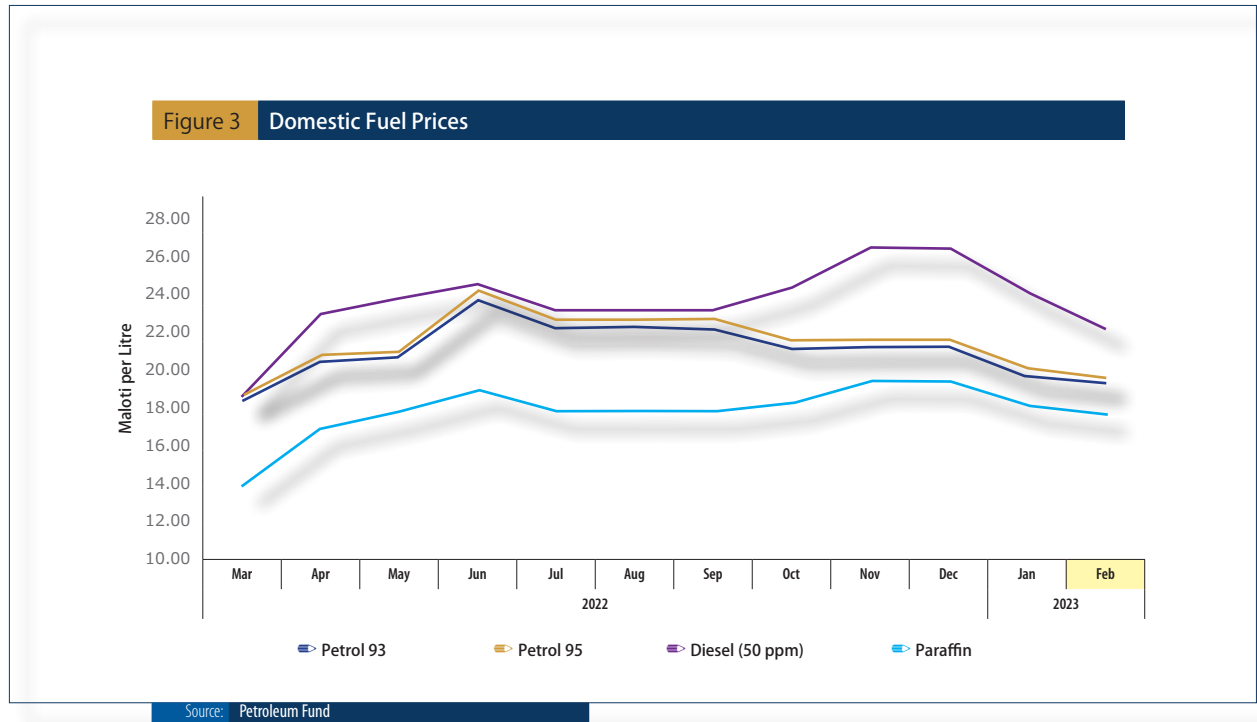
Despite falling international food and fuel prices, the weak exchange rate kept inflation rate elevated during the review period. Shortage cereal supplies and a relatively stronger demand for food products in Lesotho also contributed to the rise in food prices during the same period.



Domestic Fuel Prices

Prices of all domestic fuel prices declined in February 2023 from levels recorded in January 2023. Grades of petrol ($petrol_{93}$ and $petrol_{95}$) were reduced by M0.35 per litre and M0.40 per litre and were M19.30 per

litre and M19.65 per litre, respectively. The pump price of $diesel_{50}$ was M22.15 per litre having been reduced by M1.95 per litre. Moreover, the retail price of illuminating paraffin was reduced by M0.50 per litre and sold at M17.60 per litre during the review period.



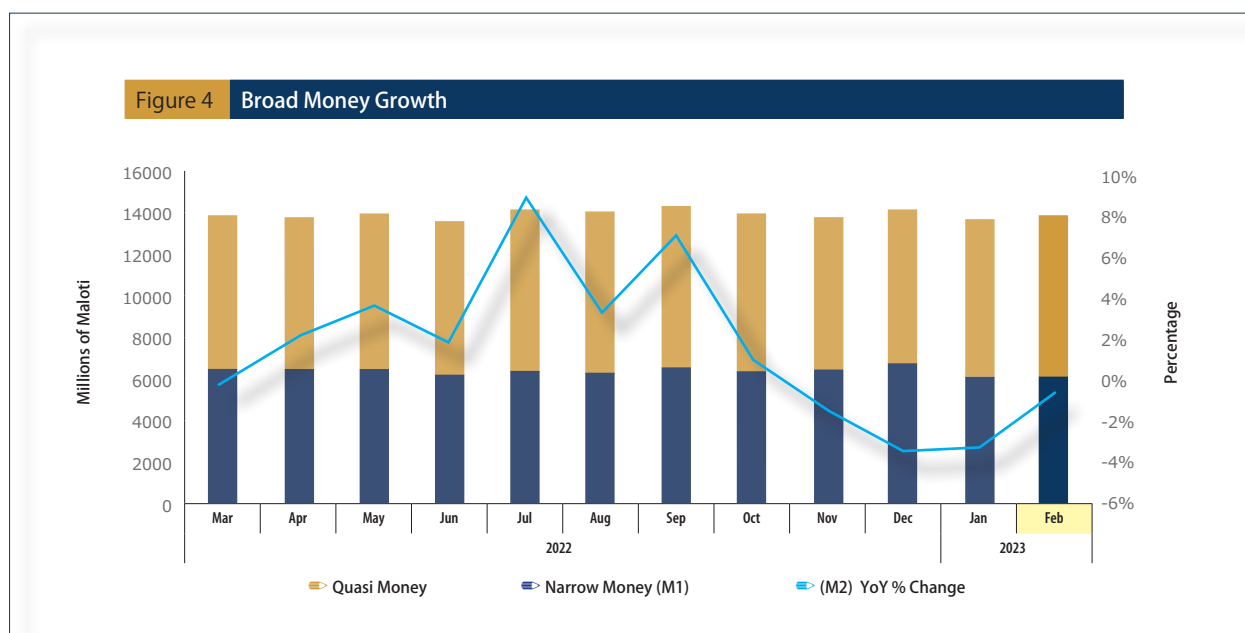
III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

The broadly defined money supply (M2) increased by 1.7 per cent in February 2023, in contrast to a decline of 3.0 per cent in January 2023. This growth was underpinned by an increase of 37.8 per cent in commercial banks’ net foreign assets (NFA), driven by a significant deposit by a non-financial public unit. However, this was undermined by net domestic assets (NDA) that declined by 20.1 per cent.

Components of Money Supply

Money supply increased due to an increase in quasi money by 3.5 per cent, while narrow money (M1) declined by 0.4 per cent. The increase in quasi money emanated from an increase in other deposits held by public non-financial unit, business enterprises and households. M1 fell due to a decline in transferable deposits held by business enterprises.

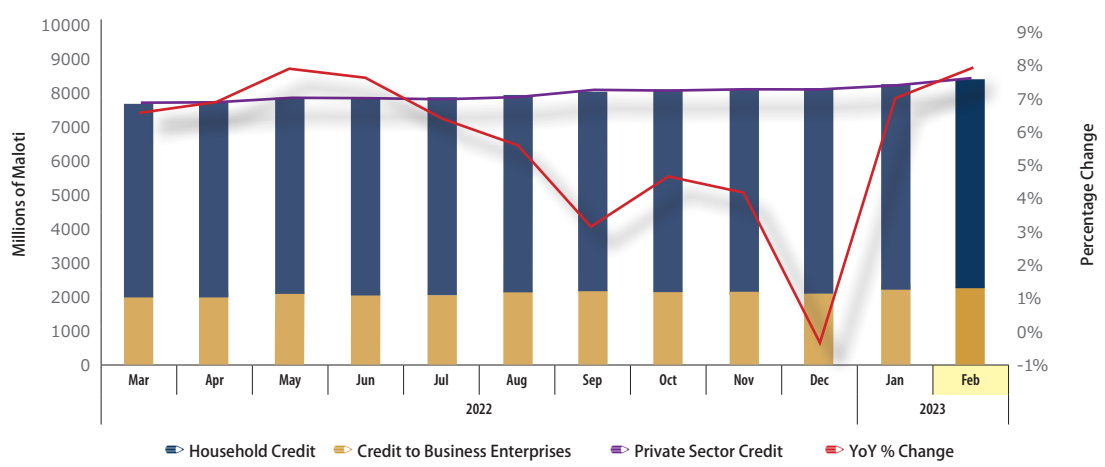


Private Sector Credit

The total loans and advances extended to the private sector increased by 0.8 per cent in February 2023, following an increase of 2.7 per cent in the prior month. This was due to an increase of 0.3 per cent and 2.2 per cent in household loans and credit extended to business enterprises, respectively. Mortgage loans saw an increase of 0.6 per cent, bolstering household credit, while personal loans remained

relatively unchanged. Considering the distribution of credit to business enterprises, wholesale & retail trade, restaurants & hotels, real estate & business services, as well as mining & quarrying, received the largest shares of 26.2 per cent, 25.0 per cent and 20.0 per cent, respectively. The community, social & personal services sector maintained its lowest share of 0.3 per cent in the review period. On a year-on-year basis, private sector credit increased by 8.0 per cent in February 2023.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

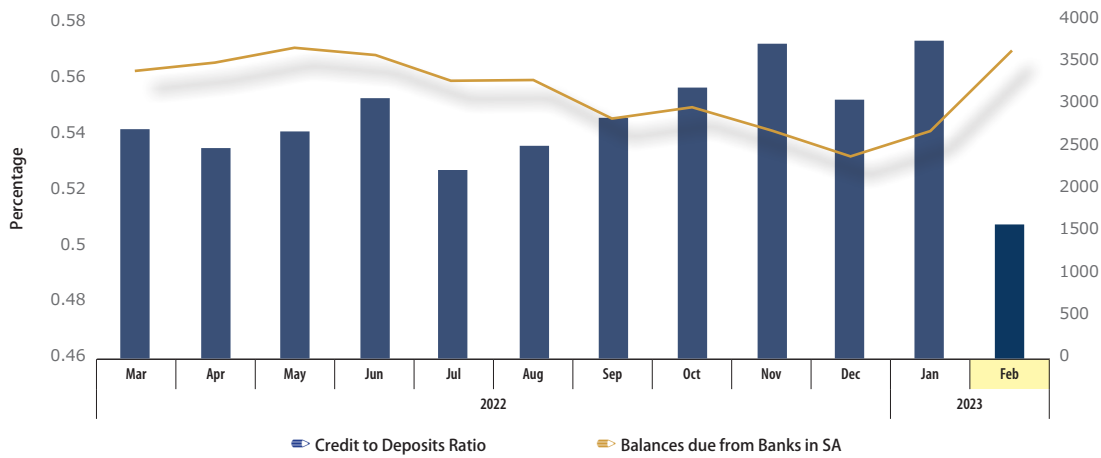
Non-Performing Loans

The total non-performing loans (NPLs), as a ratio of total loans, declined to 4.1 per cent from 4.3 per cent. The NPLs for business enterprises declined to 4.7 per cent in February 2023 from 5.1 per cent in the preceding month, while the NPLs for the household sectors declined to 3.9 per cent from 4.0 per cent. Real estate & business services, wholesale & retail trade, restaurants & hotels, as well as the construction sector, continue to account for the greatest proportions of business sector NPLs.

Sources of Funds

The credit to deposit ratio declined to 49.8 per cent from 56.3 per cent. This was explained by a significant increase in total deposits despite an increase in credit extended to the private sector.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The CBL policy rate increased by 25 basis points to 7.25 per cent. As a result, the prime lending rate and 1-year deposit rate were impacted and increased by 25 basis points and 10 basis points to 10.75 per cent and 4.57 per cent, respectively. The 91-day T-bill rate was similarly affected, rising by 12 basis points to 7.00 per cent in February 2023.

Foreign Exchange

The local currency continued to weaken against the dollar, pound and euro in February 2023. It depreciated by 4.72 per cent, 3.72 per cent and 4.16 per cent against the dollar, pound and euro, respectively. This was in comparison to a depreciation of 0.88 per cent, 2.37 per cent and 1.77 per cent against the dollar, pound and euro, respectively, a month earlier.

The rand continued to be primarily affected by South Africa's prolonged energy crisis, which has hurt businesses and investor sentiment. This was further exacerbated by the country's grey listing by the Financial Action Task Force during the same period, and therefore weakened the rand further.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

Government total expenditure was estimated to marginally fall by 0.6 per cent in February 2023 as opposed to an increase of 51.5 in January 2023. This fall was mainly determined by subsidies to extra-budgetary units, old age pension and student grants.

The share of development outlays to total outlays increased to 11.3 per cent due to economic affairs, general public services and housing & community amenities, which increased by 59.1 per cent, 25.3 per cent and 13.0 per cent, respectively. The increase in economic affairs was attributable to an increase in general economic & commercial affairs, general public services increased due to community development, and housing & community amenities increased due to water supply.

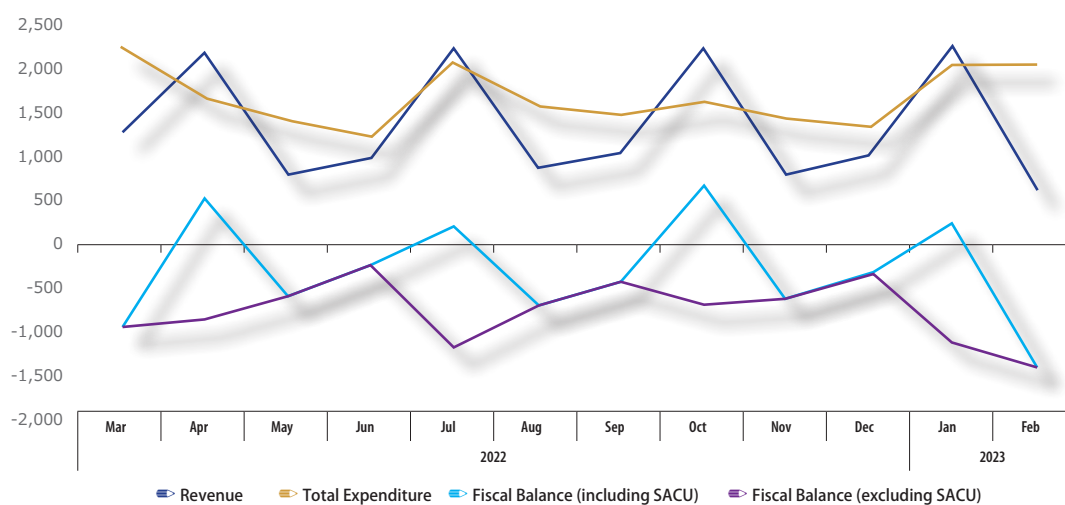
Total Revenue

The Government revenue decreased by 33.3 per cent during the current month compared to a fall of 8.5 per cent in the previous month. This was due to tax revenue, as well as mining and water royalties.

Fiscal Balance and Financing

The fiscal operations recorded a deficit equivalent to 13.8 per cent of GDP. The deficit was financed through a drawdown of government deposits and accumulation of public debt, thus leading to a fall in financial assets and a rise in total liabilities, respectively.

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)

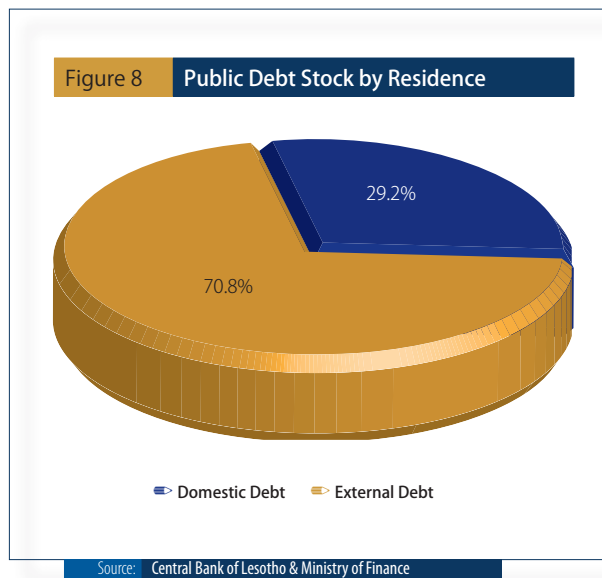
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		25.4%	17.6%	3.1%	7.8%	0.0%	10.1%	4.2%	16.2%
Defense		5.0%	5.9%	0.0%	0.0%	0.0%	0.0%	0.0%	3.3%
Public Order and Safety		10.8%	11.4%	0.0%	0.7%	0.0%	0.0%	1.4%	7.2%
Economic Affairs		5.4%	20.6%	0.0%	14.5%	0.0%	84.2%	80.3%	23.9%
Environmental Protection		0.1%	0.1%	1.1%	0.0%	0.0%	0.0%	0.0%	0.1%
Housing and Community Amenities		0.5%	1.4%	0.0%	0.0%	0.0%	0.0%	12.9%	2.5%
Health		5.0%	30.1%	85.7%	0.0%	12.8%	0.0%	0.2%	10.6%
Recreation, Culture, and Religion		0.6%	1.4%	0.0%	0.0%	0.0%	0.0%	1.0%	0.7%
Education		21.9%	8.2%	10.1%	77.0%	0.0%	0.0%	0.1%	16.2%
Social Protection		25.4%	3.3%	0.0%	0.0%	87.2%	5.7%	0.0%	19.4%
Share per Economic Item		44.2%	18.8%	1.9%	6.2%	8.3%	4.6%	15.9%	100.0%

Source: CBL and MOF

V. PUBLIC DEBT

The stock of public debt was estimated at 54.2 per cent of GDP in February 2023, in comparison with 52.3 per cent of GDP in the preceding month. It increased by 3.6 per cent during the month under

review, compared to a decrease of 4.4 in the previous month. The increase in debt was due to bond issuance. In terms of year-over-year fluctuations, the public debt stock increased by 8.1 per cent.



Appendix: Key Economic Indicators

		22-Sep	22-Oct	22-Nov	22-Dec	23-Jan	23-Feb	
Economic Activity (MIEA (% change, M/M))		2.8	-0.8	-2.0	-0.3	-2.6	1.0	
Consumer price Index (% change)	Headline Inflation (year-on-year)	9.4	9.2	8.5	8.0	6.8	7.4	
	Core Inflation	6.4	6.7	6.4	6.4	6.1	6.6	
Exchange Rates (Monthly End Period)	EUR	17.05	17.99	17.85	18.20	18.93	19.18	
	GBP	19.82	19.90	20.51	20.56	21.51	21.66	
	USD	17.03	17.54	18.16	17.08	17.48	17.91	
Money Supply (Millions of Maloti)	M2	14,250.90	14,580.08	14,222.19	14,335.89	13,899.76	14,141.10	
	M1	6,455.37	6,667.51	6,553.52	6,857.45	6,253.46	6,227.78	
	Quasi Money	7,795.53	7,912.57	7,668.67	7,478.44	7,646.31	7,913.32	
Interest Rates	CBL Rate	5.50	6.25	6.25	7.00	7.00	7.25	
	91 day Treasury bill rate	5.62	6.34	6.38	6.36	6.88	6.70	
	Prime lending rate	9.00	9.75	9.75	10.50	10.50	10.75	
	1 year deposit rate	3.48	4.24	4.24	4.47	4.47	4.57	
Private sector Credit (Millions of Maloti)		8,122.32	8,467.37	8,364.98	8,356.83	8,584.33	8,650.74	
	Households	5,900.89	6,224.04	6,109.38	6,140.63	6,291.37	6,307.99	
	Business Enterprises	2,215.34	2,237.28	2,249.76	2,209.92	2,292.96	2,342.75	
Bank Deposit Liabilities (Millions of Maloti)		15,163.65	15,382.96	15,037.82	15,145.56	14,975.04	17,044.60	
Credit to Deposit Ratio (%)		54.59	54.48	55.49	55.55	56.29	49.82	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-421.85	640.42	-571.67	-280.32	331.78	-1,406.22	
	Total Revenue	1,037.62	2,224.93	784.79	1,002.15	2,266.68	611.21	
	Total Expenditure	1,459.47	1,584.51	1,356.47	1,282.48	1,934.90	2,017.43	
	O/W Capital	120.87	150.80	88.88	81.89	91.58	360.69	
Total Public Debt (Millions of Maloti)		22,669.88	23,032.89	22,572.25	22,491.78	21,308.94	22,075.72	
	Total External Debt	16,216.16	16,480.27	16,248.30	16,341.31	15,115.33	15,631.00	
	External Debt	Concessional	12,094.11	12,308.65	11,942.76	12,050.10	10,885.13	11,395.56
		Non-concessional	4,122.05	4,171.62	4,305.54	4,291.21	4,230.20	4,235.45
	Domestic Debt		5,952.41	6,453.72	6,552.62	6,323.96	6,193.61	6,444.72
Memo Item: Arrears (Millions of Maloti)		0.00	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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