



# Monthly ECONOMIC REVIEW

JUNE 2023

CENTRAL BANK OF LESOTHO  
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## I. ECONOMIC ACTIVITY

In June 2023, economic performance recorded positive growth, which emanated from both the production and demand sides of the economy.

### Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) showed a rebound in June 2023 recovering from 0.2 in the preceding month. The index was estimated to have increased by 0.9 per cent. While domestic demand slowed down during the review period, production and manufacturing rebounded, thus moderating slowdown in the overall economic activity. Transport and construction subsectors, however, remained sluggish in the review month.

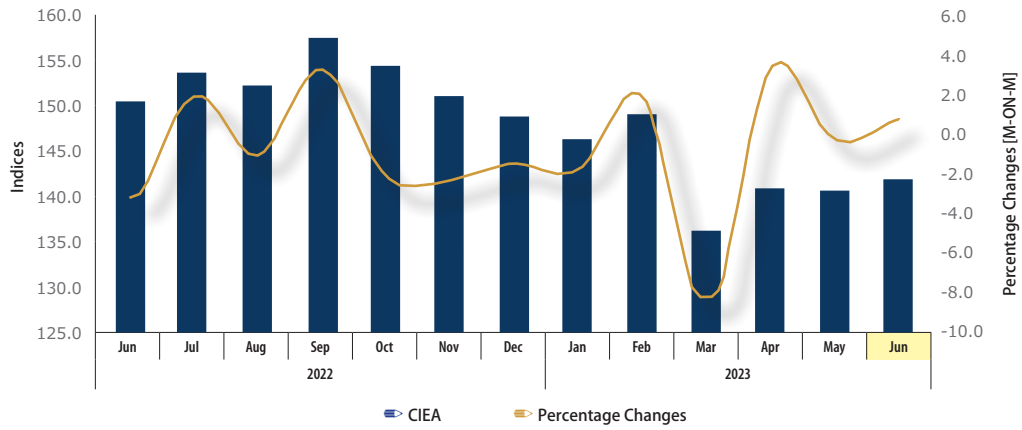
### Domestic Demand Category

The domestic demand slowed down from 8.1 per cent in May 2023 to 0.7 per cent in June 2023. The slow growth was mainly driven by increased consumer and government spending. However, weak employment in the economy moderated the growth.

### Manufacturing and Production Category

The production side of the economy rebounded during the review period. Growth increased by 2.9 per cent in June 2023 from a contraction of 6.2 per cent in the previous month. The increased demand for Lesotho's exports in the US buoyed the productive capacity of the economy.

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



Source: CBL Calculations

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

| Indices  | 2022  |       | 2023  |       |       |       |       |       |
|--|-------|-------|-------|-------|-------|-------|-------|-------|
|  | Nov   | Dec   | Jan   | Feb   | Mar   | Apr   | May   | Jun   |
| <b>CIEA</b>                                    | 151.1 | 149.0 | 146.4 | 149.3 | 136.2 | 141.7 | 140.7 | 141.9 |
| Monthly changes                                | -2.2  | -1.4  | -1.7  | 2.0   | -8.8  | 3.5   | -0.2  | 0.9   |
| <b>Domestic Demand Category</b>                | 147.8 | 146.0 | 149.2 | 147.5 | 136.2 | 141.8 | 153.2 | 154.4 |
| Monthly changes                                | -0.4  | -1.2  | 2.2   | -1.1  | -7.7  | 4.1   | 8.1   | 0.7   |
| <b>Manufacturing &amp; Production Category</b> | 98.6  | 94.2  | 97.9  | 106.6 | 105.1 | 108.9 | 102.2 | 105.2 |
| Monthly changes                                | -5.1  | -4.5  | 3.9   | 8.9   | -1.4  | 3.7   | -6.2  | 2.9   |

Source: Central Bank of Lesotho (CBL) Calculations

## II. INFLATION AND PRICES

### Headline Inflation

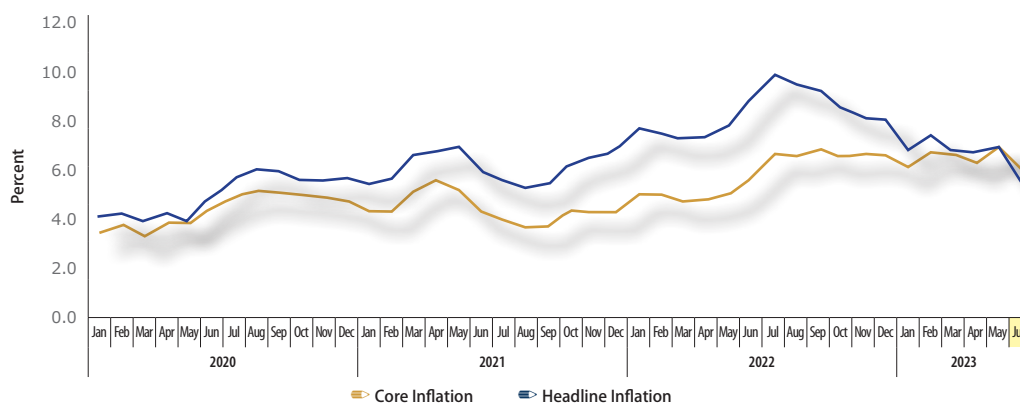
In June 2023, the headline inflation rate was 5.6 per cent from 6.9 per cent observed in May 2023. The major contributors to the decline in inflation rate were Food & Non-alcoholic beverage; clothing & footwear; Housing, water, electricity, gas & other fuel; Alcoholic Beverages & Tobacco; Furnishings, Household Equipment & Routine Maintenance of the House and Miscellaneous goods and services.

The major drivers of the disinflation were falling international food and fuel prices. Nonetheless, exchange rate depreciation kept the inflation rate elevated during the review period.

### Core Inflation

Core inflation edged downwards from 6.8 per cent in May 2023 to 5.9 per cent in June 2023.

Figure 2 Headline (year-on-year changes)

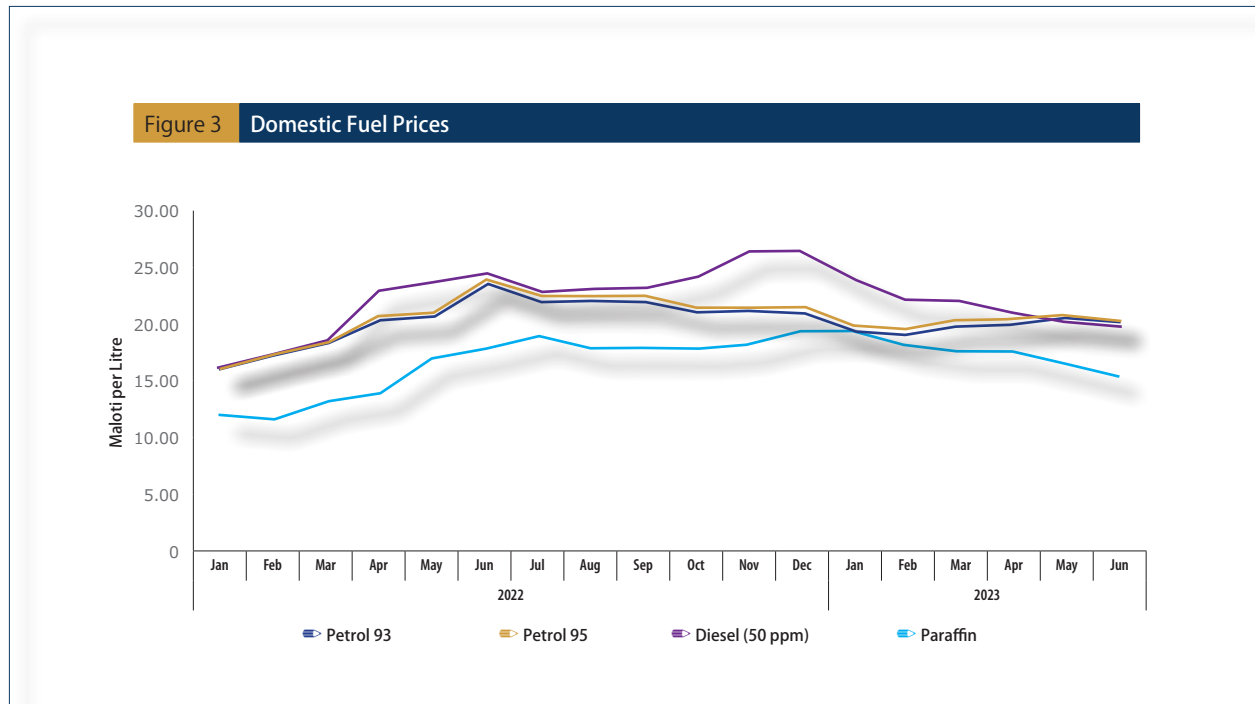


Source: Lesotho Bureau of Statistics & CBL Computation

## Domestic Fuel Prices

During the review month, prices of both grades of petrol (*petrol<sub>93</sub>* and *petrol<sub>95</sub>*) decreased by M0.50 and M0.40 and were sold at M20.10 per litre and M20.55

per litre, respectively. Additionally, the pump price of *diesel<sub>50</sub>* was reduced by M0.35, selling at M19.85 per litre. The price of illuminating paraffin was also reduced by M0.50 sold at M14.80 per litre in the retail market.



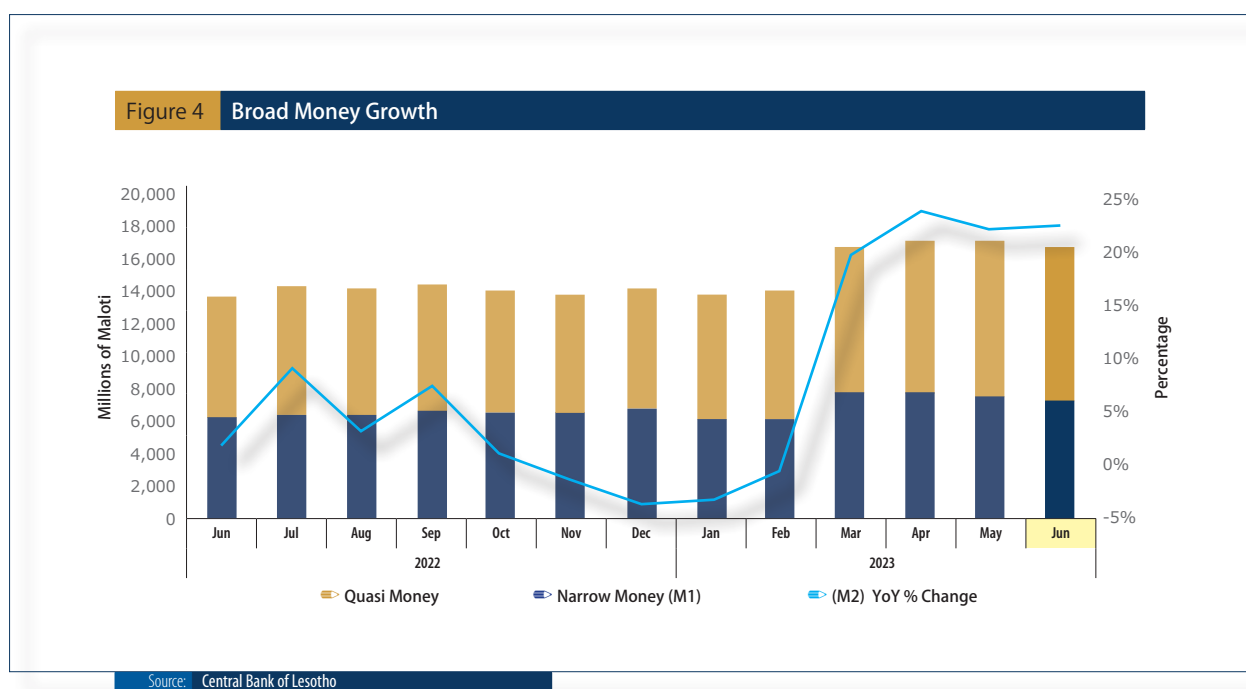
### III. MONETARY AND FINANCIAL INDICATORS

#### Broad Money (M2)

The broadly defined money supply (M2) declined by 2.4 per cent in June 2023, due to a 3.0 per cent fall in net foreign assets (NFA), while net domestic assets (NDA) increased. While commercial banks' NFA fell due to withdrawals with banks in South Africa, the decline in CBL's NFA was in line with the fall government deposits. In contrast, NDA growth benefitted from the drawdown of government deposits within the banking system.

#### Components of Money Supply

In terms of money supply components, both quasi money and narrow money declined. The decline of 1.3 per cent in quasi money emanated from withdrawals in savings and fixed term deposits, while the decline of 3.7 per cent narrow money was due to a fall in transferable deposits held by business enterprises.

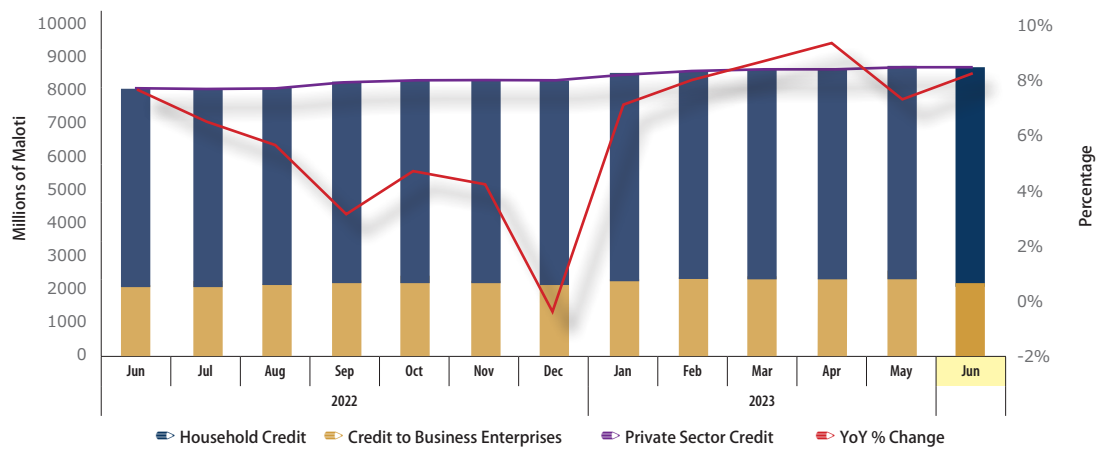


#### Private Sector Credit

Total loans and advances to the private sector increased by 0.3 per cent after a 0.7 per cent increase in the previous month. This was explained by improved credit to households, which was, however, moderated by a decline in businesses' credit. Households' credit rose by 1.0 per cent, while

businesses' credit fell by 1.5 per cent. In order of the largest share of loans given to businesses, wholesale & retail trade, restaurants & hotels received 27.3 per cent, real estate & business services 23.8 per cent, and mining & quarrying 17.1 per cent. Electricity, gas, and water sector received the least share of 0.3 per cent. On year-on-year basis, private sector credit increased by 8.3 per cent in June 2023.

**Figure 5 Private Sector Credit**



Source: Central Bank of Lesotho

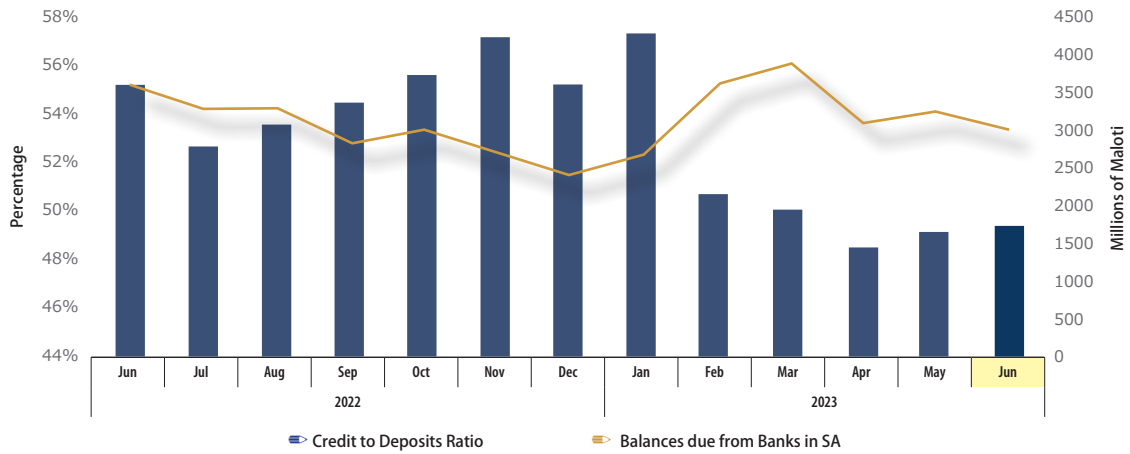
### Non-Performing Loans

Total non-performing loans (NPLs) as a percentage of total loans decreased to 4.1 per cent, from 4.3 per cent due to a fall in both households and business enterprises' NPL. The majority of business sector NPLs continued to be in real estate & business services, wholesale & retail trade, restaurants & hotels and construction.

### Sources of Funds

The credit-to-deposit ratio increased to 48.5 per cent from 48.2 per cent, supported by an increase in private sector credit and a fall in total deposits.

**Figure 6 Credit to Deposit Ratio**



Source: Central Bank of Lesotho

### Interest Rates

The CBL policy rate was kept at 7.75 per cent, and consequently the prime lending rate and the 1-year deposit rate remained at 11.25 per cent, and 4.74 per cent, respectively. Nonetheless, the 91-day T-bills discount rate increased by 5 basis points to 7.70 per cent in June 2023 in response to the prevailing liquidity conditions.

### Foreign Exchange

The value of the rand (loti)<sup>1</sup> strengthened against the dollar, pound and euro in June 2023. The rand appreciated by 1.66 per cent, 0.58 per cent and 1.93 per cent against the dollar, the pound and the euro, respectively. This was in comparison to a depreciation of 4.64 per cent, 4.89 per cent and 3.56 per cent against the dollar, the pound and the euro, respectively, in the previous month.

The dollar weakened following the release of weaker than expected US job growth statistics. This was further compounded by the Federal Reserve decision to pause its policy hikes in June 2023, as the consumer prices were beginning to stabilise.

The rand was also supported by the release of encouraging economic data (e.g., retail sales) for South Africa during the same month. Furthermore, there were reduced power supply cuts in the country, which boosted investor sentiment.

<sup>1</sup> The South African rand is pegged at with the Lesotho loti.

## IV. GOVERNMENT BUDGETARY OPERATIONS

### Total Expenditure

Government spending decreased by 20.6 per cent in June 2023, in contrast to a revised increase of 65.8 per cent in May 2023. This was attributed to low spending on health services, transfers to public enterprises, payments of social securities, government pension contributions, and infrastructure projects.

### Total Revenue

Tax revenue marginally decreased by 6.0 per cent in the current month, compared to an increase of 24.0 per cent in the previous month, due to a fall in other revenue, particularly excise taxes and administration fees.

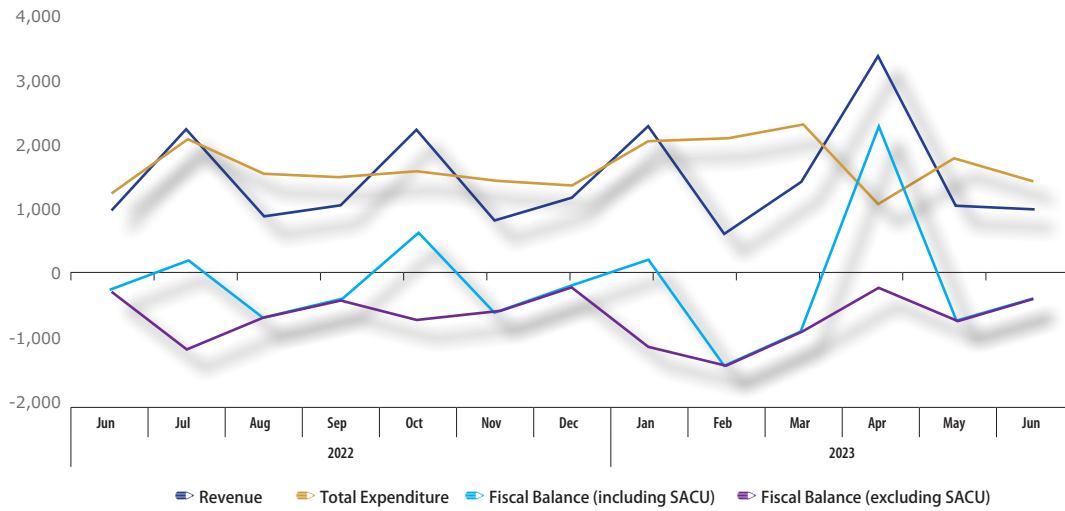
### Fiscal Balance and Financing<sup>2</sup>

The fiscal deficit of 4.6 per cent of GDP recorded this month was financed by drawing down government deposits and issuing treasury bonds. Consequently, this resulted in a fall in financial assets, and an increase in liabilities.

<sup>2</sup> 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)**

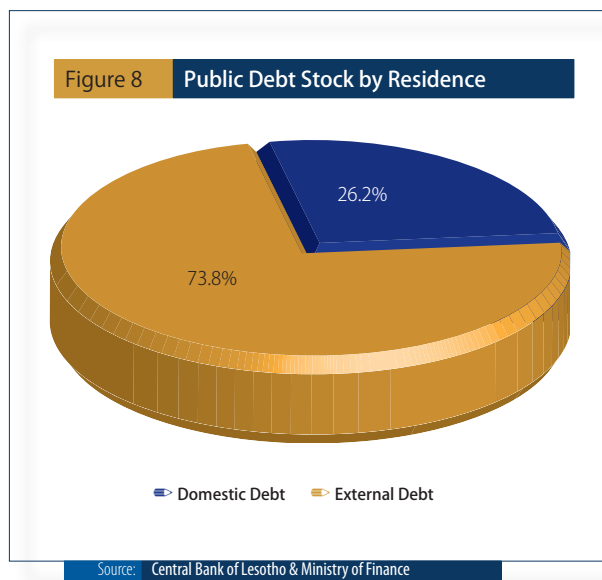
| Function                          | Economic Item | Compensation of Employees | Use of Goods and Services | Subsidies   | Grants      | Social Benefits | Other Expenses | Net Investment in Nonfinancial Assets | Share per Function |
|-----------------------------------|---------------|---------------------------|---------------------------|-------------|-------------|-----------------|----------------|---------------------------------------|--------------------|
| General Public Services           |               | 13.8%                     | 26.4%                     | 0.0%        | 80.7%       | 97.1%           | 100.0%         | 0.9%                                  | 27.8%              |
| Defense                           |               | 1.2%                      | 1.1%                      | 0.0%        | 0.0%        | 0.0%            | 0.0%           | 0.0%                                  | 0.7%               |
| Public Order and Safety           |               | 24.1%                     | 17.5%                     | 0.0%        | 1.3%        | 0.0%            | 0.0%           | 2.1%                                  | 13.7%              |
| Economic Affairs                  |               | 9.4%                      | 20.0%                     | 0.0%        | 8.2%        | 0.0%            | 0.0%           | 96.7%                                 | 29.1%              |
| Environmental Protection          |               | 0.8%                      | 0.2%                      | 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                            |               | 7.4%                      | 32.2%                     | 0.0%        | 0.0%        | 2.9%            | 0.0%           | 0.2%                                  | 8.0%               |
| Recreation, Culture, and Religion |               | 0.7%                      | 1.5%                      | 0.0%        | 0.0%        | 0.0%            | 0.0%           | 0.0%                                  | 0.5%               |
| Education                         |               | 32.2%                     | 1.2%                      | 100.0%      | 9.8%        | 0.0%            | 0.0%           | 0.1%                                  | 15.3%              |
| Social Protection                 |               | 10.4%                     | 0.0%                      | 0.0%        | 0.0%        | 0.0%            | 0.0%           | 0.0%                                  | 4.6%               |
| <b>Share per Economic Item</b>    |               | <b>44.4%</b>              | <b>13.7%</b>              | <b>0.0%</b> | <b>7.9%</b> | <b>6.9%</b>     | <b>4.7%</b>    | <b>22.3%</b>                          | <b>100.0%</b>      |

Source: CBL and MOF

## V. PUBLIC DEBT

The public debt stock was estimated at 62.6 per cent of GDP in June 2023 compared to 60.0 per cent of GDP in May 2023. This was equivalent to a 4.4 per cent increase in debt stock, mainly driven by

the increase in domestic component following of treasury bonds issuance, and partly higher foreign disbursement.



## Appendix: Key Economic Indicators

|   |                                    | 23-Jan           | 23-Feb    | 23-Mar    | 23-Apr    | 23-May    | 23-Jun    |           |
|---|------------------------------------|------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Economic Activity (MIEA (% change, M/M))      |                                    | -2.6             | 1.0       | -3.7      | 1.3       | 3.9       | 0.9       |           |
| Consumer price Index (% change)               | Headline Inflation (year-on-year)  | 6.8              | 7.4       | 6.8       | 6.7       | 6.9       | 5.6       |           |
|   | Core Inflation                     | 6.1              | 6.6       | 6.5       | 6.2       | NA        | 5.9       |           |
| Exchange Rates (Monthly End Period)           | EUR                                | 18.93            | 19.18     | 19.31     | 18.20     | 21.08     | 20.57     |           |
|   | GBP                                | 21.51            | 21.66     | 21.97     | 20.56     | 24.41     | 23.95     |           |
|   | USD                                | 17.48            | 17.91     | 17.73     | 17.08     | 19.74     | 18.88     |           |
| Money Supply (Millions of Maloti)             | M2                                 | 13,899.76        | 14,141.10 | 15,306.80 | 15,786.76 | 16,201.65 | 15,515.84 |           |
|   | M1                                 | 6,253.46         | 6,227.78  | 6,379.53  | 6,323.64  | 6,508.33  | 5,952.76  |           |
|   | Quasi Money                        | 7,646.31         | 7,913.32  | 8,927.27  | 9,463.13  | 9,693.32  | 9,563.08  |           |
| Interest Rates                                | CBL Rate                           | 7.00             | 7.25      | 7.25      | 7.50      | 7.75      | 7.75      |           |
|   | 91 day Treasury bill rate          | 6.88             | 6.70      | 6.59      | 6.88      | 7.65      | 7.70      |           |
|   | Prime lending rate                 | 10.50            | 10.75     | 10.75     | 11.00     | 11.25     | 11.25     |           |
|   | 1 year deposit rate                | 4.47             | 4.57      | 4.57      | 4.66      | 4.74      | 4.74      |           |
| Private sector Credit (Millions of Maloti)    |                                    | 8,584.33         | 8,650.74  | 8,655.54  | 8,707.28  | 8,768.07  | 8,797.65  |           |
|   | Households                         | 6,291.37         | 6,307.99  | 6,310.81  | 6,354.31  | 6,387.72  | 6,453.02  |           |
|   | Non-profit Organisations           | 2,292.96         | 2,342.75  | 2,344.73  | 2,352.97  | 2,380.35  | 2,344.63  |           |
| Bank Deposit Liabilities (Millions of Maloti) |                                    | 14,975.04        | 17,044.60 | 15,761.98 | 16,411.18 | 16,719.35 | 16,417.51 |           |
| Credit to Deposit Ratio (%)                   |                                    | 56.29            | 49.82     | 53.87     | 52.06     | 51.46     | 52.59     |           |
| Fiscal Operations (Millions of Maloti)        | Fiscal Balance                     | 206.54           | -1,436.62 | -893.83   | 2,301.52  | -723.31   | -422.52   |           |
|   | Total Revenue (with SACU receipts) | 2,236.56         | 611.21    | 1,402.28  | 3,361.18  | 1,034.05  | 972.49    |           |
|   | Total Expenditure                  | 2,030.02         | 2,047.83  | 2,296.11  | 1,059.66  | 1,757.35  | 1,395.00  |           |
|   | O/W Capital                        | 186.70           | 375.92    | 604.08    | 39.70     | 326.56    | 319.08    |           |
| Total Public Debt (Millions of Maloti)        |                                    | 21,308.94        | 22,075.72 | 21,791.89 | 24,050.40 | 24,444.62 | 25,526.93 |           |
|   | Total External Debt                | 15,115.33        | 15,631.00 | 15,347.13 | 17,602.30 | 17,969.10 | 18,842.50 |           |
|   | External Debt                      | Concessional     | 10,885.13 | 11,395.56 | 10,955.73 | 13,154.90 | 13,522.00 | 14,209.50 |
|   |                                    | Non-concessional | 4,230.20  | 4,235.45  | 4,391.40  | 4,447.40  | 4,447.10  | 4,633.00  |
|   | Domestic Debt                      | 6,193.61         | 6,444.72  | 6,444.76  | 6,448.10  | 6,475.52  | 6,684.43  |           |
| Memo Item: Arrears (Millions of Maloti)       |                                    | 0.00             | 0.00      | 155.46    | 0.00      | 0.00      | 0.00      |           |

Source: Central Bank of Lesotho

<sup>i</sup> 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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