



Monthly

ECONOMIC REVIEW

MAY 2023

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY

Economic performance improved in May 2023. This was attributed to an uptick in domestic demand, while production was sluggish.

Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) exhibited growth in May 2023. The indicator grew by 3.9 per cent, following a 1.3 per cent recovery in the preceding month. This growth was mainly attributable to a strong domestic demand for goods and services. In addition, the transport and construction industries' performance also supported the observed growth, as evidenced by positive contributions from fuel consumption and metal imports, respectively. However, the production and manufacturing category undermined growth.

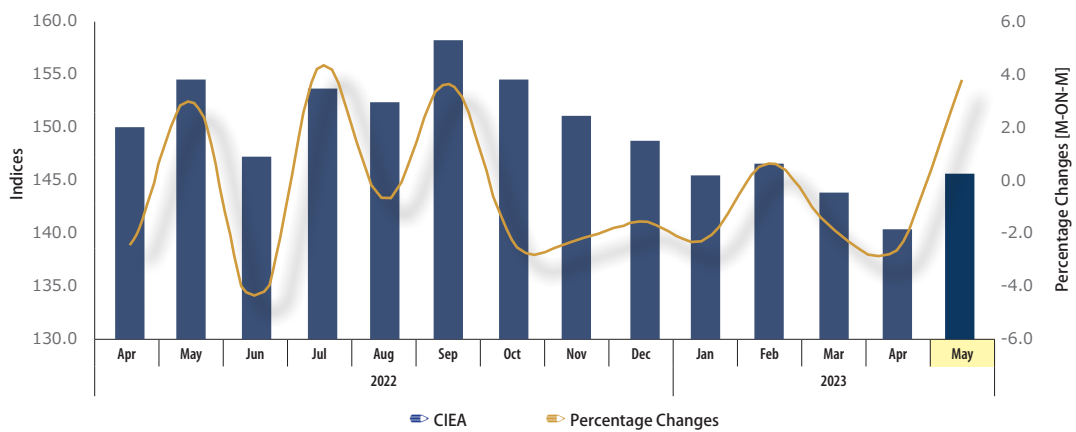
Domestic Demand Category

The domestic demand index grew by 7.8 per cent, in contrast to a 2.8 per cent decrease recorded in the previous month. The strong performance in demand was mainly fuelled by strong government activity (both purchases and compensation of employees), coupled with increased imports of goods and services from South Africa.

Manufacturing and Production Category

Notwithstanding, the manufacturing and production index declined during in May. The index was estimated to have contracted by 2.1 per cent, in contrast to the 7.2 per cent increase observed in April 2023. This shrinkage was mainly a result of slowdown in imports of raw material and exports of clothing and textiles to the US market. The decline was, however, cushioned by satisfactory performance in industrial use of water.

Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

| Indices | 2022 | | | 2023 | | | | |
|--|-------|-------|-------|-------|-------|-------|-------|-------|
| | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May |
| CIEA | 154.6 | 151.2 | 148.8 | 145.6 | 146.6 | 143.9 | 140.3 | 145.8 |
| Monthly changes | -0.8 | -2.0 | -0.2 | -2.0 | 1.5 | -3.7 | 1.3 | 3.9 |
| Domestic Demand Category | 151.6 | 152.5 | 149.0 | 151.2 | 150.9 | 142.6 | 137.4 | 148.1 |
| Monthly changes | 0.6 | -1.2 | -1.1 | 1.5 | -0.2 | -5.4 | -3.6 | 7.8 |
| Manufacturing & Production Category | 103.0 | 99.5 | 97.8 | 99.2 | 103.0 | 97.7 | 104.8 | 101.1 |
| Monthly changes | -1.6 | -3.4 | -1.7 | 1.5 | 3.8 | -5.1 | 7.2 | -2.1 |

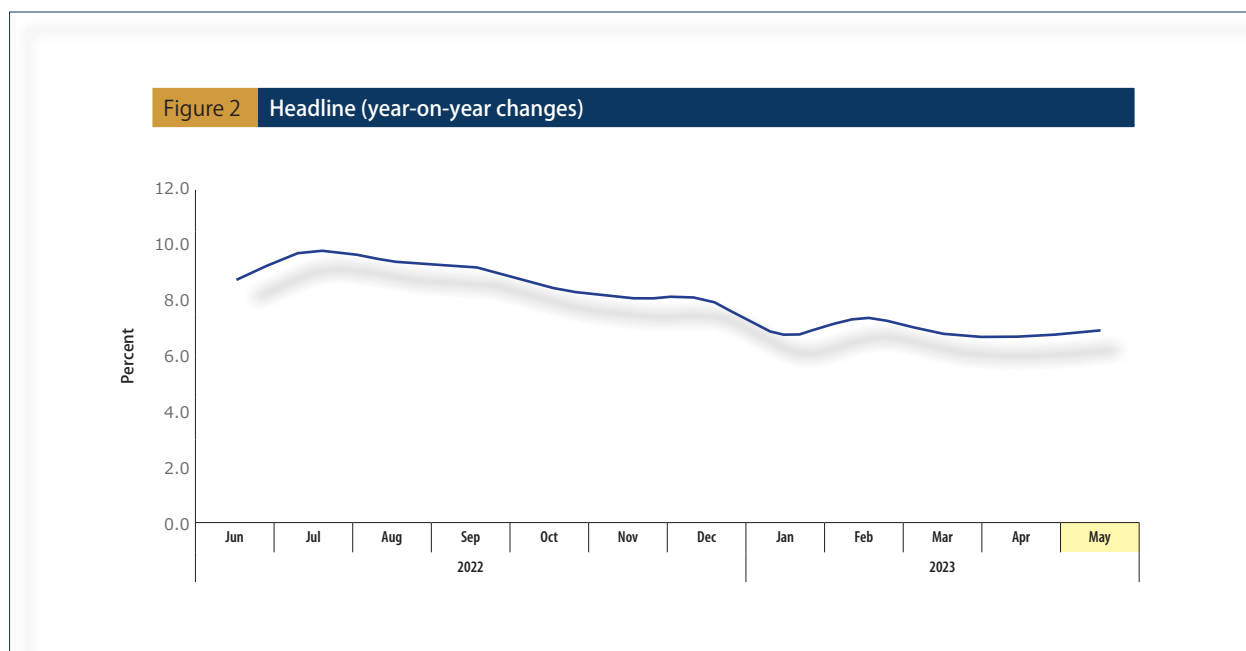
Source: Central Bank of Lesotho (CBL) Calculations

II. INFLATION AND PRICES

Headline Inflation

The headline inflation rate was estimated at 6.9 per cent in May 2023 from 6.7 per cent in April 2023. Food & Non-alcoholic and Alcoholic beverages & tobacco were the main contributors to the increase in inflation during the review period. Nonetheless, Housing, water, electricity, gas & other fuels; Health; Transport and Restaurant & Hotels moderated the increase in inflation during the review period.

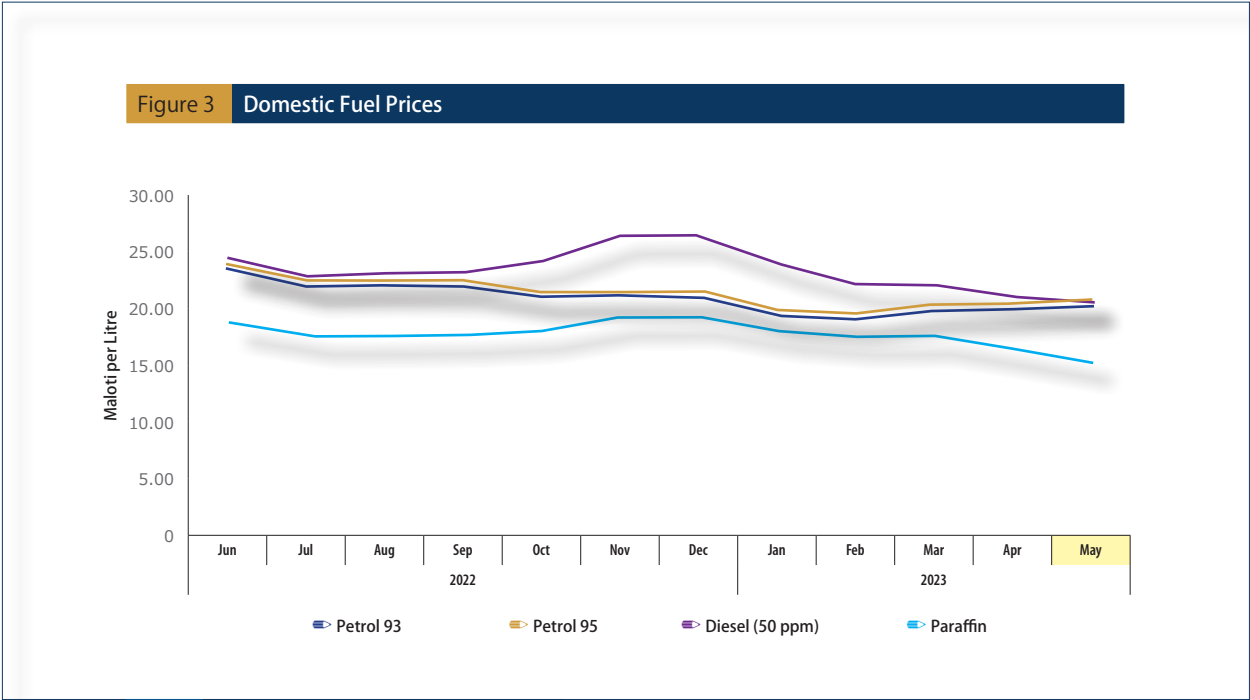
The rising headline inflation is underpinned by stubbornly high domestic food prices, which are exacerbated by weak rand and persistent power cuts that affect cost of production. This is despite continuously falling international food prices during the review month. Nonetheless, fall in crude oil price which outweighed the weak exchange rate moderated an increase in inflation.



Domestic Fuel Prices

During the review period, some prices of petroleum products increased while others decreased. Prices of both grades of petrol (*petrol₉₃* and *petrol₉₅*) increased by M0.50 and M0.55 and were sold at M20.60 per litre and M20.65 per litre, respectively.

However, the pump price of *diesel₅₀* was reduced by M0.85 selling at M21.05 per litre at the pump, illuminating paraffin was reduced by M1.20 and sold at M15.30 per litre in the retail market.



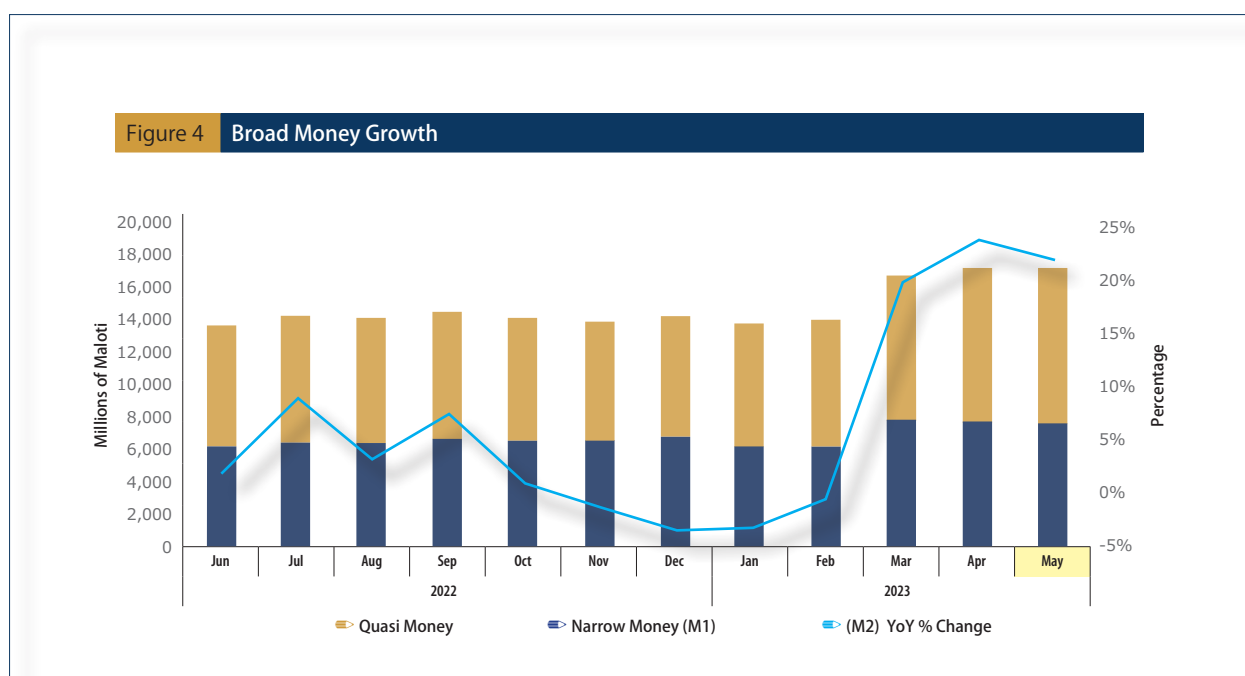
III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

The broadly defined money supply (M2) remained subdued between April and May 2023, following an increase of 2.9 per cent in April 2023. The increase in net domestic assets (NDA) was offset by a fall in net foreign assets (NFA). The upsurge in NDA was on account of a 15.7 per cent reduction in government deposits, while the decline in NFA, followed a 4.9 per cent fall in central bank’s NFA.

Components of Money Supply

Considering the components of money supply, quasi money increased by 2.4 per cent, while narrow money (M1) decreased by 2.9 per cent. The observed increase in quasi money was attributed to growth in other deposits held by other financial corporations, as well as businesses and households. Inversely, the decline in M1 was as a result of the fall in transferable deposits held by public nonfinancial corporations and businesses.

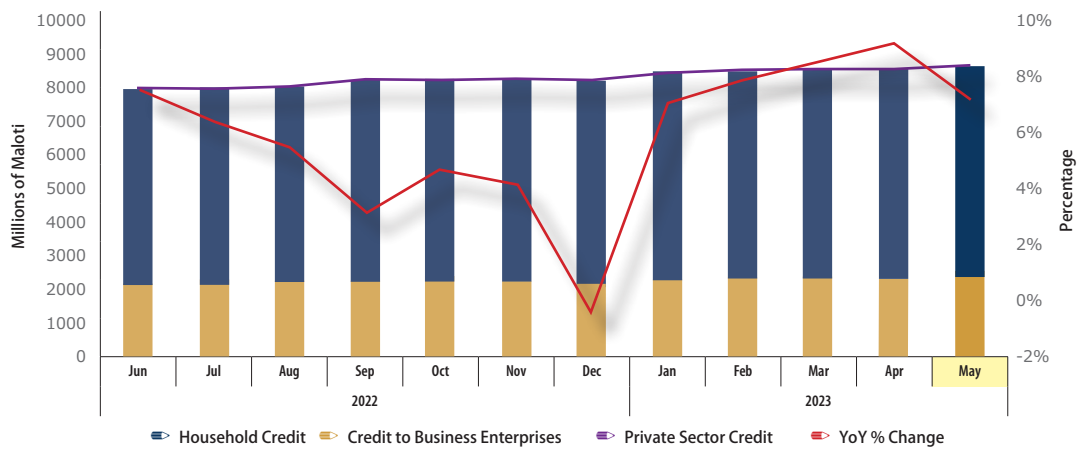


Private Sector Credit

Total loans and advances to the private sector increased by 0.7 per cent from an increase of 0.6 per cent. This was due to an improvement in credit to households and businesses. Credit to business enterprises and households rose by 1.2 per cent, and 0.5 per cent, respectively. Wholesale & retail trade,

restaurants & hotels, real estate & business services, and mining & quarrying, received the highest shares of loans given to businesses, at 28.3 per cent, 24.3 per cent, and 18.9 per cent, in that order. With a proportion of 0.2 per cent, electricity, gas, and water sector received the least share. On year on year basis, private sector credit increased by 7.4 per cent in May 2023.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

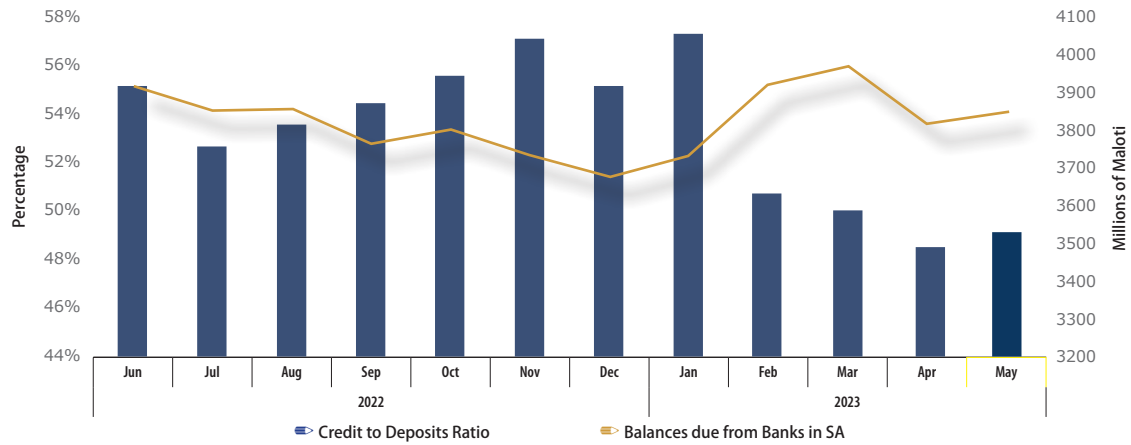
Non-Performing Loans

Total non-performing loans (NPLs) increased to 4.3 per cent from 4.2 per cent of total loans. A rise in household non-performing loans from 3.9 per cent to 4.2 per cent was the cause of this increase. However, this was moderated by the fall in business enterprises' NPLs to 4.7 per cent from 5.1 per cent. The majority of business sector NPLs continued to be in real estate & business services, construction and wholesale & retail trade, restaurants & hotels.

Sources of Funds

The credit-to-deposit ratio increased from 47.6 per cent to 48.2 per cent. This was explained by a fall in total deposits while private sector credit increased.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The CBL policy rate increased by 25 basis points to 7.75 per cent. This had an effect on the prime lending rate, which went up by 25 basis points to 11.25 per cent, and the 1-year deposit rate went up by 8.7 basis points to 4.74 per cent. Likewise, the 91-day T-bills discount rate also increased by 77 basis points to 7.65 per cent in May 2023.

Foreign Exchange

In May 2023, the rand hence loti¹ continued to lose value against its three major trading currencies. The rand depreciated by 4.64 per cent, 4.89 per cent and 3.56 per cent against the dollar, the pound and the euro, respectively. This followed a depreciation by 1.54 per cent, 4.60 per cent and 4.12 per cent against the dollar, the pound and the euro, correspondingly, in April 2023.

The rand hit its record low as South Africa faced its worst rolling black out during the same month. This has fuelled inflation, weighed negatively on investor sentiment, and resulted in huge amounts of capital flight.

The country's deteriorating economic outlook and the US policy rate hikes which have resulted in a stronger US dollar, have also weakened the rand further.

¹ The South African rand is pegged at with the Lesotho loti.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

Government spending increased significantly by 72.9 per cent in May 2023 after falling by 53.8 per cent the previous month. The increase was consistent with government operations as payments gained momentum. Large increases in expenses were attributed to, among others, high spending on health services, transfers to public non-financial corporations, and payments of social securities. Similarly, the growth in capital spending reflected payments towards implementation of infrastructure projects.

Total Revenue

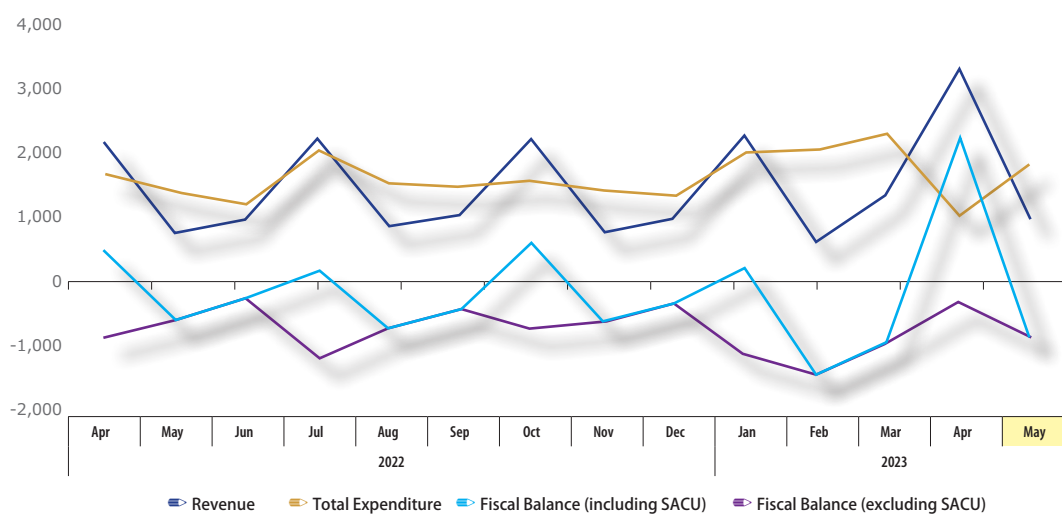
Tax revenue increased by 25.3 per cent in the current month, compared to a decline of 53.6 per cent in the previous month.

Fiscal Balance and Financing²

Accordingly, the envisaged fiscal balance was financed by drawing down government deposits, as reported in section III above. For that reason, this led to a fall in financial assets and an increase in liabilities.

² 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)

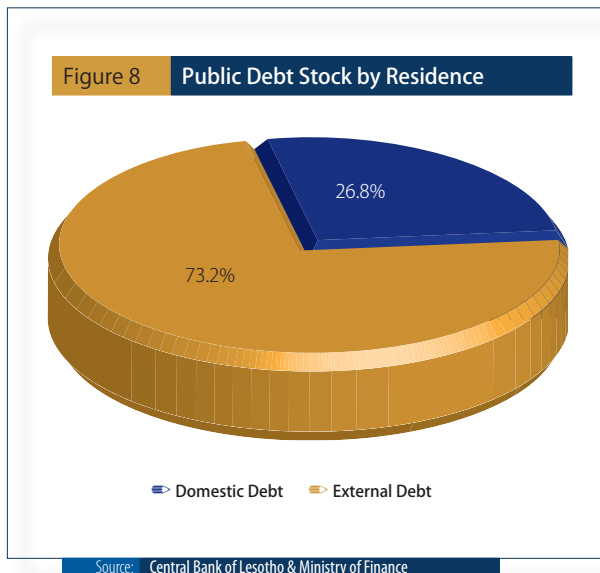
| Function | Economic Item | Compensation of Employees | Use of Goods and Services | Subsidies | Grants | Social Benefits | Other Expenses | Net Investment in Nonfinancial Assets | Share per Function |
|-----------------------------------|---------------|---------------------------|---------------------------|-------------|-------------|-----------------|----------------|---------------------------------------|--------------------|
| General Public Services | | 12.4% | 10.7% | 1.0% | 82.9% | 100.0% | 100.0% | 2.5% | 26.0% |
| Defense | | 1.0% | 1.3% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.7% |
| Public Order and Safety | | 20.4% | 23.3% | 0.0% | 5.0% | 0.0% | 0.0% | 0.0% | 14.1% |
| Economic Affairs | | 8.0% | 10.4% | 0.0% | 12.1% | 0.0% | 0.0% | 90.1% | 14.9% |
| Environmental Protection | | 0.7% | 0.1% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.3% |
| Housing and Community Amenities | | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Health | | 6.2% | 53.7% | 86.6% | 0.0% | 0.0% | 0.0% | 7.4% | 19.2% |
| Recreation, Culture, and Religion | | 0.4% | 0.1% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.2% |
| Education | | 26.2% | 0.4% | 12.5% | 0.0% | 0.0% | 0.0% | 0.0% | 13.1% |
| Social Protection | | 24.7% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 11.5% |
| Share per Economic Item | | 46.6% | 18.1% | 6.8% | 7.0% | 11.9% | 0.3% | 9.3% | 100.0% |

Source: CBL and MOF

V. PUBLIC DEBT

The public debt stock was estimated at 60.0 per cent of GDP in May 2023 compared to the revised 59.0 per cent of GDP in April 2023. This was equivalent

to 1.6 per cent increase in debt stock, which was mainly on account of currency depreciation.



Appendix: Key Economic Indicators

| | | 22-Dec | 23-Jan | 23-Feb | 23-Mar | 23-Apr | 23-May | |
|---|------------------------------------|------------------|-----------|-----------|-----------|-----------|-----------------|-----------|
| Economic Activity (MIEA (% change, M/M)) | | -0.3 | -2.6 | 1.0 | -3.7 | 1.3 | 3.9 | |
| Consumer price Index (% change) | Headline Inflation (year-on-year) | 8.0 | 6.8 | 7.4 | 6.8 | 6.7 | 6.9 | |
| | Core Inflation | 6.4 | 6.1 | 6.6 | 6.5 | 6.2 | NA ⁱ | |
| Exchange Rates (Monthly End Period) | EUR | 18.20 | 18.93 | 19.18 | 19.31 | 18.20 | 21.08 | |
| | GBP | 20.56 | 21.51 | 21.66 | 21.97 | 20.56 | 24.41 | |
| | USD | 17.08 | 17.48 | 17.91 | 17.73 | 17.08 | 19.74 | |
| Money Supply (Millions of Maloti) | M2 | 14,335.89 | 13,899.76 | 14,141.10 | 15,306.80 | 15,786.76 | 16,201.65 | |
| | M1 | 6,857.45 | 6,253.46 | 6,227.78 | 6,379.53 | 6,323.64 | 6,508.33 | |
| | Quasi Money | 7,478.44 | 7,646.31 | 7,913.32 | 8,927.27 | 9,463.13 | 9,693.32 | |
| Interest Rates | CBL Rate | 7.00 | 7.00 | 7.25 | 7.25 | 7.50 | 7.75 | |
| | 91 day Treasury bill rate | 6.36 | 6.88 | 6.70 | 6.59 | 6.88 | 7.65 | |
| | Prime lending rate | 10.50 | 10.50 | 10.75 | 10.75 | 11.00 | 11.25 | |
| | 1 year deposit rate | 4.47 | 4.47 | 4.57 | 4.57 | 4.66 | 4.74 | |
| Private sector Credit (Millions of Maloti) | | 8,356.83 | 8,584.33 | 8,650.74 | 8,655.54 | 8,707.28 | 8,768.07 | |
| | Households | 6,140.63 | 6,291.37 | 6,307.99 | 6,310.81 | 6,354.31 | 6,387.72 | |
| | Non-profit Organisations | 2,209.92 | 2,292.96 | 2,342.75 | 2,344.73 | 2,352.97 | 2,380.35 | |
| Bank Deposit Liabilities (Millions of Maloti) | | 15,145.56 | 14,975.04 | 17,044.60 | 15,761.98 | 16,411.18 | 16,719.35 | |
| Credit to Deposit Ratio (%) | | 55.55 | 56.29 | 49.82 | 53.87 | 52.06 | 51.46 | |
| Fiscal Operations (Millions of Maloti) | Fiscal Balance | -337.39 | 236.66 | -1,436.62 | -929.65 | 2,250.30 | -851.85 | |
| | Total Revenue (with SACU receipts) | 1,002.15 | 2,266.68 | 611.21 | 1,366.46 | 3,309.95 | 980.25 | |
| | Total Expenditure | 1,339.55 | 2,030.02 | 2,047.83 | 2,296.11 | 1,059.66 | 1,832.10 | |
| | O/W Capital | 138.96 | 186.70 | 375.92 | 604.08 | 39.70 | 326.56 | |
| Total Public Debt (Millions of Maloti) | | 22,299.56 | 21,308.94 | 22,075.72 | 21,791.89 | 24,050.40 | 24,444.62 | |
| | Total External Debt | 16,149.10 | 15,115.33 | 15,631.00 | 15,347.13 | 17,602.30 | 17,969.10 | |
| | External Debt | Concessional | 12,030.00 | 10,885.13 | 11,395.56 | 10,955.73 | 13,154.90 | 13,522.00 |
| | | Non-concessional | 4,119.10 | 4,230.20 | 4,235.45 | 4,391.40 | 4,447.40 | 4,447.10 |
| | Domestic Debt | | 6,150.47 | 6,193.61 | 6,444.72 | 6,444.76 | 6,448.10 | 6,475.52 |
| Memo Item: Arrears (Millions of Maloti) | | 0.00 | 0.00 | 0.00 | 0.00 | 155.46 | 0.00 | |

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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