



Monthly

# ECONOMIC REVIEW

NOVEMBER 2023

CENTRAL BANK OF LESOTHO  
[www.centralbank.org.ls/publications](http://www.centralbank.org.ls/publications)

## I. ECONOMIC ACTIVITY

Domestic economic activity slumped in November 2023. The decline was due to poor performance in transport and construction subsectors, coupled with the slowdown in domestic demand and manufacturing. Conversely, improvement in the financial services subsector countered the overall decline.

### Overall Performance Index

Following an expansion of 2.6 per cent recorded in October 2023, the composite Indicator of economic activity (CIEA) contracted by 0.9 per cent in November 2023. This decline was attributed to the subdued performance of the transport, water, electricity, and construction subsector, as evidenced by decreased consumption of fuel, electricity, and water, as well as a slump in construction materials. Similarly, demand activities and manufacturing slowed down during the assessed month. These factors collectively resulted in a negative impact on overall economic activities for both industries and households. Despite these challenges, positive developments were observed in the financial services subsector, highlighted by a notable increase in credit extended to households. This positive momentum played a crucial role in alleviating the overall decline in economic activity, serving as a counterbalance to the negative trends observed in the other sectors.

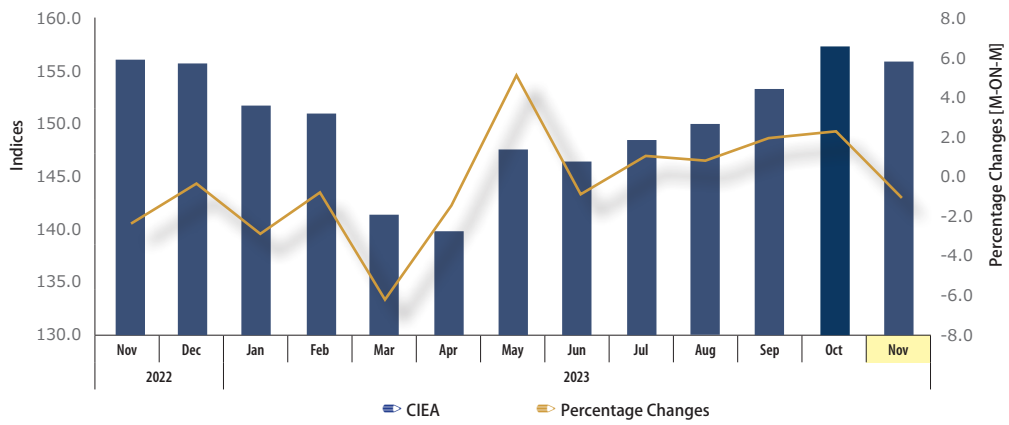
### Domestic Demand Category

In November, the indicator measuring demand for goods and services experienced a modest increase of 0.4 per cent, marking a notable decline of 8.6 percentage points compared to October. The slowdown was predominantly driven by a decrease in domestic demand, evidenced by a negative contribution from compensation of employees. Nonetheless, the overall slowdown was mitigated by positive contributions from increased imports of goods and services from South Africa, government use of goods and services, and a marginal increase in the collection of Value-Added Tax (VAT) and Pay as You Earn (PAYE). These factors collectively moderated the index's general downward spiral.

### Manufacturing and Production Category

Similar to domestic demand, the indicator measuring manufacturing and production exhibited a more restrained growth of 2.8 per cent, a decrease from 5.7 per cent growth recorded in October. This sluggish growth was primarily observed in a marginal increase in the importation of raw materials. However, the overall growth trajectory was moderated by a substantial decline in textile exports, particularly to the US market, and a slight reduction in exports to the South African (SA) market, owing largely to a drop in external demand and to the escalating crisis at SA ports, which resulted in prolonged delivery time and delays in essential inputs for production.

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



Source: CBL Calculations

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

Indices	2023							Nov
	Apr	May	Jun	Jul	Aug	Sep	Oct	
<b>CIEA</b>	140.0	147.7	146.6	148.6	150.0	153.5	157.5	157.3
Monthly changes	-1.1	5.6	-0.7	1.3	1.0	2.3	2.6	-0.9
<b>Domestic Demand Category</b>	135.5	149.1	137.6	133.9	135.8	143.6	156.4	157.9
Monthly changes	-5.4	9.9	-7.7	-2.7	1.4	5.7	9.0	0.4
<b>Manufacturing &amp; Production Category</b>	116.2	111.8	111.6	103.7	99.8	93.6	98.9	101.6
Monthly changes	2.1	-3.8	-0.2	-7.1	-3.8	-6.2	5.7	2.8

Source: Central Bank of Lesotho (CBL) Calculations

## II. INFLATION AND PRICES

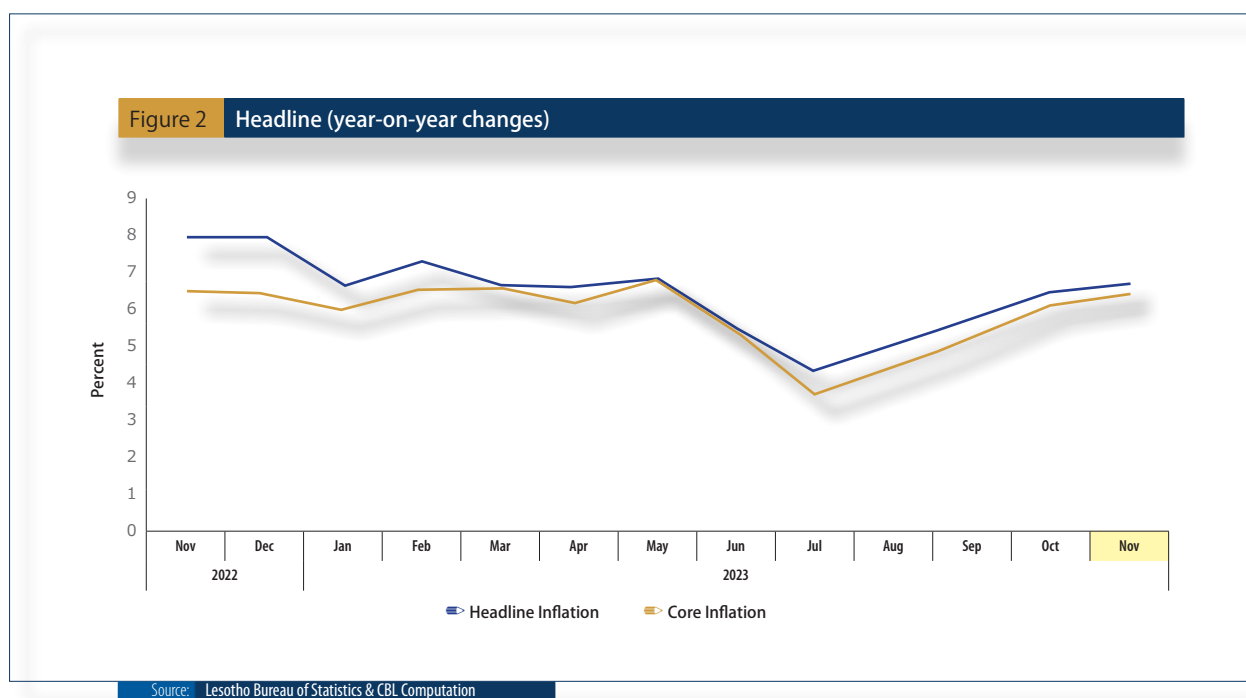
### Headline Inflation

The headline inflation rate increased to 6.8 per cent in November 2023 from 6.5 per cent in the preceding month. The 6.8 per cent increase during the review period was mainly due to Food & Non-Alcoholic beverages, Alcoholic beverages and tobacco, as well as Housing, electricity, gas and other fields. Nonetheless, the Transport and Restaurant & Hotels category moderated the increase.

The major determinants of a rise in inflation during the review period were global food prices that remained significantly high due to increasing demand for bread & cereal and vegetables, as well as the weaker Loti per US dollar exchange rate.

### Core Inflation

Core inflation, measured by the trimmed mean, increased to 6.4 per cent in November 2023 from 6.1 per cent in October 2023.

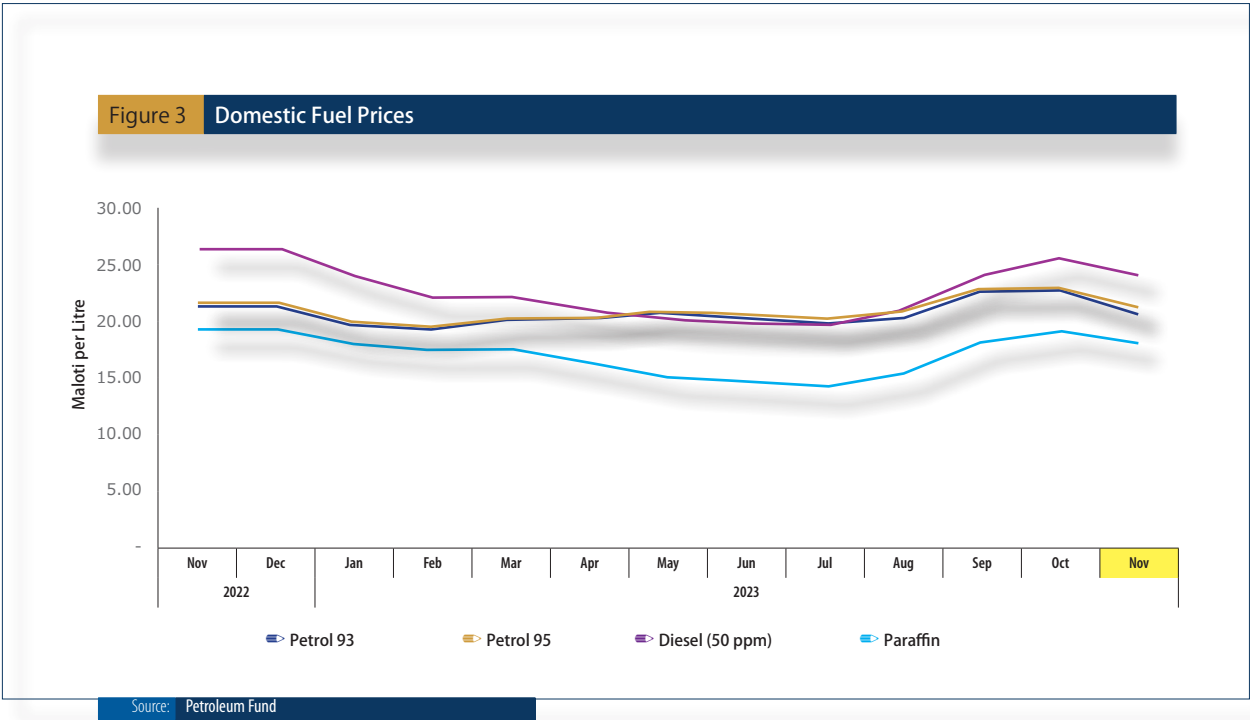


### Domestic Fuel Prices

The pump prices of both grades of petrol (*petrol<sub>93</sub>* and *petrol<sub>95</sub>*), decreased by M1.85 per litre. They were sold at M20.65 per litre and M21.15 per litre at the pump during the review period, respectively. *Diesel<sub>50</sub>* sold at M24.15 per litre at the pump marking

a decrease of M1.25 in the review month. Moreover, the retail price of illuminating paraffin decreased by M0.90 and sold at M18.30 per litre.

The decreases in domestic fuel prices were mainly due to a decrease in international crude oil prices.



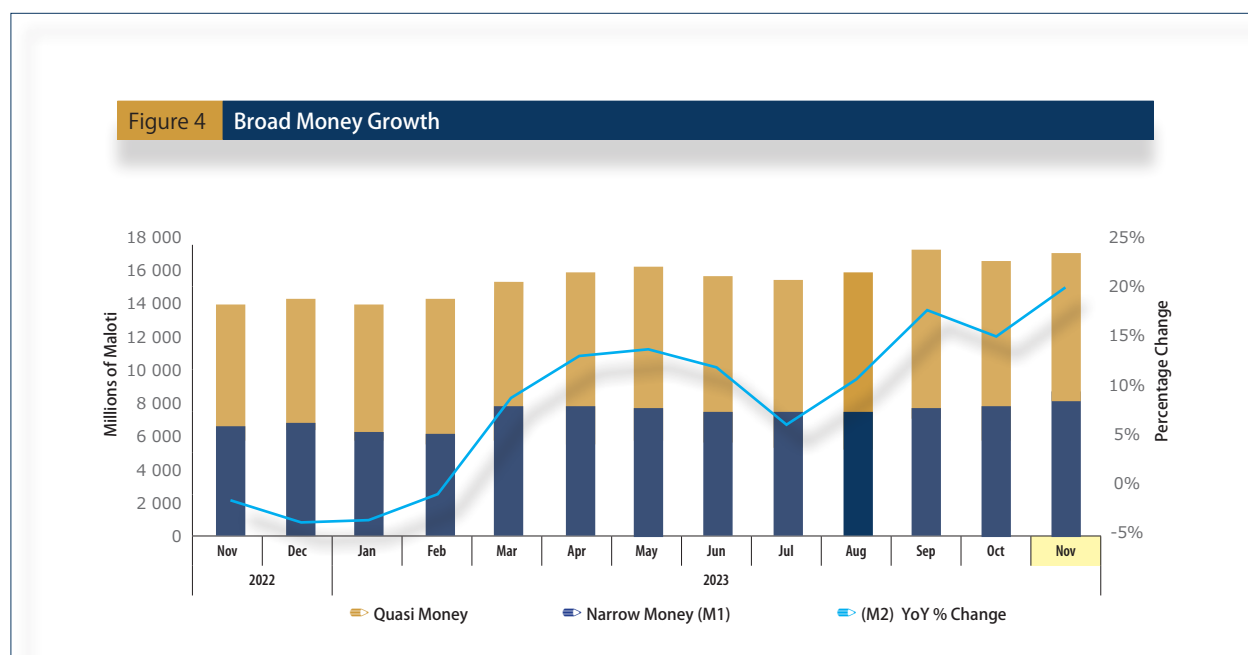
### III. MONETARY AND FINANCIAL INDICATORS

#### Broad Money (M2)

The broadly defined money supply (M2) saw an increase of 2.5 per cent, after a decline of 4.8 per cent in October 2023. Net domestic assets (NDA) increased by 25.8 per cent in contrast to a 26.5 per cent decline the previous month, and Net foreign assets (NFA) declined by 0.1 per cent, in contrast to a rise of 9.7 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

Regarding money supply components, both narrow money and quasi money increased by 2.0 per cent and 2.8 per cent, respectively. The increase in narrow money was underpinned by a rise in transferable deposits held by the business enterprises. Quasi money, on the other hand, rose due to an increase in call deposits held by business enterprises and fixed time deposits held by households.



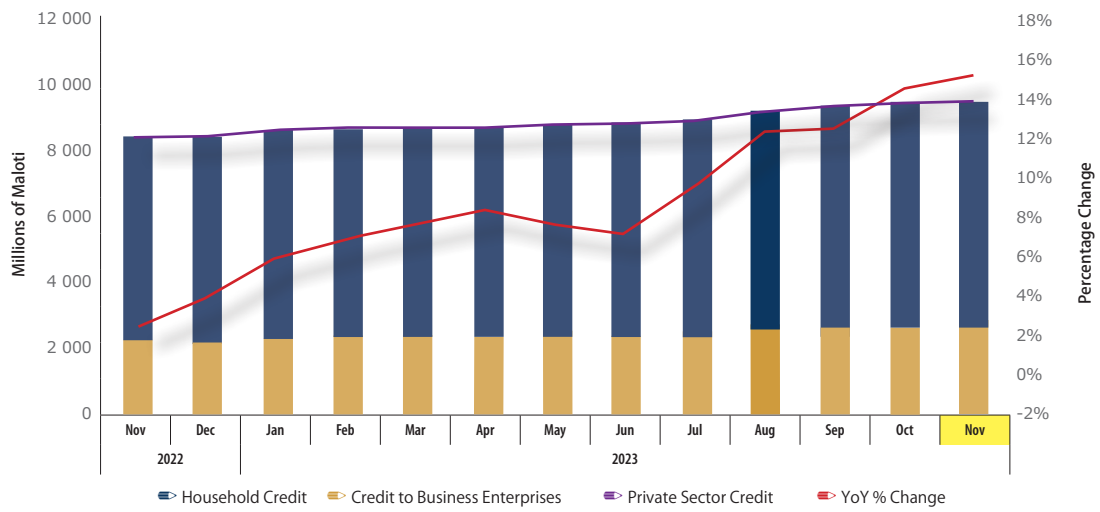
Source: Central Bank of Lesotho

#### Private Sector Credit

Total loans and advances increased by 1.4 per cent following an increase of 1.2 per cent. This was explained by 1.2 per cent growth in credit extended to households and 1.9 per cent to business enterprises. An increase in household credit was driven by a 1.4 per cent and 0.5 per cent rise in personal loans and mortgage loans, respectively.

With respect to credit distribution, wholesale & retail trade, restaurants & hotels, real estate & business services, and mining & quarrying received the largest shares of 25.0 per cent, 19.9 per cent and 17.3 per cent, respectively. The lowest share of loans, 0.3 per cent went to social, community, and individual services. On a year-on-year basis, private sector credit increased by 15.5 per cent.

**Figure 5 Private Sector Credit**



Source: Central Bank of Lesotho

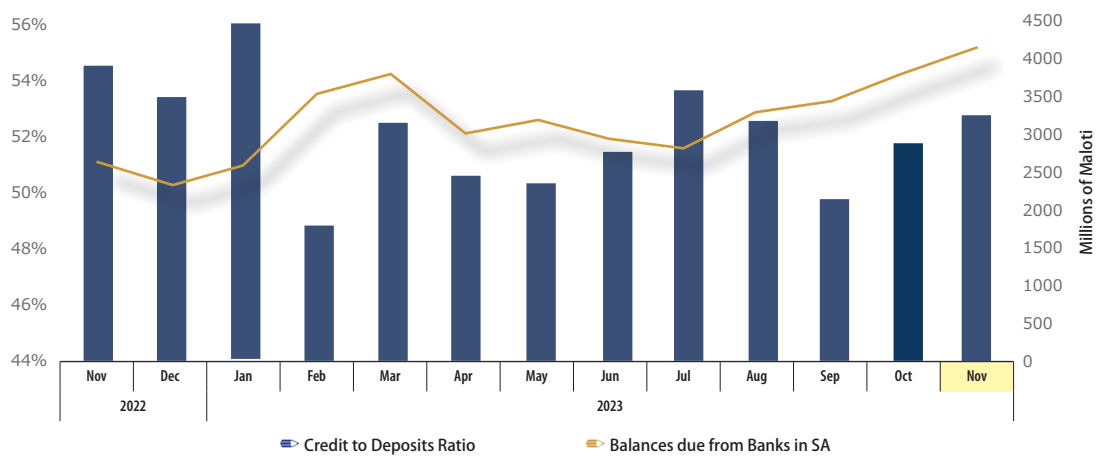
### Non-Performing Loans

Non-performing loans (NPLs) to total loans decreased from 3.6 per cent to 3.5 per cent due to a fall in households' NPLs. The largest share of NPLs were recorded in Construction, wholesale & retail trade, restaurants & hotels, and real estate & business services subsectors, among all business enterprises sector.

### Sources of Funds

As a result of relatively higher credit issued during the month, coupled with a fall in total deposits, the credit-to-deposit ratio rose to 52.9 per cent, from 51.8 per cent in October.

**Figure 6 Credit to Deposit Ratio**



Source: Central Bank of Lesotho

## Interest Rates

The CBL policy rate remained unchanged at 7.75 per cent between October and November 2023. Accordingly, the prime lending rate and 1-year deposit rate also remained stable at 11.25 per cent and 4.74 per cent, respectively. However, the 91-day Treasury bills discount rate dropped by 29 basis points, to 7.12 per cent.

## Foreign Exchange

The Rand, hence, loti appreciated against the US dollar, British pound and euro by 2.7 per cent, 0.8 per cent and 3.3 per cent, respectively in November 2023, following a depreciation of 0.4 per cent against the US dollar and a 1.5 per cent and 2.2 per cent appreciation against the pound

and euro, respectively in the previous month. The rand's performance was driven by South Africa's annual inflation rate, which dropped below market forecasts.

This was coupled with rising US Treasury yields, which briefly boosted the dollar's appeal. However, concerns over rapid increases and potential higher borrowing costs dampened investor enthusiasm, and therefore, weakened the dollar. Furthermore, weaker November 2023 US economic data, indicating a possible slowdown in economic growth and raising doubts about the Fed's ability to raise rates without causing a recession, led investors to explore alternative currencies. The Eurozone and England experienced economic slowdown in growth, leading to the weakening of their respective currencies, therefore strengthening the rand.

## IV. GOVERNMENT BUDGETARY OPERATIONS

### Total Expenditure

In November 2023, there was a 16.8 per cent decrease in government spending compared to the previous month, which had seen the spending surge by 16.6 per cent. This reduction was primarily due to declines in operating costs, grants allocated to extra budgetary units, compensation of employees, as well as buildings and structures. A further breakdown of spending by functions, revealed that the general public services received the largest portion of the total expenditure, accounting for approximately 23.9 per cent.

### Total Revenue

Government revenue, which had previously grown by 13.9 per cent, decreased by 10.4 per cent. This deterioration was largely due to a drop in income tax collection, as well as decreased mining and water royalties.

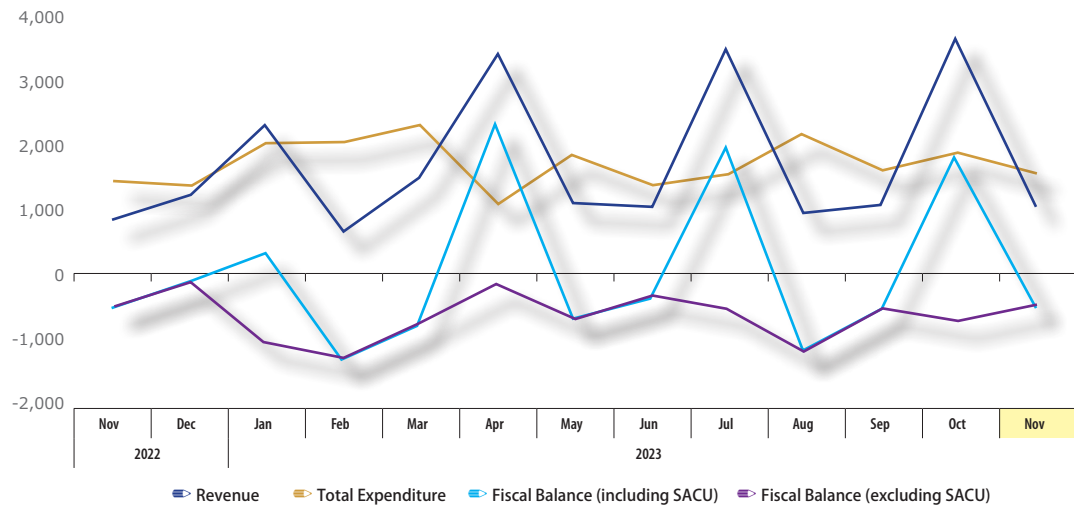
### Fiscal Balance and Financing<sup>1</sup>

Due to a larger decline in revenue compared to spending, the government recorded a fiscal deficit. Consequently, the excess fiscal spending was financed through drawdown of deposits during the month.

<sup>1</sup> All financing items are on net basis.



**Figure 7** Government Fiscal Balance (Million Maloti)



Source: Central Bank of Lesotho & Ministry of Finance

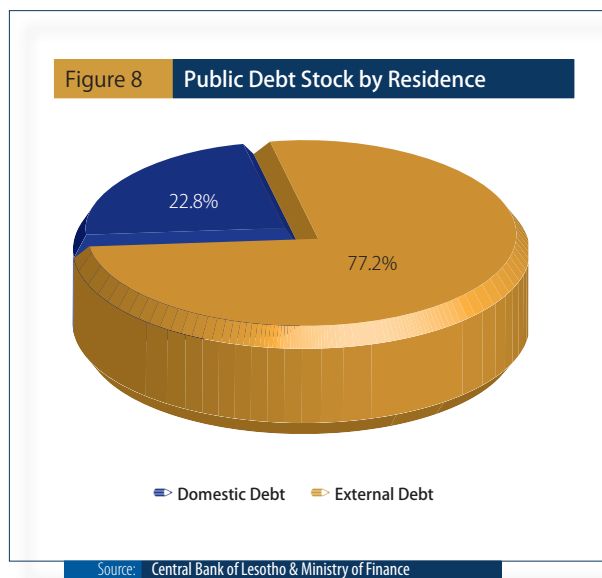
**Table 2: Cross Classification of Expenditure by Function and Economic Item (Percentage Change)**

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		13.9%	17.9%	0.0%	39.2%	98.3%	99.7%	8.6%	32.0%
Defense		1.1%	0.7%	0.0%	0.0%	0.0%	0.1%	1.6%	0.7%
Public Order and Safety		22.1%	20.5%	0.0%	1.8%	0.0%	0.0%	26.3%	15.6%
Economic Affairs		10.5%	34.7%	0.0%	24.7%	0.0%	0.2%	59.1%	17.6%
Environmental Protection		0.8%	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		7.3%	24.1%	86.4%	0.0%	1.7%	0.0%	1.7%	14.0%
Recreation, Culture, and Religion		0.7%	0.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%
Education		32.3%	1.2%	13.6%	34.2%	0.0%	0.0%	2.7%	14.9%
Social Protection		11.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.4%
<b>Share per Economic Item</b>		<b>39.0%</b>	<b>26.1%</b>	<b>5.3%</b>	<b>3.1%</b>	<b>11.1%</b>	<b>9.2%</b>	<b>6.1%</b>	<b>100.0%</b>

Source: CBL and MOF

## V. PUBLIC DEBT

The public debt stock decreased by 0.5 per cent from its previous level, to 59.6 per cent of GDP. This decline was attributed to the repayment of concessional debt as part of the debt service.



## Appendix: Key Economic Indicators

		23-May	23-Jun	23-Jul	23-Aug	23-Sep	23-Oct	23-Nov	
Economic Activity (MIEA (% change, M/M))		5.5	-0.7	1.3	1.0	2.3	2.6	-0.9	
Consumer price Index (% change)	Headline Inflation (year-on-year)	6.9	5.6	4.5	5.2	5.8	6.5	6.8	
	Core Inflation	6.8	5.5	3.8	4.5	5.3	6.1	6.4	
Exchange Rates (Monthly End Period)	EUR	19.18	19.31	18.20	21.08	20.28	19.83	19.18	
	GBP	21.66	21.97	20.56	24.41	23.53	23.19	23.00	
	USD	17.91	17.73	17.08	19.74	18.98	19.06	18.54	
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	7.75	7.75	7.75	7.75	7.75	7.75	7.75	
	91 day Treasury bill rate	7.65	7.70	7.75	7.65	8.65	7.41	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)		8,768.87	8,799.42	8,929.65	9,264.30	9,408.42	9,522.85	9,655.44	
	Households	2,380.35	2,344.63	2,347.17	2,547.19	2,573.41	2,656.17	2,707.48	
	Non-profit Organisations	6,388.51	6,454.79	6,582.48	6,717.10	6,835.01	6,866.67	6,947.96	
Bank Deposit Liabilities (Millions of Maloti)		17,089.00	16,778.74	16,353.27	17,308.64	18,549.36	18,080.49	17,945.47	
Credit to Deposit Ratio (%)		50.35	51.46	53.60	52.56	49.84	51.78	52.91	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-794.90	-417.56	1,913.13	-1,269.59	-638.07	1,767.10	-569.09	
	Total Revenue (with SACU receipts)	1,037.20	977.44	3,463.50	914.32	973.20	3,645.74	993.76	
	Total Expenditure	1,832.10	1,395.00	1,550.37	2,183.91	1,611.27	1,878.64	1,562.85	
	O/W Capital	326.56	319.08	133.44	174.91	149.72	155.61	93.42	
Total Public Debt (Millions of Maloti)		25,401.42	25,045.63	23,755.19	24,860.18	24,407.21	24,413.11	24,301.30	
	Total External Debt	18,904.30	18,194.40	17,161.50	18,034.30	18,111.80	18,820.40	18,753.70	
	External Debt	Concessional	14,224.00	13,715.80	12,776.10	13,486.20	13,577.50	14,256.50	14,192.00
		Non-concessional	4,680.30	4,478.60	4,385.40	4,548.10	4,534.30	4,563.90	4,561.70
	Domestic Debt	6,497.12	6,851.23	6,593.69	6,825.88	6,295.41	5,592.71	5,547.60	
Memo Item: Arrears (Millions of Maloti)		0.00	0.00	0.00	46.50	60.07	29.07	40.18	

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.

### © 2023 November Central Bank of Lesotho

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without fully acknowledging the Monthly Economic Review of Central Bank of Lesotho as the source.

The contents of this publication are intended for general information only and are not intended to serve as financial or other advice. While every precaution is taken to ensure the accuracy of information, the Central Bank of Lesotho shall not be liable to any person for inaccurate information or opinions contained in this publication.

Enquiries relating to this Publication should be addressed to:

### Statistics Division

Research Department, Central Bank of Lesotho

### Central Bank of Lesotho

Corner Airport and Moshoeshoe Roads • Maseru Central • P. O. BOX 1184 • Maseru 100

Phone: (+266) 2231 4281 / 2223 2000 • Fax: (+266) 2231 0051 • E-mail: [info@centralbank.org.ls](mailto:info@centralbank.org.ls)