



# Monthly ECONOMIC REVIEW

SEPTEMBER 2023

CENTRAL BANK OF LESOTHO  
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## I. ECONOMIC ACTIVITY

There was an improvement in economic activity in September, which was propelled by increased demand for goods and services, as well as developments in the construction subsector. However, the Manufacturing subsector remained under pressure during the review month.

### Overall Performance Index

The composite indicator of economic activity (CIEA) demonstrated a notable improvement, registering a 2.4 per cent increase in September, following an increase of 1.0 per cent in the previous month. This improvement was primarily driven by increased demand for goods and services, as well as an uptick in the service sector emanating from the construction subsector (as evidenced by increased imports of construction related materials). However, the overall growth was moderated by the comparatively subdued performance of the manufacturing sector and, to a lesser extent, the transport and financial services sub-sectors.

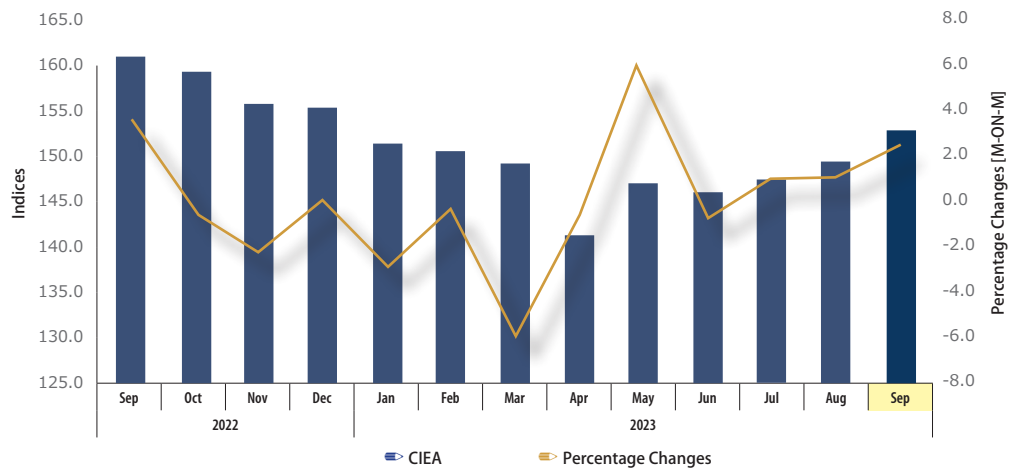
### Domestic Demand Category

The indicator for domestic demand increased by 5.8 per cent, marking a significant improvement compared to the 1.5 per cent increase observed in the previous month. The improved performance was mainly driven by positive contributions from government activities, primarily, use of goods and services. Nonetheless, the overall improved performance was moderated by a decline in domestic demand and low labour earning, evident by negative contributions from imports of goods and services from South Africa and VAT collections.

### Manufacturing and Production Category

On the other hand, the manufacturing and production sub-sector of the economy experienced a further contraction, with the index declining by 6.3 per cent, a notable drop compared to the previous month's 3.8 per cent decline. This contraction was mainly due to reduced imports of raw materials from South Africa and decreased demand for clothing and textiles in both the US and South African markets.

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



Source: CBL Calculations

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

Indices	2023							Sep
	Feb	Mar	Apr	May	Jun	Jul	Aug	
<b>CIEA</b>	150.9	141.3	139.7	147.4	146.3	148.2	149.6	153.2
Monthly changes	-0.5	-6.3	-1.2	5.5	-0.8	1.3	1.0	2.4
<b>Domestic Demand Category</b>	150.4	143.0	135.3	148.5	137.0	133.3	135.3	143.2
Monthly changes	-1.5	-4.9	-5.4	9.8	-7.7	-2.7	1.5	5.8
<b>Manufacturing &amp; Production Category</b>	115.3	113.9	116.3	111.8	111.6	103.7	99.7	93.5
Monthly changes	5.2	-1.2	2.1	-3.8	-0.1	-7.1	-3.8	-6.3

Source: Central Bank of Lesotho (CBL) Calculations

## II. INFLATION AND PRICES

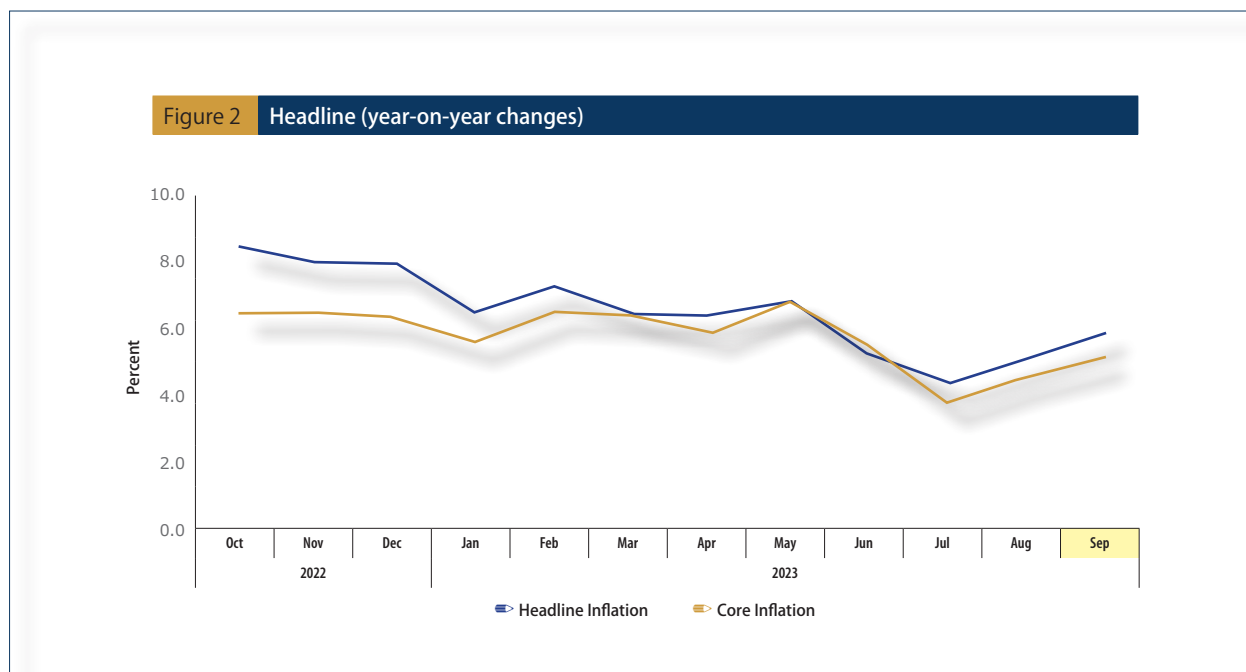
### Headline Inflation

The headline inflation rate increased to 5.8 per cent in September 2023 from 5.2 per cent in the preceding month. The 0.6 percentage point increase was mainly due to the Transport; Food & Non-Alcoholic beverages, and Clothing & Footwear, which constituted over a 90.0 per cent increase in the overall inflation rate. Nonetheless, Furnishings, Household Equipment and Routine Maintenance of the household categories slightly moderated the increase.

The major determinants of a rise in inflation during the review period were increased international crude oil prices, the weaker Loti per US dollar exchange rate as well as firming up of international benchmark prices for food.

### Core Inflation

Core inflation, measured by the trimmed mean, increased from 4.5 per cent in August 2023 to 5.2 per cent in September 2023.



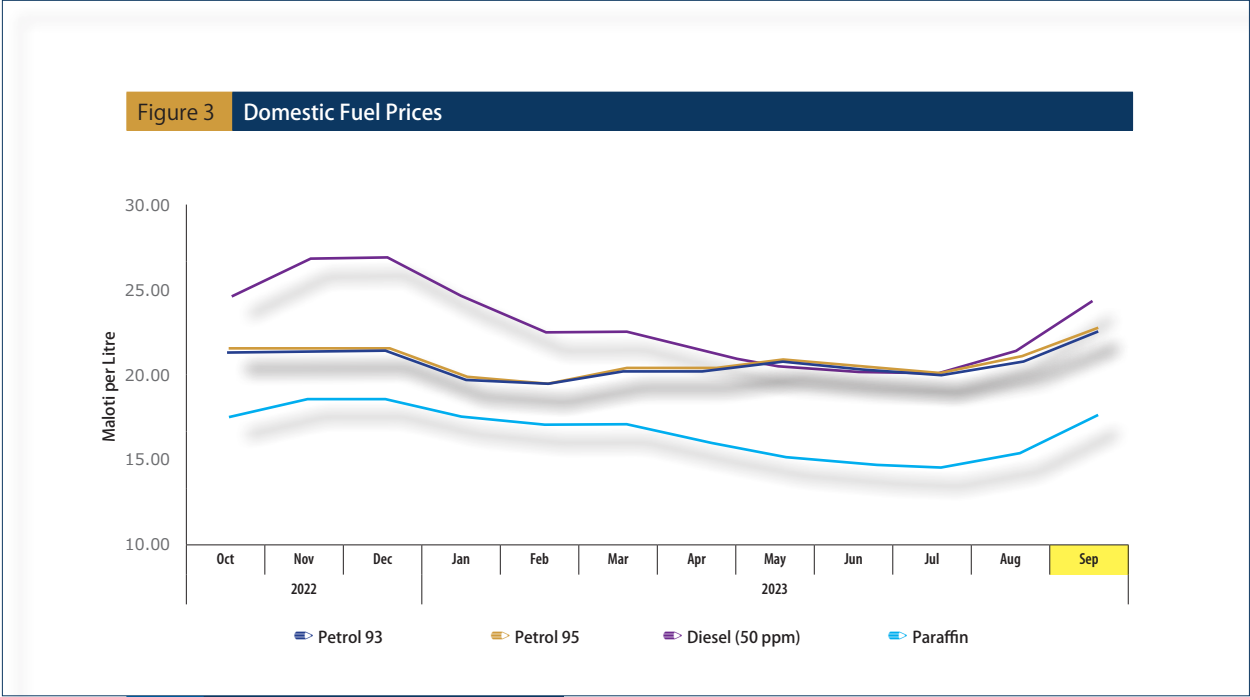
Source: Lesotho Bureau of Statistics & CBL Computation

### Domestic Fuel Prices

The pump prices of both grades of petrol (*petrol<sub>93</sub>* and *petrol<sub>95</sub>*), increased by M1.90 were M22.40 per litre and M22.90 per litre at the pump, respectively. *Diesel<sub>50</sub>* sold at M24.00 per litre at the pump marking an increase of M3.15 in the review month. Moreover,

the retail price of illuminating paraffin increased by M2.70 and sold at M18.20 per litre.

The increases in domestic fuel prices were mainly due to rising international crude oil prices and a weaker loti to US dollar exchange rate.



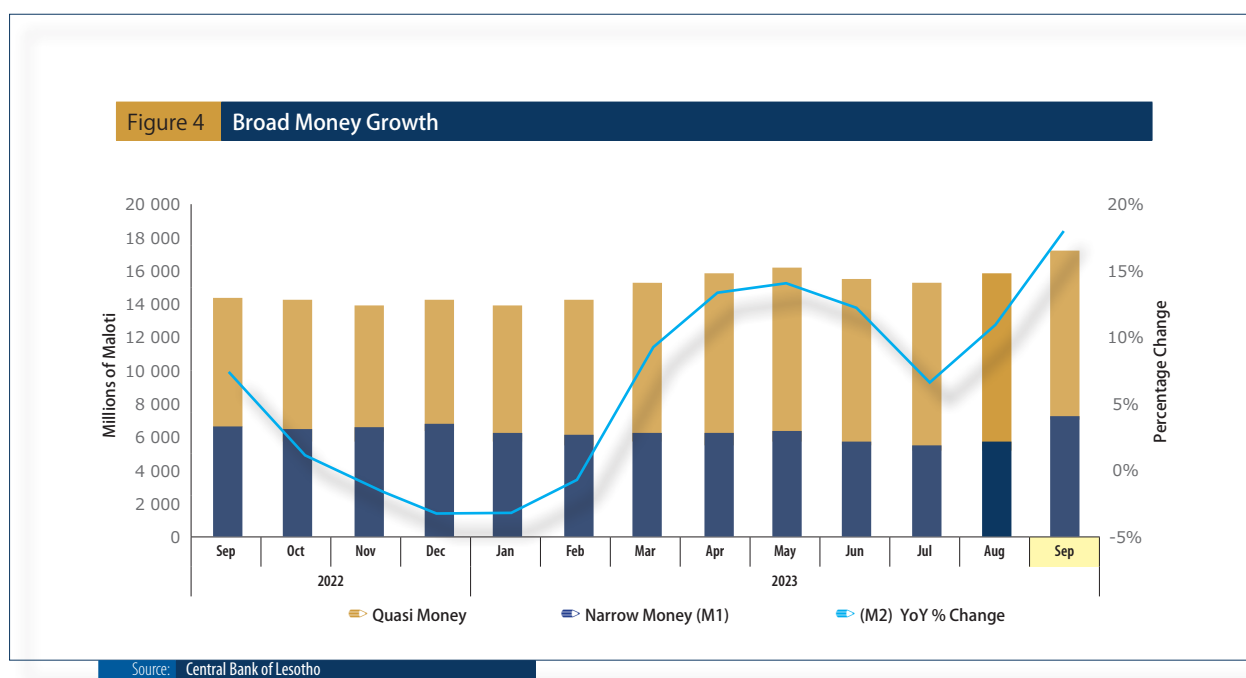
### III. MONETARY AND FINANCIAL INDICATORS

#### Broad Money (M2)

The broadly defined money supply (M2) increased by 8.8 per cent, following an increase of 2.3 per cent in August 2023. Net domestic assets (NDA) increased by 9.5 per cent while net foreign assets (NFA) declined by 1.3 per cent. NDA increased because of a fall in government deposits held at the central bank coupled with a rise in private sector credit, while the overall NFA fell following the decline in central bank's NFA.

#### Components of Money Supply

Regarding money supply components, narrow money increased by 24.2 per cent while quasi money slightly declined by 0.1 per cent. Narrow money increased mainly because of transferable deposits. Quasi money, on the other hand, declined due to a fall in savings deposits.

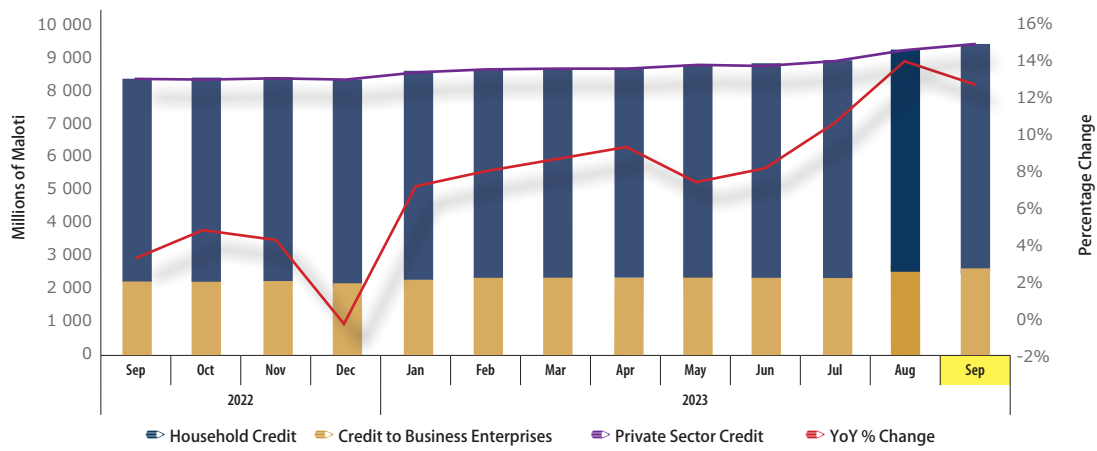


#### Private Sector Credit

In the private sector, total loans and advances increased by 1.6 per cent after increasing by 3.8 per cent in August 2023. This was attributed to improved credit extended to households and businesses by 1.8 per cent and 1.0 per cent, respectively. An increase in household credit was driven by a 2.0 per cent increase in personal loans and a 0.9 per

cent increase in mortgage loans. Regarding credit distribution, wholesale & retail trade, restaurants & hotels received the largest share of loans of 25.8 per cent, followed by real estate & business services at 21.5 per cent, and construction at 17.2 per cent. The least share of 0.3 per cent of loans was given to electricity, gas, and water. On a year-on-year basis, private sector credit increased by 12.3 per cent.

**Figure 5 Private Sector Credit**



Source: Central Bank of Lesotho

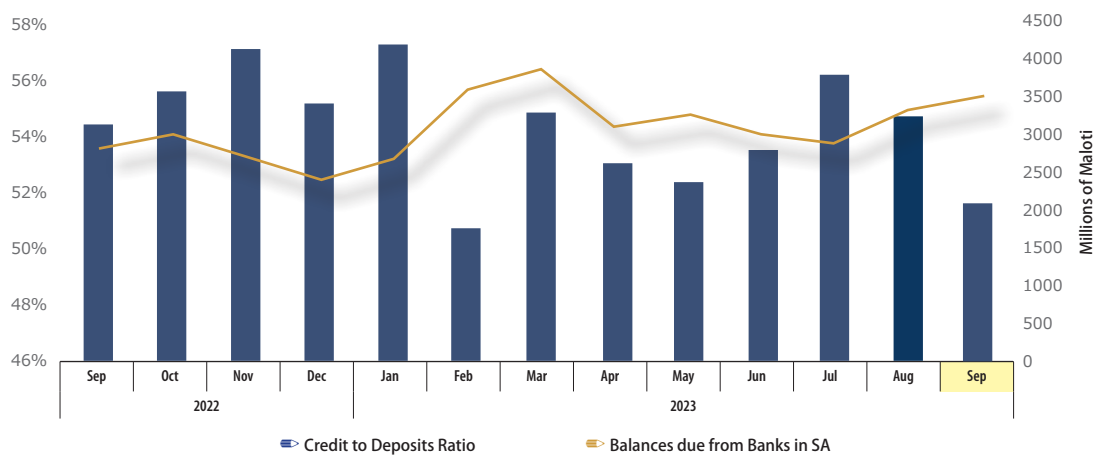
### Non-Performing Loans

The proportion of NPLs to total loans remained stable at 3.6 per cent. This was due to a fall in households’ NPLs, which was offset by an increase in businesses’ NPLs. Among the business sector, the construction, wholesale & retail trade, restaurants & hotels, and real estate & business services were the sectors with the highest NPLs.

### Sources of Funds

The credit-to-deposit ratio fell to 50.6 per cent from 53.6 per cent, as the rise in total deposits outpaced an increase in credit.

**Figure 6 Credit to Deposit Ratio**



Source: Central Bank of Lesotho

### Interest Rates

A 7.75 per cent CBL policy rate was maintained in September 2023. As a result, the prime lending rate and 1-year deposit rate remained at 11.25 per cent and 4.74 per cent, respectively. However, the 91-day Treasury bills discount rate increased by 100 basis points, to 8.65 per cent.

### Foreign Exchange

The rand hence loti showed mixed performance during the month of September. Relative to the previous month, the rand depreciated by 1.11 per cent against the US dollar, while it appreciated by 0.98 per cent and 1.25 per cent against the euro and pound, respectively.

The rand weakened against the dollar as the US economy continued to show signals of stronger growth, which therefore boosted the dollar. The strength of the rand against the euro and pound was influenced by factors such as the energy costs that were hampering economic growth in the euro area. Furthermore, South Africa’s economy showed consecutive quarters of growth, which boosted the rand further.

## IV. GOVERNMENT BUDGETARY OPERATIONS

### Total Expenditure

Government spending decreased by 26.2 per cent in September 2023 as a result of a fall in both expenses and capital expenditure. In the previous month, the spending had increased by 40.9 per cent. This decrease in spending was mainly due to expenses, in particular, lower interest payments on domestic securities and foreign loans, social transfers, and international travel. The lower spending was also observed in development projects. In terms of sectoral outlays, the economic affairs sector spent more than other sectors.

### Total Revenue

Total revenue increased by 6.4 per cent during the month under review relative to a decrease of 1.3 per cent in the previous month. This good performance was due to income tax and VAT.

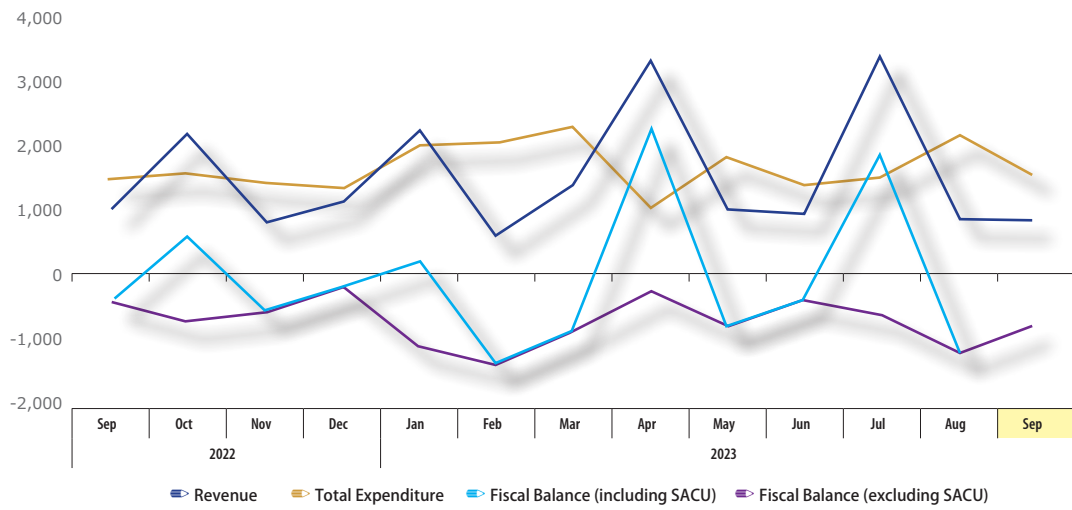
### Fiscal Balance and Financing<sup>1</sup>

In September 2023, the government's deposits, equivalent to 10.1 per cent of GDP, were drawn down to finance the fiscal deficit of 7.4 per cent of GDP, and debt service.

<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)**

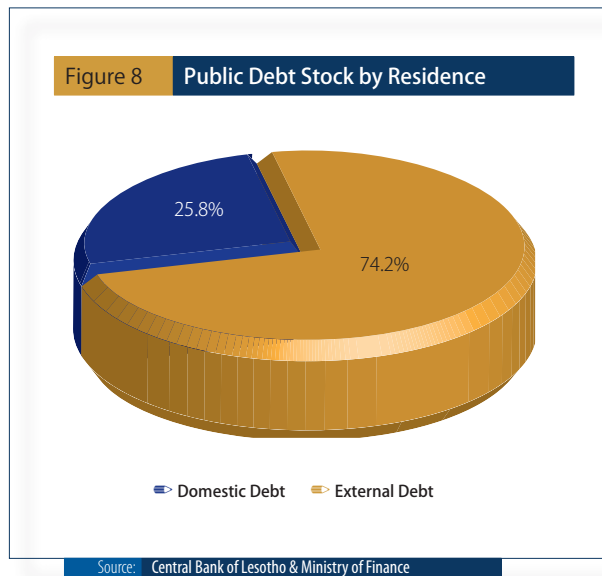
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		13.4%	13.7%	0.0%	10.5%	96.1%	95.1%	0.8%	18.9%
Defense		1.1%	0.6%	0.0%	0.0%	0.0%	0.0%	0.4%	0.7%
Public Order and Safety		25.2%	14.2%	0.0%	2.0%	0.0%	0.0%	15.5%	16.6%
Economic Affairs		10.1%	38.0%	95.8%	26.5%	0.0%	4.9%	77.1%	29.3%
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		7.0%	32.4%	0.0%	0.0%	3.9%	0.0%	1.5%	14.4%
Recreation, Culture, and Religion		0.6%	0.2%	0.0%	0.0%	0.0%	0.0%	2.2%	0.5%
Education		30.3%	0.7%	4.2%	61.0%	0.0%	0.0%	2.5%	14.7%
Social Protection		11.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.6%
<b>Share per Economic Item</b>		<b>40.3%</b>	<b>34.1%</b>	<b>4.0%</b>	<b>2.9%</b>	<b>8.5%</b>	<b>0.3%</b>	<b>9.9%</b>	<b>100.0%</b>

Source: CBL and MOF

## V. PUBLIC DEBT

The ratio of public debt stock to GDP decreased to 59.9 per cent during the month under review from 61.0 per cent in the previous month. This lower ratio

was on account of maturing domestic debt, which contributed 1.8 per cent fall in debt levels.



## Appendix: Key Economic Indicators

		23-Mar	23-Apr	23-May	23-Jun	23-Jul	23-Aug	23-Sep	
Economic Activity (MIEA (% change, M/M))		-6.3	-1.2	5.5	-0.8	1.3	1.0	2.4	
Consumer price Index (% change)	Headline Inflation (year-on-year)	6.8	6.7	6.9	5.6	4.5	5.2	5.8	
	Core Inflation	6.5	6.2	6.8	5.5	3.8	4.5	5.3	
Exchange Rates (Monthly End Period)	EUR	19.31	20.19	21.08	20.57	19.56	20.41	20.13	
	GBP	21.97	22.88	24.42	23.95	22.80	23.81	23.31	
	USD	17.73	18.30	17.74	18.88	17.74	18.80	19.14	
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	7.25	7.25	7.50	7.75	7.75	7.75	7.75	
	91 day Treasury bill rate	6.70	6.59	6.88	7.65	7.70	7.75	7.65	
	Prime lending rate	10.75	10.75	11.00	11.25	11.25	11.25	11.25	
	1 year deposit rate	4.57	4.57	4.66	4.74	4.74	4.74	4.74	
Private sector Credit (Millions of Maloti)		8,650.73	8,655.54	8,707.27	8,768.07	8,797.65	8,927.85	9,262.85	
	Households	6,307.99	6,310.80	6,354.30	6,387.72	6,453.02	6,580.68	6,715.65	
	Non-profit Organisations	2,342.75	2,344.73	2,352.97	2,380.35	2,344.63	2,347.17	2,547.19	
Bank Deposit Liabilities (Millions of Maloti)		17,044.60	15,761.98	16,411.18	16,719.35	16,417.51	15,883.39	16,902.53	
Credit to Deposit Ratio (%)		49.82	53.87	52.06	51.46	52.59	55.19	53.82	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-893.83	2,300.72	-794.90	-417.56	1,913.13	-1,269.59	-638.07	
	Total Revenue (with SACU receipts)	1,402.28	3,360.38	1,037.20	977.44	3,463.50	914.32	973.20	
	Total Expenditure	2,296.11	1,059.66	1,832.10	1,395.00	1,550.37	2,183.91	1,611.27	
	O/W Capital	604.08	39.70	326.56	319.08	133.44	174.91	149.72	
Total Public Debt (Millions of Maloti)		21,791.89	24,307.20	25,401.42	25,045.63	23,755.19	24,860.18	24,407.21	
	Total External Debt	15,347.13	17,849.30	18,904.30	18,194.40	17,161.50	18,034.30	18,111.80	
	External Debt	Concessional	10,955.73	13,349.00	14,224.00	13,715.80	12,776.10	13,486.20	13,577.50
		Non-concessional	4,391.40	4,500.30	4,680.30	4,478.60	4,385.40	4,548.10	4,534.30
	Domestic Debt	6,444.76	6,457.90	6,497.12	6,851.23	6,593.69	6,825.88	6,295.41	
Memo Item: Arrears (Millions of Maloti)		155.46	0.00	0.00	0.00	0.00	46.50	60.07	

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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