



Monthly ECONOMIC REVIEW

DECEMBER 2024

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY¹

Economic activity strengthened in December 2024, with notable improvements in domestic demand and manufacturing, alongside positive contributions from key supporting subsectors.

Overall Performance Index

Domestic economic activity continued its upward trajectory, as reflected by the Composite Indicator of Economic Activity (CIEA), which grew by 1.9 per cent in December 2024, following a revised 3.0 per cent expansion in the previous month. This growth was primarily driven by robust domestic demand and increased manufacturing activity. Additionally, the transport, financial service, and construction subsectors also played a significant role in the positive performance, as indicated by higher fuel consumption, increased private sector credit, and a surge in imports of construction materials.

Domestic Demand Category

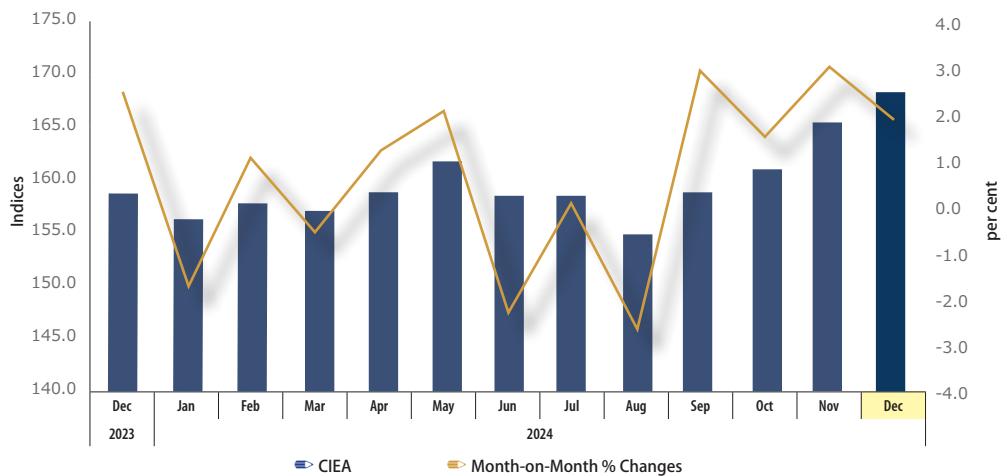
The Domestic Demand Index maintained its growth trajectory, rising by 2.0 per cent, after a notable 4.9 per cent increase in the previous month. This sustained expansion was fuelled by stronger public and private consumption, as reflected in higher government spending on goods and services and increased import volumes from South Africa, particularly for vegetables, prepared foodstuffs, and mineral products. Furthermore, higher sales tax, and Pay-As-You-Earn (PAYE) collections signalled increased business activity and improved real earnings.

Manufacturing and Production Category

The manufacturing and production sector continued to strengthen, with the index rising by 2.1 per cent, following a 6.4 per cent increase in the previous month. Growth was driven by higher textile exports to South Africa and an increase in raw material imports from the same market. However, this positive development was partially offset by a decline in textile exports to the U.S. market.

¹ Composite Indicator of Economic Activity (CIEA) is constructed using seasonality adjusted data for variables with season patterns.

Figure 1 | Overall Monthly Indicator of Economic Activity



Source: Central Bank of Lesotho (CBL) Calculations

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

Indices	2024								
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
CIEA	164.1	160.3	160.5	156.3	160.9	163.3	168.3	171.6	
Monthly changes	2.1	-2.3	0.1	-2.6	2.9	1.5	3.0	1.9	
Domestic Demand Category	154.9	142.6	136.8	131.7	138.8	148.0	155.6	158.4	
Monthly changes	2.6	-7.6	-4.0	-3.8	5.4	6.6	4.9	2.0	
Manufacturing & Production Category	119.9	124.2	122.9	118.9	113.9	115.0	122.4	124.9	
Monthly changes	-0.2	3.6	-1.0	-3.2	-4.2	1.0	6.4	2.1	

Source: Central Bank of Lesotho (CBL) Calculations

II. INFLATION AND PRICES

Headline Inflation

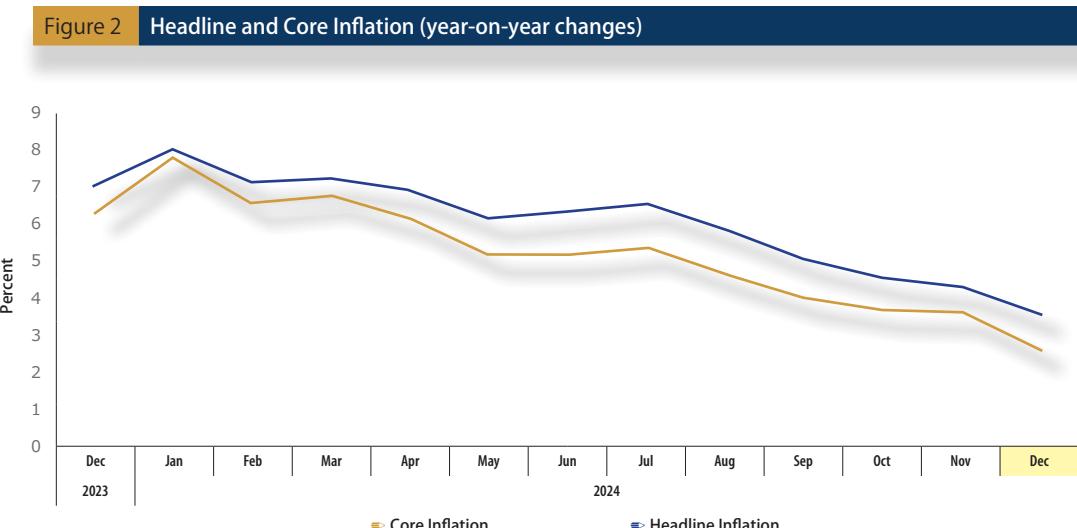
Consumer prices continued a downturn as headline inflation fell to 3.7 per cent in December 2024 from 4.4 per cent in November 2024. The major contributors to the 0.7 percentage point decrease were Food and Non-Alcoholic beverages and Transport categories.

The decline in food inflation was primarily driven by a decrease in wheat prices. The downward trajectory

in Food and Non-Alcoholic beverages continued for the fifth consecutive month due to excess supply tallying with the harvest season in wheat exporting countries. While the drop in transport costs resulted from lower prices of liquid fuels.

Core Inflation

Underlying inflationary pressures, as measured by core inflation, decreased to 2.7 per cent in December 2024 from 3.7 per cent in November 2024.

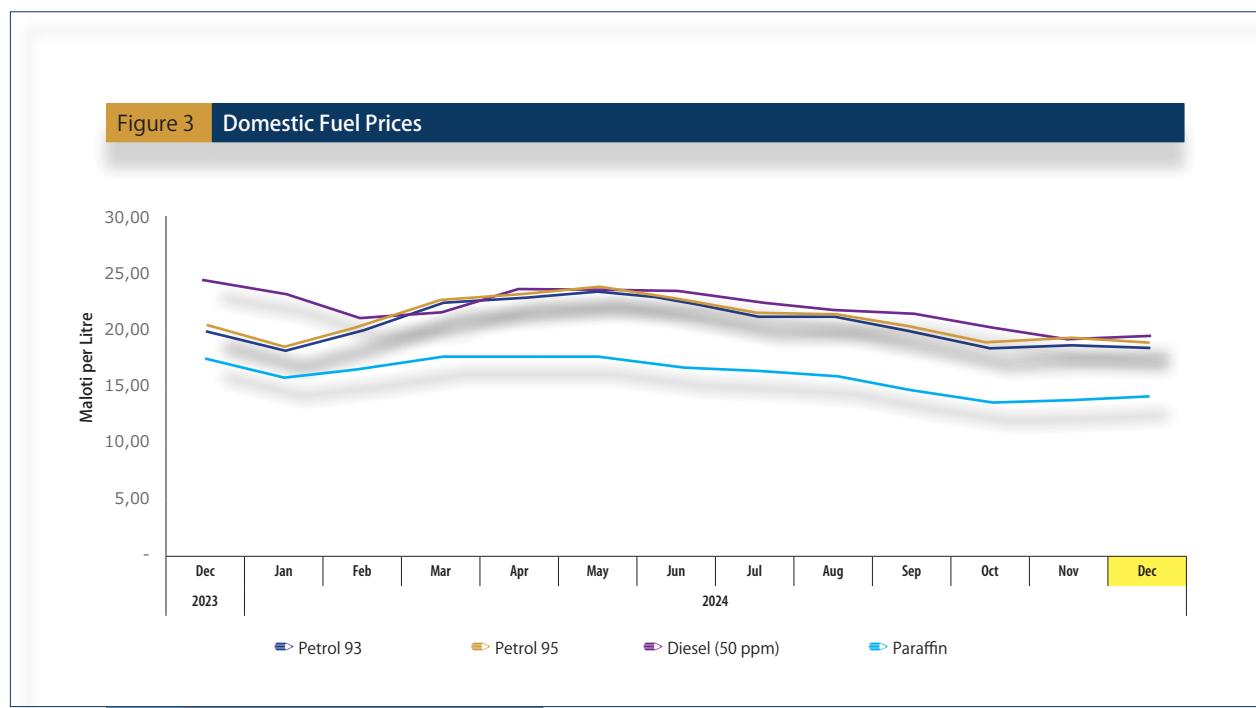


Source: Lesotho Bureau of Statistics & CBL Computations

Domestic Fuel Prices

The prices of petroleum products showed mixed trends in the review period. Where both grades of petrol (*Petrol₉₃* and *Petrol₉₅*), decreased by M 0.20 and M 0.25, respectively. Both were sold at M 18.45

per litre and M 18.95 per litre, respectively at the pump. However, the pump prices of *diesel₅₀* and illuminating paraffin increased by M 0.25 and M 0.20, respectively. Both were sold at M 19.75 per litre and M14.10 per litre in the retail market, respectively.



Source: Petroleum Fund

III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

In December 2024, the growth of money supply (M2) slowed, increasing by 2.4 per cent compared to the 5.2 percent growth observed in November. The growth in M2 was driven by expansion of net domestic claims (NDA), despite a contraction in net foreign assets (NFA). In particular, NDA grew by 40.9 per cent, in contrast to the 21.9 per cent growth in the preceding month. The draw-down of government deposits in both the central bank and commercial banks, along with increased placements with Other Financial Corporations, were the primary drivers of overall growth in NDA. On the contrary, NFA fell by 2.3 per cent, in contrast with the 1.8 per cent decline a month earlier. The contraction was explained by a decrease in the commercial banks'

NFA, notwithstanding the rise in the central bank's NFA. The fall in commercial banks' NFA was due to a decline in placements abroad, which outweighed the decline in their claims on non-residents. Year-on-year, M2 grew by 10.6 per cent.

Components of Money Supply

Broken into its components, the growth in M2 emanated from a rise in both narrow money (M1) and quasi money. M1 grew by 4.8 per cent emanating from a rise in transferable deposits held by business enterprises and other financial corporations. Quasi money rose because of the increase in call deposits held by Other Nonfinancial Corporations and business enterprises, coupled with the growth in fixed time deposits of business enterprises.

Figure 4 | Broad Money Growth



Source: Central Bank of Lesotho

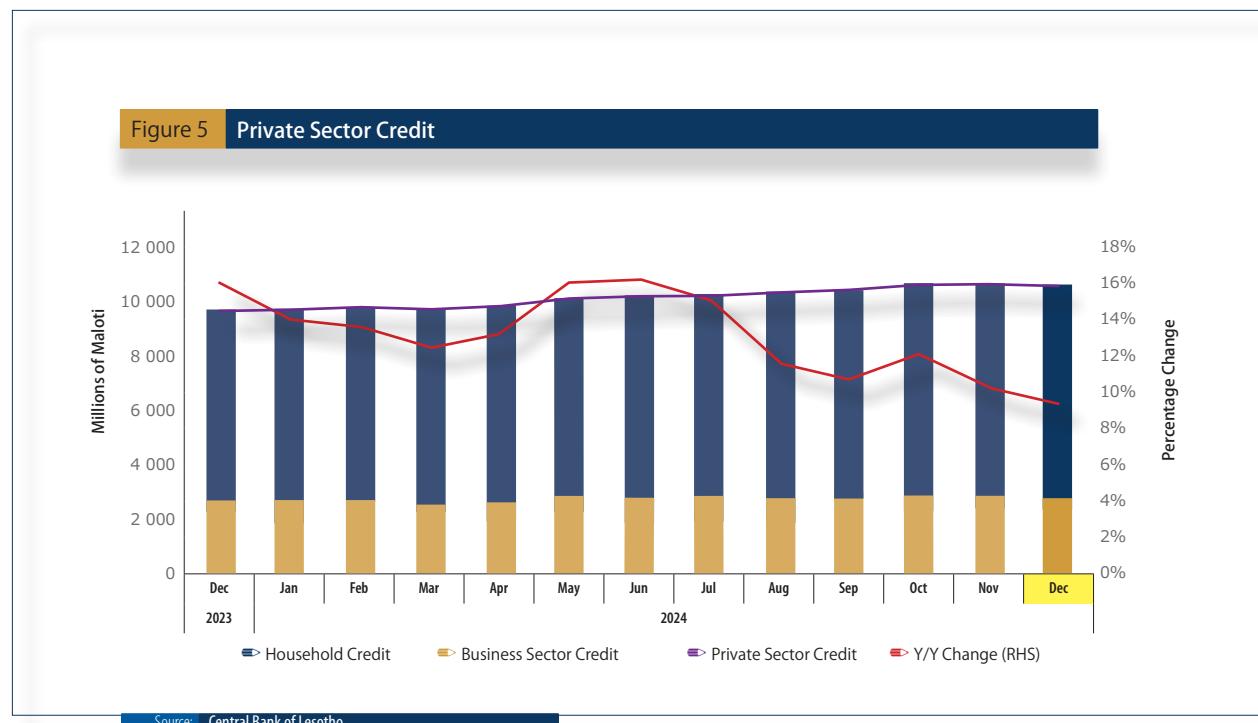
Private Sector Credit

Private sector credit declined by 0.1 per cent, in contrast to the 0.2 per cent decline a month earlier. The fall was evident in credit to business

enterprises, even though household sector credit grew. In particular, credit to business enterprises contracted by 3.4 per cent, contrary to 1.0 per cent growth observed in the prior month. The decline in business credit was largely noticeable

in the manufacturing, construction, and transport, Storage & communication industries. On the other hand, a modest growth recorded for households was attributable to both personal and mortgage loans. On the share of credit by business sectors, the wholesale and retail trade, restaurants & hotels sub-sector continued to command the highest share of

credit extension, followed by real estate & business services sector, while the construction industry completed the top three. The community, social, & personal services remained the smallest recipient of credit extension. On an annual basis, private sector credit grew by 9.4 per cent.



Non-Performing Loans

The ratio of non-performing loans (NPLs) to total loans increased to 4.3 from 4.0 per cent a month earlier. The increase stemmed from households NPLs, while business NPLs declined. Personal loans NPLs were the main contributor to the growth in households NPLs. For business enterprises, the highest shares of NPLs were attributed to the construction and wholesale, retail trade, restaurants & hotels subsectors.

Sources of Funds

The credit-to-deposit ratio rose to 52.2 per cent in the review month, as compared to the 51.1 per cent that prevailed a month earlier. The increase was attributed to a significant decline in overall deposit liabilities, despite the decline in private sector credit.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

In December, the CBL rate remained unchanged at 7.50 per cent. Consequently, the prime lending rate and the 1-year deposit rate held steady at 11.00 and 4.72 per cent, respectively. Meanwhile, the 91-day treasury bill rate remained at 6.88 per cent.

Foreign Exchange

In December 2024, the South African rand depreciated against the US dollar, the British pound, and the euro. The rand depreciated by 2.0 per cent against the dollar, 0.1 against the pound and 0.8 against the euro. This was compared to a depreciation of 2.1 per cent against the dollar and an appreciation of 0.5 per cent and 0.3 per cent against the euro and the pound respectively in the previous month.

This decline was driven by a combination of global and domestic factors. The US Federal Reserve's decision to cut interest rates less aggressively than expected bolstered the dollar's strength against majority of global currencies. The rand's depreciation was also influenced by the stronger dollar index, which reached near two-year highs, making the rand less attractive. Domestically, South Africa faced sluggish economic growth, with manufacturing production down year on year and sluggish mining output, especially in the platinum sector.

Additionally, persistent outflows of foreign investment from South African equities reflected a lack of confidence in the country's growth prospects. Political uncertainties and the impact of geopolitical tensions in the Middle East further exacerbated the rand's decline.

IV. GOVERNMENT BUDGETARY OPERATIONS

Expenditure

In December 2024, government spending declined by 17.5 per cent, following a 13.8 per cent reduction in the previous month. This decrease was primarily due to the old age pension (since the November payment was intended to cover December), along with reduced grants to extra-budgetary units and subsidies to public non-financial corporations. Despite these reductions, total expenditure increased by 22.6 per cent year-on-year, due to capital projects and pension contribution.

Revenue

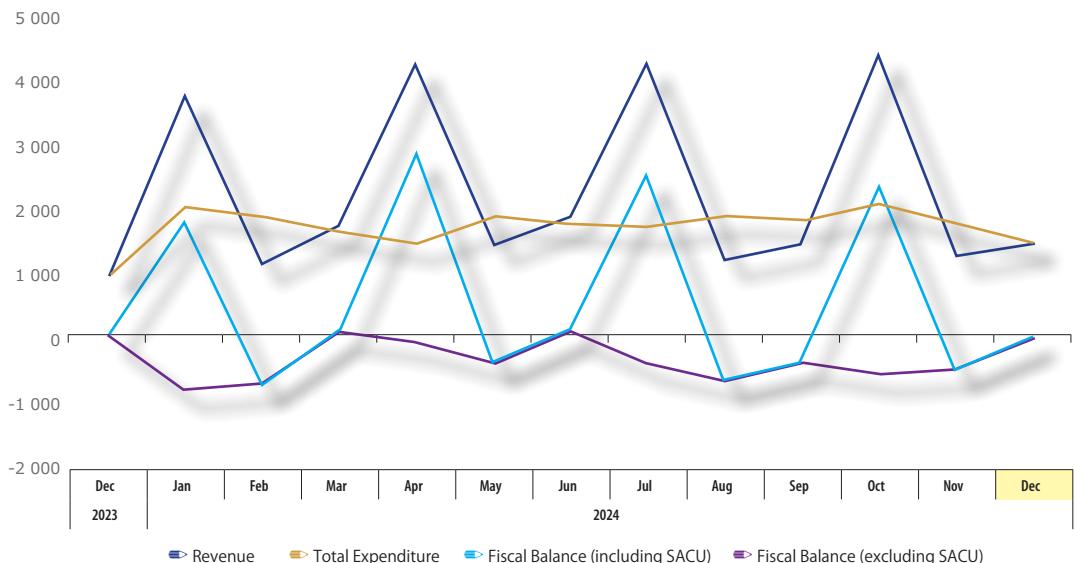
Government revenue increased by 17.2 per cent, in contrast to a previous decline of 16.6 per cent. This uptick was primarily driven by higher income tax collections. On a year-on-year basis, total revenue surged by 50.3 per cent, due to tax revenue and water royalties.

Fiscal Balance²

The government reported a small deficit amounting to 0.3 per cent of GDP, a significant improvement from the 5.4 per cent deficit recorded in November 2024. To cover this deficit and settle payments to suppliers, the government utilised savings with the banking sector, which translated into a fall in both financial assets and liabilities.

² All financing items are on net basis.

Figure 7 | Government Fiscal Balance (Million Maloti)



Source: Central Bank of Lesotho & Ministry of Finance (MOF)

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

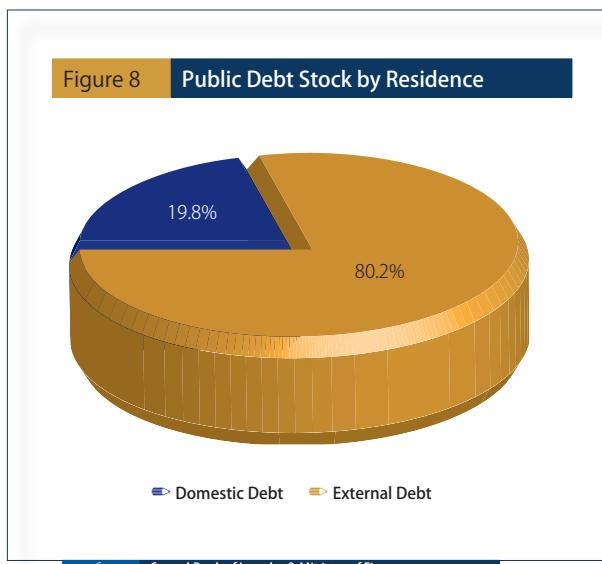
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Interest Payments	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		5.7%	11.6%	100.0%	0.0%	66.2%	1.6%	0.0%	16.9%	10.8%
Defense		7.4%	5.0%	0.0%	0.0%	0.0%	0.0%	0.0%	5.3%	5.2%
Public Order and Safety		17.6%	9.4%	0.0%	0.0%	1.6%	0.0%	0.5%	4.0%	10.8%
Economic Affairs		6.3%	33.7%	0.0%	0.0%	5.6%	0.0%	0.0%	64.1%	19.7%
Environmental Protection		0.8%	0.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.7%
Housing and Community Amenities		6.5%	5.3%	0.0%	0.0%	0.0%	0.3%	2.2%	6.3%	5.1%
Health		6.9%	28.6%	0.0%	0.0%	24.2%	0.9%	0.0%	0.5%	13.2%
Recreation, Culture, and Religion		1.0%	3.0%	0.0%	0.0%	2.2%	10.2%	1.1%	0.2%	2.5%
Education		31.1%	1.8%	0.0%	0.0%	0.0%	23.9%	95.6%	1.0%	18.6%
Social Protection		16.6%	0.7%	0.0%	0.0%	0.1%	63.1%	0.6%	1.7%	13.3%
Share per Economic Item		41.5%	33.4%	1.0%	0.0%	2.9%	9.6%	2.9%	8.8%	100.0%

Source: CBL and MOF

V. PUBLIC DEBT

The public debt stock was estimated at 57.9 per cent of GDP, rising from a revised 56.2 per cent of GDP the previous month. This 3.0 per cent monthly increase primarily emanated from the external

debt component following currency depreciation. However, on an annual basis, the total debt stock decreased by 0.5 per cent.



Appendix: Key Economic Indicators

		24-May	24-Jun	24-Jul	24-Aug	24-Sep	24-Oct	24-Nov	24-Dec	
Economic Activity (MIEA (% change, M/M)		2.1	-2.3	0.1	-2.6	2.9	1.5	3.0	1.9	
Consumer price Index (% change)	Headline Inflation (year-on-year)	7.4	6.8	6.7	6.0	5.2	4.7	4.4	3.7	
	Core Inflation	6.9	6.4	5.5	4.8	3.8	4.1	3.7	2.7	
Exchange Rates (Monthly End Period)	EUR	20.5085	20.5233	20.3424	20.3817	20.7950	20.5085	20.0677	19.5208	
	GBP	23.9695	23.7452	23.6012	23.8757	24.3030	23.9695	23.4763	23.5495	
	USD	18.8596	18.7082	18.6699	18.8456	19.1910	18.8596	18.7203	18.7611	
Money Supply (Millions of Maloti)	M2	17,223.67	17,340.59	16,929.25	17,160.89	17,306.37	17,631.19	18,545.63	18513.78	
	M1	7870.62	8,173.76	8,448.94	7,997.34	8,290.68	8,270.95	8,896.13	9,325.06	
	Quasi Money	9,353.05	9,166.83	8,731.71	9,163.55	9,015.69	9,360.24	9,649.50	9,670.02	
Interest Rates	CBL Rate	7.75	7.75	7.75	7.75	7.75	7.75	7.50	7.50	
	91 day Treasury bill rate	6.78	7.12	7.12	6.74	6.83	6.86	6.88	6.88	
	Prime lending rate	11.25	11.25	11.25	11.25	11.25	11.25	11.00	11.00	
	1 year deposit rate	4.74	4.74	4.74	4.74	4.74	4.74	4.72	4.72	
Private sector Credit (Millions of Maloti)		10,181.74	10,233.44	10288.53	10,347.59	10,422.71	10,684.74	10,658.79	10,650.80	
		Households	2,879.85	2,806.05	2,903.51	2,784.48	2,771.40	2,853.12	2,882.57	2,785.18
		Non-profit Organisations	7,301.89	7,427.40	7,385.01	7,563.11	7,651.31	7,831.62	7,776.22	7,865.61
Bank Deposit Liabilities (Millions of Maloti)		19,025.27	19,374.92	18,882.97	19,254.43	19,689.38	19,040.65	20,787.42	20,326.23	
Credit to Deposit Ratio (%)		53.4	52.7	54.3	53.7	52.9	56.0	51.1	52.2	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-409.78	97.33	2,459.24	-687.42	-398.08	2,291.66	-538.70	-29.33	
	Total Revenue (with SACU receipts)	1,410.53	1,790.38	4,127.29	1,159.44	1,383.14	4,302.68	1,194.57	1,400.08	
	Total Expenditure	1,820.31	1,693.05	1,668.04	1,846.86	1,781.22	2,011.02	1,733.27	1,429.41	
	O/W Capital	250.79	334.18	187.91	351.73	430.43	288.47	201.53	183.47	
Total Public Debt (Millions of Maloti)		23,226.40	22,314.33	22,437.65	22,207.56	21,903.04	22,111.55	22,339.88	23,011.15	
		Total External Debt	18,494.28	17,840.51	17,963.07	17,649.29	17,344.34	17,654.88	17,872.27	18,443.54
External Debt	Concessional	11,493.20	11,031.10	11,074.77	10,862.34	10,792.52	11,015.88	11,195.20	11,588.86	
	Non-concessional	7,001.08	6,809.41	6,888.30	6,786.94	6,551.81	6,639.00	6,677.07	6,854.68	
Domestic Debt		4,732.13	4,658.95	4,474.57	4,558.27	4,558.71	4,456.66	4,467.61	4,567.61	
Memo Item: Arrears (Millions of Maloti)		-201.98	26.28	9.63	-1.66	-1.67	-135.08	-28.85	-13.33	

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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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