



# Monthly

# ECONOMIC REVIEW

FEBRUARY 2024

CENTRAL BANK OF LESOTHO  
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## I. ECONOMIC ACTIVITY<sup>1</sup>

Overall economic activity painted an optimistic picture in February 2024, with the composite indicator of economic activity registering a positive uptick. The growth was driven primarily by strengthened domestic demand and improved manufacturing and production subsector activity. This positive momentum extended to other subsectors, such as construction and financial services. However, the transport subsector remained under pressure during the assessment period.

### Overall Performance Index

The Composite Indicator of Economic Activity (CIEA), a key metric for gauging economic health, recovered from a contraction of 1.3 per cent in January 2024 to a growth of 2.0 per cent in February 2024. The significant improvement was mainly fuelled by a notable increase in domestic demand and production activities. This was further boosted by positive contributions from the ancillary subsectors, with growth also observed in construction and financial services. This was observed in an uptick in construction materials and increased credit extended to households. However, transport subsector moderated this recovery, with a relatively lower fuel consumption during the review period.

### Domestic Demand Category

Domestic demand rebounded in February 2024.

The demand index registered an increase of 3.8 per cent, marking a significant improvement compared to a decline of 0.1 per cent in the previous month. This growth stemmed from heightened domestic demand, evidenced by an increase in both imports of goods and services from South Africa and collection of Value Added Tax (VAT). The latter suggested an increased consumer spending and a more vibrant business environment. Moreover, government activities exhibited positive developments, with positive contribution from government spending on goods and services. Furthermore, real earnings also improved, as reflected by increased Pay-As-You-Earn (PAYE) collection. However, the overall growth was moderated by negative contributions from the compensation of employees.

### Manufacturing and Production Category

The manufacturing and production index surged by 4.4 per cent, a significant increase compared to the modest growth of 1.2 per cent observed in the previous month. The growth emanated from a combination of factors. To begin with, textile exports to South Africa witnessed a substantial uptick. In addition, imports of raw materials rose substantially, hinting an increased production in the local economy. This was further backed up by increased water and electricity usage within manufacturing, signifying an improved industrial operation. Finally, a slight growth was observed in textile exports to the United States, most likely due to stronger-than-anticipated consumer spending within the US market.

<sup>1</sup> 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: CBL Calculations

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

Indices	2023						2024	
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
<b>CIEA</b>	148.8	150.3	153.7	157.7	156.3	159.6	157.4	160.6
Monthly changes	1.3	1.0	2.3	2.6	-0.9	2.1	-1.3	2.0
<b>Domestic Demand Category</b>	134.1	136.1	143.8	156.7	157.3	152.9	152.8	158.7
Monthly changes	-2.8	1.4	5.7	9.0	0.4	-2.8	-0.1	3.8
<b>Manufacturing &amp; Production Category</b>	103.7	99.8	93.6	98.9	101.6	102.8	103.9	108.5
Monthly changes	-7.0	-3.8	-6.2	5.6	2.8	1.1	1.2	4.4

Source: Central Bank of Lesotho (CBL) Calculations

## II. INFLATION AND PRICES

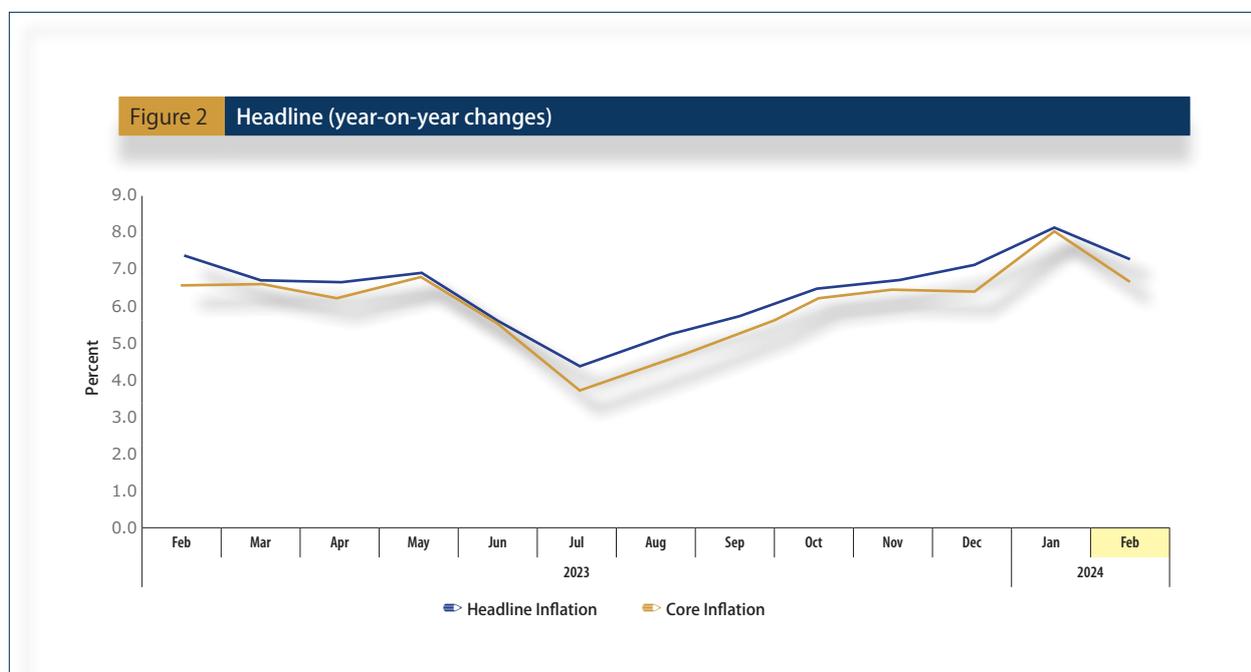
### Headline Inflation

The headline inflation fell to 7.3 per cent in February 2024 from 8.2 per cent in January 2024. The major contributors to the downward edge of 0.9 percentage points were Food and Non-Alcoholic beverages, as well as Alcoholic beverages and Tobacco. The drivers behind the disinflation rates were the fall in prices of Bread and cereal, Vegetables, as well as Oil & Fats. This, to some extent, benefited from decreased wholesale wheat prices

in South Africa. The lower prices were influenced by a continued decline of wheat prices at the international markets.

### Core Inflation

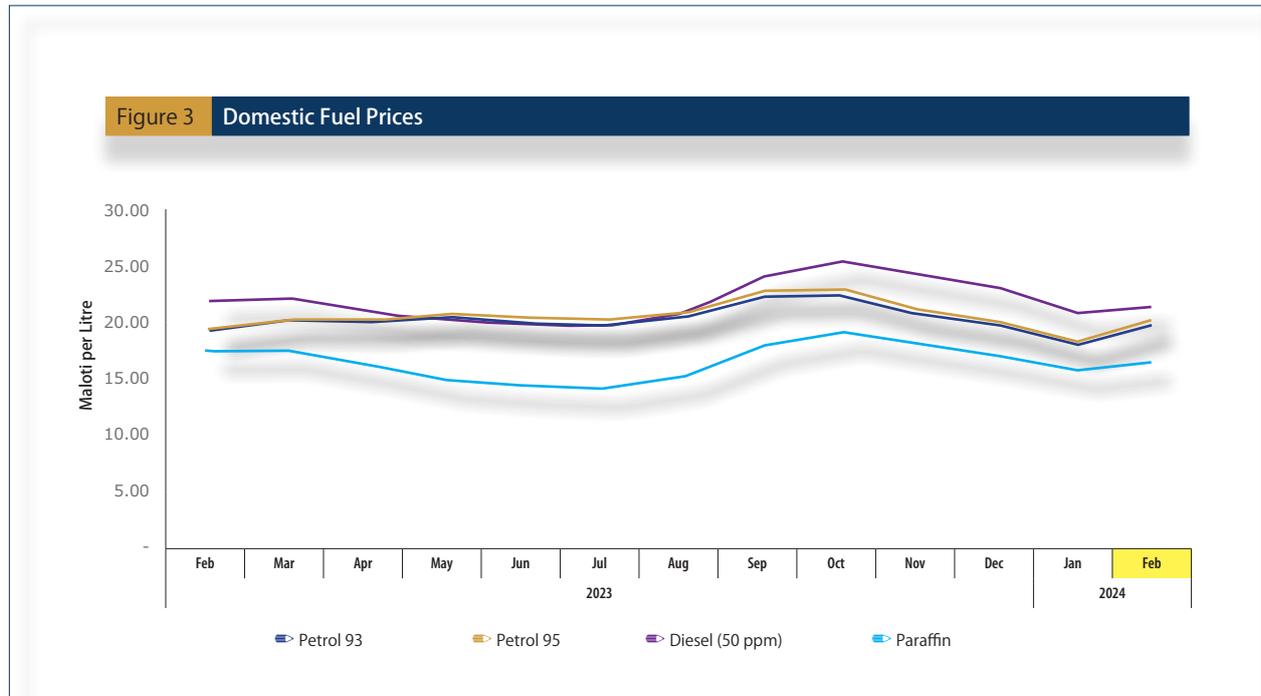
Core inflation, a gauge of the underlying inflationary pressures in the economy, measured as the trimmed mean, declined to 6.7 per cent in February 2024 from 8.0 per cent in January 2024.



## Domestic Fuel Prices

The prices of all petroleum products edged upwards in the review period. Both grades of petrol (*Petrol<sub>93</sub>* and *Petrol<sub>95</sub>*), increased by M 1.70 and M 1.80, respectively, selling at M 19.80 per litre and M20.25

per litre, respectively, at the pump. The pump price of *Diesel<sub>50</sub>* also increased by M0.60, selling at M21.55 per litre, while the price of illuminating paraffin increased by M0.82 and was sold at M16.50 per litre in the retail market.



### III. MONETARY AND FINANCIAL INDICATORS

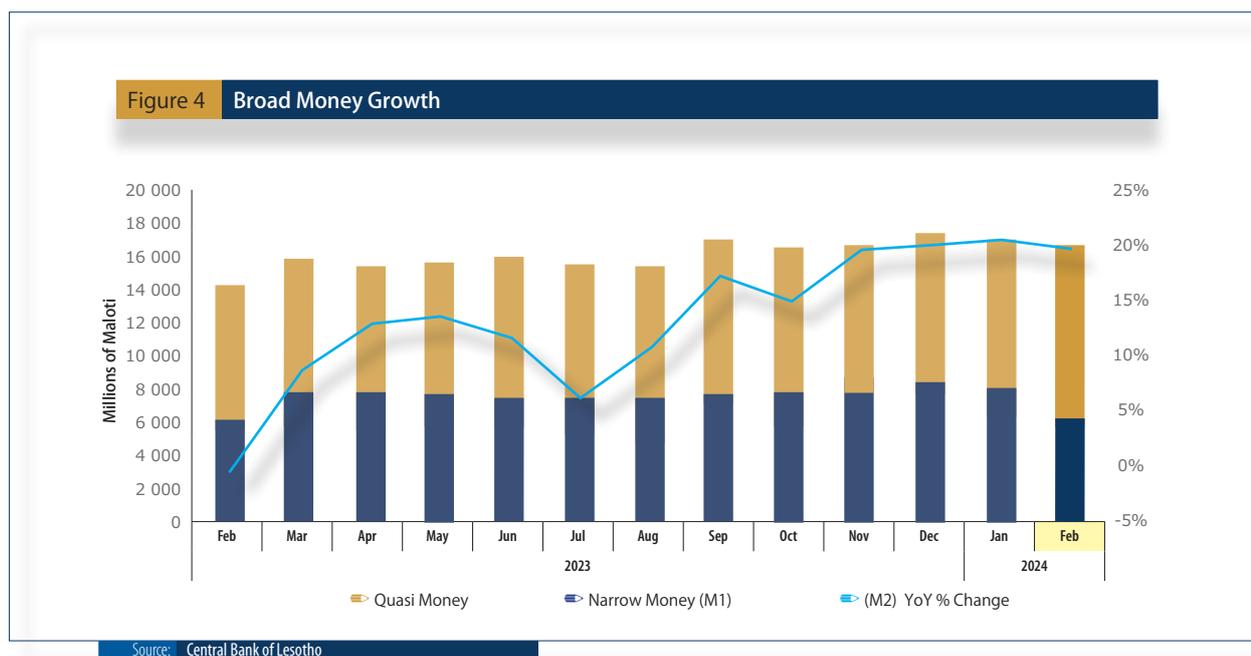
#### Broad Money (M2)

Broadly defined money supply (M2) recouped in February 2024. M2 grew by 1.5 per cent, contrary to the 2.6 per cent decline recorded in January 2024. Likewise, Net Domestic claims (NDA) grew by 10.4 per cent, in contrast to the 31.6 per cent decline recorded in the preceding month. However, net foreign assets (NFA) continued to decline, falling by 1.0 per cent, following a 4.6 per cent contraction in January. The growth in NDA was explained by a decline in government deposits with the Central Bank, while the decline in NFA was mainly attributable to a fall in claims on non-residents held

by the Central Bank. On year-on-year, M2 rose by 21.6 per cent.

#### Components of Money Supply

The two components of money supply, narrow money (M1) and quasi money, showed mixed results. M1 contracted further by 5.0 per cent following a 3.8 per cent decline, whereas quasi money grew by 7.5 per cent, in contrast to the 1.5 per cent decline in January. The fall in M1 was mainly due to a fall in transferable deposits held by business enterprises. Meanwhile, the growth in quasi-money was due to a rise in call and fixed-time deposits held by business enterprises.

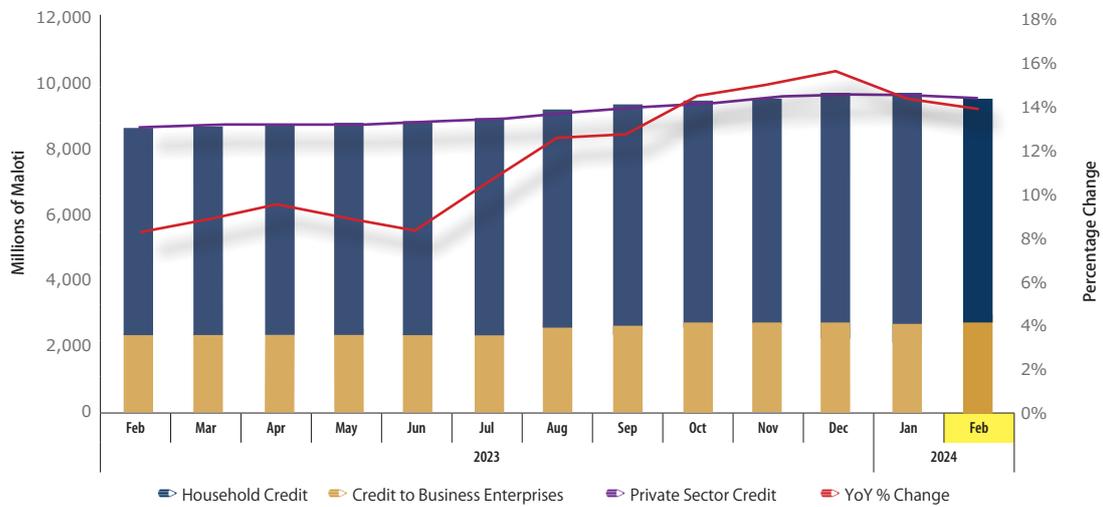


#### Private Sector Credit

Private sector credit continued to grow, registering a 0.4 per cent increase in February, albeit slightly slower than the 0.6 per cent growth observed a month prior. Growth in credit extension was recorded in households, whereas there was a decline in credit extended to business enterprises. Household credit

grew by 0.7 per cent, following a 0.8 per cent growth in January, and business enterprises' credit extension fell by 0.2 per cent, contrary to a 0.2 per cent growth in the previous month. Concerning the share of the credit distribution, Wholesale and Retail Trade, Restaurants and Hotels continued to command the biggest chunk of overall credit distribution at 25.0 per cent, followed by Real Estate and Business

**Figure 5 Private Sector Credit**



Source: Central Bank of Lesotho

Services at 19.1 per cent, and then mining and quarrying at 18.3 per cent. The smallest share went to the Community, Social and Personal Services, with 0.4 per cent of the total credit extended to the private sector. Annually, private sector credit grew by 13.7 per cent.

### Non-Performing Loans

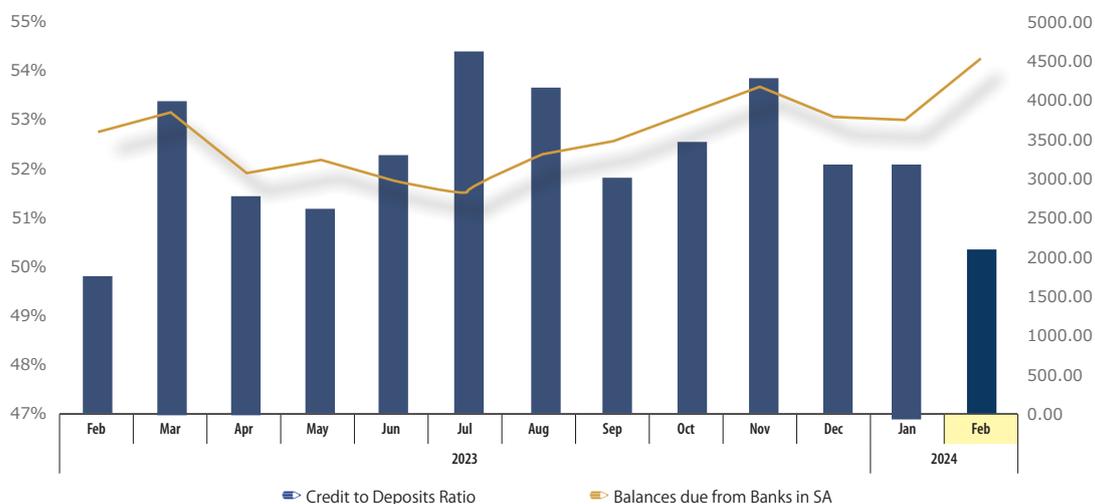
The ratio of non-performing loans (NPLs) to total loans fell marginally to 3.8 per cent in February 2024 from 3.9 per cent in January 2024. In the business

enterprises, the subsector with the highest NPLs was the Wholesale and Retail Trade, Restaurants and Hotels followed by the construction subsector.

### Sources of Funds

The credit-to-deposit ratio fell to 49.8 per cent from 50.4 per cent a month earlier. The fall was mainly driven by the increase in total deposits – benefitting from a rise in deposits held by government and business enterprises, which overshadowed the increase in credit extension.

**Figure 6 Credit to Deposit Ratio**



Source: Central Bank of Lesotho

### Interest Rates

The CBL rate remained unchanged at 7.75 per cent between January and February 2024. Consequently, the prime lending rate and the 1-year deposit rate remained unchanged at 11.25 and 4.74 per cent, respectively. The 91-day treasury bill rate, however, fell by 16 basis points from 7.09 to 6.93 per cent.

### Foreign Exchange

The rand, hence, loti, continued to depreciate against dollar, euro and the pound. Relative to the previous month, the rand depreciated by 1.1 per cent against the US dollar compared to a marginal

appreciation of 0.6 per cent. Against the euro, the rand depreciated by 0.5 per cent and 0.05 per cent against the pound, compared to the previous month's appreciation of 2.5 per cent and 1.4 per cent against the euro and the pound respectively.

The rand continued to be primarily affected by the worsening energy crisis. It was further dampened by the uptick in inflationary pressures after CPI data showed inflation increased from December into the start of the new year, therefore, eroding investor confidence. Internationally, the rand slid against the dollar, which benefited from stronger economic growth.

## IV. GOVERNMENT BUDGETARY OPERATIONS

### Total Expenditure

Government expenditures decreased by 7.0 per cent during the review month. This drop was primarily driven by reduced spending on student grants, grants to extra-budgetary units, and subsidies to non-financial entities. However, an increase in capital spending moderated this decline in spending.

Despite the overall decline in expenditures, the most significant portions of the budget were allocated to general public services, economic affairs, and education. While spending was reduced for the month, government expenditures increased by 3.0 per cent on an annual basis.

### Total Revenue

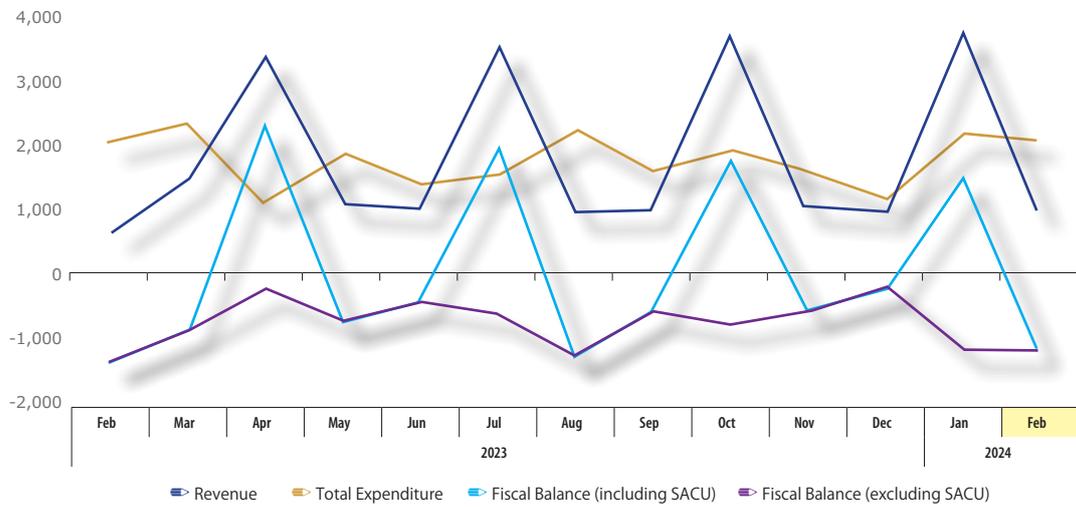
Government revenue decreased by 12.6 per cent, with tax revenue taking a hit, primarily due to decreases in VAT and excise taxes. Although revenues decreased for the month, there was a substantial annual increase of 66.6 per cent.

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

The fiscal deficit, amounting to 10.7 per cent of GDP, was financed through the issuance of Treasury bonds and the drawing down of government deposits. Consequently, this increased government liabilities and reduced financial assets.

<sup>2</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)**

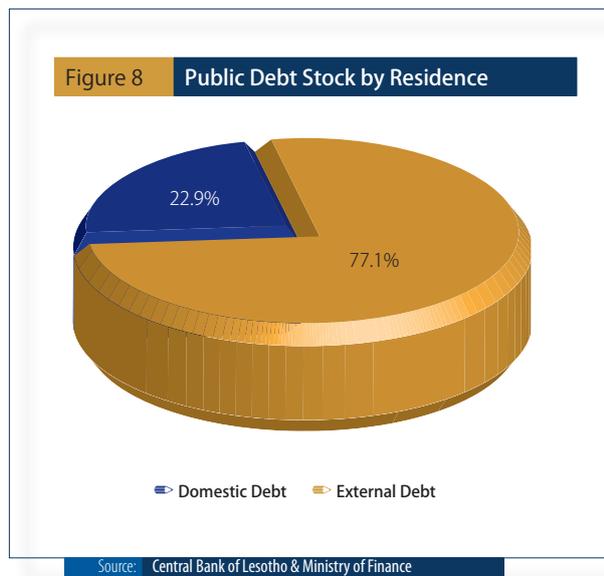
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		8.7%	11.2%	0.0%	33.3%	0.0%	44.1%	7.6%	9.8%
Defense		0.8%	0.5%	0.0%	0.0%	0.0%	0.0%	0.8%	0.6%
Public Order and Safety		20.4%	14.9%	0.0%	1.1%	0.0%	0.9%	11.8%	14.8%
Economic Affairs		6.6%	32.5%	0.0%	0.0%	0.0%	0.0%	66.9%	21.9%
Environmental Protection		0.5%	0.3%	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		5.1%	34.0%	0.0%	0.0%	6.7%	0.0%	7.8%	14.2%
Recreation, Culture, and Religion		0.5%	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%
Education		22.8%	1.7%	100.0%	63.8%	0.0%	0.0%	4.9%	15.7%
Social Protection		34.7%	4.3%	0.0%	1.7%	93.3%	55.0%	0.1%	22.4%
<b>Share per Economic Item</b>		<b>42.0%</b>	<b>31.0%</b>	<b>2.2%</b>	<b>4.3%</b>	<b>6.7%</b>	<b>0.3%</b>	<b>13.5%</b>	<b>100.0%</b>

Source: CBL and MOF

## V. PUBLIC DEBT

In February 2024, the public debt stock experienced a slight increase of 0.6 per cent. As a percentage of GDP, it was estimated at 59.8 per cent. This growth in the debt stock was primarily fuelled by the issuance

of M170 million worth of treasury bonds, while the external share remaining relatively stable. On an annual basis, the debt stock surged by 13.8 per cent.



## Appendix: Key Economic Indicators

		23-Aug	23-Sep	23-Oct	23-Nov	23-Dec	24-Jan	24-Feb	
Economic Activity (MIEA (% change, M/M))		1.0	2.3	2.6	-0.9	2.1	-1.3	2.0	
Consumer price Index (% change)	Headline Inflation (year-on-year)	5.2	5.8	6.5	6.8	7.2	8.2	7.3	
	Core Inflation	4.5	5.3	6.1	6.4	6.4	8.0	6.7	
Exchange Rates (Monthly End Period)	EUR	21.08	20.28	19.83	19.18	20.34	20.50	20.51	
	GBP	24.41	23.53	23.19	23.00	23.60	23.88	24.00	
	USD	19.74	18.98	19.06	18.54	18.67	18.80	18.99	
Money Supply (Millions of Maloti)	M2	16,201.65	15,515.84	15,357.08	15,706.25	17,180.65	16,726.97	16,970.97	
	M1	6,508.33	5,952.76	5,675.13	5,735.00	8,448.94	8,124.79	7,722.71	
	Quasi Money	9,693.32	9,563.08	9,681.95	9,971.24	8,731.71	8,602.18	9,248.26	
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	8.65	7.41	7.12	7.12	7.09	6.93	
	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)		9,264.30	9,408.42	9,522.85	9,655.44	9,736.03	9,796.71	9,838.10	
	Households	2,547.19	2,573.41	2,656.17	2,707.48	2,717.72	2,722.05	2,716.99	
	Non-profit Organisations	6,717.10	6,835.01	6,866.67	6,947.96	7,018.31	7,074.66	7,121.11	
Bank Deposit Liabilities (Millions of Maloti)		17,308.64	18,549.36	18,080.49	17,945.47	18,679.67	18,751.66	19,495.94	
Credit to Deposit Ratio (%)		52.56	49.84	51.78	52.91	51.19	52.22	50.38	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-1,269.59	-638.07	1,767.10	-569.09	-233.83	1,433.38	-1,091.86	
	Total Revenue (with SACU receipts)	914.32	973.20	3,645.74	993.76	931.83	3,701.75	1,018.19	
	Total Expenditure	2,183.91	1,611.27	1,878.64	1,562.85	1,165.66	2,268.37	2,110.04	
	O/W Capital	174.91	149.72	155.61	93.42	59.72	201.58	273.67	
Total Public Debt (Millions of Maloti)		24,860.18	24,407.21	24,413.11	24,301.30	24,387.00	24,244.15	24,392.25	
	Total External Debt	18,034.30	18,111.80	18,820.40	18,753.70	18,839.40	18,814.80	18,816.80	
	External Debt	Concessional	13,486.20	13,577.50	14,256.50	14,192.00	14,164.90	14,080.70	14,082.70
		Non-concessional	4,548.10	4,534.30	4,563.90	4,561.70	4,674.50	4,734.10	4,734.10
	Domestic Debt	6,825.88	6,295.41	5,592.71	5,547.60	5,547.60	5,429.35	5,575.45	
Memo Item: Arrears (Millions of Maloti)		46.50	60.07	29.07	40.18	44.61	42.62	68.40	

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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