



# Monthly ECONOMIC REVIEW

MAY 2022

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

## I. ECONOMIC ACTIVITY

Economic performance remained robust in May 2022. The strong activity in the economy was mainly attributable to strong performance in domestic demand.

### Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) exhibited growth in economic performance in May 2022. The indicator grew by 2.1 per cent, following 1.4 per cent growth recorded in April. Growth was mainly attributable to strong domestic demand for goods and services, despite the sluggish performance in the manufacturing category.

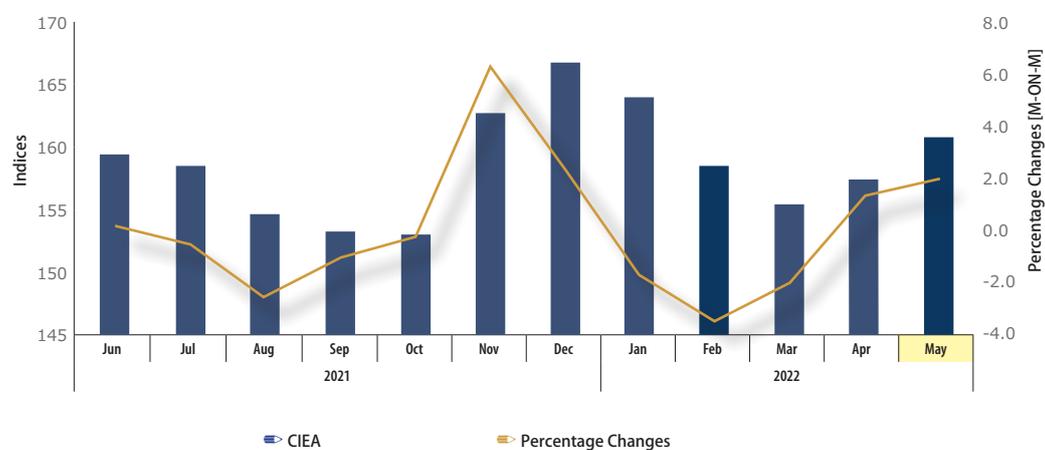
### Domestic Demand Category

Performance in the demand category improved further in the review month. The domestic demand index grew by a faster 9.4 per cent, as compared to the 2.2 per cent expansion in the previous month. The strong performance in demand was driven mainly by government activity (both purchases of goods and services and compensation of employees), as the economy was approaching full recovery from COVID-19 induced restrictions. Nonetheless, domestic demand for foreign goods and services remained subdued.

### Manufacturing and Production Category

The production and manufacturing activity continued on a downward trajectory for the fourth consecutive month. The index for production contracted by 3.4 per cent after contracting by 1.7 per cent in the preceding month. Industrial activity continued to decline, as evidenced by reduced imports of raw materials and, to a lesser extent, the use of other inputs, such as water in the production process. The decline was, however, cushioned by buoyant performance in industrial use of electricity and exports of textiles and clothing.

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



Source: CBL Calculations

**Table 1: Summary of the Monthly Indicator of Economic Activity**

Indices	2021			2022				
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
<b>CIEA</b>	153.0	162.8	166.9	164.1	158.5	155.4	157.6	160.9
Monthly changes	-0.4	6.4	2.5	-1.7	-3.4	-1.9	1.4	2.1
<b>Domestic Demand Category</b>	138.9	152.8	156.0	161.7	146.6	145.4	148.6	162.6
Monthly changes	-2.3	10.0	2.1	3.7	-9.4	-0.8	2.2	9.4
<b>Manufacturing &amp; Production Category</b>	109.3	121.5	129.2	131.3	127.5	121.4	119.3	115.2
Monthly changes	6.3	11.2	6.3	1.6	-2.9	-4.8	-1.7	-3.4

Source: Central Bank of Lesotho (CBL) Calculations

## II. INFLATION AND PRICES

### Headline Inflation

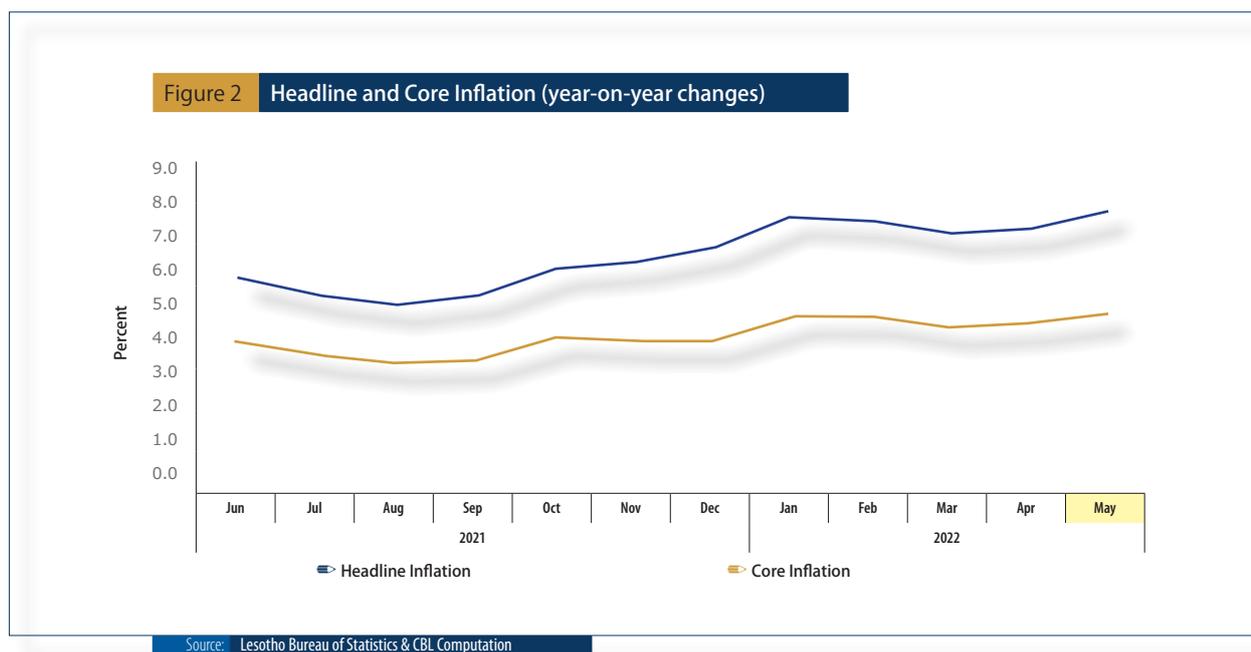
The headline inflation increased by 0.5 percentage points between April and May 2022 to stand at 7.8 per cent. Over 60.0 per cent of the increase in inflation was solely accounted for by Housing, Water, Electricity, Gas and Other Fuels category. Clothing & footwear, Food and non-alcoholic beverages and Transport added 40.0 to the acceleration of inflation during the review period. Inflation acceleration was broad-based as 95.0 per cent of good and services prices increased from April to May 2022.

The major drivers of recent inflation outcomes were increases in international crude oil price at the back of the ongoing war between Russia and Ukraine.

Given that Russia and Ukraine are major suppliers of food grain, the supply disruptions caused a rise in food prices, thus exacerbating local inflationary pressures. The depreciation of the rand, hence the loti against the U.S dollar also added an upward pressure to inflation. Since clothes and footwear use raw materials from abroad and transport, the rise in the respective category also reeled from the spill over effects of energy prices and disruptions in supply chain.

### Core Inflation

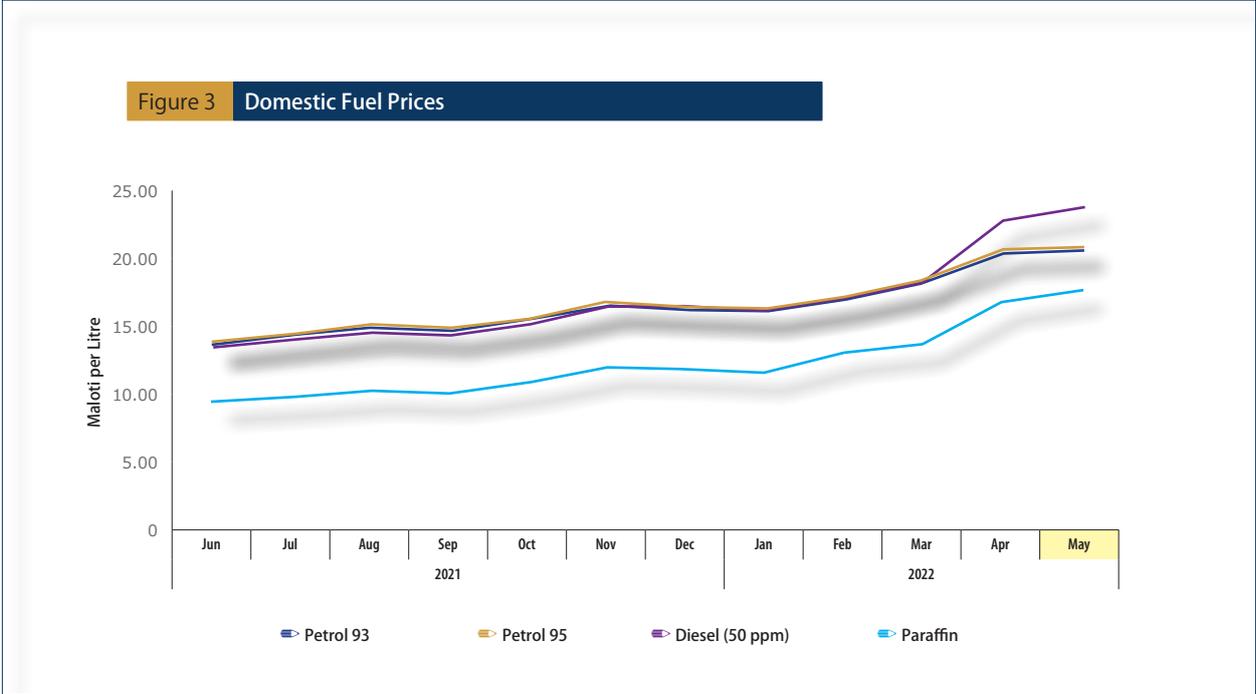
Underlying inflation pressures, measured by core inflation, also edged upwards from 4.7 per cent in April 2022 to 5.0 per cent in May 2022.



### Domestic Fuel Prices

All domestic petroleum products' prices increased in May 2022 from their levels recorded in April 2022. Prices of both grades of petrol (*petrol<sub>93</sub>* and *petrol<sub>95</sub>*) increased by M0.20 per litre and M0.25 per litre.

Their pump prices were M20.70 and M20.95 per litre, respectively. Diesel and illuminating paraffin prices rose by more than fourfold of the petrol grades. The price of *diesel<sub>50</sub>* increased by M0.85 to M23.80 per litre at the pump while the retail price of illuminating paraffin rose by M0.90 to M17.80 per litre.



Source: Petroleum Fund

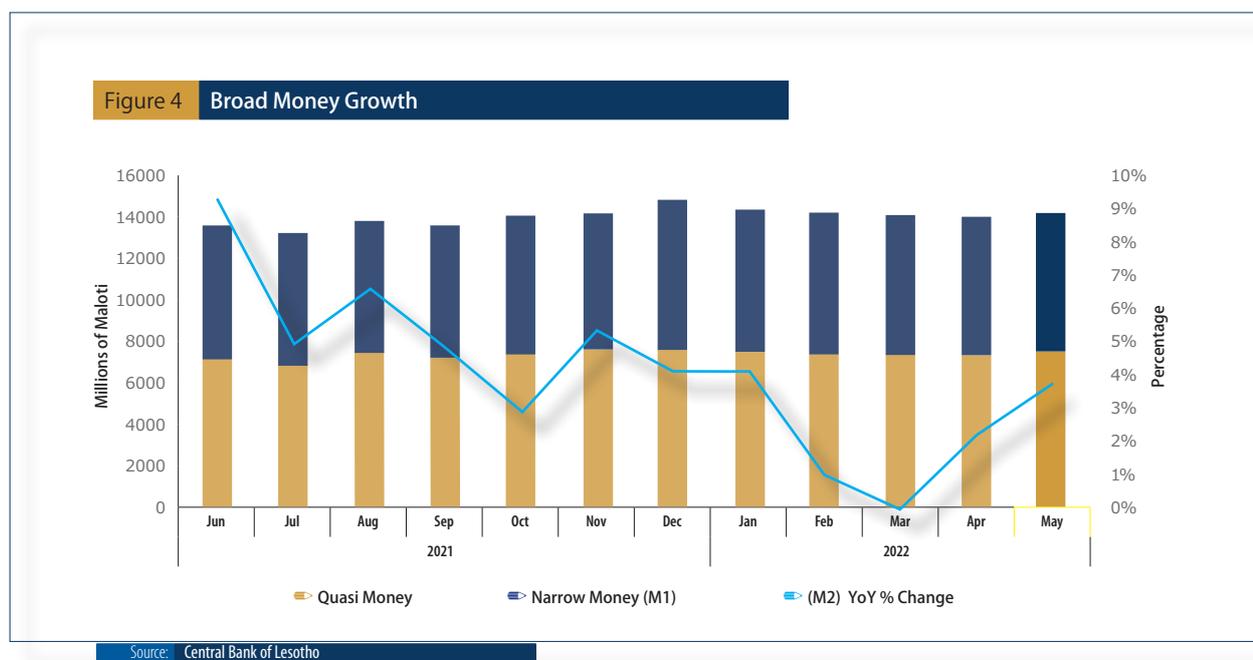
### III. MONETARY AND FINANCIAL INDICATORS

#### Broad Money (M2)

The broad measure of money supply (M2) increased by 1.4 per cent in May 2022, in contrast to a decline of 0.5 per cent in April 2022. This emanated from a growth of 21.9 per cent in net domestic assets (NDA), which was moderated by 6.9 per cent decline in net foreign assets (NFA). The growth in NDA was mainly due to a drawdown in government deposits held with central bank. In contrast, the fall in NFA was as a result of a decline in the central bank's NFA, which was lessened by a growth in commercial banks' NFA.

#### Components of Money Supply

The growth in M2 was underpinned by an increase of 2.9 per cent in quasi money, while narrow money contracted by 0.4 per cent in the review period. Quasi money growth was explained by an increase in holding of call deposits by other financial corporations, public nonfinancial corporations and business enterprises. The decline in M1 was attributable to the drawdown in transferable deposits held by the household sector.

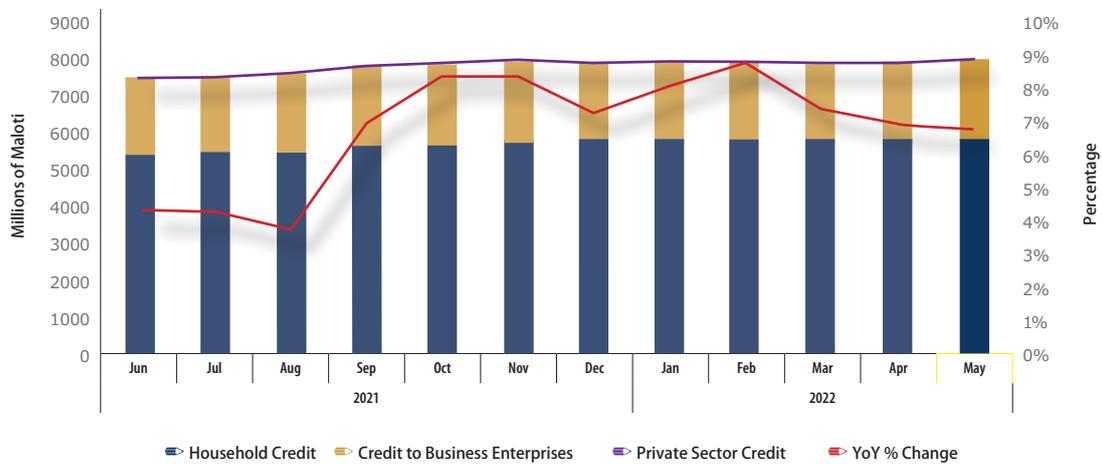


#### Private Sector Credit

Total credit extended to the private sector increased by 1.4 per cent in May 2022, following a marginal growth of 0.02 per cent in the previous month. This was driven by an increase of 0.3 per cent and 4.5 per cent in loans and advances granted to the households and business sector, respectively. Credit extended to households benefitted from an increase of 0.2 per cent on personal loans and 0.6 per cent on mortgage loans.

Considering the allocation of credit to business enterprises, real estate & business services, retail, hotel & restaurant, as well as, mining sectors received the largest shares of 24.5 per cent, 23.2 per cent and 22.5 per cent, respectively. The electricity, gas and water sector also continued to receive the lowest share of 0.4 per cent in the review period. On a year-on-year basis, private sector credit increased by 6.8 per cent in May 2022

**Figure 5 Private Sector Credit**



Source: Central Bank of Lesotho

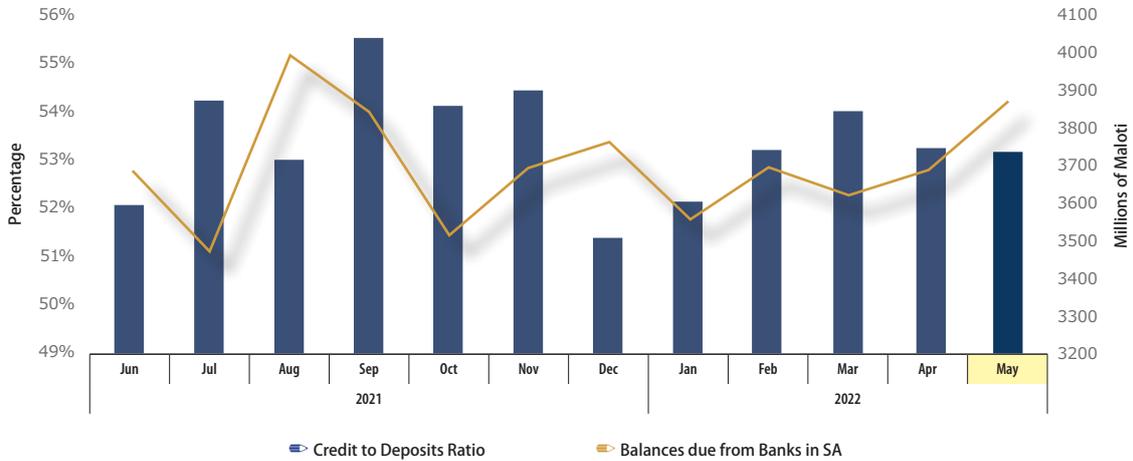
### Non-Performing Loans

The total non-performing loans (NPLs), as a ratio of total loans, was unchanged at 4.4 per cent between April and May 2022. This followed a marginal improvement in households NPL's from 4.2 per cent in April to 4.1 per cent in May 2022, whereas business sector NPLs, as a ratio of total loans, remained unchanged at 5.1 per cent.

### Sources of Funds

The credit to deposit ratio remained unchanged at 53.0 per cent between April and May 2022, as the credit growth of 1.4 per cent was offset by a rise of 1.4 per cent in total deposits.

**Figure 6 Credit to Deposit Ratio**



Source: Central Bank of Lesotho

### Interest Rates

The CBL policy rate rose by 50 basis points to 4.75 per cent following the MPC decision to maintain macroeconomic stability in May 2022. However, the average prime lending rate remained unchanged at 8.00 per cent, whereas 1-year deposit rate rose by 67 basis points to 3.41 per cent. The discount rate for 91-day treasury-bill declined by 2 basis points to 4.43 per cent during the review period.

### Foreign Exchange

The rand, hence, loti depreciated against its three major trading currencies in May 2022, compared to a month earlier. The rand depreciated by 1.5 per cent, 1.8 per cent and 5.8 per cent against the pound, the euro and the dollar, respectively, in May 2022. This followed an appreciation of 1.3 per cent and 1.6 per cent against the pound and euro, respectively, and a depreciation by 0.4 per cent against the dollar in the previous month.

The value of the rand, alongside other emerging market currencies, was weakened primarily by steeper rate hikes in advanced economies, such as, the US which has affected investments appetite in riskier emerging market economies, and therefore, negatively affected the value of the rand.

## IV. GOVERNMENT BUDGETARY OPERATIONS

### Total Expenditure<sup>1</sup>

Total Government expenditure was estimated to have declined by 13.8 per cent in May 2022, mainly on account of lower spending on compensation of employees, grants to extra budgetary units and students grants. This decline followed a fall of 30.4 per cent in April 2022.

### Outlays by Functions

The share of development outlays to total outlays increased to 14.2 per cent in May 2022 from 1.7 per cent in the previous month. This was driven by higher outlays for economic affairs, particularly, road transport, which accounted for 71.0 per cent of all development outlays.

### Total Revenue

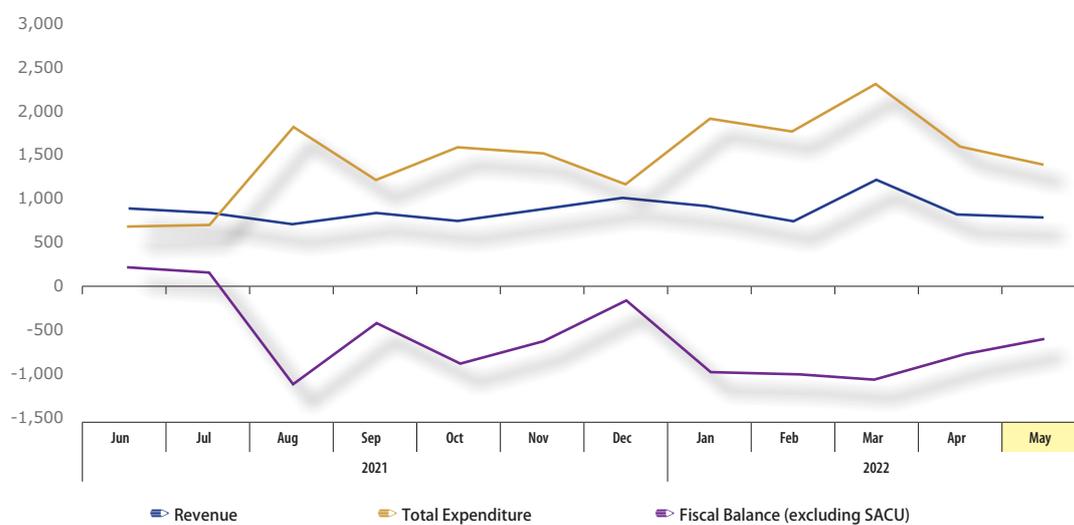
The Government revenue, excluding SACU receipts and rand monetary compensation, was estimated to have increased by 1.5 per cent in May 2022, following a significant fall of 33.9 per cent in the previous month. The rise in revenue was largely due to high performance in income tax.

### Fiscal Balance and Financing

The fiscal operations registered a reduction in both financial assets and liabilities. The decline in financial assets reflected a drawdown of Government financial resources within the banking system, while a decline in liabilities resulted from amortisation of both domestic and external debt.

<sup>1</sup> The year-to-date refers to an accumulation within a fiscal year, starting from April.

**Figure 7** Government Fiscal Balance – Excluding SACU Receipts (Million Maloti)



Source: Central Bank of Lesotho & Ministry of Finance

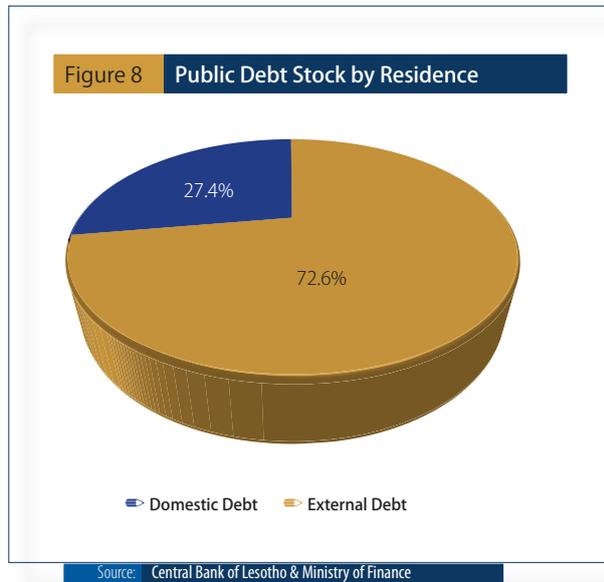
**Table 2: Cross-Classification of Government Outlays (Percentage Change)**

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		13.2%	11.9%	1.5%	52.0%	0.0%	0.0%	0.6%	9.8%
Defense		6.5%	5.2%	0.0%	0.0%	0.0%	0.0%	0.0%	4.2%
Public Order and Safety		18.6%	9.0%	0.0%	0.4%	0.0%	0.0%	0.0%	10.9%
Economic Affairs		7.4%	15.2%	0.0%	0.0%	0.0%	100.0%	84.7%	22.7%
Environmental Protection		0.1%	0.1%	0.0%	18.6%	0.0%	0.0%	0.0%	0.3%
Housing and Community Amenities		0.7%	0.3%	0.0%	19.6%	0.0%	0.0%	9.8%	2.1%
Health		7.0%	40.2%	45.7%	0.0%	0.0%	0.0%	2.0%	14.6%
Recreation, Culture, and Religion		0.8%	0.8%	0.0%	9.4%	0.0%	0.0%	3.0%	1.1%
Education		27.4%	1.1%	52.8%	0.0%	0.0%	0.0%	0.0%	16.2%
Social Protection		18.3%	16.3%	0.0%	0.0%	100.0%	0.0%	0.0%	18.1%
<b>Share per Economic Item</b>		<b>48.2%</b>	<b>21.4%</b>	<b>5.1%</b>	<b>1.5%</b>	<b>5.8%</b>	<b>3.7%</b>	<b>14.3%</b>	<b>100.0%</b>

Source: CBL and MOF

## V. PUBLIC DEBT

The public debt stock was estimated at 51.3 per cent of GDP in May 2022, up from 50.1 per cent of GDP in April 2022. Thus, it increased by 2.2 per cent on nominal terms, driven by exchange rate depreciation.



## Appendix: Key Economic Indicators

		21-Dec	22-Jan	22-Feb	22-Mar	22-Apr	22-May	
Economic Activity (MIEA (% change, M/M))		2.5	-1.7	-3.4	-1.9	1.4	2.1	
Consumer price Index (% change)	Headline Inflation (year-on-year)	6.8	7.6	7.5	7.2	7.3	7.8	
	Core Inflation	4.2	4.9	4.9	4.6	4.7	5.0	
Exchange Rates (Monthly End Period)	EUR	18.07	17.36	17.27	16.19	16.60	16.75	
	GBP	21.50	20.88	20.65	19.15	19.78	19.69	
	USD	15.95	15.56	15.43	14.58	15.77	15.67	
Money Supply (Millions of Maloti)	M2	14,867.90	14,378.20	14,259.33	14,105.47	14,037.84	14,232.41	
	M1	7,120.26	6,814.43	6,749.37	6,640.23	6,610.03	6,585.97	
	Quasi Money	7,747.64	7,563.77	7,509.96	7,465.25	7,427.80	7,646.45	
Interest Rates	CBL Rate	3.75	3.75	4.00	4.25	4.25	4.75	
	91 day Treasury bill rate	4.06	4.09	4.16	4.45	4.45	4.43	
	Prime lending rate	8.44	8.44	8.69	8.69	8.00	8.00	
	1 year deposit rate	3.20	2.80	2.90	2.75	2.75	3.41	
Private sector Credit (Millions of Maloti)		7,958.23	8,007.95	8,005.69	7,959.63	7,961.09	8,072.73	
	Households	5,879.24	5,878.69	5,893.88	5,884.56	5,889.53	5,907.73	
	Business Enterprises	2,072.61	2,123.95	2,105.67	2,068.10	2,065.66	2,159.07	
	Non-profit Organisations	6.38	5.31	6.14	6.97	5.90	5.93	
Bank Deposit Liabilities (Millions of Maloti)		15,449.52	15,319.10	14,972.33	14,708.53	14,879.60	15,097.49	
Credit to Deposit Ratio (%)		51.38	52.13	53.18	53.99	53.25	53.19	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-168.50	551.62	-911.81	-994.11	542.73	-612.96	
	Total Revenue (with SACU receipts)	1,003.40	2,426.86	749.71	1,344.19	2,169.27	788.61	
	Total Expenditure	1,171.90	1,875.24	1,661.52	2,338.30	1,626.54	1,401.57	
	O/W Capital	158.46	184.97	450.57	716.48	60.29	248.42	
Total Public Debt (Millions of Maloti)		20,193.71	20,051.26	20,183.60	19,446.21	19,218.61	19,650.24	
	Total External Debt	14,858.80	14,745.60	14,694.10	13,874.30	13,822.10	14,263.20	
	External Debt	Concessional	11,567.90	11,195.60	11,101.00	10,386.50	10,365.50	10,590.60
		Non-concessional	3,290.90	3,550.00	3,593.10	3,487.80	3,456.60	3,672.60
	Domestic Debt	5,334.91	5,305.66	5,489.50	5,571.91	5,396.51	5,387.04	
Memo Item: Arrears (Millions of Maloti)		0.00	2.33	0.59	0.00	0.00	0.00	

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 in stages. 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.

### © 2022 May 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)