Monthly
ECONOMIC REVIEW
OCTOBER 2024
CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY[1]

Domestic economic activity continued to expand in October 2024, supported by rising domestic demand and strong performances in the manufacturing, transport, and financial services subsectors. However, the construction subsector faced challenges that moderated the overall growth.

Overall Performance Index

Domestic economic activity recorded modest growth in October, with the Composite Indicator of Economic Activity (CIEA) increasing by 1.5 per cent, following a 2.9 per cent rise in the previous month. This growth was driven by robust domestic demand and improved manufacturing activity. The growth transport sector was observed in elevated fuel consumption, while the financial services subsector experienced gains from increased private sector credit. In contrast, the construction sector constrained the overall expansion, as evidenced by lower import volumes of construction materials.

The growth momentum, albeit slower, indicated resilience in key sectors like manufacturing and finance, which could catalyse further economic activity if sustained.

Domestic Demand Category

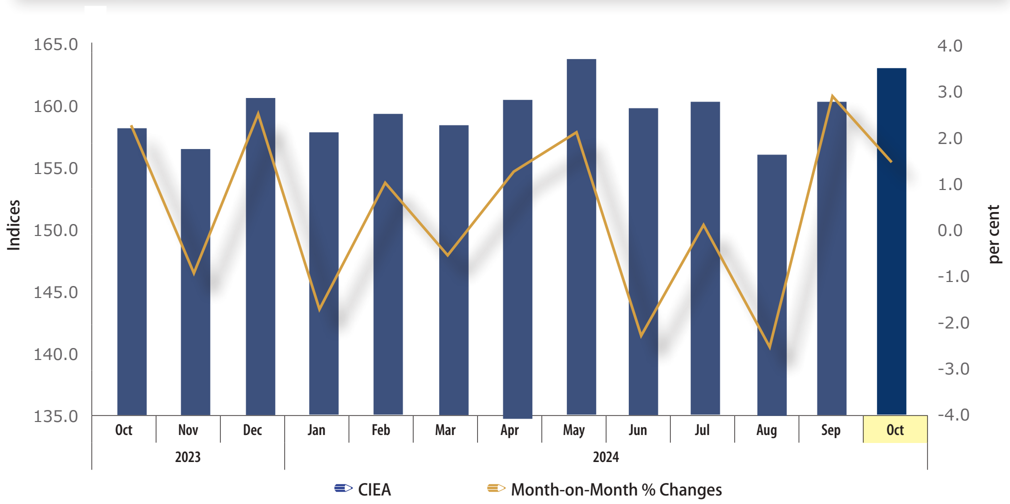
During the review period, domestic demand improved, with the index increasing by 6.6 per cent, following a significant 5.4 per cent growth in the previous month. This sustained growth was largely evident in higher demand for imported goods and services from South Africa, notably, mineral products, vegetables, and consumer goods. Moreover, government activity also increased, along with real earnings, reflected by increased collection of Pay-As-You-Earn (PAYE) and compensation of employees. Similarly, business activity increased, as indicated by improved collection of Value-Added-Tax (VAT).

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

Manufacturing and Production Category

The manufacturing and production subsector rebounded in October, with the index increasing by 1.0 per cent, recovering from a revised 4.2 per cent decline in the prior month. This improvement was driven by higher import volumes of raw materials from South Africa and increased exports of clothing and textiles to the South African market. However, reduced textile exports to the U.S. partially offset these gains. The shift towards stronger regional trade highlights the potential for stabilising manufacturing output through enhanced ties with neighbouring markets. The rebound in regional trade highlighted the potential of strengthening ties within Southern Africa. While the drop in textile exports to the U.S. indicated the need for diversifying expanding export destinations.

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

	2024							
Indices	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
CIEA	158.6	160.5	163.8	160.1	160.3	156.2	160.7	163.2
Monthly changes	-0.6	1.2	2.1	-2.3	0.1	-2.6	2.9	1.5
Domestic Demand Category	153.2	150.3	154.2	142.5	136.7	131.6	138.7	147.9
Monthly changes	-0.9	-1.9	2.6	-7.6	-4.0	-3.8	5.4	6.6
Manufacturing & Production Category	117.8	120.2	119.9	124.2	122.9	118.9	113.9	115.0
Monthly changes	0.4	2.1	-0.2	3.6	-1.0	-3.2	-4.2	1.0

Source: Central Bank of Lesotho (CBL) Calculations

II. INFLATION AND PRICES

Headline Inflation

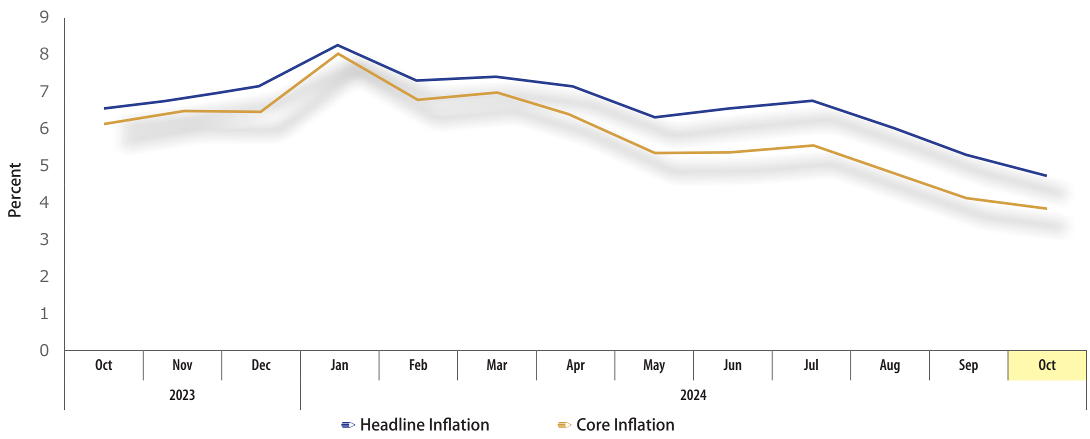
Headline inflation fell to 4.7 per cent in October from 5.2 per cent in September 2024. The major contributors were Food and Non-Alcoholic beverages, Housing, Electricity, Gas and Other fuels, as well as Transport.

The decrease in wholesale wheat prices on the international market led to lower costs for producers and distributors of food and non-alcoholic beverages. This, in turn, resulted in lower consumer prices for these essential commodities. Concurrently, falling international crude oil prices and a stronger domestic currency had a positive impact on various sectors of the economy. The Transport and Housing, Electricity, gas and other Fuel category benefited from lower fuel costs.

Core Inflation

Underlying inflationary pressures, as measured by core inflation, decreased to 3.8 per cent in October 2024 from 4.1 per cent in September 2024.

Figure 2 Headline and Core Inflation (year-on-year changes)



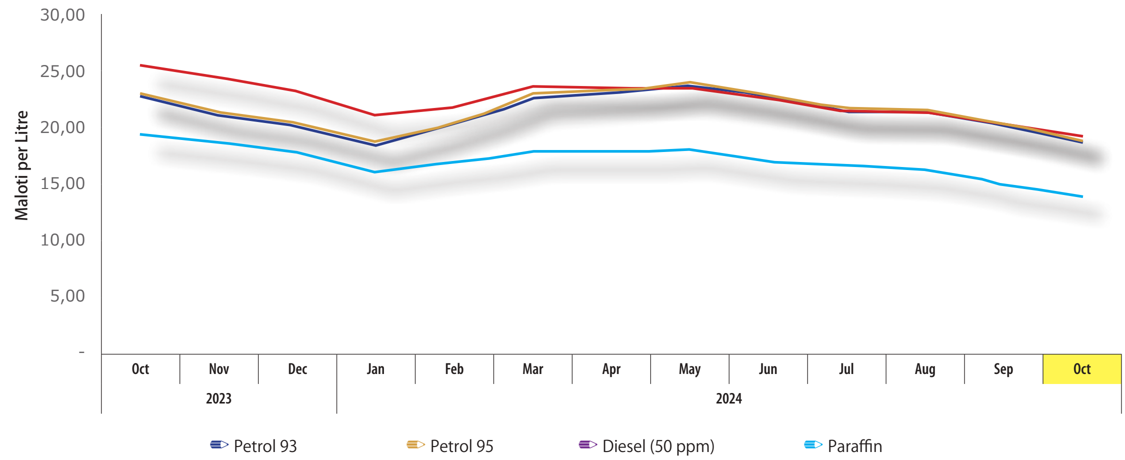
Source: Lesotho Bureau of Statistics & CBL Computations

Domestic Fuel Prices

The prices of all petroleum products decreased in the review period. Petrol (*Petrol$_{93}$ and Petrol$_{95}$*), decreased by M 1.40 and were sold at M 18.35 per litre and M 18.75 per litre, respectively at the pump.

The pump prices *diesel$_{50}$* and illuminating paraffin fell by M 1.10 each and were sold at M19.05 per litre and M13.50 per litre in the retail market, respectively.

Figure 3 Domestic Fuel Prices



Source: Petroleum Fund

III. MONETARY AND FINANCIAL INDICATORS

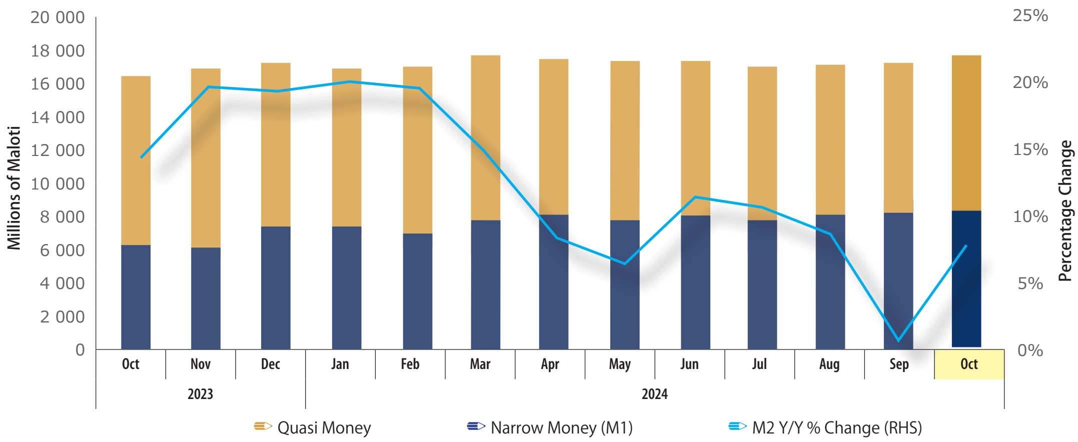
Broad Money (M2)

In October 2024, money supply (M2) grew further by 1.9 per cent following a 0.8 per cent rise in September. Growth was driven by a recovery in net foreign assets (NFA), despite a fall in net domestic assets (NDA). NFA grew by 9.2 per cent, contrary to the 1.6 per cent decline recorded a month earlier. The expansion was supported by the central bank's claims on non-residents, following receipt of SACU revenue. Conversely, NDA declined by 31.6 per cent, in contrast with the 3.5 per cent growth in the previous period. This decline emanated from a fall in net claims on government by the central bank and commercial banks – following a build-up of government deposits for both. Year-on-year, M2 grew by 7.7 per cent.

Components of Money Supply

Breaking down M2 into its components, growth was driven by a rebound in quasi money, despite a fall in narrow money. Quasi money grew by 3.8 per cent, contrary to the 1.6 per cent fall in the preceding month. However, M1 fell by 0.2 per cent, explained mainly by a fall in transferable deposits held by statutory bodies.

Figure 4 Broad Money Growth

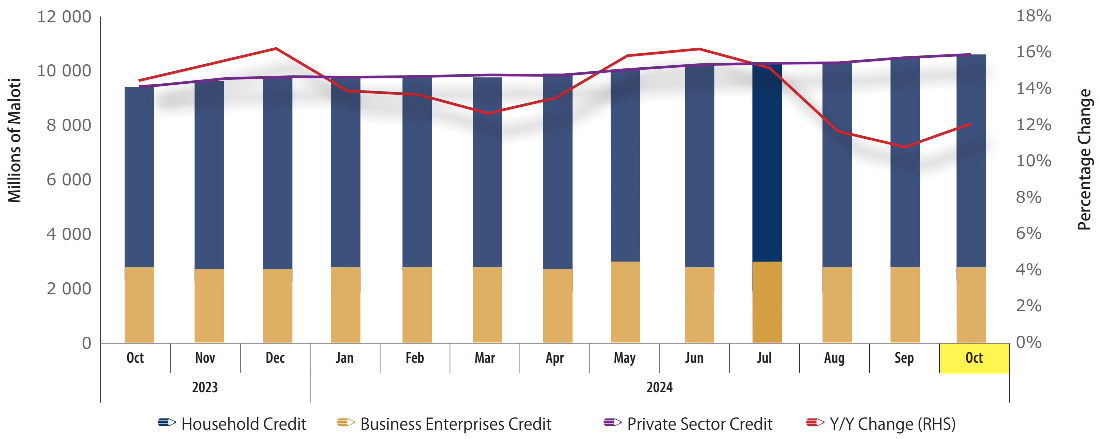


Source: Central Bank of Lesotho

Private Sector Credit

Private sector credit continued to grow in October, rising by 2.5 per cent following a 0.7 per cent growth in September. The growth was evident in both households and business enterprises credit. Household credit grew by 2.4 per cent following a 1.2 per cent expansion in September, while business credit recouped by 2.9 per cent, in contrast to the 0.5 per cent decline in the previous period. For household credit, on the one hand, personal loans contributed to the observed growth, despite a marginal fall in mortgages. On the other hand, growth in business credit was mainly evident in mining and quarrying, wholesale and retail as well as the real estate industries. 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 to the business sector at 0.4 per cent. On an annual basis, private sector credit grew by 12.2 per cent.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

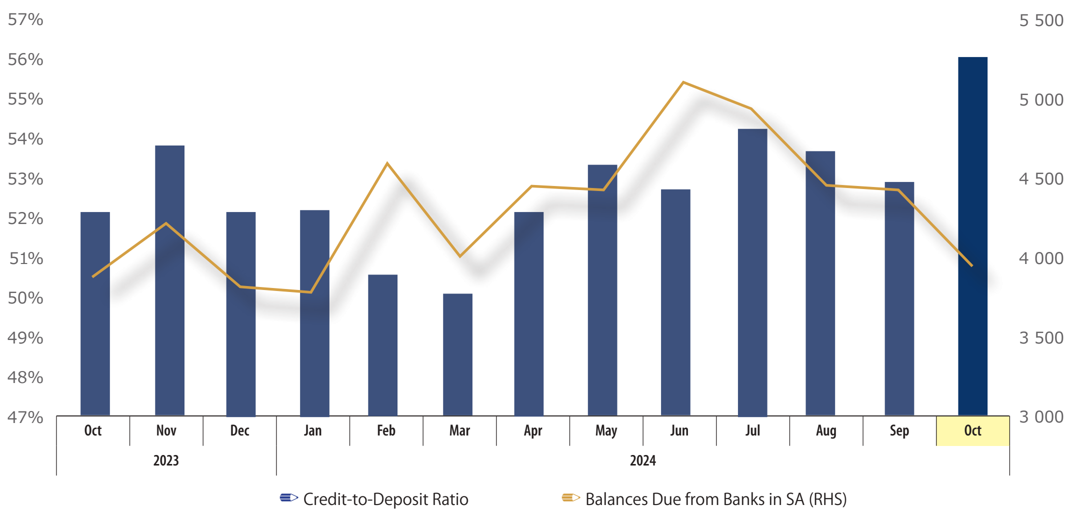
Non-Performing Loans

The ratio of non-performing loans (NPLs) to total loans remained constant at 3.9 per cent between September and October 2024. Nevertheless, there was a slight increase in households NPLs while the ratio for business enterprises' NPLs declined marginally. The highest shares of NPLs for the business sector were attributed to the construction and wholesale & retail trade, restaurants and hotels subsectors.

Sources of Funds

The credit-to-deposit ratio rose to 56.0 per cent in October compared to the 52.9 per cent that prevailed in September 2024. The increase was mainly attributable to growth in credit extension coupled with a fall in the deposit liabilities of commercial banks.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The CBL rate was unchanged at 7.75 per cent between September and October 2024. Consequently, the prime lending rate and the 1-year deposit rate remained stable at 11.25 and 4.74 per cent, respectively. However, the 91-day treasury bill rate increased by 3 basis points to 6.86, from 6.83 per cent a month earlier.

Foreign Exchange

The rand, hence, loti, slightly strengthened against its major trading currencies in October 2024. The rand appreciated by 2.25 per cent, 1.85 per cent and 2.17 per cent against the US dollar, pound and euro, respectively. This was in comparison to an appreciation of 6.7 per cent, and 1.5 per cent against the dollar, and the euro, respectively, and a depreciation of 0.14 per cent against the pound in the previous month.

The rand's performance continued to be shaped by both domestic and international factors. On the domestic side, the rand was also supported by improved economic performance bolstered by a more stable electricity supply and favourable trade dynamics. These were coupled with the decline in inflation rate, which bolstered expectations for another rate cut and played a pivotal role in the strengthening of the rand.

On the international front, the rand's gains were supported by the Fed fund rate cut by the US Federal Reserve, which weakened the dollar, hence the gain to the rand. In addition, the rand, alongside other emerging market currencies benefitted from China's stimulus package that was meant to boost its economic growth.

IV. GOVERNMENT BUDGETARY OPERATIONS

Expenditure

In October 2024, government expenditure increased significantly by 6.3 per cent, primarily driven by higher employer pension contributions, increased purchases of health services, subventions to extra-budgetary units, and student grants. This is in contrast with a 3.7 per cent decrease in the previous month.
During the review period, substantial funds were allocated to the education and health sectors, underscoring the government's commitment to citizen welfare. Annually, spending increased by a modest 0.7 per cent.

Revenue

Government revenue underwent significant changes. Excluding SACU receipts, revenue rose by 12.6 per cent, a decrease from the 18.9 per cent growth observed in the previous month. Major revenue sources included taxes and property income, each showing different trends compared to the prior month. Tax revenue, especially from VAT and the alcohol and tobacco levy, increased due to improved economic activity and higher consumer spending.

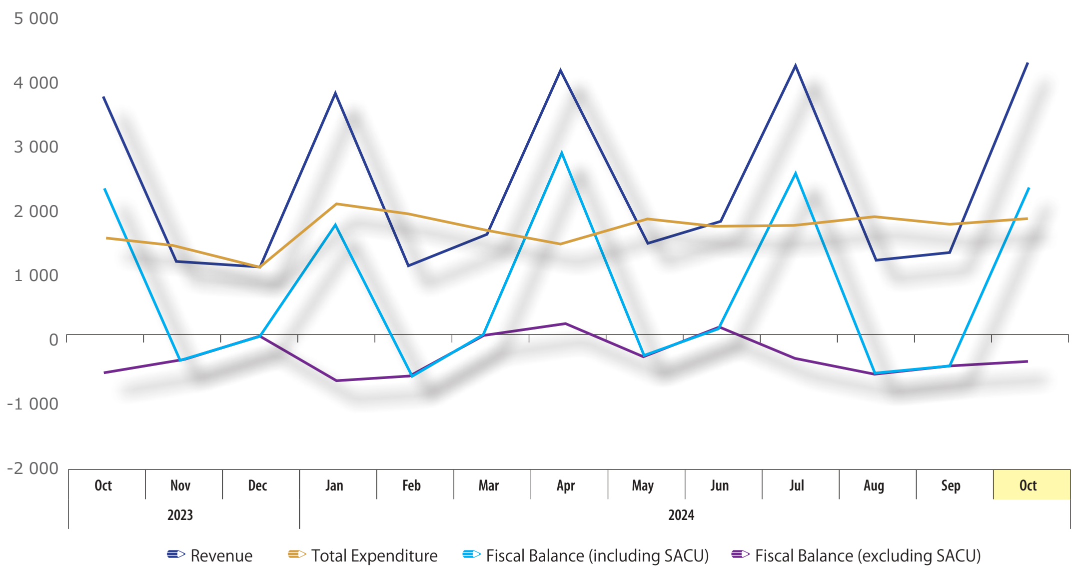
Moreover, non-tax revenue, such as mining royalties, significantly boosted the overall revenue. On a yearly basis, government revenue increased by 35.6 per cent. While SACU receipts remained unchanged, it significantly contributed to the accumulation of government deposits in the banking sector.

Fiscal Balance[2]

Fiscal balance was estimated to be in a surplus equivalent to 23.9 per cent of GDP. This was significantly larger than the revised fiscal deficit worth 4.3 per cent of GDP in the previous month. This was a demonstration of a robust fiscal discipline adopted by Government. Accordingly, there was accumulation of government deposits within the banking system, despite a relatively swift payments to suppliers.

[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)

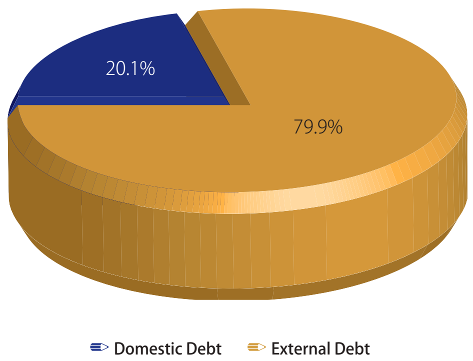
Function / Economic Item	Compensation of Employees	Use of Goods and Services	Interest Payments	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services	6.0%	11.2%	100.0%	0.0%	31.8%	1.2%	0.0%	17.0%	**10.6%**
Defense	7.2%	3.3%	0.0%	0.0%	0.0%	0.0%	0.0%	16.4%	**4.6%**
Public Order and Safety	17.1%	8.1%	0.0%	0.0%	4.9%	0.0%	0.0%	14.0%	**9.4%**
Economic Affairs	6.4%	24.8%	0.0%	0.0%	24.3%	0.1%	0.0%	36.8%	**13.9%**
Environmental Protection	0.9%	1.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	**0.7%**
Housing and Community Amenities	7.3%	3.3%	0.0%	0.0%	1.7%	0.1%	0.3%	11.7%	**4.4%**
Health	6.7%	44.8%	0.0%	0.0%	33.0%	2.8%	0.0%	1.1%	**18.7%**
Recreation, Culture, and Religion	1.0%	1.3%	0.0%	0.0%	2.7%	1.5%	0.1%	2.4%	**1.2%**
Education	31.1%	1.4%	0.0%	100.0%	0.0%	16.3%	99.3%	0.0%	**23.3%**
Social Protection	16.2%	0.5%	0.0%	0.0%	1.5%	78.0%	0.2%	0.3%	**13.2%**
Share per Economic Item	**32.6%**	**32.0%**	**1.9%**	**2.5%**	**5.6%**	**9.8%**	**8.7%**	**7.0%**	**100.0%**

Source: CBL and MOF

V. PUBLIC DEBT

The composition of public debt shows a mix of liabilities, indicating the government's use of various financial instruments and durations to manage exposure. An in-depth analysis highlights that the majority, accounting for 79.9 per cent, consists of external loans. Domestic securities, both short and long-term, make up the remaining 20.1 per cent. Concessional debt accounted for 62.5 per cent of the external debt.

Figure 8 Public Debt Stock by Residence



Source: Central Bank of Lesotho & Ministry of Finance

Appendix: Key Economic Indicators

		24-Mar	24-Apr	24-May	24-Jun	24-Jul	24-Aug	24-Sep	24-Oct
Economic Activity *(MIEA (% change, M/M)*		-0.2	1.2	2.0	-2.3	0.1	-2.8	2.9	1.5
Consumer price Index *(% change)*	*Headline Inflation (year-on-year)*	8.2	7.3	7.4	7.1	6.3	6.5	5.2	4.7
	Core Inflation	8.0	6.7	6.9	6.3	5.3	5.3	4.1	3.8
Exchange Rates *(Monthly End Period)*	*EUR*	20.3817	20.7950	20.5085	20.0677	20.1045	20.1045	19.0528	19.1446
	GBP	23.8757	24.3030	23.9695	23.4763	23.6247	23.6247	22.8532	22.9231
	USD	18.8456	19.1910	18.8596	18.7203	18.6230	18.6230	17.9292	17.7033
Money Supply (Millions of Maloti)	*M2*	16,726.97	16,887.51	17,636.19	17,225.56	17,223.67	17,340.59	17,306.3	17,631.19
	M1	8,124.79	7,722.71	8,528.66	8,945.55	8,834.37	8,173.76	8,290.68	8,270.95
	Quasi Money	8,602.18	9,164.81	9,107.53	8,280.01	8,389.31	9,166.83	9,015.69	9,360.24
Interest Rates	*CBL Rate*	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
	91 day Treasury bill rate	7.09	6.93	6.78	6.59	6.93	6.96	6.83	6.86
	Prime lending rate	11.25	11.25	11.25	11.00	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	4.74
Private sector Credit *(Millions of Maloti)*		9,796.71	9,838.10	9,736.88	9,864.60	10,181.74	10,233.44	10,422.71	10,684.74
	Households	2,722.05	2,716.99	2,577.61	2,653.25	2,879.85	2,806.05	2,771.40	2,853.12
	Non-profit Organisations	7,074.66	7,121.11	7,159.28	7,211.35	7,301.89	7,427.40	7,651.31	7,831.62
Bank Deposit Liabilities *(Millions of Maloti)*		18,751.66	19,412.48	19,375.00	18,842.16	19,025.27	19,374.92	19689.38	19,040.65
Credit to Deposit Ratio (%)		52.2	50.6	50.1	52.2	53.4	52.7	52.9	56.0
Fiscal Operations *(Millions of Maloti)*	*Fiscal Balance*	80.11	2,781.12	-409.78	87.55	2,455.69	-720.05	-437.81	2,435.33
	Total Revenue (with SACU receipts)	1,693.32	4,166.39	1,410.53	1,781.10	4,130.46	1,126.81	1,340.29	4,326.26
	Total Expenditure	1,613.21	1,385.27	1,820.31	1,693.56	1,674.78	1,846.86	1,778.10	1,890.93
	O/W Capital	366.14	197.41	250.79	334.18	194.63	351.73	423.95	170.20
Total Public Debt *(Millions of Maloti)*		23,209.48	22,977.71	23,226.40	22,367.91	22,500.09	22,274.47	22,300.04	22,152.93
	Total External Debt	18,453.39	18,223.85	18,494.28	17,894.09	18,025.52	17,716.20	17,741.33	17,696.26
External Debt	*Concessional*	11,502.10	11,372.76	11,493.20	11,084.68	11,137.22	10,929.26	11,076.32	11,051.85
	Non-concessional	6,951.29	6,851.09	7,001.08	6,809.41	6,888.30	6,786.94	6,665.01	6,644.41
Domestic Debt		4,756.08	4,753.86	4,732.13	4,473.82	4,474.57	4,558.27	4,558.71	4,456.66
Memo Item: Arrears *(Millions of Maloti)*		-198.26	0.00	-201.98	-135.19	9.63	-1.66	-1.67	-135.08

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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