



Monthly ECONOMIC REVIEW

APRIL 2023

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY

Economic performance improved in April 2023. The recovery was driven mainly by significant rise in the production side of the economy.

Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) exhibited an improvement in the overall economic performance in April 2023. The index was estimated to have grown by 1.3 per cent, contrary to the 3.7 per cent decline in the preceding month. This improvement was mainly influenced by the increased performance of the production and manufacturing subsector. This was further complemented by transport and construction industries' performance, which contributed positively to the observed growth. Domestic demand, however, remained sluggish in the review month, hence undermining growth.

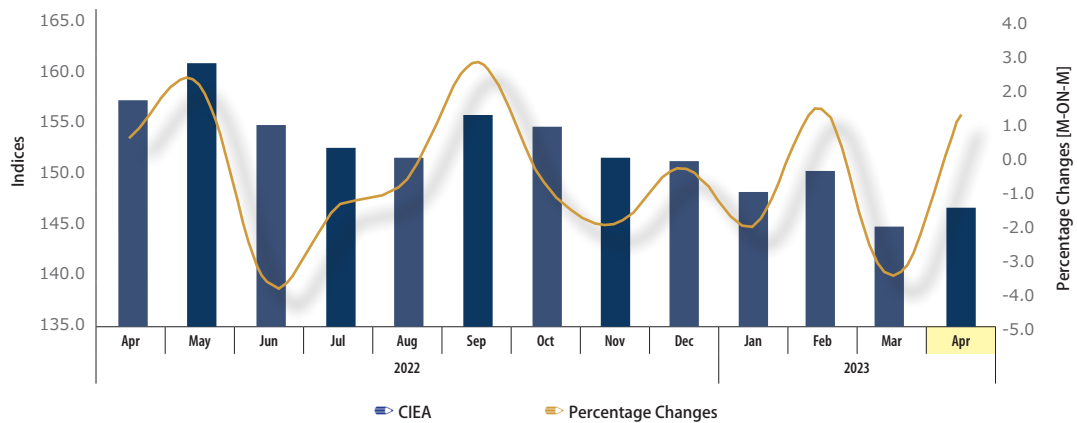
Domestic Demand Category

During the review month, the domestic demand continued to weaken, declining by 3.6 per cent in the index. This fall followed a 5.4 per cent decrease observed in the previous month. The poor performance was mainly observed in negative contributions from compensation of employees and the use of goods and services. Furthermore, earnings, as measured by Individual Income Tax (PAYE), experienced a decline. On the contrary, imports from South Africa and Value Added Tax (VAT) experienced muted growth during the review month, but this was not enough to offset the negative contributions.

Manufacturing and Production Category

The manufacturing and production sector demonstrated a notable improvement, increasing by 7.2 per cent, in contrast to the 5.1 per cent decline observed in March 2023. This growth was primarily propelled by a resurgence in exports of clothing and textiles to the US market. The increase in exports was in line with increased consumer spending in the US, despite persisting inflationary pressure. Another factor supporting the growth of the manufacturing and production sector was an upturn in imports of raw materials. However, the industrial use of utilities (both water and electricity) remained subdued.

Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2022				2023			
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
CIEA	155.8	154.6	151.6	151.2	147.2	150.5	144.9	146.8
Monthly changes	2.9	-0.8	-2.0	-0.2	-2.0	1.5	-3.7	1.3
Domestic Demand Category	151.6	152.5	150.6	149.0	151.2	150.9	142.6	137.5
Monthly changes	4.3	0.6	-1.2	-1.1	1.5	-0.2	-5.4	-3.6
Manufacturing & Production Category	106.7	103.0	99.5	97.8	99.2	103.0	97.7	104.8
Monthly changes	-1.6	-3.4	-3.4	-1.7	1.5	3.8	-5.1	7.2

Source: Central Bank of Lesotho (CBL) Calculations

II. INFLATION AND PRICES

Headline Inflation

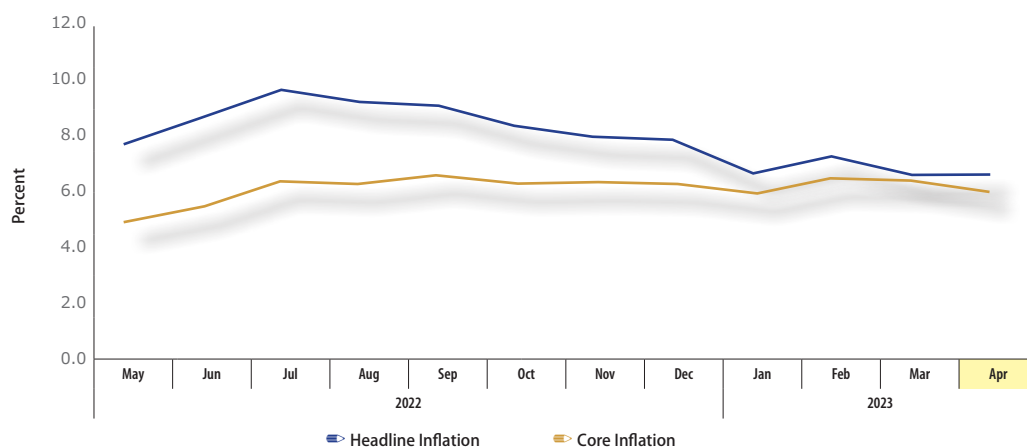
In April 2023, the headline inflation rate was estimated at 6.7 per cent from 6.8 per cent observed in March 2023. The major contributors to the marginal decline in inflation rate were Transport; Food & Non-alcoholic beverage; clothing & footwear as well as Restaurants and hotels. Nonetheless, the increases in inflation for Alcoholic beverages & tobacco and Housing, water, electricity, gas & other fuels moderated the disinflation during the review period.

The major drivers of the disinflation were falling international food and fuel prices. Nonetheless, exchange rate depreciation and the effect of introduction of alcohol and tobacco levy kept inflation rate elevated during the review period.

Core Inflation

The measure of underlying inflation in the economy fell from 6.5 per cent to 6.2 per cent in April 2023.

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

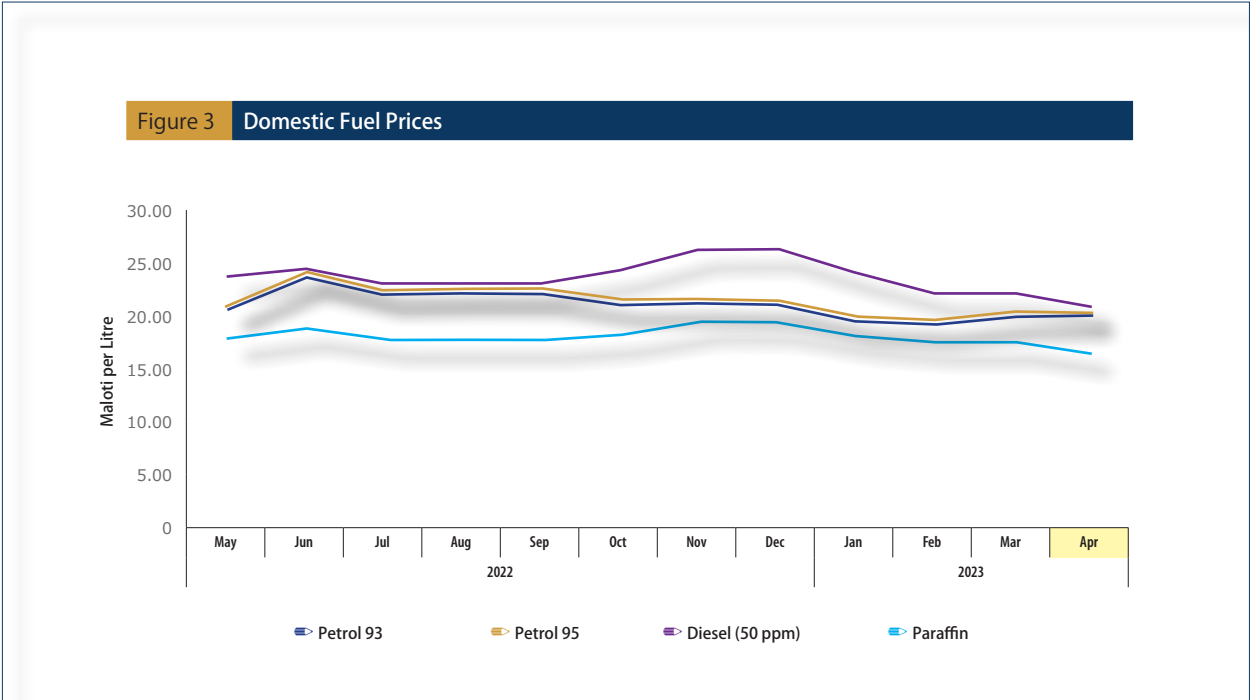


Source: Lesotho Bureau of Statistics & CBL Computations

Domestic Fuel Prices

Prices of both grades of petrol (*petrol₉₃* and *petrol₉₅*) remained unchanged at M20.10 per litre and M20.40 per litre in April 2023 from their levels recorded in

March 2023. However, the pump price of *diesel₅₀* and retail price of illuminating paraffin were both decreased by M1.10 per litre selling at M21.05 per litre at the pump and M16.50 per litre at the retail market, respectively, during the review period.



Source: Petroleum Fund

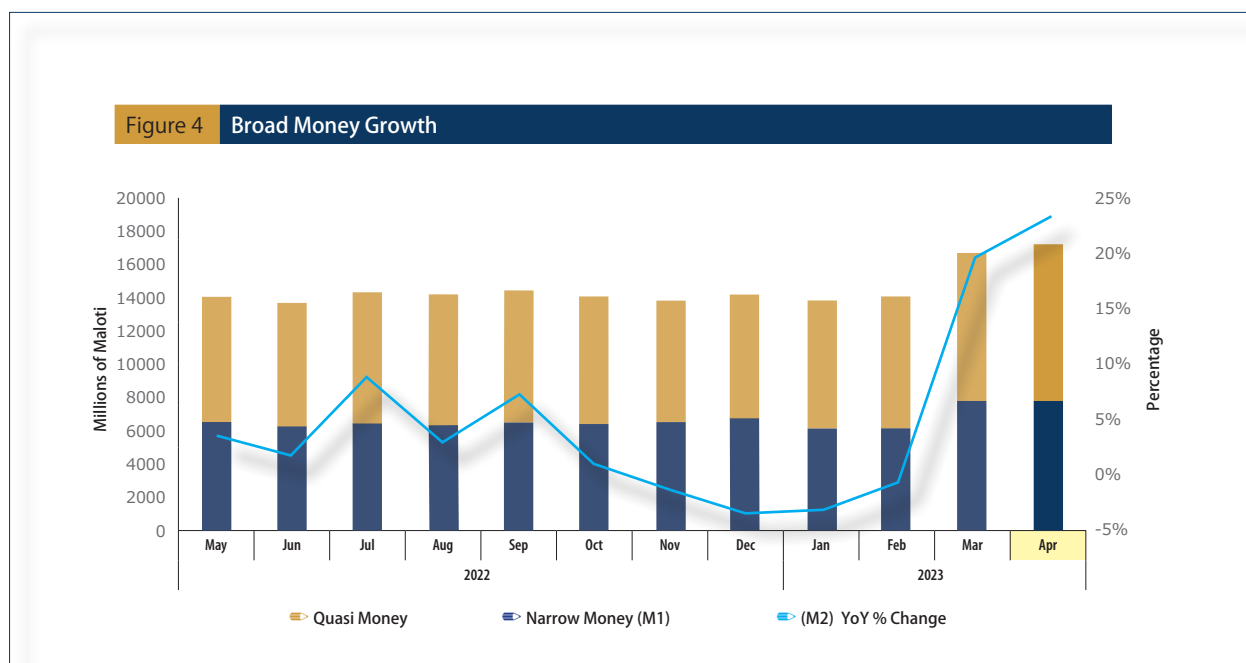
III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

The broadly defined money supply (M2) increased by 2.9 per cent in April 2023, following an increase of 19.0 per cent in March 2023. This resulted from an increase in net foreign assets (NFA) by 15.3 per cent, which was moderated by a fall in net domestic assets (NDA) by 31.5 per cent. The increase in NFA was on account of a 25.3 per cent increase in central bank’s NFA following SACU receipts, whereas NDA decreased due to a significant increase in government deposits held with the central bank.

Components of Money Supply

On further examining the components of money supply, quasi money increased by 6.0 per cent, while narrow money (M1) decreased by 0.7 per cent. The expansion in quasi money, on the one hand, was aided by the growth in other deposits held by public non-financial corporations, other financial corporations, as well as businesses and households. The fall in M1, on the other hand, was due to a reduction in transferable deposits held by businesses and households.

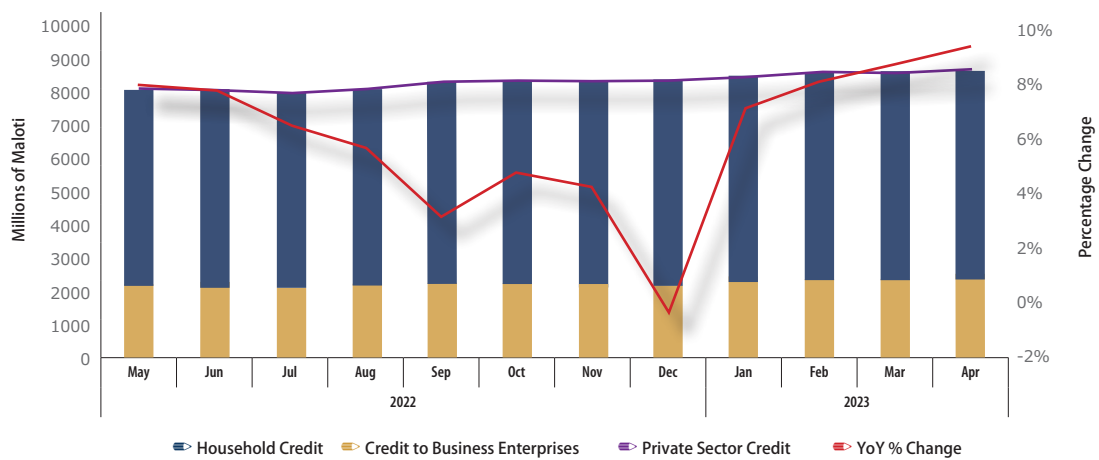


Private Sector Credit

Overall loans and advances to the private sector increased by 0.6 per cent in April 2023, from an increase of 0.1 per cent in March 2023. This was due to growth in credit for both households and businesses. Personal loans and mortgage loans increased by 0.7 per cent and 0.4 per cent, respectively. Considering

loan distribution to business enterprises, wholesale & retail trade, restaurants & hotels, real estate & business services, and mining & quarrying received the highest shares of 26.4 per cent, 25.9 per cent, and 19.5 per cent, respectively. Electricity, gas, and water sector received the lowest proportion of 0.3 per cent. On year-on-year basis, private sector credit increased by 9.4 per cent in April 2023.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

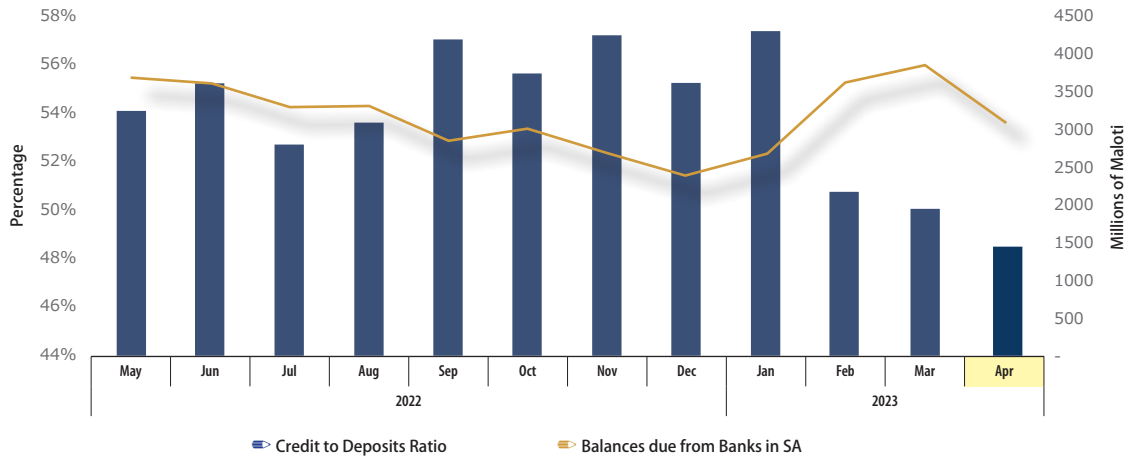
Non-Performing Loans

Total non-performing loans (NPLs) to total loans remained muted at 4.2 per cent. This was due to an increase in household sector’s NPLs to 3.9 per cent from 3.8 per cent, moderated by a fall in business enterprises’ NPLs to 5.1 per cent from 5.3 per cent. Wholesale & retail trade, restaurants & hotels, real estate & business services, and construction continue to account for the majority of business sector NPLs.

Sources of Funds

The credit-to-deposit ratio fell from 49.1 per cent to 47.6 per cent. This was explained by an increase in total deposits, which outpaced an increase in credit.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

CBL policy rate increased by 25 basis points to 7.50 per cent. The prime lending rate and the 1-year deposit rate were affected and went up by 25 basis points and 9 basis points, respectively, to 11.00 per cent and 4.66 per cent. Similar changes caused the 91-day T-bill rate to increase by 29 basis points to 6.88 per cent in April 2023.

Foreign Exchange

The rand hence loti¹ depreciated against its three major trading currencies in April 2023. It depreciated by 1.54 per cent, 4.60 per cent and 4.12 per cent against the dollar, the pound and the euro. This was in comparison to a depreciation of 2.07 per cent, 2.39 per cent, and 2.00 per cent against the dollar, pound and euro, respectively, in March 2023.

The rand continued to be affected by South Africa’s energy crisis, together with tighter policy stance and hawkish comments for future policy stances by the US Federal Reserve. The rand depreciated further following the South African Reserve Bank’s warning that core inflation was elevated, and the inflation outlook remained high. This was coupled with a decline in the country’s leading business cycle indicator, which weighed negatively on investor sentiment and the rand.

¹ The South African rand is pegged at with the Lesotho loti.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

Government spending was estimated to have declined significantly by 53.9 per cent in April 2023, compared to a decrease of 12.1 per cent in March 2023. This was partly attributed to implementation of the revised chart of accounts following the restructuring of government ministries. The merging process affected the budget entry into the IFMIS system.

Total Revenue

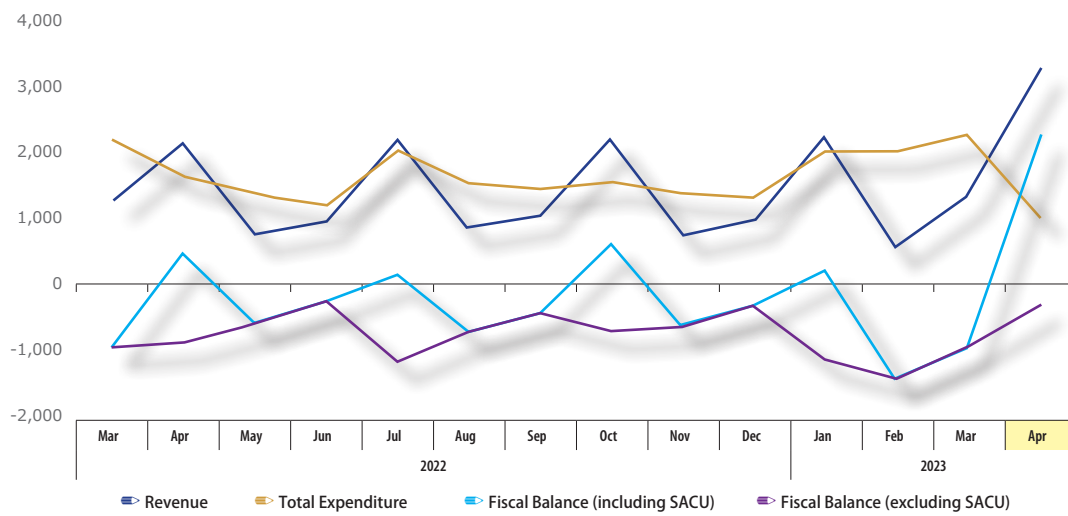
There was a significant increase in revenue, following SACU receipts. Consequently, the total revenue rose by 53.2 per cent during the month following 7.4 per cent in the previous month. Despite the SACU receipts, other factors that contributed to the increase in revenue included income tax, excise tax, and mining royalties.

Fiscal Balance and Financing²

High revenue coupled with exceptionally low spending boosted the fiscal surplus to 23.9 per cent of GDP in the current month in contrast to a fiscal deficit equivalent to 9.9 per cent of GDP in the previous month. However, the liabilities moderated this expansion owing to an increase in new external debt and pending payments to suppliers.

² All financing items are on net basis.

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)

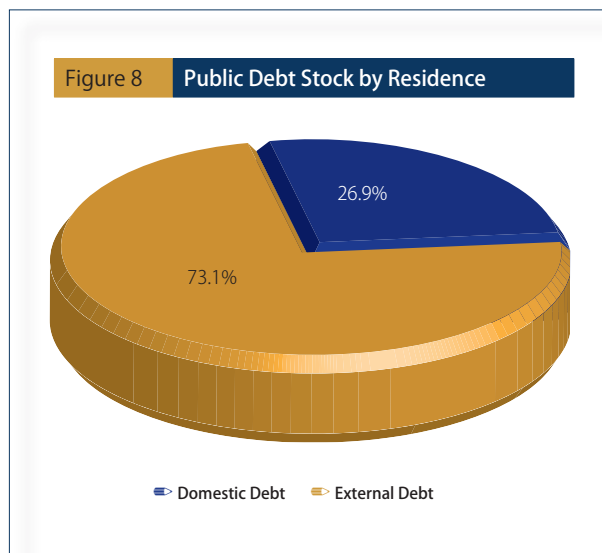
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		14.3%	64.0%	0.0%	50.7%	0.0%	100.0%	0.0%	43.6%
Defense		1.2%	24.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.8%
Public Order and Safety		24.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	13.9%
Economic Affairs		9.6%	10.6%	0.0%	49.3%	0.0%	0.0%	0.0%	9.0%
Environmental Protection		0.8%	1.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.5%
Housing and Community Amenities		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Health		7.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.5%
Recreation, Culture, and Religion		0.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%
Education		32.9%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	22.7%
Social Protection		8.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.6%
Share per Economic Item		56.7%	0.5%	4.1%	7.2%	0.0%	31.5%	0.0%	100.0%

Source: CBL and MOF

V. PUBLIC DEBT

Public debt stock was estimated at 58.9 per cent of GDP in April 2023 compared with the revised 53.5 per cent of GDP in March 2023. This was equivalent to a 10.2 per cent increase in debt stock, compared

with a 1.3 per cent decline in the previous month. This hike was largely due to currency depreciation, which was coupled with the new disbursements.



Source: Central Bank of Lesotho & Ministry of Finance

Appendix: Key Economic Indicators

		22-Nov	22-Dec	23-Jan	23-Feb	23-Mar	23-Apr	
Economic Activity (MIEA (% change, M/M))		-2.0	-0.2	-2.6	1.5	-3.7	1.3	
Consumer price Index (% change)	Headline Inflation (year-on-year)	8.0	6.8	7.4	6.8	8.5	6.7	
	Core Inflation	6.4	6.1	6.6	6.5	6.4	6.2	
Exchange Rates (Monthly End Period)	EUR	17.85	18.20	18.93	19.18	19.31	18.20	
	GBP	20.51	20.56	21.51	21.66	21.97	20.56	
	USD	18.16	17.08	17.48	17.91	17.73	17.08	
Money Supply (Millions of Maloti)	M2	14,222.19	14,335.89	13,899.76	14,141.10	15,306.80	15,786.76	
	M1	6,553.52	6,857.45	6,253.46	6,227.78	6,379.53	6,323.64	
	Quasi Money	7,668.67	7,478.44	7,646.31	7,913.32	8,927.27	9,463.13	
Interest Rates	CBL Rate	6.25	7.00	7.00	7.25	7.25	7.50	
	91 day Treasury bill rate	6.38	6.36	6.88	6.70	6.59	6.88	
	Prime lending rate	9.75	10.50	10.50	10.75	10.75	11.00	
	1 year deposit rate	4.24	4.47	4.47	4.57	4.57	4.66	
Private sector Credit (Millions of Maloti)		8,364.98	8,356.83	8,584.33	8,650.74	8,655.54	8,707.28	
	Households	6,109.38	6,140.63	6,291.37	6,307.99	6,310.81	6,354.31	
	Non-profit Organisations	2,249.76	2,209.92	2,292.96	2,342.75	2,344.73	2,352.97	
Bank Deposit Liabilities (Millions of Maloti)		15,037.82	15,145.56	14,975.04	17,044.60	15,761.98	16,411.18	
Credit to Deposit Ratio (%)		55.49	55.55	56.29	49.82	53.87	52.06	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-628.74	-337.39	236.66	-1,436.62	-929.65	2,252.48	
	Total Revenue (with SACU receipts)	784.79	1,002.15	2,266.68	611.21	1,366.46	3,309.95	
	Total Expenditure	1,413.54	1,339.55	2,030.02	2,047.83	2,296.11	1,057.47	
	O/W Capital	145.95	138.96	186.70	375.92	604.08	39.70	
Total Public Debt (Millions of Maloti)		22,213.68	22,299.56	21,308.94	22,075.72	21,791.89	24,014.90	
	Total External Debt	15,889.72	16,149.10	15,115.33	15,631.00	15,347.13	17,566.80	
	External Debt	Concessional	11,818.51	12,030.00	10,885.13	11,395.56	10,955.73	13,119.40
		Non-concessional	4,071.20	4,119.10	4,230.20	4,235.45	4,391.40	4,447.40
	Domestic Debt		6,323.96	6,150.47	6,193.61	6,444.72	6,444.76	6,448.10
Memo Item: Arrears (Millions of Maloti)		0.00	0.00	0.00	0.00	155.46	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 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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