



Monthly ECONOMIC REVIEW

JANUARY 2023

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY

The economic performance continued to decline in the first month of 2023. The negative growth emanated from transport, construction and financial subsectors during the review month, even though both demand and production activities slightly improved.

Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) depicted a decline in January 2023. The index was estimated to have contracted further by 2.6 per cent, compared with the 0.3 per cent decline in the preceding month. Poor activity in the economy mainly emanated from the transport industry, as indicated by negative contribution from domestic fuel consumption. Moreover, the construction and financial subsectors contributed to the weak overall performance, as signalled by a reduction in imports of construction-related goods and credit extension, respectively. On the contrary, both the demand and manufacturing categories improved, though not enough to offset the negative impact.

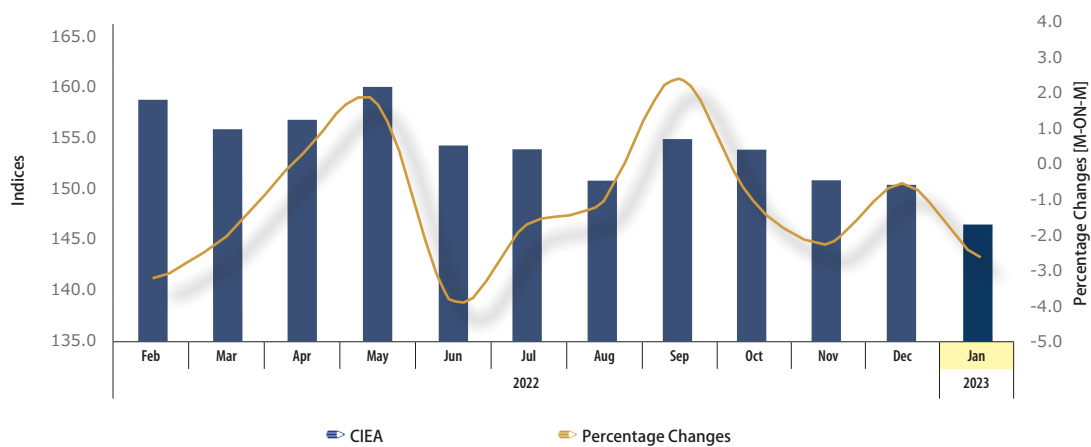
Domestic Demand Category

Domestic demand category improved marginally in the month under review. The index grew by a soft 0.2 per cent, in contrast to the 1.1 per cent contraction recorded in the previous month. Growth was supported mainly by the retail industry and government activity, as indicated by an increase in the compensation of government employees. However, continuing reduction of government purchases of goods and services, weak imports of goods and services, and overall real earnings (as seen through low pay-as-you-earn collection) wore down on growth - contributing negatively to the index.

Manufacturing and Production Category

The manufacturing and production category also regained momentum in the review month. The index grew by 1.0 per cent, following a 1.7 per cent negative growth in the preceding month. The realised growth was mainly a result of improvement in utilities consumption, specifically electricity usage in industrial production. However, a fall in exports of textiles and clothing to the US market, coupled with weak imports of raw materials and water usage, undermined the registered growth.

Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2022							2023
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
CIEA	154.3	152.0	150.9	155.2	154.0	150.9	150.5	146.5
Monthly changes	-3.7	-1.5	-0.7	2.8	-0.8	-2.0	-0.3	-2.6
Domestic Demand Category	151.6	142.5	145.3	151.6	152.5	150.7	149.0	149.4
Monthly changes	-6.7	-6.0	2.0	4.3	0.6	-1.2	-1.1	0.2
Manufacturing & Production Category	113.2	110.3	107.5	105.8	102.1	98.6	96.9	97.9
Monthly changes	0.7	-2.5	-2.5	-1.6	-3.4	-3.5	-1.7	1.0

Source: Central Bank of Lesotho (CBL) Calculations

II. INFLATION AND PRICES

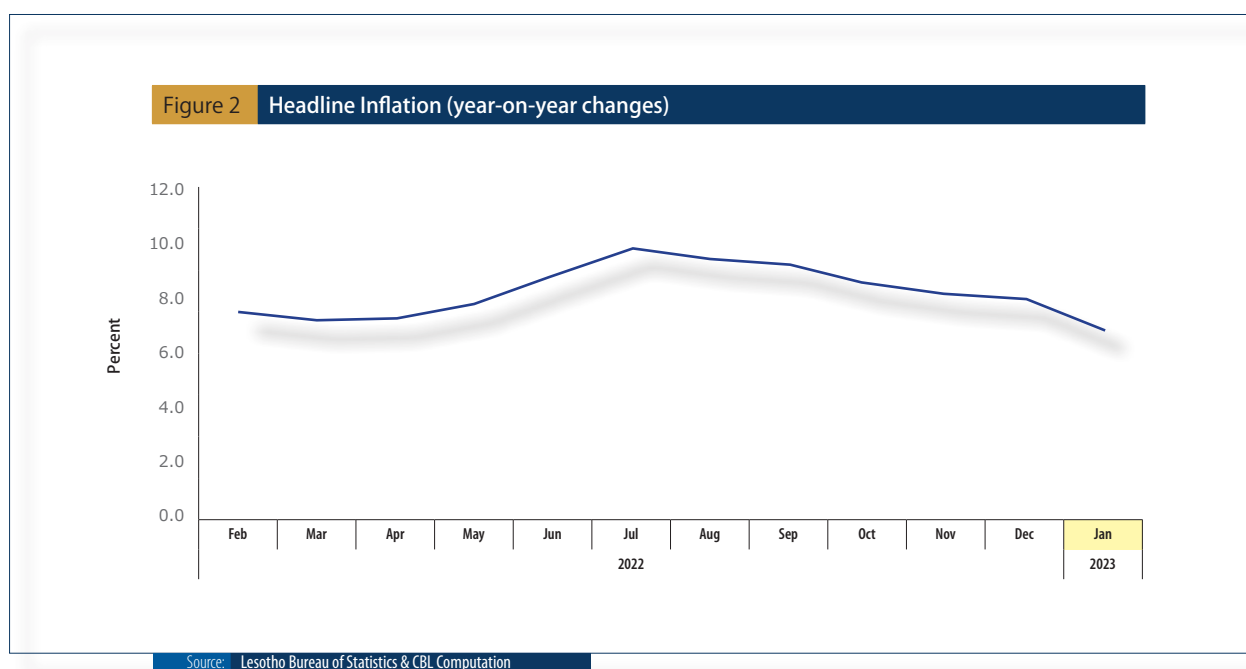
Headline Inflation

The inflation rate in January 2023 was 6.8 per cent, a 1.1 percentage point decline from the rate estimated for December 2022. The decline in headline inflation rate was broad-based, but the major contributors were declining; energy prices (both household and road fuels), prices of clothing and footwear, alcohol and tobacco, as well as restaurant and hotel prices. Beginning in 2023, the Bureau of Statistics rebased and reweighted¹ the consumer price indices. This also has an impact on the dynamics of the overall inflation rate. While some components of consumption share declined, shares for others

moderately increased. In particular, the share of Housing, Water, Electricity, Gas and Other fuels increased by about 2.0 percentage points while growth declined drastically by more than 50.0 per cent.

The other major factor was the fall in the international crude oil price, despite the weak rand during the review period.

Nonetheless, food prices slightly increased during the review period at the peak of the season, and the rising prices of imported food were also high in South Africa in January 2023.

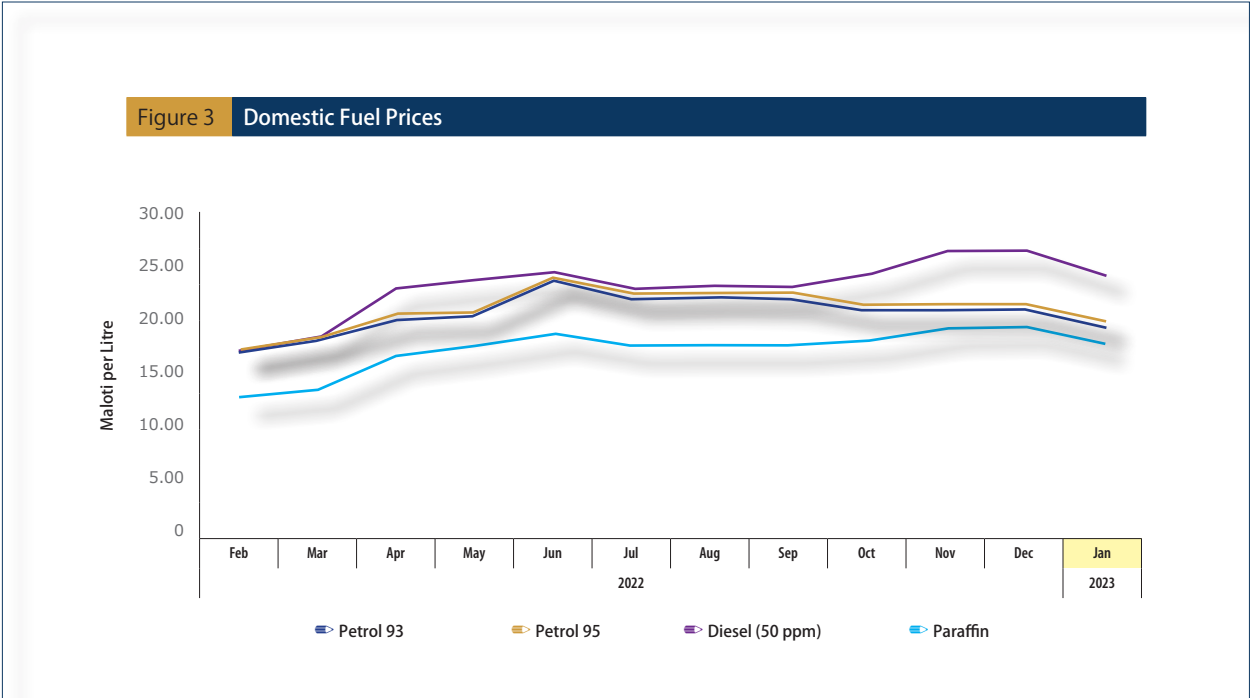


¹ The previous reference period was 2016 December, while the recent reference period an average of the year, 2022. Using the yearly reference period follows the international standards.

Domestic Fuel Prices

All prices of domestic fuels declined in January 2023 from their levels recorded in December 2022. The prices of both grades of petrol (*petrol₉₃* and *petrol₉₅*) were reduced by M1.60, and they were M19.65 per

litre and M20.00 per litre at the pump, respectively. The pump price of *diesel₅₀* also declined by M2.35 and was sold at M24.10 per litre during the review period. In addition, the retail price of illuminating paraffin declined by M1.30 and was M18.10 per litre during the same review period.



Source: Petroleum Fund

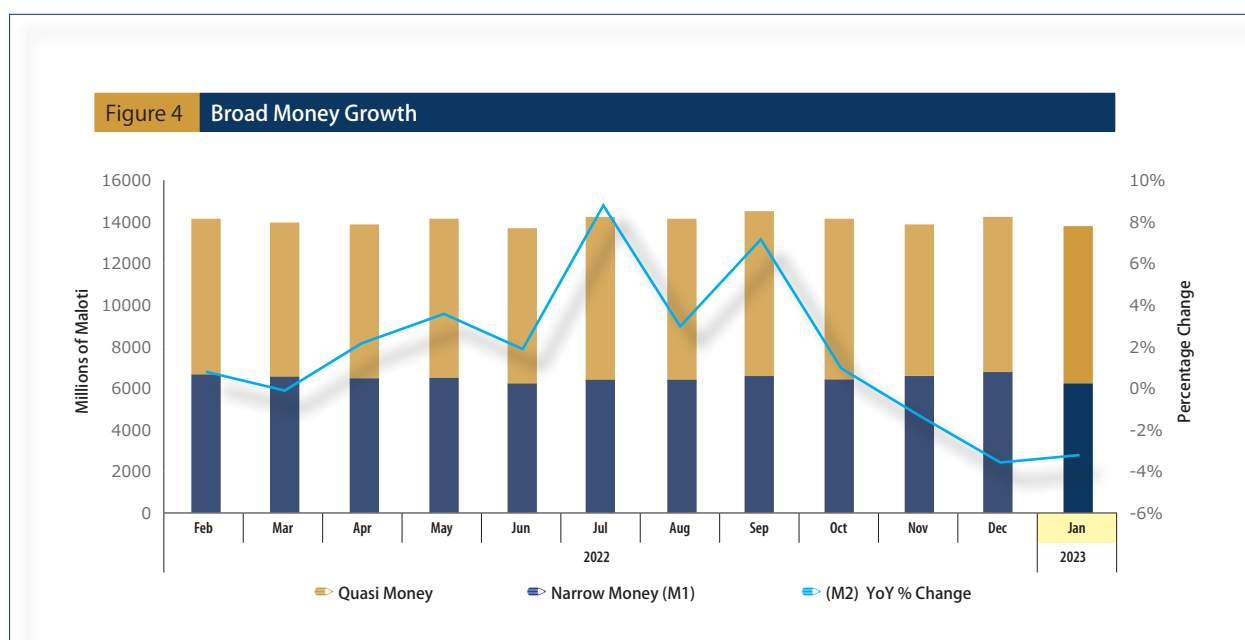
III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

The broadly defined money supply (M2) declined by 3.0 per cent in January 2023 following an increase of 2.5 per cent in December 2022. This emanated from a fall of 13.8 per cent in net domestic assets (NDA), while net foreign assets (NFA) rose by 3.5 per cent. The contraction in NDA was underpinned by increase in government deposits following the receipts of SACU revenue. In contrast, NFA benefitted from an increase in both the central bank and commercial banks' NFA.

Components of Money Supply

Narrow money (M1) declined by 8.2 per cent, while quasi money increased by 2.2 per cent. M1 fell due to a decline in transferable deposits held by business enterprises and households. The rise in quasi money emanated from an increase in other deposits held by other financial corporations and business enterprises.



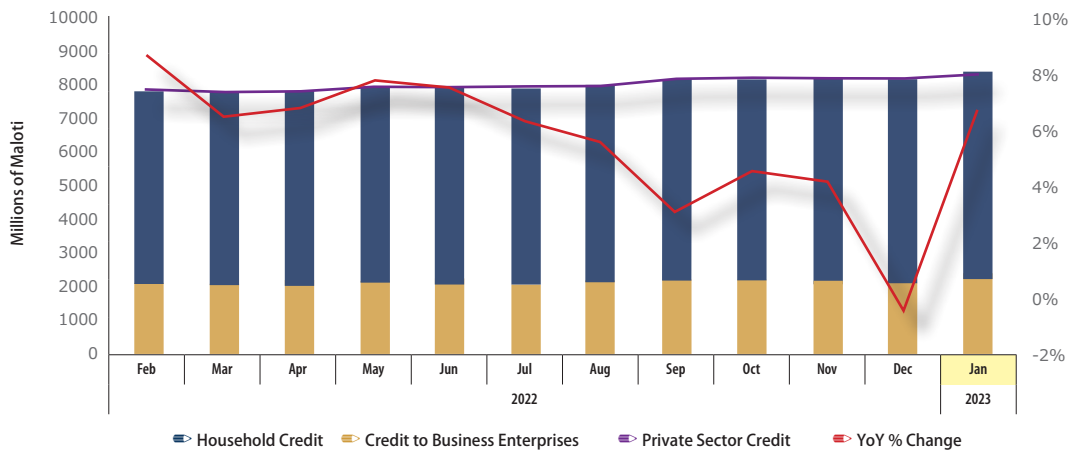
Source: Central Bank of Lesotho

Private Sector Credit

The total loans and advances extended to the private sector increased by 2.7 per cent in January 2023, following a marginal decline of 0.3 per cent in the preceding month. This was due to an increase of 2.4 per cent and 3.8 per cent in household loans and credit extended to business enterprises, respectively. The household credit was supported by an increase of 3.1 per cent in personal loans.

Considering the distribution of credit to business enterprises, wholesale & retail trade, restaurants & hotels, real estate & business services, as well as mining & quarrying, received the largest shares of 25.2 per cent, 25.2 per cent and 19.6 per cent, respectively. The community, social & personal services sector continued to receive the lowest share of 0.3 per cent in the review period. On a year-on-year basis, private sector credit increased by 7.2 per cent in January 2023.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

Non-Performing Loans

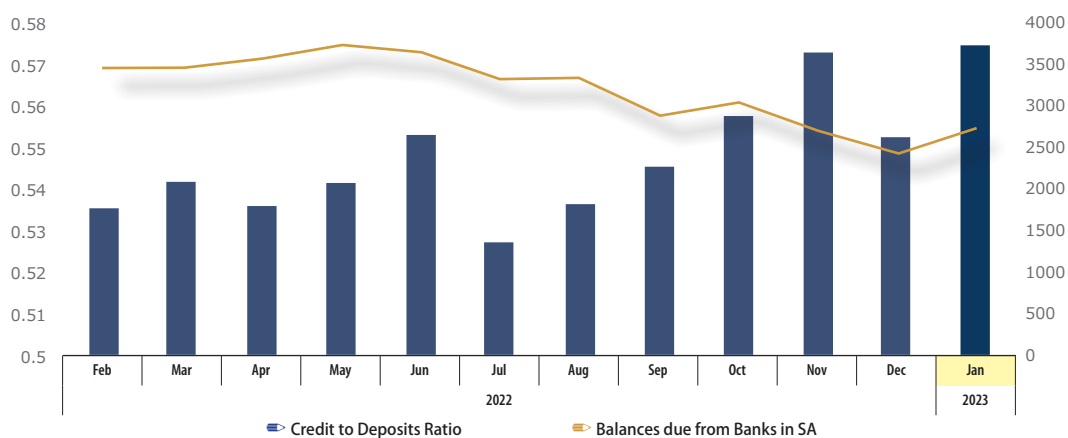
The total non-performing loans (NPLs), as a ratio of total loans, remained unchanged at 4.6 per cent between December 2022 and January 2023. The NPLs for business enterprises rose to 5.1 per cent in January 2023 from 5.0 per cent in the preceding month, and the household sector’s NPLs declined to 4.0 per cent from 4.1 per cent in December 2022. The largest shares of business sector NPLs continue to be attributable to real estate & business services,

wholesale & retail trade, restaurants & hotels, as well as construction sector.

Sources of Funds

The credit to deposit ratio improved to 56.3 per cent in January 2023, from 54.5 per cent in December 2022. This was explained by an increase in credit extended to private sector coupled with a fall in total deposits.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The CBL policy rate remained unchanged between December and January 2023 at 7.00 per cent. Similarly, the prime lending rate and 1-year deposit rate remained stable at 10.75 per cent and 4.47 per cent, respectively. The 91-day T-bill rate rose by 52 basis points to 6.88 per cent in January 2023.

Foreign Exchange

The rand hence loti², on average, weakened against its three major trading currencies in January 2022. It depreciated by 0.88 per cent, 2.37 per cent and 1.77 per cent against the dollar, the pound and the euro, respectively, compared to a month earlier.

The weakened performance of the rand was primarily on account of the prolonged power crisis in South Africa, which has affected output across many sectors and also hurt investor sentiment. Additionally, the rand weakened following the release of December 2022 inflation data, which was lower compared to the previous month. The lower inflation rate raised hopes that the South African Reserve Bank would embark on softer interest rate hikes, which therefore weakened the rand further.

² The South African rand is pegged at with the Lesotho loti.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

Government total expenditure was estimated to have risen by 50.9 per cent in January 2023, in contrast to a revised decline of 5.5 per cent in December 2022. This increase was mainly determined by subsidies to extra-budgetary units, old age pension and student grants.

Total outlays spending increased, largely driven by economic affairs, social protection, and general public service functions. However, the proportion of outlays to total spending remained unchanged between the periods.

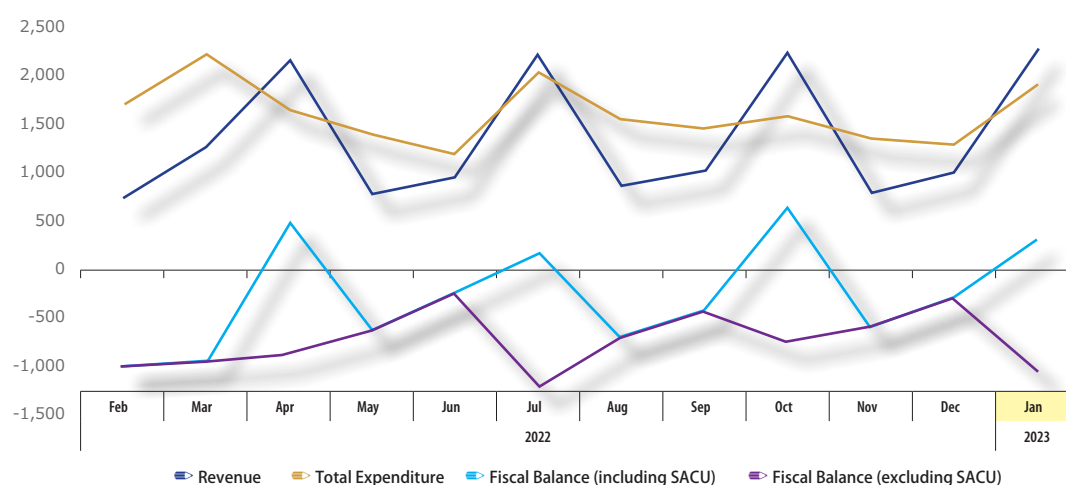
Total Revenue

The Government revenue, excluding SACU receipts, was estimated to have decreased by 8.5 per cent during the current month, contrary to an increase of 27.7 per cent in the previous month. This was largely because of poor performance in income tax, mining and water royalties. Nonetheless, total revenue with SACU receipts increased significantly.

Fiscal Balance and Financing

The fiscal operations recorded a rise in both domestic financial assets and total liabilities. An increase in financial assets mainly reflected SACU receipts, while liabilities largely emanated from pending expenditures under commitments.

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)

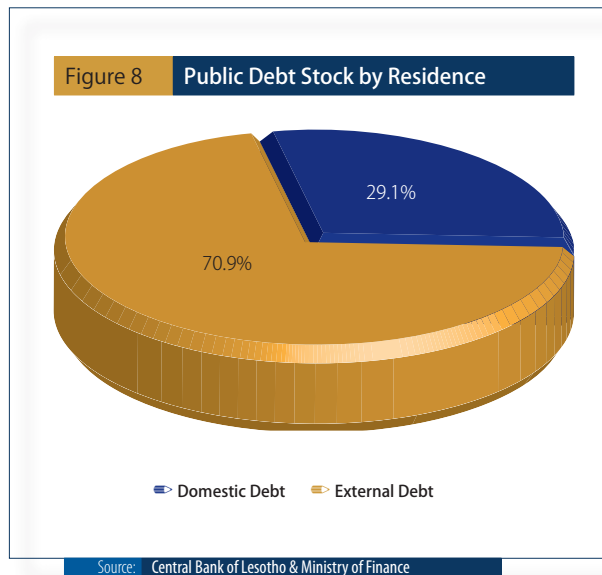
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		26.8%	17.0%	5.6%	59.2%	0.0%	0.0%	23.8%	20.7%
Defense		6.0%	6.2%	0.0%	0.0%	0.0%	0.0%	0.0%	3.4%
Public Order and Safety		16.7%	5.4%	0.0%	0.0%	0.0%	0.0%	4.6%	7.5%
Economic Affairs		6.5%	28.6%	3.6%	0.0%	0.0%	100.0%	36.1%	23.7%
Environmental Protection		0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Housing and Community Amenities		0.5%	0.4%	0.0%	20.7%	0.0%	0.0%	24.4%	4.2%
Health		6.1%	36.9%	55.5%	0.0%	11.5%	0.0%	0.0%	12.9%
Recreation, Culture, and Religion		0.7%	0.7%	0.0%	1.4%	0.0%	0.0%	11.1%	1.4%
Education		27.3%	2.5%	35.3%	18.7%	0.0%	0.0%	0.0%	14.1%
Social Protection		9.3%	2.4%	0.0%	0.0%	88.5%	0.0%	0.0%	12.1%
Share per Economic Item		36.8%	18.3%	5.2%	9.4%	9.3%	13.0%	8.0%	100.0%

Source: CBL and MOF

V. PUBLIC DEBT

The public debt stock was estimated at 52.3 per cent of GDP in the first month of 2023, in comparison to the revised 59.0 per cent of GDP in the last month of 2022. This was equivalent to a 4.4 per cent decrease

in contrast to a 0.4 per cent rise in December 2022. This decrease was largely caused by currency movements.



Appendix: Key Economic Indicators

		22-Aug	22-Sep	22-Oct	22-Nov	22-Dec	23-Jan	
Economic Activity (MIEA (% change, M/M))		-0.7	2.8	-0.8	-2.0	-0.3	-2.6	
Consumer price Index (% change)	Headline Inflation (year-on-year)	9.8	9.4	9.2	8.5	8.0	6.8	
	Core Inflation	6.5	6.4	6.7	6.4	6.4	6.1	
Exchange Rates (Monthly End Period)	EUR	16.83	17.05	17.99	17.85	18.20	18.93	
	GBP	20.03	19.82	19.90	20.51	20.56	21.51	
	USD	16.54	17.03	17.54	18.16	17.08	17.48	
Money Supply (Millions of Maloti)	M2	14,372.60	14,250.90	14,580.08	14,222.19	14,335.89	13,899.76	
	M1	6,485.86	6,455.37	6,667.51	6,553.52	6,857.45	6,253.46	
	Quasi Money	7,886.74	7,795.53	7,912.57	7,668.67	7,478.44	7,646.31	
Interest Rates	CBL Rate	5.50	5.50	6.25	6.25	7.00	7.00	
	91 day Treasury bill rate	4.94	5.62	6.34	6.38	6.36	6.88	
	Prime lending rate	9.00	9.00	9.75	9.75	10.50	10.50	
	1 year deposit rate	3.48	3.48	4.24	4.24	4.47	4.47	
Private sector Credit (Millions of Maloti)		8,070.42	8,122.32	8,467.37	8,364.98	8,356.83	8,584.33	
	Households	5,906.98	6,140.09	6,115.22	6,139.52	6,146.91	6,291.37	
	Business Enterprises	2,215.34	2,237.28	2,249.76	2,245.38	2,209.92	2,292.96	
Bank Deposit Liabilities (Millions of Maloti)		15,318.09	15,163.65	15,382.96	15,037.82	15,145.56	14,975.04	
Credit to Deposit Ratio (%)		53.19	54.59	54.48	55.49	54.47	56.29	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-696.07	-421.85	640.42	-571.67	-280.32	331.78	
	Total Revenue (with SACU receipts)	863.68	1,037.62	2,224.93	784.79	1,002.15	2,266.68	
	Total Expenditure	1,559.75	1,459.47	1,584.51	1,356.47	1,282.48	1,934.90	
	O/W Capital	212.78	120.87	150.80	88.88	81.89	91.58	
Total Public Debt (Millions of Maloti)		21,671.13	22,669.88	23,032.89	22,572.25	22,491.78	21,308.94	
	Total External Debt	15,718.72	16,216.16	16,480.27	16,248.30	16,341.31	15,115.33	
	External Debt	Concessional	11,655.01	12,094.11	12,308.65	11,942.76	12,050.10	10,885.13
		Non-concessional	4,063.71	4,122.05	4,171.62	4,305.54	4,291.21	4,230.20
	Domestic Debt		5,813.45	5,952.41	6,453.72	6,552.62	6,323.96	6,193.61
Memo Item: Arrears (Millions of Maloti)		0.00	0.00	0.00	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 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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