



# Monthly

# ECONOMIC REVIEW

MARCH 2023

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

## I. ECONOMIC ACTIVITY

Economic performance weakened in March 2023. The slow performance was driven mainly by a significant decline in both the production and demand sides of the economy.

### Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) exhibited a drop in the overall economic performance in March 2023. The index was estimated to have dropped by 3.7 per cent, contrary to the 1.5 per cent increase in the preceding month. The decline in economic performance was attributed mainly to a slowdown in manufacturing subsector and domestic demand. The manufacturing performance was as a result of the ongoing Ukraine-Russia war, currency depreciation and shrinking demand, which affected both the demand for clothing and textile negatively. Domestic demand, also, contributed negatively to the overall index in the review month. In addition, the construction and transport industries provided mixed signals in the review month.

### Domestic Demand Category

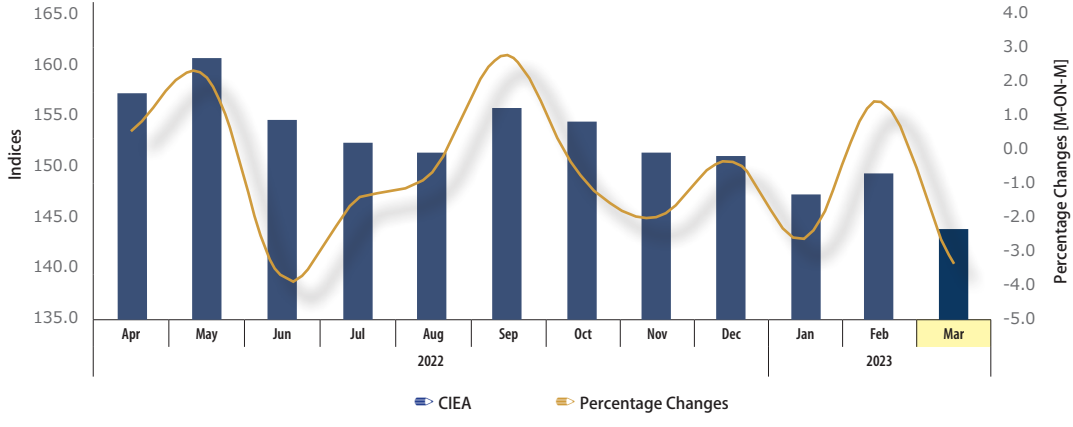
During the review month, there was a contraction in domestic demand, as indicated by a decline of 5.4 per cent in the demand index. This contraction was more significant compared to the 0.2 per cent decline observed in the previous month. The decline in domestic demand was influenced by imports of goods and services with a negative contribution to the overall demand.

Additionally, real earnings, as indicated by a fall in pay-as-you-earn (PAYE), also had a negative contribution to domestic demand. This implies that individuals' income levels, adjusted for inflation, were lower during the review month. Moreover, retail activity, as measured by value-added tax (VAT), experienced a decline, further contributing to the contraction in domestic demand. This suggests reduced sales and consumer spending in the retail sector. Despite these factors, public servants' earnings remained moderate during the review month.

### Manufacturing and Production Category

During the month under review, the manufacturing and production sector experienced a contraction. The manufacturing index declined by 5.1 per cent, in contrast to the 3.8 per cent growth recorded in February 2023. The contraction in the manufacturing sector can be attributed to several factors. To begin with, the export of clothing and textiles to the US market played a significant role in the sector's decline. This suggests a decrease in demand for clothing and textiles from the US. In addition, there was a significant decline on the industrial use of utilities, specifically water and electricity. The combined impact of reduced demand for clothing and textiles in the US market, and pressure on utilities usage contributed to the contraction in the manufacturing and production sector during the month under review.

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



Source: CBL Calculations

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

Indices	2022					2023		
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
<b>CIEA</b>	151.5	155.8	154.6	151.6	151.2	147.2	149.4	143.9
Monthly changes	-0.6	2.9	-0.8	-2.0	-0.2	-2.6	1.5	-3.7
<b>Domestic Demand Category</b>	145.3	151.5	152.4	150.6	148.9	149.3	148.9	140.8
Monthly changes	2.0	4.3	0.6	-1.2	-1.1	0.2	-0.3	-5.4
<b>Manufacturing &amp; Production Category</b>	108.3	106.6	102.9	99.4	97.7	98.8	102.6	97.3
Monthly changes	-2.3	-1.6	-3.4	-3.4	-1.7	1.1	3.8	-5.1

Source: Central Bank of Lesotho (CBL) Calculations

## II. INFLATION AND PRICES

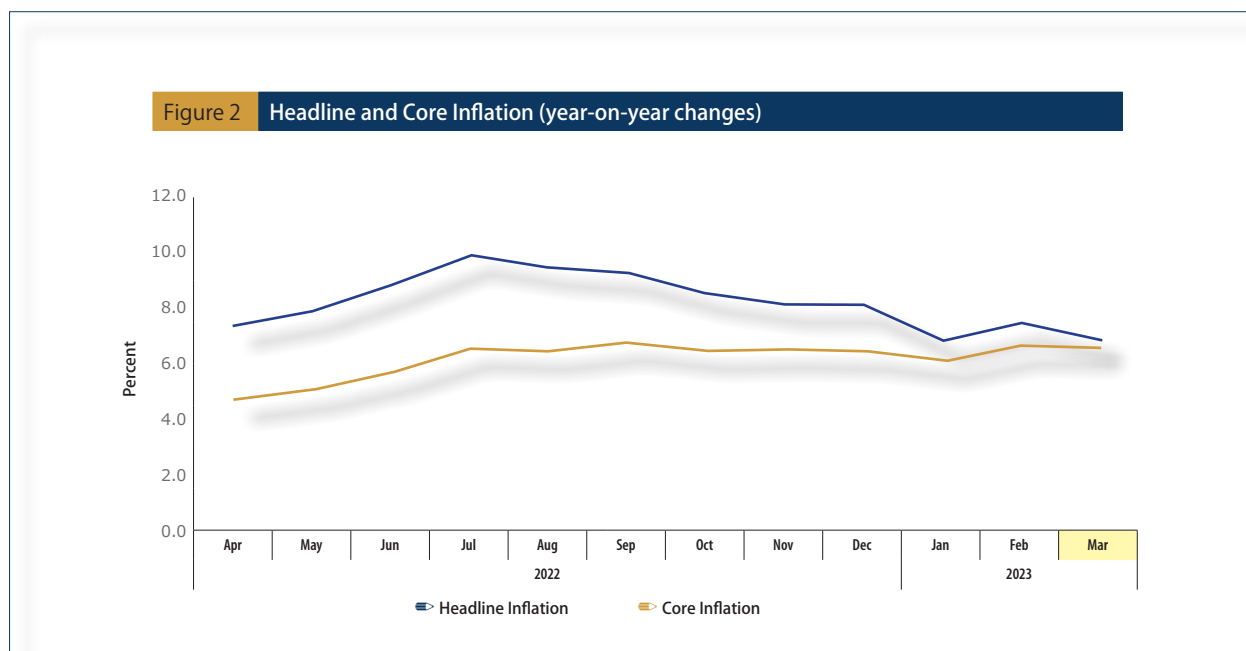
### Headline Inflation

The headline inflation rate was estimated at 6.8 per cent in March 2023, a 0.6 percentage points decline from 7.4 per cent estimated for February 2023. Food & Non-alcoholic beverage; Restaurant and hotels as well Transport largely contributed to the decline in inflation rate during the review period.

The major drivers of the disinflation during the review month were falling international food and fuel prices. However, the weak Loti kept the inflation rate elevated during the review period.

### Core Inflation

Core inflation slightly edged downwards from 6.6 per cent in February 2023 to 6.5 per cent in March 2023, amid subdued demand in the economy during the same period.

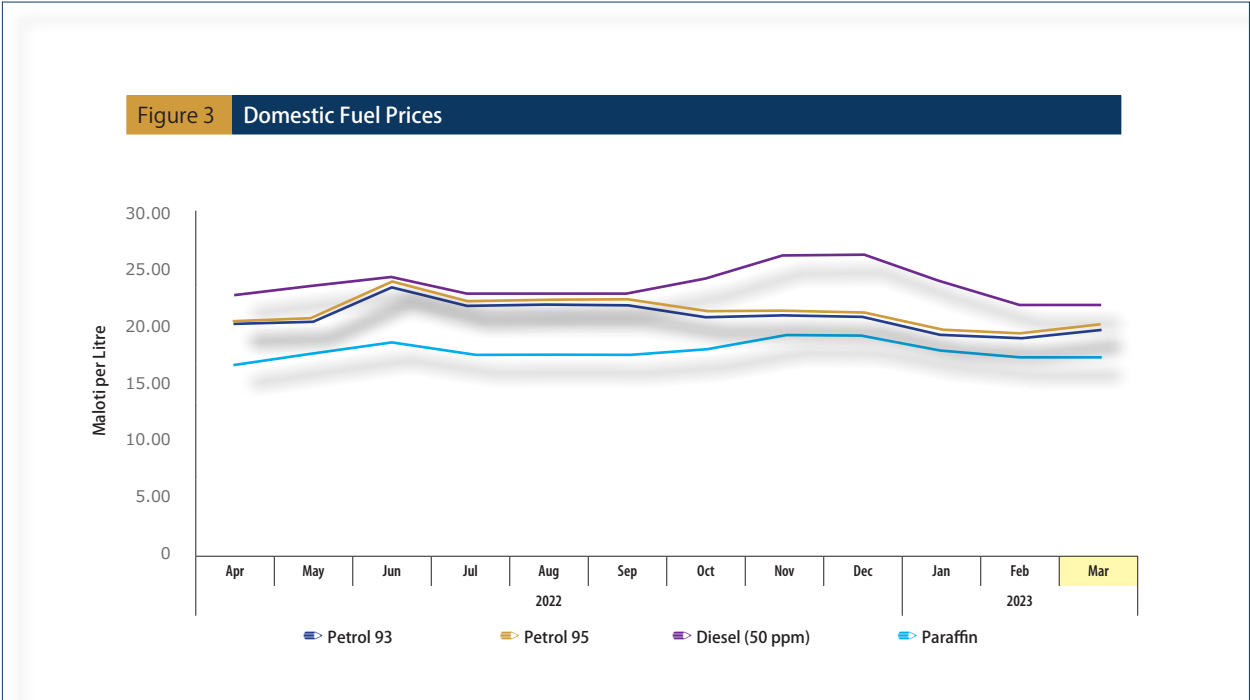


Source: Lesotho Bureau of Statistics & CBL Computation

### Domestic Fuel Prices

The prices of both grades of petrol (*petrol<sub>93</sub>* and *petrol<sub>95</sub>*) were increased by M0.80 to M20.10 per litre and M20.40 per litre, respectively in March

2023 from their levels recorded in February 2023. However, the pump price of *diesel<sub>50</sub>* and retail price of illuminating paraffin remained unchanged during the review period.



Source: Petroleum Fund

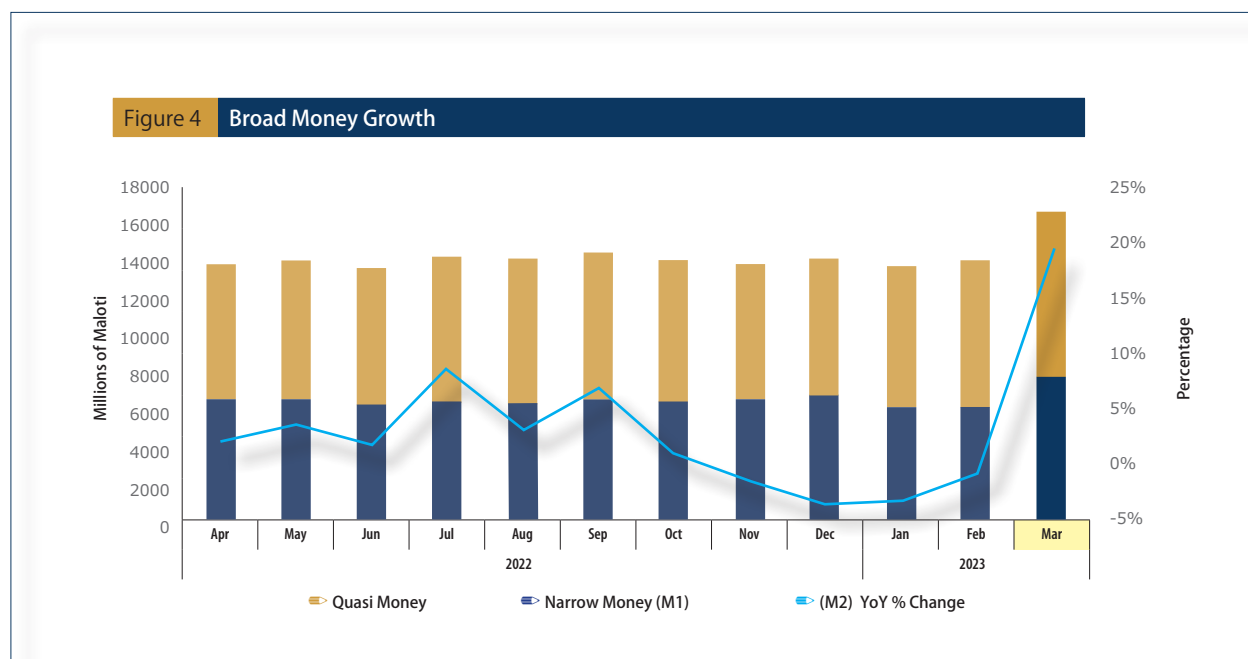
### III. MONETARY AND FINANCIAL INDICATORS

#### Broad Money (M2)

The broadly defined money supply (M2) increased by 19.0 per cent in March 2023, following a 1.7 per cent increase in February 2023. This expansion was supported by a considerable increase in net domestic assets (NDA) of 65.5 per cent, while net foreign assets (NFA) fell by 3.1 per cent. NDA increased due to a decrease in government deposits held with both commercial banks and the central bank, which fell by 52.8 per cent and 28.9 per cent, respectively.

#### Components of Money Supply

Money supply increased, as both narrow money (M1) and quasi money increased by 27.0 per cent and 12.8 per cent, respectively. This growth in M1 was due to a hike in transferable deposits held by businesses, coupled with a rise in quasi money following a growth in other deposits held by public non-financial corporations, businesses, and households.



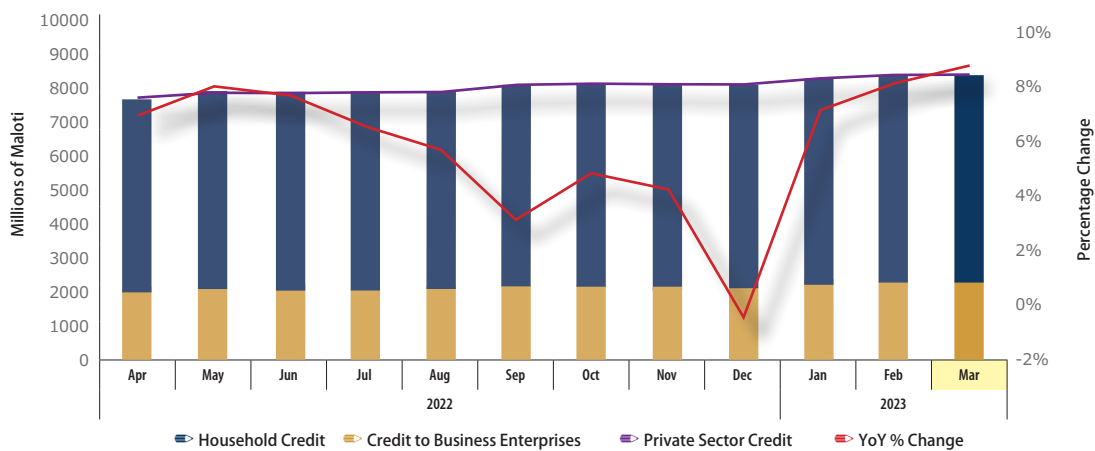
Source: Central Bank of Lesotho

#### Private Sector Credit

Between February and March 2023, overall loans and advances to the private sector were subdued. This was owing to small growth in credit for businesses. Mortgage loans rose by 0.8 per cent, while personal loans declined by 0.2 per cent. When it comes to loan distribution to business enterprises, wholesale

& retail trade, restaurants & hotels, real estate & business services, and mining & quarrying received the highest shares of 26.6 per cent, 25.3 per cent, and 19.3 per cent, respectively. Electricity, gas, and water sectors received the lowest proportion of 0.3 per cent. Private sector credit increased by 8.7 per cent year on year in March 2023.

**Figure 5 Private Sector Credit**



Source: Central Bank of Lesotho

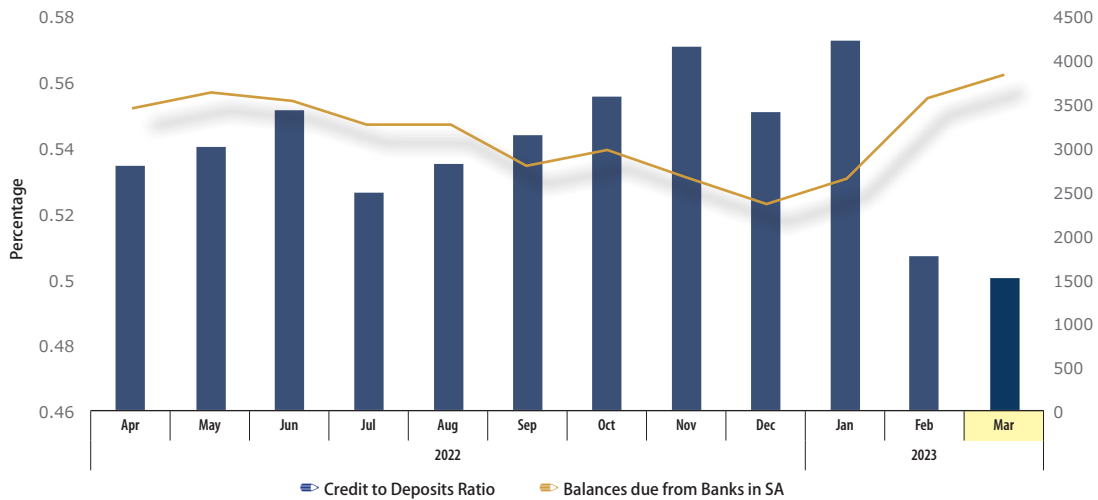
### Non-Performing Loans

Total non-performing loans (NPLs) increased from 4.1 per cent to 4.2 per cent of total loans. Business enterprise’s NPLs increased to 5.3 per cent in March 2023, up from 4.7 per cent the previous month, while the household sector’s NPLs decreased to 3.8 per cent, down from 3.9 per cent. The majority of business sector NPLs continue to be in real estate & business services, wholesale & retail trade, restaurants & hotels, and construction.

### Sources of Funds

The credit-to-deposit ratio fell from 49.8 per cent to 49.1 per cent. This was explained by a drop in credit granted to the private sector.

**Figure 6 Credit to Deposit Ratio**



Source: Central Bank of Lesotho

### Interest Rates

The CBL policy rate was held steady at 7.25 per cent. Similarly, the prime lending rate and one-year deposit rate remained unchanged at 10.75 per cent and 4.57 per cent, respectively. The 91-day T-bill rate fell by 11 basis points to 6.59 per cent.

### Foreign Exchange

In March 2023, the value of the rand, hence, loti<sup>1</sup> depreciated against its three major trading currencies. The rand depreciated by 2.07 per cent, 2.39 per cent and 2.00 per cent against the dollar, pound and euro, respectively. This followed a depreciation of 4.72 per cent, 3.72 per cent and 4.16 per cent against the dollar, the pound and the euro respectively, in February 2023.

The weakness of the rand was primarily on domestic factors and to a lesser extent, international factors. On the domestic front, the rand continued to be affected by power supply challenges, together with weaker than expected growth data.

Internationally, the rand was negatively affected by the dollar’s strength, owing to expected US interest rate hikes and hawkish comments by the Federal Reserve.

<sup>1</sup> The South African rand is pegged at with the Lesotho loti.

## IV. GOVERNMENT BUDGETARY OPERATIONS

### Total Expenditure

Government total expenditure was estimated to increase by 10.8 per cent in March 2023 from a marginal increase of 0.1 per cent in February 2023. This increase was due to non-financial assets, while expenses declined. Non-financial assets increased by 60 per cent owing to GoL-funded projects, in particular, rural electrification, rural water supply, as well as rural roads.

The share of development outlays to total outlays decreased to 12.5 per cent, mainly due to economic affairs and, to a lesser extent, housing & community amenities. In economic affairs, general economic & commercial affairs dropped by 96.3 per cent.

### Total Revenue

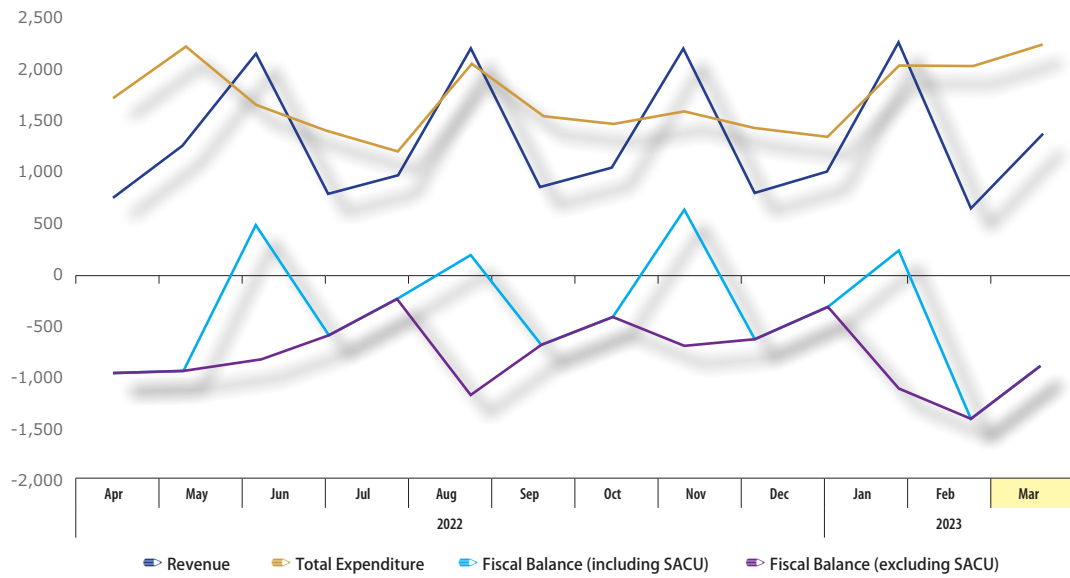
The Government revenue increased by over 100 per cent during the current month in contrast to a fall of 33.3 per cent in the previous month. This was due to tax revenue including rand monetary compensation, as well as mining and water royalties.

### Fiscal Balance and Financing

The fiscal operations recorded a deficit equivalent to 9.4 per cent of GDP. The deficit was financed through a drawdown of government deposits. Not only did the government deposits finance the deficit, but they also paid off liabilities, thus leading to a fall in both financial assets and liabilities.



**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)**

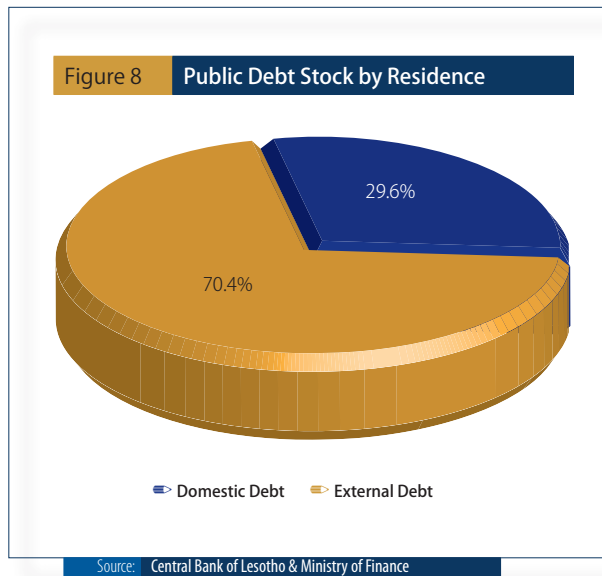
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		26.9%	36.2%	0.0%	51.0%	0.0%	4.1%	12.6%	25.5%
Defense		5.2%	4.0%	0.0%	34.3%	0.0%	0.0%	0.0%	5.5%
Public Order and Safety		16.4%	4.8%	0.0%	0.1%	0.0%	0.0%	2.5%	8.4%
Economic Affairs		5.3%	19.3%	0.0%	5.2%	0.0%	95.7%	68.5%	23.4%
Environmental Protection		0.1%	0.0%	1.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Housing and Community Amenities		0.5%	0.3%	0.0%	8.2%	0.0%	0.0%	9.8%	2.3%
Health		4.9%	31.2%	94.5%	0.0%	17.7%	0.0%	3.6%	12.6%
Recreation, Culture, and Religion		0.6%	0.9%	0.0%	1.3%	0.0%	0.0%	0.0%	0.6%
Education		21.8%	1.9%	4.4%	0.0%	0.0%	0.0%	2.9%	10.2%
Social Protection		18.5%	1.3%	0.0%	0.0%	82.3%	0.2%	0.0%	11.5%
<b>Share per Economic Item</b>		<b>42.0%</b>	<b>23.6%</b>	<b>2.0%</b>	<b>7.0%</b>	<b>4.1%</b>	<b>6.5%</b>	<b>14.7%</b>	<b>100.0%</b>

Source: CBL and MOF

## V. PUBLIC DEBT

The stock of public debt was estimated at 53.4 per cent of GDP in March 2023, in comparison to 54.2 per cent of GDP in the preceding month. This was

equivalent to 1.3 per cent decline from position observed in February. However, the position increased by 10.3 per cent on an annual basis.



## Appendix: Key Economic Indicators

		22-Oct	22-Nov	22-Dec	23-Jan	23-Feb	23-Mar	
Economic Activity (MIEA (% change, M/M))		-0.8	-2.0	-0.2	-2.6	1.5	-3.7	
Consumer price Index (% change)	Headline Inflation (year-on-year)	9.2	8.5	8.0	6.8	7.4	6.8	
	Core Inflation	6.7	6.4	6.4	6.1	6.6	6.5	
Exchange Rates (Monthly End Period)	EUR	17.99	17.85	18.20	18.93	19.18	19.31	
	GBP	19.90	20.51	20.56	21.51	21.66	21.97	
	USD	17.54	18.16	17.08	17.48	17.91	17.73	
Money Supply (Millions of Maloti)	M2	14,580.08	14,222.19	14,335.89	13,899.76	14,141.10	15,306.80	
	M1	6,667.51	6,553.52	6,857.45	6,253.46	6,227.78	6,379.53	
	Quasi Money	7,912.57	7,668.67	7,478.44	7,646.31	7,913.32	8,927.27	
Interest Rates	CBL Rate	6.25	6.25	7.00	7.00	7.25	7.25	
	91 day Treasury bill rate	6.34	6.38	6.36	6.88	6.70	6.59	
	Prime lending rate	9.75	9.75	10.50	10.50	10.75	10.75	
	1 year deposit rate	4.24	4.24	4.47	4.47	4.57	4.57	
Private sector Credit (Millions of Maloti)		8,467.37	8,364.98	8,356.83	8,584.33	8,650.74	8,655.54	
	Households	6,224.04	6,109.38	6,140.63	6,291.37	6,307.99	6,310.81	
	Non-profit Organisations	2,237.28	2,249.76	2,209.92	2,292.96	2,342.75	2,344.73	
Bank Deposit Liabilities (Millions of Maloti)		15,382.96	15,037.82	15,145.56	14,975.04	17,044.60	15,761.98	
Credit to Deposit Ratio (%)		54.48	55.49	55.55	56.29	49.82	53.87	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	640.42	-628.74	-337.39	236.66	-1,421.45	-889.05	
	Total Revenue (with SACU receipts)	2,224.93	784.79	1,002.15	2,266.68	611.21	1,362.17	
	Total Expenditure	1,584.51	1,413.54	1,339.55	2,030.02	2,032.66	2,251.22	
	O/W Capital	150.80	145.95	138.96	186.70	375.92	604.08	
Total Public Debt (Millions of Maloti)		23,031.54	22,213.68	22,299.56	21,308.94	22,075.72	21,791.89	
	Total External Debt	16,478.92	15,889.72	16,149.10	15,115.33	15,631.00	15,347.13	
	External Debt	Concessional	12,307.30	11,818.51	12,030.00	10,885.13	11,395.56	10,955.73
		Non-concessional	4,171.62	4,071.20	4,119.10	4,230.20	4,235.45	4,391.40
	Domestic Debt		6,552.62	6,323.96	6,150.47	6,193.61	6,444.72	6,444.76
Memo Item: Arrears (Millions of Maloti)		0.00	0.00	0.00	0.00	0.00	155.46	

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.

### © 2023 March 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)