



Monthly ECONOMIC REVIEW

OCTOBER 2023

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY

In October, domestic economic activity was estimated to have registered a growth. The driving forces behind this growth reflected positive performances in the manufacturing, construction, and financial services subsectors. Nonetheless, the transport subsector remained under pressure during the review period.

Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) indicated an improvement in domestic activity, increasing by 2.6 per cent on a month-on-month basis, following a 2.4 per cent growth in the previous month. This improvement was attributed to a rebound in both manufacturing and domestic demand for goods and services. This was further supported by developments in the construction and financial services subsectors, as evidenced by increased imports of construction materials as well as higher credit extended to the private sector. Nevertheless, the overall growth was moderated by a decline in the transport subsector, indicated by reduced fuel consumption, as well as a slump in water and electricity consumption.

Domestic Demand Category

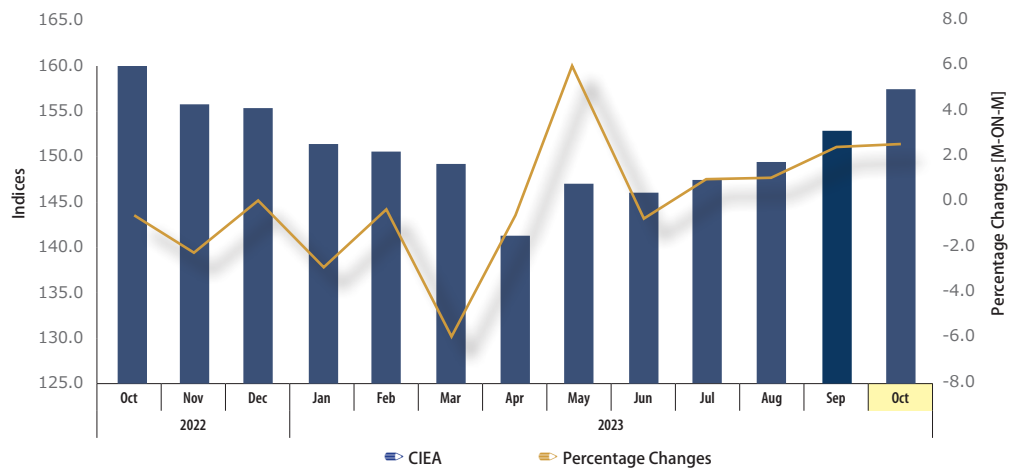
Moreover, the indicator for domestic demand exhibited a 9.0 percent expansion in October, following a 5.8 percent growth in the previous month. This upswing was primarily fuelled by an

increase in domestic demand, reflected by imports of goods and services from South Africa, and improvement in government activities. The increase in government activities was on account of positive contributions from the use of goods and services component, linked to lower operating costs. However, the overall growth was counteracted by a decline in the collection of Value-Added Tax (VAT), which was attributed to a slowdown in business activities, and a slight decline in real earnings, as indicated by the drop in the collection of Pay as You Earn (PAYE) along with compensation of government employees.

Manufacturing and Production Category

Furthermore, the indicator for manufacturing and production rebounded in October, increasing by a notable 5.6 per cent, compared to the 6.2 per cent decline observed in the previous month. This improvement was attributed to an increase in the importation of raw materials and the export of textiles to the South African market. However, the overall growth was moderated by a persistent decline in exports of textiles to the US market, as ongoing uncertainties surrounding AGOA status remains pending, leading to a reduced number of orders.

Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Composite Indicator of Economic Activity and its Sub-components

Indices	2023							Oct
	Mar	Apr	May	Jun	Jul	Aug	Sep	
CIEA	141.3	139.7	147.4	146.3	148.2	149.6	153.2	157.3
Monthly changes	-6.3	-1.2	5.5	-0.8	1.3	1.0	2.4	2.6
Domestic Demand Category	143.0	135.3	148.5	137.0	133.3	135.3	143.2	156.1
Monthly changes	-4.9	-5.4	9.8	-7.7	-2.7	1.5	5.8	9.0
Manufacturing & Production Category	113.9	116.3	111.8	111.6	103.7	99.7	93.5	98.8
Monthly changes	-1.2	2.1	-3.8	-0.1	-7.1	-3.8	-6.3	5.6

Source: Central Bank of Lesotho (CBL) Calculations

II. INFLATION AND PRICES

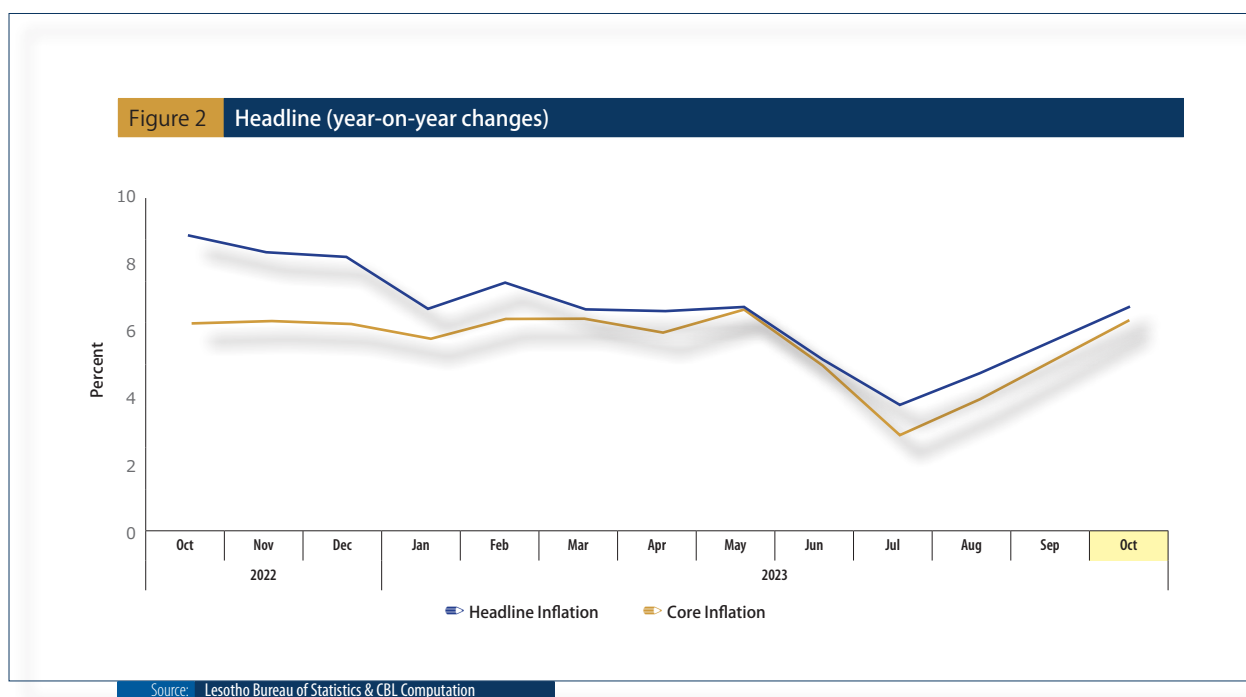
Headline Inflation

The headline inflation rate increased by 6.5 per cent in October 2023 relative to 5.8 per cent in the preceding month. The 0.7 percentage point increase was mainly due to Food & Non-Alcoholic beverages, Transport and Housing, Electricity gas and other fuels, which constituted over 88.7 per cent increase in the overall inflation rate. Nonetheless, Alcohol beverages and tobacco moderated the increase.

The major determinants of a rise in inflation during the review period were global food prices that are still significantly high, as well as the weaker loti per US dollar exchange rate.

Core Inflation

Core inflation, measured by the trimmed mean, increased to 6.1 per cent in October 2023 from 5.3 per cent in September 2023.

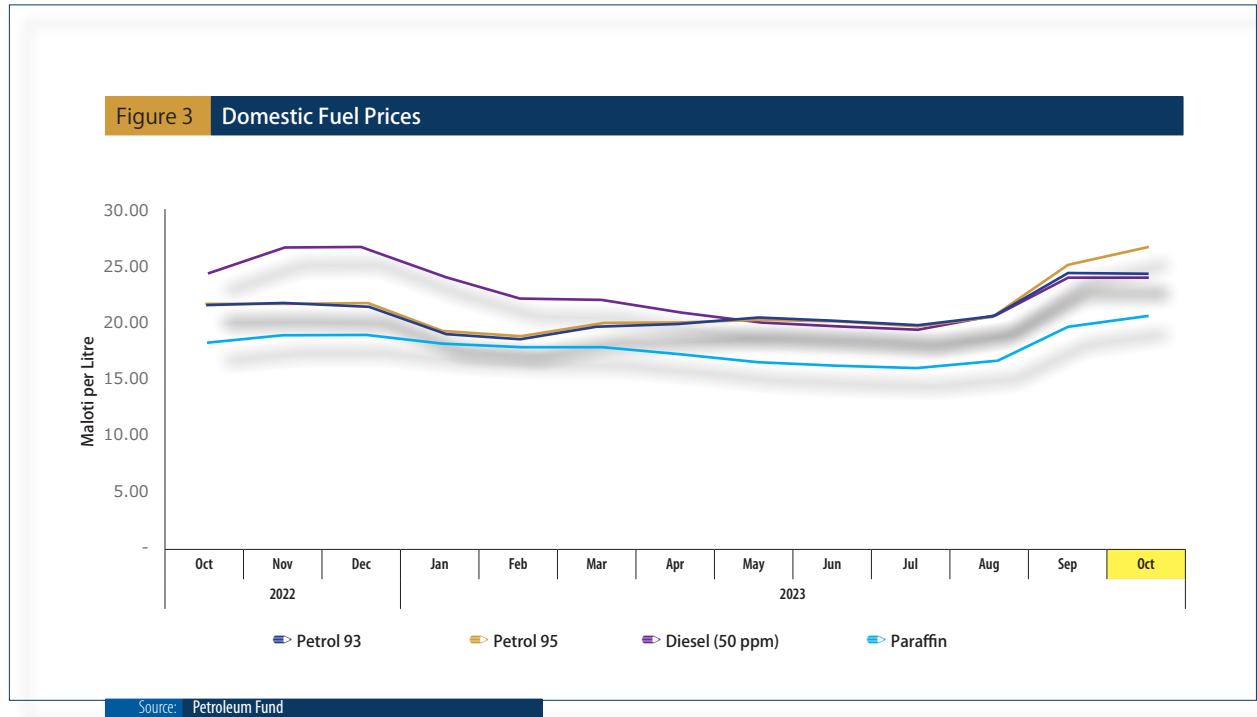


Domestic Fuel Prices

The pump prices of both grades of petrol (*petrol₉₃* and *petrol₉₅*), increased by M0.10 and traded at M22.50 per litre and M23.00 per litre at the pump, respectively. *Diesel₅₀* sold at M25.40 per litre at the pump, marking an increase of M1.14 in the review

month. Moreover, the retail price of illuminating paraffin increased by M1.00 and sold at M19.20 per litre.

The increases in domestic fuel prices were mainly due to rising international crude oil prices and a weaker loti to US dollar exchange rate.



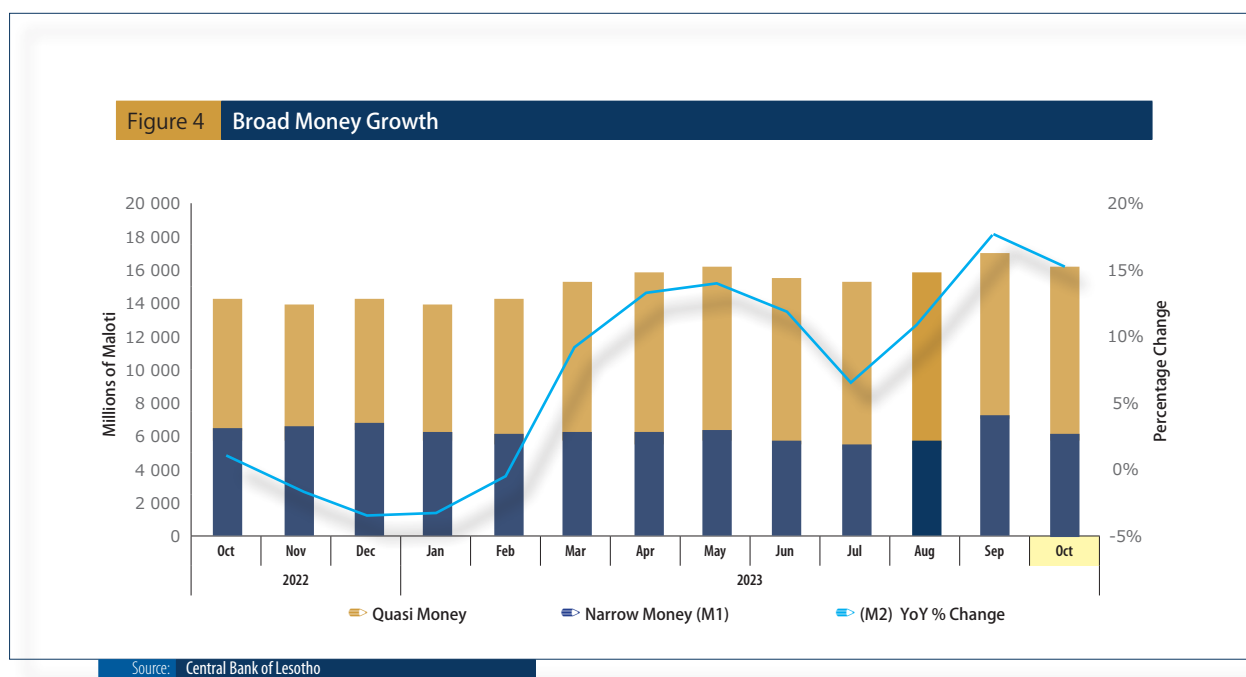
III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

The broadly defined money supply (M2) declined by 4.8 per cent, in contrast to an increase of 8.8 per cent in September 2023. Net domestic assets (NDA) declined by 26.4 per cent, while net foreign assets (NFA) rose by 9.7 per cent. The fall in NDA was due to an increase in government deposits held at the central bank, while the growth in overall NFA benefitted from SACU revenue.

Components of Money Supply

Regarding money supply components, narrow money declined by 12.4 per cent, while quasi money increased by 0.8 per cent. The fall in narrow money, on the one hand, was underpinned by a 25.5 per cent decline in transferable deposits held by the business enterprises. Quasi money, on the other hand, rose due to an increase in call deposits held by business enterprises and other financial institutions.

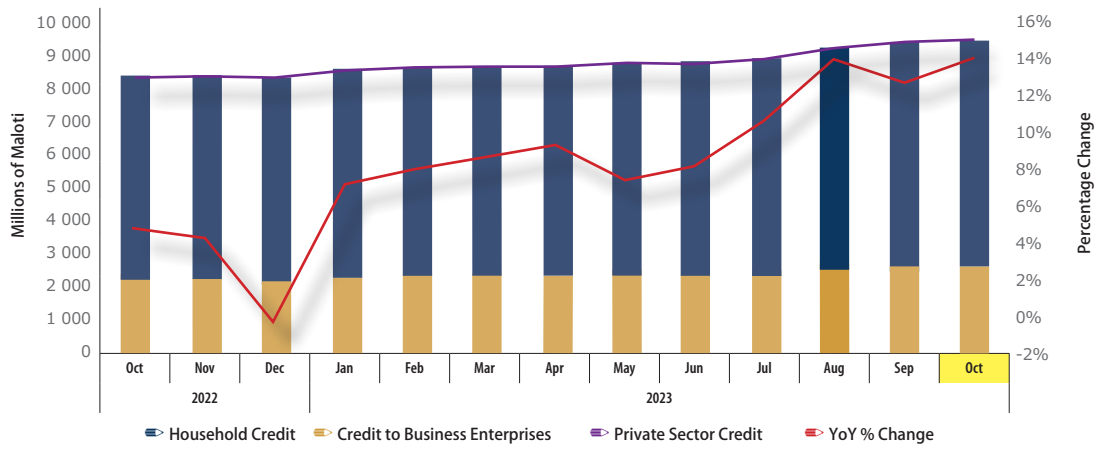


Private Sector Credit

In the private sector, total loans and advances increased by 1.2 per cent following an increase of 1.6 per cent in September 2023. This was attributed to improved credit extended to households and businesses by 0.8 per cent and 3.2 per cent, respectively. An increase in household credit was distributed by a 0.4 per cent and a 0.8 per

cent increases in personal loans and mortgage loans, respectively. Regarding credit distribution, wholesale & retail trade, restaurants & hotels received the largest share of loans of 26.9 per cent, followed by real estate & business services at 19.3 per cent, and mining and quarrying at 18.3 per cent. The least share of 0.2 per cent of loans was given to electricity, gas, and water. On a year-on-year basis, private sector credit increased by 13.8 per cent.

Figure 5 Private Sector Credit

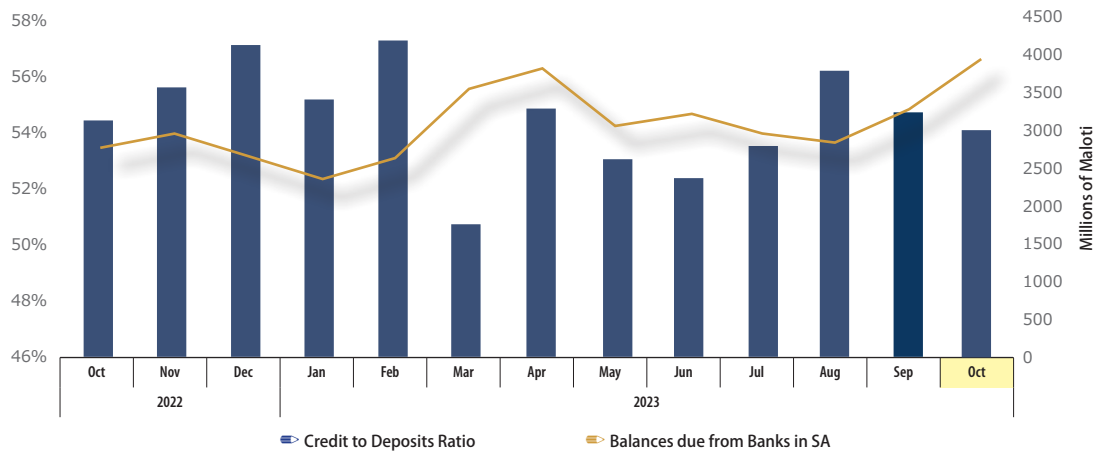


Source: Central Bank of Lesotho

Sources of Funds

The credit-to-deposit ratio rose to 53.9 per cent from 51.5 per cent due to an increase in credit, 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 at 7.75 per cent between September and October 2023. Consequently, the prime lending rate and 1-year deposit rate also remained stable at 11.25 per cent and 4.74 per cent, respectively. However, the 91-day Treasury bills discount rate declined by 124 basis points, to 7.41 per cent.

Foreign Exchange

The rand strengthened against the pound and euro, while it weakened against the dollar during the review period. The rand appreciated by 1.15

per cent and 2.23 per cent against the pound and the euro respectively, compared to a depreciation of 1.20 per cent and 0.98 per cent in the previous month, respectively. Against the dollar, the rand depreciated slightly by 0.41 per cent compared to an appreciation of 1.11 per cent in September.

The rand, alongside other global currencies, remained weakened against the dollar on account of rising US treasury yields and the resilience of the US economy. Against the pound and euro, the rand was stronger, following weak economic data for the UK and the euro area. These economies continued to battle with high inflation and low growth.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

Government spending was estimated to have increased by 16.6 per cent in October 2023, largely pushed by current transfers to state-owned enterprises, coupled with capital spending on rural roads rehabilitation. This rise compares with a 26.2 per cent decline in the previous month. Most spending out of the total expenditure, about 25.6 per cent, was directed towards economic affairs sector.

Total Revenue

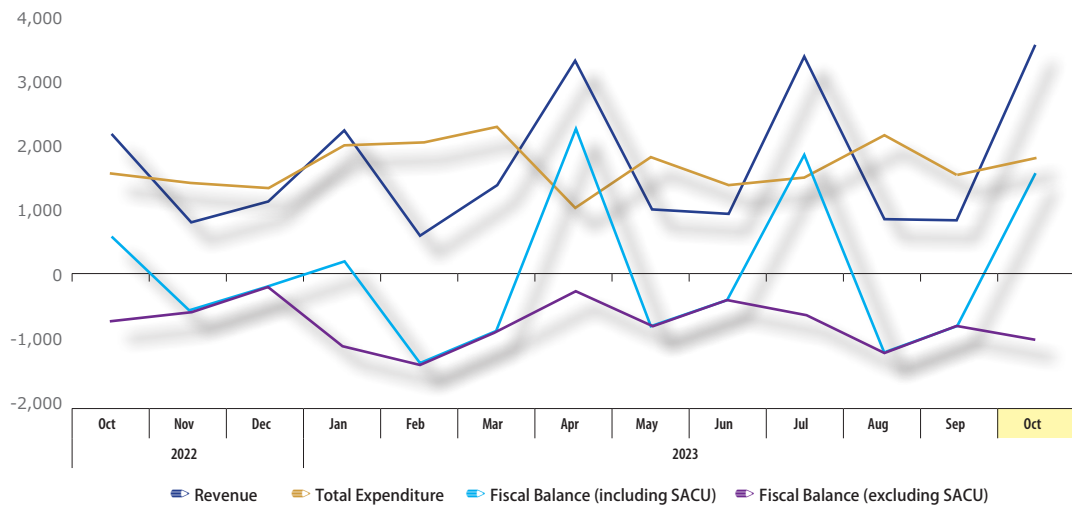
Revenue collection, excluding SACU receipts, increased by 3.7 per cent, largely on account of collection of mining and water royalties, and excise taxes. The increase was significantly higher with SACU receipts.

Fiscal Balance and Financing¹

Accordingly, the government accumulated bank deposits as fiscal balance was positive. These positive developments facilitated redemption of some of the outstanding government liabilities, including Treasury bonds.

¹ All financing items are on net basis.

Figure 7 Government Fiscal Balance (Million Maloti)



Source: Central Bank of Lesotho & Ministry of Finance

Table 2: Cross Classification of Expenditure by Function and Economic Item (Percentage Change)

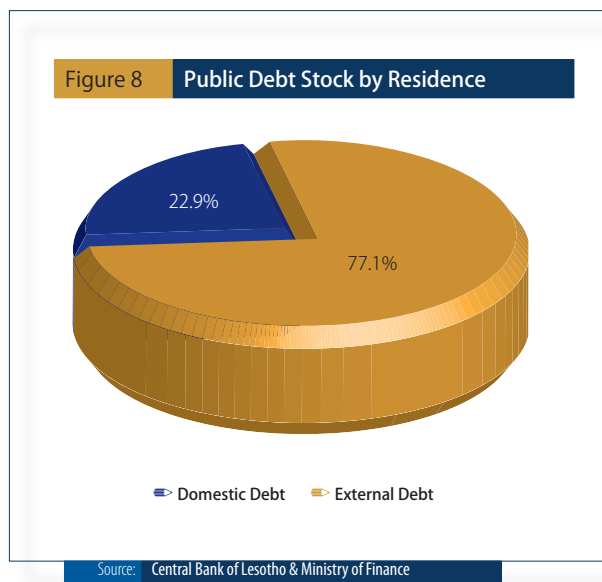
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		11.8%	10.2%	0.0%	25.3%	90.5%	90.8%	12.7%	17.7%
Defense		0.9%	0.4%	0.0%	0.0%	0.0%	0.0%	0.5%	0.5%
Public Order and Safety		20.8%	14.2%	0.0%	2.3%	0.0%	0.0%	7.5%	13.6%
Economic Affairs		8.9%	25.3%	0.0%	61.5%	0.0%	9.2%	72.2%	25.6%
Environmental Protection		0.7%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%
Housing and Community Amenities		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Health		6.1%	48.9%	0.0%	0.0%	9.5%	0.0%	6.2%	18.0%
Recreation, Culture, and Religion		0.4%	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%
Education		26.9%	0.6%	100.0%	10.9%	0.0%	0.0%	0.9%	14.4%
Social Protection		23.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	9.5%
Share per Economic Item		40.5%	29.5%	1.8%	13.1%	5.8%	0.3%	9.0%	100.0%

Source: CBL and MOF

V. PUBLIC DEBT

The ratio of public debt stock to GDP remained constant at 59.9 per cent owing to significant decline in domestic debt that was offset by a rise in external debt. The fall in domestic debt stock was

explained by the redemption of securities while the external debt stock accumulated due to ongoing disbursements.



Appendix: Key Economic Indicators

		23-Apr	23-May	23-Jun	23-Jul	23-Aug	23-Sep	23-Oct	
Economic Activity (MIEA (% change, M/M))		-1.2	5.5	-0.8	1.3	1.0	2.4	2.6	
Consumer price Index (% change)	Headline Inflation (year-on-year)	6.7	6.9	5.6	4.5	5.2	5.8	6.5	
	Core Inflation	6.2	6.8	5.5	3.8	4.5	5.3	6.1	
Exchange Rates (Monthly End Period)	EUR	19.18	19.31	18.20	21.08	20.48	20.28	19.83	
	GBP	21.66	21.97	20.56	24.41	23.84	23.53	23.19	
	USD	17.91	17.73	17.08	19.74	18.77	18.98	19.06	
Money Supply (Millions of Maloti)	M2	14,141.10	15,306.80	15,786.76	16,201.65	15,515.84	15,357.08	15,706.25	
	M1	6,227.78	6,379.53	6,323.64	6,508.33	5,952.76	5,675.13	5,735.00	
	Quasi Money	7,913.32	8,927.27	9,463.13	9,693.32	9,563.08	9,681.95	9,971.24	
Interest Rates	CBL Rate	7.25	7.25	7.50	7.75	7.75	7.75	7.75	
	91 day Treasury bill rate	6.70	6.59	6.88	7.65	7.70	7.75	7.65	
	Prime lending rate	10.75	10.75	11.00	11.25	11.25	11.25	11.25	
	1 year deposit rate	4.57	4.57	4.66	4.74	4.74	4.74	4.74	
Private sector Credit (Millions of Maloti)		8,650.73	8,655.54	8,707.27	8,768.07	8,797.65	8,927.85	9,262.85	
	Households	6,307.99	6,310.80	6,354.30	6,387.72	6,453.02	6,580.68	6,715.65	
	Non-profit Organisations	2,342.75	2,344.73	2,352.97	2,380.35	2,344.63	2,347.17	2,547.19	
Bank Deposit Liabilities (Millions of Maloti)		17,044.60	15,761.98	16,411.18	16,719.35	16,417.51	15,883.39	16,902.53	
Credit to Deposit Ratio (%)		49.82	53.87	52.06	51.46	52.59	55.19	53.82	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	2,300.72	-794.90	-417.56	1,913.13	-1,269.59	-638.07	1,668.12	
	Total Revenue (with SACU receipts)	3,360.38	1,037.20	977.44	3,463.50	914.32	973.20	3,546.76	
	Total Expenditure	1,059.66	1,832.10	1,395.00	1,550.37	2,183.91	1,611.27	1,878.64	
	O/W Capital	39.70	326.56	319.08	133.44	174.91	149.72	155.61	
Total Public Debt (Millions of Maloti)		24,307.20	25,401.42	25,045.63	23,755.19	24,860.18	24,407.21	24,413.11	
	Total External Debt	17,849.30	18,904.30	18,194.40	17,161.50	18,034.30	18,111.80	18,820.40	
	External Debt	Concessional	13,349.00	14,224.00	13,715.80	12,776.10	13,486.20	13,577.50	14,256.50
		Non-concessional	4,500.30	4,680.30	4,478.60	4,385.40	4,548.10	4,534.30	4,563.90
	Domestic Debt	6,457.90	6,497.12	6,851.23	6,593.69	6,825.88	6,295.41	5,592.71	
Memo Item: Arrears (Millions of Maloti)		0.00	0.00	0.00	0.00	46.50	60.07	29.07	

Source: Central Bank of Lesotho

ⁱ Not Available.

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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