



Monthly ECONOMIC REVIEW

APRIL 2022

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY

Economic performance remained weak in April 2022. The muted activity in the economy was mainly attributable to poor performance of the manufacturing and production sector.

Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) showed a further decline in economic activity in April 2022. The index contracted by 1.9 per cent, compared to 1.8 per cent contraction recorded in March 2022. The manufacturing sector was the main contributor to the decline in overall activity, coupled with the construction, and marginally the transport sector. Domestic demand, however, cushioned the overall decline by registering a growth in the review month.

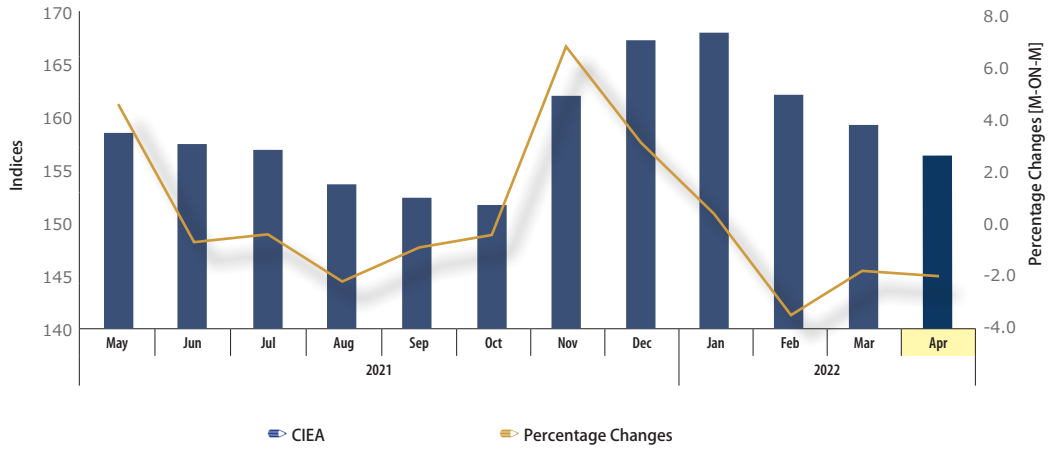
Domestic Demand Category

Performance in the demand category improved in the review month. The domestic demand index grew by 0.9 per cent in April 2022, in contrast to the 1.3 per cent contraction recorded in March. The rebound was, to some extent, driven by demand for external goods and services, coupled with increased consumer spending, as well as, real earnings. However, government activity, represented by purchases of goods and services and income taxes (PAYE), undermined the growth.

Manufacturing and Production Category

The production and manufacturing activity continued to decline in April 2022. The index contracted by 4.3 per cent, in comparison to the relatively faster decline of 5.0 per cent in the preceding month. The waning was attributed to, amongst others, the use of water as an input into production. Textiles exports to United States (US) markets, importation of raw materials and use of electricity in the production industry, however, cushioned the decline, hence, a slowdown in the rate of contraction in overall index.

Figure 1 Overall Monthly Indicator of Economic Activity



Source: Central Bank of Lesotho (CBL) Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2021				2022			
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
CIEA	152.5	151.9	162.3	167.5	168.3	162.5	159.6	156.5
Monthly changes	-0.9	-0.4	6.9	3.2	0.5	-3.5	-1.8	-1.9
Domestic Demand Category	140.9	136.7	152.6	159.1	166.8	148.4	146.5	147.9
Monthly changes	-0.8	-2.9	11.6	4.3	4.8	-11.0	-1.3	0.9
Manufacturing & Production Category	101.6	108.6	124.4	132.7	133.9	126.6	120.3	115.2
Monthly changes	-5.0	6.9	14.5	6.7	0.9	-5.4	-5.0	-4.3

Source: Central Bank of Lesotho (CBL) Calculations

II. INFLATION AND PRICES

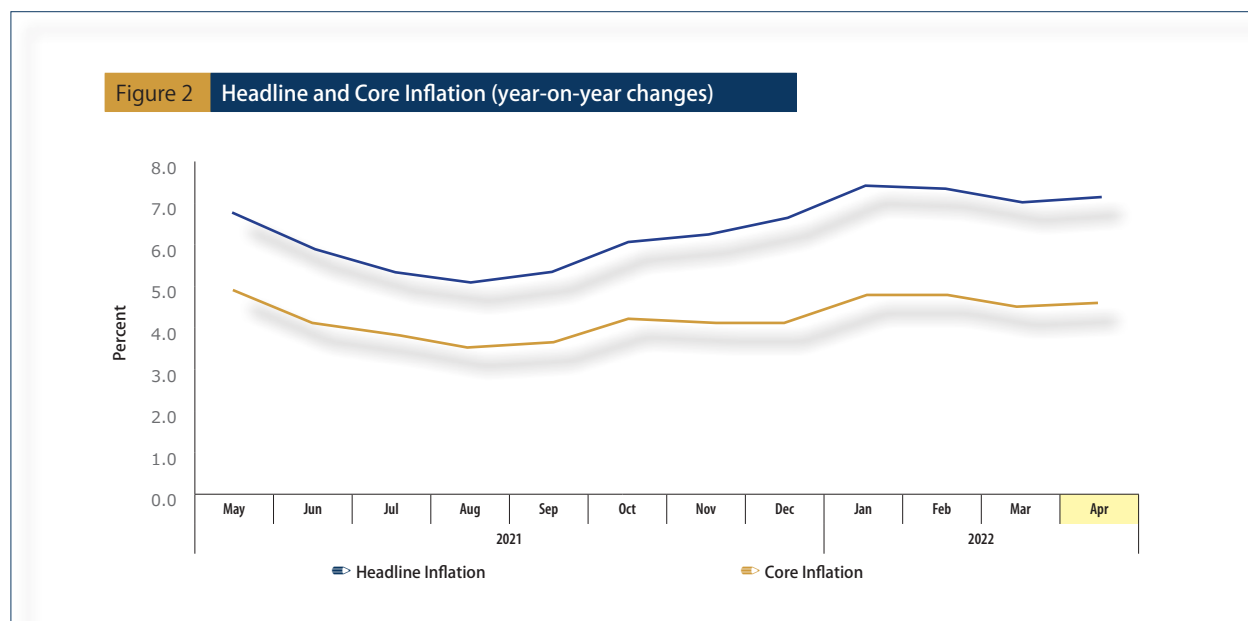
Headline Inflation

The rate of headline inflation edged upwards in April 2022 from the level recorded in March 2022. It increased by 1.0 percentage point to 7.3 per cent during the review. The major contributors to the increase were Transport, Clothing & footwear, Alcohol and tobacco, as well as, Miscellaneous goods and services. Nonetheless, Food and non-alcoholic beverages, Furnishings, Household Equipment and Routine Maintenance of the Households and Housing, Water, Electricity, Gas and Other Fuels moderated the acceleration.

The rising fuel prices, coupled the newly policy intervention in prices of petroleum products, in addition to the exchange rate depreciation fueled inflationary pressure. While some food prices, such as, Bread and cereals, as well as, meat increased, others, like vegetables decreased during the review period.

Core Inflation

Underlying inflation pressures, measured by core inflation, also edged upwards from 4.6 per cent in March 2022 to 4.7 per cent in April 2022.

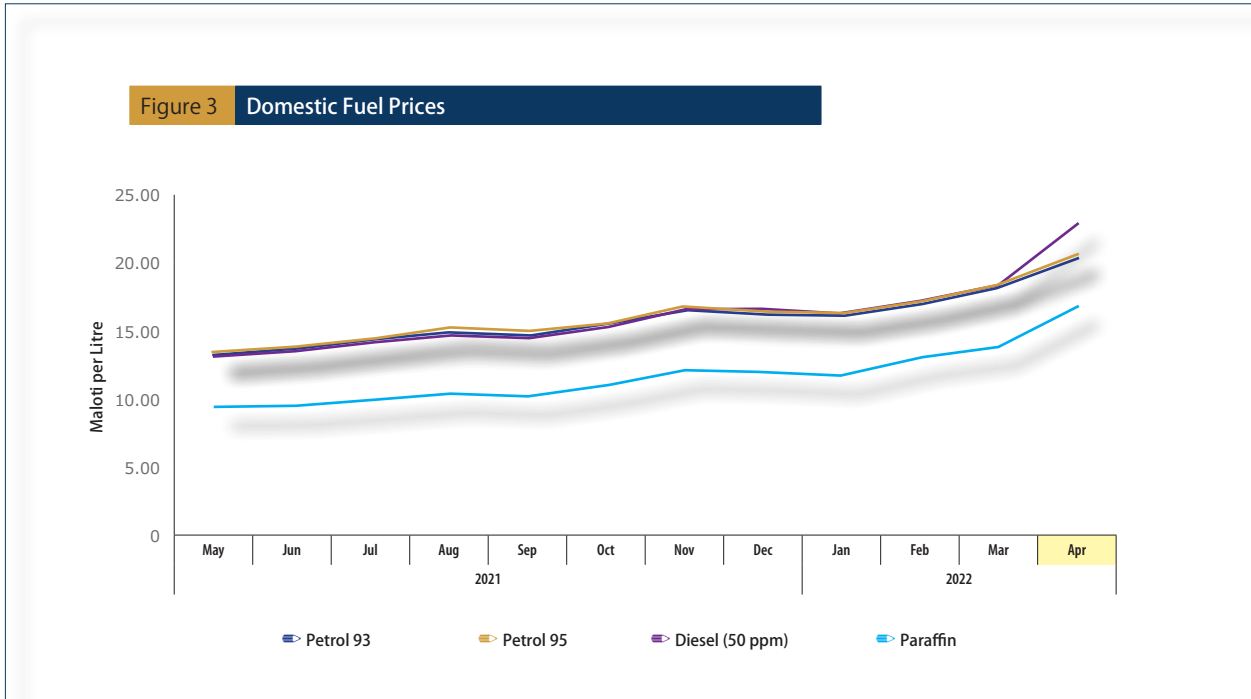


Source: Lesotho Bureau of Statistics & CBL Computation

Domestic Fuel Prices

The prices of all domestic petroleum products increased in April 2022 by more than they increased in March 2022. Prices of both grades of petrol (*petrol₉₃* and *petrol₉₅*) increased by M2.10 per litre and M2.25 per litre. The steepest increase was

observed for *diesel₅₀* during the review period. The pump price for *diesel₅₀* was M22.95 per litre in April 2022 from M18.55 per litre in March 2022. The price of illuminating paraffin increased by M3.00 per litre and was sold M16.90 per litre in April 2022 in the retail market.



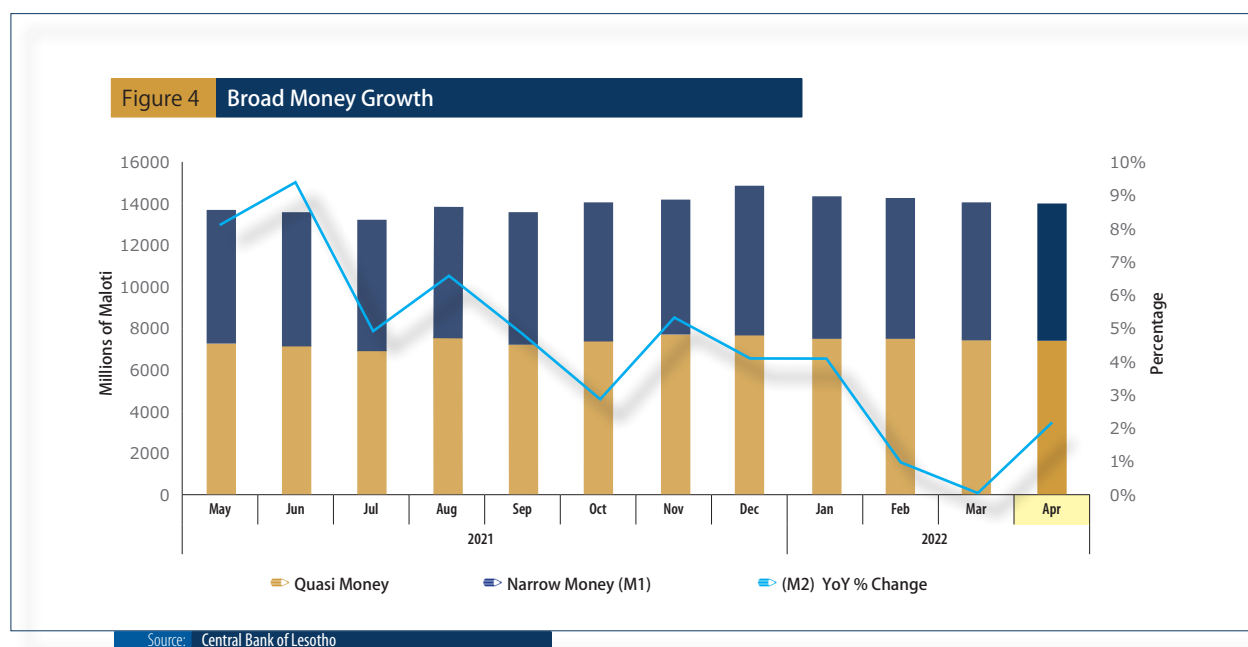
III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

The broad measure of money supply (M2) declined by 0.5 per cent in April 2022, relative to a decline of 1.1 per cent in March 2022. This resulted from a fall of 16.3 per cent in net domestic assets (NDA), which was moderated by 8.0 per cent increase in net foreign assets (NFA). The decline in NDA was on account of a build-up of government deposits held at banking system, while the growth in NFA mainly benefited from a rise in the central bank NFA, following the receipt of SACU revenue.

Components of Money Supply

Both components of M2, which are narrow money (M1) and quasi money contracted by 0.5 per cent, each, in the review period. The decline in M1 was attributable to the draw-down in transferable deposits held by the business and household sectors, while the decline in quasi money, particularly emanated from withdrawals of fixed term deposits by the business sector.

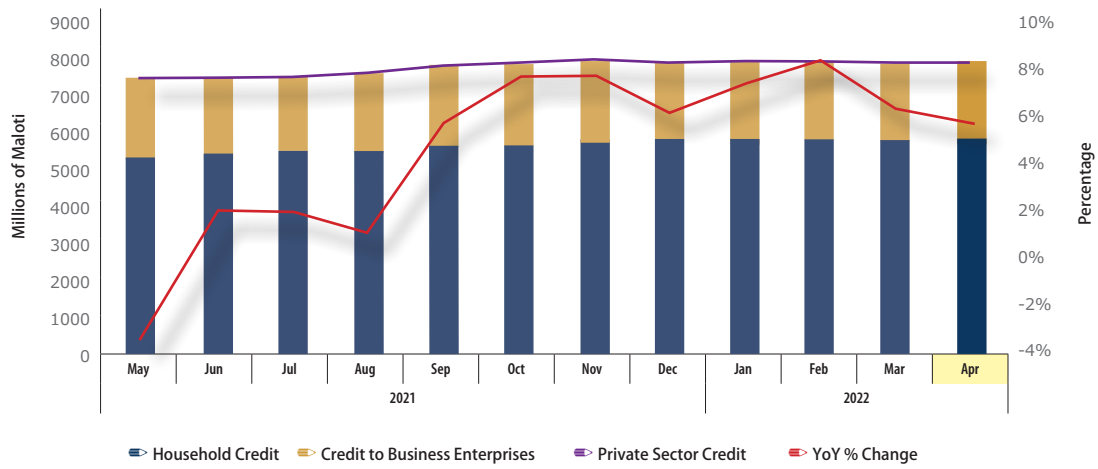


Private Sector Credit

Total credit extended to the private sector edged up by a marginal 0.03 per cent in April 2022, following a decline of 0.6 per cent in the previous month. This was driven by an improvement of 0.1 per cent in loans and advances granted to the household sector, while business sector credit declined by 0.1 per cent. The rise in household credit benefitted from a 0.3 per cent growth in mortgage loans, while personal loans remained relatively unchanged.

Considering the allocation of credit to business enterprises, real estate & business services continued to account for the largest share of 24.3 per cent, followed by wholesale & retail trade, restaurants & hotels with a share of 20.4 per cent. The electricity, gas and water sector also continued to receive the lowest share of 0.4 per cent in the review period. On a year-on-year basis, private sector credit increased by 7.0 per cent in April 2022.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

Non-Performing Loans

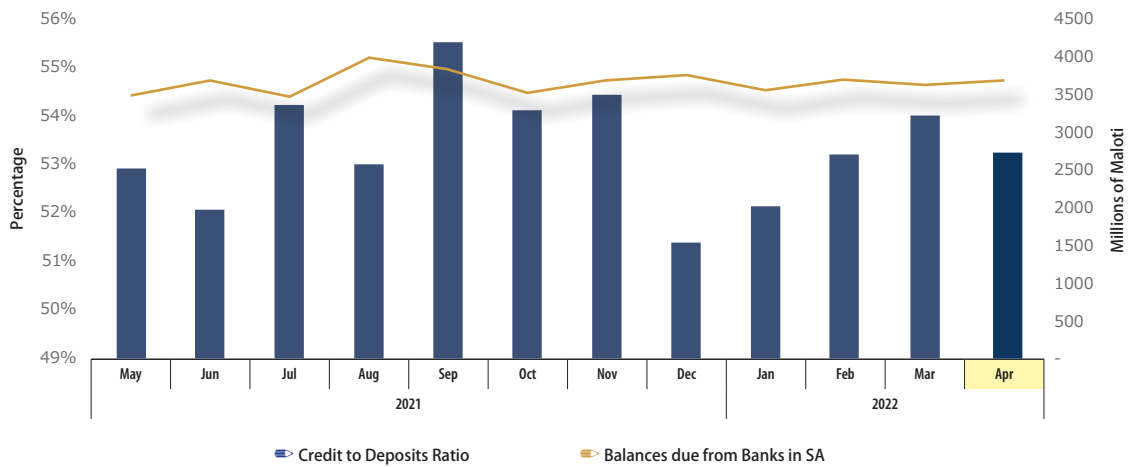
The total non-performing loans (NPLs) as a ratio of total loans was unchanged at 4.4 per cent in April 2022. This followed a slight improvement in business sector NPL's from 5.4 per cent in March to 5.1 per cent in April 2022, emanating from a decline in NPL's associated with the transport, storage & communication sector. Conversely, the household NPLs increased by 0.2 percentage points and stood at 4.2 per cent in April 2022. This emanated from

a rise in personal and mortgage loans NPL's of 0.2 percentage points and 0.1 percentage points, respectively.

Sources of Funds

The credit to deposit ratio declined from 54.0 per cent in March 2022 to 53.3 per cent in April 2022. This was due to relatively higher growth in total deposits, notwithstanding the rise in private sector credit.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The CBL policy rate remained at 4.25 per cent between March and April 2022. As a result, most short-term rates remained unchanged during the same period, as the 91-day T-Bill rate and the 1-year deposit rate remained at 4.45 per cent and 2.75 per cent, respectively. However, the average prime lending rate declined by 69 basis points and stood at 8.00 per cent in the review period.

Foreign Exchange

In April 2022, the rand, hence, loti appreciated against the pound and euro, while it depreciated against the dollar. The rand (loti) appreciated by 1.33 per cent and 1.56 per cent against the pound and

euro, respectively, while it slightly depreciated by 0.37 per cent against the dollar.

The value of the rand continued to be stronger against the euro amid the ongoing war between Russia and Ukraine, which has weighed negatively on the euro. However, the stronger value of the rand was moderated by floods in KwaZulu Natal, which hampered production in key sectors, such as, manufacturing. The value of the rand also deteriorated following the publication of weak economic prospects for South Africa, as reported in the IMF April 2022 World Economic Outlook. This was coupled with Fed interest rate hike, which strengthened the dollar and, therefore, weakened the rand against the dollar.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

Government total expenditure was estimated to have decreased considerably by 27.3 per cent in April 2022, in comparison to a drastic rise of 30.9 per cent in March 2022. This followed normalisation subsequent to a relatively higher government spending as the fiscal year was coming to a close.

Outlays by Functions

The share of capital outlays was low as the month coincided with the start of the new fiscal year. That was mainly due to reprogramming and budget alignment. In terms of functional allocation of resources, general public service and education were the largest recipients.

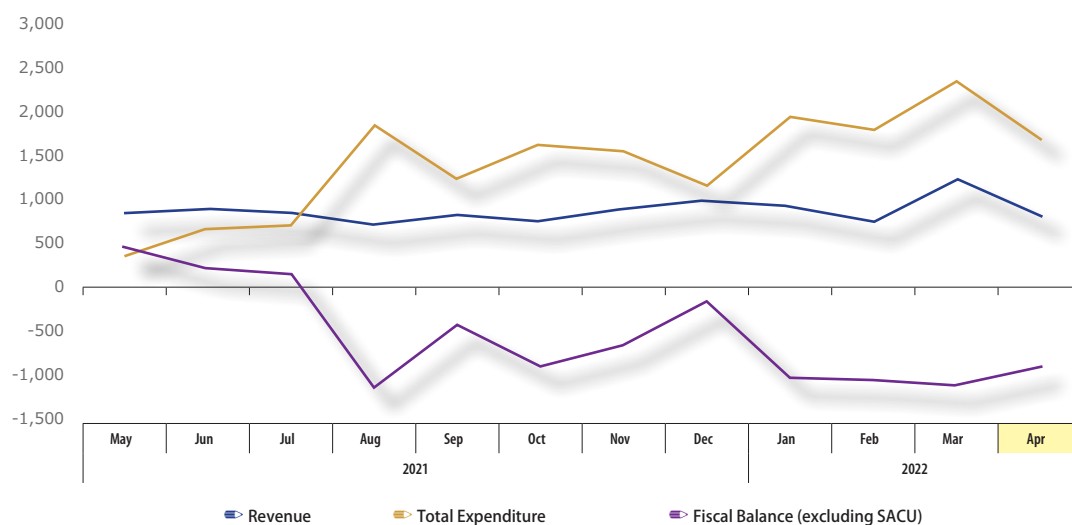
Total Revenue

The Government revenue, excluding SACU receipts, decreased by half, during the month under review, relative to a revised rise of 79.3 per cent in the previous month. The most negatively affected components of revenue were income tax, excise taxes, and current grants from foreign governments. The SACU receipts, similarly, declined by 10.1 per cent on year-on-year basis as the revised revenue sharing formula came into effect.

Fiscal Balance and Financing

The fiscal operations registered an increase in both domestic financial assets and liabilities. The surge under domestic assets mainly emanated from savings from SACU receipts, while the increase in liabilities was due to committed expenditure incurred in the preceding month, coupled with accumulation of new external debt.

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)

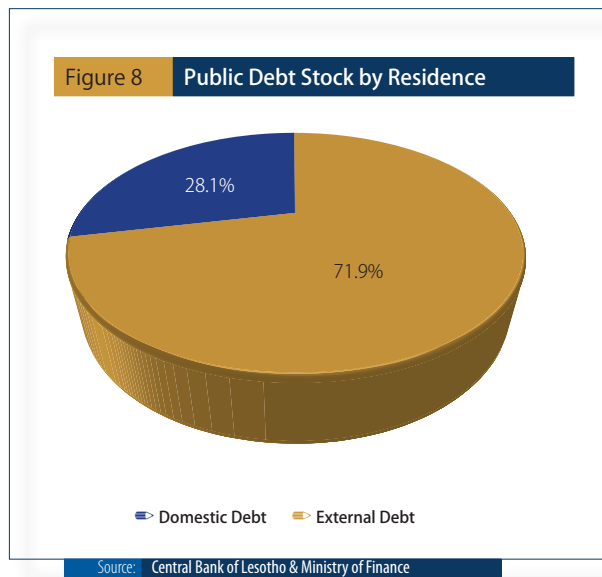
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		30.5%	21.6%	28.9%	68.7%	0.0%	1.8%	31.0%	34.4%
Defense		5.4%	1.1%	0.0%	0.0%	0.0%	0.0%	0.0%	2.7%
Public Order and Safety		15.3%	23.7%	0.0%	3.4%	0.0%	0.0%	0.1%	9.5%
Economic Affairs		6.3%	7.2%	12.2%	6.8%	0.0%	98.2%	56.4%	19.2%
Environmental Protection		0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Housing and Community Amenities		0.6%	0.1%	0.0%	2.7%	0.0%	0.0%	11.8%	1.2%
Health		6.0%	39.0%	58.4%	0.0%	10.7%	0.0%	0.8%	6.4%
Recreation, Culture, and Religion		0.7%	1.3%	0.0%	0.1%	0.0%	0.0%	0.0%	0.4%
Education		23.2%	5.6%	0.5%	18.3%	0.0%	0.0%	0.0%	16.0%
Social Protection		12.0%	0.4%	0.0%	0.0%	89.3%	0.0%	0.0%	10.1%
Share per Economic Item		48.3%	5.1%	1.7%	24.9%	4.8%	12.9%	2.3%	100.0%

Source: CBL and MOF

V. PUBLIC DEBT

The public debt stock was estimated at 50.1 per cent of GDP in April 2022, following the revised 50.7 per cent of GDP in March 2022. This was equivalent

to a 1.2 per cent decrease from the level recorded in March. This decrease was largely driven by depreciation of external debt stock.



Appendix: Key Economic Indicators

		21-Nov	21-Dec	22-Jan	22-Feb	22-Mar	22-Apr	
Economic Activity (MIEA (% change, M/M))		6.9	3.2	0.5	-3.5	-1.8	-1.9	
Consumer price Index (% change)	Headline Inflation (year-on-year)	6.4	6.8	7.6	7.5	7.2	7.3	
	Core Inflation	4.2	4.2	4.9	4.9	4.6	4.7	
Exchange Rates (Monthly End Period)	EUR	18.22	18.07	17.36	17.27	16.19	16.60	
	GBP	21.41	21.5	20.88	20.65	19.15	19.78	
	USD	16.05	15.95	15.56	15.43	14.58	15.77	
Money Supply (Millions of Maloti)	M2	14,190.67	14,867.90	14,378.20	14,259.33	14,105.47	14,037.84	
	M1	6,417.32	7,120.26	6,814.43	6,749.37	6,640.23	6,610.03	
	Quasi Money	7,773.35	7,747.64	7,563.77	7,509.96	7,465.25	7,427.80	
Interest Rates	CBL Rate	3.75	3.75	3.75	4.00	4.25	4.25	
	91 day Treasury bill rate	3.35	4.06	4.09	4.16	4.45	4.45	
	Prime lending rate	8.19	8.44	8.44	8.69	8.69	8.00	
	1 year deposit rate	3.53	3.2	2.8	2.90	2.75	2.75	
Private sector Credit (Millions of Maloti)		8,041.98	7,958.23	8,007.95	8,005.69	7,959.63	7,961.09	
	Households	5,785.78	5,879.24	5,878.69	5,893.88	5,884.56	5,889.53	
	Business Enterprises	2,252.22	2,072.61	2,123.95	2,105.67	2,068.10	2,065.66	
	Non-profit Organisations	3.98	6.38	5.31	6.14	6.97	5.90	
Bank Deposit Liabilities (Millions of Maloti)		14,750.30	15,449.52	15,319.10	14,972.33	14,708.53	14,879.60	
Credit to Deposit Ratio (%)		54.41	51.38	52.13	53.18	53.99	53.25	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-637.14	-168.50	487.48	-1036.29	-994.11	475.22	
	Total Revenue (with SACU receipts)	903.43	1003.40	2426.86	749.71	1344.19	2169.27	
	Total Expenditure	1540.57	1171.90	1939.37	1786.00	2338.30	1694.05	
	O/W Capital	163.46	158.46	184.97	450.57	716.48	60.29	
Total Public Debt (Millions of Maloti)		20200.32	20193.71	20051.26	20183.60	19446.21	19218.61	
	Total External Debt	15129.60	14858.80	14745.60	14694.10	13874.30	13822.10	
	External Debt	Concessional	11790.20	11567.90	11195.60	11101.00	10386.50	10365.50
		Non-concessional	3339.40	3290.90	3550.00	3593.10	3487.80	3456.60
	Domestic Debt	5070.72	5334.91	5305.66	5489.50	5571.91	5396.51	
Memo Item: Arrears (Millions of Maloti)		0.00	0.00	2.33	0.59	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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