



# Monthly ECONOMIC REVIEW

DECEMBER 2022

CENTRAL BANK OF LESOTHO  
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## I. ECONOMIC ACTIVITY

Economic performance was relatively poor in December 2022 compared to the same period in the past. Both manufacturing and demand continued to contribute to the sluggish performance of the economy.

### Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) declined by 0.3 per cent, compared to the 2.0 per cent contraction recorded in the preceding month. Both demand and the manufacturing industry continued to weigh down on overall activity. Nevertheless, the construction and transport industries remained resilient and moderated the impact. The slowdown in international economic activity had negative spillovers on the local economy.

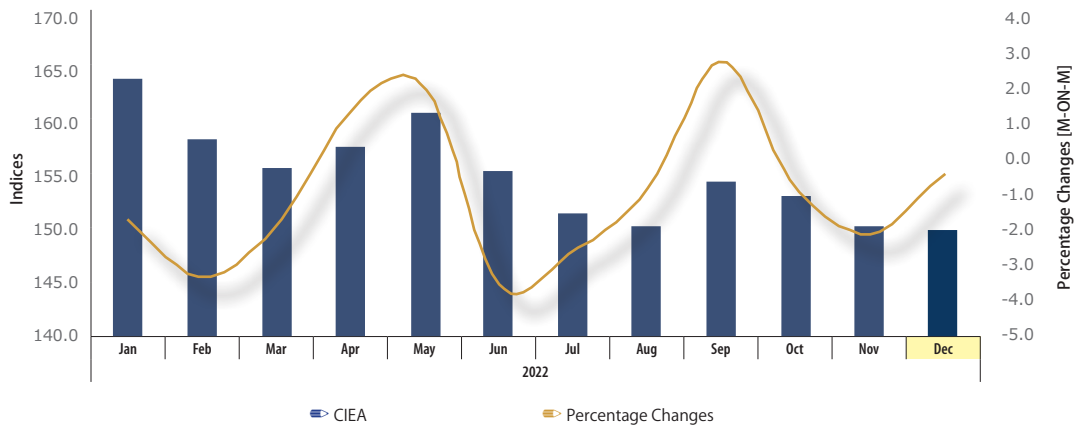
### Domestic Demand Category

Domestic demand remained weak in the review month. The domestic demand index declined by 1.1 per cent, in comparison to the 1.2 per cent contraction in the preceding month. Low government spending, coupled with weak imports of goods and services and real earnings, contributed to the weak performance of the index. The retail industry, however, cushioned the overall decline in demand.

### Manufacturing and Production Category

The manufacturing and production category remained under pressure and registered a 1.7 per cent negative growth. However, this was a slower decline than the 3.5 per cent contraction recorded in the preceding month. The sluggish performance continued to be broad-based, as most of the variables, namely: utilities, exports of textiles to the US market and imports of raw materials, contributed negatively to the 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	2022							
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>CIEA</b>	161.4	155.8	151.8	150.5	154.8	153.6	150.5	150.1
Monthly changes	2.1	-3.5	-2.6	-0.8	2.8	-0.8	-2.0	-0.3
<b>Domestic Demand Category</b>	162.6	151.7	142.6	145.4	151.7	152.6	150.8	149.1
Monthly changes	9.6	-6.7	-6.0	2.0	4.3	0.6	-1.2	-1.1
<b>Manufacturing &amp; Production Category</b>	115.1	116.8	110.1	107.1	105.4	101.8	98.2	96.6
Monthly changes	-3.4	1.4	-5.7	-2.7	-1.6	-3.4	-3.5	-1.7

Source: Central Bank of Lesotho (CBL) Calculations

## II. INFLATION AND PRICES

### Headline Inflation

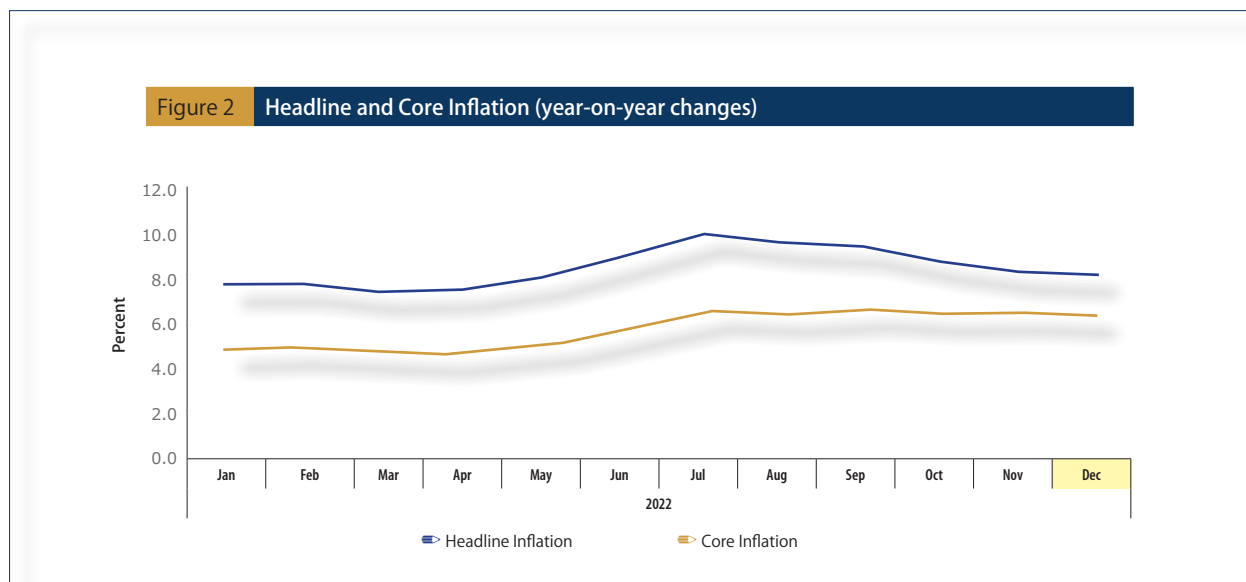
The consumer price inflation was 8.0 per cent in December 2022, after falling from 8.1 per cent in November 2022.

The marginal fall in the inflation rate was mainly due to the drop in global natural gas prices at the back of increased supply from alternative sources, reduced demand, and amply filled gas storages. Nonetheless, energy and food prices continued to exert upward pressure on the inflation rate during

the review period. The weaker exchange rate (Rand per US dollar) and the relatively higher crude oil prices raised the inflation rate during the review period. This is despite falling global food prices.

### Core Inflation

Core inflation, which excludes items with extreme price changes, slightly moderated during the review period. It was estimated at 6.4 per cent in December 2022 from 6.5 per cent in November of the same year.

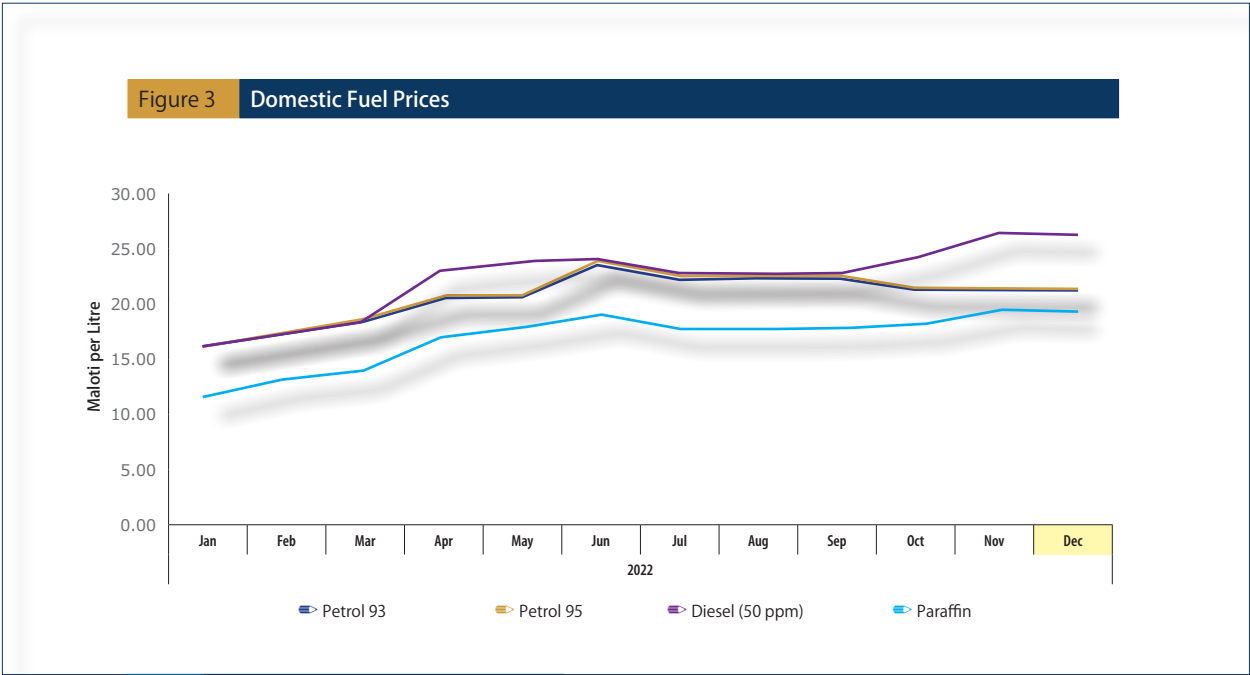


Source: Lesotho Bureau of Statistics & CBL Computation

### Domestic Fuel Prices

As per the Government’s policy on fuel subsidy, the prices of all domestic fuel products remained unchanged in December 2022 from their levels in November 2022. The pump prices of both grades

of petrol (*petrol<sub>93</sub>* and *petrol<sub>95</sub>*) were M21.25 per litre and M21.60 per litre, and the *diesel<sub>50</sub>* was at M26.45 per litre during the review period. The retail price of illuminating paraffin also remained the same during the review period.



Source: Petroleum Fund

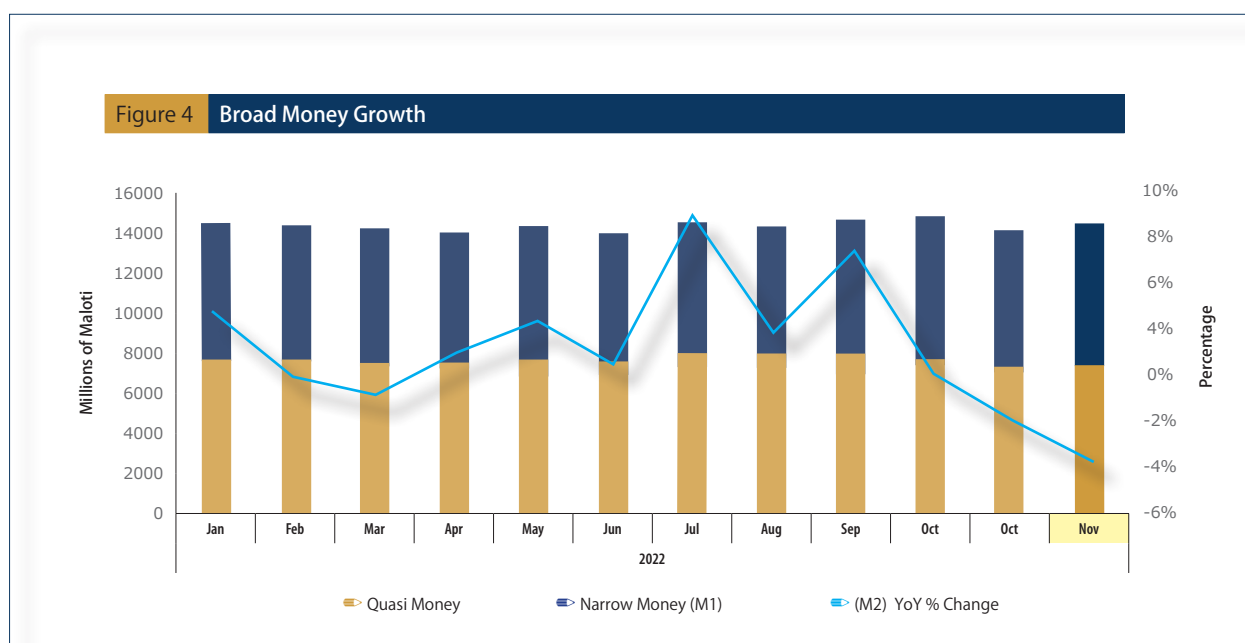
### III. MONETARY AND FINANCIAL INDICATORS

#### Broad Money (M2)

The broadly defined money supply (M2) increased by 2.5 per cent in December 2022 from a decline of 1.7 per cent in November 2022. This emanated from a marginal increase of 0.8 per cent in net foreign assets (NFA) and a 6.9 per cent increase in net domestic assets (NDA). The increase in NFA was underpinned by a rise in commercial banks' NFA. Conversely, NDA benefitted mainly from a drawdown in government deposits held with Central Bank.

#### Components of Money Supply

Narrow money (M1) and quasi money both increased by 3.6 per cent and 1.7 per cent, respectively. The growth in M1 was mainly due to an increase in transferable deposits held by business enterprises and households. The rise in quasi money emanated from an increase in call deposits held by other financial corporations and business enterprises.

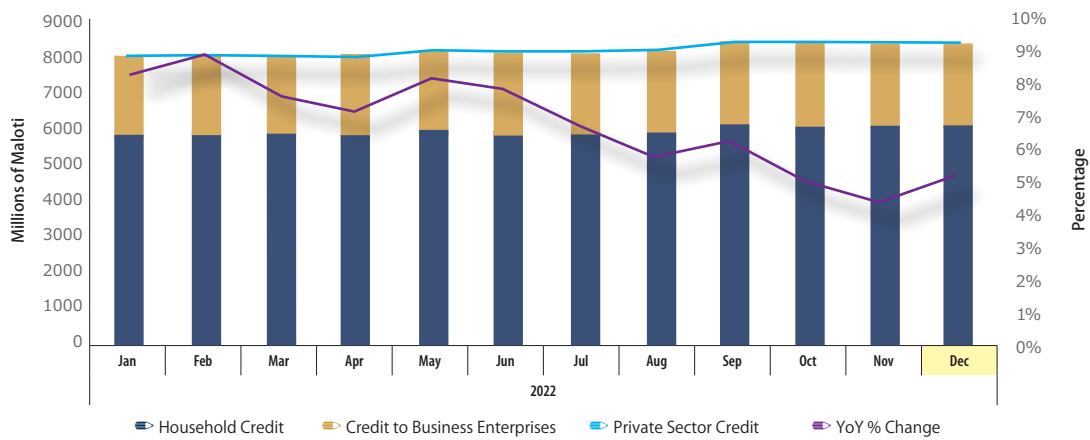


#### Private Sector Credit

The total loans and advances extended to the private sector decreased slightly by 0.3 per cent in December, in contrast to a marginal increase of 0.2 per cent in the preceding month. This was due to a fall of 1.6 per cent in loans to business enterprises. Household credit remained relatively unchanged, as a 0.3 per cent growth in mortgage loans was insufficient to influence overall changes.

Considering the allocation of credit to business enterprises, wholesale & retail trade, restaurants & hotels, real estate & business services, as well as mining & quarrying, received the largest shares of 25.7 per cent, 25.6 per cent and 18.4 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 5.0 per cent in December 2022.

**Figure 5 Private Sector Credit**



Source: Central Bank of Lesotho

### Non-Performing Loans

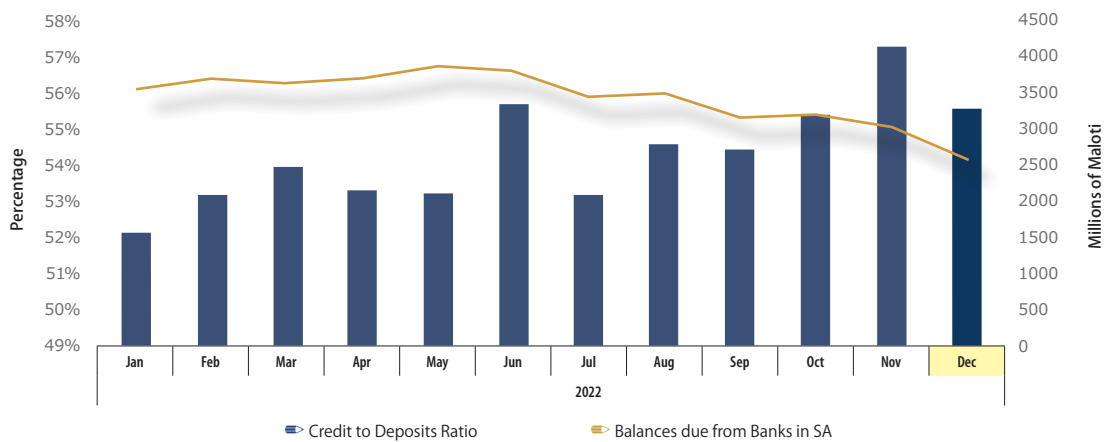
The total non-performing loans (NPLs) as a ratio of total loans remained fairly stable at 4.3 per cent in December 2022 from 4.4 per cent in November 2022. The NPLs for business enterprises fell to 5.0 per cent from 5.1 per cent, whereas household sectors NPLs remained unchanged at 4.1 per cent. The largest shares of business sector NPLs continue

to be attributable to construction, wholesale & real estate & retail trade, restaurants & hotels, and business services.

### Sources of Funds

The credit to deposit ratio deteriorated to 55.6 per cent in December from 57.4 in November. An increase in total deposits explained this, whereas credit remained muted.

**Figure 6 Credit to Deposit Ratio**



Source: Central Bank of Lesotho

## Interest Rates

The CBL policy rate remained unchanged between November and December 2022 at 7.00 per cent. However, the prime lending rate and 1-year deposit rate increased to 10.75 per cent and 4.47 per cent, respectively. The 91-day T-bill rate declined by two basis points to 6.36 per cent in December from 6.38 per cent in November.

## Foreign Exchange

In December 2022, the rand hence loti, performed relatively well against the euro and pound, while it lost momentum against the dollar. It appreciated by 2.75 per cent and 2.60 per cent against the euro and pound, while it depreciated by 1.28 per cent against the dollar in December 2022 compared to a month earlier.

The rand hence loti, was primarily supported by the South African's president re-election as the president of the ANC. This was coupled with positive developments surrounding China's reopening of the economy following the partial lockdown associated with COVID-19, which boosted sentiments for emerging market currencies, including the rand. Nonetheless, against the dollar, the rand remained weak as the dollar strengthened alongside further policy rate hikes by the US Federal Reserve.

## IV. GOVERNMENT BUDGETARY OPERATIONS

### Total Expenditure<sup>1</sup>

Government total expenditure was estimated to decrease by 5.5 per cent in December 2022, compared to a decrease of 14.4 per cent in November 2022. This was mainly due to subsidies to non-financial public corporations, old age pension, school feeding program as well as capital projects.

The share of capital outlays to total outlays slightly increased by 6.6 per cent from 6.2 per cent. This was due to an increase in the share of economic affairs and general public services sectors, moderated by the fall in the housing sector.

### Total Revenue

The Government revenue, excluding SACU receipts, increased by 27.7 per cent in the review month, from a decline of 10.3 per cent recorded in the prior month. This resulted from an improvement in tax revenue (personal income tax, company taxes, withholding tax) and non-tax revenue (water royalties).

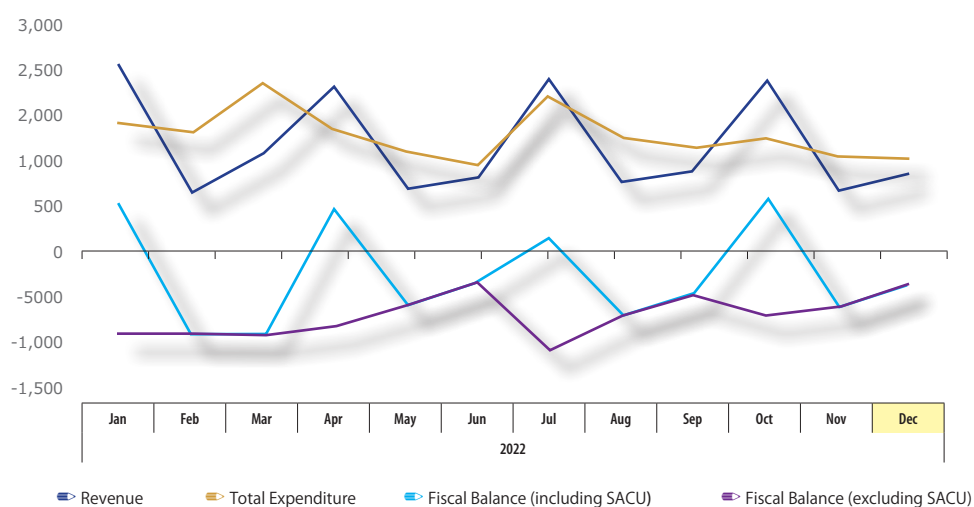
### Fiscal Balance and Financing

The fiscal operations reflected a fall in both the financial assets and liabilities. The redemption of Treasury securities and amortisation of the foreign loans caused the reduction in assets.

<sup>1</sup> The year-to-date refers to an accumulation within a fiscal year, starting from April.



**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 (Percent Change)**

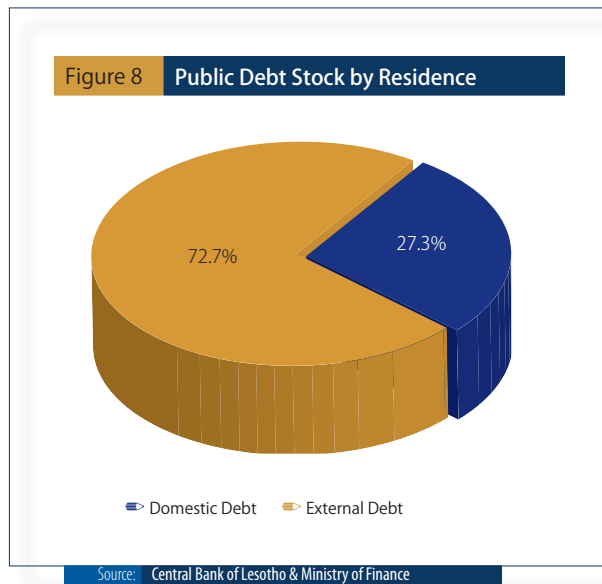
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		27.5%	12.7%	0.0%	94.5%	0.0%	100.0%	0.3%	21.9%
Defense		6.2%	8.6%	0.0%	0.0%	0.0%	0.0%	0.0%	5.6%
Public Order and Safety		17.4%	6.2%	0.0%	0.4%	0.0%	0.0%	4.4%	11.6%
Economic Affairs		6.7%	24.2%	0.0%	4.0%	0.0%	0.0%	95.0%	16.3%
Environmental Protection		0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
Housing and Community Amenities		0.6%	0.2%	0.0%	0.0%	0.0%	0.0%	0.3%	0.4%
Health		6.3%	43.7%	100.0%	0.0%	25.9%	0.0%	0.0%	19.7%
Recreation, Culture, and Religion		0.8%	0.7%	0.0%	1.1%	0.0%	0.0%	0.0%	0.6%
Education		26.6%	2.2%	0.0%	0.0%	0.0%	0.0%	0.0%	15.4%
Social Protection		7.9%	1.5%	0.0%	0.0%	74.1%	0.0%	0.0%	8.6%
<b>Share per Economic Item</b>		<b>55.7%</b>	<b>25.0%</b>	<b>3.9%</b>	<b>3.2%</b>	<b>5.1%</b>	<b>0.3%</b>	<b>6.7%</b>	<b>100.0%</b>

Source: CBL and MOF

## V. PUBLIC DEBT

The ratio of public debt stock to GDP slightly decreased and was estimated at 59.9 per cent from the revised 60.9 per cent. The redemption of

Treasury bills and foreign loans amortisation were the causes of the 0.4 per cent decrease.



## Appendix: Key Economic Indicators

		22-Jul	22-Aug	22-Sep	22-Oct	22-Nov	22-Dec	
Economic Activity (MIEA (% change, M/M))		-3.5	-2.6	-0.9	2.8	-1.9	0.3	
Consumer price Index (% change)	Headline Inflation (year-on-year)	8.8	9.8	9.4	9.2	8.5	8.0	
	Core Inflation	5.6	6.5	6.4	6.7	6.4	6.4	
Exchange Rates (Monthly End Period)	EUR	17.08	16.83	17.05	17.99	17.85	18.20	
	GBP	19.91	20.03	19.82	19.90	20.51	20.56	
	USD	16.43	16.54	17.03	17.54	18.16	17.08	
Money Supply (Millions of Maloti)	M2	13,815.35	14,372.60	14,250.90	14,580.08	14,222.19	14,335.89	
	M1	6,303.45	6,485.86	6,455.37	6,667.51	6,553.52	6,857.45	
	Quasi Money	7,511.90	7,886.74	7,795.53	7,912.57	7,668.67	7,478.44	
Interest Rates	CBL Rate	4.75	5.50	5.50	6.25	6.25	7.00	
	91 day Treasury bill rate	4.45	4.94	5.62	6.34	6.38	6.36	
	Prime lending rate	8.25	9.00	9.00	9.75	9.75	10.50	
	1 year deposit rate	3.41	3.48	3.48	4.24	4.24	4.47	
Private sector Credit (Millions of Maloti)		8,124.05	8,070.42	8,122.32	8,467.37	8,364.98	8,356.83	
	Households	5,981.28	5,949.52	5,900.89	6,224.04	6,109.38	6,140.63	
	Business Enterprises	2,136.76	2,114.33	2,215.34	2,237.28	2,249.76	2,209.92	
	Non-profit Organisations	6.01	6.57	6.09	6.05	5.85	6.28	
Bank Deposit Liabilities (Millions of Maloti)		14,714.39	15,318.09	15,163.65	15,382.96	15,037.82	15,145.56	
Credit to Deposit Ratio (%)		55.67	53.19	54.59	54.48	55.49	55.55	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	180.42	-696.07	-421.85	640.42	-571.67	-280.32	
	Total Revenue (with SACU receipts)	2,227.67	863.68	1,037.62	2,224.93	784.79	1,002.15	
	Total Expenditure	2,047.26	1,559.75	1,459.47	1,584.51	1,356.47	1,282.48	
	O/W Capital	282.91	212.78	120.87	150.80	88.88	81.89	
Total Public Debt (Millions of Maloti)		21,150.16	21,671.13	22,669.88	23,032.89	22,572.25	22,491.78	
	Total External Debt	15,336.72	15,718.72	16,216.16	16,480.27	16,248.30	16,341.31	
	External Debt	Concessional	11,384.49	11,655.01	12,094.11	12,308.65	11,942.76	12,050.10
		Non-concessional	3,952.23	4,063.71	4,122.05	4,171.62	4,305.54	4,291.21
	Domestic Debt		5,813.45	5,813.45	5,952.41	6,453.72	6,552.62	6,323.96
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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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)