



Monthly ECONOMIC REVIEW

MARCH 2022

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY

Economic activity continued to contract in March 2022. Both demand and manufacturing contributed to the lacklustre overall performance of the economy.

Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) index point to a weak economic performance in March 2022. The index declined by 1.8 per cent in March, albeit at a slower rate than the 3.5 contraction recorded in February 2022. Contraction in the index was fortified by poor performance in both demand and production sides of the economy. However, the transport and construction industries cushioned the decline in activity with positive contributions in the review month.

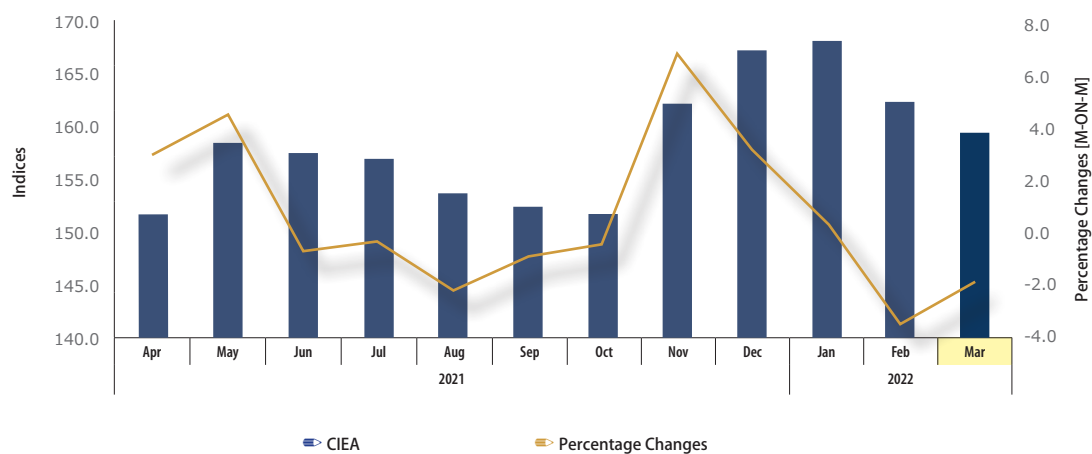
Domestic Demand Category

The demand category continued with the poor performance in the review month. The index declined by 1.3 per cent in March. This was, however, an improvement from the steep decline of 11.0 per cent observed in the preceding month. Poor performance of the index was mainly driven by slow performance in government activity. However, demand for imports from South Africa (SA) and the general consumer spending, as represented by higher value added taxes (VAT) collections, moderated the sluggish performance.

Manufacturing and Production Category

The production and manufacturing activity remained weak in March 2022. The index declined by 5.0 per cent, a relatively slower rate compared to the 5.4 per cent contraction in the previous month. The decline was mainly attributable to a slowdown in the use of utilities in production, especially the use of electricity. Manufacturing inputs from SA and exports of textiles to the US markets remained strong, nevertheless.

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		
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
CIEA	153.8	152.5	151.9	162.3	167.5	168.4	162.5	159.6
Monthly changes	-2.1	-0.9	-0.4	6.9	3.2	0.5	-3.5	-1.8
Domestic Demand Category	142.0	140.9	136.7	152.5	159.1	166.8	148.4	146.5
Monthly changes	0.4	-0.8	-2.9	11.6	4.3	4.8	-11.0	-1.3
Manufacturing & Production Category	106.9	101.6	108.6	124.4	132.7	133.9	126.6	120.3
Monthly changes	-5.3	-5.0	6.9	14.5	6.7	0.9	-5.4	-5.0

Source: Central Bank of Lesotho (CBL) Calculations

II. INFLATION AND PRICES

Headline Inflation

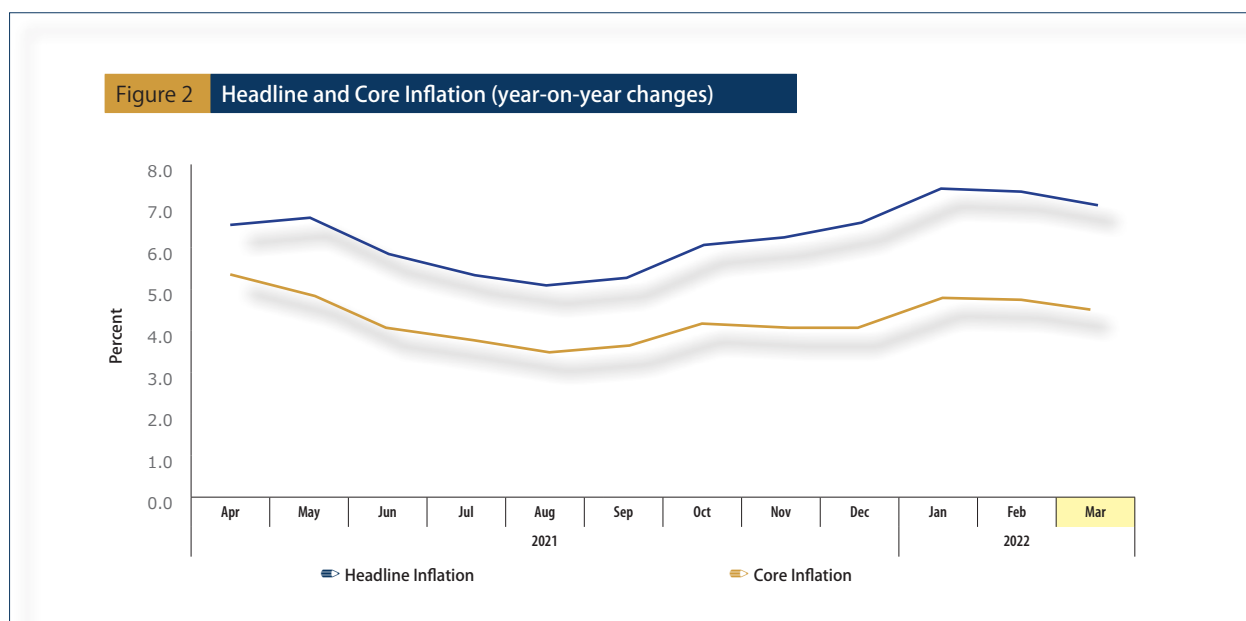
The headline consumer price inflation declined to 7.2 per cent in March 2022 from 7.5 per cent in February 2022. *Housing, Water, Electricity, Gas and Other Fuels, Education, and Food and Non-alcoholic beverages* contributed to the decline in inflation during the review period.

In particular, the fall in prices for education, in addition to the end of the lean season and good supply situations that were buoyed by maize

production prospects in 2022 led to a moderate decline in food price. This further benefited from the moderate appreciation also drove the fall in energy and food prices.

Core Inflation

Underlying inflation pressures, measured by core inflation, abated during the review period. Core inflation declined from 4.9 per cent in February 2022 to 4.6 per cent in March 2022.

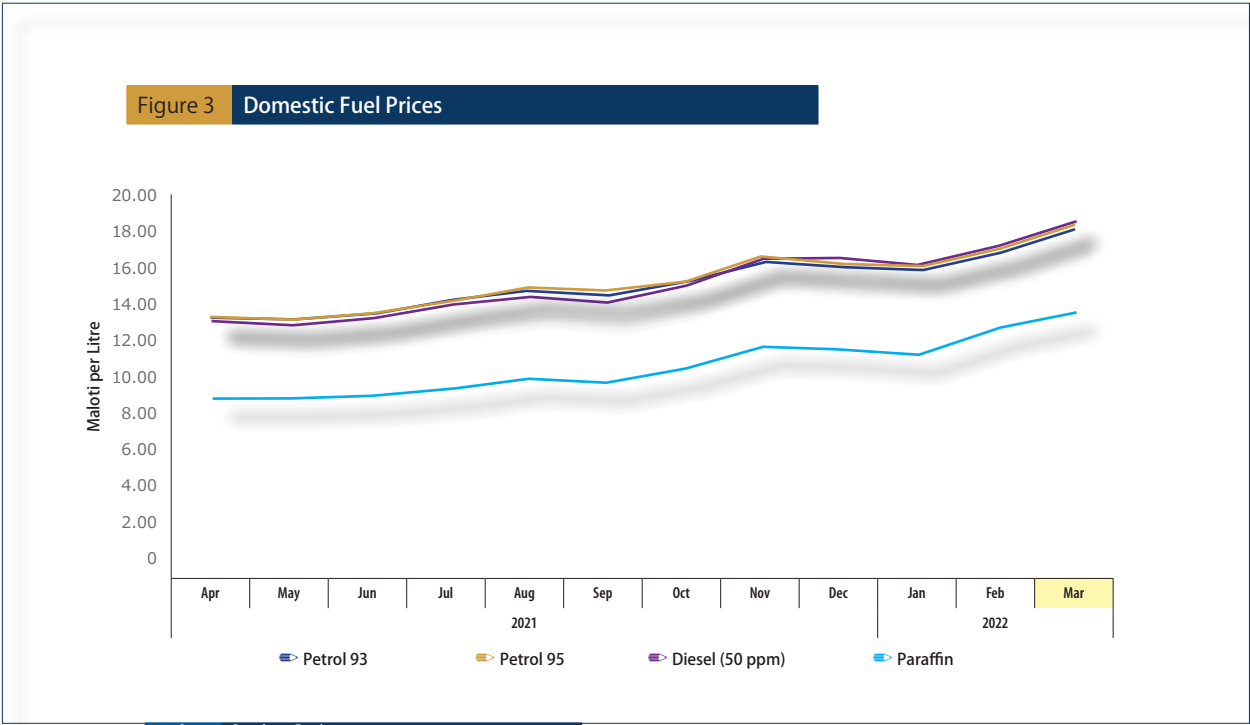


Source: Lesotho Bureau of Statistics & CBL Computation

Domestic Fuel Prices

The prices of all domestic petroleum products increased in March 2022 from their levels recorded in February 2022. Prices of both grades of petrol (*petrol₉₃* and *petrol₉₅*) rose by M1.25 per litre each.

Their pump prices in March 2022 were M18.40 and M18.55 per litre, respectively. The price of *diesel₅₀* also increased but by M1.20 per litre and was sold at M18.55 at the pump. The retail price of illuminating paraffin increased by M0.80 per litre and was M13.90 per litre during the review period.



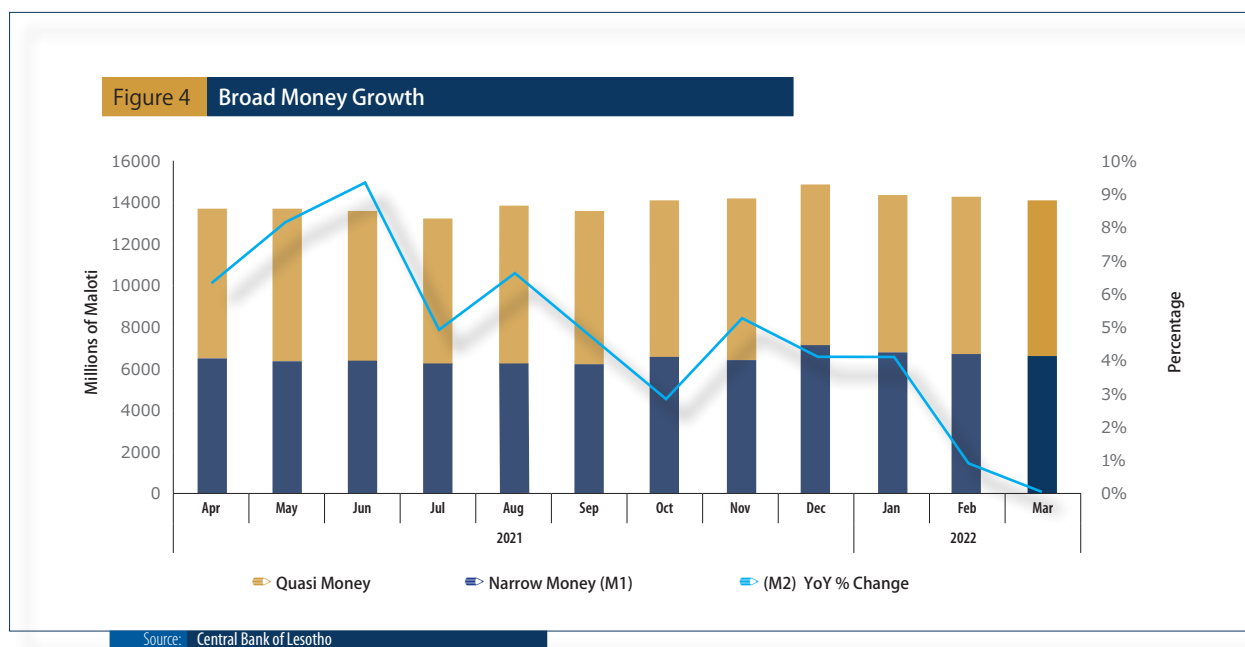
III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

Broad money supply (M2) declined by 1.1 per cent in March 2022, following a decline of 0.8 per cent in February 2022. This was due to a fall of 4.4 per cent in net foreign assets (NFA), which was moderated by 9.0 per cent increase in net domestic assets (NDA). The decline in NFA was due to a fall in both the central bank and commercial banks' NFA. Conversely, NDA growth benefitted from the drawdown of government deposits within the banking system.

Components of Money Supply

Both the narrow money (M1) and quasi money contracted by 1.6 per cent and 0.6 per cent, respectively, during the review period. The decline in M1 was mainly due to the fall in transferable deposits held by the business enterprises, while the decline in quasi money emanated from withdrawals in call and fixed term deposits by the business sector.

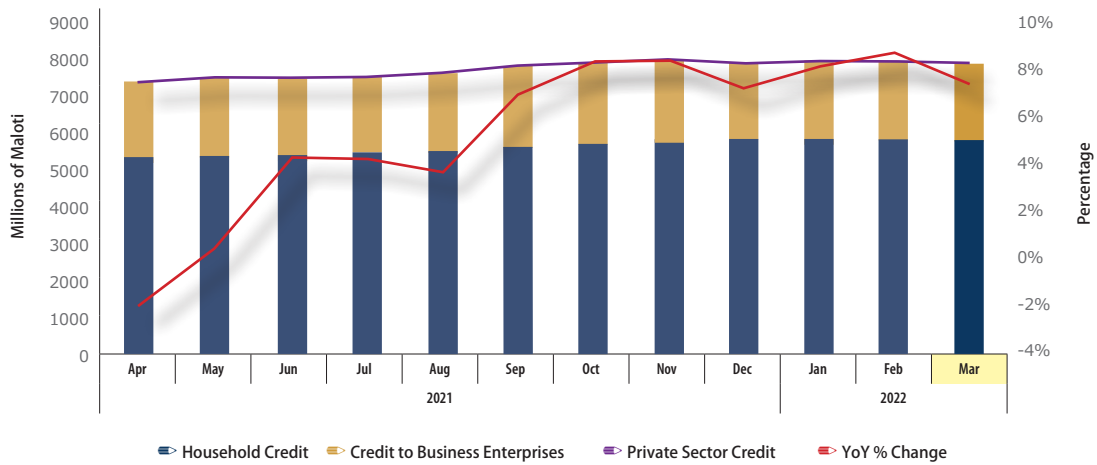


Private Sector Credit

Private sector credit declined by 0.6 per cent in March 2022, following a marginal fall of 0.04 per cent in February 2022. This followed a fall of 0.2 per cent and 1.8 per cent in households' credit and business sector credit, respectively. The households' credit was driven by a 0.6 per cent decline in personal loans, while a 1.2 per cent growth in mortgage loans was not enough to counter the fall.

Considering the commercial banks' allocation of credit to business enterprises, real estate & business services continued to account for the largest share of 24.2 per cent, followed by transport, storage & communications with a share of 20.1 per cent. The electricity, gas and water sector also 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 7.4 per cent in March 2022.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

Non-Performing Loans

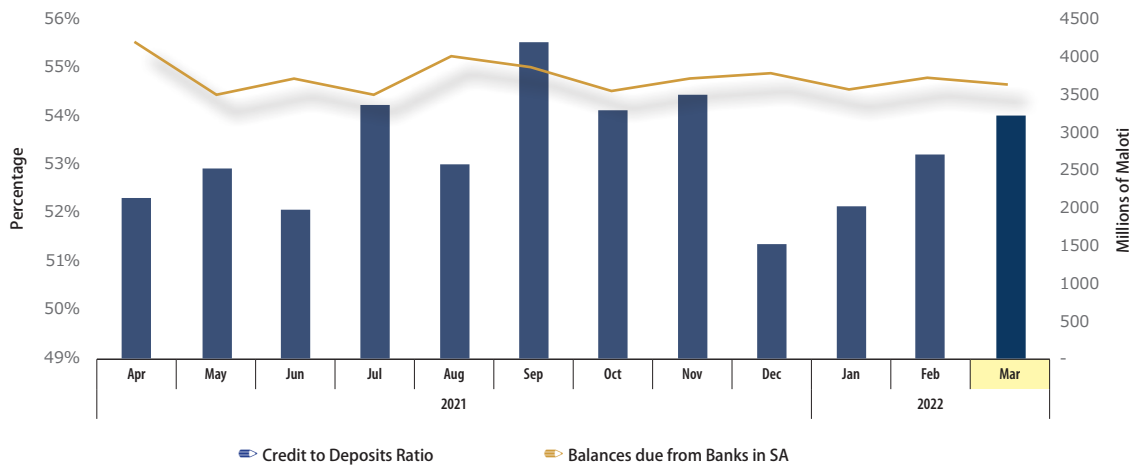
The ratio of non-performing loans (NPLs) to total loans rose slightly, from 4.3 per cent recorded in February to 4.4 per cent in March 2022. This was due to an increase in business sector NPLs, whereas household NPLs declined. The business sector NPLs increased from 4.9 per cent to 5.4 per cent because of an expansion in NPLs of real estate & business services, agriculture, hunting, forestry & fishing sectors and wholesale, retail trade, restaurants & hotels. Household NPLs fell by 0.1 percentage

points and stood at 4.0 per cent in March 2022. This emanated from a 0.5 percentage points decline in personal loans NPLs, lessened by a growth of 1.1 percentage points NPLs of mortgages.

Sources of Funds

The credit to deposit ratio increased from 53.2 per cent in February 2022, to 54.0 per cent in March 2022. This was mainly due to the drop in total deposits, notwithstanding the fall in private sector credit during the review period.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The CBL policy rate increased by 25 basis points to 4.25 per cent in the review period, following the MPC meeting of 29th March 2022. The average prime lending rate remained unchanged at 8.69 per cent between February and March. The 91-day T-bill discount rate rose by 29 basis points to 4.45 per cent, while 1-year deposit rate fell by 15 basis points to 2.75 per cent.

Foreign Exchange

The rand, and therefore, loti, generally appreciated against the dollar, pound and euro on average, in March 2022 compared to February 2022. Against the dollar, the rand appreciated by 1.53 per cent, while it appreciated by 4.11 per cent and 4.31 per

cent against the pound and the euro respectively.

The ongoing war between Russia and Ukraine, has proven to support the rand through higher prices for commodities such as gold and platinum, as South Africa is one of the leading producers and exporters for these commodities. The rand also gained support from the policy (repo) rate hike by the South African Reserve Bank (SARB) in March 2022 in a bid to tackle the increasing consumer prices.

However, the Federal Reserve also embarked on a monetary policy normalisation in March 2022, strengthening the value of the dollar. This, coupled with the ongoing load shedding in South Africa, weakened the value of the rand and thus moderated the observed average appreciation of the South African currency in March 2022.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

Government total expenditure was estimated to increase significantly by 30.9 per cent in March 2022, the last month of the Government's fiscal year, relative to a fall of 7.9 per cent in February 2022. This increase was mainly due to high spending on purchase of health services, production of materials and goods, and, transfers to extra-budgetary units.

Outlays by Functions

The current outlays continued to rank higher out of the total spending of the Government. Likewise, the economic affairs, be it current or capital, has received the largest percentage share of total outlays, followed by general public service, and health functions.

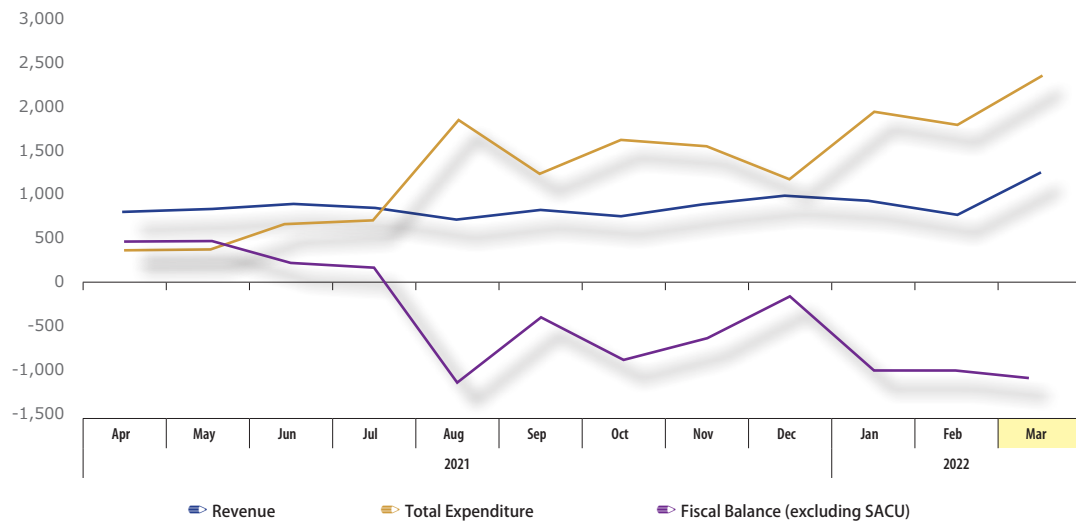
Total Revenue

The Government revenue increased considerably by 61.3 per cent during the month under review, while it declined by 18.4 per cent in February 2022. Revenue categories that included the once off rand monetary compensation, VAT, income tax, and excise tax contributed largely to this increase.

Fiscal Balance and Financing

The fiscal operations continued to reflect a decline in the domestic financial assets, and with it, liabilities continued to increase. The fall in the financial assets resembled what is called March-final, whereby most spending surged during the end of the fiscal year and thus, contributing to other accounts payable under liabilities, and hence, a rise in 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)

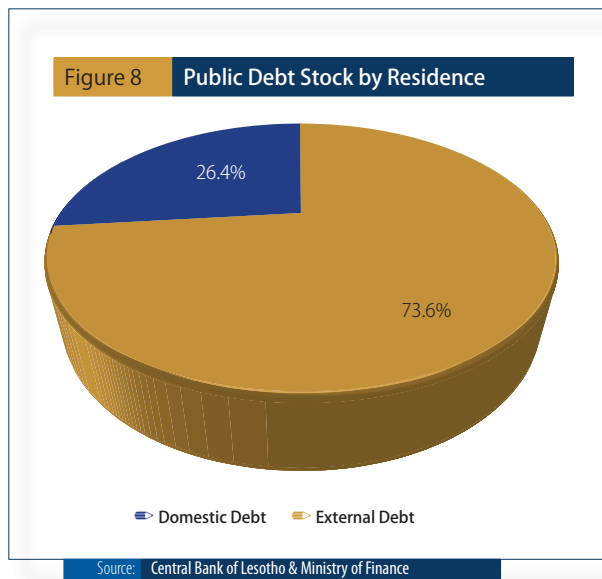
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		30.2%	15.3%	0.0%	6.7%	0.0%	98.4%	8.2%	18.7%
Defense		4.9%	12.4%	0.0%	72.9%	0.0%	0.0%	1.0%	7.5%
Public Order and Safety		14.2%	3.7%	0.0%	0.0%	0.0%	0.8%	1.0%	6.9%
Economic Affairs		5.5%	21.9%	0.0%	5.4%	1.4%	0.0%	83.9%	30.6%
Environmental Protection		0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Housing and Community Amenities		0.6%	0.2%	0.0%	5.6%	0.0%	0.0%	4.9%	1.8%
Health		5.6%	38.5%	99.9%	0.0%	94.2%	0.0%	0.0%	15.9%
Recreation, Culture, and Religion		0.6%	0.6%	0.0%	9.4%	0.0%	0.0%	0.7%	0.9%
Education		23.0%	5.7%	0.1%	0.0%	0.0%	0.0%	0.3%	10.8%
Social Protection		15.3%	1.4%	0.0%	0.0%	4.4%	0.8%	0.0%	6.7%
Share per Economic Item		41.1%	22.1%	4.3%	3.4%	0.9%	0.4%	27.8%	100.0%

Source: CBL and MOF

V. PUBLIC DEBT

The public debt stock was estimated at 55.8 per cent of GDP in March 2022, which was up from 55.3 per cent of GDP in February 2022. Thus, the debt stock in the month was marginally higher than the previous monthly stock by 0.9 per cent.

This slight expansion was largely due to issuance of treasury bonds coupled with new external debt that financed infrastructure projects.



Appendix: Key Economic Indicators

		21-Sep	21-Oct	21-Nov	21-Dec	22-Jan	22-Feb	
Economic Activity (MIEA (% change, M/M))		-0.9	-0.4	6.9	3.2	0.5	-3.4	
Consumer price Index (% change)	Headline Inflation (year-on-year)	5.4	6.2	6.4	6.8	7.6	7.5	
	Core Inflation	3.7	4.3	4.2	4.2	4.9	4.9	
Exchange Rates (Monthly End Period)	EUR	17.53	17.72	18.22	18.07	17.36	17.27	
	GBP	20.38	20.97	21.41	21.5	20.88	20.65	
	USD	15.12	15.24	16.05	15.95	15.56	15.43	
Money Supply (Millions of Maloti)	M2	13,624.50	14,096.69	14,190.67	14,867.90	14,378.20	14,259.33	
	M1	6,289.92	6,619.57	6,417.32	7,120.26	6,814.43	6,749.37	
	Quasi Money	7,334.58	7,477.12	7,773.35	7,747.64	7,563.77	7,509.96	
Interest Rates	CBL Rate	3.5	3.5	3.75	3.75	3.75	4.00	
	91 day Treasury bill rate	3.45	3.35	3.35	4.06	4.09	4.16	
	Prime lending rate	8.19	8.19	8.19	8.44	8.44	8.69	
	1 year deposit rate	3.53	3.53	3.53	3.20	2.80	2.90	
Private sector Credit (Millions of Maloti)		7,888.82	7,975.30	8,038.00	7,951.85	8,002.64	7,999.55	
	Households	5,697.47	5,722.52	5,785.78	5,879.24	5,878.69	5,893.88	
	Non-profit Organisations	2,191.35	2,252.78	2,252.22	2,072.61	2,123.95	2,105.67	
Bank Deposit Liabilities (Millions of Maloti)		14,234.28	14,750.70	14,750.30	15,449.52	15,319.10	14,972.33	
Credit to Deposit Ratio (%)		55.5	54.1	54.41	51.38	52.13	53.18	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-410.54	614.68	-637.14	-168.50	500.71	-1020.02	
	Total Revenue (with SACU receipts)	835.92	2,247.72	903.43	1,003.40	2,440.09	765.97	
	Total Expenditure	1,246.46	1,633.04	1,540.57	1,171.90	1,939.37	1,786.00	
	O/W Capital	155.37	214.43	163.46	158.46	184.97	450.57	
Total Public Debt (Millions of Maloti)		19,244.46	19,286.46	20,200.32	20,193.71	20,357.66	20,945.40	
	Total External Debt	14,299.90	14,342.20	15,129.60	14,858.80	15,160.60	15,354.00	
	External Debt	Concessional	11,115.20	11,141.30	11,790.20	11,567.90	11,580.00	11,773.40
		Non-concessional	3,184.70	3,200.90	3,339.40	3,290.90	3,580.60	3,580.60
	Domestic Debt	4,944.56	4,944.26	5,070.72	5,334.91	5,197.06	5,591.40	
Memo Item: Arrears (Millions of Maloti)		0.00	0.00	0.00	0.00	2.33	0.59	

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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