



# Monthly ECONOMIC REVIEW

NOVEMBER 2022

CENTRAL BANK OF LESOTHO  
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## I. ECONOMIC ACTIVITY

Economic performance remained weak in November 2022. The poor performance mainly emanated from persistently slow production activity, and to a lesser extent a slowdown in domestic demand.

### Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) showed a further contraction in November 2022. The index declined by 2.0 per cent, following 0.8 per cent contraction recorded in the preceding month. The poor performance was a result of sluggish activity by both the production and domestic demand categories. The transport and construction industries also contributed to the downturn in overall activity.

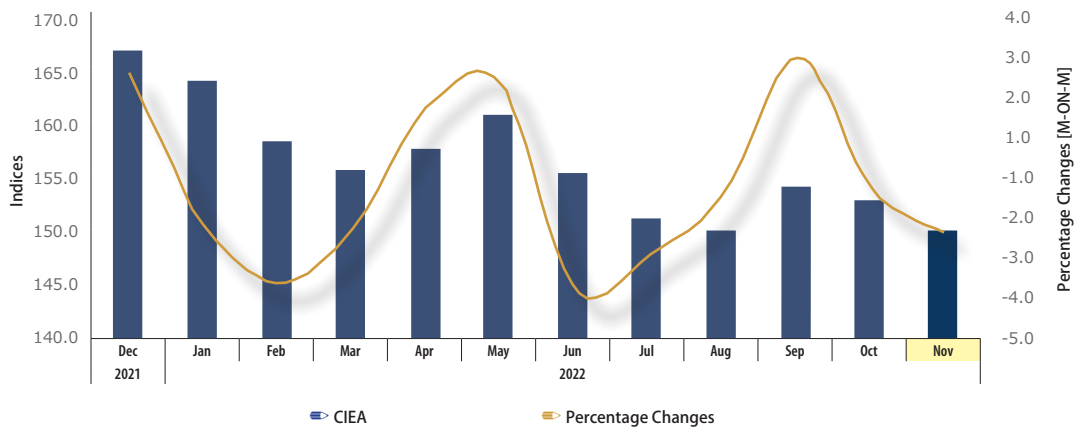
### Domestic Demand Category

The domestic demand index declined by 1.2 per cent, contrary to the 0.6 per cent growth that was realised in the preceding month. The fall was mainly accounted for by the lacklustre performance of imports of goods and services, as well as the real earnings, as measured by pay as you earn (PAYE), plus government purchases. This was, to some extent, attributed to elevated consumer prices during the review period. Nonetheless, the overall retail activity cushioned the overall decline.

### Manufacturing and Production Category

As the main contributor to the decline in overall activity, manufacturing performance continued to contract by 3.5 per cent, after recording an almost similar decline of 3.4 per cent in the preceding period. The sluggish performance was broad-based, as all the variables, namely: electricity consumption, water consumption, exports of textiles to the US market and imports of raw materials remained under pressure.

**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							
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
<b>CIEA</b>	157.9	161.2	155.6	151.5	150.2	154.5	153.2	150.1
Monthly changes	1.4	2.1	-3.5	-2.6	-0.9	2.8	-0.8	-2.0
<b>Domestic Demand Category</b>	148.5	162.6	151.8	142.6	145.5	151.7	152.6	150.8
Monthly changes	2.2	9.5	-6.7	-6.0	2.0	4.3	0.6	-1.2
<b>Manufacturing &amp; Production Category</b>	119.2	115.1	116.7	109.9	106.9	105.1	101.5	97.9
Monthly changes	-1.8	-3.4	1.4	-5.8	-2.8	-1.7	-3.4	-3.5

Source: Central Bank of Lesotho (CBL) Calculations

## II. INFLATION AND PRICES

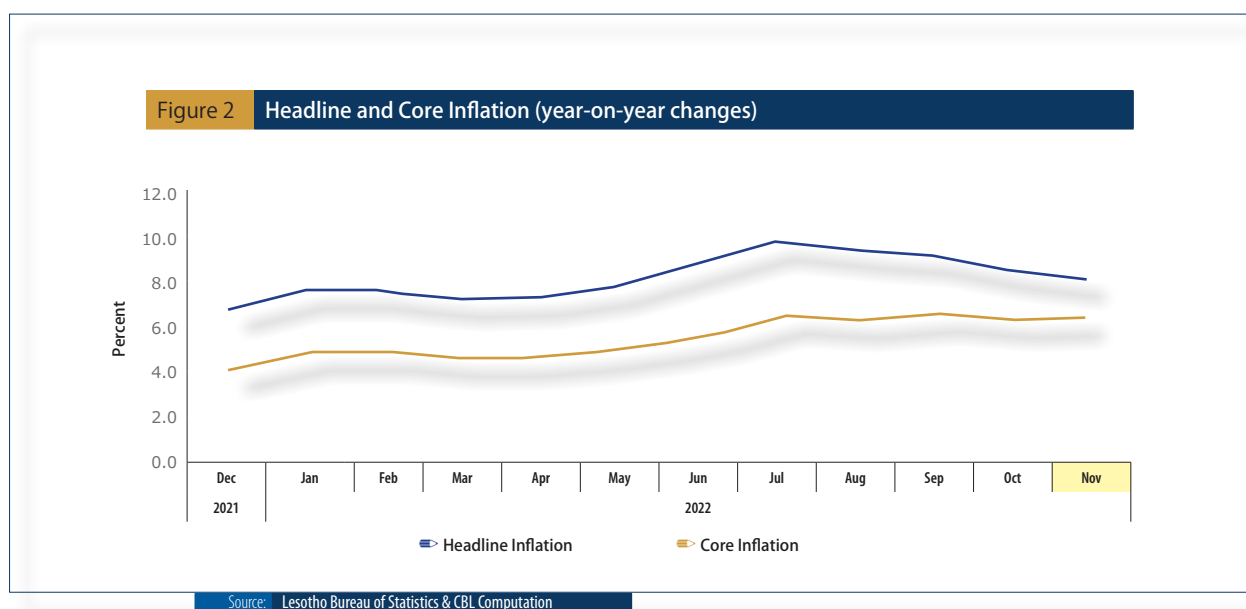
### Headline Inflation

The inflation rate fell from 8.5 per cent in October 2022 to 8.1 per cent in November of the same year. The deceleration in consumer prices during the review period was mainly due to the fall in international crude oil price, coupled with the ongoing fuel subsidy by the Government of Lesotho. The decline in international food prices, measured by FAO food price index, also added to the moderation in domestic food prices, and hence overall inflation.

This is despite the Rand / U.S dollar exchange rate depreciation during the review period.

### Core Inflation

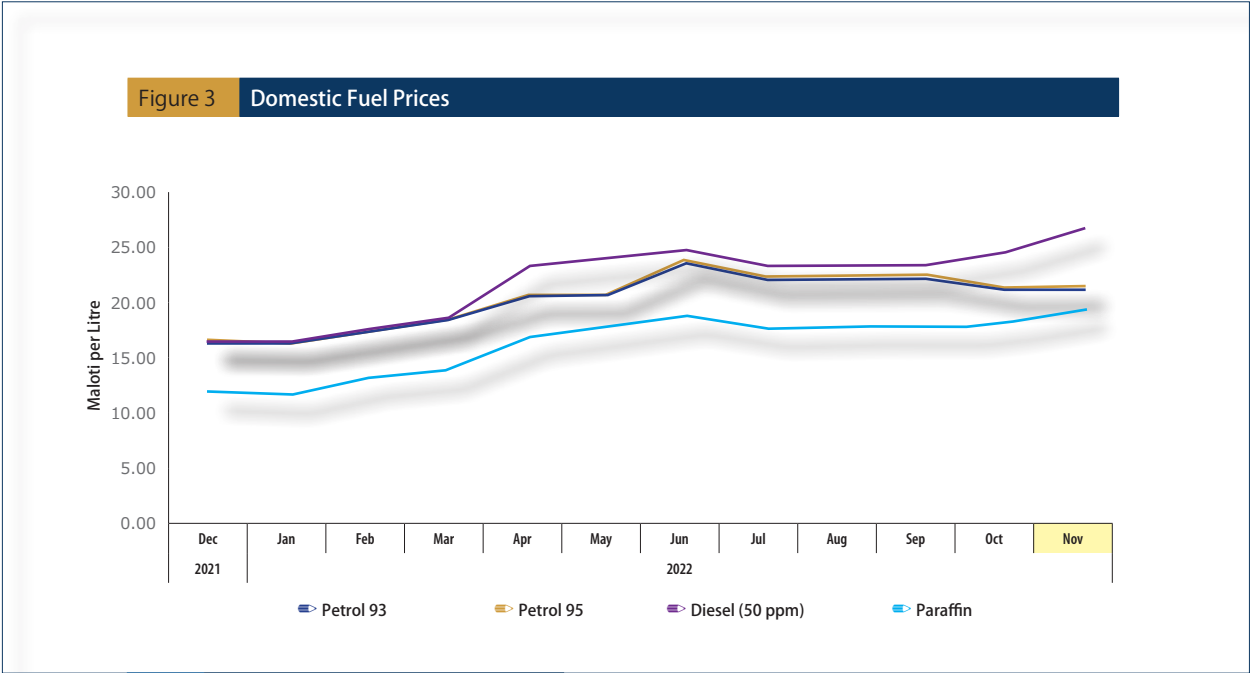
Nonetheless, core inflation, which excludes items with extreme price changes, edged upwards to 6.5 per cent in November 2022 from 6.4 per cent estimated for October 2022.



### Domestic Fuel Prices

The prices of all grades of petrol remained unchanged in November 2022 from the levels recorded in October of the same year. Nonetheless, the prices of diesel and paraffin increased during the review period. 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, respectively at the pump. The price of *diesel<sub>50</sub>*. However, increased by M2.10 per litre and was M26.45 per litre at the pump. The price of illuminating paraffin also increased by M1.20 per litre, selling at 18.20 per litre in the in the retail market.



Source: Lesotho Bureau of Statistics & CBL Computation

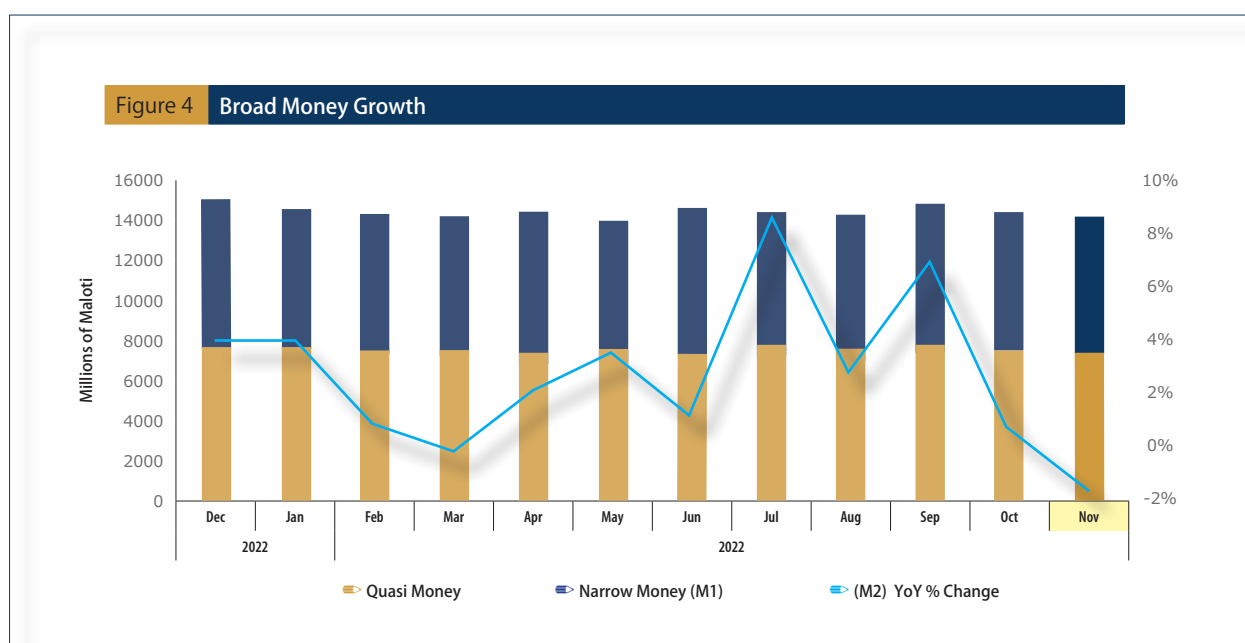
### III. MONETARY AND FINANCIAL INDICATORS

#### Broad Money (M2)

The broadly defined money supply (M2) declined by 1.7 per cent in November, in contrast to an increase of 2.4 per cent in October 2022. This emanated from a fall of 9.0 per cent in net foreign assets (NFA), moderated by an increase of 10.9 per cent in net domestic assets (NDA). The decline in NFA was underpinned by a fall in both the Central Bank and commercial banks' NFA. Conversely, NDA benefitted mainly from a drawdown in government deposits held with Central Bank.

#### Components of Money Supply

Narrow money (M1) increased by 1.1 per cent while quasi money declined by 4.0 per cent between October and November 2022. M1 rose due to an increase in transferable deposits held by business. The fall in quasi money emanated from a decline in call and fixed-time deposits held by public non-financial institutions and business enterprises.



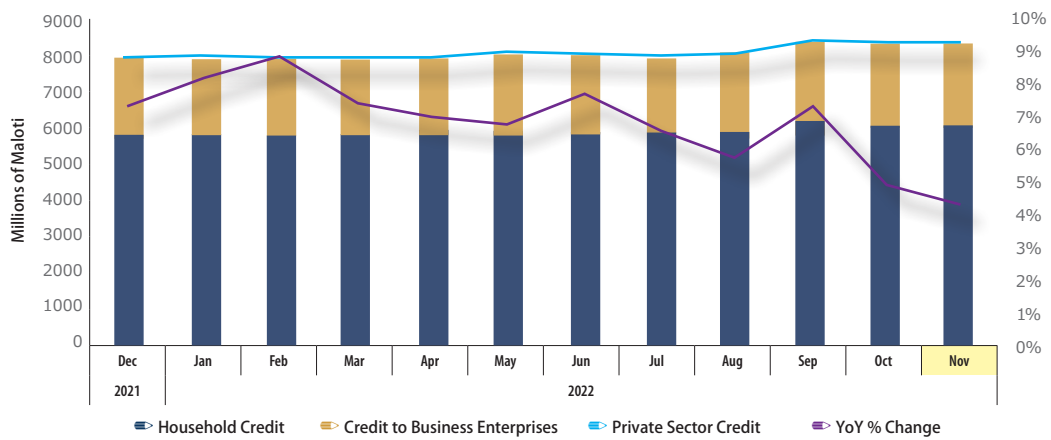
Source: Central Bank of Lesotho

#### Private Sector Credit

The total loans and advances extended to the private sector rose by a marginal 0.2 per cent in November, following an increase of 1.2 per cent in the preceding month. This was due to an increase of 0.4 per cent in loans to households, whereas loans to business enterprises fell by 0.2 per cent. The increase in household credit stemmed from a growth of 0.1 per cent and 0.3 per cent in personal loans and mortgage loans, respectively.

Considering the allocation of credit to business enterprises, retail trade, restaurants & hotels, real estate & business services, as well as mining & quarrying, received the largest shares of 26.8 per cent, 24.3 per cent and 18.9 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 4.2 per cent in November 2022.

**Figure 5 Private Sector Credit**



Source: Central Bank of Lesotho

### Non-Performing Loans

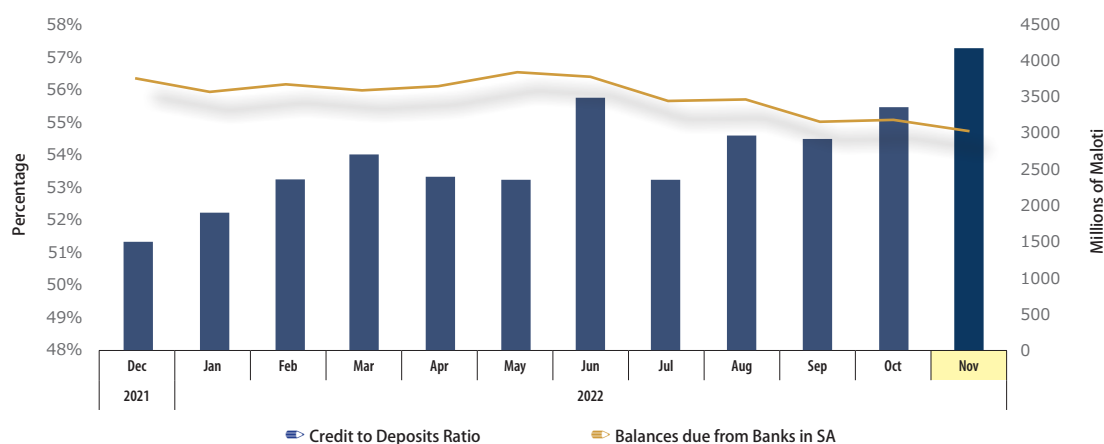
The total non-performing loans (NPLs) as a ratio of total loans remained unchanged at 4.4 per cent between October and November 2022. The NPLs for the business enterprises fell from 5.3 per cent in October to 5.1 per cent in November, whereas household sectors NPLs remained stable at 4.4 per cent. The largest shares of business sector

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

### Sources of Funds

The credit to deposit ratio improved from 55.5 per cent in October to 57.3 in November 2022. This was explained by a decline in total deposits whereas credit recorded a marginal growth.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

## Interest Rates

The CBL policy rate rose by 75 basis points following the 29th November MPC meeting, and stood at 7.00 per cent. However, the prime lending rate and 1-year deposit rate remained stable at 9.75 per cent and 4.24 per cent, respectively. The 91-day T-bill rate declined by 7 basis points from 6.45 per cent in October, to 6.38 per cent in November 2022.

## Foreign Exchange

The value of the loti was stronger against its three major trading currencies in November 2022 compared to the previous month. The loti appreciated by 3.6 per cent and 0.24 per cent against the US dollar and euro respectively, while it changed by a relatively smaller margin of 0.1 per cent against the British pound in November 2022. This was in comparison to a depreciation of 3.4 per cent, 3.2 per cent and 2.7 per cent against the dollar, pound and euro, respectively, in October 2022.

The appreciation in November 2022 followed the release of South Africa's Mid-Term Budget Policy Statement, which revealed better than anticipated revenue estimates for 2022/23, which therefore optimistic macroeconomic performance. This was coupled with the release of labour market report revealing that employment statistics had increased, which therefore, supported the rand (loti) further. The rand (loti) also regained ground following the dollar's weakness, which was associated with the widespread market speculation that the Federal Reserve would moderate its policy rate hikes.

## IV. GOVERNMENT BUDGETARY OPERATIONS

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

Government total expenditure was estimated to have decreased by 14.4 per cent in November, compared to an increase of 8.6 per cent in the previous month. Decreases were recorded in both recurrent and development expenditures. Grants to extra-budgetary units, student grants and capital projects contributed to the decline.

The share of capital outlays to total outlays increased by 6.2 per cent from 5.5 per cent observed in the previous month. The general public services received the largest share of 45.7 per cent of total outlays, followed by economic affairs with 32.8 per cent and the rest was disbursed to other sectors.

### Total Revenue

The Government revenue, excluding SACU receipts, decreased by 10.3 per cent in November 2022 following a 15.7 per cent drop in October 2022. This resulted from a deterioration in tax revenue, particularly income tax, which fell by a heavy 40.0 per cent during the month.

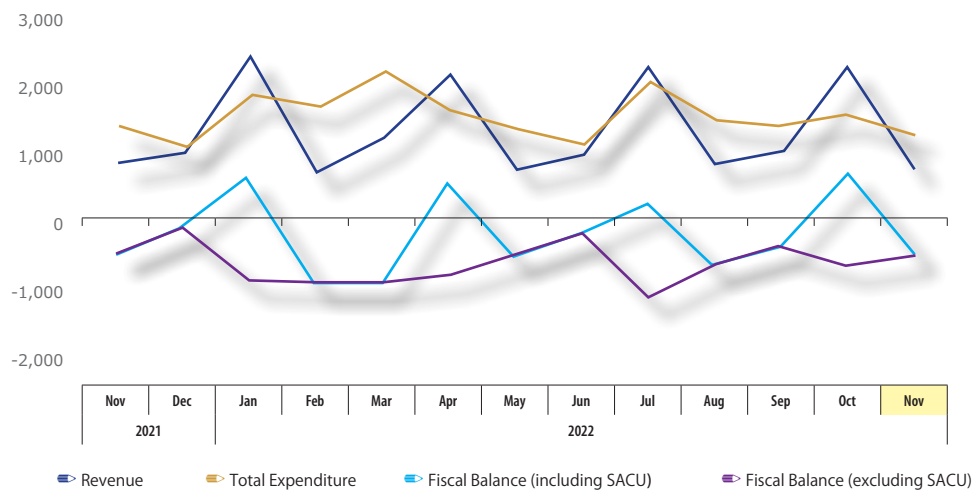
### Fiscal Balance and Financing

The fiscal operations reflected a fall in financial assets resulting from redemption of Government securities, reduction in other accounts payable and foreign debt repayment.

<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)**

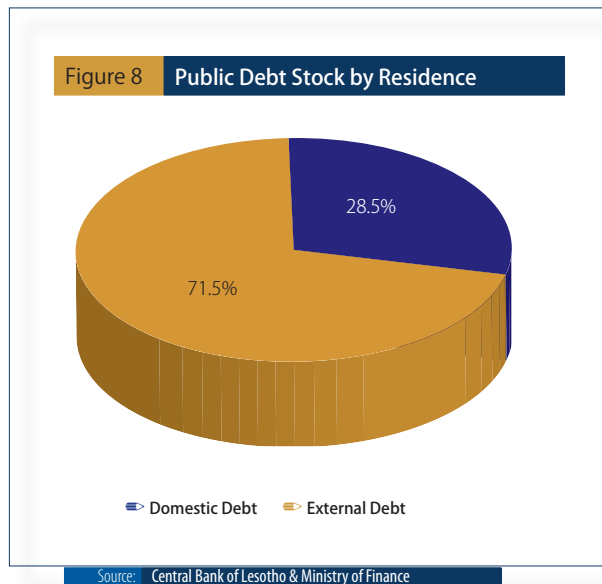
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		25.5%	15.5%	1.5%	6.1%	0.0%	20.2%	1.4%	17.6%
Defense		5.9%	4.1%	0.0%	0.0%	0.0%	0.0%	0.0%	4.1%
Public Order and Safety		17.3%	13.4%	0.0%	0.2%	0.0%	0.0%	9.7%	12.8%
Economic Affairs		6.5%	6.4%	0.0%	3.8%	0.0%	73.4%	72.0%	10.3%
Environmental Protection		0.1%	0.1%	0.0%	0.0%	0.0%	6.4%	0.0%	0.1%
Housing and Community Amenities		0.6%	0.3%	0.0%	40.0%	0.0%	0.0%	13.7%	3.7%
Health		6.4%	55.2%	37.9%	0.0%	21.5%	0.0%	0.0%	19.2%
Recreation, Culture, and Religion		0.8%	0.7%	0.0%	1.6%	0.0%	0.0%	3.2%	0.9%
Education		26.0%	2.4%	60.5%	48.4%	0.0%	0.0%	0.0%	19.8%
Social Protection		10.9%	1.9%	0.0%	0.0%	78.5%	0.0%	0.0%	11.5%
<b>Share per Economic Item</b>		<b>52.4%</b>	<b>23.1%</b>	<b>4.5%</b>	<b>6.0%</b>	<b>6.9%</b>	<b>0.5%</b>	<b>6.7%</b>	<b>100.0%</b>

Source: CBL and MOF

## V. PUBLIC DEBT

The total public debt stock was estimated at 60.5 per cent of GDP in November, down from 61.7 per cent of GDP recorded in October. This was equivalent a

2.0 per cent decline of in nominal terms. The fall was mainly attributed to the redemption of Government securities, plus revaluation gains.



## Appendix: Key Economic Indicators

		22-Apr	22-May	22-Jun	22-Jul	22-Aug	22-Sep	22-Oct	22-Nov	
Economic Activity (MIEA (% change, M/M))		-1.9	1.4	2.1	-3.5	-2.6	-0.9	2.8	-1.9	
Consumer price Index (% change)	Headline Inflation (year-on-year)	7.2	7.3	7.8	8.8	9.8	9.4	9.2	8.5	
	Core Inflation	4.6	4.7	5.0	5.6	6.5	6.4	6.7	6.4	
Exchange Rates (Monthly End Period)	EUR	16.19	16.60	16.75	17.08	16.83	17.05	17.99	17.85	
	GBP	19.15	19.78	19.69	19.91	20.03	19.82	19.90	20.51	
	USD	14.58	15.77	15.67	16.43	16.54	17.03	17.54	18.16	
Money Supply (Millions of Maloti)	M2	14,105.47	14,037.84	14,232.41	13,815.35	14,372.60	14,250.90	14,580.08	14,222.19	
	M1	6,640.23	6,610.03	6,585.97	6,303.45	6,485.86	6,455.37	6,667.51	6,553.52	
	Quasi Money	7,465.25	7,427.80	7,646.45	7,511.90	7,886.74	7,795.53	7,912.57	7,668.67	
Interest Rates	CBL Rate	4.25	4.25	4.75	4.75	5.50	5.50	6.25	6.25	
	91 day Treasury bill rate	4.45	4.45	4.43	4.45	4.94	5.62	6.34	6.38	
	Prime lending rate	8.69	8.00	8.00	8.25	9.00	9.00	9.75	9.75	
	1 year deposit rate	2.75	2.75	3.41	3.41	3.48	3.48	4.24	4.24	
Private sector Credit (Millions of Maloti)		7,959.63	7,961.09	8,072.73	8,124.05	8,070.42	8,122.32	8,467.37	8,364.98	
	Households	5,884.56	5,889.53	5,907.73	5,981.28	5,949.52	5,900.89	6,224.04	6,109.38	
	Business Enterprises	2,068.10	2,065.66	2,159.07	2,136.76	2,114.33	2,215.34	2,237.28	2,249.76	
	Non-profit Organisations	6.97	5.90	5.93	6.01	6.57	6.09	6.05	5.85	
Bank Deposit Liabilities (Millions of Maloti)		14,708.53	14,879.60	15,097.49	14,714.39	15,318.09	15,163.65	15,382.96	15,037.82	
Credit to Deposit Ratio (%)		53.99	53.25	53.19	55.67	53.19	54.59	54.48	55.49	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	496.05	-593.71	-239.75	180.42	-696.07	-421.85	640.42	-571.67	
	Total Revenue (with SACU receipts)	2,160.13	796.06	954.66	2,227.67	863.68	1,037.62	2,224.93	784.79	
	Total Expenditure	1,664.07	1,389.76	1,194.41	2,047.26	1,559.75	1,459.47	1,584.51	1,356.47	
	O/W Capital	97.83	236.54	127.24	282.91	212.78	120.87	150.80	88.88	
Total Public Debt (Millions of Maloti)		20,641.94	20,317.99	20,944.77	21,150.16	21,671.13	22,669.88	23,032.89	22,572.25	
	Total External Debt	15,008.29	14,751.80	15,321.49	15,336.72	15,718.72	16,216.16	16,480.27	16,248.30	
	External Debt	Concessional	11,169.39	10,992.18	11,365.48	11,384.49	11,655.01	12,094.11	12,308.65	11,942.76
		Non-concessional	3,838.90	3,759.62	3,956.02	3,952.23	4,063.71	4,122.05	4,171.62	4,305.54
	Domestic Debt	5,633.65	5,566.19	5,623.28	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	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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