



# Monthly ECONOMIC REVIEW

OCTOBER 2022

CENTRAL BANK OF LESOTHO  
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## I. ECONOMIC ACTIVITY

Economic performance weakened in October 2022, after improving in the previous month. Both demand and manufacturing were under pressure in the review month.

### Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) showed a decline in economic activity. Economic performance contracted by 1.9 per cent, contrary to the 2.8 per cent growth recorded in the previous month. The uninspiring performance emanated mainly from the supply side of the economy, as proxied by performance from the manufacturing subsector of the economy, and to a somewhat lesser extent, the demand side.

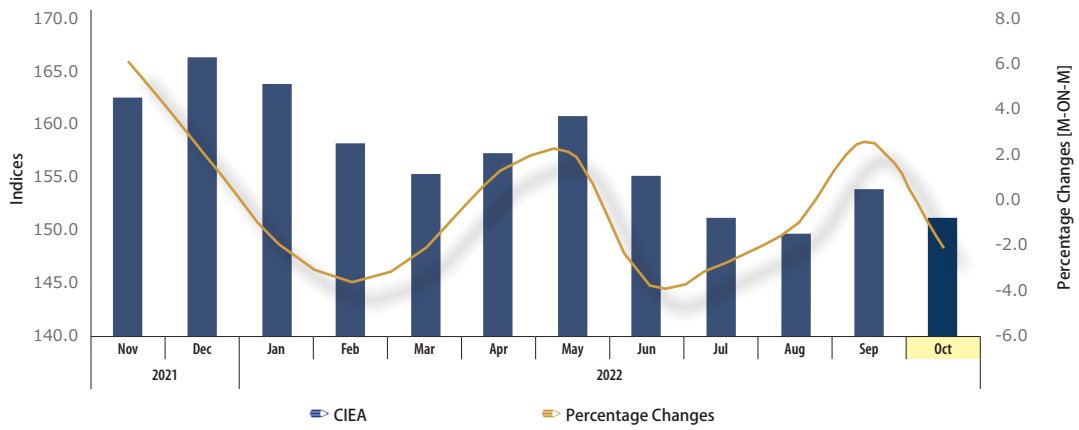
### Domestic Demand Category

Activity in the demand side slowed down, losing on the gains of the two preceding months. Domestic demand declined by 2.3 per cent, in contrast to the 4.3 per cent growth that was recorded in the previous period. The poor activity was mainly a result of slow government activity as observed in both the use of goods and services, and compensation of employees. However, income and sales taxes slightly moderated the sluggish performance.

### Manufacturing and Production Category

Manufacturing activity contracted further in the review month. The index fell by 3.4 per cent in comparison to the 1.7 per cent decline in the preceding month. The drivers of the sluggish performance were broad-based, as both utilities and exports of textiles to the US market were under pressure. Only imports of raw materials contributed positively to the index.

**Figure 1 Overall Monthly Indicator of Economic Activity**



Source: CBL Calculations

**Table 1: Summary of the Monthly Indicator of Economic Activity**

Indices	2022							
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
<b>CIEA</b>	155.6	157.7	161.1	155.4	151.4	150.0	154.3	151.3
Monthly changes	-1.9	1.4	2.1	-3.5	-2.6	-0.9	2.8	-1.9
<b>Domestic Demand Category</b>	145.3	148.5	162.6	151.7	142.6	145.5	151.7	148.1
Monthly changes	-0.8	2.2	9.4	-6.7	-6.0	2.0	4.3	2.3
<b>Manufacturing &amp; Production Category</b>	121.4	119.2	115.2	116.8	109.9	106.9	105.1	101.5
Monthly changes	-4.8	-1.7	-3.4	1.4	-5.9	-2.8	-1.7	-3.4

Source: Central Bank of Lesotho (CBL) Calculations

## II. INFLATION AND PRICES

### Headline Inflation

The average consumer prices, as measured by the consumer price index (CPI) rose by 8.5 per cent in October 2022 relative to 9.2 per cent a month before. The main contributors to the deceleration in CPI were Transport; Housing, Water, Electricity, Gas and Other Fuels; Clothing and footwear, as well as Food and Non-alcoholic beverages. These items constitute two-thirds of the consumer basket and contributed to approximately 100 per cent of the decline in inflation rate during the review period.

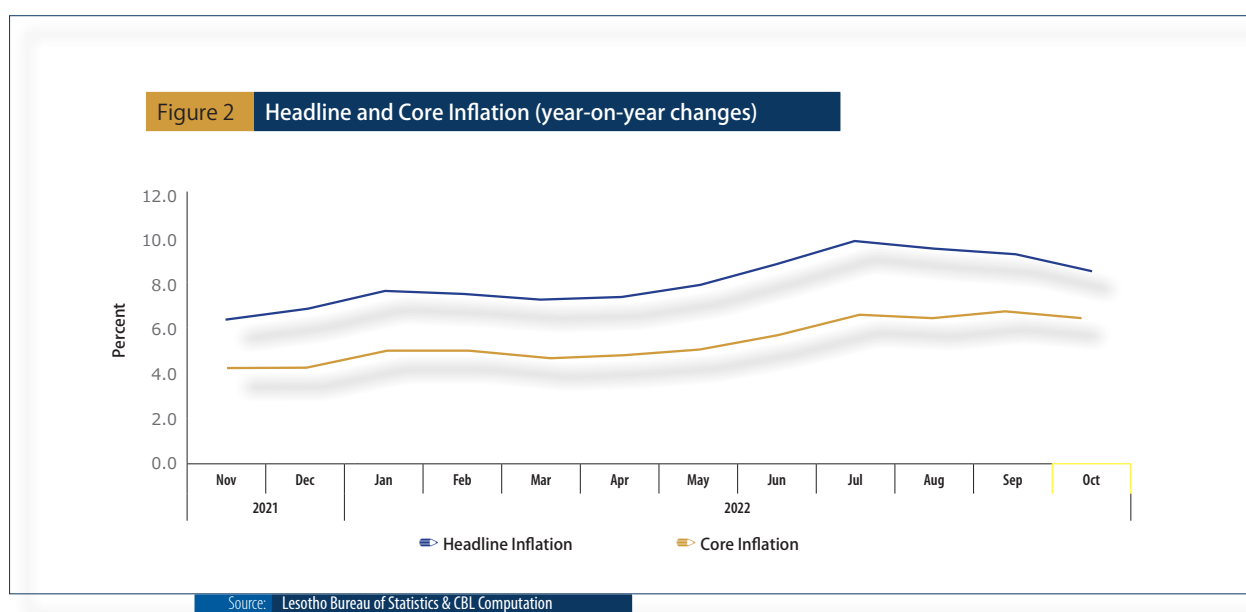
The deceleration in consumer prices was broad-based, even though for some items the decline was significantly marginal during the review period.

The major drivers of the deceleration in consumer prices during the review period was the effect of the ongoing fuel subsidy by the Government of Lesotho. This was despite the rise in price of crude oil and the Rand/U.S dollar exchange rate depreciation during the review period.

The marginal decline in food prices was attributed to decline in international food prices, which was outweighed by the exchange rate depreciation during the review period.

### Core Inflation

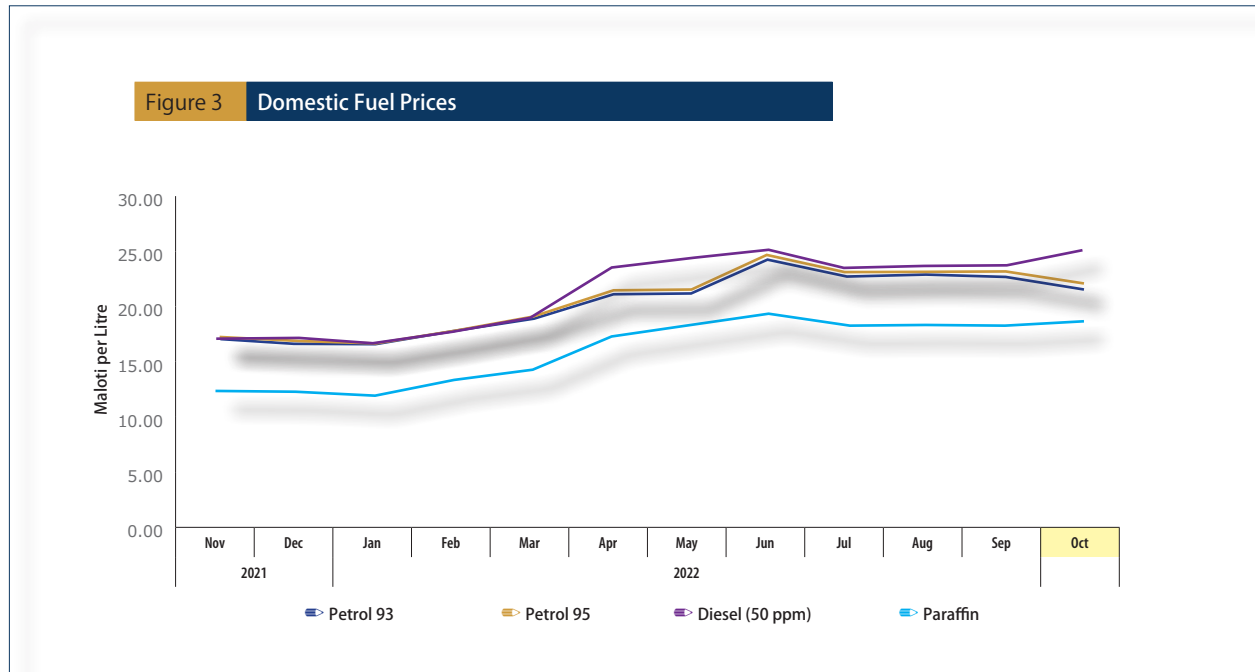
Core inflation, a gauge of the underlying inflationary pressures in the economy, declined to 6.4 per cent in October 2022 from 6.7 per cent in September 2022.



## Domestic Fuel Prices

During October 2022, the price of all grades of petrol decreased while diesel and paraffin increased. The pump prices of both grades of petrol (*petrol<sub>93</sub>* and *petrol<sub>95</sub>*) were reduced by M0.95 per litre and M1.05 per litre, respectively. At the pump, the price of

*petrol<sub>93</sub>* was M21.25 per litre and M21.60 per litre for *petrol<sub>95</sub>*. The price of *diesel<sub>50</sub>*, however, increased by M1.15 per litre and was M24.35 per litre at the pump. The price of illuminating paraffin also increased by M0.40 per litre, selling at 18.20 per litre in the retail market.



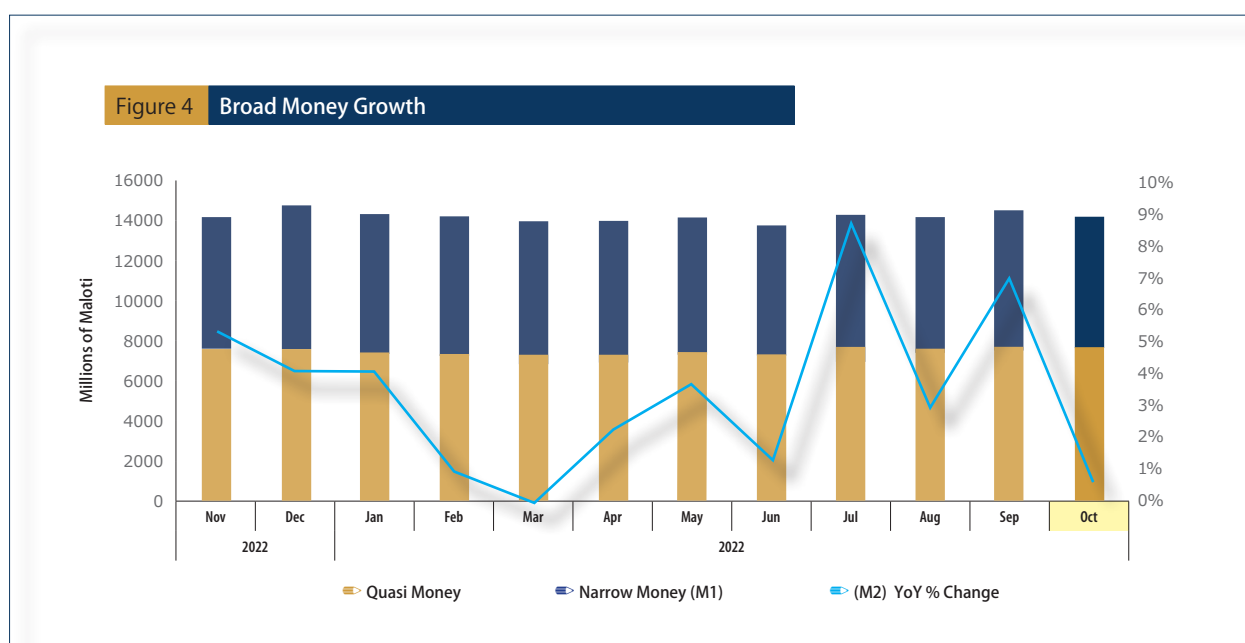
### III. MONETARY AND FINANCIAL INDICATORS

#### Broad Money (M2)

The broadly defined money supply (M2) declined by 2.4 per cent in October, following an increase of 2.3 per cent in September 2022. This emanated from a fall of 16.2 per cent in net domestic assets (NDA), moderated by an increase of 5.8 per cent in net foreign assets (NFA). The decline in NDA was underpinned by a fall in net claims on central government and private sector credit. Conversely, NFA benefitted from SACU receipts during the month under review.

#### Components of Money Supply

Narrow money (M1) and quasi money declined by 1.7 per cent and 3.1 per cent, respectively. M1 fell due to a decline in transferable deposits held by business enterprises and households. The fall in quasi money emanated from a decline in savings and fixed-time deposits held by households and public non-financial institutions.



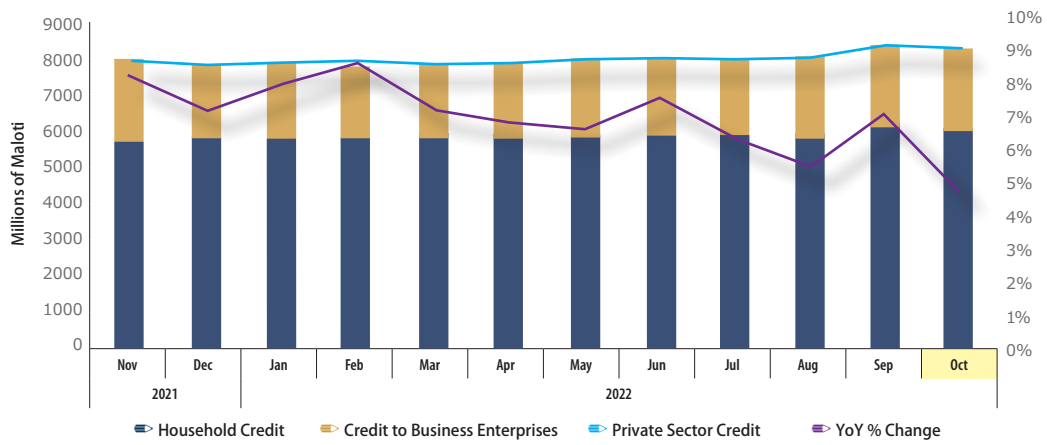
Source: Central Bank of Lesotho

#### Private Sector Credit

The total loans and advances extended to the private sector contracted by 1.2 per cent in October 2022, following an increase of 4.3 per cent in the preceding month. This was due to a fall of 1.8 per cent in loans to households, whereas loans to business enterprises marginally increased by 0.6 per cent. The decline in household credit was underpinned by a fall of 2.5 per cent in personal loans while mortgage loans remained relatively unchanged.

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 26.1 per cent, 24.5 per cent and 19.7 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 4.8 per cent in October 2022.

**Figure 5 Private Sector Credit**



Source: Central Bank of Lesotho

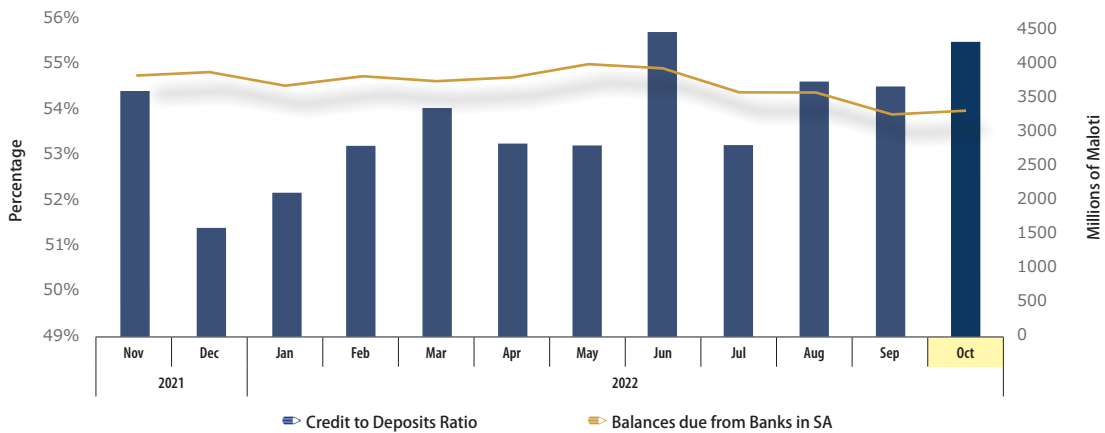
### Non-Performing Loans

The total non-performing loans (NPLs) as a ratio of total loans remained unchanged at 4.4 per cent between September and October 2022. The NPLs for both the business and household sectors also remained stable at 5.3 per cent and 4.0 per cent, respectively. The largest shares of business sector NPLs were towards construction, real estate & retail trade, restaurants & hotels and business services.

### Sources of Funds

The credit to deposit ratio improved from 54.5 per cent in September to 55.5 in October 2022. This was explained by an accelerated decline in total deposits relative to credit extension during the review period.

**Figure 6 Credit to Deposit Ratio**



Source: Central Bank of Lesotho

### Interest Rates

The CBL policy rate remained stable at 6.25 between September and October 2022. Similarly, the average prime lending rate and 1-year deposit rate remained unchanged at 9.75 per cent and 4.24 per cent, respectively. The 91-day T-bill rate rose by 4 basis points from 6.34 per cent in September, to 6.38 per cent in October 2022.

### Foreign Exchange

In October 2022, the rand depreciated against its three major trading currencies compared to the preceding month. Against the dollar and euro, the rand depreciated by 3.4 and 2.7 per cent respectively, following a depreciation of 5.2 per cent and 2.7 per cent respectively, a month earlier. Against the pound, the rand depreciated by 3.2 per cent after a slight appreciation of 0.7 per cent in the preceding month.

The weaker performance of the rand was on account of the combination of both international and domestic developments. On the international front, the rand alongside other emerging market currencies remained vulnerable to monetary policy tightening in advanced economies, especially the U.S. Weaker risk appetite amid developments in Ukraine, as well as, the resurgence in COVID-19 cases in China weakened the rand further. On the domestic front, the prolonged load shedding and ongoing strike by employees of the largest rail, port and pipeline company, which has adversely affected commercial rail and port facilities, have added more pressure on the rand.

## IV. GOVERNMENT BUDGETARY OPERATIONS

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

Government total expenditure was estimated to have increased by 8.6 per cent in October 2022, in contrast to a fall of 6.4 per cent in September 2022. This increase was mainly due to a rise in spending on domestic travel and transport, employer contributions to Pension Fund, and transfers to extra-budgetary units.

Regarding the functional outlays, most spending was registered under economic affairs, followed by general public services, while the environmental protection recorded the least spending.

### Total Revenue

The Government revenue, excluding SACU receipts, decreased by 14.8 per cent during the month under review compared to a rise of 22.0 per cent in September 2022. This was on account of poor collections of VAT, income tax, and excise tax during the month. However, with SACU receipts, total revenue increased significantly.

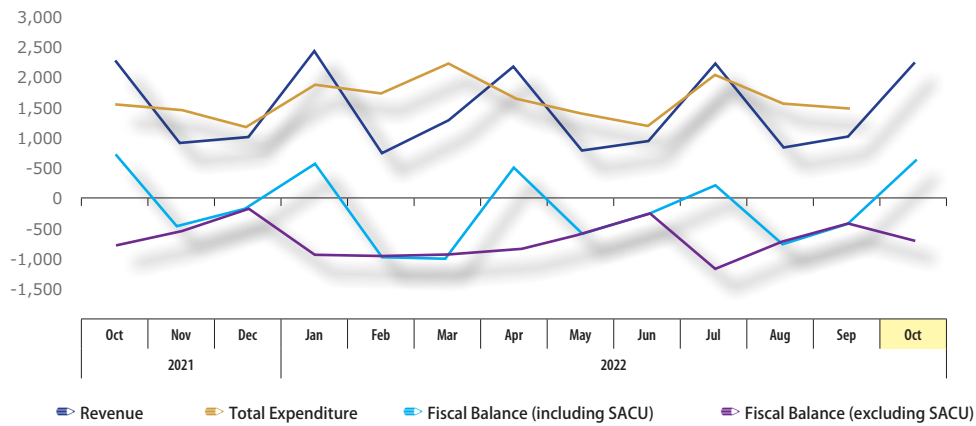
### Fiscal Balance and Financing

Following receipts of SACU revenue, the fiscal operations registered a fiscal surplus, which also translated into accumulation of government deposits, and thus financial assets. Notwithstanding, the liabilities also increased as new treasury securities were issued to finance fiscal operations, in addition to outstanding payments.

<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: Classification of Expenditure by Function and Economic Item (Percent Change)**

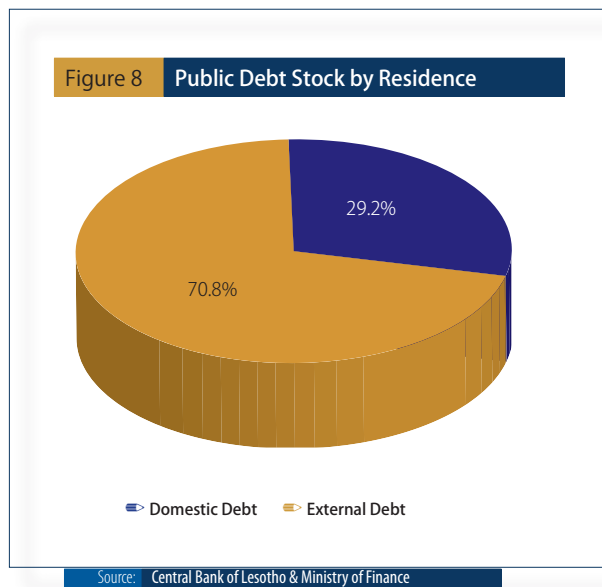
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		20.8%	11.4%	12.4%	70.7%	0.0%	0.0%	9.7%	18.7%
Defense		5.7%	9.7%	0.0%	0.0%	0.0%	0.0%	0.0%	4.2%
Public Order and Safety		17.6%	11.5%	0.0%	1.1%	0.0%	0.0%	6.7%	10.6%
Economic Affairs		6.5%	24.3%	59.4%	22.0%	0.0%	99.9%	72.4%	24.3%
Environmental Protection		0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Housing and Community Amenities		0.6%	0.3%	0.0%	5.7%	0.0%	0.0%	9.6%	1.4%
Health		6.1%	37.2%	28.2%	0.0%	6.9%	0.0%	1.4%	10.4%
Recreation, Culture, and Religion		0.7%	0.8%	0.0%	0.5%	0.0%	0.0%	0.2%	0.5%
Education		25.0%	2.0%	0.0%	0.0%	0.0%	0.0%	0.0%	12.2%
Social Protection		16.9%	2.8%	0.0%	0.0%	93.1%	0.1%	0.0%	17.5%
<b>Share per Economic Item</b>		<b>47.5%</b>	<b>15.6%</b>	<b>3.4%</b>	<b>8.5%</b>	<b>9.7%</b>	<b>9.1%</b>	<b>6.1%</b>	<b>100.0%</b>

Source: CBL and MOF

## V. PUBLIC DEBT

The public debt stock, as a ratio of GDP, was estimated at 59.5 per cent in October 2022, following the revised 59.1 per cent in September 2022. In terms of monthly changes, the debt stock increased

marginally by 0.6 per cent while in the previous month it increased by 1.9 per cent. This increase was driven by exchange rate appreciation in conjunction with net issuance of Treasury securities.



## Appendix: Key Economic Indicators

		22-Mar	22-Apr	22-May	22-Jun	22-July	22-Aug	22-Sept	22-Oct	
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	-945.43	493.27	-601.15	-248.55	173.52	-718.46	-433.41	639.68	
	Total Revenue (with SACU receipts)	1,272.19	2,157.35	788.61	945.86	2,220.78	841.29	1,026.05	2,224.17	
	Total Expenditure	2,217.62	1,664.07	1,389.76	1,194.41	2,047.26	1,559.75	1,459.47	1,584.48	
	O/W Capital	667.79	97.83	236.54	127.24	282.91	212.78	120.87	150.80	
Total Public Debt (Millions of Maloti)		19,446.21	20,453.01	20,348.24	20,066.45	20,348.15	21,140.90	21,551.94	21,672.13	
	Total External Debt	13,874.30	14,819.40	14,763.30	14,473.80	14,566.20	15,188.50	15,294.50	15,341.80	
	External Debt	Concessional	10,386.50	11,218.40	11,165.20	10,888.50	10,978.00	11,551.90	11,747.70	11,798.80
		Non-concessional	3,487.80	3,601.00	3,598.10	3,585.30	3,588.20	3,636.60	3,546.80	3,543.00
	Domestic Debt	5,571.91	5,633.61	5,584.94	5,592.65	5,781.95	5,952.40	6,257.44	6,330.33	
	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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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)