



Monthly

ECONOMIC REVIEW

APRIL 2024

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY¹

Domestic economic activity rebounded in April 2024, driven by a strong performance in the manufacturing and production subsector, as well as increased activity in other subsectors like construction, transport, and financial services. However, overall growth was moderated by subdued domestic demand.

Overall Performance Index

Domestic economic activity improved in April 2024, as reflected by a 0.9 per cent increase in the Composite Indicator of Economic Activity (CIEA), reversing the previous month's 0.3 per cent contraction. This growth was spearheaded by an uptick in the manufacturing and production subsector. Additionally, the construction subsector contributed to the growth, evidenced by a surge in construction material imports. The financial services and transport subsectors also showed signs of recovery, as evidenced by an uptick in private credit extension and higher fuel consumption, respectively. However, despite these positive indicators, overall growth was tempered by subdued domestic demand, indicating a potential decline in consumer spending during the reviewed month.

Domestic Demand Category

Domestic demand exhibited further deterioration in

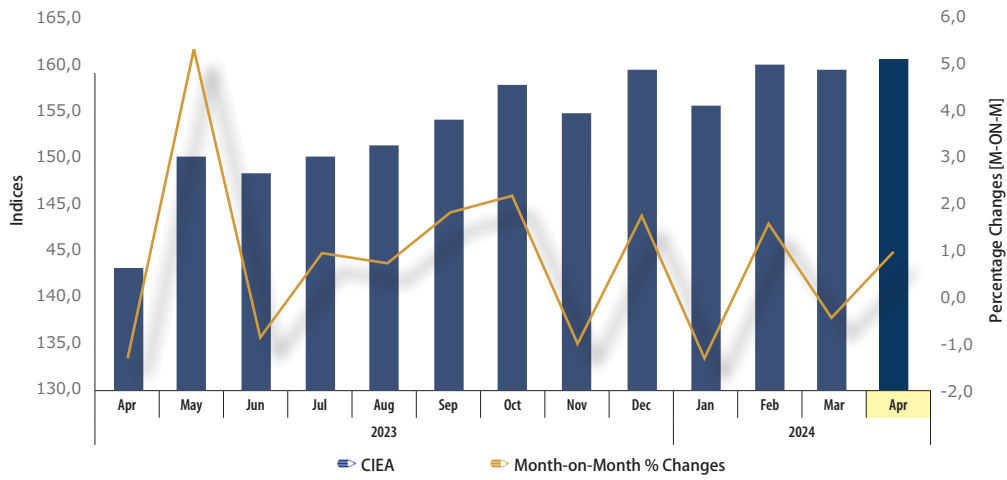
April 2024. The domestic demand index contracted by a concerning 2.2 per cent, following a 0.9 per cent decline in March. This slump was mainly driven by weakened domestic demand, evidenced by low import volumes of non-durable goods from South Africa, particularly a decrease in imports of mineral products. Additionally, government activities also contributed negatively to the demand index. However, the decline was moderated by increased collection of Value Added Tax (VAT) and Pay As You Earn (PAYE), indicating some level of business activity and improved real earnings, respectively.

Manufacturing and Production Category

The manufacturing subsector continued expansion in April 2024, with the production and manufacturing index registering an increase of 2.5 per cent, following a 1.2 per cent growth in the previous month. This sustained momentum was fuelled by a surge in textile exports, particularly to the United States, mostly likely due to reduced bottlenecks at South African ports in April, a crucial export channel for Lesotho. Additionally, heightened industrial resources, evidenced by increased imports of raw materials and industrial water and electricity usage, further solidified increased activity in the manufacturing and production subsector. However, this positive momentum in manufacturing was moderated by decreased textile exports to South Africa.

¹ Composite Indicator of Economic Activity (CIEA) is constructed using seasonality adjusted data for variables with season patterns.

Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Composite Indicator of Economic Activity and its Sub-components

Indices	2023				2024			
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
CIEA	154.4	158.1	156.4	159.7	157.5	160.7	160.2	161.7
Monthly changes	2.1	2.3	-1.0	2.1	-1.3	2.0	-0.3	0.9
Domestic Demand Category	143.8	156.7	157.3	152.9	152.8	158.7	157.3	153.8
Monthly changes	5.7	9.0	0.4	-2.8	-0.01	3.8	-0.9	-2.2
Manufacturing & Production Category	104.7	113.2	120.0	118.2	116.5	118.0	119.4	122.4
Monthly changes	-5.2	8.1	6.0	-1.5	-1.5	1.3	1.2	2.5

Source: Central Bank of Lesotho (CBL) Calculations

II. INFLATION AND PRICES

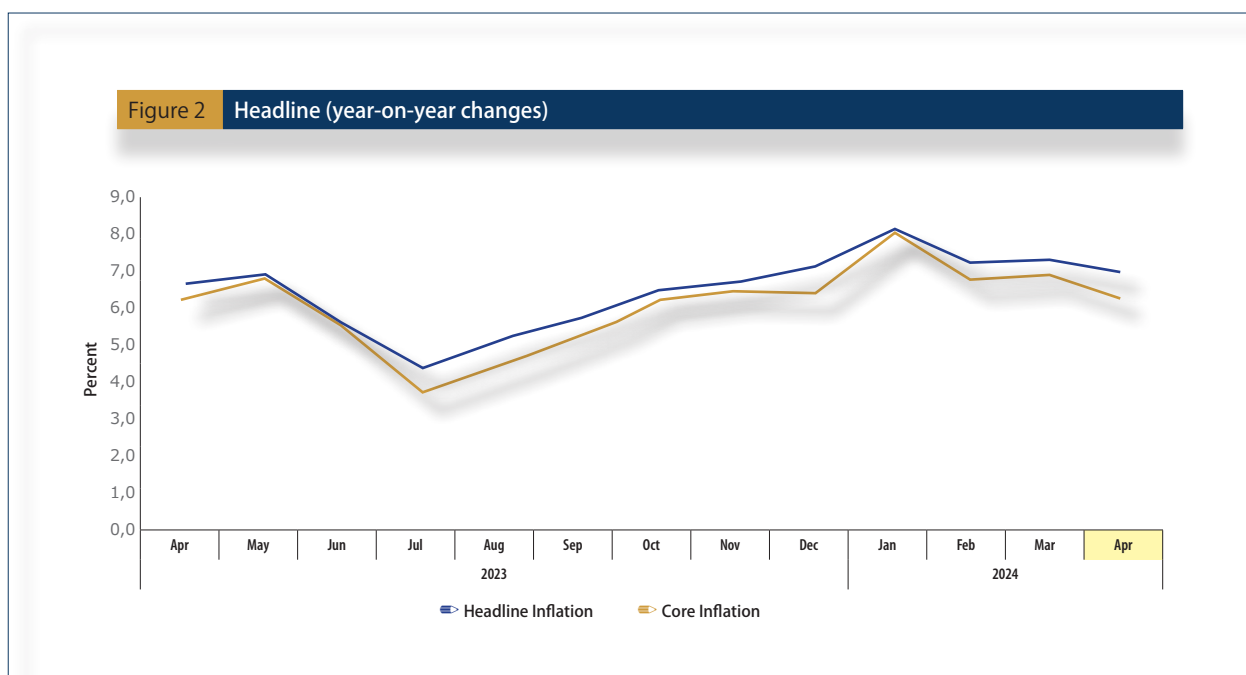
Headline Inflation

The headline inflation rate witnessed a modest decline in April 2024, dropping from 7.4 per cent in March to 7.1 per cent. The major contributors were the Alcoholic beverages and tobacco category, Housing, electricity, gas & other fuels category as well as Health category. However, a closer look reveals that a statistical quirk known as the base effect might be partially influencing this decline, particularly within the alcoholic beverages and tobacco category.

In March 2023, the introduction of an alcohol and tobacco caused a substantial price increase for these products. This sharp rise established a high base point for calculating inflation in the same category for April 2024. Given that prices for these products increased by a similar amount this year compared to April 2023, the year-on-year inflation rate for the category would appear lower due to the already inflated base established by the levy.

Core Inflation

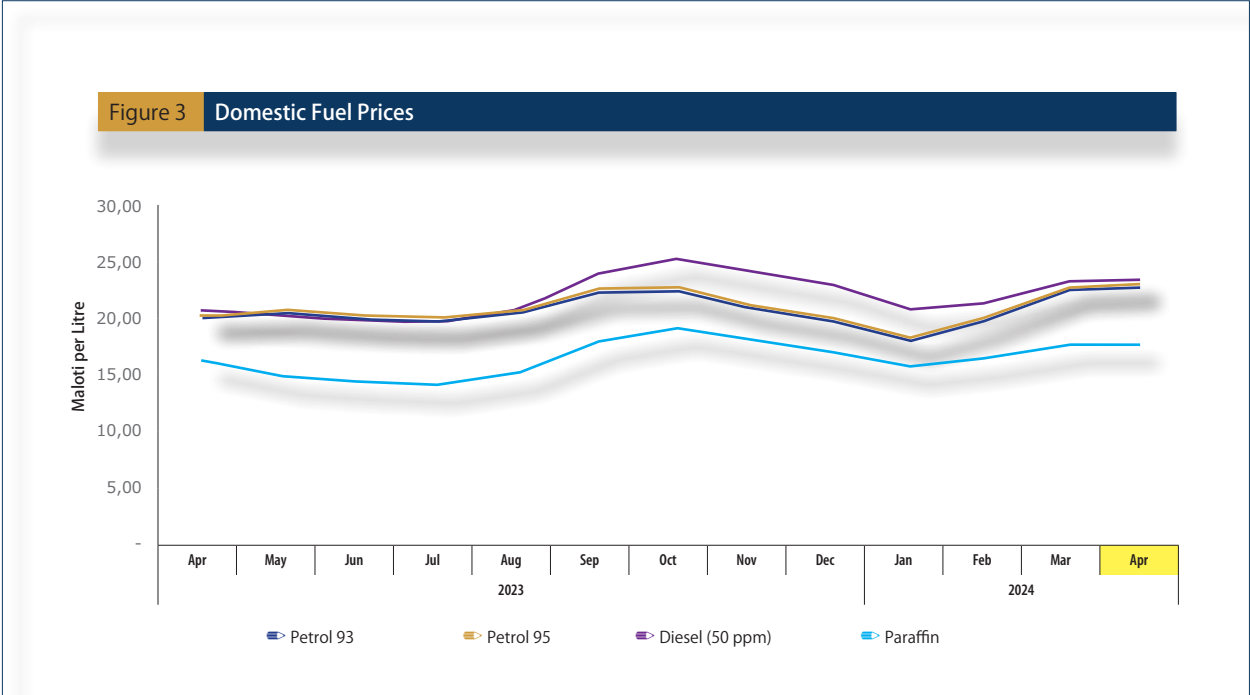
Core inflation, a gauge of the underlying inflationary pressures in the economy, measured as the trimmed mean, decreased to 6.3 per cent in April 2024 from 6.9 per cent in March 2024.



Domestic Fuel Prices

The prices of all petroleum products edged upwards in the review period. Both grades of petrol (*Petrol₉₃* and *Petrol₉₅*), increased by M 0.45 and were sold at

M 22.70 per litre and M 23.15 per litre, respectively at the pump. The pump price of *diesel₅₀* as well as illuminating paraffin remained unchanged and were sold at M 23.35 per litre M 17.60 per litre, respectively, in the retail market.



Source: Petroleum Fund

III. MONETARY AND FINANCIAL INDICATORS

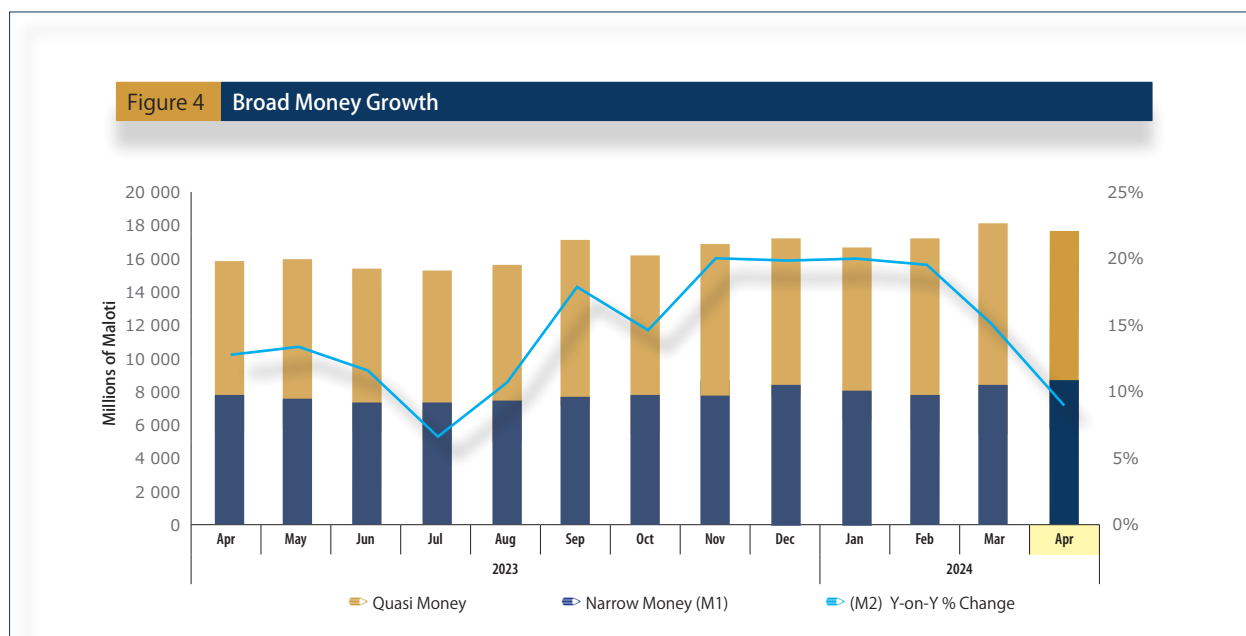
Broad Money (M2)

In April 2024, the broadly defined measure of money supply (M2) contracted. In particular, M2 decreased by 2.3 per cent, contrary to the 4.4 per cent growth observed in March 2024. Net domestic claims (NDA) dropped sharply by 38.8 per cent, in contrast to the 33.0 per cent growth registered in the preceding period. Meanwhile, net foreign assets (NFA) increased by 5.1 per cent, in contrast to 6.5 per cent decline in March. The fall in NDA was largely explained by a fall in both central bank and commercial banks’ net claims on government, following a build-up of government deposits, while the growth in NFA was mainly attributable to growth in central bank’s claims on non-residents. Both government deposits and claims on non-residents benefited from SACU receipts during the

month. Year-on-year, M2 experienced a 9.0 per cent increase.

Components of Money Supply

The components of the money supply, narrow money (M1) and quasi money, showed different trends. M1 continued to expand, albeit at a slower 4.9 per cent following a 10.4 per cent increase a month earlier. Quasi money, on the other side, contracted further by 9.1 per cent, compared to the 0.6 per cent decline in March. The increase in M1 was a result of growth in transferable deposits held by both the business enterprises and other financial corporations. The decrease in quasi-money, however, emanated from a fall in call deposits held by business enterprises.



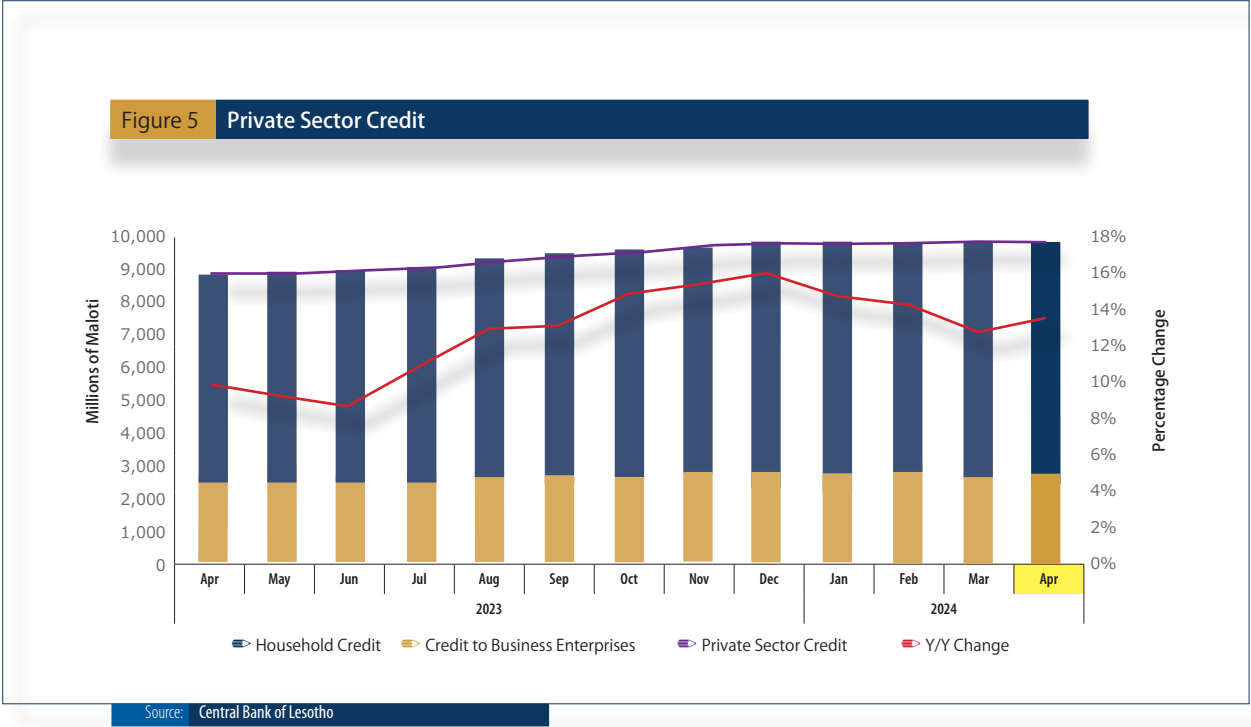
Private Sector Credit

Private sector credit improved in the review month, growing by 1.3 per cent, contrary to the 1.0 per cent contraction a month earlier. The rebound was a

result of growth in both households and business enterprises credit. Credit to business enterprises rebounded by 2.9 per cent after a 5.1 per cent drop, while households’ credit extension grew by 0.7 per cent following a 0.5 per cent growth in the prior

month. In terms of credit distribution, wholesale & retail trade, restaurants & hotels continued to hold the largest share at 23.5 per cent, followed very closely by real estate & business services at 21.1 per cent, and construction growing to 19.0 per cent. The

smallest share was allocated to community, social, & personal services accounting for 0.3 per cent of the total private sector credit. On an annual basis, private sector credit grew by 13.3 per cent.



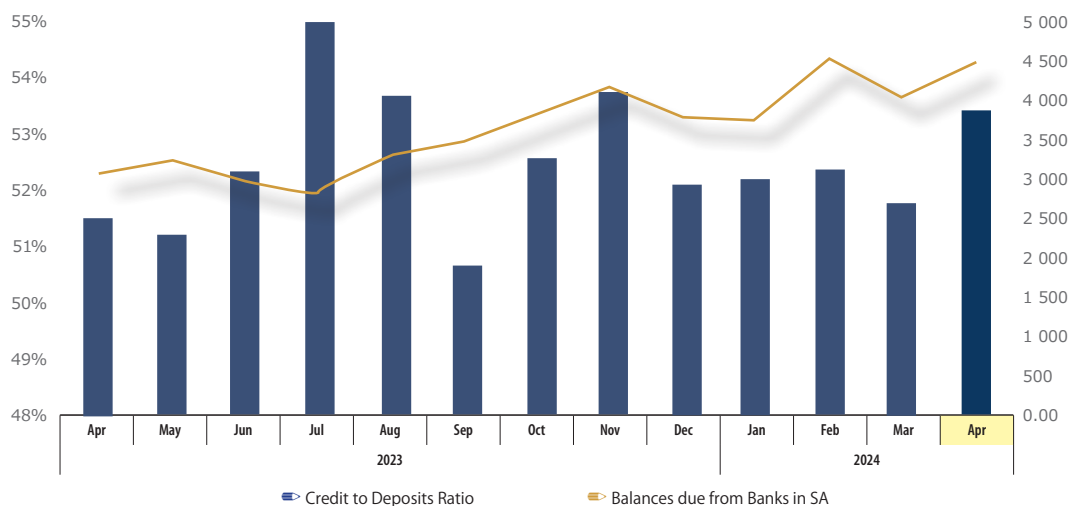
Non-Performing Loans

The ratio of non-performing loans (NPLs) to total loans increased to 4.0 in April from 3.8 per cent in March 2024. As the biggest recipient of credit within business enterprises, the wholesale & retail trade, restaurants & hotels subsector had the highest NPLs, followed by the construction subsector.

Sources of Funds

The credit-to-deposit ratio increased to 52.2 per cent from 50.1 per cent a month earlier, owing to combination of increased private sector credit and a fall in commercial banks' deposit base following business enterprises' decline in call deposits.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The CBL rate was unchanged at 7.75 per cent between March and April 2024. Consequently, the prime lending rate and the 1-year deposit rate remained stable at 11.00 and 4.75 per cent, respectively. However, the 91-day treasury bill rate dropped by 19 basis points to 6.59 per cent.

Foreign Exchange

The rand, hence loti, depreciated against its three major trading currencies in April 2024. It depreciated by 0.22 per cent, 1.48 per cent and 1.38 per cent against the dollar, the pound and the euro, respectively. This was in comparison to an appreciation of 0.33 per cent, 0.36 per cent and

0.03 per cent against the dollar, pound and euro, respectively, in March 2024.

The poor performance of the rand was due to several factors. Primarily, the U.S. dollar strengthened, and gained ground as market expectations shifted towards fewer interest rate cuts by the US Federal Reserve as inflation remained persistent. This was coupled with stronger-than-expected economic growth in the U.S. Additionally, political uncertainty ahead of upcoming elections contributed to the rand’s vulnerability. Despite some positive developments such as fewer power cuts in April 2024, the overarching political instability and weak fiscal position overshadowed these factors, leading to a weaker rand.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

Government expenditure decreased by 18.6 per cent in April 2024, owing to reduced spending on investment projects, goods and services, and compensation of employees. The beginning of the fiscal year usually affects negatively, the implementation of the investment infrastructure. In February 2024, the spending declined by 8.3 per cent. Consequently, more funds were allowed to the general public services and the economic affairs sectors than others.

Total Revenue

Government total revenue increased drastically due to SACU receipts, while non-SACU revenue decreased by 40.0 per cent during the month

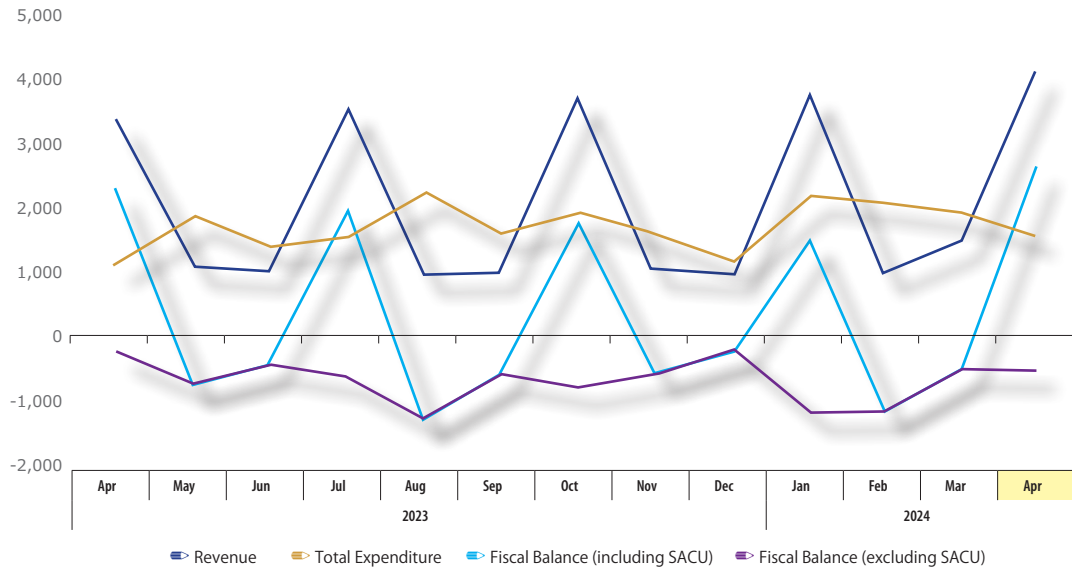
under largely due to a fall in income tax and rand monetary compensation. In the previous month, total non-SACU revenue had increased by 86.1 per cent, marking the highest performance in the last month of the fiscal year. In terms of a year-on-year basis, total revenue increased by 44.8 per cent.

Fiscal Balance and Financing²

The ratio of the fiscal balance to GDP resulted in a surplus of 24.9 per cent in April 2024, following a deficit of 2.2 per cent of GDP in March 2024. This surplus contributed to a build-up of government deposits, and hence, an increase in financial assets. The liabilities also increased, mainly following massive external loan disbursements to the tune of M177.87 million on investment projects.

² All financing items are on net basis.

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 (Percentage Change)

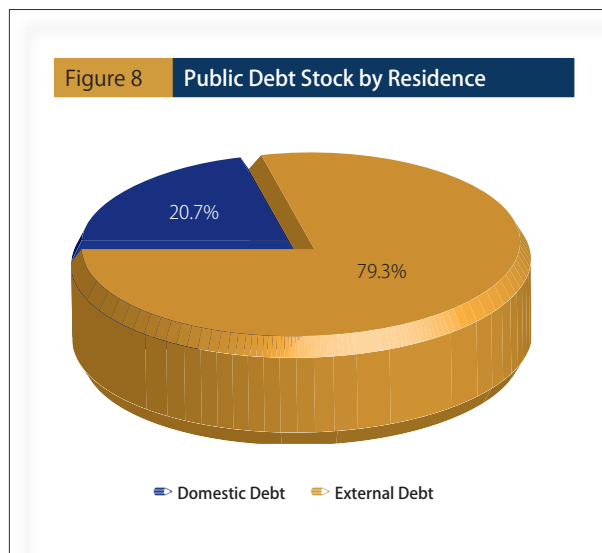
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		12.4%	13.1%	0.0%	53.0%	0.0%	99.8%	3.0%	21.3%
Defense		1.1%	1.2%	0.0%	0.0%	0.0%	0.0%	0.7%	0.6%
Public Order and Safety		25.1%	10.0%	0.0%	0.2%	0.0%	0.2%	0.0%	11.1%
Economic Affairs		8.0%	5.8%	0.0%	29.1%	0.0%	0.0%	96.0%	20.2%
Environmental Protection		0.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%
Housing and Community Amenities		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Health		7.2%	69.0%	77.3%	0.0%	0.0%	0.0%	0.2%	17.9%
Recreation, Culture, and Religion		0.6%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%
Education		31.9%	0.5%	22.7%	17.7%	0.0%	0.0%	0.0%	18.1%
Social Protection		12.9%	0.3%	0.0%	0.0%	100.0%	0.0%	0.0%	10.2%
Share per Economic Item		40.5%	9.4%	11.0%	15.1%	5.0%	6.6%	12.5%	100.0%

Source: CBL and MOF

V. PUBLIC DEBT

The public debt stock registered 55.6 per cent of GDP in April 2024, which was up from the revised 55.3 per cent of GDP in the previous month. This monthly increase, estimated at 0.6 per cent, reflected most

spending on lowlands water development and agriculture productivity from the external funding. In terms of year-on-year changes, the overall debt stock declined by 10.8 per cent.



Source: Central Bank of Lesotho & Ministry of Finance

Appendix: Key Economic Indicators

		23-Oct	23-Nov	23-Dec	24-Jan	24-Feb	24-Mar	24-Apr	
Economic Activity (MIEA (% change, M/M))		2.5	-0.9	2.1	-1.3	2.0	-0.3	0.9	
Consumer price Index (% change)	Headline Inflation (year-on-year)	6.5	6.8	7.2	8.2	7.3	7.4	7.1	
	Core Inflation	6.1	6.4	6.4	8.0	6.7	6.9	6.3	
Exchange Rates (Monthly End Period)	EUR	19.83	19.18	20.34	20.50	20.51	20.51	20.07	
	GBP	23.19	23.00	23.60	23.88	24.00	23.97	23.48	
	USD	19.06	18.54	18.67	18.80	18.99	18.86	18.72	
Money Supply (Millions of Maloti)	M2	16,364.62	16,767.29	17,180.65	16,726.97	16,887.51	17,636.19	17,225.56	
	M1	7,734.06	7,891.50	8,448.94	8,124.79	7,722.71	8,528.66	8,945.55	
	Quasi Money	8,630.56	8,875.78	8,731.71	8,602.18	9,164.81	9,107.53	8,280.01	
Interest Rates	CBL Rate	7.75	7.75	7.75	7.75	7.75	7.75	7.75	
	91 day Treasury bill rate	7.41	7.12	7.12	7.09	6.93	6.78	6.59	
	Prime lending rate	11.25	11.25	11.25	11.25	11.25	11.25	11.00	
	1 year deposit rate	4.74	4.74	4.74	4.74	4.74	4.74	4.74	
Private sector Credit (Millions of Maloti)		9,522.85	9,655.44	9,736.03	9,796.71	9,838.10	9,736.88	9,864.60	
	Households	2,656.17	2,707.48	2,717.72	2,722.05	2,716.99	2,577.61	2,653.25	
	Non-profit Organisations	6,866.67	6,947.96	7,018.31	7,074.66	7,121.11	7,159.28	7,211.35	
Bank Deposit Liabilities (Millions of Maloti)		18,080.49	17,945.47	18,679.67	18,751.66	19,412.48	19,375.00	18,842.16	
Credit to Deposit Ratio (%)		52.6	53.9	52.1	52.2	50.6	50.1	52.2	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	1,767.10	-569.09	-233.83	1,467.05	-1,003.51	-223.82	2,536.85	
	Total Revenue (with SACU receipts)	3,645.74	993.76	931.83	3,680.35	1,079.71	1,686.95	4,093.08	
	Total Expenditure	1,878.64	1,562.85	1,165.66	2,213.30	2,083.22	1,910.77	1,556.23	
	O/W Capital	155.61	93.42	59.72	201.58	273.67	399.39	188.67	
Total Public Debt (Millions of Maloti)		23,030.63	20,698.97	20,831.76	22,210.88	22,724.39	22,529.86	22,665.74	
	Total External Debt	18,236.60	15,911.14	16,172.80	17,680.91	18,019.26	17,824.90	17,963.01	
	External Debt	Concessional	12,172.12	10,083.23	10,207.22	11,514.42	11,651.09	11,574.00	11,734.83
		Non-concessional	6,064.47	5,827.91	5,965.58	6,166.50	6,368.17	6,250.90	6,228.18
	Domestic Debt	4,744.83	4,699.73	4,582.49	4,529.97	4,705.13	4,704.96	4,702.73	
Memo Item: Arrears (Millions of Maloti)		29.07	40.18	44.61	42.62	68.40	198.26	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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