



# Monthly

# ECONOMIC REVIEW

AUGUST 2024

CENTRAL BANK OF LESOTHO  
[www.centralbank.org.ls/publications](http://www.centralbank.org.ls/publications)

## I. ECONOMIC ACTIVITY<sup>1</sup>

Economic activity contracted in August 2024, after improving in the previous month. Both demand and manufacturing were under pressure in the review month.

### Overall Performance Index

In August 2024, domestic economic activity experienced a decline, reversing the modest improvement seen in the previous month. The Composite Indicator of Economic Activity (CIEA) dropped by 2.8 per cent, following a slight 0.1 per cent growth in the prior month. This downturn was primarily driven by weakened demand and a slowdown in the manufacturing subsector. Similarly, the construction subsector also weakened, as indicated by lower imports of construction materials. Despite this, subsectors like financial services and transport partially cushioned the decline. The financial subsector benefitted from increased credit extension to the private sector, while the transport sector capitalized on low fuel prices.

### Domestic Demand Category

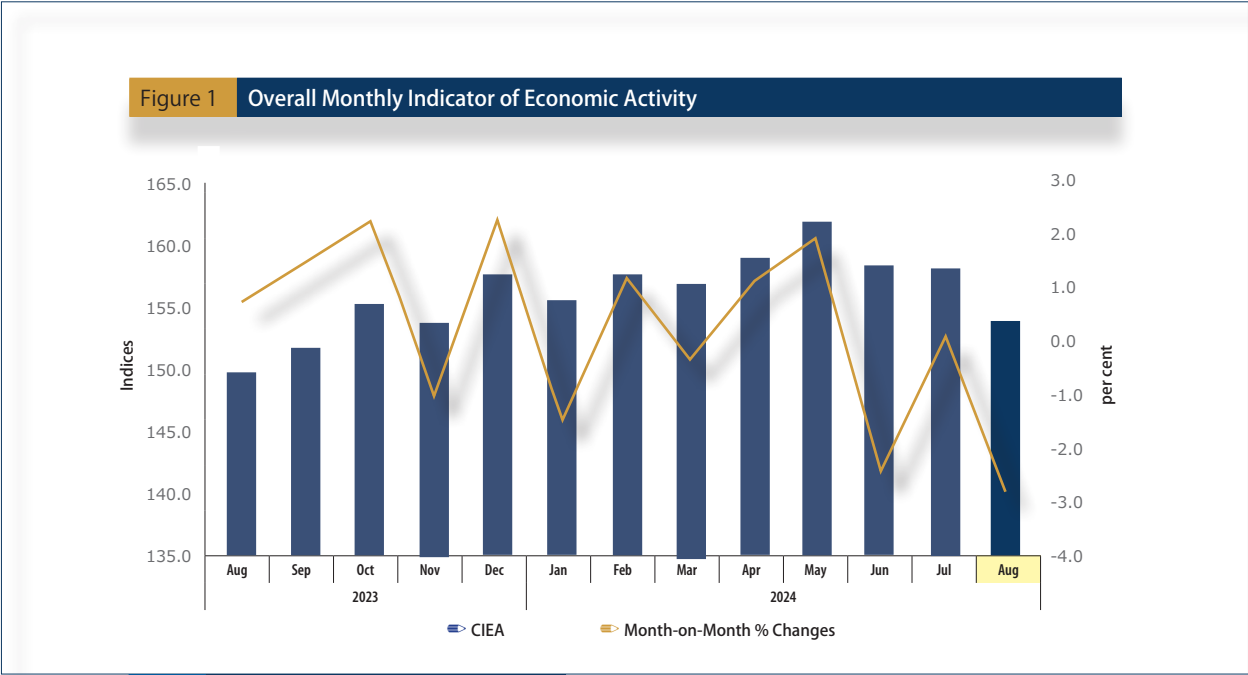
During the review period, domestic demand continued to weaken, with the index dropping by 3.8 per cent, following a significant 4.0 per cent decline in the previous month. This sustained contraction was largely observed in reduced government activity, a sluggish demand for imported goods and services from South Africa, particularly, consumer goods and services, and capital goods, which resulted in lower tax revenue. The combined impact of these factors indicated a broader slowdown in economic activity, suggesting that key drivers of domestic consumption and investment faced mounting pressures.

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

### Manufacturing and Production Category

The manufacturing and production subsector contracted during the reviewed period, with the index falling by 3.2 per cent, worsening from a revised 1.0 per cent decline from the previous month. This downturn was largely due to a reduction in imports of raw materials from South Africa, coupled with weakening exports of clothing and textiles to the US

market. These factors underscored the vulnerability of the production subsector to external conditions, particularly in terms of trade and supply chain dynamics. However, an increase in textile exports to South Africa provided some relief, helping to offset a portion of the decline. This uptick in regional trade suggests that while global demand remains uncertain, Lesotho may benefit from stronger regional ties to stabilize its manufacturing output.



Source: CBL Calculations

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

Indices	2024							
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
<b>CIEA</b>	155.7	157.8	157.4	159.2	162.4	158.6	158.7	154.1
Monthly changes	-1.4	1.3	-0.2	1.2	2.0	-2.3	0.1	-2.8
<b>Domestic Demand Category</b>	152.4	154.4	153.0	150.1	153.9	142.2	136.4	131.3
Monthly changes	-0.7	1.4	-0.9	-1.9	2.6	-7.6	-4.0	-3.8
<b>Manufacturing &amp; Production Category</b>	118.2	117.3	117.7	120.2	119.9	124.1	122.8	118.9
Monthly changes	-2.2	-0.7	0.4	2.1	-0.2	3.5	-1.0	-3.2

Source: Central Bank of Lesotho (CBL) Calculations

## II. INFLATION AND PRICES

### Headline Inflation

Headline inflation fell to 6.0 per cent in August from 6.7 per cent observed in July 2024. Contributors to the fall in inflation were Education, Clothing and Footwear, as well as Transport categories.

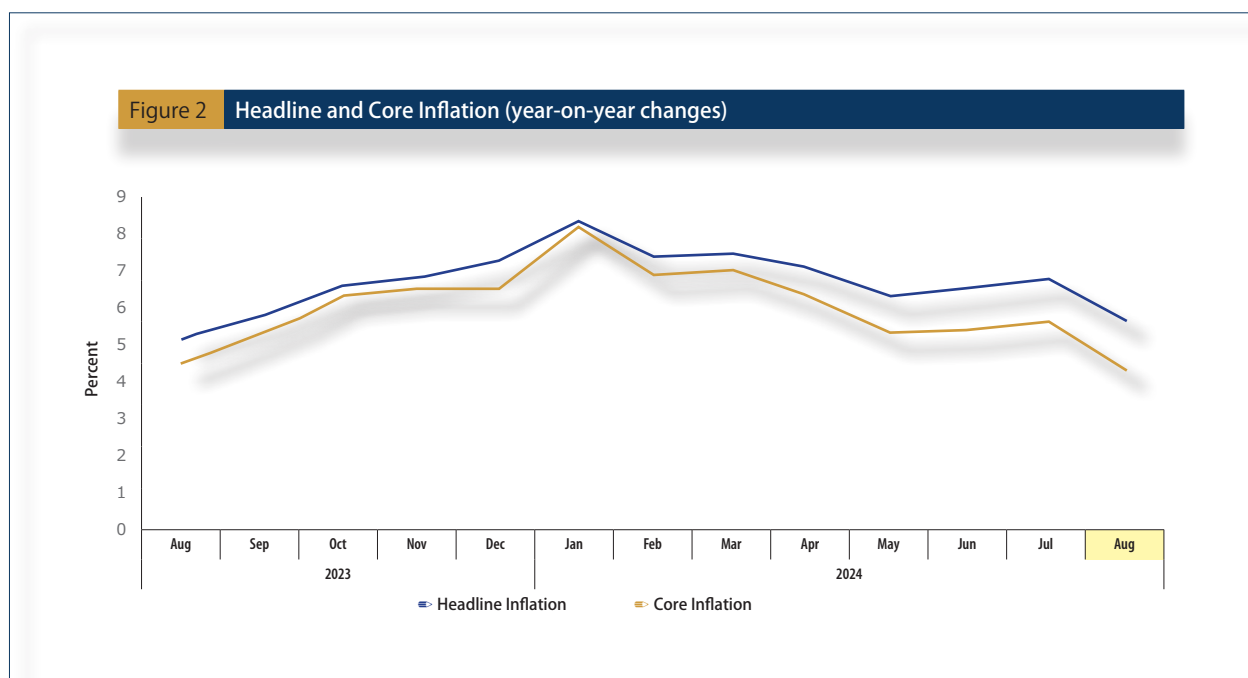
The decline in year-on-year inflation was primarily driven by a normalization of secondary education fees. Following a significant increase in August 2023, prices for secondary education have stabilized within the current period. Moreover, a relatively slower growth of transport benefiting from low fuel

prices amid exchange rate gains contributed to the improvement in price developments.

However, price gains on Food and Non-Alcoholic beverages interrupted the easing of consumer prices due to rising prices of white maize in South Africa amidst supply shortages.

### Core Inflation

Underlying inflationary pressures, as measured by core inflation, decreased to 4.8 in August 2024 from 5.5 per cent in July 2024.

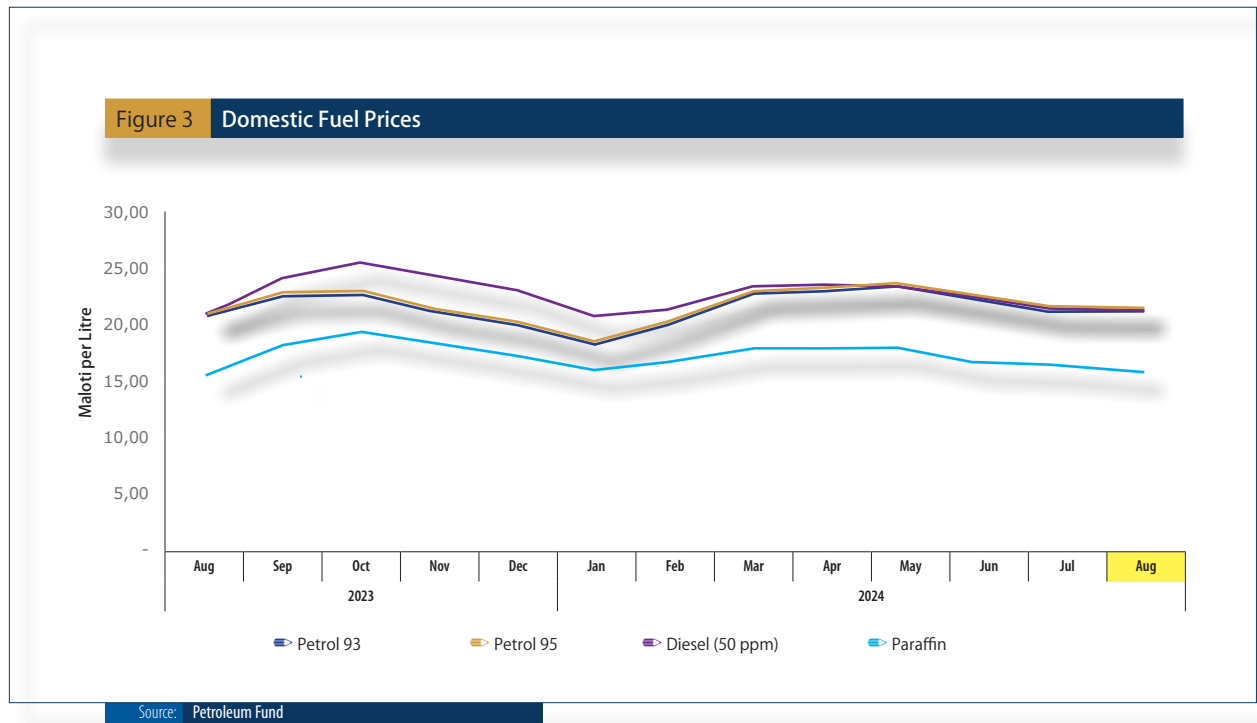


Source: Lesotho Bureau of Statistics & CBL Computation

## Domestic Fuel Prices

The prices of all petroleum products decreased in the review period. Where both grades of petrol (*Petrol<sub>93</sub>* and *Petrol<sub>95</sub>*), decreased by M 0.05 and M0.15, respectively, and were sold at M 21.00 per litre and M 21.40 per litre, respectively at the pump.

The pump prices *diesel<sub>50</sub>* and illuminating paraffin fell by M 0.30 and M 0.40, each and were sold at M21.35 per litre and M15.90 per litre in the retail market, respectively.



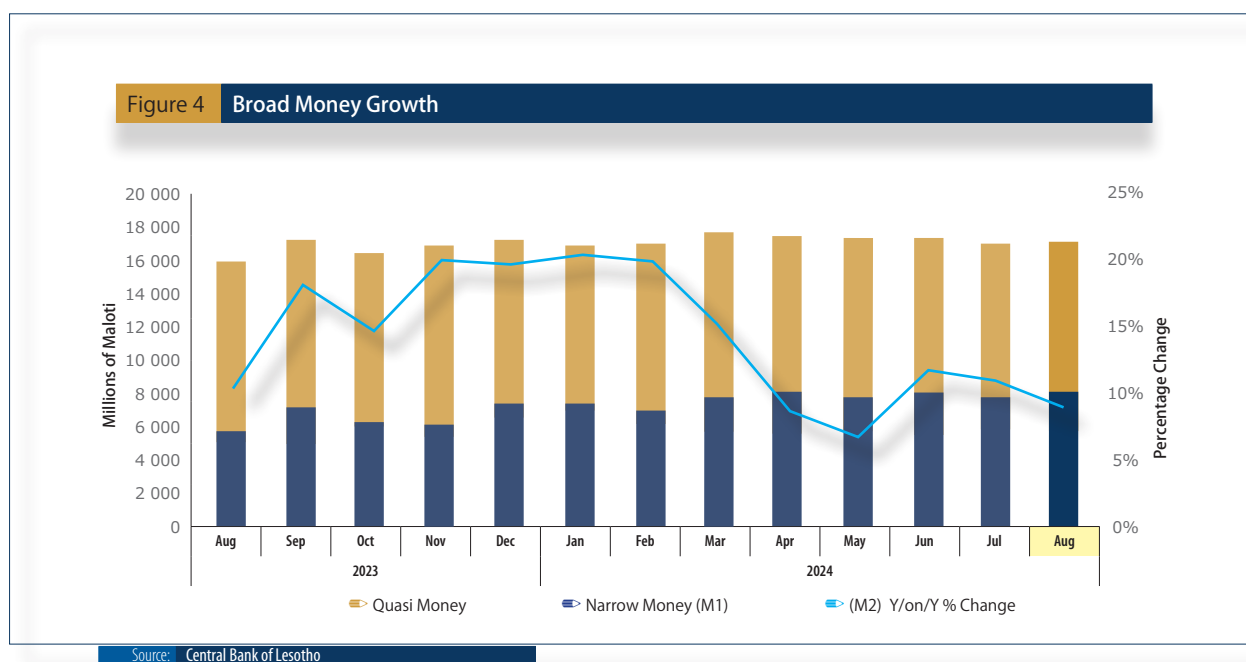
### III. MONETARY AND FINANCIAL INDICATORS

#### Broad Money (M2)

The money supply (M2) recouped by 1.4 per cent, contrary to the 2.4 per cent decline in July. This was supported by growth in net domestic assets (NDA), despite a fall in net foreign assets (NFA). NDA grew by 55.1 per cent in the review month, in contrast to the 47.9 per cent decline recorded in the previous month. The growth in NDA was driven by the drawdown in government deposits at both the commercial banks and the central bank. Conversely, NFA fell by 5.5 per cent, compared to the 7.1 per cent growth in July. The decline in NFA resulted from a fall in both the central bank and commercial banks' net placements abroad. Year-on-year, M2 grew by 8.8 per cent.

#### Components of Money Supply

Breaking down money supply into its components, the recovery resulted mainly from growth in narrow money (M1), with a lesser contribution coming from quasi money. M1 expanded by 2.3 per cent, in contrast to the 4.4 per cent decline a month earlier, whereas quasi money grew modestly by 0.5 per cent. The rise in M1 was explained by an increase in transferable deposits held by both the business enterprises and households. While growth in quasi money was due to a rise in call deposits held by business enterprises.



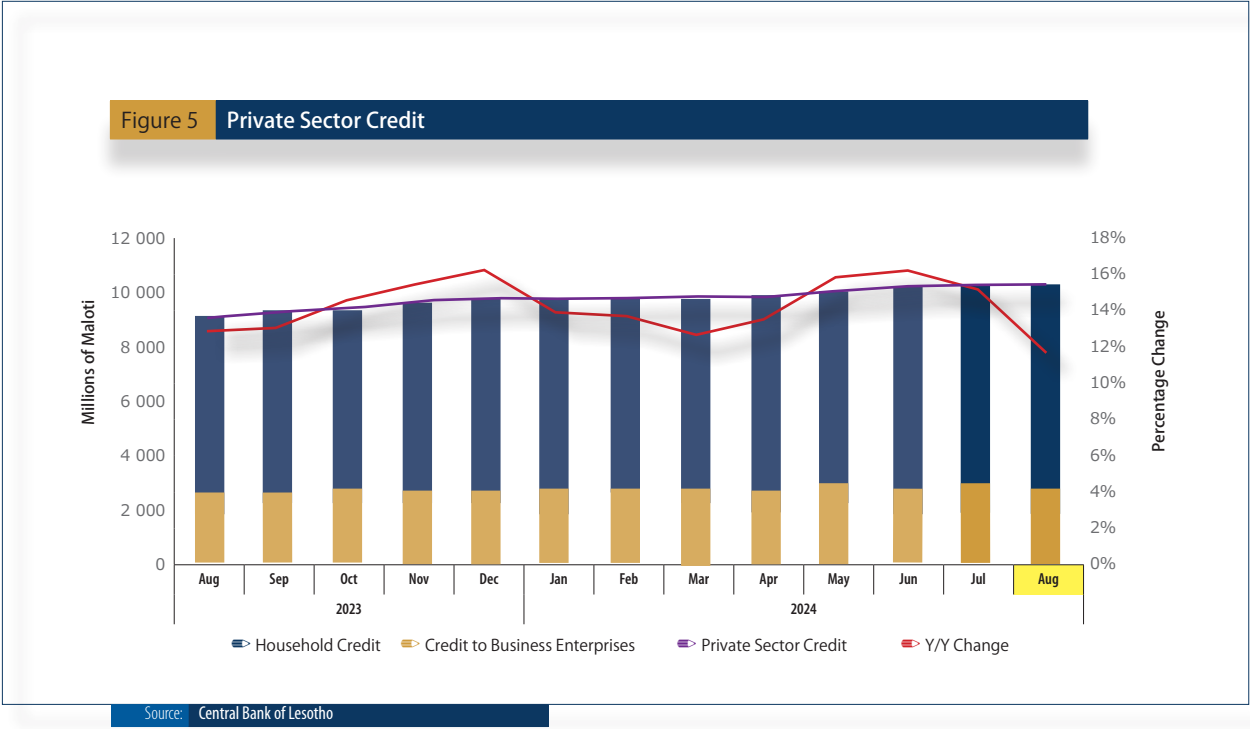
#### Private Sector Credit

Private sector credit continued the upward trajectory, growing by 0.6 per cent following a 0.5 per cent expansion in July 2024. Household credit grew by 2.4 per cent, contrary to the 0.6 per cent

decline in July, whereas business credit declined by 4.1 per cent. Both mortgages and personal loans contributed to the observed growth in household credit extension. The fall in business credit was evident in mining and quarrying; and wholesale and retail sub-sectors.

The wholesale and retail trade, restaurants and hotels sub-sector continued to command the highest share of credit extension, followed by real estate and business services sector, with construction industry completing the top three. The community,

social and personal services remained the smallest recipient of credit extension to the business sector, though there was a marginal growth. On an annual basis, private sector credit grew by 11.7 per cent.



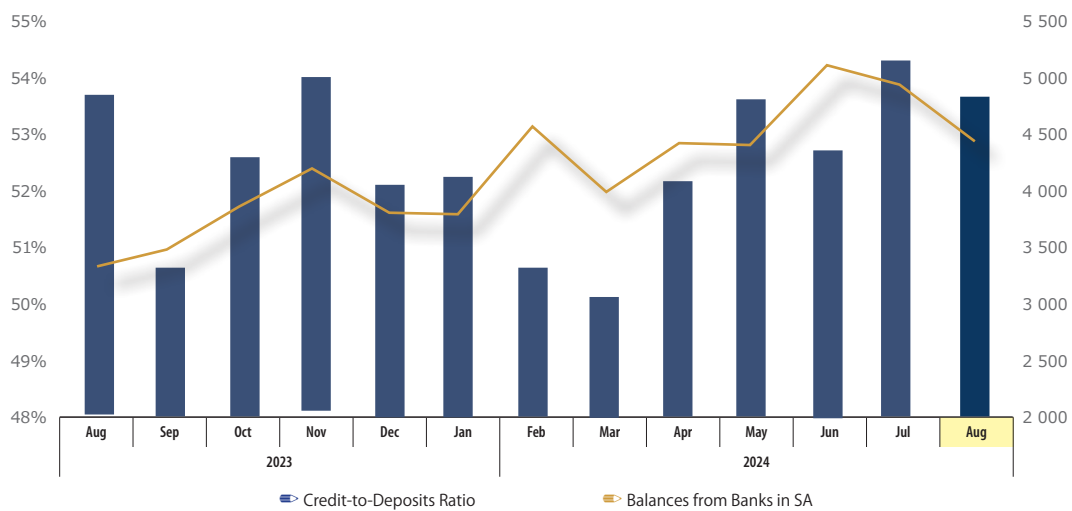
### Non-Performing Loans

The ratio of non-performing loans (NPLs) to total loans declined by 0.1 percentage points to 3.7 per cent in August 2024. The highest shares of NPLs were attributed to the construction and wholesale & retail trade, restaurants & hotels subsectors.

### Sources of Funds

The credit-to-deposit ratio declined to 53.7 in August, compared to 54.3 per cent in July 2024. The decrease was mainly attributable to a rise in the deposit base of commercial banks.

**Figure 6 Credit to Deposit Ratio**



Source: Central Bank of Lesotho

### Interest Rates

The CBL rate was unchanged at 7.75 per cent between July and August 2024. Consequently, the prime lending rate and the 1-year deposit rate remained stable at 11.25 and 4.74 per cent, respectively. However, the 91-day treasury bill rate declined by 22 basis points to 6.74 per cent from 6.96 per cent a month earlier.

### Foreign Exchange

The value of the rand, hence loti, strengthened against the dollar and pound but depreciated against the euro in August 2024, compared to a month earlier.

The rand strengthened by 1.22 per cent and 0.59 per cent against the dollar and the pound, respectively and weakened by 0.35 per cent against the euro.

This is in comparison to an appreciation of 0.92 per cent against the dollar and 0.62 per cent against the euro, and a 0.73 per cent depreciation against the pound in the previous month.

The rand's recent appreciation was buoyed by increased optimism surrounding South Africa's economy, following positive signs of economic growth in the second quarter, improvements in logistical infrastructure, and a decline in inflationary pressures. These factors have improved investor confidence, resulting in increased foreign demand for local government bonds. Additionally, expectations of interest rate cuts by the Federal Reserve have contributed to a weakening of the dollar against emerging market currencies including the rand. The rand, however, did shed value against the euro as the euro area has been showing signs of economic improvement which boosted investor confidence.

## IV. GOVERNMENT BUDGETARY OPERATIONS

### Expenditure

In August 2024, government expenditure rose by 10.3 per cent, following a revised decrease of 1.1 per cent in the previous month. This increase was primarily driven by development spending, notably on industrial and road infrastructure, student grants, subsidies to non-financial corporations, public assistance, and OVC bursaries. As a result, the largest portions of the budget were allocated to education, economic affairs, and health sectors.

### Revenue

Government revenue, excluding SACU, fell by 8.89 per cent during the month, compared to a revised decline of 30.2 per cent in the previous month. This decrease was mainly due to lower income tax and VAT collections. However, on a year-on-year basis, revenues increased by 23.9 per cent, compared to a revised drop of 64.1 per cent, primarily driven by income and water royalties.

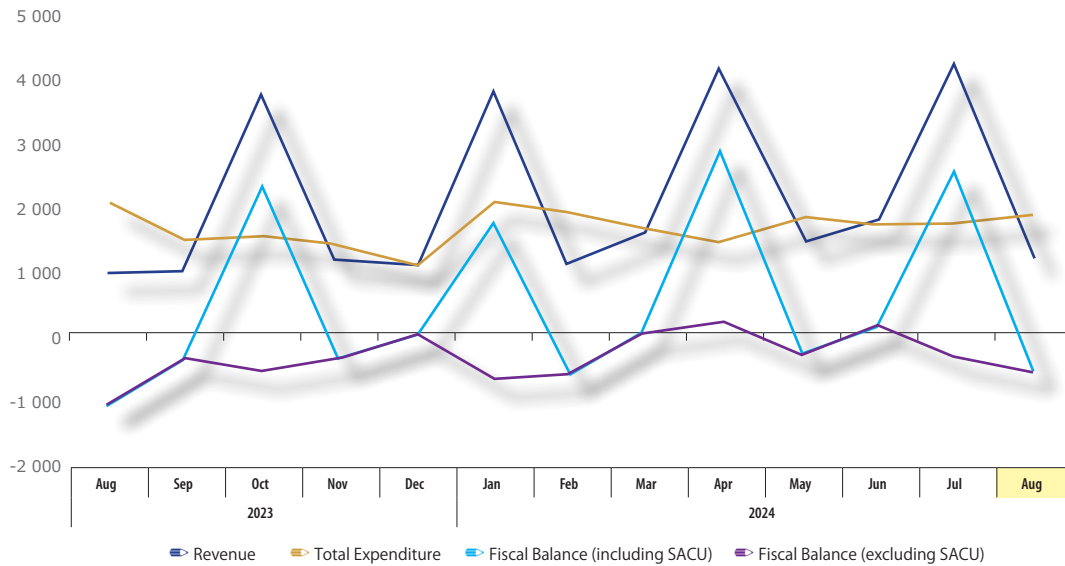
### Fiscal Balance<sup>2</sup>

Fiscal balance to GDP ratio was estimated to have resulted in a deficit equivalent to 7.0 per cent in August 2024, compared to a revised surplus of 24.1 per cent in July 2024. This deficit, along with the repayment of external loans and domestic supplier arrears, was financed by drawing down government deposits with the banking sector.

<sup>2</sup> 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)**

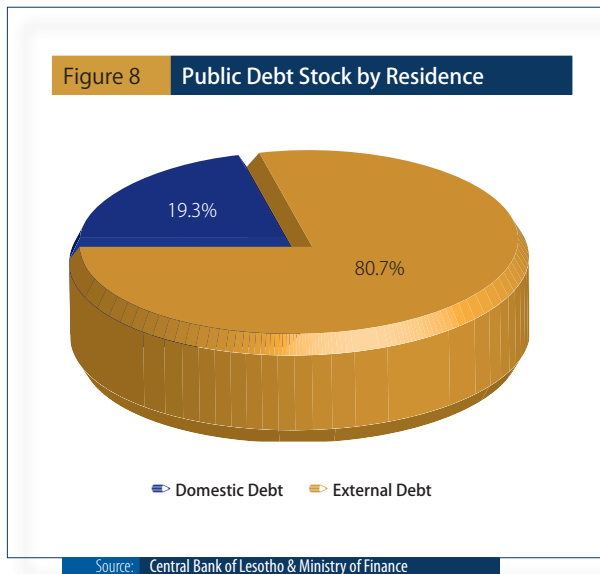
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Interest Payments	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		7.0%	12.6%	100.0%	0.0%	55.9%	2.3%	0.4%	9.2%	12.9%
Defense		8.3%	6.5%	0.0%	0.0%	0.0%	0.0%	0.0%	8.1%	4.7%
Public Order and Safety		16.0%	11.4%	0.0%	0.0%	3.1%	0.0%	0.6%	0.4%	6.8%
Economic Affairs		7.4%	28.1%	0.0%	0.0%	0.0%	0.1%	0.0%	72.7%	17.5%
Environmental Protection		1.1%	1.5%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.6%
Housing and Community Amenities		7.3%	8.3%	0.0%	0.0%	16.6%	0.0%	0.1%	9.2%	5.1%
Health		7.4%	25.5%	0.0%	92.8%	0.0%	2.6%	0.0%	0.2%	14.9%
Recreation, Culture, and Religion		1.1%	1.6%	0.0%	0.0%	0.0%	6.6%	0.0%	0.1%	1.3%
Education		34.7%	3.3%	0.0%	7.2%	0.0%	5.1%	98.7%	0.0%	23.7%
Social Protection		9.7%	1.1%	0.0%	0.0%	24.4%	83.3%	0.0%	0.1%	12.5%
<b>Share per Economic Item</b>		<b>30.0%</b>	<b>15.7%</b>	<b>6.5%</b>	<b>9.0%</b>	<b>1.3%</b>	<b>10.9%</b>	<b>11.7%</b>	<b>14.9%</b>	<b>100.0%</b>

Source: CBL and MOF

## V. PUBLIC DEBT

The public debt stock ratio was estimated to have declined to 54.5 per cent of GDP, down from the revised 55.2 per cent in the previous month. This marginal 0.9 per cent decrease was primarily influenced by exchange rate effects, although it was

somewhat offset by the issuance of government securities. Despite this monthly reduction, debt stock was estimated to have grown by 3.2 per cent on an annual basis.



## Appendix: Key Economic Indicators

		24-Jan	24-Feb	24-Mar	24-Apr	24-May	24-Jun	24-Jul	24-Aug	
Economic Activity (MIEA (% change, M/M))		-1.4	1.3	-0.2	1.2	2.0	-2.3	0.1	-2.8	
Consumer price Index (% change)	Headline Inflation (year-on-year)	6.8	7.2	8.2	7.3	7.4	7.1	6.3	6.5	
	Core Inflation	6.4	6.4	8.0	6.7	6.9	6.3	5.3	5.3	
Exchange Rates (Monthly End Period)	EUR	20.5233	20.3424	20.3817	20.7950	20.5085	20.0677	20.1045	20.1045	
	GBP	23.7452	23.6012	23.8757	24.3030	23.9695	23.4763	23.6247	23.6247	
	USD	18.7082	18.6699	18.8456	19.1910	18.8596	18.7203	18.6230	18.6230	
Money Supply (Millions of Maloti)	M2	16,767.29	17,180.65	16,726.97	16,887.51	17,636.19	17,225.56	17,223.67	17,340.59	
	M1	7,891.50	8,448.94	8,124.79	7,722.71	8,528.66	8,945.55	8,834.37	8,173.76	
	Quasi Money	8,875.78	8,731.71	8,602.18	9,164.81	9,107.53	8,280.01	8,389.31	9,166.83	
Interest Rates	CBL Rate	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	
	91 day Treasury bill rate	7.12	7.12	7.09	6.93	6.78	6.59	6.93	6.96	
	Prime lending rate	11.25	11.25	11.25	11.25	11.25	11.00	11.25	11.25	
	1 year deposit rate	4.74	4.74	4.74	4.74	4.74	4.74	4.74	4.74	
Private sector Credit (Millions of Maloti)		9,655.44	9,736.03	9,796.71	9,838.10	9,736.88	9,864.60	10,181.74	10,233.44	
	Households	2,707.48	2,717.72	2,722.05	2,716.99	2,577.61	2,653.25	2,879.85	2,806.05	
	Non-profit Organisations	6,947.96	7,018.31	7,074.66	7,121.11	7,159.28	7,211.35	7,301.89	7,427.40	
Bank Deposit Liabilities (Millions of Maloti)		17,945.47	18,679.67	18,751.66	19,412.48	19,375.00	18,842.16	19,025.27	19,374.92	
Credit to Deposit Ratio (%)		53.9	52.1	52.2	50.6	50.1	52.2	53.4	52.7	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	22.70	1,722.10	-728.58	80.11	2,781.12	-409.86	87.55	2,455.69	
	Total Revenue (with SACU receipts)	935.73	3,681.22	1,084.54	1,693.32	4,166.39	1,410.53	1,781.10	4,130.46	
	Total Expenditure	913.03	1,959.11	1,813.12	1,613.21	1,385.27	1,820.39	1,693.56	1,674.78	
	O/W Capital	53.39	194.09	254.50	366.14	197.41	250.79	334.18	194.63	
Total Public Debt (Millions of Maloti)		23,117.53	23,171.30	23,654.64	23,220.31	22,981.28	23,224.48	22,362.58	22,408.87	
	Total External Debt	18,458.58	18,579.50	18,894.05	18,453.39	18,223.85	18,494.28	17,894.09	17,954.80	
	External Debt	Concessional	12,701.93	11,590.72	11,723.94	11,502.10	11,372.76	11,493.20	11,084.68	11,084.68
		Non-concessional	5,756.65	6,988.78	7,170.10	6,951.29	6,851.09	7,001.08	6,809.41	6,870.12
	Domestic Debt	4,658.95	4,591.80	4,760.59	4,766.92	4,757.43	4,730.21	4,468.49	4,454.07	
Memo Item: Arrears (Millions of Maloti)		26.28	-24.71	-31.43	-198.26	0.00	-201.98	-135.19	9.63	

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.

### © 2024 August Central Bank of Lesotho

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without fully acknowledging the Monthly Economic Review of Central Bank of Lesotho as the source.

The contents of this publication are intended for general information only and are not intended to serve as financial or other advice. While every precaution is taken to ensure the accuracy of information, the Central Bank of Lesotho shall not be liable to any person for inaccurate information or opinions contained in this publication.

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)