



Monthly ECONOMIC REVIEW

FEBRUARY 2022

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY

Economic activity contracted in February 2022. This was as a result of poor performance by the production and demand sides of the economy.

Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) indicated weak economic performance in February 2022. The overall index declined by 3.4 per cent in February, in contrast to the 0.5 per cent growth in January 2022. Contraction in the index was underpinned by poor performance in both demand and production sides of the economy. The negative performance observed in the production side was further worsened by poor performance from the construction industry. However, the transport and financial subsectors moderated the impact on the index.

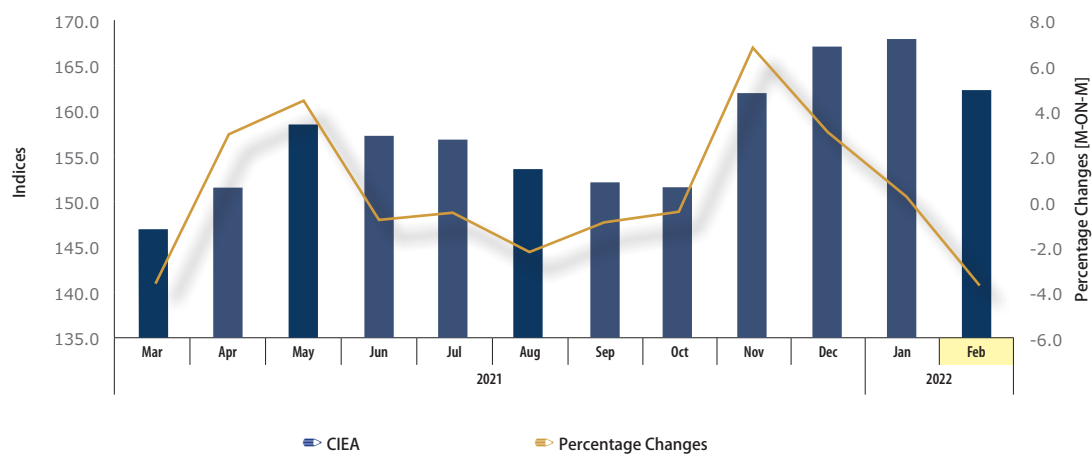
Domestic Demand Category

The demand category index contracted in the review month. The index declined by a significant 11.0 per cent in February, contrary to the 4.8 per cent expansion recorded in January 2022. The observed poor performance mainly was driven by slow performance in both consumer spending and the government activity (purchases, and wages and salaries) and collection of value added taxes (VAT). However, demand for imports from South Africa, (SA), and overall business activity pay-as-you-earn taxes remained resolute despite the overall lacklustre performance in demand.

Manufacturing and Production Category

The production and manufacturing activity also weakened in February 2022. The index recorded a negative growth of 5.4 per cent, in contrast to the 0.9 per cent growth that occurred in the preceding month. The decline was mainly attributable to slowdown in the importation of manufacturing inputs from SA, and to a lesser extent the exports of textiles into the US markets. The use of utilities (water and electricity), however, remained strong in the review month.

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	
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
CIEA	157.1	153.7	152.4	151.8	162.3	167.5	168.3	162.5
Monthly changes	-0.3	-2.1	-0.9	-0.4	6.9	3.2	0.5	-3.4
Domestic Demand Category	141.5	142.0	140.9	136.8	152.8	159.2	166.8	148.5
Monthly changes	-0.3	0.4	-0.8	-2.9	11.6	4.3	4.8	-11.0
Manufacturing & Production Category	113.0	106.9	101.5	108.5	124.3	132.7	133.8	126.6
Monthly changes	-5.2	-5.4	-5.0	6.9	14.5	6.7	0.9	-5.4

Source: Central Bank of Lesotho (CBL) Calculations

II. INFLATION AND PRICES

Headline Inflation

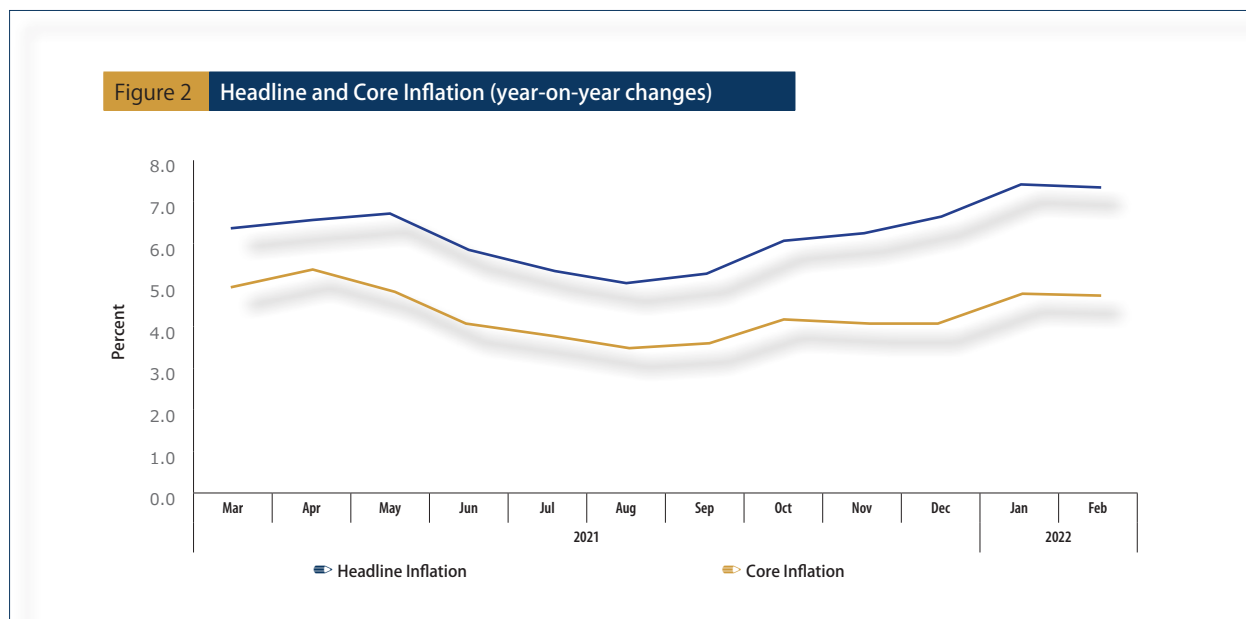
The overall inflation decelerated to 7.5 per cent in February 2022 from 7.6 per cent recorded for January 2022. Major contributors to the 0.1 per cent decline were Housing, Water, Electricity, Gas and Other Fuels, Clothing & Footwear and Miscellaneous goods and services during the review period.

Nonetheless, Food and Non-alcoholic beverages, Transport, and Recreation & Culture moderated the fall. The main drivers behind the fall in overall inflation were decline in household energy prices

and rentals. Nevertheless, the transport sector energy, driven by rising international crude oil prices and exchange rate depreciation during the review period moderated the fall in headline inflation. Increasing food prices also moderated the fall in inflation as the lean season peaked.

Core Inflation

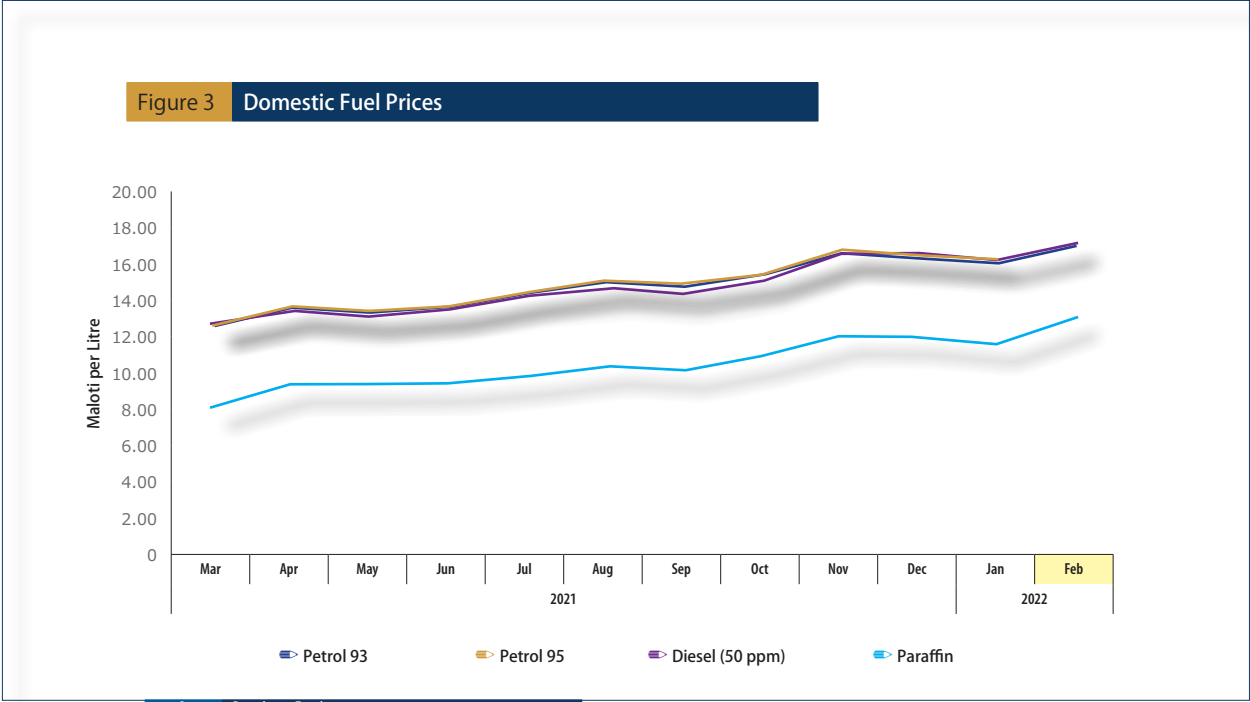
Underlying inflation pressures remained muted during the review period and the core inflation was estimated at 4.9 per cent in February 2022.



Domestic Fuel Prices

Prices of all domestic petroleum products increased from January to February 2022. Prices of both grades of petrol (*petrol₉₃* and *petrol₉₅*) rose by M0.95 per litre each. Their pump prices in February 2022 were

M17.15 per litre and M17.30 per litre, respectively. The price of *diesel₅₀* also increased by M1.05 per litre and was sold at M17.35 per litre at the pump. In addition, the retail price of illuminating paraffin increased by M1.40 per litre and was sold at M13.10 per litre during the review period.



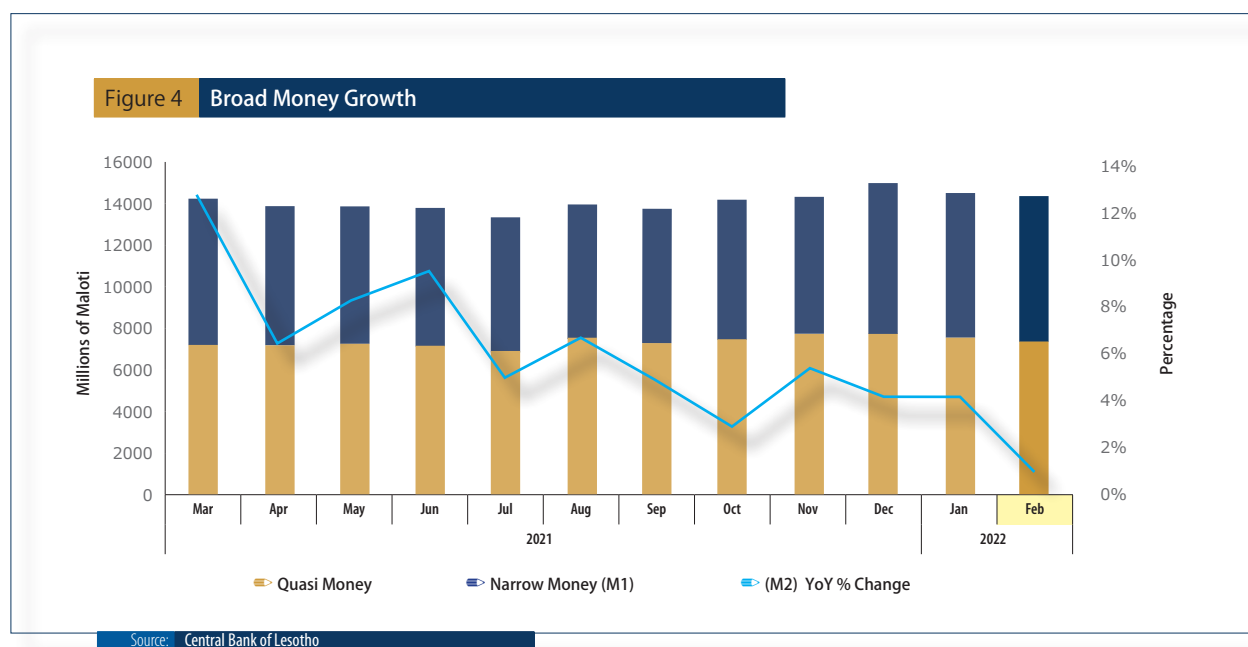
III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

Broad money supply (M2) declined by 0.8 per cent in February 2022, following a decline of 3.3 per cent in the previous month. This was on account of a 5.0 per cent decline in net foreign assets (NFA), moderated by an increase of 15.2 per cent in net domestic assets (NDA). The decline in NFA was attributable to a fall in both the central bank and commercial banks' NFA, while the growth in NDA was supported by the drawdown of government deposits within the banking system.

Components of Money Supply

The two components of money supply, narrow money (M1) and quasi money, contracted by 1.0 per cent and 0.7 per cent, respectively. The decline in M1 was mainly due to the fall in transferable deposits held by the non-profit institutions, while the decline in quasi money emanated from business sector withdrawals.

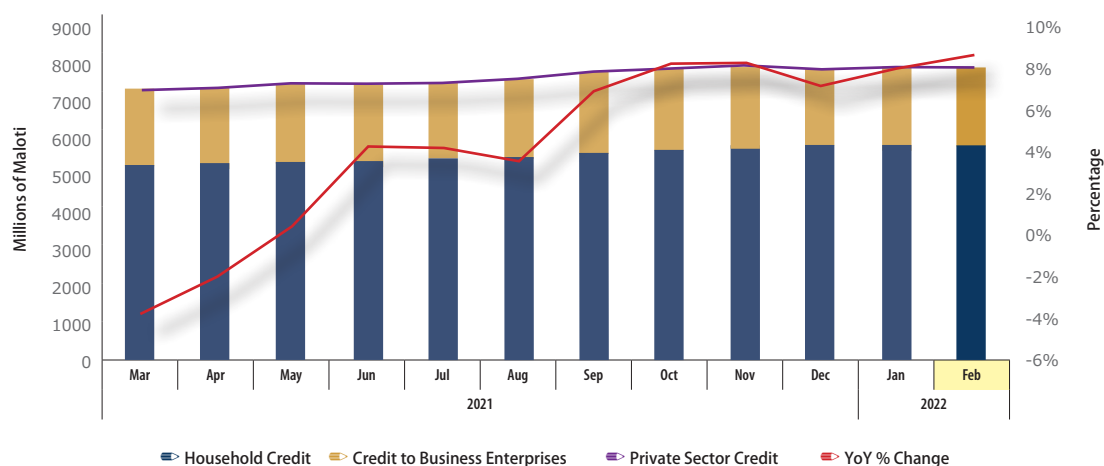


Private Sector Credit

Private sector credit declined in the review period, albeit, at a muted rate of 0.04 per cent, compared to a growth of 0.6 per cent in January 2022. The marginal decline in private sector credit resulted from a 0.9 per cent fall in business sector credit, moderated by a 0.3 per cent growth in total credit extended to households. The household sector benefited from a 1.0 per cent growth in mortgage loans, while growth in personal loans was almost unchanged.

Considering the commercial banks' allocation of credit to business enterprises, real estate & business services continued to account for the largest share of 22.3 per cent, followed by wholesale & retail trade, restaurants & hotels sector, 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 8.2 per cent in February 2022.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

Non-Performing Loans

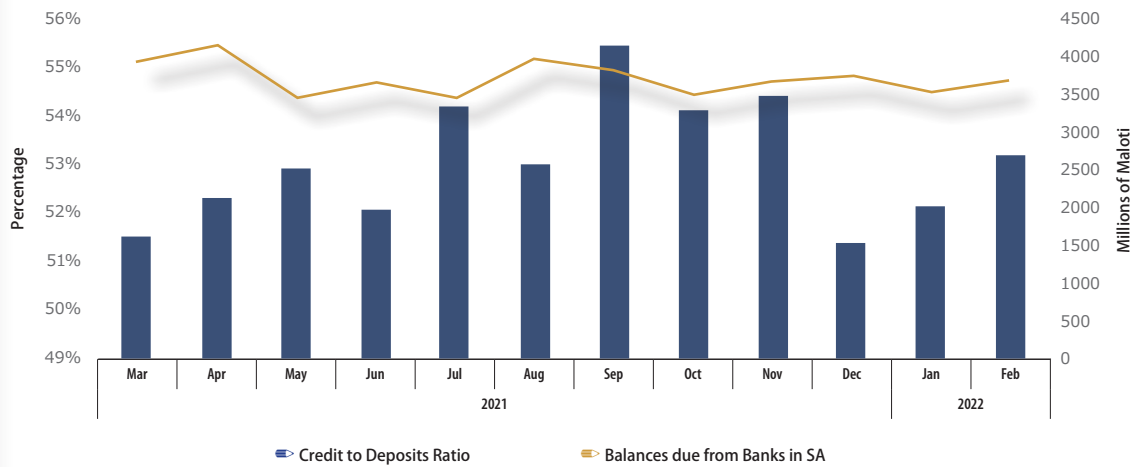
The ratio of non-performing loans (NPLs) to total loans improved slightly, as it declined from 4.4 per cent in January to 4.3 per cent in February. The fall in total NPLs resulted from a decline in both the business sector NPLs and NPLs arising from households. The business sector NPLs declined from 5.0 per cent to 4.9 per cent, mainly benefiting from the reduction in NPLs from real estate & business services and agriculture, hunting, forestry & fishing sectors. Household NPLs also fell by 0.1 percentage

points and stood at 4.1 per cent in February 2022. This emanated from a 1.0 per cent decline in NPLs arising from mortgages, alongside a 0.3 per cent fall in personal loans NPLs.

Sources of Funds

The credit to deposit ratio increased from 52.1 per cent in January 2022, to 53.2 per cent in February 2022. This was mainly due to the drop in total deposits, which outweighed the marginal 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 4.00 per cent in the review period, following the MPC meeting of 1st February 2022. As a result, the average prime lending rate also increased from 8.44 per cent in January to 8.69 per cent in February. Other short-term rates also increased, as the 91-day T-bill discount rate rose by 7 basis points to 4.16 per cent, and the 1-year deposit rate increased by 10 basis points to 2.90 per cent.

Foreign Exchange

In February 2022, the rand (loti) appreciated against its three major trading currencies compared to a month earlier. In comparison to January 2022, the rand (loti) appreciated by 1.72 per cent against the

dollar, by 1.49 per cent against the euro and by 1.83 per cent against the pound.

The rand was supported by a positive budget speech, which amongst others, communicated a positive budget outlook for South Africa by 2024. Furthermore, the rand regained momentum from increased commodity prices inflicted by the Russia-Ukraine war.

Nonetheless, the war between Russia and Ukraine also weakened the rand to some extent and partly offset those positive developments. Sanctions imposed on Russia weighed negatively on global financial markets and, therefore, provoked investors to drop risky assets, weighing negatively on emerging market currencies including the rand.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

Government total expenditure was estimated to have fallen by 7.9 per cent in February 2022 as opposed to an increase of 65.5 per cent in January 2022. This fall was mainly determined by operating costs, subsidies to non-financial public corporations, grants to extra-budgetary units, student grants and machinery & equipment.

Outlays by Functions

The share of development outlays to total outlays increased to 11.3 per cent due to economic affairs and housing & community amenities, which increased by 49.1 per cent and 33.1 per cent, respectively. The increase in economic affairs was attributable to an increase in road transport, while an increase in housing & community amenities increased due to water supply.

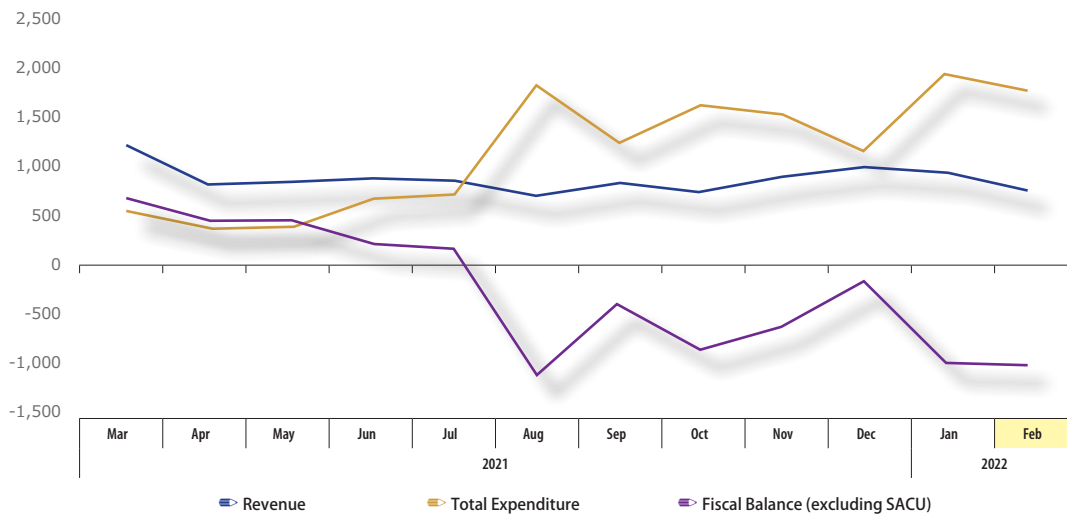
Total Revenue

The Government revenue, excluding SACU receipts, was estimated to decrease by 18.4 per cent during the current month, following a fall of 6.5 per cent in the previous month. The fall in revenue was largely on account of poor performance in tax revenue (value added tax and excise taxes) and other revenue (mining royalties).

Fiscal Balance and Financing

The fiscal operations recorded a fall in domestic financial assets and a rise in total liabilities. A decrease in financial assets contributed to a drawdown of Government deposits and other accounts receivable. The increased liabilities largely emanated from bond issuance, foreign loans, and pending expenditure under commitments.

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)

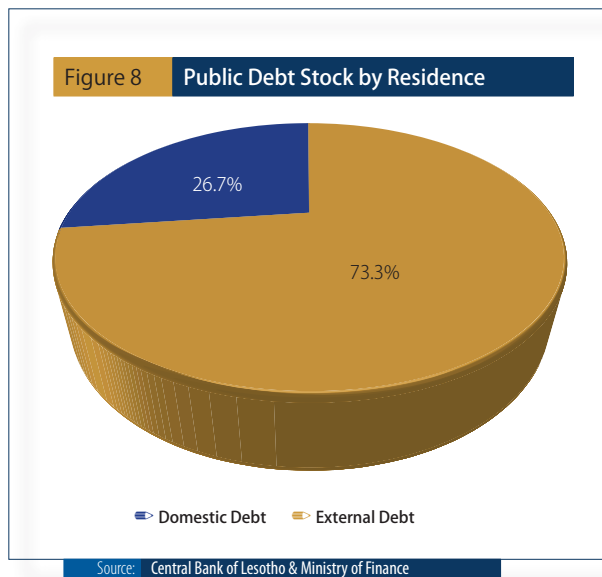
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		9.1%	24.2%	46.2%	19.5%	0.0%	67.4%	4.9%	11.1%
Defense		6.0%	8.6%	0.0%	0.0%	0.0%	0.0%	0.1%	4.2%
Public Order and Safety		16.7%	6.3%	0.0%	0.0%	0.0%	0.0%	3.4%	8.9%
Economic Affairs		6.8%	13.3%	0.0%	11.0%	0.0%	20.1%	74.6%	24.1%
Environmental Protection		0.1%	0.1%	0.0%	0.0%	0.0%	5.0%	0.0%	0.1%
Housing and Community Amenities		0.7%	0.8%	0.0%	6.1%	0.0%	0.0%	15.8%	4.6%
Health		8.6%	40.4%	0.0%	0.0%	7.8%	7.3%	0.7%	12.3%
Recreation, Culture, and Religion		0.8%	0.8%	0.0%	40.3%	0.0%	0.0%	0.0%	2.7%
Education		27.2%	2.8%	53.8%	13.7%	0.0%	0.0%	0.5%	12.8%
Social Protection		24.2%	2.7%	0.0%	9.3%	92.2%	0.3%	0.0%	19.2%
Share per Economic Item		41.4%	19.4%	0.2%	5.5%	8.9%	0.5%	24.1%	100.0%

Source: CBL and MOF

V. PUBLIC DEBT

The public debt stock was estimated at 55.9 per cent of GDP in February 2022, in comparison with 54.3 per cent of GDP in the preceding month. This was equivalent to a 2.9 per cent growth during the month under review, following an increase of 0.8

in the previous month. The surge in debt was due to foreign loan disbursements, as well as, bond issuance. In terms of year-on-year fluctuations, the public debt stock increased by 13.1 per cent.



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	
	Business Enterprises	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	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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