



Monthly ECONOMIC REVIEW

JANUARY 2022

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY

Overall economic activity remained strong in January 2022. Performance grew, albeit at a slower rate compared to the preceding month.

Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) index maintained positive economic activity in January 2022. The index grew by 0.5 per cent albeit at a slower rate in comparison to the 3.2 per cent growth recorded in December 2021. Growth in the overall activity was mainly attributable to domestic demand, and to a lesser extent the production category. The transport, construction and financial subsectors also contributed to the observed growth.

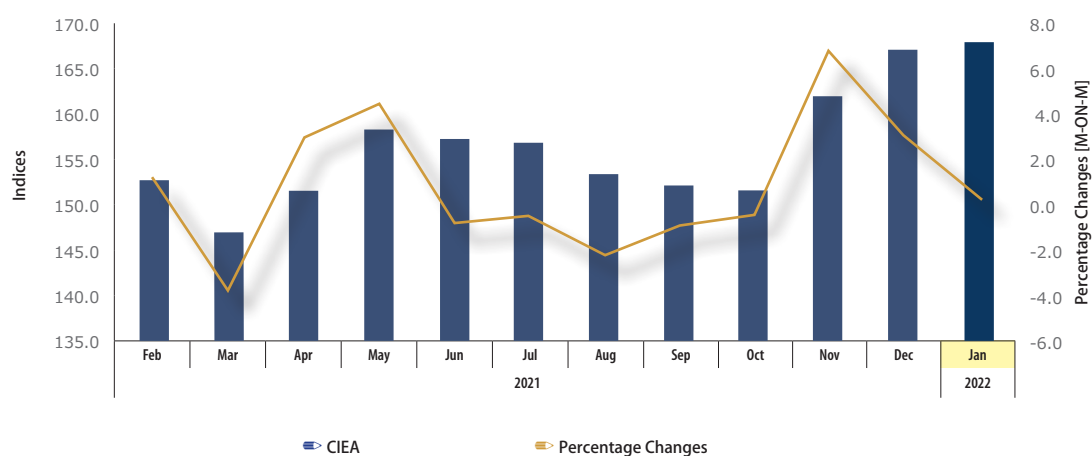
Domestic Demand Category

The demand category index continued to grow in January 2022. The index grew by 4.8 per cent, slightly faster than the 4.3 per cent growth recorded in the preceding month. Growth was supported mainly by demand for imports of goods and services from South Africa and tax collections in particular, pay-as-you-earn (PAYE) taxes. However, government activity (both purchases and compensation of employees) and value added tax (VAT) undermined growth with negative contributions.

Manufacturing and Production Category

The production and manufacturing activity remained positive in January 2022, although it was less than the contribution recorded in the previous month. The production index grew by 0.8 per cent, compared to 6.7 per cent growth in December 2021. Growth was mainly broad-based, as all variables contributed to the observed growth, though with moderated magnitudes. Imports of raw materials from South Africa were, however, the main contributor to the growth.

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
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
CIEA	157.5	157.0	153.6	152.3	151.7	162.1	167.3	168.1
Monthly changes	-0.7	-0.3	-2.1	-0.8	-0.4	6.8	3.2	0.5
Domestic Demand Category	141.9	141.4	141.9	140.9	136.7	152.6	159.1	166.7
Monthly changes	-5.1	-0.3	0.4	-0.7	-2.9	11.6	4.3	4.8
Manufacturing & Production Category	119.2	113.0	106.9	101.6	108.6	124.3	132.7	133.8
Monthly changes	7.8	-5.2	-5.3	-5.0	6.9	14.5	6.7	0.8

Source: Central Bank of Lesotho (CBL) Calculations

II. INFLATION AND PRICES

Headline Inflation

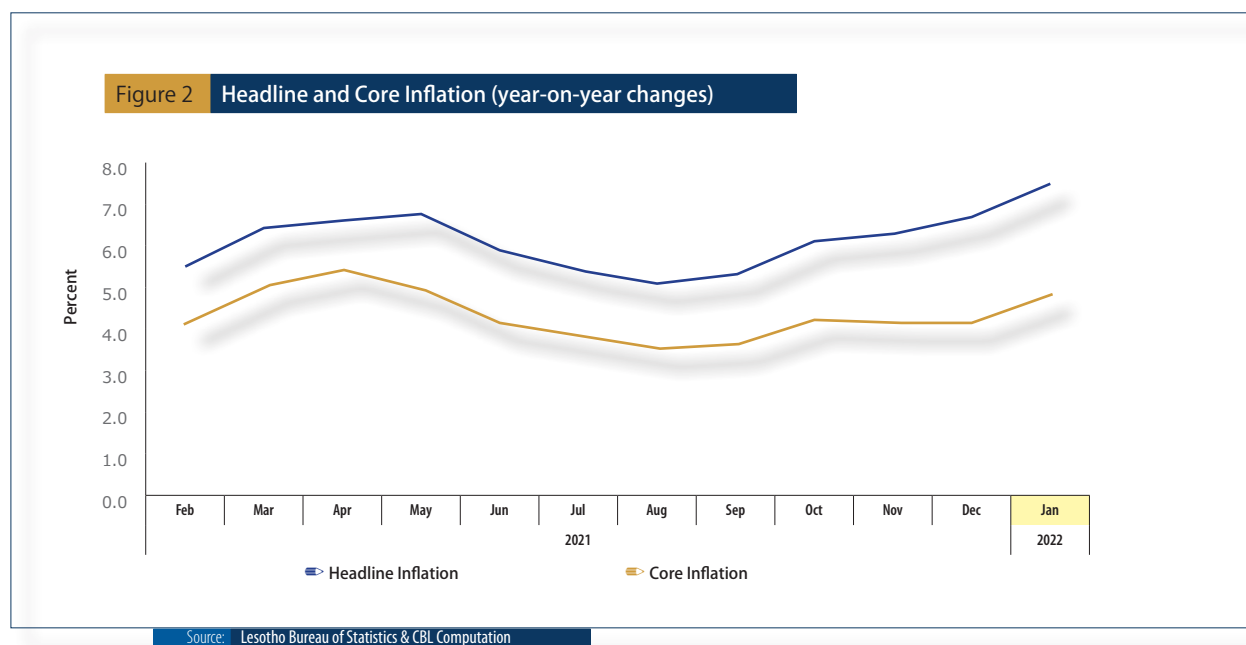
The overall inflation accelerated to 7.6 per cent in January 2022 from 6.8 per cent in December 2021. Food & Non-Alcoholic beverages, Education and Housing, Water, Electricity, Gas and Other Fuels contributed over 80.0 per cent to the rise in the overall inflation during the review period.

The rise in headline inflation was mainly attributed to rising food prices due to stable demand and

depletion of available food stocks. The rise in natural gas prices also added to the rise in inflation. Both secondary and tertiary education fees added significantly to the acceleration in overall inflation.

Core Inflation

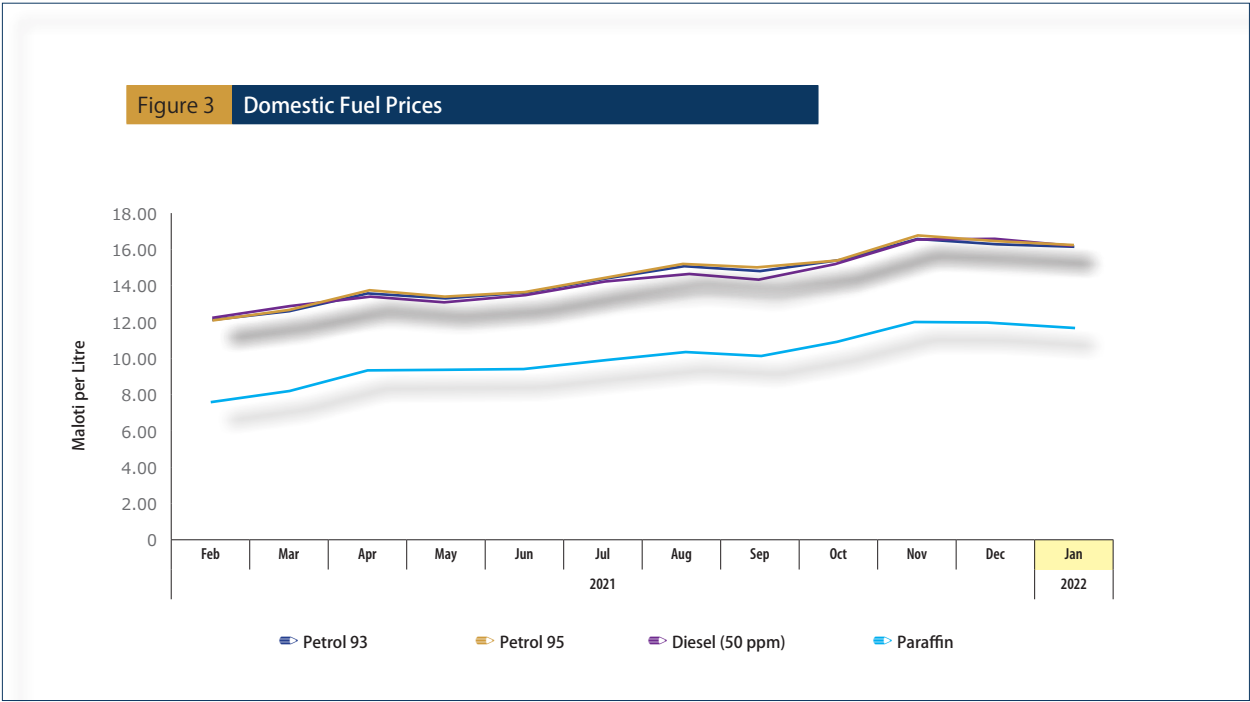
Underlying inflation pressures in the economy increased from 4.2 per cent in December 2021 to 4.9 per cent in January 2022.



Domestic Fuel Prices

Prices of all domestic petroleum products decreased in January 2022. Prices of both grades of petrol (*petrol₉₃* and *petrol₉₅*) declined by M0.15 per litre and M0.20 per litre, respectively. Their pump prices in

January 2021 were M16.20 per litre and M16.35 per litre, respectively. The price of *diesel₅₀* also declined by M0.35 per litre and was sold at M16.30 per litre at the pump. In addition, the retail price of illuminating paraffin declined by M0.30 per litre and was sold at M11.70 per litre during the review period.



III. MONETARY AND FINANCIAL INDICATORS

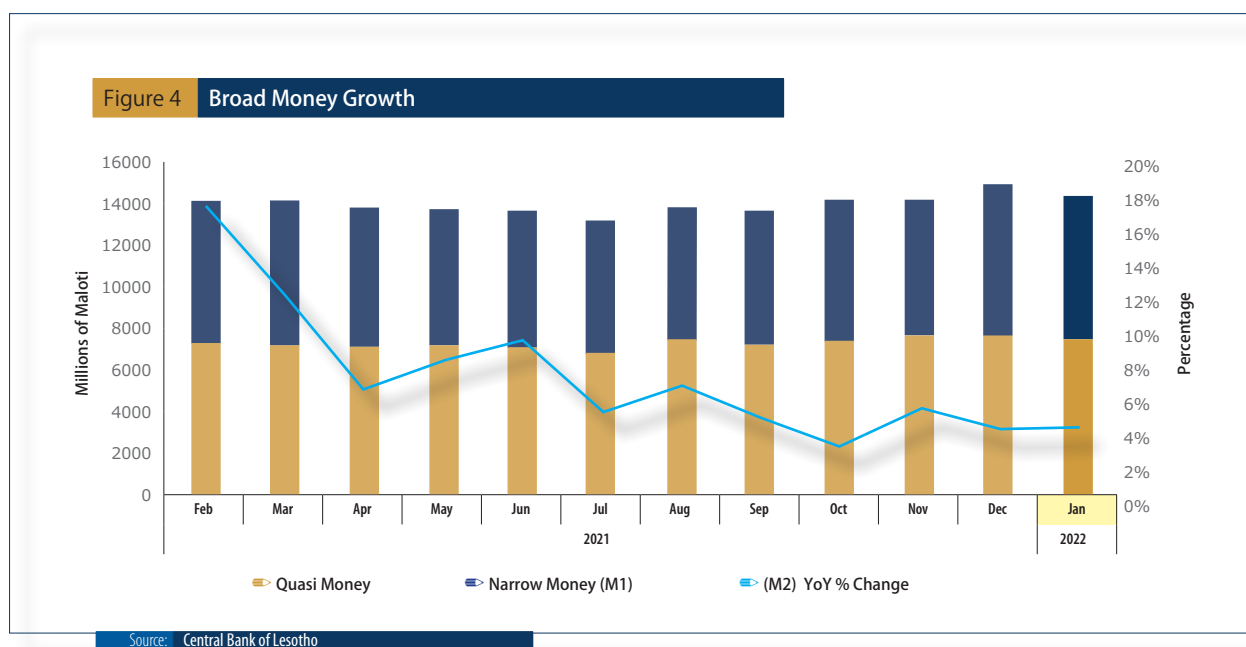
Broad Money (M2)

The broadly defined money supply (M2) declined by 3.2 per cent in January 2022, from a growth of 4.8 per cent in December 2021. This was driven by a 27.3 per cent fall in net domestic assets (NDA), which were moderated by 3.8 per cent increase in net foreign assets. The contraction in NDA was underpinned by a decline in net claims on central government, which was explained by a rise in government deposits with both the central bank and commercial banks. In contrast, the growth in

net foreign assets (NFA) stemmed from an increase in Central Bank’s holding of foreign assets following the receipt of SACU revenue.

Components of Money Supply

The narrow money (M1) contracted by 4.3 per cent, while quasi money declined by 2.4 per cent in January 2022. Both M1 and quasi money fell as a result of withdrawals made by business enterprises and households.



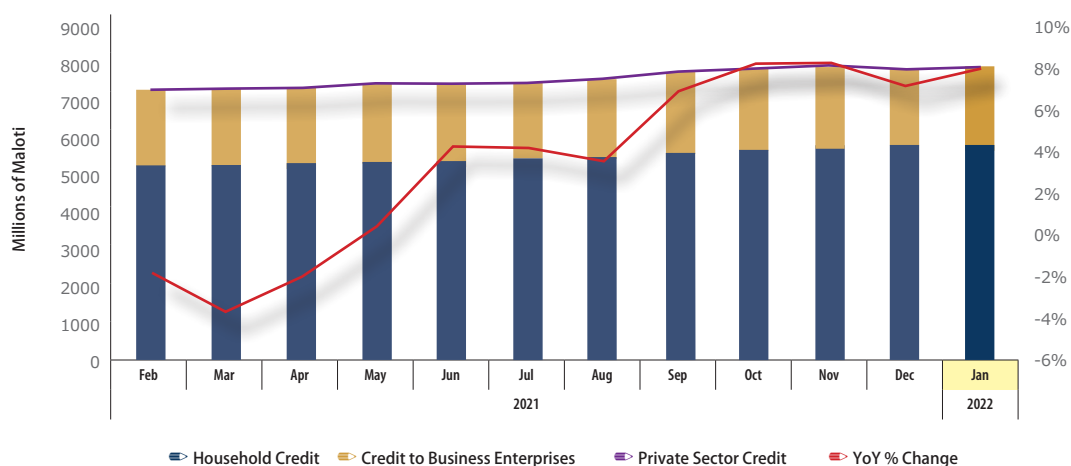
Private Sector Credit

Private sector credit rose by a 0.6 per cent in January 2022. The modest growth was on the back of 2.5 per cent increase in credit extended to business enterprises. This benefited from an increase of 19.9 per cent, 8.3 per cent and 4.0 per cent in loans to manufacturing; wholesale, restaurants & hotels, and real estate & business services, respectively. Households’ credit remained unchanged in January as the two subcategories cancelled out each other.

Personal loans fell by 0.1 per cent whereas mortgage loans rose by 0.3 per cent.

With regards to the banks distribution of credit to business enterprises, real estate & business services continued to account for the largest share of 23.0 per cent, followed by wholesale & retail trade, restaurants and hotels sector with a share of 21.0 per cent. The electricity, gas & water subsector received the lowest share of 0.3 per cent in January 2022. Annually, private sector credit expanded by 8.2 per cent in January 2022

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

Non-Performing Loans

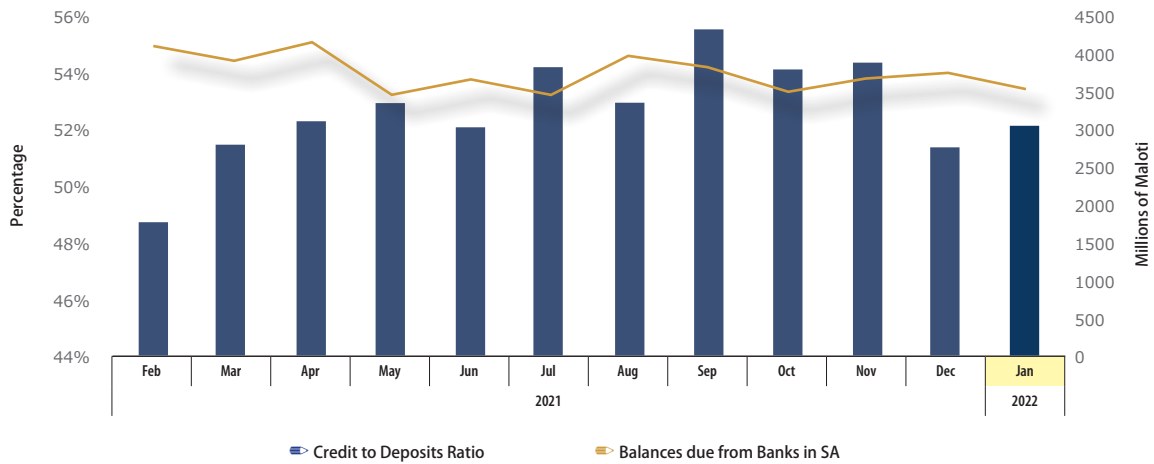
The ratio of non-performing loans (NPLs) to total loans granted by the commercial banks rose from 4.1 per cent in December 2021, to 4.4 per cent in January 2022. The total NPLs arising from business enterprises accelerated by 0.9 percentage points to 5.0 per cent, while households' NPLs increased by 0.1 percentage points and stood at 4.2 per cent in January 2022. The observed developments in business enterprises' NPLs was attributable to a surge in NPLs from agriculture, construction, transport, storage & communications, and real

estate & business services sectors. The NPLs from mortgages increased by 0.4 percentage points to 10.1 per cent, whereas personal loans NPLs rose by 0.1 percentage points to 2.3 per cent.

Sources of Funds

The credit to deposit ratio rose to 52.1 per cent in January 2022, from 51.4 per cent in December 2021. This was mainly due to a fall in total deposits, complemented by a marginal growth in credit extended to private sector during the review period.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The CBL policy rate remained unchanged at 3.75 per cent between December 2021 and January 2022. Prime lending rate also remained stable at 8.44 per cent during the review period. The one-year deposit rate at the commercial banks declined by 40 basis points to 2.80 per cent. The 91-day T-Bill rate marginally increased from 4.06 per cent in December 2021 to 4.09 per cent in January 2022.

Foreign Exchange

The rand and therefore loti remained relatively unchanged between January 2022 and December 2021. In January 2022, appreciated marginally by

0.02 per cent against the dollar and euro, compared to a depreciation of 2.20 per cent and 1.34 per cent against the dollar and euro, respectively, a month earlier. The currency remained unchanged against the pound in January 2022 compared to a depreciation of 2.40 per cent in December 2021.

The rand began the year with a stronger momentum as there was speculation that the Reserve Bank would begin increasing its policy rates early this year, making South African assets more attractive to global investors. This was coupled with optimism over the country's COVID-19 situation as the country loosened restrictions associated with the virus following the vaccine rollout.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

Total Government expenditure was estimated to have risen by 65.5 per cent in January 2022, in contrast to a revised decline of 23.9 in December 2021. This increase was mainly determined by operating costs (in particular, drugs), and transfers to Government entities. Transfers were in the form of subsidies, current grants, and social benefits.

Outlays by Functions

The main percentage share of total outlays was spent under recurrent outlays at 93.4 per cent, largely driven by economic affairs, health, and general public service functions.

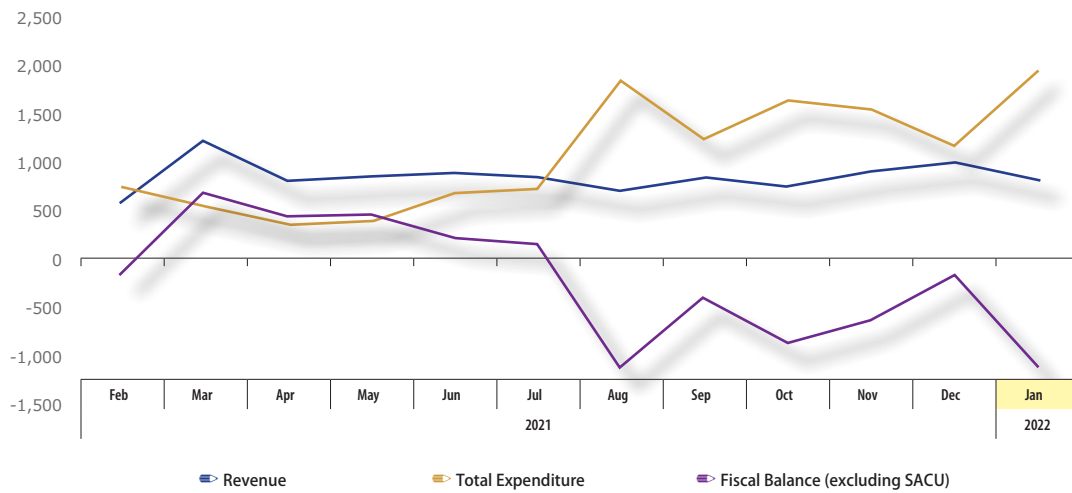
Total Revenue

The Government revenue, excluding SACU receipts, was estimated to have decreased by 18.4 per cent during the current month, contrary to an increase 11.1 per cent in the previous month. This was largely because of poor performance recorded in income tax, property income, and petroleum levy. However, total revenue with SACU receipts increased significantly.

Fiscal Balance and Financing

The fiscal operations recorded a rise in both domestic financial assets and total liabilities. An increase in financial assets contributed to a build-up of Government deposits, while the increased liabilities largely emanated from 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)

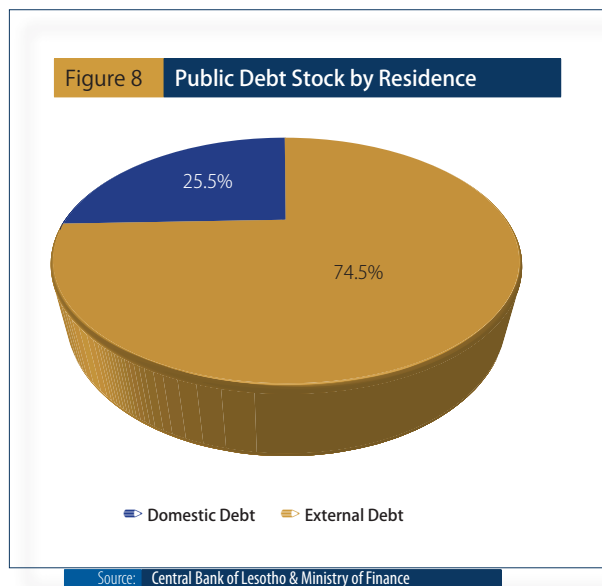
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		10.2%	9.2%	0.0%	61.2%	0.0%	1.3%	48.0%	15.9%
Defense		6.8%	3.4%	0.0%	0.0%	0.0%	0.0%	1.9%	3.0%
Public Order and Safety		15.4%	9.6%	0.0%	0.0%	0.0%	0.0%	21.5%	8.5%
Economic Affairs		7.6%	15.5%	1.6%	1.8%	0.0%	98.5%	8.8%	18.0%
Environmental Protection		0.1%	0.1%	0.0%	0.7%	0.0%	0.0%	0.0%	0.1%
Housing and Community Amenities		0.7%	0.6%	0.0%	0.4%	0.0%	0.0%	7.2%	0.9%
Health		7.6%	57.5%	81.1%	0.0%	3.6%	0.0%	2.0%	24.7%
Recreation, Culture, and Religion		0.9%	0.4%	0.0%	36.0%	0.0%	0.0%	10.1%	5.2%
Education		30.9%	1.8%	17.3%	0.0%	0.0%	0.0%	0.5%	12.1%
Social Protection		19.8%	1.8%	0.0%	0.0%	96.4%	0.2%	0.0%	11.5%
Share per Economic Item		31.2%	21.8%	11.6%	11.5%	5.1%	11.4%	7.4%	100.0%

Source: CBL and MOF

V. PUBLIC DEBT

The public debt stock was estimated at 54.3 per cent of GDP in the first month of 2022, in comparison to the revised 53.8 per cent of GDP in last month of 2021. It, therefore, increased by 6.6 per cent during the month under review following 8.5 rise in the previous month. This increase was largely

caused by new external debt that financed current projects, which included livestock registration, and national ID & civil registration, while the capital ones comprised rural water supply & sanitation, transforming broadcasting, and other construction projects.



Appendix: Key Economic Indicators

		21-Aug	21-Sep	21-Oct	21-Nov	21-Dec	22-Jan	
Economic Activity (MIEA (% change, M/M))		-2.1	-0.8	-0.4	6.8	3.2	0.5	
Consumer price Index (% change)	Headline Inflation (year-on-year)	5.2	5.4	6.2	6.4	6.8	7.6	
	Core Inflation	3.6	3.7	4.3	4.2	4.2	4.9	
Exchange Rates (Monthly End Period)	EUR	17.26	17.53	17.72	18.22	18.07	17.36	
	GBP	20.09	20.38	20.97	21.41	21.5	20.88	
	USD	14.6	15.12	15.24	16.05	15.95	15.56	
Money Supply (Millions of Maloti)	M2	13,636.94	13,624.50	14,096.69	14,190.67	14,867.90	14,378.20	
	M1	6,458.09	6,289.92	6,619.57	6,417.32	7,120.26	6,814.43	
	Quasi Money	7,178.85	7,334.58	7,477.12	7,773.35	7,747.64	7,563.77	
Interest Rates	CBL Rate	3.5	3.5	3.5	3.75	3.75	3.75	
	91 day Treasury bill rate	3.27	3.45	3.35	3.35	4.06	4.09	
	Prime lending rate	8.19	8.19	8.19	8.19	8.44	8.44	
	1 year deposit rate	3.53	3.53	3.53	3.53	3.2	2.8	
Private sector Credit (Millions of Maloti)		7,535.35	7,888.82	7,975.30	8,038.00	7,951.85	8,002.64	
	Households	5,492.47	5,697.47	5,722.52	5,785.78	5,879.24	5,878.69	
	Business Enterprises	2,042.89	2,191.35	2,252.78	2,252.22	2,072.61	2,123.95	
Bank Deposit Liabilities (Millions of Maloti)		14,466.44	14,234.28	14,750.70	14,750.30	15,449.52	15,319.10	
Credit to Deposit Ratio (%)		52.06	55.5	54.1	54.41	51.38	52.13	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-1,130.94	-410.54	614.68	-637.14	-168.5	381.39	
	Total Revenue (with SACU receipts)	714.13	835.92	2,247.72	903.43	1,003.40	2,320.77	
	Total Expenditure	1,845.08	1,246.46	1,633.04	1,540.57	1,171.90	1,939.37	
	O/W Capital	504.12	155.37	214.43	163.46	158.46	184.97	
Total Public Debt (Millions of Maloti)		18,631.81	19,244.46	19,286.46	20,200.32	20,193.71	20,357.66	
	Total External Debt	13,938.30	14,299.90	14,342.20	15,129.60	14,858.80	15,160.60	
	External Debt	Concessional	10,747.60	11,115.20	11,141.30	11,790.20	11,567.90	11,580.00
		Non-concessional	3,190.70	3,184.70	3,200.90	3,339.40	3,290.90	3,580.60
	Domestic Debt	4,693.51	4,944.56	4,944.26	5,070.72	5,334.91	5,197.06	
Memo Item: Arrears (Millions of Maloti)		0.00	0.00	0.00	0.00	0.00	2.33	

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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