



Monthly

ECONOMIC REVIEW

JANUARY 2024

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY

Domestic economic activity contracted in January 2024, reflecting a challenging start to the year. This downturn was primarily attributable to a weakened domestic demand and a corresponding decline in activity within the construction, transportation, and financial services sub-sectors. The supply side, through manufacturing and production activities, however, exhibited relative resilience during the reviewed period.

Overall Performance Index

The composite indicator of economic activity exhibited a significant reversal in January 2024, contracting by 1.4 per cent after a growth of 2.1 per cent in December 2023. This decline stemmed from weak domestic demand and sluggish activity in critical sectors. The debilitate domestic demand was evident in reduced import volumes from South Africa, suggesting a potential decrease in consumer spending due to a more cautious consumption posture among households. Moreover, the decrease in economic activity was worsened by the subdued performance in the construction and transportation subsectors. This was evident from the reduced imports of construction materials and lower fuel consumption. The financial services subsector also mirrored this sluggish performance with a slight decrease in household credit extension. However, there was a silver lining in the manufacturing and production subsector, which showed a relative improvement, helping soften the overall economic downturn.

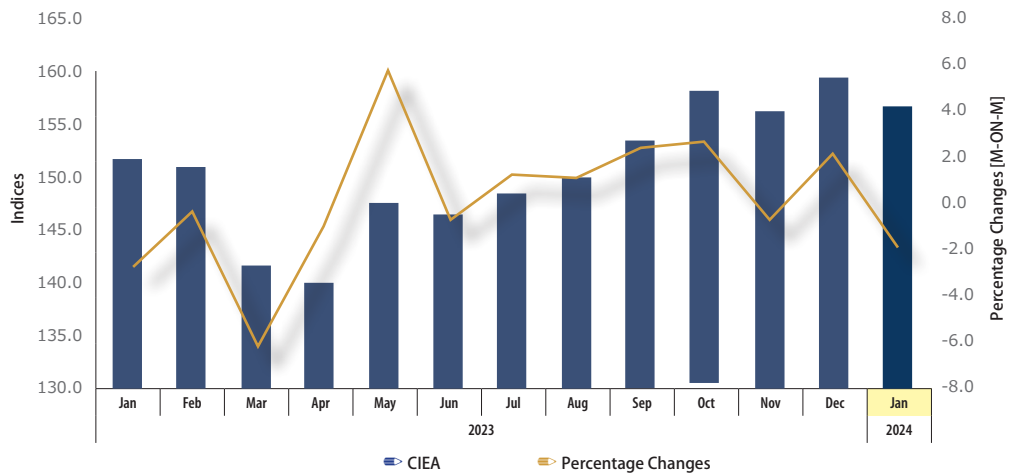
Domestic Demand Category

Domestic demand exhibited a tepid start of 2024, with the demand index registering a marginal decline of 0.1 per cent in January, following a more pronounced contraction of 2.8 per cent in December 2023. This subdued performance was attributed to a slowdown in government activities, evidenced by negative contributions from compensation of employees. This was further reflected by a decrease in imports from South Africa. The downward trend was partially offset by a marginal increase in the collection of both Value-Added-tax (VAT) and Pay-As-You-Earn (PAYE).

Manufacturing and Production Category

The manufacturing and production index increased by 1.2 per cent compared to the revised 1.1 per cent growth recorded in December 2023. This improvement was attributed to an uptick in textile exports to the South African market and heightened water and electricity consumption, indicating some level of activity within the manufacturing subsector. However, the overall growth was offset by a persistent decline in textile exports to the US market, likely due to a combination of decreasing order volumes and ongoing disruptions in global shipping, as well as the weak imports of raw materials.

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 |
|--|-------|-------|-------|-------|-------|-------|-------|-------|
| | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan |
| CIEA | 146.8 | 148.7 | 150.1 | 153.6 | 157.6 | 156.2 | 159.5 | 157.4 |
| Monthly changes | -0.7 | 1.3 | 1.0 | 2.3 | 2.6 | -0.9 | 2.1 | -1.3 |
| Domestic Demand Category | 137.8 | 134.0 | 135.9 | 143.7 | 156.6 | 157.2 | 152.8 | 152.7 |
| Monthly changes | -7.7 | -2.7 | 1.5 | 5.7 | 9.0 | 0.4 | -2.8 | -0.1 |
| Manufacturing & Production Category | 111.6 | 103.7 | 99.8 | 93.6 | 98.9 | 101.6 | 102.8 | 104.0 |
| Monthly changes | -0.2 | -7.1 | -3.8 | -6.2 | 5.6 | 2.8 | 1.1 | 1.2 |

Source: Central Bank of Lesotho (CBL) Calculations

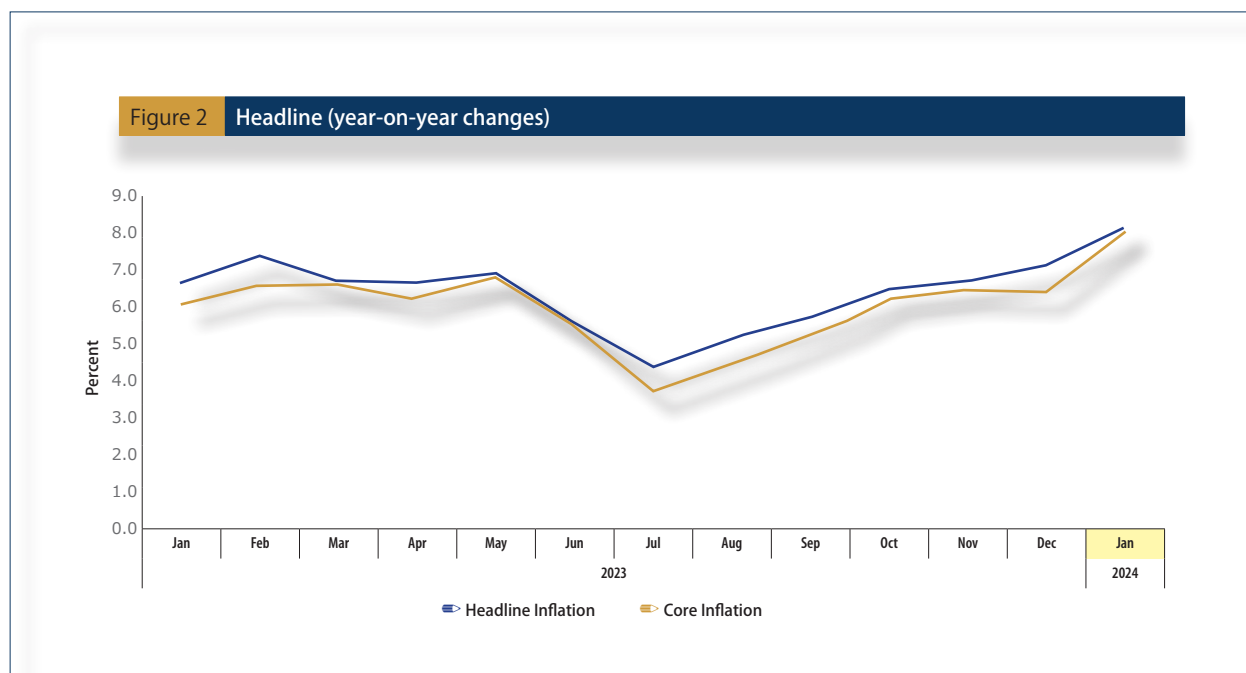
II. INFLATION AND PRICES

Headline Inflation

The headline inflation rose to 8.2 per cent in January 2024 from 7.2 per cent in December 2023. The major contributors to the 1.0 percentage point difference were food & non-alcoholic beverages and the transport category. The driver behind this rise in the inflation rate was heightened demand resulting from the banned importation of chicken. Additionally, international vegetable oil prices increased in January 2024, stirring a significant uptick in prices of vegetable oil and fats.

Core Inflation

Core inflation, a gauge of the economy's underlying inflationary pressures, measured as the trimmed mean, rose to 8.0 per cent in January 2024 from 6.4 per cent in December 2023.

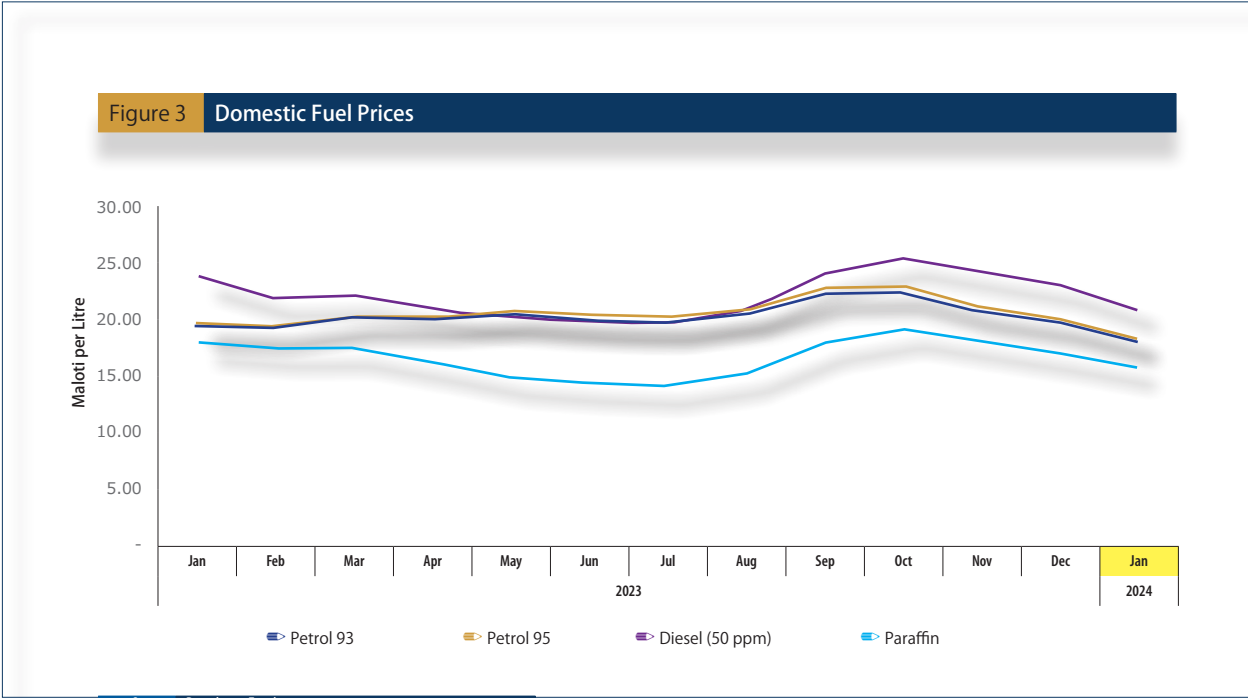


Source: Lesotho Bureau of Statistics & CBL Computation

Domestic Fuel Prices

The prices of all petroleum products decreased during the review period. Both grades of petrol (*petrol₉₃* and *petrol₉₅*), decreased by M1.65 and M1.80 respectively selling at M 18.10 per litre and M18.45

per litre respectively at the pump. The pump price of *Diesel₅₀* also decreased by M2.05 selling at M20.95 per litre while the price of illuminating paraffin also decreased by M1.72 and was sold at M15.68 per litre in the retail market.



III. MONETARY AND FINANCIAL INDICATORS

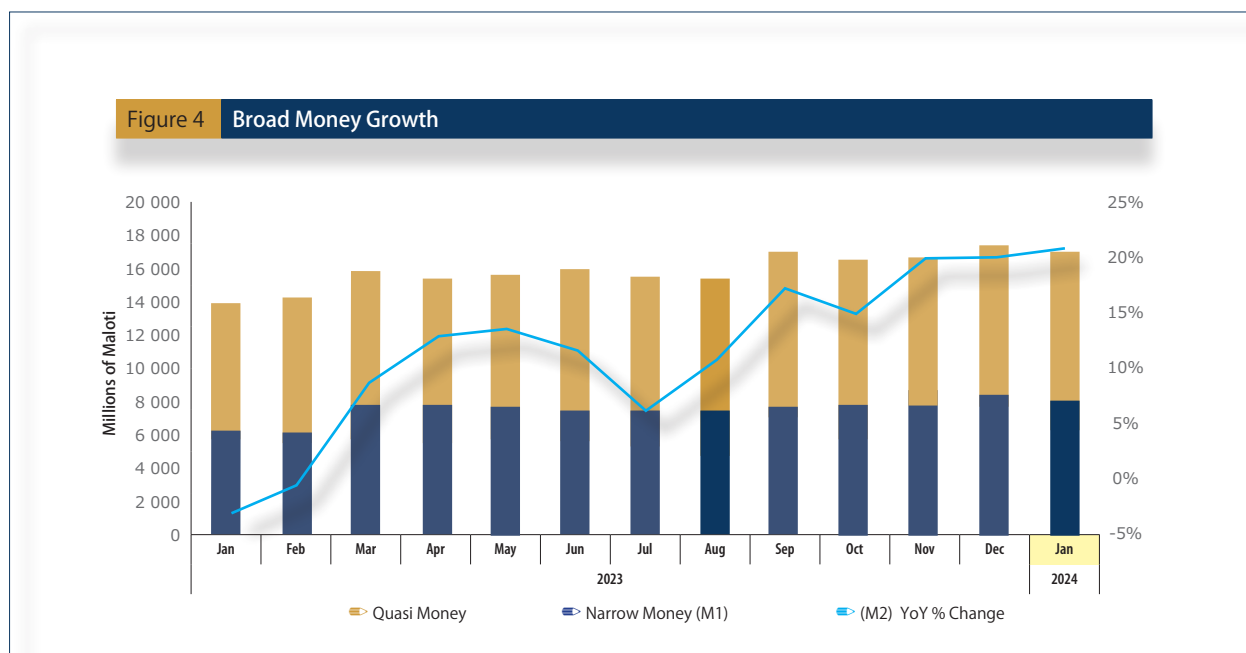
Broad Money (M2)

Broadly defined money supply (M2), contracted by 2.6 per cent in January 2024. This was in contrast to the 2.5 per cent growth recorded in December 2023. Net Domestic claims (NDA) declined by 31.6 per cent, in contrast to an increase of 3.6 per cent in the preceding month. Conversely, net foreign assets (NFA) grew by 4.2 per cent, following a 1.1 per cent growth in December 2023. The decline in NDA was mainly underpinned by the rise in government deposits held by the central bank, while the growth

in NFA was mainly attributable to the central bank's increased claims on non-residents.

Components of Money Supply

The two components of money supply, narrow money (M1) and quasi money, contracted in January 2024. M1 contracted by 3.8 per cent, while quasi money recorded a 1.5 per cent decline. The decline in M1 resulted from a fall in transferable deposits held by business enterprises, while the contraction in quasi money was due to a fall in call deposits held by business enterprises.



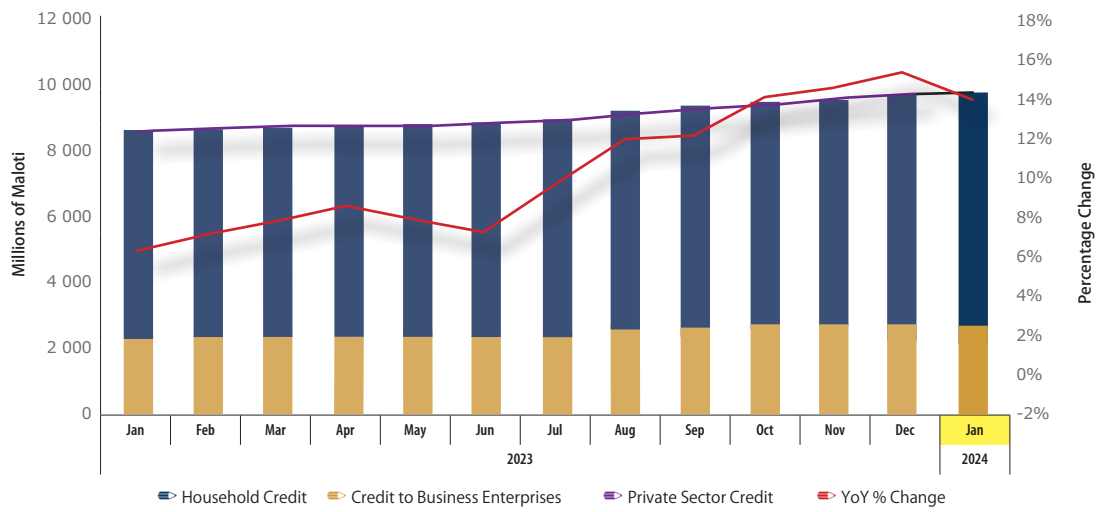
Source: Central Bank of Lesotho

Private Sector Credit

There was a 0.6 per cent growth in credit extended to the private sector in January 2024. This was, however, slightly lower than the 0.8 per cent growth recorded in the preceding month. Growth in credit extension was observable in both households and business enterprises, recording 0.8 and 0.2 per cent growths, respectively. Concerning the share of the credit distribution, wholesale & retail trade,

restaurants & hotels continued to command the biggest chunk of overall credit distribution at 24.4 per cent, followed by real estate & business services at 20.4 per cent, and construction subsector overtaking mining & quarrying on third place at 18.1 per cent. The smallest share went to the community, social & personal services with 0.4 per cent of the total credit extended to the private sector. Annually, private sector credit grew by 14.1 per cent.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

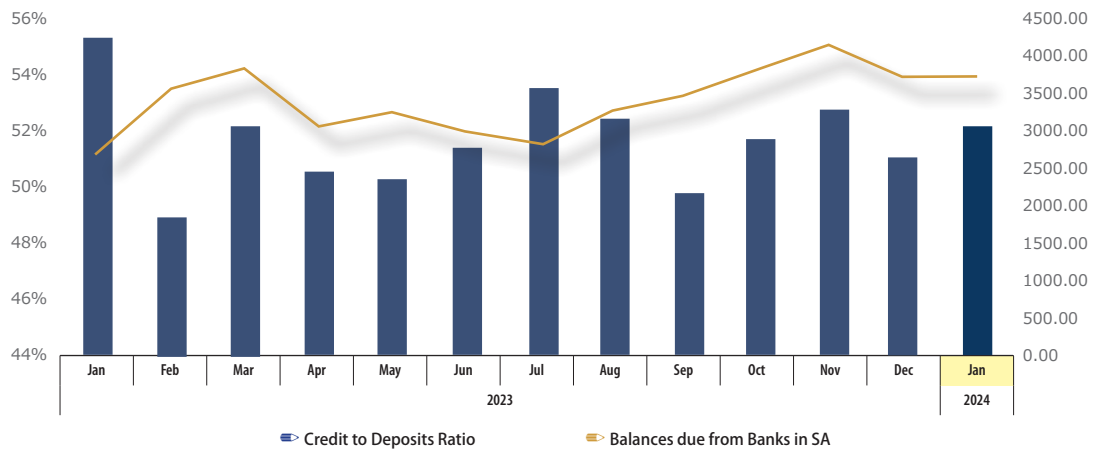
Non-Performing Loans

The share of non-performing loans (NPLs) to total loans grew from 3.5 per cent to 3.9 per cent of total loans. This increase in NPLs was observed in loans extended to both the households and businesses. Among the business sector, the highest proportion of NPLs was observed in the construction, wholesale & retail trade, restaurants & hotels, and real estate & business services sectors.

Sources of Funds

The credit-to-deposit ratio improved in the review month to 52.2 per cent from 51.0 per cent recorded in the previous month. This growth was driven by an increase in total credit extension that outpaced the increase in total deposits.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The CBL policy rate remained unchanged between December 2023 and January 2024. The other short-term rates, however, showed mixed signals. The prime lending rate and the 1-year deposit rate remained unchanged at 11.25 and 4.74 per cent, respectively, whereas the 91-day Treasury bill rate fell by 3 basis points from 7.12 to 7.09 per cent.

Foreign Exchange

In January 2024, the rand, hence loti, depreciated against the US dollar, euro and British pound by 0.7 per cent, 0.8 per cent and 1.2 per cent, respectively. This followed a 0.6 per cent depreciation against the dollar and an appreciation of 2.5 per cent and 1.4 per cent against the euro and pound in the previous month, respectively.

The rand faced challenges due to South Africa’s energy crisis, logistics and infrastructure crises, and political uncertainty surrounding elections. A lack of investor confidence in the rand, as evidenced by its undervaluation against the US dollar according to The Economist’s 2024 Big Mac index, also contributed to its depreciation.

The US economy’s relative strength and favourable differences in interest rates suggested continued resilience for the dollar. Meanwhile, the euro’s performance ended positively due to strong European stock performance, boosting investor sentiment. Inflation in the UK remained at 4.0 per cent for the second consecutive month. Furthermore, the Bank of England’s Monetary Policy Committee (MPC) maintained the Bank Rate at 5.25 per cent.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

Government expenditures increased drastically, by 94.6 per cent in January 2024, following high performance on both expenses and non-financial assets. The main drivers of this rise were attributable to student grants, operating costs, subsidies to non-financial entities, construction of roads, and domestic travel and transport. Functionally, the largest spending of the total expenditure was allocated towards general public services, economic affairs, and health. In terms of annual changes, spending rose by 11.7 per cent.

About M207 million, or 2.0 per cent of GDP, was executed as part of the total expenditures. The additional funds emanated from supplementary and contingency budgets.

Total Revenue

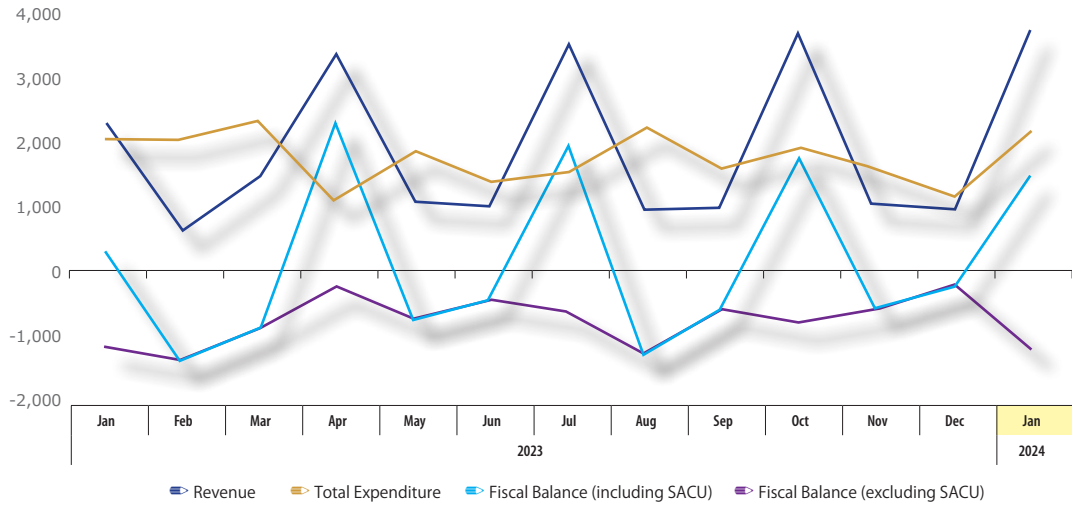
Government revenue increased significantly during the current month due to receipts from the SACU revenue pool. Major factors contributing to the rise in revenue were value-added tax, mining royalties, and excise taxes, including the alcohol and tobacco levy. In the previous month, revenue declined by 6.2 per cent. In terms of annual changes, revenues increased by 65.5 per cent.

Fiscal Balance and Financing¹

Given the high revenue collections, the recorded fiscal surplus of 14.1 per cent of GDP contributed to the buildup of government deposits in the banking system.

¹ 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)

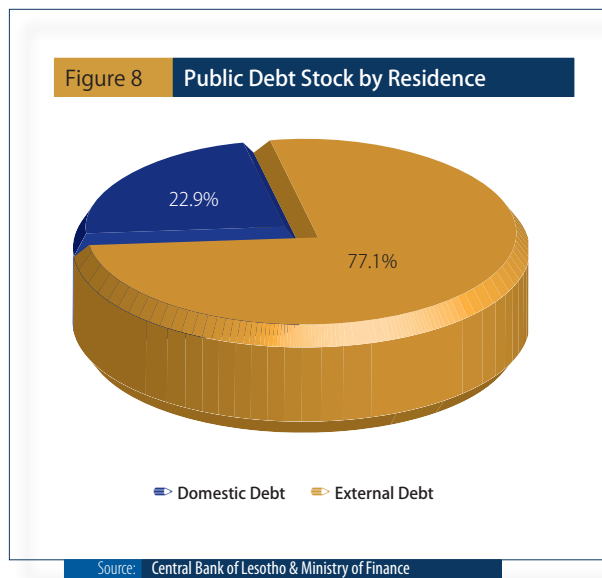
| Function | Economic Item | Compensation of Employees | Use of Goods and Services | Subsidies | Grants | Social Benefits | Other Expenses | Net Investment in Nonfinancial Assets | Share per Function |
|-----------------------------------|---------------|---------------------------|---------------------------|-------------|-------------|-----------------|----------------|---------------------------------------|--------------------|
| General Public Services | | 12.2% | 10.7% | 0.0% | 65.5% | 0.0% | 99.6% | 16.4% | 30.9% |
| Defense | | 1.1% | 0.4% | 0.0% | 0.0% | 0.0% | 0.0% | 0.8% | 0.5% |
| Public Order and Safety | | 26.5% | 17.4% | 0.0% | 2.9% | 0.0% | 0.2% | 9.2% | 13.3% |
| Economic Affairs | | 9.8% | 34.7% | 0.0% | 29.4% | 0.0% | 0.1% | 62.8% | 20.4% |
| Environmental Protection | | 0.7% | 0.1% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.2% |
| Housing and Community Amenities | | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Health | | 7.1% | 30.1% | 100.0% | 0.0% | 7.3% | 0.0% | 6.3% | 16.7% |
| Recreation, Culture, and Religion | | 0.5% | 0.4% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.2% |
| Education | | 30.8% | 3.4% | 0.0% | 0.0% | 0.0% | 0.0% | 4.6% | 10.0% |
| Social Protection | | 11.3% | 2.8% | 0.0% | 2.3% | 92.7% | 0.1% | 0.0% | 7.8% |
| Share per Economic Item | | 28.3% | 26.5% | 5.8% | 8.9% | 3.9% | 17.3% | 9.2% | 100.0% |

Source: CBL and MOF

V. PUBLIC DEBT

The public debt stock decreased slightly by 0.6 per cent in January 2024 to 59.5 per cent of GDP. The major factor in the decline in debt was a fall in short-term domestic debt (particularly T-bills) following

the December 2023 cyber-attack. This also benefited from the marginal 0.1 per cent fall in external debt. Regarding annual changes, the debt stock increased by 13.8 per cent.



Appendix: Key Economic Indicators

| | | 23-Jul | 23-Aug | 23-Sep | 23-Oct | 23-Nov | 23-Dec | 23-Jan | |
|---|------------------------------------|------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Economic Activity (MIEA (% change, M/M)) | | 1.3 | 1.0 | 2.3 | 2.6 | -0.9 | 2.1 | -1.4 | |
| Consumer price Index (% change) | Headline Inflation (year-on-year) | 4.5 | 5.2 | 5.8 | 6.5 | 6.8 | 7.2 | 8.2 | |
| | Core Inflation | 3.8 | 4.5 | 5.3 | 6.1 | 6.4 | 6.4 | 8.0 | |
| Exchange Rates (Monthly End Period) | EUR | 18.20 | 21.08 | 20.28 | 19.83 | 19.18 | 20.34 | 20.50 | |
| | GBP | 20.56 | 24.41 | 23.53 | 23.19 | 23.00 | 23.60 | 23.88 | |
| | USD | 17.08 | 19.74 | 18.98 | 19.06 | 18.54 | 18.67 | 18.80 | |
| Money Supply (Millions of Maloti) | M2 | 15,786.76 | 16,201.65 | 15,515.84 | 15,357.08 | 15,706.25 | 17,180.65 | 16,726.97 | |
| | M1 | 6,323.64 | 6,508.33 | 5,952.76 | 5,675.13 | 5,735.00 | 8,448.94 | 8,124.79 | |
| | Quasi Money | 9,463.13 | 9,693.32 | 9,563.08 | 9,681.95 | 9,971.24 | 8,731.71 | 8,602.18 | |
| Interest Rates | CBL Rate | 7.75 | 7.75 | 7.75 | 7.75 | 7.75 | 7.75 | 7.75 | |
| | 91 day Treasury bill rate | 7.75 | 7.65 | 8.65 | 7.41 | 7.12 | 7.12 | 7.09 | |
| | Prime lending rate | 11.25 | 11.25 | 11.25 | 11.25 | 11.25 | 11.25 | 11.25 | |
| | 1 year deposit rate | 4.74 | 4.74 | 4.74 | 4.74 | 4.74 | 4.74 | 4.74 | |
| Private sector Credit (Millions of Maloti) | | 8,929.65 | 9,264.30 | 9,408.42 | 9,522.85 | 9,655.44 | 9,736.03 | 9,796.71 | |
| | Households | 2,347.17 | 2,547.19 | 2,573.41 | 2,656.17 | 2,707.48 | 2,717.72 | 2,722.05 | |
| | Non-profit Organisations | 6,582.48 | 6,717.10 | 6,835.01 | 6,866.67 | 6,947.96 | 7,018.31 | 7,074.66 | |
| Bank Deposit Liabilities (Millions of Maloti) | | 16,353.27 | 17,308.64 | 18,549.36 | 18,080.49 | 17,945.47 | 18,679.67 | 18,751.66 | |
| Credit to Deposit Ratio (%) | | 53.60 | 52.56 | 49.84 | 51.78 | 52.91 | 51.19 | 52.22 | |
| Fiscal Operations (Millions of Maloti) | Fiscal Balance | 1,913.13 | -1,269.59 | -638.07 | 1,767.10 | -569.09 | -233.83 | 1,433.38 | |
| | Total Revenue (with SACU receipts) | 3,463.50 | 914.32 | 973.20 | 3,645.74 | 993.76 | 931.83 | 3,701.75 | |
| | Total Expenditure | 1,550.37 | 2,183.91 | 1,611.27 | 1,878.64 | 1,562.85 | 1,165.66 | 2,268.37 | |
| | O/W Capital | 133.44 | 174.91 | 149.72 | 155.61 | 93.42 | 59.72 | 201.58 | |
| Total Public Debt (Millions of Maloti) | | 23,755.19 | 24,860.18 | 24,407.21 | 24,413.11 | 24,301.30 | 24,387.00 | 24,244.15 | |
| | Total External Debt | 17,161.50 | 18,034.30 | 18,111.80 | 18,820.40 | 18,753.70 | 18,839.40 | 18,814.80 | |
| | External Debt | Concessional | 12,776.10 | 13,486.20 | 13,577.50 | 14,256.50 | 14,192.00 | 14,164.90 | 14,080.70 |
| | | Non-concessional | 4,385.40 | 4,548.10 | 4,534.30 | 4,563.90 | 4,561.70 | 4,674.50 | 4,734.10 |
| | Domestic Debt | 6,593.69 | 6,825.88 | 6,295.41 | 5,592.71 | 5,547.60 | 5,547.60 | 5,429.35 | |
| Memo Item: Arrears (Millions of Maloti) | | 0.00 | 46.50 | 60.07 | 29.07 | 40.18 | 44.61 | 42.62 | |

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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