



Monthly ECONOMIC REVIEW

JULY 2023

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY

Economic activity improved in July 2023. The improvement emanated from an increase in the transport and construction, and financial service subsectors. Nevertheless, both the domestic and manufacturing sectors were under pressure in the review month.

Overall Performance Index

In July 2023, the Composite Indicator of Economic Activity (CIEA) displayed a notable recovery, with a substantial increase of 5.0 per cent during the assessment period, marking a significant improvement from the previous month's modest 0.9 per cent uptick. Although domestic demand and the manufacturing sector experienced contractions in this period, the transport, construction, and financial service subsector saw improvements, making positive contributions to the overall CIEA.

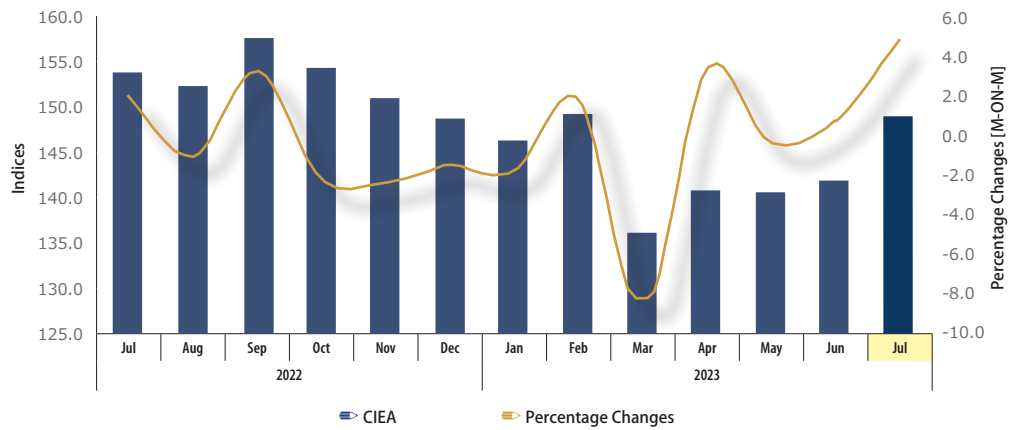
Domestic Demand Category

Domestic demand exhibited a sluggish performance in the month of July. The index for domestic demand registered a significant decline of 7.2 per cent. This starkly contrasts with the positive 0.7 per cent growth observed in June 2023. The poor performance of the index came as a result of reduced real earnings, reduced demand for external goods, and a relatively subdued contribution from sales taxes.

Manufacturing and Production Category

The production side of the economy contracted during the review period. The index of production declined by 6.8 per cent contrary to the 2.9 per cent growth recorded in the preceding month. The decline was primarily driven by reduced imports of raw materials from South Africa and a comparatively weaker demand for clothing and textiles in the US market.

Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2022	2023						
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
CIEA	149.0	146.4	149.3	136.2	141.7	140.7	141.9	149.1
Monthly changes	-1.4	-1.7	2.0	-8.8	3.5	-0.2	0.9	5.0
Domestic Demand Category	146.0	149.2	147.5	136.2	141.8	153.2	154.4	143.2
Monthly changes	-1.2	2.2	-1.1	-7.7	4.1	8.1	0.7	-7.2
Manufacturing & Production Category	94.2	97.9	106.6	105.1	108.9	102.2	105.2	98.1
Monthly changes	-4.5	3.9	8.9	-1.4	3.7	-6.2	2.9	-6.8

Source: Central Bank of Lesotho (CBL) Calculations

II. INFLATION AND PRICES

Headline Inflation

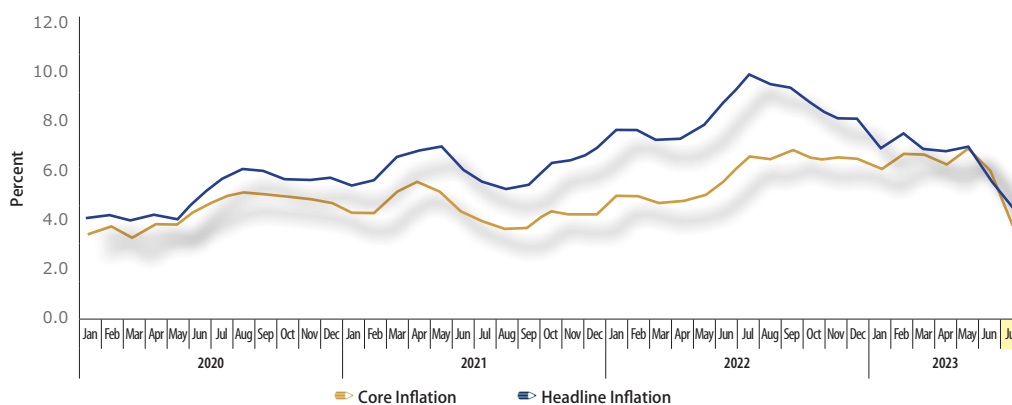
In July 2023, the headline inflation rate moderated to 4.5 per cent, down from 5.9 per cent in June 2023. The major contributors to this moderation were Food and Non-alcoholic Beverages; Housing, Water, Electricity & Gas; and Clothing & Footwear. The decline was largely driven by double-digit slump in the fuel sub-component, and decline in global

food prices. Nonetheless, the tobacco and alcohol levy kept inflation rate elevated during the review period.

Core Inflation

Core inflation edged downwards from 5.9 per cent in June 2023 to 3.8 per cent in July 2023.

Figure 2 Headline and Core Inflation (year-on-year changes)

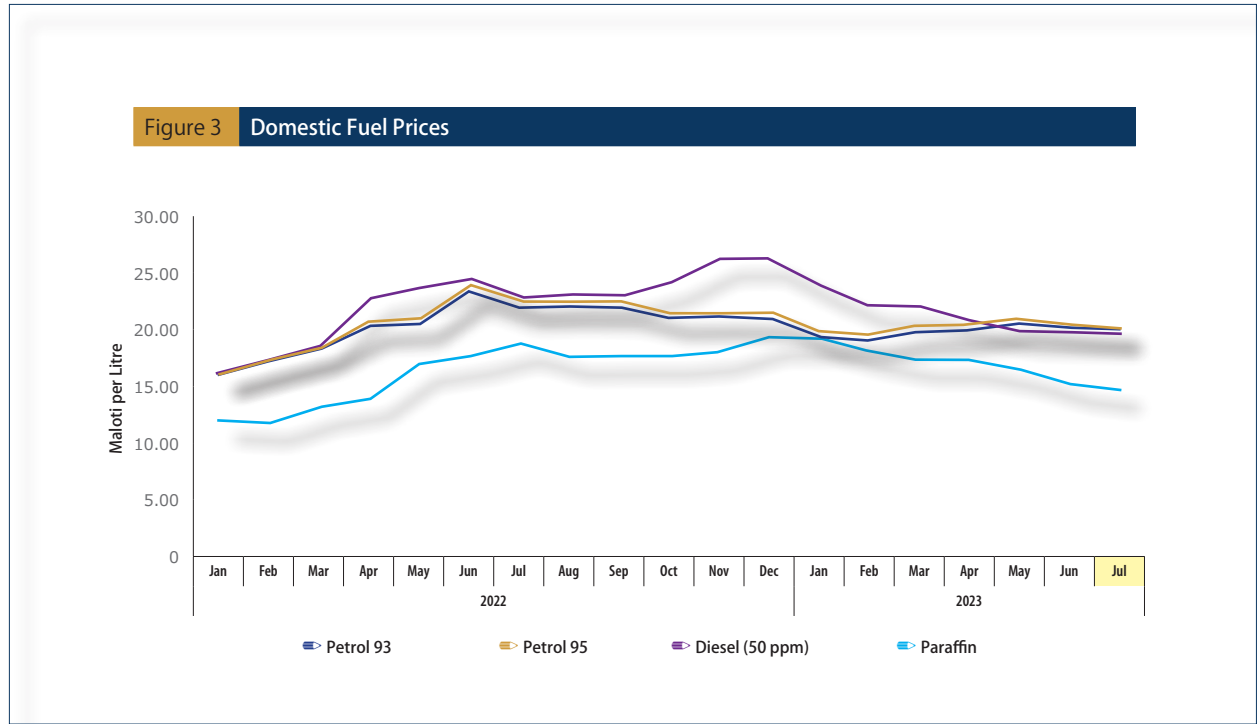


Source: Lesotho Bureau of Statistics & CBL Computation

Domestic Fuel Prices

During the review month, prices of both grades of petrol (*petrol₉₃* and *petrol₉₅*) decreased by M0.30 and were sold at M19.80 per litre and M20.25 per

litre, respectively. Additionally, the pump price of *diesel₅₀* was reduced by M0.10 selling at M19.75 per litre. The price of illuminating paraffin was also reduced by M0.30 and sold at M14.50 per litre in the retail market.



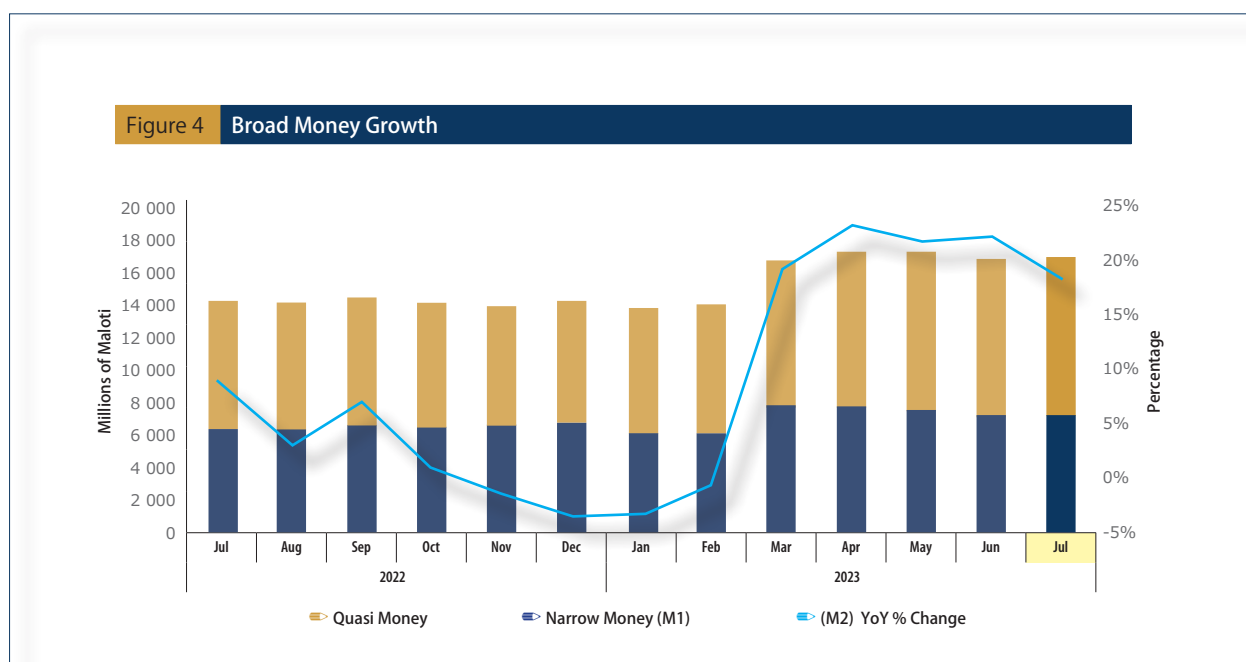
III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

In July 2023, the broadly defined money supply (M2) declined by 1.0 per cent, following a decline of 4.2 per cent in June 2023. This was driven by a decrease of 22.3 per cent in net domestic assets (NDA), moderated by an increase of 4.6 per cent in net foreign assets (NFA). NDA declined due to a significant increase in government deposits held at the central bank because of SACU receipts. On the contrary, SACU receipts had a positive impact on the central bank's NFA.

Components of Money Supply

The components of the money supply, quasi money and narrow money, experienced increases. Quasi money saw a 1.2 per cent increase, driven by a rise in call deposits, mainly from business enterprises. Narrow money, on the other hand, saw a marginal increase of 0.1 per cent, which was due to a decrease in the amount of currency held outside of depository corporations.



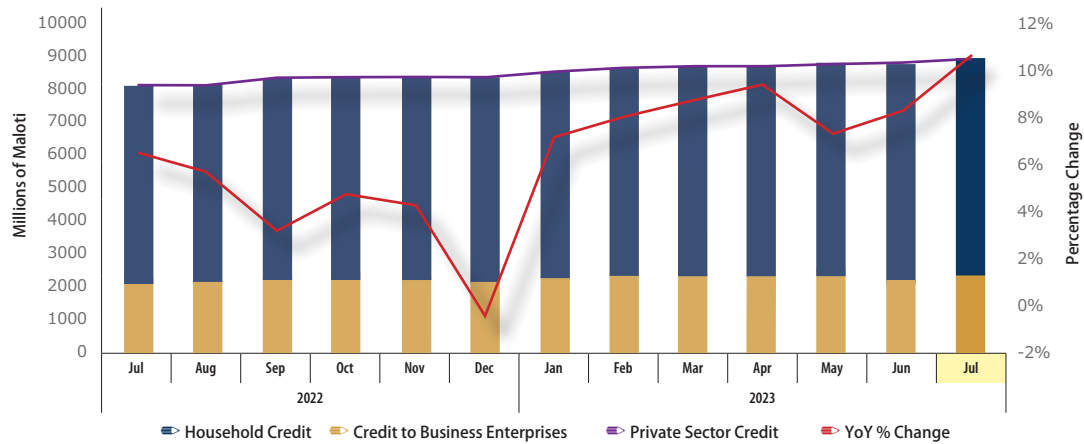
Source: Central Bank of Lesotho

Private Sector Credit

Total loans and advances extended to the private sector experienced a 1.5 per cent increase, following a previous increase of 0.3 per cent. This growth was due to improved credit given to households and business enterprises. Specifically, credit to households increased by 2.0 per cent, as a result of an increase of 0.8 per cent in mortgage loans and 2.4 per cent in personal loans, while credit to businesses

saw a slight increase of 0.1 per cent. Among businesses, the wholesale & retail trade, restaurants & hotels sector received the largest share of loans at 26.1 per cent, followed by the real estate & business services sector at 24.7 per cent, and the mining & quarrying sector at 16.0 per cent. Electricity, gas, & water sector received the least share of 0.3 per cent. On a year on year basis, private sector credit increased by 10.6 per cent.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

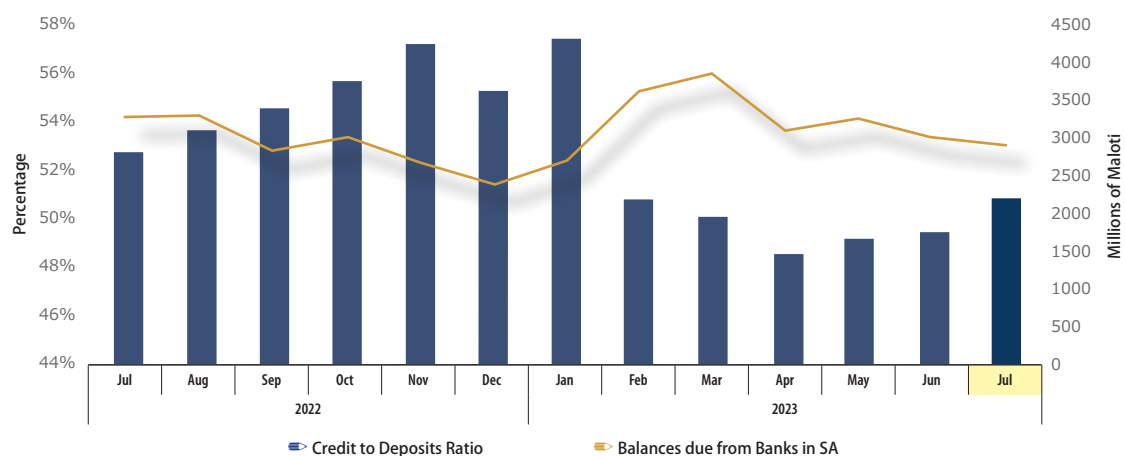
Non-Performing Loans

Total proportion of non-performing loans (NPLs) in relation to total loans decreased from 4.1 per cent to 4.0 per cent due to a fall in households' NPLs. 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 rose from 48.5 per cent to 49.9 per cent, driven by an increase in private sector credit and a decrease in total deposits.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The CBL policy rate remained at 7.75 per cent. Consequently, the prime lending rate and 1-year deposit rate remained unchanged at 11.25 per cent and 4.74 per cent, respectively. However, there was a slight increase of 5 basis points in the 91-day Treasury bills discount rate, bringing it to 7.75 per cent in July 2023.

Foreign Exchange

In July 2023, the rand appreciated against its three major trading currencies. It appreciated by 2.81 per cent, 0.92 per cent and 0.95 per cent against the dollar, the pound and the euro, respectively. This was relative to an appreciation of 1.66 per cent, 0.58 per cent and 1.93 per cent against the dollar, the pound and the euro, respectively, in June 2023.

The strong performance of the rand was partly explained by a “stable outlook” rating by one of the credit rating agencies, together with reduced power supply cuts during the same month. The rand was also supported by increasing commodity prices, South Africa’s major exports gold and platinum.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

Government spending increased by 11.1 per cent in July 2023, following June 2023's revised increase of 23.9 per cent. In addition to the transfers made to extra-budgetary units, public assistance in cash and the school feeding program contributed to this increase. Thus, more outlays were directed towards general public service, and education sectors.

Total Revenue

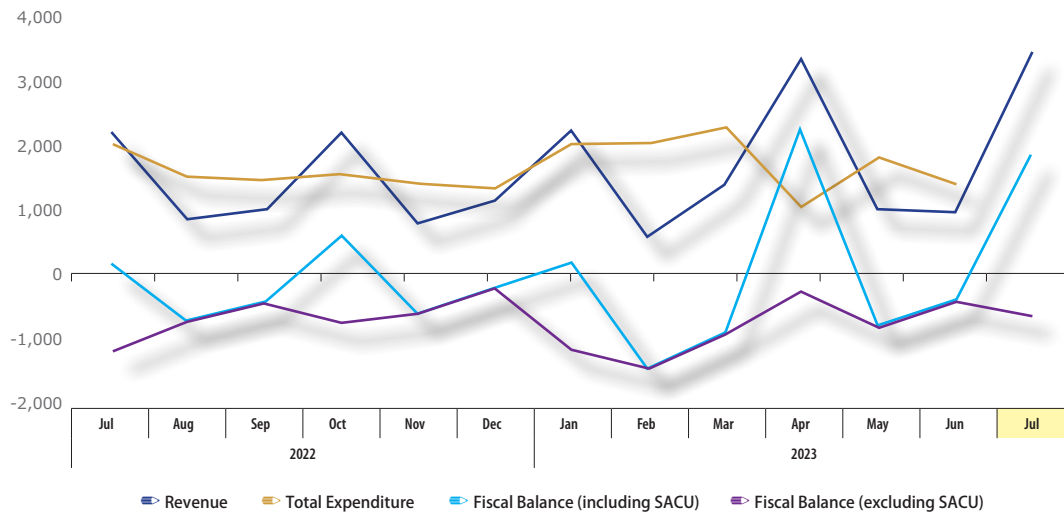
Total revenue experienced a slight decrease of 5.5 per cent, compared to the previous decrease of 6.0 per cent. This decrease can be attributed to a fall in sources of tax revenue such as personal income tax, company tax, and withholding tax, among others.

Fiscal Balance and Financing¹

The fiscal surplus reached 20.6 per cent of GDP in the review month, resulting in an increase in currency and deposits. Part of the financial assets were used to decrease liabilities in the form of maturing fiscal bills.

¹ All financing items are on net basis.

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)

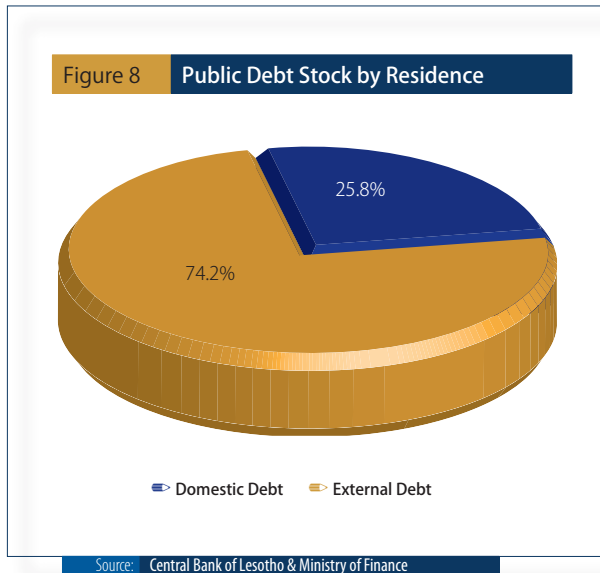
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		12.5%	27.8%	1.0%	79.4%	94.1%	100.0%	4.5%	39.0%
Defense		1.0%	1.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.7%
Public Order and Safety		25.6%	26.9%	0.0%	0.2%	0.0%	0.0%	11.5%	15.6%
Economic Affairs		7.9%	19.9%	0.0%	8.6%	0.0%	0.0%	81.8%	13.6%
Environmental Protection		0.7%	0.3%	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		6.2%	20.4%	86.6%	0.0%	5.9%	0.0%	2.3%	5.8%
Recreation, Culture, and Religion		0.5%	1.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%
Education		27.0%	1.3%	12.5%	11.8%	0.0%	0.0%	0.0%	15.8%
Social Protection		18.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	8.6%
Share per Economic Item		46.1%	11.4%	6.8%	27.6%	8.3%	0.1%	6.5%	100.0%

Source: CBL and MOF

V. PUBLIC DEBT

The public debt stock as a percentage of GDP was equivalent to the revised 58.7 per cent in June 2023 relative to an estimated 55.1 per cent in July 2023.

This decline of 6.2 per cent was primarily attributed to factors such as currency fluctuations, foreign amortisation, and the redemption of treasury bills.



Appendix: Key Economic Indicators

		23-Feb	23-Mar	23-Apr	23-May	23-Jun	23-Jul	
Economic Activity (MIEA (% change, M/M))		1.0	-3.7	1.3	3.9	0.9	5.0	
Consumer price Index (% change)	Headline Inflation (year-on-year)	7.4	6.8	6.7	6.9	5.6	4.5	
	Core Inflation	6.6	6.5	6.2	NA ⁱ	5.9	3.8	
Exchange Rates (Monthly End Period)	EUR	19.18	19.31	18.20	21.08	20.57	19.56	
	GBP	21.66	21.97	20.56	24.41	23.95	22.80	
	USD	17.91	17.73	17.08	19.74	18.88	17.74	
Money Supply (Millions of Maloti)	M2	14,141.10	15,306.80	15,786.76	16,201.65	15,515.84	15,357.08	
	M1	6,227.78	6,379.53	6,323.64	6,508.33	5,952.76	5,675.13	
	Quasi Money	7,913.32	8,927.27	9,463.13	9,693.32	9,563.08	9,681.95	
Interest Rates	CBL Rate	7.25	7.25	7.50	7.75	7.75	7.75	
	91 day Treasury bill rate	6.70	6.59	6.88	7.65	7.70	7.75	
	Prime lending rate	10.75	10.75	11.00	11.25	11.25	11.25	
	1 year deposit rate	4.57	4.57	4.66	4.74	4.74	4.74	
Private sector Credit (Millions of Maloti)		8,650.74	8,655.54	8,707.28	8,768.07	8,797.65	8,927.85	
	Households	6,291.37	6,307.99	6,310.81	6,354.31	6,387.72	6,580.68	
	Non-profit Organisations	2,292.96	2,342.75	2,344.73	2,352.97	2,380.35	2,347.17	
Bank Deposit Liabilities (Millions of Maloti)		17,044.60	15,761.98	16,411.18	16,719.35	16,417.51	15,883.39	
Credit to Deposit Ratio (%)		49.82	53.87	52.06	51.46	52.59	55.19	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-1,436.62	-893.83	2,301.52	-798.06	-422.52	1,905.61	
	Total Revenue (with SACU receipts)	611.21	1,402.28	3,361.18	1,034.05	972.49	3,455.90	
	Total Expenditure	2,047.83	2,296.11	1,059.66	1,832.10	1,395.00	1,550.29	
	O/W Capital	375.92	604.08	39.70	326.56	319.08	133.44	
Total Public Debt (Millions of Maloti)		21,340.84	21,039.76	23,401.60	23,813.11	23,938.41	22,455.00	
	Total External Debt	15,631.00	15,347.13	17,706.20	18,079.60	17,888.00	16,671.70	
	External Debt	Concessional	11,395.56	10,955.73	13,258.80	13,632.50	13,533.00	12,478.00
		Non-concessional	4,235.45	4,391.40	4,447.40	4,447.10	4,355.00	4,193.70
	Domestic Debt		5,709.84	5,692.63	5,695.40	5,733.51	6,050.41	5,783.30
Memo Item: Arrears (Millions of Maloti)		0.00	155.46	0.00	0.00	0.00	0.00	

Source: Central Bank of Lesotho

ⁱ Not Available.

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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