



Monthly

ECONOMIC REVIEW

JULY 2024

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY¹

Domestic economic activity exhibited some recovery in July 2024, driven by increased performance in construction, transportation, and financial services. However, domestic demand, coupled with manufacturing and production activity were sluggish, while inflationary pressures continued to rise during the review period.

Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) demonstrated a modest increase in July 2024, registering a 0.1 per cent month-on-month growth, reversing the 2.3 per cent drop observed in the previous month. Key drivers of this uptick were the construction, transport, and financial services sub-sectors. The positive contributions from the construction subsector were evident in higher imports of building materials, signalling the ongoing increased construction activity in the economy. In parallel, the transport sub-sector saw a rise in fuel consumption, likely spurred by reduced fuel prices, which further boosted economic activity. Likewise, the financial subsector mirrored this trend, evidenced by increased credit to the private sector. Despite these improvements, the overall growth remained constrained by ongoing challenges in

domestic demand and weak performance in the manufacturing and production sub-sectors. This divergence suggested that while certain sub-sectors gained momentum, the broader economy continued to face structural issues that could dampen long-term recovery if not addressed.

Domestic Demand Category

During the review period, domestic demand showed a continued decline, with the index dropping by 4.0 per cent month-on-month, following a substantial 7.6 per cent contraction in the preceding month. This downturn was largely attributed to reduced import volumes from South Africa, especially in mineral products and chemicals.

Additionally, declines in real earnings and government compensation of employees exacerbated the pressure on the index. Despite these challenges, increased government spending on goods and services, alongside improved domestic business activity, provided some relief, softening the overall decline. The persistent downward trend in domestic demand indicated that consumers were still struggling to recover from the lingering effects of high inflation.

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

Manufacturing and Production Category

In the reviewed month, the manufacturing and production subsector dwindled by a 1.1 per cent, a notable shift from the 3.4 per cent growth observed in the prior month. This decrease was attributed to lower import volumes of raw materials and decreased utility consumption, as reflected in reduced water and electricity usage. Despite

this downturn, the sector was partially buoyed by a rise in export volumes to the United States and South Africa, supported by strong external demand for textiles and clothing. This interplay of reduced domestic activity and increased external sales highlights the sector's vulnerability to internal supply chain disruptions, while also underscoring the critical role of international markets in sustaining its performance.

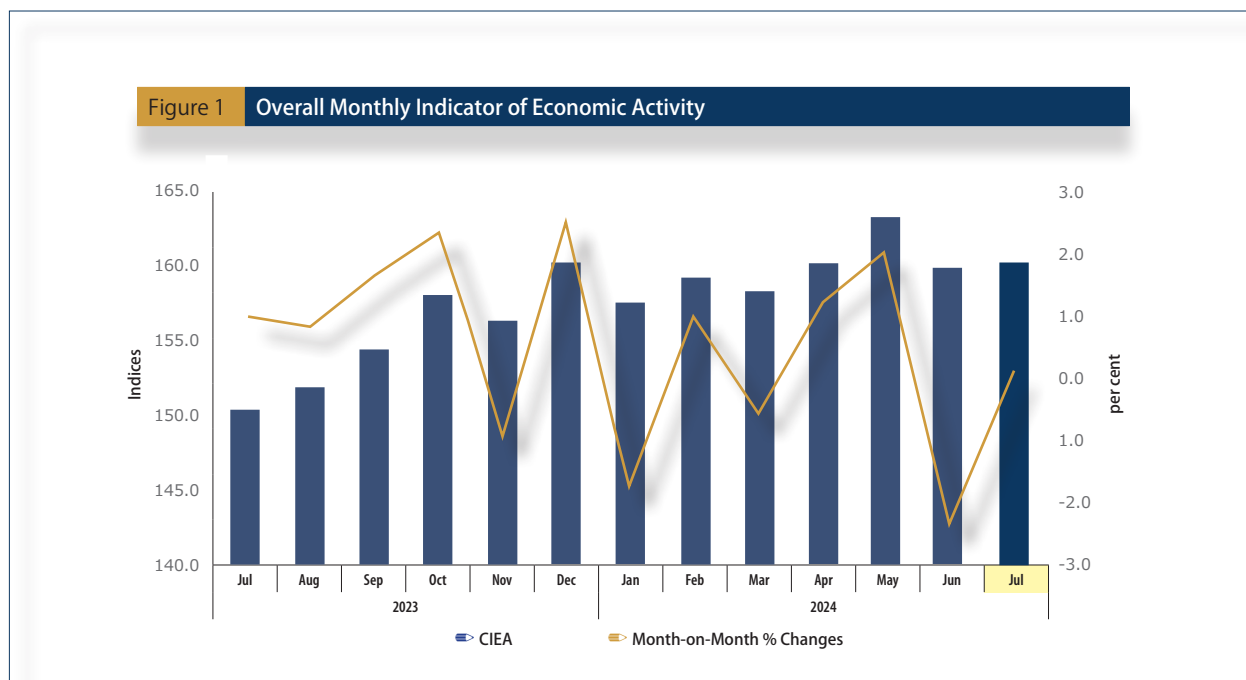


Table 1: Composite Indicator of Economic Activity and its Sub-components

Indices	2023	2024						
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
CIEA	160.5	157.7	159.3	158.4	160.3	163.6	159.9	160.1
Monthly changes	2.5	-1.8	1.0	-0.6	1.2	2.1	-2.3	0.1
Domestic Demand Category	153.4	152.3	154.4	153.0	150.0	153.9	142.1	136.4
Monthly changes	-2.3	-0.7	1.4	-0.9	-1.9	2.6	-7.6	-4.0
Manufacturing & Production Category	120.8	118.2	117.3	117.7	120.3	120.0	124.2	122.9
Monthly changes	-0.1	-2.1	-0.7	0.4	2.1	-0.2	3.4	-1.1

Source: Central Bank of Lesotho (CBL) Calculations

II. INFLATION AND PRICES

Headline Inflation

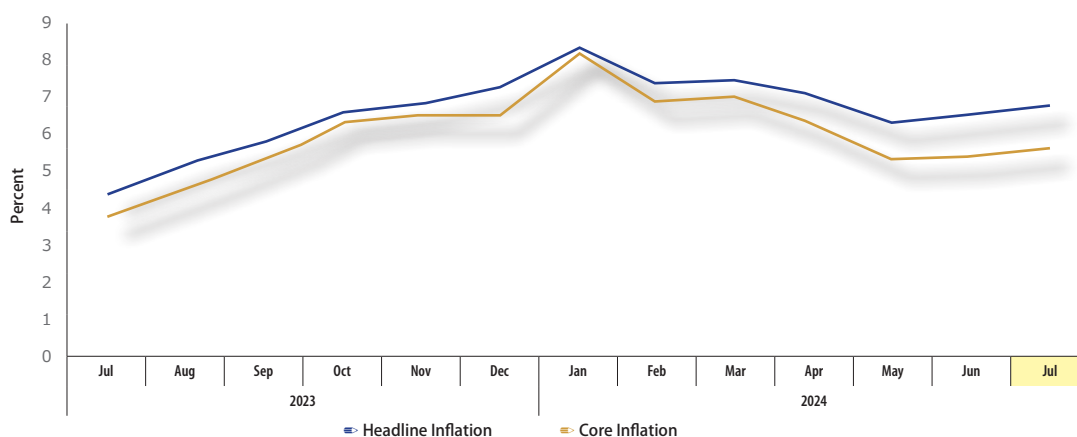
Headline inflation experienced a modest uptick to 6.7 per cent in July from 6.5 per cent in June 2024. The contributors to the 0.2 percentage point increase were Food and Non-Alcoholic beverages, Clothing and footwear, in addition to Transport category. However, falling prices of Alcoholic beverages and tobacco as well as Hotels and Restaurant category moderated the increase. Drivers behind increases in food prices was the rising prices of maize in

South Africa, which increased month-on-month by 3.3 per cent in June and 5.1 per cent in July, due to shortage of supply stemming from prevalent draught conditions.

Core Inflation

Underlying inflationary pressures, as measured by core inflation, increased to 5.5 per cent in July 2024 from 5.3 per cent in June 2024.

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

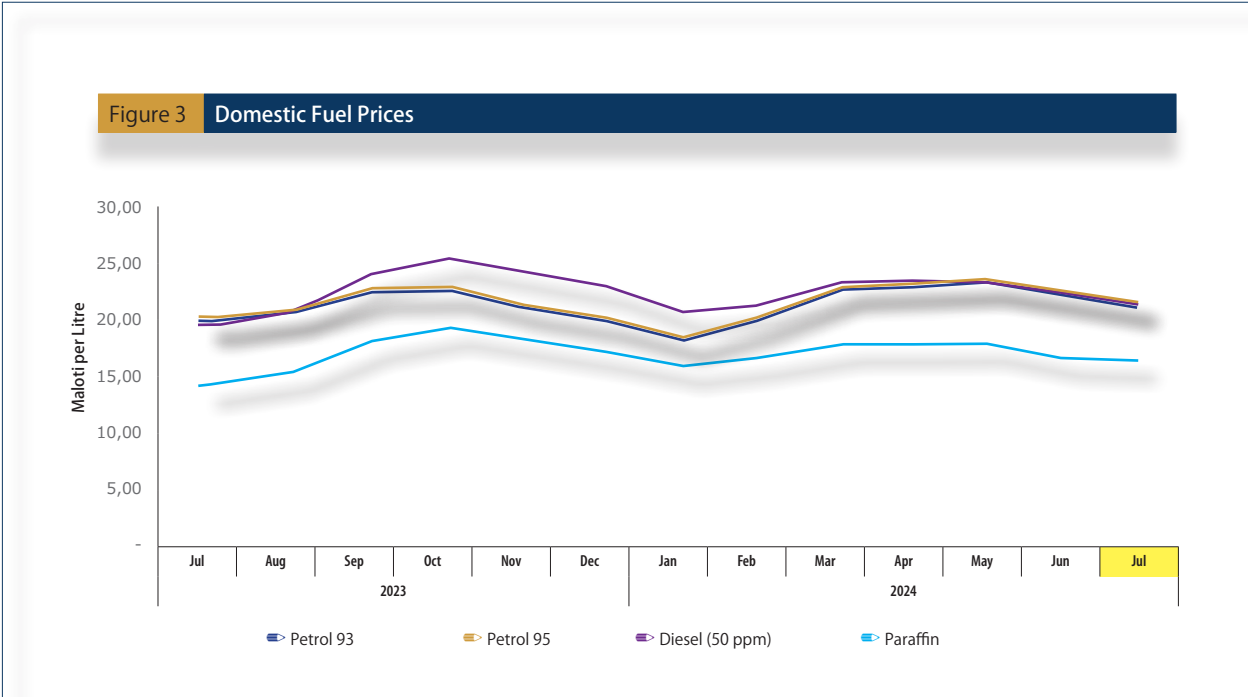


Source: Lesotho Bureau of Statistics & CBL Computation

Domestic Fuel Prices

The prices of all petroleum products decreased in the review period. Where both grades of petrol (*Petrol₉₃* and *Petrol₉₅*), decreased by M 1.30 and M 1.25 respectively, and were sold at M 21.05 per litre and M 21.55 per litre, respectively at the pump.

The pump prices of *diesel₅₀* and illuminating paraffin fell by M 0.80 and M 0.30 respectively and were sold at M21.65 per litre and M16.30 per litre in the retail market, respectively.



III. MONETARY AND FINANCIAL INDICATORS

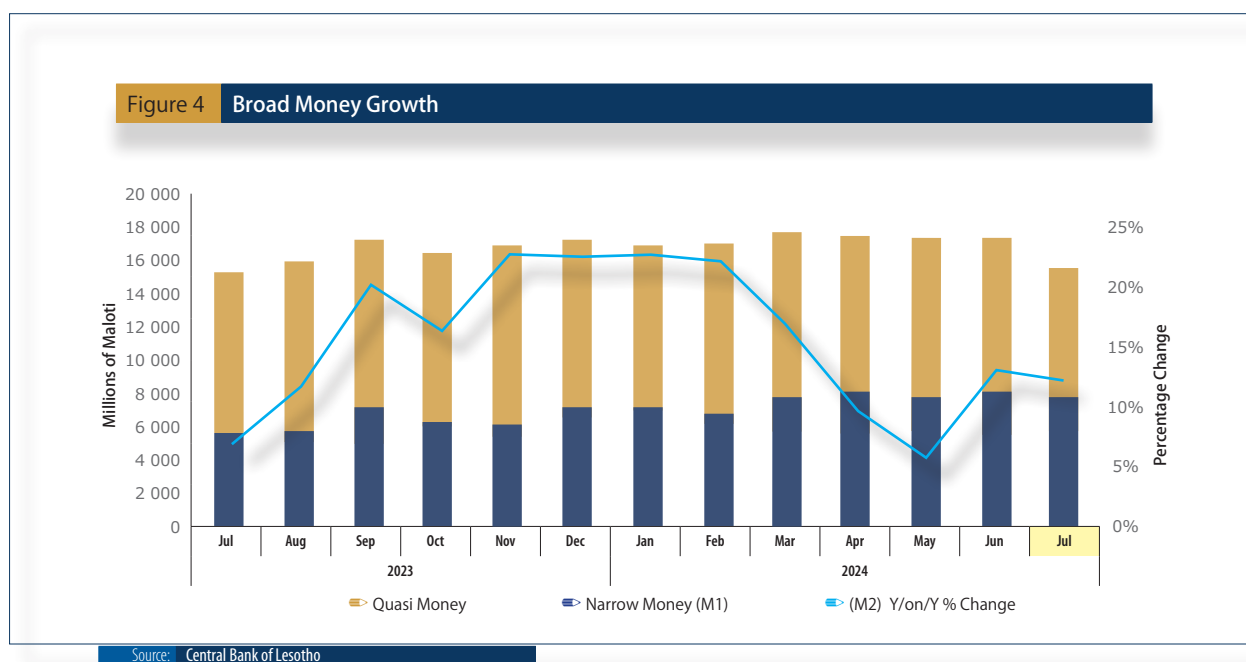
Broad Money (M2)

In July 2024, the broadly defined measure of money supply (M2) declined by 2.4 per cent, contrary to the 0.7 per cent growth observed in June. This resulted from a 47.9 per cent fall in net domestic claims (NDA), while a 7.1 per cent growth in net foreign assets (NFA) cushioned the decline. The decline in Net Domestic Assets (NDA) was due to a decrease in the net claims of both the central bank and commercial banks on the central government. Meanwhile, the increase in Net Foreign Assets (NFA) resulted from growth in the Central Bank’s NFA, despite a reduction in the commercial banks’ NFA. Growth in NFA was driven by SACU receipts during the month, that also led to

build-up in government deposits. Year-on-year, M2 increased by 10.9 per cent.

Components of Money Supply

Breaking down the components of money supply, the decline was attributed mainly to a fall in narrow money (M1) and to a lesser extent the quasi money. There was a 4.4 per cent decline in M1, contrary to the 3.9 per cent growth a month earlier. Quasi-money also decreased by 0.6 per cent during the review month. The decline in M1 was in line with a fall in transferable deposits held by both the business enterprises and households. The contraction in quasi money was due to a decline in fixed time deposits of the business enterprises.



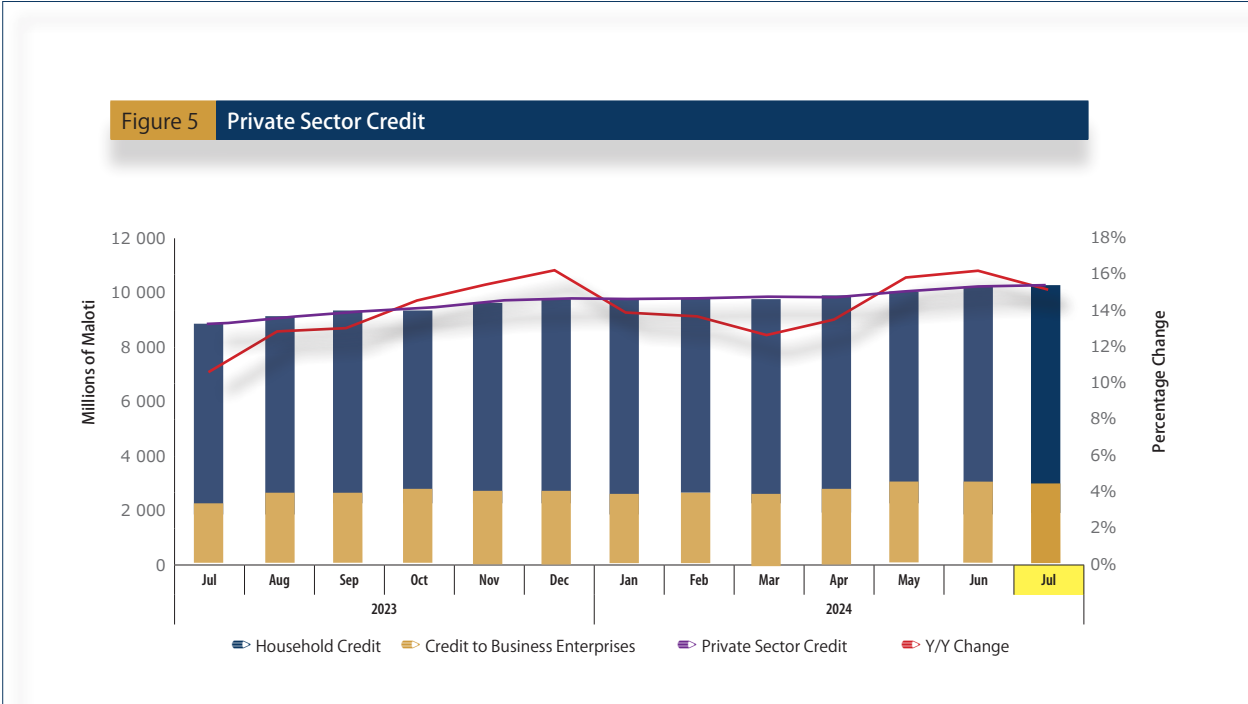
Private Sector Credit

Private sector credit continued to grow steadily, recording a 0.5 per cent expansion in July, compared to the 0.5 per cent observed in June 2024. The growth was a result of increased credit to

the business enterprises, despite a fall in household credit. Business sector credit, on the one hand, increased by 3.5 per cent, contrary to the 2.6 per cent contraction in the prior period. On the other hand, household credit contracted by 0.6 per cent, in contrast to the 1.7 per cent growth in June.

Business enterprises credit growth was mainly evident in mining and quarrying, construction, as well as the real estate and business services sub-sectors. The wholesale and retail trade, restaurants & hotels sub-sector continued to command the highest share of credit extension, followed by real

estate & business services sector. The construction industry completed the top three recipients of credit extension. The community, social, & personal services remained the smallest recipient of credit extension to the business sector. On an annual basis, private sector credit grew by 16.3 per cent.



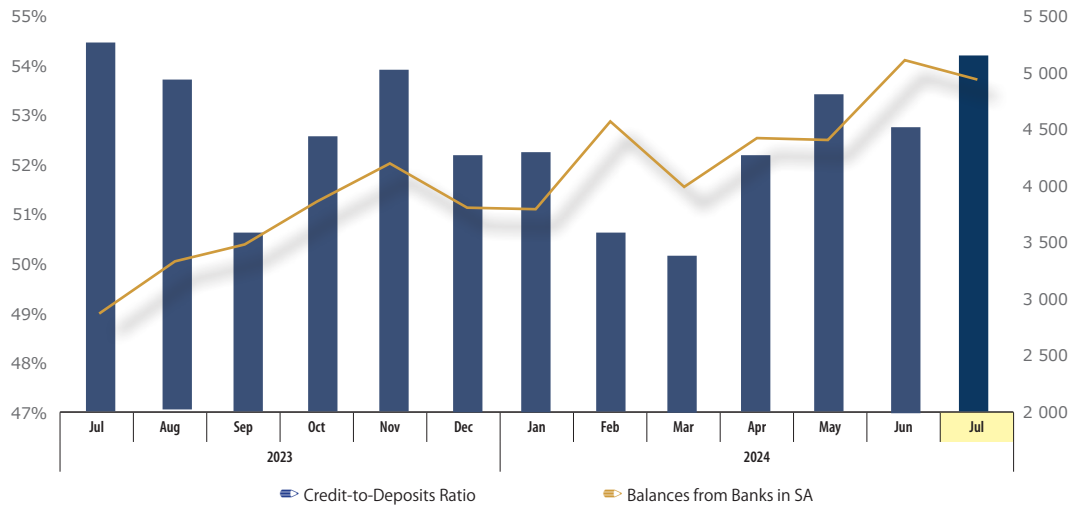
Non-Performing Loans

The ratio of non-performing loans (NPLs) to total loans increased to 3.8 per cent in July 2024 as compared to the 3.6 per cent that was observed in the prior month. The construction industry had the highest share of NPLs, followed by the wholesale & retail trade, restaurants & hotels subsector.

Sources of Funds

The credit-to-deposit ratio increased to 54.3 per cent in July 2024. The increase was driven by a combination of a fall in the deposit base of the banking sector and the growth in credit extension in the review month.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The CBL rate was unchanged at 7.75 per cent between June and July 2024. Consequently, the prime lending rate and the 1-year deposit rate remained stable at 11.25 and 4.74 per cent, respectively. The 91-day treasury bill rate also stayed the same at 6.96 per cent between June and July 2024.

Foreign Exchange

The value of the rand, hence loti, strengthened against the dollar and euro but depreciated against the pound in July 2024.

The rand strengthened by 0.92 per cent and 0.62 per cent against the dollar and the euro, respectively and weakened by 0.73 per cent against the pound in July 2024. This is in comparison to an appreciation of 0.13 per cent against the dollar, 0.53 per cent against the euro, and a depreciation of 0.45 per cent against the pound in the previous month.

The rand's positive performance was supported by the continued suspension of load shedding, which has led to notable improvements in supply chains and logistics. South Africa also benefited from rising commodity prices, particularly gold and platinum, which further supported the rand.

The rand outperformed the US dollar due to the Federal Reserve's decision to maintain interest rates, which weakened the dollar. The Eurozone faced economic challenges, including slower growth and higher inflation, which weakened the euro. Additionally, political uncertainties in some Eurozone countries contributed to the euro's underperformance.

Conversely, the pound outperformed the rand due to stronger economic performance in the UK. The UK reported better-than-expected GDP growth and lower inflation rates, which boosted investor confidence in the pound.

IV. GOVERNMENT BUDGETARY OPERATIONS

Expenditure

Government spending rose by 4.8 per cent, a notable change from the 6.7 per cent decrease seen in June 2024. This uptick was mainly due to higher operating costs, especially in health services, along with increased grants to extra-budgetary units and public assistance. As a result, the largest budget allocations went to general public services and the social protection sectors. Year-on-year, total expenditure increased by 7.3 per cent.

Revenue

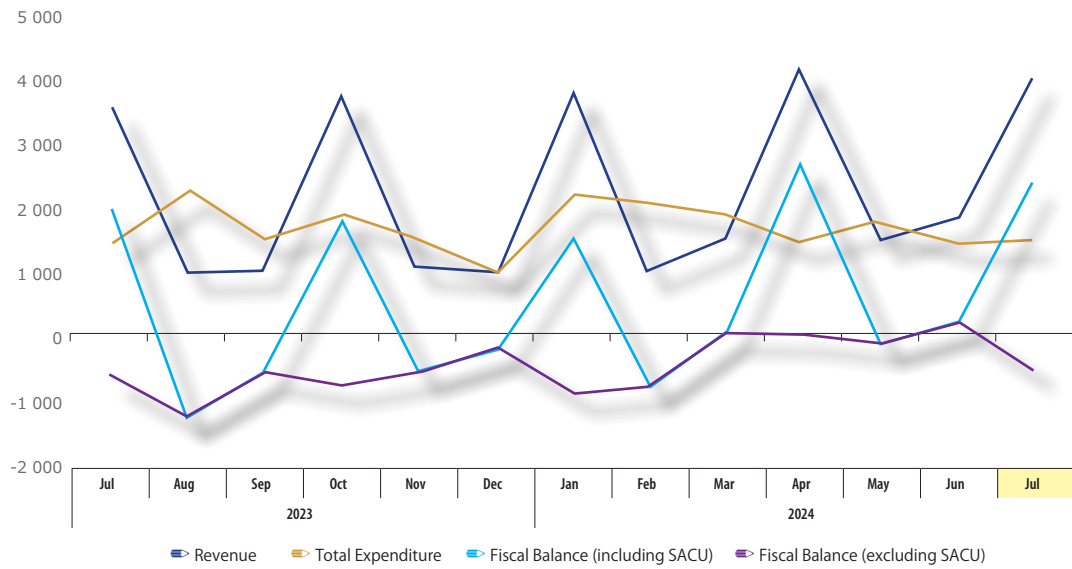
Government revenue, excluding SACU receipts, fell by 34.2 per cent, mainly due to drops in VAT, income taxes, interest income, and dividends. This came after a 33.8 per cent increase in the previous month. However, including SACU receipts, revenue more than doubled. Year-on-year, total revenue rose by 16.3 per cent, primarily because of SACU receipts.

Fiscal Balance²

The Government recorded a surplus of 24.4 per cent of GDP, a substantial improvement from the marginal surplus of 2.7 per cent of GDP in June 2024. This surplus facilitated the accumulation of deposits and was also used to settle supplier payments and loans, leading to an increase in financial assets and a decrease in liabilities.

² 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)

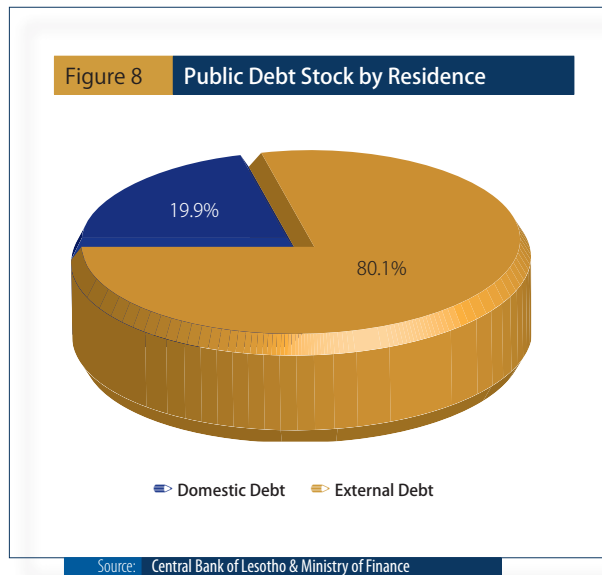
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		11.2%	16.6%	0.0%	73.8%	0.0%	76.5%	16.2%	21.6%
Defense		0.9%	0.6%	0.0%	0.0%	0.0%	0.0%	12.8%	1.7%
Public Order and Safety		19.0%	9.0%	0.0%	0.5%	0.0%	19.5%	4.0%	10.6%
Economic Affairs		7.5%	10.3%	0.0%	21.4%	0.0%	0.0%	64.0%	14.7%
Environmental Protection		0.7%	0.2%	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		6.3%	57.8%	0.0%	0.0%	5.9%	0.0%	0.2%	17.0%
Recreation, Culture, and Religion		0.4%	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%
Education		28.1%	1.0%	100.0%	4.4%	0.0%	0.0%	2.6%	15.2%
Social Protection		25.8%	3.9%	0.0%	0.0%	94.1%	4.0%	0.1%	18.5%
Share per Economic Item		41.7%	24.1%	2.3%	15.0%	7.2%	0.5%	9.1%	100.0%

Source: CBL and MOF

V. PUBLIC DEBT

The public debt stock was estimated at 55.2 per cent of GDP, a slight increase from the revised 54.9 per cent of GDP in the previous month. This 0.6 per

cent monthly increase was attributed to exchange rate fluctuations. On a yearly basis, the total debt stock declined by 2.0 per cent.



Appendix: Key Economic Indicators

		23-Dec	24-Jan	24-Feb	24-Mar	24-Apr	24-May	24-Jun	24-Jul	
Economic Activity (MIEA (% change, M/M))		2.0	-1.4	1.5	-0.9	1.2	2.1	-2.3	0.1	
Consumer price Index (% change)	Headline Inflation (year-on-year)	7.2	8.2	7.3	7.4	7.1	6.3	6.5	6.7	
	Core Inflation	6.4	8.0	6.7	6.9	6.3	5.3	5.3	5.5	
Exchange Rates (Monthly End Period)	EUR	20.3424	20.3817	20.7950	20.5085	20.0677	20.1045	20.1045	19.7931	
	GBP	23.6012	23.8757	24.3030	23.9695	23.4763	23.6247	23.6247	23.6067	
	USD	18.6699	18.8456	19.1910	18.8596	18.7203	18.6230	18.6230	18.3770	
Money Supply (Millions of Maloti)	M2	17,180.65	16,726.97	16,887.51	17,636.19	17,225.56	17,223.67	17,340.59	16,929.25	
	M1	8,448.94	8,124.79	7,722.71	8,528.66	8,945.55	8,834.37	8,173.76	7,814.50	
	Quasi Money	8,731.71	8,602.18	9,164.81	9,107.53	8,280.01	8,389.31	9,166.83	9,114.75	
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	7.09	6.93	6.78	6.59	6.93	6.96	6.96	
	Prime lending rate	11.25	11.25	11.25	11.25	11.00	11.25	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)		9,736.03	9,796.71	9,838.10	9,736.88	9,864.60	10,181.74	10,233.44	10,288.53	
	Households	2,717.72	2,722.05	2,716.99	2,577.61	2,653.25	2,879.85	2,806.05	2,903.51	
	Non-profit Organisations	7,018.31	7,074.66	7,121.11	7,159.28	7,211.35	7,301.89	7,427.40	7,385.01	
Bank Deposit Liabilities (Millions of Maloti)		18,679.67	18,751.66	19,412.48	19,375.00	18,842.16	19,025.27	19,374.92	18,882.97	
Credit to Deposit Ratio (%)		52.1	52.2	50.6	50.1	52.2	53.4	52.7	54.3	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	38.58	1,720.53	-712.88	61.88	2,786.92	-279.63	265.95	2,482.81	
	Total Revenue (with SACU receipts)	931.83	3,680.35	1,079.71	1,686.95	4,093.15	1,313.87	1,760.87	4,049.10	
	Total Expenditure	893.25	1,959.82	1,792.59	1,625.07	1,306.23	1,593.51	1,494.92	1,566.29	
	O/W Capital	53.39	194.09	254.50	366.14	171.57	92.57	193.23	116.06	
Total Public Debt (Millions of Maloti)		23,117.53	23,160.34	23,650.19	23,209.40	22,977.68	23,226.31	22,405.64	22,499.79	
	Total External Debt	18,458.58	18,579.40	18,893.94	18,453.32	18,223.83	18,494.18	17,931.82	18,025.22	
	External Debt	Concessional	12,701.93	12,810.76	12,969.78	12,710.73	12,562.19	12,672.65	12,278.31	12,305.12
		Non-concessional	5,756.65	5,768.63	5,924.15	5,742.59	5,661.63	5,821.53	5,653.51	5,720.11
	Domestic Debt	4,658.95	4,580.95	4,756.25	4,756.08	4,753.86	4,732.13	4,473.82	4,474.57	
Memo Item: Arrears (Millions of Maloti)		26.28	20.72	50.49	161.29	0.00	207.31	131.76	10.83	

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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