



Monthly ECONOMIC REVIEW

JUNE 2022

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY

Economic activity was estimated to have contracted in June 2022. The decline was a result of reduced demand for goods and services in the economy, despite a pickup in production.

Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) showed negative growth in June 2022. The index was estimated to have contracted by 4.0 per cent in the review month, contrary to the 2.1 per cent growth realised in the preceding month. The slowdown in economic activity was mainly attributable to a decline in domestic demand. This was further evidenced by the slowdown in supporting industries, such as transport and construction. However, production activity cushioned the overall fall in the economic activity.

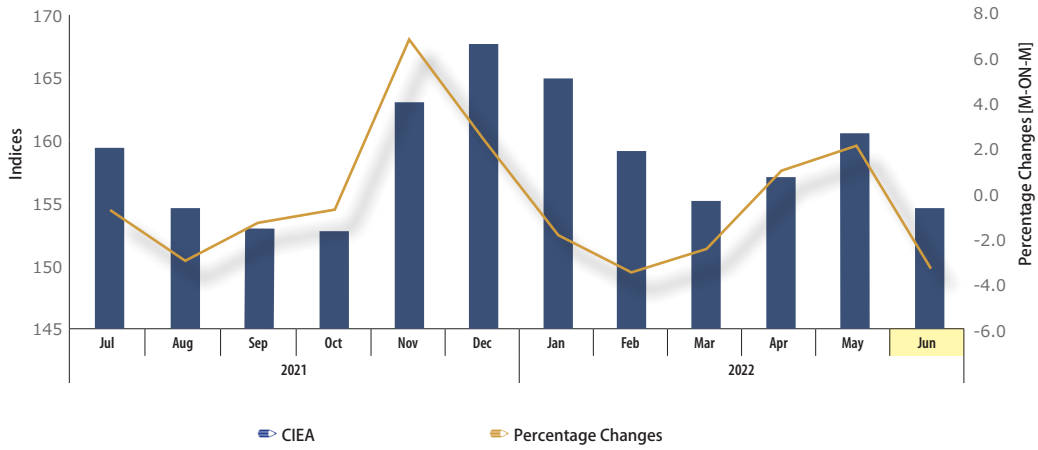
Domestic Demand Category

The domestic demand index declined by a rather steep 7.5 per cent, in contrast to the 9.4 per cent growth that occurred in May. The lacklustre performance in demand was partly explained by reduced government activity, as well as, relatively lower imports of goods and services from SA.

Manufacturing and Production Category

The production and manufacturing activity recouped during the review month. The index of production grew by 1.2 per cent contrary to the 3.4 per cent decline recorded in May. Growth in production was driven by utilities (water and electricity). However, exports of textiles and raw materials import undermined growth.

Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2021		2022					
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
CIEA	162.8	166.9	164.1	158.5	155.5	157.6	160.9	154.6
Monthly changes	6.4	2.5	-1.6	-3.4	-1.9	1.4	2.1	-4.0
Domestic Demand Category	152.8	156.0	161.7	146.6	145.4	148.6	162.6	150.5
Monthly changes	10.0	2.1	3.7	-9.4	-0.8	2.2	9.4	-7.5
Manufacturing & Production Category	121.5	129.2	131.3	127.5	121.4	119.3	115.2	116.6
Monthly changes	11.2	6.3	1.6	-2.9	-4.8	-1.7	-3.4	1.2

Source: Central Bank of Lesotho (CBL) Calculations

II. INFLATION AND PRICES

Headline Inflation

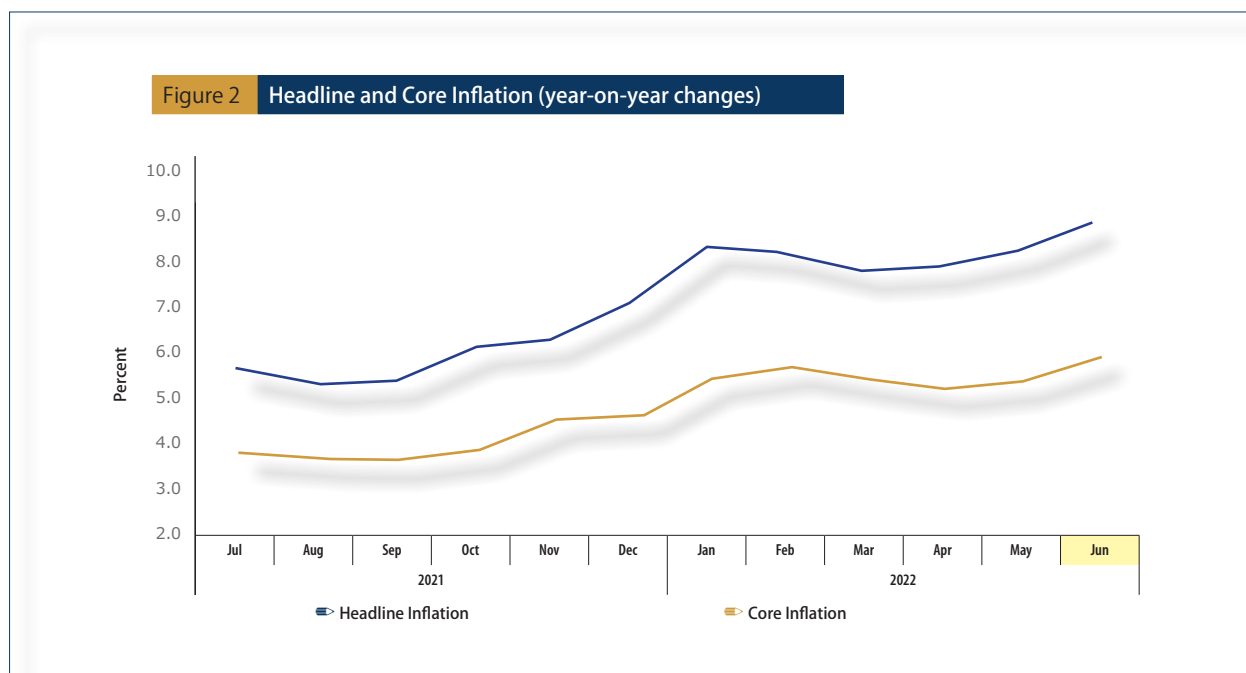
The overall consumer price index rose by 8.8 per cent in June 2022, following a 7.8 per cent in May 2022. Even though inflationary pressures were broad-based, the major contributors to the 1.0 percentage point increase in inflation during the review period were *Food and non-alcoholic beverages, Housing, Water, Electricity, Gas and Other Fuels and Transport*.

The major determinants behind the increase in inflation were rising food and fuel prices. Strong

demand for maize against the backdrop of an increase in input prices and transportation costs increased food prices. This was further worsened by the continued war in Ukraine, which has added to the rising international fuel prices, hence spilled over to local fuel costs.

Core Inflation

Underlying inflationary pressures, measured by core inflation, increased from 5.0 per cent in May 2022 to 5.6 per cent in June 2022.

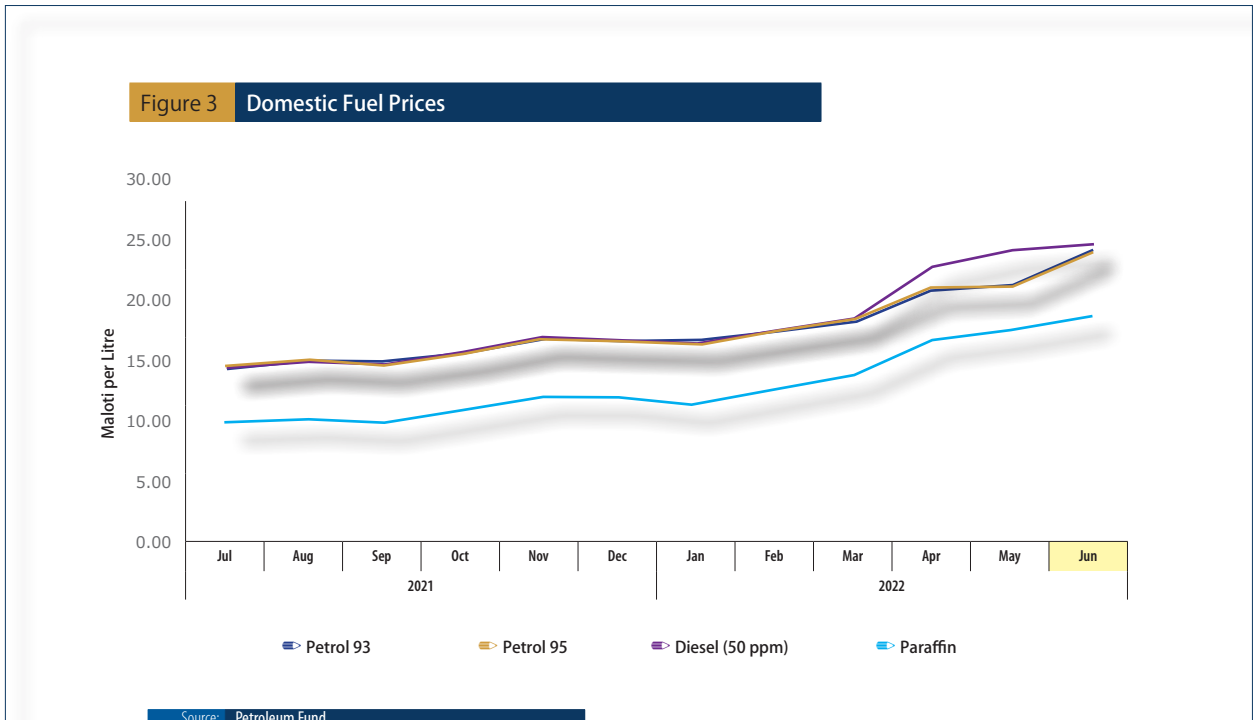


Source: Lesotho Bureau of Statistics & CBL Computation

Domestic Fuel Prices

The prices of all domestic petroleum products increased in June 2022. Prices of both grades of petrol (*petrol₉₃* and *petrol₉₅*) increased by M3.00 and M3.20 and were M23.70 per litre and M24.15 per

litre at the pump, respectively. The price of *diesel₅₀* also increased by M0.80 and was M24.55 per litre at the pump. The price of illuminating paraffin increased by M1.10 and was sold at M18.90 per litre in the retail market during the review period.



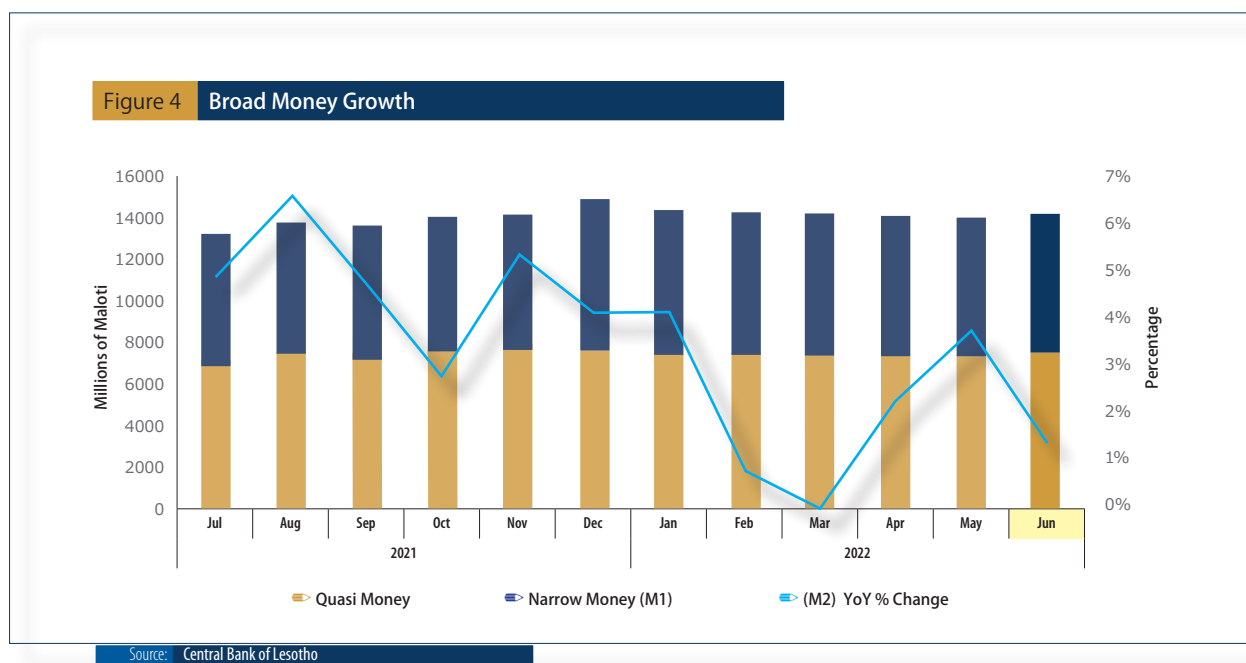
III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

The broadly defined money supply (M2) declined by 2.9 per cent in June 2022, compared with a growth of 1.4 per cent in May 2022. This emanated from a decline of 4.0 per cent in net foreign assets (NFA), which was, however, moderated by a growth of 5.6 per cent in net domestic assets (NDA). The fall in NFA was due to a decline in both the central bank and commercial banks' NFA, while the growth in NDA was mainly a result of a decline in government deposits held with the central bank.

Components of Money Supply

Regarding the broad money components, both narrow money (M1) and quasi money registered a negative growth in the review period. M1 declined by 4.3 per cent, following relatively higher withdrawals in transferable deposits held by business enterprises. Quasi money also declined by 1.8 per cent, particularly driven by a decline in call deposits held by the non-bank financial institutions and the business sector.

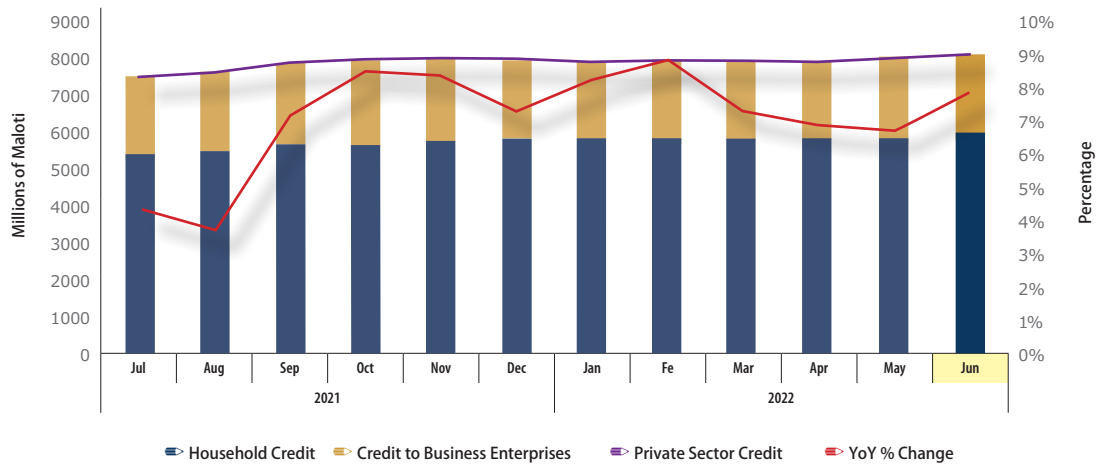


Private Sector Credit

The total loans and advances extended to the private sector increased by 0.6 per cent in June 2022, following a growth of 1.4 per cent in the preceding month. This was supported by 1.2 per cent growth in household loans, undermined by a decline of 1.0 per cent in business sector loans. Credit extended to households benefitted from an increase of 0.6 per cent on personal loans and 3.1 per cent on mortgages.

Considering the allocation of credit to business enterprises, real estate & business services, mining & quarrying, as well as retail, hotel & restaurant, received the largest shares of 24.8 per cent, 21.8 per cent and 19.3 per cent, respectively. The community, social & personal services sector 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 7.8 per cent in June 2022.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

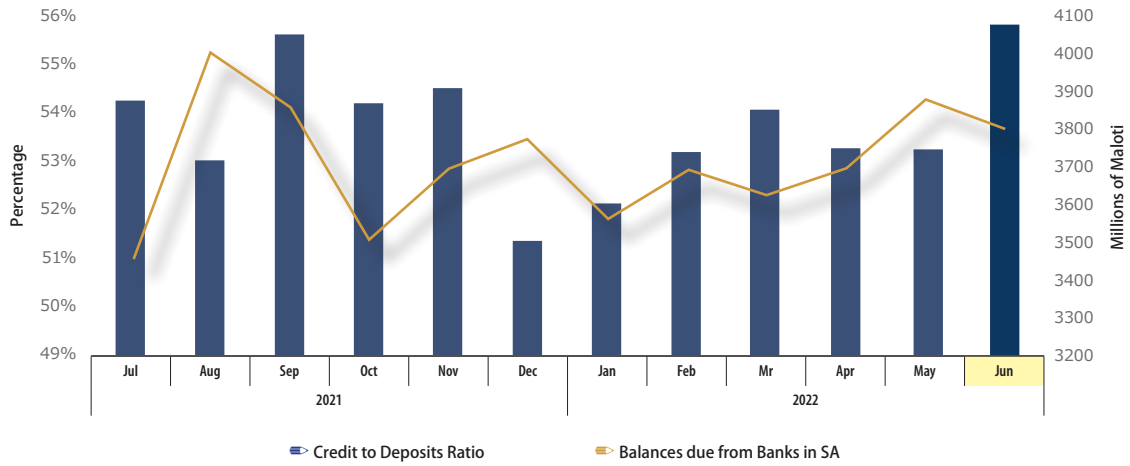
Non-Performing Loans

The total non-performing loans (NPLs), as a ratio of total loans, increased from 4.4 per cent to 4.6 per cent between May and June 2022. This was due to a notable rise in NPLs for both the business and household sector. Business sector’s NPLs, on the one hand, increased from 5.1 per cent to 5.5 per cent, mainly reflecting a rise in NPL’s from the construction sector. Household sector’s NPLs, on the other hand, rose from 4.1 per cent to 4.3 per cent between the same period.

Sources of Funds

The credit to deposit ratio increased from 53.2 per cent in May 2022 to 55.7 per cent in June 2022. This was at the back of 2.0 per cent growth in credit extension, alongside a 2.5 per cent decline in total deposits.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The CBL policy rate remained at 4.75 per cent between May and June 2022. However, the average prime lending rate increased by 25 basis points to 8.25 per cent, whereas the 1-year deposit rate remained unchanged at 3.41 per cent. The discount rate for the 91-day T-bill also increased by 2 basis points to 4.45 per cent during the review period.

Foreign Exchange

The rand (loti) gained momentum against its three major trading currencies in June 2022. The rand appreciated by 0.59 per cent, 1.52 per cent and 0.59 per cent against the dollar, the pound and the euro, respectively. This was in comparison to a depreciation of 1.5 per cent, 1.8 per cent and 5.8 per cent against the dollar, the pound and the euro, respectively, in the previous month.

The stronger value of the rand compared to a month earlier resulted partly from stronger than expected GDP figures for South Africa for the first quarter of 2022, as well as, manufacturing data for May 2022.

The rand was further supported by positive developments surrounding COVID-19, which allowed the government to relax some of the restrictions associated with travel and gatherings. The Rand was also buttressed by hopes of further rate hikes by the South African economy.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure¹

Government total expenditure was estimated to have declined by 17.8 per cent in June 2022, following a 13.8 per cent fall in May 2022. Both current and development spending contributed to the observed lower total spending. In particular, spending on capital projects, declined by a massive 66.0 per cent.

Outlays by Functions

Consequently, the share of capital outlays dropped from 14.2 per cent in the preceding month to a meagre 6.8 per cent in the current month. Responsible sector for the fall was the economic affairs.

Total Revenue

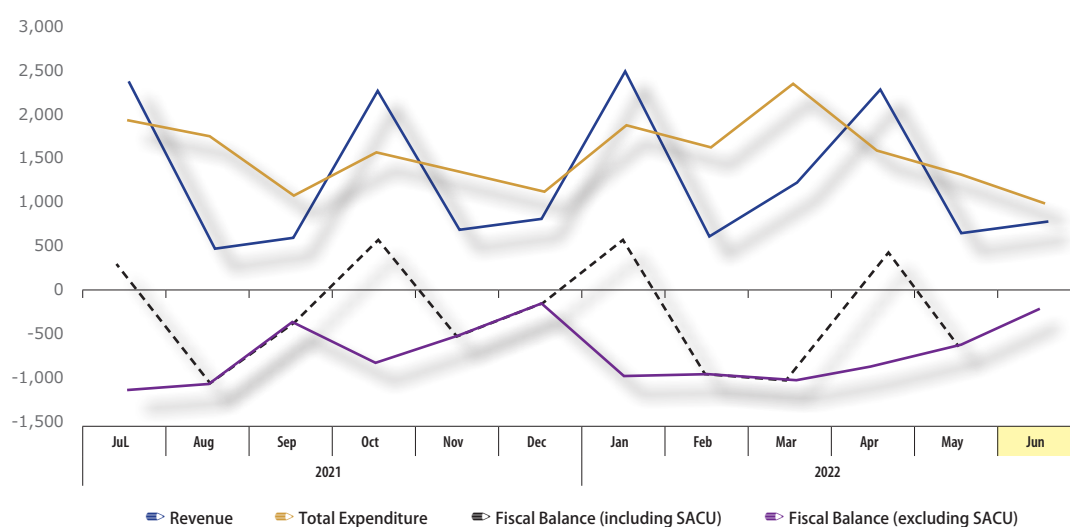
The Government revenue increased by 18.7 per cent in the review month, in contrast to a 3.8 per cent decline in the previous month. The increase stemmed from both tax and non-tax revenues, that grew by 19.1 and 17.0 per cent, respectively.

Fiscal Balance and Financing

The fiscal operations reflected a decline in financial assets and liabilities. The contraction under domestic assets mainly emanated from a drawdown in Government deposits, while liabilities declined due to accelerated payments of other accounts payable.

¹ The year-to-date refers to an accumulation within a fiscal year, starting from April.

Figure 7 Government Fiscal Balance – Excluding SACU Receipts (Million Maloti)



Source: Central Bank of Lesotho & Ministry of Finance

Table 2: Classification of Expenditure by Function and Economic Item (Percentage Change)

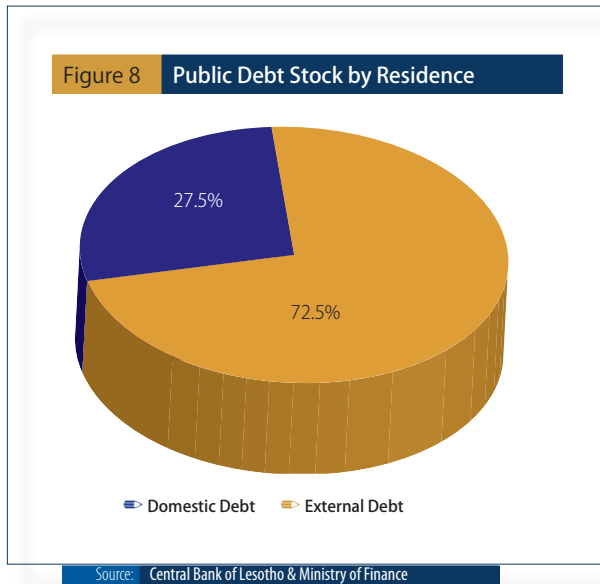
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		12.5%	12.1%	0.0%	73.6%	0.0%	35.8%	38.0%	17.1%
Defense		6.3%	10.6%	0.0%	2.1%	0.0%	0.0%	0.0%	5.9%
Public Order and Safety		18.5%	5.0%	0.0%	0.1%	0.0%	0.0%	0.2%	11.6%
Economic Affairs		7.5%	10.6%	0.0%	2.4%	0.0%	64.1%	16.2%	7.9%
Environmental Protection		0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
Housing and Community Amenities		0.7%	1.0%	0.0%	15.8%	0.0%	0.0%	44.7%	4.5%
Health		6.9%	44.9%	82.1%	0.0%	0.0%	0.0%	0.9%	14.9%
Recreation, Culture, and Religion		0.8%	1.3%	0.0%	6.0%	0.0%	0.0%	0.0%	1.1%
Education		27.5%	2.0%	17.9%	0.0%	0.0%	0.0%	0.0%	16.7%
Social Protection		19.2%	12.3%	0.0%	0.0%	100.0%	0.0%	0.0%	20.3%
Share per Economic Item		57.6%	19.6%	2.5%	6.7%	6.8%	0.6%	6.3%	100.0%

Source: CBL and MOF

V. PUBLIC DEBT

Public debt stock rose marginally from 52.6 per cent of GDP in May to 52.8 per cent of GDP in June 2022.

This marginal increase of 0.4 per cent was due to price changes.



Appendix: Key Economic Indicators

		22-Jan	22-Feb	22-Mar	22-Apr	22-May	22-Jun	
Economic Activity (MIEA (% change, M/M))		-1.6	-3.4	-1.9	-1.4	2.1	-4.0	
Consumer price Index (% change)	Headline Inflation (year-on-year)	7.6	7.5	7.2	7.3	7.8	8.8	
	Core Inflation	4.9	4.9	4.6	4.7	5.0	5.6	
Exchange Rates (Monthly End Period)	EUR	17.36	17.27	16.19	16.60	16.75	17.08	
	GBP	20.88	20.65	19.15	19.78	19.69	19.91	
	USD	15.56	15.43	14.58	15.77	15.67	16.43	
Money Supply (Millions of Maloti)	M2	14,378.20	14,259.33	14,105.47	14,037.84	14,232.41	13,815.35	
	M1	6,814.43	6,749.37	6,640.23	6,610.03	6,585.97	6,303.45	
	Quasi Money	7,563.77	7,509.96	7,465.25	7,427.80	7,646.45	7,511.90	
Interest Rates	CBL Rate	3.75	4.00	4.25	4.25	4.75	4.75	
	91 day Treasury bill rate	4.09	4.16	4.45	4.45	4.43	4.45	
	Prime lending rate	8.44	8.69	8.69	8.00	8.00	8.25	
	1 year deposit rate	2.80	2.90	2.75	2.75	3.41	3.41	
Private sector Credit (Millions of Maloti)		8,007.95	8,005.69	7,959.63	7,961.09	8,072.73	8,124.05	
	Households	5,878.69	5,893.88	5,884.56	5,889.53	5,907.73	5,981.28	
	Business Enterprises	2,123.95	2,105.67	2,068.10	2,065.66	2,159.07	2,136.76	
	Non-profit Organisations	5.31	6.14	6.97	5.90	5.93	6.01	
Bank Deposit Liabilities (Millions of Maloti)		15,319.10	14,972.33	14,708.53	14,879.60	15,097.49	14,714.39	
Credit to Deposit Ratio (%)		52.13	53.18	53.99	53.25	53.19	55.67	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	551.62	-911.81	-994.11	542.73	-613.04	-215.80	
	Total Revenue (with SACU receipts)	2,426.86	749.71	1,344.19	2,169.27	788.61	935.86	
	Total Expenditure	1,875.24	1,661.52	2,338.30	1,626.54	1,401.64	1,151.66	
	O/W Capital	184.97	450.57	716.48	60.29	248.42	84.49	
Total Public Debt (Millions of Maloti)		20,051.26	20,183.60	19,446.21	19,218.61	19,650.24	19,730.05	
	Total External Debt	14,745.60	14,694.10	13,874.30	13,822.10	14,263.20	14,313.50	
	External Debt	Concessional	11,195.60	11,101.00	10,386.50	10,365.50	10,590.60	10,650.80
		Non-concessional	3,550.00	3,593.10	3,487.80	3,456.60	3,672.60	3,662.70
	Domestic Debt		5,305.66	5,489.50	5,571.91	5,396.51	5,387.04	5,416.55
	Memo Item: Arrears (Millions of Maloti)		2.33	0.59	0.00	0.00	0.00	0.00

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 in stages. 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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