



Monthly

ECONOMIC REVIEW

JUNE 2024

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY¹

The economy was estimated to have contracted in June 2024, following a successive growth in the recent past. This downturn was primarily driven by a weakened domestic demand, despite continued recovery in the manufacturing sector. Meanwhile, inflationary pressures continued to rise.

Overall Performance Index

Economic activity contracted in June 2024, reversing the positive trends of the preceding two months. The Composite Indicator of Economic Activity (CIEA) registered a month-on-month decline of 2.4 per cent, following a 2.1 per cent increase in May. This decline was primarily attributed to weakened domestic demand and a slowdown in the construction subsector, evidenced by reduced imports of construction materials.

However, overall economic contraction was partially offset by the improved manufacturing subsector due to increased textile and clothing exports, alongside, increased activity in the transportation and financial sectors. These developments were confirmed by higher fuel consumption and expanded credit to the private sector.

Domestic Demand Category

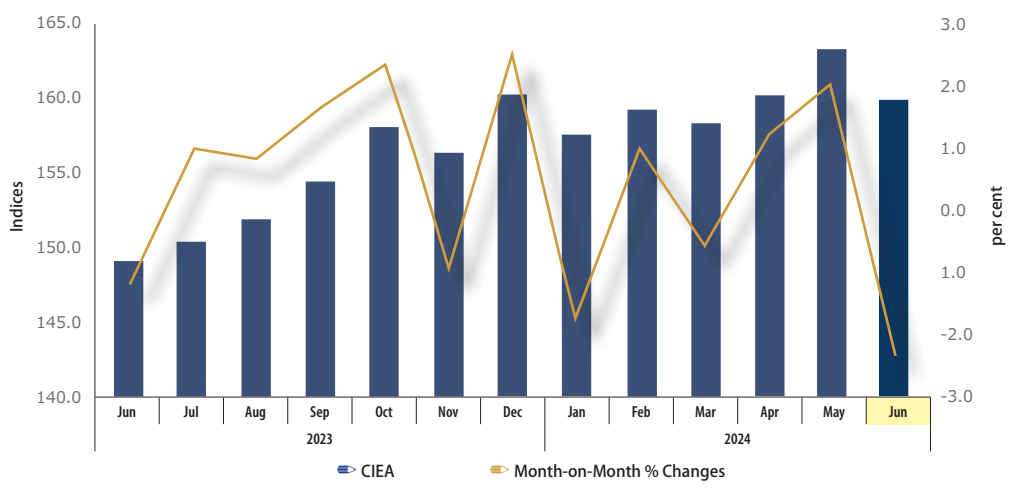
Similarly, the domestic demand experienced a significant downturn in June 2024, with the domestic demand index plummeting by 7.6 per cent. This marked a sharp reversal from the revised 2.6 per cent increase recorded in the preceding month. The primary drivers of this contraction were reduced government activities and a marginal decline in imports from South Africa, particularly consumer goods, and minerals. Nonetheless, increased collection of PAYE and VAT moderated the overall decline, although their impact was not enough to offset the overall impact. The combination of decreased government spending and imports signals potential challenges for overall economic growth.

Manufacturing and Production Category

The manufacturing subsector demonstrated significant growth, with the manufacturing and production index rising by 3.4 per cent. This was a rebound from a revised contraction of 0.2 per cent in May, which was mainly fuelled by an increase in clothing and textile exports to the United States and South African markets. Furthermore, industrial operation, as indicated by the consumption of industrial water and electricity, also contributed positively to the overall growth.

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

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					
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
CIEA	156.6	159.7	157.5	159.9	158.4	160.3	163.6	159.9
Monthly changes	-1.1	2.0	-1.4	1.5	-0.9	1.2	2.1	-2.3
Domestic Demand Category	157.0	153.4	152.3	154.4	153.0	150.0	153.9	142.1
Monthly changes	0.0	-2.3	-0.7	2.1	-0.9	-1.9	2.6	-7.6
Manufacturing & Production Category	120.9	120.8	118.2	117.3	117.7	122.3	120.0	124.2
Monthly changes	7.0	-0.1	-2.1	-0.7	-0.4	2.1	-0.2	3.4

Source: Central Bank of Lesotho (CBL) Calculations

II. INFLATION AND PRICES

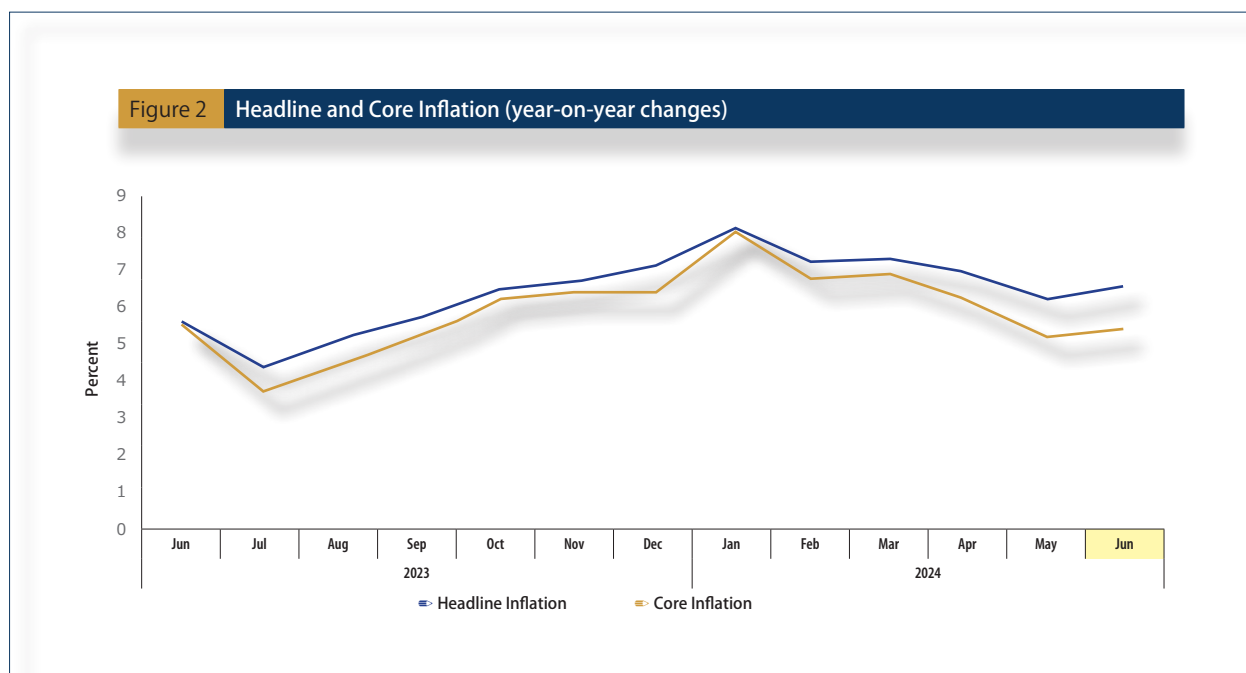
Headline Inflation

Headline inflation experienced a modest uptick to 6.5 per cent in June 2024 from 6.3 per cent in May. This slight increase was primarily attributable to rising costs within the transportation and energy subsectors. While other components of the consumer price index remained relatively stable, the surge in gas and fuel prices for transportation equipment proved to be the primary drivers of the 0.2 percentage point increase in the headline inflation.

These factors combined to exert upward pressure on consumer prices, though the overall inflationary trend remains subdued.

Core Inflation

Underlying inflationary pressures, as measured by core inflation, remained constant at 5.3 per cent in June 2024. This indicates that underlying price pressures persisted at a consistent level, despite a modest change in the headline inflation rate.

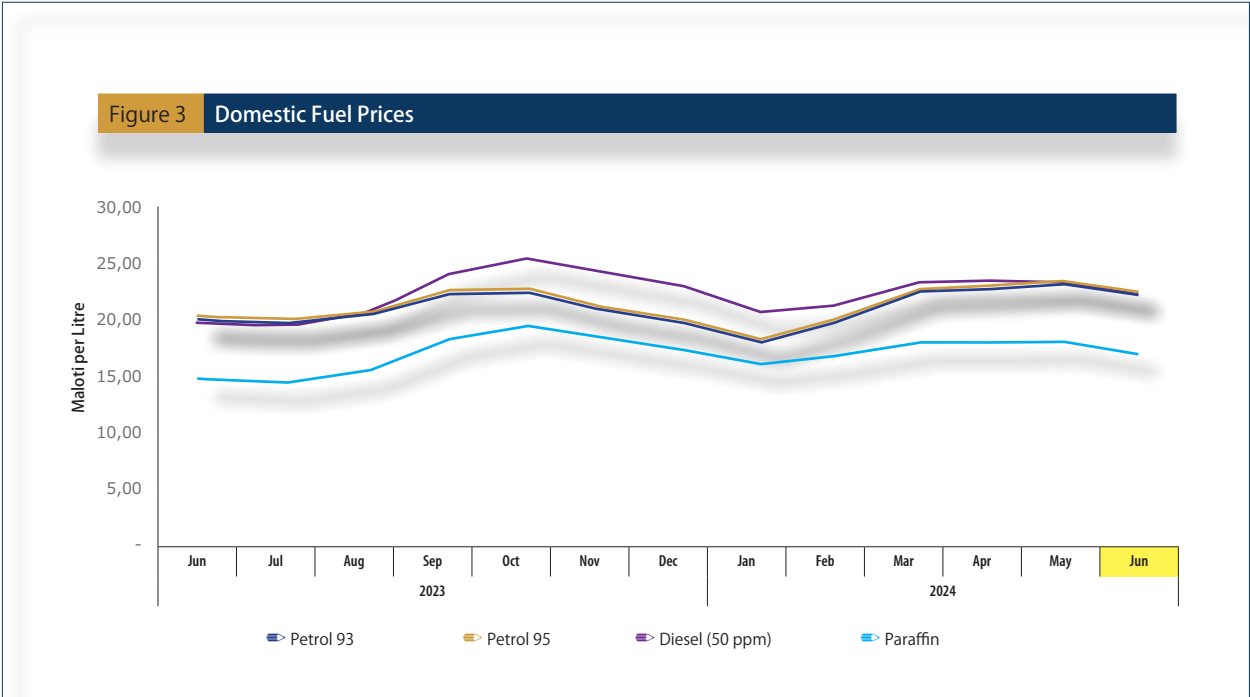


Source: Lesotho Bureau of Statistics & CBL Computation

Domestic Fuel Prices

The prices of all petroleum products decreased in the review period. Both grades of petrol (*Petrol₉₃* and *Petrol₉₅*), decreased by M 0.90 and were sold at M 22.35 per litre and M 22.80 per litre, respectively at the pump.

The pump prices of *diesel₅₀* and illuminating paraffin fell by M 0.90 and M 1.00, respectively and were sold at M22.45 per litre and M16.60 per litre in the retail market, respectively.



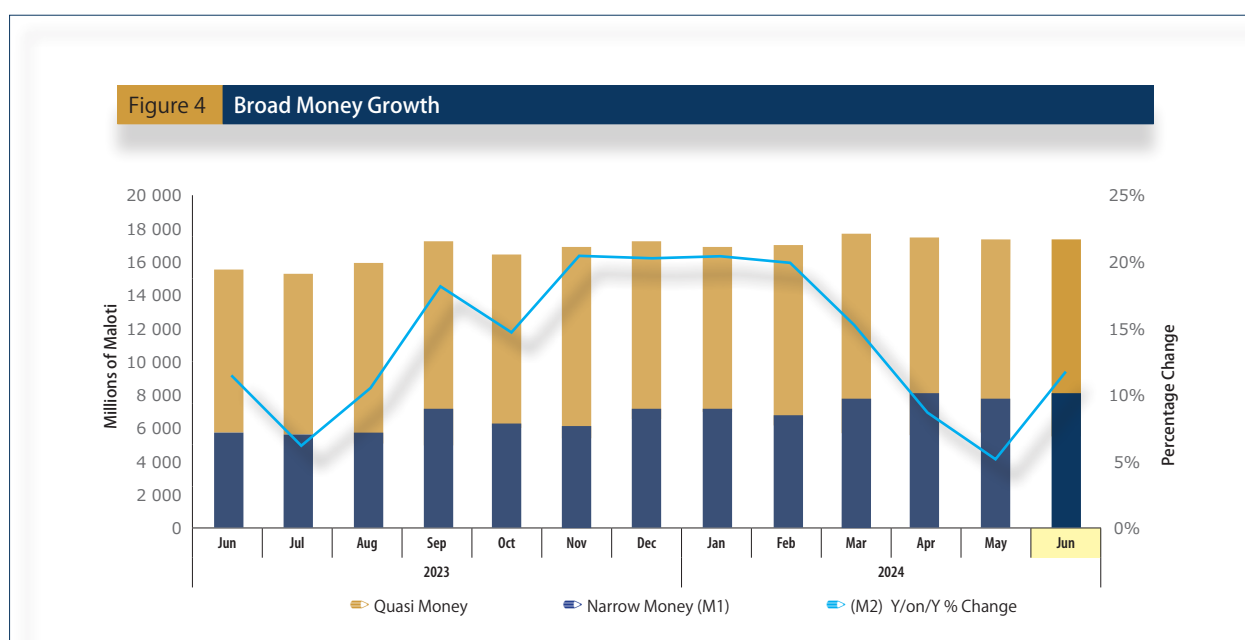
III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

The broadly defined measure of money supply (M2) grew by 0.7 per cent in June 2024. The increase in M2 was explained by the 22.1 per cent growth in net domestic claims (NDA), which more than offset a 0.7 per cent decline in net foreign assets (NFA). The growth in NDA, on the one hand, resulted from an increase in both the commercial banks and the central bank’s net claims on the central government. The fall in NFA on the other hand was a result of a drawdown in the Central Bank’s NFA. Year-on-year, M2 increased by 12.1 per cent.

Components of Money Supply

Regarding the components of money supply, the expansion was driven by narrow money (M1), whereas quasi money undermined the overall growth. M1 grew by 3.9 per cent, contrary to the 4.4 per cent decline observed in May 2024. On the flip side, quasi money declined by 2.0 per cent, in contrast to the 4.0 per cent growth observable a month earlier. The growth in M1 was explained by a rise in transferable deposits held by other financial corporations, statutory bodies, as well as the private sector. The contraction in quasi money was attributable to a fall in other deposits of the household, coupled with withdrawals by the business enterprises.



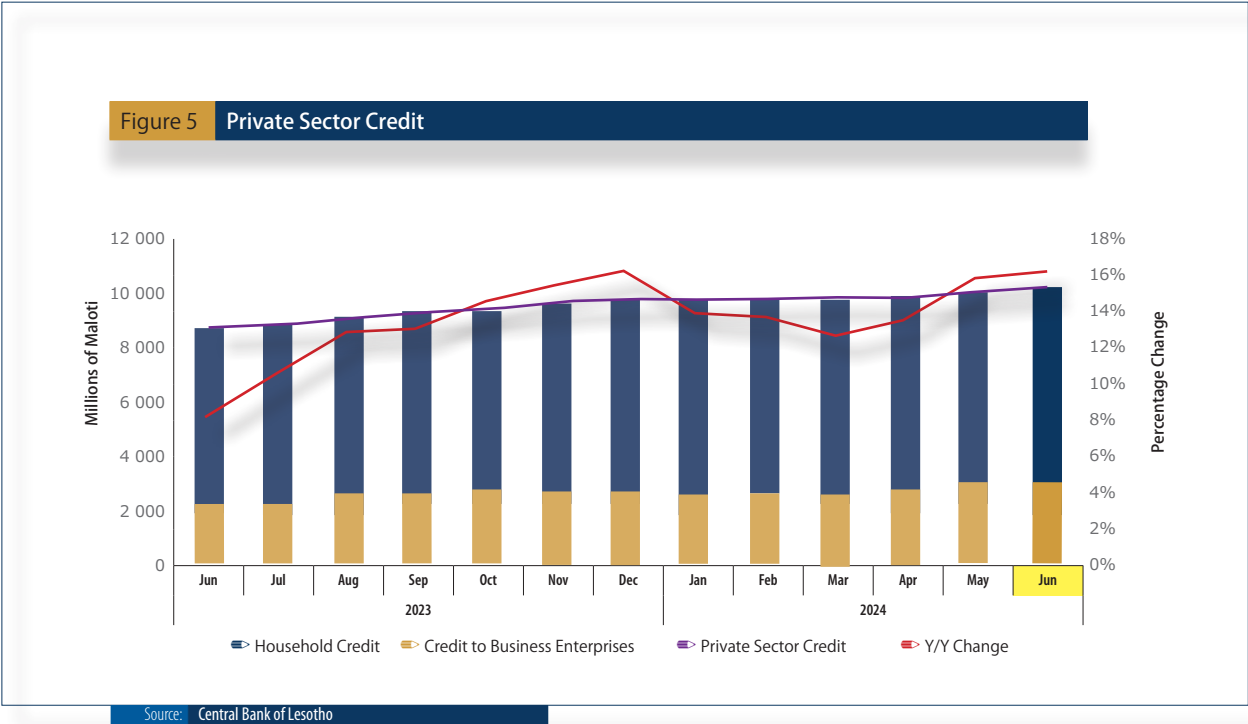
Private Sector Credit

Private sector credit continued to grow in the review period, registering 0.5 per cent, albeit slower than the 3.2 per cent growth observed in May. The growth was pro-nounced in the component extended to

households. Credit to the household sector grew by 1.7 per cent, following a 1.3 per cent growth in the preceding month. This growth was driven predominantly by the increase in personal loans, and to a lesser extent mortgage loans. However, credit to the business enterprises contracted by 2.6 per

cent, in contrast to the 8.5 per cent growth in May. The wholesale and retail trade, restaurants & hotels continued to command the highest share of credit extension, taking 25.2 per cent of the total. The real estate & business services came second at 20.4 per cent, followed by the construction subsector at 18.8

per cent. The community, social, & personal services remained the smallest recipient of credit extension to the business sector, accounting for only 0.3 per cent of the total business credit. Annually, private sector credit grew by 16.3 per cent.



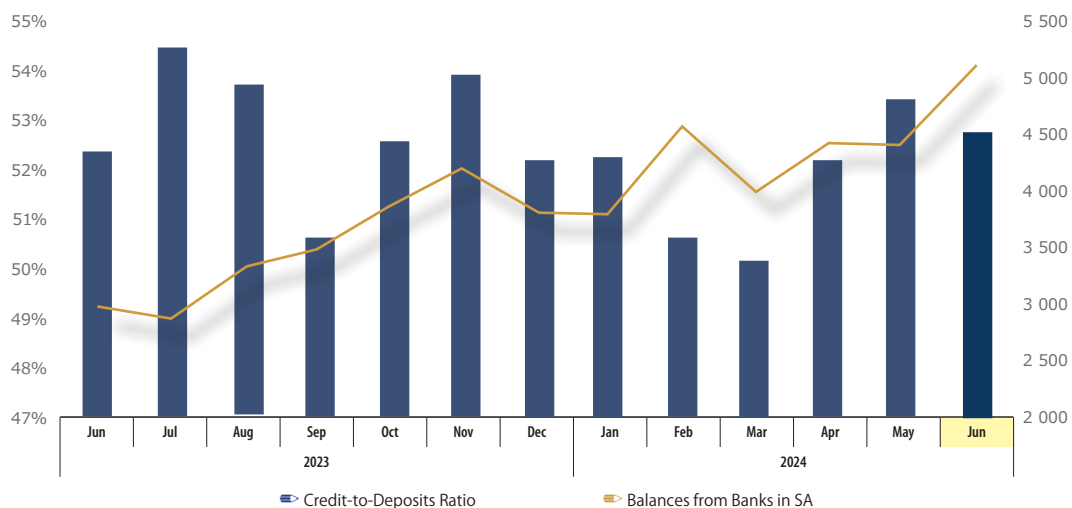
Non-Performing Loans

The ratio of non-performing loans (NPLs) to total loans decreased to 3.6 per cent in June 2024, compared to the 3.9 per cent that was observed in the prior month. The share of construction industry remained the highest followed by the wholesale & retail trade, restaurants & hotels subsector.

Sources of Funds

The credit-to-deposit ratio fell between the two months of May and June 2024. The ratio fell to 52.7 per cent in June, as compared to the 53.4 per cent that occurred in May 2024. Although commercial banks extended more credit during the review month, the rise in the deposit base counterbalanced this increase, resulting in a decline in the ratio.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The CBL rate was unchanged at 7.75 per cent between April and May 2024. Consequently, the prime lending rate and the 1-year deposit rate remained stable at 11.25 per cent and 4.74 per cent, respectively. However, the 91-day treasury bill rate increased by 34 basis points to 6.93 per cent.

Foreign Exchange

The value of the rand, hence loti, strengthened against the dollar and euro but depreciated against the pound in June 2024. The rand improved by 0.13 per cent and 0.53 per cent against the dollar and the euro respectively and weakened by 0.45 per cent against the pound in June 2024. This was in comparison to an appreciation of 2.07 per cent

against the dollar, 1.52 per cent against the euro, and 0.01 per cent against the pound in the previous month.

The rand’s positive performance was supported by the easing of load shedding in the country, which had translated into some improvements in the business environment that bolstered investor confidence. This further benefited from a smooth transition of power following a peaceful national election.

The rand, however, did shed value against the pound as inflation in the UK fell back to the Bank of England’s target of 2 per cent, which improved investor sentiment in the economy as markets were pricing in a policy rate reduction in the subsequent meetings.

IV. GOVERNMENT BUDGETARY OPERATIONS

Expenditure

Government expenditure was estimated to have decreased by 6.2 per cent during the review month. This was in contrast to the 22.0 per cent rise observed in May 2024. This decline followed payments of student grants in May, in addition to payments of social safety nets, and operating costs. Consequently, the largest portion of the budget was allocated to the general public services and economic affairs sectors.

Revenue

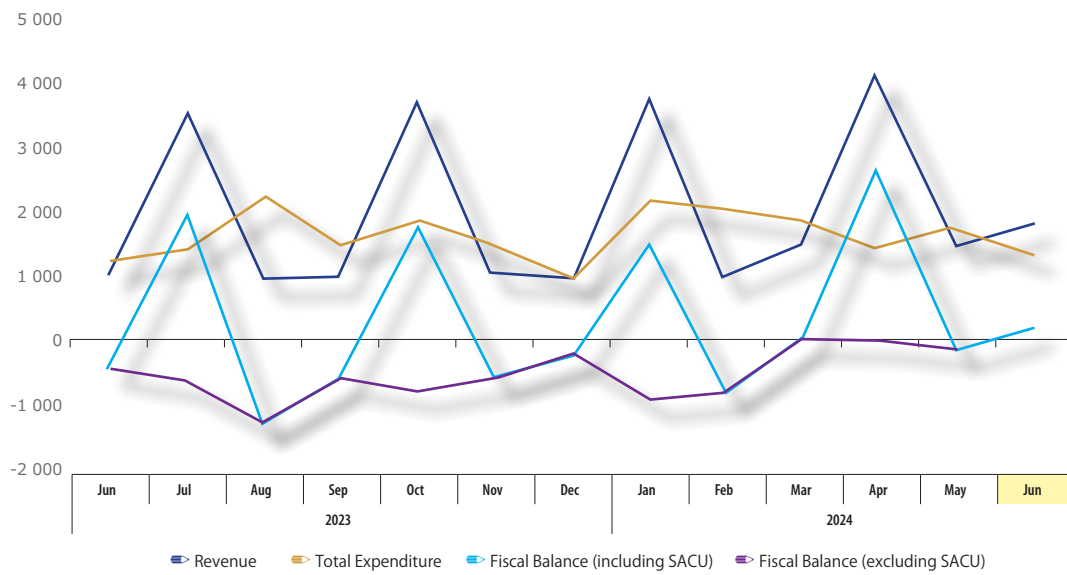
Government revenue increased by 21.6 per cent during the month, primarily driven by collection VAT and income taxes, following a 20.0 per cent rise in the previous month. Year-on-year, this was equivalent to an 80.2 per cent surge, mainly attributed receipts of relatively higher water royalties.

Fiscal Balance²

Accordingly, the fiscal balance to GDP ratio was estimated to have registered a sur-plus equivalent to 2.6 per cent, in contrast to a 1.4 per cent deficit observed in May 2024. This surplus was utilised to redeem treasury bonds and offset other government liabilities, thereby resulting in a decrease in both financial assets and 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)

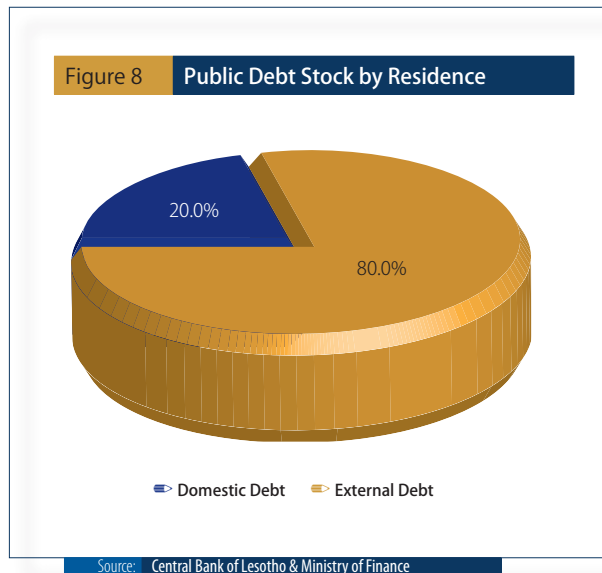
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		9.8%	16.3%	83.4%	37.2%	0.0%	68.4%	7.8%	13.7%
Defense		0.9%	1.6%	0.0%	0.0%	0.0%	0.0%	9.2%	2.0%
Public Order and Safety		17.3%	13.4%	0.0%	0.4%	0.0%	4.2%	7.5%	11.8%
Economic Affairs		7.1%	18.8%	0.0%	62.4%	0.0%	17.6%	70.5%	24.9%
Environmental Protection		0.6%	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%
Housing and Community Amenities		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Health		6.0%	40.7%	0.0%	0.0%	4.1%	0.0%	4.4%	10.1%
Recreation, Culture, and Religion		0.5%	1.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.5%
Education		26.6%	2.2%	16.6%	0.0%	0.0%	0.0%	0.5%	13.7%
Social Protection		31.1%	5.0%	0.0%	0.0%	95.9%	9.8%	0.1%	22.9%
Share per Economic Item		49.8%	15.3%	0.1%	13.1%	6.9%	0.3%	14.5%	100.0%

Source: CBL and MOF

V. PUBLIC DEBT

In June 2024, the public debt stock was estimated at 54.3 per cent of GDP, down from the revised figure of 55.0 per cent noted the prior month. This 1.2 per

cent monthly decrease was due to the redemption of treasury bonds. Nevertheless, on a yearly basis, the total debt stock grew by 5.0 per cent.



Appendix: Key Economic Indicators

		23-Nov	23-Dec	24-Jan	24-Feb	24-Mar	24-Apr	24-May	24-Jun	
Economic Activity (MIEA (% change, M/M))		-1.1	2.0	-1.4	1.5	-0.9	1.2	2.1	-2.3	
Consumer price Index (% change)	Headline Inflation (year-on-year)	6.8	7.2	8.2	7.3	7.4	7.1	6.3	6.5	
	Core Inflation	6.4	6.4	8.0	6.7	6.9	6.3	5.3	5.3	
Exchange Rates (Monthly End Period)	EUR	20.5233	20.3424	20.3817	20.7950	20.5085	20.0677	20.1045	20.1045	
	GBP	23.7452	23.6012	23.8757	24.3030	23.9695	23.4763	23.6247	23.6247	
	USD	18.7082	18.6699	18.8456	19.1910	18.8596	18.7203	18.6230	18.6230	
Money Supply (Millions of Maloti)	M2	16,767.29	17,180.65	16,726.97	16,887.51	17,636.19	17,225.56	17,223.67	17,340.59	
	M1	7,891.50	8,448.94	8,124.79	7,722.71	8,528.66	8,945.55	8,834.37	8,173.76	
	Quasi Money	8,875.78	8,731.71	8,602.18	9,164.81	9,107.53	8,280.01	8,389.31	9,166.83	
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	7.12	7.09	6.93	6.78	6.59	6.93	6.96	
	Prime lending rate	11.25	11.25	11.25	11.25	11.25	11.00	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)		9,655.44	9,736.03	9,796.71	9,838.10	9,736.88	9,864.60	10,181.74	10,233.44	
	Households	2,707.48	2,717.72	2,722.05	2,716.99	2,577.61	2,653.25	2,879.85	2,806.05	
	Non-profit Organisations	6,947.96	7,018.31	7,074.66	7,121.11	7,159.28	7,211.35	7,301.89	7,427.40	
Bank Deposit Liabilities (Millions of Maloti)		17,945.47	18,679.67	18,751.66	19,412.48	19,375.00	18,842.16	19,025.27	19,374.92	
Credit to Deposit Ratio (%)		53.9	52.1	52.2	50.6	50.1	52.2	53.4	52.7	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-303.83	38.58	1,720.53	-712.88	61.88	2,786.92	-279.63	265.95	
	Total Revenue (with SACU receipts)	993.76	931.83	3,680.35	1,079.71	1,686.95	4,093.15	1,313.87	1,760.87	
	Total Expenditure	1,297.59	893.25	1,959.82	1,792.59	1,625.07	1,306.23	1,593.51	1,494.92	
	O/W Capital	89.74	53.39	194.09	254.50	366.14	171.57	92.57	193.23	
Total Public Debt (Millions of Maloti)		23,366.52	23,117.53	23,160.34	23,650.19	23,209.40	22,977.68	23,226.31	22,405.64	
	Total External Debt	18,578.69	18,458.58	18,579.40	18,893.94	18,453.32	18,223.83	18,494.18	17,931.82	
	External Debt	Concessional	12,769.63	12,701.93	12,810.76	12,969.78	12,710.73	12,562.19	12,672.65	12,278.31
		Non-concessional	5,809.06	5,756.65	5,768.63	5,924.15	5,742.59	5,661.63	5,821.53	5,653.51
	Domestic Debt	4,787.83	4,658.95	4,580.95	4,756.25	4,756.08	4,753.86	4,732.13	4,473.82	
Memo Item: Arrears (Millions of Maloti)		22.62	26.28	20.72	50.49	161.29	0.00	207.31	131.76	

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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