



Monthly

ECONOMIC REVIEW

MARCH 2024

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY¹

Economic activity exhibited a modest decline in March 2024, driven by subdued domestic demand and contraction within the transportation and financial services sectors. However, positive momentum persisted in the manufacturing and construction sub-sectors.

Overall Performance Index

Economic activity took a dip in March 2024. The Composite Indicator of Economic Activity (CIEA) index declined by 0.3 per cent, compared to a growth of 2.0 per cent observed in the previous month. The downturn was primarily caused by weak domestic demand and reduced transport activity. This weakened domestic demand was reflected by decreased imports of durable goods, suggesting lower consumer spending, and a decline in fuel consumption pointed to reduced transportation activity. Additionally, the financial services subsector saw a slight slowdown in credit extended to private sector. However, positive momentum was maintained in the production and manufacturing sub-sectors, alongside construction activity, mitigating the overall decline.

Domestic Demand Category

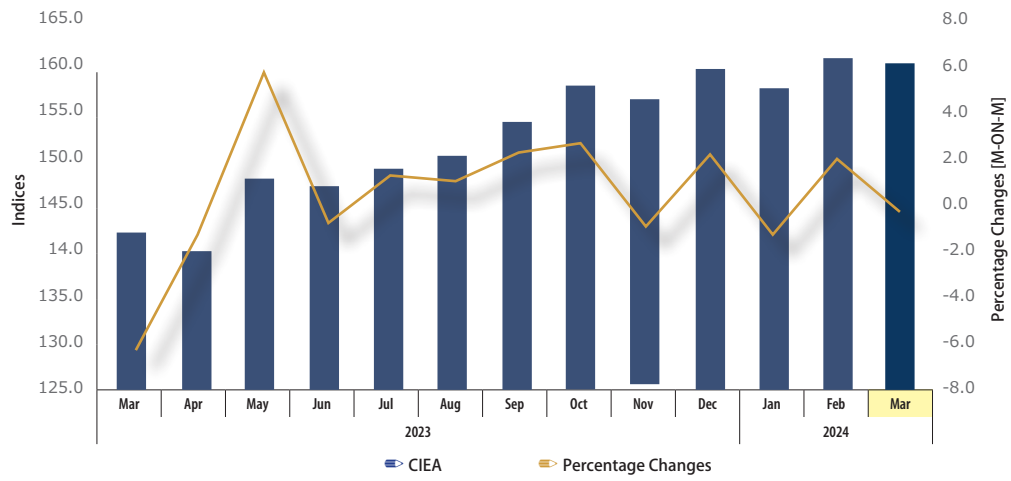
The domestic demand index fell by 0.8 per cent in March 2024. This was in contrast to the 3.8 per cent growth in the preceding month. The slump in the index was driven mainly by a decline in contributions of VAT collections, government compensation of employees and imports of goods and services from South Africa. However, there were some bright spots, particularly increased government spending on goods and services, along with a rise in Pay as You Earn (PAYE) collections, which helped to soften the overall drop.

Manufacturing and Production Category

Despite the economic slowdown, the manufacturing sector continued its positive momentum in March 2024. The manufacturing index grew by 1.2 per cent, slightly lower than the 1.3 per cent increase in February 2024. This growth was fuelled by increased textile exports, particularly to South Africa and the US. Additionally, imports of raw materials used in production and utilities (water and electricity) exhibited a muted growth, thus indicating some resilience in production during the reviewed month.

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		
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
CIEA	150.8	154.1	157.9	156.4	159.6	157.5	160.6	160.2
Monthly changes	1.0	2.2	2.5	-0.9	2.1	-1.3	2.0	-0.3
Domestic Demand Category	136.1	143.8	156.7	157.4	152.9	152.8	158.7	157.4
Monthly changes	1.4	5.7	9.0	0.4	-2.8	-0.1	3.8	-0.8
Manufacturing & Production Category	110.5	104.7	113.2	120.0	118.2	116.5	118.0	119.4
Monthly changes	-4.5	-5.2	8.1	6.0	1.5	-1.4	1.3	1.2

Source: Central Bank of Lesotho (CBL) Calculations

II. INFLATION AND PRICES

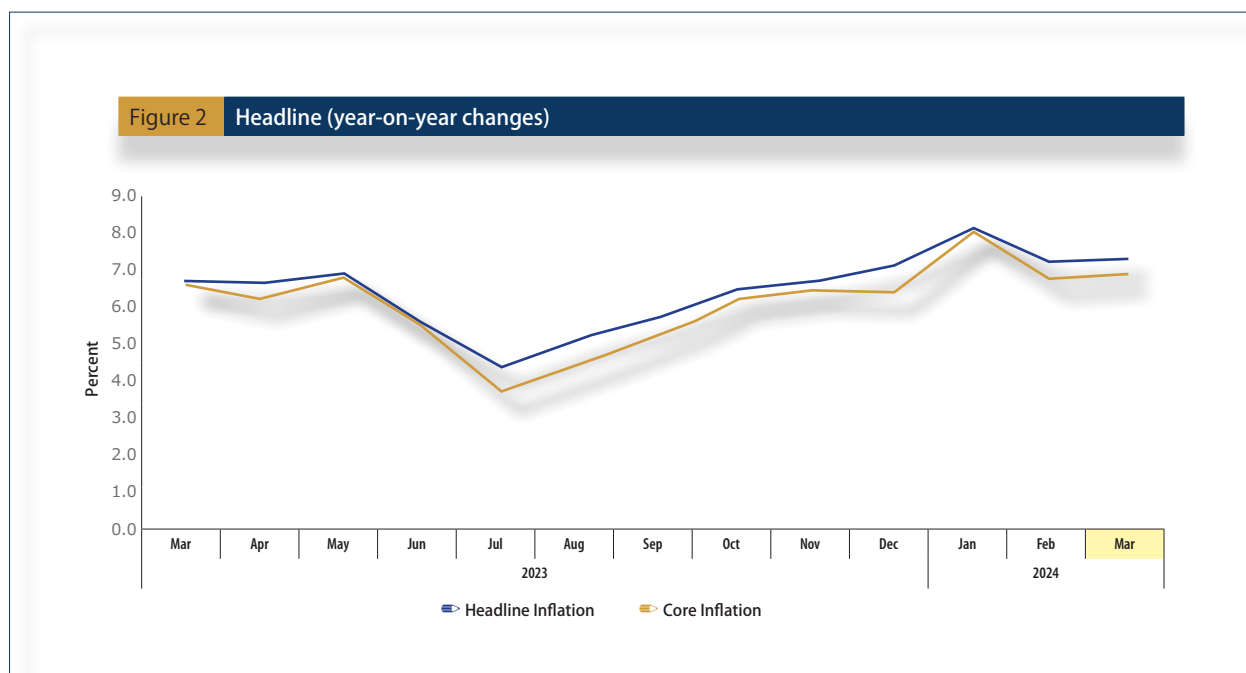
Headline Inflation

The headline inflation increased to 7.4 per cent in March 2024 from 7.3 per cent in February 2024. The major contributors to the marginal increase of 0.1 percentage points were the transport category and food & non-alcoholic beverages categories. This marginal increase was driven by heightened demand for bread and cereals and increased crude oil prices due to a weaker exchange rate. The heightened demand for bread and cereals was a market reaction to harsh drought conditions

on crops, mainly in South Africa. Crude oil prices experienced an increase of 3.5 per cent, reaching an average price of \$84.60 per barrel in March 2024 compared with an average of \$81.70 per barrel experienced in the preceding month.

Core Inflation

Core inflation, a gauge of the underlying inflationary pressures in the economy, measured as the trimmed mean, increased to 6.9 per cent in March 2024 from 6.7 per cent in February 2024.

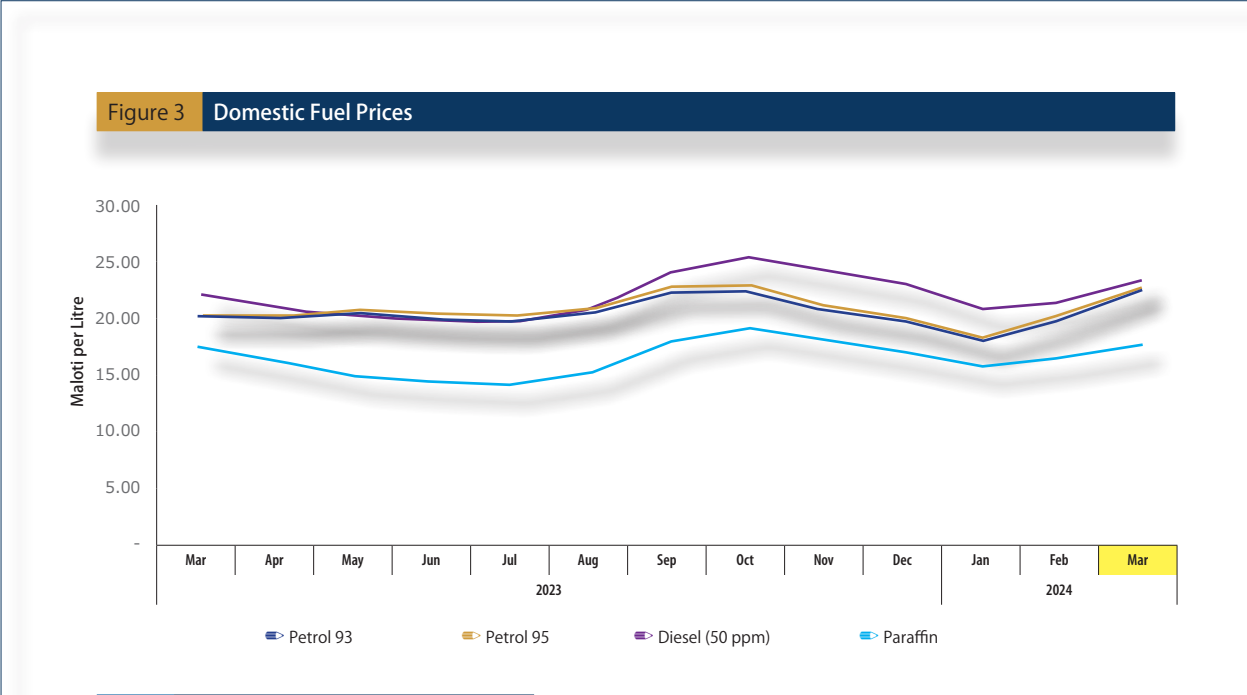


Source: Lesotho Bureau of Statistics & CBL Computation

Domestic Fuel Prices

The prices of all petroleum products edged upwards in the review period. Both grades of petrol (*Petrol₉₃* and *Petrol₉₅*), increased by M2.45 and were sold at

M22.25 per litre and M22.70 per litre, respectively at the pump. The pump price of *Diesel₅₀* also increased by M1.80 and was sold at M23.35 per litre, while the price of illuminating paraffin increased by M1.10 and was sold at M17.60 per litre in the retail market.



Source: Petroleum Fund

III. MONETARY AND FINANCIAL INDICATORS

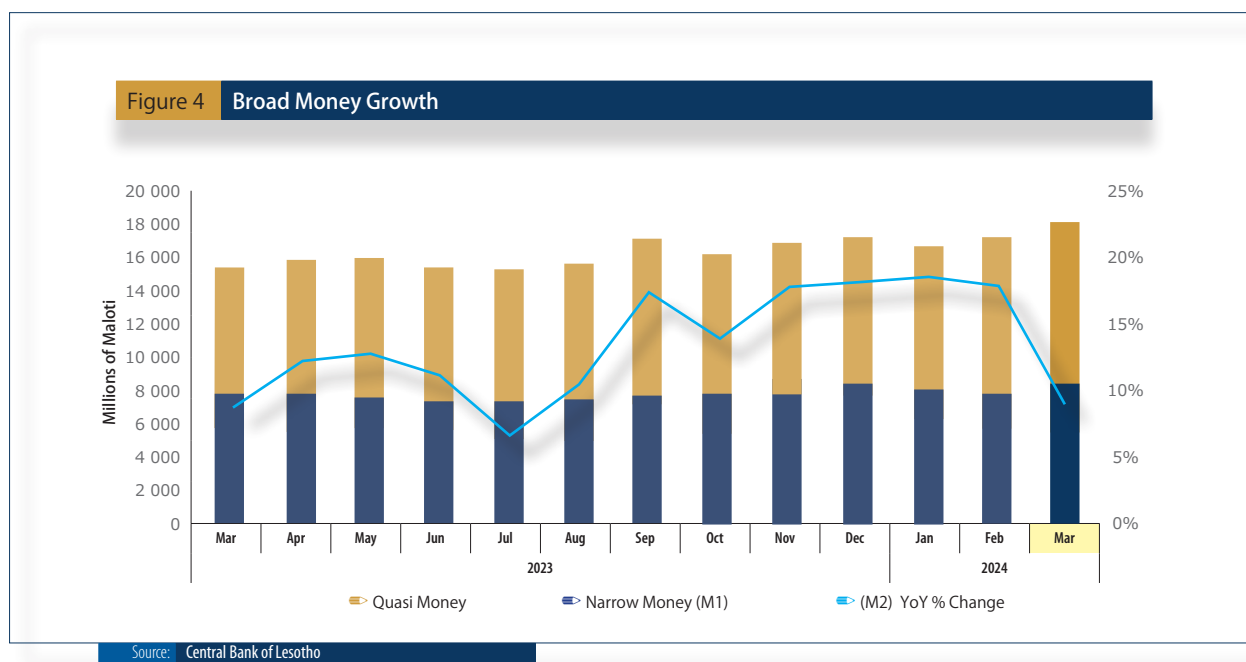
Broad Money (M2)

In March 2024, the broadly defined money supply (M2) continued to improve, increasing by 4.4 per cent after a modest 1.0 per cent growth. Net domestic claims (NDA) saw a 30.4 per cent surge, following the 10.4 per cent rise in the previous month. Meanwhile, net foreign assets (NFA) continued a downward trend, decreasing by 5.1 per cent after falling by 1.0 per cent in February. The increase in NDA, on the one hand, was driven by a reduction in government deposits with commercial banks, while the decrease in NFA, on the other hand, was primarily due to a drop in claims on non-residents held by the Central

Bank and commercial banks. Year-on-year, M2 experienced a 15.2 per cent increase.

Components of Money Supply

The components of the money supply, narrow money (M1) and quasi money, showed different trends. M1 expanded by 10.4 per cent, contrasting with a 5.0 per cent decline a month prior, while quasi money slightly contracted by 0.6 per cent, in contrast to the 6.5 per cent increase in February. The increase in M1 resulted from the rise in transferable deposits, whereas the decrease in quasi-money was attributed to the decline in call deposits held by business enterprises.

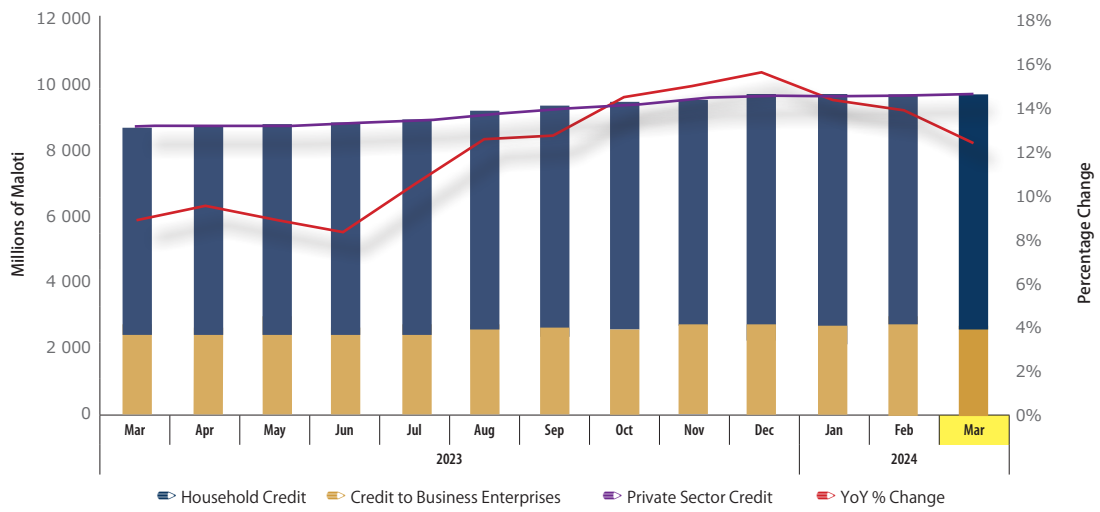


Private Sector Credit

Private sector credit saw a 1.0 per cent contraction compared with a 0.4 per cent increase. The decrease in credit extension was observed in business enterprises, while households moderated the decline. Business enterprises experienced a 5.1 per cent drop in credit, compared to a 0.2 per cent

contraction in February, and households' credit extension increased by 0.5 per cent after a 0.7 per cent growth in the prior month. Regarding credit distribution, wholesale & retail trade, restaurants & hotels continued to hold the largest share at 26.7 per cent, followed by real estate & business services at 20.0 per cent and construction at 18.5 per cent. The smallest share was allocated to community, social, &

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

personal services, accounting for 0.3 per cent of the total private sector credit. Annually, private sector credit surged by 12.5 per cent.

Non-Performing Loans

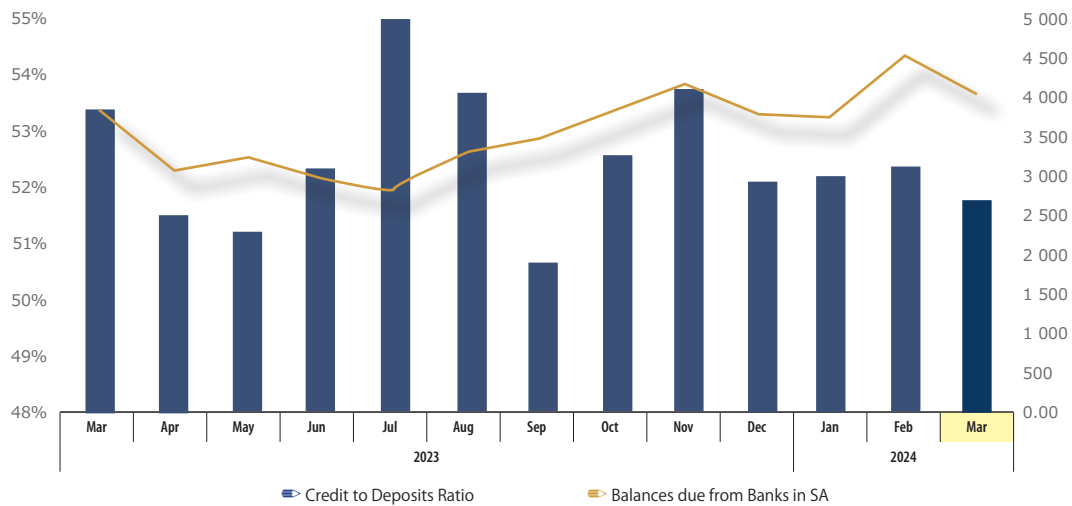
The ratio of non-performing loans (NPLs) to total loans remained muted at 3.8 per cent between February and March 2024. Among business enterprises, the wholesale & retail trade, restaurants

& hotels subsector had the highest NPLs, with the construction subsector following closely behind.

Sources of Funds

The credit-to-deposit ratio fell marginally to 50.1 per cent from 50.6 a month earlier, attributed to a decrease in credit to business enterprises, notwithstanding a fall in deposits.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The CBL rate remained at 7.75 per cent between February and March 2024. As a result, the prime lending rate and the 1-year deposit rate remained stable at 11.25 and 4.74 per cent, respectively. However, the 91-day treasury bill rate dropped by 15 basis points to 6.78 per cent.

Foreign Exchange

In March 2024, the rand, hence loti, appreciated slightly against its three major trading currencies. It appreciated by 0.33 per cent against the dollar, 0.36 per cent against the pound and 0.03 against the Euro. This was in comparison to an appreciation of 1.0 per cent, 0.4 per cent and 0.04 per cent against the dollar, the pound, and the euro, respectively.

The slight strengthening of the South African rand was explained by a modest gain in South Africa's equity market.

The rand also outperformed the US dollar despite stronger US economic growth, as investors perceived the dollar as overvalued, thus leading to a shift towards other emerging market currencies like the rand.

The rand strengthened as the pound weakened due to the UK's economic slowdown and global risks, such as Middle East tensions and possible Red Sea disruptions. The disruptions also affected the euro, which despite the positive economic performance of the Euro Area, depreciated against the rand.

Nonetheless, the rand continued to be primarily affected by the ongoing energy crisis.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

Government expenditure fell by 8.2 per cent in March 2024, following a decline of 7.0 per cent in February 2024. This decrease was mainly due to a large reduction in most expenses including employer pension contributions, use of goods and services, and subsidies to non-financial public corporations.

Total Revenue

The government's non-SACU revenue decreased by 5.1 per cent during the month under review,

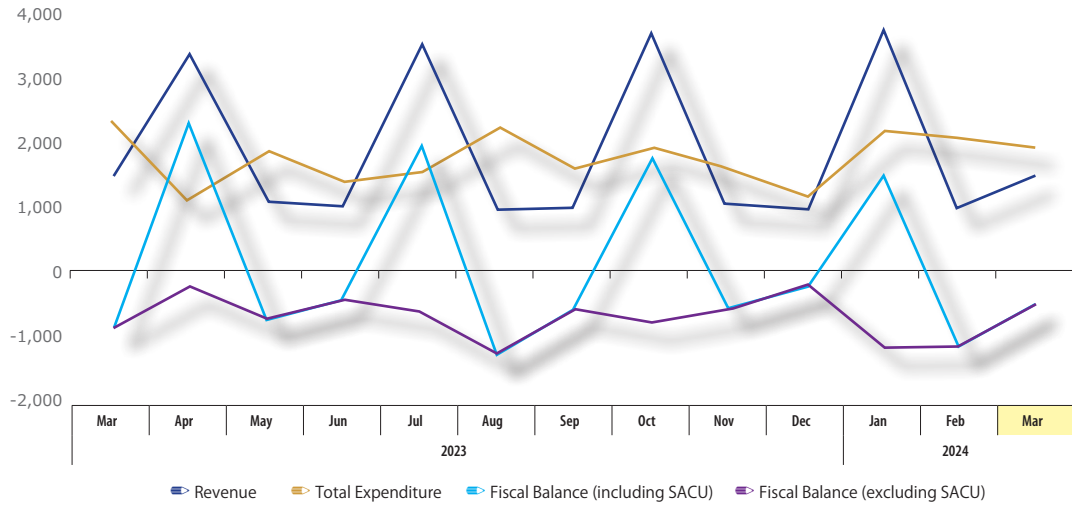
compared to a rise of 3.0 per cent in the previous month. The driving components were mainly from underperformance of income tax, VAT, and property income. On an annual basis, total revenue increased by 6.4 per cent.

Fiscal Balance and Financing²

The fiscal deficit estimated at 4.5 per cent of GDP was financed by drawing down government deposits, thereby decreasing financial assets. Likewise, government liabilities declined marginally, following the repayments of outstanding external loans.

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)

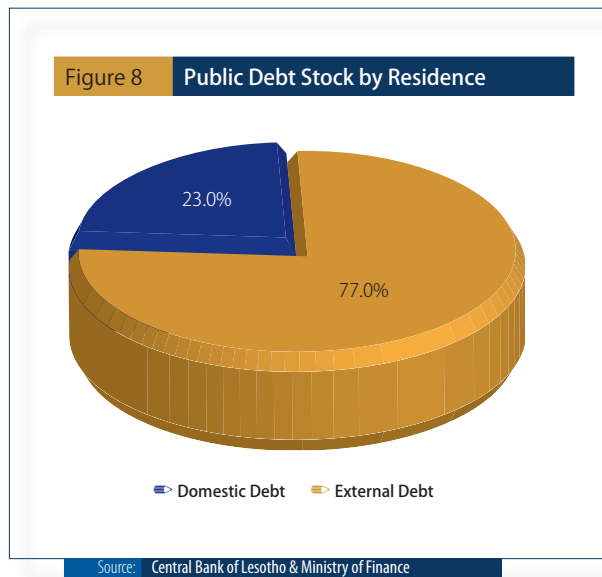
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		10.6%	12.9%	0.0%	72.3%	0.0%	44.5%	6.7%	12.4%
Defense		0.9%	0.2%	0.0%	0.0%	0.0%	0.0%	4.5%	1.4%
Public Order and Safety		25.7%	24.9%	0.0%	0.6%	0.0%	0.1%	11.1%	18.9%
Economic Affairs		7.9%	47.5%	0.0%	6.2%	0.0%	5.0%	66.4%	30.0%
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		6.1%	8.0%	96.9%	0.0%	13.3%	0.0%	2.0%	8.1%
Recreation, Culture, and Religion		0.5%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%
Education		29.6%	0.8%	3.1%	20.9%	0.0%	0.0%	9.1%	14.9%
Social Protection		18.0%	4.5%	0.0%	0.0%	86.7%	50.3%	0.3%	13.7%
Share per Economic Item		39.6%	25.3%	2.5%	4.5%	5.9%	0.3%	21.9%	100.0%

Source: CBL and MOF

V. PUBLIC DEBT

The public debt stock fell by 0.7 per cent during March 2024, relative to a rise of 0.6 per cent in the previous month, owing mainly to external debt

repayments. The debt to GDP ratio decreased marginally to 57.4 per cent of GDP during the month under review from 57.8 per cent in February 2024.



Appendix: Key Economic Indicators

		23-Sep	23-Oct	23-Nov	23-Dec	24-Jan	24-Feb	24-Mar	
Economic Activity (MIEA (% change, M/M))		2.2	2.5	-0.9	2.1	-1.3	2.0	-0.3	
Consumer price Index (% change)	Headline Inflation (year-on-year)	5.8	6.5	6.8	7.2	8.2	7.3	7.4	
	Core Inflation	5.3	6.1	6.4	6.4	8.0	6.7	6.9	
Exchange Rates (Monthly End Period)	EUR	20.28	19.83	19.18	20.34	20.50	20.51	20.5085	
	GBP	23.53	23.19	23.00	23.60	23.88	24.00	23.9695	
	USD	18.98	19.06	18.54	18.67	18.80	18.99	18.8596	
Money Supply (Millions of Maloti)	M2	17,138.36	16,364.62	16,767.29	17,180.65	16,726.97	16,887.51	17,636.19	
	M1	7,702.91	7,734.06	7,891.50	8,448.94	8,124.79	7,722.71	8,528.66	
	Quasi Money	9,435.45	8,630.56	8,875.78	8,731.71	8,602.18	9,164.81	9,107.53	
Interest Rates	CBL Rate	7.75	7.75	7.75	7.75	7.75	7.75	7.75	
	91 day Treasury bill rate	8.65	7.41	7.12	7.12	7.09	6.93	6.78	
	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)		9,408.42	9,522.85	9,655.44	9,736.03	9,796.71	9,838.10	9,736.88	
	Households	2,573.41	2,656.17	2,707.48	2,717.72	2,722.05	2,716.99	2,577.61	
	Non-profit Organisations	6,835.01	6,866.67	6,947.96	7,018.31	7,074.66	7,121.11	7,159.28	
Bank Deposit Liabilities (Millions of Maloti)		18,549.36	18,080.49	17,945.47	18,679.67	18,751.66	19,412.48	19,375.00	
Credit to Deposit Ratio (%)		50.6	52.6	53.9	52.1	52.2	50.6	50.1	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-638.07	1,767.10	-569.09	-233.83	1,228.63	-1,199.02	-426.51	
	Total Revenue (with SACU receipts)	973.20	3,645.74	993.76	931.83	3,497.00	911.03	1,509.73	
	Total Expenditure	1,611.27	1,878.64	1,562.85	1,165.66	2,268.37	2,110.04	1,936.24	
	O/W Capital	149.72	155.61	93.42	59.72	201.58	273.67	399.39	
Total Public Debt (Millions of Maloti)		24,407.21	24,413.11	24,301.30	24,387.00	24,244.15	24,392.25	24,218.98	
	Total External Debt	18,111.80	18,820.40	18,753.70	18,839.40	18,814.80	18,816.80	18,643.70	
	External Debt	Concessional	13,577.50	14,256.50	14,192.00	14,164.90	14,080.70	14,082.70	14,063.30
		Non-concessional	4,534.30	4,563.90	4,561.70	4,674.50	4,734.10	4,734.10	4,580.40
	Domestic Debt	6,295.41	5,592.71	5,547.60	5,547.60	5,547.60	5,429.35	5,575.28	
Memo Item: Arrears (Millions of Maloti)		60.07	29.07	40.18	44.61	42.62	68.40	198.26	

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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Enquiries relating to this Publication should be addressed to:

Statistics Division

Research Department, Central Bank of Lesotho

Central Bank of Lesotho

Corner Airport and Moshoeshoe Roads • Maseru Central • P. O. BOX 1184 • Maseru 100

Phone: (+266) 2231 4281 / 2223 2000 • Fax: (+266) 2231 0051 • E-mail: info@centralbank.org.ls