



Monthly

ECONOMIC REVIEW

MAY 2024

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY¹

Domestic economic activity exhibited positive growth for the second consecutive month in May 2024. This benefited from robust performances in construction and financial services. However, this growth was partially offset by a decline in domestic demand and manufacturing activity.

Overall Performance Index

Domestic economic performance was estimated to have maintained an upward trajectory in May 2024. The Composite Indicator of Economic Activity (CIEA) registered a 1.0 per cent growth, which was slightly higher than the 0.9 per cent increase observed in the previous month. This positive momentum stemmed primarily from increased construction activity, as evidenced by surging imports of construction materials. The financial services sector further bolstered growth as evidenced by increased credit extended to the private sector. However, the subdued domestic demand and sluggishness in the manufacturing and transport subsectors, exerted downward pressure on economic growth, and thereby undermining growth during the reviewed period.

Domestic Demand Category

The domestic demand index exhibited a sustained contraction for the third consecutive month during

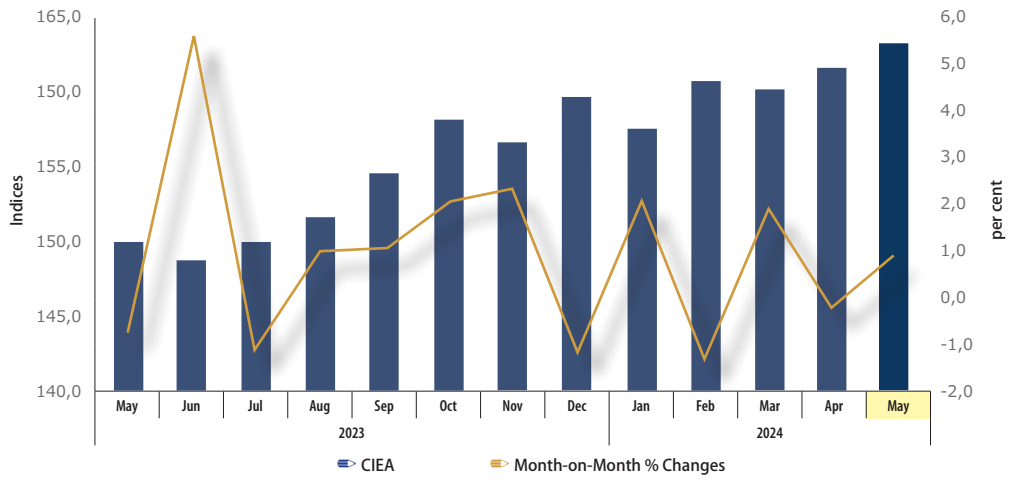
the review period, registering a decline of 0.2 per cent in May 2024. This followed a steeper contraction of 2.2 per cent in the preceding month. The primary drivers of this weakening trend were reduced import volumes from South Africa, particularly consumer goods and fuel. Additionally, a decrease in Value Added Tax (VAT) and Pay as You Earn (PAYE) collections contributed to the subdued demand. However, an uptick in government activities partially offset the overall decline.

Manufacturing and Production Category

The manufacturing and production subsector experienced a downturn, with the manufacturing index contracting by 0.2 per cent, following a strong 2.5 per cent increase observed in April, highlighting a significant shift in momentum. The downturn was primarily driven by a slowdown in raw material imports and a notable decrease in clothing and textile exports to the United States market. However, the negative impact was partially mitigated by increased exports of clothing and textiles to South Africa and high utility usage (water and electricity), providing some relief to the subsector. This mixed performance underscores the vulnerabilities and dependencies within the manufacturing industry, especially in the context of global trade dynamics and supply chain fluctuations.

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				
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
CIEA	158.2	156.7	159.7	157.3	160.7	160.2	161.7	163.2
Monthly changes	2.3	-1.1	2.0	-1.3	2.0	-0.3	0.9	1.0
Domestic Demand Category	156.7	157.3	152.9	152.8	158.7	157.3	153.8	153.4
Monthly changes	9.0	0.4	-2.8	-0.1	3.8	-0.9	-2.2	-0.2
Manufacturing & Production Category	113.2	120.0	118.2	116.5	117.9	119.4	122.4	122.1
Monthly changes	8.1	6.0	-1.5	1.5	1.3	1.2	2.5	-0.2

Source: Central Bank of Lesotho (CBL) Calculations

II. INFLATION AND PRICES

Headline Inflation

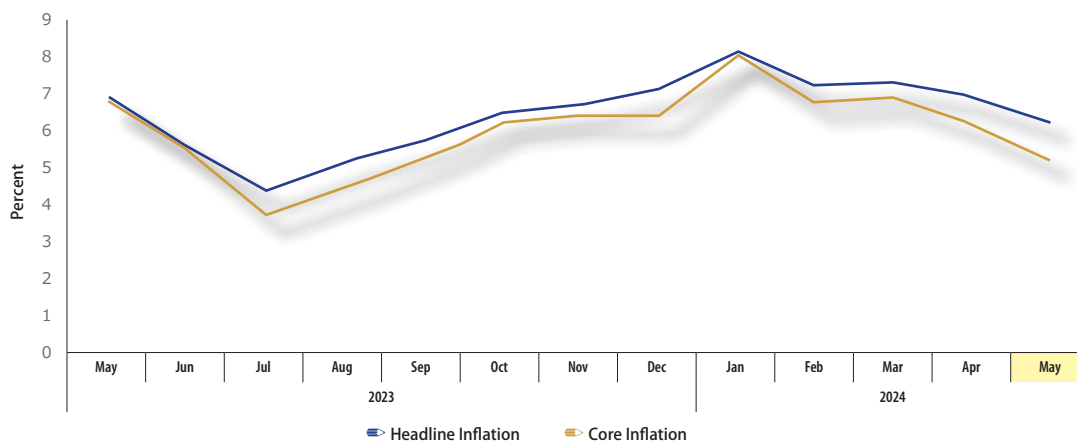
Consumer prices continue to show signs of relief as headline inflation dipped further in May 2024. The headline inflation decreased to 6.3 per cent in May 2024 from 7.1 per cent observed in April 2024. The major contributors to the disinflation of 0.8 percentage points were Food category, as well as Alcoholic beverages and tobacco category.

The downward trend was driven by fall in price of white maize and spillover effects from base effect of the alcohol and tobacco levy implemented in March 2023.

Core Inflation

Underlying inflationary pressures, as measured by core inflation, also showed signs of easing in May 2024. As measured by the trimmed mean, core inflation fell to 5.3 per cent in May from 6.3 per cent in April 2024.

Figure 2 Headline (year-on-year changes)

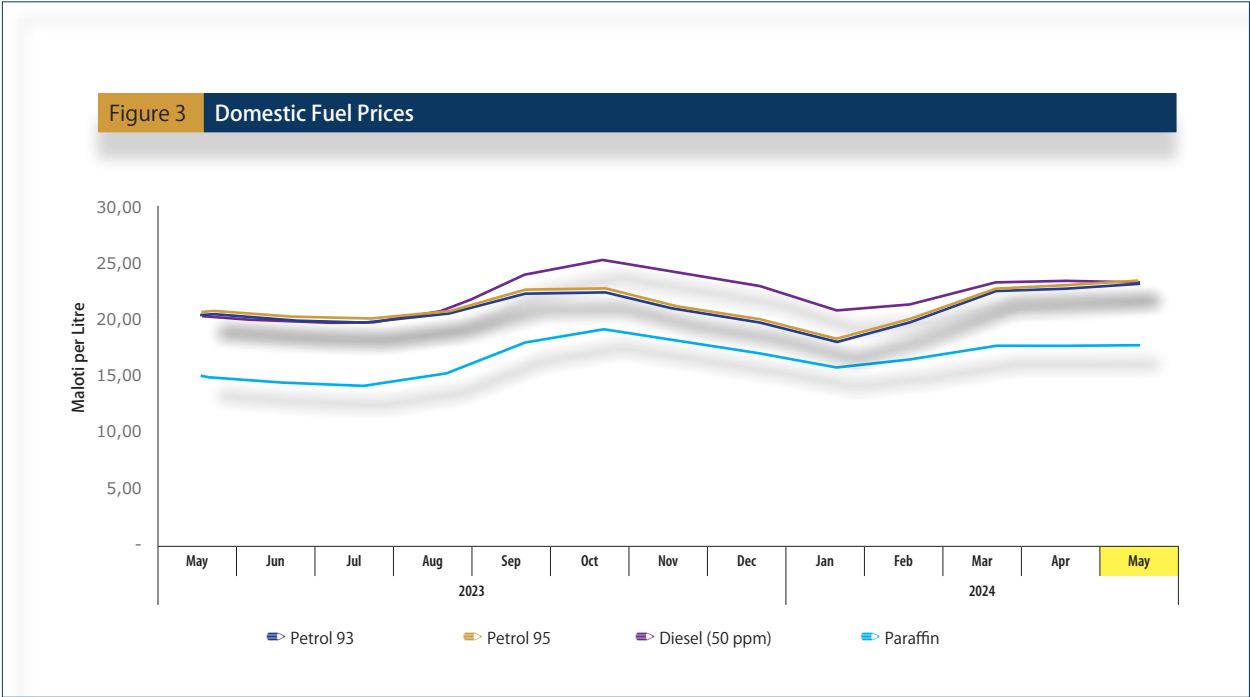


Source: Lesotho Bureau of Statistics & CBL Computation

Domestic Fuel Prices

The prices of all petroleum products edged upwards in the review period. Both grades of petrol (*Petrol₉₃* and *Petrol₉₅*), increased by M 0.55 and were sold at

M 23.25 per litre and M 23.70 per litre, respectively at the pump. The pump prices of *diesel₅₀* and illuminating paraffin remained unchanged, and were sold at M23.35 per litre and M17.60 per litre in the retail market, respectively.



Source: Petroleum Fund

III. MONETARY AND FINANCIAL INDICATORS

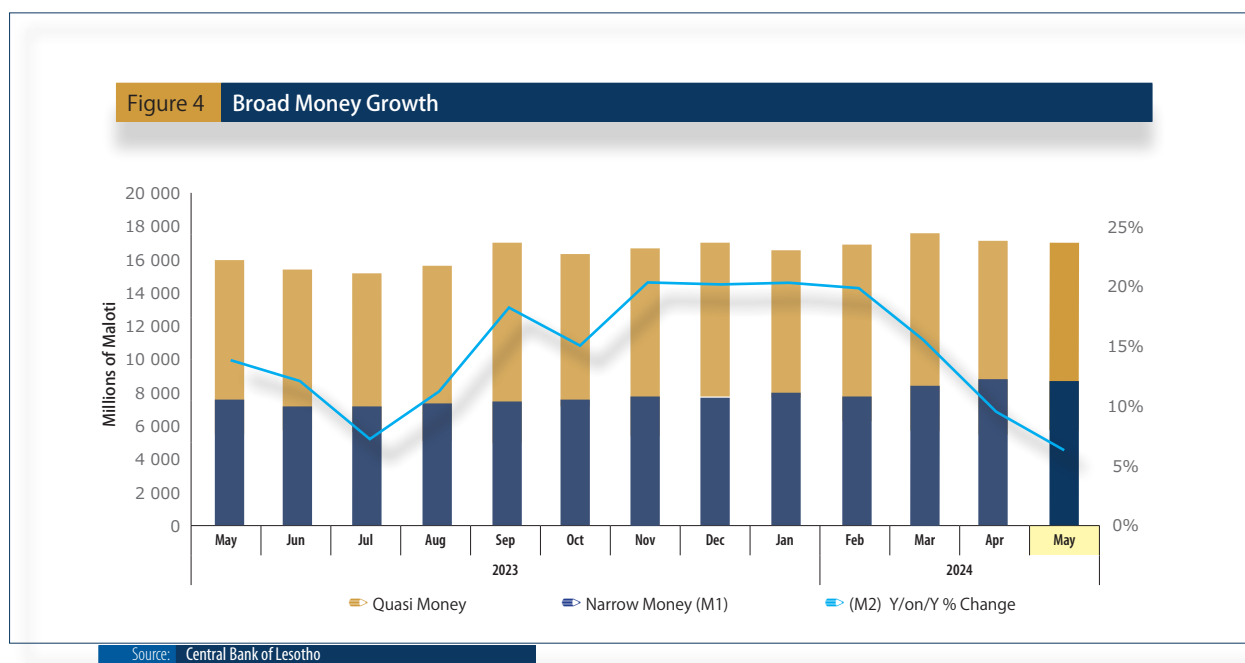
Broad Money (M2)

The broadly defined measure of money supply (M2) remained relatively muted. This followed a 2.3 per cent decline recorded in April. Year-on-year, M2 increased by 6.7 per cent.

Components of Money Supply

Regarding the two components of money supply, mixed results were observed. Narrow money (M1) declined by 1.2 per cent, in contrast to the 4.9 per

cent in April, whereas quasi money grew by 1.3 per cent, contrary to the 9.1 per cent decline in April. The decline in M1 was explained by a fall in transferable deposits held by other financial corporations. Quasi money growth was due to increases in household savings and fixed deposits held by business enterprises.

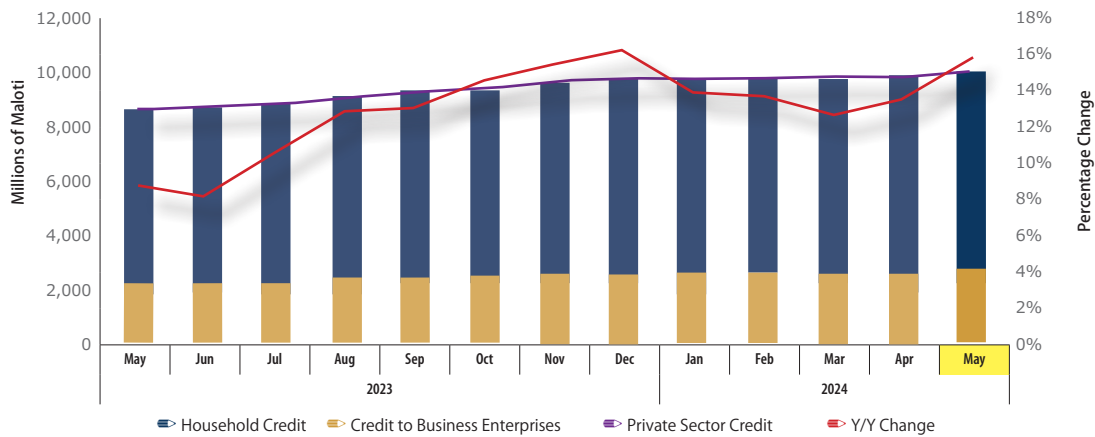


Private Sector Credit

Private sector credit expanded further in the review period, growing by 3.2 per cent following a 1.3 per cent growth a month earlier. The increase emanated from both business enterprises and households' credit. Credit to business enterprises, on the one hand, grew further by 8.5 per cent, following a 2.9 per cent growth in April. Households credit extension, on the other hand, grew by 1.3 per cent,

following a 0.7 per cent growth in the prior month. Wholesale and retail trade, restaurants & hotels continued to receive the highest share of credit extension, commanding 24.0 per cent, followed by real estate & business services at 19.7 per cent, then mining and quarrying at 19.3 per cent. The smallest share was allocated to community, social, & personal services accounting for 0.3 per cent of the total business credit. Annually, private sector credit grew by 16.0 per cent.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

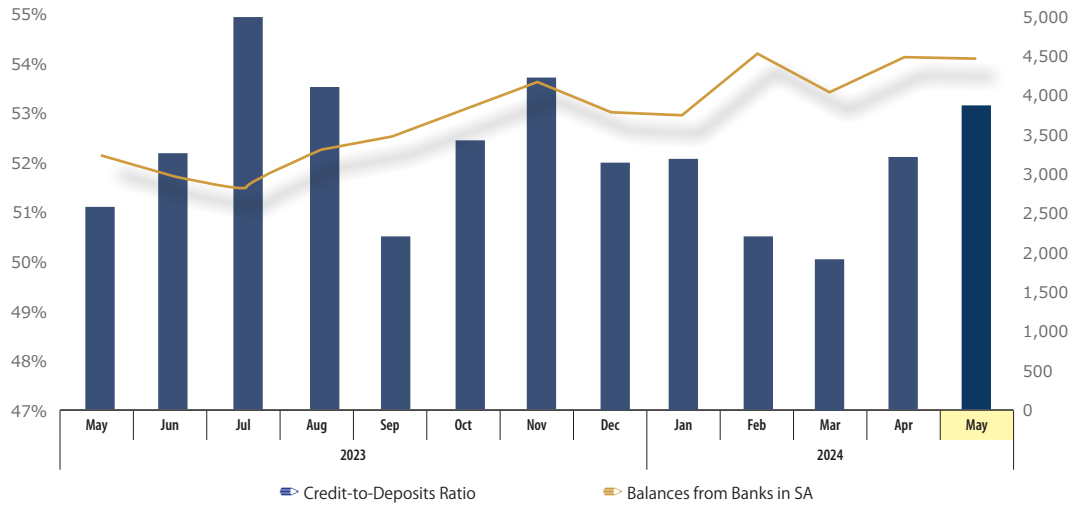
Non-Performing Loans

The ratio of non-performing loans (NPLs) to total loans decreased only marginally to 3.9 from 4.0 per cent in April. The construction industry, for the first time, had the greatest share of NPLs to the total, sitting at 37.2 per cent, followed by the wholesale & retail trade, restaurants & hotels subsector at 33.3 per cent, having fallen from 39.0 per cent in April.

Sources of Funds

The credit-to-deposit ratio continued to improve, settling at 53.4 per cent in May 2024, as compared to the 52.2 per cent in April. The growth was attributed to an increase in credit to both the households and business enterprises. Despite an increase in commercial banks' deposit base, it was not enough to outweigh the growth in credit extension.

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 rand, hence, loti, appreciated by 2.1 per cent against the dollar in May. Against the Euro, it appreciated by 1.5 per cent, while it appreciated by 1.3 per cent against the British pound.

The rand's strong performance was buoyed S&P's affirmation of South Africa's stable credit rating, coupled with smooth transition of power post formation of new government, enhancing investor confidence.

Globally, the US Dollar faced depreciation due to overvaluation and expected rate cuts, while the pound was pressured by potential dovish shifts in Bank of England policies. Soaring natural gas prices placed European companies and consumers at a competitive disadvantage, pushing the euro below dollar parity over the summer.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure

Government expenditure rose by 3.3 per cent in May 2024, in contrast to the 20.6 per cent reduction recorded in the previous month. The spending went towards procurement of drugs and payment of student grants. As a result, the largest portion of the budget was allocated to the economic affairs and general public services sectors.

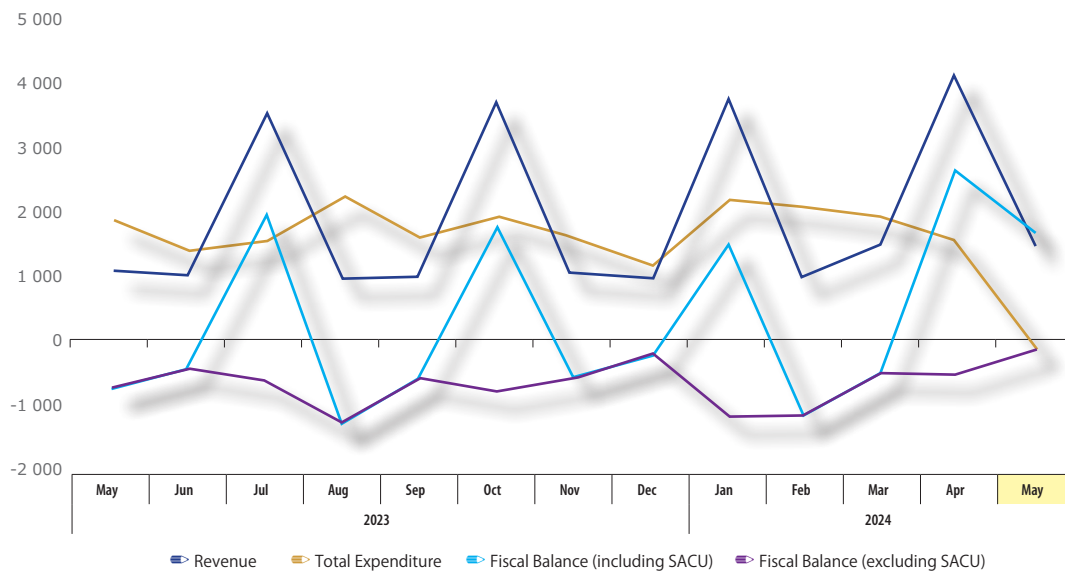
Total Revenue

Government domestic revenue rose by 20.1 per cent during the month, largely due to dividends and water royalties. This comes after a 40.0 per cent decline in total non-SACU revenue in the previous month. On a year-on-year basis, total revenue experienced a 39.7 per cent increase.

Fiscal Balance and Financing²

As a consequence of relatively higher government spending during the month, the ratio of the fiscal balance to GDP resulted in a deficit equivalent to 1.7 per cent.

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)

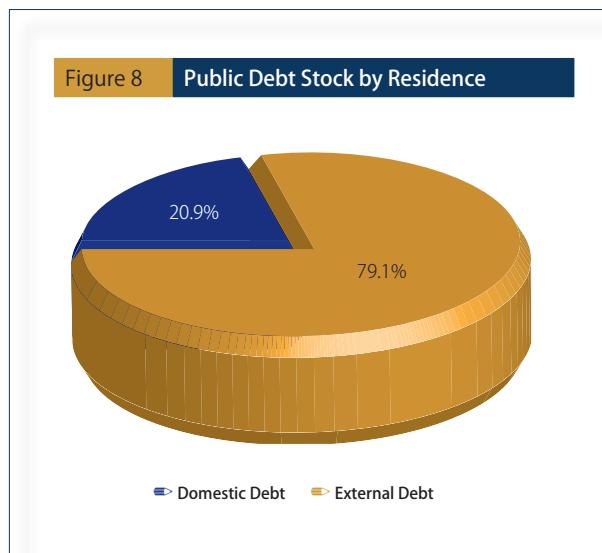
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		11.8%	25.3%	0.0%	57.4%	0.0%	99.8%	39.6%	33.0%
Defense		1.0%	1.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.6%
Public Order and Safety		22.8%	14.2%	0.0%	5.4%	0.0%	0.2%	4.7%	12.8%
Economic Affairs		8.2%	23.0%	0.0%	16.7%	0.0%	0.0%	55.4%	11.8%
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		6.6%	32.2%	0.0%	0.0%	7.9%	0.0%	0.2%	9.1%
Recreation, Culture, and Religion		0.5%	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%
Education		29.1%	0.8%	100.0%	20.5%	0.0%	0.0%	0.0%	14.8%
Social Protection		19.3%	2.8%	0.0%	0.0%	92.1%	0.0%	0.0%	17.2%
Share per Economic Item		42.7%	17.1%	0.9%	6.7%	9.3%	17.5%	5.9%	100.0%

Source: CBL and MOF

V. PUBLIC DEBT

In May 2024, the public debt stock was estimated at 52.4 per cent of GDP, a reduction from the revised 53.0 per cent recorded in the previous month. This monthly decline of 1.2 per cent was attributed to

the amortisation of external loans. However, on a year-on-year basis, the total debt stock increased by 11.4 per cent.



Source: Central Bank of Lesotho & Ministry of Finance

Appendix: Key Economic Indicators

		23-Nov	23-Dec	24-Jan	24-Feb	24-Mar	24-Apr	24-May	
Economic Activity (MIEA (% change, M/M))		-0.9	2.1	-1.3	2.0	-0.3	0.9	0.1	
Consumer price Index (% change)	Headline Inflation (year-on-year)	6.8	7.2	8.2	7.3	7.4	7.1	6.3	
	Core Inflation	6.4	6.4	8.0	6.7	6.9	6.3	5.3	
Exchange Rates (Monthly End Period)	EUR	19.18	20.34	20.50	20.51	20.5085	20.0677	20.1045	
	GBP	23.00	23.60	23.88	24.00	23.9695	23.4763	23.6247	
	USD	18.54	18.67	18.80	18.99	18.8596	18.7203	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	
	M1	7,891.50	8,448.94	8,124.79	7,722.71	8,528.66	8,945.55	8,834.37	
	Quasi Money	8,875.78	8,731.71	8,602.18	9,164.81	9,107.53	8,280.01	8,389.31	
Interest Rates	CBL Rate	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	
	Prime lending rate	11.25	11.25	11.25	11.25	11.25	11.00	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)		9,655.44	9,736.03	9,796.71	9,838.10	9,736.88	9,864.60	10,181.74	
	Households	2,707.48	2,717.72	2,722.05	2,716.99	2,577.61	2,653.25	2,879.85	
	Non-profit Organisations	6,947.96	7,018.31	7,074.66	7,121.11	7,159.28	7,211.35	7,301.89	
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	
Credit to Deposit Ratio (%)		53.9	52.1	52.2	50.6	50.1	52.2	53.4	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-569.09	-233.83	1,413.54	-1,051.22	-307.84	2,509.32	-186.98	
	Total Revenue (with SACU receipts)	993.76	931.83	3,680.35	1,079.71	1,686.95	4,093.15	1,448.46	
	Total Expenditure	1,562.85	1,165.66	2,266.81	2,130.92	1,994.78	1,583.83	1,635.44	
	O/W Capital	93.42	59.72	201.58	273.67	399.39	190.27	92.71	
Total Public Debt (Millions of Maloti)		20,698.97	20,831.76	22,210.88	22,724.39	22,529.86	22,665.74	22,404.60	
	Total External Debt	15,911.14	16,172.80	17,680.91	18,019.26	17,824.90	17,963.01	17,723.24	
	External Debt	Concessional	10,083.23	10,207.22	11,514.42	11,651.09	11,574.00	11,734.83	11,472.00
		Non-concessional	5,827.91	5,965.58	6,166.50	6,368.17	6,250.90	6,228.18	6,251.25
	Domestic Debt	4,787.83	4,658.95	4,529.97	4,705.13	4,704.96	4,702.73	4,681.36	
Memo Item: Arrears (Millions of Maloti)		40.18	44.61	42.62	68.40	198.26	0.00	207.31	

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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