



Monthly ECONOMIC REVIEW

SEPTEMBER 2022

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY

Economic performance improved in September 2022, after being under pressure in the past three consecutive months. This benefited from domestic demand, despite sluggish performance of the production side.

Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) exhibited some improvement in economic performance. The index grew by 2.2 per cent, in contrast to the 0.9 per cent contraction recorded in the preceding month. Growth was supported by domestic demand, while the supply side remained under pressure, especially the clothing and textiles manufacturing industry.

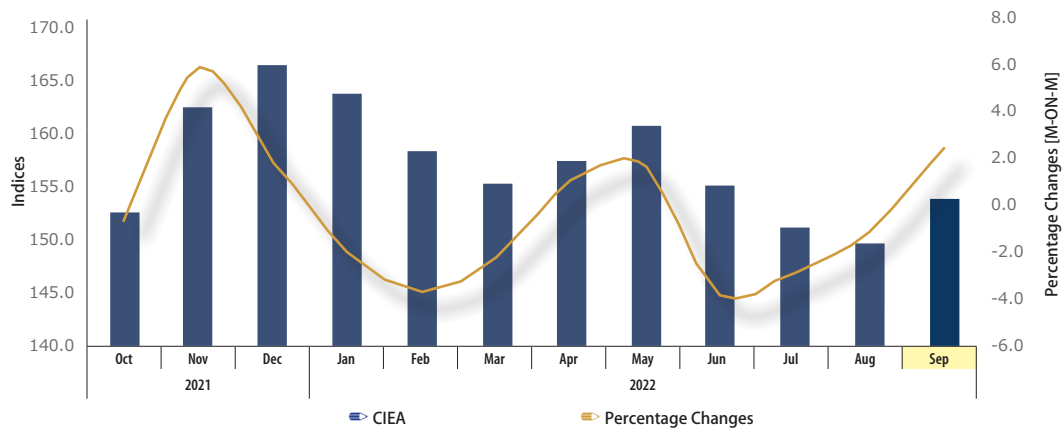
Domestic Demand Category

Demand continued to grow, building on the gains from the previous month. The index for domestic demand grew further by 4.3 per cent, following a 2.0 per cent growth recorded in the preceding period. Growth was supported by, amongst others, consumption as reflected by increased demand for imported goods and services, even though government spending remained rather muted.

Manufacturing and Production Category

Manufacturing activity continued to be under pressure, with the index declining by 3.5 per cent, in contrast to the 2.8 per cent contraction in the previous month. The poor performance emanated mainly from the clothing and textiles exports, as well as the drop in use of utilities in production. However, imports of raw materials remained resolute.

Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2022							
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
CIEA	158.6	155.6	157.5	161.0	155.3	151.3	150.0	154.2
Monthly changes	-3.4	-1.9	1.4	2.1	-3.5	-2.6	-0.9	2.8
Domestic Demand Category	146.5	145.3	148.5	162.6	151.7	142.6	145.5	151.7
Monthly changes	-9.4	-0.8	2.2	9.4	-6.7	-6.0	2.0	4.3
Manufacturing & Production Category	127.5	121.4	119.3	115.2	116.8	110.0	106.6	105.1
Monthly changes	-2.9	-4.8	-1.7	-3.4	1.4	-5.8	-2.8	-1.7

Source: Central Bank of Lesotho (CBL) Calculations

II. INFLATION AND PRICES

Headline Inflation

The overall consumer price index (CPI) rose by 9.2 per cent in September 2022 compared with 9.4 per cent in the preceding month. The main contributors to the deceleration in CPI were *Housing, Water, Electricity, Gas and Other Fuels and Clothing and footwear*. Nonetheless, *Transport, Alcohol and tobacco* and *Furnishings, Household Equipment and Routine Maintenance of the Household* moderated the decline in inflation rate during the review period.

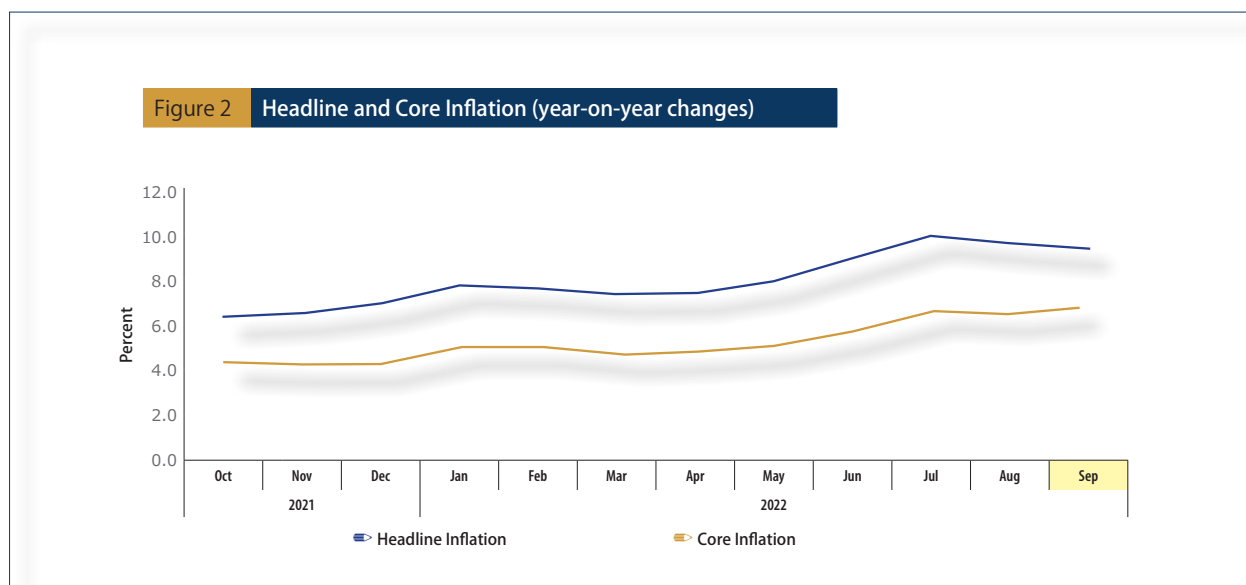
The major determinants of the deceleration in consumer price index during the review period was the ongoing fuel subsidy introduced by the Government of Lesotho in July 2022. This further

profited from the erosion of the base effect for the clothing and footwear inflation. During global lockdowns prices for clothes became more expensive as supply-side bottlenecks throttled the distribution.

Nonetheless, the price of diesel was raised during the review period which countered the fall in overall inflation. This is despite the rand- U.S dollar exchange rate depreciation during the review period.

Core Inflation

Core inflation increased to 6.7 per cent in September 2022 from 6.4 per cent recorded in the preceding month.

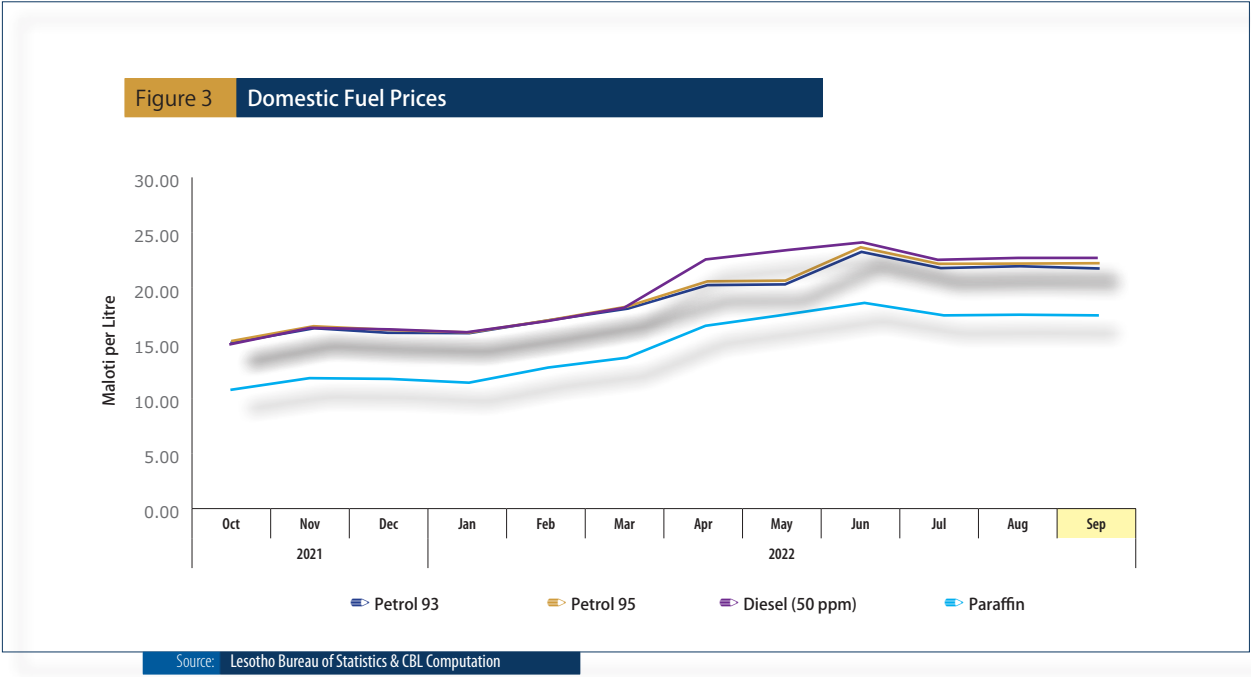


Source: Lesotho Bureau of Statistics & CBL Computation

Domestic Fuel Prices

Most domestic fuel prices remained unchanged in September 2022 from their levels recorded in the preceding month as the Government of Lesotho continued roll out the fuel subsidy. However, the price of diesel increased during review period. At

the pump, the prices of both grades of petrol were M22.20 and M22.65 per litre each. The price of *diesel₅₀*, however, was increased by M0.05 per litre and was M23.20 per litre at the pump. The price of illuminating paraffin remained unchanged at M17.80 per litre in the retail market during the review period.



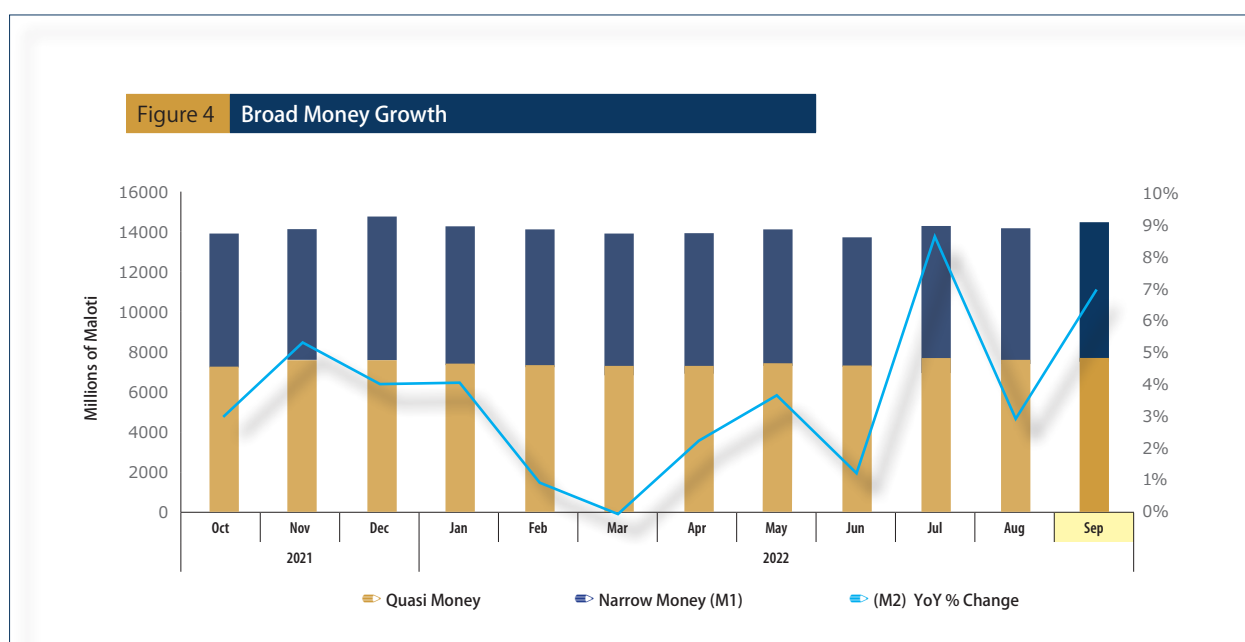
III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

The broadly defined money supply (M2) rose by 2.3 per cent in September, in contrast to a decline of 0.9 per cent in August 2022. This emanated from an increase of 13.8 per cent in net domestic assets (NDA), while net foreign assets (NFA) remained relatively unchanged. NDA benefitted from a rise in commercial banks’ claims on central government, coupled with an increase in private sector credit.

Components of Money Supply

Narrow money (M1) and quasi money increased by 3.3 per cent and 1.5 per cent, respectively. M1 rose due to an increase in transferable deposits held by business enterprises and households. Growth in quasi money emanated from an increase in savings and fixed-time deposits held by households and business enterprises.

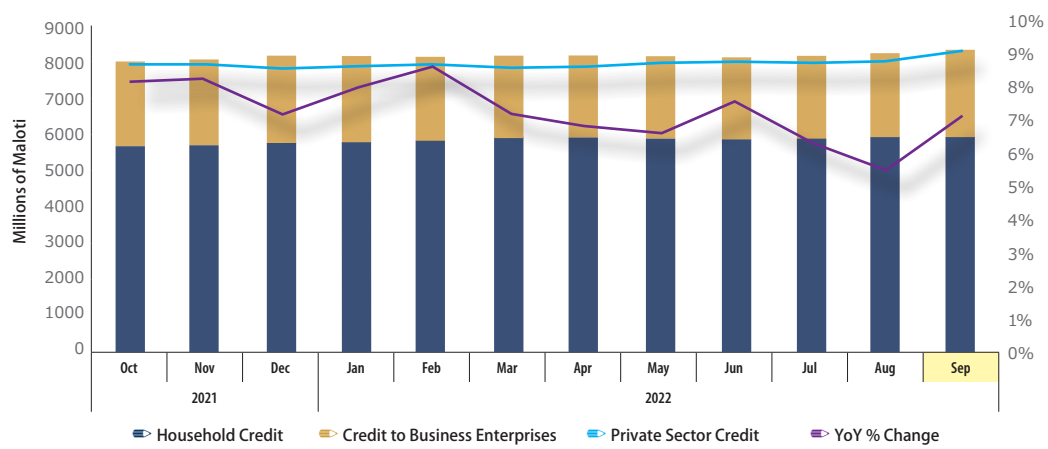


Private Sector Credit

The total loans and advances extended to the private sector rose by 4.3 per cent in September 2022, following a marginal increase of 0.6 per cent in the preceding month. This was due to an increase of 5.5 per cent and 1.0 per cent in loans to households and business enterprises, respectively. The hike in household credit was attributed to an increase of 8.4 per cent in personal loans, notwithstanding a 2.8 per cent drop in mortgage loans.

Considering the allocation of credit to business enterprises, the real estate & business services, retail, hotel & restaurant, as well as, mining & quarrying, received the largest shares of 25.0 per cent, 24.6 per cent and 20.0 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 7.3 per cent, whereas, in real terms, it declined by 1.9 per cent in September 2022.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

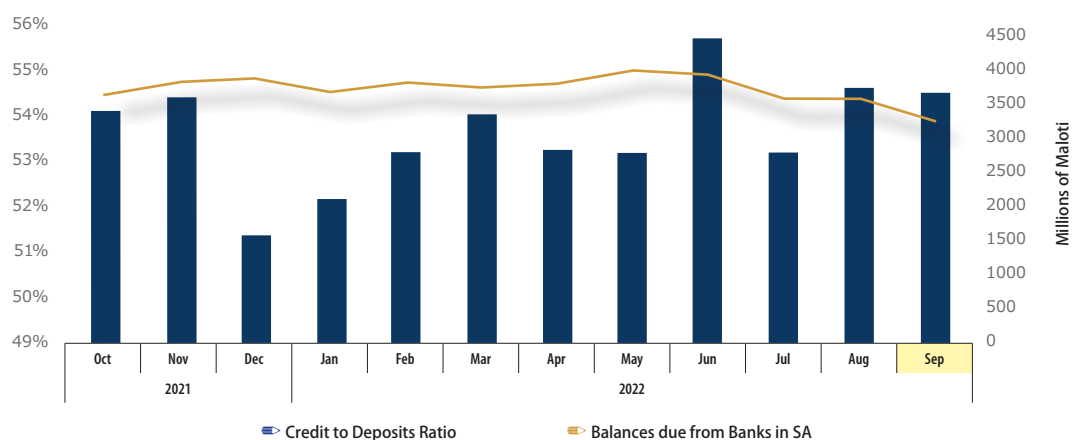
Non-Performing Loans

The total non-performing loans (NPLs) as a ratio of total loans improved from 4.9 per cent in August to 4.4 per cent in September 2022. The business NPLs fell by 1.0 percentage points to 5.2 per cent, whereas the household sector NPLs declined by 0.4 percentage points to 4.0 per cent. The household NPLs was supported by a fall in both the mortgage and personal loans NPLs. The largest shares of business sector NPLs were towards construction, real estate & business services and retail trade, restaurants & hotels.

Sources of Funds

The credit to deposit ratio remained unchanged at 54.5 per cent between August and September 2022, as the growth in private sector was offset by an increase in total deposits.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The CBL policy rate rose by 75 basis points from 5.50 per cent in August to 6.25 per cent in September 2022. The average prime lending rate and 1-year deposit rate also rose by 75 basis points and stood at 9.75 per cent and 4.24 per cent, respectively. The 91-day T-bill rate rose by 72 basis points from 5.62 per cent in August, to 6.34 per cent in September 2022.

Foreign Exchange

The value of the rand was weaker against the US dollar and euro, while it strengthened marginally against the British pound in September 2022, compared to a month earlier. It depreciated by 5.16 per cent and 2.71 per cent against the US dollar and euro respectively, while it appreciated by 0.74 per cent against the British pound.

The value of the Rand depreciated on account of the stronger dollar and euro, which were supported by interest rate hikes and hawkish communication by the Federal Reserve and European Central Bank, in response to the mounting inflationary pressures.

The slight appreciation of the rand against the pound followed the depreciation of the pound after the Bank of England raised its policy rate by 50 basis points, lower than a widely expected hike of 75 basis points. This was coupled with lower than expected GDP figures adding more pressure on the pound.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure¹

Total government expenditure was estimated to have decreased by 6.4 per cent in September 2022, following a massive decline of 23.8 per cent in August 2022. Drugs, grants to extra budgetary operations and old age pension contributed to the fall. In terms of expenditure by function, the share of capital outlays to total outlays remained muted at 4.9 per cent. This was due to an increase in the share of economic affairs and general public services sectors, moderated by the fall in the housing sector.

Total Revenue

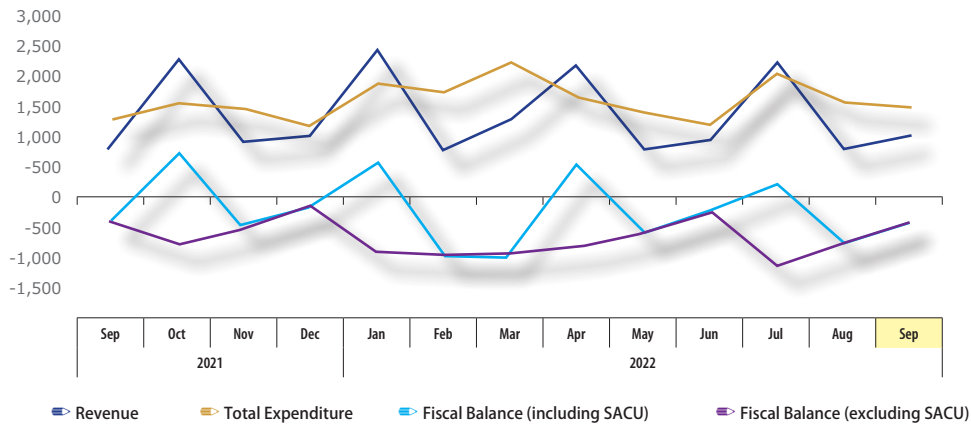
The Government revenue, excluding SACU receipts, increased by 29.7 per cent in the review month, from an 11.3 per cent drop recorded in the prior month. This was a result of an improvement in tax revenue, specifically personal income tax, company taxes, withholding tax and value added taxes.

Fiscal Balance and Financing

The fiscal deficit that was recorded during the quarter under review was a reflection of a fall in financial assets and an increase in liabilities. The reduction in domestic financial assets was primarily caused by a reduction in Government deposits. Treasury bills issuance resulted in a rise in liabilities.

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

Figure 7 Government Fiscal Balance (Million Maloti)



Source: Central Bank of Lesotho & Ministry of Finance

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

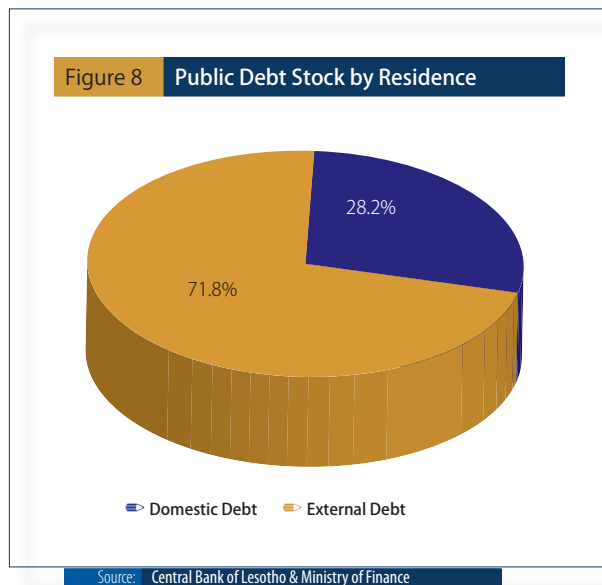
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		21.2%	30.5%	0.0%	90.8%	0.0%	3.9%	25.6%	25.3%
Defense		5.8%	6.3%	0.0%	0.0%	0.0%	0.0%	0.1%	4.4%
Public Order and Safety		17.7%	5.9%	0.0%	0.3%	0.0%	0.1%	8.8%	11.6%
Economic Affairs		6.7%	25.6%	0.0%	0.0%	0.0%	95.9%	57.6%	22.0%
Environmental Protection		0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
Housing and Community Amenities		0.6%	0.5%	0.0%	8.9%	0.0%	0.0%	4.0%	1.2%
Health		6.3%	24.5%	100.0%	0.0%	98.5%	0.0%	0.8%	10.3%
Recreation, Culture, and Religion		0.8%	1.1%	0.0%	0.0%	0.0%	0.0%	2.5%	0.8%
Education		25.4%	2.2%	0.0%	0.0%	0.0%	0.0%	0.5%	14.8%
Social Protection		15.5%	3.2%	0.0%	0.0%	1.5%	0.1%	0.1%	9.4%
Share per Economic Item		56.6%	18.5%	1.2%	6.4%	0.9%	10.6%	5.7%	100.0%

Source: CBL and MOF

V. PUBLIC DEBT

The ratio of public debt stock to GDP remained subdued and was estimated at 58.3 per cent in September 2022 from the revised 57.2 per cent

in August 2022. The issuance of Treasury Bills and foreign exchange rate movements were the causes of the 1.9 per cent increase.



Appendix: Key Economic Indicators

		22-Feb	22-Mar	22-Apr	22-May	22-Jun	22-July	22-Aug	22-Sept	
Economic Activity (MIEA (% change, M/M))		-3.4	-1.9	1.4	2.1	-3.5	-2.6	-0.9	2.8	
Consumer price Index (% change)	Headline Inflation (year-on-year)	7.5	7.2	7.3	7.8	8.8	9.8	9.4	9.2	
	Core Inflation	4.9	4.6	4.7	5.0	5.6	6.5	6.4	6.7	
Exchange Rates (Monthly End Period)	EUR	17.27	16.19	16.60	16.75	17.08	16.83	17.05	17.99	
	GBP	20.65	19.15	19.78	19.69	19.91	20.03	19.82	19.90	
	USD	15.43	14.58	15.77	15.67	16.43	16.54	17.03	17.54	
Money Supply (Millions of Maloti)	M2	14,259.33	14,105.47	14,037.84	14,232.41	13,815.35	14,372.60	14,250.90	14,580.08	
	M1	6,749.37	6,640.23	6,610.03	6,585.97	6,303.45	6,485.86	6,455.37	6,667.51	
	Quasi Money	7,509.96	7,465.25	7,427.80	7,646.45	7,511.90	7,886.74	7,795.53	7,912.57	
Interest Rates	CBL Rate	4.00	4.25	4.25	4.75	4.75	5.50	5.50	6.25	
	91 day Treasury bill rate	4.16	4.45	4.45	4.43	4.45	4.94	5.62	6.34	
	Prime lending rate	8.69	8.69	8.00	8.00	8.25	9.00	9.00	9.75	
	1 year deposit rate	2.90	2.75	2.75	3.41	3.41	3.48	3.48	4.24	
Private sector Credit (Millions of Maloti)		8,005.69	7,959.63	7,961.09	8,072.73	8,124.05	8,070.42	8,122.32	8,467.37	
	Households	5,893.88	5,884.56	5,889.53	5,907.73	5,981.28	5,949.52	5,900.89	6,224.04	
	Business Enterprises	2,105.67	2,068.10	2,065.66	2,159.07	2,136.76	2,114.33	2,215.34	2,237.28	
	Non-profit Organisations	6.14	6.97	5.90	5.93	6.01	6.57	6.09	6.05	
Bank Deposit Liabilities (Millions of Maloti)		14,972.33	14,708.53	14,879.60	15,097.49	14,714.39	15,318.09	15,163.65	15,382.96	
Credit to Deposit Ratio (%)		53.18	53.99	53.25	53.19	55.67	53.19	54.59	54.48	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-966.66	-945.43	505.19	-601.15	-258.55	191.32	-771.76	-438.61	
	Total Revenue (with SACU receipts)	749.71	1,272.19	2,169.27	788.61	935.86	2,238.58	787.99	1,021.85	
	Total Expenditure	1,716.38	2,217.62	1,664.07	1,389.76	1,194.41	2,047.26	1,559.75	1,460.47	
	O/W Capital	505.42	667.79	97.83	236.54	127.24	282.91	212.78	120.87	
Total Public Debt (Millions of Maloti)		20,183.60	19,446.21	20,453.01	20,348.24	20,066.45	20,348.15	21,140.90	21,551.94	
	Total External Debt	14,694.10	13,874.30	14,819.40	14,763.30	14,473.80	14,566.20	15,188.50	15,294.50	
	External Debt	Concessional	11,101.00	10,386.50	11,218.40	11,165.20	10,888.50	10,978.00	11,551.90	11,747.70
		Non-concessional	3,593.10	3,487.80	3,601.00	3,598.10	3,585.30	3,588.20	3,636.60	3,546.80
	Domestic Debt	5,489.50	5,571.91	5,633.61	5,584.94	5,592.65	5,781.95	5,952.40	6,257.44	
	Memo Item: Arrears (Millions of Maloti)		0.59	0.00	0.00	0.00	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 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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