



Monthly

# ECONOMIC REVIEW

SEPTEMBER 2024

CENTRAL BANK OF LESOTHO  
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## I. ECONOMIC ACTIVITY<sup>1</sup>

There was positive development in economic activity in September 2024. The growth was driven by increased domestic demand, improvements in manufacturing activity, and positive developments in construction, transportation, and financial services sectors.

### Overall Performance Index

Domestic economic performance showed a significant recovery in September, as the Composite Indicator of Economic Activity (CIEA) exhibited 2.9 per cent growth, in contrast to a 2.6 per cent decline recorded in the previous month. This robust rebound was underpinned by heightened domestic demand and a notable resurgence in manufacturing activity. Additionally, the construction, financial services, and transport sectors displayed strong growth, as evidenced by increased imports of construction materials, expanded private sector credit, and higher fuel consumption, respectively.

### Domestic Demand Category

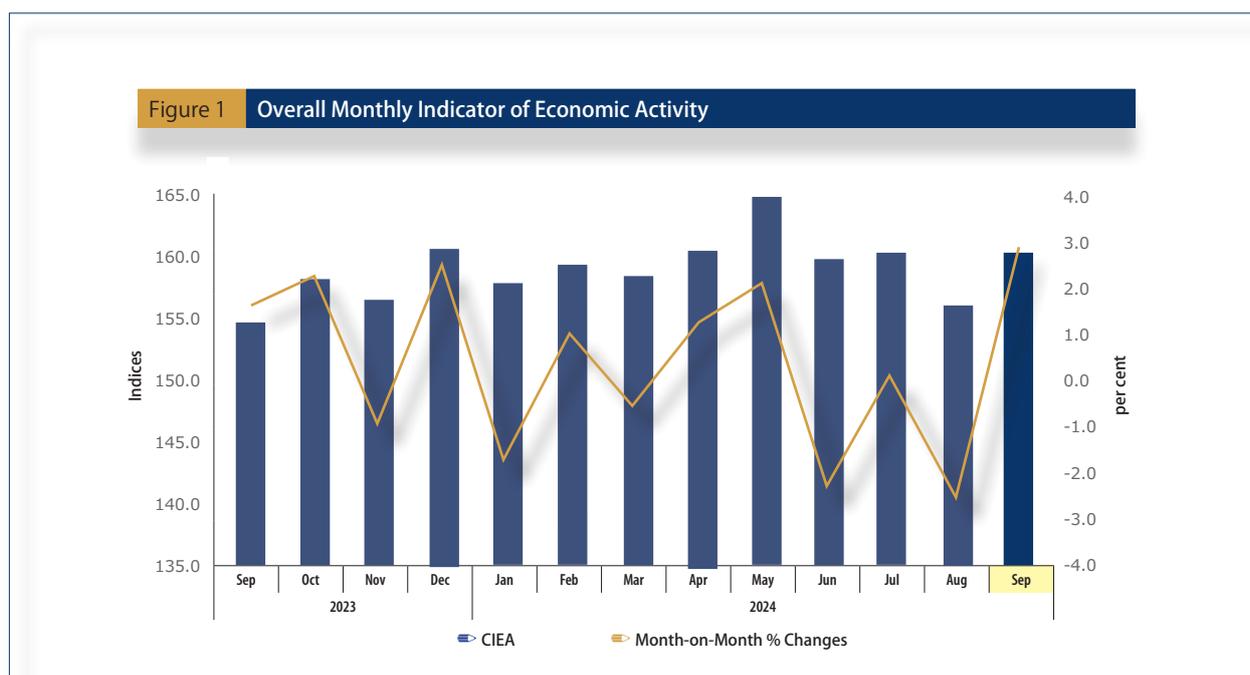
Domestic demand experienced a substantial resurgence during the review period, with the index rising by 5.4 per cent, after contracting by 3.8 per cent in the prior month. This recovery was primarily fuelled by increased government activity, increased demand for imports from South Africa, particularly, consumer goods, fuel and lubricants, and capital goods. This was further observed in higher sales tax revenue, confirming elevated business activity. This recovery signals a robust link between government activities and consumer confidence.

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

## Manufacturing and Production

The manufacturing and production subsector contracted during the reviewed period, with the index falling by 4.2 per cent. This was compared with a revised 3.2 per cent decline in the previous month. This downturn was due to a reduced imports of raw materials from South Africa, coupled with weakening exports of clothing and textiles to the

US market. While increased textile exports to South Africa offered partial relief, the overall contraction reflects dependency on international trade dynamics. This indicates a need for diversification within the manufacturing base and a strengthened local supply chain, which could improve resilience against external disruptions and contribute to stable long-term growth.



Source: CBL Calculations

**Table 1: Composite Indicator of Economic Activity and its Sub-components**

Indices	2024							
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
<b>CIEA</b>	157.8	157.4	159.2	162.4	158.6	158.7	156.2	160.7
Monthly changes	1.3	-0.2	1.2	2.0	-2.3	0.1	-2.6	2.9
<b>Domestic Demand Category</b>	154.4	153.0	150.1	153.9	142.2	136.4	131.6	138.7
Monthly changes	1.4	-0.9	-1.9	2.6	-7.6	-4.0	-3.8	5.4
<b>Manufacturing &amp; Production Category</b>	117.3	117.7	120.2	119.9	124.1	122.8	118.9	113.9
Monthly changes	-0.7	0.4	2.1	-0.2	3.5	-1.0	-3.2	-4.2

Source: Central Bank of Lesotho (CBL) Calculations

## II. INFLATION AND PRICES

### Headline Inflation

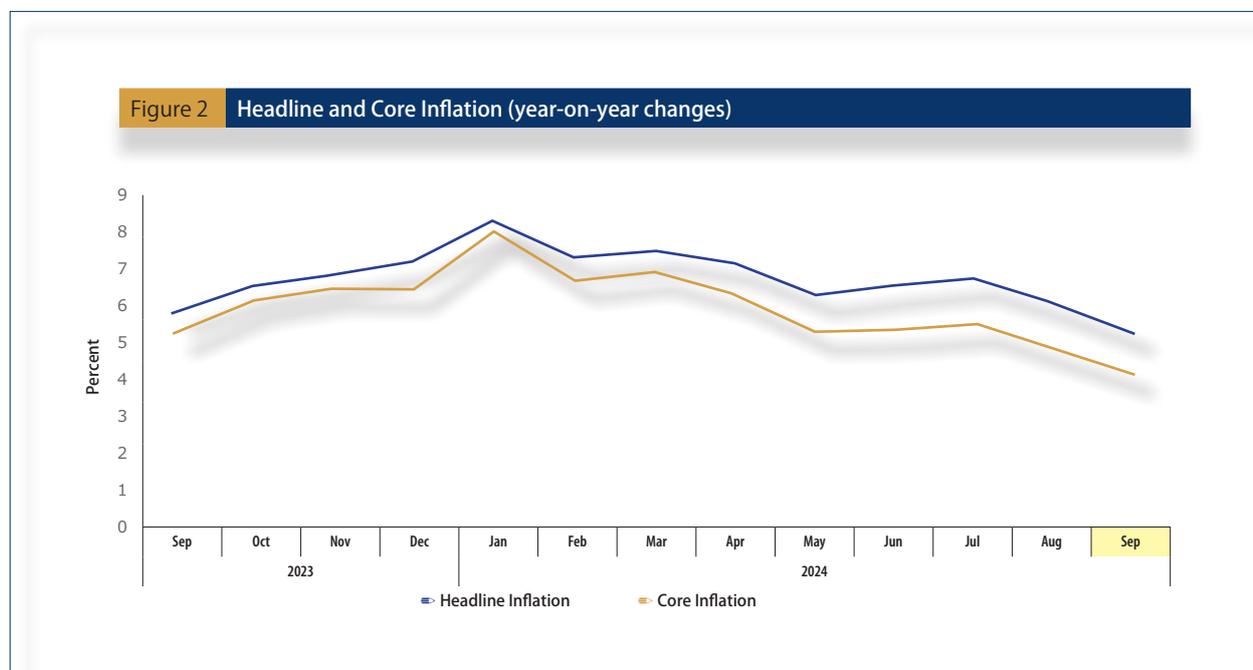
Headline inflation fell to 5.2 per cent in September 2024 from 6.0 per cent observed in August 2024. Major contributors to the fall in inflation were Transport category as well as Food and Non-Alcoholic beverages.

The decline in food prices were primarily driven by lower costs of oil and fats. Moreover, reduced

fuel prices led to a decrease in domestic fuel costs, further contributing to the overall price reduction.

### Core Inflation

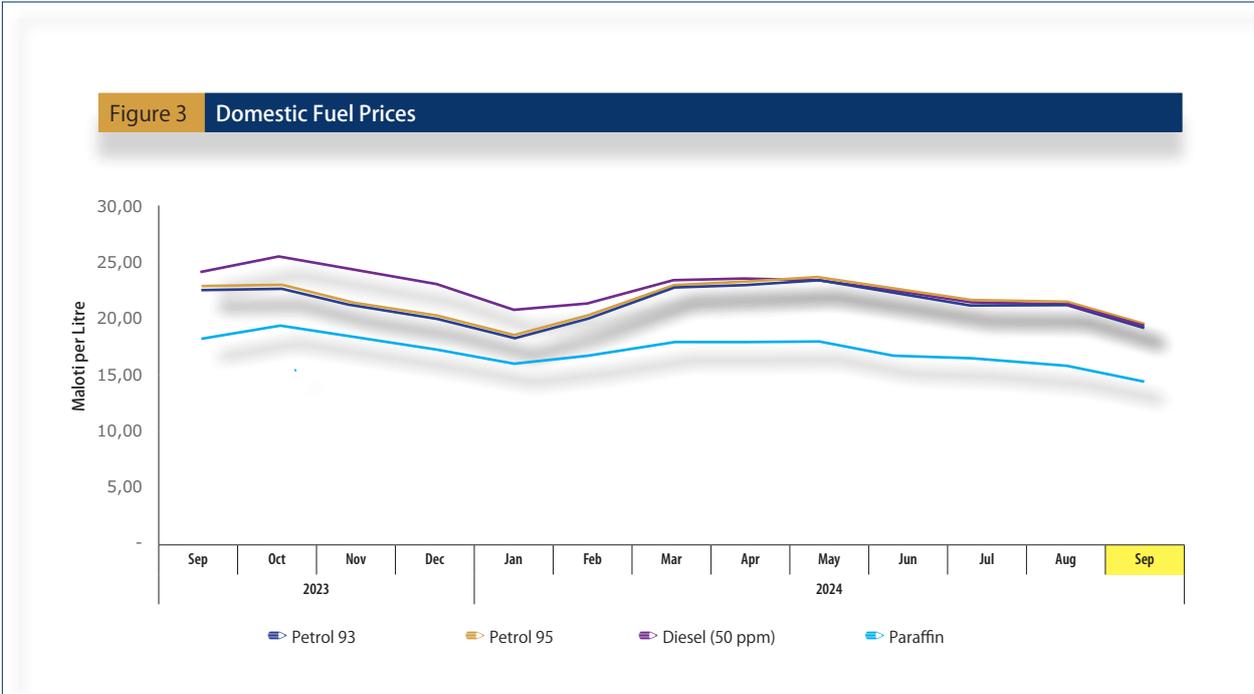
Underlying inflationary pressures, as measured by core inflation, decreased to 4.1 in September from 4.8 in August 2024.



### Domestic Fuel Prices

The prices of all petroleum products decreased in the review period. Both grades of petrol (*Petrol<sub>93</sub>* and *Petrol<sub>95</sub>*), decreased by M 0.05 and M0.15, respectively, and were sold at M 21.00 per litre and M 21.40 per litre, respectively at the pump.

The pump prices *diesel<sub>50</sub>* and illuminating paraffin fell by M 0.30 and M 0.40, each and were sold at M21.35 per litre and M15.90 per litre in the retail market, respectively.



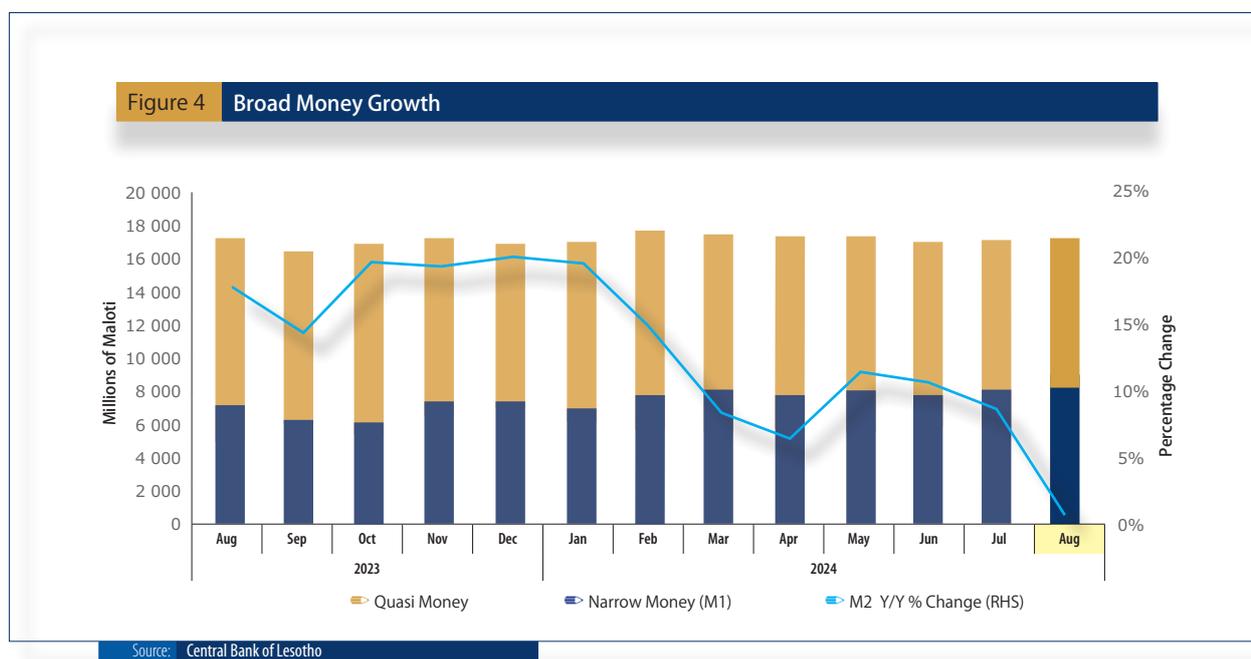
### III. MONETARY AND FINANCIAL INDICATORS

#### Broad Money (M2)

In September 2024, money supply (M2) grew by 0.8 per cent, following a 1.4 per cent growth a month earlier. The growth was supported by a further expansion in net domestic assets (NDA), despite the continued fall in net foreign assets (NFA). In particular, NDA grew by 3.5 per cent, albeit slower than the 55.1 per cent growth in the preceding month. The growth in NDA was driven by the drawdown in government deposits at the central bank, coupled with growth in credit to the private sector. In contrast, NFA fell by 1.6 per cent, following a 5.5 per cent in August. The decline was a result of a fall in central bank’s NFA, even though the rise in commercial banks’ NFA cushioned the overall decline. Year-on-year, M2 grew by 1.0 per cent.

#### Components of Money Supply

Broken down into its components, the growth in money supply was attributed to the expansion in narrow money (M1), whereas there was a decline in quasi money. M1 grew further by 3.7 per cent, following the 2.3 per cent in the previous month. The rise in M1, on the one hand, was explained, mainly by an increase in transferable deposits held by business enterprises. The contraction in quasi money, on the other hand, was on account of a fall in call deposits held by business enterprises.



#### Private Sector Credit

Private sector credit continued to grow in September, expanding by 0.7 per cent following a 0.6 per cent rise in August 2024. The growth was driven by an

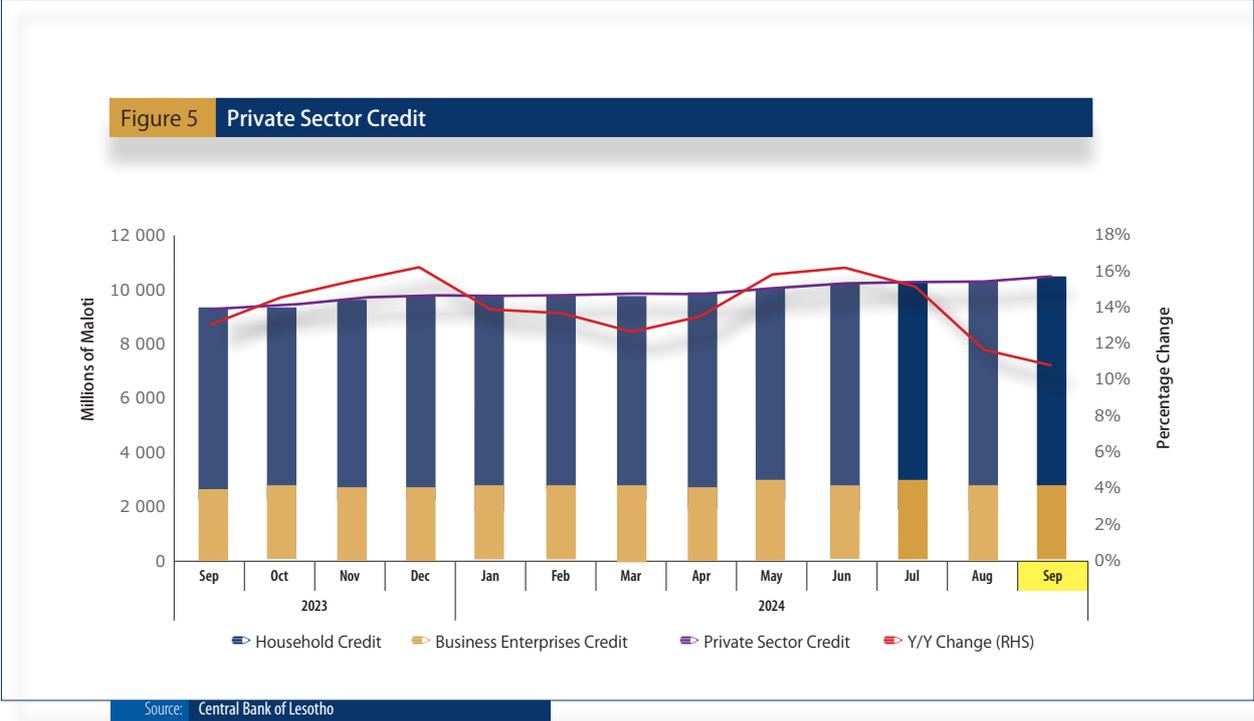
expansion of credit extended to households, despite a decline in business enterprises credit.

Household credit grew by 1.2 per cent following a 2.4 per cent growth in August, whereas business

credit declined by 0.5 per cent, compared to the 4.1 per cent decline in the previous period. Both mortgages and personal loans contributed to the observed growth in household credit extension, growing by 0.3 and 1.4 per cent, respectively.

The fall in business credit was mainly evident in the construction industry. The wholesale and retail trade, restaurants & hotels sub-sector continued to

command the highest share of credit extension, followed by real estate & business services sector, while the construction industry completed the top three. The community, social, & personal services remained the smallest recipient of credit extension to the business sector, though there was marginal growth. On an annual basis, private sector credit grew by 10.8 per cent.



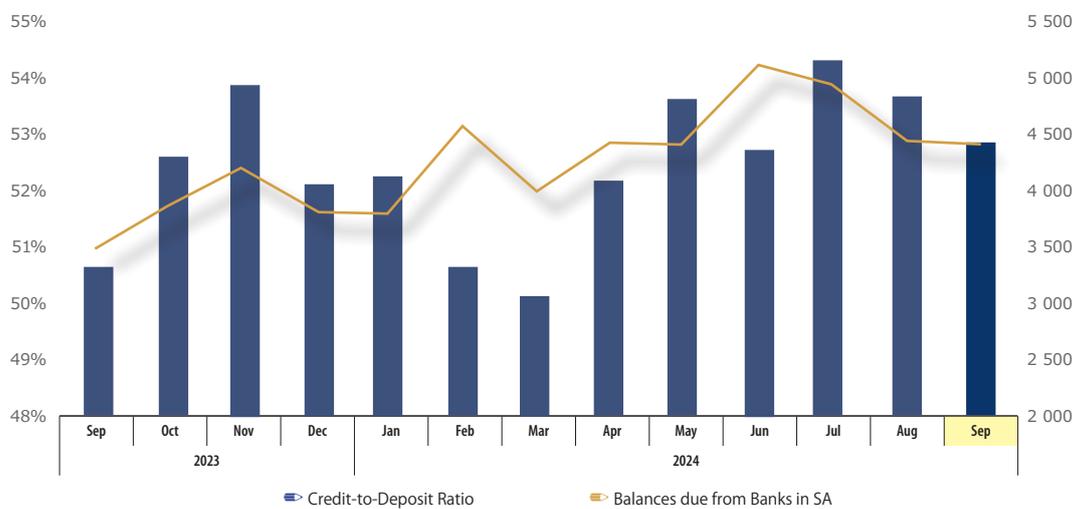
### Non-Performing Loans

The ratio of non-performing loans (NPLs) to total loans rose by 0.2 percentage points to 3.9 per cent between August and September 2024. This increase was driven by the households NPLs, particularly personal loans. The highest shares of NPLs were attributed to the construction and wholesale & retail trade, restaurants & hotels subsectors.

### Sources of Funds

The credit-to-deposit ratio declined to 52.9 in September from 53.7 in August 2024. The decrease was mainly attributable to a rise in the deposit base of commercial banks, despite the increase in credit extension.

**Figure 6 Credit to Deposit Ratio**



Source: Central Bank of Lesotho

### Interest Rates

The CBL policy rate was unchanged at 7.75 per cent between August and September 2024. Consequently, 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 increased by 9 basis points to 6.83, from 6.74 per cent a month earlier.

### Foreign Exchange

The value of the rand, hence loti, was relatively unchanged against all three selected currencies during the review period. The rand appreciated slightly by 0.02 per cent, 0.02 per cent and 0.002 per cent against the dollar, euro and pound, respectively,

in September 2024. This was in comparison to an appreciation of 1.22 per cent and 0.59 per cent against the dollar and pound respectively, and a depreciation of 0.35 per cent against the euro in the previous month.

The rand's positive performance was due to domestic and external factors. On the domestic side, the rand was supported by the improved economic performance, bolstered by a more stable electricity supply, transportation infrastructure and improved gold prices.

On the external factors, the rand was supported by the Fed fund rate cut by the US Federal Reserve, which weakened the dollar, and therefore, contributed to the strengthening of the rand.

## IV. GOVERNMENT BUDGETARY OPERATIONS

### Expenditure

Government spending was estimated to have declined by 3.7 per cent in September, following a revised 10.3 per cent decrease in August 2024. This reduction was due to decreased grants for students, extra-budgetary units, transport equipment and office furniture. Accordingly, the sectors of economic affairs, education and social protection were the primary recipients of funding. However, the total expenditure increased by 10.4 per cent year-on-year, mainly attributed to an accelerated implementation of development projects.

### Revenue

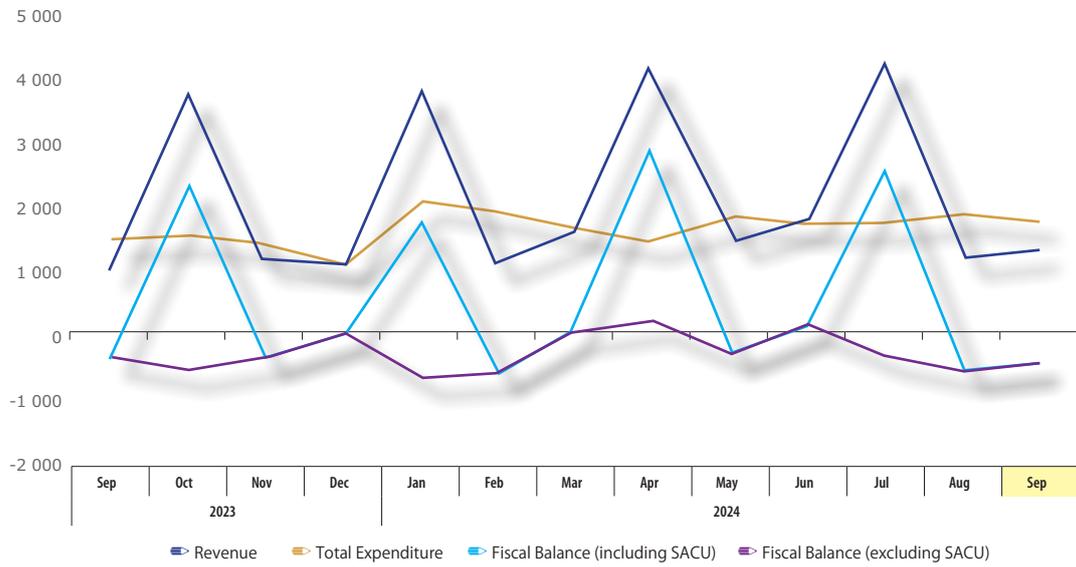
Government total revenue was estimated to have increased by 18.9 per cent, mainly driven by income taxes, and VAT. This contrasted with a revised decline of 9.4 per cent in the previous month. On an annual basis, the total revenue surged by 37.7 per cent, largely because of income tax and water royalties.

### Fiscal Balance<sup>2</sup>

The government's deficit was 4.3 per cent of GDP, compared with a revised 7.1 per cent of GDP in August 2024. This shortfall was funded by drawing down government deposits and obtaining additional external loans. A drop in deposits resulted in a decline in financial assets, while Liabilities grew in line with the acquired extra debt, as well as supplier payments arrears.

<sup>2</sup> 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)**

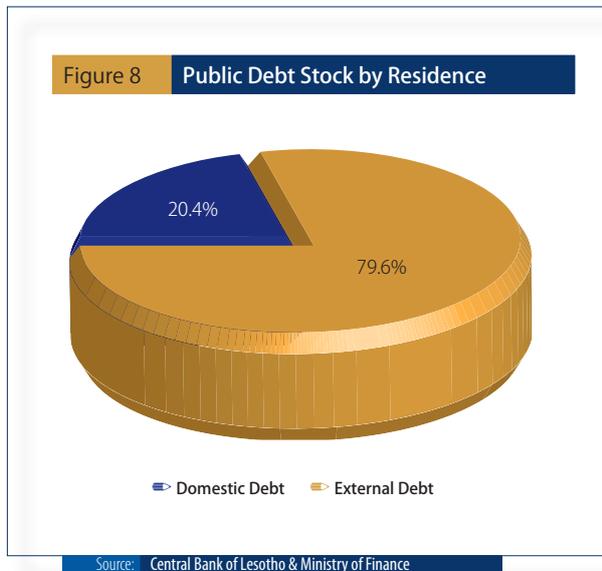
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		6.0%	16.4%	100.0%	0.0%	25.0%	1.0%	4.0%	8.5%
Defense		7.8%	4.8%	0.0%	0.0%	0.0%	0.0%	-3.0%	5.4%
Public Order and Safety		24.1%	6.3%	0.0%	0.0%	3.3%	0.0%	0.2%	11.0%
Economic Affairs		6.7%	32.4%	0.0%	0.0%	31.2%	1.1%	0.0%	25.3%
Environmental Protection		1.0%	1.4%	0.0%	0.0%	0.0%	0.0%	0.2%	0.8%
Housing and Community Amenities		5.0%	7.5%	0.0%	0.0%	0.0%	0.3%	0.0%	4.8%
Health		6.7%	27.0%	0.0%	0.0%	34.3%	3.3%	0.0%	10.4%
Recreation, Culture, and Religion		1.0%	1.4%	0.0%	0.0%	0.0%	1.4%	0.1%	0.9%
Education		32.5%	2.1%	0.0%	100.0%	0.0%	19.3%	98.4%	21.0%
Social Protection		9.2%	0.7%	0.0%	0.0%	6.2%	73.7%	0.0%	11.9%
<b>Share per Economic Item</b>		<b>38.4%</b>	<b>24.0%</b>	<b>0.5%</b>	<b>0.1%</b>	<b>2.7%</b>	<b>10.8%</b>	<b>5.9%</b>	<b>100.0%</b>

Source: CBL and MOF

## V. PUBLIC DEBT

The public debt stock stood at 54.7 per cent of GDP, marginally higher than the revised ratio of 54.6 per cent from the preceding month. The slight 0.1 per cent increase on monthly basis was due to the rise in external debt. However, the appreciation of the

loti against foreign currencies slowed the pace of debt accumulation. On an annual basis, the total debt stock increased by 1.9 per cent, mainly driven by borrowing from multilateral lenders.



## Appendix: Key Economic Indicators

		24-Feb	24-Mar	24-Apr	24-May	24-Jun	24-Jul	24-Aug	24-Sep	
Economic Activity (MIEA (% change, M/M))		1.3	-0.2	1.2	2.0	-2.3	0.1	-2.6	2.9	
Consumer price Index (% change)	Headline Inflation (year-on-year)	7.2	8.2	7.3	7.4	7.1	6.3	6.0	5.2	
	Core Inflation	6.4	8.0	6.7	6.9	6.3	5.3	4.8	4.1	
Exchange Rates (Monthly End Period)	EUR	20.3424	20.3817	20.7950	20.5085	20.0677	20.1045	20.1045	19.0528	
	GBP	23.6012	23.8757	24.3030	23.9695	23.4763	23.6247	23.6247	22.8532	
	USD	18.6699	18.8456	19.1910	18.8596	18.7203	18.6230	18.6230	17.9292	
Money Supply (Millions of Maloti)	M2	17,180.65	16,726.97	16,887.51	17,636.19	17,225.56	17,223.67	17,340.59	17,306.37	
	M1	8,448.94	8,124.79	7,722.71	8,528.66	8,945.55	8,834.37	8,173.76	8,290.68	
	Quasi Money	8,731.71	8,602.18	9,164.81	9,107.53	8,280.01	8,389.31	9,166.83	9,015.69	
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	7.09	6.93	6.78	6.59	6.93	6.96	6.83	
	Prime lending rate	11.25	11.25	11.25	11.25	11.00	11.25	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)		9,736.03	9,796.71	9,838.10	9,736.88	9,864.60	10,181.74	10,233.44	10,422.71	
	Households	2,717.72	2,722.05	2,716.99	2,577.61	2,653.25	2,879.85	2,882.57	2,771.40	
	Non-profit Organisations	7,018.31	7,074.66	7,121.11	7,159.28	7,211.35	7,301.89	7,776.22	7,651.31	
Bank Deposit Liabilities (Millions of Maloti)		18,679.67	18,751.66	19,412.48	19,375.00	18,842.16	19,025.27	19,374.92	19,689.38	
Credit to Deposit Ratio (%)		52.1	52.2	50.6	50.1	52.2	53.4	53.7	52.9	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-728.58	80.11	2,781.12	-409.78	87.55	2,455.69	-720.05	-463.72	
	Total Revenue (with SACU receipts)	1,084.54	1,693.32	4,166.39	1,410.53	1,781.10	4,130.46	1,126.81	1,314.38	
	Total Expenditure	1,813.12	1,613.21	1,385.27	1,820.31	1,693.56	1,674.78	1,846.86	1,778.10	
	O/W Capital	254.50	366.14	197.41	250.79	334.18	194.63	351.73	423.95	
Total Public Debt (Millions of Maloti)		23,650.30	23,209.48	22,977.71	23,226.40	22,367.91	22,500.09	22,274.47	22,300.04	
	Total External Debt	18,894.05	18,453.39	18,223.85	18,494.28	17,894.09	18,025.52	17,716.20	17,741.33	
	External Debt	Concessional	11,723.94	11,502.10	11,372.76	11,493.20	11,084.68	11,137.22	10,929.26	11,076.32
		Non-concessional	7,170.10	6,951.29	6,851.09	7,001.08	6,809.41	6,888.30	6,786.94	6,665.01
	Domestic Debt	4,756.25	4,756.08	4,753.86	4,732.13	4,473.82	4,474.57	4,558.27	4,558.71	
Memo Item: Arrears (Millions of Maloti)		-31.43	-198.26	0.00	-201.98	-135.19	9.63	-1.66	-1.67	

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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