

Central Bank of Lesotho



QUARTERLY ECONOMIC REVIEW

September 2022

MASERU KINGDOM OF LESOTHO

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1. Executive Summary

The economic activity was generally poor in the third quarter of 2022, as the supply side bottlenecks affected production and consumption. Most economies experienced high inflation rates and sluggish economic growth. The rising cost of living in most countries was partly a result of the Russia-Ukraine war, which affected food and fuel prices. This was further fuelled by the currency depreciation in most countries, which caused the surge in costs of imports for raw materials and other inputs into the production process. The rand depreciated by 9.4 per cent, 2.3 per cent and 3.4 per cent against the dollar, the pound and the euro, respectively. Meanwhile, central banks continued to tighten their monetary policies amid escalating inflationary pressures. Nonetheless, the labour market conditions were broadly stable, some benefiting from improved remuneration packages, coupled with reduced COVID-19 restrictions.

According to the Central Bank of Lesotho's Quarterly Indicator of Economic Activity (QIEA), domestic output contracted further by 3.9 per cent, following a 0.9 per cent contraction recorded in the preceding quarter. Moreover, the labour market indicators showed mixed signals as manufacturing and government employment increased slightly, whereas the number of migrant mineworkers continued to fall. In addition, the headline inflation rate was 9.2 per cent in September 2022 compared with 8.8 per cent in June 2022. The core inflation rate also rose, along with the headline inflation rate, from 5.6 per cent in June 2022 to 6.7 per cent in September 2022.

The broadly defined measure of money supply (M2) rose by 5.5 per cent during the quarter under review, as a result of an increase in both net foreign assets and domestic claims. Domestic claims rose by 12.0 per cent, following an increase of 12.4 per cent recorded in June 2022. The net foreign assets (NFA), on the other hand, grew by 2.1 per cent, in contrast to a decline of 3.4 per cent recorded in the previous quarter. In terms of the broad money components, the growth in M2 was attributable to an increase of 5.8 per cent in the narrow money (M1) and 5.3 per cent in quasi money.

Private sector credit rose by 4.2 per cent, following a growth of 2.0 per cent in June 2022. Credit to deposit ratio fell to 53.3 per cent, from 54.5 per cent observed in the second quarter of 2022. The Central Bank of Lesotho's key policy rate continued on an upward trajectory, rising by 150 basis points to 6.25 per cent in the third quarter of 2022.

The fiscal deficit was estimated at 6.9 per cent of GDP, following a revised fiscal deficit of 0.2 per cent of GDP in June 2022. The deficit resulted from spending growth that outpaced revenue collections. The public debt stock was estimated at 58.3 per cent of GDP.

The external sector position registered a deficit equivalent to 3.3 per cent of GDP, compared with 4.0 per cent of GDP in the preceding quarter. The current account improved significantly, registering a deficit equivalent to 0.2 per cent of GDP, following 11.9 per cent in June. The stock of foreign reserves was estimated at 4.8 months of imports cover, from 4.9 months in the previous quarter.

2. International Economic Developments

Economic activity generally slowed in most economies in the third quarter of 2022, as high inflation rates weighed on aggregate demand. However, GDP growth for China accelerated due to various government initiatives implemented to support the economy amid the resurgence of COVID-19 cases and property market crisis. Meanwhile, the US economy maintained positive growth, mainly benefiting from consumer spending. This was, nonetheless, moderated by the decline in residential fixed investment. The labour market conditions were broadly stable in many countries between the second and third quarters of 2022. Country-specific developments and policies shaped labour market dynamics; employment benefitted from reduced COVID-19 restrictions in some countries, while wages increased in other countries.

Consumer prices continued to rise, reaching record levels in most economies. Inflation pressure emanated, in part, from the Russia-Ukraine war, which resulted in higher food and fuel prices. In some economies, inflation was exacerbated by currency depreciation, which resulted in the rise in costs of imports for raw materials and other inputs into the production process. Accordingly, central banks continued to tighten monetary policy amid escalating inflationary pressures.

Table 1: Key World Economic Indicators

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	Q2	Q3	Q2	Q3	Q2	Q3	Q2	Q3
	2023	2022	2022	2022	2022	2022	2022	2022
United States	1.8	1.8	9.1	8.2	1.50	3.25	3.6	3.5
euro Area	4.3	2.1	8.6	9.9	0.00	1.25	6.7	6.6
Japan	3.5	-1.2	2.4	3.0	-0.10	-0.10	2.6	2.6
United Kingdom	4.4	2.4	9.4	10.1	1.25	2.25	3.8	3.6
China	0.4	3.9	2.5	2.8	3.70	3.65	5.5	5.5
India	13.5	6.3	7.0	7.4	4.90	5.90	N/A	N/A
South Africa	0.2	4.1	7.4	7.5	4.75	6.25	33.9	33.4

Source: Bloomberg, STATSSA and SARB, OECD National Accounts Statistics (database), US Bureau of Economic Analysis, National Bureau of Statistics China, Statistics Bureau of Japan, Government of India Department of Labour, United Kingdom Office for National Statistics

ADVANCED ECONOMIES

United States (US)

Economic activity in the US was stable in the third quarter of 2022. Real GDP grew by 1.8 per cent, the same rate realised in the second quarter of 2022. This was driven mainly by robust consumer spending, despite the high inflation rate and slow wage growth. Consumer spending was largely sustained by increased spending on tourism related activities. Additionally, there was a narrower trade deficit, supported by the decline in fuel imports. These were, however, partly offset by a decline in residential fixed investment. The unemployment rate was recorded at 3.5 per cent, slightly lower than 3.6 per cent in the second quarter of 2022. However, the lower unemployment rate reflected falling labour force participation rate, as some people left the workforce due to, amongst others, lack of career development, inadequate compensation, and lack of workplace flexibility.

The annual inflation rate fell to 8.2 per cent, from 9.1 per cent in the second quarter. The reduction in the inflation rate was primarily on account of the slower increase in fuel prices, in line with declining global oil prices. However, the US Federal Reserve raised its Fed Fund rate by 1.75 basis points to a band of 3.25 - 3.50 per cent to control the still elevated inflation.

Euro Area

Economic growth was slower in the euro area during the third quarter of 2022. Real GDP grew by 2.1 per cent, following growth of 4.3 per cent in the previous quarter. The slowdown in growth was primarily on account of the high inflation rate denting consumer demand and spending. Furthermore, the disruption in Russia's gas exports to the euro area added more pressure on production processes in the region and thus slowed growth. The unemployment rate for the euro area fell slightly to 6.6 per cent from 6.7 per cent a quarter earlier. The labour market was supported by government policies aimed at assisting companies that were severely hit by COVID-19 to return to their pre-pandemic operation levels.

The annual consumer price index for the euro area accelerated by 9.9 per cent, from an increase of 8.6 per cent in the second quarter. Inflationary pressures were worsened by currency depreciation, with the euro depreciating to a 20-year low level, which resulted in higher costs of imported goods. This was coupled with the region's energy crisis, which had been worsening amid the Russia-Ukraine war and, thus, pushing energy prices higher. The European Central Bank raised its policy rate from 0.00 per cent to 1.25 per cent, to curb inflationary pressures.

Japan

In the third quarter of 2022, economic performance in Japan worsened. Real GDP contracted by 1.2 per cent in contrast to a revised increase of 4.6 per cent in the preceding quarter. The contraction in economic activity primarily reflected weak private consumption and rising costs of living stemming from higher commodity prices. Economic activity was also hampered by the weaker Japanese yen, which increased the cost of imports of raw materials. The unemployment rate remained unchanged at 2.6 per cent from the second quarter. The labour market was partly supported by the lifting of some of the COVID-19 restrictions but undermined by accelerating population aging.

Consumer prices for Japan rose by 3.0 per cent per annum, from an increase of 2.4 per cent in the second quarter. The persistently weak yen and heavy dependence on imports of fuel and raw materials, resulting in high import costs, have maintained upward pressure on prices. However, the Bank of Japan left its policy rate unchanged at -0.10 per cent during its Monetary Policy Committee meeting in September 2022, in a bid to support the economy that was under pressure from high commodity prices arising from the Russia-Ukraine war.

United Kingdom (UK)

The UK economy was estimated to have slowed further in the third quarter of 2022. Real GDP grew by 2.4 per cent, compared to 4.4 per cent in the previous quarter, due to slower spending on household consumption arising from high consumer prices. The unemployment rate declined to 3.6 per cent, from 3.8 per cent in the previous quarter. However, the decline in unemployment rate was attributable mainly to a fall in labour force participation rate, with a record number of people classified as “economically inactive”.

The annual inflation rate for the UK rose to a record high 10.1 per cent in the third quarter of 2022, from 9.4 per cent in the previous quarter. The increase in UK’s consumer prices was associated with the on-going Russia-Ukraine war, which had increased the costs for cereal and grains. This was compounded by the depreciation of the British pound, leading to increased costs of imported products. Furthermore, increased trade costs due to Brexit and supply chain bottlenecks, such as lack of transportation for goods, kept the cost of goods elevated. In response to high and rising inflation rates, the Bank of England raised its policy rate to 2.25 per cent, from 1.25 per cent in the previous quarter.

EMERGING MARKET ECONOMIES

China

The economic performance in China improved in the third quarter of 2022. Real GDP growth rate was recorded at 3.9 per cent, compared to 0.4 per cent in the preceding quarter. This was largely explained by various measures imposed by the government to revive the economy. The policy initiatives included financial support to small and medium enterprises, increasing infrastructure spending, and agricultural subsidies. The observed growth was, nonetheless, moderated by persistent COVID-19 restrictions, the property market crisis and risks associated with global recession. The unemployment rate remained unchanged at 5.5 per cent.

The annual inflation rate for China rose to 2.8 per cent in the third quarter of 2022, from 2.5 per cent a quarter earlier, on account of the surge in food prices. Higher food prices were primarily explained by a rise in costs of pork, despite the government’s effort to tame pork prices by releasing the meat reserves into the market. The People’s Bank of China cut its policy rate to 3.65 per cent in the third quarter of 2022 from 3.70 per cent in the second quarter, with a view to support the economy amid the resurgence of COVID-19 cases and deepening real estate crisis.

India

The Indian economic activity slowed in the third quarter of 2022 compared to the preceding quarter. Real GDP grew by 6.3 per cent, compared to 13.5 per cent in the second quarter of 2022. The slowing economic activity was largely explained by high consumer prices and interest rates, which negatively weighed on consumer spending. Additionally, demand for India's exports fell as inflationary pressures and tighter monetary policy stances impacted negatively on India's major trading partners.

The annual consumer price index for India rose by 7.4 per cent in the third quarter of 2022 from an increase of 7.0 per cent in the previous quarter, on account of higher food prices. Food prices remained under pressure from supply side shocks associated with the Russia-Ukraine war, which had elevated the costs of cereal and grains. This was coupled with unfavourable weather conditions, which affected crop production. Consequently, the Reserve Bank of India raised its repo rate to 5.90 per cent in the third quarter 2022 from 4.90 per cent in the previous quarter. The policy rate hike was intended to control rising inflation.

South Africa

Economic activity in South Africa accelerated in the third quarter of 2022. Real GDP grew by 4.1 per cent, year-on-year, from 0.2 per cent a quarter earlier. The largest positive contribution stemmed from the agricultural sector, which boosted exports of vegetable products, grains and oilseeds. Agricultural productivity benefited from the growing use of "Agri-Robotics", which are professional service robots aimed at addressing multiples challenges faced by large field farmers. The Agri-Robotics are used for, among others, crop surveillance and spraying. The unemployment rate for South Africa was recorded at 32.9 per cent in the third quarter of 2022, compared to 33.4 per cent in the previous quarter. The largest job gains were observed in manufacturing, trade, construction and transport.

The inflation rate was recorded at 7.5 per cent, slightly above 7.4 per cent in the preceding quarter. The increase in consumer prices was largely explained by higher food prices, especially grain prices. Consumer prices were fuelled further by the depreciation of the rand, which resulted in increased costs for imported goods. In response to the elevated consumer prices, the South Africa Reserve Bank raised its policy rate to 6.25 per cent in the third quarter of 2022, from 4.75 per cent in the second quarter of 2022.

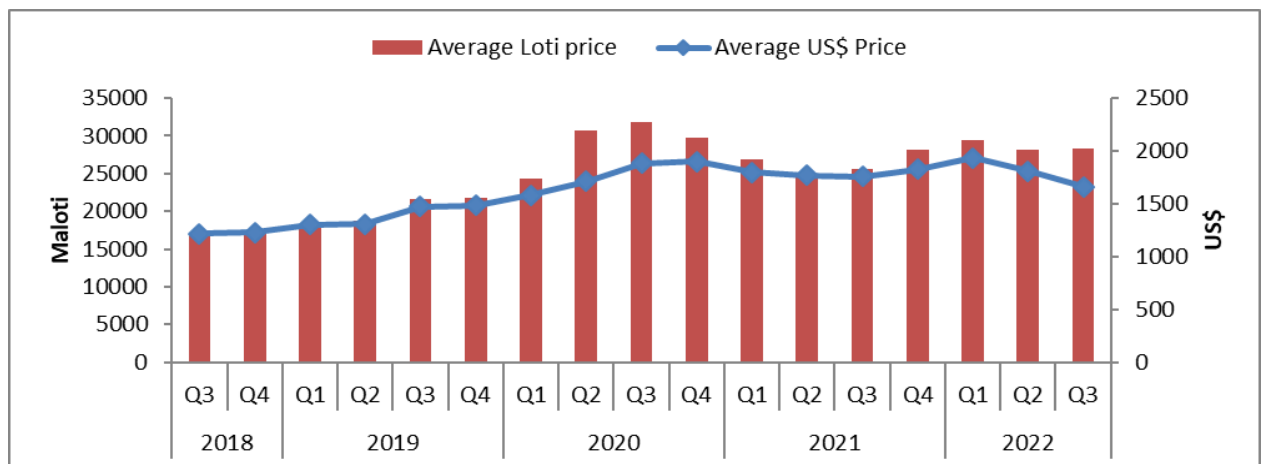
COMMODITIES

Minerals

Gold

The dollar price of gold declined by 8.1 per cent in the third quarter of 2022, following a decline of 6.7 per cent in the previous quarter. The price of gold remained under pressure due to tighter monetary policy stance by the Fed. Higher US interest rates increased the attractiveness of the dollar as a safe-haven currency and, thus, dented the demand for gold. The loti price of gold rose slightly by 0.5 per cent compared to a decline of 4.5 per cent in the preceding quarter, mainly on account of the depreciating loti against the dollar.

Figure 1: Average Price of Gold

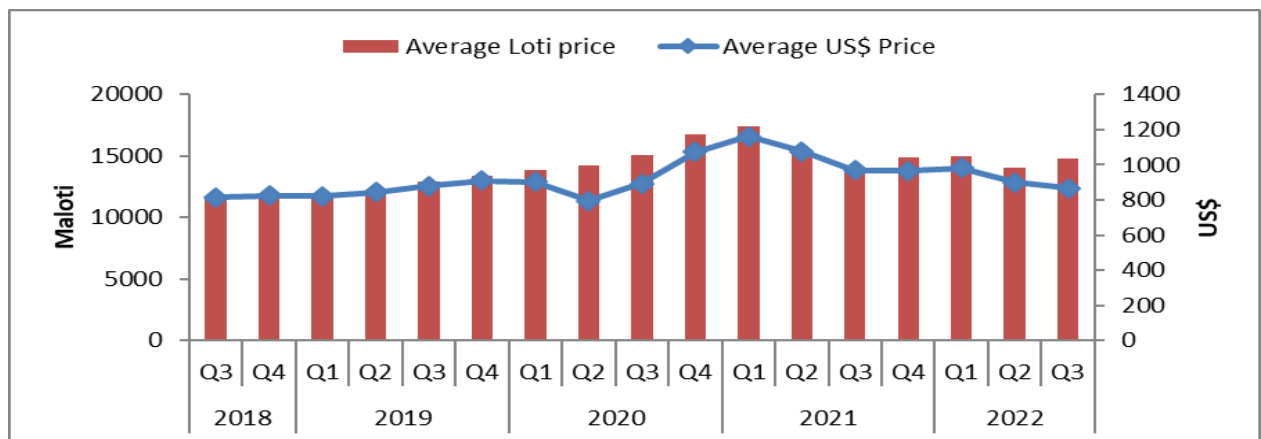


Source: Bloomberg

Platinum

The dollar price of platinum declined by 3.5 per cent relative to a decline of 8.5 per cent in the previous quarter. Platinum prices continued to be under pressure on account of the decline in US car sales, which had dented demand, coupled with prospects of lower demand from platinum’s largest consumer, China. Furthermore, the price of platinum, fell alongside other precious metals’ prices, on account of a stronger dollar.

Figure 2: Average Price of Platinum



Source: Bloomberg

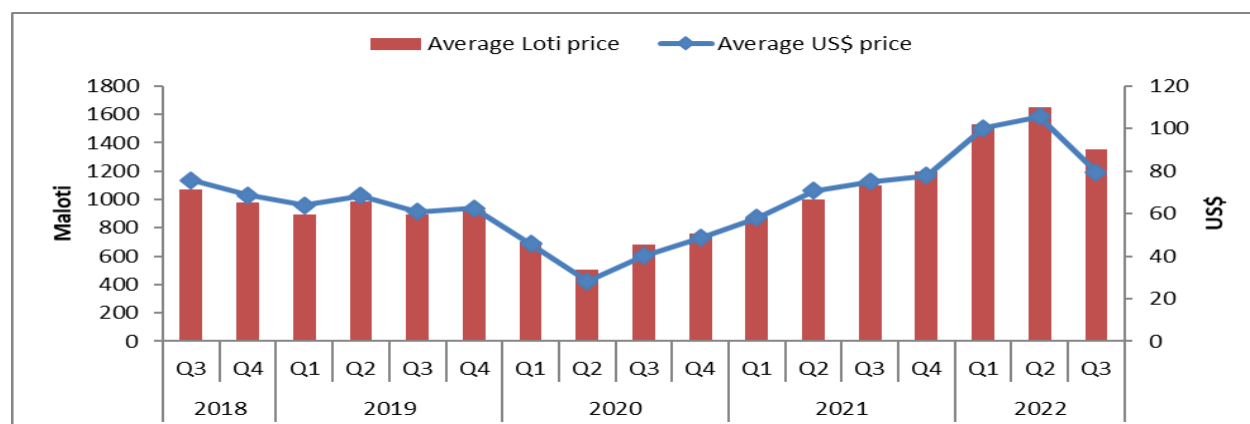
Energy

Oil

Oil prices dropped by 24.8 per cent in the third quarter of 2022, in contrast to an increase of 5.5 per cent in the previous quarter. The sharp drop in oil prices largely emanated from fears of a recession, which would likely dent oil demand in the next months. This was coupled with lower demand outlook due to renewed restrictions to curb COVID-19 in China, a key importer and consumer of oil. Oil prices declined despite a fall in exports of crude oil and refined products from Russia amid Western

sanctions and supply disruption in Libya. Expressed in maloti, the price of oil declined by 17.8 per cent compared to an increase of 8.0 per cent in the previous quarter.

Figure 3: Average Price of Oil



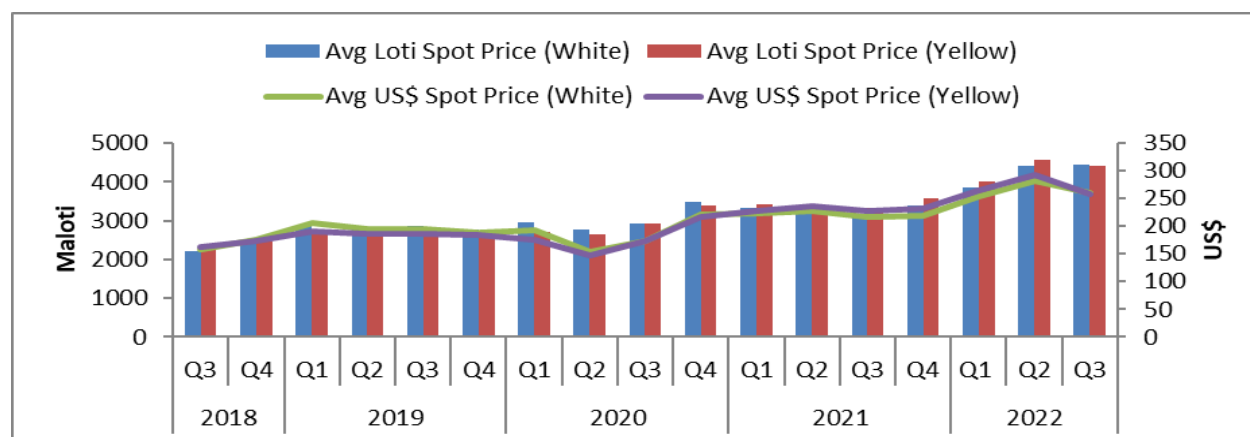
Source: Bloomberg

Agricultural Products

Maize

The price of white maize fell by 7.7 per cent while the price of yellow maize dropped by 11.8 per cent in the third quarter of 2022. This followed an increase of 11.4 per cent for white maize and an increase of 11.1 per cent for yellow maize in the second quarter of 2022. The decline in maize prices resulted from improved production prospects in North America and Russia, together with a resumption of exports from Ukraine’s Black Sea Port. This followed the landmark agreement signed by Russia and Ukraine in July 2022, to unlock grain exports from Ukraine.

Figure 4: Average Price of Maize



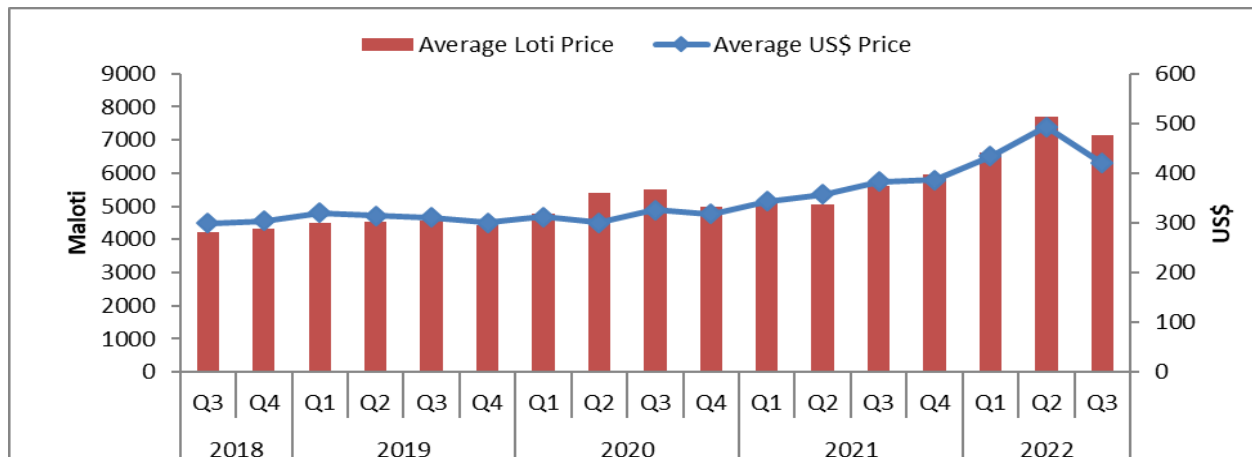
Source: Bloomberg

Wheat

During the third quarter of 2022, wheat prices fell by 14.9 per cent compared to an increase of 13.5 per cent a quarter earlier. The decline in wheat prices was primarily explained by fears of a global

economic downturn amid high consumer prices and rising interest rates, prompting reduced global demand for wheat. This was coupled with expectations of a bumper wheat harvest in Russia – a key producer of wheat. In maloti terms, the price of wheat declined by 6.9 per cent, contrasted with an increase of 16.2 per cent in the preceding quarter.

Figure 5: Average Price of Wheat

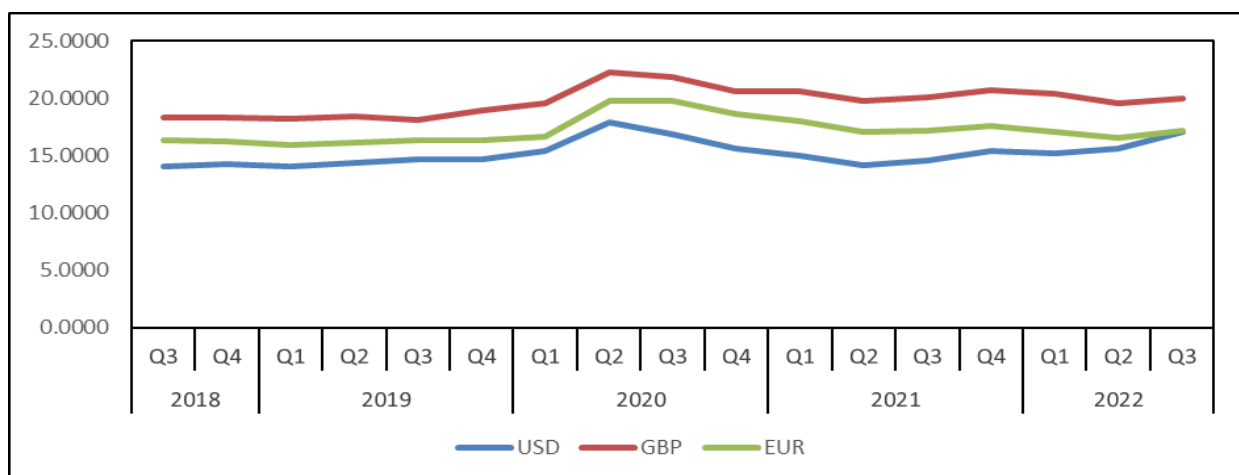


Source: Bloomberg

EXCHANGE RATES

The value of the rand (loti) was weaker against its three major trading currencies. The currency depreciated by 9.4 per cent, 2.3 per cent and 3.4 per cent against the dollar, the pound and the euro, respectively, during the third quarter of 2022. This followed a depreciation of 2.4 per cent against the dollar, and appreciation of 4.2 per cent and 3.0 per cent against the British pound and the euro, respectively, in the previous quarter. The value of the rand depreciated on account of the stronger dollar, which was supported by US interest rate hikes. This was coupled with fears of a global recession, which resulted in investors shifting sentiment from risky emerging market currencies, such as the rand, to the safe haven currencies.

Figure 6: Nominal Exchange Rate of Loti against Major Trading Currencies



Source: Bloomberg

3. Real Sector Developments¹

OVERVIEW

Indicators of domestic economic activity showed a further decline in economic performance in the third quarter. In the labour market, there were mixed signals as manufacturing and government employment increased slightly, whereas the number of migrant mineworkers continued to fall. On price developments, inflationary pressures remained elevated.

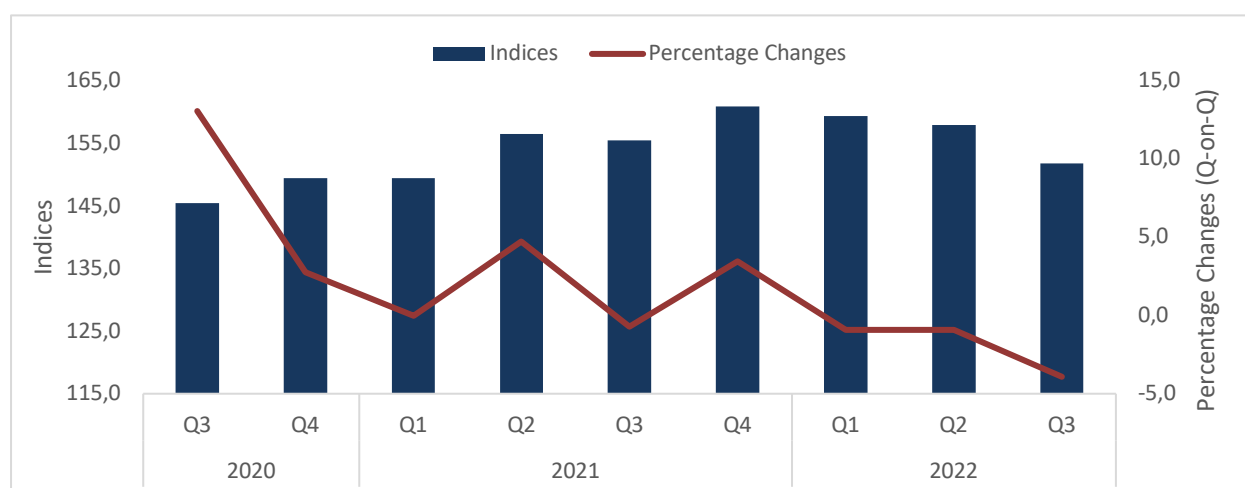
OUTPUT DEVELOPMENTS

According to the Central Bank of Lesotho's Quarterly Indicator of Economic Activity (QIEA), the economy remained under pressure during the third quarter of 2022, contracting by 3.9 per cent, following a 0.9 per cent contraction in the preceding quarter. Elevated inflationary pressures and supply side bottlenecks continued to weigh down on overall economic activity.

Domestic demand contracted by 5.0 per cent, in contrast to the 2.0 per cent growth recorded in the preceding period. The fall in demand was mainly a result of a relatively lower disposable income, as proxied by compensation of employees. Retail sales and real earnings were also under pressure as inflationary pressures remained elevated in the quarter.

On the production side, activity contracted by 1.7 per cent, after contracting by 2.8 per cent in the preceding quarter. The lacklustre performance was attributable to the decline in the use of utilities in the production process. The imports of raw materials also waned, even though the exports of clothing and textiles improved in the review period.

Figure 7: Quarterly Indicator of Economic Activity



Source: Central Bank of Lesotho

¹ All growth rates in this section are reported as year-on-year, with the exception of output developments, which are seasonally adjusted quarter-on-quarter growth rates

Table 2: Contributions to Growth

Indices	2021		2022		
	Q3	Q4	Q1	Q2	Q3
CIEA	155.5	160.9	159.4	158.0	151.8
Quarter-on-quarter changes	-0.7	3.5	-0.9	-0.9	-3.9
Domestic Demand	143.9	149.2	151.2	154.3	146.6
Quarter-on-quarter changes	-2.5	3.7	1.3	2.0	-5.0
Manufacturing and Production Category	108.6	120.0	126.7	117.1	107.3
Quarter-on-quarter changes	-3.4	10.5	5.6	-7.6	-8.3

Source: Central Bank of Lesotho

EMPLOYMENT DEVELOPMENTS

The number of employees by LNDC-assisted companies was estimated to have increased by 4.1 per cent in the third quarter of 2022 from a decline of 2.5 per cent in the preceding quarter. The increase mainly emanated from the woven garments, fabrics, yarn, etc., electronics and other categories. However, the decline in knit garments moderated this increase. Employment in this sector was mainly buoyed by strong demand fuelled by economic recovery in some of Lesotho's trading partners such as the United States.

Table 3: Employment by LNDC-Assisted Companies

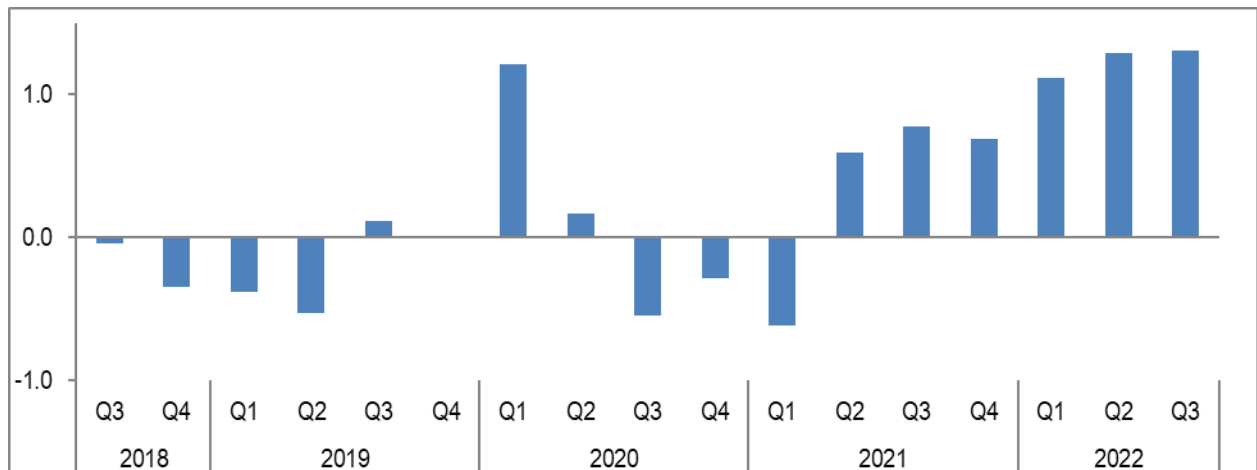
Industry	2021				2022	% Changes	
	Q3	Q4	Q1	Q2	Q3 ²	Q/Q	Y/Y
Knit Garments.....	26084	26127	25458	24507	25734	5.0	-1.3
Woven Garments.....	9521	9854	10167	10038	10337	3.0	8.6
Footwear.....	975	975	884	826	838	1.4	-14.1
Fabrics, Yarn etc.....	317	362	1466	1 566	1390	-11.3	338.4
Construction.....	359	411	411	412	402	-2.5	11.8
Food & Beverages.....	602	612	618	610	571	-6.4	-5.2
Electronics.....	1022	1015	1207	1 167	1125	-11.2	10.1
Retail.....	193	198	196	201	211	5.1	9.5
Hotel Accom.....	242	312	242	242	241	-0.3	-0.3
Other.....	1051	965	947	1428	1416	-0.9	34.7
TOTAL.....	40366	40831	41596	38938	42264	2.8	4.7

Source: Lesotho National Development Corporation

Government employment increased by 1.3 per cent during the review period, which was similar to the preceding period. The increase was mainly attributable to the civil servants' category, while the number of teachers declined.

² Estimated using employment-output elasticity

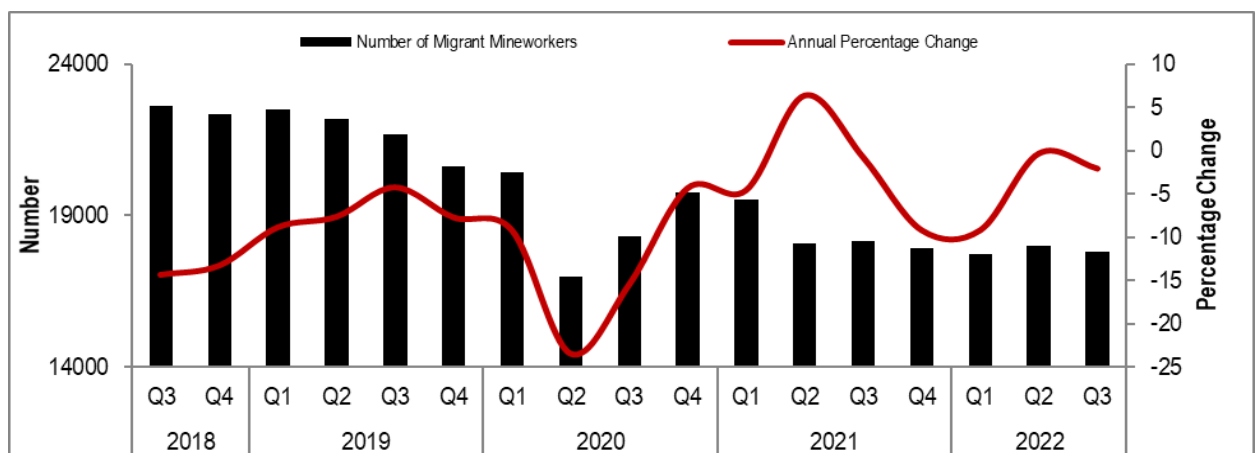
Figure 8: Government Employment (Annual Percentage Changes)



Source: Ministry of Finance

The number of migrant mine workers dropped further by 2.1 per cent during the third quarter, after declining by 0.3 per cent in the preceding quarter. Mineworkers’ employment was negatively affected mainly by power supply cuts. In addition, fears of weaker global demand, which dampened prospects for the mining sector leading to layoffs in some mines.

Figure 9: Migrant Mineworkers (Annual Percentage Changes)



Source: The Employment Bureau of Africa (TEBA)

PRICE DEVELOPMENTS

The headline inflation rate measured 9.2 per cent in September 2022 compared with 8.8 per cent in June 2022. The major contributors to the rise in inflation were Food and Non-alcoholic beverages; Transport; Furniture, household’s equipment & routine maintenance and Clothing and Footwear. Nonetheless, Housing, water, electricity, gas & other fuels, as well as Recreation and Culture moderated the increase in inflation.

The rise in inflation mainly reflected higher international food and energy prices, which have been exacerbated by the Russia’s invasion of Ukraine. The ongoing war led to increased Brent crude oil prices and agricultural commodity prices, since Russia and Ukraine were major producers of crude oil and grains, respectively. The lingering supply bottlenecks and exchange rate depreciation also contributed to escalating consumer prices.

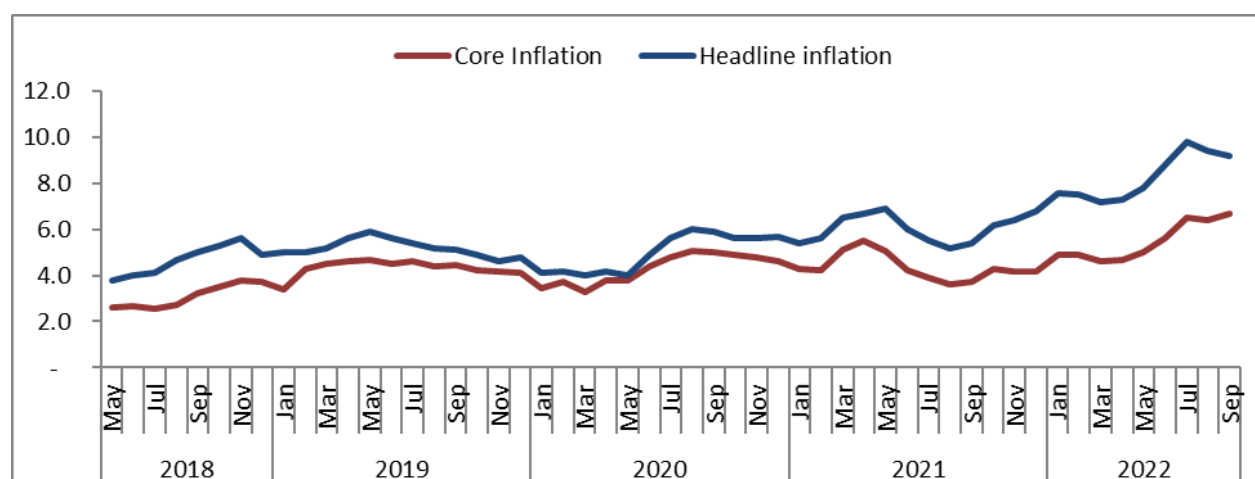
Table 4: Inflation Rate (Annual Percentage Changes)

	Weight	2021			2022	
		May	Jun	Jul	Aug	Sep
All items	100.0	7.8	8.8	9.8	9.4	9.2
Food and non-alcoholic beverages	36.1	7.4	8.4	10.2	10.2	10.2
Alcoholic beverages & Tobacco	3.3	2.7	3.6	4.1	4.4	4.7
Clothing & footwear	13.1	8	8.5	8.9	9.1	8.7
Housing, water, electricity, gas & other fuels	12.4	17.2	19.8	19.8	16.8	14.5
Furniture, households equipment & routine maintenance	8.5	4.6	5.3	6	5.9	6.1
Health	1.5	1.4	1.2	1.2	1.5	1.5
Transport	4.8	18.1	20	23.6	22.6	23.1
Communications	2.1	0.4	1.2	1.2	0.8	0.8
Recreation & Culture	5.7	1.3	1.2	1.2	0.6	0.9
Education	4.2	5.7	5.7	5.7	5.7	5.7
Restaurant & Hotels	1.0	5.8	5.8	6.8	6.4	6.3
Miscellaneous goods & services	7.3	1.3	1.5	1.6	1.6	1.7

Source: Bureau of Statistics

Along with the headline inflation, core inflation also rose from 5.6 per cent in June 2022 to 6.7 per cent in September 2022. The rise in core inflation mainly reflected the spillover effects from the rising food and energy prices during the review period.

Figure 10: Core vs Headline Inflation (Annual Percentage Changes)

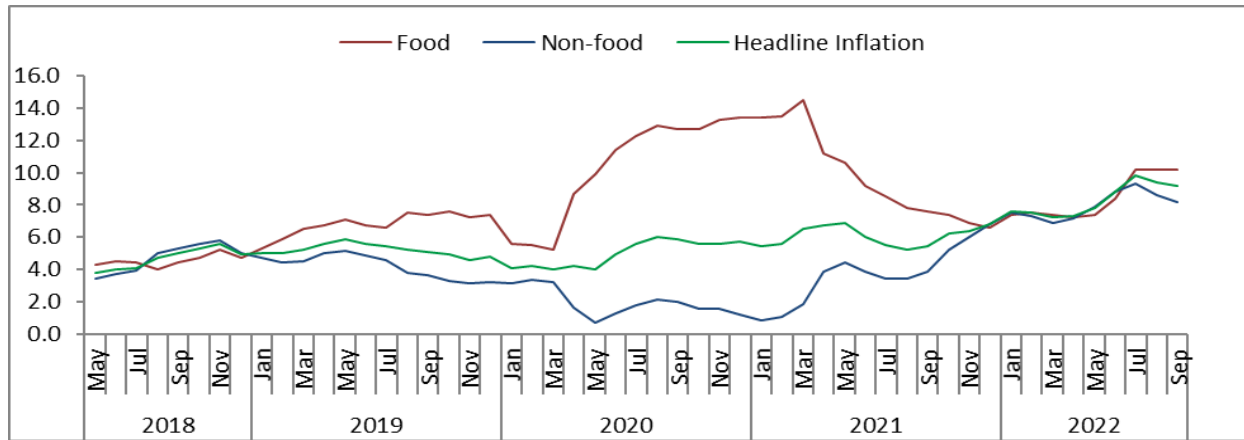


Source: CBL Computations

During the review period, the food inflation rate increased to 10.2 per cent, from 8.4 per cent in the preceding quarter. At the same time, the non-food inflation rate declined to 8.2 per cent, from 8.8 per

cent. The non-food inflation benefited from fuel subsidy that government introduced to lessen the impact of rising prices.

Figure 11: Food vs Non-food Inflation (Annual Percentage Changes)



Source: BoS and CBL Computations

4. Monetary and Financial Developments

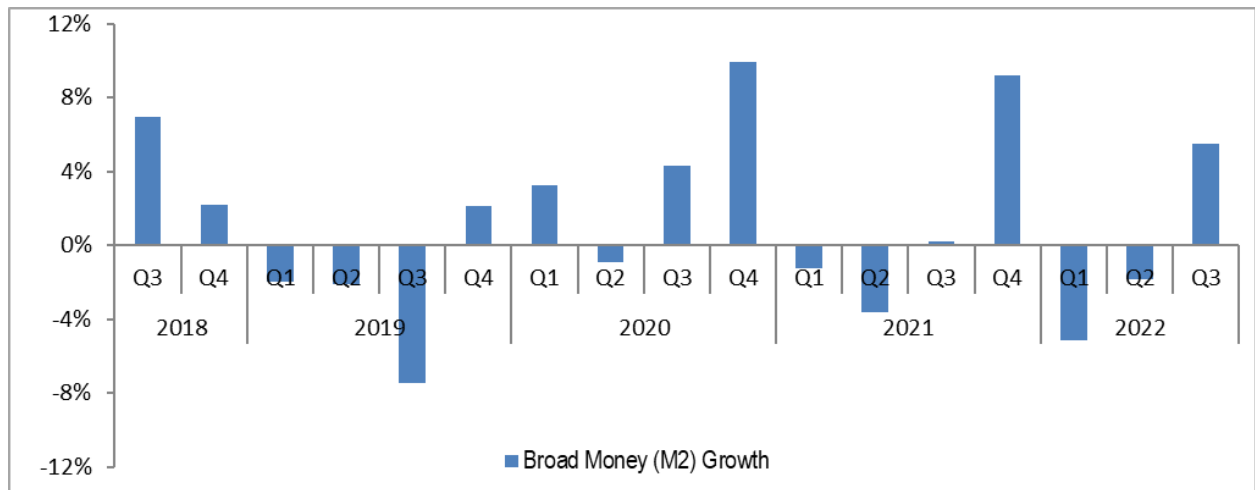
OVERVIEW

During the third quarter of 2022, broadly defined money supply (M2) rose as a result of an increase in net foreign assets and domestic claims. Credit to private sector increased, underpinned by loans and advances to households and business enterprises. All short-term rates surged in line with the increase in CBL policy rate.

BROAD MONEY (M2)

The broadly defined money supply increased by 5.5 per cent, in contrast to a decline of 1.9 per cent in the second quarter. The rise in M2 was driven by an increase in both the domestic claims and net foreign assets. On a year-on-year basis, M2 grew by 7.2 per cent. However, in real terms, M2 declined by 3.7 per cent.

Figure 8: Broad Money (M2) (Quarterly Changes)



Source: Central Bank of Lesotho

Determinants of M2

Domestic Claims

Domestic claims rose by 12.0 per cent during the quarter under review, following an increase of 12.4 per cent recorded in June 2022. The observed growth in domestic claims benefitted from an increase of 13.1 per cent in net claims on government and 4.7 per cent in claims on other sectors. Net claims on government stemmed from an increase in commercial banks' holding of Government securities amounting to M700 million during the quarter. The growth in claims on other sectors was supported by a rise in credit extended to other financial corporations, public nonfinancial corporations and the private sector.

Table 3: Domestic Claims (Million Maloti: End Period)

	2021		2022			Changes (%)	
	Q3	Q4	Q1	Q2	Q3	Quarterly	Annual
Domestic Claims	5,102.22	5,636.75	5,321.91	5,982.48	6,700.19	12.0	31.3
Net Claims on Government	(3,235.30)	(2,955.72)	(2,852.82)	(2,443.40)	(2,124.12)	13.1	34.3
Commercial Banks Net Claims	182.86	535.75	749.49	409.85	1,007.88	145.9	451.2
Claims on Central Government	2,036.39	2,405.61	2,524.75	2,403.51	3,018.06	25.6	48.2
Liabilities to Central Government	1,853.53	1,869.86	1,775.27	1,993.66	2,010.18	0.8	8.5
Central Bank Net Claims	(3,418.16)	(3,491.47)	(3,602.31)	(2,853.25)	(3,132.00)	-9.8	8.4
Claims on Central Government	230.20	139.33	139.33	98.39	72.59	-26.2	-68.5
Liabilities to Central Government	3,648.37	3,630.80	3,741.64	2,951.64	3,204.59	8.6	-12.2
Claims on Other Sectors	8,337.52	8,592.47	8,174.73	8,425.87	8,824.31	4.7	5.8
Claims on OFCs	138.31	144.12	162.17	248.74	296.09	19.0	114.1
Claims on Public Nonfinancial Corporations	81.34	60.21	51.48	53.08	60.85	14.6	-25.2
Claims on St & Local Government	-	-	-	-	-	-	-
Claims on Private Sector	8,117.88	8,388.14	7,961.08	8,124.05	8,467.37	4.2	4.3
Claims on Business Enterprises	2,191.35	2,072.61	2,068.10	2,068.76	2,237.28	8.1	2.1
Claims on Households	5,926.54	6,315.53	5,892.99	6,055.30	6,230.09	2.9	5.1

Source: Central Bank of Lesotho

Net Foreign Assets

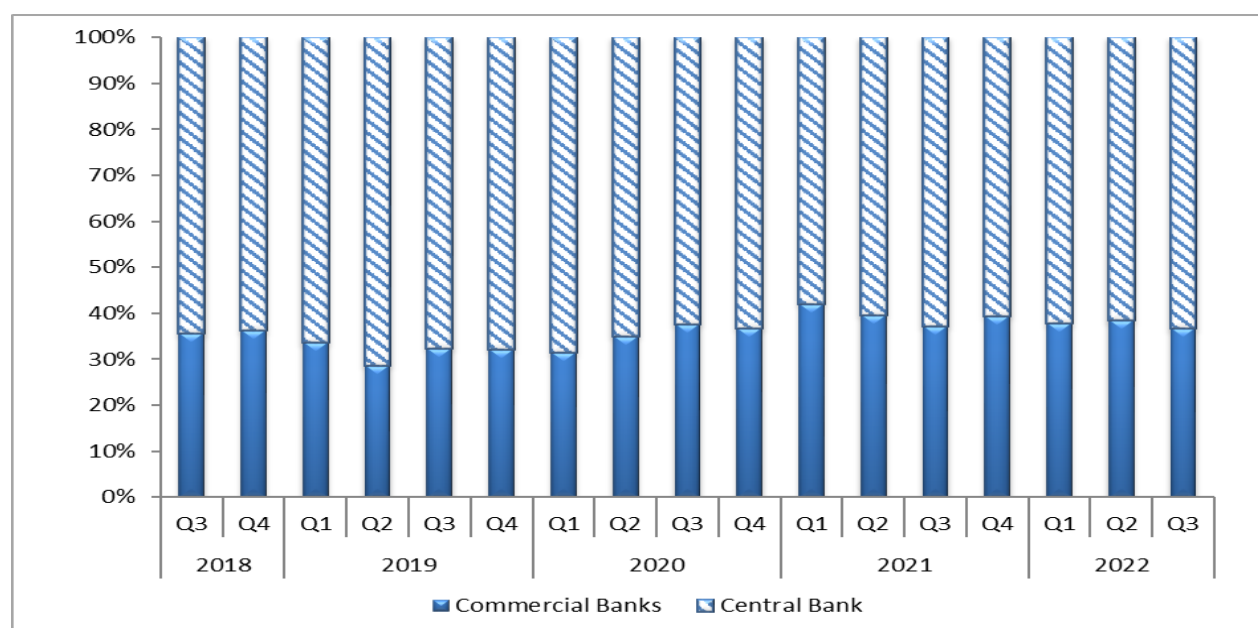
The overall net foreign assets (NFA) grew by 2.1 per cent in September 2022, in contrast to a decline of 3.4 per cent recorded in the previous quarter. This was due to an increase of 5.0 per cent in central bank's NFA, while commercial banks' NFA declined by 2.6 per cent. The increase in central bank's NFA was reinforced by the commercial banks' inflows and receipts of external funds to finance government projects. The decline in commercial banks' NFA was mainly driven by an increase in liabilities to non-residents emanating from a rise in outstanding transactions between domestic banks and foreign banks.

Table 4: Net Foreign Assets (Million Maloti: End Period)

	2021		2022			Changes (%)	
	Q3	Q4	Q1	Q2	Q3	Quarterly	Annual
Commercial Banks	6,267.31	6,965.49	6,262.67	6,165.51	6,006.86	-2.6	-4.2
Claims on Non-residents	6,544.39	7,451.12	6,605.03	6,468.28	6,528.25	0.9	-0.2
Liabilities to Non-residents	277.09	485.62	342.36	302.78	521.40	72.2	88.2
Central Bank	10,530.59	10,671.12	10,319.22	9,845.63	10,342.19	5.0	-1.8
Claims on Non-residents	13,632.78	13,674.28	13,165.69	12,735.98	13,124.19	3.0	-3.7
Liabilities to Non-residents	3,102.18	3,003.16	2,846.47	2,890.35	2,782.00	-3.7	-10.3
Net Foreign Assets Total	16,797.90	17,636.61	16,581.89	16,011.13	16,349.05	2.1	-2.7

Source: Central Bank of Lesotho

Figure 9: Net Foreign Assets (Percentage shares)



Source: Central Bank of Lesotho

Components of M2

In terms of the broad money components, the growth in M2 was attributable to an increase of 5.8 per cent and 5.3 per cent in both the narrow money (M1) and quasi money, respectively. M1 was driven by a rise of 11.1 per cent in currency in circulation, and 4.6 per cent in transferable deposits held by business enterprises. The growth in quasi money was supported by an increase in savings deposits of households, as well as fixed term deposits held by business enterprises and households.

Table 5: Components of Money Supply (Million Maloti: End Period)

	2021		2022			Changes (%)	
	Q3	Q4	Q1	Q2	Q3	Quarterly	Annual
Broad Money (M2)	13,595.12	14,842.37	14,076.89	13,815.35	14,580.08	5.5	7.2
Narrow Money (M1)	6,289.92	7,121.42	6,639.66	6,303.45	6,667.51	5.8	6.0
Currency Outside DCs	1,287.24	1,356.57	1,207.36	1,131.34	1,256.94	11.1	-2.4
Transferable Deposits	5,002.68	5,764.85	5,432.30	5,172.10	5,410.56	4.6	8.2
Quasi Money	7,305.20	7,720.95	7,437.22	7,511.90	7,912.57	5.3	8.3
Other Deposits Commercial Banks	7,303.26	7,718.34	7,435.07	7,509.74	7,911.08	5.3	8.3
Other Deposits Central Bank	1.94	2.61	2.16	2.16	1.49	-31.2	-23.4

Source: Central Bank of Lesotho

CREDIT EXTENSION

Private sector credit rose by 4.2 per cent in September 2022, following a growth of 2.0 per cent in June 2022. This was supported by an improvement in both the business and household loans. On an annual basis, private sector credit growth was 4.3 per cent. However, measured in real terms, private sector credit fell by 4.9 per cent.

Trends in Credit Extended to Business Enterprises

The total loans and advances granted to the business sector rose by 8.1 per cent, following a marginal growth of 0.03 per cent in June 2022. The surge in loans to business enterprises stemmed from new term loans, utilisation of overdraft facilities and vehicle asset financing, chiefly towards the Real Estate & Business Services and Wholesale, Retail, Hotel & Restaurant sectors. Annually, the overall credit to business enterprises rose by 2.1 per cent, following an increase of 1.3 per cent in the previous quarter.

Table 6: Credit Extension by Economic Activity (Million Maloti)

SECTOR	2021			2022		Changes (%)	
	Q1	Q2	Q3	Q4	Q1	Quarterly	Annual
Agriculture	45.00	72.34	81.34	90.83	77.02	-15.2	71.2
Mining	299.42	313.40	402.72	284.68	288.95	1.5	-3.5
Manufacturing	30.86	27.27	32.57	48.90	66.27	35.5	114.70
Electricity, gas and water	4.15	8.37	6.97	5.45	7.34	34.6	76.8
Construction	343.09	342.23	341.32	311.53	304.38	-2.3	-11.3
Wholesale, Retail, Hotel & Restaurant	380.62	385.19	377.91	412.37	400.40	-2.9	5.2
Transport, Storage and Communication	385.41	367.70	407.79	436.98	415.33	-5.0	7.8
NBFIs, Real Estate and Business Services	532.84	511.74	527.45	470.06	500.89	6.6	-6.0
Community, Social & Personal Service	16.42	14.64	13.26	11.81	7.52	-36.3	-54.2
All Sectors	2,037.82	2,042.89	2,191.35	2,072.61	2,068.10	-0.2	1.5

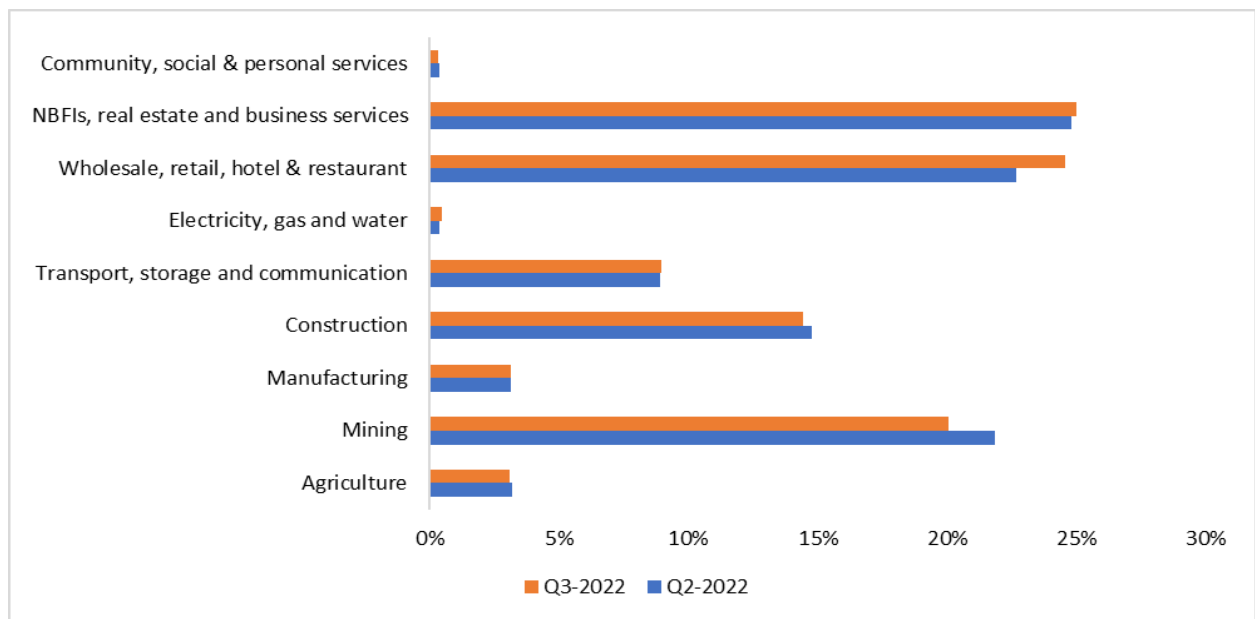
Source: Central Bank of Lesotho

Distribution of credit Extended to Business Enterprises

Considering the sectoral distribution of credit to business enterprises, the largest proportion of credit was allocated to the non-bank financial institutions, real estate & business services sector, with a share of 25.0 per cent. This was followed by the wholesale, retail, hotel & restaurant with a share of 24.6 per cent. The smallest share of credit was allocated to the community, social & personal service, with a share of 0.3 per cent. The allocation of credit to sectors identified by the National Strategic Development Plan (NSDP) II³, as potential sectors for job creation and achievement of inclusive economic growth, stood at 64.7 per cent during the quarter under review.

³ NSDP II targets the following sectors: (1) technology and innovation – estimated by credit to real estate & business services, and transport, storage & communications sectors, (2) tourism – proxied by credit to wholesale, retail, hotel and restaurant sector, (3) agriculture and (4) manufacturing.

Figure 10: Distribution of Credit (Percentage Shares)

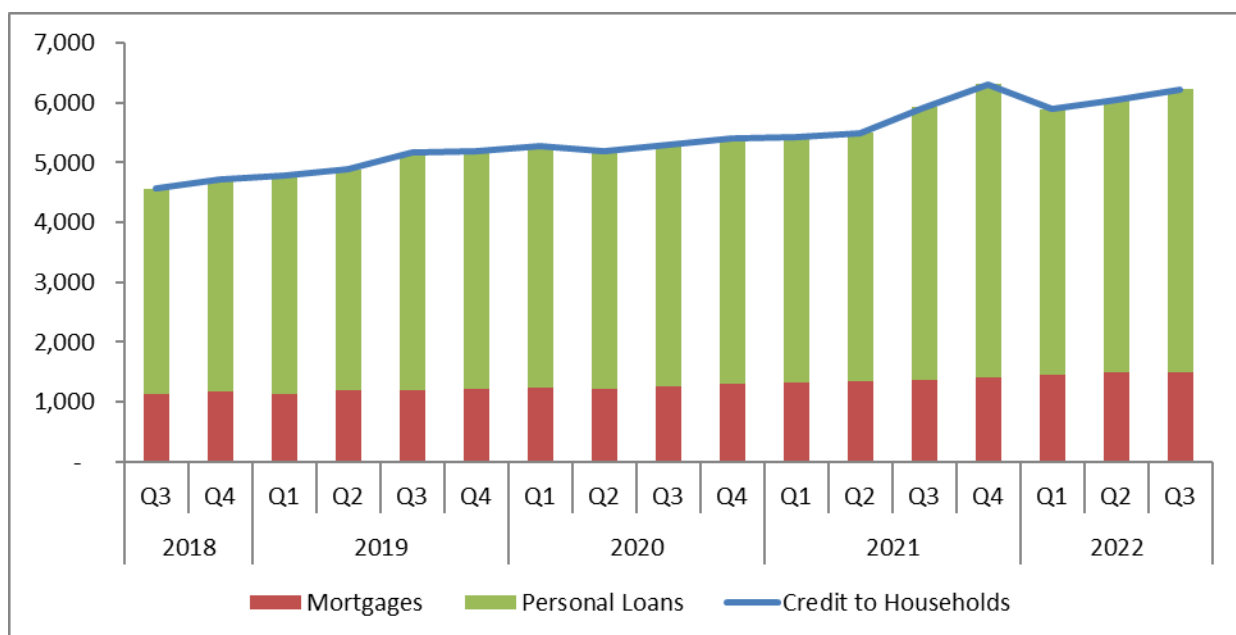


Source: Central Bank of Lesotho

Credit extended to Households

Credit extension to the household sector rose by 2.9 per cent in the third quarter of 2022, following a growth of 2.8 per cent in June 2022. The increase was due to a rise of 3.9 per cent in personal loans, while mortgage loans declined by 0.3 per cent. The growth in personal loans benefitted from initiatives taken by banks to expand credit availability. On an annual basis, the rise in household credit slowed to 5.1 per cent, from 9.7 per cent realised in the second quarter.

Figure 11: Credit Extension to Household (Million Maloti)



Source: Central Bank of Lesotho

LIQUIDITY OF COMMERCIAL BANKS

Components of liquidity

Credit to deposit ratio fell to 53.3 per cent, from 54.5 per cent observed in the second quarter of 2022. This was a reflection of the growth in total deposits that exceeded private sector credit growth. The liquidity ratio also declined by 2.8 percentage points and stood at 41.4 per cent, mainly owing to a fall in net balances due from banks in South Africa, coupled with an increase in total deposits.

Table 7: Components of Liquidity (Million Maloti)

	2021		2022		
	Q3	Q4	Q1	Q2	Q3
Credit to Deposit Ratio	54.8%	50.9%	53.4%	54.5%	53.33%
Private Sector Credit	7,785.84	7,849.43	7,847.67	8,012.89	8,203.00
Total Deposits	14,209.62	15,421.30	14,705.48	14,712.15	15,380.33
Liquidity Ratio	45.8%	43.8%	44.0%	44.2%	41.43%
Notes and Coins	531.65	734.29	551.10	553.98	583.36
Net Balance due from banks in Lesotho	(1.93)	(4.18)	(5.20)	(0.05)	(3.42)
Net Balance due from banks in SA	3,723.86	3,554.91	3,394.62	3,586.15	2,820.94
Surplus funds	224.26	71.27	0.93	(36.82)	(47.18)
Government Securities	2,036.39	2,405.61	2,524.75	2,403.51	3,018.06
Total	6514.23	6761.90	6466.21	6506.78	6371.77

Source: Central Bank of Lesotho

Commercial Banks Sources of Funds

The commercial banks' total deposit liabilities rose by 4.5 per cent in the third quarter, compared to a marginal increase of 0.1 per cent registered in the previous quarter. This was due to an upsurge in both the deposits included and excluded in broad money. Transferable deposits held by business enterprises – in particular, the business services and mining subsectors – increased. Other deposits also experienced an increase in all money holding sectors, with banks recording an increase in new accounts by households, and a growth in deposits by manufacturing companies, collective investment schemes and insurance companies. Annually, total deposits rose by 8.2 per cent, following an increase of 1.8 per cent in the previous quarter. In real terms, total deposits declined by 1.0 per cent.

Table 8: Sources of funds for ODCs (Million Maloti)

	2021		2022			Changes (%)	
	Q3	Q4	Q1	Q2	Q3	Quarterly	Annual
Transferable Deposits Incl. in BM	5,002.68	5,764.85	5,432.30	5,172.10	5,410.56	4.6	8.2
Other Financial Corporations	110.65	84.52	26.72	35.81	19.34	-46.0	-82.5
Public Nonfinancial Corporations	72.73	67.10	25.86	38.09	30.35	-20.3	-58.3
Private Sector	4,796.76	5,580.45	5,375.72	5,053.24	5,305.39	5.0	10.6
Other NFCs	3,163.62	3,852.96	3,616.10	3,373.51	3,613.22	7.1	14.2
Other Sectors (Households)	1,633.14	1,727.49	1,759.62	1,679.73	1,692.17	0.7	3.6
Other Deposits Incl. in BM	7,303.26	7,718.34	7,435.07	7,509.74	7,911.08	5.3	8.3
Other Financial Corporations	253.72	89.59	273.57	258.62	301.90	16.7	19.0
Public Nonfinancial Corporations	160.23	191.05	260.27	373.76	400.01	7.0	149.7
Private Sector	6,889.32	7,437.70	6,901.23	6,877.36	7,209.17	4.8	4.6
Other NFCs	4,437.36	4,943.74	4,302.03	4,276.71	4,454.51	4.2	0.4

	2021		2022			Changes (%)	
	Q3	Q4	Q1	Q2	Q3	Quarterly	Annual
Other Sectors (Households)	2,451.96	2,493.95	2,599.19	2,600.65	2,754.65	5.9	12.3
Deposits excluded in BM	1,903.69	1,938.11	1,838.11	2,030.31	2,058.69	1.4	8.1
Total Deposits	14,209.62	15,421.30	14,705.48	14,712.15	15,380.33	4.5	8.2

Source: Central Bank of Lesotho

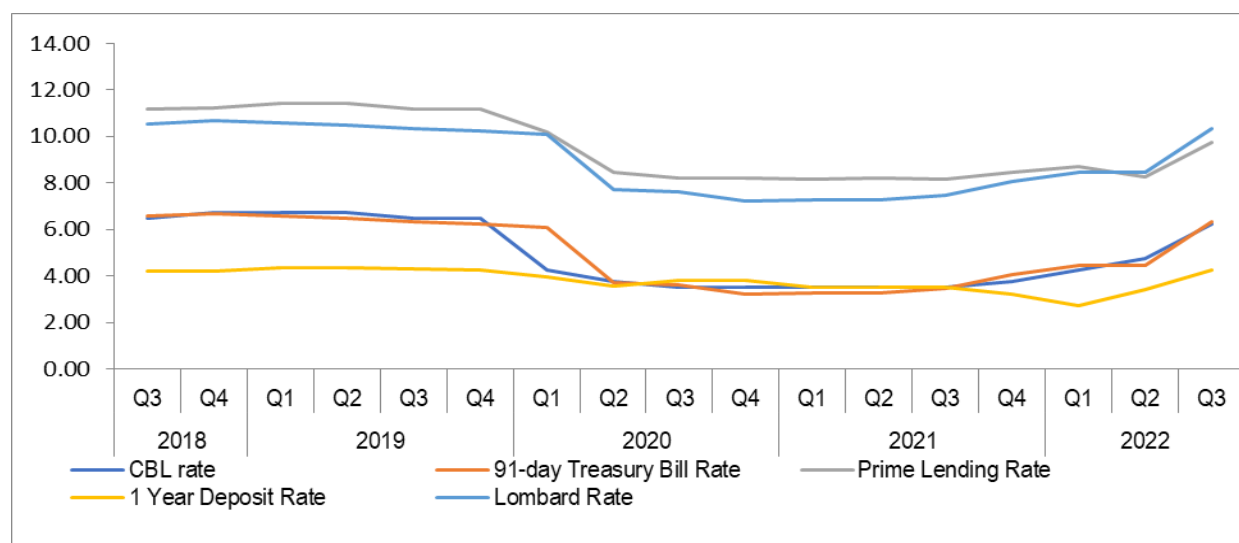
MONEY AND CAPITAL MARKET DEVELOPMENTS

Money Market

Interest Rates

The Central Bank of Lesotho's key policy rate maintained an upward trajectory, rising by 150 basis points to 6.25 per cent in the third quarter of 2022. In response, the prime lending rate also rose by 150 basis points to 9.75 per cent. The 91-day Treasury bill rate increased from 4.45 per cent in June, to 6.34 per cent in September 2022, but remained within the desired range of +/- 200 basis points to the South African counterpart rate. One-year deposit rate rose by 82 basis points and stood at 4.24 per cent.

Figure 12: Short Term Interest Rates (Per Cent per Annum)



Source: Central Bank of Lesotho

Table 9: Interest rates

	2021		2022		
	Q3	Q4	Q1	Q2	Q3
Central Bank					
CBL rate	3.50	3.75	4.25	4.75	6.25
T-Bill Rate - 91 days	3.45	4.06	4.45	4.45	6.34
Lombard Rate	7.45	8.06	8.45	8.45	10.34
Commercial Banks					
Call	0.99	1.05	1.01	1.37	1.87
Time:					
31 days	0.67	0.67	0.48	0.48	1.20
88 days	1.64	1.64	1.24	1.47	2.18

	2021	2022			
	Q3	Q4	Q1	Q2	Q3
6 months	3.10	3.18	2.65	2.97	3.49
1 year	3.53	3.20	2.75	3.41	4.24
Savings	0.70	0.70	0.65	1.13	1.37
Prime	8.19	8.44	8.69	8.25	9.75
South Africa					
Repo	3.50	3.75	4.25	4.75	6.25
T-Bill Rate - 91 days	3.79	3.83	4.31	5.11	6.20
Prime	7.00	7.25	7.75	8.25	9.75

Source: Central Bank of Lesotho

Holding of Treasury Bills

The overall holding of treasury bills (T-Bills) increased by 50.5 per cent during the review period, following a fall of 10.7 per cent in the second quarter of 2022. This was mainly due to a 58.1 per cent increase in T-Bills held by the banking sector following the new issuance of M700 million during the quarter. This led the banking sector to hold 90.1 per cent of the overall T-Bills issued. The holding of T-Bills by the non-bank sector also rose by 4.8 per cent, driven by the non-bank financial institutions.

Table 10: Holding of Bills (Million Maloti)

	2021	2022			
	Q3	Q4	Q1	Q2	Q3
Treasury Bills	1,104.94	1,462.79	1,458.40	1,301.54	1,959.12
Banking System	913.84	1,266.77	1,278.59	1,117.11	1,765.77
Non-Bank Sector	191.10	196.02	179.81	184.43	193.35
Memorandum Item					
Yield Bills (91-days)	3.48	4.10	4.50	4.50	6.44

Source: Central Bank of Lesotho

Holding of Treasury Bonds

The overall holding of treasury bonds grew by 3.4 per cent, commensurate with the bond auction held during the review quarter. The banking sector's holdings of treasury bonds increased by a marginal 0.1 per cent, while the non-banking sector recorded a growth of 5.4 per cent. Considering the exposure to government bonds between quarters, the share of the banking sector to the total stock of bonds stood at 36.6 per cent, while the non-banking sector stood at 63.4 per cent.

Table 11: Holding of Bonds (Million Maloti)

	2021	2022			
	Q3	Q4	Q1	Q2	Q3
Holding of Treasury Bonds	2,786.32	2,786.32	3,136.31	3,336.31	3,450.42
Banking System	1,144.28	1,118.18	1,223.09	1,262.57	1,264.07
Non-Bank Sector	1,642.04	1,668.13	1,913.22	2,073.74	2,186.34

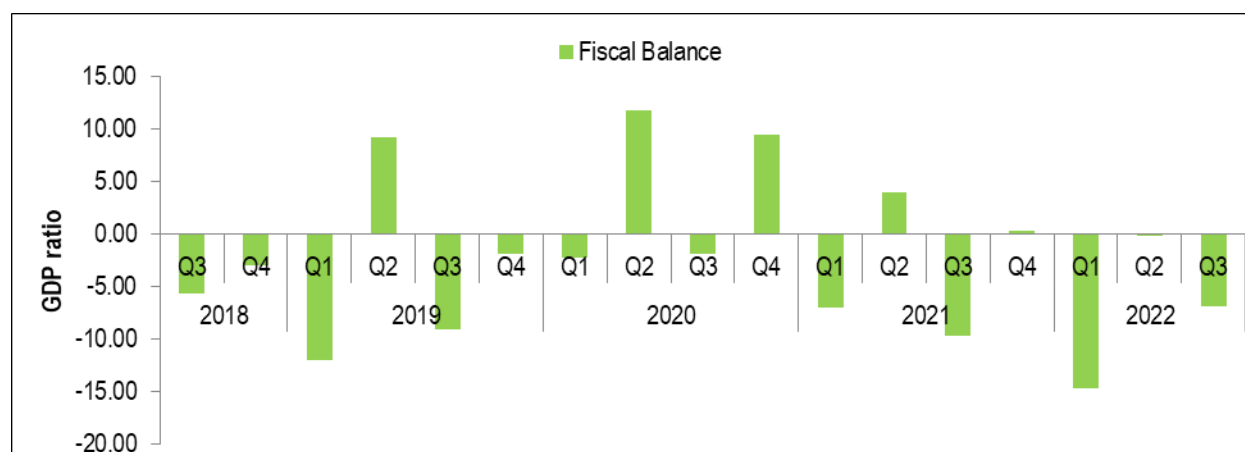
Source: Central Bank of Lesotho

5. Government Finance

OVERVIEW

The Government budgetary operations were estimated to have registered a fiscal deficit equivalent to 6.9 per cent of GDP during the period under review, following a revised fiscal deficit of 0.2 per cent of GDP in the quarter ending in June 2022. The deficit resulted from an increase in spending that outpaced a rise in revenue. The public debt stock was estimated at 58.3 per cent of GDP, compared to a revised 54.3 per cent of GDP in the previous quarter.

Figure 13: Fiscal Balance (Percent of GDP)



Source: Central Bank of Lesotho and Ministry of Finance

TOTAL REVENUE⁴

The Government revenue increased by 4.0 per cent during the quarter under review, in contrast to a 12.5 per cent decline in the quarter ending in June 2022. Income tax and value added tax contributed to the observed increase. On a year-on-year basis, total revenue grew by 3.5 per cent, compared to a fall of 3.8 per cent in the preceding quarter.

TOTAL EXPENDITURE

The Government spending increased by 19.3 per cent, in contrast to a revised decline of 14.0 per cent in the previous quarter. The main recurrent spending components responsible for the increase, on the one hand, included wages and salaries, operating costs, subsidies to non-financial corporations and grants to extra-budgetary units. The rise in capital expenditure on the other hand reflected accelerated implementation of development projects. On annual basis, total spending increased by 8.3 per cent during the quarter under review, following a revised increase of 4.0 per cent in the previous quarter.

⁴ SACU receipts have been disaggregated into three components: excise tax, customs and other imports duties, and grants from international organisations. They are received during the first month of each quarter, making four inflows in a fiscal year.

Table 11: Statement of Government Operations (Million Maloti)

	2021		2022			Q-to-Q (%)	Y-on-Y (%)	GDP ratio (%)
	Q3	Q4	Q1	Q2	Q3			
Total Revenue	3 912.88	4 154.56	4 448.76	3 893.74	4 048.41	4.0	3.5	45.7
Tax revenue	3 103.35	3 152.61	3 320.67	3 074.43	3 273.60	6.5	5.5	36.9
Income Tax	1 062.08	1 047.44	1 167.03	983.48	1 129.93	14.9	6.4	12.7
Value Added Tax	727.80	789.37	841.02	852.05	949.59	11.4	30.5	10.7
SACU Receipts Components	1 175.05	1 175.05	1 175.05	1 056.09	1 056.09	0.0	-10.1	11.9
Other tax revenue	138.42	140.76	137.56	182.82	137.99	-24.5	-0.3	1.6
Grants	334.59	331.55	565.31	295.46	293.80	-0.6	-12.2	3.3
o/w SACU Receipts Component	326.89	326.89	326.89	293.80	293.80	0.0	-10.1	3.3
Other revenue	474.93	670.39	562.78	523.85	481.01	-8.2	1.3	5.4
Total Expense	3 652.25	3 593.97	4 452.16	3 477.32	4 069.98	17.0	11.4	45.9
Compensation of Employees	1 457.98	1 531.67	1 825.97	1 676.85	1 765.41	5.3	21.1	19.9
Use of goods and services	726.94	634.54	974.60	438.80	720.16	64.1	-0.9	8.1
O/W Purchase of Health Services	119.62	188.06	134.18	199.01	108.01	-45.7	-9.7	1.2
Interest Payments	167.82	71.18	118.54	51.95	204.37	293.4	21.8	2.3
Subsidies	105.94	87.06	301.80	131.11	98.09	-25.2	-7.4	1.1
Grants	293.63	379.57	382.63	458.45	524.22	14.3	78.5	5.9
Social benefits	578.63	676.87	629.12	460.08	371.13	-19.3	-35.9	4.2
Other expense	321.30	213.08	219.50	260.08	386.60	48.6	20.3	4.4
Gross Operating Balance	260.64	560.58	-3.40	416.42	-21.57	-	-	-0.2
Total Nonfinancial Assets	1 097.31	524.83	1 330.67	431.80	591.94	37.1	-46.1	6.7
Fixed Assets	1 097.31	524.83	1 330.67	431.80	591.94	37.1	-46.1	6.7
Non-Produced Assets	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Total Expenditure	4 749.56	4 118.81	5 782.83	3 909.12	4 661.92	19.3	-1.8	52.6
Primary balance	-668.86	106.93	-1 215.53	36.57	-409.14	-	-	-4.6
Net lending/borrowing	-836.68	35.75	-1 334.07	-15.38	-613.50	-	-	-6.9
Financing	-1 018.46	249.50	-1 016.65	-60.11	-678.22	-	-	-7.7
Net Acquisition of Financial assets	-595.33	268.76	-108.00	-631.48	373.81	-	-	4.2
O/W Domestic Currency and Deposits	-498.40	-21.04	26.97	-640.01	387.10	-	-	4.4
Net Incurrence of Liabilities	423.13	19.27	908.65	-571.37	1 052.02	-	-	11.9
O/W Domestic Other Accounts Payable	127.51	-274.80	416.28	-502.30	176.79	-	-	2.0
Statistical Discrepancy	181.78	-213.74	-317.43	44.73	64.71	-	-	0.7
Memo Items								
SACU receipts	1 501.94	1 501.94	1 501.94	1 349.88	1 349.88	0.0	-10.1	15.2
GDP (quarterly, red colour = forecast)	8 700.46	9 473.90	9 073.28	9 243.46	8 864.48	-	-	-

Source: Central Bank of Lesotho and Ministry of Finance

TOTAL OUTLAYS BY FUNCTIONS OF GOVERNMENT⁵

Government spending by functions was mainly dominated by the economic affairs, followed by the general public service, and then education. The least spending was on environmental protection, followed by recreation, culture and religion. However, the picture changes when only the recurrent spending is analysed, with general public service receiving the largest share, followed by economic affairs, education, and social protection.

Table 12: Total Outlays by Functions of Government (Million Maloti)

	2021		2022			Q-to-Q (%)	Y-on-Y (%)	GDP ratio (%)
	Q3	Q4	Q1	Q2	Q3			
Current Outlays	3 700.67	3 316.95	4 980.49	3 513.74	3 953.94	12.5	6.8	44.6
General public services	457.47	456.20	912.02	647.89	747.41	15.4	63.4	8.4
Defense	220.35	152.25	206.05	159.71	220.24	37.9	-0.1	2.5
Public order and safety	336.08	326.94	380.79	426.18	431.09	1.2	28.3	4.9
Economic affairs	649.83	494.46	1 130.59	497.93	718.80	44.4	10.6	8.1
Environmental protection	3.41	3.47	4.01	5.48	3.70	-32.5	8.5	0.0
Housing and community amenities	229.89	66.43	28.11	42.98	97.30	126.4	-57.7	1.1
Health	560.11	470.56	880.93	421.04	482.74	14.7	-13.8	5.4
Recreation, culture and religion	30.86	138.36	136.28	28.65	26.99	-5.8	-12.5	0.3
Education	633.32	659.92	623.21	654.73	636.53	-2.8	0.5	7.2
Social protection	579.35	548.38	678.51	629.16	589.16	-6.4	1.7	6.6
Capital Outlays	483.82	315.95	439.60	267.93	244.24	-8.8	-49.5	2.8
General public services	106.10	59.47	138.11	28.87	43.32	50.1	-59.2	0.5
Public order and safety	111.53	96.17	45.75	0.00	6.00	-	-94.6	0.1
Economic affairs	133.04	114.80	142.78	174.04	98.15	-43.6	-26.2	1.1
Housing and community amenities	119.17	23.58	96.12	54.62	60.50	10.8	-49.2	0.7
Health	5.18	21.36	2.76	4.72	6.25	32.4	20.7	0.1
Recreation, culture and religion	7.30	0.38	10.54	5.68	29.67	422.0	306.5	0.3
Education	1.51	0.20	3.53	0.00	0.35	-	-76.9	0.0
Total Outlays	4 184.50	3 632.91	5 420.09	3 781.67	4 198.19	11.0	0.3	47.4
General public services	563.57	515.67	1 050.12	676.75	790.73	16.8	40.3	8.9
Defense	220.35	152.25	206.05	159.71	220.24	37.9	-0.1	2.5
Public order and safety	447.62	423.11	426.54	426.18	437.08	2.6	-2.4	4.9
Economic affairs	782.87	609.25	1 273.37	671.97	816.96	21.6	4.4	9.2
Environmental protection	3.41	3.47	4.01	5.48	3.70	-32.5	8.5	0.0
Housing and community amenities	349.06	90.01	124.23	97.60	157.80	61.7	-54.8	1.8
Health	565.29	491.92	883.70	425.76	488.98	14.9	-13.5	5.5
Recreation, culture and religion	38.16	138.73	146.82	34.33	56.66	65.0	48.5	0.6
Education	634.83	660.12	626.74	654.73	636.88	-2.7	0.3	7.2
Social protection	579.35	548.38	678.51	629.16	589.16	-6.4	1.7	6.6
Unidentified Outlays	565.06	485.90	362.74	127.45	463.73	263.8	-17.9	5.2

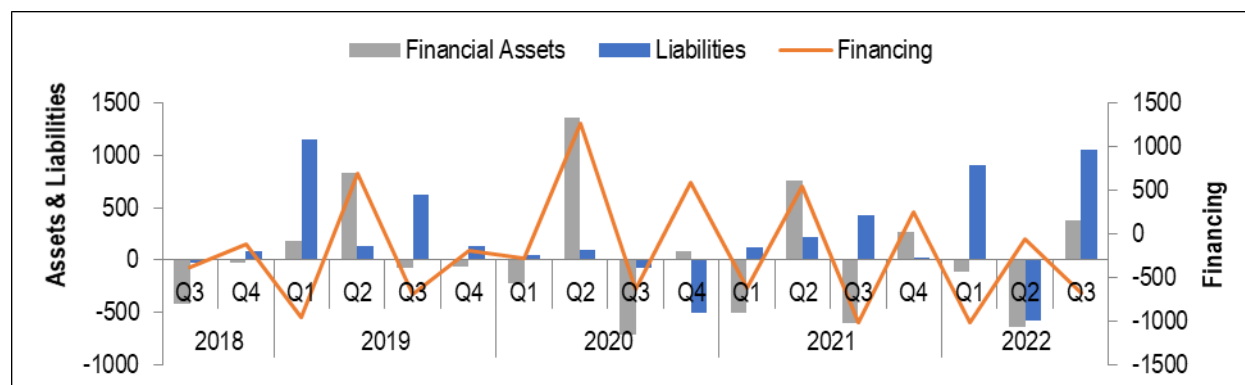
Source: Central Bank of Lesotho and Ministry of Finance

⁵ This COFOG excludes interest payments and financing items.

FINANCIAL ASSETS AND LIABILITIES⁶

The government financial assets and liabilities both recorded increases during the review period. The build-up in financial assets was explained by accumulation of government deposits with the banking sector, while liabilities rose on account of Treasury securities issued during the quarter, an increase in other accounts payable, as well as foreign loan disbursement.

Figure 14: Total Financing (Million Maloti)



Source: Central Bank of Lesotho and Ministry of Finance

TOTAL PUBLIC DEBT⁷

The stock of public debt was estimated at 58.3 per cent of GDP during the quarter under review, compared to a revised 54.3 per cent of GDP in the previous period. This was equivalent to a 7.4 per cent quarter-on-quarter increase, owing largely to disbursement on active foreign projects and the issuance of Treasury securities. However, this was moderated by the redemption of short-term Treasury bills for fiscal operations. On an annual basis, the public debt stock increased by 12.0 per cent subsequent to an increase of 10.3 per cent in the preceding quarter.

Based on Lesotho debt sustainability analysis (DSA) 2022, which rated the country at a moderate risk of debt distress, the debt burden indicators for the third quarter of 2022 remained below the unsustainability risk thresholds. The ratio of external debt service-to-exports was 7.5 per cent, while the corresponding ratio to revenue was 8.3 per cent. Similarly, the stock of external debt remained highly concessional at about 76.8 per cent of the outstanding stock of external debt.

⁶ All categories are on net terms. The difference between financing and net lending is captured under other accounts payable. However, existing statistical discrepancy caters for some funds in the banks that are totally unexplained as they are highly aggregated.

⁷ The stock of public external debt is converted using an end-of-period exchange rate. Selected debt burden thresholds for Lesotho, which has been ranked at moderate risk of debt distress, are as follows: external debt service as a per cent of revenue that should not exceed 18% while external debt service-to-exports should be below 15.

Table 13: Public Debt Stock (Million Maloti)

	2021		2022			Q-to-Q (%)	Y-on-Y (%)	Debt / GDP
	Q3	Q4	Q1	Q2	Q3			
Total Public Debt	19 244.46	20 193.71	19 446.21	20 066.45	21 551.94	7.4	12.0	58.3
EXTERNAL DEBT	14 299.90	14 858.80	13 874.30	14 473.80	15 294.50	5.7	7.0	41.4
Bilateral Loans	997.00	1 032.50	956.60	994.50	1 055.80	6.2	5.9	2.9
Concessional	997.00	1 032.50	956.60	994.50	1 055.80	6.2	5.9	2.9
Multilateral Loans	11 515.90	11 921.30	10 795.90	11 243.90	12 005.50	6.8	4.3	32.5
Concessional	10 118.20	10 535.40	9 429.90	9 894.00	10 691.90	8.1	5.7	28.9
Non-concessional	1 397.70	1 385.90	1 366.00	1 349.90	1 313.60	-2.7	-6.0	3.6
Suppliers' Credit	1 787.00	1 905.00	2 121.80	2 235.40	2 233.20	-0.1	25.0	6.0
DOMESTIC DEBT	4 944.56	5 334.91	5 571.91	5 592.65	6 257.44	11.9	26.6	16.9
Banks	3 111.42	3 470.75	3 478.88	3 334.48	3 877.75	16.3	24.6	10.5
Long-term	2 197.58	2 203.98	2 200.29	2 217.37	2 111.97	-4.8	-3.9	5.7
Treasury bonds	1 144.28	1 118.18	1 223.09	1 262.57	1 264.07	0.1	10.5	3.4
Central Bank (IMF-ECF)	1 053.30	1 085.80	977.20	954.80	847.90	-11.2	-19.5	2.3
Short-term (t-bills)	913.84	1 266.77	1 278.59	1 117.11	1 765.77	58.1	93.2	4.8
Non-bank	1 833.14	1 864.15	2 093.03	2 258.17	2 379.69	5.4	29.8	6.4
Long-term (t-bonds)	1 642.04	1 668.13	1 913.22	2 073.74	2 186.34	5.4	33.1	5.9
Short-term (t-bills)	191.10	196.02	179.81	184.43	193.35	4.8	1.2	0.5
DEBT INDICATORS								
External Debt-to-Total Debt	74.3	73.6	71.3	72.1	71.0	-	-	-
Domestic Debt-to-Total Debt	25.7	26.4	28.7	27.9	29.0	-	-	-
Concessional Debt-to-External Debt	77.7	77.9	74.9	75.2	76.8	-	-	-
External Debt Service-to-GDP	2.0	2.7	2.6	2.7	3.8	-	-	-
External Debt Service-to-Revenue	4.6	6.3	5.2	6.3	8.3	-	-	-
External Debt Service-to-Exports	4.3	5.8	5.6	6.2	7.5	-	-	-

Source: Central Bank of Lesotho and Ministry of Finance

6. Foreign Trade and Payments

OVERVIEW

The external sector position registered a deficit equivalent to 3.3 per cent of GDP in the review quarter, lower than a deficit equivalent to 4.0 per cent of GDP in the preceding quarter. This was mainly attributable to the contraction of the current account deficit during this period.

CURRENT ACCOUNT

In the third quarter of 2022, the current account balance improved compared to the previous quarter. The deficit on the current account dropped by 98.7 per cent to M13.88 million. The improved performance of the current account resulted from a decline of the goods and services accounts deficit, together with increased surplus on the secondary income account. However, this was moderated by the fall in the primary income account surplus. The deficit in the current account was equivalent to 0.2 per cent of GDP, which was lower than 11.9 per cent recorded in the quarter ending in June 2022.

Table 14: Current Account Balance (Million Maloti)

	2021		2022		% Changes	
	Q3	Q4	Q2	Q3	Q/Q	Y/Y
Current Account	-293.23	-358.58	-1101.76	-13.88	98.7	95.3
(a) Goods	-2484.03	-2663.20	-3347.12	-2714.13	31.4	7.6
Merchandise exports, f.o.b.	4174.20	4510.19	3952.62	4632.12	27.8	21.0
Of which diamonds	1309.07	1036.93	1400.65	1589.72	13.29	21.22
Of which textiles & clothing	2160.55	2619.62	1824.62	2249.45	46.2	23.5
Of which water	304.71	400.81	330.47	353.20	6.88	15.91
Of which agriculture	84.60	97.94	118.90	134.23	12.89	58.66
Of which re-exports	43.58	80.50	26.58	58.74	120.99	34.80
Other exports	271.69	274.39	251.40	249.65	-0.70	-8.11
Merchandise imports, f.o.b.	6658.23	7173.39	7299.73	7346.25	0.64	10.33
(b) Services	-1430.48	-1396.83	-1739.56	-1729.19	0.60	-20.88
(c) Primary Income	1589.45	1635.42	2086.38	2056.08	-1.2	29.7
(d) Secondary Income	2031.83	2066.03	1898.53	1949.66	2.69	-4.04

Source: Central Bank of Lesotho

Merchandise Exports

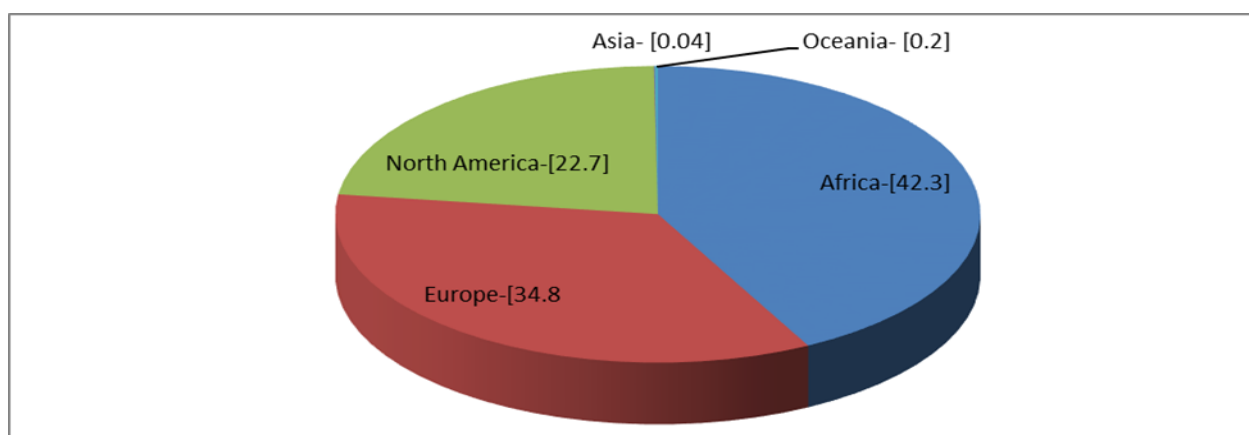
Merchandise exports rose by 27.8 per cent in the third quarter of 2022, compared to a decline of 9.8 per cent in the previous quarter. Marked increases were observed for exports for textiles and clothing, as well as diamonds. The remaining export components contributed marginally. Textile and clothing exports to Lesotho's markets, namely, South Africa and the US increased notably during this period. This was because of higher demand, as businesses sought to increase their stockpiles to meet the rising demand during the festive season. Diamond exports benefited from a recovery in international market prices, despite the impact of global economic downturn. On an annual basis, merchandise exports increased by 21.0 per cent, compared to 8.1 per cent in the second quarter of 2022. As a share of

GDP, merchandise exports accounted for 56.7 per cent, considerably higher than 42.8 per cent in the prior quarter.

Direction of Trade - Exports

Lesotho's exports to Africa continued to account for the largest share, at 42.3 per cent, which was slightly higher than the 40.7 per cent share in the preceding quarter. South Africa remained Lesotho's major export market in the continent. The significant share of exports to South Africa was driven by textiles and clothing. Europe accounted for the second largest share at 34.8 per cent, predominantly diamond exports. Exports to North America followed with a share of 22.7 per cent, as textiles and clothing exports to the region remained high. Oceania and Asia accounted for the remainder, at 0.2 and 0.04 per cent, respectively.

Figure 15: Direction of Trade Merchandise Exports (Percentage Share)



Source: Central Bank of Lesotho

Merchandise Imports

Merchandise imports rose marginally by 0.6 per cent, following a 2.1 per cent increase in the previous quarter. Imports remained relatively unchanged across all categories. However, a minor increase was recorded for manufactured goods classified chiefly by material – mineral fuels, lubricants and related materials - due to rising fuel prices, especially prices of diesel and kerosene. On an annual basis, imports increased by 10.3 per cent, compared to 9.6 per cent in the previous quarter. As a share of GDP, merchandise imports accounted for 82.7 per cent, relative to 79.0 in the previous quarter.

Services account

The deficit on the services account was relatively unchanged, rising marginally by 0.6 per cent in the quarter under review. The observed performance was primarily due to the decline in payments for telecommunication services acquired from abroad, which was, however, partly offset by the rise in payments for business travel. Freight services also increased along with the import bill. On an annual basis, the deficit on the services account increased by 20.9 per cent. As share of GDP, the services account balance accounted for 19.5 per cent, which was slightly higher than the 18.3 per cent share of GDP recorded in the second quarter of 2022.

Primary Income Account

The surplus on the primary income account declined by 1.2 per cent, in contrast with an increase of 4.0 per cent in the preceding quarter. The decline mainly reflected higher payments of interest on government's external debt, together with a decline in commercial bank's interest returns on short-term investments held abroad. However, the decline was partly offset by the increase in receipts for operational costs related to Lesotho Highland Water Project Phase I, as well as interest returns on Central Bank's investment held abroad, partly due to the weaker rand against the dollar. On year-on-year basis, the primary income account balance rose by 29.7 per cent, unchanged from the previous quarter. As a share of GDP, the surplus in the primary income account accounted for 23.2 per cent, compared to 22.5 per cent in the preceding quarter.

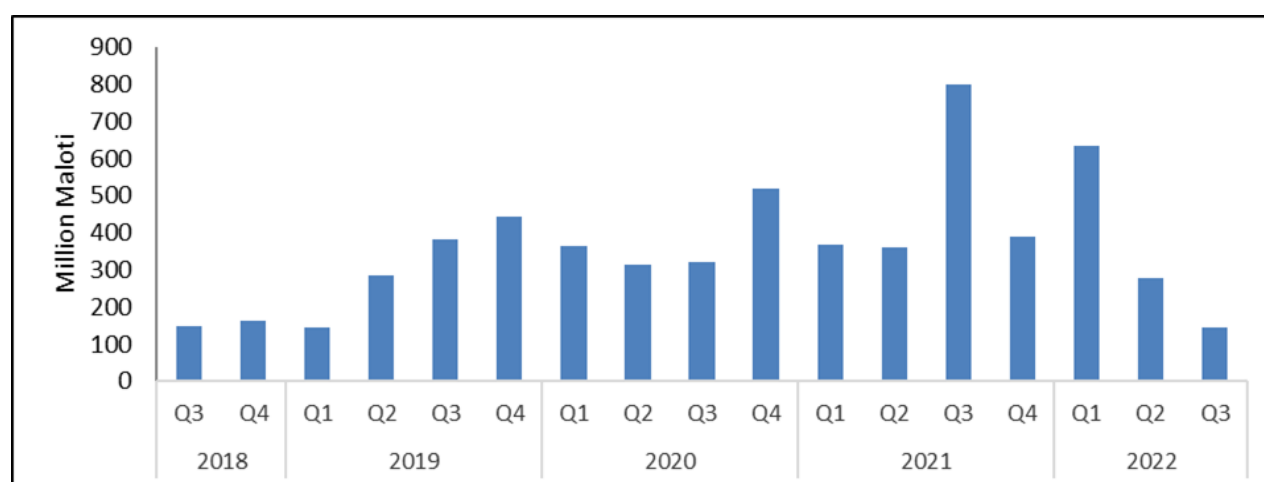
Secondary Income Account

The surplus on the secondary income account rose by 2.7 per cent, following a 23.0 per cent decline observed in the second quarter of 2022. This stemmed solely from a significant fall in subscriptions to international organizations, while the other components of the account remained constant during this period. Year on year, the secondary income account balance deteriorated by 4.0 per cent, compared to an 8.4 per cent fall in the previous quarter. Expressed as a share of GDP, the secondary income account balance accounted for 21.9 per cent compared to 23.9 per cent in the quarter ending in June 2022.

CAPITAL ACCOUNT

Inflows on capital account declined significantly, by 48.7 per cent to stand at M143.39 million, in the third quarter of 2022. The decline was attributed to lower receipts for advanced infrastructure development under the LHWP Phase II, consistent with decreased number of certified works during this period. On a year-on-year basis, the surplus on the capital account plummeted by 82.0 per cent, following a 22.5 per cent decline in the previous quarter. As a share of GDP, the surplus on the capital account accounted for 1.6 per cent, relatively lower than 2.9 per cent recorded in the previous quarter.

Figure 16: Capital Account (Million Maloti)



Source: Central Bank of Lesotho

FINANCIAL ACCOUNT

The financial account recorded a net inflow amounting to M457.83 million in the quarter ending in September 2022, following a net outflow of M278.24 million in the preceding quarter. Expressed as a percentage of GDP, the financial account inflows constituted 5.2 per cent, compared to the net outflow equivalent to 3.0 per cent in the previous quarter.

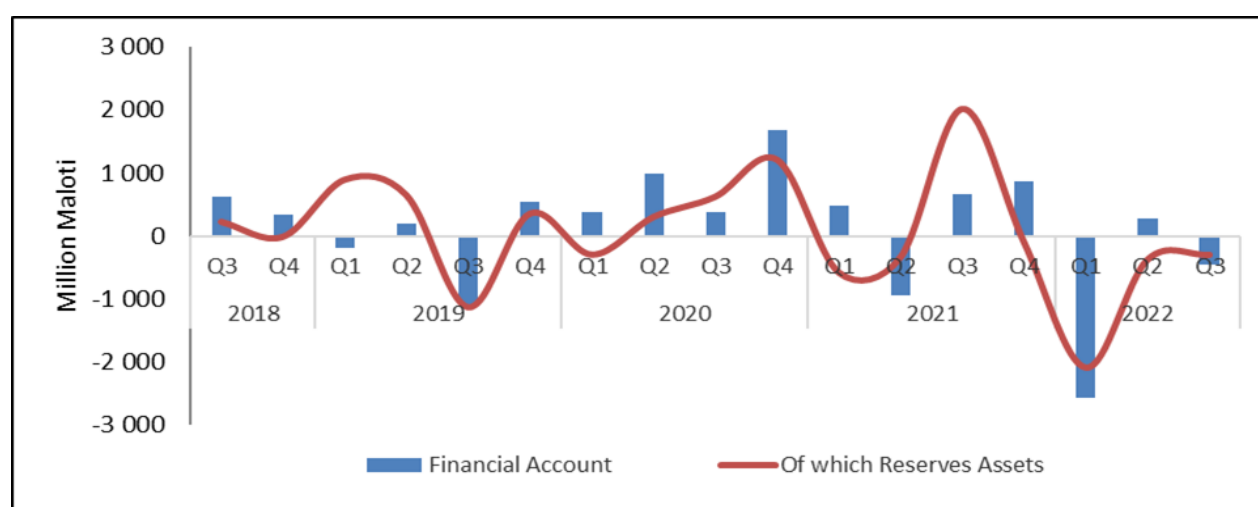
Table 15: Financial Account Balance (Million Maloti)

	2021		2022		
	Q3	Q4	Q1	Q2	Q3
Financial account	659.10	874.95	-2571.31	278.24	-457.83
Direct Investments, net	311.29	43.12	261.32	-12.34	-122.31
Portfolio Investments, net	455.60	105.13	-217.94	-2.66	56.65
Financial Derivatives, net	0.00	0.00	0.00	0.00	0.00
Other Investments, net	-2 135.60	823.83	-526.89	660.72	-99.02
Of which Loans	-52.89	191.38	-86.87	222.45	-4.36
Claims on Non Residents	34.48	34.48	34.48	34.48	34.48
Liabilities to Non Residents	87.39	-156.90	121.35	-187.97	38.84
Of which Currency and Deposits	-613.56	706.51	-365.96	512.34	-20.60
Claims on Non Residents	-575.31	915.04	-509.22	472.75	198.01
Liabilities to Non Residents	38.25	208.54	-143.26	-39.58	218.62
Of which Special Drawing Rights	1 395.09	0.00	0.00	0.00	0.00
Reserve Assets	2 027.81	-97.14	-2087.80	-367.48	-293.15

Source: Central Bank of Lesotho

The main components of the financial account inflows were direct investments and other investments. Direct investment inflows rose as loans acquired from the non-residents increased at a higher rate than loan repayments during the same period. Meanwhile, other investment inflows expanded mainly due to an increase in disbursement of foreign loans to the government, coupled with a reduction in foreign assets held by commercial banks abroad. The commercial banks' assets held abroad declined, owing to the need to settle foreign obligations during this period.

Figure 17: Financial Account (Million Maloti)

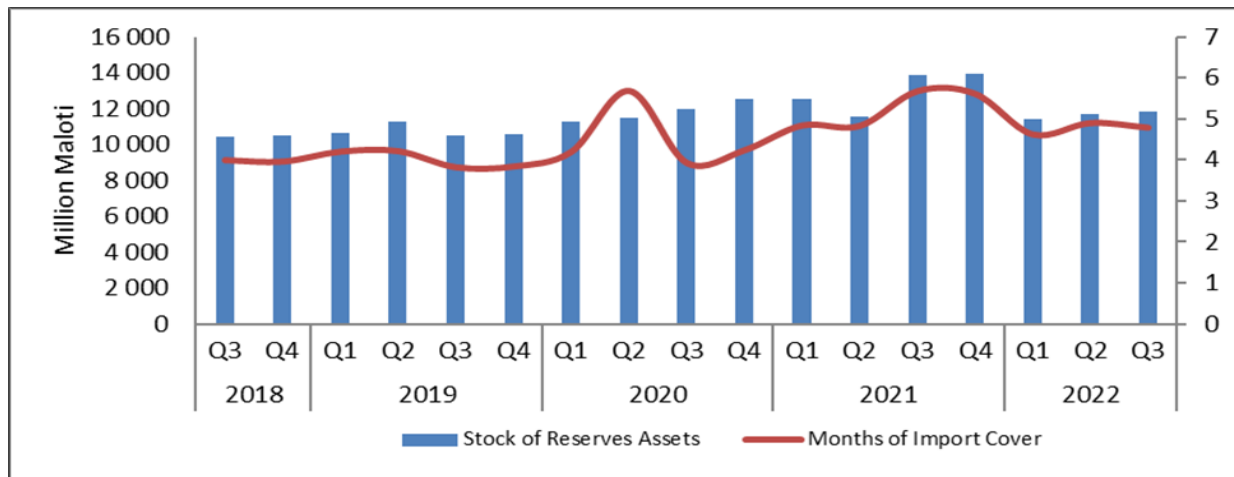


Source: Central Bank of Lesotho

RESERVE ASSETS

The stock of foreign reserves rose by 1.6 per cent to M11.85 billion, following a 2.2 per cent increase in the preceding quarter. Expressed in months of imports, however, reserve coverage fell modestly to 4.8 months, from 4.9 months in the previous quarter.

Figure 18: Reserve Assets



Source: Central Bank of Lesotho