

Central Bank of Lesotho



QUARTERLY ECONOMIC REVIEW

March 2023

MASERU KINGDOM OF LESOTHO

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1. Executive Summary

In the first quarter of 2023, the global economic performance was mixed, with GDP growth in some countries slowing while it increased further in other countries. The higher GDP growth in China and Japan was associated with the lifting of COVID-19 restrictions and government policies aimed at supporting these economies. Economic growth in the US benefitted from increased demand and spending. Meanwhile, in the Euro Area, growth was slower on account of the contraction in Germany, while the UK continued to slow due to the ongoing strikes, which resulted in output declines across various sectors. Labour market conditions were mixed, with some countries recording higher unemployment rates while some recorded lower rates. The unemployment rate in most countries was aligned to economic performance, while in some economies it was supported by governments' initiatives to support the labour market.

Annual consumer prices declined in most economies, due to the fall in food and fuel prices. However, in India fuel costs remained unchanged as state own enterprises left prices unchanged in order to recover the losses they made in previous periods. Despite the decline in consumer prices, most central banks continued to increase their policy rates. The increase was in the hope of bringing the inflation rate down to the banks' targets. The rand, hence loti, continued to weaken against its three major trading currencies, primarily on account of the ongoing energy crisis in South Africa.

The domestic economic performance, as indicated by the Quarterly Indicator of Economic Activity (QIEA) was expected to have weakened. The QIEA contracted by 3.7 per cent following a slight contraction of 0.5 per cent. The poorer performance was expected to emanate from a slump in demand for goods and services, associated with the fall in government employees' real earnings and subdued retail activity. Furthermore, there was a decline in production, reflected by contractions in manufacturing and construction output, which added more pressure on the domestic economy. Domestic labour market conditions deteriorated, reflected by lower employment statistics in the review period. There was a decline Lesotho National Development Corporation (LNDC) assisted companies' employees, government employees and migrant mineworkers. Headline inflation declined to 6.8 per cent from 8.0 per cent in the previous quarter, as a result of the decline in costs for most components.

Broad money supply increased by 17.4 per cent after recording a decline of 1.7 per cent in the previous quarter. This was on account of an increase in both domestic claims and net foreign assets (NFA). The increase in domestic claims emanated from increased claims on government and other sectors, while NFA benefitted from an increase in commercial banks' NFA. Meanwhile, there was a decline in central bank's NFA associated with the fall in government deposits. Private sector credit increased because of the rise in credit to both businesses and households. Short-term interest rates increased in line with the central bank's policy rate hike.

Government budgetary operations were estimated to have resulted in a deficit equivalent to 13.3 per cent of GDP from a surplus of 3.0 per cent of GDP in the previous quarter, as the increase in expenditure outweighed the slight increase in revenue. Expenditure rose on account of both recurrent and capital expenditure, while revenue was supported by higher tax collections and rand compensation. Total public debt declined by 2.3 per cent compared to a decrease of 1.6 per cent in the previous quarter, on account of the fall in external debt.

The external sector position deteriorated to a deficit of 10.7 per cent of GDP during the review period compared with a surplus of 11.9 per cent of GDP in the previous quarter. This resulted from a significant increase in financial account outflows during this period. The deficit was however, moderated by a decline on the current account deficit, together with an increase in the capital account surplus. The stock of reserves declined to M12.23 billion from M12.86 billion in the previous quarter. As a result, months of import cover declined to 4.2 months from 4.6 months in the preceding quarter.

2. International Economic Developments

Performance of the global economy was mixed during the first quarter of 2023 compared to the previous quarter, with some economies recording an increase in real GDP growth rate, while others recorded a decline. The US economic performance benefited from increased demand and spending associated with the decline in consumer prices. Economic growth for China and Japan was supported by the end of COVID-19 restrictions. Meanwhile, the UK economic growth continued to be negatively affected by the high inflation rate, while the Euro Area real GDP growth rate was dragged lower by the slump in Germany's real GDP growth. Labour market conditions were mixed with some countries recording an increase in the unemployment rate, while others recorded a fall.

Consumer price inflation declined further in most economies due to the easing in food and fuel costs. Despite the fall in the inflation, most central banks continued to tighten their monetary policies to tame high inflation, which remained above their targets. However, the People's Bank of China and the Bank of Japan left their policy rates unchanged to support their economies, which were vulnerable to COVID-19 restrictions for a prolonged period.

Table 1: Key World Economic Indicators

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	Q4	Q1	Q4	Q1	Q4	Q1	Q4	Q1
	2022	2023	2022	2023	2022	2023	2022	2023
United States	0.9	1.6	6.5	5.0	4.50	4.75	3.5	3.5
Euro Area	1.8	1.3	9.2	6.9	2.50	3.50	6.6	6.5
Japan	0.4	1.3	4.0	3.2	-0.10	-0.10	2.5	2.8
United Kingdom	0.6	0.2	10.5	10.1	3.50	4.25	3.7	3.9
China	2.9	4.5	1.8	0.7	3.65	3.65	5.5	5.3
India	4.5	6.1	5.7	5.7	6.25	6.50	N/A	N/A
South Africa	0.9	N/A	7.2	7.1	7.00	7.75	32.7	32.9

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)

The US economic performance improved in the first quarter of 2023. Real GDP rose by 1.6 per cent, after a growth of 0.9 per cent in the preceding quarter. The rise in the GDP growth rate was a result of a faster increase in consumer spending, in response to the slower increase in consumer prices. There was a rebound in both goods and services purchases, particularly purchases of motor vehicles, spending on health care as well as food services and accommodation. Meanwhile, the unemployment rate remained unchanged at 3.5 per cent, as job gains in the services industry were offset by declines in construction sector where homebuilding was adversely affected by high interest rates.

Annual consumer price index rose by 5.0 per cent compared to an increase of 6.5 per cent in the last quarter of 2022. The decline in the inflation rate resulted from the fall in energy and used cars costs, as well as the slower increase in food prices. The US Federal Reserve raised its Fed Fund rate by 0.25 percentage points to 4.75 per cent, in the hope of stabilising the inflation rate, which remained higher than the Fed's target of 2.00 per cent.

Euro Area

The Euro Area's economic performance continued to slow in the first quarter of 2023. Real GDP grew by 1.3 per cent from 1.8 per cent a quarter earlier. The largest negative contribution came from the economic contraction in Germany, as the country continued to be adversely affected by the Russia's invasion of Ukraine. The shift away from Russia gas supply, which in the past periods supported much of its gas-supply dependant industries, affected productivity in Germany. The unemployment rate was nonetheless lower at 6.5 per cent, from 6.6 per cent in the preceding period, supported by robust job growth in the services sector.

Annual inflation rate declined to 6.9 per cent, compared to 9.2 per cent a quarter earlier. The decline in consumer prices was explained by the fall in energy prices due to price caps imposed by governments such as Spain, which was moderated by the increase in costs for food, alcohol and tobacco. The European Central Bank raised its policy rate to 3.50 per cent from 2.50 per cent in the last quarter of 2022. The decision to increase the rate was to tame the high inflation and return it to the Bank's target of 2.0 per cent.

Japan

The Japan economy grew further in the first quarter of 2023. Real GDP grew by 1.3 per cent following a modest increase of 0.3 per cent in the preceding quarter. Growth was underpinned by an increase in consumption and investment, following increased government fiscal support as well as the easing of COVID-19 restrictions. The largest positive contribution to growth emanated from services, especially the tourism sector, as inbound tourism rebounded with the lifting of COVID-19 restrictions. The sector was further supported by the government's national travel subsidy programme. The unemployment rate rose to 2.8 per cent, compared with 2.5 per cent in the previous period. This was mainly a result of a substantial decline in employment in the manufacturing sector.

Consumer prices rose by 3.2 per cent following an increase of 4.0 per cent in the last quarter of 2022. The slower increase in consumer prices largely reflected the decline in fuel, electricity and water, as well as the slower increase in costs for transport. The Bank of Japan left its policy rates unchanged at -0.10 per cent in March 2023, as the Bank sought to support the economy. The Bank has pledged to keep ultra-low policy rates until bigger wage hikes accompany the high inflation.

United Kingdom (UK)

The UK economy continued to grow, albeit at a softer pace, compared to a quarter earlier. Real GDP grew by 0.2 per cent, following 0.6 per cent growth in the preceding quarter. Growth was supported by an increase in business investment. The slower economic performance was explained by the ongoing strikes by workers, which resulted in the slower services activity and a decline in

manufacturing output. In addition, unfavourable weather conditions weighed negatively on retail and construction output. The unemployment rate for the UK therefore increased by 3.9 per cent, edging slightly higher from an increase of 3.7 per cent in the previous quarter.

Annual inflation for the UK rose by 10.1 per cent, compared to 10.5 per cent in the preceding quarter. The fall in the inflation rate was associated with lower costs for fuel, which was moderated by the increase in food and non-alcoholic beverages. The Bank of England raised its policy rate to 4.25 per cent from 3.50 per cent in the last quarter of 2022, as the Bank sought to bring the inflation rate back to the Bank's target of 2.0 per cent.

EMERGING MARKET ECONOMIES

China

China's economy continued to grow in the first quarter of 2023. Real GDP grew by 4.5 per cent, compared with 2.9 per cent a quarter earlier. The economy was primarily bolstered by the end of strict COVID-19 restrictions in December 2022 and the government's initiative to stimulate post-pandemic recovery. These included amongst others; widening market access and promoting further opening of modern service industries. There was a rebound in consumption, exports, services and infrastructure investment. The unemployment rate thus declined to 5.3 per cent from 5.5 per cent in the last quarter of 2022.

Consumer prices rose by 0.7 per cent, slower than 1.8 per cent in the preceding quarter, on account of the decline in food and non-food prices. Food prices were lower due to the fall in vegetables costs, which was however moderated by an increase in pork prices. Non-food inflation went down because of the decline in transportation costs. The People's Bank of China kept its policy rate unchanged at 3.65 per cent. The decision was in the hope of supporting the economy and stabilizing the struggling property market.

India

India's economic performance improved in the first quarter of 2023. Real GDP grew by 6.5 per cent, following an increase of 4.5 per cent a quarter earlier. Economic growth was bolstered by higher government and private spending, which benefitted from easing input cost pressures. There was also an increase in output for various sectors such as agriculture, construction, services, mining and manufacturing. The unemployment rate was thus expected to have slowed further, in line with the higher activity during the same period.

The consumer price rose by 5.7 per cent, unchanged from the previous quarter. There was a slowdown in costs for food, which was moderated by an increase in housing costs. Meanwhile, state owned oil companies left fuel prices unchanged despite the decline in the international crude oil prices. The move was in the hope of recovering losses they had encountered in the previous months. The Reserve Bank of India raised its policy rate to 6.50 per cent, from 6.25 per cent in the previous quarter, to stabilize the inflation rate.

South Africa

Economic activity in South Africa slowed further in the first quarter of 2023. Real GDP grew at a rate of 0.2 per cent, compared to a revised 0.8 per cent in the preceding quarter. The lower GDP growth rate reflected output contraction in the agriculture, mining, manufacturing as well as electricity, gas and water sectors. Performance in these sectors to be hampered by the power supply crisis in the country. The unemployment rate rose to 32.9 per cent, from 32.7 per cent a quarter earlier, as most businesses operations continued to be adversely affected by the pro-longed load shedding. The highest job losses were observed in the trade, mining and manufacturing sectors.

The annual inflation rate for South Africa was recorded at 7.1 per cent, from 7.2 per cent in the quarter ending in December 2022. The slight decline was explained by the slower increase in costs of food and non-alcoholic beverages as well as transport costs. The South African Reserve Bank raised its policy rate to 7.75 per cent, from 7.00 per cent in the last quarter of 2022, to arrest the inflation rate which is currently above the reserve bank’s target range of 3.00 - 6.00 per cent.

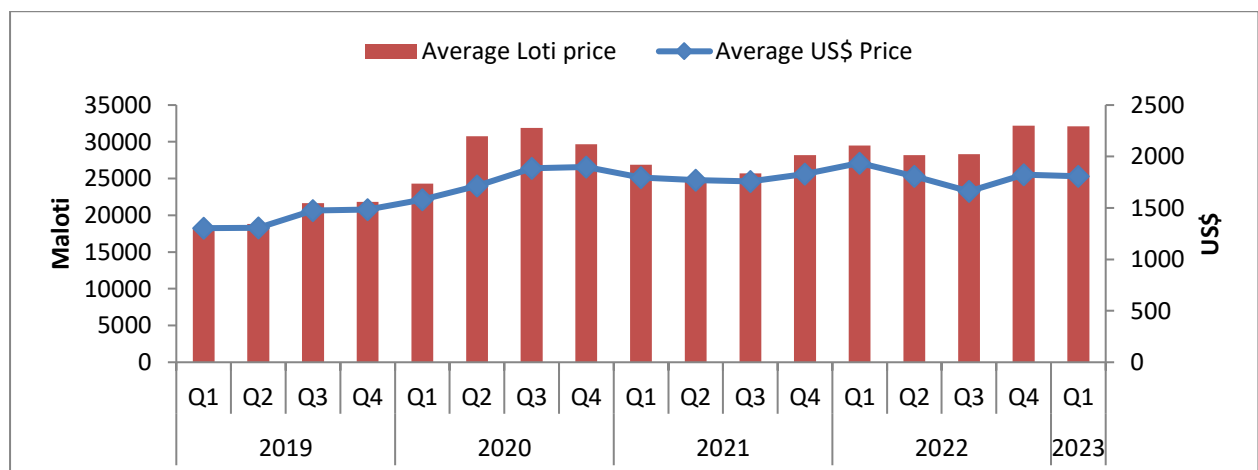
COMMODITIES

Minerals

Gold

The dollar price of gold declined by 6.7 per cent, following a decline of 0.2 per cent a quarter earlier. The decline was due to increased risk appetite as fears of a banking sector meltdown subsided and investors scaled back investments in gold in favour of riskier assets such equities and crude oil. The price of gold was also negatively affected by the strengthening of the dollar. Expressed in Maloti, the price of gold increased by 8.8 per cent compared to an increase of 14.2 per cent in the previous quarter.

Figure 1: Average Price of Gold

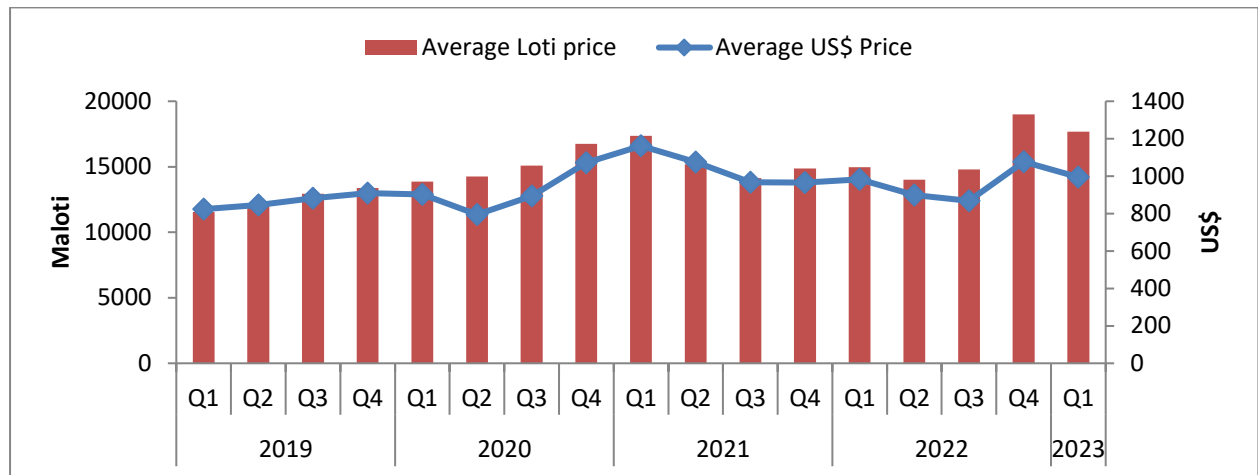


Source: Bloomberg

Platinum

The dollar price of platinum recorded an increase of 1.3 per cent, after an increase of 11.6 per cent in the previous quarter. Platinum prices were primarily supported by improved prospects for the China’s automotive sector following the end of COVID-19 restrictions, together with supply side disruptions from South African mines resulting from ongoing power supply challenges. The loti price of platinum rose by 18.2 per cent following an increase of 27.8 per cent in the preceding quarter.

Figure 2: Average Price of Platinum



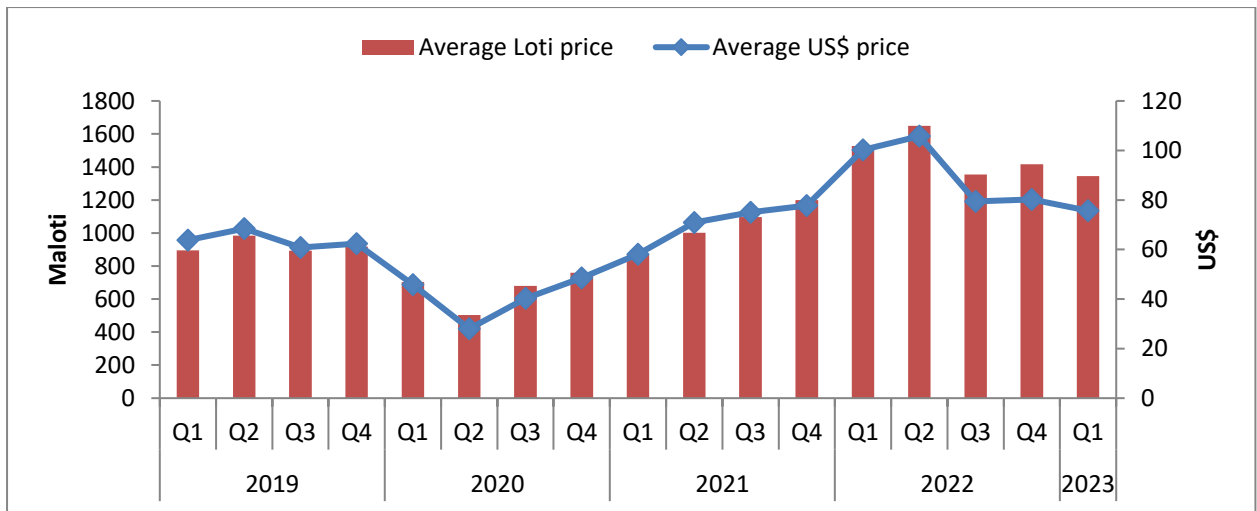
Source: Bloomberg

Energy

Oil

The dollar price of crude oil declined by 24.5 per cent per barrel following an increase of 3.2 per cent in the previous quarter. Oil prices declined on the back of fears of a broader banking sector crisis, following the collapse of some banks in the US and Europe. The collapse of these banks re-ignited worries that there would be a recession, which would in turn negatively affect fuel demand and therefore crude oil demand in the future. This was however partly offset by the economic rebound in China following easing of COVID-19 restrictions, which have supported demand for fuel. Expressed in Maloti, crude oil prices declined by 12.0 per cent compared to an increase of 18.1 per cent in the preceding quarter.

Figure 3: Average Price of Oil



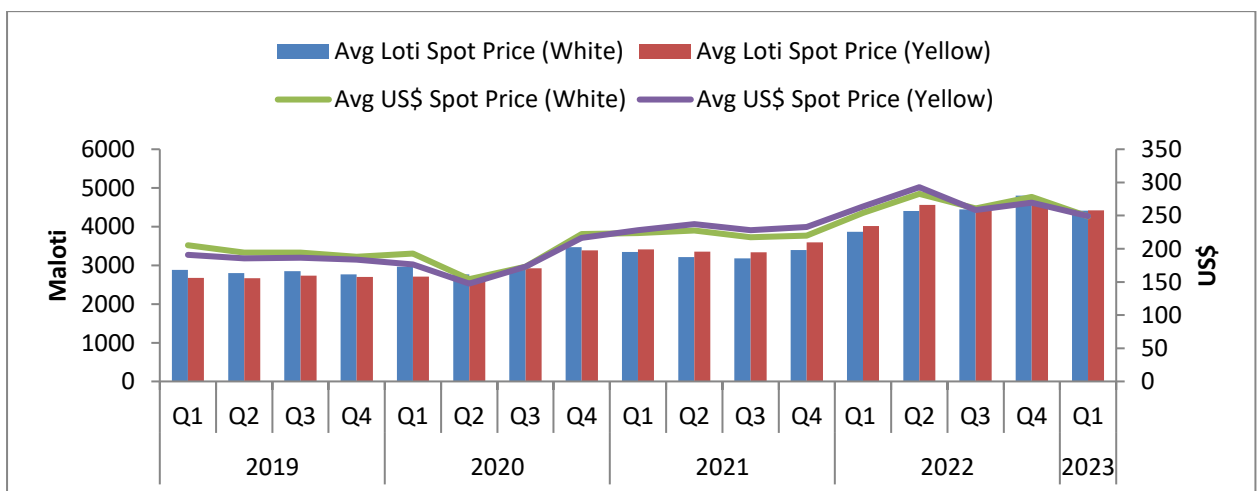
Source: Bloomberg

Agricultural Products

Maize

The dollar price of white maize declined by 2.1 per cent after an increase of 26.5 per cent in the last quarter of 2022, while the price of yellow maize declined by 5.5 per cent following an increase of 15.7 per cent a quarter earlier. The price decline was driven by expected record harvests in Brazil, robust export demand, as well as the currency depreciation in Argentina – a key producer of maize. Maize prices were also affected by reduced export prospects in the US, which resulted in higher domestic stockpiles and thus lower prices. The loti price of white maize increased by 14.2 per cent after an increase of 41.6 per cent in the previous quarter, while the loti price of yellow maize increased by 10.2 per cent following an increase of 29.5 per cent in the preceding quarter.

Figure 4: Average Price of Maize

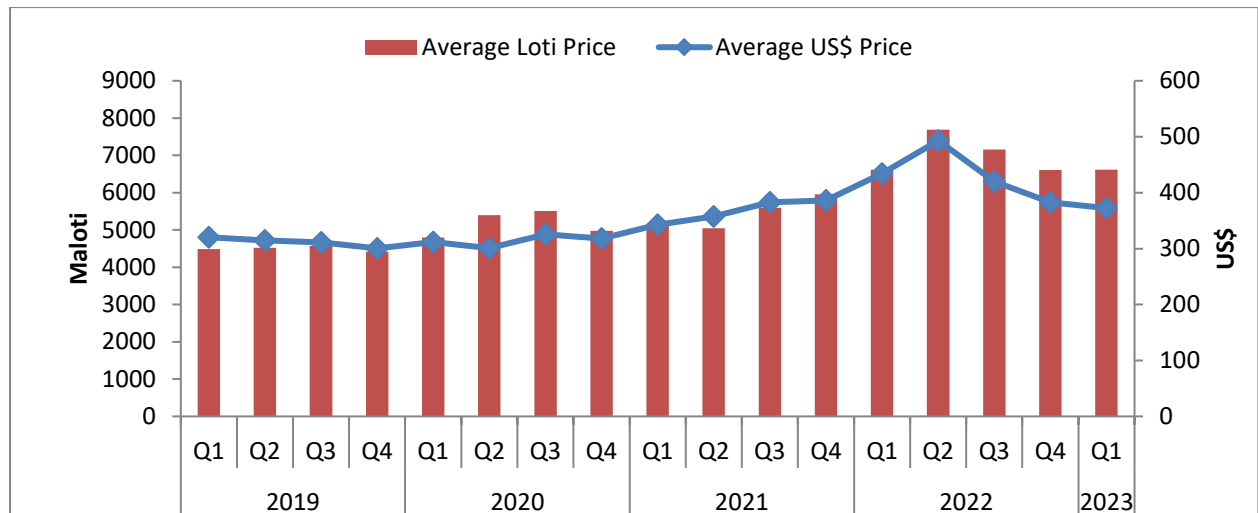


Source: Bloomberg

Wheat

The dollar price of wheat declined by 14.3 per cent from a fall of 0.8 per cent in the preceding quarter, as the extension of the black sea initiative continued to increase the supply of wheat. This was coupled with greater than expected crop harvests in some of the major wheat producers., leading to increased supplies. Meanwhile, the loti price of wheat rose marginally by 0.02 per cent following an increase of 11.1 per cent in the previous quarter.

Figure 5: Average Price of Wheat



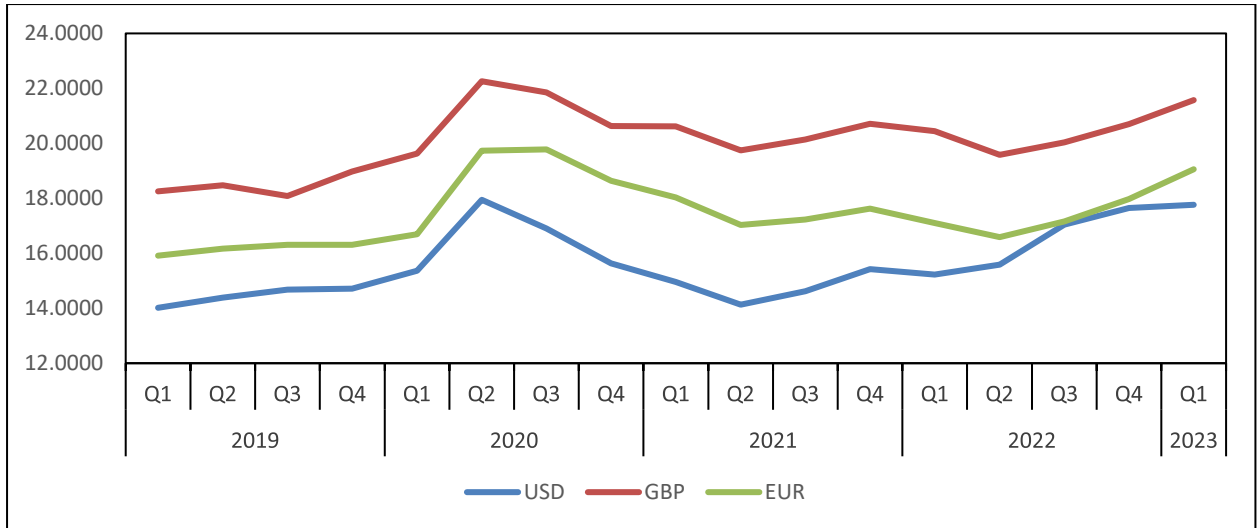
Source: Bloomberg

EXCHANGE RATES

The rand, hence loti¹, continued to weaken against the dollar, the pound, and the euro in the first quarter of 2023. It depreciated by 0.7 per cent, 4.2 per cent and 6.0 per cent against the dollar, the pound and the euro, respectively. This followed a depreciation of 3.5 per cent, 3.4 per cent and 4.8 per cent against the dollar, the pound and the euro, respectively, in the previous quarter. The rand continued to be adversely affected the energy crisis in South Africa, which has hurt businesses and investor sentiment for a prolonged period. The weakness of the rand was further exacerbated by the country’s grey listing by the Financial Action Task Force during the same quarter.

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

¹ The Lesotho loti is pegged at par to the South African rand



Source: Bloomberg

3. Real Sector Developments²

OVERVIEW

Economic indicators reflected a general slowdown in economic activity in the first quarter of 2023. Employment by the three sectors of the labor market monitored by the Bank declined during the same period. However, inflationary pressures abated somewhat compared to the last quarter of 2022.

OUTPUT DEVELOPMENTS

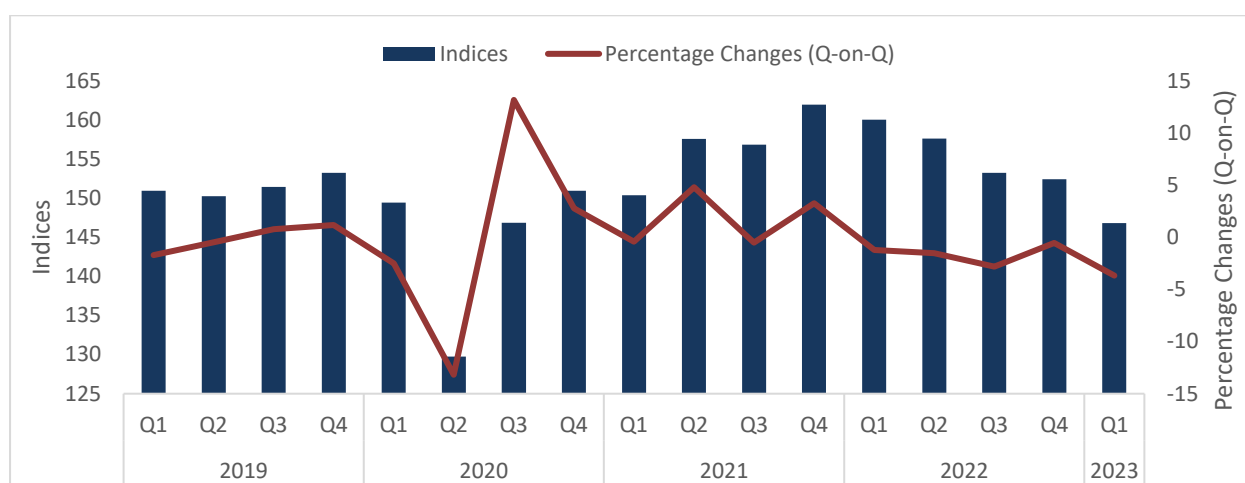
The Central Bank of Lesotho's quarterly indicator of economic activity (QIEA) estimated a slowdown in economic performance. The index declined by 3.7 per cent during the review period, compared with a revised 0.5 per cent contraction in the previous quarter. The observed contraction was broad-based. Economic activity was affected by poor performance in the construction and transport subsectors. Moreover, unfavourable global economic conditions contributed to the sluggish growth locally, with supply bottlenecks attributable to the weaker exchange rate and persistently higher prices of inputs.

The period under review was characterized by a significant decline in demand for goods and services in the economy, as the domestic demand index dropped by 2.9 per cent, in contrast to the 2.9 per cent increase observed in the preceding quarter. The decline in domestic demand mainly reflected a decline in government employees' real earnings as indicated by negative contributions from government compensation of employees, coupled with low retail activity. However, public spending on goods and services cushioned the overall decline in the index.

The production side of the economy was also weak. The manufacturing and production index declined by 0.5 per cent, compared with a decline of 7.9 per cent in the preceding quarter. The subdued performance of the manufacturing sector was evident from a combination of factors; the reduced demand for inputs of raw materials, low usage of utilities (water and electricity), as well as reduced demand for exports of clothing and textiles to the US market.

² 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

Figure 7: Quarterly Indicator of Economic Activity



Source: Central Bank of Lesotho

Table 2: Contributions to Growth

Indices	2022				2023
	Q1	Q2	Q3	Q4	Q1
CIEA	160.1	157.7	153.3	152.5	146.9
Quarter-on-quarter changes	-1.2	-1.5	-2.8	-0.5	-3.7
Domestic Demand	150.8	154.1	146.4	150.6	146.3
Quarter-on-quarter changes	1.4	2.1	-5.0	2.9	-2.9
Manufacturing and Production Category	126.7	114.5	108.6	100.0	99.6
Quarter-on-quarter changes	4.9	-9.7	-5.2	-7.9	-0.5

Source: Central Bank of Lesotho

EMPLOYMENT DEVELOPMENTS

In the first quarter of 2023, the number of employees in Lesotho National Development Corporation (LNDC)-assisted companies was estimated to decline by 9.4 per cent. This decline follows a previous decline of 1.7 per cent in the preceding quarter. The fall in employment was primarily observed in woven garments, knit garments, yarn, hotel accommodation, food and beverages, construction, and electronics industries. However, increased employment in the fabrics, yarn, and other category moderated the decline.

Table 3: Employment by LNDC-Assisted Companies (Thousands)

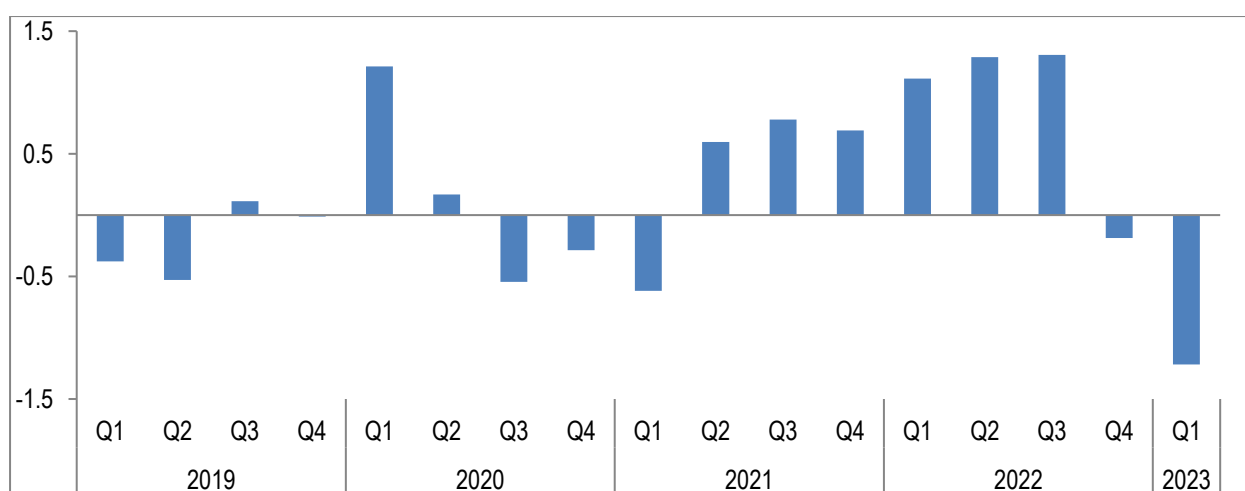
Industry	2022				2023	% Changes	
	Q1	Q2	Q3	Q4	Q1	Q/Q	Y/Y

Knit Garments.....	25458	24507	25734	23779	23123	-2.8	-9.2
Woven Garments.....	10167	10038	10337	9527	8042	-15.6	-20.9
Footwear.....	884	826	838	737	755	2.4	-14.6
Fabrics, Yarn etc.....	1466	1 566	1390	1983	1834	-7.5	25.1
Construction.....	411	412	402	409	401	-2.0	-2.4
Food & Beverages.....	618	610	571	682	612	-10.3	-1.0
Electronics.....	1207	1 167	1125	1282	1183	-7.7	-2.0
Retail.....	196	201	211	201	192	-4.5	-2.0
Hotel Accom.....	242	242	241	305	223	-26.9	-7.9
Other.....	947	1428	1416	1214	1378	13.5	34.4
TOTAL.....	41596	38938	42264	40119	37743	-5.9	-9.4

Source: Lesotho National Development Corporation

Government employment experienced a further decline in employment numbers in the first quarter of 2023. It declined by 1.2 per cent following a 0.2 per cent decline in the previous period. This was primarily driven by a decrease in the number of teachers and other job categories during the review period.

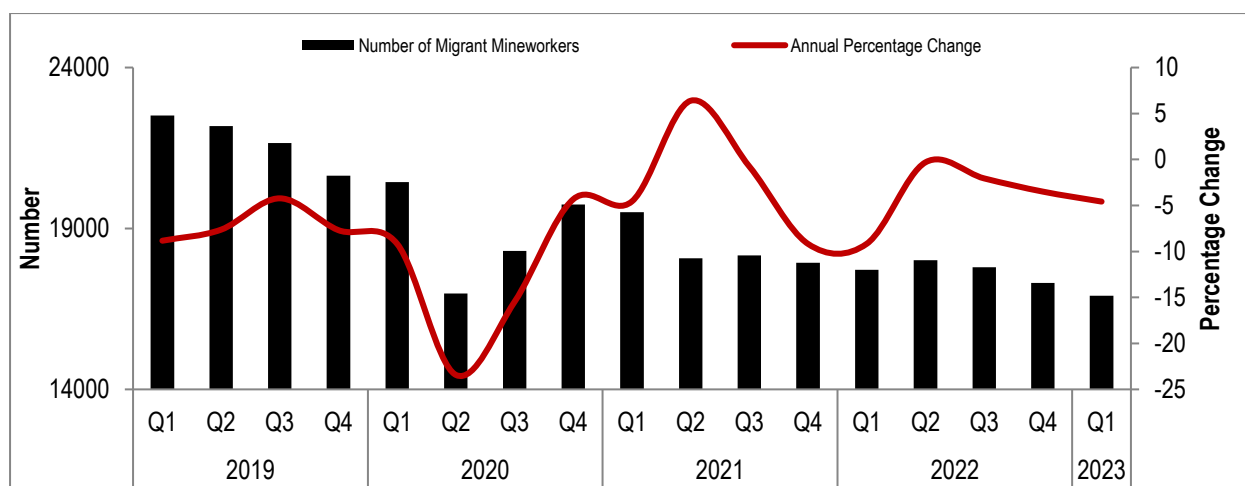
Figure 8: Government Employment (Annual Percentage Changes)



Source: Ministry of Finance

The number of migrant mineworkers continued to decline during the review period. It fell by 4.6 per cent, following a 3.5 per cent decrease in the preceding quarter. The reduction in the number of migrant mineworkers was attributable to South Africa's structural economic problems, particularly the ongoing energy crisis, which negatively affected mining output and hence, the employment numbers.

Figure 9: Migrant Mineworkers (Annual Percentage Changes)



Source: The Employment Bureau of Africa (TEBA)

PRICE DEVELOPMENTS

The change in the consumer price index declined to 6.8 per cent in March 2023 from 8.0 per cent in December 2022. Major contributors to the disinflation during the review period were food and non-alcoholic beverages; housing, water, electricity, gas & other fuel; transport and restaurant & hotels. Nonetheless, alcoholic beverages & tobacco and clothing & footwear exerted upward pressure on the overall index. The disinflation was mainly driven by declining international food and fuel prices. However, the weak exchange rate and the recent implementation of the levies on alcohol and tobacco moderated the fall in headline inflation.

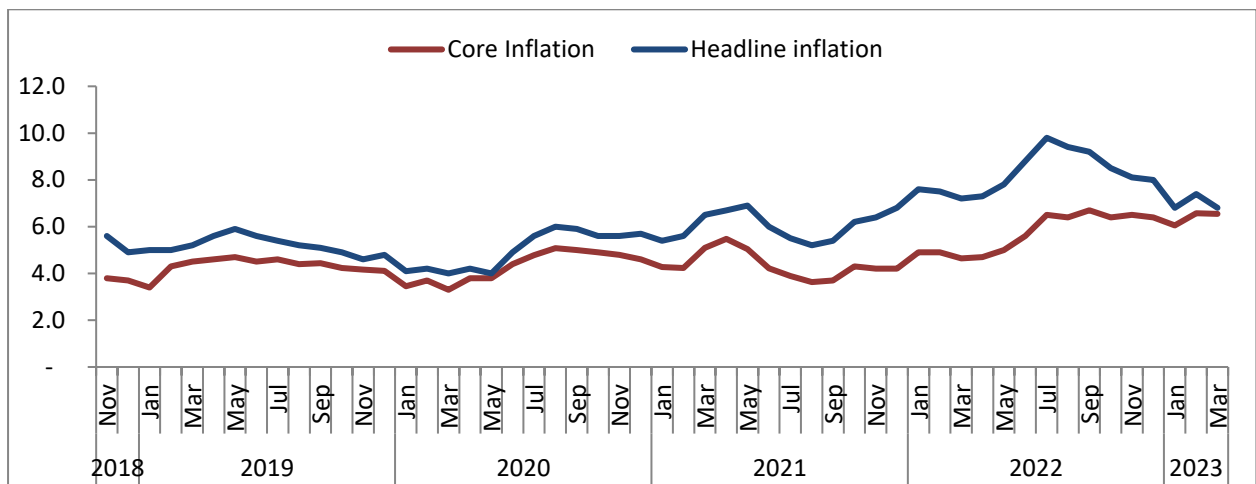
Table 4: Inflation Rate (Annual Percentage Changes)

	Weight	2022			2023	
		Nov	Dec	Jan	Feb	Mar
All items	1000	8.1	8.0	6.8	7.4	6.8
Food and non-alcoholic beverages	326	9.9	10.3	10.5	11.4	8.8
Alcoholic beverages & Tobacco	64	5.1	5.0	3.6	3.9	10.6
Clothing & footwear	81	7.5	6.2	5.1	5.8	10.1
Housing, water, electricity, gas & other fuels	149	11.2	9.9	4.7	4.8	6.8
Furniture, households equipment & routine maintenance	33	5.5	5.5	4.1	4.3	9.6
Health	19	1.4	1.3	2.6	2.8	9.3
Transport	111	15.2	16.5	7.6	8.7	7.9
Communications	44	0.8	0.8	0	0	0.5
Recreation & Culture	14	0.0	0.0	2	2.2	3.3
Education	49	5.7	5.7	2.9	2.9	2.9
Restaurant & Hotels	65	6.2	6.2	5.3	6.1	-5.2
Miscellaneous goods & services	44	1.9	2.3	11.2	11.5	9.2

Source: Bureau of Statistics

While the headline inflation rate declined from December 2022 to March 2023, the core inflation rate increased by 0.1 percentage points to 6.5 per cent during the review period. This was mainly indicative of subdued demand conditions at both domestic and global levels.

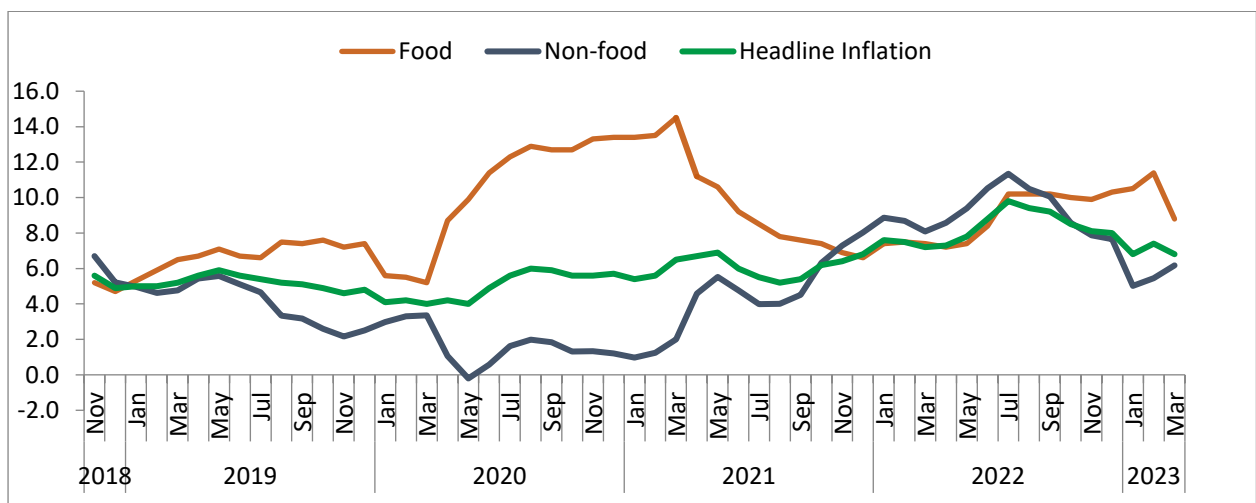
Figure 10: Core vs Headline Inflation (Annual Percentage Changes)



Source: CBL Computations

During the review period, both food and non-food inflation rates declined. They declined from 10.3 per cent and 7.7 per cent in the preceding quarter to 8.8 per cent and 6.2 per cent, respectively. Food prices declined in response to the falling international prices. The fall in non-food inflation mainly reflected developments in international crude oil prices, as well as services in the restaurant and hotels during the review period. The disinflation in food and non-food prices were moderated by the weak exchange rate.

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



Source: BoS and CBL Computations

4. Monetary and Financial Developments

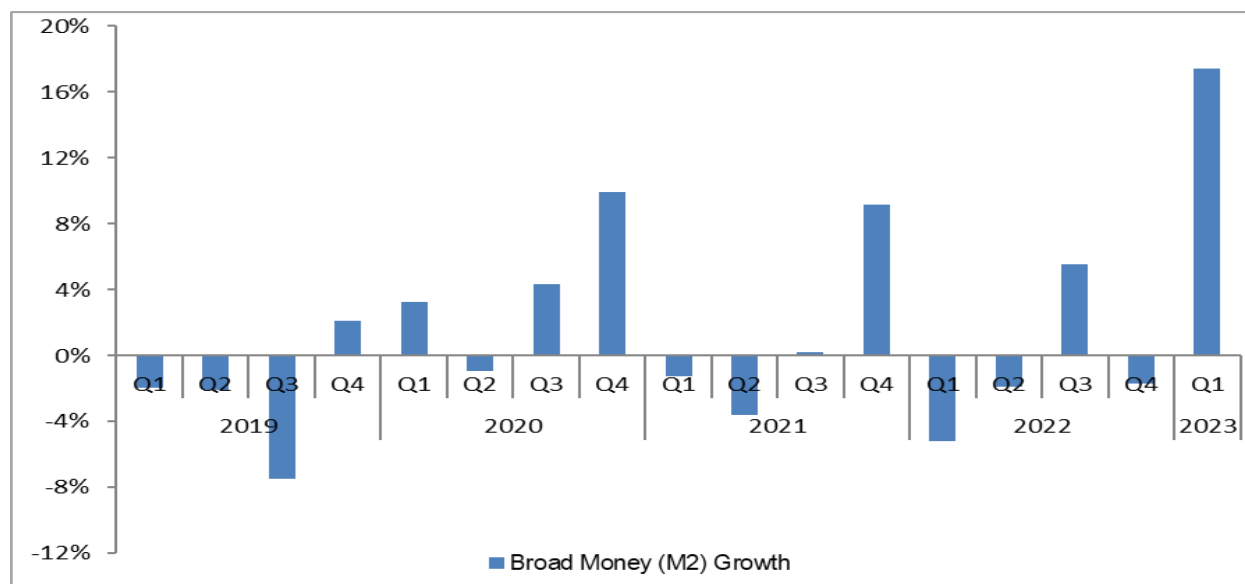
OVERVIEW

Broad money supply rose because of an increase in net foreign assets and domestic claims during the first quarter of 2023. Credit to the private sector improved, underpinned by an increase in loans and advances to business enterprises and households. All short-term interest rates increased in line with a rise in the CBL policy rate.

BROAD MONEY (M2)

The broadly defined money supply (M2) grew by 17.4 per cent in the first quarter of 2023, following a decline of 1.7 per cent in the preceding quarter. This was underpinned by an increase in both the net foreign assets and net domestic claims. M2 grew by 16.2 per cent in real terms and by 19.6 per cent on a year-on-year basis.

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



Source: Central Bank of Lesotho

Determinants of M2

Domestic Claims

Domestic claims rose by 14.1 per cent during the quarter under review, relative to a marginal increase of 0.7 per cent recorded in December 2022. The observed growth in domestic claims benefitted from an increase in net claims on government and claims on other sectors. Net claims on government were strengthened by a rise in both the commercial banks and central bank's net claims, following a fall in government deposits. The growth in claims on other sectors was supported by an increase of 3.6 per cent in private sector credit.

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

	2022				2023	Changes(%)	
	Q1	Q2	Q3	Q4	Q1	Quarterly	Annual
Domestic Claims	5,321.91	5,982.48	6,610.19	6,658.18	7,593.93	14.1	82.3
Net Claims on Government	(2,852.82)	(2,443.40)	(2,124.12)	(2,058.09)	(1,413.98)	31.3	65.1
Commercial Banks Net Claims	749.49	409.85	1,007.88	696.35	822.35	18.1	162.9
Claims on Central Government	2,524.75	2,403.51	3,018.06	2,675.85	2,693.19	0.6	11.4
Liabilities to Central Government	1,775.27	1,993.66	2,010.18	1,979.51	1,870.84	-5.5	-11.1
Central Bank Net Claims	(3,602.31)	(2,853.25)	(3,132.00)	(2,754.44)	(2,236.34)	18.8	48.7
Claims on Central Government	139.33	98.39	72.59	49.29	38.82	-21.3	-72.2
Liabilities to Central Government	3,741.64	2,951.64	3,204.59	2,803.73	2,275.16	-18.9	-49.5
Claims on Other Sectors	8,174.73	8,425.87	8,734.31	8,716.27	9,007.91	3.3	9.7
Claims on OFCs ³	162.17	248.74	296.09	301.40	297.19	-1.4	106.0
Claims on PNFCs ⁴	51.48	53.08	60.85	58.05	55.18	-4.9	-9.2
Claims on St & Local Government							
Claims on Private Sector	7,961.08	8,124.05	8,377.37	8,356.83	8,655.54	3.6	8.1
Claims on Business Enterprises	2,068.10	2,136.76	2,237.28	2,209.92	2,344.73	6.1	10.4
Claims on Households	5,892.99	5,987.30	6,140.09	6,146.91	6,310.81	2.7	7.2

Source: Central Bank of Lesotho

Net Foreign Assets

Total net foreign assets (NFA) rose by 12.1 per cent in March 2023, from a contraction of 3.5 per cent recorded in the previous quarter. This was due to a 40.2 per cent increase in commercial banks' NFA, whereas central bank's NFA declined by 3.1 per cent. On the one hand, commercial banks' NFA increased following a rise in deposits held with non-residents, commensurate with an increase in banks' deposits liability. On the other hand, central bank's NFA declined in line with a fall in government deposits.

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

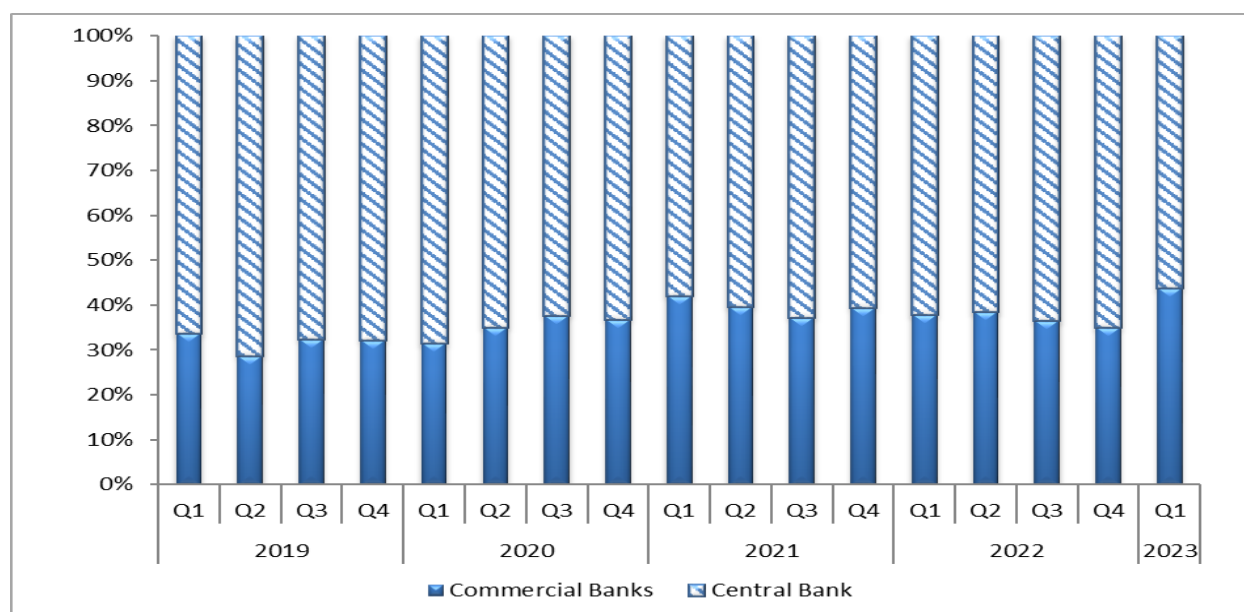
	2022				2023	Changes (%)	
	Q1	Q2	Q3	Q4	Q1	Quarterly	Annual
Commercial Banks	6,262.67	6,165.51	6,006.86	5,545.60	7,772.72	40.2	11.3
Claims on Non-residents	6,605.03	6,468.28	6,528.25	5,877.44	8,242.44	40.2	12.2
Liabilities to Non-residents	342.36	302.78	521.40	331.84	469.72	41.6	28.0
Central Bank	10,319.22	9,845.63	10,432.19	10,315.37	10,000.12	-3.1	-11.5
Claims on Non-residents	13,165.69	12,735.98	13,214.19	12,989.01	12,565.39	-3.3	-12.5
Liabilities to Non-residents	2,846.47	2,890.35	2,782.00	2,673.64	2,565.28	-4.1	-16.2
Net Foreign Assets Total	16,581.89	16,011.13	16,439.05	15,860.98	17,772.83	12.1	-2.8

Source: Central Bank of Lesotho

³ OFCs: Other Financial Corporations

⁴ PNFCs: Public Non-Financial Corporations

Figure 9: Net Foreign Assets (Percentage shares)



Source: Central Bank of Lesotho

Components of M2

In terms of the broad money components, the rise in M2 was attributable to an increase in both narrow and quasi money by 15.3 per cent and 19.4 per cent, respectively. The increase in narrow money was mainly due to a rise in transferable deposits held by households and business enterprises. Quasi money benefitted from an increase in call and fixed-term deposits held by business enterprises and households.

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

	2022				2023	Changes (%)	
	Q1	Q2	Q3	Q4	Q1	Quarterly	Annual
Broad Money (M2)	14,076.89	13,815.35	14,580.08	14,335.89	16,834.25	17.4	19.6
Narrow Money (M1)	6,639.66	6,303.45	6,667.51	6,857.45	7,906.98	15.3	19.1
Currency Outside DCs	1,207.36	1,131.34	1,256.94	1,214.71	1,479.73	21.8	22.6
Transferable Deposits	5,432.30	5,172.10	5,410.56	5,642.74	6,427.26	13.9	18.3
Quasi Money	7,437.22	7,511.90	7,912.57	7,478.44	8,927.27	19.4	20.0
Other Deposits Commercial Banks	7,435.07	7,509.74	7,911.08	7,477.12	8,924.99	19.4	20.0
Other Deposits Central Bank	2.16	2.16	1.49	1.32	2.27	72.0	5.4

Source: Central Bank of Lesotho

CREDIT EXTENSION

Private sector credit grew by 3.6 per cent in March 2023, compared with a marginal fall of 0.2 per cent in December 2022. This was a result of an expansion in loans to business enterprises and households. In real terms, private sector credit rose by 2.5 per cent, while on an annual basis it increased by 8.1 per cent.

Trends in Credit Extended to Business Enterprises

Total loans and advances extended to the business sector increased by 6.1 per cent, compared to a fall of 1.2 per cent in December 2022. The growth in loans to business enterprises stemmed from newly contracted loans, utilisation of overdraft facilities and vehicle asset financing.

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

SECTOR	2022				2023		Changes (%)	
	Q1	Q2	Q3	Q4	Q1	Quarterly	Annual	
Agriculture	77.02	68.49	69.67	76.94	64.06	-16.7	-16.8	
Mining	288.95	466.59	448.38	405.54	452.09	11.5	56.5	
Manufacturing	66.27	66.76	70.49	71.56	74.55	4.2	12.5	
Electricity, gas and water	7.34	7.77	10.72	8.54	6.63	-22.4	-9.7	
Construction	304.38	315.55	322.49	287.08	284.96	-0.7	-6.4	
Wholesale, Retail, Hotel & Restaurant	400.40	483.95	549.54	568.99	624.64	9.8	56.0	
Transport, Storage and Communication	415.33	190.33	199.92	219.11	235.69	7.6	-43.3	
NBFIs, Real Estate and Business Services	500.89	529.49	558.62	564.43	594.08	5.3	18.6	
Community, Social & Personal Service	7.52	7.82	7.44	7.74	8.04	3.8	6.8	
All Sectors	2,068.10	2,136.76	2,237.28	2,209.92	2,344.73	6.1	13.4	

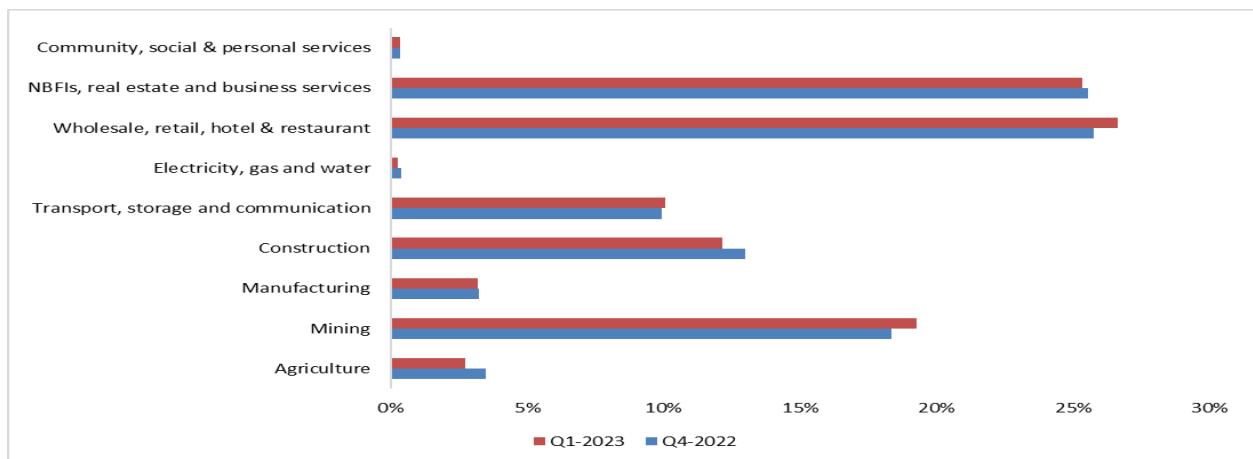
Source: Central Bank of Lesotho

Distribution of credit Extended to Business Enterprises

The largest proportion of credit, 26.6 per cent, was allocated to the wholesale, retail, hotel & restaurant sector. This was followed by the non-bank financial institutions, real estate & business services which was allocated 25.3 per cent of credit. 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) II⁵, as the potential sectors for job creation and achievement of inclusive economic growth, stood at 67.9 per cent during the quarter under review.

⁵ 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)

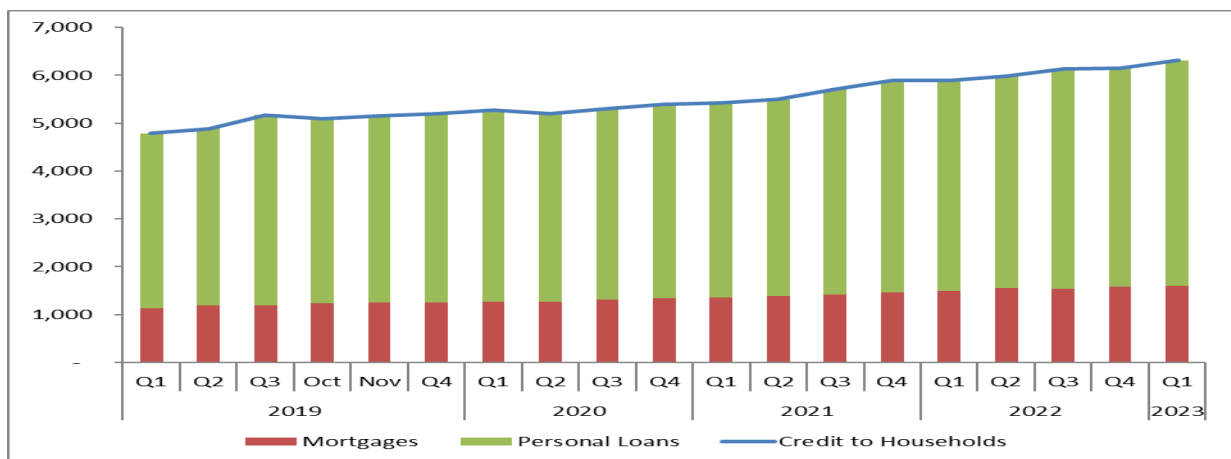


Source: Central Bank of Lesotho

Credit extended to Households

Credit extension to the household sector rose by 2.7 per cent in the first quarter of 2023, due to an increase of 3.1 per cent and 1.5 per cent in personal and mortgage loans, respectively. The growth in both personal and mortgage loans benefitted from the increased demand during the quarter. On an annual basis, the household credit increased by 7.2 per cent.

Figure 11: Credit Extension to Household (Million Maloti)



Source: Central Bank of Lesotho

LIQUIDITY OF COMMERCIAL BANKS

Components of liquidity

The credit to deposit ratio declined to 49.1 per cent in March 2023, from 54.5 per cent in December 2022, due to a significant increase in total deposits, notwithstanding an increase in private sector credit. The liquidity ratio rose by 2.2 percentage points and stood at 42.7 per cent benefitting from an increase in net balances due from banks in SA.

Table 7: Components of Liquidity (Million Maloti)

	2022				2023
	Q1	Q2	Q3	Q4	Q1
Credit to Deposit Ratio	53.4%	54.5%	53.33%	54.5%	49.1%
Private Sector Credit	7,847.67	8,012.89	8,203.00	8,248.52	8,491.12
Total Deposits	14,705.48	14,712.15	15,380.33	15,143.55	17,289.44
Liquidity Ratio	44.0%	44.2%	41.43%	40.5%	42.7%
Notes and Coins	551.10	553.98	583.36	916.06	692.30
Net Balance due from banks in Lesotho	(5.20)	(0.05)	(3.42)	(5.43)	(10.65)
Net Balance due from banks in SA	3,394.62	3,586.15	2,820.94	2,386.07	3,860.66
Surplus funds	0.93	(36.82)	(47.18)	163.07	139.80
Government Securities	2,524.75	2,403.51	3,018.06	2,675.85	2,693.19
Total	6466.21	6506.78	6371.77	6135.63	7375.30

Source: Central Bank of Lesotho

Commercial Banks Sources of Funds

The commercial banks' total deposit liabilities rose by 14.2 per cent in the first quarter, in contrast to a decline of 1.5 per cent registered in the previous quarter. This was due to an increase in transferable, call and fixed-term deposits held by business enterprises (particularly the construction subsector) and households. In contrast, government deposits with commercial banks declined because of a fall in deposits held by government ministries. Annually, total deposits rose by 17.6 per cent.

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

	2022				2023	Changes (%)	
	Q1	Q2	Q3	Q4	Q1	Quarterly	Annual
Transferable Deposits Incl. in BM	5,432.30	5,172.10	5,410.56	5,642.74	6,427.26	13.9	18.3
Other Financial Corporations	26.72	35.81	19.34	18.68	13.41	-28.2	-49.8
Public Nonfinancial Corporations	25.86	38.09	30.35	35.55	24.18	-32.0	-6.5
Private Sector	5,375.72	5,053.24	5,305.39	5,549.08	6,377.17	14.9	18.6
Other NFCs	3,616.10	3,373.51	3,613.22	3,862.82	4,594.85	19.0	27.1
Other Sectors (Households)	1,759.62	1,679.73	1,692.17	1,686.27	1,782.32	5.7	1.3
Other Deposits Incl. in BM	7,435.07	7,509.74	7,911.08	7,477.12	8,924.99	19.4	20.0
Other Financial Corporations	273.57	258.62	301.90	374.48	273.25	-27.0	-0.1
Public Nonfinancial Corporations	260.27	373.76	400.01	142.83	106.52	-25.4	-59.1
Private Sector	6,901.23	6,877.36	7,209.17	6,959.81	8,545.22	22.8	23.8
Other NFCs	4,302.03	4,276.71	4,454.51	4,284.57	5,766.09	34.6	34.0
Other Sectors (Households)	2,599.19	2,600.65	2,754.65	2,675.23	2,779.13	3.9	6.9
Deposits excluded in BM	1,838.11	2,030.31	2,058.69	2,023.69	1,937.19	-4.3	5.4
Total Deposits	14,705.48	14,712.15	15,380.33	15,143.55	17,289.44	14.2	17.6

Source: Central Bank of Lesotho

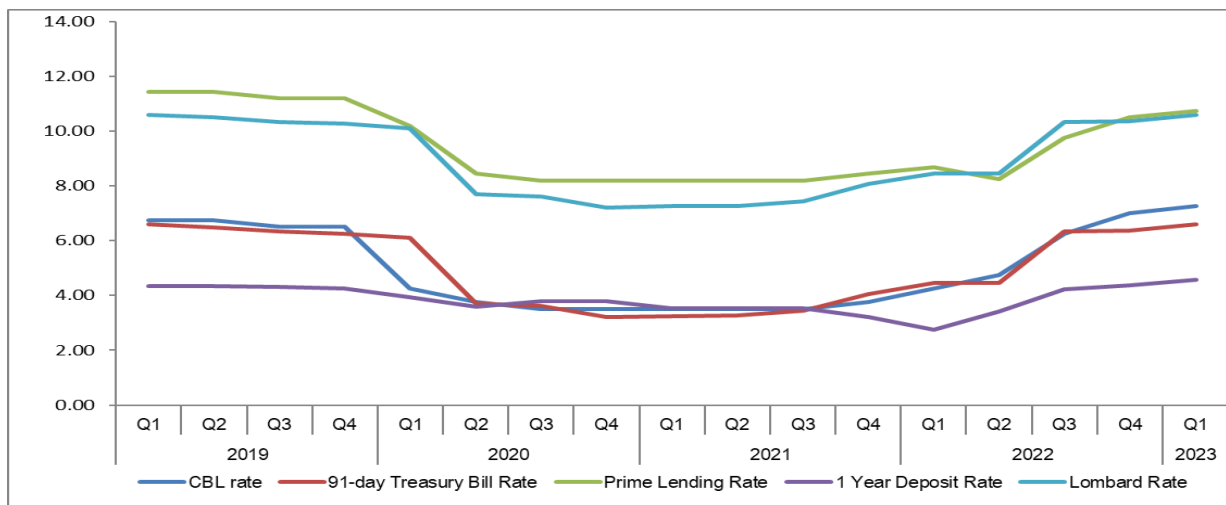
MONEY AND CAPITAL MARKET DEVELOPMENTS

Money Market

Interest Rates

The Central Bank of Lesotho continued to hike its policy rate in the first quarter of 2023. The policy rate was raised 25 basis points to 7.25 per cent. Consequently, the prime lending rate grew by 25 basis points to 10.75 per cent. In addition, the 91-day Treasury bill rate increased to 6.59 per cent, from 6.36 per cent in December 2022, and continued to be within the desired range of +/- 200 basis points to the South African counterpart rate. The one-year deposit rate rose by 10 basis points and stood at 4.57 per cent.

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



Source: Central Bank of Lesotho

Table 9: Interest rates

	2022				2023
	Q1	Q2	Q3	Q4	Q1
Central Bank					
CBL rate	4.25	4.75	6.25	7.00	7.25
T-Bill Rate - 91 days	4.45	4.45	6.34	6.36	6.59
Lombard Rate	8.45	8.45	10.34	10.36	10.59
Commercial Banks					
Call	1.01	1.37	1.87	1.96	2.55
Time:					
31 days	0.48	0.48	1.20	1.33	1.39
88 days	1.24	1.47	2.18	2.33	2.39
6 months	2.65	2.97	3.49	3.64	3.84
1 year	2.75	3.41	4.24	4.37	4.57
Savings	0.65	1.13	1.37	1.43	1.53
Prime	8.69	8.25	9.75	10.50	10.75
South Africa					
Repo	4.25	4.75	6.25	7.00	7.75
T-Bill Rate - 91 days	4.31	5.11	6.13	6.50	7.34
Prime	7.75	8.25	9.75	10.50	11.25

Source: Central Bank of Lesotho

Holding of Treasury Bills

The overall holding of treasury bills (T-Bills) remained unchanged as the principal amounts of matured T-Bills were rolled over in the first quarter of 2023. However, the composition of holding of T-Bills changed. The banking sector's share declined to 84.8 per cent, from 86.5 per cent in December 2022, while that of the non-bank sector rose to 15.2 per cent, from 13.5 per cent, benefitting from an increase in holding of T-Bills by households.

Table 10: Holding of Bills (Million Maloti)

	2022				2023
	Q1	Q2	Q3	Q4	Q1
Treasury Bills	1,458.40	1,301.54	1,959.12	1,596.49	1,596.38
Banking System	1,278.59	1,117.11	1,765.77	1,380.44	1,354.00
Non-Bank Sector	179.81	184.43	193.35	216.05	242.38

Source: Central Bank of Lesotho

Holding of Treasury Bonds

The overall holding of treasury bonds grew by 6.6 per cent during the review quarter. The banking sector's holdings of treasury bonds increased by 2.6 per cent, while the non-banking sector's grew by 9.0 per cent. The growth in holding of bonds by non-banking sector stemmed from an increase in

holding by Other Financial Corporations and Households. The share of the banking sector to the total stock of bonds stood at 34.9 per cent, while the non-banking sector held 65.1 per cent.

Table 11: Holding of Bonds (*Million Maloti*)

	2022				2023
	Q1	Q2	Q3	Q4	Q1
Holding of Treasury Bonds	3,136.31	3,336.31	3,450.42	3,523.39	3,757.58
Banking System	1,223.09	1,262.57	1,264.07	1,278.13	1,311.31
Non-Bank Sector	1,913.22	2,073.74	2,186.34	2,245.26	2,446.28

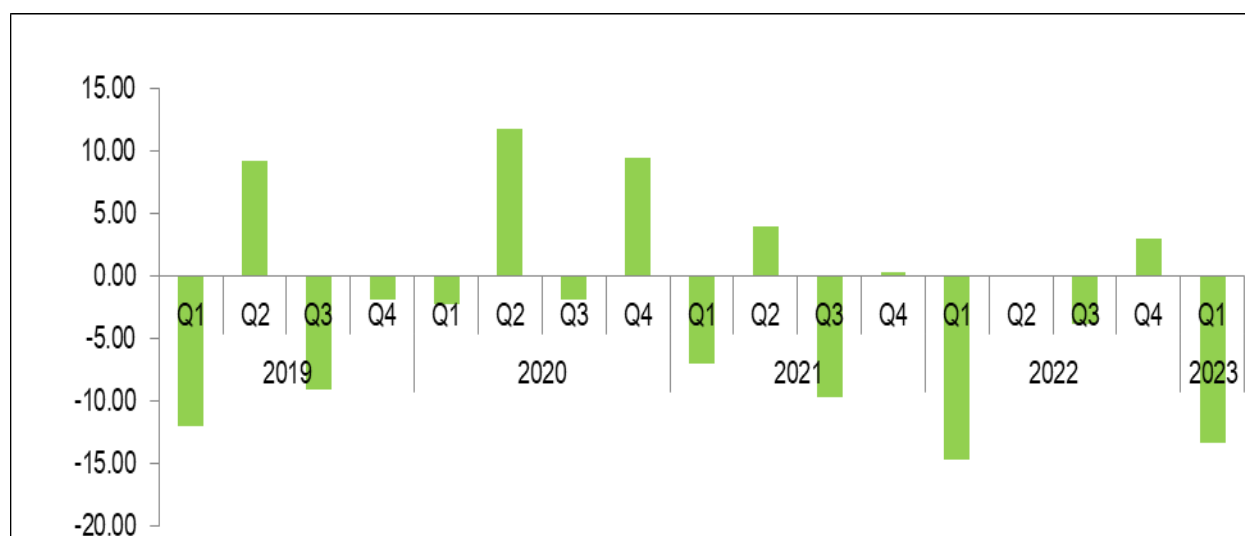
Source: Central Bank of Lesotho

5. Government Finance

OVERVIEW

Government budgetary operations were estimated to result in a fiscal deficit equivalent to 13.3 per cent of GDP during the quarter under review, compared to a revised fiscal surplus of 3.0 per cent of GDP in the previous quarter. This significantly high deficit was attributable to accelerated payments as the fiscal year was coming to an end. The public debt stock was estimated at 53.5 per cent of GDP relative to a revised 53.4 per cent of GDP in the preceding quarter.

Figure 13: Fiscal Balance (Percent of GDP)



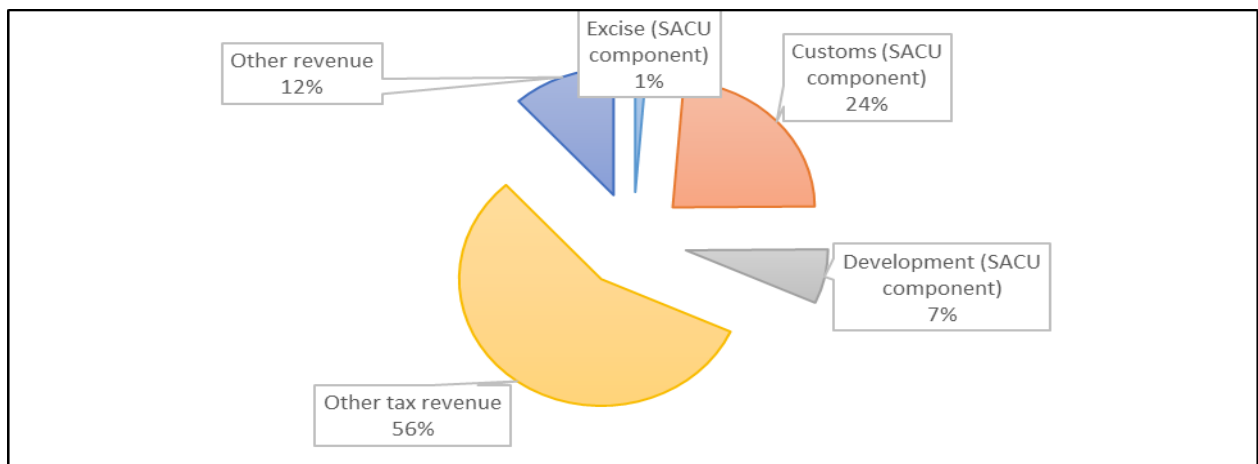
Source: Central Bank of Lesotho and Ministry of Finance

REVENUE⁶

Government revenue increased by 5.8 per cent during the quarter under review, in contrast to a 2.8 per cent decline in the last quarter of 2022. The increase in revenue was mainly attributable to a high collection of income tax and payment of the rand monetary compensation. This was moderated by a decrease in mining royalties, water royalties, and VAT collections. On a year-on-year basis, total revenue declined by 4.6 per cent.

⁶ 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.

Figure 14: Total Revenue (Million Maloti)



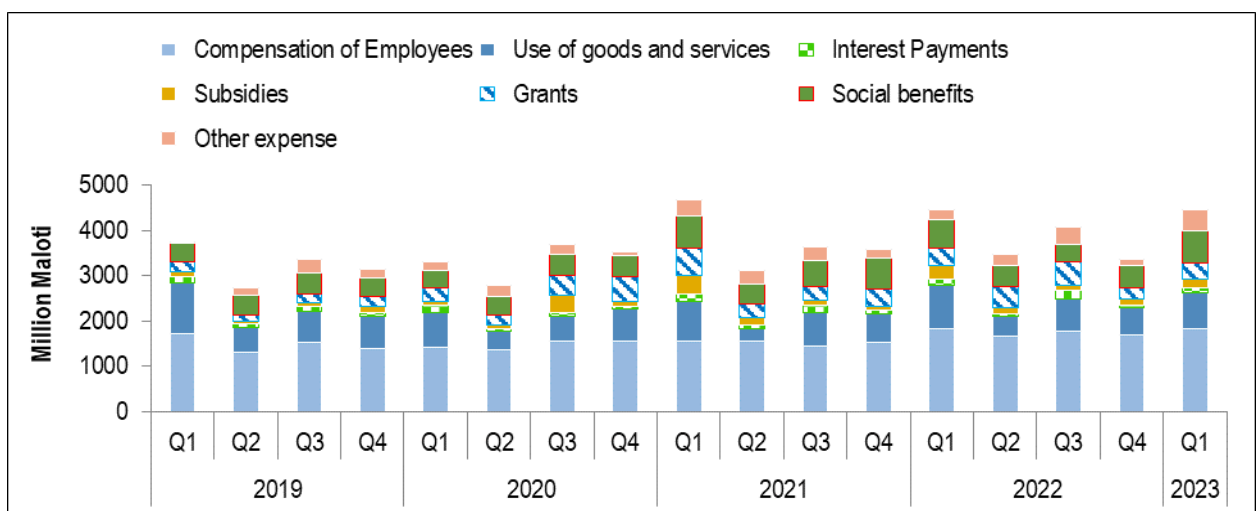
Source: Central Bank of Lesotho and Ministry of Finance

TOTAL EXPENDITURE

Government spending increased by 47.4 per cent during the quarter under review, in contrast with a decrease of 20.0 per cent in the previous quarter. This increase was in both current and capital spending, with significant changes coming from social grants and infrastructure related spending.

Regarding functional outlays, roads construction, in particular Marakabei-Monts'a road, construction of classrooms and offices, water and electricity infrastructure, and market centres???? contributed to the increase. These projects contributed largely to over performance of the economic affairs, and housing functions of the Government of Lesotho.

Figure 15: Total Expense (Million Maloti)



Source: Central Bank of Lesotho and Ministry of Finance

Table 12: Statement of Government Operations (Million Maloti)

	2022				2023	Q-to-Q	Y-on-	GDP
	Q1	Q2	Q3	Q4	Q1	(%)	Y (%)	ratio (%)
Total Revenue	4448.76	3910.85	4128.97	4011.88	4244.35	5.8	-4.6	45.1
Tax revenue	3557.32	3072.51	3313.30	2960.94	3454.48	16.7	-2.9	36.7
Income Tax	1167.03	993.23	1168.44	863.15	1074.70	24.5	-7.9	11.4
Value Added Tax	841.02	840.33	950.59	901.77	851.69	-5.6	1.3	9.0
SACU Receipts Components	1175.05	1056.09	1056.09	1056.09	1056.09	0.0	-10.1	11.2
Other tax revenue	374.22	182.87	138.19	139.94	472.01	237.3	26.1	5.0
Grants	328.66	295.46	293.80	293.80	293.80	0.0	-10.6	3.1
o/w SACU Receipts Component	326.89	293.80	293.80	293.80	293.80	0.0	-10.1	3.1
Other revenue	562.78	542.88	521.87	757.14	496.08	-34.5	-11.9	5.3
Total Expense	4452.16	3477.32	4068.98	3363.59	4448.99	32.3	-0.1	47.2
Compensation of Employees	1825.97	1676.85	1765.41	1705.37	1829.41	7.3	0.2	19.4
Use of goods and services	974.60	438.80	720.16	583.90	799.20	36.9	-18.0	8.5
O/W Purchase of Health								
Services	134.18	199.01	108.01	123.39	90.98	-26.3	-32.2	1.0
Interest Payments	118.54	51.95	203.37	64.84	108.11	66.7	-8.8	1.1
Subsidies	301.80	131.11	98.09	124.23	176.10	41.7	-41.6	1.9
Grants	382.63	458.45	524.22	254.66	370.54	45.5	-3.2	3.9
Social benefits	629.12	460.08	371.13	482.02	700.69	45.4	11.4	7.4
Other expense	219.50	260.08	386.60	148.57	464.93	212.9	111.8	4.9
Gross Operating Balance	-3.40	433.53	59.99	648.28	-204.64	-	-	-2.2
Total Nonfinancial Assets	1330.67	431.80	591.94	364.86	1046.71	186.9	-21.3	11.1
Fixed Assets	1330.67	431.80	591.94	364.86	1046.71	186.9	-21.3	11.1
Non-Produced Assets	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Total Expenditure	5782.83	3909.12	4660.92	3728.45	5495.69	47.4	-5.0	58.3
Primary balance	-1215.53	53.68	-328.58	348.26	-1143.23	-	-	-12.1
Net lending/borrowing	-1334.07	1.73	-531.95	283.42	-1251.34	-	-	-13.3
Financing	-1350.60	0.48	-629.74	310.43	-1359.72	-	-	-14.4
Net Acquisition of Financial assets	-108.00	-610.53	374.96	-343.04	-701.71	-	-	-7.4
O/W Domestic Currency and								
Deposits	26.97	-640.01	387.10	-410.63	-638.17	-	-	-6.8
Net Incurrence of Liabilities	1242.60	-611.01	1004.70	-653.47	658.02	-	-	7.0
O/W Domestic Other Accounts								
Payable	750.23	-541.93	129.47	-312.52	596.01	-	-	6.3
Statistical Discrepancy	16.53	1.26	97.79	-27.01	108.38	-	-	1.2
Memo Items								
SACU receipts	1501.94	1349.88	1349.88	1349.88	1349.88	0.0	-10.1	14.3
GDP (quarterly, red colour = forecast)	9070.01	9204.61	14016.70	9477.97	9421.11	-	-	-

Source: Central Bank of Lesotho and Ministry of Finance

Table 13: Total Outlays by Functions of Government (Million Maloti)

	2022				2023	Q-to-Q	Y-on-Y	GDP
	Q1	Q2	Q3	Q4	Q1	(%)	(%)	ratio (%)
Current Outlays	4980.49	3513.74	3953.94	3282.17	4760.28	45.0	-4.4	50.5
General public services	912.02	647.89	747.41	523.22	1009.26	92.9	10.7	10.7
Defense	206.05	159.71	220.24	159.78	223.51	39.9	8.5	2.4
Public order and safety	380.79	426.18	431.09	432.91	422.79	-2.3	11.0	4.5
Economic affairs	1130.59	497.93	718.80	467.28	851.48	82.2	-24.7	9.0
Environmental protection	4.01	5.48	3.70	2.18	2.91	33.4	-27.5	0.0
Housing and community amenities	28.11	42.98	97.30	52.55	68.95	31.2	145.3	0.7
Health	880.93	421.04	482.74	486.65	533.95	9.7	-39.4	5.7
Recreation, culture and religion	136.28	28.65	26.99	21.63	30.76	42.2	-77.4	0.3
Education	623.21	654.73	636.53	625.87	779.24	24.5	25.0	8.3
Social protection	678.51	629.16	589.16	510.11	837.43	64.2	23.4	8.9
Capital Outlays	439.60	267.93	244.24	247.48	639.80	158.5	45.5	6.8
General public services	138.11	28.87	43.32	109.32	191.10	74.8	38.4	2.0
Public order and safety	45.75	0.00	6.00	5.79	14.79	155.5	-67.7	0.2
Economic affairs	142.78	174.04	98.15	105.66	311.99	195.3	118.5	3.3
Housing and community amenities	96.12	54.62	60.50	21.42	88.77	314.4	-7.6	0.9
Health	2.76	4.72	6.25	1.87	11.87	535.7	329.1	0.1
Recreation, culture and religion	10.54	5.68	29.67	3.42	11.59	238.8	9.9	0.1
Education	3.53	0.00	0.35	0.00	9.71	-	174.7	0.1
Total Outlays	5420.09	3781.67	4198.19	3529.65	5400.09	53.0	-0.4	57.3
General public services	1050.12	676.75	790.73	632.54	1200.36	89.8	14.3	12.7
Defense	206.05	159.71	220.24	159.78	223.51	39.9	8.5	2.4
Public order and safety	426.54	426.18	437.08	438.69	437.57	-0.3	2.6	4.6
Economic affairs	1273.37	671.97	816.96	572.94	1163.47	103.1	-8.6	12.3
Environmental protection	4.01	5.48	3.70	2.18	2.91	33.4	-27.5	0.0
Housing and community amenities	124.23	97.60	157.80	73.98	157.73	113.2	27.0	1.7
Health	883.70	425.76	488.98	488.51	545.82	11.7	-38.2	5.8
Recreation, culture and religion	146.82	34.33	56.66	25.05	42.35	69.1	-71.2	0.4
Education	626.74	654.73	636.88	625.87	788.95	26.1	25.9	8.4
Social protection	678.51	629.16	589.16	510.11	837.43	64.2	23.4	8.9
Unidentified Outlays	362.74	127.45	462.73	198.81	95.61	-	-	-

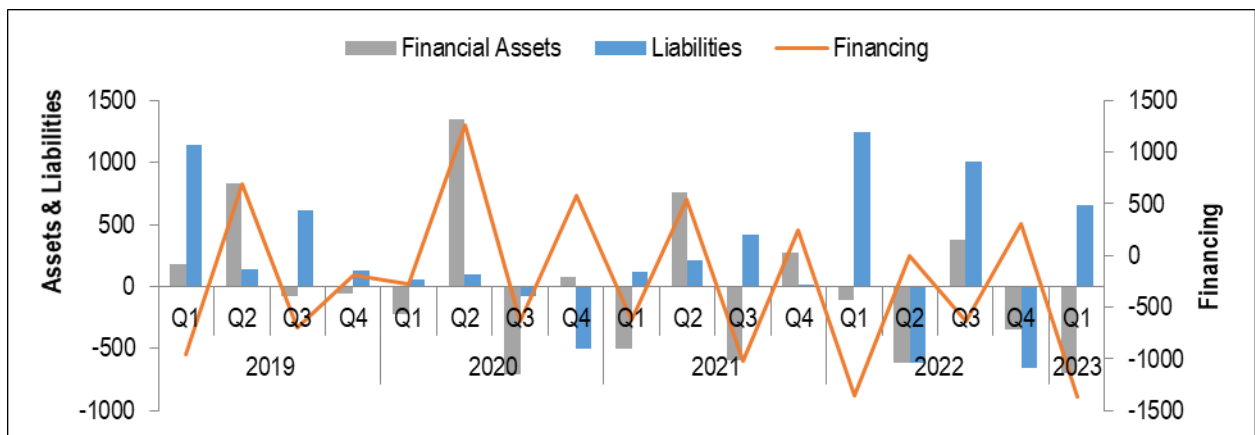
Source: Central Bank of Lesotho and Ministry of Finance

FINANCIAL ASSETS AND LIABILITIES⁷

There was a decline in financial assets as government deposits were used primarily to finance the fiscal deficit, coupled with, public debt redemption. However, the decrease in deposits was moderated by issuance of domestic securities. Furthermore, outstanding supplier payments continued to expand, following large end-of-year spending.

⁷ 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.

Figure 16: Total Financing (Million Maloti)

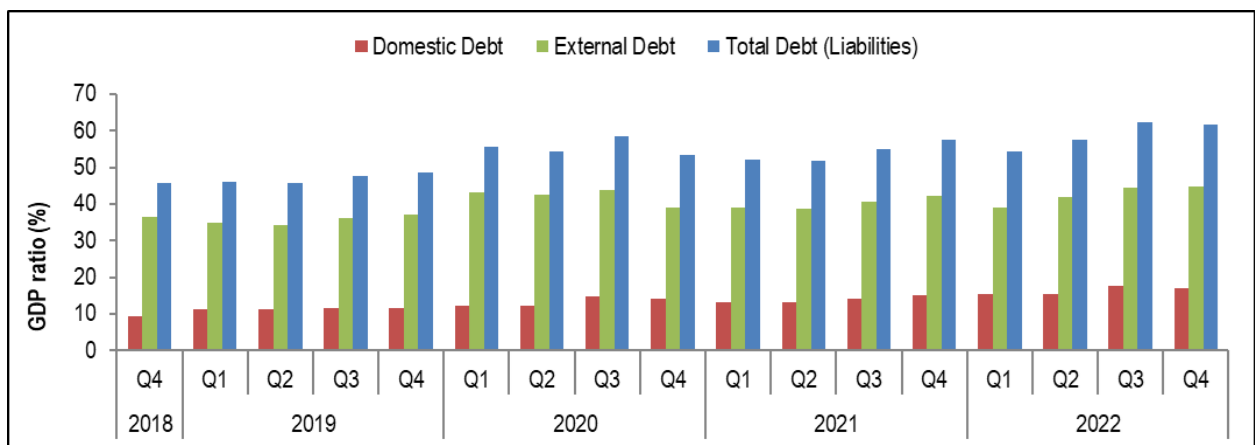


Source: Central Bank of Lesotho and Ministry of Finance

TOTAL PUBLIC DEBT⁸

The stock of public debt declined by 2.3 per cent during the quarter under review, compared with a decrease of 1.6 per cent in the previous quarter. The decrease in public debt was mainly due to repayment???? of part of externally financed debt from multilateral creditors. However, the issuance of long-term domestic securities moderated the decline. Therefore, debt sustainability indicators remained favourable.

Figure 17: Outstanding Public Debt (Million Maloti)



Source: Central Bank of Lesotho and Ministry of Finance

⁸ All categories are on net terms. The stock of public external debt is converted using an end-of-period exchange rate.

Table 14: Public Debt Stock (Million Maloti)

	2022				2023 Q1	Q-to-Q (%)	Y-on- Y (%)	Debt / GDP
	Q1	Q2	Q3	Q4				
Total Public Debt	19760.61	20943.47	22668.53	22299.56	21791.89	-2.3	10.3	53.5
EXTERNAL DEBT	14188.71	15320.19	16214.80	16149.10	15347.13	-5.0	8.2	37.7
Bilateral Loans	671.04	698.83	757.38	699.22	756.73	8.2	12.8	1.9
Concessional	671.04	698.83	757.38	699.22	756.73	8.2	12.8	1.9
Non-concessional	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Multilateral Loans	11157.87	12015.59	12655.23	12637.93	11478.60	-9.2	2.9	28.2
Concessional	9791.87	10665.35	11335.39	11330.77	10199.00	-10.0	4.2	25.0
Non-concessional	1366.00	1350.25	1319.85	1307.16	1279.60	-2.1	-6.3	3.1
Financial Institutions	237.94	237.94	218.15	176.89	155.30	-	-	0.4
Concessional	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Non-concessional	237.94	237.94	218.15	176.89	155.30	-	-	0.4
Suppliers' Credit	2121.85	2367.82	2584.04	2635.05	2956.50	12.2	39.3	7.3
DOMESTIC DEBT	5571.90	5623.28	6453.72	6150.47	6444.76	4.8	15.7	15.8
Banks	3478.87	3365.11	4074.03	3689.16	3756.11	1.8	8.0	9.2
Long-term	2200.28	2248.00	2308.26	2308.72	2402.11	4.0	9.2	5.9
Treasury bonds	1223.09	1262.57	1264.07	1278.13	1311.31	2.6	7.2	3.2
Central Bank (IMF-ECF)	977.19	985.43	1044.18	1030.59	1090.80	5.8	11.6	2.7
Short-term (t-bills)	1278.59	1117.11	1765.77	1380.44	1354.00	-1.9	5.9	3.3
Non-bank	2093.03	2258.17	2379.69	2461.31	2688.66	9.2	28.5	6.6
Short-term (t-bills)	179.81	184.43	193.35	216.05	242.38	12.2	34.8	0.6
Long-term (t-bonds)	1913.22	2073.74	2186.34	2245.26	2446.28	9.0	27.9	6.0
DEBT INDICATORS								
External Debt-to-Total Debt	71.8	73.2	71.5	72.4	70.4	-	-	-
Concessional Debt-to-External Debt	73.7	74.2	74.6	74.5	71.4	-	-	-
External Debt Service-to-Revenue	5.2	6.3	8.1	7.3	10.7	-	-	-
External Debt Service-to-Exports	5.6	6.2	7.5	6.6	6.6	-	-	-

Source: Central Bank of Lesotho and Ministry of Finance

6. Foreign Trade and Payments

OVERVIEW

During the first quarter of 2023, the external sector position registered a deficit equivalent to 10.7 per cent of GDP, from a surplus amounting to 11.9 per cent of GDP in the fourth quarter of 2022. This reflected a marked increase in financial account outflows during this period. The deficit was however, moderated by a decline on the current account deficit, together with an increase in the capital account surplus.

CURRENT ACCOUNT

The current account deficit narrowed to M1 158.74 million in the review quarter, from M1 321.13 million in the previous quarter. This was mainly on account of improved primary and secondary income accounts surpluses, together with a modest reduction in the merchandise goods account deficit. The decline in the current account deficit was however, moderated by the increase in the services account deficit. As a share of GDP, the current account deficit constituted 12.4 per cent, compared to 13.6 per cent in the preceding quarter.

Table 15: Current Account Balance (Million Maloti)

	2022				2023	% Changes	
	Q1	Q2	Q3	Q4	Q1	Q/Q	Y/Y
Current Account	-406.99	-1253.19	-168.27	-1321.13	-1158.74		
(a) Goods	-2983.13	-3347.12	-2296.25	-3541.74	-3765.94	-6.3	-26.2
Merchandise exports, f.o.b.	4166.19	3952.62	5050.00	4016.15	3556.34	-11.4	-14.6
Of which diamonds	1308.40	1400.65	1586.85	959.01	1130.35	17.9	-13.6
Of which textiles & clothing	2139.19	1824.62	2667.34	2342.94	1744.26	-25.6	-18.5
Of which water	305.23	330.47	353.20	403.27	335.86	-16.7	10.0
Of which agriculture	71.22	118.90	134.23	141.23	105.90	-25.0	48.7
Of which re-exports	44.64	26.58	58.74	77.95	25.42	-67.4	-43.1
Other exports	297.51	251.40	249.65	91.74	214.55	133.9	-27.9
Merchandise imports, f.o.b.	7149.32	7299.73	7346.25	7557.88	7322.27	-3.1	2.4
(b) Services	-1750.21	-1745.64	-1735.37	-1750.93	-1838.75	-5.0	-5.1
(c) Primary Income	1843.18	1923.56	1896.22	2003.32	2066.83	3.2	12.1
(d) Secondary Income	2483.17	1916.01	1967.13	1968.21	2379.13	20.9	-4.2

Source: Central Bank of Lesotho

Merchandise Exports

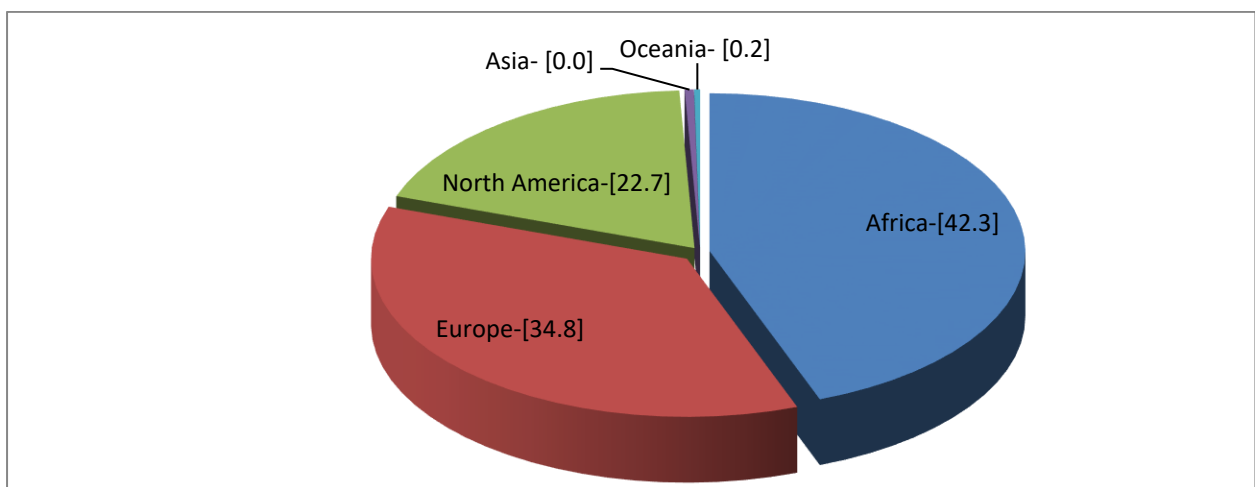
Merchandise exports decreased by 11.4 per cent in the quarter under review, from a 20.5 per cent fall in the previous quarter. All export categories registered a decline except for diamonds; with significant declines observed in agriculture, textiles and clothing as well as water exports. Textiles and clothing exports declined at the back of closure of some firms, while others laid off some workers due to declining orders, particularly from the US. Meanwhile, there was a marked rise in exports of diamonds and other exports, which moderated the decline in other categories of exports. Diamonds exports benefited from the discovery of high carat diamonds, which attracted favourable prices in international markets. On an annual basis, merchandise exports declined by 14.6 per cent, compared

with a 9.5 per cent increase in the previous quarter. As a share of GDP, merchandise exports accounted for 38.1 per cent, which was lower than the 41.4 per cent observed in the previous quarter.

Direction of Trade - Exports

Lesotho's exports were primarily destined to Africa, with a share of 42.3 per cent. They comprised mostly textiles and clothing to South Africa. Europe followed with an increased share of 34.8 per cent, compared to the 28.1 per cent share realized in the fourth quarter of 2022. Exports to Europe rose on account of increased diamond exports to Belgium, resulting from the recovery of high value diamonds. North America remained the third largest export market for Lesotho, with a share of 22.7 per cent, supported by textiles and clothing exports to the US. Exports to Oceania and Asia continued to constitute minimal shares of 0.2 per cent and 0.1 per cent, respectively.

Figure 18: Direction of Trade Merchandise Exports (Percentage Share)



Source: Central Bank of Lesotho

Merchandise Imports

Merchandise imports contracted by 3.1 per cent, from a 2.9 increase in the previous quarter. Major declines were observed for imports of Crude materials, Animal and vegetable oils as well as fats and waxes. The decline was however moderated by increased imports of food and live animals, mineral products, fuels and lubricants as well as machinery and transport equipment. Imports of Mineral products, fuels and lubricants together with machinery and transport equipment were associated with project activities related to the Lesotho Highlands Water Project – Phase II. Year-on-year, imports rose by 2.4 per cent, compared with a 9.5 per cent increase in the previous quarter. Expressed as a percentage of GDP, there was a slight increase in merchandise imports to 78.4 per cent, from 77.9 per cent registered in the preceding quarter.

Services account

The services account deficit continued to increase in the first quarter of 2023. The deficit widened by 5.0 per cent, following a 0.9 per cent rise in the preceding quarter. This was primarily a result of the rise in payments related to telecommunications services acquired abroad, as well as payments for official foreign travel. The increase in the services account deficit was partly offset by increased

receipts for courier services provided to non-residents, and a decline in freight services in line with a fall in imports. As a share of GDP, the services account deficit rose to 19.7 per cent, from 18.1 per cent of GDP in the quarter ending in December 2022.

Primary Income Account

During the review period, the primary income account surplus rose by 3.2 per cent, relative to 5.7 per cent growth in the previous quarter. The increased surplus on the primary income account was supported by higher receipts related to the LHWP Phase I maintenance and operational costs, together with a rise in commercial banks' interest returns on investments held abroad. The increase was however moderated by the decline in central bank's interest returns on investments held abroad. Compensation of employees, particularly migrant mineworkers fell, amid persistent power outages in South Africa, which has seen some mines laying off some workers. As a ratio of GDP, the surplus on the primary income account amounted to 22.1 per cent, relatively unchanged from a 20.7 per cent share in the previous quarter.

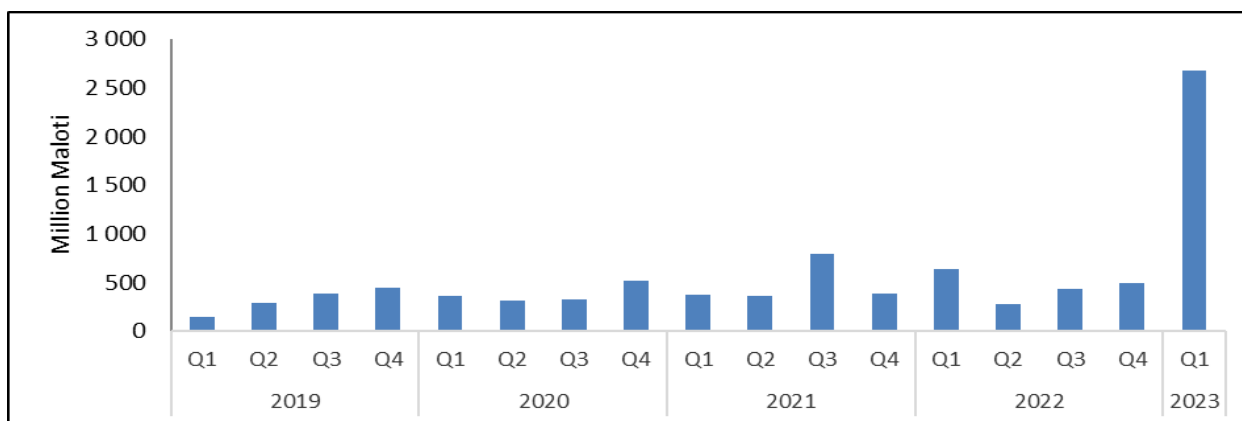
Secondary Income Account

The secondary income account surplus increased by 20.9 per cent, following a 0.1 per cent rise in the previous quarter. The surplus was supported mainly by the rand compensation receipts, which are usually received during the first quarter of the year. This was nonetheless moderated by an increase in subscriptions to international organisations. On an annual basis, the secondary income surplus declined by 4.2 per cent, following a 9.0 per cent fall in the fourth quarter of 2022. As a proportion of GDP, the secondary income surplus was equal to 25.5 per cent, compared to 20.3 in the quarter ending in December 2022.

CAPITAL ACCOUNT

The capital account inflows amounting to M2.68 billion were realised during the first quarter of 2023. This was significantly higher than the inflows of M499.17 million in the previous quarter and largely reflected increased transfers to finance the LHWP – Phase II activities. The surge in transfers was due to advance payments to contractors ahead of the construction of the dam and bridge. This was contrary to previous periods when payments to contractors were made on certified and completed work. Compared with the same period last year, the capital account surplus rose more than threefold, following a 28.1 per cent rise in the previous quarter. As a share of GDP, the surplus on the capital account amounted to 28.7 per cent, following that of 5.2 per cent in preceding quarter.

Figure 19: Capital Account (*Million Maloti*)



Source: Central Bank of Lesotho

FINANCIAL ACCOUNT

Financial account net outflows surged to M2 023.13 billion, from net outflows of M489.27 million in fourth quarter of 2022. The financial outflows expressed as a percentage of GDP accounted for 21.7 per cent, significantly higher than a 5.0 per cent share in the preceding quarter.

Table 17: Financial Account Balance (Million Maloti)

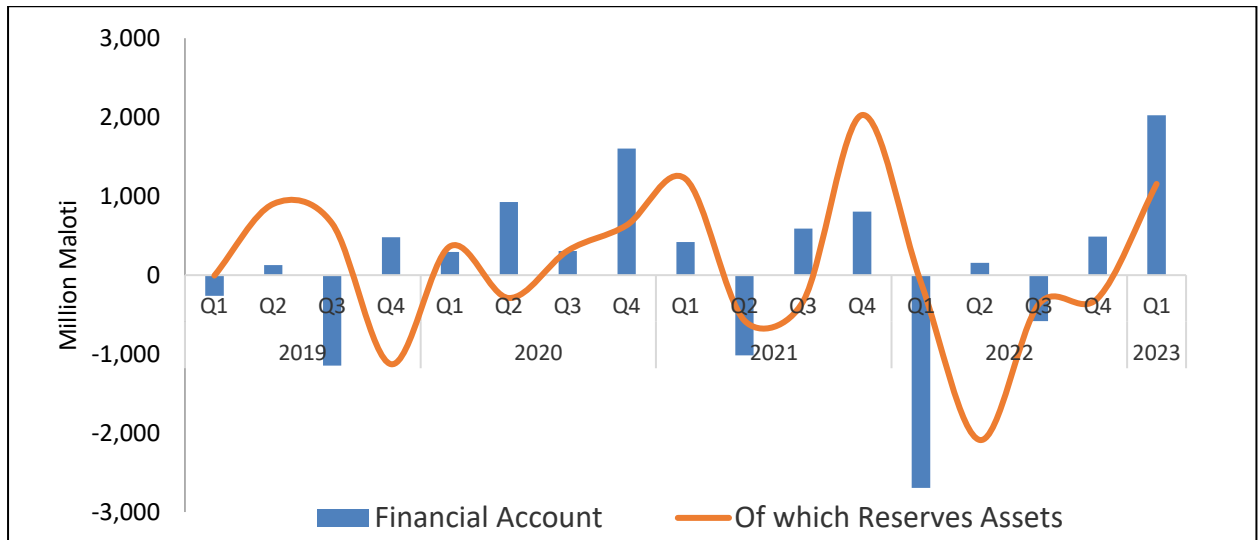
	2022				2023
	Q1	Q2	Q3	Q4	Q1
Financial account	-2694.84	154.72	-581.36	489.27	2023.13
Direct Investments, net	261.32	-12.34	-122.31	-24.03	-138.28
Portfolio Investments, net	-217.94	-2.66	56.65	-10.54	1486.42
Financial Derivatives, net	0.00	0.00	0.00	0.00	0.00
Other Investments, net	-650.41	537.20	-222.55	-631.03	1669.86
Of which Loans	-86.87	222.45	-4.36	-178.92	389.84
Claims on Non Residents	34.48	34.48	34.48	34.48	34.48
Liabilities to Non Residents	121.35	-187.97	38.84	213.40	-355.36
Of which Currency and Deposits	-489.48	388.81	-144.13	-378.06	1354.09
Claims on Non Residents	-632.74	349.23	74.49	-567.61	1491.97
Liabilities to Non Residents	-143.26	-39.58	218.62	-189.56	137.88
Of which Special Drawing Rights	0.00	0.00	0.00	0.00	0.00
Reserve Assets	-2087.80	-367.48	-293.15	1 154.87	-994.88

Source: Central Bank of Lesotho

The rise in net financial account outflows was attributable to commercial banks' increase of foreign assets held with non-residents, particularly other investments, as well as portfolio investment. Other investment outflows benefited from increased claims on non-residents, following a marked increase in advanced disbursements to the Lesotho Highlands Water Project-Phase II, ahead of the commencement of the bridge and the dam construction. On the one hand, portfolio investments rose on account of increased securities in search for higher yields, amid the continued monetary policy tightening by reserve banks across the globe. The financial outflows were however moderated by decline in reserve assets, together with a rise in direct investment inflows. Reserve assets declined in line with higher government expenditure. Meanwhile, the increase in direct investment inflows was

mainly due to increased loans to resident companies from non-resident shareholders into various sectors in the economy, including the financial, retail and mining sectors.

Figure 19: Financial Account (Million Maloti)

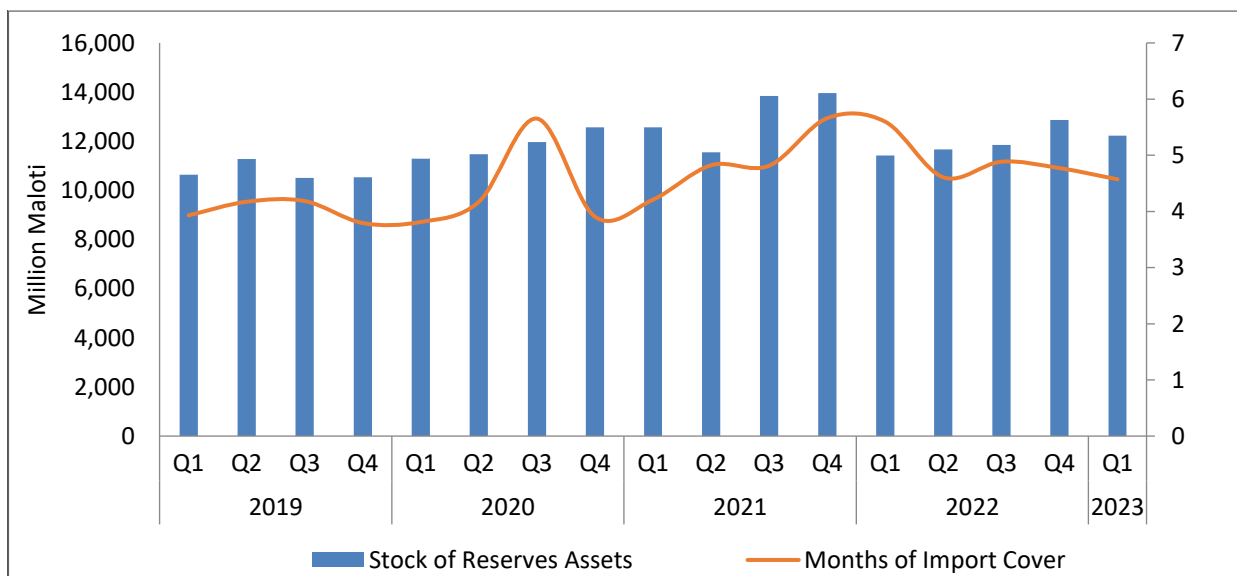


Source: Central Bank of Lesotho

RESERVE ASSETS

The stock of foreign reserves fell to M12.23 billion, from M12.86 billion in the previous quarter. This was at the back of the drawdown in government deposits to finance its expenditure. In months of import cover, reserves declined to 4.2 months in the first quarter of 2022 from 4.6 months in the last quarter of 2022, as imports were forecast to increase in while reserves assets decreased.

Figure 20: Reserve Assets



Source: Central Bank of Lesotho