

Central Bank of Lesotho



QUARTERLY ECONOMIC REVIEW

September 2023

MASERU KINGDOM OF LESOTHO

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1. Executive Summary

In the third quarter of 2023, global economic activity faced a general slowdown, marked by persistent challenges such as high inflation, record high interest rates, and weakened domestic and external demand in most countries. Despite these trends, the US experienced higher growth due to increased consumer spending, private inventory investment, and exports. Unemployment rates fluctuated across nations, rising in some and declining in others, while inflation exhibited mixed patterns, with fuel costs being a primary driver. Central banks, generally, maintained unchanged policy rates, citing their appropriateness to tackle inflation and support economic growth. Commodity prices showed divergent trends, with gold, platinum, and maize declining, while oil and wheat prices increased due to factors like production cuts and adverse weather conditions.

Economic indicators for the same period indicated improved economic performance in Lesotho, although employment continued to decline across LNDC-assisted firms, government positions, and migrant mineworkers. High inflation persisted, driven by increased energy prices and the depreciation of the rand and loti.

Broad money supply expanded due to growth in both net domestic and net foreign assets. Credit to the private sector improved, particularly in loans and advances to households. Short-term rates remained stable, mirroring the unchanged CBL policy rate.

Lesotho's government budgetary operations resulted in a surplus of 2.5 per cent of GDP in the third quarter of 2023, following an 11.6 per cent surplus in the previous quarter. This surplus resulted from higher revenues than expenses and reduced capital spending. The public debt stock was estimated at 59.9 per cent of GDP, having decreased from the revised 61.4 per cent in the previous quarter.

The external sector demonstrated robust performance, with a surplus rising to 4.3 per cent of GDP in the third quarter of 2023, from a 2.3 per cent surplus in the previous quarter. This growth was attributed to increased financial account outflows and a reduced current account deficit. However, a decline in capital account inflows partially offset these gains, emphasizing the importance of vigilant management amid evolving global economic conditions.

2. International Economic Developments

In the third quarter of 2023, the economic performance in most countries slowed compared to the previous quarter. Most economies continued to battle with the high inflation and record high interest rates together with weak domestic and external demand. However, growth was faster in the US due to increased consumer spending, private inventory investment, and exports. The unemployment rate in some countries was higher compared to a quarter earlier, while other countries recorded declines in the unemployment rate.

Inflation developments were mixed across countries, with consumer inflation increasing in some countries while it declined in others. The increase in inflation rates was driven primarily by the rise in fuel costs, associated with the increase in crude oil prices during the same period. In South Africa and China, consumer prices were unchanged between the two quarters. Central banks left their policy rates unchanged, with some central banks citing that the current interest rates were appropriate enough to bring the inflation down and support economic growth.

Commodity price movements continued to be mixed. Prices of gold, platinum and maize continued to fall, while prices of oil and wheat increased. Gold and platinum prices were negatively affected by lacklustre demand from jewellery consumers. Oil prices were primarily affected by oil production cuts by OPEC and its allies. Meanwhile, weather conditions and harvests continued to shape the supply and hence prices of maize and wheat. The performance of the rand was generally muted.

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 | 2023 | 2023 | 2023 | 2023 | 2023 | 2023 | 2023 |
| United States | 2.5 | 2.7 | 3.0 | 3.7 | 5.00 | 5.25 | 3.6 | 3.8 |
| Euro Area | 0.5 | 0.1 | 5.5 | 4.3 | 4.00 | 4.50 | 6.4 | 6.5 |
| Japan | 1.7 | 1.2 | 3.3 | 3.0 | -0.10 | -0.10 | 2.5 | 2.6 |
| United Kingdom | 0.6 | 0.6 | 7.9 | 6.7 | 5.00 | 5.25 | 4.2 | 4.2 |
| China | 6.3 | 4.9 | 0.0 | 0.0 | 3.55 | 3.45 | 5.2 | 5.0 |
| India | 7.8 | 7.6 | 4.9 | 5.0 | 6.50 | 6.50 | N/A | N/A |
| South Africa | 1.6 | -0.7 | 5.4 | 5.4 | 8.25 | 8.25 | 32.6 | 31.9 |

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 was robust in the third quarter of 2023. Economic growth increased to 2.7 per cent, from 2.5 per cent in the previous quarter. The stronger performance of the economy was explained by increased consumer spending, which was despite high interest rates and consumer costs. The increase in consumer spending resulted from healthy finances – increased savings and the growing use of credit cards.

There was also an increase in private inventory investment and exports. However, the unemployment rate rose to 3.8 per cent from 3.6 per cent in the previous quarter. This was partly due to layoffs at major firms, as part of the restructuring and cost-cutting measures, especially in the technology industry given the evolving market conditions.

The annual consumer prices in the US accelerated to 3.7 per cent from 3.0 per cent in the preceding quarter. The increase was explained by escalated shelter costs associated with the rise in home prices as a result of high mortgage rates. This was coupled with increased fuel costs associated with oil production cuts by key producers during the same period. The US Federal Reserve raised its Fed Funds Rate by 0.25 percentage points to 5.25 – 5.50 per cent in the previous quarter, as it continued with its efforts to lower the inflation rate back to target.

Euro Area

The euro area's economic performance continued to slow down in the third quarter of 2023. Real GDP rose by 0.1 per cent, following an increase of 0.5 per cent in the quarter ending in June 2023. The lukewarm performance resulted as the economy continued to battle high inflation and record high interest rates, which weighed negatively on investment and consumer spending, and also weakened manufacturing and services output. The unemployment rate rose to 6.5 per cent, from 6.4 per cent in the previous quarter.

The annual inflation rate fell to 4.3 per cent from 5.5 per cent in the second quarter of 2023. This was largely explained by the decline in energy prices and to a lesser extent the slower wage growth. The European Central Bank raised its policy rate to a record high of 4.50 per cent, from 4.00 per cent in the preceding quarter. The rate hike was an effort to cool the inflation which remained above the bank's target rate.

Japan

Japan's economic performance slowed in the third quarter of 2023. Real GDP growth rate slowed to 1.2 per cent, from a revised 1.6 per cent a quarter earlier. The weaker economic growth was due to lower export growth, owing to weak external demand, especially from China – Japan's main trading partner. Exports of chips and steel to China plummeted as China's economy struggled to maintain momentum. This was coupled with a decline in consumption expenditure, partly owing to the high consumer prices. However, the weak Japanese Yen coupled with increased tourism supported the services sector and therefore moderated the effect of the observed decline in consumption expenditure. The unemployment rate rose to 2.6 per cent, from 2.5 per cent a quarter earlier in line with the slower economic performance.

Consumer prices rose at an annual rate of 3.0 per cent, following an increase of 3.3 per cent in the preceding quarter. The slower price increase resulted from the decline in energy and utility prices, together with the slower increase in costs for food. The Bank of Japan left its policy rate unchanged at -0.10 per cent during its monetary policy meeting in September 2023 as it continues to support its economy.

United Kingdom (UK)

Economic performance in the UK was muted in the quarter ending in September 2023. Real GDP growth rate remained unchanged at 0.6 per cent. Growth was supported by increased output in the construction sector, due to favourable weather conditions, which was however, moderated by the decrease in consumer

spending and business investment, associated with the rise in interest rates. Similarly, the unemployment rate remained unchanged at 4.2 per cent during the same period.

The annual inflation rate for the UK was recorded at 6.7 per cent, compared with 7.9 per cent in the previous quarter. The largest contributor to the downward trend in inflation was lower prices of accommodation, as well as food and alcoholic beverages. The Bank of England left its policy rate unchanged at 5.25 per cent in September 2023, following softer than expected inflation.

EMERGING MARKET ECONOMIES

China

The economy of China continued to grow in the third quarter of 2023, albeit at a slower pace compared to the previous quarter. Real GDP grew by 4.9 per cent, following a 6.3 per cent growth a quarter earlier. The economy was supported by the government's economic stimulus, which had boosted retail sales and factory activity. Nonetheless, this was moderated by the poor performance of the property sector. The unemployment rate declined to 5.0 per cent from 5.2 per cent in the previous quarter as the government continued with policies to support employment.

The annual consumer prices remained at 0.00 percent in the third quarter of 2023, mirroring the rate recorded in June of the same year. The stagnant consumer prices were attributed to a decline in consumer confidence within the country which was primarily influenced by a slowdown in the property sector. Moreover, consistently low food prices contributed to minimal inflationary shifts. Livestock prices, especially pork, were the primary contributors to inflation. In an effort to stimulate the property sector and support the nation's economic recovery, the People's Bank of China reduced its policy rate to 3.45 percent in the third quarter of 2023, from 3.55 percent in the previous quarter.

India

The economic performance in India remained robust, albeit slower than in the preceding quarter. Real GDP grew by 7.6 per cent, following a growth rate of 7.8 per cent a quarter earlier. The economic performance was buttressed by increased output in the manufacturing and construction sectors, together with higher fiscal spending. However, there was a decline in agricultural output, owing to heavy rains, which moderated the observed performance.

The inflation rate increased to 5.0 per cent in the quarter ending in September 2023, from 4.9 per cent in the previous quarter. The increase in consumer prices reflected the unexpected increase in food prices as well as the upward pressure from increased oil prices. The Reserve Bank continued with its interest rate "pause" and left its policy rate at 6.50 per cent to support economic growth.

South Africa (SA)

South Africa's economic performance deteriorated in the third quarter of 2023. Real GDP contracted by 0.7 per cent, from a revised increase of 1.5 per cent a quarter earlier. The decline in economic growth was explained by reduced production in the agriculture and the mining industries as well as a slower increase in manufacturing output compared to the previous quarter. The agricultural industry was negatively affected by low production of crops and animal products, associated with heavy floods and the outbreak of the avian flu, respectively. Meanwhile, the mining and

manufacturing industries continued to be negatively affected by load shedding and logistical constraints. However, the unemployment rate declined to 31.9 per cent, from 32.6 per cent in the preceding quarter. The largest employment increases were observed in Finance, Community and Social Services. Economic activity in this sector, which was hit hard by the COVID-19 pandemic, had started to normalize and moderated the high unemployment rate caused by the pandemic.

The annual inflation rate in South Africa remained at 5.4 per cent. The increase in consumer prices was explained by the rise in meat prices as production for poultry products decreased following an outbreak of avian flu. Furthermore, fuel prices and municipal tariffs increased significantly during the same period. The South African Reserve Bank left its policy rate unchanged at 8.25 per cent during its policy meeting in September 2023, as the inflation rate, remained within the bank’s target band.

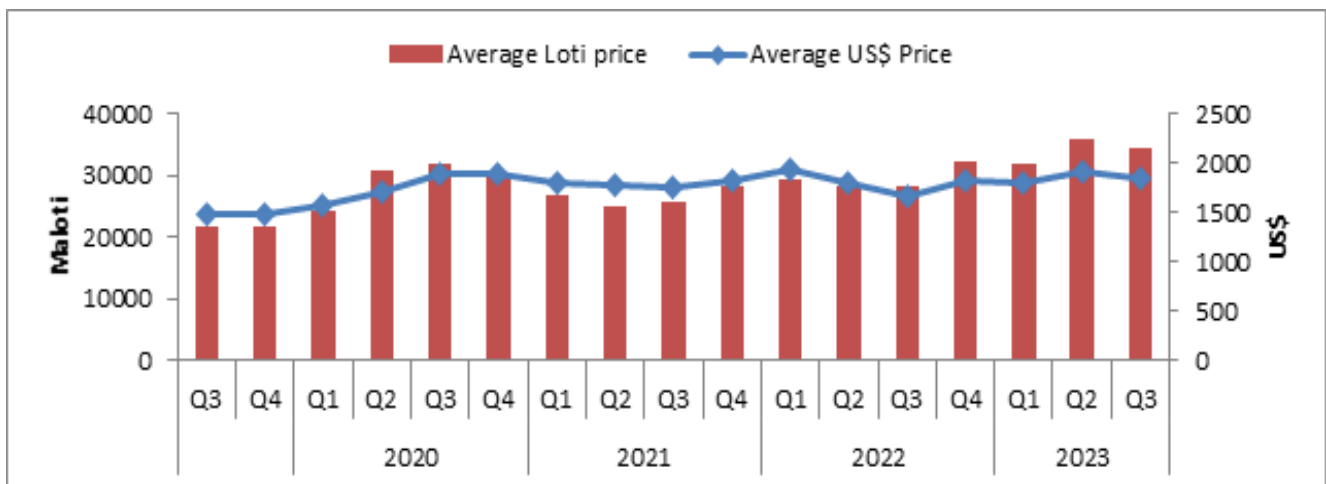
COMMODITIES

Minerals

Gold

The dollar and loti prices of gold both declined by 3.7 per cent compared to respective increases of 6.2 per cent and 11.5 per cent, in the preceding quarter. The price of gold fell due to reduced demand for jewellery. The price of gold was also negatively affected by the Fed’s hawkish stance during the same period. Gold prices also continued to be under pressure on fears of a global recession, especially in developing economies, emanating from high interest rates, which has led to increased investor preference for the US dollar.

Figure 1: Average Price of Gold

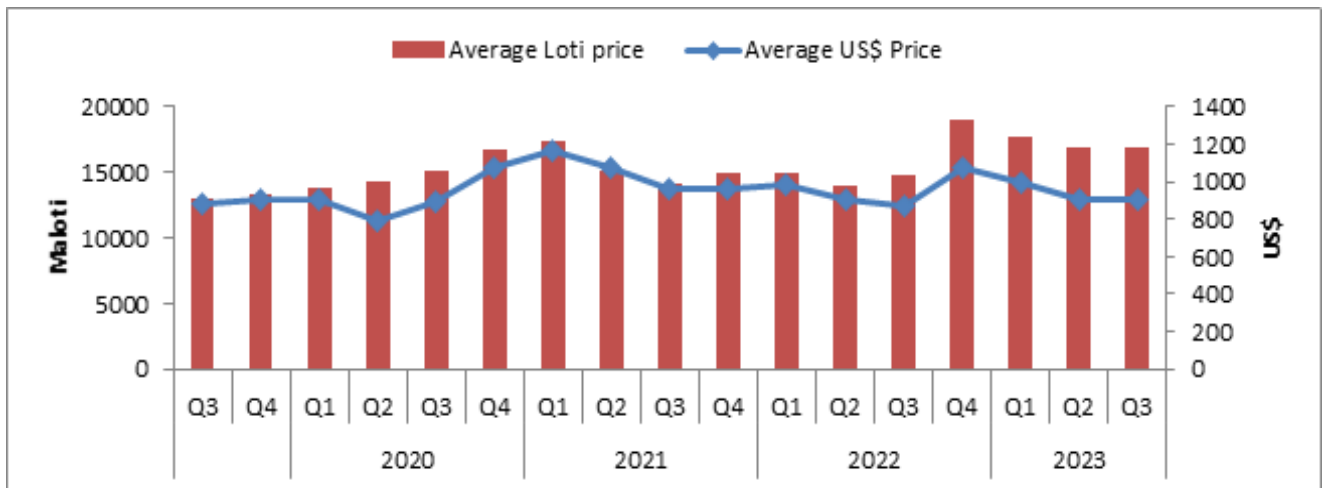


Source: Bloomberg

Platinum

Platinum prices declined by 0.2 per cent following respective dollar and loti declines of 8.9 per cent and 4.4 per cent in the previous quarter. The decline was primarily explained by worries about the health of the global economy, especially slowing Chinese economy, which is the world’s largest consumer of platinum, together with lower expected demand from vehicle manufacturers.

Figure 2: Average Price of Platinum



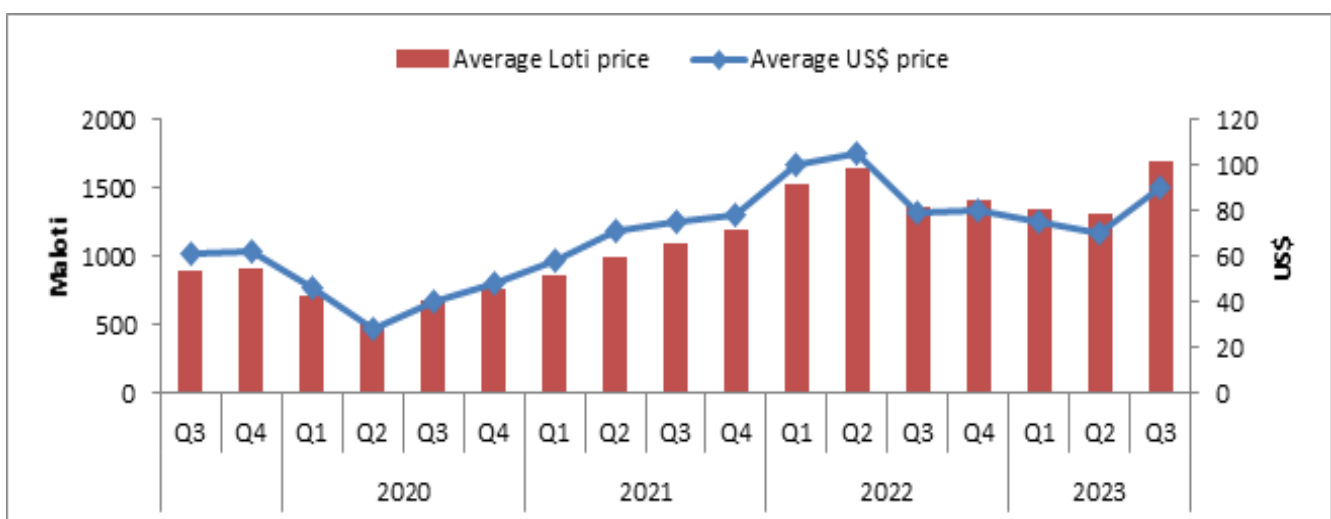
Source: Bloomberg

Energy

Crude Oil

Oil prices increased significantly during the third quarter of 2023. The dollar price of crude oil rose by 28.5 per cent following a decline of 6.6 per cent in the previous quarter while the loti price of crude oil rose by 28.5 per cent from a decline of 2.0 per cent in preceding quarter. The increase in crude oil prices was largely a result of factors shaping the global oil market. These included amongst others; Saudi Arabia's decision to reduce oil production by one million barrels per day, and other production cuts by OPEC and other oil producing countries, which tightened the global supply. Furthermore, there was an increase in demand from China as the economy continued to re-emerge from the COVID-19 pandemic associated lockdowns. Favourable macroeconomic sentiment, accompanied by easing inflation, supported crude oil prices further.

Figure 3: Average Price of Oil



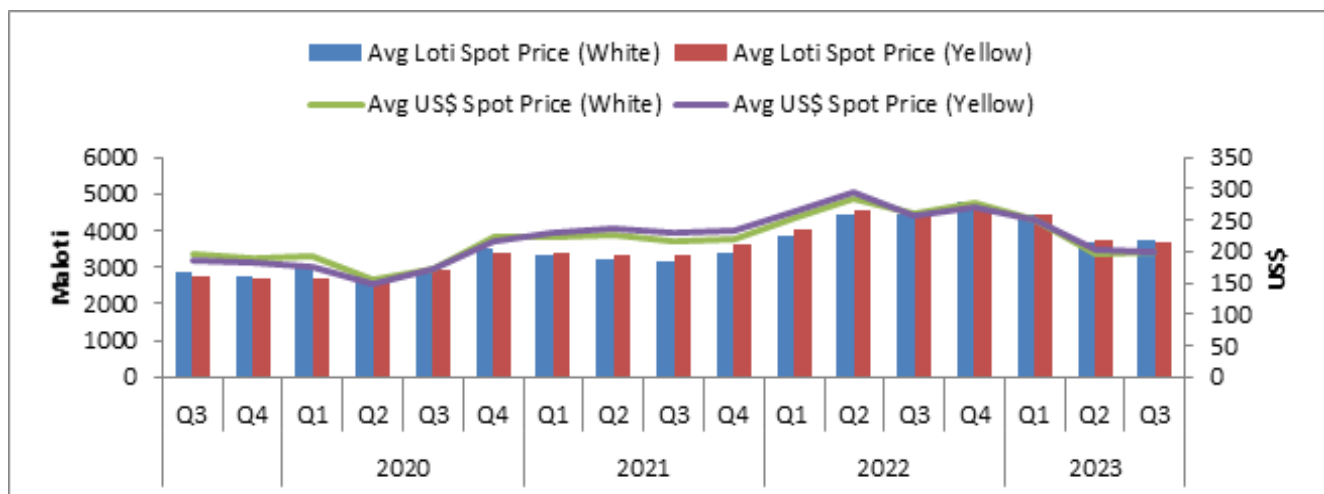
Source: Bloomberg

Agricultural Products

Maize

In the third quarter of 2023, the dollar price of white maize increased by 0.8 per cent, following a decline of 20.6 per cent in the previous quarter. The dollar price of yellow maize declined by 1.5 per cent, compared with a decline of 19.1 per cent a quarter earlier. Meanwhile, the loti price of white maize increased by 0.8 per cent, after a decline of 16.6 per cent in the preceding quarter. While the loti price of yellow maize declined by 1.5 per cent following a decline of 15.1 per cent in the preceding quarter. Maize prices rose on account of the collapse of the Black Sea Grain initiative during the same quarter. However, this was moderated by an abundant global supply as major maize-exporting countries, including the United States, Brazil, and Argentina, surpassed production expectations.

Figure 4: Average Price of Maize

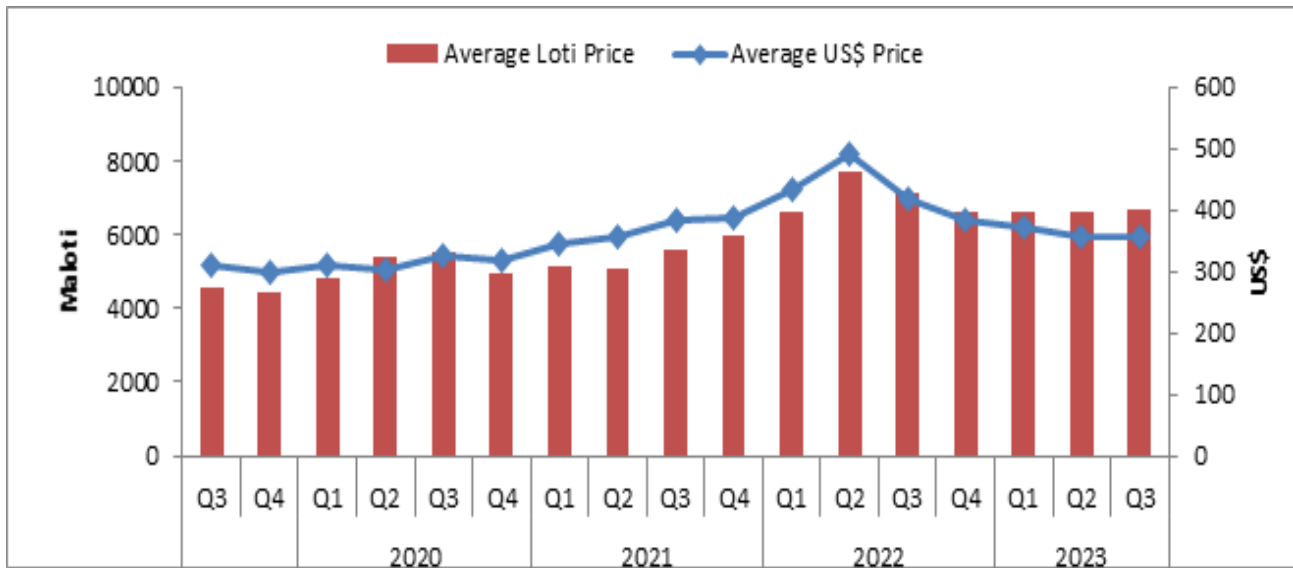


Source: Bloomberg

Wheat

In the third quarter of 2023, the dollar and loti prices of wheat both increased by 0.1 per cent, compared with declines of 4.3 per cent and 0.4 per cent, respectively, a quarter earlier. The increase was explained by the reduction in supply caused by bad weather conditions in key producers such as Russia, Ukraine, the EU and the US, as well as lower than expected harvests in Argentina and Australia. The collapse of the Black Sea Grain initiative in July also contributed to an increase in wheat prices.

Figure 5: Average Price of Wheat

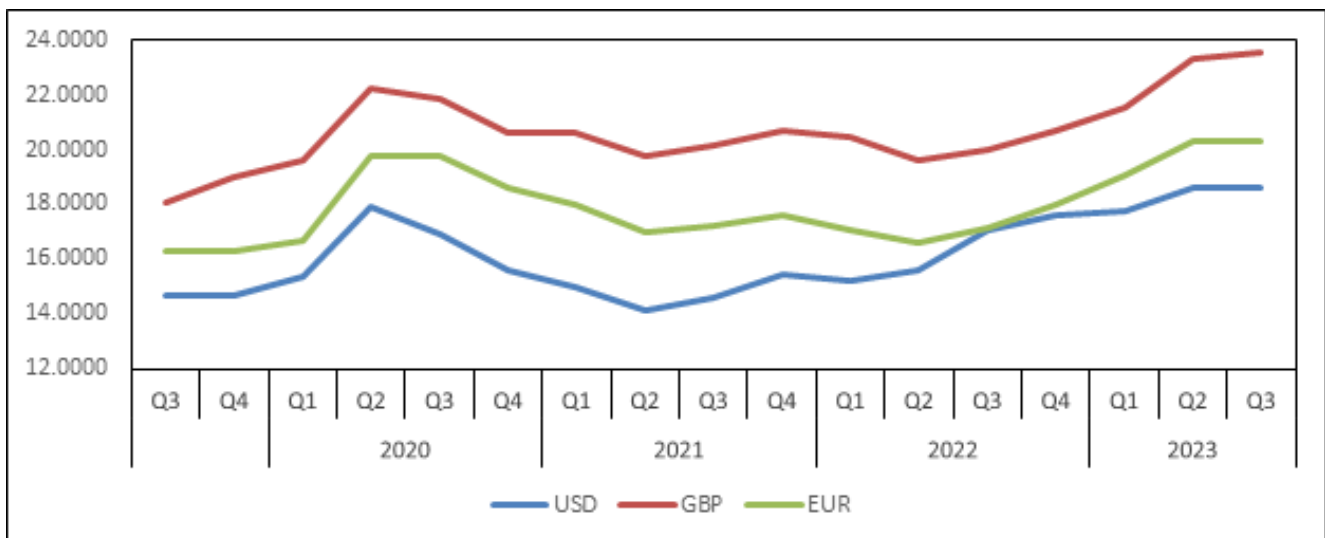


Source: Bloomberg

EXCHANGE RATES

In the third quarter of 2023, the performance of the rand hence loti^[1] was muted compared to the quarter ending in June 2023. The value of the rand against the dollar was unchanged, while there was a depreciation of 0.8 per cent against the pound and an appreciation of 0.2 per cent against the euro. There was a combination of positive and negative developments which influenced the value of the rand. The energy crisis (stage 6 of load shedding) and mining output contractions in South Africa negatively affected prospects for exports and therefore weakened the rand. However, the newly developed BRICS bank issued its first South African rand bonds to boost the local currency fund raising and lending, which moderated the depreciation.

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



Source: Bloomberg

3. Real Sector Developments¹

OVERVIEW

In the third quarter of 2023, the indicator of economic activity pointed to an increase in economic performance. Employment in all three categories examined by the Central Bank of Lesotho, namely: LNDC assisted firms, government employment, and migrant mineworkers continued to decline. Inflationary pressures remained high, mainly driven by increased energy prices and the depreciation of the rand, hence loti.

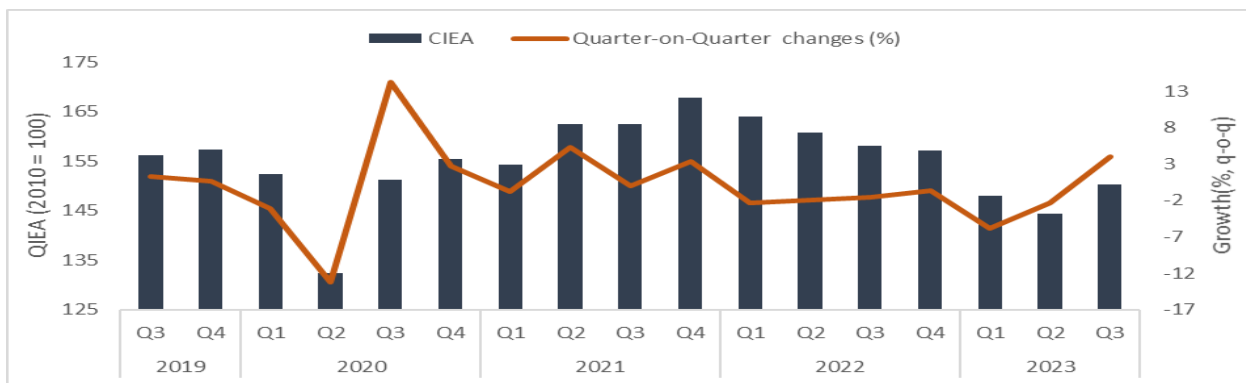
OUTPUT DEVELOPMENTS

The Central Bank of Lesotho's Quarterly Indicator of Economic Activity (QIEA) was estimated to have grown by 4.1 per cent during the quarter ending September 2023, compared to a 2.4 per cent decline in preceding quarter. This growth signalled an improvement in economic performance. Growth was supported by the transport and construction sub-sectors as indicated by increased fuel consumption and imports of construction related materials, respectively.

Despite overall positive developments, domestic demand was indicated to have contracted. The demand index declined by a moderate 2.8 per cent relative to a 5.7 per cent decline observed in the previous quarter. The decline in demand was predominantly attributed to a decline in government operations, reduced imports of goods and services from SA, and a drop in VAT collection. However, the decline was moderated by an increase in the collection of Pay-as-you-earn (PAYE).

The production side of the economy, likewise, remained on a downward trajectory. The index plummeted by 12.6 per cent in the third quarter, compared to a marginal increase of 0.3 per cent in the previous quarter. The weak performance in manufacturing was widespread, with most components (textile and clothing exports, mainly to the United States, usage of utilities, and raw material imports) all declining. Nonetheless, textile and clothing exports to SA improved, moderating the decline.

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: Composite Indicator of Economic Activity and its sub-components

| Indices | 2022 | | 2023 | | |
|--|--------------|--------------|--------------|--------------|--------------|
| | Q3 | Q4 | Q1 | Q2 | Q3 |
| CIEA | 158.1 | 157.2 | 148.0 | 144.5 | 150.3 |
| Quarter-on-quarter changes | -1.6 | -0.6 | -5.9 | -2.4 | 4.1 |
| Domestic Demand | 144.2 | 150.8 | 148.7 | 140.3 | 137.3 |
| Quarter-on-quarter changes | -5.5 | 4.6 | -1.4 | -5.7 | -2.1 |
| Manufacturing and Production Category | 119.8 | 108.7 | 112.9 | 113.2 | 99.0 |
| Quarter-on-quarter changes | -1.4 | -9.3 | 3.8 | 0.3 | -12.6 |

Source: Central Bank of Lesotho

EMPLOYMENT DEVELOPMENTS

Employment by LNDC-assisted companies presented a year-on-year decline of 10.5 per cent in the third quarter of 2023, following a 3.2 per cent decline in the previous quarter. The primary contributors to this fall were the Knit Garments, Woven Garments, Retail, Food & Beverages, and Construction sectors. However, sectors such as footwear, fabrics, yarn, electronics, and hotel accommodation improved, moderating the overall decrease. The manufacturing sector, particularly firms exporting to the US market, continued to experience declining orders. This forced firms to place some employees on short-time to curtail the cost of production.

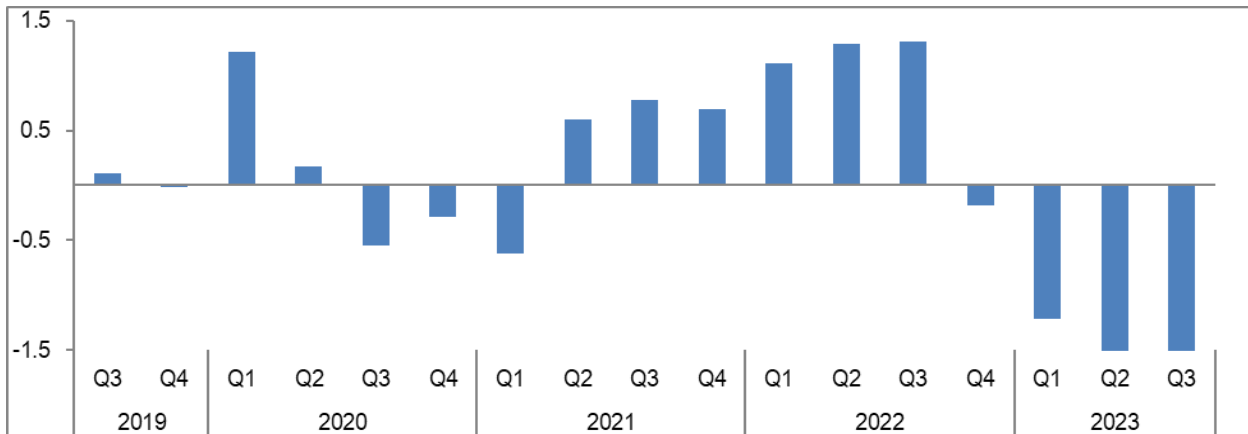
Table 3: Employment by LNDC-Assisted Companies (Thousands)

| Industry | 2022 | | 2023 | | | % Changes | |
|--------------------------|--------------|--------------|--------------|--------------|--------------|-------------|--------------|
| | Q3 | Q4 | Q1 | Q2 | Q3 | Q/Q | Y/Y |
| Knit Garments..... | 24893 | 23231 | 23012 | 22211 | 19909 | -10.4 | -20.0 |
| Woven Garments..... | 9268 | 9527 | 9527 | 9291 | 9011 | -1.4 | -2.8 |
| Footwear..... | 844 | 737 | 787 | 811 | 849 | 4.7 | 0.6 |
| Fabrics, Yarn etc..... | 1462 | 1983 | 1815 | 1708 | 1724 | 6.2 | 5.1 |
| Construction..... | 410 | 408 | 411 | 407 | 395 | -2.9 | -3.7 |
| Food & Beverages..... | 595 | 614 | 601 | 703 | 546 | -22.2 | -8.2 |
| Electronics..... | 1147 | 1282 | 1178 | 1173 | 1223 | 4.3 | 6.6 |
| Retail..... | 200 | 201 | 196 | 160 | 176 | 10.0 | -12.0 |
| Hotel Accommodation..... | 242 | 305 | 305 | 330 | 407 | 23.3 | 68.2 |
| Other..... | 1015 | 1192 | 1454 | 1648 | 1624 | -1.5 | 60.0 |
| TOTAL..... | 40076 | 39480 | 39050 | 38292 | 35864 | -6.3 | -10.5 |

Source: Lesotho National Development Corporation

During the quarter under review, government employment contracted by 2.0 per cent, after a 1.7 per cent decline in the previous quarter. This was mainly observed in the civil servants following the Government's hiring freeze, and higher rate of temporary reassignments from line ministries to special projects.

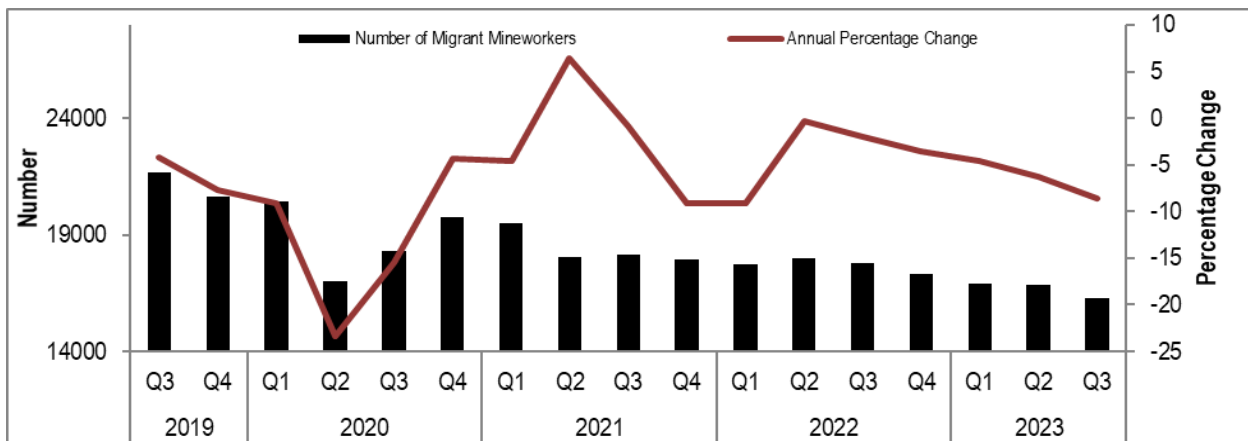
Figure 8: Government Employment (Annual Percentage Changes)



Source: Ministry of Finance

The number of Basotho migrant mineworkers employed in SA decreased by 8.6 per cent in the quarter under review, compared to a 6.3 per cent decline in the preceding quarter. The persistent fall in employment was attributed to declining output in South Africa's mining industry, as the industry faced prolonged power crisis.

Figure 9: Migrant Mineworkers (Annual Percentage Changes)



Source: The Employment Bureau of Africa (TEBA)

PRICE DEVELOPMENTS

Headline inflation increased to 5.8 per cent in the third quarter from 5.6 per cent in the previous quarter. The major contributions came from Education; Housing, water, electricity, gas & other fuels; Transport and Alcoholic beverages & tobacco components. Nonetheless, food & non-alcoholic beverages moderated the rise in inflation.

The rise in inflation was primarily driven by factors such as increased school fees, higher international crude oil prices, and the base effects from sin taxes. In addition, the higher inflation rate reflected the impact of weak the exchange rate during the review period.

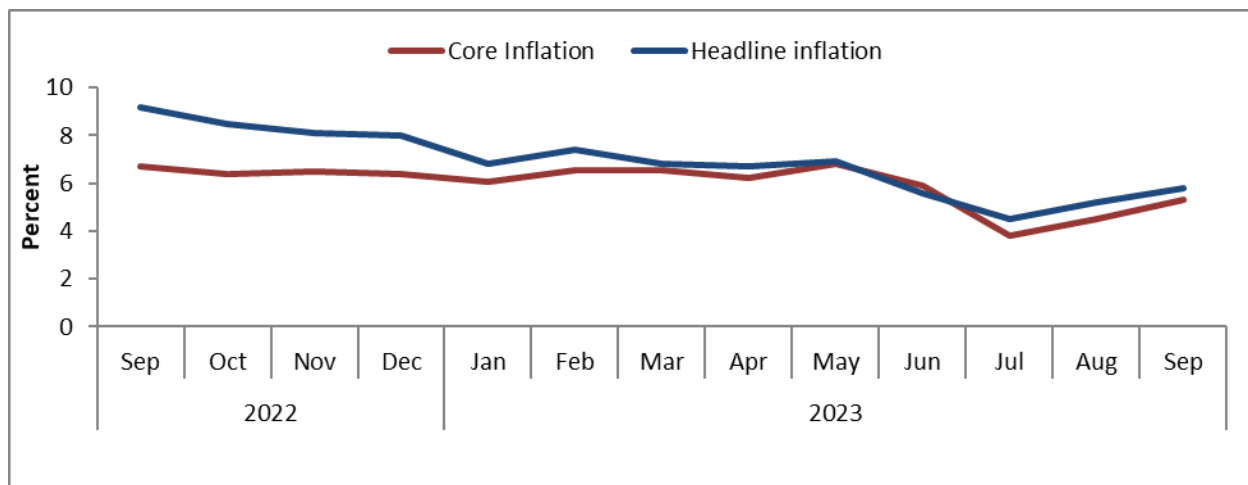
Table 4: Inflation Rate (Annual Percentage Changes)

| | Weight | 2023 | | | | |
|---|-------------|-------|-------|-------|-------|-------|
| | | May | Jun | Jul | Aug | Sep |
| All items | 1000 | 6.9 | 5.6 | 4.5 | 5.2 | 5.8 |
| Food and non-alcoholic beverages | 326 | 9.6 | 8.3 | 6.0 | 5.9 | 6.2 |
| Alcoholic beverages & Tobacco | 64 | 24.6 | 23.5 | 24.9 | 24.5 | 24.6 |
| Clothing & footwear | 81 | 6.7 | 6.5 | 5.2 | 5.2 | 5.9 |
| Housing, water, electricity, gas & other fuels | 149 | 6.6 | 3.4 | 3.2 | 4.4 | 4.4 |
| Furniture, households equipment & routine maintenance | 33 | 11.4 | 10.7 | 11.3 | 11.4 | 11.2 |
| Health | 19 | 9 | 8.9 | 11.5 | 11.1 | 13.8 |
| Transport | 111 | 2.4 | -0.6 | -4.7 | -3.1 | 0.1 |
| Communications | 44 | 0.5 | -0.4 | -0.4 | -0.4 | -0.4 |
| Recreation & Culture | 14 | 4.2 | 4.3 | 4.4 | 4.6 | 4.8 |
| Education | 49 | 2.9 | 2.9 | 2.9 | 11.4 | 11.4 |
| Restaurant & Hotels | 65 | -11.1 | -11.1 | -11.6 | -10.6 | -10.4 |
| Miscellaneous goods & services | 44 | 9.1 | 9.2 | 9.7 | 9.9 | 10.5 |

Source: Bureau of Statistics

The core inflation rate declined to 5.3 per cent from 5.5 per cent in the previous quarter. The persistently high food and energy prices kept core inflation high. The subdued demand during the review period also buoyed core inflation.

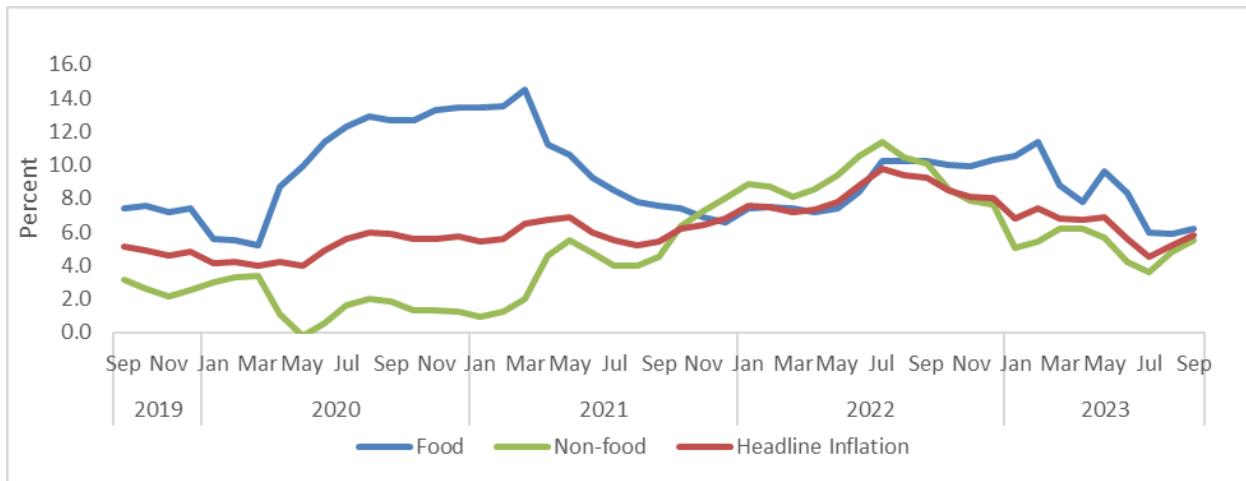
Figure 10: Core vs Headline Inflation (Annual Percentage Changes)



Source: CBL Computations

Food inflation declined during the review period, while non-food inflation increased. The major drivers of declining food inflation were the fall in international prices of food, which outweighed the effect of the weak exchange rate during the review period. However, the rise in non-food inflation was mainly due to the increased cost of education during the review period, the rise in international prices of crude oil and the weak exchange rate. Effectively, the rise in non-food inflation underpinned the modest rise in the headline inflation rate during the review period.

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



Source: BoS and CBL Computations

4. Monetary and Financial Developments

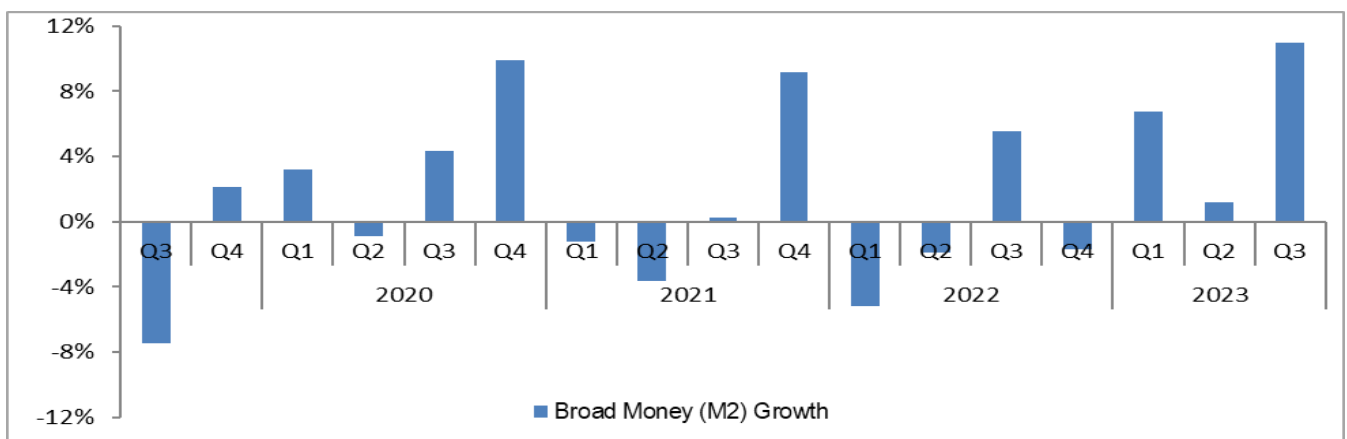
OVERVIEW

Broad money supply continued to grow in the third quarter of 2023. This was due to an increase in both the net domestic assets and net foreign assets. Credit to the private sector improved, underpinned by an increase in loans and advances to households. Short-term rates remained the same between the second and third quarters in line with the unchanged CBL policy rate.

BROAD MONEY (M2)

A growth in broadly defined money supply (M2) was realised in the review quarter. M2 grew r by 11.0 per cent following a 1.2 per cent growth recorded in the preceding quarter. This observed growth reflected increases in both net foreign assets and net domestic claims, following the redemption of Treasury bills (T-bills) by the government. On a year-on-year basis, M2 rose by 17.9 per cent.

Figure 12: Broad Money (M2) (Quarterly Changes)



Source: Central Bank of Lesotho

Determinants of M2

Domestic Claims

Domestic claims grew by 0.4 per cent during the review quarter, contrary to the 15.4 per cent contraction recorded in the preceding quarter. This was underpinned by growth in claims on other sectors, while net claims on government declined. Claims on other sectors grew by 6.6 per cent, driven by an increase in private sector credit. Government deposits with the central bank contracted following the redemption of T-bills during the review period, whereas balances with commercial banks rose on account of deposits by extra budgetary institutions.

Table 5: Domestic Claims (Million Maloti: End Period)

| | 2022 | | 2023 | | | Changes (%) | |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|---------------|---------------|
| | Q3 | Q4 | Q1 | Q2 | Q3 | Quarterly | Annual |
| Domestic Claims | 6,610.19 | 6,658.18 | 7,593.92 | 6,455.46 | 6,478.58 | 0.4 | -2.0 |
| Net Claims on Government | (2,124.12) | (2,058.09) | (1,413.98) | (2,696.17) | (3,277.93) | -21.6 | -54.3 |
| <i>Commercial Banks Net Claims</i> | 1,007.88 | 696.35 | 822.35 | 578.03 | (380.06) | -165.8 | -137.7 |
| Claims on Central Government | 3,018.06 | 2,675.85 | 2,693.19 | 2,942.40 | 2,231.75 | -24.2 | -26.1 |
| Liabilities to Central Government | 2,010.18 | 1,979.51 | 1,870.84 | 2,364.38 | 2,611.81 | 10.5 | 29.9 |
| <i>Central Bank Net Claims</i> | (3,132.00) | (2,754.44) | (2,236.34) | (3,274.19) | (2,897.88) | 11.5 | 7.5 |
| Claims on Central Government | 72.59 | 49.29 | 38.82 | 28.26 | 28.07 | -0.7 | -61.3 |
| Liabilities to Central Government | 3,204.59 | 2,803.73 | 2,275.16 | 3,302.46 | 2,925.95 | -11.4 | -8.7 |
| Claims on Other Sectors | 8,734.31 | 8,716.27 | 9,007.91 | 9,151.63 | 9,756.52 | 6.6 | 11.7 |
| <i>Claims on OFCs</i> | 296.09 | 301.40 | 297.19 | 300.58 | 296.51 | -1.4 | 0.1 |
| <i>Claims on Public Nonfinancial Corporations</i> | 60.85 | 58.05 | 55.18 | 53.40 | 53.28 | -0.2 | -12.5 |
| <i>Claims on St & Local Government</i> | - | - | - | 0.00 | - | | |
| <i>Claims on Private Sector</i> | 8,377.37 | 8,356.83 | 8,655.54 | 8,797.65 | 9,406.73 | 6.9 | 12.3 |
| Claims on Business Enterprises | 2,237.28 | 2,209.92 | 2,344.73 | 2,344.63 | 2,573.41 | 9.8 | 15.0 |
| Claims on Households | 6,140.09 | 6,146.91 | 6,310.80 | 6,453.02 | 6,833.32 | 5.9 | 11.3 |

Source: Central Bank of Lesotho

Net Foreign Assets

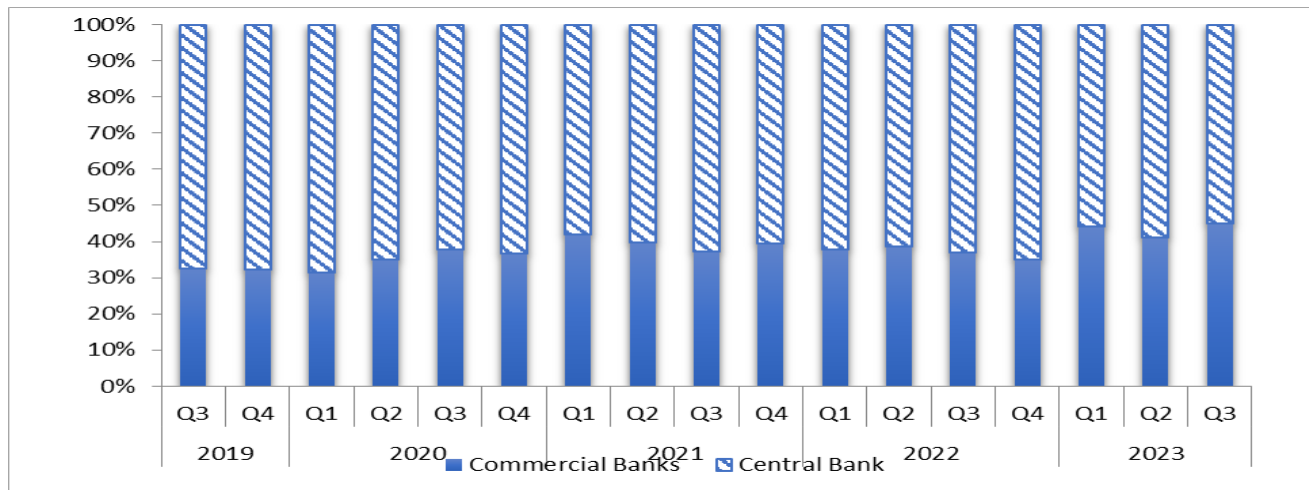
The overall net foreign assets (NFA) increased by 5.0 per cent, compared with the 10.9 per cent growth registered in the previous quarter. The observed growth reflected a 14.9 per cent increase in commercial banks' NFA, whereas the CBL's NFA declined by 2.0 per cent. The commercial banks' NFA increased due to foreign investments following the redemption of T-bills.

Table 6: Net Foreign Assets (Million Maloti: End Period)

| | 2022 | | 2023 | | | Changes (%) | |
|---------------------------------|------------------|------------------|------------------|------------------|------------------|--------------|--------------|
| | Q3 | Q4 | Q1 | Q2 | Q3 | Quarterly | Annual |
| Commercial Banks | 6,006.86 | 5,545.60 | 7,772.72 | 8,017.00 | 9,214.75 | 14.9 | 53.4 |
| Claims on Non-residents | 6,528.25 | 5,877.44 | 8,242.44 | 8,469.23 | 9,593.67 | 13.3 | 47.0 |
| Liabilities to Non-residents | 521.40 | 331.84 | 469.72 | 452.23 | 378.91 | -16.2 | -27.3 |
| Central Bank | 10,278.20 | 10,316.29 | 9,805.76 | 11,481.60 | 11,251.77 | -2.0 | 9.5 |
| Claims on Non-residents | 13,443.58 | 13,422.48 | 13,293.43 | 14,885.77 | 14,578.45 | -2.1 | 8.4 |
| Liabilities to Non-residents | 3,165.38 | 3,106.19 | 3,487.67 | 3,404.17 | 3,326.67 | -2.3 | 5.1 |
| Net Foreign Assets Total | 16,285.05 | 15,861.89 | 17,578.48 | 19,498.61 | 20,466.52 | 5.0 | 25.7 |

Source: Central Bank of Lesotho

Figure 13: Net Foreign Assets (Percentage shares)



Source: Central Bank of Lesotho

Components of M2

Breaking down the broad money components, the continued growth in M2 was attributed to an increase in both narrow money (M1) and quasi money. M1 grew by 22.0 per cent following an increase of 7.2 per cent in the preceding quarter. This was mainly on account of an increase in transferable deposits held by business enterprises, households and government. Quasi money rose by 4.1 per cent, compared with the 7.1 per cent growth recorded in the previous quarter. The increase was underpinned by growth in call deposits held by statutory bodies and fixed-time deposits held by business enterprises. Industries that accounted for a rise in call deposits were mining and construction, whereas fixed-time deposits were bolstered by construction, other financial institutions and telecommunications.

Table 7: Components of Money Supply (Million Maloti: End Period)

| | 2022 | | 2023 | | | Changes (%) | |
|---------------------------------|------------------|------------------|------------------|------------------|------------------|--------------|--------------|
| | Q3 | Q4 | Q1 | Q2 | Q3 | Quarterly | Annual |
| Broad Money (M2) | 14,580.08 | 14,335.89 | 15,306.80 | 15,485.15 | 17,184.62 | 11.0% | 17.9% |
| Narrow Money (M1) | 6,667.51 | 6,857.45 | 6,379.53 | 5,922.07 | 7,225.92 | 22.0% | 8.4% |
| Currency Outside DCs | 1,256.94 | 1,214.71 | 1,479.73 | 1,507.88 | 1,578.58 | 4.7% | 25.6% |
| Transferable Deposits | 5,410.56 | 5,642.74 | 4,899.80 | 4,414.19 | 5,647.34 | 27.9% | 4.4% |
| Quasi Money | 7,912.57 | 7,478.44 | 8,927.27 | 9,563.08 | 9,958.69 | 4.1% | 25.9% |
| Other Deposits Commercial Banks | 7,911.08 | 7,477.12 | 8,924.99 | 9,560.29 | 9,956.76 | 4.1% | 25.9% |
| Other Deposits Central Bank | 1.49 | 1.32 | 2.27 | 2.78 | 1.94 | -30.4% | 30.2% |

Source: Central Bank of Lesotho

CREDIT EXTENSION

Private sector credit expanded by 6.9 per cent, following a 1.6 per cent growth in June 2023. The observed increase was a result of growth in credit to both the business enterprises and households by 9.8 and 5.9 per cent, respectively. A significant proportion of the increase in business credit went to the construction sector, to support the current construction activity going on in the economy. Household credit was mainly driven by an increase in housing loans during the review quarter. On an annual basis, private sector credit increased by 12.3 per cent.

Trends in Credit Extended to Business Enterprises

Total loans and advances granted to the business sector grew by 9.8 per cent in September 2023. The growth in credit extension was mainly driven by newly contracted loans in the construction industry, to support the on-going major projects. An additional boost to credit growth came from the transport and retail industries, which were benefiting from positive spillovers from the increased activity in the construction industry.

Table 8: Credit Extension by Economic Activity (Million Maloti)

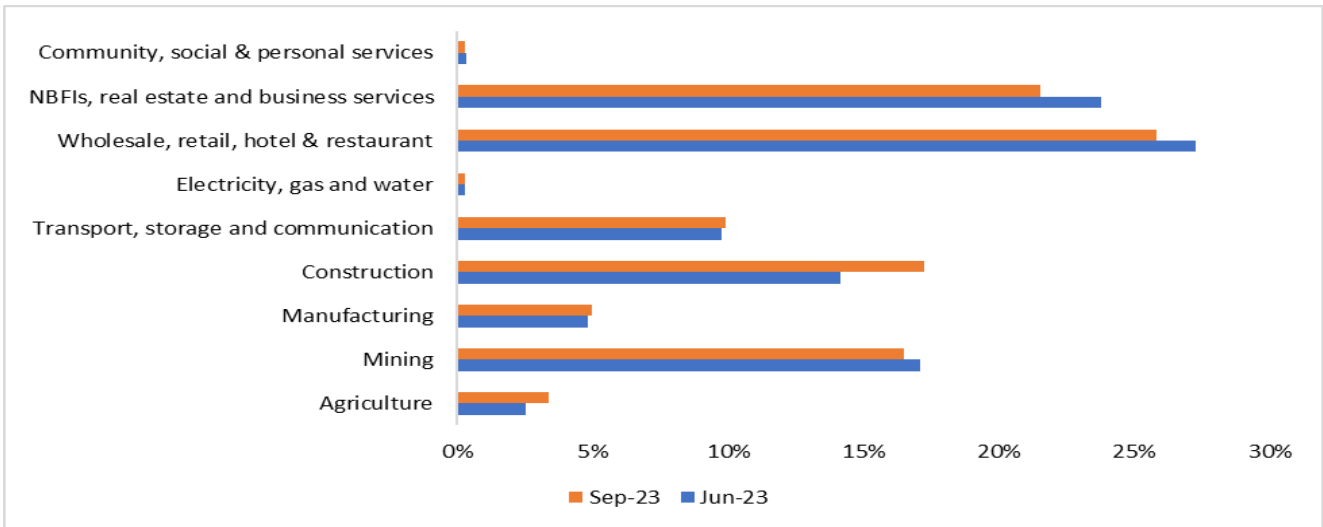
| SECTOR | 2022 | | 2023 | | | Changes (%) | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-------------|-------------|
| | Q3 | Q4 | Q1 | Q2 | Q3 | Quarterly | Annual |
| Agriculture | 69.67 | 76.94 | 64.06 | 58.90 | 87.53 | 48.6 | 25.6 |
| Mining | 448.38 | 405.54 | 452.09 | 401.17 | 425.00 | 5.9 | -5.2 |
| Manufacturing | 70.49 | 71.56 | 74.55 | 113.48 | 128.38 | 13.1 | 82.1 |
| Electricity, gas and water | 10.72 | 8.54 | 6.63 | 6.54 | 6.82 | 4.4 | -36.3 |
| Construction | 322.49 | 287.08 | 284.96 | 331.31 | 443.21 | 33.8 | 37.4 |
| Wholesale, Retail, Hotel & Restaurant | 549.54 | 568.99 | 624.64 | 639.42 | 664.29 | 3.9 | 20.9 |
| Transport, Storage and Communication | 199.92 | 219.11 | 235.69 | 228.70 | 255.61 | 11.8 | 27.9 |
| NBFIs, Real Estate and Business Services | 558.62 | 564.43 | 594.08 | 557.60 | 554.53 | -0.6 | -0.7 |
| Community, Social & Personal Service | 7.44 | 7.74 | 8.04 | 7.50 | 8.03 | 7.1 | 7.9 |
| All Sectors | 2,237.28 | 2,209.92 | 2,344.73 | 2,344.63 | 2,573.41 | 9.8 | 15.0 |

Source: Central Bank of Lesotho

Distribution of credit Extended to Business Enterprises

Regarding the sectoral distribution of credit to business enterprises, the wholesale, retail, hotel & restaurant sector continued to receive the largest share, at 25.8 per cent of overall credit. The second largest recipient of credit was the non-bank financial institutions, real estate & business services with a share of 21.5 per cent of total credit to business enterprises. The share of the construction industry grew significantly during the review quarter, from 14.1 to 17.2 per cent between the second and third quarters of 2023. The smallest share of credit was allocated to both the community, social & personal service, and electricity, gas and water sectors. The allocation of credit to sectors identified by the National Strategic Development Plan (NSDP) II, as the potential sectors for job creation and achievement of inclusive economic growth, stood at 66.7 per cent during the quarter under review.

Figure 14: Distribution of Credit (Percentage Shares)

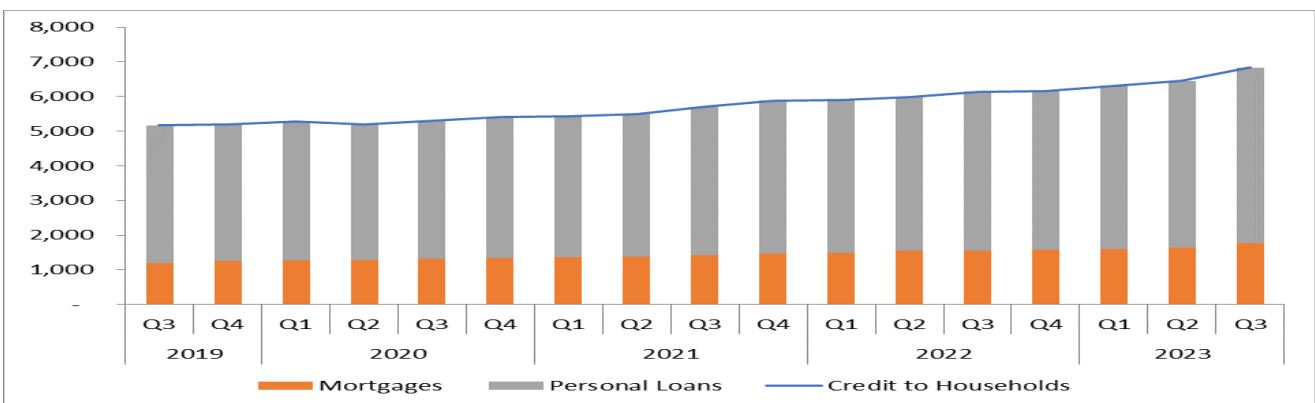


Source: Central Bank of Lesotho

Credit extended to Households

Credit extension to the household sector increased by 5.9 per cent following a 2.3 per cent expansion in the preceding quarter. The growth was attributed to an increase in personal and mortgage loans, which grew by 5.2 and 7.9 per cent, respectively. The growth in both personal and mortgage loans was buoyed by increased demand during the quarter, triggered by favourable strategies adopted by banks to ease the accessibility to credit. On a year-on-year basis, household credit grew by 11.3 per cent.

Figure 15: Credit Extension to Household (Million Maloti)



Source: Central Bank of Lesotho

LIQUIDITY OF COMMERCIAL BANKS

Components of liquidity

The credit-to-deposit ratio continued to decline during the review period. It fell to 50.6 per cent in the third quarter of 2023 from 52.7 per cent in June 2023. The credit to deposit ratio declined despite the increase in credit extension as total deposits grew faster. The liquidity ratio also fell to 34.6 per cent in the review quarter, from 41.1 in the previous quarter, mainly due to a fall in the holding of government securities.

Table 9: Components of Liquidity (Million Maloti)

| | 2022 | | | 2023 | |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | Q3 | Q4 | Q1 | Q2 | Q3 |
| Credit to Deposit Ratio | 53.3% | 54.5% | 53.9% | 52.7% | 50.6% |
| Private Sector Credit | 8,203.00 | 8,248.52 | 8,491.12 | 8,634.33 | 9,245.06 |
| Total Deposits | 15,380.33 | 15,143.55 | 15,761.98 | 16,386.82 | 18,263.02 |
| Liquidity Ratio | 41.4% | 40.5% | 47.1% | 41.1% | 34.6% |
| Notes and Coins | 583.36 | 916.06 | 692.30 | 683.75 | 592.52 |
| Net Balance due from banks in Lesotho | (3.42) | (5.43) | (10.65) | 44.36 | (31.34) |
| Net Balance due from banks in SA | 2,820.94 | 2,386.07 | 3,860.66 | 3,002.96 | 3,500.67 |
| Surplus funds | (47.18) | 163.07 | 185.63 | 58.99 | 21.11 |
| Government Securities | 3,018.06 | 2,675.85 | 2,693.19 | 2,942.40 | 2,231.75 |
| Total | 6,371.77 | 6,135.63 | 7,421.12 | 6,732.45 | 6,314.72 |

Source: Central Bank of Lesotho

Commercial Banks Sources of Funds

The commercial banks' total deposit liabilities rose by 11.4 per cent. This was a faster growth compared with the 4.0 per cent growth realised in the previous quarter. The rise in deposit liabilities emanated from an increase in transferable deposits held by non-financial corporations and other deposits held by the private sector. On an annual basis, total deposits grew by 18.7 per cent.

Table 10: Sources of funds for ODCs (Million Maloti)

| | 2022 | | 2023 | | | Changes (%) | |
|--|------------------|------------------|------------------|------------------|------------------|-------------|-------------|
| | Q3 | Q4 | Q1 | Q2 | Q3 | Quarterly | Annual |
| Transferable Deposits Incl. in BM | 5,410.56 | 5,642.74 | 4,899.80 | 4,414.19 | 5,647.34 | 27.9 | 4.4 |
| Other Financial Corporations | 19.34 | 18.68 | 13.41 | 31.90 | 15.77 | -50.6 | -18.5 |
| Public Nonfinancial Corporations | 30.35 | 35.55 | 24.18 | 32.40 | 43.23 | 33.4 | 42.4 |
| Private Sector | 5,305.39 | 5,549.08 | 4,849.72 | 4,344.40 | 5,532.37 | 27.3 | 4.3 |
| Other NFCs | 3,613.22 | 3,862.82 | 3,067.40 | 2,621.18 | 3,788.29 | 44.5 | 4.8 |
| Other Sectors (Households) | 1,692.17 | 1,686.27 | 1,782.32 | 1,723.22 | 1,744.08 | 1.2 | 3.1 |
| Other Deposits Incl. in BM | 7,911.08 | 7,477.12 | 8,924.99 | 9,560.29 | 9,956.76 | 4.1 | 25.9 |
| Other Financial Corporations | 301.90 | 374.48 | 273.25 | 217.52 | 197.70 | -9.1 | -34.5 |
| Public Nonfinancial Corporations | 400.01 | 142.83 | 106.52 | 154.69 | 321.69 | 108.0 | -19.6 |
| Private Sector | 7,209.17 | 6,959.81 | 8,545.22 | 9,188.08 | 9,437.37 | 2.7 | 30.9 |
| Other NFCs | 4,454.51 | 4,284.57 | 5,766.09 | 6,359.55 | 6,507.14 | 2.3 | 46.1 |
| Other Sectors (Households) | 2,754.65 | 2,675.23 | 2,779.13 | 2,828.53 | 2,930.22 | 3.6 | 6.4 |
| Deposits excluded in BM | 2,058.69 | 2,023.69 | 1,937.19 | 2,412.33 | 2,658.92 | 10.2 | 29.2 |
| Total Deposits | 15,380.33 | 15,143.55 | 15,761.98 | 16,386.82 | 18,263.02 | 11.4 | 18.7 |

Source: Central Bank of Lesotho

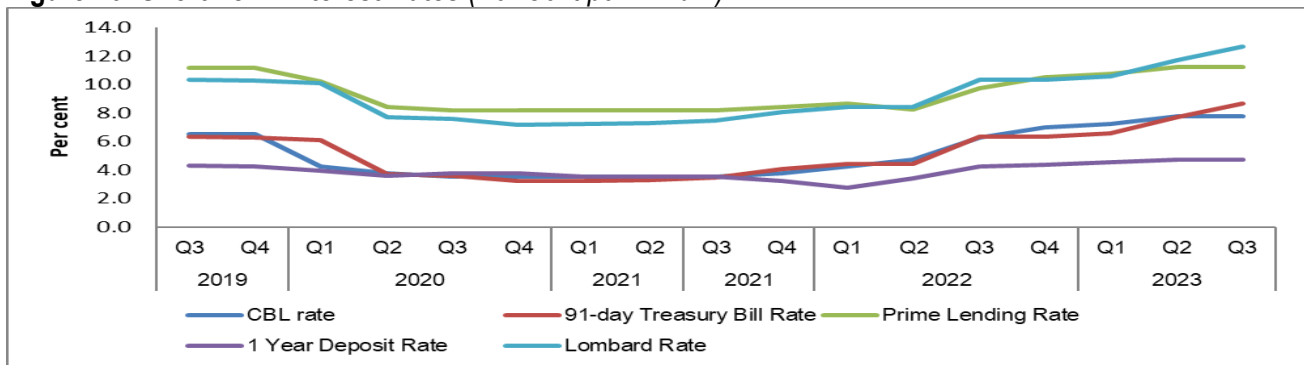
MONEY AND CAPITAL MARKET DEVELOPMENTS

Money Market

Interest Rates

The CBL's key policy rate was unchanged at 7.75 per cent between the second and third quarters of 2023. Consequently, the prime lending rate remained unchanged at 11.25 per cent as it is anchored on the policy rate. The 91-day treasury bill rate, however, increased by 95 basis points to 8.65 per cent, staying within the desired range of +/- 200 basis points difference from its South African counterpart. The one-year deposit rate also stayed at 4.74 per cent between the quarters under review.

Figure 16: Short Term Interest Rates (Per Cent per Annum)



Source: Central Bank of Lesotho

Table 11: Interest rates

| | 2022 | | 2023 | | |
|-------------------------|-------|-------|-------|-------|-------|
| | Q3 | Q4 | Q1 | Q2 | Q3 |
| Central Bank | | | | | |
| CBL rate | 6.25 | 7.00 | 7.25 | 7.75 | 7.75 |
| T-Bill Rate - 91 days | 6.34 | 6.36 | 6.59 | 7.7 | 8.7 |
| Lombard Rate | 10.34 | 10.36 | 10.59 | 11.7 | 12.7 |
| Commercial Banks | | | | | |
| Call | 1.87 | 1.96 | 2.55 | 2.65 | 2.65 |
| Time: | | | | | |
| 31 days | 1.20 | 1.33 | 1.39 | 1.47 | 1.47 |
| 88 days | 2.18 | 2.33 | 2.39 | 2.46 | 2.46 |
| 6 months | 3.49 | 3.64 | 3.84 | 4.12 | 4.02 |
| 1 year | 4.24 | 4.37 | 4.57 | 4.74 | 4.74 |
| Savings | 1.37 | 1.43 | 1.53 | 1.60 | 1.60 |
| Prime | 9.75 | 10.50 | 10.75 | 11.25 | 11.25 |
| South Africa | | | | | |
| Repo | 6.25 | 7.00 | 7.75 | 8.25 | 8.25 |
| T-Bill Rate - 91 days | 6.13 | 6.50 | 7.34 | 8.63 | 8.37 |
| Prime | 9.75 | 10.50 | 11.25 | 11.75 | 11.75 |

Source: Central Bank of Lesotho

Holding of Treasury Bills

During the review quarter, there was a significant decrease in the overall outstanding stock of treasury bills (T-Bills) due to redemption. The composition of the holding showed that commercial banks' stock declined from 85 per cent to 68 per cent of treasury bills in the quarter ending in September 2023.

Table 12: Holding of Bills (Million Maloti)

| | 2022 | | | 2023 | |
|-----------------------|-----------------|-----------------|-----------------|-----------------|---------------|
| | Q3 | Q4 | Q1 | Q2 | Q3 |
| Treasury Bills | 1,959.12 | 1,596.49 | 1,596.38 | 1,597.25 | 867.22 |
| Banking System | 1,765.77 | 1,380.44 | 1,354.00 | 1,357.59 | 587.43 |
| Non-Bank Sector | 193.35 | 216.05 | 242.38 | 239.66 | 279.79 |

Source: Central Bank of Lesotho

Holding of Treasury Bonds

The overall holding of Treasury bonds (T-bonds) grew by 4.3 per cent, following issuance of T-bonds during the quarter. The non-banking sector increased its holding of T-bonds by 5.0 per cent, while the banking sector share grew by 3.2 per cent. The growth in holding of bonds by the non-banking sector stemmed from an increase holding by insurance companies, other financial corporations, and households. The share of the banking sector to the total stock of bonds, however, declined to 36.8 per cent from 37.2 per cent, while the non-banking sector's share increased to 63.2 per cent from 62.8 per cent in the preceding quarter.

Table 13: Holding of Bonds (Million Maloti)

| | 2022 | | | 2023 | |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | Q3 | Q4 | Q1 | Q2 | Q3 |
| Holding of Treasury Bonds | 3,450.42 | 3,523.39 | 3,757.58 | 4,157.58 | 4,337.59 |
| Banking System | 1,264.07 | 1,278.13 | 1,311.31 | 1,547.51 | 1,597.68 |
| Non-Bank Sector | 2,186.34 | 2,245.26 | 2,446.28 | 2,610.08 | 2,739.91 |

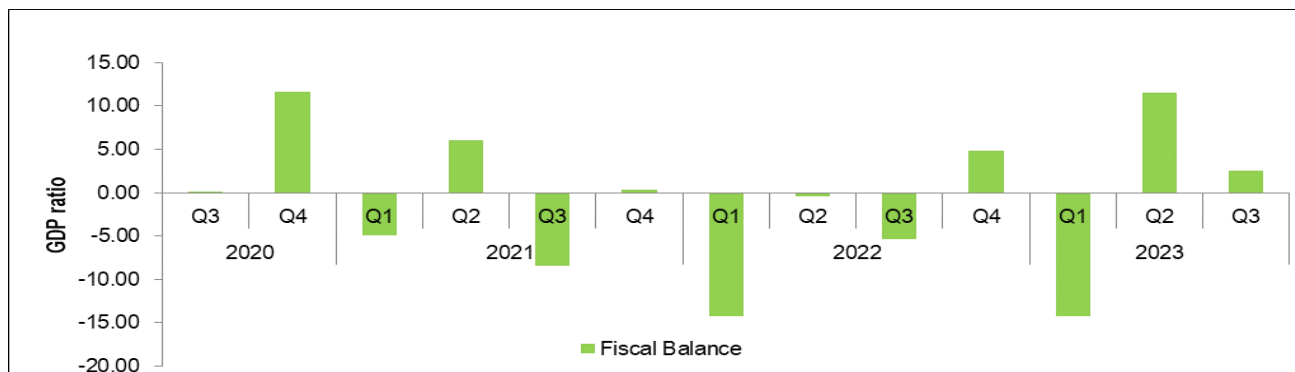
Source: Central Bank of Lesotho

5. Government Finance

OVERVIEW

A government budget surplus equivalent to 2.5 per cent of GDP was realised during the quarter ending in September 2023. This followed an 11.6 per cent of GDP surplus in the previous quarter. Although there was a decrease in revenues, an increase in expenditures was not enough to exhaust the revenues. The public debt stock, was estimated at 59.9 per cent of GDP relative to a revised 61.4 per cent of GDP in the previous quarter.

Figure 17: Fiscal Balance (Percent of GDP)

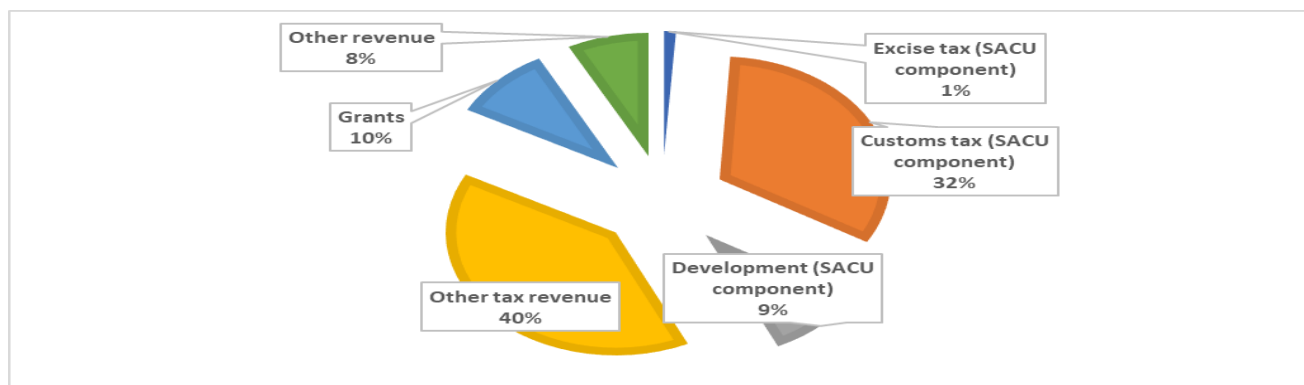


Source: Central Bank of Lesotho and Ministry of Finance

REVENUE²

Government revenues, during the quarter under review, declined by 2.5 per cent. The main contributing factors to a fall in revenue, were lower collections of excise taxes, petroleum levy and mining royalties. These were moderated by growth in income tax and VAT, while SACU receipts remained unchanged. On an annual basis, revenue increased by 26.9 per cent.

Figure 18: Total Revenue (Million Maloti)



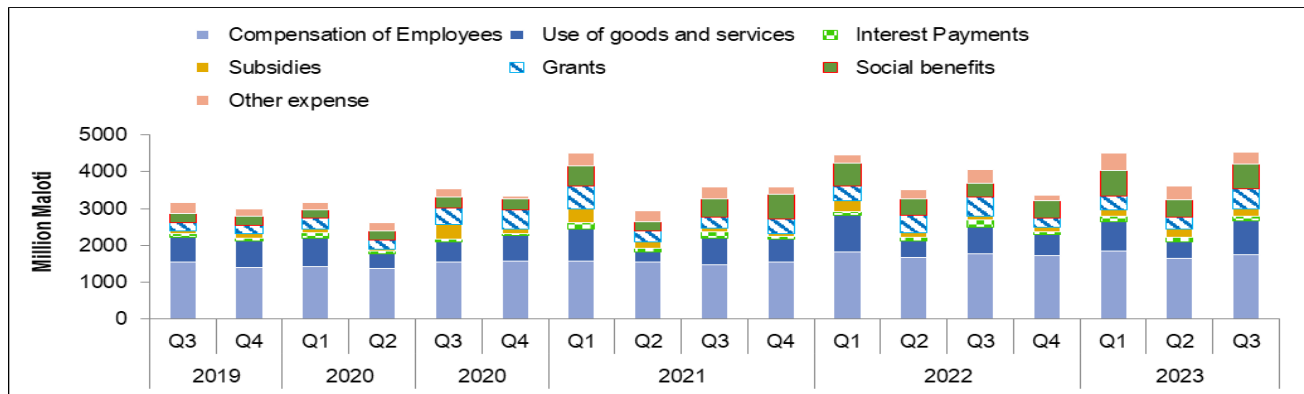
Source: Central Bank of Lesotho and Ministry of Finance

TOTAL EXPENDITURE

Government spending increased by 16.3 per cent, following a decrease of 22.9 per cent in the previous quarter. This rise was mainly due to higher compensation of employees, use of goods and services, domestic interest payments related to redemption of securities, transfers to public corporations and extra budgetary units, plus social benefits. The fall in capital expenditure, however, moderated the rise in spending. The leading projects under capital expenditure included roads construction (paved and unpaved), rural electrification, solar generation, and rural water supply. On a year-on-year basis, expenditure increased by 6.9 per cent.

² 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 19: Total Expense (Million Maloti)



Source: Central Bank of Lesotho and Ministry of Finance

Table 14: Statement of Government Operations (Million Maloti)

| | 2022 | | 2023 | | | Q-to-Q (%) | Y-on-Y (%) | GDP ratio (%) |
|-------------------------------------|----------------|----------------|-----------------|----------------|----------------|--------------|--------------|---------------|
| | Q3 | Q4 | Q1 | Q2 | Q3 | | | |
| Total Revenue | 4128.97 | 4176.95 | 4250.05 | 5375.03 | 5239.67 | -2.5 | 26.9 | 51.4 |
| Tax revenue | 3313.30 | 3126.02 | 3460.18 | 4180.37 | 4245.02 | 1.5 | 28.1 | 41.7 |
| Income Tax | 1168.44 | 1016.94 | 1084.25 | 1038.76 | 1072.65 | 3.3 | -8.2 | 10.5 |
| Value Added Tax | 950.59 | 912.28 | 847.79 | 864.77 | 982.66 | 13.6 | 3.4 | 9.6 |
| SACU Receipts Components | 1056.09 | 1056.09 | 1056.09 | 1984.93 | 1984.93 | 0.0 | 88.0 | 19.5 |
| Other tax revenue | 138.19 | 140.71 | 472.06 | 291.91 | 204.78 | -29.8 | 48.2 | 2.0 |
| Grants | 293.80 | 293.80 | 293.80 | 552.20 | 552.20 | 0.0 | 88.0 | 5.4 |
| o/w SACU Receipts Component | 293.80 | 293.80 | 293.80 | 552.20 | 552.20 | 0.0 | 88.0 | 5.4 |
| Other revenue | 521.87 | 757.14 | 496.08 | 642.46 | 442.45 | -31.1 | -15.2 | 4.3 |
| Total Expense | 4068.98 | 3363.59 | 4509.05 | 3599.23 | 4543.01 | 26.2 | 11.6 | 44.6 |
| Compensation of Employees | 1765.41 | 1705.37 | 1829.41 | 1630.47 | 1750.94 | 7.4 | -0.8 | 17.2 |
| Use of goods and services | 720.16 | 583.90 | 799.20 | 454.49 | 915.15 | 101.4 | 27.1 | 9.0 |
| O/W Purchase of Health Services | 108.01 | 123.39 | 90.98 | 110.26 | 112.37 | 1.9 | 4.0 | 1.1 |
| Interest Payments | 203.37 | 64.84 | 168.17 | 118.60 | 129.72 | 9.4 | -36.2 | 1.3 |
| Subsidies | 98.09 | 124.23 | 176.10 | 239.05 | 201.40 | -15.7 | 105.3 | 2.0 |
| Grants | 524.22 | 254.66 | 370.54 | 319.97 | 548.78 | 71.5 | 4.7 | 5.4 |
| Social benefits | 371.13 | 482.02 | 700.69 | 471.32 | 669.49 | 42.0 | 80.4 | 6.6 |
| Other expense | 386.60 | 148.57 | 464.93 | 365.34 | 327.52 | -10.4 | -15.3 | 3.2 |
| Gross Operating Balance | 59.99 | 813.36 | -259.00 | 1775.79 | 696.67 | - | - | 6.8 |
| Total Nonfinancial Assets | 591.94 | 364.86 | 1046.71 | 685.34 | 438.35 | -36.0 | -25.9 | 4.3 |
| Fixed Assets | 591.94 | 364.86 | 1046.71 | 685.34 | 438.35 | -36.0 | -25.9 | 4.3 |
| Non-Produced Assets | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | - | - | 0.0 |
| Total Expenditure | 4660.92 | 3728.45 | 5555.75 | 4284.58 | 4981.36 | 16.3 | 6.9 | 48.9 |
| Primary balance | -328.58 | 513.34 | -1137.53 | 1209.05 | 388.04 | - | - | 3.8 |
| Net lending/borrowing | -531.95 | 448.50 | -1305.71 | 1090.45 | 258.31 | - | - | 2.5 |
| Financing | -629.68 | 312.31 | -1481.78 | 921.53 | 514.41 | - | - | 5.0 |
| Net Acquisition of Financial assets | 374.96 | -508.12 | -707.40 | 1329.22 | -832.90 | - | - | -8.2 |
| O/W Domestic Currency and Deposits | 387.10 | -410.63 | -638.17 | 1422.99 | -573.90 | - | - | -5.6 |

| | 2022 | | 2023 | | | Q-to-Q (%) | Y-on-Y (%) | GDP ratio (%) |
|--|---------|---------|---------|---------|----------|------------|------------|---------------|
| | Q3 | Q4 | Q1 | Q2 | Q3 | | | |
| Net Incurrence of Liabilities | 1004.64 | -820.43 | 774.38 | 407.69 | -1347.31 | - | - | -13.2 |
| O/W Domestic Other Accounts Payable | 129.47 | -480.06 | 712.97 | 150.34 | -503.80 | - | - | -4.9 |
| Statistical Discrepancy | 97.73 | 136.19 | 176.08 | 168.92 | -256.10 | - | - | -2.5 |
| Memo Items | | | | | | | | |
| SACU receipts | 1349.88 | 1349.88 | 1349.88 | 2537.13 | 2537.13 | 0.0 | 88.0 | 24.9 |
| GDP (quarterly, red colour = forecast) | 9888.33 | 9226.08 | 9177.75 | 9430.13 | 10190.50 | - | - | - |

Source: Central Bank of Lesotho and Ministry of Finance

Table 15: Total Outlays by Functions of Government (Million Maloti)

| | 2022 | | 2023 | | | Q-to-Q (%) | Y-on-Y (%) | GDP ratio (%) |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|-------------|-------------|---------------|
| | Q3 | Q4 | Q1 | Q2 | Q3 | | | |
| Current Outlays | 3953.94 | 3282.17 | 4760.28 | 3231.83 | 4372.10 | 35.3 | 10.6 | 42.9 |
| General public services | 747.41 | 523.22 | 1009.26 | 1058.31 | 1509.57 | 42.6 | 102.0 | 14.8 |
| Defence | 220.24 | 159.78 | 223.51 | 220.17 | 230.50 | 4.7 | 4.7 | 2.3 |
| Public order and safety | 431.09 | 432.91 | 422.79 | 450.12 | 506.00 | 12.4 | 17.4 | 5.0 |
| Economic affairs | 718.80 | 467.28 | 851.48 | 273.32 | 559.35 | 104.6 | -22.2 | 5.5 |
| Environmental protection | 3.70 | 2.18 | 2.91 | 4.74 | 5.18 | 9.2 | 40.2 | 0.1 |
| Housing and community amenities | 97.30 | 52.55 | 68.95 | 11.30 | 12.09 | 7.0 | -87.6 | 0.1 |
| Health | 482.74 | 486.65 | 533.95 | 338.02 | 558.15 | 65.1 | 15.6 | 5.5 |
| Recreation, culture, and religion | 26.99 | 21.63 | 30.76 | 29.90 | 32.50 | 8.7 | 20.4 | 0.3 |
| Education | 636.53 | 625.87 | 779.24 | 611.96 | 682.93 | 11.6 | 7.3 | 6.7 |
| Social protection | 589.16 | 510.11 | 837.43 | 233.99 | 275.85 | 17.9 | -53.2 | 2.7 |
| Capital Outlays | 255.22 | 247.48 | 693.96 | 422.60 | 382.95 | -9.4 | 50.0 | 3.8 |
| General public services | 43.32 | 52.97 | 128.49 | 0.00 | 15.24 | - | -64.8 | 0.1 |
| Defence | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | - | - | 0.0 |
| Public order and safety | 6.00 | 5.37 | 14.79 | 0.00 | 10.06 | - | - | 0.1 |
| Economic affairs | 98.15 | 100.42 | 310.13 | 403.01 | 241.79 | -40.0 | 146.3 | 2.4 |
| Environmental protection | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | - | - | 0.0 |
| Housing and community amenities | 60.50 | 21.42 | 88.77 | 5.62 | 95.44 | - | 57.7 | 0.9 |
| Health | 6.25 | 1.50 | 11.87 | 11.12 | 4.99 | -55.1 | -20.1 | 0.0 |
| Recreation, culture, and religion | 29.67 | 3.11 | 11.54 | 2.27 | 4.63 | 104.1 | -84.4 | 0.0 |
| Education | 0.35 | 0.00 | 9.71 | 0.28 | 7.49 | - | - | 0.1 |
| Social protection | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | - | - | 0.0 |
| Total Outlays | 4198.19 | 3529.65 | 5400.09 | 3654.13 | 4755.05 | 30.1 | 13.3 | 46.7 |
| General public services | 790.73 | 632.54 | 1200.36 | 1058.31 | 1524.81 | 44.1 | 92.8 | 15.0 |
| Defence | 220.24 | 159.78 | 223.51 | 220.17 | 230.50 | 4.7 | 4.7 | 2.3 |
| Public order and safety | 437.08 | 438.69 | 437.57 | 450.12 | 516.05 | 14.6 | 18.1 | 5.1 |
| Economic affairs | 816.96 | 572.94 | 1163.47 | 676.34 | 801.13 | 18.5 | -1.9 | 7.9 |
| Environmental protection | 3.70 | 2.18 | 2.91 | 4.74 | 5.18 | 9.2 | 40.2 | 0.1 |
| Housing and community amenities | 157.80 | 73.98 | 157.73 | 16.91 | 107.53 | - | -31.9 | 1.1 |
| Health | 488.98 | 488.51 | 545.82 | 349.14 | 563.15 | 61.3 | 15.2 | 5.5 |

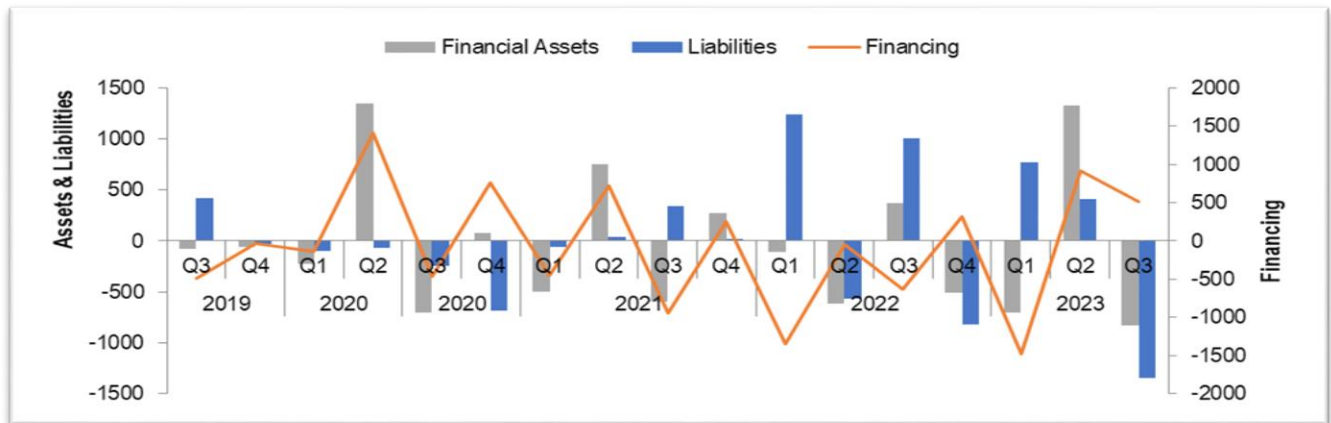
| | 2022 | | 2023 | | | Q-to-Q (%) | Y-on-Y (%) | GDP ratio (%) |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|------------|------------|---------------|
| | Q3 | Q4 | Q1 | Q2 | Q3 | | | |
| Recreation, culture, and religion | 56.66 | 25.05 | 42.35 | 32.16 | 37.13 | 15.4 | -34.5 | 0.4 |
| Education | 636.88 | 625.87 | 788.95 | 612.24 | 690.42 | 12.8 | 8.4 | 6.8 |
| Social protection | 589.16 | 510.11 | 837.43 | 233.99 | 275.85 | 17.9 | -53.2 | 2.7 |
| Unidentified Outlays | 462.73 | 198.81 | 155.67 | 630.45 | 226.30 | | | |

Source: Central Bank of Lesotho and Ministry of Finance

FINANCIAL ASSETS AND LIABILITIES³

The fiscal surplus, in addition to drawdown of government deposits, were used to redeem a huge part of liabilities. This included the amortisation of external debt liabilities at 10.6 per cent of GDP, while the redemption of domestic liabilities amounted to 7.1 per cent of GDP. Outstanding spending commitments were estimated at 3.5 per cent of GDP.

Figure 20: Total Financing (Million Maloti)



Source: Central Bank of Lesotho and Ministry of Finance

TOTAL PUBLIC DEBT⁴

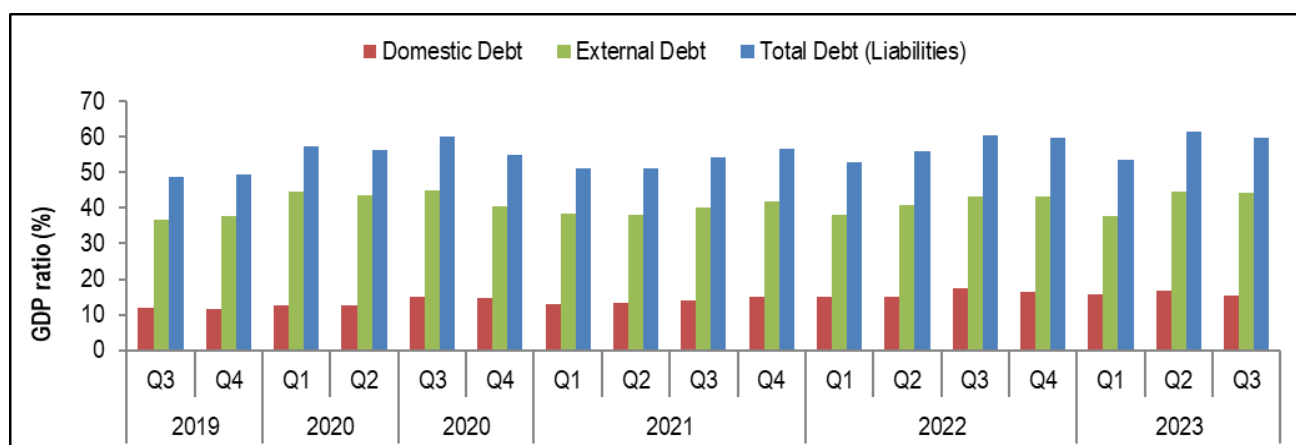
The stock of public debt declined by 2.5 per cent during the quarter under review compared with a rise of 14.9 per cent in the previous quarter. The decrease was observed in both domestic and external debt. The fall in external debt was due to significant amortisations, while that of domestic debt was largely due to redemption of securities, that had been issued for fiscal operations.

In terms of the debt indicators, the ratio of external debt service-to-exports was 28.4 per cent, thus exceeding the IMF / World Bank's recommended threshold of between 20 per cent and 25 per cent. On an annual basis, the stock of debt increased by 7.7 per cent.

³ 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.

⁴ All categories are on net terms. The stock of public external debt is converted using an end-of-period exchange rate.

Figure 21: Outstanding Public Debt (Million Maloti)



Source: Central Bank of Lesotho and Ministry of Finance

Table 16: Public Debt Stock (Million Maloti)

| | 2022 | | 2023 | | | Q-to-Q (%) | Y-on-Y (%) | Debt / GDP |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------|-------------|-------------|
| | Q3 | Q4 | Q1 | Q2 | Q3 | | | |
| Total Public Debt | 22668.53 | 22299.56 | 21791.89 | 25045.63 | 24407.21 | -2.5 | 7.7 | 59.9 |
| EXTERNAL DEBT | 16214.80 | 16149.10 | 15347.13 | 18194.40 | 18111.80 | -0.5 | 11.7 | 44.4 |
| Bilateral Loans | 757.38 | 699.22 | 756.73 | 1039.90 | 1032.10 | -0.8 | 36.3 | 2.5 |
| Concessional | 757.38 | 699.22 | 756.73 | 1039.90 | 1032.10 | -0.8 | 36.3 | 2.5 |
| Non-concessional | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | - | - | 0.0 |
| Multilateral Loans | 12655.23 | 12637.93 | 11478.60 | 13941.60 | 13778.70 | -1.2 | 8.9 | 33.8 |
| Concessional | 11335.39 | 11330.77 | 10199.00 | 12675.90 | 12545.40 | -1.0 | 10.7 | 30.8 |
| Non-concessional | 1319.85 | 1307.16 | 1279.60 | 1265.70 | 1233.30 | -2.6 | -6.6 | 3.0 |
| Financial Institutions | 218.15 | 176.89 | 155.30 | 133.20 | 107.60 | -19.2 | -50.7 | 0.3 |
| Concessional | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | - | - | 0.0 |
| Non-concessional | 218.15 | 176.89 | 155.30 | 133.20 | 107.60 | -19.2 | -50.7 | 0.3 |
| Suppliers' Credit | 2584.04 | 2635.05 | 2956.50 | 3079.70 | 3193.40 | 3.7 | 23.6 | 7.8 |
| DOMESTIC DEBT | 6453.72 | 6150.47 | 6444.76 | 6851.23 | 6295.41 | -8.1 | -2.5 | 15.4 |
| Banks | 4074.03 | 3689.16 | 3756.11 | 4001.49 | 3275.71 | -18.1 | -19.6 | 8.0 |
| Long-term | 2308.23 | 2308.72 | 2402.11 | 2643.91 | 2688.28 | 1.7 | 16.5 | 6.6 |
| Treasury bonds | 1264.04 | 1278.13 | 1311.31 | 1547.51 | 1597.68 | 3.2 | 26.4 | 3.9 |
| Central Bank (IMF-ECF) | 1044.18 | 1030.59 | 1090.80 | 1096.40 | 1090.60 | -0.5 | 4.4 | 2.7 |
| Short-term (T-bills) | 1765.80 | 1380.44 | 1354.00 | 1357.59 | 587.43 | -56.7 | -66.7 | 1.4 |
| Non-bank | 2379.69 | 2461.31 | 2688.66 | 2849.74 | 3019.70 | 6.0 | 26.9 | 7.4 |
| Short-term (T-bills) | 193.35 | 216.05 | 242.38 | 239.66 | 279.79 | 16.7 | 44.7 | 0.7 |
| Long-term (t-bonds) | 2186.34 | 2245.26 | 2446.28 | 2610.08 | 2739.91 | 5.0 | 25.3 | 6.7 |
| DEBT INDICATORS | | | | | | | | |
| External Debt-to-Total Debt | 73.15 | 71.53 | 72.42 | 70.43 | 72.65 | - | - | - |
| Concessional Debt-to-External Debt | 74.18 | 74.58 | 74.49 | 71.39 | 75.38 | - | - | - |
| External Debt Service-to-Revenue | 6.29 | 8.14 | 7.04 | 10.66 | 6.27 | - | - | - |
| External Debt Service-to-Exports | 7.54 | 6.56 | 9.13 | 8.07 | 28.41 | - | - | - |

Source: Central Bank of Lesotho and Ministry of Finance

6. Foreign Trade and Payments

OVERVIEW

The external sector position improved to a surplus amounting to 4.3 per cent of GDP in the third quarter of 2023, following a surplus equivalent to 2.3 per cent of GDP registered in the previous quarter. The increased surplus was explained by higher financial account outflows, together with a reduced current account deficit during the period. The increase was however counteracted by a decline in capital account inflows.

CURRENT ACCOUNT

The current account deficit narrowed to M138.67 million from M220.84 million in the preceding quarter. This was at the backdrop of a rise in surpluses on the primary and secondary income accounts, as well as reduced deficit on the services account. This was, however, moderated by a widening deficit on the goods account. Expressed as a percentage of GDP, the deficit was equivalent to 1.4 per cent, which was lower than the 2.3 per cent of GDP observed in the second quarter of 2023.

Table 17: Current Account Balance (Million Maloti)

| | 2022 | | 2023 | | | % Changes | |
|------------------------------|----------------|-----------------|-----------------|-----------------|-----------------|-------------|-------------|
| | Q3 | Q4 | Q1 | Q2 | Q3 | Q/Q | Y/Y |
| Current Account | -444.39 | -1582.15 | -1691.72 | -220.84 | -138.67 | 37.2 | 68.8 |
| (a) Goods | -2296.2 | -3541.74 | -3958.9 | -3460.90 | -3482.39 | -0.6 | 51.7 |
| Merchandise exports, f.o.b. | 5050.00 | 4016.15 | 3556.34 | 3949.07 | 3898.20 | -1.3 | -22.8 |
| Of which diamonds | 1586.85 | 959.01 | 1130.35 | 1014.78 | 803.68 | -20.8 | -49.4 |
| Of which textiles & clothing | 2667.34 | 2342.94 | 1744.26 | 2117.11 | 2205.04 | 4.2 | -17.3 |
| Of which water | 353.20 | 403.27 | 335.86 | 364.17 | 358.06 | -1.7 | 1.4 |
| Of which agriculture | 134.23 | 141.23 | 105.90 | 140.72 | 122.26 | -13.1 | -8.9 |
| Of which re-exports | 58.74 | 77.95 | 25.42 | 34.94 | 34.94 | 0.0 | -40.5 |
| Other exports | 249.65 | 91.74 | 214.55 | 277.35 | 374.21 | 34.9 | -49.9 |
| Merchandise imports, f.o.b. | 7346.25 | 7557.88 | 7515.32 | 7409.97 | 7380.59 | -0.4 | 0.5 |
| (b) Services | -1725.7 | -1748.67 | -1831.15 | -1806.76 | -1801.56 | 0.3 | -4.4 |
| (c) Primary Income | 1948.00 | 2077.53 | 2078.73 | 2239.95 | 2328.23 | 3.9 | 19.5 |
| (d) Secondary Income | 1629.65 | 1630.68 | 2019.68 | 2806.86 | 2817.05 | 0.4 | 72.9 |

Source: Central Bank of Lesotho

Merchandise Exports

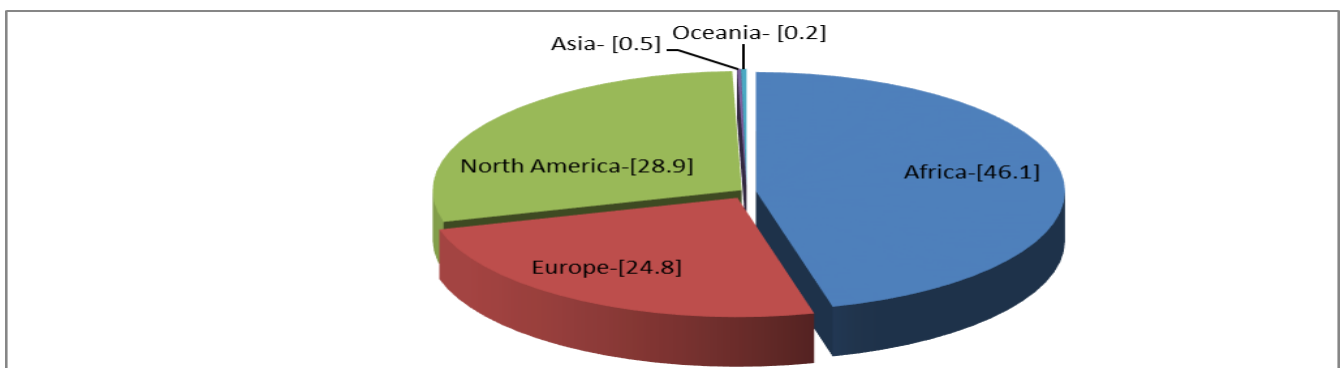
Merchandise exports contracted by 0.6 per cent, following an increase of 11.0 per cent in the preceding quarter. Major declines were observed in diamonds, agriculture and water sales. A downturn in global markets for rough diamonds, together with a decrease in the number of large high-value diamonds recovered in this period, negatively affected diamond exports. Agricultural exports declined due to a fall in the number of live animals exported. The decline was, however, moderated by an increase in textiles and clothing exports, as well as, other exports. Textiles and clothing exports to South Africa increased significantly, on account of increased orders ahead of the festive season. Nevertheless, textiles and clothing exports to the

US declined, reflecting a slowdown in orders due to weak demand. As a result, this led to reduced orders, and subsequent firm closures for manufacturers exclusively exporting to the US market. Year-on-year, merchandise exports contracted by 22.8 per cent, following a 0.1 per cent decline in the preceding quarter. As a ratio of GDP, merchandise exports amounted to 40.0 per cent, following a 41.9 per cent share in the previous quarter.

Direction of Trade - Exports

Africa continued to be the leading export market for Lesotho in the third quarter of 2023, with a share of 46.1 per cent, relatively higher than 39.8 per cent share in the preceding quarter. The exports constituted mostly textiles and clothing to South Africa. North America accounted for the second highest share of 28.9 per cent, compared to 30.9 per cent share in the preceding quarter, amid uncertainties surrounding AGOA renewal. Europe followed with a share of 24.8 per cent from 29.7 per cent in the previous quarter, as diamond exports to Belgium plummeted due to unfavourable rough diamond prices in the international markets. Asia and Oceania received the lowest share of Lesotho’s exports at 0.5 per cent and 0.2 per cent, respectively.

Figure 22: Direction of Trade Merchandise Exports (Percentage Share)



Source: Central Bank of Lesotho

Merchandise Imports

Merchandise imports continued to fall in the review period. They declined by 0.4 per cent, following a 1.4 per cent fall in the previous quarter. This was due to the decline in imports of crude materials, as well as, commodities & transactions not classified elsewhere in the SITC. Imports of trees/shrubs and personal effects also fell.. The decline was however offset by increased imports of mineral products, fuels and lubricants, machinery and transport equipment, as well as manufactured goods classified chiefly by material. Imports of mineral products, fuels and lubricants, as well as, machinery and transport equipment increased in line with expansion in activities related to the Lesotho Highlands Water Project (LHWP) – Phase II. On an annual basis, however, imports increased by 0.5 per cent, in contrast to a 1.5 per cent increase in the preceding quarter. As a share of GDP, merchandise imports amounted for 75.2 per cent, slightly lower than 78.6 per cent in the second quarter of 2023.

Services account

The services account deficit narrowed down in the third quarter of 2023. The deficit declined by 0.3 per cent, after decreasing by 1.3 per cent in the preceding quarter. This resulted from a decline in payments for

telecommunications services, courier services, and air transport services acquired from abroad. The decline was, however, moderated by an increase in business travel services and freight services provided by non-resident entities during the period under review. On a yearly basis, the services account deficit widened by 4.4 per cent, following a 3.6 per cent increase in the previous quarter. Expressed as a percentage of GDP, the deficit was 18.4 per cent, coming from a 19.2 per cent of GDP deficit in the second quarter of 2023.

Primary Income Account

The primary income account surplus grew by 3.9 per cent, relative to a 7.8 per cent increase in the second quarter. It was mainly supported by increased interest returns on investments held abroad by the financial institutions. The decline in receipts related to the LHWP - Phase I maintenance and operational costs, together with increased government interest payments on its foreign obligations, moderated the increase. Compared to the same period last year, the surplus on the primary income account expanded by 19.5 per cent, following 14.7 per cent increase in the previous quarter. As a ratio of GDP, the surplus accounted for 25.0 per cent, following a 23.8 per cent share in the preceding quarter.

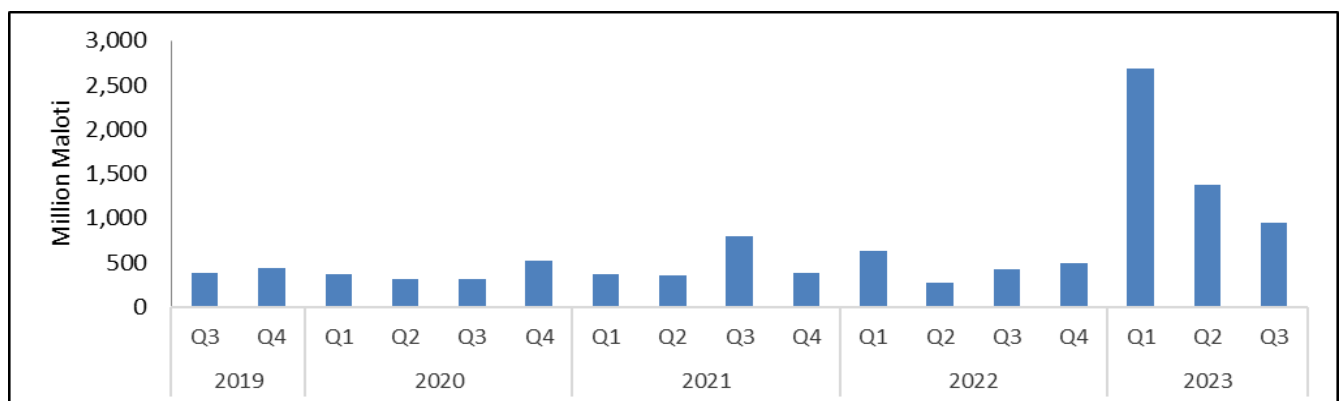
Secondary Income Account

The surplus on the secondary income account increased by 0.4 per cent, slowing down from a 39.0 per cent surge in the quarter ending in June 2023. This was due to a reduction in subscriptions to international organisations, while other components of the account remained unchanged during this period. Year-on-year, the surplus grew by 72.9 per cent, from 77.8 per cent increase in the prior quarter. As a percentage of GDP, it was 28.7 per cent, following a 29.8 per cent of GDP observed in the second quarter of 2023.

CAPITAL ACCOUNT

The surplus on the capital account fell to M953.68 million, from M1.38 billion in the preceding quarter. However, it remains high compared to historical flows, amid persistent growth in transfers associated with the LHWP – Phase II activities. These comprise mostly advanced payments to contractors to speed up the processes related to the construction of the dam, transfer tunnel, and the Senqu Bridge. Compared with the same period in 2022, the capital account surplus increased more than two-fold, following a substantial rise in the preceding quarter. As a proportion of GDP, the capital account surplus stood at 9.7 per cent, in contrast to 14.6 per cent in the previous quarter.

Figure 23: Capital Account (Million Maloti)



Source: Central Bank of Lesotho

FINANCIAL ACCOUNT

The financial account recorded a net outflow of M2.47 billion, increasing from a net outflow of M2.03 billion realised in the second quarter of 2023. This was mainly on account of an increase in reserve assets, together with a rise in other investments, portfolio investments, as well as, direct investment outflows. Expressed as a percentage of GDP, the financial account outflows accounted for 25.2 per cent, compared with 21.6 per cent of GDP in the previous quarter.

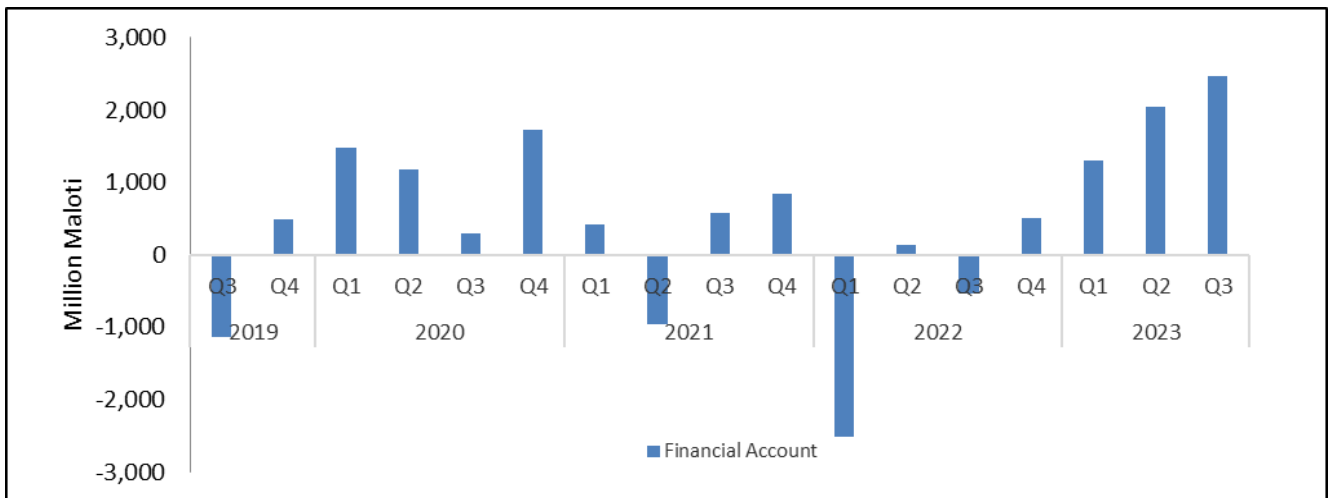
Other investment outflows were buoyed mostly by an increase in net foreign assets held by the commercial banks and other financial institutions, and to a lesser margin, the disbursements to the LHWP-Phase II. Meanwhile, portfolio investments were mainly supported by increased securities held by financial institutions abroad, amid the ongoing uncertainties towards global economic recovery and relatively tighter monetary policy stances by central banks in a quest to bring inflation to the desired levels. Substantial amounts of T-Bills for fiscal operations were settled during the quarter, which led to an increase in reserve assets. Despite this, direct and other investment outflows for the period consist of loan repayments to non-resident shareholders and third parties, which outweighed loan receipts during the same period.

Table 18: Financial Account Balance (Million Maloti)

| | 2022 | | 2023 | | |
|---------------------------------|----------------|---------------|----------------|----------------|-------------|
| | Q3 | Q4 | Q1 | Q2 | Q3 |
| Financial account | -529.63 | 499.21 | 1307.95 | 2036.02 | 2474 |
| Direct Investments, net | -122.31 | -24.03 | -138.28 | -72.37 | 308.83 |
| Portfolio Investments, net | 91.81 | -17.16 | 752.53 | 440.58 | 710.62 |
| Financial Derivatives, net | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other Investments, net | -205.99 | -14.47 | 1688.58 | 630.65 | 1037.64 |
| Of which Loans | -4.36 | -178.92 | 389.84 | 257.02 | 149.23 |
| Claims on Non Residents | 34.48 | 34.48 | 34.48 | 34.48 | 34.48 |
| Liabilities to Non Residents | 38.84 | 213.40 | -355.36 | -222.54 | -114.75 |
| Of which Currency and Deposits | -127.57 | -361.49 | 1372.81 | 447.68 | 962.47 |
| Claims on Non Residents | 91.05 | -551.5 | 1510.69 | 430.19 | 889.16 |
| Liabilities to Non Residents | 218.62 | -189.56 | 137.88 | -17.49 | -73.32 |
| Of which Special Drawing Rights | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Reserve Assets | -293.15 | 1154.87 | -994.88 | 1037.16 | 417.55 |

Source: Central Bank of Lesotho

Figure 24: Financial Account (Million Maloti)

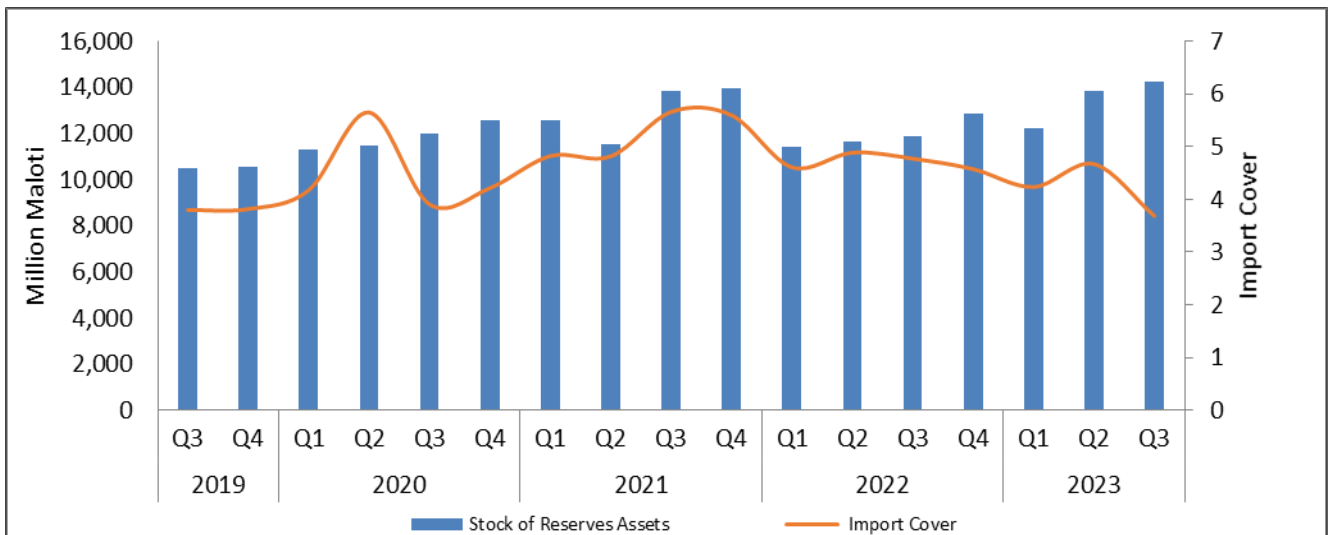


Source: Central Bank of Lesotho

RESERVE ASSETS

The stock of international reserves continued to increase during the review period. It rose by 2.9 per cent to M14.25 billion in the third quarter of 2023. Expressed in terms of imports cover, reserve assets fell to 3.7 months as imports were forecast to increase at a higher rate than reserve assets in the same period.

Figure 25: Reserve Assets



Source: Central Bank of Lesotho