

Central Bank of Lesotho



QUARTERLY ECONOMIC REVIEW

June 2023

MASERU KINGDOM OF LESOTHO

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1. Executive Summary

Global economy affirmed the steadfastness in the second quarter of 2023, emerging from the post-COVID-19 impact and the aftermath of the Russia-Ukraine war. The United States (US) economy experienced higher growth, driven by increased consumer spending, investments, and government spending. Japan's economy expanded significantly, supported by with strong export growth and increased inbound tourism. The United Kingdom (UK) saw slight economic improvement, supported by a rebound in manufacturing and construction output, despite slower growth in the services sector. China's economy continued to improve, driven by increased state sector investment and growth in industrial output. Growth in India's economic growth was supported by robust higher services activity and consumer demand, and the government's initiative to support infrastructure investment. However, there was variation among countries in terms of employment conditions, with some countries increasing their workforce, while others reduced their workforces.

The price developments generally began to slow down in both advanced economies and emerging market economies. In the US and India, there was a decline in inflation rates, prompting central banks to take action to address high inflation. In Japan, the inflation rate increased due to currency depreciation. In the UK and South Africa, efforts were made to combat high inflation through policy rate increases, despite reduced inflationary pressures. Meanwhile, in China, consumer prices remained unchanged, and the central bank implemented rate cuts to support economic recovery.

Domestic economy continued to contract, although at a slower rate compared to the previous quarter's decline. The labour market remained under pressure, with employment in LNDC-assisted companies and government maintaining downward trajectory. Inflation decreased to 5.6 per cent, mainly due to falling international food and fuel prices. However, the increase in taxation on alcohol and tobacco products, as well as the weaker rand exchange rate, moderated the decline in the headline inflation rate.

The broad money supply (M2) showed marginal growth, driven by an increase in net foreign assets. However, net domestic claims declined as government deposits increased. There was an improvement in private sector credit, mainly attributed to increased demand, coupled with strategies adopted by banks to ease access to credit. However, the decision by the CBL's Monetary Policy to raise key policy rate by 50 basis points to 7.75 per cent moderated credit developments. Consequently, the prime lending rate also rose by 50 basis points and stood at 11.25 per cent.

Government budgetary operations were estimated to have recorded a surplus equivalent to 13.5 per cent of GDP due to a significant increase in government revenue, largely driven by a substantial rise in SACU revenue. This was further influenced by slow spending due to the revised chart of accounts following restructuring. On the other hand, public debt significantly increased and stood at 62.5 per cent of GDP, driven by currency depreciation, new disbursements, and treasury bond issuances.

The current account balance improved, as the primary and secondary income accounts increased due to LHWP I maintenance and operations costs, as well as an increase in SACU receipts. Moreover, merchandise exports showed growth, while imports decreased slightly, and the services account saw improvement. Consequently, reserve assets increased, and imports cover increased to 4.7 months.

2. International Economic Developments

The global economy continued to grow in the second quarter of 2023. Economic growth in the US benefited from higher consumer and government spending, as well as non-residential fixed investment. In China, economic growth was supported by the state-sector investment, as well as increased industrial output. Economic performance in Japan was backed by high exports and inbound tourism, while Indian economy was buttressed by higher demand and investment. In South Africa, economic activity benefitted from reduced power supply shortages. However, labour market conditions varied, with some countries realising growth unemployment.

The annual inflation rate declined in most countries, due to the fall in costs of food and fuel. However, in Japan, consumer prices rose further on account of depreciation of the Japanese yen against its major trading currency, the US dollar. Notwithstanding, most central banks continued to increase their policy rates to lower the inflation rate to their respective targets. Meanwhile, the Reserve Bank of India paused policy rate hikes on account of “easing inflation risks”, while the Bank of Japan continued with its ultra-low policy stance.

Commodity price developments were mixed in the quarter under review. Oil and grain prices declined while metal prices increased. Oil prices were lower due to, amongst others, stockpiling in the US. Maize prices declined due to bumper harvests in the Southern Hemisphere, while wheat prices benefitted largely from sluggish global demand, coupled with ample supplies. Gold prices were supported by weak employment statistics, home sales and factory activity, which drove investors to demand more gold for safe haven. Platinum prices benefitted from improved economic growth prospects in China, which is a major consumer of platinum. The rand continued to depreciate against its three major trading currencies due to the energy crisis in South Africa.

Table 1: Key World Economic Indicators

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	Q1 2023	Q2 2023	Q1 2023	Q2 2023	Q1 2023	Q2 2023	Q1 2023	Q2 2023
United States	1.8	2.6	5.0	3.0	4.75	5.00	3.5	3.6
Euro Area	1.1	0.6	6.9	5.5	3.50	4.00	6.5	6.4
Japan	2.0	2.0	3.2	3.3	-0.10	-0.10	2.8	2.5
United Kingdom	0.2	0.4	10.1	7.9	4.25	5.00	3.9	4.2
China	4.5	6.3	0.7	0.0	3.65	3.55	5.3	5.2
India	6.1	7.8	5.7	4.8	6.50	6.50	N/A	N/A
South Africa	0.2	1.6	7.1	5.4	7.75	8.25	32.9	32.6

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)

During the second quarter of 2023, the US economy registered higher growth than that achieved in the previous quarter. The real GDP increased by an annual growth of 2.6 per cent, from a revised growth of 1.8 per cent in the previous quarter. The US economy was supported by higher consumer spending, non-residential fixed investment, private inventory investment, as well as government spending. However, the unemployment rate rose to 3.6 per cent compared to an increase of 3.5 per cent in the preceding quarter. There were declines in employment within interest rate sensitive sectors such as manufacturing and housing, amid the tighter monetary policy stance by the Federal Reserve.

The annual inflation rate in the US declined to 3.0 per cent from 5.0 per cent, mainly driven by the decline in energy prices, supported by a slower increase in food costs. Nonetheless, the US Federal Reserve raised its Fed Fund rate by 0.25 percentage points to 5.00 per cent to steer the high inflation rate towards the target rate of 2.00 per cent.

Euro Area

The economic performance in the euro area slowed further in the second quarter of 2023. Real GDP grew by 0.6 per cent, from an increase of 1.1 per cent in the previous quarter. The slower economic growth was attributed to limited consumer demand and spending arising from the high interest rates. On the contrary, the unemployment rate declined to a record low of 6.4 per cent from 6.5 per cent in the quarter ending in March 2023. The largest employment figures were observed in Spain and Germany, where there were sizable job creations in the public sector and services.

Annual consumer prices rose by 5.5 per cent from an increase of 6.9 per cent. The slowdown in the inflation rate was explained by the fall in energy prices, as the energy crisis continues to subside. This was coupled with a slower price increase for food and alcoholic beverages. Despite disinflation in the Area, the European Central Bank raised its policy rate to 4.00 per cent from 3.50 per cent on unfavourable prospects for inflation.

Japan

Japan's economy maintained positive trajectory in the second quarter of 2023. Economic growth increased to 6.0 per cent, following an increase of 1.3 per cent in the previous quarter. The marked rise in real GDP was explained by the robust exports' growth and inbound tourism. Exports were primarily supported by the shipment of automobiles, as production recommenced with the availability of computer chips. Inbound tourism benefitted from the lifting of social restrictions associated with COVID-19. Consequently, Japan's unemployment rate declined to 2.5 per cent from 2.8 per cent, alongside the speedy recovery of the economy from COVID-19 repercussions. The highest employment figures were observed in the tourism sector, particularly hospitality industry.

The inflation rate was recorded at 3.3 per cent, higher than 3.2 per cent observed in the previous quarter. The increase in the inflation rate partly resulted from the depreciation of the Japanese yen against the US dollar, which resulted in higher costs for imported materials. Despite this, the Bank of Japan left its policy rate unchanged at -0.10 per cent in the second quarter of 2023. The Bank further affirmed to continue with

an ultra-low policy stance, while it assessed the economy's performance and whether the inflation rate was on track in achieving the Bank's target of 2.00 per cent.

United Kingdom (UK)

The UK economic performance improved slightly in the second quarter 2023, growing by 0.4 per cent, which was slightly higher than a 0.2 per cent increase a quarter earlier. Economic growth was underpinned by a rebound in manufacturing and construction output. Manufacturing output benefitted from increased production of cars, as the chip shortage had eased and enabled production to resume, while construction output was supported by favourable weather conditions. However, there was slower services output due to strikes, which moderated the observed increase in economic growth. The unemployment rate rose to 4.2 per cent from an increase of 3.9 per cent in the preceding quarter, as wages grew further and made it difficult for businesses to hire more workers.

The annual inflation rate declined to 7.9 per cent from 10.1 per cent in the previous quarter. The slower increase in consumer prices was on account of the decline in fuel costs and slower food inflation. Despite the lower inflation rate, the Bank of England raised its policy rate to 5.00 per cent from 4.25 per cent, to combat the high inflation. The Bank also pledged to continue with further rate hikes if the high inflation rate persisted.

EMERGING MARKET ECONOMIES

China

The economic performance in China continued to improve, with the real GDP growing at 6.3 per cent, following a 4.5 per cent in the previous quarter. Economic growth was underpinned by increased state sector investment, as Fund Managers launched more funds into state owned enterprises to attract foreign investors. There was also an increase in industrial output growth, with output expanding in various sectors, including mining and manufacturing. The unemployment rate fell to 5.2 per cent from 5.3 per cent in the first quarter of 2023.

The consumer prices were unchanged in the quarter ending in June 2023, following an increase of 0.7 per cent in the preceding quarter. This was due to a decline in transportation costs, which was partly offset by an increase in food prices. Transportation costs declined alongside fuel costs, while the increase in food prices resulted from increased eggs and vegetable prices, on account of harsh weather conditions that affected supply, while eggs prices were higher due to the decline in the number of chickens raised. The People's Bank of China cut its policy rate to 3.55 per cent from 3.65 per cent. The decision was made to further support economic recovery, especially financing support for technology companies.

India

The economic performance for India expanded further in the second quarter of 2023, with real GDP increasing by 7.8 per cent, following an increase of 6.1 per cent a quarter earlier. The economy was supported by robust higher services activity and consumer demand. There was also an increase in investment, bolstered by the government's initiative to support infrastructure investment, and an increase in private consumption from high income earners. However, the unemployment rate was expected to have declined in the second

quarter of 2023, compared to a quarter earlier, as demand increased for agricultural labour due to the onset of monsoon rain.

The annual consumer prices rose by 4.8 per cent, compared to an increase of 5.7 per cent in the previous quarter. The decline in the inflation rate largely reflected the slower increase in food prices. As a result, the Reserve Bank of India paused the interest rate hikes in the second quarter of 2023, to ensure that the inflation rate remained within the Bank's target, without compromising growth.

South Africa (SA)

South Africa's economic growth was higher in the second quarter of 2023, with real GDP growth rate recorded at 1.6 per cent compared to a marginal increase of 0.2 per cent in the preceding quarter. The increase in real GDP was explained by the decrease in power outages and lower dependency on electricity for key producing sectors such as mining and manufacturing. The unemployment rate declined to 32.6 per cent from 32.9 per cent, as the construction, utilities and trade sectors added more jobs.

The annual inflation rate was recorded at 5.4 per cent in the second quarter of 2023, from 7.1 per cent in the previous quarter, moving back to the inflation target band of 3.0-6.0 per cent. This resulted from a slower increase in costs of transport and food. Nevertheless, the South African Reserve Bank raised its policy rate by 50 basis points to 8.25 per cent in May 2023. The decision was on the back of a deteriorating inflation outlook due to the weak exchange rate and the possibility of heightened power cuts.

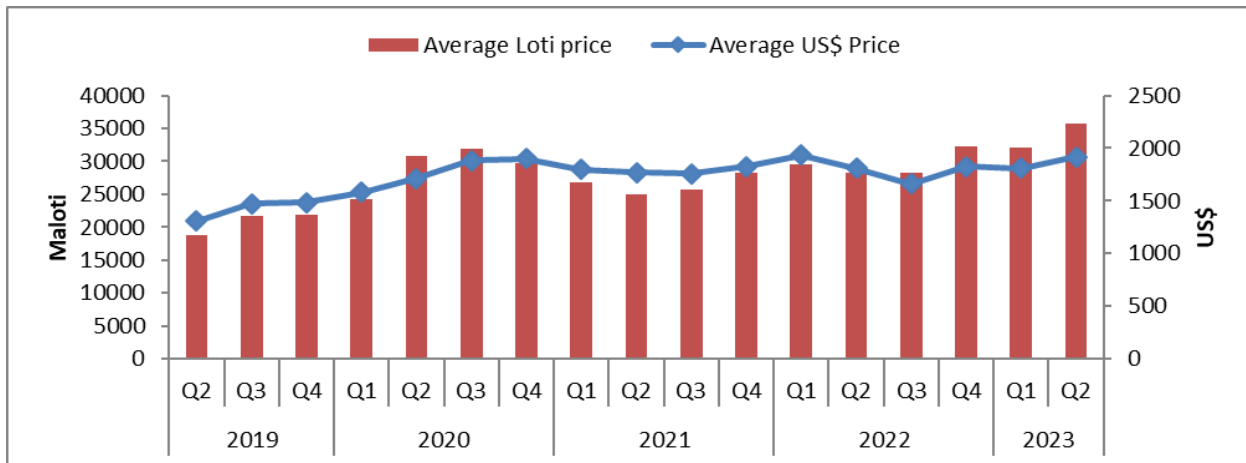
COMMODITIES

Minerals

Gold

In the second quarter of 2023, the dollar price of gold rose by an annual rate of 6.2 per cent to US\$1919.25, compared to a decline of 6.7 per cent in the previous quarter. Expressed in maloti, the price of gold upsurged by 27.0 per cent compared to an increase of 8.8 per cent in the previous quarter. The price of gold was largely supported by weak employment statistics, home sales and factory activity, which prompted investors to seek for safety in gold. However, these were moderated by the tighter policy stance by the Federal Reserve during the same quarter.

Figure 1: Average Price of Gold

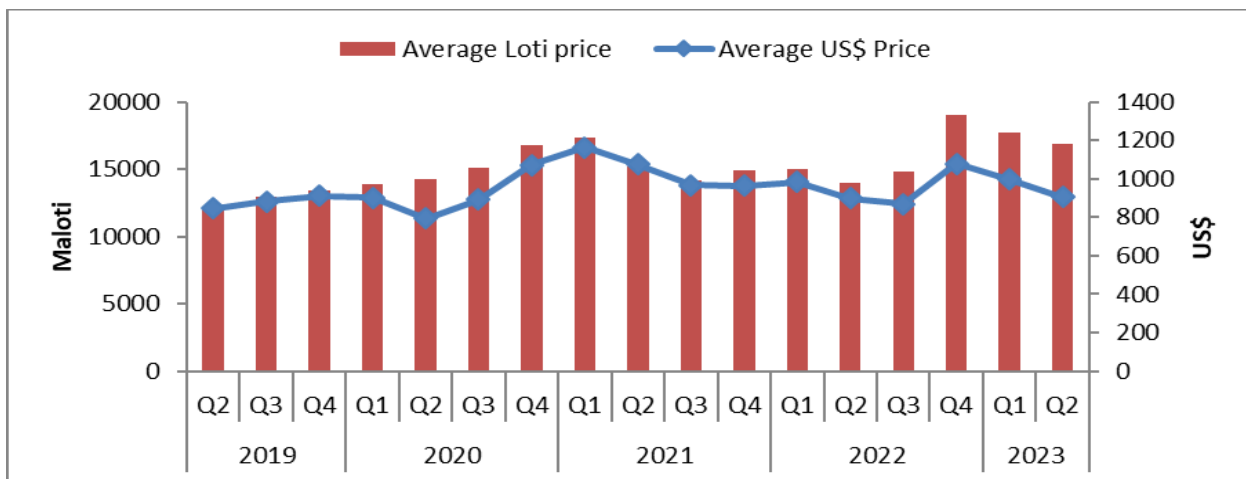


Source: Bloomberg

Platinum

The dollar price of platinum rose by an annual rate of 0.8 per cent to US\$906.31 during the second quarter of 2023, following an increase of 1.3 per cent in the previous quarter, while the loti price of platinum rose by 20.5 per cent following an increase of 18.2 per cent in the previous quarter. Platinum prices were strengthened by improved economic data and growth prospects in China, which supported demand for platinum jewellery and automobiles. Platinum prices continued to be affected by lower production in South Africa, due to power supply disruptions.

Figure 2: Average Price of Platinum



Source: Bloomberg

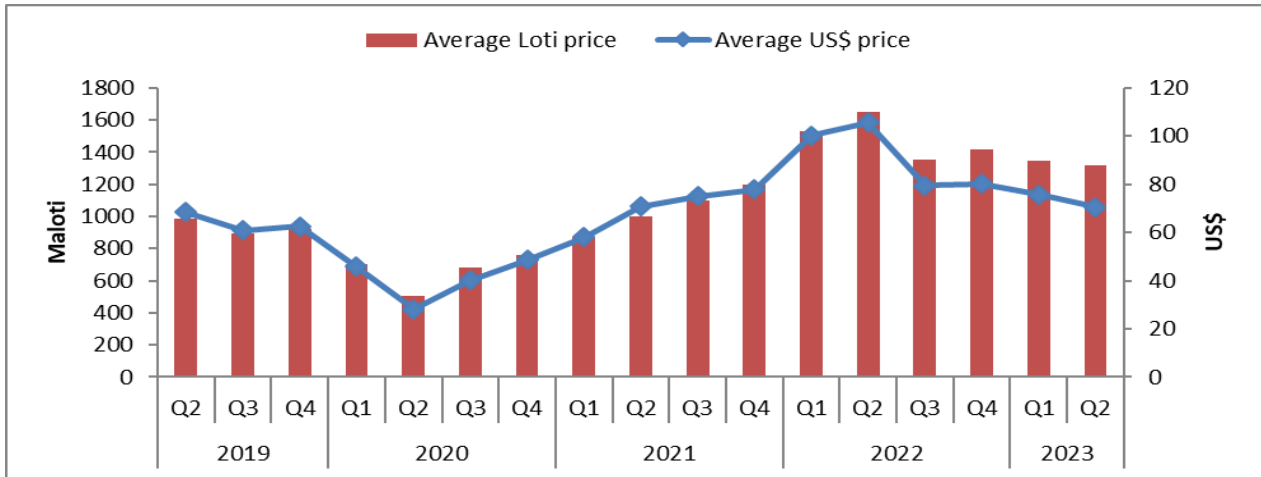
Energy

Crude Oil

In the second quarter of 2023, the dollar price of oil declined by an annual rate of 33.2 per cent to US\$70.64, following a decline of 24.5 per cent in the previous quarter. The loti price of oil decreased by 20.1 per cent following a fall of 12.0 per cent in the preceding quarter. Oil prices were negatively affected by an increase

in US crude oil stockpiles. However, following an agreement by OPEC and allies to cut oil production, there was an increase in oil prices.

Figure 3: Average Price of Oil



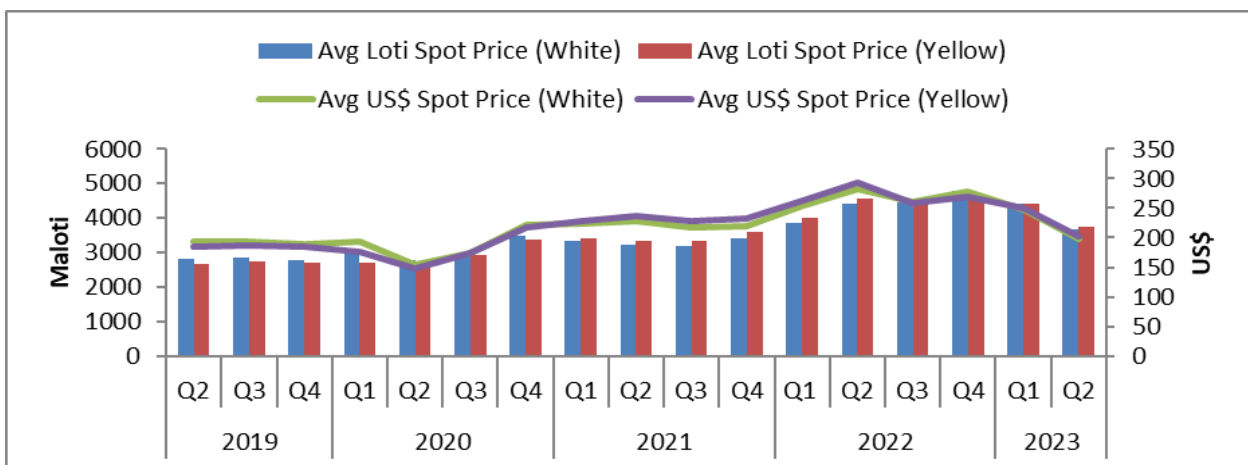
Source: Bloomberg

Agricultural Products

Maize

The dollar price of white maize declined by 30.2 per cent to US\$197.44 in the quarter ending in June 2023, following a decline of 2.1 per cent in the preceding quarter, while the dollar price of yellow maize declined by 31.2 per cent to US\$205.22, compared to a decline of 5.5 per cent a quarter earlier. In maloti terms, the price of white maize declined by 16.5 per cent in contrast to an increase of 14.5 per cent, while the price of yellow maize declined by 17.7 per cent opposed to an increase of 10.2 per cent. Maize prices were dragged down by excess supplies from the newly harvested 2023 crops, especially from the Southern Hemisphere.

Figure 4: Average Price of Maize

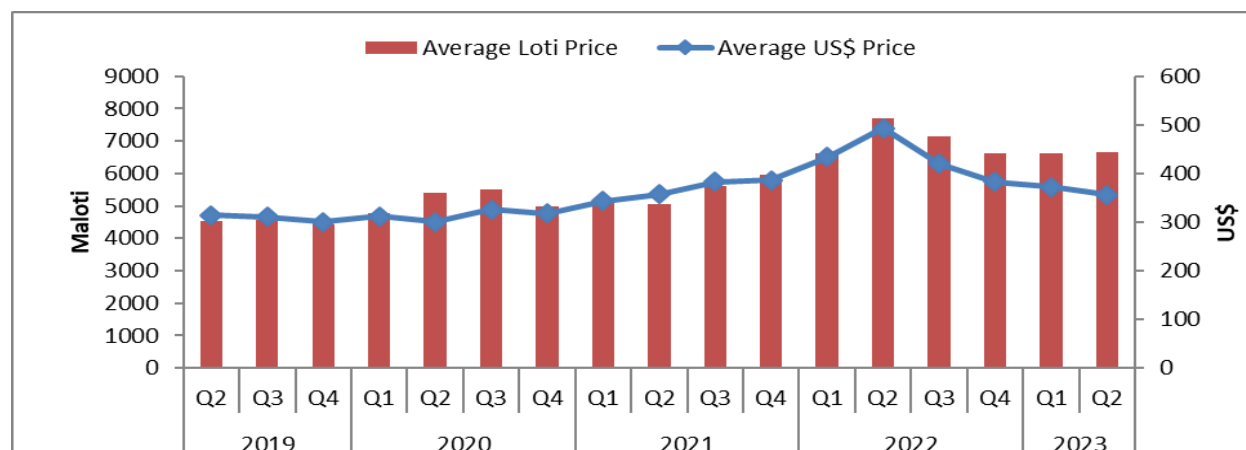


Source: Bloomberg

Wheat

The dollar price of wheat declined by 27.7 per cent to US\$356.34 during the review quarter from a decline of 14.3 per cent in the previous quarter, while the loti price of wheat declined by 13.6 per cent from no change in the previous quarter. Wheat prices were adversely affected by the sluggish global demand, ample supplies and improved production forecasts from Russia, Kazakhstan and Ukraine. Wheat prices were also negatively affected by the third extension of the Black Sea Grain Initiative.

Figure 5: Average Price of Wheat



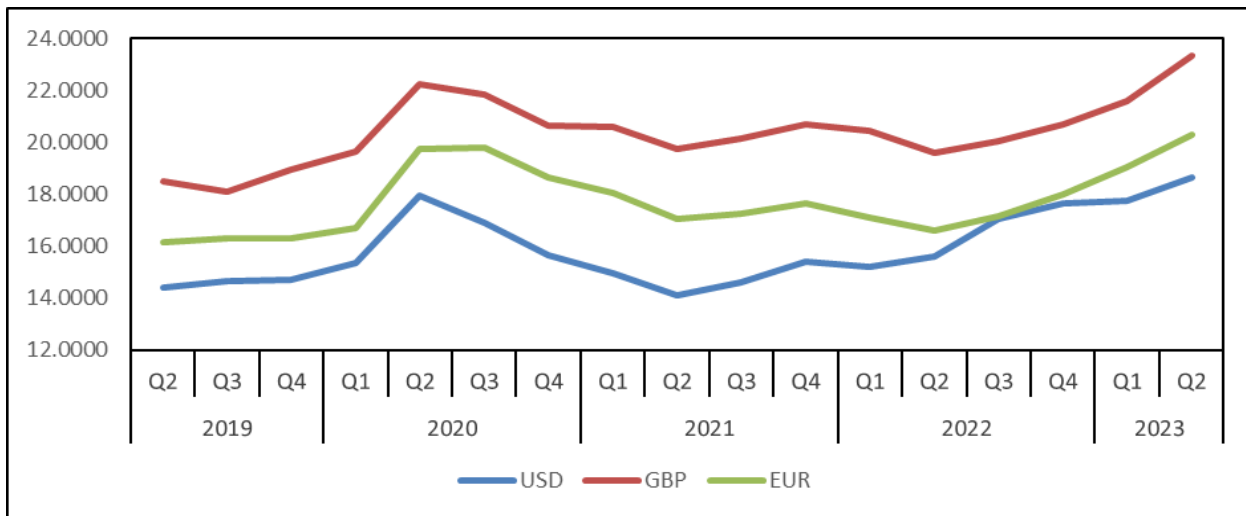
Source: Bloomberg

EXCHANGE RATES

The rand, hence, loti¹ continued to weaken against its three major trading currencies. The rand depreciated by 4.9 per cent, 8.2 per cent and 6.6 per cent against the dollar, the pound and the euro, respectively. This was compared to a depreciation of 0.7 per cent, 4.2 per cent and 6.0 per cent against the dollar, the pound and the euro, respectively, in the preceding quarter. The rand hit its record low as South Africa faced its worst rolling blackout during the same period. This fuelled inflation, weighed negatively on investor sentiment, and resulted in large capital flight. The country's deteriorating economic outlook, and the US policy rate hikes which resulted in a stronger US dollar, also weakened the rand further.

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

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



Source: Bloomberg

3. Real Sector Developments²

OVERVIEW

The economy remained strained during the review period. The indicator of overall economic activity registered a further decline in the second quarter of 2023, although at a slower rate compared to the preceding period. The labour market remained under pressure, with employment falling in all three categories monitored by the Central Bank of Lesotho. However, inflationary pressures abated during the review period.

OUTPUT DEVELOPMENTS

The Bank’s quarterly indicator of economic activity (QIEA) projected a further economic contraction in the second quarter of 2023, though slower compared with the previous quarter’s decline. The QIEA declined by 1.9 per cent in the second quarter of 2023 compared with a revised 5.0 per cent contraction in the preceding quarter. The contraction in economic activity was mainly due to a decline in the services sectors, namely the transport and construction activities, and a slowdown in the manufacturing sector. However, the rebound in domestic demand moderated the fall in overall economic activity.

The production side of the economy slowed down by 2.2 per cent, in contrast to a 4.3 per cent growth recorded in the previous quarter. The decrease in performance of this component was primarily influenced by a reduction in economic activity within both the transport and construction sectors. The weak performance of the manufacturing sector, which resulted from reduced demand for exports from Lesotho’s trading partners, also added to the slowdown.

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

However, domestic demand was on a recovery, increasing from 2.9 per cent in the previous quarter to 3.8 per cent during the current review quarter. This was mainly underpinned by increased consumer and government spending. The relatively higher consumer spending mainly benefited from declining inflation rate and increased earnings during the review period. These factors collectively helped mitigate the decline in overall economic activity during the second quarter.

Figure 7: Quarterly Indicator of Economic Activity



Source: Central Bank of Lesotho

Table 2: Contributions to Growth

Indices	2022			2023	
	Q2	Q3	Q4	Q1	Q2
CIEA	153.9	154.7	151.5	144.0	141.2
Quarter-on-quarter changes	-3.0	0.5	-2.1	-5.0	-1.9
Domestic Demand	154.1	146.4	150.6	146.3	149.8
Quarter-on-quarter changes	1.4	-4.4	1.8	-2.9	3.8
Manufacturing and Production Category	114.5	108.6	100.0	99.6	105.5
Quarter-on-quarter changes	-8.8	-2.0	-10.9	4.3	2.2

Source: Central Bank of Lesotho

EMPLOYMENT DEVELOPMENTS

The number of employees by Lesotho National Development Corporation (LNDC-assisted) companies declined by 3.2 per cent compared with 9.4 per cent in the preceding quarter. The woven and knit garments mainly continued to contribute to the declining employment. Other smaller categories also contributed to the joblessness during the review period. The weak demand for Lesotho's exports in the international markets, and tighter monetary policy conditions in Lesotho's main trading partners contributed to declining orders, hence employment declined.

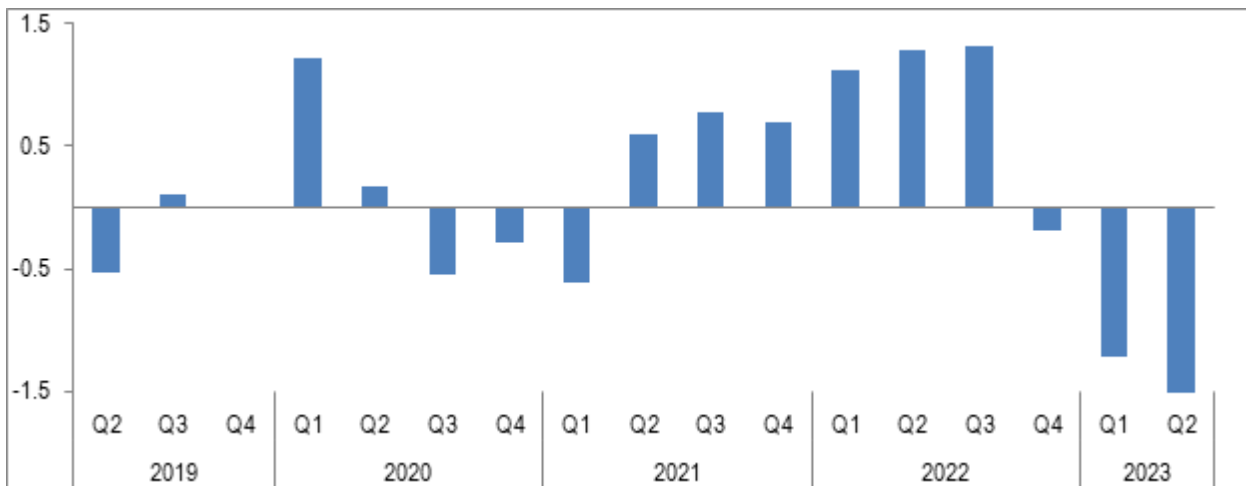
Table 3: Employment by LNDC-Assisted Companies (Thousands)

Industry	2022			2023		% Changes	
	Q2	Q3	Q4	Q1	Q2	Q/Q	Y/Y
Knit Garments.....	25062	24646	23779	23123	23952	4.0	-4.4
Woven Garments.....	10263	10092	9527	8042	9419	17.0	-8.2
Footwear.....	852	838	737	755	811	7.0	-4.8
Fabrics, Yarn etc.....	1 509	1484	1983	1834	1807	-1.0	19.7
Construction.....	400	400	409	401	414	3.0	3.5
Food & Beverages.....	522	522	682	612	703	15.0	34.7
Electronics.....	1 347	1347	1282	1183	1173	-1.0	-12.9
Retail.....	203	203	201	192	160	-17.0	-21.2
Hotel Accommodation.....	242	242	305	223	327	47.0	35.1
Other.....	1162	1162	1214	1378	1466	6.0	26.2
TOTAL.....	41674	40936	40119	37743	40232	7.0	-3.2

Source: Lesotho National Development Corporation

Government employment continued to decrease during the review period. It declined by 1.7 per cent following a 1.2 per cent fall in the preceding quarter. The reduction in government employment was largely attributed to a decline in the civil servants' category, which has been a primary factor contributing to this decline.

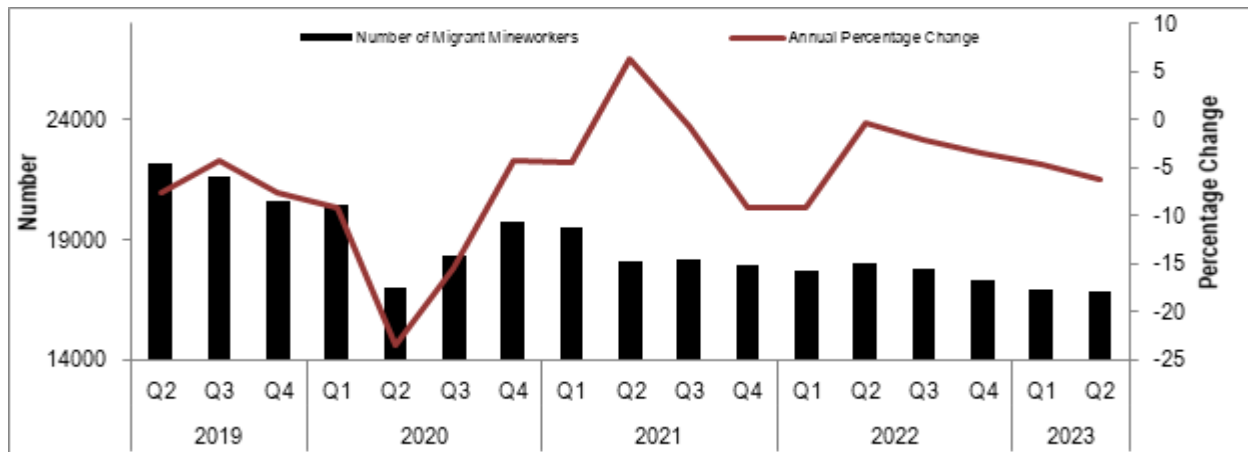
Figure 8: Government Employment (Annual Percentage Changes)



Source: Ministry of Finance

The number of migrant mineworkers continued a downward decay, declining by 6.3 per cent in the second quarter, following a 4.6 per cent decline in the previous quarter. The fall was mainly driven by dipping commodity prices and persistent energy crisis in SA that had a negative impact on mining output, and thereby, leading to reduced employment opportunities in the mining sector.

Figure 9: Migrant Mineworkers (Annual Percentage Changes)



Source: The Employment Bureau of Africa (TEBA)

PRICE DEVELOPMENTS

The headline inflation declined to 5.6 per cent in the second quarter of 2023, from 6.8 per cent in the first quarter. The major contributors were categories of Food and non-alcoholic beverages; Housing, water, electricity, gas & other fuel; Transport and Restaurants & Hotels. Nonetheless, this was moderated by the increases in inflation in Alcoholic beverages & Tobacco, as well as Furniture, households' equipment & routine maintenance categories.

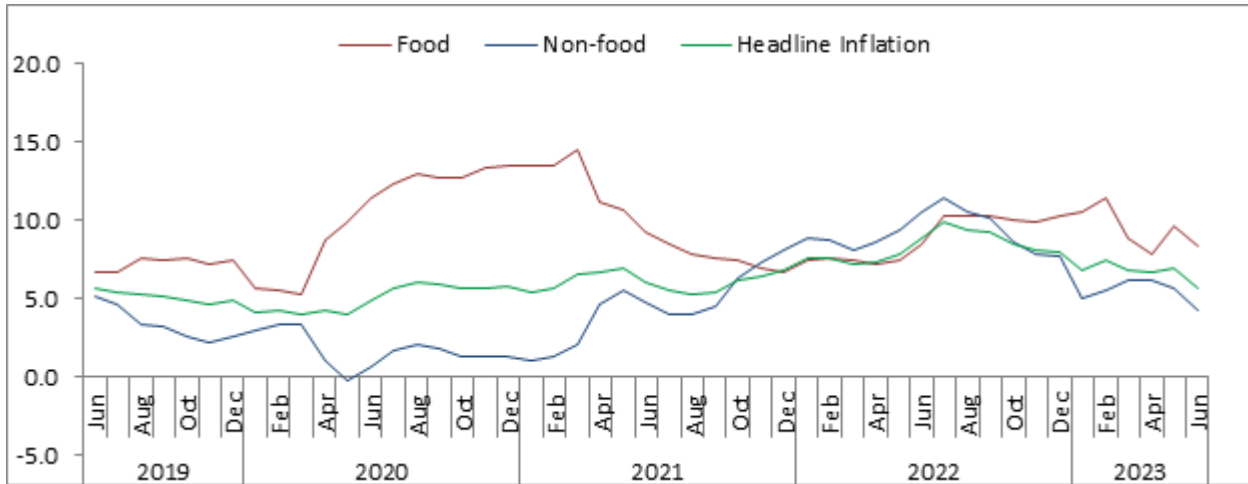
Table 4: Inflation Rate (Annual Percentage Changes)

	Weight	2023				
		Feb	Mar	Apr	May	June
All items	100.0	7.4	6.8	6.7	6.9	5.6
Food and non-alcoholic beverages	32.6	11.4	8.8	7.8	9.6	8.3
Alcoholic beverages & Tobacco	6.4	3.9	10.6	19.3	24.6	23.5
Clothing & footwear	8.1	5.8	10.1	7.3	6.7	6.5
Housing, water, electricity, gas & other fuels	14.9	4.8	6.8	9.0	6.6	3.4
Furniture, households' equipment & routine maintenance	3.3	4.3	9.6	12.6	11.4	10.7
Health	1.9	2.8	9.3	13.5	9.0	8.9
Transport	11.1	8.7	7.9	3.2	2.4	-0.6
Communications	4.4	0.0	0.5	0.5	0.5	-0.4
Recreation & Culture	1.4	2.2	3.3	2.4	4.2	4.3
Education	4.9	2.9	2.9	2.9	2.9	2.9
Restaurant & Hotels	6.5	6.1	-5.2	-8.5	-11.1	-11.1
Miscellaneous goods & services	4.4	5.0	9.2	7.2	9.1	9.2

Source: Bureau of Statistics

During this period, disinflation was mainly driven by falling international food and fuel prices. Both food and non-food inflation rates declined from 8.8 per cent and 6.2 per cent in the previous quarter to 8.3 per cent and 4.2 per cent, respectively, during the review quarter. However, the increase in taxation on alcohol and tobacco products, along with the weaker exchange rate, had a moderating effect on the decline in the headline inflation rate during the review period.

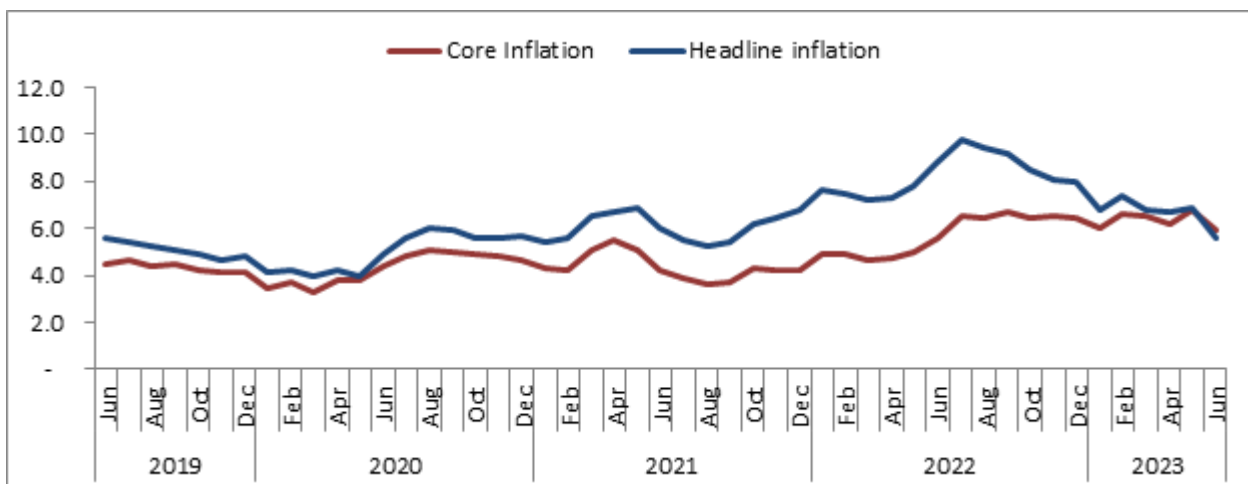
Figure 10: Food vs Non-food Inflation (Annual Percentage Changes)



Source: BoS and CBL Computations

Underlying inflationary pressures, as measured by core inflation, decreased from 6.5 per cent in March 2023 to 5.9 per cent in June 2023. This was mainly due to the fall in contribution from food and energy inflation during the review period. The headline inflation has steadily converged to core inflation during the review period compared with the previous period.

Figure 11: Core vs Headline Inflation (Annual Percentage Changes)



Source: CBL Computations

4. Monetary and Financial Developments

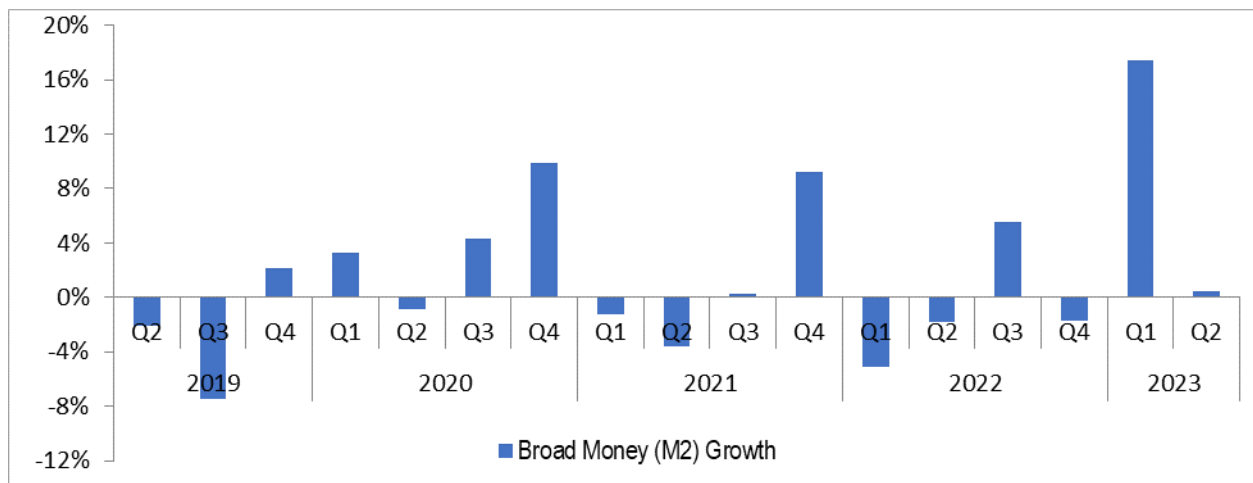
OVERVIEW

There was a marginal increase in broad money supply, which was largely due to a rise in net foreign assets (NFA) during the second quarter of 2023. Likewise, credit to private sector improved, underpinned by an increase in loans and advances to households. Similarly, all short-term rates increased in line with the rise in CBL policy rate.

BROAD MONEY (M2)

The broadly defined money supply (M2) increased marginally by 0.4 per cent in the second quarter of 2023, following a 17.4 per cent increase in the preceding quarter. This was driven by an increase in net foreign assets, whereas the decline in net domestic claims moderated the growth. In real terms, M2 grew by 1.6 per cent, and expanded further by 15.9 per cent on a year-on-year basis.

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



Source: Central Bank of Lesotho

Determinants of M2

Domestic Claims

Domestic claims fell by 15.0 per cent, contrary to a 14.1 per cent growth recorded in the preceding quarter. The decline was mainly on account of a fall in both the central bank and commercial banks' net claims on government. Government deposits with central bank were buoyed by higher SACU receipts, coupled with a relatively lower government spending, whereas deposits with commercial banks benefitted from increased deposits by extra-budgetary units. On the contrary, claims on other sectors grew by 1.6 per cent resulting from an increase in private sector credit.

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

	2022			2023		Changes (%)	
	Q2	Q3	Q4	Q1	Q2	Quarterly	Annual
Domestic Claims	5,982.48	6,610.19	6,658.18	7,593.93	6,455.50	-15.0	7.9
Net Claims on Government	(2,443.40)	(2,124.12)	(2,058.09)	(1,413.98)	(2,696.17)	-90.7	-10.3
<i>Commercial Banks Net Claims</i>	409.85	1,007.88	696.35	822.35	578.03	-29.7	41.0
Claims on Central Government	2,403.51	3,018.06	2,675.85	2,693.19	2,942.40	9.3	22.4
Liabilities to Central Government	1,993.66	2,010.18	1,979.51	1,870.84	2,364.38	26.4	18.6
<i>Central Bank Net Claims</i>	(2,853.25)	(3,132.00)	(2,754.44)	(2,236.34)	(3,274.19)	-46.4	-14.8
Claims on Central Government	98.39	72.59	49.29	38.82	28.26	-27.2	-71.3
Liabilities to Central Government	2,951.64	3,204.59	2,803.73	2,275.16	3,302.46	45.2	11.9
Claims on Other Sectors	8,425.87	8,734.31	8,716.27	9,007.91	9,151.66	1.6	8.6
<i>Claims on OFCs</i>	248.74	296.09	301.40	297.19	300.58	1.1	20.8
<i>Claims on Public Nonfinancial Corporations</i>	53.08	60.85	58.05	55.18	53.40	-3.2	0.6
<i>Claims on St & Local Government</i>	-	-	-	-	0.00		
<i>Claims on Private Sector</i>	8,124.05	8,377.37	8,356.83	8,655.54	8,797.69	1.6	8.3
Claims on Business Enterprises	2,136.76	2,237.28	2,209.92	2,344.73	2,272.59	-3.1	6.4
Claims on Households	5,987.30	6,140.09	6,146.91	6,310.81	6,525.10	3.4	9.0

Source: Central Bank of Lesotho

Net Foreign Assets

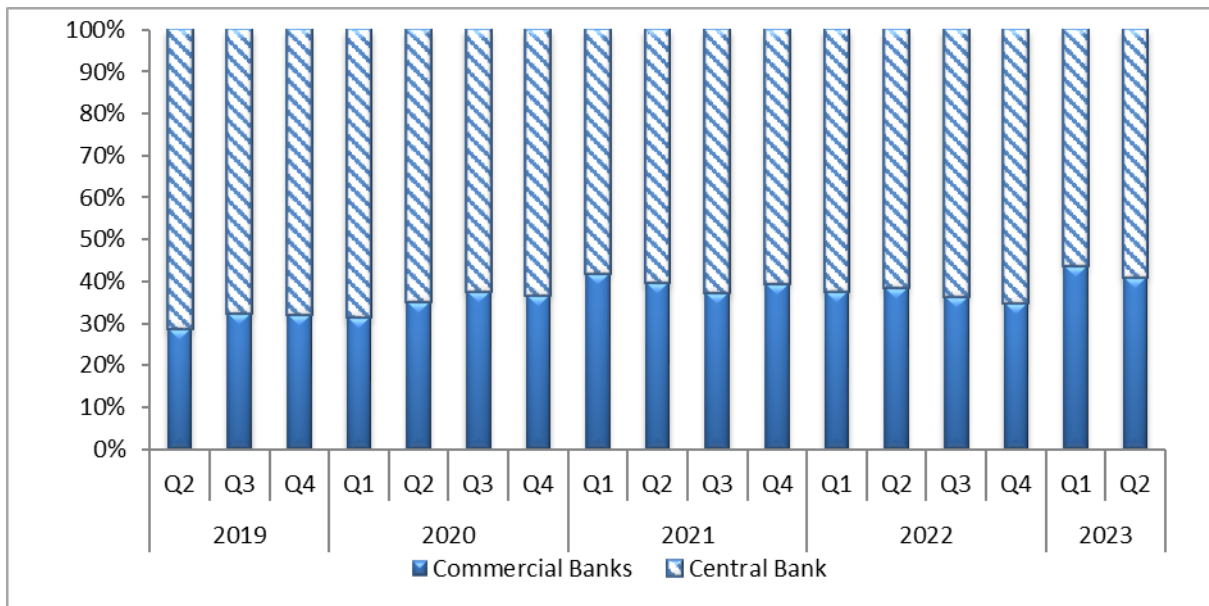
The overall NFA rose by 9.8 per cent, following a 12.1 per cent growth in March 2023. This emanated from the 14.9 per cent and 3.1 per cent increase in NFA of both CBL and commercial banks, respectively. The CBL's NFA attributable to a relatively higher SACU receipts, whereas the commercial banks' NFA was driven by an increase in deposits held with non-residents.

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

	2022			2023		Changes (%)	
	Q2	Q3	Q4	Q1	Q2	Quarterly	Annual
Commercial Banks	6,165.51	6,006.86	5,545.60	7,772.72	8,017.00	3.1	30.0
Claims on Non-residents	6,468.28	6,528.25	5,877.44	8,242.44	8,469.23	2.8	30.9
Liabilities to Non-residents	302.78	521.40	331.84	469.72	452.23	-3.7	49.4
Central Bank	9,845.63	10,432.19	10,315.37	10,000.12	11,491.55	14.9	16.7
Claims on Non-residents	12,735.98	13,214.19	12,989.01	12,565.39	13,948.47	11.0	9.5
Liabilities to Non-residents	2,890.35	2,782.00	2,673.64	2,565.28	2,456.92	-4.2	-15.0
Net Foreign Assets Total	16,011.13	16,439.05	15,860.98	17,772.83	19,508.56	9.8	21.8

Source: Central Bank of Lesotho

Figure 13: Net Foreign Assets (Percentage shares)



Source: Central Bank of Lesotho

Components of M2

In terms of the broad money components, there was a mixed performance of the components. On the one hand, quasi money rose by 7.1 per cent, following an increase of 19.4 in the preceding quarterly. The increase was underpinned by growth in call deposits and fixed-time deposits held by business enterprises and households. 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. Narrow money (M1), on the other hand, decreased by 7.1 per cent in contrast to the 15.3 per cent increase the previous quarter. The decline in narrow money was mainly due to a fall in transferable deposits held by households and business enterprises. The fall in transferable deposits held by business enterprises was due to withdrawals made by the construction, mining and retail trade industries.

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

	2022		2023		Changes (%)		
	Q2	Q3	Q4	Q1	Q2	Quarterly	Annual
Broad Money (M2)	13,815.35	14,580.08	14,335.89	16,834.25	16,907.77	0.4	22.4
Narrow Money (M1)	6,303.45	6,667.51	6,857.45	7,906.98	7,344.69	-7.1	16.5
Currency Outside DCs	1,131.34	1,256.94	1,214.71	1,479.73	1,507.88	1.9	33.3
Transferable Deposits	5,172.10	5,410.56	5,642.74	6,427.26	5,836.82	-9.2	12.9
Quasi Money	7,511.90	7,912.57	7,478.44	8,927.27	9,563.08	7.1	27.3
Other Deposits Commercial Banks	7,509.74	7,911.08	7,477.12	8,924.99	9,560.29	7.1	27.3
Other Deposits Central Bank	2.16	1.49	1.32	2.27	2.78	22.5	28.7

Source: Central Bank of Lesotho

CREDIT EXTENSION

Private sector credit grew by 1.6 per cent in June 2023, following an increase of 3.6 per cent in March 2023. This increase in credit went towards the household sector and moderated by a fall in credit to business enterprises. On an annual basis, private sector credit increased by 8.3 per cent.

Trends in Credit Extended to Business Enterprises

The total loans and advances granted to the business sector declined by 3.1 per cent, in contrast to the 6.1 per cent increase in March 2023. This was caused by redemption of the outstanding advances made by mining, real estate and communications sub-sectors, which overshadowed newly contracted loans by construction and manufacturing.

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

SECTOR	2022			2023		Changes (%)	
	Q2	Q3	Q4	Q1	Q2	Quarterly	Annual
Agriculture	68.49	69.67	76.94	64.06	58.90	-8.1	-14.0
Mining	466.59	448.38	405.54	452.09	401.17	-11.3	-14.0
Manufacturing	66.76	70.49	71.56	74.55	113.48	52.2	70.0
Electricity, gas and water	7.77	10.72	8.54	6.63	6.54	-1.3	-15.9
Construction	315.55	322.49	287.08	284.96	331.31	16.3	5.0
Wholesale, Retail, Hotel & Restaurant	483.95	549.54	568.99	624.64	639.42	2.4	32.1
Transport, Storage and Communication NBFIs, Real Estate and Business	190.33	199.92	219.11	235.69	213.70	-9.3	12.3
Services	529.49	558.62	564.43	594.08	500.56	-15.7	-5.5
Community, Social & Personal Service	7.82	7.44	7.74	8.04	7.50	-6.7	-4.1
All Sectors	2,136.76	2,237.28	2,209.92	2,344.73	2,272.59	-3.1	6.4

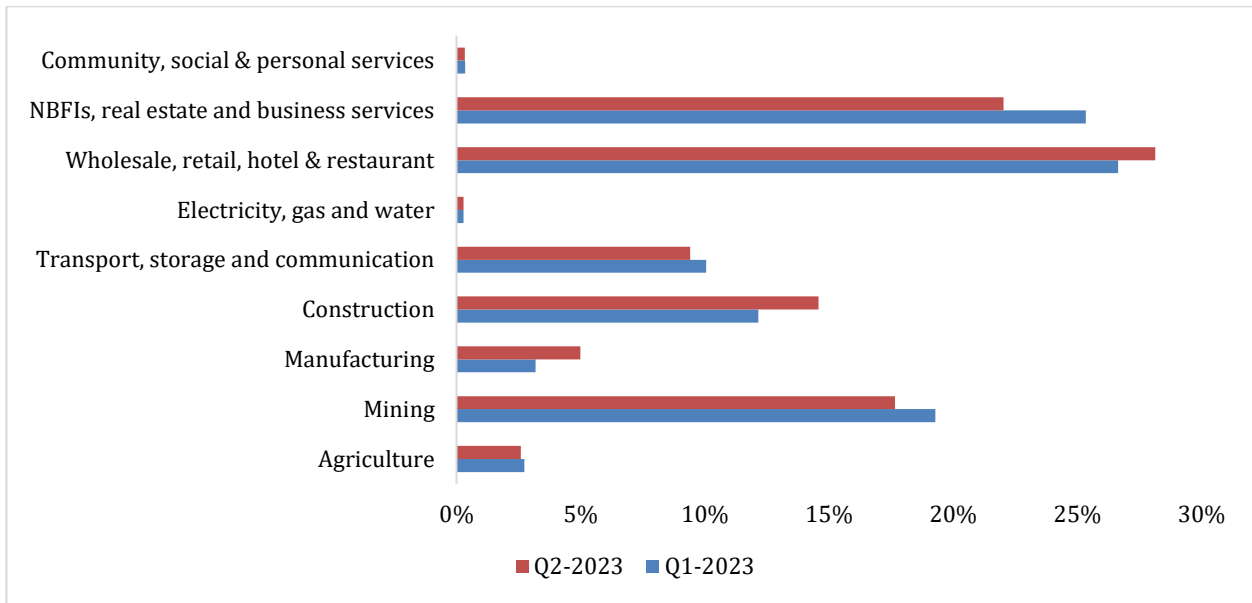
Source: Central Bank of Lesotho

Distribution of credit Extended to Business Enterprises

In terms of the sectoral distribution of credit to business enterprises, the wholesale, retail, hotel & restaurant sector continued to account for the largest share of the allocation, with a 28.1 per cent share in the review quarter. This was followed by the non-bank financial institutions, real estate & business services with a share of 22.0 per cent. The smallest share of credit was allocated to both the community, social & personal service, and electricity, gas and water sectors with a share of 0.3 per cent each. The allocation of credit to sectors identified by the National Strategic Development Plan (NSDP) II³, as the potential sectors for job creation and achievement of inclusive economic growth, stood at 67.2 per cent during the quarter under review.

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

Figure 14: Distribution of Credit (Percentage Shares)

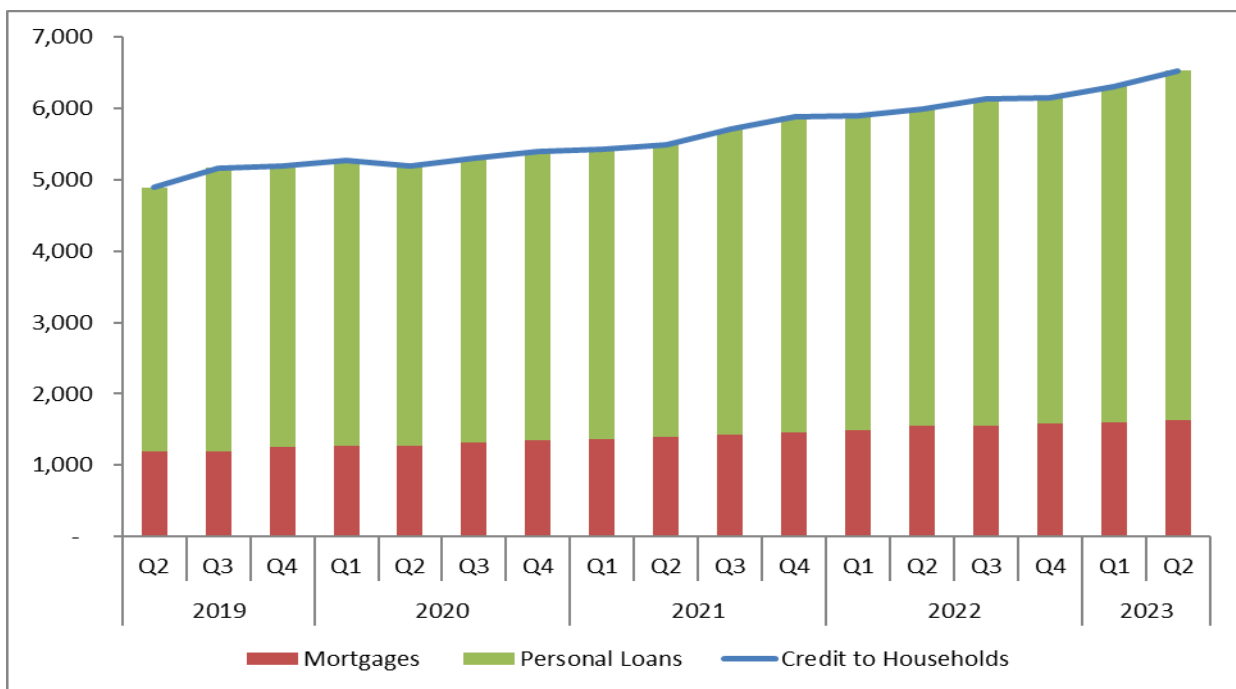


Source: Central Bank of Lesotho

Credit extended to Households

Credit extension to the household sector grew by 3.4 per cent following a 2.7 per cent expansion in the first quarter of 2023. This was due to an increase of 3.8 per cent and 2.1 per cent in personal and mortgage loans, respectively. The growth in both personal and mortgage loans benefitted from the increased demand coupled with strategies adopted by banks to ease access to credit. On an annual basis, the household credit increased by 8.3 per cent.

Figure 15: Credit Extension to Household (Million Maloti)



Source: Central Bank of Lesotho

LIQUIDITY OF COMMERCIAL BANKS

Components of liquidity

Credit to deposit ratio declined to 48.5 per cent in June 2023, from 49.1 per cent in March 2023, due to an increase in total deposits, which outweighed an increase in private sector credit. The liquidity ratio also fell to 37.6 per cent in the review quarter, from 42.7 in the previous quarter, mainly due to a fall in Net Balances due from banks in SA.

Table 9: Components of Liquidity (Million Maloti)

	2022			2023	
	Q2	Q3	Q4	Q1	Q2
Credit to Deposit Ratio	54.5%	53.33%	54.5%	49.1%	48.48%
Private Sector Credit	8,012.89	8,203.00	8,248.52	8,491.12	8,634.33
Total Deposits	14,712.15	15,380.33	15,143.55	17,289.44	17,809.44
Liquidity Ratio	44.2%	41.43%	40.5%	42.7%	37.56%
Notes and Coins	553.98	583.36	916.06	692.30	683.75
Net Balance due from banks in Lesotho	(0.05)	(3.42)	(5.43)	(10.65)	44.36
Net Balance due from banks in SA	3,586.15	2,820.94	2,386.07	3,860.66	3,002.96
Surplus funds	(36.82)	(47.18)	163.07	139.80	16.31
Government Securities	2,403.51	3,018.06	2,675.85	2,693.19	2,942.40
Total	6,506.78	6,371.77	6,135.63	7,375.30	6,689.77

Source: Central Bank of Lesotho

Commercial Banks Sources of Funds

The commercial banks' total deposit liabilities rose by 3.0 per cent, albeit at a slower rate compared with 14.2 per cent growth in the first quarter. The rise in deposit liabilities emanated from an increase in other deposits included in broad money held by business enterprises and public non-financial corporations, and those excluded in broad money held by central government. Annually, total deposits rose by 21.1 per cent.

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

	2022			2023		Changes (%)	
	Q2	Q3	Q4	Q1	Q2	Quarterly	Annual
Transferable Deposits Incl. in BM	5,172.10	5,410.56	5,642.74	6,427.26	5,836.82	-9.2	12.9
Other Financial Corporations	35.81	19.34	18.68	13.41	31.90	138.0	-10.9
Public Nonfinancial Corporations	38.09	30.35	35.55	24.18	32.40	34.0	-15.0
Private Sector	5,053.24	5,305.39	5,549.08	6,377.17	5,767.02	-9.6	14.1
Other NFCs	3,373.51	3,613.22	3,862.82	4,594.85	4,043.80	-12.0	19.9
Other Sectors (Households)	1,679.73	1,692.17	1,686.27	1,782.32	1,723.22	-3.3	2.6
Other Deposits Incl. in BM	7,509.74	7,911.08	7,477.12	8,924.99	9,560.29	7.1	27.3
Other Financial Corporations	258.62	301.90	374.48	273.25	217.52	-20.4	-15.9
Public Nonfinancial Corporations	373.76	400.01	142.83	106.52	154.69	45.2	-58.6
Private Sector	6,877.36	7,209.17	6,959.81	8,545.22	9,188.08	7.5	33.6
Other NFCs	4,276.71	4,454.51	4,284.57	5,766.09	6,359.55	10.3	48.7
Other Sectors (Households)	2,600.65	2,754.65	2,675.23	2,779.13	2,828.53	1.8	8.8
Deposits excluded in BM	2,030.31	2,058.69	2,023.69	1,937.19	2,412.33	24.5	18.8
Total Deposits	14,712.15	15,380.33	15,143.55	17,289.44	17,809.44	3.0	21.1

Source: Central Bank of Lesotho

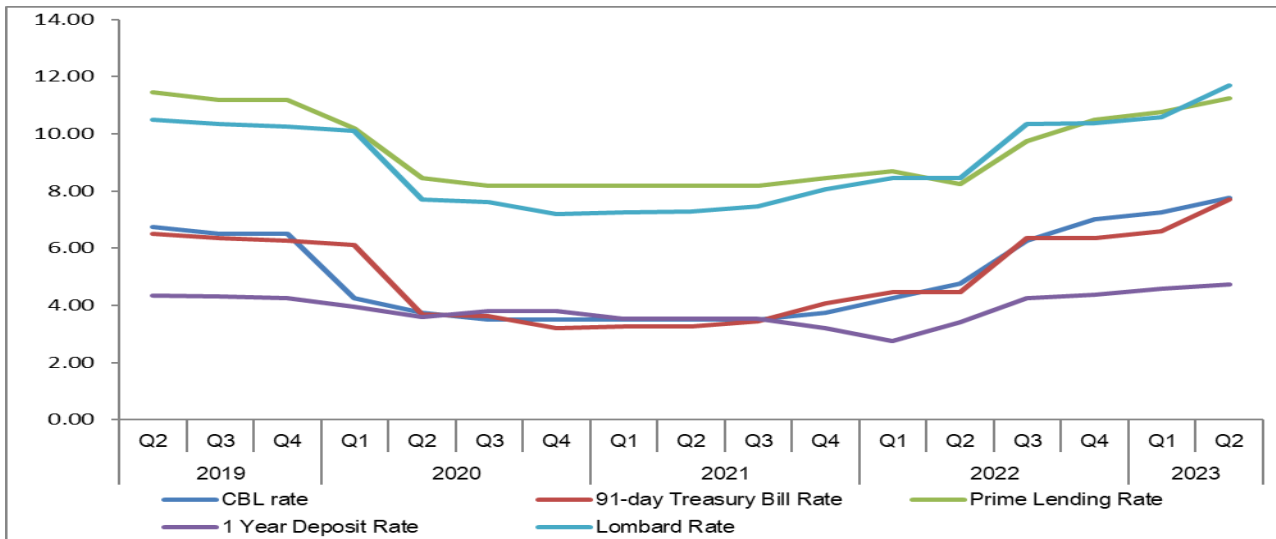
MONEY AND CAPITAL MARKET DEVELOPMENTS

Money Market

Interest Rates

The CBL's key policy rate continued an upward trajectory, rising by 50 basis points to 7.75 per cent. Consequently, the prime lending rate also rose by 50 basis points and stood at 11.25 per cent. The 91-day Treasury bill rate also increased to 7.70 per cent from 6.59 per cent and remained within the desired range of +/- 200 basis points with its South African counterpart. One-year deposit rate rose by 17 basis points and stood at 4.74 per cent.

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



Source: Central Bank of Lesotho

Table 11: Interest rates

	2022			2023	
	Q2	Q3	Q4	Q1	Q2
Central Bank					
CBL rate	4.75	6.25	7.00	7.25	7.75
T-Bill Rate - 91 days	4.45	6.34	6.36	6.59	7.7
Lombard Rate	8.45	10.34	10.36	10.59	11.7
Commercial Banks					
Call	1.37	1.87	1.96	2.55	2.65
Time:					
31 days	0.48	1.20	1.33	1.39	1.47
88 days	1.47	2.18	2.33	2.39	2.46
6 months	2.97	3.49	3.64	3.84	4.12
1 year	3.41	4.24	4.37	4.57	4.74
Savings	1.13	1.37	1.43	1.53	1.60
Prime	8.25	9.75	10.50	10.75	11.25
South Africa					
Repo	4.75	6.25	7.00	7.75	8.25
T-Bill Rate - 91 days	5.11	6.13	6.50	7.34	8.63
Prime	8.25	9.75	10.50	11.25	11.75

Source: Central Bank of Lesotho

Holding of Treasury Bills

The total stock of outstanding treasury bills (T-Bills) remained relatively unchanged as the principal amounts of matured T-Bills were rolled over in the second quarter of 2023. The composition of holding of T-Bills did not show any significant change too during the review quarter.

Table 12: Holding of Bills (Million Maloti)

	2022			2023	
	Q2	Q3	Q4	Q1	Q2
Treasury Bills	1,301.54	1,959.12	1,596.49	1,596.38	1,597.25
Banking System	1,117.11	1,765.77	1,380.44	1,354.00	1,357.59
Non-Bank Sector	184.43	193.35	216.05	242.38	239.66

Source: Central Bank of Lesotho

Holding of Treasury Bonds

The overall holding of treasury bonds (T-bonds) grew by 10.6 per cent, following the issuance of T-bonds during the quarter. The banking sector's holding of T-bonds increased by 18.0 per cent, while the non-banking sector recorded a growth of 6.7 per cent. The rise in holding of bonds by non-banking sector stemmed from increased holding by insurance companies, other financial corporations and households. The share held by the banking sector to the total stock of bonds increased to 37.2 per cent, while the non-banking sector's share declined to 62.8 per cent from 65.1 per cent in the preceding quarter.

Table 13: Holding of Bonds (Million Maloti)

	2022			2023	
	Q2	Q3	Q4	Q1	Q2
Holding of Treasury Bonds	3,336.31	3,450.42	3,523.39	3,757.58	4,157.58
Banking System	1,262.57	1,264.07	1,278.13	1,311.31	1,547.51
Non-Bank Sector	2,073.74	2,186.34	2,245.26	2,446.28	2,610.08

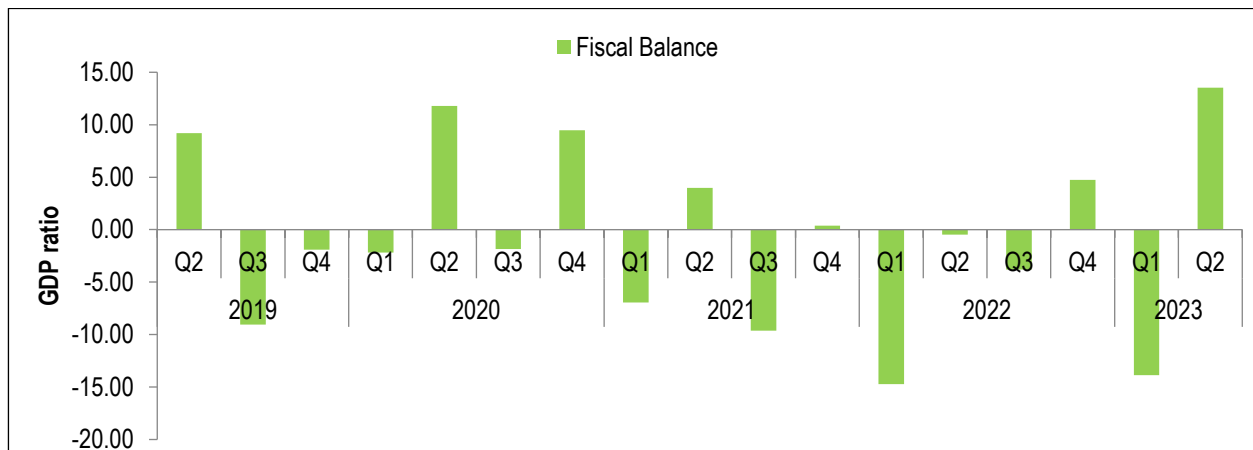
Source: Central Bank of Lesotho

5. Government Finance

OVERVIEW

The Government's budget balance improved during the quarter under review, recording a surplus equivalent to 13.5 per cent of GDP. This was attributed to the significantly higher SACU revenue, coupled with low government spending. The public debt stock closed the quarter under review at 62.5 per cent of GDP, relative to a revised 53.5 per cent of GDP.

Figure 17: Fiscal Balance (Percent of GDP)



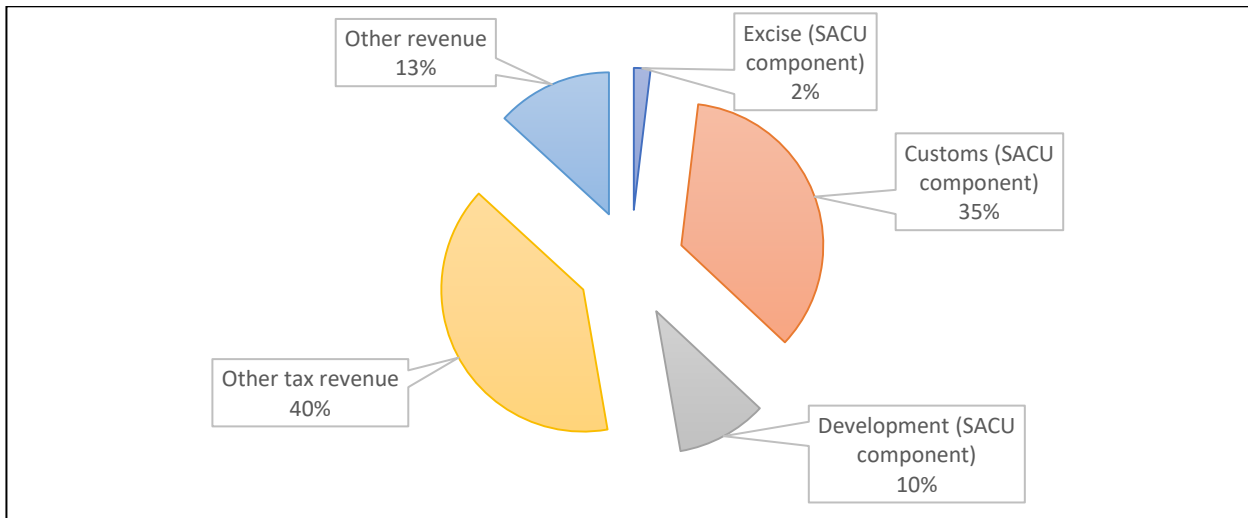
Source: Central Bank of Lesotho and Ministry of Finance

REVENUE⁴

The increase in government revenue was mainly a reflection of a substantially higher SACU receipts, which grew by 88.0 per cent during this period. Consequently, this contributed to a 26.3 per cent rise in government revenue. As a share of total revenue, SACU accounted for 47.2 per cent. Similarly, tax revenue and grants grew by 20.9 per cent and 88.0 per cent, respectively. Dividends, mining royalties, and water royalties contributed to the increase of 27.5 per cent in other revenue. In terms of year-on-year changes, total revenue increased by 37.3 per cent.

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

Figure 18: Total Revenue (Million Maloti)

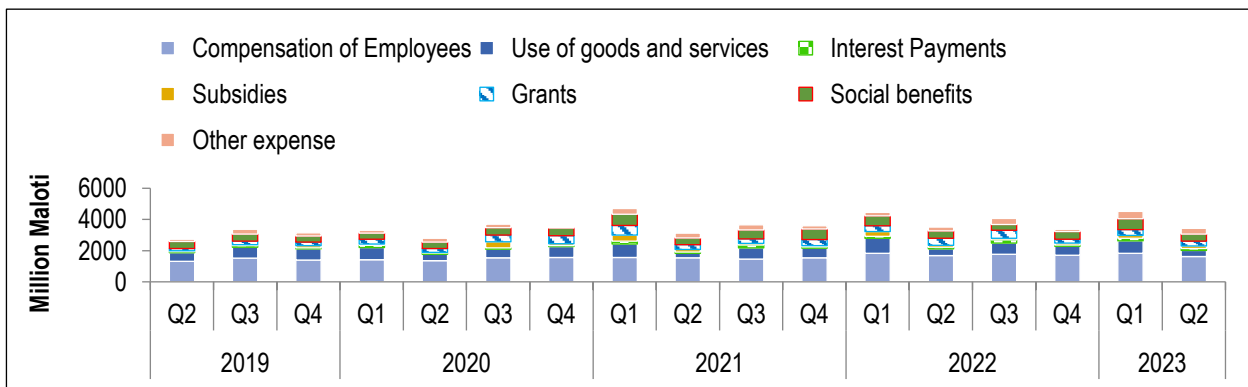


Source: Central Bank of Lesotho and Ministry of Finance

TOTAL EXPENDITURE

Government spending dropped by 25.9 per cent following the restructuring of ministries. The process affected spending as the new chart of accounts was created and took time to incorporate into the system. As a result, the most impacted categories were the use of goods and services, government-funded projects and social benefits, which declined by 52.1 per cent, 90.3 per cent and 34.5 per cent, respectively. Expenditure classified by functions or purpose was no exception, all categories but defence and public order and safety declined. However, on an annual basis, total spending continued to increase by 4.1 per cent.

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 (%)
	Q2	Q3	Q4	Q1	Q2			
Total Revenue	3910.85	4128.97	4176.95	4250.05	5367.71	26.3	37.3	58.1
Tax revenue	3072.51	3313.30	3126.02	3460.18	4108.42	18.7	33.7	44.5
Income Tax	993.23	1168.44	1016.94	1084.25	1040.75	-4.0	4.8	11.3
Value Added Tax	840.33	950.59	912.28	847.79	865.57	2.1	3.0	9.4
SACU Receipts Components	1056.09	1056.09	1056.09	1056.09	1984.93	88.0	88.0	21.5
Other tax revenue	182.87	138.19	140.71	472.06	217.17	-54.0	18.8	2.3
Grants	295.46	293.80	293.80	293.80	552.20	88.0	86.9	6.0
o/w SACU Receipts Component	293.80	293.80	293.80	293.80	552.20	88.0	88.0	6.0
Other revenue	542.88	521.87	757.14	496.08	707.09	42.5	30.2	7.7
Total Expense	3522.39	4068.98	3363.59	4509.05	3434.98	-23.8	-2.5	37.2
Compensation of Employees	1676.85	1765.41	1705.37	1829.41	1630.32	-10.9	-2.8	17.6
Use of goods and services	438.80	720.16	583.90	799.20	383.07	-52.1	-12.7	4.1
O/W Purchase of Health Services	199.01	108.01	123.39	90.98	110.26	21.2	-44.6	1.2
Interest Payments	97.01	203.37	64.84	168.17	118.60	-29.5	22.3	1.3
Subsidies	131.11	98.09	124.23	176.10	164.30	-6.7	25.3	1.8
Grants	458.45	524.22	254.66	370.54	314.38	-15.2	-31.4	3.4
Social benefits	460.08	371.13	482.02	700.69	458.98	-34.5	-0.2	5.0
Other expense	260.08	386.60	148.57	464.93	365.34	-21.4	40.5	4.0
Gross Operating Balance	388.47	59.99	813.36	-259.00	1932.73	-	-	20.9
Total Nonfinancial Assets	431.80	591.94	364.86	1046.71	682.24	-34.8	58.0	7.4
Fixed Assets	431.80	591.94	364.86	1046.71	682.24	-34.8	58.0	7.4
Non-Produced Assets	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Total Expenditure	3954.18	4660.92	3728.45	5555.75	4117.22	-25.9	4.1	44.5
Primary balance	53.68	-328.58	513.34	-1137.53	1369.09	-	-	14.8
Net lending/borrowing	-43.33	-531.95	448.50	-1305.71	1250.49	-	-	13.5
Financing	-44.59	-629.74	312.90	-1482.38	1075.72	-	-	11.6
Net Acquisition of Financial assets	-610.53	374.96	-508.12	-707.40	1316.31	-	-	14.2
O/W Domestic Currency and Deposits	-640.01	387.10	-410.63	-638.17	1422.99	-	-	15.4
Net Incurrence of Liabilities	-565.94	1004.70	-821.02	774.98	240.58	-	-	2.6
O/W Domestic Other Accounts Payable	-496.87	129.47	-480.06	712.97	-17.02	-	-	-0.2
Statistical Discrepancy	1.26	97.79	135.60	176.68	174.77	-	-	1.9
Memo Items								
SACU receipts	1349.88	1349.88	1349.88	1349.88	2537.13	88.0	88.0	27.5
GDP (quarterly, red colour = forecast)	9204.61	14016.70	9477.97	9421.11	9242.10	-	-	-

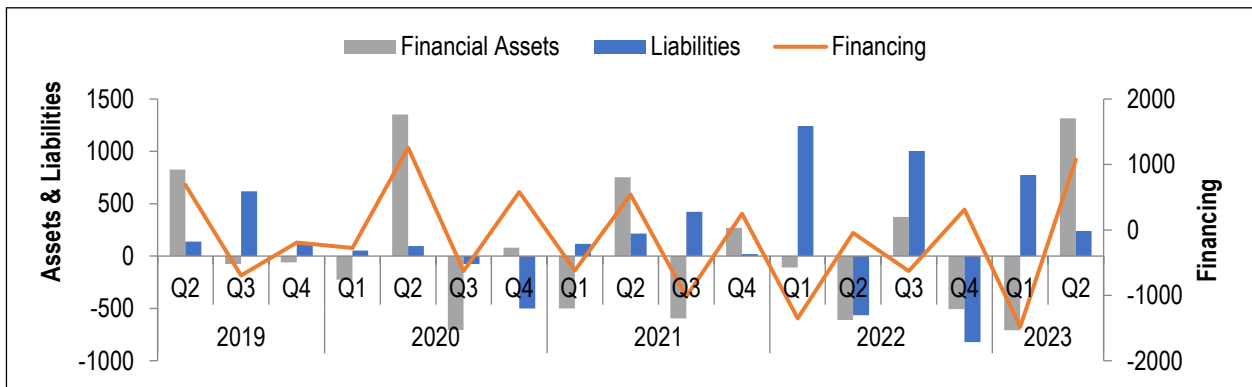
Source: Central Bank of Lesotho and Ministry of Finance

FINANCIAL ASSETS AND LIABILITIES⁵

The fiscal surplus contributed to a buildup in government deposits within the banking sector, thus leading to an increase in financial assets. The liabilities, on the other hand, increased due to the issuance of M400 million worth of treasury bonds.

⁵ 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 20: Total Financing (Million Maloti)

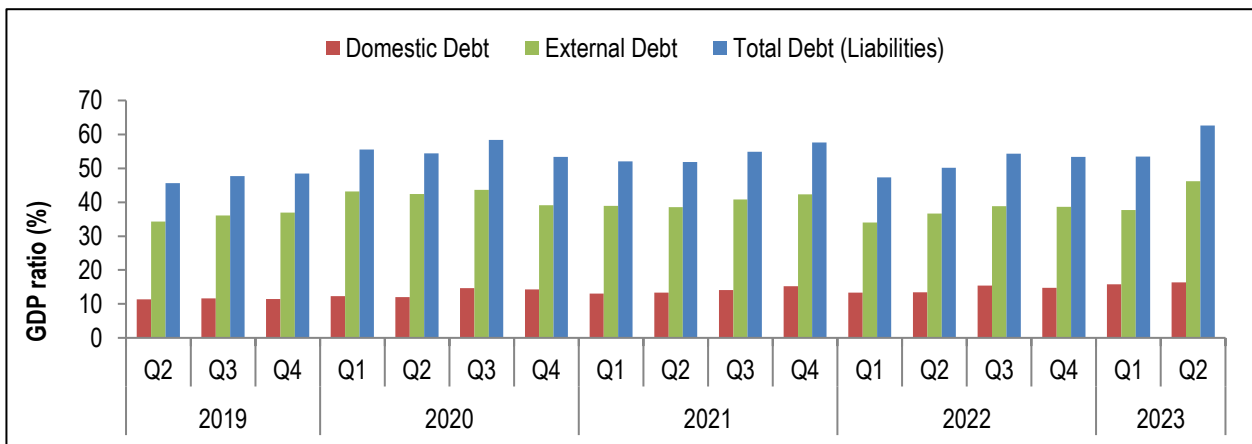


Source: Central Bank of Lesotho and Ministry of Finance

TOTAL PUBLIC DEBT⁶

The stock of public debt significantly increased by 17.1 per cent during the quarter under review relative to a rise of 2.3 per cent in the previous quarter. The increase was mainly due to exchange rate losses, coupled with new disbursements, plus issuances of treasury bond. On an annual basis, the public debt stock increased by 21.9 per cent.

Figure 21: Outstanding Public Debt (Million Maloti)



Source: Central Bank of Lesotho and Ministry of Finance

⁶ All categories are on net terms. The stock of public external debt is converted using an end-of-period exchange rate.

Table 15: Public Debt Stock (Million Maloti)

	2022			2023		Q-to-Q (%)	Y-on-Y (%)	Debt / GDP
	Q2	Q3	Q4	Q1	Q2			
Total Public Debt	20943.47	22668.53	22299.56	21791.89	25526.93	17.1	21.9	62.6
EXTERNAL DEBT	15320.19	16214.80	16149.10	15347.13	18842.50	22.8	23.0	46.2
Bilateral Loans	698.83	757.38	699.22	756.73	1084.80	43.4	55.2	2.7
Concessional	698.83	757.38	699.22	756.73	1084.80	43.4	55.2	2.7
Non-concessional	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Multilateral Loans	12015.59	12655.23	12637.93	11478.60	14444.20	25.8	20.2	35.4
Concessional	10665.35	11335.39	11330.77	10199.00	13124.70	28.7	23.1	32.2
Non-concessional	1350.25	1319.85	1307.16	1279.60	1319.50	3.1	-2.3	3.2
Financial Institutions	237.94	218.15	176.89	155.30	117.90	-	-	0.3
Concessional	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Non-concessional	237.94	218.15	176.89	155.30	117.90	-	-	0.3
Suppliers' Credit	2367.82	2584.04	2635.05	2956.50	3195.60	8.1	35.0	7.8
DOMESTIC DEBT	5623.28	6453.72	6150.47	6444.76	6684.43	3.7	18.9	16.4
Banks	3365.11	4074.03	3689.16	3756.11	3834.69	2.1	14.0	9.4
Long-term	2248.00	2308.26	2308.72	2402.11	2477.11	3.1	10.2	6.1
Treasury bonds	1262.57	1264.07	1278.13	1311.31	1547.51	18.0	22.6	3.8
Central Bank (IMF-ECF)	985.43	1044.18	1030.59	1090.80	929.60	-14.8	-5.7	2.3
Short-term (t-bills)	1117.11	1765.77	1380.44	1354.00	1357.59	0.3	21.5	3.3
Non-bank	2258.17	2379.69	2461.31	2688.66	2849.74	6.0	26.2	7.0
Short-term (t-bills)	184.43	193.35	216.05	242.38	239.66	-1.1	29.9	0.6
Long-term (t-bonds)	2073.74	2186.34	2245.26	2446.28	2610.08	6.7	25.9	6.4
DEBT INDICATORS								
External Debt-to-Total Debt	73.2	71.5	72.4	70.4	73.8	-	-	-
Concessional Debt-to-External Debt	74.2	74.6	74.5	71.4	75.4	-	-	-
External Debt Service-to-Revenue	6.3	8.1	7.0	10.7	6.3	-	-	-
External Debt Service-to-Exports	6.2	7.5	6.6	9.1	8.1	-	-	-

Source: Central Bank of Lesotho and Ministry of Finance

6. Foreign Trade and Payments

OVERVIEW

During the second quarter of 2023, the external sector position recorded a surplus equivalent to 13.0 per cent of GDP, following a deficit accounting for 10.7 per cent of GDP in the preceding quarter. The observed surplus was mainly due to increased surpluses in the financial account and current account. However, these were moderated by the decline in the capital account inflows during the same quarter.

CURRENT ACCOUNT

The current account surplus was estimated have registered a surplus worth M283.61 million, contrasted with a deficit worth M503.71 million. The observed improvement in the current account emanated from increased surpluses on the goods account, secondary income account and primary income account, coupled with reduced deficit on the services account. As a percentage of GDP, the current account recorded a surplus of 3.1 per cent, from a deficit of 5.4 per cent.

Table 16: Current Account Balance (Million Maloti)

	2022			2023		% Changes	
	Q2	Q3	Q4	Q1	Q2	Q/Q	Y/Y
Current Account	-1209.15	-94.04	-1231.81	-503.71	283.61	125.3	123.5
(a) Goods	-3347.12	-2296.25	-3541.74	-3146.55	-3328.58	11.6	0.6
Merchandise exports, f.o.b.	3952.62	5050.00	4016.15	4175.72	3949.07	11.0	-0.1
Of which diamonds	1400.65	1586.85	959.01	1749.73	2024.29	-10.2	-27.5
Of which textiles & clothing	1824.62	2667.34	2342.94	1744.26	2129.21	22.1	16.7
Of which water	330.47	353.20	403.27	335.86	364.17	8.4	10.2
Of which agriculture	118.90	134.23	141.23	105.90	140.72	32.9	18.4
Of which re-exports	26.58	58.74	77.95	25.42	34.94	37.4	31.4
Other exports	251.40	249.65	91.74	214.55	277.35	29.3	10.3
Merchandise imports, f.o.b.	7299.73	7346.25	7557.88	7322.27	7277.65	-0.6	-0.3
(b) Services	-1742.43	-1724.28	-1747.16	-1826.38	-1817.75	0.5	4.3
(c) Primary Income	1964.39	1959.35	2088.88	2090.09	2244.80	7.4	14.5
(d) Secondary Income	1916.01	1967.13	1968.21	2379.13	3166.31	33.1	65.3

Source: Central Bank of Lesotho

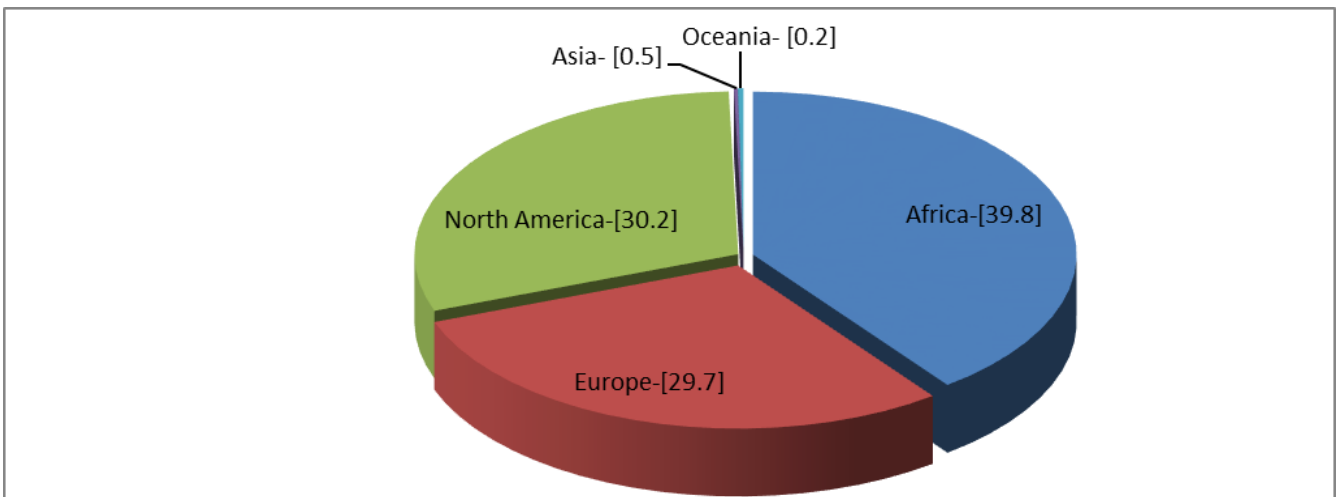
Merchandise Exports

Merchandise exports grew by 11.0 per cent, following a 4.0 per cent rise in the previous quarter. Almost all export categories, except for diamonds increased during this period, with significant increases observed for textiles and clothing, agriculture and other exports. Textiles and clothing exports rose because of the increase in exports to the US, while exports to South Africa declined. Meanwhile, diamond exports declined, amid a downturn in demand for rough diamonds in the international markets. This together with a decrease in the number of large high-value diamonds recovered and a continual power supply outages weighed heavily on production. The increase in agriculture exports was explained by trout and sheep exports to South Africa. On an annual basis, merchandise exports contracted by 0.1 per cent, lower than a 14.6 per cent fall in the previous quarter. Expressed as a share of GDP, merchandise exports accounted for 43.1 per cent, from 38.1 per cent in the first quarter of 2023.

Direction of Trade - Exports

During the second quarter of 2023, Africa was the leading export market for Lesotho, with exports accounting for 39.8 per cent, slightly higher than 37.3 per cent share in the previous quarter. They comprised mostly of textiles and clothing, as well as food and live animals. It was followed by North America with a share of 30.2 per cent, from 18.9 per cent in the previous quarter, as textile exports to the region increased markedly during this period. Europe came third with export share of 29.7 per cent from 36.1 per cent in the previous quarter. Exports to Europe constituted mostly diamonds to Belgium. Exports to Asia and Oceania accounted for the least shares of 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 contracted by 0.6 per cent, following a 3.1 per cent decline in the first quarter of 2023. Imports fell for food and live animals, crude materials and commodities not specified anywhere in the standard international trade classification (SITC). However, the decline was moderated by increased imports of mineral products, fuels and lubricants, machinery and transport equipment, as well as manufactured goods classified chiefly by material, amid increased activities related to the Lesotho Highlands Water Project (LHWP) – Phase II, and harsh winter conditions, which increased household consumption of kerosene and

liquefied petroleum gas (LPG). Year-on-year, imports declined by 7.1 per cent, compared with 2.7 per cent increase observed in the previous quarter. As a percentage of GDP, merchandise imports accounted for 79.4 per cent, slightly higher than 78.4 per cent in the quarter ending in March 2023.

Services account

The services account balance narrowed slightly in the second quarter of 2023. It declined by 0.5 per cent, after an increase of 5.0 per cent in the previous quarter. This was mainly because of a reduction in payments for telecommunications services acquired from abroad, a fall in official foreign travel and an increase in receipts for tourism related services acquired by non-residents. Services provided to non-residents, particularly accommodation and food-serving services, expanded notably during this period. However, this was moderated by an increase in freight services, which grew in line with a rise in imports. On year-on-year basis, the services account deficit expanded by 4.3 per cent, easing from a 5.0 per cent rise in the first quarter of 2023. Expressed as a share of GDP, the deficit remained relatively unchanged at 19.8 per cent, compared with a share of 19.6 per cent in the preceding quarter.

Primary Income Account

The surplus on the primary income account increased by 7.4 per cent during the review period, following a marginal 0.1 per cent growth in the first quarter of 2023. This resulted mainly from increased receipts related to the LHWP Phase I maintenance and operational costs, together with higher returns on foreign investments held by the financial institutions, and a fall in government payments on its foreign loan obligations. On an annual basis, the surplus on the primary income account rose by 14.5 per cent, slightly higher than a 12.2 per cent growth in the previous quarter. As a proportion of GDP, the primary income account surplus accounted for 24.5 per cent, from a 22.3 per cent share in the first quarter of 2023.

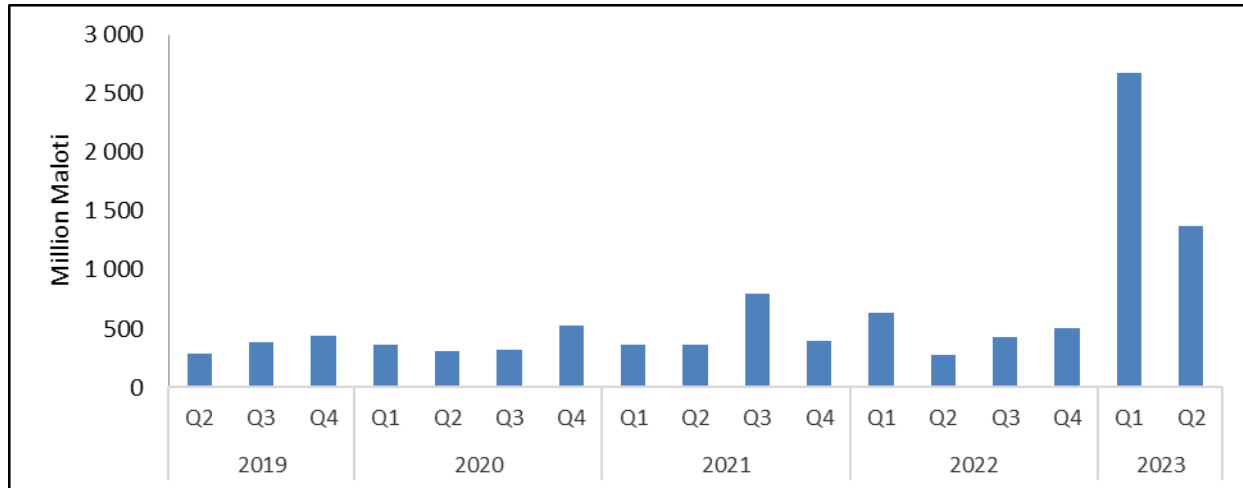
Secondary Income Account

The secondary income account surplus rose by 33.1 per cent in the second quarter of 2023, considerably higher than a 20.9 per cent increase realised in the preceding quarter. This was supported by a surge in SACU receipts, together with a decline in subscriptions to international organisations. SACU receipts were supported by a higher-than-expected collections in customs, specific excise and ad-valorem duties, together with an upward revision to the tax base, namely nominal imports, inflation rate and nominal GDP. Compared to the same period last year, the surplus on the secondary income account rose by a notable 65.3 per cent, improving from a 4.2 per cent fall in the preceding quarter. As a share of GDP, the secondary income account amounted to 34.6 per cent, well above 25.5 per cent in the preceding quarter.

CAPITAL ACCOUNT

The capital account surplus dropped to M1.38 billion from M2.68 billion in the first quarter of 2023, but remained significantly high, amid increasing transfers related to the LHWP – Phase II activities. This was mainly due to prepayments to contractors towards mobilization of major works, viz. dam construction, transfer tunnel, the Senqu bridge, as well as payments for completion of some access roads, tracks and bridges. Year-on-year, the capital account inflows rose more than threefold, following a substantial increase in the second quarter of 2023. As a percentage of GDP, the surplus on the capital account amounted to 15.1 per cent, relatively lower than 28.7 per cent in the preceding quarter.

Figure 23: Capital Account (Million Maloti)



Source: Central Bank of Lesotho

FINANCIAL ACCOUNT

During the second quarter of 2023, the financial account registered a net outflow of M2.15 billion, increasing from a net outflow of M1.29 billion observed in the previous quarter. The observed increase in the financial account outflow was mainly attributable to a rise in reserve assets, in line with the decline in government consumption outlay, coupled with increased SACU receipts during the same period. The financial account outflow also increased due to a fall in the direct investment inflows, amid a substantial decline in loans received by resident companies from non-resident shareholders and non-resident third parties during this period.

Table 17: Financial Account Balance (Million Maloti)

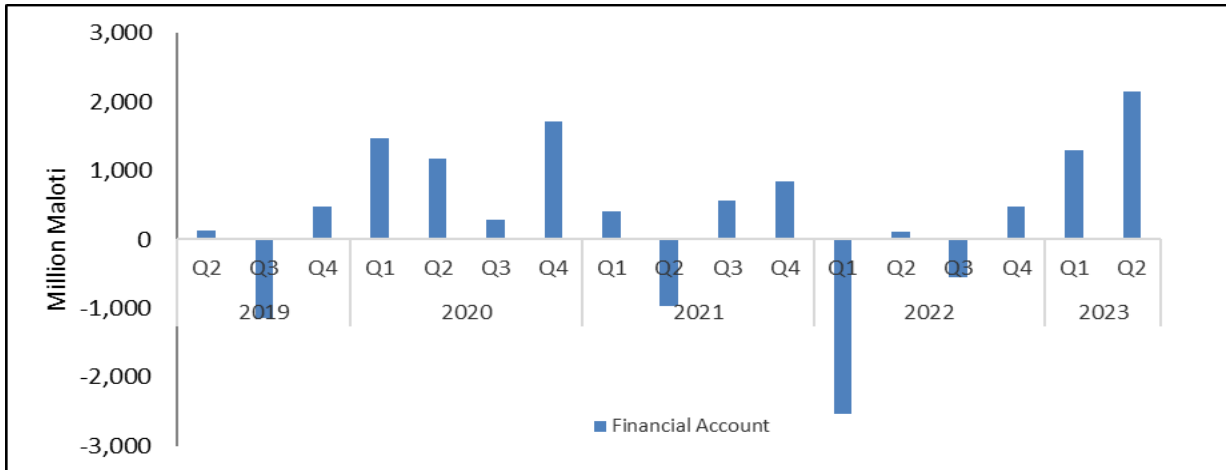
	2022			2023	
	Q2	Q3	Q4	Q1	Q2
Financial account	111.79	-546.20	482.60	1289.23	2147.15
Direct Investments, net	-ss.34	-122.31	-24.03	-138.28	-72.37
Portfolio Investments, net	-45.59	91.81	-17.16	752.53	440.58
Financial Derivatives, net	0.00	0.00	0.00	0.00	0.00
Other Investments, net	537.20	-222.55	-631.03	1669.86	583.35
Of which Loans	222.45	-4.36	-178.92	389.84	228.45
Claims on Non Residents	34.48	34.48	34.48	34.48	34.48
Liabilities to Non Residents	-187.97	38.84	213.40	-355.36	-193.97
Of which Currency and Deposits	388.81	-144.13	-378.06	1354.09	428.96
Claims on Non Residents	349.23	74.49	-567.61	1491.97	411.47
Liabilities to Non Residents	-39.58	218.62	-189.56	137.88	-17.49
Of which Special Drawing Rights	0.00	0.00	0.00	0.00	0.00
Reserve Assets	-367.48	-293.15	1154.87	-994.88	1195.59

Source: Central Bank of Lesotho

However, other investments and portfolio investments outflows increased at a softer rate during this period. Other investments outflows eased as claims on non-residents increased at a softer pace, mainly due to lower

disbursements to the LHWP-Phase II, in preparation for the bridge and the dam construction. Meanwhile, portfolio investment was boosted mostly by increased securities held abroad, amid the monetary policy tightening by reserve banks across the globe. Expressed as a percentage of GDP, the financial account outflows accounted for 23.4 per cent.

Figure 24: Financial Account (Million Maloti)

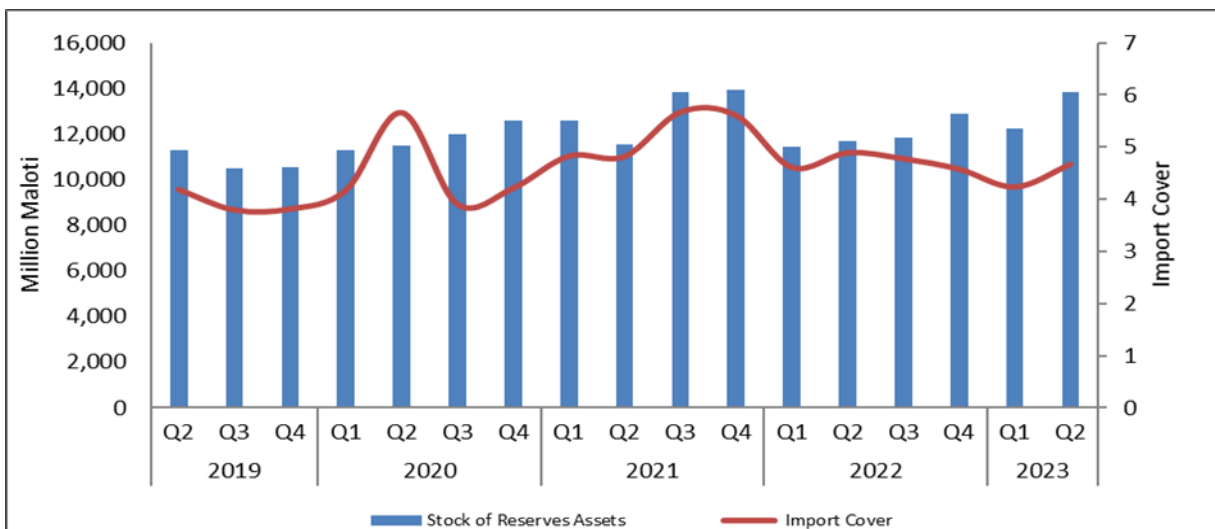


Source: Central Bank of Lesotho

RESERVE ASSETS

Reserves assets increased to M13.84 billion, from M12.23 billion in the previous quarter. The stock of reserve assets rose on account of a fall in government expenditure and an increase in SACU receipts, together with the depreciation of the loti against its major trading currencies during this period. As a result, imports cover increased to 4.7 months, from 4.2 months in the previous quarter, in line with the increase in the stock of reserves.

Figure 25: Reserve Assets



Source: Central Bank of Lesotho