Central Bank of Lesotho

QUARTERLY ECONOMIC REVIEW

June 2024

MASERU KINGDOM OF LESOTHO

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1. Executive Summary

In the second quarter of 2024, global economic performance improved, although growth remained weak in regions. Advanced economies such as the US and the euro area posted modest growth, driven by higher consumer spending, while Japan's economic activity remained subdued due to weak exports. Emerging markets faced slower growth amid ongoing challenges. In China, economic growth was constrained by crises in the property and banking sectors, along with strict lending policies.

The domestic economy grew modestly, despite strong activity in the manufacturing subsector. However, weakened domestic demand dampened overall growth. Labour market conditions deteriorated across all sectors. Although inflationary pressures eased, providing short-term relief, overall economic performance remained subdued.

Broad money declined during the review quarter, while private sector credit grew, supported by an expanding deposit base. Short-term interest rates remained unchanged, except the 91-day treasury bill rate, which increased. This reflected the Central Bank of Lesotho's decision to keep its policy rate constant.

Government budgetary operations resulted in a surplus of 27.2 per cent of GDP. At the same time, the public debt-to-GDP ratio fell to 55.0 per cent, from a revised 56.9 per cent in the previous quarter.

The external sector recorded a surplus equivalent to 27.2 per cent of GDP, up from a revised 8.5 per cent in the previous quarter. This improvement was attributed to increased capital inflows related to construction activities at the Lesotho Highlands Water Project (LHWP) Phase II, along with higher SACU transfers.

2. International Economic Developments

Global economic activity in the second quarter of 2024 was generally positive, though growth remained weak in some economies. Growth in advanced economies was stable, with the United States (US) and the euro area benefitting from higher consumer spending. In contrast, Japan's economic activity remained sluggish due to poor export performance. In emerging markets, growth slowed, primarily reflecting challenges within China, where the ongoing property sector crisis, coupled with a banking crisis and strict lending policies, contributed to slower economic growth.

Consumer price dynamics varied across advanced and emerging market economies, with inflation trends influenced by developments in food and energy prices, along with country-specific subsidies. Most central banks left their policy rates unchanged during this period, balancing efforts to keep inflation low while supporting economic growth. However, the European Central Bank opted to cut its policy rate, following a substantial decline in inflation since its last rate hike in 2023.

The commodities market improved significantly during the same period. Gold prices rose, driven by ongoing geopolitical tensions in the Middle East and increased demand from central banks. Supply challenges and higher demand from the automotive industry supported platinum prices, while crude oil prices increased due to OPEC production cuts and continued tensions in the Middle East. Agricultural commodities, including maize and wheat, saw significant price hikes due to adverse weather and supply disruptions. Meanwhile, the rand appreciated against major trading currencies, boosted by improved investor confidence following the formation of the Government of National Unity (GNU) in South Africa and expectations of US interest rate cuts towards the end of 2024.

Table 1: Key World Economic Indicators

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	Q1 2024	Q2 2024	Q1 2024	Q2 2024	Q1 2024	Q2 2024	Q1 2024	Q2 2024
United States	2.9	3.1	3.5	3.0	5.25	5.25	3.8	4.1
Euro Area	0.5	0.6	2.4	2.5	4.50	4.25	6.5	6.5
Japan	-0.9	-0.8	2.7	2.8	0.10	0.10	2.6	2.5
United Kingdom	0.3	0.9	3.2	2.0	5.25	5.25	4.3	4.3
China	5.3	4.7	0.1	0.2	3.45	3.45	5.2	5.0
India	7.8	6.7	4.9	5.1	6.50	6.50	N/A	N/A
South Africa	0.5	0.3	5.3	5.1	8.25	8.25	32.9	33.5

Source: STATSSA, 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, EUROSTAT, Japan Ministry of Internal Affairs and Communications.

ADVANCED ECONOMIES

United States (US)

US economic performance improved in the second quarter of 2024, with real GDP rising by 3.1 per cent, up from a revised 2.9 per cent in the previous quarter. Growth was largely driven by sustained consumer spending, particularly in service sectors such as travel and hospitality, which remained robust as the industry continued its recovery from the COVID-19 pandemic. Business investment also surged, with significant capital directed towards technological advancements and infrastructure development, reflecting the strategic objective of enhancing productivity and efficiency.

However, the labour market showed signs of strain. The unemployment rate rose to 4.1 per cent, from 3.8 per cent in the previous quarter, reflecting business hesitation in response to economic uncertainties leading up to the national elections.

The inflation rate declined to 3.0 per cent from 3.5 per cent in the previous quarter, driven by reductions in housing and gasoline prices, along with stable food costs. Weak housing demand in major metropolitan areas, improved oil refining capacity, and a seasonal drop in fuel demand contributed to lower gasoline prices. Additionally, favourable weather and enhanced supply chain logistics helped reduce food prices. The Federal Reserve maintained its key interest rate at 5.25 per cent, balancing the need to control inflation while supporting economic growth.

Euro Area

Economic performance in the euro area improved modestly, as real GDP growth rose to 0.6 per cent from 0.5 per cent in the previous quarter. This growth was driven primarily by increased consumer spending, supported by higher real incomes following a slight easing of inflationary pressures, which strengthened purchasing power. Industrial output also saw gains, boosted by strong external demand, particularly from post-pandemic recovery in key markets, enhancing export performance. The labour market remained stable, with the unemployment rate holding steady at 6.5 per cent, bolstered by robust hiring in the tourism and construction sectors.

Inflation rose to 2.5 per cent, up from 2.4 per cent, driven by higher energy costs and rising wages in the labour-intensive services sector. Energy price increases were largely due to supply chain constraints stemming from the ongoing Russia-Ukraine conflict. However, the European Central Bank cut its policy rate to 4.25 per cent from 4.50 per cent, aiming to support economic growth and reflecting the easing of inflationary pressures since the last rate hike in 2023.

Japan

Japan's economic activity remained weak in the second quarter of 2024, with real GDP contracting by 0.8 per cent, slightly improving from a revised 0.9 per cent contraction in the preceding quarter. The economic downturn was largely driven by a reduction in exports, exacerbated by the appreciation of the Japanese Yen, which made Japanese goods less competitive in international markets.

On a positive note, the labour market showed marginal improvement, as the unemployment rate fell to 2.5 per cent from 2.6 per cent. This decline was attributed to incremental job creation, despite higher participation rates in the workforce, reflecting a certain degree of resilience in labour demand.

Inflation rose to 2.8 per cent, compared to 2.7 per cent in the previous quarter, mainly as a result of the cessation of energy subsidies, which contributed to higher fuel costs. In response, the Bank of Japan maintained its key interest rate at 0.10 per cent, aiming to stimulate economic activity and manage deflationary risks.

United Kingdom

The United Kingdom maintained positive economic momentum, with growth accelerating to 0.9 per cent, up from a revised 0.3 per cent in the first quarter. This expansion was primarily driven by the services sector, which saw robust growth in areas such as information technology, legal services, and scientific research. Additionally, consumer and government spending increased, supported by easing inflationary pressures, which contributed significantly to overall economic performance. The labour market also showed modest improvement, with the unemployment rate edging down to 4.2 per cent from 4.3 per cent, reflecting sustained economic growth and stability.

Inflation dropped to 2.0 per cent from 3.2 per cent, mainly reflecting lower energy prices and improved global supply chain efficiencies, which stabilised costs. In response, the Bank of England held its key interest rate steady at 5.25 per cent, aiming to keep inflation within target while supporting continued economic growth.

EMERGING MARKET ECONOMIES

China

China's economic growth slowed in the current quarter. Real GDP growth declined to 4.7 per cent, from 5.3 per cent in the previous quarter. This slowdown is primarily attributed to weaker consumer demand, stricter lending policies, and persistent challenges in the real estate sector. The ongoing banking sector crisis, marked by an increase in non-performing loans and reduced profitability, led to tighter credit conditions, further dampening economic activity. Despite these headwinds, the unemployment rate fell slightly to 5.0 per cent from 5.2 per cent, reflecting government measures aimed at stimulating job creation and supporting economic recovery.

Inflation remained relatively low, edging up to 0.2 per cent from 0.1 per cent in the previous quarter. This modest rise in consumer prices was driven by mild increases in both food and non-food prices, primarily due to adverse weather conditions affecting food supply and rising housing costs linked to the ongoing real estate crisis. To maintain macroeconomic stability, the People's Bank of China kept its key interest rate unchanged at 3.45 per cent, aiming to support the economy amidst ongoing domestic and global uncertainties.

India

India experienced strong economic growth in the second quarter of 2024, with GDP expanding by 6.7 per cent, although slower than the 7.8 per cent recorded in the previous quarter. This growth was primarily driven by the manufacturing and mining sectors, supported by ongoing infrastructure projects such as road, rail, and port developments, which enhanced logistics and supply chain efficiencies. The adoption of advanced technologies and increased automation in manufacturing further contributed to improved productivity. Additionally, non-oil exports grew significantly due to rising demand from trading partners. Consumer spending also increased, adding further momentum to the economic expansion.

However, inflation rose to 5.1 percent from 4.9 percent in the previous quarter. This inflationary pressure was primarily driven by disruptions in agricultural output, due to heavy rains and storms that significantly impacted key crops such as wheat and rice. Despite these pressures, the Reserve Bank of India (RBI) maintained its key interest rate at 6.50 percent, balancing inflation control with sustaining economic growth, while navigating the challenges posed by shifting global economic conditions.

South Africa

South Africa's eeconomic growth slowed to 0.3 per cent in the second quarter of 2024, down from 0.5 per cent in the previous quarter. This reflected primarily a slump in manufacturing and mining production. Labour market conditions deteriorated further, with the unemployment rate rising to 33.5 per cent from 32.9 per cent in the prior quarter. The increase in unemployment was attributed to notable job losses across several sectors, including trade, agriculture, and finance, alongside a growing labour force that outpaced the rate of job creation.

The inflation rate eased to 5.1 per cent, from 5.3 per cent in the previous quarter, largely driven by reduced fuel prices, which alleviated some of the cost pressures on the economy. The South African Reserve Bank maintained the key interest rate at 8.25 per cent, reflecting a balanced view on inflation and growth amid recent positive developments and persistent uncertainties.

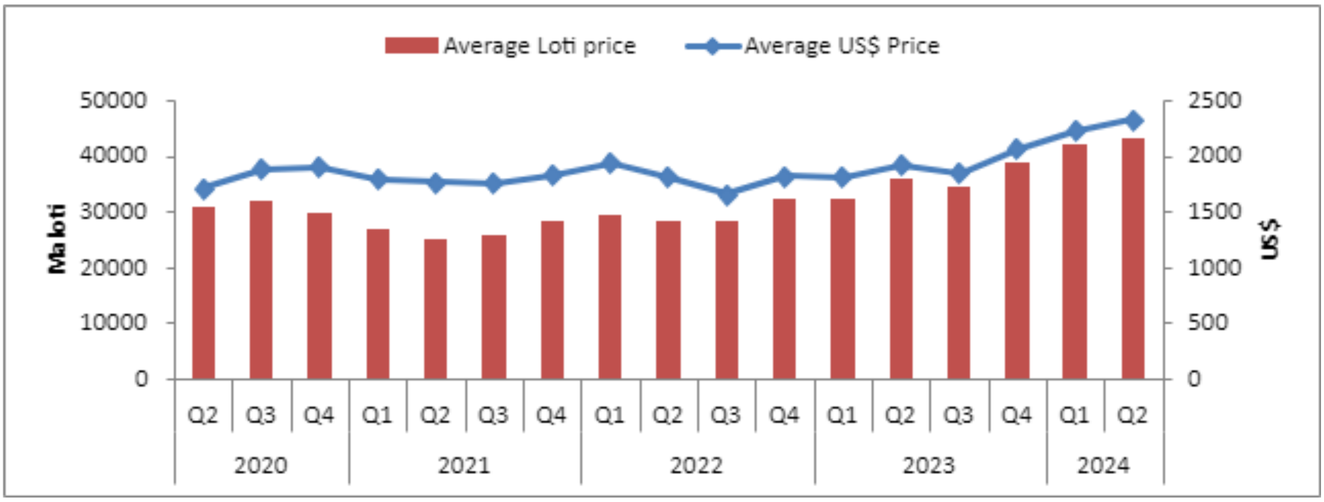
COMMODITIES

Minerals

Gold

In the second quarter of 2024, the price of gold rose by 4.4 per cent to US$2,327.23 per ounce, following an 8.1 per cent increase in the previous quarter. This uptick was primarily driven by robust demand from central banks seeking to hedge against economic uncertainties and diversify reserves away from the US dollar, notably in China. Geopolitical tensions, particularly in the Israel-Gaza region, further bolstered gold's appeal as a safe-haven asset. Additionally, the technology sector's growing demand for gold, spurred by advancements in artificial intelligence products, contributed to the price increase. Year-on-year, gold prices surged by 19.2 per cent, compared to a 9.9 per cent rise in the previous quarter.

Figure 1: Average Price of Gold

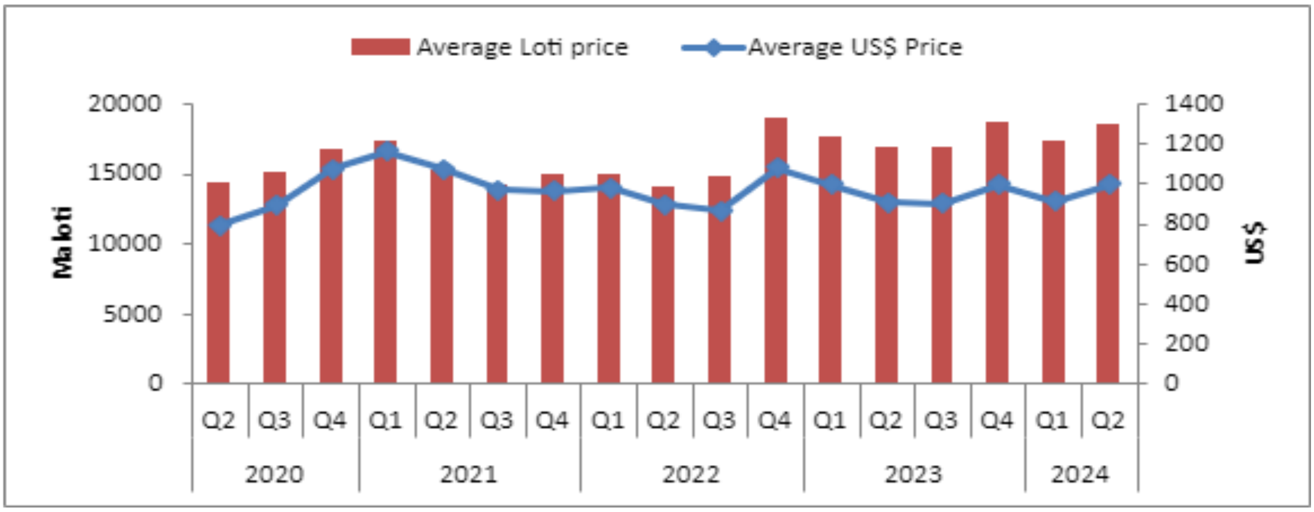


Source: Bloomberg

Platinum

The dollar price of platinum rebounded by 8.7 per cent to US$993.42 per ounce during the review quarter, reversing an 8.3 per cent decline in the first quarter. The upward pressure was primarily driven by supply-side challenges in South Africa, a key producer. Earlier in the year, South Africa had scaled down production due to previously weak platinum prices. Additionally, increased demand from the automobile industry, which has been substituting platinum for palladium in production, bolstered prices. Year-on-year, platinum prices rose by 9.6 per cent, contrasting with an 8.2 per cent decrease in the preceding quarter.

Figure 2: Average Price of Platinum



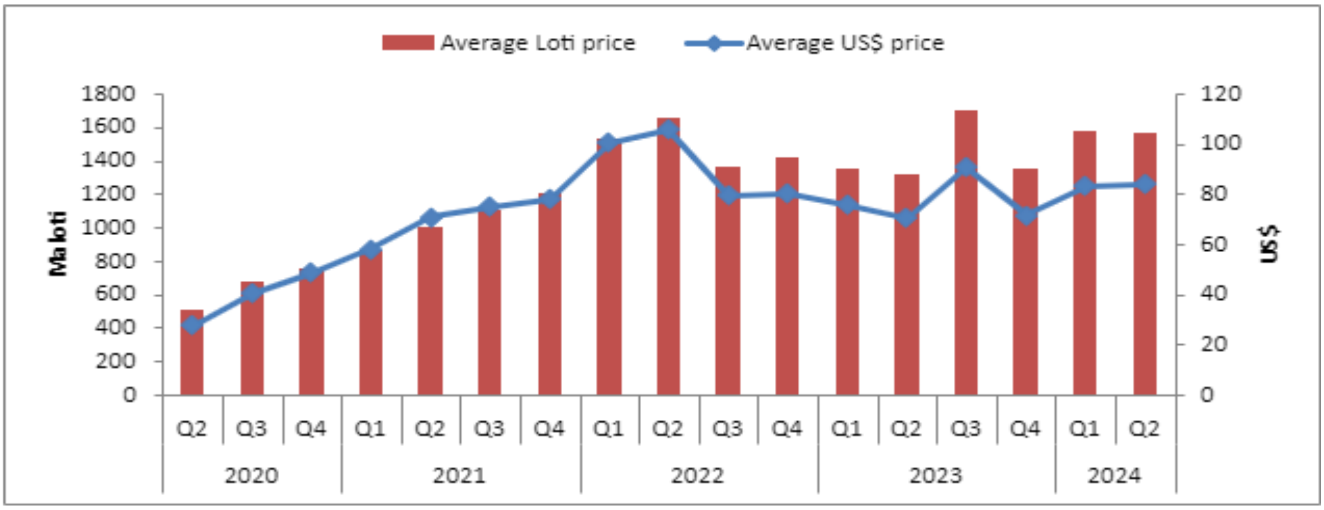
Source: Bloomberg

Energy

Crude Oil

In the second quarter of 2024, the average price of crude oil was US$82.17 per barrel, reflecting a 1.2 per cent increase compared to a 16.1 per cent rise in the previous quarter. This uptick was attributed to, among others, OPEC's decision to extend its voluntary production cuts to support the oil market. Additionally, escalating tensions in the Middle East posed a risk of broader conflict, further influencing oil prices.

Figure 3: Average Price of Oil



Source: Bloomberg

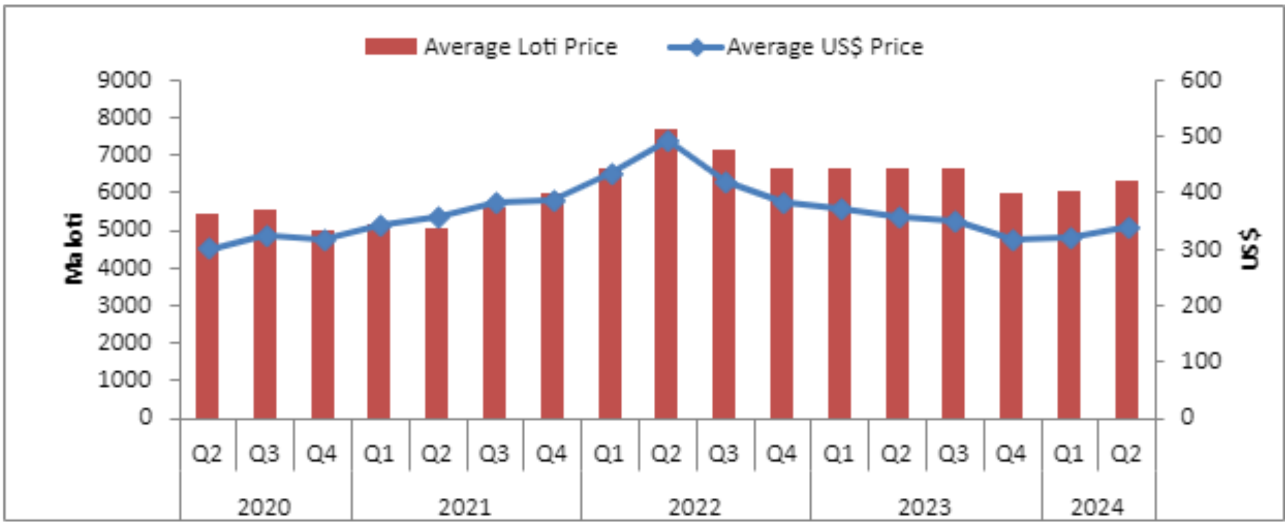
Agricultural Products

Maize

The dollar price of white maize rose by 19.6 percent in the second quarter, reaching US$278.86 per metric ton, following a moderate increase of 5.8 percent in the previous quarter. Similarly, the price of yellow maize increased by 7.2 percent to US$220.64 per metric ton during the same period. The persistent rise in maize prices is attributed to a below-normal harvest in major maize-producing countries for the 2024 season. This shortfall was mainly caused by unfavorable climate conditions, which disrupted harvests and reduced yields, particularly in Southern Africa - one of the key maize-producing regions.

On an annual basis, white maize prices surged by 41.2 percent, reversing a decline of 6.1 percent recorded a year earlier. Meanwhile, yellow maize prices experienced a year-on-year increase of 9.5 percent, in contrast to a 17.3 percent decline observed in the same period of the previous year.

Figure 4: Average Price of Maize

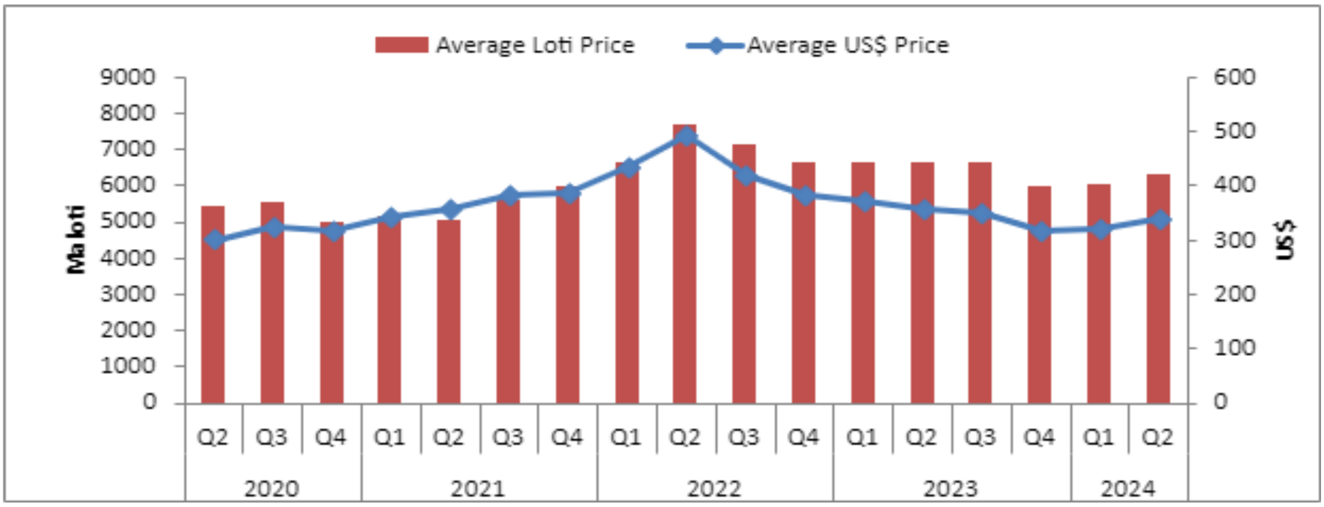


Source: Bloomberg

Wheat

The dollar price of wheat rose by 6.7 per cent, reaching US$340.64 per ton. This increase was driven by supply shortages, as extreme weather in key wheat-producing regions of Europe and North America reduced global stockpiles and heightened concerns about yields and export availability. Furthermore, ongoing disputes between shippers and regulators over the quality of Russia's grain exacerbated the situation. Concerns that Russia's grain did not meet quarantine requirements added uncertainty to the supply chain, contributing to the sharp rise in prices.

Figure 5: Average Price of Wheat

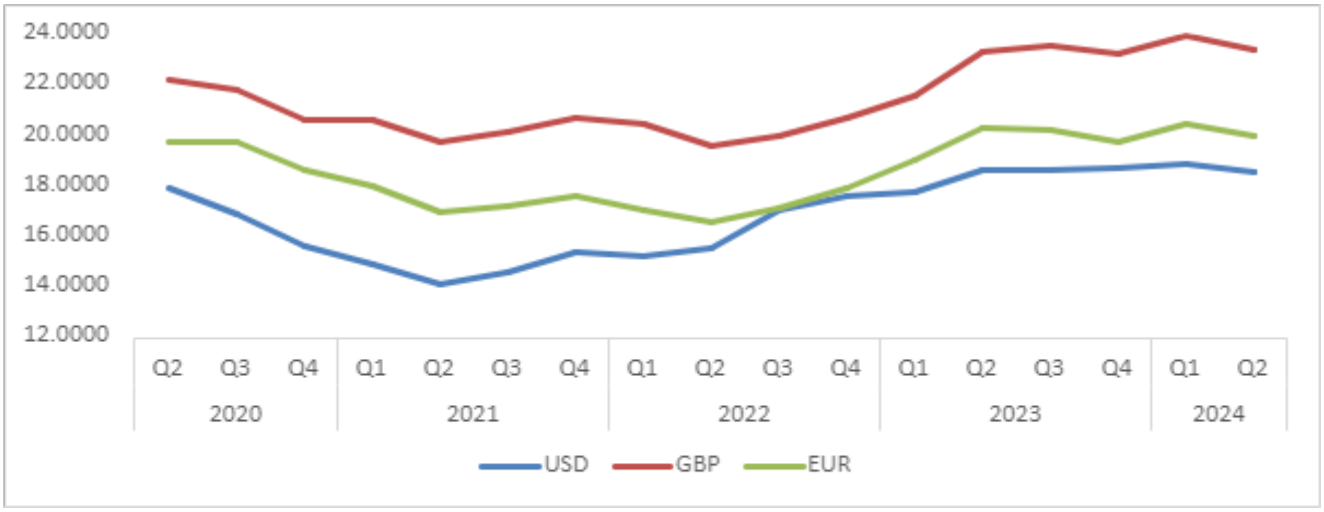


Source: Bloomberg

EXCHANGE RATES

The rand, and consequently the loti, strengthened modestly against major trading currencies during the second quarter of 2024. It appreciated by 1.8 percent against the US dollar, 2.1 percent against the pound, and 2.6 percent against the euro, reversing the depreciation of 0.6 percent, 2.8 percent, and 3.5 percent recorded in the first quarter. This improvement was attributed to a combination of domestic and international factors. Domestically, investor confidence was bolstered by the anticipation of a market-friendly coalition government following the national elections in May. The suspension of load-shedding further enhanced the business environment. Additionally, the formation of a Government of National Unity after peaceful elections reinforced confidence in the rand. Internationally, the currency benefitted from a weakening US dollar, prompted by expectations of US interest rate cuts. Simultaneously, soaring natural gas prices in Europe contributed to the rand's strong performance against European currencies.

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



Source: Bloomberg

3. Real Sector Developments[1]

OVERVIEW

Lesotho's economy grew modestly during the second quarter of 2024. Despite the resilience of the manufacturing subsector, overall economic performance was constrained by weakened domestic demand. Labour market conditions worsened across all sectors monitored by the Central Bank of Lesotho. Although inflationary pressures eased, offering short-term relief for consumers, broader economic performance remained subdued throughout the period under review.

OUTPUT DEVELOPMENTS

Domestic economic activity expanded modestly in the second quarter of 2024, as reflected by a slight increase in the Quarterly Composite Indicator of Economic Activity (QCIEA). The economy grew by 0.7 percent, marginally below the revised 0.8 percent growth recorded in the previous quarter. While overall growth remained subdued, key subsectors such as manufacturing and production, financial services, and construction demonstrated resilience.

The manufacturing and production subsector performed strongly, with the manufacturing index rising by 4.2 percent, a notable improvement from the revised 0.6 percent growth in the previous quarter. This growth was primarily driven by increased external demand for textiles and clothing, alongside heightened industrial activity reflected in higher water and electricity consumption. However, gains were partially offset by a decline in raw material imports. The performance of the manufacturing subsector underscored its critical role in supporting economic growth during the period. The financial services subsector experienced growth, supported by increased credit extension to the private sector. Notably, the construction subsector saw significant increases in credit extension and imports of construction materials, signalling heightened activity within the sector.

Notwithstanding these positive developments, the economy faced challenges stemming from subdued domestic demand and a weaker transport subsector. The domestic demand index contracted by 4.5 percent, in contrast to the 0.4 percent growth recorded in the previous quarter. This decline was largely attributed to reduced government activity, including lower spending on goods and services and a decrease in employee compensation. Real earnings and business activity also declined, compounding the strain on domestic demand. However, an increase in import volume – particularly fuel, lubricants, capital goods, and pharmaceuticals from South Africa – offered some relief. Despite this, activity within the transport subsector remained subdued, with lower fuel consumption volumes weighing on overall economic performance. Without a significant recovery in domestic consumption, sustaining the current growth trajectory will remain challenging.

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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

Figure 7: Quarterly Indicator of Economic Activity

Source: Central Bank of Lesotho

Table 2: Composite Indicator of Economic Activity and its sub-components

	2023			2024	
Indices	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
CIEA	**147.3**	**152.2**	**158.2**	**159.4**	**160.5**
Quarter-on-quarter changes	-1.3	3.3	3.9	0.8	0.7
Domestic Demand	**141.0**	**138.0**	**155.6**	**156.3**	**149.3**
Quarter-on-quarter changes	-5.4	-2.2	12.8	0.4	-4.5
Manufacturing and Production Category	**129.1**	**110.4**	**117.1**	**117.8**	**122.8**
Quarter-on-quarter changes	1.8	-14.4	6.1	0.6	4.2

Source: Central Bank of Lesotho

EMPLOYMENT DEVELOPMENTS

In the second quarter of 2024, employment in companies supported by the Lesotho National Development Corporation (LNDC) fell by 9.8 percent year-on-year, following a revised 9.4 percent decline in the previous quarter. This decrease reflected ongoing challenges in subsectors such as woven garments, fabrics, electronics, food and beverages, and retail, driven by persistently low order volumes and rising input costs, which forced firms to cut their workforce to manage operational expenses.

However, on a quarter-on-quarter basis, employment showed improvement, driven by the reopening of some knit and garment factories and new hiring in the automotive industry. While this short-term recovery provided some relief, it is unlikely to reverse the broader downward trend without addressing the underlying issues of declining demand and rising costs.

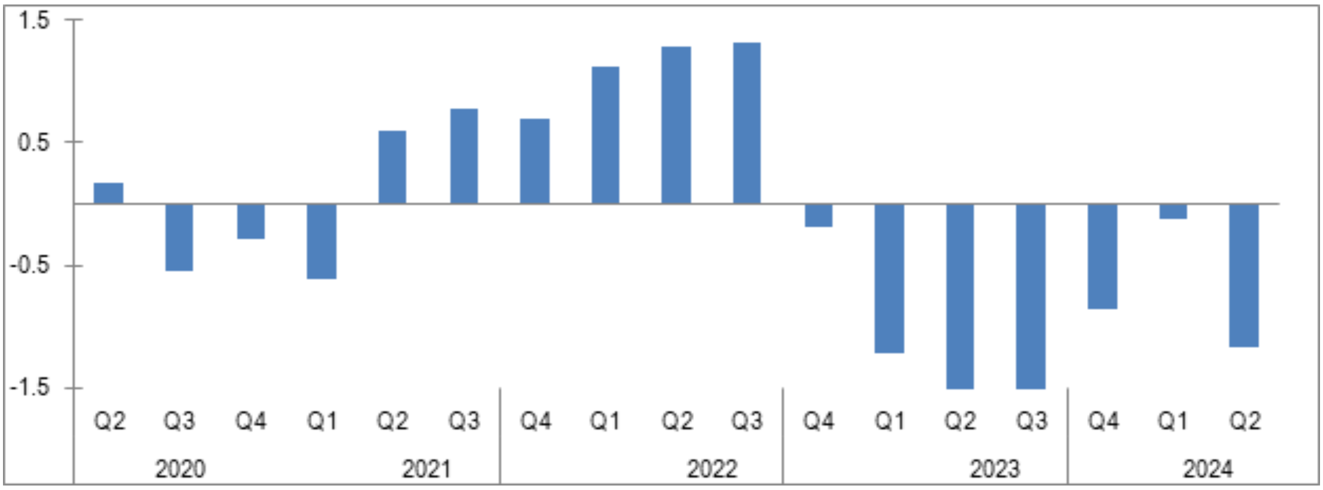
Table 3: Employment by LNDC-Assisted Companies

Industry	2023			2024		% Changes	
	Q2	Q3	Q4	Q1	Q2	Q/Q	Y/Y
Knit Garments…………..	22211	19909	20750	18302	19337	5.7	-12.9
Woven Garments…….	9142	9011	8392	8253	8428	2.1	-7.8
Footwear………………….	811	849	824	795	783	-1.5	-3.5
Fabrics. Yarn etc……….	1 708	1724	1727	1699	1628	-4.2	-4.6
Construction…………….	407	395	387	386	377	-2.3	-7.4
Food & Beverages………..	702	546	455	559	488	-12.7	-30.5
Electronics…………………	1 173	1223	1199	1213	1072	-11.6	-8.6
Retail………………………	160	176	173	109	109	0.0	-31.9
Hotel Accom………..	330	407	376	345	276	-20.0	-16.4
Other……………………..	1648	1625	1627	1513	2057	36.0	24.8
TOTAL……………………	**38292**	**35865**	**35910**	**33174**	**34555**	**4.2**	**-9.8**

Source: Lesotho National Development Corporation

Government employment declined by 1.2 per cent, following a 0.1 per cent decrease in the previous quarter. This contraction was primarily due to natural attrition.

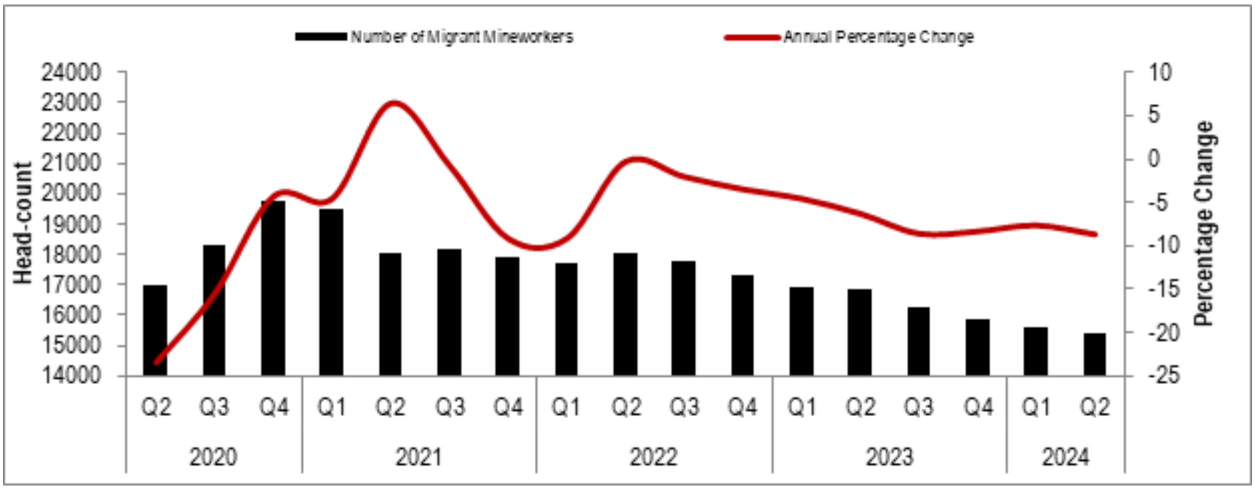
Figure 8: Government Employment *(Annual Percentage Changes)*



Source: Ministry of Finance

Employment of Basotho migrant mineworkers in South Africa continued its downward trend, contracting by 8.7 percent in the second quarter following a revised 7.6 percent decline in the first quarter of 2024. This persistent contraction was largely driven by reduced platinum production, stemming from a slump in platinum prices, which resulted in job losses among Basotho workers. Furthermore, the imposition of a quota for foreign labour is expected to exacerbate this trend.

Figure 9: Migrant Mineworkers *(Annual Percentage Changes)*



Source: The Employment Bureau of Africa (TEBA)

PRICE DEVELOPMENTS

The headline inflation rate declined to 6.5 percent in June 2024, down from 7.4 percent in March. The primary contributors to this decrease were alcoholic beverages and tobacco as well as food and non-alcoholic beverages. This disinflation trend was partly driven by base effects, as the government reduced previously imposed levies on alcohol and tobacco products.

Food and non-alcoholic beverage prices also fell, mainly due to a moderate decline in the prices of yellow maize and wheat. The decline in yellow maize prices was attributed to reduced drought impact on production, coupled with an abundant global supply. Similarly, wheat prices declined in line with a broader easing of international commodity prices.

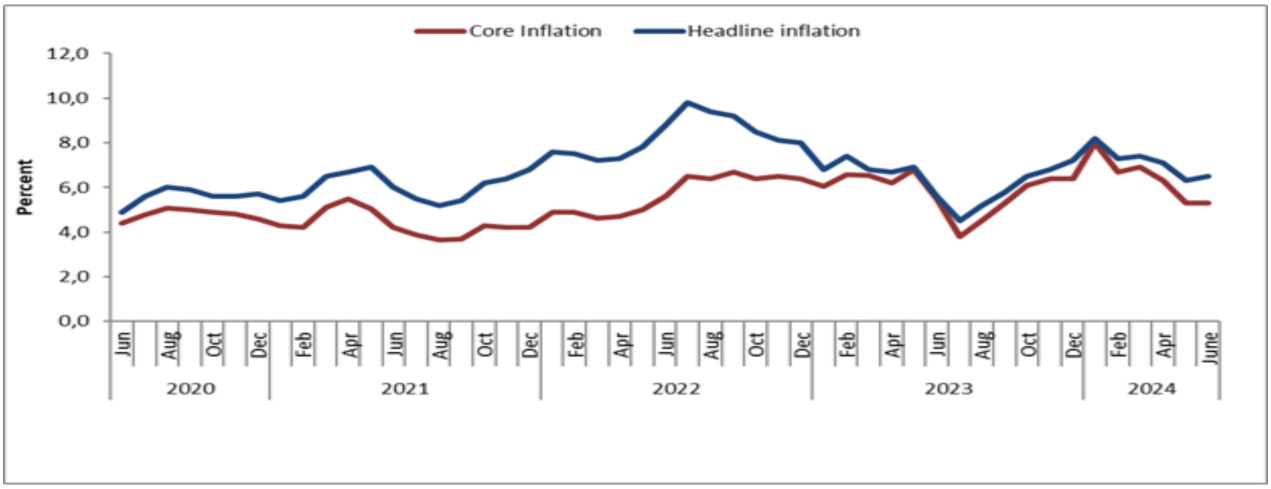
Table 4: Inflation Rate *(Annual Percentage Changes)*

	2024					
	Weight	Feb	Mar	Apr	May	June
All items	1000	7.3	7.4	7.1	6.3	6.5
Food and non-alcoholic beverages	326	9.1	9.7	10.4	8.2	8.3
Alcoholic beverages & Tobacco	64	17.9	14.7	6.0	1.5	1.5
Clothing & footwear	81	7.5	4.1	6.2	6.6	7.0
Housing, water, electricity, gas & other fuels	149	4.9	4.7	2.2	1.9	2.5
Furniture, households equipment & routine maintenance	33	6.5	6.6	3.5	4.4	4.2
Health	19	7.3	5.1	1.2	5.3	5.3
Transport	111	5.1	8.4	9.8	9.7	10.5
Communications	44	-0.0	0.0	0.0	0.0	0.0
Recreation & Culture	14	0.8	2.3	4.0	2.2	2.1
Education	49	13.8	13.8	13.8	13.8	13.8
Restaurant & Hotels	65	-0.5	0.9	4.2	7.2	7.2
Miscellaneous goods & services	44	4.5	5.0	6.8	5.3	5.3

Source: Bureau of Statistics

Core inflation, which measures the underlying inflationary pressures in the economy, fell to 5.3 per cent in June from 6.9 per cent in March 2024.

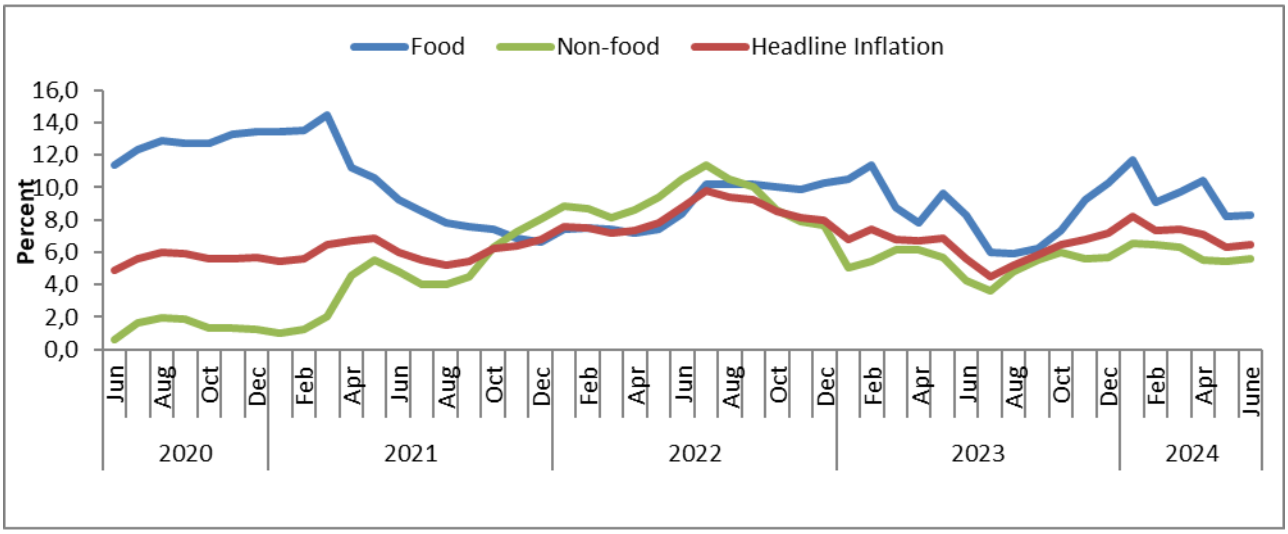
Figure 10: Core vs Headline Inflation *(Annual Percentage Changes)*



Source: CBL Computations

The disinflation trend was broad-based, with both food and non-food inflation declining during the review period. Food inflation fell to 8.3 percent from 9.7 percent in March 2024, while non-food inflation declined to 5.6 percent from 6.3 percent over the same period. The deceleration in general consumer prices stemmed from two key factors. First, the reduction in sin taxes exerted downward pressure on prices. Second, the global trend of falling food prices significantly contributed to the easing of food inflation.

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



Source: BoS and CBL Computations

4. Monetary and Financial Developments

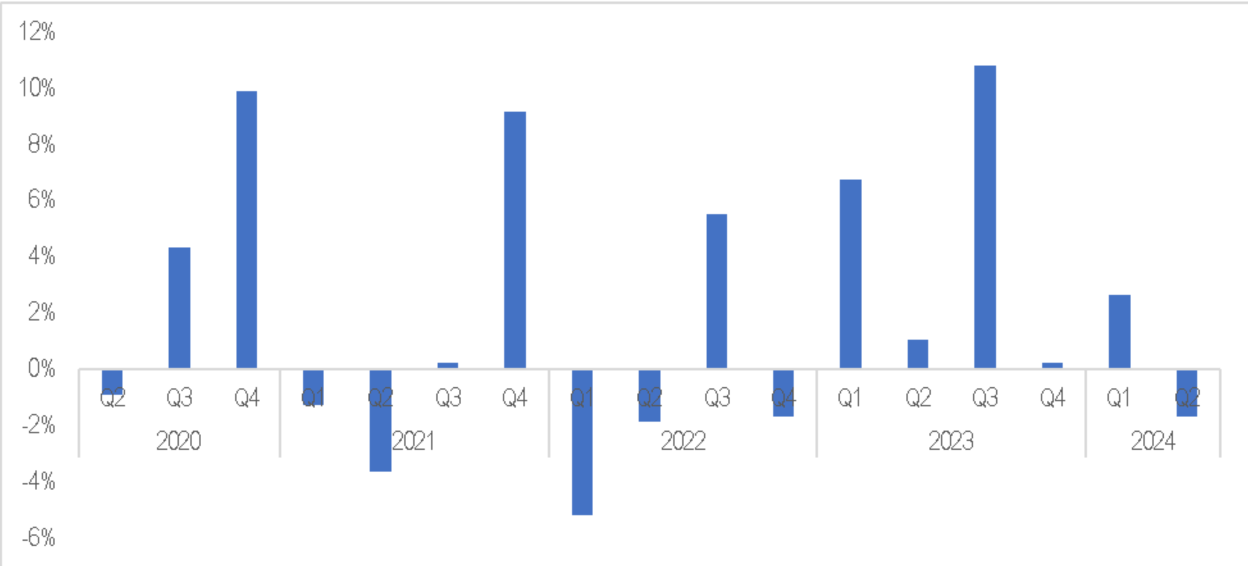
OVERVIEW

Broad money contracted, while private sector credit expanded, driven by growth in the banking sector's deposit base during the review quarter. Short-term rates, except the 91-day treasury bill rate, remained steady in line with the CBL policy rate.

BROAD MONEY (M2)

The broad money supply (M2) declined by 1.7 per cent in the quarter ending June 2024, reversing the 2.7 per cent increase recorded in March. This contraction was attributed to a fall in net domestic assets, partially offset by an increase in net foreign assets (NFA). However, on a year-on-year basis, M2 grew by 12.1 per cent.

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



Source: Central Bank of Lesotho

Determinants of M2

Domestic Claims

Domestic claims fell sharply by 33.5 per cent, reversing the 4.5 per cent increase recorded in the preceding quarter. This decline reflected reductions in net claims on the central government by both commercial banks and the central bank, despite an increase in claims on other sectors of the economy.

The decrease in commercial banks' net claims on the government resulted from a combination of lower claims and higher liabilities. Claims declined primarily due to the redemption of Treasury bonds, while liabilities rose as a result of deposits from revenue collection and project-related activities.

The central bank's net claims on the government also decreased, reflecting a build-up in government deposits driven by higher Southern African Customs Union (SACU) receipts and increased water royalties. Meanwhile, claims on other sectors grew, supported by increased credit extended to the private sector.

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

	2023			2024		Changes(%)	
	Q2	Q3	Q4	Q1	Q2	Quarterly	Annual
Domestic Claims	**6455.46**	**6478.58**	**5894.11**	**6161.25**	**4098.49**	**-33.5**	**-36.5**
Net Claims on Government	**-2696.17**	**-3277.93**	**-4183.88**	**-4014.07**	**-6490.37**	**-61.7**	**-140.7**
Commercial Banks Net Claims	**578.03**	**-380.06**	**-859.27**	**-792.92**	**-1518.37**	**-91.5**	**-362.7**
Claims on Central Government	2942.40	2231.75	1733.11	1861.60	1594.10	**-14.4**	**-45.8**
Liabilities to Central Government	2364.38	2611.81	2592.38	2654.53	3112.48	**17.3**	**31.6**
Central Bank Net Claims	**-3274.19**	**-2897.88**	**-3324.61**	**-3221.15**	**-4971.99**	**-54.4**	**-51.9**
Claims on Central Government	28.26	28.07	0.00	1.57	0.10	**-93.6**	**-99.6**
Liabilities to Central Government	3302.46	2925.95	3324.61	3222.72	4972.09	**54.3**	**50.6**
Claims on Other Sectors	**9151.63**	**9756.52**	**10077.99**	**10175.32**	**10588.85**	**4.1**	**15.7**
Claims on OFCs	300.58	296.51	303.07	305.10	310.76	**1.9**	**3.4**
Claims on Public Nonfinancial Corporations	53.40	53.28	57.77	47.45	60.45	**27.4**	**13.2**
Claims on St &Local Government	0.00	0.00	0.00	0.00	0.00		
Claims on Private Sector	**8797.65**	**9406.73**	**9717.15**	**9822.77**	**10217.65**	**4.0**	**16.1**
Claims on Business Enterprises	2344.63	2573.41	2717.72	2577.61	2806.05	**8.9**	**19.7**
Claims on Households	6453.02	6833.32	6999.44	7245.17	7411.60	**2.3**	**14.9**

Source: Central Bank of Lesotho

Net Foreign Assets

Net foreign assets increased by 9.1 per cent in the quarter ending June 2024, contrasting with a 2.1 per cent contraction recorded in the previous quarter. Both commercial banks and the central bank contributed to this growth.

The rise in commercial banks' NFA was driven by increased placements abroad, following the redemption of Treasury bonds and an expanded deposit base from higher government deposits. Meanwhile, the central bank's NFA growth was supported by higher Southern African Customs Union (SACU) receipts and renegotiated water royalties.

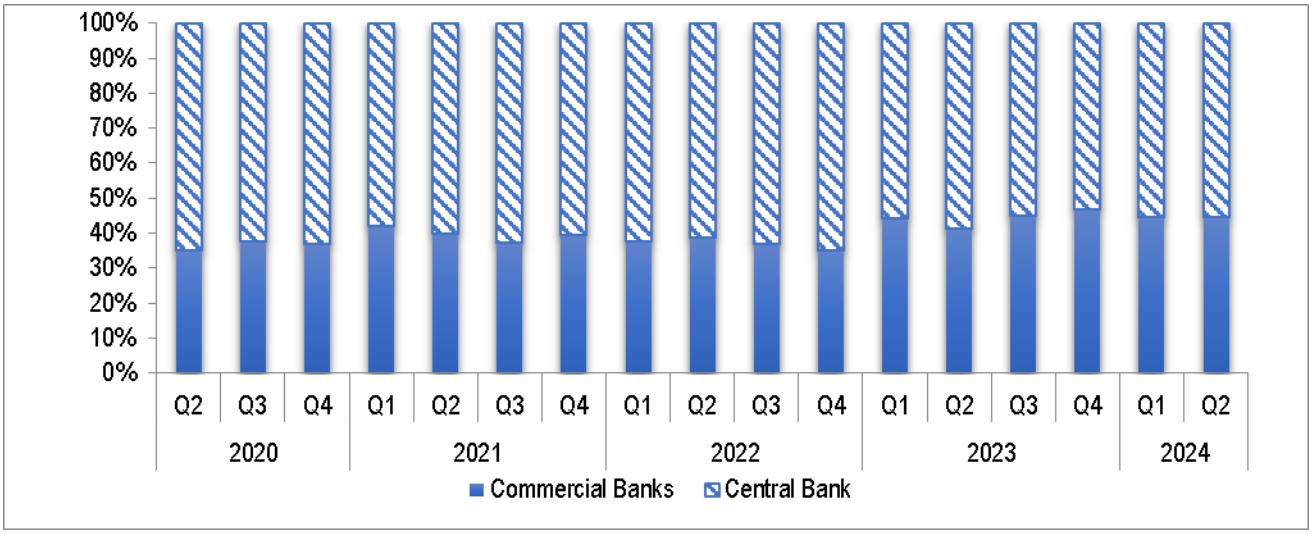
Table 6: Net Foreign Assets *(Million Maloti: End Period)*

	2023			2024		Changes (%)	
	Q2	Q3	Q4	Q1	Q2	Quarterly	Annual
Commercial Banks	**8017.00**	**9214.75**	**10297.75**	**9642.86**	**10515.93**	**9.1**	**31.2**

Claims on Non-residents	8469.23	9593.67	10840.31	10335.19	10876.64	**5.2**	**28.4**
Liabilities to Non-residents	452.23	378.91	542.56	692.33	360.71	**-47.9**	**-20.2**
Central Bank	**11481.60**	**11251.77**	**11781.22**	**11985.10**	**13030.15**	**8.7**	**13.5**
Claims on Non-residents	14885.77	14578.45	15037.37	15224.26	15699.92	**3.1**	**5.5**
Liabilities to Non-residents	3404.17	3326.67	3256.15	3239.15	2669.77	**-17.6**	**-21.6**
Net Foreign Assets Total	**19498.61**	**20466.52**	**22078.97**	**21627.96**	**23546.08**	**8.9**	**20.8**

Source: Central Bank of Lesotho

Figure 13: Net Foreign Assets *(Percentage shares)*



Source: Central Bank of Lesotho

Components of M2

The decline in broad money stemmed from a 6.9 per cent fall in quasi money, partially offset by a 4.9 per cent growth in narrow money. The contraction in quasi money reflected a drawdown in call deposits by the mining sector, other financial corporations, and private corporations, along with matured fixed-time deposits in the construction sector. Conversely, the increase in narrow money resulted from a rise in transferable deposits held by business enterprises, largely due to placements by the mining sector.

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

	2023			2024		Changes (%)	
	Q2	Q3	Q4	Q1	Q2	Quarterly	Annual
Broad Money (M2)	**15467.92**	**17138.36**	**17180.65**	**17636.62**	**17340.59**	**-1.7**	**12.1**
Narrow Money (M1)	**5904.84**	**7179.66**	**7403.29**	**7794.06**	**8173.76**	**4.9**	**38.4**
Currency Outside DCs	1507.88	1578.58	1657.26	1606.61	1436.38	**-10.6**	**-4.7**
Transferable Deposits	4396.96	5601.08	5746.03	6187.45	6737.38	**8.9**	**53.2**

Quasi Money	**9563.08**	**9958.69**	**9777.36**	**9842.56**	**9166.83**	**-6.9**	**-4.1**
Other Deposits Commercial Banks	9560.29	9956.76	9773.98	9839.60	9163.41	**-6.9**	**-4.2**
Other Deposits Central Bank	2.78	1.94	3.38	2.96	3.42	**15.5**	**22.7**

Source: Central Bank of Lesotho

CREDIT EXTENSION

Private sector credit expanded by 4.1 per cent in the second quarter, accelerating from 0.2 per cent growth in the previous quarter. This expansion was driven by increases in credit to both households and business enterprises. On an annual basis, private sector credit grew by 16.1 per cent.

Trends in Credit Extended to Business Enterprises

Credit to the business sector rebounded, rising by 8.9 per cent following a 5.2 per cent decline in the quarter ending March 2024. This recovery was supported by greater financing needs across the mining, construction, real estate, and wholesale and retail subsectors. Mining and wholesale and retail pursued funding to sustain operations, while credit to the construction and real estate sectors was allocated to infrastructure development and the acquisition of commercial properties.

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

	2023			2024		Changes (%)	
SECTOR	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Quarterly**	**Annual**
Agriculture	58.90	87.53	87.22	67.38	65.35	**-3.0**	**10.9**
Mining	401.17	425.00	468.30	340.88	462.70	**35.7**	**15.3**
Manufacturing	113.48	128.38	131.06	125.85	125.38	**-0.4**	**10.5**
Electricity, gas and water	6.54	6.82	12.41	30.19	16.88	**-44.1**	**158.1**
Construction	331.31	443.21	477.83	477.59	528.50	**10.7**	**59.5**
Wholesale, Retail, Hotel & Restaurant	639.42	664.29	672.90	688.38	708.35	**2.9**	**10.8**
Transport, Storage and Communication	228.70	255.61	312.90	323.45	315.91	**-2.3**	**38.1**
NBFIs, Real Estate and Business Services	557.60	554.53	546.34	515.07	573.69	**11.4**	**2.9**
Community, Social & Personal Service	7.50	8.03	8.76	8.82	9.29	**5.3**	**23.9**
All Sectors	**2344.63**	**2573.41**	**2717.72**	**2577.61**	**2806.05**	**8.9**	**19.7**

Source: Central Bank of Lesotho

Distribution of Credit extended to Business Enterprises

The wholesale, retail, hotel, and restaurant subsector remained the largest recipient of credit to business enterprises, though its share declined to 25.2 per cent in June from 26.7 per cent in March 2024. The non-bank financial institutions, real estate, and business services subsector followed, accounting for 20.4 per cent of total credit. Completing the top three recipients, the construction industry saw its share rise to 18.8 per cent from 18.5 per cent.

At the lower end, the community, social, and personal services subsector received just 0.3 per cent of total credit. Notably, credit allocated to sectors identified in the National Strategic Development Plan (NSDP II)[1] as key for job creation and inclusive economic growth stood at 63.7 per cent during the review quarter.

[1] 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.

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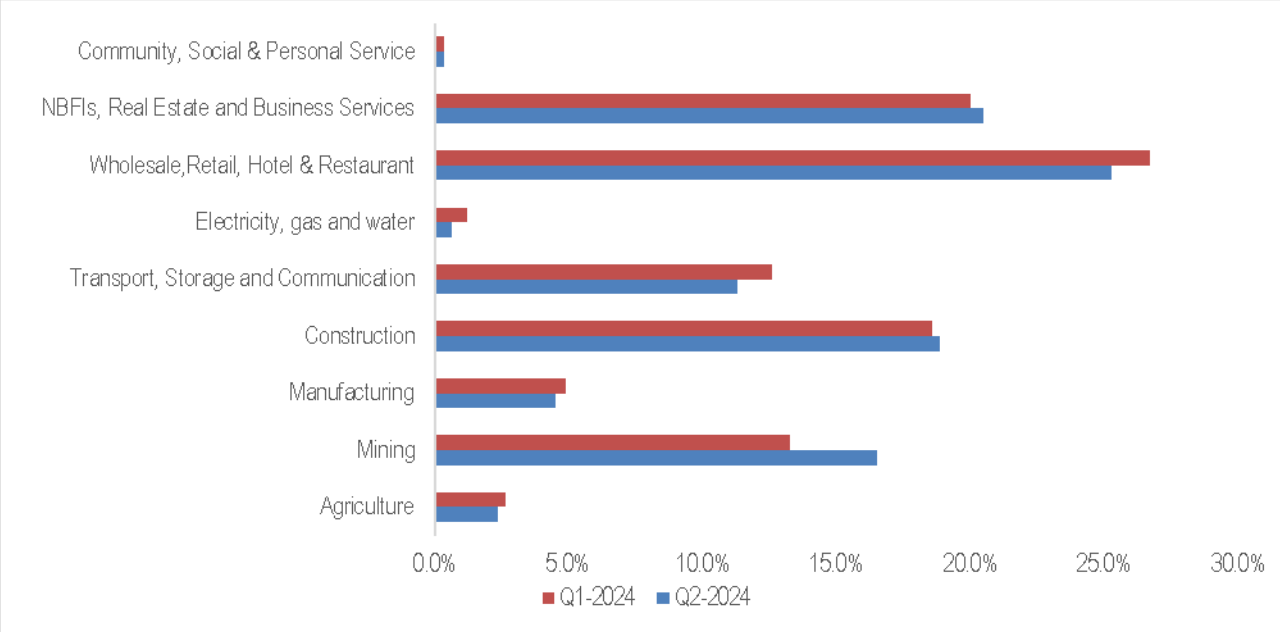
Figure 14: Distribution of Credit to Businesses *(Percentage Shares)*



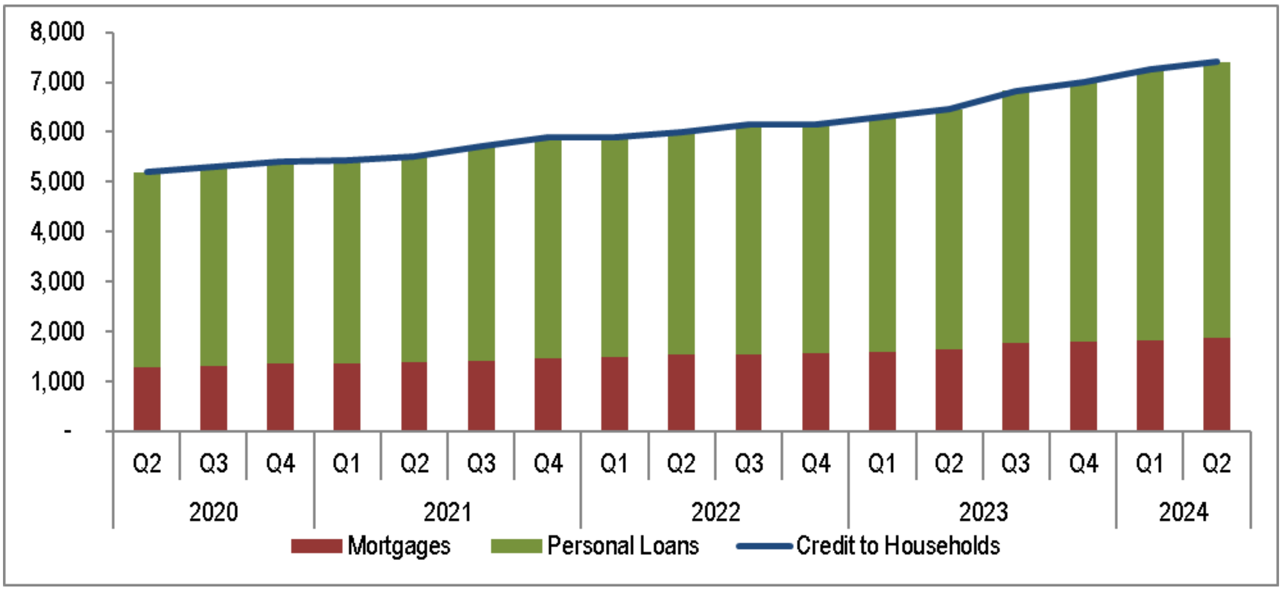
Source: Central Bank of Lesotho

Credit extended to Households

Credit to the household sector continued its upward trajectory, expanding by 2.3 per cent during the review quarter. This expansion was however slower than the 3.5 per cent growth recorded in the previous quarter. Both personal and mortgage loans contributed to this increase.

Personal loan growth was driven by rising household demand and commercial banks' efforts to meet the expected minimum loan-to-deposit ratio. Meanwhile, mortgage lending was bolstered by banks' initiatives to ease access to credit. On an annual basis, household credit grew by 14.9 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 rose to 52.8 per cent from 51.1 per cent, reflecting faster growth in credit relative to deposits. Meanwhile, the banking sector's liquidity ratio improved to 41.4 per cent from 40.3 per cent, driven by higher net balances due from banks in South Africa.

Table 9: Components of Liquidity *(Million Maloti)*

	2023			2024	
	Q2	**Q3**	**Q4**	**Q1**	**Q2**
Credit to Deposit Ratio	**52.9%**	**50.9%**	**52.7%**	**51.1%**	**52.8%**
Private Sector Credit	8634.33	9245.06	9561.30	9546.07	10035.89
Total Deposits	16326.50	18170.44	18137.11	18682.67	19014.20
Liquidity Ratio	**41.7%**	**35.2%**	**35.1%**	**40.3%**	**41.4%**
Notes and Coins	683.75	592.52	1086.98	811.97	776.57
Net Balance due from banks in Lesotho	44.36	-31.34	11.64	102.64	80.77
Net Balance due from banks in SA	3002.96	3500.67	3818.97	4008.40	5090.02
Surplus funds	130.59	102.27	-291.24	751.56	330.18
Government Securities	2942.40	2231.75	1733.11	1861.60	1594.10
Total	**6804.05**	**6395.87**	**6359.46**	**7536.16**	**7871.65**

Source: Central Bank of Lesotho

Commercial Banks Sources of Funds

Total deposit liabilities of commercial banks grew by 6.1 per cent, accelerating from the 1.2 per cent growth recorded in March 2024. This increase was driven by a rise in transferable deposits held by other financial corporations, public non-financial corporations, and the private sector. Additional support came from growth in deposits excluded from broad money, particularly government and import deposits. However, the overall increase was partially offset by a decline in other deposits included in broad money, as holdings by other financial corporations and the private sector contracted. On an annual basis, total deposits increased by 15.9 per cent.

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

	2023			2024		Changes (%)	
	Q2	Q3	Q4	Q1	Q2	Monthly	Annual
Transferable Deposits Incl. in BM	**4396.96**	**5601.08**	**5746.03**	**6187.45**	**6737.38**	**8.9**	**53.2**
Other Financial Corporations	31.90	15.77	69.75	32.95	112.20	**240.5**	**251.7**
Transf. Dep. State & Local Govt NC	5.49	55.97	57.53	39.72	12.05	**-69.7**	**119.3**
Public Nonfinancial Corporations	32.40	43.23	34.16	23.93	42.79	**78.8**	**32.1**
Private Sector	4327.17	5486.11	5584.59	6090.84	6570.34	**7.9**	**51.8**
Other NFCs	2603.95	3742.03	3874.81	4178.94	4730.57	**13.2**	**81.7**
Other Sectors (Households)	1723.22	1744.08	1709.78	1911.90	1839.77	**-3.8**	**6.8**
Other Deposits Incl. in BM	**9560.29**	**9956.76**	**9773.98**	**9839.60**	**9163.41**	**-6.9**	**-4.2**
Other Financial Corporations	217.52	197.70	57.81	106.81	66.37	**-37.9**	**-69.5**
Public Nonfinancial Corporations	154.69	321.69	238.64	217.07	259.89	**19.7**	**68.0**
Private Sector	9188.08	9437.37	9477.53	9515.72	8837.15	**-7.1**	**-3.8**
Other NFCs	6359.55	6507.14	6433.56	6296.15	5548.06	**-11.9**	**-12.8**
Other Sectors (Households)	2828.53	2930.22	3043.98	3219.57	3289.09	**2.2**	**16.3**
Deposits excluded in MB	**3809.11**	**3135.84**	**3662.75**	**3389.59**	**4695.50**	**38.5**	**23.3**
of which Import deposits	1439.86	523.24	1045.66	733.98	1582.09	**115.6**	**9.9**
Total Deposits	**17766.36**	**18693.69**	**19182.76**	**19416.64**	**20596.29**	**6.1**	**15.9**

Source: Central Bank of Lesotho

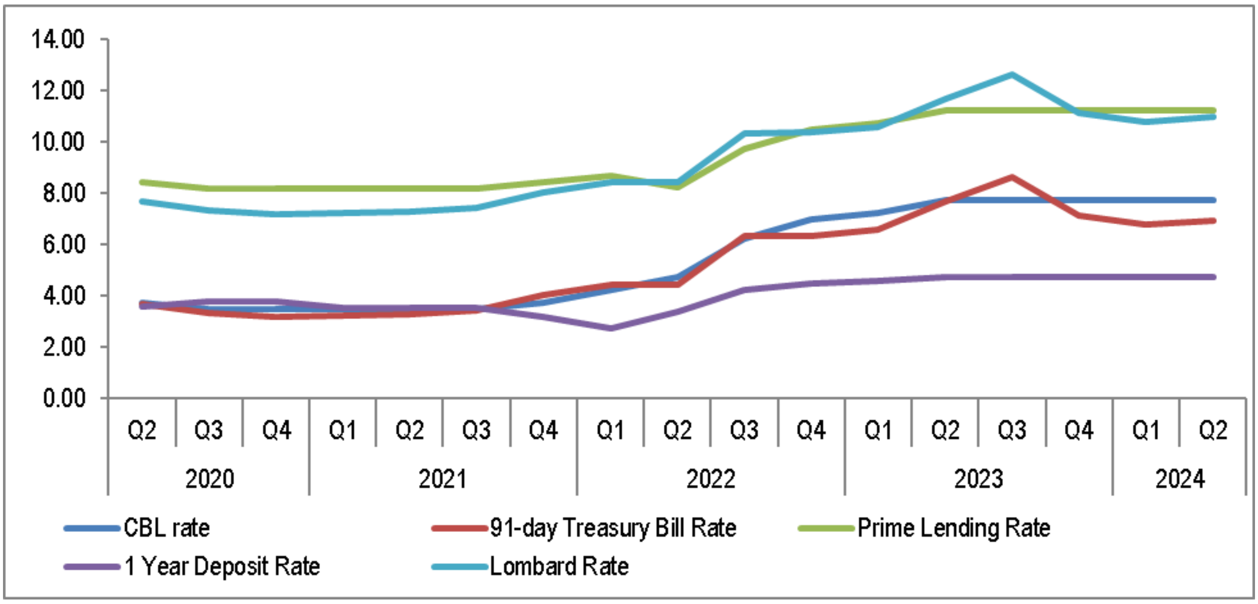
MONEY AND CAPITAL MARKET DEVELOPMENTS

Interest Rates

The CBL policy rate remained unchanged at 7.75 per cent during the review period. In response, the banking industry held the prime lending rate and the 1-year deposit rate steady at 11.25 per cent and 4.74 per cent, respectively.

In contrast, the 91-day Treasury bill rate and the Lombard rate rose by 18 basis points to 6.96 per cent and 10.96 per cent, respectively. Despite the increase, the 91-day Treasury bill rate remained within the desired range of +/- 200 basis points relative to its South African counterpart.

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



Source: Central Bank of Lesotho

Table 11: Interest rates

	2023			2024	
	Q2	**Q3**	**Q4**	**Q1**	**Q2**
Central Bank					
CBL rate	7.75	7.75	7.75	7.75	7.75
T-Bill Rate - 91 days	7.70	8.65	7.12	6.78	6.96
Lombard Rate	11.7	12.7	11.12	10.78	10.96
Commercial Banks					
Call	2.65	2.65	2.65	2.65	2.65
Time:					

31 days	1.47	1.47	1.47	1.47	1.47
88 days	2.46	2.46	2.46	2.46	2.46
6 months	4.12	4.02	4.01	4.01	4.01
1 year	4.74	4.74	4.74	4.74	4.74
Savings	1.60	1.60	1.60	1.60	1.60
Prime	11.25	11.25	11.25	11.25	11.25
South Africa					
Repo	8.25	8.25	8.25	8.25	8.25
T-Bill Rate - 91 days	8.63	8.37	8.43	8.40	8.40
Prime	11.75	11.75	11.75	11.75	11.75

Source: Central Bank of Lesotho

Holding of Treasury Bills

The stock of outstanding Treasury bills (T-Bills) declined by 2.8 per cent in the second quarter of 2024, primarily driven by reduced holdings by the banking sector. This decline was partially offset by increased T-Bill holdings by the non-bank sector. Consequently, the banking sector's share of T-Bill holdings fell to 58.0 per cent in June, down from 60.8 per cent in the first quarter.

Table 12: Holding of Bills *(Million Maloti)*

	2023			2024	
	Q2	Q3	Q4	Q1	Q2
Treasury Bills	**1597.25**	**867.22**	**864.00**	**747.88**	**726.74**
Banking System	1357.59	587.43	562.25	454.41	420.78
Non-Bank Sector	239.66	279.79	301.75	293.47	305.96

Source: Central Bank of Lesotho

Holding of Treasury Bonds

The outstanding stock of Treasury bonds declined by 6.1 per cent, driven primarily by a 17.2 per cent reduction in banking sector holdings and a modest 1.2 per cent decrease in non-bank sector holdings. Consequently, the banking sector's share of bonds fell to 29.5 per cent, while the non-bank sector held 70.5 per cent. The overall decline was consistent with the net redemption of M260 million during the quarter.

Table 13: Holding of Bonds *(Million Maloti)*

	2023			2024	
	Q2	Q3	Q4	Q1	Q2
Holding of Treasury Bonds	**4157.58**	**4337.59**	**3835.20**	**4008.20**	**3747.08**
Banking System	1547.51	1597.68	1225.86	1334.39	1105.42
Non-Bank Sector	2610.08	2739.91	2609.34	2673.82	2641.65

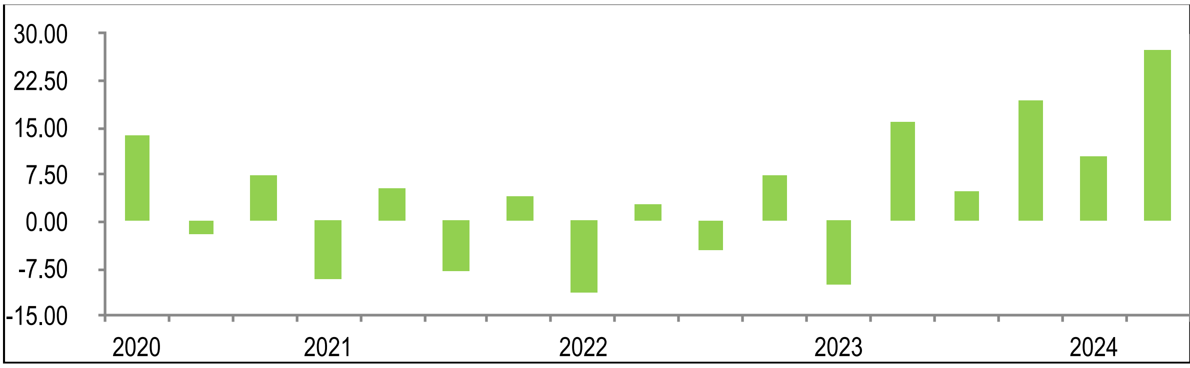
Source: Central Bank of Lesotho

5. Government Finance

OVERVIEW

Government budgetary operations resulted in an estimated surplus equivalent to 27.2 per cent of GDP in the second quarter of 2024, marking the fifth consecutive quarter of positive fiscal balances. Similarly, the public debt-to-GDP ratio declined to 55.0 per cent, down from a revised 56.9 per cent in the previous quarter.

Figure 17: Fiscal Balance (*Percent of GDP*)



Source: Central Bank of Lesotho and Ministry of Finance

REVENUE[2]

Government revenue rose by 11.2 per cent, driven primarily by higher VAT collections and SACU receipts. VAT collections surged by 54.4 per cent, while SACU receipts grew by 13.8 per cent. In contrast, income tax collections fell by 10.6 per cent. On a year-on-year basis, government revenue increased by 33.4 per cent, with both SACU receipts and domestic tax collections recording robust growth rates.

[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 18: Total Revenue *(Million Maloti)*

Source: Central Bank of Lesotho and Ministry of Finance

TOTAL EXPENDITURE

Total expenditure fell by 18.3 per cent, compared to a 44.7 per cent increase in the previous quarter. This decline was driven by reduced spending on investment assets, goods and services, employee remuneration, and other expense categories. In terms of sectoral budget distribution, the largest expenditure shares went to general public services and economic affairs. On an annual basis, total government spending increased by 13.0 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)*

	2023			2024		Q-to-Q (%)	Y-on-Y (%)	GDP ratio (%)
	Q2	Q3	Q4	Q1	Q2			
Total Revenue	**5375.03**	**5351.02**	**5571.33**	**6447.00**	**7167.89**	**11.2**	**33.4**	**70.3**
Tax revenue	4180.37	4245.02	4433.67	4797.00	5055.77	5.4	20.9	49.6
Income Tax	1038.76	1072.65	1222.90	1293.04	1156.51	-10.6	11.3	11.3
Value Added Tax	864.77	982.66	1025.27	940.03	1451.34	54.4	67.8	14.2
SACU Receipts (excise & customs)	1984.93	1984.93	1984.93	1984.93	2258.89	13.8	13.8	22.2
Other tax revenue	291.91	204.78	200.57	579.00	189.04	-67.4	-35.2	1.9
Grants	552.20	552.20	552.20	552.20	628.41	13.8	13.8	6.2
o/w SACU Receipts (development)	552.20	552.20	552.20	552.20	628.41	13.8	13.8	6.2
Other revenue	642.46	553.80	585.46	1097.81	1483.71	35.2	130.9	14.6
Total Expense	**3481.80**	**4453.50**	**3436.28**	**4562.74**	**3937.28**	**-13.7**	**13.1**	**38.6**
Compensation of Employees	1630.39	1750.80	1684.01	1969.30	1797.90	-8.7	10.3	17.6
Use of goods and services	386.47	843.73	389.63	912.04	323.60	-64.5	-16.3	3.2
O/W Purchase of Health Services	110.26	112.37	111.31	110.99	111.35	0.3	1.0	1.1
Interest Payments	118.60	129.72	136.67	176.77	117.38	-33.6	-1.0	1.2
Subsidies	202.70	201.40	158.61	239.27	191.66	-19.9	-5.4	1.9
Grants	319.24	543.19	355.38	359.91	529.46	47.1	65.8	5.2
Social benefits	471.32	657.14	566.20	536.97	598.30	11.4	26.9	5.9
Other expense	353.08	327.52	145.78	368.47	378.98	2.9	7.3	3.7
Gross Operating Balance	**1893.23**	**897.52**	**2135.05**	**1884.26**	**3230.61**	**-**	**-**	**31.7**
Total Nonfinancial Assets	**406.54**	**435.25**	**280.19**	**814.73**	**457.37**	**-43.9**	**12.5**	**4.5**
Fixed Assets	406.54	435.25	280.19	814.73	457.37	-43.9	12.5	4.5
Non-Produced Assets	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Total Expenditure	**3888.33**	**4888.75**	**3716.47**	**5377.47**	**4394.65**	**-18.3**	**13.0**	**43.1**
Primary balance	**1605.29**	**591.99**	**1991.52**	**1246.29**	**2890.62**	**-**	**-**	**28.4**
Net lending/borrowing	**1486.69**	**462.27**	**1854.86**	**1069.53**	**2773.24**	-	-	**27.2**
Financing	**1456.83**	**613.30**	**1992.27**	**1259.17**	**2973.78**	-	-	**29.2**
Net Acquisition of Financial assets	1598.65	-331.89	1589.52	533.46	3087.08	**-**	**-**	30.3

O/W Domestic Currency and Deposits	1422.99	-458.70	1094.54	144.65	2638.08	-	-	25.9
Net Incurrence of Liabilities	141.82	-945.18	-402.75	-725.71	113.30	-	-	1.1
O/W Domestic Other Accounts Payable	-115.78	-159.76	-279.51	-706.86	377.70	-	-	3.7
Statistical Discrepancy	29.87	-151.03	-137.41	-189.65	-200.53	-	-	-2.0
Memo Items								
SACU receipts	2537.13	2537.13	2537.13	2537.13	2732.53	7.7	7.7	26.8
GDP (quarterly, red colour = forecast)	9365.83	9727.52	9496.43	10076.14	10190.50	-	-	-

Source: Central Bank of Lesotho and Ministry of Finance

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

	2023			2024		Q-to-Q (%)	Y-on-Y (%)	GDP ratio (%)
	Q2	Q3	Q4	Q1	Q2			
Current Outlays	**3006.77**	**4279.75**	**3238.77**	**4325.27**	**3775.99**	**-12.7**	**25.6**	**37.1**
General public services	897.10	1480.20	836.82	1475.15	1459.55	-1.1	62.7	14.3
Defence	218.70	223.04	185.48	-9.69	0.00	-100.0	-100.0	0.0
Public order and safety	448.19	493.49	371.85	530.30	349.73	-34.1	-22.0	3.4
Economic affairs	227.25	541.58	457.14	552.25	340.04	-38.4	49.6	3.3
Environmental protection	4.74	5.17	4.57	5.33	4.92	-7.6	3.8	0.0
Housing and community amenities	11.10	11.51	11.04	15.25	11.05	-27.5	-0.5	0.1
Health	329.12	535.95	393.27	626.75	499.30	-20.3	51.7	4.9
Recreation, culture and religion	29.48	32.22	30.67	35.17	40.73	15.8	38.2	0.4
Education	609.42	681.98	693.14	742.01	707.10	-4.7	16.0	6.9
Social protection	231.66	274.61	254.78	352.75	363.56	3.1	56.9	3.6
Capital Outlays	**357.79**	**379.39**	**275.95**	**780.08**	**431.96**	**-44.6**	**20.7**	**4.2**
General public services	-62.60	15.24	44.17	107.02	45.51	-57.5	-172.7	0.4
Public order and safety	0.00	10.06	15.18	23.32	5.63	-75.9	-	0.1
Economic affairs	401.16	241.63	192.26	535.79	295.02	-44.9	-26.5	2.9
Housing and community amenities	5.62	95.44	12.69	12.17	70.64	480.6	1157.6	0.7
Health	11.12	4.90	5.31	30.41	9.26	-69.5	-16.7	0.1
Recreation, culture and religion	2.22	4.63	2.01	1.06	7.24	582.3	225.6	0.1
Education	0.28	7.49	4.33	52.23	-1.34	-102.6	-578.0	0.0
Total Outlays	**3364.57**	**4659.14**	**3514.72**	**5105.35**	**4207.94**	**-17.6**	**25.1**	**41.3**
General public services	834.49	1495.44	881.00	1582.17	1505.06	-4.9	80.4	14.8
Defence	218.70	223.04	185.48	-9.69	0.00	-100.0	-100.0	0.0
Public order and safety	448.19	503.55	387.03	553.62	355.36	-35.8	-20.7	3.5
Economic affairs	628.41	783.21	649.40	1088.04	635.07	-41.6	1.1	6.2
Environmental protection	4.74	5.17	4.57	5.33	4.92	-7.6	3.8	0.0
Housing and community amenities	16.72	106.95	23.74	27.41	81.69	198.0	388.5	0.8
Health	340.24	540.85	398.58	657.15	508.56	-22.6	49.5	5.0
Recreation, culture and religion	31.70	36.85	32.68	36.23	47.97	32.4	51.3	0.5
Education	609.70	689.48	697.47	794.25	705.76	-11.1	15.8	6.9
Social protection	231.66	274.61	254.78	370.82	363.56	-2.0	56.9	3.6

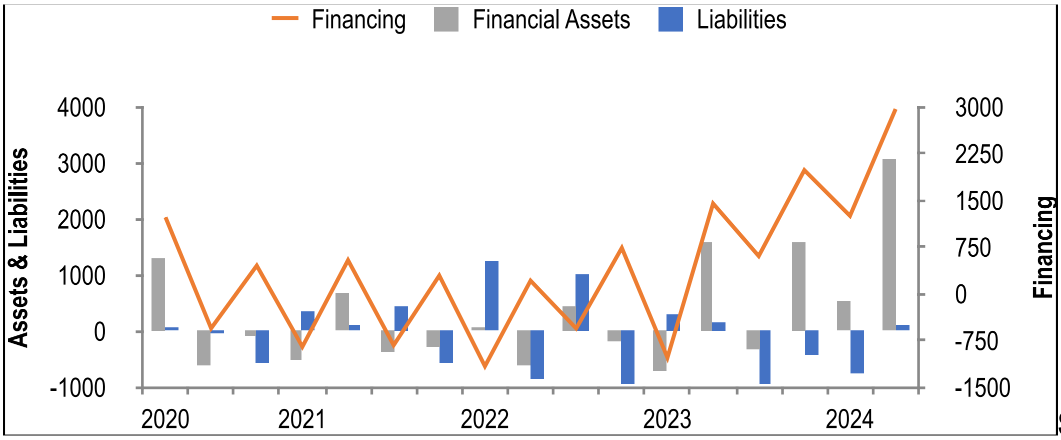
Unidentified Outlays	**523.77**	**229.61**	**201.75**	**272.13**	**186.70**			

Source: Central Bank of Lesotho and Ministry of Finance

FINANCIAL ASSETS AND LIABILITIES[3]

The budget surplus led to a build-up of government deposits within the banking sector. Despite the surplus, government liabilities grew, driven by increased supplier obligations and higher disbursements of external loans. The additional debt from multilateral creditors financed nutrition systems, agricultural production, and the Lowlands Water Development project.

Figure 20: Total Financing *(Million Maloti)*



Source: Central Bank of Lesotho and Ministry of Finance

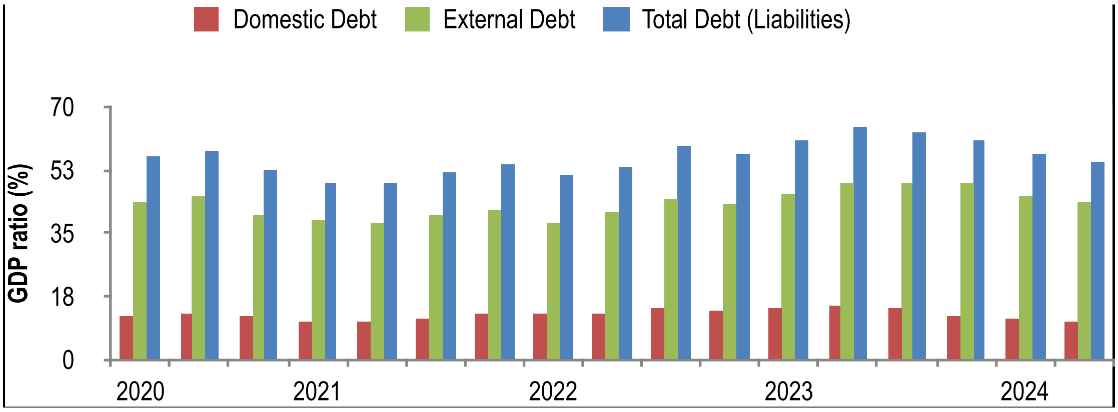
TOTAL PUBLIC DEBT[4]

The public debt stock decreased by 3.5 per cent, reversing the 0.4 per cent increase recorded in the previous quarter. This decline was driven primarily by the appreciation of the rand against major currencies in which external loans are denominated and the redemption of domestic securities. On a year-on-year basis, total debt stock fell by 7.7 per cent, reflecting reductions in both external and domestic debt levels.

Figure 21: Outstanding Public Debt *(Million Maloti)*

[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.



Source: Central Bank of Lesotho and Ministry of Finance

Table 16: Public Debt Stock *(Million Maloti)*

	2023			2024		Q-to-Q (%)	Y-on-Y (%)	Debt / GDP
	Q2	Q3	Q4	Q1	Q2			
Total Public Debt	**24279.2**	**23894.4**	**23040.54**	**23209.40**	**22405.64**	**-3.5**	**-7.7**	**55.0**
EXTERNAL DEBT	**18438.5**	**18598.6**	**18458.58**	**18453.32**	**17931.82**	**-2.8**	**-2.7**	**44.0**
Bilateral Loans	1014.75	1003.65	956.72	956.23	881.91	-7.8	-13.1	2.2
Concessional	852.57	841.84	815.09	811.51	755.79	-6.9	-11.4	1.9
Non-concessional	162.18	161.81	141.63	144.72	126.12	-12.9	-22.2	0.3
Multilateral Loans	14250.9	14010.0	13898.35	14002.50	13731.60	-1.9	-3.6	33.7
Concessional	10595.4	10446.6	10403.85	10470.32	10175.67	-2.8	-4.0	25.0
Non-concessional	3655.46	3563.42	3494.50	3532.19	3555.94	0.7	-2.7	8.7
Financial Institutions	133.15	107.57	107.57	59.90	37.75	-37.0	-71.7	0.1
Concessional	133.15	107.57	107.57	59.90	37.75	-37.0	-71.7	0.1
Non-concessional	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Suppliers' Credit	3039.74	3477.44	3495.94	3434.68	3280.56	-4.5	7.9	8.0
Concessional	1287.59	1329.66	1375.42	1369.00	1309.11	-4.4	1.7	3.2
Non-concessional	1752.14	2147.78	2120.52	2065.68	1971.46	-4.6	12.5	4.8
DOMESTIC DEBT	**5840.68**	**5295.77**	**4581.96**	**4756.08**	**4473.82**	**-5.9**	**-23.4**	**11.0**
Banks	2990.94	2276.07	1689.76	1788.79	1526.20	-14.7	-49.0	3.7
Long-term	1633.35	1688.64	1225.86	1334.39	1105.42	-17.2	-32.3	2.7
Treasury bonds	1547.51	1597.68	1225.86	1334.39	1105.42	-17.2	-28.6	2.7
Central Bank (IMF)	85.85	90.96	0.00	0.00	0.00	-	-100.0	0.0
Short-term (t-bills)	1357.59	587.43	463.90	454.41	420.78	-7.4	-69.0	1.0
Non-bank	2849.74	3019.70	2892.20	2967.29	2947.62	-0.7	3.4	7.2
Short-term (t-bills)	239.66	279.79	282.86	293.47	305.96	4.3	27.7	0.8
Long-term (t-bonds)	2610.08	2739.91	2609.34	2673.82	2641.65	-1.2	1.2	6.5
DEBT INDICATORS								
External Debt-to-Total Debt	75.94	77.84	79.85	79.51	80.03	-	-	-
Concessional Debt-to-External Debt	62.81	61.27	61.36	61.46	68.47	-	-	-
External Debt Service-to-Revenue	6.27	5.39	5.43	6.73	3.35	-	-	-
External Debt Service-to-Exports	8.11	7.16	7.03	9.60	5.57	-	-	-

Source: Central Bank of Lesotho and Ministry of Finance

6. Foreign Trade and Payments

OVERVIEW

The external sector position improved markedly in the second quarter of 2024, with an overall surplus equivalent to 27.2 per cent of GDP, up from a revised 8.5 per cent in the previous quarter. This improvement was driven by increased capital inflows associated with construction activities at LHWP II, along with higher SACU transfers.

CURRENT ACCOUNT

The current account recorded a M369.64 million surplus during the quarter, supported by positive balances in the primary income and secondary income accounts. This was partially offset by a deficit in the goods and services account. As a share of GDP, the current account balance stood at 3.6 per cent, down from 8.0 per cent in the previous quarter.

Table 17: Current Account Balance (*Million Maloti*)

	2023			2024		% Changes	
	Q2	Q3	Q4	Q1	Q2	Q/Q	Y/Y
Current Account	**-43.88**	**-182.35**	**-636.55**	**801.19**	**369.64**	**-53.9**	**942.5**
(a) Goods	-3,254.06	-3,509.85	-3,913.9	-2,897.3	-3,251.08	**-12.2**	**0.1**
Merchandise exports, f.o.b.	4,155.91	4,027.92	4,302.71	4,517.40	4,316.55	**-4.4**	**3.9**
Of which diamonds	1,221.62	930.04	1,486.73	1,478.85	1,052.42	**-28.8**	**-13.9**
Of which textiles & clothing	2,117.11	2,075.94	1,960.92	1,828.68	1,835.87	**0.4**	**-13.3**
Of which water	364.17	358.06	391.37	874.09	962.63	**10.1**	**164.3**
Of which agriculture	140.72	122.26	140.62	130.21	136.89	**5.1**	**-2.7**
Of which re-exports	34.94	94.62	65.22	40.71	46.86	**15.1**	**34.1**
Other exports	277.35	447.00	257.85	164.85	281.88	**71.0**	**1.6**
Merchandise imports, f.o.b.	7,409.97	7,537.77	8,216.70	7,414.73	7,567.63	**2.1**	**2.1**
(b) Services	**-1,791.76**	**-1,789.9**	**-1,868.61**	**-1,814.02**	**-1,836.69**	**-1.2**	**-2.5**
(c) Primary Income	**2,192.81**	**2,298.15**	**2,339.21**	**2,294.81**	**2,349.92**	**-2.4**	**7.2**
(d) Secondary Income	**2,809.12**	**2,819.31**	**2,806.84**	**3,217.73**	**3,107.49**	**-3.4**	**10.6**

Source: Central Bank of Lesotho

Merchandise Exports

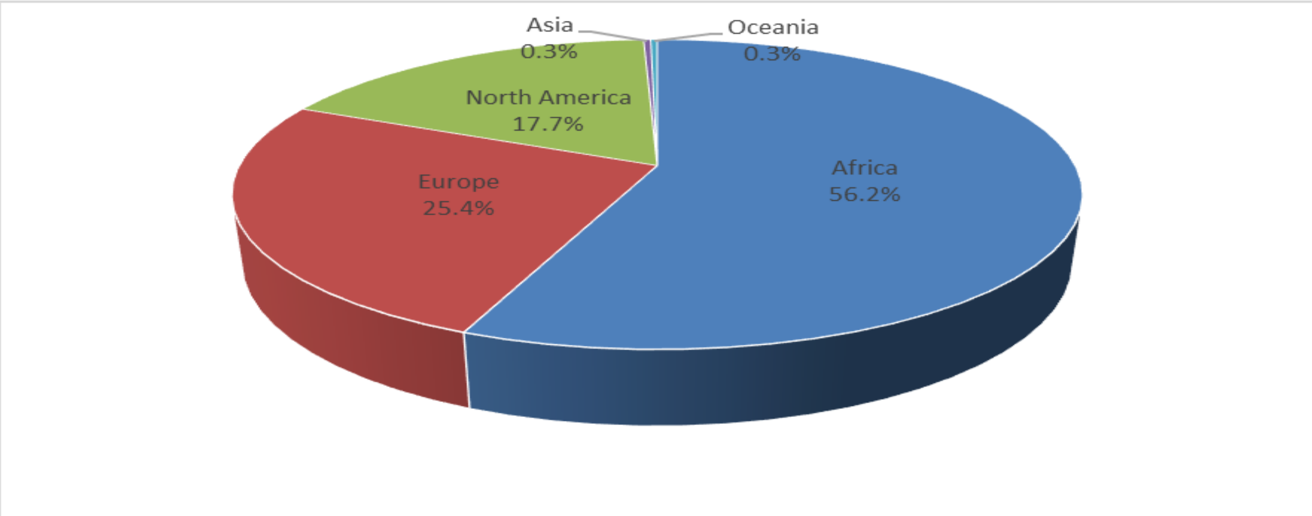
Merchandise exports fell by 4.4 per cent, reversing the 5.0 per cent increase recorded in the previous quarter. The decline was driven primarily by a lower value of diamond exports, reflecting falling global prices. In contrast, textile and clothing exports increased modestly, supported by higher orders and improved logistics in South Africa. Water exports also continued to rise, following the revision of water royalties in the first quarter of the year.

On a year-on-year basis, merchandise exports grew by 3.9 per cent, down from a 27.2 per cent increase in the preceding quarter. As a share of GDP, merchandise exports accounted for 42.6 per cent, compared to a revised 44.9 per cent in the first quarter of 2024.

Direction of Trade - Exports

Africa remained the largest destination for Lesotho's exports, accounting for 56.2 per cent in the second quarter of 2024, up from 50.3 per cent in the previous quarter. This growth was primarily driven by water sales to South Africa. Europe was the second-largest recipient, although its share declined to 25.4 per cent from 33.7 per cent, largely due to reduced diamond exports to Belgium. North America followed with a share of 17.7 per cent, up from 15.9 per cent, as textiles and clothing exports to the US increased. Asia and Oceania remained the smallest recipients, each accounting for 0.3 per cent, compared to 0.16 per cent and 0.26 per cent, respectively, in the previous quarter.

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



Source: Central Bank of Lesotho

Merchandise Imports

Merchandise imports increased by 2.1 per cent, reversing the 9.8 per cent decline recorded in the previous quarter. This increase was driven by higher imports of machinery and transport equipment as well as mineral products. Imports of machinery and transport equipment were linked to ongoing infrastructure activities and main works under LHWP Phase II, while mineral products rose due to higher demand for fuel-related products amid cold weather conditions.

On a year-on-year basis, merchandise imports grew by 2.1 per cent, compared to a 1.3 per cent decline in the preceding quarter. As a share of GDP, merchandise imports accounted for 74.6 per cent, up from 73.6 per cent in the previous quarter.

Services account

The services account deficit widened by 1.2 per cent, compared to a 2.9 per cent improvement in the previous quarter. This deterioration was primarily driven by higher freight services, in line with the increase in imports. Additionally, payments for foreign official travel and telecommunications services increased. As a percentage of GDP, the services account deficit remained steady at approximately 18.0 per cent in the second quarter of 2024.

Primary Income Account

The primary income account surplus increased by 2.4 per cent, recovering from the 1.9 per cent decline recorded in the previous quarter. This improvement was driven by higher interest income from financial institutions' investments abroad. On a year-on-year basis, the primary income account balance grew by 7.2 per cent, down from a 12.9 per cent increase in the preceding period. As a share of GDP, the primary income account surplus rose to 23.2 per cent, up from 22.8 per cent in the previous quarter.

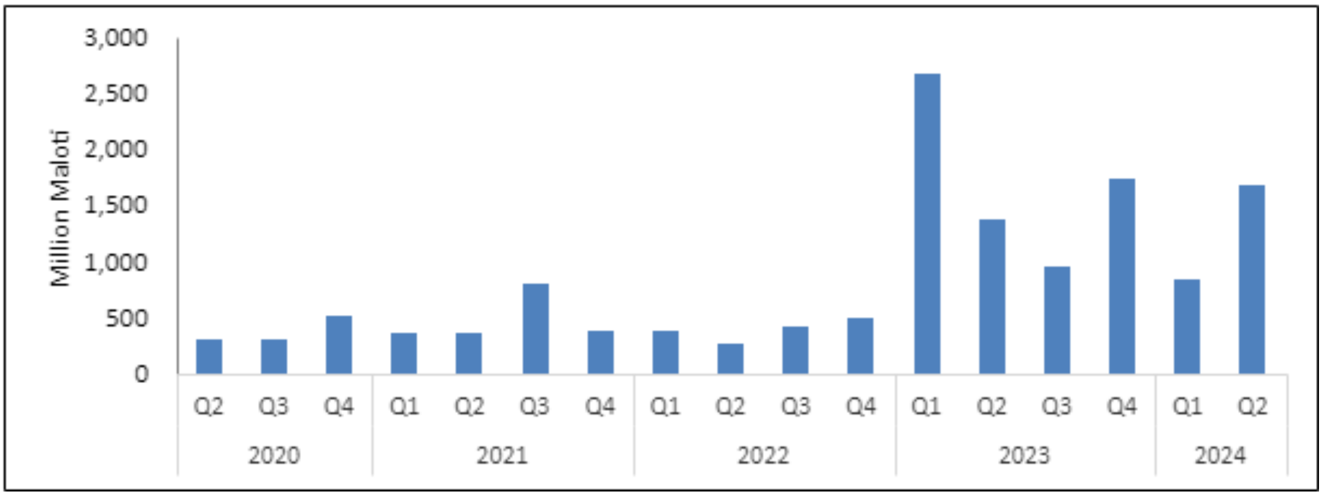
Secondary Income Account

The secondary income account surplus decreased by 3.4 per cent, following a 14.6 per cent increase in the previous quarter. This decline was attributed to higher subscriptions to international organizations. However, increased SACU receipts during the same period helped moderate the fall. On an annual basis, the surplus rose by 10.6 per cent, compared to a 59.1 per cent increase in the previous quarter. As a share of GDP, the secondary income account balance stood at 30.6 per cent, down from a revised 31.9 per cent in the first quarter of 2024.

CAPITAL ACCOUNT

Capital account inflows amounted to M1.68 billion in the second quarter of 2024, up from M851.80 million in the previous quarter. The increase in inflows was driven by higher transfers for infrastructure activities, particularly the main works of LHWP Phase II, including the construction of the transfer tunnel and the Senqu River Bridge. As a share of GDP, capital account inflows rose to 16.6 per cent, up from a revised 8.45 per cent in the first quarter of 2024.

Figure 23: Capital Account *(Million Maloti)*



Source: Central Bank of Lesotho

FINANCIAL ACCOUNT

The financial account registered a net outflow of M1.37 billion, significantly higher than the revised M96.79 million outflow recorded in the previous quarter. This was primarily driven by outflows in Direct Investment, Other Investment, and Reserve Assets. However, inflows in Portfolio Investments helped moderate the overall outflow.

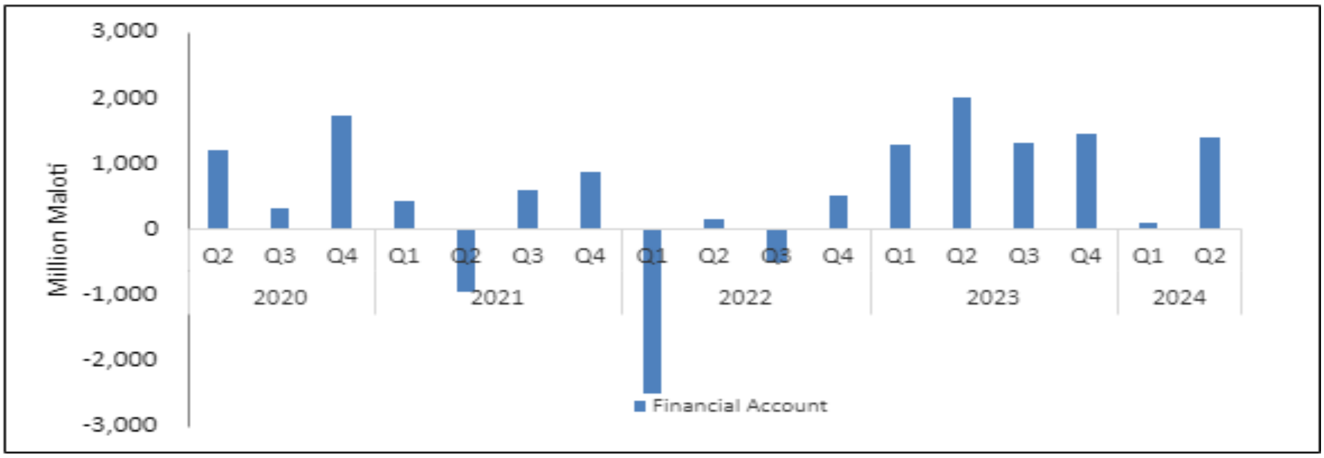
Table 18: Financial Account Balance (*Million Maloti*)

	2023			2024	
	Q2	**Q3**	**Q4**	**Q1**	**Q2**
Financial account	**2006.36**	**1295.90**	**1439.16**	**96.79**	**1378.53**
Direct Investments, net	-72.37	308.83	389.09	149.90	245.55
Portfolio Investments, net	440.57	394.73	403.70	16.49	-301.57
Financial Derivatives, net	0.00	0.00	0.00	0.00	0.00
Other Investments, net	601.00	979.08	417.97	-206.02	986.84
Of which Loans	257.02	120.31	-431.40	344.31	-285.35
Claims on Non-Residents	34.48	34.48	34.48	34.48	34.48
Liabilities to Non-Residents	-222.54	-85.83	465.88	-309.83	319.83
Of which Currency and Deposits	418.04	932.83	923.43	-476.27	1346.24
Claims on Non-Residents	400.55	859.51	1,087.08	-326.50	1014.62
Liabilities to Non-Residents	-17.49	-73.32	163.65	149.77	-331.62
Of which Special Drawing Rights	0.00	0.00	0.00	0.00	0.00
Reserve Assets	1,037.16	-386.74	228.41	136.41	447.72

Source: Central Bank of Lesotho

Direct Investment outflows rose to M245.55 million, up from M149.90 million in the previous quarter, primarily driven by loan repayments made by local entities to their foreign parent companies. Meanwhile, Other Investment outflows increased significantly to M986.84 million, following an inflow of M206.02 million in the preceding quarter. This rise was largely attributed to increased commercial banks' investments abroad, prompted by the redemption of local Treasury bonds, which were reinvested overseas. However, loan disbursements to the government moderated the overall outflows in Other Investments.

Figure 24: Financial Account *(Million Maloti)*

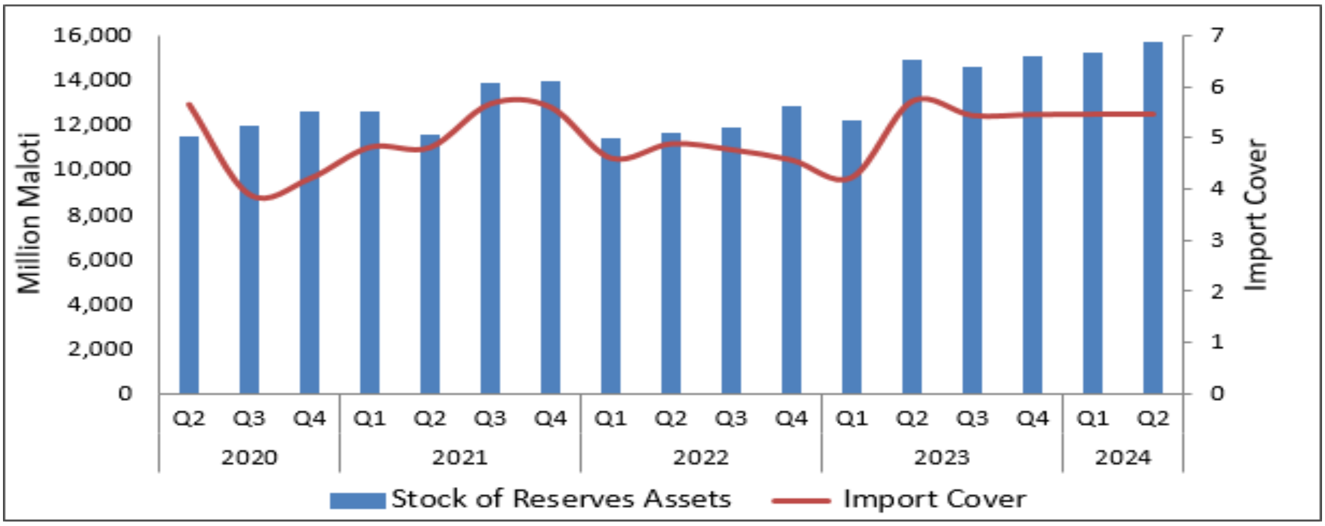


Source: Central Bank of Lesotho

RESERVE ASSETS

The stock of foreign reserves increased to M15.80 billion, up from M15.20 billion in the first quarter of 2024, driven by higher SACU receipts. This growth also aligned with the fiscal surplus recorded during the same period. Despite the increase, the months of import cover remained steady at 5.5 months, as the projected growth in imports matched the rise in reserve assets.

Figure 25: Reserve Assets



Source: Central Bank of Lesotho