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From Numbers to Insights: Understanding Lesotho's Government Financial Balance Sheet

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The views and opinions expressed in this article are those of the authors and do not necessarily reflect the official policy or position of the Central Bank of Lesotho (CBL).

1. Introduction

As debt stock accumulates over time and revenues decline, an entity or debtor will begin to default on certain obligations. This leads to a significant number of defaults on supplier payments and, subsequently, on loan repayments. Ultimately, this may reflect a general decrease in economic activity and, as a consequence, economic performance. The entity's failure to fulfil its obligation may be caused by a variety of factors, with the absence of high-frequency data on a financial balance sheet being the most significant. In the long term, the consequences of defaulting result in the accumulation of arrears, which has a detrimental impact on the creditworthiness of this entity. The entity, sector, government, or country may be unable to make prudent financial decisions for its short-term day-to-day operations or long-term sustainability in the absence of a financial balance sheet. Lesotho is not an exception in this regard.

The current fiscal database of the Government of Lesotho does not offer a

comprehensive solution to the ongoing issue of the government's pending supplier payments, which have accumulated over the years. Regrettably, the relevant entities of the Government or Treasury Department are unable to determine the amount of supplier payments that have accrued during the fiscal year, the subsequent fiscal year and, so forth, at the conclusion of each reference period. If the financial balance sheet had been prepared, it would have been significantly simpler for the government to identify the increase in payable expenditures at the conclusion of each fiscal year and, as a result, implement a more effective financial plan.

The Central Bank of Lesotho (the Bank), in its capacity as a fiscal agent for the Government of Lesotho, recognises this as a deficiency in the government's capacity to maintain clear bills. Utilising the fiscal data of the government, the Bank has constructed a financial balance sheet.

2. Key Indicators of the Financial Balance Sheet

According to the International Monetary Fund's manual on government finance statistics of 2014, the key indicators in a financial balance sheet include net worth, net financial worth,

gross debt and, net debt. They are discussed as follows:

2.1. Net worth

When we add up all of an institutional unit or grouping of units' assets and subtract all of its obligations, we get its net worth. It represents the value that would be left if all assets were sold and all liabilities were paid off. Thus, a

positive net worth indicates that an entity has more assets than liabilities, suggesting financial stability and solvency. It helps in assessing the long-term sustainability of an entity's financial position.

2.2. Net financial worth

Net financial worth is calculated using only financial assets and liabilities to assess an entity's financial health. It represents the difference between these assets and total liabilities, excluding non-financial assets such as property, equipment and, other physical assets. This measure reflects the entity's financial strength and liquidity by illustrating the balance of financial assets over liabilities. It is crucial for understanding the entity's capacity to fulfil short-term obligations without relying on the sale of non-financial assets. In addition, it is essential for evaluating the entity's debt

2.3. Gross debt

Gross debt is the total amount of money owed to creditors in the form of interest and principal that is due at some future date or dates. It includes all debt instruments' obligations, which are defined as total liabilities minus equity and investment fund shares and, financial derivatives and employee stock

2.4. Net debt

Net debt is calculated by subtracting the stock position in financial assets corresponding to debt instruments from the gross debt. This includes all financial assets or liabilities held in debt instruments excluding equity and investment fund shares and, financial derivatives and employee stock options. This measure gives a clearer picture of the actual debt burden by considering the liquid assets available. It helps in understanding the true

management strategies. A lower or negative net financial worth may indicate high levels of debt relative to financial assets, signalling financial distress and the need for improved debt management practices. This measure is a valuable tool for government policy decisions and financial planning, allowing for comparisons at the entity level or over time, thereby revealing trends in financial health and identifying areas needing attention or improvement.

options. It provides a clear picture of the total debt obligations that need to be managed. It helps in assessing the risk associated with the total debt burden and is essential for budget planning to ensuring that debt levels remain within manageable limits.

debt burden by accounting for liquid assets that offset the debt. It assists policymakers in formulating fiscal policies by providing a realistic view of the debt situation. Thus, a lower net debt indicates better creditworthiness and can lead to more favourable borrowing terms. The selected four indicators provide a comprehensive view of financial health, aiding in strategic planning and decision-making.

3. Analysis of the Financial Balance Sheet

The financial balance sheet excludes budgetary information on non-financial assets or capital expenditure, as it requires a Government Asset Registry, which currently does not exist. This newly created financial balance sheet of the Government has been compiled using the stock position of financial resources and payment obligations. These stock data have been integrated with transactional flows and other economic flows on prices and volume changes regarding the government budgetary operations, starting from January to August 2024. It elaborates important fiscal indicators of net worth, net financial worth, gross debt and net debt. A snapshot of one month Government Fiscal Financial Balance Sheet is illustrated below.

A brief analysis of this financial balance sheet shows that at the beginning of August 2024, equivalent to end of July 2024, the Government had a negative net financial worth of M11.09 billion. This means that the Government owed the creditors more than its own financial

resources, making it a net borrower. When the following flows were added - negative M618.28 million of net financial transactions and positive M22.70 million of other economic flows due to changes in prices - the financial wealth of the Government further decreased. The Government closed the reference period under review with a corresponding negative net financial worth of M11.69 billion.

What is the implication of the negative Government net financial worth to the economy of Lesotho? This means that, should the Government default or go bankrupt at any point in time, it would only have M10.88 billion of liquid assets at its disposal to settle claims worth M22.57 billion, thereby portraying the actual debt burden to the tune of a positive M11.67 billion, as measured by the net debt.

**Table 1: Government Financial Balance Sheet as at 31 August 2024,
Million Maloti**

	Opening Stock (31 July 2024)	Transactions	Other Economic Flows - Prices	Other Economic Flows - Volume Changes	Closing Stock (31 August 2024)
Net financial worth	11,090.04	618.28	22.70	0.00	11,685.62
Financial assets	11,487.60	-604.47	0.00	0.00	10,883.12
Domestic	11,487.60	-604.47	0.00	0.00	10,883.12
Currency and Deposits	10,217.34	-707.76	0.00	0.00	9,509.59
Loans	102.30	0.00	0.00	0.00	102.30
Other accounts receivable	1,167.95	103.28	0.00	0.00	1,271.24
Liabilities	22,577.63	13.81	-22.70	0.00	22,568.74
Domestic	4,163.18	97.77	0.00	0.00	4,260.96
Debt Securities	4,474.57	83.70	0.00	0.00	4,558.27
Insurance, pension, and standardized guarantee schemes	-200.00	0.00	0.00	0.00	-200.00
Other accounts payable	-111.39	14.07	0.00	0.00	-260.99
Foreign	18,414.45	-83.96	-22.70	0.00	18,307.78
Loans	18,414.45	-83.96	-22.70	0.00	18,307.78
Memo Items					
Gross debt	22,577.63	13.81	22.70	0.00	22,568.74
Net debt	11,090.04	618.28	22.70	0.00	11,685.62

Notes

A red coloured number corresponds to a negative number.

Source: Author Compilation

Developing a financial balance sheet for the government sector in Lesotho can be quite complex and may face several challenges. Financial data for the government is incomplete and of lower quality. The financial records in Lesotho are not well maintained, which may compromise data accuracy and pose a challenge to maintaining high-frequency data collection. The country, in general, lacks relevant skills in developing a

comprehensive financial balance sheet that, in addition to financial data, would cover non-financial assets and extend coverage from budgetary central government to general government or even to public sector as a whole. The inclusion of non-financial assets would produce what is called net worth, which measures the difference between total assets (financial and non-financial) and total liabilities.

3. Conclusion and Recommendation

The initiative by the Bank to construct the financial balance sheet was a good start. It is crucial for future improvements and requires institutional support among government entities. It is recommended that the Ministry of Finance collaborate with the Bank in compiling this balance sheet. This

collaboration will enhance the accuracy and comprehensiveness of the financial data. In addition, the government should invest in the capacity building for the Ministry's staff responsible for compiling the financial balance sheet.

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