

# Central Bank of Lesotho



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## QUARTERLY ECONOMIC REVIEW

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June 2022

MASERU KINGDOM OF LESOTHO

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## 1. Executive Summary

Global economic activity slowed down in the second quarter of 2022. Real GDP growth was weaker on account of lower consumer demand and spending in most economies, due to mounting inflationary pressures. In China, growth was negatively affected by the resurgence of COVID-19 cases despite the government's efforts to lift restrictions to support growth. On the contrary, in India, economic growth was expected to improve on account of higher government spending on infrastructure and structural reforms. Labour market conditions improved during the quarter under review, despite weaker growth in most economies. Most countries' recovery from COVID-19, led to improved employment.

Consumer prices continued to increase across advanced and emerging market economies. Most countries reached record high inflation figures as the war between Russia and Ukraine continued to push fuel and food prices higher. In response to the escalating consumer prices, most central banks raised their policy rates. Euro Area, Japan and China left their policy rates unchanged to support their economies, which were adversely affected by the supply disruption and the resurgence of COVID-19 cases. However, these countries signalled rate hikes in the near term to counter act the mounting inflation.

The domestic economic indicators reflected an economy under pressure in the second quarter of 2022. Economic activity continued to decline while labour markets showed mixed signals. Government employment picked up during the quarter, whereas manufacturing and migrants mineworkers employment declined. Inflationary pressures heightened for both Lesotho and South Africa (SA).

Broad money supply declined during the second quarter of 2022, because of a fall in net foreign assets, while domestic claims rose. Credit to private sector increased, underpinned by loans and advances to households. Most short-term interest rates reacted to Central Bank of Lesotho (CBL)'s pricing directives, despite the increase in CBL policy rate during the review quarter.

The Government budgetary operations were estimated to have registered a marginal fiscal surplus of 0.6 per cent of GDP during the quarter ending in June 2022 (or the first fiscal quarter) following a revised fiscal deficit of 14.0 per cent of GDP in the quarter ending in March 2022. The public debt stock was estimated at 53.0 per cent of GDP in the current quarter whereas in the previous quarter it recorded a revised 51.4 per cent of GDP.

The external sector recorded a deficit equivalent to 8.2 per cent of GDP during the second quarter of 2022, higher than a downwardly revised deficit of 4.6 per cent of GDP realised in the quarter ending in March 2022. This resulted largely from the widening current account deficit, coupled with declining capital account inflows during this period.

## 2. International Economic Developments

Economic activity generally slowed across advanced and emerging market economies in the second quarter of 2022. Real GDP growth was weaker on account of lower consumer demand and spending in most economies, due to mounting inflationary pressures. In China, growth was negatively affected by the resurgence of COVID-19 cases despite the government's efforts to lift restrictions to support growth. In contrast, in India, economic growth was expected to edge higher on account of higher government spending on infrastructure and structural reforms. Labour market conditions improved during the quarter under review, despite weaker growth in most economies. Most countries' recovery from COVID-19, led to improved employment.

Consumer prices continued to increase across advanced and emerging market economies. Most countries reached record high inflation figures as the war between Russia and Ukraine continued to push fuel and food prices higher. In response to the escalating consumer prices, most central banks raised their policy rates. Euro Area, Japan and China left their policy rates unchanged to support their economies, which were hampered by the war between Russia and Ukraine, and the resurgence of COVID-19 cases. However, these countries signalled rate hikes in the near term to counter act the mounting inflation.

**Table 1: Key World Economic Indicators**

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	Q1 2022	Q2 2022	Q1 2022	Q2 2022	Q1 2022	Q2 2022	Q1 2022	Q2 2022
<b>United States</b>	3.5	1.6	8.5	9.1	0.25	1.50	3.6	3.6
<b>Euro Area</b>	5.4	4.0	7.4	8.6	0.00	0.00	6.7	6.6
<b>Japan</b>	0.2	3.5	1.2	2.4	-0.10	-0.10	2.6	2.6
<b>United Kingdom</b>	8.7	2.9	7.0	9.4	0.75	1.25	3.7	3.8
<b>China</b>	4.8	0.4	1.5	2.5	3.70	3.70	5.8	5.5
<b>India</b>	4.1	13.5	7.0	7.0	4.00	4.90	N/A	N/A
<b>South Africa</b>	2.7	0.2	5.9	7.4	4.25	4.75	34.5	33.9

**Source:** Bloomberg, STATSSA and SARB, OECD National Accounts Statistics (database), US Bureau of Economic Analysis, National Bureau of Statistics China, Statistics Bureau of Japan, Government of India Department of Labour, United Kingdom Office for National Statistics

### ADVANCED ECONOMIES

#### United States (US)

The US economy slowed in the second quarter of 2022. The preliminary real GDP increased by 1.6 per cent, compared to an increase of 3.6 per cent in the preceding quarter. The slower GDP growth was a result of softer increases in personal consumption expenditure and private

investment. Consumer spending was adversely affected by high consumer prices. The slowdown in private investment primarily reflected the stall in construction activity, especially for homebuilding, partly due to interest rate hikes by the Federal Reserve. The unemployment rate for the US was unchanged at 3.6 per cent, as the economy continued to recover the jobs lost during the heightened COVID-19 period. Notable employment increases were observed in professional and business services as well as leisure and hospitality sectors. These developments were however, moderated by the lower demand for labour in interest rate sensitive goods producing sectors, such as, manufacturing, in the face of rate hikes by the Federal Reserve.

Consumer prices for the US increased by a record high 9.1 per cent, following an increase by 8.5 per cent in the preceding quarter. The increase was primarily on account of the surge in fuel and food costs, which have been increasing since the beginning of the war between Russia and Ukraine. Consequently, the Federal Reserve increased its Fed fund rate by 1.25 basis points to 1.50 per cent in June 2022, to tackle the escalating inflation.

## **Euro Area**

There was generally slower economic growth in the Euro Area during the second quarter of 2022. The preliminary GDP growth rate was recorded at 4.0 per cent, compared to 5.4 per cent in the previous quarter. The European economy continued to be buttressed by the reopening of many countries after the pandemic. The effect of the lifting of restrictions was, nonetheless, moderated by the high inflation rate, as well as natural gas supply disruptions into the region. The unemployment rate for the Euro Area was 6.6 per cent, slightly lower than 6.7 per cent in the previous quarter. The stable unemployment rate partly reflected the region's recovery from COVID-19, which enabled for the reopening of the economy and supported hiring, especially in the services sector. The highest employment figures were recorded in tourism, industry and construction, while jobs in agriculture dropped.

The annual inflation rate for the Euro Area was recorded at 8.6 per cent, higher than 7.4 per cent in the second quarter of 2022. This was the highest rate recorded in the region's history, partly influenced by increased demand for energy as the global economy continued to recover from COVID-19 together with supply disruption caused by the Russia's invasion on Ukraine. The European Central Bank left its key policy rate unchanged at 0.00 per cent to support the economy. However, the Bank signalled intention to raise its policy rate in the near future to control the rising inflation.

## **Japan**

Japan real GDP grew by 3.5 per cent in the second quarter of 2022. Growth was underpinned by higher consumption spending amid reduced COVID-19 restrictions. The unemployment rate for Japan remained unchanged at 2.6 per cent compared to the previous quarter, as more people left their jobs to search for better ones amid the easing effect of COVID-19 on the labour market – thus resulting in a muted impact on the unemployment rate. There was an increase in labour demand from accommodation and food services as well as manufacturing, while the construction sector lost more workers.

The inflation rate rose to 2.4 per cent, from 1.2 per cent in the first quarter of 2022. Consumer prices continued to be fuelled by the effects of the war between Russia and Ukraine, as well as the sharp depreciation of the Yen against its major trading currencies, which resulted in an increase in imported input materials and, therefore, consumer prices. The Bank of Japan left its policy rate unchanged at -0.10, to support its economy which remains vulnerable to supply bottlenecks associated with China's zero COVID-19 policy, the ongoing war between Russia and Ukraine, as well as recession fears amid interest rate hikes in major economies.

## **United Kingdom (UK)**

Slower economic growth was realised in the UK during the second quarter of 2022. The preliminary real GDP growth rate slowed to 2.9 per cent from an increase of 8.7 per cent a quarter earlier. The largest negative contribution came from a decline in government spending on test and trace, as well as vaccines programmes. These were coupled with high energy prices and rising costs of living, which dented the demand and consumption spending. Gender disparities were also believed to have weighed negatively on growth, with women's skills not being fully utilised in production. The unemployment rate thus rose slightly to 3.8 per cent from 3.7 per cent, in line with these developments.

The annual inflation rate for the UK was 9.4 per cent compared to 7.0 per cent in the previous quarter. This was the highest rate recorded in forty years, associated with the surge in costs for motor fuels and food, a result of Russia's invasion on Ukraine, which has driven oil and grain costs higher. As result, the Bank of England raised its policy rate by 50 basis points to 1.25 per cent compared to the quarter ending in March 2022. The increase was in response to the continuing upward pressure in consumer prices.

## **EMERGING MARKET ECONOMIES**

### **China**

In the second quarter of 2022, economic activity in China slowed down compared with the quarter ending in March 2022. Real GDP increased by 0.4 per cent, from an increase of 4.8 per cent in the previous quarter. The slower growth resulted from restrictions imposed to curb the increase in COVID-19 infections, which negatively affected factory output and consumer spending. These were, however, partly offset by the increase in investment in national infrastructure projects and the government's newly introduced efforts to support growth by lifting some of the COVID-19 induced restrictions. Nonetheless, the unemployment rate declined to 5.5 per cent compared to the previous quarter. More jobs were injected into the tourism sector following the lifting of travel restrictions, and thus, supporting the tourism sector.

The annual inflation rate for China was 2.5 per cent, higher than 1.5 per cent in the previous period. Transportation costs, largely driven by increased fuel prices amid the war between Russia and Ukraine, continued to put upward pressure on the inflation rate. Consumer prices were fuelled further by an increase in consumer demand, following the reduction of restrictions by the government to support economic growth. The People's Bank of China left its policy rate unchanged at 3.70 per cent between the first and second quarter of 2022, to support the ailing economy amid the increase in COVID-19 infections.

## **India**

### **India**

Economic activity for India rose further during the second quarter of 2022, with real GDP growing by 13.5 per cent, following a 4.1 per cent growth in the preceding quarter. The India economy was underpinned by robust domestic demand, which benefited from reduced COVID-19 related restrictions. Government spending was buttressed by infrastructure and structural reforms to help businesses ramp up production. These included amongst others, guaranteed loans to small and medium enterprises. The annual inflation rate for India was unchanged at 7.0 per cent in the second quarter of 2022 compared to a quarter earlier. The stable inflation rate followed the restructuring of taxes on crucial commodities, as well as the reduction of excise duty on fuel to arrest the shooting inflation sparked by the war between Russia and Ukraine. During the same period, the Reserve Bank of India raised its policy rate by 90 basis points to 4.90 per cent compared with the previous quarter to tackle the mounting inflationary pressures.

### **South Africa**

South Africa's economic growth slowed in the second quarter of 2022. Real GDP grew by 0.2 per cent following a revised growth of 2.7 per cent a quarter earlier. The slower growth was caused by, amongst others, the floods in KwaZulu - Natal, which negatively affected productivity in agriculture and manufacturing. This was coupled with the high costs of inputs, such as, fuel and fertilisers which added downward pressure on productivity. Furthermore, the country experienced countrywide power shortages which negatively affected productivity in the manufacturing and mining sectors. Nonetheless, the unemployment rate declined to 33.9 per cent from 34.5 per cent a quarter earlier. The lower unemployment rate primarily reflected more jobs in almost all sectors except the manufacturing and transport sectors. The largest employment figures were observed in the trade subsector, which continued to improve on higher consumer demand for goods despite increased consumer prices. Consumer prices in South Africa rose at an annual rate of 7.4 per cent, compared with an increase of 5.9 per cent in the first quarter of 2022. This was the highest rate recorded in thirteen years and was mostly influenced by supply disruption as the war between Russia and Ukraine evolved. Notable increases were observed in costs of transportation and food, associated with rising costs for fuel and oil, respectively. As a consequence, the Reserve Bank of South Africa increased its policy rates by 50 basis points to 4.75 per cent in light of the escalating global headwinds which were pushing the inflation rate higher.

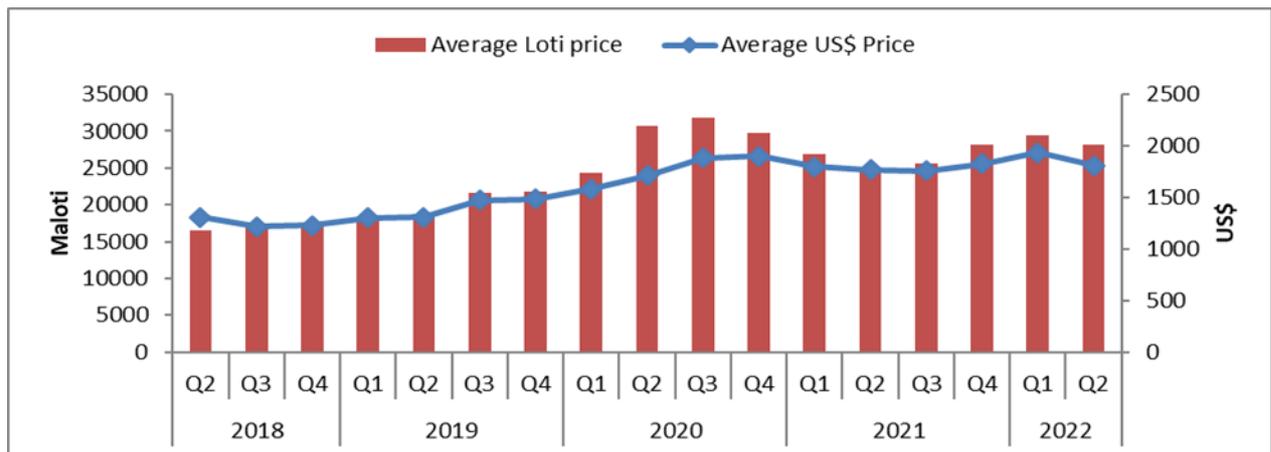
## **COMMODITIES**

### **Minerals**

## Gold

The price of gold declined during the second quarter of 2022. The price of gold fell by 6.7 per cent, following an increase of 5.9 per cent in the preceding quarter. The value of gold was adversely affected by the stronger dollar amid rising US interest rates, which dented demand and hence the price for gold as a safe haven asset. The strong value of the dollar, coupled with aggressive interest rate hikes, outweighed the effect of increasing inflation on gold prices. The loti price of gold fell by 4.5 per cent, after increasing by 4.6 per cent in the previous quarter.

**Figure 1: Average Price of Gold**

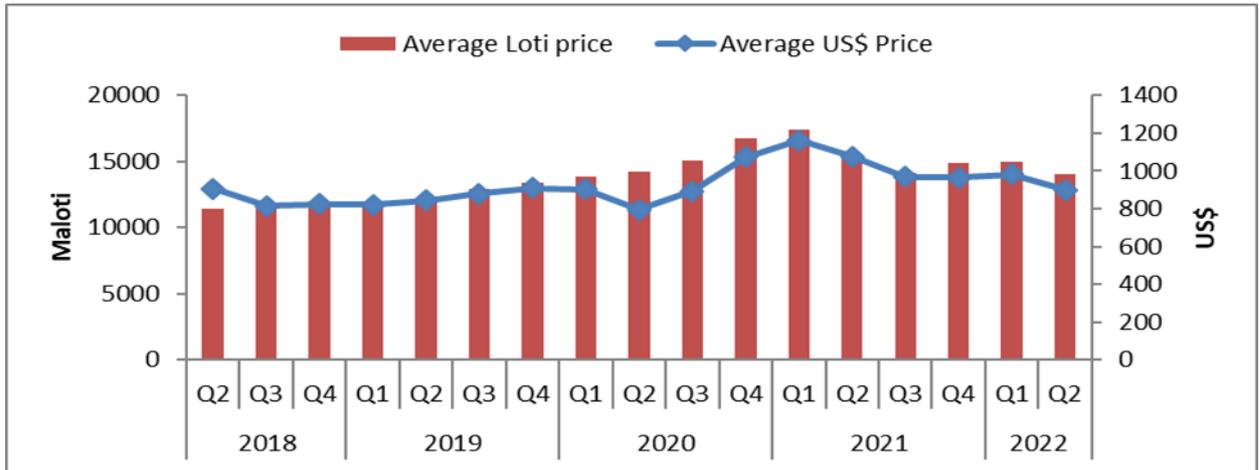


Source: Bloomberg

## Platinum

During the second quarter of 2022, platinum prices declined by 8.5 per cent, following an increase of 1.8 per cent in the previous quarter. Platinum prices retreated alongside other industrial metals, whose prices were negatively affected by lower investor sentiment amid fears of global economic recession amid rising inflation rates and global interest rates. Expressed in maloti, the price of platinum declined by 6.3 per cent compared to a slight increase of 0.6 per cent in the previous quarter.

**Figure 2: Average Price of Platinum**



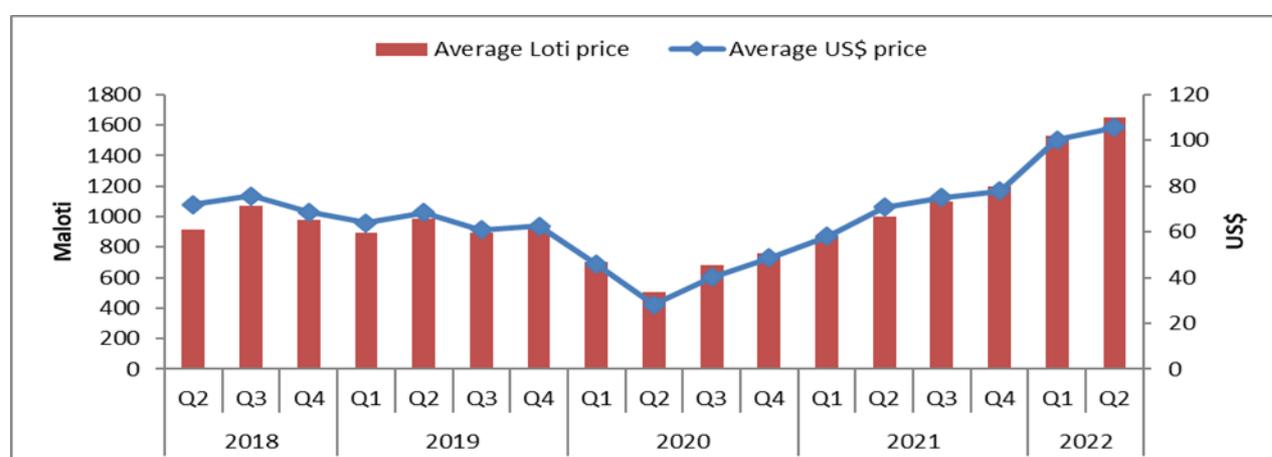
Source: Bloomberg

## Energy

### Oil

Oil prices continued to increase during the second quarter, albeit at a slower pace compared to a quarter earlier. The average dollar price of oil increased by 5.5 per cent, following an increase of 28.9 per cent during the first quarter of 2022. Oil prices continued to be affected by the war between Russia and Ukraine, edging higher following the European Union’s announcement of plans to ban oil imports from Russia by the end of 2022. The increase in oil prices was however, slower compared to the previous period, as there was an increase in US inventory and production, which partly offset the increase in oil prices. The loti price of oil rose by 8.0 per cent compared to an increase of 27.3 per cent in the preceding quarter.

**Figure 3: Average Price of Oil**



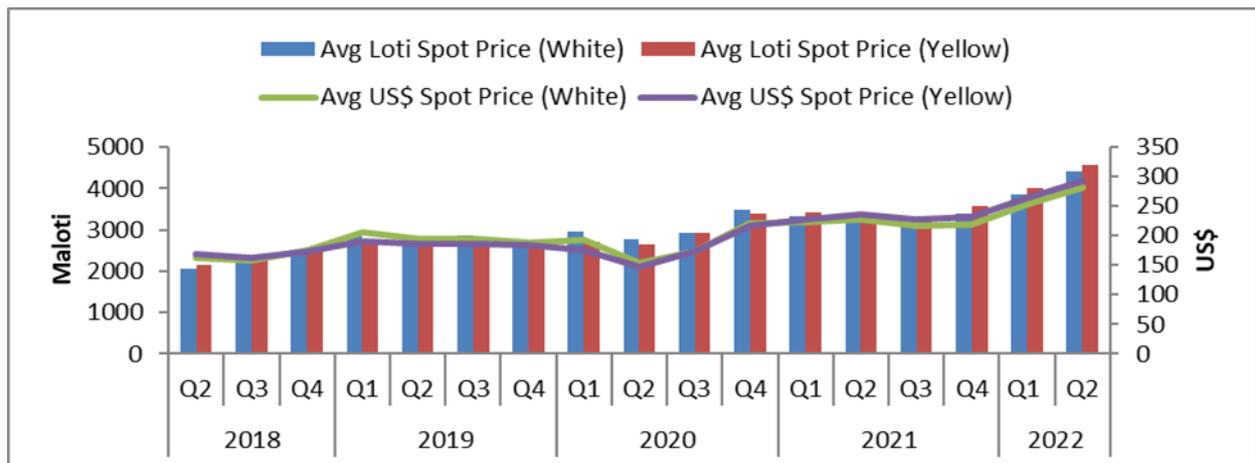
Source: Bloomberg

## Agricultural Products

### Maize

The price of maize continued to increase, although at a slower pace compared to the previous quarter. The average dollar price of white maize rose by 11.3 per cent, following an increase of 14.3 per cent during the first quarter of 2022. The Russia-Ukraine conflict continued to be the primary factor pushing maize prices up. This was coupled with high demand for ethanol – whose key ingredient is maize, as well as high maize production input costs, such as, fertiliser costs. Furthermore, the global high demand for maize in poultry, dairy and animal sectors also contributed to the increase in maize prices. Expressed in maloti, the price of white maize rose by 14.0 per cent, unchanged from the previous quarter, while the price of yellow maize rose by 13.7 per cent compared with an 11.7 per cent increase in the previous quarter.

**Figure 4: Average Price of Maize**

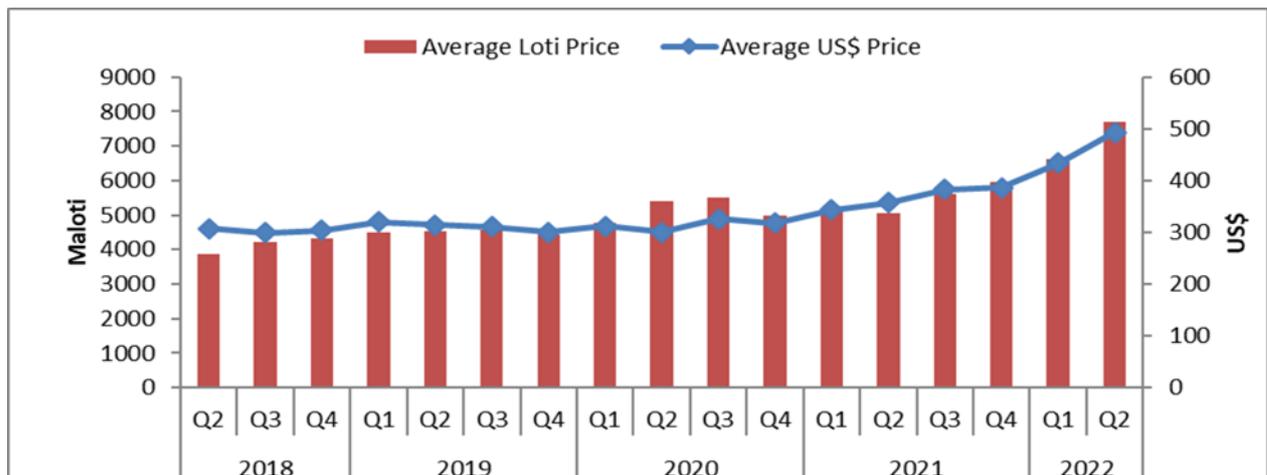


Source: Bloomberg

**Wheat**

Wheat prices extended gains in the quarter under review compared to the previous quarter. The dollar price of wheat rose by 13.5 per cent, compared to an increase of 12.5 per cent in the previous quarter. Supply side disruptions emanating from Russia’s invasion of Ukraine continued to push wheat prices higher. These were also fuelled by lower than expected wheat harvests in the US due to heavy rainfalls. Loti price of wheat increased by 16.2 per cent, from an increase of 11.2 per cent in the previous quarter.

**Figure 5: Average Price of Wheat**

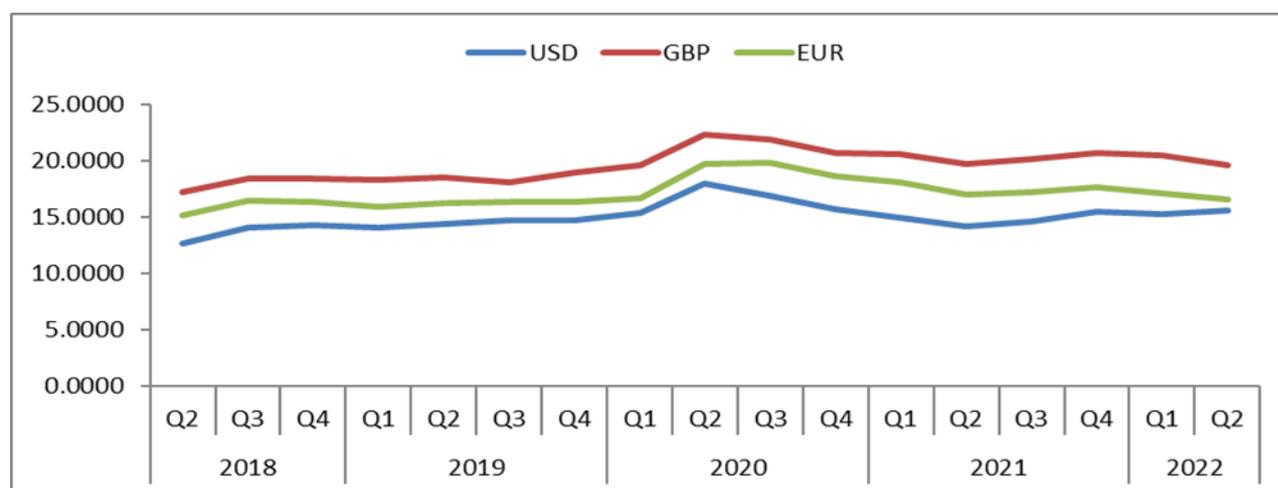


Source: Bloomberg

## EXCHANGE RATES

During the second quarter of 2022, the rand strengthened by 4.2 per cent and 3.0 per cent against the pound sterling and euro respectively. It depreciated by 2.4 per cent against the dollar. These developments followed an appreciation of the rand by 1.2 per cent, 1.3 per cent and 3.0 per cent against the dollar, the pound and the euro in the previous quarter. Against the pound and euro, the value of the rand benefitted from the war between Russia and Ukraine, which dragged the euro and pound lower. Meanwhile, the weakness of the rand against the dollar was largely on account of the stronger dollar following interest rate hikes by the Federal Reserve to combat the rising inflation. Furthermore, the rand also struggled to regain strength following floods in Kwazulu-Natal, which hampered productivity in one of the key sectors – manufacturing.

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



Source: Bloomberg

### 3. Real Sector Developments<sup>1</sup>

#### OVERVIEW

Economic indicators reflected an economy under pressure in the second quarter of 2022. Economic activity continued to contract while labour markets showed mixed signals. Government employment picked up during the quarter, whereas manufacturing and migrant mineworkers employment declined. Inflationary pressures heightened for both Lesotho and South Africa (SA).

#### OUTPUT DEVELOPMENTS

The Central Bank of Lesotho's quarterly indicator of economic activity (QIEA) signalled a slowdown in economic performance in the second quarter of 2022. The index contracted by 1.0 per cent after a decline of the same magnitude in the preceding quarter. The observed contraction was due to poor performance by the manufacturing and production category, as well as the construction subsector, while domestic demand together with the transport subsector supported growth.

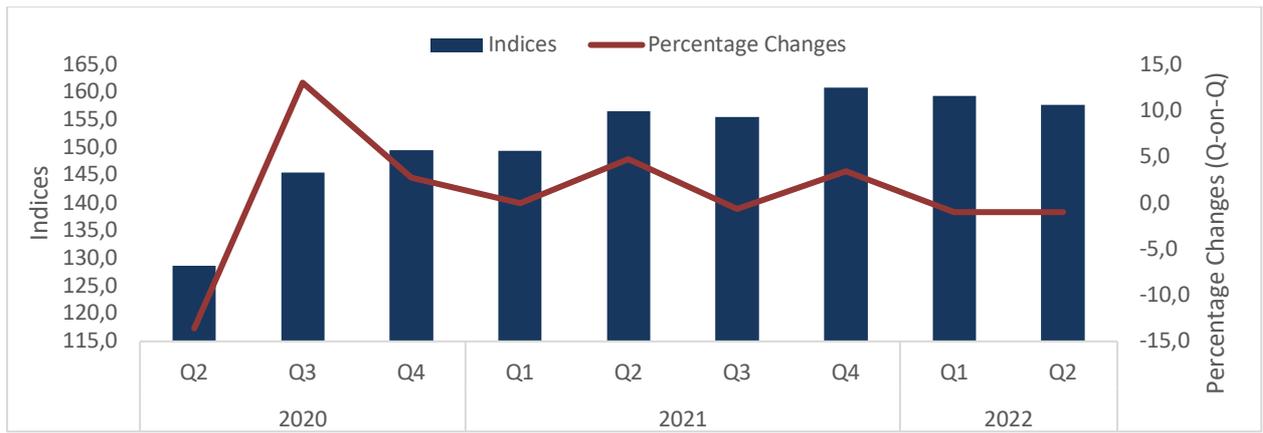
The domestic demand index showed a further growth in demand for goods and services. The index grew by 1.8 per cent following 1.3 per cent in the previous quarter. Growth was supported mainly by government activity through purchases of goods and services, as well as retail activity, even though real earnings and demand for external goods were under pressure.

The manufacturing and production index lost on the gains of the previous two quarters. The index declined by 7.6 per cent, in contrast to the 5.6 per cent growth that was realised in the preceding quarter. With the rising cost of inputs, imports of raw materials and water usage were slow. However, US demand for exports of clothing and textiles moderated the decline.

#### Figure 7: Quarterly Indicator of Economic Activity

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<sup>1</sup> 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



**Source:** Central Bank of Lesotho

**Table 2: Contributions to Growth**

Indices	2021			2022	
	Q2	Q3	Q4	Q1	Q2
<b>QIEA</b>	<b>156.6</b>	<b>155.6</b>	<b>160.9</b>	<b>159.4</b>	<b>157.8</b>
Quarter-on-quarter changes	4.8	-0.7	3.4	-1.0	-1.0
<b>Domestic Demand</b>	<b>147.6</b>	<b>143.9</b>	<b>149.2</b>	<b>151.2</b>	<b>153.9</b>
Quarter-on-quarter changes	-0.5	-2.5	3.7	1.3	1.8
<b>Manufacturing and Production Category</b>	<b>112.4</b>	<b>108.6</b>	<b>120.0</b>	<b>126.7</b>	<b>117.1</b>
Quarter-on-quarter changes	6.6	-3.4	10.5	5.6	-7.6

**Source:** Central Bank of Lesotho

## EMPLOYMENT DEVELOPMENTS

The number of employees by LNDC-assisted companies declined by 2.5 per cent in the second quarter of 2022, following a 9.3 per cent decline observed in the first quarter of 2022. The major contributions to the decline in employment was estimated to have emanated from the woven and knit garments categories, as well as footwear. The decline in employment was attributed to the closure of some firms due to lack of demand for their exports and increased costs of intermediate inputs in the production process.

**Table 3: Employment by LNDC-Assisted Companies**

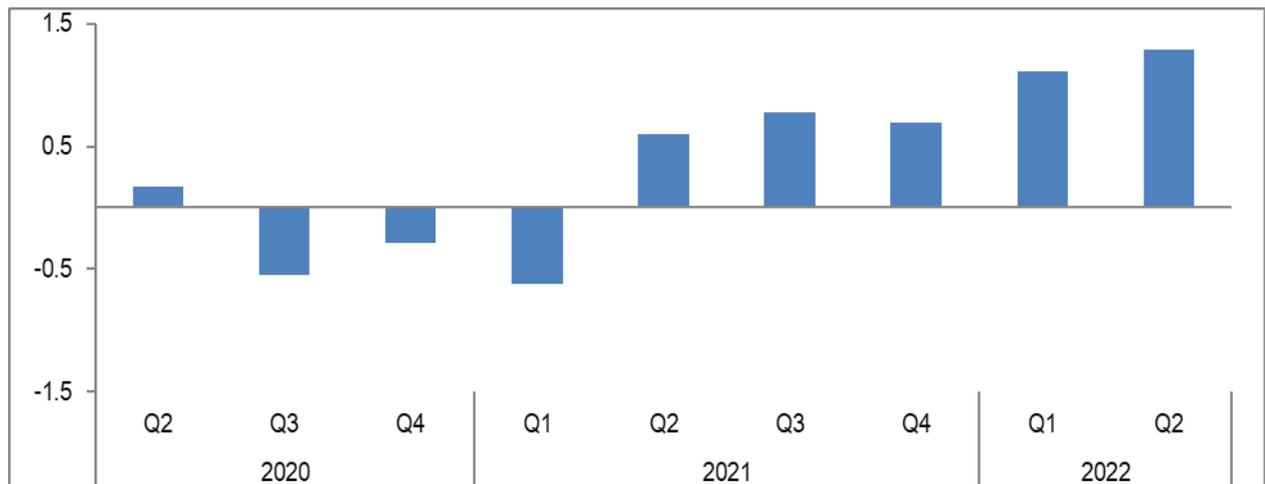
Industry	2021			2022		% Changes	
	Q2	Q3	Q4	Q1	Q2 <sup>2</sup>	Q/Q	Y/Y
Knit Garments.....	25 410	26 084	26 127	25 458	23 498	-7.7	-7.5
Woven Garments.....	9 679	9 521	9 854	10 167	9 384	-7.7	-3.0
Footwear.....	996	975	975	884	816	-7.7	-18.1
Fabrics, Yarn etc.....	328	317	362	1 466	1 466	0.0	347.0
Construction.....	347	359	411	411	411	0.0	18.4
Food & Beverages.....	561	602	612	618	618	0.0	10.2
Electronics.....	1 014	1 022	1 015	1 207	1 399	15.9	38.0
Retail.....	192	193	198	196	194	-1.0	1.0
Hotel Accom.....	249	242	312	242	223	-7.7	-10.3
Other.....	1 165	1 051	965	947	929	-1.9	-20.3
<b>TOTAL.....</b>	<b>39 941</b>	<b>40 366</b>	<b>40 831</b>	<b>41 596</b>	<b>38 938</b>	<b>-6.4</b>	<b>-2.5</b>

**Source:** Lesotho National Development Corporation

Government employment increased by 0.2 percentage points, following a 1.1 per cent growth in the first quarter of 2022. The increase was mainly due to increased number of civil servants, while the teachers' category moderated the increase.

<sup>2</sup> Estimates using the employment- output elasticity

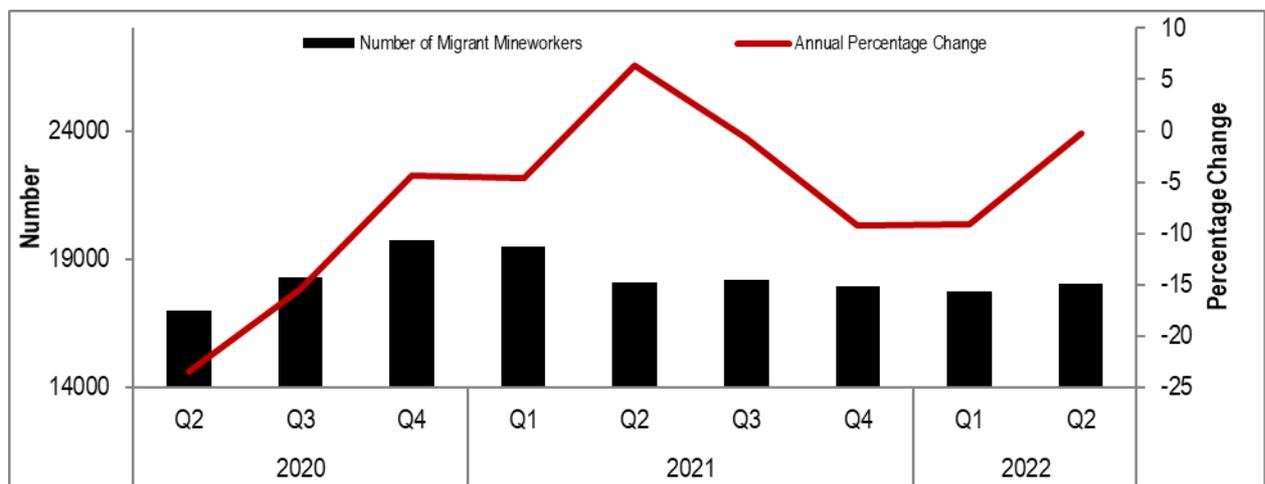
**Figure 8: Government Employment (Annual Percentage Changes)**



**Source:** Ministry of Finance

The number of migrant mine workers declined, albeit at a smaller pace compared with the decline in the preceding quarter. Employment declined by 0.3 per cent during the review period compared with 9.2 per cent recorded in the first quarter of 2022. The major driver of the decline in employment was the reduction in mining production, which was negatively affected by the continued load shedding during the review period. The slowdown in global economic growth also negatively weighed on the production prospects of the sector as demand for the products dried.

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



**Source:** The Employment Bureau of Africa (TEBA)

## PRICE DEVELOPMENTS

Headline inflation, measured by the year-on-year change in the consumer price index (CPI), accelerated from 7.2 per cent in March to 8.8 per cent in June 2022. The rise in inflation was broad-based but the major contributors to the rising rate of inflation were Food and non-alcoholic beverages, Education, and Clothing & footwear, Housing, water, electricity, gas & other fuels, Furniture, household equipment & routine maintenance and Transport. The major drivers were the rise in international prices of food and fuel, due to the effects of the Russia-Ukraine war on the supply of fuel and food items, lingering effects of COVID-19 and the currency depreciation against the US dollar.

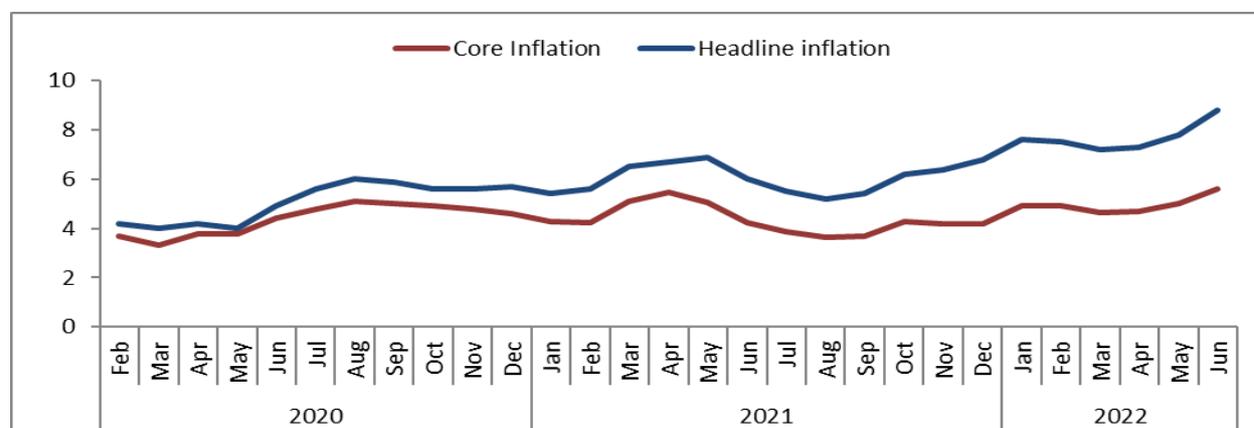
**Table 4: Inflation Rate (Annual Percentage Changes)**

	Weight	2022				
		Feb	Mar	Apr	May	Jun
<b>All items</b>	<b>1 000</b>	7.5	7.2	7.3	7.8	8.8
Food and non-alcoholic beverages	<b>361</b>	7.5	7.4	7.2	7.4	8.4
Alcoholic beverages & Tobacco	<b>33</b>	2	2.4	2.8	2.7	3.6
Clothing & footwear	<b>131</b>	6.5	7.1	7.3	8	8.5
Housing, water, electricity, gas & other fuels	<b>124</b>	16.7	15.2	15.0	17.2	19.8
Furniture, households equipment & routine maintenance	<b>85</b>	4.3	4.3	4.1	4.6	5.3
Health	<b>15</b>	1.3	1.5	1.3	1.4	1.2
Transport	<b>48</b>	14	13.8	16.7	18.1	20.0
Communications	<b>21</b>	0.4	0.4	0.4	0.4	1.2
Recreation & Culture	<b>57</b>	1.5	1.2	1.3	1.3	1.2
Education	<b>42</b>	8.1	5.7	5.7	5.7	5.7
Restaurant & Hotels	<b>10</b>	7.2	5.9	5.9	5.8	5.8
Miscellaneous goods & services	<b>73</b>	1.6	1.2	1.3	1.3	1.5

**Source:** Bureau of Statistics

Core inflation also rose on account of increased demand pressures amid negative supply side shocks during the review period. It rose from 4.6 per cent in March to 5.6 per cent in June 2022.

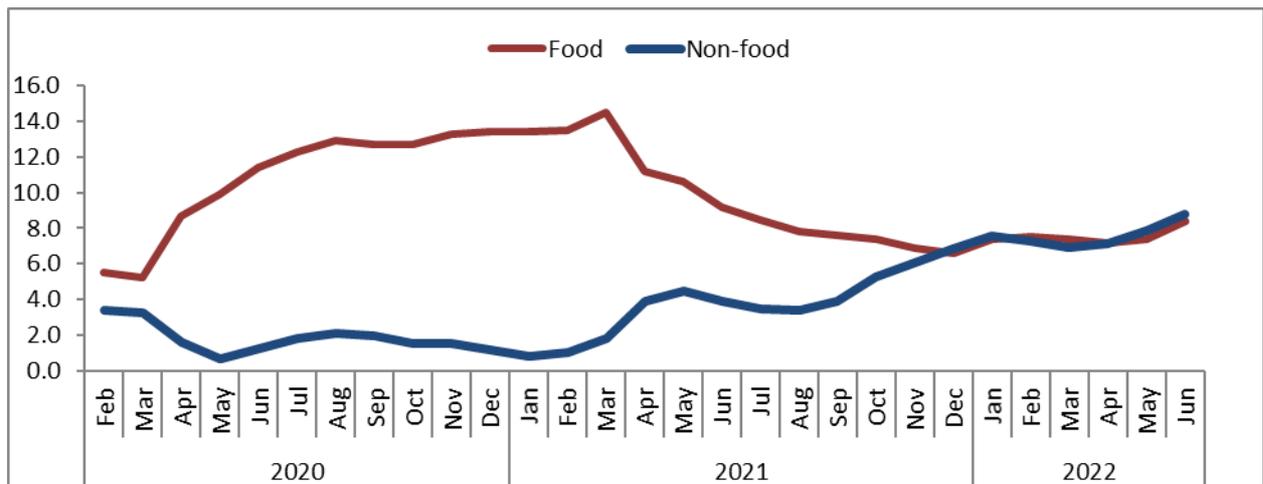
**Figure 10: Core vs Headline Inflation (Annual Percentage Changes)**



**Source:** Central Bank of Lesotho Computations

Both food and non-food inflation rose during the review period. Food inflation rose mainly due to the rise in international food prices, strong demand and rand exchange rate depreciation against the U.S dollar. Non-food inflation increased at the back of rising energy prices and costs of intermediate inputs which was exacerbated by high shipping costs.

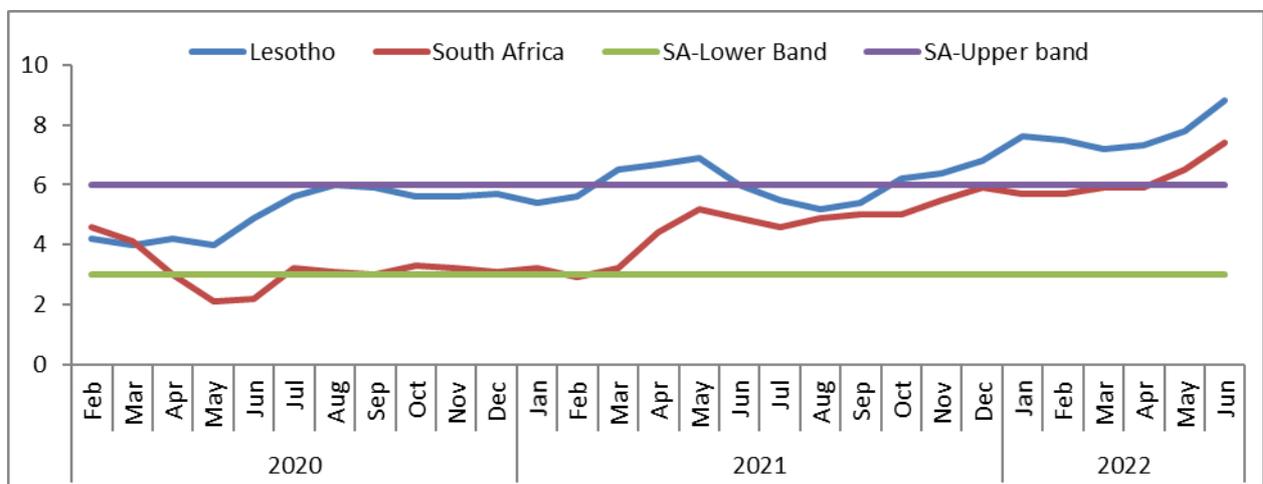
**Figure 11: Food vs Non-food Inflation (Annual Percentage Changes)**



**Source:** Bureau of Statistics and Central Bank of Lesotho Computations

Headline inflation in Lesotho and South Africa continued to rise in June 2022 compared with March 2022. South Africa’s headline inflation increased by 1.5 percentage points to 7.4 per cent, breaching the upper band of the inflation target range of 3.0 – 6.0 per cent. Headline inflation for Lesotho remained persistently higher than that of South Africa.

**Figure 12: Lesotho and South Africa's Inflation (Annual percentage changes)**



**Source:** Bureau of Statistics, Statistics South Africa

## 4. Monetary and Financial Developments

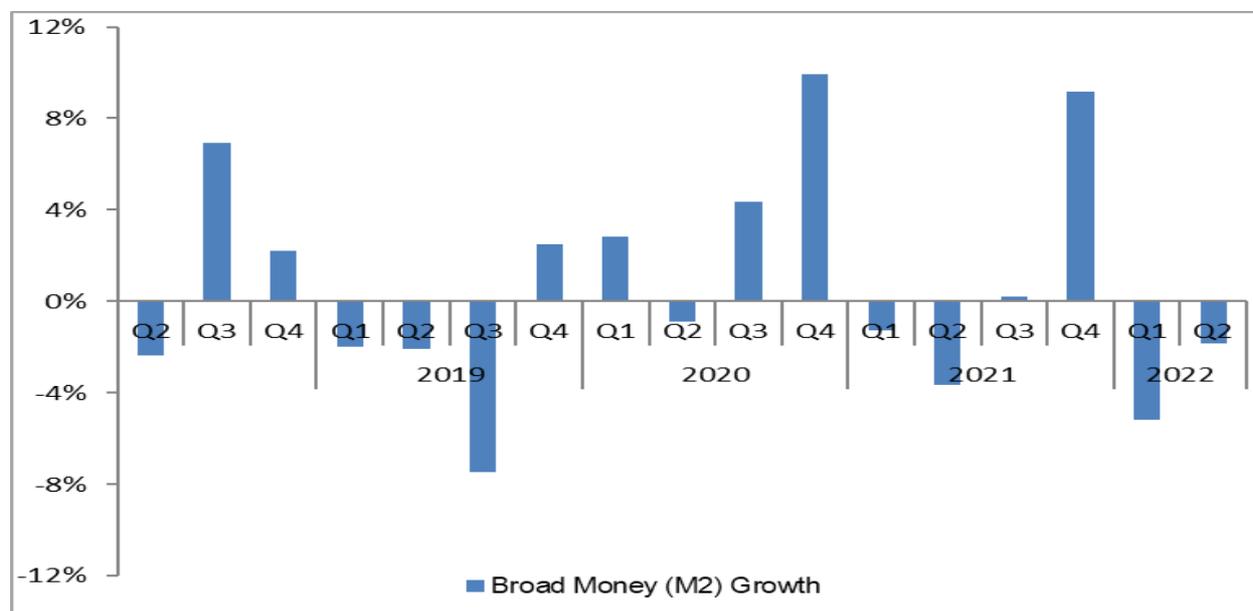
### OVERVIEW

During the second quarter of 2022, broad money supply declined because of a fall in net foreign assets, while domestic claims rose. Credit to private sector increased, mainly underpinned by loans and advances to households. Most short-term interest rates reacted to Central Bank of Lesotho (CBL)'s pricing directives, despite the increase in CBL policy rate during the review quarter.

### BROAD MONEY (M2)

The broadly defined money supply (M2) fell by 1.9 per cent in the second quarter of 2022, following a decline of 5.2 per cent in the preceding quarter. This was brought down by a 3.4 per cent contraction in net foreign assets, which was offset by a 12.4 per cent growth in net domestic claims. On a year-on-year basis, M2 grew by 1.9 per cent, compared to an increase of 0.05 per cent in March 2022. In real terms, it declined by 10.7 per cent, following a 12.4 per cent fall in the previous quarter.

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



Source: Central Bank of Lesotho

### Determinants of M2

#### Domestic Claims

Domestic claims rose by 12.4 per cent, from a decline of 8.7 per cent recorded in March 2022. Domestic claims benefitted from an increase of 14.4 per cent in net claims on government and 3.1 per cent in claims on other sectors. The increase in net claims on government resulted from a drawdown in government deposits held with the central bank. The growth in claims on other sectors was supported by a rise in credit extended to other financial corporations, particularly, the rise in credit to microfinance institutions, as well as loans and advances to the private sector.

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

	2021			2022		Changes (%)	
	Q2	Q3	Q4	Q1	Q2	Quarterly	Annual
<b>Domestic Claims</b>	<b>4 028.78</b>	<b>5 102.22</b>	<b>5 636.75</b>	<b>5 321.91</b>	<b>5 982.48</b>	<b>12.4</b>	<b>48.5</b>
<b>Net Claims on Government</b>	<b>-3 776.40</b>	<b>-3 235.30</b>	<b>-2 955.72</b>	<b>-2 852.82</b>	<b>-2 443.40</b>	<b>14.4</b>	<b>35.3</b>
<b>Commercial Banks Net Claims</b>	<b>-52.37</b>	<b>182.86</b>	<b>535.75</b>	<b>749.49</b>	<b>409.85</b>	<b>-45.3</b>	<b>882.6</b>
Claims on Central Government	1 925.37	2 036.39	2 405.61	2 524.75	2 403.51	-4.8	24.8
Liabilities to Central Government	1 977.74	1 853.53	1 869.86	1 775.27	1 993.66	12.3	0.8
<b>Central Bank Net Claims</b>	<b>-3 724.02</b>	<b>-3 418.16</b>	<b>-3 491.47</b>	<b>-3 602.31</b>	<b>-2 853.25</b>	<b>20.8</b>	<b>23.4</b>
Claims on Central Government	224.92	230.20	139.33	139.33	98.39	-29.4	-56.3
Liabilities to Central Government	3 948.95	3 648.37	3 630.80	3 741.64	2 951.64	-21.1	-25.3
<b>Claims on Other Sectors</b>	<b>7 805.18</b>	<b>8 337.52</b>	<b>8 592.47</b>	<b>8 174.73</b>	<b>8 425.87</b>	<b>3.1</b>	<b>8.0</b>
<i>Claims on OFCs</i>	204.68	138.31	144.12	162.17	248.74	53.4	21.5
<i>Claims on Public Nonfinancial Corporations</i>	59.95	81.34	60.21	51.48	53.08	3.1	-11.5
<i>Claims on St &amp; Local Government</i>	-	-	-	-	-	-	-
<b>Claims on Private Sector</b>	<b>7 540.54</b>	<b>8 117.88</b>	<b>8 388.14</b>	<b>7 961.08</b>	<b>8 124.05</b>	<b>2.0</b>	<b>7.7</b>
Claims on Business Enterprises	2 042.89	2 191.35	2 072.61	2 068.10	2 068.76	0.0	1.3
Claims on Households	5 497.65	5 926.54	6 315.53	5 892.99	6 055.30	2.8	10.1

**Source:** Central Bank of Lesotho

### **Net Foreign Assets**

The overall net foreign assets (NFA) fell by 3.4 per cent, following a decline of 5.8 per cent recorded in the previous quarter. This was due to a contraction in both the commercial banks and central bank's NFA by 1.6 per cent and 4.6 per cent, respectively. The decline in commercial banks' NFA on the one hand, was mainly driven by a drawdown in foreign holdings to finance domestic credit demand. The fall in the Central Bank's NFA was, on the other hand, commensurate with the government spending observed during the quarter.

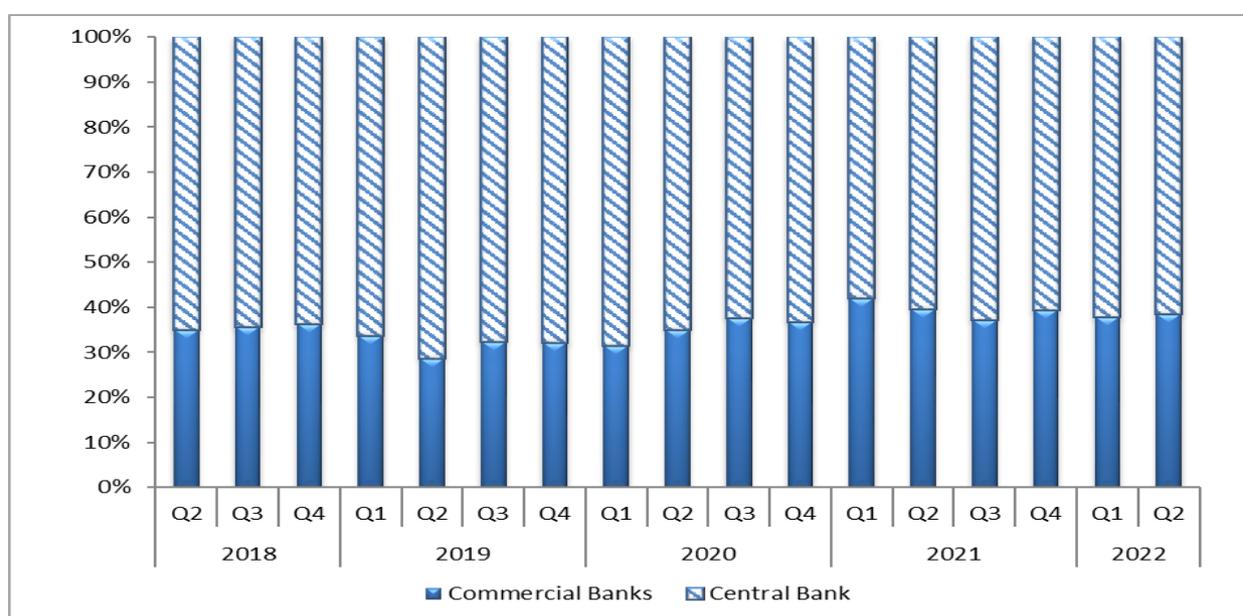
**Table 4: Net Foreign Assets (Million Maloti: End Period)**

	2021			2022		Changes (%)	
	Q2	Q3	Q4	Q1	Q2	Quarterly	Annual
<b>Commercial Banks</b>	<b>6 758.09</b>	<b>6 267.31</b>	<b>6 965.49</b>	<b>6 262.67</b>	<b>6 165.51</b>	<b>-1.6</b>	<b>-8.8</b>

Claims on Non-residents	6 996.93	6 544.39	7 451.12	6 605.03	6 468.28	-2.1	-7.6
Liabilities to Non-residents	238.84	277.09	485.62	342.36	302.78	-11.6	26.8
<b>Central Bank</b>	<b>10 269.76</b>	<b>10 530.59</b>	<b>10 671.12</b>	<b>10 319.22</b>	<b>9 845.63</b>	<b>-4.6</b>	<b>-4.1</b>
Claims on Non-residents	11 872.84	13 632.78	13 674.28	13 165.69	12 735.98	-3.3	7.3
Liabilities to Non-residents	1 603.07	3 102.18	3 003.16	2 846.47	2 890.35	1.5	80.3
<b>Net Foreign Assets Total</b>	<b>17 027.85</b>	<b>16 797.90</b>	<b>17 636.61</b>	<b>16 581.89</b>	<b>16 011.13</b>	<b>-3.4</b>	<b>-6.0</b>

Source: Central Bank of Lesotho

Figure 9: Net Foreign Assets (Percentage shares)



Source: Central Bank of Lesotho

## Components of M2

In terms of the broad money components, the decline in M2 was attributable to a fall in the narrow money (M1), whereas quasi money increased. M1 declined by 5.1 per cent in June, following a fall of 6.7 per cent in the previous quarter. This was driven by a decrease in currency in circulation, coupled with a fall in transferable deposits held by the private sector. Conversely, quasi money rose by 1.0 per cent, compared to a decline of 3.6 per cent in the first quarter of 2022. This resulted from an increase in fixed time deposits held by public nonfinancial corporations.

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

	2021	2022	Changes (%)
--	------	------	-------------

	Q2	Q3	Q4	Q1	Q2	Quarterly	Annual
	3	13					
<b>Broad Money (M2)</b>	<b>564.11</b>	<b>595.12</b>	<b>14 842.37</b>	<b>14 076.89</b>	<b>13 815.35</b>	<b>-1.9</b>	<b>1.9</b>
	6	6	7				
<b>Narrow Money (M1)</b>	<b>407.47</b>	<b>289.92</b>	<b>121.42</b>	<b>6 639.66</b>	<b>6 303.45</b>	<b>-5.1</b>	<b>-1.6</b>
Currency Outside DCs	1 164.62	1 287.24	1 356.57	1 207.36	1 131.34	<b>-6.3</b>	<b>-2.9</b>
Transferable Deposits	5 242.84	5 002.68	5 764.85	5 432.30	5 172.10	<b>-4.8</b>	<b>-1.3</b>
<b>Quasi Money</b>	<b>7 156.64</b>	<b>7 305.20</b>	<b>7 720.95</b>	<b>7 437.22</b>	<b>7 511.90</b>	<b>1.0</b>	<b>5.0</b>
Other Deposits Commercial Banks	7 150.95	7 303.26	7 718.34	7 435.07	7 509.74	<b>1.0</b>	<b>5.0</b>
Other Deposits Central Bank	5.69	1.94	2.61	2.16	2.16	<b>0.2</b>	<b>-62.0</b>

**Source:** Central Bank of Lesotho

## CREDIT EXTENSION

Private sector credit rose by 2.0 per cent in June 2022, following a marginal growth of 0.02 per cent in March 2022. This was supported by an improvement in loans extended to businesses and households. On an annual basis, private sector credit increased by 7.7 per cent, after 7.4 per cent growth in the previous quarter. Measured in real terms, private sector credit fell by 6.8 per cent, relative to a decline of 7.2 per cent in the previous quarter.

## Trends in Credit Extended to Business Enterprises

The total loans and advances granted to the business sector grew by 0.03 per cent in June 2022, from a decline of 0.2 per cent in March 2022. The increased demand for credit to finance investment and the rise in the utilization of overdraft facilities were offset by loan repayments. Annually, the overall credit to business enterprises rose by 1.3 per cent, following an increase of 1.5 per cent in the previous quarter.

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

SECTOR	2021		2022			Changes (%)	
	Q2	Q3	Q4	Q1	Q2	Quarterly	Annual
Agriculture	72.34	81.34	90.83	77.02	73.93	<b>-4.0</b>	<b>2.2</b>
Mining	313.40	402.72	284.68	288.95	263.47	<b>-8.8</b>	<b>-15.9</b>
Manufacturing	27.27	32.57	48.90	66.27	70.73	<b>6.7</b>	<b>159.4</b>
Electricity, gas and water	8.37	6.97	5.45	7.34	5.88	<b>-19.9</b>	<b>-29.8</b>
Construction	342.23	341.32	311.53	304.38	317.58	<b>4.3</b>	<b>-7.2</b>
Wholesale, Retail, Hotel & Restaurant	385.19	377.91	412.37	400.40	394.77	<b>-1.4</b>	<b>2.5</b>
Transport, Storage and Communication	367.70	407.79	436.98	415.33	406.72	<b>-2.1</b>	<b>10.6</b>
NBFIs, Real Estate and Business Services	511.74	527.45	470.06	500.89	529.49	<b>5.7</b>	<b>3.5</b>
Community, Social & Personal Service	14.64	13.26	11.81	7.52	6.18	<b>-17.8</b>	<b>-57.8</b>
<b>All Sectors</b>	<b>2 042.89</b>	<b>2 191.35</b>	<b>2 072.61</b>	<b>2 068.10</b>	<b>2 068.76</b>	<b>0.0</b>	<b>1.3</b>

**Source:** Central Bank of Lesotho

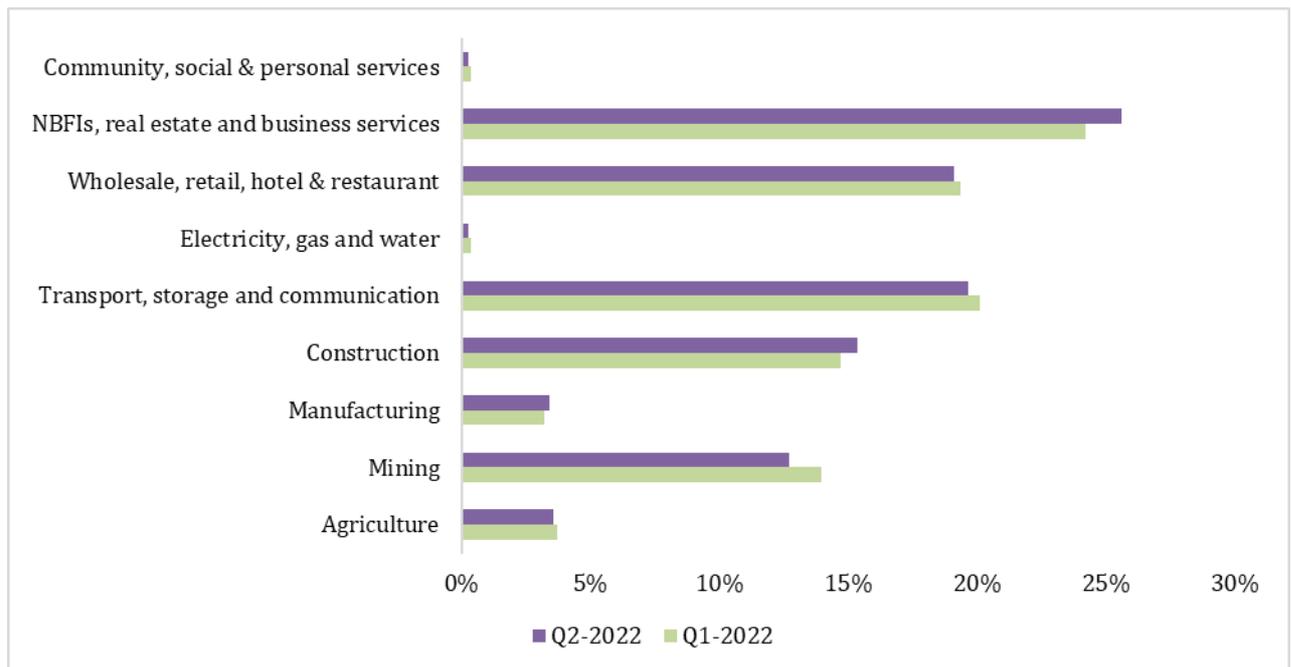
## **Distribution of credit Extended to Business Enterprises**

, The largest proportion of credit to business enterprises, 25.6 per cent, was allocated to the non-bank financial institutions, real estate & business services sector. The second largest share went to transport, storage & communication sector, which got 19.7 per cent. The smallest shares of credit were allocated to the community, social & personal service and electricity, gas & water sectors, with shares of 0.3 per cent each. The allocation of credit to sectors identified by the National Strategic Development Plan (NSDP) II<sup>3</sup>, as potential sectors for job creation and achievement of inclusive economic growth, stood at 71.3 per cent during the quarter under review.

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

**Figure 10: Distribution of Credit (Percentage Shares)**

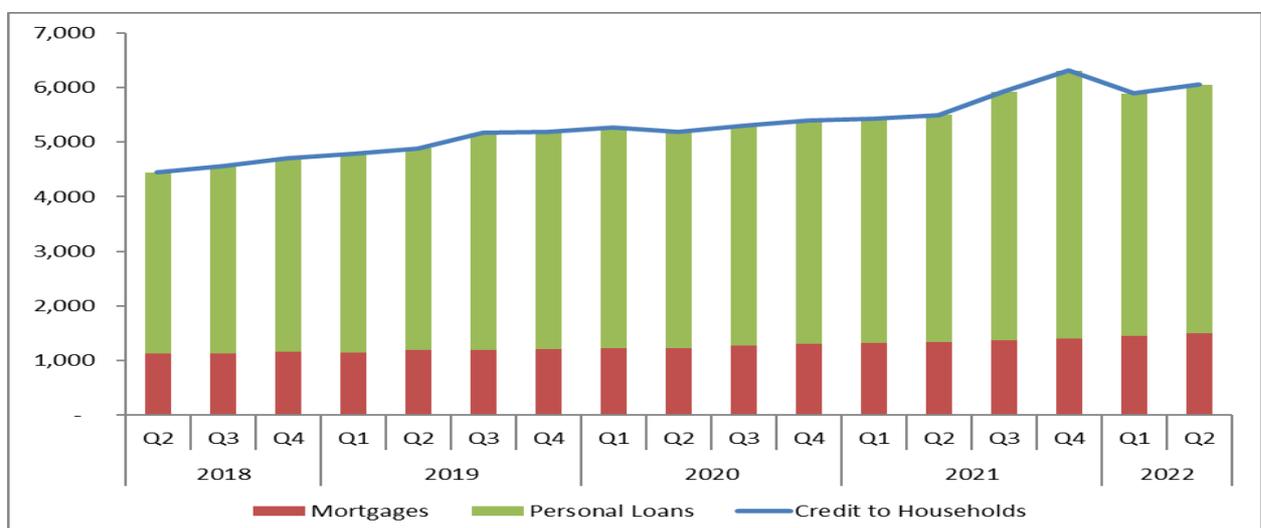


**Source:** Central Bank of Lesotho

### Credit extended to Households

Credit extension to the household sector rose by 2.8 per cent, following a sluggish growth of 0.1 per cent during the quarter ending in March 2022. The increase emanated from a 4.0 per cent growth in mortgage loans and 2.4 per cent rise in personal loans. Mortgage loans benefitted from new loans and advances, while the growth in personal loans was explained by technological advancement in the credit market. On an annual basis, household credit accelerated from 9.7 per cent to 10.1 per cent between the two quarters.

**Figure 11: Credit Extension to Household (Million Maloti)**



Source: Central Bank of Lesotho

## LIQUIDITY OF COMMERCIAL BANKS

### Components of liquidity

The credit to deposit ratio grew to 54.5 per cent, from 53.4 per cent observed in the first quarter of 2022. This was on account of the growth in private sector credit, while total deposits remained relatively unchanged. The liquidity ratio increased by 0.2 percentage points and stood at 44.2 per cent, owing mainly to an increase in net balances due from banks in South Africa.

**Table 7: Components of Liquidity (Million Maloti)**

	2021			2022	
	Q2	Q3	Q4	Q1	Q2
<b>Credit to Deposit Ratio</b>	<b>51.5%</b>	<b>54.8%</b>	<b>50.9%</b>	<b>53.4%</b>	<b>54.5%</b>
Private Sector Credit	7 432.96	7 785.84	7 849.43	7 847.67	8 012.89
Total Deposits	14 445.79	14 209.62	15 421.30	14 705.48	14 712.15
<b>Liquidity Ratio</b>	<b>41.4%</b>	<b>45.8%</b>	<b>43.8%</b>	<b>44.0%</b>	<b>44.2%</b>
Notes and Coins	564.86	531.65	734.29	551.10	553.98
Net Balance due from banks in Lesotho	1.10	-1.93	-4.18	-5.20	-0.05
Net Balance due from banks in SA	3 645.44	3 723.86	3 554.91	3 394.62	3 586.15
Surplus funds	-156.79	224.26	71.27	0.93	-36.82
Government Securities	1 925.37	2 036.39	2 405.61	2 524.75	2 403.51
<b>Total</b>	<b>5 979.98</b>	<b>6 514.23</b>	<b>6 761.90</b>	<b>6 466.21</b>	<b>6 506.78</b>

Source: Central Bank of Lesotho

### Commercial Banks Sources of Funds

The commercial banks' total deposit liabilities marginally rose by 0.1 per cent in the first quarter, compared to a decline of 4.6 per cent registered in the previous period. The fall in transferable deposits included in broad money was offset by the increases in other deposits included in broad money and deposits excluded in broad money. The growth in deposits excluded in broad money was supported by an increase in deposits held by government ministries and the extra budgetary government institutions. Annually, total deposits rose by 1.8 per cent, following a fall of 2.4 per cent in the previous quarter.

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

	2021			2022		Changes (%)	
	Q2	Q3	Q4	Q1	Q2	Quarterly	Annual
<b>Transferable Deposits Incl. in BM</b>	<b>5 242.84</b>	<b>5 002.68</b>	<b>5 764.85</b>	<b>5 432.30</b>	<b>5 172.10</b>	<b>-4.8</b>	<b>-1.3</b>
Other Financial Corporations	75.48	110.65	84.52	26.72	35.81	<b>34.0</b>	<b>-52.5</b>
Public Nonfinancial Corporations	59.11	72.73	67.10	25.86	38.09	<b>47.3</b>	<b>-35.6</b>
Private Sector	5 099.48	4 796.76	5 580.45	5 375.72	5 053.24	<b>-6.0</b>	<b>-0.9</b>
Other NFCs	3 487.60	3 163.62	3 852.96	3 616.10	3 373.51	<b>-6.7</b>	<b>-3.3</b>

	2021			2022		Changes (%)	
	Q2	Q3	Q4	Q1	Q2	Quarterly	Annual
Other Sectors (Households)	1 611.89	1 633.14	1 727.49	1 759.62	1 679.73	-4.5	4.2
<b>Other Deposits Incl. in BM</b>	<b>7 150.95</b>	<b>7 303.26</b>	<b>7 718.34</b>	<b>7 435.07</b>	<b>7 509.74</b>	<b>1.0</b>	<b>5.0</b>
Other Financial Corporations	191.27	253.72	89.59	273.57	258.62	-5.5	35.2
Public Nonfinancial Corporations	228.98	160.23	191.05	260.27	373.76	43.6	63.2
Private Sector	6 730.70	6 889.32	7 437.70	6 901.23	6 877.36	-0.3	2.2
Other NFCs	4 372.71	4 437.36	4 943.74	4 302.03	4 276.71	-0.6	-2.2
Other Sectors (Households)	2 357.99	2 451.96	2 493.95	2 599.19	2 600.65	0.1	10.3
<b>Deposits excluded in BM</b>	<b>2 052.00</b>	<b>1 903.69</b>	<b>1 938.11</b>	<b>1 838.11</b>	<b>2 030.31</b>	<b>10.5</b>	<b>-1.1</b>
<b>Total Deposits</b>	<b>14 445.79</b>	<b>14 209.62</b>	<b>15 421.30</b>	<b>14 705.48</b>	<b>14 712.15</b>	<b>0.0</b>	<b>1.8</b>

Source: Central Bank of Lesotho

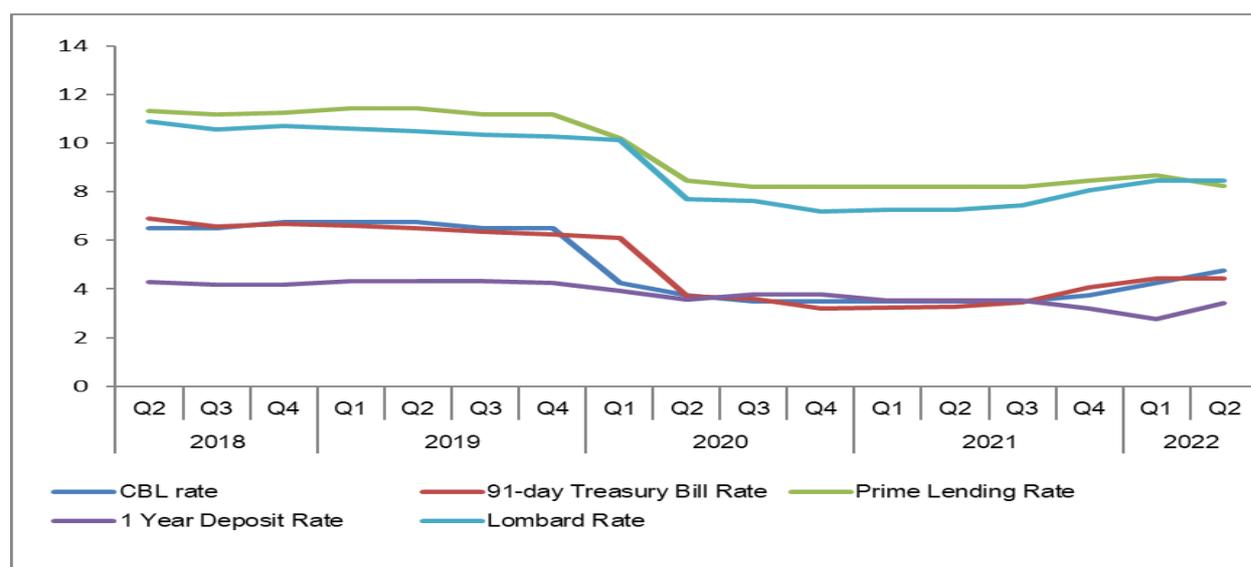
## MONEY AND CAPITAL MARKET DEVELOPMENTS

### Money Market

#### Interest Rates

The Central Bank of Lesotho's key policy rate maintained an upward trajectory, rising by 50 basis points to 4.75 per cent in the second quarter of 2022. However, the prime lending rate fell from 8.69 per cent to 8.25 per cent, while the one-year deposit rate rose by 66 basis points to 3.41 per cent. The 91-day Treasury bill rate remained stable at 4.45 per cent, and within the desired range of +/- 200 basis points to the South African counterpart rate.

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



Source: Central Bank of Lesotho

**Table 9: Interest rates**

	2021			2022	
	Q2	Q3	Q4	Q1	Q2
<b>Central Bank</b>					
CBL rate	3.50	3.50	3.75	4.25	4.75
T-Bill Rate - 91 days	3.27	3.45	4.06	4.45	4.45
Lombard Rate	7.27	7.45	8.06	8.45	8.45
<b>Commercial Banks</b>					
Call	0.99	0.99	1.05	1.01	1.37
Time:					
31 days	0.67	0.67	0.67	0.48	0.48
88 days	1.64	1.64	1.64	1.24	1.47
6 months	3.10	3.10	3.18	2.65	2.97
1 year	3.53	3.53	3.20	2.75	3.41
Savings	0.70	0.70	0.70	0.65	1.13
Prime	8.19	8.19	8.44	8.69	8.25
<b>South Africa</b>					
Repo	3.50	3.50	3.75	4.25	4.75
T-Bill Rate - 91 days	3.75	3.79	3.83	4.31	5.11
Prime	7.00	7.00	7.25	7.75	8.25

**Source:** Central Bank of Lesotho

### ***Holding of Treasury Bills***

The overall holding of treasury bills (T-Bills) declined by 10.7 per cent, following a marginal fall of 0.3 per cent in the first quarter of 2022. This was mainly due to a fall in T-Bills held by the banking sector. In contrast, the holding of T-Bills by non-banking sector rose by 2.6 per cent. This resulted from an increase in holding of T-Bills by households, private organizations and societies.

**Table 10: Holding of Bills (Million Maloti)**

	2011			2022	
	Q2	Q3	Q4	Q1	Q2
<b>Treasury Bills</b>	<b>1 032.55</b>	<b>1 104.94</b>	<b>1 462.79</b>	<b>1 458.40</b>	<b>1 301.54</b>
Banking System	821.69	913.84	1 266.77	1 278.59	1 117.11
Non-Bank Sector	210.85	191.10	196.02	179.81	184.43
<b>Memorandum Item</b>					
Yield Bills (91-days)	3.28	3.48	4.10	4.50	4.50

**Source:** Central Bank of Lesotho

### ***Holding of Treasury Bonds***

The overall holding of treasury bonds grew by 6.4 per cent, commensurate with the bond auction of M200.00 million issued in June 2022. The banking sector's holdings of treasury bonds increased by 3.2 per cent, while the non-banking sector recorded a growth of 8.4 per cent. This brought the share of the banking sector to the total stock of bonds to 37.8 per cent, while the non-banking sector held 62.2 per cent.

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

	2021			2022	
	Q2	Q3	Q4	Q1	Q2
<b>Holding of Treasury Bonds</b>	<b>2 633.27</b>	<b>2 786.32</b>	<b>2 786.32</b>	<b>3 136.31</b>	<b>3 336.31</b>
Banking System	1 085.77	1 144.28	1 118.18	1 223.09	1 262.57
Non-Bank Sector	1 547.50	1 642.04	1 668.13	1 913.22	2 073.74

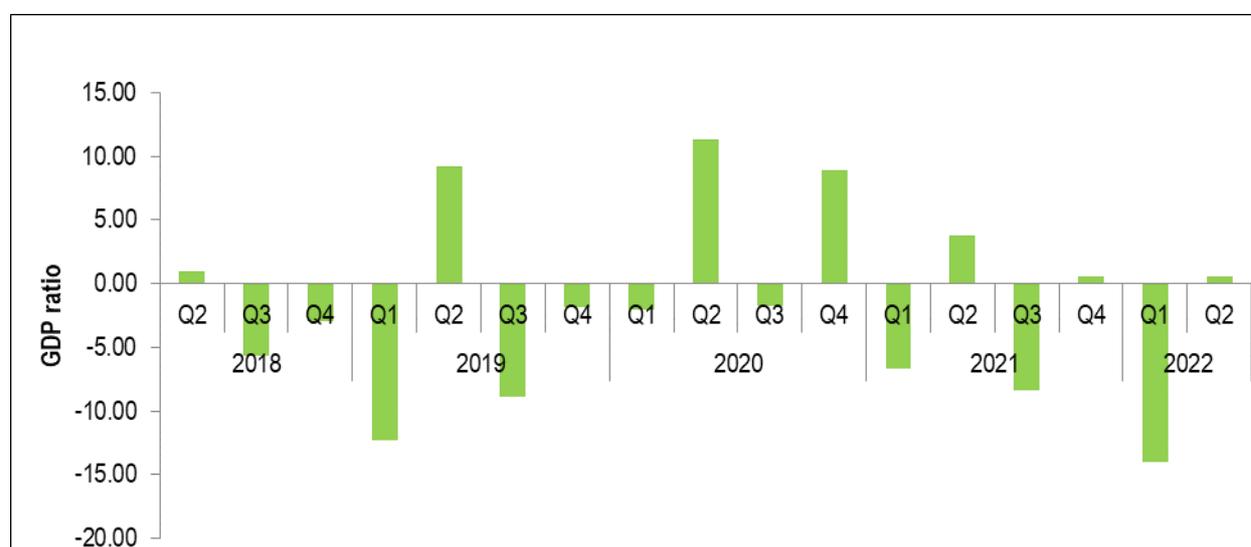
**Source:** Central Bank of Lesotho

## 5. Government Finance

### OVERVIEW

The Government budgetary operations were estimated to have resulted in a marginal fiscal surplus of 0.6 per cent of GDP during the quarter ending in June 2022 following a revised fiscal deficit of 14.0 per cent of GDP in March 2022. This surplus was brought about by the significant fall in both current and capital spending. However, this surplus coupled with the drawdown of the Government deposits, were used to finance the liability instruments. The public debt stock was estimated at 53.0 per cent of GDP in the review quarter compared with a revised 51.4 per cent of GDP in the previous quarter.

**Figure 13: Fiscal Balance (Percent of GDP)**



**Source:** Central Bank of Lesotho and Ministry of Finance

### REVENUE<sup>4</sup>

Government revenue declined by 13.9 per cent during the quarter under review, in contrast to a rise of 8.8 per cent in the previous quarter. This mostly emanated from the decline in SACU receipts, income tax, petroleum levy, dividends and rent. SACU receipts were the lowest since 2018/19. In terms of year-on-year changes, total revenue had continuously been decreasing since the third quarter of 2021. It declined by 3.8 per cent compared with a revised fall of 6.5 per cent in the previous quarter.

<sup>4</sup> 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.

## TOTAL EXPENDITURE

Government expenditure decreased by 34.5 per cent during the quarter under review, compared with a rise of 43.1 per cent in the previous quarter. Almost all components of current spending declined including compensation of employees, and use of goods and services. However, the rise in students' grants, among others, moderated this fall. Under capital expenditure, most projects under performed, including those funded from government revenue. Regarding the annual changes, total spending had been increasing since the third quarter of 2020 – mainly driven by COVID-19 related spending. It increased by 3.6 per cent in the review period, following an increase of 8.3 per cent in the previous quarter.

**Table 12: Statement of Government Operations (Million Maloti)**

	2021			2022		Q-to-Q (%)	Y-on-Y (%)	GDP ratio (%)
	Q2	Q3	Q4	Q1	Q2			
<b>Total Revenue</b>	<b>4 047.13</b>	<b>3 912.88</b>	<b>4 154.56</b>	<b>4 520.76</b>	<b>3 893.74</b>	<b>-13.9</b>	<b>-3.8</b>	<b>41.0</b>
Tax revenue	3 182.75	3 103.35	3 152.61	3 392.67	3 032.36	-10.6	-4.7	31.9
Income Tax	922.80	1 062.08	1 047.44	1 167.03	983.48	-15.7	6.6	10.3
Value Added Tax	777.70	727.80	789.37	841.02	852.05	1.3	9.6	9.0
SACU Receipts Components	1 175.05	1 175.05	1 175.05	1 175.05	1 056.09	-10.1	-10.1	11.1
Other tax revenue	307.20	138.42	140.76	209.56	140.74	-32.8	-54.2	1.5
Grants	359.49	334.59	331.55	565.31	337.54	-40.3	-6.1	3.6
o/w SACU Receipts Component	326.89	326.89	326.89	326.89	293.80	-10.1	-10.1	3.1
Other revenue	504.89	474.93	670.39	562.78	523.85	-6.9	3.8	5.5
<b>Total Expense</b>	<b>3 119.27</b>	<b>3 652.25</b>	<b>3 593.97</b>	<b>4 524.16</b>	<b>3 477.32</b>	<b>-23.1</b>	<b>11.5</b>	<b>36.6</b>
Compensation of Employees	1 544.00	1 457.98	1 531.67	1 825.97	1 676.85	-8.2	8.6	17.6
Use of goods and services O/W Purchase of Health Services	282.55	726.94	634.54	974.60	438.80	-55.0	55.3	4.6
Interest Payments	97.83	119.62	188.06	134.18	199.01	48.3	103.4	2.1
Subsidies	90.97	167.82	71.18	118.54	51.95	-56.2	-42.9	0.5
Grants	161.83	105.94	87.06	301.80	131.11	-56.6	-19.0	1.4
Social benefits	309.05	293.63	379.57	454.63	458.45	0.8	48.3	4.8
Other expense	429.63	578.63	676.87	629.12	460.08	-26.9	7.1	4.8
<b>Gross Operating Balance</b>	<b>927.86</b>	<b>260.64</b>	<b>560.58</b>	<b>-3.40</b>	<b>416.42</b>	<b>-</b>	<b>-</b>	<b>4.4</b>
<b>Total Nonfinancial Assets</b>	<b>587.43</b>	<b>1 047.95</b>	<b>505.02</b>	<b>1 341.41</b>	<b>363.39</b>	<b>-72.9</b>	<b>-38.1</b>	<b>3.8</b>
Fixed Assets	587.43	1 047.95	505.02	1 341.41	363.39	-72.9	-38.1	3.8
<b>Total Expenditure</b>	<b>3 706.70</b>	<b>4 700.20</b>	<b>4 098.99</b>	<b>5 865.57</b>	<b>3 840.71</b>	<b>-34.5</b>	<b>3.6</b>	<b>40.4</b>
<b>Primary balance</b>	<b>431.40</b>	<b>-619.49</b>	<b>126.75</b>	<b>226.27</b>	<b>104.97</b>	<b>-</b>	<b>-</b>	<b>1.1</b>
<b>Net lending/borrowing</b>	<b>340.43</b>	<b>-787.31</b>	<b>55.56</b>	<b>344.81</b>	<b>53.03</b>	<b>-</b>	<b>-</b>	<b>0.6</b>

<b>Financing</b>	<b>462.60</b>	<b>-892.88</b>	<b>282.90</b>	<b>364.69</b>	<b>71.32</b>	-	-	<b>0.8</b>
Net Acquisition of Financial assets O/W Domestic Currency and Deposits	754.44	-495.10	302.17	423.18	-494.67	-	-	-5.2
Net Incurrence of Liabilities O/W Domestic Other Accounts Payable	707.03	-398.17	12.37	630.15	-503.20	-	-	-5.3
	291.84	397.78	19.27	1 787.87	-565.99	-	-	-6.0
	116.03	78.15	-294.61	1 306.24	-565.32	-	-	-5.9
Statistical Discrepancy	-122.18	105.57	-227.34	19.88	-18.29	-	-	-0.2
<b>Memo Items</b>								
	1							
SACU receipts	501.94	1 501.94	1 501.94	1 501.94	1 349.88	-10.1	-10.1	14.2
GDP (quarterly, red colour = forecast)	9							
	045.39	9 338.30	9 804.64	9 608.91	9 503.21	-	-	-

**Source:** Central Bank of Lesotho and Ministry of Finance

### TOTAL OUTLAYS BY FUNCTIONS OF GOVERNMENT<sup>5</sup>

The share of current and capital expenditures out of total outlays decreased by 27.7 per cent and 36.5 per cent, respectively during the review quarter, while in the previous quarter they increased by 42.5 per cent and 33.4 per cent, respectively. The decrease was observed in economic affairs, health, and general public service. In terms of annual changes, the total outlays, increased by 29.4 per cent compared with 36.1 per cent in the previous quarter.

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

	2021			2022		Q-to-Q (%)	Y-on-Y (%)	GDP ratio (%)
	Q2	Q3	Q4	Q1	Q2			
<b>Current Outlays</b>	<b>2</b>			<b>4</b>				
	<b>692.45</b>	<b>3 700.67</b>	<b>3 316.95</b>	<b>726.99</b>	<b>3 419.52</b>	<b>-27.7</b>	<b>27.0</b>	<b>36.0</b>
General public services	350.40	457.47	456.20	709.73	613.51	-13.6	75.1	6.5
Defence	137.24	220.35	152.25	205.70	149.81	-27.2	9.2	1.6
Public order and safety	278.41	336.08	326.94	380.17	421.63	10.9	51.4	4.4
Economic affairs	416.08	649.83	494.46	1124.69	489.32	-56.5	17.6	5.1
Environmental protection	2.63	3.41	3.47	3.99	5.42	35.9	106.4	0.1
Housing and community amenities	27.46	229.89	66.43	28.08	42.51	51.4	54.8	0.4
Health	382.69	560.11	470.56	841.59	418.84	-50.2	9.4	4.4
Recreation, culture and religion	22.05	30.86	138.36	136.08	27.98	-79.4	26.9	0.3
Education	559.39	633.32	659.92	618.69	652.99	5.5	16.7	6.9
Social protection	516.09	579.35	548.38	678.27	597.51	-11.9	15.8	6.3
<b>Capital Outlays</b>	<b>157.11</b>	<b>483.82</b>	<b>315.95</b>	<b>421.58</b>	<b>267.81</b>	<b>-36.5</b>	<b>70.5</b>	<b>2.8</b>
General public services	59.00	106.10	59.47	120.52	28.87	-76.0	-51.1	0.3
Public order and safety	59.40	111.53	96.17	45.74	0.00	-100.0	-100.0	0.0
Economic affairs	32.76	133.04	114.80	142.38	173.92	22.1	430.9	1.8

<sup>5</sup> This COFOG excludes interest payments and financing items (i.e. loan principal repayments and payment of arrears). The classification of Lesotho's COFOG is compatible with the IMF's GFS manual of 2014.

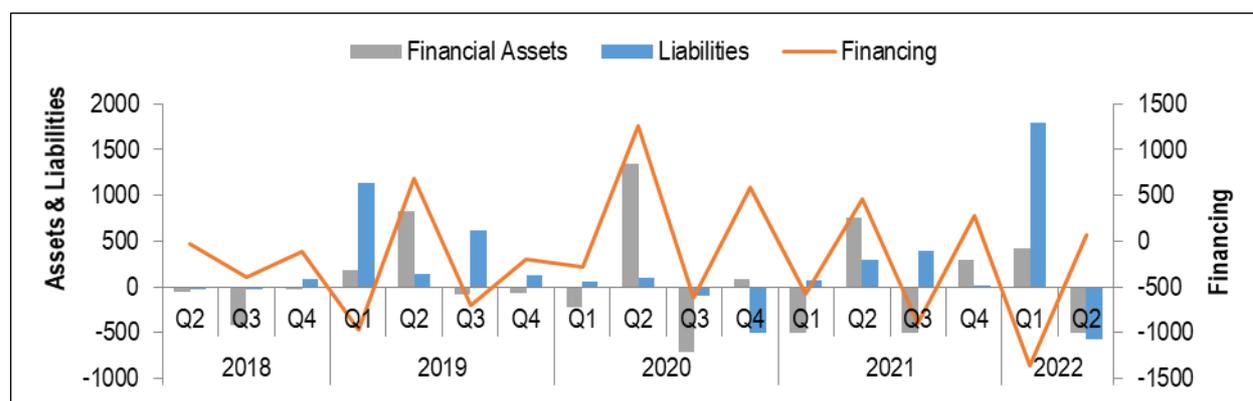
	2021			2022		Q-to-Q (%)	Y-on-Y (%)	GDP ratio (%)
	Q2	Q3	Q4	Q1	Q2			
Housing and community amenities	5.70	119.17	23.58	96.10	54.62	-43.2	857.5	0.6
Health	0.25	5.18	21.36	2.76	4.72	70.7	1815.8	0.0
Recreation, culture and religion	0.00	7.30	0.38	10.54	5.68	-46.1	-	0.1
Education	0.00	1.51	0.20	3.53	0.00	-100.0	-	0.0
<b>Total Outlays</b>	<b>2</b>	<b>4</b>	<b>3</b>	<b>5</b>				
	<b>849.56</b>	<b>184.50</b>	<b>632.91</b>	<b>148.57</b>	<b>3 687.33</b>	<b>-28.4</b>	<b>29.4</b>	<b>38.8</b>
General public services	409.40	647.51	409.40	563.57	515.67	-8.5	26.0	5.4
Defence	137.24	162.24	137.24	220.35	152.25	-30.9	10.9	1.6
Public order and safety	337.81	419.20	337.81	447.62	423.11	-5.5	25.2	4.5
Economic affairs	448.85	610.91	448.85	782.87	609.25	-22.2	35.7	6.4
Environmental protection	2.63	3.57	2.63	3.41	3.47	1.7	31.9	0.0
Housing and community amenities	33.16	97.96	33.16	349.06	90.01	-74.2	171.4	0.9
Health	382.93	633.09	382.93	565.29	491.92	-13.0	28.5	5.2
Recreation, culture and religion	22.05	55.12	22.05	38.16	138.73	263.6	529.2	1.5
Education	559.39	619.89	559.39	634.83	660.12	4.0	18.0	6.9
Social protection	516.09	533.09	516.09	579.35	548.38	-5.3	6.3	5.8
<b>Unidentified Outlays</b>	<b>857.14</b>	<b>515.70</b>	<b>466.09</b>	<b>717.00</b>	<b>153.38</b>	<b>-78.6</b>	<b>-82.1</b>	<b>1.6</b>

Source: Central Bank of Lesotho and Ministry of Finance

#### FINANCIAL ASSETS AND LIABILITIES<sup>6</sup>

Government financial assets fell, mainly driven by the drawdown of the Government deposits to settle some of the outstanding liabilities. These included payment of domestic arrears plus external debt.

Figure 14: Total Financing (Million Maloti)



Source: Central Bank of Lesotho and Ministry of Finance

<sup>6</sup> 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.

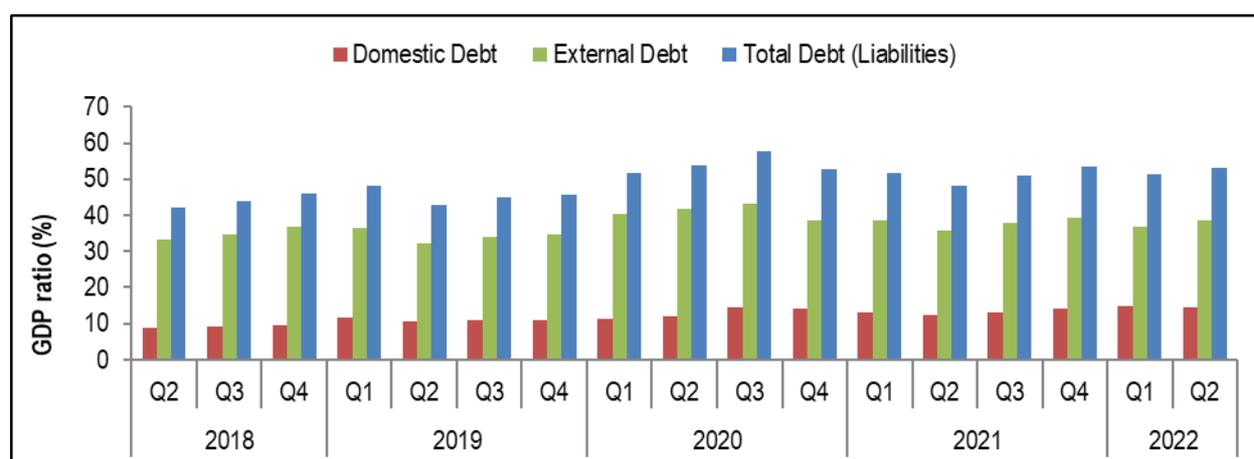
## **TOTAL PUBLIC DEBT<sup>7</sup>**

The stock of public debt was estimated at 53.0 per cent of GDP during the quarter ending in June 2022, which was up from the revised 51.4 per cent of GDP in the previous quarter. The increase was largely due to revaluation losses (exchange rate depreciation) and the issuance of Treasury securities to the tune of M200 million. However, the redemption of short-term Treasury bills for fiscal operations amounting to M150 million moderated this increase. On an annual basis, the public debt stock increased by 8.4 per cent during the quarter under review compared with an increase of 6.6 per cent in the previous quarter.

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<sup>7</sup> All categories are on net terms. The stock of public external debt is converted using an end-of-period exchange rate.

**Figure 15: Outstanding Public Debt (Million Maloti)**



Source: Central Bank of Lesotho and Ministry of Finance

**Table 14: Public Debt Stock (Million Maloti)**

	2021			2022		Q-to-Q (%)	Y-on-Y (%)	Debt / GDP (%)
	Q2	Q3	Q4	Q1	Q2			
<b>Total Public Debt</b>	<b>18 194.62</b>	<b>19 244.46</b>	<b>20 193.71</b>	<b>19 446.21</b>	<b>19 730.05</b>	<b>1.5</b>	<b>8.4</b>	<b>53.0</b>
<b>EXTERNAL DEBT</b>	<b>13 524.20</b>	<b>14 299.90</b>	<b>14 858.80</b>	<b>13 874.30</b>	<b>14 313.50</b>	<b>3.2</b>	<b>5.8</b>	<b>38.4</b>
Bilateral Loans	924.00	997.00	1 032.50	956.60	989.70	3.5	7.1	2.7
Concessional	924.00	997.00	1 032.50	956.60	989.70	3.5	7.1	2.7
Multilateral Loans	11 020.50	11 515.90	11 921.30	10 795.90	11 050.40	2.4	0.3	29.7
Concessional	9 593.60	10 118.20	10 535.40	9 429.90	9 661.10	2.5	0.7	25.9
Non-concessional	1 426.90	1 397.70	1 385.90	1 366.00	1 389.30	1.7	-2.6	3.7
Suppliers' Credit	1 579.70	1 787.00	1 905.00	2 121.80	2 273.40	7.1	43.9	6.1
<b>DOMESTIC DEBT</b>	<b>4 670.42</b>	<b>4 944.56</b>	<b>5 334.91</b>	<b>5 571.91</b>	<b>5 416.55</b>	<b>-2.8</b>	<b>16.0</b>	<b>14.5</b>
Banks	2 912.06	3 111.42	3 470.75	3 478.88	3 158.38	-9.2	8.5	8.5
Long-term	2 090.37	2 197.58	2 203.98	2 200.29	2 041.27	-7.2	-2.3	5.5
Treasury bonds	1 085.77	1 144.28	1 118.18	1 223.09	1 262.57	3.2	16.3	3.4
Central Bank (IMF-ECF)	1 004.60	1 053.30	1 085.80	977.20	778.70	-20.3	-22.5	2.1
Short-term (T-bills)	821.69	913.84	1 266.77	1 278.59	1 117.11	-12.6	36.0	3.0
Non-bank	1 758.36	1 833.14	1 864.15	2 093.03	2 258.17	7.9	28.4	6.1
Long-term (t-bonds)	1 547.50	1 642.04	1 668.13	1 913.22	2 073.74	8.4	34.0	5.6
Short-term (T-bills)	210.85	191.10	196.02	179.81	184.43	2.6	-12.5	0.5
<b>DEBT INDICATORS (%)</b>								
External Debt-to-Total Debt	74.3	74.3	73.6	71.3	72.5	-	-	-
Domestic Debt-to-Total Debt	25.7	25.7	26.4	28.7	27.5	-	-	-
Concessional Debt-to-External Debt	57.8	57.8	57.3	53.4	54.0	-	-	-
External Debt Service-to-GDP	1.8	1.9	2.7	2.4	2.6	-	-	-
External Debt Service-to-Revenue	4.0	4.6	6.3	5.2	6.3	-	-	-

	2021			2022		Q-to-Q (%)	Y-on-Y (%)	Debt / GDP (%)
	Q2	Q3	Q4	Q1	Q2			
External Debt Service-to-Exports	4.4	4.3	5.8	5.6	-	-	-	-

**Source:** Central Bank of Lesotho and Ministry of Finance

## 6. Foreign Trade and Payments

### OVERVIEW

During the second quarter of 2022, the external sector position deteriorated to a deficit equivalent to 8.2 per cent of GDP, following a revised deficit of 4.6 per cent of GDP in the quarter ending in March 2022. This resulted largely from the widening current account deficit, coupled with declining capital account inflows during the quarter.

### CURRENT ACCOUNT

The current account deficit widened to M1 029.85 million in the quarter under review, from a deficit of M255.55 million in the previous quarter. This was at the backdrop of a worsening goods account deficit, together with a contraction of the secondary income account surplus. This was, however, offset by a slight improvement on the primary income account. Meanwhile, the services account deficit remained relatively unchanged during this period. The current account deficit accounted for 10.8 per cent of GDP, significantly higher than 2.7 per cent share in the first quarter of 2022.

**Table 15: Current Account Balance (Million Maloti)**

	2021.00			2022.00		% Changes	
	Q2	Q3	Q4	Q1	Q2	Q/Q	Y/Y
<b>Current Account</b>	<b>-757.74</b>	<b>-293.23</b>	<b>-358.58</b>	<b>-255.55</b>	<b>-1 029.85</b>	<b>-157.56</b>	<b>13.14</b>
<b>(a) Goods</b>	<b>-3 004.13</b>	<b>-2 484.03</b>	<b>-2 663.2</b>	<b>-2 983.13</b>	<b>-3 275.2</b>	<b>-9.79</b>	<b>-9.02</b>
Merchandise exports, f.o.b.	3 654.93	4 174.20	4 510.19	4 166.19	4 024.53	-3.40	10.11
Of which diamonds	1 172.72	1 309.07	1 036.93	1 308.40	1 472.56	12.55	25.57
Of which textiles & clothing	1 847.99	2 160.55	2 619.62	2 139.19	1 824.62	-14.71	-1.26
Of which water	292.42	304.71	400.81	305.23	330.47	8.27	13.01
Of which agriculture	77.00	84.60	97.94	71.22	118.90	66.95	54.42
Of which re-exports	57.37	43.58	80.50	44.64	26.58	-40.45	-53.67
Other exports	207.43	271.69	274.39	297.51	251.40	-15.50	21.20
Merchandise imports, f.o.b.	6 659.06	6 658.23	7 173.39	7 149.32	7 299.73	2.10	9.62
<b>(b) Services</b>	<b>-1 437.32</b>	<b>-1 430.48</b>	<b>-1 396.83</b>	<b>-1 744.12</b>	<b>-1 739.56</b>	<b>0.26</b>	<b>-21.03</b>
<b>(c) Primary Income</b>	<b>1 611.73</b>	<b>1 589.45</b>	<b>1 635.42</b>	<b>2 006.00</b>	<b>2 086.38</b>	<b>4.01</b>	<b>29.45</b>
<b>(d) Secondary Income</b>	<b>2 071.99</b>	<b>2 031.83</b>	<b>2 066.03</b>	<b>2 465.69</b>	<b>1 898.53</b>	<b>-7.93</b>	<b>9.56</b>

**Source:** Central Bank of Lesotho

### Merchandise Exports

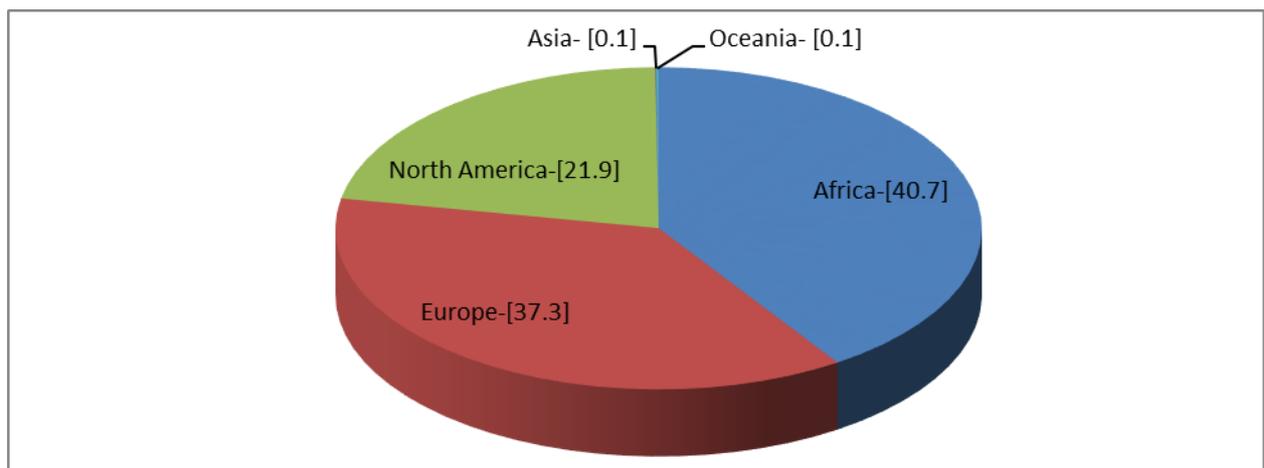
Merchandise exports fell by 9.8 per cent in the quarter ending in June 2022, following a 28.7 per cent decline in the preceding quarter. Exports declined significantly for textile and clothing, other exports and re-exports. The textile and clothing exports to Lesotho's major export destinations, namely the US and South Africa, declined markedly during this period, as inflationary pressures

together with rising fuel costs continued to impact negatively on demand. The decline was, however, offset by a notable increase in diamond exports, which benefited mainly from strong demand and robust diamond prices in the international markets. Growth was also realised for agriculture, as well as water exports.

### Direction of Trade - Exports

Africa continued to be Lesotho's major export market in the second quarter of 2022, with a share of 40.7 per cent, relatively unchanged from a 40.3 per cent share in the previous quarter. South Africa continued to be a dominant recipient of Lesotho's exports of mostly textiles and clothing. It was followed by Europe at a share of 37.3 per cent, increasing from 32.5 per cent in the preceding quarter, amid rising diamond exports to Belgium. Exports to North America accounted for 21.9 per cent, easing from a 27.0 per cent in the preceding quarter. Asia and Oceania continued to be recipients of the least exports from Lesotho's, at a share of 0.1 per cent each.

**Figure 16: Direction of Trade Merchandise Exports (Percentage Share)**



**Source:** Central Bank of Lesotho

### Merchandise Imports

Merchandise imports grew by 2.1 per cent in June 2022, compared with a 0.3 per cent drop in the preceding quarter. The observed increase resulted from higher imports of manufactured goods classified chiefly by material; mineral fuels, lubricants and related materials; chemical and related products; as well as machinery and transport equipment. Increased value of imports of mineral fuels, lubricants and related materials was mainly due to soaring fuel prices, as the ongoing Russia-Ukraine war continued to impact negatively on supply of crude oil and natural gas. Meanwhile, imports of machinery and transport equipment expanded following the re-

opening of one of the diamond mines in Lesotho, together with the ongoing construction activities for Phase II of the Lesotho Highlands Water Project (LHWP). On a year-on-year basis, however, merchandise imports fell by 21.0 per cent. Expressed as a ratio of GDP, merchandise imports were slightly higher, at 76.8 per cent, than at 74.4 per cent in the first quarter of 2022.

### **Services account**

The services account deficit remained relatively unchanged during this quarter. It rose by a minimal 0.3 per cent, following a 26.2 per cent decline in the previous quarter. The observed marginal growth was primarily, a result of a reduction in spending for business travel. This was however, moderated by increased transport services and telecommunication services acquired from abroad. The increase in transport services, especially freight, was due to the rise in imports in the review quarter. On an annual basis, the services account deficit increased by 21.0 per cent, following a 20.1 per cent growth in the preceding quarter. As a proportion of GDP, the services account balance accounted for 18.3 per cent, relatively unchanged from 18.1 per cent share in the first quarter 2022.

### **Primary Income Account**

The surplus on the primary income account balance increased by 4.0 per cent in the review quarter, relatively lower than a 22.7 per cent growth in the previous quarter. The primary income account benefited mostly from increased receipts for operational costs related to Lesotho Highlands Water Project-Phase I, as well as increases in interest returns on investments held abroad by the Central Bank, commercial banks and other financial institutions. On a year-on-year basis, however, the primary income account balance rose by 29.4 per cent, following a 30.7 per cent in the previous quarter. The surplus on the primary income account constituted 22.0 per cent of GDP in the quarter under review, compared to 20.9 per cent in the previous quarter.

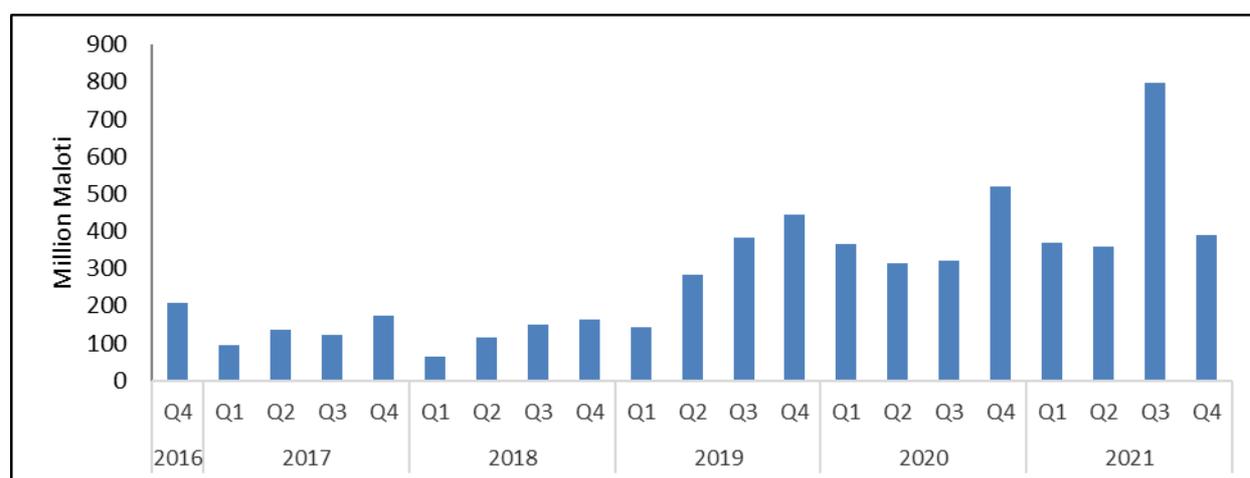
### **Secondary Income Account**

The secondary income account balance fell by a marked 23.0 per cent during the second quarter of 2022, reverting from a 22.7 per cent increase in the quarter ending in March 2022. The downward pressure resulted largely from a substantial decline in SACU revenue, coupled with increased subscriptions to international organizations during the review period. Considering the same period last year, the secondary income surplus t dropped by a lower rate of 8.4 per cent, than that of 16.9 per cent decrease in the previous quarter. Expressed as a percentage of GDP, the secondary income account balance constituted 23.9 per cent in the quarter ending in June 2022, compared with 25.7 per cent in the first quarter of 2022.

## CAPITAL ACCOUNT

The capital account surplus contracted by 29.5 per cent to M279.31 million, reverting from a 1.6 per cent increase in the preceding quarter. This was mainly on account of a decline in receipts for advanced infrastructure development under the LHWP Phase II, following a sizeable decrease in the number of claims received for certified works during the review period. In comparison with the same period last year, capital account inflows were down by 22.5 per cent, after registering a 7.7 per cent increase in the prior quarter. Expressed as a ratio of GDP, the surplus on the capital account balance accounted for 2.9 per cent, easing from a 4.0 per cent share in the quarter ending in March 2022.

**Figure 17: Capital Account (Million Maloti)**



**Source:** Central Bank of Lesotho

## FINANCIAL ACCOUNT

The financial account balance registered a significantly lower net inflow of M201.38 million, than that of M914.43 million in the preceding quarter. These inflows were moderated by an outflow of commercial banks' currency and deposits. In addition, the repayment of the extended credit facility loan together with other government external loans, whose repayments were higher than disbursements of new loans, further moderated the financial account inflows. Expressed as a share of GDP, the financial account net inflows amounted to 2.1 per cent, slightly higher than 1.1 per cent in the preceding quarter.

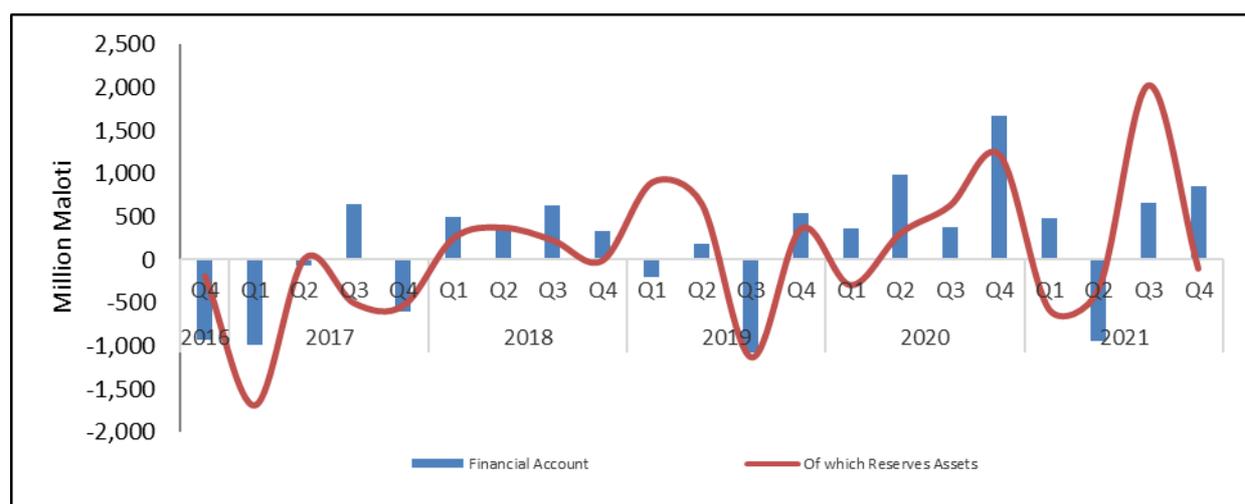
**Table 16: Financial Account Balance (Million Maloti)**

	2021			2022	
	Q2	Q3	Q4	Q1	Q2
<b>Financial account</b>	<b>-945.03</b>	<b>-659.10</b>	<b>855.13</b>	<b>-914.43</b>	<b>-201.38</b>
Direct Investments, net	-77.64	311.29	43.12	261.32	-12.34
Portfolio Investments, net	-845.30	455.60	105.13	-217.94	-2.66
Financial Derivatives, net	0.00	0.00	0.00	0.00	0.00
Other Investments, net	307.32	-2 135.60	804.01	-516.16	592.32
Of which Loans	4.66	-52.89	171.57	-76.14	154.05
Claims on Non Residents	34.48	34.48	34.48	34.48	34.48
Liabilities to Non Residents	29.82	87.39	-137.09	110.62	-119.57
Of which Currency and Deposits	376.72	-613.56	706.51	-365.96	512.34
Claims on Non Residents	241.36	-575.31	915.04	-509.22	472.75
Liabilities to Non Residents	-135.36	38.25	208.54	-143.26	-39.58
Of which Special Drawing Rights	0.00	1 395.09	0.00	0.00	0.00
Reserve Assets	-329.41	2 027.81	-97.14	-441.65	-778.71

**Source:** Central Bank of Lesotho

The surplus on the financial account balance was mainly due to increases in direct investment inflows, together with a reduction in reserve assets during the period under review. Direct investment inflows comprised mostly disbursement of loans from non-residents. Meanwhile, reserve assets declined in line with the reduction in government deposits and increased commercial banks assets holding abroad. Portfolio investments also contributed to the observed surplus, albeit marginally, as commercial banks reduced their short-term assets holding abroad on maturity.

**Figure 18: Financial Account (Million Maloti)**

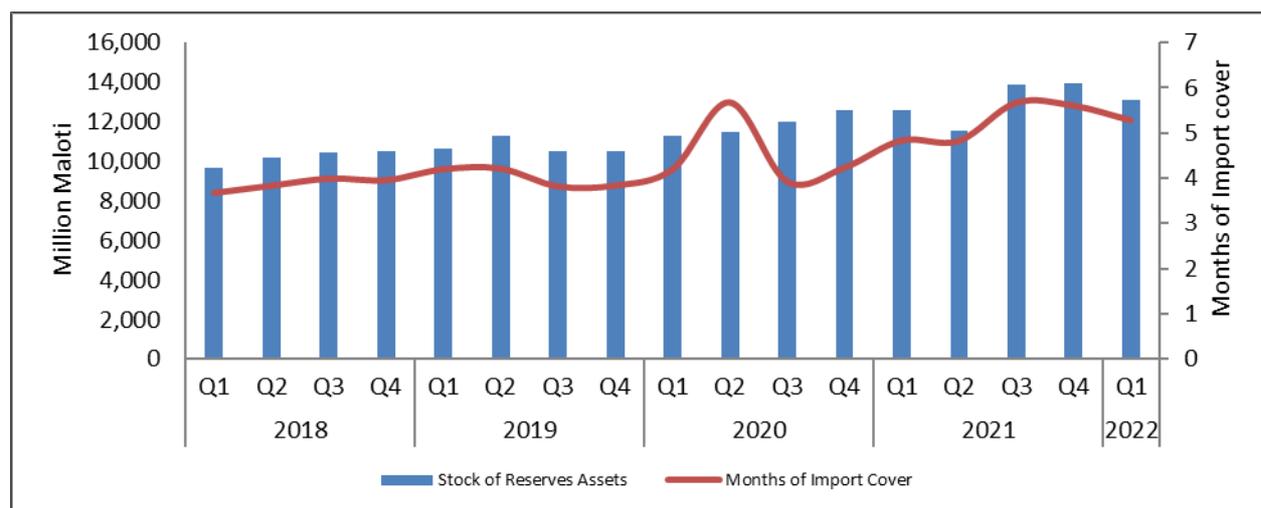


**Source:** Central Bank of Lesotho

## RESERVE ASSETS

The stock of reserve assets continued to decline, falling by 6.7 per cent to M12.93 billion, following a 6.3 per cent decline in the previous quarter. As a result, gross official reserves expressed in months of imports cover fell to 5.1 months, from 5.3 months in the quarter ending in June 2022.

**Figure 19: Reserve Assets**



**Source:** Central Bank of Lesotho