

Central Bank of Lesotho



QUARTERLY ECONOMIC REVIEW

December 2023

MASERU KINGDOM OF LESOTHO

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1. Executive Summary

In the fourth quarter of 2023, the global economy exhibited mixed performance across different regions. Some economies grew due to increased consumer spending, a rebound in tourism, and increased manufacturing activity. However, other economies were negatively affected by the high interest rates and inflation. Labour market conditions improved in most countries, primarily due to increased demand for labour during the festive season. Consumer prices decreased in most countries, mainly due to reduced energy costs.

Central banks kept their policy rates unchanged but emphasised the need for caution regarding inflation and growth expectations. Trends in commodity prices varied, with gold and platinum prices rising due to investor uncertainty and slowdowns in economic activity, while crude oil prices plummeted amid recession fears and increased supply from key producers.

The Quarterly Composite Indicator of Economic Activity (QCIEA) showed a rise in domestic economic activity. However, employment levels continued their down trend across the three categories monitored by the Central Bank of Lesotho: LNDC-assisted firms, government sector, and migrant mineworkers. Inflationary pressures remained consistently high throughout the reviewed quarter.

Broad money supply grew by 0.2 per cent, supported by an increase in net foreign assets. Private sector credit strengthened, benefiting from increased credit to both businesses and households. Short-term interest rates remained stable, as the CBL policy rate remained constant.

Government budgetary operations during the review period resulted in an estimated surplus of 14.7 per cent of GDP. This surplus was primarily due to VAT collections and water royalties. The ratio of total public debt to GDP declined to 59.8 per cent, down from 59.9 per cent in the preceding quarter.

The overall external sector balance recorded a deficit equivalent to 2.25 per cent of GDP, following a revised surplus of 4.0 per cent of GDP in the preceding quarter. This deterioration was primarily attributed to a wider current account deficit, coupled with reduced financial account outflows. However, increased capital account inflows moderated the impact of these dynamics.

2. International Economic Developments

In the fourth quarter of 2023, the global economy showed varied performance across different regions. Consumer spending, along with a rebound in tourism and manufacturing, supported growth in some areas. However, other regions continued to suffer from high interest rates and inflation. Labour market dynamics improved in most countries, with the unemployment rate declining compared to the previous quarter. This improvement was largely due to increased demand for labour during the festive season.

Consumer price inflation generally declined in most countries due to a decrease in energy costs. However, in India, inflation rose because of the increase in food prices, following harsh weather conditions that negatively affected supply. Central banks left their policy rates unchanged but indicated that they remained cautious of inflation and growth expectations.

Commodity price developments were mixed during the same quarter. Gold and platinum prices increased because of investor uncertainty and economic slowdowns, as well as supply-side constraints from a key producer, South Africa. Maize prices rose due to adverse weather and geopolitical tensions. Conversely, crude oil prices fell amid recession fears and increased supply from key producers, while wheat prices declined due to easing fertiliser costs and reduced demand. The rand depreciated against the US dollar while it strengthened against the pound and euro.

Table 1: Key World Economic Indicators

| | Real GDP Growth | | Inflation Rate | | Key Interest Rate | | Unemployment Rate | |
|-----------------------|-----------------|---------|----------------|---------|-------------------|---------|-------------------|---------|
| | Q3 2023 | Q4 2023 | Q3 2023 | Q4 2023 | Q3 2023 | Q4 2023 | Q3 2023 | Q4 2023 |
| United States | 2.9 | 3.1 | 3.7 | 3.4 | 5.25 | 5.25 | 3.8 | 3.7 |
| Euro Area | 0.0 | 0.1 | 4.3 | 2.9 | 4.50 | 4.50 | 6.5 | 6.4 |
| Japan | 1.2 | 0.1 | 3.0 | 2.6 | -0.10 | -0.10 | 2.6 | 2.4 |
| United Kingdom | 0.2 | -0.2 | 6.7 | 4.0 | 5.25 | 5.25 | 4.2 | 3.8 |
| China | 4.9 | 5.2 | 0.0 | -0.3 | 3.45 | 3.45 | 5.0 | 5.1 |
| India | 7.6 | 8.4 | 5.0 | 5.7 | 6.50 | 6.50 | N/A | N/A |
| South Africa | -0.7 | N/A | 5.4 | 5.1 | 8.25 | 8.25 | 31.9 | 32.9 |

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)

Economic performance in the US continued to improve in the fourth quarter of 2023. Real GDP rose by 3.1 per cent, compared to 2.9 per cent in the previous quarter. This stronger economic performance was mainly driven by robust consumer spending and increased government expenditure. Consumer spending was boosted by the strong job market, which enabled consumers to spend more because of the income effect, while government spending increased on both investment in fixed non-residential structures and

defence. The unemployment rate declined to 3.7 per cent from 3.8 per cent in the third quarter of 2023, supported by increased demand for labour during the festive season.

Consumer prices rose at an annual rate of 3.4 per cent, following a 3.7 per cent increase in the third quarter. The increase resulted from higher shelter costs, as high interest rates raised home ownership expenses and subsequently increased the demand for rental housing. The US Federal Reserve kept its Fed Funds rate unchanged at 5.25–5.50 per cent to manage inflation developments and weak growth expectations for 2024.

Euro area

The euro area's economic performance was relatively stagnant in the fourth quarter. Real GDP grew by 0.1 per cent following no growth in the previous quarter. The economy was supported mainly by growth in Italy and Spain, which benefited from increased tourism activities. However, the region continued to battle with high inflation rates and elevated interest rates, which have weighed negatively on investment and consumer spending particularly in Germany and France. The unemployment rate declined to 6.4 per cent in the fourth quarter of 2023, from 6.5 per cent in the previous quarter.

The annual inflation rate for the euro area declined to 2.4 per cent from 4.3 per cent in the previous quarter. The decline in the inflation rate was attributed to a fall in food prices. The European Central Bank kept its policy rate unchanged at 4.50 per cent in the fourth quarter. This rate was considered sufficient to curb inflation and, in the long run, achieve the ECB's target of 2.0 per cent.

Japan

Japan's economy slowed down in the last quarter of 2023. Real GDP increased by a modest 0.1 per cent following a 1.2 per cent growth in the previous quarter. Growth was supported by a rebound in factory output following growing external demand for machinery and chemicals. However, it was moderated by weak domestic demand as both households and businesses cut spending due to persistently high inflation, which lowered their purchasing power. The unemployment rate fell to 2.4 per cent, from 2.6 per cent in the previous quarter. The ageing population in the country has continued to impact labour market dynamics, resulting in a decline in the labour force.

The annual inflation rate declined to 2.6 per cent from 3.0 per cent in the preceding quarter. This decrease was attributed to a decline in energy costs, associated with the fall in global oil prices. In the fourth quarter of 2023, the Bank of Japan kept its interest rate unchanged at -0.1 per cent to continue supporting economic growth.

United Kingdom (UK)

Real GDP growth contracted by 0.2 per cent in the review quarter, following a 0.2 per cent growth in the preceding quarter. The contraction was mainly due to declines in construction output and services activity, as well as lower levels of both consumer spending and business investment caused by high interest rates. The unemployment rate declined to 3.8 per cent from 4.2 per cent in the third quarter, primarily because more people exited the workforce and became inactive due to slowing wage growth.

Inflationary pressures eased in the last quarter of 2023. Consumer prices rose by 4.0 per cent, following an increase of 6.7 per cent in the previous quarter. This was due to a fall in prices of food and non-alcoholic beverages, driven by improved supply chain movements. The Bank of England left its policy rate

unchanged at 5.25 per cent to curb the high inflation rate while remaining cautious of weak economic growth prospects. The Bank of England left its policy rate unchanged at 5.25 per cent to curb high inflation while remaining cautious of weak economic growth prospects. However, the Bank signalled a hawkish stance should inflation and wage growth remain strong.

EMERGING MARKET ECONOMIES

China

China's economic growth rate improved slightly in the last quarter of the year. Real GDP growth was recorded at 5.2 per cent, up from 4.9 per cent in the previous quarter. This growth stemmed from higher industrial production, particularly in the manufacturing and mining sectors. However, the unemployment rate rose to 5.1 per cent from 5.0 per cent a quarter earlier. This increase was due to a higher number of college graduates entering the job market and declining employment levels in the technology sector, where many of these graduates had been previously employed, as several firms moved production to other Asian markets.

Annual consumer prices fell by 0.3 per cent, having remained constant in the previous quarter. This decrease was primarily due to a fall in food prices, resulting from an oversupply of pork. Additionally, a decline in consumer confidence, triggered by a slowdown in the property sector, further affected consumer demand. The People's Bank of China maintained its policy rate at 3.45 per cent in the fourth quarter to stimulate demand.

India

The Indian economy remained robust in the fourth quarter. The economy grew by 8.4 per cent, following a 7.6 per cent growth in the previous quarter. This growth was primarily driven by strong double-digit increases in manufacturing and construction activities. Furthermore, accelerated private sector investment and an expanding services sector further boosted growth.

The inflation rate increased to 5.69 per cent in the last quarter of 2023, compared to 5.02 per cent in the third quarter. The rise in consumer prices was attributed to higher food prices, driven by extreme weather conditions that disrupted cereal production. The Reserve Bank of India kept its policy rate at 6.50 per cent in the fourth quarter of 2023, as consumer inflation remained within target despite being relatively high.

South Africa (SA)

The South African economy experienced a modest growth of 1.2 per cent in the last quarter of 2023, rebounding from a 0.7 per cent decline in the previous quarter. This growth was primarily driven by a recovery in mining output, which benefited from fewer load-shedding episodes, thereby aiding production in energy-intensive industries. However, this economic growth was tempered by the deterioration of critical infrastructure, such as ports, railways, and roads. These logistical challenges delayed the acquisition of materials needed for production. Additionally, the unemployment rate rose to 32.9 per cent from 31.9 per cent in the previous quarter, reflecting the challenging operating environment businesses face due to ongoing load shedding.

The inflation rate in South Africa eased to 5.1 per cent from 5.4 per cent in the third quarter. This decline was attributed to the fall in global oil prices, leading to a reduction in transportation costs. The South

African Reserve Bank maintained its policy rate at 8.25 per cent during the last quarter of 2023. However, the Bank noted that risks to the inflationary outlook remained elevated due to the weakening of the rand, which increased prices of key imports.

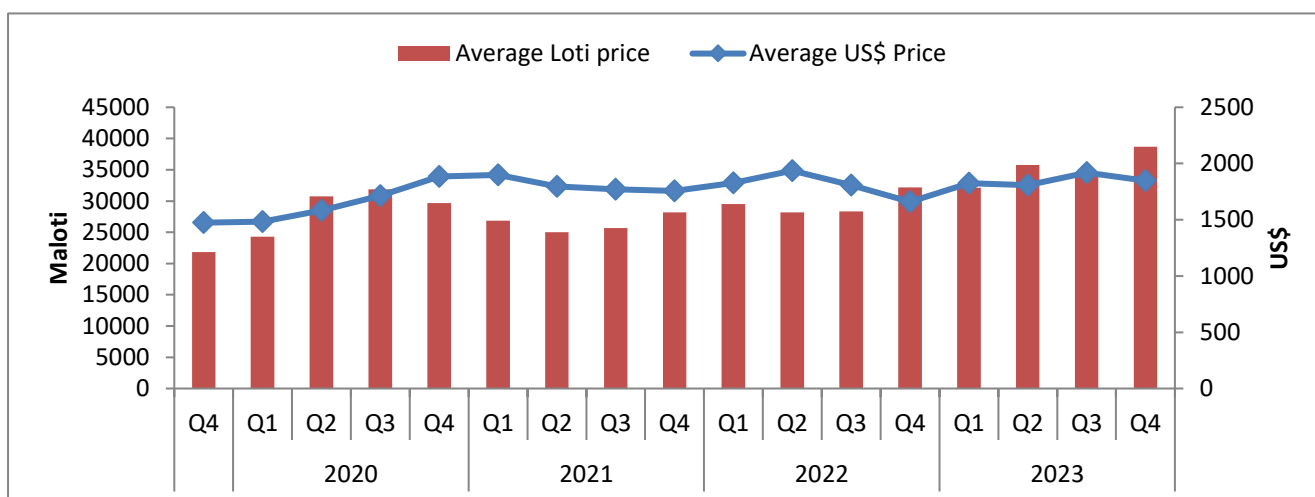
COMMODITIES

Minerals

Gold

Gold prices increased by 11.6 per cent compared to a decline of 3.7 per cent in the previous quarter. This increase resulted from uncertainty about the fluctuating value of the dollar, which led investors to purchase gold as a safe-haven asset, thereby increasing its value. Additionally, projected economic slowdowns in advanced economies such as the Eurozone and the UK contributed to the increased demand for gold, further boosting its price. Gold prices also benefited from a rise in demand for jewellery during the same period.

Figure 1: Average Price of Gold

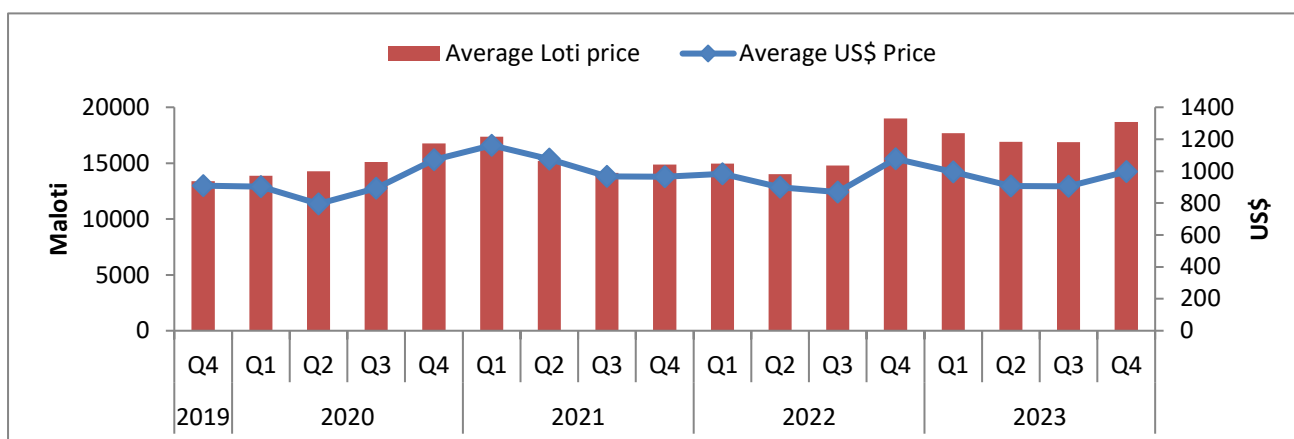


Source: Bloomberg

Platinum

The price of platinum increased by 10.1 per cent, relative to a 0.2 per cent decrease in the previous quarter. Platinum prices rose due to a decrease in South Africa's production, caused by operational challenges and electricity shortages, as well as sanctions against Russia. This was coupled with increased demand for automotive production, growth in the platinum jewellery sector, and heightened investment interest into the metal as a safe-haven asset.

Figure 2: Average Price of Platinum



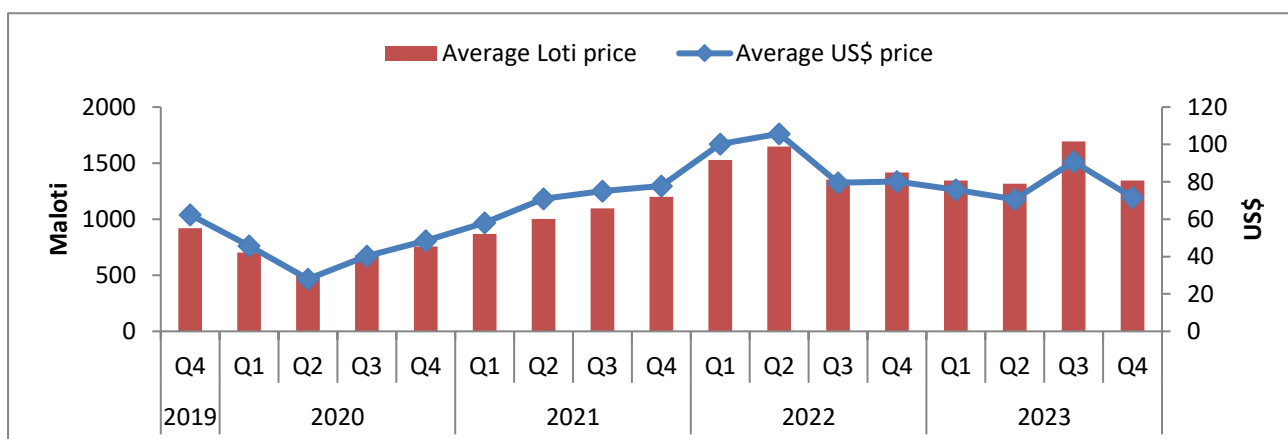
Source: Bloomberg

Energy

Crude Oil

Crude oil prices declined by 21.1 per cent in the last quarter of 2023, in contrast to the 28.5 per cent increase in the previous quarter. This decline was due to an excess supply of oil as both OPEC and the US increased their production. Additionally, the appreciation of the US dollar resulted in increased costs for purchasers holding other currencies, negatively impacting demand and oil prices.

Figure 3: Average Price of Oil



Source: Bloomberg

Agricultural Products

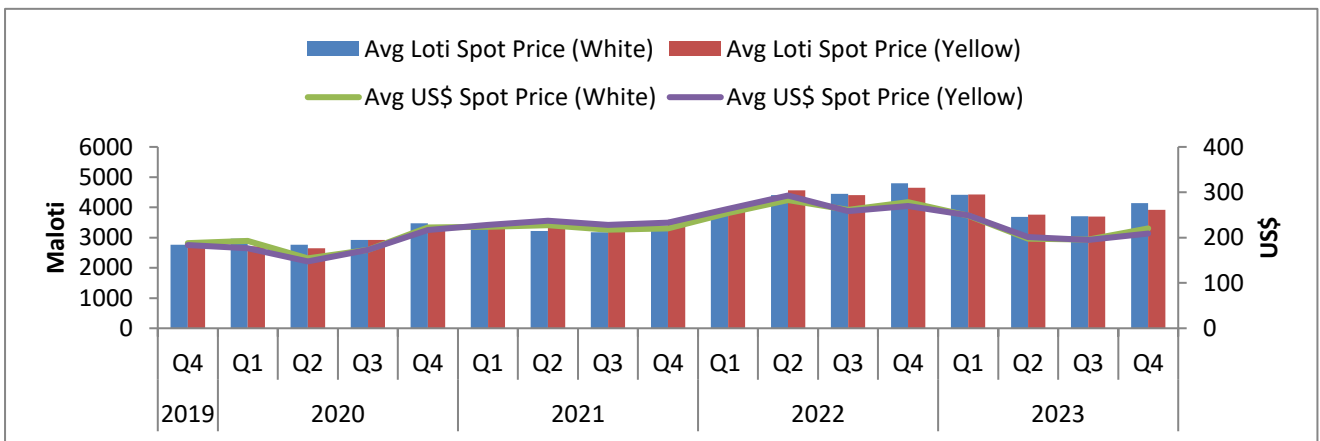
Maize

The price of maize increased by 12.8 per cent, reversing the previous period's 1.0 per cent decline. This rise was primarily due to adverse weather conditions, such as drought and extreme heat waves, in key maize-producing regions like Argentina and Brazil, which resulted in reduced yields and a global supply decrease, thus driving up prices. Additionally, geopolitical tensions from the ongoing war in Ukraine

disrupted agricultural production and export routes in the Black Sea region, further tightening the maize supply and fuelling price hikes.

Strong biofuel demand, spurred by rising energy prices in Europe and North America, increased the use of maize for biofuel production, adding further pressure to the already tight maize supply. Moreover, the consistent demand for maize as a key ingredient in livestock feed, supported by stable global meat consumption despite economic uncertainties, continued to exert upward pressure on prices. Concerns about potential shortages and market volatility also led to stockpiling and speculative activities, intensifying buying pressure and contributing to the price rise.

Figure 4: Average Price of Maize

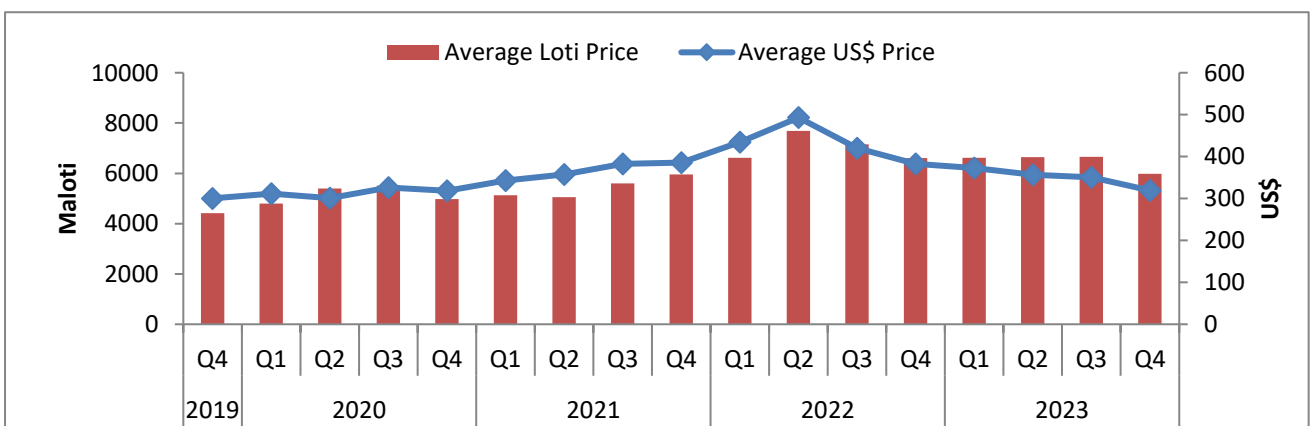


Source: Bloomberg

Wheat

Wheat prices contracted by 9.0 per cent in the fourth quarter, compared to a 1.6 per cent decline in the previous quarter. This decrease was primarily due to a decline in fertilizer prices, which lowered production costs for farmers, leading to an increased supply of wheat in the market. Additionally, concerns about a weakening global economy, with fears of slowing growth and potential recessions in major economies, reduced demand for wheat and other food commodities, significantly contributing to the overall price decline.

Figure 5: Average Price of Wheat

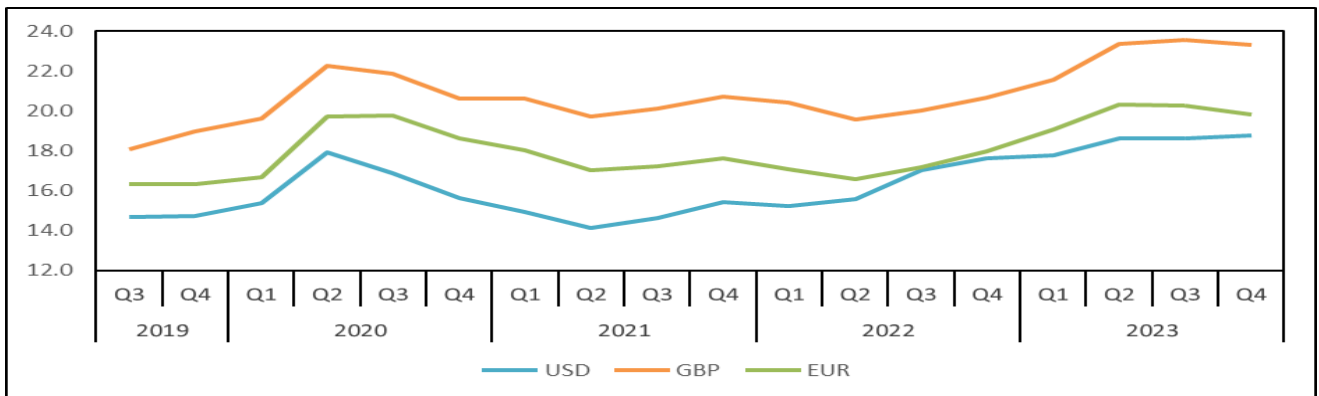


Source: Bloomberg

EXCHANGE RATES

The rand, hence, loti, depreciated by 0.5 per cent against the US dollar compared to a marginal appreciation of 0.01 per cent a quarter earlier. However, the rand appreciated by 1.4 per cent against the pound and by 2.5 per cent against the euro, marking a notable improvement compared to the previous quarter, during which the rand depreciated against the pound by 0.8 per cent and appreciated against the euro by 0.2 per cent. The weaker performance against the dollar was due to the rise in US Treasury yields and the resilience of the US economy. The stronger performance of the rand against the pound and the euro followed as high inflation and weak economic growth in the UK and euro area negatively affected these currencies.

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



Source: Bloomberg

3. Real Sector Developments¹

OVERVIEW

The Central Bank of Lesotho (CBL) Quarterly Composite Indicator of Economic Activity (QCIEA) indicated an increase in domestic economic activity in the last quarter of 2023. However, employment levels continued to decline across all three categories monitored by the Central Bank of Lesotho, which include LNDC-assisted firms, government employment, and migrant mineworkers. Inflationary pressures remained elevated throughout the review quarter.

OUTPUT DEVELOPMENTS

The QCIEA (Quarterly Composite Index of Economic Activity) indicated a 4.6 per cent increase in domestic economic activity in the last quarter of 2023, up from 4.1 per cent in the previous quarter. Of the five indices tracked, three experienced growth, while two saw negative performance. This economic growth was primarily fueled by strong domestic demand, a rebound in the manufacturing and production subsector, and positive trends in the financial services subsector. However, declines in the transport and construction subsectors moderated the overall growth.

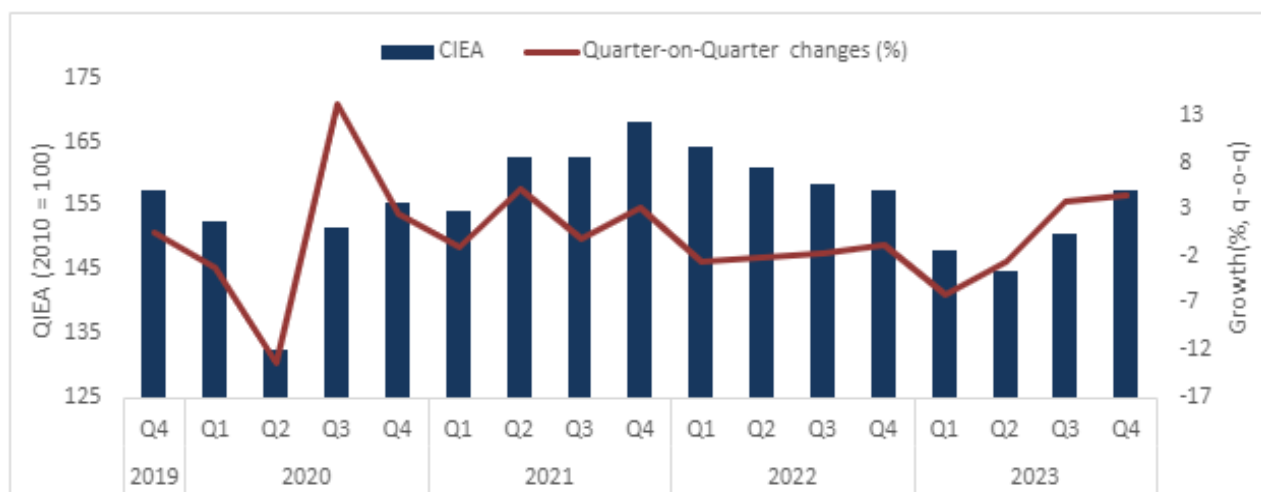
Domestic demand for goods and services improved significantly, with the index rising by 12.8 per cent compared with a decline of 2.2 per cent in the previous quarter. This increase was driven by higher domestic demand, boosted by imports of goods and services from South Africa and government activities. Government activities contributed positively through the use of goods and services components. Additionally, growth was supported by increased business activities, indicated by higher Value-Added Tax (VAT) collections and a notable rise in real earnings, as seen in the increased collection of Pay-as-You-Earn (PAYE). However, this overall growth was moderated by negative contributions from employee compensation.

The manufacturing and production sector rebounded in the last quarter of 2023, with the index increasing by 2.1 per cent, after contracting by 12.5 per cent in the previous quarter. The improved performance was indicated by increased imports of raw materials and exports of textiles to the South African market. However, firms exporting to the United States continued to face a decline in external demand due to uncertainty surrounding the renewal of the African Growth and Opportunity Act (AGOA).

Additionally, growth was supported by financial service activities, as evidenced by the increase in credit extended to households. Despite these positive developments, overall growth was tempered by declines in the transport and construction subsectors, as indicated by reduced fuel consumption and lower imports of construction materials.

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

| Indices | 2022 | | 2023 | | |
|----------------------------------------------|--------------|--------------|--------------|--------------|--------------|
| | Q4 | Q1 | Q2 | Q3 | Q4 |
| CIEA | 157.5 | 148.2 | 144.8 | 150.7 | 157.7 |
| Quarter-on-quarter % changes | -0.6 | -5.9 | -2.3 | 4.1 | 4.6 |
| Domestic Demand | 151.2 | 149.0 | 140.8 | 137.7 | 155.4 |
| Quarter-on-quarter % changes | 4.5 | -1.5 | -5.5 | -2.2 | 12.8 |
| Manufacturing and Production Category | 108.7 | 112.9 | 113.2 | 99.0 | 101.1 |
| Quarter-on-quarter % changes | -9.2 | 3.8 | 0.3 | -12.5 | 2.1 |

Source: Central Bank of Lesotho

EMPLOYMENT DEVELOPMENTS

Employment by LNDC-assisted companies declined by 8.2 per cent in the last quarter of 2023, following a 10.3 per cent decline in the previous quarter. Contributing categories to this decline included knit and woven garments, fabrics, yarn, and retail. The main reason for the employment decline was a reduction in orders for textiles and clothing, especially for companies exporting to the US market. Despite these challenges, employment for firms exporting to the South African market remained stable.

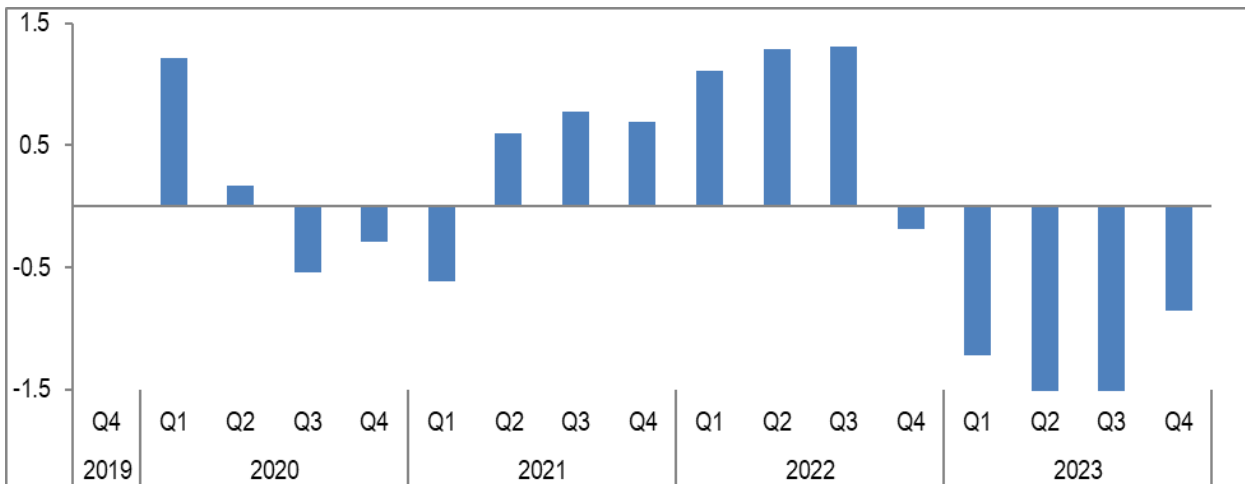
Table 3: Employment by LNDC-Assisted Companies

| Industry | 2022 | | 2023 | | % Changes | | |
|--------------------------|--------------|--------------|--------------|--------------|--------------|------------|-------------|
| | Q4 | Q1 | Q2 | Q3 | Q4 | Q/Q | Y/Y |
| Knit Garments..... | 23231 | 23012 | 22211 | 19909 | 20925 | 5.1 | -9.9 |
| Woven Garments..... | 9527 | 9527 | 9291 | 9011 | 8392 | -6.9 | -11.9 |
| Footwear..... | 737 | 787 | 811 | 849 | 824 | -2.9 | 11.8 |
| Fabrics, Yarn etc..... | 1983 | 1815 | 1708 | 1724 | 1755 | 5.1 | -20.1 |
| Construction..... | 408 | 411 | 407 | 395 | 394 | -0.3 | -3.4 |
| Food & Beverages..... | 614 | 601 | 703 | 546 | 561 | 2.7 | -8.6 |
| Electronics..... | 1282 | 1178 | 1173 | 1223 | 1199 | -2.0 | -6.5 |
| Retail..... | 201 | 196 | 160 | 176 | 173 | -1.7 | -13.9 |
| Hotel Accommodation..... | 305 | 305 | 330 | 407 | 497 | 22.1 | 63.0 |
| Other..... | 1192 | 1454 | 1648 | 1624 | 1522 | -6.3 | 27.7 |
| TOTAL..... | 39480 | 39050 | 38292 | 35864 | 36242 | 1.1 | -8.2 |

Source: Lesotho National Development Corporation

In the realm of government employment, there was a 0.9 percent decrease, which was less pronounced compared to the 2.0 per cent reduction observed in the previous quarter. Both categories of civil servants and teachers decreased by 0.3 per cent in the final quarter of 2023, following respective reductions of 2.6 per cent and 0.4 per cent in the third quarter. Within the civil servant category, decreases were noted in various ministries, including Health, Agriculture, and Natural Resources. However, this overall decline was somewhat offset by a slight uptick in hiring in other ministries, such as Local Government, Education, and the Prime Minister's Office.

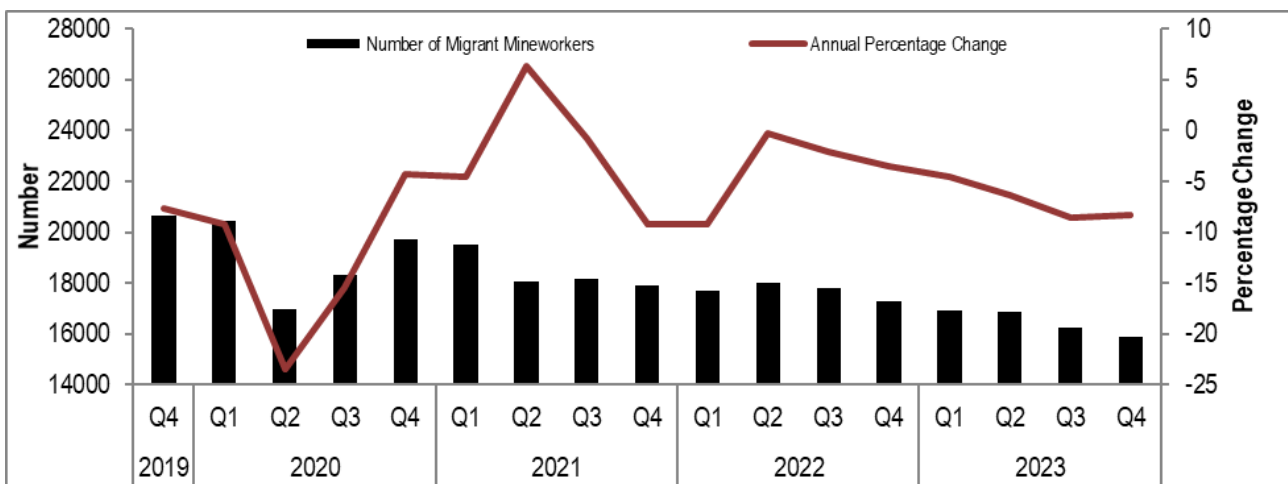
Figure 8: Government Employment (Annual Percentage Changes)



Source: Ministry of Finance

Employment of Basotho migrant workers in South Africa continued to dwindle, declining by 8.3 per cent in the last quarter of 2023, after a decrease of 8.6 per cent in the previous quarter. The observed decrease can be ascribed to various factors, including a preference for local labourers over foreign labourers in South African mines and the retirement of senior Basotho migrant workers without replacements.

Figure 9: Migrant Mineworkers (Annual Percentage Changes)



Source: The Employment Bureau of Africa (TEBA)

PRICE DEVELOPMENTS

The headline inflation rate rose to 7.2 per cent in December 2023 from 5.8 per cent in September 2023. The major contributors to this increase were food and non-alcoholic beverages, clothing and footwear, housing, water, electricity, gas and other fuels, as well as education. Increased inflation for food and non-alcoholic beverages was driven by heightened demand for meat and fruit products. In addition, elevated school fees contributed to higher education inflation. A combination of a weak exchange rate and rising international crude oil prices added to inflationary pressures.

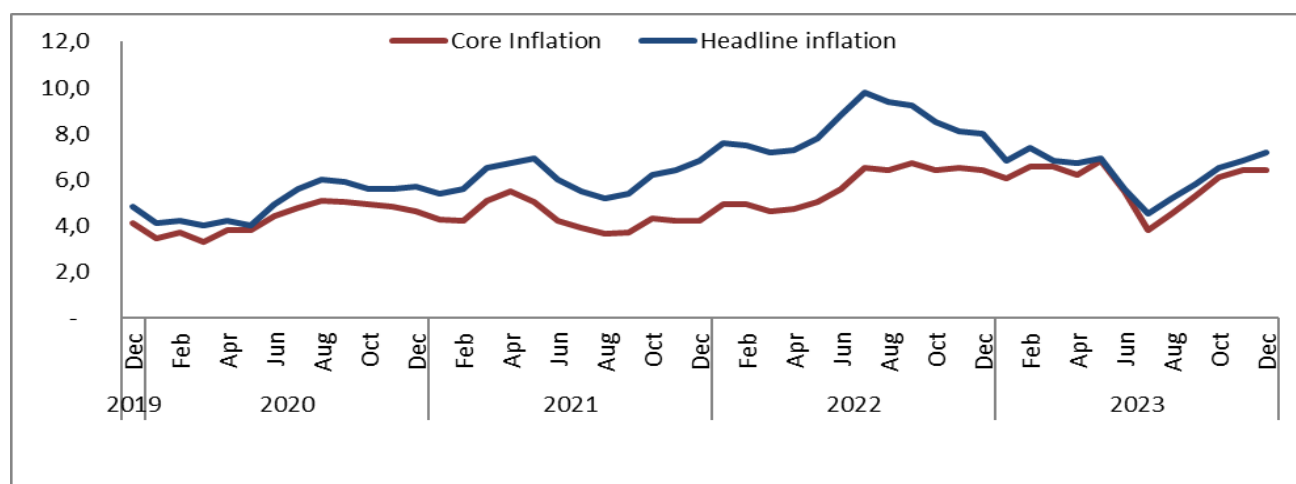
Table 4: Inflation Rate (Annual Percentage Changes)

| | Weight | 2023 | | | | |
|-------------------------------------------------------|-------------|-------|-------|-------|-------|-------|
| | | Aug | Sep | Oct | Nov | Dec |
| All items | 1000 | 5.2 | 5.8 | 6.5 | 6.8 | 7.2 |
| Food and non-alcoholic beverages | 326 | 5.9 | 6.2 | 7.3 | 9.2 | 10.3 |
| Alcoholic beverages & Tobacco | 64 | 24.5 | 24.6 | 22.5 | 21.8 | 21.7 |
| Clothing & footwear | 81 | 5.2 | 5.9 | 6.1 | 6.6 | 7.8 |
| Housing, water, electricity, gas & other fuels | 149 | 4.4 | 4.4 | 5.3 | 5.4 | 4.1 |
| Furniture, households equipment & routine maintenance | 33 | 11.4 | 11.2 | 11.7 | 11.6 | 11.0 |
| Health | 19 | 11.1 | 13.8 | 13.8 | 13.8 | 13.7 |
| Transport | 111 | -3.1 | 0.1 | 2.1 | -0.8 | 0.2 |
| Communications | 44 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 |
| Recreation & Culture | 14 | 4.6 | 4.8 | 4.9 | 5.3 | 5.3 |
| Education | 49 | 11.4 | 11.4 | 11.4 | 11.4 | 11.4 |
| Restaurant & Hotels | 65 | -10.6 | -10.4 | -10.2 | -10.3 | -10.3 |
| Miscellaneous goods & services | 44 | 9.9 | 10.5 | 11.1 | 11.3 | 11.1 |

Source: Bureau of Statistics

The core inflation rate rose to 6.4 per cent in December 2023 from 5.3 per cent in September 2023. This increase was driven by high food and energy prices, which kept core inflation elevated.

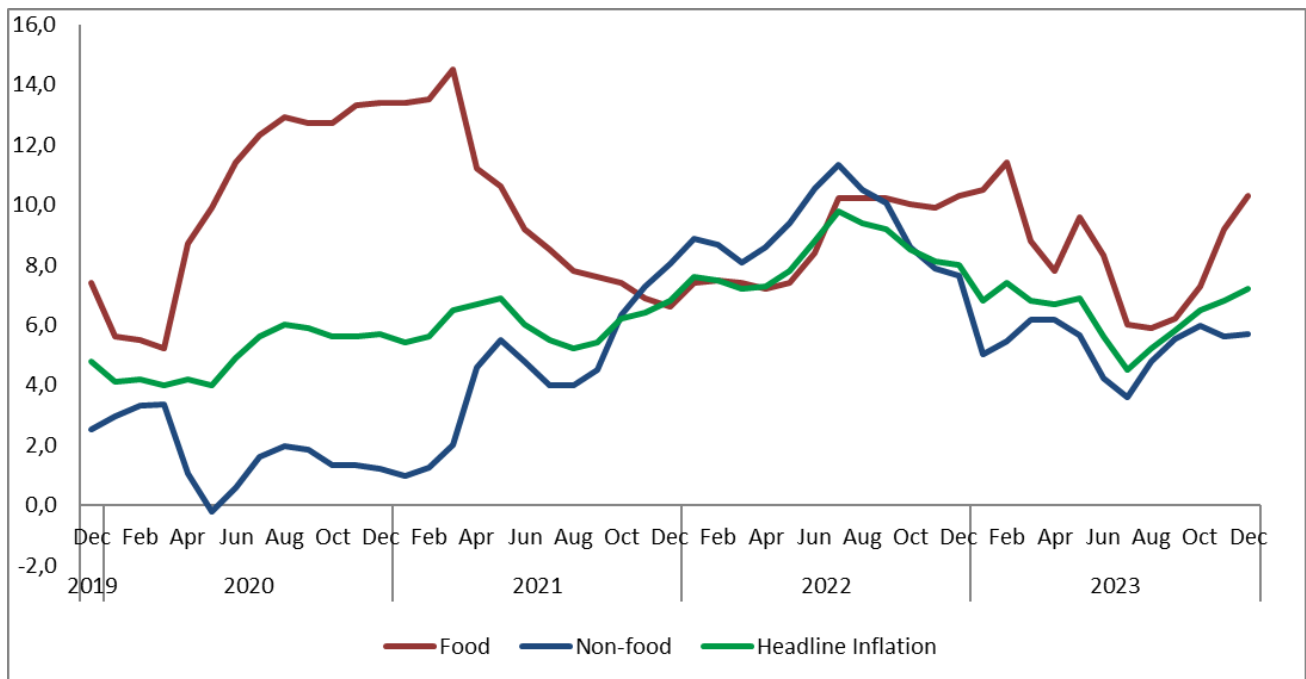
Figure 10: Core vs Headline Inflation (Annual Percentage Changes)



Source: CBL Computations

Both food inflation and non-food inflation increased during the review period. They respectively rose to 10.3 per cent and 5.7 per cent, from 6.2 per cent and 5.5 per cent in the previous quarter. The increase in food prices was driven by the rise in domestic demand, while the growth in non-food prices was primarily because of the increase in international crude oil prices and exchange rate depreciation.

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



Source: BoS and CBL Computations

4. Monetary and Financial Developments

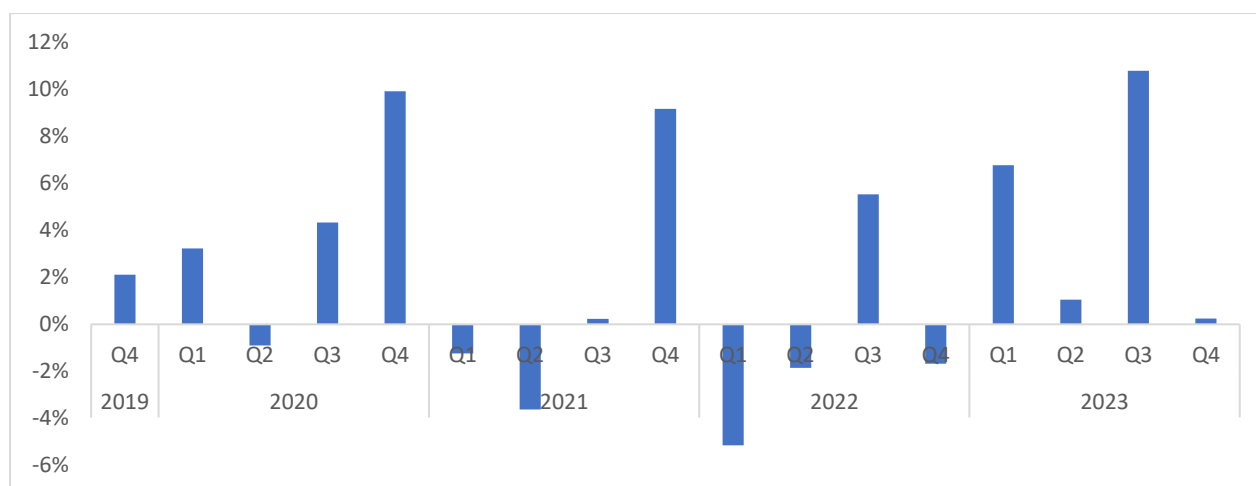
OVERVIEW

Broad money supply marginally grew between the third and fourth quarters of 2023, as net foreign assets increased. Private sector credit strengthened, supported by a growth in credit to both businesses and households. Short-term rates were unchanged in line with the CBL policy rate which remained constant.

BROAD MONEY (M2)

The broad money supply (M2) increased by 0.2 per cent compared to the previous quarter growth of 11.0 per cent. This growth was influenced by the redemption of Treasury bonds (T-bonds), resulting in an increase in net foreign assets and a decrease in net domestic claims. Over the year, M2 increased by 20.0 per cent.

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



Source: Central Bank of Lesotho

Determinants of M2

Domestic Claims

Domestic claims declined by 3.5 per cent, relative to the 0.4 per cent increase recorded in the preceding quarter, as both the commercial banks' and central bank's net claims on government declined. Commercial banks' net claims fell due to the redemption of T-bonds coupled with reduced holding of Treasury bills (T-bills). Central bank's net claims fell following an increase in government deposits, which benefitted from reduced spending during the quarter.

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

| | 2022 | | 2023 | | | Changes(%) | |
|--------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|---------------|---------------|
| | Q4 | Q1 | Q2 | Q3 | Q4 | Quarterly | Annual |
| Domestic Claims | 6658.18 | 7593.92 | 6455.46 | 6478.58 | 6250.97 | -3.5 | -6.1 |
| Net Claims on Government | -2058.09 | -1413.98 | -2696.17 | -3277.93 | -3826.09 | -16.7 | -85.9 |
| Commercial Banks Net Claims | 696.35 | 822.35 | 578.03 | -380.06 | -859.27 | -126.1 | -223.4 |
| Claims on Central Government | 2675.85 | 2693.19 | 2942.40 | 2231.75 | 1733.11 | -22.3 | -35.2 |
| Liabilities to Central Government | 1979.51 | 1870.84 | 2364.38 | 2611.81 | 2592.38 | -0.7 | 31.0 |
| Central Bank Net Claims | -2754.44 | -2236.34 | -3274.19 | -2897.88 | -2970.00 | -2.5 | -7.8 |
| Claims on Central Government | 49.29 | 38.82 | 28.26 | 28.07 | 0.00 | | |
| Liabilities to Central Government | 2803.73 | 2275.16 | 3302.46 | 2925.95 | 2970.00 | 1.51 | 5.9 |
| Claims on Other Sectors | 8716.27 | 9007.91 | 9151.63 | 9756.52 | 10077.07 | 3.3 | 15.6 |
| Claims on OFCs | 301.40 | 297.19 | 300.58 | 296.51 | 303.07 | 2.2 | 0.6 |
| Claims on Public Nonfinancial Corporations | 58.05 | 55.18 | 53.40 | 53.28 | 57.77 | 8.4 | -0.5 |
| Claims on St & Local Government | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | |
| Claims on Private Sector | 8356.83 | 8655.54 | 8797.65 | 9406.73 | 9716.23 | 3.3 | 16.3 |
| Claims on Business Enterprises | 2209.92 | 2344.73 | 2344.63 | 2573.41 | 2717.72 | 5.6 | 23.0 |
| Claims on Households | 6146.91 | 6310.80 | 6453.02 | 6833.32 | 6998.51 | 2.4 | 13.9 |

Source: Central Bank of Lesotho

Net Foreign Assets

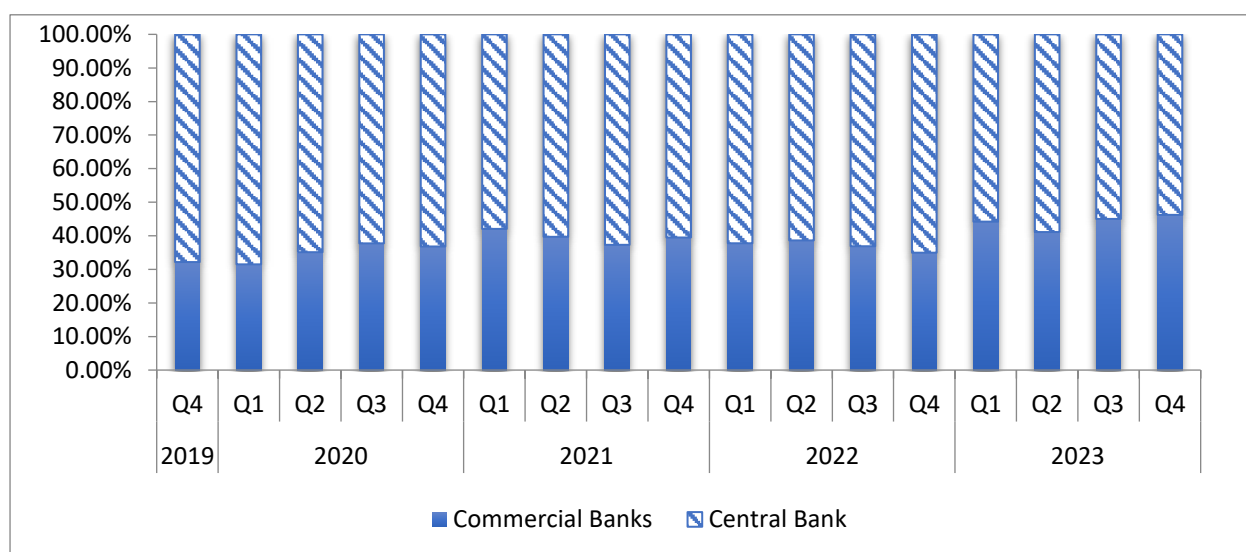
Net Foreign Assets (NFA) contributed to the growth in M2, with both commercial banks and the central bank experiencing an increase in NFA. The rise in commercial banks' NFA was attributed to an increase in placements abroad, following the redemption of T-bonds. The improvement in central bank's NFA was in line with the reduction in government spending.

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

| | 2022 | | 2023 | | | Changes (%) | |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------|-------------|
| | Q4 | Q1 | Q2 | Q3 | Q4 | Quarterly | Annual |
| Commercial Banks | 5545.60 | 7772.72 | 8017.00 | 9214.75 | 10129.82 | 11.8 | 85.7 |
| Claims on Non-residents | 5877.44 | 8242.44 | 8469.23 | 9593.67 | 10840.31 | 13.0 | 84.4 |
| Liabilities to Non-residents | 331.84 | 469.72 | 452.23 | 378.91 | 542.56 | 43.2 | 63.5 |
| Central Bank | 10316.29 | 9805.76 | 11481.60 | 11251.77 | 11781.22 | 4.7 | 14.2 |
| Claims on Non-residents | 13422.48 | 13293.43 | 14885.77 | 14578.45 | 15037.37 | 3.2 | 12.0 |
| Liabilities to Non-residents | 3106.19 | 3487.67 | 3404.17 | 3326.67 | 3256.15 | -2.1 | 4.8 |
| Net Foreign Assets Total | 15861.89 | 17578.48 | 19498.61 | 20466.52 | 22078.97 | 7.9 | 39.2 |

Source: Central Bank of Lesotho

Figure 13: Net Foreign Assets (Percentage shares)



Source: Central Bank of Lesotho

Components of M2

The growth in M2 was driven by an increase in narrow money (M1), while quasi money declined. Specifically, M1 increased by 9.7 per cent following a 4.9 per cent rise in the previous quarter. This was primarily due to the growth in transferable deposits held by business enterprises and other financial corporations. Quasi money decreased by 7.5 per cent, compared to a 15.2 per cent increase in the preceding quarter. This decrease was driven by reductions in call and fixed-time deposits held by business enterprises.

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

| | 2022 | | 2023 | | | Changes (%) | |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------|-------------|
| | Q4 | Q1 | Q2 | Q3 | Q4 | Monthly | Annual |
| Broad Money (M2) | 14335.89 | 15306.80 | 15467.92 | 17138.36 | 17180.65 | 0.2 | 19.8 |
| Narrow Money (M1) | 6857.45 | 7906.98 | 7344.69 | 7702.91 | 8448.94 | 9.7 | 23.2 |
| Currency Outside DCs | 1214.71 | 1479.73 | 1507.88 | 1578.58 | 1657.26 | 5.0 | 36.4 |
| Transferable Deposits | 5642.74 | 6427.26 | 5836.82 | 6124.33 | 6791.68 | 10.9 | 20.4 |
| Quasi Money | 7478.44 | 7399.81 | 8123.22 | 9435.45 | 8731.71 | -7.5 | 16.8 |
| Other Deposits Commercial Banks | 7477.12 | 7397.54 | 8120.44 | 9433.52 | 8728.33 | -7.5 | 16.7 |
| Other Deposits Central Bank | 1.32 | 2.27 | 2.78 | 1.94 | 3.38 | 74.4 | 155.6 |

Source: Central Bank of Lesotho

CREDIT EXTENSION

Private sector credit rose by 3.3 per cent following a 6.9 per cent growth in September 2023. The increase was driven by growth in credit to both the business enterprises and households, which grew by 5.6 and 2.6 per cent, respectively. Much of the business credit growth emanated from the transport sector on account of the ongoing construction activities in the economy. Household credit growth reflected an increase in both the personal and mortgage loans during the review quarter. On an annual basis, private sector credit grew by 16.3 per cent.

Trends in Credit Extended to Business Enterprises

Credit extension to the business sector expanded by 5.6 per cent, compared with an increase of 9.8 per cent in the previous quarter. Credit growth remained positive in most of the economic sectors, with strong growth registered in transport, mining and construction sectors. This was consistent with the economic activity in the country.

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

| SECTOR | 2022 | | 2023 | | | Changes (%) | |
|------------------------------------------|----------------|----------------|----------------|----------------|----------------|-------------|-------------|
| | Q4 | Q1 | Q2 | Q3 | Q4 | Quarterly | Annual |
| Agriculture | 76.94 | 64.06 | 58.90 | 87.53 | 87.22 | -0.4 | 13.4 |
| Mining | 405.54 | 452.09 | 401.17 | 425.00 | 468.30 | 10.2 | 15.5 |
| Manufacturing | 71.56 | 74.55 | 113.48 | 128.38 | 131.06 | 2.1 | 83.1 |
| Electricity, gas and water | 8.54 | 6.63 | 6.54 | 6.82 | 12.41 | 81.9 | 45.4 |
| Construction | 287.08 | 284.96 | 331.31 | 443.21 | 477.83 | 7.8 | 66.5 |
| Wholesale, Retail, Hotel & Restaurant | 568.99 | 624.64 | 639.42 | 664.29 | 672.90 | 1.3 | 18.3 |
| Transport, Storage and Communication | 219.11 | 235.69 | 228.70 | 255.61 | 312.90 | 22.4 | 42.8 |
| NBFIs, Real Estate and Business Services | 564.43 | 594.08 | 557.60 | 554.53 | 546.34 | -1.5 | -3.2 |
| Community, Social & Personal Service | 7.74 | 8.04 | 7.50 | 8.03 | 8.76 | 9.1 | 13.2 |
| All Sectors | 2209.92 | 2344.73 | 2344.63 | 2573.41 | 2717.72 | 5.6 | 23.0 |

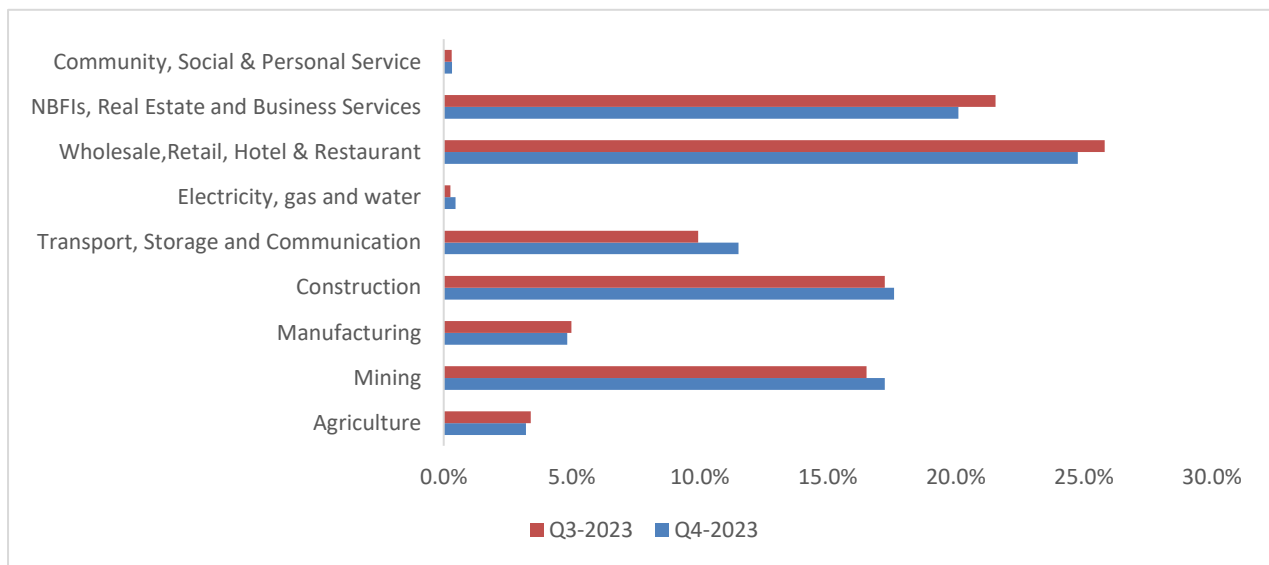
Source: Central Bank of Lesotho

Distribution of credit Extended to Business Enterprises

In terms of the distribution of credit to business enterprises by sector, the wholesale, retail, hotel, and restaurant sector maintained its position as the largest recipient, accounting for 24.8 per cent of total credit. The non-bank financial institutions, real estate, and business services sector got the second largest share of credit at 20.1 per cent. Finally, the construction industry accounted for 17.6 per cent of the credit allocation. The community, social, and personal services sector, as well as the electricity, gas, and water sectors, received the smallest shares of credit. The allocation of credit to sectors identified by the National Strategic Development Plan (NSDP) II², as the potential sectors for job creation and achievement of inclusive economic growth, stood at 64.4 per cent during the quarter under review.

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

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

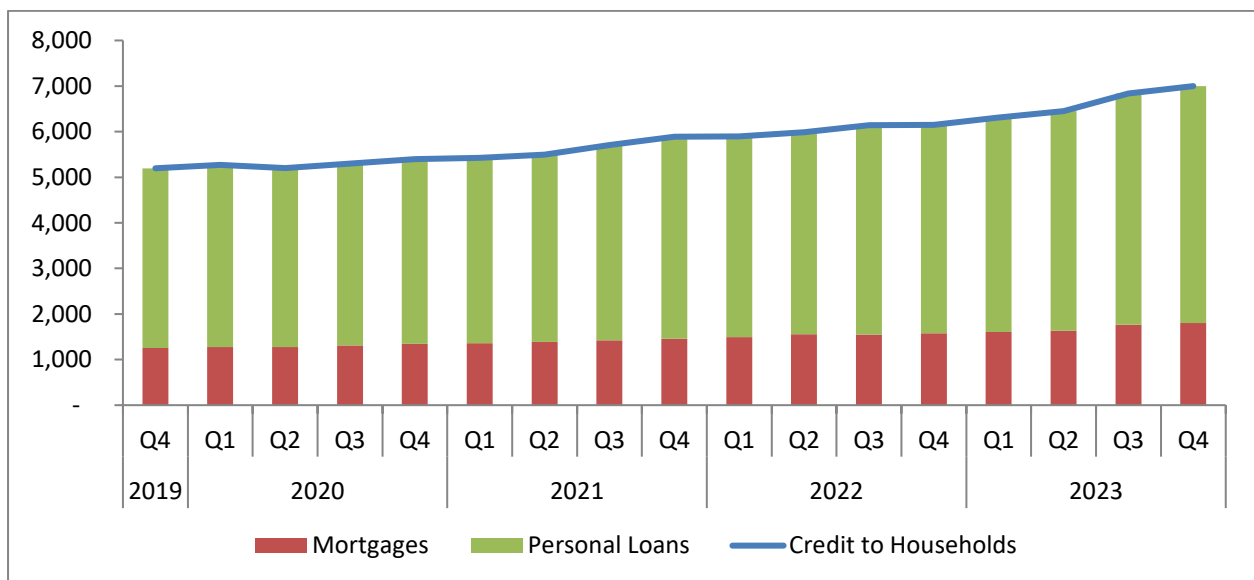


Source: Central Bank of Lesotho

Credit extended to Households

Credit extension to the household sector increased by 2.4 per cent following a 5.9 per cent expansion in the preceding quarter. The growth was attributed to an expansion in personal and mortgage loans by 2.2 and 2.5 per cent, respectively. The rise in personal and mortgage loans was driven by higher demand in the quarter, fuelled by favourable banking strategies aimed at making credit more accessible. On a year-on-year basis, household credit grew by 13.9 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 52.7 per cent from 50.9 per cent, resulting from increased private sector credit, while deposits declined. The liquidity ratio decreased to 34.2 per cent from 35.2 per cent, primarily driven by a decline in holding of government securities.

Table 9: Components of Liquidity (Million Maloti)

| | 2022 | | 2023 | | |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | Q4 | Q1 | Q2 | Q3 | Q4 |
| Credit to Deposit Ratio | 54.6% | 54.1% | 52.9% | 50.9% | 52.7% |
| Private Sector Credit | 8248.52 | 8491.12 | 8634.33 | 9245.06 | 9561.30 |
| Total Deposits ³ | 15102.62 | 15705.21 | 16326.50 | 18170.44 | 18137.11 |
| Liquidity Ratio | 41.0% | 47.6% | 41.7% | 35.2% | 34.8% |
| Notes and Coins | 916.06 | 692.30 | 683.75 | 592.52 | 1086.98 |
| Net Balance due from banks in Lesotho | -5.43 | -10.65 | 44.36 | -31.34 | 11.64 |
| Net Balance due from banks in SA | 2386.07 | 3860.66 | 3002.96 | 3500.67 | 3818.97 |
| Surplus funds | 222.55 | 242.04 | 130.59 | 102.27 | -168.59 |
| Government Securities | 2675.85 | 2693.19 | 2942.40 | 2231.75 | 1733.11 |
| Total | 6195.11 | 7477.53 | 6804.05 | 6395.87 | 6487.11 |

Source: Central Bank of Lesotho

Commercial Banks Sources of Funds

Commercial banks' total deposit liabilities rose by 2.6 per cent, compared to a growth of 5.2 per cent recorded in the previous quarter. The increase in deposit liabilities was attributed to a rise in transferable deposits held by other financial institutions and the private sector, as well as other deposits resulting from fixed time deposits held by other financial corporations and call deposits held by public non-financial corporations. Deposits excluded in M2 also rose by 16.8 per cent supported by an increase in import deposits. On an annual basis, total deposits grew by 27.0 per cent.

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

| | 2022 | | 2023 | | | Changes (%) | |
|------------------------------------------|----------------|----------------|----------------|----------------|----------------|--------------|--------------|
| | Q4 | Q1 | Q2 | Q3 | Q4 | Quarterly | Annual |
| Transferable Deposits Incl. in BM | 5642.74 | 6427.26 | 5836.82 | 6124.33 | 6791.68 | 10.9 | 20.4 |
| Other Financial Corporations | 18.68 | 13.41 | 31.90 | 15.77 | 69.75 | 342.2 | 273.3 |
| Public Nonfinancial Corporations | 39.42 | 12.50 | 5.49 | 55.97 | 57.53 | 2.8 | 45.9 |
| Private Sector | 35.55 | 24.18 | 32.40 | 43.23 | 34.16 | -21.0 | -3.9 |
| Other NFCs | 5549.08 | 6377.17 | 5767.02 | 6009.35 | 6630.24 | 10.3 | 19.5 |
| Other Sectors (Households) | 3862.82 | 4594.85 | 4043.80 | 4265.27 | 4920.46 | 15.4 | 27.4 |
| Other Deposits Incl. in BM | 1686.27 | 1782.32 | 1723.22 | 1744.08 | 1709.78 | -2.0 | 1.4 |
| Other Financial Corporations | 7477.12 | 7397.54 | 8120.44 | 9433.52 | 8728.33 | -7.5 | 16.7 |

³ Excludes import deposits: These are foreign currency-denominated deposits specifically designated for financing the procurement of goods and services from abroad.

| | | | | | | | |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------|-------------|
| Public Nonfinancial Corporations | 374.48 | 273.25 | 217.52 | 197.70 | 57.81 | -70.8 | -84.6 |
| Private Sector | 142.83 | 106.52 | 154.69 | 321.69 | 238.64 | -25.8 | 67.1 |
| Other NFCs | 6959.81 | 7017.76 | 7748.22 | 8914.12 | 8431.88 | -5.4 | 21.2 |
| Other Sectors (Households) | 4284.57 | 4238.63 | 4919.70 | 5983.90 | 5387.90 | -10.0 | 25.8 |
| Deposits excluded in BM | 2675.23 | 2779.13 | 2828.53 | 2930.22 | 3043.98 | 3.9 | 13.8 |
| Total Deposits | 15102.62 | 17232.66 | 17766.36 | 18693.69 | 19182.76 | 2.6 | 27.0 |

Source: Central Bank of Lesotho

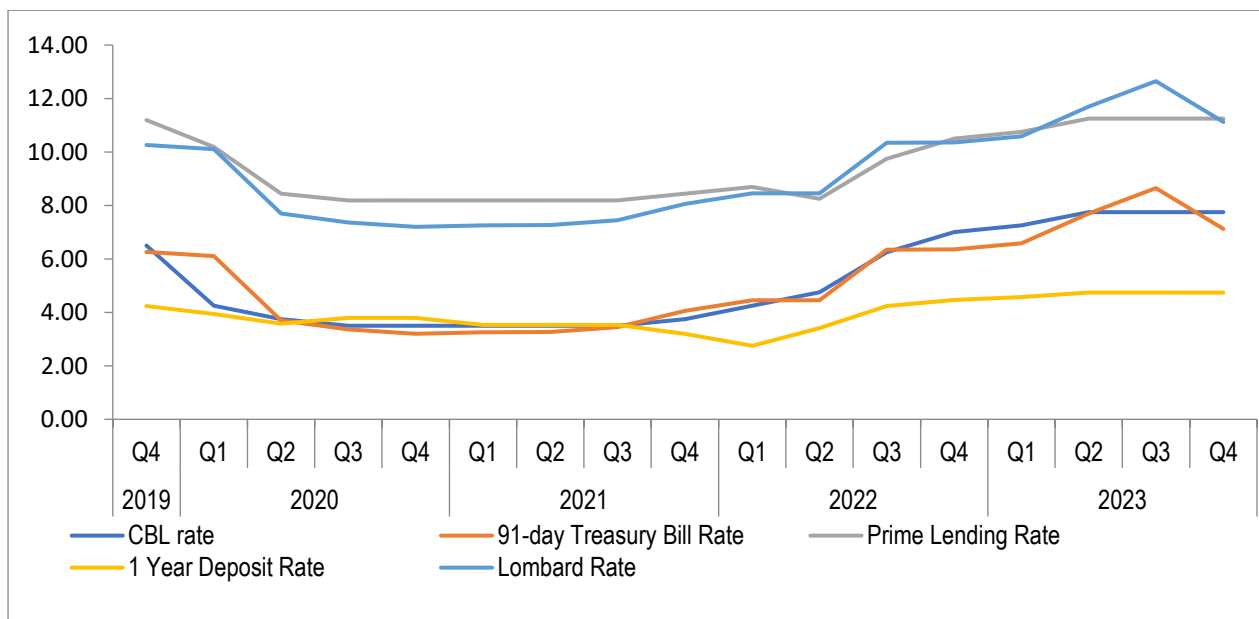
MONEY AND CAPITAL MARKET DEVELOPMENTS

Money Market

Interest Rates

The key policy rate set by the CBL was unchanged at 7.75 per cent. The prime lending rate and the 1-year deposit rate also remained at 11.25 per cent and 4.74 per cent, respectively. However, there was a decrease in the 91-day Treasury bill rate by 153 basis points, to 7.12 per cent. Nonetheless, 91-day Treasury bill rate remained within the desired range of +/- 200 basis points of its South African counterpart.

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



Source: Central Bank of Lesotho

Table 11: Interest rates

| | 2022 | | 2023 | | |
|-------------------------|-------|-------|-------|-------|-------|
| | Q4 | Q1 | Q2 | Q3 | Q4 |
| Central Bank | | | | | |
| CBL rate | 7.00 | 7.25 | 7.75 | 7.75 | 7.75 |
| T-Bill Rate - 91 days | 6.36 | 6.59 | 7.7 | 8.7 | 7.12 |
| Lombard Rate | 10.36 | 10.59 | 11.7 | 12.7 | 11.12 |
| Commercial Banks | | | | | |
| Call | 1.96 | 2.55 | 2.65 | 2.65 | 2.65 |
| Time: | | | | | |
| 31 days | 1.33 | 1.39 | 1.47 | 1.47 | 1.47 |
| 88 days | 2.33 | 2.39 | 2.46 | 2.46 | 2.46 |
| 6 months | 3.64 | 3.84 | 4.12 | 4.02 | 4.01 |
| 1 year | 4.37 | 4.57 | 4.74 | 4.74 | 4.74 |
| Savings | 1.43 | 1.53 | 1.60 | 1.60 | 1.60 |
| Prime | 10.50 | 10.75 | 11.25 | 11.25 | 11.25 |
| South Africa | | | | | |
| Repo | 7.00 | 7.75 | 8.25 | 8.25 | 8.25 |
| T-Bill Rate - 91 days | 6.50 | 7.34 | 8.63 | 8.37 | 8.43 |
| Prime | 10.50 | 11.25 | 11.75 | 11.75 | 11.75 |

Source: Central Bank of Lesotho

Holding of Treasury Bills

The total outstanding stock of T-bills changed marginally during the review period. However, there was a shift in the holding of T-bills. The banking system's holding declined from 67.7 per cent to 65.1 per cent while that of the non-banking sector increased from 32.2 per cent to 34.9 per cent.

Table 12: Holding of Bills (Million Maloti)

| | 2022 | | 2023 | | |
|-----------------------|----------------|----------------|----------------|---------------|---------------|
| | Q4 | Q1 | Q2 | Q3 | Q4 |
| Treasury Bills | 1596.49 | 1596.38 | 1597.25 | 867.22 | 864.00 |
| Banking System | 1380.44 | 1354.00 | 1357.59 | 587.43 | 562.25 |
| Non-Bank Sector | 216.05 | 242.38 | 239.66 | 279.79 | 301.75 |

Source: Central Bank of Lesotho

Holding of Treasury Bonds

The overall holding of T-bonds decreased by 11.6 per cent due to redemptions. Within the banking sector, the holding decreased by 23.3 per cent, while the non-banking sector declined by 4.8 per cent. All categories of the non-banking sector, except for parastatals, experienced a decrease in their bond holdings. The banking sector's share of the total stock of bonds decreased from 36.8 per cent to 31.9 per cent, while the non-banking sector's share increased from 63.1 per cent to 68.1 per cent compared to the previous quarter.

Table 13: Holding of Bonds (Million Maloti)

| | 2022 | | 2023 | | |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| | Q4 | Q1 | Q2 | Q3 | Q4 |
| Holding of Treasury Bonds | 3523.39 | 3757.58 | 4157.58 | 4337.59 | 3835.20 |
| Banking System | 1278.13 | 1311.31 | 1547.51 | 1597.68 | 1225.86 |
| Non-Bank Sector | 2245.26 | 2446.28 | 2610.08 | 2739.91 | 2609.34 |

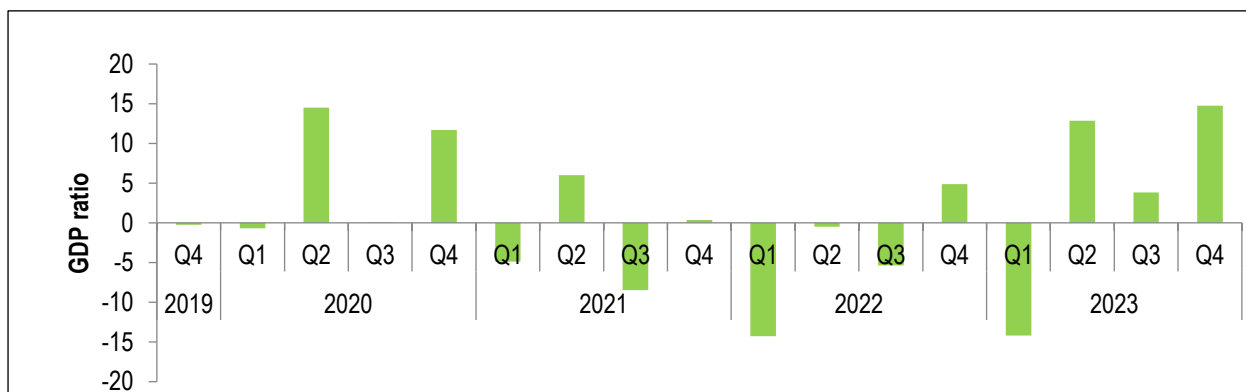
Source: Central Bank of Lesotho

5. Government Finance

OVERVIEW

Government budgetary operations were estimated to result in a surplus of 14.7 per cent of GDP during the last quarter of 2023, following a surplus of 3.8 per cent of GDP in the previous quarter. The primary contributors to this surplus were VAT and water royalties. The ratio of public debt stock to GDP declined to 59.8 per cent during the review quarter, compared to 59.9 per cent in the preceding quarter.

Figure 17: Fiscal Balance (Percent of GDP)

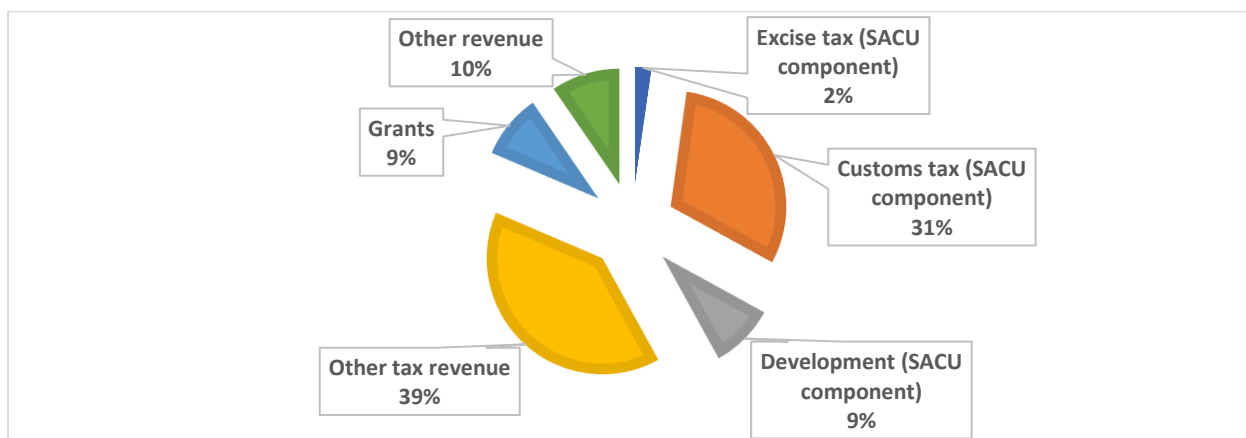


Source: Central Bank of Lesotho and Ministry of Finance

REVENUE⁴

During the quarter under review, government revenue increased by 4.1 per cent. This growth was primarily due to relatively higher collections of VAT, water royalties, and income tax. In the previous quarter, government revenues declined by 0.4 per cent. On a year-on-year basis, government revenue increased by 33.4 per cent. This growth was largely driven by high SACU receipts.

Figure 18: Total Revenue (Million Maloti)



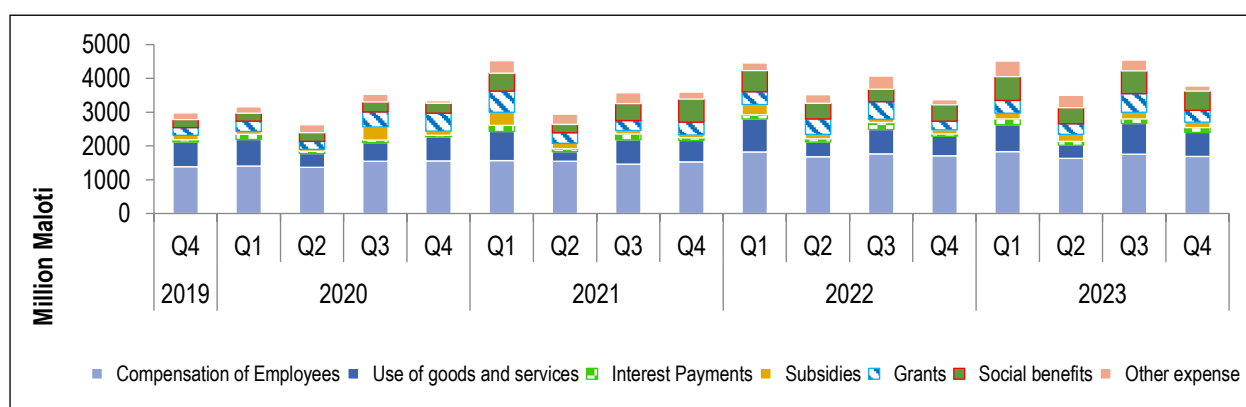
⁴ SACU receipts have been disaggregated into three components: excise tax, customs and other imports duties, and grants from international organisations. They are received during the first month of each quarter, making four inflows in a fiscal year.

Source: Central Bank of Lesotho and Ministry of Finance

TOTAL EXPENDITURE

During the current quarter, total expenditure declined by 18.3 per cent primarily due to a fall in fixed assets, compensation of employees, operating costs, and current grants to extra-budgetary units. This contrasted with a 19.2 per cent growth observed in the previous quarter. In terms of sectoral budget allocation, general public service and economic affairs received the largest share. On an annual basis, total spending increased by 9.1 per cent due to higher employer's pension contributions, operating costs, and spending on buildings and structures.

Figure 19: Total Expense (Million Maloti)



Source: Central Bank of Lesotho and Ministry of Finance

Table 14: Statement of Government Operations (Million Maloti)

| | 2022 | 2023 | | | | Q-to-Q (%) | Y-on-Y (%) | GDP ratio (%) |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|--------------|-------------|---------------|
| | Q4 | Q1 | Q2 | Q3 | Q4 | | | |
| Total Revenue | 4176.95 | 4250.05 | 5375.03 | 5351.02 | 5571.33 | 4.1 | 33.4 | 54.7 |
| Tax revenue | 3126.02 | 3460.18 | 4180.37 | 4245.02 | 4433.67 | 4.4 | 41.8 | 43.5 |
| Income Tax | 1016.94 | 1084.25 | 1038.76 | 1072.65 | 1222.90 | 14.0 | 20.3 | 12.0 |
| Value Added Tax | 912.28 | 847.79 | 864.77 | 982.66 | 1025.27 | 4.3 | 12.4 | 10.1 |
| SACU Receipts Components | 1056.09 | 1056.09 | 1984.93 | 1984.93 | 1984.93 | 0.0 | 88.0 | 19.5 |
| Other tax revenue | 140.71 | 472.06 | 291.91 | 204.78 | 200.57 | -2.1 | 42.5 | 2.0 |
| Grants | 293.80 | 293.80 | 552.20 | 552.20 | 552.20 | 0.0 | 88.0 | 5.4 |
| o/w SACU Receipts Component | 293.80 | 293.80 | 552.20 | 552.20 | 552.20 | 0.0 | 88.0 | 5.4 |
| Other revenue | 757.14 | 496.08 | 642.46 | 553.80 | 585.46 | 5.7 | -22.7 | 5.7 |
| Total Expense | 3363.59 | 4509.05 | 3496.30 | 4543.01 | 3770.66 | -17.0 | 12.1 | 37.0 |
| Compensation of Employees | 1705.37 | 1829.41 | 1630.40 | 1750.94 | 1687.31 | -3.6 | -1.1 | 16.6 |
| Use of goods and services | 583.90 | 799.20 | 388.70 | 915.15 | 716.09 | -21.8 | 22.6 | 7.0 |
| O/W Purchase of Health Services | 123.39 | 90.98 | 110.26 | 112.37 | 111.31 | -0.9 | -9.8 | 1.1 |
| Interest Payments | 64.84 | 168.17 | 118.60 | 129.72 | 136.59 | 5.3 | 110.6 | 1.3 |
| Subsidies | 124.23 | 176.10 | 202.70 | 201.40 | 158.61 | -21.2 | 27.7 | 1.6 |
| Grants | 254.66 | 370.54 | 319.24 | 548.78 | 355.47 | -35.2 | 39.6 | 3.5 |
| Social benefits | 482.02 | 700.69 | 471.32 | 669.49 | 570.81 | -14.7 | 18.4 | 5.6 |
| Other expense | 148.57 | 464.93 | 365.34 | 327.52 | 145.78 | -55.5 | -1.9 | 1.4 |
| Gross Operating Balance | 813.36 | -259.00 | 1878.73 | 808.01 | 1800.67 | - | - | 17.7 |

| | 2022 | 2023 | | | | Q-to-Q (%) | Y-on-Y (%) | GDP ratio (%) |
|----------------------------------------|----------------|-----------------|----------------|----------------|----------------|--------------|--------------|---------------|
| | Q4 | Q1 | Q2 | Q3 | Q4 | | | |
| Total Nonfinancial Assets | 364.86 | 1046.71 | 681.59 | 438.35 | 298.75 | -31.8 | -18.1 | 2.9 |
| Fixed Assets | 364.86 | 1046.71 | 681.59 | 438.35 | 298.75 | -31.8 | -18.1 | 2.9 |
| Non-Produced Assets | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | - | - | 0.0 |
| Total Expenditure | 3728.45 | 5555.75 | 4177.89 | 4981.36 | 4069.40 | -18.3 | 9.1 | 39.9 |
| Primary balance | 513.34 | -1137.53 | 1315.73 | 499.38 | 1638.51 | - | - | 16.1 |
| Net lending/borrowing | 448.50 | -1305.71 | 1197.13 | 369.66 | 1501.92 | - | - | 14.7 |
| Financing | 312.31 | -1481.78 | 1028.21 | 465.92 | 1208.90 | - | - | 11.9 |
| Net Acquisition of Financial assets | -508.12 | -707.40 | 1329.22 | -606.35 | 236.44 | - | - | 2.3 |
| O/W Domestic Currency and Deposits | -410.63 | -638.17 | 1422.99 | -458.70 | 739.93 | - | - | 7.3 |
| Net Incurrence of Liabilities | -820.43 | 774.38 | 301.01 | -1072.27 | -972.47 | - | - | -9.5 |
| O/W Domestic Other Accounts Payable | -480.06 | 712.97 | 43.66 | -287.05 | -922.96 | - | - | -9.1 |
| Statistical Discrepancy | 136.19 | 176.08 | 168.92 | -96.26 | 293.02 | - | - | 2.9 |
| Memo Items | | | | | | | | |
| SACU receipts | 1349.88 | 1349.88 | 2537.13 | 2537.13 | 2537.13 | 0.0 | 88.0 | 24.9 |
| GDP (quarterly, red colour = forecast) | 9238.56 | 9188.89 | 9317.67 | 9701.25 | 10190.50 | - | - | - |

Source: Central Bank of Lesotho and Ministry of Finance

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

| | 2022 | 2023 | | | | Q-to-Q (%) | Y-on-Y (%) | GDP ratio (%) |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|--------------|-------------|---------------|
| | Q4 | Q1 | Q2 | Q3 | Q4 | | | |
| Current Outlays | 3282.17 | 4535.23 | 3231.83 | 4372.10 | 3589.91 | -17.9 | 9.4 | 35.2 |
| General public services | 523.22 | 848.05 | 1058.31 | 1509.57 | 858.85 | -43.1 | 64.1 | 8.4 |
| Defense | 159.78 | 222.05 | 220.17 | 230.50 | 201.33 | -12.7 | 26.0 | 2.0 |
| Public order and safety | 432.91 | 420.85 | 450.12 | 506.00 | 447.83 | -11.5 | 3.4 | 4.4 |
| Economic affairs | 467.28 | 805.41 | 273.32 | 559.35 | 558.73 | -0.1 | 19.6 | 5.5 |
| Environmental protection | 2.18 | 2.91 | 4.74 | 5.18 | 4.80 | -7.3 | 120.1 | 0.0 |
| Housing and community amenities | 52.55 | 68.76 | 11.30 | 12.09 | 11.61 | -3.9 | -77.9 | 0.1 |
| Health | 486.65 | 525.06 | 338.02 | 558.15 | 514.49 | -7.8 | 5.7 | 5.0 |
| Recreation, culture and religion | 21.63 | 30.34 | 29.90 | 32.50 | 31.61 | -2.7 | 46.2 | 0.3 |
| Education | 625.87 | 776.70 | 611.96 | 682.93 | 694.60 | 1.7 | 11.0 | 6.8 |
| Social protection | 510.11 | 835.10 | 233.99 | 275.85 | 266.04 | -3.6 | -47.8 | 2.6 |
| Capital Outlays | 247.48 | 575.30 | 422.30 | 379.64 | 277.82 | -26.8 | 12.3 | 2.7 |
| General public services | 52.97 | 128.49 | 0.00 | 15.24 | 44.17 | 189.8 | -16.6 | 0.4 |
| Defense | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | - | - | 0.0 |
| Public order and safety | 5.37 | 14.79 | 0.00 | 10.06 | 16.56 | 64.7 | - | 0.2 |
| Economic affairs | 100.42 | 310.13 | 403.01 | 241.79 | 192.75 | -20.3 | 91.9 | 1.9 |
| Environmental protection | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | - | - | 0.0 |
| Housing and community amenities | 21.42 | 88.77 | 5.62 | 95.44 | 12.69 | -86.7 | -40.7 | 0.1 |
| Health | 1.50 | 11.87 | 11.12 | 4.99 | 5.31 | 6.3 | 252.9 | 0.1 |
| Recreation, culture and religion | 3.11 | 11.54 | 2.27 | 4.63 | 2.01 | -56.6 | -35.5 | 0.0 |
| Education | 0.00 | 9.71 | 0.28 | 7.49 | 4.33 | -42.2 | - | 0.0 |
| Social protection | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | - | - | 0.0 |
| Total Outlays | 3529.65 | 5110.53 | 3654.13 | 4751.74 | 3867.73 | -18.6 | 9.6 | 38.0 |
| General public services | 632.54 | 976.54 | 1058.31 | 1524.81 | 903.02 | -40.8 | 42.8 | 8.9 |
| Defense | 159.78 | 222.05 | 220.17 | 230.50 | 201.33 | -12.7 | 26.0 | 2.0 |

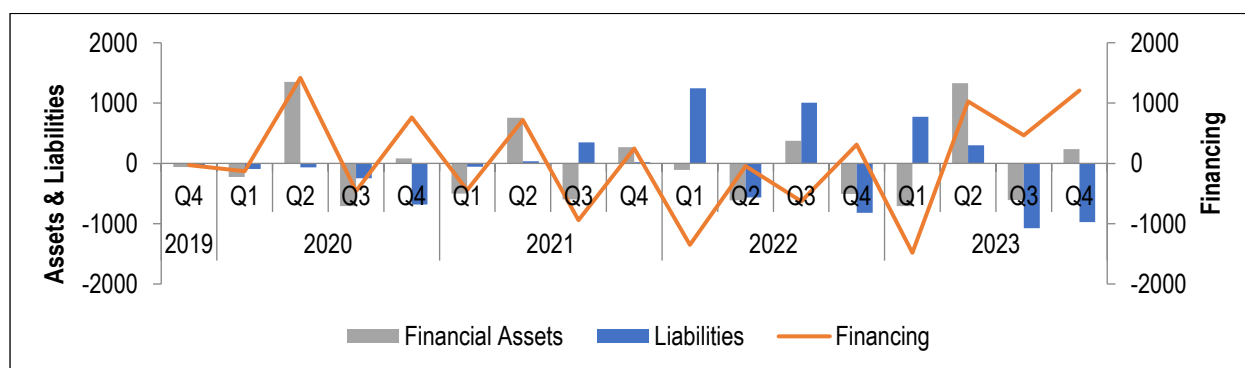
| | 2022 | 2023 | | | | Q-to-Q (%) | Y-on-Y (%) | GDP ratio (%) |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|------------|------------|---------------|
| | Q4 | Q1 | Q2 | Q3 | Q4 | | | |
| Public order and safety | 438.69 | 435.63 | 450.12 | 516.05 | 464.39 | -10.0 | 5.9 | 4.6 |
| Economic affairs | 572.94 | 1115.54 | 676.34 | 801.13 | 751.48 | -6.2 | 31.2 | 7.4 |
| Environmental protection | 2.18 | 2.91 | 4.74 | 5.18 | 4.80 | -7.3 | 120.1 | 0.0 |
| Housing and community amenities | 73.98 | 157.53 | 16.91 | 107.53 | 24.31 | -77.4 | -67.1 | 0.2 |
| Health | 488.51 | 536.92 | 349.14 | 563.15 | 519.80 | -7.7 | 6.4 | 5.1 |
| Recreation, culture and religion | 25.05 | 41.88 | 32.16 | 37.13 | 33.62 | -9.5 | 34.2 | 0.3 |
| Education | 625.87 | 786.41 | 612.24 | 690.42 | 698.93 | 1.2 | 11.7 | 6.9 |
| Social protection | 510.11 | 835.10 | 233.99 | 275.85 | 266.04 | -3.6 | -47.8 | 2.6 |
| Unidentified Outlays | 198.81 | 445.23 | 523.77 | 229.61 | 201.68 | | | |

Source: Central Bank of Lesotho and Ministry of Finance

FINANCIAL ASSETS AND LIABILITIES⁵

A significant portion of the fiscal surplus was utilised to redeem maturing government securities, which included the final segment of the callable bond, as well as repayment of outstanding payments for supplies. Meanwhile, the remainder of the surplus was retained to accumulate government deposits.

Figure 20: Total Financing (Million Maloti)



Source: Central Bank of Lesotho and Ministry of Finance

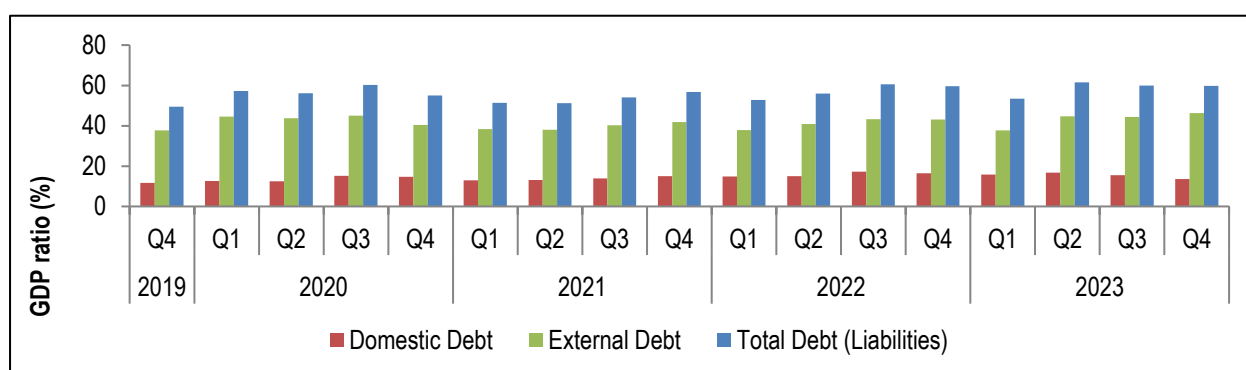
TOTAL PUBLIC DEBT⁶

The stock of public debt decreased by 0.1 per cent, following a decline of 2.5 per cent in the previous quarter. This reduction in debt was primarily influenced by substantial redemption of T-bonds. However, this decrease was offset by an increase in external debt, which included both concessional and non-concessional debt.

⁵ All categories are on net terms. The difference between financing and net lending is captured under other accounts payable. However, existing statistical discrepancy caters for some funds in the banks that are totally unexplained as they are highly aggregated.

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

Figure 21: Outstanding Public Debt (Million Maloti)



Source: Central Bank of Lesotho and Ministry of Finance

Table 16: Public Debt Stock (Million Maloti)

| | 2022 | 2023 | | | | Q-to-Q (%) | Y-on-Y (%) | Debt / GDP |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|--------------|-------------|-------------|
| | Q4 | Q1 | Q2 | Q3 | Q4 | | | |
| Total Public Debt | 22299.56 | 21791.89 | 25045.63 | 24407.21 | 24387.00 | -0.1 | 9.4 | 59.8 |
| EXTERNAL DEBT | 16149.10 | 15347.13 | 18194.40 | 18111.80 | 18839.40 | 4.0 | 16.7 | 46.2 |
| Bilateral Loans | 699.22 | 756.73 | 1039.90 | 1032.10 | 1008.10 | -2.3 | 44.2 | 2.5 |
| Concessional | 699.22 | 756.73 | 1039.90 | 1032.10 | 1008.10 | -2.3 | 44.2 | 2.5 |
| Non-concessional | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | - | - | 0.0 |
| Multilateral Loans | 12637.93 | 11478.60 | 13941.60 | 13778.70 | 14425.80 | 4.7 | 14.1 | 35.4 |
| Concessional | 11330.77 | 10199.00 | 12675.90 | 12545.40 | 13156.80 | 4.9 | 16.1 | 32.3 |
| Non-concessional | 1307.16 | 1279.60 | 1265.70 | 1233.30 | 1269.00 | 2.9 | -2.9 | 3.1 |
| Financial Institutions | 176.89 | 155.30 | 133.20 | 107.60 | 80.70 | -25.0 | -54.4 | 0.2 |
| Concessional | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | - | - | 0.0 |
| Non-concessional | 176.89 | 155.30 | 133.20 | 107.60 | 80.70 | -25.0 | -54.4 | 0.2 |
| Suppliers' Credit | 2635.05 | 2956.50 | 3079.70 | 3193.40 | 3324.80 | 4.1 | 26.2 | 8.2 |
| DOMESTIC DEBT | 6150.47 | 6444.76 | 6851.23 | 6295.41 | 5547.60 | -11.9 | -9.8 | 13.6 |
| Banks | 3689.16 | 3756.11 | 4001.49 | 3275.71 | 2636.51 | -19.5 | -28.5 | 6.5 |
| Long-term | 2308.72 | 2402.11 | 2643.91 | 2688.28 | 2074.26 | -22.8 | -10.2 | 5.1 |
| Treasury bonds | 1278.13 | 1311.31 | 1547.51 | 1597.68 | 1225.86 | -23.3 | -4.1 | 3.0 |
| Central Bank (IMF-ECF) | 1030.59 | 1090.80 | 1096.40 | 1090.60 | 848.40 | -22.2 | -17.7 | 2.1 |
| Short-term (t-bills) | 1380.44 | 1354.00 | 1357.59 | 587.43 | 562.25 | -4.3 | -59.3 | 1.4 |
| Non-bank | 2461.31 | 2688.66 | 2849.74 | 3019.70 | 2911.09 | -3.6 | 18.3 | 7.1 |
| Short-term (t-bills) | 216.05 | 242.38 | 239.66 | 279.79 | 301.75 | 7.8 | 39.7 | 0.7 |
| Long-term (t-bonds) | 2245.26 | 2446.28 | 2610.08 | 2739.91 | 2609.34 | -4.8 | 16.2 | 6.4 |
| DEBT INDICATORS | | | | | | | | |
| External Debt-to-Total Debt | 72.42 | 70.43 | 72.65 | 74.21 | 77.25 | - | - | - |
| Concessional Debt-to-External Debt | 74.49 | 71.39 | 75.38 | 74.96 | 75.19 | - | - | - |
| External Debt Service-to-Revenue | 7.04 | 10.66 | 6.27 | 5.39 | 6.21 | - | - | - |
| External Debt Service-to-Exports | 7.32 | 12.74 | 8.11 | 7.17 | 7.96 | - | - | - |

Source: Central Bank of Lesotho and Ministry of Finance

6. Foreign Trade and Payments

OVERVIEW

In the last quarter of 2023, the overall external sector balance was a deficit equivalent to 2.25 per cent of GDP, from a revised surplus of 4.0 per cent of GDP in the preceding quarter. The deficit was explained by the wider the current account deficit, together with the reduced financial account outflows during the same period. However, there was an increase in the capital account inflows, which moderated the observed impact of the current and financial account.

CURRENT ACCOUNT

The current account deficit widened to M350.08 million in the last quarter of 2023 from M45.37 million a quarter earlier. This was explained by the widened deficit on goods and services accounts, as well as the reduced surplus on the secondary income account. Nonetheless, there was an increase in the primary income account surplus, which partly offset the impact of the goods and services account deficit. As a share of GDP, the current account deficit constituted 3.5 per cent, from a revised 0.5 per cent deficit in the previous quarter.

Table 17: Current Account Balance (Million Maloti)

| | 2022 | 2023 | | | | % Changes | |
|------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|---------------|-------------|
| | Q4 | Q1 | Q2 | Q3 | Q4 | Q/Q | Y/Y |
| Current Account | -1580.11 | -1696.54 | -14.87 | -45.37 | -350.08 | -671.6 | 77.8 |
| (a) Goods | -3541.74 | -3958.98 | -3254.06 | -3396.63 | -3659.27 | -7.7 | -3.3 |
| Merchandise exports, f.o.b. | 4016.15 | 3556.34 | 4155.91 | 4024.55 | 4345.64 | 8.0 | 8.2 |
| Of which diamonds | 959.01 | 1130.35 | 1221.62 | 930.04 | 1486.73 | 59.9 | 55.0 |
| Of which textiles & clothing | 2342.94 | 1744.26 | 2117.11 | 2205.04 | 2115.10 | -4.1 | -9.7 |
| Of which water | 403.27 | 335.86 | 364.17 | 358.06 | 391.37 | 9.3 | -3.0 |
| Of which agriculture | 141.23 | 105.90 | 140.72 | 122.26 | 140.62 | 15.0 | -0.4 |
| Of which re-exports | 77.95 | 25.42 | 34.94 | 34.94 | 77.95 | 123.1 | 0.0 |
| Other exports | 91.74 | 214.55 | 277.35 | 374.21 | 133.87 | -64.2 | 45.9 |
| Merchandise imports, f.o.b. | 7557.88 | 7515.32 | 7409.97 | 7421.19 | 8004.91 | 7.9 | 5.9 |
| (b) Services | -1743.83 | -1834.01 | -1804.97 | -1808.42 | -1879.07 | -3.9 | -7.8 |
| (c) Primary Income | 2074.73 | 2076.77 | 2237.29 | 2342.63 | 2383.69 | 1.8 | 14.9 |
| (d) Secondary Income | 1630.73 | 2019.68 | 2806.86 | 2817.05 | 2804.57 | -0.4 | 72.0 |

Source: Central Bank of Lesotho

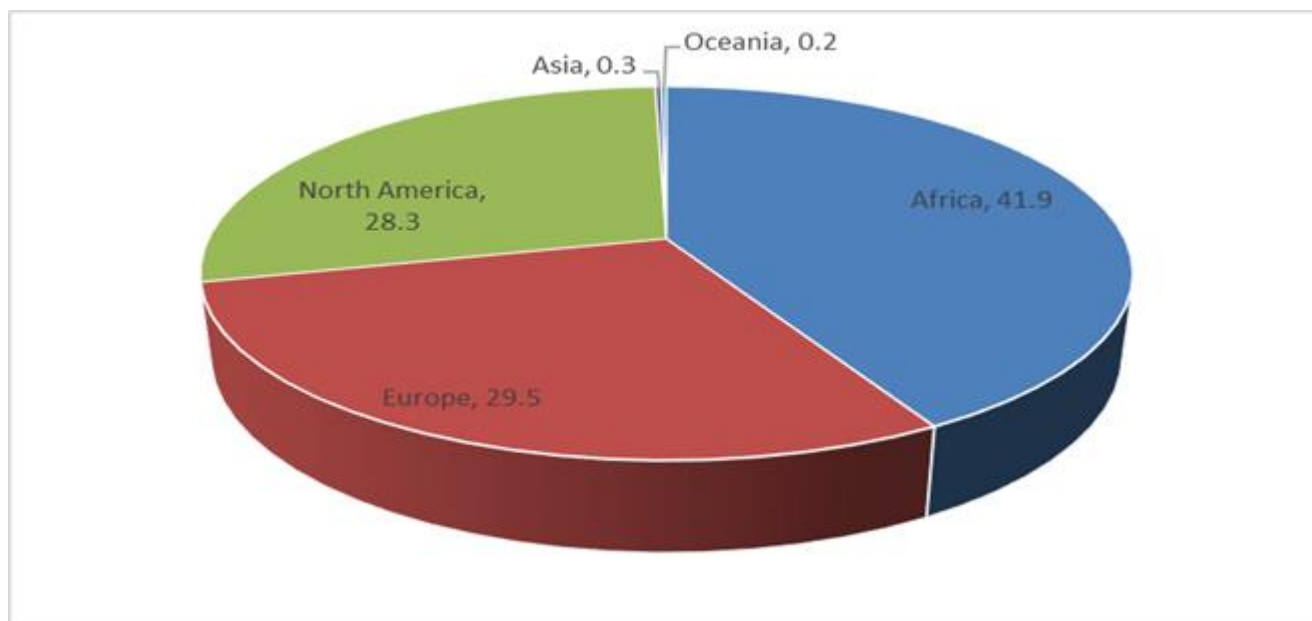
Merchandise Exports

Merchandise exports rose by 8.0 per cent in the fourth quarter of 2023, from a decline of 3.2 per cent in the preceding quarter. The increase in exports was primarily explained by a rise in diamond exports following the sale of an exceptional pink diamond, which had previously been kept in consignment inventory. This was coupled with an increase in exports of water and agricultural products. However, the growth in exports was moderated by the decline in exports for textiles and clothing, due to reduced orders from the US during the same period. Year on year, merchandise imports increased by 8.2 per cent, compared to a decline of 20.3 per cent in the third quarter of 2023. As a ratio of GDP, merchandise exports increased to 42.8 per cent, from 41.5 per cent in the previous quarter.

Direction of Trade - Exports

Africa continued to be the leading export market for Lesotho in the fourth quarter of 2023, with a relatively lower share of 41.9 per cent, than 46.1 per cent in the preceding quarter. Exports to Africa constituted mostly textiles and clothing to South Africa. Europe constituted the second largest share of 29.5 per cent, marking an increase from 24.8 per cent in the preceding quarter. This growth was driven primarily by an uptick in diamond exports during this period. North America was the third largest recipient of exports from Lesotho, with a share of 28.3 per cent, lower than 28.9 per cent in the previous quarter. This decline was driven by the fall in exports to the US. Asia and Oceania continued to lag behind as recipients of Lesotho exports, with a share of 0.3 per cent and 0.2 per cent, respectively.

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



Source: Central Bank of Lesotho

Merchandise Imports

Merchandise imports increased by 7.9 per cent in the fourth quarter, following an increase of 0.2 per cent in the previous quarter. This was mainly attributed to the increase in machinery, steel and iron products, as well as chemicals, in line with the ongoing activities at the LHWP Phase II. On an annual basis, imports increased by 5.9 per cent, in contrast to a 1.2 per cent increase in the preceding quarter. As a share of GDP, merchandise imports rose to 78.8 per cent, from 76.5 per cent in the preceding quarter.

Services account

The deficit on the services account widened by 3.9 per cent in the fourth quarter of 2023 after decreasing by 0.2 per cent in the preceding quarter. This resulted from an increase in payments for freight services, in line with increased imports, together with payments for telecommunications and transport services, which were partly supported by the holiday season. On an annual basis, the services account deficit widened by 7.8 per cent, following an increase of 4.8 per cent in the previous quarter. Expressed as a percentage of GDP, the deficit represented 18.5 per cent, a slight decrease from 18.6 per cent a quarter earlier.

Primary Income Account

During the review period, the primary income account surplus increased by 1.8 per cent, relative to an increase of 4.7 per cent in the preceding quarter. It was supported by an increase in interest returns for foreign investments held by financial institutions, together with increased transfers for maintenance and operational costs for LHWP Phase I. This was however moderated by the increase in interest payments for government foreign loans. Year on year, the primary income account surplus rose by 14.9 per cent compared to an increase of 20.5 per cent in the previous period. As a ratio of GDP, the surplus was equivalent to 23.5 per cent, following a 24.2 per cent of GDP in the preceding quarter.

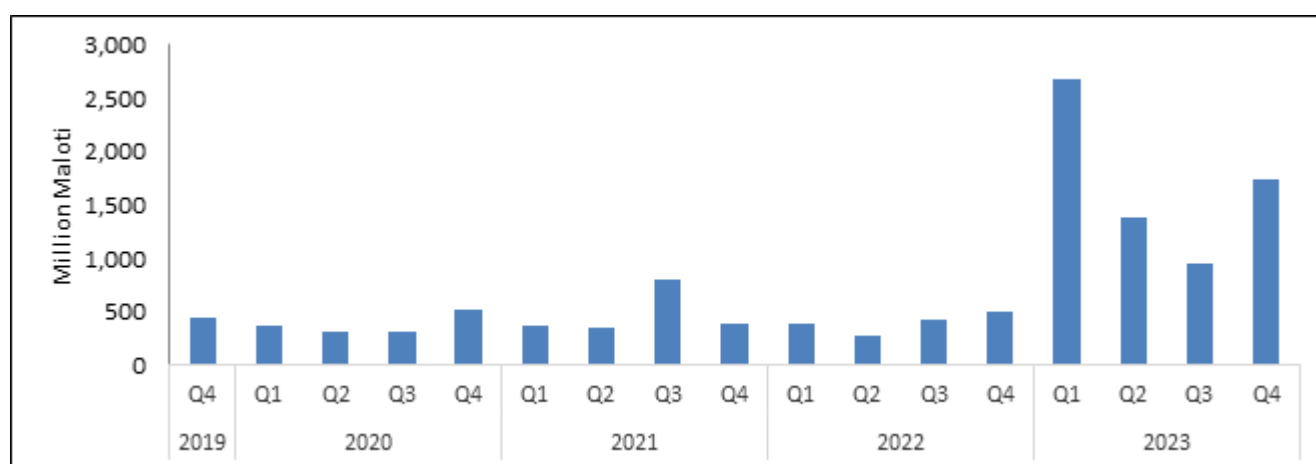
Secondary Income Account

The secondary income account surplus declined by 0.4 per cent, compared to an increase of 0.4 per in the preceding quarter. This was due to an increase in payments for subscriptions to international organisations, while other components of the account remained unchanged during this period. Year-on-year, the surplus grew by 72.0 per cent, following a 72.9 per cent increase in the preceding quarter. As a percentage of GDP, the surplus declined to 27.6 per cent, compared to 29.0 per cent observed in the third quarter of 2023.

CAPITAL ACCOUNT

The capital account surplus rose to M1.75 billion from M953.68 million in the preceding quarter. This increase was attributed to ongoing transfers related to the main construction activities of the LHWP-Phase II project, as well as advance infrastructure, particularly payments to contractors who were awarded tenders for the construction of the dam, transfer tunnel, and the Senqu Bridge. As a percentage of GDP, the capital account surplus was 17.2 per cent, compared to a 9.8 per cent of GDP surplus in the third quarter of 2023.

Figure 23: Capital Account (Million Maloti)



Source: Central Bank of Lesotho

FINANCIAL ACCOUNT

In the fourth quarter of 2023, the financial account outflows declined to M1.24 billion, from M1.26 billion in the previous quarter. The decline was primarily explained by the fall in other investment outflows. These were however moderated by increased outflows for direct investment, portfolio investment and reserve assets.

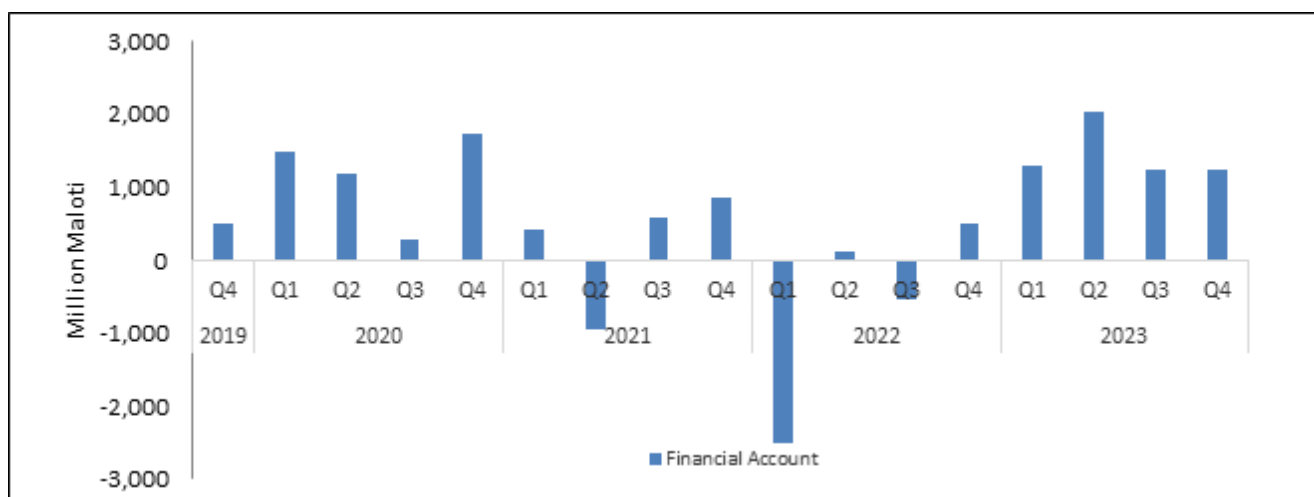
Table 18: Financial Account Balance (Million Maloti)

| | 2022 | 2023 | | | |
|---------------------------------|---------------|----------------|----------------|----------------|----------------|
| | Q4 | Q1 | Q2 | Q3 | Q4 |
| Financial account | 499.21 | 1307.41 | 2036.02 | 1255.72 | 1244.53 |
| Direct Investments, net | -24.03 | -138.28 | -72.37 | 308.83 | 389.09 |
| Portfolio Investments, net | -17.16 | 752.53 | 440.58 | 394.75 | 403.71 |
| Financial Derivatives, net | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other Investments, net | -614.47 | 1688.04 | 630.65 | 938.89 | 223.32 |
| Of which Loans | -178.92 | 389.30 | 257.02 | 49.79 | -487.77 |
| Claims on Non Residents | 34.48 | 34.48 | 34.48 | 34.48 | 34.48 |
| Liabilities to Non Residents | 213.40 | -354.82 | -222.54 | -15.31 | 522.25 |
| Of which Currency and Deposits | -361.49 | 1372.81 | 447.68 | 963.16 | 785.15 |
| Claims on Non Residents | -551.05 | 1510.69 | 430.19 | 889.16 | 1116.72 |
| Liabilities to Non Residents | -189.56 | 137.88 | -17.49 | -74.00 | 331.57 |
| Of which Special Drawing Rights | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Reserve Assets | 1154.87 | -994.88 | 1037.16 | -386.74 | 228.41 |

Source: Central Bank of Lesotho

The decline in other investments outflows emanated from an increase in liabilities to the government, particularly, the rise in loan disbursements, coupled with a decline in loan repayments. This was coupled with an increase in commercial bank's foreign liabilities. These developments were however partly offset by an increase in commercial banks assets during the same period. Furthermore, there was an increase in outflows for direct investment, portfolio investment and reserves assets, which moderated the financial account outflows further. Direct investment flows were supported by a decline in local enterprises' loans from non-residents, while portfolio investment flows were supported by increased investments by financial institutions' into foreign securities.

Figure 24: Financial Account (Million Maloti)

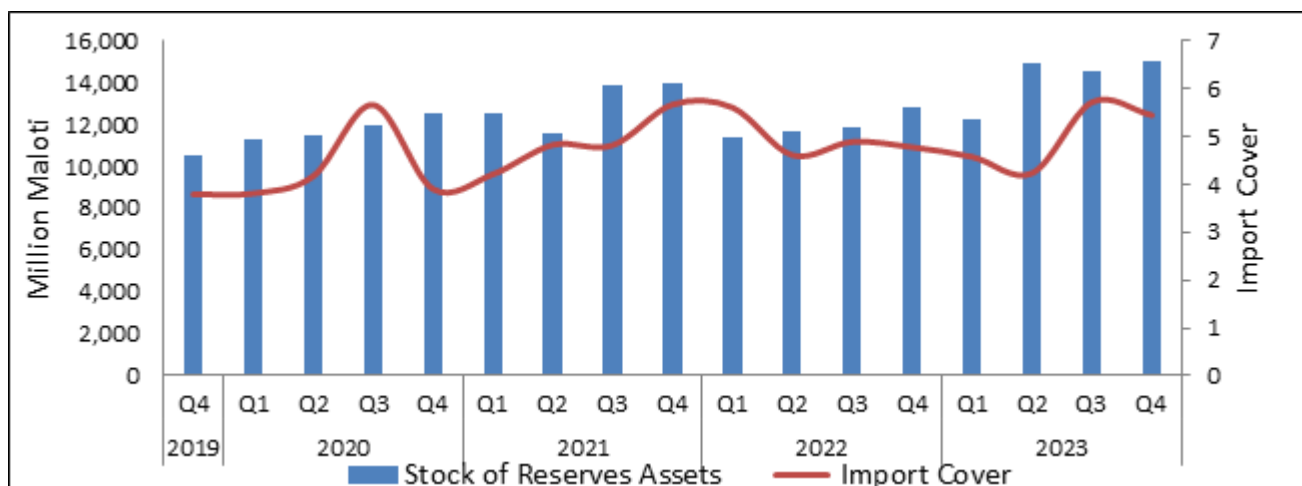


Source: Central Bank of Lesotho

RESERVE ASSETS

The stock of foreign reserves rose to M15.04 billion in the last quarter of 2023, from M14.58 billion in the previous quarter. The increase in reserve assets was in line with lower government expenditure during the same period. The import coverage of reserves rose to 5.5 months of import cover, from a revised 5.4 months of imports in the previous quarter.

Figure 25: Reserve Assets



Source: Central Bank of Lesotho