

Central Bank of Lesotho



QUARTERLY ECONOMIC REVIEW

June 2025

MASERU KINGDOM OF LESOTHO

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1 Executive Summary

Global economic conditions remained uneven during the second quarter of 2025, with advanced economies exhibiting signs of slowdown while emerging markets sustained moderate growth. Labour markets remained generally tight across most regions, with the notable exceptions of the United Kingdom (UK) and South Africa. Meanwhile, divergent inflation trends prompted varying monetary policy responses, ranging from interest rate cuts to policy holds by central banks. Commodity prices were volatile; gold and platinum recorded strong gains, oil prices declined sharply, while agricultural commodities exhibited mixed trends. Currency markets reflected shifting investor sentiment, with the rand strengthening against the US dollar but weakening against the British pound and euro.

Domestically, economic activity rebounded modestly, reversing the contraction recorded in the previous quarter. The marginal expansion in the Quarterly Composite Indicator of Economic Activity was driven by strong domestic demand and increased output in manufacturing, construction, and financial services, partially offset by a slowdown in transport. Employment continued to rise year-on-year, albeit at a slower pace, with gains concentrated in the tertiary and secondary sectors. Inflationary pressures eased slightly, despite upward price movements in food, alcohol, and hospitality services, largely due to supply constraints and revised pricing models.

Monetary and financial conditions remained broadly stable, supported by moderate inflation and a resilient financial sector. The Central Bank maintained the Monetary Policy Rate at 6.75 per cent, consistent with its mandate to preserve the exchange rate peg and ensure adequate liquidity. Broad money supply expanded by 3.2 per cent, driven by growth in net foreign assets, while credit to the private sector recorded a marginal uptick amid cautious lending. Interest rate spreads narrowed slightly, and commercial banks remained well-capitalised and profitable, with non-performing loans contained within acceptable thresholds. External reserves rose to M18.96 billion, lifting import cover to 5.5 months and reinforcing confidence in monetary stability.

The fiscal accounts recorded a surplus equivalent to 14.0 per cent of GDP, underpinned by restrained expenditure growth and sustained cash-buffering. Revenue declined due to lower SACU receipts and subdued domestic tax collections, though water royalties surged. Expenditure contracted on a quarterly basis, driven by reduced capital outlays, while current spending remained resilient. Financing operations reflected net lending, with increased asset accumulation and moderate liability growth. Public debt rose modestly to 55.8 per cent of GDP, underpinned by concessional external borrowing and a stable domestic debt profile, with no immediate risks to fiscal sustainability.

Lesotho's external sector remained in surplus, bolstered by capital inflows linked to LHWP Phase II construction and elevated water royalties. However, the current account shifted into deficit, driven by widened trade gaps in goods and services, despite continued surpluses in primary and secondary income accounts. Merchandise exports rose by 11.0 per cent quarter-on-quarter, led by water, agriculture, and textiles, while diamond exports declined sharply. Imports increased modestly, reflecting higher demand for mineral products, food, and machinery. The financial account recorded a surplus, supported by portfolio investment and reserve asset growth.

2 International Economic Developments

2.1 Overview

The global economic performance varied across advanced and emerging market economies in the second quarter of 2025. Economic activity slowed down in the euro area, the United Kingdom (UK) and Japan, while it was stable in the United States (US). In contrast, China maintained strong economic momentum, while India's economic performance was also expected to remain robust. Labour market conditions remained tight in most economies, with the exception of the UK and South Africa, which continued to be negatively affected by country specific policies and structural changes, respectively.

Inflation rates varied across the globe, influenced by a combination of domestic and global factors. The US, UK, China and South Africa recorded higher increases in consumer prices, while the euro area, Japan and India registered more moderate inflation outcomes. However, most central banks continued to lower policy rates amid concerns about the impact of US tariffs, rising global uncertainty, and ongoing disinflation pressures. Nevertheless, commodity markets exhibited divergent trends. Gold and platinum prices maintained an upward trajectory, largely reflecting both demand- and supply-side factors, while oil prices declined, driven mainly by supply conditions. Prices of maize and wheat were mixed, largely due to supply disruptions arising from adverse climate conditions in key producing countries. Meanwhile, the domestic currency's performance against its three major trading currencies was uneven, influenced by both domestic and international factors.

Table 1: Key World Economic Indicators

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2
	2025	2025	2025	2025	2025	2025	2025	2025
United States	2.0	2.0	2.4	2.7	4.25	4.25	4.2	4.1
Euro Area	1.5	1.4	2.2	2.0	2.65	2.15	6.4	6.2
Japan	1.8	1.2	3.6	3.3	0.50	0.50	2.5	2.5
United Kingdom	1.3	1.2	2.6	3.6	4.50	4.25	4.5	4.7
China	5.4	5.2	-0.1	0.1	3.10	3.00	5.2	5.0
India	7.4	7.8	3.3	2.1	6.25	5.50	N/A	N/A
South Africa	0.8	0.6	2.7	3.0	7.50	7.25	32.9	33.2

Source: STATSSA, SARB, OECD National Accounts Statistics (database), US Bureau of Economic Analysis, National Bureau of Statistics China, Statistics Bureau of Japan, Government of India Department of Labour, United Kingdom Office for National Statistics, EUROSTAT, Japan Ministry of Internal Affairs and Communications.

2.2 Advanced Economies

2.2.1 United States (US)

During the second quarter of 2025, the United States economy remained broadly stable, with real gross domestic product (GDP) growth unchanged at 2.0 per cent compared to the previous quarter. GDP growth reflected falling imports, as higher tariffs on products such as steel, aluminium and vehicles took effect. However, consumer spending moderated amid weak domestic demand and heightened uncertainty surrounding US protectionist trade policies and the broader economic outlook. The unemployment rate declined slightly to 4.1 per cent from 4.2 per cent in the previous quarter, reflecting a shrinking labour force due to tighter immigration policy.

Consumer prices grew faster in the second quarter of 2025, rising to 2.7 per cent from 2.4 per cent in the previous quarter, with food and transportation costs leading the increase. Food inflation stemmed from higher prices of fruits and vegetables due to adverse weather conditions that affected harvests, while transportation costs rose mainly because of higher fuel prices. During the same period, the Federal Reserve maintained the federal funds rate at 4.25–4.50 per cent, against the backdrop of expectations of higher inflation, slower economic growth, and rising unemployment risks associated with US protectionist trade policies.

2.2.2 Euro Area

Economic activity in the euro area expanded in the second quarter of 2025, although at a slower pace than in the previous quarter. The real GDP growth rate was recorded at 1.4 per cent, compared to 1.5 per cent previously. Growth was supported by stronger business activity, reflecting a rebound in the services and manufacturing sectors. The economy also benefitted from increased government spending and lower interest rates, which bolstered domestic consumption and business investment. Consequently, the unemployment rate declined to 6.2 per cent from 6.4 per cent, as stronger business activity boosted labour demand.

The annual inflation rate declined to 2.0 per cent from 2.2 per cent in the previous period, driven mainly by lower energy costs, particularly electricity prices. Electricity prices fell due to reduced demand across most markets and increased wind energy production. Meanwhile, the European Central Bank (ECB) maintained its policy easing stance, further reducing the key policy rate to 2.15 per cent from 2.65 per cent in the quarter ending March 2025. The ECB's decision reflected moderating wage growth and a decline in inflation, which had reached the Bank's 2.0 per cent target.

2.2.3 Japan

Economic growth in Japan moderated in the second quarter of 2025, with real GDP expanding by 1.2 per cent, down from a revised 1.8 per cent in the previous quarter. Growth was primarily driven by stronger exports, reflecting elevated car shipment volumes as firms front-loaded deliveries amid concerns over potential US tariff increases. Domestic demand and business investment also recorded modest improvements, providing additional support to overall activity.

Labour market conditions remained stable, with the unemployment rate unchanged at 2.5 per cent. Hiring slowed as firms increasingly adopted labour-saving technologies, including self-service payment systems.

However, this trend was partly offset by demographic pressures, as Japan's rapidly ageing population continued to underpin demand for labour in the medical and healthcare sectors.

Inflationary pressures eased, with headline inflation declining to 3.3 per cent from 3.6 per cent in the previous month. The moderation largely reflected lower education costs following the introduction of a high-school tuition support programme aimed at eliminating fees and improving access to education, alongside a slower pace of increase in energy prices. Against this backdrop, the Bank of Japan maintained its policy rate at 0.5 per cent, citing heightened concerns that prospective US tariff measures could weigh on global economic growth.

2.2.4 United Kingdom

Economic activity in the United Kingdom moderated in the second quarter of 2025, with real GDP expanding by 1.2 per cent, marginally lower than the 1.3 per cent recorded in the previous quarter. Growth was supported by improved performance in the services and construction sectors, reflecting stronger buyer confidence and increased private housing maintenance and repair activities, respectively.

Labour market conditions continued to soften, with the unemployment rate rising to 4.7 per cent from 4.5 per cent. The deterioration largely reflected firms scaling back hiring in response to higher payroll taxes and increases in the minimum wage, which raised labour costs.

Inflationary pressures intensified, with headline inflation increasing to 3.6 per cent from 2.6 per cent, its highest level in 18 months. The acceleration in consumer prices was driven mainly by higher transportation costs, including rising motor fuel prices and increased airfares, partly reflecting stronger haulage demand. Consequently, the Bank of England reduced its policy rate by 25 basis points to 4.25 per cent, seeking to support the weakening labour market despite elevated inflationary pressures.

2.3 Emerging Market Economies

2.3.1 China

China's economy remained relatively resilient, with real GDP expanding by 5.2 per cent, slightly lower than the 5.4 per cent recorded in the preceding quarter. Growth was underpinned by continued policy support and a temporary easing of trade tensions with the United States, which supported export performance. Policy measures included increased infrastructure spending, consumer subsidies, policy rate cuts, and liquidity injections, aimed at shielding the economy from the adverse effects of potential US tariff increases.

Labour market conditions improved modestly, as the unemployment rate declined to 5.0 per cent from 5.2 per cent. Employment was supported by targeted stimulus initiatives, notably subsidies for firms hiring young workers aged 16–24.

Inflation edged into positive territory, with headline inflation rising to 0.1 per cent from a marginal deflation of 0.1 per cent. The uptick in consumer prices reflected stronger demand, driven by increased e-commerce activity and improved consumer sentiment following the pause in US tariff measures. This occurred despite higher government subsidies for consumer goods, which helped contain overall price pressures. Against this backdrop, the People's Bank of China lowered its policy rate to 3.00 per cent from 3.10 per cent,

reinforcing its accommodative stance to cushion the economy against lingering US–China trade-related risks.

2.3.2 India

Economic momentum in India remained robust, with real GDP expanding by 7.8 per cent, up from 7.4 per cent earlier. Growth was driven by strong performance in the manufacturing and services sectors, supported by buoyant export demand and higher domestic sales. Economic activity was further underpinned by resilient consumer spending, reflecting easing inflationary pressures.

Consumer price pressures softened, with headline inflation declining to 2.1 per cent from 3.3 per cent. The disinflation was largely driven by a sharp fall in food prices, particularly vegetables, following favourable weather conditions that led to oversupply. In response, and amid heightened global trade policy uncertainty, the Reserve Bank of India reduced its policy rate to 5.5 per cent from 6.25 per cent, reinforcing an accommodative monetary policy stance.

2.3.3 South Africa

Economic activity in South Africa expanded modestly, with real GDP growing by 0.6 per cent, down from 0.8 per cent earlier. Growth was supported by a rebound in manufacturing and mining, underpinned by firmer demand and easing cost pressures in manufacturing, as well as improved water and electricity supply that lifted mining output following earlier disruptions. These gains were partly offset by weaker performance in the construction and transport sectors.

Labour market conditions deteriorated, with the unemployment rate rising to 33.2 per cent from 31.9 per cent. Persistently high unemployment reflected both subdued economic activity and deep-seated structural constraints, limiting the economy's capacity to generate sufficient employment for a growing population.

Price pressures edged higher, with headline inflation increasing to 3.0 per cent from 2.7 per cent. The rise in consumer prices was driven mainly by higher food prices, particularly meat, fruits, and vegetables. Meat prices—notably beef—increased due to supply-side disruptions linked to outbreaks of foot-and-mouth disease, while weather-related supply constraints pushed up fruit and vegetable prices. Consistent with a favourable inflation outlook and elevated global economic risks, the South African Reserve Bank reduced its policy rate to 7.25 per cent from 7.50 per cent.

2.4 Commodities

2.4.1 Minerals

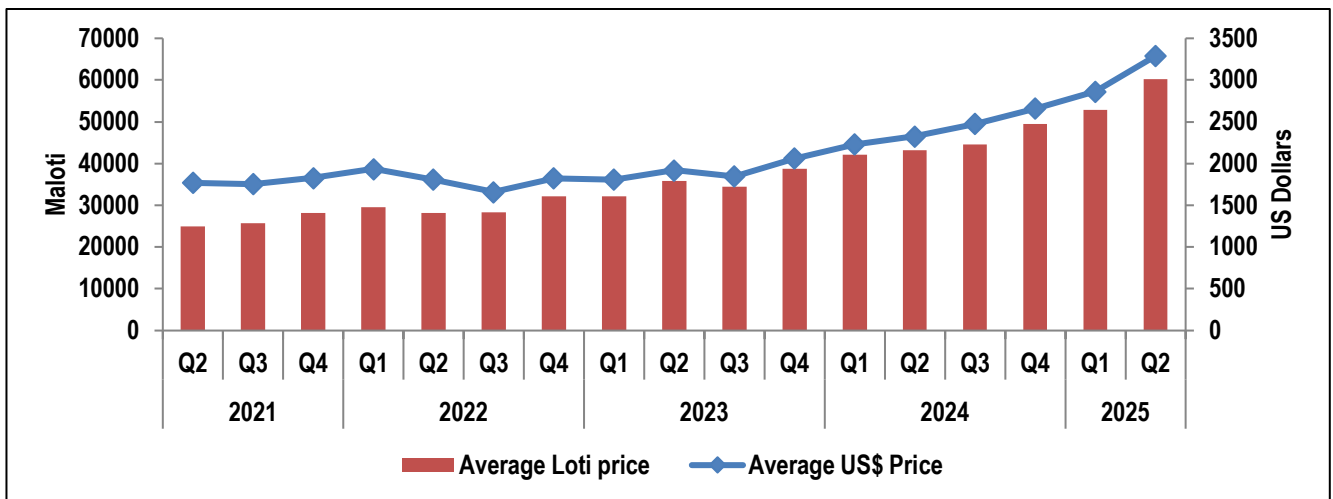
Gold

The price of gold increased by 14.9 per cent to US\$3,288.57 in the second quarter of 2025, compared to a 7.6 per cent rise in the preceding quarter. This acceleration was driven primarily by strong purchases by central banks, particularly in emerging market economies, as part of ongoing efforts to diversify reserve portfolios and strengthen currency buffers.

Gold prices were further underpinned by robust investment inflows into gold-backed exchange-traded funds, reflecting heightened concerns about the global economic outlook and elevated financial market volatility. In addition, declining real yields across major bond markets, including the United States, the United Kingdom, China, and South Africa, enhanced the attractiveness of gold as a safe-haven asset, thereby providing additional support to prices.

On a year-on-year basis, gold prices rose sharply by 41.3 per cent, compared to a 28.3 per cent increase recorded over the corresponding period previously, underscoring the sustained strength in demand for the metal.

Figure 1: Average Price of Gold



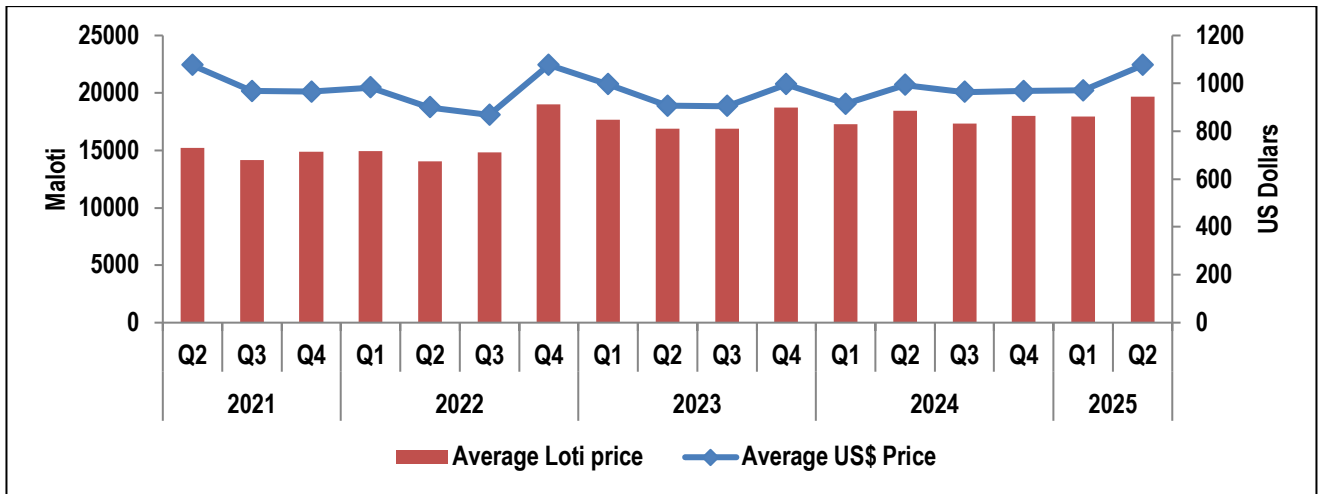
Source: Bloomberg

Platinum

The price of platinum rose sharply by 10.9 per cent to US\$1,075.77 in the second quarter of 2025, compared to a marginal increase of 0.3 per cent in the previous quarter. The increase was driven largely by supply constraints in South Africa, where heavy rains and flooding disrupted mining operations, compounded by

ongoing water and electricity shortages. Platinum prices were further supported by stronger demand from China’s jewellery sector. On a year-on-year basis, platinum prices increased by 8.3 per cent, accelerating from a 6.1 per cent increase recorded in the corresponding period a year earlier.

Figure 2: Average Price of Platinum



Source: Bloomberg

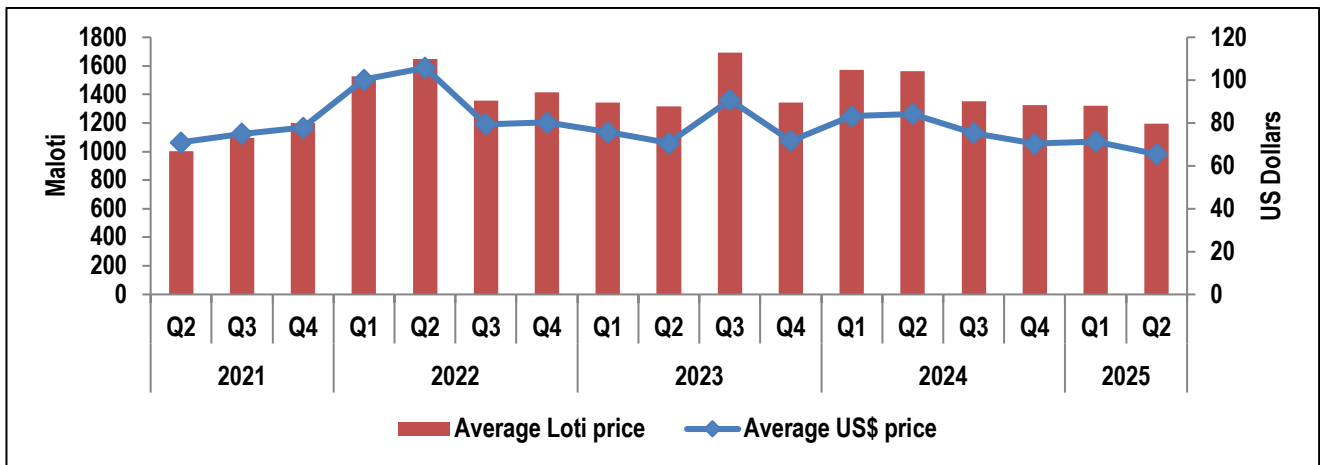
2.4.2 Energy

Crude Oil

Oil prices declined by 8.36 per cent to US\$65.45 per barrel in the second quarter of 2025, compared to a marginal increase of 1.5 per cent in the preceding quarter. The decline was largely driven by excess global supply, following the April 2025 announcement by **OPEC+** to begin unwinding previously self-imposed production cuts. Price pressures were further amplified by trade-related disruptions between the United States and China, which weakened crude oil flows to China and resulted in surplus supply in other markets, particularly the United States, thereby adding to downward pressure on prices.

On an annual basis, oil prices fell sharply by 22.2 per cent, compared to a 14.1 per cent decline recorded in the corresponding quarter of the previous year, underscoring the depth of the ongoing correction in global oil markets.

Figure 3: Average Price of Oil



Source: Bloomberg

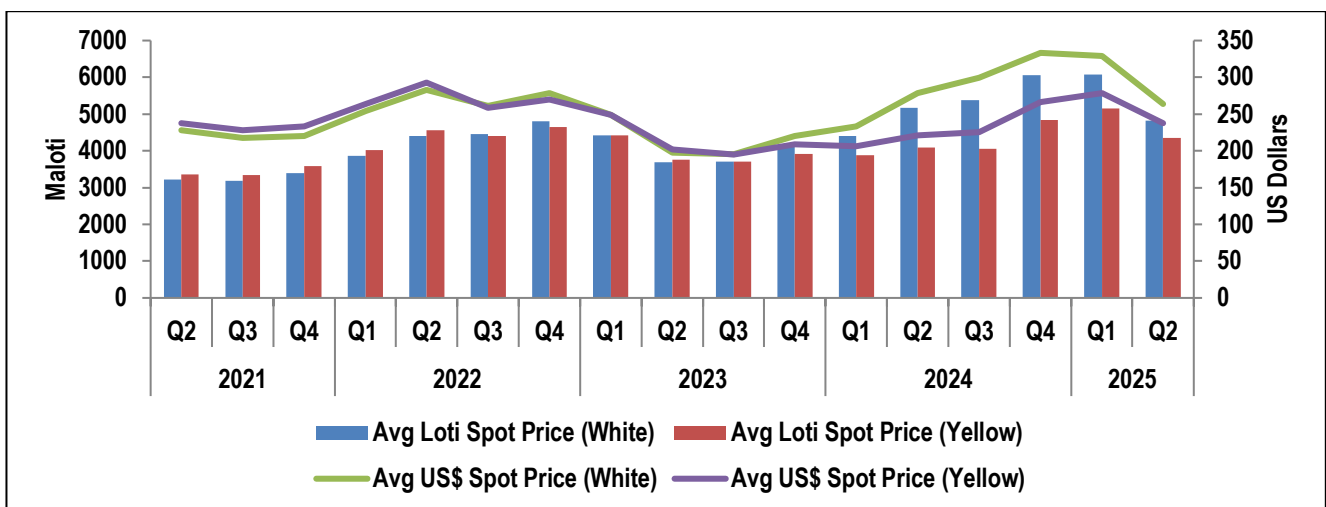
2.4.3 Agricultural Products

Maize

White maize prices declined sharply by 19.9 per cent in the second quarter of 2025, to US\$263.52, compared to a much smaller decline of 1.3 per cent in the previous quarter. Similarly, yellow maize prices fell by 14.5 per cent to US\$237.57, reversing a 4.5 per cent increase recorded earlier. The decline in maize prices reflected strong harvests in key producing countries—Argentina, Brazil, and the United States—supported by favourable weather conditions, lower fertiliser costs, and intensified export competition.

On a year-on-year basis, white maize prices declined by 5.5 per cent, representing a marked moderation from the 40.9 per cent contraction recorded previously. In contrast, yellow maize prices rose by 7.7 per cent, albeit at a slower pace than the 35.3 per cent increase observed in the preceding period.

Figure 4: Average Price of Maize



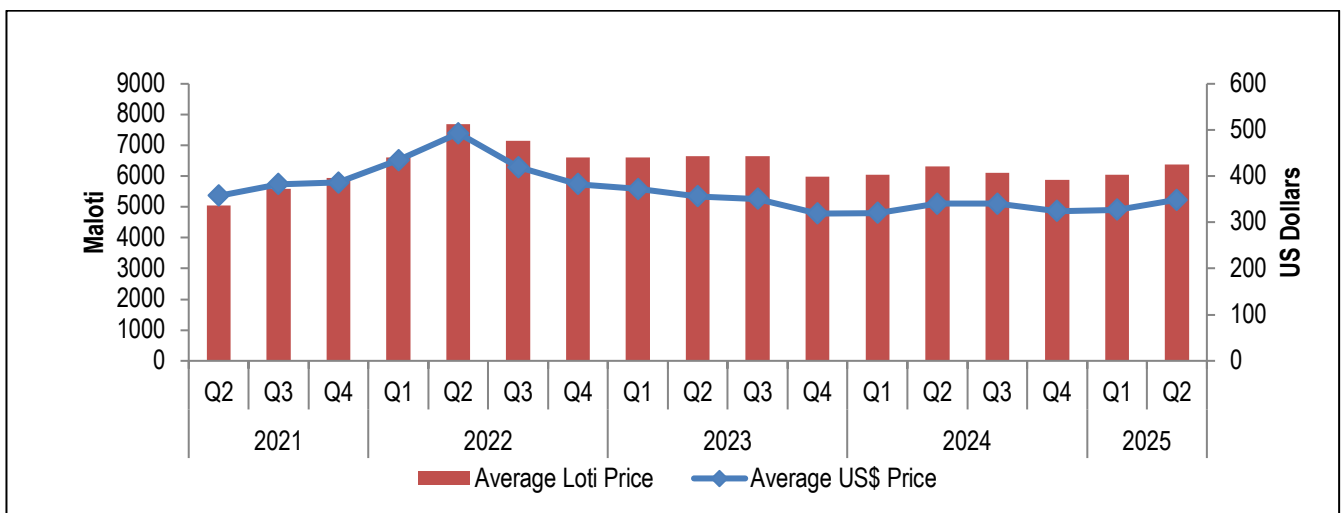
Source: Bloomberg

Wheat

Wheat prices increased by 6.6 per cent in the second quarter of 2025 to US\$348.67, accelerating from a modest 1.0 per cent increase in the previous quarter. The increase reflected weather-related supply disruptions, with excessive rainfall in Germany and parts of Eastern Europe affecting crop quality, and dry conditions in Canada and Central Asia weighing on yields.

These supply pressures were further compounded by heightened trade tensions, as new United States tariffs on wheat imports from Canada, Mexico, and China triggered retaliatory measures. In addition, strong domestic demand in Brazil and North Africa, together with precautionary stockpiling by countries such as China and India amid elevated trade uncertainty, further tightened global wheat supply.

Figure 5: Average Price of Wheat



Source: Bloomberg

2.5 Exchange Rates

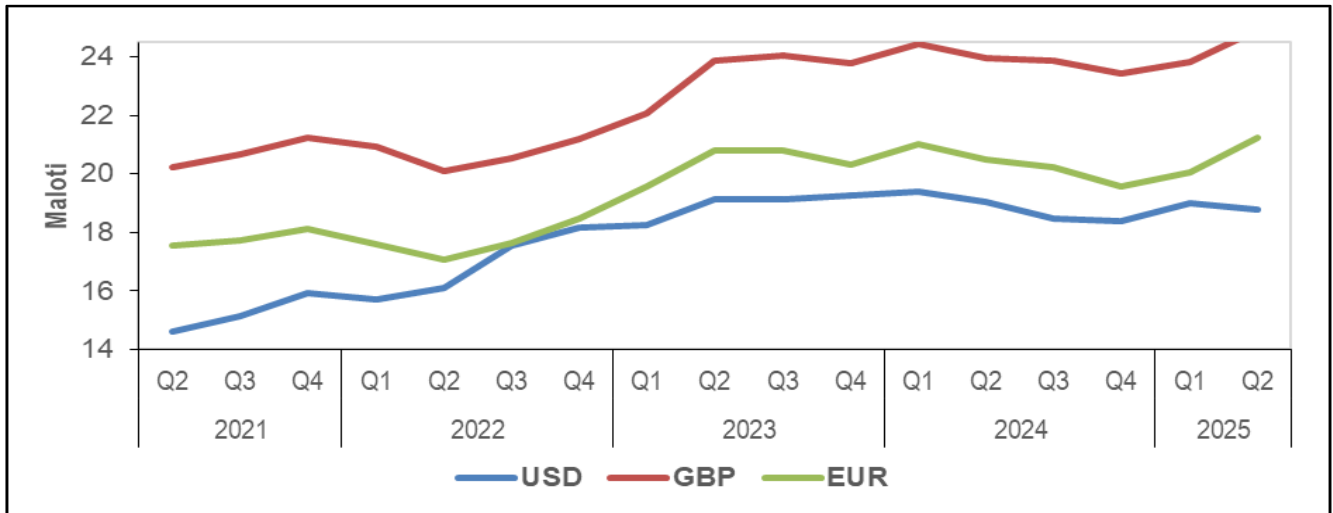
The rand, hence the loti, showed mixed movements against its major trading currencies in the second quarter of 2025. The rand appreciated by 1.1 per cent against the US dollar but depreciated by 4.6 per cent and 6.1 per cent against the pound and the euro, respectively. This compared with a depreciation of 3.4 per cent against the dollar, 1.8 per cent against the pound, and 2.5 per cent against the euro in the previous quarter.

Overall, the rand's performance reflected a combination of domestic developments, diverging global monetary policy stances, and shifting investor sentiment, with relative strength against the dollar offset by weakness against European currencies. On the domestic front, the rand was supported by political stability and improved fiscal sentiment.

On the international front, the rand gained momentum as the US dollar remained under pressure due to concerns over rising fiscal deficits associated with proposed spending bills by the Trump administration. Political uncertainty surrounding the Federal Reserve's independence, amid criticism from the US President,

further weighed on the dollar index, thereby supporting the rand. By contrast, the rand weakened against the pound as a rebound in services output reinforced market confidence in the UK economy. Against the euro, the rand remained under pressure as stronger demand for euro-denominated assets, supported by increased defence spending in the region, improved the relative attractiveness of the euro area.

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



Source: Bloomberg

3 Real Sector Developments¹

3.1 Overview

The domestic economy recovered in the second quarter of 2025. Overall economic activity rebounded due to strong domestic demand, increased activity in the manufacturing, construction, and financial services subsectors. Similarly, the labour market showed signs of recovery, with sectoral employment increasing on a yearly basis. Inflationary pressures eased during the period under review.

3.2 Output Developments

Domestic economic activity recovered in the second quarter of 2025, reversing the contraction recorded in the first quarter. The Quarterly Composite Indicator of Economic Activity (QCIEA) registered marginal growth of 0.1 per cent, following a sharper decline of 5.2 per cent previously. The improvement was supported by firmer domestic demand and increased activity in the manufacturing, construction, and financial services industries. However, weaker performance in the transport subsector constrained the overall pace of growth.

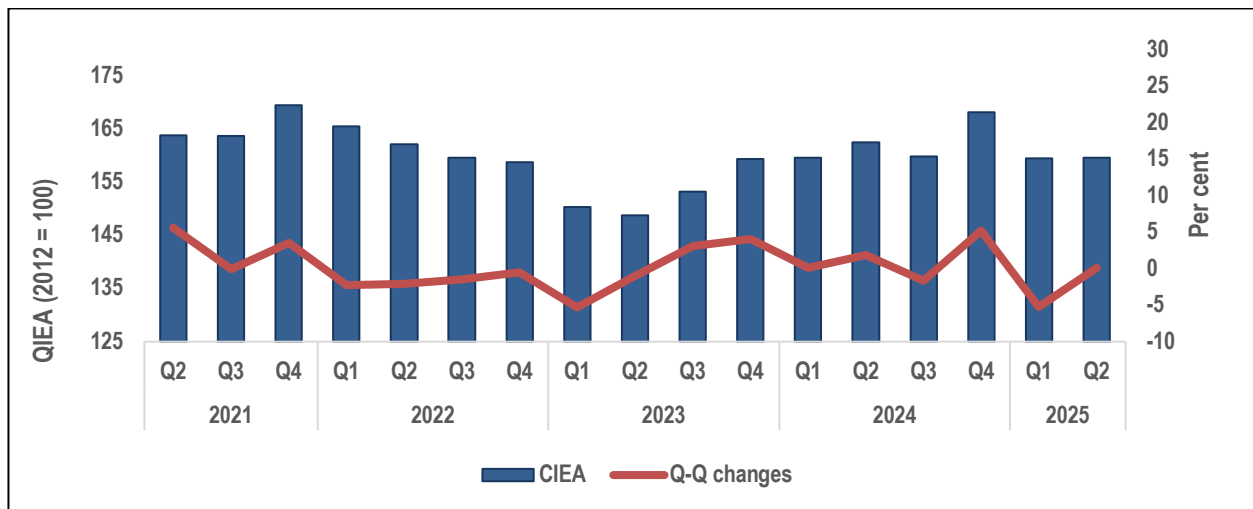
Domestic demand strengthened, with the index rising by 4.6 per cent after contracting by 8.8 per cent in the preceding quarter. The recovery was underpinned by higher private consumption, reflected in increased imports of food and essential goods from South Africa. Additional support was evident from firmer business activity, as suggested by higher tax collections. Nevertheless, the expansion in domestic demand was partly offset by reduced public consumption, as government spending on goods and services declined.

The manufacturing subsector recorded a strong performance, with the index rising by 7.9 per cent, compared with growth of 1.5 per cent in the previous quarter. The expansion was driven by higher textile exports to the US and South Africa. The surge in U.S.-bound exports largely reflected front-loading, as local manufacturers increased production, built up inventories, and expedited shipments ahead of U.S. tariffs scheduled to take effect in the third quarter. Increased imports of raw materials and higher utility usage further corroborated the rise in manufacturing activity.

The financial services subsector posted modest growth, supported by an expansion in private sector credit. The construction industry also expanded, as reflected in higher imports of building materials. These gains were, however, partly offset by subdued activity in the transport subsector.

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	2024			2025	
	Q2	Q3	Q4	Q1	Q2
CIEA	162.5	159.8	168.2	159.4	159.6
Quarterly Changes	1.8	-1.6	5.2	-5.2	0.1
Domestic Demand	150.1	136.8	155.0	141.4	147.9
Quarterly Changes	-2.8	-9.0	13.3	-8.8	4.6
Manufacturing and Production	121.5	118.6	120.8	122.6	132.3
Quarterly Changes	3.1	-2.4	1.8	1.5	7.9
Construction	126.7	125.0	96.9	96.9	81.8
Quarterly Changes	15.5	2.8	-7.3	-7.7	11.9
Transport	126.8	142.3	156.1	141.0	122.3
Quarterly Changes	16.3	12.2	9.7	-9.7	-13.3
Financial Service	162.9	161.5	165.5	167.8	178.2
Quarterly Changes	2.3	-0.6	1.5	0.9	3.9

Source: Central Bank of Lesotho

3.3 Employment Developments

Total employment increased to 169,987 in the second quarter of 2025. While employment continued to expand, growth moderated, with a year-on-year increase of 5.0 per cent, compared with 14.0 per cent in the previous quarter. The tertiary sector remained the largest employer, accounting for 71.0 per cent of total employment, followed by the secondary sector at 28.0 per cent, while the primary sector continued to contribute a marginal share of 1.0 per cent. This distribution reflects the predominance of the services sector in total employment.

Primary Sector

Employment in the primary sector expanded by 11.1 per cent year-on-year, although this represented a moderation from 17.5 per cent growth in the previous quarter. The expansion was driven by increased agricultural employment, particularly in mixed farming activities. However, overall employment growth in the sector was constrained by retrenchments in the mining industry, reflecting weaker global demand for natural diamonds.

Secondary Sector

The secondary sector registered employment growth of 4.4 per cent year-on-year, reversing the 3.5 per cent contraction recorded in the previous quarter. Employment gains were driven mainly by the construction industry, supported by large-scale infrastructure projects and public works. The electricity and water subsector also made a positive contribution, adding to overall sectoral employment. These gains were, however, partly offset by job losses in the manufacturing subsector, particularly in clothing and textile manufacturing, where firms undertook downsizing amid heightened uncertainty surrounding impending tariffs.

Tertiary Sector

Employment in the tertiary sector expanded by 5.2 per cent on an annual basis in June 2025, marking a sharp deceleration from growth of 24.0 per cent in the previous quarter. Employment gains were recorded across wholesale and retail trade, professional and technical services, real estate, administrative services, and transport. By contrast, employment declined in public administration and health, with the contraction in the health sector linked to the withdrawal of U.S. health assistance.

Table 3: Sectoral Employment

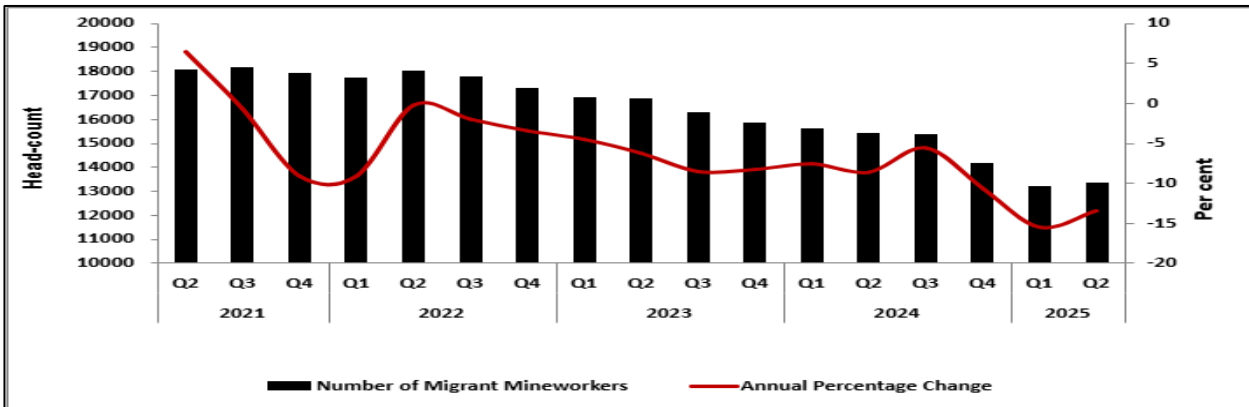
Industry	2024			2025		% Changes	
	Q2	Q3	Q4	Q1	Q2	Q/Q	Y/Y
Primary Sector	1 518	1 385	1 613	1 755	1 686	-3.9	11.1
Agriculture	452	414	484	576	599	4.0	44.7
Mining and Quarry	1 104	901	1 283	1 179	1 087	-7.8	-1.5
Secondary Sector	49 508	49 968	52 367	48 194	51 675	7.2	4.4
Manufacturing	39 414	40 110	42 211	38 714	38 346	-1.0	-2.7
Electricity and water	1 040	1 109	1 307	1 057	1 228	16.2	18.1
Construction	9 054	6 005	8 849	8 423	12 101	43.7	33.0
Tertiary Sector	110 909	111 752	115 485	120 762	116 626	-3.4	5.2
Wholesale and retail trade	5 941	4 613	7 303	5 666	8 034	41.8	35.2
Transportation and storage	1 599	2 059	2 143	2 344	1 782	-24.0	11.4
Accommodation & food service activities	2 411	2 528	2 792	2 361	3 245	37.4	34.6
Information & communication	1 123	657	1 272	1 255	1 356	8.0	20.7
Financial & insurance	5 926	6 143	7 815	6 057	6 215	2.6	4.9
Real estate activities	364	233	480	340	424	24.7	16.5
Professional & technical	2 803	2 614	2 755	2 920	3 644	24.8	30.0
Administrative Services	3 648	3 873	2 171	4 698	5 379	14.5	47.5
Public administration	43 556	45 943	46 285	46 626	41 830	-10.3	-4.0
Education	19 728	19 743	20 051	20 187	21 034	4.2	6.6
Health & social work activities	18 854	18 476	17 336	23 247	17 819	-23.3	-5.5
Other service activities	4 956	4 871	5 082	5 061	5 864	15.9	18.3
Total Employment	161 935	160 105	169 465	170 711	169 987	-0.4	5.0

Source: Central Bank of Lesotho & Lesotho National Development Cooperation

Basotho Migrant Workers Employment

Employment of Basotho migrant mineworkers in South Africa continued to decline in the second quarter of 2025, falling by 13.5 per cent, following a contraction of 15.6 per cent in the previous quarter. The sustained reduction reflects weaker demand for foreign labour in South Africa.

Figure 8: Migrant Mineworkers (Annual Percentage Changes)



Source: The Employment Bureau of Africa (TEBA)

3.4 Price Developments

Consumer price inflation [remained broadly stable] at 4.3 per cent in June 2025, compared with 4.2 per cent in March 2025. Inflationary pressures were [driven mainly by higher prices in] Food and Non-Alcoholic Beverages, Alcoholic Beverages and Tobacco, and [Housing, Water, Electricity and Other Fuels].

Food price inflation [continued to reflect supply-side pressures], with poor harvests contributing to sharp increases in vegetable and maize prices. Alcoholic beverage prices [remained on an upward trajectory], following a [significant price adjustment by a local brewing company]. Inflation in [Housing, Water, Electricity and Other Fuels] rose to 9.6 per cent, [largely reflecting upward tariff adjustments by the Lesotho Electricity Company (LEC)].

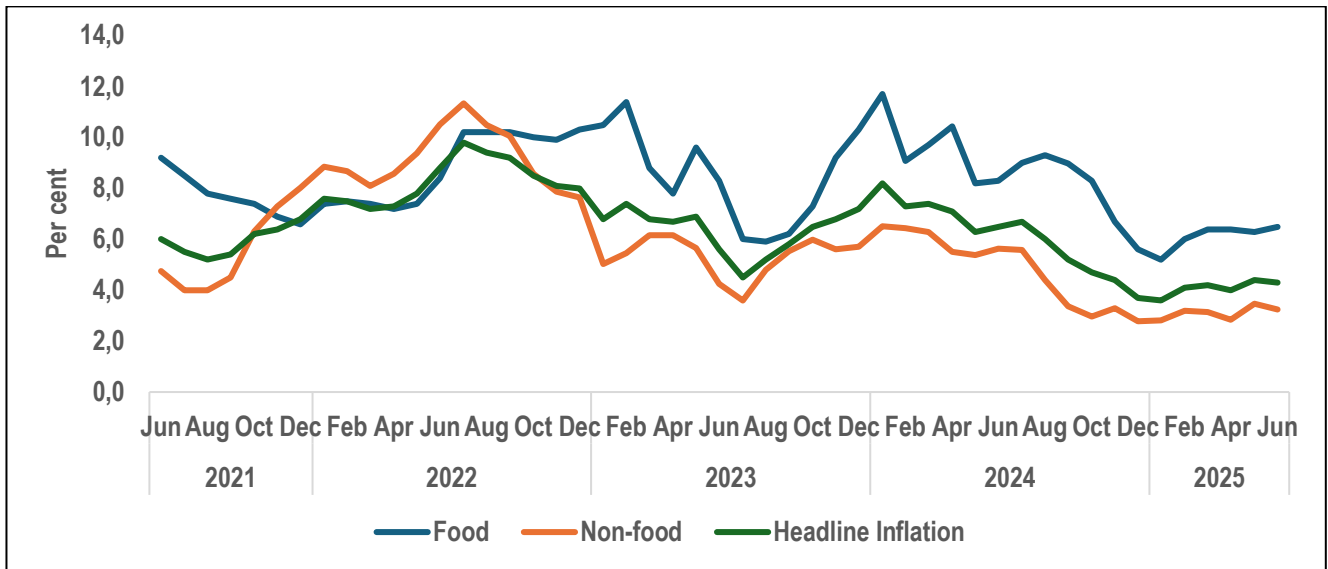
Table 4: Inflation Rate (Annual Percentage Changes)

	2025						
	Weight	Jan	Feb	Mar	Apr	May	Jun
All items	1000	3.6	4.1	4.2	4.0	4.4	4.3
Food and non-alcoholic beverages	326	5.2	6.0	6.4	6.4	6.3	6.5
Alcoholic beverages & Tobacco	64	1.6	1.5	3.7	4.2	4.6	4.7
Clothing & footwear	81	8.1	8.4	8.7	8.1	8.3	8.1
Housing, water, electricity, gas & other fuels	149	0.6	1.0	1.2	0.5	3.4	3.0
Furniture, households' equipment & routine maintenance	33	2.5	2.2	1.2	1.9	2.2	2.0
Health	19	2.4	2.4	2.8	2.9	3.0	2.9
Transport	111	3.7	4.2	0.2	-1.3	-1.8	-2.3
Communications	44	0.0	0.0	0.0	0.0	-0.3	0.5
Recreation & Culture	14	1.9	2.0	1.9	0.9	1.3	1.7
Education	49	0.2	0.2	0.4	0.4	0.4	0.4
Restaurant & Hotels	65	4.1	6.7	10.7	11.1	11.4	11.2
Miscellaneous goods & services	44	3.9	3.7	3.6	3.6	3.2	2.9

Source: Bureau of Statistics

The modest uptick in headline inflation reflected increases in both food and non-food components, with food prices remaining the main source of inflationary pressure. Food inflation rose to 6.5 per cent in June from 6.4 per cent in March, while non-food inflation increased marginally to 3.2 per cent from 3.1 per cent.

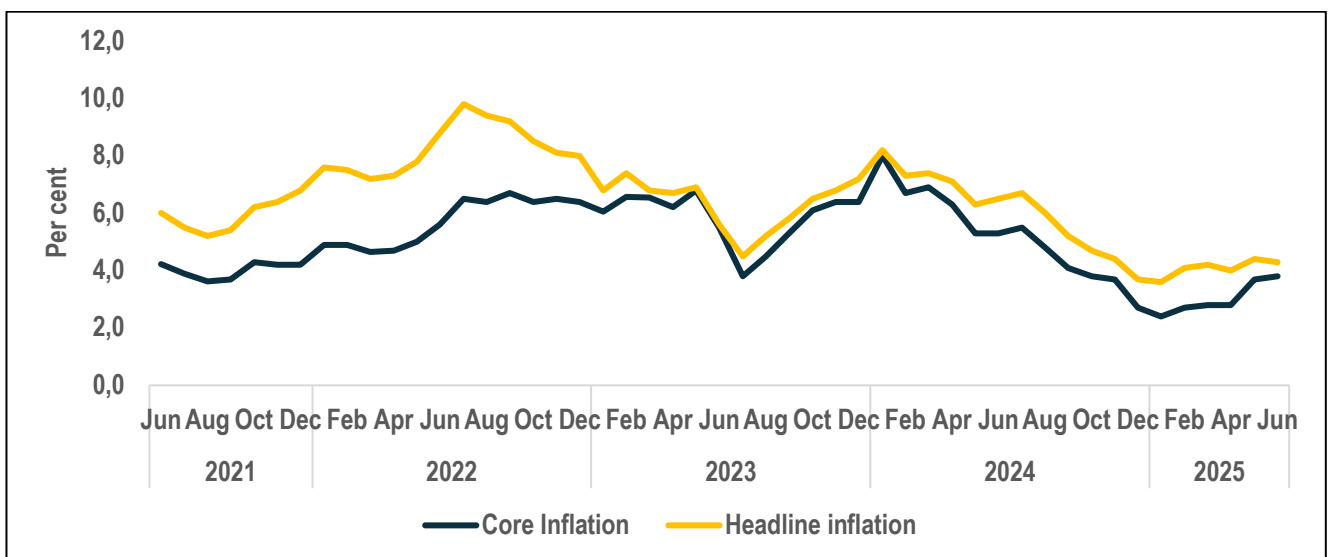
Figure 9: Food vs Non-Food Inflation (Annual Percentage Changes)



Source: Bureau of Statistics and Central Bank of Lesotho Computations

The core inflation rate marginally increased to 3.8 per cent in June 2025 from 2.8 per cent in March 2025.

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



Source: Central Bank of Lesotho Computations

4 Monetary and Financial Developments

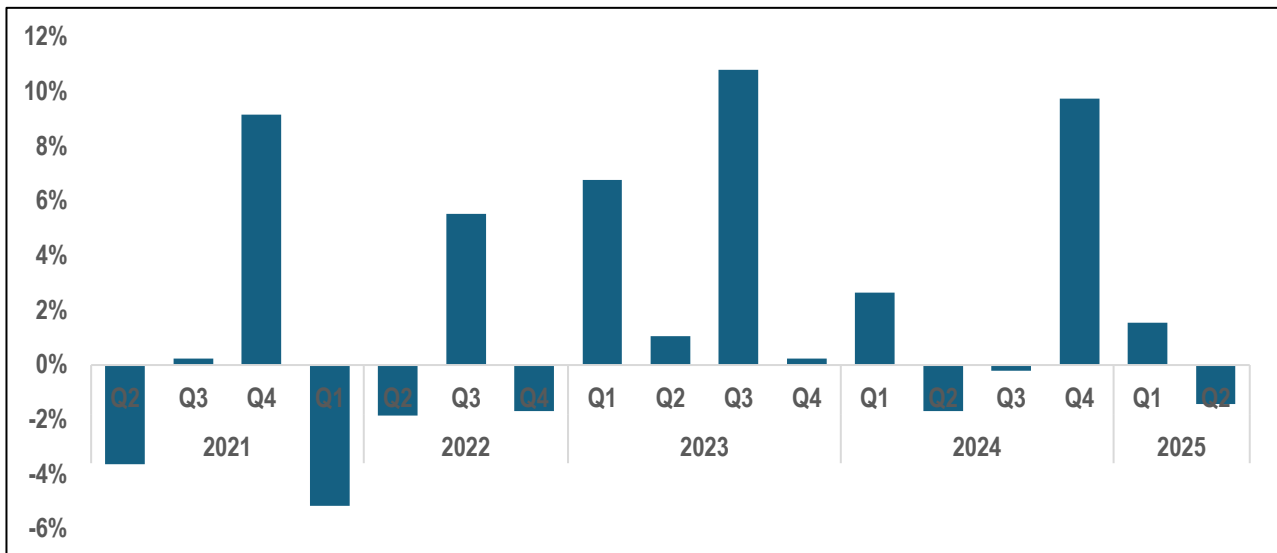
4.1 Overview

Broad money declined over the quarter, largely reflecting a contraction in quasi-money. However, total deposits with commercial banks increased, driven mainly by higher government deposits, suggesting a reallocation of funds within the banking system. Against this backdrop, private sector credit expanded, alongside an increase in net foreign assets. On the policy front, the Central Bank of Lesotho lowered its key policy rate, signalling a more accommodative monetary policy stance. At the same time, the stock of government securities increased, largely due to additional issuances of treasury bonds. These developments influenced liquidity conditions and asset allocation within the financial system during the period.

4.2 Broad Money

The broad measure of money supply (M2) contracted by 1.4 per cent, reversing the 1.6 per cent growth recorded in the previous quarter. This outturn was primarily driven by a decline in net domestic assets, partially offset by an increase in net foreign assets. The contraction in M2, occurring alongside rising private sector credit, suggests that lending growth was financed in part by shifts in banks' asset portfolios and external inflows rather than by domestic liquidity expansion. On a year-on-year basis, broad money remained on an expansionary trajectory, increasing by 9.7 per cent, indicating that underlying monetary conditions were still supportive despite the short-term quarterly decline.

Figure 11: Broad Money (M2) (Quarterly Changes)



Source: Central Bank of Lesotho

4.2.1.1 Determinants of M2

Domestic Claims

. Domestic claims declined by 35.8 per cent, reversing the expansion of 38.2 per cent recorded in the first quarter of 2025. This contraction was mainly driven by a sharp reduction in net claims on the central government, reflecting a significant accumulation of government deposits with both commercial banks and the central bank.

The increase in government deposits suggests relatively subdued budget execution and exerted a liquidity-withdrawing effect on the banking system, thereby weighing on domestic monetary expansion. This decline in domestic claims was, however, partially offset by continued growth in credit to the private sector and other financial corporations.

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

	2024			2025		Changes(%)	
	Q2	Q3	Q4	Q1	Q2	Quarterly	Annual
Domestic Claims	4103.69	3537.45	3668.29	5068.60	3256.11	-35.8	-20.7
Net Claims on Government	-6501.17	-7322.27	-7971.49	-6918.93	-9145.13	-32.2	-40.7
Commercial Banks Net Claims	-1522.07	-1604.13	-943.22	-266.29	-1311.48	-392.5	13.8
Claims on Central Government	1590.40	1680.57	1611.63	1649.46	1849.24	12.1	16.3
Liabilities to Central Government	3112.48	3284.70	2554.84	1915.75	3160.71	65.0	1.5
Central Bank Net Claims	-4979.10	-5718.14	-7028.28	-6652.64	-7833.66	-17.8	-57.3
Claims on Central Government	0.10	0.09	0.00	0.00	0.00		
Liabilities to Central Government	4979.20	5718.23	7028.28	6652.64	7833.66	17.8	57.3
Claims on Other Sectors	10604.86	10859.72	11639.79	11987.53	12401.25	3.5	16.9
Claims on OFCs	310.76	364.41	938.68	1112.91	1132.70	1.8	264.5
Claims on Public Nonfinancial Corporations	60.45	72.98	49.80	30.71	27.04	-11.9	-55.3
Claims on St & Local Government	0.00	0.00	0.00	0.00	0.00		
Claims on Private Sector	10233.66	10422.33	10651.31	10843.91	11241.50	3.7	9.8
Claims on Business Enterprises	2806.05	2771.40	2785.18	2910.99	2988.87	2.7	6.5
Claims on Households	7427.61	7650.93	7866.13	7932.92	8252.63	4.0	11.1

Source: Central Bank of Lesotho

Net Foreign Assets

Net foreign assets (NFA) expanded by 3.4 per cent, reversing the contraction of 2.2 per cent recorded previously. This improvement was broad-based, reflecting increases in both the central bank's and commercial banks' foreign asset positions.

The rise in the central bank's NFA was consistent with lower government spending, which reduced pressures on foreign exchange outflows and supported the accumulation of external assets. At the same time, commercial banks' NFA increased, largely reflecting new investments in foreign markets, suggesting portfolio reallocation amid relatively subdued domestic absorption]. [Overall, the increase in NFA provided

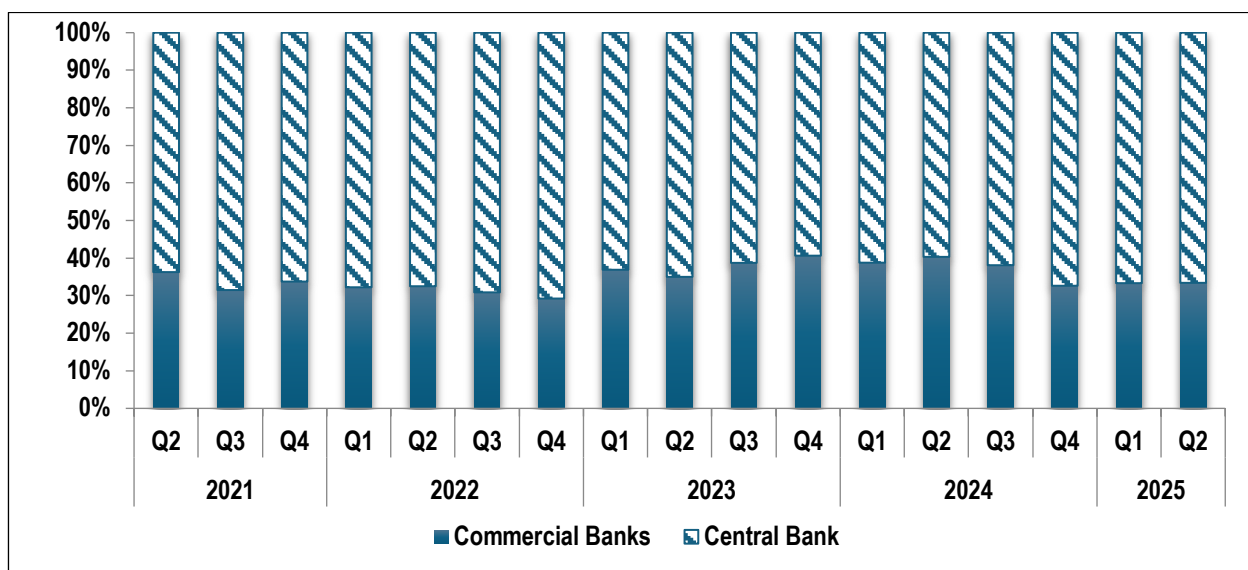
an external liquidity buffer, partially offsetting the contraction in domestic claims and mitigating downward pressure on broad money.

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

	2024			2025		Changes (%)	
	Q2	Q3	Q4	Q1	Q2	Quarterly	Annual
Commercial Banks	10609.46	10022.60	9140.94	9165.73	9516.93	3.8	-10.3
Claims on Non-residents	10970.17	10505.75	9397.49	9587.43	9845.52	2.7	-10.3
Liabilities to Non-residents	360.71	483.14	256.55	421.70	328.58	-22.1	-8.9
Central Bank	13030.15	13681.97	16181.54	15605.28	16107.69	3.2	23.6
Claims on Non-residents	15699.92	16279.04	18865.06	18335.96	18964.91	3.4	20.8
Liabilities to Non-residents	2669.77	2597.07	2683.52	2730.68	2857.22	4.6	7.0
Net Foreign Assets Total	23639.61	23704.58	25322.48	24771.01	25624.62	3.4	8.4

Source: Central Bank of Lesotho

Figure 12: Net Foreign Assets (*Percentage shares*)



Source: Central Bank of Lesotho

4.2.1.2 Components of M2

The contraction in money supply was primarily driven by declines in both quasi-money and narrow money (M1), with quasi-money accounting for the larger share of the adjustment. Quasi-money fell by 2.5 per cent, reflecting lower fixed-time deposits held by business enterprises and a reduction in household savings deposits. Meanwhile, M1 decreased marginally by 0.2 per cent, largely due to a contraction in currency outside depository corporations, which may indicate subdued transaction demand or increased reliance on deposit-based payments.

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

	2024			2025		Changes (%)	
	Q2	Q3	Q4	Q1	Q2	Quarterly	Annual
Broad Money (M2)	17340.59	17306.37	18995.08	19291.53	19018.40	-1.4	9.7
Narrow Money (M1)	8173.76	8290.68	9325.06	9008.46	8990.85	-0.2	10.0
Currency Outside DCs	1436.38	1384.29	1477.91	1430.59	1403.21	-1.9	-2.3
Transferable Deposits	6737.38	6906.39	7847.15	7577.87	7587.63	0.1	12.6
Quasi Money	9166.83	9015.69	9670.02	10283.08	10027.56	-2.5	9.4
Other Deposits Commercial Banks	9163.41	9012.91	9667.08	10280.32	10025.49	-2.5	9.4
Other Deposits Central Bank	3.42	2.79	2.94	2.75	2.07	-24.8	-39.4

Source: Central Bank of Lesotho

4.3 Credit Extension

Private sector credit continued to expand, increasing by 3.7 per cent, compared with a 1.8 per cent rise previously. Credit growth was broad-based, encompassing both business enterprises and households, indicating sustained lending activity. On an annual basis, private sector credit increased by 9.8 per cent, underscoring resilient credit demand.

4.3.1.1 Trends in Credit Extended to Business Enterprises

Credit to business enterprises rose by 2.7 per cent, moderating from the 4.5 per cent increase recorded in the previous quarter. The expansion was primarily driven by increased lending to the wholesale, retail, hotel and restaurant, mining, and construction sectors, reflecting continued activity in trade-related and investment-oriented segments of the economy.

The overall increase was partly offset by reduced credit to non-bank financial institutions, real estate and business services, transport, storage and communication, and agriculture, suggesting sector-specific adjustments in borrowing demand or credit allocation. The rise in business credit was largely attributed to stronger demand for new loans and increased utilisation of existing credit facilities, pointing to ongoing financing needs among firms.

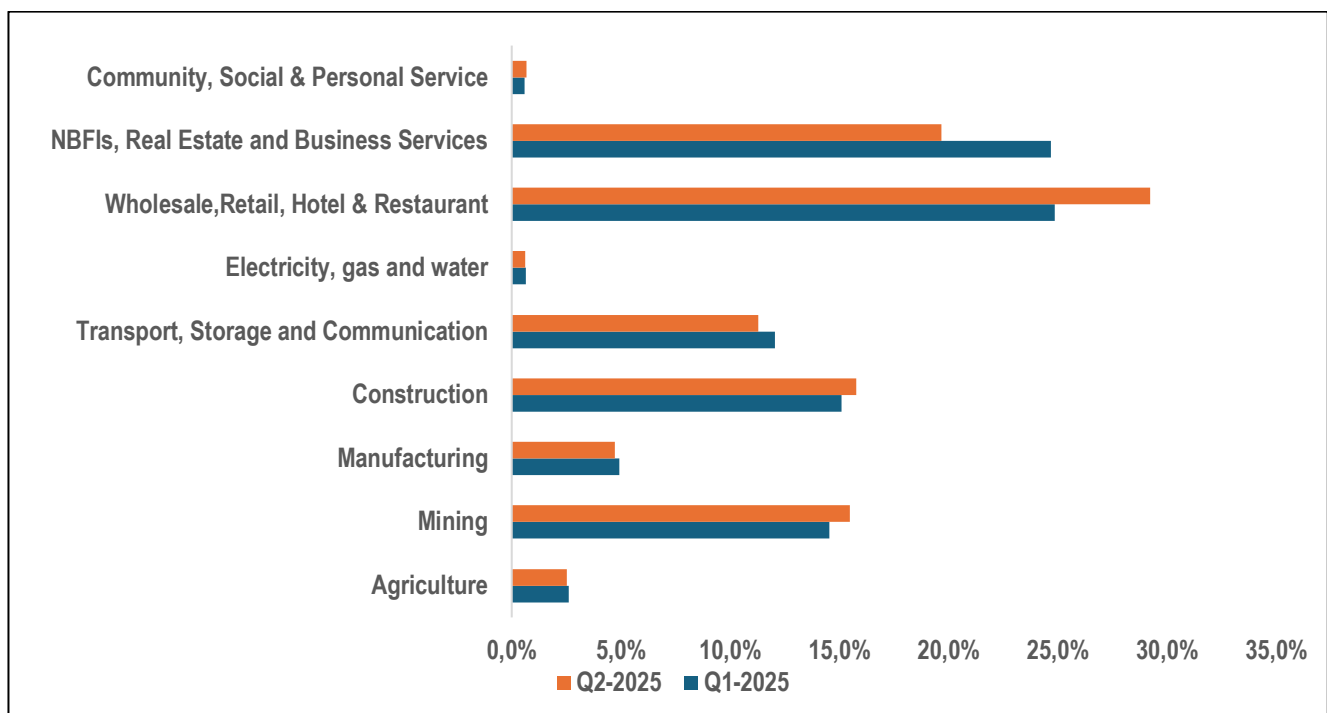
Table 8: Credit Extension by Economic Activity (Million Maloti)

SECTOR	2024			2025		Changes (%)	
	Q2	Q3	Q4	Q1	Q2	Quarterly	Annual
Agriculture	65.35	67.69	72.83	76.39	75.80	-0.8	16.0
Mining	462.70	439.58	425.93	423.62	462.74	9.2	0.0
Manufacturing	125.38	125.71	128.90	143.13	141.50	-1.1	12.9
Electricity, gas and water	16.88	16.13	15.39	18.90	18.59	-1.7	10.1
Construction	528.50	531.14	460.70	439.13	471.32	7.3	-10.8
Wholesale, Retail, Hotel & Restaurant	708.35	708.98	745.01	723.68	873.55	20.7	23.3
Transport, Storage and Communication	315.91	283.34	285.93	350.67	337.34	-3.8	6.8
NBFIs, Real Estate and Business Services	573.69	587.32	636.17	718.32	588.22	-18.1	2.5
Community, Social & Personal Service	9.29	11.53	14.32	17.16	19.81	15.5	113.3
All Sectors	2806.05	2771.40	2785.18	2910.99	2988.87	2.7	6.5

Source: Central Bank of Lesotho

In terms of sectoral distribution, the wholesale, retail, hotel and restaurant sector accounted for the largest share of business credit, at 29.2 per cent. This was followed by non-bank financial institutions, real estate and business services, which together represented 19.7 per cent, while the construction sector ranked third with a share of 15.8 per cent. Community, social and personal services and the electricity, gas and water subsectors accounted for the smallest shares, at 0.7 per cent and 0.6 per cent, respectively.

Figure 13: Distribution of Credit to Businesses (Percentage Shares)

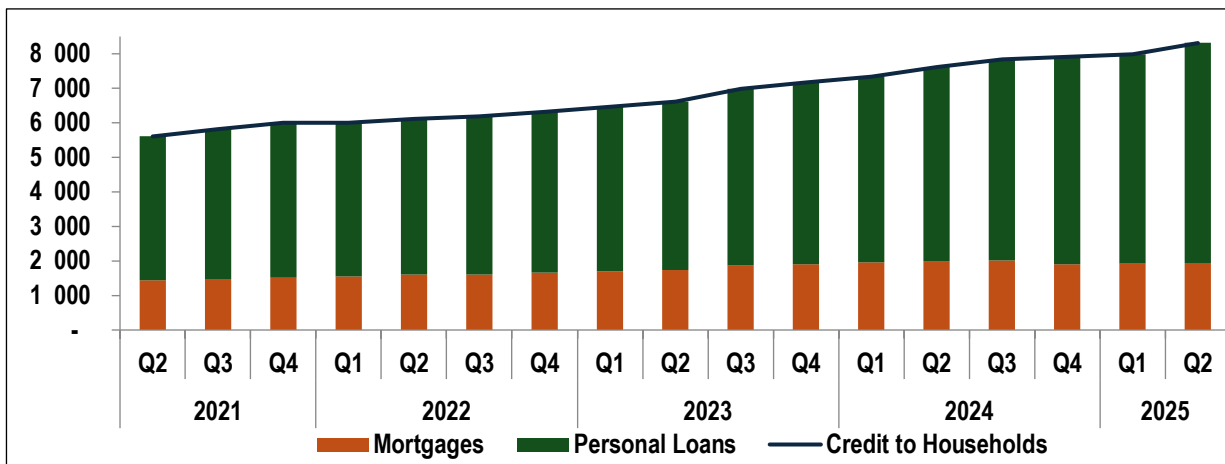


Source: Central Bank of Lesotho

4.3.1.2 Credit Extended to Households

Household credit continued its upward trajectory, increasing by 4.0 per cent, compared with a 1.0 per cent rise in the previous period. Growth was driven mainly by personal loans, which expanded by 4.9 per cent, while mortgage lending recorded a more moderate increase of 1.4 per cent. The increase in household credit was largely underpinned by improved access to credit and enhanced affordability conditions, consistent with accommodative lending conditions. On a year-on-year basis, household credit grew by 11.1 per cent, indicating sustained momentum in household borrowing.

Figure 14: Credit Extension to Household (Million Maloti)



Source: Central Bank of Lesotho

4.4 Liquidity of Commercial Banks

4.4.1.1 Components of liquidity

The credit-to-deposit ratio declined to 53.1 per cent from 53.8 per cent, reflecting stronger growth in the deposit base of commercial banks relative to credit extension. This indicates an improvement in balance-sheet funding conditions, as deposit accumulation exceeded lending growth. Similarly, the liquidity ratio declined marginally by 0.5 percentage points to 32.7 per cent, compared with the previous quarter. This decline reflects the faster pace of deposit growth relative to the accumulation of liquid assets held by commercial banks, resulting in a lower proportion of liquid assets on banks' balance sheets.

Overall, these developments suggest that while deposit inflows supported funding liquidity, the expansion of liquid asset buffers lagged behind deposit growth, amid continued credit extension.

Table 9: Components of Liquidity (Million Maloti)

	2024			2025	
	Q2	Q3	Q4	Q1	Q2
Credit to Deposit Ratio	52.8%	53.2%	52.1%	53.8%	53.1%
Private Sector Credit	10035.89	10225.56	10449.79	10641.84	11033.66
Total Deposits	19014.20	19206.24	20069.68	19774.06	20773.92
Liquidity Ratio	41.4%	36.8%	33.3%	33.2%	32.7%
Notes and Coins	776.57	690.09	1172.88	704.09	745.73
Net Balance due from banks in Lesotho	80.77	6.55	10.82	-39.41	33.59
Net Balance due from banks in SA	5090.02	4405.88	3481.63	3752.42	3859.41
Surplus funds	330.18	286.20	412.99	492.89	302.31
Government Securities	1590.40	1680.57	1611.63	1649.46	1849.24
Total	7867.95	7069.28	6689.96	6559.45	6790.28

Source: Central Bank of Lesotho

4.4.1.2 Commercial Banks Sources of Funds

Total deposit liabilities of commercial banks increased by 5.1 per cent in the second quarter of 2025, reversing the 1.5 per cent decline recorded previously. This expansion was mainly driven by a rise in deposits excluded from broad money, while transferable deposits recorded modest growth. In contrast, other deposits included in broad money declined by 2.5 per cent.

The increase in deposits excluded from broad money was largely attributable to higher government deposits, consistent with subdued fiscal outlays and the accumulation of public sector balances within the banking system. Meanwhile, the modest growth in transferable deposits reflected higher balances held by public non-financial corporations, other financial corporations, and state and local government institutions. Conversely, the contraction in other deposits included in broad money was driven by a reduction in fixed-time deposits held by business enterprises and resident households, mirroring the decline in quasi-money observed in the previous sections. Year on year, total deposits in the banking sector increased by 1.6 per cent, indicating moderate growth in the banking system's funding base over the period.

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

	2024			2025		Changes (%)	
	Q2	Q3	Q4	Q1	Q2	Quarterly	Annual
Transferable Deposits Incl. in BM	6737.38	6906.39	7847.15	7577.87	7587.63	0.1	12.6
Other Financial Corporations	112.20	36.49	107.08	48.45	113.26	133.8	0.9
Transf. Dep. State & Local Govt NC	12.05	11.51	6.84	0.16	19.88	12040.2	65.1
Public Nonfinancial Corporations	42.79	216.67	85.56	32.86	70.03	113.1	63.7
Private Sector	6570.34	6641.72	7647.68	7496.39	7384.46	-1.5	12.4
Other NFCs	4730.57	4799.55	5817.57	5566.89	5468.96	-1.8	15.6
Other Sectors (Households)	1839.77	1842.16	1830.11	1929.50	1915.51	-0.7	4.1
Other Deposits Incl. in BM	9163.41	9012.91	9667.08	10280.32	10025.49	-2.5	9.4
Other Financial Corporations	66.37	138.94	143.19	108.30	133.90	23.6	101.7
Public Nonfinancial Corporations	259.89	334.11	279.33	260.65	402.65	54.5	54.9
Private Sector	8837.15	8539.86	9244.55	9911.38	9488.94	-4.3	7.4
Other NFCs	5548.06	5157.26	5842.39	6319.68	5920.13	-6.3	6.7
Other Sectors (Households)	3289.09	3382.60	3402.16	3591.69	3568.81	-0.6	8.5
Deposits excluded in MB	4695.50	3926.48	2685.80	2047.01	3314.12	61.9	-29.4
of which Import deposits	1582.09	639.54	130.36	131.15	153.32	16.9	-90.3
Total Deposits	20596.29	19845.78	20200.04	19905.21	20927.24	5.1	1.6

Source: Central Bank of Lesotho

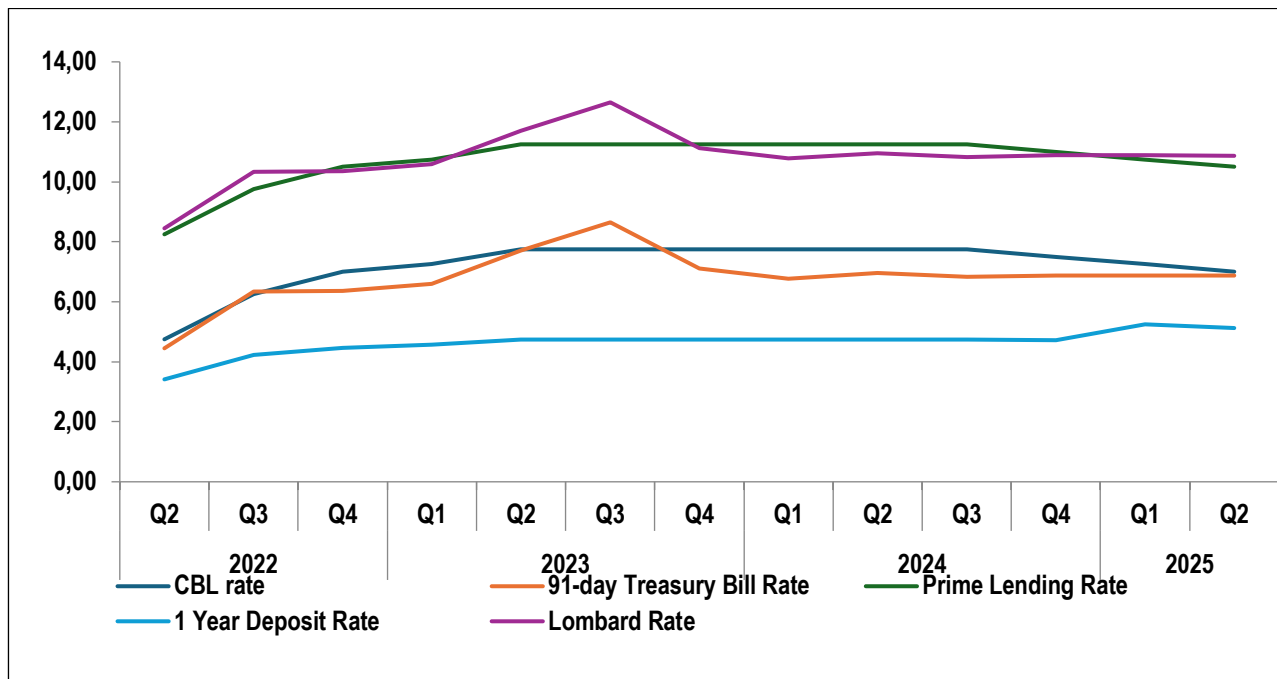
4.5 Money Market

Interest Rates

The Central Bank of Lesotho reduced its policy rate by 25 basis points to 7.00 per cent in June 2025. In response, the prime lending rate declined by a similar margin to 10.75 per cent. In contrast, the one-year deposit rate increased by 56 basis points to 5.12 per cent, suggesting heightened competition for deposits or liquidity management considerations by commercial banks, despite the easing of the policy stance.

Meanwhile, both the 91-day Treasury bill rate and the Lombard rate edged down marginally by 1 basis point, to 6.87 per cent and 10.87 per cent, respectively. Despite this slight adjustment, the 91-day Treasury bill rate remained within the targeted band of ± 200 basis points relative to its South African counterpart, supporting consistency with regional monetary conditions and the exchange rate anchor.

Figure 15: Short Term Interest Rates (Per Cent per Annum)



Source: Central Bank of Lesotho

Table 11: Interest rates

	2024			2025	
	Q2	Q3	Q4	Q1	Q2
Central Bank					
CBL rate	7.75	7.75	7.50	7.25	7.00
T-Bill Rate - 91 days	6.96	6.83	6.88	6.88	6.87
Lombard Rate	10.96	10.83	10.88	10.88	10.87
Commercial Banks					
Call	2.65	2.65	2.27	2.06	2.73
Time:					
31 days	1.47	1.47	1.47	1.34	1.33
88 days	2.46	2.46	2.45	2.31	3.05
6 months	4.01	4.01	4.01	3.85	4.44
1 year	4.74	4.74	4.72	4.56	5.12
Savings	1.60	1.60	1.55	1.37	1.71
Prime	11.25	11.25	11.00	10.75	10.50
South Africa					
Repo	8.25	8.00	7.75	7.50	7.25
T-Bill Rate - 91 days	11.40	8.03	7.71	7.29	7.24
Prime	14.75	11.5	11.25	11	10.75

Source: Central Bank of Lesotho

Holding of Treasury Bills

The outstanding stock of treasury bills (T-Bills) increased by 1.0 per cent over the quarter. This expansion was largely driven by higher holdings within the banking sector, while T-Bill investments by the non-bank sector declined.

Table 12: Holding of Bills (Million Maloti)

	2024			2025	
	Q2	Q3	Q4	Q1	Q2
Treasury Bills	726.74	736.63	748.00	746.10	753.28
Banking System	420.78	460.68	470.98	473.51	481.93
Non-Bank Sector	305.96	275.95	277.02	272.60	271.35

Source: Central Bank of Lesotho

Holding of Treasury Bonds

The outstanding stock of treasury bonds increased by 7.0 per cent, reflecting new issuances amounting to M250 million. Holdings by the banking sector rose markedly by 14.3 per cent, while the non-bank sector's holdings increased by 3.7 per cent.

Table 13: Holding of Bonds (Million Maloti)

	2024			2025	
	Q2	Q3	Q4	Q1	Q2
Holding of Treasury Bonds	3747.08	3822.08	3819.61	3594.61	3844.61
Banking System	1105.42	1145.31	1083.71	1095.81	1252.67
Non-Bank Sector	2641.65	2676.76	2735.91	2498.80	2591.94

Source: Central Bank of Lesotho

5 Government Finance

5.1 Overview

The Government’s fiscal position remained in surplus, with the fiscal balance estimated at 14.0 per cent of GDP, down from 24.2 per cent in the corresponding quarter of the previous year. Budget execution was subdued, with total expenditure amounting to 15.2 per cent of the approved budget, thereby supporting the surplus and remaining consistent with ongoing expenditure consolidation efforts. Meanwhile, the public debt stock increased marginally to 55.8 per cent of GDP, from 54.7 per cent in the previous quarter.

Figure 16: Fiscal Balance (Percent of GDP)



Source: Central Bank of Lesotho and Ministry of Finance

5.2 Revenue

Revenue declined during the quarter, amounting to 60.8 per cent of GDP, mainly due to lower Southern African Customs Union (SACU) receipts. Quarter-on-quarter, revenue fell by 6.2 per cent, while year-on-year it contracted by 12.3 per cent, reflecting reduced SACU inflows and subdued domestic tax collections.

SACU receipts, which accounted for 35.5 per cent of total revenue, declined by 20.5 per cent quarter-on-quarter, consistent with the lower annual SACU allocation for the 2025/26 fiscal year. As SACU transfers are received quarterly and distributed evenly across the fiscal year, a lower annual allocation translated into a weaker first-quarter outturn. Similarly, other tax revenue weakened, declining by 20.2 per cent quarter-on-quarter and 6.2 per cent year-on-year, largely reflecting subdued income tax collections.

By contrast, other revenue rose sharply on a quarterly basis, increasing by over 100.0 per cent, driven by higher water royalties. However, on a year-on-year basis, other revenue declined by 3.2 per cent, reflecting a high base effect.

5.3 Total Expenditure

Government expenditure, at 46.7 per cent of GDP, declined by 10.9 per cent quarter-on-quarter, largely reflecting weaker capital outlays. On an annual basis, however, expenditure rose modestly, driven by continued expansion in current spending. Execution data reinforces this pattern, with recurrent expenditure reaching 19.7 per cent of the approved budget, compared with 6.0 per cent for development spending, highlighting persistent implementation constraints.

The contraction was driven mainly by lower capital expenditure, with non-financial assets declining by 52.8 per cent quarter-on-quarter and 18.0 per cent year-on-year, reflecting reduced infrastructure investment. Capital outlays overall fell by 84.1 per cent quarter-on-quarter and 39.0 per cent year-on-year. Other components, including interest payments, subsidies, and selected transfers, also moderated, partly offset by higher spending on wages, essential goods and services, and social programmes.

Current expenditure, which accounted for 94.6 per cent of total outlays, declined by 0.6 per cent quarter-on-quarter but rose by 21.8 per cent year-on-year, underscoring its structural dominance in the expenditure profile. Overall, the composition of spending presents a mixed picture. While subdued capital execution has supported the fiscal surplus in the short term, persistent weakness in development spending may delay infrastructure expansion and constrain medium-term growth. Strengthening project implementation and gradually rebalancing expenditure towards productive investment will be critical to sustaining fiscal health and supporting growth.

Table 14: Budget Execution Tracker (Million Maloti)

2025/26 Budget Estimates	Apr	May	Jun	Total Budget & Quarterly Outturn
Total Approved budget	2724.15	2725.07	2725.08	32700.87
<i>of which: Revisions</i>	-	11.04	-	11.04
Outturn	1926.79	1442.11	1600.58	4969.48
Execution rate (%)	5.9	4.4	4.9	15.2
Recurrent				
Approved budget	1834.15	1834.17	1834.18	22010.00
<i>of which: Revisions</i>	-	0.24	-	0.24
Outturn	1682.93	1316.18	1328.63	4327.75
Execution rate (%)	7.6	6.0	6.0	19.7
Development				
Approved budget	890.01	890.91	890.91	10690.86
<i>of which: Revisions</i>	-	10.80	-	10.80
Outturn	243.85	125.93	271.95	641.74
Execution rate (%)	2.3	1.2	2.5	6.0

Source: Central Bank of Lesotho and Ministry of Finance

Table 15: Statement of Government Operations (Million Maloti)

	2024			2025		Q/Q (%)	Y/Y (%)	GDP ratio (%)
	Q2	Q3	Q4	Q1	Q2			
Total Revenue	7367.26	6669.87	6898.41	6889.36	6460.02	-6.2	-12.3	60.8
Tax revenue	5247.75	4848.40	5341.84	5665.69	4514.60	-20.3	-14.0	42.5
Income Tax	1267.47	1416.63	1454.01	1681.32	1250.88	-25.6	-1.3	11.8
Value Added Tax	1451.34	887.45	1295.40	1125.49	1151.87	2.3	-20.6	10.8
SACU Receipts (excise & customs)	2258.89	2258.89	2258.89	2258.89	1795.55	-20.5	-20.5	16.9
Other tax revenue	270.06	285.43	333.54	599.99	316.31	-47.3	17.1	3.0
Grants	629.50	631.68	631.68	631.68	502.78	-20.4	-20.1	4.7
o/w SACU Receipts (development)	628.41	628.41	628.41	628.41	499.51	-20.5	-20.5	4.7
Other revenue	1490.01	1189.80	924.89	592.00	1442.64	143.7	-3.2	13.6
Total Expense	4118.11	4409.27	4503.37	4219.24	4327.75	2.6	5.1	40.7
Compensation of Employees	1797.90	1845.13	1924.16	1842.10	1857.00	0.8	3.3	17.5
Use of goods and services	323.96	712.84	858.90	590.94	632.99	7.1	95.4	6.0
O/W Purchase of Health Services	111.35	121.35	188.16	36.18	77.13	113.2	-30.7	0.7
Interest Payments	140.08	232.91	125.18	243.22	140.19	-42.4	0.1	1.3
Subsidies	191.66	234.86	126.19	204.68	181.95	-11.1	-5.1	1.7
Grants	687.19	524.32	655.42	489.25	565.86	15.7	-17.7	5.3
Social benefits	598.32	522.47	580.12	423.05	597.20	41.2	-0.2	5.6
Other expense	378.99	336.74	233.41	426.01	352.55	-17.2	-7.0	3.3
Gross Operating Balance	3249.15	2260.60	2395.04	2670.12	2132.27	-	-	20.1
Total Nonfinancial Assets	782.41	972.29	892.46	1359.55	641.74	-52.8	-18.0	6.0
Fixed Assets	782.41	972.29	892.46	1359.09	642.19	-52.7	-17.9	6.0
Non-Produced Assets	0.00	0.00	0.00	0.46	-0.46	-	-	0.0
Total Expenditure	4900.52	5381.56	5395.83	5578.79	4969.48	-10.9	1.4	46.7
Primary balance	2606.83	1521.22	1627.76	1553.79	1630.72	-	-	15.3
Net lending/borrowing	2466.74	1288.31	1502.58	1310.57	1490.53	-	-	14.0
Financing	2226.51	1225.29	1650.45	1315.37	1414.43	-	-	13.3
Net Acquisition of Financial assets	2745.03	1221.02	678.24	-85.10	3136.09	-	-	29.5
O/W Domestic Currency and Deposits	2303.56	918.36	580.20	-1014.72	2425.98	-	-	22.8
Net Incurrence of Liabilities	518.52	-4.26	-972.22	-1400.46	1721.66	-	-	16.2
O/W Domestic Other Accounts Payable	779.22	-89.35	-1432.48	-1233.78	1167.01	-	-	11.0
Statistical Discrepancy	240.24	63.03	-147.87	-4.79	76.10	-	-	0.7
Memo Items								
SACU receipts	2887.30	2887.30	2887.30	2887.30	2295.06	-20.5	-20.5	21.6
GDP (quarterly, red colour = forecast)	10202.04	10771.66	10267.48	10629.95	10629.95	-	-	-

Source: Central Bank of Lesotho and Ministry of Finance

Table 16: Total Outlays by Functions of Government (Million Maloti)

	2024			2025		Q/Q (%)	Y/Y (%)	GDP ratio (%)
	Q2	Q3	Q4	Q1	Q2			
Current Outlays	3775.99	4435.75	4668.77	4628.47	4600.69	-0.6	21.8	43.3
General public services	1459.55	850.68	1002.12	880.19	824.03	-6.4	-43.5	7.8
Defence	0.00	233.75	170.60	228.52	219.02	-4.2	-	2.1
Public order and safety	349.73	407.29	425.45	494.92	441.94	-10.7	26.4	4.2
Economic affairs	340.04	331.76	419.88	311.39	386.74	24.2	13.7	3.6
Environmental protection	4.92	27.26	29.05	35.83	21.75	-39.3	341.8	0.2
Housing and community amenities	11.05	135.93	138.02	140.15	119.12	-15.0	978.0	1.1
Health	499.30	618.82	646.78	1027.00	684.86	-33.3	37.2	6.4
Recreation, culture and religion	40.73	51.71	47.01	45.42	46.87	3.2	15.1	0.4
Education	707.10	1063.06	1009.47	791.81	1140.54	44.0	61.3	10.7
Social protection	363.56	715.49	780.40	673.24	715.83	6.3	96.9	6.7
Capital Outlays	431.96	852.33	851.66	1661.05	263.35	-84.1	-39.0	2.5
General public services	45.51	143.50	207.77	328.01	35.81	-89.1	-21.3	0.3
Defence	0.00	27.61	0.00	12.70	0.00	-	-	0.0
Public order and safety	5.63	2.11	9.63	8.49	1.67	-80.3	-70.3	0.0
Economic affairs	295.02	600.05	533.23	1021.32	181.73	-82.2	-38.4	1.7
Environmental protection	0.00	0.91	0.00	0.18	0.00	-	-	0.0
Housing and community amenities	70.64	76.26	67.52	153.52	38.38	-75.0	-45.7	0.4
Health	9.26	1.90	10.19	49.33	11.46	-76.8	23.8	0.1
Recreation, culture and religion	7.24	0.00	10.16	0.32	-6.88	-2247.4	-195.0	-0.1
Education	-1.34	0.00	13.16	70.06	1.17	-98.3	-187.6	0.0
Social protection	0.00	0.00	0.0	17.13	0.00	-100.0	-	0.0
Total Outlays	4207.94	5288.09	5520.43	6289.53	4864.04	-22.7	15.6	45.8
General public services	1505.06	994.19	1209.90	1208.20	859.84	-28.8	-42.9	8.1
Defence	0.00	261.36	170.60	241.22	219.02	-9.2	-	2.1
Public order and safety	355.36	409.39	435.08	503.41	443.61	-11.9	24.8	4.2
Economic affairs	635.07	931.81	953.11	1332.71	568.47	-57.3	-10.5	5.3
Environmental protection	4.92	28.17	29.05	36.01	21.75	-39.6	341.8	0.2
Housing and community amenities	81.69	212.19	205.53	293.68	157.50	-46.4	92.8	1.5
Health	508.56	620.72	656.97	1076.32	696.32	-35.3	36.9	6.6
Recreation, culture and religion	47.97	51.71	57.17	45.74	39.99	-12.6	-16.6	0.4
Education	705.76	1063.06	1022.63	861.87	1141.71	32.5	61.8	10.7
Social protection	363.56	715.49	780.40	690.37	715.83	3.7	96.9	6.7
Unidentified Outlays	692.58	93.47	-124.60	-710.74	105.44			

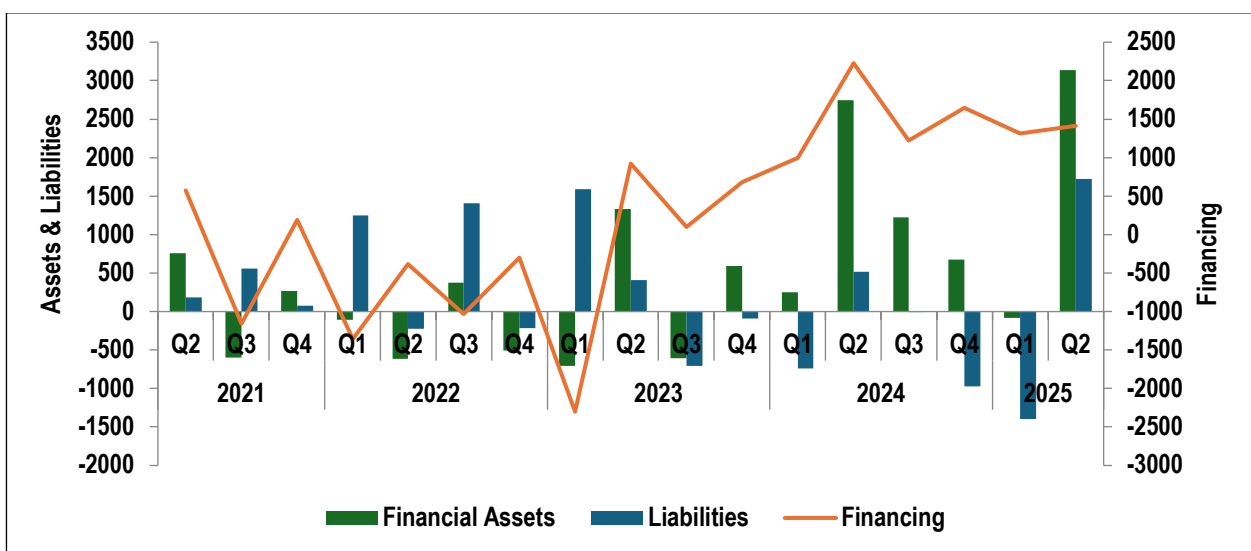
Source: Central Bank of Lesotho and Ministry of Finance

5.4 Financial Assets and Liabilities²

Government financing operations reflected a net lending position, underpinned by a significant accumulation of financial assets. Net acquisition of financial assets amounted to 29.5 per cent of GDP, marking a sharp reversal from the net disposal of 0.8 per cent of GDP in the previous quarter, and reflecting fiscal consolidation alongside strategic cash buffering.

At the same time, the net incurrence of liabilities stood at 16.2 per cent of GDP, driven mainly by domestic borrowing and the build-up of other accounts payable, particularly pending supplier payments. However, since June 2023, financing trends reflect a sustained strengthening of the fiscal position.

Figure 17: Total Financing (Million Maloti)



Source: Central Bank of Lesotho and Ministry of Finance

5.5 Total Public Debt³

Public debt continued to increase moderately, reflecting ongoing gross borrowing requirements. In nominal terms, total debt rose by 2.0 per cent quarter-on-quarter and by 6.2 per cent year-on-year. The upward movement largely reflected new external loan disbursements and additional domestic securities issuance.

External debt accounted for 80.6 per cent of total public debt and remains predominantly concessional, thereby containing financing costs and rollover risks. Domestic debt, comprising treasury bills and treasury bonds, represented 19.4 per cent of the total. The gradual expansion of the domestic debt market continues to support the development of a broader local investor base and enhances funding diversification.

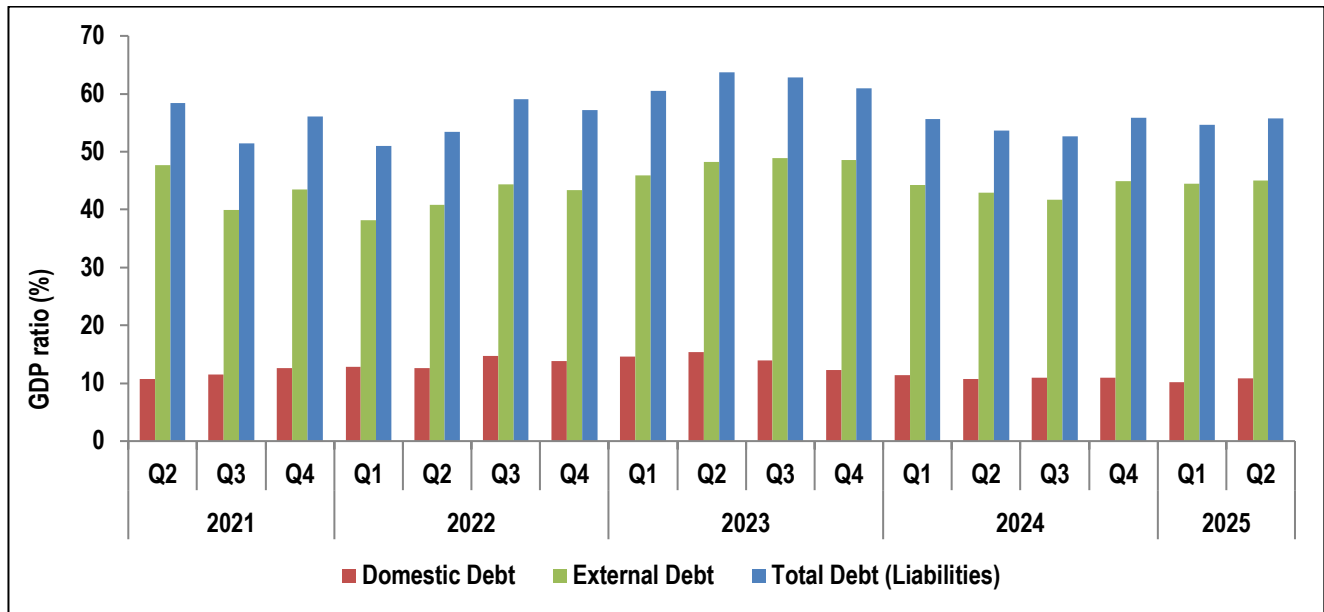
Overall, the public debt profile remains manageable, supported by favourable concessional terms and moderate debt service obligations. The debt-to-GDP ratio remains below commonly applied IMF's

² 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.

³ All categories are on net terms. The stock of public external debt is converted using an end-of-period exchange rate.

sustainability thresholds of 60 per cent of GDP, suggesting that fiscal space is preserved under current macroeconomic conditions. The external debt service-to-exports ratio stood at 6.3 per cent, indicating a moderate servicing burden. Nevertheless, close monitoring is warranted, particularly given emerging external risks – including newly introduced United States trade tariffs – which could affect the country’s export performance and, consequently, external debt servicing capacity.

Figure 18: Outstanding Public Debt (Million Maloti)



Source: Central Bank of Lesotho and Ministry of Finance

Table 17: Public Debt Stock (Million Maloti)

	2024			2025		Q/Q (%)	Y/Y (%)	Debt / GDP
	Q2	Q3	Q4	Q1	Q2			
Total Public Debt	22329.20	21915.54	23267.95	23251.77	23721.83	2.0	6.2	55.8
External Debt	17855.38	17356.84	18700.34	18911.05	19123.93	1.1	7.1	45.0
Bilateral Loans	891.89	846.04	865.70	809.80	752.82	-7.0	-15.6	1.8
Concessional	755.84	722.10	750.35	694.04	655.82	-5.5	-13.2	1.5
Non-concessional	136.05	123.94	115.35	115.76	97.00	-16.2	-28.7	0.2
Multilateral Loans	13682.93	13394.83	14533.47	14954.94	15282.19	2.2	11.7	35.9
Concessional	10277.83	10075.99	11029.38	11988.20	12213.33	1.9	18.8	28.7
Non-concessional	3405.10	3318.84	3504.09	2966.75	3068.86	3.4	-9.9	7.2
Financial Institutions	0.00	0.00	0.00	0.00	0.00	0.0	0.0	0.0
Concessional	0.00	0.00	0.00	0.00	0.00	0.0	0.0	0.0
Non-concessional	0.00	0.00	0.00	0.00	0.00	0.0	0.0	0.0
Suppliers' Credit	3280.56	3115.96	3301.17	3146.31	3088.93	-1.8	-5.8	7.3
Concessional	1309.11	1262.61	1360.24	1317.10	1294.84	-1.7	-1.1	3.0
Non-concessional	1971.46	1853.34	1940.92	1829.21	1794.09	-1.9	-9.0	4.2
Domestic Debt	4473.82	4558.71	4567.61	4340.72	4597.90	5.9	2.8	10.8
Banks	1526.20	1606.00	1554.69	1569.32	1734.60	10.5	13.7	4.1
Long-term	1105.42	1145.31	1083.71	1095.81	1252.67	14.3	13.3	2.9
Treasury bonds	1105.42	1145.31	1083.71	1095.81	1252.67	14.3	13.3	2.9
Central Bank (IMF)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.0
Short-term (T-bills)	420.78	460.68	470.98	473.51	481.93	1.8	14.5	1.1
Non-bank	2947.62	2952.71	3012.93	2771.40	2863.29	3.3	-2.9	6.7
Long-term (T-bonds)	2641.65	2676.76	2735.91	2498.80	2591.94	3.7	-1.9	6.1
Short-term (T-bills)	305.96	275.95	277.02	272.60	271.35	-0.5	-11.3	0.6
DEBT INDICATORS								
Total Debt-to-GDP	53.6	52.6	55.9	54.7	55.8	-	-	-
External Debt-to-Total Debt	80.0	79.2	80.4	81.3	80.6	-	-	-
Concessional Debt-to-External Debt	69.1	69.5	70.3	74.0	74.1	-	-	-
External debt service/Exports	5.9	8.8	5.9	12.0	6.3			
External debt service/Revenue	3.5	6.3	3.6	7.0	3.9			

Source: Central Bank of Lesotho and Ministry of Finance

6 Foreign Trade and Payments

6.1 Overview

Lesotho's external sector position remained in surplus in the second quarter of 2025. The surplus was driven primarily by receipts associated with construction activity under the Lesotho Highlands Water Project Phase II (LHWP II), alongside higher water royalties. As a share of GDP, the external sector surplus increased to 18.1 per cent, compared with a revised 13.9 per cent in the previous quarter, reflecting a marked strengthening in external inflows.

6.2 Current Account

The current account balance shifted to a deficit of M496.72 million, from a surplus of M102.06 million in the previous quarter. The deterioration was driven by deficits in the goods and services accounts. However, continued surpluses in the primary and secondary income accounts partly offset the overall current account shortfall. As a share of GDP, the current account deficit amounted to 4.8 per cent, compared with a surplus of 0.7 per cent previously.

Table 18: Current Account Balance (Million Maloti)

	2024			2025		% Changes	
	Q2	Q3	Q4	Q1	Q2	Q/Q	Y/Y
Current Account	237.27	398.96	243.90	102.06	-496.72	-586.7	-309.4
(a) Goods	-3251.08	-3109.81	-3605.34	-3877.50	-3655.11	5.7	-12.4
Merchandise exports, f.o.b.	4316.55	4642.76	4197.51	3273.91	3633.53	11.0	-15.8
Of which diamonds	1052.42	1064.12	962.19	577.25	542.31	-6.1	-48.5
Of which textiles & clothing	1835.87	2076.37	2146.27	1877.65	2,019.21	7.5	10.0
Of which water	962.63	978.80	579.63	376.61	711.72	89.0	-26.1
Of which agriculture	136.89	126.48	149.56	134.25	153.11	14.0	11.8
Of which re-exports	46.86	46.97	50.93	42.42	39.37	-7.2	-16.0
Other exports	281.88	350.02	308.93	265.73	167.81	-36.8	-40.5
Merchandise imports, f.o.b.	7567.63	7752.57	7802.85	7151.41	7288.64	1.9	-3.7
(b) Services	-1826.50	-1830.20	-1867.58	-1962.68	-1997.64	-1.8	-9.4
(c) Primary Income	2217.43	2283.06	2629.27	2400.07	2589.57	7.9	16.8
(d) Secondary Income	3097.42	3055.91	3087.56	3542.17	2566.46	-27.5	-17.1

Source: Central Bank of Lesotho

6.2.1.1 Goods

Merchandise Exports

The value of merchandise exports increased by 11.0 per cent, compared with a decline of 22.1 per cent in the previous quarter. The improvement was driven primarily by a surge in water exports, alongside higher agricultural as well as textile and clothing exports. The increase in water exports followed the completion of maintenance works at the Muela Hydropower Station, which enabled the resumption of water transfers to South Africa. Textile and clothing exports rose due to front-loading of orders amid uncertainty

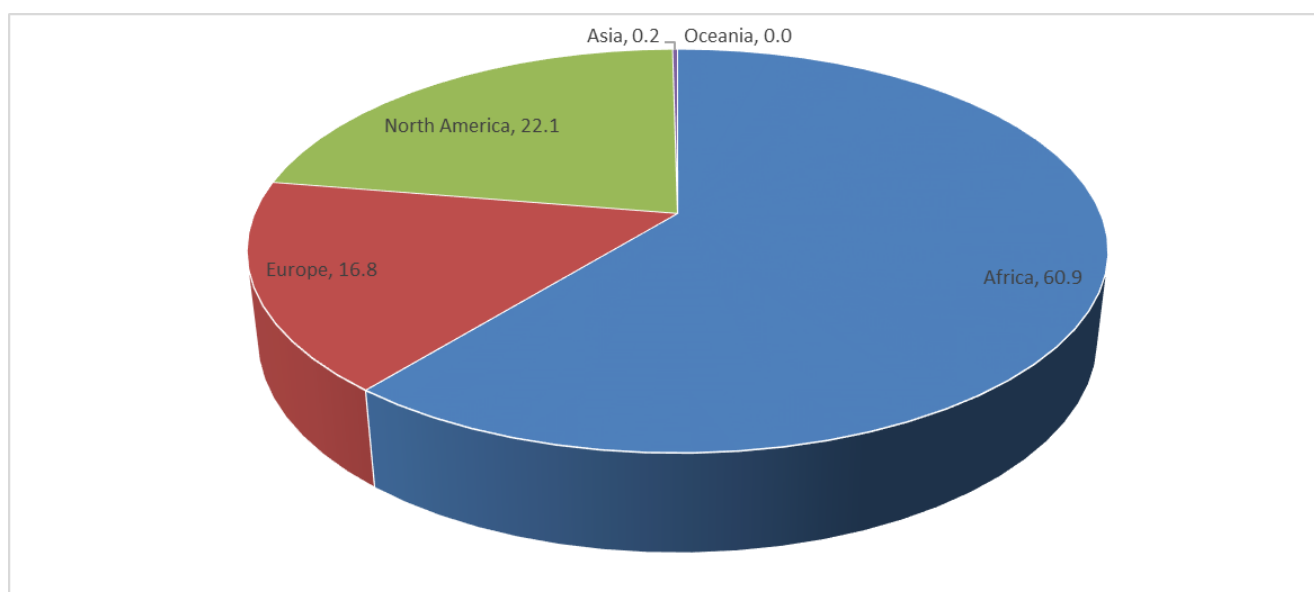
surrounding the renewal of the African Growth and Opportunity Act (AGOA). Agricultural exports increased, reflecting higher exports of vegetables and live animals.

Overall growth in exports was, however, partly moderated by a decline in diamond exports, as the mining sector continued to face demand-side pressures linked to a growing preference for lab-grown diamonds over naturally extracted stones. On an annual basis, merchandise exports declined by 15.8 per cent, following a contraction of 28.3 per cent in the preceding quarter. Relative to GDP, merchandise exports accounted for 34.8 per cent, compared with 33.3 per cent previously.

Direction of Trade - Exports

Africa continued to account for the largest share of Lesotho's exports, at 60.9 per cent, up from 58.8 per cent previously, reflecting higher textile and clothing exports to South Africa. North America followed with a share of 22.1 per cent, compared with 22.8 per cent a quarter earlier, largely driven by textile and clothing exports to the United States. Europe was the third-largest export destination, accounting for 16.8 per cent of total exports, down from 18.2 per cent previously, mainly due to diamond exports to Belgium. Asia and Oceania continued to account for relatively small shares of Lesotho's total exports.

Figure 19: Direction of Trade Merchandise Exports (Percentage Share)



Source: Central Bank of Lesotho

Merchandise Imports

The value of merchandise imports increased by 1.9 per cent, compared with a decline of 8.4 per cent in the preceding quarter. The rebound was driven mainly by higher imports of mineral products, food and vegetables, and machinery. The increase in mineral product imports reflected stronger demand for petroleum products, partly associated with higher energy needs during the cold season. Meanwhile, imports of food and vegetables rose in response to higher food prices in South Africa, Lesotho's largest source of food supplies.

Year on year, merchandise imports declined by 3.7 per cent, following a contraction of 3.6 per cent previously. As a proportion of GDP, merchandise imports accounted for 69.9 per cent, down from 73.6 per cent in the previous quarter.

6.2.1.2 Services account

The services account remained in deficit, reflecting Lesotho's continued position as a net importer of services. The deficit expanded by 1.8 per cent, compared with a decline of 5.1 per cent in the previous quarter. The widening deficit was driven mainly by higher freight services, in line with the increase in merchandise imports. This was compounded by higher outlays on transport and travel services, particularly official travel, as well as increased payments for telecommunication services.

On an annual basis, the services account deficit widened by 9.4 per cent, compared with an increase of 9.6 per cent previously. Measured as a share of GDP, the services account deficit amounted to 19.2 per cent, down from 20.2 per cent in the previous quarter.

6.2.1.3 Primary Income Account

The primary income account remained in surplus. The surplus increased by 7.9 per cent, reversing a decline of 8.7 per cent in the previous quarter. The improvement reflected higher interest income earned by financial institutions on overseas investments, alongside lower government interest payments on foreign loans. In addition, maintenance and repair receipts related to the Lesotho Highlands Water Project Phase I increased, further supporting the surplus.

Compared with a year earlier, the primary income surplus rose by 16.8 per cent, compared with an increase of 14.1 per cent previously. As a share of GDP, the primary income account amounted to 24.8 per cent, up from 23.4 per cent in the previous quarter.

6.2.1.4 Secondary Income Account

The secondary income account remained in surplus, although at a lower level than in the previous quarter. The surplus continued to be underpinned by receipts from the Southern African Customs Union (SACU), but declined by 27.6 per cent, compared with an increase of 14.7 per cent previously. The contraction reflected lower SACU receipts, associated with reduced imports into the SACU region, as well as the absence of Rand Monetary Compensation, which is typically received in the first quarter of each year.

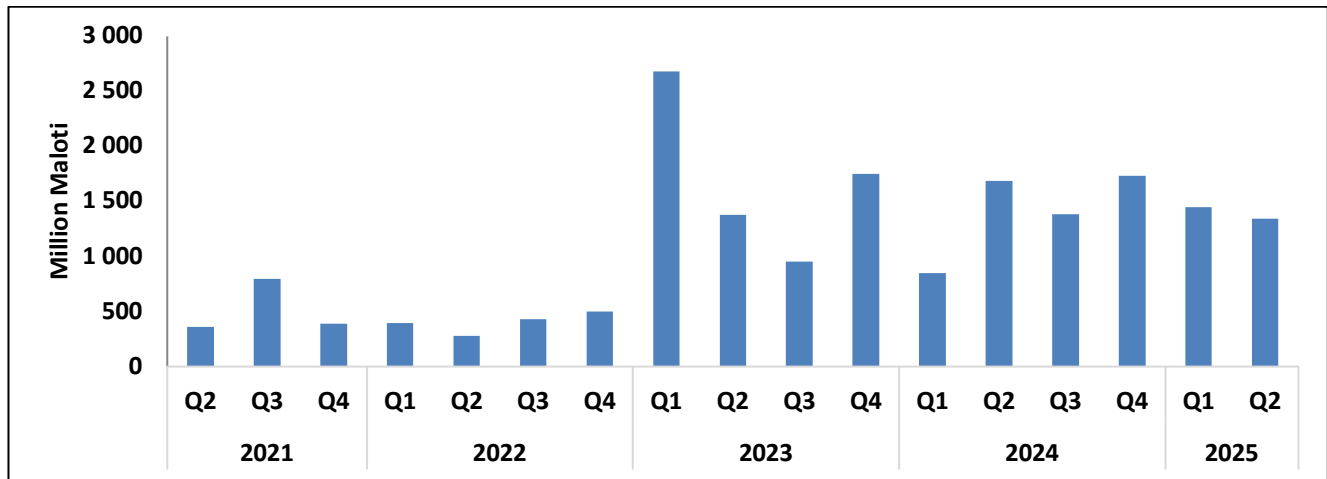
Year on year, the secondary income surplus declined by 17.1 per cent, following an increase of 10.4 per cent previously. In relation to GDP, the secondary income account amounted to 24.6 per cent, down from 34.5 per cent in the previous quarter.

6.3 Capital Account

Capital account inflows remained elevated at M1.34 billion, although lower than M1.73 billion recorded in the previous quarter. Inflows continued to be driven by ongoing construction activity under the Lesotho Highlands Water Project Phase II, particularly the Senqu Bridge, alongside other auxiliary works, including tunnel boring and related construction activities.

Compared with a year earlier, capital account inflows declined by 20.3 per cent, following a decline of 7.1 per cent previously. As a share of GDP, capital account inflows amounted to 12.9 per cent, compared with the revised 13.0 per cent recorded in the previous quarter.

Figure 20: Capital Account (Million Maloti)



Source: Central Bank of Lesotho

6.4 Financial Account

The financial account recorded a surplus of M944.60 million, compared with a deficit of M50.18 million in the previous quarter. The surplus was mainly supported by positive balances in portfolio investment and reserve assets, while deficits in direct investment and other investment partly offset the overall outcome. Relative to GDP, the financial account surplus amounted to 9.1 per cent, up from 0.5 per cent previously.

Portfolio investment registered a surplus of M748.10 million, compared with M288.17 million in the previous quarter, reflecting higher foreign placements by financial institutions in search of improved returns. Direct investment shifted to a deficit of M36.23 million, from a surplus of M69.23 million, owing to increased loan disbursements to resident companies by non-resident shareholders, particularly in the mining and construction sub-sectors.

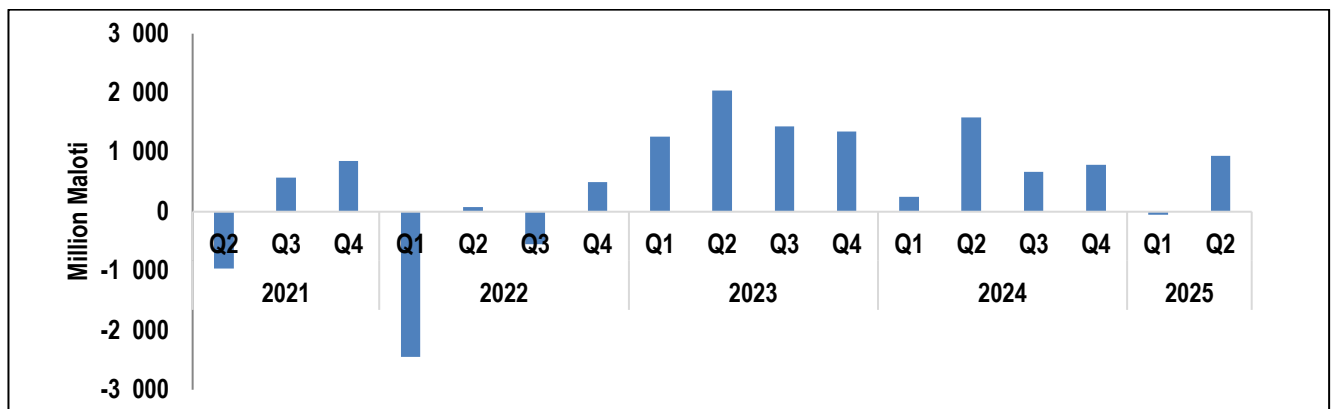
Other investment recorded a deficit of M352.55 million, in contrast to a surplus of M65.03 million previously, largely due to higher government loan disbursements. This was, however, partly offset by currency and deposit inflows, as commercial banks repatriated funds to meet domestic liquidity requirements.

Table 19: Financial Account Balance (Million Maloti)

	2024				2025	
	Q1	Q2	Q3	Q4	Q1	Q2
Financial account	252.80	1587.34	670.45	788.09	-50.18	944.60
Direct Investments, net	149.90	245.55	216.15	-368.82	69.23	-36.23
Portfolio Investments, net	-43.18	418.45	421.45	278.65	288.17	748.10
Financial Derivatives, net	0.00	0.00	0.00	0.00	0.00	0.00
Other Investments, net	9.67	475.62	-997.18	-1,545.15	65.03	-352.55
Of which Loans	272.32	-716.98	-108.84	-513.03	-35.63	-212.59
Claims on Non Residents	34.48	34.48	34.48	34.48	34.48	34.48
Liabilities to Non Residents	-237.84	751.46	143.32	547.51	70.11	247.07
Of which Currency and Deposits	-188.59	1,266.66	-814.28	-958.05	174.72	-65.89
Claims on Non Residents	-406.08	935.04	-691.85	-1,184.64	339.86	-159.01
Liabilities to Non Residents	-217.49	-331.62	122.43	-226.59	165.15	-93.12
Of which Special Drawing Rights	0.00	0.00	0.00	0.00	0.00	0.00
Reserve Assets	136.41	447.72	1,030.03	2,423.41	-472.60	585.28

Source: Central Bank of Lesotho

Figure 21: Financial Account (Million Maloti)

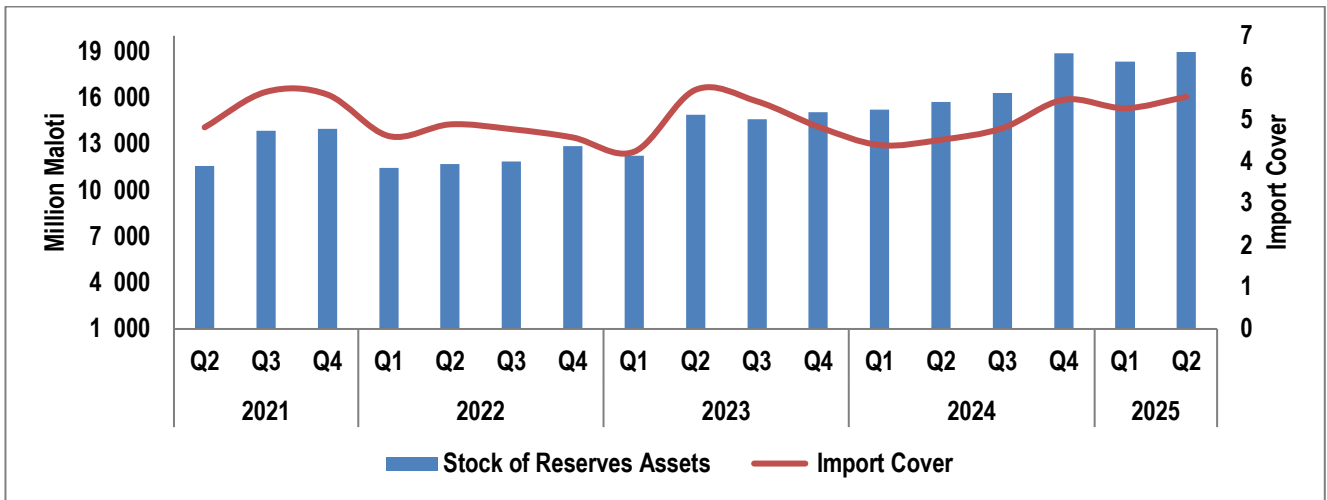


Source: Central Bank of Lesotho

6.5 Reserve Assets

The stock of foreign reserves increased to M18.96 billion, from M18.34 billion in the previous quarter. The accumulation was driven largely by higher water royalty inflows, following the completion of maintenance works and the resumption of operations at the Muela Hydropower Station. As a result, reserve coverage improved to 5.5 months of import cover, up from 5.3 months previously.

Figure 22: Reserve Assets



Source: Central Bank of Lesotho