

Central Bank of Lesotho



QUARTERLY ECONOMIC REVIEW

December 2022

MASERU KINGDOM OF LESOTHO

Table of Contents

1. Executive Summary	5
2. International Economic Developments	6
ADVANCED ECONOMIES	6
EMERGING MARKET ECONOMIES	8
COMMODITIES	9
EXCHANGE RATES	12
3. Real Sector Developments	14
OVERVIEW	14
OUTPUT DEVELOPMENTS	14
EMPLOYMENT DEVELOPMENTS	15
PRICE DEVELOPMENTS	17
4. Monetary and Financial Developments	19
OVERVIEW	19
BROAD MONEY	19
CREDIT EXTENSION	22
LIQUIDITY OF COMMERCIAL BANKS	24
MONEY AND CAPITAL MARKET DEVELOPMENTS	25
5. Government Finance	28
OVERVIEW	28
REVENUE	28
TOTAL EXPENDITURE	28
FINANCIAL ASSETS AND LIABILITIES	32
TOTAL PUBLIC DEBT	32
6. Foreign Trade and Payments	34
OVERVIEW	34
CAPITAL ACCOUNT	37
FINANCIAL ACCOUNT	37
RESERVE ASSETS	38

List of Tables

Table 1: Key World Economic Indicators	6
Table 2: Contributions to Growth	15
Table 3: Employment by LNDC-Assisted Companies (<i>Thousands</i>).....	16
Table 4: Inflation Rate (<i>Annual Percentage Changes</i>)	17
Table 5: Domestic Claims (<i>Million Maloti: End Period</i>).....	20
Table 6: Net Foreign Assets (<i>Million Maloti: End Period</i>)	20
Table 7: Components of Money Supply (<i>Million Maloti: End Period</i>).....	21
Table 8: Credit Extension by Economic Activity (<i>Million Maloti</i>).....	22
Table 9: Components of Liquidity (<i>Million Maloti</i>)	24
Table 10: Sources of funds for ODCs (<i>Million Maloti</i>)	25
Table 11: Interest rates	26
Table 12: Holding of Bills (<i>Million Maloti</i>)	27
Table 13: Holding of Bonds (<i>Million Maloti</i>)	27
Table 14: Statement of Government Operations (<i>Million Maloti</i>).....	30
Table 15: Total Outlays by Functions of Government (<i>Million Maloti</i>).....	31
Table 16: Public Debt Stock (<i>Million Maloti</i>).....	33
Table 17: Current Account Balance (<i>Million Maloti</i>).....	34
Table 18: Financial Account Balance (<i>Million Maloti</i>)	38

List of Figures

Figure 1: Average Price of Gold.....	9
Figure 2: Average Price of Platinum.....	10
Figure 3: Average Price of Oil.....	10
Figure 4: Average Price of Maize.....	11
Figure 5: Average Price of Wheat.....	12
Figure 6: Nominal Exchange Rate of Loti against Major Trading Currencies.....	13
Figure 7: Quarterly Indicator of Economic Activity.....	15
Figure 8: Migrant Mineworkers (<i>Annual Percentage Changes</i>).....	17
Figure 9: Core vs Headline Inflation (<i>Annual Percentage Changes</i>).....	18
Figure 10: Food vs Non-food Inflation (<i>Annual Percentage Changes</i>).....	18
Figure 11: Broad Money (M2) (<i>Quarterly Changes</i>).....	19
Figure 12: Net Foreign Assets (<i>Percentage shares</i>).....	21
Figure 13: Distribution of Credit (<i>Percentage Shares</i>).....	23
Figure 14: Credit Extension to Household (<i>Million Maloti</i>).....	23
Figure 15: Short Term Interest Rates (<i>Per Cent per Annum</i>).....	26
Figure 16: Fiscal Balance (<i>Percent of GDP</i>).....	28
Figure 17: Total Expense (<i>Million Maloti</i>).....	29
Figure 18: Total Financing (<i>Million Maloti</i>).....	32
Figure 19: Outstanding Public Debt (<i>Percent of GDP</i>).....	32
Figure 20: Direction of Trade Merchandise Exports (<i>Percentage Share</i>).....	35
Figure 21: Capital Account (<i>Million Maloti</i>).....	37
Figure 22: Financial Account (<i>Million Maloti</i>).....	38
Figure 23: Reserve Assets.....	39

1. Executive Summary

The final quarter of 2022 was characterized by generally sluggish global economic growth. Most economies continued to be affected by elevated inflation, resulting in tighter monetary and financial conditions. The unemployment rate remained relatively unchanged in most countries, but it slightly decreased in Japan as the economy recovered from the COVID-19-induced slowdown. Although the inflation rate began to slow down in both developed and emerging market economies, it remained above the psychological target rates and those set by most central banks. The disinflation was mainly due to declining energy prices, particularly fuel costs, following relatively lower global crude oil prices.

Domestic economic activity maintained a downward trend, declining by 0.6 percent in December 2022. As a result, the labour market conditions remained under pressure, leading to decreases in employment levels across the three categories monitored by the Central Bank. However, the inflation rate subsided in December 2022, mainly due to declining international oil prices.

The broad measure of money supply (M2) declined. The fall was primarily attributed to a reduction in net foreign assets (NFA). The decrease in M2 was also explained by private sector withdrawals from both savings and fixed-term deposits to meet their foreign obligations. Meanwhile, private sector credit declined following a reduction in loans and advances to business enterprises. It is, however, worth noting that credit allocation was biased towards the priority sectors identified by the extended National Strategic Development Plan (NSDP) II. Short-term interest rates increased in line with the hike in the Central Bank's policy rate, raising the cost of credit for both consumption and private investment.

Government budget operations recorded an estimated surplus equivalent to 4.6 percent of GDP during the reviewed quarter. The surplus was used to settle maturing government securities, outstanding payments, and public debt service. As a result, the public debt stock decreased from 60.3 percent of GDP at the end of September 2022 to close the year at 59.9 percent of GDP.

The external sector position improved significantly, recording a surplus equivalent to 11.8 percent of GDP, compared to a deficit amounting to 3.3 percent of GDP in the previous quarter. This improvement was driven mainly by a higher surplus on the capital account. In contrast, the deficit on the current account widened. Gross reserve assets declined to 4.0 months of import cover from 4.8 months recorded in the previous quarter.

2. International Economic Developments

The global economic growth was generally slower during the last quarter of 2022 than in the previous quarter. Most economies were affected by the persistently elevated inflation, and consequently, tighter monetary and financial conditions. In China, growth remained low as the economy battled against increased COVID-19 infections. In Japan, growth recovered as the government curbed COVID-19 and reopened the economy, supporting tourism. The unemployment rate was relatively unchanged in most countries, while it fell slightly in Japan. In the UK, labour market conditions worsened due to industrial action by workers demanding higher pay and better working conditions.

Inflation was slowing, but it remained above target rates. This was largely due to the decline in energy prices. However, consumer prices accelerated in Japan and the UK. In Japan, the weak yen increased the cost of imported raw materials, while in the UK, food prices were higher.

Table 1: Key World Economic Indicators

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	Q3	Q4	Q3	Q4	Q3	Q4	Q3	Q4
	2022	2022	2022	2022	2022	2022	2022	2022
United States	1.9	1.0	8.2	6.5	3.25	4.50	3.5	3.5
Euro Area	2.3	1.9	9.9	9.2	1.25	2.50	6.6	6.6
Japan	-1.0	0.6	3.0	4.0	-0.10	-0.10	2.6	2.5
United Kingdom	1.9	0.4	10.1	10.5	2.25	3.50	3.6	3.7
China	3.9	2.9	2.8	1.8	3.65	3.65	5.5	5.5
India	6.3	4.4	7.4	5.7	5.90	6.25	N/A	N/A
South Africa	4.2	0.9	7.5	7.2	6.25	7.00	32.9	32.7

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 growth in the US slowed further in the fourth quarter of 2022. Real GDP grew by 1.0 per cent, following a revised 1.9 per cent increase in the previous quarter. Growth was supported by an increase in consumer spending, exports, and private inventory investment. However, it was moderated by declines in residential investment and government spending. Residential investment declined due to the decline in construction of new homes. Government spending was lower on account of reductions in both defence and non-defence spending. Unemployment remained unchanged at 3.5 per cent, as the labour market slowly recovered from COVID19-induced restrictions and the negative impact of the Russia-Ukraine war.

The annual inflation rate for the US was recorded at 6.5 per cent, compared to 8.2 per cent in the third quarter of 2022, as the supply-chain bottlenecks emanating from the effects of the Russia-Ukraine war and COVID-19 faded away. The inflation deceleration was largely due to a fall in fuel costs. However, the US Federal Reserve raised its Fed Funds rate band to 4.25-4.50 per cent, from 3.00-3.25 per cent in the previous quarter, to reduce the inflation rate to the bank's target.

Euro Area

Economic activity in the Euro Area slowed between the third and fourth quarters of 2022. Real GDP growth fell from 2.3 per cent to 1.9 per cent, as high inflation continued to deplete household incomes and savings, impacting investment and consumption. The unemployment rate was constant at 6.6 per cent, supported by government policies to assist businesses recovering from COVID-19 restrictions.

Consumer prices in the Euro Area rose 9.2 per cent year-on-year in the fourth quarter of 2022, down from 9.9 per cent in the third quarter. The slowdown followed the easing of the energy crisis, which reduced energy prices in the region. Despite the slowdown in inflation, the European Central Bank raised its policy rate to 2.5 per cent from 1.25 per cent in the previous quarter. The Bank expected inflation to remain above its 2.0 per cent target for an extended period, adversely impacting the regional economic outlook.

Japan

Japan's economic growth improved slightly in the last quarter of 2022. Real GDP grew by 0.6 per cent, after contracting by 0.8 per cent in the third quarter. Pent-up demand boosted growth, particularly in the tourism sector, such as accommodation and leisure, and hotel dining. The unemployment rate fell to 2.5 per cent from 2.6 per cent a quarter earlier, as the economy slowly recovered from COVID-19 and absorbed more workers into the labour market.

Japan's annual inflation rate rose to 4.0 per cent in the fourth quarter of 2022, the highest level in 41 years. The increase was driven by rising costs of imported raw materials, such as oil and food. The Bank of Japan left its policy rate unchanged at -0.10%, in a bid to support the economy, which remained under pressure from high commodity prices.

United Kingdom (UK)

UK's economic performance was sluggish in the final quarter of 2022. Growth fell to 0.4 per cent, from 1.9 per cent in the previous quarter, as households struggled with rising inflation and interest rates. These factors squeezed living standards and dampened consumer demand. Workers' strikes also weighed on growth. Healthcare workers, teachers, civil servants, and rail workers all walked out in protest at low pay. As a result, the unemployment rate rose to 3.7 per cent, from 3.6 per cent.

Inflation rose to 10.5 per cent in the year to December 2022, driven by higher food prices. Energy prices were contained by the government's energy price guarantee scheme. The Bank of England raised its policy rate by a cumulative 125 basis points to 3.50 per cent during the review quarter, to combat inflation.

EMERGING MARKET ECONOMIES

China

Economic performance in China decelerated in the final quarter of 2022, with real GDP growing by 2.9 per cent, compared to 3.9 per cent in the preceding quarter. This slowdown was largely attributed to the re-emergence of COVID-19 infections, which continued to exert a negative impact on both output and retail sales. Additionally, the persistent property crisis led to a decline in property investment, further exacerbating the strain on the country's economic performance. Despite these challenges, the unemployment rate remained unchanged at 5.5 per cent.

The annual inflation rate in China stood at 1.8 per cent, compared to 2.8 per cent in the previous quarter. Consumer prices continued to be affected by sluggish demand, primarily driven by developments related to COVID-19 in the country. Furthermore, there was a decline in food prices, particularly for pork and vegetables, resulting from the government's effort to stabilize prices in preparation for the festive season. In response to the economic challenges, the People's Bank of China kept its policy rate unchanged at 3.65 per cent to continue supporting the economy.

India

In the last quarter of 2022, Indian economic growth slowed to 4.4 per cent, down from 6.3 per cent in the previous quarter. This deceleration was attributed to a slowdown in private spending and investment due to higher borrowing costs resulting from a tighter monetary policy stance. However, despite this slowdown, the unemployment rate was expected to have decreased compared to the third quarter of 2022.

India's consumer price index rose by 5.7 per cent year-on-year, a decline from 7.4 per cent registered in the previous quarter. The deceleration in inflation was driven by a fall in food prices that was mainly influenced by easing supply side pressures. In addition, the moderation reflected the impact of a high base effect from the corresponding period in the previous year. However, the Reserve Bank of India raised its policy rate to 6.25 per cent, from 5.90 per cent in the previous quarter, to curb inflation, which remained high despite the decline in December 2022.

South Africa (SA)

South Africa experienced a slowdown in economic growth in the fourth quarter of 2022. Real GDP increased by 0.9 per cent, significantly lower than the 4.2 per cent growth that was observed in the previous quarter. The prolonged power outages had a major impact on economic activity, particularly on mining and manufacturing output. Additionally, high inflation and interest rates adversely affected many industries, leading to slower sales and production. Despite these challenges, the unemployment rate was relatively unchanged at 32.7 per cent (compared to 32.9 per cent in the previous quarter), as businesses remained resilient to the negative impact of power cuts. The largest job gains were in the financial services sector.

The annual inflation rate decreased to 7.2 per cent, from 7.5 per cent in the preceding quarter. This decline was attributed to the slower increase in transportation costs, driven by relatively lower fuel prices. However, in response to the persistently high inflation and the assessment that inflationary risks were still tilted upwards, the South African Reserve Bank raised its policy rate by 75 basis points to 7.00 per cent.

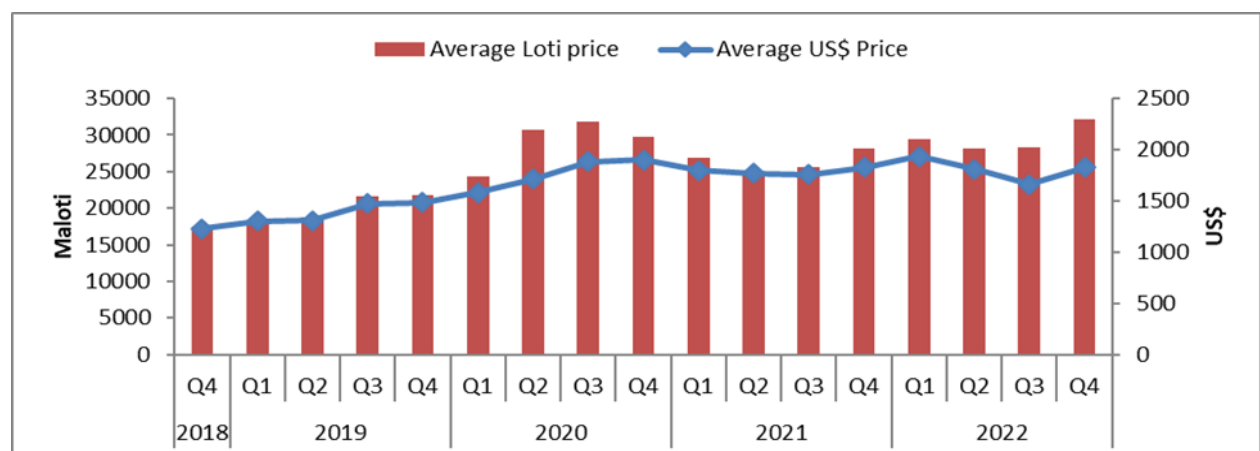
COMMODITIES

Minerals

Gold

In the last quarter of 2022, the dollar price of gold rose by 9.8 per cent, in contrast to a decline of 8.1 per cent in the previous quarter. Meanwhile, the loti price of gold increased by 13.5 per cent, up from a modest increase of 0.5 per cent in the preceding quarter. The growth in gold prices was supported by several factors, such as increased purchases by central banks in looking for alternative safe-haven assets; increased demand from countries like India and China; and relatively less aggressive interest rate increases by the US Federal Reserve.

Figure 1: Average Price of Gold

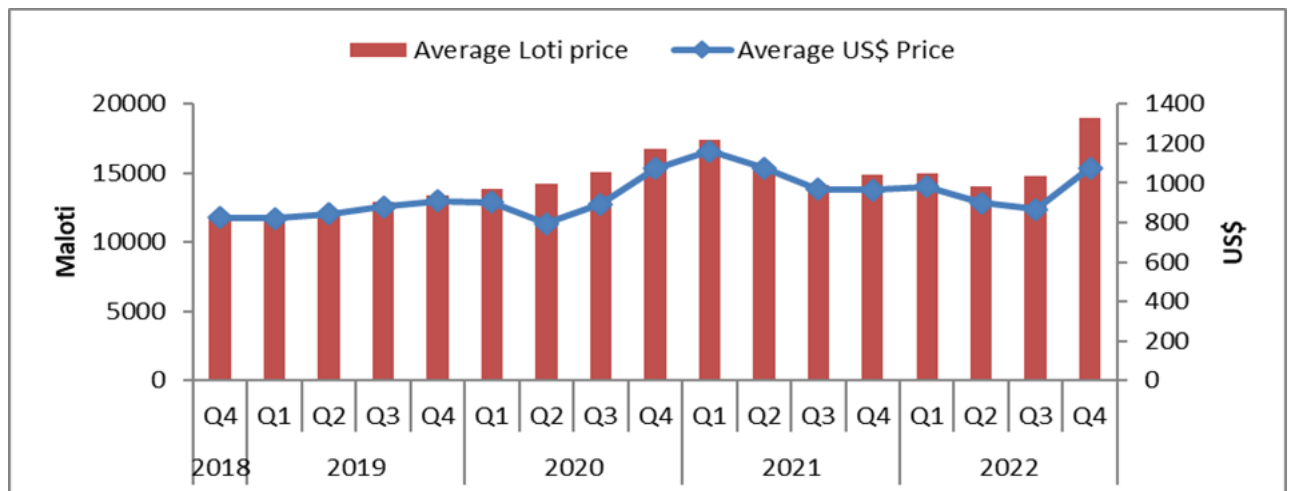


Source: Bloomberg

Platinum

The price of platinum rose by 24.1 per cent, after a decline of 3.5 per cent in the preceding quarter. In maloti terms, the price of platinum rose by 28.4 per cent, compared with an increase of 5.5 per cent in the previous quarter. The increase in platinum prices was largely driven by improved market sentiment from China, platinum's largest consumer, following the lifting of its zero-COVID-19 policy. Furthermore, demand rose due to the increased use of the metal in fuel cell electric vehicles in China.

Figure 2: Average Price of Platinum



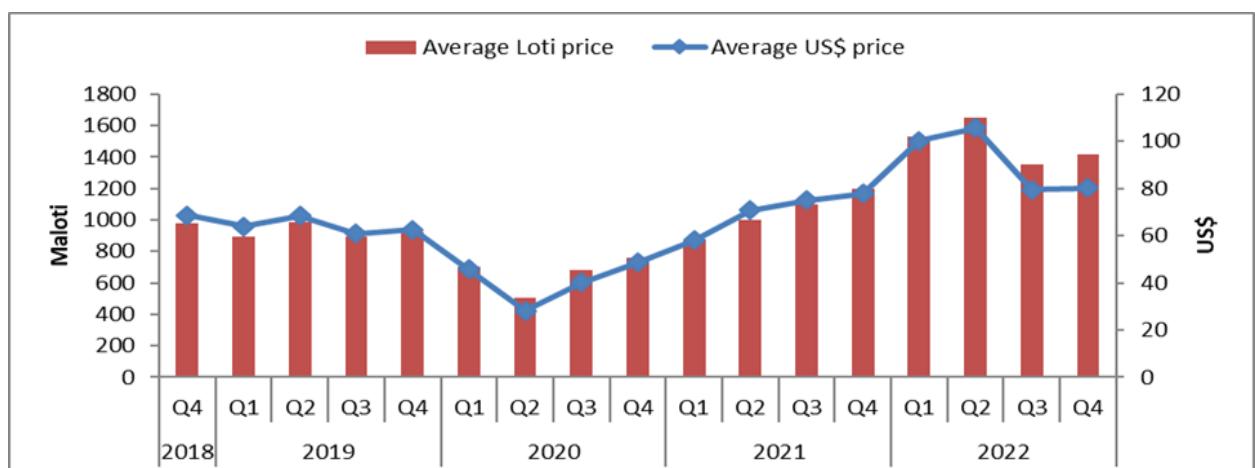
Source: Bloomberg

Energy

Oil

In dollar terms, the price of oil rose by 1.0 per cent in the last quarter of 2022, following a decline of 24.8 per cent in the previous quarter. The loti price rose by 4.5 per cent, compared with a sharp drop of 17.8 per cent a quarter earlier. The slight increase in oil prices was attributed to production cuts by the Organization of the Petroleum Exporting Countries (OPEC). This was coupled with increased optimism about easing global inflation, which would likely increase demand for fuel, and therefore, support global oil prices.

Figure 3: Average Price of Oil



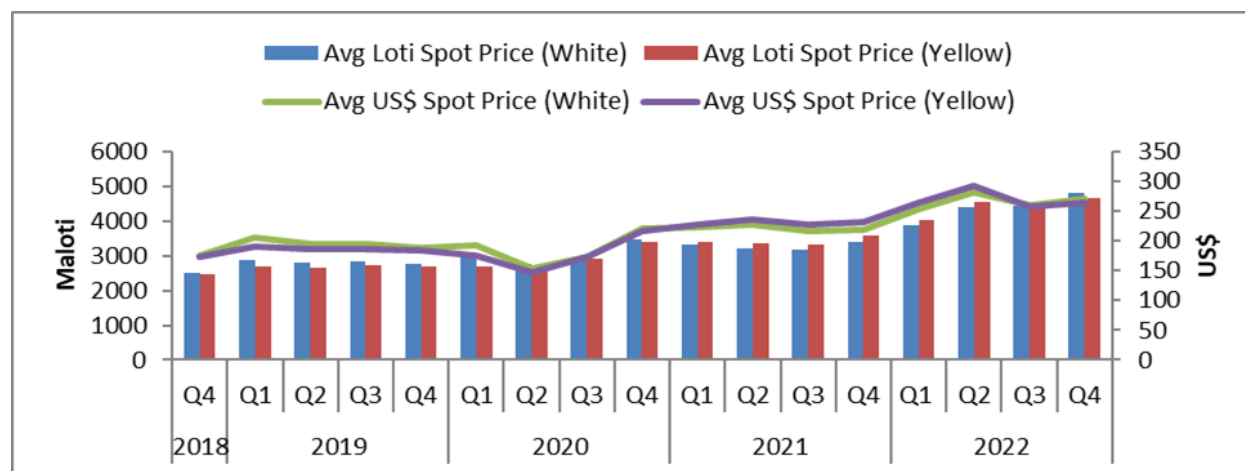
Source: Bloomberg

Agricultural Products

Maize

The dollar price of white and yellow maize rose by 6.6 per cent and 4.3 per cent, respectively, in the last quarter of 2022. This followed declines of 7.7 per cent and 11.8 per cent in the preceding quarter. The price increase was due to elevated production and demand for US ethanol-based biofuel, aimed at reducing dependency on petroleum-based fuels. This shift, in turn, drove up demand and, consequently, prices for maize, a key input in ethanol production.

Figure 4: Average Price of Maize

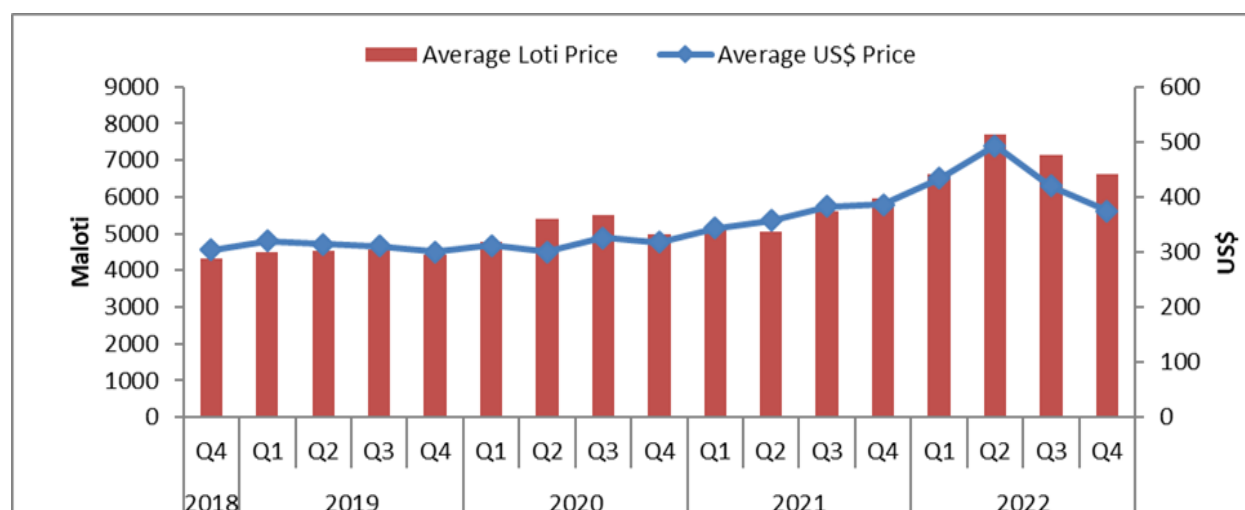


Source: Bloomberg

Wheat

The dollar price of wheat declined by 10.8 per cent, following a decline of 14.9 per cent in the third quarter. When measured in maloti terms, the price of wheat declined by 7.6 per cent, compared to a decline of 6.9 per cent in the preceding quarter. The fall in wheat prices was attributed expected increases in supplies from Russia and Ukraine and exports from the Black Sea region. Furthermore, favourable weather conditions and expanded planting areas in India, which is the world's second-largest wheat producer, contributed to lower prices.

Figure 5: Average Price of Wheat



Source: Bloomberg

EXCHANGE RATES¹

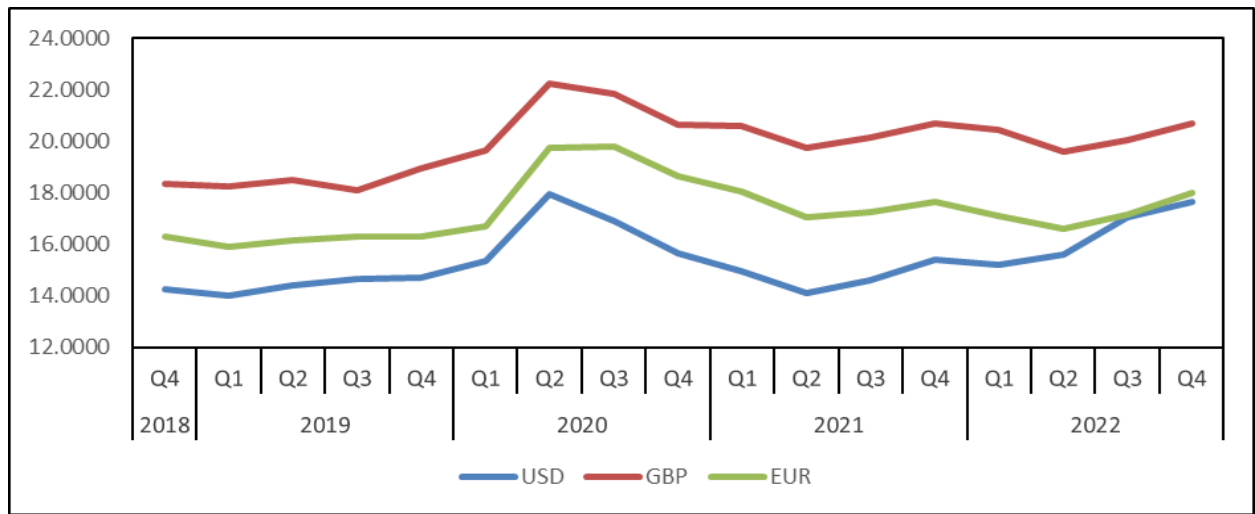
During the fourth quarter of 2022, the loti, tied to the rand, remained weak against its three major trading currencies. Compared to the previous quarter, the loti depreciated by 3.5 per cent against the dollar, 3.4 per cent against the pound, and 4.8 per cent against the euro. This followed declines of 9.4 per cent, 2.3 per cent, and 3.4 per cent, respectively, in the third quarter of 2022.

The rand's weakness stemmed primarily from domestic issues, including escalating economic risks linked to a strike by employees of a major rail, port and pipeline company. This labour action severely disrupted the country's largest commercial rail and port facilities. Adding to this was political uncertainty, notably the discussions surrounding the possible impeachment of the South African president. Prolonged power supply challenges also diminished investor confidence.

Lastly, the rand was under pressure due to hawkish comments from the US Federal Reserve, which bolstered the dollar and prompted a shift in investor preference away from emerging market currencies, such as the rand, towards the dollar.

¹ The South African rand is pegged at par to the Lesotho loti

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



Source: Bloomberg

3. Real Sector Developments²

OVERVIEW

Economic activity in Lesotho remained weak in the fourth quarter of 2022. The sluggish performance was particularly evident within the labour markets, with employment levels declining across three key categories: Lesotho National Development Corporation (LNDC) supported companies within the manufacturing sector, the Government of Lesotho (GoL), and migrant mineworkers.

Regarding price developments, there was a noticeable deceleration in inflation. This was primarily attributed to the falling international oil prices, coupled with the gradual easing of the global supply bottlenecks.

OUTPUT DEVELOPMENTS

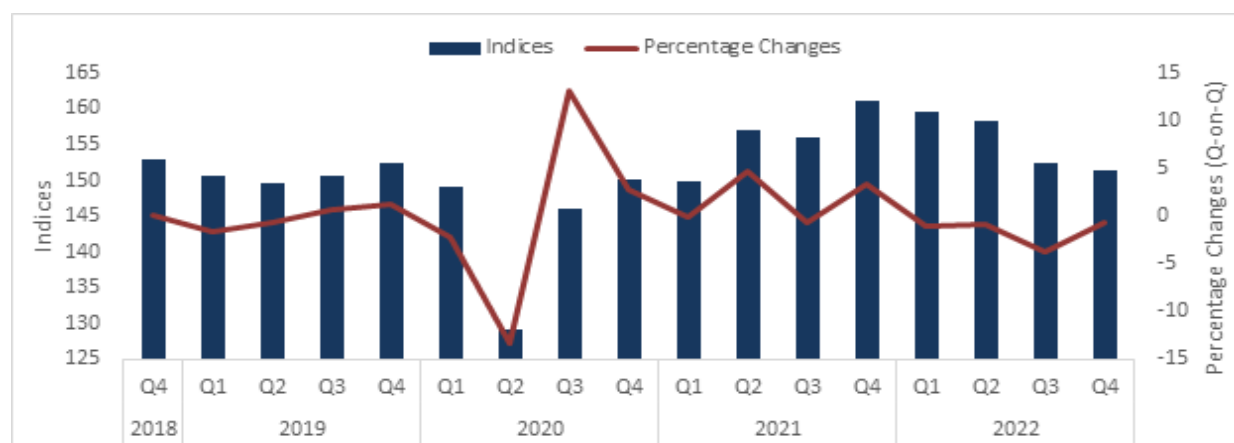
According to the Central Bank of Lesotho's Quarterly Indicator of Economic Activity (QIEA) economic activity declined in the fourth quarter of 2022, with the index retreating by 0.6 per cent. The poor performance was mainly attributable to slow activity in the production side of the economy, as well as in the construction and transport subsectors. In contrast, the domestic demand category showed signs of recovery.

The production and manufacturing category declined by 8.1 per cent, echoing the drop observed in the preceding quarter. The contraction in manufacturing was broad-based, with all variables constituting the index – utilities, exports of textiles, as well as imports of raw materials – contributing negatively. Ongoing geopolitical tensions, coupled with persistently high input prices, exacerbated the weak performance of the local textiles and clothing manufacturing sub-sector.

However, domestic demand increased by 2.9 per cent, in contrast to the 5.0 per cent decline recorded in the preceding quarter. This upturn was buoyed by retail activity, estimated through Value Added Tax (VAT), and compensation of employees by the government. The growth of the index was, however, moderated by negative contributions from government purchases of goods and services, imports, and real earnings.

² 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: Contributions to Growth

	2021		2022		
	Q4	Q1	Q2	Q3	Q4
Indices					
CIEA	161.3	159.7	158.4	152.4	151.4
Quarter-on-quarter changes	3.5	-1.0	-0.8	-3.9	-0.6
Domestic Demand	149.0	151.1	154.3	146.6	150.8
Quarter-on-quarter changes	3.6	1.4	2.1	-5.0	2.9
Manufacturing and Production Category	120.11	126.6	117.0	107.5	98.8
Quarter-on-quarter changes	10.4	5.4	-7.5	-8.1	-8.1

Source: Central Bank of Lesotho

EMPLOYMENT DEVELOPMENTS

The number of employees by LNDC-assisted companies declined by 1.7 per cent in the fourth quarter of 2022, in contrast to an increase of 4.2 per cent in the previous quarter. The woven and knit garments categories, as well as footwear contributed to the decline in employment during the review period. The external demand for exports was under pressure as both the United States and South Africa grappled with economic slowdown.

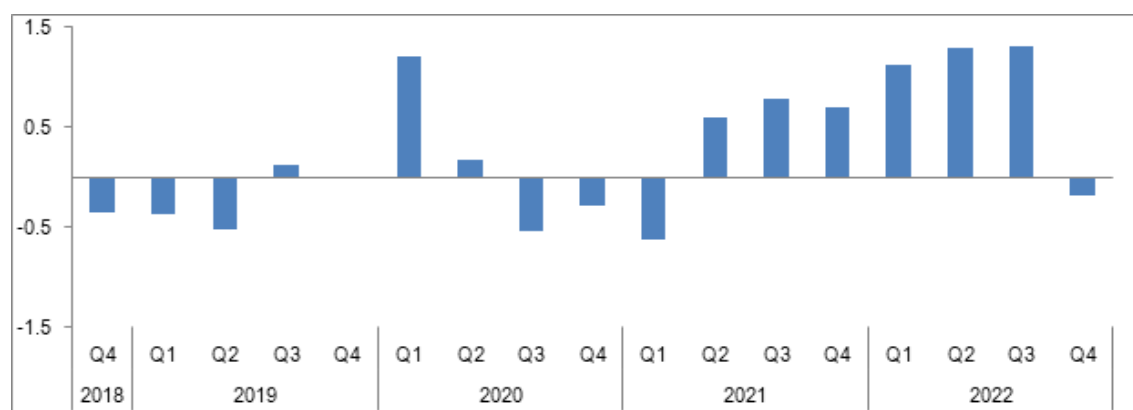
Table 3: Employment by LNDC-Assisted Companies (Thousands)

Industry	2021				2022	% Changes	
	Q4	Q1	Q2	Q3	Q4	Q/Q	Y/Y
Knit Garments.....	26127	25458	24507	25734	23779	-7.6	-9.0
Woven Garments.....	9854	10167	10038	10337	9527	-7.8	-3.3
Footwear.....	975	884	826	838	737	-12.0	-24.4
Fabrics, Yarn etc.....	362	1466	1 566	1390	1983	42.7	447.8
Construction.....	411	411	412	402	409	1.9	-0.5
Food & Beverages.....	612	618	610	571	682	19.5	11.4
Electronics.....	1015	1207	1 167	1125	1282	14.0	26.3
Retail.....	198	196	201	211	201	-4.9	1.5
Hotel Accommod.....	312	242	242	241	305	26.4	-2.2
Other.....	965	947	1428	1416	1214	-14.3	25.8
TOTAL.....	40831	41596	38938	42264	40119	-5.1	-1.7

Source: Lesotho National Development Corporation

Government employment declined by 0.2 per cent in the fourth quarter of 2022 compared to an increase of 1.3 per cent in the previous quarter. The decline was largely registered in civil servants' category and, to a lesser extent, in the number of teachers.

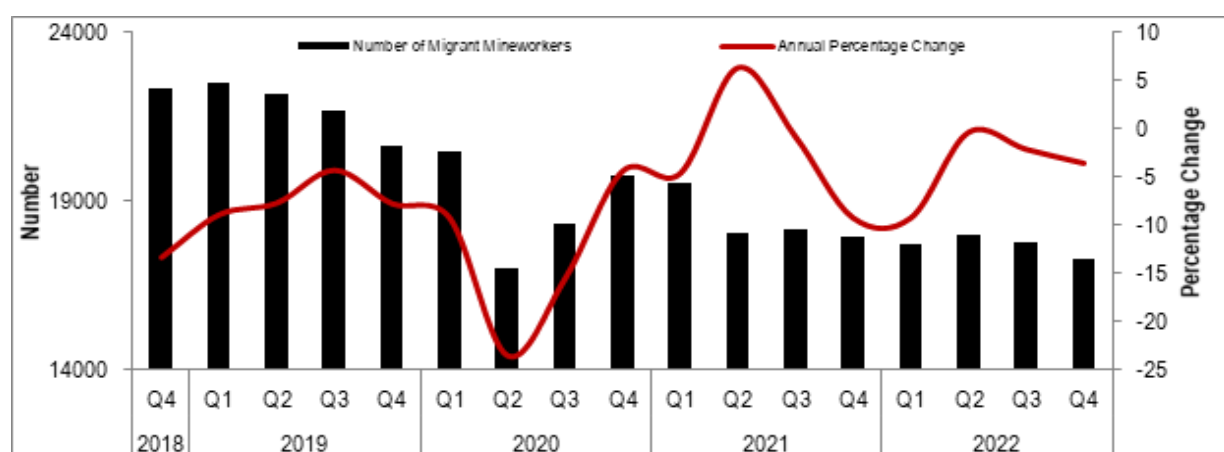
Figure 8: Government Employment (Annual Percentage Changes)



Source: Ministry of Finance

The number of migrant mine workers declined by 3.5 per cent in the fourth quarter, compared to 2.1 per cent in the third quarter. This decline was mainly attributable to laying-off of workers, as recurring load-shedding episodes negatively impacted economic activity in the mining sector. Furthermore, structural economic problems in South Africa continued to undermine the mining sector's performance. Dilapidated structures, and high replacement costs, in the mines dented prospects for employment growth in this sector. Likewise, excessively stringent regulation for the sector impact negatively on investor sentiment, thus reducing employment prospects for Lesotho's migrant mineworkers.

Figure 8: Migrant Mineworkers (Annual Percentage Changes)



Source: The Employment Bureau of Africa (TEBA)

PRICE DEVELOPMENTS

The inflation rate declined from 9.2 per cent at the end of the third quarter of 2022 to 8.0 per cent during the review quarter. The fall in inflation rate was mainly due to an improvement in international supply, coupled with a decline in global natural gas prices. The latter resulted from increased supply from alternative sources of energy, reduced demand and well-stocked gas storages. Furthermore, falling inflationary pressures were supported by easing clothing prices, as retailers continued to offer discounts on sales to customers.

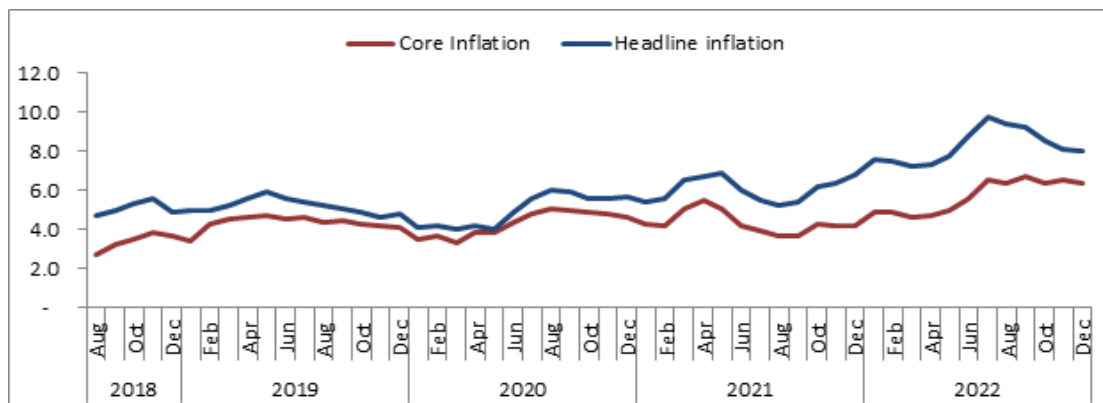
Table 4: Inflation Rate (Annual Percentage Changes)

	Weight	2022				
		Aug	Sep	Oct	Nov	Dec
All items	1000	9.4	9.2	8.5	8.1	8.0
Food and non-alcoholic beverages	361	10.2	10.2	10.0	9.9	10.3
Alcoholic beverages & Tobacco	33	4.4	4.7	5.0	5.1	5.0
Clothing & footwear	131	9.1	8.7	7.5	7.5	6.2
Housing, water, electricity, gas & other fuels	124	16.8	14.5	12.8	11.2	9.9
Furniture, households equipment & routine maintenance	85	5.9	6.1	6.0	5.5	5.5
Health	15	1.5	1.5	1.4	1.4	1.3
Transport	48	22.6	23.1	17.1	15.2	16.5
Communications	21	0.8	0.8	0.8	0.8	0.8
Recreation & Culture	57	0.6	0.9	0.4	0.0	0.0
Education	42	5.7	5.7	5.7	5.7	5.7
Restaurant & Hotels	10	6.4	6.3	6.4	6.2	6.2
Miscellaneous goods & services	73	1.6	1.7	1.9	1.9	2.3

Source: Bureau of Statistics

The underlying inflationary pressures, as indicated by core inflation, eased during the review period. The core inflation rate declined from 6.7 per cent in September 2022 to 6.4 per cent in December 2022. This reduction was mainly a reflection of subdued demand, as persistently high inflation diminished real disposable incomes, thereby negatively affecting firms' investment decisions.

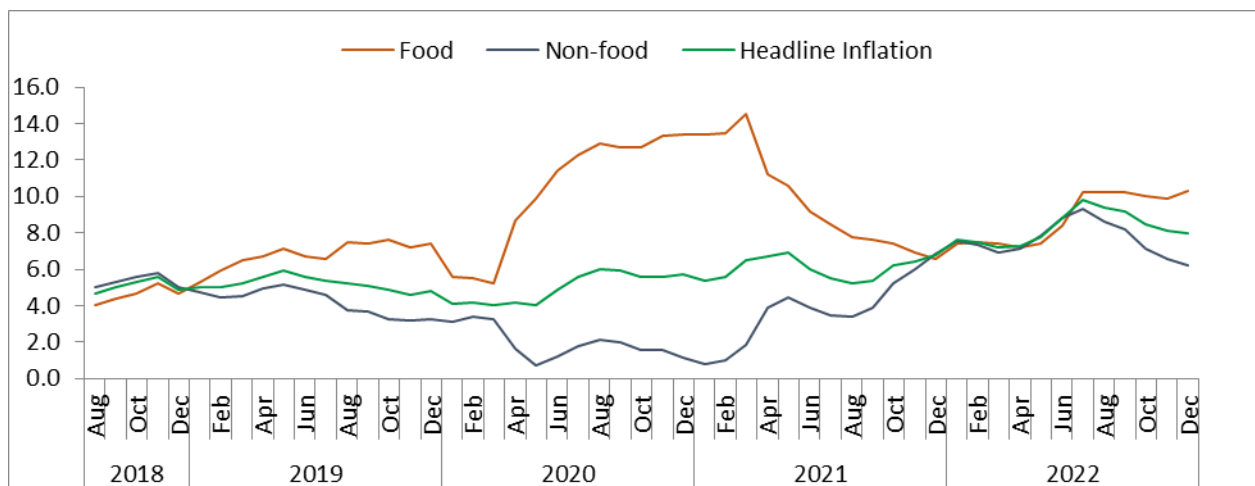
Figure 9: Core vs Headline Inflation (Annual Percentage Changes)



Source: CBL Computations

In terms of the major components of the CPI basket, food inflation maintained a steady upward trend, while non-food inflation showed a downward trend. Food inflation increased to 10.3 per cent in December 2022, up from 10.2 per cent in September 2022. The stickiness in food inflation was mainly due to currency depreciation, which outweighed the decrease in international food prices. Non-food inflation, on the other hand, declined by 2.0 percentage points to 6.2 per cent. The primary driver of the decrease in non-food inflation was the weakening international crude oil price, moderated by a weaker exchange rate during the review period.

Figure 10: Food vs Non-food Inflation (Annual Percentage Changes)



Source: BoS and CBL Computations

4. Monetary and Financial Developments

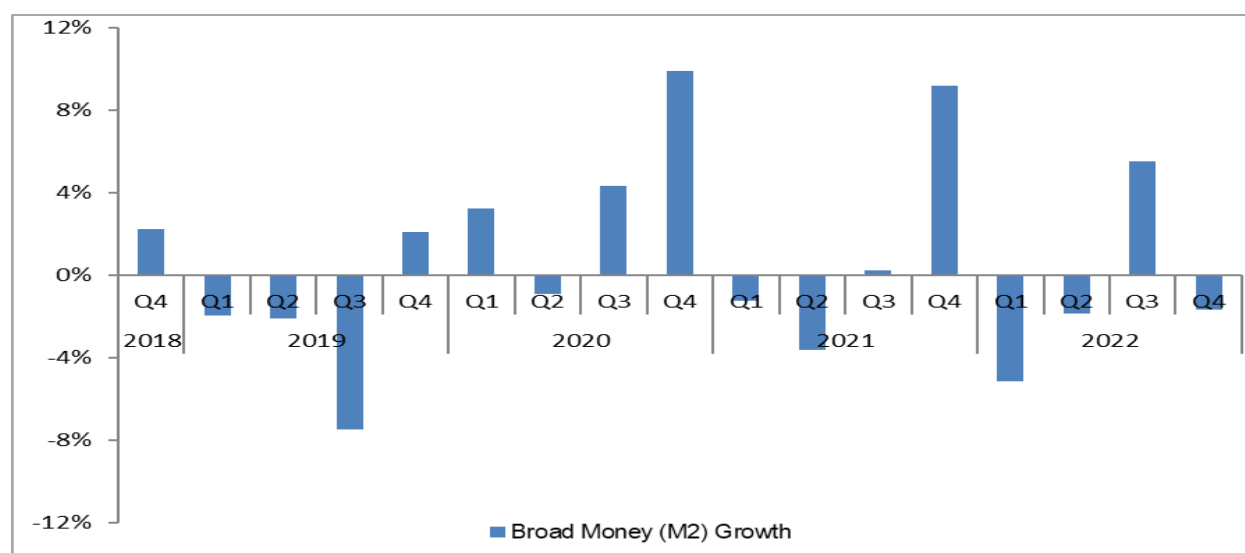
OVERVIEW

The broad measure of money supply (M2) declined during the fourth quarter, primarily because of a fall in net foreign assets. However, an increase in net domestic claims moderated the decrease in the broad money supply. Credit to the private sector also declined, underpinned by a reduction in loans and advances to business enterprises. Meanwhile, all short-term rates rose along with the Central Bank of Lesotho's policy rate.

BROAD MONEY

M2 fell by 1.7 per cent in the fourth quarter of 2022, in contrast to a 5.5 per cent increase in the preceding quarter. This decline was attributed to a fall in net foreign assets, which was, however, moderated by an increase in net domestic claims. On a year-on-year basis, M2 grew by 1.5 per cent in nominal terms but fell by 6.5 per cent in real terms.

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



Source: Central Bank of Lesotho

Determinants of M2

Domestic Claims

Domestic claims marginally rose by 0.7 per cent, following an improvement of 12.0 per cent recorded in September 2022. The observed growth in domestic claims largely benefitted from a 12.1 per cent increase in central bank's net claims on the government, which emanated from increased government spending.

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

	2021		2022			Changes (%)	
	Q4	Q1	Q2	Q3	Q4	Quarterly	Annual
Domestic Claims	5 636.75	5 321.91	5 982.48	6 610.19	6 658.18	0.7	18.1
Net Claims on Government	(2 955.72)	(2 852.82)	(2 443.40)	(2 124.12)	(2 058.09)	3.1	30.4
Commercial Banks Net Claims	535.75	749.49	409.85	1 007.88	696.35	-30.9	30.0
Claims on Central Government	2 405.61	2 524.75	2 403.51	3 018.06	2 675.85	-11.3	11.2
Liabilities to Central Government	1 869.86	1 775.27	1 993.66	2 010.18	1 979.51	-1.5	5.9
Central Bank Net Claims	(3 491.47)	(3 602.31)	(2 853.25)	(3 132.00)	(2 754.44)	12.1	21.1
Claims on Central Government	139.33	139.33	98.39	72.59	49.29	-32.1	-64.6
Liabilities to Central Government	3 630.80	3 741.64	2 951.64	3 204.59	2 803.73	-12.5	-22.8
Claims on Other Sectors	8 592.47	8 174.73	8 425.87	8 734.31	8 716.27	-0.2	1.4
Claims on OFCs	144.12	162.17	248.74	296.09	301.40	1.8	109.1
Claims on Public Nonfinancial Corporations	60.21	51.48	53.08	60.85	58.05	-4.6	-3.6
Claims on St & Local Government	-	-	-	-	-	-	-
Claims on Private Sector	8 388.14	7 961.08	8 124.05	8 377.37	8 356.83	-0.2	-0.4
Claims on Business Enterprises	2 072.61	2 068.10	2 136.76	2 237.28	2 209.92	-1.2	6.6
Claims on Households	6 315.53	5 892.99	5 987.30	6 140.09	6 146.91	0.1	-2.7

Source: Central Bank of Lesotho

Net Foreign Assets

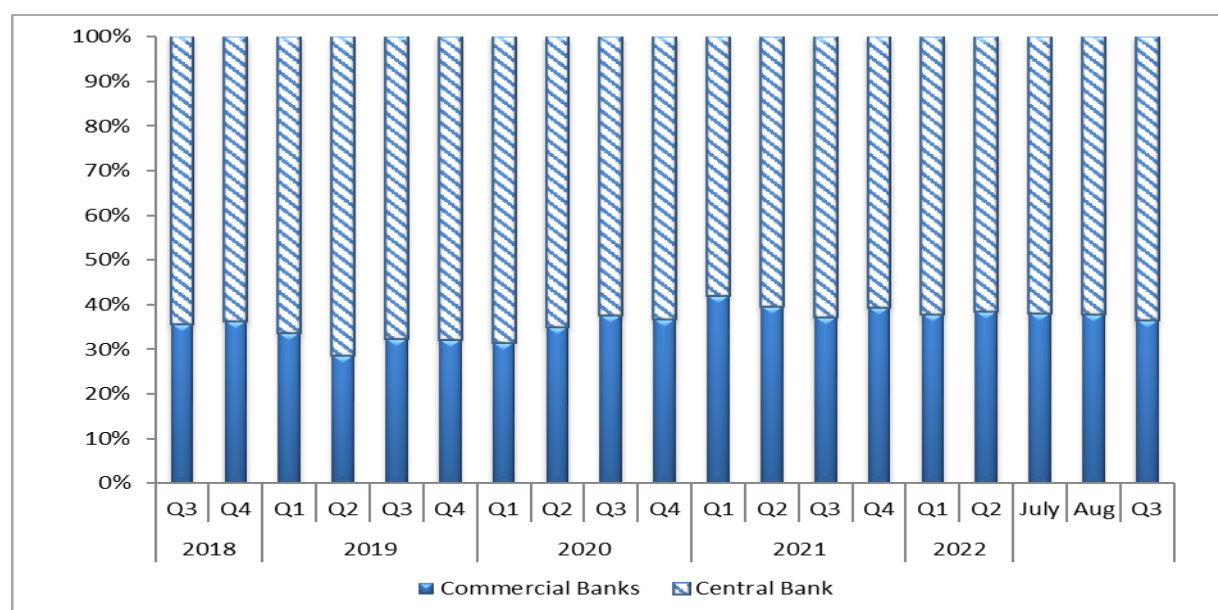
The overall net foreign assets (NFA) contracted by 3.5 per cent in December 2022, down from a growth of 2.1 per cent recorded in the previous quarter. This contraction reflected reductions of 1.1 per cent in the Central Bank of Lesotho's NFA and 7.7 per cent in the commercial banks' NFA. The decrease in CBL's NFA was largely attributable to government withdrawals to meet financial obligations. Conversely, the fall in commercial banks' NFA resulted from significant withdrawals from foreign placements to satisfy clients' foreign financial obligations, coupled with anticipated high domestic cash demand during the festive season.

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

	2021		2022			Changes (%)	
	Q4	Q1	Q2	Q3	Q4	Quarterly	Annual
Commercial Banks	6 965.49	6 262.67	6 165.51	6 006.86	5 545.60	-7.7	-20.4
Claims on Non-residents	7 451.12	6 605.03	6 468.28	6 528.25	5 877.44	-10.0	-21.1
Liabilities to Non-residents	485.62	342.36	302.78	521.40	331.84	-36.4	-31.7
Central Bank	10 671.12	10 319.22	9 845.63	10 432.19	10 315.37	-1.1	-3.3
Claims on Non-residents	13 674.28	13 165.69	12 735.98	13 214.19	12 989.01	-1.7	-5.0
Liabilities to Non-residents	3 003.16	2 846.47	2 890.35	2 782.00	2 673.64	-3.9	-11.0
Net Foreign Assets Total	17 636.61	16 581.89	16 011.13	16 439.05	15 860.98	-3.5	-10.1

Source: Central Bank of Lesotho

Figure 12: Net Foreign Assets (Percentage shares)



Source: Central Bank of Lesotho

Components of M2

In terms of its components, the fall in M2 was mainly attributable to a decline of 5.5 per cent in quasi-money. This was, however, partially counteracted by a 2.8 per cent growth in narrow money. The decline in quasi-money reflected the private sector's withdrawals from savings and fixed-term deposits to meet financial obligations. In contrast, the increase in M1 was mainly driven by a growth of 6.9 per cent in transferable deposits held by business enterprises.

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

	2021		2022			Changes (%)	
	Q4	Q1	Q2	Q3	Q4	Quarterly	Annual
Broad Money (M2)	14 842.37	14 076.89	13 815.35	14 580.08	14 335.89	-1.7	-3.4
Narrow Money (M1)	7 121.42	6 639.66	6 303.45	6 667.51	6 857.45	2.8	-3.7
Currency Outside DCs	1 356.57	1 207.36	1 131.34	1 256.94	1 214.71	-3.4	-10.5
Transferable Deposits	5 764.85	5 432.30	5 172.10	5 410.56	5 642.74	4.3	-2.1
Quasi Money	7 720.95	7 437.22	7 511.90	7 912.57	7 478.44	-5.5	-3.1
Other Deposits Commercial Banks	7 718.34	7 435.07	7 509.74	7 911.08	7 477.12	-5.5	-3.1
Other Deposits Central Bank	2.61	2.16	2.16	1.49	1.32	-11.1	-49.3

Source: Central Bank of Lesotho

CREDIT EXTENSION

Private sector credit dropped by 0.2 per cent in December 2022, following a 4.2 per cent growth in September 2022. This drop was a reflection of loan repayments by business enterprises, which were, however, moderated by an increase in loans held by the household sector. On an annual basis, private sector credit fell by 0.4 per cent in nominal terms and 8.4 per cent in real terms.

Trends in Credit Extended to Business Enterprises

The total loans and advances granted to the business sector declined by 1.2 per cent, in contrast to growth of 8.1 per cent in September 2022. The decline in loans to business enterprises was indicative of repayments by the construction and mining sectors. Year-on-year, the overall credit to business enterprises rose by 6.6 per cent.

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

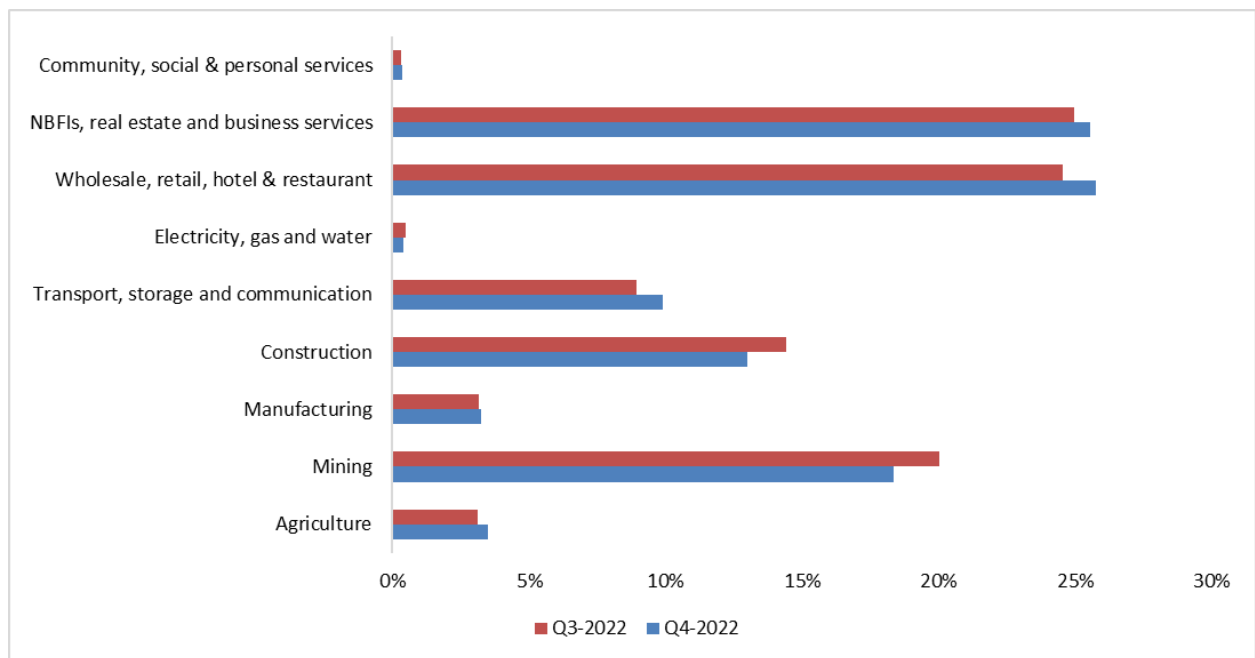
SECTOR	2021		2022			Changes (%)	
	Q4	Q1	Q2	Q3	Q4	Quarterly	Annual
Agriculture	90.83	77.02	68.49	69.67	76.94	10.4	-15.3
Mining	284.68	288.95	466.59	448.38	405.54	-9.6	42.5
Manufacturing	48.90	66.27	66.76	70.49	71.56	1.5	46.4
Electricity, gas and water	5.45	7.34	7.77	10.72	8.54	-20.3	56.6
Construction	311.53	304.38	315.55	322.49	287.08	-11.0	-7.8
Wholesale, Retail, Hotel & Restaurant	412.37	400.40	483.95	549.54	568.99	3.5	38.0
Transport, Storage and Communication	436.98	415.33	190.33	199.92	219.11	9.6	-49.9
NBFIs, Real Estate and Business Services	470.06	500.89	529.49	558.62	564.43	1.0	20.1
Community, Social & Personal Service	11.81	7.52	7.82	7.44	7.74	4.0	-34.5
All Sectors	2 072.61	2 068.10	2 136.76	2 237.28	2 209.92	-1.2	6.6

Source: Central Bank of Lesotho

Distribution of credit Extended to Business Enterprises

In terms of distribution across the sectors, the largest proportion of credit to business enterprises (25.7 per cent) was allocated to the wholesale, retail, hotel, and restaurant sector. This was closely followed by non-bank financial institutions, real estate, and business services, with a share of 25.5 per cent. In contrast, the smallest share of credit, 0.3 per cent, was allocated to the community, social, and personal service sector. Overall, credit allocated to sectors identified by the National Strategic Development Plan (NSDP) II as having potential for growth and job creation stood at 67.9 per cent.

Figure 13: Distribution of Credit (Percentage Shares)

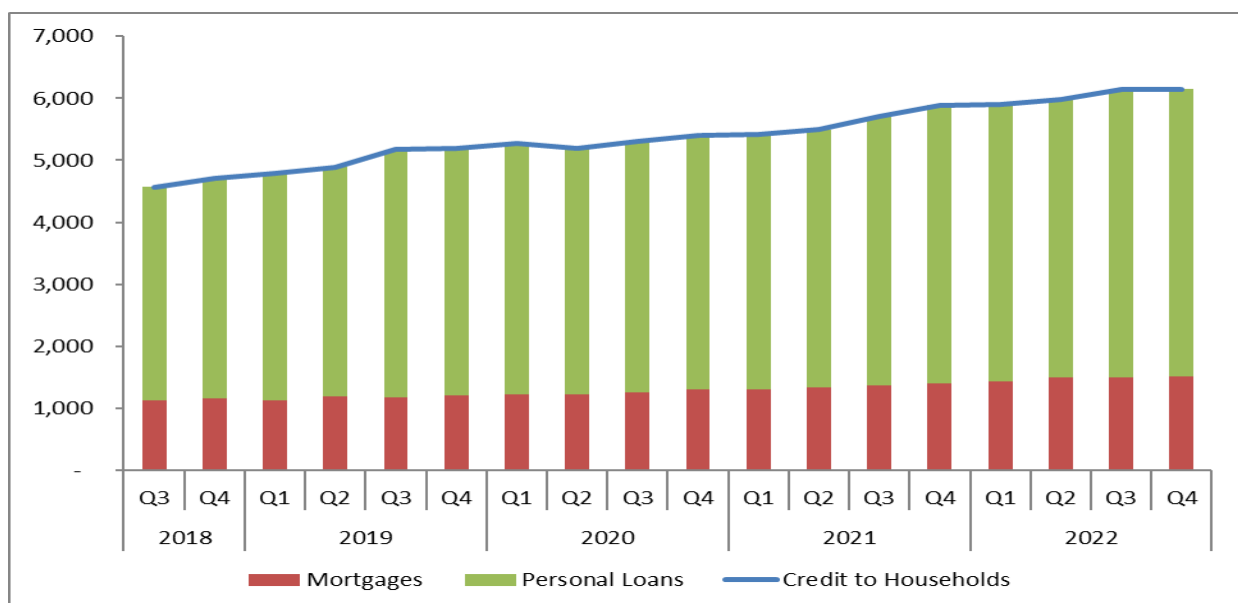


Source: Central Bank of Lesotho

Credit extended to Households

Credit extended to the household sector remained relatively unchanged in the fourth quarter of 2022, following a growth of 2.9 per cent in the quarter that ended in September 2022. The increase of 2.0 per cent in mortgage loans was offset by a 0.5 per cent decline in personal loans. The growth in mortgage loans was driven by increased demand, while the reduction in personal loans resulted from repayments made during the quarter. On an annual basis, credit to the household sector declined by 2.7 per cent.

Figure 14: Credit Extension to Household (Million Maloti)



Source: Central Bank of Lesotho

LIQUIDITY OF COMMERCIAL BANKS

Components of liquidity

The credit to deposits ratio rose to 54.5 per cent in the fourth quarter, up from 53.3 per cent observed in the third quarter of 2022. This increase resulted from a reduction in total deposits, while private sector credit remained relatively unchanged. Meanwhile, the liquidity ratio declined by 0.9 percentage points, closing the year at 40.5 per cent. This decline was driven mainly by a fall in net balances due from banks in South Africa, coupled with a decrease in holdings of government securities.

Table 9: Components of Liquidity (Million Maloti)

	2021		2022		
	Q4	Q1	Q2	Q3	Q4
Credit to Deposit Ratio	50.9%	53.4%	54.5%	53.3%	54.5%
Private Sector Credit	7 849.43	7 847.67	8 012.89	8 203.00	8 248.52
Total Deposits	15 421.30	14 705.48	14 712.15	15 380.33	15 143.55
Liquidity Ratio	43.8%	44.0%	44.2%	41.4%	40.5%
Notes and Coins	734.29	551.10	553.98	583.36	916.06
Net Balance due from banks in Lesotho	(4.18)	(5.20)	(0.05)	(3.42)	(5.43)
Net Balance due from banks in SA	3 554.91	3 394.62	3 586.15	2 820.94	2 386.07
Surplus funds	71.27	0.93	(36.82)	(47.18)	163.07
Government Securities	2 405.61	2 524.75	2 403.51	3 018.06	2 675.85
Total	6 761.90	6 466.21	6 506.78	6 371.77	6 135.63

Source: Central Bank of Lesotho

Commercial Banks Sources of Funds

The total deposit liabilities of the commercial banks declined by 1.5 per cent in the fourth quarter, in contrast to an increase of 4.5 per cent registered in the previous quarter. This decline was attributed to a decrease in fixed-term deposits held by non-bank financial institutions and manufacturing sub-sectors, as well as a fall in savings deposits held by the household sector. Government deposits held with commercial banks also declined as the execution of government projects gained momentum. On an annual basis, total deposits fell by 1.8 per cent.

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

	2021		2022			Changes (%)	
	Q4	Q1	Q2	Q3	Q4	Quarterly	Annual
Transferable Deposits Incl. in BM	5 764.85	5 432.30	5 172.10	5 410.56	5 642.74	4.3	-2.1
Other Financial Corporations	84.52	26.72	35.81	19.34	18.68	-3.4	-77.9
Public Nonfinancial Corporations	67.10	25.86	38.09	30.35	35.55	17.1	-47.0
Private Sector	5 580.45	5 375.72	5 053.24	5 305.39	5 549.08	4.6	-0.6
Other NFCs	3 852.96	3 616.10	3 373.51	3 613.22	3 862.82	6.9	0.3
Other Sectors (Households)	1 727.49	1 759.62	1 679.73	1 692.17	1 686.27	-0.3	-2.4
Other Deposits Incl. in BM	7 718.34	7 435.07	7 509.74	7 911.08	7 477.12	-5.5	-3.1
Other Financial Corporations	89.59	273.57	258.62	301.90	374.48	24.0	318.0
Public Nonfinancial Corporations	191.05	260.27	373.76	400.01	142.83	-64.3	-25.2
Private Sector	7 437.70	6 901.23	6 877.36	7 209.17	6 959.81	-3.5	-6.4
Other NFCs	4 943.74	4 302.03	4 276.71	4 454.51	4 284.57	-3.8	-13.3
Other Sectors (Households)	2 493.95	2 599.19	2 600.65	2 754.65	2 675.23	-2.9	7.3
Deposits excluded in BM	1 938.11	1 838.11	2 030.31	2 058.69	2 023.69	-1.7	4.4
Total Deposits	15 421.30	14 705.48	14 712.15	15 380.33	15 143.55	-1.5	-1.8

Source: Central Bank of Lesotho

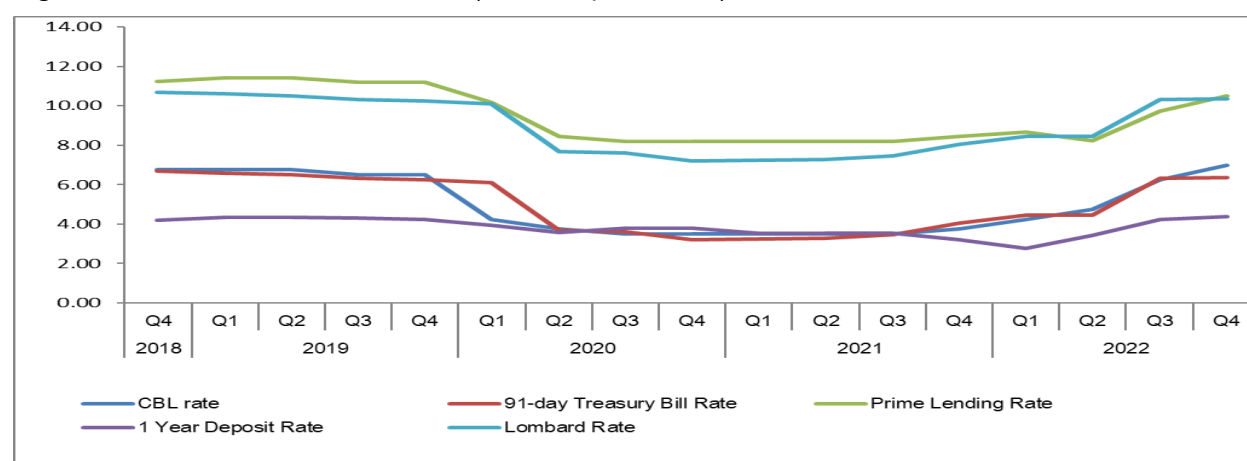
MONEY AND CAPITAL MARKET DEVELOPMENTS

Money Market

Interest Rates

The Central Bank of Lesotho's key policy rate maintained an upward trajectory, rising by 75 basis points to 7.00 per cent in the fourth quarter of 2022. As a result, the prime lending rate also rose by the same magnitude to 10.50 per cent. Similarly, the 91-day Treasury bill rate rose marginally from 6.34 per cent in September to 6.36 per cent in December 2022, remaining within the desired range of +/- 200 basis points relative to the South African counterpart rate. The one-year deposit rate rose by 23 basis points to 4.47 per cent.

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



Source: Central Bank of Lesotho

Table 11: Interest rates

	2021		2022		
	Q4	Q1	Q2	Q3	Q4
Central Bank					
CBL rate	3.75	4.25	4.75	6.25	7.00
T-Bill Rate - 91 days	4.06	4.45	4.45	6.34	6.36
Lombard Rate	8.06	8.45	8.45	10.34	10.36
Commercial Banks					
Call	1.05	1.01	1.37	1.87	2.09
Time:					
31 days	0.67	0.48	0.48	1.20	1.33
88 days	1.64	1.24	1.47	2.18	2.33
6 months	3.18	2.65	2.97	3.49	3.75
1 year	3.20	2.75	3.41	4.24	4.47
Savings	0.70	0.65	1.13	1.37	1.48
Prime	8.44	8.69	8.25	9.75	10.50
South Africa					
Repo	3.75	4.25	4.75	6.25	7.00
T-Bill Rate - 91 days	3.83	4.31	5.11	6.20	6.56
Prime	7.25	7.75	8.25	9.75	10.50

Source: Central Bank of Lesotho

Holding of Treasury Bills

The overall holding of Treasury bills (T-bills) declined by 18.5 per cent during the review period, following a substantial increase of 50.5 per cent in the third quarter of 2022. This was due to a maturity of T-bills amounting to M359.80. This maturity led to a reduction in the banking sector's stake, which fell from 90.1 per cent in September 2022 to 86.5 per cent of the total T-bills issued. In contrast, the non-banking sector's holding increased by 11.7 per cent, primarily driven by households.

Table 12: Holding of Bills (Million Maloti)

	2021		2022		
	Q4	Q1	Q2	Q3	Q4
Treasury Bills	1 462.79	1 458.40	1 301.54	1 959.12	1 596.49
Banking System	1 266.77	1 278.59	1 117.11	1 765.77	1 380.44
Non-Bank Sector	196.02	179.81	184.43	193.35	216.05

Source: Central Bank of Lesotho

Holding of Treasury Bonds

The overall holding of treasury bonds grew by 2.1 per cent, commensurate with the bond auction held during the review quarter. The banking sector's holdings of treasury bonds increased by 1.1 per cent, while the non-banking sector's holding grew by 2.7 per cent. The share of the banking sector to the total stock of bonds stood at 36.3 per cent, compared with 63.7 per cent of the non-banking sector.

Table 13: Holding of Bonds (Million Maloti)

	2021		2022		
	Q4	Q1	Q2	Q3	Q4
Holding of Treasury Bonds	2 786.32	3 136.31	3 336.31	3 450.42	3 523.39
Banking System	1 118.18	1 223.09	1 262.57	1 264.07	1 278.13
Non-Bank Sector	1 668.13	1 913.22	2 073.74	2 186.34	2 245.26

Source: Central Bank of Lesotho

5. Government Finance

OVERVIEW

Budgetary operations for the quarter under review yielded a fiscal surplus equivalent to 4.6 per cent of GDP. This represents a notable reversal from the revised fiscal deficit of 5.4 per cent of GDP in the preceding quarter. The turnaround from deficit to surplus was largely driven by a considerable decrease in total expenditure, including both recurrent and capital outlays. Meanwhile, the stock of public debt closed the quarter at 59.9 per cent of GDP, compared with a revised 60.3 per cent of GDP in the previous quarter.

Figure 16: Fiscal Balance (Percent of GDP)



Source: Central Bank of Lesotho and Ministry of Finance

REVENUE³

Total revenue decreased by 2.8 per cent during the review period, in contrast with a 5.6 per cent increase in September 2022. The downturn in revenue was mainly attributable to reductions in both income tax and value added tax (VAT). However, these declines were partially offset by increases in mining and water royalties. On year-on-year basis, total revenue declined by 3.4 per cent, as opposed to the 5.5 per cent increase observed in the preceding quarter.

TOTAL EXPENDITURE

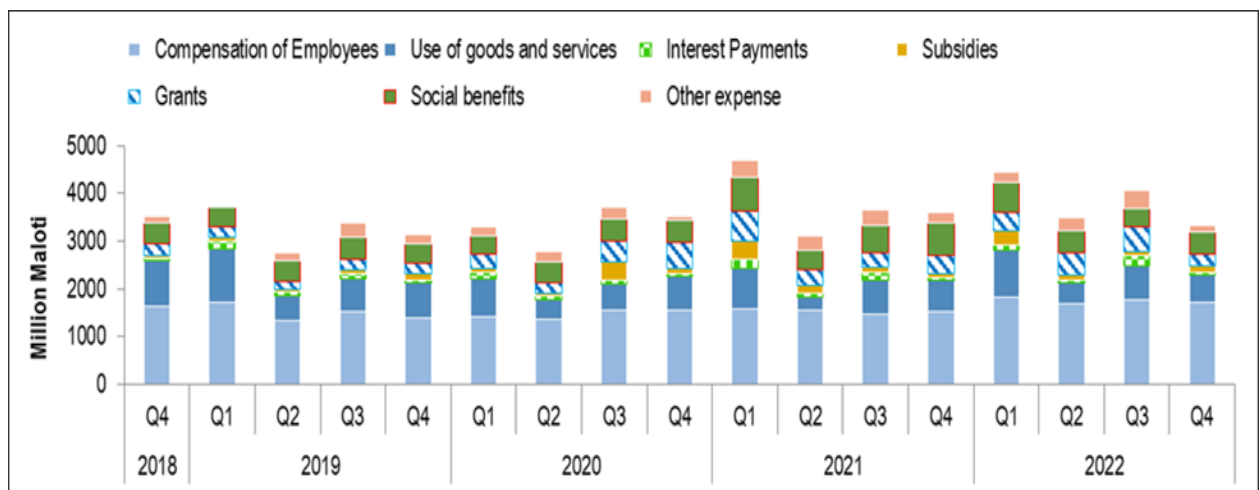
Total spending, during the quarter under review, declined by 23.3 per cent, in contrast to a revised increase of 1.3 per cent in the previous quarter. This fall was reflected in both recurrent and

³ 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.

development expenditures. Regarding the annual changes, total spending declined by 13.2 per cent, compared to 1.9 per cent in the previous quarter.

In terms of functional classifications, recurrent spending decreased by 17.0 per cent in December 2022, relative to a rise of 12.5 in the previous quarter. Capital outlays, on the contrary, increased marginally by 1.3 per cent, compared to a fall of 8.8 per cent in the previous quarter. The main contributors were economic affairs and general public services. On an annual basis, the total outlays declined by 2.8 per cent.

Figure 17: Total Expense (Million Maloti)



Source: Central Bank of Lesotho and Ministry of Finance

Table 14: Statement of Government Operations (Million Maloti)

	2021	2022				Q-to-Q (%)	Y-on-Y (%)	GDP ratio (%)
	Q4	Q1	Q2	Q3	Q4			
Total Revenue	4 154.56	4 448.76	3 910.85	4 128.97	4 011.88	-2.8	-3.4	42.3
Tax revenue	3 152.61	3 320.67	3 072.51	3 313.30	2 960.94	-10.6	-6.1	31.2
Income Tax	1 047.44	1 167.03	993.23	1 168.44	863.15	-26.1	-17.6	9.1
Value Added Tax	789.37	841.02	840.33	950.59	901.77	-5.1	14.2	9.5
SACU Receipts	1 175.05	1 175.05	1 056.09	1 056.09	1 056.09	0.0	-10.1	11.1
Components	75.05	1 175.05	1 056.09	1 056.09	1 056.09	0.0	-10.1	11.1
Other tax revenue	140.76	137.56	182.87	138.19	139.94	1.3	-0.6	1.5
Grants	331.55	565.31	295.46	293.80	293.80	0.0	-11.4	3.1
o/w SACU Receipts								
Component	326.89	326.89	293.80	293.80	293.80	0.0	-10.1	3.1
Other revenue	670.39	562.78	542.88	521.87	757.14	45.1	12.9	8.0
Total Expense	3 593.97	4 452.16	3 477.32	4 068.98	3 325.16	-18.3	-7.5	35.0
Compensation of Employees	1 531.67	1 825.97	1 676.85	1 765.41	1 705.37	-3.4	11.3	18.0
Use of goods and services	634.54	974.60	438.80	720.16	583.90	-18.9	-8.0	6.1
O/W Purchase of Health Services	188.06	134.18	199.01	108.01	123.39	14.2	-34.4	1.3
Interest Payments	71.18	118.54	51.95	203.37	64.84	-68.1	-8.9	0.7
Subsidies	87.06	301.80	131.11	98.09	124.23	26.7	42.7	1.3
Grants	379.57	382.63	458.45	524.22	254.66	-51.4	-32.9	2.7
Social benefits	676.87	629.12	460.08	371.13	443.58	19.5	-34.5	4.7
Other expense	213.08	219.50	260.08	386.60	148.57	-61.6	-30.3	1.6
Gross Operating Balance	560.58	-3.40	433.53	59.99	686.72	-	-	7.2
Total Nonfinancial Assets	524.83	1 330.67	431.80	591.94	250.72	-57.6	-52.2	2.6
Fixed Assets	524.83	1 330.67	431.80	591.94	250.72	-57.6	-52.2	2.6
Non-Produced Assets	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Total Expenditure	4 118.81	5 782.83	3 909.12	4 660.92	3 575.88	-23.3	-13.2	37.7
Primary balance	106.93	(1 215.53)	53.68	(328.58)	500.84	-	-	5.3
Net lending/borrowing	35.75	(1 334.07)	1.73	(531.95)	436.00	-	-	4.6
Financing	249.50	(1 350.60)	0.48	(629.74)	470.82	-	-	5.0
Net Acquisition of Financial assets	268.76	(108.00)	(610.53)	374.96	(335.23)	-	-	-3.5
O/W Domestic Currency and Deposits	(21.04)	26.97	(640.01)	387.10	(402.82)	-	-	-4.2
Net Incurrence of Liabilities	19.27	1 242.60	(611.01)	1 004.70	(806.05)	-	-	-8.5
O/W Domestic Other								
Accounts Payable	(274.80)	750.23	(541.93)	129.47	(465.10)	-	-	-4.9
Statistical Discrepancy	(213.74)	16.53	1.26	97.79	(34.82)	-	-	-0.4
Memo Items								
SACU receipts	1 501.94	1 501.94	1 349.88	1 349.88	1 349.88	0.0	-10.1	14.2
GDP	9 473.90	9 069.99	9 220.26	9 789.52	9 495.09 ⁴	-	-	-

Source: Central Bank of Lesotho and Ministry of Finance

⁴ GDP Forecast

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

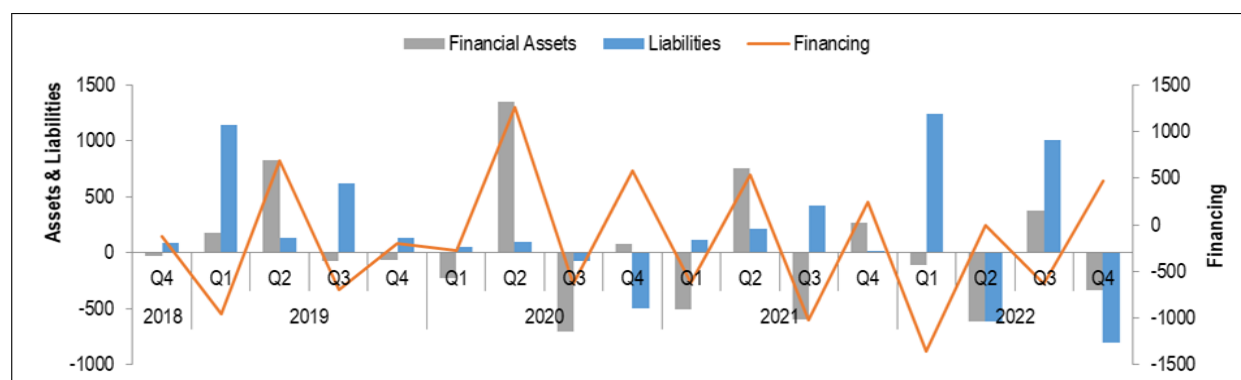
	2021	2022				Q-to-Q (%)	Y-on-Y (%)	GDP ratio (%)
	Q4	Q1	Q2	Q3	Q4			
Current Outlays	3 316.95	4 980.49	3 513.74	3 953.94	3 282.17	-17.0	-1.0	34.6
General public services	456.20	912.02	647.89	747.41	523.22	-30.0	14.7	5.5
Defense	152.25	206.05	159.71	220.24	159.78	-27.5	4.9	1.7
Public order and safety	326.94	380.79	426.18	431.09	432.91	0.4	32.4	4.6
Economic affairs	494.46	1 130.59	497.93	718.80	467.28	-35.0	-5.5	4.9
Environmental protection	3.47	4.01	5.48	3.70	2.18	-41.0	-37.1	0.0
Housing and community amenities	66.43	28.11	42.98	97.30	52.55	-46.0	-20.9	0.6
Health	470.56	880.93	421.04	482.74	486.65	0.8	3.4	5.1
Recreation, culture and religion	138.36	136.28	28.65	26.99	21.63	-19.9	-84.4	0.2
Education	659.92	623.21	654.73	636.53	625.87	-1.7	-5.2	6.6
Social protection	548.38	678.51	629.16	589.16	510.11	-13.4	-7.0	5.4
Capital Outlays	315.95	439.60	267.93	244.24	247.48	1.3	-21.7	2.6
General public services	59.47	138.11	28.87	43.32	109.32	152.4	83.8	1.2
Public order and safety	96.17	45.75	0.00	6.00	5.79	-3.5	-94.0	0.1
Economic affairs	114.80	142.78	174.04	98.15	105.66	7.6	-8.0	1.1
Environmental protection	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Housing and community amenities	23.58	96.12	54.62	60.50	21.42	-64.6	-9.1	0.2
Health	21.36	2.76	4.72	6.25	1.87	-70.1	-91.3	0.0
Recreation, culture and religion	0.38	10.54	5.68	29.67	3.42	-88.5	-	0.0
Education	0.20	3.53	0.00	0.35	0.00	-100.0	-100.0	0.0
Total Outlays	3 632.91	5 420.09	3 781.67	4 198.19	3 529.65	-15.9	-2.8	37.2
General public services	515.67	1 050.12	676.75	790.73	632.54	-20.0	22.7	6.7
Defense	152.25	206.05	159.71	220.24	159.78	-27.5	4.9	1.7
Public order and safety	423.11	426.54	426.18	437.08	438.69	0.4	3.7	4.6
Economic affairs	609.25	1 273.37	671.97	816.96	572.94	-29.9	-6.0	6.0
Environmental protection	3.47	4.01	5.48	3.70	2.18	-41.0	-37.1	0.0
Housing and community amenities	90.01	124.23	97.60	157.80	73.98	-53.1	-17.8	0.8
Health	491.92	883.70	425.76	488.98	488.51	-0.1	-0.7	5.1
Recreation, culture and religion	138.73	146.82	34.33	56.66	25.05	-55.8	-81.9	0.3
Education	660.12	626.74	654.73	636.88	625.87	-1.7	-5.2	6.6
Social protection	548.38	678.51	629.16	589.16	510.11	-13.4	-7.0	5.4
Unidentified Outlays	485.90	362.74	127.45	462.73	46.23			

Source: Central Bank of Lesotho and Ministry of Finance

FINANCIAL ASSETS AND LIABILITIES⁵

Government operations were estimated to have registered a fiscal surplus equivalent to 4.6 per cent of GDP. This surplus was used to redeem part of government liabilities, including maturing government securities, outstanding arrears, and external debt service. Part of the liabilities were redeemed by reducing government deposits. Consequently, the government's financial asset position deteriorated.

Figure 18: Total Financing (Million Maloti)

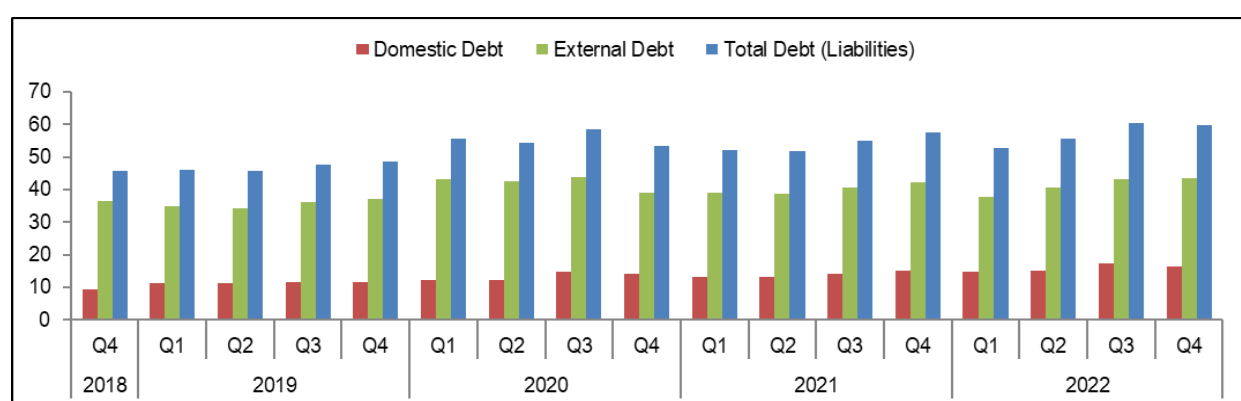


Source: Central Bank of Lesotho and Ministry of Finance

TOTAL PUBLIC DEBT⁶

The stock of public debt fell marginally by 0.8 per cent during the quarter under review relative to a rise of 8.2 per cent in the previous quarter. The fall was mainly attributed to a reduction in domestic debt, driven by the redemption of government securities issued to finance fiscal operations. On an annual basis, the public debt stock increased by 11.4 per cent, marking a deceleration from the 17.8 per cent increase observed in the previous quarter.

Figure 19: Outstanding Public Debt (Percent of GDP)



Source: Central Bank of Lesotho and Ministry of Finance

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.

Table 16: Public Debt Stock (Million Maloti)

	2021	2022				Q-to-Q (%)	Y-on-Y (%)	Debt / GDP
	Q4	Q1	Q2	Q3	Q4			
Total Public Debt	20 193.71	19 761.85	20 944.77	22 669.88	22 491.78	-0.8	11.4	59.9
EXTERNAL DEBT	14 858.80	14 189.95	15 321.49	16 216.16	16 341.31	0.8	10.0	43.5
Bilateral Loans	1 032.50	672.29	700.13	758.72	728.91	-3.9	-29.4	1.9
Concessional	1 032.50	672.29	700.13	758.72	728.91	-3.9	-29.4	1.9
Non-concessional	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Multilateral Loans	11 921.30	11 157.87	12 015.60	12 655.24	12 676.39	0.2	6.3	33.7
Concessional	10 535.40	9 791.87	10 665.35	11 335.39	11 321.19	-0.1	7.5	30.1
Non-concessional	1 385.90	1 366.00	1 350.25	1 319.85	1 355.21	2.7	-2.2	3.6
Financial Institutions	0.00	237.94	237.94	218.15	176.89	-	-	0.5
Concessional	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Non-concessional	0.00	237.94	237.94	218.15	176.89	-	-	0.5
Suppliers' Credit	1905.00	2 121.85	2367.82	2 584.04	2 759.11	6.8	44.8	7.3
DOMESTIC DEBT	5 334.91	5 571.90	5 623.28	6 453.72	6 150.47	-4.7	15.3	16.4
Banks	3 470.75	3 478.87	3 365.11	4 074.03	3 689.16	-9.4	6.3	9.8
Long-term	2 203.98	2 200.28	2 248.00	2 308.26	2 308.72	0.0	4.8	6.1
Treasury bonds	1 118.18	1 223.09	1 262.57	1 264.07	1 278.13	1.1	14.3	3.4
Central Bank (IMF-ECF)	1 085.80	977.19	985.43	1 044.18	1 030.59	-1.3	-5.1	2.7
Short-term (t-bills)	1 266.77	1 278.59	1 117.11	1 765.77	1 380.44	-21.8	9.0	3.7
Non-bank	1 864.15	2 093.03	2 258.17	2 379.69	2 461.31	3.4	32.0	6.6
Short-term (t-bills)	196.02	179.81	184.43	193.35	216.05	11.7	10.2	0.6
Long-term (t-bonds)	1 668.13	1 913.22	2 073.74	2 186.34	2 245.26	2.7	34.6	6.0
DEBT INDICATORS								
External Debt-to-Total Debt	74.3	73.6	71.8	73.2	71.5	-	-	-
Domestic Debt-to-Total Debt	25.7	26.4	28.2	26.8	28.5	-	-	-
Concessional Debt-to-External Debt	57.8	57.3	53.0	54.3	53.3	-	-	-
Ext. Debt Service-to-GDP	2.0	2.7	2.6	2.7	3.4	-	-	-
Ext. Debt Service-to-Revenue	4.6	6.3	5.2	6.3	8.1	-	-	-
Ext. Debt Service-to-Exports	4.3	5.8	5.6	6.2	7.5	-	-	-

Source: Central Bank of Lesotho and Ministry of Finance

6. Foreign Trade and Payments

OVERVIEW

The external sector position improved significantly in the fourth quarter of 2022, recording a surplus equivalent to 11.8 per cent of GDP. This marked a substantial turnaround from the deficit of 3.3 per cent of GDP realised in the previous quarter. This positive shift was mainly driven by increased surplus in the capital account and a rise in the financial account's net outflows. However, these improvements were partially offset by a widening of the current account deficit.

CURRENT ACCOUNT

The current account balance deteriorated further, from a deficit of M16.84 million in September 2023 to M1 169.72 million during the review quarter. This poor performance was attributed to a widening trade account deficit. However, the negative trend was moderated by increased surpluses in both the primary and secondary income accounts. As a percentage of GDP, the deficit on the current account accounted for 11.9 per cent, which was significantly higher than the revised 0.2 per cent share recorded in the previous quarter.

Table 17: Current Account Balance (Million Maloti)

	2021	2022				% Changes	
	Q4	Q1	Q2	Q3	Q4	Q/Q	Y/Y
Current Account	-358.58	-255.55	-1101.76	-16.84	-1169.72	-6844.50	-226.20
(a) Goods	-2663.20	-2983.13	-3347.12	-2296.25	-3541.74	-54.24	-32.99
Merchandise exports, f.o.b.	4510.19	4166.19	3952.62	5050.00	4016.15	-20.47	-10.95
Of which diamonds	1036.93	1308.40	1400.65	1586.85	959.01	-39.57	-7.51
Of which textiles & clothing	2619.62	2139.19	1824.62	2667.34	2342.94	-12.16	-10.56
Of which water	400.81	305.23	330.47	353.20	403.27	14.18	0.61
Of which agriculture	97.94	71.22	118.90	134.23	141.23	5.22	44.21
Of which re-exports	80.50	44.64	26.58	58.74	77.95	32.70	-3.16
Other exports	274.39	297.51	251.40	249.65	91.74	-63.25	-66.57
Merchandise imports, f.o.b.	7173.39	7149.32	7299.73	7346.25	7557.88	2.88	5.36
(b) Services	-1396.83	-1744.12	-1739.56	-1729.29	-1744.86	-0.90	-24.92
(c) Primary Income	1635.42	2006.00	2086.38	2059.04	2166.14	5.20	32.50
(d) Secondary Income	2066.03	2465.69	1898.53	1949.66	1950.73	0.06	-5.58

Source: Central Bank of Lesotho

Merchandise Exports

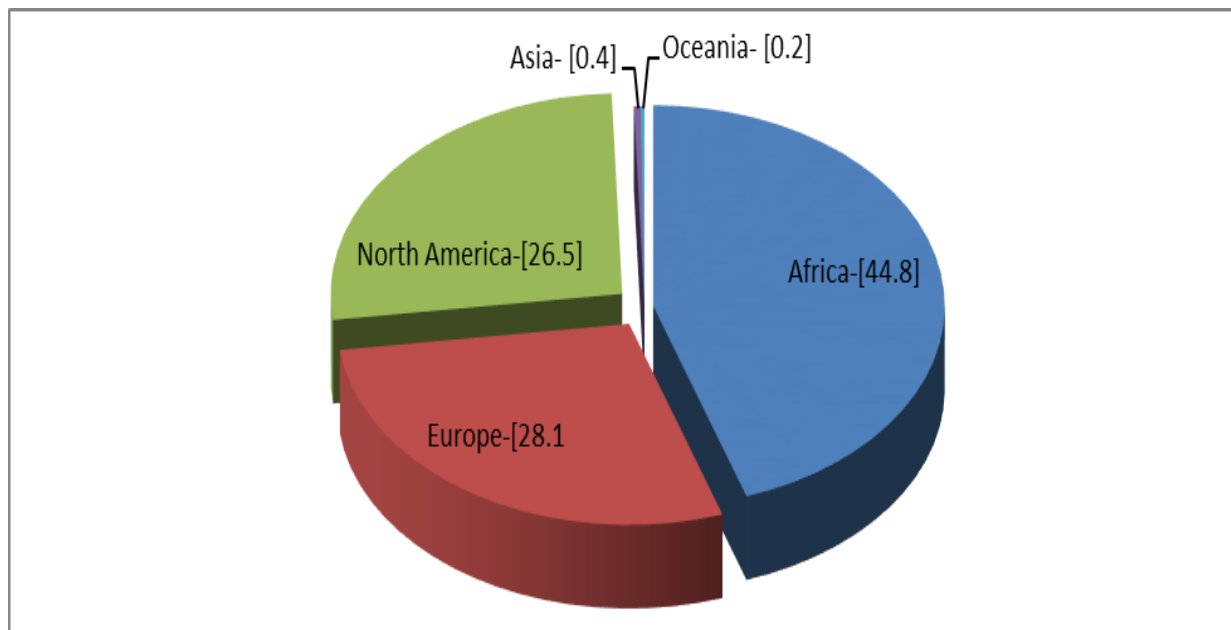
Merchandise exports fell by 20.5 per cent in the quarter ending December 2022, contrasting with a 27.8 per cent growth in the preceding quarter. This significant decline was primarily observed in the exports of textiles and clothing, as well as diamond exports. The downturn in textile and clothing exports can be attributed to the closure of several firms. This was a consequence of receiving fewer orders from key export markets, notably the United States, due to escalating shipment costs driven by rising energy prices. The weak performance in diamond exports resulted from a marked reduction in the number of carats recovered.

However, the decline in merchandise exports was partly mitigated by a rise in other export categories, such as water, agriculture, and re-exports. On an annual basis, merchandise exports declined by 11.0 per cent, compared to a 21.0 per cent drop observed in the previous quarter. As a share of GDP, merchandise exports accounted for 41.0 per cent, notably lower than the 51.2 per cent recorded in the previous quarter.

Direction of Trade - Exports

Africa continued to be the primary market for Lesotho's exports, constituting 44.8% of the total, with South Africa serving as the key trading partner during the fourth quarter of 2022. South Africa's dominant position was mainly supported by a rise in textile and clothing exports to the country. Europe maintained its status as the second-largest importer, accounting for 28.1% of Lesotho's exports, predominantly buoyed by the diamond trade. North America followed closely, capturing a 26.5% market share, largely sustained by robust exports of textiles and clothing. Meanwhile, Asia and Oceania made up the smallest shares of 0.4% and 0.2%, respectively.

Figure 20: Direction of Trade Merchandise Exports (Percentage Share)



Source: Central Bank of Lesotho

Merchandise Imports

Merchandise imports grew by 2.9 per cent, following a 0.6 per cent increase in the third quarter of 2022, boosted mostly by increased imports of manufactured goods, as well as mineral fuels, lubricants and related material. Imports of mineral fuels, lubricants and related materials rose mainly on account of persistent fuel price increases, while quantities of imports remained relatively unchanged. On an annual basis, imports increased at a considerably lower rate, 5.4 per cent, than the 10.3 per cent growth recorded in quarter ending in September 2022. As a share of GDP, merchandise imports constituted 77.1 per cent, compared with 82.7 per cent in the previous quarter.

Services account

The deficit on the services account increased by 0.9 per cent, a slightly higher rate than the 0.6 per cent recorded in the quarter ending in September 2022. The increased deficit was largely due to the rise in freight costs associated with the increase in imports. This was coupled with the increase in payments for telecommunications services acquired abroad. Nonetheless, the increase in the services account deficit was moderated by a decline in payments for official travel. Year-on-year, the services account deficit increased by 25.0 per cent, compared to the previous quarter's growth of 20.9 per cent. As a share of GDP, the services account balance accounted for 17.8 per cent which was slightly higher than the 17.5 per cent share recorded in the preceding quarter.

Primary Income Account

The surplus in the primary income account rose by 4.8 per cent in the fourth quarter of 2022, recovering from a 1.2 per cent contraction observed in the preceding quarter. This improvement was largely due to increased interest returns on foreign investments held by the central bank and commercial banks; a trend driven by ongoing interest rate hikes by global central banks. However, this increase was somewhat mitigated by a decline in maintenance and operational receipts for the LHWP Phase I. On a year-on-year basis, the surplus in the primary income account grew by 32.0 per cent, slightly exceeding the 29.5 per cent growth observed in the previous quarter. When expressed as a share of GDP, the balance of the primary income account accounted for 22.0 per cent, marginally above the 21.0 per cent share in the previous quarter.

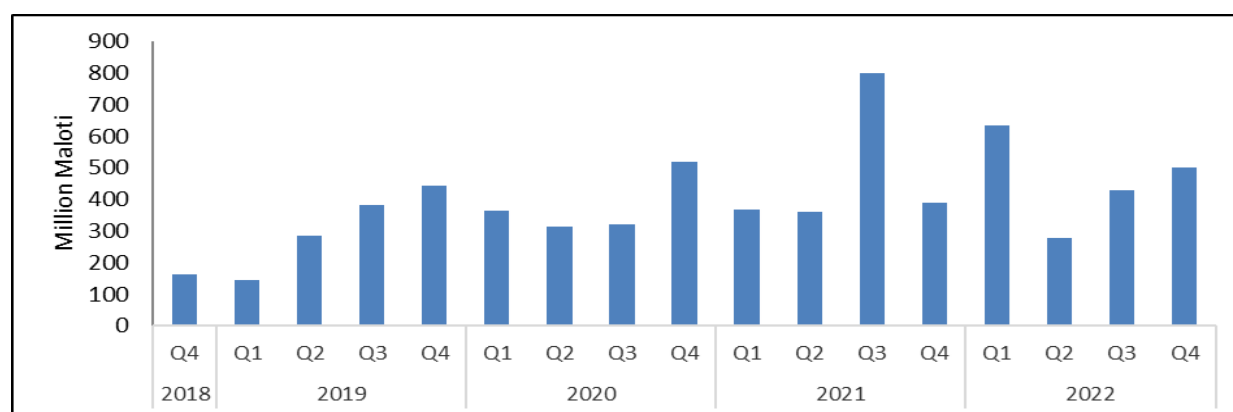
Secondary Income Account

The secondary income account's surplus rose marginally by 0.1 per cent during the review period, compared to a 2.7 per cent increase in the prior quarter. This modest growth was primarily due to a decrease in subscriptions to international organizations, while other elements of the account remained stable. On a year-on-year basis, the surplus in the secondary income account shrank by 5.6 per cent, a more significant contraction compared to the 4.0 per cent decline observed in the preceding quarter. In terms of GDP, the secondary income account's share was 19.9 per cent, almost the same as the 19.8 per cent recorded in the previous quarter.

CAPITAL ACCOUNT

The net inflows in the capital account increased by 16.7 per cent, reaching M499.2 million during the review period. This expansion was mainly driven by increased transfers for advanced infrastructure related to LHWP Phase II activities, as the volume of certified works rose. On an annual basis, the capital account surplus increased by 28.1 per cent, rebounding from a 46.4 per cent decline in the preceding quarter. When expressed as a share of GDP, the capital account's surplus amounted to 5.1 per cent, marginally higher than the 4.3 per cent recorded in the previous quarter.

Figure 21: Capital Account (Million Maloti)



Source: Central Bank of Lesotho

FINANCIAL ACCOUNT

The financial account registered a net outflow of M612.80 million in the review quarter, reversing a net inflow of M457.83 million recorded in the third quarter of 2022. Expressed as a share of GDP, the financial account outflows accounted for 6.3 per cent, an increase from 4.6 per cent realised in the preceding quarter.

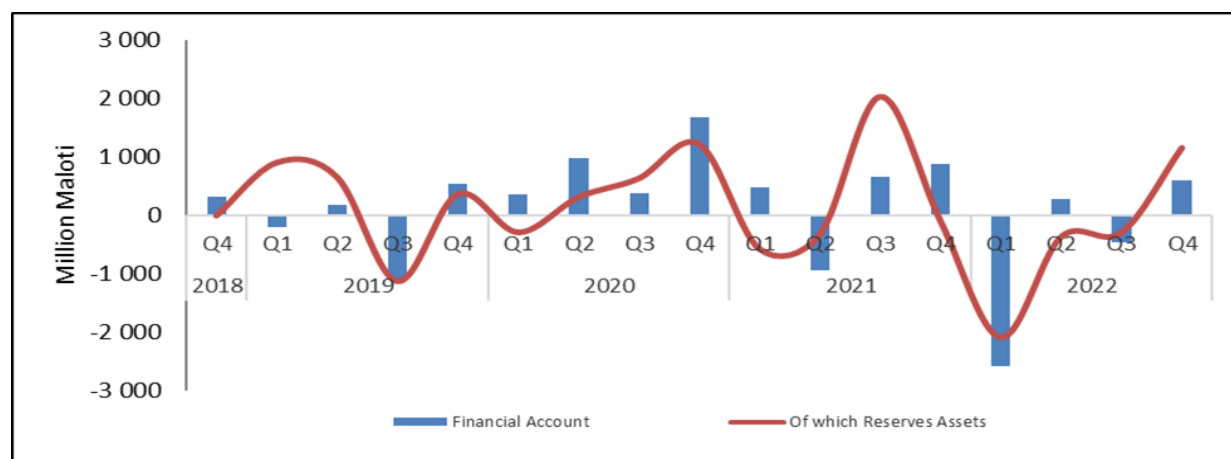
The financial account outflow grew primarily due to a rise in reserve assets, reflecting reduced government spending and a quest for higher U.S. yields amid Federal Reserve tightening. However, this was, partly, offset by gains in *other*, *direct*, and *portfolio* investments. *Other* investments increased as commercial banks reduced their foreign assets to meet domestic liquidity needs. *Direct* investments were buoyed by loans from non-resident shareholders in mining, while *portfolio* investments declined due to reduced foreign securities' holdings.

Table 18: Financial Account Balance (Million Maloti)

	2021	2022			
	Q4	Q1	Q2	Q3	Q4
Financial account	874.95	-2571.31	278.24	-457.83	612.80
Direct Investments, net	43.12	261.32	-12.34	-122.31	-24.03
Portfolio Investments, net	105.13	-217.94	-2.66	56.65	-10.54
Financial Derivatives, net	0.00	0.00	0.00	0.00	0.00
Other Investments, net	823.83	-526.89	660.72	-99.02	-507.51
Of which Loans	191.38	-86.87	222.45	-4.36	-178.92
Claims on Non Residents	34.48	34.48	34.48	34.48	34.48
Liabilities to Non Residents	-156.90	121.35	-187.97	38.84	213.40
Of which Currency and Deposits	706.51	-365.96	512.34	-20.60	-254.53
Claims on Non Residents	915.04	-509.22	472.75	198.01	-444.09
Liabilities to Non Residents	208.54	-143.26	-39.58	218.62	-189.56
Of which Special Drawing Rights	0.00	0.00	0.00	0.00	0.00
Reserve Assets	-97.14	-2087.80	-367.48	-293.15	1 154.87

Source: Central Bank of Lesotho

Figure 22: Financial Account (Million Maloti)

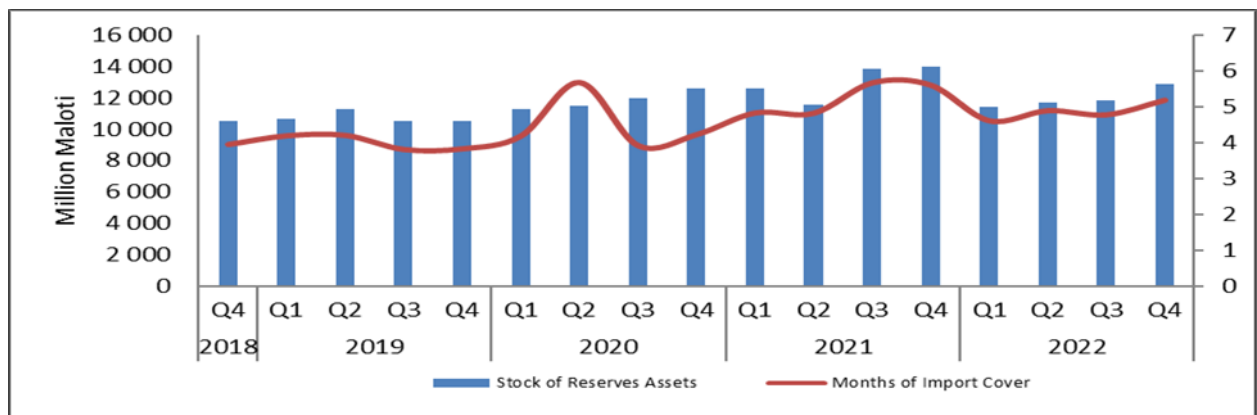


Source: Central Bank of Lesotho

RESERVE ASSETS

The stock of foreign exchange reserves increased to M12.86 billion, from M11.85 billion in the quarter ending in September 2022. The increase was driven mainly by a fall in government spending. Expressed in terms of imports cover, reserve assets fell to 4.0 months from 4.8 months in the previous quarter.

Figure 23: Reserve Assets



Source: Central Bank of Lesotho