

Central Bank of Lesotho



QUARTERLY ECONOMIC REVIEW

December 2021

MASERU KINGDOM OF LESOTHO

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1. Executive Summary

The global economic performance was mixed with some countries' economic growth continuing to increase, while it was slower in other countries during the fourth quarter of 2021. There was a recovery in the US and the Euro area, which was driven by strong consumption demand during the last quarter of 2021. The slowdown in economic performance in other countries was a result of increased COVID-19 infections during the review quarter compared to the previous quarter. The labour market conditions improved in some economies in line with their economic performance but had deteriorated in others due to the slowdown in activity amid the surge in COVID-19 cases in the fourth quarter.

Inflationary pressures continued to built-up globally in the last quarter of 2021. In general, consumer prices increased faster across developed and emerging market economies mainly reflecting the effects of supply chain bottlenecks, emanating from restrictions associated with the COVID-19 pandemic. In addition, the global crude oil prices continued to rise and added more pressure on consumer prices during the fourth quarter of 2021. During the same period, increasing costs of inputs/raw materials forced producers to pass on the high productions costs to end users – thus resulting in higher consumer prices. Despite the rising inflation rates, most central banks left their policy rates unchanged to support economic recovery.

The domestic economic activity improved during the fourth quarter of 2021, after contracting in the previous quarter. The Central Bank of Lesotho's Quarterly Indicator of Economic Activity (QIEA) index grew by 4.0 percent during the last quarter of 2021. Growth was mainly supported by the performance of the manufacturing sector and the improvement in both domestic and international demand. The key indicators of labour markets showed mixed signals during the quarter under review. Government employment continued to grow, even though at a slower rate in comparison to the previous quarter, while LNDC assisted companies and migrant mine workers' employment continued to fall. Inflationary pressures increased in the review quarter due to the weaker rand–US dollar exchange rate as well as the rise in international crude oil prices.

The growth in broad money supply improved notably, following an increase in both net domestic assets (NDA) and net foreign assets (NFA). The growth in NDA stemmed from an increase in net claims on government and a modest growth in claims on other sectors. The improvement in NFA was mainly driven by an increase in commercial banks NFA following an increase in their foreign placements. Private sector credit growth was subdued during the review quarter, due to a fall in credit extended to business enterprises, which moderated an increase in household credit. Short-term interest rates rose following Central Bank of Lesotho's decision to increase the policy rate by 25 basis points in the fourth quarter of 2021.

The Government budgetary operations were estimated to have resulted in a surplus equivalent to 0.5 per cent of GDP during the quarter ending in December 2021, compared to a revised deficit of 9.6 per cent of GDP in the previous quarter. This was largely a result of improved revenue collection, together with subdued spending. The stock of public debt was estimated to rise to 52.1 per cent of GDP in the last quarter of 2021, up from the revised 50.1 per cent of GDP in the third quarter of 2021. This was due to an issuance of the domestic Government securities to finance budgetary operations, in addition to the new external debt incurred during the review quarter.

The external sector position deteriorated to a deficit equivalent to 1.0 per cent of GDP during the fourth quarter of 2021, from a 28.9 per cent surplus recorded in the preceding quarter. The deficit was mainly a result of the widening current account deficit together with the declining capital account inflows. Meanwhile, there were substantial outflows of funds in the financial account as a result of increased liquidity in the banking sector. The deficit in the current account was thus financed through a drawdown of reserve assets during the review quarter. The import coverage of reserves assets declined to 5.6 months in the quarter ending in December 2021, from 5.7 months in the preceding quarter.

2. International Economic Developments

The performance of the global economy was mixed with some countries' economic growth increasing further while slowing in others during the quarter under review. There was recovery in the US and Euro area, which emanated from robust consumption demand during the last quarter of 2021. Economic performance was slower in other countries as a result of the increased COVID -19 infections during the fourth quarter of 2021 compared with the third quarter of 2021. Labour market conditions had improved in some economies but had deteriorated in others due to the slowdown in activity amid the surge of COVID-19 cases in the fourth quarter.

Inflationary pressures continued to mount in the last quarter of 2021. Consumer prices increased faster across developed and emerging market economies largely reflecting the effects of supply chain bottlenecks, which emanated from restrictions associated with the COVID-19 pandemic. Furthermore, global oil prices continued to increase and add more pressure to consumer prices during the fourth quarter of 2021. During the same quarter, increased costs for inputs/ raw materials forced producers to pass through the high productions costs to end users – the result of which being higher consumer prices. Despite the rising inflation rates, most central banks left their policy rates unchanged to support growth.

Table 1: Key World Economic Indicators

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	Q3 2021	Q4 2021	Q3 2021	Q4 2021	Q3 2021	Q4 2021	Q3 2021	Q4 2021
United States	4.9	6.9	5.4	7.0	0.00	0.00	4.7	3.9
Euro Area	3.9	4.6	3.4	5.0	0.00	0.00	7.4	7.0
Japan	1.3	5.4	0.2	0.8	-0.10	-0.10	2.8	2.7
United Kingdom	6.8	6.5*	3.1	5.4	0.10	0.25	4.3	4.1
China	4.9	4.0	0.7	1.5	3.85	3.80	4.9	5.1
India	8.4	5.4	4.5	5.6	4.00	4.00	N/A	N/A
South Africa	2.9	1.7	5.0	5.9	3.50	3.75	34.9	N/A

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

*Preliminary

ADVANCED ECONOMIES

United States (US)

The performance of the US economy continued to improve in the fourth quarter of 2021. Real GDP rose by 5.5 per cent, compared with an increase of 4.9 per cent in the third quarter of 2021. The increase reflected robust household consumption expenditure, which hit a record high during the same quarter. Additionally, there was a rise in inventory investment as companies sought to rebuild inventories in a bid to curb supply shortages experienced in earlier periods. The unemployment rate for the US fell to the lowest since the beginning of the COVID-19 era. It was recorded at 3.9 per cent, coming from 4.8 per cent in the previous quarter.. The largest positive contribution to employment was the creation of more jobs in the leisure and hospitality sector, as the sector continued to recover from the COVID-19 led restrictions.

The consumer price index for the US grew at an annual rate of 7.0 per cent in the quarter under review, from 5.4 per cent in the previous quarter. This was the highest inflation rate recorded in four decades and was a result of the demand pressures amid the global supply chains disruptions. The mismatch between demand and supply continued to persist, with demand rising for components confronted with supply constraints, especially in the automobile sector. The Federal Open Market Committee (FOMC) left its key interest rates unchanged at 0.00 per cent during the last quarter of 2021. However, the FOMC communicated that there would be rate hikes and cutting back on its quantitative easing programme in 2022.

Euro Area

During the quarter ending in December 2021, the GDP growth rate for the Euro area increased to 4.6 per cent compared with 3.9 per cent in the previous year. Growth was mainly buttressed by robust consumption demand in the last quarter of 2021. Economic activity in the Euro area was however, dampened by the spread of the Omicron variant in December 2021, calling for the re-imposition of restrictions to contain the virus. The unemployment rate declined to 7.0 per cent in the last quarter of 2021, from a 7.4 per cent unemployment rate in the previous quarter. This was on account of the recovery in economic activity as well as part-time work schemes which were aimed to preserve jobs while the economy battled with the effects of the COVID-19 pandemic.

Annual consumer inflation for the Euro area accelerated to 5.0 per cent in the fourth quarter of 2021, from 3.4 per cent in the third quarter of 2021. The heightened pressure on consumer prices came from higher costs for energy and services. Wholesale energy prices rose to near record highs, and costs were passed on to retail consumers. Services costs were also up as most corporate institutes had increased costs amid the increase in operating costs during the review quarter. Meanwhile, the European Central Bank kept its key policy rate unchanged at 0.0 per cent in the last quarter of 2021, while it sought to keep the balance between supporting growth and controlling inflation. The Bank announced that it would scale back on its asset-purchasing stimulus to support growth. The bank also communicated that it would unlikely increase rates in 2022, although still being cautious of the direction of economic data released throughout 2022.

Japan

A significant growth in the economy of Japan was realised during the last quarter of 2021. Real GDP grew by 5.4 per cent, following an increase of 1.3 per cent in the quarter ending in September 2021. Economic activity in Japan was underpinned by a pickup in personal consumption during the quarter under review. The increase in personal consumption expenditure followed the end of the state of emergency amid low COVID-19 infections, which enabled people to travel and businesses to re-open. The unemployment rate declined to 2.7 per cent in the quarter ending in December 2021, following an increase of 2.8 per cent in the previous quarter. The Japanese labour market remained resilient to the spread of the Omicron virus in 2021.

The consumer price index for Japan rose at an annual rate of 0.8 per cent in the last quarter of 2021, slightly higher than an increase of 0.6 per cent in the preceding quarter. The largest contributions to the inflation rate came from costs of fuel and raw materials, with firms aggressively passing costs to consumers. The “mild” inflationary pressures together with the slow recovery of the economy influenced the Bank of Japan’s decision to keep the key policy rate unchanged at -0.1 per cent during the fourth quarter of 2021. The Bank also stated that it would end its scheduled asset purchases commitments at the end of the first quarter of 2022 and moderate other purchases from April 2022 onwards.

United Kingdom (UK)

The UK economy slowed down slightly during the fourth quarter of 2021. Real GDP growth rate slowed to 6.5 per cent compared with an increase of 6.8 per cent in the preceding quarter. The slower growth relative to the previous quarter resulted from subdued consumer spending amid the resurgence of COVID-19 cases, which led to the re-imposition of restrictions, adversely affecting spending habits especially in the hospitality sector (restaurants, pubs and bars). The unemployment rate for the UK slowed to 4.1 per cent in the fourth quarter of 2021 compared to 4.3 per cent in the previous quarter. The lower unemployment rate resulted as the economy was confronted with labour shortages and vacancy opening amid increased demand for goods and services which producers were obliged to meet.

During the fourth quarter of 2021, the annual inflation rate for the UK rose to a 30 year high of 5.4 per cent following a 3.1 per cent inflation rate in the third quarter of 2021. The largest contribution to the higher inflation rate came from increased costs of food and non-alcoholic beverages, furniture and household goods, clothing and footwear as well as restaurants and hotel services during the fourth quarter of 2021. In response to the rapidly rising inflation, the Bank of England increased its policy rate by 15 basis points to 0.25 per cent in the quarter ending in December 2021 from 0.10 per cent in the third quarter of 2021 and maintained its government bond purchases at GBP875 billion to support growth.

EMERGING MARKET ECONOMIES

China

GDP growth for China slowed to 4.0 per cent in the fourth quarter of 2021 from 4.9 per cent in the preceding quarter. The slowdown in growth rate resulted from multiple headwinds mainly resulting

from the increase in COVID-19 infections, which have hampered consumption and disrupted the supply chain processes. Furthermore, the crash in China's property market – which accounts for a third of the country's GDP, also dragged economic growth for China lower during the fourth quarter of 2021. The weakness of the property market and private sector activity had a negative effect on employment dynamics during the same quarter, with the unemployment rate for China rising to 5.1 per cent in the quarter ending in December 2021, from 4.9 per cent in the third quarter of 2021. China's Employment dynamics are expected to worsen in the near term due the technology sector crackdown, which will deter private investment, and hence employment.

The consumer price index for China rose at an annual rate of 1.5 per cent in the quarter ending in December 2021, accelerating from 0.7 per cent in the previous quarter. The pressure on consumer prices in China resulted from “panic buying” amid fears of restrictions associated with the spread of the Omicron variant of the COVID19 virus. Consumer prices were further fuelled by the increase in pork prices caused by supply disruptions associated with bad weather conditions during the same quarter. Nonetheless, the increase in consumer prices did not provide enough support for the country's policy rate decision. The People's Bank of China cut its policy rates by 5 basis points to 3.80 per cent in the last quarter of 2021 from 3.85 per cent in the preceding quarter. The decision was in an effort to support economic activity amid accelerating COVID-19 infections and surging input costs.

India

During the fourth quarter of 2021, India's real GDP growth rate slowed down to 5.4 per cent from an increase of 8.4 per cent in the third quarter of 2021. Economic growth in India was supported by consumer demand amid the festive season as well as policy support by the government to boost economic activity. GDP growth rate in the review quarter was however, slower compared to the previous quarter as the Omicron variant of the COVID-19 virus called for further restrictions, which slowed growth. The unemployment rate for India was thus, expected to rise, as businesses suffered the effects of the COVID-19 induced restrictions.

The annual inflation rate for India increased to 5.6 per cent in the quarter ending in December 2021 from 4.5 per cent in the previous quarter. The upward pressure in consumer prices largely reflected the costs pass-through from producers to consumers, especially for telecommunications, food, clothing and footwear. The Reserve Bank of India did not make any changes to its key policy rate, as it remained unchanged at 4.0 per in the fourth quarter of 2021. The bank maintained accommodative policy stance to support economic recovery and address damage caused by COVID-19 on the economy.

South Africa

South Africa's economy grew by 1.7 per cent in the fourth quarter of 2021 compared to an increase of 2.9 per cent in the preceding quarter. Economic growth in South Africa was underpinned by increased consumption expenditure, especially from hotels and restaurants in the last quarter of 2021. Economic growth was however, moderated by the slowdown in activity from the manufacturing sector as well as the electricity, gas and water sector during the same quarter. Activity in these sectors was adversely affected by power cuts due to load shedding in the country as well as subdued external demand for manufactured products amid the spread of the Omicron virus in South Africa's major

export destinations. The unemployment rate was expected to increase in the fourth quarter of 2021 compared to the previous quarter, in line with reduced activity in manufacturing and mining sectors.

The annual inflation rate for South Africa rose to 5.9 per cent in the last quarter of 2021, increasing from 5.0 per cent in the previous quarter and hitting its highest in near 5 years. The increase in consumer prices in South Africa was fuelled by high transportation costs together with increased food prices during the same period. Inflationary pressures confronting the economy raised the Reserve Bank of South Africa’s concern over the rising inflation risks and therefore provoked the interest rate hike by 25 basis points to 3.75 per cent in the fourth quarter from 3.5 per cent in the preceding quarter.

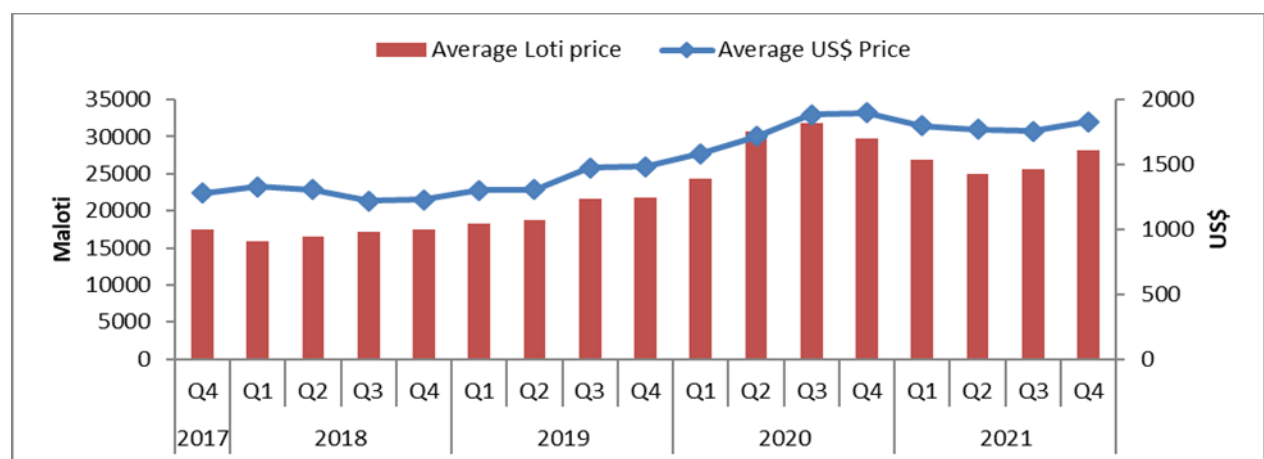
COMMODITIES

Minerals

Gold

The dollar price of gold rose by 4.1 per cent in the fourth quarter of 2021, following a decline by 0.7 per cent in the third quarter of 2021. The underlying support for the metal emanated from mounting concerns over the global economy arising from the spread of the Omicron variant, which has overshadowed pressure from the stronger US dollar during the same quarter. Many market watchers had also attributed the increase in the safe haven asset price to increased inflation rates in the quarter ending in December 2021. Nonetheless, others cautioned that inflationary pressures had been a concern for many months and past periods, but the pass-through to the safe haven asset price was muted. Thus, concerns that there might be more to the gold story than portrayed. The loti price of gold rose by 9.8 per cent during the last quarter of 2021, following an increase of 2.7 per cent in the preceding quarter.

Figure 1: Average Price of Gold



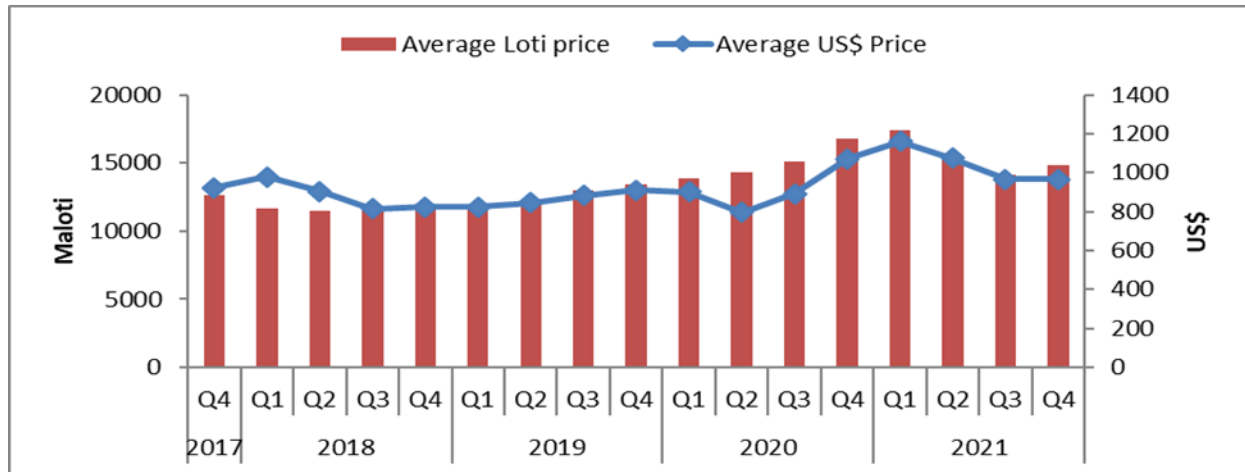
Source: Bloomberg

Platinum

Platinum prices went down by 0.3 per cent in the fourth quarter of 2021 compared with a fall of 10.0 per cent in the third quarter of 2021. The decline in platinum prices was on account of excess supply amid the recovery in mining output in South Africa as well as declining demand for the metal. The quarter experienced subdued demand in the metal due to the global shortage of semi-conductor chips

– used in automobile production, which has thus dented demand for auto catalysts. Positive future prospects for the metal also partly moderated the decline in its prices. Platinum’s future demand fundamentals were supported by expected growth in the automotive sector and hydrogen economy. Expressed in maloti, the price of platinum rose by 5.2 per cent following a decline of 6.9 per cent in the previous quarter.

Figure 2: Average Price of Platinum



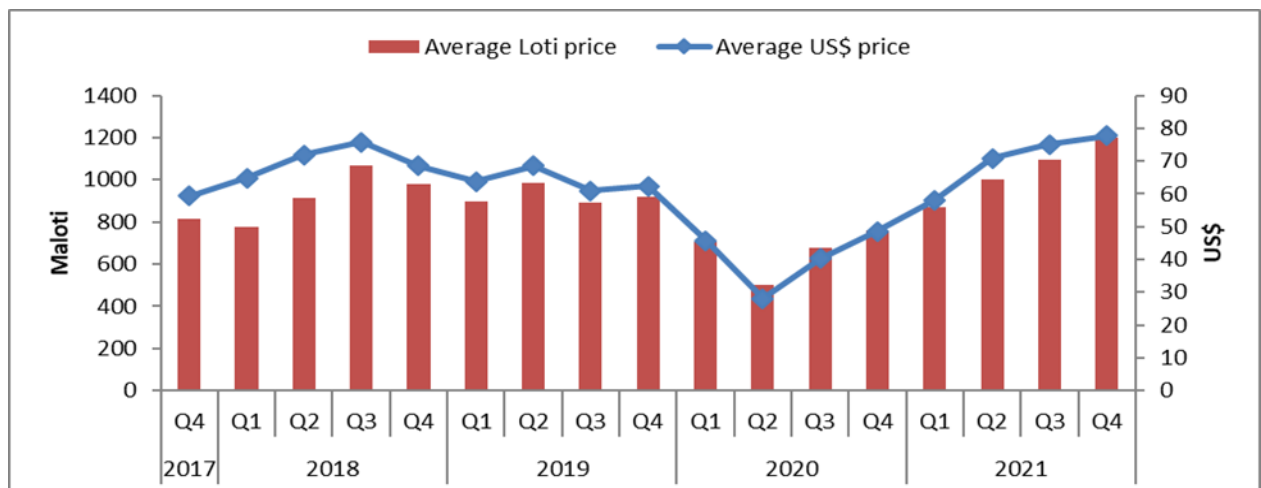
Source: Bloomberg

Energy

Oil

During the fourth quarter of 2021, oil prices rose by 3.7 per cent compared with an increase of 5.8 per cent in the previous quarter. The increase was mainly explained by tight supply in the US – the world’s largest producer of oil. Oil stockpiles in the US were lower as cold weather conditions hampered crude flow. The increase in oil prices during the fourth quarter of 2021 was however slower compared to the previous quarter, as the spread of the Omicron virus heightened concerns over the decline in demand associated mainly with travel restrictions, thus pushing oil prices lower. The Loti price of oil rose by 9.4 per cent in the quarter ending in December 2021 compared to an increase of 9.5 per cent in the preceding quarter.

Figure 3: Average Price of Oil



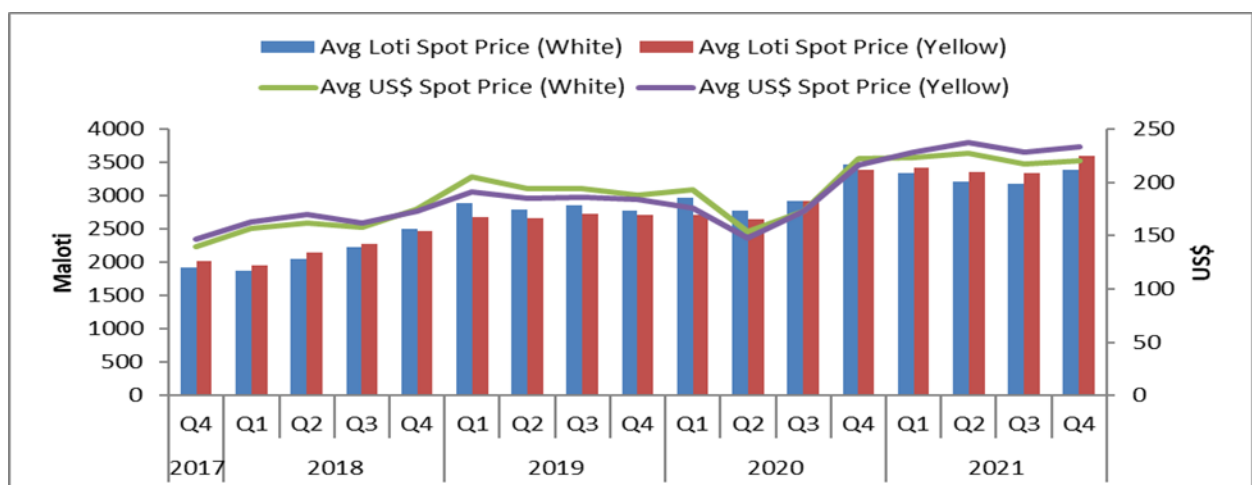
Source: Bloomberg

Agricultural Products

Maize

The dollar price of white maize rose by 1.1 per cent in the last quarter of 2021 after a decline of 4.4 per cent in the third quarter of 2021, while the price of yellow maize rose by 2.1 per cent following a fall of 3.9 per cent in the quarter ending in September 2021. The increase in the prices of maize was mainly attributed to higher costs of farming inputs together with increased demand for maize during the same quarter. Support for demand for maize was amid the growing export market and meat market, especially in the US, which utilizes maize in bulk for feeding livestock, poultry and fish. Expressed in maloti, price of white maize rose by 6.6 per cent in the last quarter of 2021 after a decline of 1.1 per cent in the third quarter of 2021, while the price of yellow maize rose by 7.7 per cent following a fall of 0.5 per cent in the quarter ending in September 2021.

Figure 4: Average Price of Maize

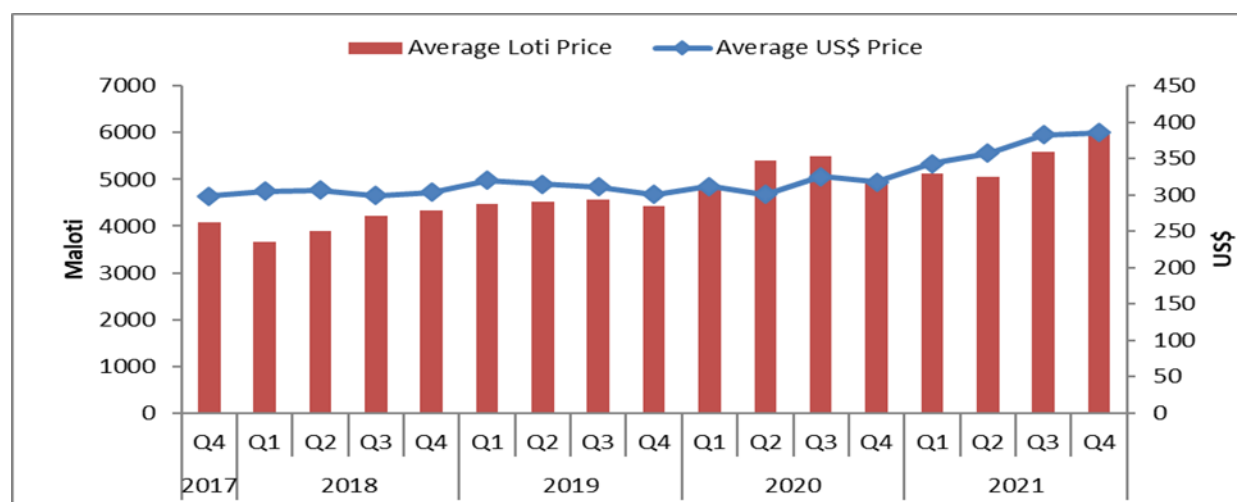


Source: Bloomberg

Wheat

The dollar price of wheat rose slightly by 0.82 per cent in the last quarter of 2021 from an increase of 7.1 per cent in the preceding quarter. The price of wheat was influenced by high demand from wheat consuming economies such as India and China, whose consumer food preferences have shifted towards wheat products. The increase was however softer compared to the third quarter of 2021 due to favourable weather conditions in Australia - one of the largest producers of wheat, providing support for harvests and therefore supplies, which slowed increased in wheat prices. The loti price of wheat rose by 6.4 per cent in the last quarter of 2021 following an increase of 10.8 per cent a quarter earlier.

Figure 5: Average Price of Wheat

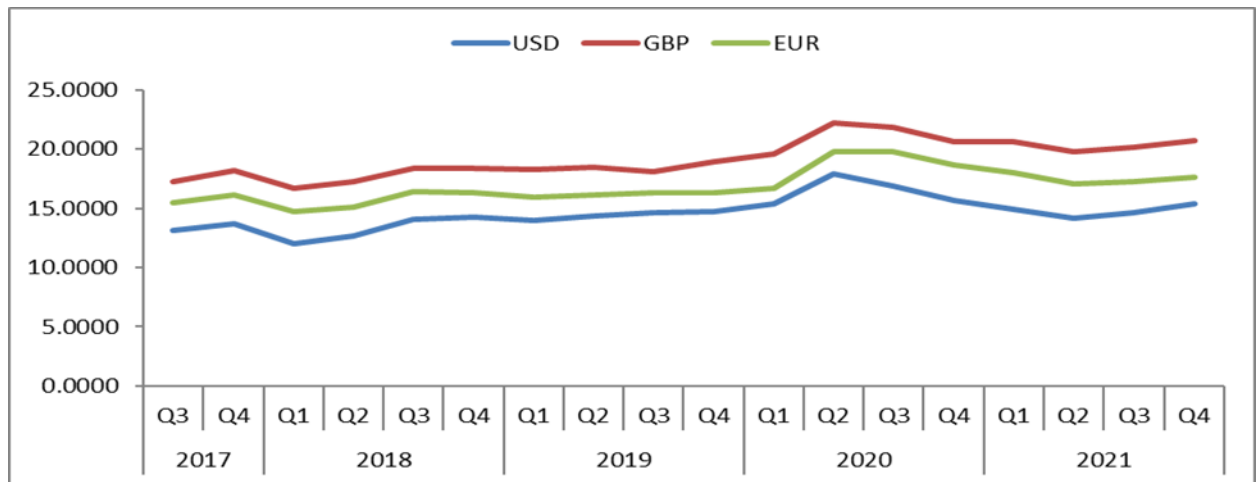


Source: Bloomberg

EXCHANGE RATES

The rand and therefore loti, weakened against its three major trading currencies during the fourth quarter of 2021. The rand depreciated by 5.5 per cent, 2.8 per cent and 2.3 per cent against the dollar, the pound and the euro respectively. In the previous quarter, respective depreciations of 3.5 per cent, 2.0 per cent and 1.2 per cent against the dollar, pound and euro were realised. The weakening of the rand against its major trading currencies was mainly on account of the spread of the Omicron variant resulting in mounting concerns amongst RSA citizens over the possibility of stricter restrictions which could hinder economic activity and trade – therefore depleting the value of the rand. These were further exacerbated by weaker than expected GDP growth rate for the third quarter of 2021, as well as load shedding during the quarter under review. Nonetheless, the weakness of the Rand was moderated by increasing commodity prices during the same period.

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



Source: Bloomberg

Real Sector Developments

OVERVIEW

Domestic economic activity improved in the fourth quarter of 2021, after contracting in the previous quarter. The key indicators of labour markets showed mixed signals during the review period. Government employment continued to grow, albeit at a slower pace compared to the previous quarter, while LNDC assisted companies and migrant mine worker employment continued to decline slower. The rate of inflation increased in the review quarter.

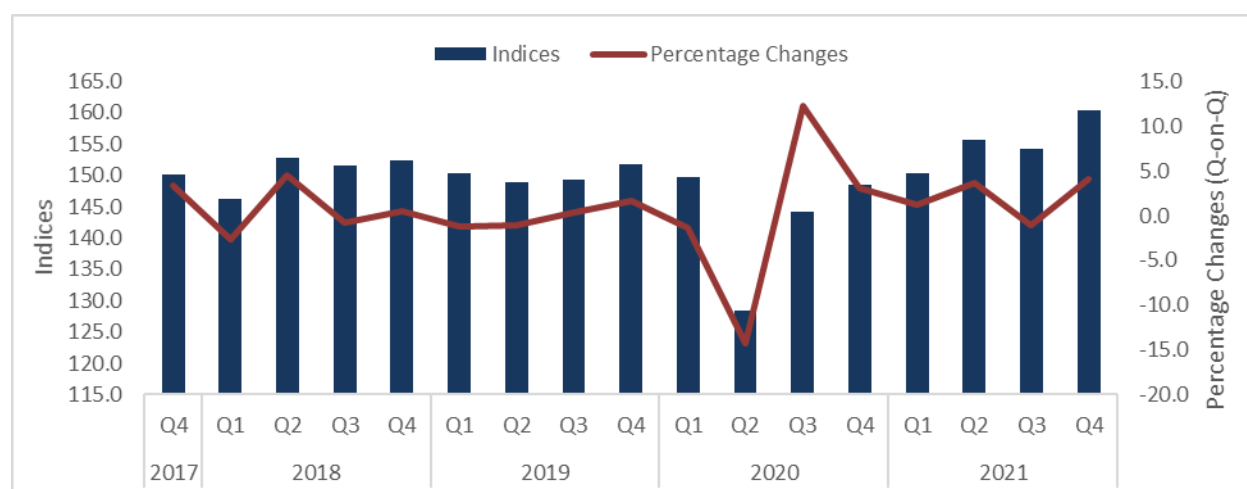
OUTPUT DEVELOPMENTS

The Central Bank of Lesotho's Quarterly Indicator of Economic Activity (QIEA) index showed improvement in economic activity in the fourth quarter of 2021. The index grew by 4.0 per cent in the quarter ending in December 2021, in contrast to a 1.0 per cent contraction recorded in the previous quarter. Growth in the index was boosted mainly by a rebound in manufacturing and to a lesser extent the demand side. The international roll-out of vaccinations to curb COVID-19 boosted growth as movement restrictions on resources and people were relaxed further, hence boosting both local and external demand for Lesotho's goods and services in the review quarter.

The manufacturing activity improved significantly in the quarter ending in December 2021. The manufacturing and production index grew by a robust rate of 13.9 per cent, contrary to a 3.9 per cent contraction in the preceding quarter. Growth in the index was broad-based. Performance was mainly enhanced by an increase in the imports of raw materials into the production process and was witnessed in the improvement in textiles and clothing exports into the US markets.

The demand side index of the economy improved in the last quarter of 2021, growing by 6.0 per cent in the review quarter. This followed contractions of 3.9 and 2.4 per cent in second and third quarters, respectively. Growth in demand was mainly driven by an increase in the demand for imports as well as an improvement in personal earnings, as reflected in a surge in pay-as-you-earn tax collections. However, government activity remained subdued in the quarter under review.

Figure 7: Quarterly Indicator of Economic Activity



Source: Central Bank of Lesotho

Table 2: Contributions to Growth

Indices	2020			2021	
	Q4	Q1	Q2	Q3	Q4
CIEA	148.5	150.2	155.8	154.2	160.4
Quarter-on-quarter changes	3.0	1.2	3.7	-1.0	4.0
Domestic Demand	146.8	150.6	144.8	141.3	149.7
Quarter-on-quarter changes	15.5	2.6	-3.9	-2.4	6.0
Manufacturing and Production Category	102.4	106.0	111.8	107.4	122.4
Quarter-on-quarter changes	3.8	3.6	5.4	-3.9	13.9

Source: Central Bank of Lesotho

EMPLOYMENT DEVELOPMENTS¹

Employment by LNDC-assisted companies continued to decline in the fourth quarter of 2021, albeit at a slower pace relative to the third quarter of 2021. The total number employees in various industries declined by 15.4 per cent during the review period compared with 16.6 per cent in the preceding quarter. While industries remain under pressure from lackluster demand for their exports, the data showed some improvement in employment prospects as Lesotho's trading partners gradually recover. Major improvements were realized in women's garments, knit garments, fabrics, yarn, etc. and construction industries while, the electronics and other components continued to shed jobs.

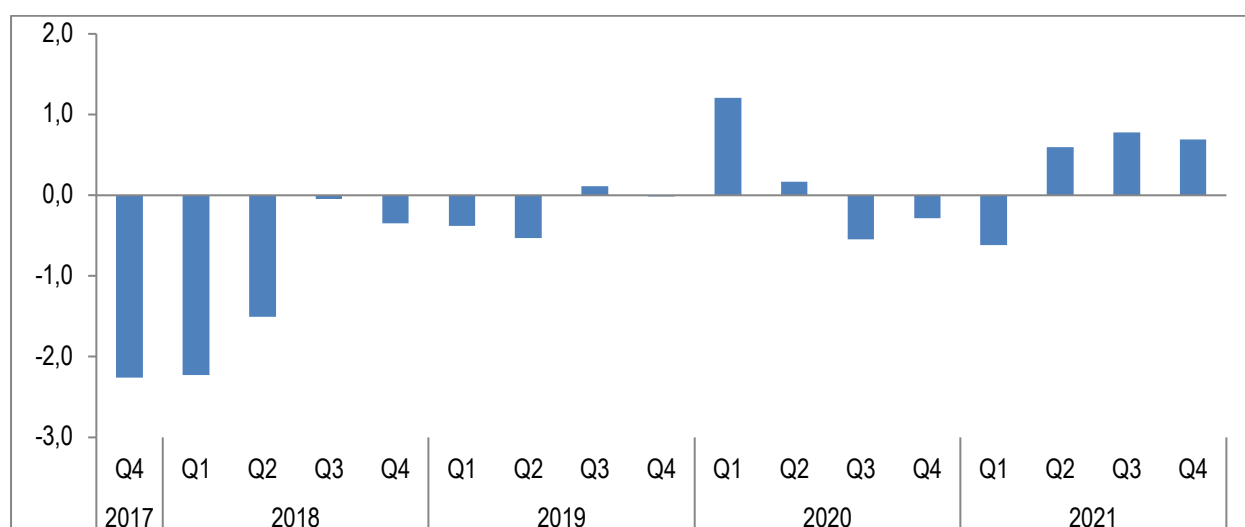
¹ Employment is reported as year-on-year changes since the data is not seasonally adjusted, thus taking year-on-year changes attempts to remove the influence of predictable seasonal patterns.

Table 2: Employment by LNDC-Assisted Companies (Thousands)

Industry	2020		2021			Changes (%)	
	Q4	Q1	Q2	Q3	Q4	Q/Q	Y/Y
Knit Garments.....	26596	25567	25410	26084	26232	0.6	-1.4
Woven Garments.....	15130	15180	12258	9521	9854	3.5	-34.9
Footwear.....	986	1130	996	975	975	0.0	-1.1
Fabrics, Yarn etc.....	1718	338	328	317	362	14.4	-78.9
Construction.....	399	335	347	359	411	14.5	3.0
Food & Beverages.....	704	639	561	602	612	1.7	-13.1
Electronics.....	1008	1032	1014	1022	1015	-0.7	0.9
Retail.....	186	191	192	193	198	2.6	6.5
Hotel Accommodation....	394	287	249	242	312	28.9	-20.8
Other.....	1259	1139	1165	1051	965	-8.2	-23.4
TOTAL.....	48380	45838	42520	40366	40936	1.4	-15.4

Source: Lesotho National Development Corporation

Government employment slowed down by 0.7 per cent in the fourth quarter of 2021 from 0.8 per cent recorded in the third quarter of 2021. The increase in government employment during the review period was mainly from the civil servants' category which was moderated by the fall in the total number of teachers.

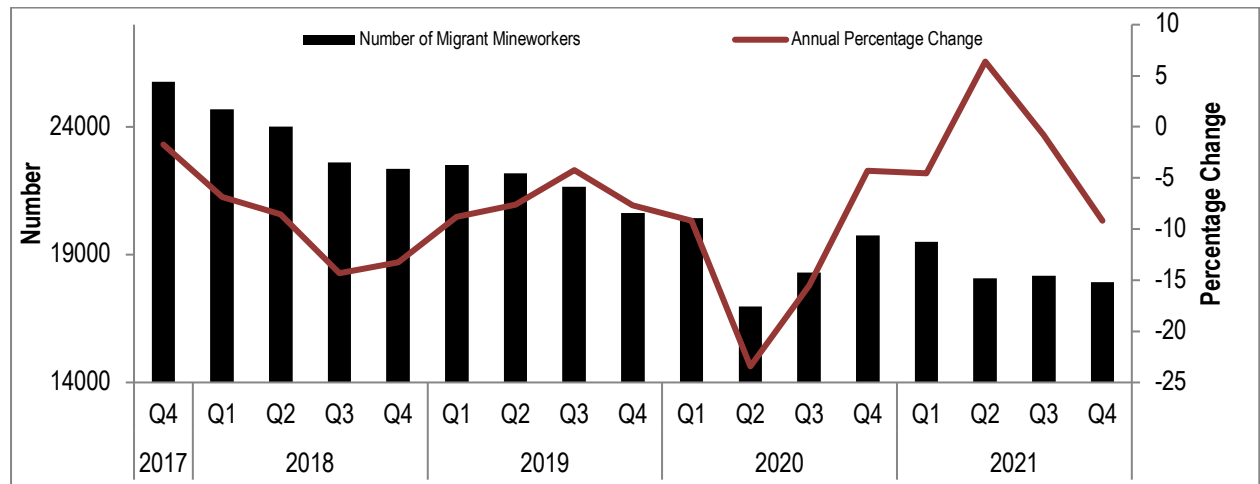
Figure 2: Government Employment (Annual Percentage Changes)

Source: Ministry of Finance

The employment of Basotho migrant mineworkers declined at a faster pace from the third quarter to the fourth quarter of 2021. It declined by 9.2 per cent in the fourth quarter of 2021 following a marginal 0.8 per cent decline in the third quarter of 2021. The continued decline in employment was

attributable to the unreliable electricity supply in SA, which negatively affect output and hence employment in the mining sector. The regulatory environment and higher production costs also discouraged investment in the mining sector.

Figure 3: Migrant Mineworkers (Annual Percentage Changes)



Source: The Employment Bureau of Africa (TEBA)

PRICE DEVELOPMENTS

Headline inflation accelerated to 6.8 per cent in the December 2021. This represented a 1.4 percentage point rise from its level in September 2021. Major contributions to the acceleration mainly emanated from Housing, water, electricity, gas & other fuels, Transport, Clothing and footwear, and to a lesser extend the Furniture, households' equipment & routine maintenance. Nonetheless, the moderation in Food and non-alcoholic beverages dampened inflation. The main determinants for the rising inflation were the weaker rand-US dollar exchange rate and the rise in international crude oil price. The upward adjustment of some administered prices such as electricity and transport fares also added to the acceleration in headline inflation during the review period.

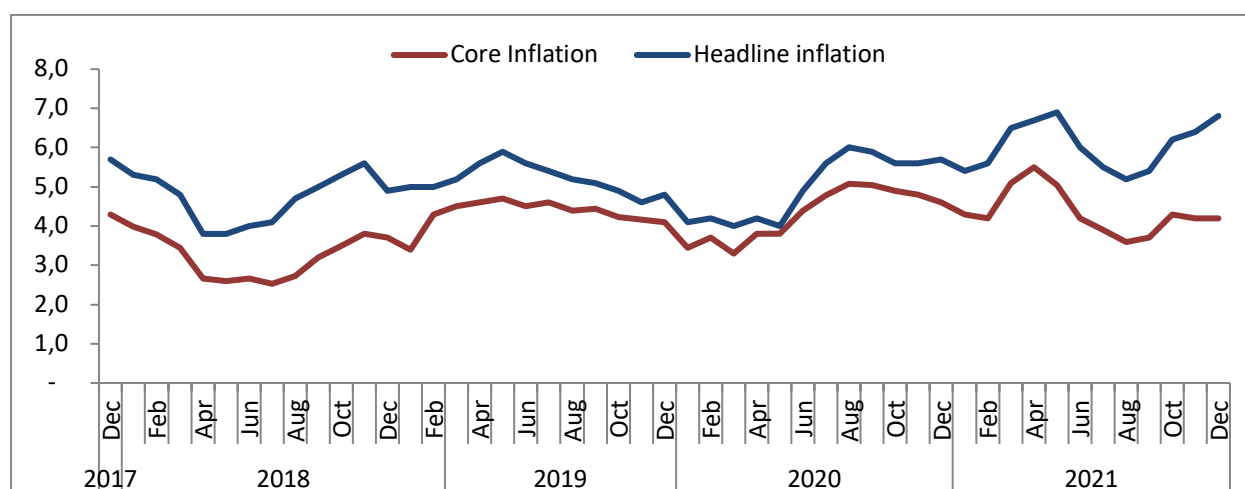
Table 3: Inflation Rate (Annual Percentage Changes)

	2021					
	Weight	Aug	Sep	Oct	Nov	Dec
All items	100.0	5.2	5.4	6.2	6.4	6.8
Food and non-alcoholic beverages	36.1	7.8	7.6	7.4	6.9	6.6
Alcoholic beverages & Tobacco	3.3	0.4	2.4	2.3	2.7	2.6
Clothing & footwear	13.1	3.2	3.7	5.0	5.3	6.4
Housing, water, electricity, gas & other fuels	12.4	7.4	9.3	11.6	13.9	16.7
Furniture, households equipment & routine maintenance	8.5	2.1	2.4	3.3	3.8	4.1
Health	1.5	0.8	0.9	1.0	1.1	1.2
Transport	4.8	6.0	5.0	11.7	13.9	13.7
Communications	2.1	0.4	0.4	0.4	0.4	0.4
Recreation & Culture	5.7	0.4	0.1	0.5	0.8	0.8
Education	4.2	2.2	2.2	2.2	2.2	2.2
Restaurant & Hotels	1.0	4.9	5.0	5.0	4.9	4.9
Miscellaneous goods & services	7.3	2.3	2.0	2.0	2.0	2.1

Source: Bureau of Statistics

The headline and core inflation rates moved in sync during the review period. They both increased from 5.4 per cent and 3.7 per cent in September 2021 to 6.8 per cent and 4.2 per cent in December 2021, respectively. The rise in the core inflation was mainly attributed to the pick-up in demand in the economy amid the subdued supply.

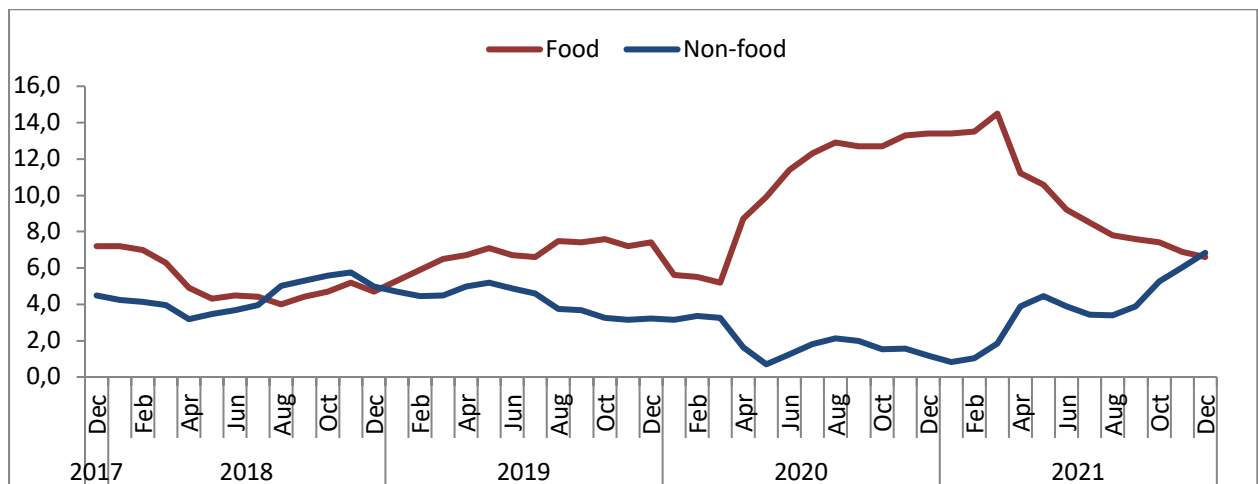
Figure 4: Core vs Headline Inflation (Annual Percentage Changes)



Source: CBL Computations

Following a similar pattern as in September 2021, food and non-food inflation rates diverged in December 2021. The food inflation rate moderated to 6.6 per cent in December 2021 from 7.6 per cent in September 2021, while non-food inflation rate rose to 6.8 per cent in December 2021 from 3.9 per cent in the preceding period. The markets for cereal remained well supplied, putting downward pressure on the overall food inflation, while rising energy prices, the public transport fares and the housing prices (measured by rentals) buoyed the non-food inflation during the review period.

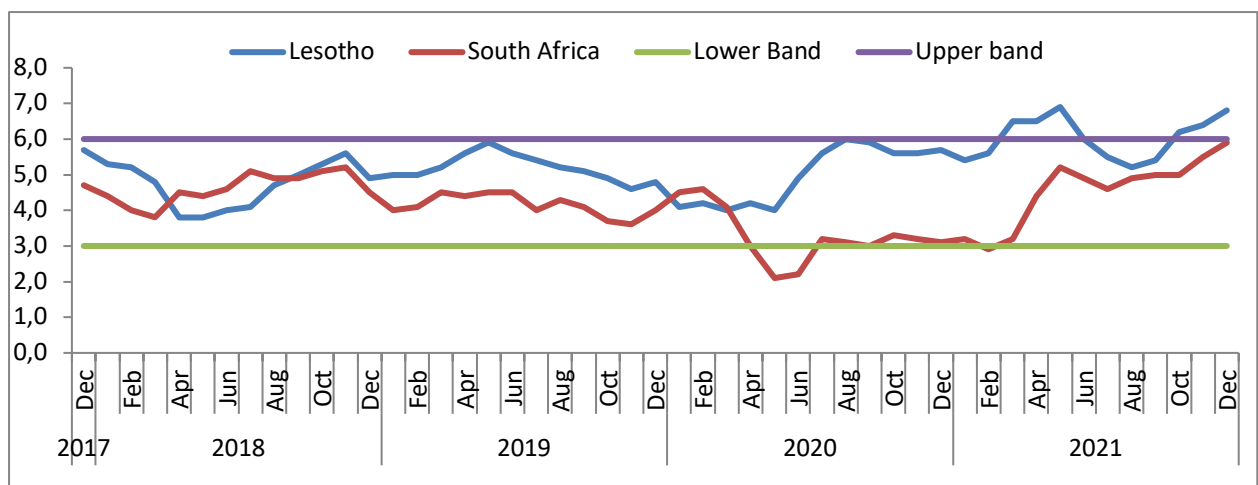
Figure 5: Food vs Non-food Inflation (Annual Percentage Changes)



Source: BoS and CBL Computations

The headline inflation rates in Lesotho and South Africa accelerated during the review period. Lesotho’s inflation accelerated from 5.4 per cent in September 2021 to 6.8 per cent in December 2021, and South Africa’s inflation rate accelerated from 5.0 per cent in September 2021 to 5.9 per cent during the review period.

Figure 6: Lesotho and South Africa's Inflation (Annual percentage changes)



Source: Bureau of Statistics, Statistics South Africa

3. Monetary and Financial Developments

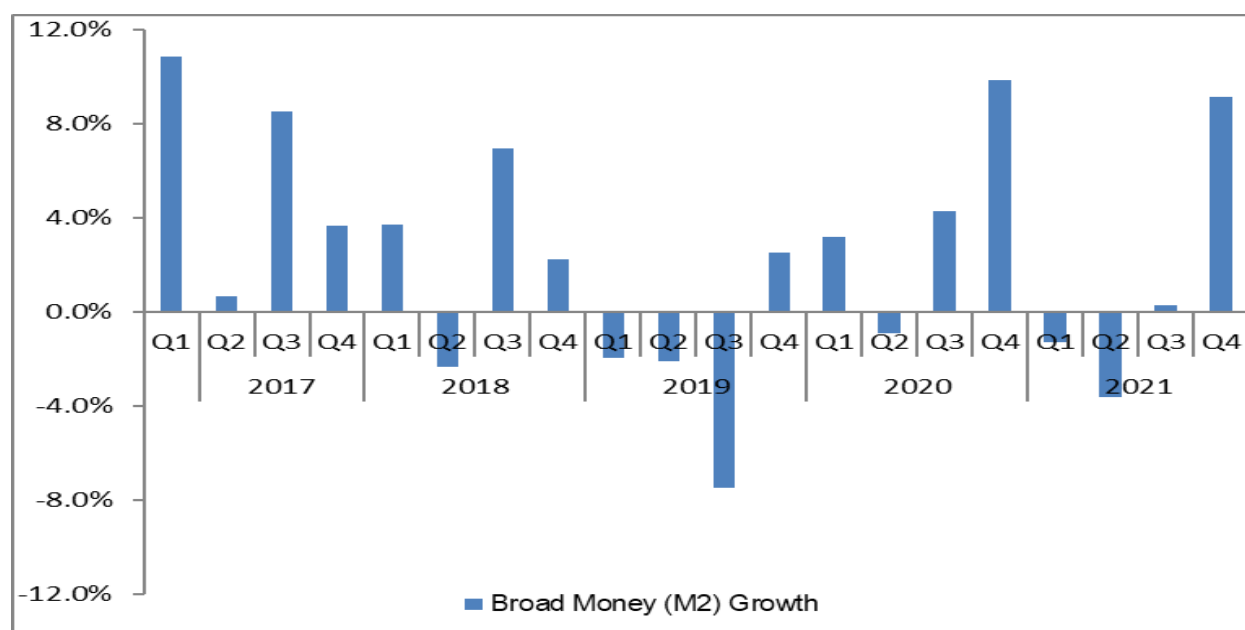
OVERVIEW

Money supply growth improved significantly during the fourth quarter of 2021, supported by an increase in both net domestic assets and net foreign assets. Private sector credit growth was subdued following a fall in credit extended to business enterprises, which moderated an increase in household credit. Short-term interest rates rose following the Central Bank of Lesotho’s decision to increase the policy rate by 25 basis points in the fourth quarter.

BROAD MONEY (M2)

The growth in money supply (M2) accelerated to 9.1 per cent in December 2021, from a modest growth of 0.3 per cent realised in September 2021. This was underpinned by a 5.9 per cent and 4.6 per cent increase in net domestic claims and net foreign assets, respectively. On an annual basis, M2 increased by 4.1 per cent in December 2021. In real terms, M2 rose by 2.3 per cent during the review quarter, following a contraction of 4.1 per cent in the previous quarter.

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



Source: Central Bank of Lesotho

Determinants of M2

Domestic Claims

Domestic claims increased by 5.9 per cent during the quarter ending in December 2021, following a growth of 16.3 per cent in the previous quarter. The growth resulted from a 12.1 per cent increase in net claims on government and a moderate growth of 0.6 per cent in claims on other sectors. Net claims on government benefitted from an increase in commercial banks’ holding of government securities in the fourth quarter of 2021. The growth in claims on other sectors was underpinned by a

rise in credit extended to other financial corporations and the private sector. Annually, domestic claims rose by 13.7 per cent in December, following a growth of 6.8 per cent in September 2021.

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

	2020		2021			Changes(%)	
	Q4	Q1	Q2	Q3	Q4	Quarterly	Annual
Domestic Claims	5349.40	5334.61	4939.18	5742.42	6079.43	5.87	13.65
Net Claims on Government	-2418.56	-2247.34	-2864.16	-2371.10	-2083.14	12.14	13.87
Commercial Banks Net Claims	389.84	222.07	-52.37	182.86	535.75	192.98	37.43
Claims on Central Government	2132.91	1817.47	1925.37	2036.39	2405.61	18.13	12.79
Liabilities to Central Government	1743.07	1595.39	1977.74	1853.53	1869.86	0.88	7.27
Central Bank Net Claims	-2808.39	-2469.41	-2811.79	-2553.96	-2618.88	-2.54	6.75
Claims on Central Government	617.87	606.08	516.12	475.97	387.27	-18.64	-37.32
Liabilities to Central Government	3426.26	3075.49	3327.91	3029.94	3006.15	-0.78	-12.26
Claims on Other Sectors	7767.95	7581.94	7803.34	8113.52	8162.56	0.60	5.08
<i>Claims on OFCs</i>	266.77	108.16	204.68	138.31	144.12	4.20	-45.98
<i>Claims on Public Nonfinancial</i>	87.00	65.90	59.95	81.34	60.21	-25.97	-30.79
<i>Claims on St & Local Government</i>	0.00	0.00	0.00	0.00	0.00		
Claims on Private Sector	7414.18	7407.87	7538.70	7893.88	7958.23	0.82	7.34
Claims on Business Enterprises	2015.45	2037.82	2042.89	2191.35	2072.61	-5.42	2.84
Claims on Households	5398.73	5370.05	5495.82	5702.53	5885.62	3.21	9.02

Source: Central Bank of Lesotho

Net Foreign Assets

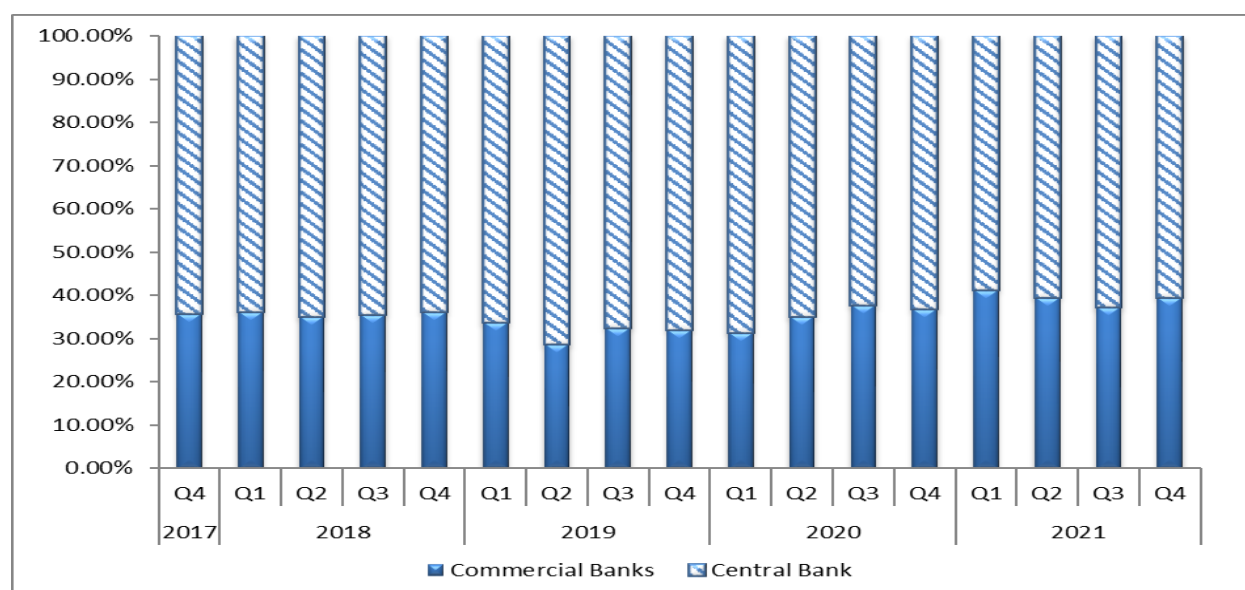
Overall net foreign assets (NFA) of the banking system increased by 4.6 per cent in the last quarter of 2021, from a decline of 1.4 per cent in the third quarter. In particular, commercial banks' NFA rose by 11.1 per cent while the central bank NFA rose by 0.7 per cent. Commercial bank NFA position was bolstered by their investments of excess funds abroad, following a considerable increase in deposits, relative to credit extension during the quarter. On a year-on-year basis, NFA grew by 1.7 per cent from an expansion of 1.5 per cent registered in September 2021.

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

	2020		2021			Changes (%)	
	Q4	Q1	Q2	Q3	Q4	Quarterly	Annual
Commercial Banks	6374.23	7210.31	6758.09	6267.31	6965.49	11.14	9.28
Claims on Non-residents	6679.44	7584.51	6996.93	6544.39	7451.12	13.85	11.55
Liabilities to Non-residents	305.20	374.20	238.84	277.09	485.62	75.26	59.12
Central Bank	10937.57	10237.23	10324.92	10571.85	10646.31	0.70	-2.66
Claims on Non-residents	12680.16	11963.77	11927.54	13668.53	13649.47	-0.14	7.64
Liabilities to Non-residents	1742.59	1726.54	1602.62	3096.68	3003.16	-3.02	72.34
Net Foreign Assets Total	17311.80	17447.54	17083.01	16839.16	17611.80	4.59	1.73

Source: Central Bank of Lesotho

Figure 9: Net Foreign Assets (Percentage shares)



Source: Central Bank of Lesotho

Components of M2

In terms of the broad money components, the upsurge in M2 was supported by growth in both narrow money (M1) and quasi money. M1 rose by 13.2 per cent in December, compared with a decline of 1.8 per cent in the previous quarter. This emanated from a growth in transferable deposits held by business enterprises and households. Quasi money increased by 5.6 per cent in the last quarter of 2021, benefiting from a rise in call deposits held by statutory bodies, business enterprises and households, as well as growth in fixed deposits held by business enterprises.

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

	2020		2021			Changes (%)	
	Q4	Q1	Q2	Q3	Q4	Quarterly	Annual
Broad Money (M2)	14282.90	14098.69	13586.85	13624.49	14867.90	9.13	4.10
Narrow Money (M1)	6950.30	6862.16	6408.00	6289.92	7120.26	13.20	2.45
Currency Outside DCs	1370.83	1379.51	1165.16	1287.24	1355.41	5.30	-1.13
Transferable Deposits	5579.47	5482.65	5242.84	5002.68	5764.85	15.24	3.32
Quasi Money	7332.60	7236.52	7178.85	7334.58	7747.64	5.63	5.66
Other Deposits Commercial Banks	7299.95	7210.75	7150.95	7303.26	7718.34	5.68	5.73
Other Deposits Central Bank	32.65	25.78	27.90	31.32	29.31	-6.42	-10.24

Source: Central Bank of Lesotho

CREDIT EXTENSION

Private sector credit grew by 0.8 per cent between September and December 2021. This was on the back of a 3.2 per cent increase in households' credit, and a fall of 5.4 per cent in credit extended to business enterprises. On an annual basis, private sector credit rose by 7.3 per cent, from a growth of 7.0 per cent in the previous quarter. Measured in real terms, private sector credit fell by 6 per cent compared to a decline of 0.7 per cent in the third quarter.

Trends in Credit Extended to Business Enterprises

Loans and advances granted to the business sector fell by 5.4 per cent in the fourth quarter, from a growth of 7.3 per cent recorded in the preceding quarter. The decline in business loans largely reflected credit repayments made by the mining, real estate & business services as well as construction industries. Credit to the agricultural sector remained on an upward trajectory, benefitting mainly from new loans extended to wool and mohair farmers during the quarter under review. Annually, overall credit to business enterprises increased by 2.8 per cent, from 5.4 per cent growth observed in the previous quarter.

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

SECTOR	2020		2021			Changes (%)	
	Q4	Q1	Q2	Q3	Q4	Quarterly	Annual
Agriculture	47.22	45.00	72.34	81.34	90.83	11.66	92.34
Mining	359.16	299.42	313.40	402.72	284.68	-29.31	-20.74
Manufacturing	29.74	30.86	27.27	32.57	48.90	50.13	64.40
Electricity, gas and water	2.42	4.15	8.37	6.97	5.45	-21.84	124.88
Construction	321.87	343.09	342.23	341.32	311.53	-8.73	-3.21
Wholesale, Retail, Hotel & Restaurant	354.36	380.62	385.19	377.91	412.37	9.12	16.37
Transport, Storage and Communication	357.52	385.41	367.70	407.79	436.98	7.16	22.22
NBFIs, Real Estate and Business Services	530.03	532.84	511.74	527.45	470.06	-10.88	-11.32
Community, Social & Personal Service	13.41	16.42	14.64	13.26	11.81	-10.93	-11.93
All Sectors	2015.74	2037.82	2042.89	2191.35	2072.61	-5.42	2.82

Source: Central Bank of Lesotho

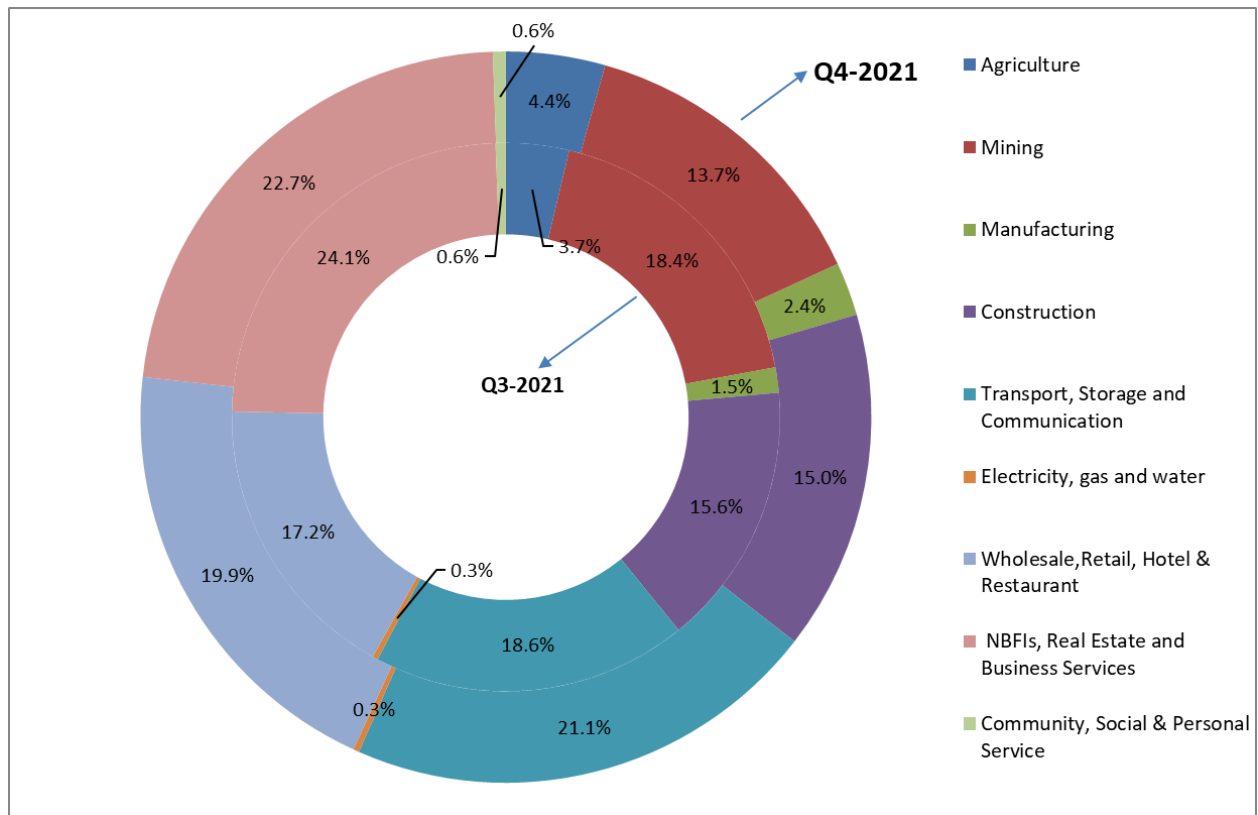
Distribution of credit Extended to Business Enterprises

Real estate and business services sector continued to dominate the credit to business enterprises, receiving a share of 22.7 per cent during the review quarter. The transport, storage & communication sector received the second largest share of 21.1 per cent while wholesale, retail, hotel and restaurant sector stood in the third place with a share of 19.9 per cent. The smallest share of credit was allocated to the electricity, gas & water sector at 0.3 per cent. Share of credit to sectors identified by National Strategic Development Plan (NSDP) 2², as potential sectors for job creation and achievement of

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

inclusive economic growth, stood at 70.4 per cent in the fourth quarter, from 65.1 per cent in the third quarter.

Figure 10: Distribution of Credit (Percentage Shares)

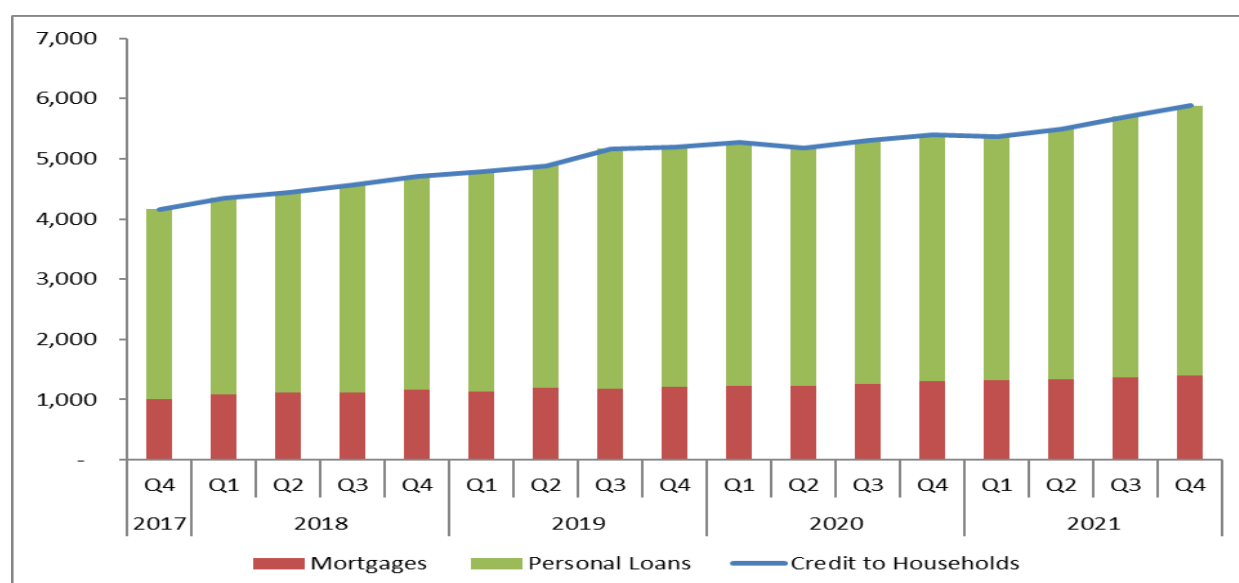


Source: Central Bank of Lesotho

Credit extended to Households

Commercial bank Credit to households rose by 3.2 per cent during the quarter ending in December 2021, from an increase of 3.8 per cent in the third quarter. The increase was attributed to a 3.5 per cent and a 2.5 per cent growth in personal and mortgage loans, respectively. Technological advancements in the credit market, coupled with increased demand, resulted in the positive movements in both the personal and mortgage loans during the quarter. On an annual basis, household credit accelerated from 7.6 per cent to 9.0 per cent between September and December 2021.

Figure 11: Credit Extension to Household (Million Maloti)



Source: Central Bank of Lesotho

LIQUIDITY OF COMMERCIAL BANKS

Components of liquidity

Commercial banks' credit to deposit ratio fell to 51.1 per cent during the review quarter, from 55.0 per cent recorded in the previous quarter. The fall was largely explained by an increase in total deposits, while growth in private sector credit was sluggish. The liquidity ratio also fell from 46.0 per cent in September to 44.0 per cent in December 2021. This stemmed from faster growth in total deposits relative to that of liquid assets. Compared to a year ago, credit to deposit ratio increased by 1.2 percentage points.

Table 7: Components of Liquidity (Million Maloti)

	2020		2021		
	Q4	Q1	Q2	Q3	Q4
Credit to Deposit Ratio	49.94%	51.07%	51.69%	54.96%	51.10%
Private Sector Credit	7309.67	7303.71	7432.96	7785.84	7849.43
Total Deposits	14636.53	14301.28	14381.18	14167.60	15361.79
Liquidity Ratio	42.63%	41.09%	41.58%	45.98%	44.02%
Notes and Coins	707.97	597.53	564.86	531.65	734.29
Net Balance due from banks in Lesotho	-2.73	-253.58	1.10	-1.93	-4.18
Net Balance due from banks in SA	3197.43	3866.53	3645.44	3723.86	3554.91
Surplus funds	204.32	-151.09	-156.79	224.26	71.27
Government Securities	2132.91	1817.47	1925.37	2036.39	2405.61
Total	6239.91	5876.85	5979.98	6514.23	6761.90

Source: Central Bank of Lesotho

Commercial Banks Sources of Funds

The commercial banks' total deposit liabilities increased by 8.4 per cent in the fourth quarter, having declined by 1.5 per cent in the preceding period. This was mainly attributable to an increase in transferable deposits and other deposits included in broad money. In particular, transferable deposits benefitted from an increase in deposits held by the private sector, while the growth in other deposits was underpinned by the rise in private sector and public nonfinancial corporations' deposits. The growth in deposits held by private sector emanated from bonuses received by salaried clients of the banks coupled with heightened business activity associated with the festive season. Deposits excluded in broad money rose by 0.9 per cent due to an increase in central government deposits. Total deposits rose by 11.1 per cent on annual basis, following a growth of 2.5 per cent in the previous quarter.

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

	2020		2021			Changes (%)	
	Q4	Q1	Q2	Q3	Q4	Quarterly	Annual
Transferable Deposits Incl. in BM	5579.47	5482.65	5242.84	5002.68	5764.85	15.24	25.50
Other Financial Corporations	79.32	79.26	75.48	110.65	84.52	-23.61	10.73
Public Nonfinancial Corporations	31.41	33.90	59.11	72.73	67.10	-7.74	-19.64
Private Sector	5431.75	5345.29	5099.48	4796.76	5580.45	16.34	27.36
Other NFCs	3893.93	3627.80	3487.60	3163.62	3852.96	21.79	33.42
Other Sectors (Households)	1537.82	1717.48	1611.89	1633.14	1727.49	5.78	15.66
Other Deposits Incl. in BM	7299.95	7210.75	7150.95	7303.26	7718.34	5.68	8.16
Other Financial Corporations	92.48	148.26	191.27	253.72	89.59	-64.69	-32.15
Public Nonfinancial Corporations	221.14	338.64	228.98	160.23	191.05	19.24	-14.86
Private Sector	6986.33	6723.85	6730.70	6889.32	7437.70	7.96	9.71
Other NFCs	4723.34	4296.97	4372.71	4437.36	4943.74	11.41	10.19
Other Sectors (Households)	2262.99	2426.88	2357.99	2451.96	2493.95	1.71	8.78
Deposits excluded in BM	1757.12	1607.88	1987.39	1861.66	1878.60	0.91	-10.34
Total Deposits	14636.53	14301.28	14381.18	14167.60	15361.79	8.43	11.12

Source: Central Bank of Lesotho

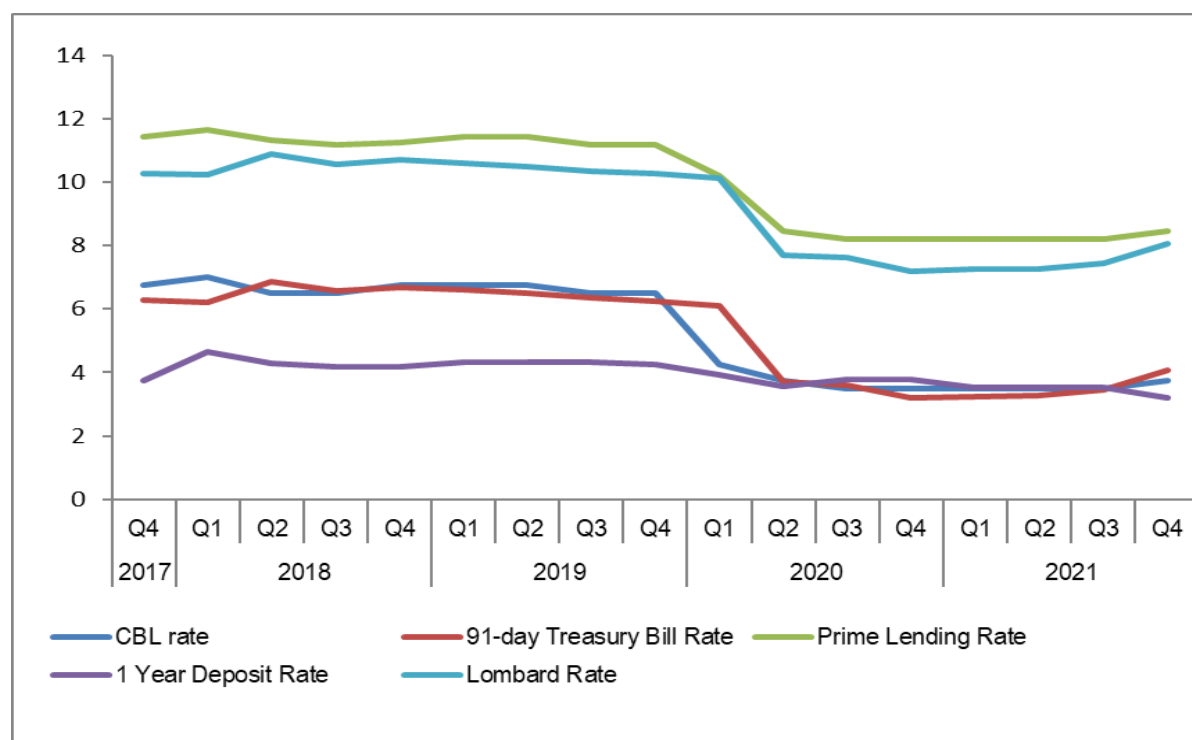
MONEY AND CAPITAL MARKET DEVELOPMENTS

Money Market

Interest Rates

The Central Bank of Lesotho's policy rate rose by 25 basis points from 3.50 per cent in the third quarter to 3.75 per cent in the fourth quarter. As a result, the prime lending rate also rose by 25 basis points and stood at 8.44 per cent in December 2021. The 91-day treasury bill rate rose by 61 basis points and stood at 4.06 per cent, remaining within the desired range of +/- 200 basis points to the South African counterpart rate. However, the one-year deposit rate declined by 33 basis points from 3.53 per cent in September to 3.20 per cent in December 2021.

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



Source: Central Bank of Lesotho

Table 9: Interest rates

	2020		2021		
	Q4	Q1	Q2	Q3	Q4
Central Bank					
CBL rate	3.50	3.50	3.50	3.50	3.75
T-Bill Rate - 91 days	3.20	3.25	3.27	3.45	4.06
Lombard Rate	7.20	7.25	7.27	7.45	8.06
Commercial Banks					
Call	0.99	0.99	0.99	0.99	1.05
Time:					
31 days	0.67	0.67	0.67	0.67	0.67
88 days	1.88	1.64	1.64	1.64	1.64
6 months	3.00	3.10	3.10	3.10	3.18
1 year	3.79	3.53	3.53	3.53	3.20
Savings	0.70	0.70	0.70	0.70	0.70
Prime	8.19	8.19	8.19	8.19	8.44
South Africa					
Repo	3.50	3.50	3.50	3.50	3.75
T-Bill Rate - 91 days	3.87	3.81	3.75	3.79	3.83
Prime	7.00	7.00	7.00	7.00	7.25

Source: Central Bank of Lesotho

Holding of Treasury Bills

The overall holding of treasury bills (T-Bills) increased by 31.1 per cent in the quarter under review, compared with a moderate growth of 0.04 per cent observed in the third quarter of 2021. This was because of additional issuance of T-Bills amounting to M300.00 million during the quarter. The holding of T-Bills by the banking sector increased by 38.6 per cent, while the non-bank sector holding declined by 4.9. On a year-on-year basis, the overall holding of T-Bills rose by 8.5 per cent.

Table 10: Holding of Bills (Million Maloti)

	2020		2021		
	Q4	Q1	Q2	Q3	Q4
Treasury Bills	1335.09	881.62	1032.55	1104.94	1448.59
Banking System	1013.05	657.91	821.69	913.84	1266.77
Non-Bank Sector	322.04	223.71	210.85	191.10	181.82
Memorandum Item					
Yield Bills (91-days)	3.23	3.28	3.28	3.48	4.10

Source: Central Bank of Lesotho

Holding of Treasury Bonds

The overall holdings of treasury bonds remained unchanged between September and December 2021. Nonetheless, the banking sector's holdings of treasury bonds fell by 2.3 per cent, while the non-banking sector recorded a growth of 1.6 per cent. The share of the banking sector to the total stock of bonds stood at 40.1 per cent, while the non-banking sector stood at 59.9 per cent in December 2021. Compared to December 2020, the total stock of outstanding bonds had risen by 8.8 per cent.

Table 11: Holding of Bonds (Million Maloti)

	2020		2021		
	Q4	Q1	Q2	Q3	Q4
Holding of Treasury Bonds	2560.24	2599.80	2633.27	2786.32	2786.32
Banking System	1096.06	1124.24	1085.77	1144.28	1118.18
Non-Bank Sector	1464.18	1475.57	1547.50	1642.04	1668.13

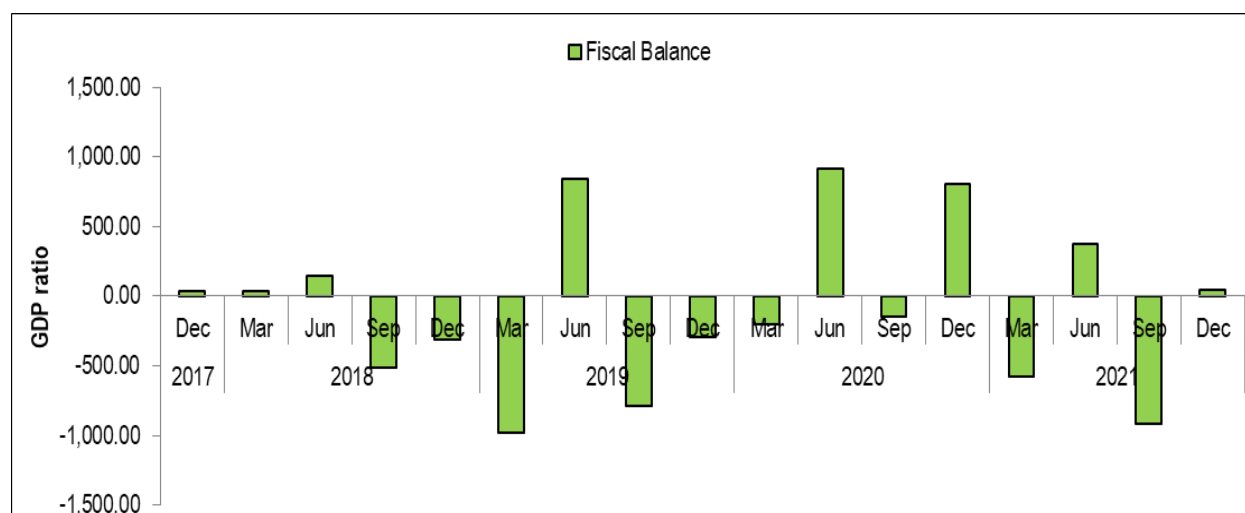
Source: Central Bank of Lesotho

4. Government Finance

OVERVIEW

Government budgetary operations were estimated to have resulted in a surplus corresponding to 0.5 per cent of GDP during the quarter ending in December 2021, relative to a revised deficit of 9.6 per cent of GDP in the previous quarter. This surplus was largely explained by a relatively higher collection of revenue and subdued total spending. This was contributed to an increase in Government deposits. The public debt stock was estimated to have increased to 52.1 per cent of GDP in the last quarter of 2021, from the revised 50.1 per cent of GDP in the third quarter of 2021. This was due to an issuance of the domestic Government securities to finance budgetary operations and contraction of new external debt during the quarter.

Figure 13: Fiscal Balance (Percent of GDP)



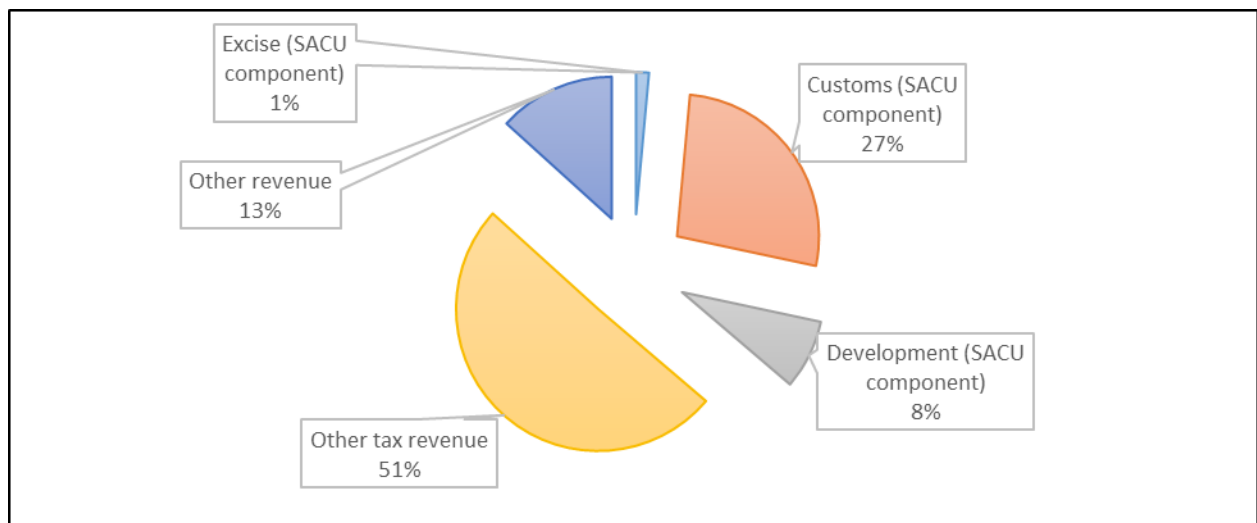
Source: Central Bank of Lesotho and Ministry of Finance

REVENUE³

Government revenue increased by 7.8 per cent during the last quarter of 2021, in contrast to a revised 5.6 per cent decline in the third quarter of 2021. The rise in revenue was largely driven by improved collection of income tax, value-added tax, excise taxes, as well as, mining royalties. On a year-on-year basis, total revenue fell by 12.6 per cent during the quarter under review, compared with a revised fall of 11.5 per cent in the previous quarter.

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.

Figure 14: Total Revenue (Million Maloti)

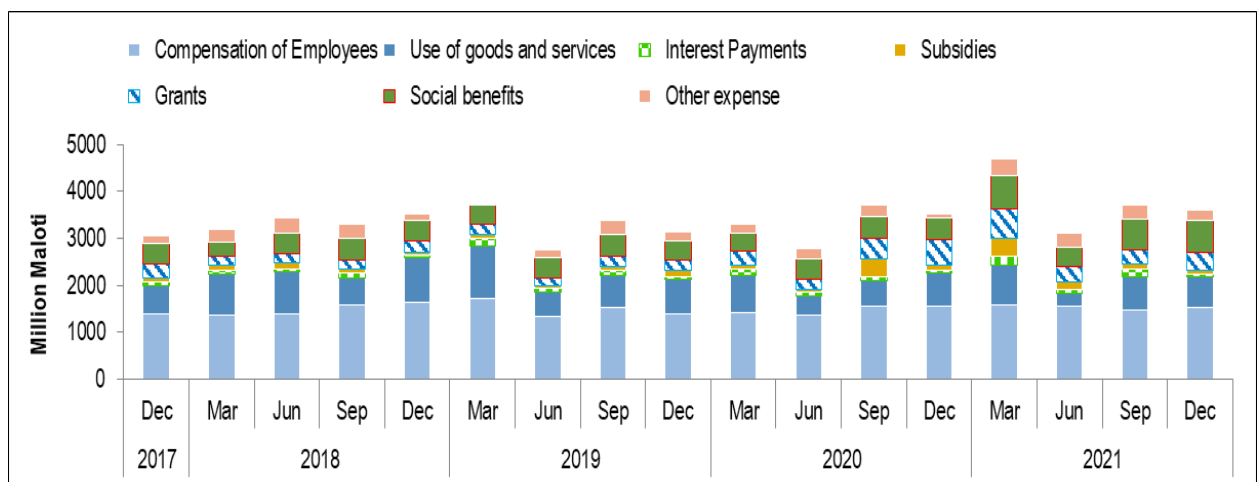


Source: Central Bank of Lesotho and Ministry of Finance

TOTAL EXPENDITURE

Total Government spending decreased by 13.9 per cent in the quarter under review, in contrast to a revised increase of 28.5 per cent in the previous quarter. The main components that led to a decrease in spending included operating costs, student grants, subsidies to non-financial corporations, and the capital expenditure. In terms of the annual changes, total spending increased by 4.1 per cent in the quarter under review, following an increase of 5.9 per cent in the previous quarter.

Figure 15: Total Expense (Million Maloti)



Source: Central Bank of Lesotho and Ministry of Finance

Table 12: Statement of Government Operations (Million Maloti)

	2020	2021				Q-to-Q	Y-on-Y	GDP
	Q4	Q1	Q2	Q3	Q4	(%)	(%)	ratio (%)
Total Revenue	4748.97	4836.70	4079.23	3849.90	4149.12	7.8	-12.6	41.7
Tax revenue	3650.85	3786.56	3214.85	3040.37	3266.51	7.4	-10.5	32.8
Income Tax	938.61	1104.33	954.54	999.83	1160.02	16.0	23.6	11.6
Value Added Tax	814.90	700.28	777.70	727.80	789.37	8.5	-3.1	7.9
SACU Receipts Components	1756.49	1756.49	1175.05	1175.05	1175.05	0.0	-33.1	11.8
Other tax revenue	140.85	225.46	307.57	137.70	142.07	3.2	0.9	1.4
Grants	542.92	542.76	359.49	334.59	331.55	-0.9	-38.9	3.3
o/w SACU Receipts Component	488.65	488.65	326.89	326.89	326.89	0.0	-33.1	3.3
Other revenue	555.20	507.38	504.89	474.93	551.07	16.0	-0.7	5.5
Total Expense	3519.27	4692.78	3119.27	3715.91	3596.97	-3.2	2.2	36.1
Compensation of Employees	1559.85	1566.00	1544.00	1457.98	1531.67	5.1	-1.8	15.4
Use of goods and services	709.04	864.95	282.55	726.94	634.54	-12.7	-10.5	6.4
O/W Purchase of Health Services	95.38	63.10	97.83	119.62	188.06	57.2	97.2	1.9
Interest Payments	46.68	177.28	90.97	167.82	74.18	-55.8	58.9	0.7
Subsidies	119.57	391.60	161.83	105.94	87.06	-17.8	-27.2	0.9
Grants	532.93	618.97	309.05	293.63	379.57	29.3	-28.8	3.8
Social benefits	474.08	705.05	429.63	642.29	676.87	5.4	42.8	6.8
Other expense	77.12	368.95	301.23	321.30	213.08	-33.7	176.3	2.1
Gross Operating Balance	1229.70	143.92	959.97	133.99	552.15	-	-	5.5
Total Nonfinancial Assets	421.53	723.77	587.43	1047.95	505.02	-51.8	19.8	5.1
Fixed Assets	421.53	723.77	587.43	1047.95	505.02	-51.8	19.8	5.1
Non-Produced Assets	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Total Expenditure	3940.80	5416.55	3706.70	4763.86	4101.99	-13.9	4.1	41.2
Primary balance	854.85	-402.57	463.50	-746.14	121.31	-	-	1.2
Net lending/borrowing	808.17	-579.85	372.53	-913.96	47.13	-	-	0.5
Financing	622.81	-573.89	430.50	-893.56	46.68	-	-	0.5
Net Acquisition of Financial assets	115.40	-502.83	722.33	-432.12	68.95	-	-	0.7
O/W Domestic Currency and Deposits	6.31	-544.83	707.03	-398.17	12.37	-	-	0.1
Net Incurrence of Liabilities	-507.41	71.06	291.84	461.44	22.27	-	-	0.2
O/W Domestic Other Accounts Payable	-406.77	16.25	116.03	141.81	-291.61	-	-	-2.9
Statistical Discrepancy	185.36	-5.95	-57.97	-20.40	0.45	-	-	0.0
Memo Items								
SACU receipts	2245.13	2245.13	1501.94	1501.94	1501.94	0.0	-33.1	15.1
GDP (quarterly, red colour = forecast)	9705.57	8695.53	8729.77	9567.14	9959.39	-	-	-

Source: Central Bank of Lesotho and Ministry of Finance

TOTAL OUTLAYS BY FUNCTIONS OF GOVERNMENT⁴

The share of development outlays to total spending fell to 8.7 per cent in the quarter ending in December 2021 from 11.6 per cent during the quarter ending in September 2021, with the housing spending function being the most affected. The major spending functions under total outlays included education, economic affairs, social protection, and general public services.

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

	2020	2021				Q-to-Q (%)	Y-on-Y (%)	GDP ratio (%)
	Q4	Q1	Q2	Q3	Q4			
Recurrent Outlays	3823.35	3284.35	2692.45	3700.67	3316.95	-10.4	-13.2	33.3
General public services	777.53	475.31	350.40	457.47	456.20	-0.3	-41.3	4.6
Defense	173.09	153.09	137.24	220.35	152.25	-30.9	-12.0	1.5
Public order and safety	380.52	294.29	278.41	336.08	326.94	-2.7	-14.1	3.3
Economic affairs	388.64	524.37	416.08	649.83	494.46	-23.9	27.2	5.0
Environmental protection	5.05	3.57	2.63	3.41	3.47	1.7	-31.4	0.0
Housing and community amenities	34.73	82.17	27.46	229.89	66.43	-71.1	91.3	0.7
Health	762.60	606.20	382.69	560.11	470.56	-16.0	-38.3	4.7
Recreation, culture and religion	30.53	25.91	22.05	30.86	138.36	348.3	353.2	1.4
Education	703.34	586.35	559.39	633.32	659.92	4.2	-6.2	6.6
Social protection	567.32	533.09	516.09	579.35	548.38	-5.3	-3.3	5.5
Capital Outlays	333.85	498.24	157.11	483.82	315.95	-34.7	-5.4	3.2
General public services	117.97	172.21	59.00	106.10	59.47	-44.0	-49.6	0.6
Defence	8.64	9.15	0.00	0.00	0.00	-	-100.0	0.0
Public order and safety	80.03	124.91	59.40	111.53	96.17	-13.8	20.2	1.0
Economic affairs	24.92	86.54	32.76	133.04	114.80	-13.7	360.6	1.2
Environmental protection	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Housing and community amenities	93.93	15.79	5.70	119.17	23.58	-80.2	-74.9	0.2
Health	1.06	26.89	0.25	5.18	21.36	312.6	1912.1	0.2
Recreation, culture and religion	3.70	29.22	0.00	7.30	0.38	-94.8	-89.8	0.0
Education	3.59	33.54	0.00	1.51	0.20	-86.7	-94.4	0.0
Social protection	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Total Outlays	4157.19	3782.59	2849.56	4184.50	3632.91	-13.2	-12.6	36.5
General public services	895.50	647.51	409.40	563.57	515.67	-8.5	-42.4	5.2
Defence	181.73	162.24	137.24	220.35	152.25	-30.9	-16.2	1.5
Public order and safety	460.55	419.20	337.81	447.62	423.11	-5.5	-8.1	4.2
Economic affairs	413.56	610.91	448.85	782.87	609.25	-22.2	47.3	6.1
Environmental protection	5.05	3.57	2.63	3.41	3.47	1.7	-31.4	0.0
Housing and community amenities	128.66	97.96	33.16	349.06	90.01	-74.2	-30.0	0.9
Health	763.66	633.09	382.93	565.29	491.92	-13.0	-35.6	4.9
Recreation, culture and religion	34.23	55.12	22.05	38.16	138.73	263.6	305.3	1.4
Education	706.93	619.89	559.39	634.83	660.12	4.0	-6.6	6.6

⁴ This COFOG excludes interest payments and financing items (i.e. loan principal repayments and payment of arrears). The classification of Lesotho's COFOG is compatible with the IMF's GFS manual of 2014.

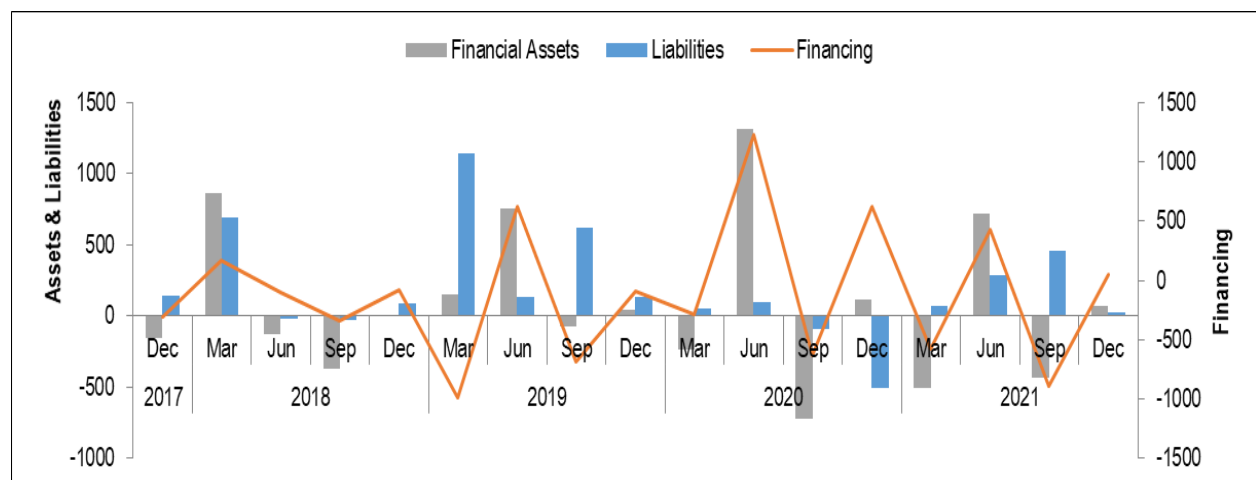
	2020	2021				Q-to-Q (%)	Y-on-Y (%)	GDP ratio (%)
	Q4	Q1	Q2	Q3	Q4			
Social protection	567.32	533.09	516.09	579.35	548.38	-5.3	-3.3	5.5
Unidentified Outlays	-216.39	1633.96	857.14	579.36	469.09	-19.0	-316.8	4.7

Source: Central Bank of Lesotho and Ministry of Finance

FINANCIAL ASSETS AND LIABILITIES⁵

Government financial flows reflected an expansion of the financial balance sheet during the quarter under review, relative to a contraction that was experienced in the previous quarter. Consequently, the financial assets increased by M68.95 million, mainly due to increased revenues that contributed to the build-up of the Government deposits in the banking system coupled with other accounts receivable. Liabilities increased by M22.27 million due to the issuance of Treasury securities.

Figure 16: Total Financing (Million Maloti)



Source: Central Bank of Lesotho and Ministry of Finance

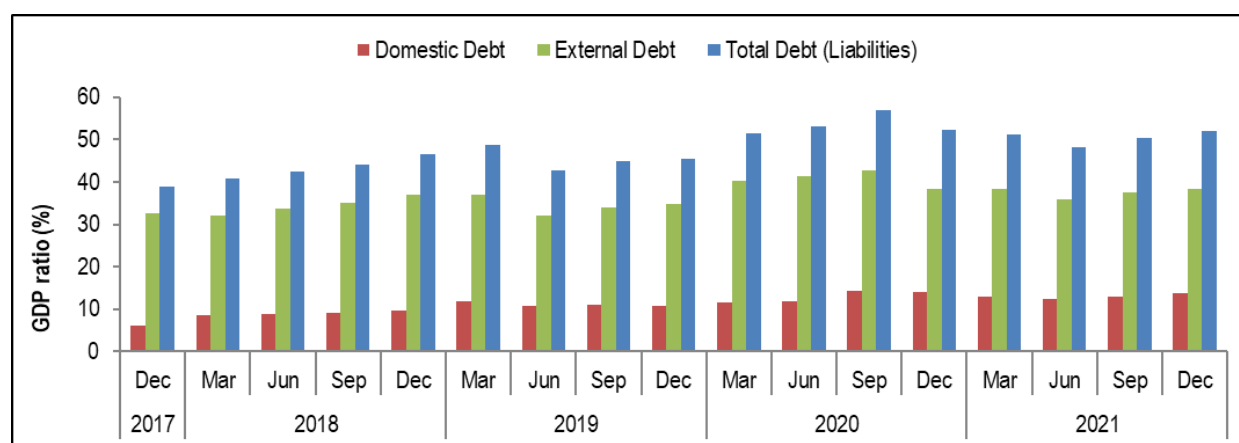
TOTAL PUBLIC DEBT⁶

The stock of public debt was estimated to have grown by 3.5 per cent in the quarter ending in December 2021, compared with 4.2 per cent observed in the previous quarter. This accumulation was mainly driven by issuance of short-term and long-term Treasury securities and disbursements of new external debt. In terms of annual changes, the public debt stock rose by 5.0 per cent in the current quarter compared to a revised fall of 7.2 per cent in the previous quarter.

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

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

Figure 17: Outstanding Public Debt (Million Maloti)



Source: Central Bank of Lesotho and Ministry of Finance

Table 14: Public Debt Stock (Million Maloti)

	2020	2021				Q-Q	Y-on-Y (%)	Debt/GDP
	Q4	Q1	Q2	Q3	Q4			
Total Public Debt	18609.44	18245.62	18118.92	18873.36	19542.61	3.5	5.0	52.1
EXTERNAL DEBT	13631.19	13665.43	13448.50	14051.20	14426.60	2.7	5.8	38.5
Bilateral Loans	975.64	982.61	924.00	939.80	953.90	1.5	-2.2	2.5
Concessional	975.64	982.61	924.00	939.80	953.90	1.5	-2.2	2.5
Non-concessional	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Multilateral Loans	11090.74	11108.39	10944.80	11384.90	11488.80	0.9	3.6	30.6
Concessional	9620.03	9664.54	9517.90	9936.20	10004.40	0.7	4.0	26.7
Non-concessional	1470.71	1443.85	1426.90	1448.70	1484.40	2.5	0.9	4.0
Financial Institutions	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Concessional	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Non-concessional	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Suppliers' Credit	1564.81	1574.43	1579.70	1726.50	1983.90	14.9	26.8	5.3
DOMESTIC DEBT	4978.25	4580.18	4670.42	4822.16	5116.01	6.1	2.8	13.6
Banks	3215.15	2880.91	2912.06	2989.02	3251.85	8.8	1.1	8.7
Long-term	2201.94	2223.00	2090.37	2075.18	1985.08	-4.3	-9.8	5.3
Treasury bonds	1096.06	1124.24	1085.77	1144.28	1118.18	-2.3	2.0	3.0
Central Bank (IMF-ECF)	1105.89	1098.77	1004.60	930.90	866.90	-6.9	-21.6	2.3
Short-term (t-bills)	1013.21	657.91	821.69	913.84	1266.77	38.6	25.0	3.4
Non-bank	1763.09	1699.28	1758.36	1833.14	1864.15	1.7	5.7	5.0
Short-term (t-bills)	298.91	223.71	210.85	191.10	196.02	2.6	-34.4	0.5
Long-term (t-bonds)	1464.18	1475.57	1547.50	1642.04	1668.13	1.6	13.9	4.4
DEBT INDICATORS								
External Debt-to-Total Debt	73.2	74.9	74.2	74.4	73.8	-	-	-
Domestic Debt-to-Total Debt	26.8	25.1	25.8	25.6	26.2	-	-	-
Concessional Debt-to-External Debt	56.9	58.4	57.6	57.6	56.1	-	-	-
External Debt Service-to-GDP	1.5	2.0	1.8	1.9	2.6	-	-	-
External Debt Service-to-Revenue	3.0	3.7	3.9	4.6	6.3	-	-	-
External Debt Service-to-Exports	3.3	5.3	4.4	4.3	5.8	-	-	-

Source: Central Bank of Lesotho and Ministry of Finance

5. Foreign Trade and Payments

OVERVIEW

The external sector position deteriorated to a deficit equivalent to 1.0 per cent of GDP during the fourth quarter of 2021, falling from a 28.9 per cent surplus in the previous quarter. The deficit was mainly a result of the worsening current account deficit together with the declining capital account surplus. Meanwhile, the financial account balance recorded a substantial outflow of funds amid increased liquidity in the banking sector. Thus, the current account deficit was financed through a drawdown of reserve assets during the review quarter.

CURRENT ACCOUNT

The current account balance deteriorated in the quarter under review. It registered a deficit of M449.3 million, increasing from M343.90 million deficit recorded in the preceding quarter. This emanated mainly from widening deficits on the goods and the services accounts, as merchandise imports, together with services acquired from abroad rose at a significantly higher pace than exports. This was however, moderated by improved performance of the primary and secondary income accounts during the same period. As a percentage of GDP, the current account deficit accounted for 4.5 per cent, compared with 7.4 per cent of GDP observed in the preceding quarter.

Table 17: Current Account Balance (Million Maloti)

	2020	2021				% Changes	
	Q4	Q1	Q2	Q3	Q4	Q/Q	Y/Y
Current Account	-147.1	87.19	-753.8	-343.9	-449.3	-30.7	-205.4
(a) Goods	-3052.0	-2958.20	-3004.1	-2484.0	-2608.9	-5.0	14.5
Merchandise exports, f.o.b.	4298.7	3350.16	3654.9	4174.2	4564.5	9.3	6.2
Of which diamonds	1217.3	919.79	1172.7	1309.1	1036.9	-20.8	-14.8
Of which textiles & clothing	2424.1	1778.78	1848.0	2160.5	2673.9	23.8	10.3
Of which water	287.6	281.90	292.4	304.7	400.8	31.5	39.4
Of which agriculture	105.5	71.17	77.0	84.6	97.9	15.8	-7.2
Of which re-exports	34.6	83.48	57.4	43.6	80.5	84.7	132.7
Other exports	229.6	215.04	207.4	271.7	274.4	1.0	19.5
Merchandise imports, f.o.b.	7350.7	6303.36	6659.1	6658.2	7173.4	7.7	-2.4
(b) Services	-1606.3	-1659.82	-1641.3	-1650.2	-1712.4	-3.8	-6.6
(c) Primary Income	1716.0	1747.09	1828.5	1767.4	1814.9	2.7	5.8
(d) Secondary Income	2795.2	2958.11	2063.1	2022.9	2057.1	1.7	-26.4

Source: Central Bank of Lesotho

Merchandise Exports

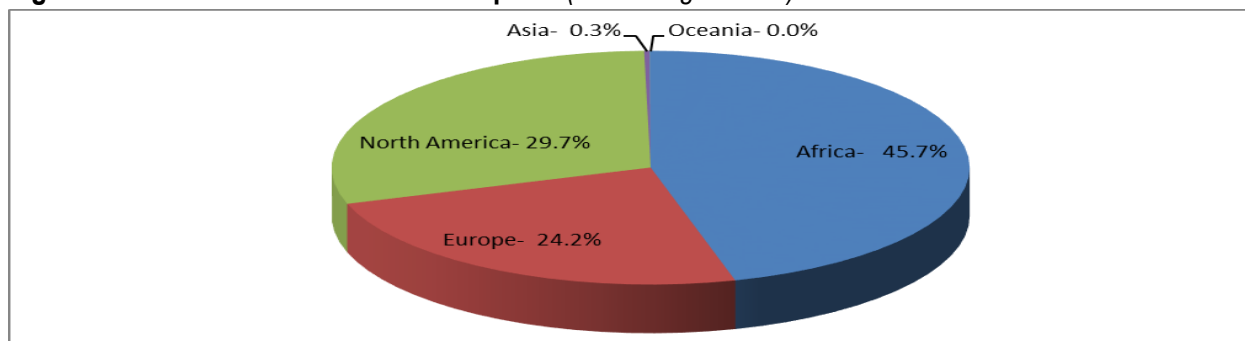
The level of merchandise exports increased by 9.3 per cent in the quarter ending in December 2021, compared with 9.4 per cent recorded in the previous quarter. The observed performance was buoyed mostly by the increase in exports of textiles and clothing, agriculture, water, re-exports, as well as other exports. This was however moderated by a fall in diamond exports. Textile and clothing exports grew by 23.8 per cent, with the US and South Africa continuing to be Lesotho's major textiles and clothing hub/market. The observed performance in this industry was underpinned by increased orders to the US and South Africa during this period. In addition, delays in shipment of orders from the previous

quarter has seen textiles and clothing exports rise markedly in the fourth quarter of 2021. Furthermore, water exports to South Africa rose on account of increased reservoir levels at Katse dam, which saw Lesotho Highlands Development Authority (LHDA) recoup the deficits in water deliveries incurred in the previous years of drought. Despite the favourable international diamond prices, maintenance works on the plant in one of the mines affected the overall performance of the industry as production weakened, while another mine was affected by recovery of low value diamonds during the period. As a ratio of GDP, merchandise exports accounted for 45.9 per cent, which was lower relative to the 56.9 per cent of GDP realised in the previous quarter.

Direction of Trade – Exports

During the quarter under review, the biggest share of Lesotho’s exports was directed to Africa (45.7 per cent) contrary previous quarter’s share of 43.0 per cent. They comprised mostly textiles and clothing exports to South Africa. North America was the second largest recipient of Lesotho’s exports, amounting to 29.7 per cent compared with 24.6 per cent in the quarter ending September 2021. The exports consisted mostly textile and clothing to the US. Europe came third with a share of 24.2 per cent, which is lower than the 31.4 recorded in the previous quarter. Asia and Oceania continued to be the least recipients of Lesotho’s exports, with a minimal share of 0.3 per cent and 0.04 per cent respectively.

Figure 18: Direction of Merchandise Exports (Percentage Share)



Source: Central Bank of Lesotho

Merchandise Imports

Merchandise imports grew by 7.7 per cent in the fourth quarter of 2021. They comprised mostly machinery and transport equipment, food and live animals, crude materials, as well as chemicals and related products. Machinery and transport equipment was composed of mostly medical equipment, while chemicals and related products comprised mostly medicaments and agricultural related materials. Crude materials also consisted of mostly seeds and natural fibres like cotton, silk and wool. The increased importation of these products came as a result of government intervention aimed at counteracting the impact of the new omicron strain of COVID-19. In addition, rising imports of input materials such as fertilizers and seeds was mainly due to increased demand as it was planting season, particularly for grains. Expressed as a percentage of GDP, merchandise imports constituted 72.2 per cent, following from 94.7 per cent in the previous quarter.

Services account

The deficit on the services account widened by 3.8 per cent in the last quarter of 2021, following a 0.6 per cent increase in the preceding quarter. This was at the backdrop of increases in payments for

freight services, business travel expenses as well as an increase in payments of telecommunication services acquired abroad. Freight services costs rose in line with the increases in imports during this period. Business travel expenses were in line with the relaxation of COVID-19 restrictions across the globe, amid improved vaccination rollout and lower death rates due to the omicron strain of coronavirus. Year-on-year, the services account deficit declined by 6.6 per cent during the review period, compared with a 1.4 per cent fall in the quarter ending September 2021. As a proportion of GDP, the services deficit accounted for 17.2 per cent in the review quarter, lower than the 23.5 per cent of GDP recorded in the preceding quarter.

Primary Income Account

The surplus on the primary income account expanded by 2.7 per cent to M1,814.87 billion in the review quarter, from M1,712.42 realised in the previous quarter. The observed increase in the primary income account balance was due to an increase in the returns on Central Bank of Lesotho (CBL) investments held abroad as well as an increase in receipts for operational costs related to Lesotho Highlands Water Project – Phase I. As a share of GDP, the primary income account balance accounted for 17.8 per cent, compared with a 25.1 per cent of GDP observed in the previous quarter. On an annual basis, the primary income account surplus rose to 5.8 per cent, after increasing by 4.7 in the previous quarter.

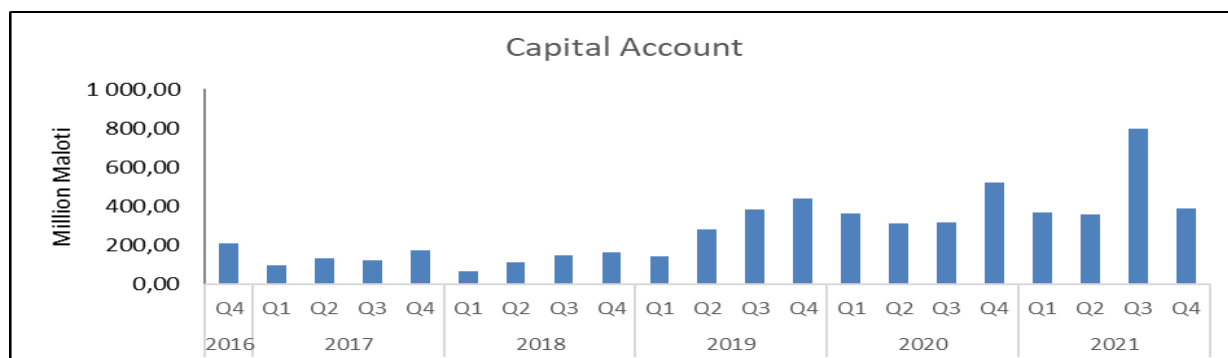
Secondary Income Account

The secondary income account surplus increased by 1.7 per cent in the fourth quarter of 2021, improving from a 1.9 per cent decline in the previous quarter. The observed performance was mainly due to the fall in subscriptions to international organisations. SACU revenue, which accounts for the largest share of the account, remained unchanged during this period. As a proportion of GDP, the surplus on the secondary account amounted to 20.7 per cent, easing from 28.8 percent recorded in the previous quarter. However, year-on-year, secondary income account declined by 26.4 per cent, slightly lower than 27.1 per cent fall in the preceding quarter.

CAPITAL ACCOUNT

Capital account inflows plunged by 51.2 per cent to M389.80 million in the quarter ending December 2021, from M798.20 million recorded in the previous quarter. This resulted from a reduction in receipts for advance infrastructure development for the Lesotho Highlands Water Project – Phase II. The decline was mainly due to relatively lesser payment certificates received during this period as compared to the previous quarter. The office closure for December holidays also exacerbated this situation. As the ratio of GDP, the surplus on the capital account amounted to 3.9 per cent, significantly lower than 11.4 per cent in the third quarter of 2021.

Figure 25: Capital Account (Million Maloti)



Source: Central Bank of Lesotho

FINANCIAL ACCOUNT

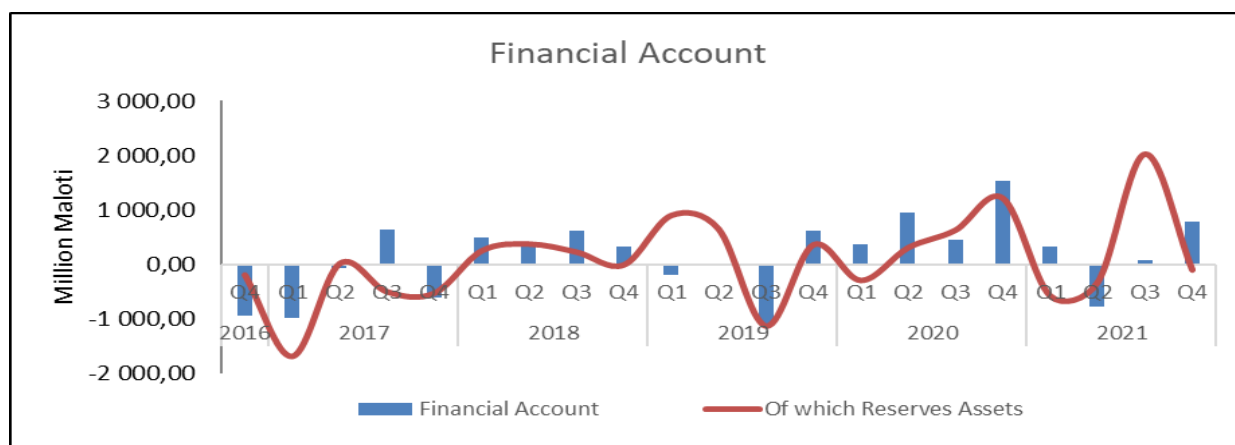
During the quarter under review, the net financial account outflows surged more than tenfold to M790.39 million, increasing from an outflow of M74.61 million in the previous quarter. The observed increase in financial account outflows was mainly on account of a rise in commercial banks' foreign assets, which were bolstered by increasing domestic deposit liabilities. Despite the massive increase in deposit liabilities, commercial banks' credit to private sector remained relatively unchanged. This therefore allowed banks to increase their holding of assets abroad. The deficit in the financial account balance, was partly moderated by the disbursements of government external loans, which outweighed debt repayments. The decline in reserve assets also moderated the deficit in the financial account balance during the review period. As a share of GDP, the financial account outflows constituted 8.3 per cent, from 2.2 per cent in the previous quarter.

Table 18: Financial Account Balance (Million Maloti)

	2020	2021			
	Q4	Q1	Q2	Q3	Q4
Financial account	1539.51	322.56	-782.44	74.61	790.39
Direct Investments, net	-121.29	-98.30	-98.30	-98.30	-98.30
Portfolio Investments, net	-0.81	-0.82	-0.82	-0.82	-0.82
Financial Derivatives, net	0.00	0.00	0.00	0.00	0.00
Other Investments, net	443.07	996.68	-353.92	-1 854.08	986.63
Of which Loans	223.80	30.93	-31.37	-97.87	159.78
Claims on Non Residents	34.48	34.48	34.48	34.48	34.48
Liabilities to Non Residents	-189.32	3.55	65.85	-132.35	124.30
Of which Currency and Deposits	292.33	1,039.81	-248.49	-287.06	901.92
Claims on Non Residents	315.77	1,108.81	-383.85	-248.81	1110.45
Liabilities to Non Residents	23.44	69.00	-135.36	38.25	208.54
Of which Special Drawing Rights	0.00	0.00	0.00	1 395.09	0.00
Reserve Assets	1219.55	-575.01	-329.41	2 027.81	-97.14

Source: Central Bank of Lesotho

Figure 26: Financial Account (Million Maloti)

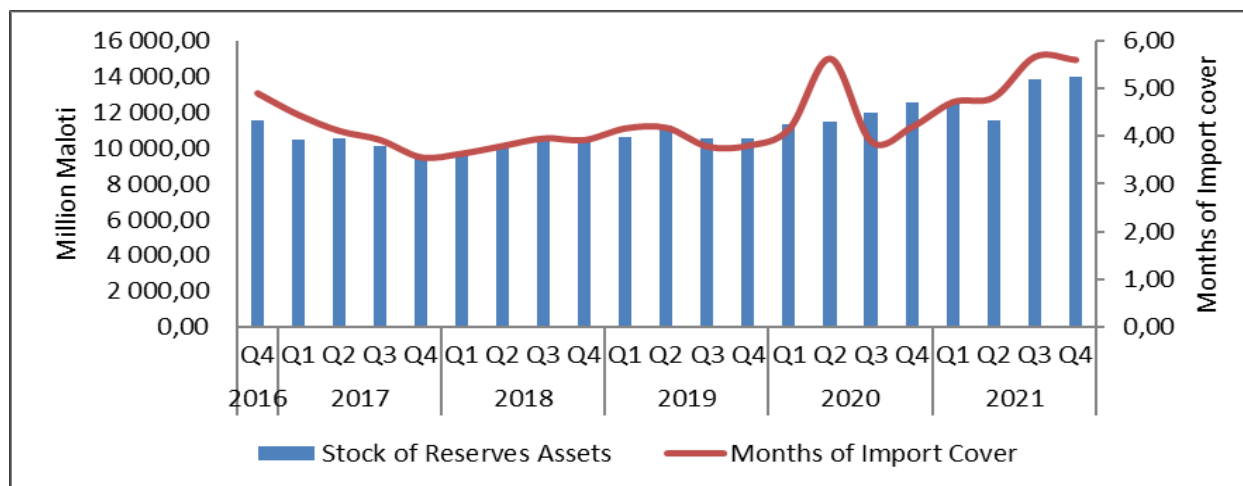


Source: Central Bank of Lesotho

RESERVE ASSETS

During the review quarter, foreign reserve assets grew marginally from those realized in the quarter ending September 2021. They rose by a 0.8 per cent to M13 954.49, from M13 847.49 in the previous quarter. Expressed in months of import cover, reserves assets declined to 5.6 months in the quarter ending in December 2021, from 5.7 months in the preceding quarter.

Figure 27: Reserve Assets



Source: Central Bank of Lesotho