

Central Bank of Lesotho



QUARTERLY ECONOMIC REVIEW

September 2021

MASERU KINGDOM OF LESOTHO

Table of Contents

1. Executive Summary	5
2. International Economic Developments	6
ADVANCED ECONOMIES	8
EMERGING MARKET ECONOMIES	9
COMMODITIES	10
EXCHANGE RATES	14
3. Real Sector Developments	16
OVERVIEW	16
OUTPUT DEVELOPMENTS	16
PRICE DEVELOPMENTS	19
4. Monetary and Financial Developments	23
OVERVIEW	23
BROAD MONEY (M2)	23
CREDIT EXTENSION	26
LIQUIDITY OF COMMERCIAL BANKS	28
MONEY AND CAPITAL MARKET DEVELOPMENTS	29
5. Government Finance	32
OVERVIEW	32
REVENUE	32
TOTAL EXPENDITURE	33
TOTAL OUTLAYS BY FUNCTIONS OF GOVERNMENT	34
FINANCIAL ASSETS AND LIABILITIES	35
6. Foreign Trade and Payments	38
OVERVIEW	38
CURRENT ACCOUNT	38
CAPITAL ACCOUNT	41
FINANCIAL ACCOUNT	42

List of Tables

Table 1: Key World Economic Indicators	7
Table 2: Contributions to Growth	17
Table 3: Employment by LNDC-Assisted Companies	18
Table 4: Inflation Rate (Annual Percentage Changes)	20
Table 5: Domestic Claims (Million Maloti: End Period)	24
Table 6: Net Foreign Assets (Million Maloti: End Period)	24
Table 7: Components of Money Supply (Million Maloti: End Period)	25
Table 8: Credit Extension by Economic Activity (Million Maloti)	26
Table 9: Components of Liquidity (Million Maloti)	28
Table 10: Sources of funds for ODCs (Million Maloti)	29
Table 11: Interest rates	30
Table 12: Holding of Bills (Million Maloti)	31
Table 13: Holding of Bonds (Million Maloti)	31
Table 14: Statement of Government Operations (Million Maloti)	34
Table 15: Total Outlays by Functions of Government (Million Maloti)	35
Table 16: Public Debt Stock (Million Maloti)	37
Table 17: Current Account Balance (Million Maloti)	38
Table 18: Financial Account Balance (Million Maloti)	42

List of Figures

Figure 1: Average Price of Gold	12
Figure 2: Average Price of Platinum	12
Figure 3: Average Price of Oil	13
Figure 4: Average Price of Maize	14
Figure 5: Average Price of Wheat	14
Figure 6: Nominal Exchange Rate of Loti against Major Trading Currencies	15
Figure 7: Quarterly Indicator of Economic Activity	17
Figure 8: Government Employment (Annual Percentage Changes)	18
Figure 9: Migrant Mineworkers (Annual Percentage Changes)	19
Figure 10: Core vs Headline Inflation	21
Figure 11: Food vs Non-food Inflation	21
Figure 12: Lesotho and South Africa's Inflation	21
Figure 13: Broad Money (M2) (Quarterly Changes)	23
Figure 14: Net Foreign Assets (Percentage shares)	25
Figure 15: Distribution of Credit (Percentage Shares)	27
Figure 16: Credit Extension to Household (Million Maloti)	27
Figure 17: Short Term Interest Rates (Per Cent per Annum)	30
Figure 18: Fiscal Balance (Percent of GDP)	32
Figure 19: Total Revenue (Million Maloti)	33
Figure 20: Total Expense (Million Maloti)	33
Figure 21: Total Financing (Million Maloti)	36
Figure 22: Outstanding Public Debt (Million Maloti)	36
Figure 23: Direction of Merchandise Exports (Percentage Share)	39
Figure 24: Capital Account (Million Maloti)	41
Figure 25: Financial Account (Million Maloti)	43
Figure 26: Reserves Assets	43

1. Executive Summary

The global economic activity remained weak in the third quarter of 2021, amid supply side constraints. The resurgence of COVID-19 infections in some countries led to the slow recovery, while consumption and investment spending also weakened in most countries. The occurrence of natural disasters, adverse effects of climate change, and geo-political tensions continued to be major risks to global economy recovery. However, the unemployment rate fell slightly in advanced and some emerging market economies, though remained high compared to pre-pandemic levels. This was due to easing of restrictive measures to curb the spread of COVID-19. However, global inflation accelerated during the third quarter of 2021 resulting from both supply and demand pressures. On the contrary, the key policy rates were at their historic lows in the review period. This was a result of actions taken by central banks in the advanced economies to maintain quantitative easing programmes in an effort to support economic activity.

With regard to the domestic economy, economic Activity slowed down in the third quarter of 2021 and the sluggish growth was due to poor performance from both the production and demand sides of the economy. The labour markets showed mixed signals in the review quarter, with government employment increasing marginally from the levels recorded in the previous quarter, while the LNDC assisted companies and migrant mineworkers registered reduced employment. Inflationary pressures tightened in September and the major contributors to the acceleration were Alcoholic beverages & Tobacco, Clothing & footwear, and Housing, water, electricity, gas & other fuels.

Monetary and credit aggregates pointed towards a gradual return to normalcy, the broadly defined money supply (M2) growing by a marginal 0.3 per cent, in contrast to 1.3 per cent decrease in June 2021. Net Domestic claims increased by 16.3 per cent between quarters, rebounding from a decline of 7.4 per cent in June 2021. Net foreign assets (NFA), decreased by 1.4 per cent, following 2.1 per cent in the previous quarter. The Loans and advances granted to the business sector increased by 7.3 per cent during the quarter, after a muted growth of 0.2 per cent in the quarter ending in June 2021. The overall banking sector liquidity ratio increased from 41.6 per cent to 46.0 per cent.

The CBL policy rate remained unchanged at 3.50 per cent between June and September 2021. Consequently, most short term rates remained flat, except the 91-day treasury bill rate, that edged up by 18 basis points, but remained within the desired range of +/- 200 basis points to the South African counterpart rate

The Government budgetary operations were estimated to have registered a deficit equivalent to 11.7 per cent of GDP in September 2021, in contrast to a revised surplus of 5.1 per cent of GDP in June 2021. Public debt stock was estimated at 59.5 per cent of GDP in September 2021, which was up from a revised 57.3 per cent of GDP in June 2021.

The external sector position registered a surplus equivalent to 28.9 per cent of GDP, relatively higher than a revised 4.4 per cent of GDP in the preceding quarter. This resulted from improved balances on the current account and the capital account in the review

quarter. Following receipt of the IMF SDR allocations, reserve assets increased from 4.8 months to 5.7 months during the period under review.

2. International Economic Developments

The global economic recovery weakened during the third quarter of 2021, amid supply constraints. Pressures on the global supply chains continued unabated, which negatively affected industrial production. There were shortages of raw materials, power cuts especially in China, and labour shortages in some advanced economies. The rising input costs also slowed down the global economic recovery. This was further worsened by resurgence of COVID-19 infections in some countries. In addition, the consumption and investment spending weakened in most countries during the quarter. The emerging issues during the quarter that constituted the risks to the global recovery included, natural disasters due to climate change, crises in real estate market in China, and escalating geo-political tensions. The unemployment rate continued to fall moderately in the advanced economies and in some emerging market economies, due to easing of

restrictive measures that were introduced to curb the spread of COVID-19. Nonetheless, the unemployment rate remained high compared to pre pandemic levels.

Global inflation was elevated during the third quarter of 2021, mainly resulting from a mismatch between supply and demand. On the supply side, there were shortages of raw materials, labour especially in the US, and inputs, such as, chips, which led to high production costs that were eventually passed on to consumers. Furthermore, there was a disruption in the global value chains, which resulted in delays in deliveries. Demand accelerated, driven by relaxation of restrictions associated with COVID-19, and ultra-accommodative policy support especially in the advanced economies. The key policy rates were at the historic lows during the third quarter of 2021. The central banks in the advanced economies maintained quantitative easing programme as well. Accommodative monetary policy stance was maintained to support global economic activity. However, major central banks signalled on rolling back asset purchases programmes, amid escalating inflationary pressures.

Table 1: Key World Economic Indicators

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	2021		2021		2021		2021	
	Q2	Q3	Q2	Q3	Q2	Q3	Q2	Q3
United States	12.2	4.9	5.4	5.4	0.00	0.00	5.9	4.8
Euro Area	14.2*	3.7	1.9	3.4	0.00	0.00	7.7	7.4
Japan	7.6*	-0.8	0.2	0.2	-0.10	-0.10	2.9	2.8
United Kingdom	22.2	6.6	2.5	3.1	0.10	0.10	4.7	4.3
China	7.9	4.9	1.0	0.7	3.85	3.85	5.0	4.9
India	1.6 20.1	N/A	6.3	4.4	4.00	4.00	N/A	N/A
South Africa	19.3	N/A	4.9	5.0	3.50	3.50	34.4	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

ADVANCED ECONOMIES

United States (US)

The recovery in the US economy presented mixed signals during the third quarter of 2021. The real GDP increased by 4.9 per cent year-on-year during the review quarter, slowing down from 12.2 per cent in the second quarter of 2021. Personal consumption, investment spending and an increase in imports contributed to the slowdown. The economic growth weakened amid challenges from global supply chains disruptions, a surge in COVID-19 cases and fading effects of fiscal stimulus. The unemployment rate fell to 4.8 per cent in the third quarter of 2021, from 5.9 per cent in the previous quarter. The unemployment rate fell as effects of hurricane faded.

The annual inflation rate for the US was 5.4 per cent during the quarter ending in September 2021, unchanged from the previous quarter. It remained elevated driven by food prices, cost of shelter, energy and new vehicles costs. On the contrary, the cost of transportation services, medical care services, used vehicles eased with moderating effect on inflation. The Federal Open Market Committee left the Fed funds rate unchanged at the range of 0.00-0.25 per cent in the third quarter of 2021. The Committee also made no changes to its asset purchases programme. However, it indicated that it might start rolling back its asset purchases programme in the near term.

Euro Area

The recovery in the Euro Area lost some steam in the third quarter of 2021. The real GDP grew at the annual rate of 3.7 per cent in the quarter ending in September 2021, a weaker pace relative to 14.2 per cent in the preceding quarter. Weakened consumer spending, investment and trade underpinned the observed performance of the economy. Industrial production and other sectors of the economy were negatively affected by supply bottlenecks and shortages of labour and raw materials. The unemployment rate fell slightly to 7.4 per cent in the third quarter of 2021, from 7.8 per cent in the second quarter of 2021. The rate fell due to increased demand for labour, as COVID-19 related restrictions were eased.

Annual inflation rate for the Euro Area rose to 3.4 per cent in the third quarter of 2021, up from 1.9 per cent in the preceding quarter. This was mainly driven by a sharp increase in energy cost in addition to relatively higher food prices and services costs. The European Central Bank kept its key policy rate unchanged at 0.0 per cent in the third quarter of 2021. The Bank also maintained its asset purchases programmes. Like other major central banks, the ECB also had discussion on the tapering of its quantitative easing programmes.

Japan

The economic activity contracted in the third quarter of 2021 in Japan. The real GDP declined by 0.8 per cent, in contrast to a growth of 7.6 per cent in the second quarter of 2021. It was driven by contraction in consumption and investment spending, industrial production and high imports bill. Japan's economy suffered from the negative effects of surging COVID-19 cases and global supply chains constraints. The unemployment rate for Japan was 2.8 per cent in the third quarter of 2021, down slightly from 2.9 per cent in the previous quarter. The decline reflected increased job creation during the review quarter.

Consumer prices increased at the annual rate of 0.2 per cent in the review quarter, up from a decline 0.3 per cent in the second quarter of 2021. The increase was mainly driven by prices of food, energy and housing. Japan registered inflation for the first time in four quarters of deflation. The Bank of Japan decided to keep the key policy rate unchanged at -0.1 per cent during the third quarter of 2021. The Bank also continued with its asset purchases programme to suppress long-term rates.

United Kingdom (UK)

There was a slowdown in the economic recovery in the UK, amid supply bottlenecks and resurgence of COVID-19 infections. The real GDP increased by 6.6 per cent in the third quarter of 2021, slowing down from 23.6 per cent in the previous quarter. Weaker consumer spending, trade and industrial production among others underpinned growth slowdown. The unemployment rate was recorded at 4.3 per cent during the third quarter of 2021 in the UK, falling from 4.7 in the previous quarter. There was an increase in the job creation during the quarter.

The annual inflation rate for the UK was 3.1 per cent in the quarter ending in September 2021, up from 2.1 per cent in the preceding quarter. It was driven mainly by food prices, transport, housing, restaurants & hotels, as well as, recreation & culture. The rising inflationary pressures partly reflected cutting of value added tax, and government programmes to boost economic recovery. The Bank of England kept its policy rate unchanged at 0.1 per cent in the third quarter of 2021. The Bank also continued with its asset purchases programme.

EMERGING MARKET ECONOMIES

China

The recovery in the China's economy weakened during the third quarter of 2021, amid power shortages, disruptions in the global value chains, resurgence of COVID-19 infections in some regions and weakness in the real estate market. The real annual GDP increased by 4.9 per cent, slowing down from 7.9 per cent in the second quarter of 2021. The rate of unemployment in China fell to 4.9 per cent in the third quarter of 2021, from 5.0 per cent in the quarter ending in June 2021. The unemployment rate fell as more jobs were created during the review period.

China experienced disinflationary pressures during the third quarter of 2021. The annual inflation rate was 0.7 per cent, a slowdown from 1.1 per cent increase in the previous quarter, mainly on account of a sharp decline in the food prices, offsetting increases in the prices of energy and transport. The People's Bank of China kept its key policy rate unchanged at 3.85 per cent in the third quarter of 2021.

India

The recently available data on the economic activity in India for the third quarter of 2021 was mixed. Composite PMI for India was 55.3 in September 2021, unchanged from August 2021. It was driven by both manufacturing and services PMIs. Industrial production increased by 3.2 per cent year on year in September, slowing down from 12.0 per cent in the previous month. The exports from India increased marginally in September 2021.

India reported annual inflation rate of 4.4 per cent during the third quarter of 2021, down from 6.3 per cent in the second quarter of 2021. It was driven mainly by a slowdown in the prices of food, transport and housing. However, there was a modest increase in the energy costs with offsetting effect on inflation. 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 third 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

The leading indicators pointed to strengthening activity in South Africa during the third quarter of 2021. However, the data on activity came out weaker. The PMI for South Africa rose to 50.7 in September 2021, from 49.9 in the previous month. This was indicative of expansion in the private sector activity of the economy. On the contrary, mining output declined by 3.2 per cent in September 2021, following an increase of 0.7 per cent in the previous month. Manufacturing output rose at the weaker pace of 1.3 per cent, from 1.9 per cent in the previous month. The retail sales declined as well. The exports from South Africa fell slightly in September 2021.

The annual inflation rate for South Africa was 5.0 per cent in the review quarter, a slight increase from 4.9 per cent in the second quarter of 2021. The upward pressures generally emanated from increase in the fuel, food, transport and housing prices. The Reserve Bank of South Africa decided to leave the key policy rate unchanged at 3.5 per cent in the third quarter of 2021. The bank maintained accommodative policy stance to support economic recovery. Maintaining low rates was made possible by contained inflation outlook.

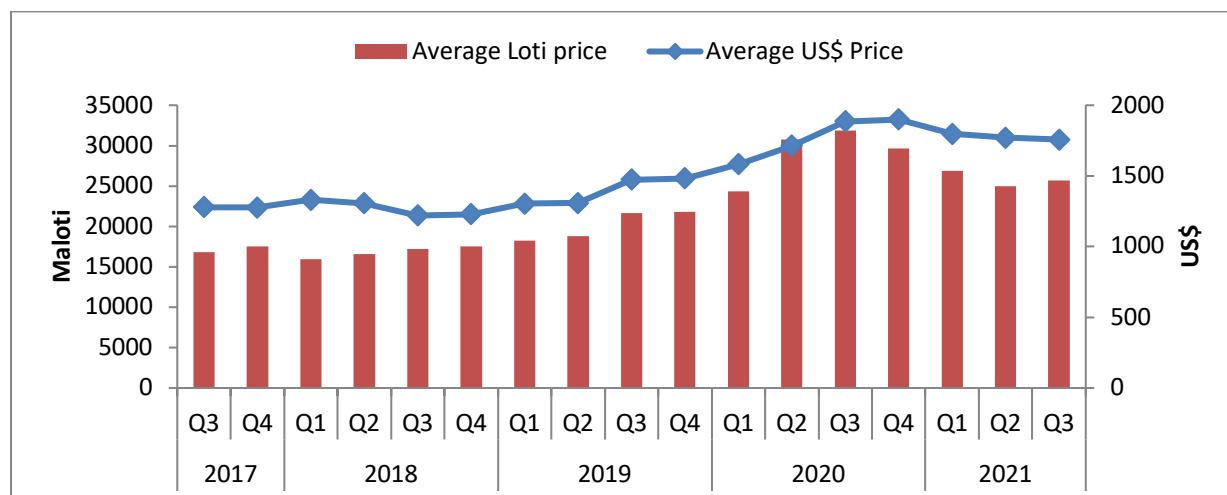
COMMODITIES

Minerals

Gold

The price of gold declined further by 0.7 per cent during the third quarter of 2021, to the average of 1756.95 US dollars per ounce. This followed a decline of 1.5 per cent in the second quarter of 2021. It was driven mainly by weakened demand, especially from gold backed exchange traded funds (ETFs). There was a general outflows in the gold backed ETFs, which were moderated by increased demand in other sectors including jewellery, technology, bars and coins. The market risk appetite improved slightly during the review quarter, hence the decline in the price of gold. On the supply side, the supply of gold was generally unchanged during the quarter. While mine production of the commodity increased, it was offset by a decline in recycling activity. In maloti terms, price of gold increased by 2.7 per cent.

Figure 1: Average Price of Gold

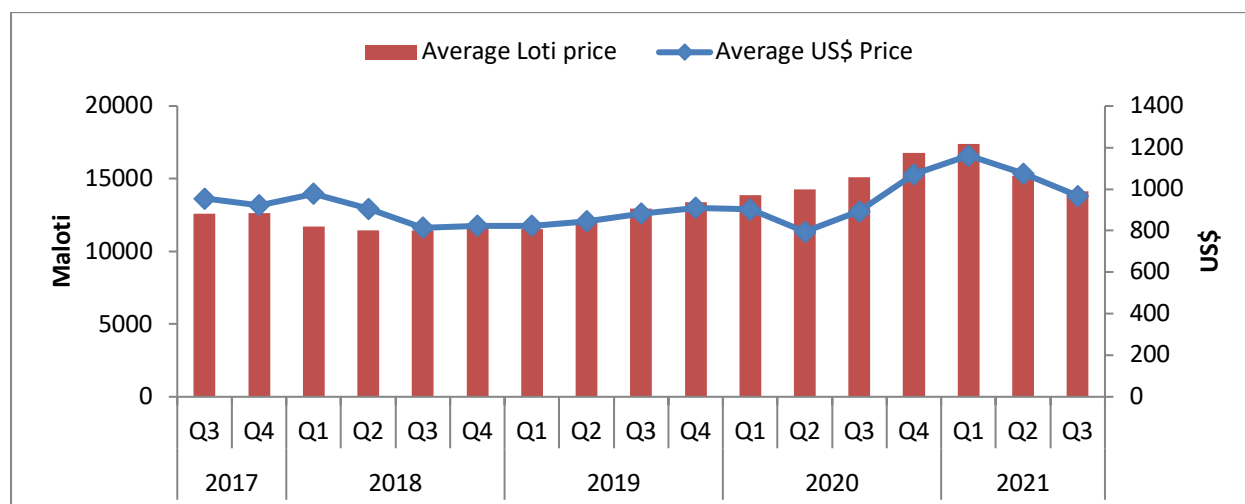


Source: Bloomberg

Platinum

Price of platinum continued to decline in the third quarter of 2021, extending losses from the previous quarter. Particularly, the price of platinum declined by 10.0 per cent to the average of 967.43 US dollars an ounce, extending a decline of 7.4 per cent in the second quarter of 2021. The decline in price of platinum was largely attributable to subdued demand from vehicles manufacturing as a result of chip shortages, which disrupted the industry. There were also signals that the global recovery was losing steam, and this affected the price of platinum negatively. The supply of platinum was relatively high during the quarter, driven by production in South Africa. In Maloti terms, the price of platinum fell by 6.9 per cent.

Figure 2: Average Price of Platinum



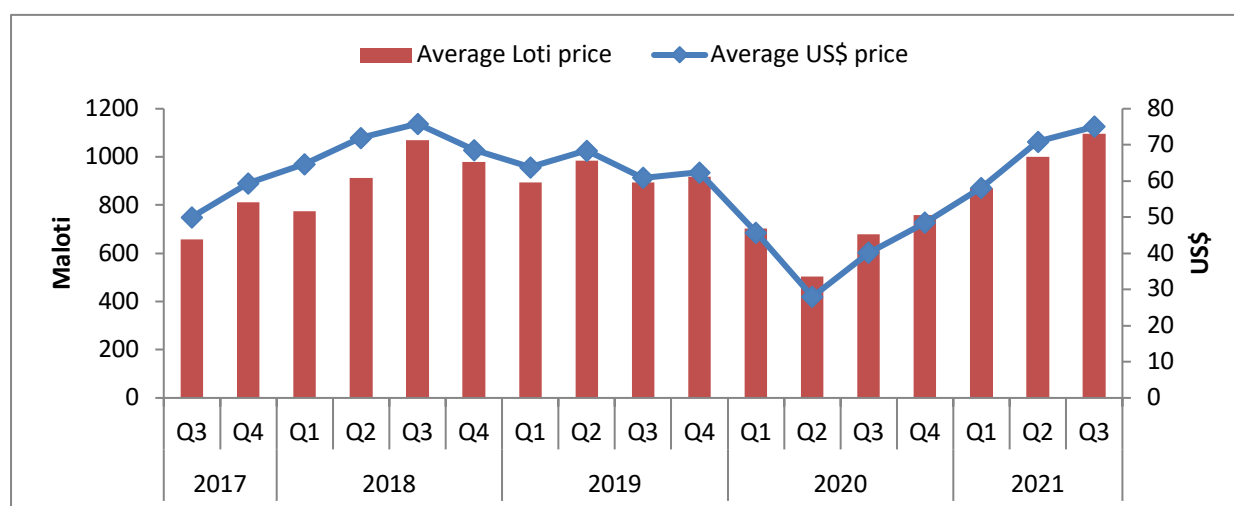
Source: Bloomberg

Energy

Oil

The price of crude oil increased by 5.8 per cent per barrel in the third quarter of 2021 to the average of 75.03 US dollars, following an increase of 21.9 per cent in the previous quarter. The price of oil was driven by a surge in demand in the first month of the quarter. The increase in demand for oil was underpinned by, amongst others, the rising vaccination rates, and relaxation of COVID-19 induced restrictions. However, demand has since waned in the subsequent months, due to resurgence of COVID-19 and global growth slowdown. This explained the slowdown in growth rate compared with the previous quarter. The supply of crude oil was relatively higher, as output from OPEC+ countries increased. Saudi Arabia lifted voluntary output cut, hence boosting oil output.

Figure 3: Average Price of Oil



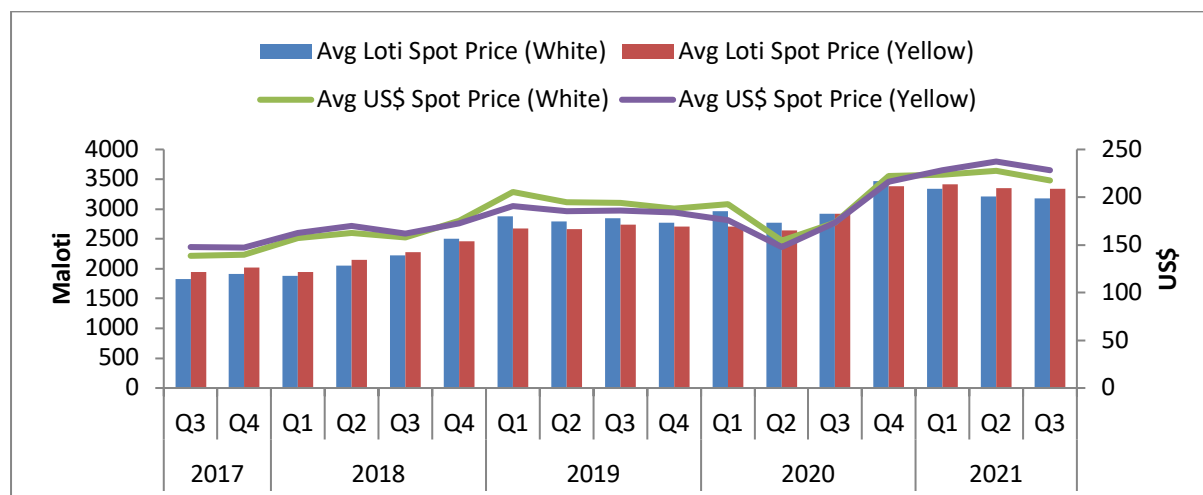
Source: Bloomberg

Agricultural Products

Maize

The price of maize generally declined during the third quarter of 2021. It declined by 4.4 per cent to the average of 217.52 US dollars a ton for white maize, and by 3.9 per cent to the average of 228.16 US dollars per ton for yellow maize. The downward pressure on the price of maize was due to an increase in supply as a result of improved harvest and the inventories from the previous seasons. This was, however, moderated by rising demand for maize for industrial use and animal feed in China. In Maloti terms, the price of maize declined by 1.1 per cent and 0.5 per cent, for white and yellow maize respectively.

Figure 4: Average Price of Maize

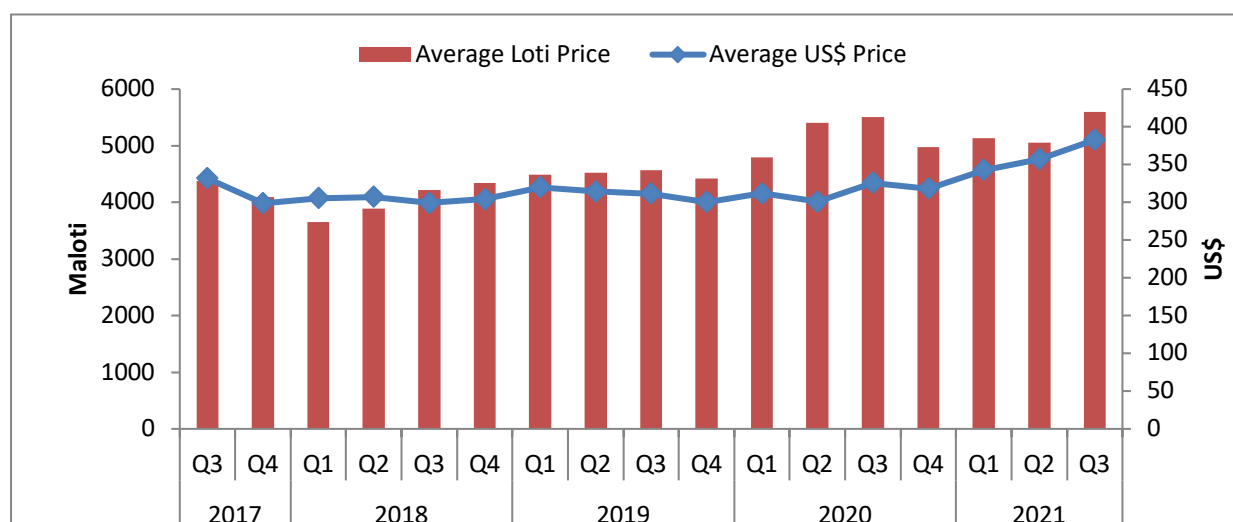


Source: Bloomberg

Wheat

The price of wheat increased by 7.1 per cent in the third quarter of 2021, accelerating from 4.2 per cent in the previous quarter. Supply of wheat was lower in the global markets, driven by a decline in production and inventories. Some farmers in the key producing area shifted to other crops, in substitution for wheat. The yield of wheat was also lower, driven by harsh weather conditions in some key producing areas. The global demand for wheat increased, driven by consumption usage, feed and residual use.

Figure 5: Average Price of Wheat



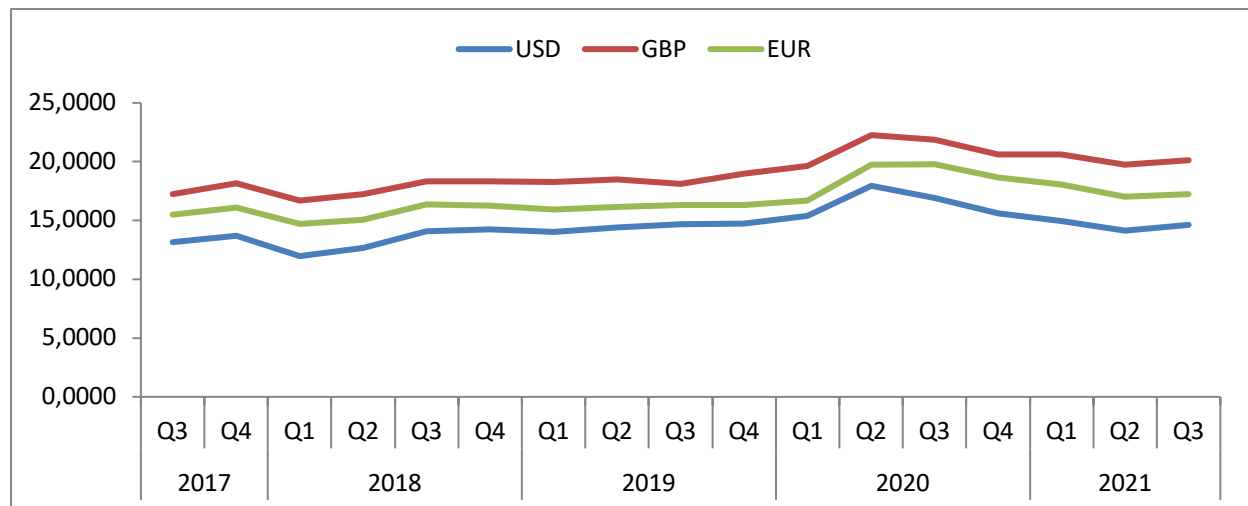
Source: Bloomberg

EXCHANGE RATES

The rand hence the loti weakened against the major global trading currencies during the third quarter of 2020. This followed a robust performance in the preceding quarter. In

particular, the rand depreciated by 3.5 per cent to the average of 14.62 against the US dollar, 2.0 per cent to the average of 20.15 against the pound, and by 1.2 per cent to the average of 17.23 against the euro. Rand suffered steep losses at the start of this quarter amid social unrest in South Africa, which plummeted market confidence. The resurgence of COVID-19 infections resulted in government tightening movement restrictions, hence negatively affecting rand. The rand also suffered as the major central banks discussed tapering their Quantitative easing policies, and indicated they may start before the end of 2021 or early 2022.

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



Source: Bloomberg

3. Real Sector Developments

OVERVIEW

Domestic economic activity contracted in the third quarter of 2021, after expanding in the previous quarter. The key indicators of labour markets showed mixed signals during the review period. Government employment increased, while LNDC assisted companies and migrant mine workers' employment declined. Inflationary pressures abated, with core inflation declining due to subdued domestic demand.

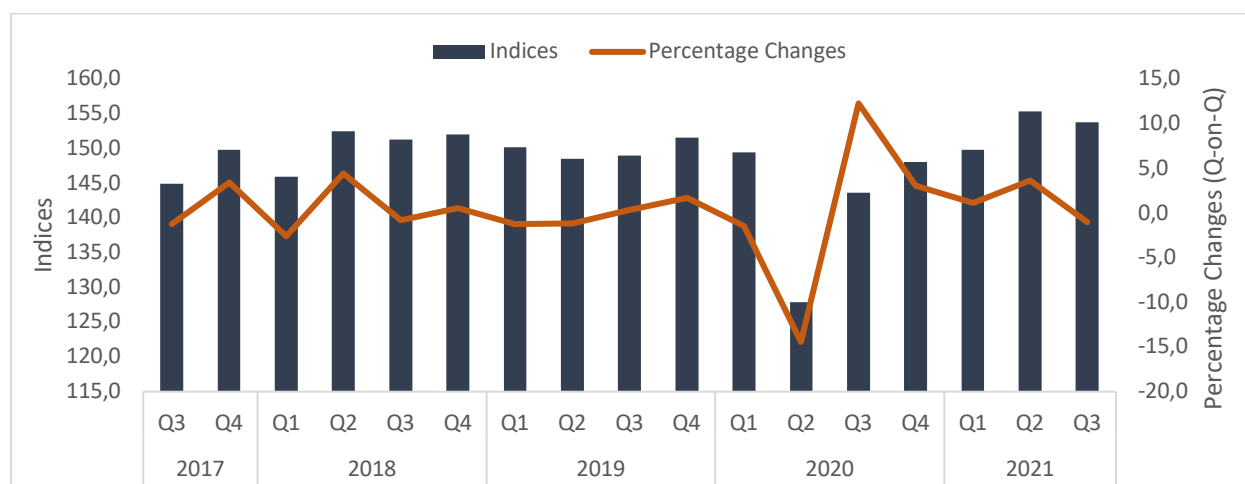
OUTPUT DEVELOPMENTS

The Central Bank of Lesotho Composite Indicator of Economic Activity (CIEA) showed a contraction in economic activity in the third quarter of 2021, following a period of moderate growth since the beginning of 2021. The CIEA declined by 1.0 per cent during the review period from a positive growth of 3.7 per cent in the second quarter of 2021. The contraction emanated from negative growth in both the demand and production sides of the economy.

On the production side, the economic activity declined by 3.7 per cent in the third quarter of 2021, following a positive growth of 5.5 per cent in the second quarter. This was mainly the result of a drastic slowdown in the use of intermediate inputs as they became more expensive due to global supply-side bottlenecks, coupled with the slowdown in global demand. This was further illustrated by the decline in the industrial use of water and electricity, with a relatively lower manufacturing exports during the review period.

The demand side continued to decline in the third quarter of 2021, albeit at a slower pace relative to the preceding quarter. The indicator of domestic demand declined by 2.4 per cent in the third quarter of 2021, in comparison to a 3.7 per cent decline in the preceding quarter. The major contributors to the decline were the compensations of employees, pay-as-you-earn (P.A.Y.E), as well as, imports. Nonetheless, spending on consumption moderated the fall in domestic demand.

Figure 7: Quarterly Indicator of Economic Activity



Source: Central Bank of Lesotho

Table 2: Contributions to Growth

Indices	2020		2021		
	Q3	Q4	Q1	Q2	Q3
CIEA	143.7	148.1	149.9	155.3	153.8
Quarter-on-quarter changes	12.3	3.1	1.2	3.7	-1.0
Domestic Demand	126.8	146.5	150.0	144.5	141.0
Quarter-on-quarter changes	10.3	15.5	2.4	-3.7	-2.4
Manufacturing and Production Category	98.7	102.7	106.3	112.2	108.0
Quarter-on-quarter changes	15.3	4.0	3.5	5.5	-3.7

Source: Central Bank of Lesotho

EMPLOYMENT DEVELOPMENTS¹

Employment by LNDC-assisted companies was estimated to have further declined in the third quarter of 2021, due to continued COVID-19 induced supply-side disruptions and subdued demand in the trading partners of Lesotho. Employment declined by 16.6 per cent in the third quarter of 2021 following 12.7 per cent in the second quarter of 2021. The major contributions to the decline in manufacturing employment emanated from falling employment by knit garments, woven garments, and Fabrics, Yarn etc., hotel accommodation and other industries. These industries shed jobs during the review period

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.

as the United States reduced its imports at the back of subdued consumption demand. The reduced demand for Lesotho's manufacturing exports to SA also added to the decline in employment during the review period. Firms also reduced labour demand due to rising costs of intermediate inputs as the supply-side bottlenecks continued to be elevated across the globe.

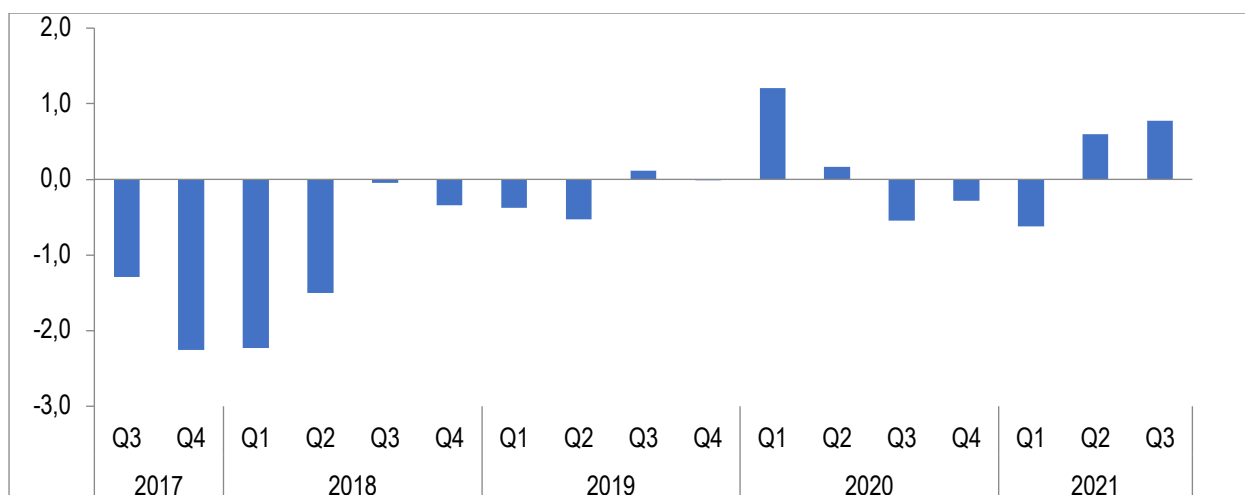
Table 3: Employment by LNDC-Assisted Companies

Industry	2020		2021			% Changes	
	Q3	Q4	Q1	Q2	Q3	Q/Q	Y/Y
Knit Garments.....	26596	27630	25567	25410	26084	2.7	-1.9
Woven Garments.....	15130	15718	15180	12258	9521	-22.3	-37.1
Footwear.....	986	1024	1130	996	975	-2.1	-1.1
Fabrics, Yarn etc.....	1718	1785	338	328	317	-3.4	-81.5
Construction.....	399	399	335	347	359	3.5	-10.0
Food & Beverages.....	704	704	639	561	602	7.3	-14.5
Electronics.....	1008	1008	1032	1014	1022	0.8	1.4
Retail.....	186	186	191	192	193	0.5	3.8
Hotel Accom.....	394	394	287	249	242	-2.8	-38.6
Other.....	1259	1259	1139	1165	1051	-9.8	-16.5
TOTAL.....	48380	50107	45838	42520	40366	-7.2	-16.6

Source: Lesotho National Development Corporation

The Government employment increased for the second consecutive quarter by 0.8 per cent in the third quarter of 2021 following a 0.6 per cent increase in the second quarter. The continued expansion in government employment was mainly underpinned by civil servants' category increase, while the decline on teachers' category moderated the increase.

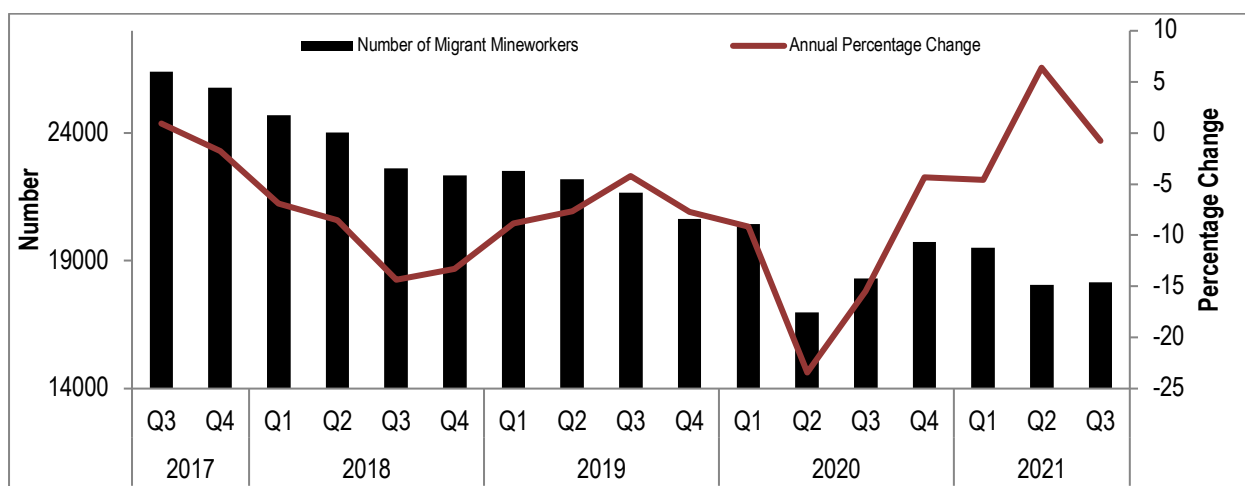
Figure 8: Government Employment (Annual Percentage Changes)



Source: Ministry of Finance

The number of migrant mineworkers declined by a marginal 0.8 per cent in the third quarter of 2021, compared with an increase of 6.4 per cent in the second quarter of 2021. This waning was attributed to the continuing transition from the highly labour-intensive *deep-level* mining to a shallower and more technology intensive production.

Figure 9: Migrant Mineworkers (Annual Percentage Changes)



Source: The Employment Bureau of Africa (TEBA)

PRICE DEVELOPMENTS

Inflation pressures abated in the third quarter of 2021. The headline inflation rate was 5.4 per cent in September 2021 from 6.0 per cent recorded in quarter ending in June 2021. The 0.6 per cent moderation mainly benefited from 'Food and non-alcoholic beverages', 'Transport', and 'Miscellaneous goods and services' with a negative contribution equivalent to 0.8 per cent. Nonetheless, the disinflation was moderated by 'Clothing & footwear', 'Housing, water, electricity, gas & other fuels', 'Furniture, households' equipment & routine maintenance' which added a positive contribution of 0.2 per cent.

The major determinants behind the deceleration in headline inflation rate were moderating international, as well as, regional food prices, which has been buoyed by local currency exchange rate appreciation² against the U.S dollar during the review period. The exchange rate appreciation more than offset the rise in international crude oil prices during the review period thus leading to lesser energy inflation rate contribution to the headline inflation rate.

Table 4: Inflation Rate (Annual Percentage Changes)

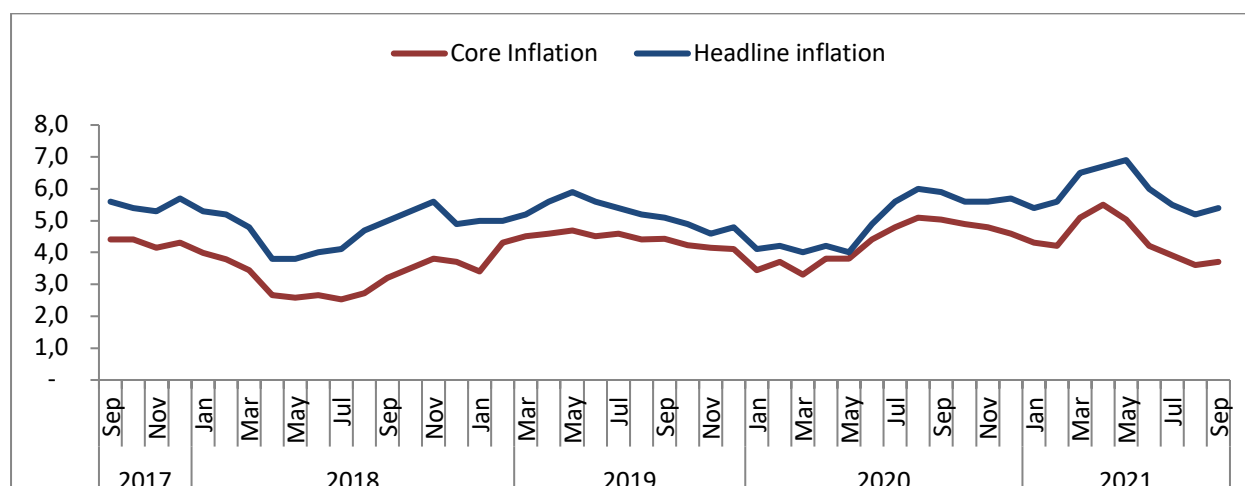
	Weight	2021				
		May	Jun	Jul	Aug	Sep
All items	100	6.9	6.0	5.5	5.2	5.4
Food and non-alcoholic beverages	36.1	10.6	9.2	8.5	7.8	7.6
Alcoholic beverages & Tobacco	3.3	4.6	2.6	0.9	0.4	2.4
Clothing & footwear	13.6	3.1	2.9	3.1	3.2	3.7
Housing, water, electricity, gas & other fuels	12.4	9.8	8.8	7.9	7.4	9.3
Furniture, households equipment & routine maintenance	8.5	2.7	2.3	2.3	2.1	2.4
Health	1.5	3.3	2.3	1.6	0.8	0.9
Transport	4.8	9.4	7.8	5.2	6.0	5.0
Communications	2.1	0.0	0.0	0.0	0.4	0.4
Recreation & Culture	5.7	0.0	-0.1	-0.1	0.4	0.1
Education	4.2	2.2	2.2	2.2	2.2	2.2
Restaurant & Hotels	1.0	4.2	4.4	4.6	4.9	5.0
Miscellaneous goods & services	7.3	2.9	2.6	2.5	2.3	2.0

Source: Bureau of Statistics

The headline and core inflation moved in sync during the quarter ending in September 2021, having declined from 6.0 per cent and 4.2 per cent in June 2021 to 5.4 per cent and 3.6 per cent, respectively, during the review period. The declining core inflation rate mainly benefited from the subdued demand during the review period.

² The appreciation is on a year-on-year basis.

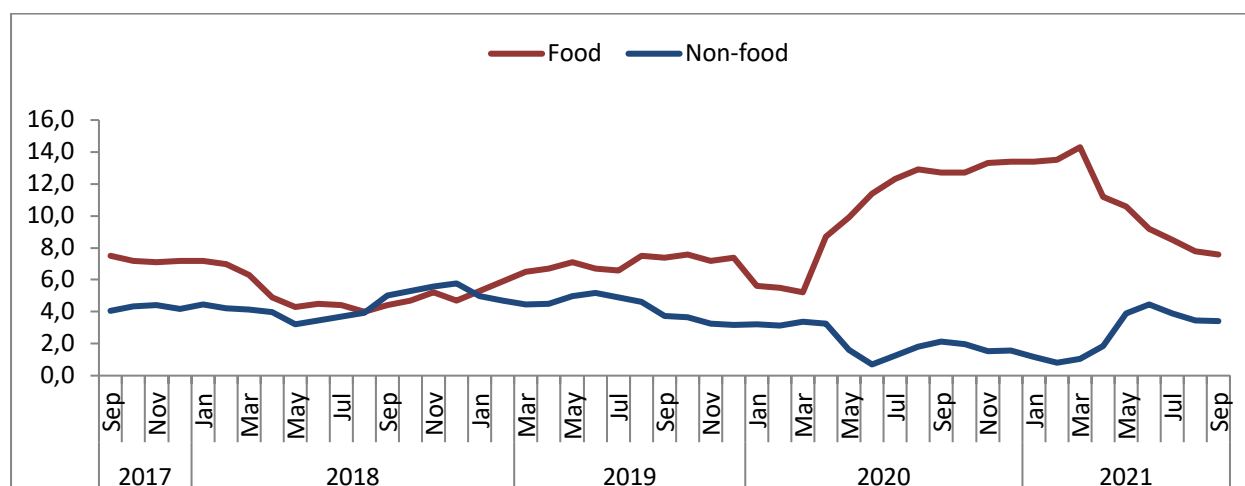
Figure 10: Core vs Headline Inflation



Source: CBL Computations

Even though food inflation rate and non-food inflation rate largely move in divergent pattern historically, they have moved in tandem during the review period. They have declined from 9.2 per cent and 4.5 per cent in June 2021 to 7.6 per cent and 3.4 per cent in September 2021, respectively. The former benefited largely from the declining cereals prices, while the latter was more buoyed by exchange rate appreciation, which offset the rise in crude oil price. The contribution of energy inflation, the components of which are mostly used for cooking moderated the fall in non-food inflation rate.

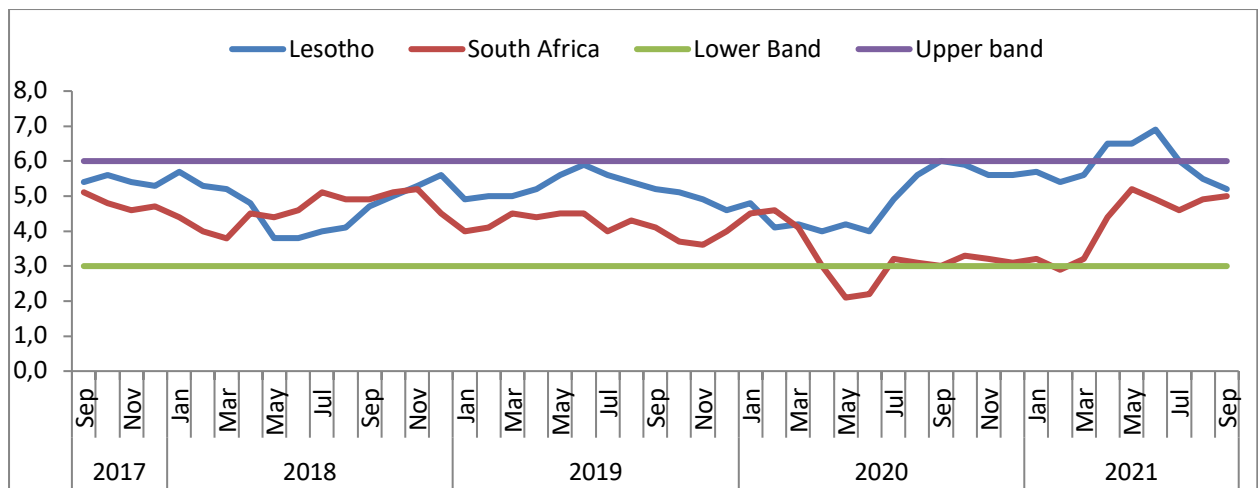
Figure 11: Food vs Non-food Inflation



Source: BoS and CBL Computations

While Lesotho's headline inflation rate decelerated during the review period, its SA counterpart edged up marginally. From 6.0 per cent in June 2021, headline inflation rate declined to 5.4 per cent in September 2021 for Lesotho while that of SA accelerated from 4.9 per cent in June 2021 to 5.0 per cent during the review period.

Figure 12: Lesotho and South Africa's Inflation



Source: Bureau of Statistics, Statistics South Africa

4. Monetary and Financial Developments

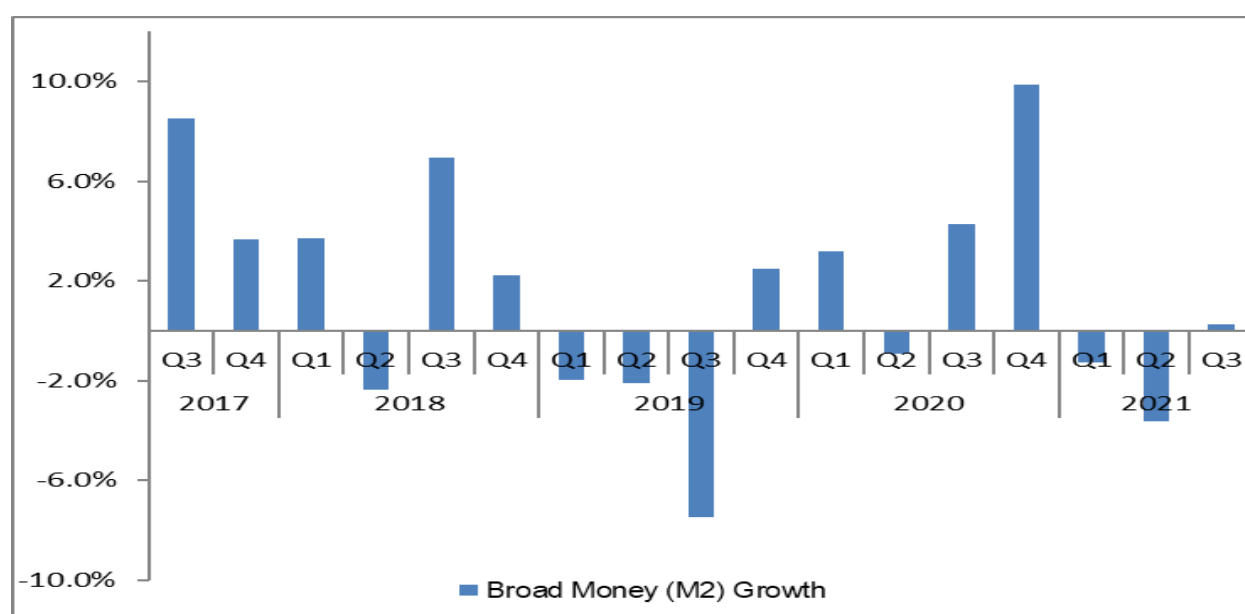
OVERVIEW

Monetary and credit aggregates point towards a gradual return to normalcy in the third quarter of 2021. The broadly defined money supply (M2) displayed a muted growth, supported by increased government spending and private sector credit, amid a successive deterioration in the net foreign assets position. Growth in credit extension was sustained by high demand for household loans, coupled with the utilization of overdrafts by business corporates. The short-term interest rates remained stable and aligned to the Central Bank of Lesotho's policy rate.

BROAD MONEY (M2)

The third quarter of 2021 was marked by weak growth in M2, which rose by 0.3 per cent in September, switching from two consecutive contractions of 1.3 per cent and 3.6 per cent in March and June, respectively. The minor growth in M2 was underpinned by a growth of 16.3 per cent in domestic claims, offering strong resilience to the decline in net foreign assets, which fell by 1.4 per cent in the third quarter. Moreover, year-on-year growth in M2 slacked from 9.0 per cent in June to 4.8 per cent in the review quarter. In real terms, M2 declined by 4.1 per cent during the review quarter, relative to a contraction of 9.6 per cent in the previous quarter.

Figure 13: Broad Money (M2) (Quarterly Changes)



Source: Central Bank of Lesotho

Determinants of M2

Domestic Claims

Domestic claims increased by 16.3 per cent between quarters, rebounding from a decline of 7.4 per cent in June. This was reinforced by growth in net claims on government, as well as, claims on other sectors, which grew by 17.2 per cent and 4.0 per cent, respectively. The sizeable growth in net claims on the government resulted from a drawdown in government deposits held with both the central bank and commercial banks, coupled with a rise in commercial banks' holdings of government securities. Moreover, private sector claims displayed an impressive growth over the review period, stemming from a 7.3 per cent rise in business sector credit and a 3.8 per cent rise in household credit. On year-on-year basis, domestic claims increased by 6.8 per cent in the third quarter, which was down from 15.6 per cent in the quarter ending in June 2021.

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

	2020		2021		Changes (%)		
	Q3	Q4	Q1	Q2	Q3	Quarterly	Annual
Domestic Claims	5,376.27	5,349.40	5,334.61	4,939.18	5,742.42	16.26	6.81
Net Claims on Government	2,337.54	2,418.56	2,247.34	2,864.16	-2,371.10	17.21	-1.44
Commercial Banks Net Claims	-44.24	389.84	222.07	-52.37	182.86	449.16	513.36
Claims on Central Government	2,037.71	2,132.91	1,817.47	1,925.37	2,036.39	5.77	-0.06
Liabilities to Central Government	2,081.94	1,743.07	1,595.39	1,977.74	1,853.53	-6.28	-10.97
Central Bank Net Claims	2,293.30	2,808.39	2,469.41	2,811.79	-2,553.96	9.17	-11.37
Claims on Central Government	780.70	617.87	606.08	516.12	475.97	-7.78	-39.03
Liabilities to Central Government	3,074.01	3,426.26	3,075.49	3,327.91	3,029.94	-8.95	-1.43
Claims on Other Sectors	7,713.82	7,767.95	7,581.94	7,803.34	8,113.52	3.97	5.18
Claims on OFCs	276.19	266.77	108.16	204.68	138.31	-32.43	-49.92
Claims on Public Nonfinancial Corporations	58.62	87.00	65.90	59.95	81.34	35.67	38.75
Claims on St & Local Government	0.00	0.00	0.00	0.00	0.00		
Claims on Private Sector	7,379.01	7,414.18	7,407.87	7,538.70	7,893.88	4.71	6.98
Claims on Business Enterprises	2,079.65	2,015.45	2,037.82	2,042.89	2,191.35	7.27	5.37
Claims on Households	5,299.36	5,398.73	5,370.05	5,495.82	5,702.53	3.76	7.61

Source: Central Bank of Lesotho

Net Foreign Assets

The quarter on quarter growth in total net foreign assets (NFA), continued to worsen between June and September 2021, registering a fall of 1.4 per cent in the review quarter, relative to a fall of 2.1 per cent in the previous quarter. This was influenced by a deterioration in commercial banks NFA, while the central bank NFA moderated the decline. The decline in commercial banks NFA was predominantly driven by domestic liquidity needs, which necessitated a reduction in foreign placements abroad. In contrast, the central bank NFA was mainly boosted by growth in short-term placements in South Africa, which benefited from the relatively low commercial banks net outflows, coupled with lower government spending on foreign goods and services. Annual growth in NFA decelerated to 1.5 per cent, following a growth of 4.1 per cent recorded in June 2021.

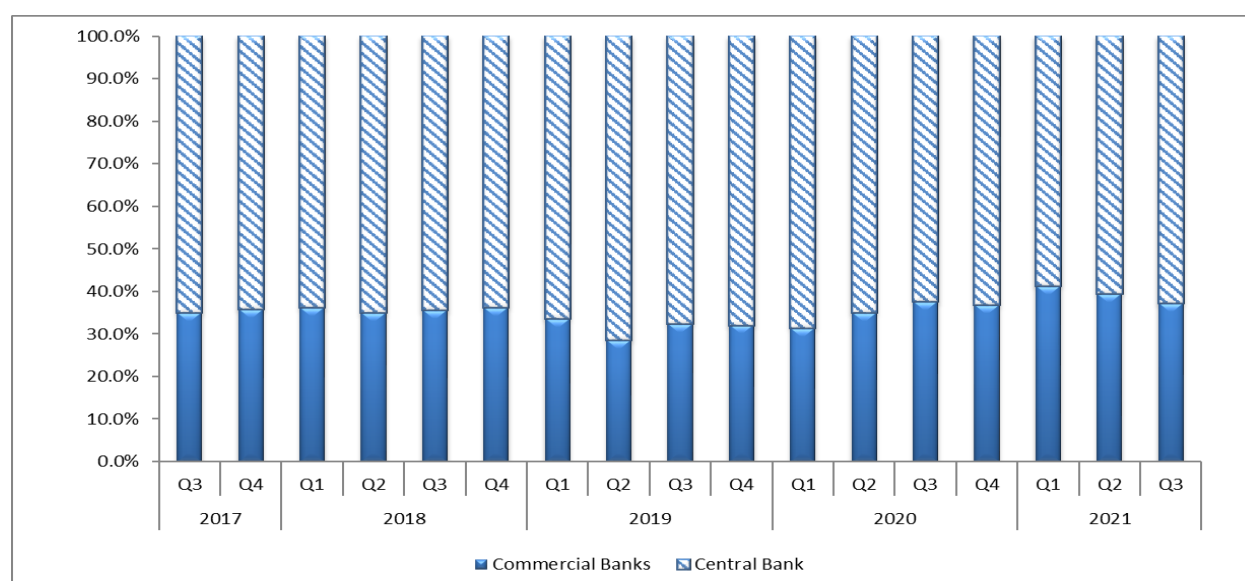
Table 6: Net Foreign Assets (Million Maloti: End Period)

	2020	2021	Changes (%)
--	------	------	-------------

	Q3	Q4	Q1	Q2	Q3	Quarterly	Annual
Commercial Banks	6,247.28	6,374.23	7,210.31	6,758.09	6,267.31	-7.26	0.32
Claims on Non-residents	6,529.04	6,679.44	7,584.51	6,996.93	6,544.39	-6.47	0.24
Liabilities to Non-residents	281.76	305.20	374.20	238.84	277.09	16.01	-1.66
Central Bank	10,344.71	10,937.57	10,237.23	10,324.92	10,571.85	2.39	2.20
Claims on Non-residents	12,398.33	12,680.16	11,963.77	11,927.54	13,668.53	14.60	10.24
Liabilities to Non-residents	2,053.62	1,742.59	1,726.54	1,602.62	3,096.68	93.23	50.79
Net Foreign Assets							
Total	16,591.99	17,311.80	17,447.54	17,083.01	16,839.16	-1.43	1.49

Source: Central Bank of Lesotho

Figure 14: Net Foreign Assets (Percentage shares)



Source: Central Bank of Lesotho

Components of M2

In terms of the broad money components, the rise in M2 was vastly supported by growth in quasi money, which was lessened by the decline in narrow money (M1). Quasi money increased by 2.2 per cent in September, compared to a decline of 0.8 per cent in the previous quarter. This emanated from a rise in both call and fixed deposit liabilities associated with the non-bank financial sector. Conversely, M1 dropped by 1.8 per cent, following a contraction of 6.6 per cent in June 2021, resulting from the high withdrawals in demand deposits by the mining industry.

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

	2020				2021	Changes (%)	
	Q3	Q4	Q1	Q2	Q3	Quarterly	Annual
Broad Money (M2)	13,000.90	14,282.90	14,098.69	13,586.85	13,624.49	0.28	4.80
Narrow Money (M1)	5,829.60	6,950.30	6,862.16	6,408.00	6,289.92	-1.84	7.90

Currency Outside DCs	1,236.02	1,370.83	1,379.51	1,165.16	1,287.24	10.48	4.14
Transferable Deposits	4,593.58	5,579.47	5,482.65	5,242.84	5,002.68	-4.58	8.91
Quasi Money	7,171.29	7,332.60	7,236.52	7,178.85	7,334.58	2.17	2.28
Other Deposits Commercial Banks	7,135.73	7,299.95	7,210.75	7,150.95	7,303.26	2.13	2.35
Other Deposits Central Bank	35.56	32.65	25.78	27.90	31.32	12.24	-11.93

Source: Central Bank of Lesotho

CREDIT EXTENSION

Growth in credit provision reflected a notable improvement, both between quarters and on a year-on-year perspective, suggesting an improvement in credit sensitivities associated with COVID-19 in the previous quarters. Credit extension to the private sector increased by 4.7 per cent, relative to a growth of 1.8 per cent in the preceding quarter, as both household loans and business sector loans continued to rise. Moreover, private sector credit increased by 7.0 per cent on-year-on-year, compared to a growth of 4.3 per cent in June 2021. Measured in real terms, private sector credit fell by 0.7 per cent, following a decline of 4.2 per cent in the second quarter.

Trends of Credit Extended to Business Enterprises

The Loans and advances granted to the business sector increased by 7.3 per cent during the quarter, after a muted growth of 0.2 per cent in the quarter ending in June 2021. The accelerated growth in business loans was predominantly a result of credit growth in the mining and transport industries, which was mainly acquired to finance working capital. The allocation of credit to the agricultural sector also continued to rise, registering a quarterly growth of 12.4 per cent in September 2021. Compared to the corresponding period a year ago, the overall credit to business enterprises increased by 5.4 per cent, reverting from a slight negative in the previous quarter.

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

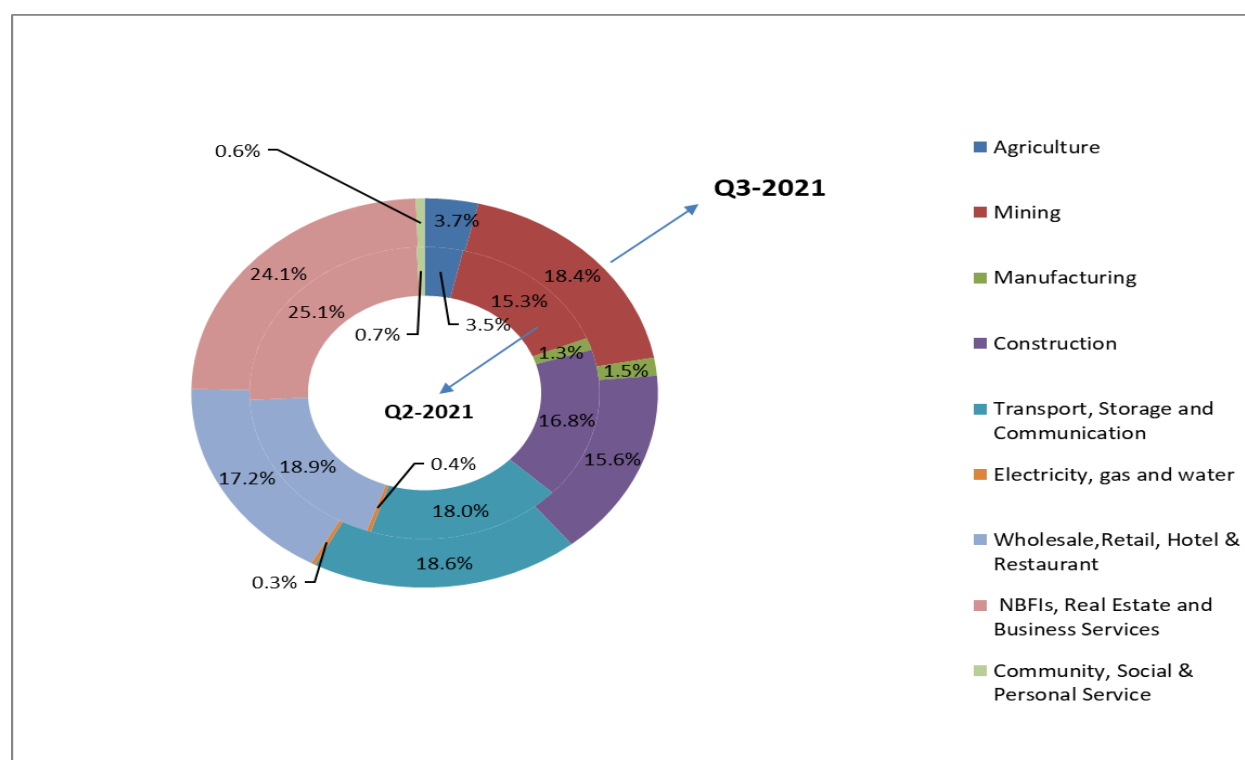
SECTOR	2020		2021			Changes (%)	
	Q3	Q4	Q1	Q2	Q3	Quarterly	Annual
Agriculture	35.41	47.22	45.00	72.34	81.34	12.44	129.69
Mining	379.55	359.16	299.42	313.40	402.72	28.50	6.11
Manufacturing	34.49	29.74	30.86	27.27	32.57	19.43	-5.55
Electricity, gas and water	3.31	2.42	4.15	8.37	6.97	-16.72	110.76
Construction	357.86	321.87	343.09	342.23	341.32	-0.27	-4.62
Wholesale, Retail, Hotel & Restaurant	363.79	354.36	380.62	385.19	377.91	-1.89	3.88
Transport, Storage and Communication	354.75	357.52	385.41	367.70	407.79	10.90	14.95
NBFIs, Real Estate and Business Services	534.57	530.03	532.84	511.74	527.45	3.07	-1.33
Community, Social & Personal Service	15.92	13.41	16.42	14.64	13.26	-9.40	-16.69
All Sectors	2,079.65	2,015.74	2,037.82	2,042.89	2,191.35	7.27	5.37

Source: Central Bank of Lesotho

Distribution of credit Extended to Business Enterprises

Concerning the sectoral distribution of credit to business enterprises, the largest proportion of credit was allocated to the non-bank financial institutions, real estate & business services sector, with a share of 24.1 per cent. This was followed by the transport, storage & communication sector, with a share of 18.6 per cent and mining sector with 18.4 per cent. The smallest shares of credit were allocated to the community, social & personal service sector and the electricity, gas & water sector with the respective shares of 0.6 per cent and 0.3 per cent.

Figure 15: Distribution of Credit (Percentage Shares)

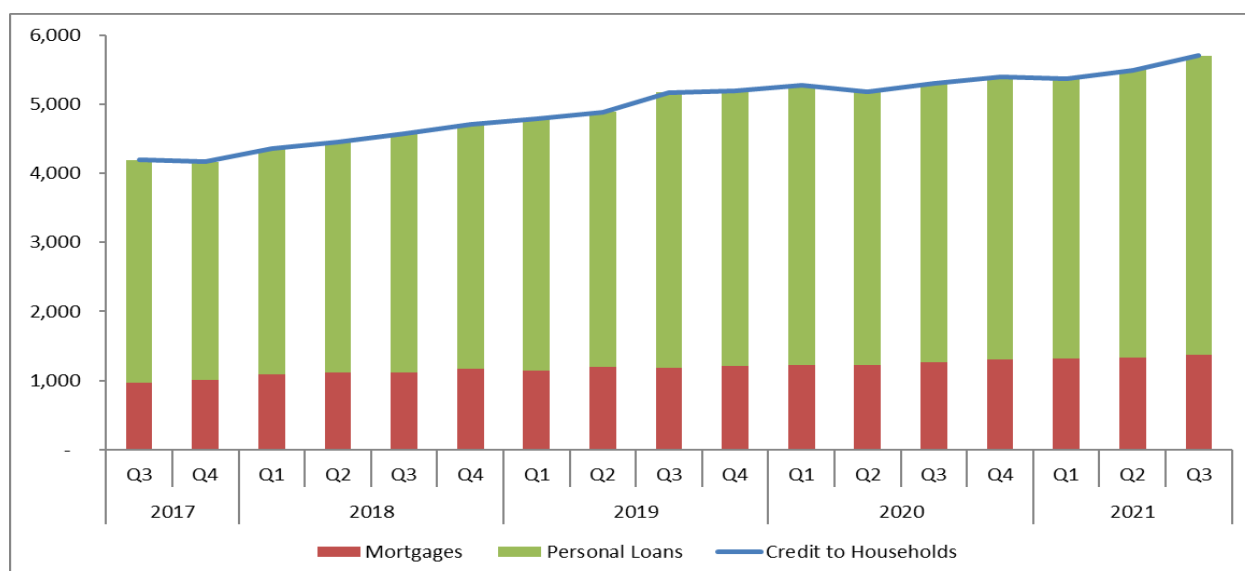


Source: Central Bank of Lesotho

Credit extended to Households

Credit extension to the household sector displayed a steady increase on a quarterly and annual basis, possibly benefiting from the low-interest rate environment and the progressively less restrictive lockdown regulations. On a quarterly basis, household loans improved by 3.8 per cent during the quarter ending September 2021, from an increase of 2.3 per cent in the second quarter. This was mainly influenced by a growth of 4.2 per cent in personal loans, resulting from the increasing ease in accessing credit over digital platforms, together with the usually higher credit demand in the third quarter of the year. Mortgage loans also registered a growth of 2.4 per cent, compared to a 1.8 per cent growth in the previous period. On an annual basis, growth in household credit accelerated from 6.0 per cent to 7.6 per cent between June and September 2021.

Figure 16: Credit Extension to Household (Million Maloti)



Source: Central Bank of Lesotho

LIQUIDITY OF COMMERCIAL BANKS

Components of liquidity

The overall banking sector liquidity increased during the third quarter, as evidenced by a rise in the liquidity ratio from 41.6 per cent to 46.0 per cent. This resulted from a rise in commercial banks' deposits with the central bank. Furthermore, the commercial banks' credit to deposit ratio stood at 55.0 per cent during the review quarter, up from 51.7 per cent in the previous period, indicating an increase in the sector's level of intermediation. This was on the backdrop of increased credit provision, in relation to a decline in the total deposit liabilities. Compared to a year ago, the credit to deposit ratio increased by 2.3 percentage points.

Table 9: Components of Liquidity (Million Maloti)

	2020				2021
	Q3	Q4	Q1	Q2	Q3
Credit to Deposit Ratio	52.62%	49.94%	51.07%	51.69%	54.96%
Private Sector Credit	7,275.07	7,309.67	7,303.71	7,432.96	7,785.84
Total Deposits	13,824.64	14,636.53	14,301.28	14,381.18	14,167.60
Liquidity Ratio	49.40%	42.99%	41.43%	41.58%	45.98%
Notes and Coins	495.97	707.97	597.53	564.86	531.65
Net Balance due from banks in Lesotho	-0.95	-2.73	-253.58	1.10	1.93
Net Balance due from banks in SA	4,237.32	31,97.43	3,866.53	3,645.44	3,723.86
Surplus funds	59.69	257.04	-102.86	-156.79	224.26
Government Securities	2,037.71	2,132.91	1,817.47	1,925.37	<u>2,036.39</u>

Total	6,829.74	6,292.62	5,925.09	5,979.98	6,514.23
-------	----------	----------	----------	----------	----------

Source: Central Bank of Lesotho

Commercial Banks Sources of Funds

The commercial banks' total deposit liabilities declined by 1.5 per cent in the third quarter of the year, compared to a 0.6 per cent growth registered in the preceding period. This was mainly attributable to a 9.3 per cent fall in transferable deposits held by business enterprises. Government deposits also fell by 6.3 per cent between the two quarters, mostly resulting from withdrawals by extra-budgetary institutions. Conversely, total deposits rose by 2.5 per cent on annual basis, down from a growth of 7.8 per cent in the previous quarter.

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

	2020		2021			Changes (%)	
	Q3	Q4	Q1	Q2	Q3	Quarterly	Annual
Transferable Deposits Incl. in BM	4,593.58	5,579.47	5,482.65	5,242.84	5,002.68	-4.58	8.91
Other Financial Corporations	76.33	79.32	79.26	75.48	110.65	46.60	44.97
Public Nonfinancial Corporations	83.50	31.41	33.90	59.11	72.73	23.04	-12.90
Private Sector	4,381.48	5,431.75	5,345.29	5,099.48	4,796.76	-5.94	9.48
Other NFCs	2,887.94	3,893.93	3,627.80	3,487.60	3,163.62	-9.29	9.55
Other Sectors (Households)	1,493.54	1,537.82	1,717.48	1,611.89	1,633.14	1.32	9.35
Other Deposits Incl. in BM	7,135.73	7,299.95	7,210.75	7,150.95	7,303.26	2.13	2.35
Other Financial Corporations	132.05	92.48	148.26	191.27	253.72	32.65	92.14
Public Nonfinancial Corporations	224.40	221.14	338.64	228.98	160.23	-30.02	-28.60
Private Sector	6,779.29	6,986.33	6,723.85	6,730.70	6,889.32	2.36	1.62
Other NFCs	4,486.65	4,723.34	4,296.97	4,372.71	4,437.36	1.48	-1.10
Other Sectors (Households)	2,292.64	2,262.99	2,426.88	2,357.99	2,451.96	3.99	6.95
Deposits excluded in MB	2,095.32	17,57.12	1,607.88	1,987.39	1,861.66	-6.33	-11.15
Total Deposits	13,824.64	14,636.53	14,301.28	14,381.18	14,167.60	-1.49	2.48

Source: Central Bank of Lesotho

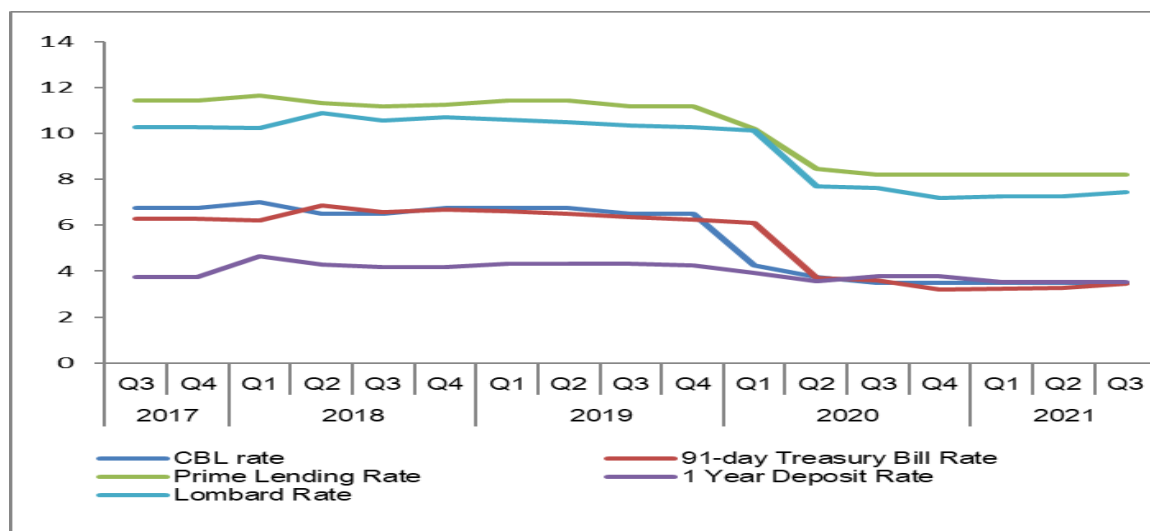
MONEY AND CAPITAL MARKET DEVELOPMENTS

Money Market

Interest Rates

The Central Bank of Lesotho's policy rate remained unchanged at 3.50 per cent in the third quarter of 2021. As a result, nearly all domestic short-term rates remained stable, as the average prime lending rate and the one-year deposit rate remained at 8.19 per cent and 3.53 per cent, respectively. The 91-day treasury bill rate edged up by 18 basis points and stood at 3.45 per cent, remaining within the desired range of +/- 200 basis points to the South African counterpart rate.

Figure 17: Short Term Interest Rates (Per Cent per Annum)



Source: Central Bank of Lesotho

Table 11: Interest rates

	2020				2021
	Q3	Q4	Q1	Q2	Q3
Central Bank					
CBL rate	3.50	3.50	3.50	3.50	3.50
T-Bill Rate - 91 days	3.61	3.20	3.25	3.27	3.45
Lombard Rate	7.61	7.20	7.25	7.27	7.45
Commercial Banks					
Call	0.99	0.99	0.99	0.99	0.99
Time:					
31 days	0.67	0.67	0.67	0.67	0.67
88 days	1.88	1.88	1.64	1.64	1.64
6 months	3.00	3.00	3.10	3.10	3.10
1 year	3.79	3.79	3.53	3.53	3.53
Savings	0.70	0.70	0.70	0.70	0.70
Prime	8.19	8.19	8.19	8.19	8.19
South Africa					
Repo	3.50	3.50	3.50	3.50	3.50
T-Bill Rate - 91 days	3.47	3.87	3.81	3.75	3.79

Source: Central Bank of Lesotho

Holding of Treasury Bills

The overall holding of treasury bills (T-Bills) experienced a moderate increase of 0.04 per cent in the quarter under review, compared to a growth of 17.1 per cent observed in the second quarter of 2021. This was on the back of an issuance of a M75.00 million fiscal T-Bill which was almost entirely offset by the stock of maturing bills during the quarter. The holding of T-Bills by the banking sector increased by 2.5 per cent, while the non-bank sector holding declined by 9.4. Nonetheless, on a year on year basis, the overall holding of T-Bills fell by 21.3 per cent.

Table 12: Holding of Bills (Million Maloti)

	2020				2021
	Q3	Q4	Q1	Q2	Q3
Treasury Bills	1,312.05	1,335.09	881.62	1032.55	1032.99
Banking System	997.00	1,013.05	657.91	821.69	841.89
Non-Bank Sector	315.05	322.04	223.71	210.85	191.10
Memorandum Item					
Yield Bills (91-days)	3.38	3.23	3.28	3.28	3.48

Source: Central Bank of Lesotho

Holding of Treasury Bonds

The overall holdings of treasury bonds increased by 5.8 per cent during the review quarter, influenced by the reopening of a M150.00 million bond on the 22nd of September 2021. The banking sector's holdings of treasury bonds rose by 5.4 per cent, while the non-banking sector recorded a growth of 6.1 per cent. Considering the exposure to government bonds between June and September, the share of the banking sector to the total stock of bonds stood at 41.1 per cent, while the non-banking sector stood at 58.9 per cent. Measured on year-over-year, the total stock of outstanding bonds rose by 12.5 per cent.

Table 13: Holding of Bonds (Million Maloti)

	2020				2021
	Q3	Q4	Q1	Q2	Q3
Holding of Treasury Bonds	2,476.80	2,776.80	2,876.80	2633.27	2,786.48
Banking System	1,012.60	1,290.94	1,319.11	1,085.77	1,144.45
Non-Bank Sector	1,464.20	1,485.87	1,557.69	1,547.50	1,642.04

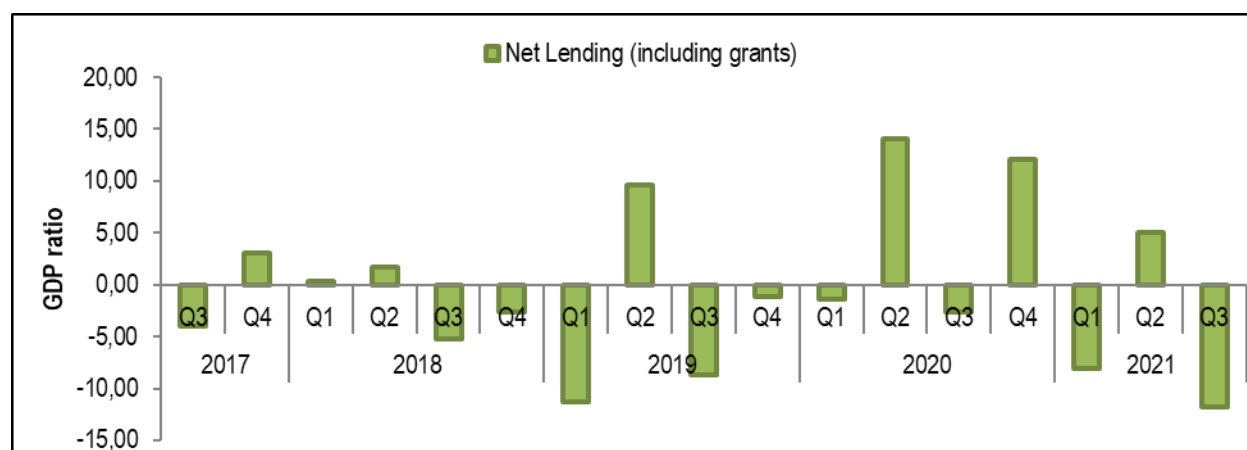
Source: Central Bank of Lesotho

5. Government Finance

OVERVIEW

The Government budgetary operations were estimated to have registered a deficit equivalent to 11.7 per cent of GDP in September 2021, in contrast to a revised surplus of 5.1 per cent of GDP in June 2021. A continuously declining revenue since the beginning of this year coupled with high spending during the quarter explained this deficit, and with it, the banking system experienced drawdown of the Government deposits. Public debt stock was estimated at 59.5 per cent of GDP in September 2021, which was up from a revised 57.3 per cent of GDP in June 2021. The issuance of government securities for budgetary purposes, together with the exchange rate effect were the main contributors to the increase of the debt-to-GDP ratio.

Figure 18: Fiscal Balance (Percent of GDP)



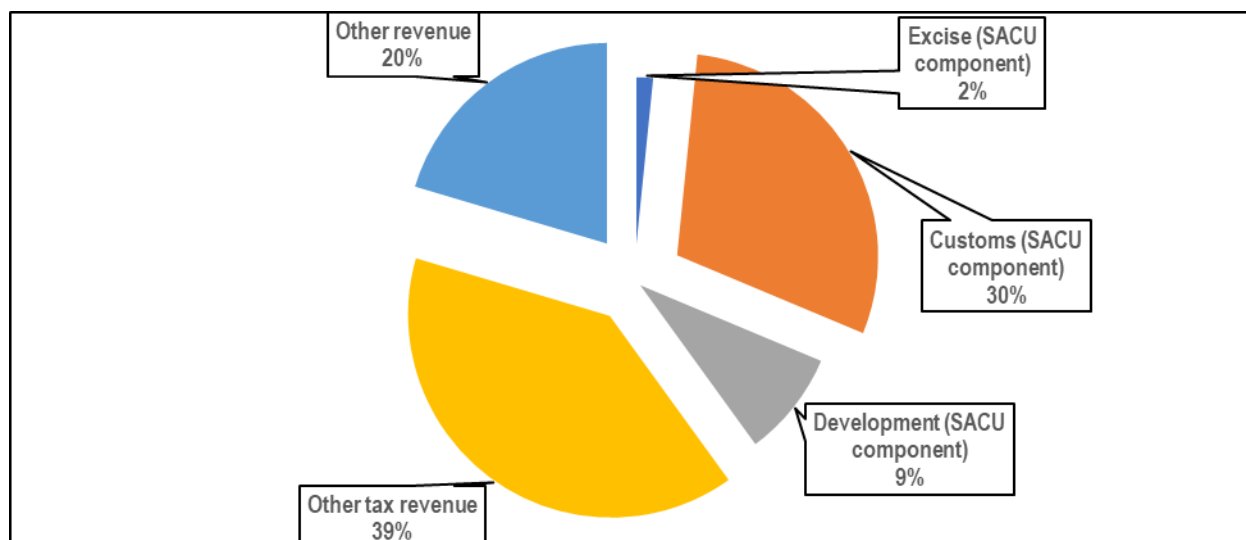
Source: Central Bank of Lesotho and Ministry of Finance

REVENUE³

The Government revenue declined by 8.0 per cent during the third quarter of 2021 in comparison to a fall of 15.2 per cent in the second quarter of 2021. The decline in revenue mainly emanated from, amongst others, a slowdown in economic activities, which affected VAT collections, petroleum levy, mining royalties, and revenue from sale of electricity from 'Muela Hydropower. In terms of annual changes, total revenue fell by 12.6 per cent during the quarter under review, relative to a rise of 0.7 per cent in June 2021.

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 19: Total Revenue (Million Maloti)

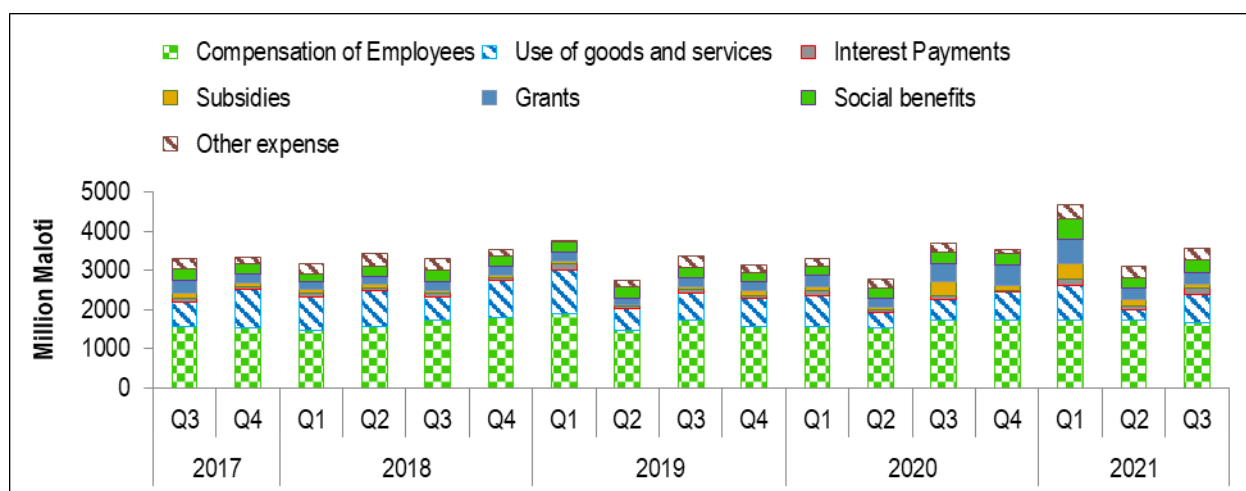


Source: Central Bank of Lesotho and Ministry of Finance

TOTAL EXPENDITURE

The Government spending rose by 24.9 per cent in the quarter under review, compared to a revised decrease of 31.6 per cent in the previous quarter. The rise in spending was due to travel and transport on domestic and international services, operating costs, interest payments, non-life insurance premiums, and capital spending on other structures. This increase was mainly driven by international travel & transport, and interest payments in the aftermaths of COVID-19.

Figure 20: Total Expense (Million Maloti)



Source: Central Bank of Lesotho and Ministry of Finance

Table 14: Statement of Government Operations (Million Maloti)

	2020		2021			Q-to-Q	Y-on-	GDP
	Q3	Q4	Q1	Q2	Q3	(%)	Y (%)	ratio (%)
Total Revenue	4296.36	4913.37	4812.64	4080.32	3754.40	-8.0	-12.6	50.6
Tax revenue	3409.45	3784.57	3782.71	3223.05	2987.99	-7.3	-12.4	40.3
Income Tax	848.62	1014.83	1104.96	967.74	959.37	-0.9	13.1	12.9
Value Added Tax	679.51	850.10	700.28	777.70	720.50	-7.4	6.0	9.7
SACU Receipts Components	1756.49	1756.49	1756.49	1175.05	1175.05	0.0	-33.1	15.8
Other tax revenue	124.83	163.16	220.99	302.56	133.08	-56.0	6.6	1.8
Grants	553.34	568.37	565.70	359.49	334.59	-6.9	-39.5	4.5
o/w SACU Receipts Component	488.65	488.65	488.65	326.89	326.89	0.0	-33.1	4.4
Other revenue	333.57	560.43	464.22	497.79	431.82	-13.3	29.5	5.8
Total Expense	3701.61	3519.27	4692.10	3114.35	3577.19	14.9	-3.4	48.2
Compensation of Employees	1717.95	1739.65	1740.03	1722.74	1662.36	-3.5	-3.2	22.4
Use of goods and services	545.87	709.04	864.95	282.55	726.94	157.3	33.2	9.8
O/W Purchase of Health Services	118.03	95.38	165.63	97.80	55.80	-42.9	-52.7	0.8
Interest Payments	76.77	46.68	177.28	86.05	165.26	92.1	115.3	2.2
Subsidies	387.00	119.57	391.60	161.83	106.15	-34.4	-72.6	1.4
Grants	452.51	532.93	618.28	309.05	295.56	-4.4	-34.7	4.0
Social benefits	293.37	294.29	531.01	250.90	308.55	23.0	5.2	4.2
Other expense	228.14	77.12	368.95	301.23	312.36	3.7	36.9	4.2
Net Operating Balance	594.75	1394.10	120.54	965.98	177.21	-	-	2.4
Total Nonfinancial Assets	803.11	421.53	723.77	587.43	1047.95	78.4	30.5	14.1
Fixed Assets	803.11	421.53	723.77	587.43	1047.95	78.4	30.5	14.1
Non-Produced Assets	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Expenditure	4504.72	3940.80	5415.86	3701.78	4625.14	24.9	2.7	62.4
Primary balance	-131.59	1019.25	-425.95	464.59	-705.48	-	-	-9.5
Net lending/borrowing	-208.36	972.57	-603.22	378.54	-870.74	-	-	-11.7
Financing	-1211.32	1340.87	-724.53	505.62	-960.97	-	-	-13.0
Net Acquisition of Financial assets	-656.14	6.31	-548.18	711.89	-398.17	-	-	-5.4
O/W Domestic Currency and Deposits	-652.42	6.31	-544.83	711.89	-398.17	-	-	-5.4
Net Incurrence of Liabilities	555.19	-1334.56	176.34	206.27	562.80	-	-	7.6
O/W Domestic Other Accounts Payable	-206.22	-1233.92	121.53	30.46	188.80	-	-	2.5
Statistical Discrepancy	1002.96	-368.30	121.30	-127.08	90.23	-	-	1.2
Memo Items								
SACU receipts	2245.13	2245.13	2245.13	1501.94	1501.94	0.0	-33.1	20.3
GDP (quarterly, red colour = forecast)	7766.36	8038.17	7466.85	7488.86	7413.97	-	-	-

Source: Central Bank of Lesotho and Ministry of Finance

TOTAL OUTLAYS BY FUNCTIONS OF GOVERNMENT⁴

The share of recurrent outlays to total spending declined from 89.3 per cent in June 2021 to 89.0 per cent in September 2021. The most spending functions under both recurrent and capital outlays were housing & community amenities, health, defence, and recreation categories, among others.

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.

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

	2020			2021		Q-to-Q (%)	Y-on-Y (%)	GDP ratio (%)
	Q3	Q4	Q1	Q2	Q3			
Recurrent Outlays	3568.50	3538.00	4558.82	2995.42	3797.41	26.8	6.4	51.2
General public services	513.21	726.13	830.51	384.13	454.91	18.4	-11.4	6.1
Defense	148.83	157.01	189.25	140.22	220.24	57.1	48.0	3.0
Public order and safety	328.39	364.33	389.45	297.73	331.68	11.4	1.0	4.5
Economic affairs	541.18	358.83	700.06	497.14	645.22	29.8	19.2	8.7
Environmental protection	4.25	4.67	4.86	3.27	3.37	2.9	-20.8	0.0
Housing and community amenities	74.06	33.17	38.79	82.57	229.70	178.2	210.2	3.1
Health	730.74	611.97	739.80	375.13	672.41	79.2	-8.0	9.1
Recreation, culture and religion	24.68	28.40	45.14	20.46	30.36	48.4	23.0	0.4
Education	648.47	692.86	781.78	588.57	631.49	7.3	-2.6	8.5
Social protection	554.69	560.61	839.17	606.21	578.04	-4.6	4.2	7.8
Capital Outlays	714.19	302.83	425.44	358.84	468.17	30.5	-34.4	6.3
General public services	114.62	105.78	121.96	39.23	106.20	170.7	-7.3	1.4
Defence	5.75	8.64	5.95	0.00	0.00	-	-100.0	0.0
Public order and safety	83.70	77.60	103.26	87.88	111.55	26.9	33.3	1.5
Economic affairs	333.54	20.47	86.43	210.66	122.93	-41.6	-63.1	1.7
Environmental protection	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Housing and community amenities	121.54	81.98	66.24	10.44	113.58	988.4	-6.6	1.5
Health	26.51	1.06	14.48	2.08	5.18	148.8	-80.5	0.1
Recreation, culture and religion	24.31	3.70	12.81	7.21	7.25	0.6	-70.2	0.1
Education	4.22	3.59	14.32	1.34	1.49	11.5	-64.6	0.0
Social protection	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Total Outlays	4282.68	3840.83	4984.26	3354.26	4265.59	27.2	-0.4	57.6
General public services	627.82	831.92	952.47	423.36	561.11	32.5	-10.6	7.6
Defence	154.57	165.65	195.21	140.22	220.24	57.1	42.5	3.0
Public order and safety	412.09	441.93	492.71	385.61	443.23	14.9	7.6	6.0
Economic affairs	874.73	379.30	786.48	707.80	768.14	8.5	-12.2	10.4
Environmental protection	4.25	4.67	4.86	3.27	3.37	2.9	-20.8	0.0
Housing and community amenities	195.60	115.16	105.04	93.00	343.28	269.1	75.5	4.6
Health	757.24	613.03	754.28	377.21	677.58	79.6	-10.5	9.1
Recreation, culture and religion	48.99	32.11	57.95	27.67	37.62	36.0	-23.2	0.5
Education	652.69	696.45	796.09	589.91	632.98	7.3	-3.0	8.5
Social protection	554.69	560.61	839.17	606.21	578.04	-4.6	4.2	7.8
Unidentified Outlays	-1143.74	663.89	-1043.46	2061.60	-563.81	-127.3	-50.7	-7.6

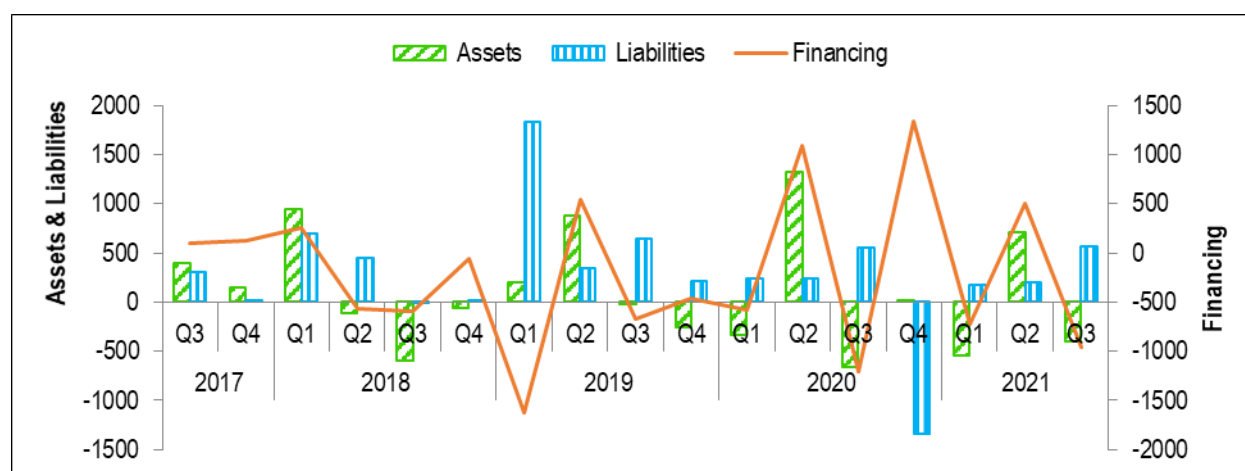
Source: Central Bank of Lesotho and Ministry of Finance

FINANCIAL ASSETS AND LIABILITIES⁵

The Government financial flows have shown a decline during the quarter under review, owing largely to financing of high spending. The financial assets decreased by M398.17 million, mainly driven by drawdown of the Government deposits in the banking system. The liabilities increased by M562.80 million due to other accounts payable, issuance of Treasury bonds, and new external debt.

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

Figure 21: Total Financing (Million Maloti)

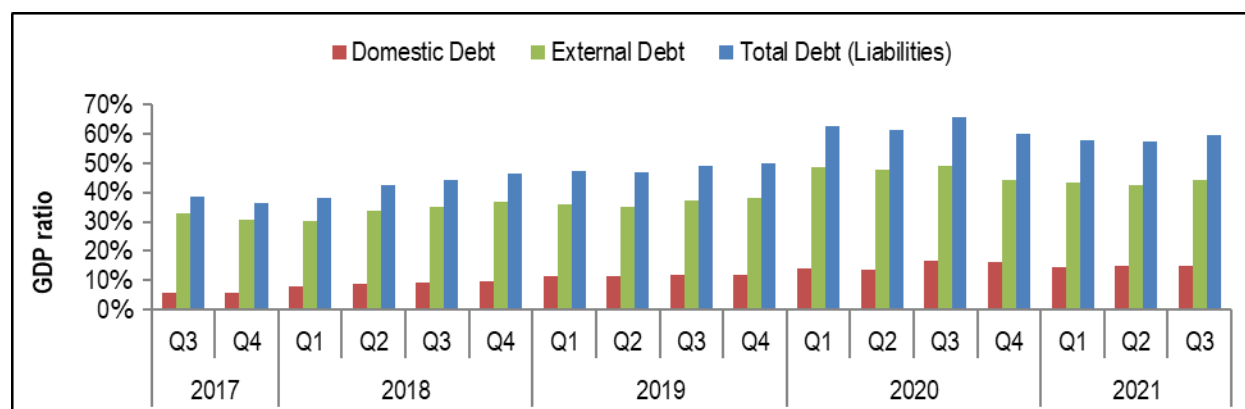


Source: Central Bank of Lesotho and Ministry of Finance

TOTAL PUBLIC DEBT⁶

The stock of public debt was estimated to have grown by 3.8 per cent to 59.5 per cent of GDP during the period under review, up from the revised 57.3 per cent of GDP observed in the previous quarter. This was mainly driven by increased domestic debt and a rise in external debt as a result of accelerated implementation of development projects, as well as, exchange rate effects. In terms of annual changes, the public debt stock decreased by 7.6 per cent in September 2021 compared to a fall of 4.5 per cent in June 2021.

Figure 22: Outstanding Public Debt (Million Maloti)



Source: Central Bank of Lesotho and Ministry of Finance

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)

	2020			2021		Q-to-Q (%)	Y-on-Y (%)	Debt/GDP (%)
	Q3	Q4	Q1	Q2	Q3			
Total Public Debt	20341.13	18609.44	18245.62	18118.92	18801.57	3.8	-7.6	59.5
EXTERNAL DEBT	15223.73	13631.19	13665.43	13448.50	14051.20	4.5	-7.7	44.4
Bilateral Loans	1118.26	975.64	982.61	924.00	939.80	1.7	-16.0	3.0
Concessional	1118.26	975.64	982.61	924.00	939.80	1.7	-16.0	3.0
Non-concessional	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Multilateral Loans	12399.03	11090.74	11108.39	10944.80	11384.90	4.0	-8.2	36.0
Concessional	10907.51	9620.03	9664.54	9517.90	9936.20	4.4	-8.9	31.4
Non-concessional	1491.52	1470.71	1443.85	1426.90	1448.70	1.5	-2.9	4.6
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	1706.44	1564.81	1574.43	1579.70	1726.50	9.3	1.2	5.5
DOMESTIC DEBT	5117.40	4978.25	4580.18	4670.42	4750.37	1.7	-7.2	15.0
Banks	3398.60	3275.59	2880.91	2912.06	2917.23	0.2	-14.2	9.2
Long-term	2341.16	2201.94	2223.00	2090.37	2075.35	-0.7	-11.4	6.6
Treasury bonds	1012.60	1096.06	1124.24	1085.77	1144.45	5.4	13.0	3.6
Central Bank (IMF-ECF)	1328.55	1105.89	1098.77	1004.60	930.90	-7.3	-29.9	2.9
Short-term (t-bills)	1057.44	1073.65	657.91	821.69	841.89	2.5	-20.4	2.7
Non-bank	1718.81	1702.65	1699.28	1758.36	1833.14	4.3	6.7	5.8
Short-term (t-bills)	254.61	238.47	223.71	210.85	191.10	-9.4	-24.9	0.6
Long-term (t-bonds)	1464.20	1464.18	1475.57	1547.50	1642.04	6.1	12.1	5.2
DEBT INDICATORS								
External Debt-to-Total Debt	74.8	73.2	74.9	74.2	74.7	-	-	-
Domestic Debt-to-Total Debt	25.2	26.8	25.1	25.8	25.3	-	-	-
Concessional Debt-to-External Debt	79.0	77.7	77.9	77.6	77.4	-	-	-
External Debt Service-to-GDP	2.7	1.8	2.4	2.1	1.4	-	-	-
External Debt Service-to-Revenue	4.8	2.9	3.7	3.9	2.7	-	-	-
External Debt Service-to-Exports	5.2	3.3	5.3	4.4	2.6	-	-	-

Source: Central Bank of Lesotho and Ministry of Finance

6. Foreign Trade and Payments

OVERVIEW

In the third quarter of 2021, the external sector position registered a surplus equivalent to 28.9 per cent of GDP, relatively higher than a revised 4.4 per cent of GDP in the preceding quarter. This resulted from improved balances on the current account and the capital account in the review quarter. The external sector was further supported by the increase in the financial account inflows during the same period.

CURRENT ACCOUNT

During the third quarter of 2021, the current account balance improved markedly, recording a deficit of M521.70 million, down from a deficit of M684.50 in the previous quarter. This was due to a significant improvement in the goods account balance, which registered a lower deficit compared with the previous period, as a result of higher exports, while imports remained relatively unchanged. Meanwhile, the deficit on the services account increased slightly during the same period, and therefore, partly offset the improved performance of the current account balance. In addition, the observed performance of the current account balance was moderated by a contraction of surpluses on both the primary income account and the secondary income account. The deficit in the current account balance accounted for 7.4 per cent of GDP in the quarter under review, compared to a revised 9.2 per cent in the preceding quarter.

Table 17: Current Account Balance (Million Maloti)

	2020		2021			% Changes	
	Q3	Q4	Q1	Q2	Q3	Q/Q	Y/Y
Current Account	-743.1	-147.1	255.6	-684.5	-521.7	-23.8	-29.8
(a) Goods	-3578.6	-3052.0	-2786.2	-2934.7	-2661.3	9.3	-25.6
Merchandise exports, f.o.b.	3987.3	4298.7	3522.1	3724.4	3996.9	7.3	0.2
Of which diamonds	1153.5	1217.3	1091.8	1242.2	1309.1	5.4	13.5
Of which textiles & clothing	2211.6	2424.1	1778.8	1848.0	1983.2	7.3	-10.3
Of which water	253.1	287.6	281.9	292.4	304.7	4.2	20.4
Of which agriculture	86.5	105.5	71.2	77.0	84.6	9.9	-2.2
Of which re-exports	36.9	34.6	83.5	57.4	43.6	-24.0	18.2
Other exports	245.7	229.6	215.0	207.4	271.7	31.0	10.6
Merchandise imports, f.o.b.	7565.8	7350.7	6308.4	6659.1	6658.2	0.0	-12.0
(b) Services	-1628.1	-1606.3	-1659.8	-1641.5	-1650.7	-0.6	-1.4
(c) Primary Income	1688.7	1716.0	1743.5	1828.5	1767.4	-3.3	4.7
(d) Secondary Income	2774.9	2795.2	2958.1	2063.1	2022.9	-1.9	-27.1

Source: Central Bank of Lesotho

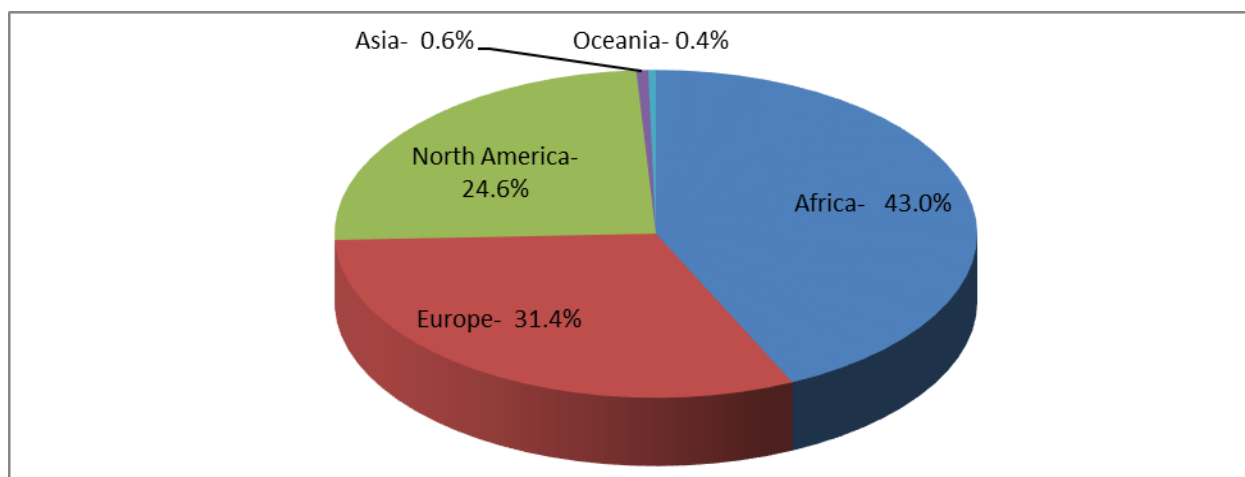
Merchandise Exports

Merchandise Exports expanded by 7.3 per cent in the quarter under review, easing from a 9.1 per cent increase recorded in the previous quarter. The observed increase emanated mainly from improved performances in the diamond mining industry sector and the textile and clothing industry. Diamond exports rose by 5.4 per cent, underpinned by sales associated with one mine, whose sales rose amid buoyant market and strong demand. Notwithstanding the current challenges in the textiles and clothing industry, which led to closure of some firms, export sales in this industry advanced by 7.3 per cent following a 3.9 per cent increase in the previous quarter. The growth was attributable to higher orders, which were diverted to some companies in Lesotho, amid the suspension of some countries from the Africa Growth and Opportunity Act (AGOA). On a yearly basis, merchandise exports were relatively unchanged, with a minimal increase of 0.2 per cent compared to an increase of 86.3 per cent in the previous quarter. As a share of GDP, merchandise exports accounted for 56.9 per cent, higher than 50.2 per cent of GDP in the preceding quarter.

Direction of Trade - Exports

Africa continued to take a dominant share of Lesotho's exports in the quarter under review, with a share of 43.0 per cent compared to 37.0 per cent share in the previous quarter. The majority of these exports were destined to South Africa. Exports to Africa comprised mostly textile and clothing directed to South Africa. The second largest recipient of Lesotho's exports was Europe with a share of 31.4 per cent, slightly lower than the 34.1 per cent recorded in the previous quarter. Exports to Belgium are mainly explained by diamonds. North America came third with the share of 24.6 per cent, which was lower than the 29.7 per cent recorded in the quarter ending in June 2021. Exports to North America continued to be dominated by textile and clothing directed to the United States under AGOA. Asia and Oceania came last with shares of 0.6 per cent and 0.4 per cent respectively.

Figure 23: Direction of Merchandise Exports (*Percentage Share*)



Source: Central Bank of Lesotho

Merchandise Imports

Merchandise imports remained unchanged in the review quarter after a 5.6 per cent increase observed in the previous quarter. The increase in imports for food and live animals were moderated by the decline in imports for mineral products such as coal, gas, paraffin and electricity. On annual basis, merchandise imports recorded a decline of 12.0 per cent easing from a 41.7 increase observed in the previous quarter. As a share of a GDP, merchandise imports accounted for 94.7 per cent, improvement from 89.8 per cent of GDP observed in the previous quarter.

Services account

The services account balance recorded a slight increase of 0.6 per cent in the quarter under review, following a 4.9 per cent drop in the previous quarter. The observed performance was due to higher expenditure on business travel coupled with an increase in payments for telecommunication services acquired abroad. The deficit on the services account balance increased by 1.4 per cent year-on-year, rebounding from a 17.7 per cent decline observed in the preceding quarter. As a percentage of GDP, the deficit account for 23.5 per cent in the review quarter, compared to a revised 22.1 per cent in the second quarter of 2021.

Primary Income Account

The surplus on the primary income declined by 3.3 per cent during the quarter ending in September 2021, after increasing by 4.9 per cent in the quarter ending in June 2021. The downward pressure came from a fall in the interest returns on commercial banks' investments held abroad, a decline in receipts for operational costs related to Lesotho Highlands Water Project – Phase I, as well as, an increase in interest payments on government foreign loans during this period. The decline was, however, partly offset by an increase in the interest returns on the Central Bank of Lesotho's investments held abroad. Year-on-year, the primary income account surplus advanced by 4.7 per cent, easing from a 20.9 per cent rise in the previous quarter. As a share of GDP, the primary income account surplus accounted for 25.1 per cent in the review quarter, compared to a revised 24.7 per cent in the prior quarter.

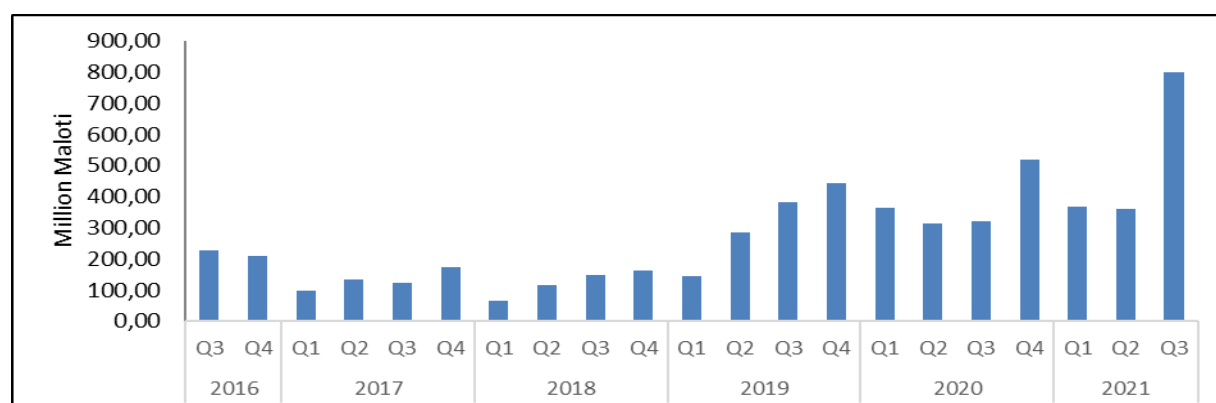
Secondary Income Account

The secondary income account surplus continued on a downward trajectory during the quarter under review. It fell by 2.0 per cent, following a 30.3 per cent fall in the quarter ending June 2021. The observed decline was mainly due to an increase in the subscription to international organisations. The surplus on secondary income recorded 27.1 per cent decrease on an annual basis, higher than the 24.9 per cent recorded in the previous quarter. As a share of GDP, the secondary income account surplus accounted for 28.8 per cent in the third quarter of 2021, compared to a revised 27.8 per cent of the quarter ending June 2021.

CAPITAL ACCOUNT

During the third quarter of 2021, the capital account inflows surged by more than twofold to M798.20 million or 11.4 per cent of GDP, following an inflow of M360.40 million, equivalent to 4.9 per cent of GDP in the previous quarter. The capital account benefited from increased transfers related to advanced infrastructure development for the Lesotho Highlands Water Project – Phase II. More contracts were awarded during this period in order to counteract the effects of COVID-19 on the overall progress of the project. Some activities were either delayed or executed sub-optimally due to unpredictable circumstances surrounding COVID-19 pandemic. Therefore, with more vaccine rollouts and relaxation of COVID-19 restrictions across the globe, activities related to this project increased markedly. Capital grants to the government remained relatively unchanged. As a ratio of GDP, the surplus accounted for 11.4 per cent, relatively higher than 4.9 per cent in the preceding quarter.

Figure 24: Capital Account (*Million Maloti*)



Source: Central Bank of Lesotho

FINANCIAL ACCOUNT

During the quarter under review, the financial account inflows continued to increase albeit at a slower pace compared to the previous period. The financial account inflow amounting to M1.53 million was recorded during the quarter ending in September 2021 following an inflow of M882.74 million in the previous quarter. The rise in financial account inflows were supported by commercial bank's reduction of assets held with non-residents. This was attributable to a need by commercial banks to raise funds for domestic liquidity requirements. The rise in financial account inflows were, however, moderated by the increase in official reserves.

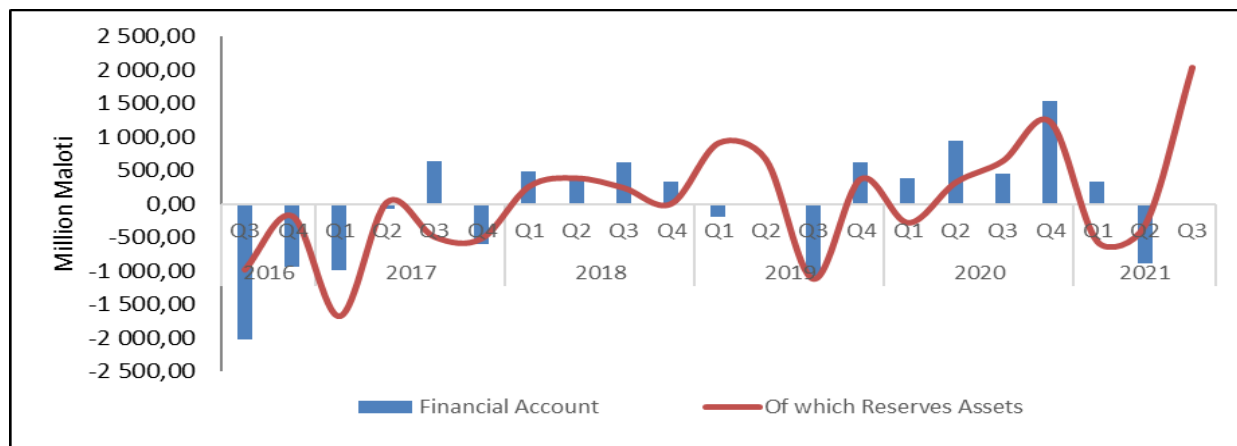
Table 18: Financial Account Balance (Million Maloti)

	2020		2021		
	Q3	Q4	Q1	Q2	Q3
Financial account	450.35	1539.51	323.08	-882.74	-1.53
Direct Investments, net	-121.29	-121.29	-98.30	-98.30	-98.30
Portfolio Investments, net	-0.81	-0.81	-0.82	-0.82	-0.82
Financial Derivatives, net	0.00	0.00	0.00	0.00	0.00
Other Investments, net	-58.89	443.07	997.20	-454.22	-1 930.23
Of which Loans	-644.44	223.80	31.45	-131.67	-174.02
Claims on Non Residents	34.48	34.48	34.48	34.48	34.48
Liabilities to Non Residents	678.92	-189.32	3.03	166.15	208.50
Of which Currency and Deposits	659.61	292.33	1,039.81	-248.49	-287.06
Claims on Non Residents	668.40	315.77	1,108.81	-383.85	-248.81
Liabilities to Non Residents	8.79	23.44	69.00	-135.36	38.25
Of which Special Drawing Rights	0.00	0.00	0.00	0.00	1395.00
Reserve Assets	631.34	1219.55	-575.01	-329.41	2 027.81

Source: Central Bank of Lesotho

During the review quarter, Lesotho received an SDR allocation from the IMF, which was meant to mitigate the effects of COVID-19 pandemic on the economy, particularly, on its foreign reserve holdings. This has, therefore, provided Lesotho with a buffer against adverse economic effects in the aftermath of the COVID-19 pandemic. It should, however, be noted that the country's liabilities to the IMF has also increased, although the repayment of the allocation would only be required under special conditions, such as, when a membership to the IMF ceases. As a proportion of GDP, the financial account inflows amounted to 0.02 per cent, considerably lower than 11.9 per cent inflows in the previous quarter.

Figure 25: Financial Account (Million Maloti)

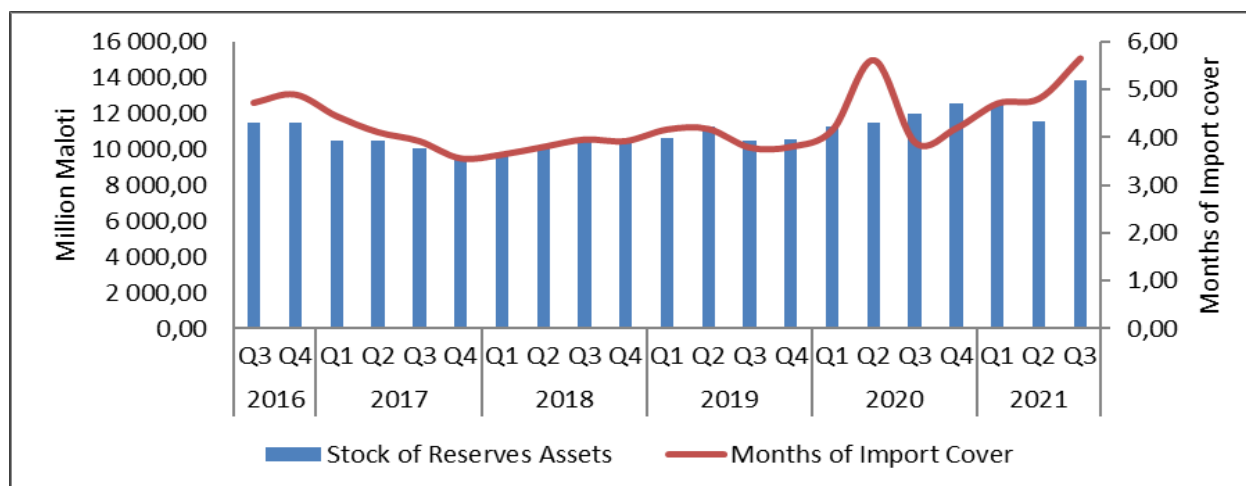


Source: Central Bank of Lesotho

RESERVE ASSETS

The stock of foreign reserves rose to M13.85 billion during the review period, from M13.54 billion in the second quarter of 2021. Reserves assets were buttressed mainly by the IMF SDR allocation to Lesotho in order to fight against the COVID-19 virus. As a result, expressed in months of import cover, reserve assets increased to 5.7 months during the period under review, from 4.8 months in the previous quarter.

Figure 26: Reserves Assets



Source: Central Bank of Lesotho