

Central Bank of Lesotho



QUARTERLY ECONOMIC REVIEW

March 2022

MASERU KINGDOM OF LESOTHO

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1. Executive Summary

Global economic activity was generally mixed in the first quarter of 2022, with the euro area and the United Kingdom (UK) economies growing, while Japan and the United States (US) declined. The euro area and the UK, on the one hand, benefitted from a marked recovery from the latest variants of COVID-19, while Japan, on the other hand, was unfavourably affected by the re-imposition of COVID-19 related restrictions. The US was hampered by declines in private inventory investment and government spending on social safety nets. Labour market conditions improved in most economies during the quarter, due to the lifting of COVID-19 restrictions, which brought workers back to work.

Inflationary pressures continued to escalate in both advanced and emerging market economies during the first quarter of 2022. This was fuelled by the war between Russia and Ukraine, which caused shortages of global oil and grains and, consequently, increased prices. In response, majority of central banks hiked their policy rates to curb inflation.

Domestic economic performance slowed down in the first quarter of 2022. According to the quarterly indicator of economic activity, economic growth was estimated at 1.8 per cent compared to 3.9 per cent recorded in December. Growth in economic activity was mainly underpinned by a rise in domestic demand. The labour markets showed mixed signals in the first quarter of 2022, with growth in government employment, whereas there was loss of jobs for migrant mineworkers and the manufacturing industry. Headline inflation in March was recorded at 7.2 per cent compared with 6.8 per cent in December 2021.

The broad money supply (M2) declined by 5.1 per cent, a reversal from a growth of 9.1 per cent in December 2021. The decline in M2 was driven by net domestic claims and net foreign assets, which fell by 8.7 per cent and 5.8 per cent, respectively. Credit growth also remained lacklustre, alongside a significant decline in total deposit holdings. Most short-term interest rates increased, following the decision of the Monetary Policy Committee (MPC) to hike the CBL policy rate in March 2022.

The Government budgetary operations were estimated to have registered a budget deficit equivalent to 13.6 per cent of GDP in March 2022, relative to a revised surplus of 0.6 per cent of GDP in December 2021. This deficit was financed through borrowing from the domestic market and external development partners. The public debt stock was estimated at 50.7 per cent of GDP, declining from the revised 52.7 per cent of GDP recorded in December 2021. The reduction in public debt stock was mainly due to the impact of exchange rate changes on external loans.

The external sector position improved during the first quarter of 2022, with the current account narrowing from a deficit of 5.5 per cent of GDP in the last quarter of 2021 to a deficit of 1.0 per cent. This was on account of the surpluses realised in both the primary and secondary income accounts. However, the trade account recorded a relatively higher deficit on account of a fall in exports of clothing and textiles. Consequently, the level of reserves, in months of imports declined to 5.3 month in the first quarter of 2022 from 5.6 months in the previous quarter.

2. International Economic Developments

The global economic performance was generally mixed in the first quarter of 2022, with some countries registering growth in GDP, while others recording a decline. In the advanced economies, GDP growth rates increased in the euro area and the UK, but declined in the US and Japan. The euro area and the UK benefitted from a marked recovery from the omicron variant of COVID-19 during the first quarter of 2022 compared to the previous quarter. Meanwhile, economic activity in the US was hampered by declines in private inventory investment and government spending, whereas growth in Japan was adversely affected by the re-imposition of COVID-19 related restrictions. Labour market conditions improved in most economies, due to the lifting of COVID-19 restrictions, which brought workers back to work. Nonetheless, in China, the resurgence of the omicron variant forced the government to re-impose restrictions, thereby, driving the unemployment rate higher.

Inflationary pressures continued to escalate in both advanced economies and emerging market economies. Consumer price inflation was fuelled by, amongst others, the war between Russia and Ukraine, which caused shortages of global oil and grains, resulting in higher prices. In response to the rising inflation rates, most central banks embarked on monetary policy tightening during the quarter under review.

Table 1: Key World Economic Indicators

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	Q4 2021	Q1 2022	Q4 2021	Q1 2022	Q4 2021	Q1 2022	Q4 2021	Q1 2022
United States	6.9	-1.4	7.0	8.5	0.00	0.25	3.9	3.6
Euro area	4.7	5.0	5.0	7.4	0.00	0.00	7.0	6.8
Japan	3.8	-1.0	0.8	1.2	-0.10	-0.10	2.7	2.6
United Kingdom	6.6	8.7	5.4	7.0	0.25	0.75	4.1	3.7
China	4.0	4.8	1.5	1.5	3.80	3.70	5.1	5.8
India	5.4	4.1	5.6	7.0	4.00	4.00	N/A	N/A
South Africa	1.7	N/A	5.9	5.9	3.75	4.25	35.3	34.5

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

ADVANCED ECONOMIES

United States (US)

Economic growth in the US deteriorated during the first quarter of 2022, compared to the preceding quarter. GDP growth rate for the US contracted by 1.4 per cent following an increase of 6.9 per cent in the preceding quarter. The downward pressure in economic growth mainly resulted from declines in private inventory investment and government spending. The fall in private inventory investment was mainly ascribed to declines in motor vehicle trade, while government spending dropped due to the tapering and expiration of federal programmes, such as, social benefits to households and the pandemic-era school feeding programme. The omicron variant of the COVID-19 continued to weigh negatively on economic growth, as restrictions imposed to contain the virus disrupted operations in the key sectors of the economy. Nonetheless, US unemployment rate fell to 3.6 per cent in March 2022, from 3.8 per cent in the last quarter of 2021, indicating the labour market's resilience amid lower growth. Higher employment figures chiefly resulted from increased wages, which attracted more workers into the labour market.

Annual inflation accelerated to 8.5 per cent in the first quarter of 2022, from 7.0 per cent in the previous quarter. This was the highest rate recorded in four decades, arising from the surge in energy and food prices, which were fuelled by the disruptions in the global food and energy markets due to the war between Russia and Ukraine. Furthermore, there was an increase in consumer demand for goods and services, partly associated with increased wages, therefore, pushing consumer prices further. In response to the rising inflation, the Federal Open Market Operations (FOMC) increased its policy rate by 25 basis points to 0.25 per cent, and signalled further rate hikes and reductions in its asset purchases throughout 2022.

Euro area

The Euro Area economy continued on a positive trajectory in the first quarter of 2022, with real GDP growing by 5.0 per cent, following a revised increase of 4.7 per cent in the previous quarter. Meanwhile, the unemployment rate fell to 6.8 per cent, from 7.0 per cent in December 2021, in line with the strengthening economy. Nonetheless, the effects of the war between Russia and Ukraine were expected to weigh negatively on economic activity in the subsequent quarters.

Annual consumer prices rose by 7.4 per cent in the quarter ending in March 2022, compared with an increase of 5.0 per cent in the last quarter of 2021. The record high inflation rate was driven by an increase in energy prices as concerns over the war between Russia and Ukraine mounted and threatened the region's energy supply. However, the European Central Bank (ECB) left its key policy rate unchanged at 0.00 per cent. The ECB's decision was to support the economy, which was expected to contract in the subsequent quarter. The Bank also announced that it would scale down its asset purchase programme by June 2022. Furthermore, any adjustments to the key policy rate would be gradual and follow tapering of the asset purchase programme.

Japan

Economic growth for Japan deteriorated in the first quarter of 2022. GDP growth contracted by 1.0 per cent compared with a revised increase of 3.8 per cent in the quarter ending in December 2021. Economic activity in Japan was hampered by the resurgence of the omicron variant of COVID-19, which forced many parts of the country to re-impose restrictions to contain the spread of the virus. Furthermore, COVID-19 restrictions were also re-imposed in China, Japan's largest export market. This in turn resulted in supply side disruptions in Japan, weighing negatively on economic growth. Unemployment rate fell to 2.6 per cent in the review period from 2.7 per cent in the previous quarter, due to increased demand in the hospitality sector (eating out) which supported hiring in restaurants, particularly in March 2022.

Inflation rate rose to 1.2 per cent during the quarter under review, from 0.8 per cent in the last quarter of 2021. The upward pressure in consumer prices came from costs of food and energy, as well as, higher input costs, which were passed on to consumers. Energy costs edged higher due to supply disruptions caused by the war between Russia and Ukraine. Furthermore, the weaker value of the Japanese yen against its major trading currencies added pressure to consumer prices. The Bank of Japan left its key policy rate unchanged at -0.10 per cent at the end of March 2022, citing lack of demand-driven inflation and the need to support growth. Meanwhile, the Bank resolved to gradually reduce its asset purchases to pre-pandemic levels, with effect from April 2022.

United Kingdom (UK)

UK economic growth continued on an upward trend in the quarter under review. Real GDP growth rate for the UK was recorded at 8.7 per cent during the first quarter of 2022, following an increase of 6.6 per cent in December 2021. Economic growth in the UK was buttressed by robust government spending. Meanwhile, the growth momentum was counteracted by declining household consumption and business investment. The reductions followed the re-imposition of COVID-19 restrictions, which weighed negatively on consumption and business investment. Unemployment rate declined to 3.7 per cent during the review quarter from 4.1 per cent in the preceding quarter, on account of solid demand for work amid flexible working arrangements, with hybrid working and flexible working hours.

The consumer price index for the UK rose at 7.0 per cent per annum during the quarter under review, increasing from 5.4 per cent in the preceding quarter. The largest inflation contributions came from food and transport costs – arising from the increased costs of cooking oil and cereals, as well as, motor fuels, respectively. The increase in these components were a result of the ongoing conflict between Russia and Ukraine, which distorted supply for oil and wheat, amongst others. In response to the high inflation rate, the Bank of England raised its policy rate by 50 basis points to 0.75 per cent. The Bank also started with a reduction of asset purchases by ceasing to re-invest maturing assets.

EMERGING MARKET ECONOMIES

China

Economic activity in China improved further in the first quarter of 2022 relative to the preceding quarter. China's economic growth was recorded at 4.8 per cent, higher than 4.0 per cent in the last quarter of 2021. This was on account of the upbeat fixed asset investment, which benefited from

major infrastructure projects whose implementation started earlier than expected, amid the acceleration of issuance of special bonds. Economic growth in China, nonetheless, remained vulnerable to the restrictions re-imposed to contain the spread of COVID-19 following resurgence of infections during the first quarter of 2022. This, therefore, resulted in the unemployment rate rising from 5.1 per cent in the previous quarter, to 5.8 per cent.

The annual consumer price index for China remained unchanged from that recorded in the previous quarter. The largest contributions to the inflation rate were observed for transport and communication, amid increases in costs of fuel and energy. These were, however, moderated by slowing food prices mainly due to a fall in pork prices during the first quarter of 2022. The People's Bank of China decided to cut its policy rates to 3.7 per cent during the first quarter of 2022, from 3.8 per cent in the last quarter of 2021. The decision to cut the rate was mainly to support economic growth on the back of heightened uncertainties.

India

Economic activity in India slowed during the first quarter of 2022, with real GDP recorded at 4.1 per cent, from 5.4 per cent in the last quarter of 2021. The slower growth resulted from weaker consumption spending stemming from increased consumer prices. Furthermore, the economy was confronted with supply shortages and higher input prices, which weighed negatively on output in sectors such as mining, construction and manufacturing. The unemployment rate was expected to decline during the quarter ending in March 2022 compared to the previous quarter, as job creation in the industry and services sectors began to yield positive results.

The annual consumer prices in India rose by 7.0 per cent during the quarter under review following an increase of 5.6 per cent in the last quarter of 2021. This represented a breach of the Reserve Bank of India's inflation upper target of 6.0 per cent. The increase in consumer prices was on the back of the surge in food and fuel prices, amid the supply chain disruptions primarily due to the ongoing conflicts in Russia-Ukraine. During the same period, the Reserve Bank of India left its policy rate unchanged at 4.00 per cent, to support the economy.

South Africa

Recent economic data for South Africa pointed towards a recovery in economic activity during the first quarter of 2022. PMI figures for both manufacturing and services accelerated in the quarter under review, thereby, contributing positively to real GDP growth. The unemployment rate for South Africa fell to 34.5 per cent in the quarter ending in March 2022, from a record high of 35.3 per cent in the previous quarter. More jobs were observed in community and social services, manufacturing and trade sectors, which were boosted by the recovery of external demand amid the global recovery from the omicron variant of COVID-19. Employment figures were anticipated to fall throughout 2022 amid electricity supply disruptions, inflationary pressures and tighter monetary policy stance in South Africa.

Inflation rate in South Africa remained unchanged at 5.9 per cent between December 2021 and March 2022. The largest upward contributions to the inflation rate came from transportation costs, as well as, costs of food and non-alcoholic beverages. Transportation costs rose alongside high costs of fuel, while the increase in food and non-alcoholic beverages prices were explained by the rise in the costs

of oil and fats, as well as, meat prices. To control the escalating inflationary pressures, the Reserve Bank of South Africa hiked its policy rates by 50 basis points to 4.25 per cent during the review quarter.

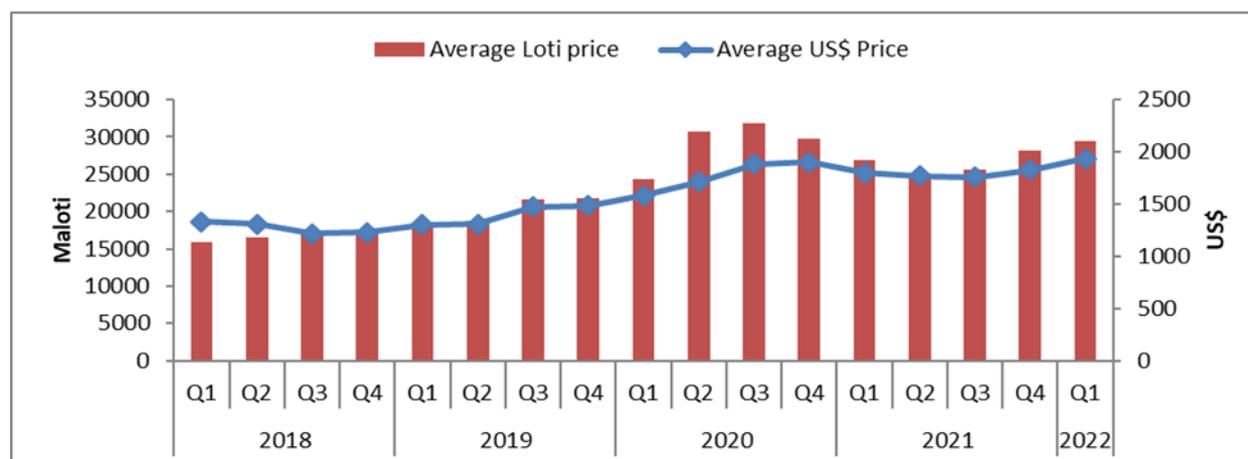
COMMODITIES

Minerals

Gold

During the first quarter of 2022, the dollar price of gold rose by 5.9 per cent, following an increase of 4.1 per cent in December 2021. The price of gold was primarily supported by increased demand for the safe haven assets in light of the perceived global tension resulting from the ongoing conflict between Russia and Ukraine, as well as, increasing inflation thereof. Gold prices were, nonetheless, moderated by the hawkish stance by the US Federal Reserve and strong US yields during the same period. Expressed in Maloti, the price of gold rose by 4.6 per cent during the first quarter of 2022, compared to an increase of 9.8 per cent during the last quarter of 2021.

Figure 1: Average Price of Gold

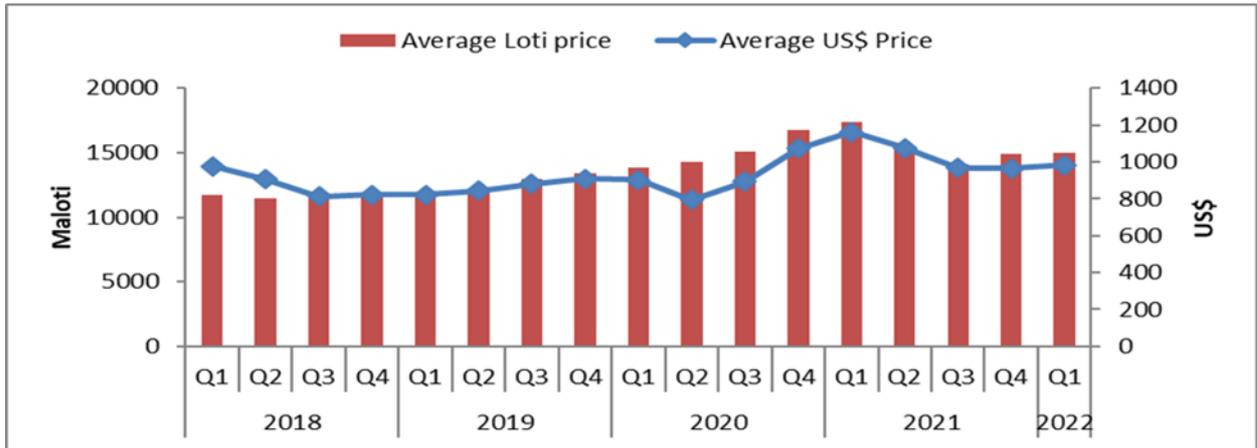


Source: Bloomberg

Platinum

Platinum dollar prices advanced by 1.8 per cent during the quarter under review compared to a slight decline of 0.3 per cent in the previous quarter. The increase in the price of the metal followed Russia's invasion of Ukraine, which called for imposition of sanctions on Russia by the Western Countries. With Russia being a major producer of platinum and the primary supplier of platinum to Europe, lack of supply from this country resulted in an increase of the metal's price. Expressed in Maloti, the price of platinum rose by 1.5 per cent during the review quarter compared to an increase of 5.2 per cent in the quarter ending in December 2021.

Figure 2: Average Price of Platinum



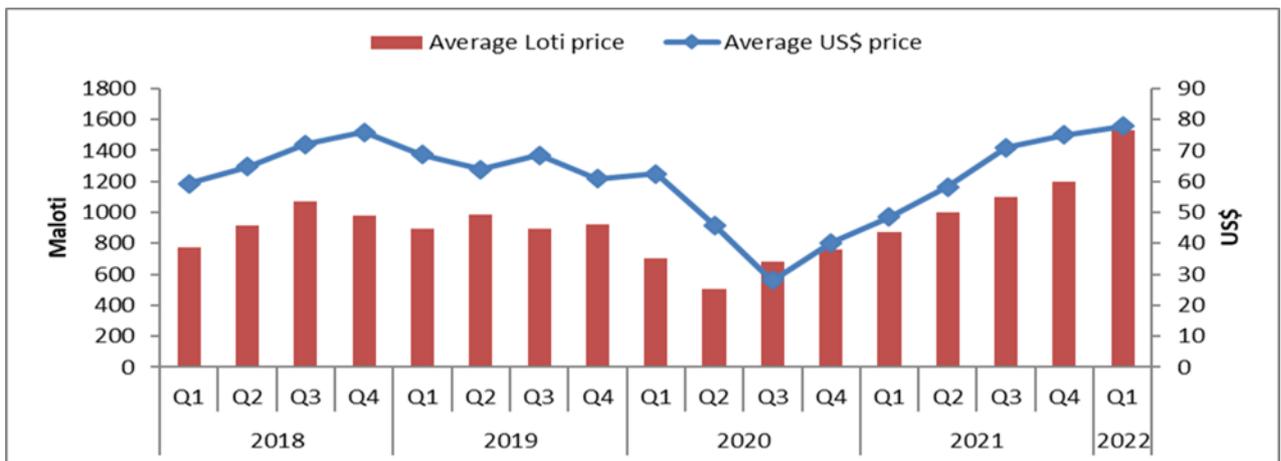
Source: Bloomberg

Energy

Oil

The dollar price of oil increased by 28.9 per cent during the quarter under review, accelerating from an increase of 3.7 per cent in the previous quarter. Oil prices surged on account of the Russia’s invasion of Ukraine during the same period – which called for the imposition of sanctions on Russia - the world’s third largest oil producer. The imposition of sanctions (crude oil imports from Russia) has resulted in supply side distortions for oil, as the country was forced to cut its output. These supply shortages have increased oil prices to their record highs during the first quarter of 2022. The Loti price of oil rose by 27.3 per cent during the quarter under review compared to an increase of 9.4 per cent in the previous quarter.

Figure 3: Average Price of Oil



Source: Bloomberg

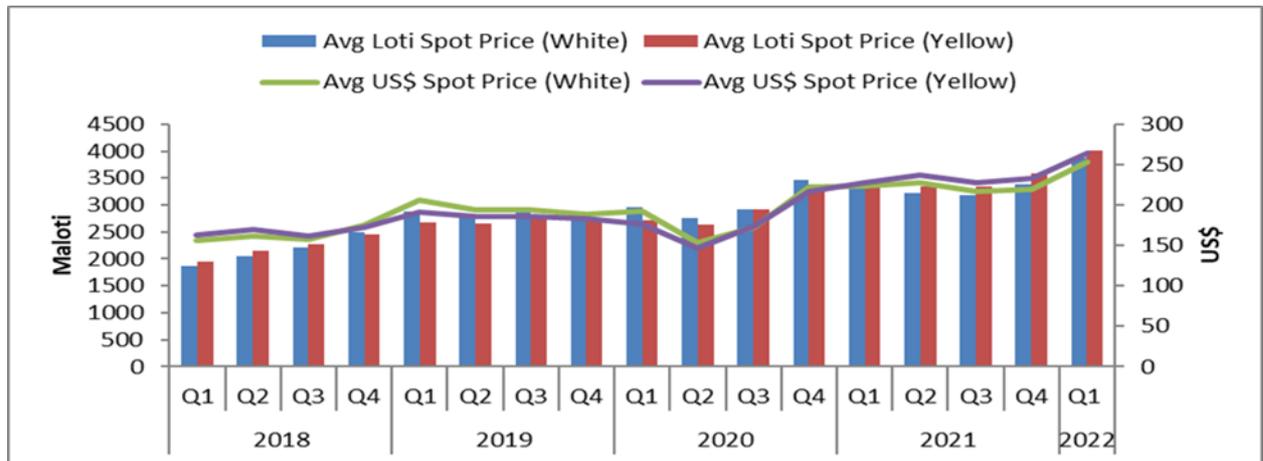
Agricultural Products

Maize

The dollar price of white maize rose by 15.4 per cent during the first quarter of 2022, following an increase of 1.1 per cent in the preceding quarter, while the dollar price of yellow maize rose by 13.2

per cent, compared to an increase of 3.9 per cent in the quarter ending in December 2021. The rally in the price of maize, alongside oil seeds and other grains, was driven by damage to infrastructure in Ukraine, causing supply side distortions. These were coupled with unfavourable weather conditions ahead of harvesting seasons. Expressed in Maloti, the price of white maize rose by 14.0 per cent after an increase of 6.6 per cent in the preceding quarter, while the price of yellow maize rose by 11.7 per cent following an increase of 7.7 per cent in the previous quarter.

Figure 4: Average Price of Maize

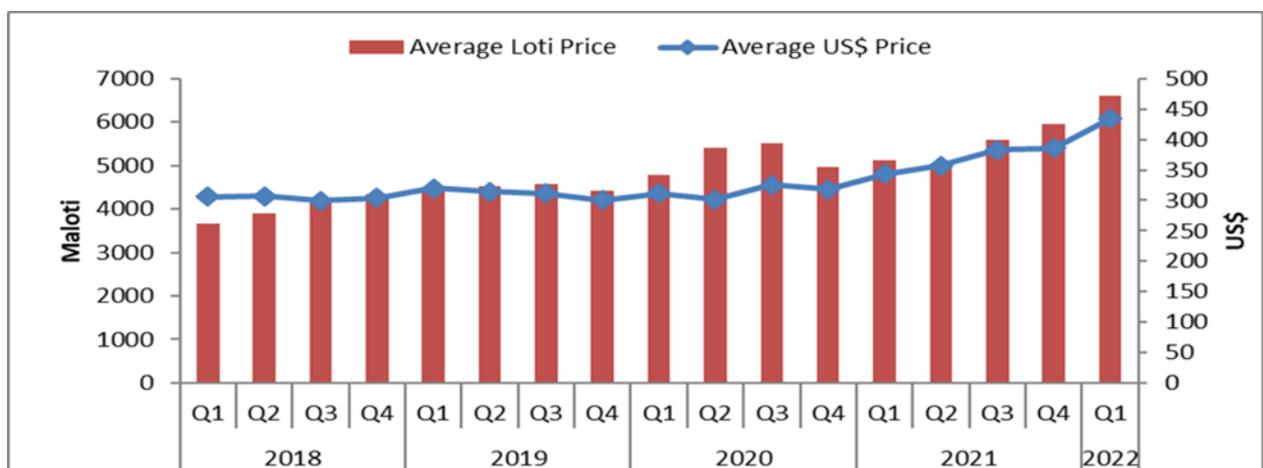


Source: Bloomberg

Wheat

During the quarter ending in March 2022, the dollar price of wheat increased by 12.5 per cent, higher than an increase of 0.8 per cent in the last quarter of 2021. Wheat prices mainly fuelled by the war between Russia and Ukraine, disrupting wheat supplies in these countries, and therefore, pushing its prices higher. The Loti price of wheat rose by 11.2 per cent during the quarter under review compared to an increase of 6.4 per cent in the previous quarter.

Figure 5: Average Price of Wheat

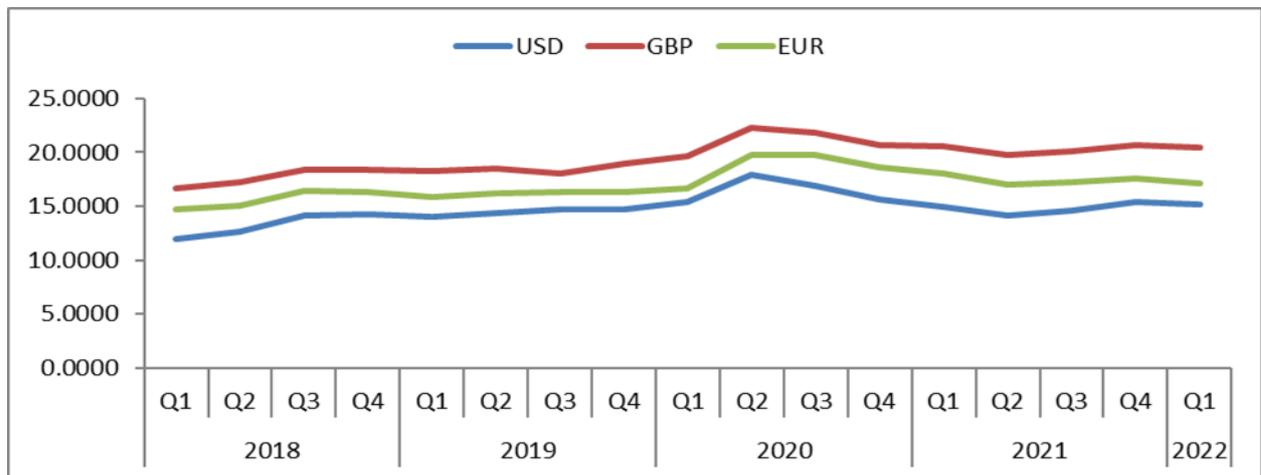


Source: Bloomberg

EXCHANGE RATES

During the quarter ending in March 2022, the value of the rand, and therefore, loti, strengthened against its three major trading currencies. The rand appreciated by 1.2 per cent, 1.3 per cent and 3.0 per cent against the dollar, the pound and euro, respectively, in contrast to a depreciation by 5.5 per cent, 2.8 per cent and 2.3 per cent against the dollar, the pound and the euro in the last quarter of 2021. The rand was supported by the surge in commodity prices (especially gold and platinum) to their record highs during the quarter under review. The stronger value of the rand, alongside other emerging market currencies was, however, moderated by rising US interest rates during the same quarter.

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



Source: Bloomberg

3. Real Sector Developments¹

OVERVIEW

High-frequency indicators pointed to a slowdown of domestic economic activity during the review period. Labour market indicators showed mixed signals as manufacturing and migrant mineworkers' employment fell, while government employment increased. On price developments, inflationary pressures were elevated.

OUTPUT DEVELOPMENTS

The Central Bank of Lesotho's quarterly indicator of economic activity (QIEA) pointed to economic recovery from the recent pandemic effects, albeit at a slower rate compared to the previous quarter. According to the QIEA index, the economy was estimated to have increased by 1.8 per cent in the first quarter of 2022, compared with an increase of 3.9 per cent in the preceding quarter. The observed deceleration was mainly due to a relatively slower growth in both domestic demand and manufacturing activity. However, construction and transport categories buoyed overall economic activity.

Domestic demand grew by 3.0 per cent, compared to 5.7 per cent in the preceding quarter. The slowdown was attributed to a retreat in indicators of demand for external goods and services from South Africa (SA) and slowing domestic consumer spending.

The production and manufacturing activity index also slowed down during the review quarter. The index increased by 4.1 per cent in the first quarter of 2022 compared to a much larger expansion of 13.7 per cent in the preceding quarter. The decline in growth mainly emanated from manufacturing exports, as well as, intermediate inputs into production.

Figure 7: Quarterly Indicator of Economic Activity



Source: Central Bank of Lesotho

¹ All growth rates in this section are reported as year-on-year, with the exception of output developments, which are seasonally adjusted quarter-on-quarter growth rates

Table 2: Contributions to Growth

Indices	2021				2022
	Q1	Q2	Q3	Q4	Q1
CIEA	150.6	156.1	154.5	160.6	163.5
Quarter-on-quarter changes	1.2	3.6	-1.0	3.9	1.8
Domestic Demand	151.0	144.9	141.4	149.5	153.9
Quarter-on-quarter changes	2.8	-4.0	-2.4	5.7	3.0
Manufacturing and Production Category	105.9	111.6	107.2	121.9	126.9
Quarter-on-quarter changes	3.7	5.3	-4.0	13.7	4.1

Source: Central Bank of Lesotho

EMPLOYMENT DEVELOPMENTS

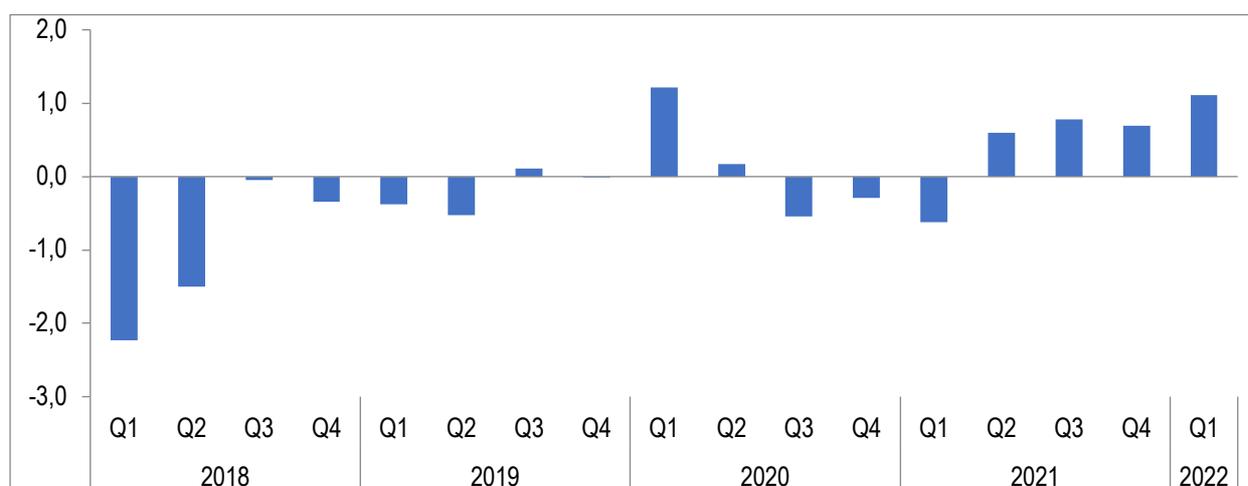
The number of employees by LNDC-assisted companies declined by 9.3 per cent in the first quarter of 2022. This followed a 15.4 per cent contraction recorded in the fourth quarter of 2021. A notable decline was observed in the woven and knit garments that has contributed 8.9 percentage points to the overall decline. The downward trajectory in this category of employment was attributed to lower demand for Lesotho's exports in both the United States and SA. The slowdown in domestic economic activity added pressure on unemployment level.

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

Industry	2021				2022	% Changes	
	Q1	Q2	Q3	Q4	Q1	Q/Q	YY
Knit Garments.....	25567	25410	26084	26127	25458	-2.6	-0.4
Woven Garments.....	15180	9679	9521	9854	10167	3.2	-33.0
Footwear.....	1130	996	975	975	884	-9.3	-21.8
Fabrics, Yarn etc.....	338	328	317	362	1466	305.0	333.7
Construction.....	335	347	359	411	411	0.0	22.7
Food & Beverages.....	639	561	602	612	618	1.0	-3.3
Electronics.....	1032	1014	1022	1015	1207	18.9	17.0
Retail.....	191	192	193	198	196	-1.0	2.6
Hotel Accommodations.....	287	249	242	312	242	-22.4	-15.7
Other.....	1139	1165	1051	965	947	-1.9	-16.9
TOTAL.....	45838	39941	40366	40831	41596	1.9	-9.3

Source: Lesotho National Development Corporation

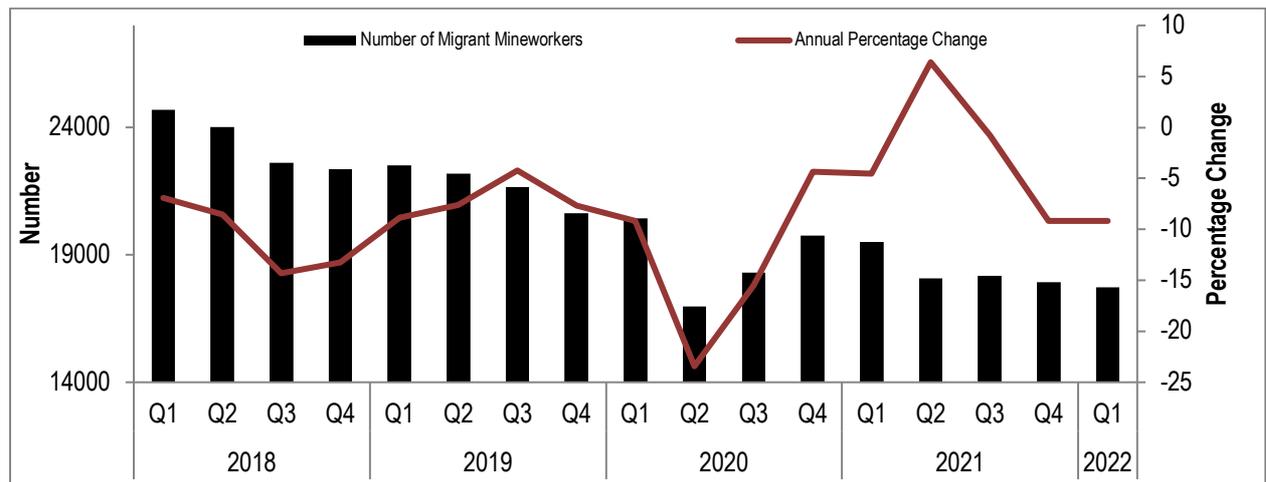
Government employment increased for the fourth consecutive quarter, growing by 1.1 per cent during the quarter, following a 0.7 per cent increase in the fourth quarter of 2021. The civil servants' category remained the main contributor to the expansion in government employment, while the teachers' category offset the increase due to civil servants.

Figure 8: Government Employment (Annual Percentage Changes)

Source: Ministry of Finance

Employment level of migrant mineworkers maintained a downward trend in the first quarter of 2022. The number of migrant mineworkers declined by 9.2 per cent, which was similar to the decline recorded in the fourth quarter of 2021. The continued job losses reflected long-standing structural problems in the SA mining sector, coupled with lacklustre global demand for mining output. The prolonged strike in some of the mines and extended load-shedding added pressure on the mining sector's activity.

Figure 9: Migrant Mineworkers (Annual Percentage Changes)



Source: The Employment Bureau of Africa (TEBA)

PRICE DEVELOPMENTS

The headline inflation, measured by the year-on-year change in the consumer price index (CPI), accelerated from 6.8 per cent in December 2021 to 7.2 per cent in March 2022. Major contributors to rising rate of inflation were *Food and non-alcoholic beverages*, *Education*, and *Clothing & footwear*.

Inflationary pressure emanated from the spill-over effects of the Russia-Ukraine war on the supply of fuel and food items, such as cooking oil and fats. However, the exchange rate appreciation dampened the effect of rising international oil prices during the review period.

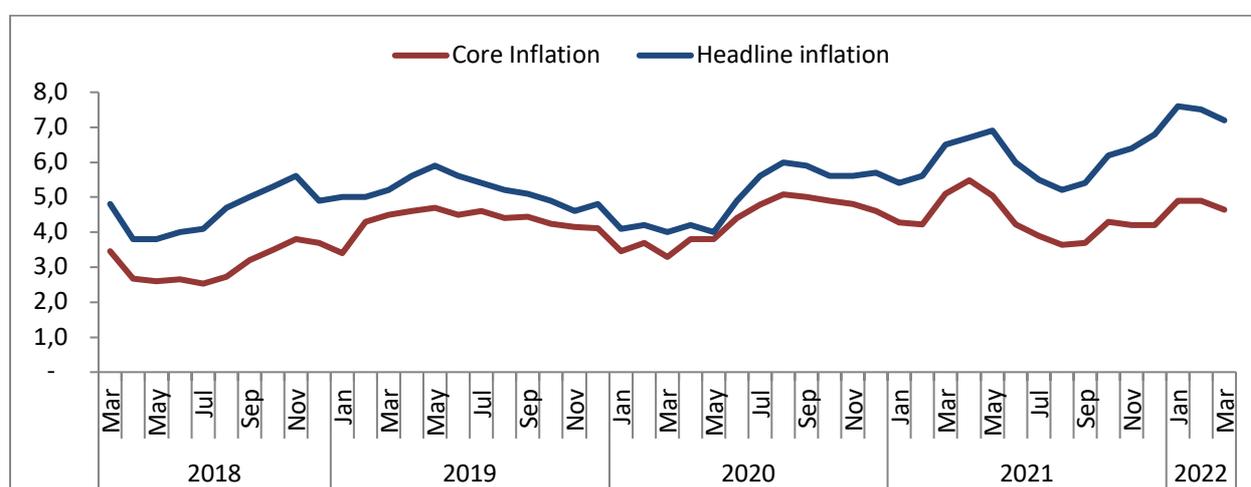
Table 4: Inflation Rate (Annual Percentage Changes)

	Weight	2021			2022	
		Nov	Dec	Jan	Feb	Mar
All items	100.0	6.4	6.8	7.6	7.5	7.2
Food and non-alcoholic beverages	36.1	6.9	6.6	7.4	7.5	7.4
Alcoholic beverages & Tobacco	3.3	2.7	2.6	2.3	2.0	2.4
Clothing & footwear	13.1	5.3	6.4	6.8	6.5	7.1
Housing, water, electricity, gas & other fuels	12.4	13.9	16.7	17.5	16.7	15.2
Furniture, households equipment & routine maintenance	8.5	3.8	4.1	4.4	4.3	4.3
Health	1.5	1.1	1.2	1.6	1.3	1.5
Transport	4.8	13.9	13.7	13.2	14	13.8
Communications	2.1	0.4	0.4	0.4	0.4	0.4
Recreation & Culture	5.7	0.8	0.8	1.2	1.5	1.2
Education	4.2	2.2	2.2	8.1	8.1	5.7
Restaurant & Hotels	1.0	4.9	4.9	7.5	7.2	5.9
Miscellaneous goods & services	7.3	2.0	2.1	2.1	1.6	1.2

Source: Bureau of Statistics

Both headline and core inflation accelerated by 0.4 per cent from December 2021 to March 2022. Headline inflation rate increased from 6.8 per cent to 7.2 per cent, while core inflation rate increased from 4.2 per cent to 4.6 per cent during the review period. Despite accelerating, core inflation remained relatively stable, due to muted demand pressures.

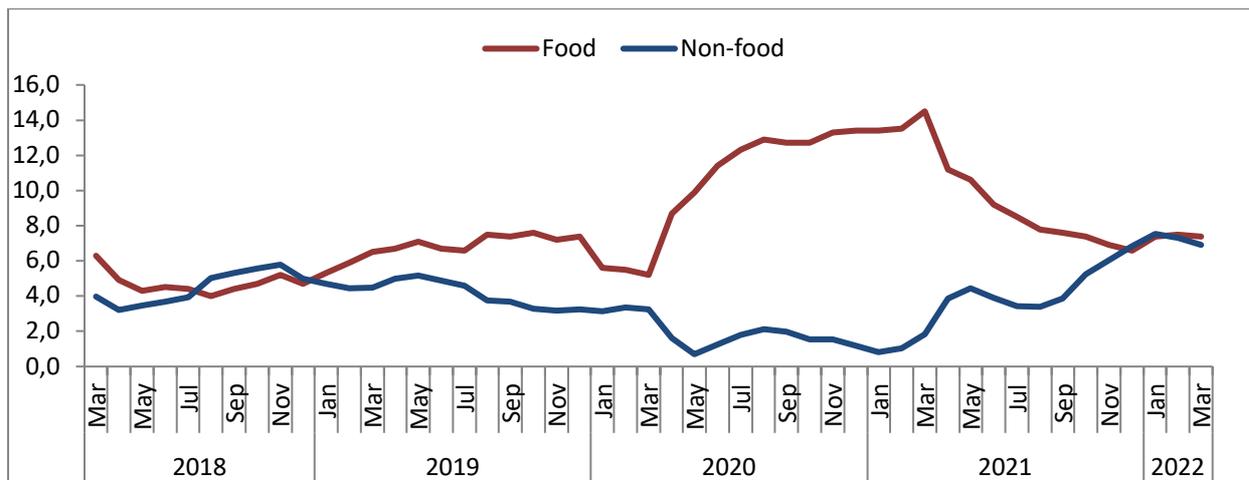
Figure 10: Core vs Headline Inflation (Annual Percentage Changes)



Source: CBL Computations

The food inflation rate increased from 6.6 per cent in December 2021 to 7.4 per cent in March 2022, while non-food inflation rate increased from 6.8 per cent to 6.9 per cent. Almost all components of food inflation increased, except bread and cereals, and vegetables. The acceleration in non-food inflation was mainly due to education and clothing & footwear.

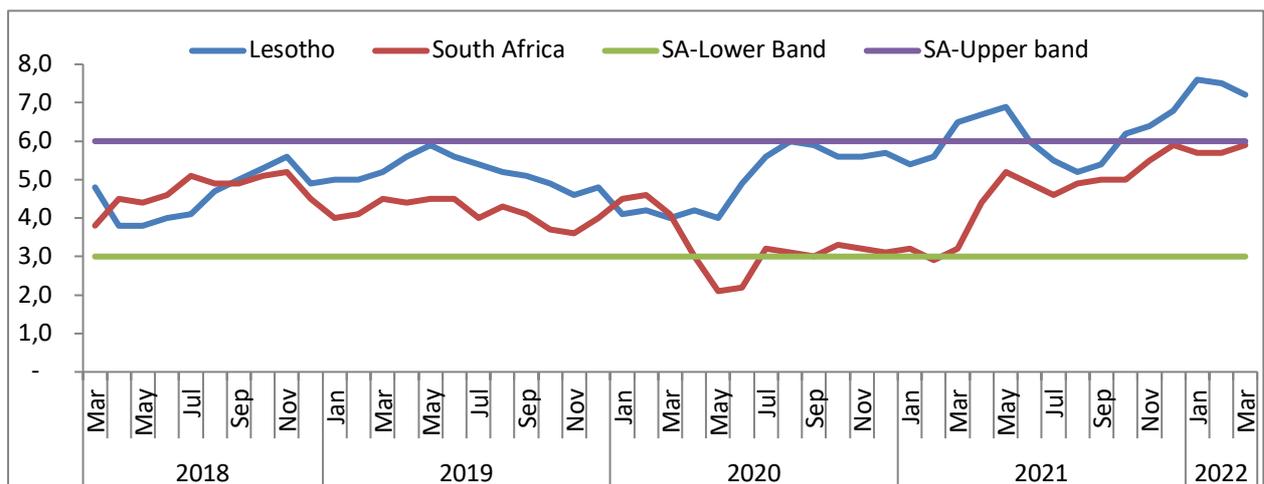
Figure 11: Food vs Non-food Inflation (Annual Percentage Changes)



Source: BoS and CBL Computations

Compared to South Africa, the overall inflation rate in Lesotho has been persistently higher, since 2020. However, this is mainly a reflection of different weights in the respective consumer baskets. As demonstrated by Figure 12, Lesotho and South Africa’s headline inflation rates remained closely correlated.

Figure 12: Lesotho and South Africa's Inflation (Annual percentage changes)



Source: Bureau of Statistics, Statistics South Africa

4. Monetary and Financial Developments

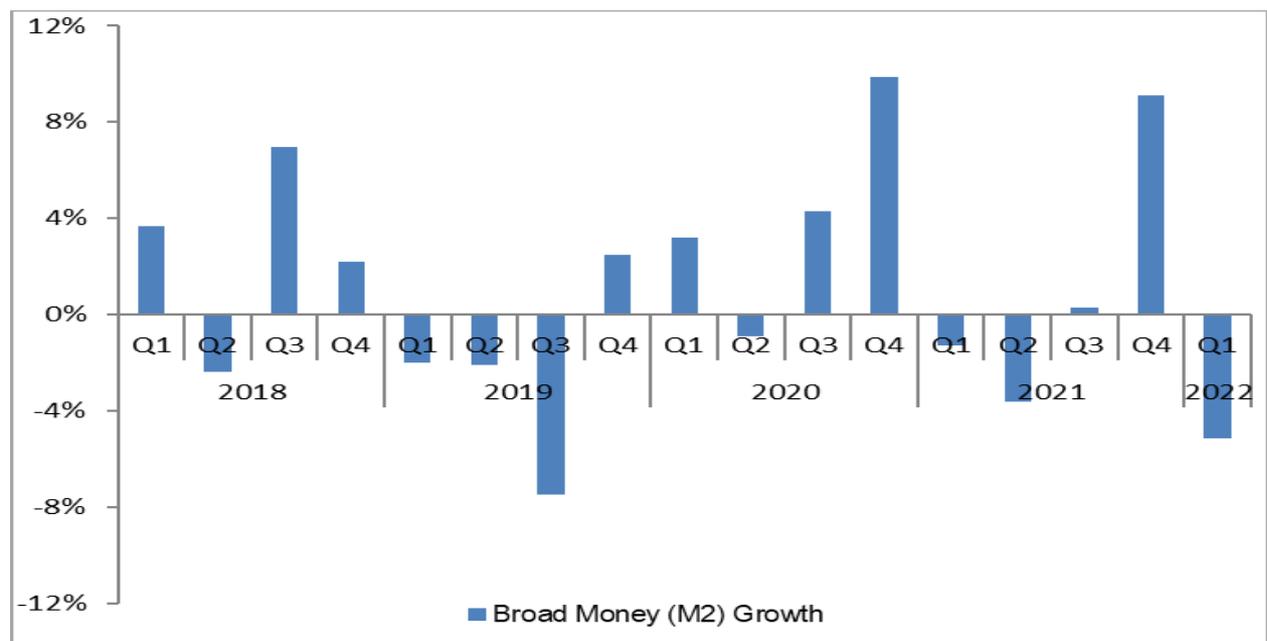
OVERVIEW

The first quarter of 2022 was characterised by a relatively weaker performance in the financial sector. The broad money supply declined, resulting from a fall in both domestic claims and net foreign assets. Credit growth also remained lacklustre, alongside a significant decline in total deposit holdings. Most short-term interest rates increased, following the decision of the Monetary Policy Committee of two consecutive hikes of the CBL policy rate in the first quarter of 2022.

BROAD MONEY (M2)

The broadly defined money supply (M2) was marked by a notable decline in the first quarter of 2022, as it contracted by 5.1 per cent, following a 9.1 per cent growth in December 2021. The decline was caused by a contraction in the net domestic claims and net foreign assets of 8.7 per cent and 5.8 per cent, respectively. However, M2 grew by 0.1 per cent on a year-on-year basis, after increasing by 4.1 per cent in December 2021. In real terms, M2 declined by 12.3 per cent during the review period, compared with a growth of 2.3 per cent in the preceding period.

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



Source: Central Bank of Lesotho

Determinants of M2

Domestic Claims

Domestic claims declined by 8.7 per cent in March 2022, after growing by 5.9 per cent in December 2021. This stemmed from a decline of 26.0 per cent in net claims on government, underpinned by a build-up in government deposits held with the central bank. Government deposits were boosted by a strong collection of revenue. In contrast, claims on other sectors grew modestly, supported by a rise in credit extended to other financial corporations and, to a smaller extent, the private sector. Annually,

domestic claims increased by 4.0 per cent, which was lower than 13.7 per cent registered in December 2021.

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

	2021				2022	Changes(%)	
	Q1	Q2	Q3	Q4	Q1	Quarterly	Annual
Domestic Claims	5,334.61	4,939.18	5,742.42	6,079.43	5,548.19	-8.7	4.0
Net Claims on Government	-2,247.34	-2,864.16	-2,371.10	-2,083.14	-2,625.09	-26.0	-16.8
Commercial Banks Net Claims	222.07	-52.37	182.86	535.75	749.49	39.9	237.5
Claims on Central Government	1,817.47	1,925.37	2,036.39	2,405.61	2,524.75	5.0	38.9
Liabilities to Central Government	1,595.39	1,977.74	1,853.53	1,869.86	1,775.27	-5.1	11.3
Central Bank Net Claims	-2,469.41	-2,811.79	-2,553.96	-2,618.88	-3,374.57	-28.9	-36.7
Claims on Central Government	606.08	516.12	475.97	387.27	367.06	-5.2	-39.4
Liabilities to Central Government	3,075.49	3,327.91	3,029.94	3,006.15	3,741.64	24.5	21.7
Claims on Other Sectors	7,581.94	7,803.34	8,113.52	8,162.56	8,173.27	0.1	7.8
<i>Claims on OFCs</i>	108.16	204.68	138.31	144.12	162.17	12.5	49.9
<i>Claims on Public Nonfinancial</i>	65.90	59.95	81.34	60.21	51.48	-14.5	-21.9
<i>Claims on St & Local Government</i>	0.00	0.00	0.00	0.00	0.00		
Claims on Private Sector	7,407.87	7,538.70	7,893.88	7,958.23	7,959.63	0.0	7.4
Claims on Business Enterprises	2,037.82	2,042.89	2,191.35	2,072.61	2,068.10	-0.2	1.5
Claims on Households	5,370.05	5,495.82	5,702.53	5,885.62	5,891.53	0.1	9.7

Source: Central Bank of Lesotho

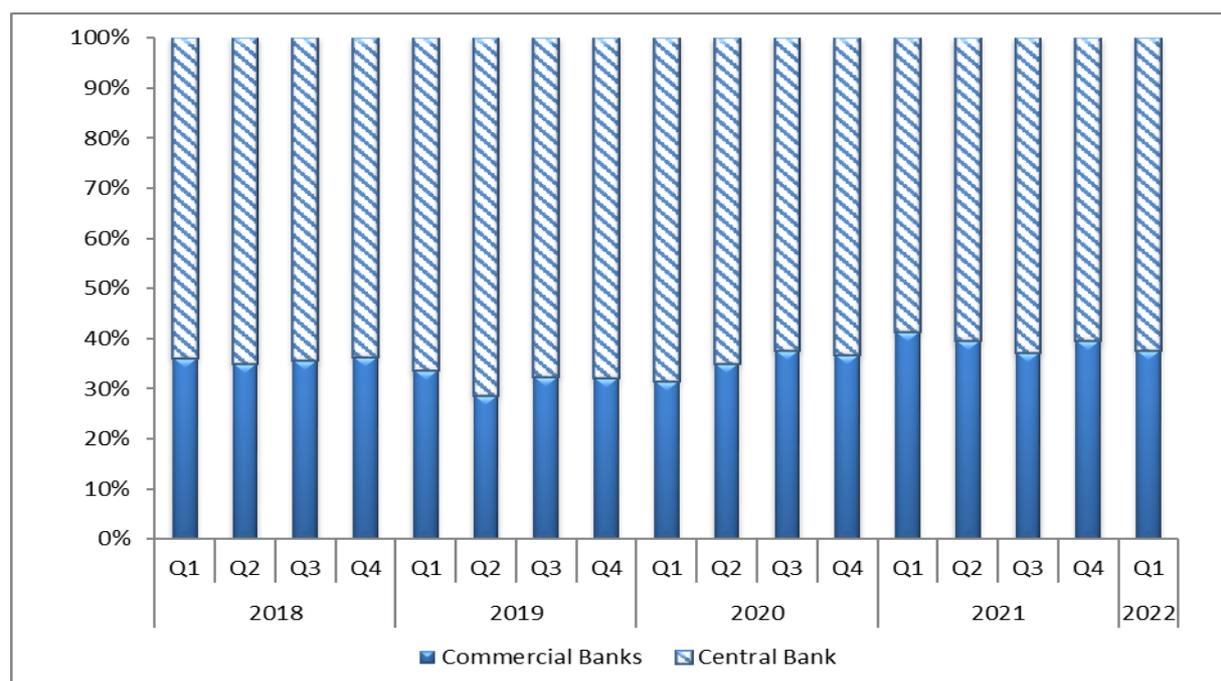
Net Foreign Assets

The net foreign assets (NFA) declined in the first quarter of 2022. Following a growth of 4.6 per cent in December 2021, NFA fell by 5.8 per cent in March 2022, influenced by reductions of the commercial banks and central bank NFA positions of 10.1 per cent and 2.9 per cent, respectively. The decline in commercial banks' NFA was particularly driven by the private sector's needs for liquidity, which compelled the banks to reduce their foreign asset holdings. On the other hand, the decrease in the central bank NFA was mainly influenced by high net outflows by the banking sector. On an annual basis, NFA declined by 4.9 per cent, compared with a growth of 1.7 per cent recorded in December 2021.

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

	2021				2022	Changes (%)	
	Q1	Q2	Q3	Q4	Q1	Quarterly	Annual
Commercial Banks	7,210.31	6,758.09	6,267.31	6,965.49	6,262.67	-10.1	-13.1
Claims on Non-residents	7,584.51	6,996.93	6,544.39	7,451.12	6,605.03	-11.4	-12.9
Liabilities to Non-residents	374.20	238.84	277.09	485.62	342.36	-29.5	-8.5
Central Bank	10,237.23	10,324.92	10,571.85	10,646.31	10,335.80	-2.9	1.0
Claims on Non-residents	11,963.77	11,927.54	13,668.53	13,649.47	13,182.27	-3.4	10.2
Liabilities to Non-residents	1,726.54	1,602.62	3,096.68	3,003.16	2,846.47	-5.2	64.9
Net Foreign Assets Total	17,447.54	17,083.01	16,839.16	17,611.80	16,598.46	-5.8	-4.9

Source: Central Bank of Lesotho

Figure 9: Net Foreign Assets (Percentage shares)

Source: Central Bank of Lesotho

Components of M2

In terms of its components, the decline in M2 reflected reductions in both narrow money (M1) and quasi money. M1 declined by 6.7 per cent in March 2022, compared to an increase of 13.2 per cent in the previous quarter. The decline in M1 was driven by a fall in transferable deposits held by business enterprises, alongside a drop in currency in circulation. Similarly, quasi money fell by 3.6 per cent, compared to a rise of 5.6 per cent in the last quarter of 2021. This resulted from high withdrawals in the call and fixed time deposits owned by the business sector.

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

	2021				2022	Changes (%)	
	Q1	Q2	Q3	Q4	Q1	Quarterly	Annual
Broad Money (M2)	14,098.69	13,586.85	13,624.49	14,867.90	14,105.47	-5.1	0.0
Narrow Money (M1)	6,862.16	6,408.00	6,289.92	7,120.26	6,640.23	-6.7	-3.2
Currency Outside DCs	1,379.51	1,165.16	1,287.24	1,355.41	1,207.93	-10.9	-12.4
Transferable Deposits	5,482.65	5,242.84	5,002.68	5,764.85	5,432.30	-5.8	-0.9
Quasi Money	7,236.52	7,178.85	7,334.58	7,747.64	7,465.25	-3.6	3.2
Other Deposits Commercial Banks	7,210.75	7,150.95	7,303.26	7,718.34	7,435.07	-3.7	3.1
Other Deposits Central Bank	25.78	27.90	31.32	29.31	30.18	3.0	17.1

Source: Central Bank of Lesotho

CREDIT EXTENSION

The quarter-on-quarter growth in private sector credit remained muted at 0.02 per cent in March 2022. This was supported by a subtle improvement in household loans, while the business sector loans declined. On an annual basis, private sector credit rose by 7.4 per cent, following growth of 7.3 per cent in the previous quarter. However, in real terms (taking account of the of inflation), growth in private sector credit maintained a downward trend, declining by 7.2 per cent in the first quarter, after declining by 6.0 per cent in December.

Trends in Credit Extended to Business Enterprises

The total loans and advances granted to the business sector fell by a marginal 0.2 per cent in March 2022, subsequent to a decline of 5.4 per cent recorded in the preceding quarter. This was largely influenced by a general reduction in the usage of overdraft facilities, in addition to the sizeable repayments made by the transport, storage & communication and agricultural sectors. On the contrary, credit to the manufacturing sector continued to recover into the first quarter, after facing a difficult environment during the pandemic. Annually, the overall credit to business enterprises increased by 1.5 per cent, compared with a 2.8 per cent growth observed in the previous quarter.

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

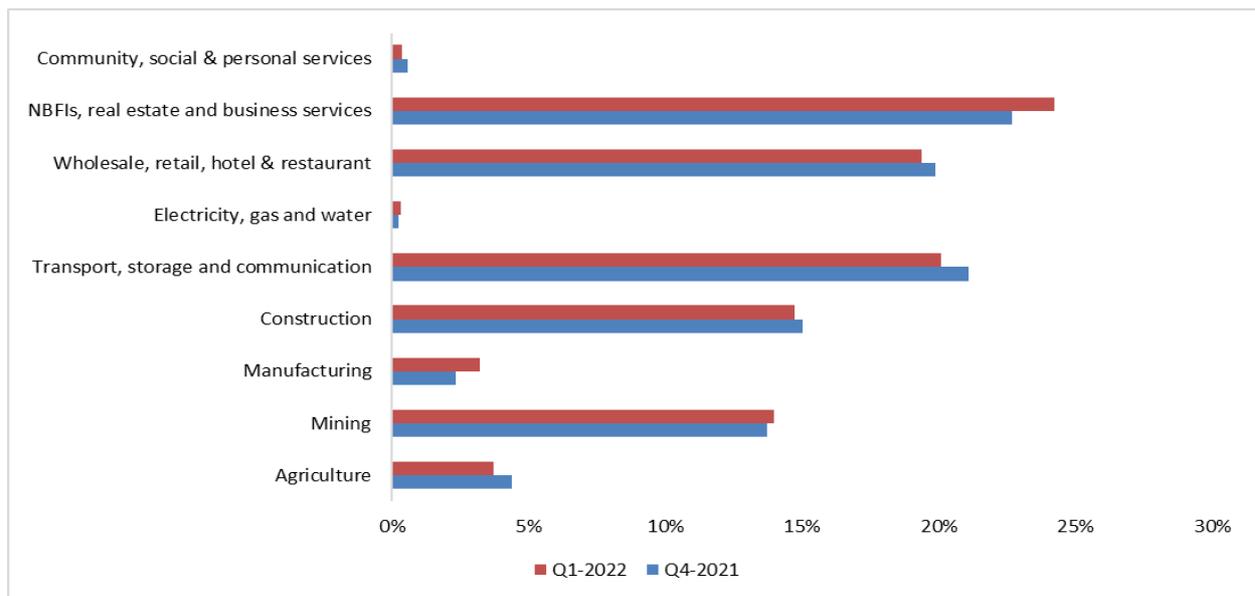
SECTOR	2021				2022	Changes (%)	
	Q1	Q2	Q3	Q4	Q1	Quarterly	Annual
Agriculture	45.00	72.34	81.34	90.83	77.02	-15.2	71.2
Mining	299.42	313.40	402.72	284.68	288.95	1.5	-3.5
Manufacturing	30.86	27.27	32.57	48.90	66.27	35.5	114.70
Electricity, gas and water	4.15	8.37	6.97	5.45	7.34	34.6	76.8
Construction	343.09	342.23	341.32	311.53	304.38	-2.3	-11.3
Wholesale, Retail, Hotel & Restaurant	380.62	385.19	377.91	412.37	400.40	-2.9	5.2
Transport, Storage and Communication	385.41	367.70	407.79	436.98	415.33	-5.0	7.8
NBFIs, Real Estate and Business Services	532.84	511.74	527.45	470.06	500.89	6.6	-6.0
Community, Social & Personal Service	16.42	14.64	13.26	11.81	7.52	-36.3	-54.2
All Sectors	2,037.82	2,042.89	2,191.35	2,072.61	2,068.10	-0.2	1.5

Source: Central Bank of Lesotho

Distribution of Credit extended to Business Enterprises

The largest proportion of credit to business enterprises was allocated to the non-bank financial institutions, real estate & business services sector, with a share of 24.2 per cent. This was followed by the transport, storage & communication sector, with a share of 20.1 per cent. The smallest shares of credit were allocated to the community, social & personal services and electricity, gas & water sectors, with a share of 0.4 per cent each. Credit to sectors identified by the second National Strategic Development Plan (NSDP II) as potential sectors for achievement of inclusive economic growth and job creation – agriculture, manufacturing, tourism and creative industries, and technology and innovation – stood at 70.6 per cent in the first quarter, slightly above the 70.4 per cent recorded in the fourth quarter.

Figure 10: Distribution of Credit (Percentage Shares)

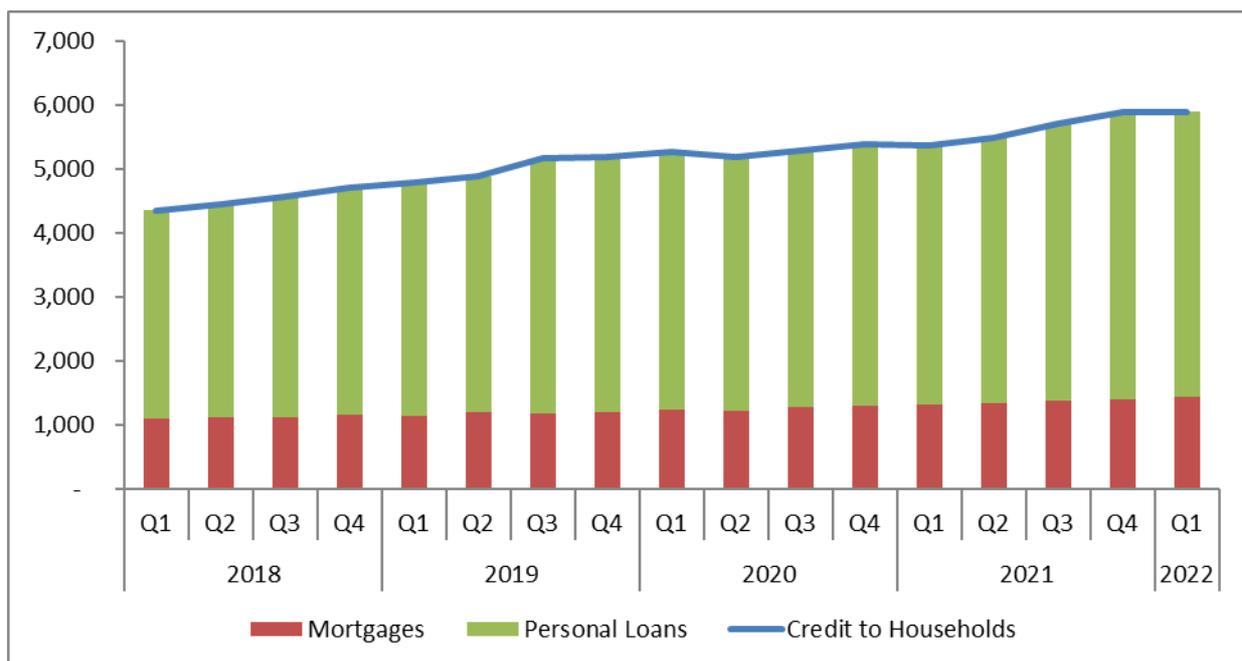


Source: Central Bank of Lesotho

Credit extended to Households

Growth in credit to the household sector was sluggish in the review period, at 0.1 per cent, following that of 3.2 per cent in December 2021. The increase was due to a rise of 2.6 per cent in mortgage loans, but moderated by a 0.7 per cent decline in personal loans. Credit to households benefited from innovations within the banking sector, leading to a shift from unsecured to asset-based lending. On an annual basis, household credit accelerated from 9.0 per cent to 9.7 per cent between the two quarters.

Figure 11: Credit Extension to Household (Million Maloti)



Source: Central Bank of Lesotho

LIQUIDITY OF COMMERCIAL BANKS

Components of liquidity

The overall liquidity of the banking sector increased marginally by 0.1 percentage points and stood at 44.0 per cent in March 2022. This was attributable to the marked decline in the deposit base, with total liquid assets also declining. Similarly, credit to deposit ratio increased from 50.9 per cent to 53.4 per cent, on account of a sharp decline in commercial banks' deposit liabilities. Compared to a year ago, credit to deposit ratio increased by 2.5 percentage points.

Table 7: Components of Liquidity (Million Maloti)

	2021				2022
	Q1	Q2	Q3	Q4	Q1
Credit to Deposit Ratio	50.7%	51.5%	54.8%	50.9%	53.4%
Private Sector Credit	7,303.71	7,432.96	7,785.84	7,849.43	7,847.67
Total Deposits	14,404.96	14,445.79	14,209.62	15,421.30	14,705.48
Liquidity Ratio	40.8%	41.4%	45.8%	43.8%	44.0%
Notes and Coins	597.53	564.86	531.65	734.29	551.10
Net Balance due from banks in Lesotho	-253.58	1.10	-1.93	-4.18	-5.20
Net Balance due from banks in SA	3,866.53	3,645.44	3,723.86	3,554.91	3,394.62
Surplus funds	-151.09	-156.79	224.26	71.27	0.93
Government Securities	1,817.47	1,925.37	2,036.39	2,405.61	2,524.75
Total	5,876.85	5,979.98	6,514.23	6,761.90	6,466.21

Source: Central Bank of Lesotho

Commercial Banks Sources of Funds

The commercial banks' total deposit liabilities declined by 4.6 per cent in the first quarter, compared to a growth of 8.4 per cent registered in the previous period. This was mainly due to a fall in transferable deposits and other deposits included in broad money, particularly resulting from withdrawals by the business sector. Moreover, deposits excluded from broad money also declined, owing to the fall in deposits held by government ministries and the extra-budgetary government institutions. On annual basis, total deposits grew by 2.4 per cent, following a growth of 11.1 per cent in the previous quarter.

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

	2021				2022	Changes (%)	
	Q1	Q2	Q3	Q4	Q1	Quarterly	Annual
Transferable Deposits Incl. in BM	5,482.65	5,242.84	5,002.68	5,764.85	5,432.30	-5.8	-0.9
Other Financial Corporations	79.26	75.48	110.65	84.52	26.72	-68.4	-66.3
Public Nonfinancial Corporations	33.90	59.11	72.73	67.10	25.86	-61.5	-23.7
Private Sector	5,345.29	5,099.48	4,796.76	5,580.45	5,375.72	-3.7	0.6
Other NFCs	3,627.80	3,487.60	3,163.62	3,852.96	3,616.10	-6.1	-0.3
Other Sectors (Households)	1,717.48	1,611.89	1,633.14	1,727.49	1,759.62	1.9	2.5
Other Deposits Incl. in BM	7,210.75	7,150.95	7,303.26	7,718.34	7,435.07	-3.7	3.1
Other Financial Corporations	148.26	191.27	253.72	89.59	273.57	205.3	84.5
Public Nonfinancial Corporations	338.64	228.98	160.23	191.05	260.27	36.2	-23.1
Private Sector	6,723.85	6,730.70	6,889.32	7,437.70	6,901.23	-7.2	2.6
Other NFCs	4,296.97	4,372.71	4,437.36	4,943.74	4,302.03	-13.0	0.1
Other Sectors (Households)	2,426.88	2,357.99	2,451.96	2,493.95	2,599.19	4.2	7.1
Deposits excluded in MB	1,711.56	2,052.00	1,903.69	1,938.11	1,838.11	-5.2	7.4
Total Deposits	14,404.96	14,445.79	14,209.62	15,421.30	14,705.48	-4.6	2.1

Source: Central Bank of Lesotho

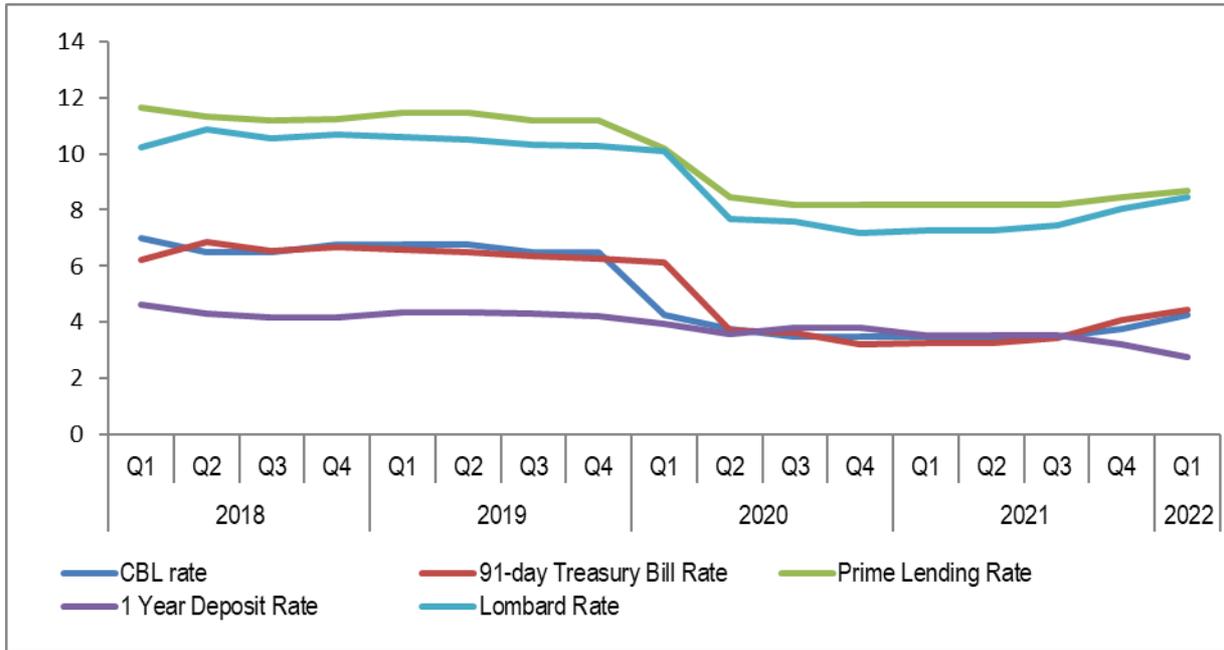
MONEY AND CAPITAL MARKET DEVELOPMENTS

Money Market

Interest Rates

The Central Bank of Lesotho's Monetary Policy Committee continued to raise the key policy rate, as indicated by a hike of 50 basis points to 4.25 per cent in the first quarter of 2022. This reflected the bank's resolve to mitigate against the risk of capital flight, as inflationary pressures mounted across the region, leading to monetary policy tightening. As a result, the prime lending rate increased by 25 basis points and stood at 8.69 per cent in the first quarter. Similarly, the 91-day treasury bill rate rose by 39 basis points and stood at 4.45 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 45 basis points from 3.20 per cent in December to 2.75 per cent in the current period.

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



Source: Central Bank of Lesotho

Table 9: Interest rates

	2021				2022
	Q1	Q2	Q3	Q4	Q1
Central Bank					
CBL rate	3.50	3.50	3.50	3.75	4.25
T-Bill Rate - 91 days	3.25	3.27	3.45	4.06	4.45
Lombard Rate	7.25	7.27	7.45	8.06	8.45
Commercial Banks					
Call	0.99	0.99	0.99	1.05	1.01
Time:					
31 days	0.67	0.67	0.67	0.67	0.48
88 days	1.64	1.64	1.64	1.64	1.24
6 months	3.10	3.10	3.10	3.18	2.65
1 year	3.53	3.53	3.53	3.20	2.75
Savings	0.70	0.70	0.70	0.70	0.65
Prime	8.19	8.19	8.19	8.44	8.69
South Africa					
Repo	3.50	3.50	3.50	3.75	4.25
T-Bill Rate - 91 days	3.81	3.75	3.79	3.83	4.31
Prime	7.00	7.00	7.00	7.25	7.75

Source: Central Bank of Lesotho

Holding of Treasury Bills

The overall holding of treasury bills (T-Bills) remained relatively stable during the review period, declining by a marginal 0.3 per cent, in comparison to a growth of 32.4 per cent observed in the last quarter of 2021. The holding of T-Bills by the banking sector increased by 0.9 per cent, while the non-bank sector holding declined by 8.3 per cent.

Table 10: Holding of Bills (Million Maloti)

	2021				2022
	Q1	Q2	Q3	Q4	Q1
Treasury Bills	881.62	1,032.55	1,104.94	1,462.79	1,458.40
Banking System	657.91	821.69	913.84	1,266.77	1,278.594
Non-Bank Sector	223.71	210.85	191.10	196.02	1,79.8078
Memorandum Item					
Yield Bills (91-days)	3.28	3.28	3.48	4.10	4.50

Source: Central Bank of Lesotho

Holding of Treasury Bonds

The overall holding of treasury bonds increased by 12.6 per cent during the review quarter, commensurate with the two bond issuances of M200.00 million and M150.00 million offered in February and March, respectively. The banking sector's holding of treasury bonds increased by 9.4 per cent, while the non-banking sector's share grew by 14.7 per cent. As a share to the total stock of bonds, the banking sector's holding represented 39.0 per cent, while the non-banking sector accounted for 61.0 per cent.

Table 11: Holding of Bonds (*Million Maloti*)

	2021				2022
	Q1	Q2	Q3	Q4	Q1
Holding of Treasury Bonds	2,599.80	2,633.27	2,786.32	2,786.32	3,136.31
Banking System	1,124.24	1,085.77	1,144.28	1,118.18	1,223.09
Non-Bank Sector	1,475.57	1,547.50	1,642.04	1,668.13	1,913.22

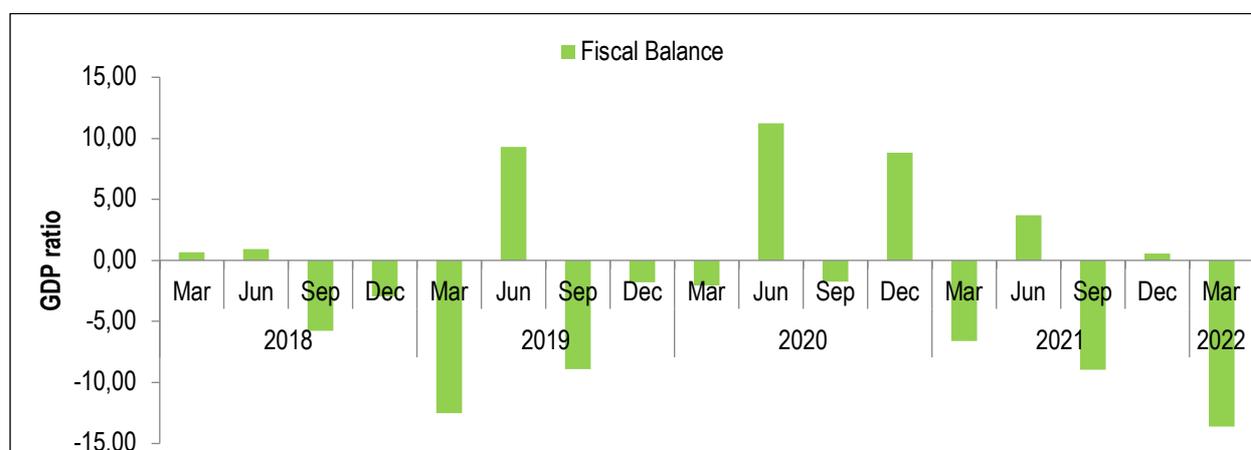
Source: Central Bank of Lesotho

5. Government Finance

OVERVIEW

The Government budgetary operations registered a budget deficit, estimated at 13.6 per cent of GDP during the quarter ending in March 2022. This was in contrast to a revised surplus equivalent to 0.6 per cent of GDP that was observed in the previous quarter. The deficit was financed through borrowing from the domestic financial markets and external development partners. The public debt stock was estimated at 50.7 per cent of GDP, down from the revised 52.7 per cent of GDP recorded in December 2021.

Figure 13: Fiscal Balance (Percent of GDP)



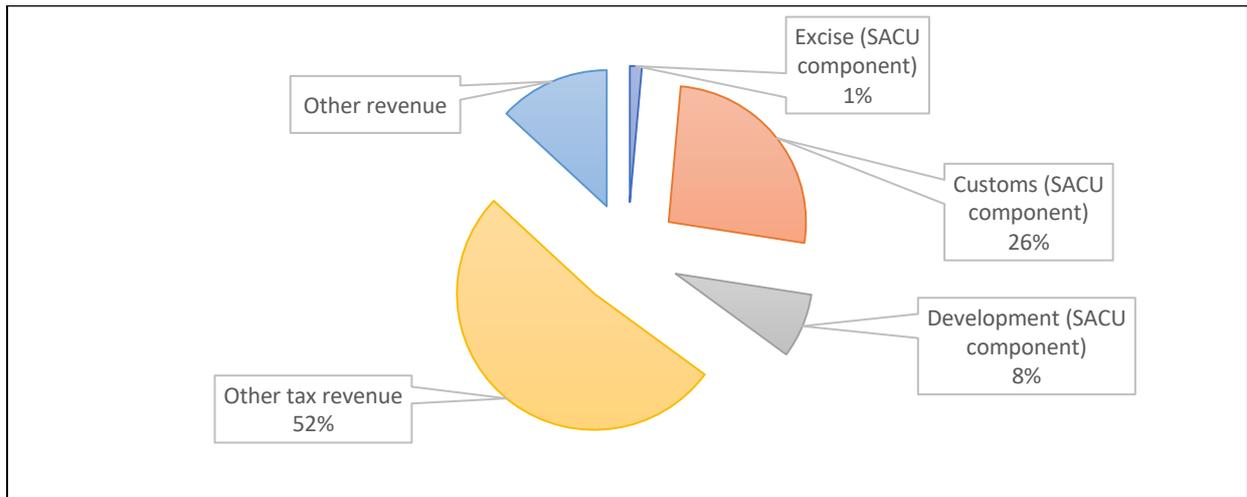
Source: Central Bank of Lesotho and Ministry of Finance

REVENUE²

The Government revenue was estimated to have increased by 8.7 per cent during the current quarter, compared to a revised increase of 6.2 per cent in the preceding quarter. The rise in revenue was largely driven by income tax, taxes on goods and services, rand monetary compensation, and mining royalties. On a year-on-year basis, total revenue fell by 6.6 per cent during the quarter under review, following a revised decline of 13.1 per cent in the previous quarter.

² 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)

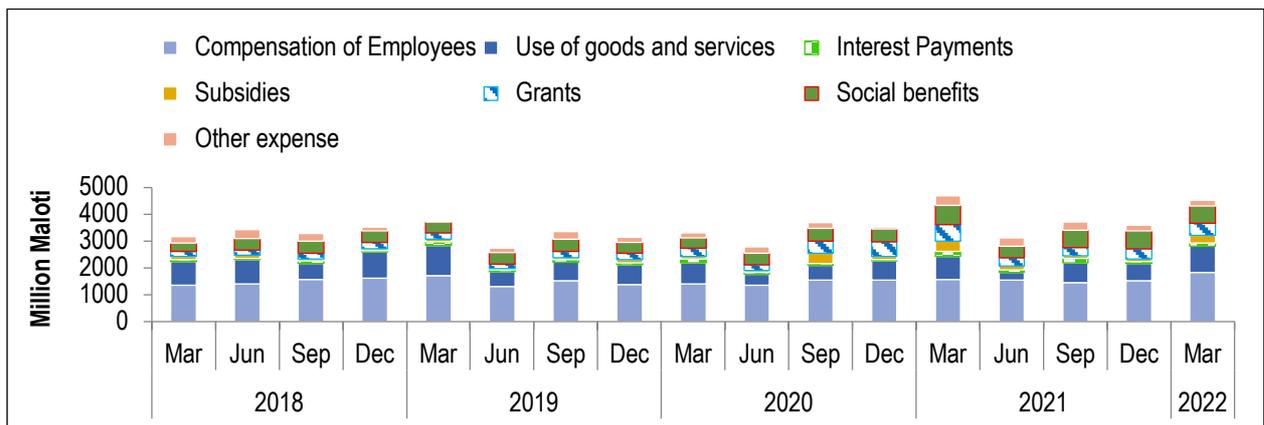


Source: Central Bank of Lesotho and Ministry of Finance

TOTAL EXPENDITURE

The Government spending was estimated to have increased by 43.1 per cent during the quarter under review, in contrast to a revised decline of 14.0 per cent in the previous quarter. The increase was attributed to both recurrent and capital expenditures. The main components that increased the recurrent spending included compensation of employees, operating costs, subsidies to non-financial corporations and grants to extra-budgetary units. Capital expenditure increased on account of accelerated implementation of development projects. On annual basis, total spending increased by 8.3 per cent, following a revised increase of 4.0 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)

	2021				2022	Q-to-Q	Y-on-Y	GDP
	Q1	Q2	Q3	Q4	Q1	(%)	(%)	ratio (%)
Total Revenue	4835.33	4047.13	3912.88	4154.56	4516.65	8.7	-6.6	45.5
Tax revenue	3785.19	3182.75	3103.35	3152.61	3392.67	7.6	-10.4	34.2
Income Tax	1102.98	922.80	1062.08	1047.44	1167.03	11.4	5.8	11.8
Value Added Tax	700.28	777.70	727.80	789.37	841.02	6.5	20.1	8.5
SACU Receipts Components	1756.49	1175.05	1175.05	1175.05	1175.05	0.0	-33.1	11.8
Other tax revenue	225.45	307.20	138.42	140.76	209.56	48.9	-7.0	2.1
Grants	542.76	359.49	334.59	331.55	565.31	70.5	4.2	5.7
o/w SACU Receipts Component	488.65	326.89	326.89	326.89	326.89	0.0	-33.1	3.3
Other revenue	507.38	504.89	474.93	670.39	558.67	-16.7	10.1	5.6
Total Expense	4692.78	3119.27	3715.91	3593.97	4524.16	25.9	-3.6	45.6
Compensation of Employees	1566.00	1544.00	1457.98	1531.67	1825.97	19.2	16.6	18.4
Use of goods and services	864.95	282.55	726.94	634.54	974.60	53.6	12.7	9.8
O/W Purchase of Health Services	63.10	97.83	119.62	188.06	134.18	-28.7	112.7	1.4
Interest Payments	177.28	90.97	167.82	71.18	118.54	66.5	-33.1	1.2
Subsidies	391.60	161.83	105.94	87.06	301.80	246.7	-22.9	3.0
Grants	618.97	309.05	293.63	379.57	454.63	19.8	-26.6	4.6
Social benefits	705.05	429.63	642.29	676.87	629.12	-7.1	-10.8	6.3
Other expense	368.95	301.23	321.30	213.08	219.50	3.0	-40.5	2.2
Gross Operating Balance	142.55	927.86	196.97	560.58	-7.51	-	-	-0.1
Total Nonfinancial Assets	723.77	587.43	1047.95	505.02	1341.41	165.6	85.3	13.5
Fixed Assets	723.77	587.43	1047.95	505.02	1341.41	165.6	85.3	13.5
Non-Produced Assets	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Total Expenditure	5416.55	3706.70	4763.86	4098.99	5865.57	43.1	8.3	59.1
Primary balance	-403.94	431.40	-683.16	126.75	-1230.37	-	-	-12.4
Net lending/borrowing	-581.21	340.43	-850.98	55.56	-1348.92	-	-	-13.6
Financing	-572.53	462.60	-956.54	282.90	-1368.80	-	-	-13.8
Net Acquisition of Financial assets	-501.46	754.44	-495.10	302.17	419.07	-	-	4.2
O/W Domestic Currency and Deposits	-544.83	707.03	-398.17	12.37	630.15	-	-	6.4
Net Incurrence of Liabilities	71.06	291.84	461.44	19.27	1787.87	-	-	18.0
O/W Domestic Other Accounts Payable	16.25	116.03	141.81	-294.61	1306.24	-	-	13.2
Statistical Discrepancy	-8.69	-122.18	105.57	-227.34	19.88	-	-	0.2
Memo Items								
SACU receipts	2245.13	1501.94	1501.94	1501.94	1501.94	0.0	-33.1	15.1
GDP (quarterly, red colour = forecast)	8806.55	9162.00	9503.34	9747.80	9923.27	-	-	-

Source: Central Bank of Lesotho and Ministry of Finance

TOTAL OUTLAYS BY FUNCTIONS OF GOVERNMENT³

The share of capital to total outlays decreased from 8.7 per cent in the previous quarter to 8.2 per cent during the quarter under review. The bulk of the decrease was attributable to public order & safety, in particular, police services. The major spending components, by function, were economic affairs, health, general public services, social protection and education, respectively.

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

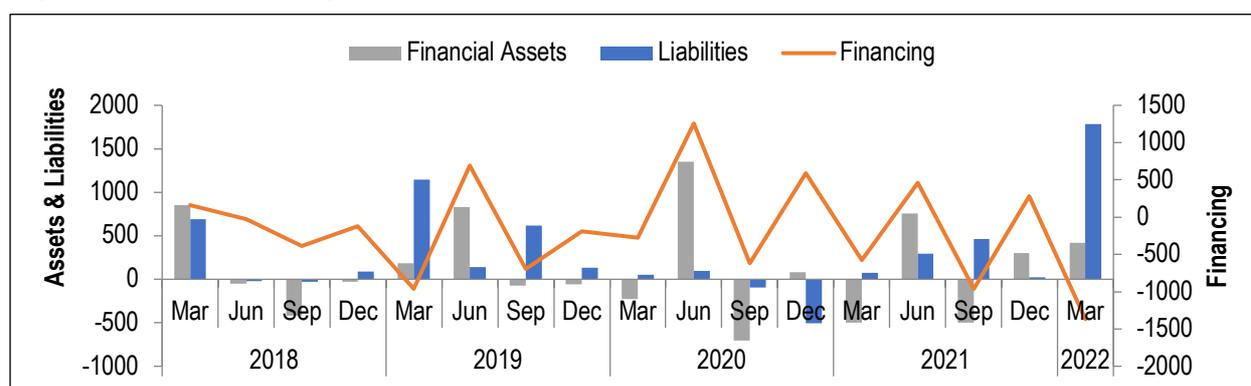
	2021				2022	Q-to-Q (%)	Y-on-Y (%)	GDP ratio (%)
	Q1	Q2	Q3	Q4	Q1			
Current Outlays	3284.35	2692.45	3700.67	3316.95	4726.99	42.5	43.9	47.6
General public services	475.31	350.40	457.47	456.20	709.73	55.6	49.3	7.2
Defense	153.09	137.24	220.35	152.25	205.70	35.1	34.4	2.1
Public order and safety	294.29	278.41	336.08	326.94	380.17	16.3	29.2	3.8
Economic affairs	524.37	416.08	649.83	494.46	1124.69	127.5	114.5	11.3
Environmental protection	3.57	2.63	3.41	3.47	3.99	15.2	11.8	0.0
Housing and community amenities	82.17	27.46	229.89	66.43	28.08	-57.7	-65.8	0.3
Health	606.20	382.69	560.11	470.56	841.59	78.8	38.8	8.5
Recreation, culture and religion	25.91	22.05	30.86	138.36	136.08	-1.6	425.3	1.4
Education	586.35	559.39	633.32	659.92	618.69	-6.2	5.5	6.2
Social protection	533.09	516.09	579.35	548.38	678.27	23.7	27.2	6.8
Capital Outlays	498.24	157.11	483.82	315.95	421.58	33.4	-15.4	4.2
General public services	172.21	59.00	106.10	59.47	120.52	102.7	-30.0	1.2
Defense	9.15	0.00	0.00	0.00	0.00	#DIV/0!	100.0	0.0
Public order and safety	124.91	59.40	111.53	96.17	45.74	-52.4	-63.4	0.5
Economic affairs	86.54	32.76	133.04	114.80	142.38	24.0	64.5	1.4
Environmental protection	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Housing and community amenities	15.79	5.70	119.17	23.58	96.10	307.5	508.7	1.0
Health	26.89	0.25	5.18	21.36	2.76	-87.1	-89.7	0.0
Recreation, culture and religion	29.22	0.00	7.30	0.38	10.54	2703.7	-63.9	0.1
Education	33.54	0.00	1.51	0.20	3.53	1653.9	-89.5	0.0
Social protection	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Total Outlays	3782.59	2849.56	4184.50	3632.91	5148.57	41.7	36.1	51.9
General public services	647.51	647.51	409.40	563.57	515.67	-8.5	-20.4	5.2
Defense	162.24	162.24	137.24	220.35	152.25	-30.9	-6.2	1.5
Public order and safety	419.20	419.20	337.81	447.62	423.11	-5.5	0.9	4.3
Economic affairs	610.91	610.91	448.85	782.87	609.25	-22.2	-0.3	6.1
Environmental protection	3.57	3.57	2.63	3.41	3.47	1.7	-2.9	0.0
Housing and community amenities	97.96	97.96	33.16	349.06	90.01	-74.2	-8.1	0.9
Health	633.09	633.09	382.93	565.29	491.92	-13.0	-22.3	5.0
Recreation, culture and religion	55.12	55.12	22.05	38.16	138.73	263.6	151.7	1.4
Education	619.89	619.89	559.39	634.83	660.12	4.0	6.5	6.7
Social protection	533.09	533.09	516.09	579.35	548.38	-5.3	2.9	5.5
Unidentified Outlays	1633.96	857.14	579.36	466.09	717.00	53.8	-56.1	7.2

Source: Central Bank of Lesotho and Ministry of Finance

FINANCIAL ASSETS AND LIABILITIES⁴

The realized fiscal deficit was financed through issuance of Treasury bonds and disbursements on existing loans. Arrears were also accumulated, which increased government liabilities. Consequently, the excess of funds from the issued securities and disbursements resulted in accumulation of financial assets, particularly currency and deposits.

Figure 16: Total Financing (Million Maloti)



Source: Central Bank of Lesotho and Ministry of Finance

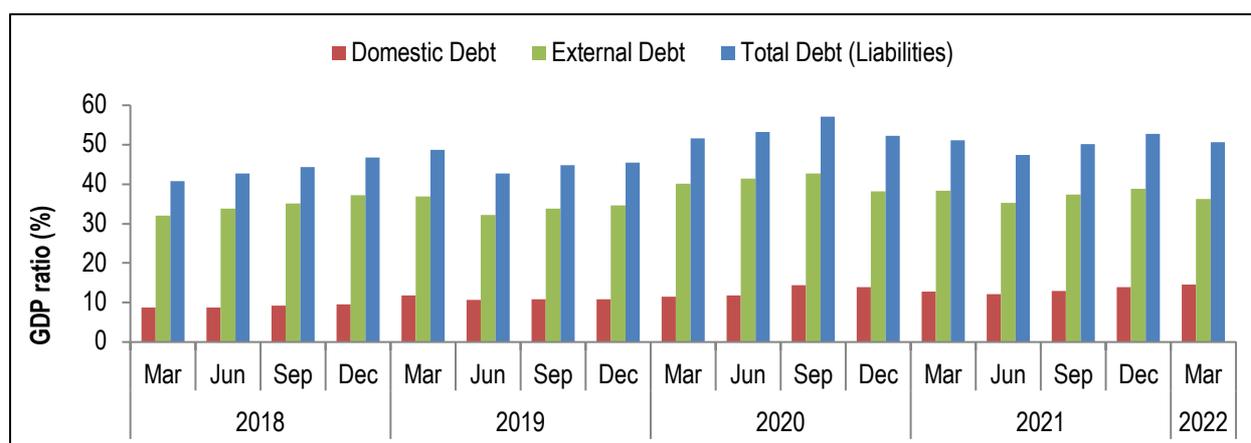
TOTAL PUBLIC DEBT⁵

Public debt stock declined by 3.7 per cent in nominal terms, in contrast to a revised 4.9 per cent increase observed in the previous quarter. The fall was mainly attributed to currency appreciation as the bulk of debt portfolio was in foreign currency. This was despite a relatively improved implementation of ongoing projects, coupled with issuance of treasury bonds. On an annual basis, the stock of public debt increased by 6.6 per cent compared with a revised increase of 8.5 per cent in the previous quarter.

⁴ 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.

⁵ The stock of public external debt is converted using the 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)

	2021				2022	Q-to-Q	Y-on-Y	Debt / GDP
	Q1	Q2	Q3	Q4	Q1	(%)	(%)	
Total Public Debt	18245.62	18194.62	19244.46	20193.71	19446.21	-3.7	6.6	50.7
EXTERNAL DEBT	13665.43	13524.20	14299.90	14858.80	13874.30	-6.6	1.5	36.2
Bilateral Loans	982.61	924.00	997.00	1032.50	956.60	-7.4	-2.6	2.5
Concessional	982.61	924.00	997.00	1032.50	956.60	-7.4	-2.6	2.5
Non-concessional	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Multilateral Loans	11108.39	11020.50	11515.90	11921.30	10795.90	-9.4	-2.8	28.2
Concessional	9664.54	9593.60	10118.20	10535.40	9429.90	-10.5	-2.4	24.6
Non-concessional	1443.85	1426.90	1397.70	1385.90	1366.00	-1.4	-5.4	3.6
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	1574.43	1579.70	1787.00	1905.00	2121.80	11.4	34.8	5.5
DOMESTIC DEBT	4580.18	4670.42	4944.56	5334.91	5571.91	4.4	21.7	14.5
Banks	2880.91	2912.06	3111.42	3470.75	3478.88	0.2	20.8	9.1
Long-term	2223.00	2090.37	2197.58	2203.98	2200.29	-0.2	-1.0	5.7
Treasury bonds	1124.24	1085.77	1144.28	1118.18	1223.09	9.4	8.8	3.2
Central Bank (IMF-ECF)	1098.77	1004.60	1053.30	1085.80	977.20	-10.0	-11.1	2.5
Short-term (t-bills)	657.91	821.69	913.84	1266.77	1278.59	0.9	94.3	3.3
Non-bank	1699.28	1758.36	1833.14	1864.15	2093.03	12.3	23.2	5.5
Short-term (t-bills)	223.71	210.85	191.10	196.02	179.81	-8.3	-19.6	0.5
Long-term (t-bonds)	1475.57	1547.50	1642.04	1668.13	1913.22	14.7	29.7	5.0
DEBT INDICATORS								
External Debt-to-Total Debt	74.9	74.3	74.3	73.6	71.3	-	-	-
Domestic Debt-to-Total Debt	25.1	25.7	25.7	26.4	28.7	-	-	-
Concessional Debt-to-External Debt	58.4	57.8	57.8	57.3	53.4	-	-	-
External Debt Service-to-GDP	2.0	1.8	1.9	2.7	2.4	-	-	-
External Debt Service-to-Revenue	3.7	4.0	4.6	6.3	5.2	-	-	-
External Debt Service-to-Exports	5.3	4.4	4.3	5.8	5.6	-	-	-

Source: Central Bank of Lesotho and Ministry of Finance

6. Foreign Trade and Payments

OVERVIEW

The external sector position registered a deficit accounting for 4.5 per cent of GDP during the first quarter of 2022, following a downwardly revised deficit estimated at 1.0 per cent of GDP in the preceding quarter. The current account deficit, however, improved by 37.3 per cent in the quarter under review because of increased surpluses in both primary and secondary income accounts balances. The observed performance under external sector further benefited from capital and financial accounts.

CURRENT ACCOUNT

The current account balance improved in the quarter ending in March 2022. The deficit narrowed from M422.94 million in the previous quarter to M265.02 million in the quarter under review. This emanated mainly from increased surpluses on both the primary and secondary income accounts. This improvement was, however moderated by worsening deficits on the goods and services account balances. As a ratio of GDP, the current account deficit accounted for 2.7 per cent in the quarter under review after recording a share of 4.9 per cent in the quarter ending in December 2021.

Table 15: Current Account Balance (Million Maloti)

	2021				2022	% Changes	
	Q1	Q2	Q3	Q4	Q1	Q/Q	Y/Y
Current Account	75.29	-789.62	-342.97	-422.94	-265.02	37.3	-452.0
(a) Goods	-2 958.20	-3004.13	-2484.03	-2663.20	-2983.13	-12.0	-0.8
Merchandise exports, f.o.b.	3 350.16	3654.93	4174.20	4510.19	4166.19	-7.6	24.4
Of which diamonds	919.79	1172.72	1309.07	1036.93	1308.40	26.2	42.3
Of which textiles & clothing	1 778.78	1847.99	2160.55	2619.62	2139.19	-18.3	20.3
Of which water	281.90	292.42	304.71	400.81	305.23	-23.9	8.3
Of which agriculture	71.17	77.00	84.60	97.94	71.22	-27.3	0.1
Of which re-exports	83.48	57.37	43.58	80.50	44.64	-44.6	-46.5
Other exports	215.04	207.43	271.69	274.39	297.51	8.4	38.4
Merchandise imports, f.o.b.	6 308.36	6659.06	6658.23	7173.39	7149.32	-0.3	13.3
(b) Services	-1 452.89	-1 437.32	-1 430.48	-1 396.83	-1 737.73	-24.4	-20.0
(c) Primary Income	1 519.38	1 579.85	1 539.71	1 571.05	1 996.51	27.1	31.4
(d) Secondary Income	2967.00	2071.99	2031.83	2 066.03	2 465.69	19.3	-16.9

Source: Central Bank of Lesotho

Merchandise Exports

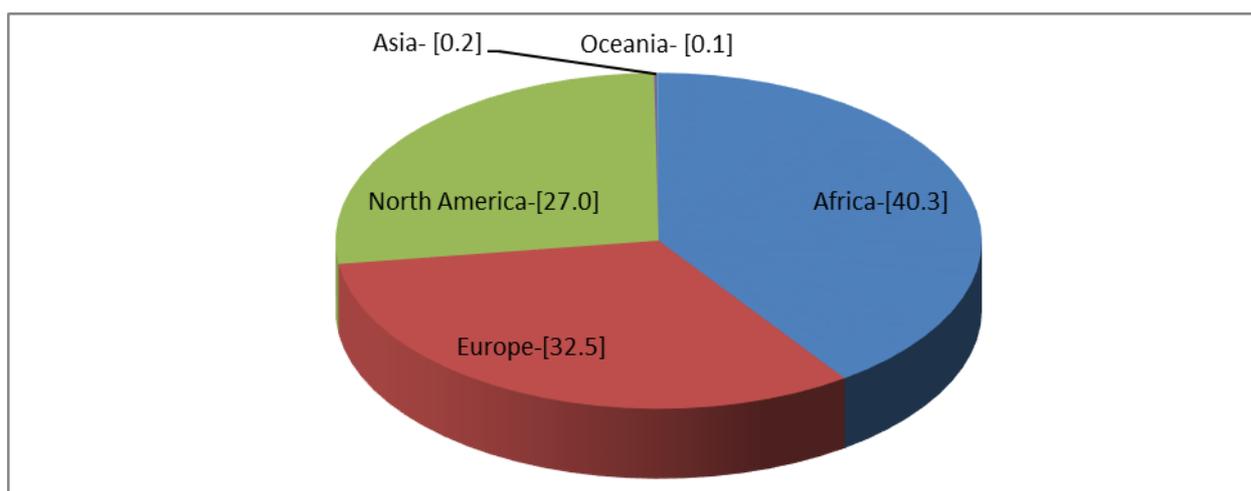
Merchandise exports contracted by 7.6 per cent in the quarter under review, reverting from an 8.0 per cent increase in the previous quarter. This was mainly due to a fall in the exports of textiles and clothing, water, and agricultural commodities, as well as re-exports. The textiles and clothing exports dropped by 18.34 per cent, with significant reductions to exports to the US, on account of increased shipments costs, amid rising fuel prices. The situation was further exacerbated by the Russia-Ukraine war, which started in February 2022. Water exports declined by 23.9 per cent in the quarter ending in

March 2022, following a 31.5 per cent increase observed in the previous quarter. The fall in merchandise exports was, however moderated by an increase in diamond exports, boosted by increased number of carats recovered. The diamond exports also benefited from higher prices, which resulted from favourable market conditions.

Direction of Trade - Exports

Africa continued to be the leading export market for Lesotho. Exports to Africa accounted for 40.3 per cent of Lesotho's total exports, compared to 45.7 per cent in the previous quarter. Exports to Africa were destined mostly to South Africa, comprising mainly textiles and clothing. Europe was the second largest recipient of Lesotho's exports with a share of 32.5 per cent, improving from 24.2 per cent share in the preceding quarter. Exports to Europe were predominantly diamonds destined to Belgium. North America was the third with a share of 27.0 per cent, from 29.7 per cent in the preceding quarter. The reduced share reflected a fall in textile and clothing exports to US. Asia and Oceania recorded 0.2 per cent and 0.1 per cent, respectively.

Figure 18: Direction of Trade Merchandise Exports (Percentage Share)



Source: Central Bank of Lesotho

Merchandise Imports

Merchandise imports contracted slightly by 0.3 per cent in the quarter under review, compared with a 7.7 per cent increase in the previous quarter. Significant declines were observed mostly on food and live animals, chemicals and related products, and mineral products. Imports of chemicals and related products fell in line with a notable decline in imports of medicaments, amid falling new cases of COVID-19 infections during the review period. In addition, imports of fertilisers declined significantly, consistent with transition from the planting season. As a share of GDP, merchandise imports accounted for 72.0 per cent, compared with 73.6 per cent in the previous quarter.

Services account

The services account balance continued to deteriorate, with the deficit on the account widening by 24.4 per cent in the quarter ending in March 2022, after narrowing by 2.4 per cent decline in the previous quarter. This resulted mainly from increased costs of telecommunication services acquired abroad, together with higher business travel expenses. Year-on-year, the deficit on the services account rose by 20.0 per cent, compared with a 10.0 per cent decline in the preceding quarter. As a percentage of GDP, the deficit accounted for 17.6 per cent, increasing from 14.3 per cent in the previous quarter.

Primary Income Account

The surplus on the primary income account expanded by 27.1 per cent in the review period, improving from a 2.0 per cent gain in the preceding quarter. The observed performance in the primary income account balance was due to a rise in compensation of employees and an increase in receipts for operational costs related to Lesotho Highlands Water Project, Phase I. Compensation of employees was mainly buoyed by higher earnings for Basotho migrant workers in South Africa, which rose in line with the rise in South Africa's inflation rate. On an annual basis, the surplus on the primary income account rose by 31.4 per cent, compared with a 7.8 per cent increase in the previous quarter. As a share of GDP, the primary income account balance accounted for 20.1 per cent, improving from 16.1 per cent in the previous quarter.

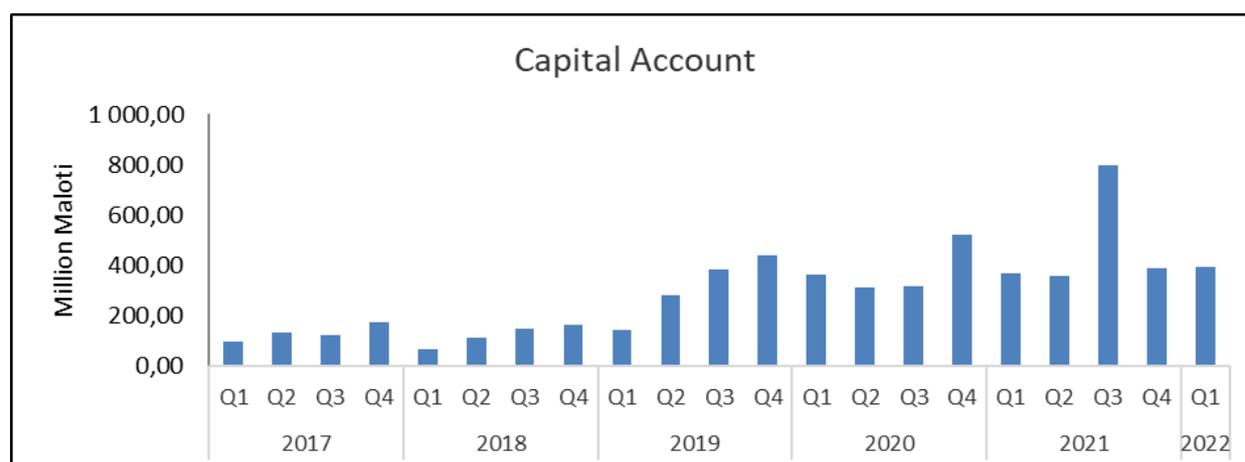
Secondary Income Account

The surplus on the secondary income account rose by 19.3 per cent during the review period, significantly greater than a 1.7 per cent rise in the previous quarter. The observed performance was mainly due to a marked increase in rand compensation, together with a decline in subscriptions to international organisations. However, on a year-on-year basis, the secondary income account balance declined by 16.9 per cent, comparatively lower than a 26.1 per cent drop in the quarter ending in December 2021. As a share of GDP, the secondary income account balance accounted for 24.8 per cent in the quarter ending in March 2022, slightly lower than 21.2 per cent recorded in the fourth quarter of 2021.

CAPITAL ACCOUNT

During the first quarter of 2022, the capital account inflows rose by 1.6 per cent to M396.19 million, contrasted with a 51.2 per cent decline in the previous quarter. This was solely due to increased receipts of advanced infrastructure development for the Lesotho Highlands Water Project, Phase II. The observed increase was mainly due to resumption of normal working conditions and relatively higher payment certificates received during this quarter, unlike in the last quarter where operations had to be halted due to the festive season break. As the share of GDP, the surplus on the capital account stood at 4.0 per cent, slightly lower than 4.3 per cent of GDP in the preceding quarter.

Figure 19: Capital Account (Million Maloti)



Source: Central Bank of Lesotho

FINANCIAL ACCOUNT

The financial account balance recorded a net inflow amounting to M743.50 million during the quarter ending in March 2022, compared with M861.73 million in the fourth quarter of 2021. The surplus in the financial account balance was attributed mainly to a rise in other investment inflows, particularly currency and deposits together with an increase in government loans during the review quarter.

Table 16: Financial Account Balance (Million Maloti)

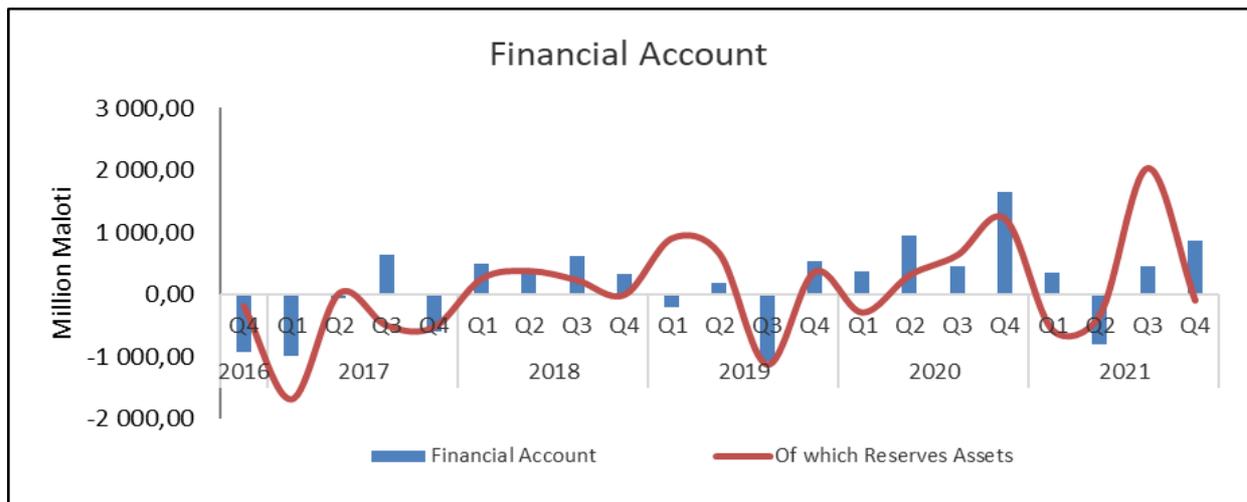
	2021				2022
	Q1	Q2	Q3	Q4	Q1
Financial account	349.79	-808.62	446.32	861.73	-743.50
Direct Investments, net	-93.10	-77.64	311.29	43.12	261.32
Portfolio Investments, net	389.24	-708.90	242.82	111.73	-47.01
Financial Derivatives, net	0.00	0.00	0.00	0.00	0.00
Other Investments, net	628.66	307.32	-2 135.60	804.01	-516.16
Of which Loans	135.83	4.66	-52.89	171.57	-76.14
Claims on Non Residents	34.48	34.48	34.48	34.48	34.48
Liabilities to Non Residents	-101.35	29.82	87.37	-137.09	110.62
Of which Currency and Deposits	566.89	376.72	-613.56	706.51	-365.96
Claims on Non Residents	635.89	241.36	-575.31	915.04	-509.22
Liabilities to Non Residents	69.00	-135.36	38.25	208.54	-143.26
Of which Special Drawing Rights	0.00	0.00	1395.09	0.00	0.00
Reserve Assets	-575.01	-329.41	2027.81	-97.14	-441.65

Source: Central Bank of Lesotho

The drawdown in currency and deposits by commercial banks was prompted by the need to finance domestic liquidity requirements, including maturing investments, as well as financing some of the major projects undertaken by the business sector in the country. Meanwhile, loans to Lesotho increased, as there were higher loan disbursements to the government of Lesotho. In addition, increased net inflow of funds amounting to M47.01 million was also observed for portfolio investment

in the quarter under review, contrary to a net outflow of M111.73 million in the previous period. Alternatively, direct investment recorded a net outflow of M261.32 in the review quarter following a net outflow of M43.12 million in the previous quarter. This was mainly attributed to the higher outflows resulting from repayment of intercompany loans provided by direct investors. As a percentage of GDP, the financial account inflows accounted for 7.5 per cent, from an inflow amounting to 9.0 per cent in the previous quarter.

Figure 20: Financial Account (Million Maloti)

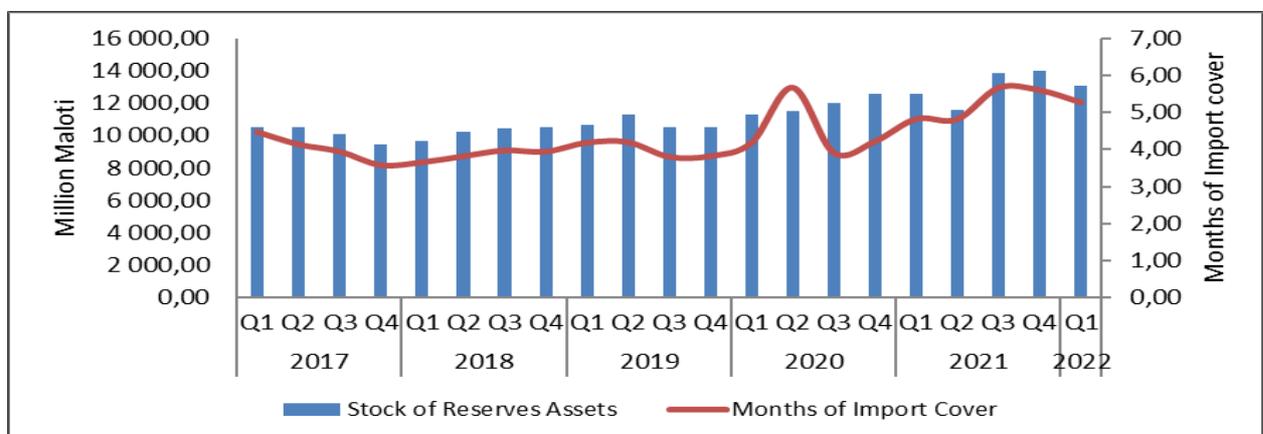


Source: Central Bank of Lesotho

RESERVE ASSETS

The stock of reserves contracted by 6.3 per cent to M13.07 billion during the period under review, reversing from a 0.8 per cent increase or M13.95 billion in the quarter ending in December 2021. This was mainly due to the need to settle foreign obligations, particularly payments of intercompany loans. Expressed in months of imports cover, foreign reserves edged down to 5.3 months in the first quarter of 2022 from 5.6 months in the previous quarter.

Figure 21: Reserve Assets



Source: Central Bank of Lesotho