Central Bank Of Lesotho

QUARTERLY REVIEW

December 2017

MASERU
KINGDOM OF LESOTHO

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1. Executive Summary

The global economy showed signs of moving along a strong recovery path during the fourth quarter of 2017. Growth was generally robust in the advanced economies, particularly in the Euro Area. This was predicated by strong consumer demand and a pickup in global trade and manufacturing. In emerging market economies growth was high, buoyed by increased industrial activity and government policy support in some countries.

In general, the global monetary policy stance remained accommodative during the review quarter although there were some indications of possible tapering of unconventional monetary policy mixed with a gradual rate normalisation by some of the world's leading central banks.

Domestic economic activity as measured by the Economic Activity Indicator (EAI), increased marginally in the fourth quarter of 2017. Lackluster performance was observed in the primary and secondary sectors while economic activity was supported by the tertiary sector. Labour market developments reflected declines in the numbers of Basotho migrant mineworkers as well as government employees, while LNDC assisted companies' employment increased slightly in the review period. The inflation rate picked up slightly in December 2017 compared with September 2017.

Money supply continued to increase during the review quarter albeit at a decreasing rate following growth in domestic claims which was moderated by a fall in overall banking sector Net Foreign Assets (NFA). Private sector credit maintained an upward trajectory with household credit growing at a faster pace than the growth in credit to business enterprises.

The government budgetary operations continued to result in a deficit as a result of lower growth in revenue than total spending. The fiscal deficit was financed by drawdown of deposits and domestic borrowing. The outstanding public debt stock as percentage of GDP decreased to 35.6 per cent in the fourth quarter, down from the revised 37.3 per cent observed in September 2017.

The overall balance of payments position worsened in the review period. The deterioration of balance of payments position in the fourth quarter of 2017 resulted from poor performance of the current account balance together with a worsening financial account balance. The level of reserves fell to 3.9 months of import cover in the quarter ending in December 2017 from 4.3 months in the previous quarter.

2. International Economic Developments

Global economic recovery continued during the fourth quarter of 2017. Growth was generally robust in the advanced economies, particularly in the Euro Area. The strong consumer demand and a pickup in the global trade and manufacturing propelled activity in these countries. However, growth was weaker in the US and Japan due to increased imports, while in the UK weakness emanated from slowing investment spending. Economic growth remained high in the emerging market economies, with India's growth increasing significantly while China maintained steady growth. Labour market conditions improved further in both advanced and emerging economies in the review quarter. The stronger economic activity supported employment creation in a number of countries. In China, employment creation was also backed by increased policy support.

Monetary policy stance remained accommodative in most countries during the review quarter. However, the European Central Bank decided to start the tapering of its QE programme. The Fed continued with rate normalisation during the fourth the Fed funds rate was raised during the quarter. This was the third rate hike in the year. Inflationary pressures eased for most countries during the fourth quarter of 2017, reflecting falling prices of food. On the contrary consumer inflation rose in Japan, India and China. Developments in commodity prices were mixed. Oil prices generally increased while prices of food and precious metals declined. The bumper harvests in grain producing countries helped boost food supplies, thus leading to reduced prices.

Table 1: Key World Economic Indicators

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	Sept 2017	**Dec. 2017**	**Sept 2017**	**Dec. 2017**	**Sept 2017**	**Dec. 2017**	**Sept 2017**	**Dec. 2017**
United States	3.2	2.5	2.2	2.1	1.25	1.50	4.2	4.1
Euro Area	2.6	2.7	1.5	1.3	0.00	0.00	8.9	8.7
Japan	2.1	0.5	0.7	1.0	-0.10	-0.10	2.8	2.8
United Kingdom	1.8*	1.4	3.0	3.0	0.25	0.50	4.3	4.3
China	6.8	6.8	1.6	1.8	4.35	4.35	4.0	3.9
India	6.5*	**7.2**	3.3	5.2	6.25	6.00	**n/a**	**n/a**
South Africa	2.3*	**3.1**	5.1	4.6	6.75	6.75	27.7	26.7

Updated*

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 US GDP increased by 2.6 per cent in the fourth quarter of 2017, slower than 3.2 per cent in the previous quarter. The weaker economic performance resulted from the slowdown in inventory investment and imports, which rose faster than exports. The unemployment rate was 4.1 per cent during the fourth quarter of 2017, unchanged from the third quarter of 2017. Economic activity continued to support employment creation and the US economy created more jobs despite disruptions from the hurricanes, which led firms to halt production temporarily.

The annual inflation rate for the US declined to 2.1 per cent in the fourth quarter of 2017, from 2.2 per cent in the previous quarter. The subsiding inflationary pressures resulted from moderation in the prices of food and energy. Prices of clothing and automobiles also declined. The FOMC raised the key policy rate by 25 basis points, to the range of 1.25-1.50 per cent during the fourth quarter of 2017. The relatively stable economic activity and the robust labour market conditions gave space for the Fed to proceed with its Monetary Policy normalisation, despite moderate inflationary pressures. Also adding weight to the decision was the new tax legislature, which advocated for a cut in the tax rate, as the development worsened the inflation outlook.

Euro Area

The Euro Area economy grew by 2.7 per cent in the fourth quarter of 2017 compared with a 2.6 per cent growth in the previous quarter. The growth emanated mainly from increased exports and private sector investment. Consumer spending was also resilient during the quarter. The rate of unemployment declined from 8.9 per cent in the third quarter of 2017, to 8.7 per cent during the review period. Employment creation was supported by substantial economic activity in the region which was driven by strong domestic and international demand.

Consumer inflation declined from an annual rate 1.5 per cent in the previous quarter to 1.4 per cent in the fourth quarter of 2017. Inflation decelerated on account of slowing food, energy and services prices. The relatively strong euro also helped lower the rate of inflation. During the fourth quarter of 2017, the ECB decided to maintain its key policy rate constant at 0.00 per cent. The bank decided to continue with assets purchases programme, although at the reduced rate of €30 billion per month, instead of €60 billion. The newly determined rate of purchase was expected to take effect from January and last up to September 2018, or even beyond if necessary.

Japan

Japan's real GDP grew by 0.5 per cent during the fourth quarter of 2017. This represented a slowdown relative to the 2.1 per cent growth realised in the third quarter of 2017. The growth was driven mainly by stronger consumer spending and business investment spending, although the faster increase in imports weighed down on growth. The unemployment rate declined to 2.7 per cent in the fourth quarter of 2017 from 2.8 per cent in the previous quarter. The strengthened economic activity, as well as improvement in the global economy, continued to support labour market conditions in Japan.

The annual inflation for Japan rose to 1.0 per cent in the quarter ending in December 2017, from 0.7 per cent in the preceding quarter. The increase resulted from rising food prices, the increased costs of fuel, light and water. The Bank of Japan maintained its accommodative monetary policy stance during the quarter under review. The key policy rate was kept constant at -0.1 per cent, while the Bank also continued with the asset purchases programme. The Bank continued buying Japanese Government Bonds to keep long term interest rates close to zero, or yield curve control. The generally accommodative stance was taken to spur inflation towards the target rate of 2.0 per cent, while also supporting economic activity.

United Kingdom (UK)

The real GDP growth in the UK decelerated from 1.8 per cent in the third quarter of 2017 to 1.4per cent in the review quarter. The slower growth was due to the weaker output in the manufacturing and construction industries. The rate of unemployment was steady at 4.3 per cent during the quarter under review, compared with the quarter ending in September 2017. The moderate recovery in the economy supported employment creation.

The annual inflation rate was constant at 3.0 per cent during the fourth quarter of 2017, relative to the preceding quarter. The increase in the prices of clothing & footwear, and alcoholic beverages & tobacco were offset by slowing prices of food & non-alcoholic beverages as well as transport. The recent weakness of the pound kept inflation at an elevated level. The Bank of England hiked the key policy rate to 0.5 per cent during the fourth quarter of 2017, from 0.25 per cent in the previous period, amid escalating inflation. The Bank also decided to continue with the corporate and government bonds purchases at £10 billion and £435 billion, respectively. The assessment of the Bank on the economy was that the real GDP would continue to grow at the moderate pace, while inflationary pressures were elevated.

EMERGING MARKET ECONOMIES

China

During the fourth quarter of 2017, China's real GDP grew at the same growth rate of 6.8 per cent as in the previous quarter. Growth was driven mainly by industrial production and consumer spending. The strengthened domestic demand and the recovery in the global economy, as well as increased policy support kept economic activity buoyant in China. Furthermore, the contribution of consumption and services to GDP indicated that the rebalancing in the Chinese economy was making positive progress. These developments had a positive impact on the unemployment rate, which declined from 4.0 per cent to 3.9 per cent between the current quarter and the quarter ending in September 2017.

Consumer inflation rose by 1.8 per cent year on year, during the quarter ending in December 2017, accelerating from 1.6 per cent in the preceding quarter. This was attributable to the faster increase in the prices of food, clothing, healthcare and household goods and services. China's key policy rate was left unchanged in the fourth quarter of 2017. However, the People's Bank of China raised the short-term interest rates, in a bid to curb destabilising capital outflows without adverse effect on economic growth. The move was generally seen as a reaction to the Fed's rate increase during the quarter, while also ensuring that China's efforts reign in the credit and financial risks. The policy stance remained accommodative to support sustained economic growth.

India

The annual real GDP for India increased by 7.2 per cent during the fourth quarter of 2017, up from an increase of 6.5 per cent in the second quarter. The acceleration in growth was supported by the increase in the government and investment spending. Other notable contributions came from industrial activity, especially manufacturing, as well as construction and agriculture. Growth was however, partly offset by the slowdown in the growth for exports, weaker private consumption and an increase in imports. The observed performance in GDP reflected government's accelerated investment climate reforms and other government programmes meant to boost agricultural output and expansion in infrastructure projects.

The annual consumer inflation accelerated to 5.2 per cent in the review quarter, from 3.3 per cent in the third quarter of 2017. The rise in inflation reflected a faster increase in food prices and housing costs. While the recent recovery of prices had an upside effect on inflation, the increase was basically due to the consumer price index rebasing from 2010 to 2012. The Reserve Bank of India decided to hold the key policy rate constant at 6.0 per cent in the fourth quarter of 2017. Thus, maintaining an accommodative stance to support GDP growth. The Bank's assessment was that the risks to the inflation outlook were balanced regardless of the built-up in inflationary pressures.

South Africa

The real GDP rose at the faster rate of 3.1 per cent in the fourth quarter of 2017 in South Africa, relative to 2.3 per cent in the preceding quarter. Growth, which was the highest in 2017, was driven by increased production in the services and manufacturing sectors, as well as agriculture, forestry and fishing industry. Resilient household expenditure and investment spending continued to support economic activity during the quarter. However, growth was moderated by contraction in the output for mining and quarrying sector.Unemployment rate in South Africa declined by one percentage point to 26.7 per cent during the fourth quarter of 2017. The recent recovery in the economy supported employment gains in the agriculture and informal sectors, which more than offset declines in the formal sector employment.

Annual consumer inflation rose by 4.6 per cent in the fourth quarter of 2017, decelerating from 5.1 per cent in the third quarter of 2017. The easing food prices, as well as housing and utilities costs, contributed to slowing inflation. The Reserve Bank of South Africa kept the repo rate unchanged at 6.75 per cent in the fourth quarter of 2017. The falling inflationary pressures allowed the SARB to maintain an accommodative monetary policy stance. Nevertheless, the Bank continued to be faced with the challenge of weakening economic growth and the deteriorating inflation outlook.

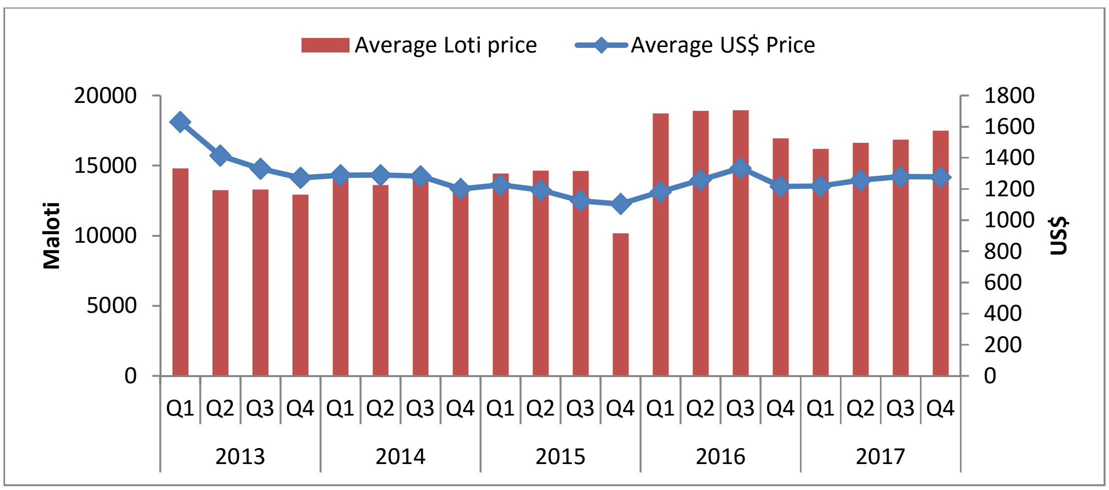
COMMODITIES

Minerals

Gold

The price of gold fell by 0.19 per cent to the US$ 1276.82 per ounce, in the fourth quarter of 2017, after it registered an increase of 1.70 per cent in the previous quarter. A number of factors contributed to declining gold price. This included the rise in stock indexes which led to investors moving from gold to take advantage of stocks for profit. The US hike of the Fed funds rate, the stronger dollar and rising bond yields, also led to a reduction in demand for gold. Apart from these, the other factors that led to a decline in the price of gold included muted effects of Brexit and Catalonia independence in the financial markets, as well as increased demand for crypto currencies, mainly bitcoins, and adaption of Tax Bill into Law in the US. In Maloti terms, the price of gold rose by 3.84 per in the fourth quarter of 2017, extending a 1.31 per cent increase in the third quarter of 2017.

Figure 1: **Average Price of Gold**

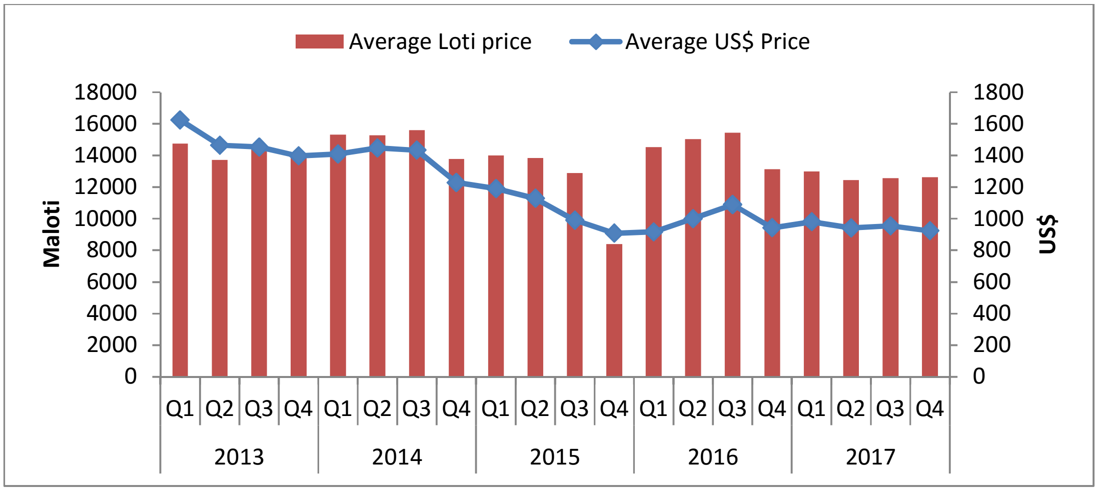


Source: Bloomberg

Platinum

The platinum price declined by 3.38 per cent to US$ 922.89 an ounce during the fourth quarter of 2017, compared with a 1.46 per cent increase in the third quarter of 2017. The price of platinum declined due to a stronger dollar during the quarter. Furthermore, the demand for industrial metals fell during the fourth quarter of 2017. There was also a decline in demand for platinum in China for jewellery. Expressed in terms of Maloti, the price of platinum rose by 0.52 per cent during the fourth quarter of 2017. This increase followed a 1.08 per cent increase in the third quarter of 2017.

Figure 2: **Average Price of Platinum**



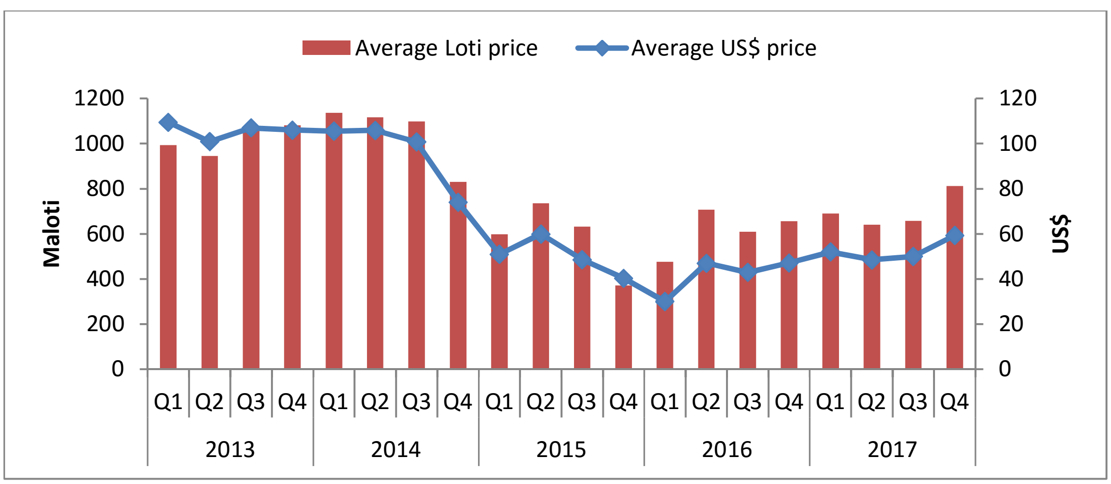
Source: Bloomberg

Energy

Oil

Oil prices increased significantly during the fourth quarter of 2017. They rose by 18.76 per cent to US$ 59.35 per barrel, following a 3.10 per cent in the previous quarter. Oil prices increased as crude oil supply glut in the global markets eased during the quarter under review. OPEC and its ally countries continued to restrict production in order to reduce excess supply of crude oil in the global markets. In the US, drilling slowed down as reflected by a decline in the number of rigs. Furthermore, there was evidence of a sustained decrease in the crude oil inventories in the US, a closely watched indicator of oil supply in the global markets.

Figure 3: **Average Price of Oil**



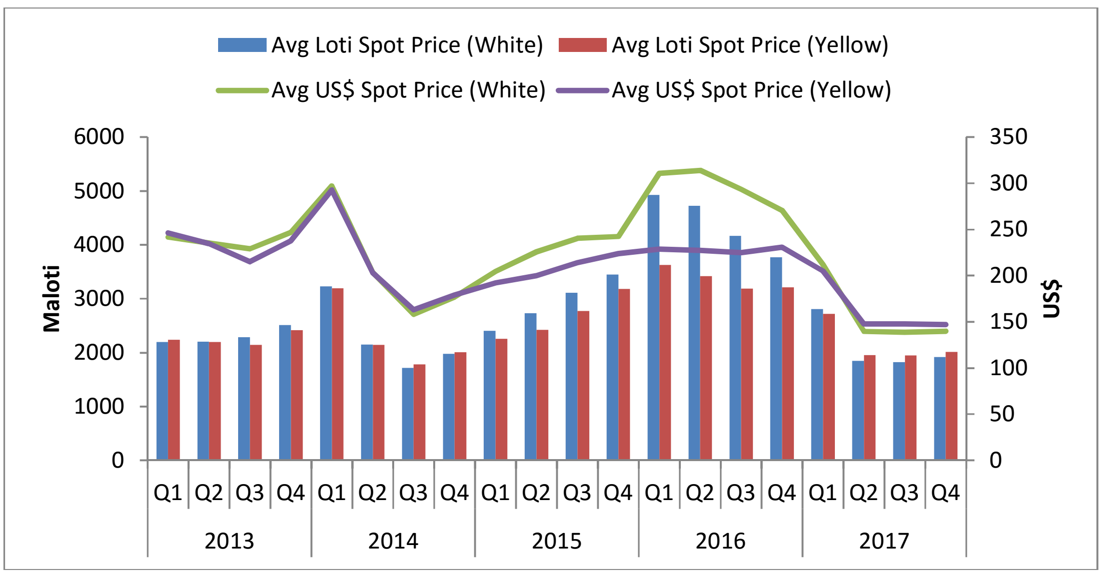
Source: Bloomberg

Agricultural Products

Maize

The price of white maize increased by 0.98 per cent to the US $ 139.00 per tonne during the fourth quarter of 2017, reflecting increased demand from the sub-Saharan African region, where it is used as a staple food. In the preceding quarter, the price of white maize declined by 0.87 per cent. From the supply side, the production of white maize declined due to dry weather conditions in some major producing countries, especially in the southern hemisphere. On the contrary, the price of yellow maize fell by 0.12 per cent from the US $147.63 to the US $147.17 per tonne during the third quarter of 2017. The price declined reflecting more than expected production in the US and Indonesia, which pushed up its supply in the global markets. The output was revised upwards in China, European Union and Mexico, hence leading to increased supply of yellow maize in the global markets. In Maloti terms, the price of white maize and yellow maize increased by 5.05 per cent and 3.71 per cent, respectively.

Figure 4: Average Price of Maize

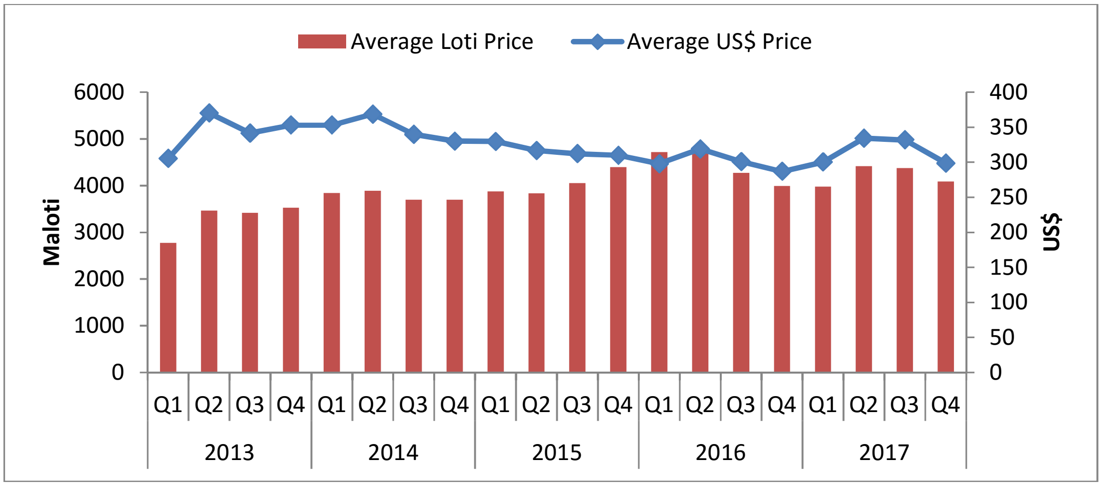


Source: Bloomberg

Wheat

The wheat price fell by 10.01 per cent to US$ 298.69 a tonne during the review quarter, after registering a decline of 0.71 per cent in the third quarter of 2017. The price of wheat was suppressed by the increased supply from major producing countries despite the decline in the US and Australia. There was more than expected increase in wheat production from Europe and Russia, which benefitted from favourable weather conditions. In addition, Russia adopted of improved production technology, which boosted production.

Figure 5: **Average Price of Wheat**

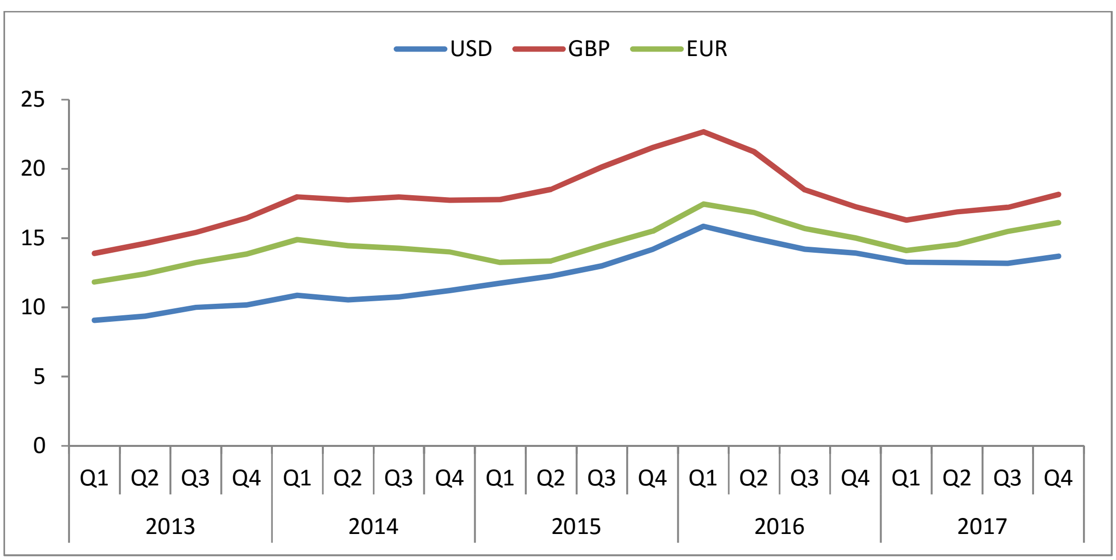


Source: Bloomberg

EXCHANGE RATES

The Rand hence the Loti depreciated against the major trading currencies and remained volatile throughout the fourth quarter of 2017. It weakened by 4.0 per cent, 5.3 per cent and 4.1 per cent, against the US dollar, British pound and the euro, respectively. The rand exchange rate fell as South African Medium-term Budget Policy Statement estimated a larger fiscal deficit in the short to medium term, and revised down the growth forecast. The rand value also declined in response to heightened political uncertainty in South Africa on the run up to the ANC elective conference, the unexpected announcement of free tertiary education in SA, with possible spill-over to fiscal deficit and credit rating downgrades by Fitch and Standard and Poor's.

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



Source: Bloomberg

3. Real Sector Developments

OVERVIEW

Domestic economic activity as measured by the Economic Activity Indicator (EAI), increased at a lower rate in the fourth quarter of 2017. The primary sector's performance deteriorated in the review quarter due to reduced output by the mining sub-sector. The secondary sector displayed poor performance with the exception of the water subsector. Within the tertiary sector, the trade, financial, and the government subsectors depicted improved performance, while the telecommunications and services subsectors registered a negative growth. In the labour market, employment by LNDC assisted companies, government, and Basotho migrant mineworkers declined in the review period. The inflation rate rose slightly in December 2017 compared with September 2017.

OUTPUT DEVELOPMENTS

Economic performance moderated in the review period. The EAI went up by 1.0 per cent in the quarter ending December 2017 compared with an increase of 4.0 per cent in the quarter ending in September 2017

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Table 2: Economic Performance by Industry *(Seasonally adjusted Quarter to Quarter Percentage Changes)*

		2016	2017			
	Weight	Q4	Q1	Q2	Q3	Q4
EAI	**100**	**1.3**	**0.2**	**-0.2**	**4.0**	**1.0**
Primary Sector						
Mining	**8.9**	14.9	10.0	15.1	11.4	-1.7
Secondary Sector						
Manufacturing	**18.5**	-10.3	-7.7	-3.2	9.4	-15.4
Electricity	**1.1**	3.2	2.5	1.5	2.3	-1.5
Water	**4.9**	0.7	-4.0	-2.4	-2.2	13.2
Construction	**7.6**	24.4	-13.9	-25.1	82.0	-14.2
Tertiary Sector						
Trade	**11.0**	-24.5	-5.5	9.4	-3.5	4.2
Telecom	**5.1**	19.3	9.0	51.7	-5.0	-7.7
Financial Sector	**6.5**	-1.7	0.8	-0.5	-1.3	6.2
Other services	**5.7**	8.0	2.8	-22.2	11.0	-5.9
Government	**30.6**	6.2	2.9	-10.0	-3.4	17.1

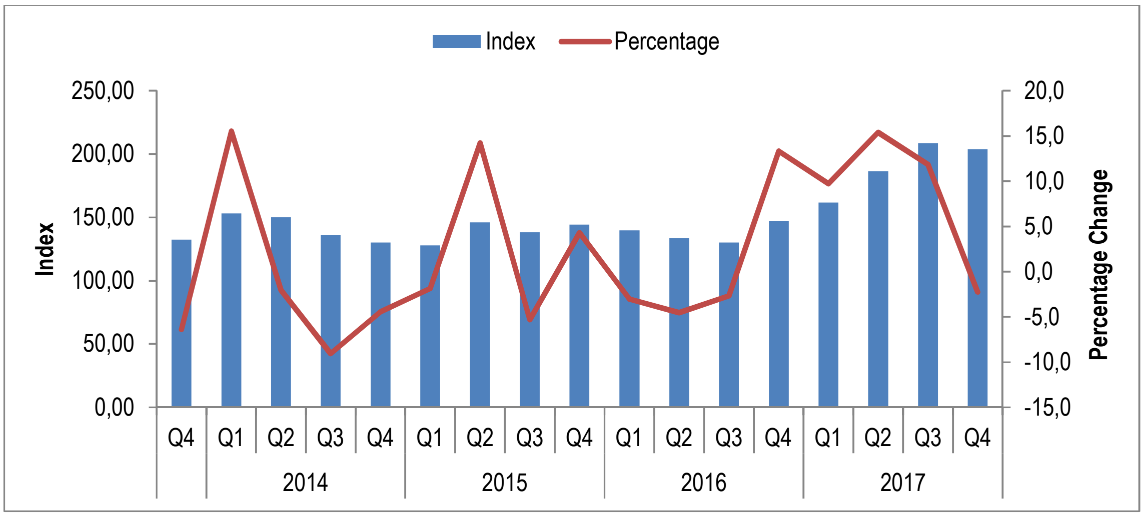
Source: Central Bank of Lesotho

Primary Sector

Mining and Quarrying

The mining and quarrying index declined by 1.7 per cent in the quarter ending in December 2017 compared with an increase of 11.0 per cent observed in the quarter ending in September 2017. The decline was attributed to reduced diamond production. Fewer carats were recovered by the mines operating in the country during the review period.

Figure 7: Mining and Quarrying Index



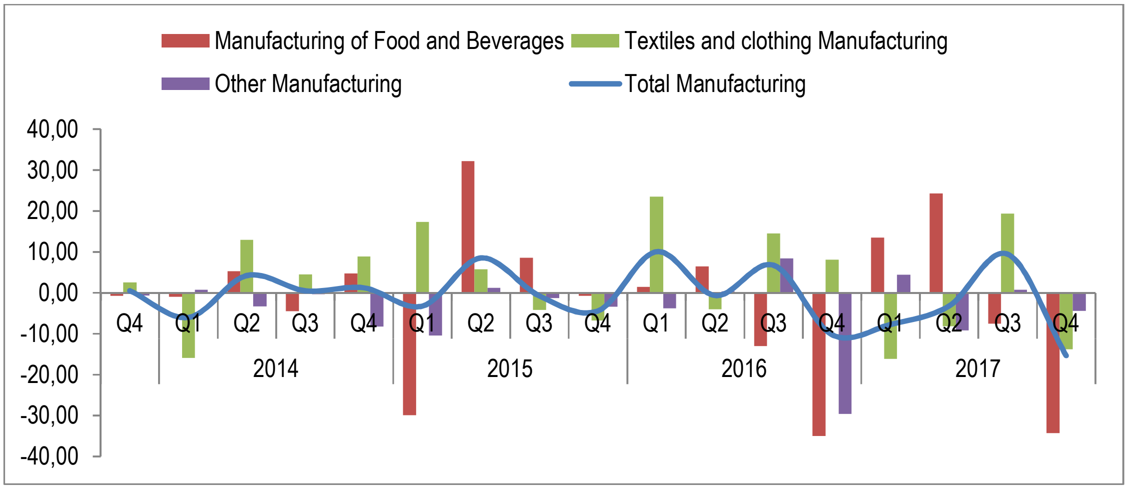
Source: Central Bank of Lesotho

Secondary Sector

Manufacturing

The total manufacturing index fell by 15.4 per cent in the fourth quarter of 2017compared with an increase of 9.4 per cent in the previous quarter. The decline was attributed to reduced output by textiles and clothing, food and "other" manufacturing components. Output in the textiles and clothing manufacturing, which constitutes the largest component within the manufacturing subsector, declined by 13.8 per cent in the review quarter compared with a significant growth of 19.3 per cent in the last quarter. This was mainly attributable to reduced exports of textiles and clothing to the US and SA markets. Food manufacturing was mainly affected by reduced output from malt liquors, soft drinks and production of mineral water.

Figure 8: Manufacturing Subsector *(Quarter to Quarter Percentage Changes)*



Source: Central Bank of Lesotho

Electricity

The electricity index fell by 1.5 per cent in the quarter ending in December 2017 compared with an increase of 2.3 per cent observed in the previous period. The decline emanated from the general purpose and "commercial and industrial" categories, while the "domestic" category increased marginally. The general purpose and commercial and industries categories declined by 6.8 per cent and 1.6, respectively.

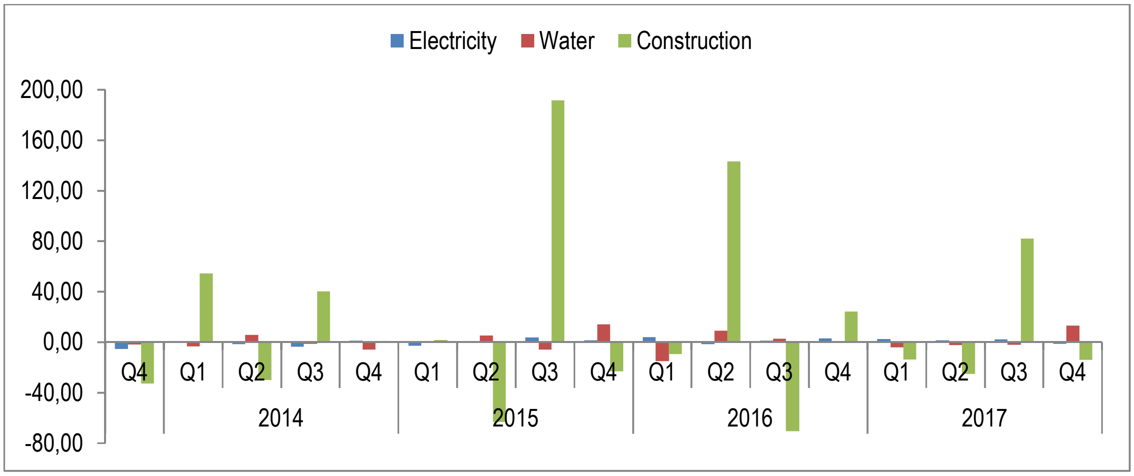
Water

The water index increased at a rate of 13.1 per cent in the review period compared to a decline of 2.2 per cent in the previous quarter. The water sector comprises water exports to SA and locally consumed water. Water exports increased by 14.0 per cent in the quarter ending in December 2017 compared with a decline of 2.5 per cent in the previous period. With respect to domestic water consumption, a decline of 19.8 per cent was registered, and this was mainly attributed to domestic and other categories, while industrial water usage increased by 5.1 per cent.

Construction

The construction index fell by 14.2 per cent in the fourth quarter of 2017 following a significant increase of 82.0 per cent in the third quarter of 2017. This decline mainly reflected the higher capital expenditures by government in the third quarter of 2017. For instance, the Ministry of Public Works and Transport spent over M321 million and the Ministry of Local Government M223 Million in the second quarter of the fiscal year.

Figure 9: Secondary Sector *(Quarter to Quarter Percentage Changes)*



Source: Central Bank of Lesotho

Tertiary Sector

Trade

The index for trade, which comprises motor trade, wholesale and retail trade in fuel, and wholesale and retail trade rose by 4.2 per cent in the fourth quarter of 2017 compared with a decline of 3.5 per cent in the previous quarter. The highest increase was observed in the wholesale and retail sector's output followed by motor trade, while marginal declines were observed with fuel trade. The subsector's performance was in line with increased imports of goods and services in the review quarter.

Telecommunications

The telecommunications index declined further by 7.7 per cent in the fourth quarter of 2017 compared with a reduction of 5.0 per cent in the third quarter of 2017. The contraction in the subsector's output was in line with consecutive declines in the revenue collected from mobile money transactions especially bill payments.

Finance

The financial sector index increased by 6.2 per cent in the fourth quarter of 2017 compared with a decline of 1.3 per cent in the quarter ending in September 2017. This indicated increased performance by the commercial banks in the economy. The observed increase was in line with an increase in credit extended to all sectors of the economy. Both interest on loans and other banking charges contributed to the increase during the review period.

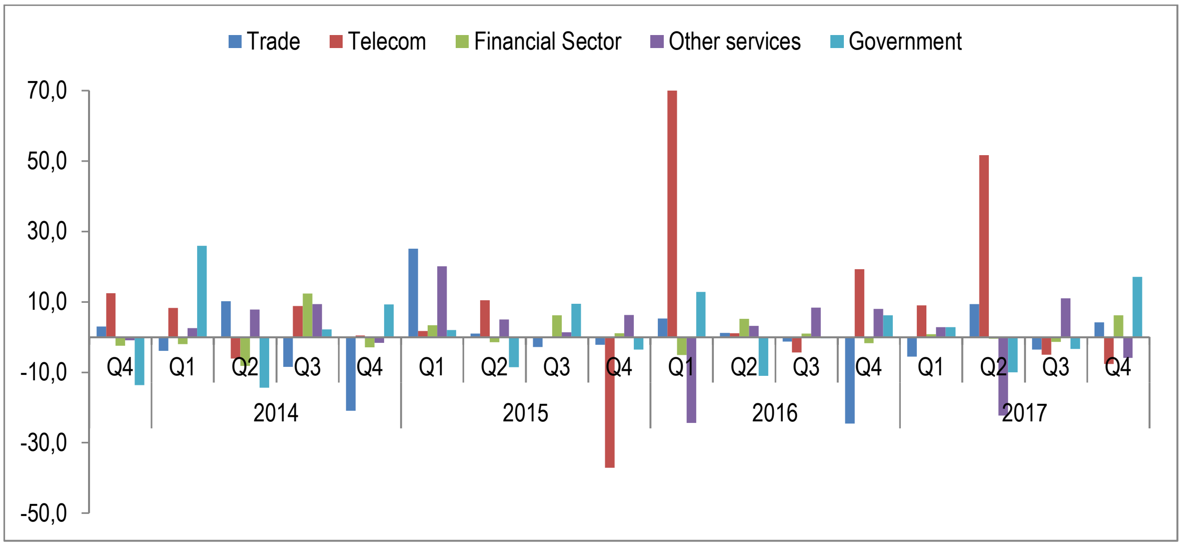
***Other Services*[1]**

The index for other services declined by 5.9 per cent in the last quarter of 2017 compared with an increase of 11.0 per cent in the previous quarter. The moderation was attributed to a slowdown in output related to renting of land transport equipment, maintenance and repair of office equipment, hotels and restaurants and, funeral and hair dressing activities.

Government

The index for government activities increased significantly by 17.1 per cent in the fourth quarter of 2017 compared with a decline of 3.4 per cent in the previous quarter. The improved performance was in line with increased government expenses in the quarter under review.

Figure 10: Tertiary Sector *(Quarter to Quarter Percentage Changes)*



Source: Central Bank of Lesotho

EMPLOYMENT DEVELOPMENTS

Employment by LNDC assisted companies increased marginally by 0.1per cent during the fourth quarter of 2017 compared with an increase of 3.2 per cent in the previous quarter. This emanated from higher employment in the knit and woven garments, fabric and yarn, food and beverages, retail and construction industries.

[1] Other services include hotels, camping sites and other provision of short stay accommodation, restaurants, bars and canteens, renting of land transport equipment, legal activities, consultancy services, data processing, maintenance and repair services, Advertising, software publishing, investigation and security activities, printing etc.

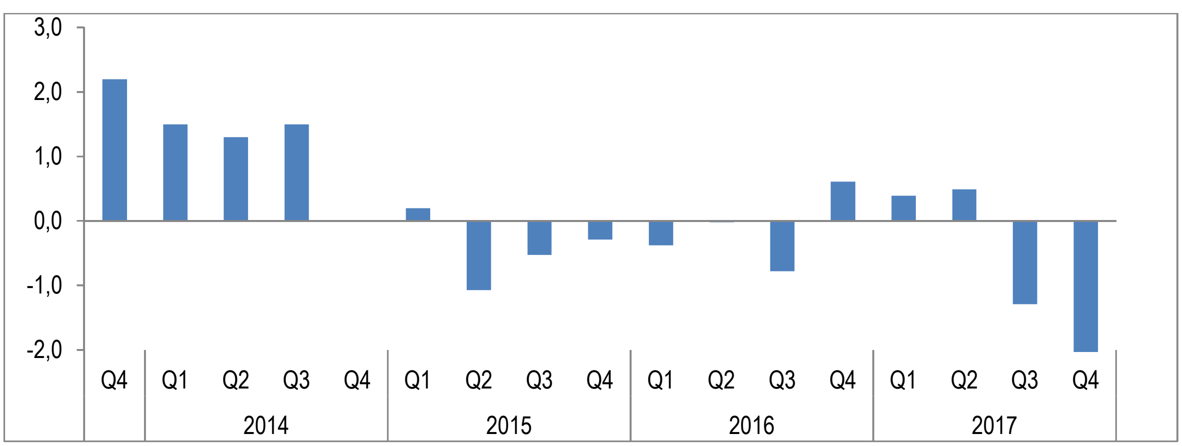
Table 3: Employment by LNDC Assisted Companies

Industry	2016	2017				% Change	
	Q4	Q1	Q2	Q3	Q4	Q/Q	Y/Y
Knit Garments………….	24818	24897	25252	26541	27159	2.3	9.4
Woven Garments…….	14921	13678	15561	15736	15613	-0.8	4.6
Footwear…………………	1293	1403	1165	1232	942	-23.5	-27.1
Fabrics, Yarn etc……….	1801	1803	1817	1810	1972	9.0	9.5
Construction…………….	342	359	390	357	360	0.8	5.3
Food & Beverages……….	650	696	734	711	665	3.5	13.2
Electronics…………………	1007	1030	931	955	959	0.4	-4.8
Retail………………………	109	109	146	146	152	4.1	39.4
Hotel Accommodation…..	502	663	630	630	481	-23.7	-4.2
Other……………………..	1226	1197	1217	1248	1061	-15.0	-13.5
TOTAL……………………	**46669**	**45835**	**47843**	**49366**	**49435**	**0.1**	**5.9**

Source: Lesotho National Development Corporation

The number of government employees declined further by 2.3 per cent in the quarter under review compared with a decline of 1.3 per cent in the previous quarter. The decline was a result of reduced employment levels in the categories of civil servants and teachers, while daily paid workers' employment remained unchanged. The employment of civil servants and teachers declined by 0.6 per cent and 0.3 per cent respectively.

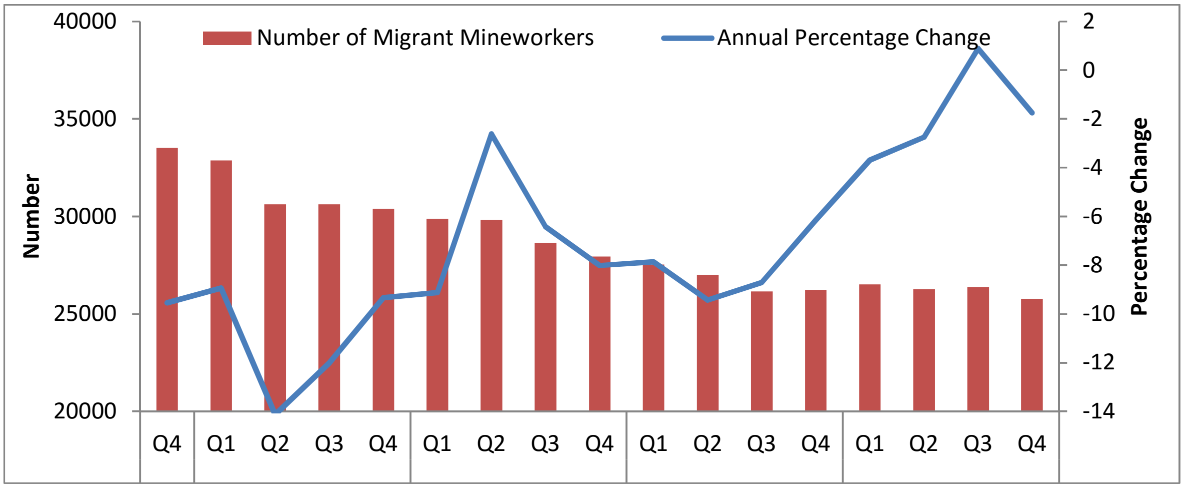
Figure 11: Government Employment *(Year-on-year Percentage Change)*



Source: Ministry of Finance

The number of Basotho migrant mine workers employed in SA mines declined by 1.7 per cent in the quarter ending in December 2017 compared with a marginal increase of 0.9 per cent in the previous quarter. The reduction in migrant mineworker's employment is in line with a 7.5 per cent reduction in the SA mining industry employment during the fourth quarter of 2017.

Figure 12: Migrant Mineworkers *(Year-on-year Percentage Changes)*



Source: The Employment Bureau of Africa (TEBA)

PRICE DEVELOPMENTS

Lesotho's inflation rate, measured as a percentage change in the Consumer Price Index (CPI) was 5.7 per cent in December 2017, a 0.1 percentage point increase from the rate observed in September 2017. The observed increase was mainly attributed to alcoholic beverages, housing, electricity, gas and other fuels, and transport and to some extent education. The above increases mainly emanated from the hike in the domestic pump prices of petrol, diesel and paraffin during the month of December which was in line with the increase in the international oil prices. The food and nonalcoholic beverages inflation moderated but still remained high at 7.2 per cent in December 2017 from 7.5 per cent in September 2017.

Table 4: Inflation Rate *(Annual Percentage Changes)*

		2017				
	Weight	Aug	Sep	Oct	Nov	Dec
All items	**1000**	**5.4**	**5.6**	**5.4**	**5.3**	**5.7**
Food and non-alcoholic beverages	361.13	7.6	7.5	7.2	7.1	7.2
Alcoholic beverages & Tobacco	33.31	4.6	4.8	5.6	6.0	6.9
Clothing & footwear	130.57	2.4	2.0	1.9	1.6	1.6
Housing, electricity gas & other fuels	123.97	5.5	6.6	7.1	6.4	8.8
Furniture, households equipment & routine maintenance	84.77	6.1	6.1	5.8	5.7	5.6
Health	15.04	0.2	0.1	0.2	0.1	0.2
Transport	48.21	-0.3	0.6	0.8	0.9	2.2
Communication	21.05	0.0	0.0	0.0	0.0	0.0
Leisure, entertainment & Culture	57.08	5.0	6.3	6.1	5.6	6.1
Education	42.00	6.4	6.6	6.7	6.9	6.9
Restaurant & Hotels	10.30	1.6	1.7	1.6	1.6	1.7
Miscellaneous goods & services	72.59	5.0	4.7	4.6	4.4	4.2

Source: Bureau of Statistics

Lesotho and SA inflation rates continued to move in the same direction in the review period, with Lesotho's inflation rate higher than that of SA. SA's inflation rate measured 4.7 per cent in December 2017 from 5.0 per cent in September 2017. The moderation in the inflation rate was at the back of a contraction in the prices of food, communication and recreation and culture.

Figure 13: Lesotho and South Africa's Inflation

Source: Bureau of Statistics, Statistics South Africa

4. Monetary and Financial Developments

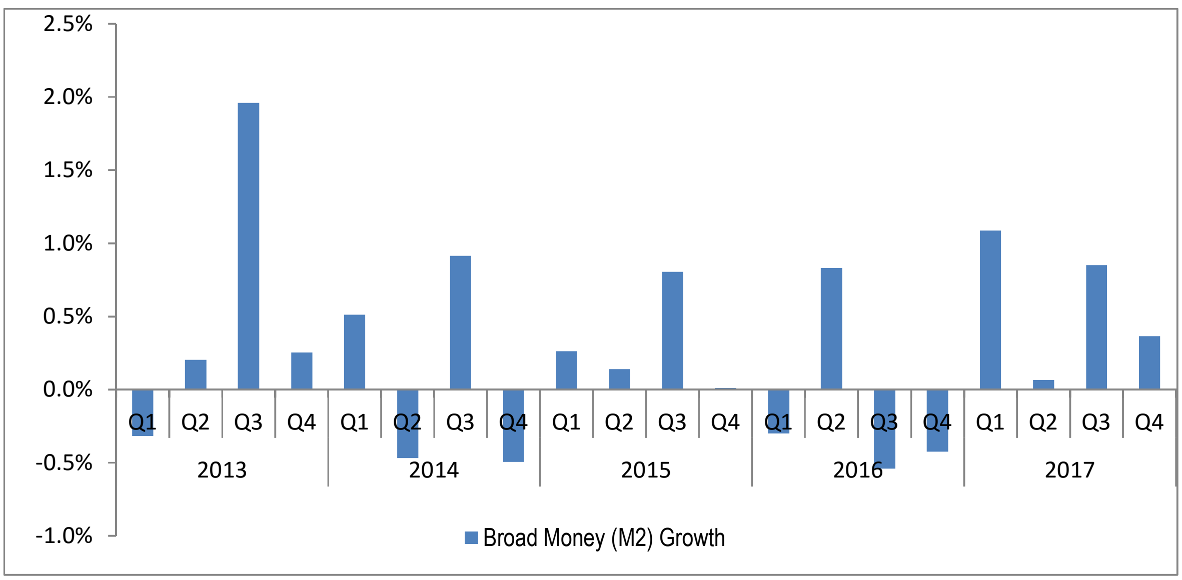
OVERVIEW

Money supply continued to increase during the review quarter albeit at a decreasing rate following growth in domestic claims moderated by a fall in overall banking sector Net Foreign Assets (NFA). Growth in domestic claims was on account of an increase in net claims on government following a drop in government deposits. The decrease in banking sector NFA was at the back of a decline in transferable as well as other deposits held with non-residents. Private sector credit maintained an upward trajectory with household credit growing at a faster pace than the growth in credit to business enterprises.

BROAD MONEY (M2)

Money supply increased but at a relatively lower rate in the quarter under review when compared to the growth registered in the previous quarter. Overall, money supply rose by 3.7 per cent in the quarter ending December 2017 relative to an 8.5 per cent increase during the quarter ending September 2017. This development was at the back of 5.1 per cent increase in domestic claims that was moderated by a 5.7 per cent decline in banking system Net Foreign Assets (NFA).

Figure 14: Broad Money (M2)



Source: Central Bank of Lesotho

Determinants of M2

Domestic Claims

Domestic claims, including net claims on government, increased by 5.1 per cent in the period under review, relative to a 9.1 per cent increase in the quarter ending September 2017. This was mainly driven by an increase in Central Bank net claims on Central Government as a result of a 5.4 per cent decline in Central Bank liabilities to Central government in the quarter ending December 2017 compared to a 12.8 per cent decline in the quarter ending September 2017. Furthermore, the fourth quarter of 2017 registered a 3.4 per cent increase in claims on private sector compared to a significantly lower increase of 0.3 per cent recorded in the third quarter of 2017. The greatest increase in claims on the private sector came from a 4.7 per cent increase in the credit to households as opposed to a 0.8 per cent increase in credit to business enterprises.

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

	2016	2017				Changes (%)	
	Dec	Mar	June	Sept	Dec	Annual	Quarterly
Domestic Claims	**3160.32**	**4848.19**	**4746.88**	**5177.01**	**5438.49**	**72.1**	**5.1**
Net Claims on Government	**-2584.01**	**-1319.06**	**-1331.60**	**-874.64**	**-770.46**	**-70.2**	**-11.9**
Commercial Banks Net Claims	**824.41**	**878.65**	**831.87**	**978.77**	**995.55**	**20.8**	**1.7**
Claims on Central Government	846.96	895.74	847.09	988.78	1002.12	**18.3**	**1.3**
Liabilities to Central Government	22.55	17.09	15.22	10.01	6.57	**-70.8**	**-34.3**
Central Bank Net Claims	**-3408.41**	**-2197.71**	**-2163.46**	**-1853.42**	**-1766.02**	**-48.2**	**-4.7**
Claims on Central Government	1106.94	1072.47	997.99	904.74	842.18	**-23.9**	**-6.9**
Liabilities to Central Government	4515.35	3270.18	3161.45	2758.15	2608.19	**-42.2**	**-5.4**
Claims on Other Sectors	**5744.32**	**6167.26**	**6078.48**	**6051.65**	**6208.96**	**8.1**	**2.6**
Claims on OFCs	79.67	325.60	167.42	120.67	77.96	**-2.1**	**-35.4**
Claims on Public Nonfinancial Corporations	0.00	0.00	0.00	0.00	0.00		
Claims on St &Local Government	0.00	0.00	0.00	0.00	0.00		
Claims on Private Sector	**5664.65**	**5841.66**	**5911.05**	**5930.98**	**6131.00**	**8.2**	**3.4**
Claims on Business Enterprises	1966.75	2102.46	2100.98	1967.76	1983.19	**0.8**	**0.8**
Claims on Households	3697.90	3739.20	3810.07	3963.22	4147.81	**12.2**	**4.7**

Source: Central Bank of Lesotho

Net Foreign Assets

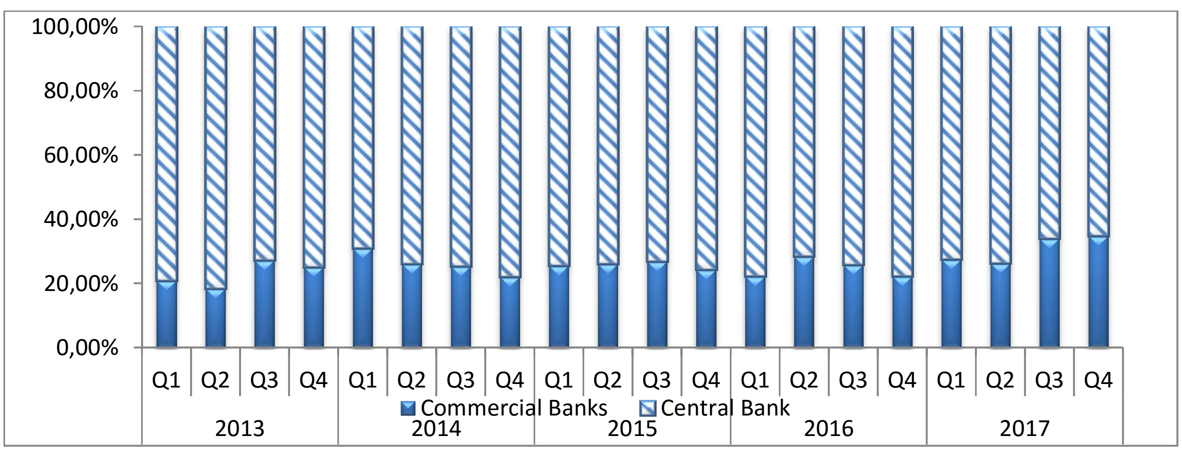
The overall banking system NFA declined by 5.7 per cent in the fourth quarter of 2017 compared to an increase of 4.2 per cent registered in the third quarter of 2017. In particular, commercial banks' NFA recorded a decline of 3.5 per cent in the quarter ending December 2017 from an increase of 34.7 per cent in the quarter ending September 2017. The decline in commercial banks' NFA was observed in their other deposits with non-residents which declined by 12.2 per cent in the review period compared to an increase of 30.4 per cent in the previous period. This decrease in commercial banks' NFA was on account of funds being recalled to finance domestic demand for credit. Similarly, the Central Bank's NFA fell by 6.9 per cent in the quarter ending December 2017 compared to a decline of 6.7 per cent in the quarter ending September 2017. This decline in Central Bank NFA was driven by a 36.7 per cent decline in transferable deposits included in official reserves which was consistent with a decline in Central Bank liabilities to Central Government.

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

	2016	2017				Changes (%)	
	Dec	Mar	June	Sept	Dec	Annual	Quarterly
Commercial Banks	**2992.48**	**3666.75**	**3479.61**	**4686.64**	**4523.72**	**51.2**	**-3.5**
Claims on Non-residents	3330.04	4057.79	3939.49	5161.44	5010.79	**50.5**	**-2.9**
Liabilities to Non-residents	337.55	391.04	459.88	474.80	487.07	**44.3**	**2.6**
Central Bank	**10381.89**	**9601.58**	**9714.91**	**9060.29**	**8435.22**	**-18.8**	**-6.9**
Claims on Non-residents	11920.42	11155.31	11222.91	10668.29	9901.86	**-16.9**	**-7.2**
Liabilities to Non-residents	1538.53	1553.73	1508.01	1608.00	1466.64	**-4.7**	**-8.8**
Net Foreign Assets Total	**13374.37**	**13268.33**	**13194.52**	**13746.93**	**12958.94**	**-3.1**	**-5.7**

Source: Central Bank of Lesotho

Figure 15: Net Foreign Assets *(percentage shares)*



Source: Central Bank of Lesotho

Components of M2

The major components of broad money (M2) are narrow money (M1) and quasi money. During the review period, M2 increased by 3.7 per cent relative to an 8.5 per cent increase during the previous period. This development was on account of an 8.1 per cent increase in quasi money in the quarter ending December 2017 which was moderated by a 0.3 per cent decline in M1 during the same period. The rise in quasi money came at the back of an 8.2 per cent increase in commercial banks' other deposits liabilities in the fourth quarter of 2017 following a 0.7 per cent decline recorded in the third quarter of 2017.

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

	2016	2017				Changes (%)	
	Dec	Mar	June	Sept	Dec	Annual	Quarterly
Broad Money (M2)	**9644.19**	**10692.01**	**10763.07**	**11678.02**	**12105.97**	**25.5**	**3.7**
Narrow Money (M1)	**4875.62**	**5253.55**	**5222.87**	**6179.57**	**6160.77**	**26.4**	**-0.3**
Currency Outside DCs	943.02	934.51	919.40	1089.67	1111.09	**17.8**	**2.0**
Transferable Deposits	3932.60	4319.04	4303.47	5089.90	5049.68	**28.4**	**-0.8**
Quasi Money	**4768.57**	**5438.45**	**5540.20**	**5498.45**	**5945.20**	**24.7**	**8.1**
Other Deposits Commercial Banks	4718.59	5391.06	5499.01	5458.60	5906.33	**25.2**	**8.2**
Other Deposits Central Bank	49.98	47.40	41.19	39.86	38.87	**-22.2**	**-2.5**

Source: Central Bank of Lesotho

CREDIT EXTENSION

Trends of Credit Extended to Business Enterprises

In the quarter ending December 2017, total credit to business enterprises increased marginally by 0.8 per cent following a 6.3 per cent decline observed during the quarter ending September 2017. The sectors that experienced increases in credit were electricity, gas and water; construction; transport, storage and communication and community, social and personal service. This increase was moderated by a decline in credit extension to agriculture; non-bank financial Institutions, real estate and business; mining; manufacturing and wholesale, retail, hotel and restaurant. The main drivers of the increase in credit extension were new loan issuances net of monthly runoffs.

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

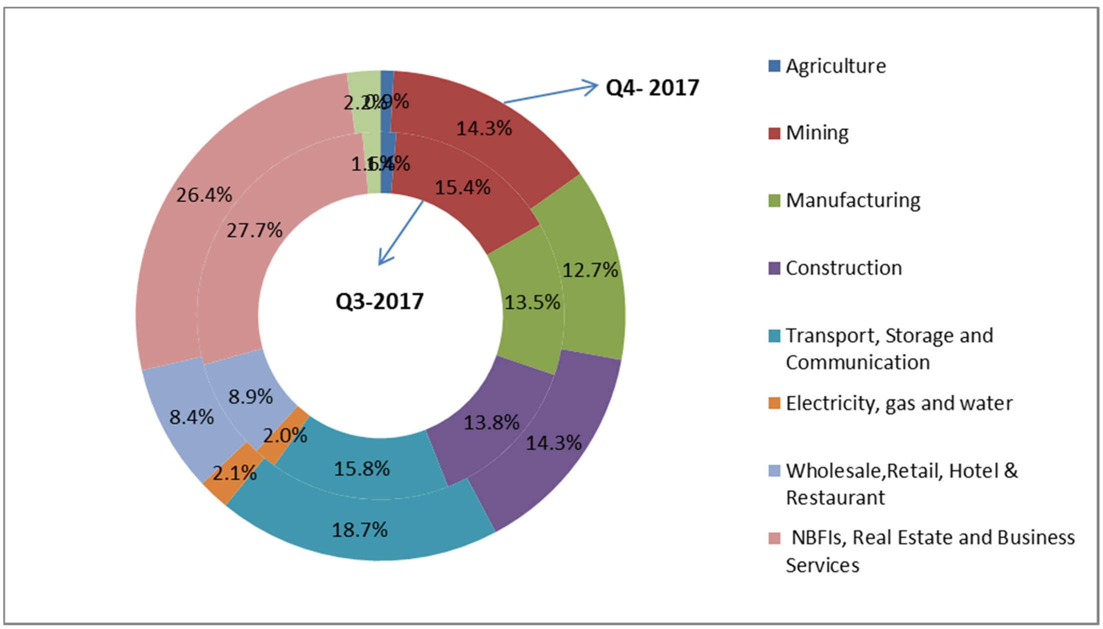
	2016	2017				Changes (%)	
SECTOR	Dec	Mar	June	Sept	Dec	Annual	Quarterly
Agriculture	25.31	26.20	22.73	26.91	16.98	**-32.9**	**-36.9**
Mining	363.84	504.98	544.27	302.99	284.14	**-21.9**	**-6.2**
Manufacturing	319.40	354.10	303.00	264.97	252.10	**-21.1**	**-4.9**
Electricity. gas and water	38.53	36.55	41.91	39.15	41.15	**6.8**	**5.1**
Construction	313.50	305.92	195.17	271.42	283.98	**-9.4**	**4.6**
Wholesale. Retail. Hotel & Restaurant	185.65	168.13	179.74	174.30	167.13	**-10.0**	**-4.1**
Transport. Storage and Communication	184.69	180.84	323.73	311.20	370.89	**100.8**	**19.2**
NBFIs. Real Estate and Business Services	509.46	499.07	465.19	545.45	522.95	**2.6**	**-4.1**
Community. Social & Personal Service	26.38	26.68	25.26	31.38	43.87	**66.3**	**39.8**
All Sectors	**1966.75**	**2102.46**	**2100.98**	**1967.76**	**1983.19**	**0.8**	**0.8**

Source: Central Bank of Lesotho

Distribution of credit Extended to Business Enterprises

Considering the allocation of credit extended to business enterprises by sector, real estate and business services received the biggest share of total credit extended to business enterprises at 26.4 per cent. This was followed by transport, storage and communication, mining, construction and manufacturing at 18.7 per cent, 14.3 per cent, 14.3 per cent and 12.7 per cent respectively. The agriculture sector continued to receive the lowest share of credit at 0.9 per cent. These developments were broadly in line with those registered in the quarter ending September 2017.

Figure 16: Distribution of Credit *(Percentage Shares)*

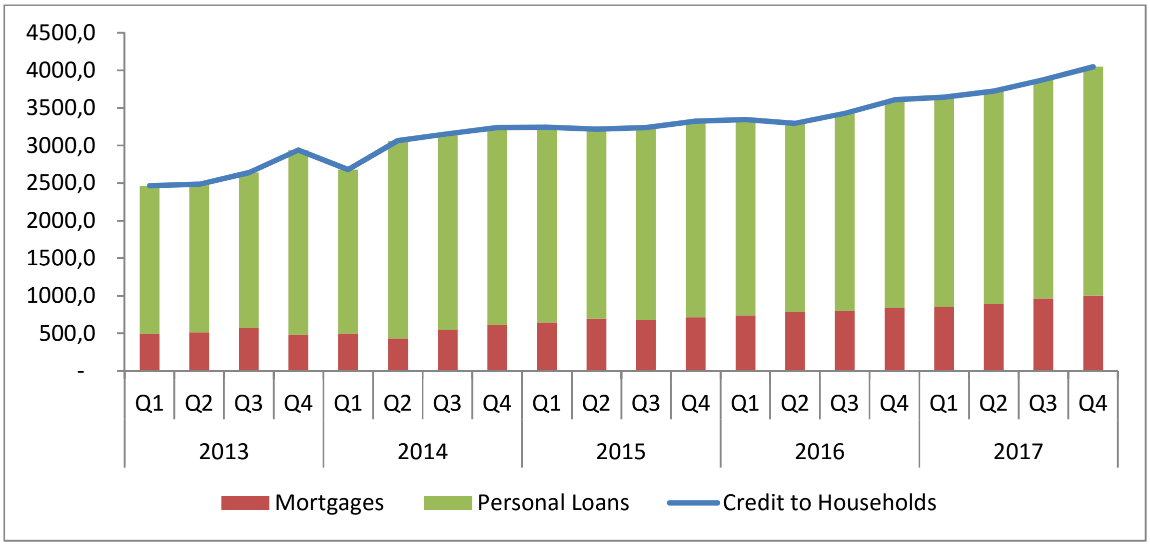


Source: Central Bank of Lesotho

Credit extended to Households

Credit to households increased by 0.8 per cent in the quarter ending December 2017 relative to a 4.1 per cent increase in the quarter ending September 2017. Specifically, mortgage loans increased by 4.4 per cent in the period under review following an increase of 7.9 per cent in the previous period. Furthermore, personal loans increased by 4.4 per cent in the fourth quarter of 2017 compared to an increase of 3 per cent in the third quarter of 2017. Personal loans continued to account for the highest proportion in total loans to households. However, the persistent higher positive percentage changes in mortgage loans reflected a steady divergence towards mortgage loans as commercial banks continue to favour more asset based loans.

Figure 17: Credit Extension to Household *(Million Maloti)*



Source: Central Bank of Lesotho

LIQUIDITY OF COMMERCIAL BANKS

Components of liquidity

Commercial banks' credit to deposit ratio declined to 55.2 per cent from a position of 55.4 per cent between the third and fourth quarter of 2017. This was as a result of 3.9 per cent increase in total deposit which outweighed 3.4 per cent increase in private sector credit. Similarly, the liquidity ratio decreased from 79.4 per cent to 74.3 per cent between the third and fourth quarters of 2017. This was due to an 11.9 per cent decline in commercial banks' balances due from banks in South Africa. Although the liquidity ratio had declined, it was still quite high and reflected excess liquidity in the banking system and challenges around financial intermediation. Thus there was a need to double efforts in execution of policies geared towards eradicating binding constraints to credit extension especially to businesses.

Table 9: Components of Liquidity *(Million Maloti)*

	2016	2017			
	Dec	Mar	June	Sept	Dec
Credit to Deposit Ratio	**64.6%**	**59.2%**	**59.5%**	**55.4%**	**55.2%**
Private Sector Credit	5584.59	5752.01	5828.32	5847.28	6045.47
Total Deposits	8651.19	9710.10	9802.47	10548.49	10956.02
Liquidity Ratio	**72.4%**	**74.9%**	**74.2%**	**79.7%**	**74.3%**
Notes and Coins	582.42	411.35	431.95	390.48	740.98
Balance due from banks in Lesotho	2127.76	1922.62	1875.00	2158.94	2157.63
Balance due from banks in SA	2533.81	3577.09	3600.58	4763.20	4198.18
Surplus funds	170.39	461.26	515.63	106.36	41.02
Government Securities	846.96	895.74	847.09	988.78	1002.12
Total	**6261.34**	**7268.06**	**7270.25**	**8407.76**	**8139.94**

Source: Central Bank of Lesotho

Commercial Banks Sources of Funds

The main sources of funds for commercial banks are deposits which comprise of transferable deposits and other deposits. Total deposits increased by 3.9 per cent during the period under review following a significant increase of 7.6 per cent in the previous period. The increase was driven by an 8.2 per cent rise in other deposits of commercial banks which was moderated by a 0.8 per cent decline in commercial banks' transferable deposits included in broad money.

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

	2016	2017				Changes (%)	
	Dec	Mar	June	Sept	Dec	Annual	Quarterly
Transferable Deposits Incl. in BM	**3932.60**	**4319.04**	**4303.47**	**5089.90**	**5049.68**	**28.4**	**-0.8**
Other Financial Corporations	38.29	61.53	34.86	33.75	36.54	**-4.6**	**8.3**
Public Nonfinancial Corporations	17.25	81.56	72.81	130.83	98.33	**470.0**	**-24.8**
Private Sector	3859.10	4157.99	4177.84	4907.35	4897.13	**26.9**	**-0.2**
Other NFCs	2299.58	2215.67	2403.05	3432.40	3480.92	**51.4**	**1.4**
Other Sectors (Households)	1559.52	1942.31	1774.79	1474.96	1416.21	**-9.2**	**-4.0**
Other Deposits Incl. in BM	**4718.59**	**5391.06**	**5499.01**	**5458.60**	**5906.33**	**25.2**	**8.2**
Other Financial Corporations	75.14	90.94	95.38	61.78	71.79	**-4.5**	**16.2**
Public Nonfinancial Corporations	94.45	419.75	426.33	406.23	345.11	**265.4**	**-15.0**
Private Sector	4549.00	4880.37	4977.30	4990.59	5489.43	**20.7**	**10.0**
Other NFCs	3022.96	3161.99	3276.23	3200.15	3673.15	**21.5**	**14.8**
Other Sectors (Households)	1526.04	1718.38	1701.06	1790.43	1816.29	**19.0**	**1.4**
Total Deposits	**8651.19**	**9710.10**	**9802.47**	**10548.49**	**10956.02**	**26.6**	**3.9**

Source: Central Bank of Lesotho

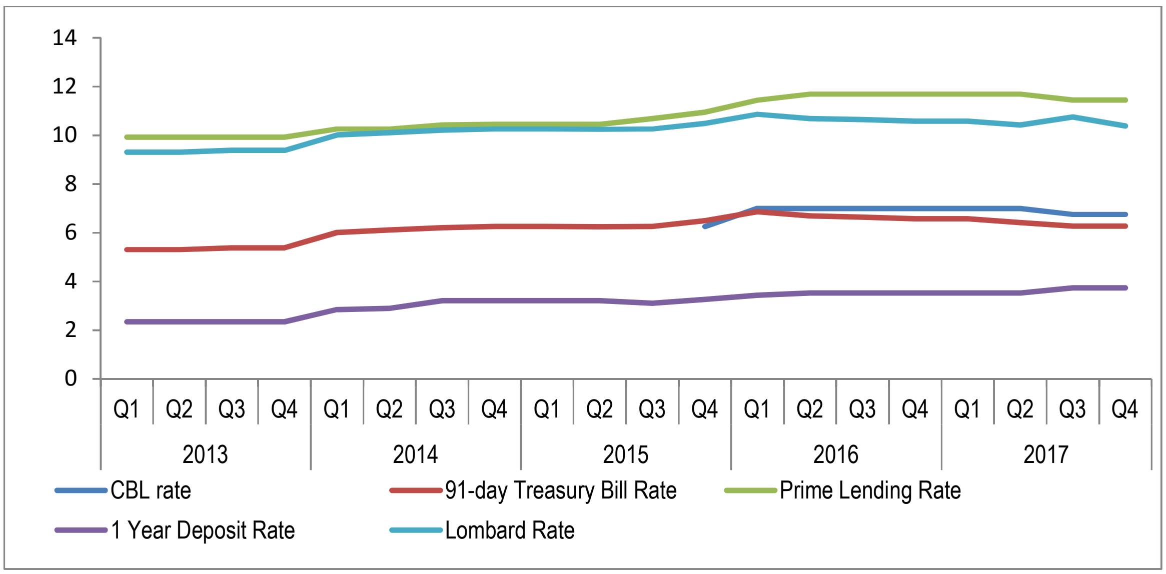
MONEY AND CAPITAL MARKET DEVELOPMENTS

Money Market

Interest Rates

The CBL policy rate remained unchanged at 6.75 per cent between the quarter ending December 2017 and the quarter ending September 2017. The prime lending rate on the other hand declined from 11.50 per cent registered in the third quarter of 2017 to 11.44 per cent in the fourth quarter of 2017. The 91 day T-bill rate and 1 year deposit rate remained unchanged at 6.27 per cent and 3.73 per cent in the period under review.

Figure 18: Short Term Interest Rates *(Per Cent per Annum)*



Source: Central Bank of Lesotho

Table 11: **Interest rates**

	2016	2017			
	Dec	Mar	June	Sept	Dec
Central Bank					
CBL rate	7	7	7	6.75	6.75
T-Bill Rate - 91 days	6.58	6.57	6.42	6.27	6.27
Lombard Rate	10.58	10.57	10.42	10.27	10.27
Commercial Banks					
Call	1.19	1.19	1.19	1.06	1.06
Time:					
31 days	0.44	0.44	0.44	0.36	0.36
88 days	1.12	1.12	1.12	1.31	1.31
6 months	2.53	2.53	2.53	2.45	2.45
1 year	3.52	3.52	3.52	3.73	3.73
Savings	0.56	0.56	0.56	0.76	0.76
Prime	11.69	11.69	11.69	11.50	11.44
South Africa					
Repo	7.00	7.00	7.00	6.75	6.75
T-Bill Rate - 91 days	7.61	7.29	7.33	7.07	7.60
Marginal Lending Rate					
Prime	10.50	10.50	10.50	10.25	10.25

Source: Central Bank of Lesotho

Holding of Treasury Bills and T-Bill rates

The fourth quarter of 2017 recorded an increase of 10.4 per cent in holding of Treasury Bills (T-Bills), compared to an increase of 8.7 per cent in the third quarter of the year. The banks' holding of T-Bills was 65.9 per cent of total T-Bills. In the quarter under review, total T-Bills held by the banking sector increased by 16.9 per cent while the holdings by non-banks declined by 0.3 per cent. The yield rate on 91 days T-Bills slightly remained the same at 6.37 per cent quarter-on-quarter.

Table 12: Holding of Bills and Yields *(Million Maloti)*

	2016		2017			
	Sept	Dec	Mar	Jun	Sept	Dec
Treasury Bills	**601.59**	**606.36**	**603.87**	**603.52**	**656.29**	**724.70**
Banking System	387.23	395.2	372.64	372.32	408.81	477.88
Non-Bank Sector	214.36	211.16	231.24	231.19	247.48	246.82
Memorandum Item						
Yield Bills (91-days)	6.75	6.69	6.68	6.52	6.37	6.37

Source: Central Bank of Lesotho

Holding of Treasury Bonds and T-Bonds Rates

Total stock of government bonds increased by 6.3 per cent from M900.95 million in the third quarter, to M957.84 million in the fourth quarter. The holding of Treasury bonds by the banking system increased by 2.2 per cent in the quarter under review from an increase of 8.9 per in the previous quarter. The non-bank's holding of treasury bonds increased by 11.7 per cent in the quarter ending December 2017 compared to a higher increase of 38.4 per cent in the third quarter of 2017.

Table 13: Holding of Bonds *(Million Maloti)*

	2016		2017			
	Sept	Dec	Mar	Jun	Sep	Dec
Holding of Treasury Bonds	**714.5**	**734.5**	**752.5**	**751.5**	**900.95**	**957.84**
Banking System	469.48	466	471.29	472.12	514.34	525.89
Non-Bank Sector	245.03	268.5	281.21	279.39	386.61	431.96

Source: Central Bank of Lesotho

The holding of treasury bonds during the review period comprised the 7 year treasury bonds and the 10 year treasury bonds, with the maturity dates ranging from 2019 to 2027.

Table 14: Treasury bonds Maturity Dates and Coupon

Maturity Date	Coupon rate	Tenure
2019/02/13	8.50	7 years
2022/10/11	8.00	7 years
2025/10/07	9.00	10 years
2021/06/22	10.00	10 years
2027/09/13	11.00	10 years

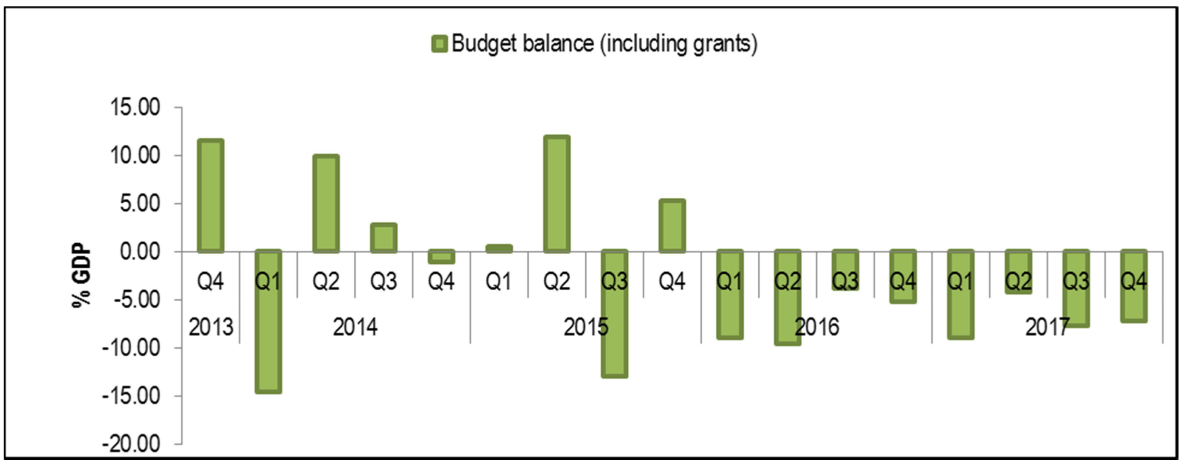
Source: Central Bank of Lesotho

5. Government Finance

OVERVIEW

Government budgetary operations resulted in a fiscal deficit of 6.0 per cent of GDP during the quarter ending in December, 2017 compared with a revised 6.4 per cent of GDP deficit recorded in September, 2017. Total expenditure was estimated at 50.8 per cent of GDP in the quarter ending in December, 2017 which was higher than the revised 48.0 per cent in the previous quarter. Total revenue stood at 44.8 per cent of GDP, following a revised 41.2 per cent registered in the previous quarter. The stock of public debt, as percentage of GDP declined from the revised 37.3 per cent in September to 35.6 per cent in the fourth quarter. 2017. The quarterly fiscal deficit was financed by issuance of Treasury bonds, and drawdown of government deposits with the banking system.

Figure 19: Fiscal Balance *(Per cent of GDP)*

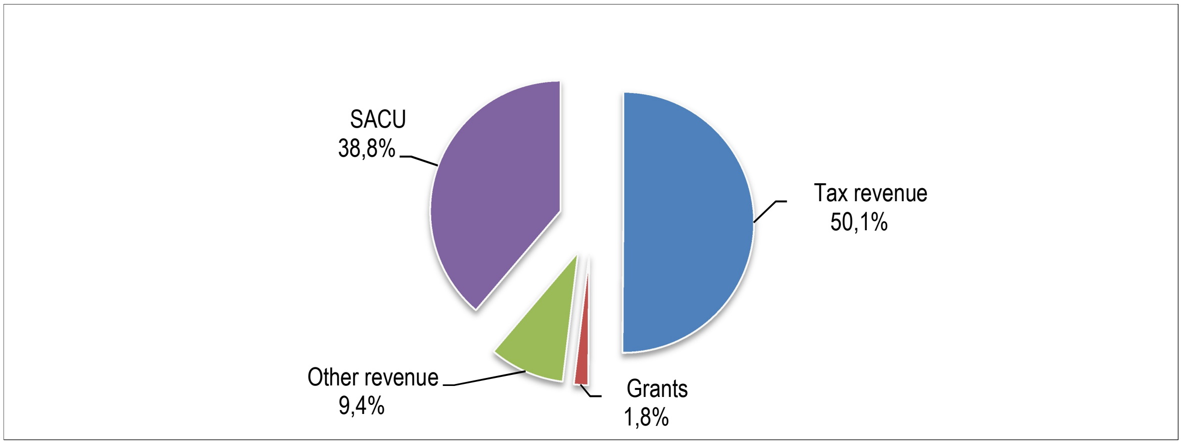


Source: Central Bank of Lesotho (CBL) and Ministry of Finance (MOF)

REVENUE

The total revenue increased by 8.7 per cent in the quarter under review compared with a 5.8 per cent rise in the quarter ending in September, 2017. The increase in revenue emanated from income tax collections which went up by 24.5 per cent while value added tax receipts grew by 33.4 per cent. The significant growth was realised under 'other non-tax revenue' as a result of royalties from mining.

Figure 20: Total Revenue *(Million Maloti)*

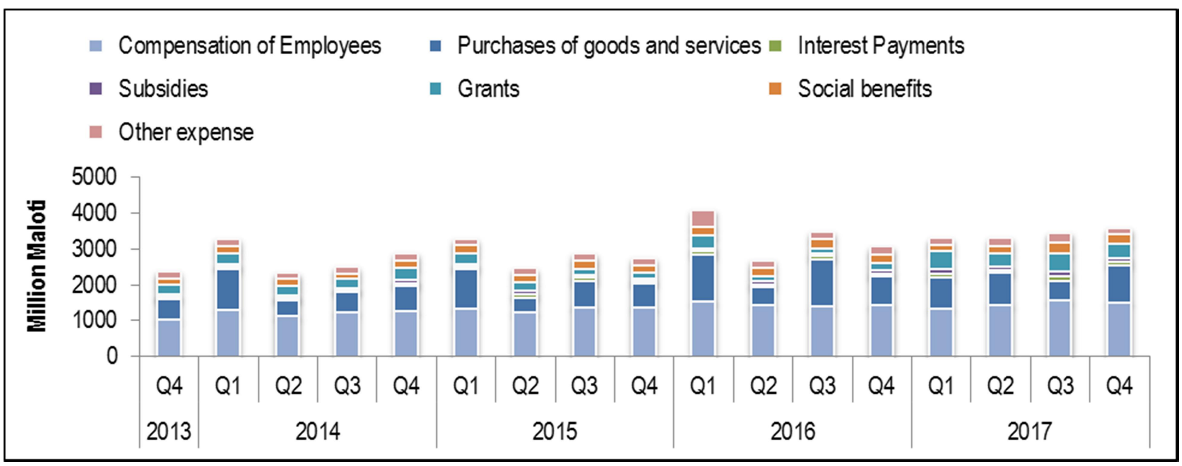


Source: CBL and MOF

TOTAL EXPENDITURE

The total expenditure, which comprises expenses and nonfinancial assets, were estimated to have increased by 6.8 per cent during the period under review. This was lower than the 12.3 per cent rise in spending recorded in the third quarter of 2017. The rise in total expenditure was a result of a 4.3 per cent increase in expenses, coupled with the 16.4 per cent surge in nonfinancial assets. The observed increase was largely explained by a rise in purchases of goods and services during the period under review, as well as acceleration in implementation of some capital projects.

Figure 21: Total Expense *(Million Maloti)*



Source: CBL and MOF

Table 15: Statement of Sources and Uses of Cash *(Million Maloti)*

	2016	2017				Q-to-Q (%)	GDP ratio (%)
	Q4	Q1	Q2	Q3	Q4		
Total Revenue	***3,306.33***	***3,081.64***	***3,450.46***	***3,650.19***	***3,969.41***	***8.7***	***44.8***
Tax revenue	*1,582.53*	*1,642.74*	*1,460.88*	*1,604.60*	*1,988.90*	*23.9*	*22.4*
O/W Income Tax	*866.65*	*839.67*	*775.11*	*868.01*	*1,080.43*	*24.5*	*12.2*
O/W Value Added Tax	*587.13*	*429.77*	*513.47*	*540.98*	*721.72*	*33.4*	*8.1*
Grants	*209.55*	*56.66*	*77.98*	*57.96*	*70.72*	*22.0*	*0.8*
Other revenue	*384.51*	*252.50*	*373.05*	*449.08*	*371.23*	*-17.3*	*4.2*
SACU receipts	*1,129.74*	*1,129.74*	*1,538.55*	*1,538.55*	*1,538.55*	*0.0*	*17.4*
Total Expense	***3,061.56***	***3,305.43***	***3,244.68***	***3,336.48***	***3,478.82***	*4.3*	***39.3***
Compensation of Employees	*1,449.11*	*1,346.24*	*1,453.73*	*1,559.32*	*1,520.63*	*-2.5*	***17.2***
Purchases of goods and services	*796.58*	*849.71*	*808.27*	*449.96*	*923.53*	105.2	*10.4*
O/W Health Services			*291.03*	*242.57*	*146.06*	-	-
O/W Elections	*0.00*	*268.04*	*0.00*	*0.00*	*229.11*	-	-
Interest Payments	*65.48*	*120.06*	*75.78*	*118.51*	*89.26*	*-24.7*	*1.0*
Subsidies	*117.24*	*140.50*	*101.32*	*132.74*	*116.26*	*-12.4*	*1.3*
Grants	*187.39*	*481.52*	*357.42*	*516.97*	*403.20*	*-22.0*	*4.6*
Social benefits	*238.57*	*182.08*	*202.02*	*292.22*	*261.72*	*-10.4*	*3.0*
Other expense	*216.03*	*185.31*	*246.14*	*266.75*	*164.20*	*-38.4*	*1.9*
Net Cash Inflow From Operating Activities	***244.78***	***-223.79***	***205.78***	***313.72***	***490.59***	**-**	***5.5***
Total Nonfinancial Assets	***654.90***	***573.10***	***507.94***	***879.15***	***1,023.58***	***16.4***	***11.6***
Fixed Assets	*654.90*	*573.10*	*507.94*	*879.15*	*1,023.58*	***16.4***	***11.6***
Non-Produced Assets	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.0*	*0.0*
Cash deficit(-)/surplus(+)	***-410.12***	***-796.89***	***-302.16***	***-565.43***	***-532.99***	**-**	***-6.0***
Net Cash Inflow From Financing Activities	***266.37***	***1,246.12***	***87.87***	***663.72***	***110.56***	**-**	***1.2***
Net Acquisition of Financial assets	*337.38*	*1,249.65*	*110.60*	*401.93*	*153.39*	-	*1.7*
Net Incurrence of Liabilities	*-71.01*	*-3.53*	*-22.74*	*261.79*	*-42.84*	-	*-0.5*
Statistical Discrepancy	*-143.76*	*449.23*	*-214.29*	*98.29*	*-422.43*	-	*-4.8*

Source: CBL and MOF

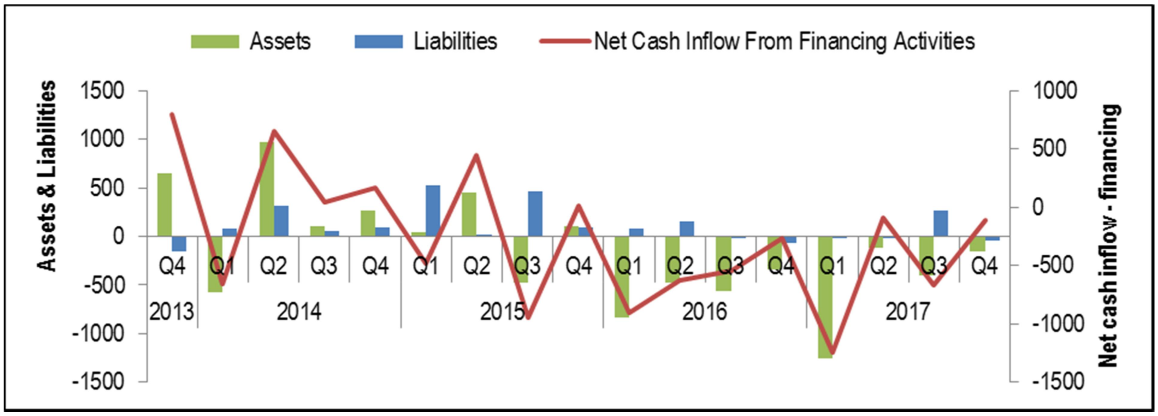
FINANCIAL ASSETS AND LIABILITIES[2]

The 'net cash inflow from financing activities'[3] plunged by 83.3 per cent during the quarter under review. The main contributing factors to this reduction included a fall under both financial assets and liabilities, where the former dropped by M153.39 million. Domestic debt worth M123.98, million in the form of Treasury bills and bonds was issued during the period. The bonds were issued to finance the fiscal deficit, while treasury bills were issued for monetary policy operations, and to deepen financial markets in the economy.

[2] All categories are on net terms.

[3] According to 2001 manual of Government Finance Statistics (GFSM 2001) of the IMF, this category entails how the Government budgetary operations were financed based on cash-basis method of recording. It refers to the 'total financing' in the previous GFSM 1993.

Figure 22: Net Cash Inflow from Financing Activities *(Million Maloti)*



Source: CBL and MOF

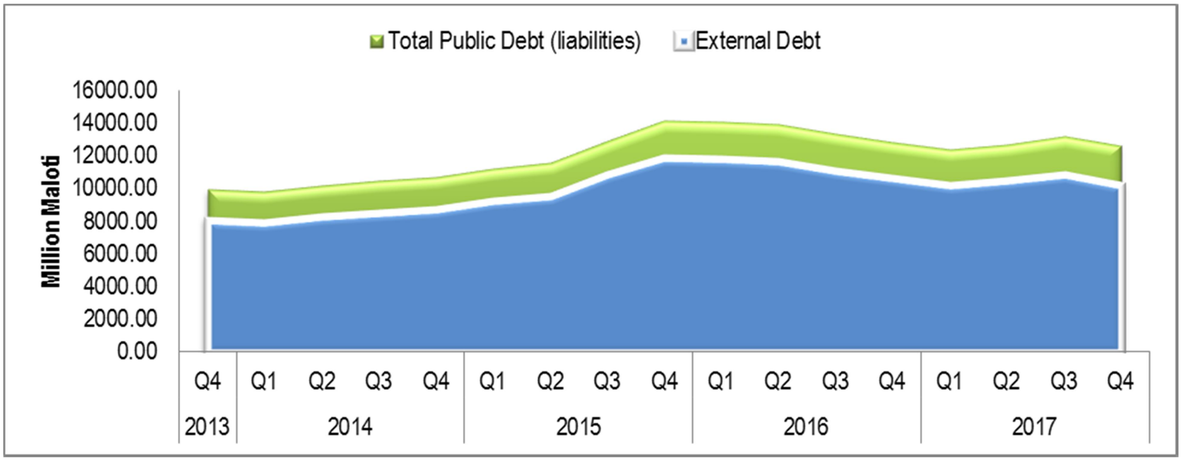
TOTAL PUBLIC DEBT[4]

The total stock of outstanding public debt declined to 35.6 per cent of GDP at the end of the quarter ending in December 2017, from the revised 37.3 per cent of GDP in the quarter ending in September, 2017. It declined by 4.7 per cent during the quarter under review relative to a 4.5 per cent increase that was recorded in the third quarter of 2017. This decrease in the stock was attributable to exchange rate gains realised in December 2017, which surpassed the marginal increase in domestic debt.

The level of external debt declined as a result of the appreciation of the Loti against major foreign currencies in which external debt was denominated. In addition the level of amortisation was higher than disbursements, thus, contributing to the reduction in the external debt stock. Domestic debt increased marginally by 0.6 per cent during the fourth quarter of 2017 following the 9.6 per cent rise observed in the third quarter of 2017. The rise in domestic debt stock reflected M55.95 million of new debt on Treasury bonds[5].

[4] All categories are on net terms.
[5] About M150.00 million of Treasury bonds was issued in the third quarter of 2017.

Figure 23: Outstanding Public Debt *(Million Maloti)*



Source: CBL and MOF

Table 16: Public Debt Stock *(Million Maloti)*

	2016				2017	Debt/GDP (%)	
	Q4	Q1	Q2	Q3	Q4	Q3-2017	Q4-2017
Total Public Debt	***12,821.02***	***12,389.40***	***12,648.66***	***13,222.37***	***12,603.83***	**34.96**	**35.57**
EXTERNAL DEBT	***10,598.93***	***10,195.03***	***10,449.56***	***10,811.44***	***10,177.59***	**30.51**	**28.72**
Bilateral Loans	*972.95*	*905.47*	*906.50*	*921.16*	*845.74*	2.60	2.39
Concessional	*972.95*	*905.47*	*906.50*	*921.16*	*845.74*	2.60	2.39
Non-concessional	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	0.00	0.00
Multilateral Loans	*8,862.54*	*8,567.51*	*8,804.65*	*9,138.48*	*8,678.97*	25.79	24.49
Concessional	*7,209.56*	*6,923.38*	*7,160.36*	*7,497.03*	*7,053.89*	21.16	19.91
Non-concessional	*1,652.99*	*1,644.13*	*1,644.30*	*1,641.45*	*1,625.08*	4.63	4.59
Financial Institutions	*0.60*	*0.60*	*0.54*	*0.54*	*0.34*	0.00	0.00
Concessional	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	0.00	0.00
Non-concessional	*0.60*	*0.60*	*0.54*	*0.54*	*0.34*	0.00	0.00
Suppliers' Credit	*762.83*	*721.44*	*737.87*	*751.28*	*652.54*	2.12	1.84
DOMESTIC DEBT	***2,222.09***	***2,194.38***	***2,199.10***	***2,410.92***	***2,426.25***	**6.80**	**6.85**
Banks	*1,742.43*	*1,681.93*	*1,688.51*	*1,776.83*	*1,747.47*	5.01	4.93
Long-term	*1,347.23*	*1,309.24*	*1,316.06*	*1,367.64*	*1,269.59*	3.86	3.58
Treasury bonds	*466.39*	*471.68*	*472.51*	*515.28*	*525.89*	1.45	1.48
Central Bank (IMF-ECF)	*880.84*	*837.56*	*843.55*	*852.36*	*743.70*	2.41	2.10
Short-term (T-bills)	*395.20*	*372.69*	*372.46*	*409.19*	*477.88*	1.15	1.35
Non-bank	*479.66*	*512.45*	*510.58*	*634.09*	*678.78*	1.79	1.92
Short-term (T-bills)	*211.16*	*231.24*	*231.20*	*247.48*	*246.82*	0.70	0.70
Long-term (t-bonds)	*268.50*	*281.21*	*279.39*	*386.61*	*431.96*	1.09	1.22

Source: CBL and MOF

6. Foreign Trade and Payments

OVERVIEW

The overall balance of payments recorded a deficit equivalent to 10.5 per cent of GDP during the quarter under review compared with a surplus equivalent to 3.4 per cent of GDP in the quarter ending in September 2017. The observed deficit resulted mainly from the widening of the current account deficit together with the worsening financial account balance. The unfavourable performance of the current account balance was on account of the worsening trade account deficit while the deterioration in the financial account emanated from a reduction in net foreign assets of both the central bank and the commercial banks.

CURRENT ACCOUNT

During the last quarter of 2017, the current account deficit expanded further relative to the previous quarter. As a percentage of GDP, the current account balance registered a deficit of 6.5 per cent compared with a deficit of 3.9 per cent in the preceding quarter. The widened deficit of the current account resulted mainly from the poor performances of the goods account and a slight deterioration of the services account balance. The goods account deficit expanded by 16.8 per cent during the fourth quarter of 2017, after it shrank by 17.0 per cent in the quarter ending in September 2017. The observed performance of the goods account emanated from a decline in merchandise exports and an increase in merchandise imports during the same quarter. However, the primary and secondary income account surpluses rose during the quarter under review and partly offset the negative impact of the goods and services accounts on the current account. The surplus on the primary income account rose by 15.5 per cent in the fourth quarter of 2017, higher than 12.0 per cent in the previous quarter. The secondary income account registered a surplus expansion of 1.5 per cent following a decline of 2.5 per cent in the preceding quarter.

Table 17: Current Account Balance *(Million Maloti)*

	2016	2017				% Changes	
	Q4	Q1	Q2	Q3*	Q4+	Q/Q	Y/Y
Current Account	**-827.68**	**-703.44**	**-607.27**	**-349.01**	**-573.57**	**64.3**	**-30.7**
(a) Goods	-2552.37	-2636.86	-2861.63	-2375.50	-2774.27	**16.8**	**8.7**
Merchandise exports, f.o.b.	3104.90	2953.31	3335.20	3813.34	3599.71	**-5.6**	**15.9**
Of which diamonds	576.25	870.27	1176.54	1199.54	1431.08	**19.3**	**148.3**
Of which textiles & clothing	1797.59	1462.67	1469.87	1875.43	1483.59	**-20.9**	**-17.5**
Of which re-exports	25.07	14.15	13.41	50.87	59.48	**16.9**	**137.3**
Other exports	705.99	606.22	675.38	687.50	625.56	**-9.0**	**-11.4**
Merchandise imports, f.o.b.	5657.27	5590.17	6196.83	6188.84	6373.98	**3.0**	**12.7**
(b) Services	**-988.33**	**-993.84**	**-1023.54**	**-1054.21**	**-1078.10**	**2.3**	**9.1**
(c) Primary Income	**1106.23**	**1076.56**	**1224.71**	**1079.27**	**1246.56**	**15.5**	**12.7**
(d) Secondary Income	**1606.80**	**1850.71**	**2053.19**	**2001.43**	**2032.25**	**1.5**	**26.5**

+ Preliminary

*** Revised**

Source: Central Bank of Lesotho

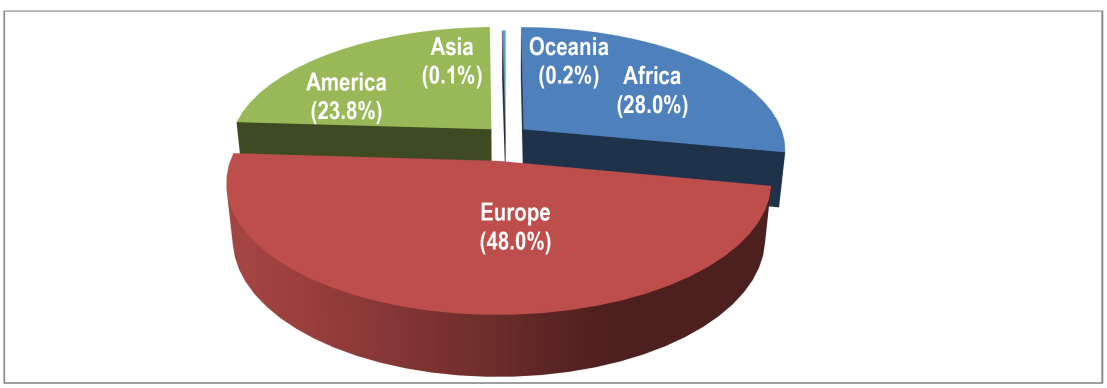
Merchandise Exports

Merchandise exports declined by 5.6 per cent during the last quarter of 2017, following a 14.3 per cent increase in the previous quarter. The observed downturn in merchandise exports reflected reduced exports of clothing and textiles as well as agricultural products. The lower clothing and textiles orders from the US, together with the Rand/Dollar exchange rate appreciation during the quarter under review weighed heavily on textiles and clothing exports. In addition, agricultural exports fell as vegetables exported to South Africa fell on account of the favorable weather conditions in South Africa, especially in the Western areas. Nevertheless, diamond exports continued to show robust growth during the quarter under review and therefore moderated the impact of the fall in textiles and clothing and agricultural exports. Diamond exports grew by 19.3 per cent after a slight increase of 2.0 per cent in the third quarter of 2017. The increase resulted from increased sales by one of the diamond mines which discovered high valued carats during that quarter. On an annual basis, merchandise exports rose by 15.9 per cent following a fall of 10.0 per cent in the fourth quarter of 2016. As a share of GDP, merchandise exports registered 43.0 per cent in the fourth quarter of 2017 compared to 40.6 per cent in the third quarter of 2017.

Direction of Trade - Exports

During the quarter ending in December 2017, the European market outperformed other markets and became a major recipient of Lesotho's exports. Exports destined to Europe constituted 48.0 per cent of all exports during the quarter under review compared to a share of 32.3 per cent in the previous quarter. Diamond exports comprised the biggest share of exports to Europe reflecting higher sales from one of the diamond mines during the quarter. Africa became the second largest destination of Lesotho's exports, with a share of 28.0 per cent, down from 37.9 per cent in the previous quarter. The third largest recipient of Lesotho's exports was the American market, which accounted for 23.8 per cent of Lesotho's exports compared to 28.8 per cent in the quarter ending in September 2017. Just as in the previous quarter, Asia and Oceania accounted for the minimum shares of 0.1 per cent and 0.2 per cent respectively.

Figure 24: Direction of Merchandise Exports *(Percentage Share)*



Source: Central Bank of Lesotho

Merchandise Imports

During the quarter under review, merchandise imports rose by 3.0 per cent following a 0.1 per cent fall in the quarter ending in September 2017. The increase was attributable to higher imports of prepared food stuffs, machinery and chemicals from the Republic of South Africa, where Lesotho imports the biggest share of both consumption and investment goods. On an annual basis, merchandise imports rose by 12.7 per cent in the fourth quarter of 2017 following a 10.0 per cent fall in the last quarter of 2016. As a percentage of GDP, merchandise imports accounted for 71.9 per cent following a share of 69.9 per cent in the third quarter of 2017.

Services

Lesotho continued to be a net importer of services during the quarter under review. The deficit on the services account worsened by 2.3 per cent during the same quarter compared with an expansion of 3 per cent in the preceding quarter. Payments for transportation, particularly air fares, continued to increase and remained the main driver behind the services account deficit during the quarter under review. The annualized services account deficit expanded by 9.1 per cent in the quarter ending in December 2017 after it widened by 37.0 per cent in the last quarter of 2016. As a percentage of GDP, the services account deficit accounted for 12.2 per cent compared with 11.9 per cent in the previous quarter.

Primary Income

The primary income account surplus increased by 15.5 per cent in the fourth quarter of 2017, after it contracted by 12.0 per cent in the previous quarter. The improvement in the primary income account surplus emanated from higher receipts by the Central Bank of Lesotho for investments held abroad. Moreover, interest payments for government loans held abroad fell during the quarter under review and therefore had a positive impact on the primary income account surplus. However, the surplus on primary income account balance was moderated by the fall in LHDA receipts for maintenance of operational costs, as well as a fall in interest receipts accrued to commercial banks during the same quarter. Year on year, the primary income account surplus rose by 12.7 per cent after increasing by 4.3 per cent in the quarter ending in December 2016. Relative to GDP, the primary income account surplus stood at 14.1 per cent in the last quarter of 2017, compared with 12.2 per cent of GDP in the third quarter of 2017.

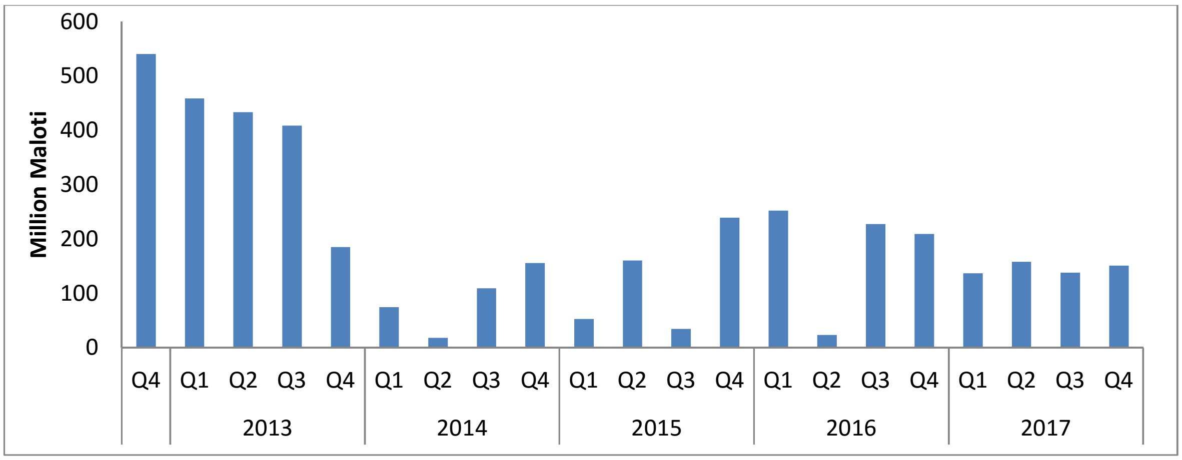
Secondary Income

The secondary income account surplus rose slightly by 1.5 per cent during the quarter under review, after a 2.5 per cent fall in the quarter ending in September 2017. The increase in the surplus was influenced mainly by a reduction in subscriptions to international organisations. SACU receipts, which account for the largest proportion of current transfers, remained unchanged during the quarter ending in December 2017. On an annual basis, the secondary income account surplus grew by 26.5 per cent in the last quarter of 2017 compared to a fall of 21.0 per cent in the last quarter of 2016. Relative to GDP, the secondary income account surplus constituted 22.9 per cent in the quarter under review, compared with 22.6 per cent of GDP in the preceding quarter.

CAPITAL ACCOUNT

The capital account continued to register net inflows in the quarter under review. The capital account net inflows registered an increase of 9.2 per cent from M138.55 million in the quarter ending in September 2017 to M151.20 million in the last quarter of 2017. The observed inflows were supported mainly by grants provided to the government for infrastructure related projects. The LHDA transfers for activities related to phase II of the Lesotho Highlands Water Project remained unchanged during the quarter under review. Relative to GDP, the capital account inflows were equivalent to 10.7 per cent in the quarter ending in December 2017 compared to 9.8 per cent of GDP in the quarter ending in September 2017.

Figure 25: Capital Account *(Million Maloti)*

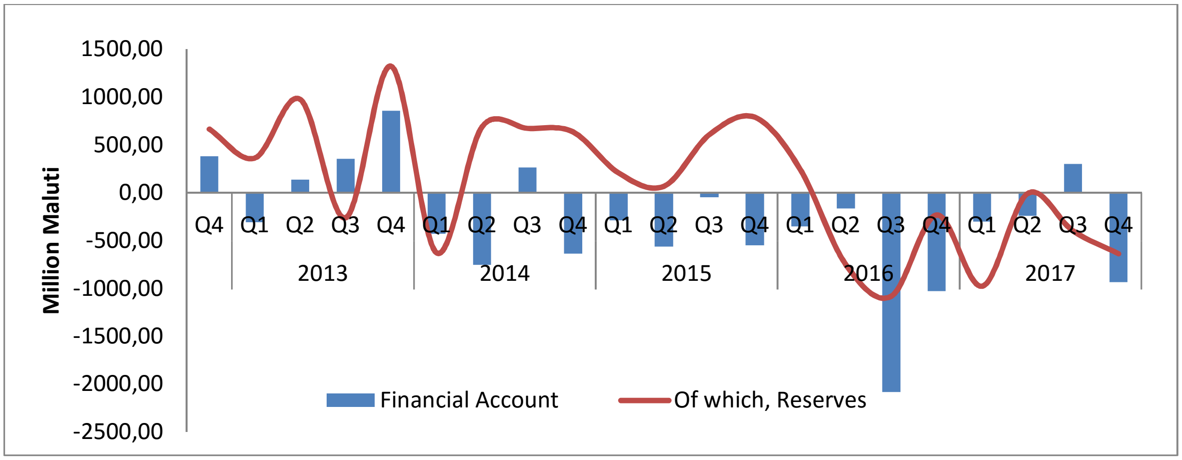


Source: Central Bank of Lesotho

FINANCIAL ACCOUNT

During the quarter under review, the financial account registered a deficit of M931.63 million, equivalent to 10.5 per cent of GDP, in the quarter under review compared to a surplus of M300.7 million, equivalent to 3.4 per cent of GDP in the preceding quarter. The deficit in the financial account was primarily driven the decline in commercial banks' net foreign assets during quarter under review. Specifically, commercial banks recorded an inflow equivalent to 1.7 per cent of GDP in contrast with an outflow equivalent to 13.8 per cent of GDP in the previous quarter. In addition, the weaker performance of the financial account was further influenced by the drop in official reserves during the quarter under review. Nonetheless, the observed performance of the financial account was partly offset by the reduction in government's net borrowing from abroad.

Figure 26: Financial Account *(Million Maloti)*

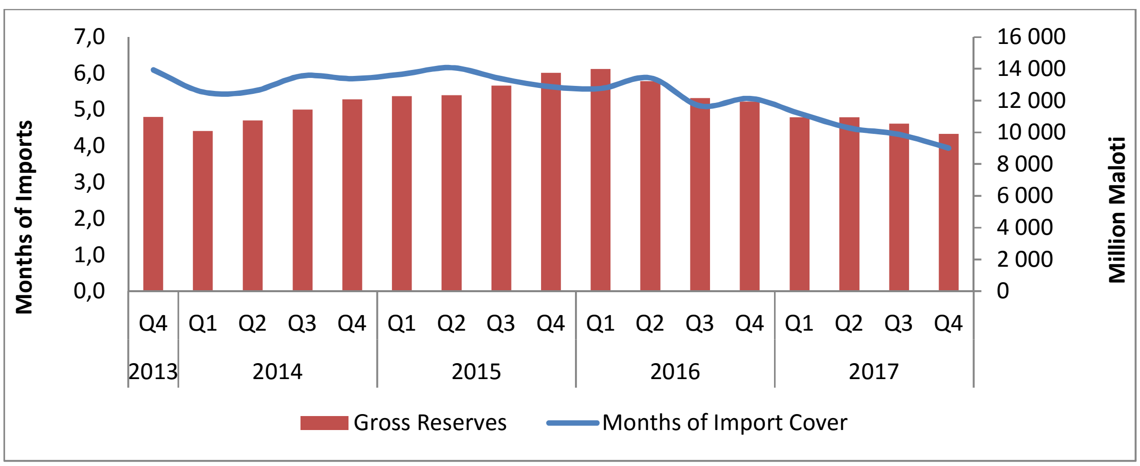


Source: Central Bank of Lesotho

RESERVE ASSETS

The overall deficit was financed by running down international reserves. As a result gross international reserves dropped further by 6.0 per cent in the last quarter of 2017 following a 3.6 per cent decline in the quarter ending in September 2017. The import coverage of gross official reserves declined to 3.9 months of import cover from 4.3 months of import cover in the preceding quarter.

Figure 27: Reserve Assets



Source: Central Bank of Lesotho