

# **CENTRAL BANK OF LESOTHO**

## **QUARTERLY REVIEW**

**JUNE**

**2015**

**MASERU**

**KINGDOM OF LESOTHO**

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## 1. Executive Summary

Global economic activity remained largely subdued during the second quarter of 2015. While most advanced economies registered positive economic growth with exception of Japan, economic activity in emerging economies largely remained under strain. Acceleration in investment coupled with rebound in consumption supported positive growth in the US while Euro Area growth mainly benefited from a robust growth in Italy. On the contrary, recession in Japan was against the backdrop of sluggish consumer spending, poor performance of exports and adverse weather conditions. In terms of monetary policy, most economies maintained accommodative monetary policy as growth stimulus.

During the quarter under review, the domestic economic activity continued on the downwards trajectory. Economic activity, as measured by Economic Activity Indicator (EAI), declined by 10.2 per cent during the second of 2015 compared to a fall of 1.6 per cent recorded during the previous quarter. This weak performance is ascribed to lower performance by government and construction subsectors. In spite of this overall poor performance, subsectors such as mining and manufacturing remained resilient during the quarter under review as they registered significant positive growth rates. Employment by LNDC assisted companies increased moderately by 1.1 per cent against a marginal decline of 0.4 per cent during the previous quarter. On the other hand, employment by government fell by 1.0 per cent during the quarter under review compared to a marginal growth of 0.2 per cent in the first quarter of 2015.

Money supply grew albeit at a muted pace during the second quarter of 2015. On quarterly basis, money supply grew by 1.4 per cent during the quarter ending June 2015 compared to growth of 2.6 per cent during the previous quarter. This is attributable to a fall in domestic claims moderated by growth in net foreign assets (NFA). Following slow budget execution by government, there was a build-up of government deposits and thus a fall in domestic claims that was moderated by a rebound in private sector credit. In terms of NFA, growth commercial banks deposits prompted them to invest surplus funds in South African money markets thus boosting the banks foreign assets. In the same vein, Central Bank NFA grew as a result of slow spending by government.

During the second quarter of 2015, the external sector registered a relatively narrow surplus compared to that of the previous quarter. The overall balance recorded a surplus equivalent to 1.2 per cent of GDP in the review quarter against a surplus of 3.3 per cent of GDP in the previous quarter. This was at the back of narrowing of current account deficit which was supported by increase in income account as well as lower payments for services acquired abroad.

## 2. International Economic Developments

During the second quarter of 2015, global economic activity remained subdued. Positive economic growth was realized for the United States (US), the Euro Area, and the United Kingdom (UK), while the Japanese economy shrank. The underlying drivers for growth in the US were acceleration in investment as well as private and state consumption. Economic recovery in the Euro Area was supported by a robust growth in Italy. The recession in Japan reflected low consumer spending and exports due to low external demand and adverse weather conditions. Growth in the UK was held back mainly by lower output in the agricultural sector. While China continued on its rebalancing path with a stable growth rate, economic activity in India slowed down due to lower output in agricultural and manufacturing sectors.

Oil prices rebounded, more than expected; reflecting higher demand and expectations that oil production growth in the United States will fall faster than previously forecast. Higher oil and food prices translated into a pickup inflation rates both in advanced and emerging economies. Accommodative monetary policies continued to support economic activity and lift inflation back up in most advanced economies. Among the EMEs, China and India cut their key interest rates in an effort to support economic activity.

**Table 1: Key World Economic Indicators**

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	2014	2015	2014	2015	2014	2015	2014	2015
	QI	QII	QI	QII	QI	QII	QI	QII
United States	0.6	2.3	-0.1	0.2	0.25	0.25	5.5	5.3
Euro Area	1.0	1.5	-0.1	0.2	0.05	0.05	11.3	11.1
Japan	3.9	-1.2	2.3	0.4	0.00	0.00	3.4	3.4
United Kingdom	2.9	2.6	0.0	0.0	0.50	0.50	5.5	5.6
China	7.0	7.0	1.4	1.4	5.35	4.85	4.1	4.0
India	7.5	7.0	5.2	5.4	7.50	7.25	n/a	n/a
South Africa	2.1	1.2	4.0	4.7	5.75	5.75	26.4	25.0

**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

### United States (US)

Growth in the second quarter was boosted by consumer spending, which accounts for about 60 per cent of the US economic activity, due to lower gasoline prices and the strengthening of the labour market. Real GDP in the US rose by 2.3 per cent in the second quarter of 2015, up from 0.6 per cent in the previous quarter. The increase reflected positive contributions from personal consumption expenditures, exports, state and local government spending, and residential fixed investment. Negative contributions from declines in federal government spending, private inventory investment and nonresidential fixed investment slightly offset the observed increase in GDP. The unemployment rate declined from 5.5 per cent in first quarter of 2015 to 5.3 per cent

in the quarter ending in June 2015. More job gains occurred in professional and business services, health care as well as retail trade.

Consumer inflation rose by 0.2 per cent in June 2015, mainly due to increases in the food and energy indices. The food index posted its largest increase since September 2014, partly due to a sharp increase in the eggs index which rose by 18.3 per cent. The US Federal Open Market Committee decided to keep the key interest rate unchanged at 0.25 per cent. The FOMC indicated that an interest rate hike would be appropriate only after further improvement in the labour market and a gradual move towards the 2 per cent inflation objective over the medium term.

## **Euro Area**

The Euro Area experienced modest recovery, supported mainly by a robust growth in Italy. Real GDP rose from 1.0 per cent in the quarter ending in March to 1.5 per cent in the quarter ending in June 2015. Economic recovery was supported by weak Euro, low oil prices and quantitative easing measures, which contributed to high household spending and exports. The turmoil in Greece has had limited repercussions for the rest of the Euro Area. Despite Greece's possible exit from the Euro area; default on its obligations to the IMF, and imposition of capital controls, its GDP unexpectedly rose in the review quarter. The unemployment rate declined from 11.3 per cent in March to 11.1 per cent in June 2015. The lowest unemployment rates were recorded in Germany and the Czech Republic, while the highest were in Greece and Spain.

The Eurozone inflation rate picked up to 0.2 per cent in June 2015. The largest price increases were observed for food, services and energy prices. The Governing Council of the ECB decided to keep the main interest rate unchanged at 0.05 per cent, alongside maintaining the asset purchase program until the end of September 2016. The Governing Council projected a modest economic recovery, dampened by the sluggish pace of implementation of structural reforms, while the inflation projections have been revised upwards due to the expected economic recovery and higher oil prices.

## **Japan**

The Japanese economy contracted in the second quarter of 2015. Real GDP declined by 1.2 per cent in June following a 3.9 per cent increase in March 2015. The rise in fixed capital formation and inventories was not enough to offset fall in net exports and low consumer spending. High food prices and adverse weather conditions hurt consumer spending while weak demand, especially from China led to a sharp decline in exports of auto vehicles and parts. The unemployment rate remained constant at 3.4 per cent in June 2015.

The level of inflation in Japan rose at a lower rate of 0.4 per cent in June than that of 2.3 per cent in March 2015. The downward pressure emanated from the declines in the prices of food, fuel, light and water. The Bank of Japan monetary policy committee maintained the key interest rate at 0.00 per cent. The Bank would continue with qualitative and quantitative easing measures with the aim of achieving the price stability target of 2 per cent.

## **United Kingdom**

The real GDP in the UK, was estimated at 2.6 per cent in the quarter ending in June 2015; lower than 2.9 per cent observed in the previous quarter. The slowdown reflected a decrease in agricultural output which was offset by increased production and construction output. The UK unemployment rate for the second quarter of 2015 rose by 0.1 percentage points to 5.6 per cent.

The inflation rate in the UK remained flat at 0.0 per cent in June 2015. The positive contributions from transport services were offset by declines in the prices of clothing, motor fuels and food. The Bank of England Monetary Policy Committee (MPC) maintained the policy interest rate at 0.5 per cent and maintained the stock of purchased assets financed by the issuance of central bank reserves at £375 billion. The decision was taken, taking into account the deepening crisis in Greece and China's financial market volatility.

## **China**

Economic growth in China remained strong as reflected by retail sales, exports and industrial production which rose by 10.6 per cent, 2.8 per cent and 6.8 per cent, respectively. Real GDP growth remained constant at 7.0 per cent in the quarter ending in June 2015. Economic growth was supported by growth in agricultural and industrial production as well as commodity consumption. The unemployment rate declined by 0.6 percentage points to 4.0 per cent in the review quarter.

The inflation rate remained constant at 1.4 per cent in the quarter ending in June 2014. Price increases in non-food items were counterbalanced by price decreases in food, communication and transport. The People's Bank of China cut its benchmark interest rate by 50 basis points to 4.85 per cent, in response to the slowdown in economic activity as well as a sharp decline in stock prices in the Chinese markets.

## **India**

Economic growth slowed down slightly in the review period. Real GDP rose by 7.0 per cent in the quarter ending in June relative to the 7.5 per cent growth realised in the quarter ending in March 2015. The slowdown was driven by a decline in output of electricity and other utility services; manufacturing and agricultural, which fell by 6.9, 1.2 and 0.7 percentage points, respectively. Private and government consumption expenditure slightly improved while investment remained fragile.

The inflation rate rose by 5.4 per cent in June up from 5.2 per cent in March 2015. The increase reflected increases in the prices of food, fuel and clothing. The reserve bank of India decided to cut its key repo rate by 25 basis points to 7.25 per cent. This decision was consistent with the view that inflation might increase in the short to medium term due to unseasonal rains, rising crude oil prices, and external sector risks.



## **South Africa**

Economic activity in SA slowed down in the second quarter of 2015. Real economy grew by 1.2 per cent in the review quarter relative to a 2.1 per cent increase observed in the previous quarter. The slowdown reflected declines in output of the agriculture, mining and manufacturing sectors. Electricity shortages and weak demand were behind the fall in mining and manufacturing while agriculture was adversely affected by drought. Economic activity continued to be weighed down by weak business and consumer confidence. The unemployment rate decelerated to 25.0 per cent in June down from 26.4 per cent in March 2015. The increase reflected a rise in employment within government and construction sector.

The South African inflation rate rose by 0.7 percentage points to 4.7 per cent in June 2015. The largest contributions to inflation came from higher prices of housing and utilities due to increase in actual rentals for housing as well as transport prices due to a R2.06 per litre increase in the price of petrol. The South African Reserve Bank Monetary Policy Committee (MPC) decided to maintain the repo rate at 5.75 per cent. The MPC will continue to monitor the inflation outlook due to possible second-round effects as some factors of inflation cannot be dealt with using monetary policy.

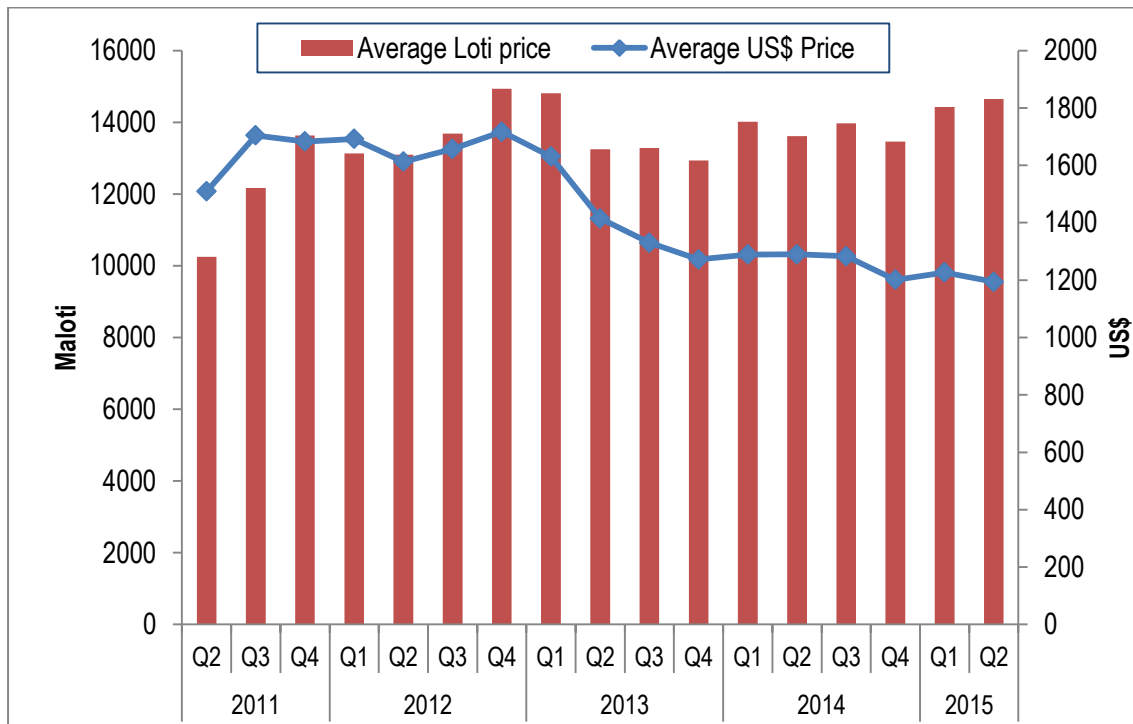
## **COMMODITIES**

### **Minerals**

#### ***Gold***

The average US Dollar price of gold fell during the quarter under review. In US Dollar terms, it declined by 2.7 per cent to US\$1 194 per ounce relative to a 2.2 per cent increase in the previous quarter. The decline was due to the US Dollar appreciation, and the possibility that the Federal Reserve Bank might hike interest rates sometime in September 2015, as the US economy continued to strengthen. In Maloti terms, it rose by 1.5 per cent to M14 650 per ounce from 7.2 per cent in the previous quarter.

**Figure 1: Average Price of Gold**

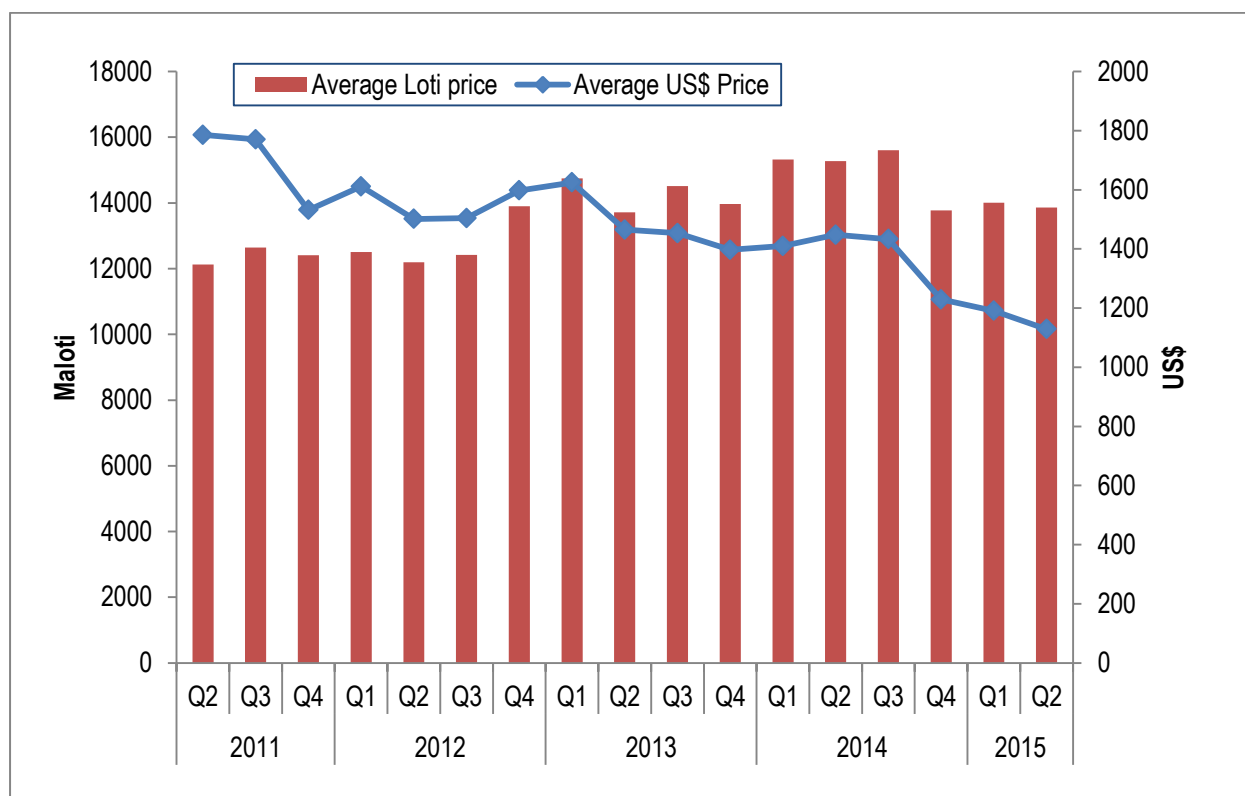


**Source:** Bloomberg

### ***Platinum***

The average price of platinum, in US Dollar terms, declined by 5.2 per cent to US\$ 1 129.25 per ounce during the quarter ending in June 2015 compared to a decline of 3.1 per cent in the previous quarter. The slowdown was attributed to oversupply, and sluggish demand, especially from China. In Maloti terms, it dropped by 1.0 per cent to M13 859.06 relative to 1.7 per cent decline in the previous quarter.

**Figure 2: Average Price of Platinum**



**Source:** Bloomberg

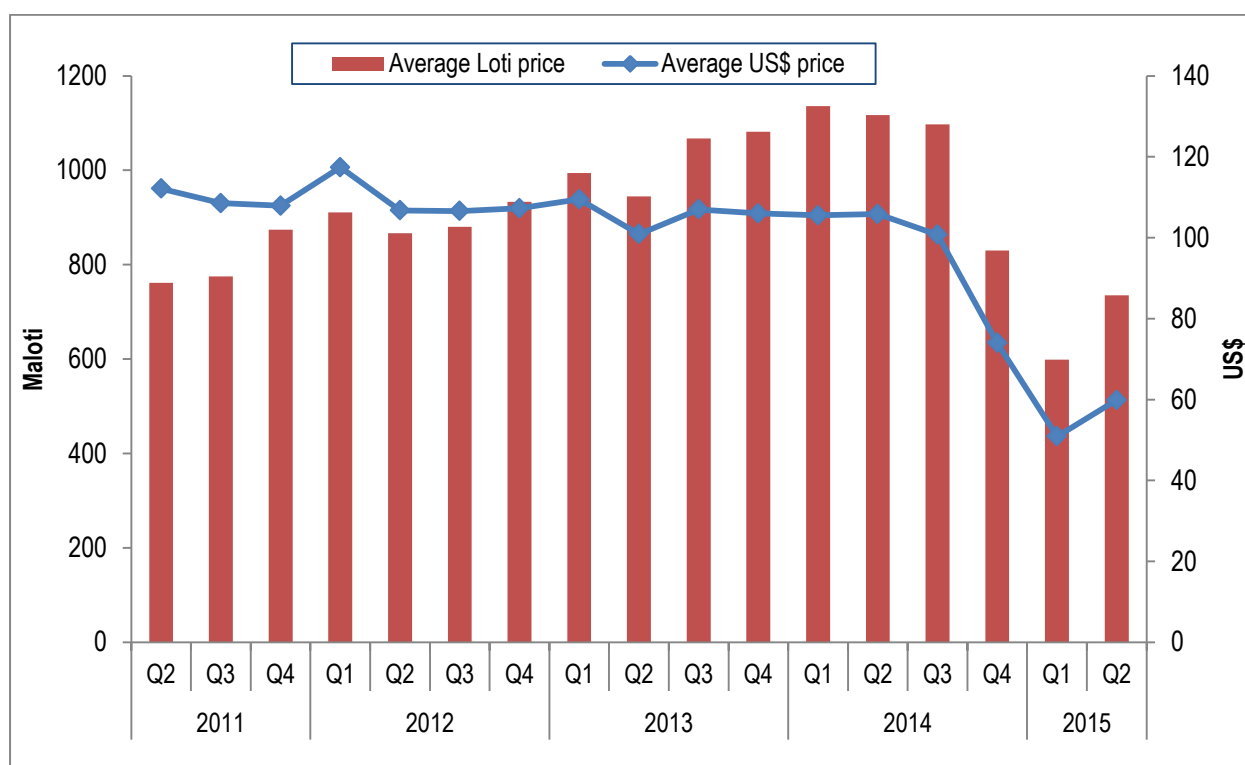
## Energy

### *Oil*

In US Dollar terms, the average price of oil increased by 17.6 per cent to US\$59.90 per barrel relative to a fall of 31.2 per cent in the first quarter of 2015. The observed increase was in response to geopolitical conflicts in the Middle East; strong fuel demand; possible suspension of sanctions against Iran as well as declining oil stockpiles in the US.

In Maloti terms, the average price of oil rose by 22.8 per cent to M735.08 per barrel compared with 27.9 per cent fall in the previous quarter. Consequently the domestic prices were revised upwards during the review quarter. Petrol price closed the review quarter with a higher price of M10.55 per litre, from M9.25 recorded in the quarter ending in March 2015. Diesel was M10.80 per litre in the review period following M9.75 per litre in the previous quarter. Paraffin also rose to M7.50 per litre in the quarter ending in June 2015, from M7.05 per litre recorded in the previous quarter.

**Figure 3: Average Price of Oil**



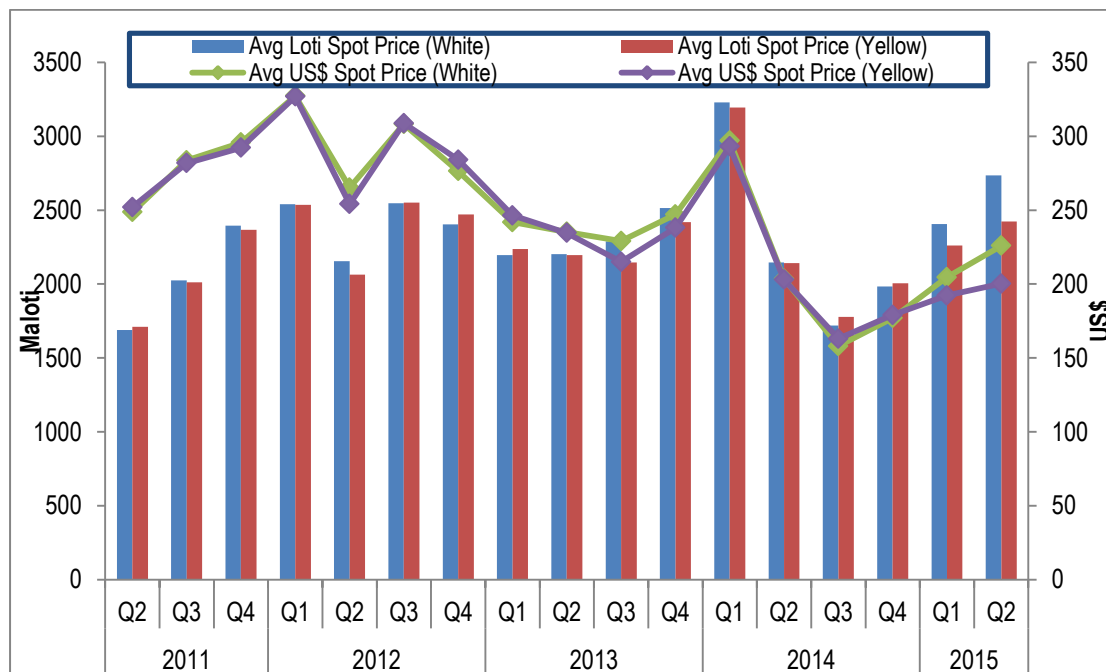
**Source:** Bloomberg

## **Agricultural Products**

### **Maize**

During the review period, the average US Dollar price of white maize increased by 10.4 per cent to US\$225.95 per tonne during the quarter ending in June 2015 relative to 15.6 per cent in the previous quarter. The average price of yellow maize rose by 4.2 per cent to US\$200.24 per tonne compared with a decline of 7.4 per cent in the previous quarter. The increase reflected reduced maize supply due to adverse weather conditions. In Maloti terms, the average prices of both white and yellow maize increased by 21.3 per cent to M2 405.86 per tonne and by 12.7 per cent to M2 260.57, respectively.

**Figure 4: Average Price of Maize**

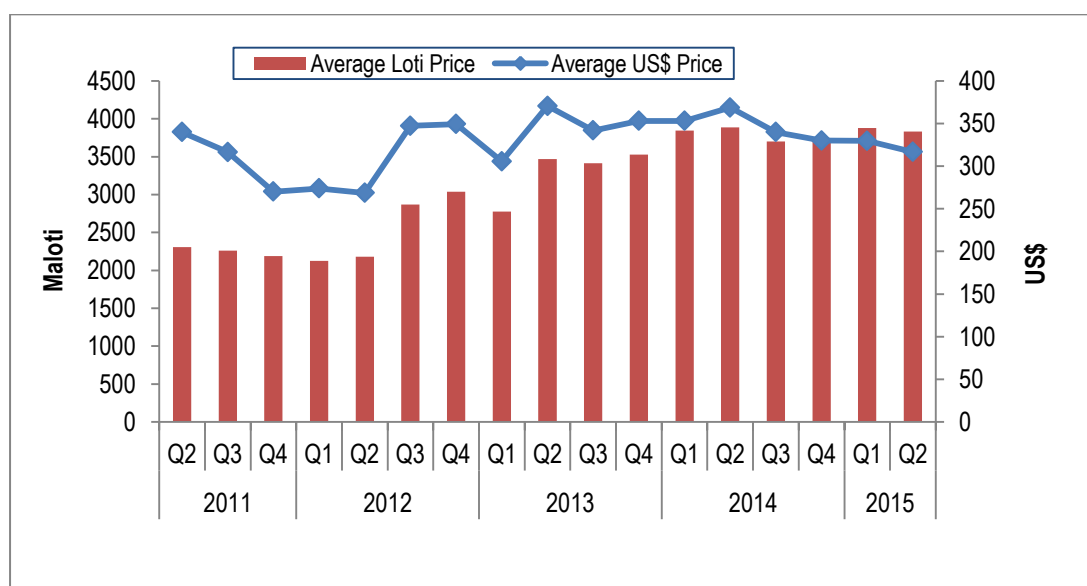


Source: Bloomberg

**Wheat**

In US Dollar terms, the average price of wheat declined by 3.9 per cent to US\$316.69 remained unchanged at US\$330 in relation to the previous quarter. The decline was due to large stockpiles as harvests were good in most major wheat producing countries. In Maloti terms, it increased by 4.8 per cent to US\$3 876.25 per tonne relative to a 2.9 per cent decline in the previous quarter.

**Figure 2.5: Average Price of Wheat**

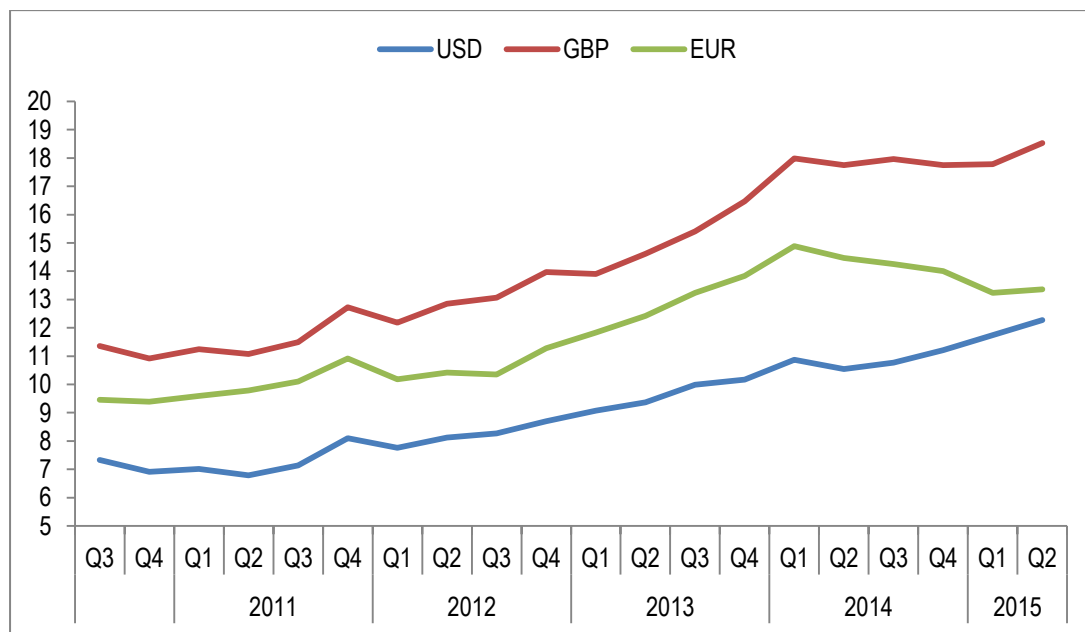


Source: Bloomberg

## EXCHANGE RATES

During the fourth quarter of 2014, the Rand and hence Loti depreciated against the major trading currencies. The exchange rate depreciated by 4.5 per cent to M12.27, by 4.2 per cent to M18.53 and by 0.9 per cent to M13.36 against the US Dollar, the Pound Sterling and the Euro, respectively. The depreciation of the Rand against the US Dollar reflected the uncertainty as to when the Federal Reserve Bank will start raising the interest rates. While the appreciation of the Euro was in response to prospects of a default in Greece and the possibility of its exit from the Eurozone; the Pound Sterling appreciated due to prospects of the UK interest rate hike sometime in 2015.

**Figure 5: Nominal Exchange Rate of the Loti against Major Currencies**



Source: Bloomberg

### 3. Real Sector Development

#### OVERVIEW

Economic performance deteriorated further in the second quarter of 2015. The measure of economic performance, the Economic Activity Indicator (EAI), declined by 10.2 per cent in the second quarter of 2015 compared with a decline of 1.6 per cent in the previous quarter. The weak performance was a result of unsatisfactory performance by the government and construction subsectors. Regardless of the poor overall economic performance, some of the major sectors like the Mining and Manufacturing subsectors showed robust growth in the review period.

#### OUTPUT DEVELOPMENTS

The economic performance was very weak in the review period. The EAI dropped further by 10.2 per cent in the quarter ending June 2015 compared with a decrease of 1.6 per cent in the previous quarter.

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

	Weight	2014			2015	
		Q2	Q3	Q4	Q1	Q2
<b>EAI</b>		-19.2	12.2	6.0	-1.6	-10.2
<b>Primary Sector</b>						
Mining	<b>8.9</b>	4.9	-0.7	-9.2	-12.9	28.0
<b>Secondary Sector</b>						
Manufacturing	<b>18.5</b>	4.8	9.9	10.0	-31.5	9.7
Electricity	<b>1.1</b>	13.9	-0.8	-12.6	-5.8	17.3
Water	<b>4.9</b>	35.1	6.7	-28.6	-7.0	37.5
Construction	<b>7.6</b>	-59.0	93.8	-5.0	-9.8	-61.6
<b>Tertiary Sector</b>						
Trade	<b>11.0</b>	-24.0	-2.8	11.7	-10.6	-2.8
Telecom	<b>5.1</b>	-3.8	14.4	7.4	8.1	0.2
Financial Sector	<b>6.5</b>	-9.7	12.1	2.0	0.2	-3.3
Other services	<b>5.7</b>	9.0	10.1	17.1	-1.7	3.6
Government	<b>30.6</b>	-36.4	13.3	14.7	18.6	-29.4

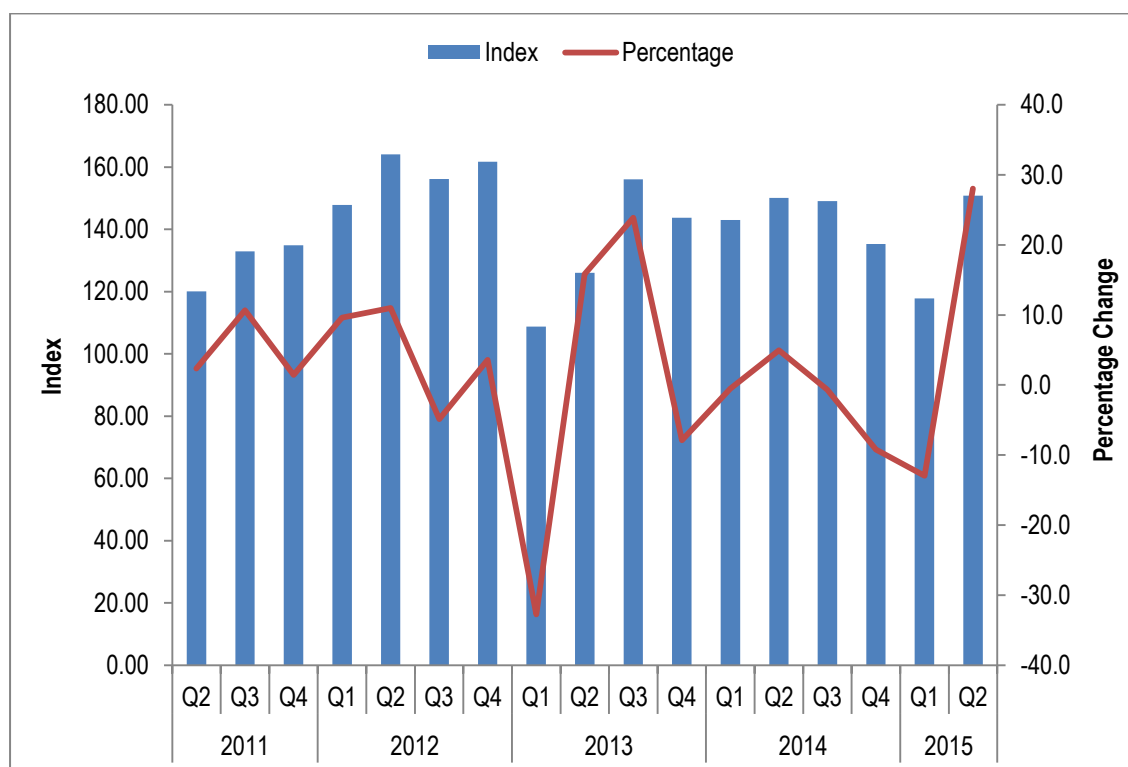
**Source:** Central Bank of Lesotho

## Primary Sector

### *Mining and Quarrying*

The mining and quarrying index increased significantly by 28.0 per cent in the second quarter of 2015 compared with a decline of 12.9 per cent in the first quarter of 2015. The increase in diamond production was attributed to increased production by both Let'seng and Storm Mountain Diamond<sup>1</sup> (SMD) mines. Mining operations at Let'seng diamond mine returned back to normal during the review quarter following disruptions due to maintenance works in the last quarter.

**Figure 6: Mining and Quarrying Index**



**Source:** Central Bank of Lesotho

<sup>1</sup> Previously called Kao Diamond Mine

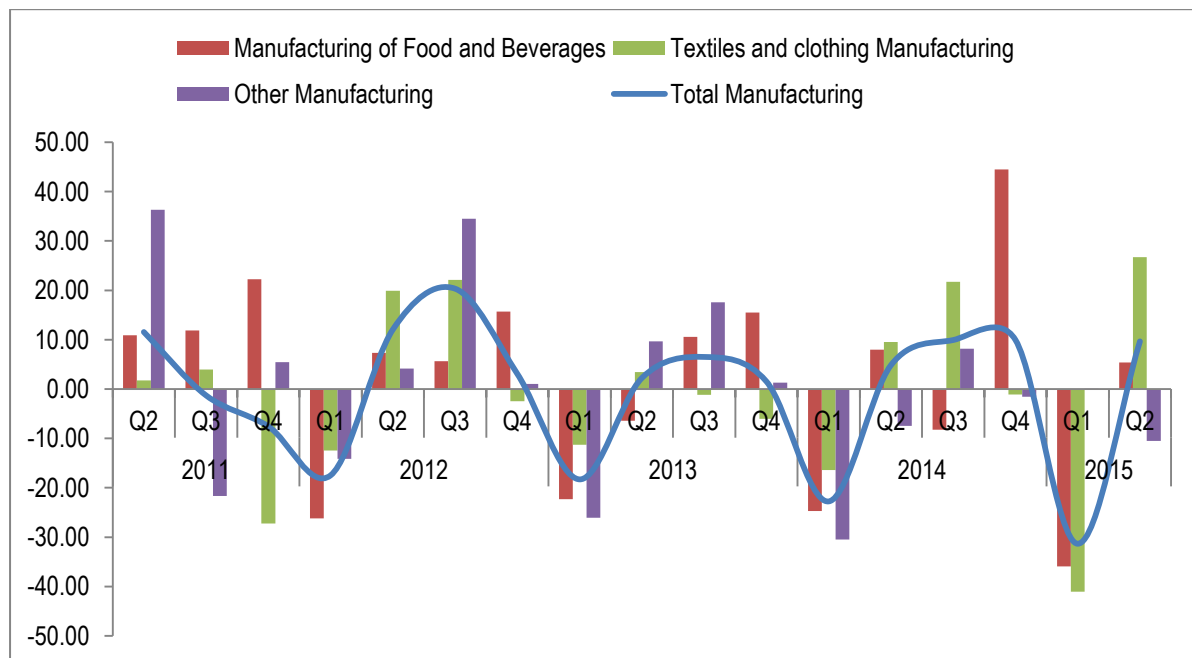


## Secondary Sector

### *Manufacturing*

The total manufacturing index increased by 9.7 per cent in the second quarter of 2015 compared with a decline of 31.5 per cent in the previous quarter. The increase was attributed to 26.7 per cent and 9.7 per cent increases in the manufacturing of textiles and clothing, and manufacturing of food and beverages indices, respectively. The increase turned to offset a decline of 10.5 per cent in other manufacturing index. Performance of the textiles and clothing firms usually increases in the second quarter following a dip in the first quarter. Thus the review period's performance is largely seasonal while there are also indications that the sector grew as a new firm started operations in the category of knit garments.

**Figure 7: Manufacturing Subsector (Quarter to Quarter Percentage Changes)**



**Source:** Central Bank of Lesotho

### *Electricity*

Electricity index increased by 17.3 per cent in the second quarter of 2015 compared with a decline of 5.8 per cent in the previous quarter. This increase was attributed to 12.0 per cent and 23.6 per cent and 1.9 per cent increase in electricity consumption by domestic, commercial and industrial, and general purpose categories, respectively. The increase in electricity consumption is in tandem with increased activity in the manufacturing and mining sectors during the review period. It has to be noted that electricity consumption normally increases during the review period given that winter season is characterized by high electricity consumption.

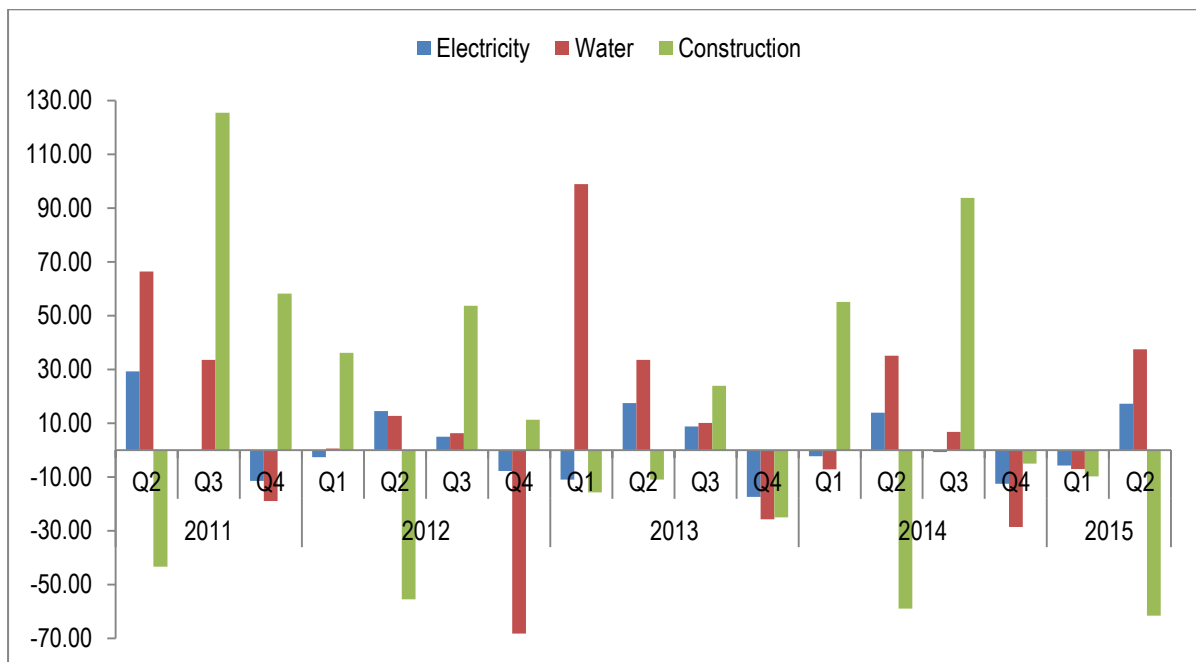
### ***Water***

The water index increased by 37.5 per cent in the review quarter compared with a decline of 7.0 per cent in the first quarter of 2015. Activity in the water sector comprises of activities related to exports of water to South Africa and national consumption of water. Water exports constitute 98.5 per cent on the water index while local consumption of water accounts for the remaining 1.5 per cent. The increase in the water index mainly reflected 38.3 per cent increase in water exported to SA. Water consumed locally declined marginally by 0.8 per cent in the second quarter of 2015 compared with a decline of 13.9 per cent in the previous quarter. The reduced local water consumption was mainly attributed to 4.1 per cent decline in water consumed by the industrial category. The decline signaled low consumption by wet industries due to water shortages experienced by industries though overall output by the textile and clothing industries increased.

### ***Construction***

The construction index declined by 61.6 per cent in the quarter ending in June 2015, following a decline of 9.8 per cent in the first quarter of 2015. The decline was in line with reduced government capital expenditure during the review quarter. This is because the 2015/2016 budget was presented sometime in May 2015 unlike in the preceding fiscal years when it's done in February, as thus the delay hindered implementation of the government capital projects. According to the ministry of public works and transport, which is responsible for major government construction projects, release of funds approvals for some projects will be made in July 2015.

**Figure 8: Secondary Sector (Quarter to Quarter Percentage Changes)**



**Source:** Central Bank of Lesotho

## Tertiary Sector

### *Trade*

The trade index, which comprises of motor trade, wholesale and retail trade in fuel, and wholesale and retail trade, declined by 2.8 per cent in the quarter ending in June 2015 compared with a decline of 10.6 per cent in the previous quarter. The increase was in line with the reduced output by the wholesale and retail sectors. This is an indication of lower demand for goods and services in the economy during the review period. The reduced wholesale and trade output is also inferable from the decline in imports of goods and services.

### *Telecommunications*

The index for telecommunications increased marginally by 0.2 per cent in the second quarter of 2015 compared with an increase of 8.1 per cent in the first quarter of 2015.

### *Other Services<sup>2</sup>*

The services index increased by 3.6 per cent in the quarter ending in June 2015 compared with a decline of 1.7 per cent in the previous quarter. The increase was attributed to a drop in output related to renting of land transport equipment, other business activities, maintenance and repairs of office equipment, and legal activities.

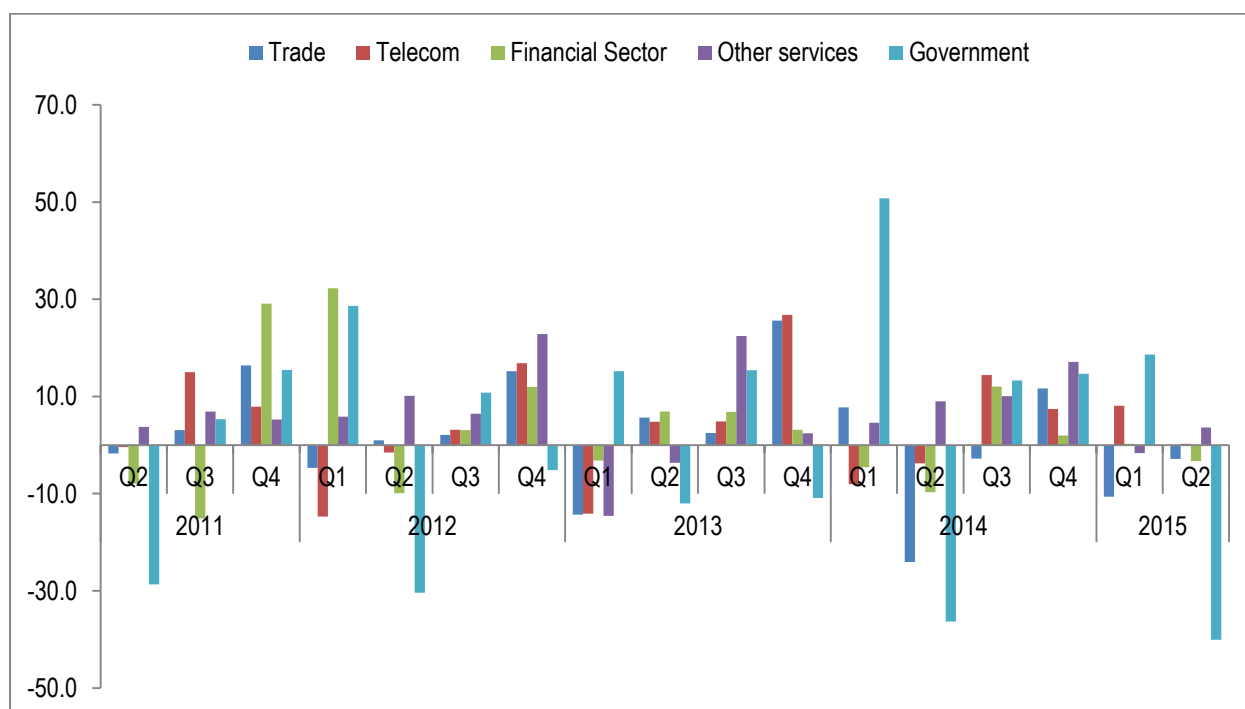
### *Government*

The index for government activities declined by 29.4 per cent in the second quarter of 2015 compared with an increase of 18.6 per cent in the previous quarter. The reduced performance was attributed to late execution of the budget. It has to be noted that the 2015/2016 fiscal budget was presented in May 2015.

### *Finance*

The financial sector index declined by 3.3 per cent in the second quarter of 2015 compared with a 0.2 per cent increase in the previous quarter. The decline was at the back of a reduction in the interest earned on loans. The decline was as a result of an overdraft payment of around M32 million during the review period to one of the banks during the review period.

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



**Source:** Central Bank of Lesotho

<sup>2</sup> 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.

## EMPLOYMENT DEVELOPMENTS

Employment by LNDC assisted companies increased by 1.1 per cent during the quarter ending in June 2015 compared with a marginal decline of 0.4 per cent per cent in the previous quarter. The increase in employment was as a result of a new firm in the category of knit garments which started operations in the review. The increased employment was in line with increased output by the manufacturing subsector.

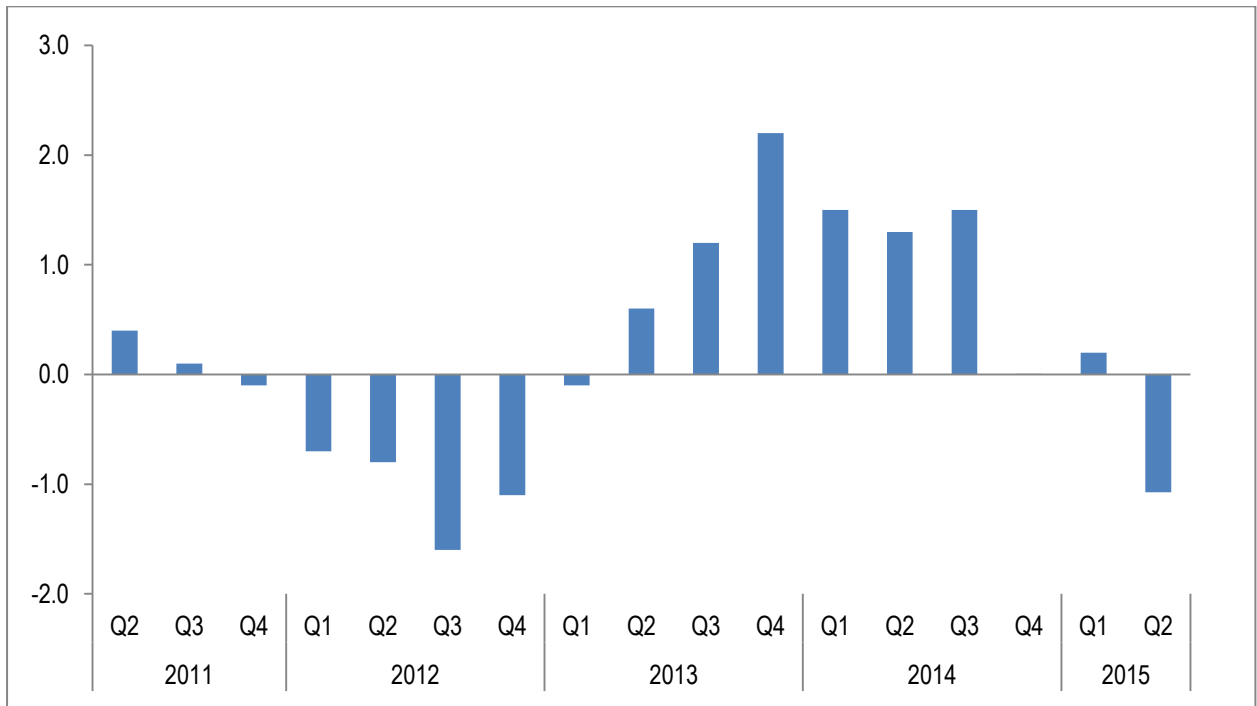
**Table 3: Employment by LNDC Assistant Companies**

Industry	2014			2015		% Change	
	Q2	Q3	Q4	Q1	Q2	Q/Q	Y/Y
Knit Garments.....	22457	23910	23553	22913	23427	2.2	4.3
Woven Garments.....	16490	16036	15798	15781	16027	1.6	-2.8
Footwear.....	1925	1586	1694	1592	1616	1.5	-16.1
Fabrics, Yarn etc.....	1765	1564	1567	1724	1715	-0.5	-2.8
Construction.....	309	306	306	309	317	2.6	2.6
Food & Beverages.....	565	1026	906	1089	904	-17.0	60.0
Electronics.....	912	965	965	953	926	-2.8	1.5
Retail.....	128	130	137	128	127	-0.8	-0.8
Hotel Accom.....	412	415	415	392	385	-1.8	-6.6
Other.....	653	1407	1396	1647	1612	-2.1	146.9
<b>TOTAL.....</b>	<b>45616</b>	<b>47345</b>	<b>46737</b>	<b>46528</b>	<b>47056</b>	<b>1.1</b>	<b>3.2</b>

**Source:** Lesotho National Development Corporation

The number of government employees declined by 1.0 per cent in the quarter ending in June 2015 compared with a marginal increase of 0.2 per cent in the previous quarter. The decline was as a result of reduced employment levels in the categories of civil servant, armed forces and daily paid workers while teachers registered a marginal increase. The number of civil servants, armed forces and daily paid workers declined by 2.2 per cent, 0.7 per cent, and 0.9 per cent respectively in the review quarter.

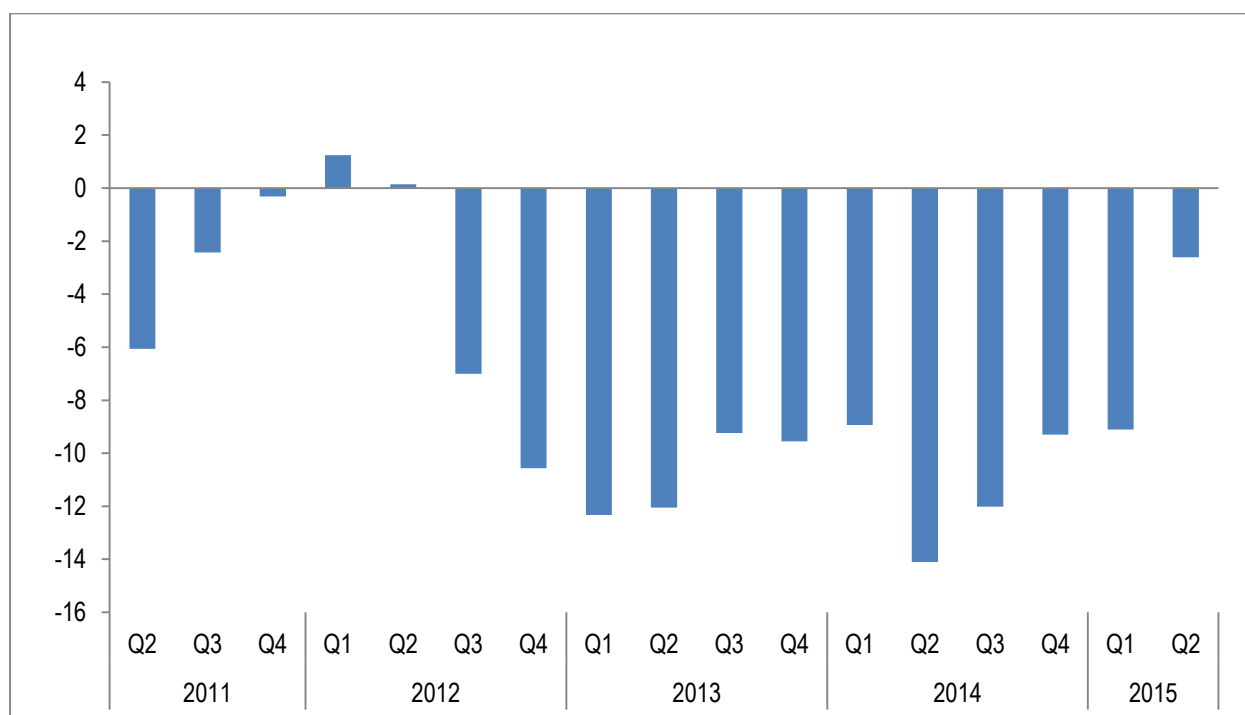
**Figure 10: Government Employment** (*Annualized Percentage Change*)



**Source:** Ministry of Finance

The number of Basotho Migrant Mine Workers employed in SA mines declined by 2.6 per cent in the quarter ending in June 2015 compared with a decline of 9.1 per cent in the previous quarter. This seems to be an improvement from the previous quarter and it is in line with a quarter to quarter marginal increase of 0.7 per cent in Mining employment in SA.

**Figure 11: Migrant Mineworkers (Annualized 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 2.9 per cent in June 2015 from 2.1 per cent in March 2015. Food and nonalcoholic beverages, furniture, household equipment and routine maintenance, transport, leisure, entertainment and culture, well as miscellaneous goods and services were the major drivers to the upward trend. The upsurge in food and nonalcoholic inflation was at the back of increased local food prices on account of unfavorable domestic production prospects. The transport inflation hiked due to an increase in the domestic pump prices of petrol and diesel, which resulted from an increase in the international crude oil prices. The increase in international oil prices were at the back of reduction in stockpile in the US.

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

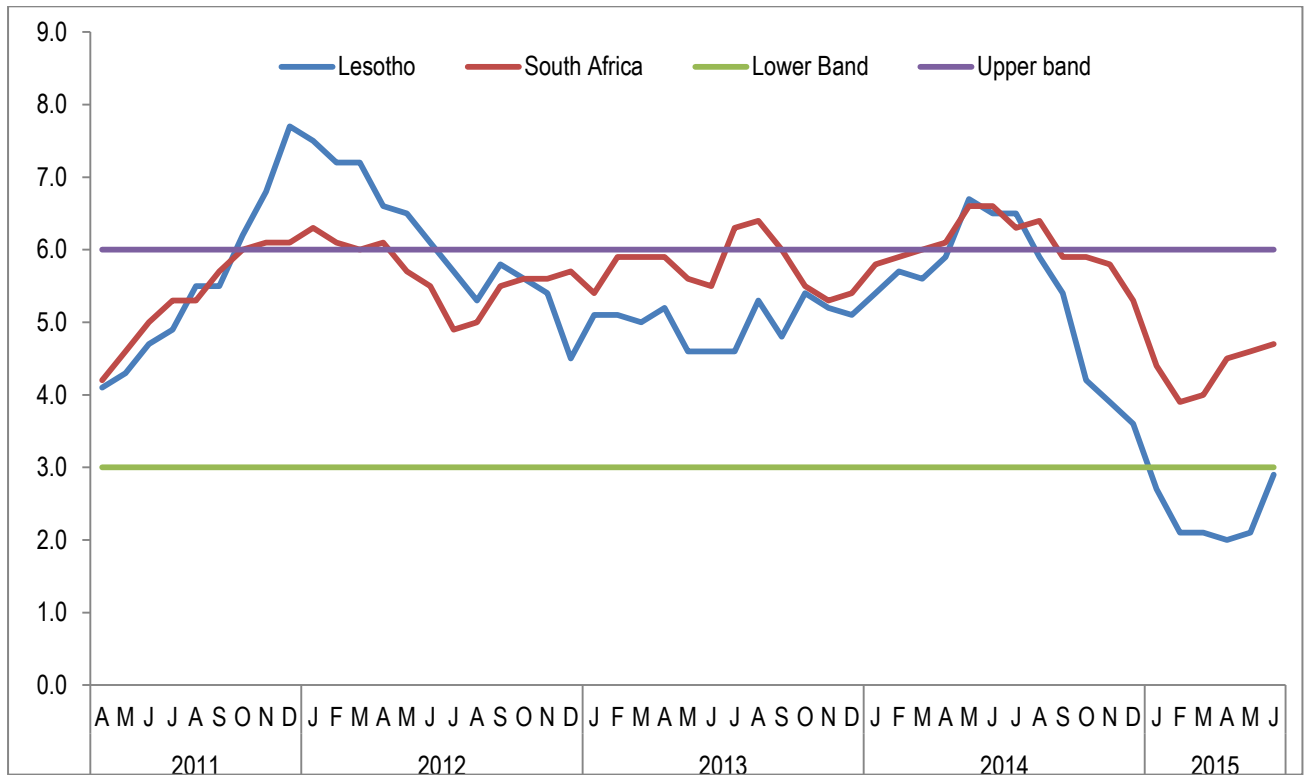
	2015					
	Weight	Feb	Mar	Apr	May	Jun
<b>All items</b>	<b>100</b>	<b>2.1</b>	<b>2.1</b>	<b>2.0</b>	<b>2.1</b>	<b>2.9</b>
Food and non-alcoholic beverages	38.1	4.9	4.3	4.2	4.0	4.7
Alcoholic beverages & Tobacco	1.2	6.1	5.9	5.9	6.1	6.0
Clothing & footwear	17.4	4.5	4.5	4.3	4.3	4.6
Housing, electricity gas & other fuels	10.6	-10.7	-9.3	-9.3	-8.5	-5.2
Furniture, households equipment & routine maintenance	9.4	3.2	3.9	3.9	3.2	4.6
Health	1.9	1.4	1.1	1.1	1.0	1.2
Transport	8.5	-0.4	-0.1	0.0	0.1	0.4
Communication	1.2	0.0	0.0	0.0	0.0	0.0
Leisure, entertainment & Culture	2.4	3.2	3.0	3.2	3.4	3.7
Education	2.7	3.9	3.9	3.9	3.9	3.9
Restaurant & Hotels	0.7	4.4	4.3	4.3	4.5	4.5
Miscellaneous goods & services	5.8	3.3	3.0	3.3	3.4	4.1

**Source:** Bureau of Statistics

Lesotho's inflation rate continues to move in the same direction to that of SA. SA's inflation rate measured 4.7 per cent in June 2015 from 4.0 per cent in March 2015. SA's inflation rate hiked mainly due to increased transport inflation emanating from high petrol prices during the review period.



**Figure 12: Lesotho and South Africa's Inflation**



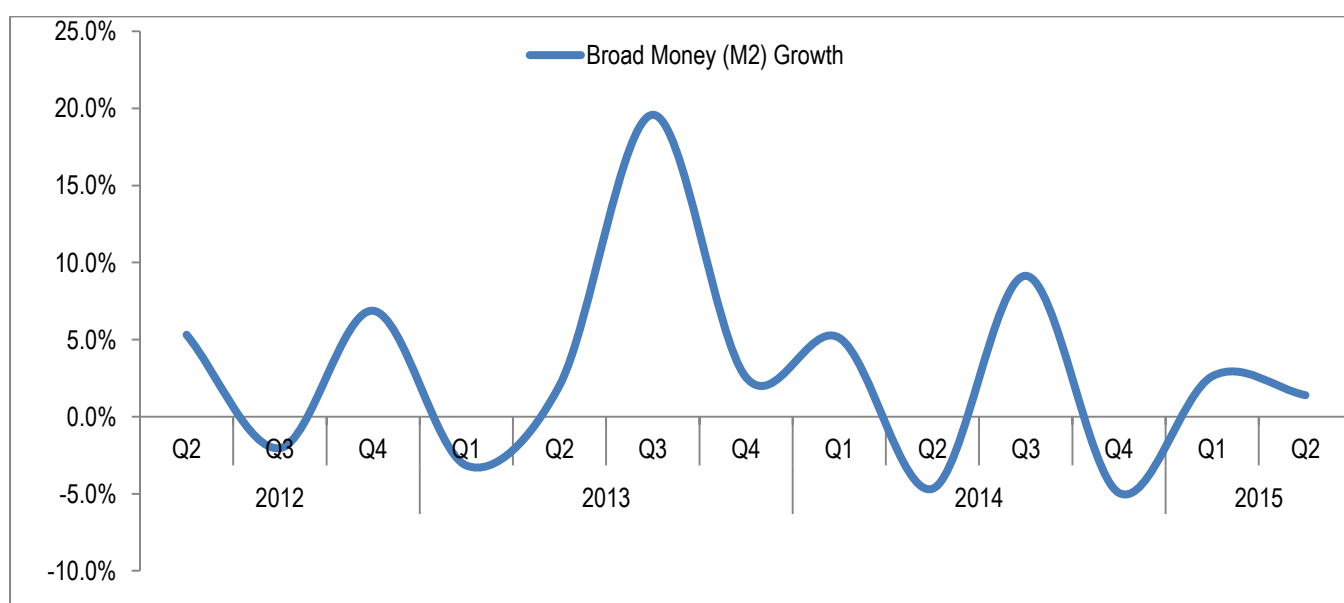
**Source:** Bureau of Statistics, Statistics South Africa

### 3. Monetary and Financial Developments

#### BROAD MONEY (M2)

Similar to the previous quarter, money supply continued to grow albeit at a slower pace compared to the quarter ending March 2015. On quarter to quarter basis, money supply rose by 1.4 per cent compared to 2.6 per cent increase during the first quarter of 2015. On an annual basis money supply rose by 7.9 per cent in June 2015 compared to a growth of 22.9 per cent in June 2014. The driving factor behind the quarterly increase was an increase in Net foreign Assets moderated by a decrease in domestic claims.

**Figure 13: Broad Money (M2)**



**Source:** Central Bank of Lesotho

#### Determinants of m2

##### *Domestic Credit*

Domestic claims, including net claims on government declined by M467.6 million during the quarter under review compared to a M37.1 million decline in the previous quarter. This development was driven by build-up in deposits of central government during the quarter under review. However, this was moderated by a slight growth in private sector credit underpinned by a 3.75 per cent increase in loans extended to business enterprises while credit to households fell by 0.9 per cent.

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

	2014			2015		% Changes	
	Jun	Sep	Dec	Mar	Jun	Y/Y	Q/Q
<b>Domestic Claims</b>	<b>117.5</b>	<b>414.9</b>	<b>171.2</b>	<b>-37.1</b>	<b>-467.6</b>	<b>-498.02</b>	<b>1159.80</b>
<b>Net Claims on Government</b>	<b>-4572.1</b>	<b>-4650.9</b>	<b>-4962.6</b>	<b>-5153.2</b>	<b>-5620.4</b>	<b>22.93</b>	<b>9.07</b>
<b>Commercial Banks Net Claims</b>	<b>632.5</b>	<b>642.6</b>	<b>597.3</b>	<b>577.6</b>	<b>565.5</b>	<b>-10.60</b>	<b>-2.10</b>
Claims on Central Government	645.6	655.9	610.8	587.3	576.1	-10.77	-1.91
Liabilities to Central Government	13.1	13.3	13.4	9.7	10.6	-19.08	9.28
<b>Central Bank Net Claims</b>	<b>-5204.6</b>	<b>-5293.5</b>	<b>-5559.9</b>	<b>-5730.8</b>	<b>-6185.9</b>	<b>18.85</b>	<b>7.94</b>
Claims on Central Government	844.2	853.3	849.8	850.4	868.0	2.82	2.07
Liabilities to Central Government	6048.8	6146.8	6409.7	6581.2	7053.9	16.62	7.18
<b>Claims on Other Sectors</b>	<b>4689.6</b>	<b>5065.8</b>	<b>5133.8</b>	<b>5116.0</b>	<b>5152.8</b>	<b>9.88</b>	<b>0.72</b>
Claims on OFCs	10.0	10.5	12.5	15.0	14.4	44.00	-3.81
Claims on St & Local Government	0.0	0.0	0.0	0.0	0.0		
<b>Claims on Private Sector</b>	<b>4679.6</b>	<b>5055.3</b>	<b>5121.3</b>	<b>5101.1</b>	<b>5138.4</b>	<b>9.81</b>	<b>0.73</b>
Claims on Business Enterprises	1554.24	1835.75	1815.14	1791.9	1859.1	19.62	3.75
Claims on Households	3125.31	3219.54	3306.17	3309.2	3279.3	4.93	-0.90

**Source:** Central Bank of Lesotho

### *Net Foreign Assets*

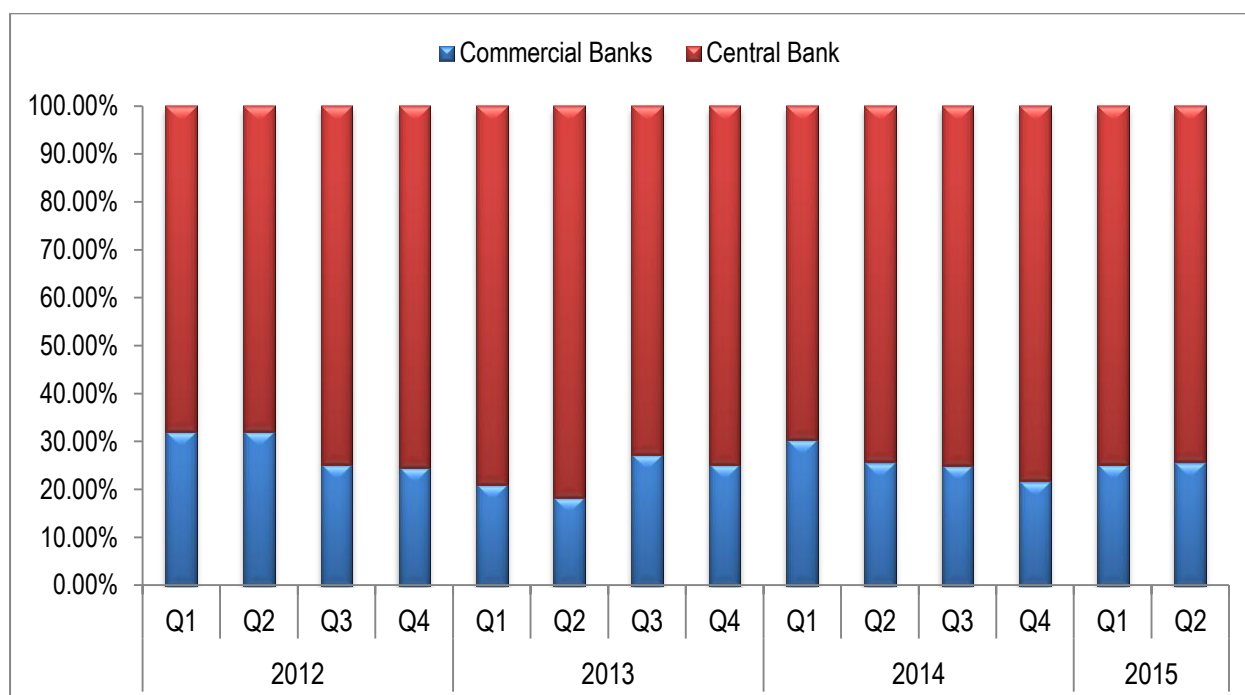
The overall banking system Net Foreign Assets grew by 1.12 per cent compared to 6.54 per cent during the first quarter of 2015. This increase is attributable to both commercial banks' NFA as well as Central Banks NFA. Commercial banks deposits benefited from a rebound in mining sector revenues deposited in local banks' mother banks abroad hence a growth in commercial banks NFA. On the other hand, Central Bank Net Foreign Assets increase was as at the back of a rise in deposits of the Central government as a result of low budget execution. However, lower SACU revenue receipts relative to the previous quarter moderated this growth.

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

	2014			2015		Changes (%)	
	Jun	Sep	Dec	Mar	June	Y/Y	Q/Q
<b>Commercial Banks</b>	<b>3335.9</b>	<b>3418.7</b>	<b>3039.5</b>	<b>3746.1</b>	<b>3869.4</b>	<b>15.99</b>	<b>3.29</b>
Claims on Non-residents	3782.3	3838.8	3329.4	4,098.78	4233.3	11.92	3.28
Liabilities to Non-residents	446.5	420.1	289.9	352.7	363.9	-18.49	3.17
<b>Central Bank</b>	<b>9637.9</b>	<b>10283.4</b>	<b>10923.5</b>	<b>11130.6</b>	<b>11174.4</b>	<b>15.94</b>	<b>0.39</b>
Claims on Non-residents	11026.9	11707.7	12342.0	12550.2	12624.3	14.49	0.59
Liabilities to Non-residents	1389.0	1424.3	1418.5	1419.6	1449.9	4.38	2.13
<b>Net Foreign Assets Total</b>	<b>12973.8</b>	<b>13702.1</b>	<b>13962.9</b>	<b>14876.6</b>	<b>15043.8</b>	<b>15.96</b>	<b>1.12</b>

**Source:** Central Bank of Lesotho

**Figure 14: Net Foreign Assets (percentage shares)**



### Components of M2

Narrow money (M1) and quasi money are the major components of broad money (M2). During the quarter under review, broad money increased by 1.39 per cent. This was on account of an increase in narrow money as well as quasi money. The increase in narrow money was due to an increase, although at a muted pace, of 5.01 per cent in transferrable deposits, moderated by a 7.18 per cent fall in currency in circulation. Transferable deposits sluggish growth is largely attributed to reduced performance by the government in terms of budget execution. The increase in quasi money was as a result of a 0.72 increase in other deposits of commercial banks moderated by a 17.66 per cent decline in other deposits of the Central Bank.

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

	2014			2015		Changes (%)	
	Jun	Sep	Dec	Mar	June	Y/Y	Q/Q
<b>Broad Money (M2)</b>	<b>8678.8</b>	<b>9472.0</b>	<b>9003.8</b>	<b>9239.8</b>	<b>9368.6</b>	<b>7.95</b>	<b>1.39</b>
<b>Narrow Money (M1)</b>	<b>4003.4</b>	<b>4230.7</b>	<b>4096.6</b>	<b>4265.7</b>	<b>4368.9</b>	<b>9.13</b>	<b>2.42</b>
Currency Outside DCs	799.8	813.9	941.5	907.2	842.1	5.28	-7.18
Transferable Deposits	3203.6	3416.8	3155.1	3358.4	3526.9	10.09	5.01
<b>Quasi Money</b>	<b>4675.4</b>	<b>5241.3</b>	<b>4907.2</b>	<b>4974.1</b>	<b>4999.6</b>	<b>6.94</b>	<b>0.51</b>
Other Deposits Commercial Banks	4631.2	5173.7	4849.2	4918.0	4953.5	6.96	0.72
Other Deposits Central Bank	44.2	67.7	58.0	56.1	46.2	4.39	-17.66

**Source:** Central Bank of Lesotho

## CREDIT EXTENSION

### Trends of credit extended to Business Enterprises

Credit extended to Business Enterprises increased by 3.8 per cent compared to a decline by 1.3 per cent during the previous quarter. Electricity, gas and water as well as construction sectors recorded the largest expansion in credit of 96 per cent and 23 per cent respectively. Transport, storage and communication as well as manufacturing recorded the greatest decline of 11.3 per cent and 7.5 per cent respectively. Credit in the electricity, gas and water sector tallies with the developments in that sector. Credit in the construction sector was driven by increase in credit by a construction companies to fund new projects. Reduction in credit in the Transport, storage and communication sector was due to runoffs while reduction in credit in the manufacturing sector was due to decline of orders in the clothing and textile sub-sector for firms that mainly use the overdraft facility to process orders. This decrease in orders was due to uncertainties surrounding renewal of AGOA.

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

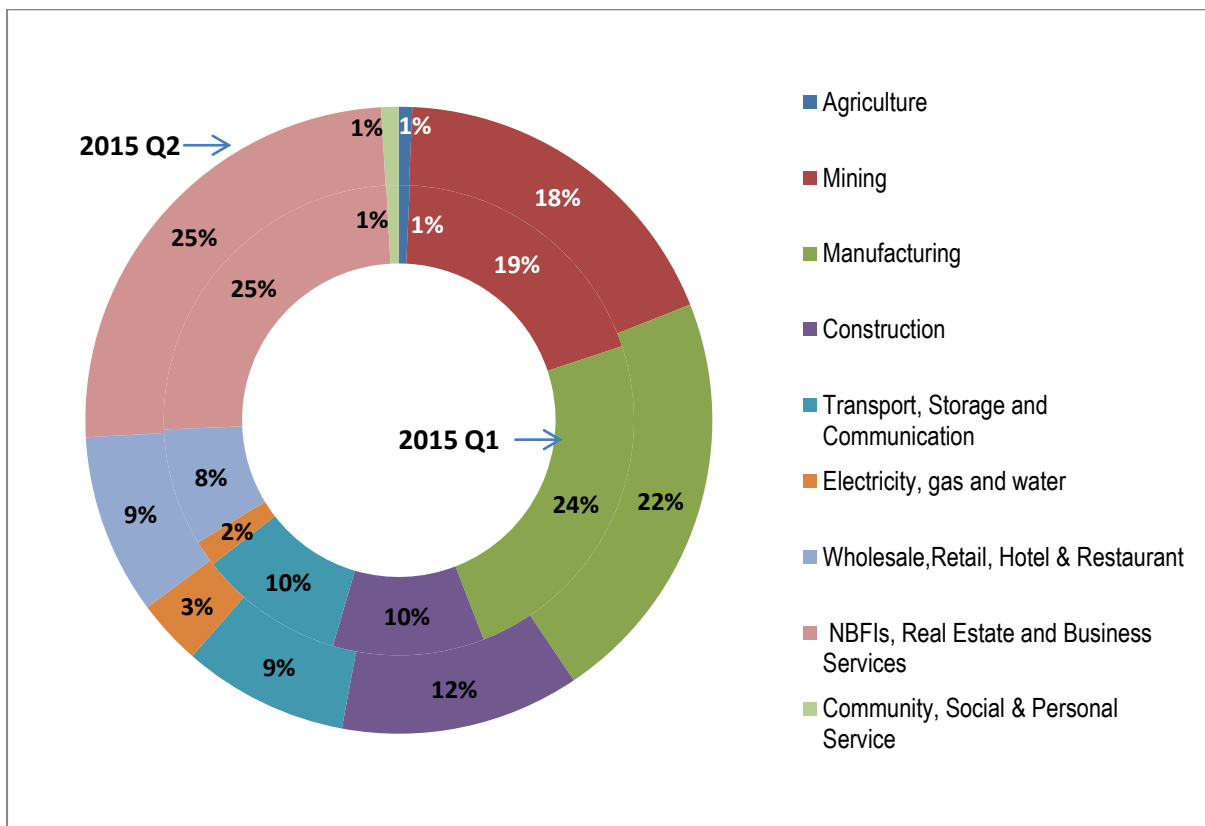
SECTOR	2014			2015		Changes (%)	
	Jun	Sep	Dec	Mar	June	Y/Y	Q/Q
Agriculture	16.5	18.0	17.4	13.4	12.8	-22.2	-4.1
Mining	142.5	289.0	358.7	343.2	340.2	138.7	-0.9
Manufacturing	372.2	390.5	445.4	434.0	401.3	7.8	-7.5
Construction	124.4	156.8	171.2	186.4	229.4	84.4	23.0
Transport, Storage and Communication	184.6	184.3	188.5	179.0	158.8	-14.0	-11.3
Electricity, gas and water	27.7	29.5	40.4	31.9	62.7	126.3	96.4
Wholesale, Retail, Hotel & Restaurant NBFIs, Real Estate and Business Services	264.4	363.3	153.2	144.8	173.1	-34.5	19.6
Community, Social & Personal Service	353.5	347.4	429.9	444.0	464.2	31.3	4.6
	68.4	56.9	10.3	15.3	16.7	-75.6	9.4
<b>All Sectors</b>	<b>1554.2</b>	<b>1835.7</b>	<b>1815.1</b>	<b>1791.9</b>	<b>1859.1</b>	<b>19.6</b>	<b>3.8</b>

Source: Central Bank of Lesotho

### Distribution of credit Extended to Business Enterprises

Similar to the previous quarter, NBFIs, Real Estate and Business Services recorded the biggest share of credit at 25 per cent of total credit followed by Manufacturing with 22 per cent, then Mining with 18 per cent and lastly Construction (12 per cent). The agriculture sector continues to have the lowest share of total credit at 1 per cent. This share of credit is, to a large extent, in line with the relative economic activities in the sectors as well as their contribution to GDP.

**Figure 15: Distribution of Credit (Percentage Shares)**

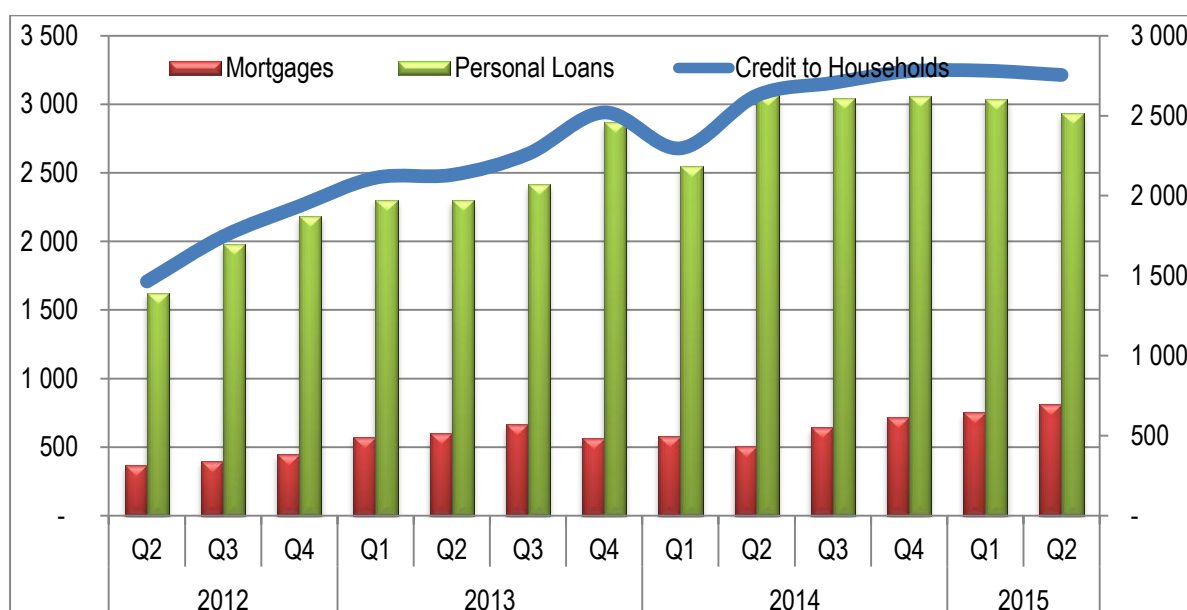


**Source:** Central Bank of Lesotho

### Credit extended to Households

Credit extended to households increased by 1 per cent in the second quarter of 2015. This was contrary to the 0.13 per cent increase in the first quarter of 2015. This relatively bigger increase in credit extended to households was caused by an 8 per cent growth in mortgages that was moderated by a 3 per cent fall in personal loans (which constitutes a large share of credit to households). These movements are reflective of a shift in focus from unsecured lending to asset based lending by commercial banks.

**Figure 16: Credit Extension to Household (Million Maloti)**



Source: Central Bank of Lesotho

## LIQUIDITY OF COMMERCIAL BANKS

### Components of liquidity

Commercial banks' liquidity ratio decreased from 88 per cent to 78 per cent in the current quarter. This was as a result of a decrease in liquidity components and a smaller increase in total deposits. Similarly, credit to deposit ratio decreased by 1 percentage point following a rise in private sector credit that was offset by larger growth in deposits. This indicates a relative fall in the level of financial intermediation in Lesotho by the commercial banks.

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

	2014			2015	
	Jun	Sep	Dec	Mar	June
<b>Credit to Deposit Ratio</b>	<b>59%</b>	<b>60%</b>	<b>61%</b>	<b>62%</b>	<b>61%</b>
Private Sector Credit	4624.1	4825.1	4908.3	5101.1	5138.4
Total Deposits	7834.8	8059.6	8086.6	8276.4	8480.3
<b>Liquidity Ratio</b>	<b>86%</b>	<b>83%</b>	<b>80%</b>	<b>88%</b>	<b>78%</b>
Notes and Coins	258.9	267.3	248.3	260.5	272.0
Balance due from banks in Lesotho	2287.5	2243.0	2540.1	2688.5	2615.3
Balance due from banks in SA	3431.8	3411.1	2869.7	3539.1	2979.7
Surplus funds	127.9	109.9	192.2	102.5	83.2
Government Securities	645.6	646.9	656.8	655.9	671.3
<b>Total</b>	<b>6751.9</b>	<b>6678.1</b>	<b>6507.2</b>	<b>7246.4</b>	<b>6621.4</b>

Source: Central Bank of Lesotho

## Commercial Banks Sources of Funds

The main sources of funds are deposits which comprise of transferable and other deposits. Total deposits increased by 2.5 per cent compare to 3.4 per cent during the previous quarter. This was mainly driven by slow execution of the government budget.

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

	2014			2015		Changes (%)	
	Jun	Sep	Dec	Mar	June	Y/Y	Q/Q
<b>Transferable Deposits Incl. in BM</b>	<b>3203.6</b>	<b>3416.8</b>	<b>3155.1</b>	<b>3358.4</b>	<b>3526.9</b>	<b>10.1</b>	<b>5.0</b>
Other Financial Corporations	0.0	0.0	0.0	0.0	0.0		
Public Nonfinancial Corporations	75.8	163.8	109.2	1.6	56.3	-25.6	3348.1
Private Sector	3109.9	3235.1	3028.0	3338.8	3452.6	11.0	3.4
Other NFCs	2405.1	2489.1	2280.2	2583.6	2582.9	7.4	0.0
Other Sectors (Households)	704.8	745.9	747.8	755.3	869.7	23.4	15.1
<b>Other Deposits Incl. in BM</b>	<b>4631.2</b>	<b>5173.7</b>	<b>4849.2</b>	<b>4918.0</b>	<b>4953.5</b>	<b>7.0</b>	<b>0.7</b>
Other Financial Corporations	0.0	0.0	12.4	20.5	26.1		27.1
Public Nonfinancial Corporations	77.8	43.2	57.2	169.2	94.1	20.9	-44.4
Private Sector	4553.3	5130.5	4779.6	4728.2	4833.3	6.1	2.2
Other NFCs	3203.3	3693.9	3300.4	3327.0	3610.4	12.7	8.5
Other Sectors (Households)	1350.1	1436.6	1479.2	1401.2	1222.9	-9.4	-12.7
<b>Total Deposits</b>	<b>7834.8</b>	<b>8590.5</b>	<b>8004.3</b>	<b>8276.4</b>	<b>8480.3</b>	<b>8.2</b>	<b>2.5</b>

**Source:** Central Bank of Lesotho

## MONEY AND CAPITAL MARKET DEVELOPMENTS

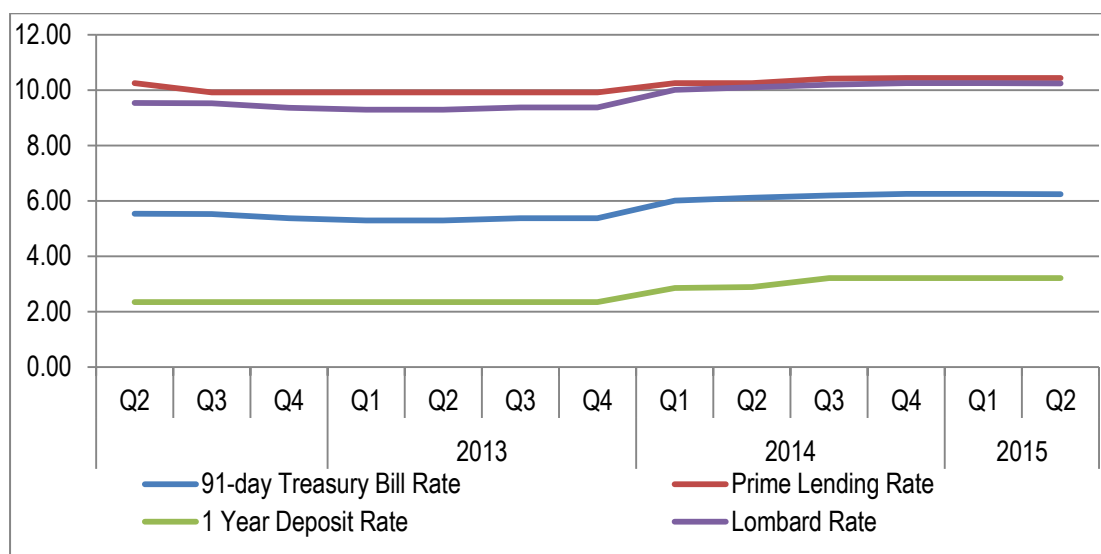
### Money Market

#### *Interest Rates*

Owing to low and stabilising inflation in South Africa as well as moderate inflation expectation, the South African Reserve Bank (SARB) kept the policy rate unchanged. Consequently, most money markets interest rates remained unchanged in South Africa with an exception of South African 91 day T-bill rate. Due to the Common Monetary Area (CMA) framework where Lesotho Loti is pegged to South African Rand, the Central Bank of Lesotho defends this peg by ensuring Lesotho money market rates move in line to those of South Africa. As a result, money market interest rates remained unchanged in Lesotho.



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



**Source:** Central Bank of Lesotho

**Figure 18: Interest rates**

	2014			2015	
	Jun	Sep	Dec	Mar	Jun
<b>Central Bank</b>					
T-Bill Rate - 91 days	6.11	6.20	6.25	6.25	6.24
Lombard Rate	10.11	10.20	10.25	10.25	10.24
<b>Commercial Banks</b>					
Call	1.03	0.99	0.99	0.99	0.99
Time:					
31 days	1.14	1.23	1.23	1.23	1.23
88 days	1.66	1.72	1.72	1.72	1.72
6 months	2.04	2.31	2.31	2.31	2.31
1 year	2.89	3.21	3.21	3.21	3.21
Savings	0.80	0.86	0.86	0.86	0.86
Prime	10.25	10.42	10.44	10.44	10.44
<b>South Africa</b>					
Repo	5.50	5.75	5.75	5.75	5.75
T-Bill Rate - 91 days	5.97	5.97	6.12	5.78	5.72
Marginal Lending Rate					
Prime	9.00	9.25	9.25	9.25	9.25

**Source:** Central Bank of Lesotho

### *Holding of Treasury Bills and T-Bill Rates*

The holding of Treasury bills decreased by 0.3 per cent as compared to an increase by 1 per cent in the current quarter compared to 0.03 per cent in the previous quarter. The yield rates have remained relatively stable. Holding of Treasury bonds on the other hand increased by 0.1 per cent compared to 4 per cent last quarter.

### **Capital Markets**

**Table 11: Holding of Bills and Yields (Million Maloti)**

	2014			2015	
	Jun	Sep	Dec	Mar	June
<b>Treasury Bills</b>	<b>548.9</b>	<b>570.4</b>	<b>586.0</b>	<b>594.3</b>	<b>592.3</b>
Banking System	399.98	397.94	407.25	406.33	396.58
Non-Bank Sector	148.96	172.47	178.72	187.93	195.73
<b>Memorandum Item</b>					
Yield Bills (91-days)	6.20	6.30	6.35	6.35	6.34

**Source:** Central Bank of Lesotho

### *Holding of Treasury Bonds*

With regards to treasury bonds holdings as well as yield rates there was no significant change between the review quarter and the quarter ending March 2015. The stock of bonds remained unchanged following non issuance of new bonds to finance government deficit or maturing of some bonds during the quarter under review. Yield rates also remained unchanged in part due to non- issuance of new domestic debt.

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

	2014			2015	
	Jun	Sep	Dec	Mar	June
<b>Holding of Treasury Bonds</b>	<b>520.7</b>	<b>537.5</b>	<b>553.33</b>	<b>572.7</b>	<b>573.2</b>
Banking System	321.06	321.25	321.26	336.47	339.00
Non-Bank Sector	199.65	216.22	232.07	236.27	234.20

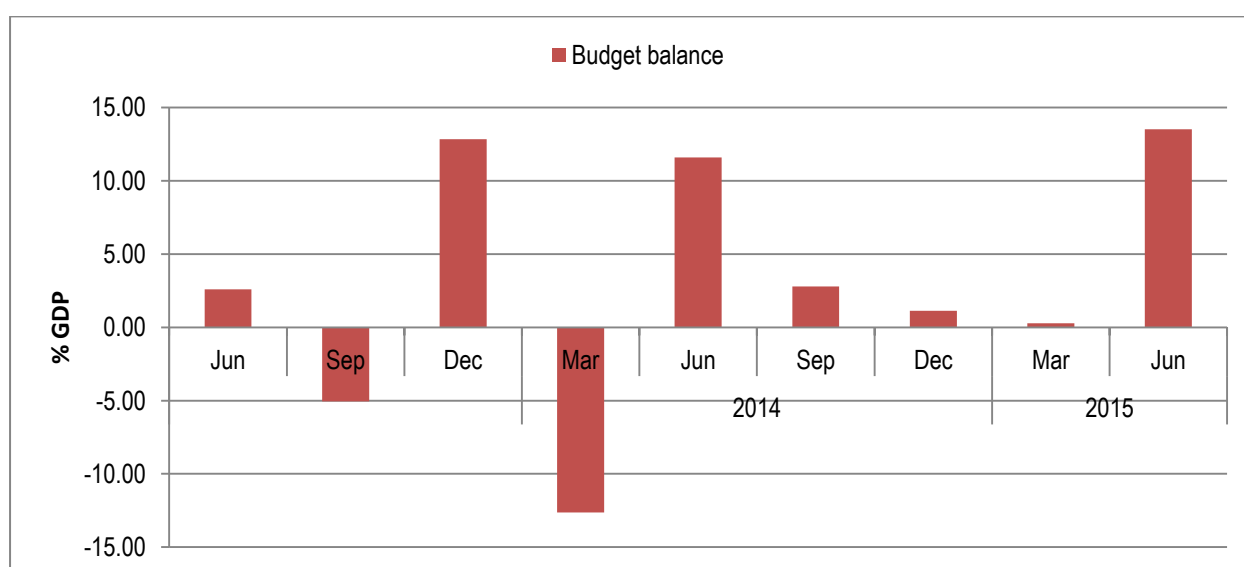
**Source:** Central Bank of Lesotho

## 5. Government Finance

### OVERVIEW

In June, 2015 the Government budget balance recorded a surplus of 13.5 per cent of GDP, an increase of 13.2 percentage points from a revised surplus of 0.3 per cent in March, 2015. Though total revenue and total expenditure have both underperformed, the surplus is brought about by significant decline in capital expenditure. The total public debt registered 45.4 per cent of GDP in June, 2015, an increase of 1.6 per cent of GDP in March, 2015. This means that Lesotho's public debt remains below the indicative policy-dependent benchmark for nominal public debt-to-GDP ratio for low income countries that are at moderate risk of debt distress.

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



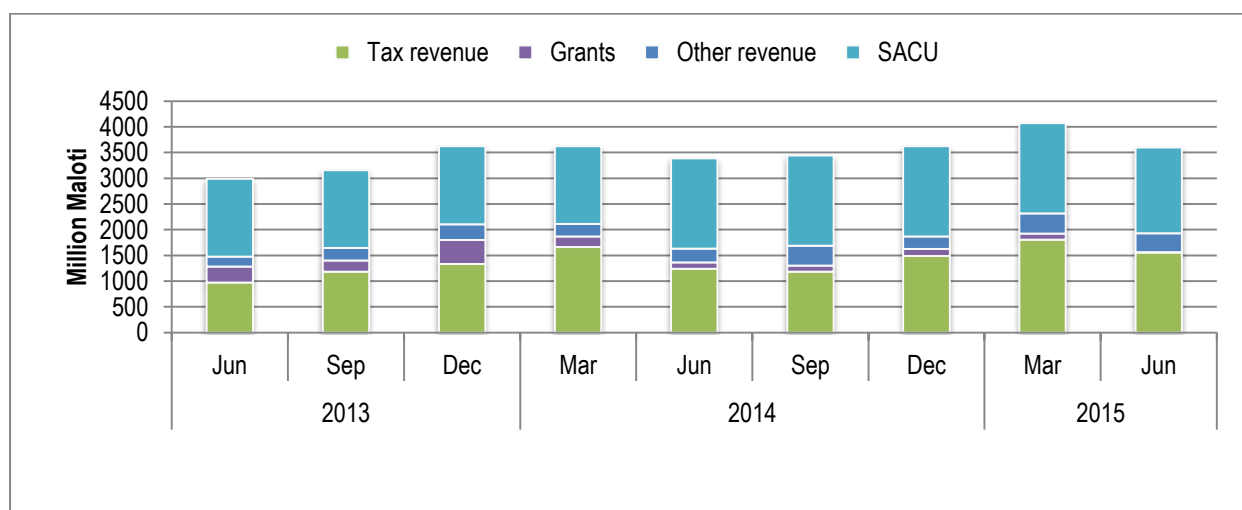
**Source:** Central Bank of Lesotho (CBL) and Ministry of Finance (MOF)

### REVENUE

Total revenue registered 57.1 per cent of GDP in June, 2015 which is down from 64.7 per cent of GDP in the previous quarter. It declined by 11.7 per cent in June, 2015 relative to 12.4 per cent increase in March, 2015. All 4 components of revenue (tax revenue, grants, other revenue and SACU receipts) have declined in the quarter under review. Tax revenue declined by 13.9 per cent in June, 2015 relative to an increase of 21.3 percentage points in March, 2015. Taxes on income went down by 11.8 per cent while value-added tax fell by 15.2 per cent, a reflection of underperformance of Government expenditure (the main contributor to the national economy). The budget speech was only read in May, 2015 while the Appropriation Bill was released in June, 2015. Furthermore, there were no capital grants that were received during the quarter under review. The other revenue component of total revenue is heavily dependent on the dividends

receipts which are very seasonal and so there were no receipts in June, 2015. Similarly, the receipts from SACU revenue pool declined by 5.2 per cent in June, 2015 as per the approved budget for the new fiscal year, 2015/2016.

**Figure 20: Components of Revenue (Million Maloti)**



**Source:** CBL and MOF

## TOTAL EXPENDITURE

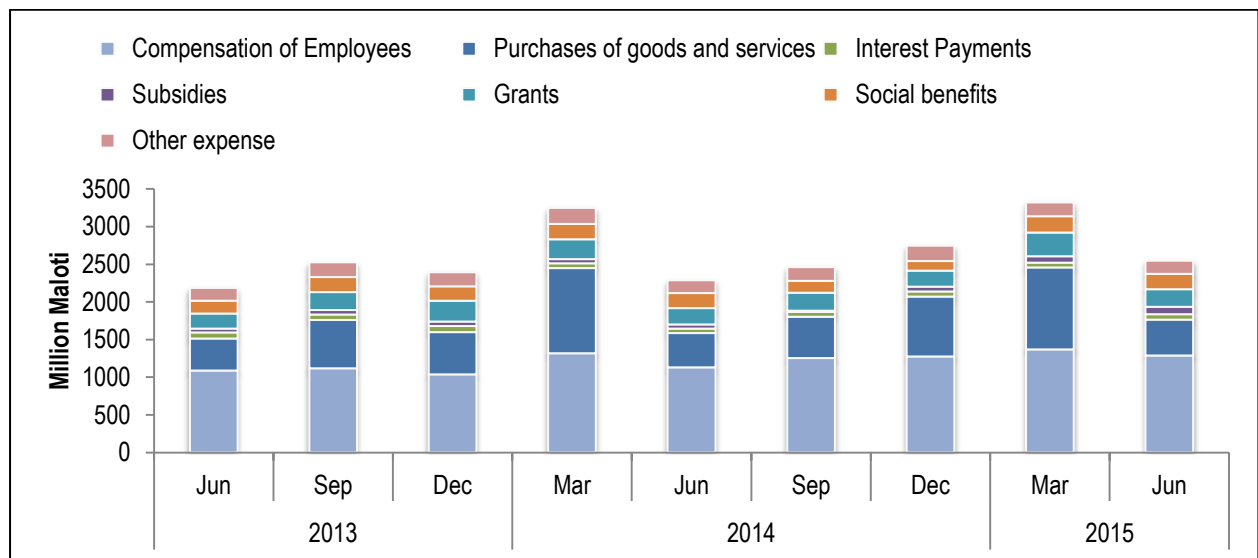
Total expenditure recorded 43.6 per cent of GDP in June, 2015 compared with 64.4 per cent in March, 2015. Thus, it declined significantly by 32.3 percentage points in June, 2015. The expense continued to take the largest share of total expenditure, registering 92.6 per cent in June, 2015 which was up from 81.7 per cent in March, 2015, and the capital expenditure contributed the remaining shares, respectively. The expense fell by 23.3 per cent in the quarter under review, relative to an increase of 20.9 percentage points in the previous quarter. The capital spending declined by 72.4 per cent in June, 2015 compared with 9.3 per cent fall in March, 2015.

Apart from interest payments and subsidies, most expense components declined in June, 2015 as compared to March, 2015. The main reason was the late release of Appropriation Bill. The compensation of employees, which would not necessarily be affected by the late release of Appropriation Bill, decreased by 5.9 per cent corresponding to M80.5 million in the quarter under review relative to 7.4 per cent rise in March, 2015. Thus, wages and salaries, despite the 6 per cent salary adjustment according to Budget Speech 2015/2016, decreased marginally by 2.0 per cent (or M22.8 million) while the Government pension contribution together with unfunded civil pension and gratuities fell by 23.4 per cent during the quarter under review. The purchases of goods and services fell by 56.2 per cent in June, 2015 (an equivalent of M611.3 million) compared to a rise of 36.7 per cent registered in March, 2015. The social benefits, similarly, fell by 6.9 per cent during the quarter under review relative to an increase of 71.5 per cent in the previous quarter. Other expense has continued declining by 5.5 per cent in June, 2015 compared

with 9.7 per cent in March, 2015. This decline is due to fluctuations in the spending of other items including ‘transfers to institutions caring for orphans’.

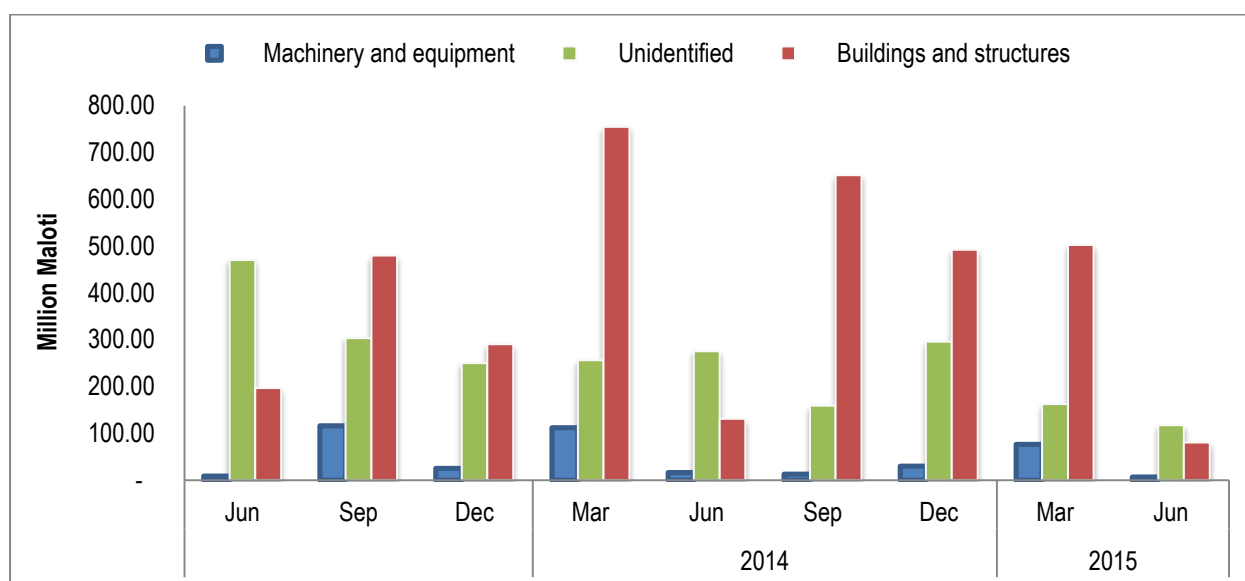
Capital expenditure contributed 3.2 per cent to GDP in June, 2015 which is down from 11.8 per cent in March, 2015. It is driven by large spending on buildings and structures. So a change in buildings and structures causes a significant change in the total capital expenditure. During the first quarter of fiscal year, the spending on buildings and structures fell by 84.0 per cent (or M422.3 million) compared to an increase of 2.2 per cent in last quarter of the fiscal year. This decline reflects the absence of Government counterpart contribution into on-going projects and/or absence of Government funds on new projects which have to await the Parliament’s approval of Appropriation Bill.

**Figure 21: Economic classification of Expense (Million Maloti)**



Source: CBL and MOF

Figure 22: Transactions in Non-financial assets or Capital expenditure (Million Maloti)



Source: CBL and MOF

Table 13: Statement of Sources and Uses of Cash (Million Maloti)

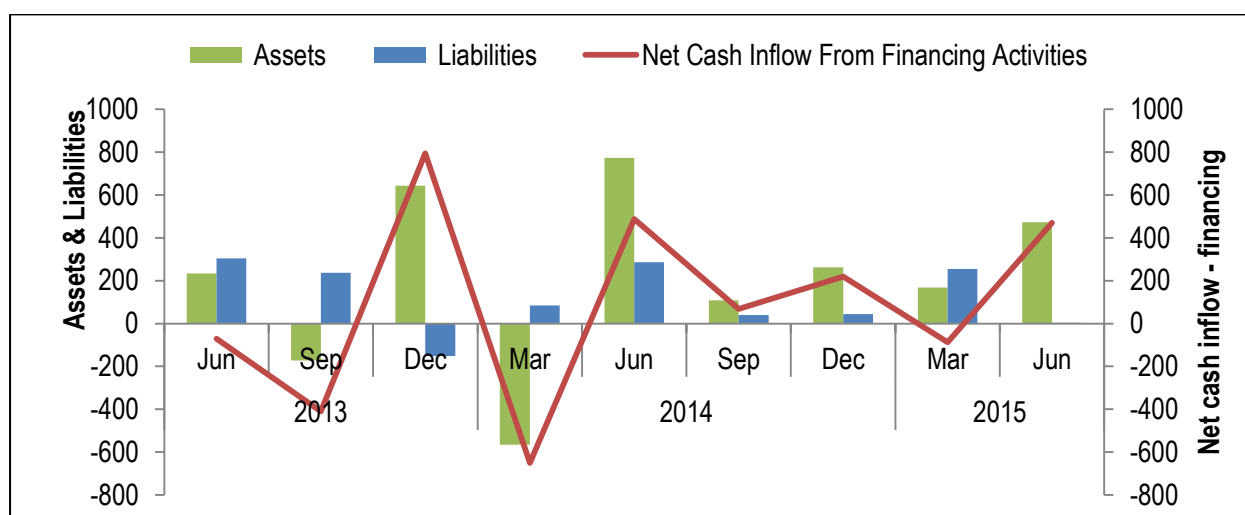
	2014				5015		Changes (%)	
	Mar	Jun	Sep	Dec	Mar	Jun	Q-to-Q	Y-on-Y
<b>Total Revenue</b>	<b>3,629.40</b>	<b>3,391.62</b>	<b>3,446.88</b>	<b>3,629.79</b>	<b>4,078.35</b>	<b>3,602.30</b>	<b>-11.7</b>	<b>6.2</b>
Tax revenue	1,664.35	1,243.30	1,187.13	1,493.56	1,811.00	1,558.61	-13.9	25.4
Grants	208.66	123.60	117.40	136.40	118.30	7.95	-93.3	-93.6
Other revenue	242.75	266.21	383.83	241.30	390.53	368.28	-5.7	38.3
SACU receipts	1,513.64	1,758.52	1,758.52	1,758.52	1,758.52	1,667.45	-5.2	-5.2
<b>Total Expense</b>	<b>3,248.36</b>	<b>2,286.59</b>	<b>2,459.53</b>	<b>2,745.93</b>	<b>3,319.65</b>	<b>2,545.20</b>	<b>-23.3</b>	<b>11.3</b>
Compensation of Employees	1,315.76	1,128.43	1,250.76	1,272.93	1,366.98	1,286.47	-5.9	14.0
Purchases of goods and services	1,132.14	456.15	551.72	795.40	1,087.22	475.88	-56.2	4.3
Interest Payments	63.09	58.49	62.83	70.70	65.14	72.81	11.8	24.5
Subsidies	55.68	57.98	15.02	62.58	86.38	99.82	15.6	72.2
Grants	264.36	215.33	238.72	213.62	311.57	233.24	-25.1	8.3
Social benefits	202.33	197.62	159.96	127.81	219.17	203.96	-6.9	3.2
Other expense	215.00	172.59	180.51	202.91	183.19	173.02	-5.5	0.2
<b>Net Cash Inflow From Operating Activities</b>	<b>381.05</b>	<b>1,105.03</b>	<b>987.35</b>	<b>883.85</b>	<b>758.70</b>	<b>1,057.10</b>	<b>39.3</b>	<b>-4.3</b>
<b>Total Nonfinancial Assets</b>	<b>1,123.10</b>	<b>423.11</b>	<b>823.25</b>	<b>766.00</b>	<b>741.56</b>	<b>204.79</b>	<b>-72.4</b>	<b>-51.6</b>
Fixed Assets	1,123.10	423.11	823.25	766.00	741.56	204.79	-72.4	-51.6
Non-Produced Assets	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.0
<b>Cash deficit(-)/surplus(+)</b>	<b>-742.05</b>	<b>681.92</b>	<b>164.10</b>	<b>117.85</b>	<b>17.14</b>	<b>852.31</b>	<b>-</b>	<b>-</b>
<b>Net Cash Inflow From Financing Activities</b>	<b>650.69</b>	<b>-487.74</b>	<b>-68.73</b>	<b>-218.73</b>	<b>86.97</b>	<b>-470.29</b>	<b>-</b>	<b>-</b>
Net Acquisition of Financial assets	565.57	-773.85	-108.90	-263.07	-167.80	-473.61	-	-
Net Incurrence of Liabilities	85.11	286.11	40.17	44.34	254.77	3.32	-	-
Statistical Discrepancy	-91.37	194.18	95.37	-100.88	104.11	382.02	-	-

Source: CBL and MOF

## FINANCIAL ASSETS AND LIABILITIES

The net financial assets recorded an increase in deposits amounting to M470.3 million in June, 2015 compared to a fall of M87.0 million in March, 2015. The fall in March, 2015 is not in line with the budget surplus but due to statistical discrepancy in relation to above-the-line items. Thus, the financial assets registered M473.6 increase in June, 2015 compared with M167.8 million in the previous quarter. The increase in financial assets is due to accumulation of Government deposits in the Central Bank coupled with low spending by the Government during the quarter under review. The liabilities on one hand, recorded M3.3 million during the quarter under review relative to the revised M254.8 million in the previous quarter. The reason for the decline in liabilities in June, 2015 is due to the fall in the foreign loan disbursements by M276.7 million out of which about M260.6 million was only for Metolong Dam Project that was recorded in March, 2015.

**Figure 23: Net Financial Assets (Million Maloti)**



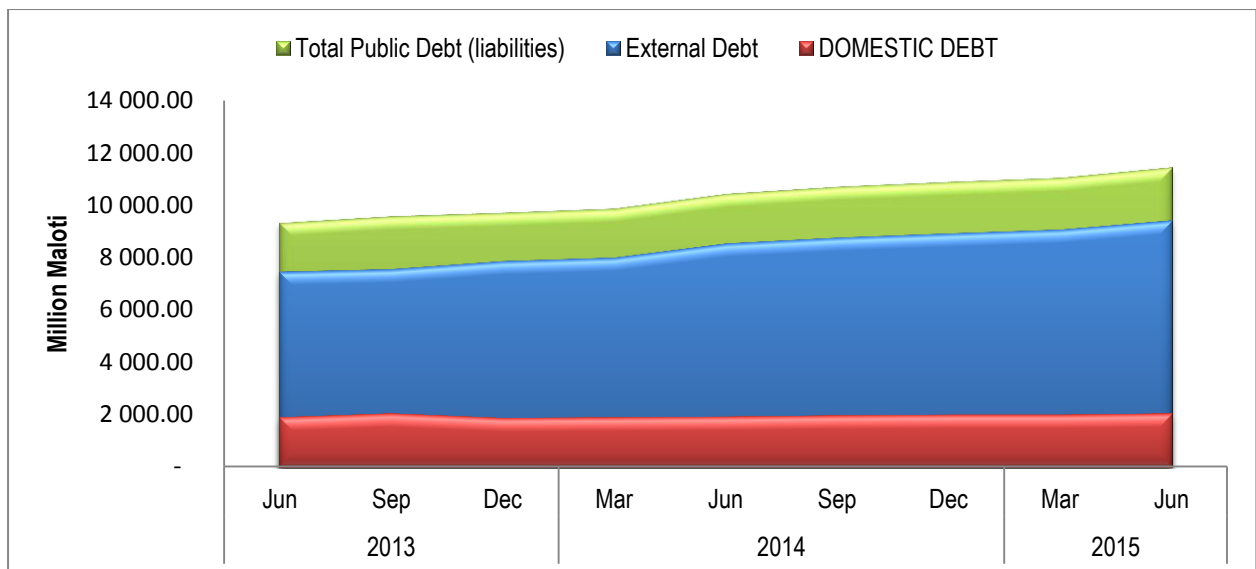
**Source:** CBL and MOF

## TOTAL PUBLIC DEBT

The total public debt (including publicly guaranteed debt) amounted to the M11,461.2 million as at 30<sup>th</sup> June, 2015, reflecting an increase of M403.3 of new debt from March, 2015. It accounted for 45.4 per cent of GDP during the quarter under review relative to 43.8 per cent in March, 2015. Lesotho has, so far, managed to maintain its stock of debt within the 60 per cent threshold on nominal public debt to GDP ratio for low income countries, reflecting debt sustainability in terms of concessional external debt and long term maturity. The public debt increased by 3.6 per cent during the quarter under review which is up from 1.4 per cent experienced in March, 2015. The external debt contributed 82.2 per cent of total public debt stock in June, 2015 while the domestic debt stock took the remaining share.

The external debt stock increased by 4.0 per cent in June, 2015 compared with 1.7 per cent in March, 2015. The stock of external debt in June, 2015 was M9, 424.8 million. This increase is due to change in the stock of debt under multilateral loans and suppliers' credit amounting to M333.64 million, reflecting a combination of disbursements and exchange rate effects. The big projects, whose implementation was on-going during the quarter of June, 2015 included Metolong Dam for Potable Water Project, Telecom National Network Phase II Project, Construction of Infrastructure and Industrial Shells at Tikoe Project, Smallholder Agricultural Development Project, and Second Private Sector Competitiveness and Economic Diversification Project. Furthermore, the domestic debt stock accumulated to M2, 086 million in June, 2015, showing an increase of 4.7 per cent from the stock of March, 2015. The main drivers for the increase of stock include M47.6 million rise on the loan from Central Bank of Lesotho (extended credit facility), and M7.8 million under short-term treasury bills of non-bank sector.

**Figure 24: Outstanding Public Debt (Million Maloti)**



**Source:** CBL and MOF



**Table 14: External Debt (Million Maloti)**

	2014				5015		Debt / GDP (%)	
	Mar	Jun	Sep	Dec	Mar	Jun	Mar-15	Jun-15
<b>EXTERNAL DEBT</b>	<b>7,996.78</b>	<b>8,535.74</b>	<b>8,760.77</b>	<b>8,918.76</b>	<b>9,066.14</b>	<b>9,424.76</b>	<b>35.95</b>	<b>37.37</b>
Bilateral Loans	558.72	640.64	703.06	760.65	828.74	853.72	3.29	3.39
Concessional	558.72	640.64	703.06	760.65	828.74	853.72	3.29	3.39
Non-concessional	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Multilateral Loans	6,887.04	7,306.79	7,469.46	7,538.38	7,608.65	7,909.47	30.17	31.36
Concessional	6,109.98	6,200.06	6,381.50	6,471.57	6,349.69	6,602.89	25.18	26.18
Non-concessional	777.05	1,106.73	1,087.96	1,066.81	1,258.96	1,306.58	4.99	5.18
Financial Institutions	57.93	57.93	59.20	56.52	55.08	55.08	0.22	0.22
Concessional	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Non-concessional	57.93	57.93	59.20	56.52	55.08	55.08	0.22	0.22
Suppliers' Credit	493.10	530.38	529.04	563.22	573.68	606.50	2.27	2.40

**Source:** MOF**Table 15: Domestic Debt (Million Maloti)**

	2014				5015		Debt / GDP (%)	
	Mar	Jun	Sep	Dec	Mar	Jun	Mar-15	Jun-15
<b>DOMESTIC DEBT</b>	<b>1,886.83</b>	<b>1,912.33</b>	<b>1,958.09</b>	<b>1,986.86</b>	<b>1,991.69</b>	<b>2,036.39</b>	<b>7.90</b>	<b>8.07</b>
<b>Banks</b>	1,563.99	1,563.61	1,569.34	1,576.07	1,567.49	1,606.46	6.22	6.37
Long-term (t-bonds)	1,157.65	1,157.16	1,171.35	1,168.82	1,160.24	1,209.88	4.60	4.80
o/w: Central Bank (IMF)	839.35	835.66	849.73	847.13	823.34	870.91	3.26	3.45
Short-term (t-bills)	406.34	406.46	397.99	407.25	407.25	396.58	1.61	1.57
<b>Non-bank</b>	322.84	348.71	388.75	410.79	424.20	429.93	1.68	1.70
Short-term (t-bills)	136.66	149.06	172.47	178.72	187.93	195.73	0.75	0.78
Long-term (t-bonds)	186.19	199.65	216.28	232.07	236.27	234.20	0.94	0.93

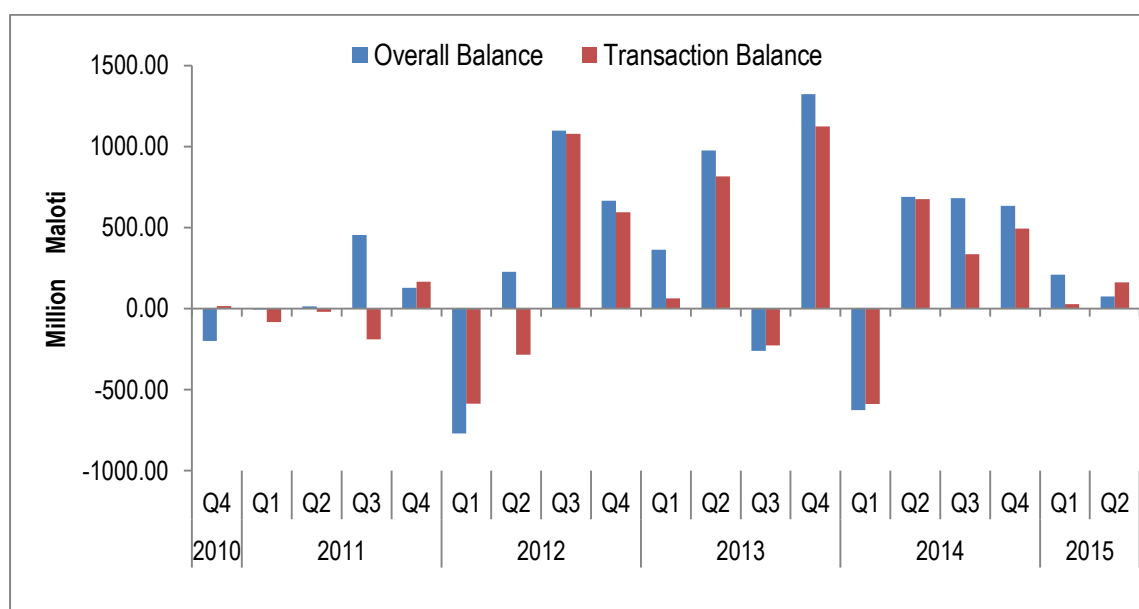
**Source:** CBL

## 6. Foreign Trade and Payments

### OVERVIEW

During the second quarter of 2015, the external sector continued to be in surplus, albeit a narrower one compared to that of the previous quarter. The overall balance registered a surplus of M74.1 million or 1.2 per cent of GDP in the review quarter, following a surplus of M208.2 million, equivalent to 3.3 per cent of GDP in the previous quarter. The surplus emanated from the narrowing of current account deficit due to an increase in the income account balance and lower payments for services acquired abroad. The observed performance was also supported by a higher capital and financial account balance. The transactions balance, which represents the overall balance excluding the effects of currency fluctuations, registered a surplus of M161.7 million in the review quarter, relative to a surplus of 27.2 million in the previous quarter.

**Figure 25: External Sector Position (Million Maloti)**



**Source:** Central Bank of Lesotho

### CURRENT ACCOUNT

In the second quarter of 2015, the current account deficit narrowed to M450.1 million from a deficit of M936.7 million in the previous quarter. The improved current account deficit was attributed to a decline in trade account deficit and an increase in income account balance. The narrowing of trade account deficit was driven largely by a fall in merchandise imports which takes the largest share in trade account balance as well as lower payments for services acquired abroad. However, the drop in current transfers' receivables moderated the observed performance in current account deficit as a result of a decrease in SACU revenue during the review quarter. Relative to GDP, the current account balance registered a deficit of 7.2 per cent

in the second quarter of 2015, compared with a revised deficit of 14.9 per cent of GDP in the previous quarter.

**Table 16: Current Account Balance (Million Maloti)**

	2014			2015		% Changes	
	Q2	Q3	Q4	Q1*	Q2+	Q / Q	Y / Y
<b>Current Account</b>	<b>-376.6</b>	<b>-234.5</b>	<b>-690.4</b>	<b>-936.7</b>	<b>-450.1</b>	<b>-51.9</b>	<b>19.5</b>
<b>(a) Goods</b>	<b>-2531.6</b>	<b>-2458.7</b>	<b>-2912.2</b>	<b>-3384.9</b>	<b>-2652.5</b>	<b>-21.6</b>	<b>4.8</b>
Merchandise exports f.o.b.	2324.1	2386.0	2308.2	1980.5	2396.5	21.0	3.1
Of which diamonds	988.2	666.7	752.8	685.8	917.2	33.7	-7.2
Of which textiles and clothing	833.4	1137.5	983.4	688.5	949.2	37.9	13.9
Other exports	830.8	260.3	658.1	539.2	761.5	41.2	-8.3
Merchandise imports f.o.b.	-4855.7	-4844.7	-5220.5	-5365.4	-5049.0	-5.9	4.0
<b>(b) Services</b>	<b>-781.6</b>	<b>-866.7</b>	<b>-894.0</b>	<b>-915.3</b>	<b>-903.2</b>	<b>-1.3</b>	<b>15.6</b>
<b>(c) Income</b>	<b>761.4</b>	<b>902.1</b>	<b>922.5</b>	<b>972.9</b>	<b>998.0</b>	<b>2.6</b>	<b>31.1</b>
<b>(d) Current Transfers</b>	<b>2175.2</b>	<b>2188.7</b>	<b>2193.3</b>	<b>2390.6</b>	<b>2107.5</b>	<b>-11.8</b>	<b>-3.1</b>

+ Preliminary Estimates

\*Revised Estimates

**Source:** Central Bank of Lesotho

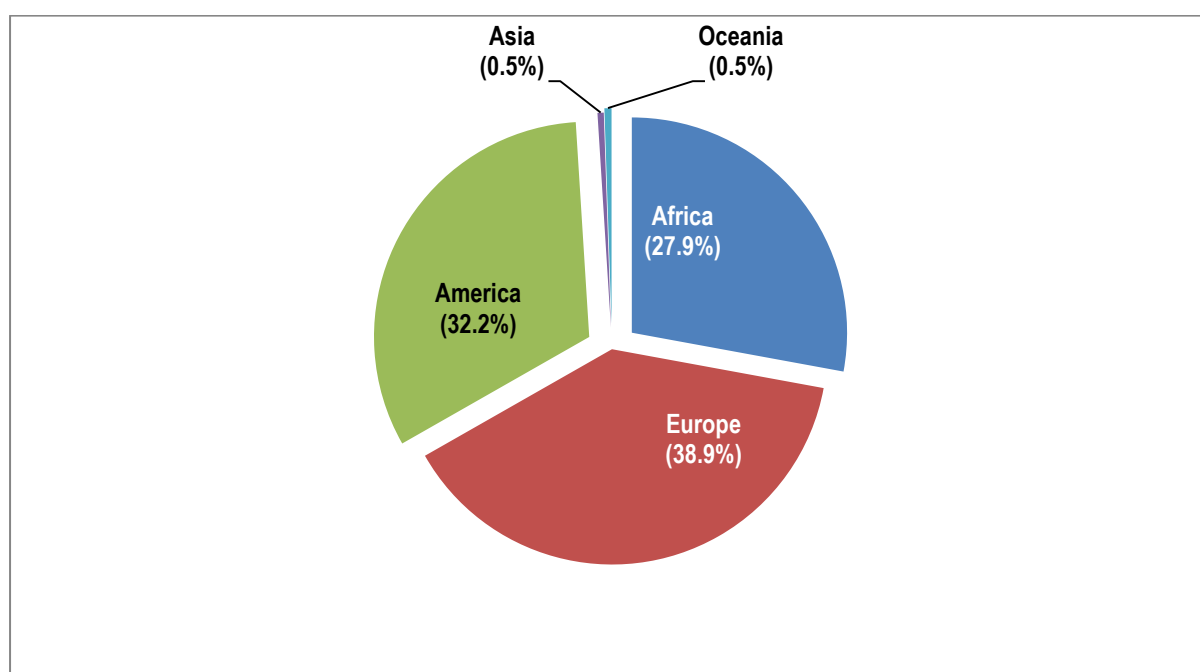
## Merchandise Exports

The value of merchandise exports rose by 21.0 per cent in the review period, in contrast with a decline of 14.2 per cent in the previous quarter. An increase in merchandise exports was largely attributed to increased textiles and clothing exports and diamond exports. Textiles and clothing exports grew by 37.9 per cent in the review quarter compared with a drop of 30.0 per cent in the previous quarter, due to an increase in orders for companies exporting to the US under the AGOA arrangement. Diamond exports rose by 33.7 per cent in the review quarter, following a decline of 8.9 per cent in the previous quarter. This was driven by the growth in diamond mining production as well as favourable diamond prices in the international markets. The Lets'eng diamond mine continued to recover high quality diamonds, which ensured favourable prices despite the currently challenging conditions in the diamond market. Merchandise exports also benefitted from the depreciation of the local currency during the quarter. On an annual basis, merchandise exports rose by 3.1 per cent in the review quarter compared with rise 1.9 per cent in the previous quarter. As a percentage of GDP, merchandise exports constituted 38.2 per cent in the second quarter of 2015, coming from 31.6 per cent recorded in the previous quarter.

## Direction of Trade - Exports

During the second quarter of 2015, the European market continued to be the recipient of the largest share of Lesotho's exports albeit with a lower share of 38.9 per cent of total exports, relative to 43.1 per cent in the previous quarter. This market receives largely Lesotho's diamond exports. The second largest recipient of Lesotho's goods was the American market where a large portion of Lesotho's textiles and clothing exports is destined. It recorded a share of 32.2 per cent during the review period, higher than 25.4 per cent in the preceding quarter. The third destination of Lesotho's exports was Africa, particularly SACU region with a share of 27.9 per cent in the review quarter compared with 30.3 per cent in the previous quarter. The Asia and Oceania markets remained insignificant with a share of 0.5 per cent of exports destined to each market, relative to the share of 0.8 per cent and 0.4 per cent in Asia and Oceania in the previous quarter.

**Figure 26: Direction of Merchandise Exports (Percentage Share)**



**Source:** Central Bank of Lesotho

## Merchandise Imports

In the second quarter of 2015, the value of merchandise imports fell by 5.9 per cent compared with an increase of 2.8 per cent in the previous quarter. The deterioration in merchandise imports was driven largely by the decline in declarations at border posts during the review quarter. However, on an annual basis, merchandise imports grew by 4.0 per cent in the review quarter compared with an increase of 2.3 per cent in the previous quarter. As a percentage of GDP, the value of merchandise imports constituted 80.5 per cent in the quarter ending in June 2015, coming from 85.6 per cent in the quarter ending in March 2015.

## **Services Account**

The net services account continued to display a deficit, reflecting that Lesotho continued to be a net importer of services in the second quarter of 2015. Payments for services acquired abroad declined by 1.3 per cent in the review quarter compared with an increase of 2.4 per cent in the previous period. The reduction in the deficit was influenced largely by the fall in freight and insurance services costs on imported goods. Nonetheless, the deficit in services account rose by 15.6 per cent year-on-year in the review quarter compared with a rise of 21.3 per cent year-on-year in the previous quarter.

## **Income**

The net income account balance increased by 2.6 per cent in the second quarter of 2015, compared with a 5.5 per cent increase registered in the previous quarter. The growth in the net income account balance was driven largely by increased inflows from SA government to continuously support maintenance of LHWP's dams together with a decline in interest payments on Lesotho government external loans. The compensation of employees which takes the largest share of income account remained unchanged during the review period. On an annual basis, the net income account balance rose by 31.1 per cent during the quarter, following a 5.5 per cent growth in the previous quarter. Relative to GDP, the net income account balance was equivalent to 15.9 per cent during the quarter ending in June 2015 compared with 15.5 per cent of GDP registered in the preceding quarter.

## **Current Transfers**

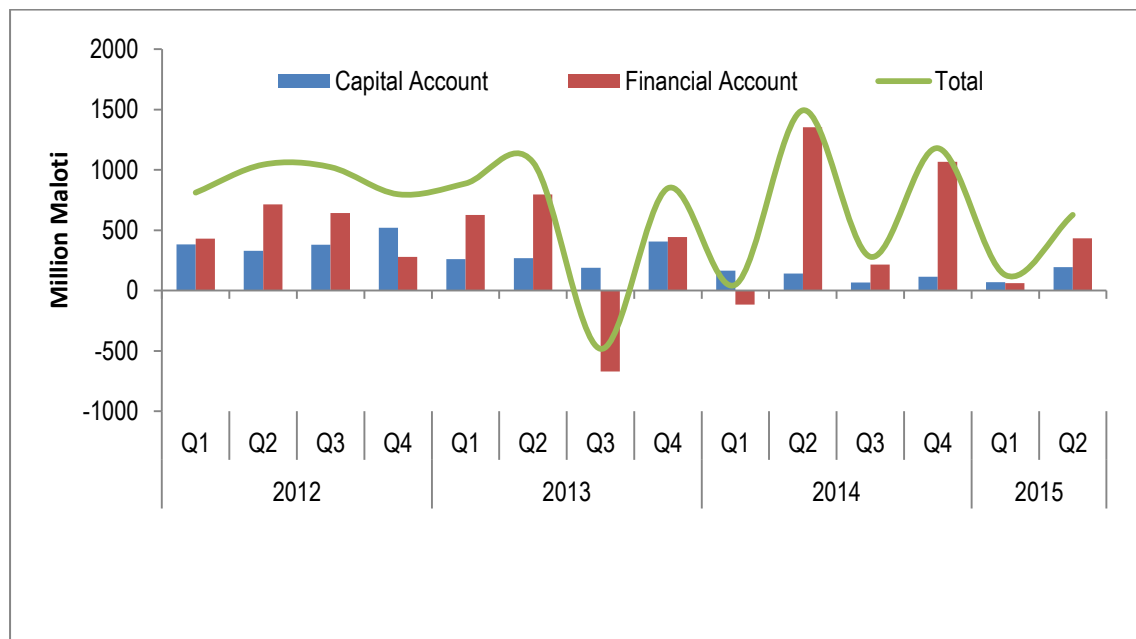
In the second quarter of 2015, net current transfers continued to be positive, supported largely by SACU receipts which constitute the largest share of current transfers. The surplus, however, fell by 11.8 per cent in the review quarter, in contrast with a rise of 9.0 per cent in the previous quarter. The reduction in the surplus emanated from a 5.3 per cent fall in SACU revenue during the quarter. Increase in payments for subscriptions to international organisation during the period also contributed to the lower surplus. On an annual basis, net current transfers dropped by 3.1 per cent in the review quarter compared with a rise of 10.0 per cent in the previous quarter. As a percentage of GDP, the net income account registered 33.6 per cent in the quarter ending in June 2015, following 38.1 per cent in the quarter ending in March 2015.

## **CAPITAL AND FINANCIAL ACCOUNT**

The net capital and financial account continued to be in surplus due to an increase in inflows in both capital and financial accounts in the second quarter of 2015. It registered a surplus of M627.0 million during the quarter, following that of M128.9 million in the previous quarter. The capital account inflows grew significantly to M239.4 million in the review quarter from M114.1 million in the previous quarter. The capital account inflows reflected the continuous support of government projects during the period. The financial account displayed a net inflow of M432.5 million compared with that of M59.7 million in the previous quarter. An increase in inflows

reflected lower accumulation of foreign assets by commercial banks. During the quarter under review, commercial banks increased their foreign assets by M134.5 million against an accumulation in foreign assets to the tune of M769.4 million in the previous quarter. In addition, the inflows in financial account were underpinned by a rise in CBL foreign liabilities during the quarter.

**Figure 27: Capital and Financial Account (Million Maloti)**

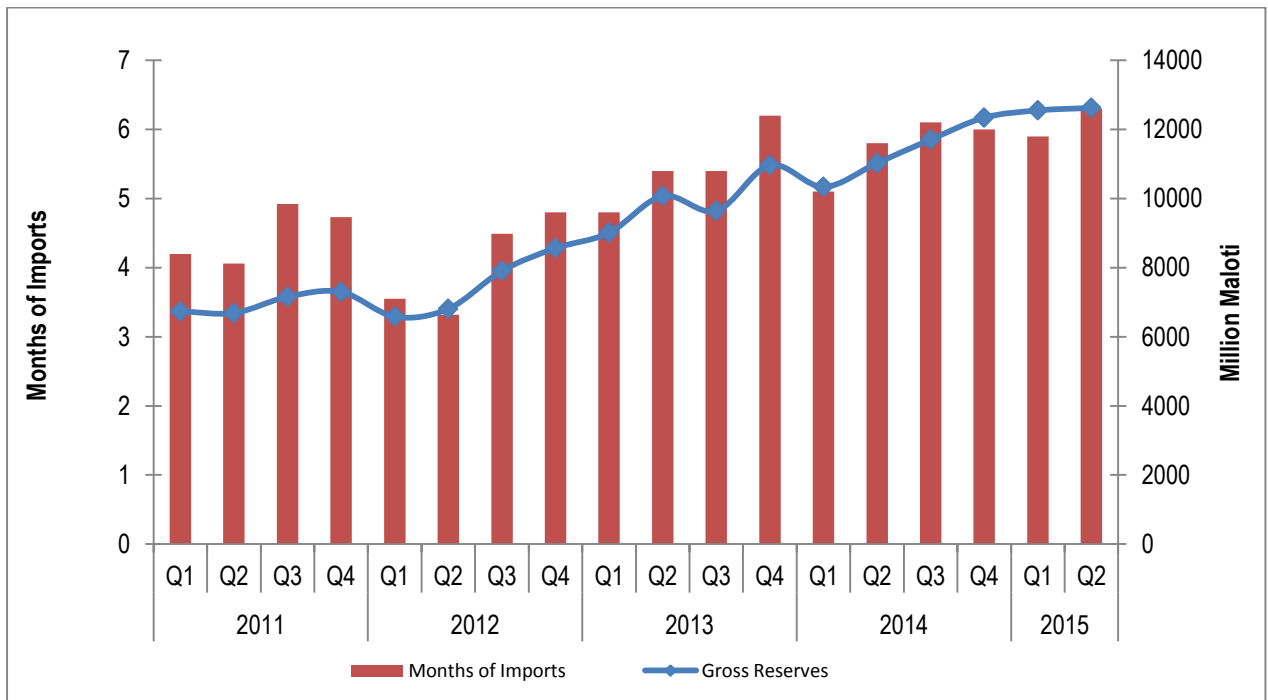


**Source:** Central Bank of Lesotho

### RESERVE ASSETS

During the quarter ending in June 2015, gross international reserves grew by 0.6 per cent to M12.6 billion, compared with a rise of 1.7 per cent in the previous quarter. The smaller growth is attributed largely to a decline in SACU revenue. Measured in months of import cover, gross official reserves rose to 6.3 months in the quarter ending in June 2015, from 5.9 months registered at the end of the previous quarter reflecting a fall in imports during the quarter under review.

**Figure 28: Reserves Assets**



**Source:** Central Bank of Lesotho