

# Central Bank Of Lesotho



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## QUARTERLY REVIEW

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JUNE 2018

MASERU  
KINGDOM OF LESOTHO

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## I. Executive Summary

The global economy experienced an economic slowdown during the second quarter of 2018 due to rising protectionism sentiments, higher energy prices and elevated policy uncertainty. Thus, the employment rate improved in most economies (advanced and emerging) with the exception of South Africa in which the rate of unemployment increased. Inflation rate in some economies accelerated as a result of high oil prices. International prices of gold and platinum fell due to an appreciation of the US dollar while wheat prices declined due to an expansion in area planted coupled with expectations of higher yields in major producing countries. Maize (both white and yellow) prices increased because of poor yields in major producing countries.

The domestic economy recorded a growth driven mainly by manufacturing, electricity, trade, other services and the government subsectors. All the formal employment sectors tracked - manufacturing sector, migrant mineworkers and government - shed some jobs in the review quarter signaling a worsening unemployment situation in the economy. The annual inflation rate decelerated following a slowdown in the prices of major contributors that include "food and non-alcoholic beverages".

The money supply, on a quarter to quarter basis, registered a fall due to a decline in domestic claims, while on a year-on-year basis, it increased. The private sector credit increased because of improvement in loan disbursements for financing of vehicle and asset coupled with relaxing of terms and conditions on personal loans by banks.

The Government budgetary operations recorded a marginal surplus driven by positive performance of major revenue components. The resulting surplus has led to the accumulation of Government deposits with the banking sector. The total public debt stock increased as a result of the contracting new debt as well as the depreciation of the Loti depreciated against major currencies.

The overall external sector position improved due to the improvement in the financial account. The current account positioned weakened due to the poor performance of the income account. The level of official reserves improved to 4.2 months of import cover.

## II. International Economic Developments

The global economy generally slowed down in both major advanced economies and emerging market economies during the second quarter of 2018. Rising protectionist sentiments, higher energy prices and elevated policy uncertainty were some of the factors that reduced the growth momentum worldwide. There was a general reduction in unemployment rate in most major advanced economies and emerging market economies except in South Africa where unemployment increased further.

Inflation rates increased in some economies due to relatively high international oil prices. An exception was Japan where inflation eased due to persistently weak domestic demand conditions. The monetary policy stance was generally accommodative, notwithstanding the continued monetary policy normalisation by the US Federal Reserve. The European Central Bank announced discontinuation of its quantitative monetary easing by the end of this year. Likewise, the Bank of England also hinted that it would consider a policy rate hike in their next monetary policy committee meeting. However, the Bank of Japan maintained its Quantitative and Qualitative Monetary Policy Easing programme aimed at achieving the price stability target of 2 per cent inflation rate. In emerging market economies, the monetary policy stance was mostly accommodative to support growth.

On the commodities front, the international oil prices accelerated due to OPEC production cuts, while gold and platinum prices dropped. The safe-haven demand for the precious metals eased as the dollar strengthened and geopolitical risks subsided. The international wheat prices stabilized mainly due to an expansion in plant areas and expectations of higher yields, amid favourable weather conditions in major producing countries such as China, India, Argentina, Australia and United States of America. The international prices of both white and yellow maize increased as a result of prolonged dry weather conditions which reduced production in major producing countries.

**Table 1: Key World Economic Indicators** (year-an-year)

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	March 2018	June 2018	March 2017	June 2018	March 2017	June 2018	March 2017	June 2018
<b>United States</b>	2.2	4.1	2.4	2.9	1.75	2.00	4.1	4.0
<b>Euro Area</b>	2.5	2.2	1.3	2.0	0.00	0.00	8.5	8.3
<b>Japan</b>	1.0	1.0	1.1	0.7	-0.10	-0.10	2.5	2.4
<b>United Kingdom</b>	1.2	1.3	2.5	2.4	0.50	0.50	4.2	4.0
<b>China</b>	6.8	6.7	2.1	1.9	4.35	4.35	3.9	3.8
<b>India</b>	7.7	N/A	4.3	5.0	6.00	6.25	6.0	N/A
<b>South Africa</b>	0.8	0.4	3.8	4.6	6.50	6.50	26.7	27.2

**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)**

US economic performance improved significantly in the second quarter of 2018. Real GDP growth rate accelerated to US 4.1 per cent year-on-year during the quarter under review, compared with 2.2 per cent in the first quarter of 2018. Strong consumer and business spending supported by the last year's tax cuts, as well, as a surge in exports ahead of retaliatory tariffs from China, helped drive the growth. The US unemployment rate fell to 4.0 per cent during the second quarter of 2018, from 4.1 per cent in the previous quarter, reflecting increased job creation, mostly in professional and business services. A surge in oil prices drove the inflation rate to a record level of 2.9 per cent, compared with 2.4 per cent in the previous quarter. In view of realised and expected labour market conditions and inflation, the Federal Reserve raised the target range for the federal funds rate to 1.75 to 2.00 per cent. The Federal Reserve indicated that it would continue with gradual increases in the federal funds rate in the future.

### **EuroArea**

During the second quarter of 2018, real economic growth rate for the euro area decelerated to 2.2 per cent year-on-year after rising by 2.5 per cent in the first quarter in 2018. Sustained political uncertainty in some members of the union and an exchange rate appreciation caused the moderation in growth. Despite the subdued economic growth, an increase in part-time workers between the first and second quarters in 2018 underpinned a reduction in the unemployment rate from 8.5 per cent to 8.3 per cent.

Rising energy prices pushed the inflation rate to 2.0 per cent, compared with 1.3 per cent in June 2017. The European Central Bank (ECB) kept its key policy rate unchanged at 0.00 per cent to drive inflation to the desired target of 2.0 per cent. The ECB made official announcement to withdraw a quantitative monetary easing by the end of this year.

### **Japan**

The Japanese economy continued to grow at the same rate of 1.0 per cent year-on-year, as in the previous quarter, despite over five years of massive stimulus interventions. The unemployment rate was estimated to be lower at 2.4 per cent during the second quarter in 2018, compared with 2.5 per cent during the previous quarter. This was attributed mainly to job creation in the services sector.

Inflation rate eased to 0.7 per cent year-on-year, down from 1.1 per cent in the previous quarter of 2018. Industrial mass production and stiff market competition continued to weigh on prices. In addition, soft wage growth, subdued inflation expectations and weak domestic demand conditions contributed to disinflationary pressures, despite a strengthening of the labour market. Consequently, the Bank of Japan kept its policy rate unchanged at -0.1 per cent given the sluggish economic performance. Also, the Bank continued with the Quantitative and Qualitative Monetary Policy Easing programme aimed at stimulating economic growth and achieving the price stability target of 2 per cent.

## **United Kingdom (UK)**

UKs real GDP growth rate during the second quarter of 2018 was 1.3 per cent year-on-year, compared with 1.2 per cent in the previous quarter. Services and construction activity spurred economic growth, which recovered after severe weather conditions depressed economic activity in the preceding quarter. Industrial production remained subdued due to a slowdown in manufacturing sector which reflected an easing in global demand. Ongoing changes to the State pension age, which aimed at increasing the retirement age, resulted in fewer retirements especially for women. This helped to reduce the unemployment rate further to 4.0 per cent in the second quarter of 2018, compared with 4.2 per cent in the previous quarter.

The annual inflation rate eased to 2.4 per cent following a sustained decline which mostly reflected a dissipating impact of a sustained depreciation of the pound sterling since the Brexit vote - a weak pound sterling pushed up the cost of imported goods. Soft wage growth has also kept the inflation rate low. Therefore, the Bank of England (BOE) decided to keep its policy rate unchanged at 0.5 per cent. The BOE also decided to maintain the stock of corporate and UK government bond purchases. The BOE did hint at a policy rate hike in the near term in light of the inflation outlook and labour market developments.

## **EMERGING MARKET ECONOMIES**

### **China**

In China, the real GDP growth rate eased to 6.7 per cent in the quarter ended in June 2018 from 6.8 per cent in the first quarter of 2018. The Chinese economy slowed after the government tightened the regulations and oversight of the banking sector to avert a debt crisis during the second quarter. The intensified regulatory control on shadow banking activities caused credit supply shortages. This led to an increase in borrowing costs for private companies and depressed economic activity, which was reflected by the slow credit growth and muted real estate activity. In addition, the export demand waned as trade tensions with the US intensified, and thus, led to a fall in both exports and industrial production. However, the growth slowdown was moderated by a slight pickup in the consumer spending.

Increased labour demand in the intermediary service sector contributed to reduction in the unemployment rate to 3.8 per cent from 3.9 per cent in the previous quarter. A sharp slowdown in food inflation after the Chinese New Year drove the inflation rate to 1.9 per cent year-on-year, compared with 2.1 per cent in the previous quarter. The People's Bank of China left interest rates for open market operations unchanged at 4.35 per cent to foster macro stability.

### **India**

The Indian economy continued to grow strongly during the second quarter of 2018. The annual real GDP rose by 8.2 per cent during the second quarter of 2018, compared with a 7.7 per cent growth rate in the previous quarter. This reflected improved economic activity mainly in the manufacturing and service sectors which grew by over 7.0 per cent during the review quarter. The manufacturing sector continued benefiting from the "Make in India initiative" launched in



2014, which aimed to increase the manufacturing contribution from the current 17 per cent to 25 per cent of tDP. The services sector has benefited from Digital India initiative launched in 2015, which focused on three core components: creation of digital infrastructure, delivering services digitally and to increase the digital literacy.

The persistent depreciation of the Indian rupee against the US dollar increased import prices, especially for crude oil. As a result, the inflation rate remained elevated at 5 per cent year-on-year, compared with 4.3 per cent in the previous quarter. In response to these developments, the Reserve Bank of India hiked its repo rate by 25 basis points to 6.25 per cent.

## South Africa

The real annual GDP growth rate decelerated to 0.4 per cent during the second quarter of 2018, from 0.8 per cent in the previous quarter. A slowdown in the growth rate was mainly driven by the decline in output from the agriculture and transport subsectors as well as slowing output in energy and water industries. In terms of the quarter-to-quarter growth rate, the South African economy dipped into a technical recession as it contracted for the second time during the quarter under review having experienced a decline in the first quarter of 2018. Similar to the factors driving the annual growth, the largest negative contributors to the quarter-to-quarter GDP growth rate were the agriculture, transport and trade subsectors.

Job losses in the manufacturing sector and growth in the labour force increased the unemployment rate to 27.2 per cent during the second quarter of 2018, compared with 26.7 per cent in previous quarter. Annual inflation rate rose to 4.6 per cent from 3.8 per cent, mainly because of increased prices of housing & utilities, and transport amid higher fuel oil prices. The South African Reserve bank kept the repo rate unchanged at 6.5 per cent per annum given the forecast inflation trajectory and the current state of the economy.

## COMMODITIES

### Minerals

#### *Gold*

In second quarter of 2018, the gold price increased by 3.8 per cent on a year-on-year basis following a sharp increase of 9.1 per cent in the previous quarter. The deceleration in prices was due to a number of factors. Firstly, there had been a slowdown in the demand for safe haven assets as geopolitical tensions eased after the US signed a peace agreement with North Korea and began trade negotiations with China. Secondly, the rising interest rates in the US made gold less attractive to investors. Lastly, the stronger US currency made dollar-denominated gold more expensive for overseas buyers. Gold prices, however, increased in maloti terms because of the depreciation in the domestic currency.

**Figure 1: Average Price of Gold**

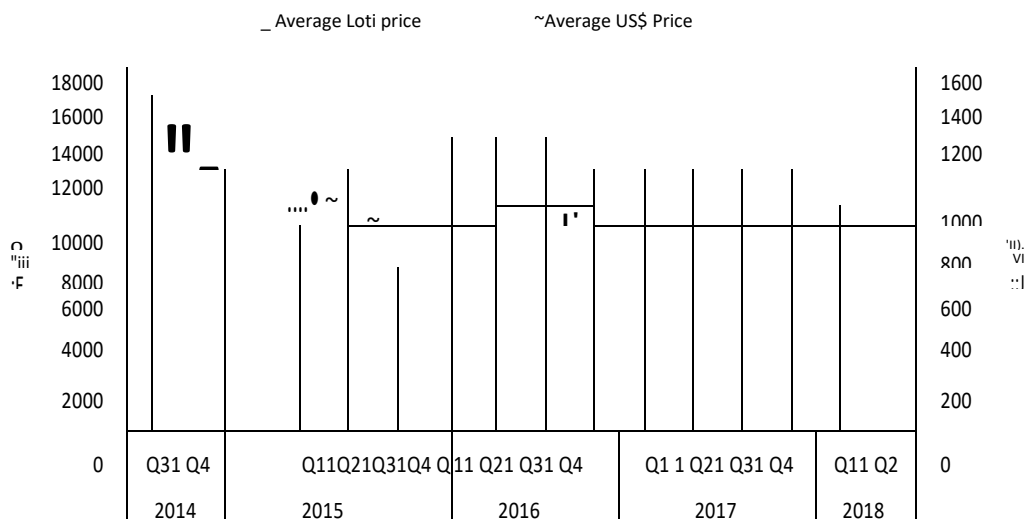


Source: Bloomberg

### Platinum

Platinum prices fell by 3.9 per cent, year on year during the second quarter of 2018 in comparison to a 0.2 per cent decline in the previous quarter. The proliferation of electric cars that do not require the use of platinum to cut pollution, the weaker demand from jewellers in India and increased global supply of platinum weighed on platinum prices.

Figure 2: Average Price of Platinum



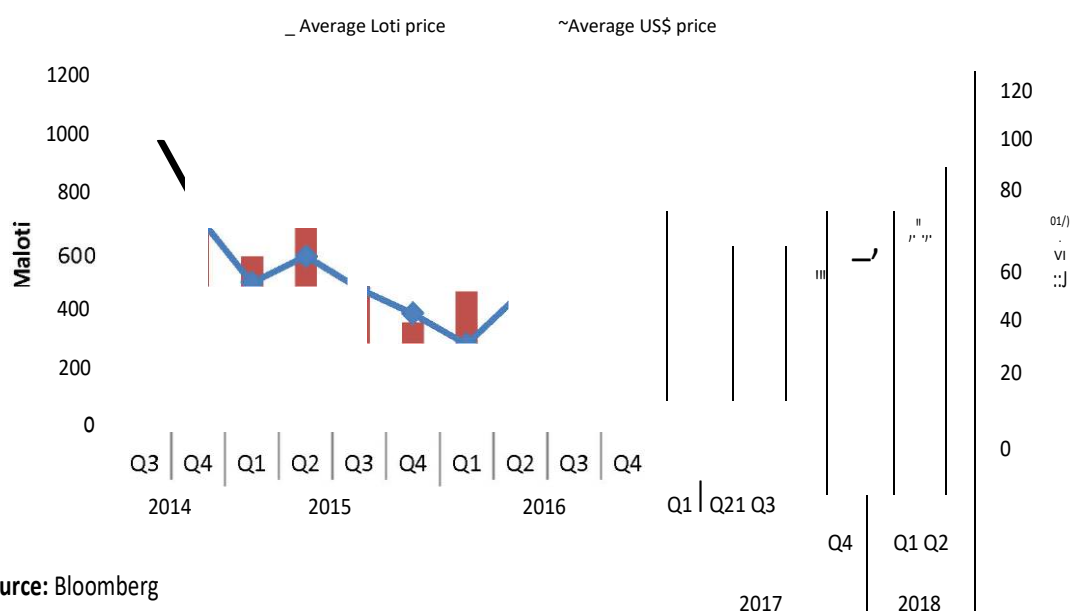
Source: Bloomberg

### Energy

## Oil

During the second quarter of 2018, the oil prices recorded an annual increase of 48.5 per cent following a rise of 24.5 per cent increase in the previous quarter. The oil prices surged on account of both supply and demand factors. Notably, OPEC and non-OPEC countries continued to cut production in an attempt to prop up the oil prices. A reinstatement of the US trade sanctions against Iran and an economic crisis in Venezuela reinforced a reduction in the global oil supply, which propelled the oil prices further up. In addition, the oil market prices rose after China announced its intention to open up the economy and cut import tariffs, which indicated that the trade dispute between the United States and China might be resolved without considerable damage to the global economy. Overall, the oil prices accelerated despite increased US crude oil production which continued to undermine the efforts by OPEC to reduce the supply glut in the global markets.

**Figure 3: Average Price of Oil**



Source: Bloomberg

## Agricultural Produce

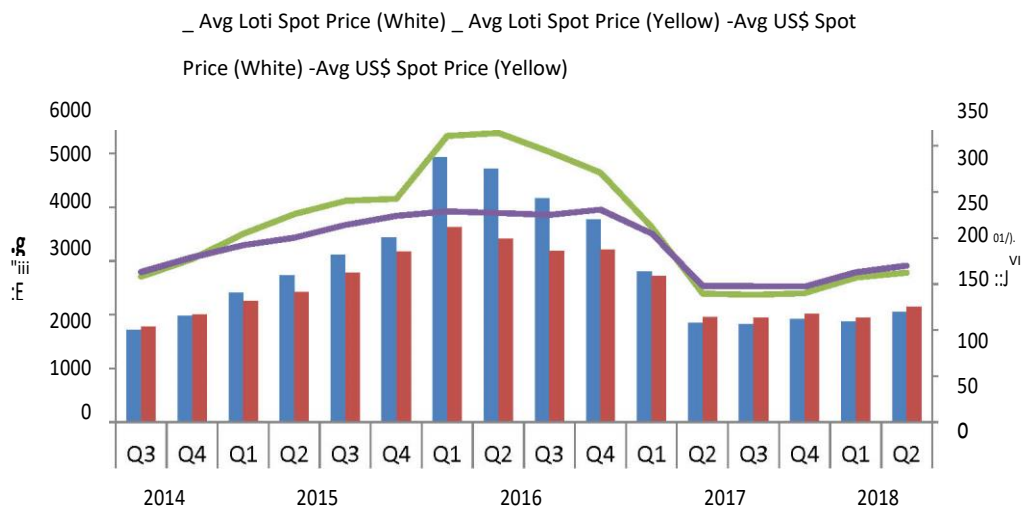
### Maize

A significant increase in the prices of white and yellow maize was realised during the second quarter of 2018. The price of white maize rose by 16.0 per cent year-on-year from a decline of 26 per cent, while that of yellow maize registered a 14.9 per cent year-on-year increase from a 20.6 per cent fall in the quarter ending in March 2018. The maize price increase was mainly driven by reduced production in key producing countries particularly in Argentina and Brazil due to adverse weather conditions. In Southern Africa, the below-average rainfall and higher-than-average temperatures in January 2018 that were followed by heavy rainfall in February and March, led to low yields. Thus, the maize production was expected to drop to below-average levels in the region especially in South Africa. Production also declined as farmers in countries

such as China and Brazil decided to plant more profitable crops such as soybeans. These declines were expected to be partly offset by improved yield prospects in the Russian Federation, Ukraine and the United States of America. During the previous quarter the prices of both white and yellow maize had dropped respectively by 26.0 per cent and 20.6 per cent year-on-year. That was on account of accumulated surpluses from the previous year's bumper harvest.

In maloti terms, the average price of white maize increased 11.2 per cent on an annual year basis from a decline of 33.2 per cent in the first quarter of 2018 while that of yellow maize rose by 10.1 per cent following a decline of 28.3 per cent per cent in the previous quarter. The substantial increase in maloti maize prices was compounded by the weak local currency. Thus, food security conditions were expected to worsen in the region including in Lesotho.

**Figure 4: Average Price of Maize**



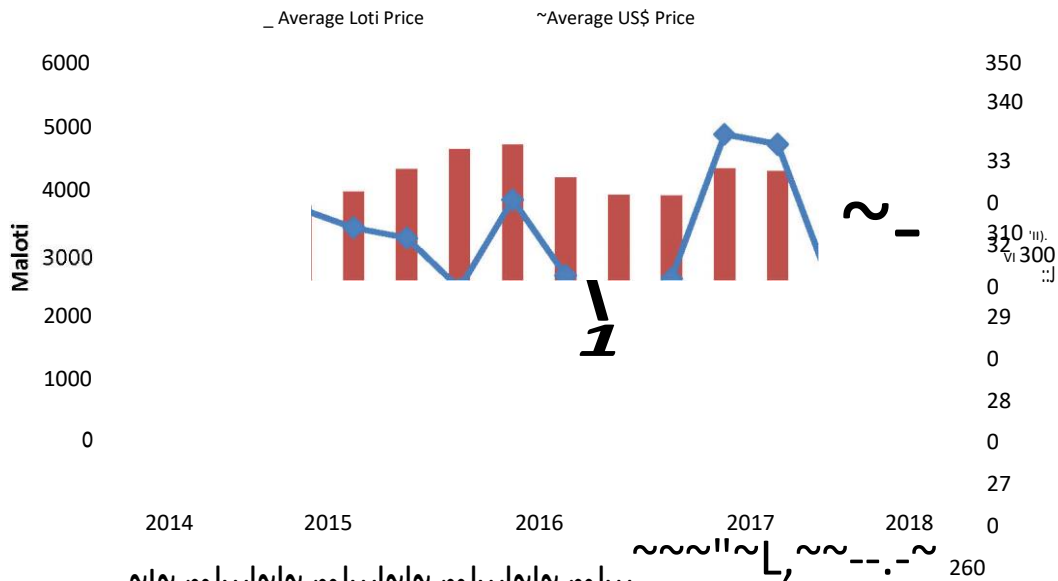
Source: Bloomberg

*1f:71eat*

During the second quarter of 2018 the wheat prices decreased by 8.1 per cent, year-on-year, after an increase of 1.8 per cent in the previous quarter. The wheat prices mainly decreased as a result of the estimated expansion in plantings and expectations of higher yields given beneficial weather conditions in China, India, Argentina, Australia and United States of America. Unfavourable weather reduced the area planted and expected yields in Russia and Brazil.

Expressed in maloti, wheat prices fell by 12.0 per cent, year-on-year, during the second quarter of 2018 to M3,888 per bushel, from M4,419 per bushel during the second quarter of 2017.

Figure 5: Average Price of Wheat

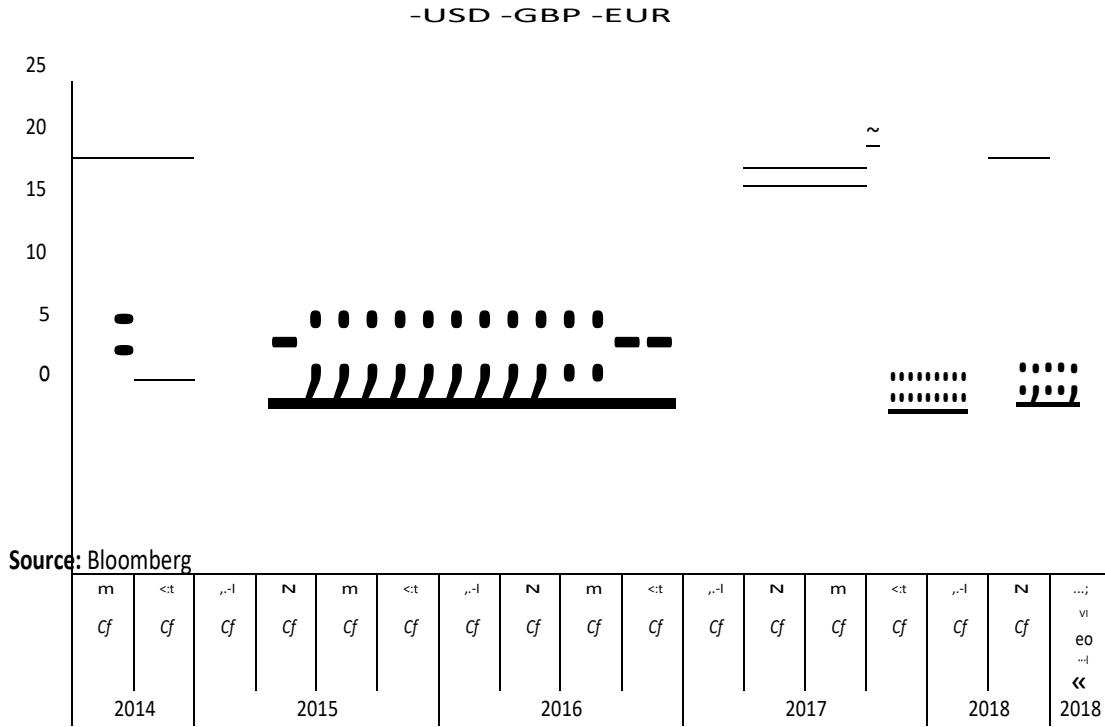


Source: Bloomberg

### EXCHANGE RATES

Exchange rate developments during the quarter second quarter of 2018 were influenced by global rather than domestic factors. The loti/rand depreciated, on average, by 5.8 per cent, 2.5 per cent and 3.1 per cent against the US dollar, Euro and the British pound, respectively during the second quarter of 2018. In the previous quarter, the loti appreciated by 12.6 per cent, 8.7 per cent and 8.0 per cent against the dollar, the Euro and the British pound, respectively. The dollar rose against the backdrop of recent US Federal reserve's rate hikes coupled with the rising US bond yields. There was a widespread selloff of risky assets in emerging market currencies in favour of rising US bond yields, which boosted the value of the US dollar against the loti. The Euro rallied after Italy's new coalition government which faced a challenge of high public debt pledged to implement structural reforms, which would restore investors' confidence in the region. The British pound gained on investor expectations that the Bank of England would start hiking its policy rate in the near term.

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



## II. Real Sector Developments

### OVERVIEW

On a seasonally-adjusted basis, the measure of economic activity realized a significant and stable growth in the second quarter of 2018. The growth was supported by manufacturing, electricity, trade, other services and the government subsector. The labour market performed poorly; with the manufacturing sector shedding some jobs, the number of migrant mineworkers decreasing as well as the number of government employees. Inflationary pressures have eased in comparison with the previous quarter.

### OUTPUT DEVELOPMENTS

The measure of real sector economic activity, the economic activity indicator (EAI) has accelerated to 5.5 per cent in the quarter under review compared with a revised 5.4 per cent growth in the previous quarter. Underpinning the acceleration were significantly improved activity in Government, Other Services, while Manufacturing maintained and slightly improved upon the elevated performance registered in the previous quarter.

**Table 1: Economic Performance by Industry'** (*Quarter to Quarter Percentage Changes*)

	Weight	2017			2018	
		Q2	Q3	Q4	Q1	Q2
<b>EAI</b>	<b>100</b>	<b>-2.6</b>	<b>4.4</b>	<b>3.3</b>	<b>5.4</b>	<b>5.5</b>
<b>Primary Sector</b>						
Mining	8.9	15.3	11.8	-2.2	2.5	-3.2
<b>Secondary Sector</b>						
Manufacturing	18.5	-0.5	6.9	-6.5	8.8	9.6
Electricity	1.1	1.5	2.3	-1.5	-1.3	1.4
Water	4.9	-2.4	-2.2	13.8	7.0	-6.3
Construction	7.6	9.7	-1.5	18.7	17.3	-22.2
<b>Tertiary Sector</b>						
Trade	11.0	5.5	0.1	1.5	-1.8	1.9
Telecom	5.1	-6.0	6.2	3.6	3.9	-2.7
Financial Sector	6.5	-0.5	-1.4	6.2	13.9	-4.1
Other services	5.7	14.4	-2.0	-1.7	-6.6	6.1
Government	30.6	-15.5	7.4	7.7	5.5	21.5

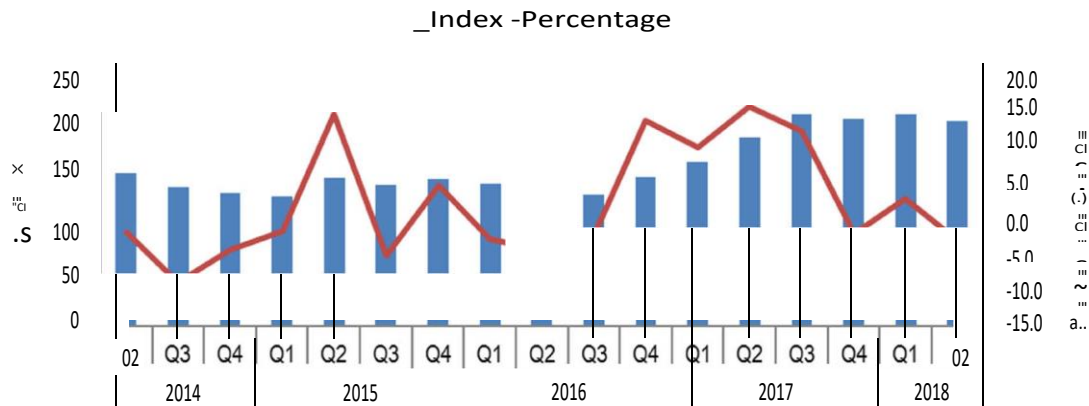
Source: Central Bank of Lesotho

<sup>1</sup> The data is seasonally adjusted.

**Primary Sector *Mining and Quarrying***

The mining and quarrying index registered a decline of 3.2 per cent in the second quarter of 2018 in contrast to the 2.5 per cent increase realised in the previous quarter. The main factor behind this poor performance of the sector was a recovery of fewer diamond carats due to some technical problems encountered, thereby, causing a reduction in tonnage treated during the period.

Figure 7: Mining and Quarrying Index



Source: Central Bank of Lesotho

**Secondary Sector**

***Manufacturing***

The manufacturing industry continued to perform well in the quarter under review, showing an acceleration to 9.6 per cent, from 8.8 per cent recorded in the preceding quarter. All the three components of the manufacturing industry, namely; "food and beverages", "textiles and clothing" and "other", recorded growth in excess of 9.0 per cent. The surge in the "textile and clothing" industry came as result of a sharp increase of 28.0 per cent in the number of orders within 3 months, with South Africa being the key player in the market destination - consisting of 47.0 per cent of the total orders.



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



**Source:** Central Bank of Lesotho

### *Electricity*

Electricity consumption increased by 1.4 per cent in the second quarter of 2018, relative to a contraction of 1.3 per cent in the preceding quarter. The recovery was broad-based across all three components of electricity consumption namely; "general purpose", "domestic" and "commercial and industrial". The manufacturing industry is the biggest consumer of electricity in the country, hence an increase in the industry brought about an increment in electricity consumption.

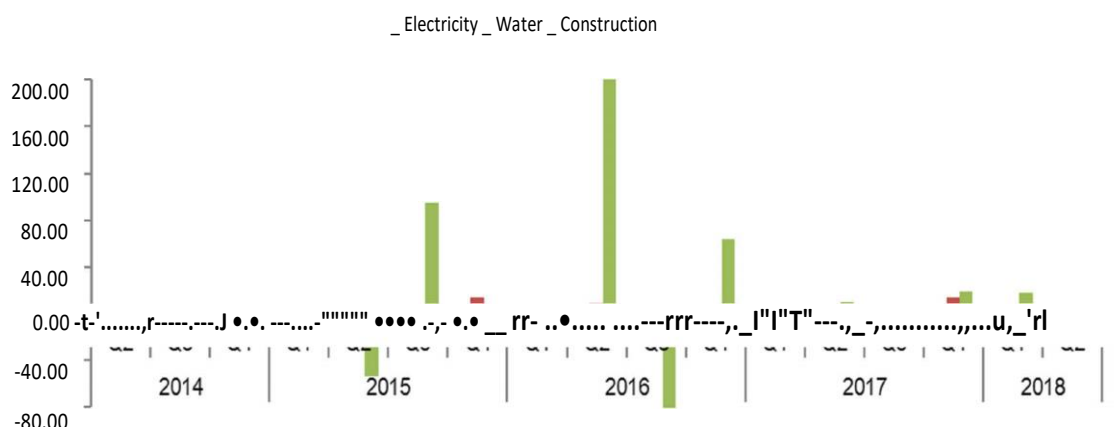
### *Water*

In the water subsector, the activity index declined by 6.3 per cent compared with a 7.0 per cent increase in the first quarter of 2018. The main contributor to the poor performance was water exports to South Africa that declined during the period under review. Nonetheless, water consumed in the local economy moderated the decline.

### *Construction*

The construction industry contracted by a significant 22.2 per cent in the quarter under review, following a robust increase of 17.3 per cent realized in the preceding quarter. This contraction mainly emanated from a slowdown in implementation of development projects by the government during the turn of the new fiscal year. This decline was however moderated by an increase in private construction.

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



**Source:** Central Bank of Lesotho

### Tertiary Sector

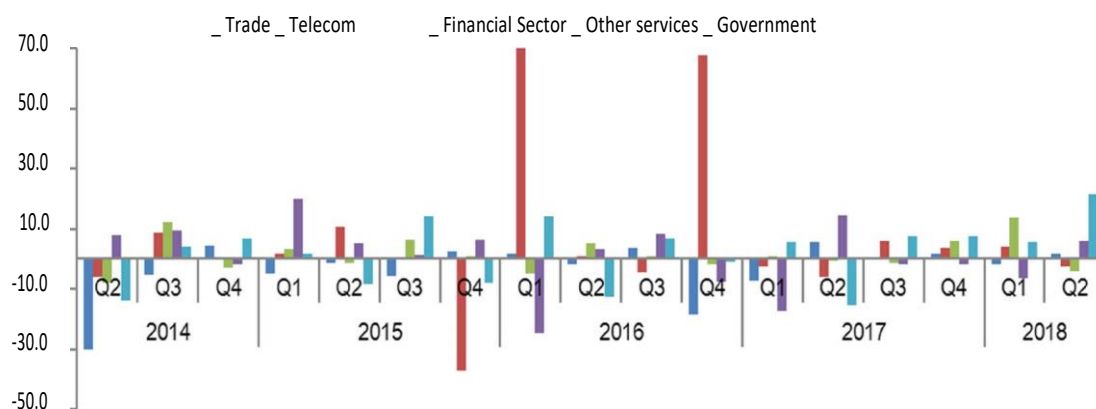
The index of trade subsector activity recovered by 1.9 per cent in the quarter under review relative to a contraction of 1.8 per cent in the previous quarter. Three of the four components of trade; "motor trade", "fuel", "wholesale", all contributed to the recovery, registering 7.2 per cent, 6.0 per cent and 0.9 percent, respectively. However, this was watered-down by the retail industry, which contracted by a margin of 0.2 per cent. The recovery has been attributed to increased domestic consumption.

The telecom subsector contracted by 2.7 per cent in the second quarter in comparison with a 3.9 per cent increase in the preceding quarter. Likewise, the finance sector performed poorly in the quarter under review, declining by 4.1 per cent compared to a significant increase of 13.9 per cent in the preceding quarter. The contraction in the quarter under review was mainly attributed to lower deposit levels hence a decline in financial intermediation activities as well as implicit charges. The other services" sector recovered with an increase of 6.1 per cent from a contraction of 6.6 per cent in previous quarter. The increase was mainly attributed to recreational activities and renting of transport equipment.

Government activities continue to be the mainstay of the tertiary sector. The deseasonalised index of government activities showed an acceleration in growth of 21.5 percent in the quarter under review after an increase of 5.5 percent in the previous quarter. The expansion in government output resulted from an increment in excess of 70 percent in government's purchase of goods and services. There was however, an estimated 7.1 percent decrease in compensation of employees resulting mostly from laying off of daily paid workers.

<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.

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



Source: Central Bank of Lesotho

## EMPLOYMENT DEVELOPMENTS

Total employment by the LNDC-assisted companies increased by 5.1 per cent year-on-year during the review period, relative to 10.3 per cent recorded in the preceding quarter. The main contributor to the increase were "knit garments", "woven garments", and "fabrics, yarn etc". However, on a quarterly basis, employment declined by 0.5 per cent mainly driven by the laying off of casual employees",

Table 2: Employment by LNDC-Assisted Companies

Industry	2017			2018		Change	
	Q2	Q3	Q4	Q1	Q2	Q/Q	YN
Knit Garments .....	25252	26541	27159	27723	26858	-3.1	6.4
Woven Garments .....	15561	15736	15613	15924	16800	5.5	8.0
Footwear .....	1165	1232	942	1005	1010	0.5	-13.3
Fabrics, Yarn etc .....	1817	1810	1972	2052	1840	-10.3	1.3
Construction .....	390	357	360	363	344	-5.2	-11.8
Food & Beverages .....	734	711	736	781	708	-9.3	-3.5
Electronics .....	931	955	959	943	920	-2.4	-1.2
Retail .....	146	146	152	159	168	5.7	15.1
Hotel Accommodation .....	630	630	481	526	526	0.0	-16.5
Other .....	1217	1248	1061	1097	1126	2.6	-7.5

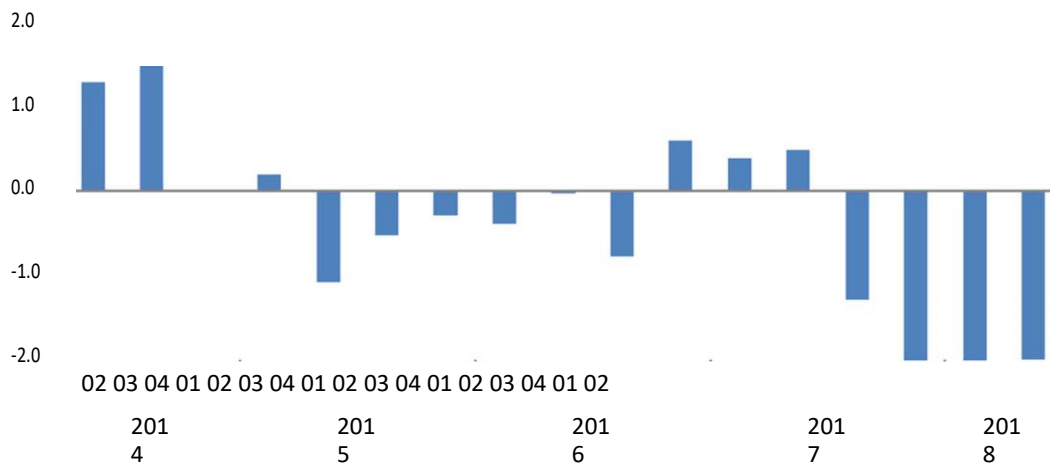
<sup>3</sup> Of the 46, 362 permanently employed, 78 were women and men constituted the remaining 22.

TOTAL .....	47843	49366	49435	50573	50300	-0.5	5.1
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Source: Lesotho National Development Corporation

The number of government employees continued to decline, albeit at a slower pace of 2.0 per cent in the quarter under review following the decline of 2.2 per cent estimated in the previous quarter. All categories of government employment showed a decline during the review period in relation to the previous quarter. Nonetheless, the number of teachers declined at a slower pace relative to other components. This decline was attributed to the on-going work of the parliamentary standing committee on public accounts (PAC) which has heightened the need to root out discrepancies in government payroll.

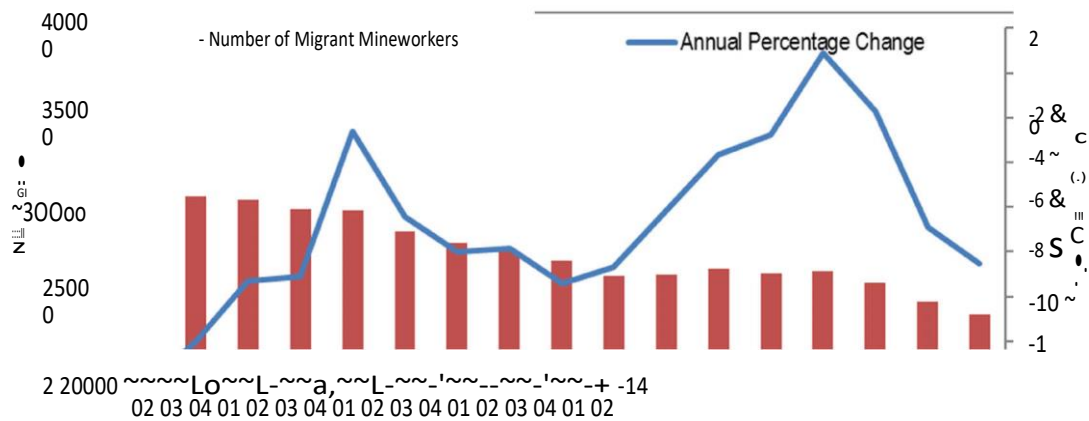
Figure 11: Government Employment (Annual Percentage Change)



Source: Ministry of Finance

The number of Basotho migrant mineworkers employed in South Africa continued to decline, registering a significant 8.5 per cent was year-on-year. The absolute number of migrant mineworkers stood at 24,012 in the second quarter of 2018 down from 24,685 recorded in the previous quarter.

Figure 12: Migrant Mineworkers (Annual Percentage Changes)



Source: The Employment Bureau of Africa (TEBA)

### PRICE DEVELOPMENTS

Inflationary pressures continued to abate in the quarter under review, with the inflation rate falling to 4.0 per cent in the quarter under review from 4.8 in the previous quarter. "Food and non-alcoholic beverages", "Housing, electricity, gas & other fuels", "Furniture, household equipment & routine maintenance" and "Miscellaneous goods and services" were the main contributors to the deceleration in the inflation rate. However, this deceleration was moderated by an increase in "Clothing & Footwear" and "Transport". The main cause of the decline in food prices was the improvement in agricultural output in 2018 due to good rainfall despite coming a bit late.

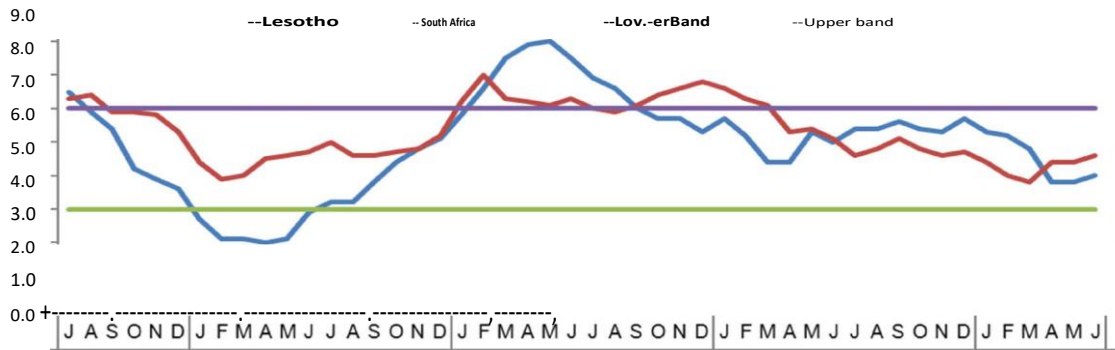
Table 3: Inflation Rate (Year-on-year Percentage Changes)

	Weight	2017			2018	
		Jun	SeQ	Dec	Mar	Jun
<b>All items</b>	<b>1000</b>	<b>5.0</b>	<b>5.6</b>	<b>5.7</b>	<b>4.8</b>	<b>4.0</b>
Food and non-alcoholic beverages	<b>361.13</b>	6.5	7.5	7.2	6.3	4.5
Alcoholic beverages & Tobacco	<b>33.31</b>	4.3	4.8	6.9	5.7	6.3
Clothing & footwear	<b>130.57</b>	2.6	2.0	1.6	1.5	1.7
Housing, electricity, gas & other fuels	<b>123.97</b>	5.5	6.6	8.8	7.4	7.0
Furniture, households equipment & routine maintenance	<b>84.77</b>	6.5	6.1	5.6	5.0	3.4
Health	<b>15.04</b>	0.3	0.1	0.2	0.3	0.8
Transport	<b>48.21</b>	-0.3	0.6	2.2	-0.2	4.1
Communication	<b>21.05</b>	0.0	0.0	0.0	-1.6	-0.8
Leisure, entertainment & Culture	<b>57.08</b>	5.1	6.3	6.1	5.4	4.0
Education	<b>42.00</b>	5.6	6.6	6.9	4.2	2.5
Restaurant & Hotels	<b>10.30</b>	1.5	1.7	1.7	2.3	2.4
Miscellaneous goods & services	<b>72.59</b>	5.1	4.7	4.4	4.7	3.0

Source: Bureau of Statistics

Comparatively, Lesotho and South Africa's inflation rates continued to move in the same direction. The two rates were within South Africa's target band of 3.0 percent - 6.0 percent.

**Figure 13:** Lesotho and South Africa's Inflation



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

### III. Monetary and Financial Developments

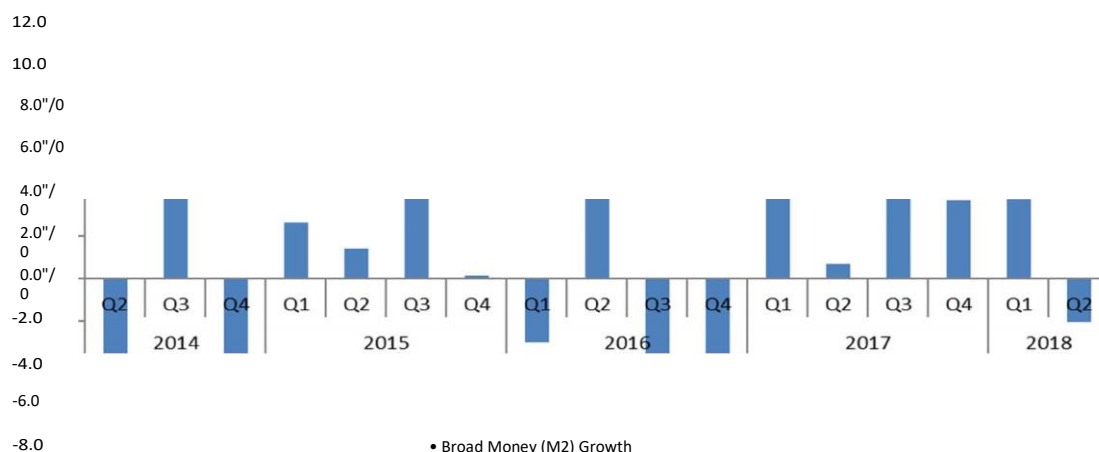
#### OVERVIEW

In contrast to the quarter ending in March 2018, money supply declined by 2.4 per cent during the quarter under review. On an annual basis, money supply grew by 13.9 per cent compared to an increase of 17.4 per cent during the preceding quarter. The quarterly change was due to a decline in domestic claims, which was slightly offset by an increase in net foreign assets. Private sector credit grew by 3.3 per cent during the review quarter, compared with the growth of 6.7 per cent during the quarter ending in March 2018. This was against the backdrop of improvement in both credit extended to business enterprises and credit extended to households.

#### BROAD MONEY (M2)

Money supply declined by 2.4 per cent during the second quarter of 2018 compared with an increase of 3.7 per cent recorded during the quarter ending in March 2018. This was on account of a fall in Domestic Claims, which was slightly moderated by a modest growth in Net Foreign Assets.

Figure 14: Broad Money (M2)



Source: Central Bank of Lesotho

#### Determinants of M2

##### Domestic Claims

Domestic claims, including net claims on government, declined by 6.0 per cent during the review quarter compared to a 12.2 per cent decline during the previous quarter. This development was attributable to a decrease in net claims on government, which reflected a build-up of government deposits at the Central Bank. Nevertheless, claims on private sector increased by 3.3 per cent compared with an increase of 3.2 per cent in the previous quarter.

Table 4: Domestic Claims (Million Maloti: End Period)

	2017			2018			Changes ()	
	June	Sept	Dec	Mar	June	Quarterly	Annual	
Domestic Claims	4746.88	5177.01	5438.49	4775.06	4488.74	-6.0	-5.4	
Net Claims on Government	-1331.60	-874.64	-770.46	-1630.07	-2122.90	-30.2	-59.4	
Commercial Banks Net Claims	831.87	978.77	995.55	1103.58	1213.18	9.9	45.8	
Claims on Central Government	847.09	988.78	1002.12	1109.37	1218.60	9.8	43.9	
Liabilities to Central Government	15.22	10.01	6.57	5.79	5.41	-6.5	-64.4	
Central Bank Net Claims	-2163.46	-1853.42	-1766.02	-2733.65	-3336.09	-22.0	-54.2	
Claims on Central Government	997.99	904.74	842.18	817.81	753.63	-7.8	-24.5	
Liabilities to Central Government	3161.45	2758.15	2608.19	3551.46	4089.72	15.2	29.4	
Claims on Other Sectors	6078.48	6051.65	6208.96	6405.13	6611.65	3.2	8.8	
Claims on OFCs	167.42	120.67	77.96	78.88	74.37	-5.7	-55.6	
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	5911.05	5930.98	6131.00	6326.25	6537.27	3.3	10.6	
Claims on Business Enterprises	2100.98	1967.76	1983.19	1974.30	2090.01	5.9	-0.5	
Claims on Households	3810.07	3963.22	4147.81	4351.95	4447.26	2.2	16.7	

Source: Central Bank of Lesotho

### Net Foreign Assets

Net Foreign Assets (NFA) of the overall banking system grew by 5.5 per cent during the second quarter of 2018 compared with a 3.3 per cent increase registered during the previous quarter. This was due to an increase in both the Central Bank and Commercial Banks' NF A. In particular, Central Bank NF A increased by 8.3 per cent due to revaluation gains owing to exchange rate weakening as well as the build-up of foreign deposits. Commercial Banks' NF A increase was due to a sizeable decline in their foreign liabilities, despite a moderate fall in claims on non-residents.

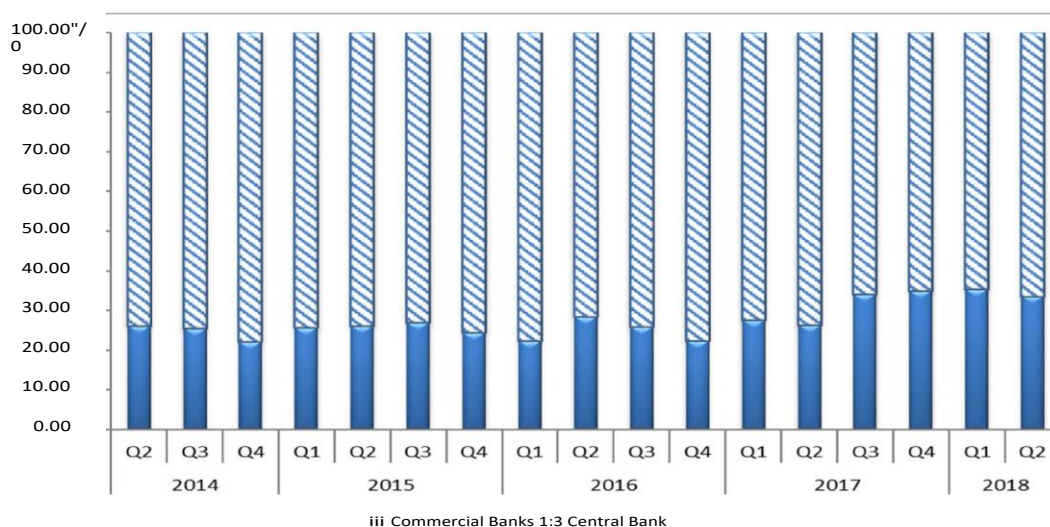
Table 5: Net Foreign Assets (Million Maloti: End Period)

	2017			2018			Changes ()	
	June	Sept	Dec	Mar	June	Quarterly	Annual	
Commercial Banks	3479.61	4686.64	4523.72	4727.26	4742.55	0.3	36.3	
Claims on Non-residents	3939.49	5161.44	5010.79	5354.56	5160.19	-3.6	31.0	
Liabilities to Non-residents	459.88	474.80	487.07	627.31	417.64	-33.4	-9.2	
Central Bank	9714.91	9060.29	8435.22	8657.60	9372.74	8.3	-3.5	
Claims on Non-residents	11222.91	10668.29	9901.86	10097.99	10792.57	6.9	-3.8	
Liabilities to Non-residents	1508.01	1608.00	1466.64	1440.39	1419.82	-1.4	-5.8	
Net Foreign Assets Total	13194.52	13746.93	12958.94	13384.86	14115.29	5.5	7.0	

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. Broad money supply declined by 2.4 per cent during the quarter under review, against the 3.7 per cent increase realised in the preceding quarter. This followed a 4.8 per cent decline in M1 following an 4.8 per cent increase during the quarter ending in March 2018. A drop in transferable deposits as a result of large withdrawals during the quarter under review caused the decrease in M1. On the contrary, Quasi Money registered a moderate growth of 0.2 per cent compared to a 2.5 per cent increase during the previous quarter.

**Table 6: Components of Money Supply (Million Maloti: End Period)**

	2017			2018		Changes (%)	
	June	Sept	Dec	Mar	June	Quarterly	Annual
Broad Money (M2)	10763.07	11678.02	12105.97	12553.70	12257.62	-2.4	13.9
Narrow Money (M1)	5222.87	6179.57	6160.77	6457.05	6147.10	-4.8	17.7
Currency Outside DCs	919.40	1089.67	1111.09	1053.77	1016.00	-3.6	10.5
Transferable Deposits	4303.47	5089.90	5049.68	5403.28	5131.10	-5.0	19.2
Quasi Money	5540.20	5498.45	5945.20	6096.65	6110.52	0.2	10.3
Other Deposits Commercial Banks	5499.01	5458.60	5906.33	6058.22	6066.92	0.1	10.3
Other Deposits Central Bank	41.19	39.86	38.87	38.43	43.60	13.4	5.8

Source: Central Bank of Lesotho

## CREDIT EXTENSION

### Trends of Credit Extended to Business Enterprises

During the review quarter, credit extended to business enterprises grew by 5.9 per cent compared to a 0.3 per cent increase during the previous quarter. The sectors that contributed to this growth were mining, wholesale, retail, hotel and restaurant, transport, storage and communication as well as real estate, which registered increases of 14.8 per cent, 7.0 per cent, 5.3 per cent and 7.3 per cent respectively. The improvement in credit to the above-mentioned sectors was a result of loan disbursements, mainly the vehicle and asset financing.

Table 7: Credit Extension by Economic Activity (*Million Maloti*)

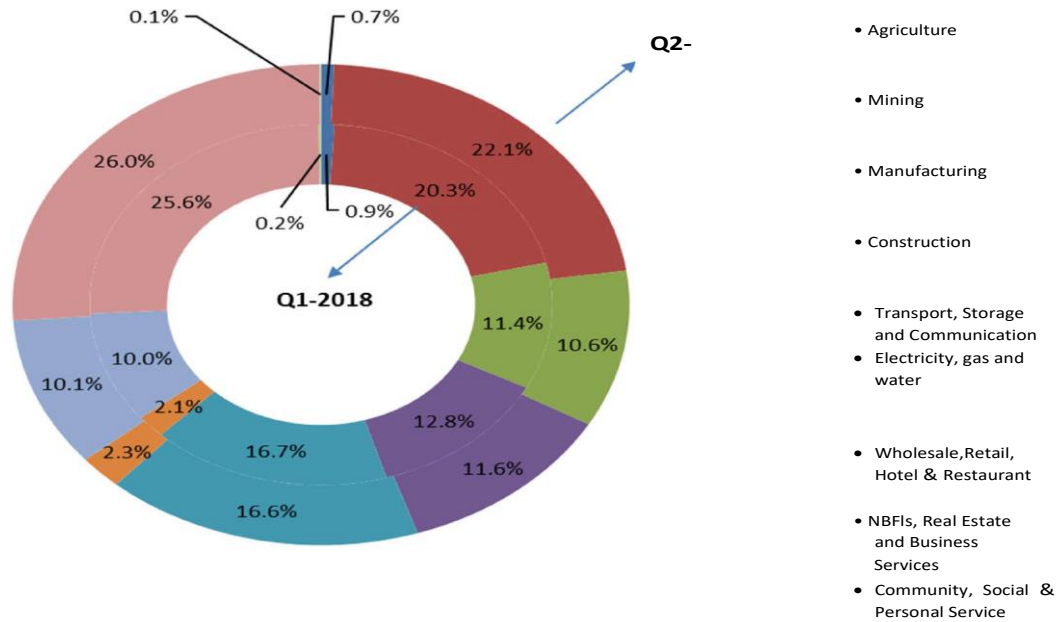
SECTOR	2017			2018			Changes ()	
	June	Sept	Dec	Mar	Jun	Quarter ),	Annual	
Agriculture	22.73	26.91	16.98	18.10	14.15	-21.8	-37.7	
Mining	544.27	302.99	284.14	401.39	460.86	14.8	-15.3	
Manufacturing	303.00	264.97	252.10	224.31	220.58	-1.7	-27.2	
Electricity, gas and water	41.91	39.15	41.15	40.56	47.69	17.6	13.8	
Construction	195.17	271.42	283.98	253.17	243.47	-3.8	24.7	
Wholesale, Retail, Hotel & Restaurant	179.74	174.30	167.13	197.55	211.44	7.0	17.6	
Transport, Storage and Communication	323.73	311.20	370.89	330.34	347.69	5.3	7.4	
NBFIs, Real Estate and Business Services	465.19	545.45	522.95	505.80	542.77	7.3	16.7	
Community, Social & Personal Service	25.26	31.38	43.87	3.08	1.35	-56.0	-94.6	
All Sectors	2100.98	1967.76	1983.19	1974.30	2090.01	5.9	-0.5	

Source: Central Bank of Lesotho

### Distribution of credit Extended to Business Enterprises

With regard to distribution of credit extended to business enterprises, real estate, mining and transport, storage & communication accounted for the largest shares of 26.0 per cent, 22.1 per cent and 16.6 per cent respectively. Agriculture and electricity, gas & water sectors continued to have smallest shares of total credit extended to business enterprises.

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

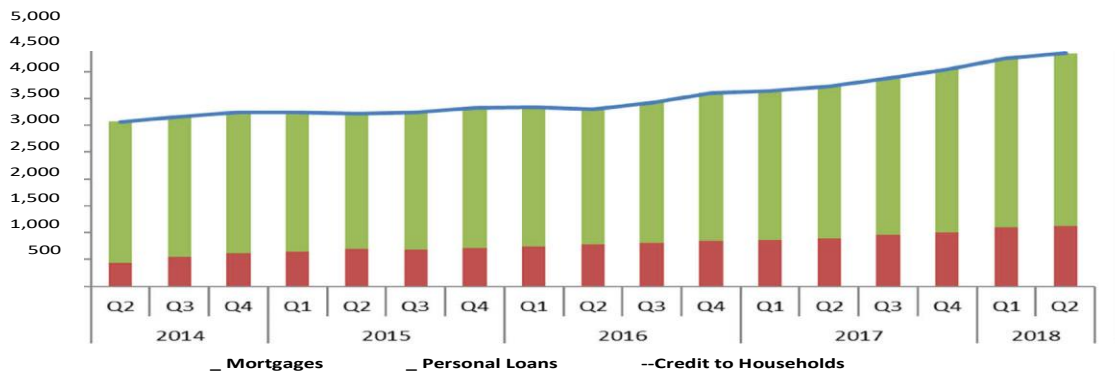


Source: Central Bank of Lesotho

**Credit extended to Households**

During the quarter under review, credit to households grew at a slower rate of 2.1 per cent from an increase of 5.1 per cent in the quarter ending in March 2018. Mortgages increased by 2.7 per cent while personal loans rose by 1.9 per cent. Growth in personal loans reflected the continued relaxation of terms and conditions for provision of personal loans by banks coupled with more aggressive marketing of personal loans.

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



Source: Central Bank of Lesotho

## LIQUIDITY OF COMMERCIAL BANKS

### Components of liquidity

The ratio of credit to deposits improved to 57.6 per cent, from 54.4 per cent in the first quarter of 2018. The improvement comes from a rise in credit to the private sector while total deposits declined. Similarly, the liquidity ratio in the review quarter increased to 82.1 per cent from 73.0 per cent in the preceding quarter.

Table 8: Components of Liquidity (Million Maloti)

	2017		2018	
	Se~t	Dec	Mar	June
<b>Credit to Deposit Ratio</b>	<b>55.4</b>	<b>55.2</b>	<b>54.4</b>	<b>57.6</b>
Private Sector Credit	5847.28	6045.47	6238.43	6446.75
Total Deposits	10548.49	10956.02	11461.50	11198.02
<b>Liquidity Ratio</b>	<b>79.7</b>	<b>74.3</b>	<b>73.0</b>	<b>82.1</b>
Notes and Coins	390.48	740.98	463.42	414.58
Balance due from banks in Lesotho	2158.94	2157.63	2195.94	2924.23
Balance due from banks in SA	4763.20	4198.18	4347.05	4557.63
Surplus funds	106.36	41.02	255.97	83.42
Government Securities	988.78	1002.12	1109.37	1218.60
<b>Total</b>	<b>8407.76</b>	<b>8139.94</b>	<b>8371.74</b>	<b>9198.4</b>

Source: Central Bank of Lesotho

### Commercial Banks Sources of Funds

The commercial banks' total deposits, which are the main source of funds for the banks, registered a mild decline in the second quarter. The fall came mainly from transferable deposits included in broad money, which declined by 5.0 per cent, following an increase of 7.0 per cent in the first quarter. This follows substantial withdrawals, mostly by corporates. A slight increase of 0.1 per cent in other deposits included in broad money moderated this decline.

Table 9: Sources of funds for ODCs (Million Maloti)

	2017			2018		Changes (%)	
	June	Se~t	Dec	Mar	June	Quarterl~	Annual
<b>Transferable Deposits Incl. in BM</b>	<b>4303.47</b>	<b>5089.90</b>	<b>5049.68</b>	<b>5403.28</b>	<b>5131.10</b>	<b>-5.0</b>	<b>19.2</b>
Other Financial Corporations	34.86	33.75	36.54	38.26	29.31	<b>-23.4</b>	<b>-15.9</b>
Public Nonfinancial Corporations	72.81	130.83	98.33	138.74	107.26	<b>-22.7</b>	<b>47.3</b>
Private Sector	4177.84	4907.35	4897.13	5208.60	4976.84	<b>-4.4</b>	<b>19.1</b>
Other NFCs	2403.05	3432.40	3480.92	3759.94	3395.51	<b>-9.7</b>	<b>41.3</b>
Other Sectors (Households)	1774.79	1474.96	1416.21	1448.66	1581.33	<b>9.2</b>	<b>-10.9</b>
<b>Other Deposits Incl. in BM</b>	<b>5499.01</b>	<b>5458.60</b>	<b>5906.33</b>	<b>6058.22</b>	<b>6066.92</b>	<b>0.1</b>	<b>10.3</b>

Other Financial Corporations	95.38	61.78	71.79	54.98	51.63	-6.1	-45.9
Public Nonfinancial Corporations	426.33	406.23	345.11	404.16	265.01	-34.4	-37.8
Private Sector	4977.30	4990.59	5489.43	5599.08	5750.28	2.7	15.5
Other NFCs	3276.23	3200.15	3673.15	3664.03	3821.80	4.3	16.7
Other Sectors (Households)	1701.06	1790.43	1816.29	1935.05	1928.47	-0.3	13.4
Total Deposits	9802.47	10548.49	10956.02	11461.50	11198.02	-2.3	14.2

Source: Central Bank of Lesotho

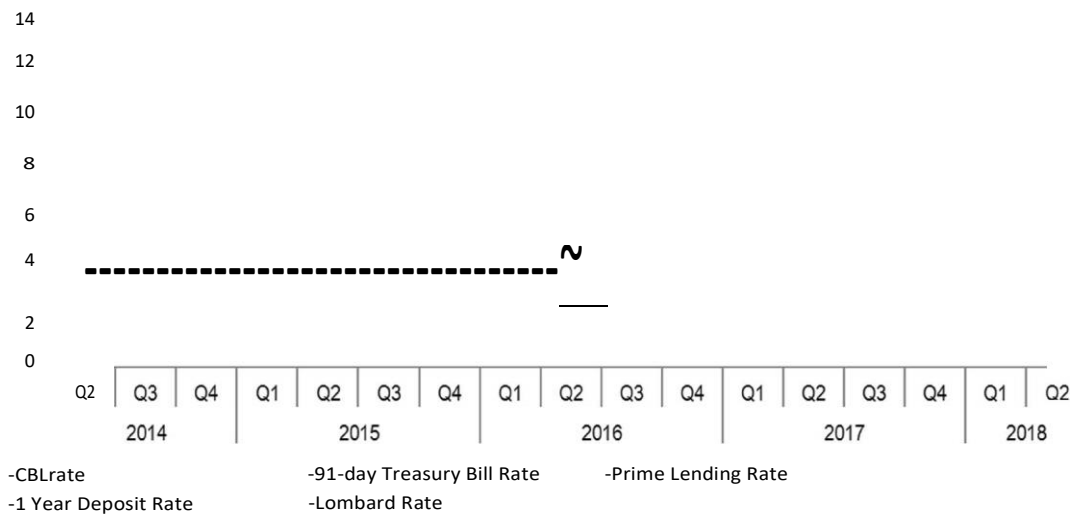
## MONEY AND CAPITAL MARKET DEVELOPMENTS

### Money Market

#### Interest Rates

During the review quarter, the Monetary Policy Committee (MPC) of the Central Bank of Lesotho (CBL) reduced the CBL policy rate cumulatively by 50 basis points to 6.5 per cent. Subsequently, other money market rates also declined, except for the 91-day Treasury bill rates.

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



Source: Central Bank of Lesotho

Table 10: Interest rates

	2017				2018
	June	Sept	Dec	Mar	June
Central Bank					
CBL rate	7.00	6.75	6.75	7.00	6.50
T-Bill Rate - 91 days	6.42	6.27	6.27	6.22	6.88
Lombard Rate	10.42	10.27	10.27	10.22	10.88

Commercial Banks					
Call	1.19	1.06	1.06	1.31	1.36
Time:					
31 days	0.44	0.36	0.36	0.70	0.40
88 days	1.12	1.31	1.31	1.63	1.40
6 months	2.53	2.45	2.45	2.55	2.67
1 year	3.52	3.73	3.73	4.65	4.30
Savings	0.56	0.76	0.76	0.73	0.73
Prime	11.69	11.5	11.44	11.63	11.31
South Africa					
Repo	7.00	6.75	6.75	6.50	6.50
T-Bill Rate - 91 days	7.33	7.07	7.6	6.87	7.07
Marginal Lending Rate					
Prime	10.5	10.25	10.25	10.00	10.00

Source: Central Bank of Lesotho

## Holding of Treasury Bills and T-Bill rates

### *Holding of Treasury Bills*

The total treasury bills holding declined by 1.03 per cent to M865.67 million during the review period. The decrease in total Treasury bill holding was driven by the non-banking sector, whose holdings declined by M25.38 million in June 2018 from an increase of M61.79 million in March 2018. The banking sector's Treasury bills holdings increased by 2.9 per cent to M582.44 million in June 2018.

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

	2017			2018	
	Jun	Sep	Dec	Mar	Jun
Treasury Bills	603.52	656.29	724.70	874.71	865.67
Banking System	372.32	408.81	477.88	566.10	582.44
Non-Bank Sector	231.19	247.48	246.82	308.61	283.23
Memorandum Item					
Yield Bills (91-days)	6.52	6.37	6.37	6.22	6.88

Source: Central Bank of Lesotho

### *Holding of Treasury Bonds*

The holdings of Treasury bonds increased by 14.4 per cent in June 2018 compared to an increase of 14.4 per cent realized in March 2018. This was on account of bond auctions held in June 2018 to support government budgetary operations. Both the banking and non-banking sector contributed to the rise in Treasury bond holdings, with increases of 22.9 per cent and 6.6 per cent respectively.

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

	2018				
	Jun	Sep	Dec	Mar	Jun
<b>Holding of Treasury Bonds</b>	<b>751.50</b>	<b>900.95</b>	<b>957.84</b>	<b>1096.50</b>	<b>1254.74</b>
Banking System	472.12	514.34	525.89	525.65	646.15
Non-Bank Sector	279.39	386.61	431.96	570.85	608.588

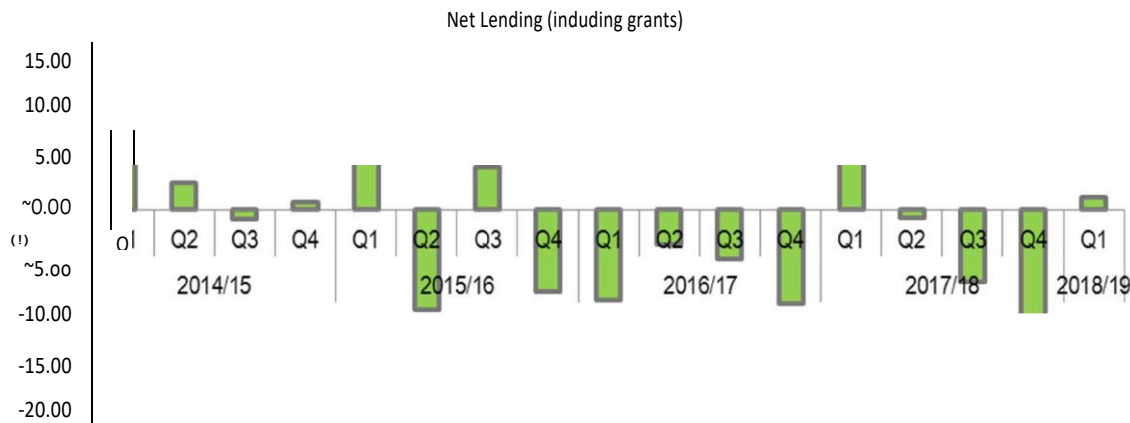
**Source:** Central Bank of Lesotho

## IV. Government Finance

### OVERVIEW

In the first fiscal quarter of 2018/19, the Government budgetary operations resulted in a surplus of 1.2 per cent of GDP, compared with a deficit of a revised 18.3 per cent of GDP in the previous quarter. This surplus was primarily driven by lower spending relative to collected revenue. As a result, the surplus contributed to the accumulation of Government deposits with the banking sector. Total spending was recorded at 37.7 per cent of GDP, while revenue stood at 38.9 per cent of GDP. The total outstanding stock of public debt rose to 33.4 per cent of the projected GDP, compared with 32.2 per cent realised in quarter ending in March, 2018.

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



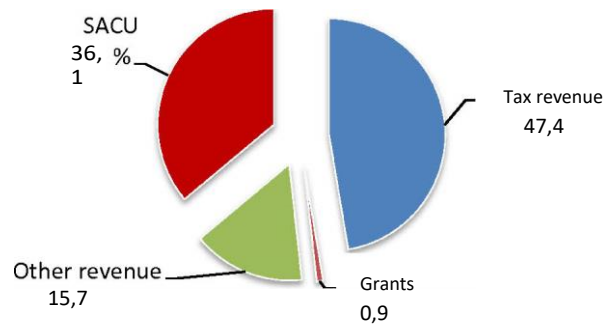
**Source:** Central Bank of Lesotho (CBL) and Ministry of Finance (MOF)

### REVENUE

The total revenue, during the fiscal quarter under review, increased on year-on-year basis by 11.2 per cent compared with 26.6 per cent rise that was experienced in the previous quarter. The upward annual trend was attributable to the high performance of major revenue components. The 'other revenue' grew by 61.4 per cent on account of significant payments of dividends. This further benefited from higher performance of VAT that increased by 40.2 per cent due to, amongst others, the rise in the domestic demand coupled with the increase in VAT rate and its compliance while income tax registered an upsurge of 30.6 per cent. However, this was moderated by SACU receipts that contracted by 9.9 per cent. Nevertheless, the quarterly changes indicated a revenue fall of 1.5 per cent following a decline of 2.3 per cent, in the quarter ending in March, 2018.



**Figure 20: Total Revenue (Million Maloti)**



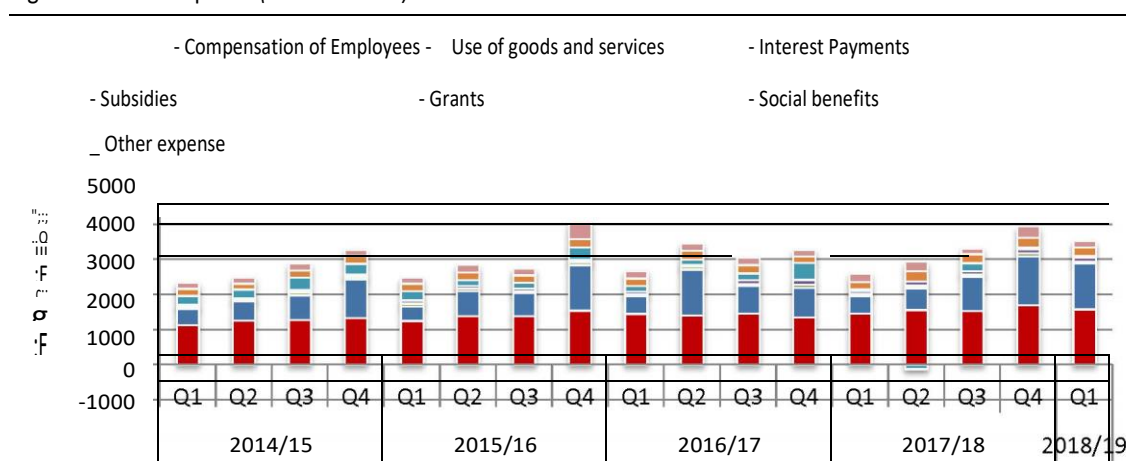
**Source: CBL and MOF**

### **TOTAL EXPENDITURE**

Total Government spending, year-on-year, increased by 30.3 per cent during the review quarter, compared with a rise of 40.4 per cent recorded in the previous quarter. However, the quarterly changes registered a significant reduction of 30.9 per cent relative to expansion of 16.8 per cent noticed in the previous quarter. The rise in the annual changes was due to, amongst others, the 'use goods and services' that increased by 159.7 per cent, and 'compensation of employees' that recorded a rise of 8.1 per cent. Increasing expenditure under 'use goods and services' component was explained by high outlays on 'travel and transport' and 'health services'. The rise in 'compensation of employees' component was driven by annual adjustment on 'wages and salaries' for the new fiscal year.

Acquisition of non-financial assets declined by 21.2 per cent in the quarter under review compared with a rise of 151.6 per cent in the previous quarter. The poor performance was attributable to 78.7 per cent and 13.8 per cent fall in acquisition of 'machinery and equipment', and erection of 'buildings and structures', respectively. A major reduction in 'machinery and equipment' occurred under 'transport equipment' while roads-related infrastructure explained the decline in 'buildings and structures'.

Figure 21: Total Expense (Million Maloti)



SoSource: CBL and MOF

Table 13: Statement of Operations (Million Maloti)

	2017-18				2018-19	Y-on-Y (%)	GOP ratio (%)
	01	02	03	04	01		
Total Revenue	3455.23	3670.29	3990.95	3900.79	3841.97	11.2	<b>38.9</b>
11 Tax revenue	1460.88	1604.60	1988.90	1941.18	1820.25	24.6	18.4
O/W Income Tax	775.11	868.01	1080.43	843.64	1012.67	30.6	10.3
O/W Value Added Tax	513.47	540.98	721.72	628.45	720.07	40.2	7.3
13 Grants	82.75	78.06	92.26	45.73	34.07	-58.8	0.3
14 Other revenue	373.05	449.08	371.23	375.33	602.09	61.4	6.1
SACU receipts	1538.55	1538.55	1538.55	1538.55	1385.56	-9.9	14.0
2 Total Expense	2595.74	2805.88	3313.79	3946.31	3517.43	35.5	35.6
21 Compensation of Employees	1453.73	1559.32	1520.63	1691.48	1571.13	8.1	15.9
22 Use of goods and services	506.77	618.59	981.17	1400.48	1315.93	159.	13.3
O/W Health Services	291.03	242.57	146.06	305.73	571.71	96.4	5.8
24 Interest Payments	54.63	79.55	61.31	81.52	45.50	-16.7	0.5
25 Subsidies	81.38	117.73	94.86	116.32	118.25	45.3	1.2
26 Grants	51.06	-128.28	229.88	56.97	43.37	-15.1	0.4
27 Social benefits	202.02	292.22	261.72	267.86	254.74	26.1	2.6
28 Other expense	246.14	266.75	164.20	331.68	168.50	-31.5	1.7
Net Operating Balance	859.49	864.41	677.16	-45.52	324.54		3.3
31 Total Nonfinancial Assets	259.69	929.06	1298.83	1441.82	204.53	-21.2	2.1
31 Fixed Assets	259.69	929.06	1298.83	1441.82	204.53	-21.2	2.1
314 Non-Produced Assets	0.00	0.00	0.00	0.00	0.00	0.0	0.0
Net lending (+)/borrowing(-)	599.80	-64.65	-621.67	-1487.34	120.01		1.2
Financing	92.37	702.61	178.93	719.46	-460.12		-4.7
32 Net Acquisition of Financial assets	110.60	402.93	155.39	-962.15	-468.85		-4.8
O/W Domestic Currency and Deposits	110.60	408.51	153.39	-942.48	-537.88		-5.4
33 Net Incurrence of Liabilities	-18.23	299.68	23.54	1681.61	8.73		0.1
O/W Domestic Other Accounts				1409.40	-186.41		-1.9
Statistical Discrepancy	692.18	637.96	-442.74	-767.88	-340.11		-3.4

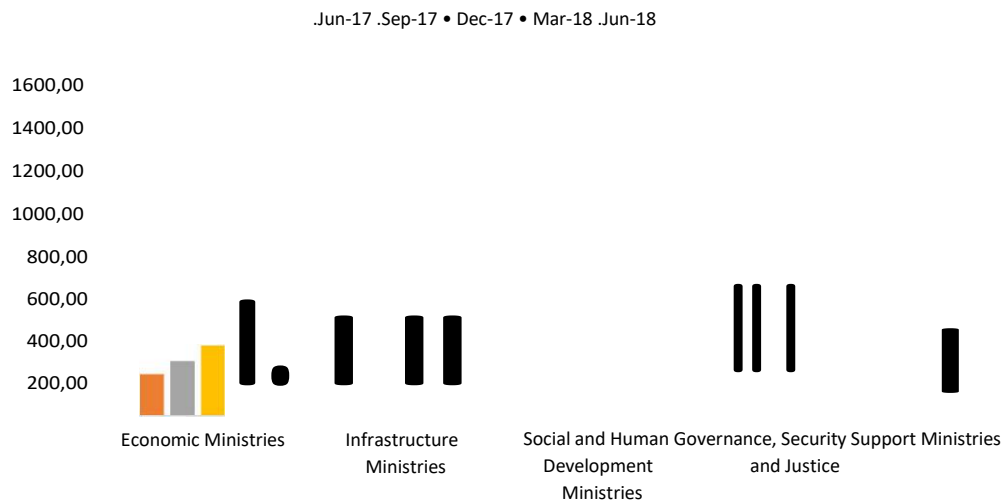
Blue colour = missing data

Source: CBL and MOF

## SECTORAL OUTLAYS BY FUNCTIONS OF GOVERNMENT<sup>4</sup>

The recurrent outlays constituted 90.9 per cent out of total outlays, with the development component claiming the remainder. The 'social and human development' continued to take the largest share at 46.5 per cent of total outlays, reflecting government's pursuit of social development. This was further reflected in the recurrent outlays, in which education and health subsectors are the beneficiaries. With regard to capital outlays, infrastructure received 64.9 per cent, while social and human development got the smallest share at 4.0 per cent.

**Figure 22: Total Outlays by Functions of Government (Million Maloti)**



Source: MOF

<sup>4</sup> This sectoral COFOG excludes financing items i.e. Loan principal repayments and disbursements. Its classification does not correspond exactly with GFS's COFOG

**Table 14: Sector Outlays By Functions of Government (Million Maloti)**

	2017/18				2018/19	Y-on-Y	GOP
	01	02	03	04	01	( )	ratio ( )
<b>Recurrent Outlays</b>	<b>2167.19</b>	<b>2530.83</b>	<b>2456.48</b>	<b>3059.45</b>	<b>2775.63</b>	28.1	28.1
Economic Sector	171.39	154.14	146.89	183.46	221.50	29.2	2.2
Infrastructure Sector	152.48	222.55	163.07	229.77	196.98	29.2	2.0
Social and Human Development Sector	980.84	1067.95	1089.68	1318.28	1409.44	43.7	14.3
Governance, Security and Justice Sector	512.80	704.37	630.23	623.14	505.65	-1.4	5.1
Support Sector	349.69	381.84	426.61	704.80	442.05	26.4	4.5
<b>Capital Outlays</b>	<b>296.60</b>	<b>890.01</b>	<b>628.85</b>	<b>779.28</b>	<b>278.09</b>	-6.2	2.8
Economic Sector	20.76	96.61	175.19	285.24	11.23	-45.9	0.1
Infrastructure Sector	217.79	682.60	348.63	146.70	180.57	-17.1	1.8
Social and Human Development Sector	0.59	33.98	17.04	71.70	11.18	1794.9	0.1
Governance, Security and Justice Sector	55.85	49.42	41.12	196.72	58.24	4.3	0.6
Support Sector	1.61	27.39	46.87	78.93	16.87	947.8	0.2
<b>Total Outlays</b>	<b>2463.79</b>	<b>3420.84</b>	<b>3085.33</b>	<b>3838.73</b>	<b>3053.72</b>	23.9	30.9
Economic Sector	192.14	250.74	322.08	468.70	232.73	21.1	2.4
Infrastructure Sector	370.27	905.15	511.70	376.47	377.56	2.0	3.8
Social and Human Development Sector	981.43	1101.93	1106.72	1389.97	1420.62	44.8	14.4
Governance, Security and Justice Sector	568.65	753.79	671.34	819.86	563.89	-0.8	5.7
Support Sector	351.30	409.23	473.48	783.72	458.92	30.6	4.7

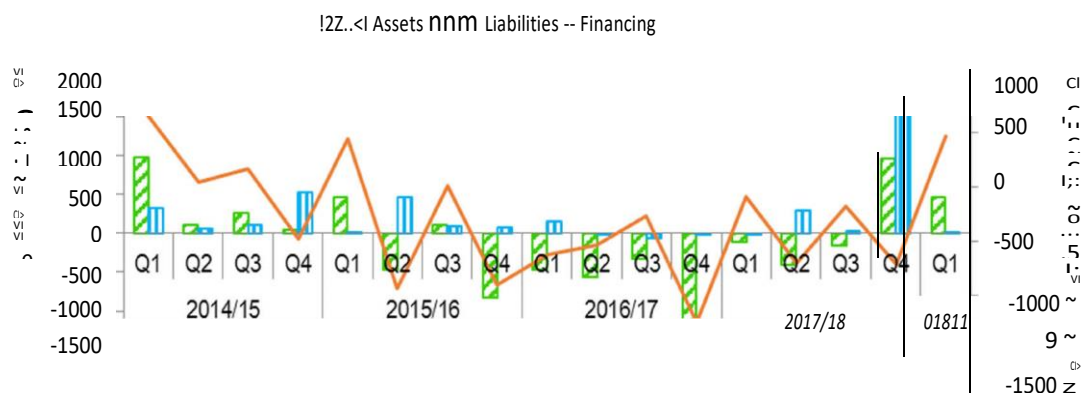
Source: MOF

## FINANCIAL ASSETS AND LIABILITIES

The surplus to the tune of M120.01 million realised during the quarter under review was used to accumulate bank deposits of the Government. The domestic financial assets expanded by M465.55 million that was mainly driven by an increase in the domestic deposits. The previous quarter (in this case - the last fiscal quarter) constituted the decrease of M110.60 million under the financial assets category. Moreover, the liabilities increased marginally by M5.73 million due to the acquisition of new foreign debt to the tune of M71.75 million. However, this was moderated by domestic debt liabilities, which declined by M63.02 million.

s All categories are on net terms.

Figure 23: Net Cash Inflow from Financing Activities (*Million Maloti*)



Source: CBL and MOF

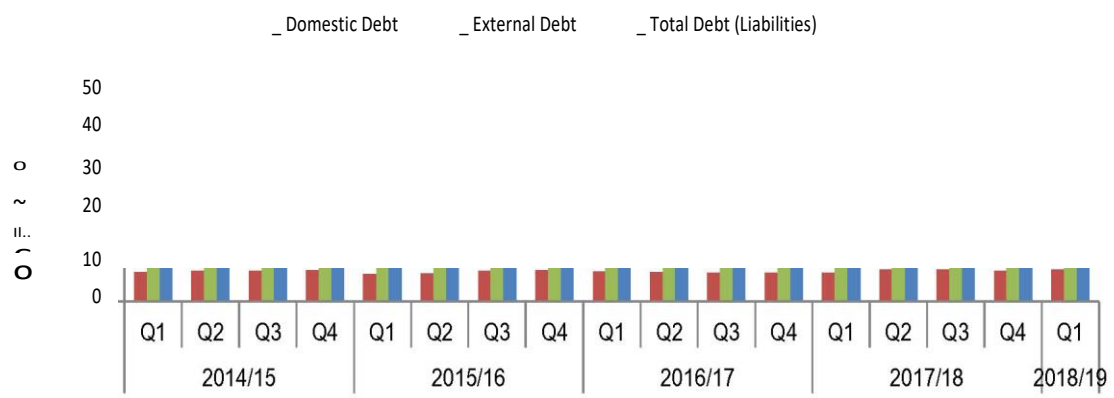
#### TOTAL PUBLIC DEBT<sup>6</sup>

The level of public debt reached M13.20 billion during the quarter under review, which was 3.8 per cent higher than the previous quarter's level. This was equivalent to 33.4 per cent of GDP. External debt increased by 3.6 per cent to constitute 78.6 per cent of total debt. This increase was due to Loti depreciation against the major currencies in which the external debt is contracted, coupled with acquisition of new debt amounting to M71.75 million during the period under review. Domestic debt increased by 4.6 per cent following issuance of Treasury bonds to the tune of M158.16 million. This was despite the M9.04 million decline in Treasury bill holdings ..

In terms of debt service, the principal repayments of the external debt and its interest payments declined by 29.5 per cent and 85.6 per cent, respectively. External debt service-to-GDP declined from 2.2 per cent to 0.4 per cent. As a share of government revenue, external debt service declined from 4.6 per cent to 1.1 per cent. Finally, external debt service-to-exports dropped from 1.3 per cent to 1.1 per cent. All debt indicators remained below their respective indicative thresholds, indicating a sustainable debt.

<sup>6</sup>All categories are on net terms.

Figure 24: Outstanding Public Debt (Million Maloti)



Source: CBL and MOF

Table 15: Public Debt Stock (Million Maloti)

	2017-18				2018-19	0-to-0	100%
	01	02	03	04	01	01	01
Total Public Debt	12,642.76	13,280.10	12,650.87	12,718.20	13,198.95	3.8	33.4
EXTERNAL DEBT	10,443.66	10,845.54	10,224.63	10,016.36	10,373.71	3.6	26.3
Bilateral Loans							
Concessional	906.50	921.16	864.91	828.71	878.69	6.0	2.2
Non-concessional	0.00	0.00	0.00	0.00	0.00	-	0.0
Multilateral Loans	8,809.91	9,172.57	8,678.89	8,536.65	8,822.04	3.3	22.3
Concessional	7,165.61	7,531.12	7,053.90	6,920.95	7,206.46	4.1	18.3
Non-concessional	1,644.30	1,641.45	1,624.99	1,615.69	1,615.59	0.0	4.1
Financial Institutions	0.54	0.54	0.54	0.34	0.34	0.0	0.0
Concessional	0.00	0.00	0.00	0.00	0.00	-	0.0
Non-concessional	0.54	0.54	0.54	0.34	0.34	0.0	0.0
Suppliers' Credit	726.72	751.28	680.29	650.67	672.64	3.4	1.7
DOMESTIC DEBT	2,199.10	2,434.56	2,426.25	2,701.84	2,825.24	4.6	7.2
Banks	1,688.51	1,800.46	1,747.47	1,822.39	1,933.50	6.1	4.9
Long-term	1,316.06	1,391.28	1,269.59	1,256.29	1,351.07	7.5	3.4
Treasury bonds	472.51	515.28	525.89	526.59	647.09	22.9	1.6
Central Bank (IMF-ECF)	843.55	876.00	743.70	729.70	703.98	-3.5	1.8
Short-term (t-bills)	372.46	409.19	477.88	566.10	582.44	2.9	1.5
Non-bank	510.58	634.09	678.78	879.46	891.73	1.4	2.3
Short-term (t-bills)	231.20	247.48	246.82	308.61	283.23	-8.2	0.7
Long-term (t-bonds)	279.39	386.61	431.96	570.85	608.51	6.6	1.5
DEBT INDICATORS							
External Debt-to-Total Debt	82.6	81.7	80.8	78.8	78.6	-	-
Domestic Debt-to-Total Debt	17.4	18.3	19.2	21.2	21.4	-	-
Concessional Debt-to-External Debt	77.3	77.9	77.4	77.4	77.9	-	-
External Debt Service-to-GDP	1.4	2.2	1.7	2.2	0.4	-	-
External Debt Service-to-Revenue	3.3	5.0	3.9	4.6	1.1	-	-
External Debt Service-to-Exports	3.3	4.7	4.2	1.3	1.1	-	-

Source: CBL and MOF

## V. Foreign Trade and Payments

### OVERVIEW

The external sector position improved further during the second quarter of 2018 as reflected by a larger surplus to the rest of the world compared to the previous quarter. The overall balance of payments recorded a net lending equivalent to 6.0 per cent of **GDP**, following a net lending of 3.6 per cent of **GDP** in the previous quarter. The observed position was influenced by an increase in the financial account surplus, on account of higher reserves assets during the quarter. However, the current and the capital account balances deteriorated, thus moderating the observed overall balance. The deficit on the current account was influenced by the weaker performance of the secondary income account, while the capital account balance was lower due to a decline in grants to the Government for capital related projects.

### CURRENT ACCOUNT

The current account balance recorded a deficit equivalent to 2.7 per cent of **GDP** during the second quarter of 2018, following a revised surplus equivalent to 0.4 per cent of **GDP** in the previous quarter. The weaker performance of the current account was driven mainly by the shrinking secondary income account surplus, which contracted by 17.5 per cent in the second quarter of 2018 compared to an increase of 13.4 per cent in the preceding quarter. Nevertheless, the balances on the goods, services and primary income accounts improved during the quarter under review, partly offsetting the negative impact of the secondary income account on the current account balance. During the second quarter of 2018, the deficit on the goods account contracted by 2.3 per cent from a fall of 16.1 per cent in the previous quarter while the services account deficit grew by 0.6 per cent compared to an increase of 8.6 per cent in the previous quarter. The primary income account balance increased by 3.9 per cent in the review quarter following an increase of 0.2 per cent in the preceding quarter.

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

	2017			2018		Changes	
	Q2	Q3	Q4	Q1*	Q2+	Q/Q	YN
Current Account	-599.33	-334.46	-583.15	42.96	-265.91	-718.9	-56.5
(a) Goods	-2861.63	-2375.50	-2774.27	-2329.05	-2276.71	2.3	-20.4
Merchandise exports, f.o.b.	3335.20	3813.34	3599.71	3959.66	4179.10	5.5	25.3
Of which diamonds	1176.54	1199.54	1431.08	1640.73	1424.61	-13.2	21.1
Of which textiles & clothing	1469.87	1875.43	1483.59	1644.45	1856.15	12.9	26.3
Of which re-exports	13.41	50.87	59.48	51.33	28.52	-44.4	112.7
Other exports	675.38	687.50	625.56	623.15	869.82	39.6	28.8
Merchandise imports, f.o.b.	6196.83	6188.84	6373.98	6288.71	6455.81	2.7	4.2
(b) Services	-1003.38	-1027.44	-1075.46	-1167.64	-1174.72	0.6	16.5
(c) Primary Income	1214.66	1069.22	1236.51	1238.85	1287.53	3.9	6.0
(d) Secondary Income	2051.02	1999.26	2030.08	2300.81	1898.00	-17.5	-7.5

+ Preliminary \*

Revised

Source: Central Bank of Lesotho

## Merchandise Exports

Merchandise exports rose by 5.5 per cent during the second quarter of 2018, slowing from an increase of 10.0 per cent in the first quarter of 2018. Merchandise exports were supported by higher exports of clothing and textiles, which rose by 12.9 per cent in the review quarter compared to an increase of 10.8 per cent in the quarter ending in March 2018, due to increased orders from the US. Diamond exports declines by 13.2 per cent in the quarter under review from a growth of 14.7 per cent in the previous quarter and therefore moderated the increase in merchandise exports. The value of diamond exports was affected by a decline in the carats produced in one of the major mines, which experienced some technical disruptions in the quarter under review. During the second quarter of 2018, merchandise exports constituted 23.1 per cent as a share of GDP, slightly lower than 23.6 per cent in the preceding quarter.

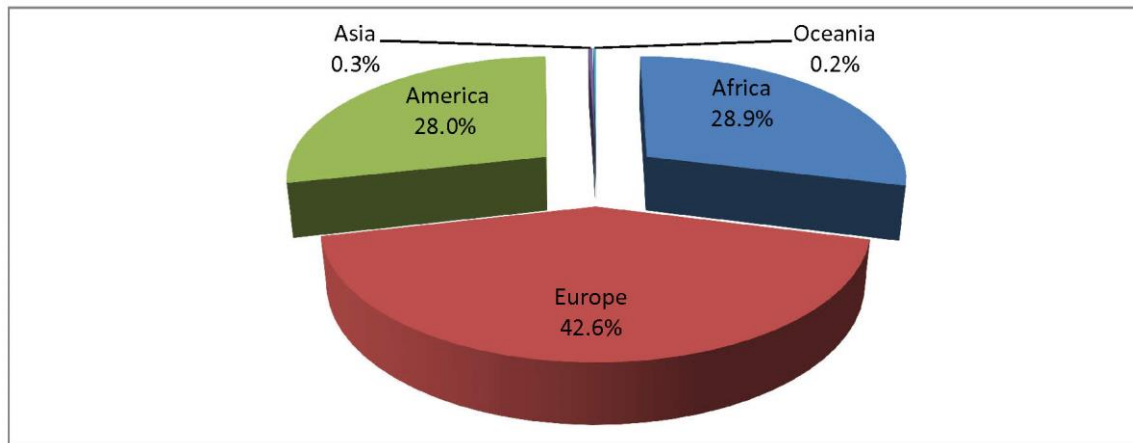
## Direction of Trade - Exports

The European market remained the major destination for Lesotho's exports during the second quarter of 2018 albeit receiving a slightly reduced share at 42.6 per cent of total exports during the second quarter of 2018 compared with 45.9 per cent in the previous quarter. This development largely reflected the decline in diamond exports during the review quarter. The African market got 28.9 per cent of total exports, and remained the second largest export destination for Lesotho. Exports to the SACU region, particularly those sent to South Africa accounted for the largest share of exports to the African market. The proportion of exports to the American market increased to 28.0 per cent of the total exports compared with 25.7 per cent in the previous quarter, reflecting higher textiles and clothing exports to the US. The share of exports to the Asian market declined to 0.3 per cent during the review quarter from 0.5 per cent



in the previous quarter while Oceania continued to get the minimum share of total exports, remaining stable at 0.2 per cent during the quarter, compared to the previous quarter.

**Figure 25: Direction of Merchandise Exports (Percentage Share)**



**Source:** Central Bank of Lesotho

### Merchandise Imports

During the second quarter of 2018, the value of merchandise imports rose by 2.7 per cent compared to a fall of 1.3 per cent in the quarter ending in March 2018. The increase in imports was attributed mainly to a growth in the imports from South Africa, which is Lesotho biggest source for Lesotho imports. Specifically, imports rose for "mineral products" and "vehicles aircraft and vessels" categories. Year on year, the value of merchandise imports rose by 4.2 per cent in the same quarter relative to a rise of 12.5 per cent in the previous quarter. As a share of GDP, merchandise imports constituted 65.4 per cent compared with 63.7 per cent in the previous quarter.

### Services

Lesotho continued to be a net importer of services in the second quarter of 2018. The services account deficit rose by 0.6 per cent in the quarter ending in June 2018 after increasing by 8.6 per cent in the previous quarter. The improvement in services account balance was supported by lower payments for telecommunications and a higher receipts from the tourism sector. On an annual basis, the services account deficit widened by 16.5 per cent. As a share of GDP, services account deficit stood at 11.8 per cent during the review quarter, from 12.0 per cent in the preceding quarter.

### Primary Income

The primary income account balance expanded by 3.9 per cent in the quarter ending in June 2018, following a slight increase of 0.2 per cent in the first quarter of 2018. The increase in the primary income account surplus was primarily driven by higher interest income due to the Central Bank and commercial banks on their investments abroad. Furthermore, there was a

decline in the interest payments made by Government on its foreign loans holdings. The primary income account surplus was however, partly offset by the decline in LHDA receipts for maintenance and operational costs during the quarter. On an annual basis, the primary income surplus rose by 6.0 per cent, slowing from a 15.2 per cent increase in the first quarter of 2018. As the share of GDP, the primary income account constituted 13.0 per cent compared with 12.5 per cent of GDP recorded in the previous quarter.

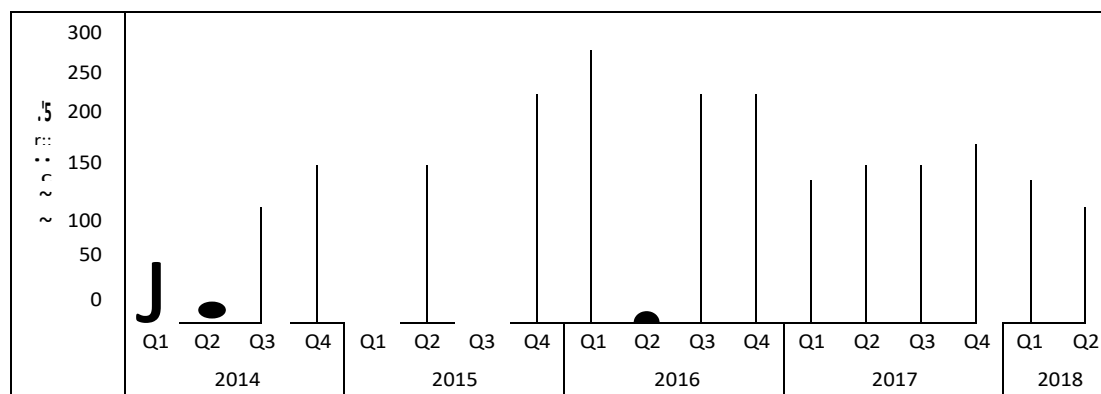
### Secondary Income

The secondary income account balance deteriorated during the quarter ending in June 2018, relative to a strong performance in the first quarter. The secondary income account balance declined by 17.5 per cent in the second quarter of 2018, after impressive performance of 13.3 per cent increase in the first quarter of 2018 reflecting a sharp decline in the SACU receipts. Year on year, the secondary income account balance contracted by 7.5 per cent during the review quarter following an increase of 24.5 per cent in the previous quarter. The secondary income account constituted 19.2 per cent of GDP during the review period, compared with 23.3 per cent of GDP in the previous quarter.

### CAPITAL ACCOUNT

The surplus on the capital account narrowed by 9.2 per cent from a revised M126.2 million in the first quarter of 20 18 to M14.6 in the quarter under review. This resulted from a fall in grants extended to the Government for financing capital projects. LHDA transfers for construction activities at Polihali remained stable during the quarter under review. As a percentage of GDP, the capital account inflows constituted 1.2 per cent in the second quarter of 2018 compared to 1.3 per cent of GDP in the previous quarter.

**Figure 26:** Capital Account (*Million Maloti*)



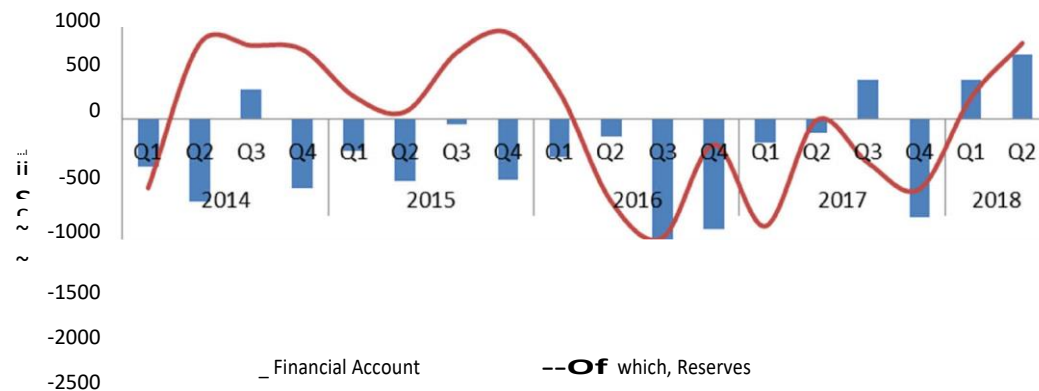
Source: Central Bank of Lesotho

### FINANCIAL ACCOUNT

During the second quarter of 2018, the financial account net outflow increased by M593.95 million from a revised M359.40 million in the first quarter of 2018. The net outflow in the quarter under review was equivalent to 6.0 per cent of GDP compared to a revised 3.6 per cent

of GDP in the preceding quarter. The improvement in the financial account balance was underpinned mainly by an increase in reserve assets, which benefitted from an increase in government deposits with the Central Bank. In addition, there was a slight increase in commercial banks' net foreign assets during the quarter under review, which was influenced by a significant decline in foreign liabilities despite the observed fall in their foreign assets holdings. The increase on the financial account net outflow was however moderated by the rise in government liabilities on account of higher disbursements of external loans compared to repayments.

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

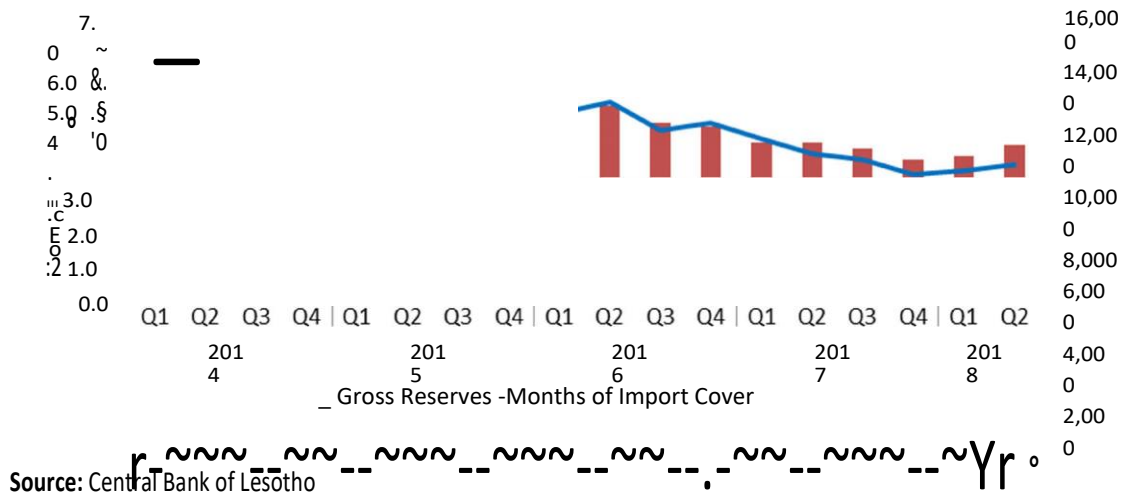


**Source:** Central Bank of Lesotho

**RESERVE ASSETS**

The international stock of reserve assets rose by 6.9 per cent during the quarter ending in June 2018, following an increase of 2.0 per cent in the first quarter of 2018. The stock of reserve assets increased on account of higher government deposits held with the Central Bank, which were supported by the fiscal surplus registered during the review quarter. As a result, the import coverage of gross official reserves rose to 4.2 months of imports during the quarter under review from a revised 4.0 months of imports in the previous quarter. This showed that the increase in reserve assets surpassed the observed rise in the import bill thus leading to an improvement in monthly coverage of the imports.

**Figure 28: Reserve Assets**



Source: Central Bank of Lesotho