Central Bank of Lesotho

QUARTERLY ECONOMIC REVIEW

June 2020

MASERU KINGDOM OF LESOTHO

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1. Executive Summary

The global economy contracted drastically during the second quarter of 2020. This was mostly due to economic disruptions caused by nationwide lockdowns imposed by most countries in an effort to contain the spread of the COVID-19 pandemic., The said lockdowns greatly impeded economic activity with significant impact observed mostly in international trade, global supply and production chains, tourism and travel. Unemployment rates also increased as companies laid off some workers in order to reduce operational costs amid production cuts and shutdowns. Meanwhile, inflationary pressures eased owing to falling food and global oil prices... In response to the effects of Covid-19 pandemic central banks across the globe maintained key interest rates at their lowest levels in a quest to boost and support economic recovery and inflation convergence towards the official inflation targets.

The performance of the domestic economy continued deteriorate during the review period. Both the demand and production side variables were negatively affected by the Covid-19 led lockdown. The labour market was also adversely affected, with significant declines in employment observed in the Lesotho National Development Corporation (LNDC) assisted companies and migrant mineworkers. However, government employment improved modestly. On the price front, both the headline inflation and core inflation increased considerably in June, with an increase in headline inflation underpinned mainly by a rise in the cost of food. Compared to that of South Africa, inflation in both countries diverged; the local inflation increased while that of South Africa declined. Monetary and credit aggregates were adversely affected by of the Covid-19 global pandemic and measured to taken to curb its spread during the second quarter of 2020. Broad money supply (M2) declined during the review period, underpinned by a fall in domestic claims, in particular, net claims by the government and claims by other sectors. Claims on other sectors dropped on account of a fall in credit extended to the private sector as a result of low economic activity due to theCOVID-19 related lockdown and production shutdowns. Short-term interest rates continued to fall as the Monetary Policy Committee (MPC) of the Central Bank of Lesotho continued to cut its key policy rate, in order to ease the adverse economic impact of Covid-19 global pandemic.

The Government budgetary operations resulted in a budget surplus, owing to a considerable decline in government outlays and an increase in government revenue. A decline in government expenditure was attributable to the national lockdown and delay in the passing of the Appropriation Act of 2020/21, while government revenue was boosted by SACU receipts and water royalties. The level of public was estimated to have increased slightly during this period.

Lesotho's external sector remained in surplus, albeit lower during the quarter ending in June 2020. - The external surplus declined to an equivalent of 6.0 per cent of GDP, compared with to 10.2 per cent of GDP a surplus in the previous quarter. The decline in external sector position was mainly due to a fall in the capital account surplus which offset the effect of the reduction in the current account deficit and an improved financial account balance.

2. International Economic Developments

Global economic activity declined considerably in the second quarter of 2020. This happened as most countries imposed nationwide lockdowns to curb the spread of the COVID-19 pandemic. Global supply chains, trade as well as contact intensive industries including travel and tourism were severely disrupted. The decline in the real GDP was broad based among advanced and emerging economies. However, China's economy recovered during the quarter. The global unemployment situation worsened, owing to job losses associated with the COVID-19 spread and related economic disruptions.

Inflationary pressures eased during the quarter, amid falling oil prices. The restrictions on travel and movement of people led to falling prices of fuels, as well as prices of goods and services. In emerging economies, falling food prices also contributed to lower inflation. Monetary policy was accommodative in the review period, as shown by rate cuts and quantitative easing almost all economies. The key policy rates were close to zero in advanced economies, and emerging economies embarked on cutting policy rates during the review period. This monetary policy stance was taken to trigger and sustain economic recovery and drive inflation rates towards official targets, especially in advanced economies.

Table 1: Key World Economic Indicators

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	Q1 2020	Q2 2020	Q1 2020	Q2 2020	Q1 2020	Q2 2020	Q1 2020	Q2 2020
United States	0.3*	-9.1	1.5	0.6	0.00	0.00	4.4	11.1
Euro Area	-3.2*	-14.7	0.7	0.3	0.00	0.00	7.4	7.8
Japan	-1.8*	-9.9	0.4	0.1	-0.10	-0.10	2.5	2.8
United Kingdom	-1.7*	-21.7	1.5	0.6	0.10	0.10	3.9	3.9
China	-6.8	3.2	4.3	2.5	4.05	3.85	5.9	5.7
India	3.1	-23.9	5.8*	6.1	4.40	4.00	N/A	N/A
South Africa	0.1*	-17.1	4.1	2.2	5.25	3.75	30.1	N/A

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

*Updated

ADVANCED ECONOMIES

United States (US)

The US economy weakened significantly in the second quarter of 2020, as the measures to curb Covid-19 pandemic wreaked havoc on economic activity. Real GDP contracted by 9.1 per cent in the second quarter of 2020, following a 0.3 per cent growth in the previous quarter. Contraction was broad-based across major sectors, including manufacturing, services and trade. While government spending increased slightly' there was also a sharp decline in consumption and investment spending. The unemployment rate was recorded at 11.1 per cent during the quarter, rising from 4.1 per cent in the previous quarter. A spike in the unemployment rate resulted from companies halting operations, hence laying off workers. This was done as part of measures to mitigate spread of Covid-19.

Consumer prices rose at an annual rate of 0.6 per cent in the quarter ending in June 2020, a slower pace compared to 1.5 per cent increase in the previous quarter. The decline was driven by a sharp contraction in the prices of gasoline and transport related services. The Federal Open Market Committee maintained the fed funds rate at the range of 0 - 0.25 per cent in the second quarter of 2020. Furthermore, the federal reserve continued implementing a stimulus package consisting of asset purchases to support the economy and enhance financial markets stability.

Euro Area

The Euro Area's economy was in technical recession in the second quarter of 2020. Real GDP contracted by 14.7 per cent, worsening from a 3.2 per cent decrease in the first quarter of 2020. Major economies in the region reported double-digit declines in GDP. This emanated from falling industrial production, exports and services. There was also a decline in consumption and investment spending. The unemployment rate grew to 7.8 per cent in the review period, increasing from 7.4 per cent in the first quarter of 2020 as labour markets were disrupted by the widespread lockdowns in the region.

There was a slight slowdown in inflation rate from 0.7 per cent in the previous quarter to 0.3 per cent in the second quarter of 2020. The fall was mainly due to a plunge in the oil prices. The European Central Bank kept the key policy rate unchanged at zero per cent in the second quarter of 2020. The Bank also maintained its asset purchases programme, and continued with €20 billion worth of assets purchases a month. In addition to this, there were also asset purchases under Emergency asset purchases programme. The bank maintained more accommodative stance to support economic recovery and inflation convergence to the official target of 2 per cent.

Japan

'The economy of Japan contracted for three consecutive quarters, with steep decline in the second quarter of 2020. Real GDP contracted by 9.9 per cent, extending a decline of 1.8 per cent in the previous quarter. There was a fall in industrial production, exports, consumption and investment spending, due to lockdown measures to curb the spread of Covid-19. The unemployment rate rose to 2.8 per cent in the second quarter of 2020, from 2.5 per cent in the preceding quarter. Japan was in state of emergency amid rapid spread of coronavirus, therefore this led to many companies laying off workers to cut costs.

The annual inflation rate for Japan was recorded at 0.2 per cent in the second quarter of 2020, down from 0.4 per cent in the first quarter of 2020. The decline was mainly driven by communications and transport costs which declined during the quarter. Falling oil prices were responsible for a decline in transport costs. The Bank of Japan kept its key policy rate steady at -0.10 per cent in the second quarter of 2020. With the aim to lower longer-term interest rates to zero per cent, the bank continued with its asset purchases programme. The asset purchases programme was expanded during the quarter to support economic recovery and to stave off the negative effect of coronavirus on the financial markets.

United Kingdom (UK)

The UK's economy entered a technical recession in the second quarter of 2020. Real GDP contracted at the annual rate of 21.7 per cent. This followed a decline of 1.7 per cent in previous quarter. There was a sharp decline in consumer spending, investment and exports. UK was in a nationwide lockdown during the quarter, which led to disruptions in the production and consumption of goods and services. Unemployment rate was 3.9 per cent in the quarter ending in June 2020, unchanged from the previous quarter. This however did not reflect a strong labour market as there was a net loss of jobs, but a surge in the inactivity rate. This comprises discouraged workers due low job opportunities.

The annual inflation rate was 0.6 per cent in the second quarter of 2020, down from 1.5 per cent in the first quarter of 2020. A decline in inflation was mainly driven by falling oil prices and transport costs. Bank of England maintained the key policy rate unchanged at 0.1 per cent in the review quarter. The bank also expanded the volume of the asset purchases programme. The stance of monetary policy was accommodative to support the economy and to enhance financial market stability.

EMERGING MARKET ECONOMIES

China

There was stronger than expected recovery in China's economic activity in the second quarter of 2020. Real GDP grew by 3.2 per cent, rebounding from a decline of 6.8 per cent in the first quarter of 2020. Growth was driven by industrial production, exports and investment spending, while increase in imports and weak consumer spending moderated the growth. Unemployment rate fell to 5.2 per cent in the second quarter of 2020, from 6.1 per cent in the previous quarter. The decline was in line with lifting of lockdown measures, which saw people returning to work.

The annual inflation rate fell to 2.5 per cent in the second quarter of 2020, from 4.3 per cent in the previous quarter. Inflationary pressures subsided due to easing prices of food and other non-food items including a decline in the transport and clothing costs. The People's Bank of China cut its key policy rate by 20 basis points in the second quarter of 2020 to 3.85 per cent from 4.05 per cent in the previous quarter. The Bank took a more accommodative stance to support the economy, and to mitigate negative effects of Covid-19 pandemic.

India

Economic activity was under pressure in India in the second quarter of 2020, due to Covid-19 pandemic and lockdown measures to curb its spread. Real GDP contracted at an annual rate of 23.9 per cent, having increased by 3.1 per cent in the previous quarter. There was a significant decline in economic activity across all major industries. Trade was also negatively affected as both the imports and exports declined during the quarter.

The annual inflation rate for India increased slightly to 6.1 per cent in the second quarter of 2020, from 5.8 per cent in the first quarter of 2020. Inflationary pressures were driven mainly by the prices of food and tobacco. The Reserve Bank of India cut the repo rate by 40 basis points to 4.0 per cent in the second quarter of 2020. The bank maintained accommodative monetary policy stance to support the economy amid the Covid-19outbreak.

South Africa

There was a sharp decline in e economic activity in South Africa during the second quarter of 2020. Real GDP contracted by annual rate of 17.1 per cent, from a revised growth of 0.1 per cent in the first quarter of 2020. There was a decline in all major sectors of the economy, driven by lockdown measures during the quarter. On the quarterly basis, the real GDP contracted by 51.0 per cent. The current quarter marked the fourth consecutive quarter of decline.

The annual inflation rate was recorded at 2.2 per cent in the second quarter of 2020, slowing down from 4.1 per cent in the previous quarter. The easing inflation pressures resulted mainly from a decline in the transport costs, driven by low oil prices. The Reserve Bank of South Africa decided to cut its repo rate from 5.25 per cent in the first quarter of the year to 3.75 per cent in the second quarter of 2020. This decision was made to support the economy and financial markets amid the outbreak of Covid-19 pandemic.

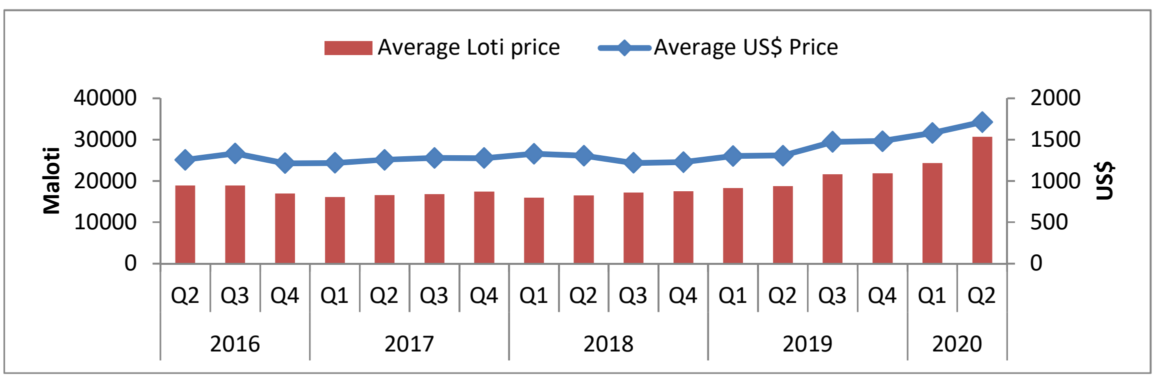
COMMODITIES

Minerals

Gold

The price of gold increased by 8.3% per cent to US$ 1713.63 in the second quarter of 2020, following an increase of 6.7 per cent in the previous quarter. It was driven mainly by increased demand for safe haven assets, amid escalating risks and uncertainty in the global financial markets and economy. This was demonstrated by increased inflows in the gold backed exchange traded funds. The flows also benefitted from increased liquidity in the global markets, resulting from policy actions, including rate cuts, quantitative easing and fiscal stimulus. However, weaker demand for jewellery and from central banks moderated the gains in the quarter. On the supply side, there were production disruptions as most countries imposed lockdowns to control Covid-19 pandemic. In maloti terms, the price of gold increased by 26.5 per cent during the review quarter.

Figure 1: Average Price of Gold

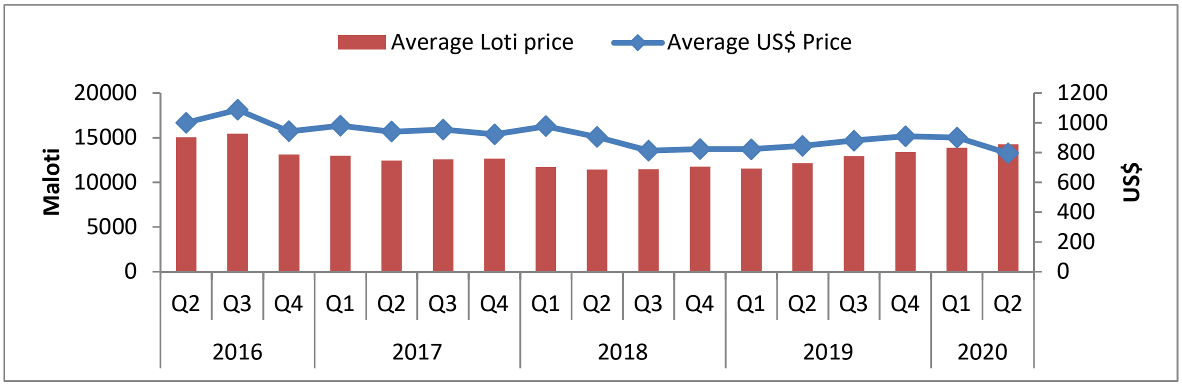


Source: Bloomberg

Platinum

During the second quarter of 2020, the price of platinum declined by 11.8 per cent to US$ 795.01 following a decline of 0.86 per cent in the previous quarter. There was weakened demand for platinum due to the Covid-19 pandemic, especially for jewellery and for industrial use. Particularly there was a decline demand for platinum in autocatalytic manufacturing, as the vehicle sales plunged during the quarter. The platinum market was still in surplus during the quarter, despite production disruptions in South Africa, the world's largest producer, due to lockdown. In maloti terms, the price of platinum rose by 2.9 per cent during the quarter.

Figure 2: Average Price of Platinum



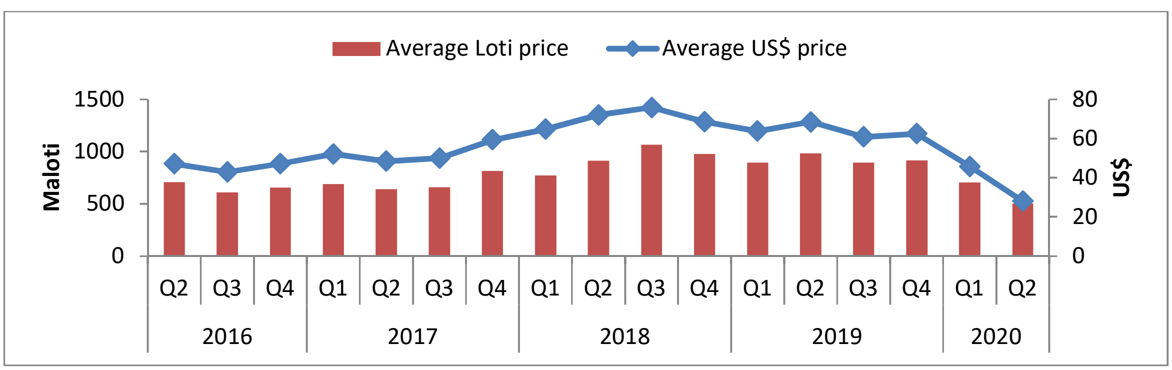
Source: Bloomberg

Energy

Oil

Crude oil prices continue to fall during the second quarter of 2020. They declined by 38.8 per cent to US$ 33.39 following a 26.7 per cent drop in the previous quarter. The decrease was due to the supply glut in the global markets. There were lockdown measures in a number of countries, which weakened demand for oil, as they restricted movement of people and consequently arrested economic activity. Furthermore, supply of oil remained high, as the OPEC failed to reach consensus on output cuts. In maloti terms, the price of crude oil declined by 28.6 per cent during the quarter under review.

Figure 3: Average Price of Oil



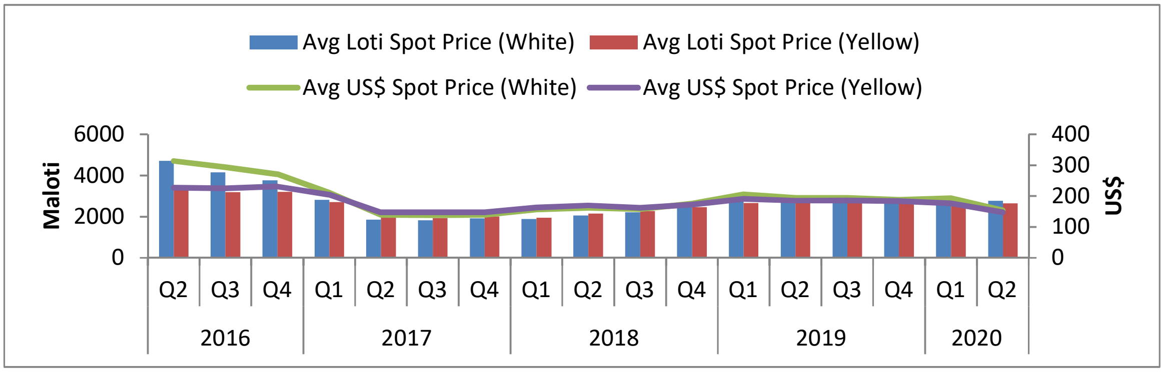
Source: Bloomberg

Agricultural Products

Maize

Significant reductions in maize prices were realised during the review period. The price of white maize declined by 20.0 per cent to US$ 154.21 in the second quarter of 2020, while that of yellow maize declined by 16.3 per cent to US$ 147.46. This followed a 2.5 per cent increase in the price of white maize in the first quarter of 2020while that of yellow maize declined by 4.1 per cent. The price of maize declined due to increased supply relative to demand in the global markets. The supply of maize was boosted by increased production in key producing regions, including in the Southern Africa region. There was also increased stockpiles of maize during the quarter. In maloti terms, the price of white maize declined by 6.6 per cent and price of yellow maize declined by 3.2 per cent.

Figure 4: Average Price of Maize

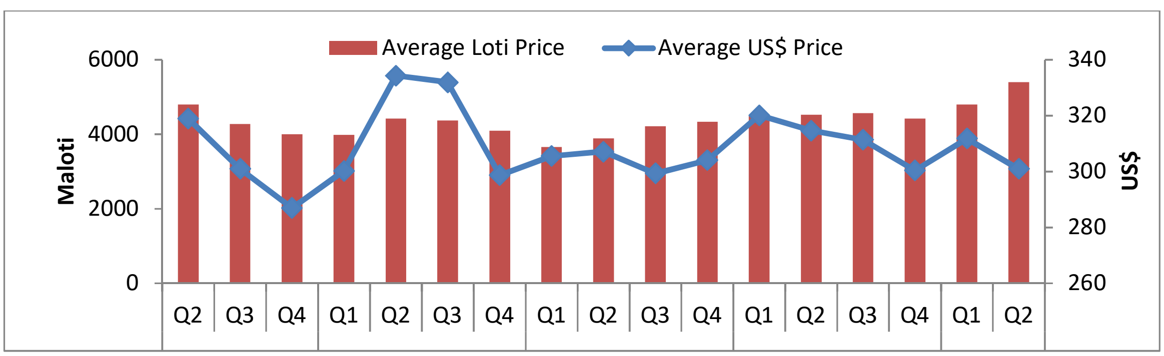


Source: Bloomberg

Wheat

The price of wheat decline by 3.5 per cent to US$ 301.00 in the second quarter of 2020, relative to 3.8 per cent increase in the preceding quarter. There was increased supply of wheat in the global markets, driven by bumper harvest in most key producing regions and increased inventories. Furthermore, demand was curtailed by lockdown restrictions on the movement of people and travel, which disrupted food supply chains. In maloti terms, the price of wheat increased by 12.7 per cent in the review quarter.

Figure 5: Average Price of Wheat

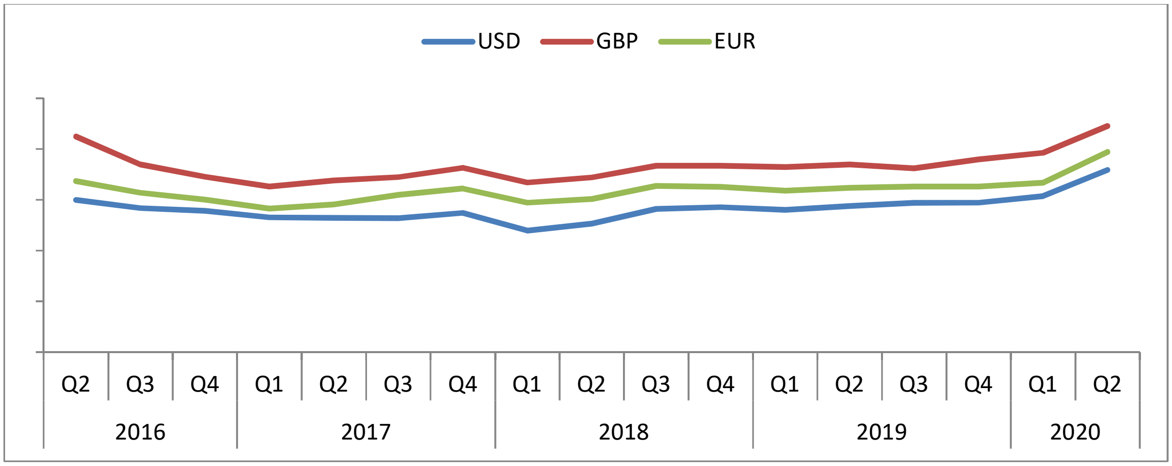


Source: Bloomberg

EXCHANGE RATES

The rand hence the loti depreciated by 16.7 per cent, 13.4 per cent, 18.2 per cent against the dollar, pound and the euro, respectively in the second quarter of 2020. There was increased selloff of rand denominated assets, impacting negatively on the rand exchange rate. The rand was under pressure from rapid spread of Covid-19 global pandemic, which dampened market risk appetite. The other major issue driving rand was the downgrade of South Africa's sovereign credit rating to junk status by Moody's. Previously, Moody's was only rating agency which held South African credit rating a notch above junk status.

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



Source: Bloomberg

3. Real Sector Developments

OVERVIEW

The Quarterly Indicator of Economic Activity (QIEA) index signalled worsening economic performance in the review quarter as a result of the strict lockdown regulations. The labour market displayed mixed signals – employment in LNDC-assisted companies (with some firms under total shut-down) and migrant mineworkers (due to the mineral mining sector in South Africa under complete shutdown) declined, while the government of Lesotho (GoL) employment increased slightly on an annual basis. Inflationary pressures increased in June due mainly to increasing food prices during the lockdown period. Core inflation also increased in the review quarter. Food and non-food inflation rates diverged in the review period driven mainly by bread and cereals, and oil prices, respectively.

OUTPUT DEVELOPMENTS

The QIEA index's performance worsened in the quarter ending in June 2020. The QIEA contracted by a steep 12.6 per cent, suggesting that economic activity contracted significantly in the review quarter. This followed a 2.4 per cent contraction in the preceding quarter. The poor performance by the index was a result of both demand and production side variables underperforming, as a result of the lockdown enforced by the GoL in order to arrest the spread of the Covid-19. The domestic demand index, driven mainly by a decline in imports of goods and services from SA and GoL's purchases of goods and services, contracted by 8.1 per cent in the review quarter following a 9.1 per cent decline in the quarter ending in March. The production side index, whose performance was dominated by the use of utilities (water and electricity) for industrial purposes, contracted by 27.0 per cent after recording a 4.7 per cent growth in the preceding quarter due to halt in production in key industries like the clothing and textiles manufacturing in the economy during the review quarter. In addition, the construction and transport subsectors weighed in to the negative growth of the index as indicated by negative contributions from cement imports and consumption of fuel (petrol and diesel), respectively, in the second quarter.

Figure 7: Quarterly Indicator of Economic Activity

Source: Central Bank of Lesotho

Table 2: Contributions to Growth

	2019			2020	
Indices	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
CIEA	**152.7**	**154.3**	**153.1**	**149.4**	**130.5**
Quarter-on-quarter changes	1.7	1.0	-0.7	-2.4	-12.6
Domestic Demand	**151.7**	**149.7**	**153.3**	**139.3**	**128.1**
Quarter-on-quarter changes	1.3	-1.3	2.4	-9.1	-8.1
Manufacturing and Production Category	**121.0**	**122.8**	**117.4**	**122.9**	**89.8**
Quarter-on-quarter changes	1.0	1.5	-4.4	4.7	-27.0

Source: Central Bank of Lesotho

EMPLOYMENT DEVELOPMENTS

Employment by LNDC-assisted companies declined by 3.6 per cent in the second quarter of 2020 following an increase of 2.9 recorded in the preceding quarter. The contraction was broad-based with employment by almost 97.0 per cent of firms severely affected. The major contributors to the decline were the knit and woven garments. Nevertheless, the construction sector slightly moderated the fall in employment. The decline in employment during the review period was mainly due to firms' temporary closures due to government covid-19 regulations at the beginning of the quarter.

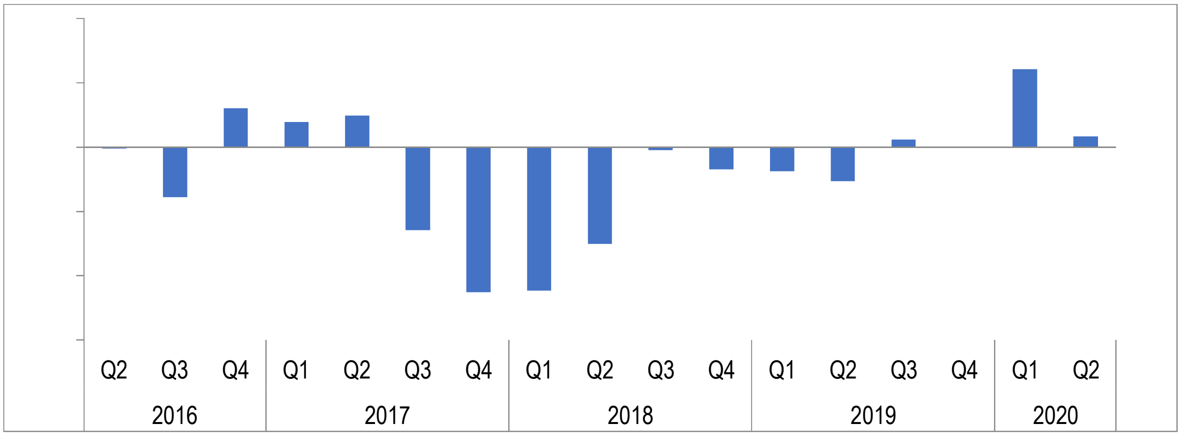
Table 3: Employment by LNDC-Assisted Companies

Industry	**2019**			**2020**		**% Change**	
	Q2	**Q3**	**Q4**	**Q1**	**Q2**	**Q/Q**	**Y/Y**
Knit Garments…………..	26425	28476	28602	29444	26916	-12.4	1.9
Woven Garments…….	15260	15803	15304	18644	14402	-8.1	-5.6
Footwear………………….	937	934	940	952	1006	-21.8	7.4
Fabrics, Yarn etc……….	2718	1818	1849	1792	1714	-3.0	-36.9
Construction……………	373	375	334	374	399	19.5	7.0
Food & Beverages………..	588	480	479	477	700	57.7	19.0
Electronics………………..	1676	1029	1052	1002	1018	-44.3	-39.3
Retail……………………….	213	217	217	217	213	3.4	0.0
Hotel Accomm………..	389	394	394	441	394	0.0	1.3
Other……………………..	1210	1216	1279	1404	1232	-6.8	1.8
TOTAL……………………	**49789**	**50742**	**50450**	**49996**	**47994**	**-11.1**	**-3.6**

Source: Lesotho National Development Corporation

The number of public sector employees increased by a moderate 0.2 percent on a year-on-year basis in the second quarter of 2020, a percentage point slow down from 1.2 per cent recorded in the preceding quarter. The slowdown in employment was broad-based.

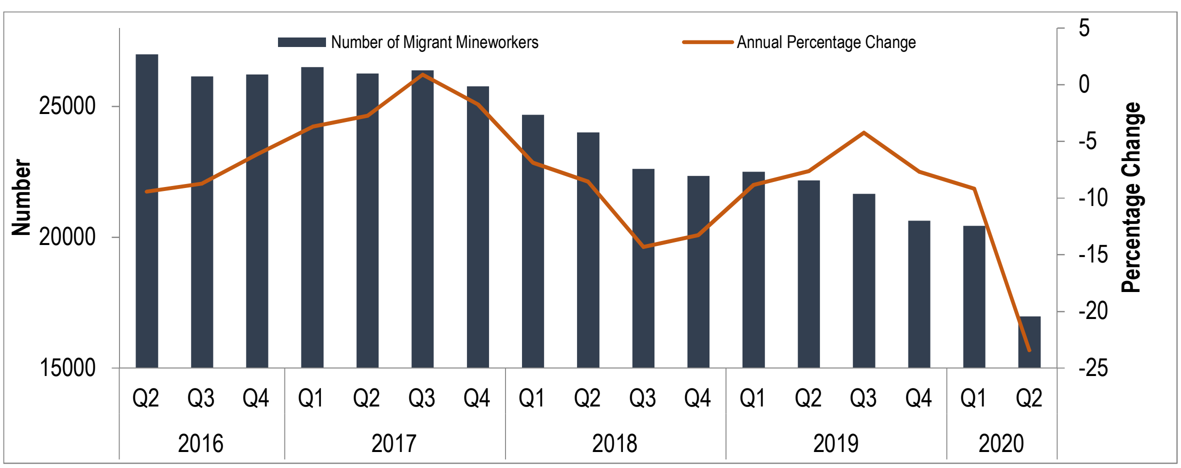
Figure 8: Government Employment *(Annual Percentage Changes)*



Source: Ministry of Finance

The total number of migrant mineworkers continued to decline by 23.4 per cent, on an annual basis, in the second quarter of 2020 relative to the decline of 9.2 per cent in the preceding quarter. The massive decline was mainly due to the scaling down of operations across country as SA government imposed lockdown measures in order to curb the spread of covid-19 pandemic. It is important to note that the SA mining sector was already reeling under the negative effects of labour unrest, power outages, among others.

Figure 9: Migrant Mineworkers *(Annual Percentage Changes)*



Source: The Employment Bureau of Africa (TEBA)

PRICE DEVELOPMENTS

The inflation rate, measured by the year-on-year percentage change in the Consumer Price Index (CPI), increased to 4.9 per cent in June 2020 from 4.0 per cent in March 2020. The main contributors to the acceleration in inflation during the review period were Food & Non-alcoholic beverages and Clothing & footwear as well as Furniture, household's equipment & routine maintenance. This was mainly due to increasing food prices, among others, as consumers' demand for essential goods increased because of covid-19 pandemic and the consequent lockdown measures.

Nonetheless, the inflation acceleration was moderated by the fall Housing, electricity gas & other fuels and transport. The fall in these components was mainly driven by the slump in fuel prices as the international crude oil prices plunged due to disruptions in supply and the fall in demand as Covid-19 pandemic continued to take a toll on the global economy, among others.

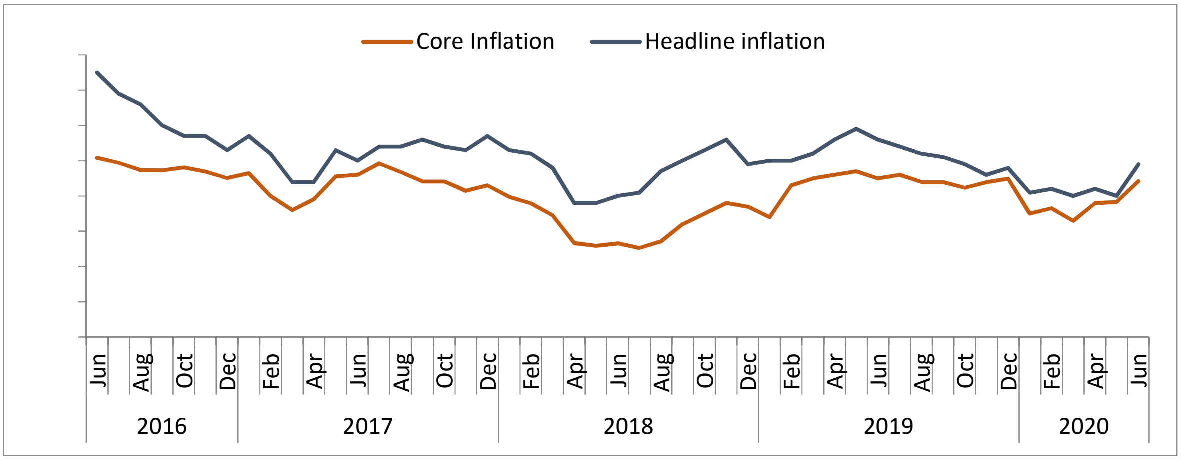
Table 4: Inflation Rate *(Annual Percentage Changes)*

		2020				
	Weight	**Feb**	**Mar**	**Apr**	**May**	**Jun**
All items	**1000**	**4.2**	**4.0**	4.2	4.0	4.9
Food and non-alcoholic beverages	**361.13**	5.5	5.2	8.7	9.9	11.4
Alcoholic beverages & Tobacco	**33.31**	3.6	2.8	3.0	2.8	4.7
Clothing & footwear	**130.57**	4.3	3.9	3.9	4.0	4.2
Housing, electricity gas & other fuels	**123.97**	5.1	4.6	-1.9	-5.7	-5.1
Furniture, households equipment & routine maintenance	**84.77**	1.8	1.7	1.9	1.9	2.3
Health	**15.04**	1.5	1.5	1.6	1.5	2.7
Transport	**48.21**	2.7	4.8	-0.5	-3.1	-1.0
Communication	**21.05**	0.2	0.2	-0.1	0.4	0.4
Leisure, entertainment & Culture	**57.08**	3.4	3.1	3.0	3.4	3.5
Education	**42.00**	4.1	4.1	4.1	4.1	4.1
Restaurant & Hotels	**10.30**	2.3	2.1	2.1	2.0	2.3
Miscellaneous goods & services	**72.59**	1.9	1.7	1.9	1.5	1.8

Source: Bureau of Statistics

Both headline and core inflation rates continued to move in tandem during the second quarter of 2020. They increased by 4.9 per cent and 4.4 per cent, respectively, in June 2020 from 4.0 per cent and 3.3 per cent in March 2020. The major driver of the core inflation during the review period was the asymmetric effects of both demand and supply shocks. Demand shocks outweighed supply shocks, hence the rise in core inflation.

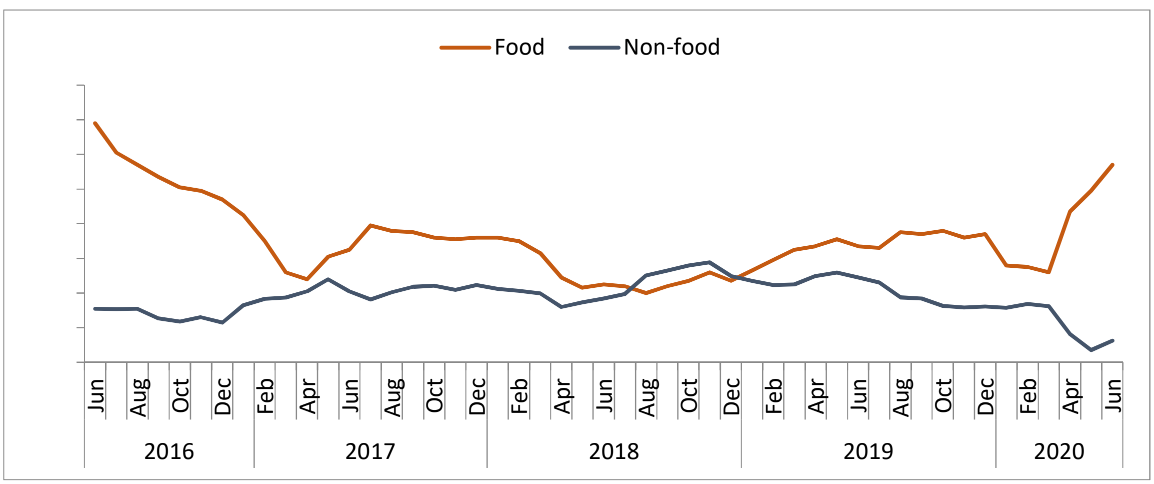
Figure 10: Core vs Headline Inflation



Source: CBL Computations

Food and non-food inflation showed divergent movements during the second quarter of 2020. Food inflation accelerated during the quarter, driven mainly by bread and cereals, oils and fats, and meat prices. Non-food inflation was slowed down mainly by energy prices as excess supply of Brent crude oil due to non-usage during the strictest lockdown months worldwide brought oil prices down.

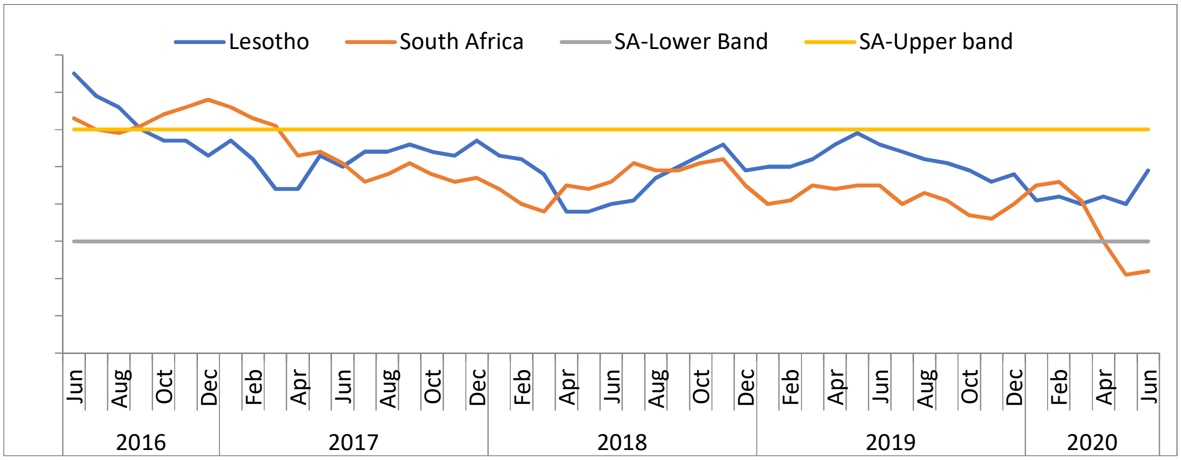
Figure 11: Food vs Non-food Inflation



Source: BoS and CBL Computations

Inflation rates in Lesotho and South Africa diverged during the review period. While the inflation rate in Lesotho increased to 4.9 per cent in June 2020 from 4.0 per cent in March 2020, the SA inflation rate fell from 4.1 per cent to 2.2 per cent. The divergence in inflation rates during the review period could be attributed to the asymmetric effects of the shocks (both demand and supply) to inflation in both countries. For example, food prices increased during the review period while energy prices fell. Given that the food weight in Lesotho's CPI basket is twice that of SA and energy weight in Lesotho is less than half that in SA, this has led to inflation in Lesotho rising while that of SA decelerating. Again SA used weights adjusted for the effect of Covid-19 while those of Lesotho are not adjusted.

Figure 12: Lesotho and South Africa's Inflation



Source: Bureau of Statistics, Statistics South Africa

4. Monetary and Financial Developments

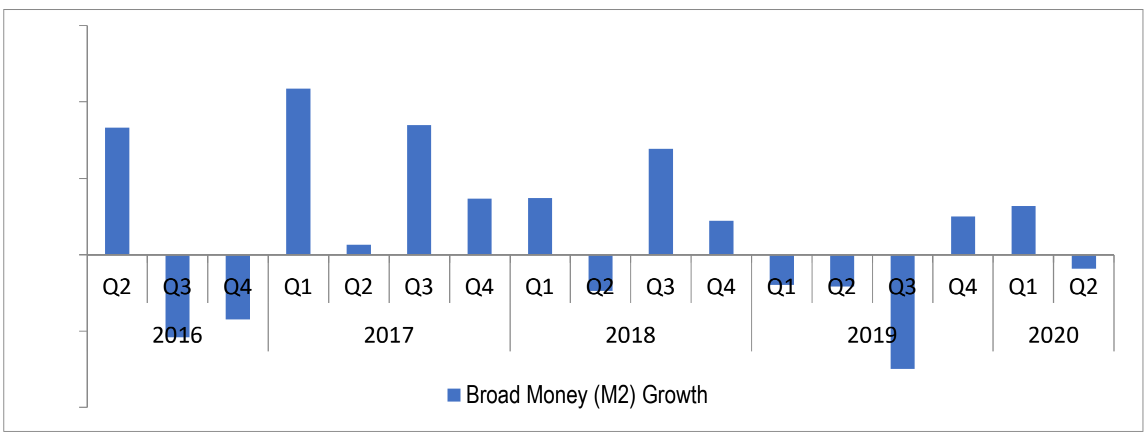
OVERVIEW

The effects of the COVID-19 global pandemic on the monetary and credit aggregates were evident during the second quarter of 2020. The broadly defined money supply (M2) decreased as a result of a fall in domestic claims, specifically net claims on government as well as claims on other sectors. The fall in claims on other sectors reflected a decline in credit extended to the private sector during the second quarter of 2020. Loans and advances extended to business enterprises and households fell notably as a result of low economic activity caused by the lockdown imposed to curtail the spread of COVI-19. The overall fall in money supply was also demonstrated by a decline in transferable deposits held by private businesses and state-owned enterprises. Most short-term interest rates continued to fall as the Monetary Policy Committee (MPC) of the Central Bank of Lesotho continued to cut its key policy rate, in order to ease the adverse economic impact of COVID-19 global pandemic.

BROAD MONEY (M2)

During the second quarter of 2020, the broadly defined money supply (M2) declined, both on quarterly and annual basis. Between the second and the first quarter of 2020, M2 contracted by 0.9 per cent, compared with a growth of 3.2 per cent observed during first three months of the year. The contraction in M2 was a result of a decline in domestic claims, which were 29.8 per cent lower than the first quarter of 2020. The increase in total net foreign assets however, moderated the decline in M2. Compared to the corresponding period a year ago, M2 declined by 3.1 per cent during the second quarter of 2020. In real terms, M2 fell by 7.6 per cent during the quarter under review, in contrast to a decline of 1.4 per cent in the previous quarter.

Figure 73: Broad Money (M2) *(Quarterly Changes)*



Source: Central Bank of Lesotho

Determinants of M2

Domestic Claims

Domestic claims, as one of the determinants of M2, decreased by 29.8 per cent quarter on quarter, in contrast to a growth of 8.8 per cent realized in the previous quarter. The decline emanated from a fall in both the central bank and commercial banks' net claims on government. Central bank's net claims fell due to an increase in government deposits, resulting from higher SACU revenue during the second quarter of 2020. Similarly, the commercial banks' net claims declined because of higher government deposits held with commercial banks. The decline in commercial banks' loans and advances to the private sector during the review period, especially to business enterprises, also contributed to a negative growth in domestic claims. On a year-over-year basis, domestic claims were lower by 33.0 per cent.

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

	2019			2020		Changes (%)	
	Q2	Q3	Q4	Q1	Q2	Q/Q	Y/Y
Domestic Claims	**6296.08**	**5656.55**	**5517.40**	**6002.15**	**4215.57**	**-29.77**	**33.04**
Net Claims on Government	**-964.42**	**-2094.57**	**-2117.34**	**-1886.68**	**-3250.19**	**-72.27**	**-237.01**
Commercial Banks Net Claims	**2007.85**	**232.67**	**468.44**	**440.56**	**52.96**	**-87.98**	**-97.36**
Claims on Central Government	2013.54	2128.67	2162.87	2028.14	2051.63	**1.16**	**1.89**
Liabilities to Central Government	5.69	1896.00	1694.43	1587.58	1998.67	**25.89**	
Central Bank Net Claims	**-2972.27**	**-2327.24**	**-2585.78**	**-2327.24**	**-3303.15**	**-41.93**	**-11.13**
Claims on Central Government	716.31	720.65	515.65	593.31	492.49	**-16.99**	**-31.25**
Liabilities to Central Government	3688.58	3047.88	3101.43	2920.55	3795.64	**29.96**	**2.90**
Claims on Other Sectors	**7260.50**	**7751.12**	**7634.73**	**7888.83**	**7465.76**	**-5.36**	**2.83**
Claims on OFCs	184.68	211.53	231.35	145.41	174.99	**20.34**	**-5.25**
Claims on Public Nonfinancial Corporations	0.00	40.67	38.20	47.98	63.25	**31.83**	**-**
Claims on St &Local Government	0.00	0.00	0.00	0.00	0.00	**-**	**-**
Claims on Private Sector	**7075.82**	**7498.92**	**7365.18**	**7695.44**	**7227.52**	**-6.08**	**2.14**
Claims on Business Enterprises	2188.16	2329.62	2172.34	2423.99	2043.19	**-15.71**	**-6.63**
Claims on Households	4887.66	5169.30	5192.84	5271.46	5184.32	**-1.65**	**6.07**

Source: Central Bank of Lesotho

Net Foreign Assets

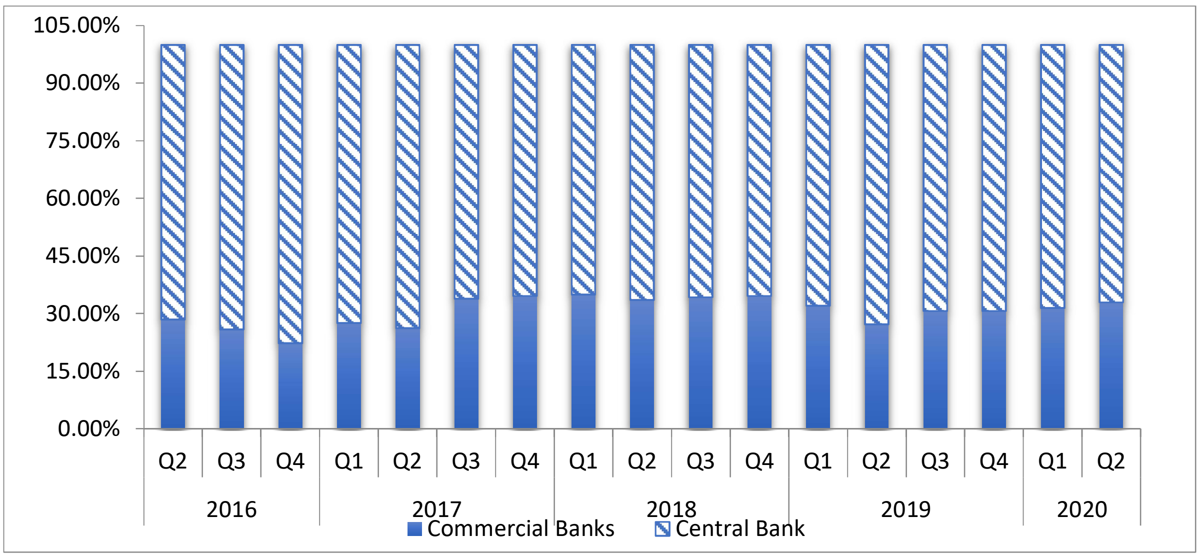
The total net foreign assets (NFA) continued to rise during the quarter under review. At the end of June 2020, the overall NFA was 8.2 per cent higher than at the end of March 2020. This follows a growth of 7.3 per cent observed during the first quarter of the year. Compared with the corresponding period a years ago, total NFA expanded by 19.0 per cent during the period under review. Both commercial banks' and central bank's NFA contributed to the observed increase in overall NFA during the second quarter of 2020, with growth rates of 13.1 per cent and 5.9 per cent, respectively. The improved commercial banks' net position with non-residents was influenced by a weaker demand for credit during the quarter under review. As a result, the banks invested the excess funds abroad. The central bank's NFA benefited from higher SACU receipts.

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

	2019			2020		Changes (%)	
	Q2	Q3	Q4	Q1	Q2	Quarterly	Annual
Commercial Banks	**4037.40**	**4599.38**	**4603.91**	**5138.76**	**5812.24**	**13.11**	**43.96**
Claims on Non-residents	4490.49	5040.69	5026.74	5510.98	6085.20	**10.42**	**35.51**
Liabilities to Non-residents	453.09	441.31	422.83	372.22	272.97	**-26.66**	**-39.75**
Central Bank	**10820.24**	**10415.71**	**10618.21**	**11200.94**	**11861.29**	**5.90**	**9.62**
Claims on Non-residents	12075.90	11697.66	11733.04	12600.80	13107.85	**4.02**	**8.55**
Liabilities to Non-residents	1255.66	1281.95	1114.83	1399.86	1246.56	**-10.95**	**-0.72**
Net Foreign Assets Total	**14857.64**	**15015.09**	**15222.12**	**16339.70**	**17673.53**	**8.16**	**18.95**

Source: Central Bank of Lesotho

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



Source: Central Bank of Lesotho

Components of M2

The decline in M2 was mainly influenced by the decrease in narrow money (M1), despite the rise in quasi money. During the review period, M1 fell by 9.7 per cent, which overshadowed the 6.5 per cent increase in quasi money. The fall in transferable deposits held by state-owned enterprises and private businesses was the main driver of the observed decline in M1 during the review period. Conversely, the improvement in quasi money was underpinned by the growth in call and fixed time deposits held by business enterprises and non-bank financial institutions.

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

	2019			2020		Changes (%)	
	Q2	Q3	Q4	Q1	Q2	Quarterly	Annual
Broad Money (M2)	**12859.94**	**11897.68**	**12195.22**	**12582.63**	**12467.68**	**-0.91**	**-3.05**
Narrow Money (M1)	**5499.41**	**4988.34**	**5333.90**	**5774.30**	**5216.40**	**-9.66**	**-5.15**
Currency Outside DCs	1003.29	1031.25	1148.90	1095.25	1094.74	**-0.05**	**9.12**
Transferable Deposits	4496.12	3957.09	4185.00	4679.04	4121.66	**-11.91**	**-8.33**
Quasi Money	**7360.54**	**6909.34**	**6861.32**	**6808.33**	**7251.28**	**6.51**	**-1.48**
Other Deposits Commercial Banks	7306.83	6855.28	6811.49	6765.16	7209.11	**6.56**	**-1.34**
Other Deposits Central Bank	53.71	54.06	49.83	43.17	42.18	**-2.29**	**-21.47**

Source: Central Bank of Lesotho

CREDIT EXTENSION

The total loans and advances granted to the private sector contracted sharply during the second quarter of 2020. Overall credit extended to the private sector weakened by 6.1 per cent between end of the second quarter and end the first quarter of the year. Hence this reversed the 4.5 per cent increase recorded between the first quarter of 2020 and the last quarter of 2019. However, measured year-on-year, private sector credit improved by 2.1 per cent. The contraction in loans and advances extended during the review quarter was evident from both the business enterprises and households. This was amid slowdown in economic activity due to the lockdowns imposed by governments to curtail the spread of COVID-19 global pandemic. The real growth in credit extension fell by 12.4 per cent during the review period, after decreasing slightly by 0.2 per cent in the previous period.

Trends of Credit Extended to Business Enterprises

Growth in total loans and advances extended by commercial banks to business enterprises declined, both on quarterly and annual basis. At the end of the quarter under review, loans and advances granted to business enterprises, across all sectors, were lower by 15.0 compared to end of the previous quarter position. This reversed the gains of the last quarter, whereby credit extended to businesses grew by 11.6 per cent. The notable contraction in loans and advances extended to business enterprises, was observed in the mining sector, which declined by 50.1 per cent quarter-on-quarter and 29.6 per cent year-on-year. Credit extension by commercial banks to business enterprises was chiefly impacted by deterioration in economic activity as a result of the COVID-19 global pandemic. This resulted in less demand for credit, less utilization of existing overdraft facilities as well as paying-off of existing term loans that were granted to business enterprises.

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

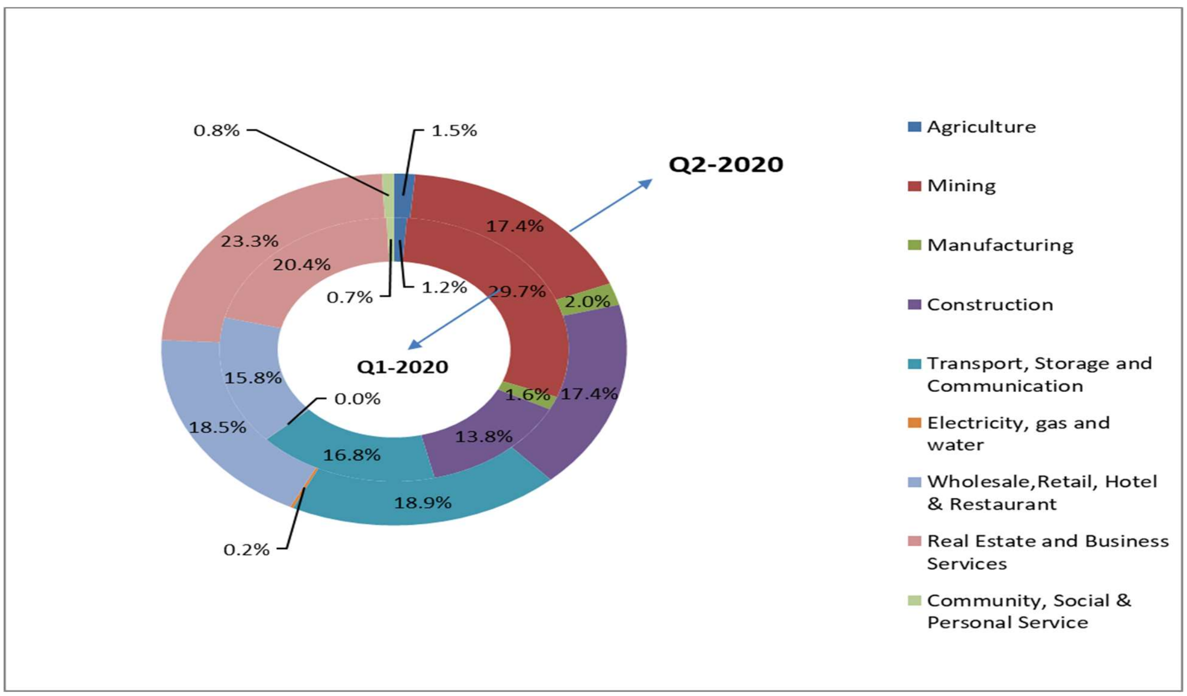
	2019			2020		Changes (%)	
SECTOR	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Quarterly**	**Annual**
Agriculture	23.48	27.09	29.23	28.37	29.73	**4.79**	**26.62**
Mining	505.67	633.92	419.93	713.77	355.95	**-50.13**	**-29.61**
Manufacturing	95.92	66.79	57.95	38.83	41.36	**6.51**	**-56.88**
Electricity, gas and water	68.49	1.95	6.46	0.40	4.52	**-**	**-**
Construction	297.23	278.94	328.05	331.56	354.72	**6.99**	**19.34**
Wholesale, Retail, Hotel & Restaurant	320.6	386.68	387.47	380.54	377.86	**-0.70**	**17.89**
Transport, Storage and Communication	355.77	355.94	423.67	403.56	385.83	**-4.39**	**8.45**
Real Estate and Business Services	503.99	562.78	504.62	490.67	476.13	**-2.96**	**-5.53**
Community, Social & Personal Service	17.01	15.52	14.97	16.52	17.09	**3.47**	**0.48**
All Sectors	**2188.16**	**2329.62**	**2172.34**	**2404.21**	**2043.19**	**-15.02**	**-6.63**

Source: Central Bank of Lesotho

Distribution of credit Extended to Business Enterprises

There has been a shift in terms of allocation of credit to business enterprises during the review quarter compared with the previous quarter. The decline in credit extended to mining sector reduced the sector's share of credit to 17.4 per cent, from 29.7 per cent. As a result, this elevated the retail, hotel & restaurant sector's share of total credit granted to business enterprises to 23.5 per cent from 20.4 per cent. Transport, storage & communication and wholesale, retail, hotel & restaurant sectors followed with the shares of 18.9 per cent and 18.5 per cent respectively.

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

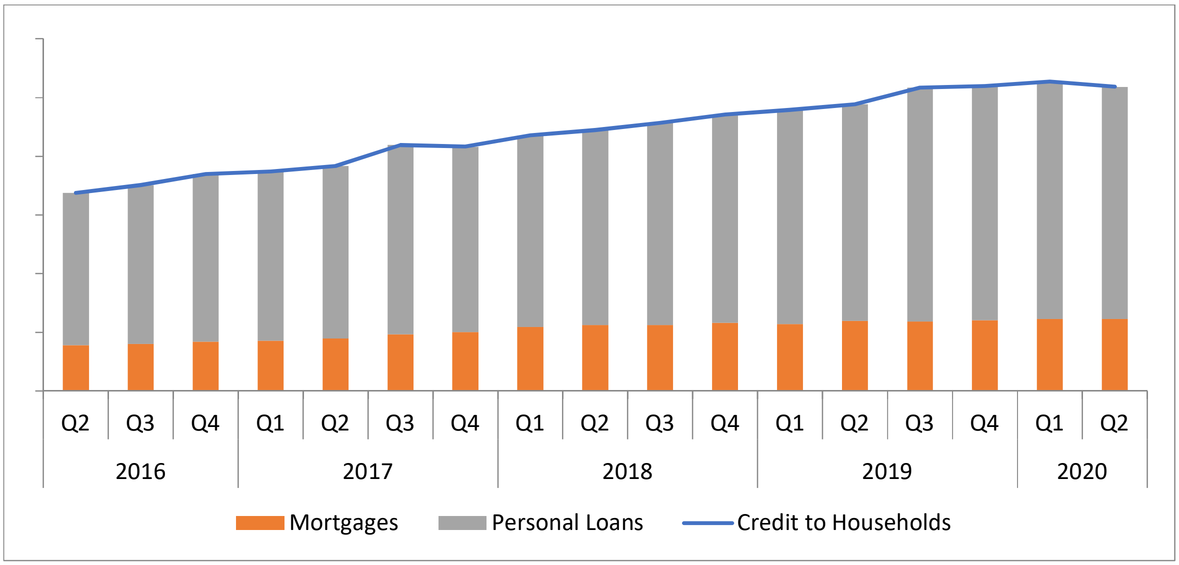


Source: Central Bank of Lesotho

Credit extended to Households

Total loans and advances granted to the household sector declined for the first time since the last quarter of 2017. At the end of June 2020, overall credit granted to households was 1.7 per cent lower than at the end of March 2020. The largest credit contraction was observed in personal loans, as they declined by 2.1 per cent, while mortgages contracted marginally by 0.2 per cent. The decline in household credit was due to lower demand as a result of Covid-19 related restrictions during the review quarter. On annual basis however, loans and advances extended to households grew by 6.1 per cent.

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



Source: Central Bank of Lesotho

LIQUIDITY OF COMMERCIAL BANKS

Components of liquidity

The overall liquidity of the banking industry declined during the second quarter of 2020. This was demonstrated by a drop in the liquidity ratio to 60.6 per cent at end of June 2020 compared with 63.8 per cent recorded at end of March 2020. The decline was at the back of a fall in commercial banks' overall liquid assets, coupled with an increase in total deposit liabilities. Compared to the same period a year ago, the banking industry's liquidity ratio also declined by 5.2 per cent. The total credit extended by commercial banks in proportion to total deposits fell by 4.9 percentage points to 53.3 per cent during the quarter under review. This occurred in the wake of a fall in credit granted as a result of a decline in demand for credit during the period under review.

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

	2019			2020	
	Q2	Q3	Q4	Q1	Q2
Credit to Deposit Ratio	**58.95%**	**57.00%**	**57.10%**	**58.19%**	**53.34%**
Private Sector Credit	6971.13	7256.52	7257.25	7588.93	7116.56
Total Deposits	11824.96	12730.49	12708.95	13040.98	13341.85
Liquidity Ratio	**65.85%**	**64.91%**	**55.69%**	**63.83%**	**60.60%**
Notes and Coins	438.74	429.56	726.47	579.30	539.87
Balance due from banks in Lesotho	1261.56	1348.06	1100.93	2479.39	1855.48
Balance due from banks in SA	3909.05	4158.96	2894.49	3334.96	3481.93
Surplus funds	163.44	198.74	192.30	-97.11	156.67
Government Securities	2013.54	2128.67	2162.87	2028.14	2051.63
Total	**7786.33**	**8263.98**	**7077.07**	**8324.67**	**8085.59**
Memorandum Items					
Net Balances due from banks in Lesotho	28.43	-158.99	-369.15	47.86	46.78
Net Balances due from banks in SA	3634.96	3962.71	2671.03	3219.61	3461.18
Net Liquidity Ratio	**53.1%**	**51.5%**	**42.4%**	**44.3%**	**46.9%**

Source: Central Bank of Lesotho

Commercial Banks Sources of Funds

The growth in total deposits held with commercial banks slowed during the review period. Between June and March 2020, total deposits in commercial banks grew by 2.3 per cent, in contrast to 2.6 per cent realized in between December 2019 and March 2020. Compared with a year ago, total deposits held with commercial banks improved by 12.8 per cent. The largest increase in deposits came from other deposits (fixed time and call) held by private non-financial businesses, which grew by 15.6 per cent. In addition, deposits excluded in broad money, which mainly comprise government deposits, grew by 26.0 per cent during the review period.

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

	2019			2020		Changes (%)	
	Q2	Q3	Q4	Q1	Q2	Quarterly	Annual
Transferable Deposits Incl. in BM	**4496.12**	**3957.09**	**4185.00**	**4679.04**	**4121.66**	**-11.91**	**-8.33**
Other Financial Corporations	42.01	36.67	52.27	31.56	40.30	**27.67**	**-4.09**
Public Nonfinancial Corporations	60.10	51.98	60.37	297.07	44.10	**-85.15**	**-26.62**
Private Sector	4376.31	3775.99	4019.06	4333.88	4030.40	**-7.00**	**-7.90**
Other NFCs	2927.53	2461.04	2781.99	3014.48	2598.91	**-13.79**	**-11.23**
Other Sectors (Households)	1448.79	1314.95	1237.07	1319.40	1431.50	**8.50**	**-1.19**
Other Deposits Incl. in BM	**7306.83**	**6855.28**	**6811.49**	**6765.16**	**7209.11**	**6.56**	**-1.34**
Other Financial Corporations	51.89	252.00	273.45	257.84	62.01	**-75.95**	**19.50**
Public Nonfinancial Corporations	450.57	385.72	329.13	281.32	319.29	**13.50**	**-29.14**
Private Sector	6804.37	6217.55	6208.92	6226.00	6827.80	**9.67**	**0.34**
Other NFCs	4676.05	4127.20	4184.67	4052.88	4684.58	**15.59**	**0.18**
Other Sectors (Households)	2128.32	2090.35	2024.24	2173.12	2143.21	**-1.38**	**0.70**
Deposits excluded in MB	**22.02**	**1918.12**	**1712.47**	**1596.78**	**2011.08**	**25.95**	
Total Deposits	**11824.96**	**12730.49**	**12708.95**	**13040.98**	**13341.85**	**2.31**	**12.83**

Source: Central Bank of Lesotho

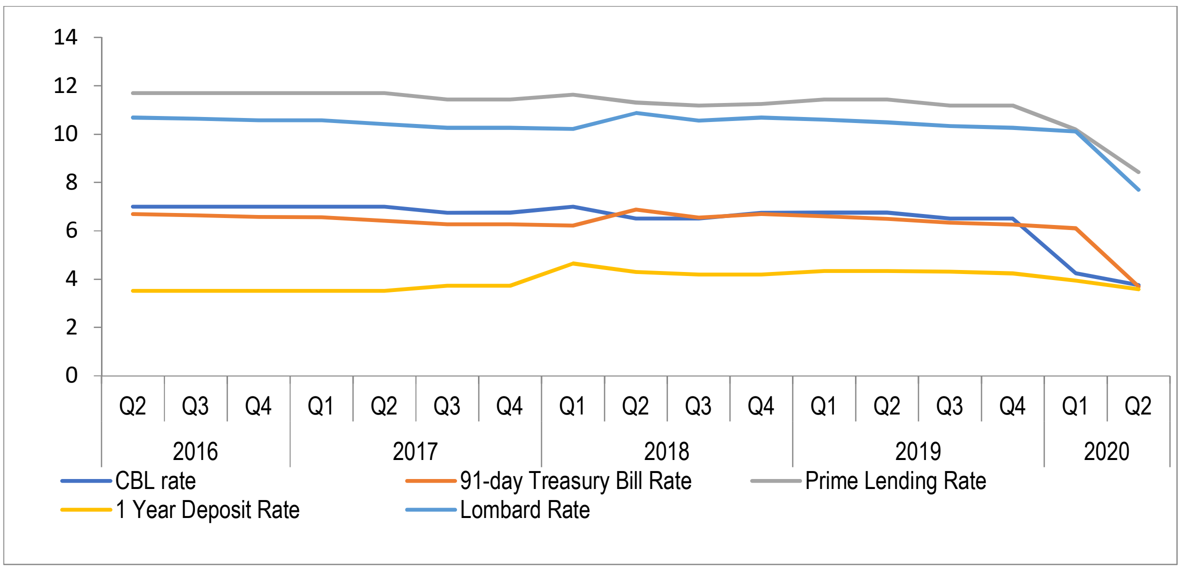
MONEY AND CAPITAL MARKET DEVELOPMENTS

Money Market

Interest Rates

The Central Bank of Lesotho's Monetary Policy Committee (MPC) continued to lower the key policy rate during the second quarter of 2020. During its sitting of May 26, 2020, the MPC decided to reduce the key policy rate further by 50 basis points to 3.75 per cent, following the cumulative cut of 225 basis points in the first quarter of the year. This was done, amongst other things, to lessen potential negative impact of COVID-19 pandemic on Lesotho's economy. In line with the reduced policy rate, most domestic short-term rates fell during the review period. The 91-day treasury bill (T-Bill) rate declined by 0.17 percentage points to 3.70 percent, which was the lowest rate ever recorded. Nevertheless, the deviation between domestic and South African T-Bill rates remained within the desired range of +/- 200 basis points. The average prime lending rate fell by 0.12 percentage points to 8.44 per cent. The one-year deposit rate however remained unchanged at 3.58 per cent during the period under review.

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



Source: Central Bank of Lesotho

Table 11: **Interest rates**

	2019			2020	
	Q1	**Q3**	**Q4**	**Q1**	**Q2**
Central Bank					
CBL rate	6.50	6.50	6.50	4.50	3.75
T-Bill Rate - 91 days	6.49	6.34	6.26	6.11	3.70
Lombard Rate	10.49	10.34	10.26	10.11	7.70
Commercial Banks					
Call	1.22	1.09	1.09	0.81	0.99
Time:					
31 days	0.70	0.70	0.70	0.69	0.67
88 days	1.34	2.08	2.08	1.94	1.88
6 months	2.65	3.25	3.25	2.97	3.00
1 year	4.44	4.32	4.24	3.94	3.58
Savings	0.70	0.70	0.70	1.26	0.70
Prime	11.44	11.19	11.19	10.19	8.44
South Africa					
Repo	6.75	6.50	6.50	5.25	3.75
T-Bill Rate - 91 days	7.10	6.87	7.16	5.60	4.09
Prime	10.25	10.00	10.00	8.75	7.25

Source: Central Bank of Lesotho

Holding of Treasury Bills

The total stock of outstanding government treasury bills increased by 0.5 per cent during the quarter under review, following a decline of 8.0 per cent in the preceding quarter. The increase was observed in both the banking and non-banking sector holding. However, year-on-year, the stock of outstanding treasury bills decreased by 7.6 per cent.

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

	2019			**2020**	
	Q2	**Q3**	**Q4**	**Q1**	**Q2**
Treasury Bills	**1420.08**	**1418.25**	**1418.58**	**1305.67**	**1311.80**
Banking System	1165.45	1170.00	1176.91	1067.74	1071.36
Non-Bank Sector	254.63	248.25	241.67	237.93	240.44
Memorandum Item					
Yield Bills (91-days)	6.60	6.44	6.34	6.20	3.73

Source: Central Bank of Lesotho

Holding of Treasury Bonds

The total holdings of government bonds remained unchanged from end of previous quarter position. This was due to the absence of bond auctions or any maturing bonds during the period under review. Nonetheless, the holdings of government bonds increased by 27.6 per cent year-over-year. As at end of June 2020, the share of government bond holdings by the non-banking sector stood at 58.8 per cent, while the banking sector takes the rest.

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

	2019			2020	
	Q2	Q3	Q4	Q1	Q2
Holding of Treasury Bonds	**1867.96**	**2000.54**	**2044.67**	**2382.62**	**2382.62**
Banking System	883.30	923.66	963.96	980.55	981.71
Non-Bank Sector	984.67	1076.88	1080.71	1402.07	1400.91

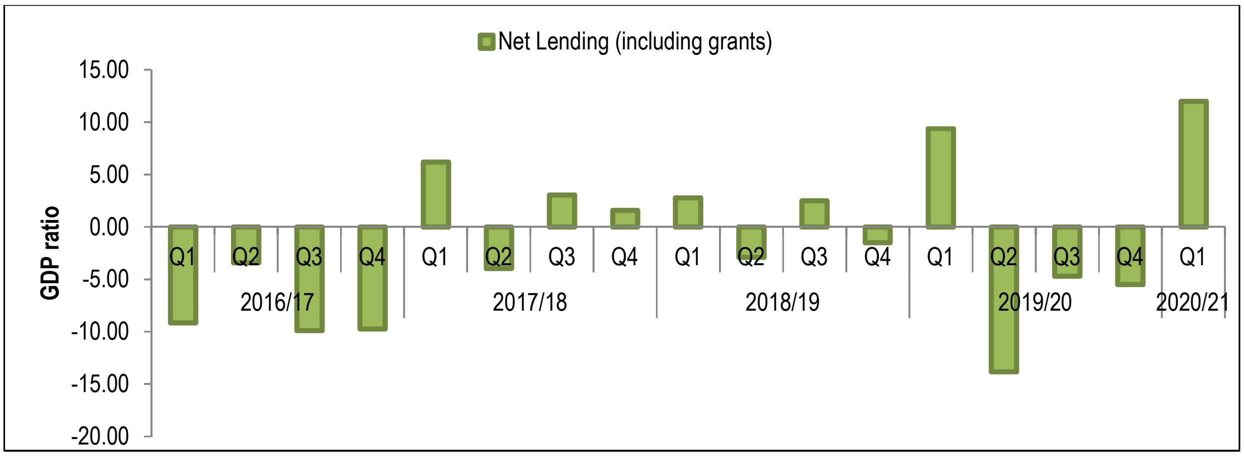
Source: Central Bank of Lesotho

5. Government Finance

OVERVIEW

The Government budgetary operations resulted in a budget surplus of 12.0 per cent of GDP during the first fiscal quarter of 2020/21 relative to a revised deficit of 5.5 per cent of GDP in the last fiscal quarter of 2019/20. This surplus emanated from significant reduction in spending due to national lockdown following the COVID-19 pandemic and the delay in the release of Appropriation Act of 2020/21. The stock of public sector debt was projected to be 57.4 per cent of GDP in the quarter ending in June 2020, which was down from the revised 56.7 per cent of GDP in the previous quarter.

Figure 18: Fiscal Balance *(Per cent of GDP)*



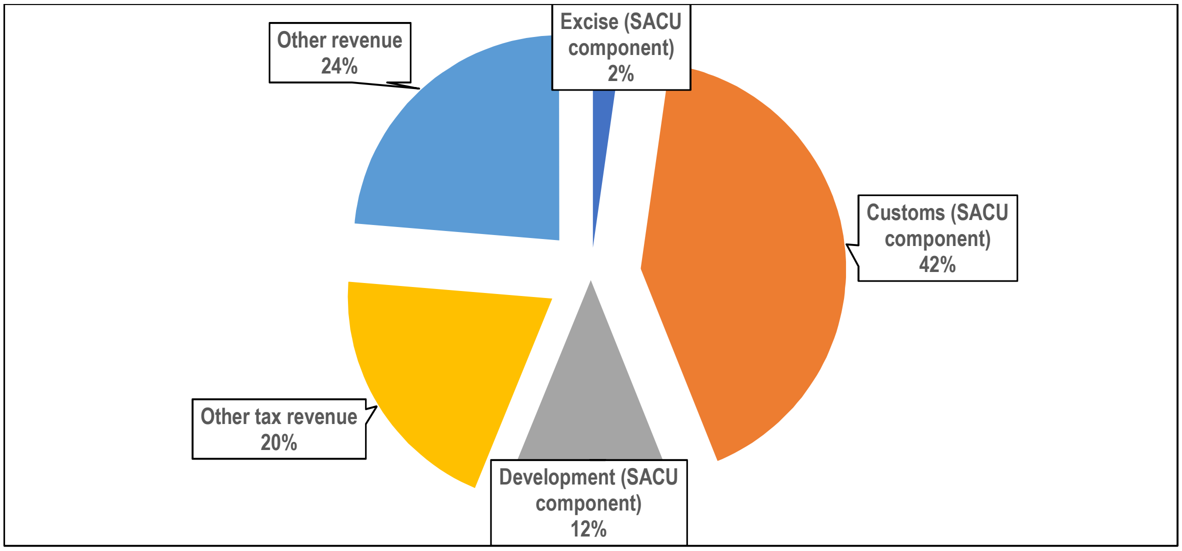
Source: Central Bank of Lesotho (CBL) and Ministry of Finance (MOF)

REVENUE[1]

Total revenue, on quarterly basis, increased by 0.4 per cent in the quarter under review compared with 5.0 per cent in the preceding quarter. This slight rise in revenue was explained by a rise in SACU receipts items (excise tax, customs and other import duties, and current grants from international organisations), which however, were moderated by a drastic fall in most domestic taxes. The domestic taxes were negatively affected by the national lock down, which brought most economic activities to a halt. In particular, the most affected revenue items included income tax, VAT, mining royalties and surface rent. On an annual basis, Government revenue rose by 3.7 per cent during this fiscal quarter, compared to a fall of 2.2 per cent in the quarter ending in March 2020. The reason for the increase was mainly attributable to 'Muela water royalties and a significant increase of 44.2 per cent on components of SACU receipts (excise, customs and grants).

[1] SACU receipts have been disaggregated into three components: excise tax, customs and other import duties, and grants from international organisations. It is received during the first month of each quarter, making a total of four inflows in a fiscal year.

Figure 8: Total Revenue *(Percentage Share)*

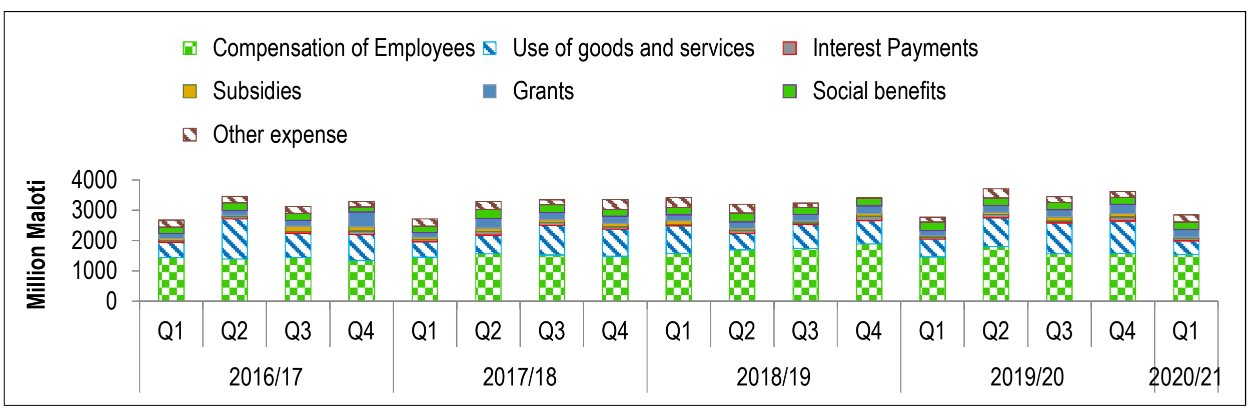


Source: CBL and MOF

TOTAL EXPENDITURE

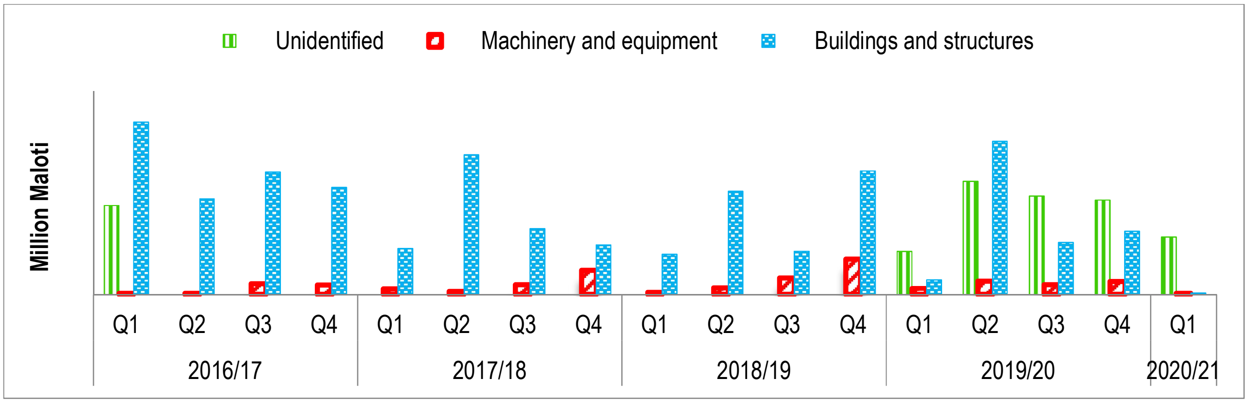
Government spending decreased by 29.4 per cent during the fiscal quarter ending in June 2020, relative to a revised increase of 4.9 per cent in the fiscal quarter ending in March 2020. This fall was mainly driven by building and structures, machinery and equipment, use of goods and services (most components), interest payments (domestic and foreign), subsidies to non-financial enterprises, and grants to extra-budgetary units (current and capital). Under spending on buildings category, there was a construction of police stations, among the projects, while current grants included subvention to National COVID-19 Secretariat. Furthermore, the prevailing economic downturn contributed to a low spending on Government activities. On an annual basis, total expenditure increased by 1.7 per cent in the quarter under review, following a revised decrease of 6.6 per cent in the previous quarter. This increase was explained by subsidies to non-financial corporations, students' bursary loans, and current grants to extra-budgetary units.

Figure 9: Total Expense or Recurrent Expenditure *(Million Maloti)*



Source: CBL and MOF

Figure 21: Total Non-financial assets or Capital expenditure *(Million Maloti)*



Source: CBL and MOF

Table 24: Statement of Government Operations *(Million Maloti)*

	2019/20 Q1	Q2	Q3	Q4	2020/21 Q1	Q-to-Q (%)	Y-on-Y (%)	GDP ratio (%)
Total Revenue	**3853.19**	**3977.09**	**3792.76**	**3980.98**	**3997.34**	**0.4**	**3.7**	**56.3**
Tax revenue	2962.17	3249.67	3106.54	3308.75	3050.75	-7.8	3.0	42.9
Income Tax	959.78	1115.61	993.24	979.86	756.99	-22.7	-21.1	10.7
Value Added Tax	693.25	725.19	719.23	768.97	424.46	-44.8	-38.8	6.0
SACU Receipts Components	1217.77	1217.77	1217.77	1217.77	1756.49	44.2	44.2	24.7
Other tax revenue	91.37	191.10	176.29	342.15	112.82	-67.0	23.5	1.6
Grants	354.87	358.07	371.54	363.19	504.81	39.0	42.2	7.1
o/w SACU Receipts Component	338.78	338.78	338.78	338.78	488.65	44.2	44.2	6.9
Other revenue	536.14	369.35	314.68	309.04	441.78	43.0	-17.6	6.2
Total Expense	**2778.83**	**3713.19**	**3452.82**	**3615.53**	**2848.29**	**-21.2**	**2.5**	**40.1**
Compensation of Employees	1469.52	1805.41	1565.76	1569.24	1535.80	-2.1	4.5	21.6
Use of goods and services	579.63	947.74	1017.47	1075.55	457.52	-57.5	-21.1	6.4
O/W Purchase of Health Services	232.74	260.89	225.38	211.04	267.30	26.7	14.8	3.8
Interest Payments	72.24	107.92	66.87	145.83	69.34	-52.4	-4.0	1.0
Subsidies	50.10	78.03	136.60	94.46	58.18	-38.4	16.1	0.8
Grants	158.23	217.51	226.46	303.23	233.64	-23.0	47.7	3.3
Social benefits	287.95	259.86	244.52	240.84	262.81	9.1	-8.7	3.7
Other expense	161.15	296.73	195.14	186.38	231.00	-	43.3	3.3
Net Operating Balance	**1074.35**	**263.90**	**339.94**	**365.45**	**1149.05**	**-**	**-**	**16.2**
Total Nonfinancial Assets	**313.32**	**1374.57**	**791.61**	**838.80**	**296.99**	**-64.6**	**-5.2**	**4.2**
Fixed Assets	313.32	1374.37	786.82	838.80	296.99	-64.6	-5.2	4.2
Non-Produced Assets	0.00	0.20	4.80	0.00	0.00	-	-	0.0
Expenditure	**3092.15**	**5087.76**	**4244.43**	**4454.33**	**3145.28**	**-29.4**	**1.7**	**44.3**
Primary balance	**833.27**	**-1002.75**	**-384.80**	**-327.52**	**921.40**	**-**	**-**	**13.0**
Net lending/borrowing	**761.03**	**-1110.67**	**-451.67**	**-473.36**	**852.06**	-	-	**12.0**
Financing	**696.87**	**-777.27**	**-566.48**	**-597.52**	**1029.27**	-	-	**14.5**
Net Acquisition of Financial assets	884.23	-23.30	-249.26	-336.73	1323.49	-	-	18.6
O/W Domestic Currency and Deposits	743.43	-72.20	-163.81	-353.67	1298.42	-	-	18.3
Net Incurrence of Liabilities	187.36	753.98	317.22	260.80	294.22	-	-	4.1
O/W Domestic Other Accounts Payable	10.63	76.83	411.77	177.84	349.68	-	-	4.9
Statistical Discrepancy	64.16	-333.39	114.80	124.17	-177.21	-	-	-2.5
Memo Items								
SACU receipts	1556.55	1556.55	1556.55	1556.55	2245.13	44.2	44.2	31.6
GDP (quarterly, red colour = forecast)	8119.12	8025.60	9590.01	8597.55	7103.04	-	-	-

Source: CBL, MOF and BOS

CLASSIFICATION OF OUTLAYS BY FUNCTIONS OF GOVERNMENT (COFOG)[2]

The proportional share of Government outlays by functions depicted education taking the largest share, followed by social protection, and economic affairs at number three, while the environmental protection registered the lowest proportion. The recurrent outlays represented a 91.5 percentage share out of the total outlays, comprising education outlays as the highest proportion, while outlays on health functions were fourth and environmental protection constitutes the smallest proportion. In terms of capital outlays, the most spending was realized under public order and safety function, followed by general public services, economic affairs, housing and community amenities and health respectively. No spending was recorded under the functions of environmental protection and social protection.

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

	2019/20				2020/21	Q-to-Q	Y-on-Y (%)	GDP ratio (%)
	Q1	Q2	Q3	Q4	Q1	(%)		
Recurrent Outlays	**2678.08**	**3596.58**	**3344.52**	**3509.35**	**2744.11**	**-21.8**	**2.5**	**38.6**
General public services	374.94	514.77	411.71	521.61	351.65	-32.6	-6.2	5.0
Defense	83.37	201.67	160.62	167.95	137.89	-17.9	65.4	1.9
Public order and safety	368.82	444.83	336.15	315.37	280.09	-11.2	-24.1	3.9
Economic affairs	360.28	539.26	522.71	556.25	461.66	-17.0	28.1	6.5
Environmental protection	2.70	3.45	5.37	3.70	2.63	-29.0	-2.8	0.0
Housing and community amenities	14.08	41.78	45.31	84.78	27.52	-67.5	95.4	0.4
Health	394.68	597.34	667.36	683.17	383.86	-43.8	-2.7	5.4
Recreation, culture and religion	17.02	29.10	29.80	31.35	22.08	-29.6	29.7	0.3
Education	589.43	663.93	673.54	605.20	559.59	-7.5	-5.1	7.9
Social protection	472.75	560.46	491.95	539.97	517.14	-4.2	9.4	7.3
Capital Outlays	**250.11**	**1181.92**	**636.94**	**530.01**	**157.11**	**-70.4**	**-37.2**	**2.2**
General public services	110.27	162.04	128.04	180.44	59.00	-67.3	-46.5	0.8
Defense	0.00	12.36	12.79	9.15	0.00	-100.0	-	0.0
Public order and safety	55.53	115.96	76.94	136.33	59.40	-56.4	7.0	0.8
Economic affairs	30.12	567.70	206.27	91.79	32.76	-64.3	8.8	0.5
Environmental protection	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Housing and community amenities	45.86	262.84	119.87	17.52	5.70	-67.4	-87.6	0.1
Health	0.00	30.55	23.20	26.89	0.25	-99.1	-	0.0
Recreation, culture and religion	3.76	24.77	49.78	33.94	0.00	-100.0	-100.0	0.0
Education	4.58	5.68	20.05	33.95	0.00	-100.0	-100.0	0.0
Social protection	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Total Outlays	**2928.19**	**4778.50**	**3981.46**	**4039.36**	**2901.22**	**-28.2**	**-0.9**	**40.8**
General public services	485.21	676.81	539.75	702.05	410.65	-41.5	-15.4	5.8
Defense	83.37	214.04	173.41	177.09	137.89	-22.1	65.4	1.9
Public order and safety	424.35	560.79	413.09	451.70	339.49	-24.8	-20.0	4.8
Economic affairs	390.39	1106.96	728.99	648.05	494.42	-23.7	26.6	7.0
Environmental protection	2.70	3.45	5.37	3.70	2.63	-29.0	-2.8	0.0
Housing and community amenities	59.94	304.62	165.17	102.30	33.23	-67.5	-44.6	0.5
Health	394.68	627.89	690.56	710.07	384.11	-45.9	-2.7	5.4
Recreation, culture and religion	20.78	53.87	79.58	65.28	22.08	-66.2	6.3	0.3
Education	594.01	669.61	693.59	639.14	559.59	-12.4	-5.8	7.9
Social protection	472.75	560.46	491.95	539.97	517.14	-4.2	9.4	7.3
Unidentified Outlays	**163.96**	**309.26**	**262.97**	**414.97**	**244.06**	**-41.2**	**48.9**	**3.4**

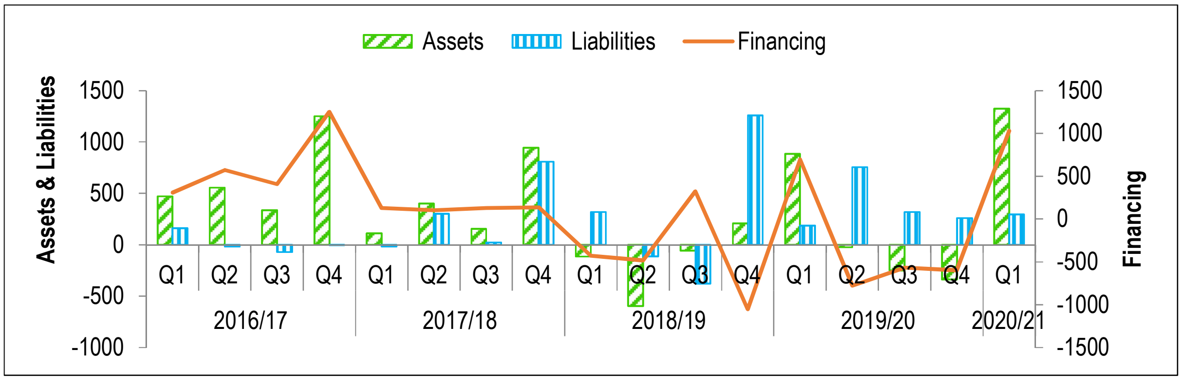
[2] This COFOG excludes financing items i.e. loan principal repayments and payment of arrears. The classification of Lesotho' COFOG is compatible with the GFS manual of 2014.

Source: MOF

FINANCIAL ASSETS AND LIABILITIES[3]

There was an accumulation of Government deposits in the banking system coupled with an increase in liabilities. The increment in liabilities was mainly due to the expenditure transfers of 7.4 per cent of GDP from the Government accounts in the Central Bank to other accounts in the commercial banks, and with it, the other accounts payable expanded accordingly. The bank accounts that were involved included those under Ministerial projects and parastatals given the assumption that about 75 per cent of the deposits remained unspent in respect of the national lock down. Apart from the bank transfers, the Government also reduced its supplier-pending payments, arrears, from as far as five years ago by 0.8 per cent of GDP, and hence, moderated the increase in net incurrence of liabilities.

Figure 10: Financing Activities *(Million Maloti)*



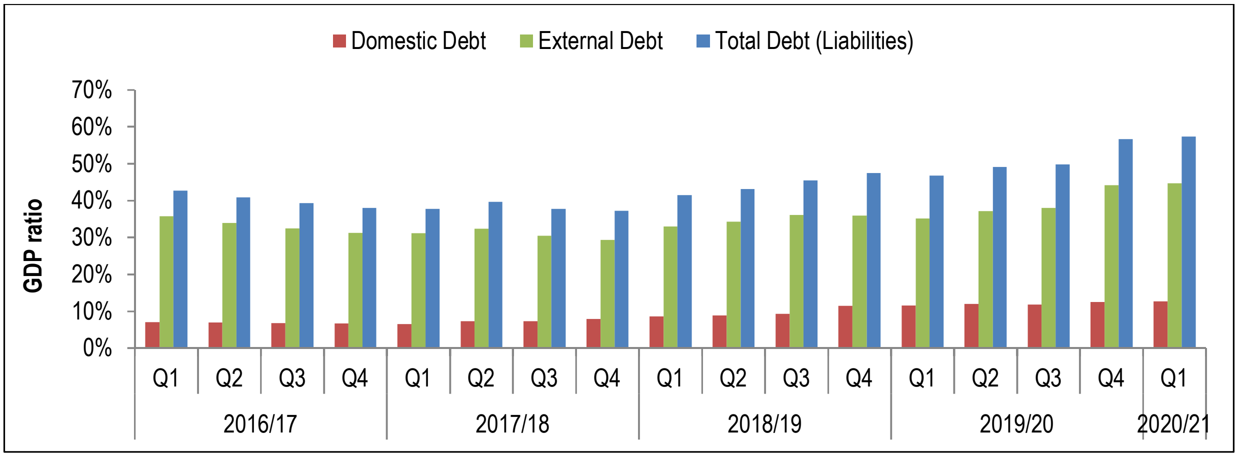
Source: CBL and MOF

TOTAL PUBLIC DEBT[4]

The stock of public sector debt contracted by 1.8 per cent in the fiscal quarter ending in June 2020 while in the previous quarter it rose by a revised 14.1 per cent. The decline in debt stock was in line with the appreciation of the local currency (an end-of-period rate). The stock of arrears from the past years did not contribute to the contraction of the debt stock since the whole amount that was realised was redeemed. On annual basis, the total debt stock grew by 19.1 per cent, largely driven by long term domestic securities.

[3] All categories are on net terms. The difference between financing and net lending is captured under other accounts payable. However, statistical discrepancy caters for funds in the banks that are totally unexplained.
[4] All categories are on net terms. The stock of public external debt is revaluated using an end-of-period exchange rate.

Figure 11: Outstanding Public Debt



Source: CBL and MOF

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

	2019/20 Q1	Q2	Q3	Q4	2020/21 Q1	Q-to-Q (%)	Y-on-Y (%)	Debt/GDP (%)
Total Public Debt	**16049.71**	**16788.97**	**17057.40**	**19464.41**	**19108.71**	**-1.8**	**19.1**	**57.4**
EXTERNAL DEBT	**12067.52**	**12695.81**	**13013.53**	**15172.30**	**14905.35**	**-1.8**	**23.5**	**44.7**
Bilateral Loans	1028.81	1082.77	1044.28	1223.43	1160.64	-5.1	12.8	3.5
Concessional	1028.81	1082.77	1044.28	1223.43	1160.64	-5.1	12.8	3.5
Non-concessional	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Multilateral Loans	10098.76	10670.91	11001.83	12772.15	12548.08	-1.8	24.3	37.7
Concessional	8528.47	9115.00	9459.91	11240.03	11035.08	-1.8	29.4	33.1
Non-concessional	1570.29	1555.91	1541.92	1532.13	1513.00	-1.2	-3.6	4.5
Financial Institutions	0.11	0.00	0.00	0.00	0.00	-	-100.0	0.0
Concessional	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Non-concessional	0.11	0.00	0.00	0.00	0.00	-	-100.0	0.0
Suppliers' Credit	939.84	942.13	967.42	1176.72	1196.63	1.7	27.3	3.6
DOMESTIC DEBT	**3982.19**	**4093.16**	**4043.87**	**4292.11**	**4203.36**	**-2.1**	**5.6**	**12.6**
Banks	2742.89	2768.03	2721.48	2652.11	2562.01	-3.4	-6.6	7.7
Long-term	1514.32	1534.90	1481.45	1584.37	1490.65	-5.9	-1.6	4.5
Treasury bonds	1514.32	1534.90	1481.45	1584.37	1490.65	-5.9	-1.6	4.5
Central Bank (IMF-ECF)	631.02	611.25	517.49	603.82	508.94	-15.7	-19.3	1.5
Short-term (t-bills)	1228.57	1233.13	1240.04	1067.74	1071.36	0.3	-12.8	3.2
Non-bank	1239.30	1325.13	1322.38	1640.00	1641.35	0.1	32.4	4.9
Short-term (t-bills)	254.63	248.25	241.67	237.93	240.44	1.1	-5.6	0.7
Long-term (t-bonds)	984.67	1076.88	1080.71	1402.07	1400.91	-0.1	42.3	4.2
DEBT INDICATORS								
External Debt-to-Total Debt	75.2	75.6	76.3	77.9	78.0	-	-	-
Domestic Debt-to-Total Debt	24.8	24.4	23.7	22.1	22.0	-	-	-
Concessional Debt-to-External Debt	79.2	80.3	80.7	82.1	81.8	-	-	-
External Debt Service-to-GDP	2.0	3.1	2.2	2.5	2.5	-	-	-
External Debt Service-to-Revenue	4.2	6.3	5.5	5.3	4.5	-	-	-
External Debt Service-to-Exports	4.1	7.1	5.2	5.5	10.5	-	-	-

Source: CBL and MOF

6. Foreign Trade and Payments

OVERVIEW

During the second quarter of 2019, Lesotho's external sector position weakened to a surplus equivalent to 6.0 per cent of GDP compared with a surplus of 10.2 per cent of GDP in the preceding quarter. The decline in Lesotho's external sector position was mainly explained by the reduction in the capital account surplus. Nonetheless, there was a reduction in the current account deficit and a slight increase in the financial account outflows, which therefore moderated the observed fall in capital inflows.

CURRENT ACCOUNT

The current account deficit declined by 33.2 per cent to a deficit of M175.52 million in the review period compared to a deficit of M262.80 million in the previous quarter. The improved current account deficit was mainly due to a higher surplus in the secondary income account compared to the previous quarter, together with the reduced deficit in the services account. However, the goods account deficit widened and the primary income account surplus declined and therefore partly offsetting the impact of the secondary income and services accounts on the current account balance. As a percentage of GDP, the current account deficit declined to 2.1 per cent, from a 3.1 per cent of GDP deficit in the previous period.

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

	2019			2020		% Changes	
	Q2	Q3	Q4	Q1+	Q2*	Q/Q	Y/Y
Current Account	**-263.96**	**-1006.46**	**-370.60**	**-262.80**	**-175.52**	**33.2**	**33.2**
(a) Goods	-2,588.39	-3167.16	-2604.57	-2627.87	-2984.45	**-13.6**	**-15.3**
Merchandise exports, f.o.b.	3,917.09	3488.24	4009.49	3861.77	1713.59	**-55.6**	**-56.3**
Of which diamonds	1,090.70	908.93	1048.09	1066.43	525.57	**-50.7**	**-51.8**
Of which textiles & clothing	1,715.94	1908.75	2203.16	1834.04	761.31	**-58.5**	**-55.6**
Of which water	236.55	219.5	148.67	234.78	255.44	**8.8**	**8.0**
Of which agriculture	81.72	91.12	96.08	86.51	81.75	**-5.5**	**0.0**
Of which re-exports	42.62	39.87	213.7	36.31	19.52	**-46.2**	**-54.2**
Other exports	749.56	320.07	299.79	603.70	70.00	**-88.4**	**-90.7**
Merchandise imports, f.o.b.	6,505.48	6655.4	6614.06	6489.64	4698.04	**-27.6**	**-27.8**
(b) Services	**-1,380.61**	**-1448.79**	**-1407.21**	**-1453.42**	**-1284.77**	**11.6**	**6.0**
(c) Primary Income	**1,606.36**	**1510.71**	**1549.56**	**1588.32**	**1347.86**	**-15.1**	**-15.5**
(d) Secondary Income	**2,098.68**	**2098.77**	**2091.61**	**2230.17**	**2745.84**	**23.1**	**30.8**

Source: Central Bank of Lesotho

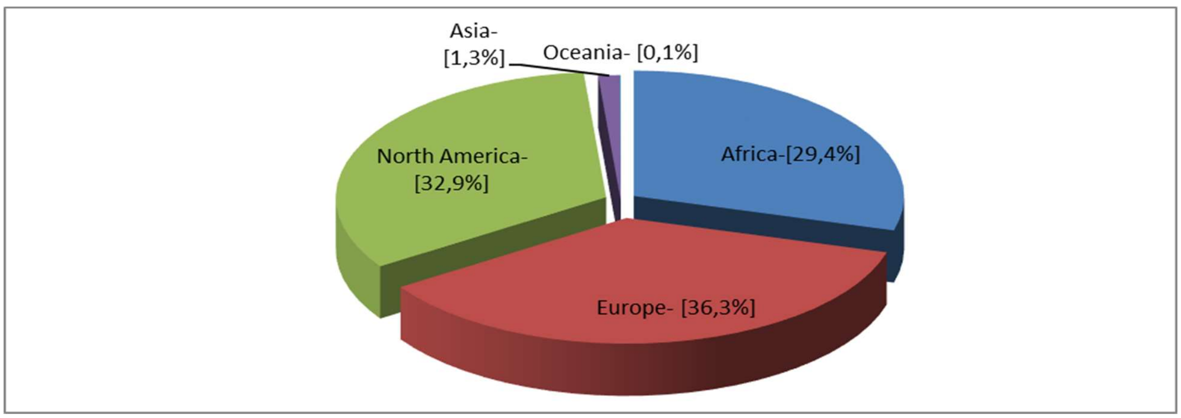
Merchandise Exports

Merchandise exports contracted by 55.6 per cent during the second quarter of 2020, following a 3.7 per cent decline in the previous quarter. Exports across most categories were adversely affected by lockdown measures, which slowed production, imposed to curb the Covid-19 pandemic during the quarter under review. Most categories of exports fell sharply, with textiles and clothing as well as diamonds displaying staggering declines of 58.5 per cent and 50.7 per cent respectively. Diamond exports, in particular plummeted as one of the mines completely ceased its production activities during the review quarter, while exports from other mines was negatively impacted by the unfavourable global demand due to the ongoing Covid-19 pandemic. Exports of water, however, continued to increase during the review quarter as supply and delivery was not affected by the Covid-19 led lockdown and therefore continued to increase following the maintenance of tunnels at 'Muela Hydropower in the preceding quarters. On an annual basis, total exports contracted by 55.6 per cent, deteriorating from an 18.2 per cent increase in the prior quarter. Expressed as a share of GDP, exports accounted for 20.1 per cent in the review period, declining from 39.6 per cent of GDP in the quarter ending in March 2020.

Direction of Trade - Exports

During the quarter ending in June 2020, 36.3 per cent of Lesotho's exports were destined to Europe, increasing from 29.6 per cent in the previous quarter. They comprised mainly diamond exports to Belgium. North America followed with an export share of 32.9 per cent, lower than 36.8 per cent in the prior quarter. Exports to North America constituted mostly textiles and clothing exports to the US, Mexico and Canada. Africa came third with an export share of 29.4 per cent, relatively lower than 33.0 per cent in the quarter ending in March 2020. They comprised a variety of commodities most of which were destined to South Africa. Exports to Asia and Oceania came fourth and fifth place, accounting for 1.3 per cent and 0.1 per cent, respectively.

Figure 12: Direction of Merchandise Exports *(Percentage Share)*



Source: Central Bank of Lesotho

Merchandise Imports

During the period under review, merchandise imports plunged by 27.6 per cent, following a 1.9 per cent drop in the preceding quarter. This was due to Covid-19 led lockdowns which disrupted global supply chains and international trade. Imports across all categories declined significantly during this period, with the largest reductions observed in crude materials, machinery and transport equipment as well as miscellaneous manufactured products. However, imports of food and live animals declined at a softer pace as they were rendered essential commodities. Meanwhile, imports of minerals, fuels, lubricants and related products as well as medicaments increased modestly during the review quarter. Large quantities of medicaments were imported in a quest to fight Covid-19 and some underlying health conditions associated with the virus. Relative to the same period last year, merchandise imports fell by 55.6 per cent, compared to 8.3 per cent rise in the quarter ending in March 2020. Expressed as a share of GDP, merchandise imports accounted for 55.1 per cent during the review quarter compared to 76.1 per cent in the previous quarter.

Services account

The services account deficit narrowed down by 11.6 per cent during the quarter under review, following a 0.9 per cent reduction in the previous quarter. This resulted as services acquired from abroad fell amid Covid-19 containment measures. Significant declines were observed in payments for official foreign travel. In addition, payments for freight services declined, in line with the reduced import bill during the second quarter of 2020. Despite the decline in receipts for travel services owing to reduced tourism activities, payment for travel services fell much steeper, thus leading to a further decline in the services account balance. The observed declines were mainly attributable to cross-border country travel restrictions imposed to contain the Covid-19 pandemic. Year on year, the services account deficit narrowed by 6.0 per cent, compared to 3.0 per cent decrease in the previous quarter. As a share of GDP, the services account deficit constituted 15.1 per cent during the review quarter compared to 17.1 per cent in the previous quarter.

Primary Income Account

The surplus on the primary income account contracted by 15.1 per cent during the second quarter of 2020, following a 4.1 per cent growth in the previous quarter. The downward pressure came from a fall in compensation of employees due to a significant drop in wages and salaries for Basotho mineworkers in South Africa during the nationwide lockdown. The decline in compensation of employees was however moderated by increased interest receipts on the central bank's investments held abroad. On an annual basis, the surplus on the primary income account fell by 15.5 per cent, following a 6.3 per cent growth in the previous year. As a percentage of GDP, the surplus was declined to 15.8 per cent of GDP, from 16.6 per cent in the previous quarter.

Secondary Income Account

A 23.1 per cent growth in the secondary income account surplus was realised during the quarter under review, compared with a 6.6 per cent growth in the quarter ending in March 2020. This was largely attributable to a surge in SACU receipts coupled with a decline in government subscriptions to international organisations during this period. SACU inflows were mainly boosted by the windfall resulting from a positive forecast error, which pointed to higher collections for 2018/19 compared to the projection made two years ago[5]. Annually, the surplus in the secondary income account grew by 30.8 per cent, compared with a 1.3 per cent increase in the preceding quarter. As a share of GDP, the surplus was higher at to 32.2 per cent than the 26.2 per cent of GDP realised in the previous quarter.

CAPITAL ACCOUNT

During the second quarter of 2020, the capital account surplus fell by 14.1 per cent to M312.85 million following a decline of 17.8 per cent in the preceding quarter. This was mainly attributed to the drop in receipts for the advance infrastructure for phase II of the LHWP. Lockdown measures imposed to

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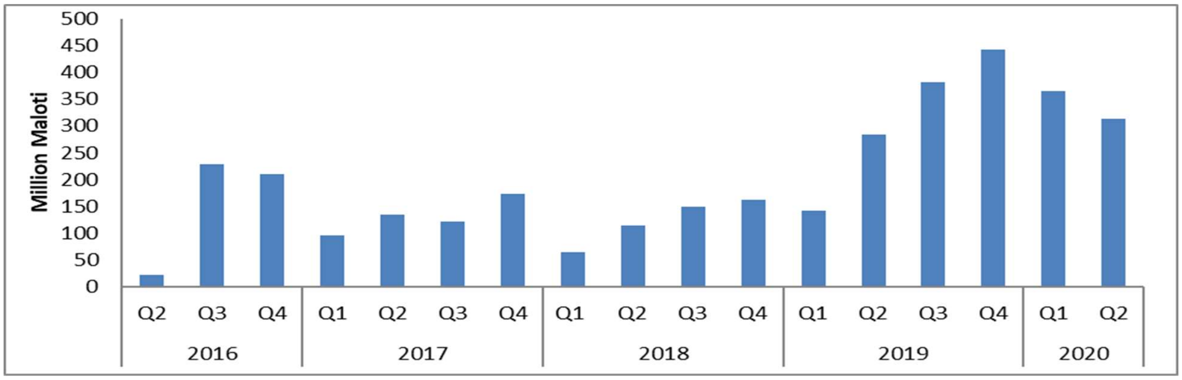
[55]According to the SACU agreement, members' shares are determined on the basis of estimated collections. The estimate relies on the projected economic performance of the region. Thus, the projection is reconciled with the actual collections two years later. The difference between the projection and the actual collection is then shared amongst the member states.

curb the Covid-19 pandemic resulted in a halt in construction activities and other investment outlays associated with phase II advance infrastructure and therefore reduced capital transfers. Capital inflows were dragged further down by reduced capital grants to the government for capital projects, during the quarter under review. On an annual basis, capital transfers rose by 10.1 per cent, reflecting increased implementation of advanced infrastructure projects associated with phase II of the LHWP. As a share of GDP, capital inflows constituted 3.7 per cent compared with 4.3 per cent in the previous quarter.

Figure 25: Capital Account *(Million Maloti)*



Source: Central Bank of Lesotho

FINANCIAL ACCOUNT

The financial account net outflows rose to M1.19 billion during the quarter ending in June 2020, following a net outflow amounting to M1.12 billion in the first quarter of 2020. Expressed as a share of GDP, the financial account net outflows amounted to 14.0 per cent during the quarter under review while they were equivalent to 13.2 per cent of GDP in the previous quarter.

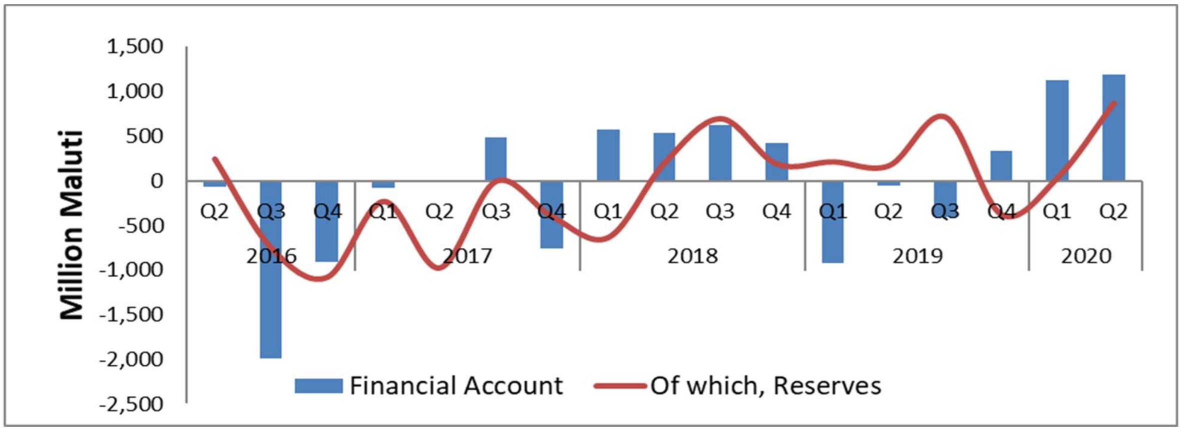
Table 18: Financial Account Balance *(Million Maloti)*

	2019			2020	
	Q2	Q3	Q4	Q1	Q2
Financial account	**-49.47**	**-408.84**	**335.80**	**1120.52**	**1192.53**
Direct Investments, net	-128.90	-128.90	-128.90	-128.90	-128.90
Portfolio Investments, net	7.10	7.10	7.10	7.10	7.10
Financial Derivatives, net	0.00	0.00	0.00	0.00	0.00
Other Investments, net	-641.79	91.20	422.22	374.57	807.27
Of which Loans	-80.31	-531.53	79.90	91.78	16.31
Claims on Non Residents	34.48	34.48	34.48	34.48	34.48
Liabilities to Non Residents	114.79	566.01	-45.42	-57.30	18.17
Of which Currency and Deposits	-487.42	696.79	416.38	356.85	865.02
Claims on Non Residents	-691.61	711.30	230.78	591.27	612.47
Liabilities to Non Residents	-204.19	14.51	-185.60	234.42	-252.55
Reserve Assets	714.12	-378.24	35.38	867.75	507.06

Source: Central Bank of Lesotho

The increase in the financial outflows was mainly a result of the increase commercial banks' foreign assets held abroad together with higher reserve assets held by the central bank. The increase in the commercial banks' foreign investments was attributed to low demand for credit due to the ongoing Covid-19 pandemic, thereby forcing commercial banks to invests their assets abroad for higher returns. The rise in reserve assets was underpinned by increased SACU transfers during the review period. However, the financial outflows were moderated by the increase in government's foreign liabilities, as disbursements continued to rise relative to repayments made.

Figure 26: Financial Account *(Million Maloti)*

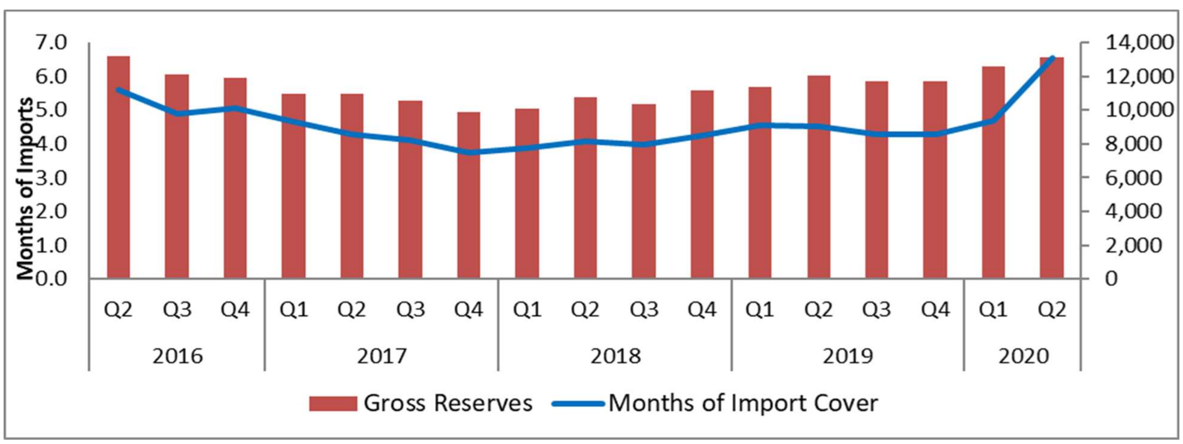


Source: Central Bank of Lesotho

RESERVE ASSETS

In June 2020, the stock of international reserves rose to M13.11 billion from M12.60 billion in the previous quarter. The observed increase in the stock of foreign reserves was a result of increased SACU transfers during the same period. As a result, months of import cover rose to 6.5 months during the review quarter from 4.7 months in the previous quarter. The higher months of import cover also reflects the reduced import bill during the same quarter.

Figure 27: Reserves Assets



Source: Central Bank of Lesotho