Central Bank Of Lesotho

QUARTERLY REVIEW

MARCH 2018

MASERU
KINGDOM OF LESOTHO

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I. Executive Summary

The global economy slowed down during the first quarter of 2018. The weakness emanated from both advanced and emerging economies. Labour market conditions remained favourable during the quarter, with unemployment rate declining in most countries. However, inflation developments were mixed amongst and between advanced and emerging countries.

The domestic economic activity contracted in the first quarter of 2018 following a small recovery in the last quarters of 2017. Both tertiary and secondary sectors performed dismally, with the former contributing most to the decline during the review period. However, the primary sector moderated the decline. The labour market trends showed mixed signals, with both the number of government employees and migrant mineworkers declining, while the manufacturing sector added more jobs during the first quarter of 2018.

Money supply continued to increase during the review quarter following growth in net foreign assets, despite a decline in domestic claims. A growth in commercial banks Net Foreign Assets (NF A) was at the back of increase in deposits mainly from private sector. The increase in Central Bank's NF A was mainly on account of prudent government spending. Private sector credit improved during the quarter under review.

Government budgetary operations are estimated to have resulted in a higher deficit of 14.2 per cent of GDP in the last fiscal quarter compared with that of 6.8 per cent of GDP that was realised in the third quarter of the fiscal year 2017/18. This was largely due to acceleration in implementation of development projects that increased by 11.0 per cent, coupled with payment of arrears from the previous periods. The public debt stock registered 31.9 per cent of GDP during the review quarter down from 35.3 per cent of GDP recorded in the previous quarter.

The external sector position improved in the first quarter of 2018, which reflected net lending to the rest of the world. The overall balance of payments recorded a net lending equivalent to 3.9 per cent of GDP, in contrast with a revised deficit equivalent to 9.3 per cent of GDP in the previous quarter. The improved balance was attributable to the current account surplus together with the improved balance on the financial account.

II. International Economic Developments

The global economy slowed down during the first quarter of 2018. The weakness emanated from both advanced and emerging economies. Labour market conditions remained favourable during the quarter, with unemployment rates declining in most countries.

Inflation developments were mixed amongst and between advanced and emerging countries. In advanced countries, inflation picked up in the United States (US) and Japan whilst it slowed down for the UK and the Euro Area. As a result, the US resumed the interest rate hiking cycle due to rising inflationary pressures and improving labour market conditions. Meanwhile, the Bank of Japan and the European Central Bank maintained monetary policy interest rates unchanged and continued with the asset purchase monetary stimulus to support growth in their economies. For emerging countries, inflation rose in China while it slowed down in India and in South Africa.

Global trade tensions increased the demand for safe haven assets, which led to resurgence rn commodity prices. Oil prices accelerated which exacerbated the inflationary pressures mostly in advanced economies. Adverse weather conditions, which reduced global food supply, led to an increase in the international market price of food commodities including maize and wheat.

Table 1: Key World Economic Indicators *(annual data)*

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	Dec. 2017	Mar. 2018	Dec. 2017	Mar. 2018	Dec. 2017	Mar. 2018	Dec. 2017	Mar. 2018
United States	2.9	2.3	2.1	2.4	1.50	1.75	4.1	4.1
Euro Area	2.7	2.5	1.5	1.3	0.00	0.00	8.7	8.5
Japan	1.8	-0.6	1.0	1.1	-0.10	-0.10	2.8	2.5
United Kingdom	1.4	1.2	3.0	2.3	0.50	0.50	4.3	4.2
China	6.8	6.8	1.8	2.1	4.35	4.35	3.9	3.9
India	7.2	7.7	5.2	4.3	6.00	6.00	nfa	nfa
South Africa	2.0	0.8	4.6	3.8	6.75	6.50	26.7	26.7

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)

GDP growth rate was 2.2 per cent in the first quarter of 2018, down from 2.9 per cent in the fourth quarter of 2017. The slowdown was a result of consumer spending that registered the weakest increase in nearly five years. Unemployment rate remained unchanged at 4.1 per cent for the fourth consecutive month with the highest numbers of jobs were in the manufacturing, construction and mining sectors.

The annualised inflation rate accelerated to 2.4 per cent from 2.1 per cent in the fourth quarter of 2017. Inflationary pressures emanated mainly from increased food and energy prices. Wages increased signalling the strengthening of the labour market. Consequently, the U.S. Federal Reserve resumed the interest rate hiking cycle in 2017, with three more rate hikes expected in 2018. The Federal Open Market Committee (FOMC) decided to increase the Federal Funds rate from 1.50 per cent to 1.75 per cent during their seating in March 2018 ..

EuroArea

The annual GDP growth rate decelerated to 2.5 per cent in the first quarter of 2018, from 2.7 per cent in the fourth quarter of 2017. While improved industrial output and exports spurred the growth, low consumer confidence was the offsetting force leading to the deceleration.

Unemployment improved, registering 8.5 per cent, against 8.7 per cent realised in the fourth quarter of 2017. This was the lowest rate recorded in the Euro Area since December 2008. The annual consumer inflation rate decelerated to 1.3 per cent in the first quarter of 2018, from 1.5 per cent in the fourth quarter of 2017. The deceleration was caused mostly by a slowdown in the energy prices, given the transient strengthening of the Euro - which made imports cheaper.

In response to these developments, the European Central Bank Governing Council decided to leave its policy rate unchanged at 0.00 per cent during its sitting of 25 January 2018. The ECB also decided to resume its monthly asset purchase to September 2018 or beyond if necessary.

Japan

The Japanese economy contracted at an annualised rate of 0.6 per cent in the first quarter of 2018. The industrial output fell across all sectors with the cars and auto parts performing poorly. However, the contraction was cushioned by increase in exports. Unemployment was 2.5 per cent, down from 2.8 per cent at the end of the fourth quarter of 2017.

The annual inflation rate was 1.1 per cent relative to 1.0 per cent the fourth quarter of 2017. With regard to monetary policy, the Bank of Japan (Bo J) kept its policy rate unchanged at negative 0.1 per cent in view of the weak inflation outlook, and economic performance. Further, the bank considered that additional easing would be needed to achieve +2 per cent inflation target which was still distant, despite the five years of unprecedented monetary stimulus.

United Kingdom (UK)

The UK economy grew by 1.2 per cent in the first quarter of 2018, following a 1.4 per cent growth in the fourth quarter of 2017. Severe weather conditions (heavy snowfalls) weighed heavily on manufacturing, mining and quarrying with adverse effects on growth. Unemployment fell to 4.2 per cent in the first quarter of 2018, from 4.3 per cent at the end of the fourth quarter 2017.

The annual inflation rate eased to 2.5 per cent from 3.0 per cent at the end of the fourth quarter 2017. The inflation eased as a result of the Pound strengthening and the slowdown in food prices. However, a growth in real wages due to skilled labour shortages poses a risk of rising inflation. The Bank of England decided to maintain its Bank Rate at 0.50 per cent given a slower underlying pace of GDP growth in the first quarter of 2018.

EMERGING MARKET ECONOMIES

China

The annual GDP growth rate remained firm at 6.8 per cent in the first quarter 2018. Final consumption expenditure's contribution to the economic growth reached 77.8 per cent, 46.5 percentage points higher than the total capital formation. Hence, the domestic consumption became a key driver of growth, which reflected a gradual shift from export-led growth model to domestic consumption-driven economy. Unemployment was unchanged at 3.9 per cent.

Annual inflation rate accelerated to 2.1 per cent, from 1.8 per cent at the end of the fourth quarter. The significant price increases were mostly observed for consumer goods and services. The People's Bank of China did not make any changes to its key policy rate in March 2018, and it was steady at 4.35 per cent. However, China did raise other short term interest rates, first as a reaction to the hike in the US Fed rates, and also as a move to curb debt risks domestically.

India

The real GDP growth rate increased by 7.7 per cent in the first quarter of 2018 compared to 7.2 per cent in the fourth quarter of 2017. The growth was mostly driven by robust expansion in construction, manufacturing and trade.

The annualised inflation rate increased by 4.3 per cent, decelerating from 5.2 per cent observed at the end of the fourth quarter of 2017. The key drivers of weaker inflation were easing food and energy prices, and the muted real wage growth. The Reserve Bank of India's Monetary Policy Committee (MPC) kept the repo rate unchanged at 6.0 per cent in line with inflation developments and to continue to support growth.

South Africa

The real GDP growth rate fell sharply to 0.8 per cent in the first quarter of 2018, compared to 2.0 per cent annual growth rate in the fourth quarter of 2017. The drop in real GDP growth rate was mostly attributed to a major slump in agriculture, manufacturing and mining sub-sectors. The unemployment rate remained unchanged at 26.7 per cent from the fourth quarter of 2017.

Annual consumer price inflation was 3.8 per cent in March 2018, down from 4.6 per cent rn December 2017. The slowdown indicated mostly subdued inflationary pressures as a result of slowing food and transport costs. During its MPC meeting in March 2018, the South African

Reserve Bank cut its repo rate by 25 basis points from 6.75 per cent to 6.50 per cent. The decision to cut its policy rate was anchored around its inflation outlook, which had shown moderate improvements.

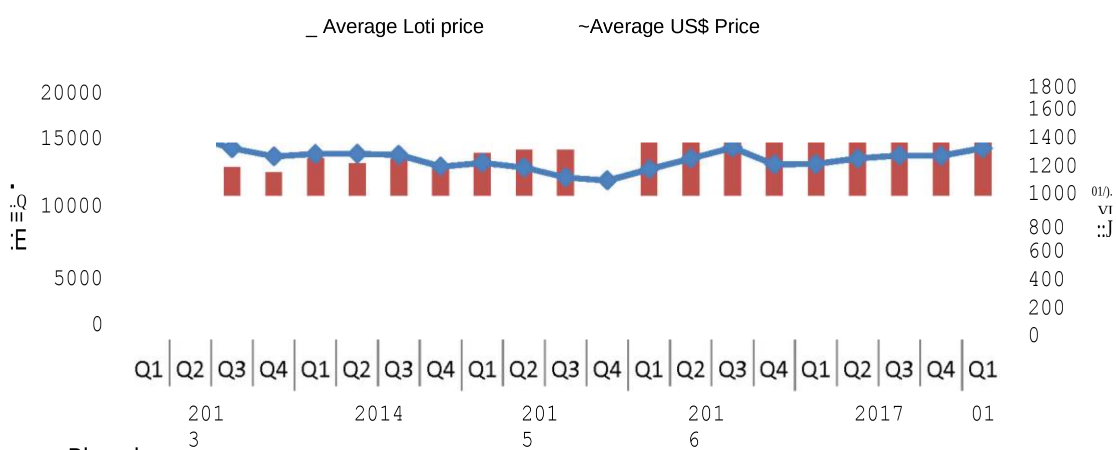
COMMODITIES

Minerals

Gold

During the first quarter of 2018 the US dollar price of gold increased by 9.1 per cent year-on-year. The risks in the global markets boosted the demand and hence the price for the safe-haven asset as fears of trade wars mounted. The price of gold increased despite a 3 per cent year-on-year growth in the supply of gold and higher interest rates which would generally reduce the demand for noninterest bearing assets. The price of gold in terms of Maloti declined due to the sustained strengthening of the domestic currency against the US dollar.

Figure 1: Average Price of Gold

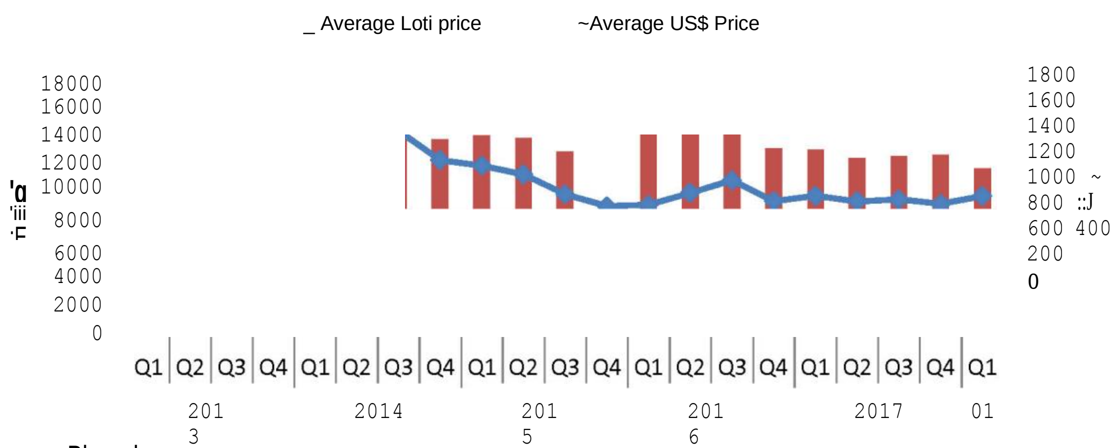


Source: Bloomberg

Platinum

The increased global demand for safe-haven assets led to rising platinum prices valued in US dollars. A weaker US dollar implied that the precious metals including the platinum were cheaper for investors paying in other currencies. Furthermore, the platinum prices rallied due to the increase in demand for platinum jewellery from India coupled with China's Lunar New Year holidays and giftgiving celebrations. The platinum prices surged despite signs of growing "platinum surplus" in global markets as diesel car sales continued to lose market share in Europe in favour of gas-powered hybrid models and electric vehicles. For example, the German courts ruled that cities in Europe's largest national economy could ban older diesel-engine vehicles by 2030 while Italy has decided to ban diesel cars by 2024. Platinum is primarily used in diesel engines as a pollution control device. The platinum prices declined in Maloti terms reflecting the appreciation of the loti against the US dollar.

Figure 2: Average Price of Platinum



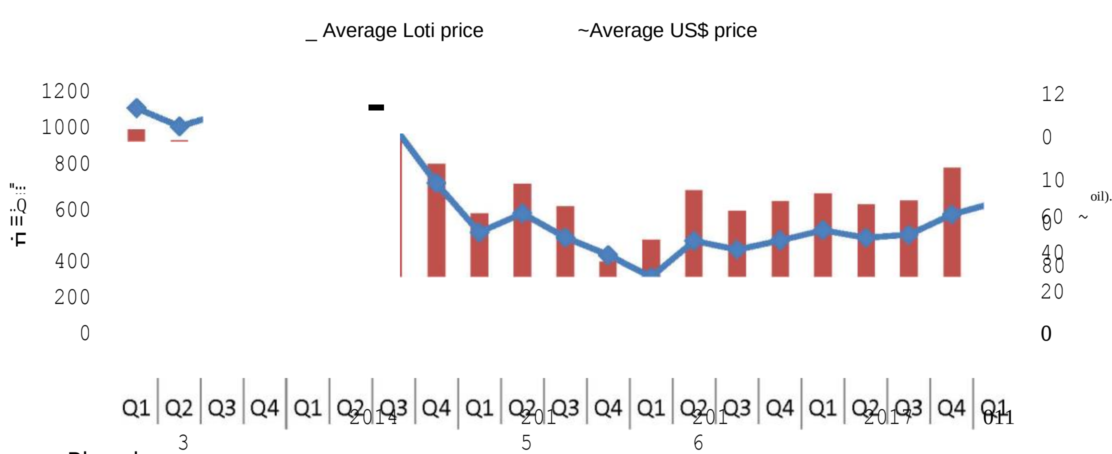
Source: Bloomberg

Energy

Oil

Oil prices accelerated by 24 per cent, to $65 per barrel in the first quarter of 2018, from $52 per barrel in the fourth quarter of 2017. The prices were boosted mostly by the continued oil supply cuts by the Organization of the Petroleum Exporting Countries (OPEC) and Non-OPEC countries; rising Chinese crude oil imports; a growing criticism of the Iran 2015 nuclear deal at the United Nations Headquarters, and escalating trade tensions between the US and China. The rise in oil prices was realised, despite the increased US crude oil production. The weakening of the U.S. dollar, hence the strengthening of the Loti, made the price of oil relatively cheaper in domestic markets.

Figure 3: Average Price of Oil



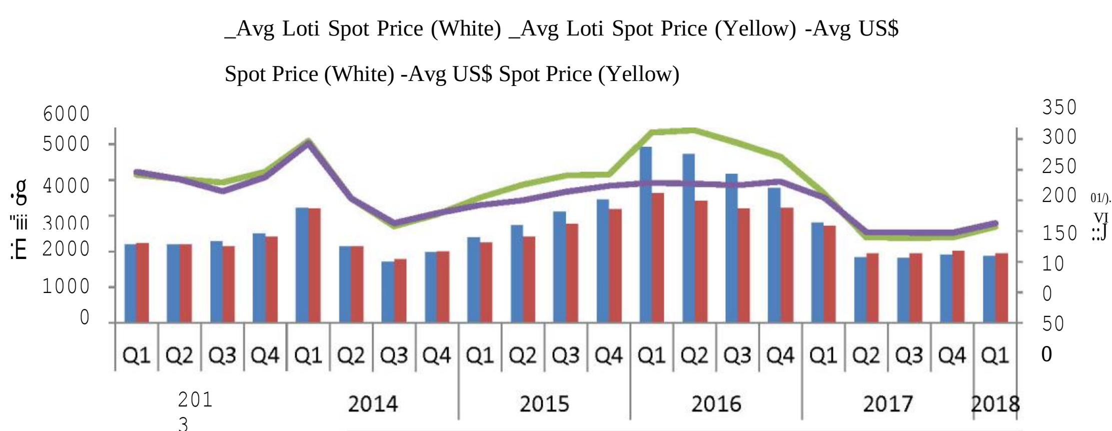
Source: Bloomberg

Agricultural Commodities

Maize

Average prices for white and yellow maize worldwide increased respectively by 26 per cent and 21 per cent driven by unfavourable weather conditions mostly in Argentina and the United States. A decline in local maize prices reflected both favourable last year's harvest and firmer domestic currency. However, the maize prices in 2018 were projected to increase due to the price-induced reduction in area planted in South Africa, and a fall in crop production due to erratic weather conditions in the sub-region.

Figure 4: Average Price of Maize

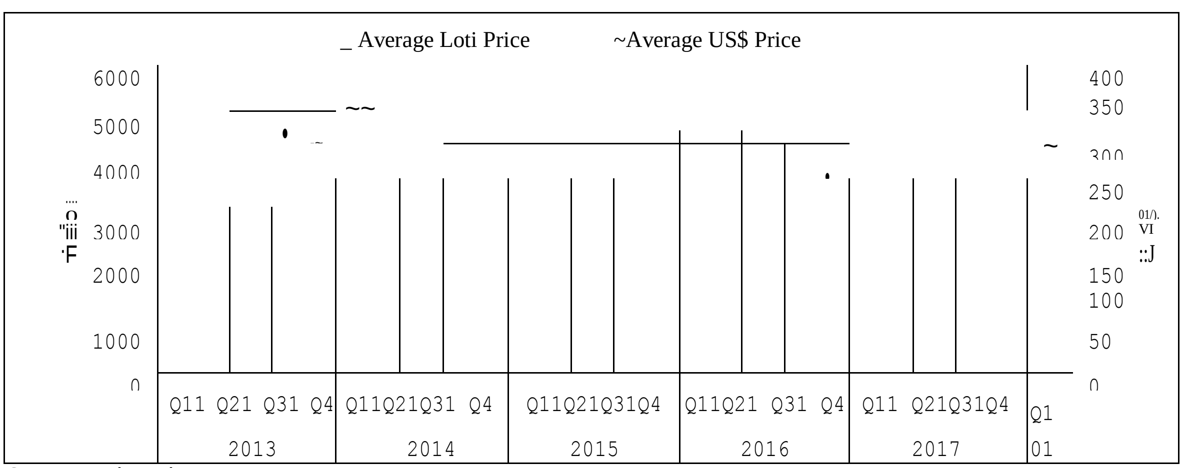


Source: Bloomberg

1f:71eat

Prolonged drought in the United States, China, India, and cold-wet conditions in parts of Europe and the Russian Federation increased the wheat prices. World production set to decline after a record year. However, the wheat price fell in terms of Maloti due to the strengthening of the domestic currency.

Figure 5: Average Price of Wheat

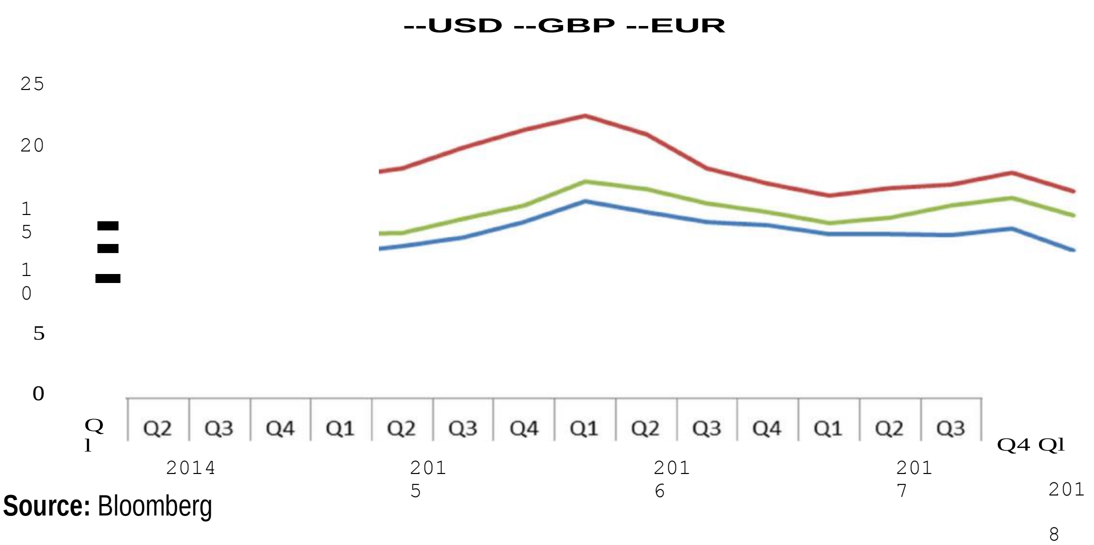


Source: Bloomberg

EXCHANGE RATES

The rand hence the loti strengthened against all the three major trading currencies - the US Dollar, the Euro and the Pound Sterling, mostly supported by favourable economic outlook and political developments in South Africa. Market sentiment improved after the newly appointed president announced his intention to revive economic activity and fight corruption - thus, easing the market uncertainty with regard to government policy direction. Investor confidence was further reinforced by the appointment of a new Finance Minister and this led to increased capital inflows by investors searching for higher yields, which provided further support to the Rand/Loti. Other factors that boosted the value of the Rand/Loti included the rising commodity prices and positive ratings by the sovereign rating agencies.

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



Source: Bloomberg

III. Real Sector Developments

OVERVIEW

The domestic economic activity contracted in the first quarter of 2018 following the last two quarters of expansion of 2017. Both tertiary and secondary sectors performed badly, with the former contributing most to the overall economic decline during the review period. However, the primary sector moderated the decline. The labour market trends showed mixed signals, with both the number of government employees and migrant mineworkers declining, while the manufacturing sector added more jobs during the first quarter of 2018. Inflationary pressures continued to abate during the review period.

OUTPUT DEVELOPMENTS

The real sector economic activity, measured by the real EAI, declined by 5.6 per cent in the first quarter of 2018 compared to an expansion of 8.8 per cent in the last quarter of 2017, on a seasonally adjusted basis.

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

		2017				2018
	Weight	Q1	Q2	Q3	Q4	Q1
EAI	**100**	**-3.9**	**-3.0**	**5.5**	**8.8**	**-5.6**
Primary Sector						
Mining	**8.9**	9.7	15.3	11.8	-2.2	2.5
Secondary Sector						
Manufacturing	**18.5**	-12.6	-3.7	8.4	-5.2	-0.6
Electricity	**1.1**	2.5	1.5	2.3	-1.5	-1.3
Water	**4.9**	-4.0	-2.4	-2.2	13.8	7.0
Construction	**7.6**	-21.3	-20.9	139.7	-38.5	-11.3
Tertiary Sector						
Trade	**11.0**	-7.2	0.9	-1.2	5.7	-18.3
Telecom	**5.1**	-2.6	-6.0	-2.3	12.6	-31.5
Financial Sector	**6.5**	0.8	-0.5	-1.3	6.2	13.9
Other services	**5.7**	-17.2	14.0	-2.9	-8.6	-20.6
Government	**30.6**	2.9	-10.0	-3.4	17.1	0.4

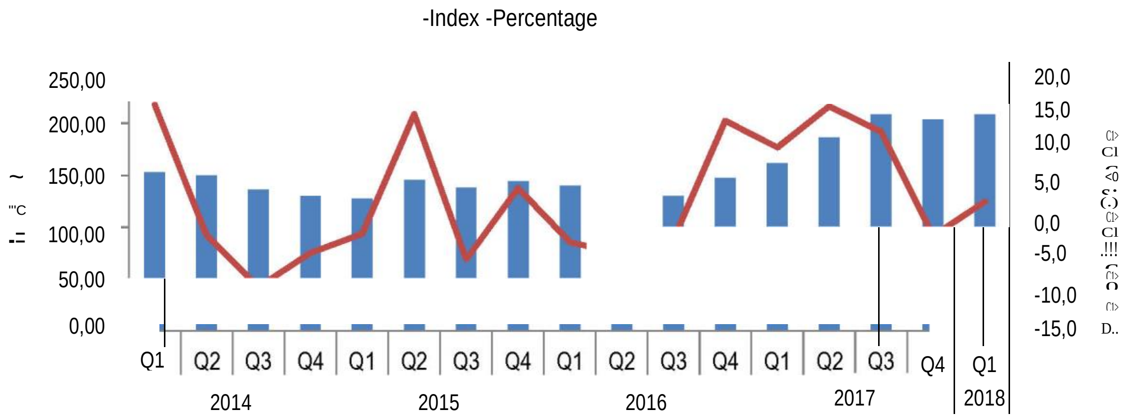
Source: Central Bank of Lesotho

Primary Sector

Mining and Quarrying

The seasonally adjusted mining and quarrying index increased by 2.5 per cent in the first quarter of 2018 compared with a decline of 2.2 per cent realised in the previous quarter. The rebound in the subsector from the last quarter of 2017 is mainly the result of increased production as mining companies recovered more carats.

Figure 7: Mining and Quarrying Index



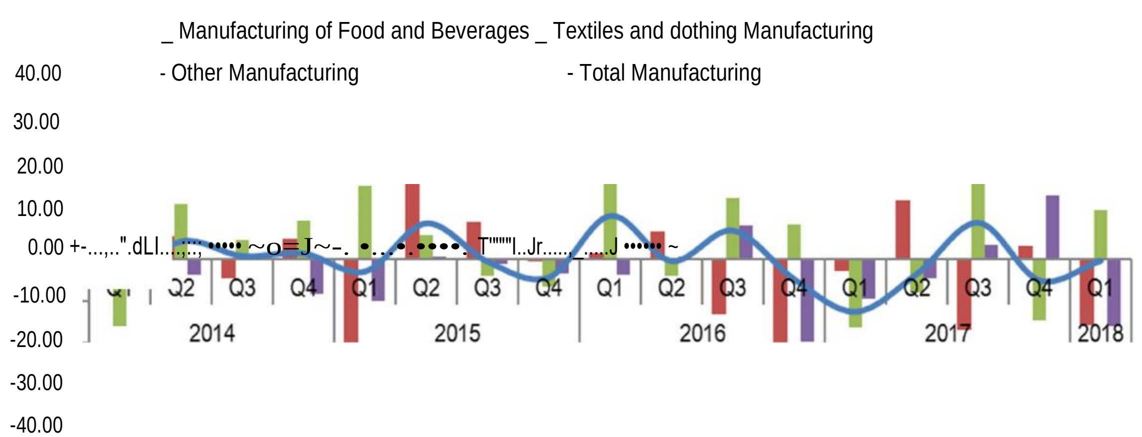
Source: Central Bank of Lesotho

Secondary Sector

Manufacturing

The seasonally adjusted index of production for the manufacturing subs ector declined, albeit at a slower pace of 0.6 per cent during the review period relative to a decrease of 5.2 per cent in the last quarter of 2017. The contraction is mainly attributed to the decline in output of both "Food" and "other" manufacturing, but the increased production in the "textile and clothing" industries moderated the fall. While other industries in the manufacturing subsector contributed to its weakness, the increased demand for Lesotho's textile and clothing exports mainly to the United States and South Africa moderated the overall lacklustre performance.

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



Source: Central Bank of Lesotho

Electricity

The output index for electricity decreased by 1.3 per cent in the first quarter of 20 18, relative to a 1.5 per cent decrease in the previous quarter, on a seasonally adjusted basis. The major source of the decline was the "commercial" demand sub-component. The increases in the "general purpose" and "domestic" demand sub-components were not enough to avert the fall. The subsector's lacklustre performance reflected the general weakness in the economy. Given the weak local demand during the review period, some non-exporting firms were under pressure, and hence their demand for power inputs into their production processes.

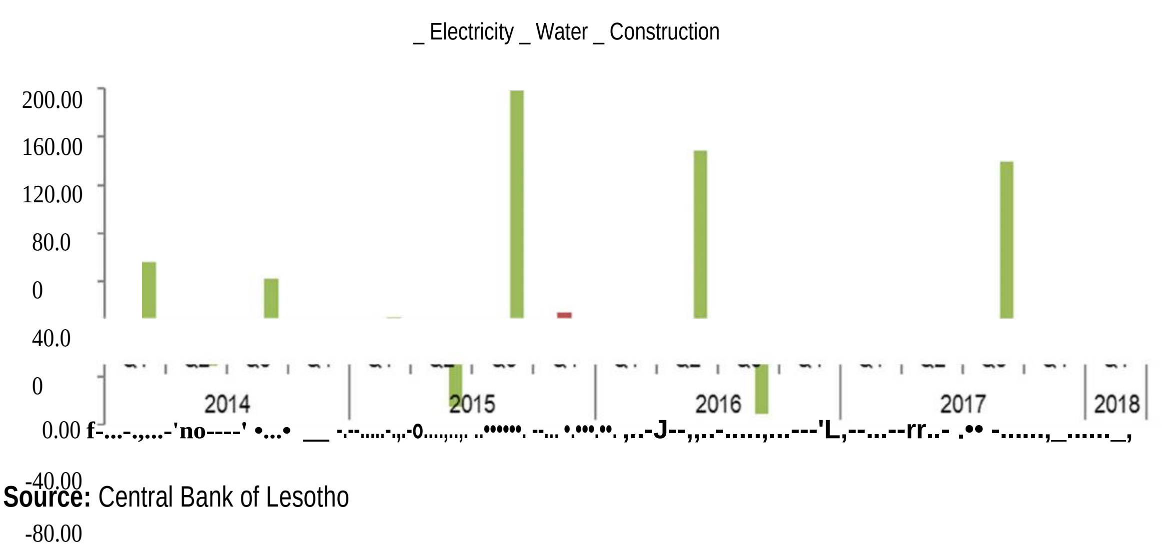
Water

The seasonally adjusted water index increased, albeit at a slower pace of 7.0 per cent in the first quarter of 2018 in contrast to an increase of 13.8 per cent realised in the previous quarter. The "domestic" and "other" categories registered increases during the review period from contraction in the in the previous quarter. Nonetheless, the decline in the 'industrial" category moderated the increase. The slowdown reflects developments in the manufacturing subsector as it continued to be under pressure.

Construction

In the construction subsector, the seasonally adjusted index also declined by 11.3 per cent in the first quarter of 2018 from the growth of 38.5 per cent recorded in the previous quarter. The performance in the first quarter of 2018 mainly reflects the state of government capital expenditures in the first quarter of 2018.

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



Source: Central Bank of Lesotho

Tertiary Sector

Trade

The seasonally adjusted trade index contracted by 18.3 per cent during the review period following an expansion of 5.7 per cent recorded in the previous quarter. All major components of the trade index, namely, the retail, wholesale and fuel showed declines of 26.5 per cent, 21.0 per cent and 18.9 per cent, respectively. Nonetheless, the motor category increased but marginally relative to the declines in other categories. The contraction in the sector is mainly attributed to the slump in general domestic consumer demand.

Telecommunications

The seasonally adjusted telecommunications index declined further by 31.5 per cent during the review quarter in contrast to a 12.6 per cent increase recorded in the previous quarter.

Finance

The financial subsector index increased by 13.9 per cent in the first quarter of 2018, following a 6.2 per cent increase recorded in the previous quarter, on seasonally adjusted basis. The buoyant performance of the subsector shows higher financial intermediation as more loans were extended and deposits increased during the review period.

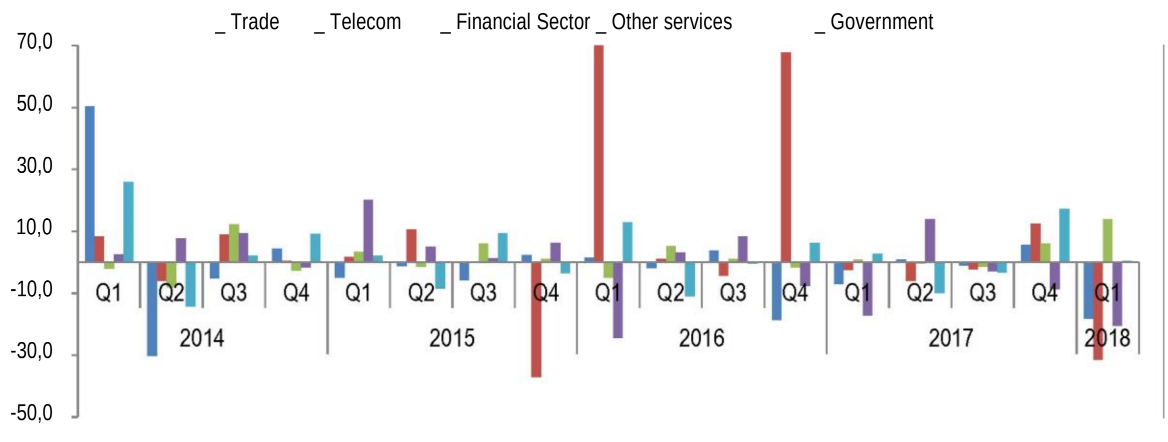
Other Services'

The other services subsector contracted further by 20.6 per cent rn the first quarter of 2018 continuing from the 8.6 per cent contraction in the previous quarter.

Government

The seasonally adjusted index for government activities increased at a relatively slower pace of 0.4 per cent in the first quarter of 2018 compared with 17.1 per cent estimated in the previous quarter. The muted expansion in government output is a reflection of applying breaks on spending brought about by the fiscal pressures.

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



Source: Central Bank of Lesotho

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

EMPLOYMENT DEVELOPMENTS

Employment by LNDC assisted companies increased at a relatively faster pace of 2.5 per cent during the review period after a marginal growth of 0.1 per cent in the previous quarter. The industries, which added more to jobs, were the "knit garments", "woven garments", "fabric, yarn, etc" as well as the "hotel accommodation". The electronics industries shed jobs during the review period. The faster pace of expansion in the first quarter of 2018 is explained by the increased production in the manufacturing sector as demand for exports increased in both the U.S and South Africa.

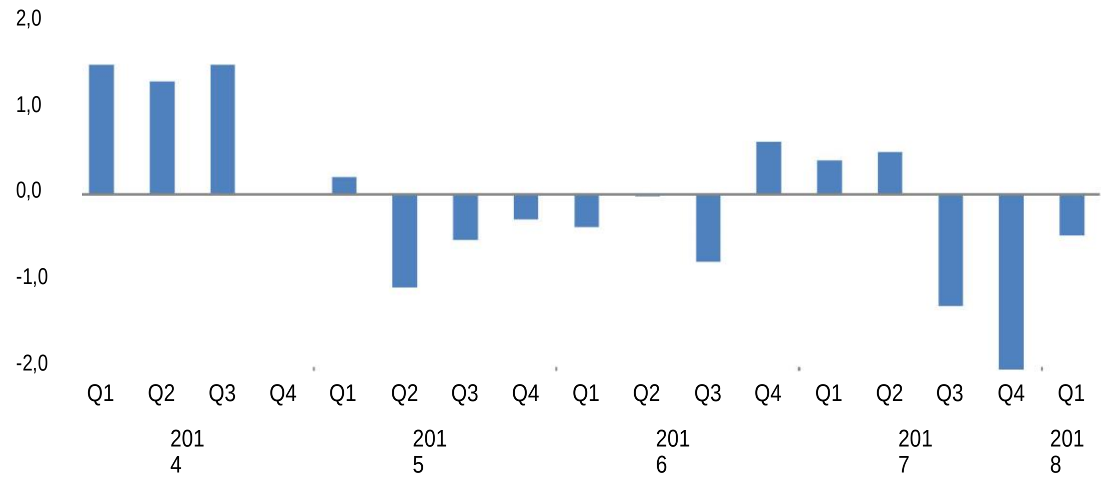
Table 3: Employment by LNDC-Assisted Companies

Industry	2017				2018	Change	
	Q1	Q2	Q3	Q4	Q1	QIQ	YN
Knit Garments	24897	25252	26541	27159	27723	2.1	11.4
Woven Garments	13678	15561	15736	15613	15924	2.0	16.4
Footwear	1403	1165	1232	942	1005	6.7	-28.4
Fabrics, Yarn etc	1803	1817	1810	1972	2052	4.1	13.8
Construction	359	390	357	360	363	0.8	1.1
Food & Beverages ...	696	734	711	736	781	6.1	12.2
Electronics	1030	931	955	959	943	-1.7	-8.4
Retail.	109	146	146	152	159	4.6	45.9
Hotel Accomm ...	663	630	630	481	526	9.4	-20.7
Other	1197	1217	1248	1061	1097	3.4	-8.4
TOTAL.	45835	47843	49366	49435	50573	2.3	10.3

Source: Lesotho National Development Corporation

The number of government employees declined by 2.2 per cent in the first quarter of 2018 compared with 2.3 per cent realized in the previous quarter, year-on-year .. It declined by 0.5 per cent during the review period compared with an increase of 0.6 per cent recorded in the previous quarter-to-quarter.

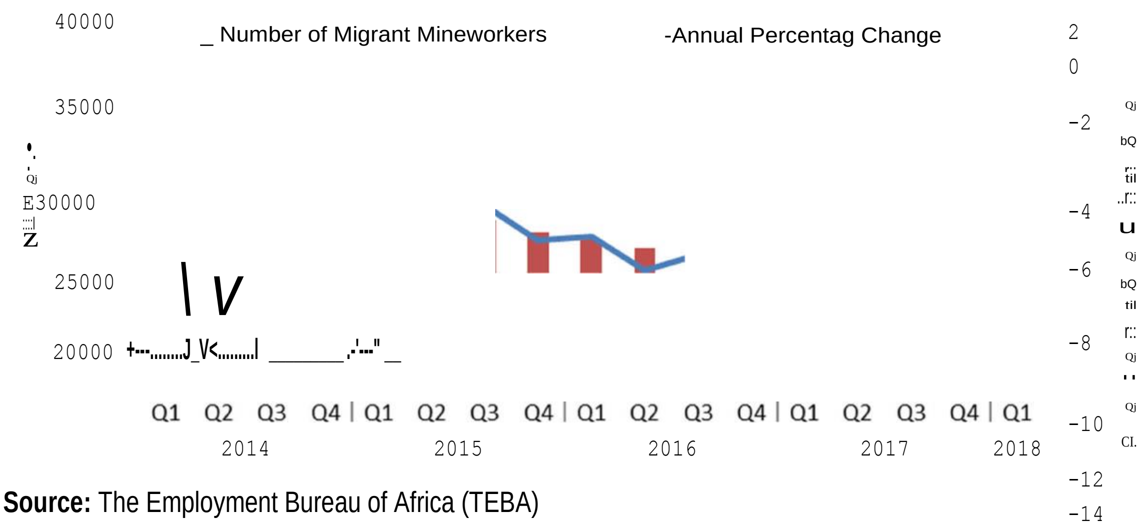
Figure 11: Government Employment *(Annual Percentage Change)*



Source: Ministry of Finance

The number of Basotho migrant mineworkers employed in SA mines declined by 4.0 per cent, on a quarter-to-quarter basis, in the first quarter of 2018 compared with a decline of 1.7 per cent in the quarter ending in December 2017. The annual rate of decline was estimated at 6.9 per cent. The downward trajectory in employment mainly reflected the effects of aging infrastructure, depletion of resources and the recent incidences of accidents in the mines, which held back production during the period under review, hence the employment.

Figure 12: Migrant Mineworkers *(Annual Percentage Changes)*



Source: The Employment Bureau of Africa (TEBA)

PRICE DEVELOPMENTS

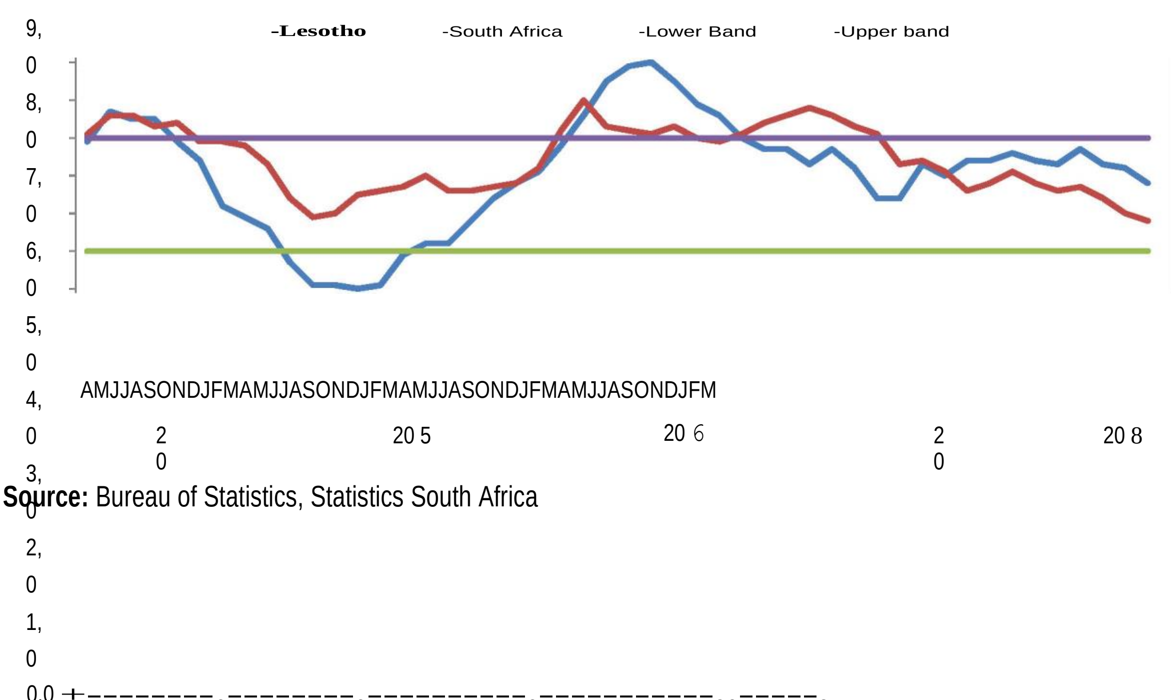
The inflation rate in Lesotho, measured as a percentage change in the Consumer Price Index (CPI), slowed down to 4.8 per cent in the quarter ending in March 2018 from 5.7 per cent in the quarter ending in December 2017. The deceleration in the overall CPI change was broad based, as all items declined during the review period. The abating inflationary pressures are mainly driven by the declines in food prices, as well as, the appreciation of loti against the US dollar in the review period.

Table 4: Inflation Rate *(Year-on-year Percentage Changes)*

		2017		2018		
	Weight	Nov	Dec	Jan	Feb	Mar
All items	**1000**	5.3	5.7	5.3	5.2	4.8
Food and non-alcoholic beverages	361.13	7.1	7.2	7.2	7.0	6.3
Alcoholic beverages & Tobacco	33.31	6.0	6.9	6.6	5.4	5.7
Clothing & footwear	130.57	1.6	1.6	1.8	1.7	1.5
Housing, electricity gas & other fuels	123.97	6.4	8.8	8.3	7.9	7.4
Furniture, households equipment & routine maintenance	84.77	5.7	5.6	5.5	5.5	5.0
Health	15.04	0.1	0.2	0.2	0.3	0.3
Transport	48.21	0.9	2.2	-0.3	-0.3	-0.2
Communication	21.05	0.0	0.0	-1.6	1.6	-1.6
Leisure, entertainment & Culture	57.08	5.6	6.1	5.8	5.8	5.4
Education	42.00	6.9	6.9	3.3	3.5	4.2
Restaurant & Hotels	10.30	1.6	1.7	1.9	2.1	2.3
Miscellaneous goods & services	72.59	4.4	4.2	4.3	4.6	4.7

Source: Bureau of Statistics

Figure 13: Lesotho and South Africa's Inflation



Source: Bureau of Statistics, Statistics South Africa

IV. Monetary and Financial Developments

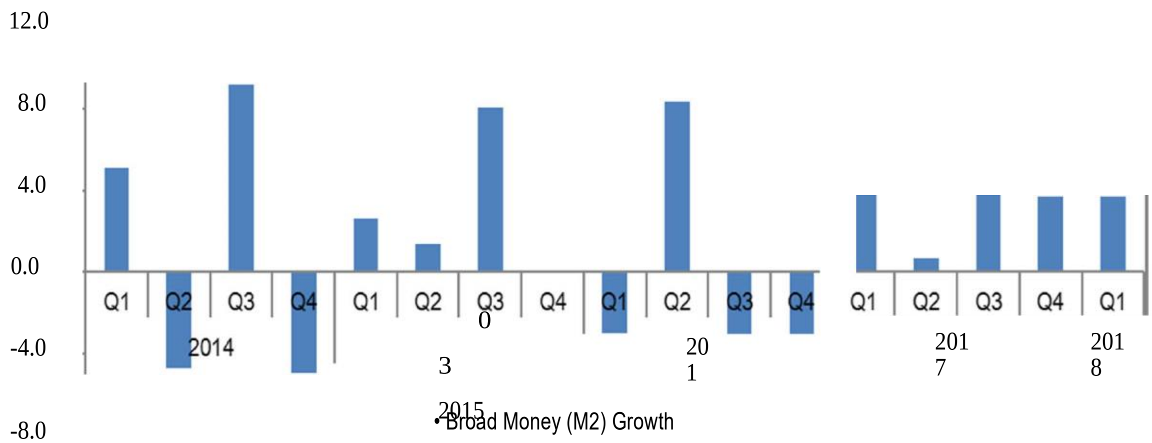
OVERVIEW

Money supply continued to increase during the review quarter following growth in NF A, notwithstanding a decline in domestic claims. A growth in commercial banks NF A was at the back of increase in deposits mainly from private sector. The increase in Central Bank's NF A was mainly on account of prudent government spending. Private sector credit also improved during the quarter under review. Credit extended to business enterprises rose slightly, owing to new loans that outstriped runoffs. Furthermore, credit to households continued to grow in both mortgages and personal loans.

BROAD MONEY (M2)

Money supply growth remained stable at 3.7 per cent between the last quarter of 2017 and the first quarter of 2018. This was at the back of an increase in NF A, moderated by a decline in Domestic Claims.

Figure 14: Broad Money (M2)



Source: Central Bank of Lesotho

Determinants of M2

Domestic Claims

Domestic claims, including net claims on government, declined by 12.2 per cent in March 2018, compared to an increase of 5.1 per cent registered in December 2017. This was mainly because of a 54.8 per cent fall in Central Bank's net claims on Central government, which is reflective of a buildup in government deposits following slow execution of government budget. Conversely, the claims on private sector increased by 3.2 per cent during the quarter under review, relative to 3.4 per cent increase registered in December 2017. This stemmed from a rise in credit extended to business enterprises and household sectors of 0.3 per cent and 4.6 per cent, respectively.

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

	2017				2018	Changes !)	
	Mar	June	Sept	Dec	Mar	Annual	Quarterly
Domestic Claims	4848.19	4746.88	5177.01	5438.49	4775.06	-1.5	-12.2
Net Claims on Government	-1319.06	-1331.60	-874.64	-770.46	-1630.07	23.6	111.6
Commercial Banks Net Claims	878.65	831.87	978.77	995.55	1103.58	25.6	10.9
Claims on Central Government	895.74	847.09	988.78	1002.12	1109.37	23.8	10.7
Liabilities to Central Government	17.09	15.22	10.01	6.57	5.79	-66.1	-11.9
Central Bank Net Claims	-2197.71	-2163.46	-1853.42	-1766.02	-2733.65	24.4	-54.8
Claims on Central Government	1072.47	997.99	904.74	842.18	817.81	-23.7	-2.9
Liabilities to Central Government	3270.18	3161.45	2758.15	2608.19	3551.46	8.6	36.2
Claims on Other Sectors	6167.26	6078.48	6051.65	6208.96	6405.13	3.9	3.2
Claims on OFCs	325.60	167.42	120.67	77.96	78.88	-75.8	1.2
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	5841.66	5911.05	5930.98	6131.00	6326.25	8.3	3.2
Claims on Business Enterprises	2102.46	2100.98	1967.76	1983.19	1989.30	-5.4	0.3
Claims on Households	3739.20	3810.07	3963.22	4147.81	4351.95	16.0	4.6

Source: Central Bank of Lesotho

Net Foreign Assets

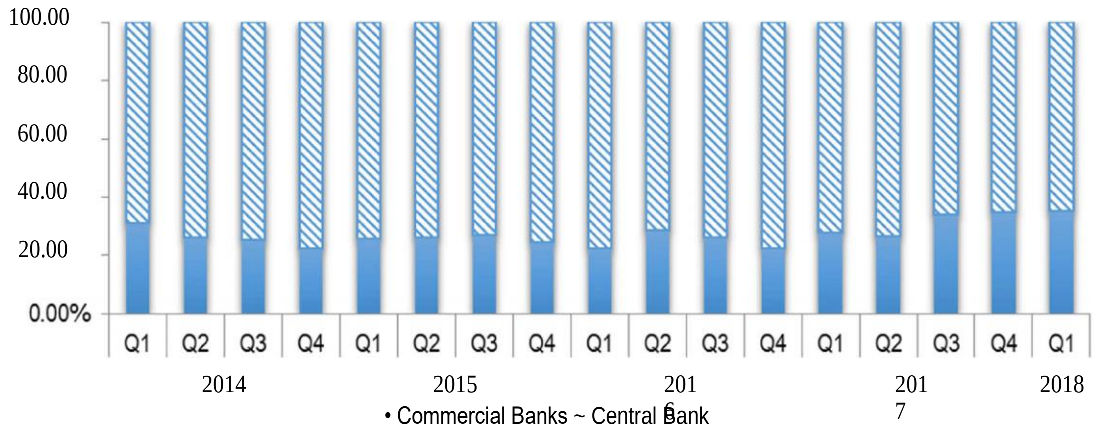
During the review period, there was an increase in the banking system NF A. On the overall, NF A of the banking sector increased by 3.3 per cent in March 2018 from a decline of 5.7 per cent in December 2017. This was attributed to growth in both the commercial banks and the central bank's NF A. The developments in commercial banks' NF A were a result of a rise in placements abroad stemming from increased deposit liabilities, whereas the growth of Central Bank's NF A was reflective of easing of financing of government operations from reserves.

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

	2017				2018	Changes ()	
	Mar	June	Se~t	Dec	Mar	Annual	Quarterl},
Commercial Banks	3666.75	3479.61	4686.64	4523.72	4727.26	28.9	4.5
Claims on Non-residents	4057.79	3939.49	5161.44	5010.79	5354.56	32.0	6.9
Liabilities to Non-residents	391.04	459.88	474.80	487.07	627.31	60.4	28.8
Central Bank	9601.58	9714.91	9060.29	8435.22	8657.60	-9.8	2.6
Claims on Non-residents	11155.31	11222.91	10668.29	9901.86	10097.99	-9.5	2.0
Liabilities to Non-residents	1553.73	1508.01	1608.00	1466.64	1440.39	-7.3	-1.8
Net Foreign Assets Total	13268.33	13194.52	13746.93	12958.94	13384.86	0.9	3.3

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 increased at a constant rate of 3.7 per cent between March 2018 and December 2017. This development was due to 4.8 per cent increase in M1 from a fall of 0.3 per cent in December 2017. A rise in transferable deposits contributed significantly to the increase in M1. Quasi Money also expanded by 2.5 per cent driven by a rise in other deposits with commercial banks. The developments in components of broad money stem from deposits made into commercial banks by private sectors.

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

	2017				2018	Changes ()	
	Mar	June	Sept	Dec	Mar	Annual	Quarterly
Broad Money (M2)	10692.01	10763.07	11678.02	12105.97	12553.70	25.5	3.7
Narrow Money (M1)	5253.55	5222.87	6179.57	6160.77	6457.05	26.4	4.8
Currency Outside DCs	934.51	919.40	1089.67	1111.09	1053.77	17.8	-5.2
Transferable Deposits	4319.04	4303.47	5089.90	5049.68	5403.28	28.4	7.0
Quasi Money	5438.45	5540.20	5498.45	5945.20	6096.65	24.7	2.5
Other Deposits Commercial Banks	5391.06	5499.01	5458.60	5906.33	6058.22	25.2	2.6
Other Deposits Central Bank	47.40	41.19	39.86	38.87	38.43	-22.2	-1.1

Source: Central Bank of Lesotho

CREDIT EXTENSION

Trends of Credit Extended to Business Enterprises

Credit extended to business enterprises increased by 0.3 per cent during the period under review, following an increase of 0.8 per cent the previous quarter. In particular, mining, and wholesale, retail, hotel and restaurant recorded the biggest expansion in credit. Credit to mining sector was for operations purposes whereas credit extended to wholesale, retail, hotel and restaurant was due to disbursement of new loans coupled with reclassification of loans from community, social and personal service.

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

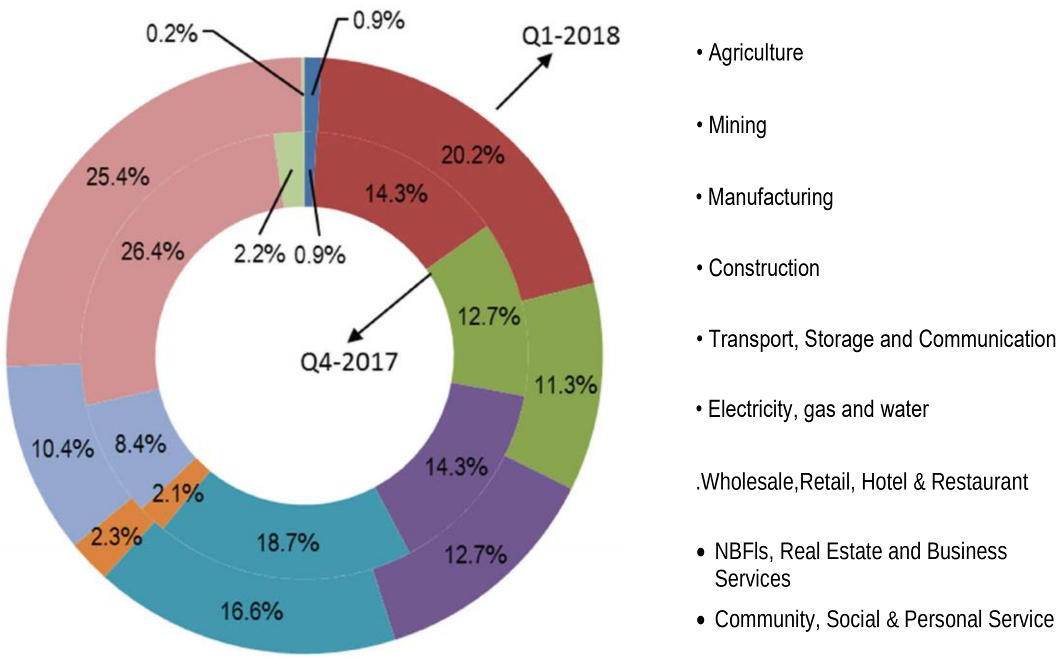
	2017			2018	Changes ()	
SECTOR	June	Se~t	Dec	Mar	Annual	Quarterly
Agriculture	22.73	26.91	16.98	18.10	-30.9	6.6
Mining	544.27	302.99	284.14	401.39	-20.5	41.3
Manufacturing	303.00	264.97	252.10	224.31	-36.7	-11.0
Electricity, gas and water	41.91	39.15	41.15	46.56	27.4	13.1
Construction	195.17	271.42	283.98	253.17	-17.2	-10.8
Wholesale, Retail, Hotel & Restaurant	179.74	174.30	167.13	206.55	22.8	23.6
Transport, Storage and Communication	323.73	311.20	370.89	330.34	82.7	-10.9
NBFIs, Real Estate and Business Services	465.19	545.45	522.95	505.80	1.3	-3.3
Community, Social & Personal Service	25.26	31.38	43.87	3.08	-88.5	-93.0
All Sectors	2100.98	1967.76	1983.19	1989.30	-5.4	0.3

Source: Central Bank of Lesotho

Sectoral Distribution of Enterprise Credit

Real estate and business services received the biggest share of total credit extended to business enterprises at 25.6 per cent. This was followed by mining, transport, storage and communication, construction and manufacturing at 20.3 per cent, 16.7 per cent, 12.8 per cent and 11.4 per cent, respectively. In comparison to the previous quarter, there was a significant decline in the manufacturing and construction sectors. Real estate continues to enjoy a large share of credit extended to business enterprises regardless of the decline noticed in the first quarter of 2018.

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

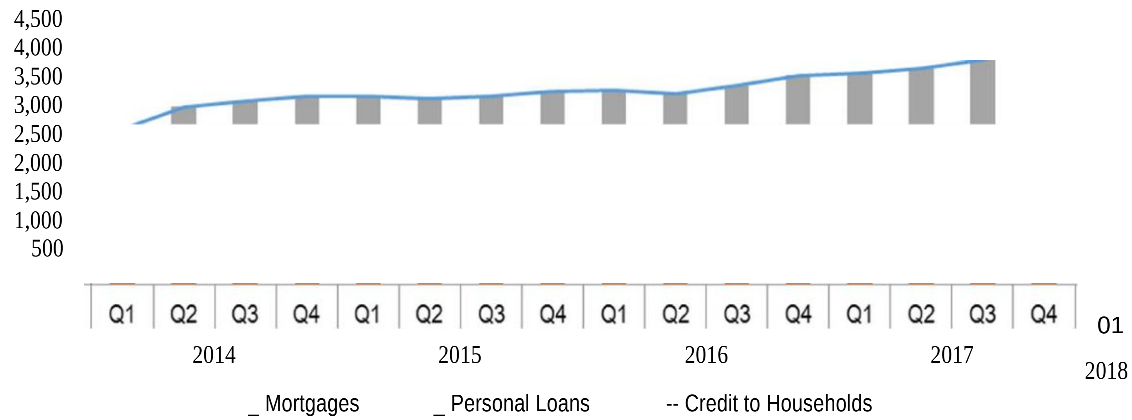


Source: Central Bank of Lesotho

Credit extended to Households

Credit extended to households increased by 4.6 per cent in the first quarter of 2018 compared to 4.4 per cent realised in fourth quarter of 2017. This was due to an increase of 7.3 per cent and 3.9 per cent in mortgage and personal loans respectively. The increase in mortgage loans was because of new home loans, whereas the personal loans increased due to loan disbursements and increased loan limits by commercial banks in an effort to grow their loans books.

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



Source: Central Bank of Lesotho

LIQUIDITY OF COMMERCIAL BANKS

Components of liquidity

Credit to deposit ratio was 54.4 per cent during the review quarter compared to 55.2 per cent registered during the previous quarter. This was a result of 4.6 per cent increase in commercial banks' total deposits despite a 3.2 per cent increase in private sector credit. The rise in total deposits was attributed to transferable and other deposits made by non-deposit taking financial institutions and the businesses. Consequently, liquidity ratio recorded 73 per cent during the quarter under review, notwithstanding the observed increase in balances due from banks in Lesotho and South Africa.

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

	2017			2018
	June	Se~t	Dec	Mar
Credit to Deposit Ratio	59.5	55.4	55.2	54.4
Private Sector Credit	5828.32	5847.28	6045.47	6238.43
Total Deposits	9802.47	10548.49	10956.02	11461.50
Liquidity Ratio	74.2	79.7	74.3	73.0
Notes and Coins	431.95	390.48	740.98	463.42
Balance due from banks in Lesotho	1875.00	2158.94	2157.63	2195.94
Balance due from banks in SA	3600.58	4763.20	4198.18	4347.05
Surplus funds	515.63	106.36	41.02	255.97
Government Securities	847.09	988.78	1002.12	1109.37
Total	7270.25	8407.76	8139.94	8371.74

Source: Central Bank of Lesotho

Commercial Banks Sources of Funds

The main sources of funds for commercial banks were deposits, which comprise of transferable and other deposits. Transferable deposits included in broad money increased by 4.6 per cent in March 2018 from an increase of 3.9 per cent in December 2017. Other deposits included in broad money also increased by 2.6 per cent, compared to an increase of 8.2 per cent in December 2017. The developments in both the transferable and other deposits benefited from non-deposit taking financial institutions and the business enterprises particularly businesses in the mining sector.

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

	2017				2018	Changes ()	
	Mar	June	Se~t	Dec	Mar	Annual	Quarterl~
Transferable Deposits Incl. in BM	4319.04	4303.47	5089.90	5049.68	5403.28	25.1	7.0
Other Financial Corporations	61.53	34.86	33.75	36.54	38.26	-37.8	4.7
Public Nonfinancial Corporations	81.56	72.81	130.83	98.33	138.74	70.1	41.1
Private Sector	4157.99	4177.84	4907.35	4897.13	5208.60	25.3	6.4
Other NFCs	2215.67	2403.05	3432.40	3480.92	3759.94	69.7	8.0
Other Sectors (Households)	1942.31	1774.79	1474.96	1416.21	1448.66	-25.4	2.3
Other Deposits Incl. in BM	5391.06	5499.01	5458.60	5906.33	6058.22	12.4	2.6
Other Financial Corporations	90.94	95.38	61.78	71.79	54.98	-39.5	-23.4
Public Nonfinancial Corporations	419.75	426.33	406.23	345.11	404.16	-3.7	17.1
Private Sector	4880.37	4977.30	4990.59	5489.43	5599.08	14.7	2.0
Other NFCs	3161.99	3276.23	3200.15	3673.15	3664.03	15.9	-0.2
Other Sectors (Households)	1718.38	1701.06	1790.43	1816.29	1935.05	12.6	6.5
Total De~osits	9710.10	9802.47	10548.49	10956.02	11461.50	18.0	4.6

Source: Central Bank of Lesotho

MONEY AND CAPITAL MARKET DEVELOPMENTS

Money Market

Interest Rates

The CBL Rate increased by 25 basis points from 6.75 per cent to 7 per cent between the last quarter of 2017 and first quarter of 2018. Commercial bank prime lending rate also increased from an average of 11.44 per cent to 11.63 per cent from December 2017 to March 2018. Similarly, the 1- year deposit rate increased from 3.73 per cent in December 2017 to 4.65 per cent in March 2018. On the contrary, the 91-day T-bill slightly declined from 6.27 per cent in December 2017 to 6.22 per cent in March 2018.

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

Source: Central Bank of Lesotho

Table 11: Interest rates

	2017				2018
	Mar	June	Se~t	Dec	Mar
Central Bank					
CBL rate	7.00	7.00	6.75	6.75	7.00
T-Bill Rate - 91 days	6.57	6.42	6.27	6.27	6.22
Lombard Rate	10.57	10.42	10.27	10.27	10.22
Commercial Banks					
Call	1.19	1.19	1.06	1.06	1.31
Time:					
31 days	0.44	0.44	0.36	0.36	0.70
88 days	1.12	1.12	1.31	1.31	1.63
6 months	2.53	2.53	2.45	2.45	2.55
1 year	3.52	3.52	3.73	3.73	4.65
Savings	0.56	0.56	0.76	0.76	0.73
Prime	11.69	11.69	11.50	11.44	11.63
South Africa					
Repo	7.00	7.00	6.75	6.75	6.50
T-Bill Rate - 91 days	7.29	7.33	7.07	7.60	6.87
Marginal Lending Rate					
Prime	10.50	10.50	10.25	10.25	10

Source: Central Bank of Lesotho

Holding of Treasury Bills and T-Bill rates

The overall holding of treasury bills increased by 20.7 per cent in the quarter under review, compared to an increase of 10.4 per cent observed in the last quarter of 2017. The holding ofT-bills by both the banking system and non-bank sector increased by 18.5 per cent and 25 per cent respectively. This was on account of efforts to minimise capital outflows thereby protecting the oneto-one peg between Lesotho Loti and the South African Rand. The 91-day T-bill yield rate declined from 6.37 per cent in the preceding quarter to 6.32 per cent in March 2018.

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

	2017				2018
	Mar	Jun	Sep	Dec	Mar
Treasury Bills	603.87	603.52	656.29	724.70	874.71
Banking System	372.6375	372.32	408.81	477.88	566.10
Non-Bank Sector	231.2362	231.19	247.48	246.82	308.61
Memorandum Item					
Yield Bills (91-days)	6.68	6.52	6.37	6.37	6.32

Source: Central Bank of Lesotho

Holding of Treasury Bonds

The holding of treasury bonds increased by 14.5 per cent in March 2018, relative to an increase of 6.3 per cent observed in December 2017. An increased holding of treasury bonds by non-bank sector of 32.2 per cent drove this increase.

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

	2017				2018
	Mar	Jun	Sep	Dec	Mar
Holding of Treasury Bonds	752.50	751.50	900.95	957.84	1096.50
Banking System	471.2872	472.12	514.34	525.89	525.65
Non-Bank Sector	281.2138	279.39	386.61	431.96	570.85

Source: Central Bank of Lesotho

V. Government Finance

Migration from GFSM 2001 to GFSM 2014

The Government Finance Statistics (GFS) data for the last quarter of 2017/18 have been migrated from 2001 GFS Manual (GFSM) to 2014 GFSM using modified cash basis method of recording. The revenue has been reported as cash flows while the expenditures are on accrual basis. The data have been revised backwards for four quarters of 2017/18.

The data for Ministerial outlays by functions of Government have been compiled using accrual basis method of recording. The Ministries have been classified according to Sector classification from the 2018/19 Budget Speec and hence compatible with the GFSM's COFOG (classification of outlays by functions of Government) except that the COFOG would be more detailed than what we have.

The Table below elaborates in details the developments introduced in the GFS Section during the last fiscal quarter of 2017/18.

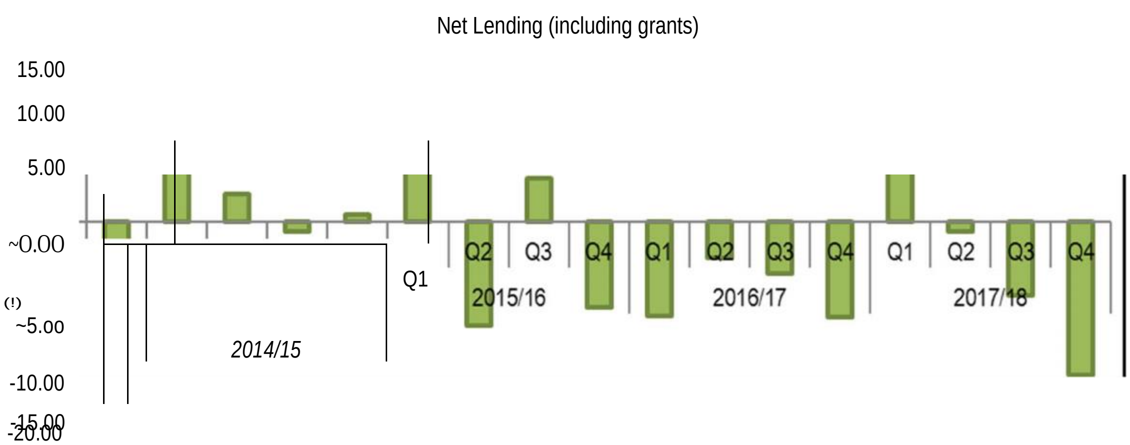
GFS Item	Method of recording	Source of data and remarks
Revenue (all sub-items)	Cash basis	Central Bank of Lesotho (CBL)
Expenditure		
Expense	Accrual basis	Due for payments PLUS commitments from IFMIS of the Ministry of Finance (MOF)
Of which: interest payments	Cash basis	CS-ORMS of the Ministry of Finance
Non-financial assets	Accrual basis	Due for payments PLUS commitments from IFMIS of the MOF
Assets	Cash basis	CBL and MOF
Liabilities	Modified cash basis	CBLand MOF
Of which: other accounts payable	Commitment basis	Commitments from IFMIS of the Ministry of Finance
COFO	Accrual basis	Due for payments PLUS commitments from IFMIS of the MOF, excluding financing items ie. Amortization and disbursements

The GFS data have been reported in fiscal quarters with fiscal year starting from April and ending in March.

OVERVIEW

Government budgetary operations were projected to result in a higher deficit of 14.2 per cent of GDP in the quarter ending in March 2018, which is the last fiscal quarter, compared with a 6.8 per cent of GDP that was realised in the third quarter of the fiscal year 2017/18. This was largely due to acceleration in implementation of development projects that increased by 11.0 per cent, coupled with payment of arrears from the previous periods. The public debt stock as a percentage of GDP registered 31.9 per cent during the review quarter down from 35.3 per cent of GDP recorded in the previous quarter. Nonetheless, the actual debt level increased marginally by 0.6 per cent, due to issuance of Treasury Bills for heightened monetary policy operations, as well as, Treasury Bonds for financing the fiscal operations. The external public debt stock, conversely, declined by 1.9 per cent, due to Loti appreciation against major currencies in which debt is denominated.

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

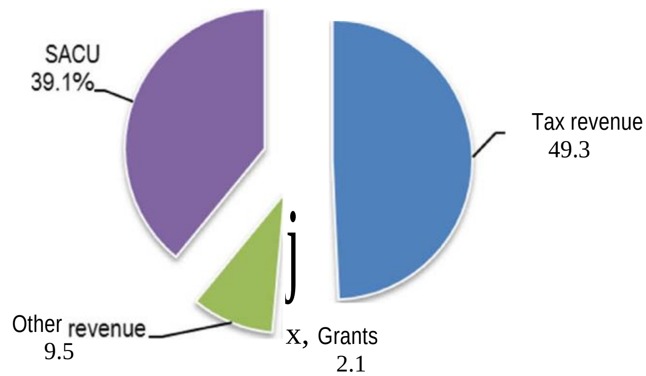


Source: Central Bank of Lesotho (CBL) and Ministry of Finance (MOF)

REVENUE

The total revenue decreased by 0.7 per cent during the quarter under review due to underperformance of tax revenue. On a year-on-year basis, it increased by 27.8 per cent from a decline of 20.7 per cent. The decrease in tax revenue mainly reflected a significant fall in income taxes and value added tax. Conversely, more capital grants were received during the quarter under review, accordingly increasing by 26.8 per cent, though the share from international organisations declined by 21.1 per cent. Property income increased by 16.7 per cent, as a result of, dividends from privately-owned enterprises. Receipts from water royalties increased by 3.6 per cent, while miscellaneous and unidentified revenue, rose by 3.9 per cent. The SACU receipts remained constant.

Figure 20: Total Revenue *(Million Maloti)*



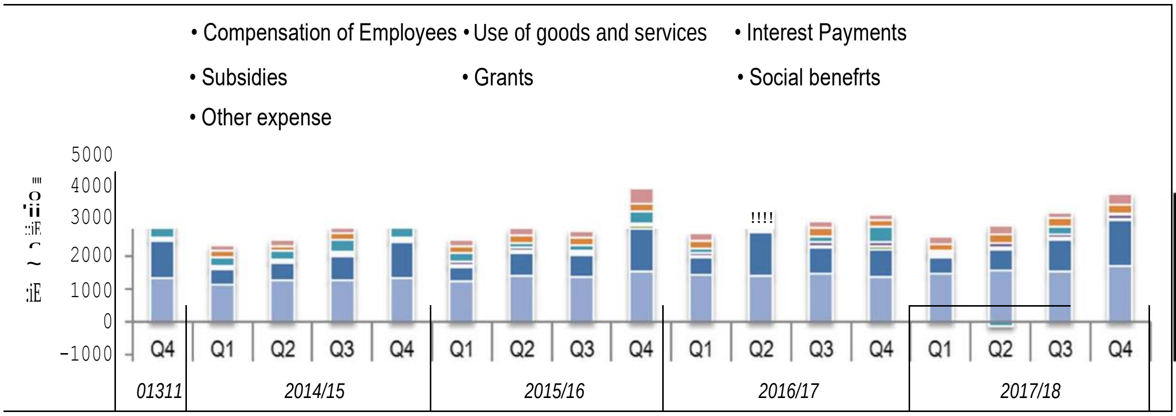
Source: CBL and **MOF**

TOTAL EXPENDITURE

The Government spending (expenses and nonfinancial assets) increased by 15.7 per cent during the last fiscal quarter of 2017/18 compared with 23.5 per cent registered in the previous quarter. Apart from interest payments and grants which showed a decline, other components of total expenditure were on the increase.

The increase, on the one hand, mainly emanated from a rise in Government's pension contributions, wages and salaries, a more than 100 per cent increase in capital transfers to nonfinancial private enterprises, as well as, transfers to foreign missions. Compensation of employees, which included wages and salaries of Local Governments (the lower sphere of Government excluding Municipal) increased by 11.2 per cent. There were also accrued spending on operating costs, which included health goods and services under public-private partnership arrangement. Those accounted for 5.4 percentage share of total expenses. Furthermore, there were accrued spending on nonfinancial assets, which increased by 11.0 per cent as a result of a hike on machinery and equipment. On the other hand, interest payments declined due to Loti appreciation against major currencies.

Figure 21: Total Expense *(Million Maloti)*



Source: CBL and MOF

Table 14: Statement of Operations *(Million Maloti)*

		2016/17				2017/18	O-to-0()	Y-on-Y ()	GOP ratio
		04	01	02	03	04			
	Total Revenue	3,081.64	3,450.46	3,663.15	3,964.17	3,938.09	-0.7	27.8	39.9
11	Tax revenue	1,642.74	1,460.88	1,604.60	1,988.90	1,941.18	-2.4	18.2	19.7
	O/W Income Tax	839.67	775.11	868.01	1,080.43	843.64	-21.9	0.5	8.5
	O/W Value Added Tax	429.77	513.47	540.98	721.72	628.45	-12.9	46.2	6.4
13	Grants	56.66	77.98	70.92	65.49	83.03	26.8	46.5	0.8
14	Other revenue	252.50	373.05	449.08	371.23	375.33	1.1	48.6	3.8
	SACU receipts	1,129.74	1,538.55	1,538.55	1,538.55	1,538.55	0.0	36.2	15.6
2	Total Expense	3,265.51	2,595.74	2,806.22	3,313.79	3,894.82	17.5	19.3	39.5
21	Compensation of Employees	1,346.24	1,453.73	1,559.32	1,520.63	1,691.48	11.2	25.6	17.1
22	Use of goods and services	849.71	506.77	618.59	981.17	1,400.48	42.7	64.8	14.2
	O/W Health Services			291.03	242.57	146.06			
	O/W Elections	268.04	0.00	0.00	229.11	0.00			
24	Interest Payments	80.14	54.63	79.89	61.31	30.03	-51.0	-62.5	0.3
25	Subsidies	140.50	81.38	117.73	94.86	116.32	22.6	-17.2	1.2
26	Grants	481.52	51.06	-128.28	229.88	56.97	-75.2	-88.2	0.6
27	Social benefits	182.08	202.02	292.22	261.72	267.86	2.3	47.1	2.7
28	Other expense	185.31	246.14	266.75	164.20	331.68	102.0	79.0	3.4
	Net Operating Balance	-183.87	854.72	856.93	650.38	43.27			0.4
31	Total Nonfinancial Assets	573.10	259.69	929.06	1,298.83	1,441.82	11.0	151.6	14.6
31	Fixed Assets	573.10	259.69	929.06	1,298.83	1,441.82	11.0	151.6	14.6
314	Non-Produced Assets	0.00	0.00	0.00	0.00	0.00	0.0		0.0
	Net lending (+)/borrowing(-)	-756.97	595.03	-72.13	-648.45	-1,398.55			-14.2
	Financing	1,246.12	87.84	664.72	132.10	688.95			7.0
32	Net Acquisition of Financial assets	1,249.65	110.60	402.93	155.39	-962.15			-9.7
	OIW Domestic Currency and Deposits	1,250.63	110.60	408.51	153.39	-942.48			-9.5
33	Net Incurrence of Liabilities	-3.53	-22.77	261.79	-23.29	1,651.10			16.7
	OIW Domestic Other Accounts Payable					1,409.4[2]			14.3
	Statistical Discrepancy	489.15	682.87	592.59	-516.34	-709.60			-7.2

Blue colour = missing data

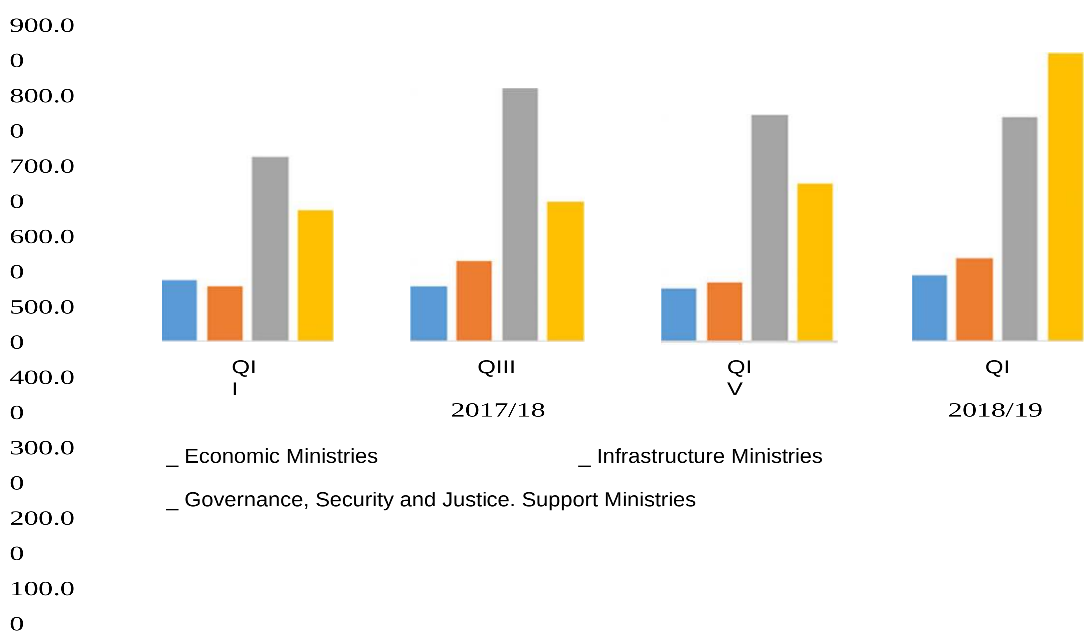
Source: CBL and MOF

[2] Other accounts payable for quarter IV of 2017/2018 are cumulative from the beginning of the year.

MINISTERIAL OUTLAYS BY FUNCTIONS OF GOVERNMENT[3]

The Government outlays by functions (excluding grants) increased by 26.6 per cent during the final quarter to record 45.0 per cent of GDP. This compares with 35.5 per cent realised during the third quarter. The Social and Human Development Ministries that accounted for 41.7 per cent of the total outlays drove this increase. The Economic and Infrastructure Ministries, combined, contributed only 19.0 percentage share of the total outlays. This does not auger well as much of the Government spending was directed towards non-growth creating sectors, with the recurrent component absorbing more than 82.5 per cent out of the total spending.

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



[3] This Ministerial COFOG excludes financing items I.e. loan principal repayments and disbursements. Its classification does not correspond exactly with GFS's COFOG

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

	2017-18				Q-to-O ()	GOP ratio ()
	Q1	Q2	Q3	Q4		
Recurrent Outlays	2,604.81	3,024.90	2,879.41	3,661.49	27.2	37.1
Economic Ministries	171.39	154.14	146.89	183.46	24.9	1.9
Infrastructure Ministries	152.48	222.55	163.07	229.77	40.9	2.3
Social and Human Development Ministries	1,404.02	1,554.58	1,499.70	1,822.69	21.5	18.5
Governance, Security and Justice	512.80	704.37	630.23	623.14	-1.1	6.3
Support Ministries	364.13	389.27	439.52	802.42	82.6	8.1
Capital Outlays	296.60	890.01	628.85	779.28	23.9	7.9
Economic Ministries	20.76	96.61	175.19	285.24	62.8	2.9
Infrastructure Ministries	217.79	682.60	348.63	146.70	-57.92	1.5
Social and Human Development Ministries	0.59	33.98	17.04	71.70	320.8	0.7
Governance, Security and Justice	55.85	49.42	41.12	196.72	378.5	2.0
Support Ministries	1.61	27.39	46.87	78.93	68.4	0.8
Total Outlays	2,901.41	3,914.91	3,508.26	4,440.77	26.6	45.0
Economic Ministries	192.14	250.74	322.08	468.70	45.5	4.7
Infrastructure Ministries	370.27	905.15	511.70	376.47	39.3	3.8
Social and Human Development Ministries	1,404.60	1,588.57	1,516.74	1,894.39	22.2	19.2
Governance, Security and Justice	568.65	753.79	671.34	819.86	25.1	8.3
Support Ministries	365.74	416.66	486.39	881.34	82.6	8.9

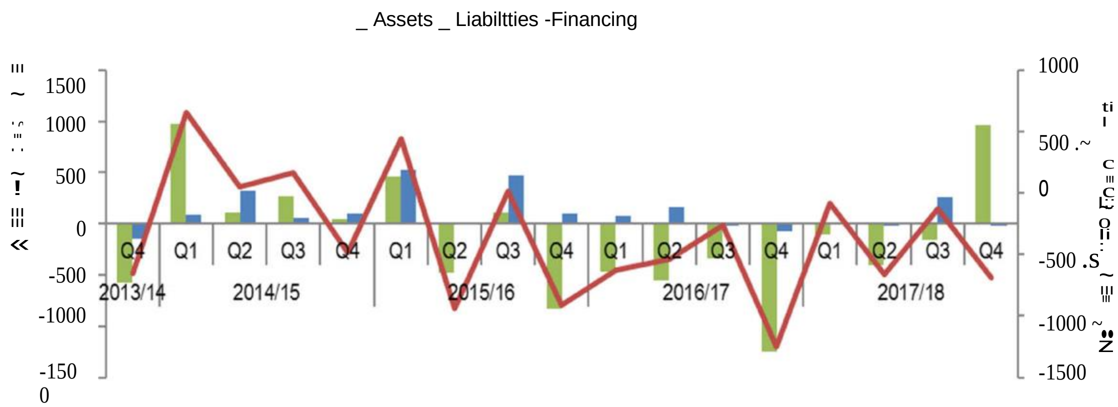
Source: MOF

FINANCIAL ASSETS AND LIABILITIES4

The deficit was financed by accumulation of liabilities to the tune of Ml.65 billion, which was moderated by depletion of financial assets valued at MO.84 billion. The liabilities were determined by domestic outstanding payments to the suppliers (classified as 'domestic other accounts payable') amounting to Ml.41 billion. In terms of foreign liabilities, the loan amortisation exceeded loan disbursements.

4 All categories are on net terms.

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

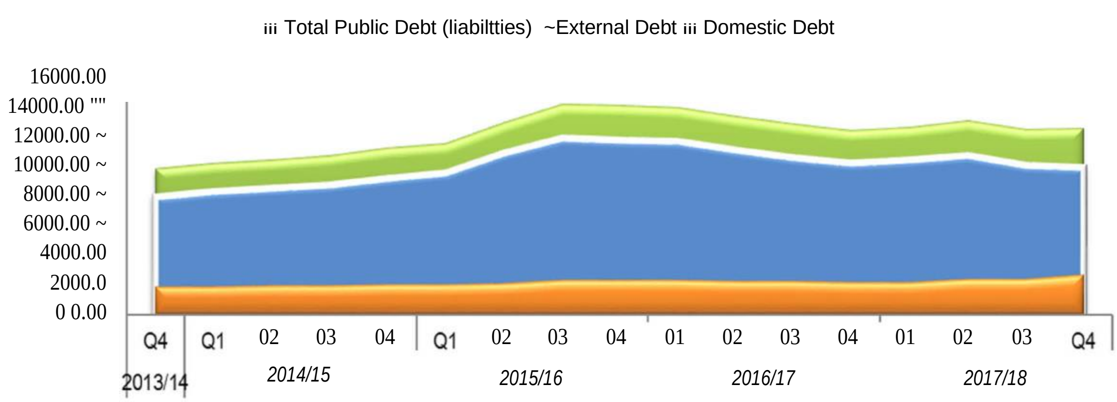


Source: CBL and MOF

TOTAL PUBLIC DEBTS

The total outstanding public debt recorded 31.9 per cent of GDP during the fiscal quarter under review compared with 34.0 per cent registered in quarter ending in December 2017. It, thus, increased marginally by 0.6 per cent to close the quarter at M12.59 billion. The rise was largely explained by the increase in domestic debt, which grew by 11.0 per cent due to the issuance of a 31- day "debenture" and Treasury bonds that were used to finance fiscal operations. The non-bank holding of domestic securities increased by 18.5 per cent compared with 11.0 per cent by the banking system. The foreign public debt stock declined by 1.9 per cent due to Loti appreciation, and a fall on stock of loans from multilaterals and 'suppliers' credit', while that from the bilateral creditors rose by 1.9 per cent.

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



Source: CBL and MOF

[5] All categories are on net terms.

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

	2016/17	2017/18				Debt/GOP () 2017/18	
	04	01	02	03	04	03	04
Total Public Debt	12,387.85	12,627.43	13,105.12	12,516.46	12,591.18	35.32	31.89
EXTERNAL DEBT	10,193.47	10,428.33	10,694.20	10,090.21	9,897.15	28.47	25.07
Bilateral Loans	905.47	906.50	921.16	828.52	844.40	2.34	2.14
Concessional	905.47	906.50	921.16	828.52	844.40	2.34	2.14
Non-concessional	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Multilateral Loans	8,565.96	8,794.57	9,021.23	8,580.86	8,390.03	24.21	21.25
Concessional	6,921.83	7,150.28	7,379.79	6,955.86	6,766.95	19.63	17.14
Non-concessional	1,644.13	1,644.30	1,641.45	1,624.99	1,623.08	4.59	4.11
Financial Institutions	0.60	0.54	0.54	0.54	0.54	0.00	0.00
Concessional	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Non-concessional	0.60	0.54	0.54	0.54	0.54	0.00	0.00
Suppliers' Credit	721.44	726.72	751.28	680.29	662.19	1.92	1.68
DOMESTIC DEBT	2,194.38	2,199.10	2,410.92	2,426.25	2,694.03	6.85	6.82
Banks	1,681.93	1,688.51	1,776.83	1,747.47	1,814.57	4.93	4.60
Long-term	1,309.24	1,316.06	1,367.64	1,269.59	1,248.48	3.58	3.16
Treasury bonds	471.68	472.51	515.28	525.89	526.59	1.48	1.33
Central Bank (IMF-ECF)	837.56	843.55	852.36	743.70	721.89	2.10	1.83
Short-term (t-bills)	372.69	372.46	409.19	477.88	566.10	1.35	1.43
Non-bank	512.45	510.58	634.09	678.78	879.46	1.92	2.23
Short-term (t-bills)	231.24	231.20	247.48	246.82	308.61	0.70	0.78
Long-term (t-bonds)	281.21	279.39	386.61	431.96	570.85	1.22	1.45

Source: CBL and MOF

VI. Foreign Trade and Payments

OVERVIEW

The external sector position improved in the first quarter of 2018, which reflected net lending to the rest of the world. The overall balance of payments recorded a net lending of 3.9 per cent of GDP, in contrast to a net borrowing equivalent to 9.3 per cent of GDP in the previous quarter. The improved balance was attributable to the current account surplus together with the improved balance on the financial account. The current account balance was underpinned by the goods account and the secondary income account. The financial account balance improved on account of higher foreign assets held by commercial banks during the quarter under review.

CURRENT ACCOUNT

The current account balance shifted to a surplus equivalent to 1.1 per cent of GD P in the first quarter of 2018 from a deficit equivalent to 6.2 per cent in the quarter ending in December 2017. The goods account, together with the secondary income account contributed positively to the current account balance. The goods account deficit contracted by 16.1 per cent from a deficit expansion of 16.8 per cent in the previous quarter. The increase in merchandise exports, together with the slight fall in merchandise imports, led to the improved performance observed in the current account. This was further heightened by the secondary income account, which continued to grow during the quarter ending in March 2018, with an expansion of 13.3 per cent. This compares with a slight increase of 1.5 per cent recorded in the previous quarter. Nevertheless, the services account deficit expanded by 4.5 per cent during the same quarter relative to a 2.7 per cent deficit expansion in the previous quarter and therefore partly moderated the current account surplus. The current account balance was further affected by the primary income account, which declined by 0.6 per cent in the review quarter following a 15.6 per cent increase in the previous quarter.

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

	2017				2018	Changes	
	Q1	Q2	Q3	Q4*	Q1+	*Q/Q*	YN
Current Account	-731.37	-602.07	-324.04	-552.52	109.25	119.8	114.9
(a) Goods	-2636.86	-2861.63	-2375.50	-2774.27	-2329.05	-16.0	-11.7
Merchandise exports, f.o.b.	2953.31	3335.20	3813.34	3599.71	3959.66	10.0	34.1
Of which diamonds	870.27	1176.54	1199.54	1431.08	1640.73	14.6	88.5
Of which textiles & clothing	1462.67	1469.87	1875.43	1483.59	1644.45	10.8	12.4
Of which re-exports	14.15	13.41	50.87	59.48	51.33	-13.7	262.8
Other exports	606.22	675.38	687.50	625.56	623.15	-0.4	2.8
Merchandise imports, f.o.b.	5590.17	6196.83	6188.84	6373.98	6288.71	-1.3	12.5
(b) Services	-1009.55	-1006.12	-1017.02	-1044.83	-1091.57	4.5	8.1
(c) Primary Income	1066.51	1214.66	1069.22	1236.51	1229.06	-0.6	15.2
(d) Secondary Income	1848.54	2051.02	1999.26	2030.08	2300.81	13.3	24.5

+ Preliminary

* Revised

Source: Central Bank of Lesotho

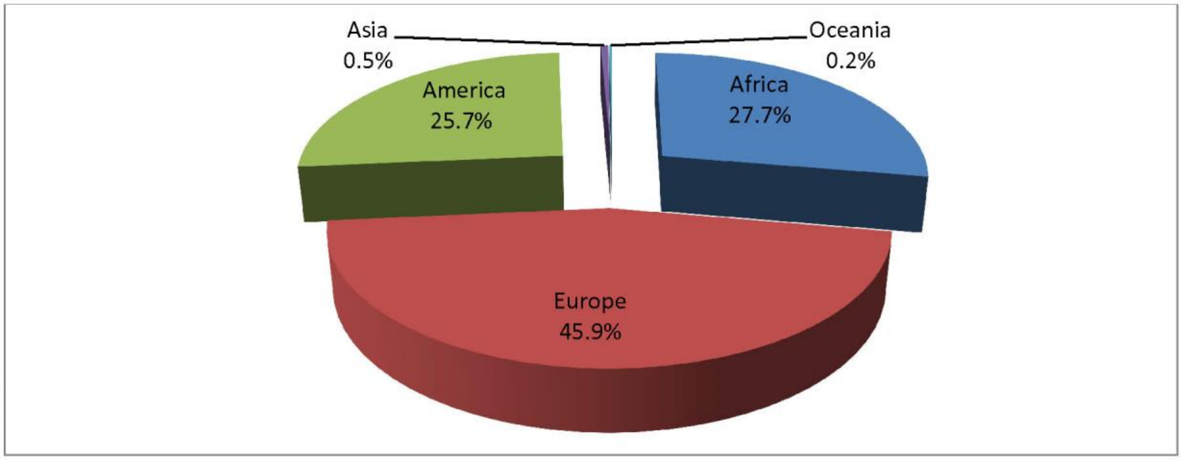
Merchandise Exports

During the first quarter of 2018, merchandise exports rose by 10.0 per cent after declining by 5.6 per cent in the previous quarter. The improved performance in merchandise exports was mainly influenced by higher exports of diamonds and clothing and textiles. Diamond exports increased by a 14.6 per cent compared with a rise of 19.3 per cent the quarter ending in December 2017.The growth was on account of high valued carats discovered at one of the diamond mines during the quarter under review. Textiles and clothing exports rose by 10.8 per cent during the quarter under review following a fall of 20.9 per cent in the previous quarter, due to higher orders from the US. On an annual basis, merchandise exports rose by 34.1 per cent compared to 15.9 per cent increase in the previous quarter. As a share of GDP, merchandise exports amounted to 40.1 per cent in the first quarter of 2018 compared to 43.0 per cent in the fourth quarter of 2017.

Direction of Trade - Exports

The European market continued to be the major recipient of Lesotho's exports for the second consecutive quarter, during the quarter ending in March 2018. Exports to the European market accounted for 45.9 per cent of all exports during the first quarter of 2018, compared to 48.0 per cent in the previous quarter. The growth in diamond exports as a result of higher sales from one of the diamond mines explained share of exports to the European market. Just as in the previous quarter, the sub-Saharan African market became the second largest recipient of Lesotho's exports. Exports to this region constituted 27.7 per cent of total exports, compared to 28.0 per cent in the previous quarter. Exports to the SACU region, particularly exports to South Africa accounted for the largest share of exports to the African market. The American market remained the third largest recipient of Lesotho's exports and constituted 25.7 per cent of total exports compared to 28.8 per cent previously. These were supported by clothing and textile exports to the US. Asia and Oceania continued to constitute the minimum shares of 0.5 per cent and 0.2 respectively, following shares of 0.1 per cent and 0.2 per cent respectively, in the previous quarter.

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



Source: Central Bank of Lesotho

Merchandise Imports

The value of merchandise imports declined by 1.3 per cent in the first quarter of 2018 contrary to a 3.0 per cent rise in the previous quarter. The fall in the value of merchandise imports mirrored the decline in goods imported from South Africa, which accounted for the largest share of imports into Lesotho. Specifically, imports dropped for prepared food stuffs, chemicals, precious metals and toys and sport apparel. Year on year, the value of merchandise imports rose by 12.5 per cent in the same quarter relative to a rise of 12.7 per cent in the quarter ending in December 2017. As a share of GDP, merchandise imports constituted 63.7 per cent compared with 71.9 per cent in the previous quarter.

Services

Lesotho's imports of services continued to outperform exports of services during the quarter under review. The services account deficit worsened by 4.5 per cent in the quarter ending in March 2018 compared to a deterioration of 2.3 per cent in the previous quarter. The services account balance worsened as a result of a reduction of receipts from the tourism sector. Specifically, receipts for hotel accommodation and food dropped during the quarter under review. On an annual basis, the deficit on the services account expanded by 8.1 per cent in the first quarter of 2018 compared to a deficit expansion of 5.7 per cent in the previous quarter. As a percentage of GDP, the net services constituted 11.1 per cent, having constituted 12.2 per cent of GDP in the previous quarter.

Primary Income

During the first quarter of 2018, the primary income account surplus contracted by 0.6 per cent after an expansion of 15.5 per cent in the previous quarter. The observed performance of the primary income account was attributable to a reduction in interest receipts for the portfolio investments abroad. However, interest payments on government's foreign loans declined during the quarter under review and partly offset the fall in the primary income account balance. Moreover, LHDA receipts for maintenance and operational costs of dams rose and further supported the primary income account during the review quarter. On an annual basis, the surplus on the primary income account widened by 15.2 per cent compared with an expansion of 11.8 per cent in the previous quarter. Relative to GDP, the primary income account surplus constituted 12.5 per cent in the first quarter of 2018, after constituting 14.0 per cent of GDP in the previous quarter.

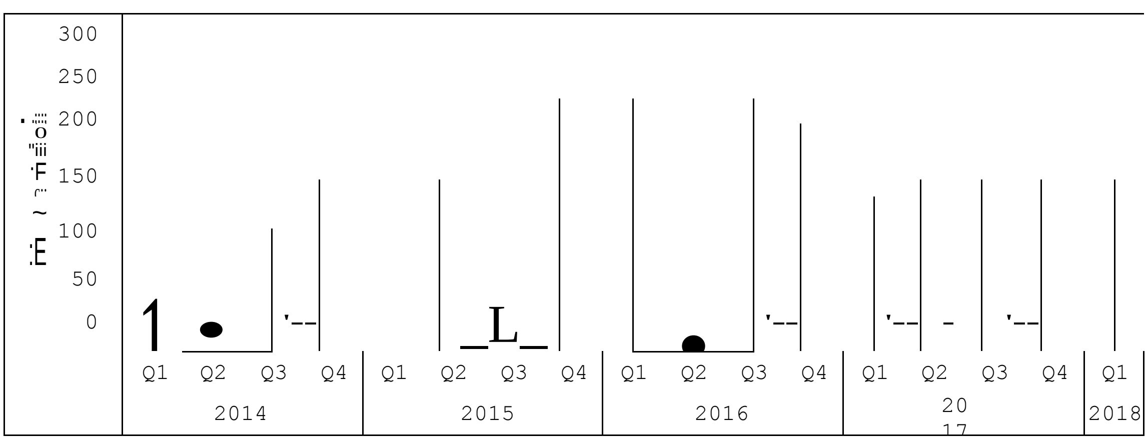
Secondary Income

The secondary income account continued the strong performance in the quarter under review. The secondary income account surplus grew by 13.3 per cent in the quarter ending in March 2018 following a 1.5 per cent increase in the quarter ending in December 2017. The largest share of the surplus was explained by the Rand monetary compensation, which is paid to Lesotho annually for using the Rand as legal tender. SACU receipts, which account for the largest share of current transfers, remained unchanged from the previous quarter. Year on year, the secondary income account surplus rose by 24.5 per cent following an increase of 26.3 per cent in the previous quarter. As a percentage of GDP, the secondary income account balance constituted 23.3 per cent of GDP compared with 22.9 per cent of GDP in the quarter ending in December 2017.

CAPITAL ACCOUNT

The capital account net inflows rose by 12.0 per cent from M145.97 million in the fourth quarter of 2017 to R163.51 million in the quarter under review. Grants to the Government of Lesotho to support capital projects continued to underpin the capital account performance. LHDA transfers for construction activities at the Polihali dam also supported the inflows in the capital account. Relative to GDP, the inflows on the capital account recorded 1.7 per cent, just as in the previous quarter.

Figure 26: Capital Account *(Million Maloti)*

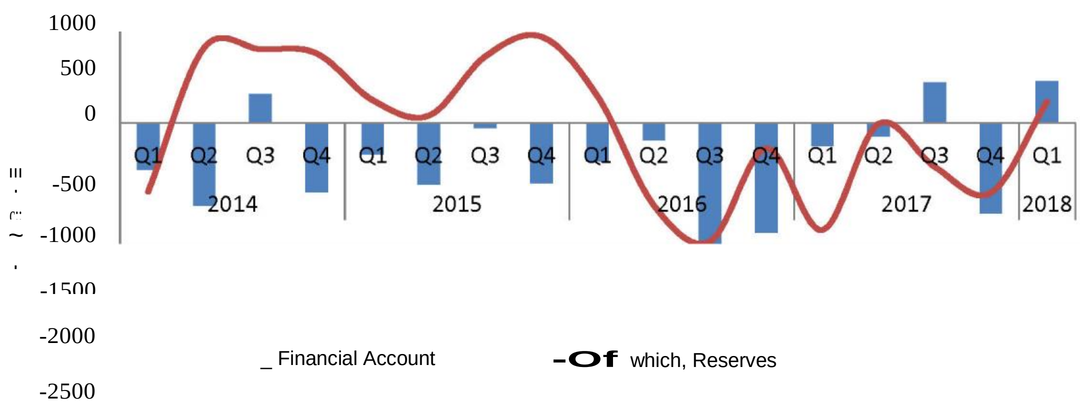


Source: Central Bank of Lesotho

FINANCIAL ACCOUNT

The financial account registered a net outflow amounting to M382.69million in the first quarter of 2018 from a revised net inflow M823.51million in the preceding quarter. Relative to GDP, the net outflow on the financial account was equivalent to 3.9 per cent following a net inflow amounting to 9.3 per cent of GDP. The improved balance on the financial account reflected higher foreign assets held by commercial banks together with an increase in reserve assets during the quarter under review. Foreign assets held by commercial banks were equivalent to 3.5 per cent of GDP compared with 1.7 per cent of GDP in the previous quarter. Reserve assets rose due to a trickling build-up of government deposits held with the Central Bank.

Figure 27: Financial Account *(Million Maloti)*

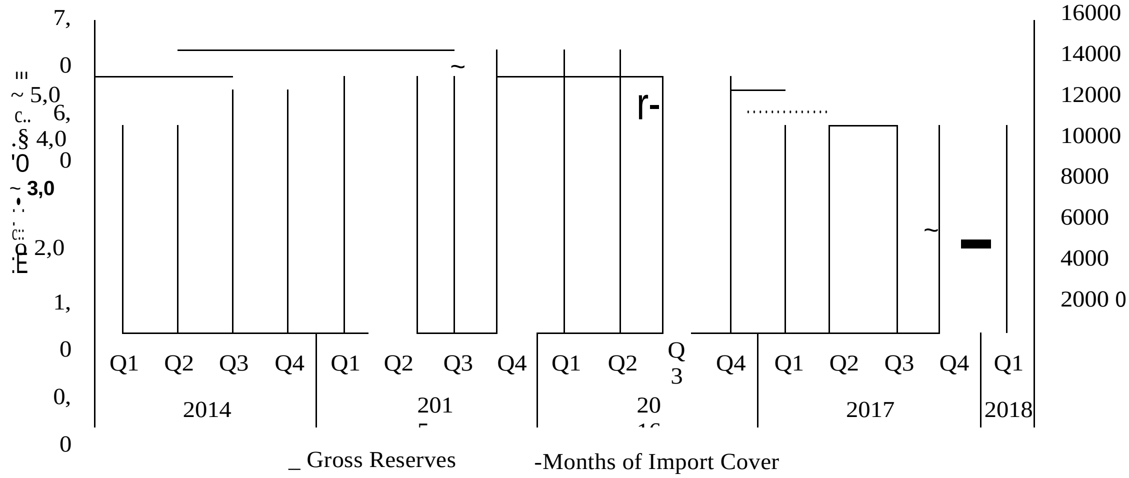


Source: Central Bank of Lesotho

RESERVE ASSETS

During the first quarter of 2018, the stock of international reserves increased by 2.0 per cent following a drop of 6.0 per cent in the quarter ending in December 2017. The increase in gross international reserves was on account of higher government deposits held with the Central Bank during the quarter ending in March 2018. Expressed in months of import cover, gross reserves registered 4.1 months during the review quarter, higher than 3.9 months registered in the preceding quarter.

Figure 28: Reserve Assets



Source: Central Bank of Lesotho