

Central Bank Of Lesotho



QUARTERLY ECONOMIC REVIEW

MASERU
KINGDOM OF LESOTHO

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I. Executive Summary

There was a general improvement in global economic performance during the first quarter of 2019, as evidenced by higher growth in major advanced economies. The United States (US), the United Kingdom (UK) and Japan economies grew at the rate faster than that recorded in the previous quarter. The GDP growth was also resilient in the Euro Area. However, growth in the emerging market economies moderated the outlook. India and South Africa recorded slowdown in their respective industrial output, while growth in China remained resilient. The employment situation improved in a number of countries, with unemployment levels falling further during the quarter, save for South Africa.

Inflation remained below target in most countries - both advanced economies and emerging market economies. This allowed economies to continue with accommodative monetary policies, even though most advanced countries were operating close to potential growth. The financial conditions remained accommodative during the first quarter of 2019, supported by low interest rates and rising stock prices, which resulted in increased capital flows in the direction of emerging and developing economies. Accordingly, most currencies in the emerging economies, appreciated against the major currencies.

Domestic economic performance remained positive in the first quarter of 2019, mainly because of relatively strong domestic demand. However, the labour market performance was sluggish, with all the segments of employment: government, manufacturing and migrant mineworkers, all registering negative growth. With regard to price developments, inflationary pressures worsened in March 2019, mainly because of increased food prices.

Money supply declined during the quarter under review on account of a fall in Net Foreign Assets (NFA) while Domestic Claims increased. The drop in overall banking system NFA was a result of a fall in commercial banks deposits abroad, which was curbed by an increase in Central Bank's NFA. Private sector credit improved marginally as business enterprises accelerated loan repayments, while credit extended to households rose at slower pace compared to the previous quarter.

The Government budgetary operations registered a fiscal deficit equivalent to 7.2 per cent of GDP during the quarter ending in March 2019 (which is the last fiscal quarter of FY2018/19). The public debt stock grew by 4.1 per cent to reach 40.9 per cent of GDP. This increase was mainly attributable to Treasury Bills (T-Bills) and Treasury Bonds (T-Bonds) issued to finance fiscal operations.

The external sector position continued to improve during the first quarter of 2019, driven largely by the improvement in the current account balance as a result of surpluses realised in both the primary and secondary income accounts. Therefore, international reserves grew by 1.5 per cent, thereby registering 4.5 months of import cover, compared to 4.2 months observed in December 2018

International Economic Developments

Growth in the global economy displayed mixed signals during the first quarter of 2019, however, major advanced economies registered growth higher than expected. The US, the UK and Japan economies, on the one hand, rose at the pace faster than initially anticipated during the quarter under review. The GDP growth was also resilient in the Euro Area. The emerging market economies, on the other hand, experienced sluggish growth. Industrial output in India and South Africa was estimated to have experienced a slowdown, while China's growth remained sturdy. However, China's GDP growth was expected to slow down due to the ongoing trade dispute with the US. The employment conditions improved in a number of countries, with the unemployment rate falling further during the quarter.

Inflation developments were mixed, but inflation rates remained below target in most countries. The low inflation rates allowed economies to continue with accommodative monetary policies, although most advanced countries were operating close to desired growth. The environment of low interest rate in the advanced economies led to increased capital flows in the direction of emerging and developing economies. As a result, most currencies in the emerging economies appreciated. The rand, hence, the loti appreciated against the US dollar, the pound and the euro during the quarter.

Table 1: Key World Economic Indicators (annual data)

	Real Growth	GDP	Inflation Rate		Key Interest Rate		Unemployment Rate	
	Dec-18	March-19	Dec-18	March-19	Dec-18	March-19	Dec-19	Dec-18
United States	3.0*	3.2	1.9	1.9	2.50	2.50	3.9	3.8
Euro Area	1.2	1.2	1.6	1.4	0.00	0.00	7.9	7.8
Japan	0.2*	0.8	0.3	0.5	-0.10	-0.10	2.5	2.3
United Kingdom	1.7*	1.8	2.1	1.9	0.75	0.75	4.0	3.9
China	6.4	6.4	1.9	2.3	4.35	4.35	3.8	3.8
India	6.6	N/A	2.2	2.9	6.50	6.25	N/A	N/A
South Africa	1.1	0.0	4.5	4.5	6.75	6.75	27.1	27.6

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

ADVANCED ECONOMIES

United States (US)

The US economy grew by 3.2 per cent in the first quarter of 2019, following 3.0 per cent in the previous quarter. This performance was supported by increased activity in inventory investment and exports. Consumer spending was robust, but weakened slightly during the quarter, due to the partial US government shutdown that took place from December 2018 to January 2019. The recent government fiscal stimulus, in the form of tax cuts, did not yield the desired result of spurring investment spending significantly, but led to share buybacks by corporations. Unemployment rate fell marginally to 3.8 per cent in the first quarter of 2019, from 3.9 per cent in the fourth quarter of 2018. This was mainly driven by private sector employment in the services sector.

The annual inflation rate was 1.9 per cent in the first quarter of 2019, unchanged from the figure registered in the quarter ending in December 2018. The increases in food prices were offset by moderation in the prices of transport and a fall in the energy prices. The Fed kept the key policy rate unchanged at 2.25 - 2.50 per cent range in the quarter ending in March 2019, signalling no further adjustment to the rate in 2019.

Euro Area

The Euro Area realised 1.2 per cent increase in real GDP, during first quarter of 2019, which was the same as the revised figure for the fourth quarter of 2018. The growth was mainly driven by strengthening consumption spending, supported by rising wages, while the external sector continued to contribute negligibly to growth. The unemployment rate fell from 7.8 per cent in the last quarter of 2018, to 7.7 per cent in the review quarter, with more pronounced among youth. The services sector continued to dominate in employment creation.

The inflation rose by 1.4 per cent during the quarter ending in March 2019, which represented a slowdown from the 1.6 per cent in the preceding quarter. The slowdown in inflation was largely driven by deceleration in the prices of food and non-energy industrial goods, which offset an increase in the energy prices. In response, the European Central Bank kept the key rate at zero per cent during the quarter under review, and also decided to continue with reinvestment of cash from maturing bond over extended period, to maintain adequate liquidity in the economy. This decision was taken to support growth and achieve inflation target of 2.0 per cent. The Bank signalled a rate hike at the end of 2019.

Japan

The real GDP increased by 0.8 per cent in the first quarter of 2019, from 0.2 per cent in the fourth quarter of 2018. Growth was driven by increase in government spending and rising inventories, as well as, net exports. Upturn in government spending reflected spending on disaster-related public projects, while a positive trade balance benefited from a faster decline in

imports than in exports. Unemployment rate increased slightly to 2.5 per cent during quarter ending in March 2019, from 2.4 per cent in the previous quarter.

Inflation rate accelerated from 0.3 per cent in the fourth quarter of 2018 to 0.5 per cent in the quarter starting 2019. The Bank of Japan kept the key policy interest rate unchanged at -0.1 per cent, in the first quarter of 2019. It also maintained asset purchase programme at unchanged volumes. The asset purchase in the form of government and corporate bonds was done to drive long term interest rate close to zero. While the Bank strived to push inflation to the target of 2.0 per cent, it was also supporting growth. It assessed that the exports and output weakened, hence a prolonged accommodative monetary policy.

United Kingdom (UK)

The real GDP increased by 1.8 per cent in the first quarter of 2019, compared with 1.7 per cent in the preceding quarter. The observed growth in the GDP was driven by a faster increase in the consumer and government spending. The rebound in the fixed capital formation also contributed to this acceleration. However, a decline in the business investment and net exports had a negative effect on growth. The unemployment rate in the UK fell to 3.8 per cent in March 2019, from 4.0 per cent in the previous quarter, as more jobs were created in the services sector. The wages, however, increased at the weaker pace.

The inflationary pressures continued to fall in the first quarter of 2019, as inflation rate declined from 2.1 per cent in the previous quarter to 1.9 per cent. The decline was driven by slowdown in the prices of food, and a drop in the cost of clothing and footwear. The Bank of England kept the key policy rate unchanged at 0.75 per cent in the first quarter of 2019, relative to the previous quarter. The Bank conducts monetary policy to achieve price stability at the inflation rate of 2.0 per cent. However, the uncertainty over Brexit deal and its timing continued to shape economic outlook.

EMERGING MARKET ECONOMIES

China

The economic performance maintained 6.4 per cent recorded in the previous quarter. The observed growth was due to successful implementation of pro-growth policies to support domestic demand amid uncertain external environment. Growth was mainly driven by consumer and investment spending, plus industrial production, while exports rose at the weaker pace. The unemployment rate fell to 3.7 per cent in the first quarter of 2019, from 3.8 per cent in the last quarter of 2018.

The annual inflation rate increased to 2.3 per cent in the first quarter of 2019, higher than 1.9 per cent in the last quarter of 2018. The increase in the inflation rate was due to the increase in

the food prices, mainly driven by pork due to the outbreak of swine fever in most parts of Africa which negatively affected supply. The people's Bank of China kept the key policy rate unchanged at 4.35 per cent during the period under review, but cut the required reserves to inject liquidity in the economy. This was made to counter the negative effects of tariffs from the US and to stimulate growth.

India

There were indications of mixed performance in the economic activity in India during the first quarter of 2019. There was slowdown in the industrial production driven by weaker performance of the mining sector, coupled with contracted manufacturing production. Nevertheless, the exports rose faster during the quarter under review.

The annual inflation for India increased to 2.9 per cent in the first quarter of 2019, from 2.1 per cent in the preceding quarter. The rising inflation was driven by a surge in the food prices, while prices of other non-food goods experienced a slowdown. The Bank of India cut the repo rate by 25 basis points to 6.25 per cent, from 6.50 per cent in the previous quarter to support economic activity. The room to cut the rate was created by the fact that inflation remained below the official target of 4 per cent set by the Bank, while inflation outlook also improved.

South Africa

Performance of the South Africa's economy deteriorated in the first quarter of 2019. Real annual GDP growth was recorded at zero per cent. This was a slowdown from a 1.1 per cent growth in the preceding quarter. Growth was negatively affected by a contraction the agricultural output, construction, utilities and trade, which offset the effect of higher output in the manufacturing, transport and services sectors. On the quarter on quarter basis, the real GDP contracted by 3.2 per cent. Unstable power supply, due to regular power cuts, disrupted activity in the manufacturing and others sectors including mining. Agricultural output was adversely affected by drought spells. The unemployment situation worsened in the first quarter of 2019, with unemployment rate rising to 27.6 per cent from 27.1 per cent in the previous quarter. The increase was driven by job losses, in particular, temporary jobs which were associated with the festive season.

The annual inflation rate was unchanged at 4.5 per cent during the quarter under review, relative to the fourth quarter of 2018. The increase in the consumer prices was mainly driven by increase in the food and fuel prices. However, there was a slowdown in the costs of housing and utilities, with the balancing effect on inflation. The monetary policy decisions in South Africa were complicated by slowing economic activity and worsening inflation outlook, while inflation pressures subsided. The repo rate was maintained at 6.75 per cent during the first quarter of 2019.

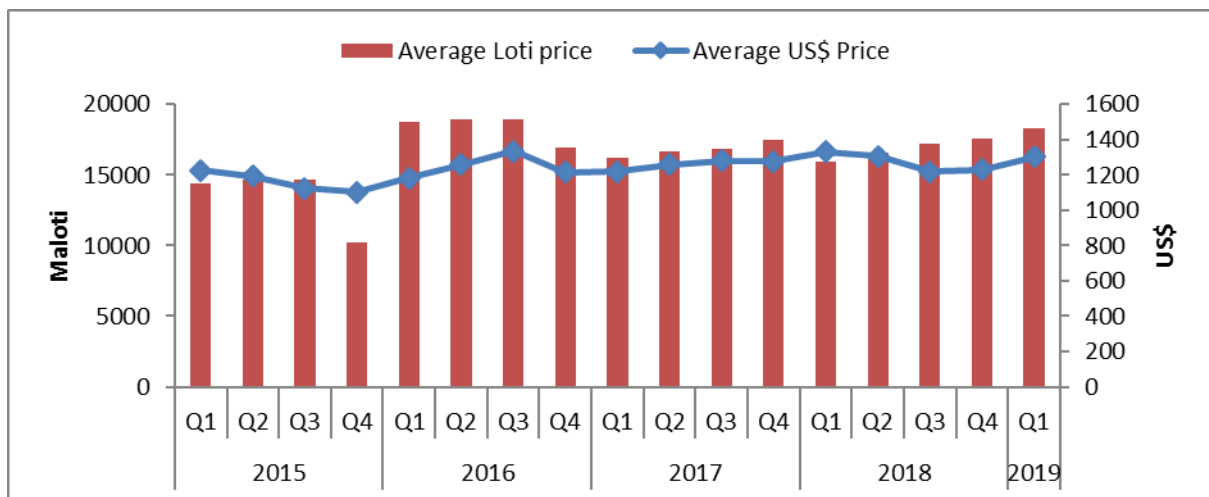
COMMODITIES

Minerals

Gold

The price of gold increased by 6.07 per cent to US\$ 1303.68 in the first quarter of 2019, extending a 0.76 per cent increase recorded in the preceding quarter. A number of factors influenced the increase. Firstly, the heightened volatility in the global financial markets, stirred by among others, the government shut down in the US which ended in January 2019. Secondly, uncertainty surrounding trade negotiations between the US and China, and thirdly, the developments around Brexit deal, which drove investors to buying safe haven assets, and of those, mostly gold.

Figure 1: Average Price of Gold

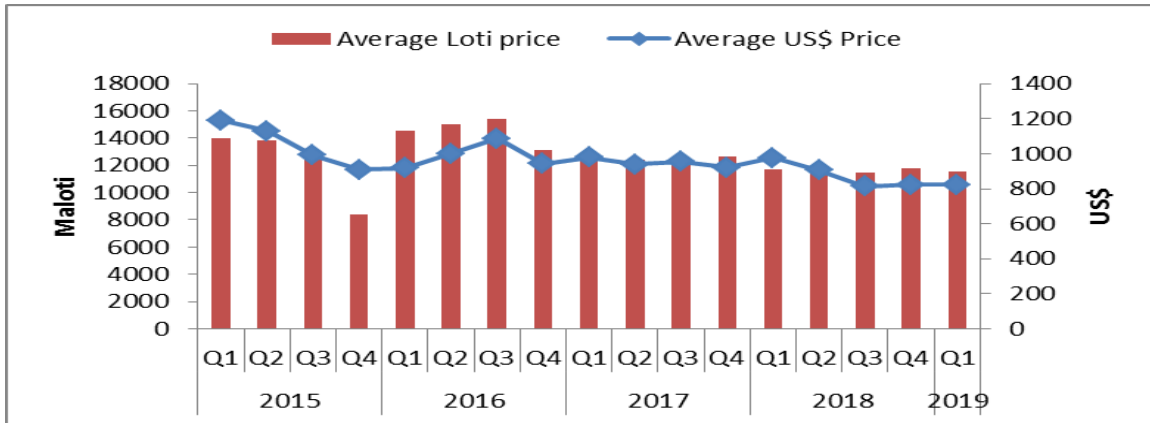


Source: Bloomberg

Platinum

The price of platinum declined slightly from US\$824.00 in the last quarter of 2018 to US\$823.00 in the review quarter. This was driven by a weak outlook in the global automotive markets. The largest share of global demand for platinum was from auto catalysts manufacturing, to reduce harmful emissions from diesel engines. There was also a slowdown in the demand for the jewellery, hence weighing on the demand for the commodity. This was the case while the global platinum markets were oversupplied, but the increase for investment demand moderated the decline.

Figure 2: Average Price of Platinum



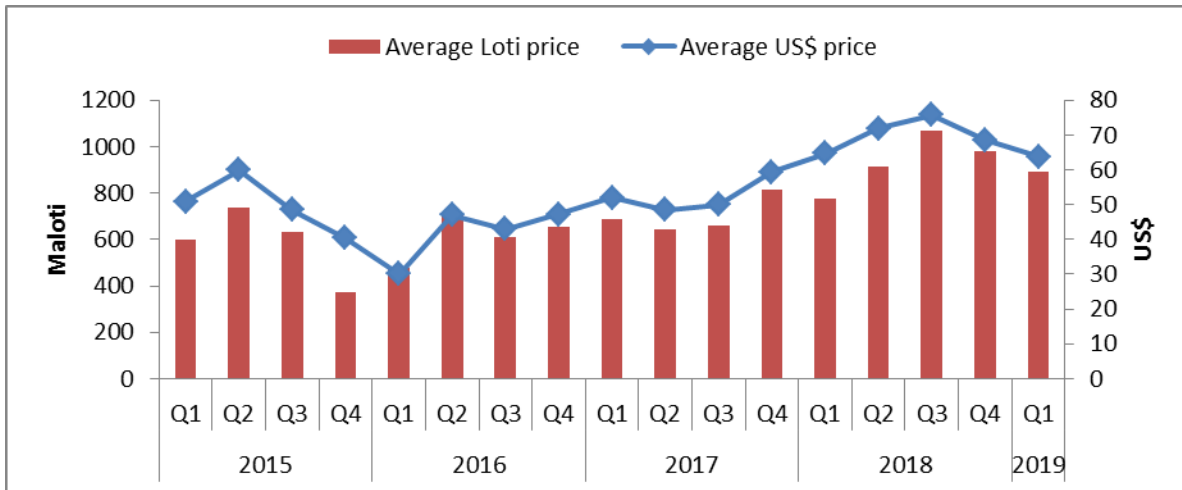
Source: Bloomberg

Energy

Oil

The price of crude oil declined further during the review quarter, from US\$69.00 to US\$64.00, relative to the fourth quarter of 2018. There were generally two major factors which were driving oil dynamics during the quarter. The first one was in connection with the slowing global growth, which was expected to weigh on the demand for oil. The second issue was influenced by increased supply of oil in the US, undermining output cuts from OPEC and ally countries. However, oil did get support from output disruptions in Venezuela and re-imposition of sanctions by US on Iran, which was speculated to tighten supply in the global markets.

Figure 3: Average Price of Oil



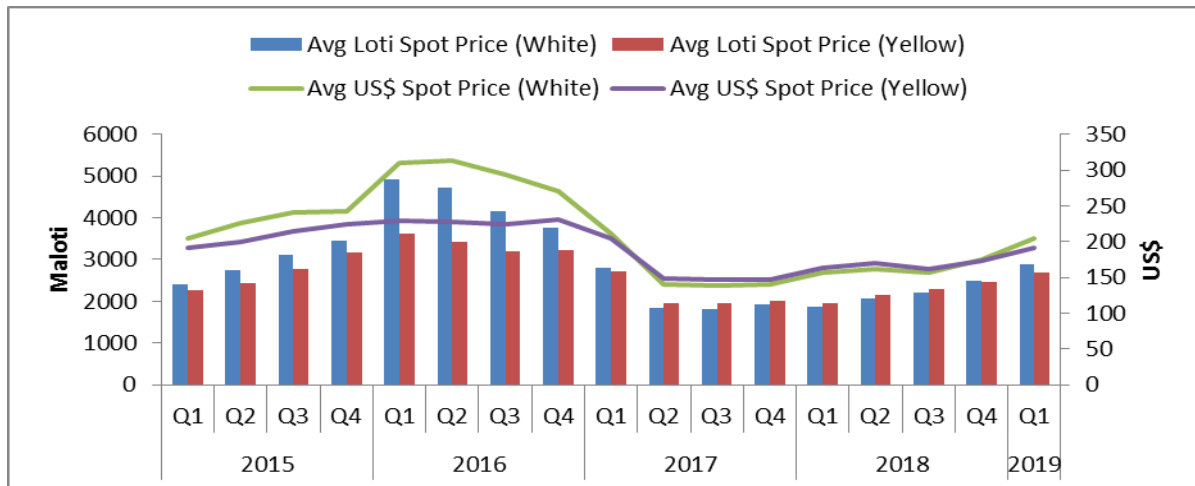
Source: Bloomberg

Agricultural Products

Maize

The price of maize increased significantly by 17.14 per cent to US\$ 205.46 for white maize, and 10.62 per cent to US\$ 190.92 for yellow maize during the quarter under review. The increase in the price of maize reflected a higher demand for the commodity relative to available supply. Maize is used for industrial and feeding purposes, but most importantly as the staple food in the sub-Saharan region. The area harvested of maize declined relative to area planted. While the production rose in China, Argentina and Ukraine, it was offset by a decline in Mexico and South Africa.

Figure 4: Average Price of Maize

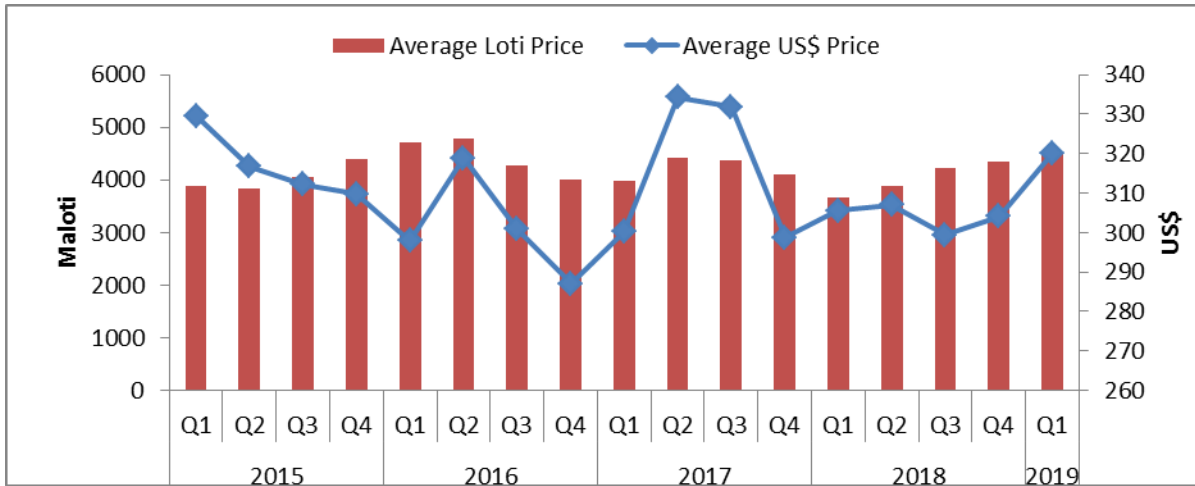


Source: Bloomberg

Wheat

The price of wheat increased at a relatively higher rate of 5.28 per cent to US\$ 320.10, compared to 1.57 per cent increase in the previous quarter. The increase in the price of wheat reflected excess demand in the global markets, driven mainly by China. China acquired more wheat to meet its feed and residual use. This was also due to the lower global output, which was largely driven by contraction in the output in China and Argentina, which partly offset the increase in Russia, Brazil and Paraguay. Exports in Paraguay were boosted by exports subsidies.

Figure 5: Average Price of Wheat

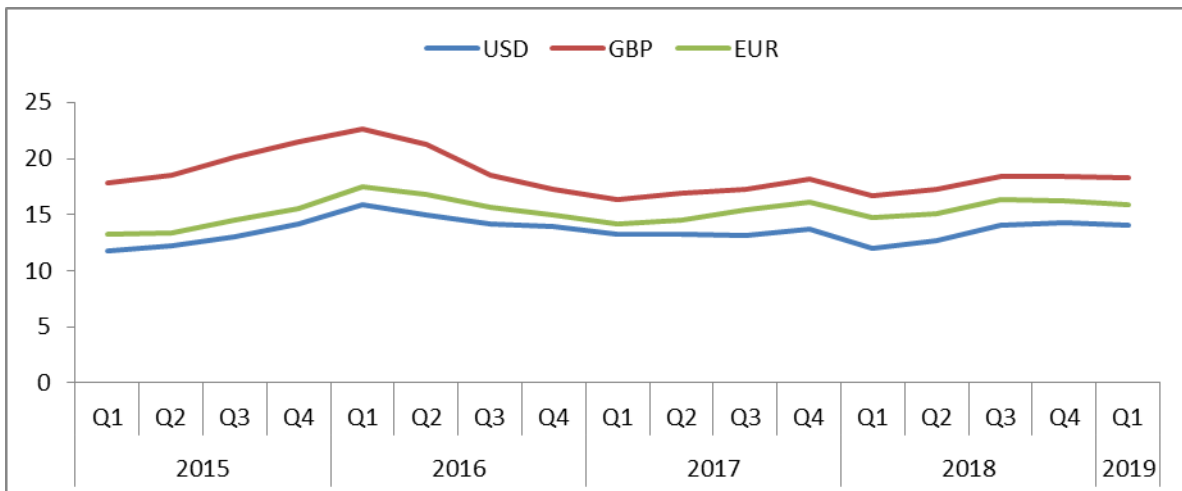


Source: Bloomberg

EXCHANGE RATES

The rand, hence the loti appreciated against the US dollar, British pound and the euro, by 1.73 per cent, 0.52 per cent and 2.27 per cent, respectively. The rand benefitted, along with other emerging economies currencies, from increased flows of funds in their direction. The seemingly capital flight from advanced countries was driven by speculation of a prolonged situation of low interest rates. As a result, investors seeking high yield moved their funds in these countries, and consequently increased holdings of South African bonds and equities, during the quarter. The movement was supported by improving confidence on the emerging countries assets. Other developments including muted inflation pressures especially at the start of the year, postponement of sovereign credit review of the country, and positive economic data, led to the increased value of the unit.

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



Source: Bloomberg

II. Real Sector Developments

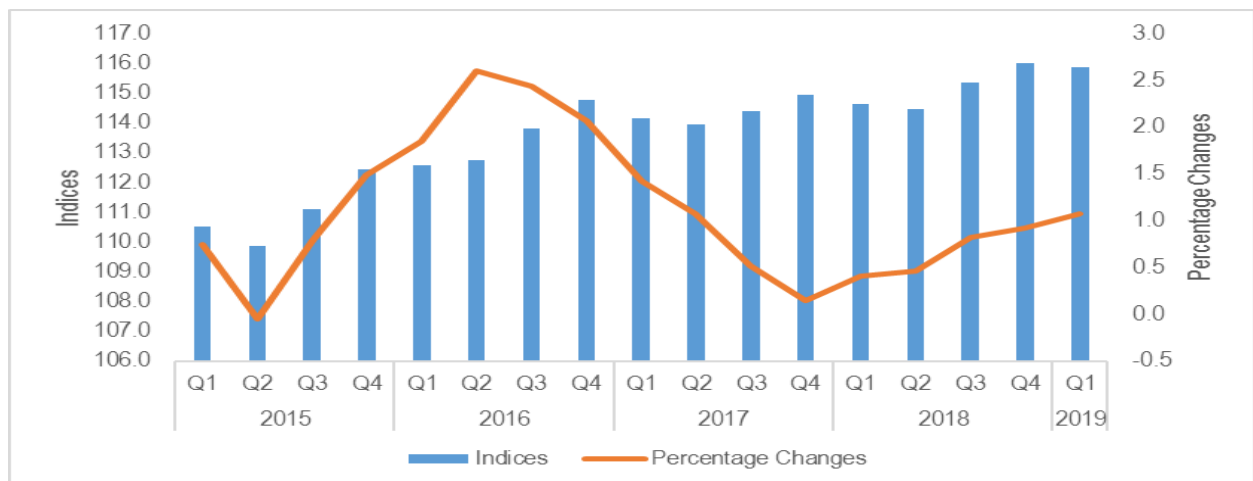
OVERVIEW

Domestic economic performance remained positive in the first quarter of 2019, mainly because of relatively strong domestic demand during the period under review. The labour market performance remained sluggish, with all the segments of employment: government, manufacturing and migrant mineworkers, all registering negative growth. With regard to price developments, inflationary pressures tightened up in March 2019, mainly because of increased food prices.

OUTPUT DEVELOPMENTS

The economic performance, as measured by the quarterly indicator of economic activity (QIEA), registered a growth of 1.1 per cent in the first quarter of 2019, following 0.9 per cent growth realised in the preceding quarter. Increased domestic demand supported growth while production side of the economy remained under pressure.

Figure 7: Quarterly Indicator of Economic Activity



Source: Central Bank of Lesotho

The production side of the economy is estimated to have recorded a contraction of 1.2 per cent in the quarter under review, in contrast to a marginal increase of 0.4 per cent observed in the quarter ending in December 2018. This was indicative of a suppressed production activity in the economy. The contraction was mainly a result of a decline in the use of utilities (electricity and water) used for industrial purposes. However, other components of the index showed a positive contribution.

The demand side of the economy grew by 2.7 per cent in the quarter under review. Four component variables namely: government consumption, imports of goods and services,

personal income tax and the VAT collections contributed positively to the overall demand side growth indicating increased demand for goods and services in the economy.

EMPLOYMENT DEVELOPMENTS

Employment in the LNDC-assisted companies, on an annual basis, fell by 1.0 per cent, compared with a growth of 2.2 per cent in the preceding quarter. The main contributing factor to the decline was a reduction in employment of both temporary and short-time workers mainly in the fabric and yarns, knit and woven garments categories. The food and beverages, and electronics categories contributed to the decline and this is in line with the suppressed domestic production during the review period.

Table 2: Employment by LNDC-Assisted Companies

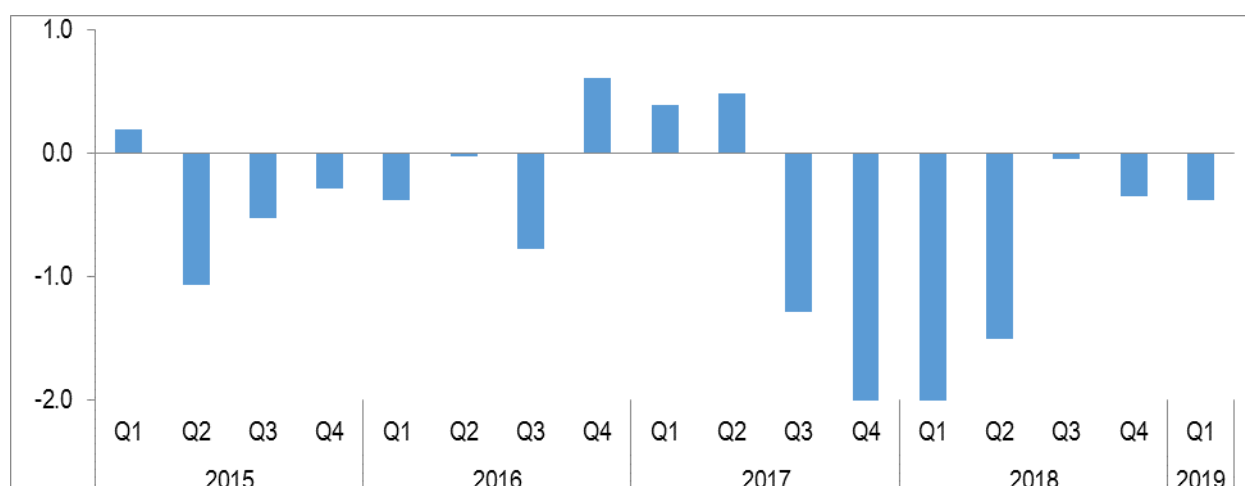
Industry	2018				2019			% Change	
	2019		2018		2019		2018		
	Q1	Q2	Q3	Q4	Q1	Q/Q	Y/Y		
Knit Garments.....	27723	26858	27436	26771	27559	2.9	-0.6		
Woven Garments.....	15924	16800	17515	17166	15812	-7.9	-0.7		
Footwear.....	1005	1010	998	1010	1023	1.3	1.8		
Fabrics, Yarn etc.....	2052	1840	1835	1839	1782	-3.1	-13.2		
Construction.....	363	344	345	344	385	11.9	6.1		
Food & Beverages.....	781	708	724	708	705	-0.4	-9.7		
Electronics.....	943	920	942	974	928	-4.7	-1.6		
Retail.....	159	168	170	168	168	0.0	5.7		
Hotel Accom.....	526	526	515	515	576	11.8	9.5		
Other.....	1097	1126	1063	1047	1149	9.7	4.7		
TOTAL.....	50573	50300	51543	50542	50087¹	-0.9	-1.0		

Source: Lesotho National Development Corporation

Government employment continued to decline in the quarter under review, dropping by 0.4 per cent, which is the same rate reported in the previous quarter. Categories of government employment, which contributed to the fall were teachers with 0.2 per cent and daily paid workers with 6.3 per cent. However, civil servant's enrolment increased marginally by 0.7 per cent.

¹The industry in general continues to be a female dominated industry with total employment consisting of 22 per cent males and 78 per cent females.

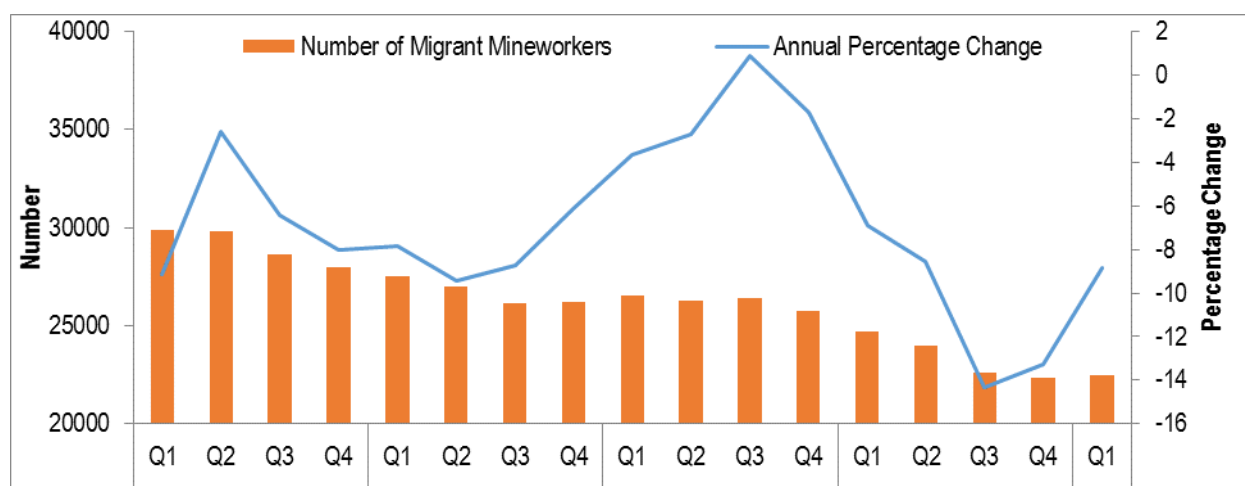
Figure 8: Government Employment (Annual Percentage Change)



Source: Ministry of Finance

Basotho migrant mineworker’s employment continued to fall in the quarter under review, albeit at a slower rate of 8.8 per cent compared with a decline of 13.3 per cent in the preceding quarter. The fall continued to mirror challenges faced by South African gold and platinum mines (most Basotho migrant mineworkers are employed in gold and platinum mines) in line with the observed decline in which the South African mining industry recorded a contraction of 4.6 per cent (quarter-to quarter change) in the first quarter of 2019.

Figure 9: Migrant Mineworkers (Annual Percentage Changes)



Source: The Employment Bureau of Africa (TEBA)

PRICE DEVELOPMENTS

Inflation rate, measured by year-on-year percentage change in Consumer Price Index (CPI), accelerated to 5.2 per cent at end of the quarter under review from 4.9 per cent recorded in December 2018. The major contributors to the observed acceleration were *Food and non-*

alcoholic beverages, Clothing & footwear, Transport as well as *Alcoholic beverages & Tobacco*. Nonetheless, *Housing, electricity gas & other fuels* and *Furniture, household's equipment & routine maintenance* moderated the acceleration. The major driver for the acceleration in food inflation emanated from increased cereal prices in South Africa during March 2019. In addition, the reduced 2018 output and unfavourable production outlook for the 2019 maize crops contributed to the increase. However, wheat prices also rose in tandem with prices of maize.

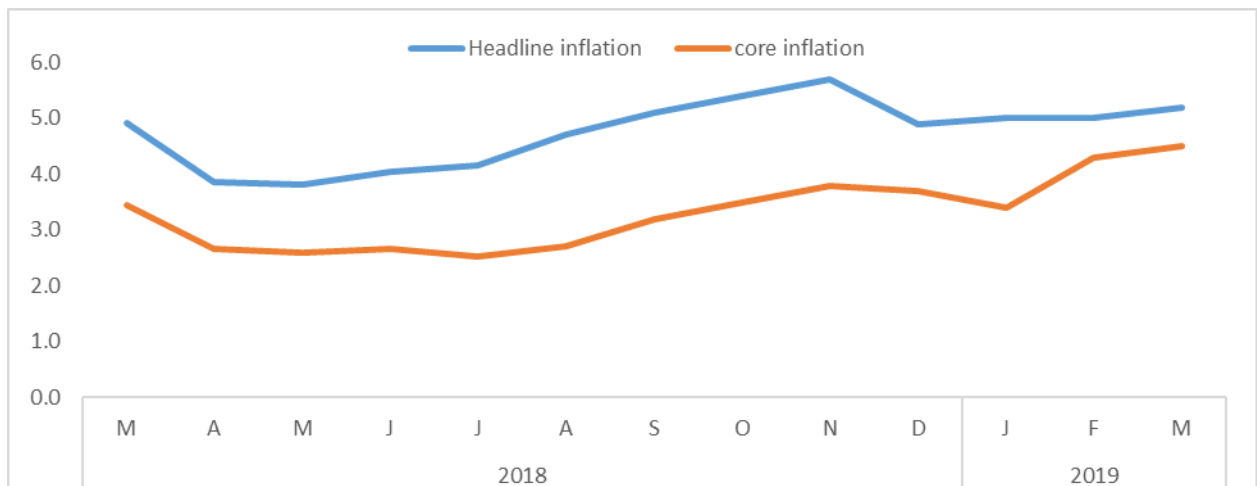
Table 3: Inflation Rate (*Annual Percentage Changes*)

	Weight	2018			2019	
		Nov	Dec	Jan	Feb	Mar
All items	1,000	5.6	4.9	5.0	5.0	5.2
Food and non-alcoholic beverages	361.13	5.2	4.7	5.3	5.9	6.5
Alcoholic beverages & Tobacco	33.31	5.9	4.4	5.3	5.1	4.9
Clothing & footwear	130.57	2.5	2.7	2.8	3.3	3.5
Housing, electricity gas & other fuels	123.97	14.3	11.8	10.4	8.4	8.3
Furniture, households equipment & routine maintenance	84.77	2.9	3.4	3.1	3.2	3.2
Health	15.04	1.0	1.1	1.3	1.2	1.2
Transport	48.21	11.3	6.4	5.5	5.9	7.3
Communication	21.05	0.0	0.0	1.6	1.6	1.6
Leisure, entertainment & Culture	57.08	4.9	5.6	5.4	5.4	5.4
Education	42.00	1.4	1.4	0.8	0.6	-0.1
Restaurant & Hotels	10.30	2.3	2.1	2.4	2.4	2.4
Miscellaneous goods & services	72.59	3.1	2.9	3.2	2.3	3.0

Source: Bureau of Statistics

Both headline and core inflation rates accelerated during the quarter ending in March 2019 from their levels recorded in December 2018. The former was estimated at 5.2 per cent in March 2019 while the latter recorded 4.5 per cent, compared with 4.9 per cent and 4.3 percent estimated in December 2018, respectively.

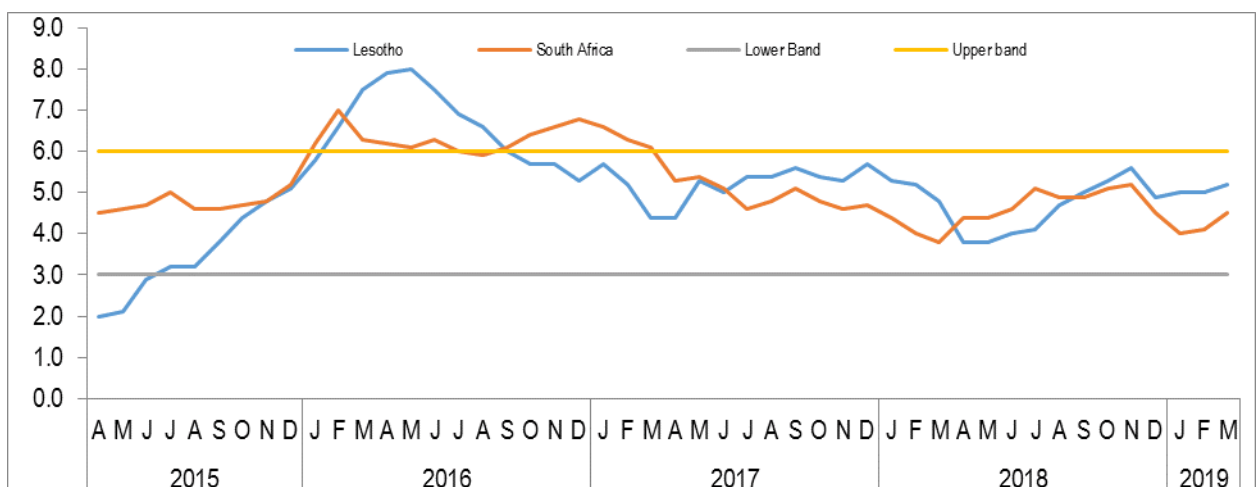
Figure 10: Core vs Headline Inflation



Source: CBL Computations

The Lesotho headline inflation rate ticked upwards during the review period while its South African counterpart remained constant. Nonetheless, both inflation rates continue to move in tandem.

Figure 11: Lesotho and South Africa's Inflation



Source: Bureau of Statistics, Statistics South Africa

III. Monetary and Financial Developments

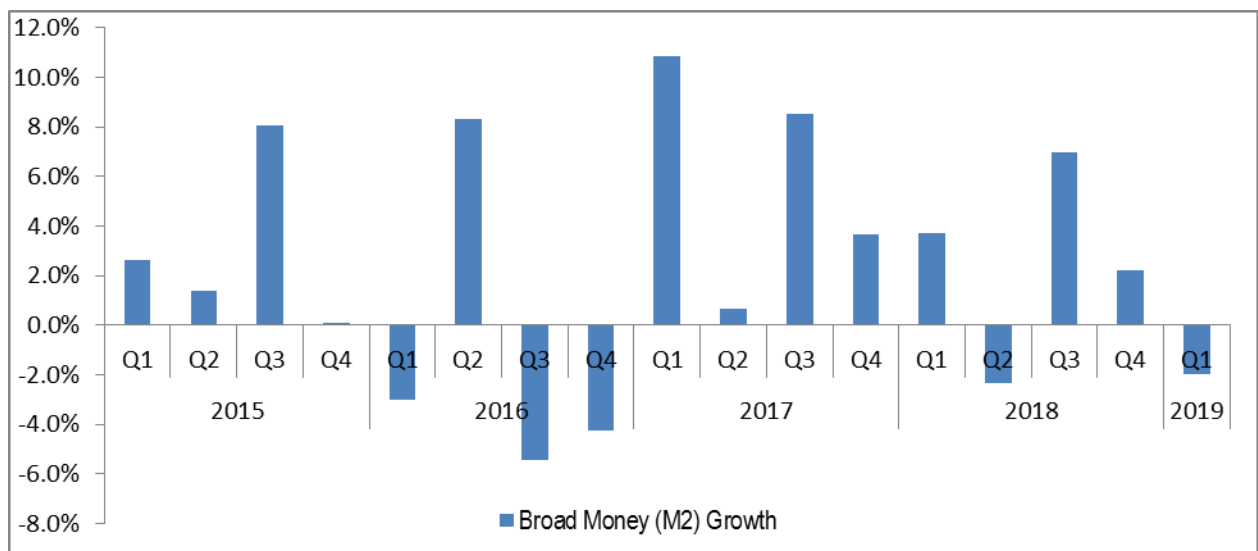
OVERVIEW

Money supply declined during the quarter under review on account of a fall in Net Foreign Assets (NFA) while Domestic Claims increased. The drop in overall banking system NFA was at the back of a decline in commercial banks' NFA following a fall in commercial banks deposits abroad. This was however moderated by an increase in Central Bank's NFA. Private sector credit marginally improved during the quarter under review. In particular, credit extended to business enterprises declined as new loans extended during the review quarter were outweighed by loans repayments. On the contrary, credit to households continued to grow albeit at a slightly slower pace compared to the previous quarter. This was due to an increase in personal loans while mortgages recorded the second consecutive fall.

BROAD MONEY (M2)

On a quarter to quarter basis, money supply fell by 2.0 per cent compared to an increase of 2.2 per cent registered in the quarter ending December 2018. Measured over twelve months, money supply registered a growth of 4.63 per cent compared to an increase of 10.69 per cent during the previous quarter. The slowdown in money supply on quarterly basis was at the back of a fall in Net Foreign Assets, notwithstanding the growth in Domestic Claims.

Figure 12: Broad Money (M2)



Source: Central Bank of Lesotho

Determinants of M2

Domestic Claims

Domestic claims, including net claims on government, grew by 4.8 per cent during the review quarter, compared to an increase of 4.0 per cent recorded in the previous quarter. This development was attributable to a surge in net claims on government following issuance of treasury bills for fiscal operations financing. On the contrary, claims on other sectors slightly fell by 0.7 per cent stemming from a 20.9 per cent decline in claims on other financial corporations, despite a 0.1 per cent growth in private sector claims.

Table 2: Domestic Claims (Million Maloti: End Period)

	2018				2019	Changes(%)	
	Mar	June	Sept	Dec	Mar	Quarterl y	Annua l
Domestic Claims	4776.1	5110.5	6154.8	6401.4	6705.9		
	5	8	4	6	5	4.76	40.40
Net Claims on Government	1630.0	1502.3					
	7	8	-811.16	-665.51	-314.60	52.73	-80.70
Commercial Banks	1103.5	1213.1	1283.3	1391.3	1944.3		
Net Claims	8	8	7	3	2	39.75	76.18
Claims on Central Gov't	1109.3	1218.6	1288.8	1396.2	1950.6		
	7	0	8	3	6	39.71	75.83
Liabilities to Central Gov't	5.79	5.41	5.51	4.90	6.34		
	5.79	5.41	5.51	4.90	6.34	29.25	9.46
Central Bank Net Claims	2733.6	2715.5	2094.5	2056.8	2258.9		
	5	6	3	4	2	9.82	-17.37
Claims on Central Gov't	817.81	753.63	753.93	729.75	706.34		
	817.81	753.63	753.93	729.75	706.34	-3.21	-13.63
Liabilities to Central Gov't	3551.4	3469.1	2848.4	2786.5	2965.2		
	6	9	6	8	6	6.41	-16.51
Claims on Other Sectors	6406.2	6612.9	6966.0	7066.9	7020.5		
	2	6	1	7	4	-0.66	9.59
Claims on OFCs	78.88	74.37	243.68	256.68	203.16		
	78.88	74.37	243.68	256.68	203.16	-20.85	157.56
Claims on PNFCs	0.00	0.00	0.00	0.00	0.00		
Claims on St & Local Gov't	0.00	0.00	0.00	0.00	0.00		
	0.00	0.00	0.00	0.00	0.00		
Claims on Private Sector	6327.3	6538.5	6722.3	6810.2	6817.3		
	4	9	2	9	8	0.10	7.74
Claims on Business Enterprises	1974.3	2090.0	2153.0	2097.6	2027.5		
	0	1	4	0	2	-3.34	2.70
Claims on Households	4353.0	4448.5	4569.2	4712.6	4789.8		
	4	8	8	9	6	1.64	10.03

Source: Central Bank of Lesotho

Net Foreign Assets

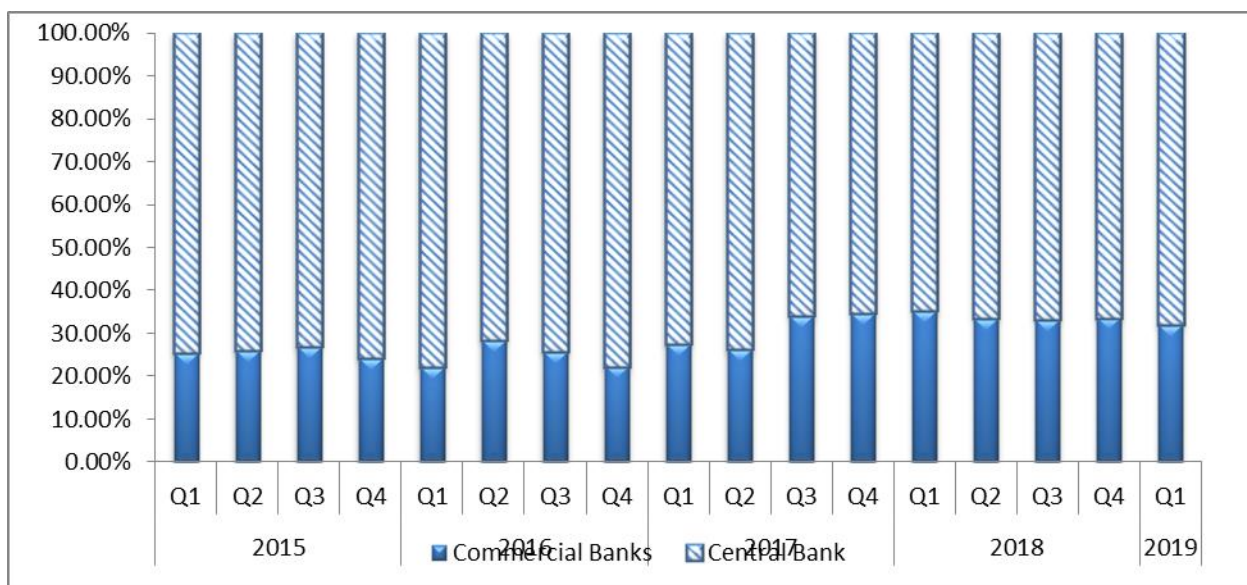
The overall banking system Net Foreign Assets (NFA) recorded a drop of 1.7 per cent during the quarter under review, from an increase of 2.6 per cent observed in the previous quarter. This was due to a 9.2 per cent decline in Commercial Banks' NFA, moderated by 2.3 per cent increase in Central Bank's NFA. The decline in commercial banks' NFA was at the back of a fall in deposits following large withdrawals coupled with insignificant mobilization of new deposits. Consequently, banks had to recall their placements abroad in order to meet the local liquidity requirements. Receipt of rand compensation, coupled with a decline in liabilities to non-residents boosted Central Bank's NFA.

Table 3: Net Foreign Assets (Million Maloti: End Period)

	2018				2019	Changes (%)	
	Mar	June	Sept	Dec	Mar	Quarterly	Annual
Commercial Banks	4727.26	4742.55	5019.71	5200.68	4723.62	-9.17	-0.08
Claims on Non-residents	5354.56	5160.19	5640.12	5700.44	5343.20	-6.27	-0.21
Liabilities to Non-residents	627.31	417.64	620.41	499.76	619.58	23.97	-1.23
					10068.4		
Central Bank	8789.03	9398.93	9645.12	9841.94	2	2.30	14.56
Claims on Non-residents	10097.9	10792.5	10980.0	11192.1	11361.7	1.52	12.52
Liabilities to Non-residents	1308.96	1393.63	1334.89	1350.25	1293.36	-4.21	-1.19
Net Foreign Assets	13516.2	14141.4	14664.8	15042.6	14792.0		
Total	9	8	3	2	4	-1.67	9.44

Source: Central Bank of Lesotho

Figure 13: 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. The broad measure of money supply declined by 2.0 per cent during the quarter under review, in contrast to 2.2 per cent growth realised in the preceding quarter. This was underpinned by a fall in both M1 and quasi money of 1.1 per cent and 2.7 per cent, respectively. The drop in M1 follows a decline in transferable deposits held by households, whereas the fall in quasi money stemmed from a declined in other deposits of business enterprises.

Table 4: Components of Money Supply (Million Maloti: End Period)

	2018				2019	Changes (%)	
	Mar	June	Sept	Dec	Mar	Quarterly	Annual
Broad Money (M2)	12553.7	12257.6	13109.3	13400.6	13135.3	-1.98	4.63
Narrow Money (M1)	6457.05	6147.10	6572.51	6158.64	6087.97	-1.15	-5.72
Currency Outside DCs	1053.77	1016.00	1032.73	1040.50	1014.01	-2.55	-3.77
Transferable Deposits	5403.28	5131.10	5539.78	5118.14	5073.97	-0.86	-6.09
Quasi Money	6096.65	6110.52	6536.79	7241.96	7047.41	-2.69%	15.59
Other Deposits							
Commercial Banks	6058.22	6066.92	6501.81	7185.42	6993.31	-2.67	15.44
Other Deposits							
Central Bank	38.43	43.60	34.98	56.54	54.09	-4.33	40.76

Source: Central Bank of Lesotho

CREDIT EXTENSION

Trends of Credit Extended to Business Enterprises

During the review quarter, credit extended to business enterprises recorded a decline of 3.3 per cent following a contraction of 2.6 per cent during the previous quarter. The observed drop was underpinned mostly by loan repayments, which overshadowed the newly extended credit recorded during the quarter under review.

Table 5: Credit Extension by Economic Activity (Million Maloti)

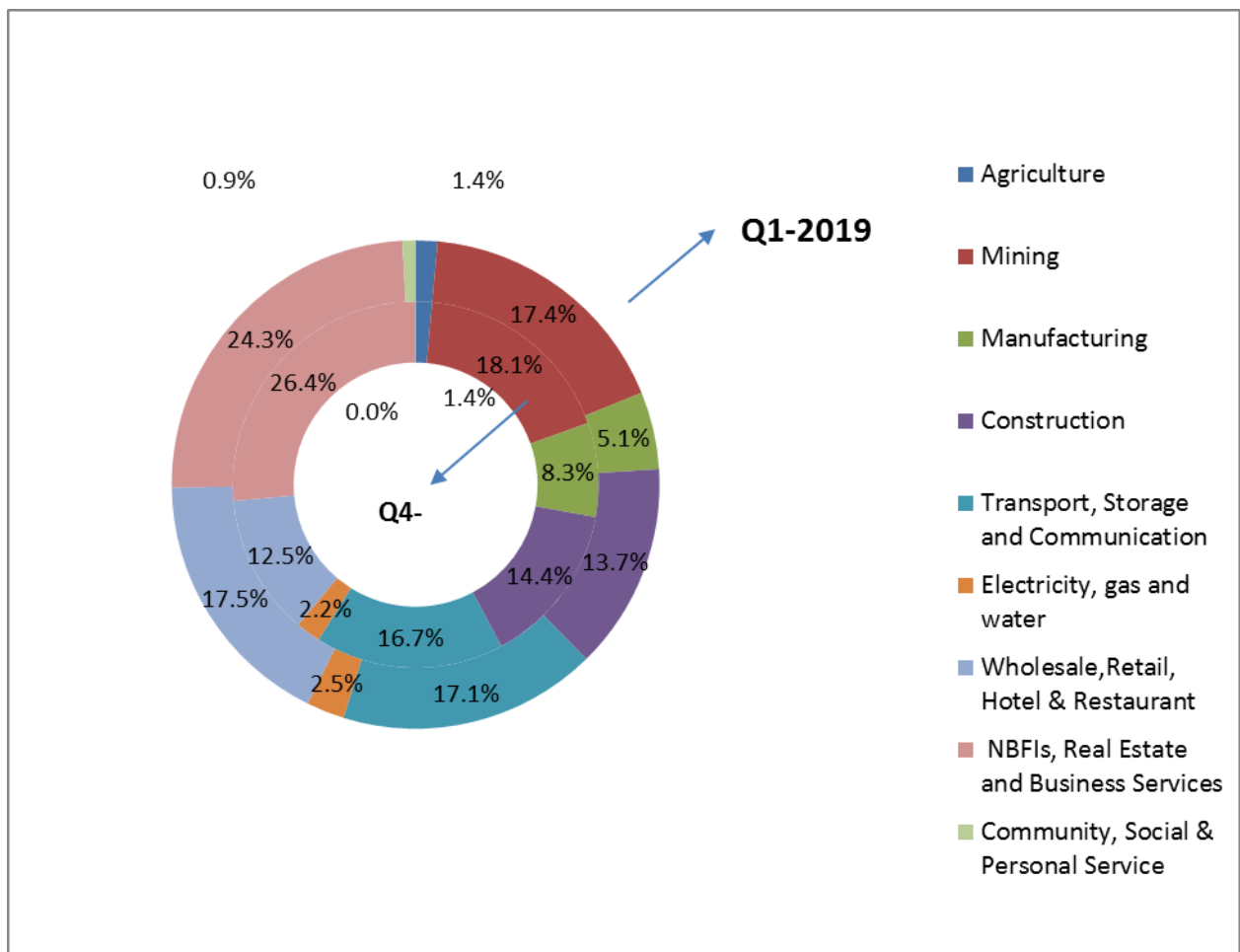
SECTOR	2018				2019	Changes (%)	
	Mar	Jun	Sep	Dec	Mar	Quarterly	Annual
Agriculture	18.10	14.15	54.87	30.31	29.16	-3.8	61.1
Mining	401.39	460.86	430.72	379.73	353.32	-7.0	-12.0
Manufacturing	224.31	220.58	195.17	174.08	104.06	-40.2	-53.6
Electricity, gas and water	40.56	47.69	49.09	46.21	51.05	10.5	25.9
Construction	253.17	243.47	291.69	301.83	277.17	-8.2	9.5
Wholesale, Retail, Hotel & Restaurant	197.55	211.44	224.83	261.68	355.29	35.8	79.9
Transport, Storage and Communication	330.34	347.69	341.76	349.65	346.82	-0.8	5.0
NBFIs, Real Estate and Business Services	505.80	542.77	563.36	553.24	492.96	-10.9	-2.5
Community, Social & Personal Service	3.08	1.35	1.55	0.89	17.69	8	475.3
	1974.3	2090.0	2153.0	2097.6	2027.5		
All Sectors	0	1	4	0	2	-3.34	2.70

Source: Central Bank of Lesotho

Distribution of credit Extended to Business Enterprises

With regard to the distribution of credit extended to business enterprises, real estate, wholesale, retail, hotel and restaurant and mining accounted for the largest shares of 24.3 per cent, 17.5 per cent and 17.4 per cent, respectively. Community and personal services continues to have smallest shares of total credit extended to business enterprises.

Figure 14: Distribution of Credit (Percentage Shares)

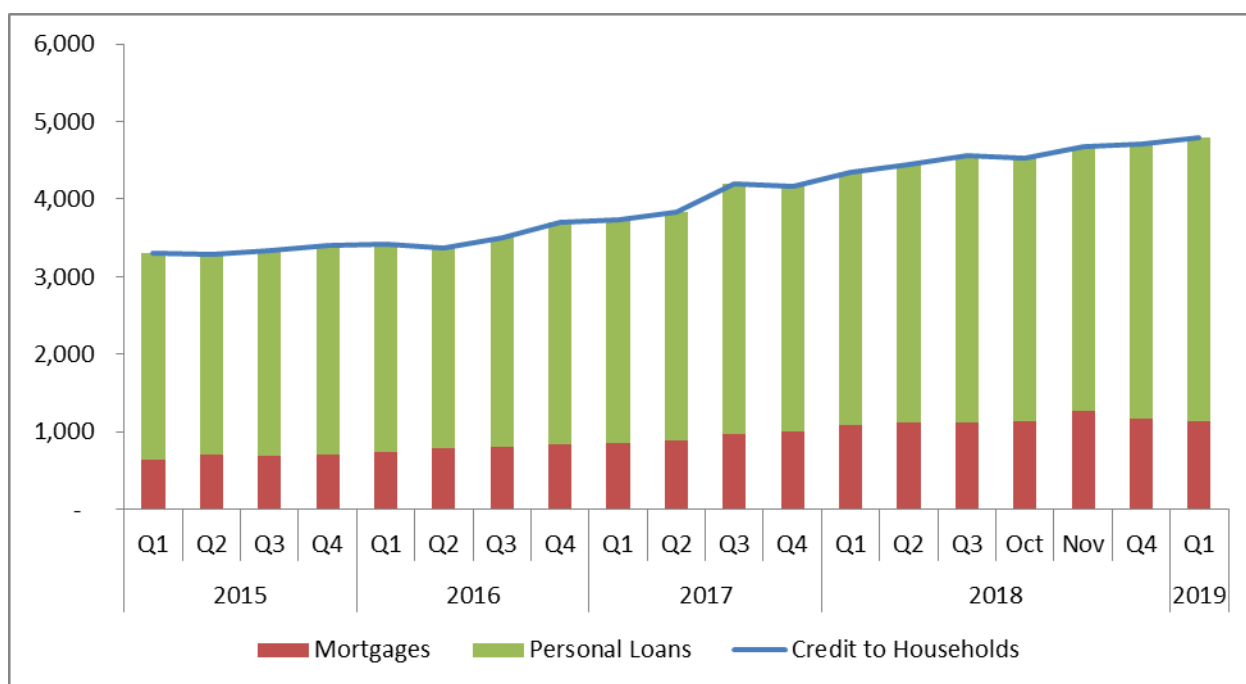


Source: Central Bank of Lesotho

Credit extended to households

During the quarter under review, credit to households registered a growth of 1.6 per cent compared to an increase of 3.1 per cent recorded during the previous quarter. This was on account of a 2.9 per cent increase in personal loans that was moderated by a 2.4 per cent decline in mortgages. The increase in personal loans was boosted by aggressive sales strategies while the decline in mortgages was due to repayments of the existing balances, which outstripped the new commitments.

Figure 15: Credit Extension to Household (Million Maloti)



Source: Central Bank of Lesotho

LIQUIDITY OF COMMERCIAL BANKS

Components of liquidity

Credit to deposits ratio increased from 54.6 per cent to 55.7 per cent between the fourth quarter of 2018 and the first quarter of 2019. The growth was due to a fall in total deposits that coupled with slight growth of private sector credit. Conversely, the liquidity ratio declined from 71.7 per cent to 70.2 per cent during the review period, and was attributable to a decline in balances due from both the banks in Lesotho and in South Africa.

Table 6: Components of Liquidity (Million Maloti)

	2018				2019
	Mar	Jun	Sep	Dec	Mar
Credit to Deposit Ratio	54.43%	57.57%	55.03%	54.56%	55.67%
Private Sector Credit	6238.43	6446.75	6627.01	6712.99	6717.45
Total Deposits	11461.50	11198.02	12041.59	12303.56	12067.28
Liquidity Ratio	73.04%	82.14%	75.17%	71.70%	70.21%
Notes and Coins	463.42	414.58	392.83	741.60	407.22
Balance due from banks in					
Lesotho	2195.94	2924.23	2387.61	1779.25	1260.47
Balance due from banks in SA	4347.05	4557.63	5063.14	4949.68	4771.92
Surplus funds	255.97	83.42	-80.99	-45.72	82.02
Government Securities	1109.37	1218.60	1288.88	1396.23	1950.66
Total	8371.74	9198.45	9051.47	8821.04	8472.28

Source: Central Bank of Lesotho

Commercial Banks Sources of Funds

The commercial banks' total deposits, which are the main source of funds for the banks, registered a decline of 1.9 per cent in the first quarter of 2019. This was mostly at the back of 13.4 per cent decline in other deposits held by the business enterprises. Similarly, the mild decline in transferable deposits was due to a 6.8 per cent fall in deposits held by households.

Table 7: Sources of funds for ODCs (Million Maloti)

	2018				2019	Changes (%)	
	Mar	June	Sept	Dec	Mar	Quarterly	Annual
Transferable							
Deposits Incl. in BM	5403.28	5131.10	5539.78	5118.14	5073.97	-0.86	-6.09
Other Financial Corporations	38.26	29.31	33.77	32.99	52.03	57.70	35.98
Public Nonfinancial Corporations	138.74	107.26	56.14	60.58	99.82	64.77	-28.05
Private Sector	5208.60	4976.84	5432.17	5006.88	4904.43	-2.05	-5.84
Other NFCs	3759.94	3395.51	3887.48	3471.06	3473.25	0.06	-7.62
Other Sectors (Households)	1448.66	1581.33	1544.69	1535.82	1431.18	-6.81	-1.21
Other Deposits Incl. in BM	6058.22	6066.92	6501.81	7185.42	6993.31	-2.67	15.44
Other Financial Corporations	54.98	51.63	84.55	58.20	163.82	181.45	197.95
Public Nonfinancial Corporations	404.16	265.01	275.03	254.00	499.24	96.55	23.53
Private Sector	5599.08	5750.28	6142.23	6873.21	6330.25	-7.90	13.06
Other NFCs	3664.03	3821.80	4203.28	4941.00	4279.08	-13.40	16.79
Other Sectors (Households)	1935.05	1928.47	1938.95	1932.21	2051.17	6.16	6.00
Total Deposits	0	2	9	6	8	-1.92	5.29

Source: Central Bank of Lesotho

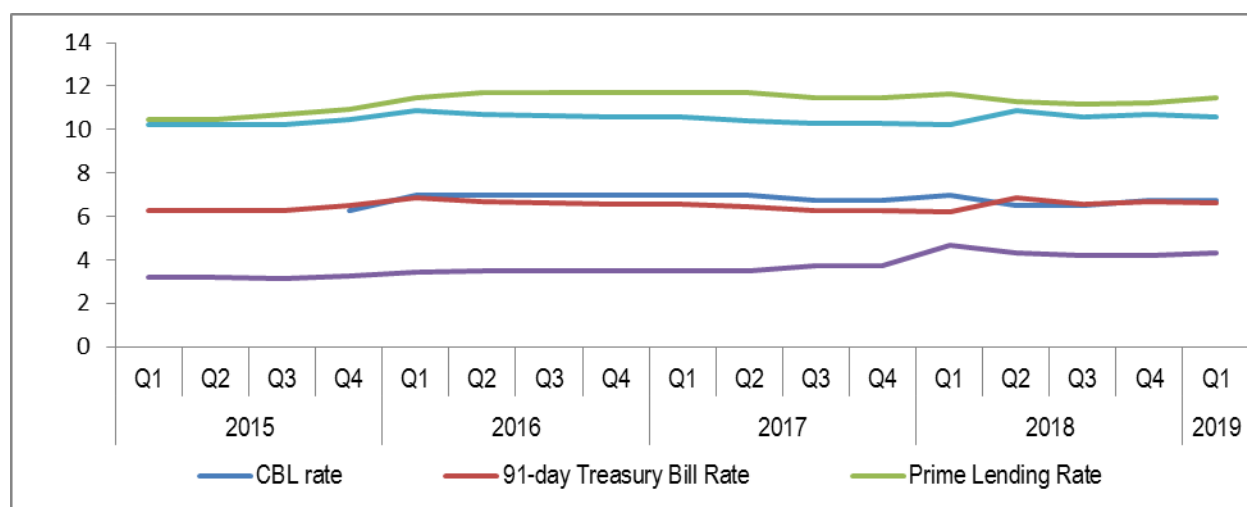
MONEY AND CAPITAL MARKET DEVELOPMENTS

Money Market

Interest Rates

During the review quarter, the Central Bank Policy Rate remained unchanged at 6.75 per cent. However, the prime lending rate and the 1-year deposit rate increased by 19 basis points and 15 basis points to 11.44 per cent and 4.34 per cent, respectively. On the contrary, 91-day treasury bill rate fell by 9 basis points to 6.60 per cent.

Figure 16: Short Term Interest Rates (Per Cent per Annum)



Source: Central Bank of Lesotho

Table 8: Interest rates

	2018		2019		
	Mar	June	Sept	Dec	Mar
Central Bank					
CBL rate	7.00	6.50	6.50	6.75	6.75
T-Bill Rate - 91 days	6.22	6.88	6.56	6.69	6.60
Lombard Rate	10.22	10.88	10.56	10.69	10.60
Commercial Banks					
Call	1.31	1.36	1.12	1.12	1.22
Time:					
31 days	0.70	0.40	0.35	0.35	0.70
88 days	1.63	1.40	1.33	1.33	1.34
6 months	2.55	2.67	2.54	2.54	2.65
1 year	4.65	4.30	4.19	4.19	4.34
Savings	0.73	0.73	0.70	0.70	0.70
Prime	11.63	11.31	11.19	11.25	11.44
South Africa					
Repo	6.50	6.50	6.50	6.75	6.75
T-Bill Rate - 91 days	6.87	7.07	7.14	7.48	6.98
Marginal Lending Rate					
Prime	10.00	10.00	10.00	10.25	10.25

Source: Central Bank of Lesotho

Holding of Treasury Bills and T-Bill rates

The total treasury bills holding increased by 68.7 per cent to M1,476.8 million during the review period. The increase in total Treasury bill holding was driven by the banking sector, whose holdings rose by M602.91 million in March 2019, following an increase of M28.56 million in

December 2018. On the contrary, the non-banking sector Treasury bills holdings declined by 0.5 per cent to M252.98 million in March 2019.

Table 9: Holding of Bills and Yields (*Million Maloti*)

	2018				2019
	Mar	Jun	Sep	Dec	Mar
Treasury Bills	874.71	865.67	852.54	875.25	1,476.77
Banking System	566.10	582.44	592.33	620.88	1,223.79
Non-Bank Sector	308.61	283.23	260.21	254.37	252.98
Memorandum Item					
Yield Bills (91-days)	6.22	6.88	6.67	6.80	6.74

Source: Central Bank of Lesotho

Holding of Treasury Bonds

The holdings of Treasury bonds increased by 9.3 per cent in March 2019, compared to an increase of 16.6 per cent realized in December 2018. This was on account of bond auctions held in February and March 2019 to support government operations. The non-banking sector contributed to the rise in Treasury bond holdings with an increase of 21.6 per cent, while the banking sector recorded a decline of 3.2 per cent.

Table 10: Holding of Bonds (*Million Maloti*)

	2018				2019
	Mar	Jun	Sep	Dec	Mar
Holding of Treasury Bonds	1096.50	1254.74	1359.53	1584.66	1,732.22
Banking System	525.65	646.147	716.23	786.12	760.97
Non-Bank Sector	570.85	608.588	643.30	798.54	971.25

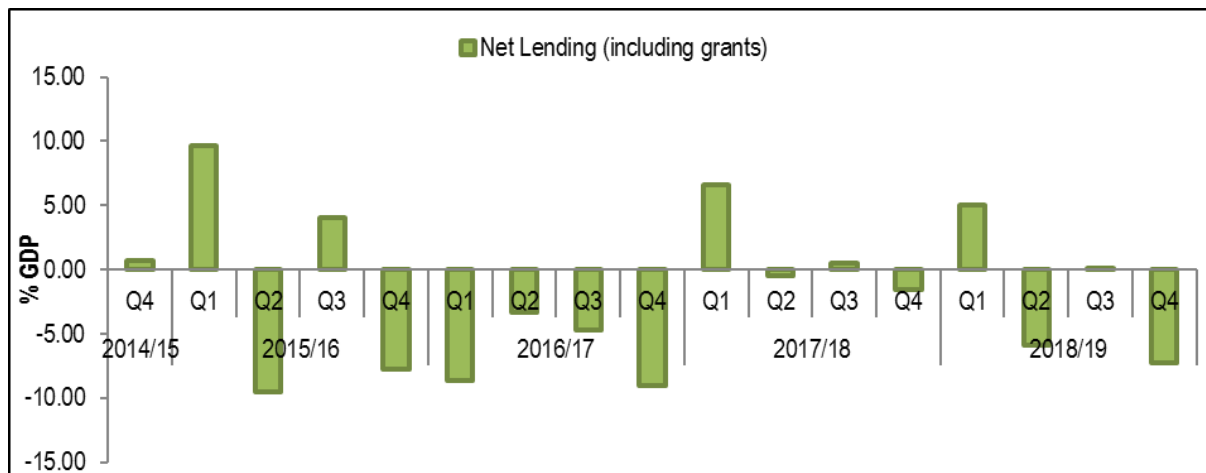
Source: Central Bank of Lesotho

IV. Government Finance

OVERVIEW

The Government budgetary operations registered a fiscal deficit equivalent to 7.2 per cent of GDP² during the last fiscal quarter of 2018/19. This was much higher than a deficit of 1.6 per cent of GDP realised in the same quarter of 2017/18. The deficit emanated from high spending (including commitments) on non-financial assets. The public debt stock grew by 4.1 per cent to reach 40.9 per cent of GDP in the quarter under review, from 32.2 per cent of GDP that was recorded in the same quarter of 2017/18. This increase was mainly attributable to Treasury Bills (T-Bills) worth M600 million and Treasury Bonds (T-Bonds) valued at M340 million issued for fiscal financing.

Figure 17: Fiscal Balance (Per cent of GDP)



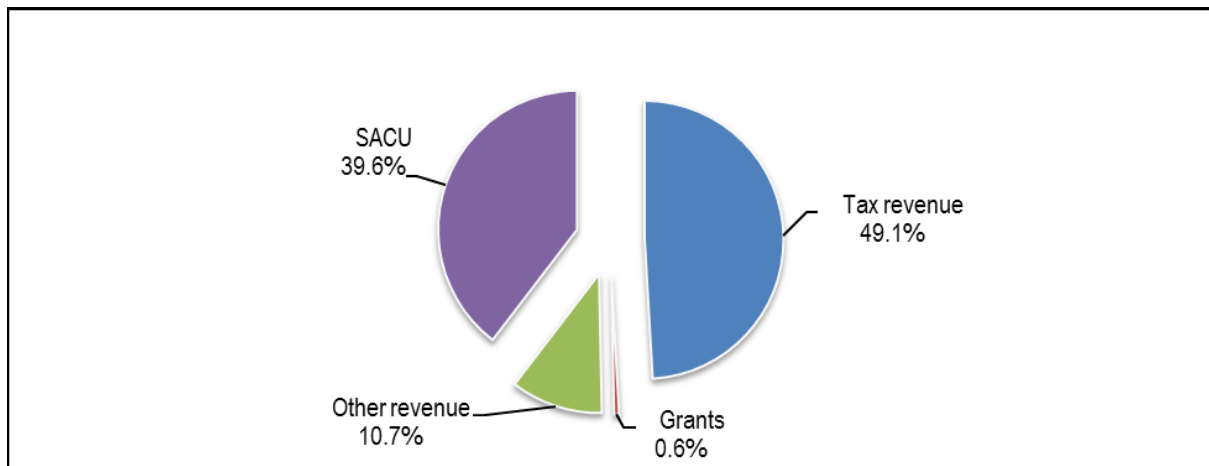
Source: Central Bank of Lesotho (CBL) and Ministry of Finance (MOF)

REVENUE

The Government revenue collection increased by 4.8 per cent during the review period, compared with a significant rise of 25.1 per cent recorded in the quarter ending in March 2018. The quarterly changes, similarly, recorded 6.6 per cent increase in revenue during the quarter under review, largely on account of higher collections of company tax, value-added tax, royalties from mining, and monetary compensation plus electricity sales. Other components of revenue declined, except for the SACU receipts which remained unchanged.

² Apart from debt stock in which the projected 'annual GDP' has been used, all other GFS components (where data are available) have been analysed using actual 'quarterly GDP' produced by Bureau of Statistics. The projected figures are produced by CBL.

Figure 18: Total Revenue (Million Maloti)

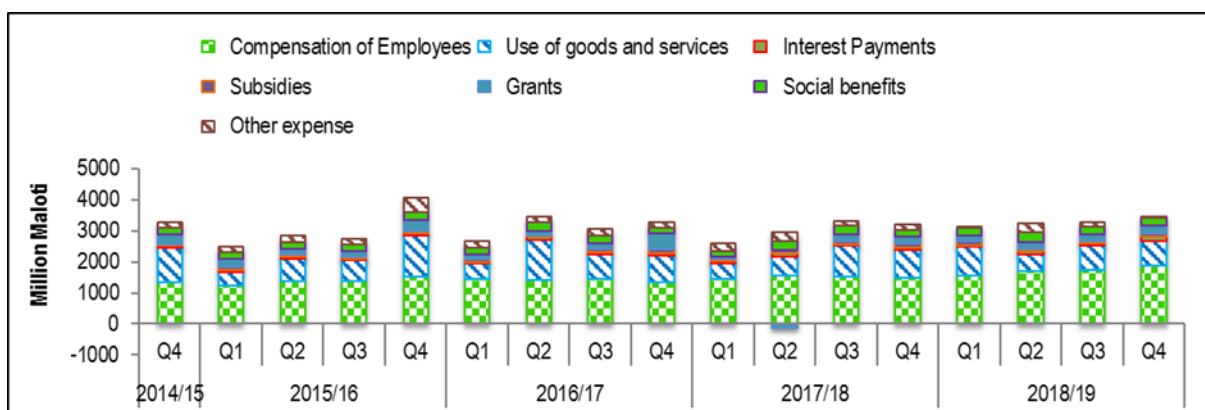


Source: CBL and MOF

TOTAL EXPENDITURE

The Government expenditure increased by an annual rate of 19.3 per cent during the last fiscal quarter of 2018/19, thereby registering significantly higher levels than the same period last fiscal year. The quarter-to-quarter changes indicate a rise of 25.8 per cent, mainly driven by non-financial assets components that included, amongst others, reconstruction and maintenance of fixed assets, and acquisition of property. In addition to these fixed assets, the following expense categories also contributed to this rise: old age pension scheme, public assistance in cash (child grant), school feeding program, public assistance in kind and employer compensation. The interest payments, increased on account of payments of discounts on T-Bills for fiscal financing.

Figure 19: Total Expense (Million Maloti)



Source: CBL and MOF

Table 11: Statement of Operations (Million Maloti)

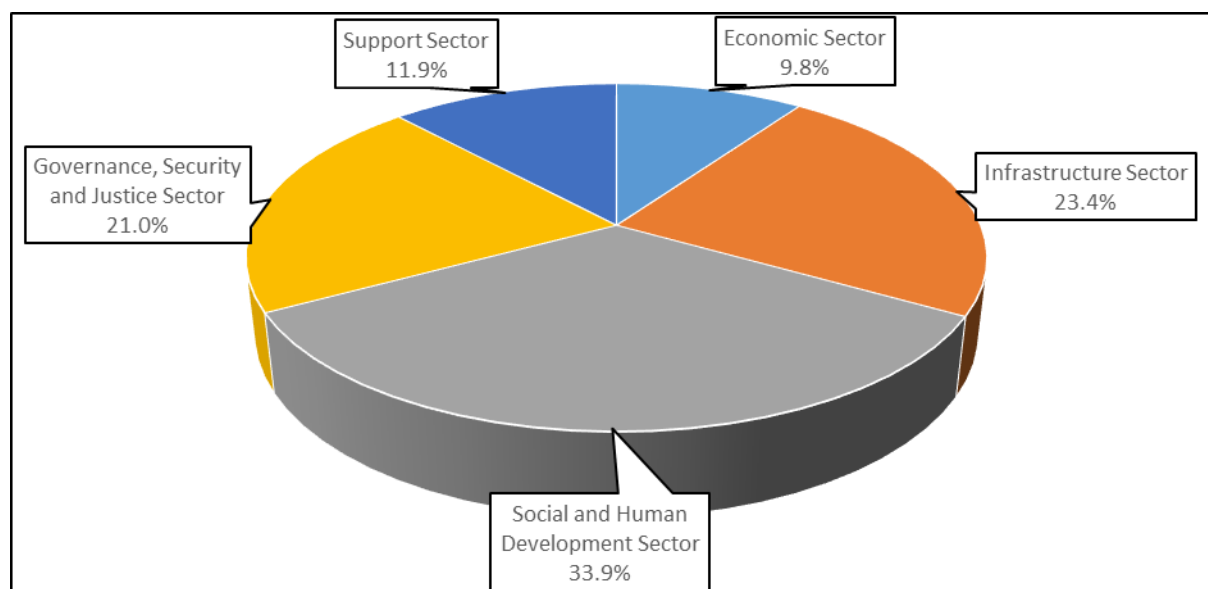
	2017/18	2018/19				Y-on-Y (%)	GDP ratio (%)
	Q4	Q1	Q2	Q3	Q4		
1 Total Revenue	3855.38	3884.80	3500.03	3788.99	4038.60	4.8	40.9
11 Tax revenue	1901.60	1820.25	1717.96	1947.98	2254.51	18.6	22.8
O/W Income Tax	901.03	1012.67	946.65	1088.74	1122.30	24.6	11.4
O/W Value Added Tax	638.35	720.07	641.98	703.87	755.46	18.3	7.7
13 Grants	11.84	63.47	21.09	18.68	0.00	-	0.0
14 Other revenue	403.39	615.52	375.42	436.76	398.53	-1.2	4.0
SACU receipts	1538.55	1385.56	1385.56	1385.56	1385.56	-9.9	14.0
2 Total Expense	3204.32	3103.86	3222.89	3271.50	3418.90	6.7	34.6
21 Compensation of Employees	1483.69	1571.13	1688.50	1738.40	1886.96	27.2	19.1
22 Use of goods and services	892.28	912.57	543.34	792.03	773.32	-13.3	7.8
O/W Purchase of Health Services	242.57	146.06	305.73	571.71	49.16	-79.7	0.5
24 Interest Payments	82.75	52.50	104.70	59.63	152.08	83.8	1.5
25 Subsidies	115.99	118.25	73.99	58.70	89.18	-23.1	0.9
26 Grants	235.99	187.17	225.47	237.10	249.53	5.7	2.5
27 Social benefits	223.64	254.74	294.42	233.52	260.70	16.6	2.6
28 Other expense	169.97	7.50	292.46	152.13	7.14	-95.8	0.1
Net Operating Balance	651.06	780.94	277.13	517.49	619.69	-	6.3
31 Total Nonfinancial Assets	778.42	284.36	856.67	505.05	1332.05	71.1	13.5
311 Fixed Assets	778.42	284.36	856.67	505.05	1327.25	70.5	13.4
314 Non-Produced Assets	0.00	0.00	0.00	0.00	4.80	-	0.0
Net lending (+)/borrowing(-)	-127.36	496.57	-579.53	12.44	-712.35	-	-7.2
Financing	222.56	-218.11	-647.68	282.43	-776.02	-	-7.9
32 Net Acquisition of Financial assets	946.46	-79.64	-603.01	-54.73	238.66	-	2.4
O/W Domestic Currency and Deposits	942.48	-82.64	-620.64	-62.49	238.66	-	2.4
33 Net Incurrence of Liabilities	723.90	138.47	44.67	-337.16	1014.69	-	10.3
O/W Domestic Other Accounts Payable	128.35	-186.41	-0.27	-429.85	-221.35	-	-2.2
Statistical Discrepancy	-349.92	714.69	68.15	-269.99	63.67	-	0.6

Source: CBL and MOF

TOTAL OUTLAYS BY FUNCTIONS OF GOVERNMENT³

The Government sectoral outlays as a share of GDP stood at 37.2 per cent during the fiscal quarter under review, which was down from 47.2 per cent in the quarter ending in March 2017/18. This rise in outlays was on account of capital outlays that increased by more than two-fold, while the recurrent outlays declined by 9.2 per cent.

Figure 19: Total Outlays by Functions of Government (Million Maloti)



Source: MOF

Table 12: Sectoral Outlays By Functions of Government (Million Maloti)

	2017/18	2018/19				Y-on-Y (%)	GDP ratio (%)
	Q4	Q1	Q2	Q3	Q4		
Recurrent Outlays	3059.45	2775.63	2533.03	2657.83	2200.21	-28.1	22.3
Economic Sector	183.46	221.50	221.90	256.63	183.55	0.0	1.9
Infrastructure Sector	229.77	196.98	175.13	201.03	188.59	-17.9	1.9
Social and Human Development Sector	1318.28	1409.44	949.61	1238.70	1052.17	-20.2	10.7
Governance, Security and Justice Sector	623.14	505.65	625.39	536.98	520.73	-16.4	5.3
Support Sector	704.80	442.05	560.98	424.49	255.17	-63.8	2.6
Capital Outlays	779.28	278.09	848.11	452.16	1260.40	61.7	12.8

³ This sectoral COFOG excludes financing items (i.e. Loan principal repayments). It also excludes aggregated spending on certain budget heads. Again, the classification of this COFOG does not correspond exactly with GFS's COFOG.

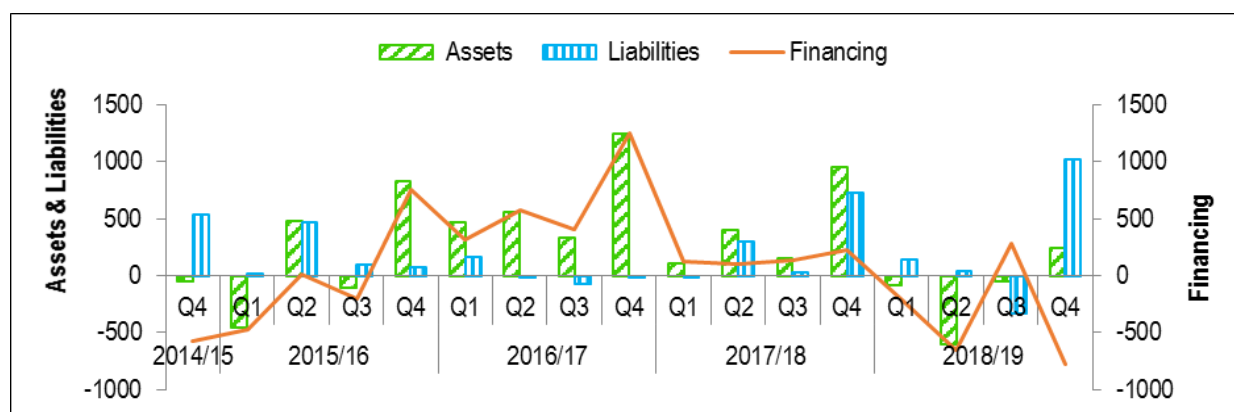
Economic Sector	285.24	11.23	121.83	56.32	155.51	-45.5	1.6
Infrastructure Sector	146.70	180.57	491.37	151.81	622.13	324.1	6.3
Social and Human Development Sector	71.70	11.18	31.76	47.90	120.12	67.5	1.2
Governance, Security and Justice Sector	196.72	58.24	139.77	117.66	206.24	4.8	2.1
Support Sector	78.93	16.87	63.38	78.48	156.40	98.2	1.6
Total Outlays	3838.73	3053.72	3381.14	3109.98	3460.61	-9.9	35.1
Economic Sector	468.70	232.73	343.74	312.95	339.06	-27.7	3.4
Infrastructure Sector	376.47	377.56	666.50	352.84	810.72	115.3	8.2
Social and Human Development Sector	1389.97	1420.62	981.37	1286.60	1172.29	-15.7	11.9
Governance, Security and Justice Sector	819.86	563.89	765.16	654.63	726.97	-11.3	7.4
Support Sector	783.72	458.92	624.36	502.96	411.57	-47.5	4.2

Source: MOF

FINANCIAL ASSETS AND LIABILITIES⁴

Government financed the incurred fiscal deficit through, amongst others, acquisition of new external debt (disbursement), plus issuance of T-bills and bonds. The mobilised funds were also used to pay up the accumulated arrears. Consequently, this resulted in accumulation of net financial assets, particularly currency and deposits, while also increasing government liabilities.

Figure 20: Total Financing (Million Maloti)



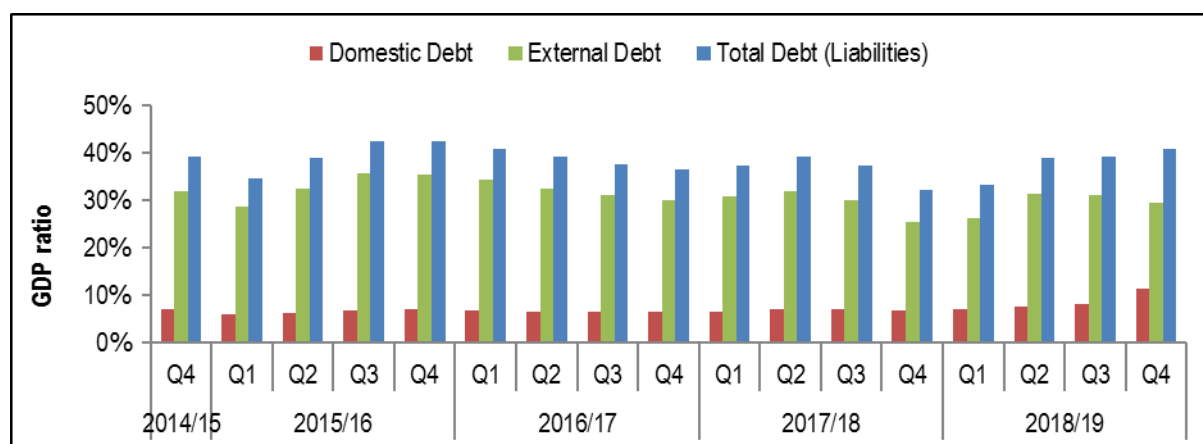
Source: CBL and MOF

⁴ All categories are on net terms.

TOTAL PUBLIC DEBT⁵

Total public debt stock increased by 4.1 per cent in March 2019 following the issuance of T-bills and bonds to finance fiscal operations. On an annual basis, it increased by 26.9 per cent during the quarter under review, compared to a rise of 2.6 per cent in the last fiscal quarter of 2017/18. The external debt, on the contrary, fell by 5.5 per cent owing largely to an appreciation of Loti to foreign currencies to which external loans are denominated. As a share of total debt stock, domestic debt increased to 27.8 per cent, compared with 20.5 per cent recorded in December 2018.

Figure 21: Outstanding Public Debt (Million Maloti)



Source: CBL and MOF

Table 13: Public Debt Stock (Million Maloti)

	2017/18	2018/19				Q-to-Q (%)	Debt/GDP (%)
	Q4	Q1	Q2	Q3	Q4		
Total Public Debt	12,718.20	13,198.95	15,420.88	15,500.20	16,134.97	4.1	40.9
EXTERNAL DEBT	10,016.36	10,373.71	12,400.12	12,328.61	11,651.54	-5.5	29.5
Bilateral Loans	828.71	878.69	951.49	961.92	927.08	-3.6	2.3
Concessional	828.71	878.69	951.49	961.92	927.08	-3.6	2.3
Non-concessional	0.00	0.00	0.00	0.00	0.00	-	0.0
Multilateral Loans	8,536.65	8,822.04	10,733.73	10,674.92	9,773.28	-8.4	24.8
Concessional	6,920.95	7,206.46	9,135.01	9,079.29	8,194.72	-9.7	20.8
Non-concessional	1,615.69	1,615.59	1,598.72	1,595.63	1,578.55	-1.1	4.0

⁵ All categories are on net terms.

Financial Institutions	0.34	0.34	0.23	0.23	0.11	-	51.7	0.0
Concessional	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Non-concessional	0.34	0.34	0.23	0.23	0.11	-	51.7	0.0
Suppliers' Credit	650.67	672.64	714.68	691.54	951.07	37.5	-	2.4
DOMESTIC DEBT	2,701.84	2,825.24	3,020.76	3,171.60	4,483.43	41.4	53.7	11.4
Banks	1,822.39	1,933.50	2,117.26	2,120.69	3,259.20	35.7	72.8	8.3
Long-term	1,256.29	1,351.07	1,524.93	1,499.81	2,035.41	72.8	-	5.2
Treasury bonds	526.59	647.09	717.48	787.54	1,360.97	-5.3	97.1	3.4
Central Bank (IMF-ECF)	729.70	703.98	807.45	712.27	674.45	16.5	0.2	1.7
Short-term (t-bills)	566.10	582.44	592.33	620.88	1,223.79	21.6	0.2	3.1
Non-bank	879.46	891.73	903.50	1,050.90	1,224.23	-	21.6	3.1
Short-term (t-bills)	308.61	283.23	260.21	252.37	252.98	-	0.2	0.6
Long-term (t-bonds)	570.85	608.51	643.30	798.54	971.25	-	21.6	2.5
DEBT INDICATORS								
External Debt-to-Total Debt	78.8	78.6	80.4	79.5	72.2	-	-	-
Domestic Debt-to-Total Debt	21.2	21.4	19.6	20.5	27.8	-	-	-
Concessional Debt-to-External Debt	77.4	77.9	81.3	81.4	78.3	-	-	-
External Debt Service-to-GDP	0.6	0.4	0.6	0.4	0.7	-	-	-
External Debt Service-to-Revenue	1.2	1.1	1.8	1.1	1.6	-	-	-
External Debt Service-to-Exports	1.3	1.0	1.4	1.0	1.5	-	-	-

Source: CBL and MOF

V. Foreign Trade and Payments

OVERVIEW

The external sector position continued to improve during the first quarter of 2019, largely driven by the surplus in the current account balance. The current account benefitted from the surplus on the primary and secondary income account balances. The external sector position was further supported by the inflows in the capital account balance albeit at a lower rate compared to the previous period. The overall balance was 1.9 per cent of GDP in the first quarter of 2019 after strengthening by a revised 2.5 per cent of GDP in the previous quarter.

CURRENT ACCOUNT

The current account balance improved to a surplus of M218.86 million in the first quarter of 2019 from a revised surplus of M114.93 million in the preceding quarter. As a proportion of GDP, the current account surplus was 2.4 per cent in the review quarter compared to a 1.4 per cent of GDP surplus in the previous quarter. The observed performance of the current account emanated from the surpluses on both the primary and secondary income accounts. However, the observed surpluses were offset by the deficits in the goods and services accounts.

Table 14: Current Account Balance (Million Maloti)

	2017	2018				2019	% Changes	
	Q4	Q1	Q2	Q3	Q4*	Q1+	Q/Q	Y/Y
Current Account	-358.18	170.01	-3.77	-366.58	114.93	218.86	90.4	28.7
(a) Goods	-2774.27	-2432.13	-2263.83	-2526.14	-2116.91	-2356.73	11.3	-3.1
Merchandise exports, f.o.b.	3599.71	3856.58	4191.98	3781.21	4253.73	3634.41	-14.6	-5.8
Of which diamonds	1431.08	1640.73	1424.61	1302.81	1462.85	1484.85	1.5	-9.5
Of which textiles & clothing	1483.59	1644.45	1856.15	1872.32	2150.94	1559.85	-27.5	-5.1
Of which re-exports	59.48	51.33	28.52	18.26	33.01	20.46	-38.0	-60.1
Other exports	313.37	243.51	584.34	305.40	312.84	281.09	-10.1	15.4
Merchandise imports, f.o.b.	6373.98	6288.71	6455.81	6307.35	6370.64	5991.14	-6.0	-4.7
(b) Services	-1500.09	-1508.16	-1488.22	-1481.26	-1484.72	-1498.18	0.9	-0.7
(c) Primary Income	1879.67	1805.20	1845.99	1769.72	1844.65	1882.66	2.1	4.3
(d) Secondary Income	2036.51	2305.10	1902.29	1871.09	1871.90	2191.11	17.1	-4.9
+ Preliminary								
* Revised								

Source: Central Bank of Lesotho

Merchandise Exports

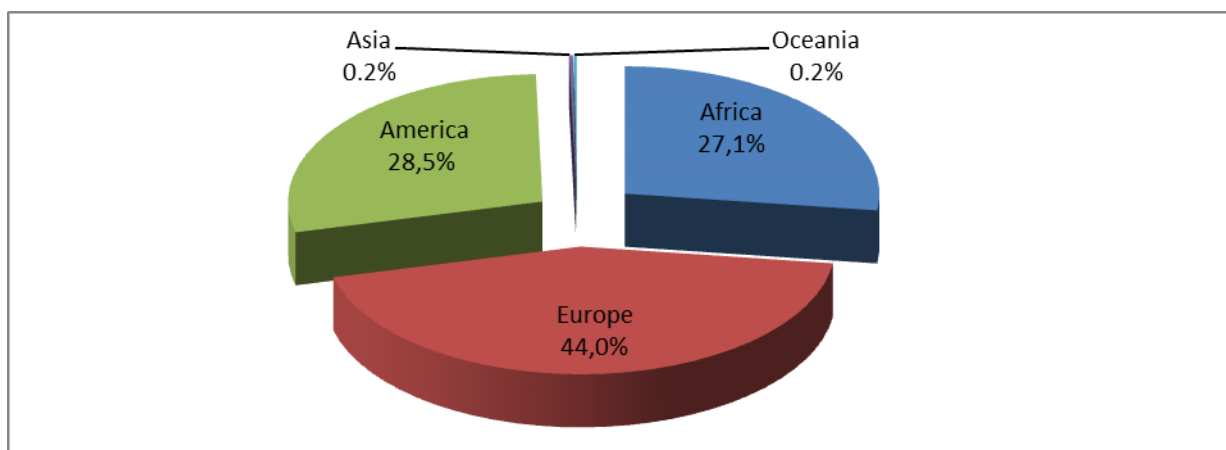
During the quarter ending in March 2019, merchandise exports fell by 14.6 per cent following a revised increase of 12.5 per cent in the last quarter of 2018. The fall in merchandise exports was mainly underpinned by the decline in clothing and textiles exports during the first quarter of 2019. Clothing and textile exports declined by 27.5 per cent in the review quarter, after

increasing by a revised 14.9 per cent in the preceding quarter. The observed performance depicted a return to trend for the clothing and textiles exports to the US following a rise in the previous quarter. Diamond exports rose by 1.5 per cent in the quarter under review compared to an increase of 12.3 per cent in the fourth quarter of 2018, due to the record high value of a pink diamond recovered at one of the mines. Relative to GDP, merchandise exports accounted for 39.7 per cent following a revised share of 50.0 per cent in the previous quarter.

Direction of Trade - Exports

The European market became the leading recipient of exports from Lesotho in the quarter ending in March 2019 in contrast to the previous quarter, where it ranked as the third recipient. Exports destined to Europe constituted 44.0 per cent of total exports in the first quarter of 2019 from 36.9 per cent in the previous quarter. The American and the African markets followed with shares of 28.5 per cent and 27.1 per cent, respectively, relative to their respective shares of 36.9 per cent and 25.5 per cent in the previous quarter. The least proportions of exports from Lesotho were destined to Asia and Oceania, with shares of 0.2 per cent each, compared to a share of 0.3 per cent to Asia and 0.1 per cent to Oceania in the preceding quarter.

Figure 22: Direction of Merchandise Exports (Percentage Share)



Source: Central Bank of Lesotho

Merchandise Imports

Merchandise imports declined by 5.9 per cent in the first quarter of 2019 compared to an increase of 1.0 per cent in the previous quarter. Declines in imports were mainly observed in the following products from South Africa; mineral products, prepared food stuffs and machinery, which accounted for 18.0 per cent, 13.8 per cent and 12.9 per cent respectively, of total imports into Lesotho. On an annual basis, merchandise imports declined by 4.7 per cent in the quarter under review compared to a 0.1 per cent decline in the previous period. The value

of merchandise imports was equivalent to 65.5 per cent of GDP in the first quarter of 2019 compared with 76.4 per cent of GDP in the previous quarter.

Services

The services account deficit grew by 9.0 per cent during the quarter ending in March 2019, relative to a 0.2 per cent increase in the previous quarter. The bigger services account deficit resulted from lower receipts from the tourism sector. The services account balance was also adversely affected by higher foreign payments for the telecommunications subsector during the first quarter of 2019. However, there was a reduction in payments for business trips during the same quarter, which partly offset the impact of the tourism and telecommunications sectors. Year on year, the services account deficit widened by 0.4 per cent in the first quarter of 2019 compared to a fall of 1.0 per cent in the quarter ending in March 2018. Expressed as a percentage of GDP, the services account deficit was 16.5 per cent compared to a revised share of 17.8 per cent of GDP in the previous quarter.

Primary Income

The primary income account continued to be in surplus during the quarter ending in March 2019. The primary income account surplus rose at a lower rate of 2.1 per cent, in the first quarter of 2019 than that of 4.2 per cent in the preceding quarter. The improved balance on the primary income account was supported by an increase in compensation of employees and receipts for maintenance and operational costs for Phase I of the LHWP. However, this was dampened by the decline in interest receipts for foreign investments held by the Central Bank and commercial banks. On an annual basis, the primary income account surplus rose by 4.0 per cent during the review quarter compared with a 1.9 per cent drop in the last quarter of 2018.

Secondary Income

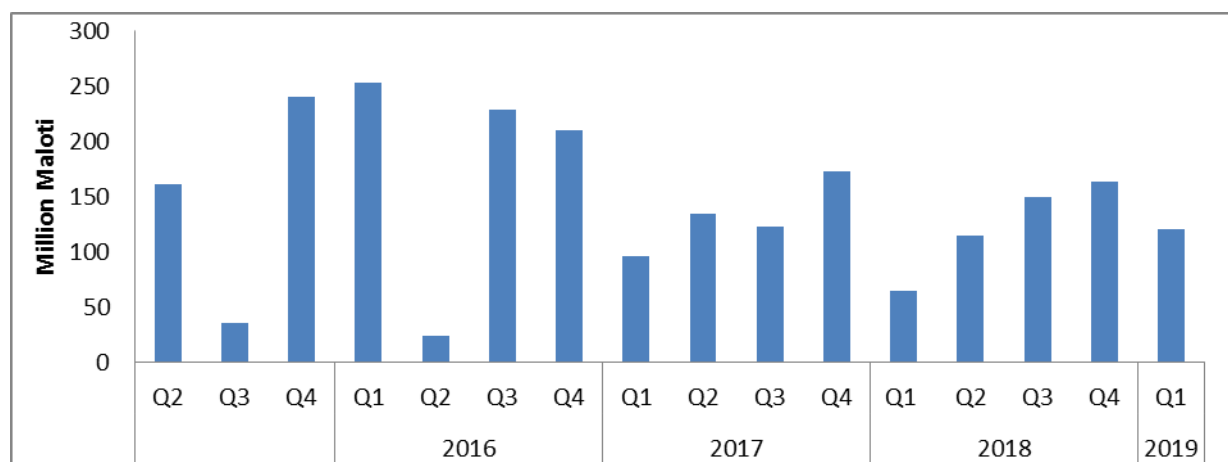
During the first quarter of 2019, the secondary income account continued to be in surplus, growing by 17.1 per cent, relative to a steady surplus in the preceding quarter. The robust surplus on the secondary income account was mainly on account of the rand compensation. This was nonetheless moderated by the increase in payments for international subscriptions during the same quarter. The largest component of transfers, SACU receipts, remained stable during the review quarter. Relative to the previous year, the secondary income account surplus fell by 4.9 per cent after declining by 8.1 per cent in the fourth quarter of 2018. As a percentage of GDP the secondary income account amounted to 23.9 per cent after registering 22.5 per cent of GDP in the quarter ending in December 2018.

CAPITAL ACCOUNT

A lower capital account surplus of M116.82 million was realised in the quarter ending in March 2019, compared to that of M163.01 million in the preceding quarter. This reflected capital inflows pertaining to the construction works under the Phase II of LHWP. As a share of GDP,

capital account inflows accounted for 1.3 per cent compared to 2.0 per cent of GDP in the previous period.

Figure 23: Capital Account (*Million Maloti*)



Source: Central Bank of Lesotho

FINANCIAL ACCOUNT⁶

The financial account balance indicated a deficit amounting to M12.67 million in the first quarter of 2019, from a revised net outflow amounting to M606.30 million in the previous quarter. Expressed as a share of GDP, the financial account balance constituted 0.1 per cent compared to 7.3 per cent of GDP in the preceding quarter.

⁶ The financial account is presented on net basis. Thus for all the functional categories, total assets are netted against total liabilities, except reserve assets.

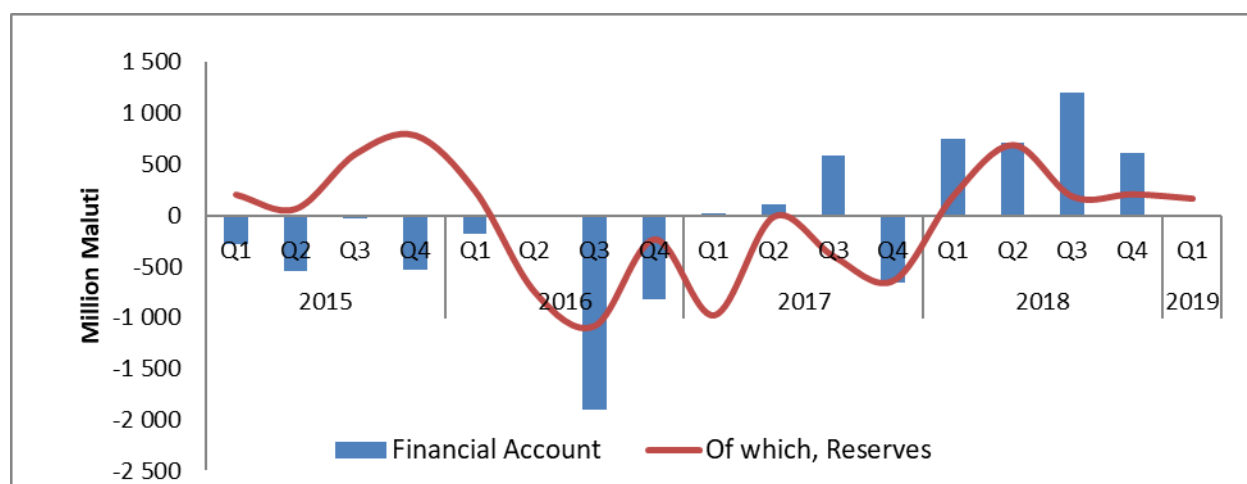
Table 15: Financial Account Balance (*Million Maloti*)

	2017	2018				2019
	Q4	Q1	Q2	Q3	Q4	Q1
Financial account	-663.56	751.84	709.52	1204.88	606.34	12.67
Direct Investments, Net	-128.90	-134.06	-128.90	-128.90	-128.90	-128.90
Portfolio Investments	7.10	7.10	7.10	7.10	7.10	7.10
Financial Derivatives	0.00	0.00	0.00	0.00	0.00	0.00
Other Investments, Net	94.46	682.68	136.74	1,139.24	515.95	-35.11
Of which Loans	2.79	40.42	-74.91	116.76	69.31	-163.46
Claims on Non Residents	34.48	34.48	34.48	34.48	34.48	34.48
Liabilities to Non Residents	31.69	-5.94	109.39	-82.28	-34.83	197.94
Of which Currency and Deposits	165.73	716.32	285.72	1,096.54	520.71	202.41
Claims on Non Residents	36.64	698.88	160.72	835.03	415.42	25.70
Liabilities to Non Residents	-129.09	-17.44	-125.00	-261.51	-105.29	-176.71
Reserve Assets	-636.22	196.12	694.58	187.44	212.19	169.58

Source: Central Bank of Lesotho

The surplus on the financial account was mainly driven by an increase in foreign loans held by the Government. Additionally, there was an increase in commercial banks' foreign liabilities coupled with a fall in foreign assets, thus leading to a fall in net foreign assets. The commercial banks reduced their foreign assets abroad to meet higher demand for liquidity while also ensuring adherence to local liquidity requirements. Reserve assets rose during the review quarter albeit at a slower rate compared to the previous period and therefore contributed to observed outflow in the financial account.

Figure 24: Financial Account (*Million Maloti*)

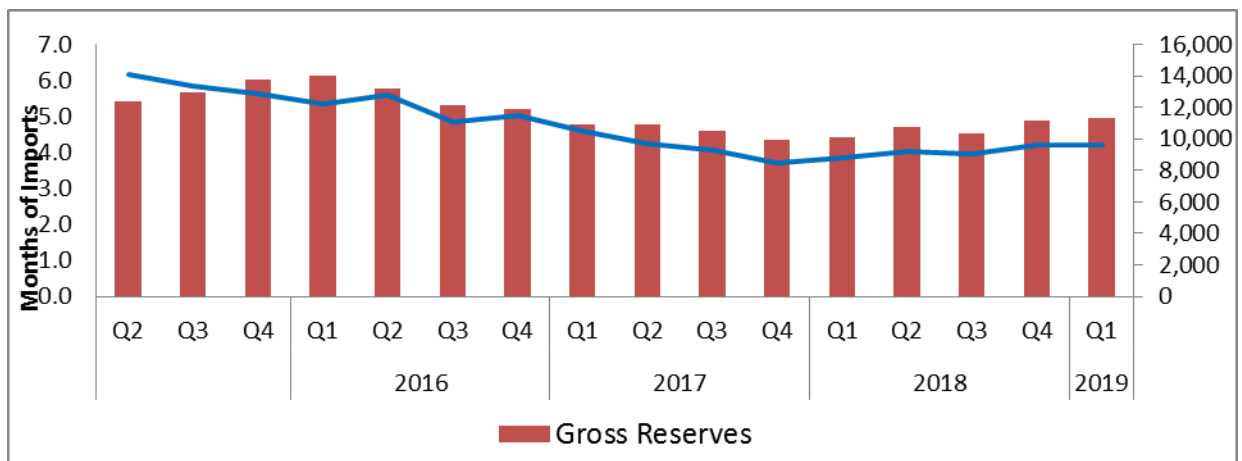


Source: Central Bank of Lesotho

RESERVE ASSETS

The stock of international reserves increased by 1.5 per cent in the review quarter following an increase of 7.9 per cent in the last quarter of 2018. This was due to receipt of the rand monetary compensation, coupled with fewer drawdowns of Government deposits. Therefore, the import coverage rose to 4.5 months of import cover in the first quarter of 2019 from 4.2 months in the quarter ending in December 2018.

Figure 25: Reserve Assets



Source: Central Bank of Lesotho