Central Bank of Lesotho

QUARTERLY ECONOMIC REVIEW

Maseru Kingdom of Lesotho

March 2020

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1. Executive Summary

The Coronavirus (COVID-19) has impacted the global economic activity significantly in the first quarter of 2020. In response, to curb the widespread of the disease, most countries engaged in total lockdowns. This resulted in the disruptions in the global supply chains, trade and tourism among others. Consequently, the unemployment rate increased in a number of advanced and emerging economies as companies laid off some of their staff in an effort to cut costs in order to remain in business. Nonetheless, inflationary pressures subsided during the quarter, with inflation rates decelerating in a number of countries. This was mainly influenced by falling oil prices in advanced economies, and in both energy and food prices in emerging market economies. In an effort to curb the adverse economic effects of the COVID-19 pandemic, central banks in both advanced and emerging market economies further loosened their monetary policy stances, with key policy rates lowered to the bare minimum, some to levels close to zero, coupled with some expanded quantitative easing programmes during the quarter.

The local economy remained under pressure during the review quarter, with sluggish performance observed in the demand side of the economy, whereas the supply side was resilient. Labour markets showed mixed signals; both government and LNDC-assisted companies recorded growth in employment, while the numbers for migrant mineworkers maintained downward trend. The local price developments showed a decrease in the rate of inflation between the quarters. Compared to the South African counterpart, the inflation rates continued to move in tandem, with the local rate slightly lower in March 2020.

The broad money supply (M2) increased during the first quarter of 2020, mainly driven by a hike in both domestic claims and net foreign assets (NFA). The rise in domestic claims was attributable to an increase in credit extended to the private sector, and further benefited from the drop in government deposits. Moreover, the growth in NFA was mainly due to an increase in commercial banks' NFA, which resulted from growth in total deposits, notwithstanding the rise in private sector credit.

The Government budgetary operations were estimated to have recorded budget surplus during the review period. The surpluses were due to higher revenue collections during the quarter, that exceeded corresponding expenditure. The public sector debt stock was projected have increased marginally, mainly due to acquisition of new debt.

Lesotho's external sector position improved during the first quarter of 2020 relative to the previous quarter. It recorded a surplus of 8.9 per cent of GDP in the review quarter, higher than a surplus of 0.4 per cent of GDP observed in the preceding quarter. The increased overall balance of payments surplus for Lesotho was underpinned by the improved balances of the current account and financial account, while the capital account inflows fell and partly moderated the surplus.

2. International Economic Developments

Global economic activity declined significantly in the first quarter of 2020. This was evident in both advanced and emerging economies. Generally, dynamics in the global economy were shaped by the outbreak of COVID-19 and responses to mitigate it. Most countries engaged in total lockdowns to curb the spread of the disease, and this resulted in the disruptions in the global supply chains, trade and tourism among others. Manufacturing output and consumer spending were also adversely affected by these developments. Hence, the unemployment rate increased in a number of advanced and emerging economies as companies laid off some of their staff in an effort to cut costs in order to remain in business.

Inflationary pressures subsided during the quarter, with inflation rates decelerating in a number of countries. In advanced economies, inflation developments were mainly influenced by falling oil prices. While in emerging economies, the slowdown in inflation resulted from the decline in energy and food prices. In an effort to curb the adverse economic effects of the COVID-19 pandemic, central banks in both advanced and emerging economies further loosened their monetary policy stances. Key policy rates remained close to zero in the advanced economies and quantitative easing programmes were expanded during the quarter. The purpose behind this was to stabilise financial markets and to cushion the economies from hard lending amid COVID-19 outbreak.

Table 1: Key World Economic Indicators

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	Q4 2019	Q1 2020	Q4 2019	Q1 2020	Q4 2019	Q1 2020	Q4 2019	Q1 2020
United States	2.3	0.2	2.3	1.5	1.75	0.00	3.5	4.4
Euro Area	1.0	-3.2	1.3	0.7	0.00	0.00	7.4	7.4
Japan	-0.7	-2.0	0.8	0.4	-0.10	-0.10	2.2	2.5
United Kingdom	1.1	-1.6	1.3	1.5	0.75	0.10	3.8	3.9
China	6.0	-6.8	4.5	4.3	4.15	4.05	3.6	5.9
India	4.1	3.1	7.4	5.8	5.15	4.40	N/A	N/A
South Africa	-0.5	N/A	4.0	4.1	6.50	5.25	29.1	N/A

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

ADVANCED ECONOMIES

United States (US)

In the US, economic activity weakened in the first quarter of 2020. Real GDP increased by 0.2 per cent year on year, following a 2.3 per cent growth in the previous quarter. On the quarterly basis, the real GDP declined by 5.0 per cent. The slowdown in GDP growth was driven by a decline in investment spending, weaker consumer spending and exports. There was an increase in the rate of unemployment to 4.4 per cent relative to 3.5 per cent in the previous quarter. The increase was associated with the COVID-19 outbreak, which left many businesses closed. The travel and hospitality sector was hardest hit by these closures.

The annual inflation rate for the US fell to 1.5 per cent in the first quarter of 2020, from 2.3 in the previous quarter. This resulted mainly from a decline in gasoline prices. The Federal Open Market Committee (FOMC) cut the key policy rate by 175 basis points to the range of 0 - 0.25 per cent during the review period. The rate cut, which was done in three consecutive meetings, was under emergency setting, to stabilise financial markets and minimise disruptions from COVID-19 outbreak on the economy.

Euro Area

The Euro Area experienced an economic contraction in the first quarter of 2020. Real GDP fell by 3.2 per cent, from an increase of 1.0 per cent in the previous quarter. There was a decline in output across all major industries. Consumer demand and exports also deteriorated. The unemployment rate fell to 7.1 per cent during the quarter under review, from 7.4 per cent realised in the last quarter of 2019. However, other labour market indicators, including wage growth, weakened during the review period, indicating that the labour market was under pressure.

Inflationary pressures eased in the quarter ending in March 2020. The annual inflation rate decelerated to 0.7 per cent, from 1.2 per cent in the fourth quarter of 2019. There was a decline in the prices of energy and oil, which led to a fall in inflation rate, offsetting an increase in food prices. The European Central Bank kept the key interest rate unchanged at zero per cent in the first quarter of 2020. The Bank also continued with the asset purchases programme. The move together with other emergency measures including increasing lending to small and medium enterprises, were taken to support the economy and stabilise financial markets.

Japan

Japan's economy was in a technical recession in the first quarter of 2020. Real GDP contracted by 2.0 per cent in the first quarter of 2020, compared with a 0.7 per cent decrease in the fourth quarter of 2019. There was a decline in the consumption spending, investment and exports, and also a slowdown in the government spending. The unemployment rate increased to 2.5 per cent in the quarter ending in March 2020, from 2.2 per cent in the last quarter of 2019, reflecting weakness in the economy and job losses due to COVID-19 outbreak related disruption to economic activity.

The annual inflation rate for Japan was recorded at 0.4 per cent in the first quarter of 2020, down from 0.8 per cent in the fourth quarter of 2019. The slowdown in inflation rate was mainly due to the fall in transport costs, reflecting a decline in oil prices, and food prices. The Bank of Japan left its key policy rate unchanged at negative 0.1 per cent in the first quarter of 2020. The Bank, however, expanded its asset purchases programme to stimulate economic activity and facilitate financial markets stability.

United Kingdom (UK)

Economic activity weakened in the UK in the review period. Real GDP contracted by 1.6 per cent in the first quarter of 2020, in contrast to the increase of 1.1 per cent in the last quarter of 2019. There was a decline in consumer spending, investment and government spending, as well as, exports, which led to contraction in output. Unemployment rate rose slightly to 3.9 per cent in the first quarter of

2020, from 3.8 per cent in the quarter ending in December 2019. This resulted from falling economic activity amid COVID-19 outbreak.

The annual inflation rate rose to 1.5 per cent in the review period, increasing slightly from 1.3 per cent in the fourth quarter of 2019. Inflation developments were generally driven by transport costs, including airfares. The Bank of England cut its key policy rate to 0.1 per cent, from 0.75 per cent in the fourth quarter of 2019. The bank also maintained its asset purchases programme. This was done to mitigate the negative effect of COVID-19 outbreak on the economy and provide adequate liquidity for the smooth operation of financial markets.

EMERGING MARKET ECONOMIES

China

China's economy contracted during the first quarter of 2020. Real GDP declined by 6.8 per cent year on year in the review quarter, in contrast to growth of 6.0 per cent in the previous quarter. All major industries were adversely affected as economic activity was disrupted by a two months' nationwide lockdown which was imposed to curb the spread of COVID-19. Unemployment rose to 5.9 per cent in the quarter ending in March 2020, from 3.8 per cent in the previous quarter. This was due to negative effect of the nationwide lockdown on the economy.

Inflationary pressures abated due to easing food prices and other non-food items including a decline in the transport and clothing costs. The annual inflation rate fell to 4.3 per cent in the quarter ending in March 2020, from 4.5 per cent in the previous quarter. The People's Bank of China reduced its key policy rate to 4.05 per cent in the first quarter of 2020, from 4.15 per cent in the last quarter of 2019. The decision was taken to inject more liquidity in the financial system and to lower cost of borrowing to stem the negative effects of COVID-19.

India

India's economic activity was resilient in the first quarter of 2020, as it experienced growth, although slower growth relative to the fourth quarter of 2019. The real GDP increased by 3.1 per cent down from 4.1 per cent in the previous quarter. The slowdown was driven by weakness in both demand and supply factors. On the demand side, there was a decline in investment and exports, and there was a slowdown in consumption spending. There was a marginal decline in the value of imports. On the supply side, manufacturing output continued to fall, there was also a decline in construction activity.

The annual inflation rate declined to 5.8 per cent in the quarter under review, from 7.4 per cent in the last quarter of 2019. A fall in the inflationary pressure was driven mainly by a slowdown in the food prices. The Reserve Bank of India cut the repo rate by 75 basis points to 4.4 per cent in the first quarter of 2020, from 5.15 per cent in the previous quarter. It also tapped in other emergency measures including a cut in the required reserve ratio to provide adequate liquidity and support the economy.

South Africa

The South African economy remained under pressure in the first quarter of 2020, according to the Purchasing Managers Index (PMI). The PMI remained in the contraction zone, with a steep decline in March 2020. This reflected subdued demand and production due to falling orders, including export orders. However, available data on economic activity was mixed in the review period. The manufacturing output continued to decline, while mining exports and retail sales increased.

The annual inflation rate was recorded at 4.1 per cent in the quarter ending in March 2020, slightly higher than 4.0 in the previous quarter. The increase was due to food prices, which offset declines in transport costs due to falling oil prices. The Monetary Policy Committee of the South African Reserve Bank cut the repo rate by 125 basis points to 5.25 per cent in the first quarter of 2020. The decision was taken as the economy was facing mounting pressure from COVID-19, and financial markets indices were falling steeply.

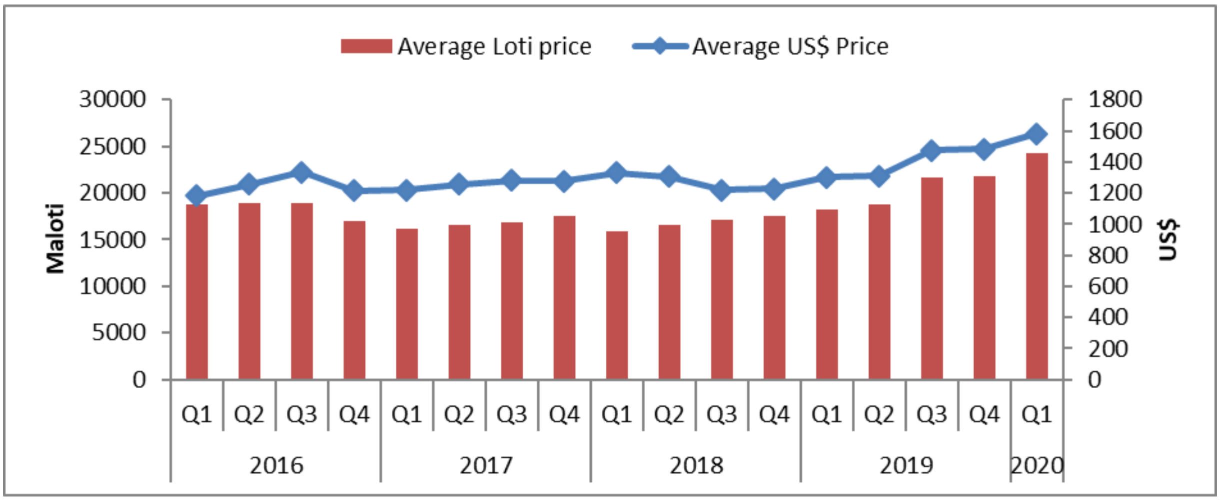
COMMODITIES

Minerals

Gold

The price of gold continued to rise in the first quarter of 2020. It increased by 6.6 per cent to US$ 1580.92, following a 0.6 per cent increase in the previous quarter. The price of gold benefited from increased demand for safe haven assets. The risk and uncertainties were elevated in the global economy and financial markets, associated with general lockdowns to curb the spread of COVID-19. This exposed most businesses to financial vulnerabilities and failures. Furthermore, central banks continued buying gold during the quarter. In the other sectors including jewellery demand weakened, with offsetting effects. On the supply side, the operations in the mining industry were halted during the quarter.

Figure 1: Average Price of Gold

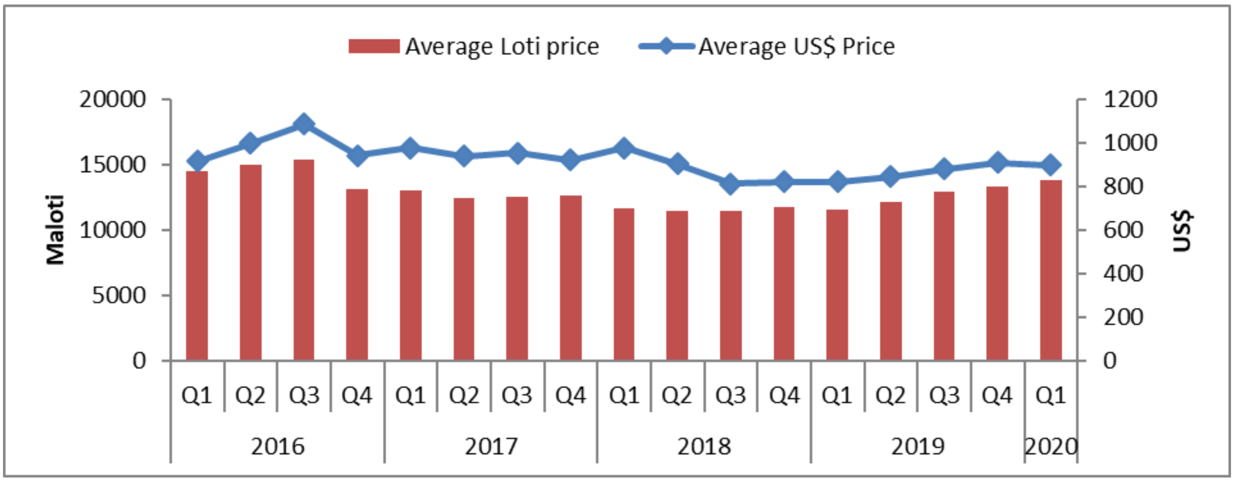


Source: Bloomberg

Platinum

The price of platinum declined by 1.2 per cent to US$ 899.14 in the quarter ending in March 2020. This was in contrast to an increase of 3.2 per cent in the fourth quarter of 2019. Platinum market was still in excess supply in the first quarter of 2020. The price of the metal was weighted down by a decline in the demand for jewellery, auto catalyst amid a decline in auto sales, and investment. Supply also declined, driven by smelting process failure in South Africa, and the mine closures due to uncertainty associated with the COVID-19 pandemic especially in South Africa, as the number one world producer. Generally, the platinum price was affected by outbreak of COVID-19, and measures implemented to curb its spread.

Figure 2: Average Price of Platinum



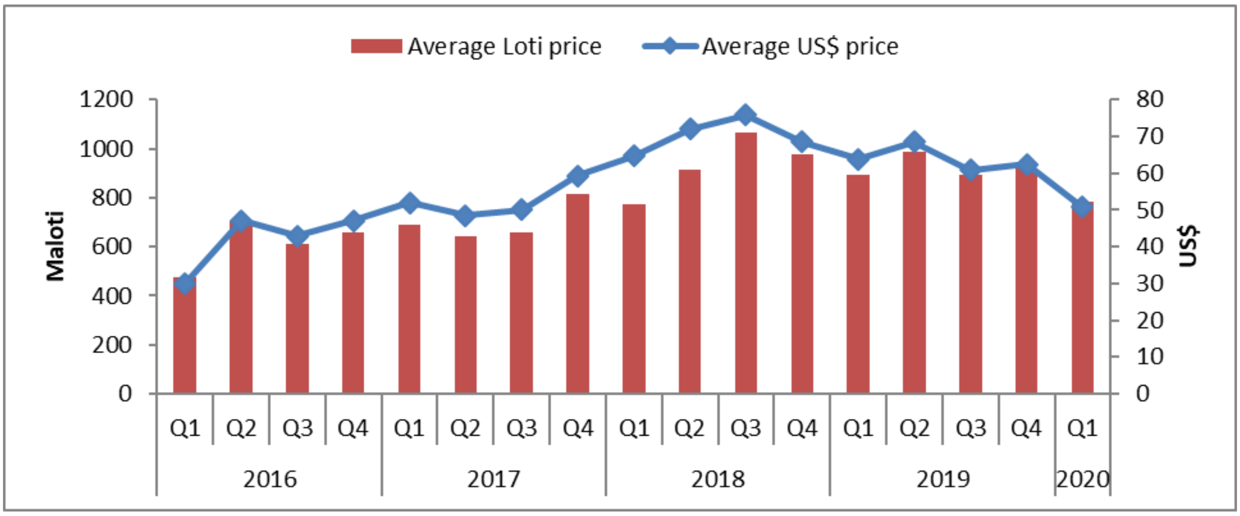
Source: Bloomberg

Energy

Oil

The price of crude oil declined due to the supply glut in the global markets. There were concerns of global recession amid widespread of COVID-19 and resultant lockdown in a number of countries, which weakened demand for oil. In addition, supply of oil remained high, as the OPEC+ failed to reach consensus on output cuts.

Figure 3: Average Price of Oil



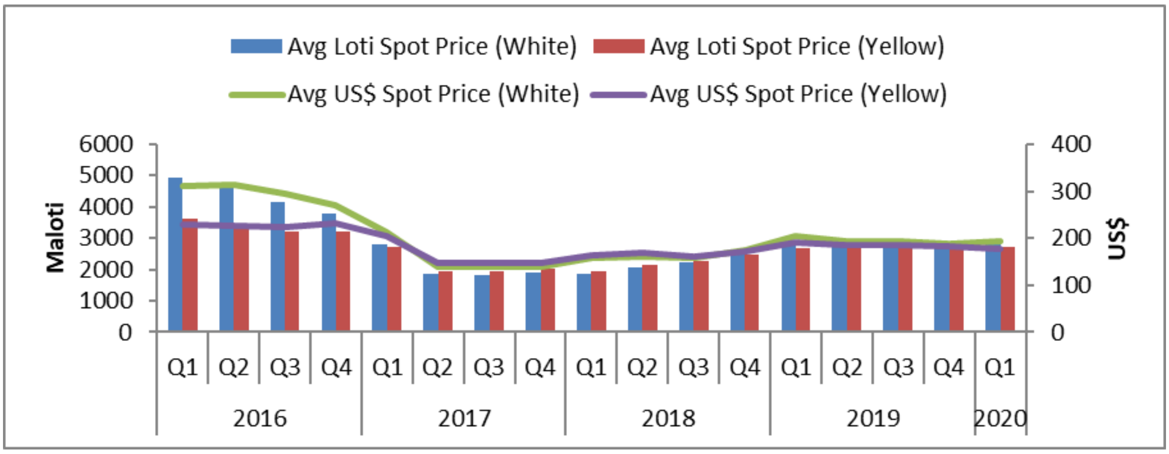
Source: Bloomberg

Agricultural Products

Maize

The price of white maize increased by 2.5 per cent to US$ 192.84 in the first quarter of 2020, recovering from a 3.2 per cent decline in the previous quarter. There was increased demand for industrial use, especially in ethanol production, and domestic use. This was reflected in the increased demand for imports. The price of yellow maize declined by 4.1 per cent to US$ 176.22 in the first quarter of 2020. This extended a decline of 1.4 per cent in the previous quarter. The price of yellow maize declined due to signs of excess supply in the global markets. There was improvement in the production forecasts in South Africa, which was expected to lift inventories.

Figure 4: Average Price of Maize

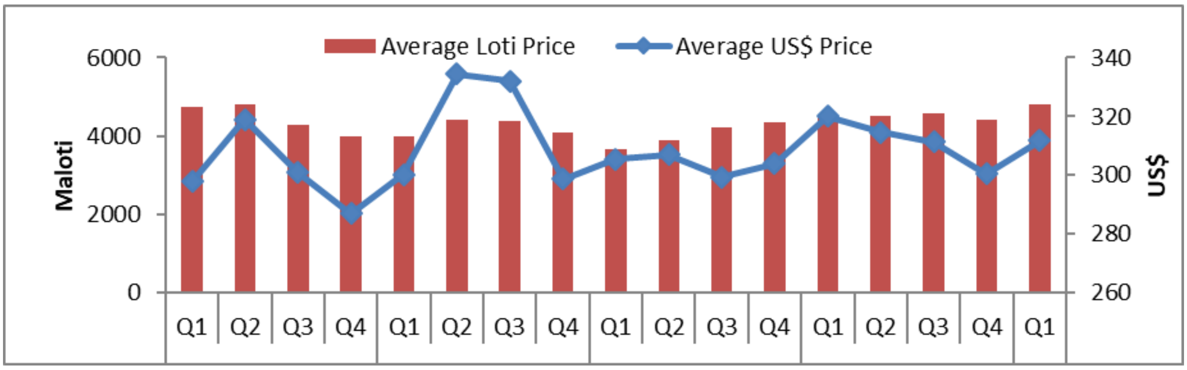


Source: Bloomberg

Wheat

The price of wheat increased by 3.8 per cent to US$ 311.79 in the first quarter of 2020. This was in contrast to a decline of 3.2 per cent in the previous quarter. The price increased due to a fall in supply, reflected by a decline in inventories. Demand for wheat, in connection with food consumption, also increased during the quarter.

Figure 5: Average Price of Wheat

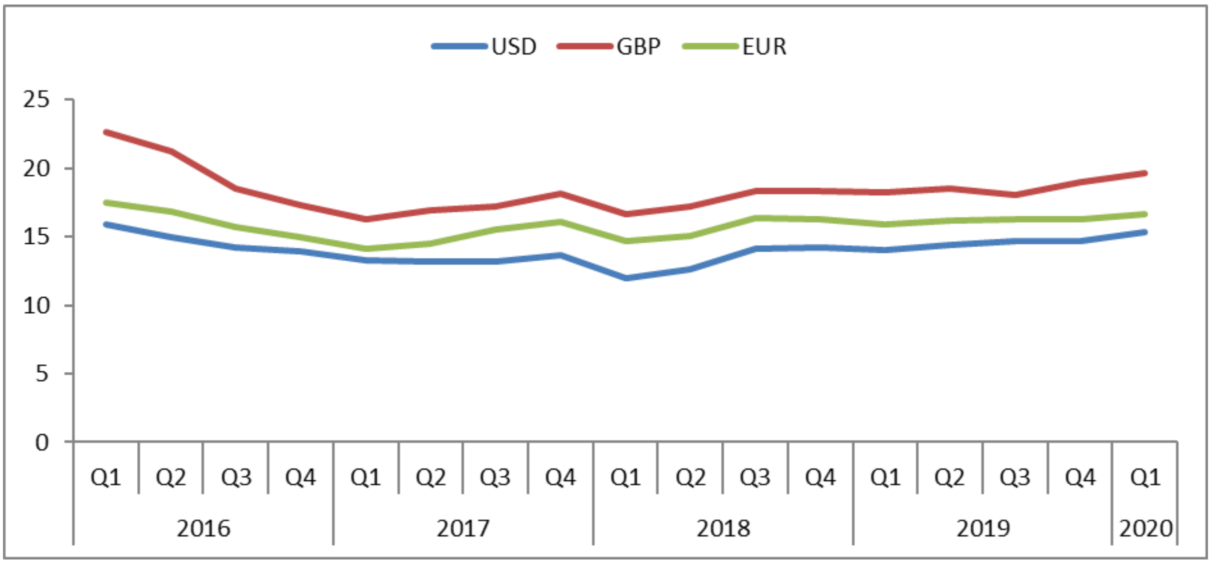


Source: Bloomberg

EXCHANGE RATES

The rand, hence the loti, depreciated against the major trading currencies in the first quarter of 2020. It weakened by 4.5 per cent against the dollar, 3.5 per cent against the pound, and 2.3 per cent against the euro. The outbreak of COVID-19 led to unprecedented blow to the global economy, which resulted in growing risk aversion. As a result, there was a selloff of risky assets including South Africa securities. The situation was exacerbated by South Africa's sovereign credit downgrade to junk status by Moody's. The weakened economic activity and worsening economic outlook also had negative effect on the rand.

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



Source: Bloomberg

3. Real Sector Developments

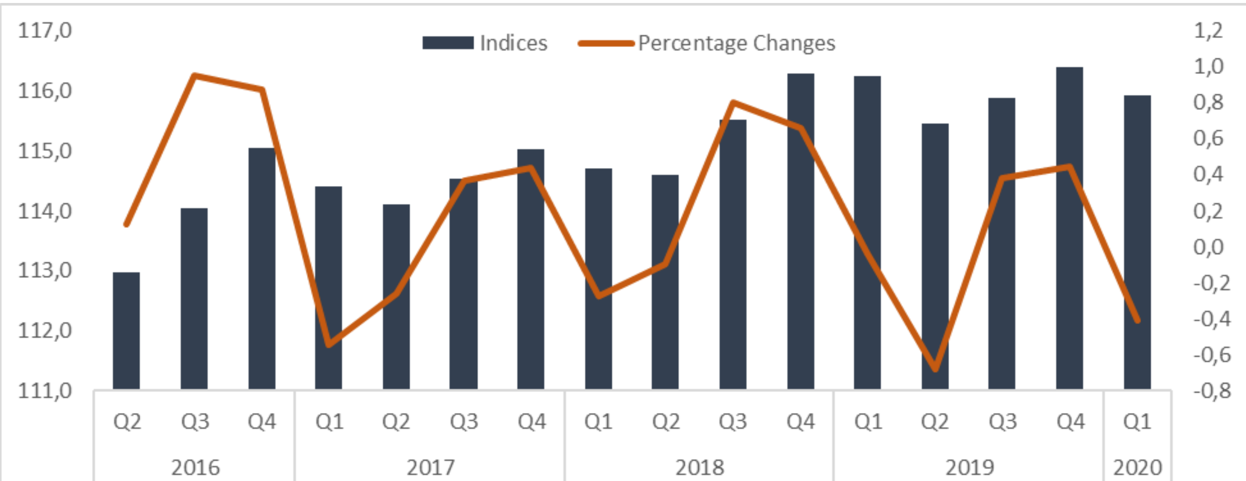
OVERVIEW

The domestic economy was under pressure during the review quarter, with domestic demand the main contributor to the sluggish performance given that the production side remained positive though at a marginal rate. Labour markets showed mixed signals; both government and LNDC-assisted companies recorded growth in employment, whereas the numbers for migrant mineworkers continued to fall. The local price developments showed a decrease in the rate of inflation between the quarters. Compared to the South African counterpart, the inflation rates continued moving in the same direction.

OUTPUT DEVELOPMENTS

As measured by quarter-on-quarter change in the composite indicator of economic activity, the economy was estimated to have contracted in the first quarter of 2020. The indicator was estimated to have contracted by 0.4 per cent in the quarter under review, compared to the 0.4 per cent increase recorded in the preceding quarter. This mainly reflected decline in the components that relate to demand, which was estimated to have contracted by 0.8 per cent in March 2020, after a 0.1 per cent growth in December 2019. The dwindling in demand was mostly recorded in government activity as indicated by a drop in government purchases of goods and services during the review quarter. The same was also observed in the construction subsector, which also contributed to the decline in the overall index. The manufacturing category, however, moderated the drop with a 0.2 per cent growth in the review quarter, after a 0.1 per cent growth in the preceding quarter. The improvement was a result of increase in imports of raw materials. Growing credit extension also cushioned the index against a heavy contraction.

Figure 7: Quarterly Indicator of Economic Activity



Source: Central Bank of Lesotho

Table 2: Contributions to Growth

Indices	2019 Q1	Q2	Q3	Q4	2020 Q1
CIEA	**116.2**	**115.5**	**115.9**	**116.4**	**115.9**
Quarter-on-quarter changes	0.0	-0.7	0.4	0.4	-0.4
Domestic Demand	**114.9**	**113.7**	**114.9**	**115.0**	**114.1**
Quarter-on-quarter changes	1.0	-1.1	1.1	0.1	-0.8
Manufacturing and Production Category	**107.8**	**106.4**	**105.7**	**105.8**	**106.1**
Quarter-on-quarter changes	-0.7	-1.4	-0.6	0.1	0.2

Source: Central Bank of Lesotho

EMPLOYMENT DEVELOPMENTS

Employment by LNDC-assisted companies grew at 2.9 per cent on an annual basis in the first quarter of 2020 compared to a contraction of 0.2 per cent in the fourth quarter of 2019. The major contributors to the increase in employment were the Knit garments, Fabrics, Yarn, etc., Electronics and Retail. Nonetheless, the Woven garments, Food & beverages, as well as, Hotel accommodation moderated the increase in employment during the review period. This was in line with an increase in manufacturing exports and sales during the review period as demand for exports from United States fell while it increased from South Africa.

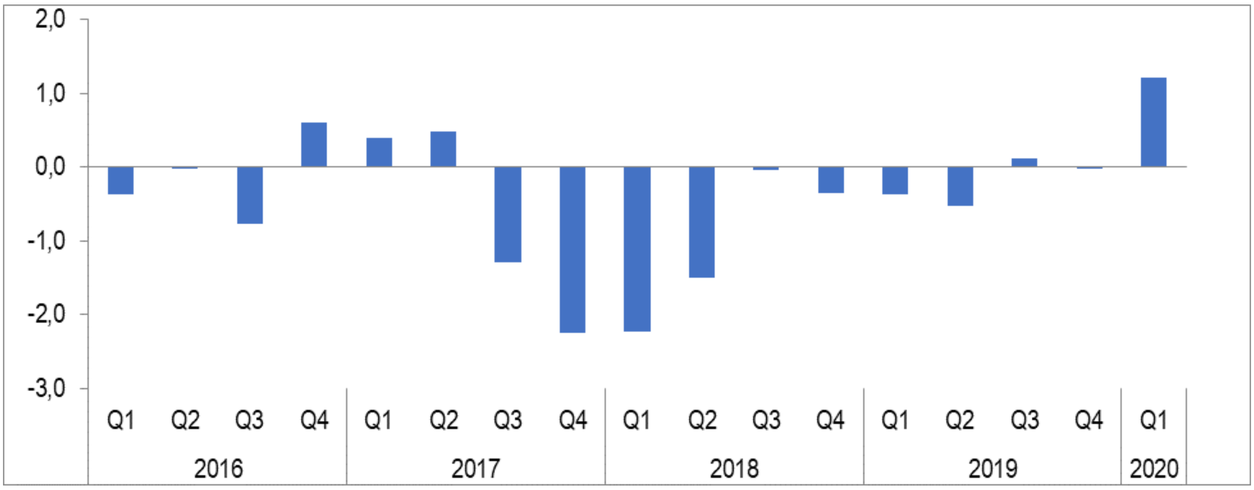
Table 3: Employment by LNDC-Assisted Companies

Industry	2019 Q1	Q2	Q3	Q4	2020 Q1	% Change Q/Q	Y/Y
Knit Garments…………..	27559	26425	28476	28602	29444	2.9	6.8
Woven Garments…….	15812	15260	15803	15304	15456	1.0	-2.3
Footwear…………………	1023	937	934	940	952	1.3	-6.9
Fabrics, Yarn etc……….	1782	2718	1818	1849	1792	-3.1	0.5
Construction…………….	385	373	375	334	374	11.9	-2.9
Food & Beverages………..	705	588	480	479	477	-0.4	-32.3
Electronics………………..	928	1676	1029	1052	1002	-4.7	8.0
Retail………………………	168	213	217	217	217	0.0	29.2
Hotel Accomm………..	576	389	394	394	441	11.8	-23.5
Other……………………..	1149	1210	1216	1279	1404	9.7	22.2
TOTAL……………………	**50087**	**49789**	**50742**	**50450**	**51559**	**2.2**	**2.9**

Source: Lesotho National Development Corporation

The number of public sector employees increased by 1.2 per cent, on a year-on-year basis in the first quarter of 2020 compared with stagnation in the fourth quarter of 2019. The main contributor to the increase was the number of civil servants. Nonetheless, the number of teachers declined during the review period, moderating the overall increase in government employment.

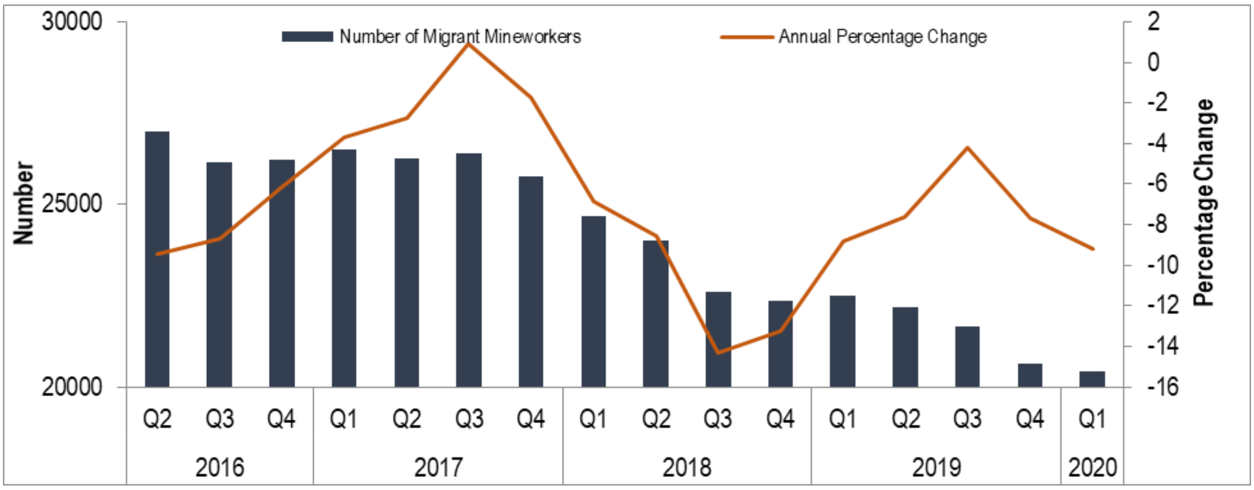
Figure 8: Government Employment *(Annual Percentage Change)*



Source: Ministry of Finance

The total number of migrant mineworkers continued to decline at a faster rate of 9.2 per cent in the first quarter of 2020 on an annual basis compared with 7.7 per cent in the fourth quarter of 2019. The mining sector in South Africa continued to be under pressure due to elevated operational costs, as well as, increasing mechanisation of the deep-level mining, often for lower grades of gold. The sector also is transitioning from deep-level to shallower mining.

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



Source: The Employment Bureau of Africa (TEBA)

PRICE DEVELOPMENTS

The inflation rate, measured as the annual change in consumer price index, was estimated at 4.0 per cent in March 2020, compared with 4.8 per cent in December 2019. The main determinants of the decelerating inflation rate during the review period was the decline in food prices. This was mainly driven by the improved prospects for 2020 harvest coupled with increased imports of maize, which led to the declining domestic prices in South Africa and hence Lesotho. Nonetheless, the weak loti-

US dollar exchange rate dampened the effect of falling oil prices and hence led to the increase in energy prices.

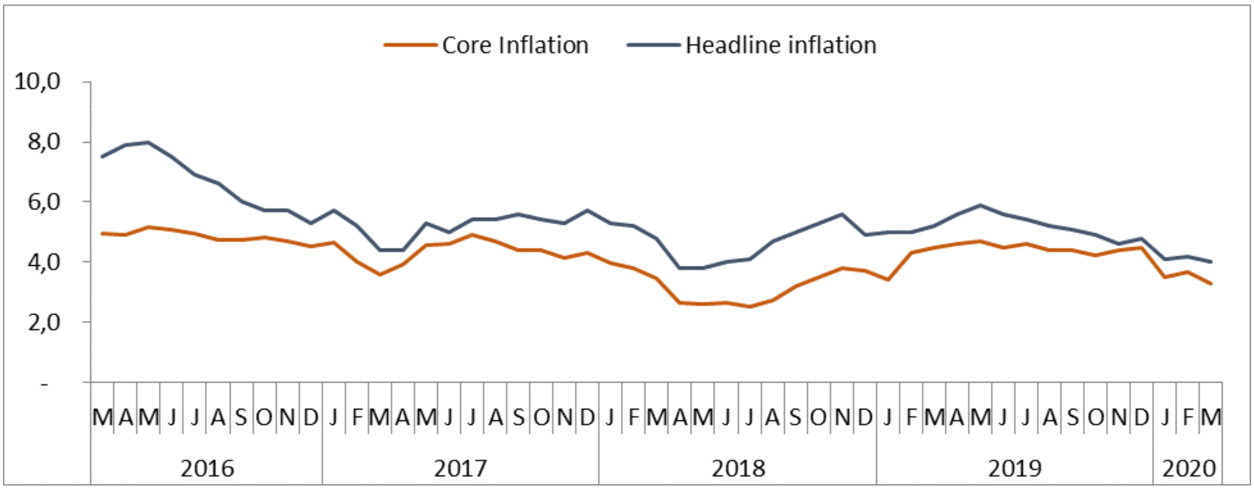
Table 2: Inflation Rate *(Annual Percentage Changes)*

		2019		2020		
	Weight	Nov	Dec	Jan	Feb	Mar
All items	**1000**	**4.6**	**4.8**	**4.1**	**4.2**	**4.0**
Food and non-alcoholic beverages	**361.13**	7.2	7.4	5.6	5.5	5.2
Alcoholic beverages & Tobacco	**33.31**	4.3	4.1	3.7	3.6	2.8
Clothing & footwear	**130.57**	4.5	4.4	4.6	4.3	3.9
Housing, electricity gas & other fuels	**123.97**	3.9	3.3	3.3	5.1	4.6
Furniture, households equipment & routine maintenance	**84.77**	3.8	3.7	1.9	1.8	1.7
Health	**15.04**	1.1	1.1	1.1	1.5	1.5
Transport	**48.21**	-3.3	0.0	3.2	2.7	4.8
Communication	**21.05**	0.2	0.2	0.2	0.2	0.2
Recreation & Culture	**57.08**	5.2	5.1	3.4	3.4	3.1
Education	**42.00**	1.0	1.0	4.1	4.1	4.1
Restaurant & Hotels	**10.30**	2.1	2.3	1.7	2.3	2.1
Miscellaneous goods & services	**72.59**	3.4	3.5	2.2	1.9	1.7

Source: Bureau of Statistics

Both headline and core inflation rates continued to move in tandem during the first quarter of 2020. They declined from 4.8 per cent and 4.5 in December 2019 to reach 4.0 per cent and 3.3 per cent in March 2020, respectively.

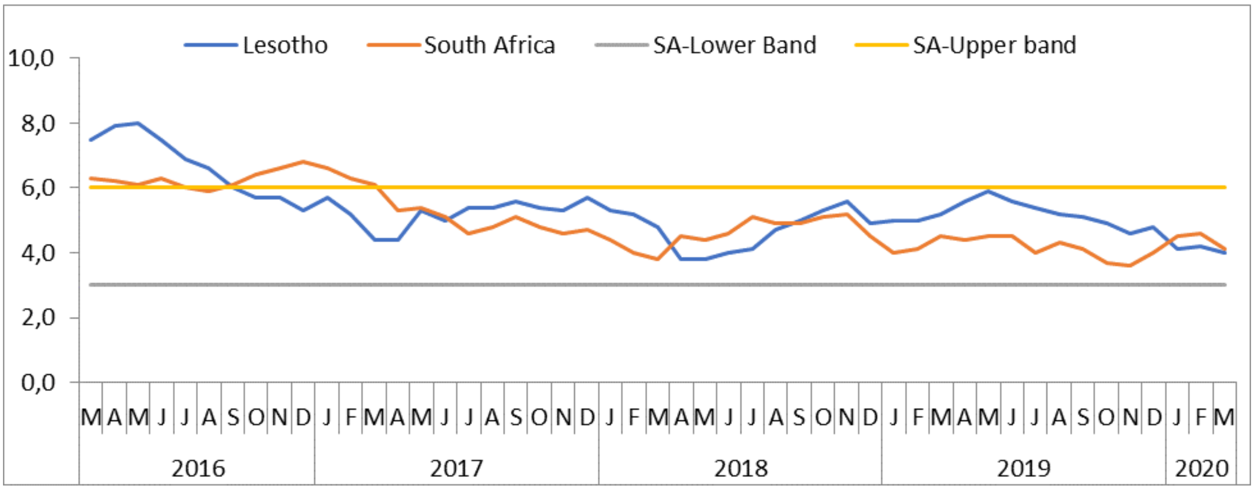
Figure 10: Core vs Headline Inflation



Source: CBL Computations

Inflation rates in Lesotho and South Africa continued to move closely. However, inflation rate in Lesotho was lower than its South African counterpart during the review period. The South African annual inflation rate was recorded at 4.1 per cent in March 2020, mainly driven by food prices, which offset declines in transport costs due to falling oil prices.

Figure 11: Lesotho and South Africa's Inflation



Source: Bureau of Statistics, Statistics South Africa

4. Monetary and Financial Developments

OVERVIEW

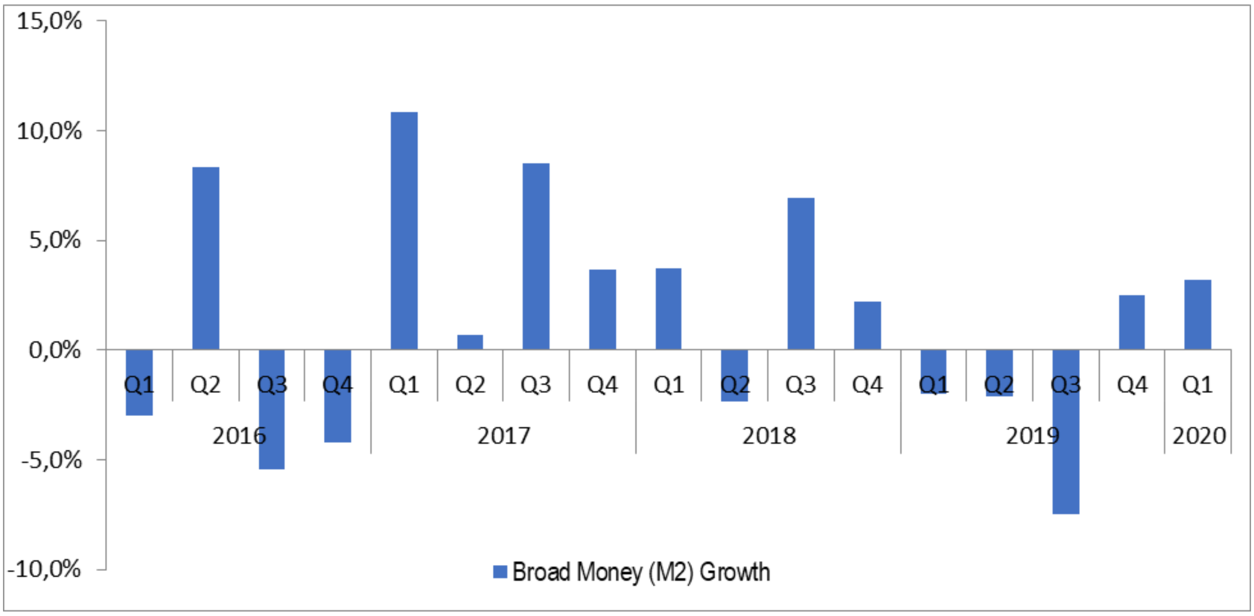
The broad money supply (M2) increased during the first quarter of 2020, largely attributed to a rise in both domestic claims and net foreign assets (NFA). The rise in domestic claims was at the back of an increase in credit to the private sector, which was further reinforced by the drop in government deposits. Furthermore, the growth in NFA was mainly due to an increase in commercial banks' NFA, which resulted from an increase in total deposits, notwithstanding the rise in private sector credit.

BROAD MONEY (M2)

The broad measure of money supply (M2) grew by 3.2 per cent during the quarter ending in March 2020, relative to a 2.5 per cent growth observed in the previous quarter. The rise in M2 was supported by 8.8 per cent increase in domestic claims, as well as, a rise in the banking system NFA by 7.3 per cent. Measured over twelve months, money supply decreased by 4.2 per cent following a decline of 9.0 per cent observed in the fourth quarter of 2019.

Figure 12: Broad Money (M2) *(Quarterly Changes)*

Quarter-on-quarter percentage changes



Source: Central Bank of Lesotho

Determinants of M2

Domestic Claims

Domestic claims, including net claims on government, increased by 8.8 per cent during the quarter under review, compared to a 2.5 per cent decline in the quarter ending in December 2019. This was mainly driven by a 3.3 per cent growth in claims on other sectors, stemming from a 4.5 per cent increase in private sector credit. Additionally, net claims on government grew by 10.9 per cent, following the drawdown of government deposits with the central bank by 5.8 per cent.

Table 3: Domestic Claims *(Million Maloti)*

	2019				2020	Changes (%)	
	Q1	Q2	Q3	Q4	Q1	Q/Q	Y/Y
Domestic Claims	**6705.95**	**6296.08**	**5656.55**	**5517.40**	**6002.15**	**8.79**	**-10.50**
Net Claims on Government	**-314.60**	**-964.42**	**-2094.57**	**-2117.34**	**-1886.68**	**10.89**	**-499.71**
Commercial Banks Net Claims	**1944.32**	**2007.85**	**232.67**	**468.44**	**440.56**	**-5.95**	**-77.34**
Claims on Central Government	1950.66	2013.54	2128.67	2162.87	2028.14	**-6.23**	**3.97**
Liabilities to Central Government	6.34	5.69	1896.00	1694.43	1587.58	**-6.31**	**-**
Central Bank Net Claims	**-2258.92**	**-2972.27**	**-2327.24**	**-2585.78**	**-2327.24**	**10.00**	**-3.02**
Claims on Central Government	706.34	716.31	720.65	515.65	593.31	**15.06**	**-16.00**
Liabilities to Central Government	2965.26	3688.58	3047.88	3101.43	2920.55	**-5.83**	**-1.51**
Claims on Other Sectors	**7020.54**	**7260.50**	**7751.12**	**7634.73**	**7888.83**	**3.33**	**12.37**
Claims on OFCs	203.16	184.68	211.53	231.35	145.41	**-37.15**	**-28.43**
Claims on Public Nonfinancial Corporations	0.00	0.00	40.67	38.20	47.98	**25.59**	**-**
Claims on St &Local Government	0.00	0.00	0.00	0.00	0.00	**-**	**-**
Claims on Private Sector	**6817.38**	**7075.82**	**7498.92**	**7365.18**	**7695.44**	**4.48**	**12.88**
Claims on Business Enterprises	2027.52	2188.16	2329.62	2172.34	2423.99	**11.58**	**19.55**
Claims on Households	4789.86	4887.66	5169.30	5192.84	5271.46	**1.51**	**10.05**

Source: Central Bank of Lesotho

Net Foreign Assets

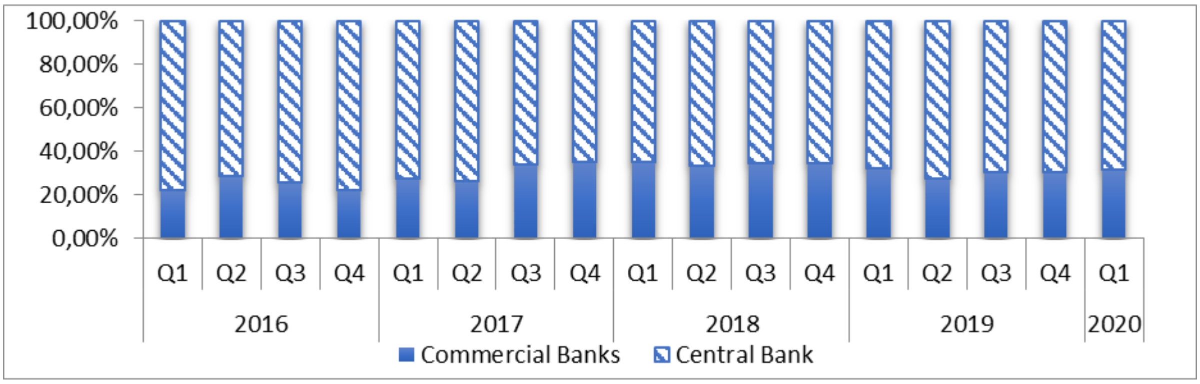
The overall banking system NFA grew by 7.3 per cent during the quarter under review, from an increase of 1.4 per cent observed in the previous quarter. On a-year-on-year basis, NFA grew by 10.9 per cent, following an increase of 1.2 per cent in the quarter ending in December 2019. The quarterly growth in NFA was mainly supported by 11.6 per cent growth in commercial banks' NFA following their increased placements abroad. Having extended credit and met local prudential requirements, banks placed excess deposits abroad in search for better returns. Moreover, the Central Bank NFA rose by 5.5 per cent, which was largely due to the revaluation gains following the Rand (and hence Loti) depreciation. As a share of the total NFA, the commercial banks NFA accounted for 31.4 per cent, while the central bank NFA stood at 68.6 per cent at the end of March 2020.

Table 4: Net Foreign Assets *(Million Maloti)*

	2019				2020	Changes (%)	
	Q1	Q2	Q3	Q4	Q1	Quarterly	Annual
Commercial Banks	**4723.62**	**4037.40**	**4599.38**	**4603.91**	**5138.76**	**11.62**	**8.79**
Claims on Non-residents	5343.20	4490.49	5040.69	5026.74	5510.98	**9.63**	**3.14**
Liabilities to Non-residents	619.58	453.09	441.31	422.83	372.22	**-11.97**	**-39.92**
Central Bank	**10016.57**	**10820.24**	**10415.71**	**10618.21**	**11,200.94**	**5.49**	**11.82**
Claims on Non-residents	11361.78	12075.90	11697.66	11733.04	12600.80	**7.40**	**10.91**
Liabilities to Non-residents	1345.21	1255.66	1281.95	1114.83	1399.86	**25.57**	**4.06**
Net Foreign Assets Total	**14740.19**	**14857.64**	**15015.09**	**15222.12**	**16339.70**	**7.34**	**10.85**

Source: Central Bank of Lesotho

Figure 13: Net Foreign Assets *(percentage shares)*



Source: Central Bank of Lesotho

Components of M2

The quarter-on-quarter growth observed in money supply was on account of 8.3 per cent increase in narrow money (M1), which was moderated by a 0.8 per cent fall in quasi money. The growth in M1, on the one hand, followed a rise in transferable deposits held by households and business enterprises. On the other hand, the fall in quasi money was at the back of a decline in other deposits by businesses, particularly those operating within the community, social and personal services sector.

Table 5: Components of Money Supply *(Million Maloti)*

	2019				2020	Changes (%)	
	Q1	Q2	Q3	Q4	Q1	Quarterly	Annual
Broad Money (M2)	**13135.38**	**12859.94**	**11897.70**	**12195.22**	**12582.6**	**3.18**	**-4.21**
Narrow Money (M1)	**6087.97**	**5499.41**	**4988.36**	**5333.90**	**5774.3**	**8.26**	**-5.15**
Currency Outside DCs	1014.01	1003.29	1031.27	1148.90	1095.3	**-4.67**	**8.01**
Transferable Deposits	5073.97	4496.12	3957.09	4185.00	4679.0	**11.81**	**-7.78**
Quasi Money	**7047.41**	**7360.54**	**6909.34**	**6861.32**	**6808.3**	**-0.77**	**-3.39**
Other Deposits Commercial Banks	6993.31	7306.83	6855.28	6811.49	6765.2	**-0.68**	**-3.26**
Other Deposits Central Bank	54.09	53.71	54.06	49.83	43.2	**-13.38**	**-20.20**

Source: Central Bank of Lesotho

CREDIT EXTENSION

Trends of Credit Extended to Business Enterprises

During the quarter under review, total credit extended to business enterprises increased by 11.6 per cent, compared to a decline of 6.8 per cent observed in the previous quarter. The significant rise in credit was particularly noted in the mining sector, while credit extension in the majority of sectors declined, moderating the increase in business sector credit. Moreover, the rise in credit to the mining sector resulted from the normal use of overdraft facilities as a source of working capital financing. On an annual basis, growth in credit to business enterprises rose by 19.6 per cent, following an increase of 3.6 per cent in the previous quarter.

Table 6: Credit Extension by Economic Activity (Million Maloti)

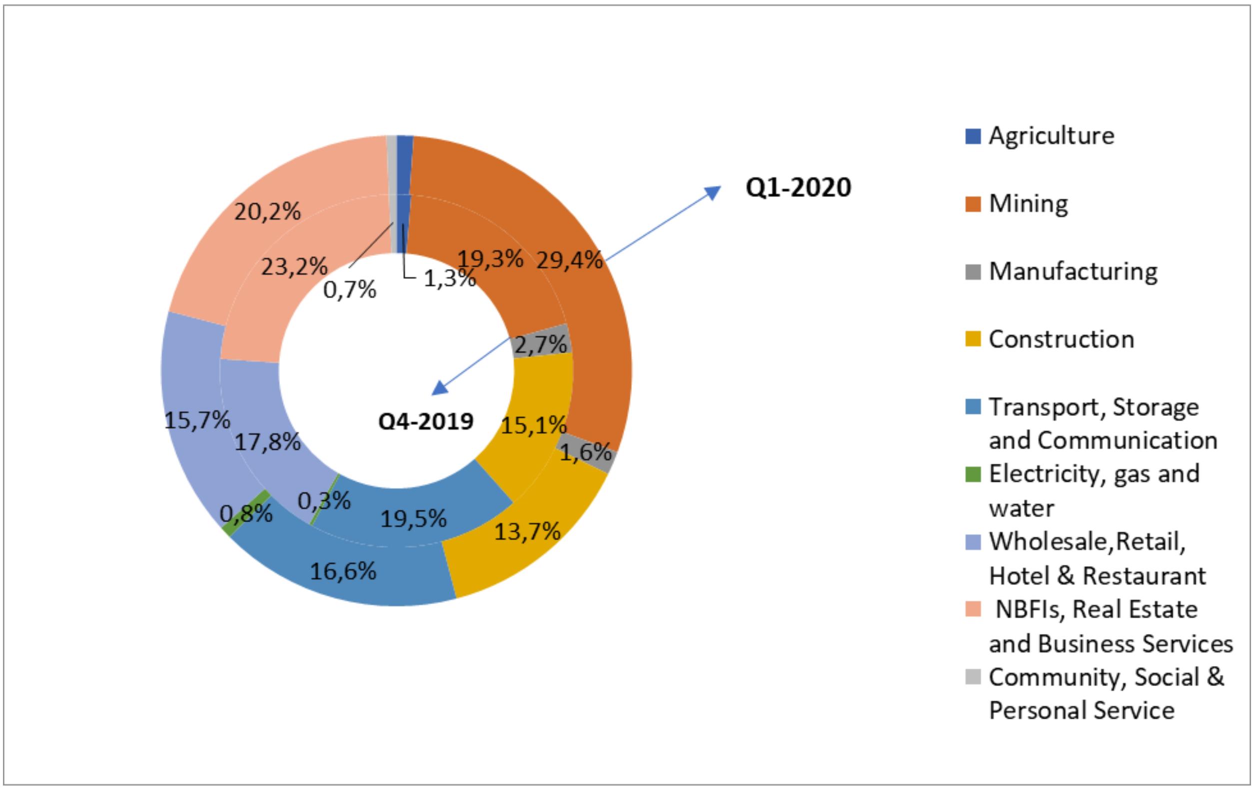
	2019				2020	Changes (%)	
SECTOR	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Quarterly**	**Annual**
Agriculture	29.16	23.48	27.09	29.23	28.37	**-2.94**	**-2.72**
Mining	353.32	505.67	633.92	419.93	713.77	**69.97**	**102.02**
Manufacturing	104.06	95.92	66.79	57.95	38.83	**-33.00**	**-62.69**
Electricity, gas and water	51.05	68.49	42.62	44.66	20.17	**-212.51**	**-60.48**
Construction	277.17	297.23	278.94	328.05	331.56	**1.07**	**19.62**
Wholesale, Retail, Hotel & Restaurant	355.29	320.60	386.68	387.47	380.54	**-1.79**	**7.11**
Transport, Storage and Communication	346.82	355.77	355.94	423.67	403.56	**-4.75**	**16.36**
NBFIs, Real Estate and Business Services	492.96	503.99	562.78	504.62	490.67	**-2.76**	**-0.46**
Community, Social & Personal Service	17.69	17.01	15.52	14.97	16.52	**10.32**	**-6.62**
All Sectors	**2027.52**	**2188.16**	**2370.29**	**2210.55**	**2423.99**	**11.58**	**19.55**

Source: Central Bank of Lesotho

Distribution of credit Extended to Business Enterprises

With regard to the distribution of credit extended to business enterprises, mining, NBFI's real estate and business services, and transport storage and communication sectors accounted for the biggest shares at 29.4 per cent, 20.2 per cent and 16.6 per cent, respectively. On the contrary, community social and personal services, electricity gas and water, and agriculture sectors continued to receive the smallest shares.

Figure 14: Distribution of Credit *(Percentage Shares)*

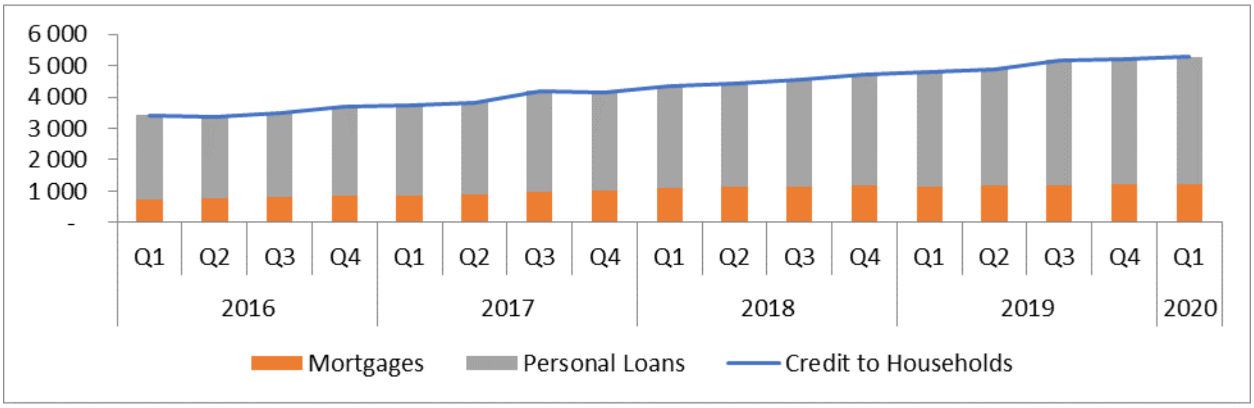


Source: Central Bank of Lesotho

Credit extended to Households

During the quarter under review, credit to households registered a growth of 1.5 per cent, following 3.2 per cent recorded in the fourth quarter of 2019. This was due to the increase in both personal loans and mortgages by 1.4 per cent and 1.9 per cent, respectively. The growth in personal loans was mainly attributable to the ease of access to unsecured credit through various banking platforms coupled with aggressive advertising strategies, while mortgages benefitted from the increasing use of redraw facilities. On a year-on-year basis, growth in households' credit increased by 10.1 per cent, following an upsurge of 10.2 per cent in the preceding quarter.

Figure 15: Credit Extension to Household *(Million Maloti)*



Source: Central Bank of Lesotho

LIQUIDITY OF COMMERCIAL BANKS

Components of liquidity

The credit -to -deposit ratio rose from 57.1 per cent to 58.2 per cent between December 2019 and March 2020. This reflected a higher growth rate in credit extension relative to the growth in total deposits. The liquidity ratio also increased from 59.0 per cent to 63.8 per cent during the review quarter, mainly on account of an increase in balances due from banks in Lesotho.

Table 7: Components of Liquidity *(Million Maloti)*

	2019				2020
	Q1	Q2	Q3	Q4	Q1
Credit to Deposit Ratio	**55.57%**	**58.95%**	**57.00%**	**57.10%**	**58.19%**
Private Sector Credit	6717.45	6971.13	7256.52	7257.25	7588.93
Total Deposits	12089.31	11824.96	12730.49	12708.95	13040.98
Liquidity Ratio	**70.08%**	**65.85%**	**64.91%**	**58.97%**	**63.83%**
Notes and Coins	407.22	438.74	429.56	726.47	579.30
Balance due from banks in Lesotho	1260.47	1261.56	1348.06	1100.93	2479.39
Balance due from banks in SA	4771.92	3909.05	4158.96	3311.62	3334.96
Surplus funds	82.02	163.44	198.74	192.93	-97.11
Government Securities	1950.66	2013.54	2128.67	2162.87	2028.14
Total	**8472.28**	**7786.33**	**8263.98**	**7494.83**	**8324.67**

Source: Central Bank of Lesotho

Commercial Banks Sources of Funds

The commercial banks' total deposits, which are the main sources of funds for the banks, grew by 2.6 per cent during the quarter under review. This was due to the growth of 11.8 per cent in transferable deposits held mainly by households and business enterprises. However, the increase in total deposits was moderated by the decline in deposits held by both businesses and state owned enterprises.

Table 8: Sources of funds for ODCs *(Million Maloti)*

	2019				2020	Changes (%)	
	Q1	Q2	Q3	Q4	Q1	Quarterly	Annual
Transferable Deposits Incl. in BM	**5073.97**	**4496.12**	**3957.09**	**4185.00**	**4679.04**	**11.81**	**-7.78**
Other Financial Corporations	52.03	42.01	36.67	52.27	31.56	**-39.61**	**-39.33**
Public Nonfinancial Corporations	99.82	60.10	51.98	60.37	106.90	**77.07**	**7.10**
Private Sector	4904.43	4376.31	3775.99	4019.06	4524.10	**12.57**	**-7.75**
Other NFCs	3473.25	2927.53	2461.04	2781.99	3204.70	**15.19**	**-7.73**
Other Sectors (Households)	1431.18	1448.79	1314.95	1237.07	1319.40	**6.66**	**-7.81**
Other Deposits Incl. in BM	**6993.31**	**7306.83**	**6855.28**	**6811.49**	**6765.16**	**-0.68**	**-3.26**
Other Financial Corporations	163.82	51.89	252.00	273.45	257.84	**-5.71**	**57.40**
Public Nonfinancial Corporations	499.24	450.57	385.72	329.13	281.32	**-14.53**	**-43.65**
Private Sector	6330.25	6804.37	6217.55	6208.92	6226.00	**0.28**	**-1.65**
Other NFCs	4279.08	4676.05	4127.20	4184.67	4052.88	**-3.15**	**-5.29**
Other Sectors (Households)	2051.17	2128.32	2090.35	2024.24	2173.12	**7.35**	**5.95**
Deposits excluded in BM	**22.03**	**22.02**	**1918.12**	**1712.47**	**1596.78**	**-6.76**	
Total Deposits	**12089.31**	**11824.96**	**12730.49**	**12708.95**	**13040.98**	**2.61**	**7.87**

Source: Central Bank of Lesotho

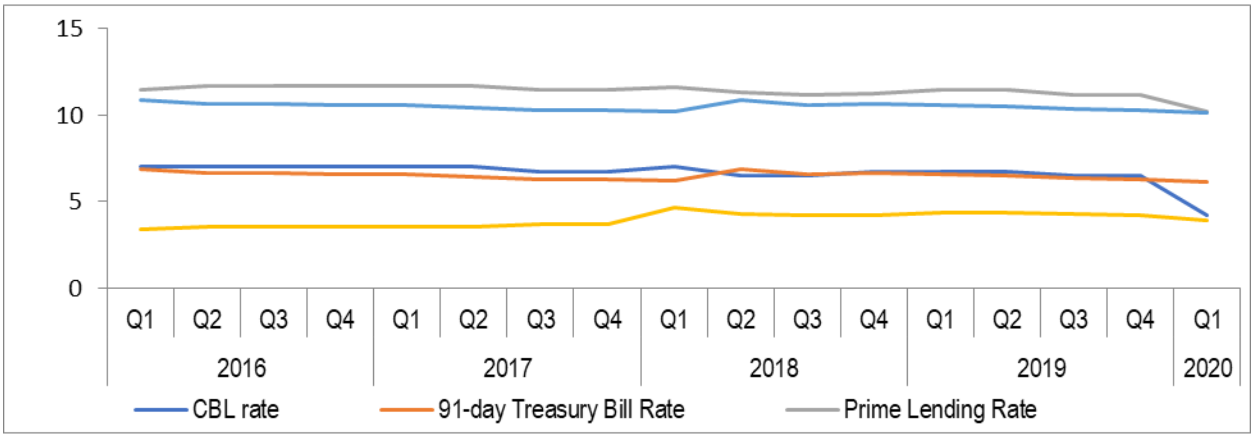
MONEY AND CAPITAL MARKET DEVELOPMENTS

Money Market

Interest Rates

The CBL Policy rate recorded the largest cut since its inception in December 2015, following the response of the Monetary Policy Committee to the COVID-19 pandemic. The key policy rate was reduced from 6.50 per cent in the fourth quarter of 2019 to 4.25 per cent in the review quarter. This was followed by a decline in the average prime rate by 100 basis points to 10.19 per cent. The 91-day Treasury bill rate and the 1-year deposit rate also declined in the quarter ending in March 2020, falling from 6.26 per cent and 4.24 per cent to 6.11 per cent and 3.94 per cent, respectively. Nonetheless, treasury bills continued to offer positive real returns as the rates remain above the inflation rate of 4.0 per cent.

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



Source: Central Bank of Lesotho

Table 9: Interest rates

	2018				2020
	Q1	**Q2**	**Q3**	**Q4**	**Q1**
Central Bank					
CBL rate	6.75	6.50	6.50	6.50	4.50
T-Bill Rate - 91 days	6.60	6.49	6.34	6.26	6.11
Lombard Rate	10.60	10.49	10.34	10.26	10.11
Commercial Banks					
Call	1.22	1.22	1.09	1.09	0.81
Time:					
31 days	0.70	0.70	0.70	0.70	0.69
88 days	1.34	1.34	2.08	2.08	1.94
6 months	2.65	2.65	3.25		
1 year	4.34	4.44	4.32	4.24	3.94
Savings	0.70	0.70	0.70	0.70	1.26
Prime	11.44	11.44	11.19	11.19	10.19
South Africa					
Repo	6.75	6.75	6.50	6.50	5.25
T-Bill Rate - 91 days	6.98	7.10	6.87	7.16	5.60
Marginal Lending Rate					
Prime	10.25	10.25	10.00	10.00	8.75

Source: Central Bank of Lesotho

Holding of Treasury Bills and T-Bill rates

The overall holding of treasury bills decreased by 8.0 per cent in the quarter under review, compared to a muted increase of 0.02 per cent registered in the last quarter of 2019. The decrease in the treasury bill holding was mainly driven by maturing stock within the banking sector, which was, however, moderated by a new issuance in support of fiscal policy operations.

Table 10: Holding of Bills and Yields *(Million Maloti)*

	2019				2020
	Q1	Q2	Q3	Q4	Q1
Treasury Bills	**1476.77**	**1420.08**	**1418.25**	**1418.58**	**1305.67**
Banking System	1223.79	1165.45	1170.00	1176.91	1067.74
Non-Bank Sector	252.98	254.63	248.25	241.67	237.93
Memorandum Item					
Yield Bills (91-days)	6.71	6.60	6.44	6.34	6.20

Source: Central Bank of Lesotho

Holding of Treasury Bonds

Following a treasury bonds auction held primarily for the financing of government operations, the outstanding stock of treasury bonds increased by 16.5 per cent in the quarter ending in March 2020, relative to an increase of 2.2 per cent observed in the previous quarter. The holding of treasury bonds by the non-bank sector increased by 29.7 per cent, following a marginal increase of 0.4 per cent in the previous quarter.

Table 11: Holding of Bonds *(Million Maloti)*

	2019				2020
	Q1	Q2	Q3	Q4	Q1
Holding of Treasury Bonds	**1732.22**	**1867.96**	**2000.54**	**2044.67**	**2382.62**
Banking System	760.97	883.30	923.66	963.96	980.55
Non-Bank Sector	971.25	984.67	1076.88	1080.71	1402.07

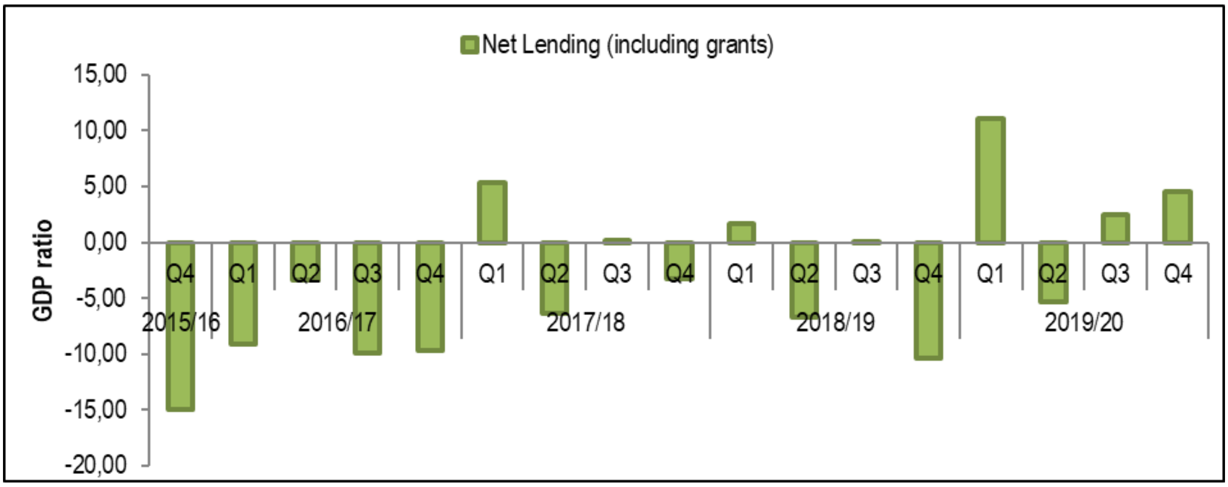
Source: Central Bank of Lesotho

5. Government Finance

OVERVIEW

The Government budgetary operations were estimated to have recorded a budget surplus of 4.6 per cent of GDP for the quarter ending in March 2020, following a revised surplus of 2.5 per cent of GDP in the previous quarter. The surpluses were due to higher revenue collections that exceeded expenditure during the quarter. The public sector debt stock was projected at 45.8 per cent of GDP during the period under review, compared with 45.7 per cent of GDP in the third fiscal quarter of 2019/20.

Figure 17: Fiscal Balance *(Per cent of GDP)*



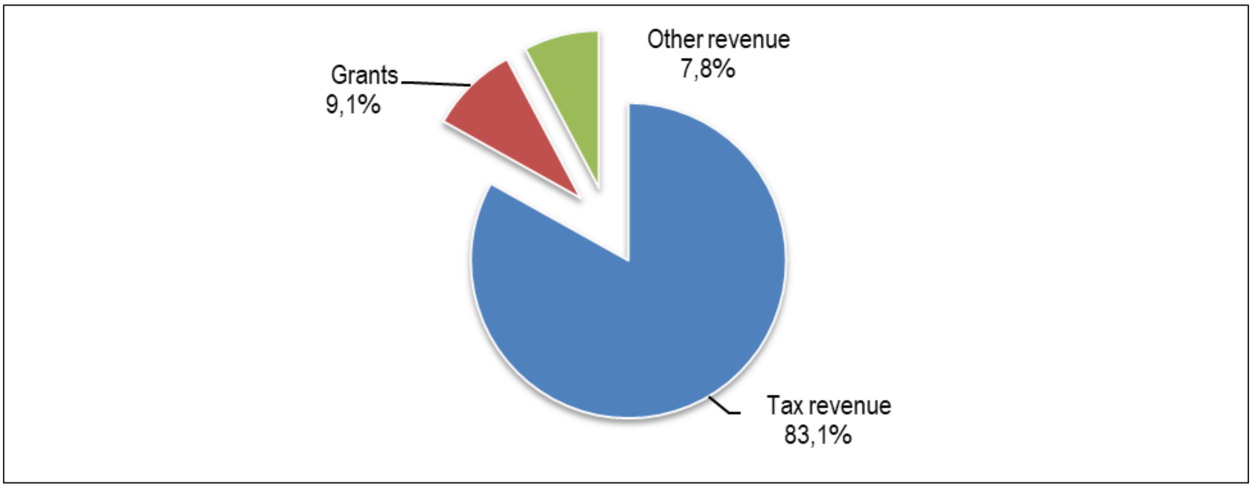
Source: Central Bank of Lesotho (CBL) and Ministry of Finance (MOF)

REVENUE

Total revenue for the quarter under review grew by 5.0 per cent, in contrast to a 4.6 per cent fall in the previous quarter. The increase in the quarter under review came from taxes[1], while all other components of revenue declined. The increase in tax revenue was mainly due to VAT collections and receipts from Rand monetary compensation. On an annual basis, Government revenue declined by 2.2 per cent during this fiscal quarter, relative to a rise of 0.4 per cent in the previous fiscal quarter.

[1] Taxes include SACU components namely Customs and Excise revenue.

Figure 18: Total Revenue *(Percentage Share)*

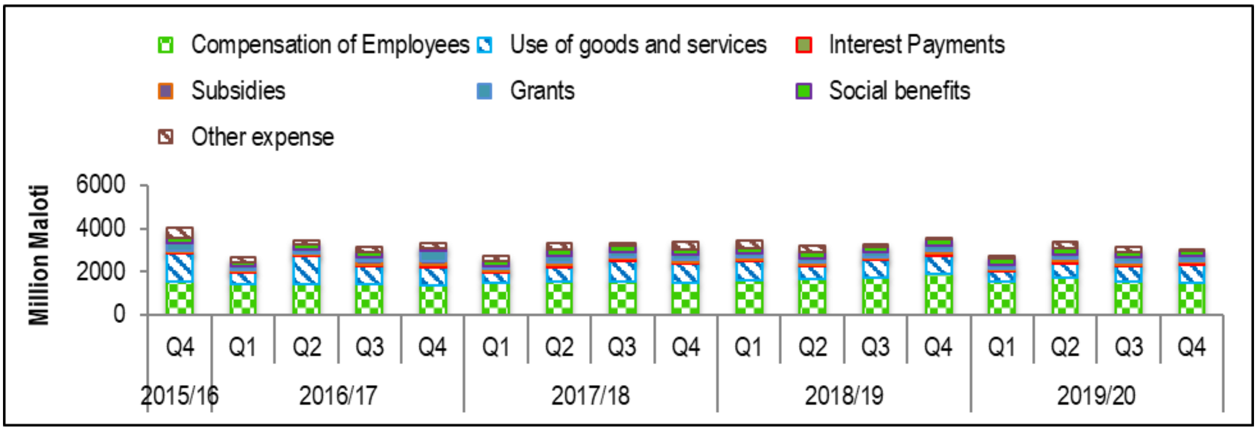


Source: CBL and MOF

TOTAL EXPENDITURE

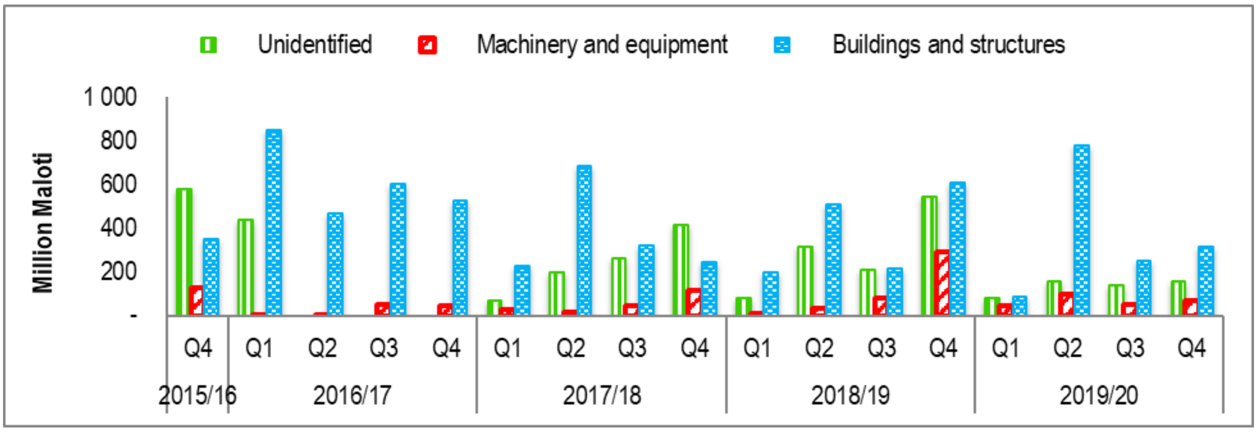
The Government expenditure declined by 0.8 per cent in the final fiscal quarter of 2019/20, compared to a decline of 19.5 per cent in the previous fiscal quarter. In the quarter under review, expenses declined by 3.9 per cent while non-financial assets increased by 20.9 per cent. However, the decline in expenses burdened the increase in non-financial assets. The reduction in expenses was attributable to lower spending on compensation of employees, subsidies, social benefits and other expenses, with the main reduction of 100.0 per cent observed in student grants under other expense. On an annual basis, total expenditure fell by 28.9 per cent in the fiscal quarter under review, compared to a fall of 5.7 per cent in the previous quarter.

Figure 19: Total Expense or Recurrent Expenditure *(Million Maloti)*



Source: CBL and MOF

Figure 20: Total Non-financial assets or Capital expenditure *(Million Maloti)*



Source: CBL and MOF

Table 12: Statement of Government Operations *(Million Maloti)*

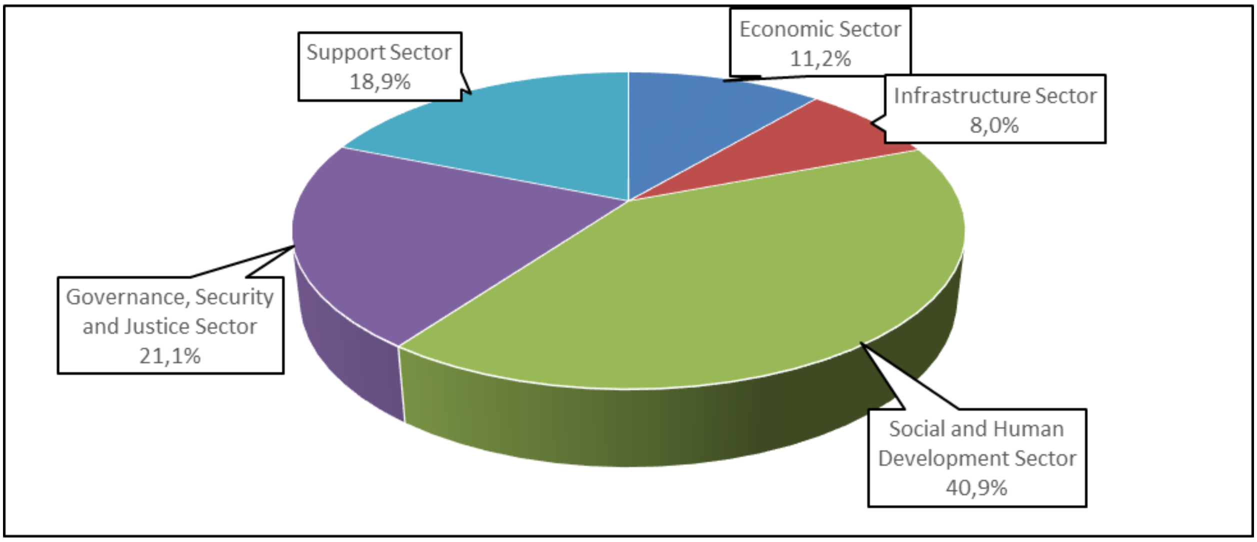
		2018/19	2019/20				Q/Q	Y/Y	GDP ratio
		Q4	Q1	Q2	Q3	Q4	(%)	(%)	(%)
1	**Total Revenue**	**4071.51**	**3853.19**	**3977.09**	**3792.76**	**3980.98**	5.0	**-2.2**	**40.8**
11	Tax revenue	3349.33	2962.17	3249.67	3106.54	3308.75	6.5	-1.2	33.9
	Income Tax	1131.62	959.78	1115.61	993.24	979.86	-1.3	-13.4	10.0
	Value Added Tax	759.06	693.25	725.19	719.23	768.97	6.9	1.3	7.9
	Other tax revenue	1458.66	1309.14	1408.87	1394.07	1559.92	11.9	6.9	16.0
13	Grants	324.51	354.87	358.07	371.54	363.19	-2.2	11.9	3.7
14	Other revenue	397.67	536.14	369.35	314.68	309.04	-1.8	-22.3	3.2
	O/W SACU receipts	1385.56	1556.55	1556.55	1556.55	1556.55	0.0	12.3	15.9
2	**Total Expense**	**3518.14**	**2747.39**	**3384.31**	**3117.87**	**2997.75**	**-3.9**	**-14.8**	**30.7**
21	Compensation of Employees	1886.96	1513.64	1743.38	1542.37	1502.91	-2.6	-20.4	15.4
22	Use of goods and services	828.80	497.25	652.38	706.14	813.06	15.1	-1.9	8.3
	O/W Purchase of Health Services	232.74	260.89	225.38	211.04	267.30	26.7	14.8	2.7
24	Interest Payments	147.77	60.30	109.08	66.65	115.04	72.6	-22.1	1.2
25	Subsidies	91.30	53.73	81.97	136.60	72.61	-46.8	-20.5	0.7
26	Grants	249.56	173.38	217.47	226.46	246.05	8.7	-1.4	2.5
27	Social benefits	304.92	287.95	259.86	244.52	240.84	-1.5	-21.0	2.5
28	Other expense	8.83	161.15	320.16	195.14	7.23	-96.3	-18.1	0.1
	Net Operating Balance	**553.37**	**1105.80**	**592.78**	**674.89**	**983.23**	**45.7**	**-**	**10.1**
31	**Total Nonfinancial Assets**	**1451.72**	**208.97**	**1037.98**	**443.98**	**536.77**	**20.9**	**-63.0**	**5.5**
311	Fixed Assets	1446.92	208.97	1037.78	439.18	536.77	22.2	-62.9	5.5
314	Non-Produced Assets	4.80	0.00	0.20	4.80	0.00	-	-	0.0
2M	**Expenditure (2+31)**	**4969.86**	**2956.36**	**4422.29**	**3561.86**	**3534.52**	**-0.8**	**-28.9**	**36.2**
	Primary balance	**-750.58**	**957.12**	**-336.12**	**297.55**	**561.50**	**-**	**-**	**5.8**
	Net lending (+)/borrowing(-)	**-898.35**	**896.83**	**-445.20**	**230.90**	**446.46**	**-**	**-**	**4.6**
	Financing	**-885.39**	**868.55**	**-115.43**	**115.83**	**534.92**	**-**	**-**	**5.5**
32	Net Acquisition of Financial assets	206.93	822.13	-599.56	-249.26	-45.84	-	-	-0.5
	O/W Domestic Currency and Deposits	194.83	681.32	-648.47	-163.81	-53.21	-	-	-0.5
33	Net Incurrence of Liabilities	1092.32	-46.42	-484.12	-365.09	-580.75	-	-	-5.9
	O/W Domestic Other Accounts Payable	61.32	-125.17	-588.63	-270.81	-741.98	-	-	-7.6
	Statistical Discrepancy	-12.96	28.28	-329.77	115.08	-88.46	-	-	-0.9

Source: CBL and MOF

SECTORAL OUTLAYS BY FUNCTIONS OF GOVERNMENT[2]

The proportional share of Government expenditure by sectors of the economy shows that the social sector has the largest share of 40.9 per cent, followed by governance, security and justice sector at 21.1 per cent, support sectors at 18.9 per cent, while economic and infrastructure sectors ranked fourth and fifth at 11.2 per cent and 8.0 per cent, respectively. The recurrent outlays still continue to hold the largest share of the total outlays at 72.6 per cent.

Figure 21: Total Outlays by Functions of Government *(Million Maloti)*



Source: MOF

[2] This sectoral COFOG excludes financing items i.e. Loan principal repayments and disbursements. The classification of this COFOG does not correspond exactly with GFS's COFOG

Table 13: Sector Outlays by Functions of Government *(Million Maloti)*

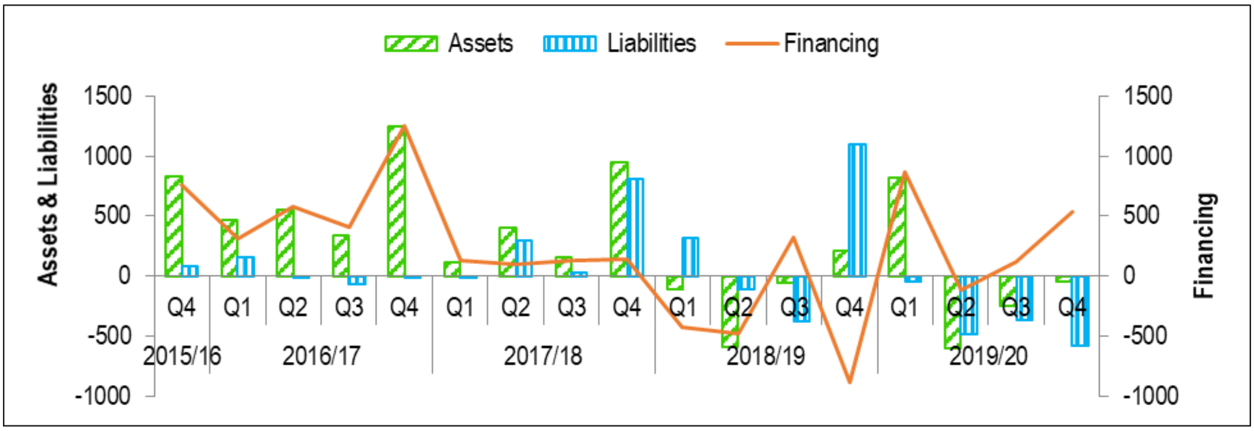
	2018/19				2019/20	Q/Q (%)	Y/Y (%)	GDP ratio (%)
	Q4	Q1	Q2	Q3	Q4			
Recurrent Outlays	**2414.20**	**2188.99**	**2619.78**	**2463.52**	**2312.85**	-6.1	-4.2	23.7
Economic Sector	183.55	180.56	245.35	239.01	200.62	-16.1	9.3	2.1
Infrastructure Sector	188.59	118.57	134.68	120.91	126.89	5.0	-32.7	1.3
Social and Human Development Sector	1052.17	1012.77	1062.06	1183.76	1182.61	-0.1	12.4	12.1
Governance, Security and Justice Sector	520.73	493.76	644.56	518.69	523.47	0.9	0.5	5.4
Support Sector	469.15	383.33	533.12	401.16	279.25	-30.4	-40.5	2.9
Capital Outlays	**1260.40**	**261.76**	**1169.36**	**606.97**	**874.14**	44.0	-30.6	9.0
Economic Sector	155.51	25.38	110.26	147.94	156.08	5.5	0.4	1.6
Infrastructure Sector	622.13	56.55	764.32	201.09	127.90	-36.4	-79.4	1.3
Social and Human Development Sector	120.12	2.56	55.58	58.18	119.45	105.3	-0.6	1.2
Governance, Security and Justice Sector	206.24	86.37	142.43	107.99	148.88	37.9	-27.8	1.5
Support Sector	156.40	90.90	96.78	91.78	321.82	250.7	105.8	3.3
Total Outlays	**3674.59**	**2450.75**	**3789.14**	**3070.49**	**3186.98**	3.8	-13.3	32.6
Economic Sector	339.06	205.95	355.61	386.95	356.70	-7.8	5.2	3.7
Infrastructure Sector	810.72	175.11	899.00	321.99	254.79	-20.9	-68.6	2.6
Social and Human Development Sector	1172.29	1015.33	1117.64	1241.94	1302.07	4.8	11.1	13.3
Governance, Security and Justice Sector	726.97	580.13	786.98	626.68	672.35	7.3	-7.5	6.9
Support Sector	625.55	474.23	629.90	492.93	601.08	21.9	-3.9	6.2
Unidentified Outlays	**831.96**	**493.00**	**501.17**	**429.64**	**470.88**	**9.6**	**-43.4**	**4.8**

Source: MOF

FINANCIAL ASSETS AND LIABILITIES[3]

The surplus recorded in this quarter was used to finance obligations, which led to a reduction in net incurrence of liabilities. This included redemption of government securities that went towards fiscal operations.

Figure 22: Financing Activities *(Million Maloti)*



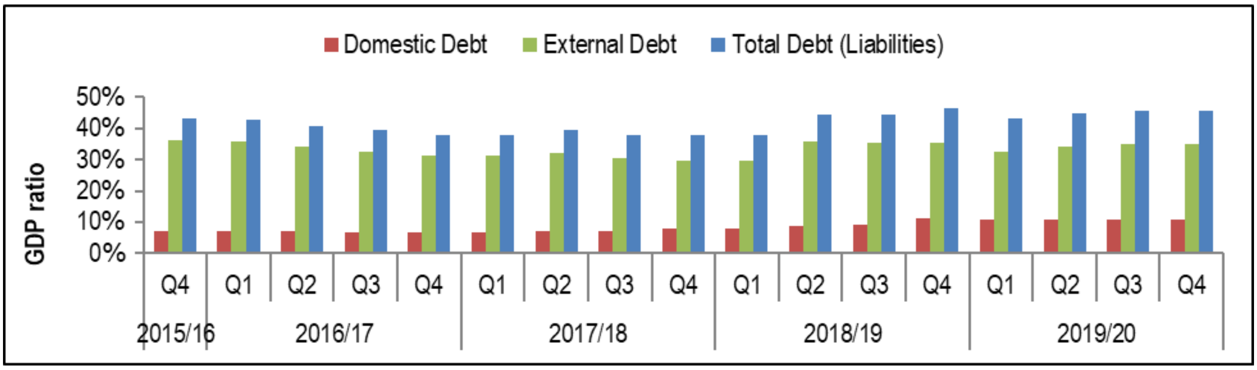
Source: CBL and MOF

[3] All categories are on net terms.

TOTAL PUBLIC DEBT[4]

The public sector debt stock rose by 4.8 per cent, to 45.8 per cent of GDP in the final fiscal quarter of 2019/20, compared to a rise of 1.6 per cent in the third fiscal quarter of 2019/20. The increase was from both the external debt and domestic debt. External debt increased by 5.2 per cent due to currency devaluation and disbursement of new debt. Domestic debt increased by 3.7 per cent, mainly due to issuance of treasury bonds during the quarter. The external debt constituted 76.5 per cent of total debt. On an annual basis, the stock of total debt increased by 10.4 per cent in the quarter under review, following a 10.0 per cent increase in the previous quarter.

Figure 23: Outstanding Public Debt



Source: CBL and MOF

[4] All categories are on net terms.

Table 14: Public Debt Stock *(Million Maloti)*

	2018/19	2019/20				Q/Q (%)	Debt / GDP (%)
	Q4	Q1	Q2	Q3	Q4		
Total Public Debt	**16192.93**	**16049.71**	**16788.97**	**17057.40**	**17881.92**	**4.8**	**45.8**
EXTERNAL DEBT	**12272.53**	**12067.52**	**12695.81**	**13013.53**	**13687.88**	**5.2**	**35.0**
Bilateral Loans	1008.42	1028.81	1082.77	1044.28	1038.95	-0.5	2.7
Concessional	1008.42	1028.81	1082.77	1044.28	1038.95	-0.5	2.7
Non-concessional	0.00	0.00	0.00	0.00	0.00	-	0.0
Multilateral Loans	10276.14	10098.76	10670.91	11001.83	11210.11	1.9	28.7
Concessional	8695.03	8528.47	9115.00	9459.91	9642.30	1.9	24.7
Non-concessional	1581.11	1570.29	1555.91	1541.92	1567.80	1.7	4.0
Financial Institutions	0.29	0.11	0.00	0.00	0.00	-	0.0
Concessional	0.00	0.00	0.00	0.00	0.00	-	0.0
Non-concessional	0.29	0.11	0.00	0.00	0.00	-	0.0
Suppliers' Credit	987.68	939.84	942.13	967.42	1438.82	48.7	3.7
DOMESTIC DEBT	**3920.41**	**3982.19**	**4093.16**	**4043.87**	**4194.04**	**3.7**	**10.7**
Banks	2696.18	2742.89	2768.03	2721.48	2554.03	-6.2	6.5
Long-term	1472.39	1514.32	1534.90	1481.45	1486.29	0.3	3.8
Treasury bonds	760.97	883.30	923.66	963.96	980.55	1.7	2.5
Central Bank (IMF-ECF)	711.42	631.02	611.25	517.49	505.74	-2.3	1.3
Short-term (t-bills)	1223.79	1228.57	1233.13	1240.04	1067.74	-13.9	2.7
Non-bank	1224.23	1239.30	1325.13	1322.38	1640.00	24.0	4.2
Short-term (t-bills)	252.98	254.63	248.25	241.67	237.93	-1.5	0.6
Long-term (t-bonds)	971.25	984.67	1076.88	1080.71	1402.07	29.7	3.6
DEBT INDICATORS							
External Debt-to-Total Debt	75.8	75.6	75.6	76.3	76.5	-	-
Domestic Debt-to-Total Debt	24.2	24.4	24.4	23.7	23.5	-	-
Concessional Debt-to-External Debt	79.1	80.3	80.3	80.7	78.0	-	-
External Debt Service-to-GDP	2.7	2.9	2.9	2.2	1.2	-	-
External Debt Service-to-Revenue	5.7	6.2	6.2	5.5	3.0	-	-
External Debt Service-to-Exports	6.9	3.2	6.9	5.0	2.9	-	-

Source: CBL and MOF

6. Foreign Trade and Payments

OVERVIEW

Lesotho's external sector position improved during the first quarter of 2020 relative to the previous quarter. It recorded a surplus of 8.9 per cent of GDP in the review quarter, higher than a surplus of 0.4 per cent of GDP observed in the preceding quarter. The increased overall balance of payments surplus for Lesotho was underpinned by the improved balances of the current account and financial account, while the capital account inflows fell and partly moderated the surplus.

CURRENT ACCOUNT

The current account balance declined to a deficit equivalent to 0.7 per cent of GDP in the first quarter of 2020, following a revised deficit of 4.0 per cent of GDP in the last quarter of 2019. The current account balance benefited from the favourable performance of the primary and the secondary income accounts, which recorded higher surpluses during the review quarter relative to the previous quarter. The current account balance was further supported by a contraction of the goods account deficit, which resulted from a steeper fall in imports compared to exports during the review quarter.

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

	2019				2020	% Changes	
	Q1	Q2	Q3	Q4+	Q1*	Q/Q	Y/Y
Current Account	**-415.81**	**-263.96**	**-1006.46**	**-370.60**	**-67.15**	**81.9**	**83.9**
(a) Goods	-2,736.95	-2,588.39	-3167.16	-2604.57	-2,482.47	**4.7**	**9.3**
Merchandise exports, f.o.b.	3,254.19	3,917.09	3488.24	4009.49	4,007.17	**-0.1**	**23.1**
Of which diamonds	1,124.85	1,090.70	908.93	1048.09	1,066.43	**1.7**	**-5.2**
Of which textiles & clothing	1,539.63	1,715.94	1908.75	2203.16	1,979.44	**-10.2**	**28.6**
Of which water	228.49	236.55	219.5	148.67	234.78	**57.9**	**2.8**
Of which agriculture	59.67	81.72	91.12	96.08	86.51	**-10.0**	**45.0**
Of which re-exports	20.46	42.62	39.87	213.7	36.31	**-83.0**	**77.5**
Other exports	281.09	749.56	320.07	299.79	603.70	**101.4**	**114.8**
Merchandise imports, f.o.b.	5,991.14	6,505.48	6655.4	6614.06	6,489.64	**-1.9**	**8.3**
(b) Services	**-1,404.04**	**-1,380.61**	**-1448.79**	**-1407.21**	**-1,433.89**	**-1.9**	**-2.1**
(c) Primary Income	**1,523.67**	**1,606.36**	**1510.71**	**1549.56**	**1,619.04**	**4.5**	**6.3**
(d) Secondary Income	**2,201.50**	**2,098.68**	**2098.77**	**2091.61**	**2,230.17**	**6.6**	**1.3**

Source: Central Bank of Lesotho

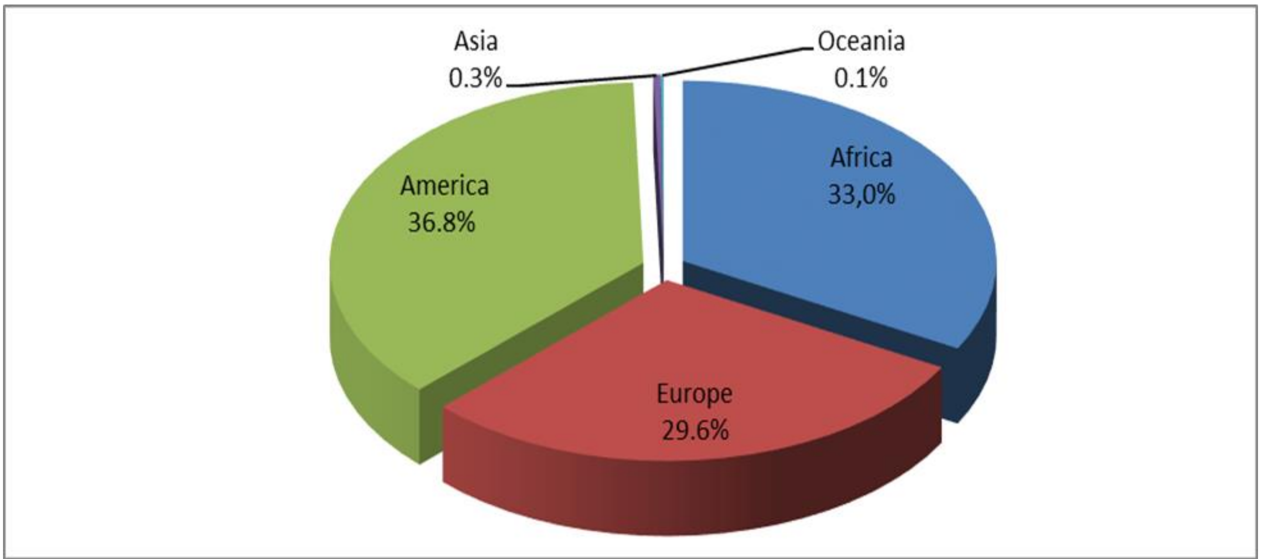
Merchandise Exports

During the first quarter of 2020, merchandise exports declined by 0.1 per cent, following a 14.9 per cent increase in the last quarter of 2019. The observed performance was mainly driven by declining textile exports together with a reduction in re-exports, although these were partly offset by increases in other exports, water and diamonds exports. Textiles and clothing exports suffered a loss which was attributable to a substantial reduction in demand by the US market – one of Lesotho's major textiles and clothing destinations. Nonetheless, significant increases were observed in other exports, particularly wool and mohair exports following an auction which took place in February 2020. The aftermath of the maintenance of the 'Muela Hydro Power Station enabled one of the mines to resume full operation in the first quarter of 2020, thus leading to a rise in diamond exports relative to the last quarter of 2019. The growth in diamonds exports was however sluggish owing to weaker international prices of diamonds, as a result of the negative impact of the COVID-19 pandemic, whose effect was pronounced in March 2020. Water exports also benefitted from the completion of routine maintenance of transfer tunnels during the review quarter.

Direction of Trade - Exports

Lesotho's exports during the review period were destined predominantly to North America with a proportion of 36.8 per cent, increasing from 33.4 per cent in the preceding quarter. Exports to North America comprised mostly textiles and clothing exports to the US. Africa came second with a share of 33.0 per cent, from 30.4 per cent in the previous quarter, with most exports being destined to South Africa. It was followed by Europe with a share of 29.6 per cent, improving from 26.4 per cent in the last quarter of 2019, on account of increased diamond exports to Belgium. Asia and Oceania remained the least recipients of Lesotho exports with 0.3 per cent and 0.1 per cent shares, respectively.

Figure 24: Direction of Merchandise Exports *(Percentage Share)*



Source: Central Bank of Lesotho

Merchandise Imports

Merchandise imports contracted by 1.9 per cent during the review period, after declining by 0.6 per cent in the previous quarter. Major declines were observed under imports of mineral products such as distilled fuels, coal and prepared lubricating oils. These were coupled with decreased imports for machinery and transport equipment, particularly from South Africa. On the contrary, imports of crude materials (shorn, silk and wool), as well as, food and live animals increased, thereby moderating the decline in imports. On an annual basis, merchandise imports rose by 8.3 per cent in the quarter under review compared to a 3.8 per cent rise in the previous quarter.

Services Account

The services account deficit widened by 1.9 per cent during the reporting period, relative to a 0.6 per cent drop in the quarter ending in December 2019. The upward pressure on services acquired from the rest of the world was observed from the telecommunications sub-sector during the review quarter. Meanwhile, freight services declined substantially during this period, consistent with a contraction in imports. On an annual basis, the services account deficit rose by 2.1 per cent, relative to a fall of 1.5 per cent in the quarter ending in December 2019.

Primary Income Account

During the quarter under review, the surplus on the primary income account grew by 4.5 per cent, following a 2.6 per cent rise in the previous quarter. The primary income account benefited mainly from increased compensation of employees as a result of higher wages for Basotho residents working abroad, as well as, higher receipts for maintenance and operational costs for phase I of the LHWP. These were coupled with a rise in returns on commercial banks' investments held abroad, together with lower payments of interest on government external debt, which boosted the primary income account further. These improvements were however moderated by a fall in the Central Bank's returns on its portfolio investments abroad. Expressed as a share of GDP, the surplus on the primary income account amounted to 16.6 per cent, unchanged from the previous quarter. Year on year, the surplus increased by 6.3 per cent, after decreasing by 1.0 per cent in the fourth quarter of 2019.

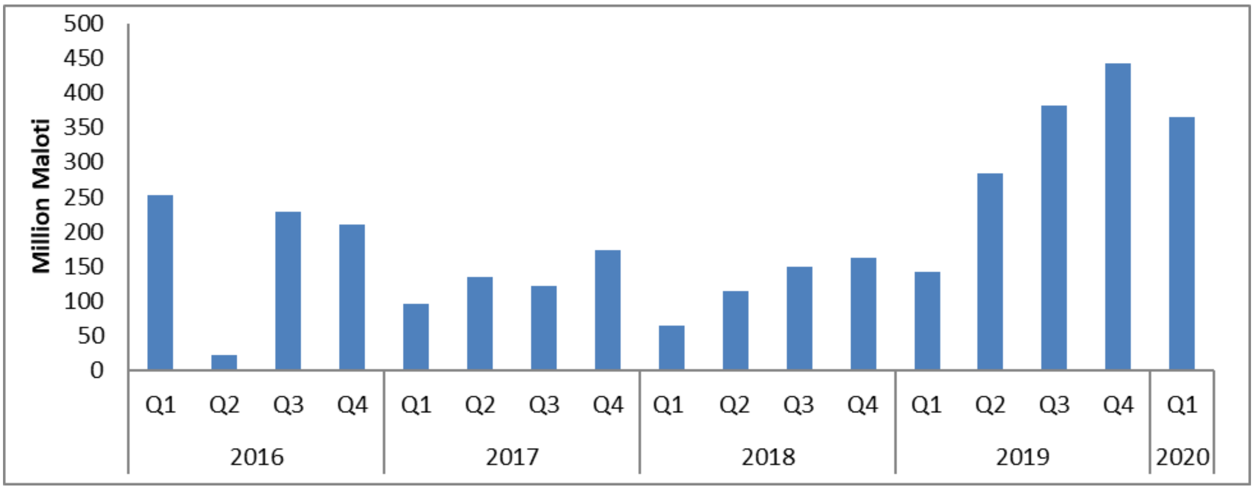
Secondary Income Account

The surplus on the secondary income account increased by 6.6 per cent during the quarter under review, after falling by 0.3 per cent in the preceding quarter. The major contribution came from the rand monetary compensation, while SACU receipts remained unchanged. The rise in secondary income account balance was however dampened by higher government payments for subscriptions to international organisations during the review quarter. On an annual basis, the surplus increased by 1.3 per cent, lower than 11.2 per cent increase in the previous quarter. As a proportion of GDP, the surplus on the secondary income account constituted 22.8 per cent, slightly higher than 22.4 per cent recorded in the quarter ending in December 2019.

CAPITAL ACCOUNT

The capital account inflows fell by 17.8 per cent during the quarter under review relative to a 15.9 per cent increase in the quarter ending in December 2019. The fall in capital inflows was a result of a decline in receipts for advanced infrastructure for phase II of the LHWP. This was coupled with dwindling grants to the government for capital related projects. Expressed as a share of GDP, the capital account inflows accounted for 3.7 per cent, lower than 4.7 per cent recorded in the previous quarter.

Figure 25: Capital Account *(Million Maloti)*



Source: Central Bank of Lesotho

FINANCIAL ACCOUNT

During the quarter ending in March 2020, the financial account net outflow/net lending surged to M1.13 billion from a net outflow of M251.90 million in the preceding quarter. As a percentage of GDP, the financial account outflows amounted to 11.6 per cent, compared to 2.7 per cent of GDP in the quarter ending in December 2019.

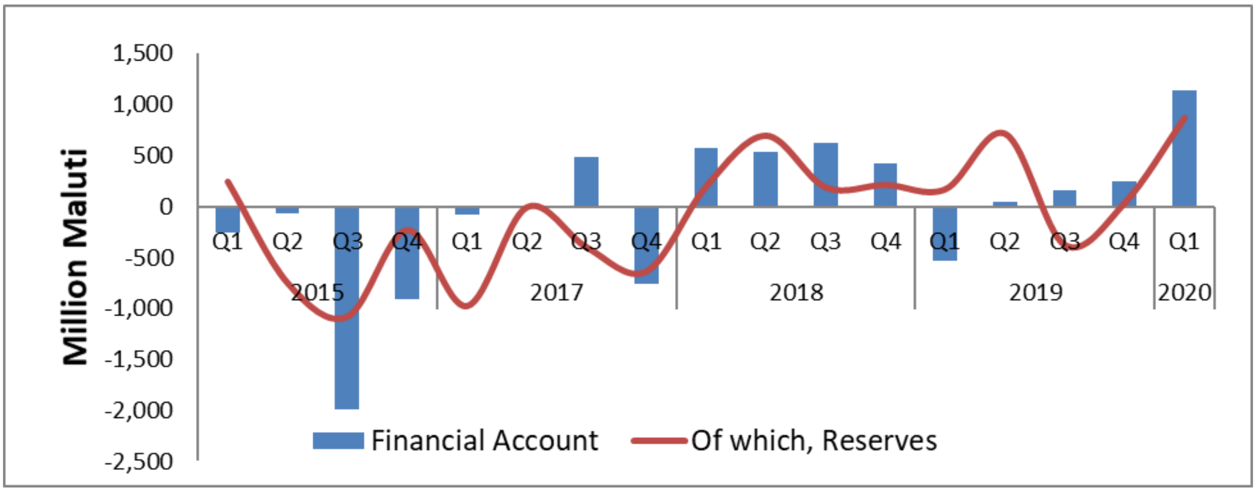
Table 16: Financial Account Balance *(Million Maloti)*

	2019				2020
	Q1	Q2	Q3	Q4	Q1
Financial account	**-533.32**	**48.52**	**163.79**	**251.90**	**1132.46**
Direct Investments, net	-128.90	-128.90	-128.90	-128.90	-128.90
Portfolio Investments, net	7.10	7.10	7.10	7.10	7.10
Financial Derivatives, net	0.00	0.00	0.00	0.00	0.00
Other Investments, net	-581.10	-543.80	663.83	338.32	386.51
Of which Loans	-247.97	17.68	41.10	79.63	23.58
Claims on Non Residents	34.48	34.48	34.48	34.48	34.48
Liabilities to Non Residents	282.45	16.80	-6.62	-45.15	10.90
Of which Currency and Deposits	-259.07	-487.42	696.79	332.75	436.99
Claims on Non Residents	-196.14	-691.61	711.30	147.15	671.41
Liabilities to Non Residents	62.93	-204.19	14.51	-185.60	234.42
Reserve Assets	169.58	714.12	-378.24	35.38	867.75

Source: Central Bank of Lesotho

The observed surge on the financial account outflows was mainly explained by the increase in reserve assets coupled with a rise in commercial banks' foreign assets. As a measure to manage excess liquidity, commercial banks increased their investments abroad during the review period. Nevertheless, the financial account outflows were partly offset by the increase in government foreign liabilities resulting from higher disbursements relative to loan repayments during the same quarter.

Figure 26: Financial Account *(Million Maloti)*

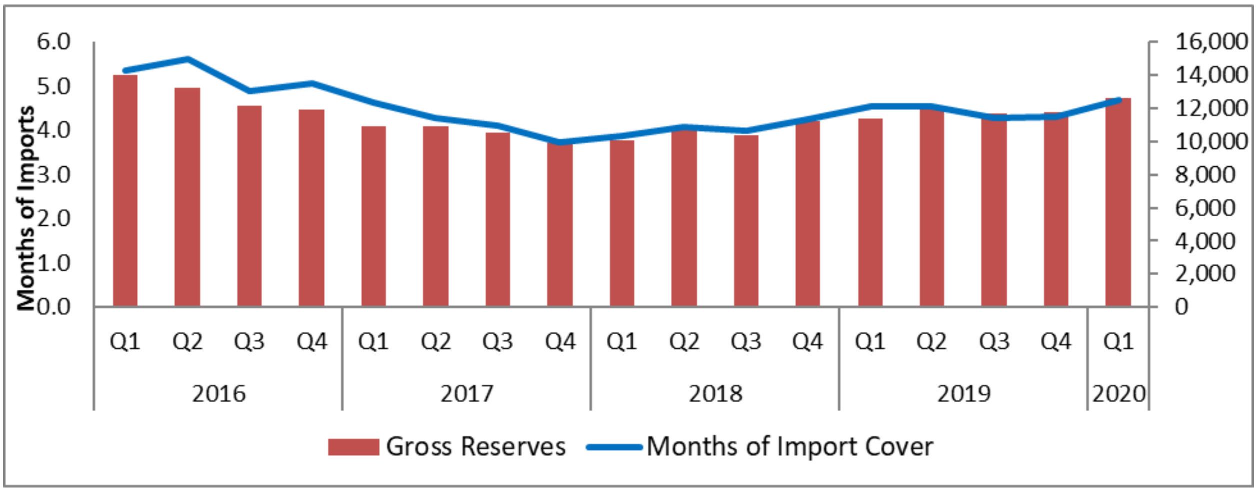


Source: Central Bank of Lesotho

RESERVE ASSETS

The stock of foreign reserves rose to M12.60 billion in the quarter ending in March 2020, increasing from M11.73 billion observed in the last quarter of 2019, as a result of the favourable exchange rate gains. Therefore, months of import cover rose to 4.7 months from 4.3 months in the quarter ending in December 2019. The higher months of import cover also benefitted from a fall in the import bill during the same quarter.

Figure 27: Reserves Assets



Source: Central Bank of Lesotho