

**CENTRAL BANK OF LESOTHO**

**QUARTERLY REVIEW**

**SEPTEMBER, 2015**

**MASERU**

**KINGDOM OF LESOTHO**

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## 1. Executive Summary

Global economic activity remained largely muted during the third quarter of 2015. Contrary to the quarter ending June 2015, economic growth in advanced economies, with exception of Japan, lost momentum as they registered slower growth during the review period. Likewise, most emerging market economies (EMEs) continued the slowdown. The growth slowdown in the US was underpinned by deceleration in investment, exports as well as government spending while weaker construction and manufacturing output caused a slowdown in UK. It is against this backdrop of unimpressive growth that most economies left key policy rates unchanged in order to spur economic activity. However, South Africa continued the hiking cycle of its repo rate against heightened upside risks to inflation such as weakening Rand and likely interest hike by US Fed.

Contrary to the contraction recorded during the quarter ending June 2015, domestic economic activity displayed strong resilience during the review quarter. In particular, the domestic economy, as measured by Economic Activity Indicator (EAI), increased by 25.2 per cent during the third quarter of 2015 compared to a contraction of 7.6 per cent recorded during the previous quarter. This surge in the domestic economic activity was supported by relatively satisfactory performance by all sectors of the economy especially construction, manufacturing and mining sectors. In terms of employment numbers, the number of government employees as well as number of Basotho migrant workers in SA mines decreased by 1.0 per cent and 6.4 per cent respectively while employment numbers by LNDC assisted companies improved by 3.9 per cent during the review quarter.

Money supply rebounded during the review period following a relatively sluggish growth during the previous quarter. On quarterly basis, money supply grew by 8.1 per cent during the quarter ending September 2015 compared to 1.4 per cent increase registered during the previous review period. This development is ascribed to drastic growth in domestic claims as well as an increase in net foreign assets (NFA). Strong growth in domestic claims was supported mainly by accelerated government spending as well as growth in private sector credit. Revaluation gains owing to Rand/Loti depreciation boosted CBL NFA significantly while growth in private sector deposits coupled with accelerated government spending supported commercial banks NFA.

Government budgetary operations registered a deficit during the review quarter compared to a surplus recorded in the previous quarter. In particular, government budget balance registered a deficit equivalent to 6.3 per cent of GDP for the quarter ending September 2015 compared with a surplus of 14.9 per cent of GDP for the previous quarter. The public debt increased from 45.3 per cent of GDP in June 2015 to 51.4 per cent during the review period. This significant increase is largely ascribed to Rand (and hence Loti) depreciation during the review period since most of Lesotho's public debt is denominated in foreign currencies.

The external sector continued to register a surplus during the third quarter of 2015. The overall balance recorded a surplus equivalent to 9.3 per cent of GDP in the quarter under review compared to a surplus equivalent to 1.2 per cent of GDP registered during the previous quarter. This improvement benefited from the narrowing of current account deficit following increased merchandise exports especially from mining and manufacturing sectors. Moreover, this was further boosted by capital and financial account that registered a stronger surplus during the review quarter.

## 2. International Economic Developments

Global economic activity was modest in the third quarter of 2015. There was a growth slowdown in the United States (US), the United Kingdom (UK) and Japan, while the Eurozone experienced some economic recovery. The US slowdown was underpinned by deceleration in investment, exports and government spending. In the UK, the slowdown was driven by weaker construction and manufacturing output, whereas the recession in Japan reflected weaknesses in business investment and shrinking inventories. Economic growth declined both in China and South Africa.

Commodity prices declined in the third quarter of 2015. Oil prices declined on account of strong supply and concerns about future demand while metal prices have fallen owing to slowing demand growth from China. In line with the decline in commodity prices, mainly agricultural commodities, inflation declined in both advanced and emerging market economies. Monetary policies were kept accommodative in advanced economies in support of economic activity. Among EMEs, key interest rates were cut in India and China, while it increased in South Africa.

**Table 1: Key World Economic Indicators**

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	QII	QIII	QII	QIII	QII	QIII	QII	QIII
<b>United States</b>	3.9*	2.1	0.1	0.0	0.25	0.25	5.3	5.1
<b>Euro Area</b>	1.5	1.6	0.2	-0.1	0.05	0.05	11.1	10.8
<b>Japan</b>	-0.7*	-0.8	0.4	0.0	0.00	0.00	3.4	3.3
<b>United Kingdom</b>	2.4*	2.3	0.0	-0.1	0.50	0.50	5.6	5.3
<b>China</b>	7.0	6.9	1.4	1.6	4.85	4.60	4.0*	4.1
<b>India</b>	7.0	7.4	5.4	4.4	7.25	6.75	n/a	n/a
<b>South Africa</b>	1.2	1.0	4.7	4.6	5.75	6.00	25.0	25.5

\*Revised figures

**Source:** Bloomberg, STATSSA and SARB, US Bureau of Labour Statistics, US Bureau of Economic Analysis, National Bureau of Statistics China, Statistics Bureau of Japan, Japan Cabinet Office, Government of India Department of Labour, India Ministry of Statistics and Programme Implementation, United Kingdom Office for National Statistics

### United States (US)

Real GDP increased by 2.1 per cent in the third quarter of 2015, after increasing by 3.9 per cent in the second quarter. The increase was mainly attributable to consumer spending, which accounts for about two-thirds of the US GDP, due to robust job growth, low gasoline prices and strong domestic demand. The deceleration in real GDP in the third quarter primarily reflected a downturn in private inventory investment and decelerations in exports, in nonresidential fixed investment, in state and local government spending, and in residential fixed investment that were partly offset by a deceleration in imports. The unemployment rate declined from 5.3 per cent in second quarter of 2015 to 5.1 per cent in the quarter ending in September 2015. Employment rose for health care and information sectors.

Consumer inflation rate was 0.0 per cent in September, down from 0.1 per cent in June 2015. The slowdown was due a decline in energy prices, which offset an increase in food prices. The US Federal Open Market Committee (FOMC) decided to keep the key interest rate unchanged at 0.25 per cent. The FOMC was of the view that the sluggish domestic inflation, financial markets volatility and weak global economic activity did not warrant the interest rate hike. However, the FOMC considered that the interest rate hike would be appropriate only after further improvement in the labour market and a gradual move towards the 2 per cent inflation in the medium term.

## **Euro Area**

Economic activity increased in the Euro Area, as real GDP rose by 1.6 per cent in the review quarter, slightly higher than the 1.5 per cent realized in the previous quarter. The slight increase was suppressed by the slowdown in China and other emerging markets as well as a decline in Germany exports, which more than offset robust consumer spending benefiting from low oil prices. The biggest economies, Germany, France and Italy all registered positive economic growth in the review quarter. The unemployment rate was recorded at 10.8 per cent in September relative to 11.1 per cent in the previous quarter. The unemployment rates fell in all member states with the exception of Austria, where the unemployment rate remained stable.

The Eurozone inflation rate was -0.1 per cent in September down from 0.2 per cent in June 2015. Deflationary pressures came from food and energy prices. The Governing Council of the ECB decided to keep the main interest rate unchanged at 0.05%, alongside maintaining the asset purchase program until the end of September 2016. The Governing Council noted that the low commodity prices, Euro exchange rate appreciation and somewhat lower than expected economic growth had increased the downside risk to achieving a sustainable path of inflation towards 2 per cent.

## **Japan**

In Japan, real GDP declined by 0.8 per cent in the quarter ending in September, following a revised 0.7 per cent drop in the quarter ending in June 2015. Weakness in business investment and shrinking inventories drove the contraction, as slow growth in China and weak global outlook prompted Japanese companies to hold back on spending and production. The unemployment rate declined slightly to 3.3 per cent in the quarter ending in September 2015.

The consumer inflation was at a lower rate of 0.0 per cent in September than that of 0.4 per cent in June 2015. The decline reflected decreases in the prices of food and energy. The Bank of Japan maintained the monetary policy unchanged in the review quarter. The Bank would continue with the qualitative and quantitative easing measures with the aim of achieving the price stability target of 2 per cent.

## **United Kingdom**

Economic recovery in the UK slowed more than expected in the third quarter of 2015. Real GDP rose by 2.3 per cent in the quarter ending in September compared with 2.4 per cent in the



previous quarter. The slowdown was driven by weaker construction and manufacturing output. The manufacturers struggled to remain competitive in overseas markets as the Pound Sterling strengthened while demand declined from a global slowdown and troubles in China. Construction companies struggled to find enough skilled workers to complete jobs. The unemployment rate fell to 5.3 per cent, lower than 5.6 per cent in the previous quarter.

The consumer inflation declined by 0.1 per cent in the quarter ending in September 2015 relative to 0.0 per cent in the previous quarter. The main downward pressures came from food and fuel prices which fell by 2.5 per cent and 14.9 per cent, respectively. The Bank of England Monetary Policy Committee (MPC) maintained the policy interest rate at 0.5 per cent and maintained the stock of purchased assets financed by the issuance of central bank reserves at £375 billion. The MPC indicated that higher volatility in commodity prices and global financial markets which have the potential to add to the global headwinds to UK growth and inflation may warrant an interest rate hike on a gradual basis.

## **China**

China economic slowdown continued in the review quarter. Real GDP rose by 6.9 per cent in the third quarter of 2015, relative to 7.0 per cent in the previous quarter. Strength in services and consumption helped reduce the slowdown from weaker manufacturing and exports, showing the continuing transformation from growth driven by investment and secondary sector production towards consumption and the services sector. The unemployment rate rose slightly to 4.1 per cent in the review quarter.

The consumer price index rose by 1.6 per cent in September, up from 1.4 per cent in June 2015 due to increase in food prices, mainly pork, fresh vegetables and eggs. The People's Bank of China cut its benchmark interest rate by 25 basis points to 4.60 per cent, to help boost the slowing Chinese economy and to combat deflationary pressures.

## **India**

India's economic growth accelerated in the third quarter of 2015. Real GDP rose by 7.4 per cent in the quarter ending in September 2015, higher 7.0 per cent realized in the previous quarter. Growth was supported by strong expansion in the manufacturing sector that pushed overall industrial growth higher as well as improved consumption. Manufacturing grew by 4.6 per cent, its fastest pace in four years, led by high growth in production of capital goods and consumer durables. Consumption was boosted by softer inflation and a less dire-than-expected monsoon outcome. Economic activities that registered the highest growth rates included trade; hotels; transport and communication; services related to broadcasting and manufacturing.

The level of inflation rose by 4.4 per cent in September relative to 5.4 per cent in June 2015. The slowdown in inflation was due to low commodity prices and a slowdown in food prices, mainly for fruits and vegetables. The Reserve Bank of India decided to cut its key repo rate by 50 basis points to 6.75 per cent. This decision was consistent with the view that inflation might increase in the short to medium term due to unseasonal rains, rising crude oil prices, and external sector risks.

## **South Africa**

The South Africa's GDP rose by 1.0 per cent in the third quarter of 2015 compared to 1.2 per cent in the previous quarter. The pick-up in manufacturing output was offset by a decline in agriculture, mining and electricity. The agriculture industry which was plagued by drought experienced the largest fall in activity, contracting by 12.6 per cent. Decreases in the production of field crops contributed to the industry's decline. Activity in the mining industry fell by 9.8 per cent due to lower production in the mining of coal and other minerals. Electricity, gas and water supply was the third industry to experience a contraction in the third quarter, falling by 8.0 per cent. This was mainly as a result of a decrease in the production and consumption of electricity. The unemployment rate rose by 25.5 per cent compared with 25.0 per cent in the previous quarter. Job losses in transport offset the job gains in trade and construction.

The inflation rate declined slightly to 4.6 per cent in September compared to 4.7 per cent in June 2015. The slowdown was attributed to a decrease in transport prices, due to a decline in the price of petrol. The South African Reserve Bank Monetary Policy Committee (MPC) decided to increase the repurchase rate by 25 basis points to 6.00 per cent. The MPC noted that economic growth remained subdued, constrained by electricity supply disruptions and low business and consumer confidence, while inflation remained on the upside due to higher electricity tariffs, exchange rate depreciation and the impact of drought on food prices. The increase in the repo addressed second round effects on inflation while at the same time helping to keep inflation expectations anchored.

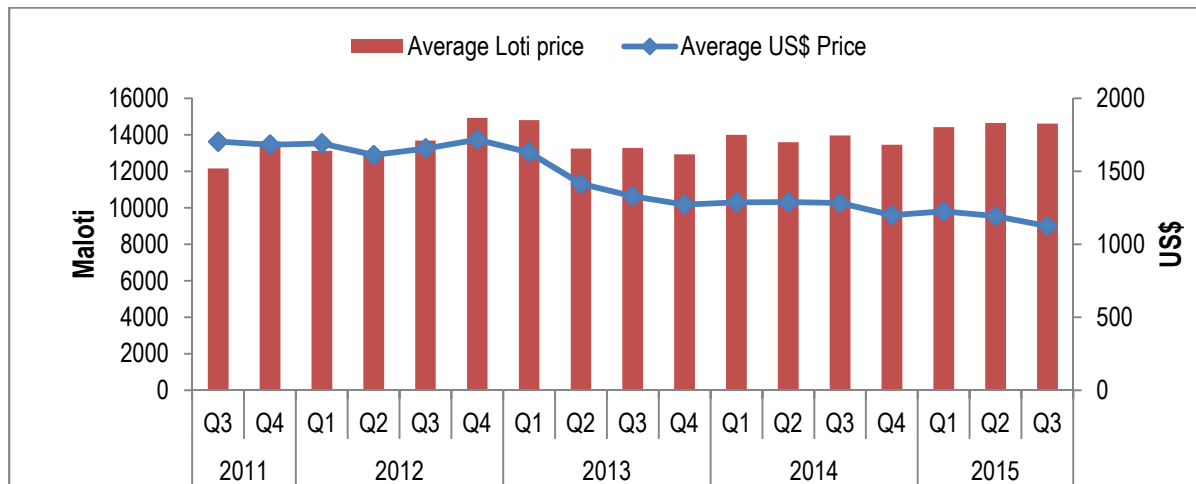
## **COMMODITIES**

### **Minerals**

#### ***Gold***

The average US Dollar price of gold fell during the quarter under review. In US Dollar terms, it declined by 5.7 per cent to US\$1 125.34 per ounce relative to a 2.7 per cent increase in the previous quarter. The gold prices were affected by the US Dollar appreciation and prospects of the US interest rate hike in December 2015. The decline was also driven largely by a slowdown in China's economic growth, the main gold consumer. In Maloti terms, it fell by 0.1 per cent to M14 629.42 per ounce from an increase of 1.5 per cent in the previous quarter.

**Figure 1: Average Price of Gold**

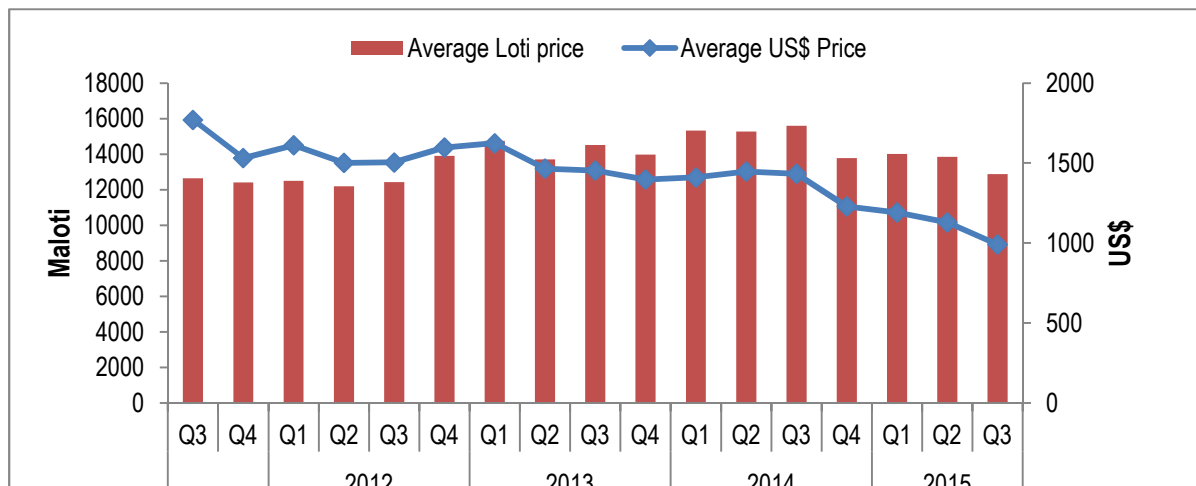


Source: Bloomberg

### *Platinum*

The average price of platinum, in US Dollar terms, declined by 12.2 per cent to US\$991.17 per ounce during the quarter ending in September 2015 compared to a decline of 5.2 per cent in the previous quarter. The slowdown was attributed to oversupply, and sluggish demand, especially from China, as well as the appreciation of the US Dollar. In Maloti terms, it dropped by 7.0 per cent to M12 885.21 relative to 1.0 per cent decline in the previous quarter.

**Figure 2: Average Price of Platinum**



Source: Bloomberg

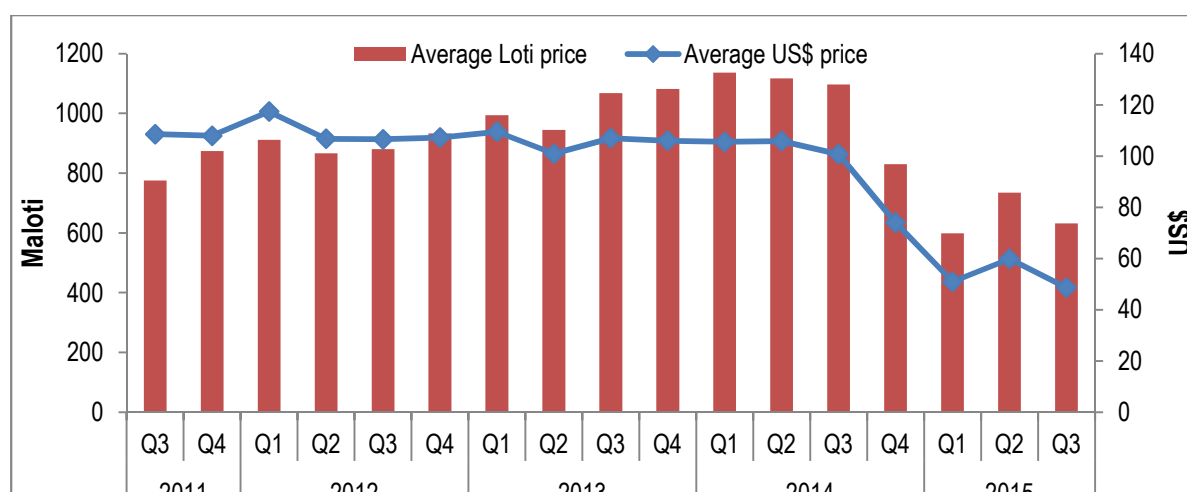
## Energy

### Oil

In US Dollar terms, the average price of oil decreased by 18.9 per cent to US\$49.59 per barrel relative to a 17.6 per cent rise in the first quarter of 2015. Relatively lower oil prices were driven by sluggish fuel demand, weaker global activity as well as higher than expected supply, reflecting strong production in Organization of the Petroleum Exporting Countries members, US and Russia.

In Maloti terms, the average price of oil declined by 14.1 per cent to M631.67 per barrel compared with 22.8 per cent rise in the previous quarter. As a result of a decline in international crude oil prices, the domestic fuel prices were revised downwards during the review quarter. Petrol price closed the review quarter with a lower price of M9.60 per litre, from M10.55 recorded in the quarter ending in June 2015. Diesel was M9.60 per litre in the review period following M10.80 per litre in the previous quarter. Paraffin also fell to M6.40 per litre in the quarter ending in September 2015, from M7.50 per litre recorded in the previous quarter.

**Figure 3: Average Price of Oil**



Source: Bloomberg

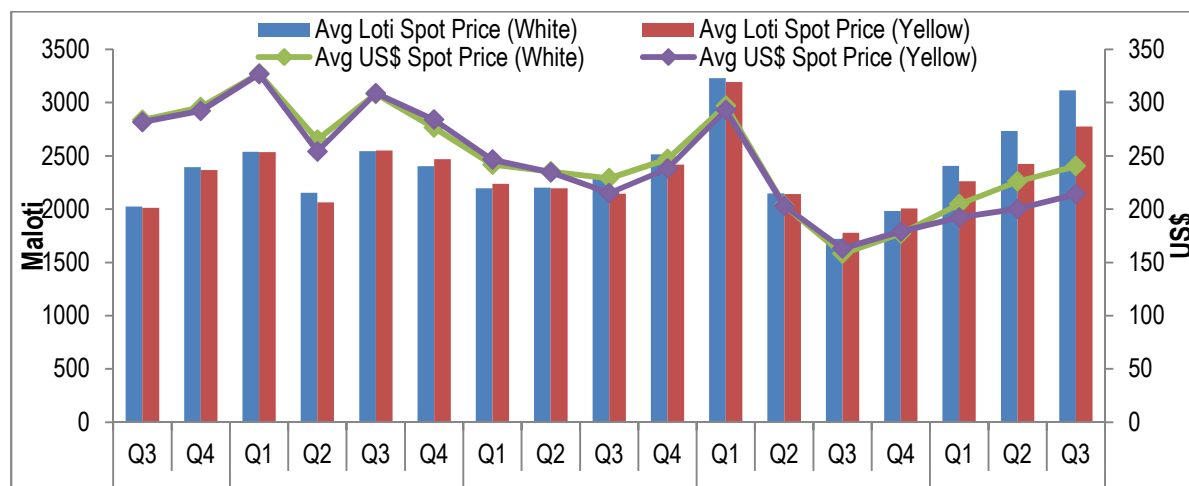
## Agricultural Products

### Maize

During the review period, the average US Dollar price of white maize increased by 6.4 per cent to US\$240.43 per tonne during the quarter ending in September 2015 relative to 10.4 per cent in the previous quarter. The average price of yellow maize rose by 6.9 per cent to US\$213.99 per tonne compared with an increase of 4.2 per cent in the previous quarter. The increase reflected reduced maize supply due to unfavourable weather conditions, mainly in North America and

Europe. In Maloti terms, the average prices of both white and yellow maize increased by 13.9 per cent to M3 115.11 per tonne and by 14.5 per cent to M2 774.92, respectively.

**Figure 4: Average Price of Maize**

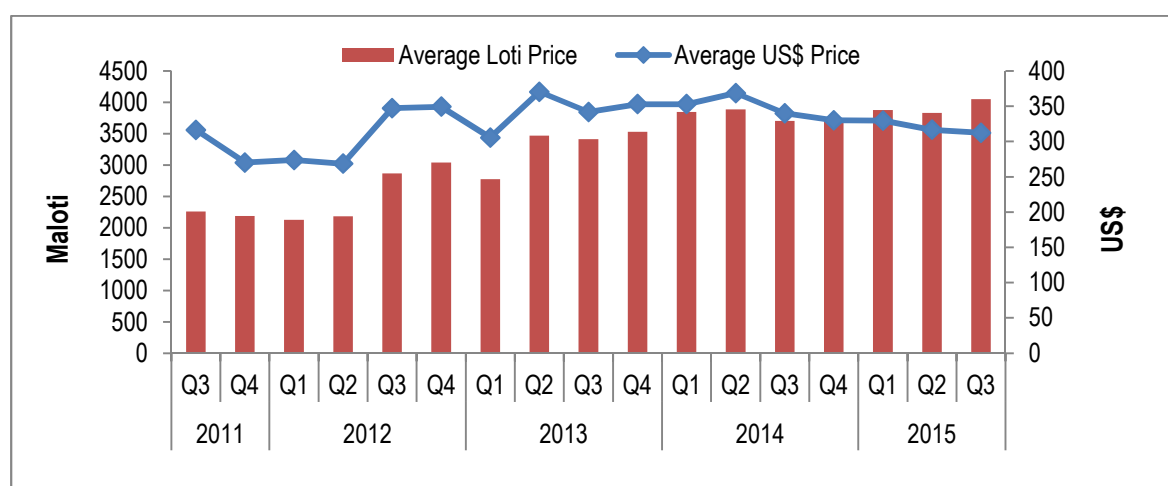


Source: Bloomberg

**Wheat**

In US Dollar terms, the average price of wheat declined by 1.4 per cent to US\$312.24, relative to a 3.9 decline in the previous quarter. The decline was attributed to good production which benefited from rains in the wheat producing countries. In Maloti terms, it increased by 5.7 per cent to M\$4 050.03 per tonne relative to a 4.8 per cent decline in the previous quarter.

**Figure 2.5: Average Price of Wheat**

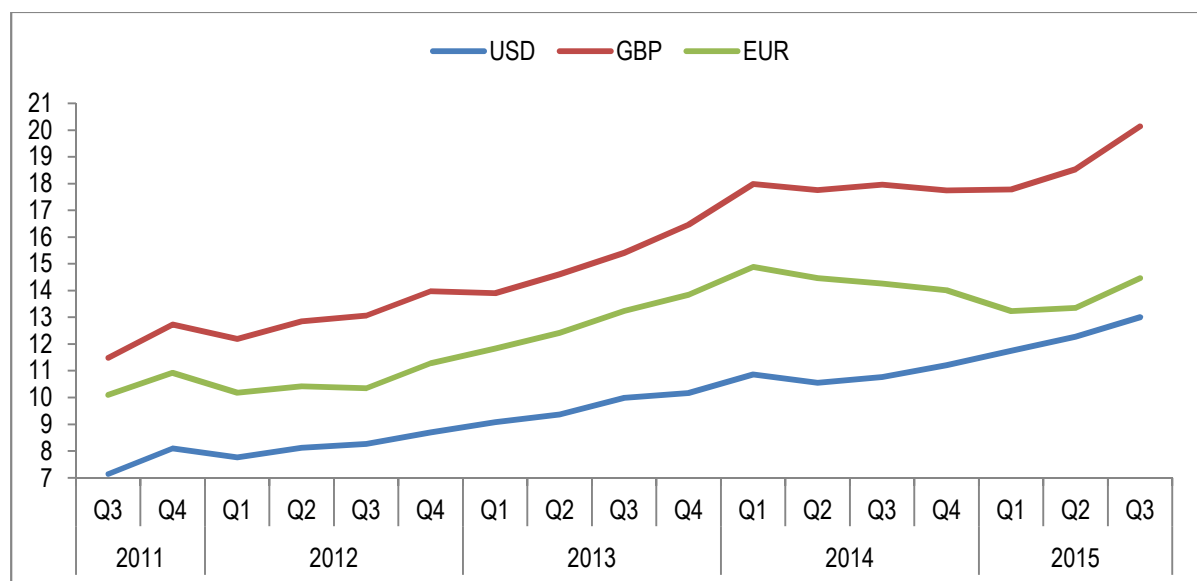


Source: Bloomberg

## EXCHANGE RATES

During the quarter ending in September 2015, the Rand and hence Loti depreciated against the major trading currencies. The Loti depreciated by 5.9 per cent to M13.00, by 8.7 per cent to M20.14 and by 8.3 per cent to M14.47 against the US Dollar, the Pound Sterling and the Euro, respectively. The appreciation of the US Dollar reflected the prospects of the Federal Reserve Bank interest rate hike. The strengthening of the Euro was in response to Greek bailout deal that was secured; and the tumble in the equity markets which boosted the Euro against other major trading currencies. The Pound Sterling appreciated due to the strong UK economic data which added weight to the speculation that the Bank of England will increase interest rates.

**Figure 5: Nominal Exchange Rate of the Loti against Major Currencies**



Source: Bloomberg

### 3. Real Sector Development

#### OVERVIEW

Based on the Economic Activity Indicator (EAI), economic performance was positive during the third quarter of 2015, after two successive quarters of weak performance. The EAI, increased by 25.2 per cent in the third quarter of 2015 compared with a decline of 7.6 per cent in the second quarter of 2015. The robust growth was against the backdrop of satisfactory performance across all sectors of the economy underpinned mainly by strong government activity during the quarter.

#### OUTPUT DEVELOPMENTS

The economic performance increased significantly in the review period. The EAI surged by 25.2 per cent in the quarter ending September 2015 compared with a decline of 7.6 per cent in the quarter ending in June 2015.

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

	Weight	2014		2015		
		Q3	Q4	Q1	Q2	Q3
<b>EAI</b>	<b>100</b>	<b>12.2</b>	<b>6.4</b>	<b>-2.1</b>	<b>-7.6</b>	<b>25.2</b>
<b>Primary Sector</b>						
Mining	8.9	-0.7	-9.2	-12.9	28.0	32.4
<b>Secondary Sector</b>						
Manufacturing	18.5	9.9	10.0	-31.2	22.4	24.5
Electricity	1.1	-0.8	-12.6	-5.8	17.3	6.1
Water	4.9	6.7	-28.6	-7.0	37.5	3.2
Construction	7.6	94.5	-4.9	-9.8	-60.5	297.5
<b>Tertiary Sector</b>						
Trade	11.0	-2.7	12.4	-11.7	-0.3	7.0
Telecom	5.1	14.4	9.0	6.5	2.6	3.8
Financial Sector	6.5	12.1	2.0	0.2	-3.3	7.9
Other services	5.7	10.2	18.7	-1.6	10.3	4.3
Government	30.6	13.2	14.7	17.6	-29.2	27.2

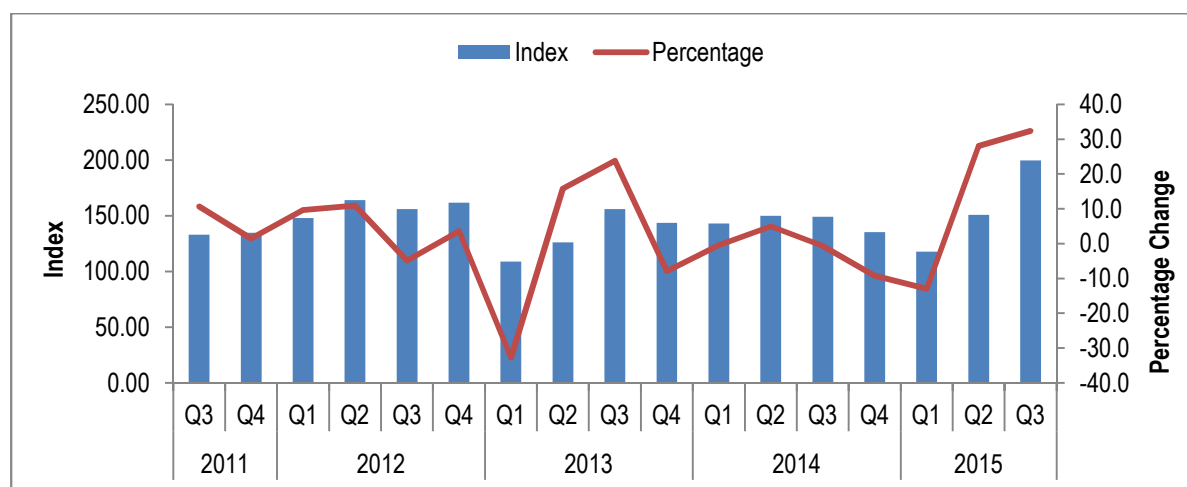
**Source:** Central Bank of Lesotho

## Primary Sector

### *Mining and Quarrying*

The mining and quarrying index rose significantly, by 32.4 per cent in the quarter ending in September 2015 compared with an increase of 28.0 per cent observed in the quarter ending in June 2015. The increase was ascribed to increase production by both Lets'eng and Storm Mountain diamond mines. Storm Mountain diamond mine's production increasing by more than 100 per cent in the review period. The increased output was attributed to the fact that mining undertaken from the main pipe.

**Figure 6: Mining and Quarrying Index**



**Source:** Central Bank of Lesotho

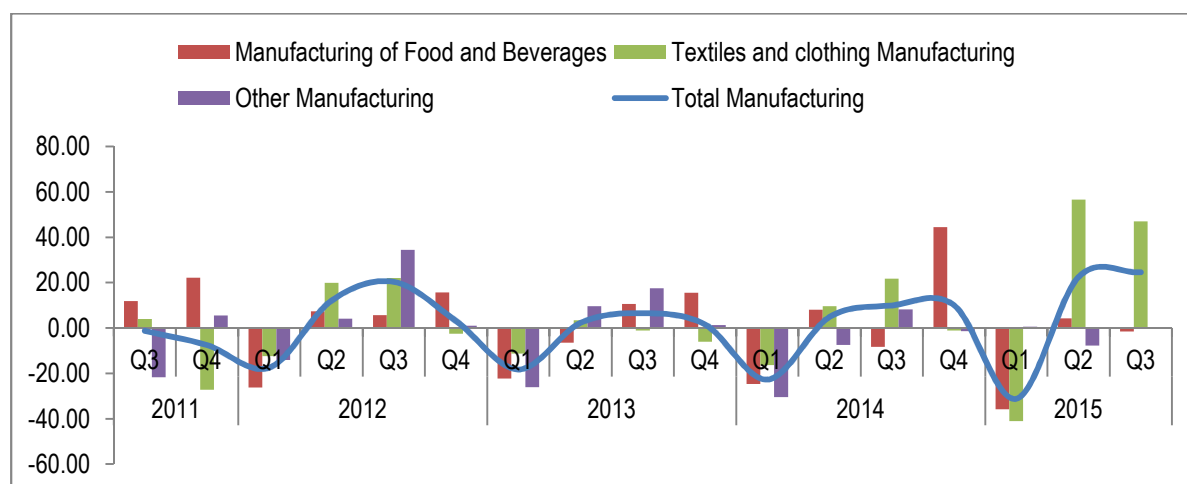
## Secondary Sector

### *Manufacturing*

The total manufacturing index increased by 24.5 per cent in the third quarter of 2015 compared with an increase of 22.4 per cent in the previous quarter. The increase was on account of 47.7 per cent increases in the textiles and clothing sub sector index. Output in this sub sector usually increases in the review period, as firms produce more to meet high demand of the upcoming festive season. In addition, there was 138.0 per cent increase in Lesotho's exports of textiles and clothing to other destinations other than the US market signaling increased demand for Lesotho's textiles and clothing products. This augurs well for Lesotho as it endeavors to diversify both the product base and markets. On the other hand, other manufacturing index increased marginally by 0.1 per cent in the review period, while food manufacturing index declined by 1.5 per cent mainly driven by reduced output of fruits and vegetable products.



**Figure 7: Manufacturing Subsector (Quarter to Quarter Percentage Changes)**



**Source:** Central Bank of Lesotho

### *Electricity*

The electricity consumption index rose at a lower rate of 6.1 per cent in the quarter ending in September 2015 compared with an increase of 17.3 per cent observed in the previous period. The increase was observed with all categories of electricity consumption. The domestic, general purpose and commercial and industries categories increased by 3.7 per cent, 9.7 per cent, and 5.5 per cent, respectively. High electricity consumption during the review period was in line with increased domestic output. Moreover, exports of electricity increased in the quarter ending in September 2015. Going forward we expect to see further improvements in the electricity subsector given that during the review period the Government of Lesotho launched 2015-2025 Energy Policy.

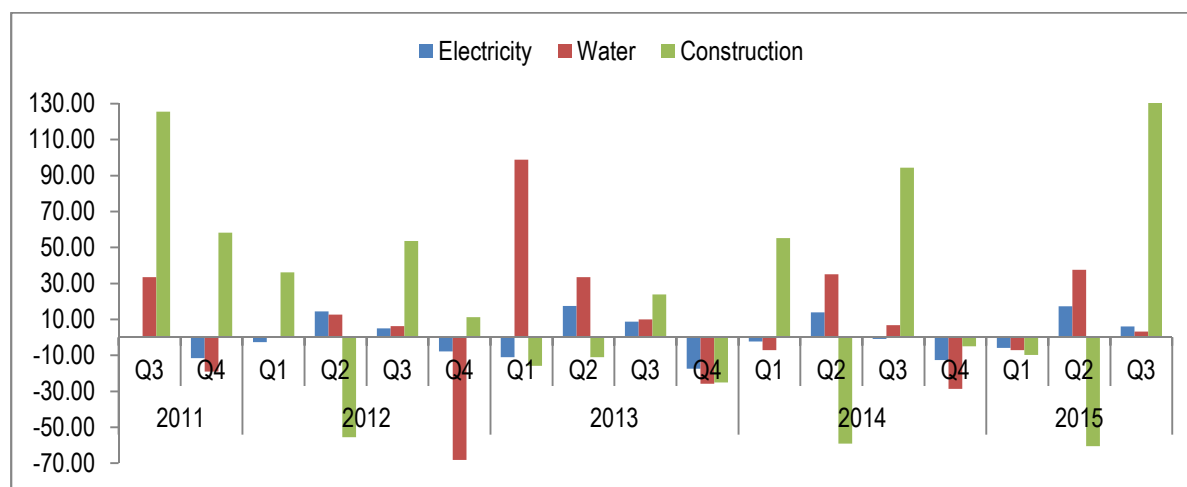
### *Water*

The water index increased at a lower rate of 3.2 per cent in the review period compared to an increase of 37.5 per cent in the previous quarter. The water sector comprises of water exports to SA and locally consumed water. During the review period, exports of water constituted 98.4 per cent of the water sector while the remaining 1.4 per cent was locally consumed. Water exports increased by 3.3 per cent in the quarter ending in September 2015 compared with 38.3 per cent in the previous period. Domestic water consumption declined by 1.9 per cent compared with a marginal decline of 0.8 per cent in the previous quarter. This was mainly attributed to a 4.4 per cent and 4.8 per cent decline in consumption by the domestic and other categories, respectively. On the other hand, industrial consumption increased by 2.3 per cent in the review period, which was in line with increased domestic output, especial output by the wet industries.

## Construction

There was an upswing in construction index as it registered 297.5 per cent in the quarter ending in September 2015 following a decline of 60.5 per cent in the second quarter of 2015. This increase was in line strong capital expenditure by Government, most of which is construction related, during the review quarter. It has to be noted that the observed increase was a result of late execution of the budget in the second quarter of 2015, which hindered implementation of government funded projects. Thus funds were released in the review period making it possible for a number of projects to be implemented.

**Figure 8: Secondary Sector (Quarter to Quarter Percentage Changes)**



**Source:** Central Bank of Lesotho

## Tertiary Sector

### Trade

The index for trade, which comprises motor trade, wholesale and retail trade in fuel, and wholesale and retail trade rose by 7.0 per cent in the quarter ending in September 2015 compared with a marginal decline of 0.3 per cent in the previous quarter. The highest increase was observed in the wholesale and retail sector's output. In addition, there was a substantial increase in the sale of automotive fuels.

### Telecommunications

The index for telecommunications increased further by 3.8 per cent in the third quarter of 2015 compared with an increase of 2.6 per cent in the second quarter of 2015. The observed increase was in line with continued efforts by the service providers to beat the competition. The service providers were engaged in a number of promotional items in the review period, which included among others air time to M-pesa, re-introduction of M10.00 Nchoathi, Lemea voice bundles, Shoalane data night promotion.

### ***Other Services<sup>1</sup>***

The index for other services increased albeit at a muted pace of 4.3 per cent in the quarter ending in September 2015 compared with an increase of 10.3 per cent in the previous quarter. The moderation was attributed to a slowdown in output related to renting of land transport equipment, maintenance and repair of office equipment, and computer related activities.

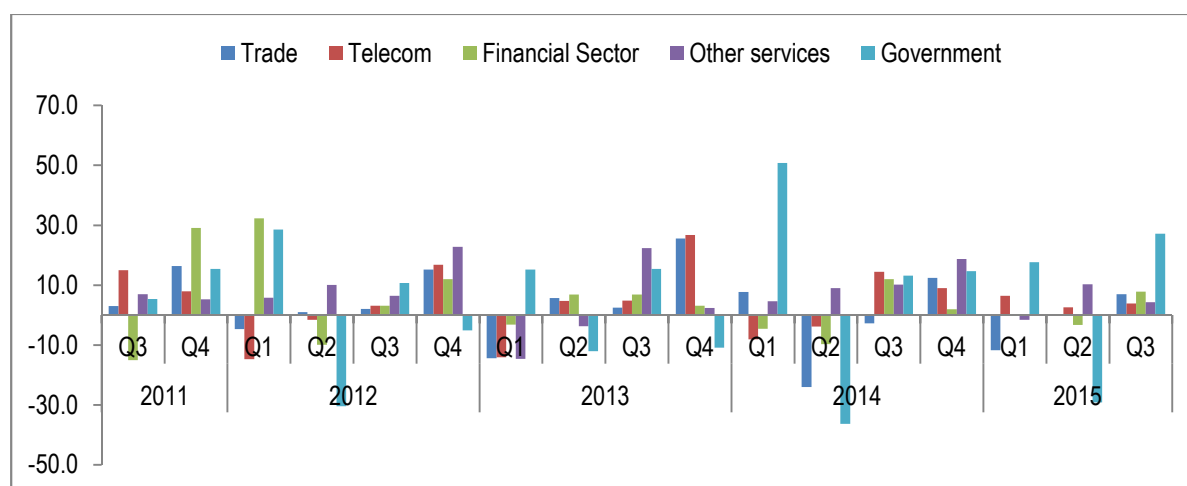
### ***Government***

The index for government activities increased significantly by 27.2 per cent in the third quarter of 2015 compared with a decline of 29.2 per cent in the previous quarter. The improved performance was in line with increased government expenses in the third quarter of 2015.

### ***Finance***

The financial sector index increased by 7.9 per cent in the third quarter of 2015 compared with a fall of 3.3 per cent in the quarter ending in June 2015. This development is reflective of an increased performance by the commercial banks in the economy. The observed increase was largely on account of increase in credit extended to all sectors of the economy. Consequently, both interest on loans and implicit charges grew thus contributing to the increase in the financial sector index during the review period.

**Figure 9: Tertiary Sector (Quarter to Quarter Percentage Changes)**



**Source:** Central Bank of Lesotho

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

## EMPLOYMENT DEVELOPMENTS

Employment by LNDC assisted companies increased by 3.9 per cent during the quarter ending in September 2015 compared with an increase of 1.1 per cent in the previous quarter. The contributors to this positive development were the knit garments, woven garments, footwear, retail, hotel and accommodation, and other firms, the textiles and clothing industry, particularly the knit and woven garments firms. The knit and woven garments increased employment was in line with increased output by the manufacturing subsector, especially textiles and clothing manufacturing coupled with re-opening of one clothing firm which closed in September 2014 due to management problems. With regard to hotels and accommodation, employment increased following a take-over of Sun International Group by Avani Lesotho.

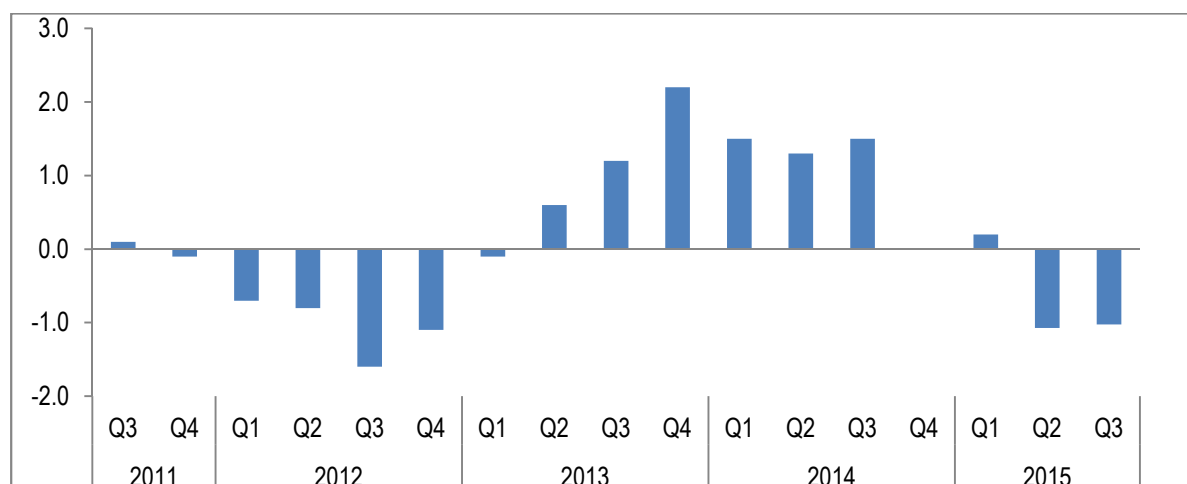
**Table 3: Employment by LNDC Assistant Companies**

Industry	2014		2015			% Change	
	Q3	Q4	Q1	Q2	Q3	Q/Q	Y/Y
Knit Garments.....	23910	23553	22913	23427	24521	4.7	2.5
Woven Garments.....	16036	15798	15781	16027	16347	2.0	1.9
Footwear.....	1586	1694	1592	1616	1743	7.9	9.9
Fabrics, Yarn etc.....	1564	1567	1724	1715	1801	5.0	15.2
Construction.....	306	306	309	317	317	0.0	3.6
Food & Beverages.....	1026	906	1089	904	901	-0.3	-12.2
Electronics.....	965	965	953	926	908	-1.9	-5.9
Retail.....	130	137	128	127	135	6.3	3.8
Hotel Accom.....	415	415	392	385	519	34.8	25.1
Other.....	1407	1396	1647	1612	1720	6.7	22.2
<b>TOTAL.....</b>	<b>47345</b>	<b>46737</b>	<b>46528</b>	<b>47056</b>	<b>48912</b>	<b>3.9</b>	<b>3.3</b>

**Source:** Lesotho National Development Corporation

The number of government employees declined by 1.0 per cent in the quarter under review compared with a decline of 1.1 per cent in the previous quarter. The decline was as a result of reduced employment levels in the categories of civil servants, teachers and daily paid worker. The civil servants, teachers, and daily paid workers declined by 0.6 per cent, 0.3 per cent, and 1.2 per cent respectively in the review quarter.

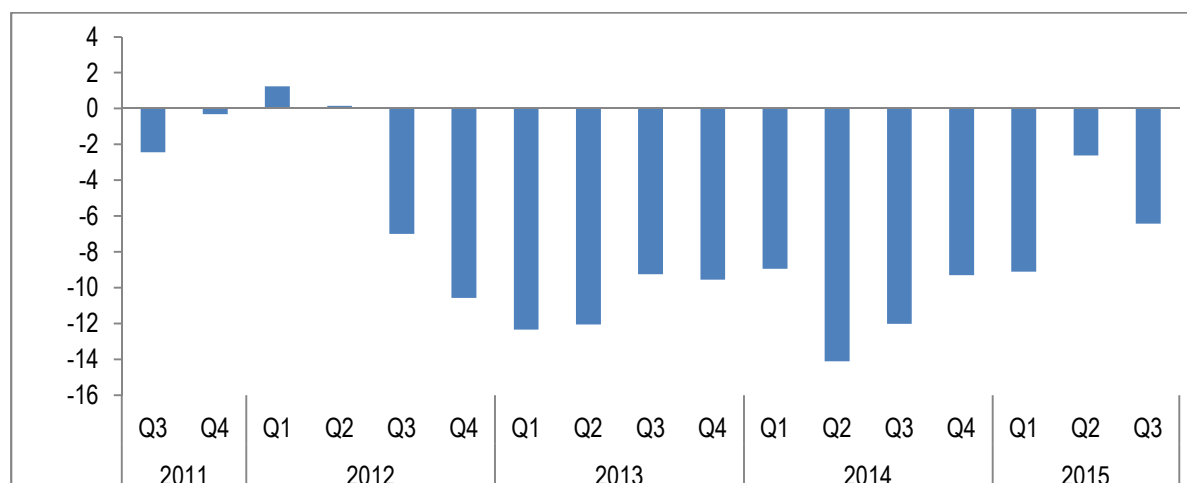
**Figure 10: Government Employment (Annualized Percentage Change)**



**Source:** Ministry of Finance

The number of Basotho Migrant Mine Workers employed in SA mines declined by 6.4 per cent in the quarter ending in September 2015 compared with a decline of 2.6 per cent in the previous quarter. Migrant mineworker’s employment is in line with no recruitment in the SA mining industry during the third quarter of 2015.

**Figure 11: Migrant Mineworkers (Annualized Percentage Changes)**



**Source:** The Employment Bureau of Africa (TEBA)

## PRICE DEVELOPMENTS

Lesotho’s inflation rate, measured as a percentage change in the Consumer Price Index (CPI) was 3.8 per cent in September 2015 from 2.9 per cent in June 2015. The observed increase was mainly attributed to food and nonalcoholic beverages and to some extent furniture, household equipment and routine maintenance, and miscellaneous goods and service. The food and

nonalcoholic beverages inflation was 8.1 per cent in September 2014 from 4.7 per cent in June 2015. This was attributed to increases in food prices especially bread and cereals due to tighter domestic production from the 2014/2015 harvesting year and some inflationary pressures from SA. The depreciation of the Loti against the US dollar provided further support. However, it has to be noted that housing, electricity, gas and other fuels inflation contracted further, while transport inflation remained unchanged and this was at the back of a fall in the domestic pump prices of paraffin, petrol and diesel. This emanated from low international crude oil prices during the review period.

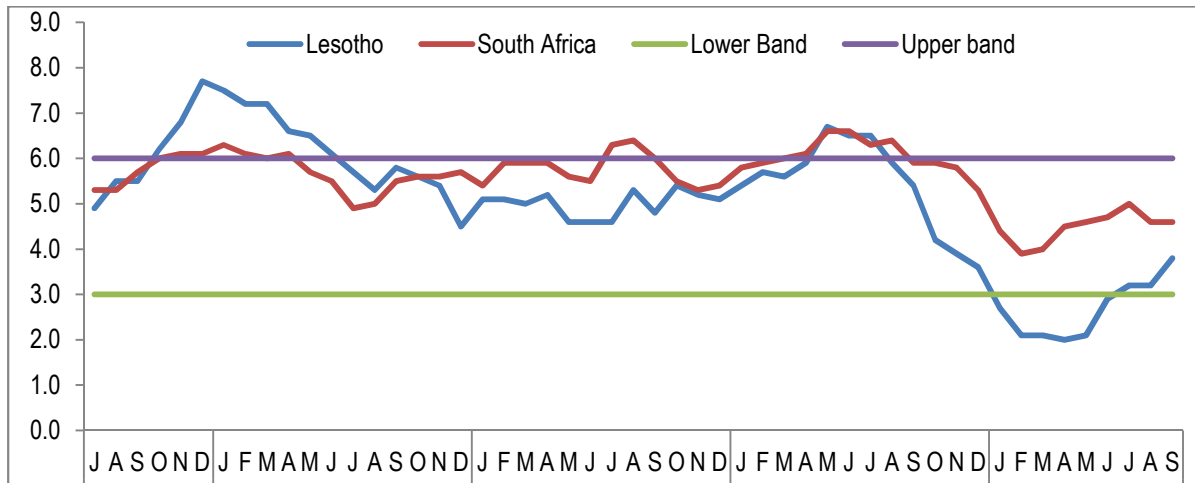
**Table 4: Inflation Rate (Year-on-year Percentage Changes)**

	Weight	2015				
		May	Jun	Jul	Aug	Sept
<b>All items</b>	<b>100</b>	<b>2.1</b>	<b>2.9</b>	<b>3.2</b>	<b>3.2</b>	<b>3.8</b>
Food and non-alcoholic beverages	38.1	4.0	4.7	5.3	5.8	8.1
Alcoholic beverages & Tobacco	1.2	6.1	6.0	5.8	6.1	5.9
Clothing & footwear	17.4	4.3	4.6	4.6	4.6	4.0
Housing, electricity gas & other fuels	10.6	-8.5	-5.2	-4.5	-6.7	-8.3
Furniture, households equipment & routine maintenance	9.4	3.2	4.6	4.5	3.7	4.8
Health	1.9	1.0	1.2	0.8	0.5	0.9
Transport	8.5	0.1	0.4	0.5	0.4	0.4
Communication	1.2	0.0	0.0	0.0	-0.8	0.0
Leisure, entertainment & Culture	2.4	3.4	3.7	3.9	3.6	3.9
Education	2.7	3.9	3.9	3.9	3.6	3.9
Restaurant & Hotels	0.7	4.5	4.5	4.5	4.7	0.8
Miscellaneous goods & services	5.8	3.4	4.1	4.4	4.6	4.7

**Source:** Bureau of Statistics

Lesotho and SA inflation rates tend to move in opposite directions in the review period. SA's inflation rate measured 4.6 per cent in September 2015 from 4.7 per cent in June 2015. In terms of drivers of inflation, high food prices tend to be the main driver of inflation in both Lesotho and SA in the review quarter.

**Figure 12: Lesotho and South Africa's Inflation**



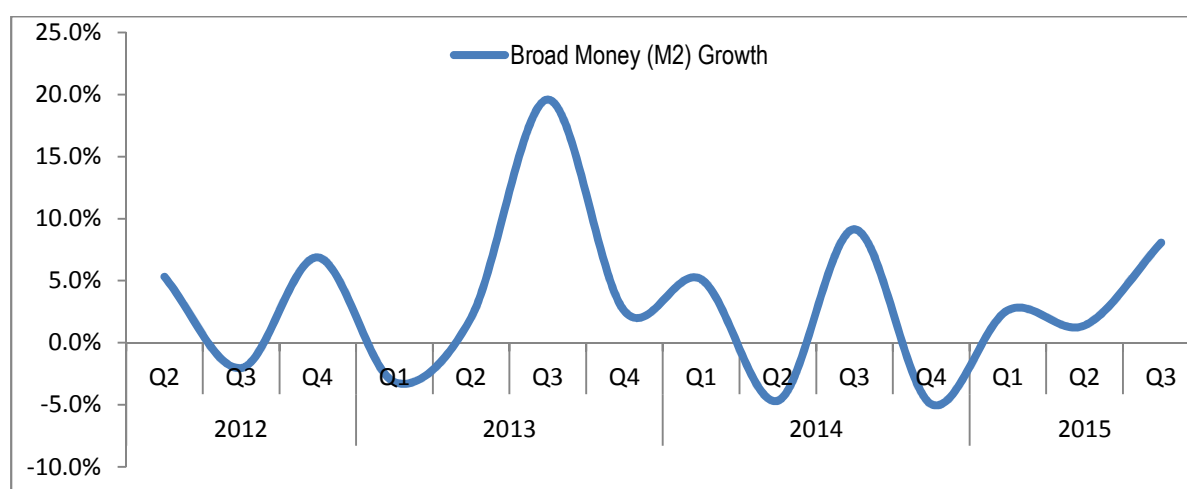
**Source:** Bureau of Statistics, Statistics South Africa

### 3. Monetary and Financial Developments

#### BROAD MONEY (M2)

Money supply rebounded during the review quarter following a relatively moderate growth during the quarter ending June 2015. On quarterly basis, money supply grew by 8.1 per cent during the third quarter of 2015 compared to 1.4 per cent increase recorded during the previous quarter. On an annual basis, M2 increased by 6.9 per cent in September 2015 while it registered 7.9 per cent growth during the previous quarter. This upswing was supported by a drastic growth in domestic claims as well as an increase Net Foreign Assets (NFA).

**Figure 13: Broad Money (M2)**



**Source:** Central Bank of Lesotho

#### Determinants of M2

##### *Domestic Credit*

Domestic claims, including net claims on government, increased drastically by M1 billion in September 2015 and this compares to a decline of M430.50 million during the previous quarter. This was mainly on account of acceleration in government spending as well as growth in private sector credit that boosted claims on other sectors. Private sector credit benefited from a recovery in credit extended to households as well as robust growth of credit extended to business enterprises.



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

	2014		2015			Changes (%)	
	Sep	Dec	Mar	Jun	Sep	Annual	Quarterly
<b>Domestic Claims</b>	<b>414.9</b>	<b>171.2</b>	<b>-37.1</b>	<b>-467.6</b>	<b>533.1</b>	<b>28.51</b>	<b>-214.02</b>
<b>Net Claims on Government</b>	<b>-4650.9</b>	<b>-4962.6</b>	<b>-5153.2</b>	<b>-5620.4</b>	<b>-4919.7</b>	<b>5.78</b>	<b>-12.47</b>
<b>Commercial Banks Net Claims</b>	<b>642.6</b>	<b>597.3</b>	<b>577.6</b>	<b>565.5</b>	<b>663.3</b>	<b>3.23</b>	<b>17.29</b>
Claims on Central Government	655.9	610.8	587.3	576.1	674.7	2.87	17.11
Liabilities to Central Government	13.3	13.4	9.7	10.6	11.4	-14.55	7.21
<b>Central Bank Net Claims</b>	<b>-5293.5</b>	<b>-5559.9</b>	<b>-5730.8</b>	<b>-6185.9</b>	<b>-5583.0</b>	<b>5.47</b>	<b>-9.75</b>
Claims on Central Government	853.3	849.8	850.4	868.0	986.2	15.58	13.62
Liabilities to Central Government	6146.8	6409.7	6581.2	7053.9	6569.2	6.87	-6.87
<b>Claims on Other Sectors</b>	<b>5065.8</b>	<b>5133.8</b>	<b>5116.0</b>	<b>5152.8</b>	<b>5452.8</b>	<b>7.64</b>	<b>5.82</b>
Claims on OFCs	10.5	12.5	15.0	14.4	0.0		
Claims on St & Local Government	0.0	0.0	0.0	0.0	0.0		
<b>Claims on Private Sector</b>	<b>5055.3</b>	<b>5121.3</b>	<b>5101.1</b>	<b>5138.4</b>	<b>5452.8</b>	<b>7.86</b>	<b>6.12</b>
Claims on Business Enterprises	1835.75	1815.14	1791.9	1859.1	2121.7	15.58	14.12
Claims on Households	3219.54	3306.17	3309.2	3279.3	3331.1	3.47	1.58

**Source:** Central Bank of Lesotho

### *Net Foreign Assets*

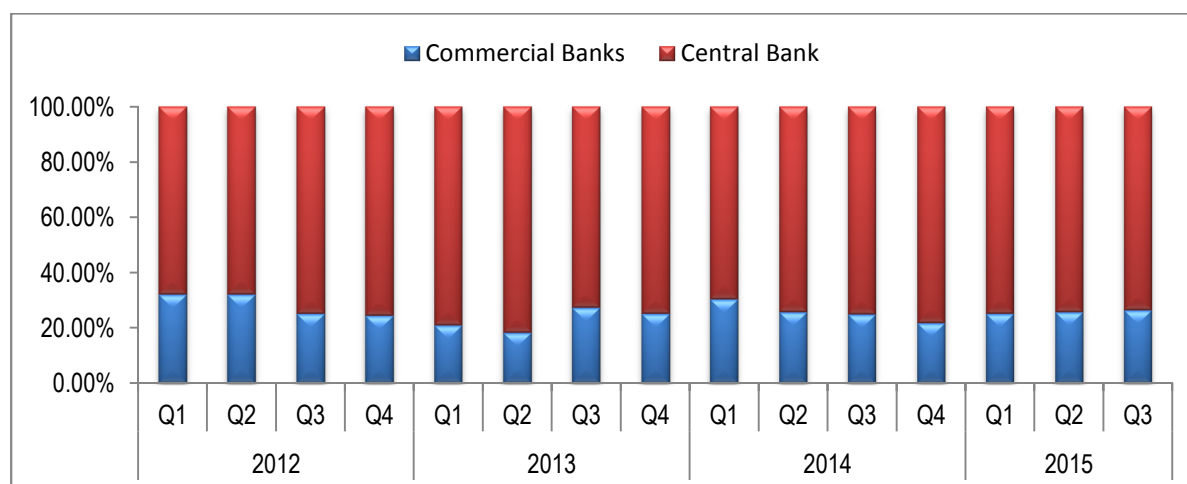
During the review period, there was an uptick in overall banking system NFA compared to the previous quarter. Overall banking system NFA recorded a 4.98 per cent increase for the current quarter against a moderate growth of 1.13 per cent realized during the previous quarter. This follows an increase in both Central Bank NFA as well as commercial banks NFA. The revaluation gains owing to Rand/Loti depreciation boosted Central Bank's investments abroad and thus increasing Central Banks NFA. On the other hand, accelerated government budget execution, coupled with increased deposits from business enterprises, caused a surge in commercial banks NFA since not all funds could be invested in the domestic money and capital markets.

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

	2014		2015			Changes (%)	
	Sep	Dec	Mar	Jun	Sep	Annual	Quarterly
<b>Commercial Banks</b>	<b>3418.7</b>	<b>3039.5</b>	<b>3746.1</b>	<b>3869.4</b>	<b>4169.1</b>	<b>21.95</b>	<b>7.75</b>
Claims on Non-residents	3838.8	3329.4	4,098.78	4233.3	4578.9	19.28	8.16
Liabilities to Non-residents	420.1	289.9	352.7	363.9	409.8	-2.45	12.61
<b>Central Bank</b>	<b>10283.4</b>	<b>10923.5</b>	<b>11130.6</b>	<b>11174.4</b>	<b>11624.5</b>	<b>13.04</b>	<b>4.03</b>
Claims on Non-residents	11707.7	12342.0	12550.2	12624.3	13210.5	12.84	4.64
Liabilities to Non-residents	1424.3	1418.5	1419.6	1449.9	1586.0	11.35	9.39
<b>Net Foreign Assets Total</b>	<b>13702.1</b>	<b>13962.9</b>	<b>14876.6</b>	<b>15043.8</b>	<b>15793.6</b>	<b>15.26</b>	<b>4.98</b>

**Source:** Central Bank of Lesotho

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



### Components of M2

The major components of broad money (M2) are narrow money (M1) and quasi money. Broad money rose by 8.1 per cent during the third quarter of 2015. This development is ascribed to an increase in both M1 and quasi money. The upswing in M1 was largely on account of robust growth in transferable deposits mainly from business enterprises as well as faster government spending. Similarly, quasi money growth was caused by good performance from business enterprises especially mining.

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

	2014		2015			Changes (%)	
	Sep	Dec	Mar	June	Sept	Y/Y	Q/Q
<b>Broad Money (M2)</b>	<b>9472.0</b>	<b>9003.8</b>	<b>9239.8</b>	<b>9368.6</b>	<b>10124.0</b>	<b>6.88</b>	<b>8.06</b>
<b>Narrow Money (M1)</b>	<b>4230.7</b>	<b>4096.6</b>	<b>4265.7</b>	<b>4368.9</b>	<b>4860.6</b>	<b>14.89</b>	<b>11.25</b>
Currency Outside DCs	813.9	941.5	907.2	842.1	912.7	12.14	8.39
Transferable Deposits	3416.8	3155.1	3358.4	3526.9	3947.9	15.54	11.94
<b>Quasi Money</b>	<b>5241.3</b>	<b>4907.2</b>	<b>4974.1</b>	<b>4999.6</b>	<b>5263.4</b>	<b>0.42</b>	<b>5.28</b>
Other Deposits Commercial Banks	5173.7	4849.2	4918.0	4953.5	5223.1	0.95	5.44
Other Deposits Central Bank	67.7	58.0	56.1	46.2	40.4	-40.35	-12.61

**Source:** Central Bank of Lesotho

## CREDIT EXTENSION

### Trends of credit extended to Business Enterprises

During the review period, credit extended to business enterprises displayed strong performance as it grew by 14.1 per cent on quarterly basis against the 3.8 per cent growth registered for the previous quarter. Agriculture<sup>2</sup>, mining, manufacturing and transport, storage and communication recorded largest upturn in credit while on the contrary electricity, gas and water as well as real estate and business services registered significant contraction in credit. With an exception of agriculture, these developments in credit are, to a large extent, reflective of the extent economic activity in these sectors as well as their contribution to GDP. For instance, the surge in credit extended to manufacturing is underpinned by increased orders for clothing and textiles sub sector during the third quarter as most factories close early for Christmas holidays as well as more banks offering credit facility to clothing and textiles sub sector factories. Moreover, credit extended to manufacturing during this quarter increased from a low base since there were uncertainties around AGOA renewal during the previous quarter. The main driver behind robust growth in credit extended to mining is that most mines are operating at full capacity following completion of expansion works hence some service providers contracted to the mines financed the operations through credit.

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

SECTOR	2014			2015		Changes (%)	
	Sep	Dec	Mar	June	Sept	Y/Y	Q/Q
Agriculture	18.0	17.4	13.4	12.8	17.2	-4.2	34.3
Mining	289.0	358.7	343.2	340.2	475.4	64.5	39.7
Manufacturing	390.5	445.4	434.0	401.3	465.8	19.3	16.1
Construction	156.8	171.2	186.4	229.4	234.5	49.5	2.2
Transport, Storage and Communication	184.3	188.5	179.0	158.8	236.9	28.6	49.2
Electricity, gas and water	29.5	40.4	31.9	62.7	34.9	18.1	-44.3
Wholesale, Retail, Hotel & Restaurant	363.3	153.2	144.8	173.1	195.8	-46.1	13.1
NBFIs, Real Estate and Business Services	347.4	429.9	444.0	464.2	444.1	27.8	-4.3
Community, Social & Personal Service	56.9	10.3	15.3	16.7	17.0	-70.1	1.7
<b>All Sectors</b>	<b>1835.7</b>	<b>1815.1</b>	<b>1791.9</b>	<b>1859.1</b>	<b>2121.6</b>	<b>15.6</b>	<b>14.1</b>

Source: Central Bank of Lesotho

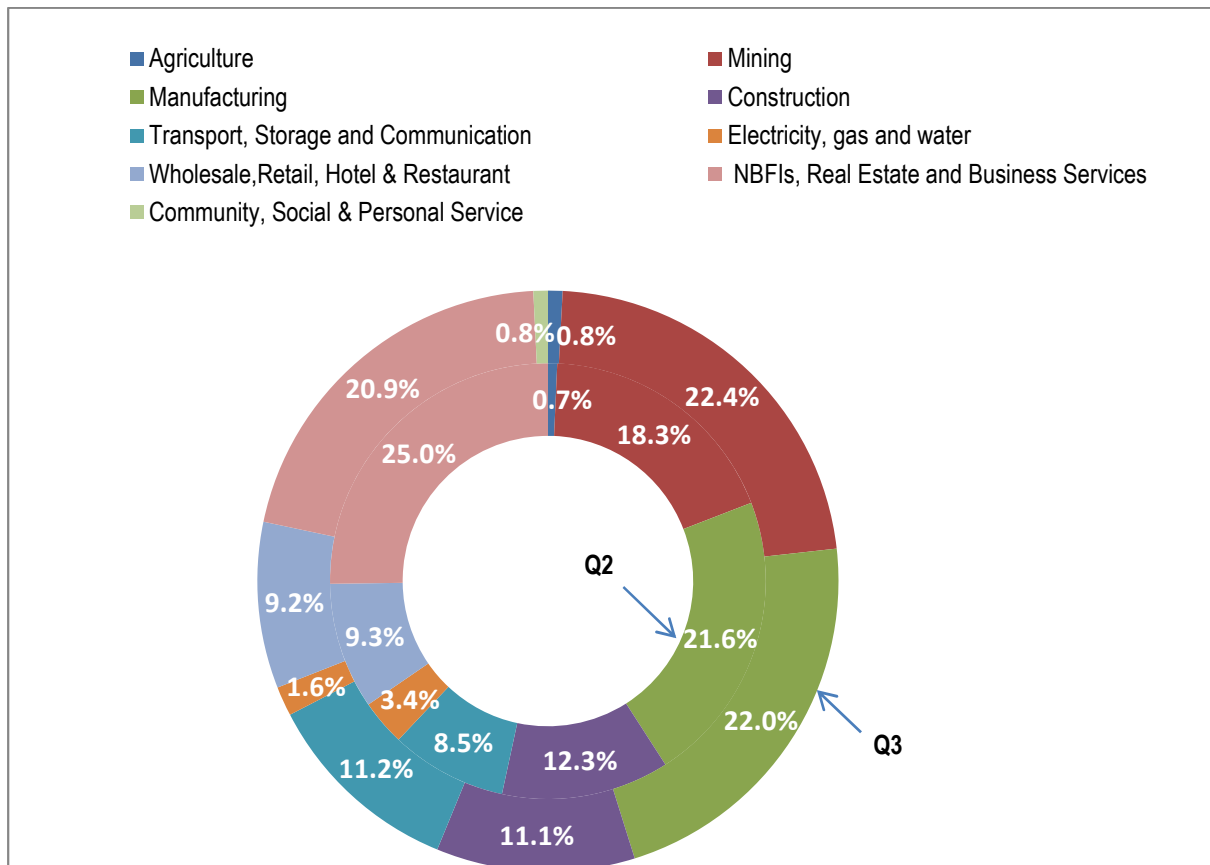
### Distribution of credit Extended to Business Enterprises

Regarding the allocation of credit extended to business enterprises by sectors mining, manufacturing and NBFIs, Real Estate and business services received largest share of credit extended to business enterprises. Compared to the previous quarter, share of credit extended to

<sup>2</sup> Growth in credit to agriculture was due to re-classification of some major credit component that was erroneously classified under real estate and business services

mining recovered significantly from 18.3 per cent recorded for second quarter to 22.4 per cent during the review quarter while manufacturing share increased slightly. On the other hand, agriculture, community, social and personal services and electricity, gas and water sectors received 0.81 per cent, 0.80 per cent and 1.60 per cent respectively.

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

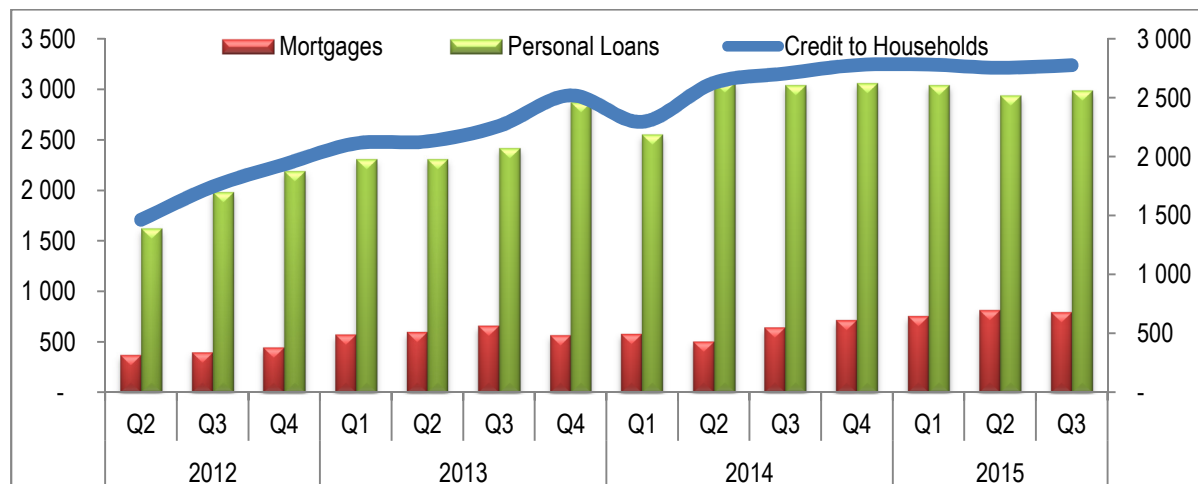


Source: Central Bank of Lesotho

### Credit extended to Households

Credit extended to households recovered slightly during the third quarter of 2015 compared to the rather subdued performance during the previous quarter. In particular, credit to households registered a mild growth of 0.8 per cent against a contraction of 1 per cent during the quarter ending June 2015. This was against the backdrop of an uptick in personal loans while mortgage loans contracted albeit at a slower pace. During the review period some banks designed new loan products for personal loans while others enhanced personal loans restructuring and these efforts boosted personal loans growth. The decline in mortgage loans is largely attributed to a re-classification following an error in mortgage loans.

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



Source: Central Bank of Lesotho

## LIQUIDITY OF COMMERCIAL BANKS

### Components of liquidity

Compared to the previous quarter, commercial banks' liquidity ratio declined from 82 per cent to 79 per cent for the third quarter of 2015. This is on account of a strong performance of deposits during the review quarter that outweighed the increase in components of liquidity. Correspondingly, credit to deposit ratio also declined from 60 per cent to 59 per cent over the same period. The resilient performance of business enterprise, improved government spending as well as commercial banks initiatives to mobilize more deposits resulted in the robust growth in deposits.

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

	2014			2015	
	Sep	Dec	Mar	Jun	Sep
<b>Credit to Deposit Ratio</b>	<b>58%</b>	<b>63%</b>	<b>61%</b>	<b>60%</b>	<b>59%</b>
Private Sector Credit	4997.3	5060.3	5040.1	5076.7	5389.124
Total Deposits	8590.5	8004.3	8276.4	8480.3	9170.977
<b>Liquidity Ratio</b>	<b>84%</b>	<b>80%</b>	<b>86%</b>	<b>82%</b>	<b>79%</b>
Notes and Coins	260.5	361.6	268.5	305.0	293.0
Balance due from banks in Lesotho	2688.5	2149.5	2381.9	2411.6	2395.3
Balance due from banks in SA	3539.1	2954.0	3864.3	3669.1	3723.9
Surplus funds	102.5	303.9	14.4	-65.6	122.9
Government Securities	655.9	610.8	610.2	610.2	674.7
<b>Total</b>	<b>7246.4</b>	<b>6379.7</b>	<b>7139.2</b>	<b>6930.3</b>	<b>7209.8</b>

**Source:** Central Bank of Lesotho

### Commercial Banks Sources of Funds

Commercial Banks main source of funds is deposits which comprise of transferable and other deposits. Total deposits drastically grew by 8.1 per cent during the review quarter against 2.5 per cent increase recorded during the quarter ending June 2015. As alluded to earlier, this growth was boosted by good performance by business enterprises, enhanced government spending as well as more initiatives by commercial banks to mobilize more deposits from clients especially households.

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

	2014			2015		Changes (%)	
	Sep	Dec	Mar	June	Sept	Annual	Quarterly
<b>Transferable Deposits Incl. in BM</b>	<b>3416.8</b>	<b>3155.1</b>	<b>3358.4</b>	<b>3526.9</b>	<b>3947.9</b>	<b>15.5</b>	<b>11.9</b>
Other Financial Corporations	0.0	0.0	0.0	0.0	0.0		
Public Nonfinancial Corporations	163.8	109.2	1.6	56.3	92.8	<b>-43.3</b>	<b>64.7</b>
Private Sector	3235.1	3028.0	3338.8	3452.6	3837.1	<b>18.6</b>	<b>11.1</b>
Other NFCs	2489.1	2280.2	2583.6	2582.9	2780.3	<b>11.7</b>	<b>7.6</b>
Other Sectors (Households)	745.9	747.8	755.3	869.7	1056.8	<b>41.7</b>	<b>21.5</b>
<b>Other Deposits Incl. in BM</b>	<b>5173.7</b>	<b>4849.2</b>	<b>4918.0</b>	<b>4953.5</b>	<b>5223.1</b>	<b>1.0</b>	<b>5.4</b>
Other Financial Corporations	0.0	12.4	20.5	26.1	22.1		<b>-15.2</b>
Public Nonfinancial Corporations	43.2	57.2	169.2	94.1	187.4	<b>333.9</b>	<b>99.2</b>
Private Sector	5130.5	4779.6	4728.2	4833.3	5013.5	<b>-2.3</b>	<b>3.7</b>
Other NFCs	3693.9	3300.4	3327.0	3610.4	3748.4	<b>1.5</b>	<b>3.8</b>
Other Sectors (Households)	1436.6	1479.2	1401.2	1222.9	1265.1	<b>-11.9</b>	<b>3.5</b>
<b>Total Deposits</b>	<b>8590.5</b>	<b>8004.3</b>	<b>8276.4</b>	<b>8480.3</b>	<b>9171.0</b>	<b>6.8</b>	<b>8.1</b>

**Source:** Central Bank of Lesotho

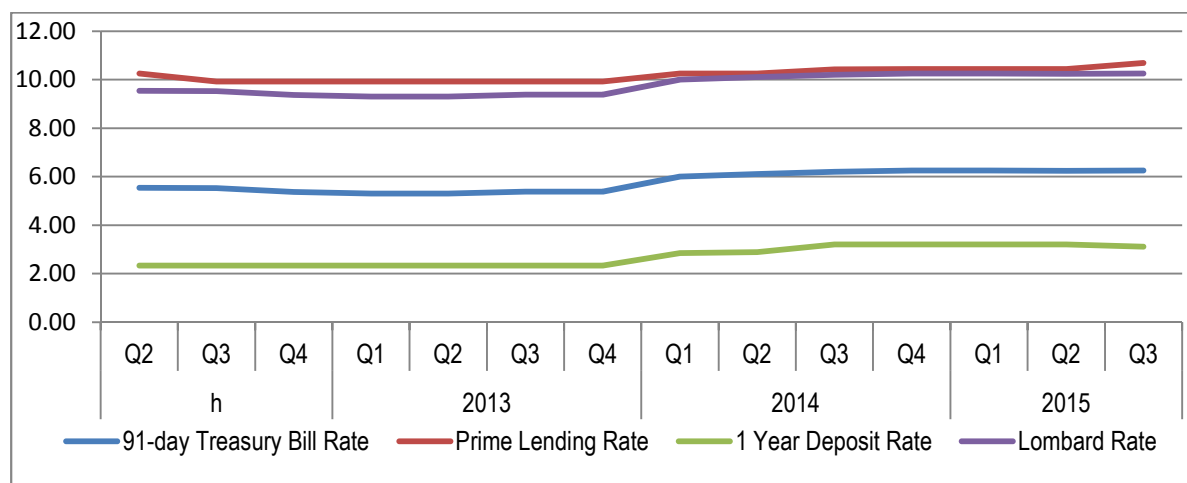
## MONEY AND CAPITAL MARKET DEVELOPMENTS

### Money Market

#### *Interest Rates*

During the review quarter, the South African Reserve Bank (SARB) increased the repo rate by 25 basis points as inflationary pressures were building up mainly on account of weakening Rand, unfavorable food prices as well as imminent U.S rate hiking cycle. As a result, some Lesotho money markets interest rates increased during the quarter under review. In particular, the Lesotho prime lending rate increased from 10.44 per cent in June 2015 to 10.69 per cent in September 2015. During the same time period, the Lesotho 91-day Treasury bill rate (and therefore the Lombard rate) increased from 6.24 per cent to 6.25 per cent.

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



**Source:** Central Bank of Lesotho

**Table 11: Interest rates**

	2014			2015		
	Jun	Sep	Dec	Mar	Jun	Sept
<b>Central Bank</b>						
T-Bill Rate - 91 days	6.11	6.20	6.25	6.25	6.24	6.25
Lombard Rate	10.11	10.20	10.25	10.25	10.24	10.25
<b>Commercial Banks</b>						
Call	1.03	0.99	0.99	0.99	0.99	0.85
Time:						
31 days	1.14	1.23	1.23	1.23	1.23	0.83
88 days	1.66	1.72	1.72	1.72	1.72	2.13
6 months	2.04	2.31	2.31	2.31	2.31	2.18
1 year	2.89	3.21	3.21	3.21	3.21	3.11
Savings	0.80	0.86	0.86	0.86	0.86	0.61
Prime	10.25	10.42	10.44	10.44	10.44	10.69
<b>South Africa</b>						
Repo	5.50	5.75	5.75	5.75	5.75	6.00
T-Bill Rate - 91 days	5.97	5.97	6.12	5.78	5.72	6.21
Prime	9.00	9.25	9.25	9.25	9.25	9.50

**Source:** Central Bank of Lesotho

### *Holding of Treasury Bills and T-Bill Rates*

The holding of treasury bills declined by 8.5 per cent during the review quarter compared to 0.3 per cent fall registered for the previous quarter. The yield rates increased marginally from 6.34 per cent in June 2015 to 6.35 per cent during the review quarter. With no auctions of treasury bonds during the review quarter, the holdings of treasury bonds remained unchanged.

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

	2014		2015		
	Sep	Dec	Mar	June	Sep
<b>Treasury Bills</b>					
Banking System	397.94	407.25	406.33	396.58	331.91
Non-Bank Sector	172.47	178.72	187.93	195.73	210.22
<b>Memorandum Item</b>					
Yield Bills (91-days)	6.30	6.35	6.35	6.34	6.35

**Source:** Central Bank of Lesotho



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

	2014			2015	
	Sep	Dec	Mar	June	Sep
<b>Holding of Treasury Bonds</b>	<b>537.5</b>	<b>553.33</b>	<b>572.70</b>	<b>573.20</b>	<b>573.20</b>
Banking System	321.25	321.26	336.47	339.00	339.40
Non-Bank Sector	216.22	232.07	236.27	234.20	233.80

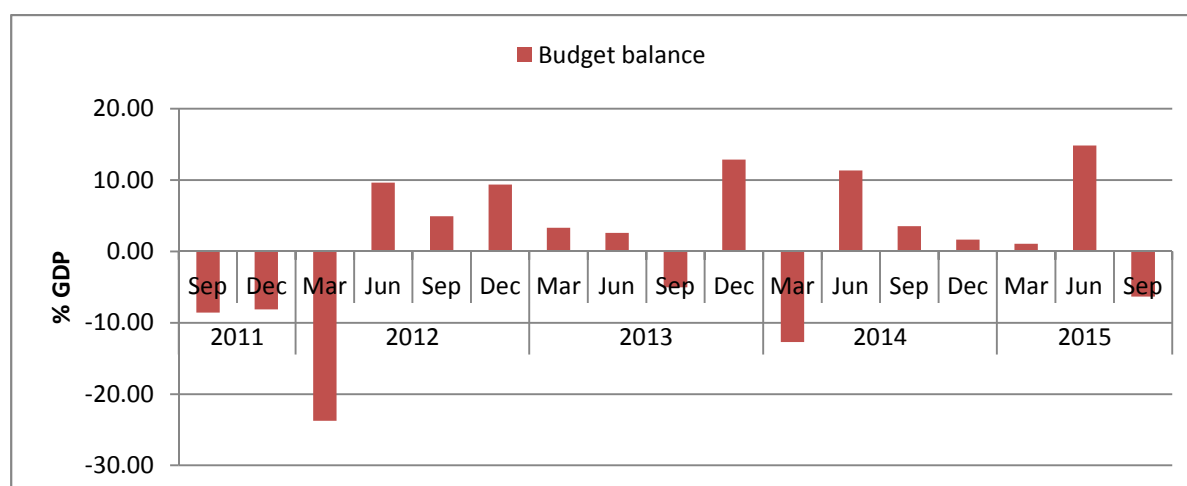
**Source:** Central Bank of Lesotho

## 5. Government Finance

### OVERVIEW

The Government registered a deficit of 6.3 per cent of GDP in the quarter ending September, 2015 relative to a revised surplus of 14.9 per cent in the quarter ending June, 2015, as spending accelerated and even surpassed revenue receipts. The public debt stock recorded 51.4 per cent of GDP during the quarter under review compared to the revised 45.3 per cent in 2015 April-June quarter. This debt increase, among others, reflects 5.9 per cent depreciation of Loti against the US Dollar.

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



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

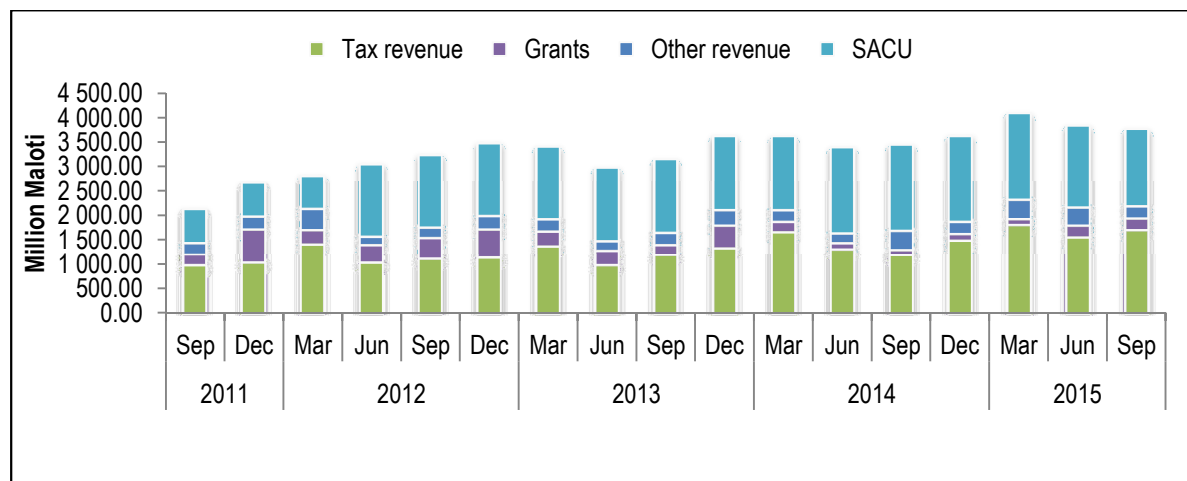
### REVENUE

The Government revenue for the review quarter was 59.7 per cent of GDP. The revenue decline continued into the third quarter of 2015 starting from the second quarter of 2015. It decreased by 1.8 per cent in July-September, 2015 quarter compared with the revised fall of 6.1 per cent in 2015 April-June quarter. The main drivers of this decline constitute 2.6 per cent in grants, 33.6 per cent in other revenue, and 5.4 in SACU receipts. The SACU receipts fell due to the M90 million discrepancy that was deducted from the quarter ending September, 2015 SACU receipts with the aim of correcting 2014/2015 forecasts produced by the Republic of South Africa, the host of the SACU Revenue Pool. The decrease under other revenue is attributed to a significant fall in dividends and mining royalties.

The tax revenue, on the other hand, increased by 9.7 per cent in the review quarter compared to a fall of 14.0 per cent in the preceding quarter. In terms of components, taxes payable by corporations and other enterprises (including company tax), and excise taxes (oil levy, road levy, petroleum levy and motor vehicle assurance) decreased relative to the previous quarter while

taxes payable by individuals (for example, personal income tax) together with general taxes on goods and services (including VAT) exceeded the receipts of the previous quarter.

**Figure 19: Components of Revenue (Million Maloti)**



Source: CBL and MOF

## TOTAL EXPENDITURE

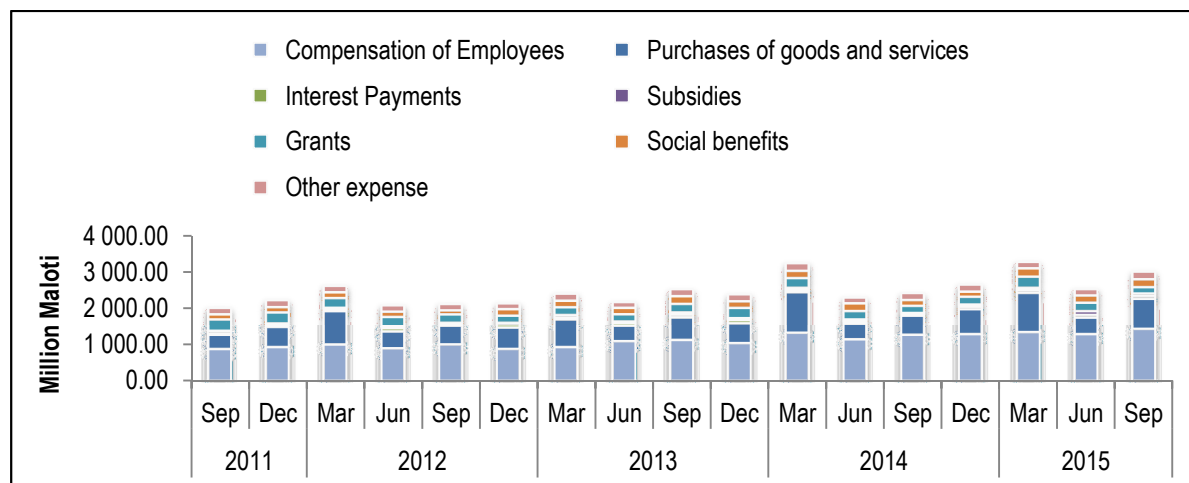
Total expenditure amounted to 66.1 per cent of GDP in the quarter ending September, 2015 compared with the revised 46.0 per cent in previous quarter. Government expenditures increased by 43.7 per cent during the quarter ending September, 2015 relative to a revised fall of 27.8 per cent during the quarter ending June, 2015. In terms of proportions, the share of expense (or recurrent) to the total expenditure declined to 72.5 per cent quarter under review which is down from 87.5 per cent recorded in in the preceding quarter. The non-financial assets recorded an improved share of 27.5 per cent in the quarter under review compared with 12.5 per cent from the previous quarter.

The expenses increased by 23.1 per cent during the third quarter of 2015 compared with a rise of 9.9 per cent in during the second quarter of 2015. Apart from the interest payments, grants, and subsidies all other expense items increased by more than 10.0 per cent in 2015 July-September quarter. There was a decrease in grants and subsidies while interest payments increased marginally. Subsidies fell down due to, in particular, delayed spending in agricultural subsidies, whose tendering of seeds took the rest of the third quarter (or the second quarter of the fiscal year) such that the Maluti or highlands farmers did not receive seeds by end of August - the start of the farming season in the highlands area. The increase in the purchases of goods and services corresponds to a significant rise of 171.5 per cent in travel and transport expense category (domestic and international).

The non-financial assets increased by 217.7 per cent in the third quarter of 2015 compared to the revised decline of 51.3 per cent in second quarter of 2015. The buildings and structures and machinery and equipment contributed to this high spending in capital assets. The main reason for the increase can be attributed to quickened implementation of 2015/2016 budget allocations

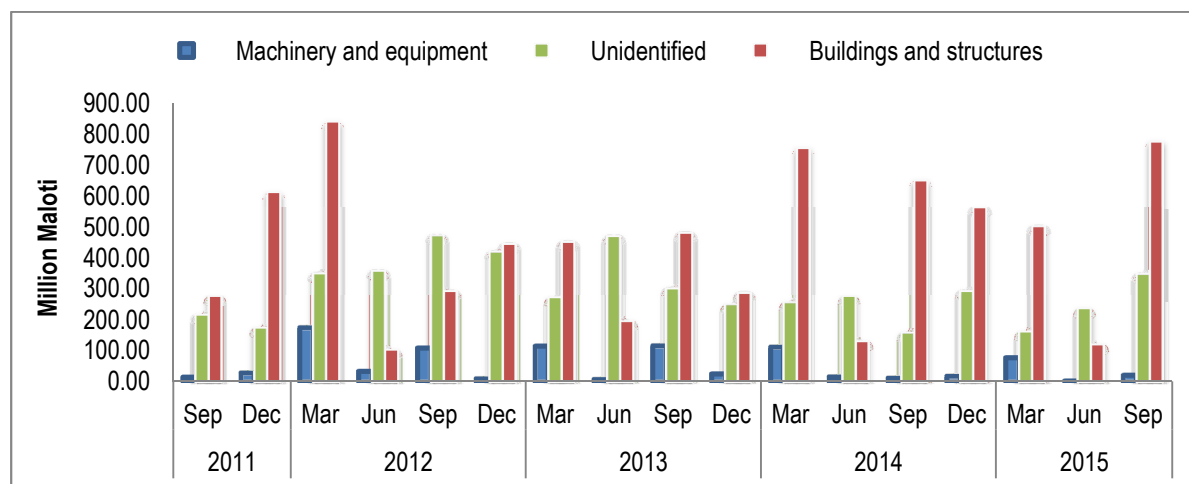
during the quarter under review. The budget execution for the current fiscal year was only intensified during the quarter ending September, 2015 due to the late presentation of the Budget Speech and subsequently the late release of the corresponding Appropriation Bill.

**Figure 20: Components of Expense (Million Maloti)**



Source: CBL and MOF

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



Source: CBL and MOF

**Table 14: Statement of Sources and Uses of Cash (Million Maloti)**

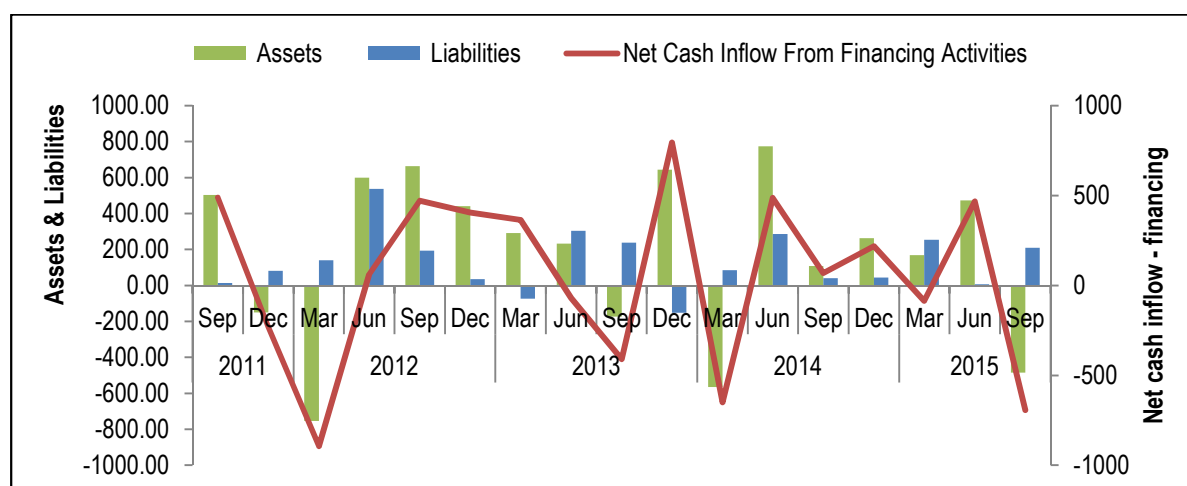
	2014		2015			Changes (%)	
	Sep	Dec	Mar	Jun	Sep	Q-to-Q	Y-on-Y
<b>Total Revenue</b>	<b>3,449.01</b>	<b>3,631.75</b>	<b>4,083.57</b>	<b>3,836.18</b>	<b>3,749.54</b>	<b>-2.3</b>	<b>8.7</b>
Tax revenue	1,187.13	1,493.61	1,814.14	1,559.33	1,711.12	9.7	44.1
Grants	117.40	136.40	118.30	239.35	233.05	-2.6	98.5
Other revenue	385.96	243.23	392.61	370.05	228.31	-38.3	-40.8
SACU receipts	1,758.52	1,758.52	1,758.52	1,667.45	1,577.06	-5.4	-10.3
<b>Total Expense</b>	<b>2,421.53</b>	<b>2,660.34</b>	<b>3,275.17</b>	<b>2,538.38</b>	<b>3,018.59</b>	<b>18.9</b>	<b>24.7</b>
Compensation of Employees	1,250.76	1,272.93	1,332.37	1,273.68	1,422.46	11.7	13.7
Purchases of goods and services	551.76	708.99	1,100.88	478.59	843.88	76.3	52.9
Interest Payments	62.83	71.51	65.38	73.65	73.80	0.2	17.5
Subsidies	15.02	62.58	61.92	99.82	72.28	-27.6	381.2
Grants	200.69	213.62	312.10	235.65	170.74	-27.5	-14.9
Social benefits	159.96	127.81	219.17	203.96	224.93	10.3	40.6
Other expense	180.51	202.91	183.36	173.02	210.51	21.7	16.6
<b>Net Cash Inflow From Operating Activities</b>	<b>1,027.48</b>	<b>971.42</b>	<b>808.40</b>	<b>1,297.80</b>	<b>730.95</b>	<b>-43.7</b>	<b>-28.9</b>
<b>Total Nonfinancial Assets</b>	<b>823.25</b>	<b>874.98</b>	<b>741.11</b>	<b>361.08</b>	<b>1,147.11</b>	<b>217.7</b>	<b>39.3</b>
Fixed Assets	823.25	874.98	741.11	361.08	1,147.11	217.7	39.3
Non-Produced Assets	0.00	0.00	0.00	0.00	0.00	0.0	0.0
<b>Cash deficit(-)/surplus(+)</b>	<b>204.23</b>	<b>96.43</b>	<b>67.29</b>	<b>936.72</b>	<b>-416.17</b>	<b>-</b>	<b>-</b>
<b>Net Cash Inflow From Financing Activities</b>	<b>-68.73</b>	<b>-218.73</b>	<b>86.00</b>	<b>-467.51</b>	<b>692.95</b>	<b>-</b>	<b>-</b>
Net Acquisition of Financial assets	-108.90	-263.07	-167.80	-473.61	483.94	-	-
Net Incurrence of Liabilities	40.17	44.34	253.80	6.11	209.00	-	-
Statistical Discrepancy	135.50	-122.30	153.28	469.22	276.78	-	-

Source: CBL and MOF

## FINANCIAL ASSETS AND LIABILITIES

The net financial assets recorded a decrease in deposits amounting to M483.9 million in 2015 third quarter compared to a revised rise of M473.6 million in 2015 April-June quarter. The fall in assets is attributed to the decrease in Government deposits in the Central Bank that reflects the declining SACU receipts. The net incurrence of liabilities increased by M209.0 million during the quarter under review compared with a rise of M6.1 million in 2015 April-June quarter. This increase in liabilities is mainly due to the foreign loan disbursements of M280.6 million, of which M207.3 million comes from European Investment Bank on Metolong Dam Project. The amortization on foreign loans accounted to M105.3 million during this quarter. Furthermore, the net domestic debt securities on the liability side declined by M84.5 million.

**Figure 22: Net Financial Assets (Million Maloti)**



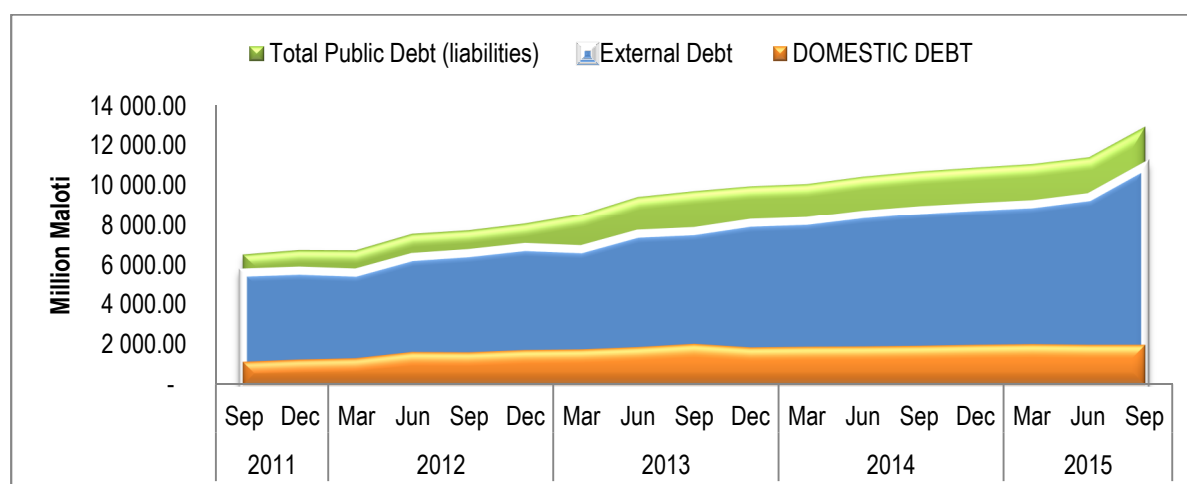
Source: CBL and MOF

## PUBLIC DEBT

The total public debt (including publicly guaranteed debt) amounted to the M12,957.9 million as at 30<sup>th</sup> September, 2015, reflecting an increase of M1,537.3 million of new debt from the 30<sup>th</sup> June, 2015. Out of M12,957.9 million of total public debt, M10,971.7 million constitutes external debt while the remaining M1,986.2 reflects domestic debt. The total public debt was 51.4 per cent of GDP during the quarter under review compared with the revised 45.3 per cent in 2015 April-June quarter. The new debt has been driven by disbursements from external loans coupled with 5.9 per cent of exchange rate depreciation (Loti/ US Dollar). Thus, the external loans from multilateral creditors increased due to disbursements of M275.8 million (out of total disbursements of M280.6 million) and to M1,403.2 million of exchange rate effect. This accumulation of debt due to Loti depreciation against major foreign currencies comes from the following multilateral creditors (among others): African Development Fund (M251.7 million), European Investment Bank (197.6 million), and International Development Association (M564.2 million).

The total external debt accounted for 43.5 per cent of GDP during the quarter ending September, 2015 which is up from 37.4 per cent in 2015 April-June quarter. It contributed to 84.7 percentage share of total public debt in 2015 July-September quarter compared with 82.6 per cent in the quarter ending June, 2015. It increased by 13.5 per cent during the third quarter of 2015 which is up from 3.0 per cent rise in 2015 April-June quarter. Furthermore, the domestic debt recorded a share of 15.3 per cent of the total public debt in 2015 July-September quarter which is down from 17.4 per cent in 2015 April-June quarter. It has maintained a 7.9 per cent of GDP during the second and third quarters of 2015, as per the revised figures. The domestic debt has been affected by the depreciation of the Loti since it includes the on-lent IMF's external loan from the CBL with an increase of M111.8 million during the quarter ending September, 2015. Despite the exchange rate effect on domestic debt, the total domestic debt has declined by 0.1 per cent in 2015 July-September compared with a revised fall of 1.3 per cent in 2015 April-June quarter.

**Figure 23: Outstanding Public Debt (Million Maloti)**



Source: CBL and MOF

**Table 15: External Debt (Million Maloti)**

	2014		2015			Debt / GDP (%)	
	Sep	Dec	Mar	Jun	Sep	Jun-15	Sep-15
<b>EXTERNAL DEBT</b>	<b>8,765.99</b>	<b>8,923.96</b>	<b>9,070.42</b>	<b>9,431.78</b>	<b>10,971.65</b>	<b>37.40</b>	<b>43.50</b>
Bilateral Loans	709.68	767.30	835.53	860.55	963.02	3.41	3.82
Concessional	709.68	767.30	835.53	860.55	963.02	3.41	3.82
Non-concessional	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Multilateral Loans	7,468.06	7,536.92	7,606.14	7,909.66	9,312.84	31.36	36.93
Concessional	6,380.10	6,470.12	6,347.18	6,603.08	7,601.40	26.18	30.14
Non-concessional	1,087.96	1,066.81	1,258.96	1,306.58	1,711.43	5.18	6.79
Financial Institutions	59.20	56.52	55.08	55.08	54.40	0.22	0.22
Concessional	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Non-concessional	59.20	56.52	55.08	55.08	54.40	0.22	0.22
Suppliers' Credit	529.04	563.22	573.68	606.50	641.40	2.40	2.54

Source: MOF

**Table 16: Domestic Debt (Million Maloti)**

	2014		2015			Debt / GDP (%)	
	Sep	Dec	Mar	Jun	Sep	Jun-15	Sep-15
<b>DOMESTIC DEBT</b>	<b>1,944.02</b>	<b>1,989.46</b>	<b>2,015.48</b>	<b>1,988.83</b>	<b>1,986.21</b>	<b>7.89</b>	<b>7.88</b>
<b>Banks</b>	1,555.27	1,578.67	1,591.28	1,558.89	1,542.21	6.18	6.12
Long-term (t-bonds and IMF)	1,157.28	1,171.41	1,184.03	1,162.31	1,210.30	4.61	4.80
O/w: Central Bank (IMF)	849.73	847.13	823.34	870.91	982.75	3.45	3.90
Short-term (t-bills)	397.99	407.25	407.25	396.58	331.91	1.57	1.32
<b>Non-bank</b>	388.75	410.79	424.20	429.93	444.01	1.70	1.76
Short-term (t-bills)	172.47	178.72	187.93	195.73	210.22	0.78	0.83
Long-term (t-bonds)	216.28	232.07	236.27	234.20	233.78	0.93	0.93

**Source: CBL**

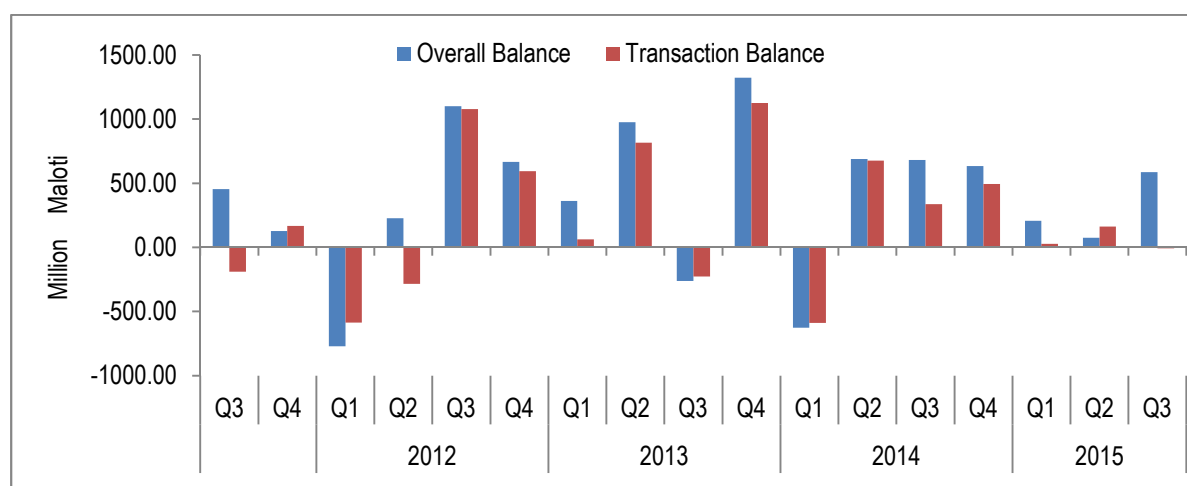


## 6. Foreign Trade and Payments

### OVERVIEW

The external sector registered a surplus in the third quarter of 2015. The overall balance was in surplus of M586.1 million, equivalent to 9.3 per cent of GDP in the quarter under review, higher than a surplus of M74.1 million or 1.2 per cent of GDP recorded in the quarter ending in June 2015. The performance reflected the growth in capital and financial account coupled with gains from depreciation of the local currency against currencies in which CBL's foreign reserves were held. The observed surplus was also supported by the narrowing of current account deficit as a result of a decline in trade account deficit. The transactions balance, which represents the overall balance excluding the effects of currency fluctuations, recorded a deficit of M8.4 million in the review quarter, in contrast to a surplus of 161.7million in the previous quarter.

**Figure 24: External Sector Position (Million Maloti)**



**Source:** Central Bank of Lesotho

### CURRENT ACCOUNT

The deficit in current account balance narrowed to M300.7 million in the third quarter of 2015 from a deficit of M450.1 in the previous quarter, reflecting an improvement in the trade account deficit. The trade account deficit narrowed to M3.3 billion in the review quarter from M3.5 billion in the second quarter of 2015, mainly driven by a surge in exports, which received a massive boost from the strong growth of both diamonds and textile exports. The improvement was however offset by an increase in imports of goods and services together with a decline in Current transfers and income from abroad. The increase in imports of goods and services reflected a strong pick up in spending by government while the drop in current transfers resulted from a fall in SACU receipts, which take the largest share of the current transfers. The decline in income account was driven by a higher payment of interest on government foreign loans. As a share of GDP, the current account balance recorded a deficit of 6.1 per cent in the third quarter of 2015, compared with a deficit of 9.2 per cent of GDP in the previous quarter.

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

	2014		2015			% Changes	
	Q3	Q4	Q1	Q2	Q3	Q/Q	Y/Y
<b>Current Account</b>	<b>-234.5</b>	<b>-690.4</b>	<b>-936.6</b>	<b>-450.1</b>	<b>-300.7</b>	<b>-33.2</b>	<b>28.2</b>
<b>(a) Goods</b>	<b>-2458.7</b>	<b>-2912.3</b>	<b>-3384.9</b>	<b>-2652.5</b>	<b>-2384.0</b>	<b>-10.1</b>	<b>-3.0</b>
Merchandise exports f.o.b.	2386.0	2308.2	1980.5	2396.5	3196.9	33.4	34.0
Of which diamonds	666.7	752.8	685.8	917.2	1134.8	23.7	70.2
Of which textiles & clothing	1137.5	983.2	688.5	949.2	1475.8	55.5	29.7
Other exports	581.8	572.2	606.2	530.1	586.3	10.6	0.8
Merchandise imports f.o.b.	-4844.7	-5220.5	-5365.4	-5049.0	-5580.9	10.5	15.2
<b>(b) Services</b>	<b>-866.6</b>	<b>-894.0</b>	<b>-915.3</b>	<b>-903.2</b>	<b>-931.7</b>	<b>3.2</b>	<b>7.5</b>
<b>(c) Income</b>	<b>902.1</b>	<b>922.5</b>	<b>972.9</b>	<b>998.0</b>	<b>988.8</b>	<b>-0.9</b>	<b>9.6</b>
<b>(d) Current Transfers</b>	<b>2188.7</b>	<b>2193.3</b>	<b>2390.6</b>	<b>2107.5</b>	<b>2026.2</b>	<b>-3.9</b>	<b>-7.4</b>

+ Preliminary Estimates

\*Revised Estimates

**Source:** Central Bank of Lesotho

### Merchandise Exports

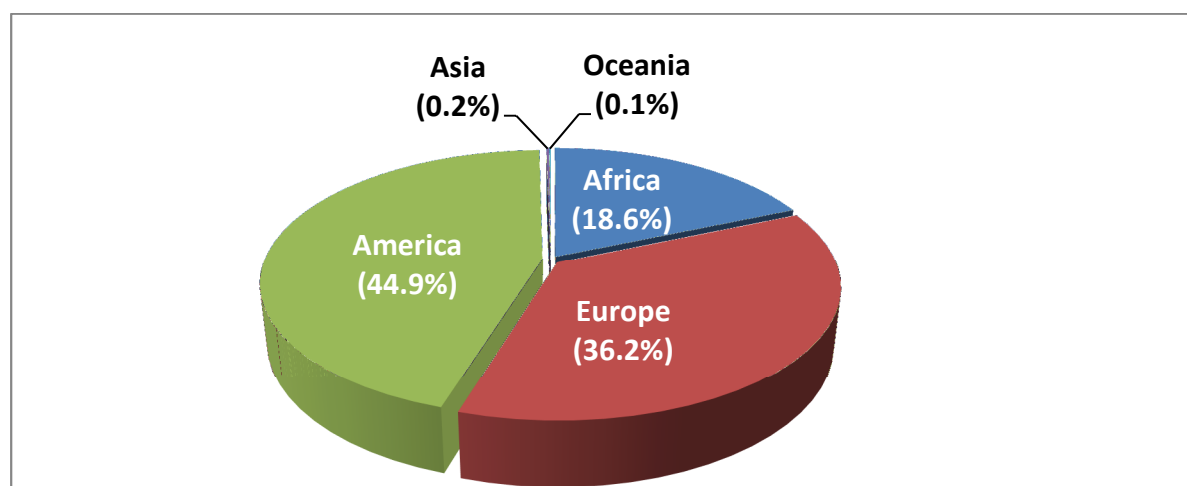
Merchandise exports grew by 33.4 per cent in the quarter ending in September 2015, following a rise of 21.0 per cent in the previous quarter. The continued improvement mainly reflected the gain from persistent depreciation of the rand hence the loti against the US dollar. Diamond exports grew by 23.7 per cent during the review quarter from 18.7 per cent growth in the preceding quarter while exports of textiles and clothing increased from 37.7 in the second quarter of 2015 to 55.5 per cent in the review quarter. Diamond exports on the one hand saw a huge boost from both increased diamond mining production and robust diamond prices amid challenging market conditions characterised by continued liquidity constraints and the slowdown of the Chinese economy. Letseng once again sold an exceptional 357 white carat diamond, which had a significant impact on diamond earnings during the quarter. Textiles and clothing exports on the other hand benefited from higher production by the manufacturing firms in their bid to meet increased demand for the festive season. On an annual basis, exports also displayed a sharp increase of 34.0 per cent in the quarter under review compared with 3.2 per cent in the second quarter. As a share of GDP, merchandise exports recorded 65.3 per cent in the third quarter of 2015, following a 49.0 per cent share in the previous quarter.

### Direction of Trade - Exports

In the third quarter of 2015, the bulk of Lesotho exports were destined to the American market with a share of 44.9 per cent compared with 32.2 per cent in the previous quarter while the Europe became the second largest market with a share of 36.2 per cent against 38.9 per cent in

the previous quarter. This indicated a shift from the last quarter where the European market had the largest market share of Lesotho's exports. The shift could be explained by the fact that the textile and clothing exports, which are mostly destined to the American market increased much more than diamond exports which are primarily destined to the European market. The third destination of Lesotho's exports was Africa, particularly SACU region with a share of 18.6 per cent in the review quarter compared with 27.9 per cent in the previous quarter. The Asia and Oceania markets remained insignificant with a share of 0.2 and 0.1 per cent respectively, compared with a share of 0.5 per cent for both markets in the previous quarter.

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



**Source:** Central Bank of Lesotho

### **Merchandise Imports**

During the quarter under review, merchandise imports rose by 10.5 per cent in contrast to a 5.9 per cent decline registered in the second quarter of 2015. The rise in merchandise imports was primarily driven by a sharp increase in government capital spending during the review quarter. On a year by year basis imports rose by 15.2 per cent in the third quarter of 2015 up from 4.0 per cent in the previous quarter.

### **Services Account**

The net services account registered a higher deficit of M 931.7 million during the third quarter of 2015 compared with a deficit of 903.2 million realised in the previous quarter. The larger deficit reflected an increase in freight imports in line with a higher volume of imports received in the review quarter. However, on an annual basis, the rate of increase in net services account slowed down to 7.5 per cent compared with an increase of 15.6 per cent in the previous quarter. As a share of GDP, services constituted 19.0 per cent during the third quarter of 2015 following 18.5 per cent share registered in the previous quarter.

## **Income**

The net income account balance registered a slight decline of 0.9 per cent in the quarter under review, compared with a 2.6 per cent increase recorded during the second quarter of 2015. The fall in the net income account balance was driven mainly by a larger payment of interest on government foreign debt. On an annual basis, the net income account balance grew by 9.6 per cent during the quarter ending in September 2015, following a surge of 31.1 per cent in the previous quarter. Relative to GDP, the net income account balance fell slightly from 20.4 per cent in the second quarter of 2015 to 20.2 per cent during the review quarter.

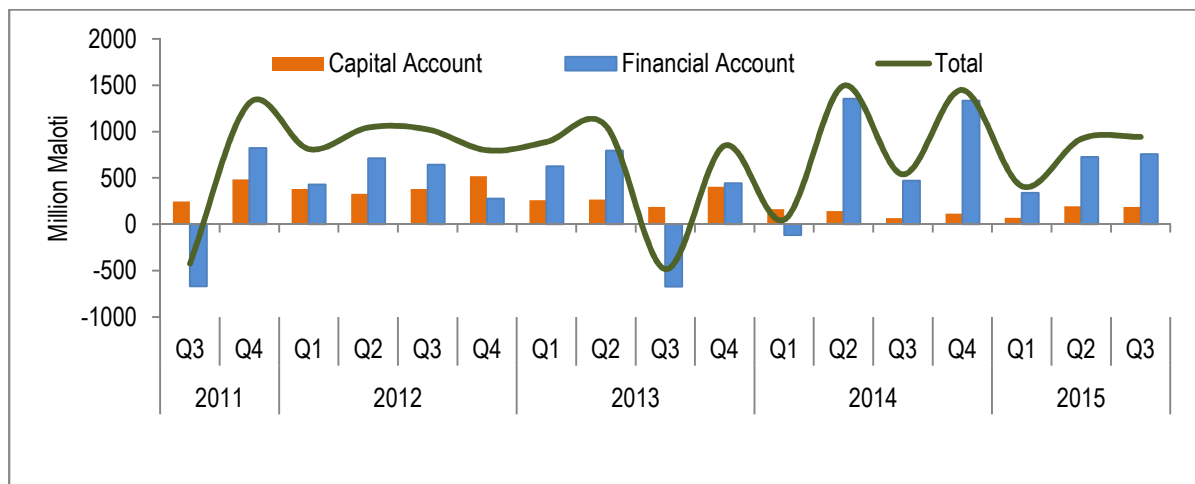
## **Current Transfers**

In the quarter ending in September 2015, net current transfers dipped further by 3.8 per cent following a drop of 11.8 per cent in the previous quarter, reflecting a fall in SACU revenues. The decline in SACU receipts was a result of the normalisation of the amount entitled to Lesotho for the year 2015 as the second quarter amount had been increased by about 90 million, being a positive adjustment to the shares received in 2013. On an annual basis, net current transfers dropped by 3.1 per cent in the review quarter compared with a rise of 10.0 per cent in the previous quarter. As a percentage of GDP, the net income account registered 41.4 per cent in the in the review quarter, following a 43.1 per cent share in the quarter ending in June 2015.

## **CAPITAL AND FINANCIAL ACCOUNT**

The net capital and financial account continued to register a surplus in the quarter ending in September 2015. The surplus was M943.9 million in the quarter under review, higher than a surplus of M920.8 million in the previous quarter. The capital account inflows dropped by 3.3 per cent to M188.1 million from an inflow of M194.4 million in the previous quarter, reflecting slowdown of donor support for government projects during the period. The financial account recorded an inflow of M755.8 million in the third quarter of 2015, higher than the previous quarter inflow of M726.4 million. An increase in financial account inflows was underpinned by the escalation of foreign liabilities by both the Central Bank of Lesotho and commercial banks together with a rise in government external borrowings during the quarter. However, the observed performance of financial account was moderated by outflows resulting from an increase in commercial banks' foreign assets and the repayment of government external loans during the period.

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

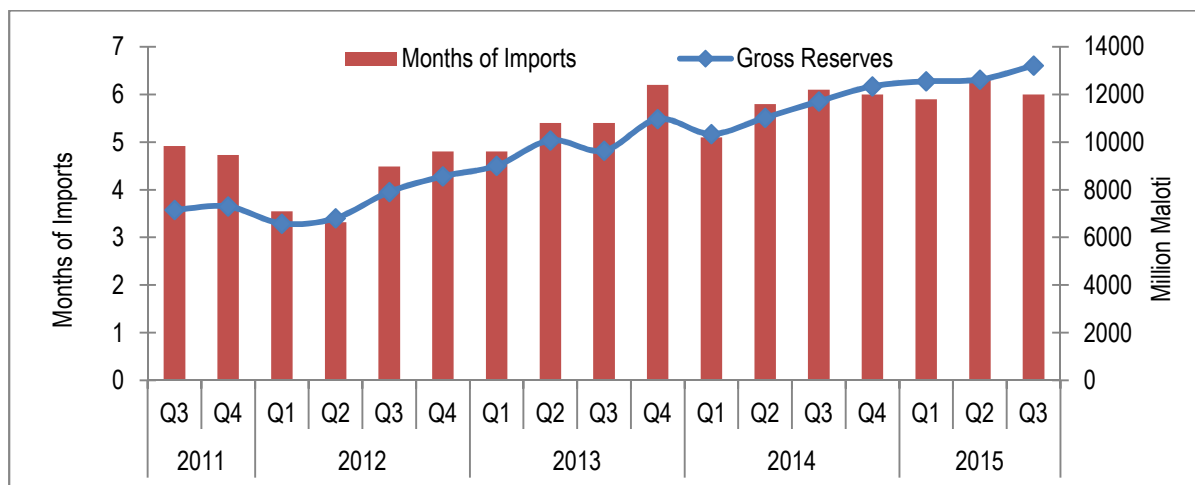


**Source:** Central Bank of Lesotho

## RESERVE ASSETS

The gross international reserves rose by 4.6 per cent to M13.2 billion in the quarter ending in September 2015, following an increase of 0.6 per cent in the quarter ending in June 2015. The growth was largely driven by the gains from the depreciation of the rand hence the loti against foreign currencies where official reserves were held. However, the observed performance was moderated by a decline in SACU receipts which is one of the main contributors to the official reserves. Measured in months of import cover, gross official reserves fell to 6.0 months in the quarter under review, from 6.3 months registered in the previous quarter, reflecting an increase in imports during the period.

**Figure 27: Reserves Assets**



**Source:** Central Bank of Lesotho