

CENTRAL BANK OF LESOTHO

QUARTERLY REVIEW

September 2017

MASERU

KINGDOM OF LESOTHO

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1. Executive Summary

The global growth has recovered in the third quarter of 2017 mainly driven by manufacturing activity, strengthening domestic demand in advanced countries and an improvement in global trade. Advanced economies experienced higher growth acceleration than the emerging market economies, with the Euro Area and the US leading the recovery.

Economic performance, as measured by Economic Activity Indicator, increased marginally resulting from mixed sector-performances in the primary, secondary and tertiary sectors. Employment (in terms of LNDC assisted companies, Basotho migrant mine workers, and the Government) increased by 1.1 per cent while inflation rate accelerated by six percentage points to 5.6 per cent.

The money supply increased due to a rise in both net foreign assets and domestic claims. The reason for a rise in money supply emanated from a growth in net claims on government following a drop in government deposits, and net foreign assets of the commercial banks. Credit extended to business enterprises under-performed relative to the previous period while the credit to households recorded a growth.

The government budgetary operations recorded a deficit as a result of significant rise in total spending (recurrent and capital) which outstripped a slight increase in revenue. The fiscal deficit, apart from revenue flows, was financed by drawdown of deposits and domestic borrowing. The outstanding public debt stock increased marginally as a result of moderate rise in external public debt and domestic public debt.

The overall balance of payments has improved and renders Lesotho a net lender during the review quarter. The observed performance was largely influenced by the improvement in the current account, capital account and financial account. The improvement in the current account was mainly driven by the lower deficit in the trade account, while the growth in the capital account was supported by an increase in government foreign grants. The surplus in the financial account was attributed largely from a rise in commercial banks' foreign assets.

2. International Economic Developments

The third quarter of 2017 was marked by a strong recovery in global growth. The observed growth emanated from increased activity in manufacturing, strengthening domestic demand in advanced countries and an improvement in global trade. Generally, the growth momentum was sustained in the advanced countries, while it moderated in the emerging economies. The Euro Area experienced faster growth, while in the US growth was robust albeit with a slight weakness during the quarter. Economic activity in the UK was resilient, despite the Brexit-related uncertainty and weak productivity in the review quarter. China's GDP growth slowed down slightly on account of falling mining output and slower investment spending. In India, growth picked up during the quarter under review, driven mainly by increased private investment spending. The South African economy recorded a slower growth during the quarter under review, due to declining mining and manufacturing output. Labour market conditions continued to improve in both advanced and emerging economies during the quarter, in line with robust GDP growth rates.

The annualised inflation rate accelerated in both advanced and emerging economies. However, it remained well below the inflation target in most advanced economies, with the exception of the US and UK. The hurricane related disruptions in the US led to the shutdown of some oil refineries and therefore pushed energy prices upwards. The pass-through effect of the weaker pound led to increased prices, especially those of the imports in the UK. In India, rising food and beverage prices pushed consumer prices higher. The monetary policy conduct was generally accommodative during the quarter. The stance was taken to ensure that inflation picks up to the desired rate and to support further recovery in economic activity. As a result, financing conditions were favourably supported by low interest rates.

On the commodities front, price movements were mixed during the quarter with prices of precious metal and oil rising, while prices of grains and cereals declined. The latter prices declined due to good harvests in most producer countries, which were emerging from drought. The increase in the price of gold was induced by demand for the safe haven assets due to rising uncertainty in the global markets. Platinum prices also picked up in line with other raw materials in response to increasing demand from China. While the recent hurricanes Irma and Harvey disrupted oil production in the US, production was further affected by the agreement between OPEC and some non-OPEC countries to cut oil output, hence leading to a recovery in oil prices.

Table 1: Key World Economic Indicators

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	June 2017	Sept 2017	June 2017	Sept 2017	June 2017	Sept 2017	June 2017	Sept 2017
United States	3.1*	3.0	1.6	2.2	1.25	1.25	4.4	4.2
Euro Area	2.3*	2.5	1.3	1.5	0.00	0.00	9.1	8.9
Japan	1.5*	2.5	0.4	0.7	-0.10	-0.10	2.8	2.8
United Kingdom	1.5*	1.5	2.6	3.0	0.25	0.25	4.4	4.3
China	6.9	6.8	1.5	1.6	4.35	4.35	4.0	4.0
India	5.7*	6.3	1.5	3.3	6.25	6.00	n/a	n/a
South Africa	2.5	2.0	5.1	5.1	7.00	6.75	27.7	27.7

Updated*

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)

During the third quarter of 2017, the US economy grew by 3.0 per cent compared to 3.1 per cent in the second quarter of 2017. Growth was driven by the increase in consumer spending, private inventory investment, non-residential fixed investment, exports and federal government spending. However, residential fixed investment spending and state and local government spending were subdued and stunted what was otherwise promising to be a very strong growth performance. The unemployment rate registered 4.2 per cent in the third quarter of 2017, lower than 4.4 per cent observed in the second quarter of 2017 as the services sector continued to support employment growth. However, the growth in employment was moderated by the hurricane-related disruptions that led to job losses in some sectors during the review quarter.

Annualised consumer prices rose by 2.2 per cent in the third quarter of 2017, following a 1.6 per cent increase in the second quarter of 2017. The increase was mainly driven by energy prices, which were affected by hurricane-related disruptions that led to the closure of some oil refineries and therefore negatively affected oil supplies. The FMOC voted to leave the Fed rate unchanged at a band of 1.00-1.25 per cent during the quarter ending in September 2017. The decision was taken due to weakening inflation outlook, despite strengthening economic activity and labour market conditions. This development temporarily halted the Bank move towards rate normalisation. One more rate hike is forecasted before the end of the year. The Fed also indicated that it would start with the Balance Sheet reduction process in October 2017.

Euro Area

The annual real GDP for the Euro Area rose by 2.5 per cent in the quarter ending in September 2017, accelerating from 2.3 per cent in the previous quarter. Growth was supported by strong consumer and investment spending as well as exports. The Euro Area registered an eight year low unemployment rate of 8.9 per cent during the quarter under review, compared to 9.1 per cent in the quarter ending in June 2017. The decline in the unemployment rate was driven by a strong recovery in the economy, which was supported by firm domestic and external demand.

The annualised consumer prices rose by 1.5 per cent in the quarter under review, picking up from a 1.3 per cent increase in the previous quarter. The rise in the inflation rate was as a result of higher costs of energy, food and services. The European Central Bank left the key policy rate unchanged at 0.00 per cent in the third quarter of 2017. Despite the slight increase in the inflation rate, it persistently trended below the official target of 2.00 set by the Bank. The ECB maintained an accommodative monetary policy stance to support growth. The ECB asset purchase programme of €60 billion per month is set to continue until December 2017.

Japan

The Japanese economy grew by 2.5 per cent in the third quarter of 2017, following a 1.5 per cent growth in the previous quarter. The faster than expected increase in the real GDP was supported by exports, domestic demand and recovery in business investment during the quarter. Japan's unemployment rate was unchanged at 2.8 per cent during the review quarter. Higher exports orders and strengthening domestic demand supported employment creation during the quarter under review.

The annualised consumer prices rose by 0.7 per cent in the quarter ending in September 2017, compared with a 0.4 per cent increase in the previous quarter. The increase in the inflation rate was driven by faster increases in the prices of energy, clothing and footwear. However, inflation remained below the official target of 2.0 per cent. The Bank of Japan left the key policy rate unchanged at -0.1 per cent during the third quarter of 2017. The Bank also decided to maintain its asset purchases programme, comprising of government bonds among others.

United Kingdom (UK)

During the third quarter of 2017, real GDP growth rate for the UK remained at 1.5 per cent, unchanged from the previous quarter. Higher manufacturing and services output continued to support growth although their contribution was moderated by the fall in the output from the mining and quarrying sectors. The labour market conditions were resilient in the third quarter of 2017, with the unemployment rate registering 4.3 per cent, down from 4.4 per cent in the second quarter of 2017. It was supported by strong recovery in the global economy, which supported manufacturing job creation and also a strengthened domestic demand, with more jobs created in the services sector.

The annual consumer inflation rate accelerated to 3.0 per cent in the third quarter of 2017, faster than 2.6 per cent in the second quarter of 2017. The increase in prices was a result of higher costs of food, transport and leisure related activities. The Bank of England kept the key policy rate unchanged at 0.25 per cent in the third quarter of 2017. The accommodative policy stance was to

continue to support growth and employment creation. However, in cognisance of the rising inflation rate, the bank hinted towards a policy rate hike in its next meeting. The Bank also indicated that it would continue with the asset purchase programme, comprising corporate and government bonds on a monthly basis.

EMERGING MARKET ECONOMIES

China

China's real GDP grew by 6.8 per cent in the third quarter of 2017, a slightly lower growth than 6.9 per cent of the previous quarter. The contraction in mining output, together with the slowdown in investment spending weighed on GDP growth. The unemployment rate remained unchanged at 4.0 per cent in the review quarter relative to the quarter ending in June 2017.

The annual consumer inflation rose moderately from 1.5 per cent in the second quarter of 2017 to 1.6 per cent in the third quarter. The inflationary pressures were mainly driven by the increase in health care costs, rent, education and clothing prices. The People's Bank of China held the key policy rate constant in the third quarter of 2017. The Bank maintained an accommodative stance to support growth, while keeping close eye on the prevailing risks. The Bank has injected liquidity into the system through other channels, one of which was to cut the reserve ratio by different margins.

India

The Indian economy grew at a faster rate of 6.3 per cent in the quarter under review, compared to a 5.7 per cent growth in the second quarter of 2017 due to a recovery in private investment and inventories. The annualised consumer prices rose by 3.3 per cent in the quarter ending in September 2017 from 1.5 per cent in the quarter ending in June 2017. The pressure in prices resulted mainly from rising food and beverages prices, as well as increased costs for fuel and housing. The Reserve Bank of India reduced the repo rate by 25 basis points to 6.0 per cent in the third quarter of 2017. The inflation rate, which remained well below the Bank's target for two consecutive quarters until June 2017, provided space for the Bank to loosen its monetary policy stance. The Bank was of the view that the economy's growth had been severely hurt by the demonetisation since the beginning of 2017.

South Africa

GDP growth rate in South Africa slowed to 2.0 per cent in the third quarter of 2017, from 2.5 per cent in the second quarter of 2017. Agricultural output continued to support growth while mining and manufacturing output dragged GDP growth downwards. The unemployment rate for South Africa was steady at its 13-year high of 27.7 per cent in the third quarter of 2017 for the third consecutive quarter.

The inflation rate was steady at 5.1 per cent in the quarter ending in September 2017, relative to the quarter ending in June 2017. The increase in the costs of housing and utilities and transport was moderated by a decline in food and communication costs. The South African Reserve Bank cut the repo rate by 25 basis points to 6.75 per cent during the third quarter 2017, amid falling inflation pressures and improving inflation outlook. The decision was taken to support the weakening economy, as growth outlook continued to deteriorate.

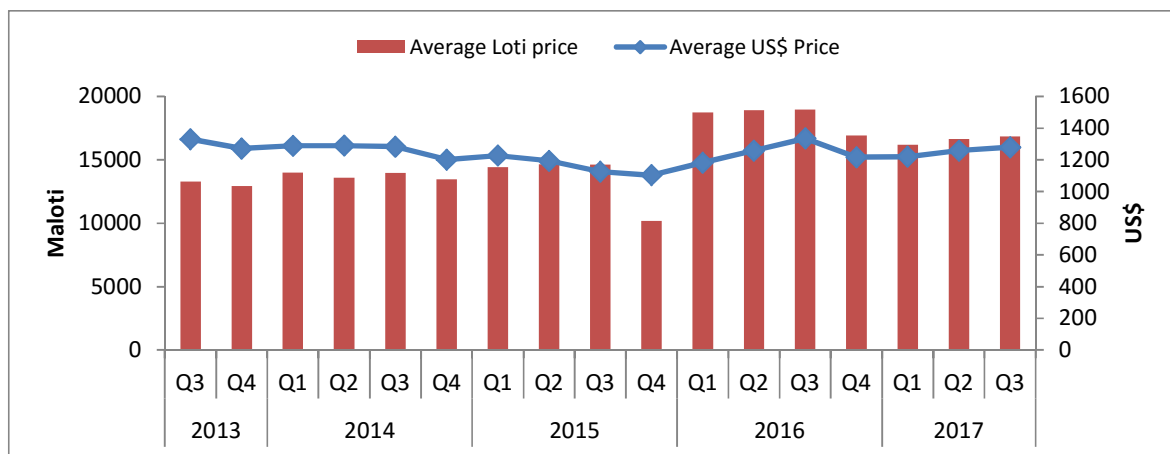
COMMODITIES

Minerals

Gold

The price of gold rose by 1.7 per cent to US\$1279.24 per ounce during the quarter under review, following a 3.2 per cent increase in the second quarter of 2017. Expressed in Maloti terms, the price rose by 1.3 per cent to M16, 847.59 per ounce compared to a 2.78 per cent increase in the previous quarter. The increase was attributed to the heightened uncertainty in the global financial markets, which led to increased demand for safe haven assets. The factors, including the escalating tension between the US and North Korea with regard to nuclear weapons, elections in Germany and the developments surrounding Brexit and US economic policy, led to increased uncertainty in the global financial markets. However, expectations around the continued monetary policy tightening in the US had a dampening effect on the price of gold.

Figure 1: Average Price of Gold

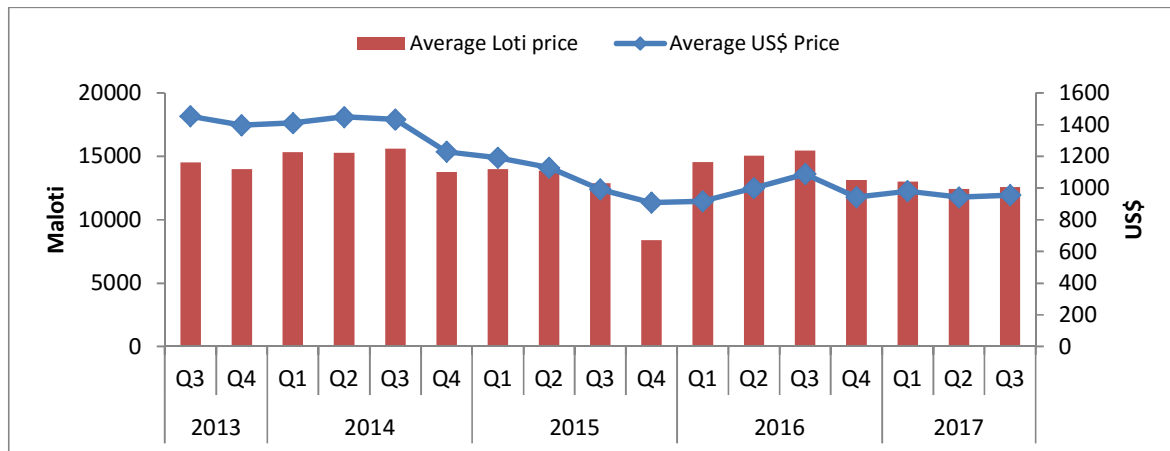


Source: Bloomberg

Platinum

Platinum price increased by 1.5 per cent in the quarter ending in September 2017 to US\$955.03, after declining by 4.0 per cent in the previous quarter. In Maloti terms the price of platinum registered a 1.1 per cent rise to M12, 579.03, from a 4.3 per cent decline in the second quarter of 2017. The price of platinum increased together with prices of other raw materials in response to increasing demand from China. Moreover, higher demand for pollution control devices used by gasoline – powered vehicles led to higher platinum prices.

Figure 2: Average Price of Platinum



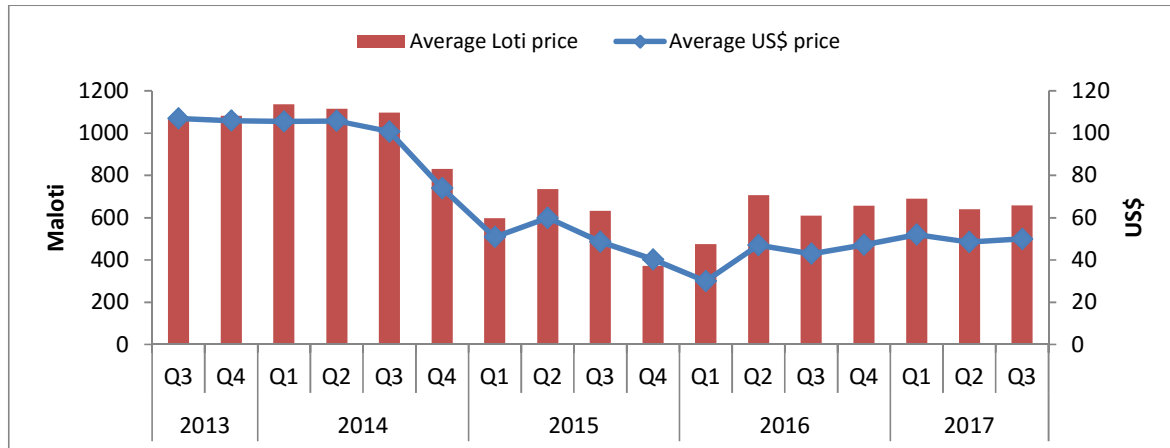
Source: Bloomberg

Energy

Oil

The price of crude oil rose by 3.1 per cent in the third quarter of 2017 to US\$49.98, recovering from a decline of 6.8 per cent in the previous quarter. In Maloti terms, it increased from M641.00 in the second quarter of 2017 to M658.00 in the quarter ending in September 2017. Oil prices were supported by a decline in the oil surplus in the global markets. The decision by OPEC and some non-OPEC countries to cut oil output, with some countries delivering on the output cut, led to a decline in the oil supply glut. The decline in supply was also due to the recent Hurricanes Irma and Harvey which disrupted production in the US, as well as the production in Sharara fields in Libya.

Figure 3: Average Price of Oil



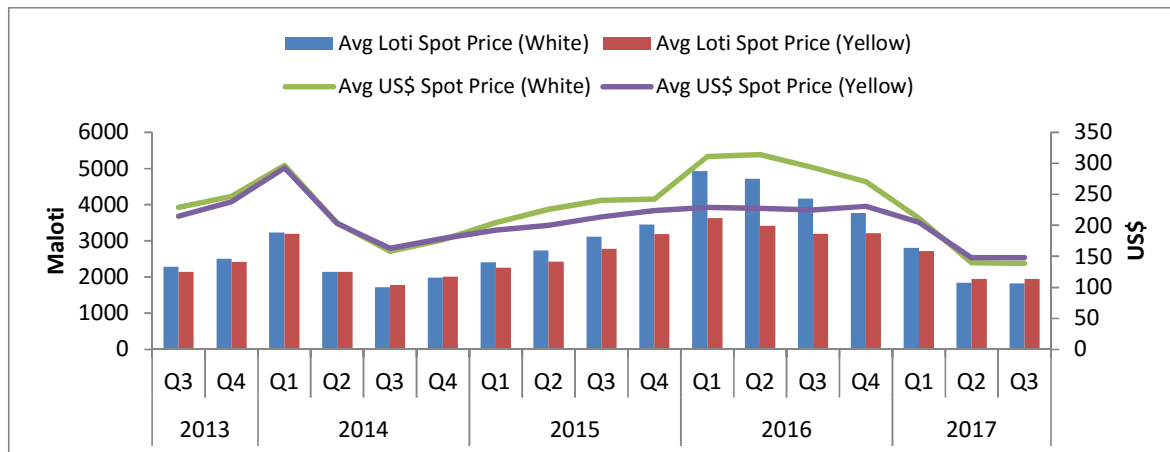
Source: Bloomberg

Agricultural Products

Maize

Maize prices declined further during the third quarter of 2017. The price of white maize declined by 1.2 per cent to US\$138.01, while that of yellow maize declined by 0.5 per cent to US\$ 147.01 in the second quarter of 2017. The decline resulted from increased production in Russia, Brazil and South Africa, where better than expected rainfalls put a downward pressure on the maize prices. In addition, the situation was exacerbated by expected inventory build-ups in Brazil.

Figure 4: Average Price of Maize



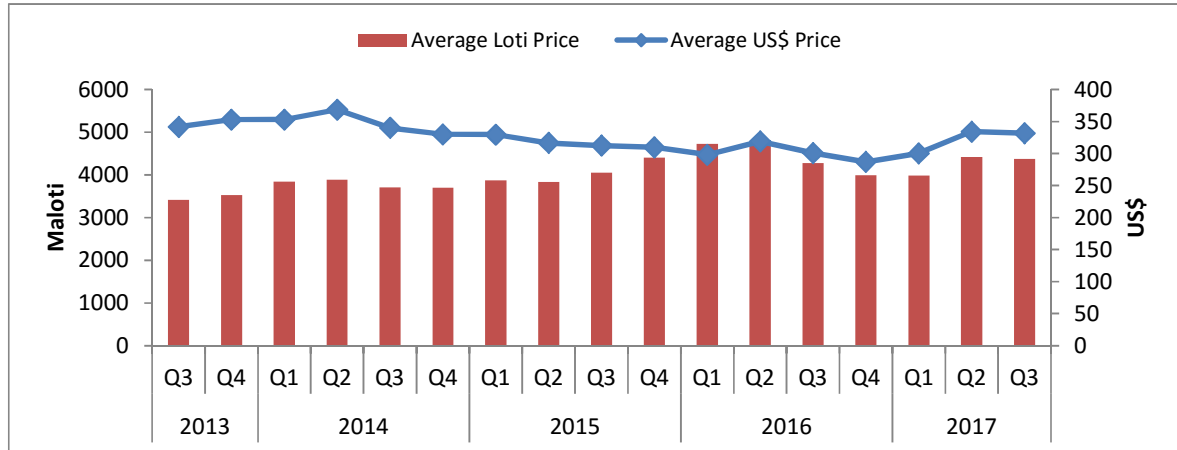
Source: Bloomberg

Wheat

Wheat prices fell by 1.1 per cent during the third quarter of 2017, after registering an increase of 11.3 per cent in the previous quarter. The decline was mainly driven by higher than expected harvest, which led to increased supply in the global markets. In particular, Russia experienced a bumper

harvest during the quarter. Moreover, the late rains in some drought stricken parts of the US provided some relief, leading to increased wheat output.

Figure 5: Average Price of Wheat



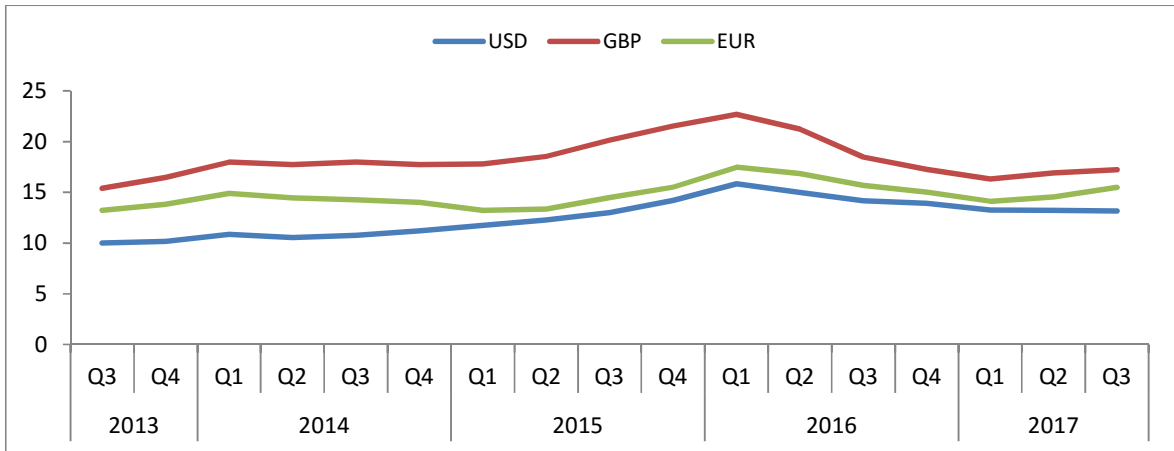
Source: Bloomberg

EXCHANGE RATES

The Rand, and hence the Loti, displayed a mixed performance against its major trading currencies in the third quarter of 2017. It appreciated by 0.4 per cent against the Dollar, while it depreciated by 3.6 per cent and 3.0 per cent against the Euro and the Pound, respectively. Appreciation against the Dollar was supported by increased capital flows into South Africa resulting from higher foreign bond holdings as investors searched for higher yields. However, the Rand remained sensitive to domestic political events as well as economic policy uncertainty.

The Rand was weaker against the Pound, which strengthened on stronger than expected performance in manufacturing sector and retail sales during the third quarter of 2017. The Euro on the other hand was supported by the hawkish tone of the European Central Bank, which indicated that it would soon start rolling back on the asset purchasing programme. This therefore deteriorated the value of the Rand with respect to the Euro.

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



Source: Bloomberg

3. Real Sector Developments

OVERVIEW

Domestic economic performance, measured by the Economic Activity Indicator (EAI), increased in the third quarter of 2017, despite being at a lower rate than in the second quarter. The primary sector's performance was strong in the review quarter supported by the mining sub-sector. The secondary sector's performance showed mixed signals, the manufacturing and the water subsector performances declined, while there were improvements within the electricity and construction subsectors. Within the tertiary sector, the trade, financial, services, and the government subsectors depicted reduced performance, while the telecommunications subsector continued to register a positive growth. In the labour market, employment, by LNDC assisted companies and that of Basotho migrant mine workers increased in the review quarter while that of government declined. The inflation rate hiked in September 2017 compared with June 2017.

OUTPUT DEVELOPMENTS

The EAI increased by 1.5 per cent in the quarter ending in September 2017 compared with an increase of 2.0 per cent in the second quarter of 2017

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

	2016			2017		
	Weight	Q3	Q4	Q1	Q2	Q3
EAI	100	-8.9	2.0	-0.9	2.0	1.5
Primary Sector						
Mining	8.9	-2.7	13.3	9.7	15.4	11.8
Secondary Sector						
Manufacturing	18.5	3.3	2.5	-5.1	2.1	-1.1
Electricity	1.1	1.1	3.2	2.5	1.5	2.3
Water	4.9	2.8	0.7	-4.0	-2.4	-2.2
Construction	7.6	-70.5	25.0	-11.9	-22.9	74.8
Tertiary Sector						
Trade	11.0	-2.3	-1.3	-0.6	-5.0	-8.4
Telecom	5.1	-4.4	-15.8	10.1	0.7	7.4
Financial Sector	6.5	1.0	-1.7	0.8	-0.5	-1.3
Other services	5.7	8.0	-4.6	-17.0	20.0	-14.8
Government	30.6	-11.0	-0.4	6.2	2.9	-1.1

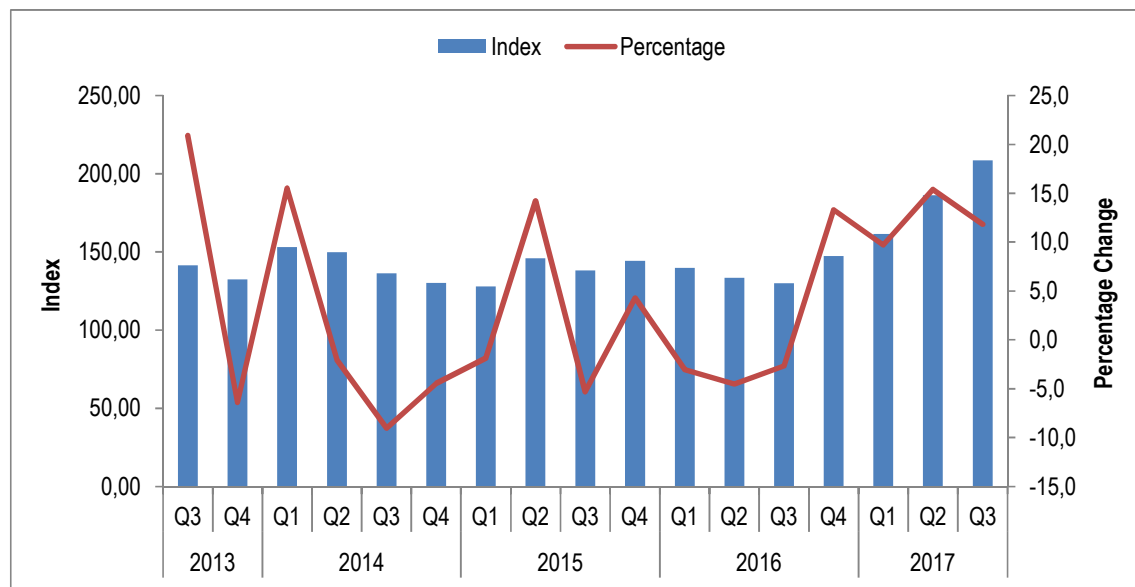
Source: Central Bank of Lesotho

Primary Sector

Mining and Quarrying

The mining and quarrying index increased by 11.8 per cent in the quarter ending in September 2017 compared with an increase of 15.4 per cent observed in the quarter ending in June 2017. The increased mining output was an indication that mining was undertaken at high grade phases.

Figure 7: Mining and Quarrying Index



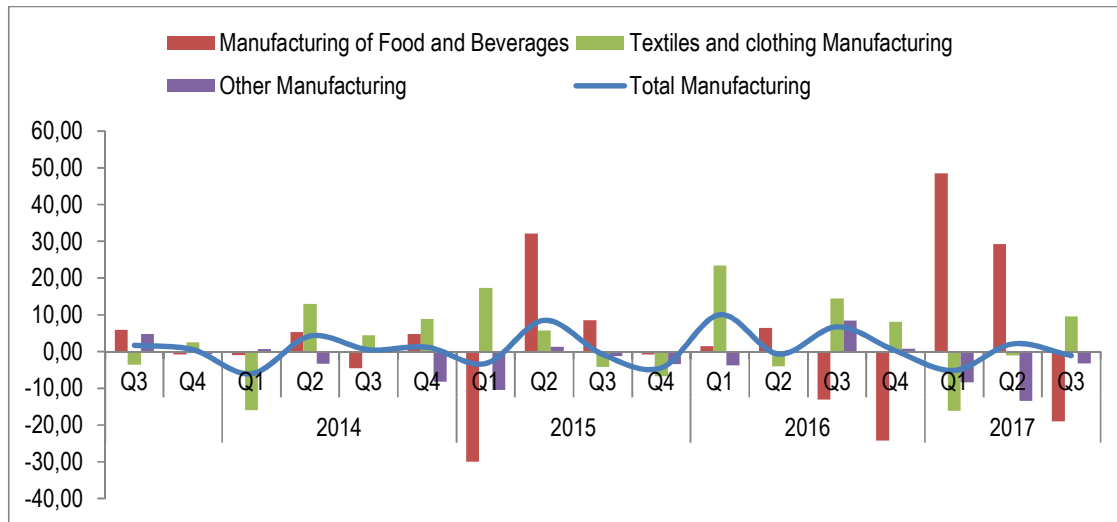
Source: Central Bank of Lesotho

Secondary Sector

Manufacturing

The total manufacturing index fell by 1.1 per cent in the third quarter of 2017 compared with an increase of 2.1 per cent in the previous quarter. The decline was attributed to 19.0 per cent and 3.2 per cent contractions in the manufacturing of food and other manufacturing indices, respectively. With respect to food manufacturing major declines were observed with manufacturing of malt liquors, soft drinks and production of mineral water. Other manufacturing registered a contraction in the following components: plastic, paper and electronic products. However textiles and clothing manufacturing index increased by 9.6 per cent in the third quarter of 2017 compared to a decline of 1.0 per cent in the previous period. This was attributed to increased output by firms which exports to both the US market and the SACU region (especially South Africa).The improvement in the textiles and clothing output is in line with increased employment levels in the manufacturing subsector in the review period.

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



Source: Central Bank of Lesotho

Electricity

The electricity index increased by 2.3 per cent in the quarter ending in September 2017 compared with an increase of 1.5 per cent observed in the previous period. The surge was attributed to all categories of electricity. “General purpose”, “domestic” and “commercial & industrial” increased by 5.0 per cent, 0.1 per cent and 3.0 per cent, respectively. However, it has to be noted that there were no electricity exports in the review period.

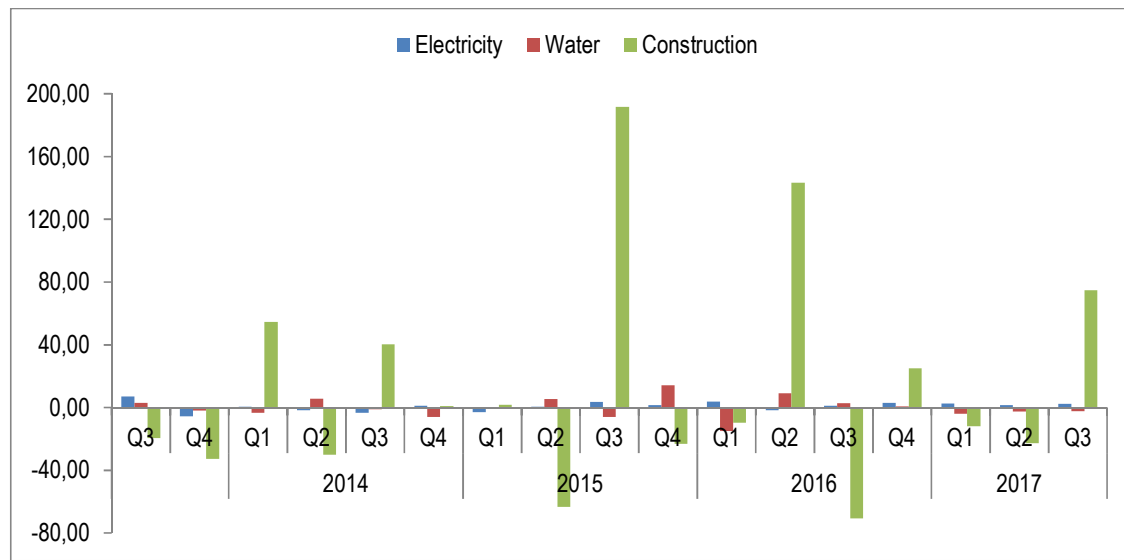
Water

The water index declined further by 2.2 per cent in the quarter under review compared to a decline of 2.4 per cent in the previous quarter. The contraction in water consumption was attributed to 2.5 per cent decline in water exports to SA. On the other hand, local water consumption increased by 12.1 per cent mainly driven by 19.2 per cent and 14.5 per cent increase by the “industrial” and “domestic” categories, respectively.

Construction

The construction index rose significantly by 74.8 per cent in the review quarter following a decline of 22.9 per cent in the second quarter of 2017. This increase was in line with increased government construction related capital expenditures during the review quarter. Major government construction activities took place in the review quarter as a result of the late issuance of the appropriation bill for the 2017/2018 budget.

Figure 9: 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, fell further by 8.4 per cent in the third quarter of 2017 after a 5.0 per cent decline in the previous quarter. The largest decline was observed in the wholesale and retail sector’s output followed by motor and fuel trade. The observed decline in wholesale and trade is in line with a reduction in imports of goods and services.

Telecommunications

The index for telecommunications increased significantly by 7.4 per cent in the third quarter of 2017 compared with a marginal increase of 0.7 per cent in the second quarter of 2017. The increased telecommunication subsector output was in line with increased mobile money services during the review period, which include among others airtime purchases, domestic mobile money transfers, salary payments, and bill payments.

Other Services¹

The services index fell by 14.8 per cent in the quarter ending in September 2017 compared with an increase of 20.0 per cent in the previous quarter. The contraction was attributed to a fall in output of services related to hotels and restaurants, operation of transport equipment, funeral and hair dressing.

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

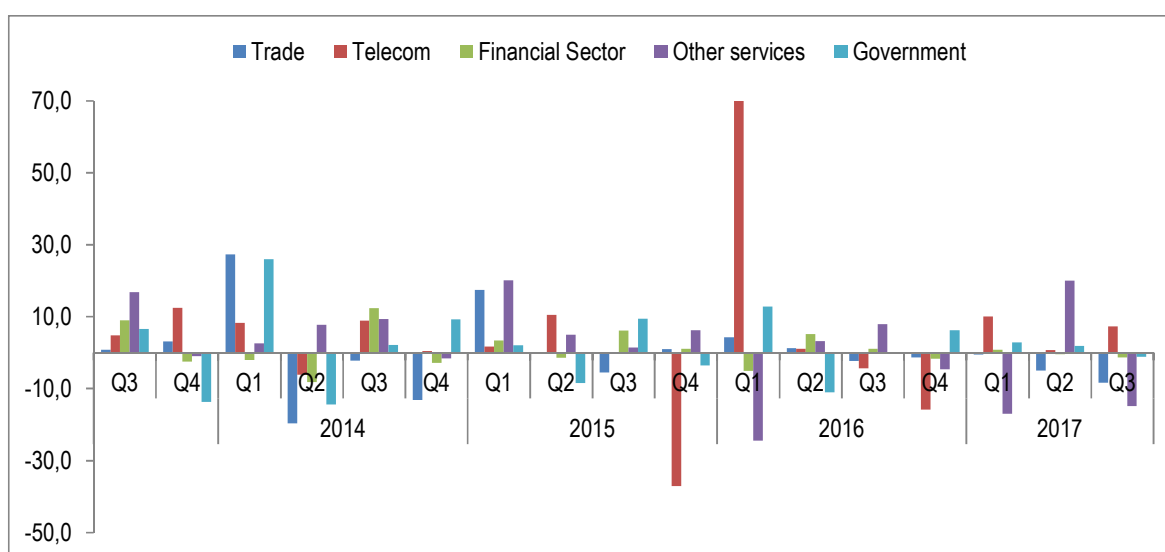
Government

Government activity index declined by 1.1 per cent in the third quarter of 2017 compared to an increase of 2.9 per cent in the second quarter. The subdued performance was in line with an 11.1 per cent fall in government expenses particularly with respect to use of goods and services in the third quarter of 2017.

Finance

The overall financial sector index declined further by 1.3 per cent in the third quarter of 2017 following a decline of 0.5 per cent in the quarter ending in June 2017. The decline was mostly driven by a 3.3 per cent fall in interest received by banks on loans despite the observed increase in non-interest income.

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



Source: Central Bank of Lesotho

EMPLOYMENT DEVELOPMENTS

Employment by LNDC assisted companies increased by 3.2 per cent during the third quarter of 2017 compared with an increase of 1.5 per cent in the previous quarter. Employment in the manufacturing subsector increased marginally by 0.3 per cent. The major contributor to this positive development was the knit garments, footwear, woven garments, electronics and “other” categories. During the review period 45 079 people were employed on permanent basis as opposed to 43 576 people in the previous quarter. This indicates a 3.4 per cent increase in permanent employment.

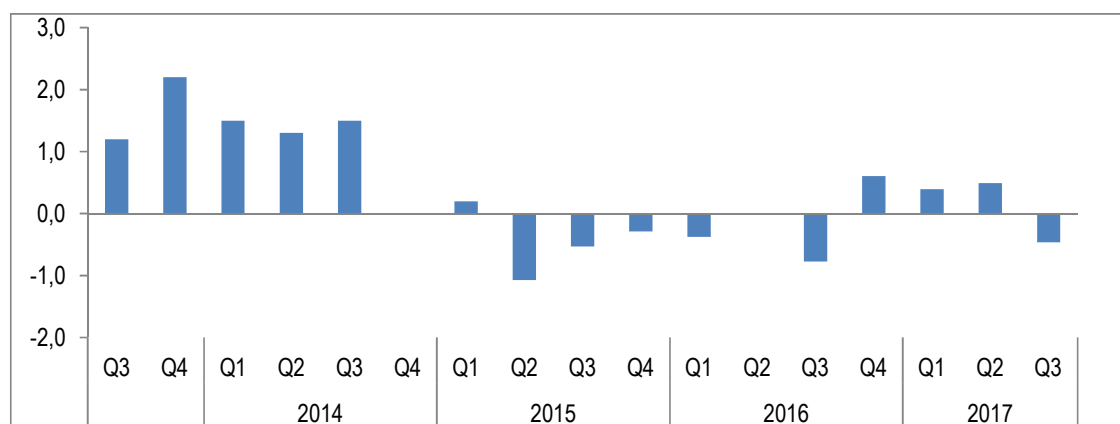
Table 3: Employment by LNDC Assisted Companies

Industry	2016		2017			% Change	
	Q3	Q4	Q1	Q2	Q3	Q/Q	Y/Y
Knit Garments.....	24774	24818	24897	25252	26541	5.1	7.1
Woven Garments.....	17057	14921	13678	15561	15736	1.1	-7.7
Footwear.....	1265	1293	1403	1165	1232	5.8	-2.6
Fabrics, Yarn etc.....	1686	1801	1803	1817	1810	-0.4	7.4
Construction.....	327	342	359	390	357	-8.5	-0.3
Food & Beverages.....	682	650	696	734	711	-3.1	4.3
Electronics.....	962	1007	1030	931	955	2.6	-0.7
Retail.....	139	109	109	146	146	0.0	5.0
Hotel Accommod.....	565	502	663	630	630	0.0	11.5
Other.....	1779	1226	1197	1217	1248	2.5	-28.5
TOTAL.....	49236	46669	45835	47843	49366	3.2	0.3

Source: Lesotho National Development Corporation

On an annual basis, the number of government employees declined by 0.5 per cent in the review quarter compared with an increase of 0.5 per cent in the previous period. On quarterly basis, the number of government employees declined marginally by 0.9 per cent in the third quarter of 2017, which is the same rate observed in in the second quarter. The fall was mainly due to 0.9 per cent and 1.2 per cent decline in the number of civil servants and teachers, respectively. However, the number of daily paid workers remained unchanged during this period.

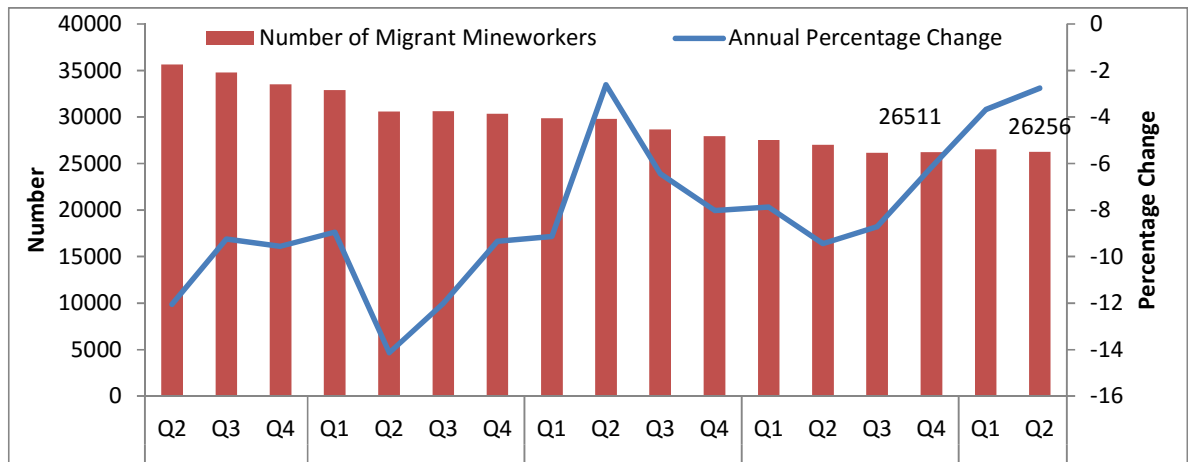
Figure 11: Government Employment (Year-on-year Percentage Change)



Source: Ministry of Finance

The number of Basotho Migrant Mine Workers employed in SA mines, as reported by the employment bureau of Africa (TEBA) increased slightly by 0.5 per cent in the third quarter of 2017 compared with a decline of 2.7 per cent in the second quarter. The observed increase was in line with positive development in the South African mining industry, which observed a 1.9 per cent increase in the number of mine workers employed in the third quarter of 2017.

Figure 12: Migrant Mineworkers (Year-on-year 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 5.6 per cent in September 2017 having accelerated from 5.0 per cent in June 2017. The observed increase was attributed to food and nonalcoholic beverages, housing, electricity, gas and other fuels, and transport, leisure, entertainment & culture categories. Food and nonalcoholic beverages inflation was driven mostly by the increase in the prices of bread and cereals, meat, fish, vegetables, coffee, tea and cocoa. With regard to housing, electricity, gas and other fuels and transport categories, the increase emanated from the increase in the domestic pump prices of paraffin, petrol and diesel, respectively. This was as a result of the depreciation of the Loti coupled with increases in the international crude oil prices.

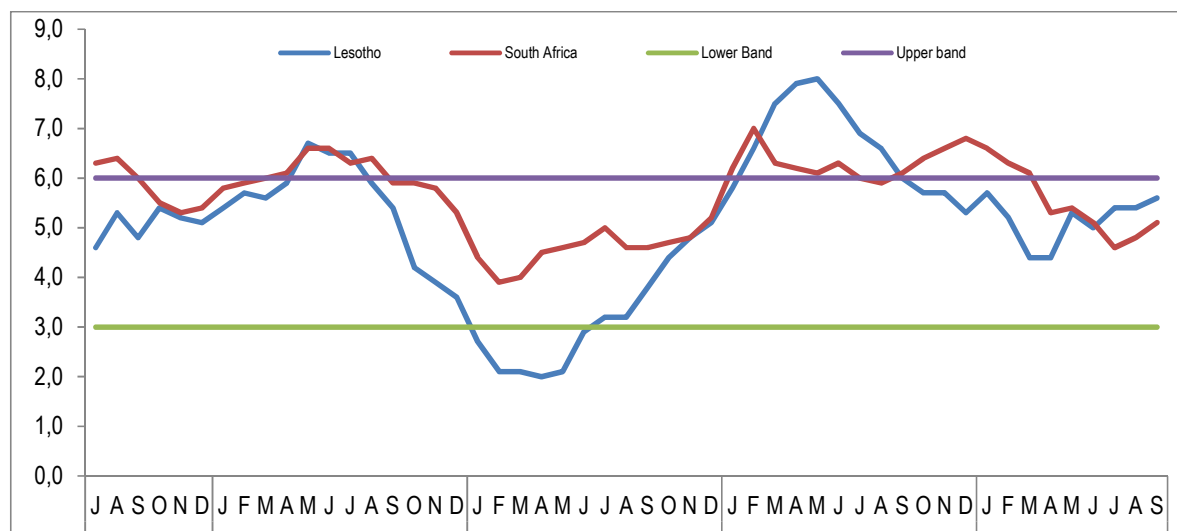
Table 4: Inflation Rate (Annual Percentage Changes)

	Weight	2017				
		May	Jun	Jul	Aug	Sep
All items	1000	5.3	5.0	5.4	5.4	5.6
Food and non-alcoholic beverages	361.13	6.1	6.5	7.9	7.6	7.5
Alcoholic beverages & Tobacco	33.31	4.6	4.3	4.6	4.6	4.8
Clothing & footwear	130.57	3.2	2.6	2.6	2.4	2.0
Housing, electricity gas & other fuels	123.97	8.9	5.5	3.7	5.5	6.6
Furniture, households equipment & routine maintenance	84.77	6.5	6.5	6.5	6.1	6.1
Health	15.04	0.4	0.3	0.3	0.2	0.1
Transport	48.21	0.1	-0.3	-1.3	-0.3	0.6
Communication	21.05	0.0	0.0	0.0	0.0	0.0
Leisure, entertainment & Culture	57.08	4.1	5.1	5.3	5.0	6.3
Education	42.00	5.1	5.6	6.1	6.4	6.6
Restaurant & Hotels	10.30	1.0	1.4	1.5	1.6	1.7
Miscellaneous goods & services	72.59	5.1	5.1	5.1	5.0	4.7

Source: Bureau of Statistics

Lesotho's inflation rate continues to closely track that of SA, with Lesotho's inflation rate higher than that of SA in the review period. SA's inflation rate measured 5.1 per cent in September 2017, which is the same rate observed in June 2017. This was attributed to the fall in the prices of bread and cereals particularly maize due to abundant supplies from the record high 2017 output. The declining maize prices moderated the negative effects from the increasing fuel prices in SA during the review period.

Figure 13: Lesotho and South Africa's Inflation



Source: Bureau of Statistics, Statistics South Africa

4. Monetary and Financial Developments

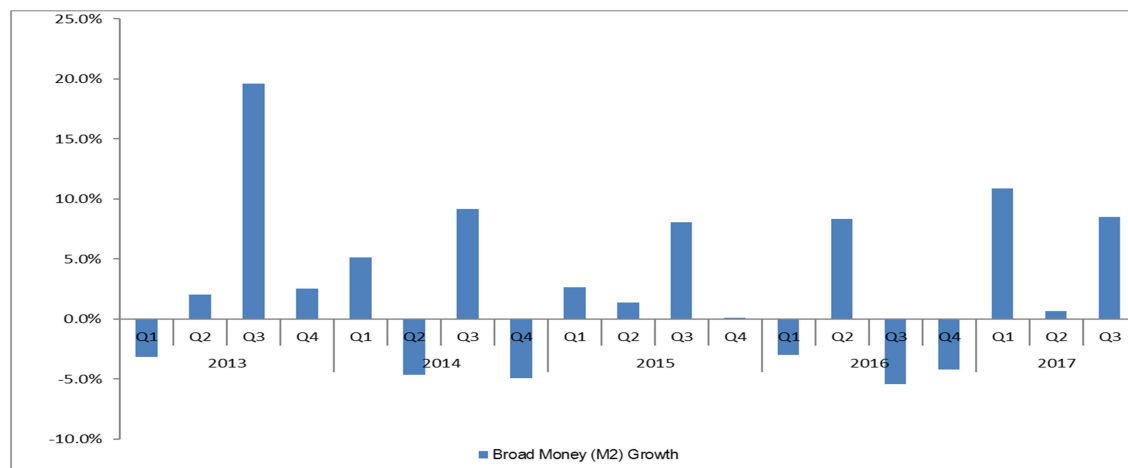
OVERVIEW

Money supply increased during the review quarter following growth in both net foreign assets and domestic claims. Growth in domestic claims was due to an increase in net claims on government following a drop in government deposits. Increase in commercial banks Net Foreign Assets (NFA) was due to growth in deposits accompanied by sluggish demand for credit thus resulting in cross-border transfer of excess funds. A decrease in Central Bank NFA was a result of government spending. Credit extended to business enterprises fell during the review quarter due to large run-offs that outstripped new loans. On the contrary, credit to households continued to grow on with mortgages and personal loans increasing in the third quarter.

BROAD MONEY (M2)

Money supply increased significantly in the quarter under review compared to a slight increase recorded in the previous quarter. Overall, money supply increased by 8.5 per cent during the third quarter of 2017 following a rise of 0.7 per cent in the quarter ending in June 2017. This escalation was at the back of 9.0 per cent rise in domestic claims and a 4.2 per cent increase in NFA.

Figure 14: Broad Money (M2)



Source: Central Bank of Lesotho

Determinants of M2

Domestic Claims

Domestic claims, including net claims on government, increased by 9.1 per cent in the quarter ending in September 2017 compared to 1.6 per cent decline registered in the quarter ending in June 2017. This was mainly driven by growth in net claims on government of 34.3 per cent following the drawdown of government deposits which is reflective of fiscal deficit observed in government

budgetary operations. The third quarter of 2017 also realized a mild growth of 0.3 per cent in private sector credit compared to an increase of 1.6 per cent registered in the second quarter. The observed development in private sector credit was due to personal loans and mortgages which showed an increase of 7.9 per cent and 3.0 per cent respectively, despite the 6.3 per cent decline in credit to business.

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

	2016		2017		2018	Changes (%)	
	Sept	Dec	Mar	June	Sept	Annual	Quarterly
Domestic Claims	2759.69	3160.32	4848.19	4746.88	5177.01	87.6	9.1
Net Claims on Government	-2978.80	-2584.01	-1319.06	-1331.60	-874.64	-70.6	34.3
Commercial Banks Net Claims	829.84	824.41	878.65	831.87	978.77	17.9	17.7
Claims on Central Government	855.48	846.96	895.74	847.09	988.78	15.6	16.7
Liabilities to Central Government	25.64	22.55	17.09	15.22	10.01	-61.0	-34.3
Central Bank Net Claims	-3808.64	-3408.41	-2197.71	-2163.46	-1853.42	-51.3	14.3
Claims on Central Government	981.15	1106.94	1072.47	997.99	904.74	-7.8	-9.3
Liabilities to Central Government	4789.80	4515.35	3270.18	3161.45	2758.15	-42.4	-12.8
Claims on Other Sectors	5738.49	5744.32	6167.26	6078.48	6051.65	5.5	-0.4
Claims on OFCs	80.94	79.67	325.60	167.42	120.67	49.1	-27.9
Claims on Public Nonfinancial Corporations	0.00	0.00	0.00	0.00	0.00		
Claims on St & Local Government	0.00	0.00	0.00	0.00	0.00		
Claims on Private Sector	5657.55	5664.65	5841.66	5911.05	5930.98	4.8	0.3
Claims on Business Enterprises	2148.75	1966.75	2102.46	2100.98	1967.76	-8.4	-6.3
Claims on Households	3508.80	3697.90	3739.20	3810.07	3963.22	13.0	4.0

Source: Central Bank of Lesotho

Net Foreign Assets

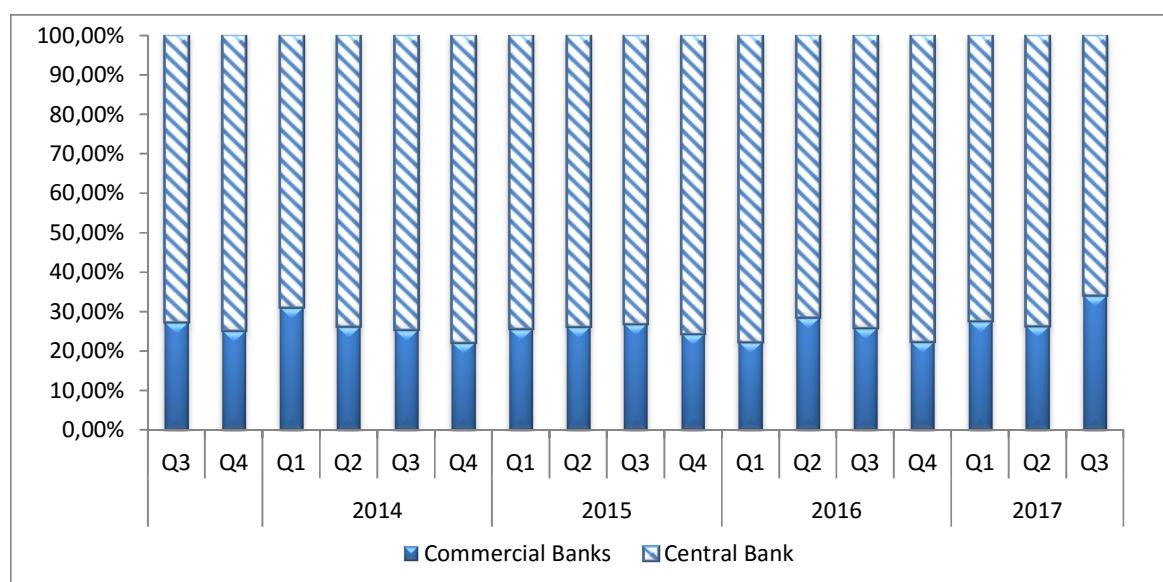
The overall banking system net foreign assets (NFA) rose by 4.2 per cent during the quarter under review compared to a decline of 0.6 per cent during the previous quarter. In particular, commercial banks' NFA registered a drastic growth of 35 per cent in September 2017, following a fall of 5 per cent in June 2017. The increased government spending, which translated into high deposit liabilities on commercial banks, led to an improvement in local banks placements abroad particularly when credit extension to private sector was sluggish. Furthermore, the rise in commercial banks NFA was due to anticipated foreign payments that banks were to make on behalf of their clients. Conversely, the central bank's NFA fell by 6.7 per cent, following an increase of 1.2 per cent in June 2017. The drop in central bank's NFA was attributable to 3.5 per cent decline in transferable deposits included in official reserves and a 17.1 per cent decline in securities included in official reserves.

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

	2016		2017			Changes (%)	
	Sept	Dec	Mar	June	Sept	Annual	Quarterly
Commercial Banks	3680.96	2992.48	3666.75	3479.61	4686.64	27.3	34.7
Claims on Non-residents	4041.09	3330.04	4057.79	3939.49	5161.44	27.7	31.0
Liabilities to Non-residents	360.13	337.55	391.04	459.88	474.80	31.8	3.2
Central Bank	10534.13	10381.89	9601.58	9714.91	9060.29	-14.0	-6.7
Claims on Non-residents	12152.53	11920.42	11155.31	11222.91	10668.29	-12.2	-4.9
Liabilities to Non-residents	1618.41	1538.53	1553.73	1508.01	1608.00	-0.6	6.6
Net Foreign Assets Total	14215.08	13374.37	13268.33	13194.52	13746.93	-3.3	4.2

Source: Central Bank of Lesotho

Figure 15: Net Foreign Assets (*percentage shares*)



Source: Central Bank of Lesotho

Components of M2

The major components of broad money (M2) are narrow money (M1) and quasi money. During the review period, M2 increased by 8.5 per cent subsequent to an increase of 0.7 per cent registered in June 2017. The increase in M2 was due to 18.3 per cent increase in M1 which over-shadowed a decline of 0.8 per cent in quasi money. Particularly, the observed surge in M1 was as a result of increased transferable deposits by the public nonfinancial corporations and private sector.

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

	2016		2017			Changes (%)	
	Sept	Dec	Mar	June	Sept	Annual	Quarterly
Broad Money (M2)	10069.99	9644.19	10692.01	10763.07	11678.02	16.0	8.5
Narrow Money (M1)	4870.73	4875.62	5253.55	5222.87	6179.57	26.9	18.3
Currency Outside DCs	940.02	943.02	934.51	919.40	1089.67	15.9	18.5
Transferable Deposits	3930.72	3932.60	4319.04	4303.47	5089.90	29.5	18.3
Quasi Money	5199.26	4768.57	5438.45	5540.20	5498.45	5.8	-0.8
Other Deposits Commercial Banks	5144.79	4718.59	5391.06	5499.01	5458.60	6.1	-0.7
Other Deposits Central Bank	54.47	49.98	47.40	41.19	39.86	-26.8	-3.2

Source: Central Bank of Lesotho

CREDIT EXTENSION

Trends of Credit Extended to Business Enterprises

In September 2017, total credit to business enterprises declined by 6.3 per cent following a fall of 0.1 per cent in June 2017. The sectors that experienced a decline in credit were mining, manufacturing, electricity, gas and water, wholesale, retail, hotel and restaurant, as well as transport, storage and communication. This decline was moderated by increased credit extension to agriculture, construction, real estate and business as well as community, social and personal service. The main drivers of the reduced credit extension were monthly runoffs net of new loans extended during the review period coupled with un-utilised overdraft facilities.

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

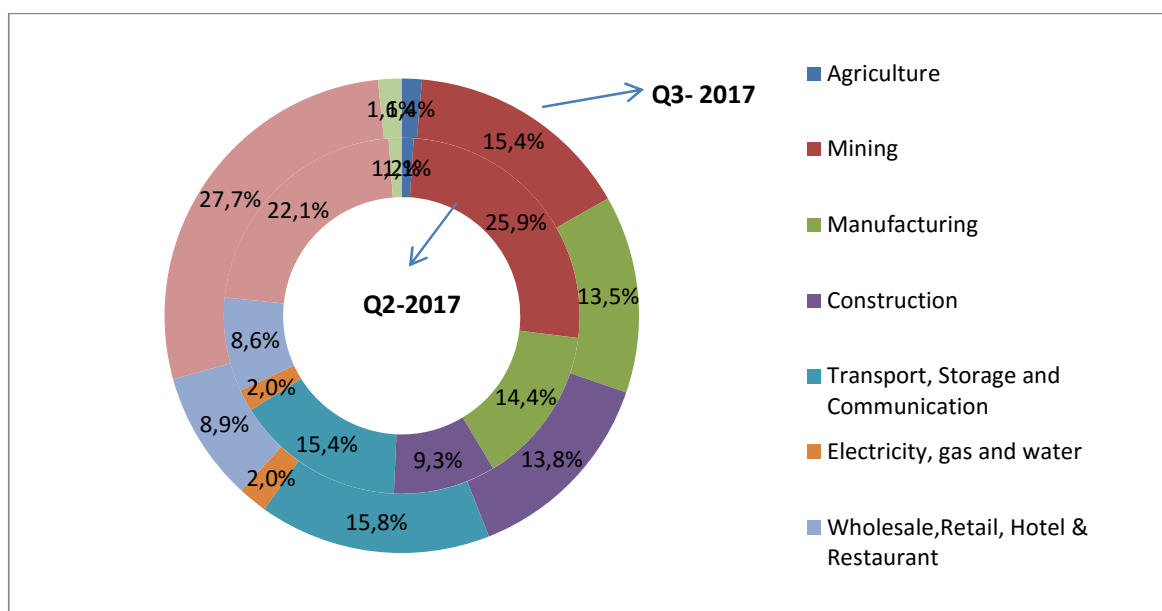
SECTOR	2016		2017			Changes (%)	
	Sept	Dec	Mar	June	Sept	Annual	Quarterly
Agriculture	24.58	25.31	26.20	22.73	26.91	9.5	18.4
Mining	432.56	363.84	504.98	544.27	302.99	-30.0	-44.3
Manufacturing	413.44	319.40	354.10	303.00	264.97	-35.9	-12.6
Electricity, gas and water	39.69	38.53	36.55	41.91	39.15	-1.4	-6.6
Construction	284.43	313.50	305.92	195.17	271.42	-4.6	39.1
Wholesale, Retail, Hotel & Restaurant	165.74	185.65	168.13	179.74	174.30	5.2	-3.0
Transport, Storage and Communication	171.98	184.69	180.84	323.73	311.20	80.9	-3.9
NBFIs, Real Estate and Business Services	594.09	509.46	499.07	465.19	545.45	-8.2	17.3
Community, Social & Personal Service	22.22	26.38	26.68	25.26	31.38	41.2	24.2
All Sectors	2148.75	1966.75	2102.46	2100.98	1967.76	-8.4	-6.3

Source: Central Bank of Lesotho

Distribution of credit Extended to Business Enterprises

Considering the allocation of credit extended to business enterprises by sector, real estate and business services received the biggest share at 27.7 per cent share of total credit extended to business enterprises. This was followed by transport, storage and communication, mining and construction at 15.8 per cent, 15.4 per cent and 13.8 per cent respectively. The agriculture sector continues to receive the lowest share of credit. These developments are broadly in line with those registered in the quarter ending in June 2017, notwithstanding a noticeable surge in credit extended to construction sector.

Figure 16: Distribution of Credit (Percentage Shares)

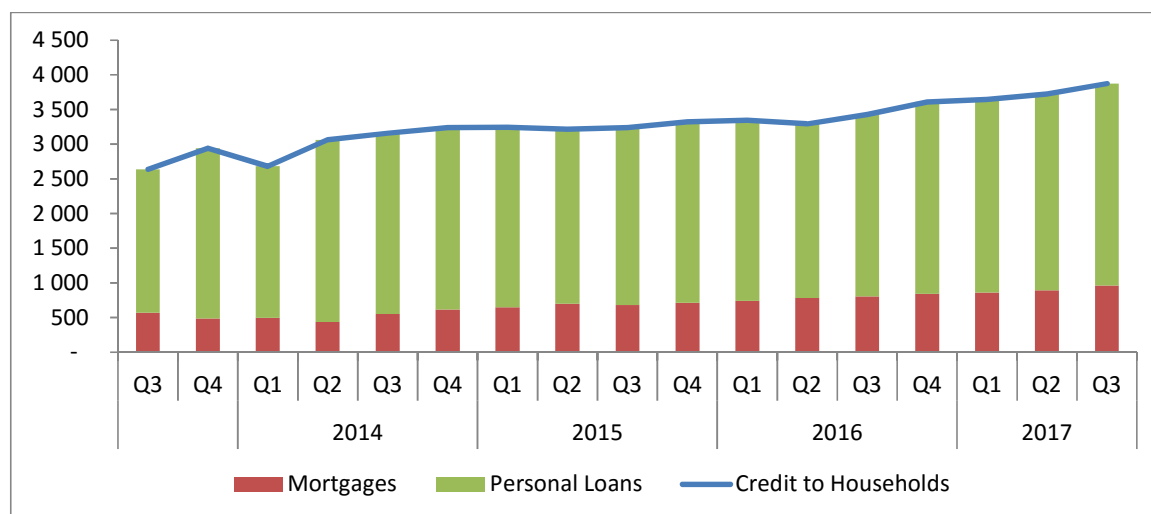


Source: Central Bank of Lesotho

Credit extended to Households

Credit to households increased by 4 per cent in the quarter ending in September 2017 relative to an increase of 2.1 per cent in the quarter ending in June 2017. Specifically, mortgage loans grew by 7.9 per cent from an increase of 4 per cent observed in June 2017. Moreover, personal loans increased by 3 per cent compared to a rise of 1.6 per cent registered in June 2017. Personal loans continue to account for the highest proportion in total loans to households. However, the persistent higher positive percentage changes in mortgage loans reflects a steady divergence towards mortgage loans as commercial banks continue to favour more asset based loans. In real terms, the credit extended to households increased by 3.8 per cent during the quarter under review, from a fall of 0.7 per cent in the previous quarter.

Figure 17: Credit Extension to Household (Million Maloti)



Source: Central Bank of Lesotho

LIQUIDITY OF COMMERCIAL BANKS

Components of liquidity

Commercial banks' credit to deposit ratio fell from 59.5 per cent to 55.4 per cent between the second and the third quarters of 2017. The decline was as a result of 7.6 per cent increase in total deposit which outweighed 0.3 per cent increase in private sector credit. Conversely, liquidity ratio rose from 74.1 per cent to 79.2 per cent during the same periods. This was due to an increase in commercial banks' balances due from banks in Lesotho and South Africa following increased transferable deposits by the public nonfinancial corporations and private sector. This development is indicative of excess liquidity in the banking system and challenges around financial intermediation. Thus, there is a need to intensify the efforts towards execution of policies aimed at eradicating binding constraints to credit extension, especially to business enterprises.

Table 9: Components of Liquidity (Million Maloti)

	2016		2017		
	Sept	Dec	Mar	June	Sept
Credit to Deposit Ratio	61.5%	64.6%	59.2%	59.5%	55.4%
Private Sector Credit	5579.90	5584.59	5752.01	5828.32	5847.28
Total Deposits	9075.50	8651.19	9710.10	9802.47	10548.49
Liquidity Ratio	77.0%	72.4%	74.3%	74.1%	79.2%
Notes and Coins	361.15	582.42	411.35	431.95	390.48
Balance due from banks in Lesotho	2043.77	2127.76	1922.62	1875.00	2158.94
Balance due from banks in SA	3725.30	2533.81	3577.09	3600.58	4763.20
Surplus funds	5.08	170.39	461.26	515.63	106.36
Government Securities	855.48	846.96	847.05	842.42	935.91
Total	6990.78	6261.34	7219.36	7265.57	8354.89

Source: Central Bank of Lesotho

Commercial Banks Sources of Funds

The main source of funds for commercial banks is deposits, which comprise of transferable deposits and other deposits. Total deposits included in broad money increased by 7.6 per cent during the review period following a moderate increase of 1 per cent recorded in June 2017. The increase was realized in transferable deposits that rose by 18.3 per cent despite a slight decline of 0.7 per cent in other deposits included in broad money.

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

	2016		2017			Changes (%)	
	Sept	Dec	Mar	June	Sept	Annual	Quarterly
Transferable Deposits Incl. in BM	3930.72	3932.60	4319.04	4303.47	5089.90	29.5	18.3
Other Financial Corporations Public Nonfinancial Corporations	30.68	38.29	61.53	34.86	33.75	10.0	-3.2
Private Sector	29.76	17.25	81.56	72.81	130.83	339.6	79.7
Other NFCs	3852.31	3859.10	4157.99	4177.84	4907.35	27.4	17.5
Other Sectors (Households)	2528.86	2299.58	2215.67	2403.05	3432.40	35.7	42.8
Other Deposits Incl. in BM	5144.79	4718.59	5391.06	5499.01	5458.60	6.1	-0.7
Other Financial Corporations Public Nonfinancial Corporations	97.70	75.14	90.94	95.38	61.78	-36.8	-35.2
Private Sector	173.38	94.45	419.75	426.33	406.23	134.3	-4.7
Other NFCs	4873.70	4549.00	4880.37	4977.30	4990.59	2.4	0.3
Other Sectors (Households)	3423.29	3022.96	3161.99	3276.23	3200.15	-6.5	-2.3
Total Deposits	9075.50	8651.19	9710.10	9802.47	10548.49	16.2	7.6

Source: Central Bank of Lesotho

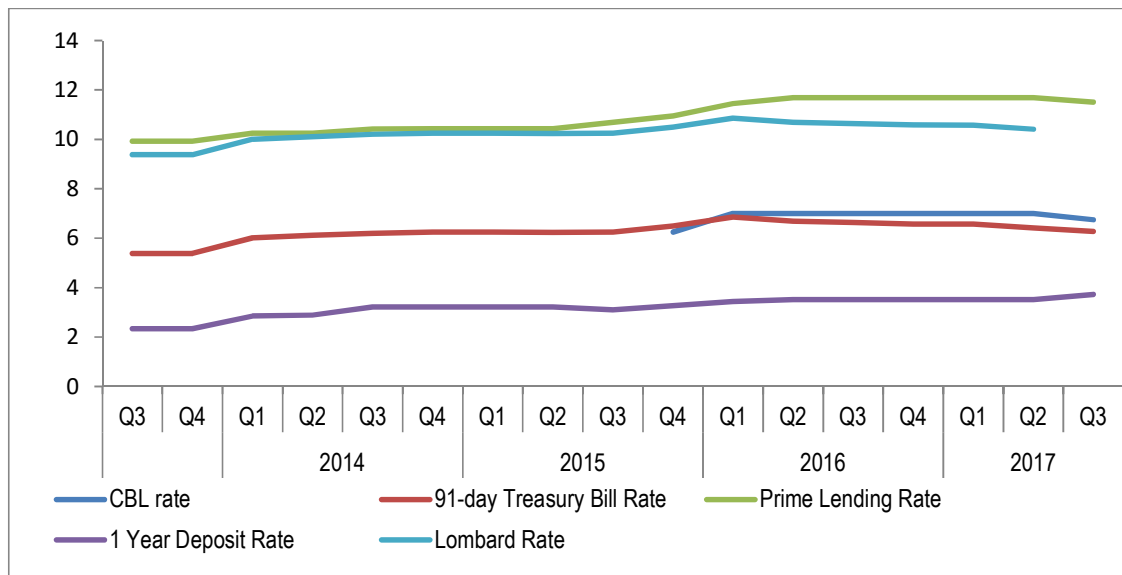
MONEY AND CAPITAL MARKET DEVELOPMENTS

Money Market

Interest Rates

There was a general downward movement of interest rates in the third quarter of 2017 compared to the preceding quarter. During its July sitting, CBL's Monetary Policy Committee (MPC) cut the policy rate (the CBL Rate) by 25 basis points from 7 per cent to 6.75 per cent. The CBL Rate was largely aligned to monetary policy stances in the Common Monetary Area (CMA) region especially South Africa. In line with these developments, other rates followed suit, with prime lending easing from 11.69 per cent to 11.50 per cent, and the 91 day Treasury bill rate from 6.42 per cent to 6.27 per cent between June 2017 and September 2017. In contrast, 1-year deposit rate increased from 3.52 per cent to 3.73 per cent during the same period.

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



Source: Central Bank of Lesotho

Table 11: Interest rates

	2016		2017		
	Sept	Dec	Mar	June	Sept
Central Bank					
CBL rate	7	7	7	7	6.75
T-Bill Rate - 91 days	6.64	6.58	6.57	6.42	6.27
Lombard Rate	10.64	10.58	10.57	10.42	10.27
Commercial Banks					
Call	1.19	1.19	1.19	1.19	1.06
Time:					
31 days	0.44	0.44	0.44	0.44	0.36
88 days	1.11	1.12	1.12	1.12	1.31
6 months	2.52	2.53	2.53	2.53	2.45
1 year	3.52	3.52	3.52	3.52	3.73
Savings	0.56	0.56	0.56	0.56	0.76
Prime	11.69	11.69	11.69	11.69	11.50
South Africa					
Repo	7.00	7.00	7.00	7.00	6.75
T-Bill Rate - 91 days	7.36	7.61	7.29	7.33	7.07
Marginal Lending Rate					
Prime	10.50	10.50	10.50	10.50	10.25

Source: Central Bank of Lesotho

Holding of Treasury Bills and T-Bill rates

The third quarter of 2017 recorded a sizeable increase of 8.7 per cent in holding of Treasury Bills (T-Bills), compared to a slight decline of 0.1 per cent in the second quarter of the year. The banks' holding of T-Bills remained at 62 per cent of total T-Bills. In the quarter under review, total T-Bills held by the banking sector increased by 9.8 per cent while the holdings by non-banks rose by 7.1 per cent. The yield rate on 91 days T-Bills slightly decreased from 6.52 to 6.37 per cent quarter-on-quarter.

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

	2016		2017		
	Sept	Dec	Mar	Jun	Sept
Treasury Bills	601.59	606.36	603.87	603.52	656.29
Banking System	387.23	395.2	372.64	372.32	408.81
Non-Bank Sector	214.36	211.16	231.24	231.19	247.48
Memorandum Item					
Yield Bills (91-days)	6.75	6.69	6.68	6.52	6.37

Source: Central Bank of Lesotho

Holding of Treasury Bonds and T-Bonds Rates

Total stock of government bonds increased by 19.9 per cent from M751.50 million in quarter ending in June 2017 to M900.95 million in September. The increase was a result of an issuance of a 10-Year bond worth M100 million, as well as reopening of a M50 million bond maturing in February 2019. The holding of Treasury bonds by commercial banks increased by 8.9 per in the current quarter, from a slight increase of 0.2 per cent in June 2017. However, the banking sector's share of total Treasury bonds holding dropped by 6 percentage points quarter-on-quarter, from 62.8 to 57.1 per cent. On the other hand, the non-bank's holding of treasury bonds increased by 38.4 per cent in the third quarter of 2017 compared to a decline of 0.7 per cent registered in the previous quarter. As a result, the non-bank' share of total Treasury bonds holding increased by nearly 6 percentage points from 37.2 to 42.9 per cent.

Table 13: Holding of Bonds (Million Maloti)

	2016		2017		
	Sept	Dec	Mar	Jun	Sep
Holding of Treasury Bonds	714.5	734.5	752.5	751.5	900.95
Banking System	469.48	466	471.29	472.12	514.34
Non-Bank Sector	245.03	268.5	281.21	279.39	386.61

Source: Central Bank of Lesotho

The holding of treasury bonds during the review period comprised the 7 year treasury bonds and the 10 year treasury bonds, with the maturity date ranging from 2017 to 2027.

Table 14: Treasury bonds Maturity Dates and Coupon

ISIN²	Maturity Date	Coupon rate	Tenure
LS000A1GZ7WO	2019/02/13	8.50	7 years
LS000A1Z8458	2022/10/11	8.00	7 years
LS000A1Z8466	2025/10/07	9.00	10 years
LS000A1GR838	2021/06/22	10.00	10 years
LS000A19NR06	2027/09/13	11.00	10 years

Source: Central Bank of Lesotho

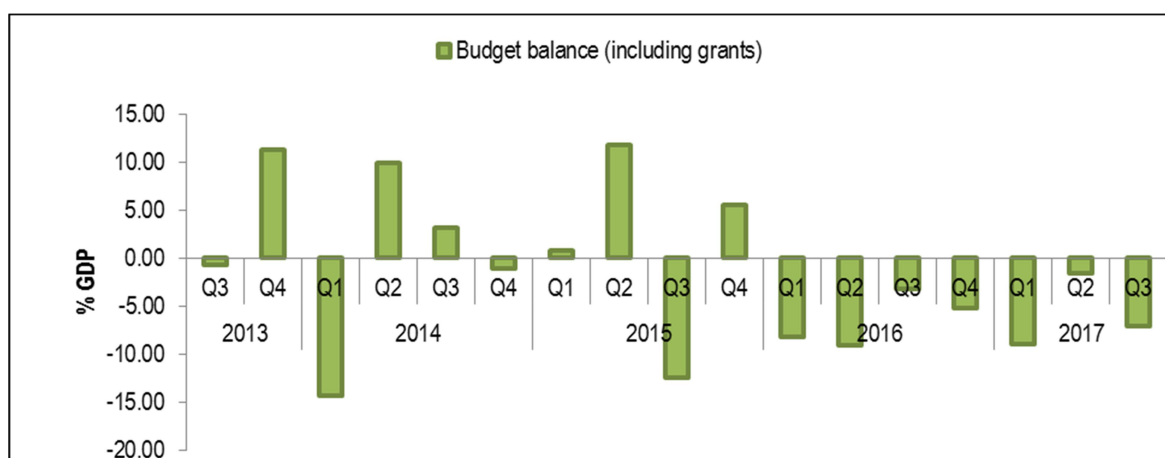
² International Securities Identification Number

5. Government Finance

OVERVIEW

The fiscal balance registered a deficit of 7.1 per cent of GDP in the quarter under review compared with a revised deficit of 1.6 per cent of GDP in the second quarter of 2017. The main reason was due to a significant rise in recurrent expenditure (expense) which offset a slight increase in revenue. The public debt stock recorded 35.7 per cent of GDP during the review quarter which was up from 35.0 per cent of GDP in the second quarter. This rise in the debt-to-GDP ratio was a result of an increase in both domestic and external debt stock.

Figure 19: Fiscal Balance (Per cent of GDP)

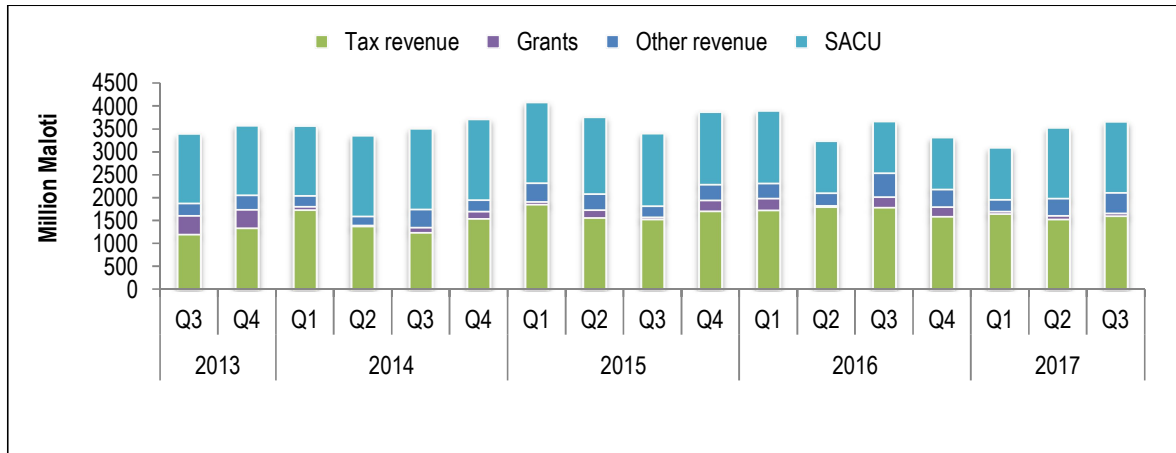


Source: Central Bank of Lesotho (CBL) and Ministry of Finance (MOF)

REVENUE

The total revenue increased by 3.7 per cent in the third quarter compared to a revised 14.1 per cent in the previous quarter. This was mainly due to a marginal increase in tax revenue and other revenue, with 4.5 per cent and 20.4 per cent respectively, relative to a 7.0 per cent fall of tax revenue and 4.2 per cent increase of other revenue in the second quarter. The main contributors in the increment in tax revenue were company tax and withholding tax, while in other revenue it was dividends. Grants declined by 20.4 per cent in the third quarter in relation to a revised increase of 35.5 per cent in the second quarter. The decline was triggered by a fall in capital grants from foreign governments. SACU receipts remained constant during the review quarter.

Figure 20: Total Revenue (Million Maloti)

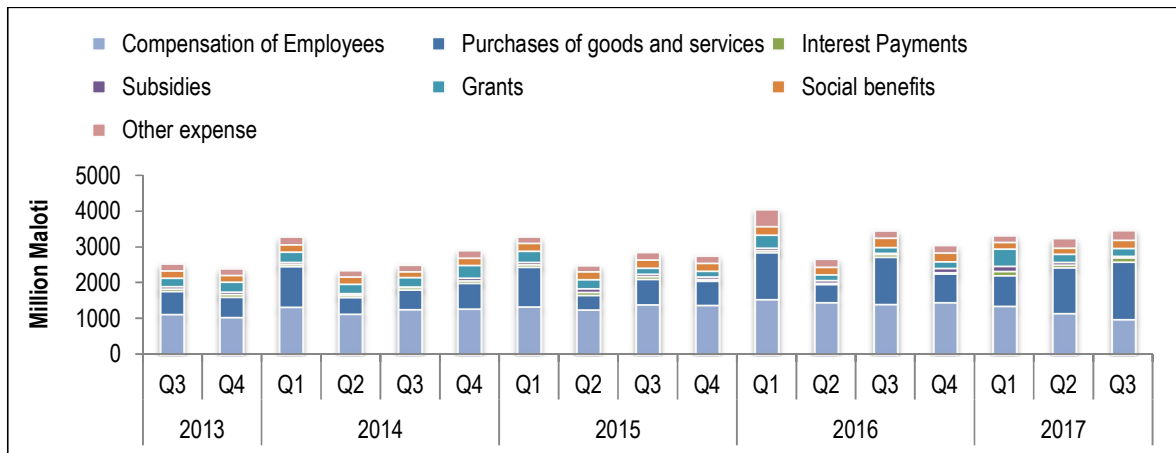


Source: CBL and MOF

TOTAL EXPENDITURE

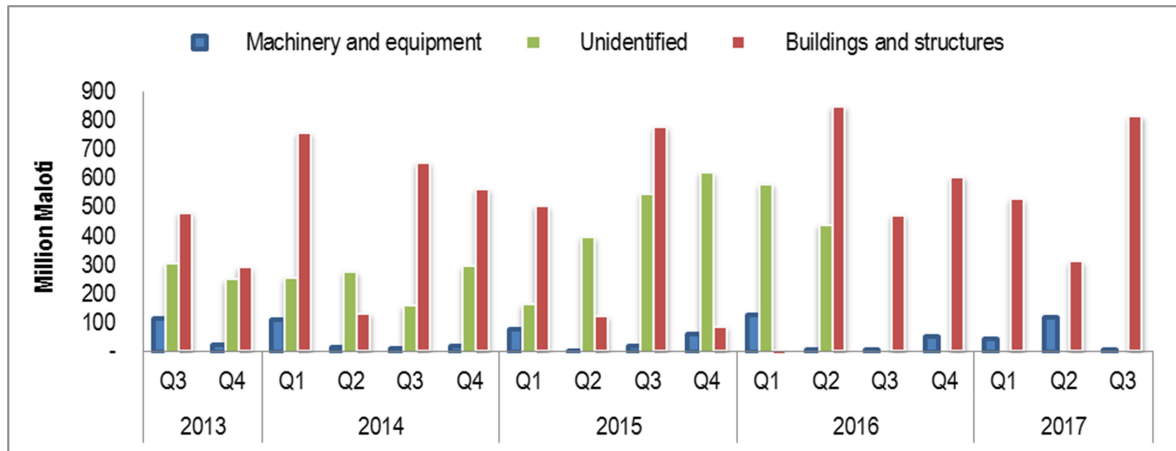
The Government expenditure (expenses and nonfinancial assets) increased by 16.7 per cent in the third quarter compared to a revised 5.6 per cent fall in the second quarter. The rise in expenses was driven by among others, health activities, local government elections and free primary education. Old age pension also increased by 39.7 per cent in the third quarter relative to 2.7 per cent increase in the second quarter, due to an upward adjustment from M580.00 to M700.00. In terms of nonfinancial assets, 'buildings and structures' increased by 161.4 per cent in the quarter ending in September 2017 as opposed to 41.0 per cent decline in the quarter ending in June 2017.

Figure 21: Total Expense (Million Maloti)



Source: CBL and MOF

Figure 22: Total Non-financial assets or Capital expenditure (Million Maloti)



Source: CBL and MOF

Table 15: Statement of Sources and Uses of Cash (Million Maloti)

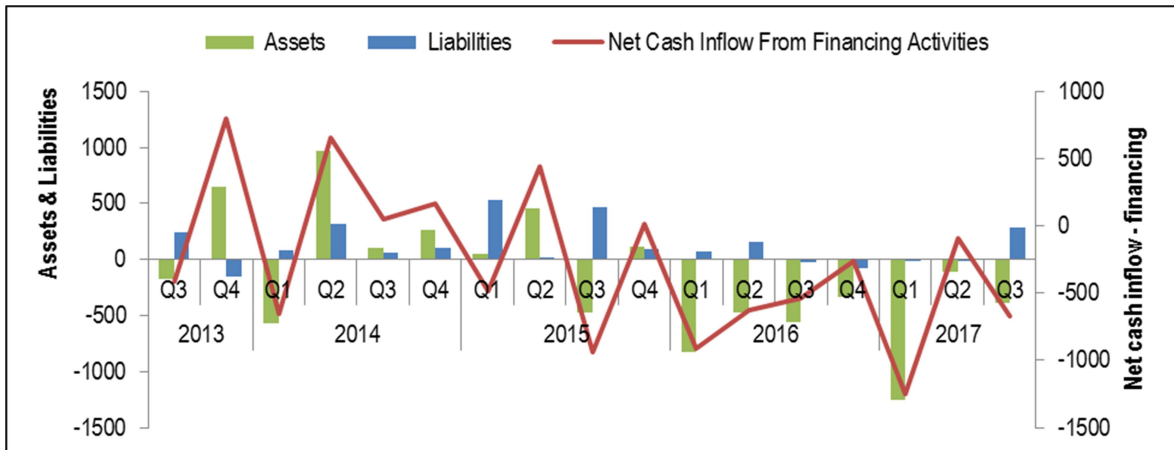
	2016		2017			Q-to-Q (%)	GDP ratio (%)
	Q3	Q4	Q1	Q2	Q3		
Total Revenue	3,657.79	3,306.33	3,081.64	3,516.25	3,645.53	3.7	41.1
Tax revenue	1,782.59	1,582.53	1,642.74	1,527.86	1,596.81	4.5	18.0
Grants	228.20	209.55	56.66	76.79	61.10	-20.4	0.7
Other revenue	517.27	384.51	252.50	373.05	449.08	20.4	5.1
SACU receipts	1,129.74	1,129.74	1,129.74	1,538.55	1,538.55	0.0	17.4
Total Expense	3,441.56	3,061.56	3,305.46	3,232.10	3,453.46	6.8	39.0
Compensation of Employees	1,399.57	1,449.11	1,346.24	1,138.74	976.61	-14.5	11.0
Purchases of goods and services	1,312.40	796.58	849.71	1,280.08	1,598.26	24.9	18.0
Interest Payments	72.16	36.05	120.09	74.12	117.29	58.2	1.3
Subsidies	39.96	117.24	140.50	77.66	43.52	-44.0	0.5
Grants	158.84	187.39	481.52	221.98	217.24	-2.1	2.5
Social benefits	255.33	238.57	182.08	171.94	231.18	34.5	2.6
Other expense	203.29	216.03	185.31	267.57	269.37	0.7	3.0
Net Cash Inflow From Operating Activities	216.23	244.78	-223.82	284.15	192.07	N/A	2.2
Total Nonfinancial Assets	475.53	654.90	573.10	429.97	821.18	91.0	9.3
Fixed Assets	475.53	654.90	573.10	429.97	821.18	91.0	9.3
Non-Produced Assets	0.00	0.00	0.00	0.00	0.00	0.0	0.0
Cash deficit(-)/surplus(+)	-259.29	-410.12	-796.92	-145.81	-629.11	N/A	-7.1
Net Cash Inflow From Financing Activities	534.57	259.51	1,246.65	96.73	672.26	N/A	7.6
Net Acquisition of Financial assets	556.61	337.38	1,249.65	110.60	387.08	N/A	4.4
Net Incurrence of Liabilities	-22.04	-77.87	-3.00	-13.88	285.18	N/A	3.2
Statistical Discrepancy	275.28	-150.62	449.73	-49.09	43.15	N/A	0.5

Source: CBL and MOF

FINANCIAL ASSETS AND LIABILITIES

The 'net cash inflow from financing activities' registered M672.26 million in the quarter under review compared to M96.73 million in the quarter ending in June 2017. Under financial assets, domestic 'currency and deposits' recorded a drawdown of M408.51 million in the third quarter compared with M110.60 million drawdown in the second quarter. While under liabilities, domestic 'securities other than shares' increased by M204.29 million in the third quarter compared to a decline of M16.84 million in the second quarter. The foreign loans increased by M87.78 million in the third quarter compared to M43.31 million in the second quarter, the increase in disbursement of M118.05 million offset the decline of 30.26 in amortization in the quarter under review.

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

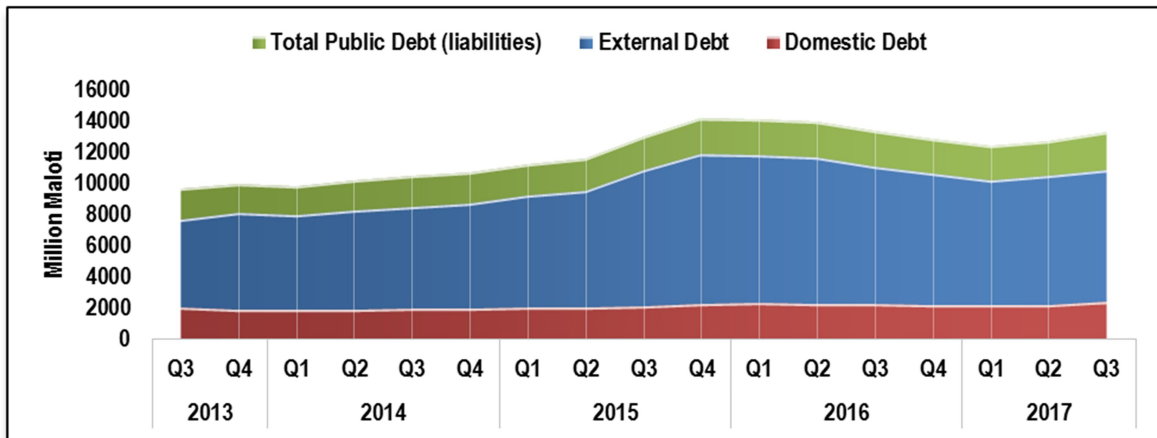


Source: CBL and MOF

TOTAL PUBLIC DEBT

Public debt stock amounted to M13,259.07 million in the third quarter of 2017 compared to M12,649.04 million in the second quarter of 2017. Thus, it increased by 35.7 per cent in the third quarter compared to 35.0 per cent in the second quarter. Domestic debt increased significantly from the previous quarter by 9.8 per cent more than external debt which only increased by 3.8 per cent. The increase was due to the expansion of domestic financing in treasury bonds by M150.00 million. The increase in external debt was driven by new debt amounting to M174.64 million coupled with revaluation changes resulting from currency movements.

Figure 24: Outstanding Public Debt (Million Maloti)



Source: CBL and MOF

Table 16: Public Debt Stock (Million Maloti)

	2016		2017			Debt/GDP (%)	
	Q3	Q4	Q1	Q2	Q3	Q2-2017	Q3-2017
Total Public Debt	13,334.34	12,817.40	12,389.40	12,649.02	13,259.07	34.96	35.69
EXTERNAL DEBT	11,067.75	10,595.31	10,195.03	10,449.92	10,843.98	29.49	30.60
Bilateral Loans	1,010.67	972.95	905.47	906.50	922.99	2.56	2.60
Concessional	1,010.67	972.95	905.47	906.50	922.99	2.56	2.60
Non-concessional	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Multilateral Loans	9,257.71	8,858.92	8,567.51	8,805.01	9,169.18	24.85	25.87
Concessional	7,588.43	7,205.93	6,923.38	7,160.36	7,529.20	20.21	21.25
Non-concessional	1,669.28	1,652.99	1,644.13	1,644.66	1,639.98	4.64	4.63
Financial Institutions	0.60	0.60	0.60	0.54	0.54	0.00	0.00
Concessional	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Non-concessional	0.60	0.60	0.60	0.54	0.54	0.00	0.00
Suppliers' Credit	798.76	762.83	721.44	737.87	751.28	2.08	2.12
DOMESTIC DEBT	2,266.59	2,222.09	2,194.38	2,199.10	2,415.09	6.21	6.82
Banks	1,807.20	1,742.43	1,681.93	1,688.51	1,781.00	4.76	5.03
Long-term	1,419.87	1,347.23	1,309.24	1,316.06	1,371.81	3.71	3.87
Treasury bonds	469.87	466.39	471.68	472.51	515.28	1.33	1.45
Central Bank (IMF-ECF)	950.00	880.84	837.56	843.55	856.53	2.38	2.42
Short-term (t-bills)	387.34	395.20	372.69	372.46	409.19	1.05	1.15
Non-bank	459.38	479.66	512.45	510.58	634.09	1.44	1.79
Short-term (t-bills)	214.36	211.16	231.24	231.20	247.48	0.65	0.70
Long-term (t-bonds)	245.02	268.50	281.21	279.39	386.61	0.79	1.09

Source: CBL and MOF

6. Foreign Trade and Payments

OVERVIEW

The overall balance of payments improved during the quarter under review. It recorded a net lending (surplus) equivalent to 3.0 per cent of GDP to the rest of the world in the quarter ending in September 2017, in contrast with a net borrowing (deficit) of 2.9 per cent of GDP in the quarter ending in June 2017. The observed performance was largely influenced by the improvement in the current account and financial account despite a decline in the capital account. The contraction in the current account deficit was mainly driven by a narrowing deficit in the trade account, while a fall in the capital account resulted from lower receipts of grants from foreign governments. The surplus in the financial account was largely attributed to a rise in commercial banks' foreign assets.

CURRENT ACCOUNT

The current account narrowed to a deficit equivalent to 3.1 per cent of GDP in the review quarter, compared with a revised deficit of 7.9 per cent of GDP in the previous quarter. The lower deficit largely emanated from the improvement in the goods account, which registered a lower net deficit of 26.8 per cent of GDP in the review quarter from a deficit of 32.3 per cent of GDP in the previous quarter. This resulted from the growth in merchandise exports while merchandise imports declined marginally during the review period. However, a slight increase in the services account deficit together with deterioration in the primary and secondary income accounts moderated the observed performance of current account.

Table 17: Current Account Balance (Million Maloti)

	2016		2017			% Changes		%GDP
	Q3	Q4	Q1	Q2*	Q3+	Q/Q	Y/Y	
Current Account	-651.34	-827.68	-664.80	-703.12	-271.02	-61.5	-58.4	-3.1
(a) Goods	-2665.16	-2552.37	-2636.86	-2861.63	-2375.50	-17.0	-10.9	-26.8
Merchandise exports, f.o.b.	3264.99	3104.90	2953.31	3335.20	3813.34	14.3	16.8	43.0
Of which diamonds	647.19	576.25	870.27	1176.54	1199.54	2.0	85.3	13.5
Of which textiles & clothing	1853.02	1797.59	1462.67	1469.87	1875.43	27.6	1.2	21.2
Of which re-exports	56.93	25.07	14.15	13.41	50.87	279.3	-10.6	0.6
Other exports	707.85	705.99	606.22	675.38	687.50	1.8	-2.9	7.7
Merchandise imports, f.o.b.	-5930.15	5657.27	-5590.17	-6196.83	-6188.84	-0.1	4.4	-69.8
(b) Services	-673.22	-988.33	-955.17	-1120.83	-1121.77	0.1	66.6	-12.6
(c) Primary Income	1111.06	1106.23	1076.53	1226.15	1193.74	-2.6	7.4	13.5
(d) Secondary Income	1575.98	1606.80	1850.71	2053.19	2032.51	-1.0	29.0	22.9

+ Preliminary

* Revised

Source: Central Bank of Lesotho

Merchandise Exports

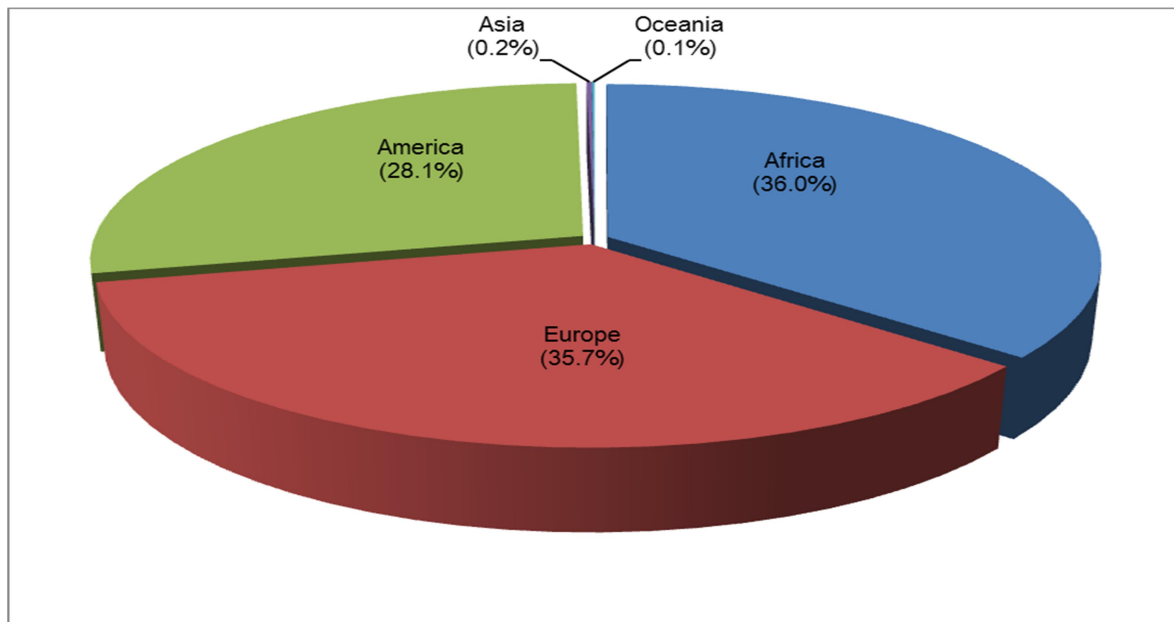
Merchandise exports grew by 14.3 per cent during the review quarter, higher than 12.9 per cent in the previous quarter. The growth in exports was primarily driven by textiles and clothing together with diamonds. Textiles and clothing exports rose by 27.6 per cent reflecting an increase in orders by the US based buyers, which normally pick-up in the second half of the year. The US takes the largest share in the textiles and clothing exports, followed by the SACU region particularly SA, which has been steadily growing in recent years. Diamond exports grew by 2.0 per cent in the review quarter, lower than an increase of 35.2 per cent in the quarter ending in June 2017. The improvement was attributed to a rise in the quantity of diamonds exported together with favourable diamond prices in the international markets during the review period. The substantial increase in diamond exports in the previous quarter was a result of an entry into production of an additional mining company, which had just completed its expansion project.

The observed performance in merchandise exports was also supported by a significant rise in re-exports to SA, largely consisting of machinery and transport equipment, textile yarn fabrics and related products, manufactures of mineral materials and articles of apparel and clothing. In addition, a 5.8 per cent increase in water exports supported the growth in merchandise exports during the quarter. On an annual basis, merchandise exports rose by 16.8 per cent in the review quarter compared with a decline of 0.2 per cent in the previous quarter. Relative to GDP, the value of merchandise exports registered 43.0 per cent in the third quarter of 2017, higher than 37.6 per cent realized in the previous quarter.

Direction of Trade - Exports

During the quarter under review, the African market particularly SACU region continued to be the major recipient of Lesotho's goods with a share of 37.9 per cent of the total exports, compared with a 35.9 per cent share in the previous quarter. The second largest destination of Lesotho's exports was the European market with a share of 32.3 per cent during the review quarter, following a 35.7 per cent share in the previous quarter. This market receives a large portion of Lesotho's diamond exports. The American market, particularly the US became the third recipient of Lesotho's manufactured goods with a share of 28.8 per cent in the review quarter, higher than 28.1 per cent in the previous quarter. This is the market where a larger share of textiles and clothing are destined under the AGOA preference. Asia and Oceania markets continued to receive the smallest shares of 0.8 per cent and 0.1 per cent, respectively in the review quarter, following a share of 0.2 per cent in both markets in the previous quarter.

Figure 25: Direction of Merchandise Exports (Percentage Share)



Source: Central Bank of Lesotho

Merchandise Imports

Merchandise imports slightly declined by 0.1 per cent in the review quarter, compared with an increase of 10.8 per cent in the previous quarter. The deterioration in imports was underpinned by a reduction in imports from SA, which takes the largest share in Lesotho's imports. Imports from RSA, particularly iron and steel products, fell by 31.0 per cent during the review quarter, in contrast with an increase of 50.1 per cent in the previous quarter. The weakness in merchandise imports was however, moderated by an increase in imports from Taiwan where Lesotho sources raw materials for manufacturing of textiles and clothing. In addition, the observed performance in imports was partly offset by a rise in vehicle imports from Japan during the review quarter. On an annual basis, merchandise imports rose by 4.4 per cent in the review quarter, following an increase of 8.6 per cent in the previous quarter. As a percentage of GDP, merchandise imports recorded 69.8 per cent in the review period compared with 69.9 per cent in the previous quarter.

Services

Lesotho's imports of services continued to outweigh its exports of services in the quarter under review. The services account deficit rose marginally by 0.1 per cent in the third quarter of 2017, lower than a 17.3 per cent deficit in the previous quarter. The growth in the deficit was mainly driven by a rise in payments for transportation, in particular air passenger transport services. On a year by year basis, the deficit in net services grew by 66.6 per cent in the review quarter, compared with an increase of 15.4 per cent in the previous quarter. The net services registered a deficit equivalent to 12.6 per cent of GDP in the third quarter of 2017, the same figure realized in the previous quarter.

Primary Income

During the third quarter of 2017, the surplus in the primary income account fell by 2.6 per cent compared with an increase of 13.9 per cent in the previous quarter. The slowdown in the surplus was mainly driven by a decline in income for maintenance and operational costs of the dams built under phase I of the LHWP. In addition, the drop in the surplus was influenced by an increase in payments for interest on foreign government loans during the review quarter. Nevertheless, the deterioration in the surplus was moderated by an increase in interest earnings on commercial banks' foreign assets during the review period. Compensation of employees which takes the largest share in the primary income remained unchanged during the period. On an annual basis, the net primary income rose by 7.4 per cent in the review quarter, following a rise of 8.7 per cent in the previous quarter. Relative to GDP, the primary income account recorded 13.5 per cent in the third quarter of 2017, following a 13.8 per cent in the previous quarter.

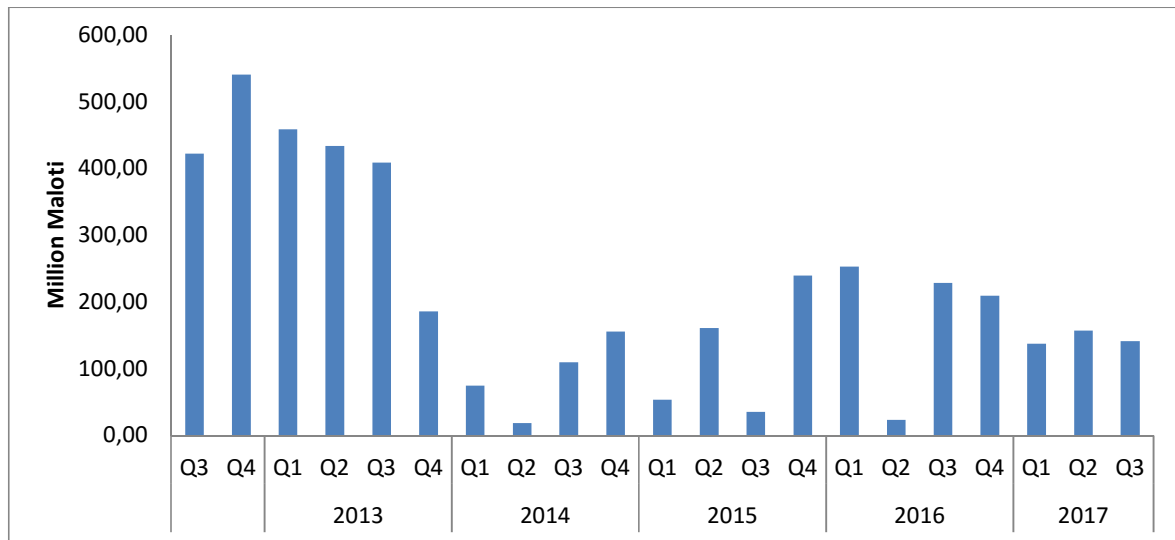
Secondary Income

The surplus in the secondary income account declined by 1.0 per cent in the quarter under review compared with a 10.9 per cent increase in the previous quarter. The reduction in the surplus was mainly driven by a slowdown in government receipts, particularly grants for budget support from abroad during the quarter. SACU revenue, which takes the largest share in the secondary income account, remained unchanged during the review quarter. On an annual basis, the secondary income account grew by 29.0 per cent in the review quarter, compared with a rise of 27.4 per cent in the previous quarter. As a percentage of GDP, the secondary income account registered 22.9 per cent in quarter under review, lower than 23.2 per cent in the previous quarter.

CAPITAL ACCOUNT

The capital account inflows declined by 10.0 per cent in the third quarter of 2017, in contrast with a revised increase of 14.7 per cent in the second quarter of 2017. The decline mainly reflected a reduction in grants from foreign government while capital inflows related to the second phase of the Lesotho highlands water project remained unchanged during the review quarter. Relative to GDP, the capital account recorded 1.8 per cent in the review period, down from 2.0 per cent in the previous quarter.

Figure 26: Capital Account (Million Maloti)

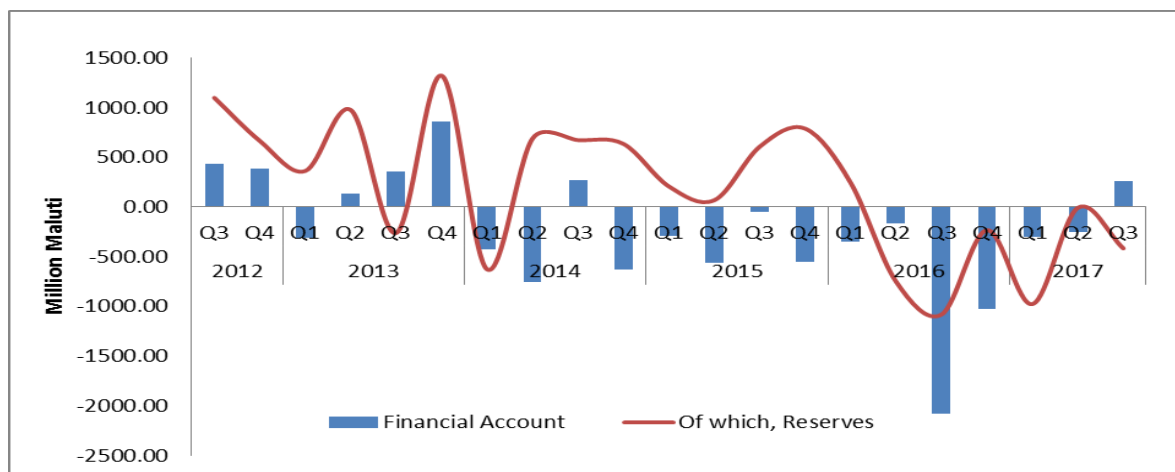


Source: Central Bank of Lesotho

FINANCIAL ACCOUNT

During the quarter under review, the financial account registered a surplus equivalent to 3.0 per cent of GDP for the first time since the third quarter of 2014, compared with a deficit of 2.9 per cent of GDP in the previous quarter. The surplus in the financial account was mainly driven by increased holding of foreign assets by commercial banks. The foreign assets were meant to increase investment abroad and for placements with foreign banks to meet clients' transactions demand abroad. Commercial banks displayed an outflow equivalent to 13.8 per cent of GDP in the review quarter, compared with an inflow of 1.3 per cent of GDP in the previous quarter. However, the surplus was dampened by the decline in official reserves during the quarter ending in June 2017.

Figure 27: Financial Account (Million Maloti)

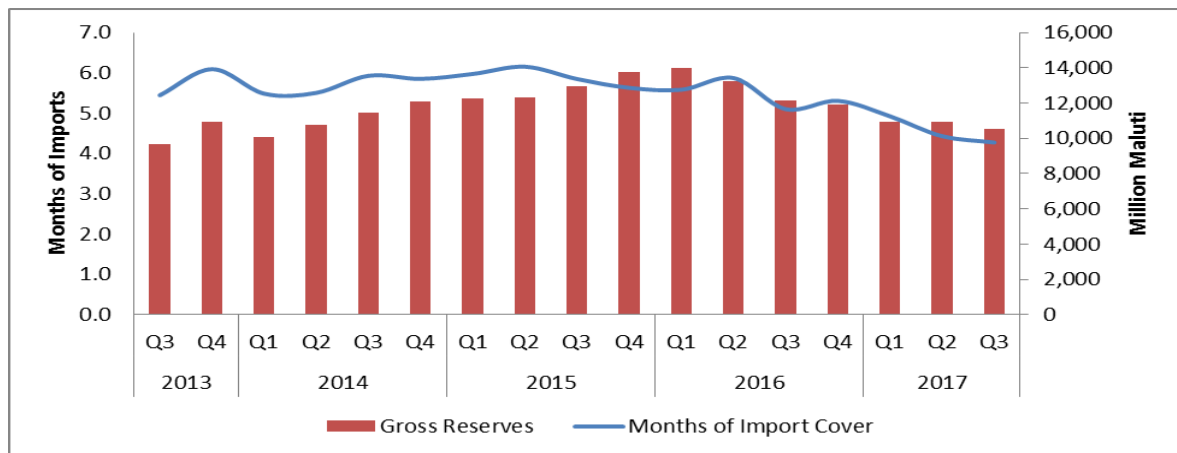


Source: Central Bank of Lesotho

RESERVE ASSETS

The stock of official reserves fell by 3.6 per cent from 10.94 billion to M10.5 billion in the quarter ending in September 2017, from a decline of 0.07 per cent in the quarter ending in June 2017. The decline in reserve assets was underpinned by the reduction in government deposits during the review quarter. As a result, measured in months of import cover, official reserves slightly fell to 4.3 months in the review quarter from 4.4 months registered in the previous quarter.

Figure 28: Reserve Assets



Source: Central Bank of Lesotho