Central Bank Of Lesotho

QUARTERLY REVIEW

SEPTEMBER 2018

MASERU
KINGDOM OF LESOTHO

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1. Executive Summary

The strong recovery in the global economy has been put at risk by the escalating trade tensions between China and the United States (US). Growth slowdown was observed in both the advanced and emerging market economies. In the advanced economies, the Euro Area and Japan led the deceleration. In emerging market economies China registered a deceleration from 6.7 per cent to 6.5 per cent, while in India deceleration was even faster from 8.2 per cent to 7.1 per cent. There was however a moderate recovery in the South African economy. The unemployment was generally down in both the advanced and emerging market economies, safe for South Africa and the United Kingdom (UK). The US economy was operating close to full employment during the quarter. Inflation developments were mixed amongst and between advanced and emerging market economies. In advanced economies, inflation picked up in the Euro Area and Japan whilst it slowed down for the US, and remained muted in UK. Commodity prices were declining, safe for fuel, which remained high during the review period.

Lesotho's economic activity pointed to a recovery during the review quarter. The measure of economic performance, the quarterly indicator of economic activity, increased by 0.5 per cent in the review quarter compared with a 0.3 per cent contraction in the second quarter. The labour market showed mixed signals, with the manufacturing sector recovering from the slump realised in the previous quarter, while both the government and Basotho Migrant Mineworkers' categories continued to shed jobs, albeit at lower rate for the former while the latter's pace increased. The number of Basotho Migrant Mineworkers employed in South Africa declined by 14.5 per cent, following 14.2 per cent recorded in the previous quarter.

The inflation rate, measured by the year-on-year changes in Consumer Price Index (CPI), accelerated to 5.0 per cent in the third quarter of 2018 compared with a 4.0 per cent recorded in the quarter ending in June 2018.

Money supply increased by 6.9 per cent during the review period, on account of a 0.5 per cent and a 34.8 per cent growth in Net Foreign Assets (NFA) and in domestic claims, respectively. The increase in NFA was at the back of rise in deposits mainly from private sector and other financial corporations, although the central bank's NFA moderated the developments. Credit extended to the private sector increased during the quarter under review. Credit to business enterprises rose by 5.3 per cent, mainly on account of new loans that outstripped runoffs, while credit to households grew at a lower rate of 1.7 per cent.

The government budgetary operations were estimated to have registered a fiscal deficit equivalent to 4.1 per cent of GDP during the quarter ending in September 2018, which is the second fiscal quarter of 2018/19. This compares with the revised surplus of 11.7 per cent of GDP in the previous quarter. The deficit was financed by, amongst others, drawdown of government deposits with the banking sector and issuance of government securities. The outstanding public debt increased to an equivalent of 39.1 per cent of GDP during the review quarter, compared with 33.4 per cent of GDP recorded in the previous quarter. The 16.8 per cent upsurge was largely attributed to currency depreciation, reflecting the debt portfolio (80.4 per cent of public debt is external), plus new domestic debt issued to finance government budgetary operations.

The external sector position continued on a positive path, after registering equivalence of 5.7 per cent of GDP of surplus in the third quarter of 2018. The balance of payments was in the surplus for three consecutive quarters in 2018 during the period under review, although it weakened compared to 7.0 per cent in the previous quarter. The external sector surplus was driven by the improvement in the financial account balance, due to an increase in the commercial banks foreign assets held abroad. Furthermore, there was an increase in the capital account inflows, which explained the surplus.

2. International Economic Developments

There was a general slowdown in the global economic growth in the third quarter of 2018. This was evident in the Euro Area, Japan and the Emerging Market Economies. However, the relatively strong growth was observed in US and UK economies. The labour market conditions improved in both advanced and emerging market economies, safe for South Africa and the UK.

Inflation developments were mixed amongst and between advanced and emerging market economies. In advanced economies, inflation picked up in the Euro Area and Japan whilst it slowed down for the US, and remained muted in UK. As a result, the US continued with the interest rate hiking cycle in response to the improved labour market conditions amidst stronger economy. To accommodate the prevailing conditions in the Emerging Market Economies, the Bank of India raised its policy rate, while there was no change in both Chinese and South African rates.

Commodity prices were declining during the period under review. This was due to the weakened demand, which was also affected by the relatively higher returns on the US Financial markets that investors viewed as safe havens. However, prices of crude oil remained elevated, thereby posing further inflationary pressures.

Table 1: Key World Economic Indicators

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	June 2018	**Sept 2018**	**June 2017**	**Sept 2018**	**June 2017**	**Sept 2018**	**June 2017**	**Sept 2018**
United States	2.9	3.0	2.7	2.3	2.00	2.25	4.0	3.7
Euro Area	2.2	1.7	2.0	2.1	0.00	0.00	8.2	8.1
Japan	1.0	0.3	0.7	1.2	-0.10	-0.10	2.4	2.3
United Kingdom	1.2	1.5	2.4	2.4	0.50	0.75	4.0	4.1
China	6.7	6.5	1.9	2.5	4.35	4.35	3.95	3.82
India	8.2	7.1	4.9	3.7	6.25	6.50	N/A	**N/A**
South Africa	0.4	1.1	4.6	4.9	6.50	6.50	27.2	27.5

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

ADVANCED ECONOMIES

United States (US)

The US economy grew by 3.0 per cent year on year, during the quarter ending in September 2018, compared with a 2.9 growth rate in the previous quarter. Growth was fuelled by, amongst others, the expansionary fiscal policy implemented from the beginning of 2017. As a result, the unemployment rate for the US declined to 3.7 per cent during the review period, from 4.0 per cent in the previous quarter. Although more jobs were created during the quarter, they were mostly part time.

The annual inflation rate for the US was 2.7 per cent during the quarter under review, from 2.9 per cent in the second quarter of 2018. The observed development was influenced by slowdown in the gas and fuel as well as shelter costs. The FOMC raised the federal funds rate by 25 basis points to the range of 2.00 - 2.25 per cent in the third quarter of 2018, from that of 1.75 - 2.00 per cent in the previous quarter. The decision to hike was taken in response to improved labour market conditions as economic activity was stronger. The FOMC signalled further hikes in the medium term.

Euro Area

The annual real GDP growth was 1.7 per cent in the third quarter of 2018, slowing down from 2.2 per cent in the second quarter of 2018. The growth weakened due to the escalating global trade tensions, which weighed on the exports and also suppressed capital spending by firms. Further, a slowdown in the Germany economy, the largest in the region, was also responsible for the observed weakness. The Euro Area unemployment rate declined to 8.1 per cent during the quarter under review. In the preceding quarter, the unemployment rate was registered at 8.4 per cent. The decline was driven mainly by a drop in the youth unemployment.

The annual consumer prices for the Euro Area rose by 2.1 per cent in the review quarter, slightly higher than 2.0 per cent in the previous quarter. The increase was driven mainly by food and energy prices. The European Central Bank kept the key policy rate unchanged at 0.00 per cent during the quarter under review. The ECB also continued with the asset purchase programme at €30 billion per month until the end of September 2018, which will be reduced to €15 billion per month until December 2018. The programme is expected to end due to improving inflation outlook and economic activity. The current accommodative monetary policy stance was meant to support growth in the region.

Japan

Economic growth in Japan decelerated in the third quarter of 2018, with the annual real GDP growing by 0.3 per cent from a 1.4 per cent growth in the second quarter of 2018. The slowdown was attributable to slowing exports, as well as, the earthquake and typhoon, which disrupted economic activity. The unemployment situation improved during the third quarter of 2018 from a rate of 2.4 per cent to 2.3 per cent in the quarter ending in September 2018. This development was in line with labour shortages due to ageing population.

Japan's annual inflation rate recorded a 1.2 per cent, in the third quarter of 2018, up from 0.7 per cent in the previous quarter. The inflation pressures resulted from faster increase in the prices of food and transport costs. During the third quarter of 2018, the Bank of Japan decided to maintain the key policy rate steady at -0.1 per cent. In order to influence long term interest rates, the Bank also continued with the decision to control the yield curve, through government bond purchases. The other assets purchased included exchange traded funds, Japan Real Estate Investment Funds, as well as, commercial paper and corporate bonds. The Bank maintained historically low interest rates to spur inflation towards official target of 2 per cent.

United Kingdom (UK)

The UK's GDP grew by 1.5 per cent, following a 1.2 per cent registered in the previous quarter. Growth was driven by strong consumer and government spending. However, growth was moderated by declining exports performance. Generally, growth was supported by the recovery in construction. The unemployment rate rose unexpectedly to 4.1 per cent in the third quarter of 2018, compared with 4.0 per cent in the previous quarter. This was despite a faster increase in the average hourly wages.

The inflation rate maintained the annual rate of 2.4 per cent recorded in the previous quarter. The increase was a result of higher cost of transport, while the slowing food prices had an offsetting effect. The key policy rate for the UK rose to 0.75 per cent during the period under review, following the Bank of England decision to hike by 25 basis points. The Bank maintained the assets purchases programme, and did not make any changes with regard to volumes. This decision signalled a gradual upwards adjustment to the policy rate, as it forecasts inflation to remain above target until 2020.

EMERGING MARKET ECONOMIES

China

Growth in economic activity in China slowed down to 6.5 per cent in the review quarter from 6.7 in the preceding quarter. Industrial production, especially manufacturing output, was weaker than expected during the quarter. However, increased investment spending, coupled with higher consumer demand moderated the slowdown. The unemployment rate declined slightly from 3.83 per cent in the second quarter of 2018 to 3.82 per cent in the third quarter of 2018.

The annual inflation rate was recorded at 2.5 per cent during the third quarter of 2018, accelerating from 1.9 per cent in the preceding quarter, mainly on account of rising food prices. The People's Bank of China maintained its policy rate unchanged between the second and the third quarter of 2018. A bench mark rate for China remained constant since it was last cut by 25 basis points in the third quarter 2015. However, the Bank used other tools to inject liquidity in the economy to mitigate the impact of the trade tension with the US, and to support the weakened economy. The Bank cut the required reserve by 50 basis points to 4.50 per cent.

India

During the quarter ending in September 2018, the real GDP rose by 7.1 per cent on the annual basis in India. This was a deceleration from an 8.2 per cent increase in the second quarter of 2018. The slowdown was due to weaker consumer spending and inventory investment, which offset increases in the exports, government and investment spending. The high oil prices affected consumers negatively. The faster increase in the imports also had a dragging effect on the GDP.

The annual consumer prices rose by 3.8 per cent during the review period, decelerating from 4.9 per cent in the quarter ending in June 2018. The slowdown in the inflation rate reflected easing prices of food and beverages. The Reserve Bank of India hiked the repo rate by 25 basis points to 6.50 per cent amid worsening inflation outlook. The decision was taken with the aim to meet the medium term inflation target of 4.00 per cent to support the country's initiatives in a sustainable manner.

South Africa

The annual real GDP in South Africa recovered from a meagre 0.4 per cent growth in the second quarter to 1.1 per cent increase in the third quarter of 2018. The growth was driven mainly by a rebound in the agriculture and transportation output. In addition, the growth in real GDP was boosted by acceleration in the manufacturing output during the quarter under review. On the quarterly basis, the economy just emerged from the technical recession, after increasing by 2.2 per cent during the review period.

The unemployment rate rose to 27.5 per cent in the quarter, from 27.2 per cent in the previous quarter. The unemployment rate was higher due to weaker economic activity in the second quarter of 2018, and remained weak in the review period. In particular jobs were lost in the formal sector, agriculture, and private households, thus offsetting a weaker gain in the informal sector.

The annual consumer price index rose by 4.9 per cent during the third quarter of 2018, relative to an increase of 4.6 per cent in the previous period. The rise was due to higher transport costs and food prices. The Reserve Bank of South Africa maintained the repo rate at 6.50 per cent during the quarter under review. Inflation was expected to remain within the target range over the medium term, though upward pressures are anticipated due to higher oil prices and the weakening exchange rate.

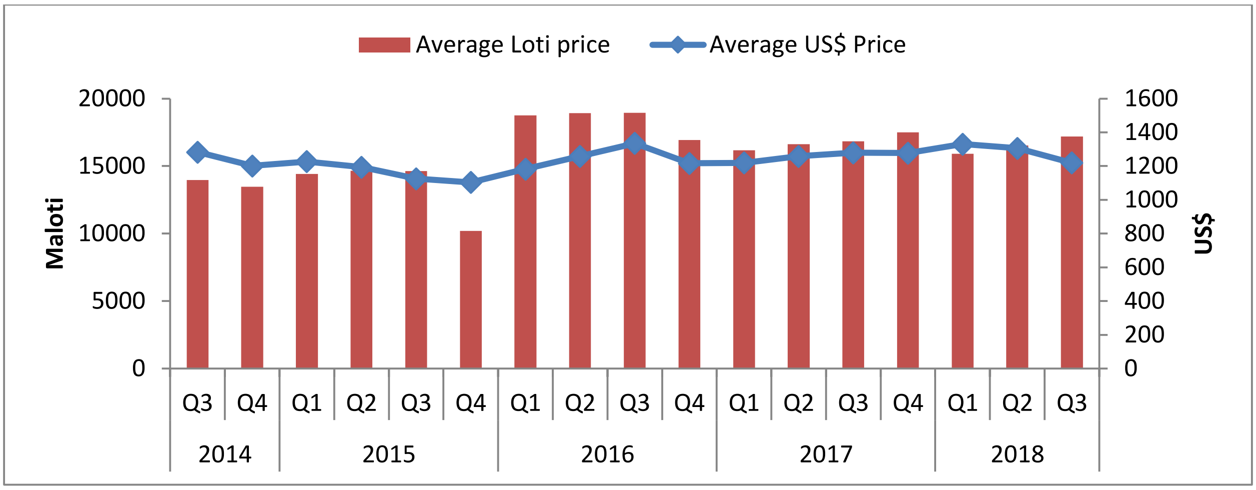
COMMODITIES

Minerals

Gold

The price of gold extended a decline during the third quarter of 2018, falling by 6.6 per cent to $1,219.82, compared with 1.8 per cent drop in the preceding quarter. Year on year the price of gold fell by 4.65 per cent during the review period. The price of gold remained under pressure during the quarter, as the strong dollar made gold too expensive for other currency buyers. In addition, the strong dollar which was supported by strong economic data in the US, the rate hike by the Fed, together with rising yields made gold less attractive to investors.

Figure 1: Average Price of Gold

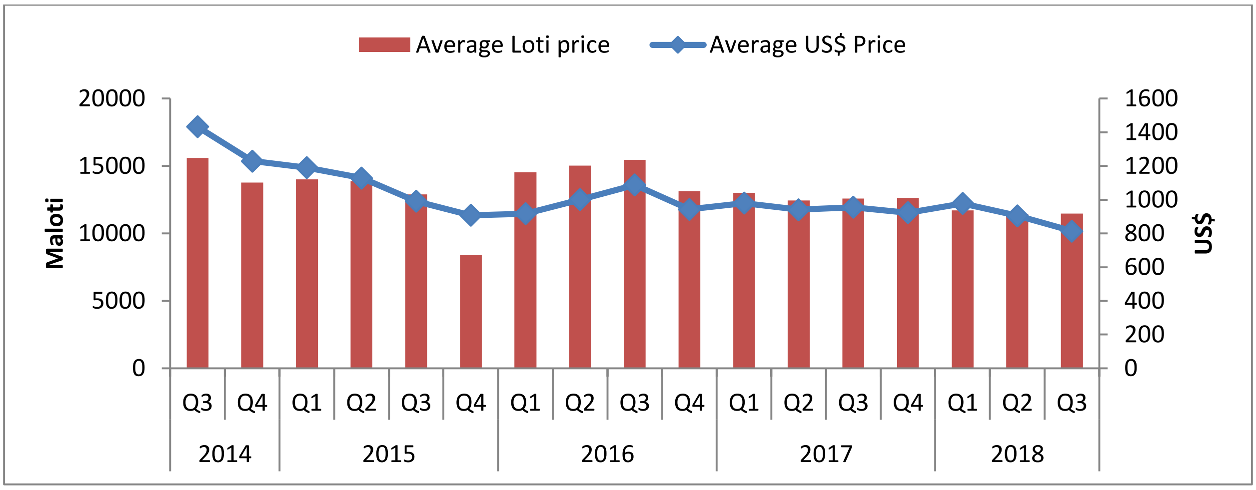


Source: Bloomberg

Platinum

The price of platinum declined by 10.1 per cent, following 7.5 per cent observed in the second quarter. The fall in prices was due to the lower demand for platinum in European automotive industry, in addition to weaker demand for jewellery in world markets, especially in China.

Figure 2: Average Price of Platinum



Source: Bloomberg

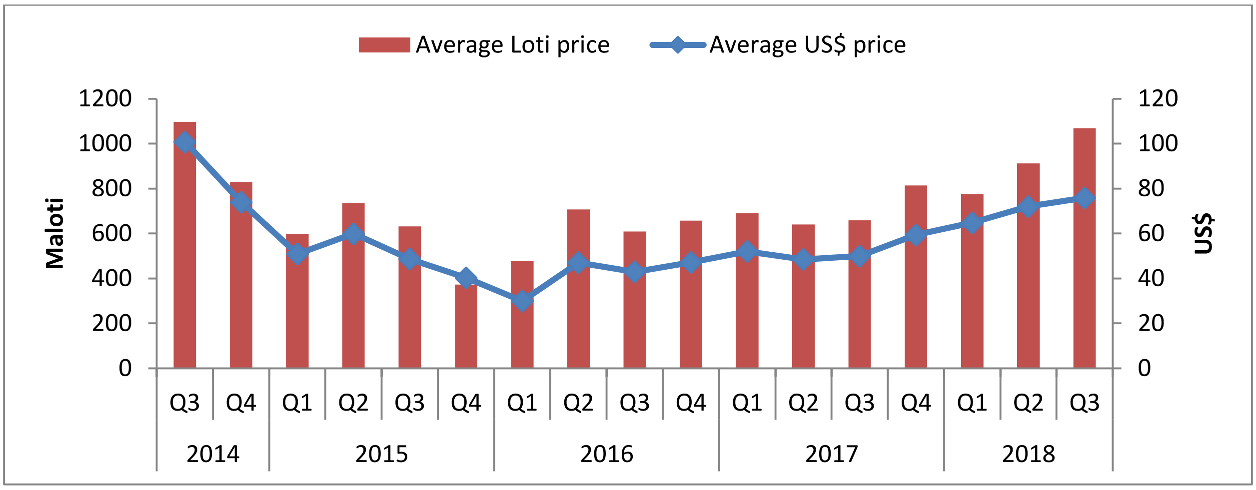
Energy

Oil

The price of crude oil continued to rise in the third quarter of 2018, registering a high of US$75.84. This resulted from the OPEC and some non OPEC members' decision to cut oil output, coupled with the speculation of a decline in supply, as the US re-imposed sanctions on

Iran also led to an uptick in the price. Iran contributes a sizable share of output in the global market, hence sanctions would weigh down on global supply. However, the rise in the price of oil lost momentum following the slowdown in global economic activity, which adversely affected demand for oil.

Figure 3: Average Price of Oil



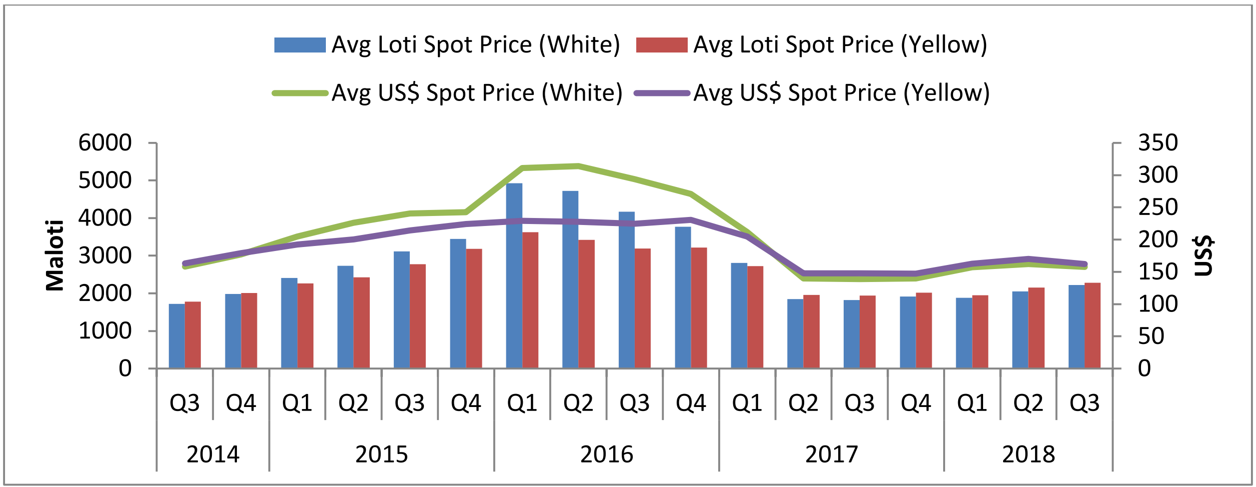
Source: Bloomberg

Agricultural Products

Maize

The price of white and yellow maize fell by 2.8 per cent and 4.7 per cent to US$157.58 and US$161.86 respectively, during the third quarter of 2018. This was in contrast to the respective 3.4 and 4.3 per cent increases in prices of white and yellow maize, respectively, in the previous quarter. The prices were mainly influenced by relatively better harvest in Ukraine, which is a significant player in the maize production.

Figure 4: Average Price of Maize

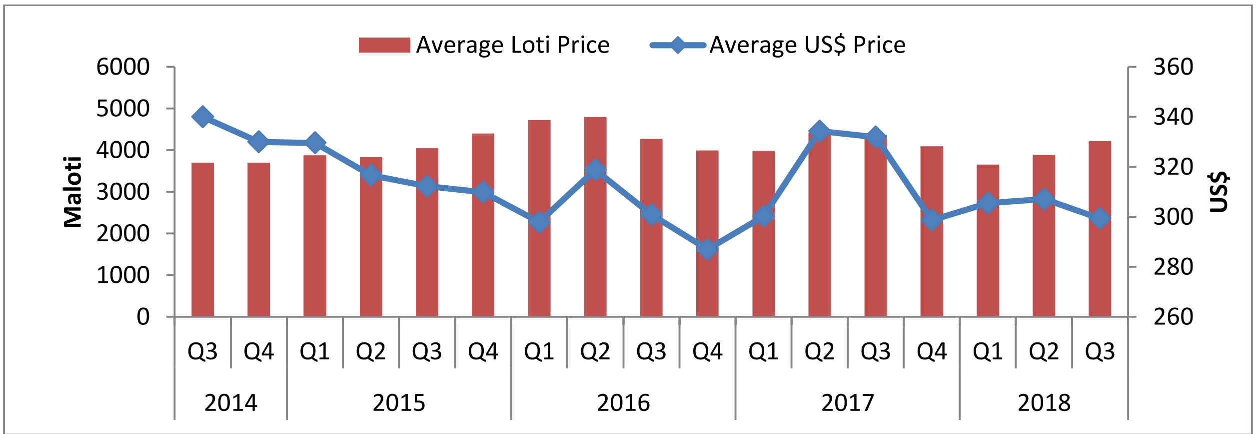


Source: Bloomberg

Wheat

Wheat price decreased by 2.5 per cent, to US$299.34, during the third quarter of 2018, compared with a 0.5 per cent increase in the second quarter of 2018. There was increased global supply of wheat resulting from Russia's decision not to put a cap to its exports. Apart from this, the other key producing countries, including the European Union, experienced increased output from increased area planted and yields..

Figure 5: Average Price of Wheat

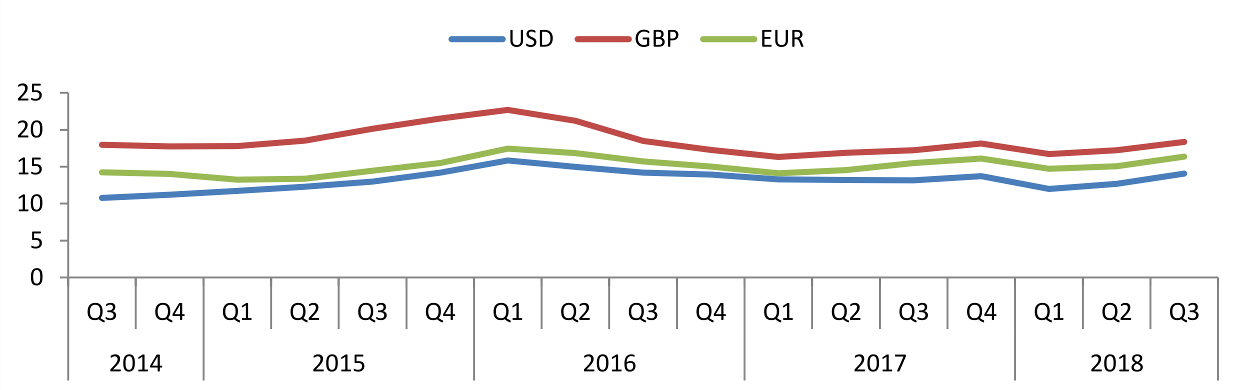


Source: Bloomberg

EXCHANGE RATES

The rand experienced a sharp depreciation against the dollar, the pound and the euro during the third quarter of 2018. It depreciated by 11.24 per cent against the dollar to US$14.09, 6.59 per cent against the pound to £18.35, and 8.63 per cent against the euro to €16.38, respectively. The rand remained volatile throughout the quarter, as it was affected by both domestic and global economic factors – both economic and political. The rand, hence, the loti suffered alongside other emerging market currencies, due to an outflow of funds, which put a downward pressure on their currencies. The rand was, however, supported by improvement in the current account as well as credit rating postponement by S&P.

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



Source: Bloomberg

3. Real Sector Developments

CHANGES IN REAL SECTOR STATISTICS

The Quarterly Indicator of Economic Activity

This note serves to inform all readers and data users that the Central Bank of Lesotho has developed a new indicator[1] for assessing performance of the Real Sector of Lesotho's economy. The Quarterly Indicator of Economic Activity (QIEA) replaces the now known Economic Activity Indicator (EAI). The QIEA tracks economic developments as they occur and is published for the first time on quarterly basis in this issue of the Bank's Quarterly Economic Review. The methodology for compiling the QIEA borrows from the US Conference Board, which is widely used in the measurement of high frequency indicators of economic activity in a number of countries. Nonetheless, it is important to emphasize that the QIEA is not GDP and its results may differ from the actual GDP due to among other things coverage and compilation methodology.

Computation and Analysis of Core Inflation

The Bank is also pleased to inform the readers of this publication that it is publishing for the first time in this series of publications, starting with this issue, the computation and analysis of core inflation. Core inflation measures the long-term underlying inflation, which is what is most relevant for monetary policy. Lesotho's core inflation is computed as the 30 per cent-trimmed mean of the headline inflations (the rate of CPI change we have been reporting on). This measure includes removing all those CPI components that show

[1] Refer to monthly publications on **www.centralbank.org.ls/publication**

extreme price movements and are considered too noisy for signalling inflation pressures in the economy. The current core inflation indicator removes 15.0 per cent of the items in the prices distribution both at the top and at the bottom and the remaining items are rescaled using new weights such that the weights still add up to 100 per cent.

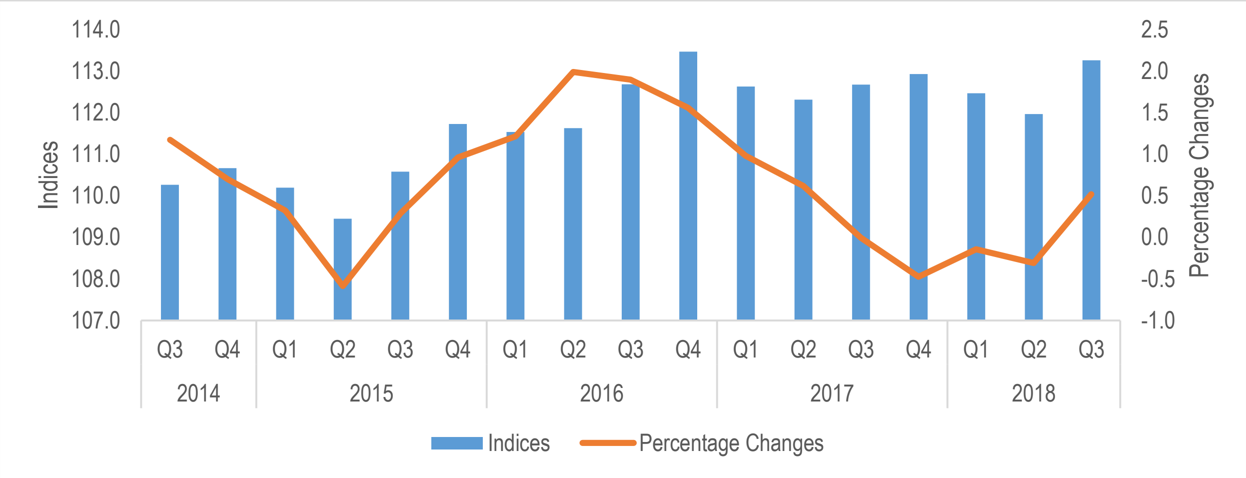
OVERVIEW

Lesotho's economic activity points to a recovery while the labour market showed mixed signals with manufacturing sector adding more jobs, while both the government and Basotho Migrant Mineworker's categories shed jobs. The inflation rate continued to be on the upward trend in September 2018.

OUTPUT DEVELOPMENTS

The quarterly indicator of economic activity (QIEA) increased by 0.5 per cent in the review quarter compared with a negative growth of 0.3 per cent observed in the second quarter of 2018. The improved performance was at the back of increased economic activity in the manufacturing and production side of the economy as evidenced by positive contributions of the inputs into production especially the usage of utilities (water and electricity). However, domestic demand continued to be on the down turn especially the government component, while the private sector eased the impact from the government.

Figure 7: Quarterly Indicator of Economic Activity



Source: CBL

EMPLOYMENT DEVELOPMENTS

Employment by the LNDC-assisted companies grew by 4.4 per cent annually in the third quarter of 2018 relative to a growth of 5.1 per cent realised in the previous quarter. This growth was mainly driven by the following manufacturing categories; knit garments, woven garments, fabrics, yarn, etc. and food & beverages. Nonetheless, the footwear, electronics and construction categories moderated the increase in employment. On a quarterly basis, employment also slowed down by 2.5 per cent in the review quarter relative to 2.6 per cent recorded in the preceding quarter.

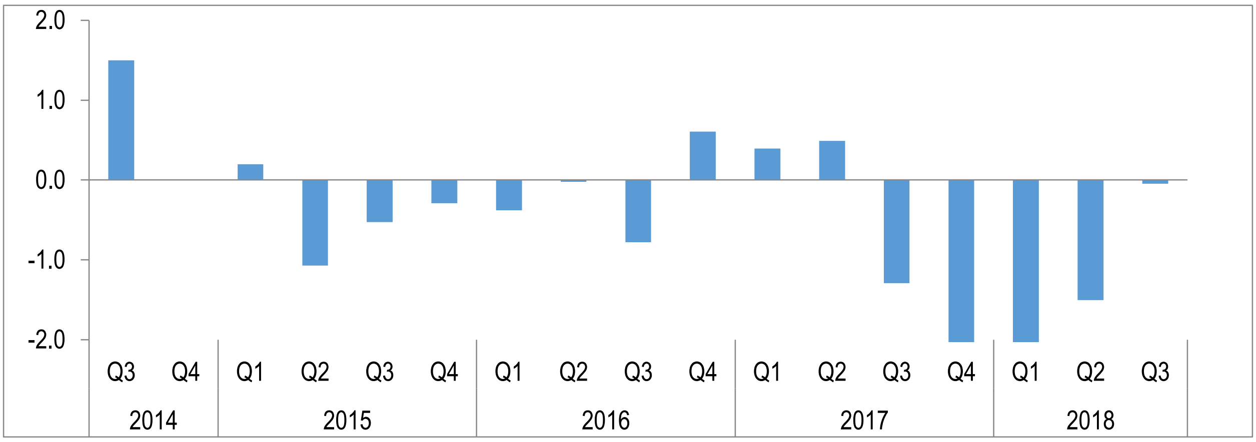
Table 2: Employment by LNDC-Assisted Companies (*persons employed*)

Industry	**2017**		**2018**			**% Change**	
	Q3	**Q4**	**Q1**	**Q2**	**Q3**	**Q/Q**	**Y/Y**
Knit Garments…………..	26541	27159	27723	26858	27436	2.2	3.4
Woven Garments…….	15736	15613	15924	16800	17515	4.3	11.3
Footwear…………………	1232	942	1005	1010	998	-1.2	-19.0
Fabrics, Yarn etc……….	1810	1972	2052	1840	1835	-0.3	1.4
Construction…………….	357	360	363	344	345	0.3	-3.4
Food & Beverages………..	711	736	781	708	724	2.3	1.8
Electronics………………..	955	959	943	920	942	2.4	-1.4
Retail………………………..	146	152	159	168	170	1.2	16.4
Hotel Accomm………..	630	481	526	526	515	-2.1	-18.3
Other……………………..	1248	1061	1097	1126	1063	-5.6	14.8
TOTAL……………………	**49366**	**49435**	**50573**	**50300**	**51543**	**2.5**	**4.4**

Source: Lesotho National Development Corporation

The number of government employees declined marginally by 0.1 per cent in the third quarter of 2018 relative to a decline of 1.5 per cent recorded in the previous quarter. The decline was mainly driven by the fall in the number of teachers employed, which was moderated by the increase of 2.5 per cent in the number of civil servants during the review period.

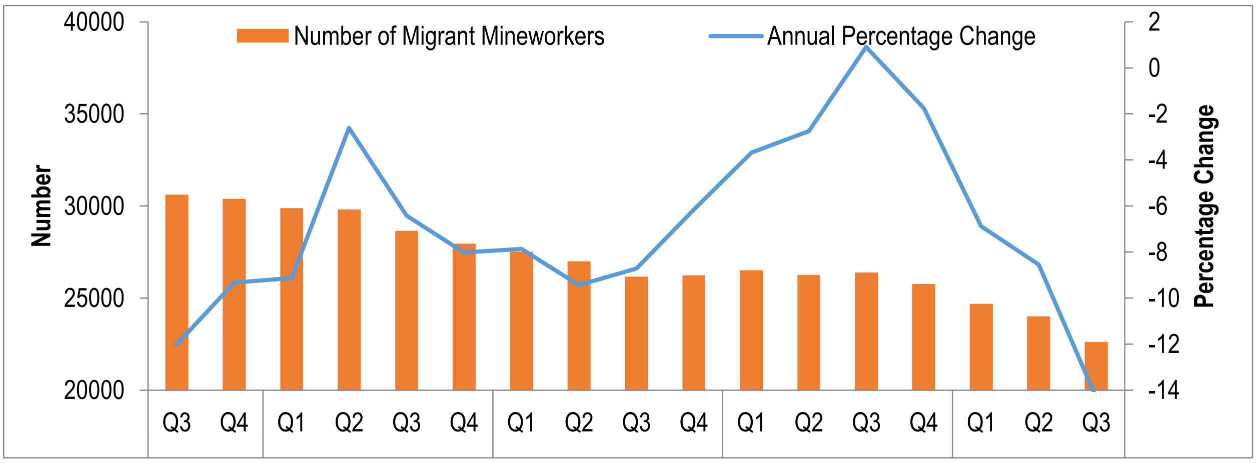
Figure 8: Government Employment *(Annual Percentage Change)*



Source: Ministry of Finance

The number of Basotho migrant mineworkers employed in South Africa declined by 14.5 per cent in the third quarter of 2018 following a decline of 14.2 per cent recorded in the previous quarter. The continued decline was mainly attributed to the decline in gold production in the third quarter of 2018 as gold prices continued to fall. Moreover, the aging infrastructure also contributed to the decline in South Africa mining production and, hence, employment.

Figure 99: Migrant Mineworkers *(Annual Percentage Changes)*



Source: The Employment Bureau of Africa (TEBA)

PRICE DEVELOPMENTS

Inflation rate, measured by the year-on-year change in Consumer Price Index (CPI), accelerated to 5.0 per cent in the third quarter of 2018 compared to 4.0 per cent recorded in the previous quarter. The main contributors were “Clothing & footwear”, “Housing, electricity gas & other fuels”, “Transport” and “Leisure, entertainment & Culture”. The acceleration in inflation rate during the review period was mainly attributed to the increase in energy prices, especially electricity and fuel prices as well as the depreciation in Loti-US dollar exchange rate.

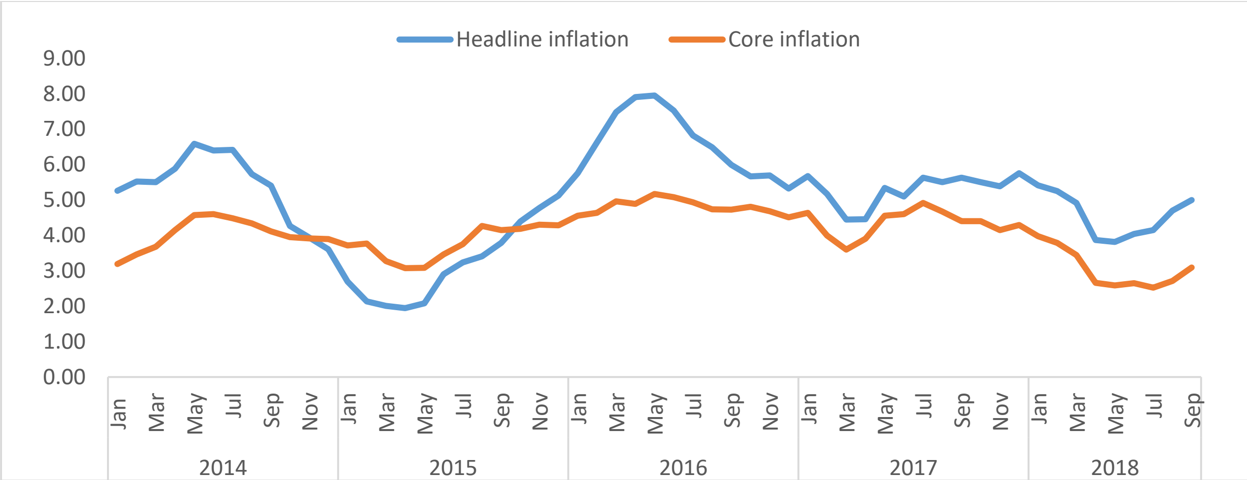
Table 3: Inflation Rate *(Annual Percentage Changes)*

		2017		2018		
	Weight	Sep	Dec	Mar	Jun	Sep
All items	**1000**	**5.6**	**5.7**	**4.8**	**4.0**	**5.0**
Food and non-alcoholic beverages	**361.13**	7.5	7.2	6.3	4.5	4.4
Alcoholic beverages & Tobacco	**33.31**	4.8	6.9	5.7	6.3	6.3
Clothing & footwear	**130.57**	2.0	1.6	1.5	1.7	2.3
Housing, electricity gas & other fuels	**123.97**	6.6	8.8	7.4	7.0	12.4
Furniture, households equipment & routine maintenance	**84.77**	6.1	5.6	5.0	3.4	3.3
Health	**15.04**	0.1	0.2	0.3	0.8	1.1
Transport	**48.21**	0.6	2.2	-0.2	4.1	10.6
Communication	**21.05**	0.0	0.0	-1.6	-0.8	0.0
Leisure, entertainment & Culture	**57.08**	6.3	6.1	5.4	4.0	4.4
Education	**42.00**	6.6	6.9	4.2	2.5	1.6
Restaurant & Hotels	**10.30**	1.7	1.7	2.3	2.4	2.0
Miscellaneous goods & services	**72.59**	4.7	1.2	4.7	3.0	2.7

Source: Bureau of Statistics

Core inflation, which excludes the CPI items with extreme price changes, also accelerated at an estimated rate of 3.1 per cent in the third quarter of 2018 from 2.7 per cent recorded in the preceding quarter.

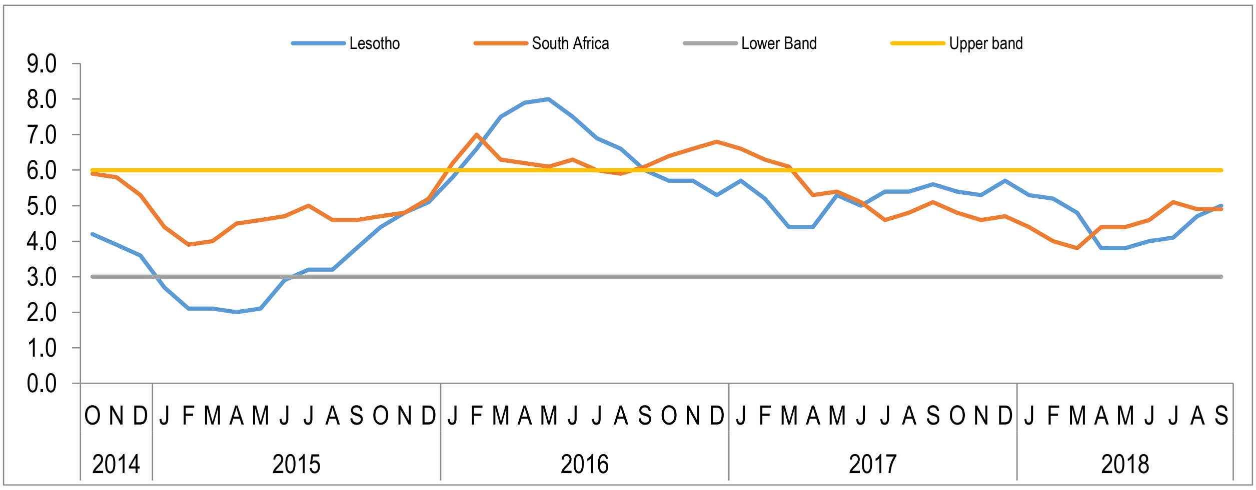
Figure 100: Headline and Core Inflation *(year-on-year changes)*



Source: Bureau of Statistics & CBL Computations

The inflation rates for Lesotho and South Africa, as measured by the year-on-year change in CPI, continued to move in tandem, albeit with some small variations. During the review period, Lesotho inflation rate was estimated at 5.0 per cent while that of South Africa was lower by a 0.1 percentage point, whereas in the previous quarter South Africa inflation recorded 4.6 per cent, a 0.6 percentage points higher than that of Lesotho.

Figure 111: Lesotho and South Africa's Inflation



Source: Bureau of Statistics, Statistics South Africa

4. Monetary and Financial Developments

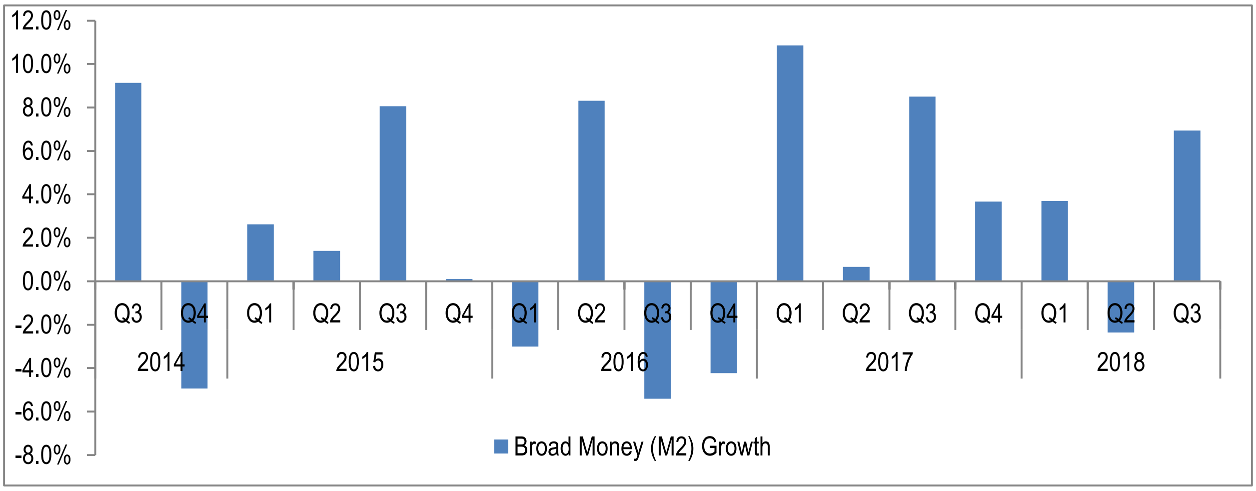
OVERVIEW

Money supply increased during the review quarter on account of growth in Net Foreign Assets (NFA) and domestic claims. The growth in NFA was at the back of increase in deposits mainly from private sector and other financial corporations, whereas the Central Bank's NFA moderated the developments. Private sector credit also improved during the quarter under review. Credit extended to business enterprises rose slightly owing to new loans that out-striped runoffs. Furthermore, credit to households continued to grow in both mortgages and personal loans.

BROAD MONEY (M2)

Money supply increased by 6.9 per cent during the third quarter of 2018, compared to a decline of 2.4 per cent registered in quarter ending June 2018. This was because of a growth in both the domestic claims and NFA.

Figure 122: Broad Money (M2)



Source: Central Bank of Lesotho

Determinants of M2

Domestic Credit

Domestic claims, including net claims on government, increased by 34.8 per cent during the review quarter, compared to a 6.0 per cent decline recorded in the previous quarter. This development was attributable to an increase in net claims on government, emanating from a drawdown in government deposits with Central Bank. Furthermore, claims on other sectors rose by 5.2 per cent stemming from more than 100 per cent increase in claims on other financial corporations and 2.7 per cent growth in private sector claims.

Table 3: Domestic Claims *(Million Maloti: End Period)*

	2017		2018			Changes (%)	
	Sept	Dec	Mar	June	Sept	Quarterly	Annual
Domestic Claims	**5177.01**	**5438.49**	**4775.06**	**4488.74**	**6048.96**	**34.8**	**16.8**
Net Claims on Government	**-874.64**	**-770.46**	**-1630.07**	**-2122.90**	**-906.35**	**57.3**	**3.6**
Commercial Banks Net Claims	**978.77**	**995.55**	**1103.58**	**1213.18**	**1283.37**	**5.8**	**31.1**
Claims on Central Government	988.78	1002.12	1109.37	1218.60	1288.88	**5.8**	**30.4**
Liabilities to Central Gov't	10.01	6.57	5.79	5.41	5.51	**1.8**	**-44.9**
Central Bank Net Claims	**-1853.42**	**-1766.02**	**-2733.65**	**-3336.09**	**-2189.72**	**34.4**	**18.1**
Claims on Central Government	904.74	842.18	817.81	753.63	1051.48	**39.5**	**16.2**
Liabilities to Central Gov't	2758.15	2608.19	3551.46	4089.72	3241.20	**-20.7**	**17.5**
Claims on Other Sectors	**6051.65**	**6208.96**	**6405.13**	**6611.65**	**6955.31**	**5.2**	**14.9**
Claims on OFCs	120.67	77.96	78.88	74.37	243.68	**227.7**	**101.9**
Claims on PNFCs	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	**5930.98**	**6131.00**	**6326.25**	**6537.27**	**6711.63**	**2.7**	**13.2**
Claims on Business Enterprises	1967.76	1983.19	1974.30	2090.01	2200.41	**5.3**	**11.8**
Claims on Households	3963.22	4147.81	4351.95	4447.26	4511.22	**1.4**	**13.8**

Source: Central Bank of Lesotho

Net Foreign Assets

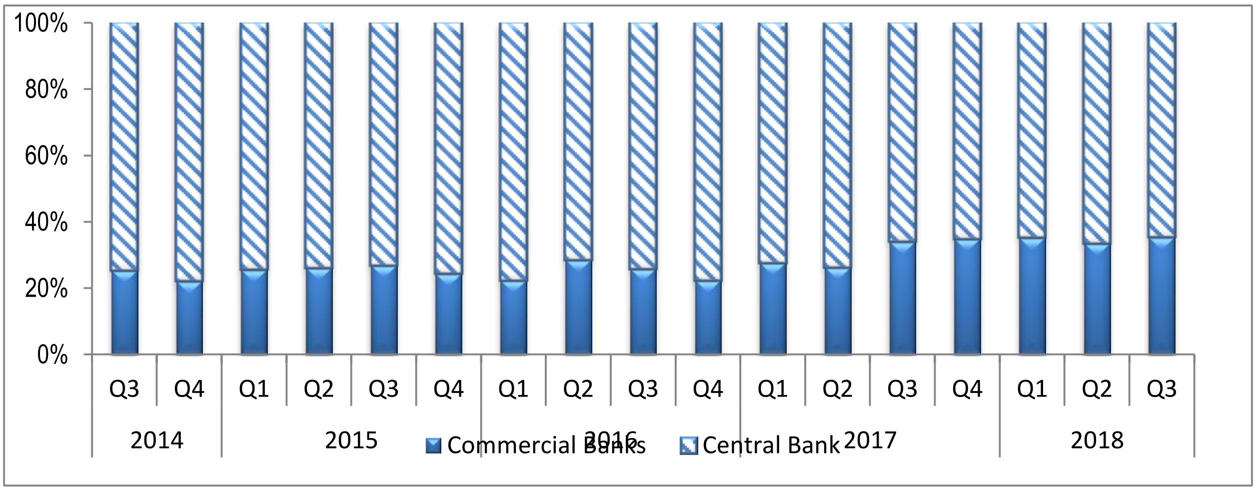
The overall banking system NFA recorded a moderate growth of 0.5 per cent during the quarter under review, from an increase of 5.5 per cent observed in the previous quarter. This was due to a 5.8 per cent increase in Commercial Banks' NFA, which were moderated by 2.2 per cent decline in Central Bank NFA. The growth of commercial banks NFA was reflective of excess liquidity with banks hence their appetite to increase their investments abroad. On the contrary the Central Bank's NFA declined on account of reduced Central Bank's liabilities to central government.

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

	2017	2018				Changes (%)	
	Sept	Dec	Mar	June	Sept	Quarterly	Annual
Commercial Banks	**4686.64**	**4523.72**	**4727.26**	**4742.55**	**5019.71**	**5.8**	**7.1**
Claims on Non-residents	5161.44	5010.79	5354.56	5160.19	5640.12	**9.3**	**9.3**
Liabilities to Non-residents	474.80	487.07	627.31	417.64	620.41	**48.6**	**30.7**
Central Bank	**9060.29**	**8435.22**	**8657.60**	**9372.74**	**9164.77**	**-2.2**	**1.2**
Claims on Non-residents	10668.29	9901.86	10097.99	10792.57	10615.36	**-1.6**	**-0.5**
Liabilities to Non-residents	1608.00	1466.64	1440.39	1419.82	1450.60	**2.2**	**-9.8**
Net Foreign Assets Total	**13746.93**	**12958.94**	**13384.86**	**14115.29**	**14184.48**	**0.5**	**3.2**

Source: Central Bank of Lesotho

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



Source: Central Bank of Lesotho

Components of M2

The major components of broad money (M2) are narrow money (M1) and quasi money. The broad measure of money supply increased by 6.9 per cent during the quarter under review, against the 2.4 per cent decline realised in the preceding quarter. This was underpinned by an increase of 6.9 per cent and 7.0 per cent in narrow money and quasi money respectively. The growth in demand deposits follows increased private sector deposits with banks, coupled with payment of government suppliers through banks. On the contrary, the growth in quasi money was mainly due to an increase in private sector deposits.

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

	2017		2018			Changes (%)	
	Sept	Dec	Mar	June	Sept	Quarterly	Annual
Broad Money (M2)	**11678.02**	**12105.97**	**12553.70**	**12257.62**	**13108.85**	**6.9**	**12.3**
Narrow Money (M1)	**6179.57**	**6160.77**	**6457.05**	**6147.10**	**6571.74**	**6.9**	**6.3**
Currency Outside DCs	1089.67	1111.09	1053.77	1016.00	1031.97	**1.6**	**-5.3**
Transferable Deposits	5089.90	5049.68	5403.28	5131.10	5539.78	**8.0**	**8.8**
Quasi Money	**5498.45**	**5945.20**	**6096.65**	**6110.52**	**6537.11**	**7.0**	**18.9**
Other Deposits Commercial Banks	5458.60	5906.33	6058.22	6066.92	6501.81	**7.2**	**19.1**
Other Deposits Central Bank	39.86	38.87	38.43	43.60	35.30	**-19.0**	**-11.4**

Source: Central Bank of Lesotho

CREDIT EXTENSION

Trends of credit extended to Business Enterprises

During the review quarter, credit extended to business enterprises recorded a growth of 5.3 per cent compared to a 5.9 per cent increase during the previous quarter. In particular, this growth was underpinned mostly by significant growth in credit extended to agriculture, mining, construction, and wholesale, retail, hotel and restaurant.

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

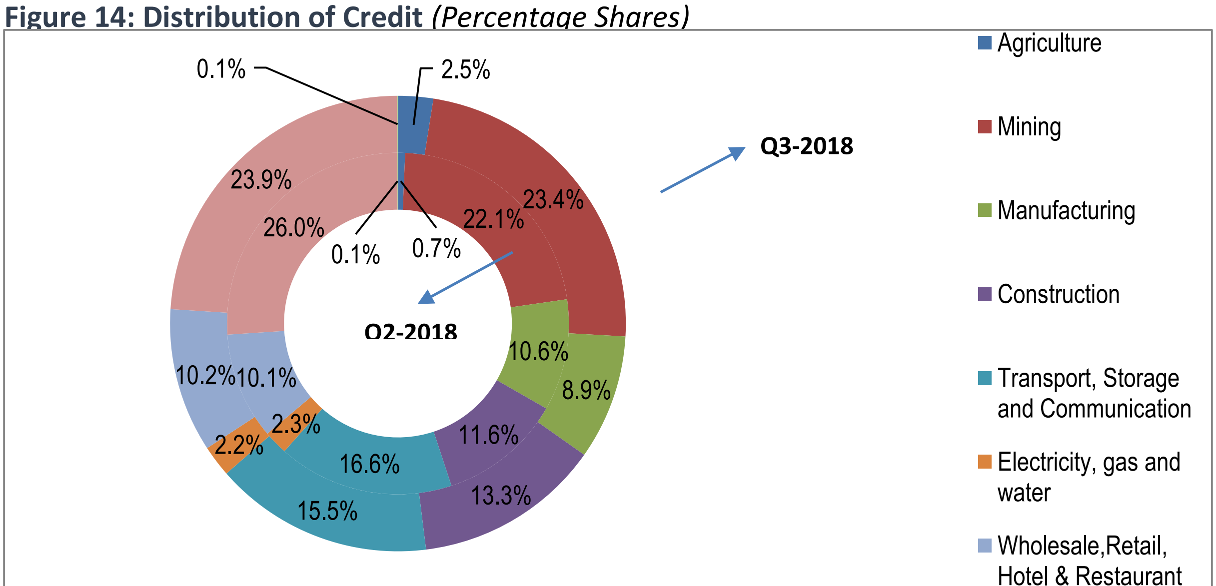
	2018					Changes (%)	
SECTOR	**Sept**	**Dec**	**Mar**	**Jun**	**Sep**	**Quarterly**	**Annual**
Agriculture	26.91	16.98	18.10	14.15	54.87	**287.8**	**103.9**
Mining	302.99	284.14	401.39	460.86	515.12	**11.8**	**70.0**
Manufacturing	264.97	252.10	224.31	220.58	195.17	**-11.5**	**-26.3**
Electricity, gas and water	39.15	41.15	40.56	47.69	49.09	**2.9**	**25.4**
Construction	271.42	283.98	253.17	243.47	291.69	**19.8**	**7.5**
Wholesale, Retail, Hotel & Restaurant	174.30	167.13	197.55	211.44	224.83	**6.3**	**29.0**
Transport, Storage and Communication	311.20	370.89	330.34	347.69	341.76	**-1.7**	**9.8**
NBFIs, Real Estate and Business Services	545.45	522.95	505.80	542.77	526.33	**-3.0**	**-3.5**
Community, Social & Personal Service	31.38	43.87	3.08	1.35	1.55	**14.8**	**-95.0**
All Sectors	**1967.76**	**1983.19**	**1974.30**	**2090.01**	**2200.41**	**5.3%**	**11.8%**

Source: Central Bank of Lesotho

Distribution of credit Extended to Business Enterprises

With regard to distribution of credit extended to business enterprises, real estate, mining and transport, storage & communication accounted for the largest shares of 23.9 per cent, 23.4 per cent and 15.5 per cent, respectively. Agriculture recorded a significant growth despite being amongst the sectors that continue to have smallest shares of total credit extended to business enterprises. This was due to expansion in Agricultural space that has incorporated the use of Cannabis for medical purposes.

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

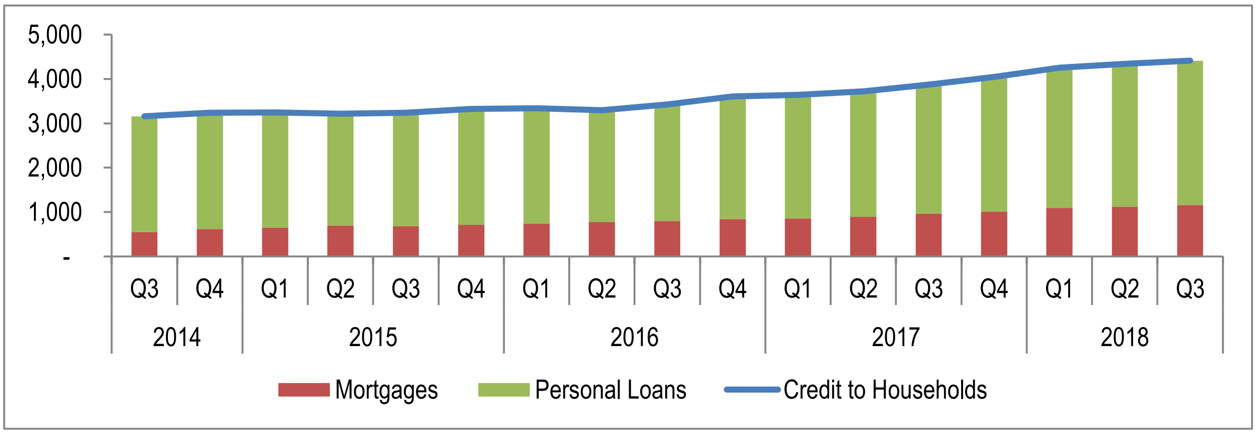


Source: Central Bank of Lesotho

Credit extended to Households

During the quarter under review, credit to households registered a slower growth rate of 1.7 per cent from an increase of 2.1 per cent for the quarter ending June 2018. This followed a growth of 3.3 per cent in mortgages while personal loans rose by 1.1 per cent. Growth in mortgages was supported by banks efforts to promote mortgage loans through various strategies while muted increase in personal loans was as a result of minimal personal disbursements that were moderated by repayments.

Figure 14: Credit Extension to Household *(Million Maloti)*



Source: Central Bank of Lesotho

LIQUIDITY OF COMMERCIAL BANKS

Components of liquidity

During the period under review, the ratio of credit to deposits declined to 55.0 per cent, from 57.6 per cent observed in the second quarter of 2018. The decline was due to an increase in total deposits that overshadowed the growth of private sector credit. Similarly, the liquidity ratio in the review quarter declined to 75.2 per cent from 82.1 per cent registered in the preceding quarter, and was mainly on account of an increase in balances due from banks in South Africa.

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

	2017		2018		
	Sept	Dec	Mar	Jun	Sep
Credit to Deposit Ratio	**55.4%**	**55.2%**	**54.4%**	**57.6%**	**55.0%**
Private Sector Credit	5847.28	6045.47	6238.43	6446.75	6627.01
Total Deposits	10548.49	10956.02	11461.50	11198.02	12041.59
Liquidity Ratio	**79.7%**	**74.3%**	**73.0%**	**82.1%**	**75.2%**
Notes and Coins	390.48	740.98	463.42	414.58	392.83
Balance due from banks in Lesotho	2158.94	2157.63	2195.94	2924.23	2387.61
Balance due from banks in SA	4763.20	4198.18	4347.05	4557.63	5063.14
Surplus funds	106.36	41.02	255.97	83.42	-80.99
Government Securities	988.78	1002.12	1109.37	1218.60	1288.88
Total	**8407.76**	**8139.94**	**8371.74**	**9198.45**	**9051.47**

Source: Central Bank of Lesotho

Commercial Banks Sources of Funds

The commercial banks' total deposits, which are the main source of funds for the banks, registered an increase of 7.5 per cent in the third quarter of 2018. This was mostly at the back of an increase in transferable deposits held by Other Financial Corporations as well as Private Sector of 15.2 per cent and 9.1 per cent, respectively. Other deposits included in broad money also registered an increase of 7.2 per cent, and was attributable to private sector and other financial corporations.

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

	2018					Changes (%)	
	Sept	Dec	Mar	June	Sept	Quarterly	Annual
Transferable Deposits Incl. in BM	**5089.90**	**5049.68**	**5403.28**	**5131.10**	**5539.78**	**8.0**	**8.8**
Other Financial Corporations	33.75	36.54	38.26	29.31	33.77	**15.2**	**0.1**
Public Nonfinancial Corporations	130.83	98.33	138.74	107.26	56.14	**-47.7**	**-57.1**
Private Sector	4907.35	4897.13	5208.60	4976.84	5432.17	**9.1**	**10.7**
Other NFCs	3432.40	3480.92	3759.94	3395.51	3887.48	**14.5**	**13.3**
Other Sectors (Households)	1474.96	1416.21	1448.66	1581.33	1544.69	**-2.3**	**4.7**
Other Deposits Incl. in BM	**5458.60**	**5906.33**	**6058.22**	**6066.92**	**6501.81**	**7.2**	**19.1**
Other Financial Corporations	61.78	71.79	54.98	51.63	84.55	**63.8**	**36.9**
Public Nonfinancial Corporations	406.23	345.11	404.16	265.01	275.03	**3.8**	**-32.3**
Private Sector	4990.59	5489.43	5599.08	5750.28	6142.23	**6.8**	**23.1**
Other NFCs	3200.15	3673.15	3664.03	3821.80	4203.28	**10.0**	**31.3**
Other Sectors (Households)	1790.43	1816.29	1935.05	1928.47	1938.95	**0.5**	**8.3**
Total Deposits	**10548.49**	**10956.02**	**11461.50**	**11198.02**	**12041.59**	**7.5%**	**14.2%**

Source: Central Bank of Lesotho

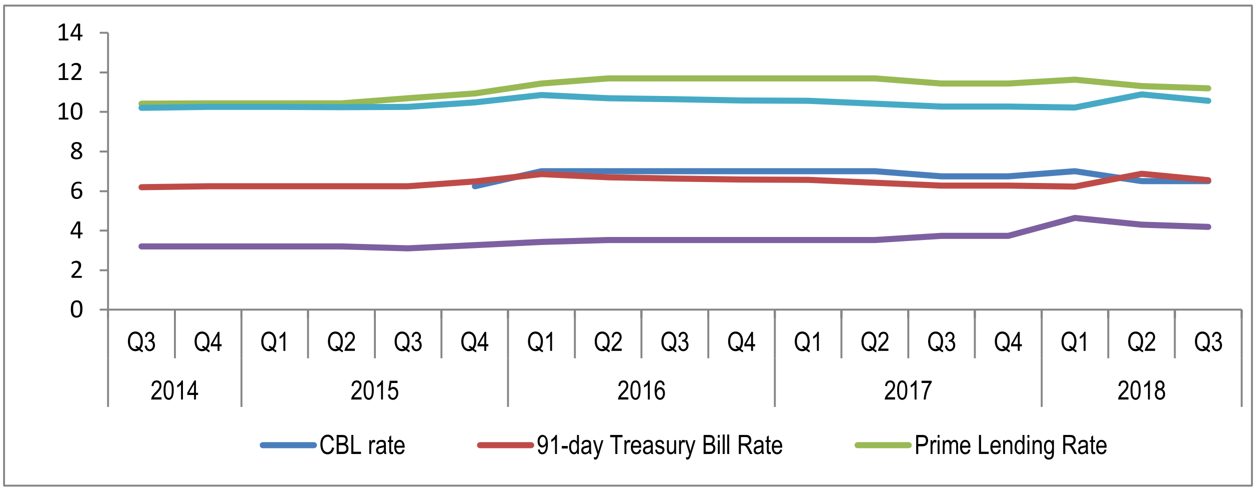
MONEY AND CAPITAL MARKET DEVELOPMENTS

Money Market

Interest Rates

During the review quarter, the Central Bank Policy Rate remained unchanged at 6.50 per cent. Conversely, other money market rates declined, with 91-day Treasury bill rate, Prime lending rate, and 1-year deposit rate recording a fall of 32 basis point, 12 basis points and 11 basis points respectively.

Figure 15: Short Term Interest Rates *(Per Cent per Annum)*



Source: Central Bank of Lesotho

Table 9: Interest rates

	2017		2018		
	Sept	**Dec**	**Mar**	**June**	**Sept**
Central Bank					
CBL rate	6.75	6.75	7.00	6.50	6.50
T-Bill Rate - 91 days	6.27	6.27	6.22	6.88	6.56
Lombard Rate	10.27	10.27	10.22	10.88	10.56
Commercial Banks					
Call	1.06	1.06	1.31	1.36	1.12
Time:					
31 days	0.36	0.36	0.70	0.40	0.35
88 days	1.31	1.31	1.63	1.40	1.33
6 months	2.45	2.45	2.55	2.67	2.54
1 year	3.73	3.73	4.65	4.30	4.19
Savings	0.76	0.76	0.73	0.73	0.70
Prime	11.5	11.44	11.63	11.31	11.19
South Africa					
Repo	6.75	6.75	6.50	6.50	6.50
T-Bill Rate - 91 days	7.07	7.6	6.87	7.07	7.14
Marginal Lending Rate					
Prime	10.25	10.25	10.00	10.00	10.00

Source: Central Bank of Lesotho

Holding of Treasury Bills and T-Bill Rates

The total treasury bills holding declined by 1.5 per cent to M852.54 million during the review period. The decrease in total Treasury bill holding was driven by the non-banking sector, whose holdings declined by M23.02 million in September 2018 following a decline of M25.38 million in

June 2018. The banking sector Treasury bills holdings on the other hand increased by 1.7 per cent to M592.33 million in September 2018.

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

	2017			2018	
	Sep	Dec	Mar	Jun	Sep
Treasury Bills	**656.29**	**724.70**	**874.71**	**865.67**	**852.54**
Banking System	408.81	477.88	566.10	582.44	592.33
Non-Bank Sector	247.48	246.82	308.61	283.23	260.208
Memorandum Item					
Yield Bills (91-days)	6.37	6.37	6.22	6.88	6.67

Source: Central Bank of Lesotho

Holding of Treasury Bonds

The holdings of Treasury bonds increased by 8.4 per cent in September 2018 compared to an increase of 14.4 per cent realised in June 2018. This was on account of bond auctions held in September 2018 to support government operations. Both the banking and non-banking sector contributed to the rise in Treasury bond holdings, with increases of 10.9 per cent and 5.7 per cent respectively.

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

				2018	
	Sep	Dec	Mar	Jun	Sep
Holding of Treasury Bonds	**900.95**	**957.84**	**1096.50**	**1254.74**	**1359.53**
Banking System	514.34	525.89	525.65	646.147	716.234
Non-Bank Sector	386.61	431.96	570.85	608.588	643.297

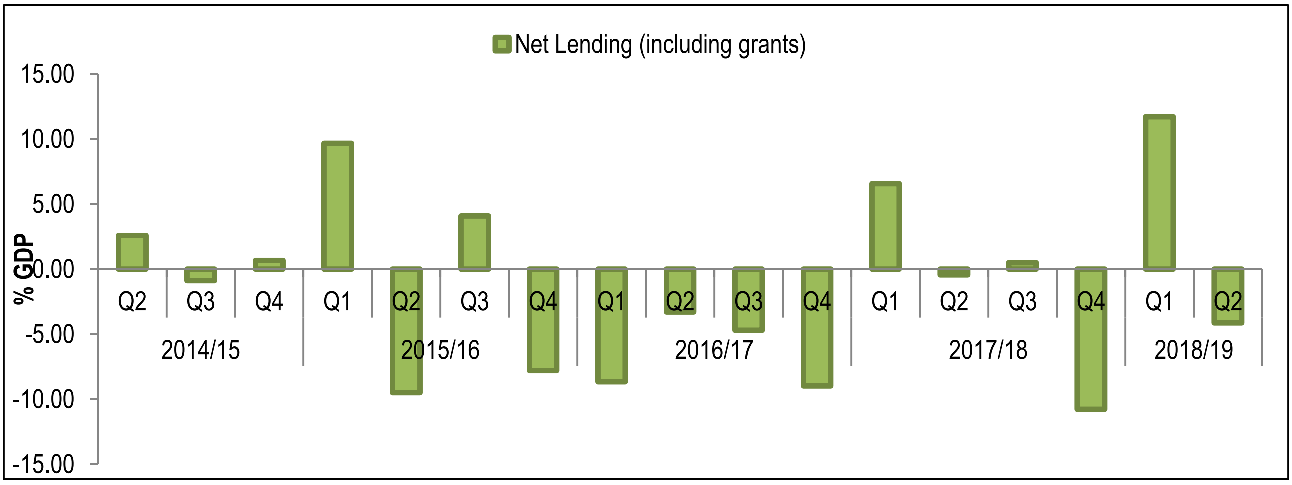
Source: Central Bank of Lesotho

5. Government Finance

OVERVIEW

The Government budgetary operations were estimated to have registered fiscal deficit equivalent to 4.1 per cent of GDP during the second fiscal quarter of 2018/19. This compares with the revised surplus of 11.7 per cent of GDP in the previous quarter. This fiscal deficit was financed by drawdown of deposits with the banking sector, coupled with issuance of new debt. The stock of public debt rose to 39.1 per cent of GDP during the period under review, compared with 33.4 per cent of GDP recorded in the previous quarter. The rise is equivalent to 16.8 per cent increase, mainly driven by a significant Loti depreciation against major currencies in which external public debt was denominated, and an increase in domestic debt. .

Figure 16: Fiscal Balance *(Per cent of GDP)*



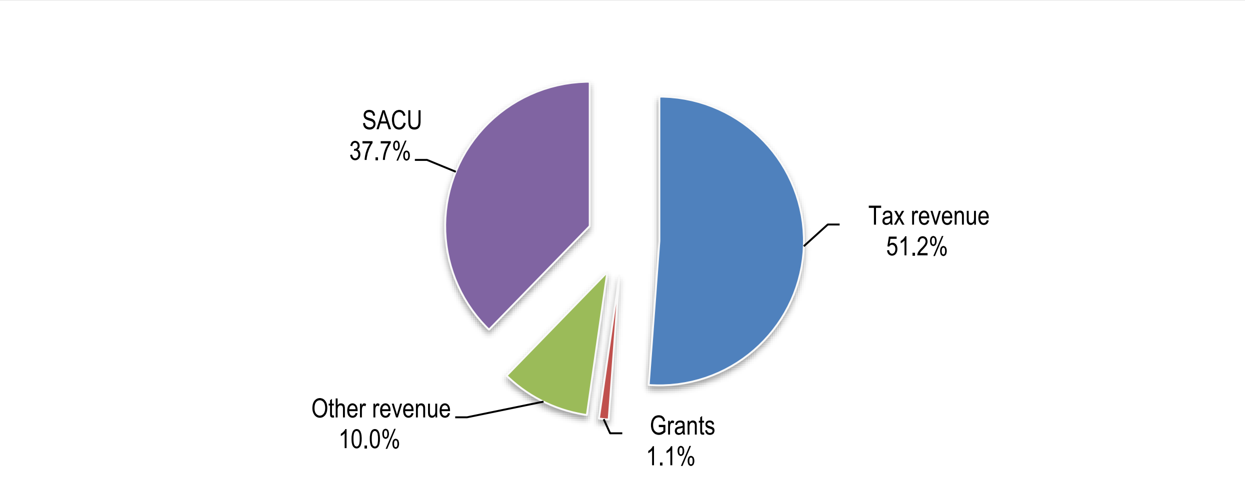
Source: Central Bank of Lesotho (CBL) and Ministry of Finance (MOF)

REVENUE

The total revenue decreased by 26.0 per cent during the quarter ending in September 2018, against the revised rise of 27.3 per cent recorded in the previous quarter. This decline emanated from a sharp fall on grants, 'rent on naturally occurring assets'[2], excise tax, and dividends. Nonetheless, the domestic tax revenue in general has performed better, largely explained by income tax, excise tax, and 'LHDA Water Royalties'. Moreover, the year-on-year changes registered a marginal rise of 0.1 per cent in the quarter under review compared with the revised 43.7 per cent in the previous quarter.

[2] The 'rent on naturally occurring assets' comprises royalties, surface rent and ground rent, and all of which contracted.

Figure 17: Total Revenue *(Million Maloti)*

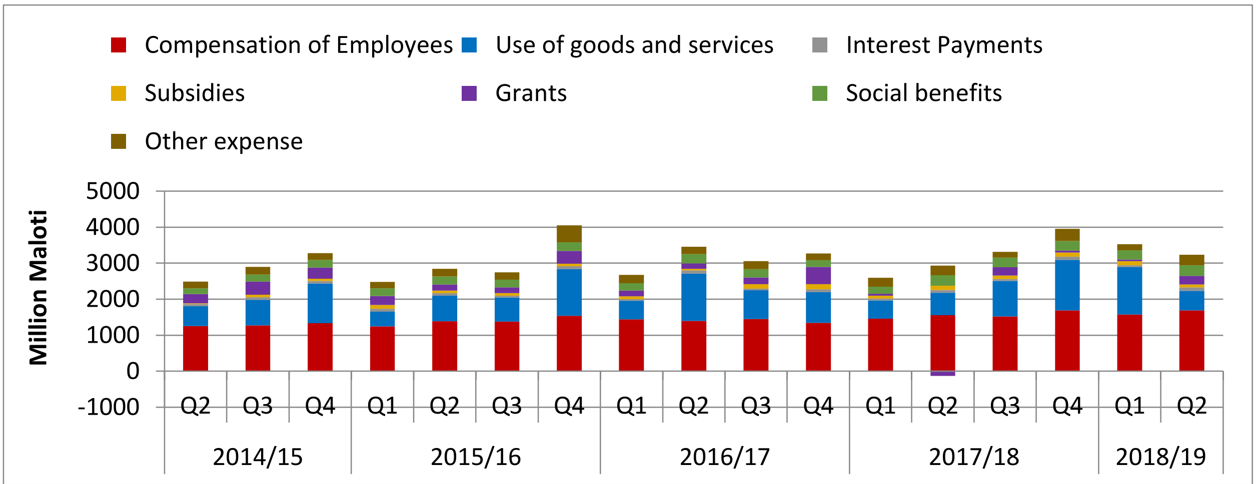


Source: CBL and MOF

TOTAL EXPENDITURE

The total Government spending increased by 7.1 per cent in the quarter ending in September 2018 relative to a fall of 20.3 per cent in the previous quarter. This increase was mainly driven by expansion of non-financial assets as more of development projects gained traction. However, expenses declined as a result of a 58.7 per cent fall in the 'use of goods and services' and a 37.4 per cent fall in 'subsidies', while all other components of expenses increased. In terms of year-on-year changes, the total expenditure increased by 10.0 per cent during the quarter under review compared with 30.5 per cent in the fiscal quarter ending in June 2018.

Figure 18: Total Expense *(Million Maloti)*



Source: CBL and MOF

Table 12: Statement of Sources and Uses of Cash *(Million Maloti)*

		2017-18			2018-19		Y-on-Y (%)	GDP ratio (%)
		Q2	Q3	Q4	Q1	Q2		
1	**Total Revenue**	**3670.29**	**3990.95**	**3900.79**	**4964.08**	**3672.16**	**0.1**	**37.2**
11	Tax revenue	1604.60	1988.90	1941.18	1820.25	1879.25	**17.1**	19.0
	O/W Income Tax	868.01	1080.43	843.64	1012.67	1059.69	22.1	10.7
	O/W Value Added Tax	540.98	721.72	628.45	720.07	720.41	33.2	7.3
13	Grants	78.06	92.26	45.73	1156.19	39.76	-49.1	0.4
14	Other revenue	449.08	371.23	375.33	602.09	367.60	-18.1	3.7
	SACU receipts	1538.55	1538.55	1538.55	1385.56	1385.56	-9.9	14.0
2	**Total Expense**	**2805.88**	**3313.79**	**3950.18**	**3524.45**	**3230.39**	15.1	**32.7**
21	Compensation of Employees	1559.32	1520.63	1691.48	1571.13	1688.50	8.3	17.1
22	Use of goods and services	618.59	981.17	1400.48	1315.93	543.34	-12.2	5.5
	O/W Purchase of Health Services	242.57	146.06	305.73	571.71	49.16	-79.7	0.5
24	Interest Payments	79.55	61.31	85.39	52.53	97.51	22.6	1.0
25	Subsidies	117.73	94.86	116.32	118.25	73.99	-37.1	0.7
26	Grants	-128.28	229.88	56.97	43.37	240.16	-287.2	2.4
27	Social benefits	292.22	261.72	267.86	254.74	294.42	0.8	3.0
28	Other expense	266.75	164.20	331.68	168.50	292.46	9.6	3.0
	Net Operating Balance	**864.41**	**677.16**	**-49.39**	**1439.63**	**441.77**	**-**	**4.5**
31	**Total Nonfinancial Assets**	**902.10**	**633.09**	**828.47**	**284.36**	**848.82**	**-5.9**	**8.6**
311	Fixed Assets	902.10	633.09	828.47	284.36	848.82	-5.9	8.6
314	Non-Produced Assets	0.00	0.00	0.00	0.00	0.00	0.0	0.0
	Net lending (+)/borrowing(-)	**-37.69**	**44.07**	**-877.86**	**1155.27**	**-407.05**	**-**	**-4.1**
	Financing	**702.61**	**178.93**	**67.55**	**-425.97**	**1655.89**	**-**	**16.8**
32	Net Acquisition of Financial assets	402.93	155.39	-962.15	-468.85	825.93	-	8.4
	O/W Domestic Currency and Deposits	408.51	153.39	-942.48	-537.88	848.42	-	8.6
33	Net Incurrence of Liabilities	299.68	23.54	1029.70	42.88	829.96	-	8.4
	O/W Domestic Other Accounts Payable			757.49	-186.41	-0.27	-	0.0
	Statistical Discrepancy	664.91	223.00	-810.31	729.29	1248.84	-	12.7

Blue colour = missing data

Source: CBL and MOF

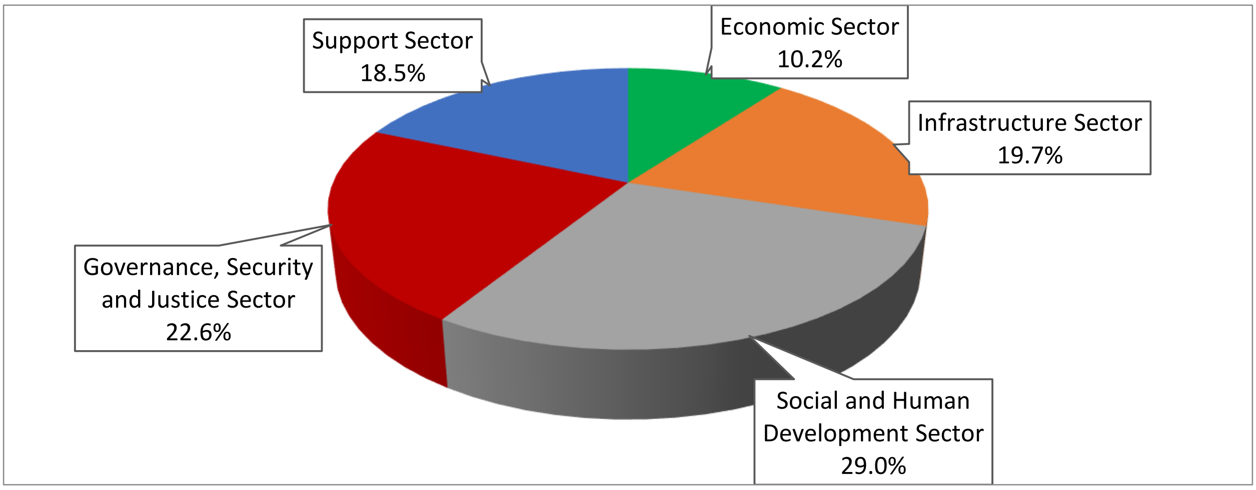
SECTORAL OUTLAYS BY FUNCTIONS OF GOVERNMENT[3]

The recurrent expenditure accounted for 88.0 per cent total spending, leaving 12.0 to capital spending. The 'social and human development sector' took the largest proportion of 29.0 per cent, while the 'economic sector' received the lowest 10.2 per cent of the total outlays. The recurrent outlays declined by 8.7 per cent during the quarter ending in September 2018 following a fall of 9.3 per cent in the previous quarter. The year-on-year basis recorded a rise of 0.1 per cent in the quarter under review and 28.1 per cent in the previous quarter. The capital outlays increased by more than 100.0 per cent, largely as a result of expansion under economic

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

and infrastructure sectors. The leading subsectors included ‘local government and chieftainship’, ‘energy and meteorology’, ‘public works and transport’, and ‘trade’.

Figure 20: Total Outlays by Functions of Government *(Million Maloti)*



Source: MOF

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

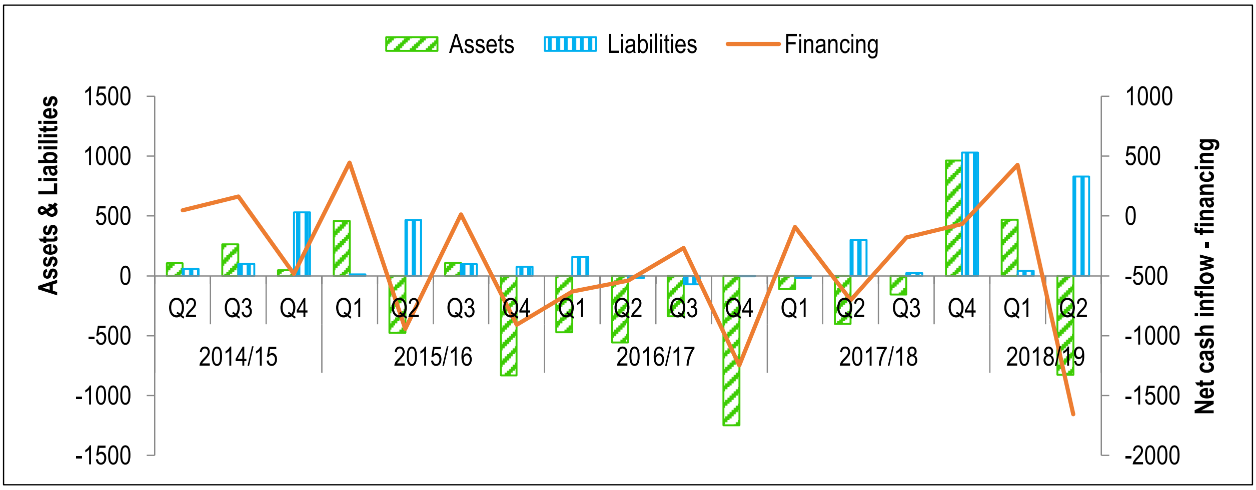
	2017/18			2018/19		Y-on-Y (%)	GDP ratio (%)
	Q2	Q3	Q4	Q1	Q2		
Recurrent Outlays	**2530.83**	**2456.48**	**3059.45**	**2775.63**	**2533.03**	**0.1**	**25.7**
Economic Sector	154.14	146.89	183.46	221.50	221.90	44.0	2.2
Infrastructure Sector	222.55	163.07	229.77	196.98	175.13	-21.3	1.8
Social and Human Development Sector	1067.95	1089.68	1318.28	1409.44	949.61	-11.1	9.6
Governance, Security and Justice Sector	704.37	630.23	623.14	505.65	625.39	-11.2	6.3
Support Sector	381.84	426.61	704.80	442.05	560.98	46.9	5.7
Capital Outlays	**890.01**	**628.85**	**779.28**	**278.09**	**848.11**	**-4.7**	**8.6**
Economic Sector	96.61	175.19	285.24	11.23	121.83	26.1	1.2
Infrastructure Sector	682.60	348.63	146.70	180.57	491.37	-28.0	5.0
Social and Human Development Sector	33.98	17.04	71.70	11.18	31.76	-6.5	0.3
Governance, Security and Justice Sector	49.42	41.12	196.72	58.24	139.77	182.8	1.4
Support Sector	27.39	46.87	78.93	16.87	63.38	131.4	0.6
Total Outlays	**3420.84**	**3085.33**	**3838.73**	**3053.72**	**3381.14**	**-1.2**	**34.3**
Economic Sector	250.74	322.08	468.70	232.73	343.74	37.1	3.5
Infrastructure Sector	905.15	511.70	376.47	377.56	666.50	-26.4	6.8
Social and Human Development Sector	1101.93	1106.72	1389.97	1420.62	981.37	-10.9	9.9
Governance, Security and Justice Sector	753.79	671.34	819.86	563.89	765.16	1.5	7.8
Support Sector	409.23	473.48	783.72	458.92	624.36	52.6	6.3

Source: MOF

FINANCIAL ASSETS AND LIABILITIES

The financing of fiscal operations recorded a balance of M946.28 million during the fiscal quarter ending in September, 2018. This huge figure was financed by a drawdown on Government deposits to the tune of M825.93 million, coupled with an increase in net incurrence of liabilities amounting to M120.34 million. The new debt on external loans fell by 14.9 per cent.

Figure 19: Net Cash Inflow from Financing Activities *(Million Maloti)*

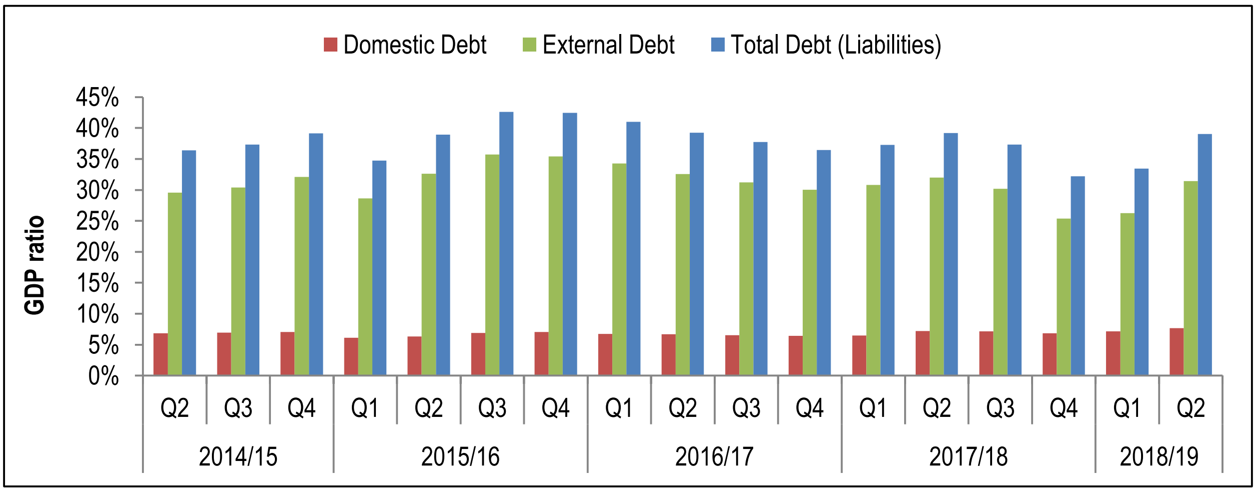


Source: CBL and MOF

TOTAL PUBLIC DEBT

The public debt stock increased by 16.8 per cent in the quarter ending in September 2018 following 3.8 per cent observed in the quarter ending in June 2018. External debt increased by 19.5 per cent, thereby constituting 80.4 per cent of total outstanding debt. The rise in external debt was observed in all, but non-concessional components. Domestic debt also increased by 6.9 per cent following a rise of 4.6 per cent recorded in the previous quarter. The rise in domestic component was a result of treasury bonds issued to finance fiscal operations. Consequently, this resulted in the increase in holding of Government securities by both the banks and non-banks private sector.

Figure 20: Outstanding Public Debt *(Million Maloti)*



Source: CBL and MOF

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

	2017-18			2018-19		Q-to-Q (%)	Debt/GDP (%)
	Q2	Q3	Q4	Q1	Q2		
Total Public Debt	**13,280.10**	**12,650.87**	**12,718.20**	**13,198.95**	**15,420.88**	**16.8**	**39.1**
EXTERNAL DEBT	**10,845.54**	**10,224.63**	**10,016.36**	**10,373.71**	**12,400.12**	**19.5**	**31.4**
Bilateral Loans	921.16	864.91	828.71	878.69	951.49	8.3	2.4
Concessional	921.16	864.91	828.71	878.69	951.49	8.3	2.4
Non-concessional	0.00	0.00	0.00	0.00	0.00		0.0
Multilateral Loans	9,172.57	8,678.89	8,536.65	8,822.04	10,733.73	21.7	27.2
Concessional	7,531.12	7,053.90	6,920.95	7,206.46	9,135.01	26.8	23.1
Non-concessional	1,641.45	1,624.99	1,615.69	1,615.59	1,598.72	-1.0	4.0
Financial Institutions	0.54	0.54	0.34	0.34	0.23	-32.7	0.0
Concessional	0.00	0.00	0.00	0.00	0.00		0.0
Non-concessional	0.54	0.54	0.34	0.34	0.23	-32.7	0.0
Suppliers' Credit	751.28	680.29	650.67	672.64	714.68	6.3	1.8
DOMESTIC DEBT	**2,434.56**	**2,426.25**	**2,701.84**	**2,825.24**	**3,020.76**	**6.9**	**7.7**
Banks	1,800.46	1,747.47	1,822.39	1,933.50	2,117.26	9.5	5.4
Long-term	1,391.28	1,269.59	1,256.29	1,351.07	1,524.93	12.9	3.9
Treasury bonds	515.28	525.89	526.59	647.09	717.48	10.9	1.8
Central Bank (IMF-ECF)	876.00	743.70	729.70	703.98	807.45	14.7	2.0
Short-term (t-bills)	409.19	477.88	566.10	582.44	592.33	1.7	1.5
Non-bank	634.09	678.78	879.46	891.73	903.50	1.3	2.3
Short-term (t-bills)	247.48	246.82	308.61	283.23	260.21	-8.1	0.7
Long-term (t-bonds)	386.61	431.96	570.85	608.51	643.30	5.7	1.6
DEBT INDICATORS	**-**	**-**	**-**	**-**	**-**	**-**	**-**
External Debt-to-Total Debt	81.7	80.8	78.8	78.6	80.4	-	-
Domestic Debt-to-Total Debt	18.3	19.2	21.2	21.4	19.6	-	-
Concessional Debt-to-External Debt	77.9	77.4	77.4	77.9	81.3	-	-
External Debt Service-to-GDP	2.2	1.7	2.2	1.1	2.2	-	-
External Debt Service-to-Revenue	5.0	3.9	4.6	2.1	5.8	-	-
External Debt Service-to-Exports	4.7	4.2	4.4	2.5	5.1	-	-

6. Foreign Trade and Payments

OVERVIEW

The external sector position continued to register a surplus during the quarter ending in September 2018. This was the third consecutive surplus recorded since the beginning of 2018. The surplus in the overall balance of payments was 5.7 per cent of GDP during the review quarter following a surplus equivalent to 7.0 per cent of GDP in the second quarter of 2018. The surplus was mainly driven by the improvement in the financial account balance. The financial account balance benefitted from the increase in commercial banks foreign assets held abroad, which rose significantly during the quarter under review. In addition, the capital account inflows rose during the review quarter and thus supported the surplus in the overall balance.

CURRENT ACCOUNT

The current account deficit amounted to M348.82 million, a slight decline from M354.70 million recorded in the previous quarter. However, as a share of GDP, the deficit remained stable at 4.4 per cent of GDP between the second and the third quarter of 2018. The observed performance reflected both the positive and the negative influences emanating from the components of the current account balance. In particular, the goods and services account deficit narrowed compared to the previous quarter whereas the primary and secondary income account surplus fell during the same quarter. The narrowing deficit on the goods and services account was reflective of the significant reduction in imports of goods and services, despite the slight decline in the exports of goods and services during the review quarter. The surpluses in the primary and secondary income accounts, which normally cushions the deficit in trade account balance deteriorated and thus led to the weakening of the current account balance.

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

	2017			2018			% Changes	
	Q2	Q3	Q4	Q1	Q2*	Q3+	Q/Q	Y/Y
Current Account	**-665.39**	**-398.96**	**-583.15**	**-30.59**	**-354.70**	**-348.82**	**-1.7**	**-12.6**
(a) Goods	-2861.63	-2375.50	-2774.27	-2329.05	-2276.71	-2266.10	**-0.5**	**-4.6**
Merchandise exports, f.o.b.	3335.20	3813.34	3599.71	3959.66	4179.10	4041.25	**-3.3**	**6.0**
Of which diamonds	1176.54	1199.54	1431.08	1640.73	1424.61	1302.81	**-8.5**	**8.6**
Of which textiles & clothing	1469.87	1875.43	1483.59	1644.45	1856.15	1829.00	**-1.5**	**-2.5**
Of which re-exports	13.41	50.87	59.48	51.33	28.52	18.26	**-36.0**	**-64.1**
Other exports	675.38	687.50	625.56	623.15	869.82	891.18	**2.5**	**29.6**
Merchandise imports, f.o.b.	6196.83	6188.84	6373.98	6288.71	6455.81	6307.35	**-2.3**	**1.9**
(b) Services	**-1003.38**	**-1027.44**	**-1075.46**	**-1167.64**	**-1174.72**	**-1079.20**	**-8.1**	**5.0**
(c) Primary Income	**1148.60**	**1004.72**	**1236.51**	**1165.30**	**1198.74**	**1129.68**	**-5.8**	**12.4**
(d) Secondary Income	**2051.02**	**1999.26**	**2030.08**	**2300.81**	**1898.00**	**1866.80**	**-1.6**	**-6.6**
+ Preliminary								
*** Revised**								

Source: Central Bank of Lesotho

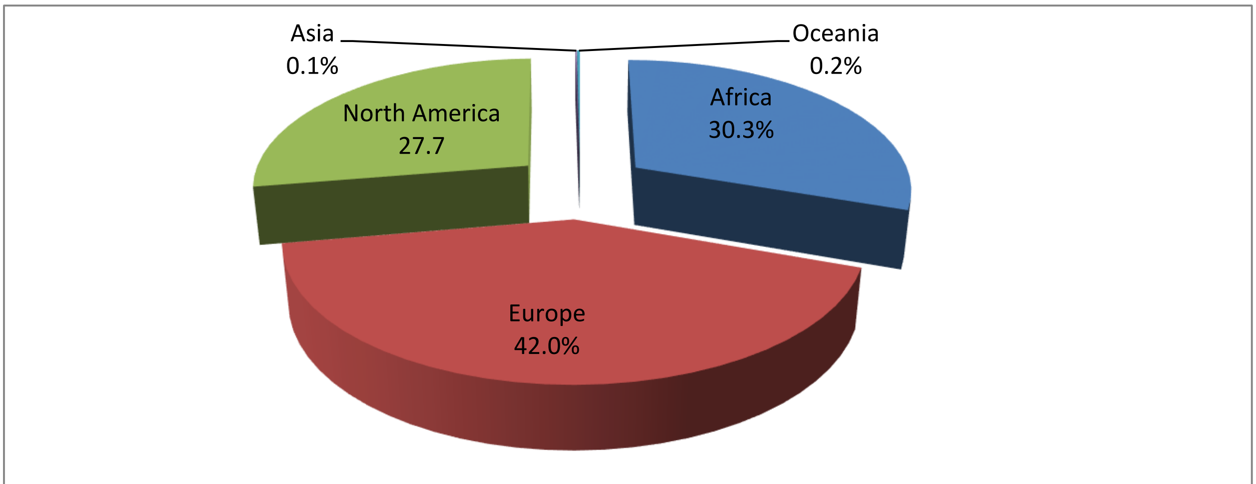
Merchandise Exports

During the third quarter of 2018, merchandise exports dropped by 3.3 per cent, following an increase of 5.5 per cent in the previous quarter. The fall in merchandise exports stemmed mainly from lower diamonds exports, which fell by 8.6 per cent during the quarter under review, compared to a fall of 13.2 per cent in the previous quarter. This was attributable to reduced sales in one of the mines, which was affected by the European holiday season. The decline in merchandise exports was further driven by a 1.5 per cent drop in exports of textiles and clothing in the third quarter of 2018, after an increase of 12.9 per cent in the previous period. Sales to the US market slipped while those to the South African market picked during the same quarter. The two-week disruptions in the textile industry during the quarter negatively affected production and, thus, sales to the US despite the resilience in orders. As a share of GDP, merchandise exports accounted for 28.2 per cent during the quarter under review from 28.3 per cent of GDP in the quarter ending in June 2018.

Direction of Trade - Exports

During the quarter ending in September 2018, the European market continued to dominate other markets, receiving the largest share of Lesotho exports at 42.0 per cent of overall exports. This was, however, lower than the 42.6 per cent recorded in the previous quarter, mainly due to a fall in diamond exports. Likewise, the African market remained the second largest recipient of Lesotho's exports, constituting 30.3 per cent during the third quarter of 2018, subsequent to 28.9 per cent recorded in the previous quarter. Similar to the previous quarter, exports to South Africa, being Lesotho's main export destination, accounted for the largest share of exports to the African region. Exports to the American market came third, comprising 28.0 per cent from 27.7 per cent in the previous quarter. Asia and Oceania continued to register the lowest export shares from Lesotho, accounting for meagre 0.1 and 0.2 per cent, respectively during the quarter under review, from shares of 0.3 and 0.2 per cent respectively, in the previous quarter.

Figure 21: Direction of Merchandise Exports *(Percentage Share)*



Source: Central Bank of Lesotho

Merchandise Imports

The value of merchandise imports declined by 2.3 per cent during the second quarter of 2018, in contrast to an increase of 2.7 per cent in the previous quarter. The fall stemmed from a decline in imports from South Africa, which continues to remain Lesotho's biggest source for imports. The key factor behind the observed performance was the decline in vehicles, machinery and artefacts, as well as, animal/vegetable fats. On an annual basis, the value of merchandise imports dropped by 1.9 per cent compared to a 4.2 per cent decline in the previous quarter. The value of merchandise imports accounted for 78.6 per cent of GDP in the review quarter compared to a share of 80.4 per cent of GDP in the quarter ending in June 2018.

Services

During the quarter under review, the deficit on the services account declined by 8.1 per cent in the third quarter of 2018 in contrast to a 0.6 per cent expansion realised in the previous quarter. The observed performance of the services account was mainly influenced by higher receipts on travel services, particularly tourism-related travel, as well as, lower payments for business travel. Year-on-year, the deficit on the services account widened by 5.0 per cent during the quarter under review, compared to a revised deficit expansion of 17.1 per cent in the previous quarter. As a share of GDP, the services account deficit accounted for 13.4 per cent compared to 14.6 per cent in the quarter ending in June 2018.

Primary Income

The primary income account surplus contracted by 5.8 per cent during the quarter ending in September 2018 from a revised increase of 2.9 per cent revised increase in the second quarter of 2018. The poorer performance of the primary income account during the quarter under review was largely influenced by lower receipts for maintenance and operational costs for phase I of the LHWP, coupled with lower foreign investment returns accrued to the Central Bank and commercial banks. During the same quarter, interest payments for Government foreign loans rose and further worsened the primary income account balance. Year-on-year, the primary income account surplus rose by 12.4 per cent in the third quarter of 2018, compared to 4.4 per cent in the second quarter of 2018. As a share of GDP, the primary income account surplus constituted 14.1 per cent during the quarter under review, compared to a revised 14.9 per cent in the previous quarter.

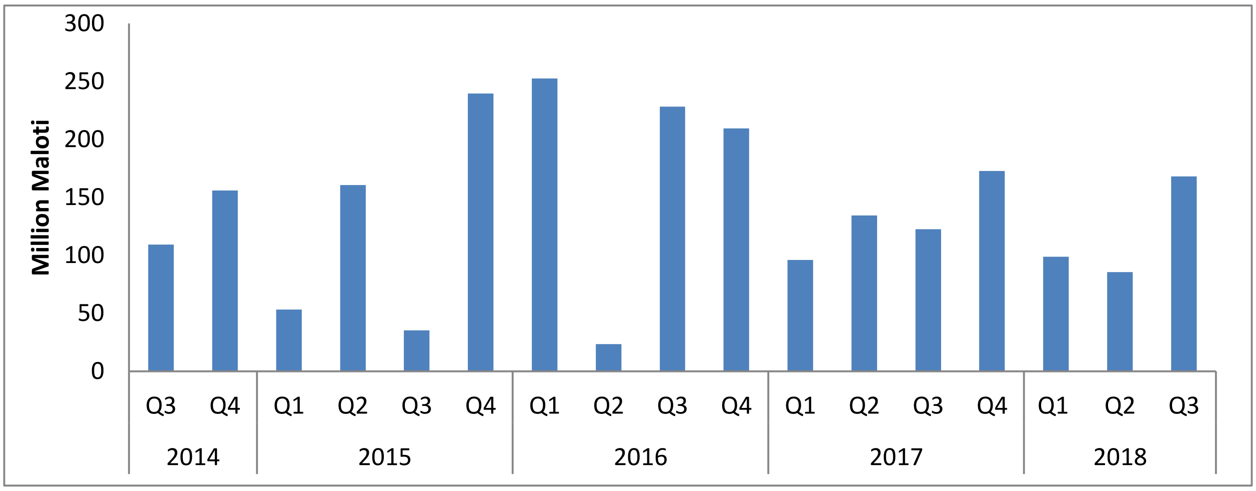
Secondary Income

The secondary income surplus fell by 1.6 per cent during the quarter under review following a decline of 17.5 per cent in the second quarter of 2018. The deterioration in the secondary income account balance was mainly driven by higher payments of subscriptions to international organizations during the quarter under review. SACU receipts, which account for the largest share of transfers, remained constant during the quarter ending in September 2018. On an annual basis, the surplus on the secondary income account declined by 6.6 per cent during the quarter under review following a decline of 7.6 per cent in the second quarter of 2018. The secondary income account surplus accounted for 23.3 per cent during the quarter ending in September, following a share of 23.7 per cent in the quarter ending in June 2018.

CAPITAL ACCOUNT

During the third quarter of 2018, the capital account registered an inflow amounting to M168.12 million, equivalent to 2.1 per cent of GDP from a revised inflow of M85.51 million, equivalent to 1.1 per cent of GDP in the quarter ending in June 2018. The higher inflows were attributable to higher capital transfers receipts for advance infrastructure works under phase II of the LHWP.

Figure 22: Capital Account *(Million Maloti)*

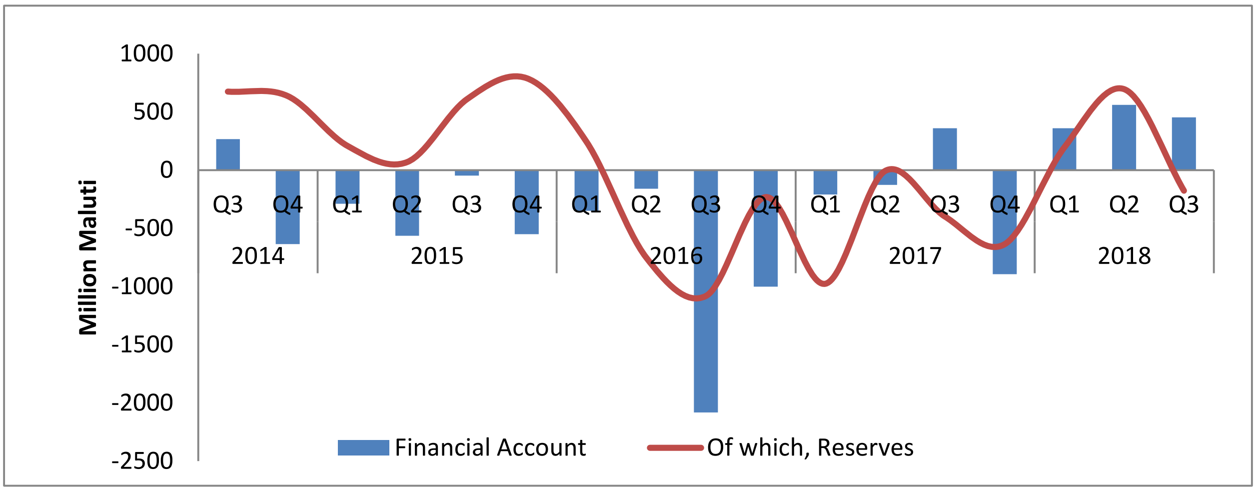


Source: Central Bank of Lesotho

FINANCIAL ACCOUNT

The financial account registered a surplus of M454.52 million, equivalent to 6.7 per cent of GDP during the third quarter of 2018 from a surplus of R559.80 million, equivalent to 7.0 per cent of GDP in the previous quarter. This benefited from foreign assets held by commercial banks, which rose on account of more placements on their call accounts abroad to manage excess liquidity. However, foreign assets held by the Central bank fell and, therefore, moderated the inflows on the financial account. The decline was driven by higher government spending, which reduced government deposits with the Central Bank.

Figure 23: Financial Account ***(Million Maloti)***

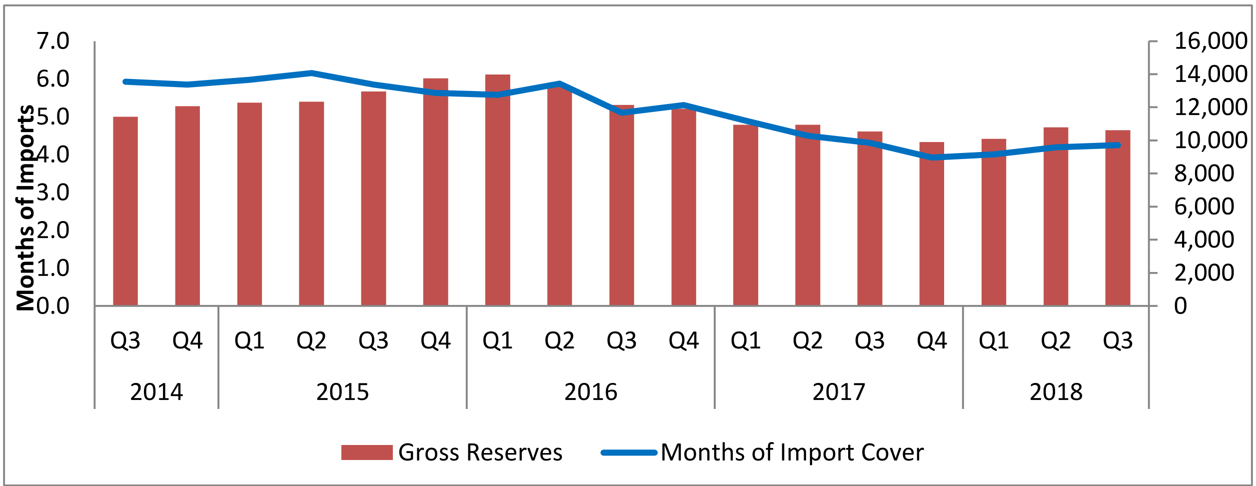


Source: Central Bank of Lesotho

Reserve Assets

The stock of international reserve assets dropped by 1.6 per cent during the quarter ending in September 2018 after an increase of 6.9 per cent in the previous quarter. The lower stock of reserve assets followed the higher government spending which exerted pressure on NFA of the Central Bank during the quarter under review. Nonetheless, in months of import cover, gross official reserves registered 4.3 months from 4.2 months in the previous quarter. The slight improvement in the import cover reflected the reduction in imports, which reduced the need for foreign financing.

Figure 24: Reserves Assets



Source: Central Bank of Lesotho