CENTRAL BANK OF LESOTHO

QUARTERLY ECONOMIC REVIEW

December 2019

MASERU

KINGDOM OF LESOTHO

Table of Contents

List of Tables

List of Figures

1. Executive Summary

Global economic activity weakened in the last quarter of 2019, largely due to a decline in investment and global trade volumes, which negatively affected manufacturing output and hence global growth. Nevertheless, there were signs of stabilisation in the manufacturing output towards the end of the quarter. This follows the easing of trade tensions between the US and China due to phase one trade deal negations and ultimate signing in December 2019. The US grew at a faster pace, despite the slowdown in other advanced economies such as the Euro Area and UK. Growth is expected to come weaker in most emerging market economies, with an exception for China where growth rate was unchanged at 6.0 per cent. In advanced economies, unemployment situation improved further, as unemployment rates declined to historic lows in a number of countries. Inflationary pressures in advanced economies increased during the review period, while in emerging economies the developments were mixed. Monetary policies remained accommodative in advanced economies in order to support growth, and meet inflation targets.

During the fourth quarter of 2019, domestic economic activity grew at the same rate of 0.4 per cent as in the previous quarter, as a results of an improvement in both demand and supply side factors. Domestic demand grew by 0.1 per cent in the quarter under review following a 1.1 per cent growth in the previous quarter, mainly driven by rising personal earnings. This was attributed to an increase in compensation of employees and therefore increased personal income taxes.

From the supply side, manufacturing and production category rose by 0.1 per cent in the quarter ending in December 2019 against a 0.6 per cent fall in the preceding quarter. This benefitted primarily from a recovery in the use of utilities for industrial purposes. In addition, transport and construction subsectors also performed well as indicated by positive contributions from fuel consumption and imports of cement.

The labour market remained under pressure, as shown by continued declines in employment by Lesotho National Development Centre (LNDC)-assisted companies, Government of Lesotho (GoL) and migrant mineworkers. The sustained weak performance in the woven garments, footwear, hotel accommodation and food & beverages led to the contraction in overall employment during the quarter.

The headline inflation rate fell to 4.8 per cent in December 2019 relative to 5.1 per cent in September 2019. The 0.3 percentage points reduction from September to December 2019 reflected the fall in "Housing, electricity gas & other fuels" as a result of declining international crude oil prices during the review period. However, the core inflation rate increased marginally to 4.5 per cent in the fourth quarter of 2019 from a 4.4 per cent increase in the previous quarter.

Money supply rebounded during the last quarter of 2019, following a continuous decline in the first three quarters of the year. The increase in money supply was mainly driven by the decline in Central bank's liabilities to non-residents. Growth in private sector credit was attributable to a rise in credit extended to households, while credit to business enterprises declined. During the period under review, the ratio of credit to deposits grew marginally to 57.1 per cent, from 57.0 per cent observed in the third quarter of 2019. This was influenced by the growth of private sector credit that overshadowed the decline in total deposits.

The CBL Policy rate remained unchanged at 6.50 per cent in the review quarter, following the decision of the Monetary Policy Committee in November. The average prime lending rate also remained unchanged at 11.19 per cent while other money market rates declined during the review quarter.

Government budgetary operations were estimated to have registered a fiscal surplus equivalent to about 4.2 per cent of Gross Domestic Product (GDP) during the third fiscal quarter of 2019/20, compared to a revised fiscal deficit of 5.6 per cent of GDP in the previous quarter. Despite the fall in revenue, government was able to register a surplus as government spending plummeted during the review period. Government spending decreased by 21.0 per cent in the review quarter, in contrast to a revised increase of 49.6 per cent in the previous quarter. The reduction in spending was realised in personnel emoluments, travel and transport, external interest payments, students loan bursary, social benefits, dwellings, other structures, and machinery and equipment.

The stock of public sector debt is estimated at 45.7 per cent of GDP in December 2019, following the revised 45.0 per cent of GDP in the preceding quarter. This was mainly due to exchange rate effect on debt denominated in foreign currency.

During the last quarter of 2019, Lesotho's overall balance of payments recovered due to the improved performance of current account and financial account, together with increased capital inflows during the same quarter. As a percentage of GDP, the overall balance of payments surplus accounted for 0.4 per cent, recovering from a deficit of 4.5 per cent in the previous quarter.

The current account deficit shrank to 1.6 per cent of GDP during the review quarter from a revised deficit of 9.3 per cent of GDP in the third quarter of 2019. This was mainly on account of the lower deficit in the trade account as a result of declining exports of textiles & clothing and diamond together with a fall in imports. Clothing and textile exports continued to be underpinned by high demand from the US as evidenced by increased orders during the review period. Diamond exports benefited from price increases for the larger high quality diamonds at one of the mines, especially in December 2019. Imports were mainly impacted by the decrease in illuminating kerosene during the same quarter, signifying the end of cold weather conditions. Additionally, the services account deficit fell in during the review quarter due to reduced payments for the telecommunications services, business travel and freight costs.

The stock of foreign reserves increased slightly during the period under review due to a build-up of government deposits. Consequently, months of import cover rose to 4.3 months in December 2019 from the 4.2 months realized in September 2019. The higher import coverage during the review quarter was also benefitted from the reduced import bill.

2. International Economic Developments

The global economic activity weakened in the fourth quarter of 2019, mainly driven by the decline in the investment and global trade volumes, which weighted on the manufacturing output and hence global growth. There were however signs of stabilisation in the manufacturing output towards the end of the quarter, following the easing trade tensions between the US and China due to phase one trade deal negations and ultimate signing in December 2019. In the advanced economies, growth was faster in the US, while there was a slowdown in the Euro Area and the UK. Preliminary indicators of economic activity also pointed to weakened growth in Japan. For the emerging market economies growth is expected to come weaker in a number of countries, while the growth rate was steady in China. The unemployment situation improved further in the advanced economies, as the unemployment rate fell to historic lows in a number of countries.

Inflation pressures picked up slightly during the fourth quarter of 2019, with advanced economies, experiencing an increase in energy prices. However, the inflation rate remained below target in a number of countries. In the emerging market economies, inflation developments were mixed. Inflation increased in China and India, driven primarily by food prices, while it subsided in South Africa due to moderating prices of food and transport. Monetary policies remained accommodative in the advanced economies in a bid to support economic growth, and to meet inflation targets. The US reduced its key policy rate by 25 basis points, while many central banks did not make changes to their rates. In the emerging market economies, India continued to cut its repo rate while China continued to cut the required reserve ratio. The risks to global economic growth remained elevated and tilted to the downside.

Table 1: Key World Economic Indicators

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	Qtr-3 2019	Qtr-4 2019	Qtr-3 2019	Qtr-4 2019	Qtr-3 2019	Qtr-4 2019	Qtr-3 2019	Qtr-4 2019
United States	2.1	2.3	1.7	2.3	2.00	1.75	3.5	3.5
Euro Area	1.2	0.9	0.8	1.3	0.00	0.00	7.5	7.4
Japan	1.7	-0.4	0.2	0.8	-0.10	-0.10	2.4	2.2
United Kingdom	1.2*	1.1	1.7	1.3	0.75	0.75	3.8	3.8
China	6.0	6.0	3.0	4.5	4.35	4.35	3.6	3.6
India	4.5	N/A	4.0	7.4	5.40	5.15	N/A	N/A
South Africa	0.1	N/A	4.1	4.0	6.50	6.50	29.1	29.1

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 economic growth was resilient during the period under review. The real GDP rose at the annual rate of 2.3 per cent in the fourth quarter of 2019, up from a 2.1 per cent increase in the previous quarter. The driving factors behind this performance included government and consumption spending, residential fixed investment and exports. The moderating effect, however, emanated from a decline in inventory and non-residential fixed investment. The unemployment rate was steady at 3.5 per cent, compared to the preceding quarter. This was driven by consistent employment gains especially in the services sector.

Consumer inflation rose to 2.3 per cent in the fourth quarter of 2019, from 1.7 per cent in the third quarter of 2019. The pick-up in the inflation rate was driven mostly by a rebound in energy prices during the quarter although this was moderated by a slowdown in the food prices. The Federal Open Market Committee (FOMC) cut the fed funds rate to 1.75 per cent in the fourth quarter of 2019, from 2.0 per cent in the third quarter of 2019. The move to maintain an accommodative stance was taken to sustain economic expansion, and support a strong jobs market.

Euro Area

Economic activity was slower in the Euro Area during the fourth quarter of 2019, amid escalating risks associated with global trading system disruptions. Real GDP advanced at the annual rate of 0.9 per cent, slowing down from 1.2 per cent in the third quarter of 2019. The slowdown was driven by a decline in industrial output and trade. In addition, retail sales recorded a sluggish growth in the review period. However, the services sector remained strong, thus moderating the weakened growth during the quarter. The unemployment rate was 7.4 per cent in the fourth quarter of 2019, unchanged from the previous quarter. Employment creation in the region was supported by the services sector, which remained resilient during the review period.

The annual inflation rate rose from 0.8 per cent in the previous quarter to 1.3 per cent in the quarter ending in December 2019. It was driven by a recovery in the energy prices as well as food prices. The European Central Bank (ECB) kept the key policy rate unchanged at zero per cent in the fourth quarter of 2019 while also maintaining its Quantitative Easing programme. Furthermore, it signalled to keep the rates at zero or go below it, in order to drive inflation towards its target rate of 2.0 per cent.

Japan

Japan's economic perfomance deteriorated in the fourth quarter of 2019 . Real GDP contracted by 0.4 per cent year on year, after growing by 1.7 per cent in the previous quarter. There was contraction in both consumer and investment spending due to the negative effect of the sales tax hike on incomes. The weaker global demand also led to a decline in the exports. The unemployment rate fell to 2.2 per cent in the quarter ending in December 2019, from 2.4 per cent in the preceding quarter. This reflected a new employment in non-agricultural industries, including construction and services related industries.

Consumer prices rose by 0.8 per cent year on year in the quarter ending in December 2019, relative to 0.2 per cent in the third quarter of 2019, reflecting increasing costs of food and housing. The Bank of Japan kept the key policy rate unchanged at -0.1 per cent in the fourth quarter of 2019. It also maintained the Qualitative and Quantitative Easing (QQE), which comprises government and corporate bonds and other assets purchases.

United Kingdom (UK)

Economic growth in the UK slowed down somewhat in the fourth quarter of 2019. Real GDP rose by 1.1 per cent, year on year, slowing down from 1.2 per cent in the quarter of 2019. The UK growth had been on a downward trend since the second quarter of 2019. The main factors behind the continuous fall were the decline in fixed investment, and a sluggish growth in household spending, which offset the increase in exports and government spending. Growth was further weakened by the lingering Brexit uncertainty, which adversely affected consumer confidence. The unemployment rate was recorded at 3.8 per cent in October 2019, unchanged from September 2019. This was due to relatively resilient service sector which continued to add new jobs.

Inflationary pressures subsided in the fourth quarter of 2019 with inflation falling to 1.5 per cent, from 1.7 per cent in the third quarter of 2019. The slowdown resulted from declining costs of housing and utilities. The Bank of England kept its key policy rate steady at 0.75 per cent during the fourth quarter of 2019 while continuing with asset purchases programme. The monetary policy decision in the quarter aimed at striking a balance between supporting economy and dealing with the uncertain Brexit outcome.

EMERGING MARKET ECONOMIES

China

China's economy was resilient in the last quarter of 2019. Real GDP increased at the same rate of 6.0 per cent as in the preceding quarter. The industrial sector was constrained by tariff pressures from the US, as well as self-imposed weakness in the aggregate demand due to measures under taken to reduce financial risks. The unemployment rate increased slightly to 3.62 per cent in the fourth quarter of 2019, from 3.61 per cent in the previous quarter. The trade conflict between China the US affected mainly job creation in the manufacturing sector.

The annual consumer inflation rate accelerated from 3.0 per cent in the third quarter of 2019 to 4.5 per cent in the last quarter of 2019. . This was mainly a result of rising food prices, driven by pork prices. There was also a faster increase in non-food prices. The Peoples Bank of China did not make any changes to its key policy rate in the fourth quarter of 2019. However, the bank continued to cut the required reserves ratio during the quarter, as a way to stimulate economic activity.

India

Economic growth in India continued to slowdown in the last quarter of 2019. Real GDP grew by 4.7 per cent, folowing a revised 5.1 per cent growth in the third quarter of 2019. The slowdown in growth reflected a decline in investment spending and exports. while consumption spending was resilient and rose during the quarter with mitigating effects. The manufacturing activity and utilities remained under pressure as they also contracted in the review period.

.

Inflationary pressures build up significantly in Indiaduring the review period. Consumer prices were recorded to rise by 7.4 per cent year on year in the fourth quarter of 2019, compares with 3.99 per cent in the previous quarter. Inflation pressures were driven mostly by food prices.   The Reserve Bank of India cut the repo rate by 25 basis points to 5.15 per cent, in the fourth quarter of 2019. The move was taken to provide accommodative environment to support economic growth.

South Africa

Economic activity contracted in the fourth quarter of 2019, in South Africa. The real GDP declined by 0.5 per cent from growth of 0.1 per cent in the previous quarter. The decline followed contraction of output in the major industries including mining, manufacturing, transport and utilities. The economy was also adversely affected by disruptions from unstable power supply during the quarter. There was however, a pick up in the agricultural output, which moderated the decline in GDP. . The unemployment rate was steady at 29.1 per cent in the fourth quarter of 2019, from the previous quarter. Employment increased in the community and social services, finance and transport sectors. However, this was offset by a decline in employment in trade, manufacturing and utilities industries.

Consumer inflation in South Africa continued to slowdown. It fell to 4.0 per cent in the fourth quarter of 2019, from 4.1 per cent in the preceding quarter. The slowing inflation was due to declining prices of food and transport. The Reserve Bank of South Africa kept the repo rate unchanged in the fourth quarter of 2019. This move was aimed at maintaining inflation expectations towards the mid-point of the inflation target range and to achieve balanced and sustainable growth.

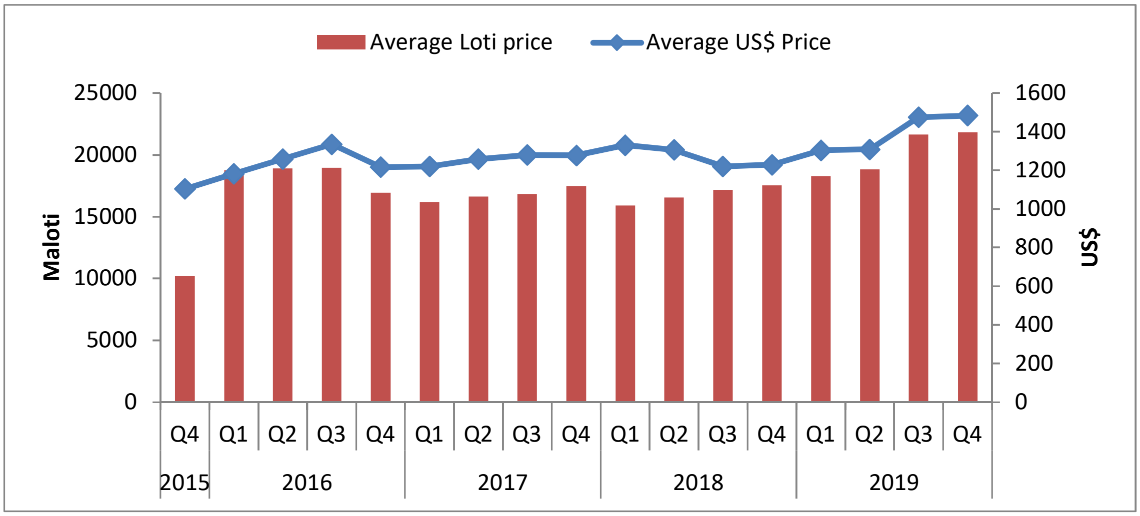
COMMODITIES

Minerals

Gold

The average dollar price of gold continued to rise in the fourth quarter of 2019, although at a weaker pace compared to the previous quarter. A quarterly increase of 0.59 per cent to US$ 1483.04 was realised during the review quarter, following a 12.69 per cent increase in the third quarter of 2019. Gold prices were boosted by higher demand for investment purposes as well as increased central bank buying of gold to diversify their reserves. The environment of low interest rates, volatility in the global capital markets and escalating geopolitical tensions increased the appeal for gold, as safe haven asset. The average loti price of gold increased to M21 822.81per ounce in the fourth quarter of 2019, an increase of 0.84 per cent relative to the previous quarter.

Figure 1: Average Price of Gold

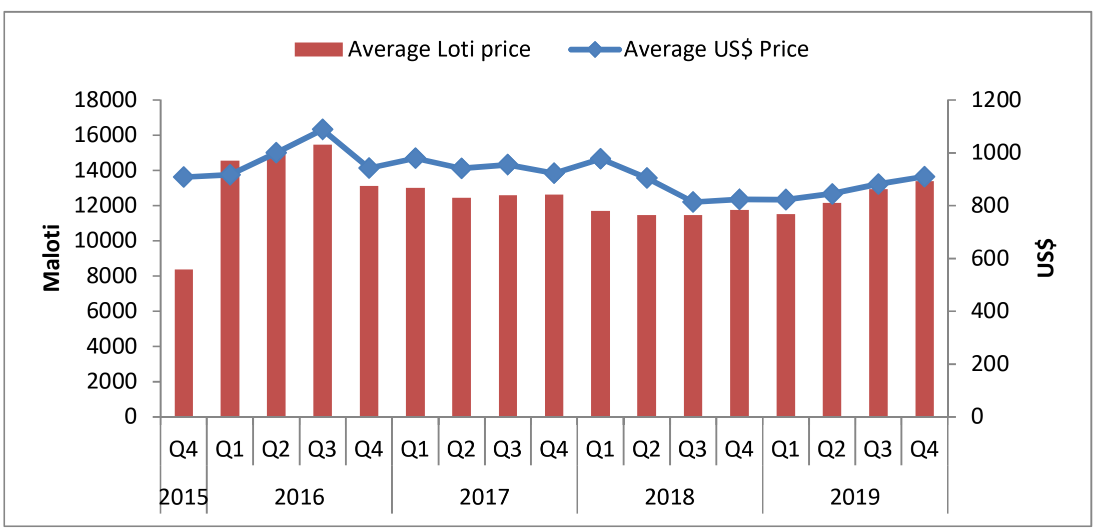


Source: Bloomberg

Platinum

The average price of platinum increased, albeit at a lower rate , during the fourth quarter of 2019. It rose by 3.2 per cent to US$909.70 per ounce, following a 4.32 per cent increase in the previous quarter. The platinum prices were positively influenced by increased demand for investment purposes, industrial use and for auto catalysts. The gains were however moderated by weakened jewellery sector demand, especially in the key markets including India and China. The loti price of platinum increased by 3.42 per cent in the fourth quarter of 2019 to M13386.13 per ounce.

Figure 2: Average Price of Platinum



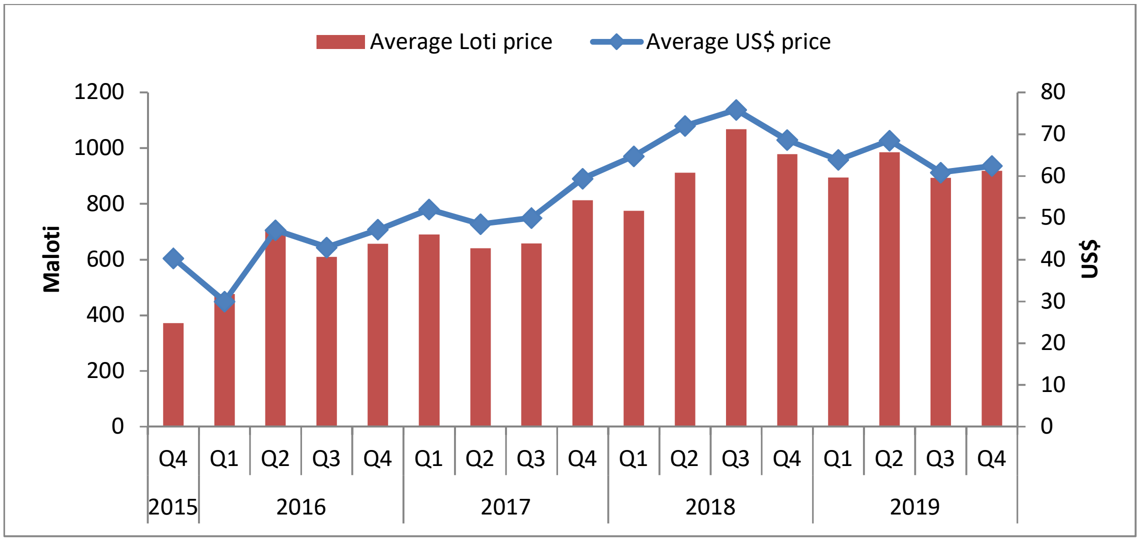
Source: Bloomberg

Energy

Oil

The average price of crude oil rose by the of 2.55 per cent to US$ 62.42 per barrel in the fourth quarter of 2019, recovering from an 11.11 per cent decline in the third quarter of 2019. Higher prices were supported by increased demand especially in the OECD countries, falling oil inventories and the OPEC decision to extend production cuts. The price of oil expressed in loti terms rose by 2.81 per cent to M918.46 per barrel, during the review quarter.

Figure 3: Average Price of Oil



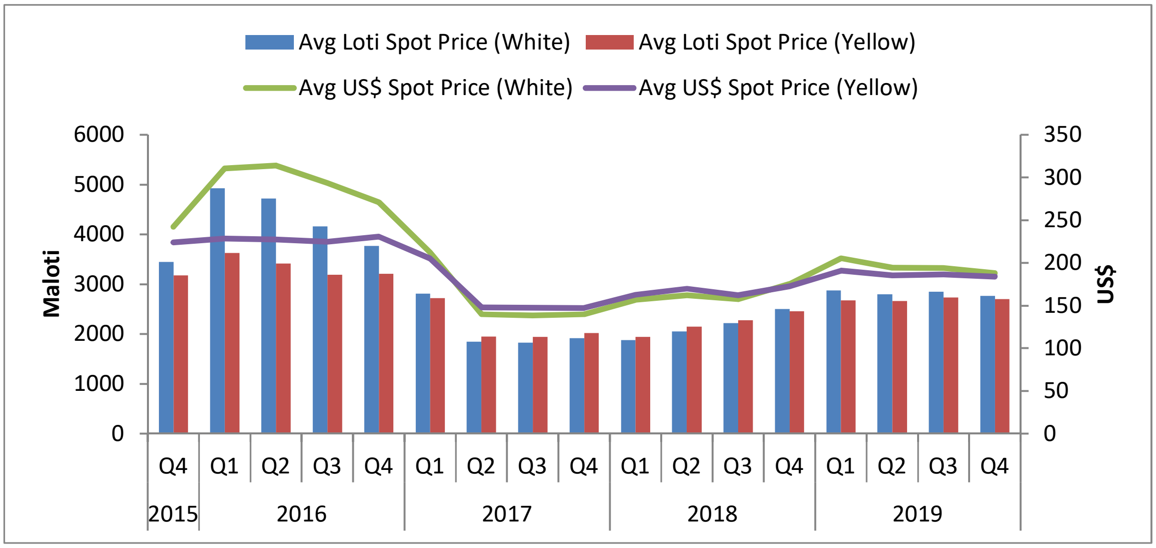
Source: Bloomberg

Agricultural Products

Maize

The prices of maize (white and yellow), generally declined during the quarter ending in December 2019. The price of white maize dipped further by 3.16 per cent to US$ 188.11 per tonne, following a 0.10 per cent decline in the third quarter of 2019. The price of yellow maize declined by 1.36 per cent to US$ 183.75 a tonne, following an increase of 0.48 in the prior quarter. The price of maize decreased due to high global supplies resulting from large global stocks, including the US inventories, and a bumper harvest in Brazil. In Maloti terms, the price of white maize fell by 2.92 per cent to M2767.96 per tonne while that of yellow maize declined by 1.11 per cent to M 2703.91.

Figure 4: Average Price of Maize

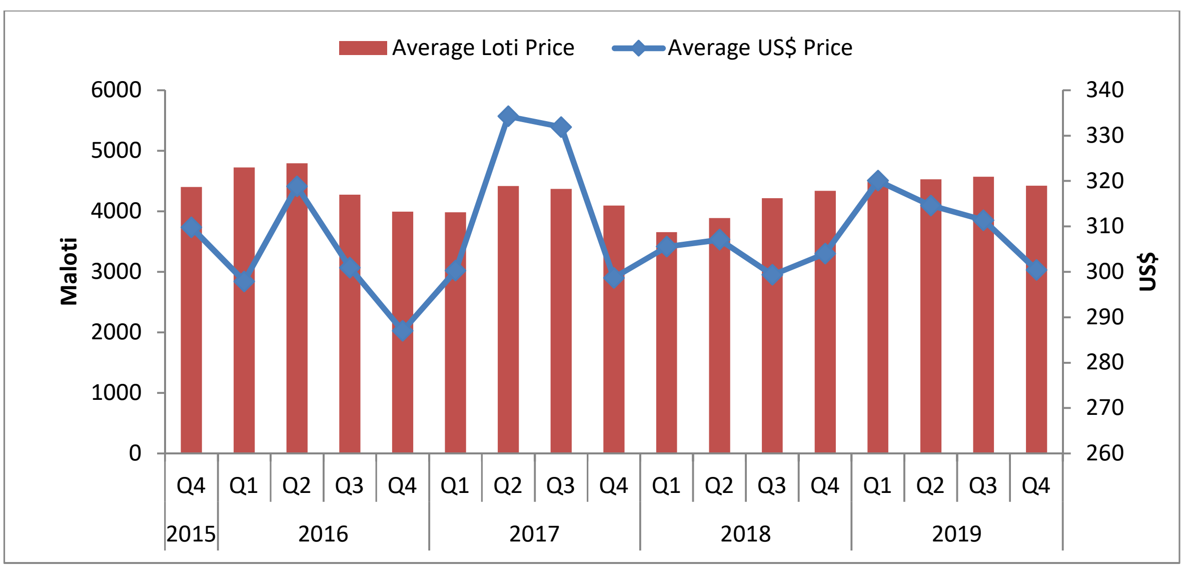


Source: Bloomberg

Wheat

The average price of wheat declined by at a quarterly rateof 3.52 per cent to US$300.41 a ton in the fourth quarter of 2019, extending a 1.03 per cent decline in the preceding quarter. It declined due to supply glut in the global markets, driven by inventories. The opening stocks of wheat were high during the quarter, and were revised up in the US. There was also an increase of exports of wheat in Ukraine and the European Union. The loti price of wheat was M4420.57 during the quarter under review, a 3.28 per cent from the prior quarter.

Figure 5: Average Price of Wheat

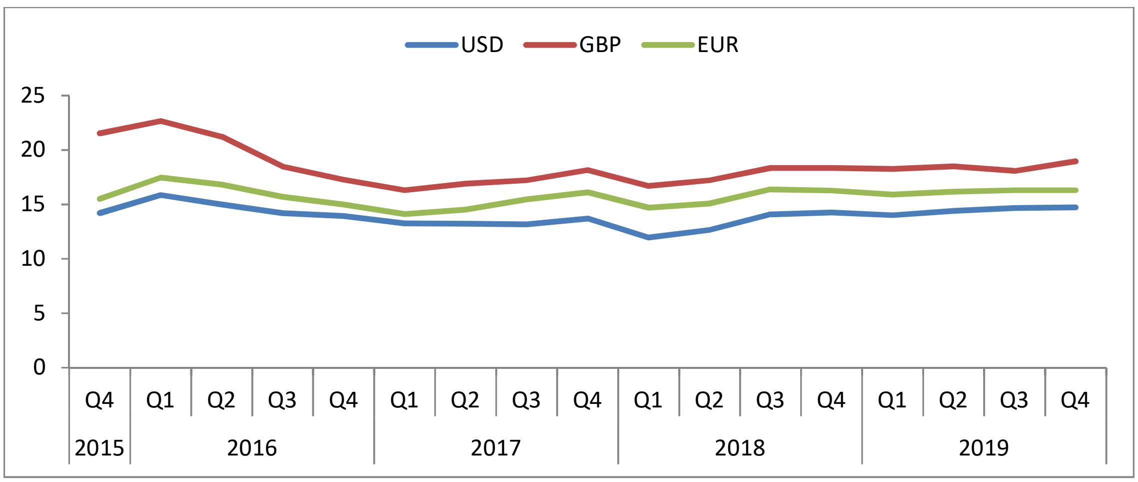


Source: Bloomberg

EXCHANGE RATES

The rand, hence the loti weakened against the dollar and the pound, but strengthened against the euro in the fourth quarter of 2019. It depreciated by 0.25 per cent against the US dollar and by 4.90 per cent against the pound, while it appreciated by 0.05 per cent against the euro. At the beginning of the quarter, there were growing fears of an escalation in trade tensions between US and China, as well as credit rating downgrade by Moody's in South Africa. Throughout the quarter, the rand was driven by weaker economic outlook amid global growth slowdown, uncertain domestic policy in South Africa and slow progress of structural reforms. These developments have implications for weaker growth prospects, and widening fiscal deficit and financing of failing state owned enterprises. These led to a selloff of rand denominated bonds by foreigners. The declines were however moderated by, among others, the signature of phase one trade deal between China and US and the decision by Moody's not to downgrade South Africa's overeign credit rating.

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



Source: Bloomberg

3. Real Sector Developments

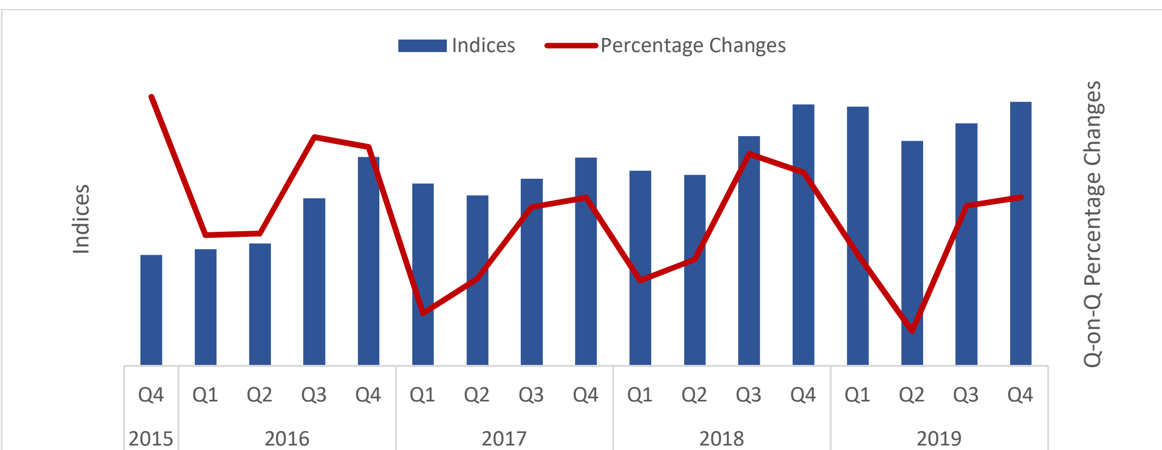
OVERVIEW

Economic activity maintained the same rate of growth in the fourth quarter of 2019 compared with the preceding quarter. The labour market remained under pressure, as shown by the three categories namely: Lesotho National Development Corporation (LNDC) assisted companies, Government of Lesotho (GoL) and migrant mineworkers. With regard to price developments, inflation subsided in December compared to September 2019.

OUTPUT DEVELOPMENTS

The output, as measured by the Composite Indicator of Economic Activity (CIEA), was estimated to have maintained a steady growth of 0.4 per cent in the fourth quarter of 2019. The economy as a whole showed relatively good performance in the review quarter, with both the demand and supply sides of the economy contributing positively to the observed growth. Domestic demand recorded an increase of 0.1 per cent, albeit lower than the 1.1 per cent rise recorded in the previous quarter. The increase was mainly due to increased personal earnings, as estimated from compensation of employees and personal income taxes. The supply, as represented by the production index, increased by 0.1 per cent in the review quarter compared with a contraction of 0.6 per cent in the preceding quarter. The rebound in the index was mainly a result of a recovery in the use of utilities for industrial purposes. The transport and construction subsectors also performed well as indicated by positive contributions from fuel consumption and imports of cement, respectively.

Figure 7: Quarterly Indicator of Economic Activity



Source: Central Bank of Lesotho

Table 2: Contributions to Growth

Indices	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4
CIEA	**116.3**	**116.2**	**115.4**	**115.8**	**116.3**
Quarter-on-quarter changes	0.7	0.0	-0.7	0.4	0.4
Domestic Demand	**113.7**	**114.8**	**113.6**	**114.8**	**114.9**
Quarter-on-quarter changes	0.6	1.0	-1.1	1.1	0.1
Manufacturing and Production Category	**108.6**	**107.8**	**106.3**	**105.7**	**105.7**
Quarter-on-quarter changes	0.3	-0.7	-1.4	-0.6	0.1[1]

Source: Central Bank of Lesotho

EMPLOYMENT DEVELOPMENTS

Employment by LNDC-assisted companies declined by 0.2 per cent, year-on-year, in the fourth quarter of 2019 compared to a contraction of 1.6 per cent in the preceding quarter. The continued reduction in employment by the woven garments as well as other industries such as footwear, hotel accommodation and food & beverages, contributed to the decline in total employment, albeit at a slower pace compared with the preceding quarter. Nonetheless, the knit garments[2], fabrics, Yarn, etc as well as the electronics categories moderated the decline during the review period.

Table 3: Employment by LNDC-Assisted Companies

Industry	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4	% Change Q/Q	% Change Y/Y
Knit Garments…………..	26771	27559	26425	28476	28602	0.4	6.8
Woven Garments…….	17166	15812	15260	15803	15304	-3.2	-10.8
Footwear………………….	1010	1023	937	934	940	0.6	-6.9
Fabrics, Yarn etc……….	1839	1782	2718	1818	1849	1.7	0.5
Construction…………….	344	385	373	375	334	-10.9	-2.9
Food & Beverages………..	708	705	588	480	479	-0.2	-32.3
Electronics………………..	974	928	1676	1029	1052	2.2	8.0
Retail………………………	168	168	213	217	217	0.0	29.2
Hotels & Accommodation….	515	576	389	394	394	0.0	-23.5
Other……………………..	1047	1149	1210	1216	1279	5.2	22.2
TOTAL……………………	**50542**	**50087**	**49789**	**50742**	**50450**	**-0.6**	**-0.2**

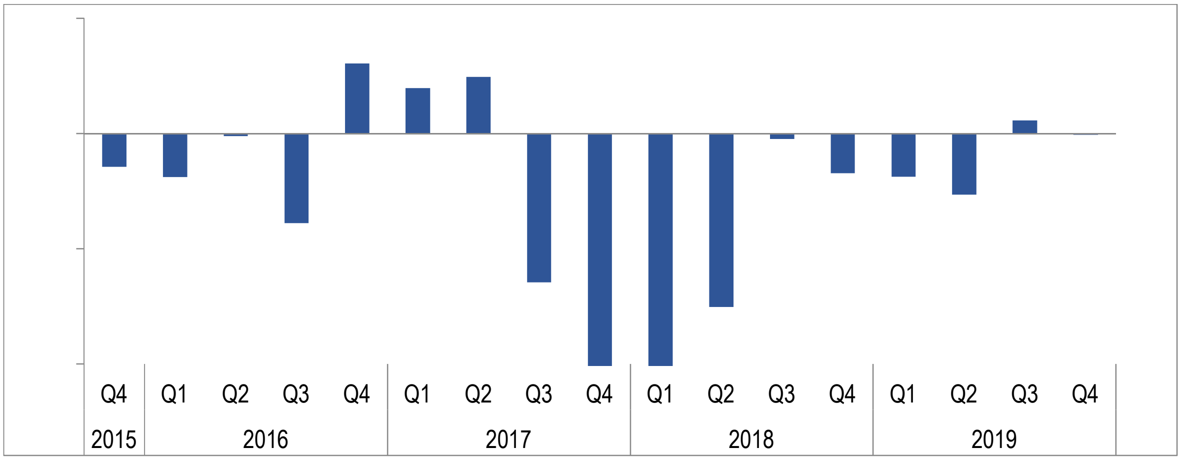
Source: Lesotho National Development Corporation

[1] The change is 0.1 due to rounding. The indices for Q3 and Q4 were 105.65 and 105.74 respectively.

[2] Knit Garments takes over 55.0 per cent of total employment by LNDC-assisted companies.

Government employment declined by a negligible amount in the fourth quarter of 2019 relative to 0.1 per cent increase in the preceding quarter. The major contributors were the teachers and civil servants categories.

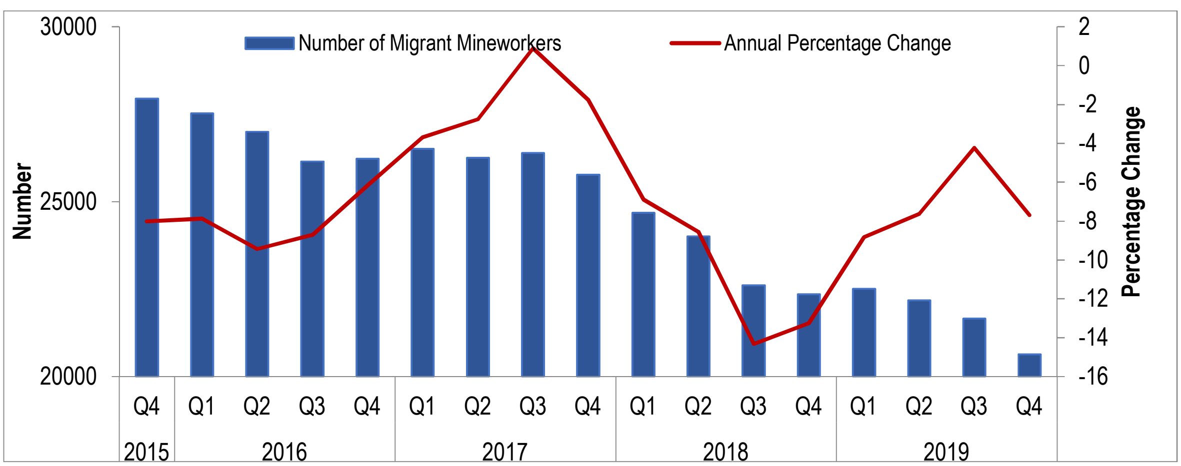
Figure 8: Government Employment *(Annual Percentage Change)*



Source: Ministry of Finance

The total number of migrant mineworkers continued to fall, albeit at a faster pace of 7.7 per cent, year-on-year, in the fourth quarter of 2019, relative to a decline of 4.2 per cent in the previous quarter. A persistant decline in mining production due to aging infrastructure, subdued prices of gold in the international markets, especially the retail demand for gold as well as shutdown of some mines in the fourth quarter of 2019 contributed to the fall in employment, among others.

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



Source: The Employment Bureau of Africa (TEBA)

PRICE DEVELOPMENTS

The year-on-year percentage change in the consumer price index (CPI) was estimated at 4.8 per cent in December 2019 relative to an estimated 5.1 per cent in September 2019. The 0.3 percentage points decline from September to December 2019 was mainly due to lower Housing, electricity gas & other fuels prices. The major driver to the fall in inflation rate was the fall in international crude oil prices during the review period.

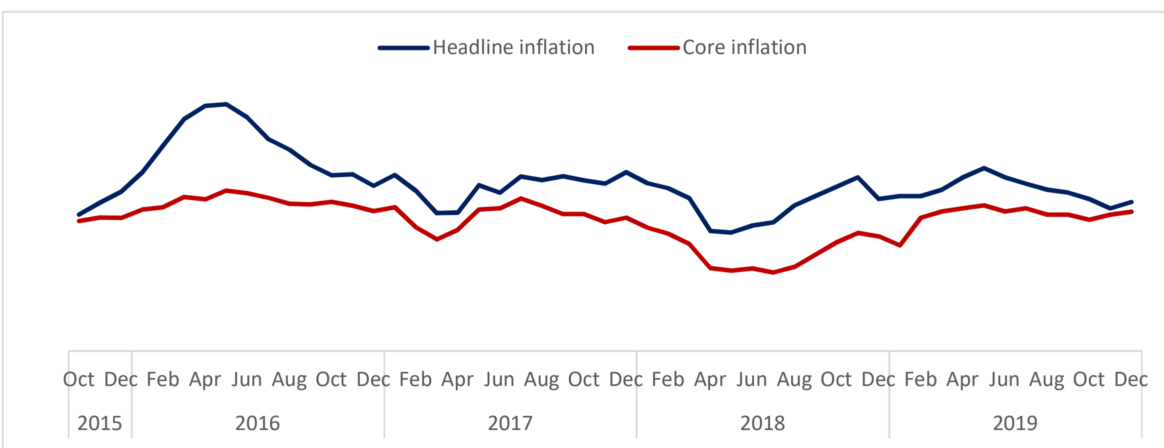
Table 2: Inflation Rate *(Annual Percentage Changes)*

		2019				
	Weight	Aug	Sep	Oct	Nov	Dec
All items	**1000**	**5.2**	**5.1**	**4.9**	**4.6**	**4.8**
Food and non-alcoholic beverages	**361.13**	7.5	7.4	7.6	7.2	7.4
Alcoholic beverages & Tobacco	**33.31**	5.0	5.2	5.0	4.3	4.1
Clothing & footwear	**130.57**	3.3	3.8	4.0	4.5	4.4
Housing, electricity gas & other fuels	**123.97**	7.7	7.5	5.9	3.9	3.3
Furniture, households equipment & routine maintenance	**84.77**	3.0	3.3	3.2	3.8	3.7
Health	**15.04**	0.7	0.7	0.8	1.1	1.1
Transport	**48.21**	-0.3	-1.4	-2.4	-3.3	0.0
Communication	**21.05**	1.1	0.2	0.2	0.2	0.2
Leisure, entertainment & Culture	**57.08**	4.6	3.3	3.2	5.2	5.1
Education	**42.00**	1.0	1.0	1.0	1.0	1.0
Restaurant & Hotels	**10.30**	1.9	2.1	1.7	2.1	2.3
Miscellaneous goods & services	**72.59**	3.4	3.7	3.5	3.4	3.5

Source: Bureau of Statistics

Core inflation, which is the headline excluding the items with the extreme price changes, edged upwards to 4.5 per cent in the fourth quarter of 2019 compared with 4.4 per cent recorded in the previous quarter. Its headline counterpart declined from 5.1 per cent to 4.8 per cent during the review period. Since June 2019, the gap between headline and core inflation has been narrowing.

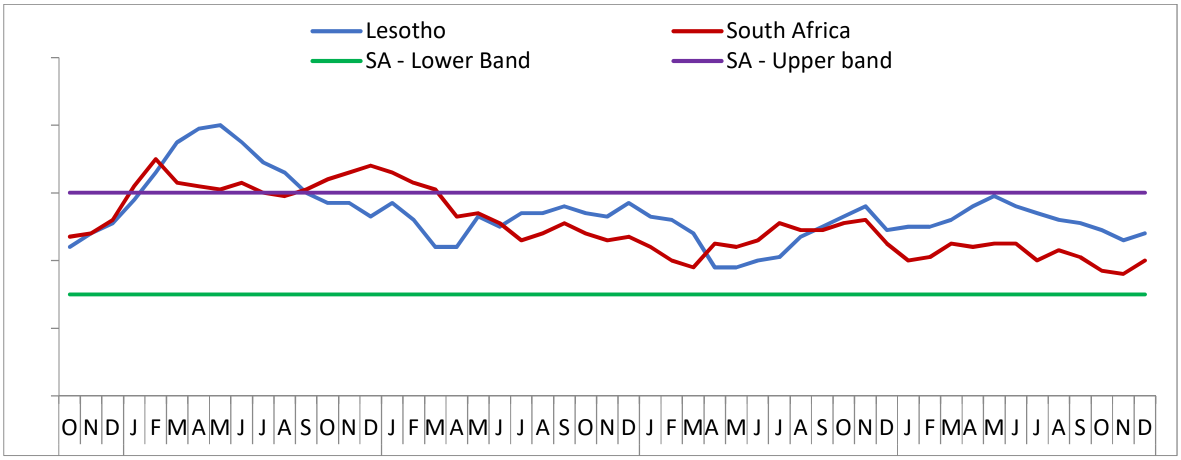
Figure 10: Core vs Headline Inflation



Source: CBL Computations

The headline inflation rates in both Lesotho and South Africa declined to 4.8 per cent and 4.0 per cent in December 2019 from 5.1 per cent and 4.1 per cent, respectively. The two rates moved in tandem during the review period with that of Lesotho hovering over its South Africa counterpart. Lesotho imports most of its food and all of its petroleum from South Africa and the spillover effects of relevant product prices to inflation are significant.

Figure 11: Lesotho and South Africa's Inflation



Source: Bureau of Statistics, Statistics South Africa

4. Monetary and Financial Developments

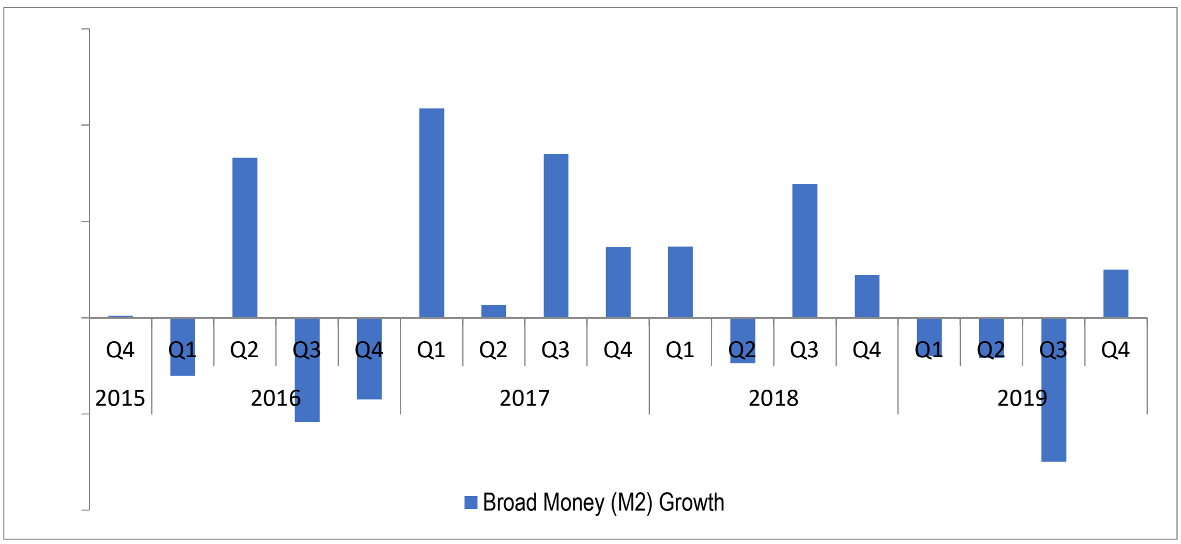
OVERVIEW

Money supply increased during the last quarter of 2019, following a continuous decline in the first three quarters of the year. The increase in money supply was due to a rise in net foreign assets (NFA) moderated by a fall in domestic claims. The growth in NFA was supported by a decline in Central Bank's liabilities to non-residents, while the drop in domestic claims was at the back of accumulation of government deposits, notwithstanding the increase in total private sector credit.

BROAD MONEY (M2)

Money supply (M2), broadly defined, grew by 2.5 per cent during the quarter ending December 2019, relative to a 7.5 per cent decline observed in the previous quarter. This development was at the back of a 1.4 per cent increase in the banking system NFA which was moderated by a 0.1 per cent decline in domestic claims. Measured over twelve months, money supply declined by 9.0 per cent compared to a fall of 9.2 per cent observed in the previous quarter.

Figure 12: Broad Money (M2)



Source: Central Bank of Lesotho

Determinants of M2

Domestic Claims

Domestic claims, including net claims on government, declined by 0.1 per cent during the period under review, following a 10.2 per cent decline in the quarter ending September 2019. This was attributable to the 1.8 per cent build-up of government deposits with the central bank, compared to a decline of 17.4 per cent in the preceding quarter. However, this was moderated by a 0.2 per cent growth in claims on other sectors, stemming from an increase of 0.02 per cent in private sector credit.

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

	2018	2019				Changes (%)	
	Dec	Mar	Jun	Sep	Dec	Quarterly	Annual
Domestic Claims	**6401.46**	**6705.95**	**6296.08**	**5521.40**	**5517.40**	**-0.1**	**-13.8**
Net Claims on Government	**-665.51**	**-314.60**	**-964.42**	**-2094.57**	**-2117.34**	**-1.1**	**-218.2**
Commercial Banks Net Claims	**1391.33**	**1944.32**	**2007.85**	**232.67**	**468.44**	**101.3**	**-66.3**
Claims on Central Government	1396.23	1950.66	2013.54	2128.67	2162.87	**1.6**	**54.9**
Liabilities to Central Government	4.90	6.34	5.69	1896.00	1694.43	**-10.6**	**34463.5**[3]
Central Bank Net Claims	**-2056.84**	**-2258.92**	**-2972.27**	**-2327.24**	**-2585.78**	**-11.1**	**-25.7**
Claims on Central Government	729.75	706.34	716.31	720.65	515.65	**-28.4**	**-29.3**
Liabilities to Central Government	2786.58	2965.26	3688.58	3047.88	3101.43	**1.8**	**11.3**
Claims on Other Sectors	**7066.97**	**7020.54**	**7260.50**	**7615.97**	**7634.73**	**0.2**	**8.0**
Claims on OFCs	256.68	203.16	184.68	211.53	231.35	**9.4**	**-9.9**
Claims on Public Nonfinancial Corporations	0.00	0.00	0.00	40.67	38.20	**-6.1**	
Claims on St &Local Government	0.00	0.00	0.00	0.00	0.00		
Claims on Private Sector	**6810.29**	**6817.38**	**7075.82**	**7363.76**	**7365.18**	**0.02**	**8.1**
Claims on Business Enterprises	2097.60	2027.52	2188.16	2329.62	2172.34	**-6.8**	**3.6**
Claims on Households	4712.69	4789.86	4887.66	5034.15	5192.84	**3.2**	**10.2**

Source: Central Bank of Lesotho

Net Foreign Assets

The overall banking system Net Foreign Assets (NFA) registered a 1.4 per cent growth during the review quarter, recording a much slower growth rate in comparison to an increase of 13.9 per cent at the end of September 2019. On a-year-on-year basis, NFA grew by 1.2 per cent, relative to a decline of 0.2 per cent in the previous quarter. The quarterly growth in NFA was supported by a 1.9 per cent rise in central bank NFA combined with a muted 0.1 per cent growth in commercial banks NFA. The increase in central bank NFA was on account of a decline in liabilities to non-residents which was partly due to external loan repayments and exchange rate gains. The commercial banks NFA accounted for 30.2 per cent of the total NFA while the central bank NFA stood at 69.8 per cent at the end of December 2019.

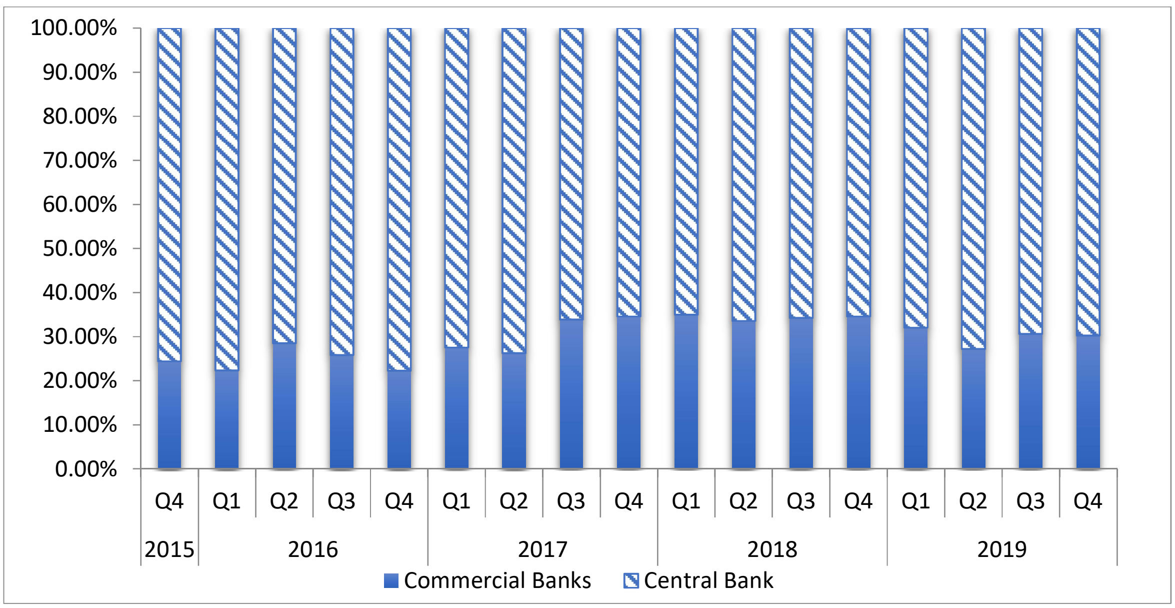
[3] The large percentage change in commercial banks' liabilities to central government was a result of an ongoing exercise between the Central Bank and commercial banks to re-classify government deposits. However, the data could only be revised from 2019Q3 onwards.

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

	2018	2019				Changes (%)	
	Dec	Mar	Jun	Sep	Dec	Quarterly	Annual
Commercial Banks	**5200.68**	**4723.62**	**4037.40**	**4599.38**	**4603.91**	**0.1**	**-11.5**
Claims on Non-residents	5700.44	5343.20	4490.49	5040.69	5026.74	**-0.3**	**-11.8**
Liabilities to Non-residents	499.76	619.58	453.09	441.31	422.83	**-4.2**	**-15.4**
Central Bank	**9841.94**	**10016.57**	**10820.24**	**10415.71**	**10618.21**	**1.9**	**7.9**
Claims on Non-residents	11192.19	11361.78	12075.90	11697.66	11733.04	**0.3**	**4.8**
Liabilities to Non-residents	1350.25	1345.21	1255.66	1281.95	1114.83	**-13.0**	**-17.4**
Net Foreign Assets Total	**15042.62**	**14740.19**	**14857.64**	**15015.09**	**15222.12**	**1.4**	**1.2**

Source: Central Bank of Lesotho

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



Source: Central Bank of Lesotho

Components of M2

During the fourth quarter of 2019, broad money (M2) increased by 2.5 per cent, relative to a 7.5 per cent decline in the previous quarter. This was underpinned by an increase of 6.9 per cent in narrow money (M1), which was, however, moderated by a 0.7 per cent fall in quasi money. The growth in M1 follows a rise in transferable deposits by business enterprises, particularly deposits by the manufacturing and communication sectors. On the contrary, the fall in quasi money was at the back of a decline in other deposits by households.

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

	2018	2019				Changes (%)	
	Dec	Mar	Jun	Sep	Dec	Quarterly	Annual
Broad Money (M2)	**13400.60**	**13135.38**	**12859.94**	**11897.70**	**12195.22**	**2.5**	**-9.0**
Narrow Money (M1)	**6158.64**	**6087.97**	**5499.41**	**4988.36**	**5333.90**	**6.9**	**-13.4**
Currency Outside DCs	1040.50	1014.01	1003.29	1031.27	1148.90	**11.4**	**10.4**
Transferable Deposits	5118.14	5073.97	4496.12	3957.09	4185.00	**5.8**	**-18.2**
Quasi Money	**7241.96**	**7047.41**	**7360.54**	**6909.34**	**6861.32**	**-0.7**	**-5.3**
Other Deposits Commercial Banks	7185.42	6993.31	7306.83	6855.28	6811.49	**-0.6**	**-5.2**
Other Deposits Central Bank	56.54	54.09	53.71	54.06	49.83	**-7.8**	**-11.9**

Source: Central Bank of Lesotho

CREDIT EXTENSION

Trends of Credit Extended to Business Enterprises

In the quarter ending December 2019, total credit extended to business enterprises declined by 6.8 per cent following a growth of 6.5 per cent observed during the previous quarter. The sectors that experienced the most decline in credit were mining and non-bank financial institutions' (NBFI) real estate and business services, while an increase in credit to Construction and transport, storage and Communication sectors moderated the decrease. The fall in credit was mainly attributable to the retirement of loans extended to the mining sector, which more than offset the newly extended credit within the sector. On an annual basis, growth in credit to business enterprises rose by 3.6 per cent, following an increase of 8.2 per cent in the previous quarter.

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

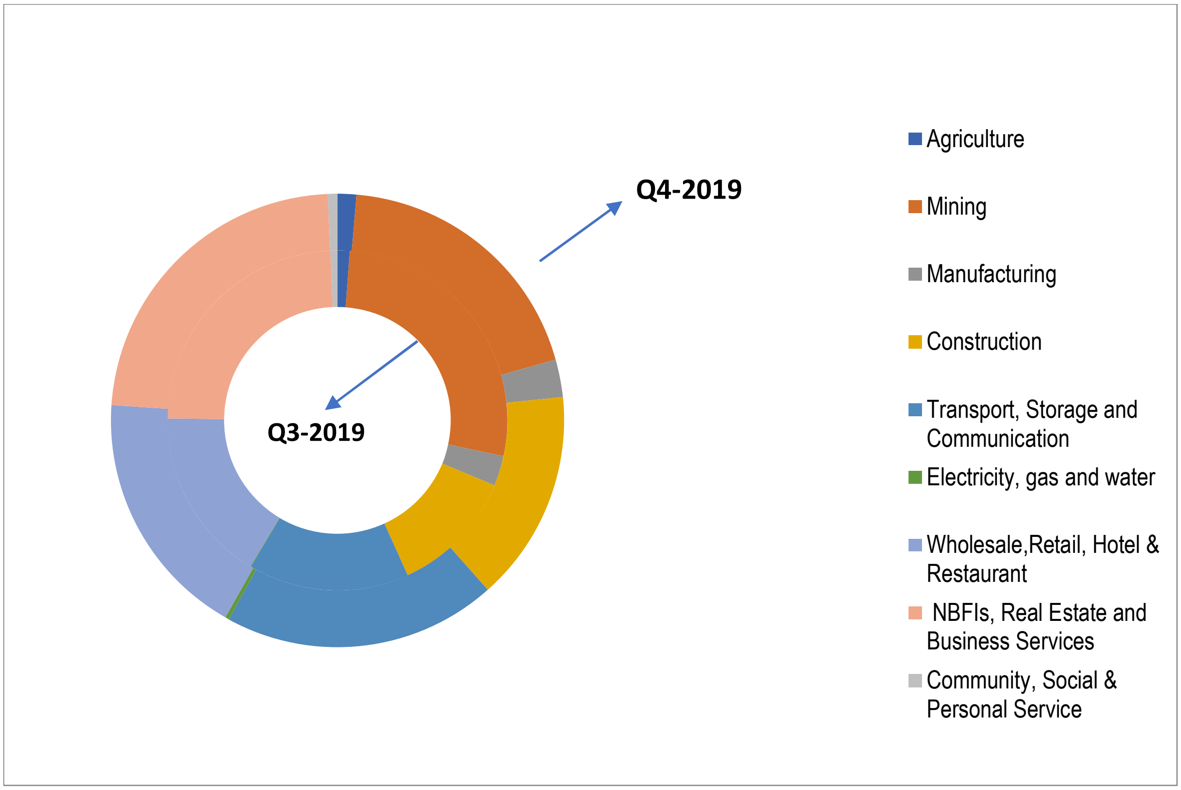
	2018	2019				Changes (%)	
SECTOR	**Dec**	**Mar**	**Jun**	**Sep**	**Dec**	**Quarterly**	**Annual**
Agriculture	30.31	29.16	23.48	27.09	29.23	**7.9**	**-3.6**
Mining	379.73	353.32	505.67	633.92	419.93	**-33.8**	**10.6**
Manufacturing	174.08	104.06	95.92	66.79	57.95	**-13.2**	**-66.7**
Electricity, gas and water	46.21	51.05	68.49	1.95	6.46	**231.8**	**-86.0**
Construction	301.83	277.17	297.23	278.94	328.05	**17.6**	**8.7**
Wholesale, Retail, Hotel & Restaurant	261.68	355.29	320.60	386.68	387.47	**0.2**	**48.1**
Transport, Storage and Communication	349.65	346.82	355.77	355.94	423.67	**19.0**	**21.2**
NBFIs, Real Estate and Business Services	553.24	492.96	503.99	562.78	504.62	**-10.3**	**-8.8**
Community, Social & Personal Service	0.89	17.69	17.01	15.52	14.97	**-3.5**	**1584.4**
All Sectors	**2097.60**	**2027.52**	**2188.16**	**2329.62**	**2172.34**	**-6.8**	**3.6**

Source: Central Bank of Lesotho

Distribution of credit Extended to Business Enterprises

Considering the distribution of credit extended to business enterprises, the biggest shares were allocated to NBFI's, real estate and business services, transport, storage and communication and mining sectors at 23.2 per cent, 19.5 per cent and 19.3 per cent, respectively. Electricity, gas and water, community social and personal services and agriculture sectors continued to receive the smallest shares of credit.

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

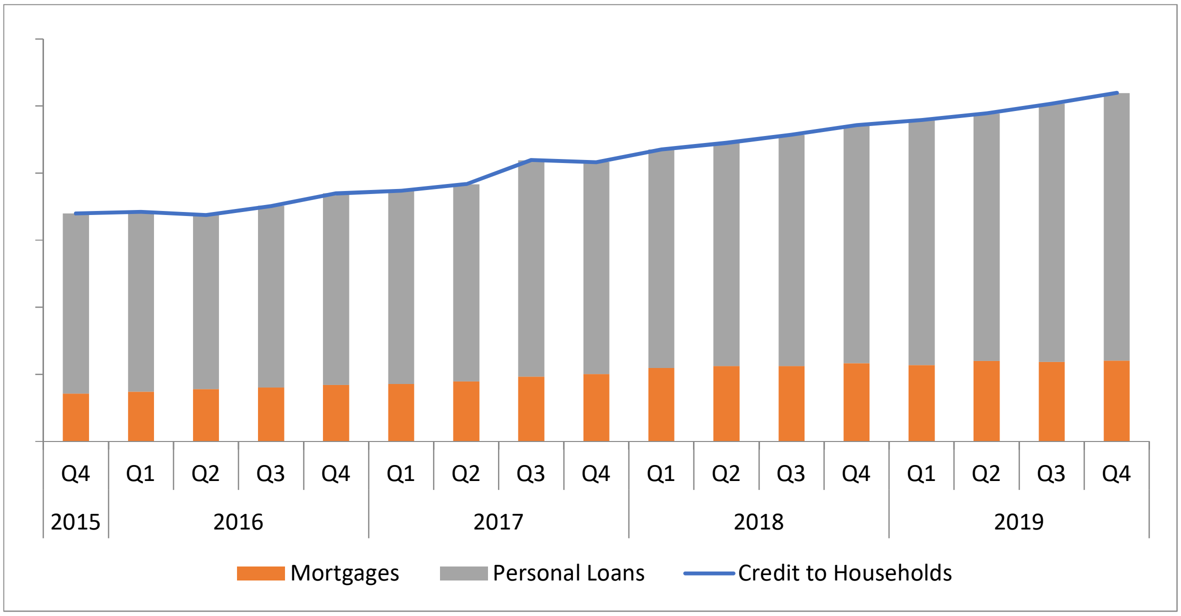


Source: Central Bank of Lesotho

Credit extended to Households

On a quarterly basis, credit to households grew at 3.2 per cent, relative to a growth of 3.0 per cent in the third quarter of the year. This growth was supported by an increase in both personal loans and mortgages. Personal loans increased by 3.6 per cent in the quarter under review, compared with a growth of 4.3 per cent registered in the preceding quarter, and this was mainly due to the ease of access to unsecured credit through different banking channels. Moreover, extension of mortgages picked up from a decline of 0.9 per cent to 1.6 per cent quarter on quarter. On a year-on-year basis, growth in household credit increased by 10.2 per cent, following an increase of the same magnitude in the preceding quarter.

Figure 15: 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 grew marginally to 57.1 per cent, from 57.0 per cent observed in the third quarter of 2019. This was influenced by the growth of private sector credit that surpassed the decline in total deposits. The liquidity ratio in the review quarter declined to 59.0 per cent from 64.9 per cent registered in the previous quarter, mainly on account of a decline in balances due from banks in SA.

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

	2018	2019			
	Dec	Mar	Jun	Sep	Dec
Credit to Deposit Ratio	**54.5%**	**55.6%**	**59.0%**	**57.0%**	**57.1%**
Private Sector Credit	6712.99	6717.45	6971.13	7256.52	7257.25
Total Deposits	12316.54	12089.31	11824.96	12730.49	12708.95
Liquidity Ratio	**71.6%**	**70.1%**	**65.8%**	**64.9%**	**59.0%**
Notes and Coins	741.60	407.22	438.74	429.56	726.47
Balance due from banks in Lesotho	1779.25	1260.47	1261.56	1348.06	1100.93
Balance due from banks in SA	4949.68	4771.92	3909.05	4158.96	3311.62
Surplus funds	-45.72	82.02	163.44	198.74	192.93
Government Securities	1396.23	1950.66	2013.54	2128.67	2162.87
Total	**8821.04**	**8472.28**	**7786.33**	**8263.98**	**7494.83**

Source: Central Bank of Lesotho

Commercial Banks Sources of Funds

The commercial banks' total deposits, which are the main sources of funds for the banks, dropped by 0.2 per cent during the review quarter. This was mostly due to a 10.7 per cent decline in the deposits held by state owned enterprises. However, the decline in total deposits was moderated by an increase of 5.8 per cent in transferable deposits held by business enterprises.

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

	2018	2019				Changes (%)	
	Dec	Mar	Jun	Sep	Dec	Quarterly	Annual
Transferable Deposits Incl. in BM	**5118.14**	**5073.97**	**4496.12**	**3957.09**	**4185.00**	**5.8**	**-18.2**
Other Financial Corporations	32.99	52.03	42.01	36.67	52.27	**42.5**	**58.4**
Public Nonfinancial Corporations	60.58	99.82	60.10	51.98	60.37	**16.2**	**-0.3**
Private Sector	5006.88	4904.43	4376.31	3775.99	4019.06	**6.4**	**-19.7**
Other NFCs	3471.06	3473.25	2927.53	2461.04	2781.99	**13.0**	**-19.9**
Other Sectors (Households)	1535.82	1431.18	1448.79	1314.95	1237.07	**-5.9**	**-19.5**
Other Deposits Incl. in BM	**7185.42**	**6993.31**	**7306.83**	**6855.28**	**6811.49**	**-0.6**	**-5.2**
Other Financial Corporations	58.20	163.82	51.89	252.00	273.45	**8.5**	**369.8**
Public Nonfinancial Corporations	254.00	499.24	450.57	385.72	329.13	**-14.7**	**29.6**
Private Sector	6873.21	6330.25	6804.37	6217.55	6208.92	**-0.1**	**-9.7**
Other NFCs	4941.00	4279.08	4676.05	4127.20	4184.67	**1.4**	**-15.3**
Other Sectors (Households)	1932.21	2051.17	2128.32	2090.35	2024.24	**-3.2**	**4.8**
Deposits excluded in BM	**12.99**	**22.03**	**22.02**	**1918.12**	**1712.47**	**-10.7**	**13086.0**
Total Deposits	**12316.54**	**12089.31**	**11824.96**	**12730.49**	**12708.95**	**-0.2**	**3.2**

Source: Central Bank of Lesotho

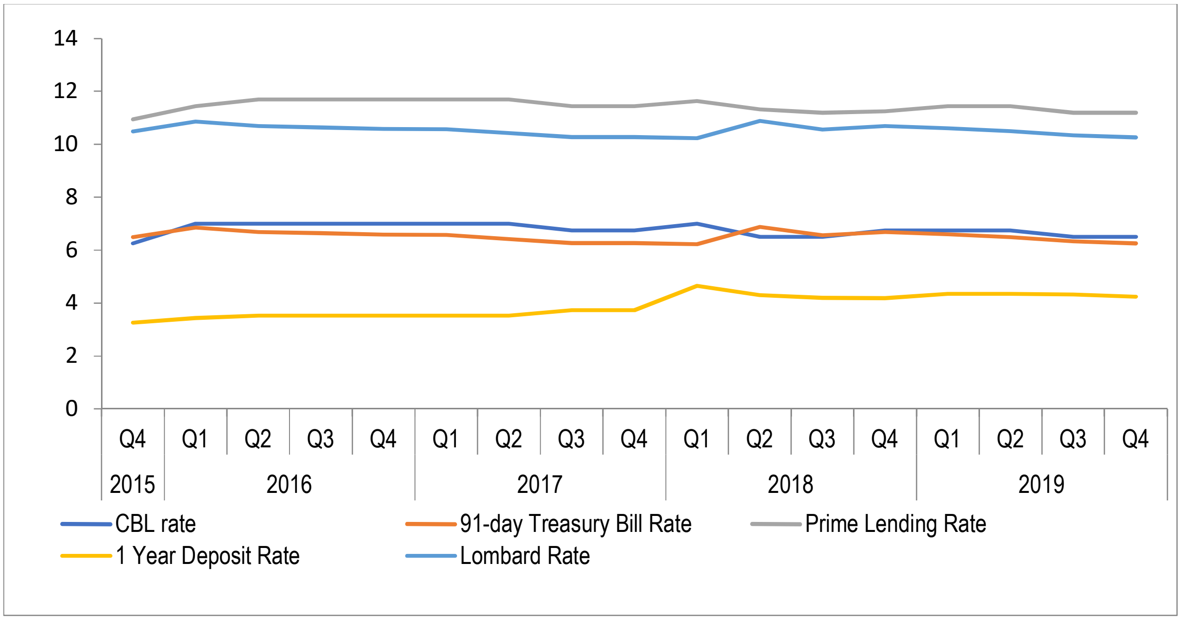
MONEY AND CAPITAL MARKET DEVELOPMENTS

Money Market

Interest Rates

The CBL Policy rate remained unchanged at 6.50 per cent in the review quarter, following the Monetary Policy Committee decision to leave it unchanged during its meeting in November. The average prime lending rate also remained unchanged at 11.19 per cent while the 91-day Treasury bill rate and the 1-year deposit rate declined falling from 6.34 per cent and 4.32 per cent to 6.26 per cent and 4.24 per cent, respectively.

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



Source: Central Bank of Lesotho

Table 9: Interest rates

	2018			2019	
	Dec	**Mar**	**Jun**	**Sep**	**Dec**
Central Bank					
CBL rate	6.75	6.75	6.50	6.50	6.50
91 day T-Bill Rate	6.69	6.60	6.49	6.34	6.26
Lombard Rate	10.69	10.60	10.49	10.34	10.26
Commercial Banks					
Call	1.12	1.22	1.22	1.09	1.09
Time:					
31 days	0.35	0.70	0.70	0.70	0.70
88 days	1.33	1.34	1.34	2.08	2.08
6 months	2.54	2.65	2.65	3.25	3.25
1 year	4.19	4.34	4.44	4.32	4.24
Savings	0.70	0.70	0.70	0.70	0.70
Prime	11.25	11.44	11.44	11.19	11.19
South Africa					
Repo	6.75	6.75	6.75	6.50	6.50
T-Bill Rate - 91 days	7.48	6.98	7.10	6.87	7.16
Marginal Lending Rate					
Prime	10.25	10.25	10.25	10.00	10.00

Source: Central Bank of Lesotho

Holding of Treasury Bills and T-Bill rates

There were no major Treasury bill issuances for monetary policy purposes during the review quarter. As a result, the total treasury bills holding increased slightly from 1418.25 to 1418.58 million between September and December 2019.

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

	2018			2019	
	Dec	**Mar**	**Jun**	**Sep**	**Dec**
Treasury Bills	**875.25**	**1476.77**	**1420.08**	**1418.25**	**1418.58**
Banking System	620.88	1223.79	1165.45	1170.00	1176.91
Non-Bank Sector	254.37	252.98	254.63	248.25	241.67
Memorandum Item					
Yield Bills (91-days)	6.80	6.71	6.60	6.44	6.34

Source: Central Bank of Lesotho

Holding of Treasury Bonds

Following a Treasury bonds auction held for the support of fiscal policy operations, the total Treasury bonds holdings improved by 2.2 per cent in the review quarter, from a growth of 7.1 per cent recorded in the third quarter of the year. The treasury bonds held by the baking sector increased by 4.4 per cent while those held by the non-bank sector grew by 0.4 per cent between the second and third quarter of 2019.

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

	2018			2019	
	Dec	**Mar**	**Jun**	**Sep**	**Dec**
Holding of Treasury Bonds	**1,584.66**	**1,732.22**	**1,867.96**	**2000.54**	**2044.67**
Banking System	786.12	760.97	883.30	923.66	963.96
Non-Bank Sector	798.54	971.25	984.67	1076.88	1080.71

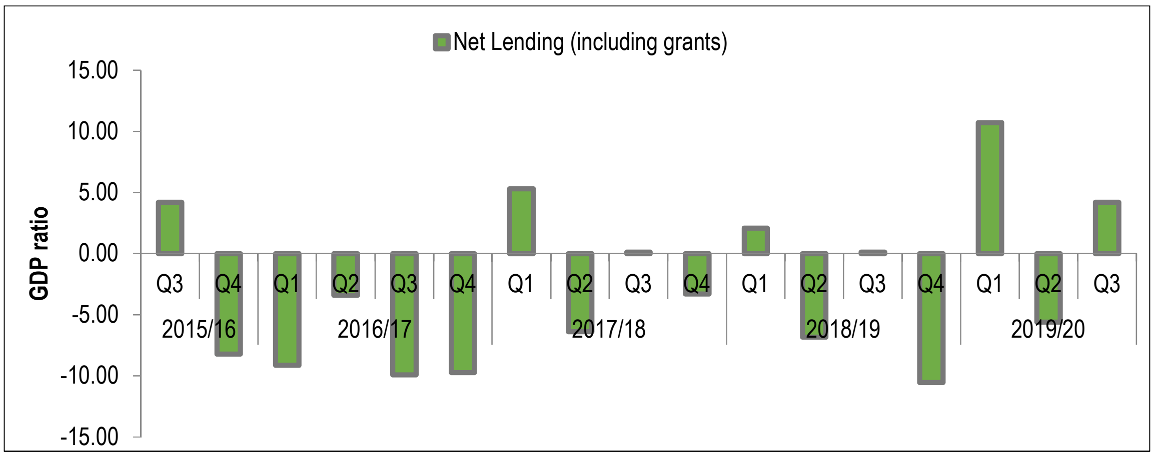
Source: Central Bank of Lesotho

5. Government Finance

OVERVIEW

The Government budgetary operations were estimated to have registered a fiscal surplus equivalent to 4.2 per cent of GDP during the third fiscal quarter of 2019/20, in contrast to a revised deficit worth 5.6 per cent of GDP in September 2019. This surplus was on account of lower government spending. The public sector debt stock was estimated at 45.7 per cent of GDP in December 2019, following the revised 45.0 per cent of GDP in the previous quarter. The increase in the stock of debt was mainly driven by the exchange rate effect on foreign currency denominated debt.

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

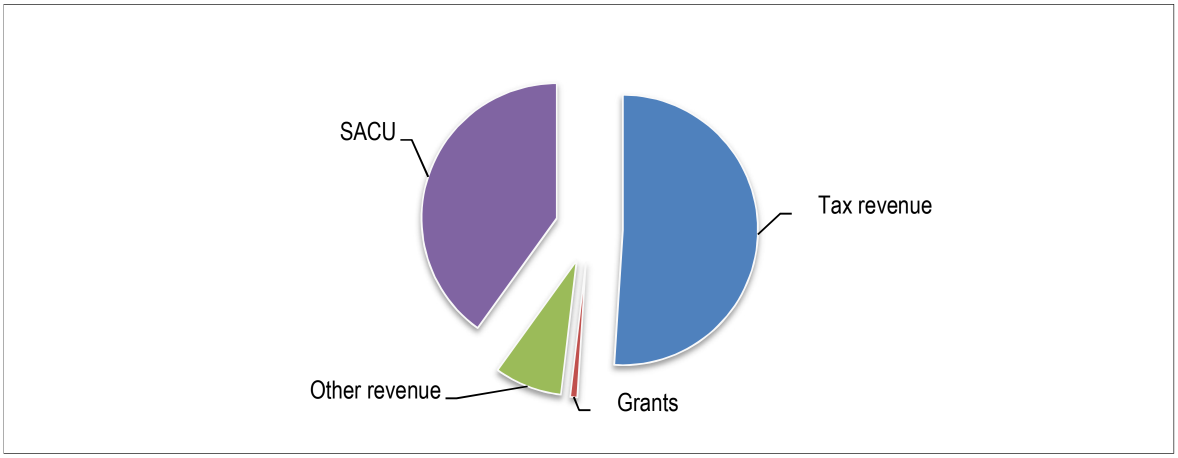


Source: Central Bank of Lesotho (CBL) and Ministry of Finance (MOF)

REVENUE

Government revenue fell by 1.6 per cent in the quarter under review compared to 3.2 rise in the previous quarter. This was mainly on account of relatively poor performance in collections of VAT, excise tax (except petroleum levy), water royalties and proceeds from 'Muela electricity sales. However, the increase in revenue from income tax and mining royalties moderated the fall. On an annual basis, Government revenue increased by 2.6 per cent during the review fiscal quarter compared with rise of 12.9 per cent in the previous quarter.

Figure 18: Total Revenue *(Percentage Share)*

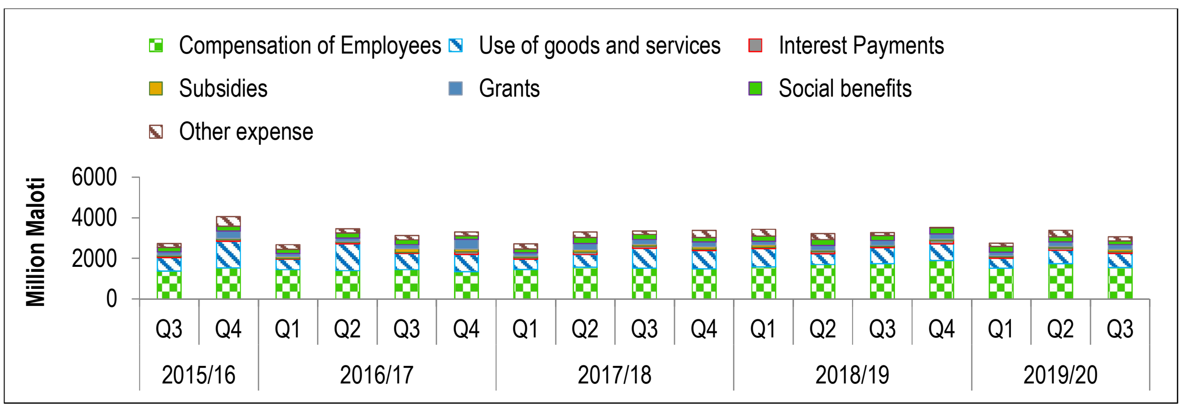


Source: CBL and MOF

TOTAL EXPENDITURE

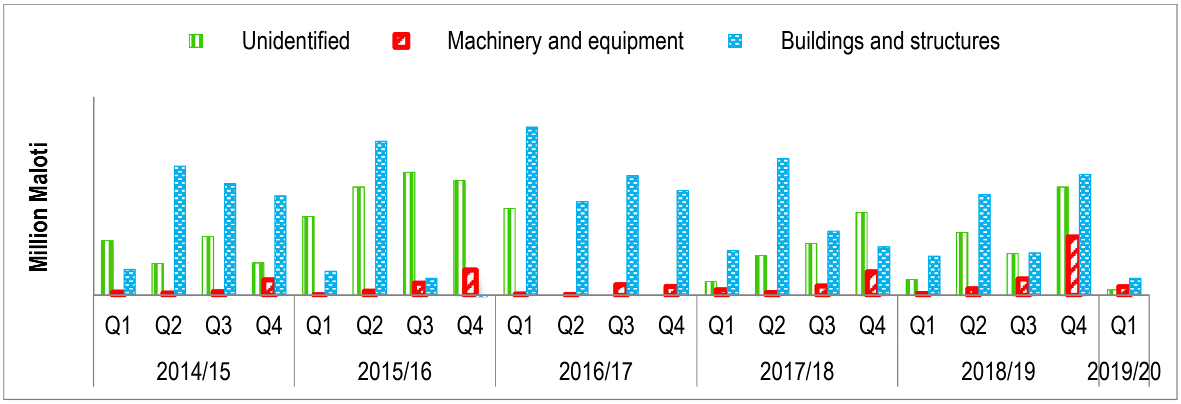
The Government expenditure decreased by 21.0 per cent in the quarter ending in December 2019, in contrast to a revised increase of 49.6 per cent in the previous quarter. The reduction in spending was realised in personnel emoluments, travel and transport, external interest payments, students loan bursary, social benefits, dwellings, other structures, and machinery and equipment. On an annual basis, total expenditure fell by 7.5 per cent in the fiscal quarter under review, relative to a revised increase of 8.5 per cent in the previous quarter.

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



Source: CBL and MOF

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



Source: CBL and MOF

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

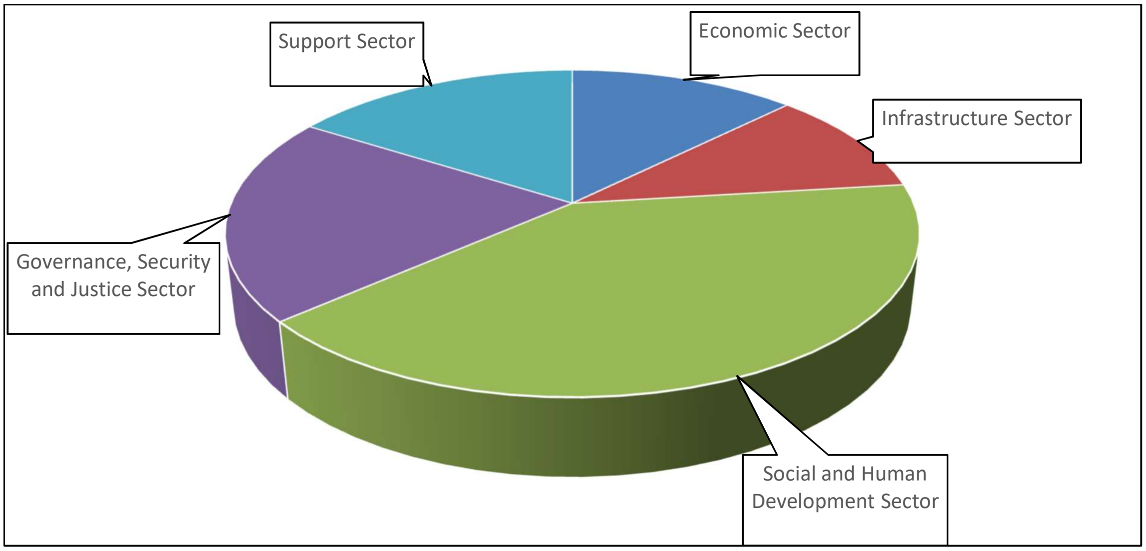
		2018/19		2019/20			Y-on-Y (%)	GDP ratio (%)
		Q3	Q4	Q1	Q2	Q3		
1	**Total Revenue**	**3788.99**	**4060.73**	**3827.01**	**3951.21**	**3887.13**	**2.6**	**41.6**
11	Tax revenue	1947.98	2253.69	1717.27	2005.82	1983.02	**1.8**	21.2
	O/W Income Tax	1088.74	1122.30	934.55	1040.05	1087.54	**-0.1**	11.6
	O/W Value Added Tax	703.87	755.46	689.96	774.39	719.02	**2.2**	7.7
13	Grants	18.68	22.94	16.09	19.29	32.76	**75.3**	0.4
14	Other revenue	436.76	398.53	537.09	369.54	314.79	**-27.9**	3.4
	SACU receipts	1385.56	1385.56	1556.55	1556.55	1556.55	**12.3**	16.7
2	**Total Expense**	**3271.50**	**3518.14**	**2747.39**	**3384.31**	**3054.90**	**-6.6**	**32.7**
21	Compensation of Employees	1738.40	1886.96	1513.64	1743.38	1542.37	**-11.3**	16.5
22	Use of goods and services	792.03	828.80	497.25	652.38	706.14	**-10.8**	7.6
	O/W Purchase of Health Services	571.71	49.16	256.51	232.74	260.89	**-54.4**	2.5
24	Interest Payments	59.63	147.77	60.30	109.08	66.65	**11.8**	0.7
25	Subsidies	58.70	91.30	53.73	81.97	136.60	**132.7**	1.5
26	Grants	237.09	249.56	173.38	217.47	226.46	**-4.5**	2.4
27	Social benefits	233.52	304.92	287.95	259.86	181.54	**-22.3**	1.9
28	Other expense	152.13	8.83	161.15	320.16	195.14	**28.3**	2.1
	Net Operating Balance	**517.49**	**542.59**	**1079.62**	**566.89**	**832.23**	**60.8**	**8.9**
31	**Total Nonfinancial Assets**	**505.05**	**1451.72**	**208.97**	**1037.78**	**439.18**	**-13.0**	**4.7**
311	Fixed Assets	505.05	1446.92	208.97	1037.78	439.18	-13.0	4.7
314	Non-Produced Assets	0.00	4.80	0.00	0.00	0.00	-	0.0
2M	**Expenditure (2+31)**	**3776.55**	**4969.86**	**2956.36**	**4422.09**	**3494.08**	**-7.5**	**37.4**
	Net lending (+)/borrowing(-)	**12.44**	**-909.13**	**870.65**	**-470.88**	**393.05**	**-**	**4.2**
	Financing	**282.43**	**-985.86**	**651.97**	**-847.46**	**111.92**	**-**	**1.2**
32	Net Acquisition of Financial assets	-54.73	238.66	793.61	-567.64	137.67	-	1.5
	O/W Domestic Currency and Deposits	-62.49	238.66	681.32	-590.19	129.03	-	1.4
33	Net Incurrence of Liabilities	-337.16	1224.52	141.64	279.83	25.75	-	0.3
	O/W Domestic Other Accounts Payable	**-429.85**	**793.53**	**62.89**	**175.32**	**120.03**	-	1.3
	Statistical Discrepancy	-269.99	76.73	218.68	376.58	281.13	-	3.0

Source: CBL and MOF

SECTORAL OUTLAYS BY FUNCTIONS OF GOVERNMENT[4]

The social sector appropriated the largest share of spending at 40.4 per cent. The least spending was by the economic and infrastructure sectors which ranked fourth and fifth, respectively. This was in line with government obligation to provide social securities and social safety nets. The distribution of spending was 80.2 per cent recurrent outlays, and the remaining 18.8 per cent development spending.

Figure 21: Total Outlays by Functions of Government *(Percentage Share)*



Source: MOF

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

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

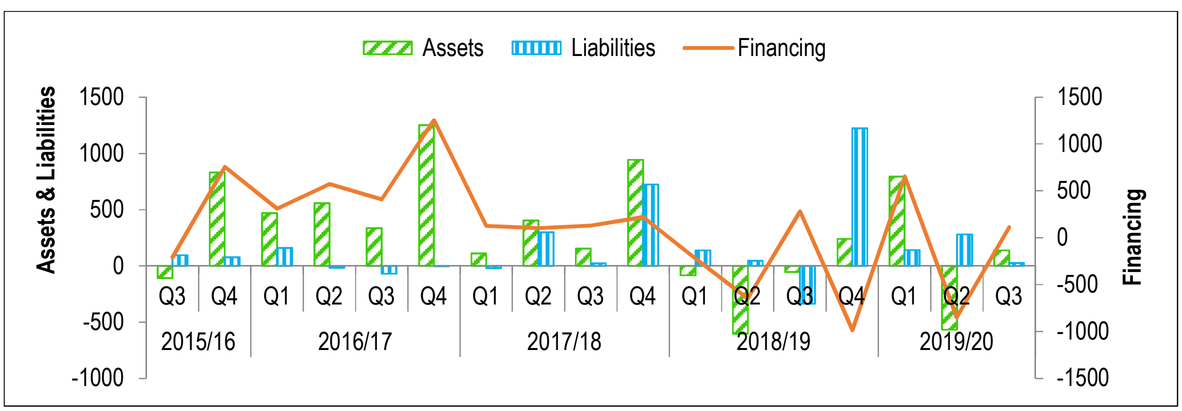
	2018/19		2019/20			Y-on-Y (%)	GDP ratio (%)
	Q3	Q4	Q1	Q2	Q3		
Recurrent Outlays	**2657.83**	**2414.20**	**2188.99**	**2619.78**	**2463.52**	-7.3	26.4
Economic Sector	256.63	183.55	180.56	245.35	239.01	-6.9	2.6
Infrastructure Sector	201.03	188.59	118.57	134.68	120.91	-39.9	1.3
Social and Human Development Sector	1238.70	1052.17	1012.77	1062.06	1183.76	-4.4	12.7
Governance, Security and Justice Sector	536.98	520.73	493.76	644.56	518.69	-3.4	5.6
Support Sector	424.49	469.15	383.33	533.12	401.16	-5.5	4.3
Capital Outlays	**452.16**	**1260.40**	**261.76**	**1169.36**	**606.97**	34.2	6.5
Economic Sector	56.32	155.51	25.38	110.26	147.94	162.7	1.6
Infrastructure Sector	151.81	622.13	56.55	764.32	201.09	32.5	2.2
Social and Human Development Sector	47.90	120.12	2.56	55.58	58.18	21.5	0.6
Governance, Security and Justice Sector	117.66	206.24	86.37	142.43	107.99	-8.2	1.2
Support Sector	78.48	156.40	90.90	96.78	91.78	16.9	1.0
Total Outlays	**3109.98**	**3674.59**	**2450.75**	**3789.14**	**3070.49**	-1.3	32.9
Economic Sector	312.95	339.06	205.95	355.61	386.95	23.6	4.1
Infrastructure Sector	352.84	810.72	175.11	899.00	321.99	-8.7	3.4
Social and Human Development Sector	1286.60	1172.29	1015.33	1117.64	1241.94	-3.5	13.3
Governance, Security and Justice Sector	654.63	726.97	580.13	786.98	626.68	-4.3	6.7
Support Sector	502.96	625.55	474.23	629.90	492.93	-2.0	5.3
Unidentified Outlays	**707.48**	**831.96**	**493.00**	**501.17**	**429.64**	**-39.3**	**4.6**

Source: MOF

FINANCIAL ASSETS AND LIABILITIES

The quarterly fiscal surplus contributed to the accumulation of Government deposits in the banking system. The Government liabilities increased as a result of issuance of domestic Treasury bonds, which were, however, moderated by a fall in foreign liabilities. The outstanding arrears were estimated at 1.3 per cent of GDP during the quarter under review compared with 2.1 per cent of GDP in the quarter ending in September 2019.

Figure 22: Financing Activities *(Million Maloti)*

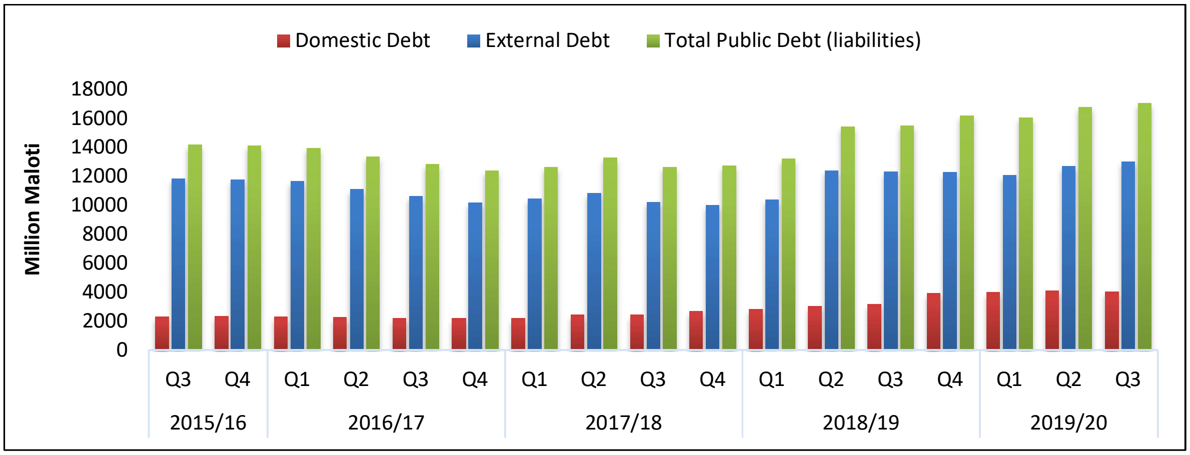


Source: CBL and MOF

TOTAL PUBLIC DEBT[5]

The public sector debt stock rose by 1.6 per cent during the quarter ending in December 2019, compared with 4.6 per cent in the previous fiscal quarter. The increase was mainly due to 2.5 per cent growth in external debt disbursed towards implementation of loan funded projects. This was, however, moderated by 1.2 per cent decrease in domestic debt during the period under review. On an annual basis, the stock of total debt increased by 10.0 per cent during the quarter, following 8.9 per cent in the previous quarter.

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



Source: CBL and MOF

[5] All categories are on net terms.

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

	2018/19		2019/20			Q-to-Q (%)	Debt/GDP (%)
	Q3	Q4	Q1	Q2	Q3		
Total Public Debt	**15,500.20**	**16,192.93**	**16,049.71**	**16,788.97**	**17,057.40**	**1.6**	**45.7**
EXTERNAL DEBT	**12,328.61**	**12,272.53**	**12,067.52**	**12,695.81**	**13,013.53**	**2.5**	**34.8**
Bilateral Loans	961.92	1,008.42	1,028.81	1,082.77	1,044.28	-3.6	2.8
Concessional	961.92	1,008.42	1,028.81	1,082.77	1,044.28	-3.6	2.8
Non-concessional	0.00	0.00	0.00	0.00	0.00	-	0.0
Multilateral Loans	10,674.92	10,276.14	10,098.76	10,670.91	11,001.83	3.1	29.5
Concessional	9,079.29	8,695.03	8,528.47	9,115.00	9,459.91	3.8	25.3
Non-concessional	1,595.63	1,581.11	1,570.29	1,555.91	1,541.92	-0.9	4.1
Financial Institutions	0.23	0.29	0.11	0.00	0.00	-	0.0
Concessional	0.00	0.00	0.00	0.00	0.00	-	0.0
Non-concessional	0.23	0.29	0.11	0.00	0.00	-	0.0
Suppliers' Credit	691.54	987.68	939.84	942.13	967.42	2.7	2.6
DOMESTIC DEBT	**3,171.60**	**3,920.41**	**3,982.19**	**4,093.16**	**4,043.87**	**-1.2**	**10.8**
Banks	2,120.69	2,696.18	2,742.89	2,768.03	2,721.48	-1.7	7.3
Long-term	1,499.81	1,472.39	1,514.32	1,534.90	1,481.45	-3.5	4.0
Treasury bonds	787.54	760.97	883.30	923.66	963.96	4.4	2.6
Central Bank (IMF-ECF)	712.27	711.42	631.02	611.25	517.49	-15.3	1.4
Short-term (T-bills)	620.88	1,223.79	1,228.57	1,233.13	1,240.04	0.6	3.3
Non-bank	1,050.90	1,224.23	1,239.30	1,325.13	1,322.38	-0.2	3.5
Short-term (T-bills)	252.37	252.98	254.63	248.25	241.67	-2.6	0.6
Long-term (t-bonds)	798.54	971.25	984.67	1,076.88	1,080.71	0.4	2.9
DEBT INDICATORS							
External Debt-to-Total Debt	79.5	75.8	75.2	75.6	76.3	-	-
Domestic Debt-to-Total Debt	20.5	24.2	24.8	24.4	23.7	-	-
Concessional Debt-to-External Debt	81.4	79.1	79.2	80.3	80.7	-	-
External Debt Service-to-GDP	1.2	2.7	1.6	2.9	2.2	-	-
External Debt Service-to-Revenue	3.1	5.7	3.4	6.2	5.3	-	-
External Debt Service-to-Exports	3.0	5.3	3.8	6.1	5.9	-	-

Source: CBL and MOF

6. Foreign Trade and Payments

OVERVIEW

During the last quarter of 2019, Lesotho's overall balance of payments recovered due to the improved performance of both the current account and financial account, as well as increased capital account inflows during the same quarter. As a percentage of GDP, the overall balance of payments surplus accounted for 0.4 per cent, recovering from a 4.5 per cent deficit in the previous quarter.

CURRENT ACCOUNT

The current account deficit contracted by 81.1 per cent from a revised deficit of M784.37 million in the quarter ending in September 2019 to a deficit of M141.51 million in the fourth quarter of 2019. The observed movement was attributed mainly to the significant decline in the goods and services account deficits, reflecting higher export growth and a reduction in imports during the quarter. The current account further benefited from an increase in the primary income account surplus, while the secondary income account remained muted during the quarter under review. As a share of GDP, the current account deficit accounted for 1.6 per cent compared with a revised 9.3 per cent in the previous quarter. On an annual basis, the current account balance deteriorated by more than twofold during the review quarter relative to the previous quarter.

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

	2018	2019				% Changes	
	Q4	Q1	Q2	Q3*	Q4+	Q/Q	Y/Y
Current Account	**114.93**	**-193.72**	**-41.86**	**-784.37**	**-141.51**	**81.1**	**-229.2**
(a) Goods	-2116.91	-2736.95	-2588.39	-3167.16	-2604.57	**17.8**	**-23.0**
Merchandise exports, f.o.b.	4253.73	3254.19	3917.09	3488.24	4009.49	**14.9**	**-5.7**
Of which diamonds	1462.85	1124.85	1090.7	908.93	1048.09	**15.3**	**-28.4**
Of which textiles & clothing	2150.94	1539.63	1715.94	1908.75	2203.16	**15.4**	**2.4**
Of which water	233.68	228.49	236.55	219.5	148.67	**-32.3**	**-36.4**
Of which agriculture	60.41	59.67	81.72	91.12	96.08	**5.4**	**59.0**
Of which re-exports	33.01	20.46	42.62	39.87	213.7	**436.0**	**547.4**
Other exports	312.84	281.09	749.56	320.07	299.79	**-6.3**	**-4.2**
Merchandise imports, f.o.b.	6370.64	5991.14	6505.48	6655.4	6614.06	**-0.6**	**3.8**
(b) Services	**-1484.72**	**-1528.88**	**-1505.45**	**-1573.63**	**-1532.05**	**2.6**	**-3.2**
(c) Primary Income	**1844.65**	**1880.99**	**1963.68**	**1868.04**	**1906.89**	**2.1**	**3.4**
(d) Secondary Income	**1871.90**	**2191.11**	**2088.29**	**2088.38**	**2081.22**	**0.3**	**11.2**

Source: Central Bank of Lesotho

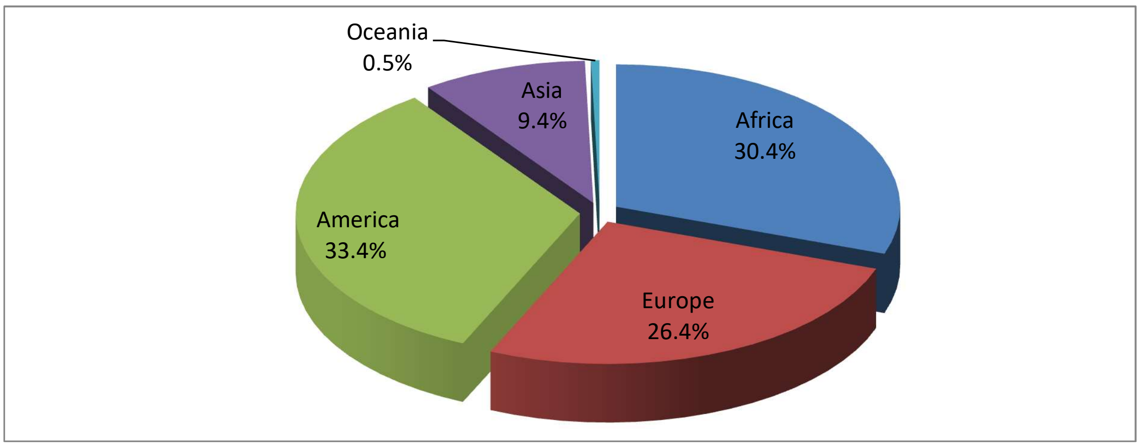
Merchandise Exports

Merchandise exports increaseed by 14.9 per cent during the last quarter of 2019 having fallen by 11.0 per cent in the preceding quarter. Merchandise exports were supported primarily by textile & clothing exports as well as diamond exports during the quarter under review. Clothing and textile exports rose by 23.7 per cent in the fourth quarter of 2019 compared with an increase of 22.7 per cent in the third quarter of 2019. Clothing and textile exports continued to be underpinned by high demand from the US as indicated by increased orders during the review period. The value of diamond exports increased by 11.2 per cent during the quarter under review following an increase of 10.8 per cent in the previous quarter. This resulted from higherprices for the larger high quality diamonds recovered at one of the mines, especially in December 2019. Merchandise exports were further supported by re-exports, which grew more than twofold on account of re-exports of machinery and transport equipment to South Africa as well as the increased number of trade partners to which re-exported goods were destined in the period under review. The observed increase in merchandise exports was however moderated by a fall in water exports due to the inspection and scheduled maintenance work on the Lesotho Highlands Water Project (LHWP) tunnel during the review quarter.

Direction of Trade - Exports

During the last quarter of 2019, the bulk of Lesotho's exports were destined to the US, constituting 33.4 per cent of total exports compared with a share of 36.0 per cent in the preceding quarter. In second place was Africa with a share of 30.4 percent from a share of 35.7 per cent in the third quarter of 2019. Europe came third with a share of 26.4 percent down from 27.6 per cent in the third quarter of 2019. Although, Asia and Oceania remained the least recipients of Lesotho exports during the review quarter, there was a noticeable jump in Asia's share, which recorded 9.4 per cent from 0.6 per cent in the previous quarter. Exports to Asia were revived by textile exports to China. Oceania's share was 0.5 per cent from 0.1 per cent in the previous quarter.

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



Source: Central Bank of Lesotho

Merchandise Imports

During the last quarter of 2019, merchandise imports slightly declined by 0.6 percent after increasing by 2.3 per cent in the previous quarter. The observed decline of merchandise imports was explained by a fall in imports of mineral products from South Africa, particularly illuminating kerosene, signifying the end of the cold weather conditions in the same quarter. Year on year, merchandise imports recorded an increase of 3.8 percent in the quarter under review compared to an increase of 5.5 per cent in the previous quarter.

Services account

Lesotho remained a net importer of services from the rest of the world, albeit at a lower rate, during the quarter under review. The services account deficit narrowed down by 2.6 per cent during the review quarter following a widening of 4.5 per cent in the preceding quarter. The observed improvement in the services account emanated from reduced payments for the telecommunications services, business travel services and freight costs during the last quarter of 2019. On an annual basis, the services account deficit continued to rise although at a slower pace of 3.2 per cent in the last quarter of 2019 relative to an increase of 6.2 per cent in the preceding quarter.

Primary Income Account

The surplus on the primary income account rose by 2.1 per cent in the quarter ending in December 2019, following a 4.9 per cent fall in the previous quarter. This reflected an increase in Lesotho Highlands Development Authority (LHDA) receipts for operational costs, coupled with lower interest payments for government foreign loans. However, the increase in the primary income account surplus was offset by a fall in returns on investments held abroad by both the commercial banks and the Central Bank. As a percentage of GDP, the surplus in the primary income account constituted 20.4 per cent, down from a revised 22.2 per cent in the prior quarter. On an annual basis, the surplus increased by 3.4 per cent, lower than a 5.6 per cent gain recorded in the third quarter of 2019.

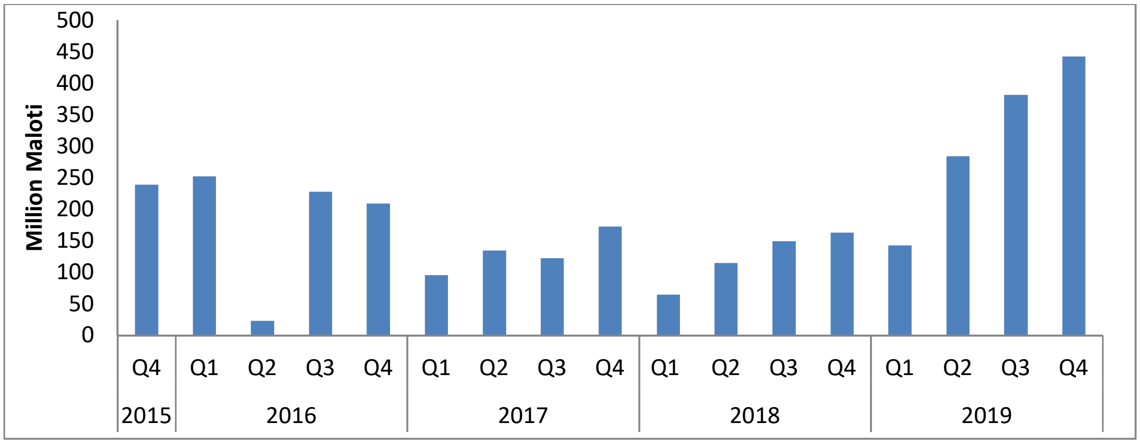
Secondary Income Account

The secondary income account surplus rose slightly by 0.3 per cent during the review period, after remaining muted in the previous quarter. This emanated from increased government's subscriptions to international organizations during the quarter under review. The SACU revenue and Rand compensation, which are the main contributors in this regard, remained unchanged. As a proportion of GDP, the surplus on the secondary income account was lower, at 22.4 per cent, relativel to the 24.9 per cent of GDP surplus observed in the quarter ending in September 2019. On an annual basis, the surplus on the secondary income account expanded at the same rate of 11.6 per cent as in the quarter ending in September 2019.

CAPITAL ACCOUNT

During the fourth quarter of 2019, the capital account inflows rose to M442.75 million from M381.97 million in the preceding quarter. Capital inflows continued to be buttressed by capital transfers for advanced infrastructure for the phase II of the LHWP. This was coupled with increased inflow of grants to the government for capital related projects. As a share of GDP, the capital account inflows constituted 4.7 per cent in the last quarter of 2019 compared to a revised 4.6 per cent of GDP in the third quarter of 2019.

Figure 25: Capital Account *(Million Maloti)*



Source: Central Bank of Lesotho

FINANCIAL ACCOUNT

An increase in the financial account net outflows amounting to M473.74 million was recorded during the quarter under review, relative to a net outflow of M385.63 million in the previous quarter. Expressed as a share of GDP, the financial account outflows amounted to 5.1 per cent of GDP compared with a revised 4.6 per cent of GDP in the quarter ending in September 2019.

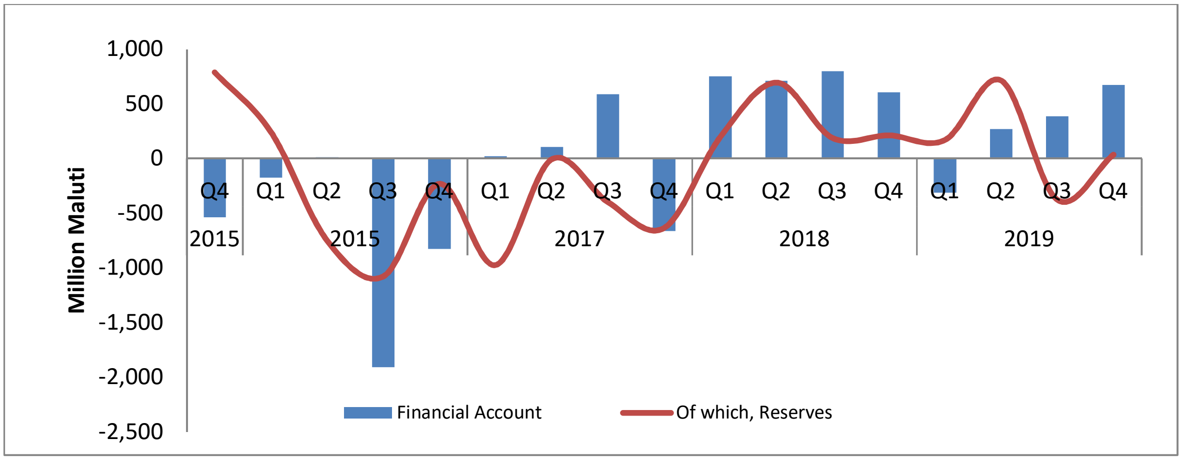
Table 16: Financial Account Balance *(Million Maloti)*

	2018		2019			
	Q3	Q4	Q1	Q2	Q3	Q4
Financial account	**799.34**	**606.34**	**-311.48**	**270.36**	**385.63**	**473.74**
Direct Investments, net	-128.90	-128.90	-128.90	-128.90	-128.90	-128.90
Portfolio Investments, net	7.10	7.10	7.10	7.10	7.10	7.10
Financial Derivatives, net	0.00	0.00	0.00	0.00	0.00	0.00
Other Investments, net	733.70	515.95	-359.26	-321.96	885.67	560.16
Of which Loans	116.76	69.31	-247.97	17.68	41.10	79.63
Claims on Non Residents	34.48	34.48	34.48	34.48	34.48	34.48
Liabilities to Non Residents	-82.28	-34.83	282.45	16.80	-6.62	-45.15
Of which Currency and Deposits	691.00	520.71	-37.23	-265.58	918.63	554.59
Claims on Non Residents	835.03	415.42	25.70	-469.77	933.14	368.99
Liabilities to Non Residents	144.03	-105.29	62.93	-204.19	14.51	-185.60
Reserve Assets	187.44	212.19	169.58	714.12	-378.24	35.38

Source: Central Bank of Lesotho

The financial account outflows were mainly on account of an increase in reserves assets during the quarter under review, relative to the preceding quarter. These were further supported by fewer disbursements of government foreign loans. Commercial banks' net foreign assets grew albeit at a slower pace relative to the preceding quarter and therefore partly offset the impact of the increase reserves assets.

Figure 26: Financial Account *(Million Maloti)*

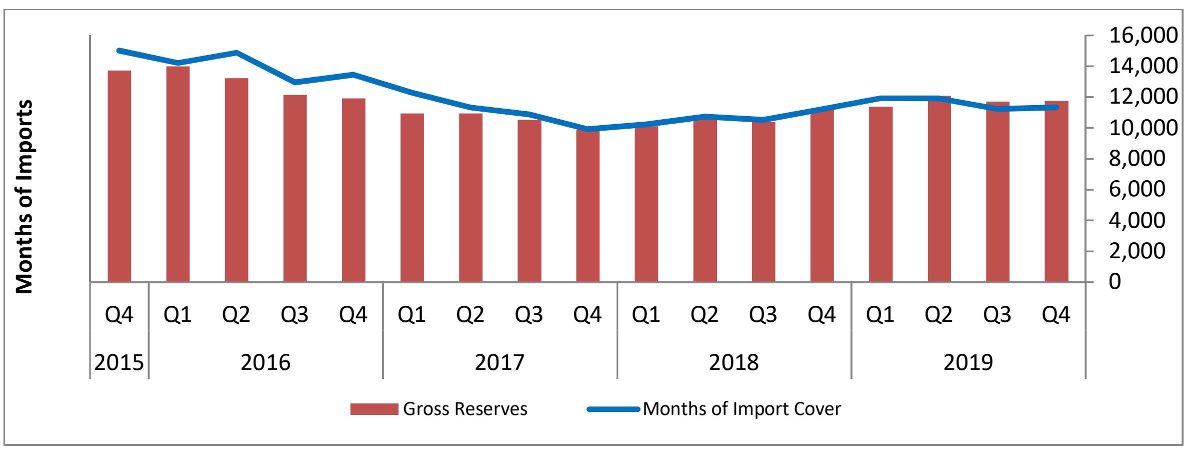


Source: Central Bank of Lesotho

RESERVE ASSETS

During the last quarter of 2019, the stock of foreign reserves rose to M11.73 billion from M11.70 billion in the third quarter of 2019. This was facilitated by a build-up of government deposits. Consequently, of the import coverage of reserves rose to 4.3 months during the review quarter from 4.2 months in the preceding quarter. The higher import coverage during the review quarter was also supported by a reduction in the import bill.

Figure 27: Reserves Assets



Source: Central Bank of Lesotho