

# Central Bank of Lesotho



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## QUARTERLY ECONOMIC REVIEW

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Maseru Kingdom of Lesotho

JUNE 2019

## Table of Contents

<b>1. Executive Summary</b> .....	<b>5</b>
<b>2. International Economic Developments</b> .....	<b>6</b>
ADVANCED ECONOMIES .....	6
EMERGING MARKET ECONOMIES .....	8
COMMODITIES .....	9
EXCHANGE RATES .....	13
<b>3. Real Sector Developments</b> .....	<b>14</b>
OVERVIEW .....	14
OUTPUT DEVELOPMENTS .....	14
EMPLOYMENT DEVELOPMENTS .....	15
PRICE DEVELOPMENTS .....	16
<b>4. Monetary and Financial Developments</b> .....	<b>19</b>
OVERVIEW .....	19
BROAD MONEY (M2) .....	19
CREDIT EXTENSION .....	21
LIQUIDITY OF COMMERCIAL BANKS .....	23
MONEY AND CAPITAL MARKET DEVELOPMENTS .....	24
<b>5. Government Finance</b> .....	<b>27</b>
OVERVIEW .....	27
REVENUE .....	27
TOTAL EXPENDITURE .....	28
SECTORAL OUTLAYS BY FUNCTIONS OF GOVERNMENT .....	30
FINANCIAL ASSETS AND LIABILITIES .....	31
TOTAL PUBLIC DEBT .....	32
<b>6. Foreign Trade and Payments</b> .....	<b>34</b>
OVERVIEW .....	34
CURRENT ACCOUNT .....	34
CAPITAL ACCOUNT .....	36
FINANCIAL ACCOUNT .....	37
RESERVE ASSETS .....	38

## List of Tables

<b>Table 1: Key World Economic Indicators</b> .....	6
<b>Table 2: Contributions to Growth</b> .....	15
<b>Table 3: Employment by LNDC Assisted Companies</b> .....	15
<b>Table 4: Inflation Rate</b> ( <i>Annual Percentage Changes</i> ) .....	17
<b>Table 5: Domestic Claims</b> ( <i>Million Maloti: End Period</i> ) .....	20
<b>Table 6: Net Foreign Assets</b> ( <i>Million Maloti: End Period</i> ) .....	20
<b>Table 7: Components of Money Supply</b> ( <i>Million Maloti: End Period</i> ) .....	21
<b>Table 8: Credit Extension by Economic Activity</b> ( <i>Million Maloti</i> ) .....	22
<b>Table 9: Components of Liquidity</b> ( <i>Million Maloti</i> ) .....	23
<b>Table 10: Sources of funds for ODCs</b> ( <i>Million Maloti</i> ) .....	24
<b>Table 11: Interest rates</b> .....	25
<b>Table 12: Holding of Bills and Yields</b> ( <i>Million Maloti</i> ) .....	26
<b>Table 13: Holding of Bonds</b> ( <i>Million Maloti</i> ) .....	26
<b>Table 14: Statement of Government Operations</b> ( <i>Million Maloti</i> ) .....	29
<b>Table 15: Sector Outlays by Functions of Government</b> ( <i>Million Maloti</i> ) .....	31
<b>Table 16: Public Debt Stock</b> ( <i>Million Maloti</i> ) .....	33
<b>Table 17: Current Account Balance</b> ( <i>Million Maloti</i> ) .....	34
<b>Table 18: Financial Account Balance</b> ( <i>Million Maloti</i> ) .....	37

## List of Figures

Figure 1: Average Price of Gold.....	10
Figure 2: Average Price of Platinum .....	10
Figure 3: Average Price of Oil.....	11
Figure 4: Average Price of Maize .....	12
Figure 5: Average Price of Wheat .....	12
Figure 6: Nominal Exchange Rate of Loti against Major Trading Currencies.....	13
Figure 7: Quarterly Indicator of Economic Activity .....	14
Figure 8: Government Employment ( <i>Annual Percentage Change</i> ).....	16
Figure 9: Migrant Mineworkers ( <i>Annual Percentage Changes</i> ) .....	16
Figure 10: Core vs Headline Inflation.....	17
Figure 11: Lesotho and South Africa's Inflation .....	18
Figure 12: Broad Money (M2).....	19
Figure 13: Net Foreign Assets ( <i>percentage shares</i> ) .....	21
Figure 14: Distribution of Credit ( <i>Percentage Shares</i> ) .....	22
Figure 15: Credit Extension to Household ( <i>Million Maloti</i> ) .....	23
Figure 16: Short Term Interest Rates ( <i>Per Cent per Annum</i> ) .....	25
Figure 17: Fiscal Balance ( <i>Per cent of GDP</i> ) .....	27
Figure 18: Total Revenue ( <i>Percentage Share</i> ) .....	28
Figure 19: Total Expense or Recurrent Expenditure ( <i>Million Maloti</i> ) .....	28
Figure 20: Total Non-financial assets or Capital expenditure ( <i>Million Maloti</i> ) .....	29
Figure 21: Total Outlays by Functions of Government ( <i>Million Maloti</i> ).....	30
Figure 22: Financing Activities ( <i>Million Maloti</i> ) .....	31
Figure 23: Outstanding Public Debt ( <i>Million Maloti</i> ).....	32
Figure 24: Direction of Merchandise Exports ( <i>Percentage Share</i> ) .....	35
Figure 25: Capital Account ( <i>Million Maloti</i> ) .....	37
Figure 26: Financial Account ( <i>Million Maloti</i> ).....	38
Figure 27: Reserves Assets.....	38

# 1. Executive Summary

The global economy continued to slowdown during the second quarter of 2019, with real GDP growth in major global economies weakening on account of subdued trade and investment. The emerging market and developing economies also experienced weaker investment and manufacturing output. Labour market conditions improved in the most economies but deteriorated in South Africa. Inflationary pressures abated globally but, most economies kept their monetary policy stances unchanged and generally accommodative in order to support growth.

The domestic economic activity declined during the second quarter of 2019 due to a contraction in domestic demand and the supply side of the economy. The CBL's composite indicator of economic activity (CIEA) declined by 0.9 per cent during the review period. The decline in the domestic demand was seen in, among others, the reduction in imports and VAT collections, while the reduction in the supply side emanated mainly from reduced manufacturing output. The labour market performance remained under pressure with the level of employment in LNDC-assisted companies, Government of Lesotho and migrant mineworkers declining during the quarter. Headline inflation accelerated in June 2019 as a result of higher increases in food and energy prices.

The supply of money continued to fall during the quarter under review, due to a decline in Domestic Claims while Net Foreign Assets moderated the fall. The reduction in the Domestic Claims was attributable to a slow execution of the government budget of the government which led to a build-up of government deposits at the Central Bank. However, a rise in NFA was observed, emanating from a growth in the NFA of the Central Bank. Private sector credit grew on account of credit extended to business enterprises.

during the quarter ending in June 2019, Government budgetary operations resulted in a fiscal surplus. The fiscal surplus was mainly driven by slow budget execution on most expense categories and infrastructure-related spending. The stock of public debt increased due to a rise in both external and domestic debt.

Lesotho's external sector position improved somewhat during the second quarter of 2019. The current account deficit narrowed as a result of improved balances in the primary and services accounts. The capital account surplus was also realised due to increased grants-financed government capital projects and capital inflows for construction of advance infrastructure under Phase II of the LHWP. The level of official reserves rose to 4.6 months of import coverage.

## 2. International Economic Developments

The signs of a slowdown in growth in the global economy were imminent during the second quarter of 2019. Real GDP growth in major global economies, including the US, China, the UK and the Euro Area, weakened. Declines in trade and investment generally drive this slowdown. A heightened level of uncertainty with regard to trade policy, coupled with escalating geopolitical tensions, indicated that the downside risks to growth were rising in the global economy. Activity in the emerging and developing economies softened, as weaker trade negatively affected investment and manufacturing output. Labour markets improved in advanced countries, with unemployment falling further. However, the unemployment situation worsened in South Africa, with the jobless rate reaching a record high. Inflationary pressures subsided in advanced countries, driven mainly by falling food prices. The key policy rates remained broadly unchanged, and the monetary policy stances remained accommodative, in both advanced and emerging economies.

Rising risks and uncertainties in the global economy and markets increased demand for safe haven assets such as gold, hence the increase in their prices. The price of gold also benefited from marked demand from central banks as they built up their gold reserves. The supply glut of maize and wheat in the global markets led to a decline in their prices. Oil prices rose during the quarter. This was driven mostly by tighter supply conditions as OPEC and its allied countries continued with output cuts, and this together with a US ban on Iran oil imports and heightened geopolitical tension supported oil prices. The rand, depreciated against the US dollar, pound sterling and the euro. This was partly due to fears of a global growth slowdown and an intensification of trade tariffs between the US and China. Furthermore, the unveiling of the South African government's plan to raise funding to support Eskom increased the odds for sovereign credit downgrade and led to capital outflows, hence selloff of rand denominated assets. However, rand depreciation was pared by the election of a market friendly president.

**Table 1: Key World Economic Indicators**

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	Q1 2019	Q2 2019	Q1 2019	Q2 2019	Q1 2019	Q2 2019	Q1 2019	Q2 2019
<b>United States</b>	2.7	2.3	1.9	1.6	2.50	2.50	3.8	3.7
<b>Euro Area</b>	1.3	1.2	1.4	1.2	0.00	0.00	7.7	7.5
<b>Japan</b>	1.0*	1.0	0.5	0.7	-0.10	-0.10	2.5	2.3
<b>United Kingdom</b>	1.8	1.2	1.9	2.0	0.75	0.75	3.8	N/A
<b>China</b>	6.4	6.2	2.3	2.7	4.35	4.35	3.7	3.6
<b>India</b>	5.8	5.0	2.9	3.2	6.50	6.25	N/A	N/A
<b>South Africa</b>	0.0	0.9	4.5	4.5	6.75	6.75	27.6	29.0

**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 slowed down in the second quarter of 2019. The annual GDP growth rate was recorded at 2.3 per cent, which is a weaker pace compared with the revised 2.7 per cent growth in the preceding quarter. Positive increases in the consumer and government spending were key drivers of growth, but the decline in private investment spending and trade moderated the expansion. The unemployment rate fell slightly to 3.7 per cent in the second quarter of 2019, from 3.8 per cent in the preceding quarter. Employment creation continued to be driven by the services sector, as well as a minor job increases in the manufacturing and construction sectors.

Annual inflation eased to 1.6 per cent in the quarter ending in June 2019, from 1.8 per cent in the previous quarter. The slowdown in inflation was driven by a weaker increase in the food prices and a decline in the energy costs. As a result of moderate increase in the economic activity, and strong labour market performance, the FOMC maintained the policy rate unchanged at the range of 2.25 - 2.50 per cent in the second quarter of 2019. The FOMC, however, was also cognisant of the falling inflation pressures and rising uncertainty on the growth prospects in the US. This prompted the Fed to pause its policy rate normalisation exercise.

## **Euro Area**

Economic growth in the Euro Area slipped slightly in the second quarter of 2019. Real GDP rose by 1.2 per cent, slowing down from the 1.3 per cent growth realised in the preceding quarter. There were signs of weaker activity in the manufacturing sector especially for vehicle manufactures, due to tepid demand. The unemployment rate fell to 7.5 per cent in the quarter ending in June 2019, compared with 7.7 per cent at the end of the first quarter of 2019. The decline resulted as job creation, driven by jobs in the services sector, exceeded employment losses. The youth benefited more from increased employment creation.

The annual inflation for the Euro Area increased by 1.2 per cent in the review quarter, slowing down from 1.7 per cent in the first quarter of 2019. The falling inflation was driven by the costs of energy and services, which weakened during the quarter under review. The European Central Bank kept its key policy rate unchanged at zero per cent during the second quarter. The Bank also decided to continue with asset purchase programme, but in the form of reinvesting principal from maturing bonds. The bank maintained an accommodative stance as the economy showed signs of weakness in light of a challenging external environment and subdued inflation pressures.

## **Japan**

The real GDP growth rate for Japan remained at 1.0 per cent during the second quarter of 2019. Growth was supported by increases in the consumption and investment spending. Consumer spending rose due to increased durable goods purchases, ahead of consumption tax hike in October 2019. However, a decline in the exports weighted on growth, offsetting the positive gains from consumption and investment spending.

The Unemployment rate fell to 2.3 per cent in the second quarter of 2019, from 2.5 per cent in the previous quarter. This mainly reflected increased in job creation, in the services related industries. The increase in the labour force was marginal, indicating tight labour market conditions in the country.

The annual inflation rate for Japan was 0.7 per cent in quarter ending in June 2019, compared with a 0.5 per cent in the first quarter of 2019. The increase in the inflation rate reflected rising food prices. However, the inflation rate remained below the official target rate of 2 per cent. The Bank of Japan maintained its key policy rate at -0.1 per cent in the second quarter of 2019. The Bank also decided to continue with its asset purchases programme of government bonds, among others. The asset purchase move was taken to suppress long term interest rates and keep them close to zero. The Bank's overall accommodative stance was taken to support growth and facilitate the meeting of its inflation target of 2 per cent.

## **United Kingdom (UK)**

The UK's economic activity increased at a slower pace of 1.2 per cent in the second quarter of 2019, from a 1.8 per cent increase registered in the previous quarter. This emanated from a slowdown in exports, consumer and investment spending, which together offset the increase in government spending. The unemployment rate in the UK was 3.9 per cent in the second quarter of 2019, increasing from 3.8 per cent recorded in the previous quarter. This was in line with slower job creation relative to labour force growth and weakening economic activity as most companies held off investment decisions due to Brexit uncertainties.

The annual inflation rate in the UK rose to 2.0 per cent in the second quarter of 2019, from 1.9 per cent in the previous quarter. The increase in inflation, mainly reflected the rising costs of recreation and culture as well as prices of food and beverages. Faced with the dilemma of slowing growth, prospects of cooling inflation and mounting Brexit uncertainties, the Bank of England decided to keep its key policy rate unchanged at 0.75 per cent in the second quarter of 2019.

## **EMERGING MARKET ECONOMIES**

### **China**

There was a slight weakening in economic activity in China, reflecting the rebalancing of the economy and the negative effect of trade tensions with the US. The real GDP growth rate of 6.2 per cent was registered in the second quarter of 2019, slower than 6.4 per cent in the first quarter of 2019. The weakness in growth resulted from a slowdown in exports, while services and consumer spending were resilient. The unemployment rate fell to 3.6 per cent in the second quarter of 2019, from 3.7 per cent in the first quarter.

The inflation rate for China was 2.7 per cent in the second quarter of 2019, an uptick from 2.3 per cent in the previous quarter. Inflation was driven mainly by significant increases in food prices, while non-food prices rose at the slower pace. Food prices rose due to pork shortage, following an outbreak of Africa swine fever. The key policy rate was steady at 4.35 per cent in the second quarter of 2019. To support growth and maintain adequate liquidity in the economy the bank cut the required reserves ratio.

### **India**

The rate of economic growth in India continued to decline in the second quarter of 2019. Real GDP grew by 5.0 per cent in the quarter ending in June 2019, slowing from 5.8 per cent in the first quarter of 2019. This resulted from a sharp slowdown in consumer and government spending during the quarter.



Moreover, manufacturing and construction activities remained under pressure, reflecting both domestic and global economic challenges and uncertain policy environment. The general consumer prices rose by 3.2 per cent in the second quarter of 2019 compared with 2.9 per cent in the preceding quarter. The increase was driven mainly by food prices. The Reserve Bank of India cut the repo rate by 25 basis points to 5.75 per cent in the second quarter of 2019. The Bank viewed its stance as accommodative, and it was taken to boost investment and consumer spending.

## **South Africa**

The economic activity improved slightly in the second quarter of 2019. Real GDP grew by 0.9 per cent on the annual basis, compared with zero per cent growth in the preceding quarter. Growth was driven mainly by the services sector, while manufacturing output weakened. In the meantime, output in the mining and agriculture continued to decline. On the quarter-on-quarter basis, the real GDP increased by 3.1 per cent recovering from a 3.1 per cent decline in the previous quarter.

. The unemployment situation worsened in the second quarter of 2019, with the jobless rate rising to 29 per cent from 27.6 in the previous quarter. The struggling South African economy failed to create sufficient jobs for new entrants in the labour force. The formal and private household sectors shed some jobs, moderating employment gains from the agriculture and informal sector.

South Africa's consumer inflation rate remained at the same annual rate of 4.5 per cent in the second quarter of 2019 as in the previous quarter. The effect of the increase in the food prices, housing and utilities on overall consumer inflation was offset by a slowdown in the cost of transport. The Reserve Bank of South Africa left the repo rate unchanged at 6.75 per cent in the second quarter of 2019. Despite a weaker economic outlook, inflation pressures subsided and thus the inflation outlook remained closer to the upper band of the inflation target.

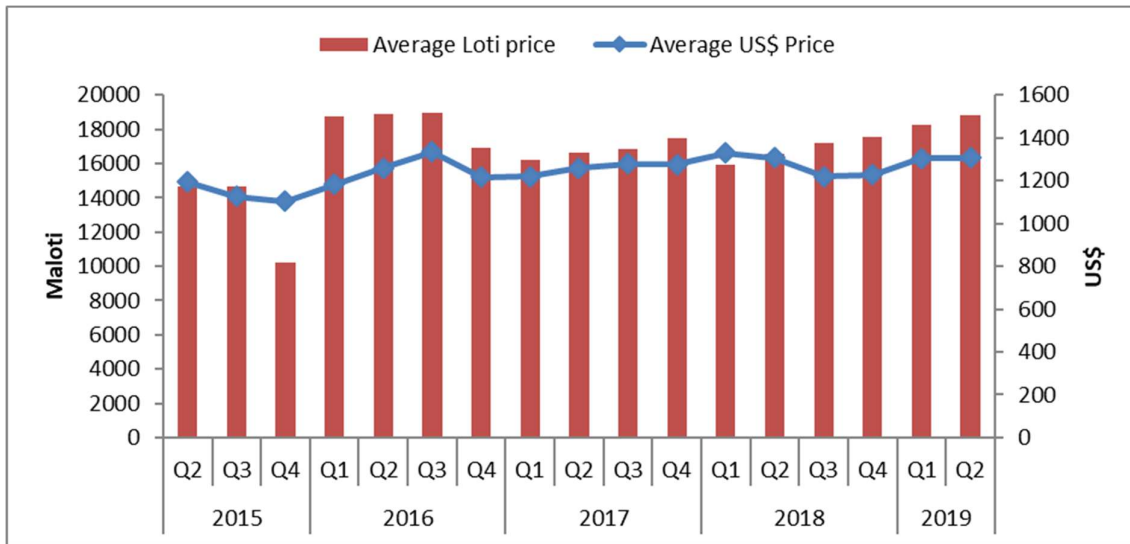
## **COMMODITIES**

### **Minerals**

#### *Gold*

The average price of gold increased slightly to US\$ 1308 per ounce in quarter ending in June 2019, from US\$ 1304 per ounce in the preceding quarter. This was driven mainly by increased central banks' purchases by some advanced and emerging market economies to increase their gold reserves.. The holding of gold backed exchange traded funds (ETFs) also increased during the quarter, giving support to the price of gold. In addition, revived demand for jewellery in India, which was associated with marriage season and the festival sales, positively affected the price of gold. The other factors that drove up the price of gold were increased geopolitical tensions and expectations of lower global interest rates. This was the case, even though the gold supplies, driven by increased production and recycling, rose.

**Figure 1: Average Price of Gold**

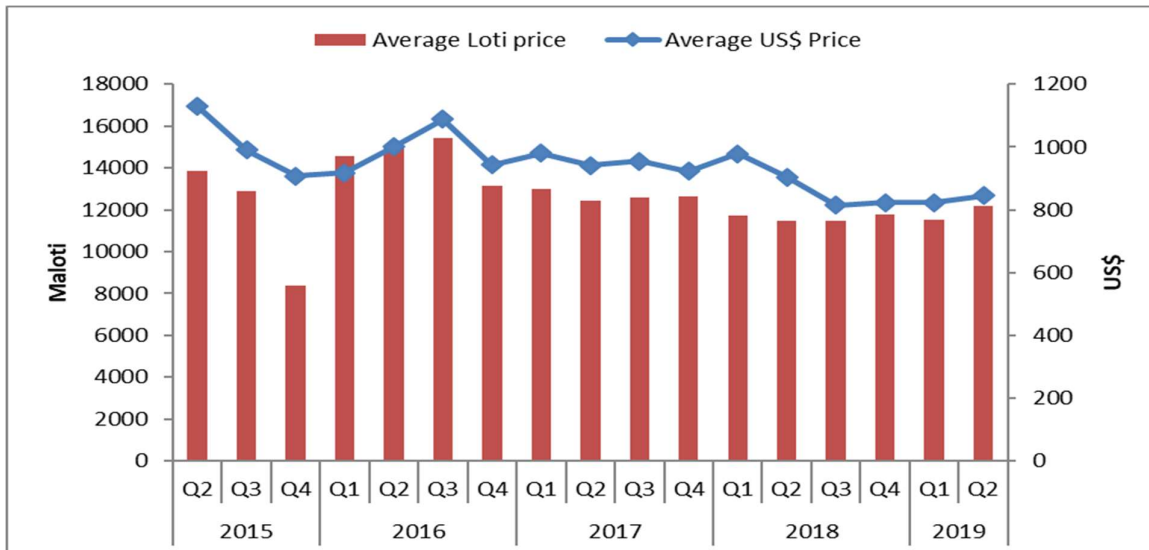


Source: Bloomberg

**Platinum**

The price of platinum increased by 2.7 per cent to US\$ 845.32 an ounce in the second quarter of 2019, following a decline of 0.1 per cent in the first quarter of 2019. There was increased demand for investment holding of platinum, in the form of ETFs, bars and coins, during the quarter. The price of platinum was also driven by the expected increase in demand in the near to medium term. This arose due to the development of new technologies which may lead to platinum substituting palladium in the manufacturing of petrol engine auto-catalyst. The development of fuel cell electric vehicles, to comply with emission standards with the aim of zero emission, also helped to drive up the price of platinum.

**Figure 2: Average Price of Platinum**



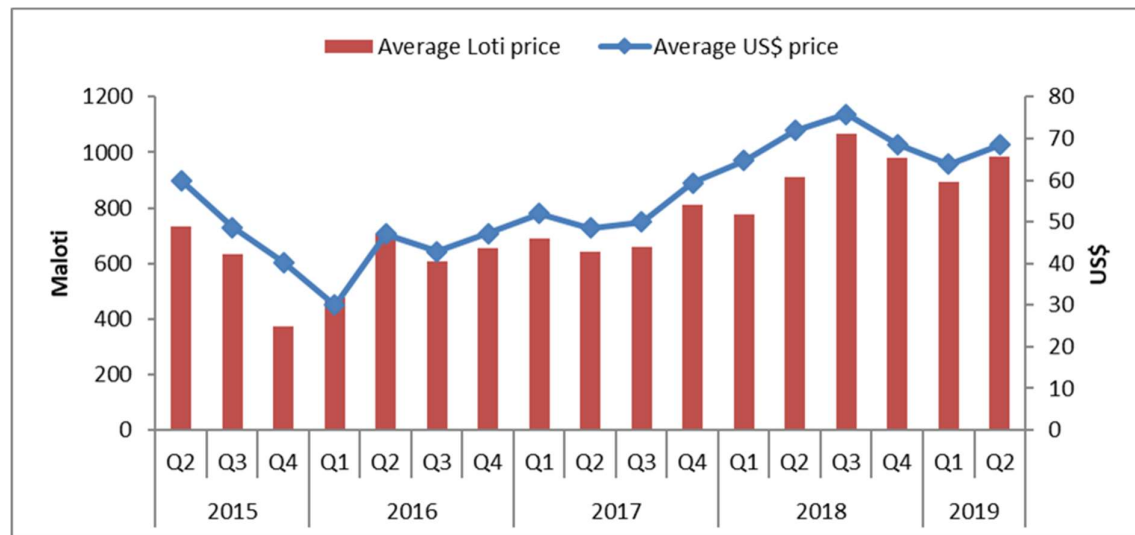
Source: Bloomberg

## Energy

### *Oil*

The average price of oil increased by 7.3 per cent to US\$ 68.47 per barrel in the quarter ending in June 2019, recovering from a 6.95 per cent decline in the preceding quarter. The price of oil was supported mainly by the decision of OPEC and its allied countries to continue with their output cutting agreement. Oil prices also increased due to the speculation of shortage in supply following the US overall ban on oil imports from Iranian. and the escalating geo political tensions, especially in the middle East.

**Figure 3: Average Price of Oil**



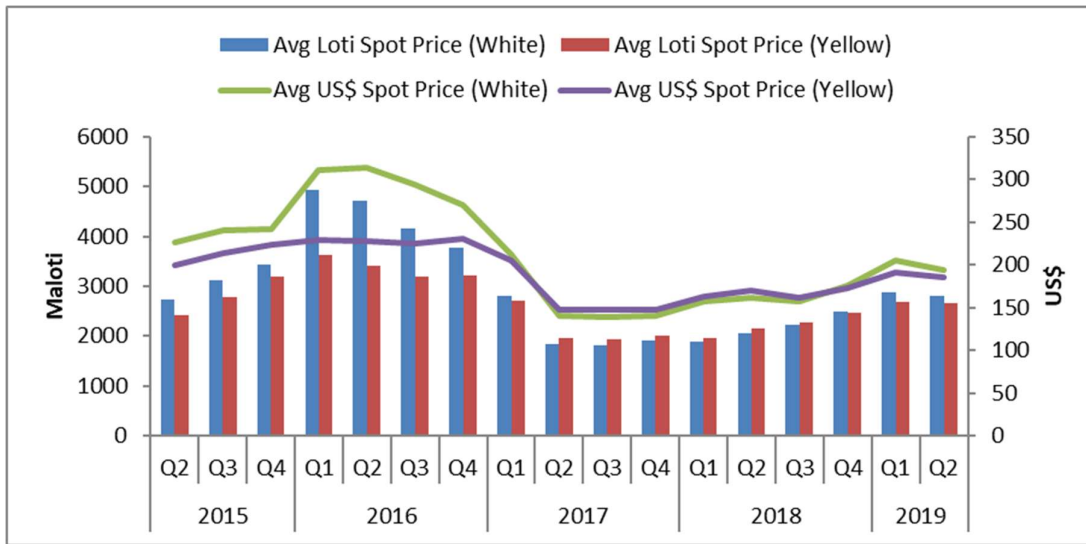
Source: Bloomberg

## Agricultural Products

### *Maize*

Maize prices generally fell during the quarter under review. The price of the white maize declined at an average of 5.4 per cent to US\$ 194.43 per tonne. This was relative to a 17.1 per cent increase in the first quarter of 2019. The price of yellow maize, also declined to US\$ 185.39 in the second quarter of 2019, from US\$ 190.92 in the previous period. There was oversupply of both white and yellow maize in the global markets, owing to increased harvests in key maize producing countries, including the US which realised a bumper harvest and also reported an increased proportion of quality output.

**Figure 4: Average Price of Maize**

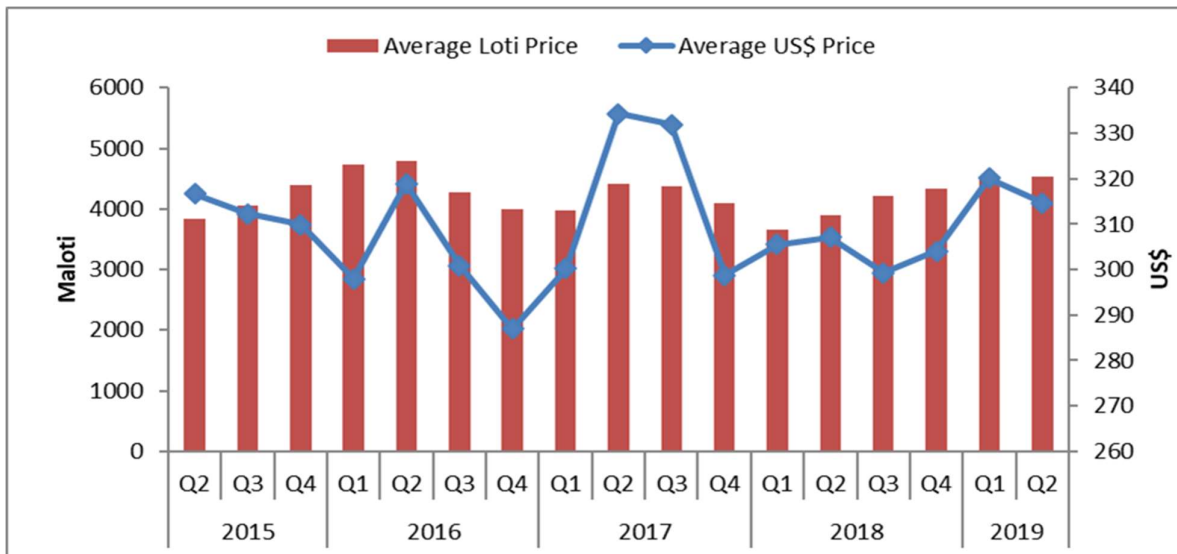


Source: Bloomberg

**Wheat**

The average price of wheat declined by 1.71 per cent to US\$ 314.62 in the second quarter of 2019, following an increase of 5.28 per cent in the previous quarter. The price of wheat fell due to abundant global supplies. Argentina reported a record harvest, with output also rising in the US, Russia and Europe. The harvest in the US was above trade expectations, with quality of crop increasing. Generally, wheat production was supported by favourable weather condition during the planting season.

**Figure 5: Average Price of Wheat**

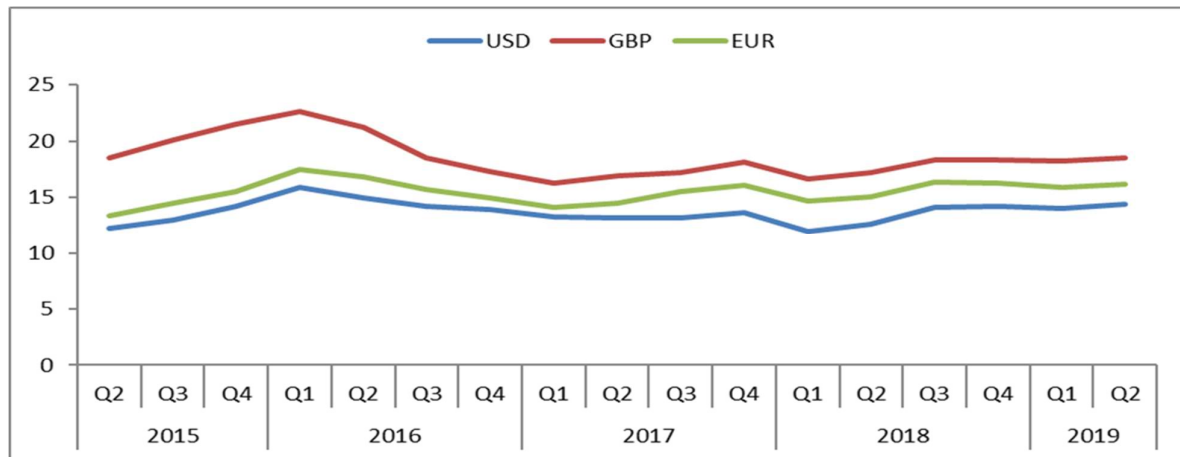


Source: Bloomberg

## EXCHANGE RATES

The rand, hence the loti, generally weakened against major trading currencies during the second quarter of 2019. It depreciated by 2.63 per cent against the US dollar, 1.22 per cent against the pound and 1.61 per cent against the euro. The currency's sharp and broad-based decline came on the back of the South African government's unveiled plan to bailout embattled Eskom. The plan, together with weakened economic activity, was seen as fiscally unsustainable, and raised the fears of sovereign credit downgrade by the Moody's. The other factor that affected confidence in rand was policy and political uncertainty.

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



Source: Bloomberg

### 3. Real Sector Developments

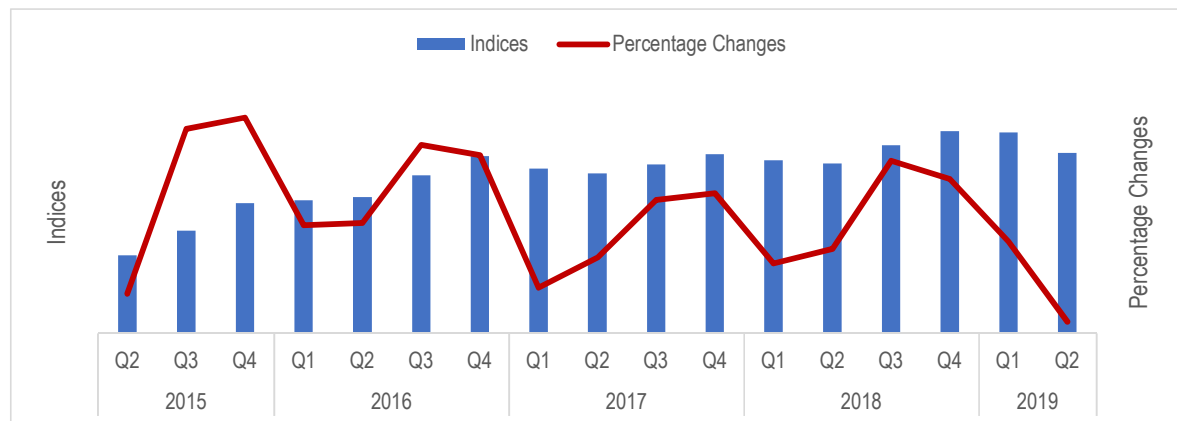
#### OVERVIEW

The domestic economic growth continued to decline in the review period. The labour market was under pressure, as employment by LNDC-assisted companies, Government of Lesotho and migrant mineworkers declined. The headline inflation accelerated while the underlying inflationary pressures were muted.

#### OUTPUT DEVELOPMENTS

Economic activity, measured as seasonally adjusted percentage changes in the CBL's composite indicator of economic activity (CIEA), continued to decline during the second quarter of 2019. It was estimated to have declined by 0.9 per cent during the review period compared with a decline of 0.0 per cent estimated in the preceding quarter. Subdued domestic demand and production contributed to the decline. On the demand side, the subdued performance was demonstrated by a fall in imports from South Africa, the decline in Government compensation of employees as well as VAT collections. The production side contributed to the slowdown of the overall index as indicated by negative contributions from utilities (water and electricity) mainly used for industrial purposes together with textiles and clothing output as less-than-normal number of orders were processed.

**Figure 7: Quarterly Indicator of Economic Activity**



Source: Central Bank of Lesotho

**Table 2: Contributions to Growth**

Indices	2018			2019	
	Q2	Q3	Q4	Q1	Q2
<b>CIEA</b>	<b>114.5</b>	<b>115.4</b>	<b>116.0</b>	<b>116.0</b>	<b>115.0</b>
Quarter-on-quarter changes	-0.1	0.8	0.6	0.0	-0.9
<b>Domestic Demand</b>	<b>111.5</b>	<b>112.9</b>	<b>113.6</b>	<b>114.8</b>	<b>113.0</b>
Quarter-on-quarter changes	-0.3	1.3	0.6	1.1	-1.5
<b>Manufacturing and Production Category</b>	<b>108.4</b>	<b>108.6</b>	<b>108.8</b>	<b>107.8</b>	<b>106.2</b>
Quarter-on-quarter changes	-0.4	0.2	0.1	-0.9	-1.4

**Source:** Central Bank of Lesotho

## EMPLOYMENT DEVELOPMENTS

Employment by LNDC-assisted companies declined by 1.0 per cent, year-on-year for both the first and second quarters of 2019. The continued slump of these firms for labour demand resulted from the declines in orders, especially by the SA markets well the US given their respective slowdown. Among others, the garments industry as well as footwear s and food industries laid off most workers during the review period. Nonetheless, industries such as fabrics, electronics and retail services industries created jobs during the review period. Most of LNDC-assisted companies are dominated by women with a proportion of 79.0 percent of the overall employment, and they are the ones who bear the brunt of labour market pressures in the manufacturing sector.

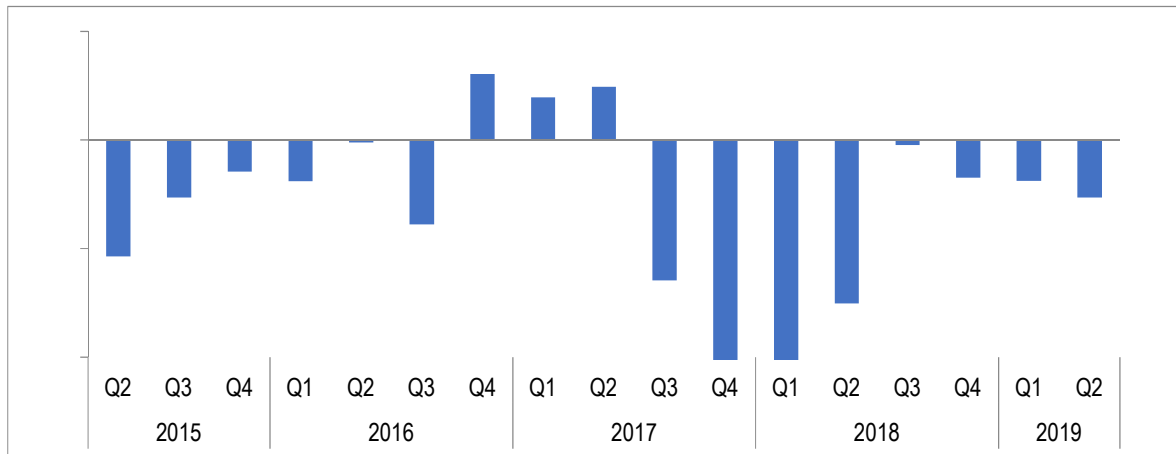
**Table 3: Employment by LNDC Assisted Companies**

Industry	2018			2019		% Change	
	Q2	Q3	Q4	Q1	Q2	Q/Q	Y/Y
Knit Garments.....	26858	27436	26771	27559	26425	-4.1	-1.6
Woven Garments.....	16800	17515	17166	15812	15260	-3.5	-9.2
Footwear.....	1010	998	1010	1023	937	-8.4	-7.2
Fabrics, Yarn etc.....	1840	1835	1839	1782	2718	52.5	47.7
Construction.....	344	345	344	385	373	-3.1	8.4
Food & Beverages.....	708	724	708	705	588	-16.6	-16.9
Electronics.....	920	942	974	928	1676	80.6	82.2
Retail.....	168	170	168	168	213	26.8	26.8
Hotel Accommodations.....	526	515	515	576	389	-32.5	-26.0
Other.....	1126	1063	1047	1149	1210	5.3	7.5
<b>TOTAL.....</b>	<b>50300</b>	<b>51543</b>	<b>50542</b>	<b>50087</b>	<b>49789</b>	<b>-0.6</b>	<b>-1.0</b>

**Source:** Lesotho National Development Corporation

Government employment declined for the eighth constitutive quarter during the review period. It fell by 0.5 per cent, year-on-year, in the second quarter of 2019 compared with a decline of 0.4 per cent estimating in the preceding quarter. Teachers were the main contributors to the overall reduction in public sector employment while employment of civil servants and daily-paid workers moderated the negative impact.

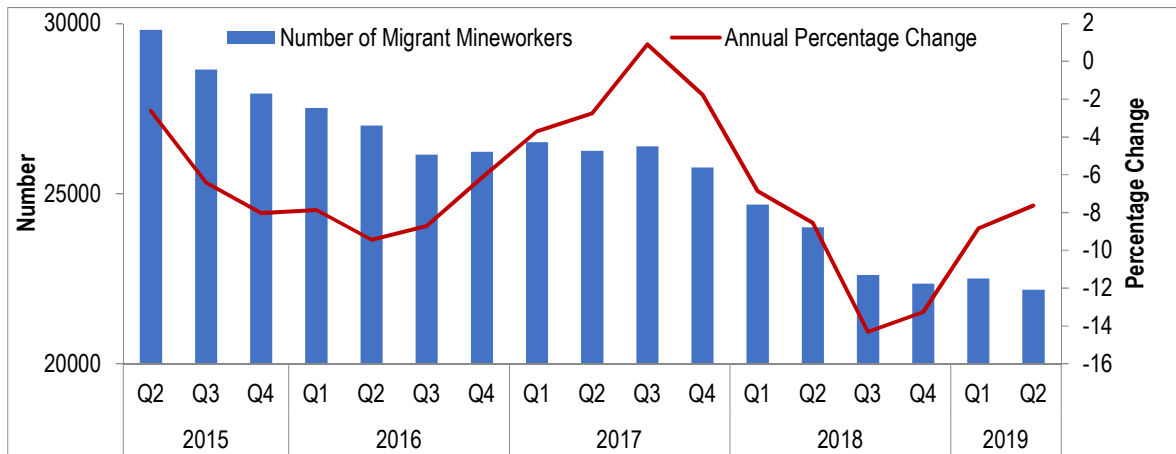
**Figure 8: Government Employment (Annual Percentage Change)**



**Source:** Ministry of Finance

Employment of migrant mineworkers continued its to fall for a seventh consecutive quarter with a decline of 7.6 per cent, year-on-year, during the review period. This was a slight improvement from an 8.8 per cent reduction estimated in the preceding quarter. The decline comes as a result of mounting challenges in the SA precious metals mines due to unfavorable internal and external environments. The internal challenges that affected such mines included, aging infrastructure, loss of critical skills as well as reliance on third party infrastructure, while external bottlenecks emanated from prices of the precious metals, shifting expectations and cyber risk.

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



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

**PRICE DEVELOPMENTS**

The headline inflation rate, measured by a year-on year percentage change in Consumer Price Index (CPI), accelerated to 5.6 per cent in June 2019 in comparison to 5.2 per cent recorded in March 2019. The contributors to the increase were “Food & Non-Alcoholic beverages”, “Housing, electricity gas & other fuels”, “Clothing & footwear” as well as “Miscellaneous goods & services’ inflation. The main drivers behind the acceleration were increasing food prices as well as energy prices, especially the price



of international petroleum products. The exchange rate depreciation exacerbated the impact of energy prices on overall inflation as they increased the price of crude oil.

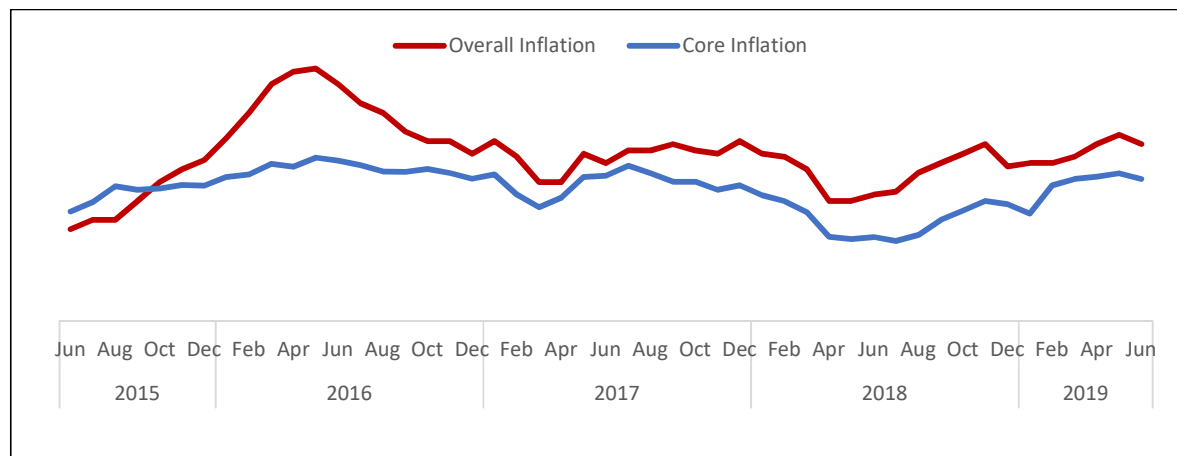
**Table 4: Inflation Rate (Annual Percentage Changes)**

	Weight	2019				
		Feb	Mar	Apr	May	Jun
<b>All items</b>	<b>1000</b>	<b>5.0</b>	<b>5.2</b>	<b>5.6</b>	<b>5.9</b>	<b>5.6</b>
Food and non-alcoholic beverages	361.13	5.9	6.5	6.7	7.1	6.7
Alcoholic beverages & Tobacco	33.31	5.1	4.9	5.2	4.9	4.9
Clothing & footwear	130.57	3.3	3.5	3.3	3.5	3.6
Housing, electricity gas & other fuels	123.97	8.4	8.3	10.0	11.8	10.5
Furniture, households equipment & routine maintenance	84.77	3.2	3.2	3.2	3.0	3.0
Health	15.04	1.2	1.2	1.2	0.7	0.7
Transport	48.21	5.9	7.3	9.0	7.6	6.5
Communication	21.05	1.6	1.6	1.2	1.2	1.2
Leisure, entertainment & Culture	57.08	5.4	5.4	5.5	4.7	4.8
Education	42.00	0.6	-0.1	1.0	1.0	1.0
Restaurant & Hotels	10.30	2.4	2.4	2.1	2.0	1.7
Miscellaneous goods & services	72.59	2.3	3.0	2.9	3.3	3.5

**Source:** Bureau of Statistics

Core inflation, which excludes all items with extreme price changes from the headline inflation, remained at 4.5 per cent in the first two quarters of 2019, showing that underlying inflationary pressures in the economy were muted.

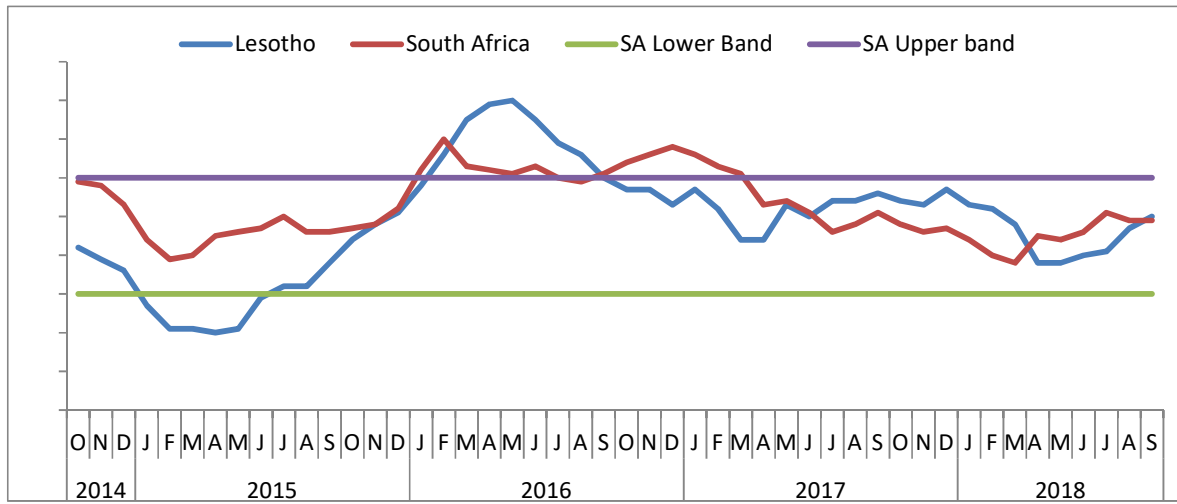
**Figure 10: Core vs Headline Inflation**



**Source:** CBL Computations

Inflation rates in Lesotho and South Africa continued to move alongside each other, albeit at a faster rate for Lesotho relative to its counterpart. The SA counterpart remained relatively flat from March to June 2019.

**Figure 11: Lesotho and South Africa's Inflation**



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

## 4. Monetary and Financial Developments

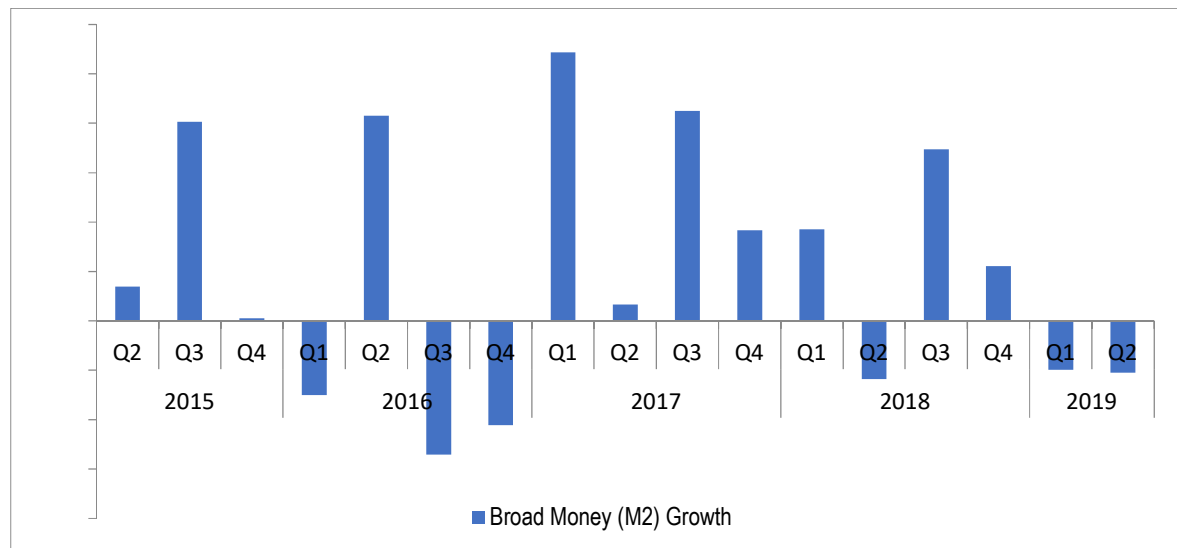
### OVERVIEW

Money supply continued to decline during the quarter under review, following a fall in Domestic Claims while Net Foreign Assets (NFA) increased. The drop in Domestic Claims was at the back of a decline in Net Claims on Government due to a build-up of government deposits held with the Central Bank. The increase in overall banking system NFA was on account of an increase in Central Bank NFA while commercial banks NFA moderated the increase. Private sector credit grew by 3.8 per cent mainly on account of an increase in credit extended to business enterprises.

### BROAD MONEY (M2)

Money supply fell by 2.1 per cent during the quarter under review, following a decline of 2.0 per cent in the quarter ending March 2019. Measured over twelve months, money grew by 4.9 per cent compared with a 4.6 per cent growth observed in the previous year. The slowdown in money supply on quarterly basis was underpinned by a fall in Domestic Claims following build-up of government deposits held at the Central Bank. This development was however moderated by an increase overall banking system's Net Foreign Assets.

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



Source: Central Bank of Lesotho

### Determinants of M2

#### *Domestic Claims*

Domestic claims, including net claims on government, declined by 6.1 per cent during the quarter under review, compared to an increase of 4.8 per cent in the previous quarter. This was due to a significant fall in net claims on government following a build-up of government deposits at the Central Bank. This development reflected the slow execution of government budget, which normally happens during the first quarter of the fiscal year. Claims on other sectors grew by 3.4 per cent as a result of a 3.8 per cent increase in private sector claims. Claims on the private sector rose mainly to support

investment demand from business enterprises while household credit recorded a moderate growth. In real terms private sector credit grew by 2.4 per cent between March and June 2019.

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

	2018				2019	Changes (%)	
	Jun	Sep	Dec	Mar	Jun	Quarterly	Annual
<b>Domestic Claims</b>	<b>5110.58</b>	<b>6154.84</b>	<b>6401.46</b>	<b>6705.95</b>	<b>6296.08</b>	<b>-6.11</b>	<b>23.20</b>
<b>Net Claims on Government</b>	<b>-1502.38</b>	<b>-811.16</b>	<b>-665.51</b>	<b>-314.60</b>	<b>-964.42</b>	<b>-206.56</b>	<b>35.81</b>
<b>Commercial Banks Net Claims</b>	<b>1213.18</b>	<b>1283.37</b>	<b>1391.33</b>	<b>1944.32</b>	<b>2007.85</b>	<b>3.27</b>	<b>65.50</b>
Claims on Central Government	1218.60	1288.88	1396.23	1950.66	2013.54	3.22	65.23
Liabilities to Central Government	5.41	5.51	4.90	6.34	5.69	-10.18	5.11
<b>Central Bank Net Claims</b>	<b>-2715.56</b>	<b>-2094.53</b>	<b>-2056.84</b>	<b>-2258.92</b>	<b>-2972.27</b>	<b>-31.58</b>	<b>-9.45</b>
Claims on Central Government	753.63	753.93	729.75	706.34	716.31	1.41	-4.95
Liabilities to Central Government	3469.19	2848.46	2786.58	2965.26	3688.58	24.39	6.32
<b>Claims on Other Sectors</b>	<b>6612.96</b>	<b>6966.01</b>	<b>7066.97</b>	<b>7020.54</b>	<b>7260.50</b>	<b>3.42</b>	<b>9.79</b>
Claims on OFCs	74.37	243.68	256.68	203.16	184.68	-9.10	148.32
Claims on Public Nonfinancial Corporations	0.00	0.00	0.00	0.00	0.00		
Claims on St & Local Government	0.00	0.00	0.00	0.00	0.00		
<b>Claims on Private Sector</b>	<b>6538.59</b>	<b>6722.32</b>	<b>6810.29</b>	<b>6817.38</b>	<b>7075.82</b>	<b>3.79</b>	<b>8.22</b>
Claims on Business Enterprises	2090.01	2153.04	2097.60	2027.52	2188.16	7.92	4.70
Claims on Households	4448.58	4569.28	4712.69	4789.86	4887.66	2.04	9.87

Source: Central Bank of Lesotho

### Net Foreign Assets

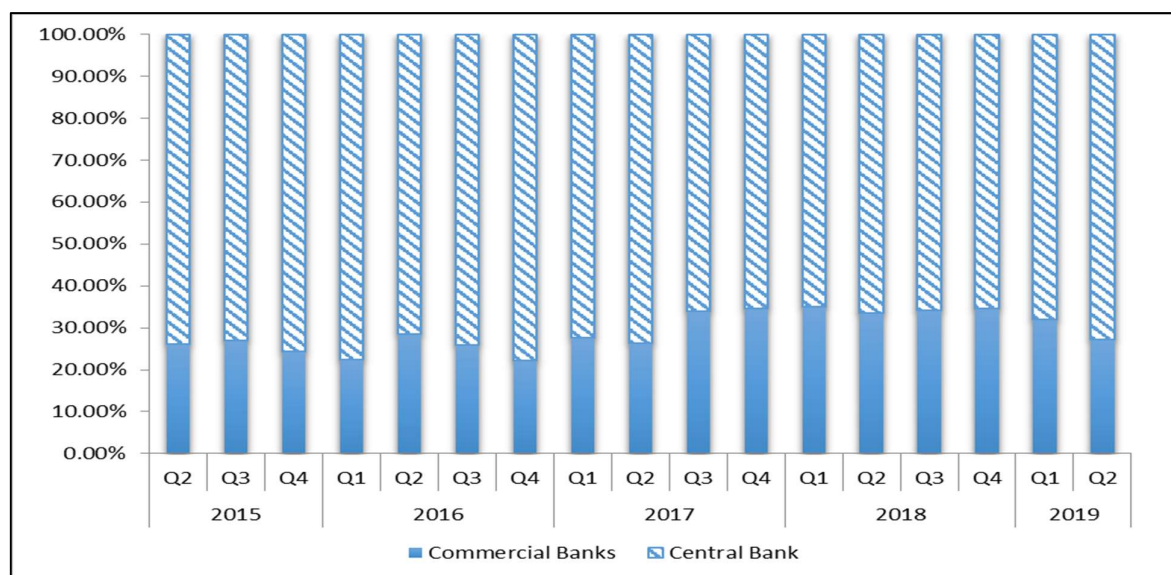
During the quarter under review, the overall banking system's Net Foreign Assets (NFA) registered a slight increase of 0.4 per cent, compared with a decline of 1.7 per cent observed in the previous quarter. This was due to a 7.5 per cent growth in Central Bank's NFA while commercial banks NFA declined by 14.5 per cent. Central Bank NFA was boosted by higher SACU receipts, coupled with slower execution of government budget. The drop in commercial banks' NFA was a result of increased deposit withdrawals by the private sector coupled with the growing demand for credit hence, banks had to recall their deposits abroad.

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

	2018			2019		Changes (%)	
	Jun	Sep	Dec	Mar	Jun	Quarterly	Annual
<b>Commercial Banks</b>	<b>4742.55</b>	<b>5019.71</b>	<b>5200.68</b>	<b>4723.62</b>	<b>4037.40</b>	<b>-14.53</b>	<b>-14.87</b>
Claims on Non-residents	5160.19	5640.12	5700.44	5343.20	4490.49	-15.96	-12.98
Liabilities to Non-residents	417.64	620.41	499.76	619.58	453.09	-26.87	8.49
<b>Central Bank</b>	<b>9398.93</b>	<b>9645.12</b>	<b>9841.94</b>	<b>10068.42</b>	<b>10820.24</b>	<b>7.47</b>	<b>15.12</b>
Claims on Non-residents	10792.57	10980.01	11192.19	11361.78	12075.90	6.29	11.89
Liabilities to Non-residents	1393.63	1334.89	1350.25	1293.36	1255.66	-2.92	-9.90
<b>Net Foreign Assets Total</b>	<b>14141.48</b>	<b>14664.83</b>	<b>15042.62</b>	<b>14792.04</b>	<b>14857.64</b>	<b>0.44</b>	<b>5.06</b>

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 declined for two consecutive quarters of 2019. In particular, M2 fell by 2.1 per cent during the review quarter, compared to a 2.0 per cent decline realised in the preceding quarter. This was underpinned by a fall of 9.7 per cent in M1 while the quasi money increased by 4.4 per cent. The drop in M1 follows a decline in transferable deposits held by business enterprises, whereas the rise in quasi money was supported by a growth in other financial corporations' deposits.

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

	2018			2019		Changes (%)	
	Jun	Sep	Dec	Mar	Jun	Quarterly	Annual
<b>Broad Money (M2)</b>	<b>12257.62</b>	<b>13109.30</b>	<b>13400.60</b>	<b>13135.38</b>	<b>12859.94</b>	<b>-2.10</b>	<b>4.91</b>
<b>Narrow Money (M1)</b>	<b>6147.10</b>	<b>6572.51</b>	<b>6158.64</b>	<b>6087.97</b>	<b>5499.41</b>	<b>-9.67</b>	<b>-10.54</b>
Currency Outside DCs	1016.00	1032.73	1040.50	1014.01	1003.29	-1.06	-1.25
Transferable Deposits	5131.10	5539.78	5118.14	5073.97	4496.12	-11.39	-12.38
<b>Quasi Money</b>	<b>6110.52</b>	<b>6536.79</b>	<b>7241.96</b>	<b>7047.41</b>	<b>7360.54</b>	<b>4.44</b>	<b>20.46</b>
Other Deposits Commercial Banks	6066.92	6501.81	7185.42	6993.31	7306.83	4.48	20.44
Other Deposits Central Bank	43.60	34.98	56.54	54.09	53.71	-0.71	23.19

**Source:** Central Bank of Lesotho

### CREDIT EXTENSION

#### Trends of Credit Extended to Business Enterprises

During the review quarter, credit to business enterprises grew by 7.9 per cent following a 3.3 per cent contraction during the previous quarter. The observed growth in credit to businesses was mostly on

account of demand for investment financing coupled with increased use of overdraft facilities to meet cash-flow shortages.

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

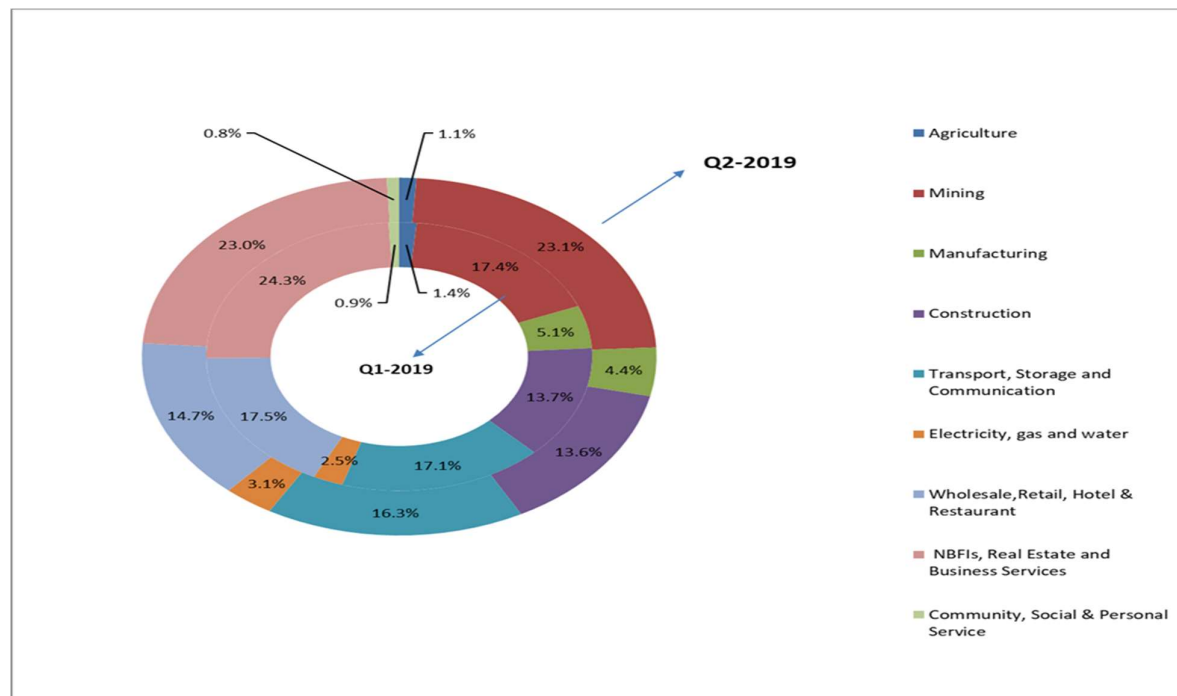
SECTOR	2018			2019		Changes (%)	
	Jun	Sep	Dec	Mar	Jun	Quarterly	Annual
Agriculture	14.15	54.87	30.31	29.16	23.48	-19.49	65.93
Mining	460.86	430.72	379.73	353.32	505.67	43.12	9.72
Manufacturing	220.58	195.17	174.08	104.06	95.92	-7.82	-56.51
Electricity, gas and water	47.69	49.09	46.21	51.05	68.49	34.16	43.61
Construction	243.47	291.69	301.83	277.17	297.23	7.24	22.08
Wholesale, Retail, Hotel & Restaurant	211.44	224.83	261.68	355.29	320.60	-9.76	51.63
Transport, Storage and Communication	347.69	341.76	349.65	346.82	355.77	2.58	2.32
NBFIs, Real Estate and Business Services	542.77	563.36	553.24	492.96	503.99	2.24	-7.15
Community, Social & Personal Service	1.35	1.55	0.89	17.69	17.01	-3.83	1156.52
<b>All Sectors</b>	<b>2090.01</b>	<b>2153.04</b>	<b>2097.60</b>	<b>2027.52</b>	<b>2188.16</b>	<b>7.92</b>	<b>4.70</b>

Source: Central Bank of Lesotho

### Distribution of credit Extended to Business Enterprises

With regard to the distribution of credit extended to business enterprises, mining, real estate, transport, storage and communication, and construction accounted for the largest shares of 23.1 per cent, 23.0 per cent, 14.7 per cent and 13.6 per cent, respectively. Community, social and personal services continued to have the smallest shares of total credit extended to business enterprises.

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

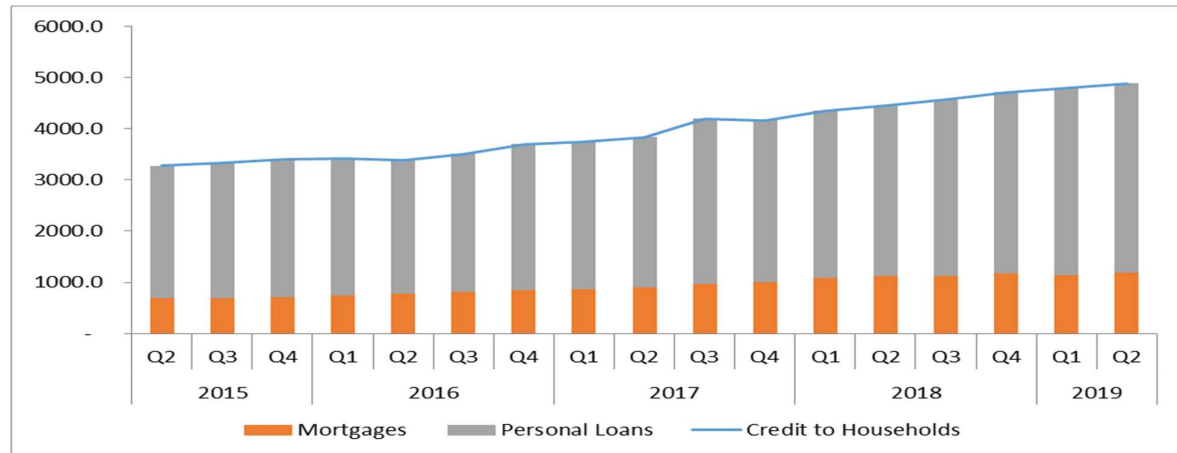


Source: Central Bank of Lesotho

## Credit extended to Households

During the quarter under review, credit to households grew by 2.0 per cent compared with an increase of 1.6 per cent recorded in the previous quarter. This was on account of an improvement in both personal and mortgage loans, growing at 1.1 per cent and 5.2 per cent respectively. The rise in personal loans was boosted by increased credit limits together with innovations in the financial sector.

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



Source: Central Bank of Lesotho

## LIQUIDITY OF COMMERCIAL BANKS

### Components of liquidity

Credit to deposits ratio increased from 55.7 per cent to 59.1 per cent between the first and second quarter of 2019. The growth was due to a fall in total deposits coupled with the growth of private sector credit. The liquidity ratio declined from 70.2 per cent to 66.0 per cent during the review period. That was attributable to an 18.1 per cent decline in balances due from banks in South Africa, which were mostly used to meet increased deposits withdrawals as well as to finance credit extension.

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

	2018			2019	
	Jun	Sep	Dec	Mar	Jun
<b>Credit to Deposit Ratio</b>	<b>57.57%</b>	<b>55.03%</b>	<b>54.56%</b>	<b>55.67%</b>	<b>59.06%</b>
Private Sector Credit	6446.75	6627.01	6712.99	6722.61	6971.13
Total Deposits	11198.02	12041.59	12303.56	12067.28	11802.94
<b>Liquidity Ratio</b>	<b>82.14%</b>	<b>75.17%</b>	<b>71.70%</b>	<b>70.21%</b>	<b>65.97%</b>
Notes and Coins	414.58	392.83	741.60	407.22	438.74
Balance due from banks in Lesotho	2924.23	2387.61	1779.25	1260.47	1261.56
Balance due from banks in SA	4557.63	5063.14	4949.68	4771.92	3909.05
Surplus funds	83.42	-80.99	-45.72	82.02	163.44
Government Securities	1218.60	1288.88	1396.23	1950.66	2013.54
<b>Total</b>	<b>9198.45</b>	<b>9051.47</b>	<b>8821.04</b>	<b>8472.28</b>	<b>7786.33</b>

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, declined by 2.2 per cent in the second quarter of 2019. This was mostly at the back of a 15.7 per cent decline in transferable deposits held by business enterprises. However, the fall in total deposits was moderated by an increase of 9.3 per cent in other deposits held by other non-financial corporations.

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

	2018			2019		Changes (%)	
	June	Sept	Dec	Mar	Jun	Quarterly	Annual
<b>Transferable Deposits Incl. in BM</b>	<b>5131.10</b>	<b>5539.78</b>	<b>5118.14</b>	<b>5073.97</b>	<b>4496.12</b>	<b>-11.39</b>	<b>-12.38</b>
Other Financial Corporations	29.31	33.77	32.99	52.03	42.01	-19.24	43.36
Public Nonfinancial Corporations	107.26	56.14	60.58	99.82	60.10	-39.79	-43.97
Private Sector	4976.84	5432.17	5006.88	4904.43	4376.31	-10.77	-12.07
Other NFCs	3395.51	3887.48	3471.06	3473.25	2927.53	-15.71	-13.78
Other Sectors (Households)	1581.33	1544.69	1535.82	1431.18	1448.79	1.23	-8.38
<b>Other Deposits Incl. in BM</b>	<b>6066.92</b>	<b>6501.81</b>	<b>7185.42</b>	<b>6993.31</b>	<b>7306.83</b>	<b>4.48</b>	<b>20.44</b>
Other Financial Corporations	51.63	84.55	58.20	163.82	51.89	-68.32	0.50
Public Nonfinancial Corporations	265.01	275.03	254.00	499.24	450.57	-9.75	70.02
Private Sector	5750.28	6142.23	6873.21	6330.25	6804.37	7.49	18.33
Other NFCs	3821.80	4203.28	4941.00	4279.08	4676.05	9.28	22.35
Other Sectors (Households)	1928.47	1938.95	1932.21	2051.17	2128.32	3.76	10.36
<b>Total Deposits</b>	<b>11198.0</b>	<b>12041.6</b>	<b>12303.6</b>	<b>12067.28</b>	<b>11802.94</b>	<b>-2.19</b>	<b>5.40</b>

**Source:** Central Bank of Lesotho

## MONEY AND CAPITAL MARKET DEVELOPMENTS

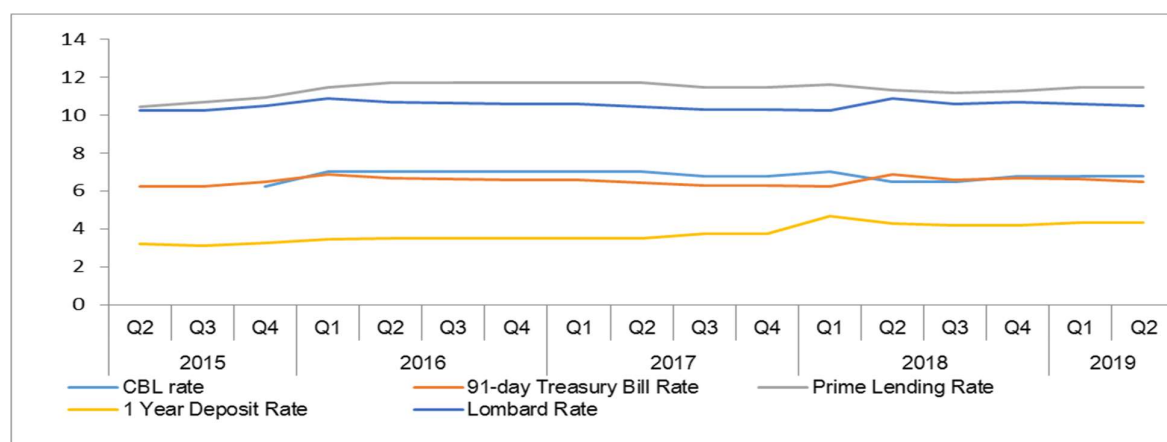
### Money Market

#### *Interest Rates*

During the review quarter, the prime lending rate and 1-year deposit rate remained unchanged at 11.44 per cent and 4.34 per cent, respectively. However, the 91-day treasury bill rate fell by 11 basis points to 6.49 per cent. Compared with the South African equivalent rate, the domestic 91-day treasury bill rate remained within the desired 200 basis points from the South African rate, which was 7.10 per cent at the end of June, 2019.



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



Source: Central Bank of Lesotho

**Table 11: Interest rates**

	2018			2019	
	June	Sept	Dec	Mar	Jun
<b>Central Bank</b>					
CBL rate	6.50	6.50	6.75	6.75	6.75
T-Bill Rate - 91 days	6.88	6.56	6.69	6.60	6.49
Lombard Rate	10.88	10.56	10.69	10.60	10.49
<b>Commercial Banks</b>					
Call	1.36	1.12	1.12	1.22	1.22
Time:					
31 days	0.40	0.35	0.35	0.70	0.70
88 days	1.40	1.33	1.33	1.34	1.34
6 months	2.67	2.54	2.54	2.65	2.65
1 year	4.30	4.19	4.19	4.34	4.34
Savings	0.73	0.70	0.70	0.70	0.70
Prime	11.31	11.19	11.25	11.44	11.44
<b>South Africa</b>					
Repo	6.50	6.50	6.75	6.75	6.75
T-Bill Rate - 91 days	7.07	7.14	7.48	6.98	7.10
Marginal Lending Rate					
Prime	10.00	10.00	10.25	10.25	10.25

Source: Central Bank of Lesotho

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

The total treasury bills holding decreased by 3.8 per cent during the review period, dropping from M1,476.8 million to M1,420.1 million. The decrease in total Treasury bill holding was driven by the banking sector, whose holdings fell by 4.52 per cent in June 2019, following a significant increase in March 2019. On the contrary, the non-banking sector Treasury bills holdings increased by 0.7 per cent to M254.6 million in June 2019.

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

	2018			2019	
	Jun	Sep	Dec	Mar	Jun
<b>Treasury Bills</b>	<b>865.67</b>	<b>852.54</b>	<b>875.25</b>	<b>1476.77</b>	<b>1420.08</b>
Banking System	582.44	592.33	620.88	1223.79	1165.45
Non-Bank Sector	283.23	260.21	254.37	252.98	254.63
<b>Memorandum Item</b>					
Yield Bills (91-days)	6.88	6.67	6.80	6.74	6.60

**Source:** Central Bank of Lesotho

### *Holding of Treasury Bonds*

The holdings of Treasury bonds increased by 7.8 per cent in June 2019, compared to an increase of 9.3 per cent realized in the previous quarter. This was on account of bond auctions held in June 2019 to support government operations. The banking sector contributed to the rise in Treasury bond holdings with an increase of 16.1 per cent, while the non-banking sector recorded an increase of 1.4 per cent.

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

	2018			2019	
	Jun	Sep	Dec	Mar	Jun
<b>Holding of Treasury Bonds</b>	<b>1254.74</b>	<b>1359.53</b>	<b>1584.66</b>	<b>1732.22</b>	<b>1867.96</b>
Banking System	646.15	716.23	786.12	760.97	883.30
Non-Bank Sector	608.59	643.30	798.54	971.25	984.67

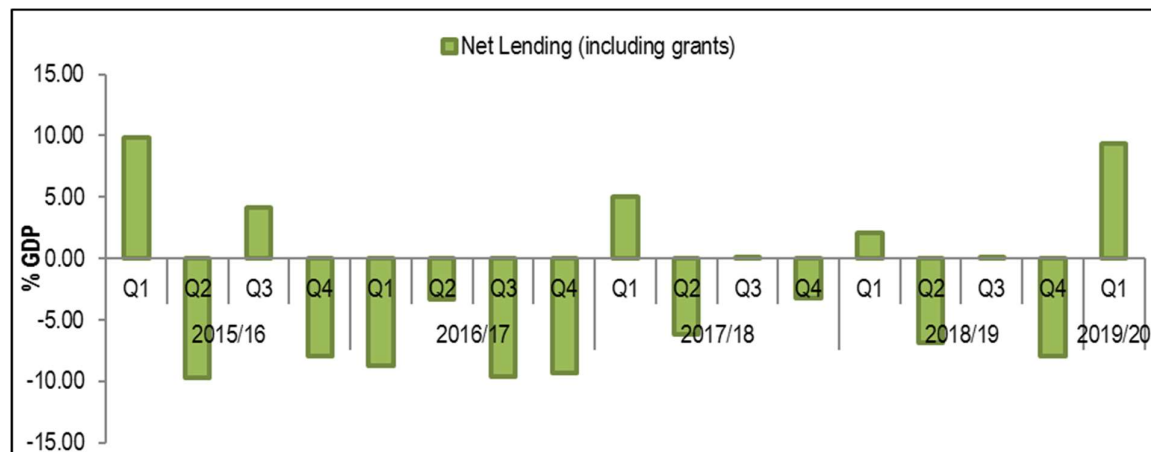
**Source:** Central Bank of Lesotho

## 5. Government Finance

### OVERVIEW

Government budgetary operations were estimated to have recorded fiscal surplus equivalent to 10.0 per cent of GDP during the review period. This compares with a revised deficit of 10.1 per cent of GDP in the previous quarter. The lower government spending was attributed to a reduction in compensation of employees, plus lower spending on cross fixed capital formation which was mainly due some technical issues with the payment system (IFMIS). As a consequence, the fiscal operations realised net operating surplus equivalent to 11.7 per cent of GDP. This was higher than the 6.1 per cent observed in the previous quarter. The public debt stock stood at 42.9 per cent of GDP in the review quarter, in contrast to 37.1 per cent of GDP in the first fiscal quarter of 2018/2019. The stock of both external and domestic debt marginally rose due to, among others, issuance of debt securities.

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

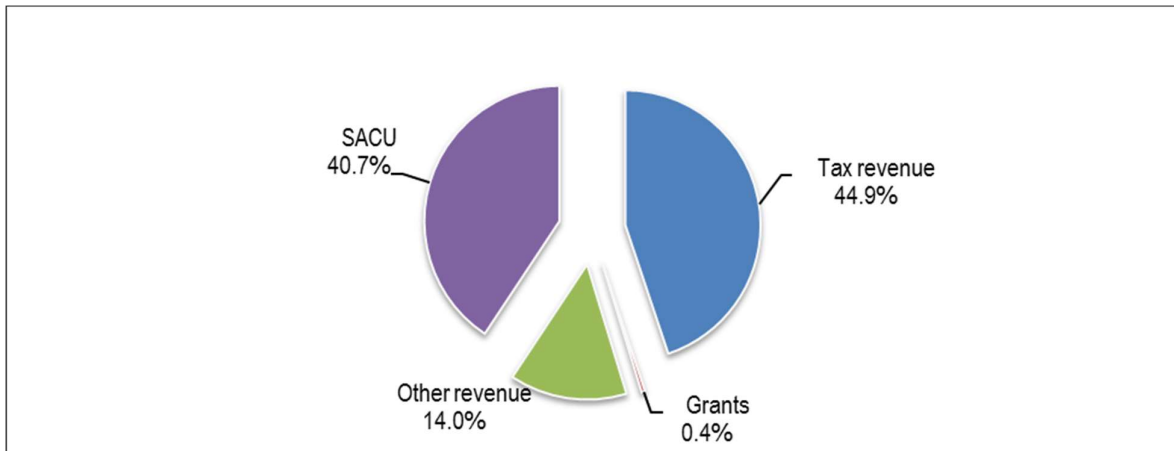


**Source:** Central Bank of Lesotho (CBL) and Ministry of Finance (MOF)

### REVENUE

Government revenue fell by 5.8 per cent in the quarter ending in June 2019 in contrast to a rise of 7.2 per cent in the quarter ending in March 2019. On annual basis, it declined by 1.5 per cent during the review period, relative to an increase of 12.4 per cent during the same quarter in 2018. The reduction in revenue occurred in all components of revenue except the SACU receipts, LHDA water royalties and company tax.

**Figure 18: Total Revenue (Percentage Share)**

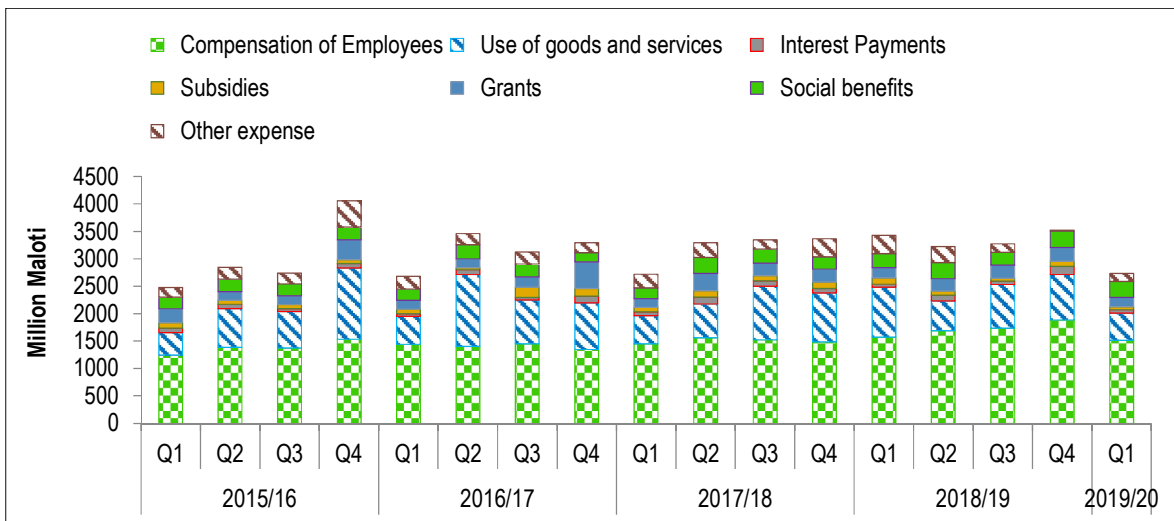


Source: CBL and MOF

**TOTAL EXPENDITURE**

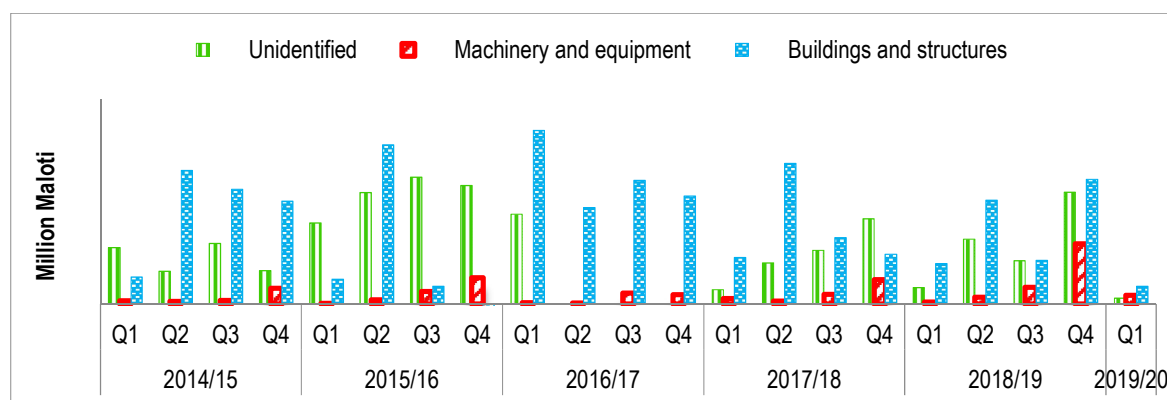
The Government spending declined by 41.8 per cent in the review quarter relative to a rise of 31.6 per cent in quarter ending in March 2019. The decrease in spending emanated from slowdown in most categories of spending. The largest decline was in capital spending which fell by 45.3 per cent. This was mainly explained by low infrastructure related spending. On an annual basis, total expenditure fell by 22.1 per cent in the quarter ending in June 2019, compared with a fall of more than 100.0 per cent in the quarter ending in June 2018.

**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 14: Statement of Government Operations (Million Maloti)

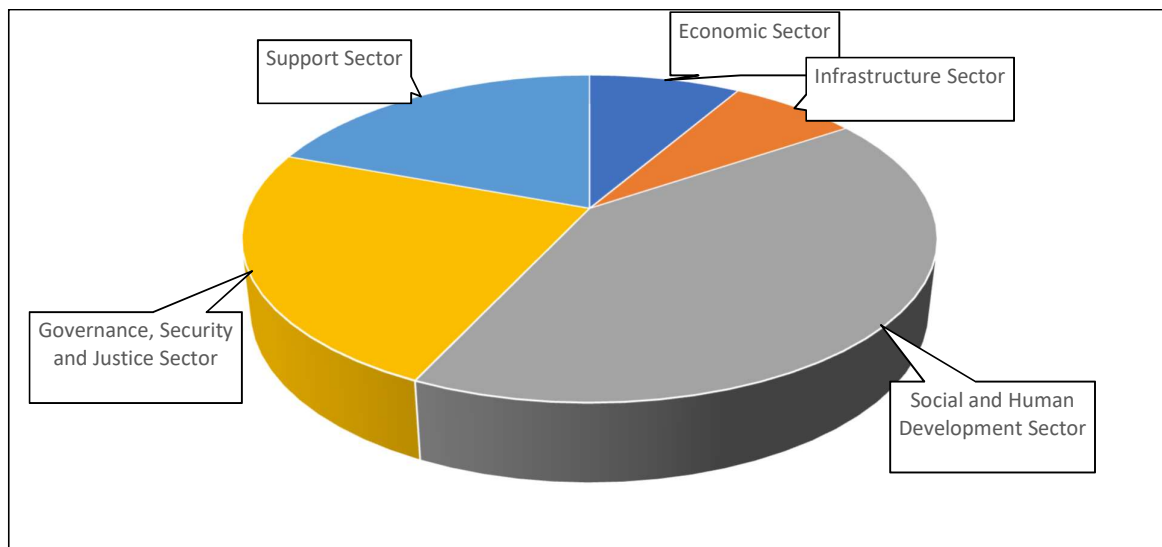
	2018/19				2019/20	Y-on-Y (%)	GDP ratio (%)
	Q1	Q2	Q3	Q4	Q1		
<b>1 Total Revenue</b>	<b>3884.80</b>	<b>3500.03</b>	<b>3788.99</b>	<b>4061.54</b>	<b>3827.01</b>	<b>-1.5</b>	<b>41.0</b>
11 Tax revenue	1820.25	1717.96	1947.98	2254.51	1717.27	-5.7	18.4
O/W Income Tax	1012.67	946.65	1088.74	1122.30	934.55	-7.7	10.0
O/W Value Added Tax	720.07	641.98	703.87	755.46	689.96	-4.2	7.4
13 Grants	63.47	21.09	18.68	22.94	16.09	-74.6	0.2
14 Other revenue	615.52	375.42	436.76	398.53	537.09	-12.7	5.8
SACU receipts	1385.56	1385.56	1385.56	1385.56	1556.55	12.3	16.7
<b>2 Total Expense</b>	<b>3425.86</b>	<b>3222.89</b>	<b>3271.50</b>	<b>3518.37</b>	<b>2735.02</b>	<b>-20.2</b>	<b>29.3</b>
21 Compensation of Employees	1571.13	1688.50	1738.40	1886.96	1513.64	-3.7	16.2
22 Use of goods and services	912.57	543.34	792.03	828.80	497.25	-45.5	5.3
O/W Purchase of Health Services	571.71	49.16	256.51	232.74	260.89	-54.4	2.5
24 Interest Payments	52.50	104.70	59.63	148.00	59.96	14.2	0.6
25 Subsidies	118.25	73.99	58.70	91.30	53.73	-54.6	0.6
26 Grants	187.17	225.47	237.10	249.56	173.38	-7.4	1.9
27 Social benefits	254.74	294.42	233.52	304.92	287.95	13.0	3.1
28 Other expense	329.50	292.46	152.13	8.83	149.12	-54.7	1.6
<b>Net Operating Balance</b>	<b>458.94</b>	<b>277.13</b>	<b>517.49</b>	<b>543.17</b>	<b>1091.99</b>	<b>137.9</b>	<b>11.7</b>
<b>31 Total Nonfinancial Assets</b>	<b>288.91</b>	<b>856.67</b>	<b>505.05</b>	<b>1451.72</b>	<b>158.15</b>	<b>-45.3</b>	<b>1.7</b>
311 Fixed Assets	288.91	856.67	505.05	1446.92	158.15	-45.3	1.7
314 Non-Produced Assets	0.00	0.00	0.00	4.80	0.00	-	0.0
<b>2M Expenditure (2+31)</b>	<b>3714.77</b>	<b>4079.56</b>	<b>3776.55</b>	<b>4970.09</b>	<b>2893.17</b>	<b>-22.1</b>	<b>31.0</b>
<b>Net lending (+)/borrowing(-)</b>	<b>170.02</b>	<b>-579.53</b>	<b>12.44</b>	<b>-908.55</b>	<b>933.84</b>	<b>-</b>	<b>10.0</b>
<b>Financing</b>	<b>-218.11</b>	<b>-647.68</b>	<b>282.43</b>	<b>-981.05</b>	<b>741.53</b>	<b>-</b>	<b>7.9</b>
32 Net Acquisition of Financial assets	-79.64	-603.01	-54.73	238.66	776.41	-	8.3
O/W Domestic Currency and Deposits	-82.64	-620.64	-62.49	238.66	664.13	-	7.1
33 Net Incurrence of Liabilities	138.47	44.67	-337.16	1219.71	34.88	-	0.4
O/W Domestic Other Accounts Payable	-186.41	-0.27	-429.85	793.53	62.89	-	0.7
Statistical Discrepancy	388.13	68.15	-269.99	72.49	192.30	-	2.1

Source: CBL and MOF

## SECTORAL OUTLAYS BY FUNCTIONS OF GOVERNMENT<sup>1</sup>

The Government sectoral outlays to GDP ratio was estimated at 36.8 per cent of GDP during the fiscal quarter under review compared with 26.3 per cent of GDP in the same quarter in 2018/19. On a year on year basis it declined by 19.7 per cent in the quarter under review relative to a rise of 23.9 in the quarter ending in June, 2018. In terms of quarterly changes, it fell by 33.3 per cent during the quarter under review compared with a reduction of 20.4 per cent in the previous quarter. The decline was mainly in infrastructure under local government, energy, public works, and water sectors as well as some economic sectors including agriculture, tourism, and trade. Apart from infrastructure and economic sectors, the social development sector also experienced a fall. The only sectors in which outlays increase were the governance and support sectors. The social sector continued to hold the largest share of the total outlays at 41.4 per cent.

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



Source: MOF

<sup>1</sup> 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

**Table 15: Sector Outlays by Functions of Government (Million Maloti)**

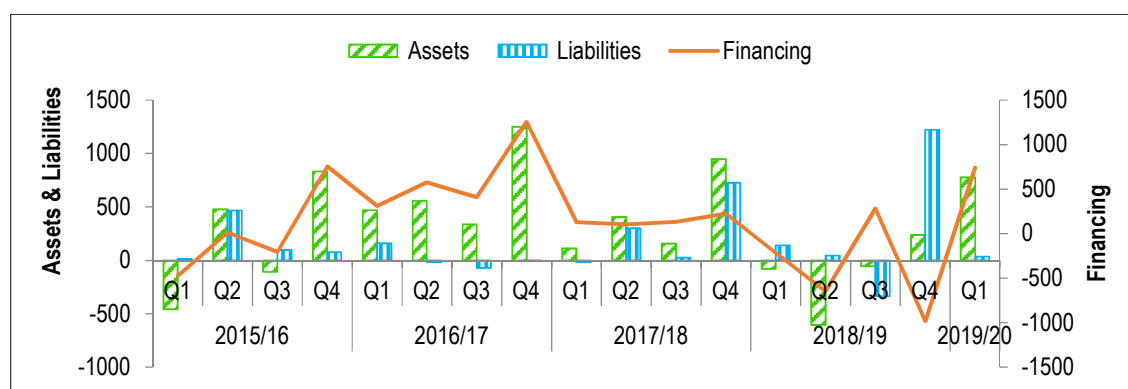
	2018/19				2019/20	Y-on-Y (%)	GDP ratio (%)
	Q1	Q2	Q3	Q4	Q1		
<b>Recurrent Outlays</b>	<b>2775.63</b>	<b>2533.03</b>	<b>2657.83</b>	<b>2414.20</b>	<b>2188.99</b>	-21.1	23.4
Economic Sector	221.50	221.90	256.63	183.55	180.56	-18.5	1.9
Infrastructure Sector	196.98	175.13	201.03	188.59	118.57	-39.8	1.3
Social and Human Development Sector	1409.44	949.61	1238.70	1052.17	1012.77	-28.1	10.8
Governance, Security and Justice Sector	505.65	625.39	536.98	520.73	493.76	-2.4	5.3
Support Sector	442.05	560.98	424.49	469.15	383.33	-13.3	4.1
<b>Capital Outlays</b>	<b>278.09</b>	<b>848.11</b>	<b>452.16</b>	<b>1260.40</b>	<b>261.76</b>	-5.9	2.8
Economic Sector	11.23	121.83	56.32	155.51	25.38	126.0	0.3
Infrastructure Sector	180.57	491.37	151.81	622.13	56.55	-68.7	0.6
Social and Human Development Sector	11.18	31.76	47.90	120.12	2.56	-77.1	0.0
Governance, Security and Justice Sector	58.24	139.77	117.66	206.24	86.37	48.3	0.9
Support Sector	16.87	63.38	78.48	156.40	90.90	438.9	1.0
<b>Total Outlays (excl. unidentified)</b>	<b>3053.72</b>	<b>3381.14</b>	<b>3109.98</b>	<b>3674.59</b>	<b>2450.75</b>	-19.7	26.3
Economic Sector	232.73	343.74	312.95	339.06	205.95	-11.5	2.2
Infrastructure Sector	377.56	666.50	352.84	810.72	175.11	-53.6	1.9
Social and Human Development Sector	1420.62	981.37	1286.60	1172.29	1015.33	-28.5	10.9
Governance, Security and Justice Sector	563.89	765.16	654.63	726.97	580.13	2.9	6.2
Support Sector	458.92	624.36	502.96	625.55	474.23	3.3	5.1
<b>Unidentified Outlays</b>	<b>482.51</b>	<b>850.82</b>	<b>707.48</b>	<b>831.96</b>	<b>433.04</b>	<b>-10.3</b>	<b>4.6</b>

Source: MOF

## FINANCIAL ASSETS AND LIABILITIES<sup>2</sup>

The Government financial assets equivalent to 7.9 per cent of GDP were realised in the fiscal quarter ending in June 2019 compared to withdrawals amounting to 2.6 per cent of GDP in the same quarter of 2018/19. The acquired financial assets emanated from an increase in the deposits of Government in the banking system and loan to parastatals. The liabilities, similarly, expanded as new external loans and domestic securities were incurred. The Government also accumulated some arrears of 0.7 per cent of GDP .

**Figure 22: Financing Activities (Million Maloti)**



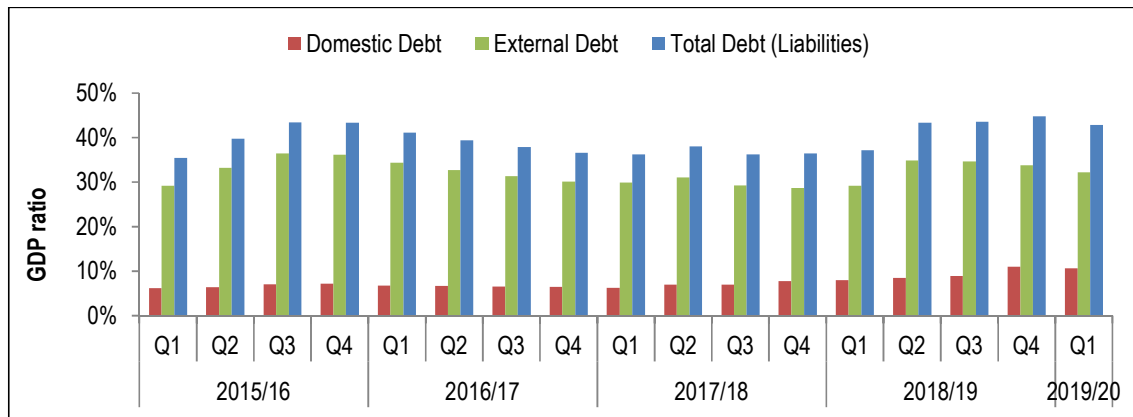
Source: CBL and MOF

<sup>2</sup> Flows in financial assets and liabilities are on a net basis.

### TOTAL PUBLIC DEBT<sup>3</sup>

The public debt stock increased by 0.6 per cent during the review period, following a 2.7 per cent rise in the previous quarter. The increase was driven by incurrence of external debt, plus issuance of Treasury bills and bonds for monetary policy purposes and government budgetary operations. The ratio of external debt to total outstanding debt stood at 75.2 per cent, while the domestic component was 24.8 per cent. External debt service to both revenue and exports stood at 1.6 per cent. On an annual basis, the growth in total debt during the first fiscal quarter was equivalent to 21.3 per cent, compared with a rise of 4.4 per cent in June, 2018.

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



Source: CBL and MOF

<sup>3</sup> All categories are on net terms.



**Table 16: Public Debt Stock (Million Maloti)**

	2018/19				2019/20	Q-to-Q (%)	Debt/GDP (%)
	Q1	Q2	Q3	Q4	Q1		
<b>Total Public Debt</b>	<b>13198.95</b>	<b>15420.88</b>	<b>15500.20</b>	<b>15922.59</b>	<b>16012.37</b>	<b>0.6</b>	<b>40.6</b>
<b>EXTERNAL DEBT</b>	<b>10373.71</b>	<b>12400.12</b>	<b>12328.61</b>	<b>12002.19</b>	<b>12049.05</b>	<b>0.4</b>	<b>30.5</b>
Bilateral Loans	878.69	951.49	961.92	855.45	900.26	5.2	2.3
Concessional	878.69	951.49	961.92	855.45	900.26	5.2	2.3
Non-concessional	0.00	0.00	0.00	0.00	0.00	-	0.0
Multilateral Loans	8822.04	10733.73	10674.92	10158.77	10172.21	0.1	25.8
Concessional	7206.46	9135.01	9079.29	8577.66	8605.17	0.3	21.8
Non-concessional	1615.59	1598.72	1595.63	1581.11	1567.04	-0.9	4.0
Financial Institutions	0.34	0.23	0.23	0.29	0.11	-62.1	0.0
Concessional	0.00	0.00	0.00	0.00	0.00		0.0
Non-concessional	0.34	0.23	0.23	0.29	0.11	-62.1	0.0
Suppliers' Credit	672.64	714.68	691.54	987.68	976.48	-1.1	2.5
<b>DOMESTIC DEBT</b>	<b>2825.24</b>	<b>3020.76</b>	<b>3171.60</b>	<b>3920.41</b>	<b>3963.32</b>	<b>1.1</b>	<b>10.0</b>
Banks	1933.50	2117.26	2120.69	2696.18	2724.02	1.0	6.9
Long-term	1351.07	1524.93	1499.81	1472.39	1495.44	1.6	3.8
Treasury bonds	647.09	717.48	787.54	760.97	883.30	16.1	2.2
Central Bank (IMF-ECF)	703.98	807.45	712.27	711.42	612.14	-14.0	1.6
Short-term (t-bills)	582.44	592.33	620.88	1223.79	1228.57	0.4	3.1
Non-bank	891.73	903.50	1050.90	1224.23	1239.30	1.2	3.1
Short-term (t-bills)	283.23	260.21	252.37	252.98	254.63	0.7	0.6
Long-term (t-bonds)	608.51	643.30	798.54	971.25	984.67	1.4	2.5
<b>DEBT INDICATORS</b>							
External Debt-to-Total Debt	78.6	80.4	79.5	75.4	75.2	-	-
Domestic Debt-to-Total Debt	21.4	19.6	20.5	24.6	24.8	-	-
Concessional Debt-to-External Debt	77.9	81.3	81.4	78.6	78.9	-	-
External Debt Service-to-GDP	0.5	0.7	0.4	0.8	0.6	-	-
External Debt Service-to-Revenue	1.1	1.8	1.1	1.7	1.6	-	-
External Debt Service-to-Exports	1.1	1.4	1.1	1.6	1.6	-	-

**Source:** CBL and MOF

## 6. Foreign Trade and Payments

### OVERVIEW

During the second quarter of 2019, Lesotho's external sector position continued improve, mainly underpinned by the improved the current account balance, together with the surge in the capital and financial account surpluses. Expressed as a share of GDP, the overall balance was 7.7 per cent of GDP during the review quarter compared to 1.9 per cent of GDP in the quarter ending in June 2019.

### CURRENT ACCOUNT

During the review period, the current account deficit narrowed to M230.87 million, equivalent to 2.5 per cent of GDP, from a revised deficit of M250.98 million (2.8 per cent of GDP) in the preceding quarter. The reduction in the current account deficit was mainly explained by the increase in the primary income account surplus, together with the contraction of the services account deficit. However, the decline in the secondary income surplus partly offset the improved performance of the current account balance. The current account balance also benefitted from the narrowing of the goods accounts deficit, largely driven by higher export earnings, which outweighed the rise in imports.

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

	2018			2019		% Changes	
	Q2	Q3	Q4	Q1*	Q2+	Q/Q	Y/Y
<b>Current Account</b>	<b>-3.7</b>	<b>-366.58</b>	<b>114.93</b>	<b>-250.98</b>	<b>-230.87</b>	<b>8.0</b>	<b>-6024.9</b>
<b>(a) Goods (Net)</b>	<b>-2263.83</b>	<b>-2526.14</b>	<b>-2116.91</b>	<b>-2736.95</b>	<b>-2734.93</b>	<b>0.1</b>	<b>-20.8</b>
Merchandise exports, f.o.b.	4191.98	3781.21	4253.73	3254.19	3512.91	8.0	-16.2
Of which diamonds	1424.61	1302.81	1462.85	1124.85	1201.71	6.8	-15.6
Of which textiles & clothing	1856.15	1872.32	2150.94	1539.63	1691.96	9.9	-8.8
Of which water	245.70	235.69	233.68	228.49	236.55	-3.5	-3.7
Of which agriculture	52.66	46.73	60.41	59.67	67.84	13.7	28.8
Of which re-exports	28.52	18.26	33.01	20.46	22.49	9.9	-21.1
Other exports	584.34	305.4	312.84	281.09	292.36	4.0	-50.0
Merchandise imports, f.o.b.	6455.81	6307.35	56370.64	5991.136	6247.84	4.3	-3.2
<b>(b) Services (Net)</b>	<b>-1488.22</b>	<b>-1481.26</b>	<b>-1484.72</b>	<b>-1514.52</b>	<b>-1496.48</b>	<b>-1.2</b>	<b>-0.6</b>
<b>(c) Primary Income (Net)</b>	<b>1845.99</b>	<b>1769.72</b>	<b>1844.65</b>	<b>1809.38</b>	<b>1912.25</b>	<b>5.7</b>	<b>3.6</b>
<b>(d) Secondary Income (Net)</b>	<b>1902.29</b>	<b>1871.09</b>	<b>1871.90</b>	<b>2191.11</b>	<b>2088.29</b>	<b>-4.7</b>	<b>9.8</b>

Source: Central Bank of Lesotho

### Merchandise Exports

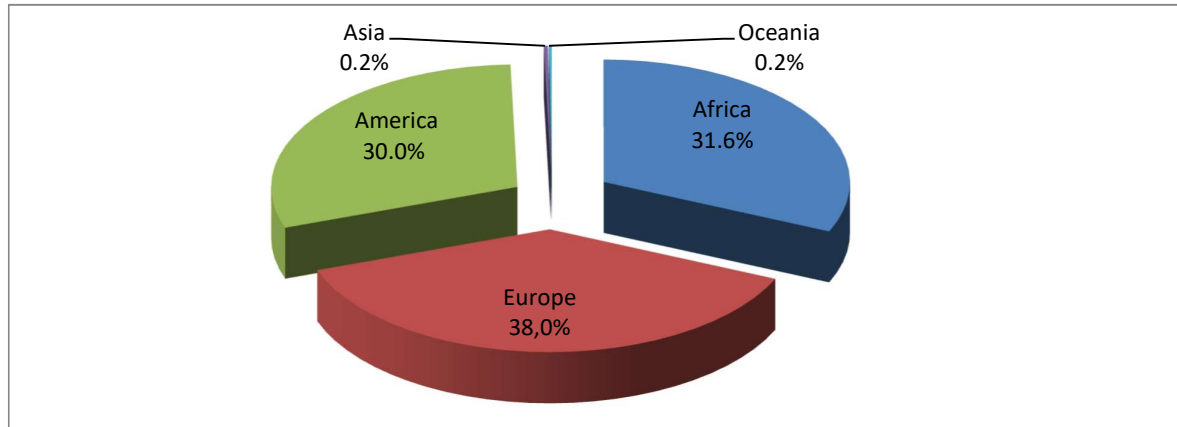
Merchandise exports rose by 8.0 per cent from M3.25 billion in the previous quarter to M3.51 billion in the quarter ending in June 2019. The increase in exports was mostly propelled by diamond exports as well as textiles and clothing exports. Diamond exports picked up by 6.8 per cent relative to a 1.5 per cent rise in the previous quarter, whilst textiles and clothing grew by 9.9 per cent following a 27.5 per cent fall in the past quarter. Diamond exports were boosted mostly by the discovery of high valued carat diamonds in some of the mines during quarter. Textiles and clothing exports expanded on account of increased demand in the USA and South Africa. On an annual basis, Lesotho's exports dropped by 16.2 per cent, with diamonds and textiles and clothing exports bearing the greatest decline of 15.6 per cent and 8.8 per cent, respectively. As a proportion of GDP, the value of merchandise

exports was equivalent to 37.6 percent of GDP relative to 36.6 per cent of GDP in the previous quarter.

### Direction of Trade - Exports

During the period under review, Lesotho's exports were destined mostly to Europe, with a share of 38.0 per cent of total exports. This mostly reflected an increase in diamond exports to Belgium, where they are auctioned. Africa came second with exports amounting to 31.6 per cent – majority of which were destined to South Africa. America occupied the third position with a share of 30.0 per cent of total exports, which constituted mostly textiles and clothing exports to the US. Oceania and Asia received fewer exports, each amounting to 0.2 per cent. Comparing the first and the second quarter of 2019, exports to Africa and America increased by 4.5 per cent and 1.5 per cent, respectively. However, Europe has been the leading recipient of Lesotho's exports for two consecutive periods, signifying substantive contribution of diamonds to Lesotho's exports in recent years.

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



**Source:** Central Bank of Lesotho

### Merchandise Imports

Merchandise imports increased by 4.3 per cent during the quarter ending in June 2019, relative to a 6.0 per cent decline in the previous quarter. The increase was due to higher importation of commodities from South Africa- given its dominance on Lesotho's imports. Significant increases were observed in "machinery and transport equipment" as a result of advancement in LHWP Phase II Project preparations. On an annual basis, imports fell by 3.2 per cent in line with low government expenditure during this period.

### Services

During the second quarter of 2019, the services account deficit narrowed by 1.2 per cent compared with a revised expansion of 2.0 per cent in the preceding quarter. The improved balance was mainly explained by the reduction in external payments by the telecommunications sub-sector during the quarter under review. Nonetheless, there was an increase in payments for transport services, particularly payments for freight services for imported goods, which partly offset the observed reduction in telecommunications payments. On an annual basis, the services account deficit expanded

by 0.6 per cent compared with a 0.4 per cent increase in the previous quarter, indicating that Lesotho continues to be a net importer of services. As a share of GDP, the services account deficit amounted to 16.0 per cent of GDP during the quarter ending in June 2019 from a revised 17.0 per cent of GDP deficit in the preceding quarter.

### **Primary Income**

The primary income account recovered during the quarter under review, with the surplus increasing by 7.1 per cent, against a 2.0 per cent fall in the first quarter of 2019. The surplus in the primary income account was buttressed by an increase in interest income on foreign investments held by the Central Bank, together with lower payments of interest on foreign government loans. However, during the same quarter, there was a fall in interest income accrued to commercial banks on their foreign investments, together with a decline in receipts for maintenance and operational costs for Phase I of the LHWP, which jointly moderated the surplus in the primary income account. Year on year, the primary income account surplus rose by 5.0 per cent during the quarter under review from a year on year increase of 0.2 per cent a quarter earlier, due to an increase in the Central Bank's foreign interest receipts and higher receipts for maintenance and operational costs for Phase I of the LHWP. As a proportion of GDP, the primary income account surplus constituted 20.8 per cent of GDP relative to 20.3 per cent of GDP in the previous quarter.

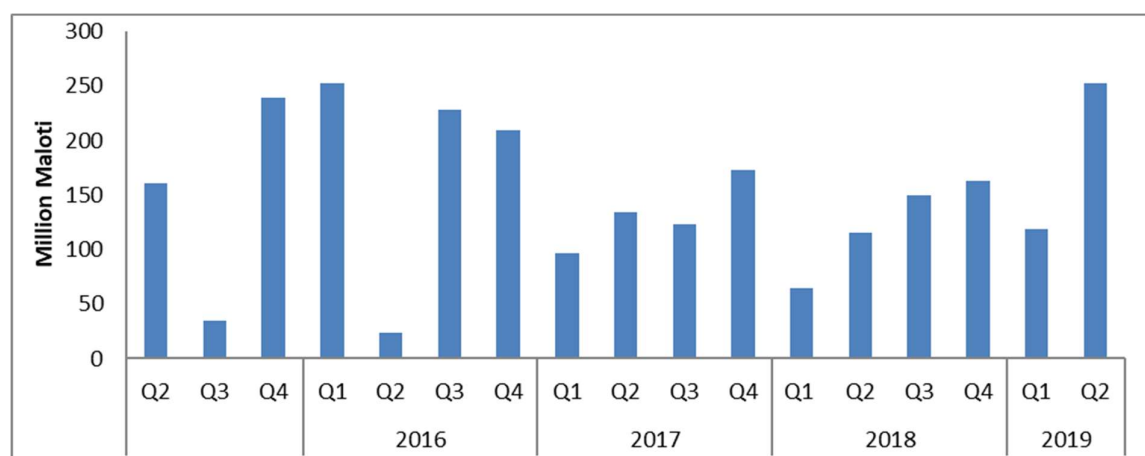
### **Secondary Income**

The secondary income account continued to record a surplus during the second quarter of 2019, although lower than in the preceding quarter. The secondary income account surplus fell by 4.7 per cent during the quarter ending in June 2019 following an increase of 17.1 per cent in the preceding quarter. The decline in the secondary income account balance reflected a consequence of non-receipt of Rand compensation, which is only paid once a year during the first quarter of the calendar year. On an annual basis, the secondary income account surplus rose by 9.8 per cent compared to a fall of 5.0 per cent in the first quarter of 2019. The annual increase was supported by the largest component of transfers, SACU receipts, which rose by 12.6 per cent following a fall by 10.1 per cent in the preceding quarter. Expressed as a share of GDP, the primary income account surplus amounted to 22.4 per cent during the review quarter from 24.6 per -cent in the preceding quarter.

### **CAPITAL ACCOUNT**

During the first quarter of 2019, the capital account surplus grew more than twofold, recording capital inflows of M252.30 million or 2.7 per cent of GDP from M119.80 million or 1.4 per cent of GDP. The higher inflows were underpinned by a substantial increase in capital inflows for construction works under Phase II of LHWP, together with grants to the government.

**Figure 25: Capital Account (Million Maloti)**



**Source:** Central Bank of Lesotho

## FINANCIAL ACCOUNT

The financial account recorded net inflows amounting M358.24 million, equivalent to 3.8 per cent of GDP in the second quarter of 2019 following a deficit of M553.08 million, equivalent to 6.2 per cent of GDP in the previous quarter.

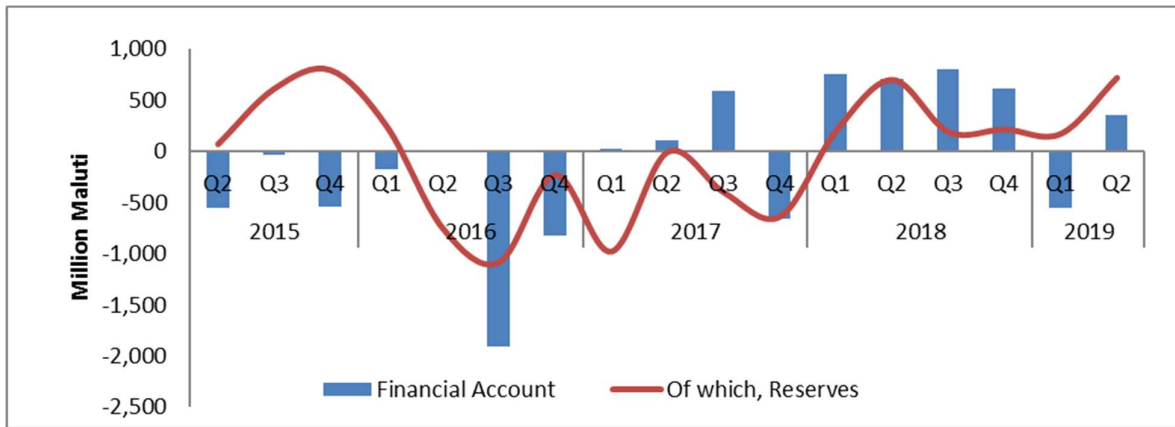
**Table 18: Financial Account Balance (Million Maloti)**

	2018				2019	2019
	Q1	Q2	Q3	Q4	Q1	Q2
<b>Financial account</b>	<b>751.84</b>	<b>709.52</b>	<b>799.34</b>	<b>606.34</b>	<b>-553.08</b>	<b>358.24</b>
Direct Investments, net	-134.06	-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	682.68	136.74	733.70	515.95	-600.86	-234.08
Of which Loans	40.42	-74.91	116.76	69.31	-489.56	105.56
Claims on Non Residents	34.48	34.48	34.48	34.48	34.48	34.48
Liabilities to Non Residents	-5.94	109.39	-82.28	-34.83	524.04	-71.08
Of which Currency and Deposits	716.32	285.72	691.00	520.71	-37.23	-265.58
Claims on Non Residents	698.88	160.72	835.03	415.42	25.70	-469.77
Liabilities to Non Residents	-17.44	-125.00	144.03	-105.29	62.93	-204.19
Reserve Assets	196.12	694.58	187.44	212.19	169.58	714.12

**Source:** Central Bank of Lesotho

The financial account inflows mainly emanated from an increase in reserve assets, coupled with the reduction in foreign loans disbursements by the government. However, there was a fall in commercial banks' foreign assets during the same quarter, which therefore partly offset the observed financial account outflows. Commercial banks opted to diversify their portfolio by reducing foreign investments and investing more in the local securities to meet prudential requirements, and corporations' demand for funds.

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

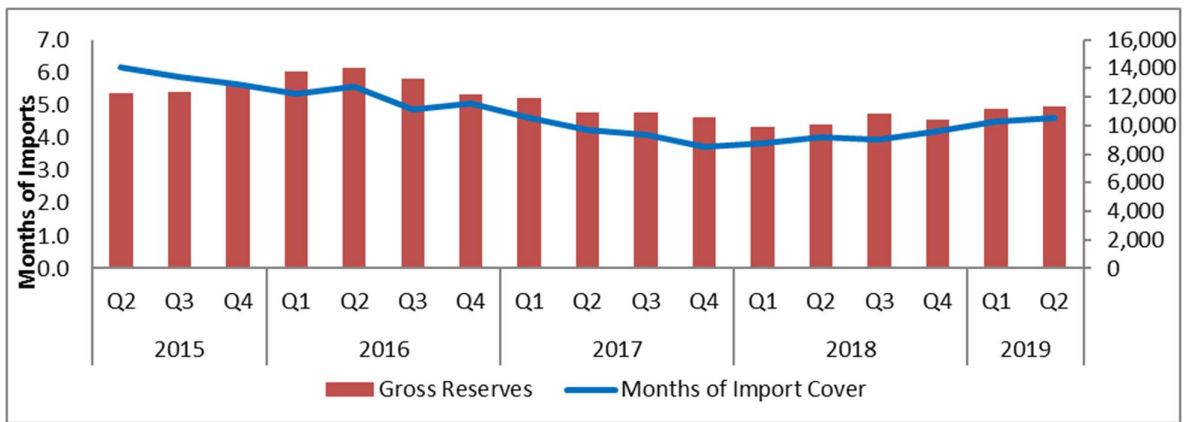


Source: Central Bank of Lesotho

**RESERVE ASSETS**

During the second quarter of 2019, the stock of international reserves rose to M12.08 billion from M11.36 billion in the first quarter of 2019. The increase was mainly on the back of fewer drawdowns of government deposits. Consequently, the import coverage rose to 4.6 months in the review quarter following 4.4 months of import cover in the previous quarter.

**Figure 27: Reserves Assets**



Source: Central Bank of Lesotho