

**CENTRAL BANK OF LESOTHO**

**QUARTERLY REVIEW**

**DECEMBER, 2014**

**MASERU**

**KINGDOM OF LESOTHO**

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# 1. Executive Summary

Global economic performance remained subdued in the last quarter of 2014, as most countries were still struggling to recover from their pre-crisis levels. Economic performance in the advanced countries remained uneven. The US and the UK continued to depict sustained performance while the Euro Area continued to be plagued with a plethora of challenges including debt overhang and weak credit conditions. In emerging market economies (EMEs) growth continued to be strong, although at a slower pace.

Inflation rates declined in both the advanced countries and EMEs due to a sharp decline in international oil prices with rates at near zero in some advanced economies posing the risk of deflation. Monetary policies remained accommodative in advanced countries and EMEs cut policy rates in response to declining inflation rates. Labour conditions improved in both advanced countries and EMEs. On the commodity front, the average prices of all commodities, with the exception of maize, declined.

Domestic economic performance moderated in the fourth quarter of 2014. The measure of economic performance, the Economic Activity Indicator (EAI) rose at a lower rate in the fourth quarter of 2014. This was at a back of reduced output by both Lets'eng and Kao diamond mines. The secondary sector showed mixed signals. The electricity, water, and construction subsectors showed weak performance, while the manufacturing subsector's performance increased though at a lower rate relative to the previous quarter. In the labour market, employment by both LNDC assisted companies and Basotho migrant mineworker declined in the review quarter while government employment remained unchanged. The inflation rate moderated in December 2014 compared with September 2014; largely on account of a fall in the domestic pump prices of petrol, diesel and paraffin in the review quarter.

The overall stock of money supply declined on both a quarterly and annual bases. On an annual basis, the growth broad money dropped by a 2.8 per cent against an expansion of 12.1 per cent during the quarter ending September 2014. This fall in broad money is ascribed to a fall in domestic claims moderated by an increase in net foreign assets. The fiscal balance as a share of GDP was 3.8 per cent in the fourth quarter of 2014 compared with a revised surplus of 2.4 per cent in the third quarter. This continued to reflect a relatively slow budget execution during the 2014/15 fiscal year. The stock of public and publicly guaranteed debt liabilities-to-GDP has been on the increase since the quarter ending March, 2014 due to the weak loti-US dollar exchange rate.

The current account deficit widened to M560.6 million in the quarter ending in December 2014 from a deficit of M107.8 million recorded in the previous quarter. The widening in the deficit was attributed to an increase in imports and deterioration in exports, particularly textiles exports. In addition, an increase in payments for services acquired abroad contributed to the broadening in the current account deficit. A rise in income and current transfers however, helped to contain the widening current account deficit. As a share of GDP, the current account deficit constituted 9.5 per cent in the review quarter compared with a deficit of 1.8 per cent per cent of GDP in the previous quarter.

## 2. International Economic Developments

Global economic performance remained subdued in the last quarter of 2014, as most countries were still struggling to recover from their pre-crisis levels. Furthermore, the boost from lower international oil prices for consumer countries was offset by the negative effects on the oil producing countries.

Economic performance in the advanced countries remained uneven. The US and the UK fully recovered from their pre-financial crisis output levels, while weaknesses continued in the Euro Area and Japan. In emerging market economies (EMEs) growth continued to be strong, although at a slower pace.

Inflation rates declined in both the advanced countries and EMEs due to a sharp decline in international oil prices with rates at near zero in some advanced economies posing the risk of deflation. Monetary policies remained accommodative in advanced countries and EMEs cut policy rates in response to declining inflation rates. Labour conditions improved in both advanced countries and EMEs. On the commodity front, the average prices of all commodities, with the exception of maize, declined.

**Table 1: Key World Economic Indicators**

	Real GDP Growth		Inflation Rate		Key Policy Rates		Unemployment Rate	
	2014		2014		2014		2014	
	Q3	Q4	Q3	Q4	Q3	Q4	Q3	Q4
US	2.7	2.5	1.7	0.8	0.25	0.25	5.9	5.6
Euro Area	0.8	0.9	0.3	-0.2	0.05	0.05	11.5	11.4
Japan	-1.4	-0.5	3.2	2.4	0.00	0.00	3.6	3.4
UK	2.6	2.7	1.2	0.5	0.50	0.50	6.0	5.7
SA	1.6	1.3	5.9	5.3	5.75	5.75	25.4	24.3
China	7.3	7.3	1.6	1.5	6.00	5.60	4.1	n/a
India	8.0	7.5	6.5	5.0	8.00	8.00	n/a	n/a

**Source:** Bloomberg, The Economist, 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

## **United States**

The US economic growth continued to be strong despite a slight moderation in economic performance during the review period. Real GDP grew by 2.5 per cent in the fourth quarter of 2014 relative to a growth of 2.7 per cent in the previous quarter. The slowdown resulted from the fall in nonresidential fixed investment and federal government expenditure, and a slowdown in exports.

Consumer inflation eased from a rate of 1.7 per cent in September 2014 to 0.8 per cent in December 2014 due to lower energy costs. This rate was far below the Federal Reserve Bank's target of 2 per cent and therefore increased the risk of deflation in the economy. The Federal Reserve Bank's FOMC left the key policy rate unchanged at 0.25 per cent. It also indicated that it was in no rush to increase interest rates, in response to on-going improvements in both economic growth and the labour market conditions. Such a decision would probably be considered in the second half of the year 2015.

Labour market conditions continued to improve in line with the on-going recovery of the US economy. The unemployment rate declined to 5.6 per cent in the last quarter of 2014 compared with 5.9 per cent in the third quarter of 2014. While the decline in unemployment was attributed to increased number of employed persons, it also reflected an increase in the number of discouraged job seekers and hence the reduced labour force.

## **Euro Area**

Economic growth in the Euro Area increased marginally during the fourth quarter of 2014. It rose from 0.8 per cent in the third quarter of 2014 to 0.9 per cent during the last quarter. The improvement resulted from the rebound in economic growth in Germany, the largest economy in the region. Economic growth in Germany stood at 1.5 per cent relative to 1.2 per cent in the previous quarter. Growth in France decelerated while Italy continued to be in recession.

The Euro Area recorded a deflation of 0.2 per cent in December 2014, as the international oil prices weighed down on fuel and heating oil costs. This rate compares with 0.3 per cent in September 2014. The European Central Bank (ECB) kept its main refinancing rate at 0.05 per cent in the last quarter of 2014. It, however, unveiled its plan to further increase its monetary stimulus in order to revive its economy.

The unemployment rate declined marginally from 11.5 per cent in the third quarter of 2014 to 11.4 per cent in the last quarter of 2014. Countries with the lowest rates of unemployment were Austria and Germany, while Greece and Spain continued to be the highest in the region.

## **Japan**

The Japanese economy continued to be in recession during the fourth quarter of 2014, driven by the decline in private consumption, capital expenditure and exports. Real GDP growth fell by 0.5 per cent during the last quarter of 2014 relative to a 1.4 per cent decline in the third quarter of 2014.

The rate of inflation declined to 2.4 per cent in December 2014 compared with 3.3 per cent in September 2014. The slowdown resulted from lower costs of energy and food. The Bank of Japan left its key policy rate unchanged at 0.0 per cent. It, however, decided to continue to buy government bonds in order to boost monetary base at an annual pace of about 80 trillion Yen so as to stimulate inflation. The unemployment rate declined, by 0.2 percentage points, to 3.4 per cent in the last quarter of 2014.

In response to the unfavourable economic performance, the Government of Japan decided to postpone the second sales tax hike, which was meant to be effective from October 2015. The economy was constrained by, amongst others, the negative effects of the sales tax increase that was implemented in April 2014.

## **United Kingdom**

Economic growth increased marginally to 2.7 per cent in the last quarter of 2014 from 2.6 per cent in the previous quarter. Growth was supported by increased production in the agricultural, construction and industrial sectors.

The inflation rate slowed down from 1.2 per cent in September 2014 to 0.5 per cent in December 2014 due to lower food and fuel prices. The MPC of Bank of England kept its policy rate unchanged at 0.5 per cent and maintained the asset purchase program at 375 billion Pounds in December 2014.

Unemployment rate in the UK recorded the lowest rate since mid-2008 due to increased number of jobs. This is a clear sign that recovery is going on well in the country. The unemployment rate declined to 5.7 per cent during the fourth quarter of 2014 relative to 5.8 per cent in the previous quarter.

## **China**

Chinese economic activity continued to slowdown during the fourth quarter of 2014. Economic growth stood at 7.3 per cent in the fourth quarter of 2014, unchanged from the previous quarter. Growth was held back by weak investment and manufacturing growth as well as lower exports.

The inflation rate declined to 1.5 per cent in December 2014 from 1.6 per cent in September 2014 as a result of lower transport and communications costs. The People's Bank of China's MPC cut its key policy rate by 40 basis points to 5.6 per cent in order to curb the slowdown in economic growth.



## India

India's economic growth slowed down somewhat during the review period<sup>1</sup>. Real GDP growth slowed down to 7.5 per cent in the fourth quarter of 2014 compared with 8.2 per cent growth in the previous quarter. The registered growth resulted from higher investment and government consumption. Growth was dampened by the contraction in agricultural output.

Inflation rate moderated to 5.0 per cent in December 2014 following 6.5 per cent in September 2014 due to declining food prices. The Reserve Bank of India maintained its monetary policy stance. It however highlighted its plan to cut the policy rate in order to boost economic growth amid slowing inflation.

## South Africa

South Africa's economic activity remained subdued due to structural problems across a number of sectors of the economy. The real GDP grew by 1.3 per cent during the fourth quarter of 2014 relative to a revised 1.6 per cent in the previous quarter. The slowdown resulted from the sluggish performance in the mining and quarrying industry as well as the electricity, gas and water industry. The deceleration was however moderated by the growth in the agriculture, construction, transport and communications, and general government services sectors.

The inflation rate continued to slowdown in December 2014 at the back of a continuing decline in world oil prices. It decreased from 5.9 per cent in September 2014 to 5.3 per cent in December 2014. Declining food, hotel and restaurants, oil and transport costs contributed to the recorded rate.

The South African Reserve Bank (SARB's) MPC left the repo rate unchanged at 5.75 per cent as inflation outlook pointed to a downward trend in the medium term. Furthermore, the economic growth outlook remained subdued due to the prevailing domestic constraints, weak global economy and declining commodity prices.

The unemployment rate declined from 25.4 per cent in the third quarter of 2014 to 24.3 per cent in the fourth quarter. This was attributed to the increased number of employed people both in the formal and informal sectors. Also, some people were temporarily employed during the festive season.

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<sup>1</sup> India has changed its methodology of calculating Gross Domestic Product (GDP) in order to align itself with the international standards. It now measures GDP by market prices instead of factor costs. It also rebased its GDP to 2011/2012 from 2004/05. The change in methodology affected GDP figures from the second quarter of 2013 to date.

## COMMODITIES

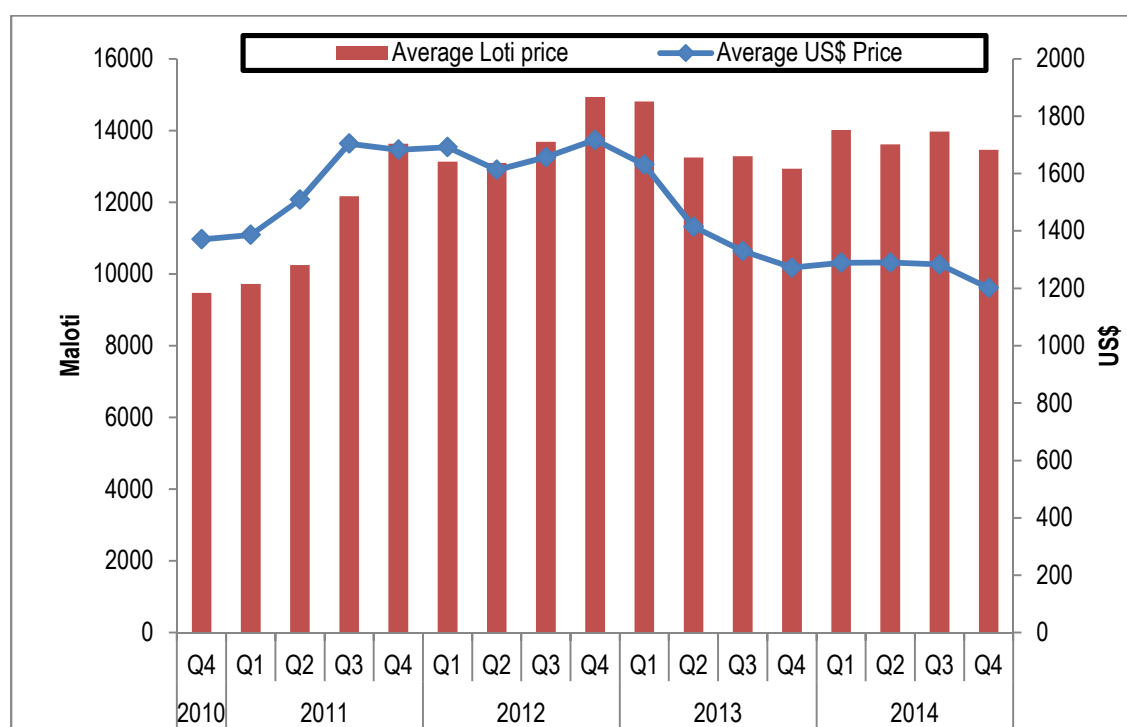
### Minerals

#### Gold

The average US Dollar price of gold declined by 6.4 per cent to US\$1 201 per ounce during the last quarter of 2014 compared with a 0.5 per cent fall in the previous quarter. The decline was moderate in Maloti terms due to the depreciation of the Loti against the Dollar during the review period. The average prices declined by 3.7 per cent to M13 459 per ounce relative to an increase of 2.7 per cent in the third quarter of 2014.

The continuing decline in prices was ascribed to the strengthening of the Dollar, which put downward pressure on gold. The Dollar remained strong due to the robust recovery in the US economy, which increased investors' confidence.

Figure 1: Average Price of Gold



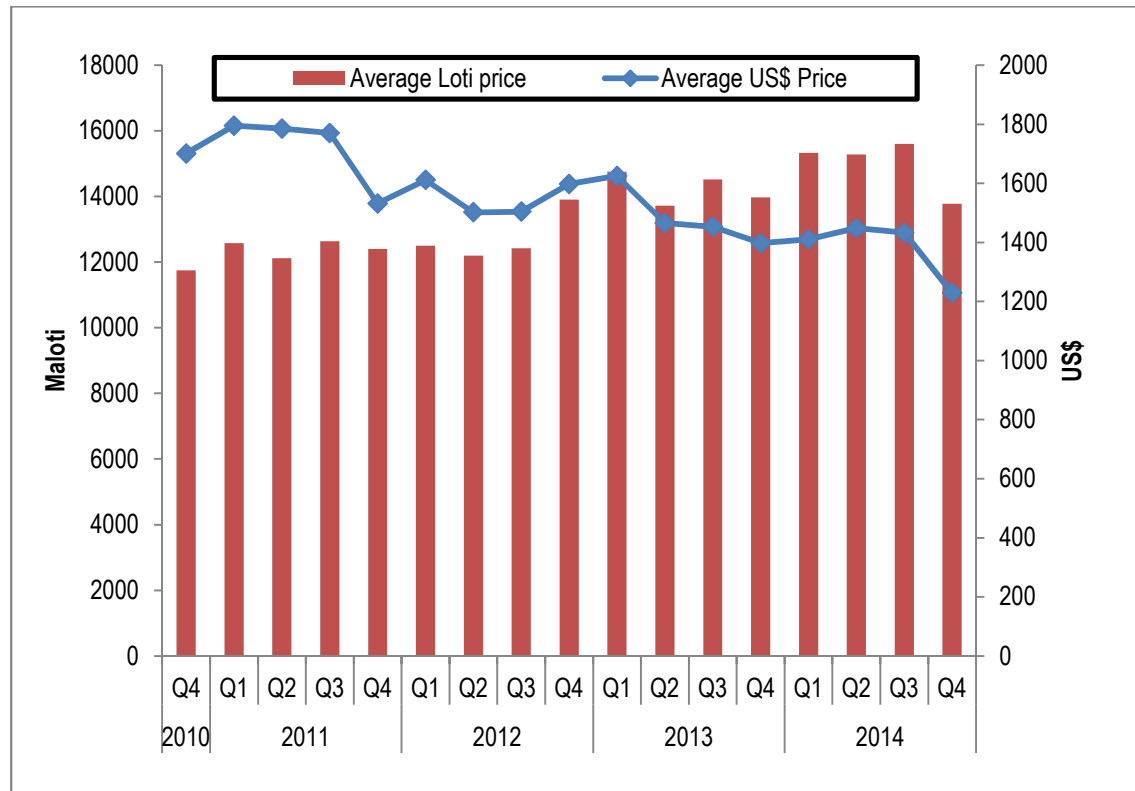
Source: Bloomberg

#### Platinum

In US Dollar terms, the average price of platinum declined by 14.2 per cent to US\$1 229 per ounce during the review period relative to 11.0 per cent fall in the third quarter of 2014. The decrease emanated from weaker demand due to lower growth in China and Europe, which use platinum for the production of automobiles. In Maloti terms, the average price of platinum

dropped by 11.7 per cent to M13 777 per ounce compared to an increase of 2.2 per cent in the previous quarter.

**Figure 2: Average Price of Platinum**



Source: Bloomberg

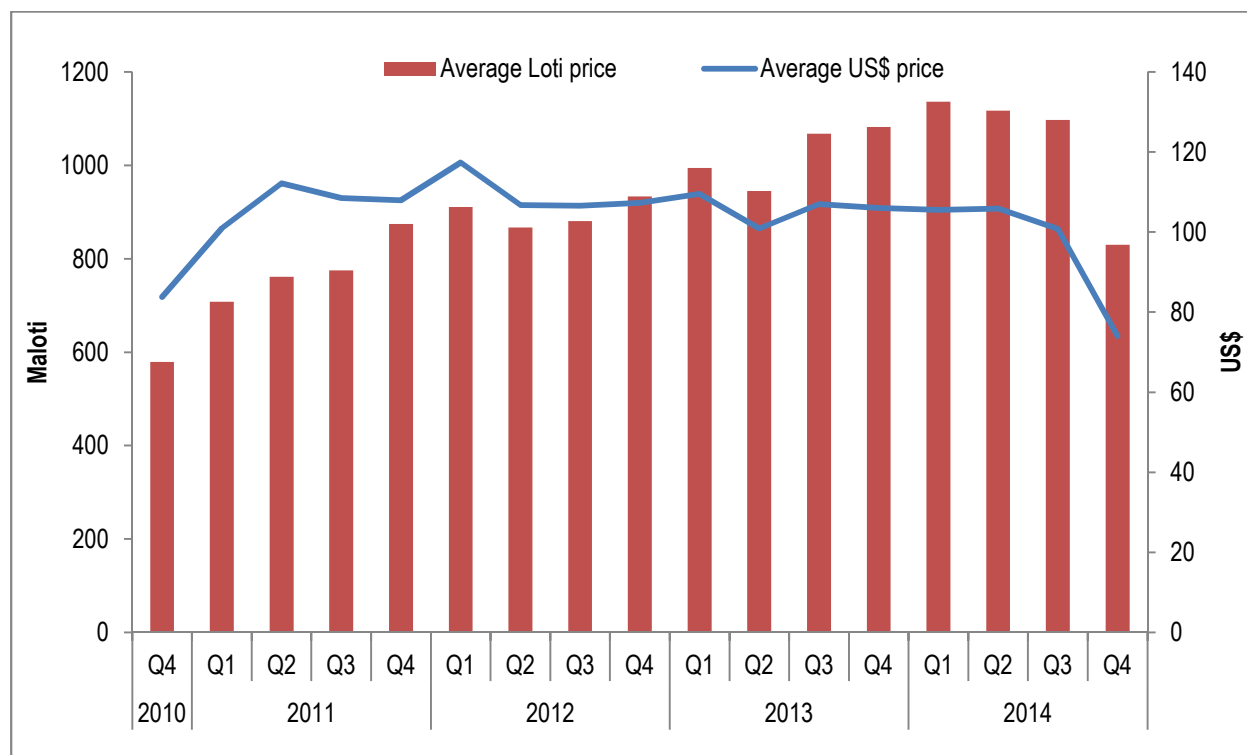
## Energy

### *Oil*

Crude oil prices declined significantly during the last quarter of 2014. In US Dollar terms, the average price of oil deteriorated by 26.6 per cent to US\$74 per barrel compared with a 4.8 per cent decline in the third quarter of 2014. The recorded decrease was at the back of high supply by the US shale oil producers, coupled with the decision by the OPEC countries not to cut production. Moreover, the weakness in global demand for oil due to the slow overall economic growth led to further deterioration in prices.

In Maloti terms, the average price of oil declined by 24.4 per cent to M830 per barrel as opposed to a 1.8 per cent fall in the previous quarter. The drop in oil prices put downward pressure on domestic fuel prices and thus, inflation rate. As a result, domestic fuel prices were revised downward and closed the review quarter at M11.25 per litre for petrol, M11.25 per litre for diesel and M8.30 per litre for paraffin.

**Figure 3: Average Price of Oil**



**Source:** Bloomberg

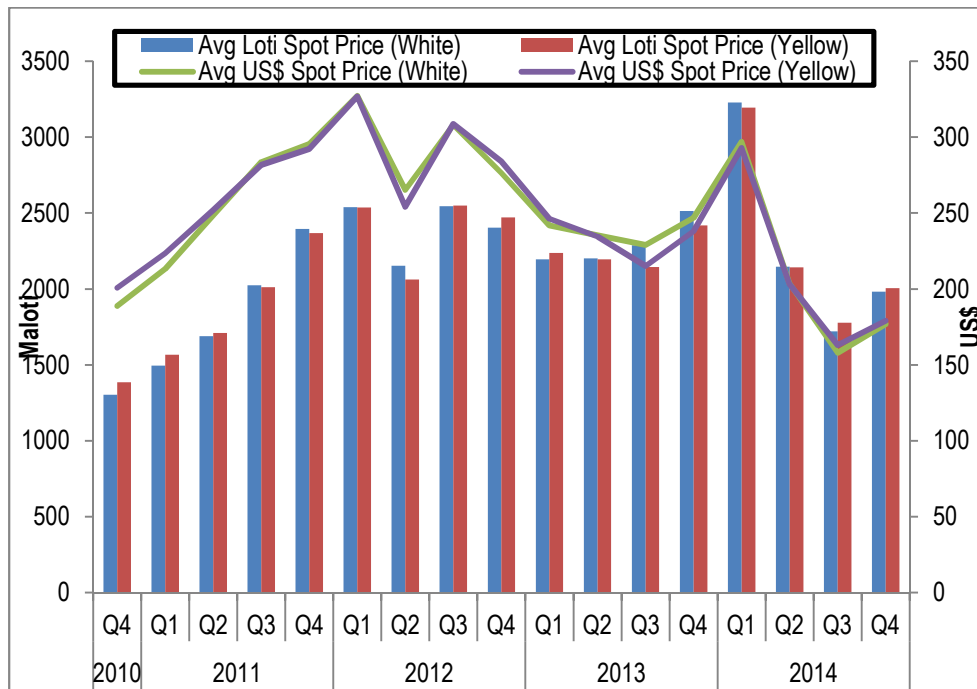
## **Agricultural Products**

### ***Maize***

During the review period, the average US Dollar price of white maize increased by 15.3 per cent to US\$177 per tonne while the average price of yellow maize rose by 9.8 per cent to US\$179 per tonne. These compare with 22.4 per cent decline and 19.7 per cent fall in prices of white maize and yellow maize, respectively in the previous quarter. The rise emanated from high demand for maize and concerns about deteriorating crop prospects in South America.

In Maloti terms, white maize prices rose by 12.8 per cent to M2 006 per tonne relative to a decrease of 19.9 per cent per cent to M1 983 per tonne.

**Figure 4: Average Price of Maize**

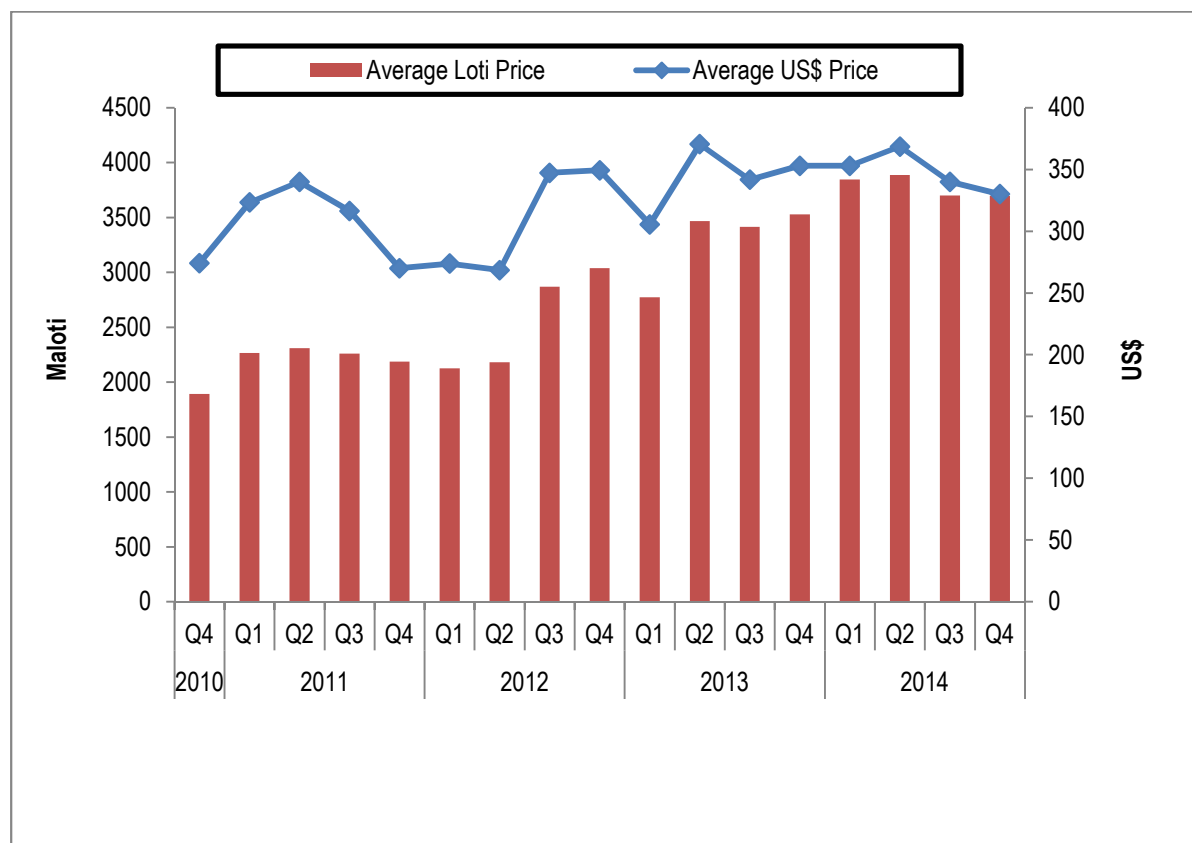


**Source:** Bloomberg

***Wheat***

In US Dollar terms, the average price of wheat declined by 2.9 per cent to US\$330 per tonne during the quarter under review relative to a 7.8 per cent fall in the previous quarter. In Maloti terms, the average price of wheat declined marginally by 0.1 per cent to M3 699 per tonne compared with a decrease of 4.8 per cent in the third quarter of 2014. The registered drop resulted from the record high global production as well as large stockpile from the key producing countries.

**Figure 5: Average Price of Wheat**

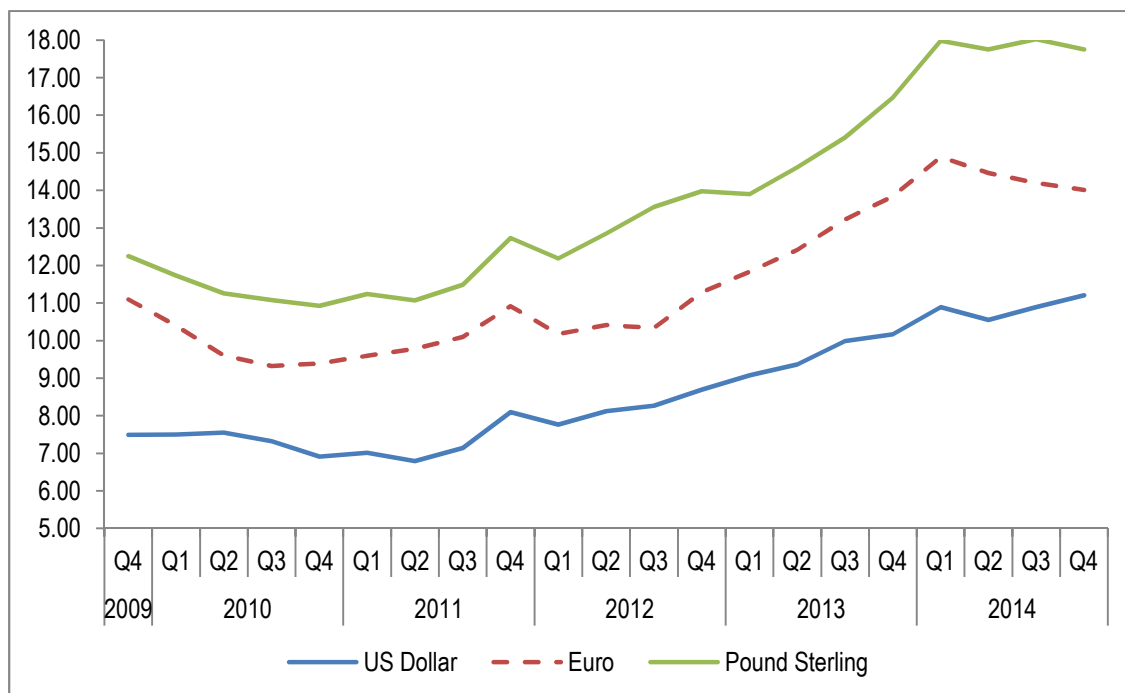


**Source:** Bloomberg

## EXCHANGE RATES

During the fourth quarter of 2014, the Rand (hence Loti) depreciated against the US Dollar while it appreciated against the Euro and the Pound Sterling. The depreciation of the Rand against the US Dollar reflected reduced investor confidence in South Africa due to the internal structural problems that prevailed in the quarter under review. Furthermore, the strengthening of the US Dollar due to the US economic recovery also contributed to the weakening of the Rand. The appreciation against the Euro was in response to the weak economic situation that prevailed in the Euro Area. The Loti depreciated by an average of 3.7 per cent to M11.29 per US Dollar while it appreciated by 1.3 per cent to M14.01 and 1.5 per cent to M17.75 against the Euro and the Pound Sterling, respectively.

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



**Source:** Bloomberg

## 3. Real Sector Developments

### OVERVIEW

Domestic economic performance moderated in the fourth quarter of 2014. The measure of economic performance, the Economic Activity Indicator (EAI) rose at a lower rate in the fourth quarter of 2014. The observed moderation was a result of weak performance by the primary and secondary sectors, while the tertiary sector recorded robust growth.

The primary sector's performance deteriorated in the review period. This was at the back of reduced output by both Lets'eng and Kao diamond mines. The secondary sector showed mixed signals, this was because the electricity, water, and construction subsectors showed reduced performance, while the manufacturing subsector's performance increased though at a lower rate compared to the previous quarter. Within the tertiary sector, all the subsectors' economic performance increased. In the labour market, employment by both LNDC assisted companies and Basotho migrant mineworker declined in the review quarter while government employment remained unchanged. The inflation rate moderated in December 2014 compared with September 2014. This was mainly on account of a fall in the domestic pump prices of petrol, diesel and paraffin in the review quarter.

### OUTPUT DEVELOPMENTS

The domestic economic performance increased at a lower rate in the review period. The EAI increased by 3.8 per cent in the quarter ending December 2014 compared with a significant increase of 10.5 per cent in the previous quarter.



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

	Weight	2013		2014		
		Q4	Q1	Q2	Q3	Q4
<b>EAI</b>	<b>100</b>	-2.8	13.5	-18.1	10.5	3.8
<b>Primary Sector</b>						
Mining	8.9	-7.9	-0.5	4.9	-0.7	-8.7
<b>Secondary Sector</b>						
Manufacturing	18.5	0.6	-22.8	3.9	10.6	7.7
Electricity	1.1	-17.4	-2.2	13.9	-0.8	-12.5
Water	4.9	-25.7	-7.2	35.1	6.7	-28.6
Construction	7.6	-25.0	55.1	-59.5	94.5	-16.9
<b>Tertiary Sector</b>						
Trade	11	25.6	7.6	-24.0	-2.6	6.7
Telecom	5.1	26.8	-8.1	-3.8	13.5	0.8
Financial Sector	6.5	3.1	-4.6	-9.7	12.1	2.0
Other services	5.7	3.0	3.2	9.7	10.6	14.9
Government	30.6	-10.9	50.8	-32.7	6.8	15.5

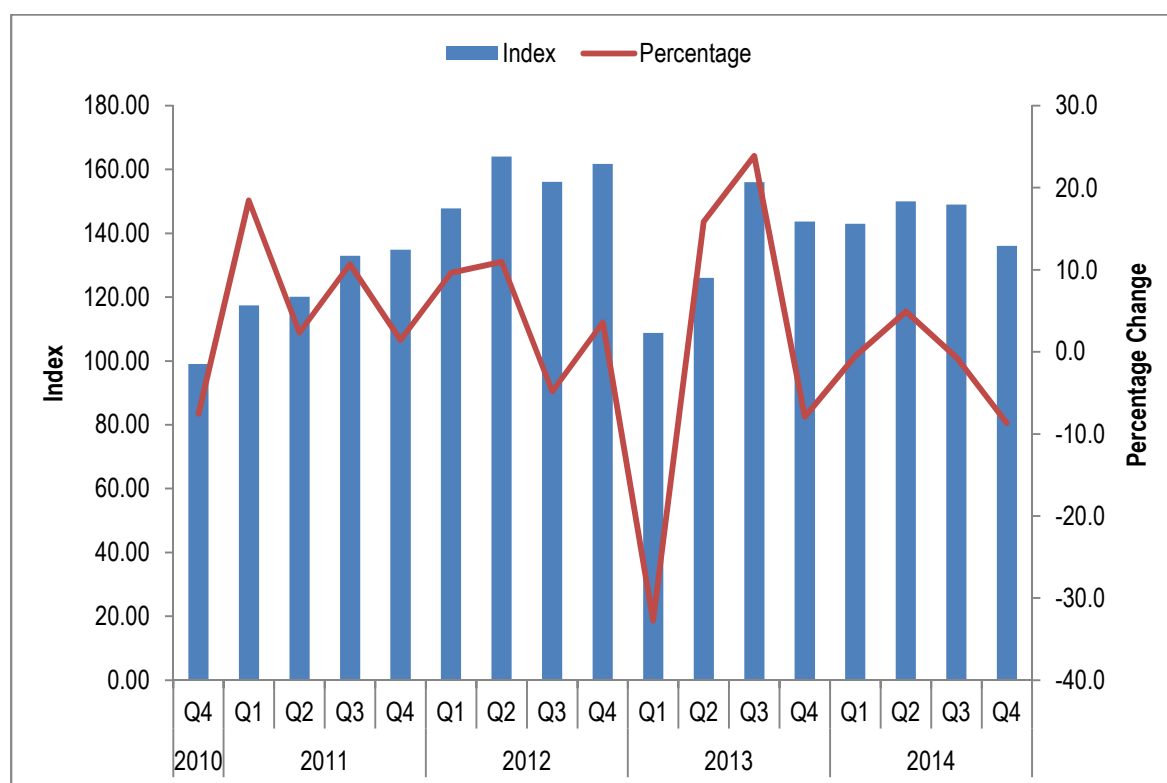
**Source:** Central Bank of Lesotho

## Primary Sector

### *Mining and Quarrying*

The mining and quarrying index declined by 8.7 per cent in the period under review compared with a marginal decline of 0.7 per cent in the previous quarter. The decline was attributed to fewer carats recovered by both Lets'eng and Kao diamond mines. Lets'eng diamond mine's reduced output was attributed to the upgrading works undertaken by the mine, which commenced in the previous quarter and are expected to be complete by the first quarter of 2015. The projects were intended to deliver an increase in the treatment capacity to 250 000 tonnes per annum as well as further reducing diamond damage and enhancing safety at the mine. On the other hand, lower carats recovered by Kao diamond mine were as a result of lower tonnes of ore treated during the fourth quarter of 2014. On the demand side, diamond prices moderated during the review period.

**Figure 7: Mining and Quarrying Index**



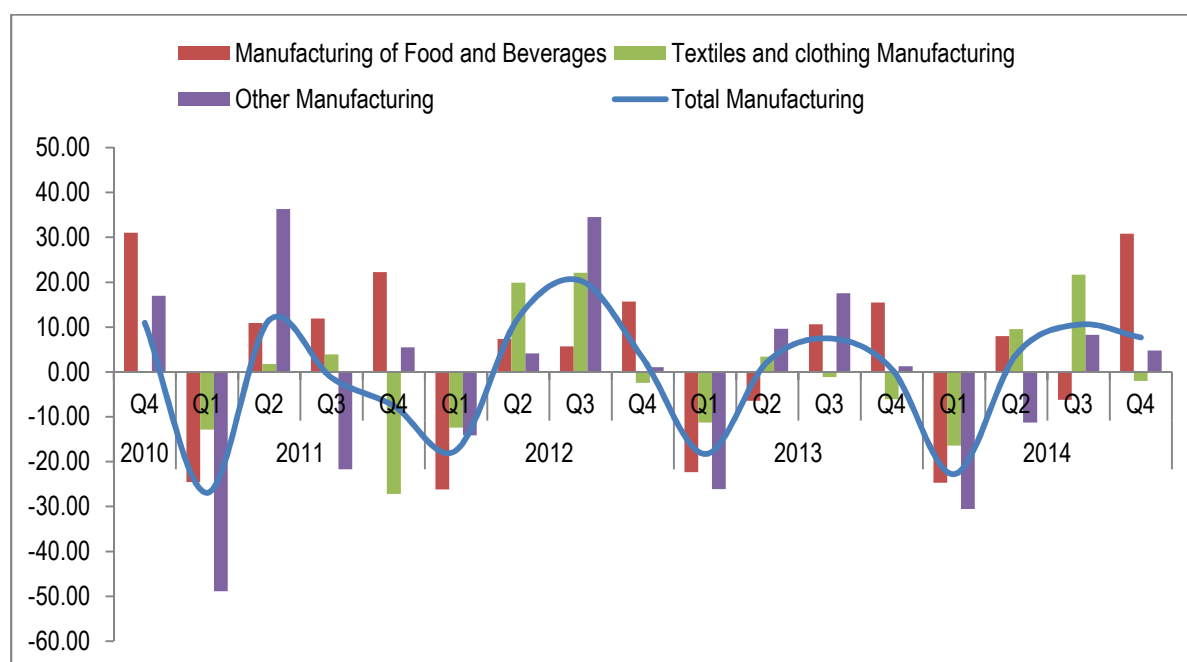
Source: Central Bank of Lesotho

## Secondary Sector

### *Manufacturing*

The manufacturing index rose by 7.7 per cent in the fourth quarter of 2014 compared with 10.6 per cent registered in the previous quarter. The observed increase was at the back of 30.8 per cent and 4.8 per cent increase by manufacturing of food and beverages, and other manufacturing indices, respectively in the review quarter. The increase was attributed to strong demand for food products in the fourth quarter due to high festive season spending. The manufacturing of textiles and clothing index declined by 2.0 per cent in the last quarter of 2014, compared with an increase of 21.7 per cent in the previous quarter. The observed decline was associated with the fact that orders intended for the festive season are normally processed in the previous quarter, as a result economic activity in the textile and clothing industry decline in the fourth quarter.

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



Source: Central Bank of Lesotho

### *Electricity*

Electricity consumption index declined by 12.6 per cent in the fourth quarter of 2014 compared with a marginal decline of 0.8 per cent in the previous quarter. The decline in electricity consumption was attributed to a fall in general electricity usage. The commercial and industrial category declined by 13.5 per cent in the review quarter as opposed to a 2.7 per cent in the third quarter of 2014. The observed trend in electricity consumption was in line with reduced output in the mining, and the textiles and clothing industries in the fourth quarter of 2014.

### *Water*

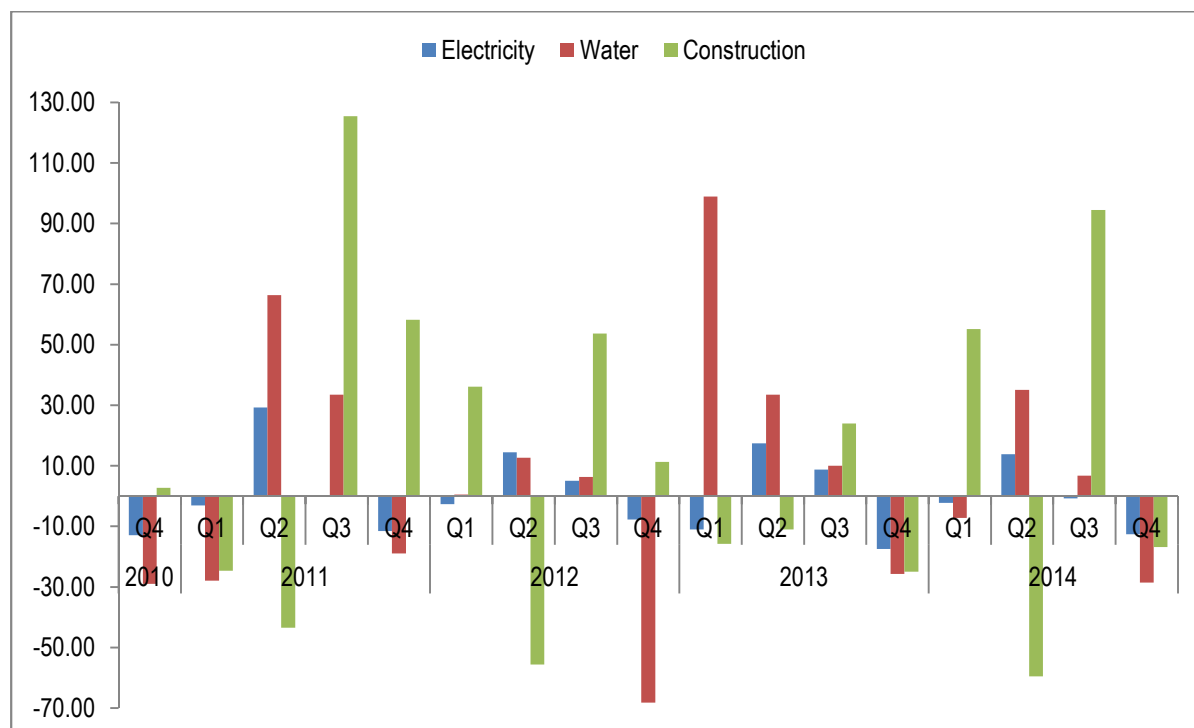
The water consumption index declined by 28.6 per cent in the review quarter compared with an increase of 6.7 per cent in the third quarter of 2014. It has to be noted that water exports to SA constitute 98.8 per cent of the total water consumption, while the remaining 1.2 per cent is water consumed locally. The decline in overall water consumption mainly reflected the decline in water exported to SA. That is, water exports to SA are in line with reduced electricity consumption. On the contrary, water consumed locally increased by 13.9 per cent in the fourth quarter of 2014 compared with a stable consumption observed in the previous quarter. The increased local water consumption was attributed to increased consumption by the domestic, industrial and other categories.

### *Construction*

The construction index declined by 16.9 per cent in the fourth quarter of 2014 compared with a 94.5 per cent increase in the previous quarter. The decline was attributed to the reallocation of funds from the capital budget to the recurrent budget for recurrent related expenses. The observed decline was in line with reduced government capital expenditures. A Large proportion

of the government capital projects are still at their infant stage, and this includes among others Maseru container terminal, New State House, Bethel Bridge and the Likalaneng- Thaba Tseka road, while other projects are expected to commence in the next quarter. In addition, major Metolong related projects are nearing completion while others have been completed. Those nearing completion include: Water treatment work and pumping station, Primary line to Maseru, secondary line to Mazenod, Roma and Morija and secondary line to TY.

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



Source: Central Bank of Lesotho

## Tertiary Sector

### Trade

The trade index rose by 6.7 per cent in the last quarter of 2014 compared with a decline of 2.6 per cent in the previous quarter. The increase in wholesale and trade sales was driven by high consumer spending during the festive period and was in line with increased imports of goods and services.

### Telecommunications

The telecommunications index increased marginally by 0.8 per cent in the fourth quarter of 2014 compared with a significant increase of 13.5 per cent in the third quarter of 2014. The slight increase indicated steady growth by telecommunications industry during the review period.

### *Other Services<sup>2</sup>*

The services index increased by 14.9 per cent in the fourth quarter of 2014 compared with a 10.6 per cent increase in the previous quarter. The increase was attributed to a surge in sales of services related to restaurants, bars and canteens, renting of land transport equipment, renting of construction and civil engineering machinery and equipment and other business activities.

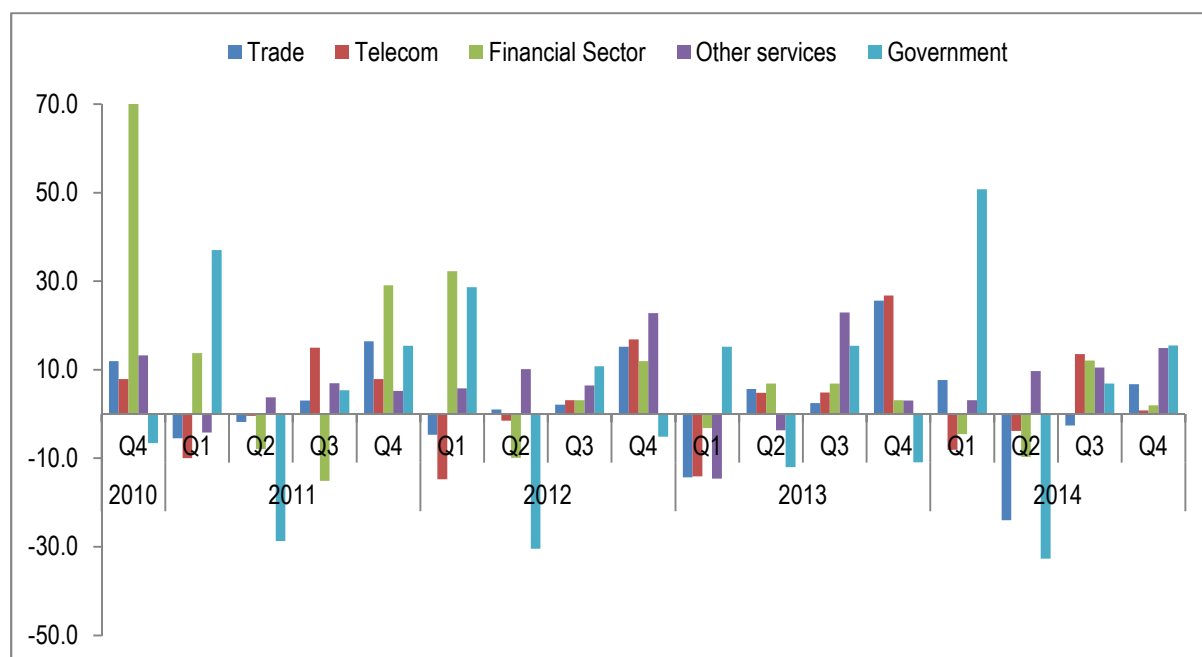
### *Government*

The government activity index increased by 15.5 per cent in the fourth quarter of 2014 compared with an increase of 6.8 per cent in the previous quarter. The increase mainly reflected the reallocation of funds from the capital budget to the recurrent budget for recurrent related expenses.

### *Finance*

The financial sector index increased at a lower rate of 2.0 per cent in the quarter under review compared with a significant increase of 12.1 per cent in the third quarter of 2014. The increased performance was as a result of an increase in the interest earned on loans and the implicit charges by the banks. The observed trend was consistent with a slight increase in credit extended to all sectors of the economy.

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



**Source:** Central Bank of Lesotho

<sup>2</sup> Other services include hotels, camping sites and other provision of short stay accommodation, restaurants, bars and canteens, renting of land transport equipment, legal activities, consultancy services, data processing, maintenance and repair services, Advertising, software publishing, investigation and security activities, printing etc.

## EMPLOYMENT DEVELOPMENTS

On quarterly basis, employment by LNDC assisted companies declined by 1.9 per cent in the review quarter compared with an increase of 2.0 per cent in the previous quarter. The knit and woven garments firms recorded significant declines in employment. The reduced employment by these firms was in line with the reduced output by the textile and clothing firms. Each year orders intended for the entire festive season are normally processed in the third quarter; as such firms reduced their temporary staff in the review period. On annual basis employment declined by 3.2 per cent in the quarter ending in December 2014 compared with a 3.0 per cent decline in the third quarter of 2014. The persistent decline was a reflection of challenges faced by the textiles and clothing firms. The industry is losing its competitiveness in the US market against low cost Asian and other African producers due to high electricity, water and labour costs, and the remoteness of Lesotho to the US market results in higher shipment costs.

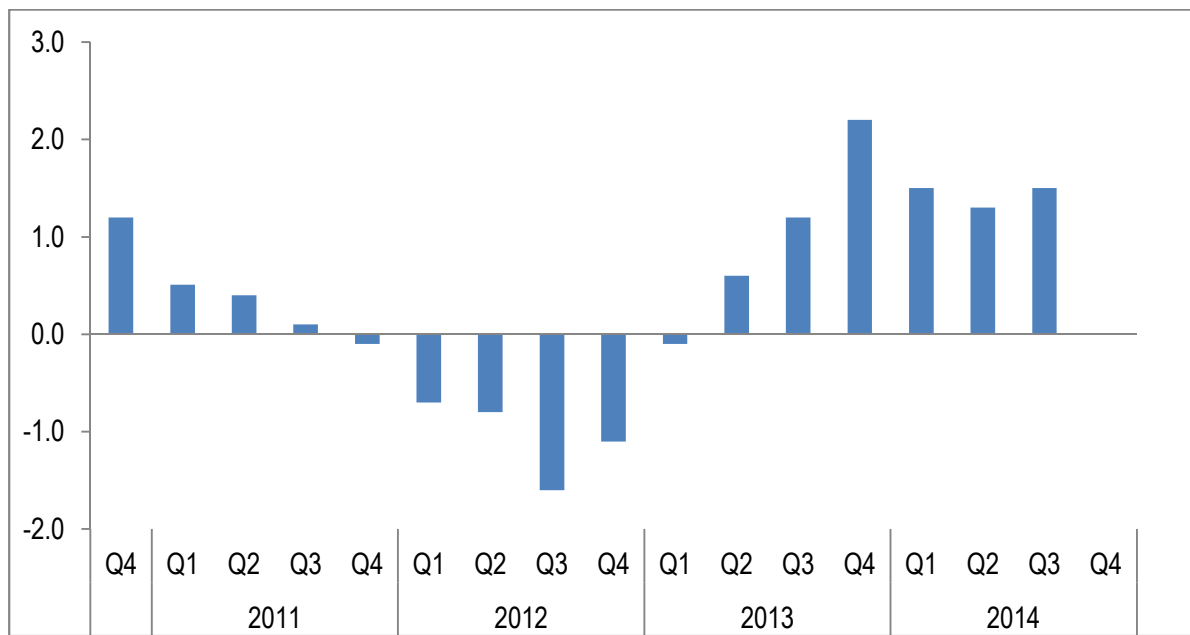
**Table 3: Employment by LNDC Assistant Companies**

Industry	2013		2014		
	Q4	Q1	Q2	Q3	Q4
Knit Garments.....	23540	22072	22457	23910	22154
Woven Garments.....	16820	15914	16490	16036	15859
Footwear.....	2619	2230	1925	1586	1586
Fabrics, Yarn etc.....	1664	1774	1765	1564	1570
Construction.....	302	309	309	306	300
Food & Beverages.....	577	565	565	1026	1086
Electronics.....	1365	912	912	965	965
Retail.....	128	128	128	130	130
Hotel Accom.....	411	412	412	415	421
Other.....	545	624	653	1407	1327
<b>TOTAL.....</b>	<b>47971</b>	<b>44940</b>	<b>45616</b>	<b>47345</b>	<b>46424</b>

**Source:** Lesotho National Development Corporation

On quarterly basis, the total number of government employees declined marginally by 0.1 per cent in the review period compared with an increase of 0.3 per cent in the previous period. This was as a result of 0.2 per cent and 0.6 per cent decline in the number of civil servant and daily paid workers, respectively. On annual basis, government employment remained unchanged in the period under review compared with a 1.5 per cent increase registered in the third quarter of 2014.

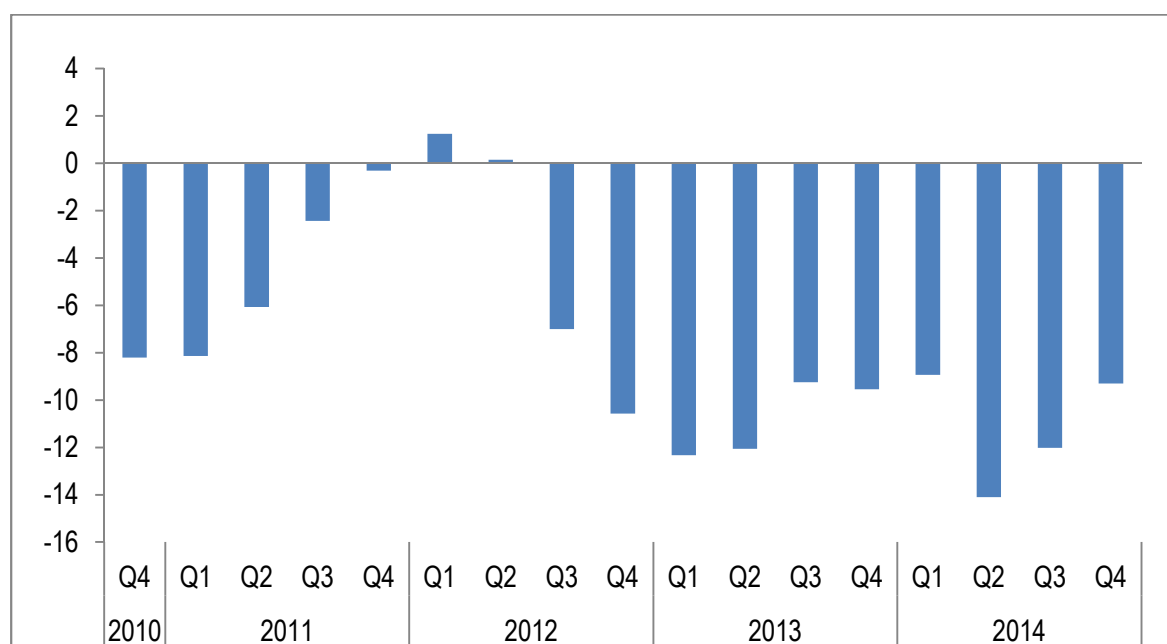
**Figure 11: Government Employment** (*Annualized Percentage Change*)



**Source:** Ministry of Finance

The number of Basotho migrant mineworkers employed in South African (SA) mines declined by 9.3 per cent in the fourth quarter of 2014 compared with a 12.0 per cent registered in the previous period. The declining employment trends are as a result of continuing retrenchments of Basotho migrant mineworkers in SA mines. The decline in migrant mineworker’s employment was in line with a 3.2 per cent decline in SA mining employment in the review period.

**Figure 12: Migrant Mineworkers (Annualized Percentage Changes)**



Source: The Employment Bureau of Africa (TEBA)

## PRICE DEVELOPMENTS

Lesotho's inflation rate as measured by the percentage change in the Consumer Price Index (CPI) was 3.6 per cent in December 2014 compared with 5.4 per cent in September 2014. The deceleration in the inflation rate was at the back of a contraction in housing, electricity, gas and other fuel, and moderation in miscellaneous goods and services and transport inflation. The housing, electricity, gas and other fuels, transport, and miscellaneous goods and services inflation measured negative 1.4 per cent, 0.7 per cent and 3.1 per cent, respectively in December 2014 compared with 3.1 per cent, 13.3 per cent and 4.5 per cent respectively in September 2014. The contraction in the category of housing, electricity, gas and other fuels resulted from the fall in the domestic pump price of paraffin, and the moderation in transport inflation resulted from the fall in the domestic prices of petrol and diesel. The decline in petrol, diesel and paraffin were at the back of declining international crude oil prices during the review period. The decrease in oil prices were at the back of high supply by the US oil producers coupled with the decision by the OPEC countries not to cut on production. However, food and nonalcoholic beverages inflation measured 5.3 per cent in December 2014 compared with 5.2 per cent in September 2014.



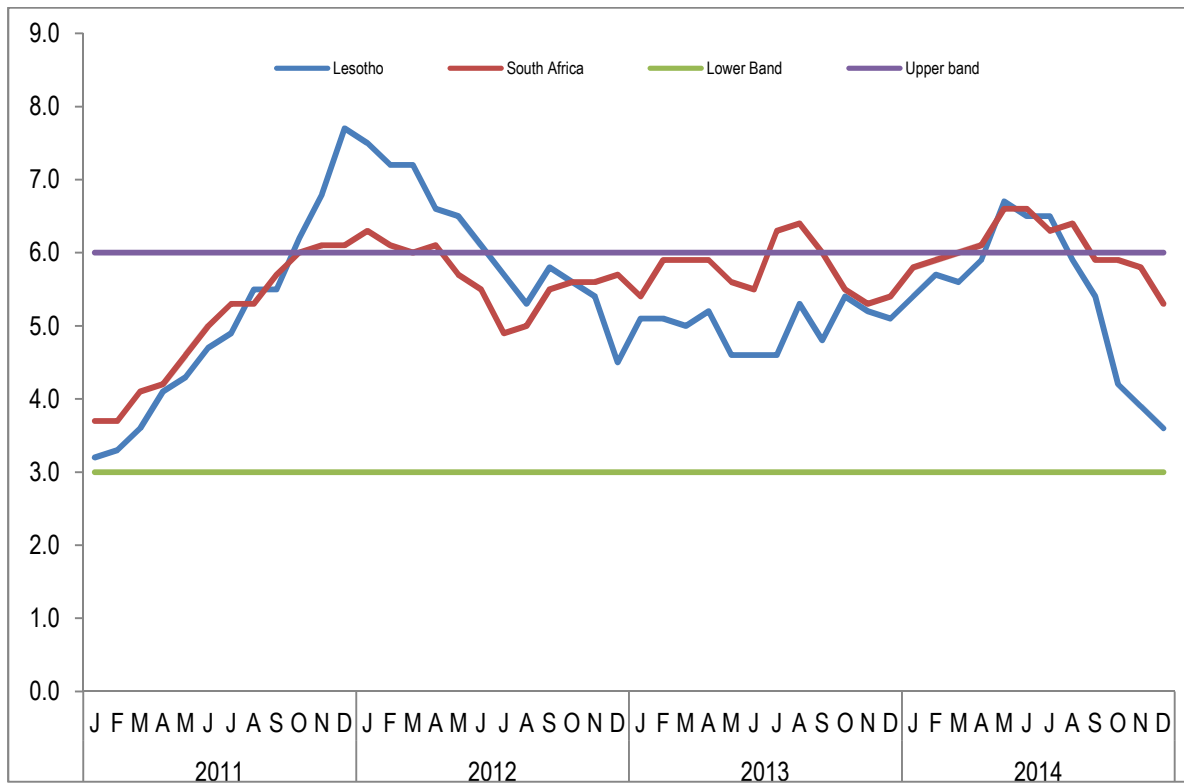
**Table 4: Inflation Rate (Annualized Percentage Changes)**

	2014					
	Weight	Aug	Sept	Oct	Nov	Dec
<b>All items</b>	<b>100</b>	<b>5.9</b>	<b>5.4</b>	<b>4.2</b>	<b>3.9</b>	<b>3.6</b>
Food and non-alcoholic beverages	38.1	6.1	5.2	5.3	5	5.3
Alcoholic beverages & Tobacco	1.2	6.3	6.7	6.8	6.9	6.7
Clothing & footwear	17.4	3.8	4.5	4.7	4.6	4.7
Housing, electricity gas & other fuels	10.6	6.2	4.8	3.1	1.2	-1.4
Furniture, households equipment & routine maintenance	9.4	3.1	2.4	2.4	2.6	2.7
Health	1.9	1.2	1.3	1.2	1.3	1.2
Transport	8.5	13.5	13.3	0.9	0.8	0.7
Communication	1.2	0	0	0	0	0
Leisure, entertainment & Culture	2.4	1	1.2	1	2.7	2.9
Education	2.7	7.1	7.1	7.1	7.1	7.1
Restaurant & Hotels	0.7	2.1	4.6	4.6	4.7	4.6
Miscellaneous goods & services	5.8	4.5	4.8	4.5	4	3.1

**Source:** Bureau of Statistics

Lesotho and SA's inflation rate continue to move in the same direction, though Lesotho's inflation rate is moderating at a faster rate than that of SA. SA's inflation rate measured 5.3 per cent in December 2014 compared with 5.9 per cent in September 2014. Like Lesotho's inflation rate, the main contributing factor to the moderation in SA's inflation rate was the rapid decline in fuel prices. However, in the case of SA declining food prices also contributed to the deceleration in the inflation rate.

**Figure 13: Lesotho and South Africa's Inflation**



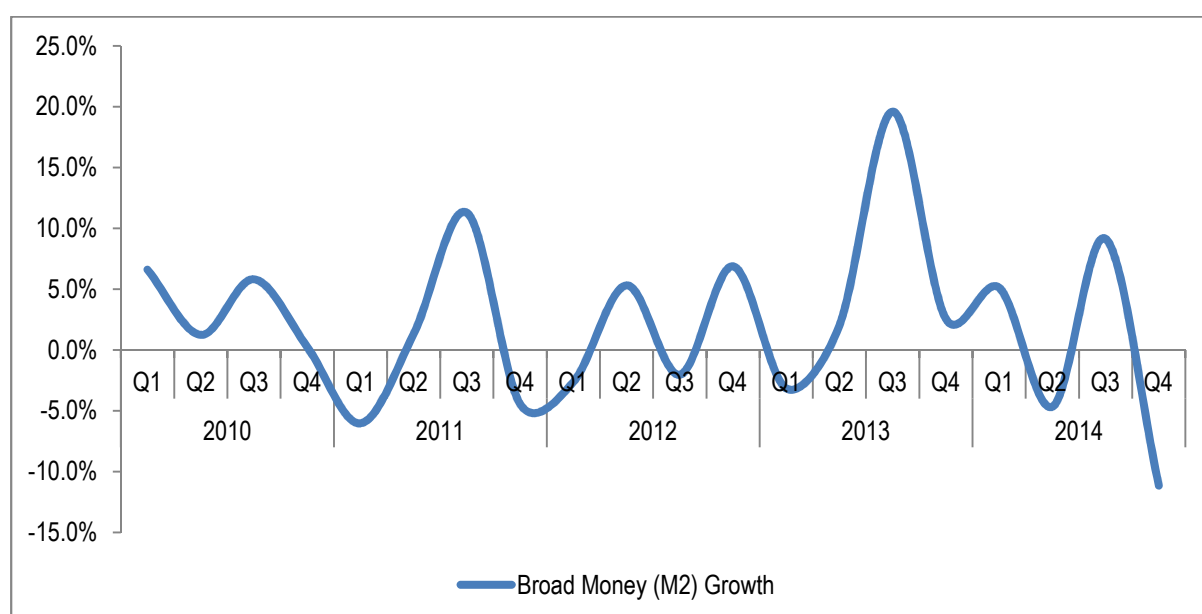
Source: Bureau of Statistics, Statistics South Africa

## 4. Monetary and Financial Developments

### BROAD MONEY (M2)

During the last quarter of 2014 the stock of money supply declined on a quarterly basis as well as on an annual basis. On a quarterly basis, money supply declined by 11.2 per cent compared to a 9.1 per cent expansion during the previous quarter. On an annual basis, M2 growth registered a 2.8 per cent contraction against an expansion of 12.1 per cent during the quarter ending September 2014. This fall in broad money is ascribed to a fall in domestic claims moderated by an increase in net foreign assets.

Figure 14: Money Supply (M2) Quarterly Growth Rates (Percentage Change)



Source: Central Bank of Lesotho

### Determinants of M2

#### *Domestic Claims*

Domestic claims, including net claims on government, declined by 58.7 per cent during the period under review compared to a drastic increase from M117.4 million to M414.9 million during the previous quarter. This is mainly on account of a 6.7 per cent decline in government's net position with the Central Bank and commercial banks. This was slightly moderated by a 1.3 per cent improvement in claims on the rest of the economy. Domestic credit to the private sector continued to increase, albeit at a slowing rate. In the quarter under review, credit to households increased by 2.7 per cent compared to the 3.0 per cent recorded in September 2014. On the contrary, credit to businesses declined by 1.1 per cent compared to 18.1 per cent surge

recorded in third quarter of 2014. However, credit to the private sector continues to register double digit growth on an annual basis.

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

	2013		2014			Changes	
	Dec	Mar	Jun	Sep	Dec	Annual	Quarterly
<b>Domestic Claims</b>	<b>390.0</b>	<b>1,005.2</b>	<b>117.4</b>	<b>414.9</b>	<b>171.2</b>	<b>-56.1%</b>	<b>-58.7%</b>
<b>Net Claims on Government</b>	<b>-4177.8</b>	<b>-3568.9</b>	<b>-4572.1</b>	<b>-4650.9</b>	<b>-4962.6</b>	<b>-18.8%</b>	<b>-6.7%</b>
<b>Commercial Banks Net Claims</b>	<b>652.1</b>	<b>681.1</b>	<b>632.6</b>	<b>642.6</b>	<b>597.3</b>	<b>-8.4%</b>	<b>-7.0%</b>
Claims on Central Government	664.9	690.1	645.6	655.9	610.8	-8.1%	-6.9%
Liabilities to Central Government	12.8	9.0	13.1	13.3	13.4	4.6%	0.8%
<b>Central Bank Net Claims</b>	<b>-4829.9</b>	<b>-4250.0</b>	<b>-5204.6</b>	<b>-5293.5</b>	<b>-5559.9</b>	<b>-15.1%</b>	<b>-5.0%</b>
Claims on Central Government	834.6	833.6	844.2	853.3	849.8	1.8%	-0.4%
Liabilities to Central Government	5664.5	5083.7	6048.8	6146.8	6409.7	13.2%	4.2%
<b>Claims on Other Sectors</b>	<b>4567.8</b>	<b>4,574.2</b>	<b>4689.5</b>	<b>5065.8</b>	<b>5133.8</b>	<b>12.4%</b>	<b>1.3%</b>
Claims on OFCs	11.7	12.4	10.0	10	12.5	6.8%	25.0%
Claims on St & Local Government	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Claims on Private Sector</b>	<b>4556.1</b>	<b>4,561.8</b>	<b>4579.6</b>	<b>5055.3</b>	<b>5121.30</b>	<b>12.4%</b>	<b>1.3%</b>
Claims on Business Enterprises	1558.34	1824.8	1554.2	1835.8	1815.1	16.5%	-1.1%
Claims on Households	2997.77	2736.9	3125.3	3219.5	3306.2	10.3%	2.7%

**Source:** Central Bank of Lesotho

### *Net Foreign Assets*

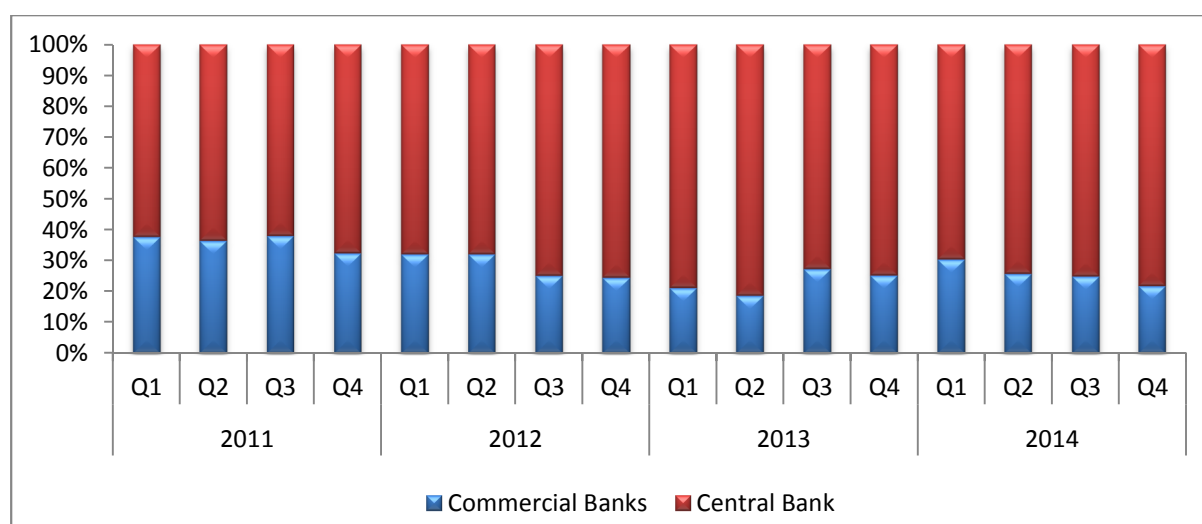
The growth in overall banking system's assets with non-residents less liabilities to non-residents slowed to 1.9 per cent for the quarter ending December 2014 against a much higher growth of 5.6 per cent during the previous quarter. This slowdown is attributable to an 11.1 per cent decline in commercial banks net foreign assets which moderated a 6.2 per cent rise in central bank net foreign assets. On the one hand, deposits with commercial banks contracted against increased demand for money, imports and credit during the festive season. As a result balances in South Africa were drawn down to meet this increased demand. On the other hand, the slow pace of budget execution and the resultant budget surplus in the quarter under review meant increased government deposits at the central bank. Since foreign receipts by government constitute the greater chunk of revenue, the increase in deposits implies increased deposits with non-residents by the Central Bank.

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

	2013		2014			Changes	
	Dec	Mar	Jun	Sept	Dec	Annual	Quarterly
<b>Commercial Banks</b>	<b>3,236.6</b>	<b>3915.2</b>	<b>3335.9</b>	<b>3418.7</b>	<b>3039.4</b>	<b>-6.1%</b>	<b>-11.1%</b>
Claims on Non-residents	3,627.3	4475.8	3782.3	3838.8	3329.4	<b>-8.2%</b>	<b>-13.3%</b>
Liabilities to Non-residents	-390.7	-560.6	-446.5	-420.1	-289.9	<b>-25.8%</b>	<b>-30.9%</b>
<b>Central Bank</b>	<b>9,598.7</b>	<b>8955.1</b>	<b>9637.9</b>	<b>10283.4</b>	<b>10923.5</b>	<b>7.1%</b>	<b>6.2%</b>
Claims on Non-residents	10,965	10337.4	11026.9	11707.7	12342.0	<b>21.5%</b>	<b>5.4%</b>
Liabilities to Non-residents	-1,365.7	-1382.4	-1389.0	-1424.3	-1418.5	<b>3.8%</b>	<b>-0.4%</b>
<b>Net Foreign Assets Total</b>	<b>12,835.4</b>	<b>12870.26</b>	<b>12973.8</b>	<b>13702.1</b>	<b>13962.9</b>	<b>8.8%</b>	<b>1.9%</b>

Source: Central Bank of Lesotho

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



Source: Central Bank of Lesotho

### Components of M2

The major components of broad money (M2) are narrow money (M1) and quasi money. During the last quarter of 2014, broad money declined by 11.2 per cent against a 9.1 per cent expansion recorded during the preceding quarter. As explained in terms of its components, this development was against a backdrop of 3.2 per cent and 17.6 per cent declines in M1 and quasi money respectively. Narrow money declined on account of a 7.7 per cent drop in unrestricted and transferable deposits moderated by a 15.7 per cent increase in currency outside the banking industry. The increase in currency reflects increased demand for money during the festive season while the decline in deposits is generally attributable to the low activity on the fiscal and real sectors.

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

	2013		2014			Changes	
	Q4	Q1	Q2	Q3	Q4	Annual	Quarterly
<b>Broad Money (M2)</b>	<b>8661.6</b>	<b>9104.6</b>	<b>8678.8</b>	<b>9472.0</b>	<b>8415.3</b>	<b>-2.8%</b>	<b>-11.2%</b>
<b>Narrow Money (M1)</b>	<b>3988.2</b>	<b>4155.8</b>	<b>4003.4</b>	<b>4230.7</b>	<b>4096.6</b>	<b>2.7%</b>	<b>-3.2%</b>
Currency Outside DCs	953.3	840.0	799.8	813.9	941.5	-1.2%	15.7%
Transferable Deposits	3034.9	3315.8	3203.6	3416.8	3155.1	3.9%	-7.7%
<b>Quasi Money</b>	<b>4673.4</b>	<b>4948.7</b>	<b>4675.4</b>	<b>5241.3</b>	<b>4318.7</b>	<b>5.0%</b>	<b>-17.6%</b>
Other Deposits Commercial Banks	4663.8	4940.4	4631.2	5173.7	4260.7	-8.8%	-17.6%
Other Deposits Central Bank	9.6	8.4	44.2	67.7	58.0	504.2%	-14.3%

**Source:** Central Bank of Lesotho

## CREDIT EXTENSION

### Trends of Credit Extended to Business Enterprises

During the fourth quarter of 2014, there was a slight decline of 1.1 per cent in credit extended to business enterprises and compares to an 18.1 per cent surge recorded during the third quarter of 2014. Wholesale, retail, hotel and restaurant sector as well as community, social and personal services experienced the largest fall in credit of 57.8 per cent and 81.9 per cent respectively.. The decline in overall credit to businesses mimics the sluggish performance in the real sector relative to the previous quarter.

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

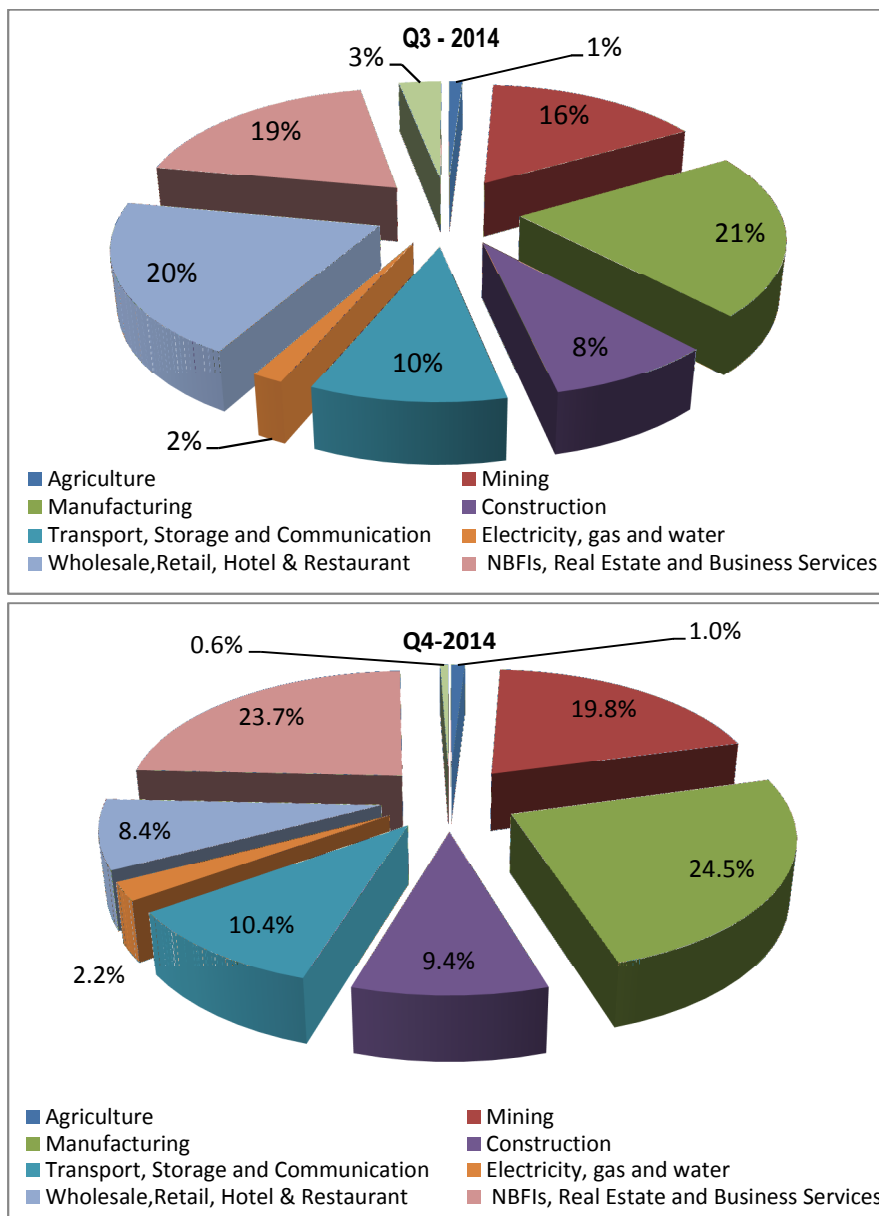
SECTOR	2013		2014			Changes	
	Dec	Mar	June	Sept	Dec	Annual	Quarterly
Agriculture	16.3	16.9	16.5	18.0	17.4	6.7%	-3.3%
Mining	185.4	194.2	142.5	289	358.7	93.5%	24.1%
Manufacturing	320.79	343.2	372.2	390.5	445.4	38.8%	14.1%
Construction	212.7	197.1	124.4	156.8	171.2	-19.5%	9.1%
Transport, storage and communication	112.3	133.1	184.6	184.3	188.5	67.9%	2.3%
Electricity, gas and water	36.8	33.2	27.7	29.5	40.4	9.7%	36.9%
Wholesale, retail, hotel and restaurant	225.7	227.5	264.4	363.3	153.2	-32.1%	-57.8%
Real estate and business services	204.8	331.2	353.5	347.4	429.9	109.9%	23.7%
Community, social and personal services	243.6	338.4	68.4	56.9	10.3	-95.7%	-81.9%
<b>All sectors</b>	<b>1558.3</b>	<b>1814.8</b>	<b>1554.2</b>	<b>1835.7</b>	<b>1815.1</b>	16.5%	-1.1%

**Source:** Central Bank of Lesotho

### **Distribution of Credit Extended to Business Enterprises**

With regards to the share of credit extended to business enterprises, manufacturing, real estate and business services, mining, transport and communications continued to account for the greatest share of credit to business enterprises. Agriculture and electricity and water constitute the smallest share of credit extension to businesses. The share of credit to some sectors may be reflective of the sector specific structural issues.

**Figure 16: Credit Extension by Economic Activity (percentage Shares)**



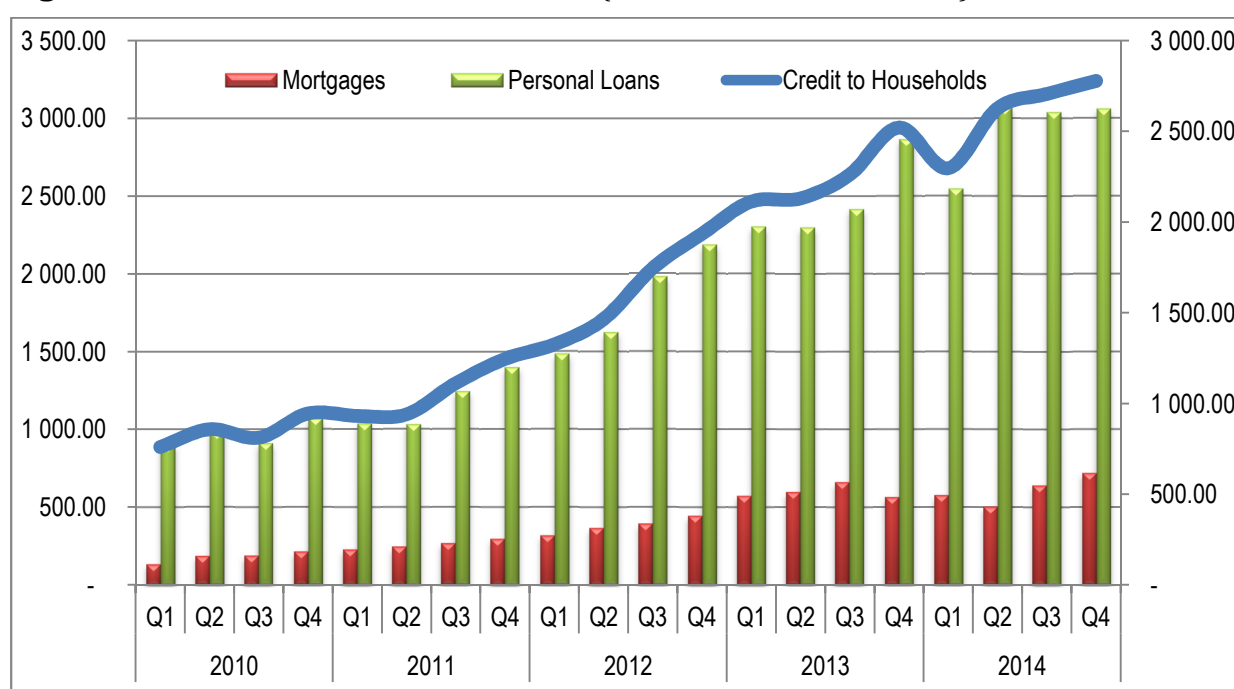
**Source:** Central Bank of Lesotho



## Credit extended to Households

Unlike the slight decline in credit held with business enterprises, commercial banks' credit with households continued on an upward trend. It increased by 2.7 per cent down from a 3.0 per cent increase recorded in September 2014. The growth on household credit was more discernible on mortgages than on personal loans at 12.1 per cent and 0.7 per cent respectively. However, personal loans continued to constitute the greatest share of households' credit at 81.0 per cent compared to mortgages at 19.0 per cent. On one hand, the growth in personal loans has been slowing since the introduction of more restrictive lending parameters by most commercial banks. On the other hand, better growth in mortgages is attributable to efforts by commercial banks to improve their loan books to secured assets.

**Figure 4: Credit Extension to Household** (Million maloti: End Period)



Source: Central Bank of Lesotho

## LIQUIDITY OF COMMERCIAL BANKS

### Components of liquidity

Commercial banks liquidity ratio continued on a downward trajectory from 86.2 per cent during the period ending September 2014 to 82.1 during the period ending December 2014 representing a decline of 4.1 basis points. The main driver behind this development is the decline in total liquid assets of commercial banks that out-weighed the decline in liabilities of the banking industry. From the intermediation front, banks extended credit that amounts to 63.2 per cent of the total deposits mobilised up from 58.2 per cent in September 2014. The improvement in the credit to deposit ratio is not only as a result of the expansion in credit extension but also the

decline in deposit liabilities. The improved picture on the credit to deposit and liquidity ratios does not necessarily imply improved financial intermediation but rather largely reflect the contraction or no injection of deposits into the banking sector.

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

	2013			2014	
	Q4	Q1	Q2	Q3	Q4
<b>Credit to Deposit Ratio</b>	<b>58.0%</b>	<b>54.6%</b>	<b>55.7%</b>	<b>58.2%</b>	<b>63.2%</b>
Private Sector Credit	4,465.1	4509.5	4525.9	4,997.3	5060.3
Total Deposits	7,698.7	8256.2	8121.6	8,590.5	8004.3
<b>Liquidity Ratio</b>	<b>85.6%</b>	<b>93.7%</b>	<b>89.2%</b>	<b>86.2%</b>	<b>82.1%</b>
Notes and Coins	396.0	229.8	264.6	260.5	361.6
Balances Due from Banks in Lesotho	1,859.6	2370.5	2192.7	2,688.5	2149.5
Balances Due from Banks in SA	3,416.7	4347.5	4086.6	3,698.5	3142.7
Surplus funds	50.9	98.2	30.7	102.5	303.9
Government Securities	864.0	690.1	670.3	655.9	610.8
<b>Total</b>	<b>6,587.2</b>	<b>7735.9</b>	<b>7245.0</b>	<b>7,405.8</b>	<b>6568.4</b>

**Source:** Central Bank of Lesotho

### Commercial Banks Sources of Funds

Commercial banks main source of funds is the deposits and they are comprised of transferable<sup>3</sup> and other deposits<sup>4</sup>. Most of the deposits with the commercial banks are held by the private sector, mainly constituted by business enterprises and households. During the quarter under review, deposits declined by 6.8 per cent down from a 9.6 per cent increase in the previous quarter. The decline in deposits is fundamentally linked to the slow rate of government fiscal execution, sluggish performance in the real sector, increased demand for imports and high transactionary demand for money. The decline is particularly evident to deposits held by the business enterprises while deposits held by households increased at a decreasing rate.

<sup>33333</sup> Transferable deposits comprise all deposits that are (1) exchangeable on demand at par and without penalty or restriction and (2) directly usable for making payments to the third party.

<sup>444</sup> Other Deposits comprise all claims, other than transferable deposits, that are represented by evidence of deposits.

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

	2013		2014			Annual	Quarterly
	Q4	Q1	Q2	Q3	Q4		
<b>Transferable Deposits Incl.</b>	<b>3034.9</b>	<b>3315.8</b>	<b>3203.6</b>	<b>3416.8</b>	<b>3155.1</b>	<b>4.0%</b>	<b>-7.7%</b>
Other Financial Corporations	0.0	0.0	0.0	0.0	0.0		
Public Nonfinancial Corporations	4.6	42.2	75.8	163.8	109.2	<b>2273.9%</b>	<b>-33.3%</b>
Private Sector	3012.3	3255.6	3109.9	3235.1	3028.0	<b>0.5%</b>	<b>-6.4%</b>
Other NFCs	2320.8	2447.2	2405.1	2489.1	2280.2	<b>-1.7%</b>	<b>-8.4%</b>
Other Sectors (Households)	691.5	808.4	704.8	745.9	747.8	<b>8.1%</b>	<b>0.3%</b>
<b>Other Deposits Incl.</b>	<b>4663.8</b>	<b>4940.4</b>	<b>4631.2</b>	<b>5173.7</b>	<b>4849.2</b>	<b>4.0%</b>	<b>-6.3%</b>
Other Financial Corporations	0.0	0.0	0.0	0.0	12.4		
Public Nonfinancial Corporations	57.3	66.5	77.8	43.2	57.2	<b>-0.2%</b>	<b>32.4%</b>
Private Sector	4606.5	4873.9	4553.3	5130.5	4779.6	<b>3.8%</b>	<b>-6.8%</b>
Other NFCs	2718.6	3031.4	3203.3	3693.9	3300.4	<b>21.4%</b>	<b>-10.7%</b>
Other Sectors (Households)	1887.9	1842.5	1350.1	1436.6	1479.2	<b>-21.6%</b>	<b>3.0%</b>
<b>Total Deposits</b>	<b>7698.7</b>	<b>8256.2</b>	<b>7834.8</b>	<b>8590.5</b>	<b>8004.3</b>	<b>4.0%</b>	<b>-6.8%</b>

Source: Central Bank of Lesotho

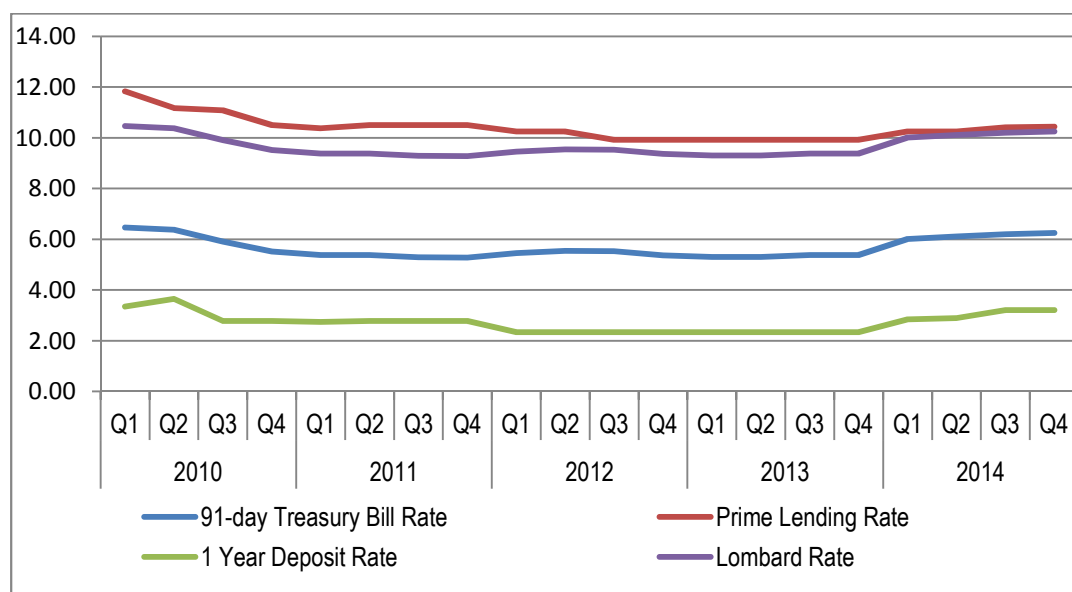
## MONEY AND CAPITAL MARKET DEVELOPMENTS

### Money Market

#### *Interest rates*

In the quarter under review, the South African Reserve Bank (SARB) maintained the repo rate at 5.75 per cent following the 25 basis points hike in the third quarter of 2014. This was as a result of the lower inflation trajectory, muted inflation expectations and the continued weak state of the South African economy. Given the Common Monetary Area (CMA) arrangement, most interest rates from the Central Bank and Commercial Banks remained unchanged or increased slightly. In Lesotho the prime lending rate increased slightly from 10.42 per cent in September 2014 to 10.44 per cent in December 2014 while the 91 day Treasury bill rate increased from 6.20 per cent to 6.25 per cent during the same period.

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



Source: Central Bank of Lesotho

**Table 11: Interest rates**

	2013		2014		
	Dec	Mar	June	Sept	Dec
<b>Central Bank</b>					
T Bill Rate – 91 Days	5.18	6.10	6.11	6.20	6.25
Lombard Rate	9.18	10.10	10.11	10.20	10.25
<b>Commercial Banks<sup>5</sup></b>					
Call	0.77	1.03	1.03	0.99	0.99
Time:					
31 days	0.91	0.91	1.14	1.23	1.23
88 days	1.41	2.35	2.85	2.85	2.85
6 months	1.69	1.69	2.04	2.04	2.31
1 year	2.34	2.34	2.89	3.21	3.21
Savings	0.84	0.95	0.80	0.86	0.86
Prime	9.92	10.25	10.25	10.42	10.44
<b>South Africa*</b>					
Repo	5.00	5.50	5.50	5.75	5.75
T Bill Rate – 91 Days	5.18	5.73	5.97	5.99	6.09
Marginal Lending Rate	10.50	10.50	10.50	10.50	
Prime	8.50	9.0	9.0	9.25	9.25

Source: Central Bank of Lesotho (CBL), South African Reserve Bank (SARB)

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

The holding of treasury bills registered an increase of 2.8 per cent between September 2014 and December 2014 compared to a 1.2 per cent rise during the previous quarter. The 91 day Treasury bill average yield rate remained unchanged at 6.30 per cent from the third to the fourth quarter 2014.

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

	2013		2014		
	Dec	Mar	June	Sept	Dec
<b>Treasury Bills</b>	<b>547.71</b>	<b>573.89</b>	<b>563.04</b>	<b>570</b>	<b>585.97</b>
Banking System	402.52	406.25	407.83	397.93	407.25
Non-Bank Sector	145.19	167.64	155.21	172.47	178.72
<b>Memorandum Item</b>					
Average Yield Bills (per cent)	5.60	6.48	6.61	6.30	6.30

**Source:** Central Bank of Lesotho

### **Capital Markets**

#### *Holding of Treasury Bonds and Yield Rates*

There was an increase of 3.0 per cent in the holding of treasury bonds during the fourth quarter of 2014 down from a 3.2 per cent rise in the previous quarter. This development follows the re-opening<sup>5</sup> of 7 year as well as a 10 year bonds. Given the long maturity term of these bonds, the non-banks absorbed the re-opening almost entirely.

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

	2013		2014		
	Dec	Mar	June	Sept	Dec
<b>Holding Treasury Bonds</b>	<b>586.79</b>	<b>504.06</b>	<b>520.71</b>	<b>537.47</b>	<b>553.33</b>
Banking System	405.3	318.30	321.06	321.19	321.26
Non-Bank Sector	181.49	186.19	199.65	216.28	232.07
<b>Memorandum Item</b>					
Average Yield Bonds (per cent)*	9.60	9.60	9.60	9.60	9.60

**Source:** Central Bank of Lesotho

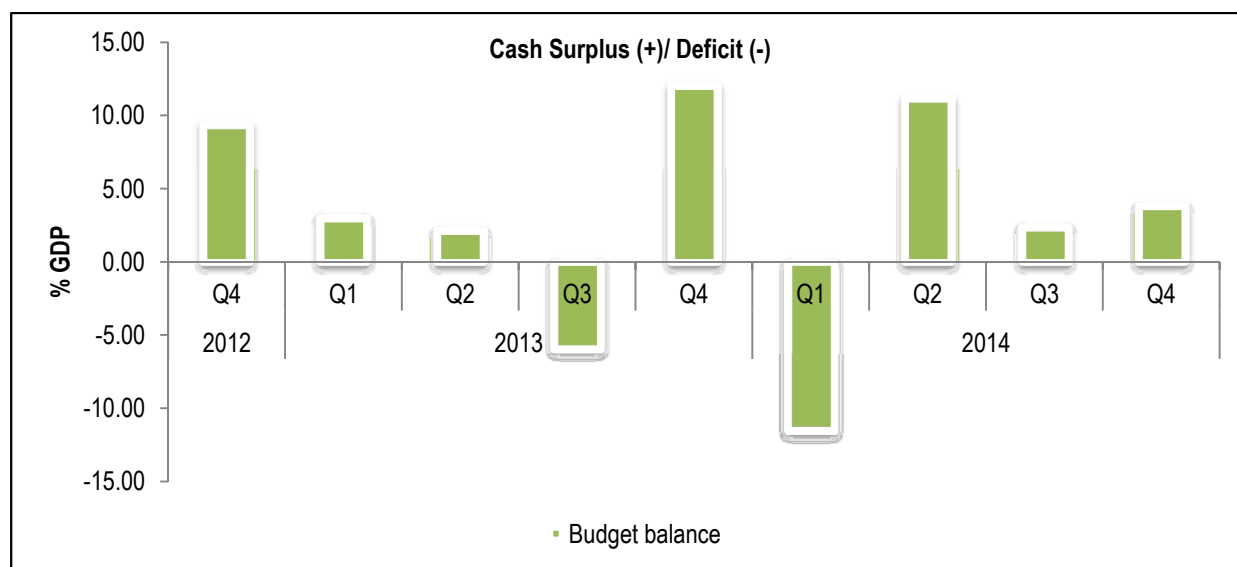
<sup>5</sup> Refers to issuance of additional amounts of previously issued security. The reopened security has the similar coupon rate and maturity date as the original security.

## 5. Government Finance

### OVERVIEW

The fiscal balance of the Government of Lesotho (GOL) as a share of g - GDP registered a surplus of 3.83 per cent in the fourth quarter of 2014 compared with a revised surplus of 2.4 per cent in the third quarter. The fiscal balance is determined by the difference between what the GOL spends and what it receives in revenue. The stock of public and publicly guaranteed debt liabilities-to-GDP ratio is continuously increasing since the quarter ending March, 2014 due to the exchange rate effect.

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



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

### REVENUE

The revenue as a share of GDP was 61.4 per cent in December, 2014 compared with 57.5 per cent in the quarter ending September, 2014. The total revenue has outperformed the total expenditure for the last three quarters of 2014, and as a result, Government has accumulated more deposits. The revenue receipts registered an increase of 6.9 per cent in the fourth quarter of 2014 compared to a fall of 2.7 per cent that was experienced in September, 2014. The accumulation of revenue in the quarter ending December, 2014 can be attributed to other components of revenue with an exception of Southern African Customs Union (SACU) receipts which remained constant. Other revenue declined by 33.0 per cent mainly due to underperformance of property income amounting to 90.9 per cent.

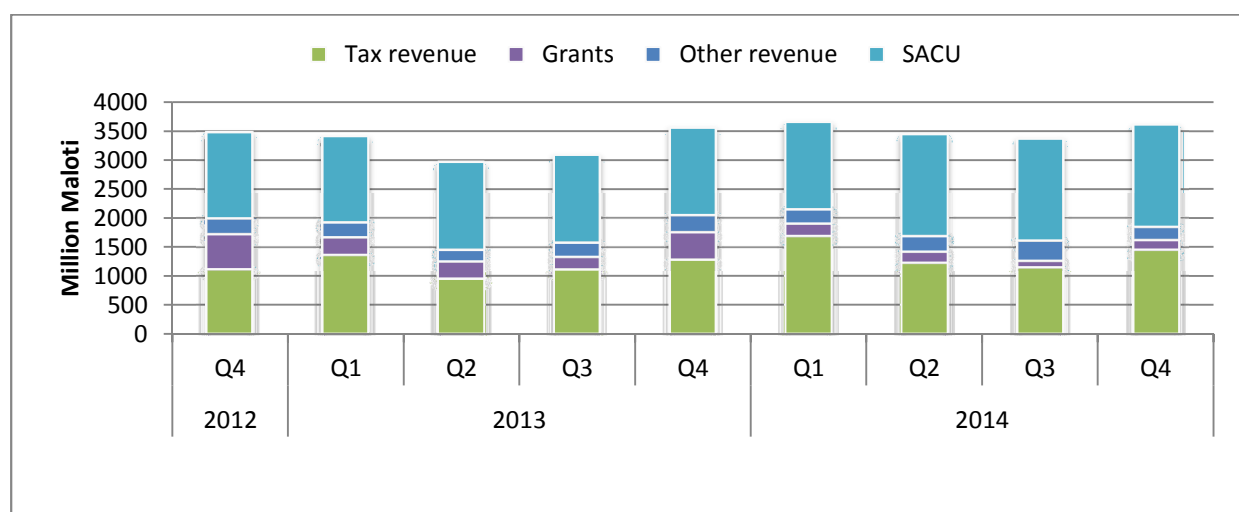
The tax revenue receipts, compulsory unrequited transfers, accounted for 40.6 per cent share of the total revenue in the fourth quarter of 2014 and 34.5 per cent during the quarter ending September, 2014. The taxation receipts continue to hold the second position after SACU receipts. Tax revenue has increased by 25.8 per cent in the quarter under review compared to a decrease of 6.4 per cent experienced in the previous quarter ending September, 2014. The surge in the tax revenue is attributed to a growth in most sub-categories: taxes on income, profits, and capital gains; taxes on goods and services; and other taxes which have been driven by a rise in stamp duty of 106.8 per cent.

The taxes on income, profits, and capital gains increased by 27.5 per cent during the quarter ending December, 2014 which is up from the decline of 8.5 per cent that was experienced in the quarter ending September, 2014. The reason for accumulation of this revenue component is attributed to three direct taxes (personal income by 11.1 per cent, company by 15.9 per cent and withholding by 104.0 per cent) which performed well in the fourth quarter of 2014. In September, 2014 the personal income tax declined by 11.3 per cent, company tax performed positively at 12.3 per cent growth, while the withholding tax recovered 20.3 per cent fall. The fringe benefit tax, on the other hand, has slowed down to 9.4 per cent in the quarter under review which is down from the increase of 79.5 per cent that was experienced in the previous quarter.

The taxes on goods and services, indirect taxes, have increased by 6.7 per cent in the quarter ending December, 2014 compared to a decline of 3.8 per cent that was registered in September, 2014. The value added tax and motor vehicle licences have increased by 9.0 per cent and 10.4 per cent respectively in the fourth quarter of 2014, while the rest of other components have decreased. The excise tax slowed down by 7.6 per cent, taxes on specific services fell by 96.5 per cent, and 'other licences and taxes on use and on permission to use goods or perform activities' declined by 20.6 per cent.

The grants increased by 42.4 per cent in December, 2014, a recovery from a fall of 40.0 per cent in the previous quarter. The surge is brought about by a 42.4 per cent rise in capital grants from foreign governments. The other revenue has underperformed due to a fall in property income, and fines and forfeits. A fall in the property income is due to interest receipts, dividends, and royalties from mining. The SACU receipts remained the largest contributor to total revenue than other sub-categories at 48.7 per cent in December, 2014 which is down from the record of 52.1 per cent in the previous quarter.

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



Source: CBL and MOF

## EXPENSE

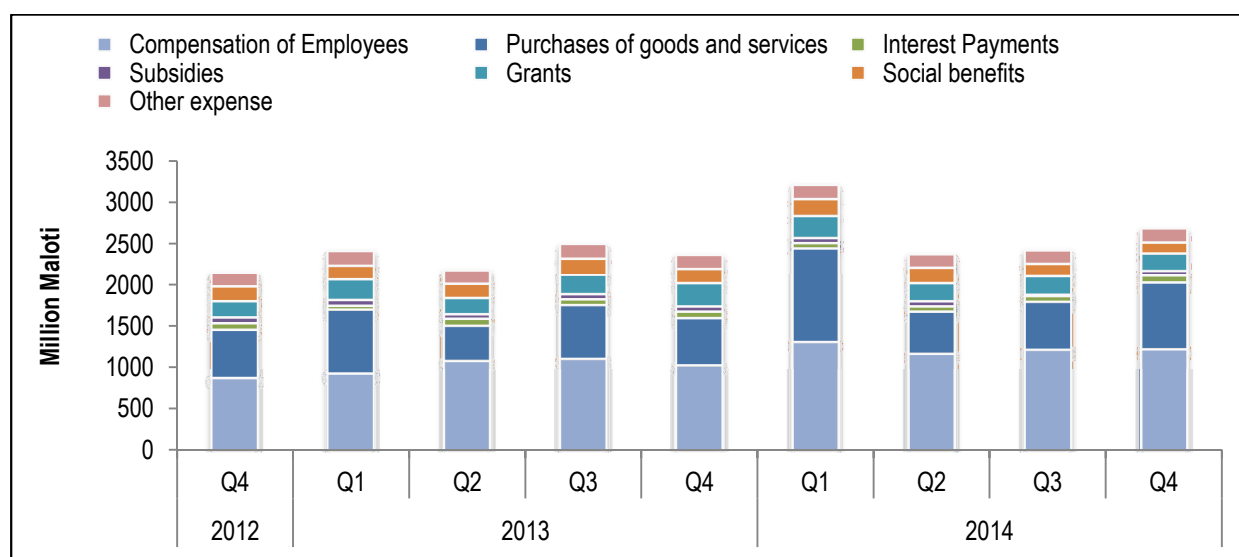
The recurrent expenditure or expense as a share of total expenditure was 79.4 per cent in December, 2014 compared with 75.1 per cent in September, 2014. The expense has increased by 10.7 per cent in the quarter under review which is up from the 2.0 per cent that was recorded in September, 2014. The contributing sub-categories include compensation of employees which takes a proportional share of 45.7 of the total expense, purchases of goods and services at 29.6 per cent, interest payments at 3.4 per cent, subsidies at 2.3 per cent, and other expense at 6.3 per cent. The grants and social benefits have deteriorated in the quarter ending December, 2014 and their share in the total expense is 7.9 per cent and 4.8 per cent, respectively.

The compensation of employees has a marginal increase of 0.6 per cent in December, 2014 which is down from 4.0 that was recorded in September, 2014. The rising situation is attributed to an increase of 2.4 per cent under wages and salaries. The purchases of goods and services have significantly increased by 37.9 in the quarter ending December, 2014 compared with 15.0 per cent in the previous quarter. The interest payments have increased by 35.6 per cent in the fourth quarter of 2014 compared to a fall of 1.5 per cent in the third quarter. The subsidies have increased by 362.1 per cent in the fourth quarter of 2014 compared to a decrease of 76.6 per cent in the quarter ending September, 2014 due to a rise in the subsidies to nonfinancial public corporations. The grants have declined by 4.4 per cent in the quarter under review which is down from an increase of 3.7 per cent that was recorded in the previous quarter.

Social benefits have continuously declined starting from the second quarter of 2014 ending in June. In December, 2014 the social benefits declined by 20.1 per cent compared with a decrease of 21.5 per cent in September, 2014. Other expense increased by 2.1 per cent in December, 2014 compared to a fall of 0.1 per cent that was registered in the previous quarter which was due to a rise in the property expense other than interest.



**Figure 20: Economic classification of Expense (Million Maloti)**

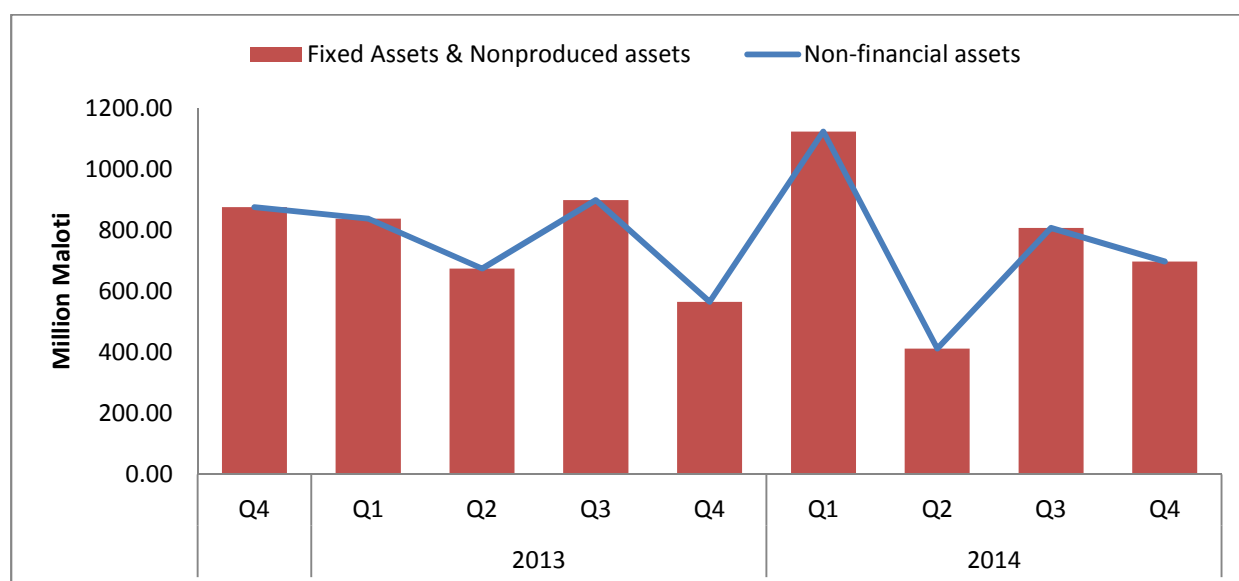


Source: CBL and MOF

### NON-FINANCIAL ASSETS

Capital expenditure's contribution to overall expenditure was 20.6 per cent compared with 24.9 per cent in the third quarter. The spending on the non-financial assets has decreased by 13.5 per cent in the quarter ending December, 2014 compared to an increase of 96.0 per cent in the previous quarter. Since there is no spending under naturally occurring assets, the fall in capital expenditure has been brought about by a decline of 13.5 per cent in the fixed asset. That is, buildings and structures have declined by 40.0 per cent, machinery and equipment has increased by 168.0 per cent, while unidentified has increased by 91.7 per cent. The on-going capital projects during the quarter of December, 2014 include the construction of Nyenye – Makhoroana road (37km), Likalaneng – Thaba-Tseka road (27km), Roma-Ramabanta road (80.3km), Oxbow-Mapholaneng road (67km), and Mokhotlong –Sani road (42km).

**Figure 21: Transactions in Non-financial assets or Capital expenditure (Million Maloti)**



Source: CBL and MOF

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

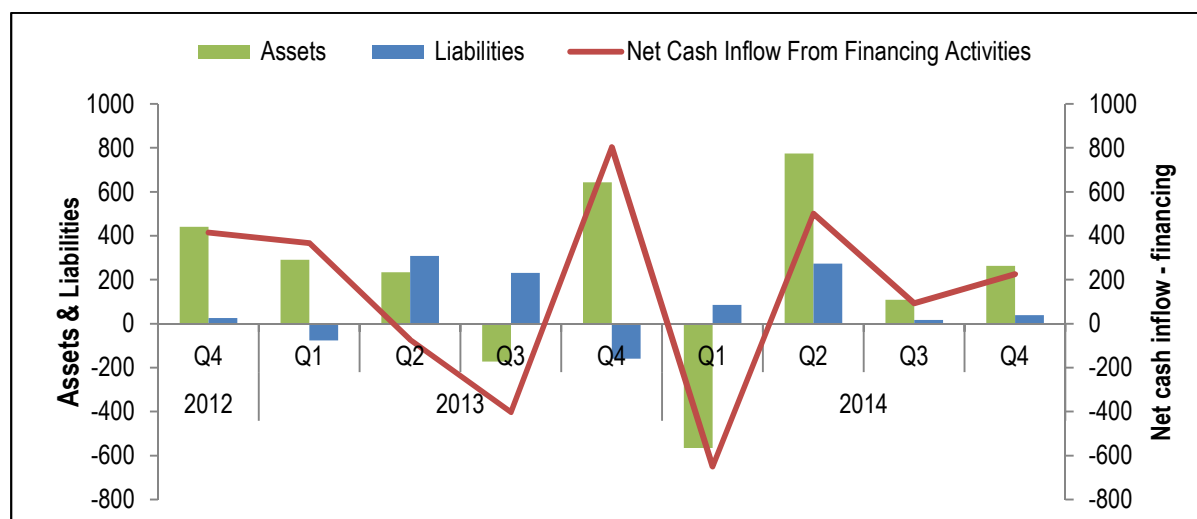
	2013		2014				Changes (%)		
	Q3	Q4	Q1	Q2	Q3	Q4	Q-to-Q	Y-on-Y	YTD
<b>Classification of Revenue</b>	<b>3,091.95</b>	<b>3,564.37</b>	<b>3,657.83</b>	<b>3,449.60</b>	<b>3,377.40</b>	<b>3,781.87</b>	<b>12.0</b>	<b>6.1</b>	<b>9.4</b>
Tax revenue	1,124.74	1,290.75	1,696.28	1,244.22	1,164.93	1,636.28	40.5	26.8	20.9
Grants	214.57	465.14	208.62	185.50	111.30	158.52	42.4	-65.9	-48.3
Other revenue	239.01	294.83	239.29	261.36	342.66	228.55	-33.3	-22.5	10.0
SACU receipts	1,513.64	1,513.64	1,513.64	1,758.52	1,758.52	1,758.52	-	16.2	12.5
<b>Economic Classification of Expense</b>	<b>2,500.77</b>	<b>2,375.99</b>	<b>3,488.75</b>	<b>2,381.64</b>	<b>2,428.82</b>	<b>2,598.64</b>	<b>7.0</b>	<b>9.4</b>	<b>14.9</b>
Compensation of Employees	1,114.78	1,035.10	1,315.76	1,173.58	1,220.69	1,227.91	0.6	18.6	18.8
Purchases of goods and services	644.30	563.05	1,410.61	501.99	577.39	705.59	22.2	25.3	32.4
Interest Payments	65.24	78.62	66.79	67.89	66.89	90.71	35.6	15.4	8.6
Subsidies	62.34	61.98	55.68	57.98	13.54	62.58	362.1	1.0	-23.0
Grants	236.88	277.03	264.36	215.41	223.38	213.62	-4.4	-22.9	-4.9
Social benefits	202.01	188.31	202.33	197.62	159.96	127.81	-20.1	-32.1	-6.6
Other expense	175.21	171.91	173.22	167.16	166.95	170.44	2.1	-0.9	-2.6
<b>Net Cash Inflow From Operating Activities</b>	<b>591.18</b>	<b>1,188.37</b>	<b>169.08</b>	<b>1,067.96</b>	<b>948.58</b>	<b>1,183.22</b>	<b>24.7</b>	<b>-0.4</b>	<b>-5.4</b>
<b>Transactions in Nonfinancial Assets</b>	<b>899.21</b>	<b>565.37</b>	<b>1,426.52</b>	<b>466.45</b>	<b>874.04</b>	<b>844.93</b>	<b>-3.3</b>	<b>49.4</b>	<b>21.3</b>
Fixed Assets	899.21	565.37	1,426.52	466.45	874.04	844.93	-3.3	49.4	21.3
Non-Produced Assets	0.00	0.00	0.00	0.00	0.00	0.00	0.0	1.0	0.0
<b>Cash deficit(-)/surplus(+)</b>	<b>-308.03</b>	<b>623.00</b>	<b>-1,257.44</b>	<b>601.51</b>	<b>74.55</b>	<b>338.29</b>	<b>353.8</b>	<b>-45.7</b>	<b>-141.7</b>
<b>Net Cash Inflow From Financing Activities</b>	<b>403.30</b>	<b>-803.22</b>	<b>650.84</b>	<b>-500.15</b>	<b>-92.14</b>	<b>-224.98</b>	<b>144.2</b>	<b>-72.0</b>	<b>-76.0</b>
Net Acquisition of Financial assets	172.39	-643.77	565.57	-773.85	-108.90	-263.07	141.6	-59.1	-41.8
Net Incurrence of Liabilities	230.91	-159.45	85.27	273.70	16.76	38.10	127.3	-123.9	36.4
Statistical Discrepancy	95.28	-180.21	-606.59	101.36	-17.60	113.31	-744.0	-162.9	271.7

Source: CBL and MOF

## FINANCIAL ASSETS AND LIABILITIES

Below the line accounts of the Government which are represented by the transactions in financial assets and liabilities have recorded increase in the net cash inflow from financing activities of M225.0 million during the last quarter of 2014 compared with M92.1 million that was experienced in the quarter ending in September, 2014. The net financial assets have constituted M263.1 million in December, 2014 which is up from M108.9 million that was recorded in September, 2014 reflecting the increase in the currency and deposits. The net incurrence of liabilities has registered an increase of M38.1 million in the quarter under review and M16.7 million in the third quarter of 2014. The rise in liabilities is due to the large disbursements with respect to the foreign loans amounting to M133.1 million. The other sub-category of transactions in liabilities, the securities other than shares, declined by M29.4 million mainly due to a decrease of M45.1 million under commercial banks. The securities other than shares of non-bank public have increased by M15.8 million.

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

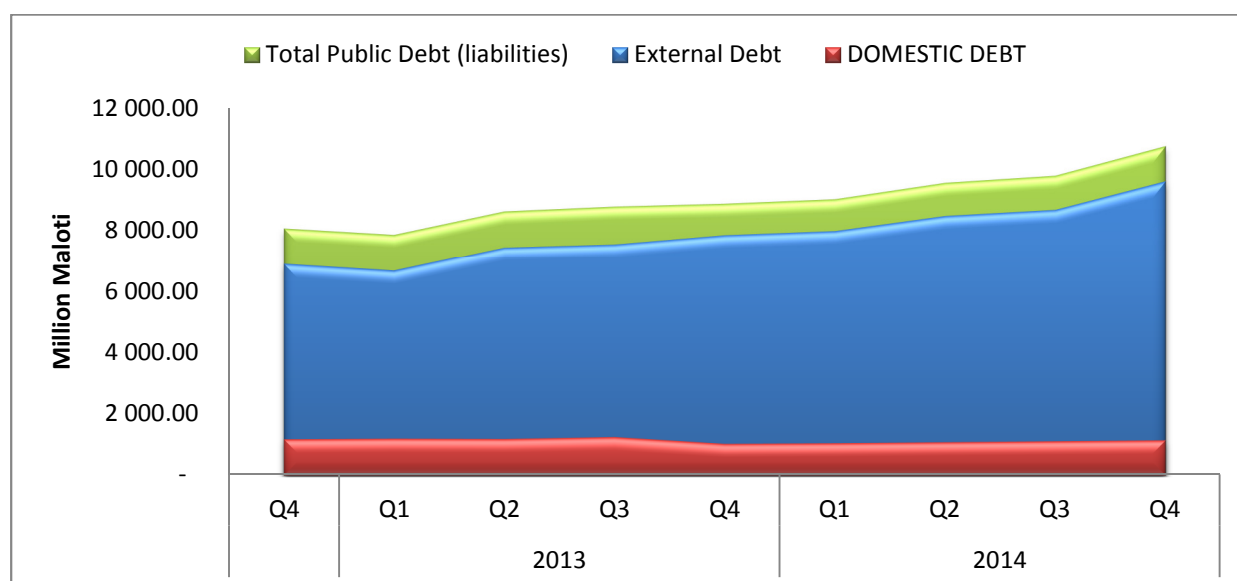


Source: CBL and MOF

## PUBLIC AND PUBLICLY GUARANTEED DEBT

The public debt portfolio as of December, 2014 has accumulated to the tune of M10, 760.2 million which was up from M9, 795.4 million that was recorded in September, 2014. The difference between these quarters amounted to a positive contribution of M964.9 into the stock of public debt. As a share of GDP, stock of public debt registered 45.8 per cent in the quarter ending December, 2014 compared with 41.7 per cent in the third quarter of 2014. It increased by 9.9 per cent in the fourth quarter of 2014 up from 2.4 per cent in the quarter ending September, 2014.

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



Source: CBL and MOF

### External Debt and Domestic Debt

The public and publicly guaranteed external debt stock constituted 89.4 per cent share of the total public debt as of December, 2014 compared with 88.7 per cent in the previous quarter. The ratio of external debt to GDP amounted to 40.9 per cent in the quarter ending December, 2014 compared with 36.9 per cent in the third quarter of 2014. It increased by 10.7 per cent as of December, 2014 up from the 2.3 per cent rise in the previous quarter. The multilateral creditors continued to take the largest share of the external debt registering 84.2 per cent in the fourth quarter of 2014 which is an increase of 8.9 per cent. The bilateral creditors contributed a share of 7.7 per cent as of December, 2014 compared with 7.6 per cent in the previous quarter. Other creditors recorded the remaining portion of the external debt portfolio. The accumulation in the stock of external debt portfolio is due to the exchange rate depreciation which prevailed during the period under review. In the long run, this country might face external debt vulnerability in terms of solvency risk and liquidity risk.

The domestic debt recorded 4.8 per cent of GDP in December, 2014 compared with 4.7 per cent in September, 2014. It constituted 10.6 per cent as a share of the total public debt down from 11.3 per cent in September, 2014. The domestic debt increased by 2.8 per cent in the quarter under review down from the 2.9 per cent in the quarter ending September, 2014.

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

	2013		2014				Debt / GDP (%)		
	Q3	Q4	Q1	Q2	Q3	Q4	Q2	Q3	Q4
<b>EXTERNAL DEBT</b>	<b>7,550.46</b>	<b>7,857.33</b>	<b>7,989.21</b>	<b>8,489.03</b>	<b>8,687.00</b>	<b>9,620.50</b>	<b>36.95</b>	<b>40.92</b>	<b>40.78</b>
Bilateral Loans	426.08	477.90	551.15	614.67	657.50	737.88	2.80	3.14	3.55
Concessional	426.08	477.90	551.15	614.67	657.50	737.88	2.80	3.14	3.55
Non-concessional	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Multilateral Loans	6,589.45	6,810.36	6,887.04	7,286.05	7,441.25	8,104.95	31.65	34.47	34.12
Concessional	5,835.74	6,015.85	6,109.98	6,180.67	6,354.61	6,461.77	27.03	27.48	26.74
Non-concessional	753.71	794.50	777.05	1,105.39	1,086.63	1,643.18	4.62	6.99	7.38
Financial Institutions	59.32	59.32	57.93	57.93	59.20	56.52	0.25	0.24	0.22
Concessional	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Non-concessional	59.32	59.32	57.93	57.93	59.20	56.52	0.25	0.24	0.22
Suppliers' Credit	475.62	509.75	493.10	530.38	529.04	721.16	2.25	3.07	2.89
<b>DOMESTIC DEBT</b>	<b>1,239.69</b>	<b>1,126.05</b>	<b>1,047.48</b>	<b>1,076.67</b>	<b>1,108.36</b>	<b>1,139.73</b>	<b>4.58</b>	<b>4.71</b>	<b>4.85</b>
Banks	897.58	807.84	724.64	727.95	719.61	728.94	3.10	3.10	3.10
Long-term (t-bonds)	405.20	405.30	318.30	321.49	321.62	321.69	1.37	1.37	1.37
Short-term (t-bills)	492.38	402.54	406.34	406.46	397.99	407.25	1.73	1.73	1.73
Non-bank	492.38	402.54	406.34	406.46	0.00	0.00	1.73	1.75	0.00
Short-term (t-bills)	342.10	318.21	322.84	348.71	388.75	410.79	1.48	0.76	1.75
Long-term(t-bonds)	128.50	136.81	136.66	149.06	172.47	178.72	0.63	0.99	0.76

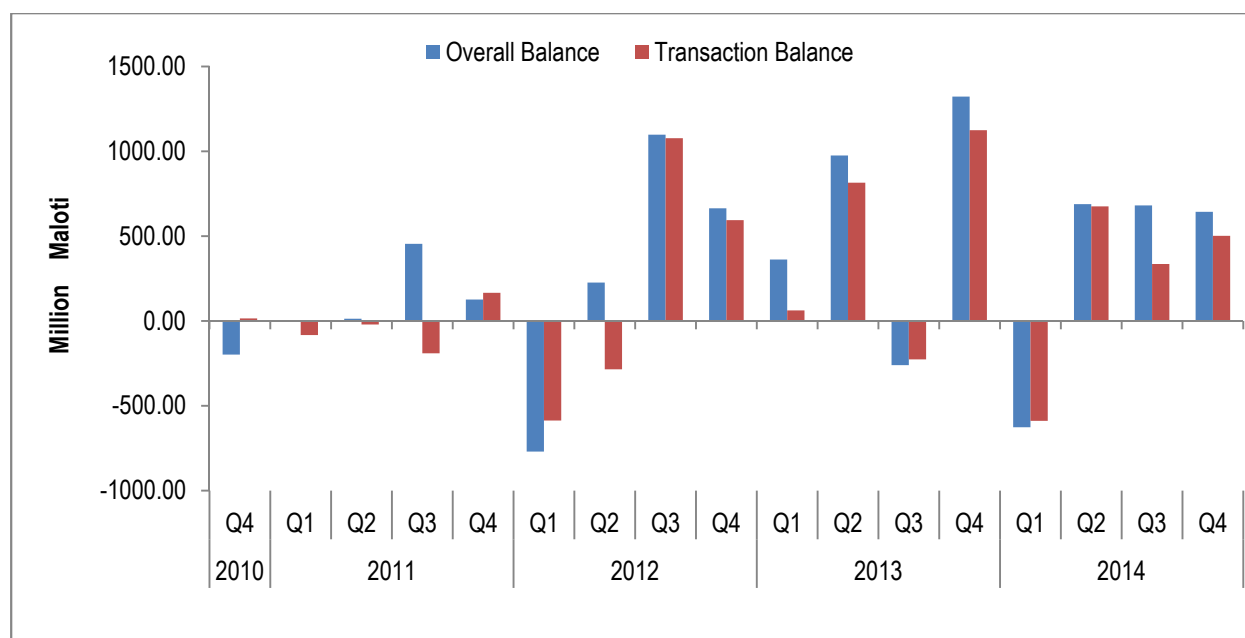
**Source: CBL**

## 6. Foreign Trade and Payments

### OVERVIEW

The external sector position continued to improve during the fourth quarter of 2014. The overall balance registered a surplus of M634.3 in the quarter under review compared to a surplus of M680.8 in the preceding quarter. The improvement was mainly supported by a surge in the capital and financial account inflows. As a share of GDP, the overall balance was a surplus equivalent to 10.8 per cent compared to a surplus of 11.6 per cent of GDP in the previous quarter. The transactions balance, which excludes the effects of currency movements, also recorded a surplus of M502.21 million during the review quarter, compared with a surplus of M336.29 million in the quarter ending in September 2014.

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



**Source:** Central Bank of Lesotho

### CURRENT ACCOUNT

The current account deficit widened to M560.6 million in the quarter ending in December 2014 from a deficit of M107.8 million recorded in the previous quarter. The widening in the deficit was attributed to an increase in imports and deterioration in exports, particularly textiles exports. In addition, an increase in payments for services acquired abroad contributed to the broadening in the current account deficit. A rise in income and current transfers however, helped to contain the widening current account deficit. As a share of GDP, the current account deficit constituted 9.5 per cent in the review quarter compared with a deficit of 1.8 per cent per cent of GDP in the previous quarter.

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

	2013		2014		
	Q4	Q1	Q2	Q3*	Q4+
Current Account.....	-191.6	-1142.3	-306.45	-107.8	-560.6
(a) Goods.....	-2202.9	-3299.5	-2531.6	-2458.7	-2912.2
Merchandise exports f.o.b.	2,134.5	1944.3	2324.1	2386.0	2308.2
Of which diamonds.....	660.54	659.9	988.2	666.7	752.8
Of which textiles and .....	998.47	766.9	833.4	1137.5	983.4
Clothing					
Other exports.....	449.2	517.5	502.5	581.8	572.0
Merchandise imports f.o.b.	-4,337.4	-5,243.7	-4,855.7	-4,844.7	-5220.5
(b) Services.....	-850.8	-687.6	-713.7	-827.6	-851.9
(c) Income.....	902.6	723.6	762.8	990.9	1011.3
(d) Current Transfers.....	1,959.4	2,121.1	2,176.1	2,187.6	2,192.2

**Source:** Central Bank of Lesotho

+ Preliminary Estimates

\*Revised Estimates

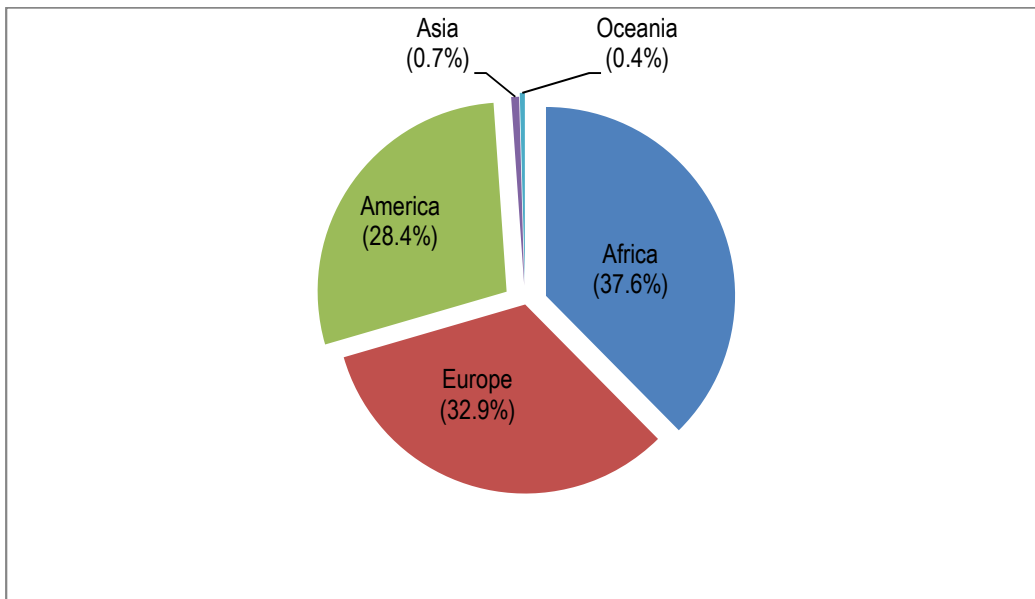
## Merchandise Exports

During the quarter ending in December 2014, merchandise exports fell by 3.3 per cent against an increase of 2.7 per cent in the third quarter of 2014. A decline in exports was mainly driven by the drop in textiles and clothing exports, reflecting reduced production as firms closed early for the festive season. The decline was further fuelled by a 20.9 per cent fall in the exports of water during the quarter. The observed performance was however dampened by an increase in exports of diamonds. Exports of diamonds grew by 12.5 per cent in the fourth quarter, having declined by 32.5 per cent in the previous quarter. Diamond exports benefitted from the depreciation of the local currency, though moderated by the fall in the average price of diamonds in the international market during the quarter. As a share of GDP, exports accounted for 39.3 per cent in the fourth quarter compared with 40.6 per cent in the preceding quarter.

## Direction of Trade - Exports

In the quarter under review, Africa (particularly SACU region) surpassed both America and Europe by becoming the largest recipient of Lesotho's exports. It accounted for 37.6 per cent of the total exports from Lesotho during the review quarter compared with 34.2 per cent in the previous quarter. Europe, whose exports comprise mainly diamonds, became the second largest recipient of Lesotho exports with a share of 32.9 per cent following a share of 28.3 in the third quarter of 2014. America became the third recipient of Lesotho exports after its share dropped from 36.5 per cent in the third quarter to 28.4 per cent in the quarter under review. This reflected reduced textile exports as the bulk of these exports are destined to America.

**Figure 25: Direction of Merchandise Exports (percentage share)**



**Source:** Central Bank of Lesotho

### **Merchandise Imports**

Merchandise imports rose by 7.8 per cent in the quarter ending in December 2014 compared with a 0.2 per cent drop in the previous quarter. On an annual basis, imports grew by 20.4 per cent, following 8.0 per cent growth in the previous quarter. Declarations at the border post, which takes the largest share in total imports, showed a remarkable increase during the fourth quarter in line with increased demand during the festive season. As a percentage of GDP, merchandise imports were equivalent to 88.9 per cent in the review quarter compared with 82.5 per cent in the third quarter.

### **Services Account**

The net outflow of services grew by 2.9 per cent during the review quarter, following an increase of 15.9 per cent in the quarter ending in September 2014. The growth was largely driven by a rise in payments for communication services, reflecting increased demand for international calls during the festive season. This was also supported by a rise in payments for freight services in line with increased imports. As a percentage of GDP, services account amounted to 14.5 per cent in the review quarter compared with 14.1 per cent in the previous quarter.

### **Income**

The net inflows of the income account increased by 2.1 per cent during the quarter under review, following a growth of 30.0 per cent in the previous quarter. The increase was attributed largely to a rise in returns on commercial banks' portfolio investments abroad. This was also influenced by a decline in interest payments on government external loans during the period. As a share of



GDP, net income inflows were equivalent to 17.2 per cent in the review quarter compared with an inflow of 16.9 per cent recorded in the quarter ending in September 2014.

### **Current Transfers**

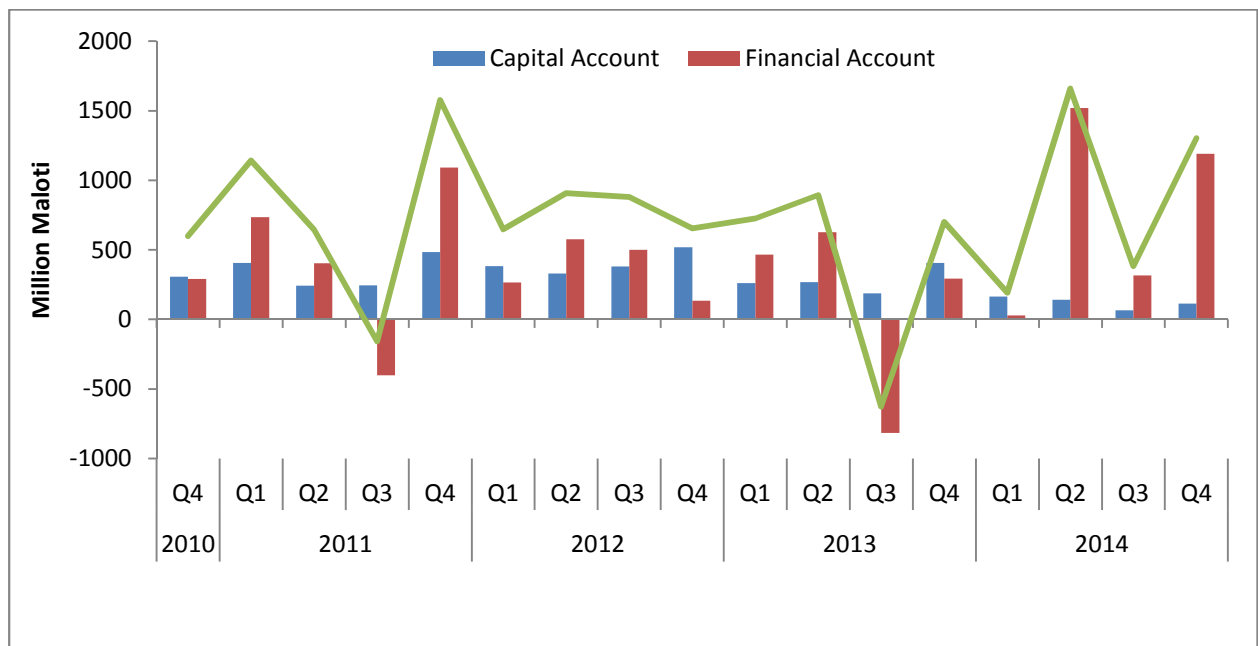
In the quarter ending in December 2014, current transfers increased by 0.2 per cent following a rise of 0.5 in the previous quarter. The increase reflected a decline in payments for subscriptions to international organisations. SACU receipts, which accounts for the largest share of net current transfers, remained unchanged during the review quarter. The current account maintained a share of GDP equivalent to 37.0 per cent between the third and the fourth quarter of 2014.

### **CAPITAL AND FINANCIAL ACCOUNT**

The net capital and financial account balance continued to be a surplus in the fourth quarter of 2014. It rose to M1.3 billion, equivalent to 22.2 per cent of GDP, in the quarter ending in December 2014, following a surplus of M382.1 million or 6.5 per cent of GDP in the preceding quarter. This was driven by an increase in inflows of both the capital and financial accounts. The net capital account surplus grew by 71.2 per cent during the review quarter compared with a decline of 52.8 per cent in the previous quarter. This reflected the continuing support for government projects by international development partners.

The net financial account surplus widened to M1.2 billion in the fourth quarter of 2014, from a surplus of M315.8 million in the previous quarter. The surplus was driven by a reduction in foreign assets of commercial banks. Commercial banks drew down their foreign assets to extend credit to their customers during the quarter. They registered an inflow of M509.4 million during the review quarter, compared with an outflow of M56.5 million in the previous quarter. The surplus was also influenced by a rise in government foreign loans together with a fall in repayments of government external loans during the quarter.

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

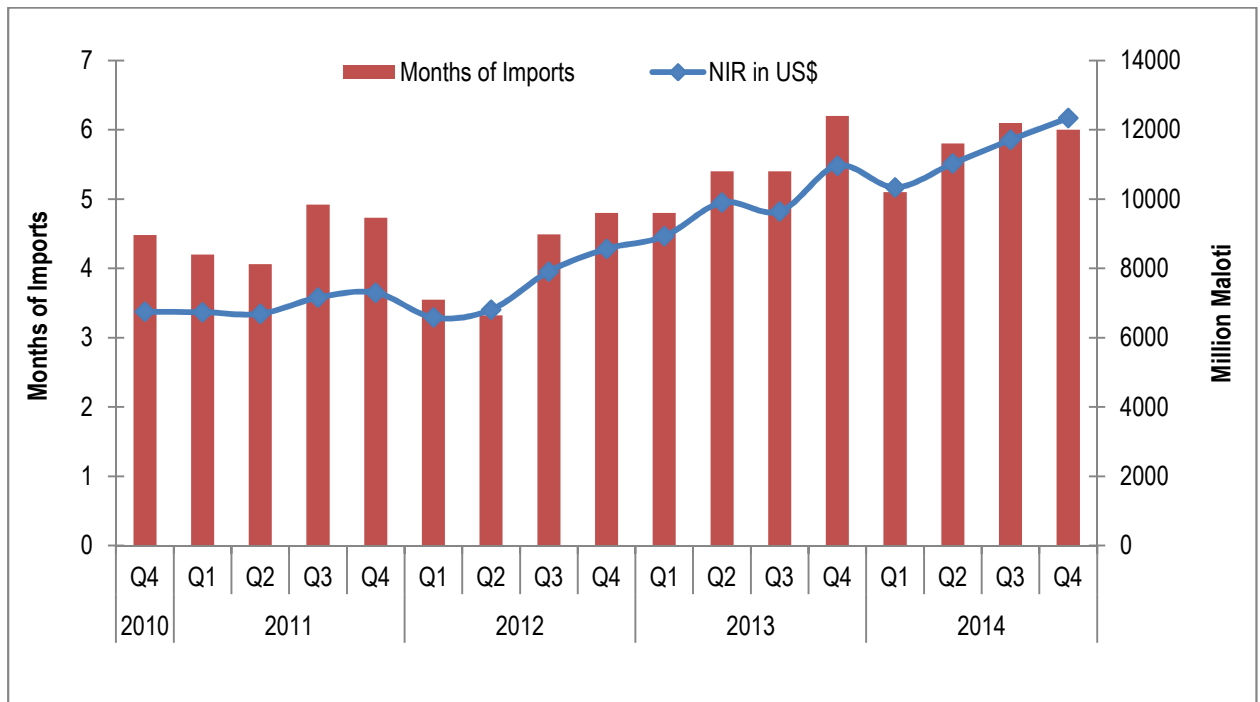


**Source:** Central Bank of Lesotho

### RESERVE ASSETS

Gross international reserves rose by 5.4 per cent to M12.3 billion in the quarter ending in December 2014, compared with an increase of 6.2 per cent in the quarter ending in September 2014. The growth in reserves was attributed to the accumulation of government deposits coupled with a decline in repayment of government external loans during the review quarter. Measured in months of import cover, gross official reserve dropped marginally to 5.9 months in the fourth quarter of 2014 from 6.0 months in the previous quarter. The slight decline emanated from increased imports which rose faster than reserve assets during the review quarter.

**Figure 27: Reserve Assets**



**Source:** Central Bank of Lesotho