CENTRAL BANK OF LESOTHO

QUARTERLY REVIEW

March 2017

MASERU

KINGDOM OF LESOTHO

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1. Executive Summary

The quarter ending in March 2017 saw a moderate recovery with respect to the global economic activity, with some advanced economies recovering fairly well while others lagged behind relative to the previous quarter. Advanced economies experienced improved economic activity during the quarter, with the exception of the US and the Euro area. The sluggish growth in the US was mainly influenced by weaker consumer and government spending. Similarly, growth in the Euro Area slightly deteriorated due to weaker consumer confidence. In the emerging market economies, growth was supported by the Chinese and Indian economies, which were kept buoyant by increased policy support. However, the South African economy slipped into a technical recession as the country continued to be affected by the heightened political uncertainty as well as weak domestic growth prospects in the face of low business and consumer confidence.

The monetary policy stance remained relatively accommodative in both advanced and emerging economies in a bid to support economic growth during the review period. The Labour market conditions improved in both advanced and emerging economies largely supported by improved growth prospects in the world economy. With regards to inflation, advanced economies saw an increase, mainly driven by higher energy and food prices. Inflationary pressures eased in emerging economies market economies as a result of easing food prices. However, in India, inflationary pressures worsened as prices for food, beverages, fuel, clothing and footwear rose during the quarter under review.

Lesotho's performance with respect to its economic activity deteriorated further in the quarter ending in March 2017 relative to a moderate decline in the quarter ending in December 2016. Output dropped for the secondary and tertiary sectors and thereby dragged the overall economic performance downwards. Nonetheless, the primary sector saw a strong output expansion during the quarter, thereby partly offsetting the secondary and tertiary sectors' negative impact on overall economic activity. Labour market developments saw a slower pace in the quarter under review relative to the previous quarter. Price developments improved somewhat during the review period as inflationary pressures continued to abate.

During the review quarter, money supply increased by 10.9 per cent, compared to a 4.2 per cent decline registered in the preceding quarter. This development was driven by a rise in domestic claims that outweighed a decline realised in Net Foreign Assets (NFA). The growth in domestic claims was mainly attributable to the contraction in government deposits with central bank, coupled with a moderate rise in private sector credit. The decline in overall NFA was mainly on account of a fall in Central Bank's NFA following the drawdown of government deposits, notwithstanding an increase in commercial banks' NFA. With regard to the components of broad money, both the narrow money and the quasi money recorded an increase in the current quarter. In terms of the credit extended to business sector, mining, real estate and services, and manufacturing continued to attain the largest shares during the review period.

In the quarter ending in March 2017, the budget balance continued to deteriorate and registered a fiscal deficit for the fifth consecutive quarter. During the first quarter of 2017, the fiscal deficit registered 10.2 per cent of GDP, up from 6.0 per cent of GDP in the quarter ending in December 2016. It was mainly financed by the drawdown of Government deposits, coupled with the marginal increase of new debt. The public debt stock declined from M12.80 billion in the quarter ending in

December 2016 to M12.70 billion in the quarter under review and registered a four year low share of 34.9 per cent of GDP during the same quarter compared to 40.4 per cent in the quarter ending in December 2016. The decline in the stock of public debt was attributable to appreciation of Loti relative to major foreign currencies in which debt was denominated.

The external sector position remained weak during the first quarter of 2017. However, in comparison to the previous quarter, the external sector position registered a lower net borrowing from the rest of the world. The improvement in the net borrowing was largely driven by the contraction in the current account together with a lower deficit in the financial account during the quarter under review. The current account deficit benefitted from the better performance of the primary and secondary accounts whereas the improved performance of the financial account deficit was largely attributable to an increase in commercial bank foreign assets despite a decline in official reserves.

2. International Economic Developments

The global economic activity continued to show signs of moderate recovery in the quarter ending in March 2017. Growth was mixed within and between developed and emerging market economies. Growth in advanced economies, particularly United Kingdom and the Euro Area was supported by a recovery in global trade while growth in the US was relatively slow owing to weaker consumer spending and a slowdown in government spending. In the emerging market economies, growth for China was supported by increased policy support. The labour market conditions improved during the review quarter as reflected by the declining unemployment rate, albeit sluggish growth in real wages.

The financial conditions were somehow accommodative in both advanced and emerging economies supported by unchanged interest rates. However, the US increased its key interest rates for the third time in a row in the quarter under review. In the emerging markets, subsiding inflation made room for holding the tightening cycle in South Africa. India and China also maintained an accommodative monetary policy stance to support growth. Advanced economies saw a built-up in inflationary pressures influenced by higher energy prices while inflation took a downturn in the emerging market economies as a result of easing food prices.

Commodity prices portrayed mixed signals with mineral prices rising due to an increase in demand for safe haven assets. Energy prices, particularly oil, picked up in response to an agreement between OPEC and non-OPEC countries to cut supply. Favourable weather conditions lead to a fall in maize prices while the price of wheat continued to be under pressure due to the on-going political unrest between the two giant producers, Ukraine and Russia.

Table 1: Key World Economic Indicators

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	Dec 2016	**March 2017**	**Dec 2016**	**March 2017**	**Dec 2016**	**March 2017**	**Dec 2016**	**Mar 2017**
United States	2.1	0.7	2.1	2.4	0.75	1.00	4.7	4.5
Euro Area	1.8*	1.7	1.1	1.5	0.00	0.00	9.8	9.5
Japan	1.2*	1.0	0.5	0.2	-0.10	-0.10	2.8*	2.8
United Kingdom	2.0	2.1	1.6	2.3	0.25	0.25	4.8	4.7
China	6.8	6.9	2.1	0.9	4.35	4.35	4.0	4.0
India	7.0	6.1	3.4	3.8	6.25	6.25	**n/a**	**n/a**
South Africa	-0.3	-0.7	6.8	6.1	7.00	7.00	26.5	**n/a**

Updated*

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

ADVANCED ECONOMIES

United States (US)

US economic growth dropped to 0.7 per cent in the first quarter of 2017, from 2.1 per cent in the quarter ending in December 2016. The slower growth was attributable to decreases in private inventory investment, state and local government spending as well as federal government spending. This had a dampening effect on increases in exports, consumer spending, business investments and housing investments. The increase in imports also weighed on the GDP growth during the quarter. The unemployment rate declined to 4.5 per cent in the quarter ending in March 2017 compared with a 4.7 per cent in the previous quarter. This emanated mainly from, increased employment in the services sector.

During the quarter under review, consumer prices rose by an annual rate of 2.4 per cent, following a 2.1 per cent increase in the previous quarter. This was the second consecutive quarter in which the US inflation rate remained above the official target of 2 per cent. The higher rate of inflation resulted from increased food prices, energy and shelter costs. In the quarter ending in March 2017, the FOMC raised the Fed Funds rate by 0.25 basis points to a band of 0.75 - 1.0 per cent. The rate hike was decided in view of the strengthening labour market conditions, indicated by creation of more jobs, and a pickup in inflation during the quarter.

Euro Area

During the first quarter of 2017, real GDP for the Euro Area rose by 1.7 per cent, slightly slower than 1.8 per cent in the previous quarter. This was attributable to weaker consumer spending which was moderated by increased exports, particularly in the manufacturing sector during the review quarter. On the labour market front, the unemployment rate declined to an 8-year low of 9.5 per cent in the quarter ending in March 2017 from 9.8 per cent in the previous quarter. This was largely supported by the robust economic activity in the region.

The annual inflation rate for the Euro Area increased to 1.5 per cent in the quarter ending in March 2017, from 1.1 per cent in the previous quarter. Inflationary pressures emanated mainly from higher energy and services costs as well as food, alcohol & tobacco prices. The Governing Council of the European Central Bank (ECB) left the key interest rate unchanged at zero per cent during the quarter to support growth. The Bank also decided to continue with purchases of bonds at the rate of €60 billion per month until the end of 2017 or beyond if deemed necessary. This stance was also prompted by the elevated risks associated with elections in France as well as risks in other countries in the region, which could hurt growth.

Japan

Real GDP in Japan rose 1.0 per cent per cent in the first quarter of 2017, compared to a revised 1.4 per cent increase in the fourth quarter of 2016. The slower pace of GDP growth resulted from a fall in oil inventory and lackluster household spending in Japan. The unemployment rate stood steadily at 2.8 per cent in the quarter under review, just as in the quarter ending in December 2016. However, declining labour supply and a slower increase in wages continued to be a challenge.

Consumer prices in Japan slowed to an annual rate of 0.2 per cent, down from 0.3 per cent increase in the last quarter of 2016. The lower consumer prices were a result of a slowdown in prices for houses, food, clothing and footwear. The bank of Japan continued to maintain the negative interest rate at -0.1 per cent and control of the Yield curve in the first quarter of 2017. The bank indicated that it would continue with the purchase of the 10 year Japan Government bonds at the rate of ¥80 trillion per year to keep its yield at around 0.0 per cent. The Bank would also continue with purchases of other assets including Exchange Traded Funds (ETFs) and Corporate Bonds.

United Kingdom (UK)

The UK economy grew faster in the first quarter compared to the fourth quarter of 2016. Real GDP grew by 2.1 per cent compared with 1.9 per cent in the previous quarter, mainly due to increased industrial production. Manufacturing, mining and the services industries also realised improved activity, which boosted overall growth for the UK economy. The unemployment rate declined from 4.8 per cent in the fourth quarter of 2016 to 4.7 per cent in the first quarter of 2017, reflecting a recovery in the real economy. Higher job growth was seen in self-employment, although growth real wages was moderate.

Annual inflation rate rose to 2.3 per cent in the quarter under review, following a 1.6 per cent increase in the fourth quarter of 2016. The rise was driven by increased costs of services, food, alcohol and tobacco as well as clothing and footwear. In addition, the weak pound fed into the increase in general prices. The Bank of England left the key rate unchanged at 0.25 per cent in the quarter. The Bank also decided to continue with £435 asset purchases in the form of government and corporate bonds. This stance was taken to support the economy amid weakening consumer demand since the Brexit vote.

EMERGING MARKET ECONOMIES

China

China's real GDP growth increased by 0.1 percentage points to 6.9 per cent in the first quarter of 2017. The growth in real GDP was driven mainly by stronger activity in manufacturing, construction and the services sectors. In addition, strong consumer and investment spending by state owned enterprises, contributed to the observed growth. The unemployment rate remained constant at 4.0 per cent between the last quarter of 2016 and the review quarter. Employment creation in China continued to be supported by robust economic activity.

In the quarter under review, annual inflation rate rose to 0.9 per cent, a slight increase from 0.8 per cent registered in the previous quarter. The increase was primarily driven by non-food commodities including clothing & footwear and transport & communications. The People's Bank of China left the key interest rate unchanged at 4.35 per cent in the quarter ending in March 2017 in order to contain financial risks prevalent in the economy. In addition, the reason for the relatively accommodative policy was to support economic growth while ensuring that the price stability target of 3.0 per cent inflation rate is met.

India

There were indications of strong recovery in the Indian economy, driven by industrial production in mining and electricity, while manufacturing moderated. The economy was kept buoyant through increased policy support, which included amongst others postponed VAT hike and spending on infrastructure. Economic activity also was supported by a surge in exports and the fading of negative effects of the demonetisation during the review quarter. Business and consumer confidence increased during the quarter and the implication was that the growth momentum would be carried into subsequent quarters during the year.

In the first quarter of 2017, the consumer inflation rose by an annual growth of 3.8 per cent compared to 3.4 per cent increase in the last quarter of 2016. The increase was driven by increased prices of food and beverages as well as fuel, clothing and footwear costs. The Reserve Bank of India left the key interest rate unchanged at 6.25 in the first quarter of 2017 in an effort to support the economic recovery and maintain an inflation target of 4.0 per cent in the medium term. The Bank shifted its policy stance from accommodative to neutral due to the effects of demonetisation, which took place in the last quarter of 2016. A neutral policy stance would allow the bank to either tighten or loosen the policy further.

South Africa

The South African economy slipped into a technical recession during the first quarter of 2017, with a 0.7 per cent decline in GDP after contracting by 0.3 per cent in the previous quarter. The fall in economic output was mainly driven by poor performance in the trade and manufacturing subsectors, which dropped by 5.9 per cent and 3.7 per cent respectively. The heightened political uncertainty continued to put pressure on domestic growth prospects in South Africa amid low business and consumer confidence.

The inflationary pressures eased in South Africa, with inflation dropping from 6.6 per cent in the fourth quarter of 2016 to 6.1 per cent in the first quarter of 2017. The decline in inflation was driven by the slowdown in food prices**.** The Reserve Bank of South Africa left the repo rate unchanged at 7.0 per cent during the quarter to support the ailing economy.

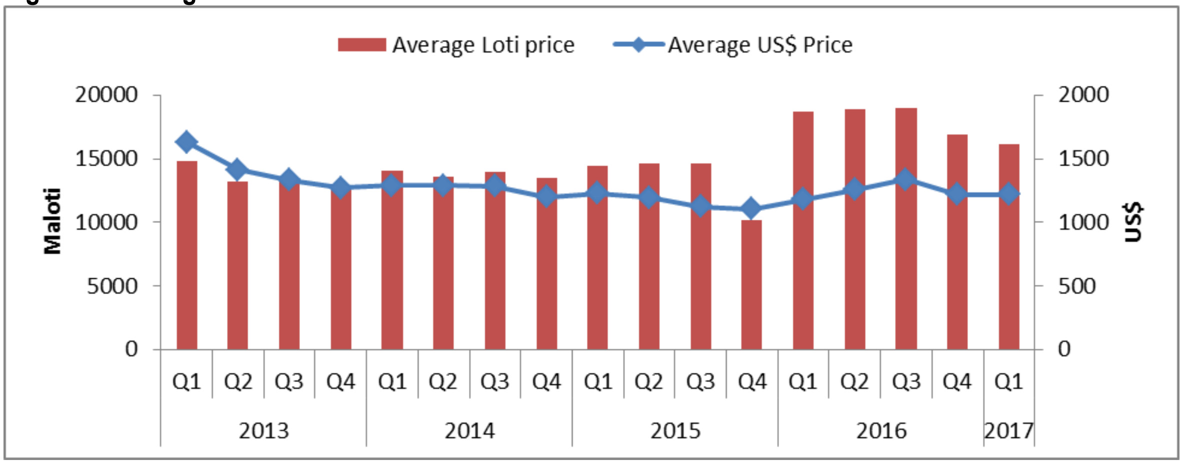
COMMODITIES

Minerals

Gold

The price of gold (in US Dollars) increased by 0.26 per cent in the first quarter of 2017 recovering from a 9.27 per cent decline in the quarter ending in December 2016. In Maloti terms, the price of gold decreased by 4.44 per cent after declining by 11.01 per cent in the previous quarter. The elevated geopolitical uncertainty together with lack of clarity on economic policies of the new US administration led to a rise in demand for gold as a safe haven asset. Moreover, the higher US inflation during the quarter reduced the value of the dollar, increasing demand for gold and thus pushing up its price.

Figure 1: **Average Price of Gold**

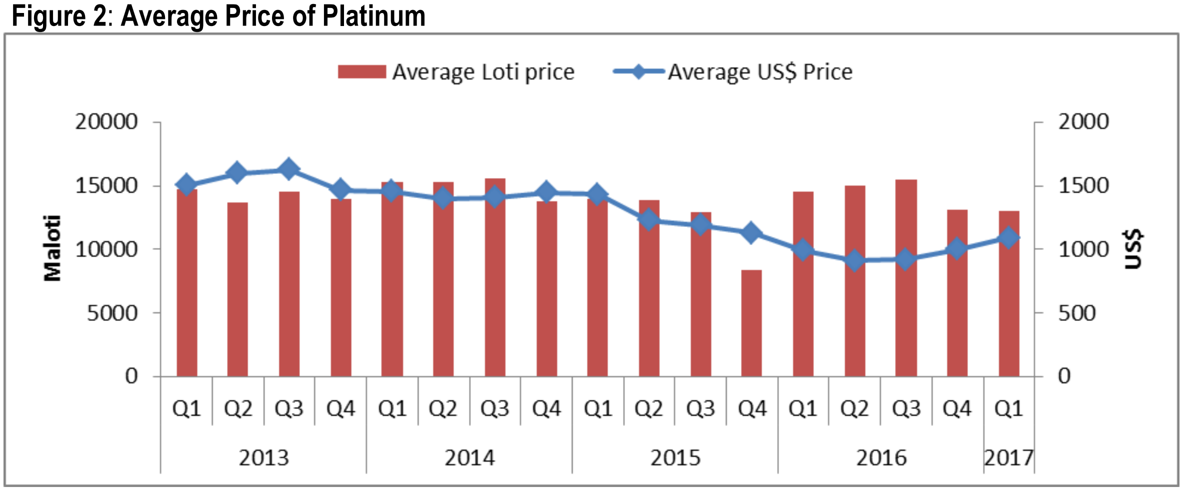


Source: Bloomberg

Platinum

The price of platinum (in US Dollars) increased by 3.98 per cent in the first quarter of 2017, compared to a 13.40 per cent decline in the previous quarter. The Maloti price of platinum declined by 0.90 per cent following a 15.06 per cent decline in the quarter ending in December 2016. The dollar price of platinum increased due to higher requirement by automotive manufacturing to meet the increased demand for cars especially from China and the Euro Area. To some extent platinum prices also benefited from increased demand for safe haven assets due to rising geo-political risks, particularly in Europe.

Figure 2: **Average Price of Platinum**



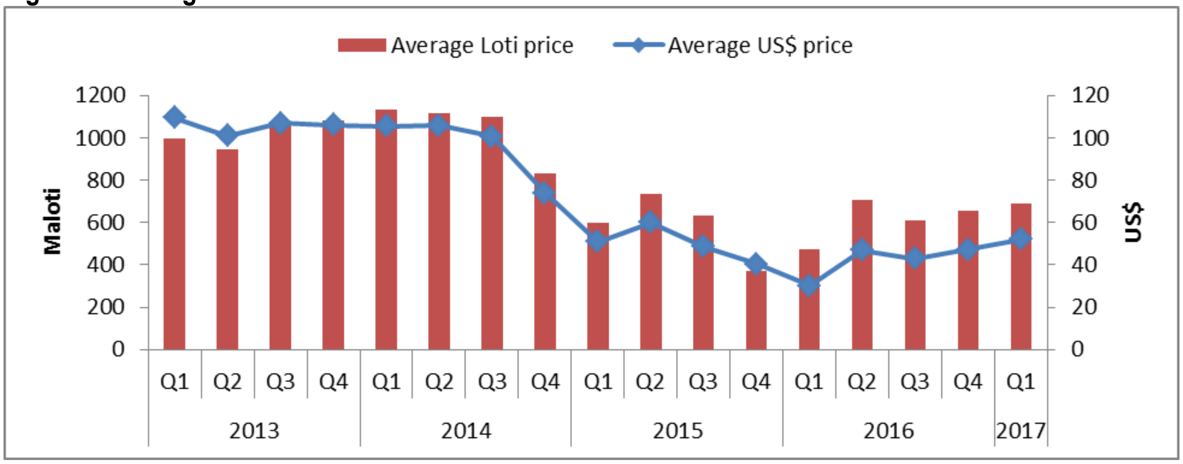
Source: Bloomberg

Energy

Oil

The price of oil (in US dollars) rose by 10.3 per cent during the quarter under review from 10.7 per cent increase in the previous quarter. The increase in the price of oil was supported by an effective agreement between non-OPEC and OPEC member countries to curb oil production from the beginning of 2017, with Russia delivering on the production cut in January 2017. However, the rise in oil prices was partly offset by a supply glut in the US with its stockpiles increasing and undermining OPEC's efforts to cut production. In Maloti terms the price of oil increased by 5.12 per cent compared with 8.59 per cent increase in the previous quarter. As a result of a rise in oil prices, Lesotho's domestic fuel prices rose by quarterly averages of 7.6 per cent, 5.5 per cent and 7.4 per cent against petrol, diesel and paraffin in the review quarter, compared with an increase of 1.2 per cent in petrol prices and a slight drop in diesel and paraffin by 0.4 per cent and 0.7 per cent, respectively in the previous quarter

Figure 3: **Average Price of Oil**



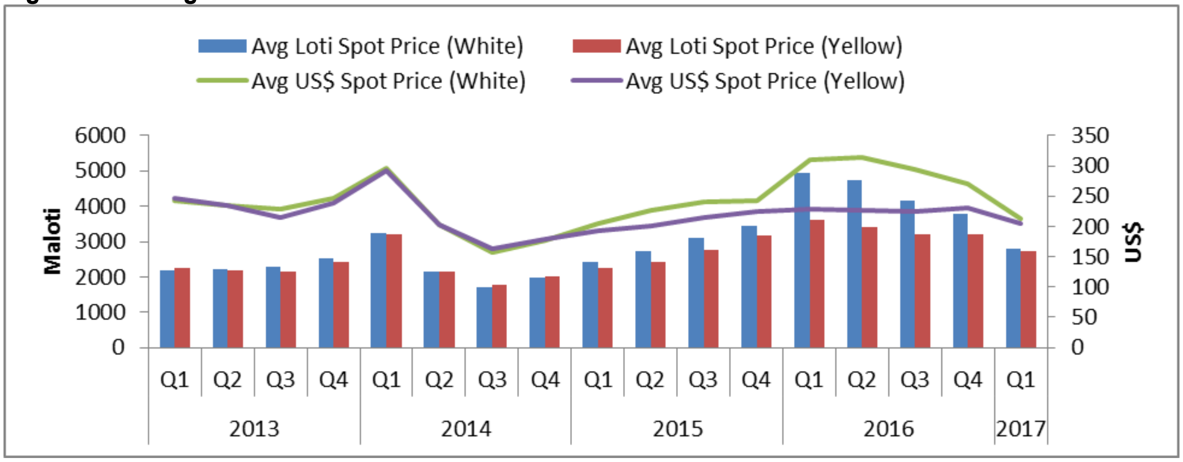
Source: Bloomberg

Agricultural Products

Maize

During the first quarter of 2017, the price of white maize, in US dollars, dropped by 21.7 per cent following a 7.82 per cent decline in the quarter ending in December 2016. The price of white maize in Maloti terms dropped by 25.4 per cent during the same quarter compared with 11.8 per cent during the previous quarter. The US dollar price of yellow maize fell by 11.2 per cent in the same quarter after an increase of 2.7 per cent in the previous quarter. In Maloti terms, the price of yellow maize declined by 11.2 per cent having fallen by 0.7 per cent in the previous quarter. The fall in the price of maize was influenced by the expectations of a significantly improved supply following the favourable weather conditions in the ploughing season.

Figure 4: Average Price of Maize

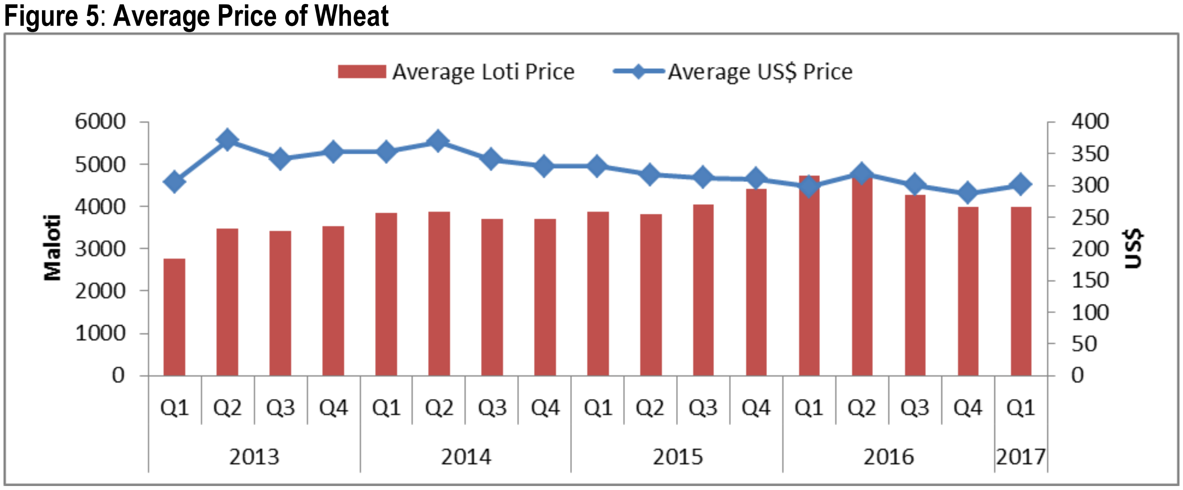


Source: Bloomberg

Wheat

Wheat prices performed relatively well during the first quarter of 2017 compared to the previous quarter, registering an increase of 4.6 per cent, in US dollars, after a fall of 4.6 per cent in the previous quarter. In Maloti terms, the price of wheat dropped by 0.3 per cent subsequent to a drop of 6.5 per cent in the previous quarter. Wheat prices were supported by a fall in global stocks to meet increased global demand by large importers in response to higher consumption demand for food and seed.

Figure 5: **Average Price of Wheat**

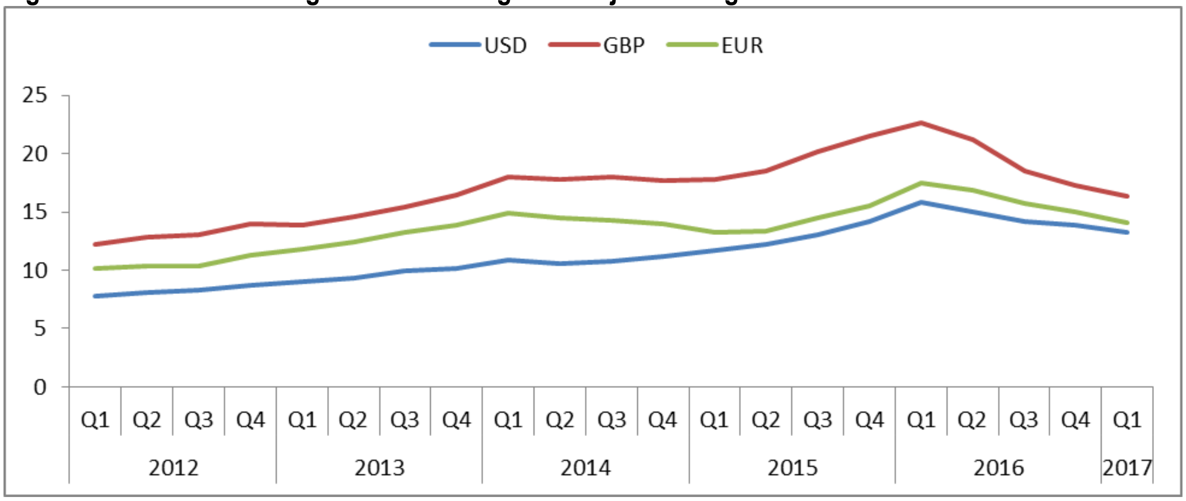


Source: Bloomberg

EXCHANGE RATES

The Rand (Loti) appreciated against its major trading currencies in the first quarter of 2017. Relative to the previous quarter, the Rand strengthened by 4.7 per cent against the US dollar, 5.5 per cent against the Pound and 5.9 per cent against the Euro in the review quarter. Throughout the quarter, the Rand was supported by increased capital inflows into South Africa as investors continued to search for higher yields, particularly from emerging market economies. Other factors that contributed to the strength of the Rand were the narrowing of the South African current account deficit, easing inflationary pressures and a rebound of commodity prices.

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



Source: Bloomberg

3. Real Sector Developments

OVERVIEW

Lesotho's economic activity continued to contract at a faster pace in the first quarter of 2017 relative to a moderate decline in quarter ending in December of 2017. The decline was mainly at the back of reduced output in both the secondary and the tertiary sectors, while the primary sector grew strongly during the review period. The labour market developments also remained under pressure during the period as employment grew at a lesser pace relative to the fourth quarter of 2016. Price developments improved somewhat during the review period as inflationary pressures continued to abate.

OUTPUT DEVELOPMENTS

The overall economic activity, measured by Economic Activity Indicator (EAI) continued to decline for the third consecutive quarter by 4.5 percent in the first quarter of 2017 relative to the decline of 1.4 registered in the fourth quarter of 2016 on a seasonally adjusted basis.

Table 1: Economic Performance by Industry

(Seasonally adjusted Quarter to Quarter Percentage Changes)

		2016				2017
	Weight	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
EAI	**100**	**5.6**	**5.6**	**-0.9**	**-1.4**	**-4.5**
Primary Sector						
Mining	**8.9**	-1.8	-6.6	-3.4	18.2	16.1
Secondary Sector						
Manufacturing	**18.5**	21.7	-8.2	9.9	26.4	-22.9
Electricity	**1.1**	4.8	-1.8	0.1	3.3	3.6
Water	**4.9**	-13.3	2.7	6.8	1.6	-3.3
Construction	**7.6**	-9.9	146.8	-71.2	28.3	-14.6
Tertiary Sector						
Trade	**11.0**	0.5	0.2	-7.0	-4.0	1.3
Telecom	**5.1**	72.0	1.1	0.1	-22.2	71.5
Financial Sector	**6.5**	-4.1	6.0	1.9	-4.0	1.3
Other services	**5.7**	-22.7	6.7	6.4	6.8	-14.5
Government	**30.6**	10.5	-7.1	26.7	-20.3	-8.6

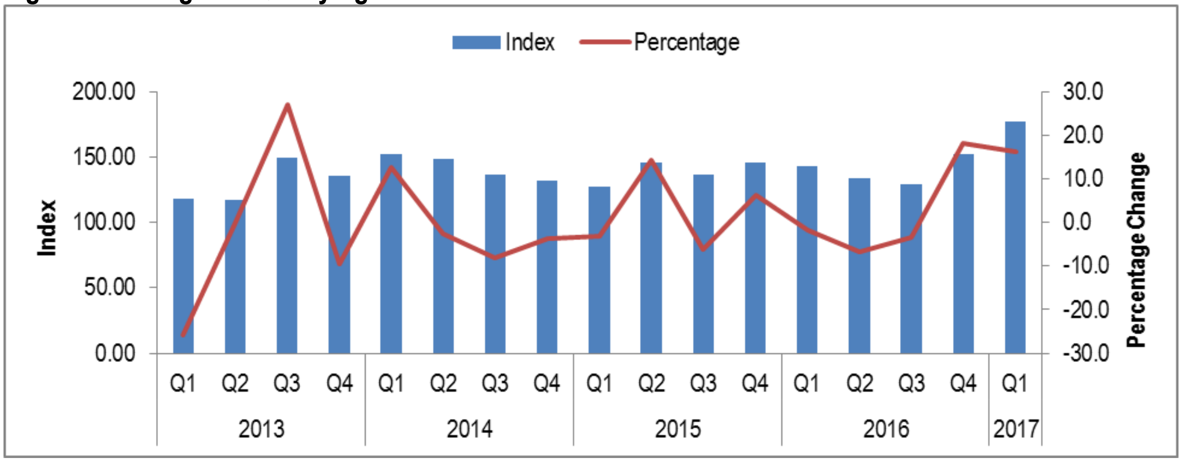
Source: Central Bank of Lesotho

Primary Sector

Mining and Quarrying

The mining and quarrying output index increased by 16.1 percent in the first quarter of 2017 relative to a growth of 18.2 percent realized in the fourth quarter of 2016, on a seasonally adjusted basis. The increase in production mainly emanated from the increased recovery of diamond carats in the three diamond mines.

Figure 7: Mining and Quarrying Index



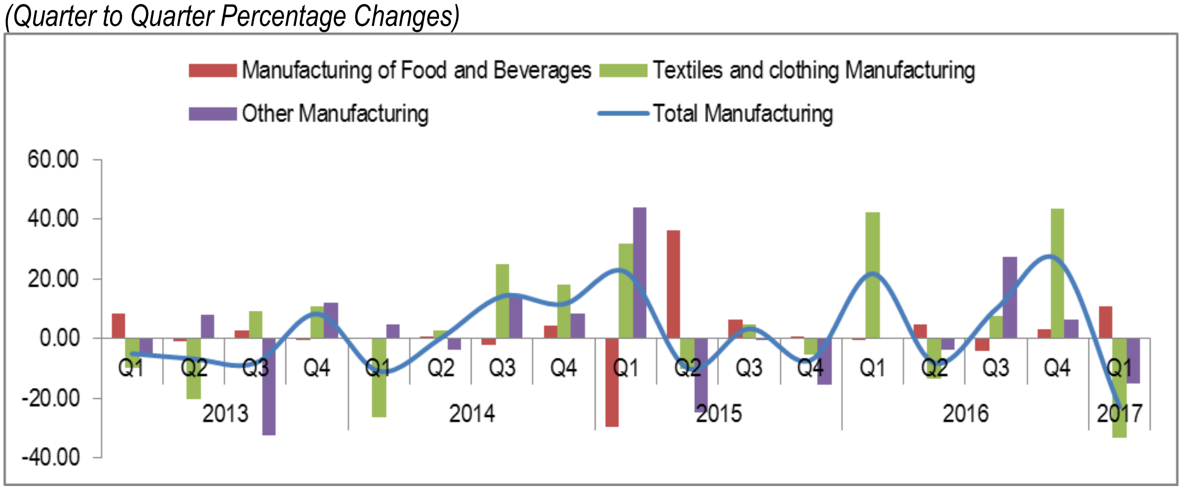
Source: Central Bank of Lesotho

Secondary Sector

Manufacturing

The seasonally adjusted manufacturing output index contracted by 22.9 percent in the first quarter of 2017 relative to an increase of 26.4 percent realized in the preceding quarter. The slump mainly emanated from lower output by "textile and clothing" as well as "other manufacturing" subsectors while the food category moderated the decline. The downtick in the sector's performance has been mainly driven by the slowdown in demand for manufacturing exports during the review period.

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



Source: Central Bank of Lesotho

Electricity

The seasonally adjusted electricity output index increased by 3.6 percent in the first quarter of 2017 compared to an increase of 3.3 percent recorded in the preceding quarter. The increase mainly emanated from the growth in the output from the "commercial & industrial purpose" category while the "domestic purpose" and "general purpose" categories moderated the increase. The sector's output increased during the review period despite the contraction in the wet industries which normally mirrors the developments in the electricity sector.

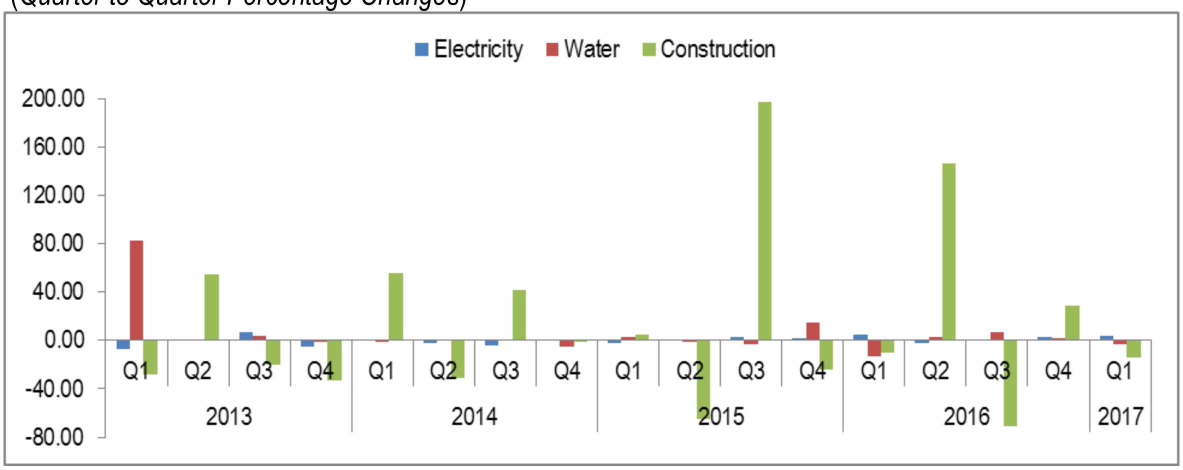
Water

The water subsector output index contracted by 3.3 percent during the review period relative to an increase of 1.6 percent recorded in the fourth quarter of 2016 on a seasonally adjusted basis. The overall activity in the water subsector is mainly driven by developments in water exports. On the domestic front, the industrial and other categories contributed significantly to the decline while the domestic component moderated the decline. The decline was mainly driven by the wet industries' reeling under pressure from the subdued demand for Lesotho's exports abroad and weaknesses in the South African economy in the first quarter of 2017.

Construction

The seasonally adjusted construction subsector index contracted by 14.6 percent in the first quarter of 2017 relative to a growth of 28.3 percent realized in the preceding quarter. The main driver behind the contraction in the sector is the slowdown in government capital development projects.

Figure 9: Utilities and Construction subsectors
(*Quarter to Quarter Percentage Changes*)



Source: Central Bank of Lesotho

Tertiary Sector

Trade

The trade subsector seasonally adjusted data show that during the review period increased by 1.3 percent from a 4.0 percent decline recorded in the preceding period. The main contribution emanated from the "retail" and "fuel" components and to a lesser extent the "wholesale" category while the motor component moderated the decline. The buoyant performance in the trade sector is attributed to the growth in consumer demand and hence spending during the review period which is underpinned by abating inflationary pressures in the economy.

Telecommunications

The telecommunications activity index rose by 72.0 percent in the first quarter of 2017 from a revised negative growth of 22.2 percent realized in the fourth quarter of 2016, on a seasonally adjusted basis.

Finance

The seasonally adjusted financial sector activity index rebounded by 1.3 percent increase in the first quarter of 2017 relative to a contraction 4.0 percent realized in the fourth quarter of 2016. The increase was mainly attributed to the increased banking sector output relative to the preceding quarter as credit extended by banks grew albeit at a slower pace.

Other Services

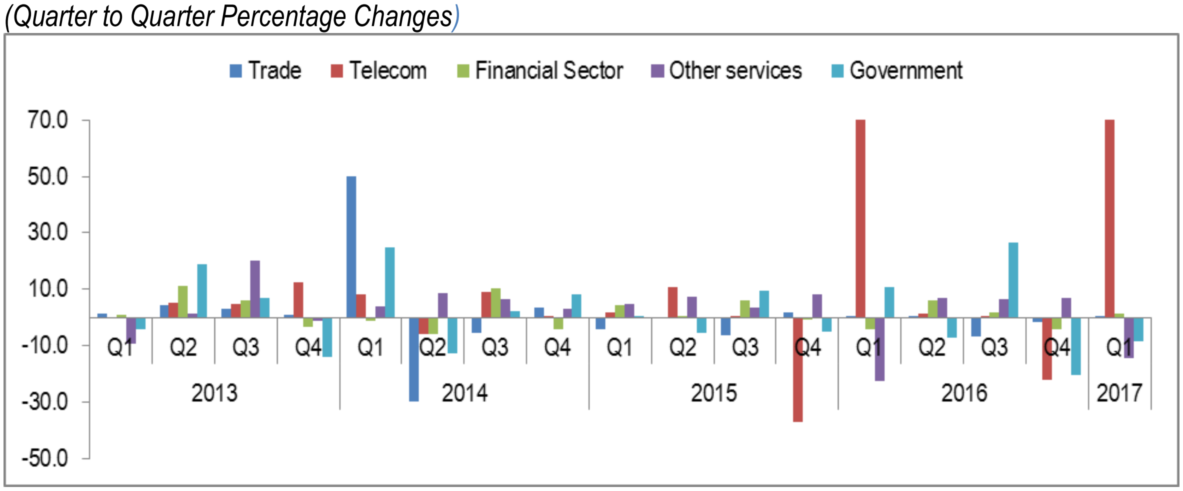
The seasonally adjusted activity index for the "other services" subsector declined by 14.5 percent during the first quarter of 2017 relative to a growth of 6.8 percent realized in the fourth quarter of 2016. The decline mainly emanated from the output of "hotels and restaurant", "real estate, renting and business activities" and so a lesser extent the activity of "other community, social and personal service activities".

Government

The seasonally adjusted output index of the government subsector declined by 8.6 percent during the review period relative to a decline of 20.3 percent recorded in the fourth quarter of 2016. The decline was mainly at the back of both the declines in compensation of government.

Figure 10: Tertiary Sector

(Quarter to Quarter Percentage Changes)



Source: Central Bank of Lesotho

EMPLOYMENT DEVELOPMENTS

Employment by LNDC-assisted companies increased by a moderate 0.3 percent in the first quarter of 2017 relative to a decline of 5.2 percent recorded in the fourth quarter of 2016. The increase was mainly underpinned by a broad-based growth in other LNDC-assisted companies other than the textile and clothing subsectors. In particular, firms in the "hotel & accommodation", "footwear" , "food & beverages" as well as the "construction" categories added jobs while the " woven garments" and the "retail" and to a large extent the " other" classification , shed jobs during the review period. The subdued performance of the sector during the review period is attributed to the lackluster performance in the sales order and hence production in the textile and clothing subsector.

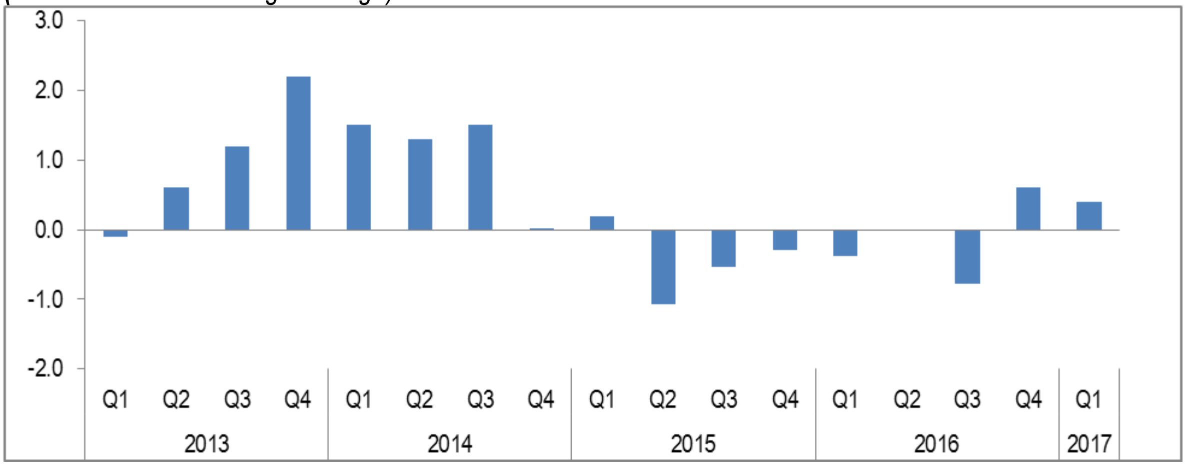
Table 2: Employment by LNDC-Assisted Companies

Industry	2016				2017	% Change	
	Q1	Q2	Q3	Q4	Q1	Q/Q	Y/Y
Knit Garments…………..	23398	23829	24774	24818	24897	0.3	6.4
Woven Garments…….	15725	17274	17057	14921	14671	-1.7	-6.7
Footwear………………….	768	753	1265	1293	1403	8.5	82.7
Fabrics, Yarn etc……….	1721	1777	1686	1801	1803	0.1	4.8
Construction…………….	322	327	327	342	359	5.0	1.7
Food & Beverages………..	662	682	682	650	696	7.1	5.1
Electronics…………………	923	141	962	1007	1030	2.3	11.6
Retail……………………….	134	139	139	109	109	0.0	-18.7
Hotel Accomm………..	365	565	565	502	663	32.1	81.6
Other……………………..	1818	1939	1779	1226	1719	-2.4	-33.0
TOTAL……………………	**45836**	**47426**	**49236**	**46669**	**47350**	**0.3**	**2.2**

Source: Lesotho National Development Corporation

Government employment further increased by 0.4 percent during the review period, which is a slower pace relative to 0.6 percent recorded in the fourth quarter of 2016. The increase was mainly attributed to the other component of government employment except for the civil servants, teachers and daily paid workers.

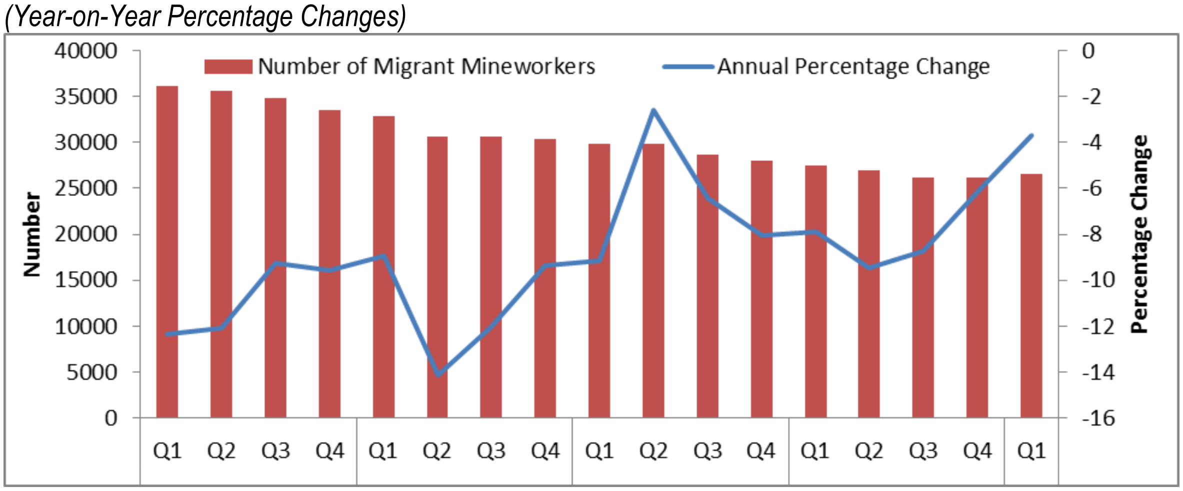
Figure 11: Government Employment
(Year-on-Year Percentage Change)



Source: Ministry of Finance

During the review period, the number of Basotho migrant mineworkers increased from 26229 employees recorded in the fourth quarter of 2016 to 26511 employees in the first quarter of 2017. On a year-to-year basis, the number of Basotho migrant mineworkers declined by a moderate 3.7 percent during the review period relative to 6.2 percent estimated in the preceding quarter. The increase in the number of employment on a quarterly basis is attributable to an uptick in the mining production in the diamond, coal, platinum metals and iron ore, while the gold production declined during the review period. The continued decline on an annual basis is mainly attributed to the persistent problems that have engulfed the mining sector, especially the gold mining such as labour and operational costs as well as wage settlements disputes that started almost half a decade ago.

Figure 12: Migrant Mineworkers
(Year-on-Year Percentage Changes)



Source: The Employment Bureau of Africa (TEBA)

PRICE DEVELOPMENTS

Inflation rate in Lesotho, as measured by the percentage change in the overall consumer price index (CPI) decelerated from 5.3 percent in the quarter ending December 2016 to 4.4 percent in the first quarter of 2017. The main contributors to the deceleration are "food and non-alcoholic beverages", "Clothing & footwear", "transport" and "miscellaneous goods and services". " Housing, electricity gas & other fuels", "Alcoholic beverages & tobacco" and "transport" moderated the deceleration in the overall inflation during the review period. The main drivers behind inflation rate deceleration are the decline in food prices especially the maize meal since its subsidization in June 2016

Table 3: Inflation Rate

(Annual Percentage Changes)

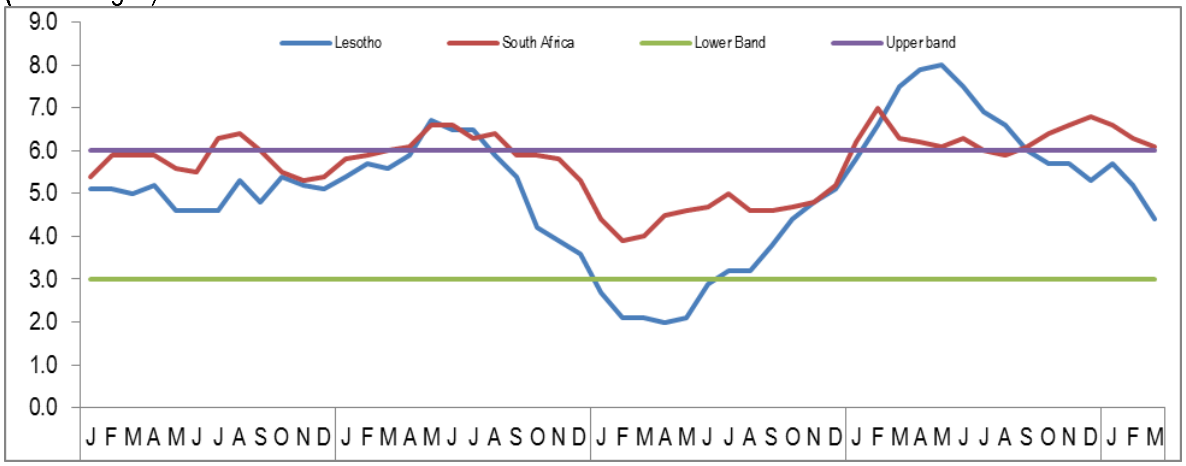
		2016		2017		
	Weight[1]	Nov	Dec	Jan	Feb	Mar
All items	**100**	**5.7**	**5.3**	**5.7**	**5.2**	**4.4**
Food and non-alcoholic beverages	36.1	9.9	9.4	8.5	7.0	5.2
Alcoholic beverages & Tobacco	3.3	3.5	3.1	3.3	4.6	4.9
Clothing & footwear	13.1	4.0	3.7	3.4	2.7	2.6
Housing, electricity gas & other fuels	12.4	1.0	0.0	4.9	7.5	7.6
Furniture, households equipment & routine maintenance	8.5	3.4	3.4	3.3	3.0	3.5
Health	1.5	1.8	1.3	1.1	0.9	0.5
Transport	4.8	1.5	1.3	3.3	3.3	3.0
Communication	2.1	0.0	0.0	0.0	0.0	0.0
Leisure, entertainment & Culture	5.7	0.7	0.6	0.6	0.3	0.8
Education	4.2	4.9	4.9	5.1	5.1	5.1
Restaurant & Hotels	1.0	2.6	2.6	1.2	1.2	1.0
Miscellaneous goods & services	7.3	3.3	3.3	3.1	3.2	3.1

Source: Bureau of Statistics

Lesotho and South African inflation rates recorded decelerated by 90 basis points and 70 basis points from the fourth quarter of 2017, respectively to 4.4 percent and 6.1 percent in the quarter ending in March 2017. At 6.1 percent, the inflation rate for South Africa is still beyond the target band set for the South African Reserve Bank of 3.0 – 6.0 percent. Food prices declined for both Lesotho and South Africa during the review period. The deceleration in food prices for Lesotho and hence the overall inflation rate during the review period was mainly at the back of the subsidy that was implemented by the Government of Lesotho in June 2016 and cheaper imports of maize from South Africa due to declines in food prices.

[1] The weights for the divisions of the overall CPI have been revised and re-weighted to 2016 December.

Figure 13: Lesotho and South Africa's Inflation
(Percentages)



Source: Bureau of Statistics, Statistics South Africa

4. Monetary and Financial Developments

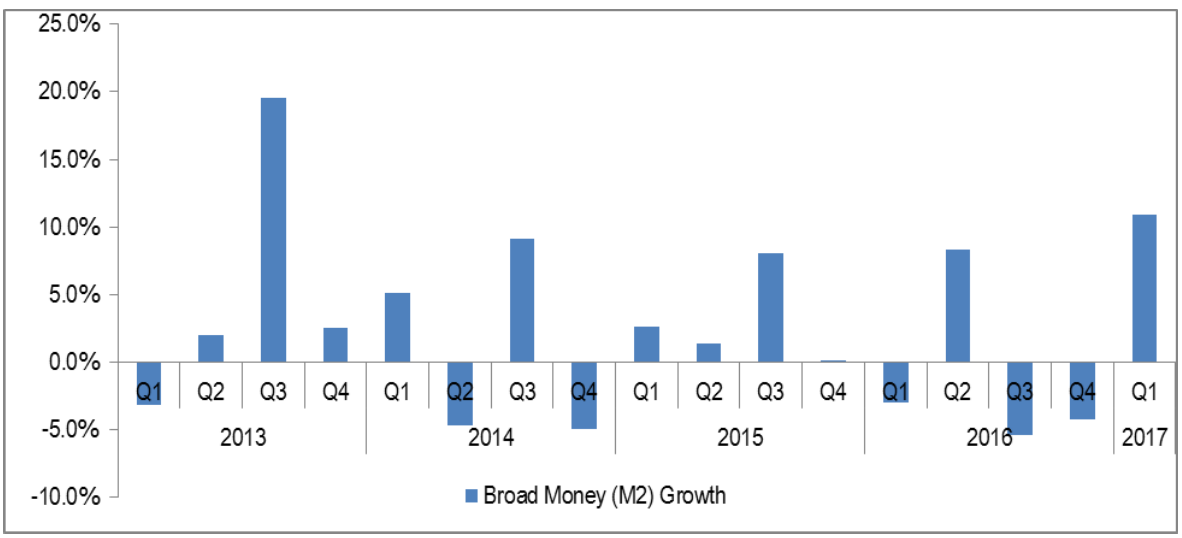
OVERVIEW

During the review quarter, money supply increased by 10.9 per cent, compared to a 4.2 per cent decline registered in the preceding quarter. This development was driven by a rise in domestic claims that outweighed a decline realised in Net Foreign Assets (NFA). The growth in domestic claims was mainly attributable to the contraction in government deposits with central bank, coupled with a moderate rise in private sector credit. The decline in overall NFA was mainly on account of a fall in Central Bank's NFA following drawdown of government deposits, notwithstanding an increase in commercial banks' NFA. With regard to components of broad money, both the narrow money and the quasi money recorded an increase in the current quarter. In terms of the credit extended to business sector, mining, real estate and services, and manufacturing continued to attain the largest shares during the review period.

BROAD MONEY (M2)

Contrary quarter ending December 2016, money supply grew significantly during the first quarter of 2017. Overall, money supply increased by 10.9 per cent during the first quarter of 2017, from a contraction of 4.2 per cent in the quarter ending December 2016. This escalation was driven by growth in domestic claims that over shadowed a modest decline in Net Foreign Assets (NFA).

Figure 14: Broad Money (M2)



Source: Central Bank of Lesotho

Determinants of M2

Domestic Claims

Domestic claims, including net claims on government, increased by 53.4 per cent in March 2017, relative to an increase of 14.5 per cent registered in December 2016. This was mainly on account of expansion in net claims on government, following drawdown in government deposits with the Central Bank, coupled with an increase in both the claims on other sectors and private sector credit. Growth in claims on other sectors was underpinned by revaluation gains on shares held by domestic banks as well as credit extended to telecommunications sector while private sector credit was driven largely by growth in credit extended to business enterprises.

Table 4: Domestic Claims *(Million Maloti: End Period)*

	2016				2017	Changes (%)	
	Mar	**June**	**Sept**	**Dec**	**Mar**	**Annual**	**Quarterly**
Domestic Claims	**1626.84**	**2158.58**	**2759.69**	**3160.32**	**4848.19**	**198.0**	**53.4**
Net Claims on Government	**-3972.47**	**-3497.51**	**-2978.80**	**-2584.01**	**-1367.76**	**-65.6**	**-47.1**
Commercial Banks Net Claims	**799.51**	**810.94**	**829.84**	**824.41**	**829.95**	**3.8**	**0.7**
Claims on Central Government	850.15	843.52	855.48	846.96	847.05	**-0.4**	**0.0**
Liabilities to Central Government	50.64	32.58	25.64	22.55	17.09	**-66.2**	**-24.2**
Central Bank Net Claims	**-4771.97**	**-4308.45**	**-3808.64**	**-3408.41**	**-2197.71**	**-53.9**	**-35.5**
Claims on Central Government	1034.41	1046.02	981.15	1106.94	1072.47	**3.7**	**-3.1**
Liabilities to Central Government	5806.38	5354.46	4789.80	4515.35	3270.18	**-43.7**	**-27.6**
Claims on Other Sectors	**5599.30**	**5656.09**	**5738.49**	**5744.32**	**6215.95**	**11.0**	**8.2**
Claims on OFCs	79.81	84.10	80.94	79.67	325.60	**308.0**	**308.7**
Claims on Public Nonfinancial Corporations	0.00	0.00	0.00	0.00	48.70		
Claims on St &Local Government	0.00	0.00	0.00	0.00	0.00		
Claims on Private Sector	**5519.49**	**5571.99**	**5657.55**	**5664.65**	**5841.66**	**5.8**	**3.1**
Claims on Business Enterprises	2097.13	2196.70	2148.75	1966.75	2102.46	**0.3**	**6.9**
Claims on Households	3422.36	3375.29	3508.80	3697.90	3739.20	**9.3**	**1.1**

Source: Central Bank of Lesotho

Net Foreign Assets

During the review period, there was a decrease in overall banking system Net Foreign Assets (NFA) similar to the previous quarter. Overall, the banking system NFA fell by 0.8 per cent in the current quarter, following a 5.9 per cent decline in the previous quarter. This was attributed to a 7.5 per cent decline in Central Bank NFA, notwithstanding a growth of 22.5 per cent in commercial banks NFA. Central Bank's NFA declined mainly to financing of government deficit while commercial banks'

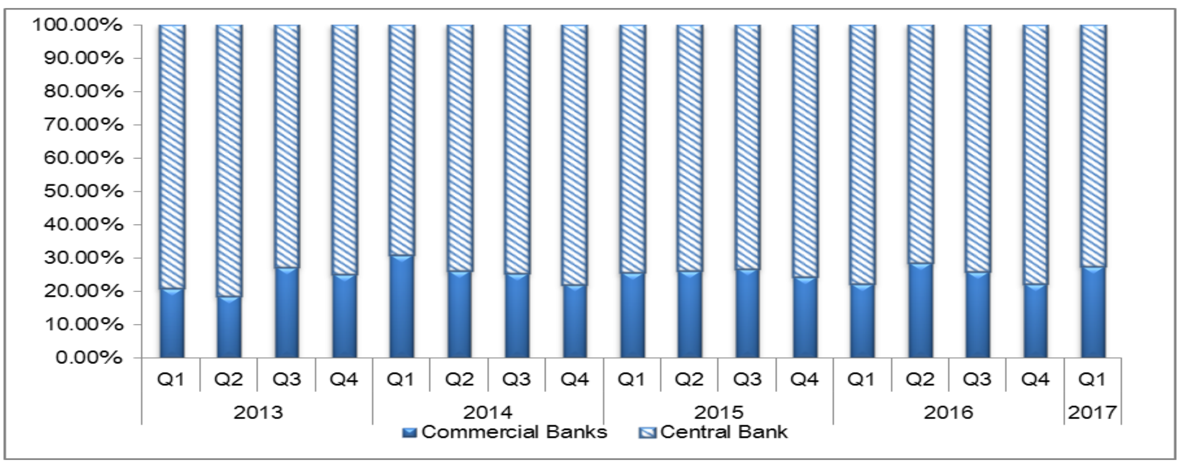
NFA was boosted by increased placements of deposits mostly in SA money markets, following growth in deposits as credit extension growth remained sluggish.

Table 5: Net Foreign Assets *(Million Maloti: End Period)*

	2016				2017	Changes (%)	
	March	June	Sept	Dec	Mar	Annual	Quarterly
Commercial Banks	**3527.63**	**4594.25**	**3680.96**	**2992.48**	**3666.75**	**3.9**	**22.5**
Claims on Non-residents	3873.12	4895.02	4041.09	3330.04	4057.79	**4.8**	**21.9**
Liabilities to Non-residents	345.49	300.76	360.13	337.55	391.04	**13.2**	**15.8**
Central Bank	**12267.04**	**11507.86**	**10534.13**	**10381.89**	**9601.58**	**-21.7**	**-7.5**
Claims on Non-residents	13983.68	13233.44	12152.53	11920.42	11155.31	**-20.2**	**-6.4**
Liabilities to Non-residents	1716.64	1725.58	1618.41	1538.53	1553.73	**-9.5**	**1.0**
Net Foreign Assets Total	**15794.67**	**16102.11**	**14215.08**	**13374.37**	**13268.33**	**-16.0**	**-0.8**

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. Broad money increased by 10.9 per cent in March 2017 against a 4.2 per cent fall registered during the previous quarter. This development was due to 7.8 per cent increase in M1 relative to a slight growth of 0.1 per cent in December 2016. The increase in M1 was mainly ascribed to a rise in transferable deposits, following an increase in government spending through domestic banking system. Quasi Money also expanded by 14.1 per cent and was predominately driven by a rise in other deposits with commercial banks. This owes to deposits made into commercial banks by public non-financial corporations and private sectors.

Table 6: Components of Money Supply *(Million Maloti: End Period)*

	2016				2017	Changes (%)	
	March	June	Sept	Dec	Mar	Annual	Quarterly
Broad Money (M2)	**9829.38**	**10646.59**	**10069.99**	**9644.19**	**10692.01**	**8.8**	**10.9**
Narrow Money (M1)	**4926.98**	**5206.05**	**4870.73**	**4875.62**	**5253.55**	**6.6**	**7.8**
Currency Outside DCs	907.17	907.06	940.02	943.02	934.51	**3.0**	**-0.9**
Transferable Deposits	4019.81	4298.99	3930.72	3932.60	4319.04	**7.4**	**9.8**
Quasi Money	**4902.39**	**5440.54**	**5199.26**	**4768.57**	**5438.45**	**10.9**	**14.0**
Other Deposits Commercial Banks	4850.30	5385.45	5144.79	4718.59	5391.06	**11.1**	**14.3**
Other Deposits Central Bank	52.10	55.09	54.47	49.98	47.40	**-9.0**	**-5.2**

Source: Central Bank of Lesotho

CREDIT EXTENSION

Trends of Credit Extended to Business Enterprises

Credit extended to business sector increased by 6.5 per cent during the period under review, following a fall of 8.5 per cent in the previous quarter. In particular, mining and manufacturing sectors recorded the biggest expansion in credit. Credit extended to mining sector was largely meant to support production whereas credit extended to manufacturing was boosted by credit extended to clothing and textiles as well as food and beverages sub-sectors. For the third time in a row, Agriculture sector recorded an increase in credit despite the observed trend of small share on total credit extended to business enterprises. This trend is worth monitoring given the importance of Agriculture in the real economy.

Table 7: Credit Extension by Economic Activity (Million Maloti)

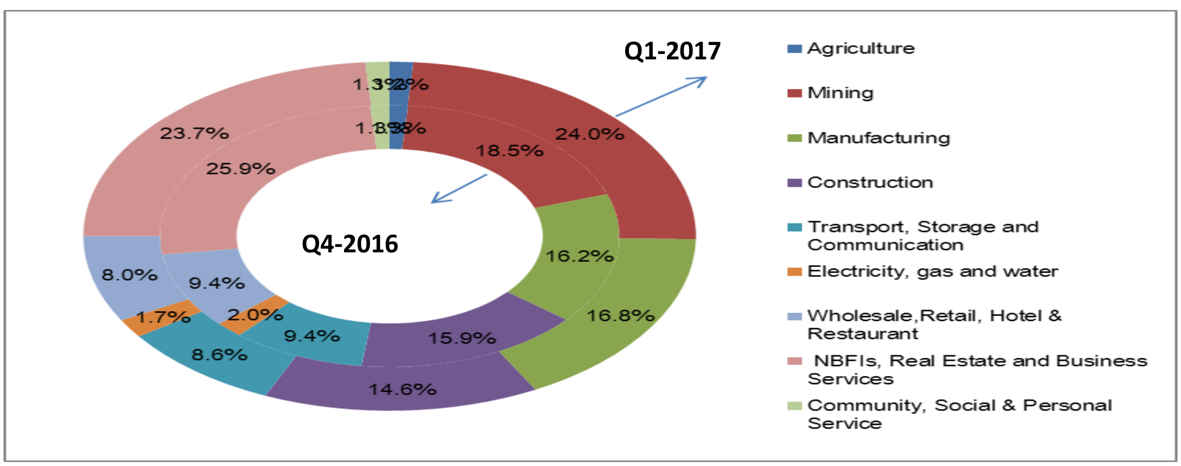
	2016				2017	Changes (%)	
SECTOR	**March**	**June**	**Sept**	**Dec**	**Mar**	**Annual**	**Quarterly**
Agriculture	23.21	20.34	24.58	25.31	26.20	**12.9**	**3.5**
Mining	397.53	414.73	432.56	363.84	504.98	**27.0**	**38.8**
Manufacturing	433.99	428.66	413.44	319.40	354.10	**-18.4**	**10.9**
Electricity, gas and water	32.80	31.97	39.69	38.53	36.55	**11.4**	**-5.1**
Construction	263.28	289.91	284.43	313.50	305.92	**16.2**	**-2.4**
Wholesale, Retail, Hotel & Restaurant	154.60	146.92	165.74	185.65	168.13	**8.8**	**-9.4**
Transport, Storage and Communication	297.74	274.97	171.98	184.69	180.84	**-39.3**	**-2.1**
NBFIs, Real Estate and Business Services	469.48	567.82	594.09	509.46	499.07	**6.3**	**-2.0**
Community, Social & Personal Service	24.51	21.36	22.22	26.38	26.68	**8.9**	**1.2**
All Sectors	**2097.12**	**2196.70**	**2148.75**	**1966.75**	**2102.46**	**0.3**	**6.9**

Source: Central Bank of Lesotho

Distribution of credit Extended to Business Enterprises

In regard to distribution of credit extended to business enterprise, mining, real estate and business services, and manufacturing continued to attain the largest shares of 24 per cent, 23.7 per cent and 16.8 per cent respectively. In comparison to the previous quarter, a significant increase is observed in the mining sector, while the manufacturing sector registered a mild increase. Real estate and business services continue to enjoy a large share of credit extended to business enterprises regardless of the decline noticed in the first quarter of 2017.

Figure 16: Distribution of Credit *(Percentage Shares)*

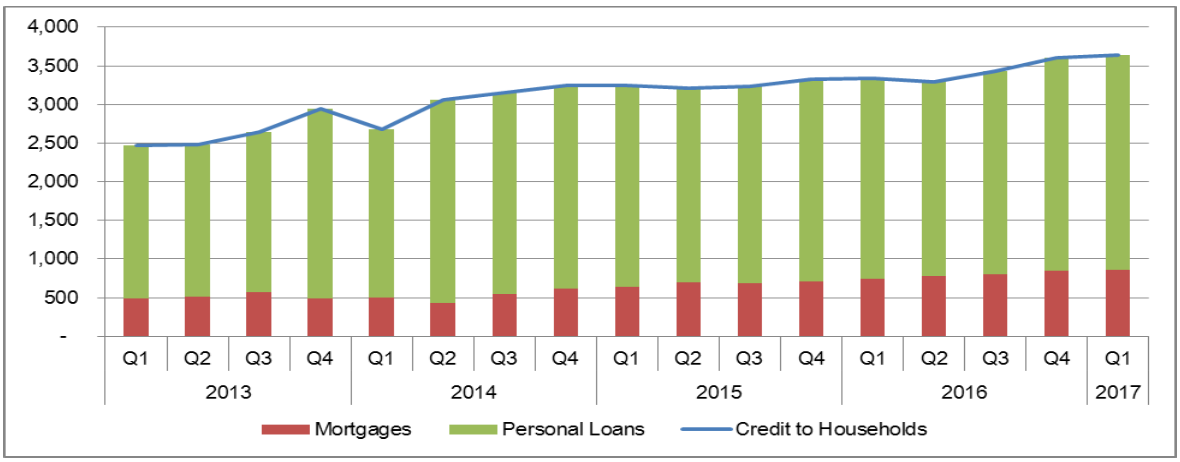


Source: Central Bank of Lesotho

Credit extended to Households

Credit extended to households increased at a decreasing rate of 1.1 per cent in the first quarter of 2017 compared to 5.4 per cent growth realized in fourth quarter of 2016. This development was due to an increase of 1.9 per cent in mortgage loans and a moderate increase of 0.7 per cent in personal loans. The increase in mortgage loans was on account of new home loans (as banks continue to favour asset based loans), whereas the sluggish growth in personal loans is reflective of conservative attitude of banks towards unsecured lending.

Figure 17: Credit Extension to Household *(Million Maloti)*



Source: Central Bank of Lesotho

LIQUIDITY OF COMMERCIAL BANKS

Components of liquidity

Credit to deposit ratio declined to 59.2 per cent in March 2017 from 64.6 per cent in December 2016. This was due to a 12.2 per cent increase in total deposits that outweighed a moderate growth of 3.1 per cent in private sector credit. The rise in total deposits, mainly as a result of increased government spending, led to an increase of 41.2 per cent in local banks deposits in South Africa as credit growth remained muted during the review period. Consequently, liquidity ratio increased to 74.3 per cent, from 72.4 per cent in December 2016. This increase was also driven by a growth of more than 100 per cent in surplus funds.

Table 8: Components of Liquidity *(Million Maloti)*

	2016				2017
	Mar	June	Sept	Dec	Mar
Credit to Deposit Ratio	**61.4%**	**56.7%**	**61.5%**	**64.6%**	**59.2%**
Private Sector Credit	5442.59	5495.21	5579.90	5584.59	5752.01
Total Deposits	8870.10	9684.43	9075.50	8651.19	9710.10
Liquidity Ratio	**89.4%**	**86.0%**	**77.0%**	**72.4%**	**74.3%**
Notes and Coins	375.41	349.94	361.15	582.42	411.35
Balance due from banks in Lesotho	3139.31	2577.87	2043.77	2127.76	1922.62
Balance due from banks in SA	3284.10	4501.12	3725.30	2533.81	3577.09
Surplus funds	284.96	55.32	5.08	170.39	461.26
Government Securities	850.15	843.52	855.48	846.96	847.05
Total	**7933.93**	**8327.78**	**6990.78**	**6261.34**	**7219.36**

Source: Central Bank of Lesotho

Commercial Banks Sources of Funds

The main sources of funds for commercial banks are deposits which comprise of transferable and other deposits. Transferable deposits included in broad money increased by 9.8 per cent in March 2017 as opposed to a muted increase of 0.05 per cent in December 2016. Other deposits included in broad money also increased by 14.2 per cent, compared to a decline of 8.3 per cent in December 2016. The developments in both the transferable and other deposits benefited from public nonfinancial corporations and private sector injections; with much share form private sector.

Table 9: Sources of funds for ODCs *(Million Maloti)*

	2016				2017	Changes	
	Mar	June	Sept	Dec	Mar	Annual	Quarterly
Transferable Deposits Incl. in BM	**4019.81**	**4298.99**	**3930.72**	**3932.60**	**4319.04**	**7.4%**	**9.8%**
Other Financial Corporations	38.28	65.19	30.68	38.29	61.53	**60.7%**	**60.7%**
Public Nonfinancial Corporations	44.82	33.92	29.76	17.25	81.56	**82.0%**	**372.8%**
Private Sector	3918.75	4181.92	3852.31	3859.10	4157.99	**6.1%**	**7.7%**
Other NFCs	2577.72	2734.49	2528.86	2299.58	2215.67	**-14.0%**	**-3.6%**
Other Sectors (Households)	1341.03	1447.44	1323.45	1559.52	1942.31	**44.8%**	**24.5%**
Other Deposits Incl. in BM	**4850.30**	**5385.45**	**5144.79**	**4718.59**	**5391.06**	**11.1%**	**14.3%**
Other Financial Corporations	1.96	120.78	97.70	75.14	90.94	**4538.4%**	**21.0%**
Public Nonfinancial Corporations	205.51	231.33	173.38	94.45	419.75	**104.3%**	**344.4%**
Private Sector	4642.83	5033.33	4873.70	4549.00	4880.37	**5.1%**	**7.3%**
Other NFCs	2974.01	3571.34	3423.29	3022.96	3161.99	**6.3%**	**4.6%**
Other Sectors (Households)	1668.82	1462.00	1450.41	1526.04	1718.38	**3.0%**	**12.6%**
Total Deposits	**8870.10**	**9684.43**	**9075.50**	**8651.19**	**9710.10**	**9.5%**	**12.2%**

Source: Central Bank of Lesotho

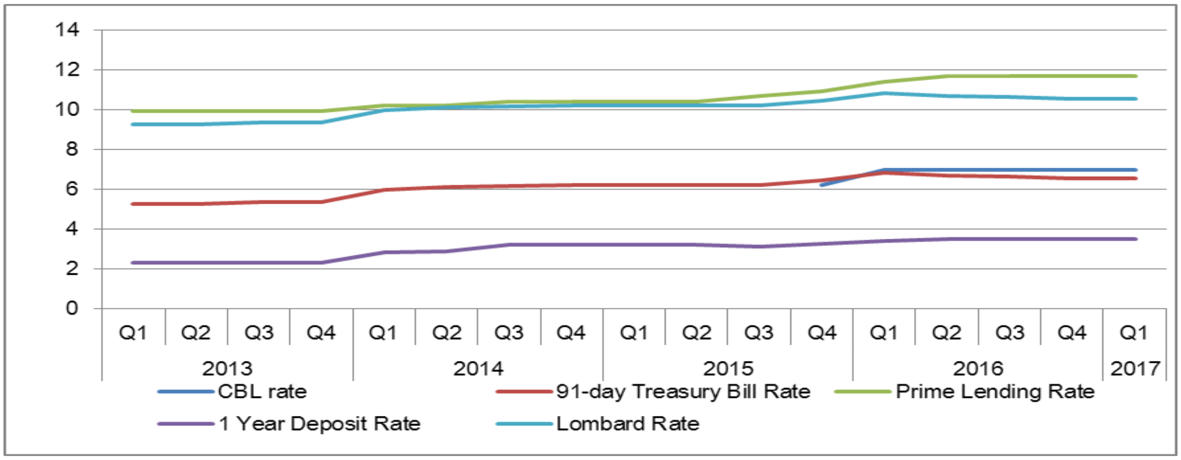
MONEY AND CAPITAL MARKET DEVELOPMENTS

Money Market

Interest Rates

The CBL rate remained constant at 7.0 per cent between fourth quarter of 2016 and first quarter of 2017. Commercial bank prime lending rate also remained stable at an average of 11.69 per cent from December 2016 to March 2017. There were no changes to the 1 year deposit rate that stood at 3.52 per cent during the same period. The 91-day Tbill rate slightly declined from 6.58 per cent in December 2016 to 6.57 per cent in March 2017.

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



Source: Central Bank of Lesotho

Table 10: Interest rates

	2016				2017
	Mar	**Jun**	**Sept**	**Dec**	**Mar**
Central Bank					
CBL rate	7	7	7	7	7
T-Bill Rate - 91 days	6.86	6.69	6.64	6.58	6.57
Lombard Rate	10.86	10.69	10.64	10.58	10.57
Commercial Banks					
Call	1.74	1.82	1.19	1.19	1.19
Time:					
31 days	0.41	0.44	0.44	0.44	0.44
88 days	1.09	1.12	1.11	1.12	1.12
6 months	2.44	2.53	2.52	2.53	2.53
1 year	3.43	3.52	3.52	3.52	3.52
Savings	0.55	0.56	0.56	0.56	0.56
Prime	11.44	11.69	11.69	11.69	11.69
South Africa					
Repo	7.00	7.00	7.00	7.00	7.00
T-Bill Rate - 91 days	7.10	7.19	7.36	7.61	7.29
Marginal Lending Rate					
Prime	10.5	10.5	10.50	10.50	10.50

Source: Central Bank of Lesotho

Holding of Treasury Bills and T-Bill rates

The overall holding of treasury bills moderately declined by 0.4 per cent in the quarter under review, compared to a slight increase of 0.8 per cent observed in the last quarter of 2016. The major source of the decline was a reduced holding of treasury bills by the banking system of 5.7 per cent compared to an increase of 2.1 per cent realized in December 2016; irrespective of an increase of 9.5 per cent in holding of T-bills by Non-Bank Sector. The 91 days yield rate declined by 1 basis point, from 6.69 per cent in the preceding quarter to 6.68 per cent in March 2017.

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

	2016				2017
	Mar	**Jun**	**Sept**	**Dec**	**Mar**
Treasury Bills	**592.48**	**598.39**	**601.59**	**606.36**	**603.87**
Banking System	394.7	393.49	387.23	395.20	372.64
Non-Bank Sector	197.78	204.90	214.36	211.16	231.27
Memorandum Item					
Yield Bills (91-days)	7	6.80	6.75	6.69	6.68

Source: Central Bank of Lesotho

Holding of Treasury Bonds and T-Bonds Rates

The holding of treasury bonds increased by 2.3 per cent in March 2017, relative to an increase of 2.8 per cent observed in December 2016. This increase was driven by an increased holding of treasury bonds by both the banking and non-bank sector of 1.1 per cent and 4.7 per cent respectively.

Table 12: Holding of Bonds *(Million Maloti)*

	2016				2017
	Mar	Jun	Sept	Dec	Mar
Holding of Treasury Bonds	**681.79**	**681.85**	**714.50**	**734.50**	**752.50**
Banking System	471.70	472.19	469.48	466.00	471.29
Non-Bank Sector	210.09	209.65	245.03	268.50	281.21

Source: Central Bank of Lesotho

The holding of treasury bonds during the review period comprised the 7 year treasury bonds and the 10 year treasury bonds, with the maturity date ranging from 2017 to 2025.

Table 13: Treasury bonds Maturity Dates and Coupon

ISIN[2]	Maturity Date	Coupon rate	Tenure
LSOOOA1GZ7WO	2019/02/13	8.50	7 years
LS000A1Z8458	2022/10/11	8.00	7 years
LS000A1Z8466	2025/10/07	9.00	10 years
LS000A1GR838	2021/06/22	10.00	10 years

Source: Central Bank of Lesotho

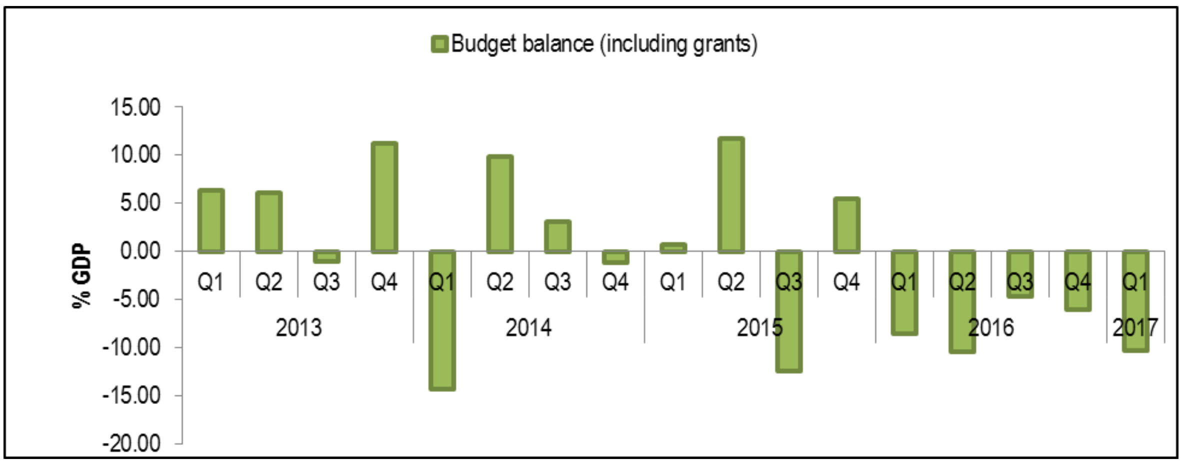
[2] International Securities Identification Number

5. Government Finance

OVERVIEW

The budget balance has continuously been registering quarterly fiscal deficits since the first quarter of 2016 due to declining revenues and increasing expenditures. The first quarter of 2017 registered a deficit equivalent to 10.2 per cent of GDP compared with a deficit of 6.0 per cent of GDP during the quarter ending December, 2016. This deficit was mainly financed by drawdown of Government deposits (M1,24 billion) coupled with a marginal increase in the new debt (including Treasury bonds of M17.00 million). The public debt stock recorded M12.70 billion during the quarter under review which is down from the revised M12.80 billion in the fourth quarter of 2016. This situation has reflected, since the first quarter of 2013, the lowest ratio of 34.9 per cent of GDP during the review quarter compared with 40.4 per cent in the previous quarter. The decline in the stock of public debt was attributable to appreciation of Loti[3] relative to major foreign currencies in which debt was denominated.

Figure 19: Fiscal Balance *(Per cent of GDP)*



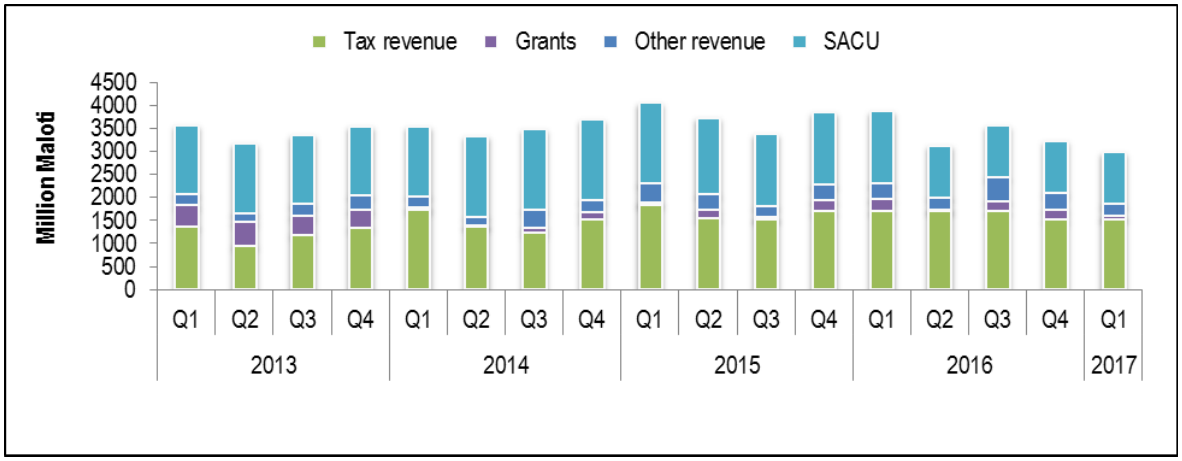
Source: Central Bank of Lesotho (CBL) and Ministry of Finance (MOF)

REVENUE

The total revenue decreased by 7.7 per cent in the quarter ending March, 2017 relative to a revised decline of 9.3 per cent in the quarter ending December, 2016. Apart from an increase in tax revenue, and in particular excise taxes, other components of revenue declined significantly. These other components of revenue include 'capital grants from international organisations' and 'other revenue' which dropped by 72.9 per cent and 30.6 per cent, respectively. The fall in the 'other revenue' component was driven by the decline in dividends and water royalties emanating from LHWP Phase I. The SACU receipts, as another component of revenue, remained constant.

[3] It refers to period-end exchange rate

Figure 20: Total Revenue *(Million Maloti)*

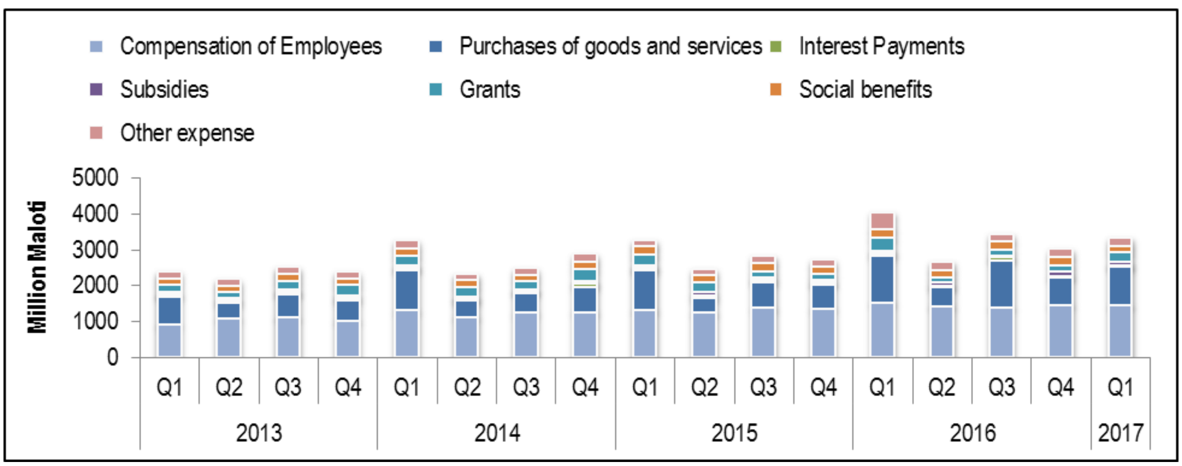


Source: CBL and MOF

TOTAL EXPENDITURE

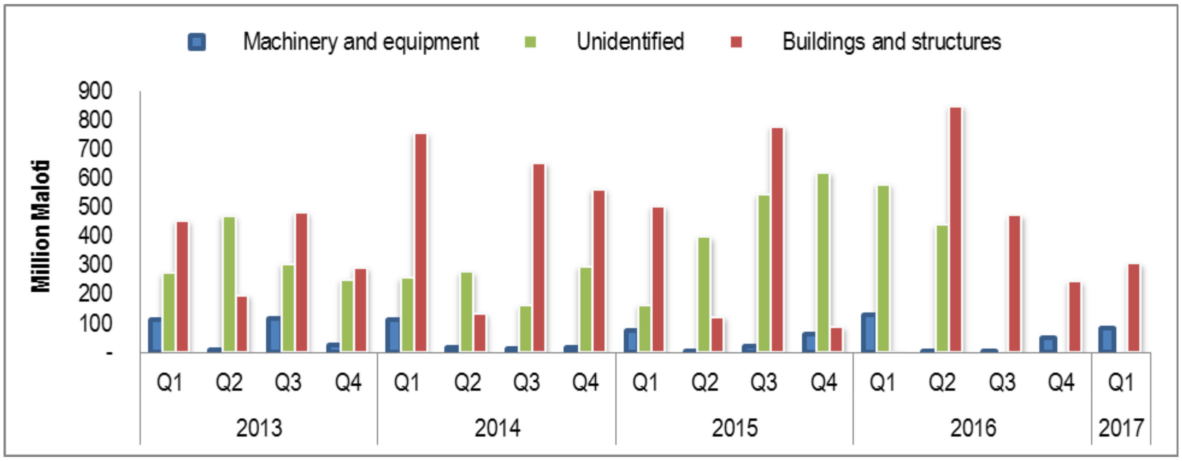
The spending of the Government comprised of recurrent expenditures (expenses) and capital spending (non-financial assets). It increased by 5.5 per cent during the quarter under review compared to a fall of 5.6 per cent in the previous quarter. The rise in spending was driven by an increase of 9.3 per cent in the expenses that overshadowed the fall of 12.5 per cent in non-financial assets. The rise in expenses was mainly due to 'purchases of goods and services' which included the cost of 2017 national elections, and spending on grants to extra-budgetary units. In terms of spending on non-financial assets, the dwellings, non-residents buildings and transport equipment contributed to a fall in this category.

Figure 21: Total Expense *(Million Maloti)*



Source: CBL and MOF

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



Source: CBL and MOF

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

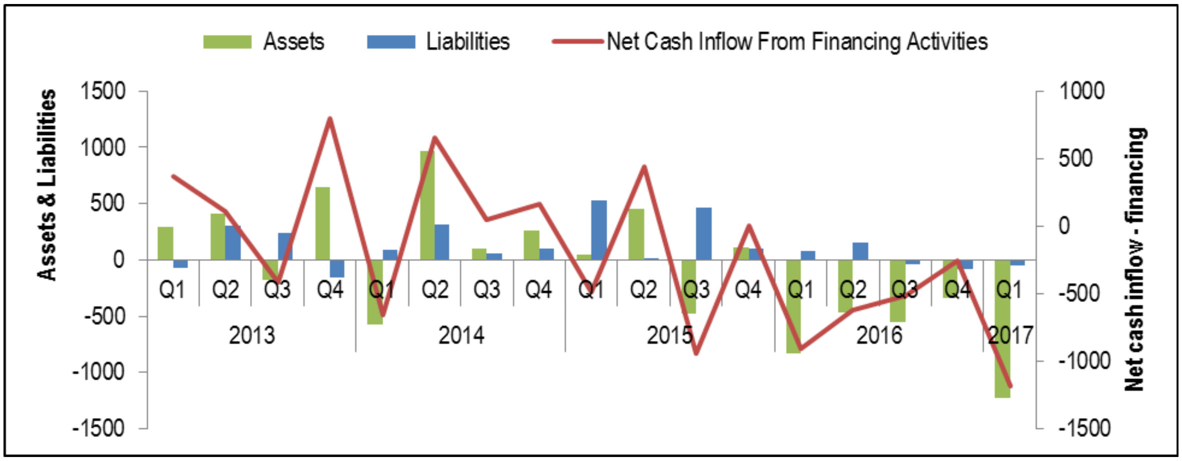
				2016	2017	Q-to-Q	GDP
	Q1	Q2	Q3	Q4	Q1	(%)	(%)
Total Revenue	**3,882.44**	**3,141.68**	**3,570.01**	**3,239.74**	**2,988.66**	**-7.7**	**32.9**
Tax revenue	1,723.43	1,718.94	1,706.83	1,523.48	1,540.75	1.1	16.9
Grants	252.55	27.16	228.20	209.55	56.66	-73.0	0.6
Other revenue	329.40	265.84	505.24	376.96	261.50	-30.6	2.9
SACU receipts	1,577.06	1,129.74	1,129.74	1,129.74	1,129.74	0.0	12.4
Total Expense	**4,057.01**	**2,679.58**	**3,460.03**	**3,061.56**	**3,346.65**	**9.3**	**36.8**
Compensation of Employees	1,534.29	1,442.08	1,399.57	1,472.49	1,451.09	-1.5	16.0
Purchases of goods and services	1,302.11	510.41	1,312.40	752.16	1,074.62	42.9	11.8
Interest Payments	81.44	48.77	90.64	52.50	30.17	-42.5	0.3
Subsidies	67.04	83.53	39.96	117.15	111.48	-4.8	1.2
Grants	359.91	156.48	158.84	182.70	272.88	49.4	3.0
Social benefits	234.63	208.49	255.33	238.57	182.09	-23.7	2.0
Other expense	477.59	229.81	203.29	216.03	224.33	3.8	2.5
Net Cash Inflow From Operating Activities	**-174.57**	**462.10**	**109.98**	**178.18**	**-357.98**	**-**	**-3.9**
Total Nonfinancial Assets	**502.00**	**1,290.59**	**475.53**	**654.90**	**573.10**	**-12.5**	**6.3**
Fixed Assets	502.00	1,290.59	475.53	654.90	573.10	-12.5	6.3
Non-Produced Assets	0.00	0.00	0.00	0.00	0.00	0.0	0.0
Cash deficit(-)/surplus(+)	**-676.57**	**-828.49**	**-365.55**	**-476.72**	**-931.08**	**-**	**-10.2**
Net Cash Inflow From Financing Activities	**908.02**	**623.97**	**514.41**	**252.30**	**1,182.14**	**-**	**13.0**
Net Acquisition of Financial assets	831.34	469.98	556.61	337.38	1,228.04	-	13.5
Net Incurrence of Liabilities	76.67	154.00	-42.20	-85.08	-45.90	-	-0.5
Statistical Discrepancy	231.45	-204.52	148.86	-224.42	251.06	-	2.8

Source: CBL and MOF

FINANCIAL ASSETS AND LIABILITIES

The 'net cash inflow from financing activities' recorded a fall of M1.18 billion during the first quarter of 2017 compared to M337.38 million in the previous quarter. This decline was mainly as a result of a fall in the 'currency and deposits' category amounting to M1.25 billion coupled with a fall in the net liabilities to the tune of M45.90 million. Thus, the net foreign liabilities declined by M76.06 million while the domestic ones increased by M30.16 million (constituting mainly securities held by non-bank entities).

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

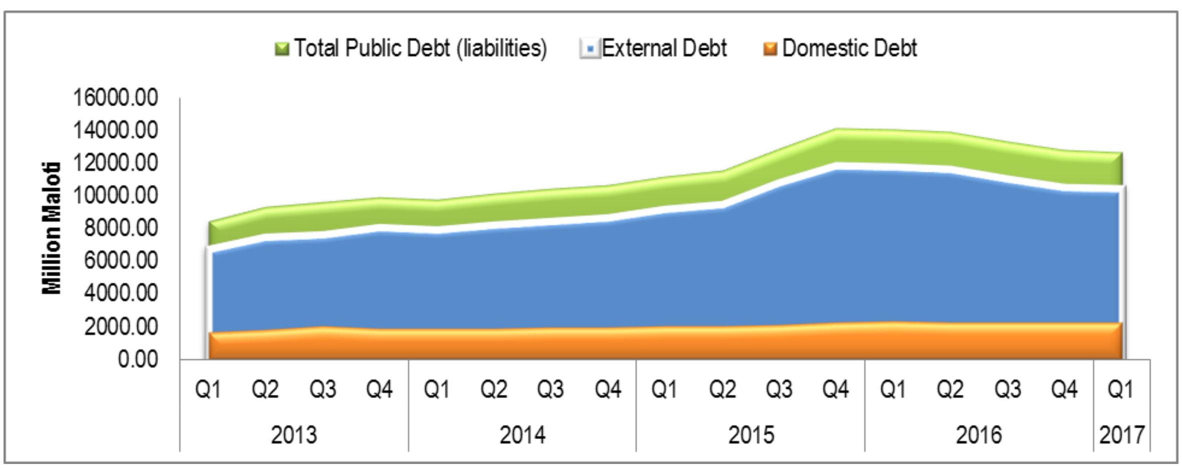


Source: CBL and MOF

TOTAL PUBLIC DEBT

The public debt comprises 82.3 percentage share of external debt and domestic debt stock taking the remaining share. It fell by 0.7 per cent in the first quarter of 2017 compared with 3.9 per cent decline in the quarter ending December, 2016. The decline in the stock of public debt was driven by the exchange rate appreciation. The external debt stock consists of multilateral external debt stock that contributed 83.6 per cent to the total, and the other components, including bilateral and financial institutions, took 16.3 per cent. The external debt declined by 1.0 per cent during the review quarter compared with the decrease of 4.4 per cent in the previous quarter. The domestic debt increased by 0.6 per cent in the quarter under review relative to a decline of 1.5 per cent in the quarter ending December, 2016. Thus, the securities held by the banking sector declined by 1.1 per cent due to a significant fall (to the tune of M22.51 million) in the short term securities.

Figure 24: Outstanding Public Debt *(Million Maloti)*



Source: CBL and MOF

Table 15: Public Debt Stock *(Million Maloti)*

				2016	2017	Debt / GDP (%)	
	Q1	Q2	Q3	Q4	Q1	Q4-2016	Q1-2017
TOTAL PUBLIC DEBT	**14,107.67**	**13,931.69**	**13,316.86**	**12,798.28**	**12,704.49**	**42.08**	**40.44**
EXTERNAL DEBT	**11,766.64**	**11,639.31**	**11,050.27**	**10,565.70**	**10,459.11**	**33.39**	**28.75**
Bilateral Loans	1,134.78	1,087.30	1,010.67	972.54	962.01	3.07	2.64
Concessional	1,134.78	1,087.30	1,010.67	972.54	962.01	3.07	2.64
Non-concessional	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Multilateral Loans	9,711.89	9,676.59	9,240.23	8,829.73	8,740.93	27.90	24.03
Concessional	8,264.43	7,993.58	7,570.96	7,176.74	7,087.32	22.68	19.48
Non-concessional	1,447.46	1,683.01	1,669.28	1,652.99	1,653.61	5.22	4.55
Financial Institutions	0.64	0.64	0.60	0.60	0.60	0.00	0.00
Concessional	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Non-concessional	0.64	0.64	0.60	0.60	0.60	0.00	0.00
Suppliers' Credit	919.33	874.78	798.76	762.83	755.57	2.41	2.08
DOMESTIC DEBT	**2,341.02**	**2,292.38**	**2,266.59**	**2,232.58**	**2,245.38**	**7.06**	**6.17**
Banks	1,933.10	1,877.82	1,807.20	1,752.92	1,732.93	5.54	4.76
Long-term	1,538.29	1,484.33	1,419.87	1,357.72	1,360.24	4.29	3.74
Treasury bonds	472.04	472.53	469.87	466.39	471.68	1.47	1.30
Central Bank (IMF-ECF)	1,066.26	1,011.80	950.00	891.33	888.56	2.82	2.44
Short-term (t-bills)	394.80	393.49	387.34	395.20	372.69	1.25	1.02
Non-bank	407.93	414.55	459.38	479.66	512.45	1.52	1.41
Short-term (t-bills)	197.78	204.90	214.36	211.16	231.24	0.67	0.64
Long-term (t-bonds)	210.15	209.65	245.02	268.50	281.21	0.85	0.77

Source: CBL and MOF

6. Foreign Trade and Payments

OVERVIEW

The external sector position deteriorated in the first quarter of 2017 reflecting continued net borrowing from the rest of the world, although at the lower rate compared to the previous quarter. The reduction in net borrowing was largely driven by the improvement in the current account and a lower deficit in the financial account balance. The improved current account balance was supported largely by the primary and the secondary income accounts. With regards to the financial account deficit, the improvement was largely attributed to outflows of commercial banks which moderated the decline in official reserves during the review quarter. As a result, a lower overall deficit equivalent to 5.2 per cent of GDP was realised in the quarter ending in March 2017, after a deficit of 11.2 per cent in the quarter ending in December 2016.

CURRENT ACCOUNT

The current account deficit shrank by 27.9 per cent in the quarter ending in March 2017 compared with a deficit expansion of 55.6 per cent in the previous quarter. On a year on year basis, the current account deficit shrank by 28.8 per cent. The improved balance on the current account was mainly influenced by the better performance of the secondary income account, whose surplus expanded during the quarter under review. The improved current account balance was also facilitated by the primary income account, which registered a surplus expansion during the quarter, following a slowdown in surplus in the previous quarter. The reduction in the services account deficit during the same quarter also contributed to the improved current account balance. However, these positive contributions were offset by the poorer performance of the goods account. The goods account deficit expanded during the same quarter, as imports rose by a larger margin than exports, thereby leading to a negative impact on the goods account.

Table 15: Current Account Balance

	2016				2017	% Changes	
	Q1	Q2	Q3	Q4	Q1	Q/Q	Y/Y
Current Account	**-838.20**	**-596.71**	**-531.99**	**-827.99**	**-596.68**	**-27.9**	**-28.8**
(a) Goods	-3183.05	-2361.07	-2665.16	-2552.37	-2609.99	**2.3**	**-18.0**
Merchandise exports, f.o.b.	3223.37	3342.49	3264.99	3104.90	3125.14	**0.7**	**-3.0**
Of which diamonds	981.30	974.21	647.19	576.25	1042.10	**80.8**	**6.2**
Of which textiles & clothing	1491.38	1675.13	1853.02	1797.59	1462.67	**-18.6**	**-1.9**
Of which re-exports	52.66	21.17	56.93	25.07	14.15	**-43.6**	**-73.1**
Other exports	698.03	671.98	707.85	705.99	606.22	**-14.1**	**-13.2**
Merchandise imports, f.o.b.	6406.42	5703.56	5930.15	5657.27	5735.13	**1.4**	**-10.5**
(b) Services	**-978.01**	**-970.78**	**-553.87**	**-986.55**	**-963.48**	**-2.3**	**-1.5**
(c) Primary Income	**1064.50**	**1128.09**	**1111.06**	**1104.14**	**1126.08**	**2.0**	**5.8**
(d) Secondary Income	**2258.37**	**1607.06**	**1575.98**	**1606.80**	**1850.71**	**15.2**	**-18.1**

Source: Central Bank of Lesotho

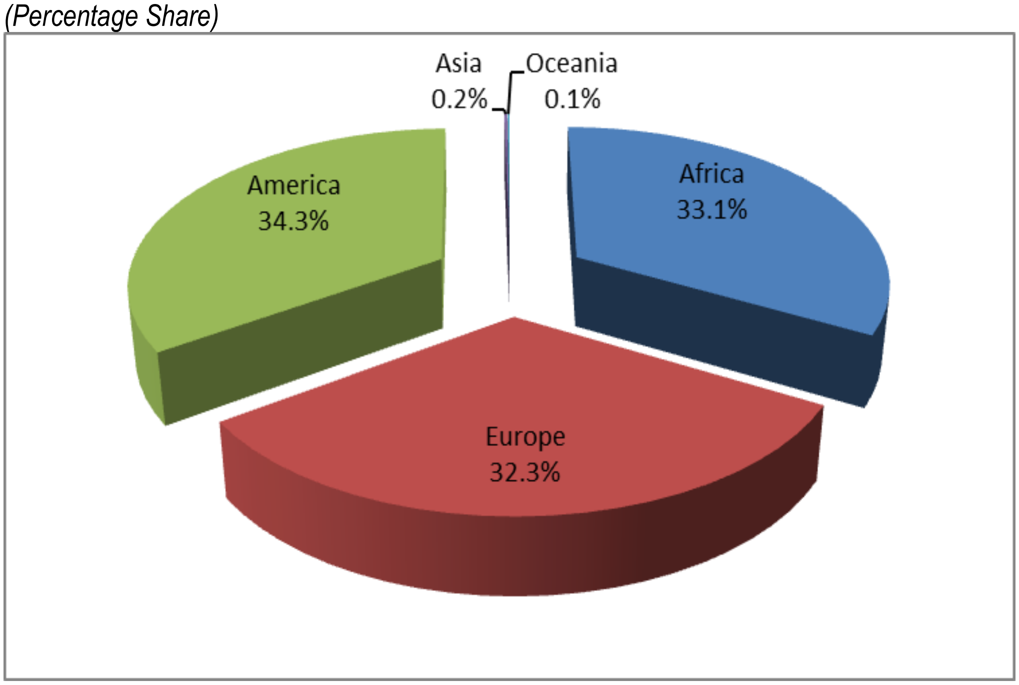
Merchandise Exports

During the quarter under review, the value of merchandise exports rose by 0.7 per cent, picking up from a fall of 4.9 per cent in the previous quarter. The higher value of merchandise exports was mainly a result of the increased value of diamond exports, by approximately 80.8 per cent, compared with the previous quarter. The increase in diamond exports mainly emanated from Liqhobong mine, which began its sales in January 2017 following an expansion project that took place from mid-2014 to October 2016. However, the fall in textiles & clothing exports, re-exports and other exports partly offset the impact of diamond exports on the overall merchandise exports. Textile exports, which take the largest share of Lesotho's exports, were primarily affected by the lower production from enterprises exporting to the SACU region in the quarter under review. Year on year, merchandise exports fell by 3.0 per cent compared with a fall of 9.8 per cent in the previous quarter.

Direction of Trade - Exports

Exports to America outperformed exports to other regions during the quarter under review. The share of exports destined to America rose to 34.3 per cent during the quarter from 31.9 per cent in the previous quarter. Exports destined to Africa closely followed, registering 33.1 per cent, down from 49.1 per cent registered in the previous quarter. Exports to Africa plummeted as exports to the SACU region were severely affected by the fall in textile exports to the South African market, which constitutes the largest share of exports to the SACU region. Europe was the third largest recipient of exports from Lesotho, with a share of 32.3 per cent from a share of 18.4 per cent in the previous quarter. The surge in exports to Europe was attributable to an increase in diamond exports to Belgium, which saw an increase of 80.8 per cent compared to the previous quarter. Oceania and Asia registered the smallest shares of 0.1 and 0.2 per cent respectively.

Figure 25: Direction of Merchandise Exports
(Percentage Share)



Source: Central Bank of Lesotho

Merchandise Imports

The value of merchandise imports rose by 1.4 per cent during the quarter under review, compared with a decline of 4.6 per cent in the previous quarter. The increased value of merchandise imports during the quarter under review reflected an increase in goods imported from South Africa, which constitute the largest share of imports from the SACU region. However, on an annual basis, merchandise imports registered a fall of 10.5 per cent following a decline of 9.7 per cent in the previous quarter.

Services

The deficit on the services account contracted by 2.3 per cent during the quarter under review compared with a revised deficit expansion of 78.1 per cent realised in the quarter ending in December 2016. The improved balance on the services account was supported by higher receipts from the tourism sub-sector coupled with a surge in receipts from the communications sector (telecommunications). Moreover, payments for services abroad, particularly transport and communication declined during the quarter, thus leading to a further contraction of the net services account deficit. On an annual basis, the deficit on the services account contracted by 1.5 per cent during the review quarter, in contrast to an increase of 37.16 in the previous quarter.

Primary Income

The surplus in the primary income account expanded by 2.0 per cent in the quarter ending in March 2017, following a contraction of 0.6 per cent in the previous quarter. The improved performance of the primary income account was largely influenced by higher compensation of employees for Basotho mine workers employed in South African. However, interest receipts paid to the commercial banks and the Central Bank declined and therefore partly offset the compensation of employees' positive contribution towards the primary income account. A reduction in subsidies on products and production also weighed on the primary income account balance, as LHDA receipts for operational costs of phase I of LHWP fell. Year on year, the primary income account registered a 5.8 per cent increase in surplus in the review quarter compared with an increase of 4.1 in the quarter ending in December 2016.

Secondary Income

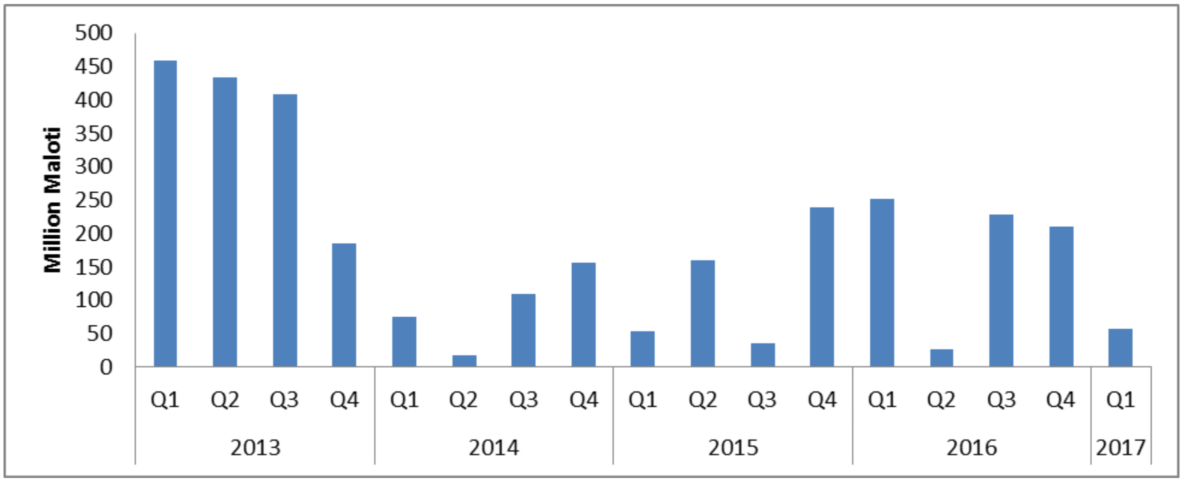
The Secondary income account surplus grew by 15.2 per cent in the quarter ending March 2017, compared with a surplus expansion of 2.0 per cent in the previous quarter. The improved balance on the secondary income account was supported by the higher receipt for the rand compensation which is paid to Lesotho annually for using the rand as legal tender. On the other hand, SACU receipts, which constitute the largest share of current transfers (secondary income account), remained unchanged in the quarter under review. Year on year, the secondary income account registered a surplus contraction of 18.1 per cent, following a decline of 21.0 per cent in the previous quarter.

CAPITAL ACCOUNT

The surplus in the capital account declined during the review period. It registered an inflow equivalent to 0.6 per cent of GDP in the first quarter of 2017, following an inflow of 2.6 per cent of

GDP in the preceding quarter. The decline in the capital account surplus was mainly driven by lower government receipts of foreign grants for financing of government capital projects. This reflected reduced donor support for Lesotho government's projects.

Figure 26: Capital Account
(Million Maloti)

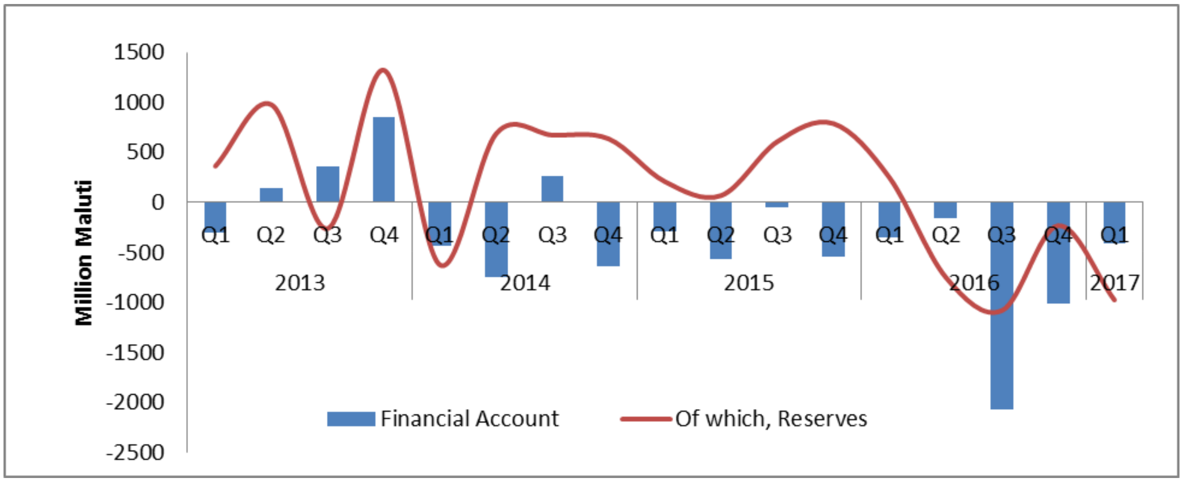


Source: Central Bank of Lesotho

FINANCIAL ACCOUNT

In the first quarter of 2017, the financial account balance deficit narrowed down to an equivalent of 4.5 per cent of GDP compared with a deficit of 12.8 per cent of GDP in the preceding quarter. The observed performance in the financial account reflected a surplus on commercial banks flows, which moderated the impact of falling official reserves during the review period. A decline in official reserves equivalent to 10.7 per cent of GDP largely mirrored the increased import bill during the review period. Commercial banks' foreign assets increase to 8.0 per cent of GDP during the period, against a fall to 9.0 per cent of GDP in the previous quarter. The build-up in foreign assets reflected increased commercial bank's foreign investments as well as placements for foreign obligations of their clients. In contrast, the decline recorded in the previous quarter resulted from increased domestic demand for money to support economic activity.

Figure 27: Financial Account
(Million Maloti)

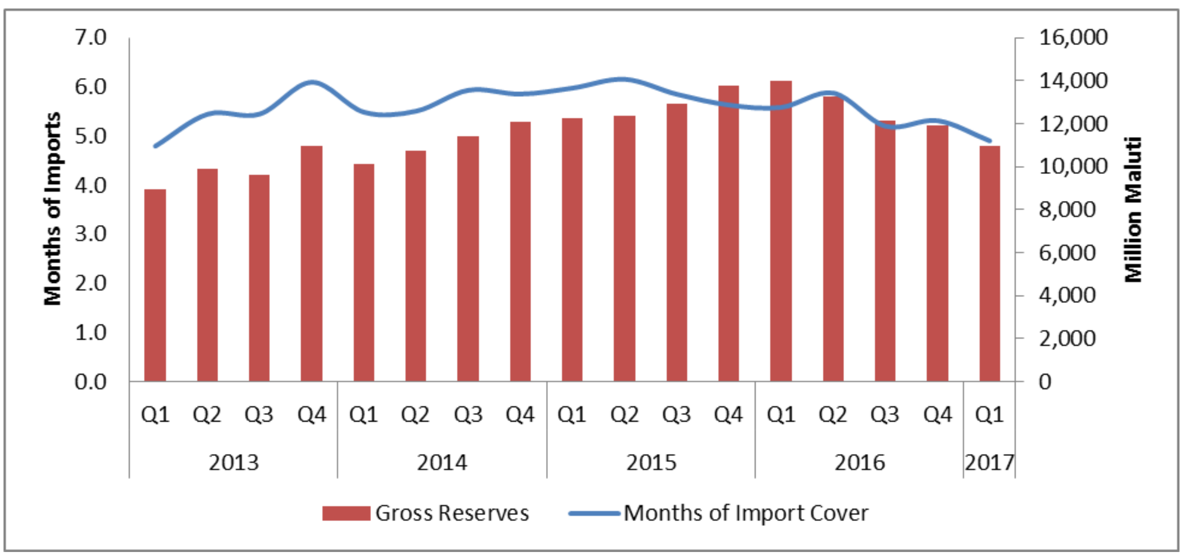


Source: Central Bank of Lesotho

RESERVE ASSETS

The stock of international reserves declined by 8.9 per cent to M10.9 billion in the quarter ending in March 2017, compared with a fall of 1.9 per cent to M11.9 billion in the quarter ending in December 2016. The deterioration in official reserves resulted from a reduction in government deposits coupled with an increase in payments for imports of goods and services during the quarter. As a result, measured in months of import cover, gross official reserves dropped to 4.9 months during the review period from 5.3 months in the previous quarter.

Figure 28: Reserves Assets



Source: Central Bank of Lesotho