

Central Bank of Lesotho



QUARTERLY ECONOMIC REVIEW

December 2020

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1. Executive Summary

Economic activity across the globe continued to fall, albeit at a slower rate during the fourth quarter of 2020. Growth in both the advanced and emerging market economies was greatly affected by the re-imposition of restrictions to curb the coronavirus spread, due to resurgence of second wave of COVID-19 pandemic. Amongst the emerging market economies, China was an exception with growth increasing above 5.0 per cent during the period. On the prices front, inflation declined for most economies. Meanwhile, interest rates were at their lows as central banks across the globe embarked on the expansionary monetary policy to boost support for economic growth. Unemployment rate also dropped as lockdown restrictions were eased during the second quarter of 2020, however it increased in other economies due to second wave restrictions.

The domestic economic activity, as measured by the Composite Indicator for Economic Activity (CIEA) increased by 7.2 per cent in the last quarter of 2020 following an increase of 10.0 per cent in the previous quarter, driven by both domestic demand and production. Labour market conditions worsened, with declines in employment by LNDC-assisted companies, Government of Lesotho and migrant mineworkers in the fourth quarter. Inflationary pressures slowed to 5.7 per cent in December 2020 in comparison to 5.9 per cent September 2020, as the decline in nonfood inflation outweighed the increase in food inflation.

Growth in broadly defined money supply (M2) accelerated in the fourth quarter of 2020 compared to the previous quarter. This resulted from an increase in domestic claims and net foreign assets. Loans and advances extended to the private sector also increased, supported by growth in demand for credit. Short-term interest rates remained stable and aligned to the Central Bank of Lesotho's policy rate, which remained unchanged between the last two quarters of the year.

Government budgetary operations resulted in a fiscal surplus equivalent to 11.7 per cent of GDP during the third fiscal quarter of 2020/21, compared to a revised fiscal deficit of 2.7 per cent of GDP in the second fiscal quarter of 2020/21. The surplus was mainly due to higher government revenue collection compared to the previous quarter. The stock of public debt rose to 69.4 per cent of GDP at the end of December from a revised 69.2 per cent of GDP at the end of the previous quarter.

The external sector position improved to a surplus equivalent to 6.4 per cent of GDP during the last quarter of 2020, following a surplus equivalent to 2.8 per cent of GDP in the preceding quarter. The observed surplus on the external sector mainly emanated from a decline in the current account deficit. The external sector position was further supported higher capital inflows together with increased financial account flows during the quarter under review.

2. International Economic Developments

The global economy continued to contract in the fourth quarter of 2020, albeit at a slower pace compared to the preceding quarter. Economic activity in the advanced economies, was adversely affected by the second wave of COVID-19 pandemic and subsequent lockdowns in the US and Europe. Consumption spending weakened and contact intensive industries were negatively affected. In most emerging economies, output continued to decline during the quarter. In contrast, China's economy experienced a strong recovery and it was the only major economy, which realised growth. The unemployment rate declined in a number of countries following partial reopening of economies however, it was still above pre-crises levels. In other countries, there was a moderate increase in the rate of unemployment, as covid19 emergency measures were re-imposed.

Inflation developments in both advanced and emerging economies were mixed in the fourth quarter of 2020, but it was generally below long-term trends. Domestic consumption was subdued and together with low oil prices dampened inflation, and some countries experienced deflation. The key policy rates were unchanged during the last quarter of 2020. They were maintained at close to zero in the advanced economies, and the asset purchases programs were intensified both in terms of time frame and in terms of volume. In the case of emerging economies, interest rates were at historical lows. The low rates were set as part of expansionary monetary policies, and supplemented by asset purchases programmes in the advanced economies.

Table 1: Key World Economic Indicators

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	Q3 2020	Q4 2020	Q3 2020	Q4 2020	Q3 2020	Q4 2020	Q3 2020	Q4 2020
United States	-2.8	-2.5	1.2	1.4	0.00	0.00	7.9	6.7
Euro Area	-4.3	-5.1	-0.3	-0.3	0.00	0.00	8.3	8.3
Japan	-5.8	-1.2	0.0	-1.2	-0.10	-0.10	3.0	2.9
United Kingdom	-8.6	-7.8	0.5	0.6	0.10	0.10	4.8	5.1
China	4.9	6.5	1.7	0.2	3.85	3.85	5.4	5.2
India	-7.3*	0.2	7.3	4.6	4.00	4.00	N/A	N/A
South Africa	-6.0	N/A	3.0	3.1	3.50	3.50	30.8	32.5

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

*Updated

ADVANCED ECONOMIES

United States (US)

There was a slight improvement in the economic activity in the fourth quarter of 2020 in the US. Real GDP declined at the annual rate of 2.5 per cent, compared to a 2.8 per cent decline in the previous quarter. The decline reflected a contraction in both consumer and public spending. The increase in exports and investment spending moderated the decline in GDP. The unemployment rate fell to 6.7 per cent in the US during the fourth quarter of 2020, from 7.9 per cent in previous quarter. This was in line with economic reopening following lifting of lockdown.

The annual inflation rate rose to 1.4 per cent in the fourth quarter of 2020, from 1.2 per cent in the previous quarter. It was driven mainly by the cost of food and gasoline, which increased during the quarter. The Federal Open Market Committee (FOMC) left the Fed funds rate unchanged at the 0- 0.25 per cent range, in the fourth quarter of 2020. The committee also continued with the expanded asset purchases program, which included the emergency purchases programme. The committee maintained accommodative monetary policy stance to support the economic activity and to limit damage caused by covid19COVID-19 pandemic on the economy.

Euro Area

The decline in the euro Area's economy deepened in the fourth quarter of 2020, relative to the previous quarter. Real GDP contracted by 5.1 per cent, from a decline of 5.0 per cent in the third quarter of 2020. Consumption and investment spending weakened during the quarter, while other sectors remained under pressure. The Euro Area was hit by a resurgence of COVID-19 infections and the uncertainty associated with Brexit. The unemployment rate in the Euro Area was recorded at 8.3 per cent in the quarter ending in December 2020, unchanged from the previous quarter. The annual inflation rate in the Euro Area was recorded at -0.3 per cent during the last quarter of 2020, unchanged from the previous quarter. The decline was driven by energy and non-energy industrial goods prices which continued to fall, but offset by increases in the prices of food, alcohol and tobacco. The European Central Bank kept the key policy rate unchanged at zero per cent during the fourth quarter of 2020. The Bank also maintained the asset purchases program as well as emergency asset purchases program, which was expanded by 500 billion euros. Monetary policy stance was accommodative to support the economy and ensure that inflation increased to the official target in a sustainable manner. The measures taken by the Bank also ensured stability in the region 's financial system.

Japan

The decline in Japan's economic activity moderated in the fourth quarter of 2020. Real GDP contracted by 1.2 per cent year on year in the review quarter, relative to a decline of 5.8 per cent in the third quarter of 2020. The major drivers of the observed improvement were investment spending, exports and public spending, while consumer spending improved slightly during the quarter. The unemployment rate fell to 2.9 per cent in the last quarter of 2020, from 3.0 per cent in the third quarter of 2020. It was driven by easing of strict lockdown measures, as more workers were reengaged.

There continued to be deflation in Japan during the fourth quarter of 2020, as prices fell by 1.2 per cent from zero per cent in the previous quarter. The decline was driven by the fall in the prices of food, utilities, transport and communications. The Bank of Japan kept the key policy rate unchanged at -0.1 per cent in the fourth quarter of 2020. The Bank continued with the yield curve control and asset purchases program to lower long term interest rates. On top of these tools, the Bank expanded the program to mitigate the effects of COVID-19 on the economy and financial stability. The Bank's monetary policy stance was accommodative in line with supporting economic activity and driving inflation rate to the official target rate of 2 per cent.

United Kingdom (UK)

The UK's economy continued to shrink in the fourth quarter of 2020. Real GDP contracted at an annual rate of 7.8 per cent, improving slightly from a decline of 8.7 per cent in the third quarter of 2020. There was a decline in consumption and investment spending as well as exports. This offset the positive impact of increased public investment on the economy. The unemployment rate increased to 5.1 per cent in the fourth quarter of 2020, from 4.8 per cent in the third quarter of 2020. This occurred as the UK re-imposed partial lockdowns to curb the spread of new variant of COVID-19 virus.

The inflation rate increased to 0.6 per cent year on year during the fourth quarter of 2020, from 0.5 per cent in the preceding quarter. Inflation was driven by the costs of transport, clothing and footwear as well as recreation and culture. Bank of England left the key policy rate unchanged at 0.1 per cent in the fourth quarter of 2020, and also expanded its asset purchases program to 875 billion pounds. The stance was taken to support the economy and ensure inflation increased to the official target of 2 per cent.

EMERGING MARKET ECONOMIES

China

The pace of China's economic recovery gathered momentum in the fourth quarter of 2020. Real GDP grew at an annual rate of 6.5 per cent during the quarter under review, following an increase of 4.9 per cent in the fourth quarter of 2020. Growth was driven by increased manufacturing output, exports, consumption and investment spending. The unemployment rate for China fell to 5.2 per cent in the fourth of 2020, from 5.4 per cent in the previous quarter. The decline in the rate of unemployment was in line with the strong recovery in the economic activity.

The annual inflation rate for China rose to 0.2 per cent during the fourth quarter of 2020, slowing down from 1.7 per cent in the previous quarter. It was driven by easing food prices, as well as falling transport, housing and utilities costs. The People's Bank of China decided to maintain the key policy rate unchanged at 3.85 per cent in the fourth quarter of 2020. The monetary policy stance remained accommodative to support economic recovery.

India

There was a rebound in the economic activity in India during the last quarter of 2020, following contraction in the past three quarters. Real GDP increased at an annual rate of 0.4 per cent, following a decline of 7.3 per cent in the third quarter of 2020. The increase was driven by both private and public expenditure. There was increase in investment spending, manufacturing output, construction and, agricultural production and services. Trade was still under pressure, with exports falling further during the quarter.

The annual inflation rate for India fell to 4.59 per cent during the quarter ending in December 2020, from 7.34 per cent in the previous quarter. This resulted mainly from the slowdown in the food prices. The Reserve Bank of India kept the repo rate unchanged at 4.0 per in the quarter ending in December 2020. The Bank maintained accommodative monetary policy stance to support economic activity.

South Africa

Early indicators of South Africa's economic activity gave mixed signals in the fourth quarter of 2020. The composite Purchasing Managers Index (PMI) for South Africa indicated positive output albeit a slight decline to 50.2 in December from 50.3 in November 2020. The retail sales continued to decline, falling by 1.3 per cent in December 2020 from 4.3 per cent decline in the previous month. Manufacturing output rose by 1.8 per cent year on year in December 2020, while mining production rose by 0.1 percent in December 2020. Exports declined on an annual basis in December 2020, relative to the

previous month. The unemployment situation worsened in South Africa in the fourth quarter of 2020, with the unemployment rate rising to 32.5 per cent from 30.8 per in the preceding quarter. The increase was due to labour rising more than job creation, amid the second wave of COVID-19 infections.

The annual inflation rate for South Africa was 3.1 per in the last quarter of 2020, increasing slightly from 3.0 per cent in the third quarter of 2020. The increase in the inflation was driven mainly by food prices. The Reserve Bank of South Africa kept the repo rate unchanged at 3.50 per cent during the fourth quarter of 2020. The Bank maintained accommodative monetary policy stance to support economic activity, which was adversely affected by the COVID-19 pandemic.

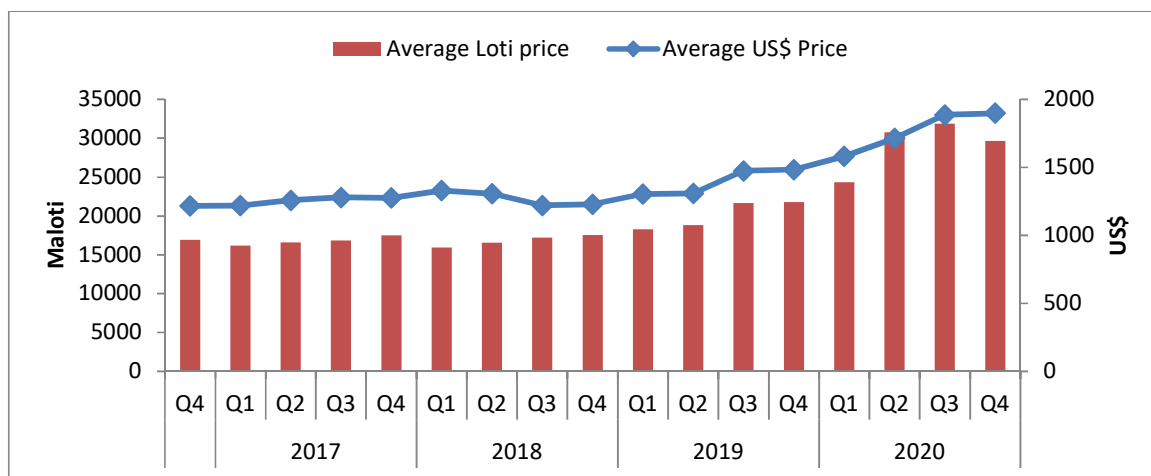
COMMODITIES

Minerals

Gold

The price of gold increased by 0.66 per cent in the last quarter of 2020 to an average of USD1898.36 per ounce. This followed an increase of 10.05 per cent in the third quarter of 2020. The price of gold was driven by increased demand for investment amidst the resurgence of covid19 infections and US elections stirred volatility in the global markets. In Maloti terms, the price of gold declined 6.91 per cent in the review period.

Figure 1: Average Price of Gold



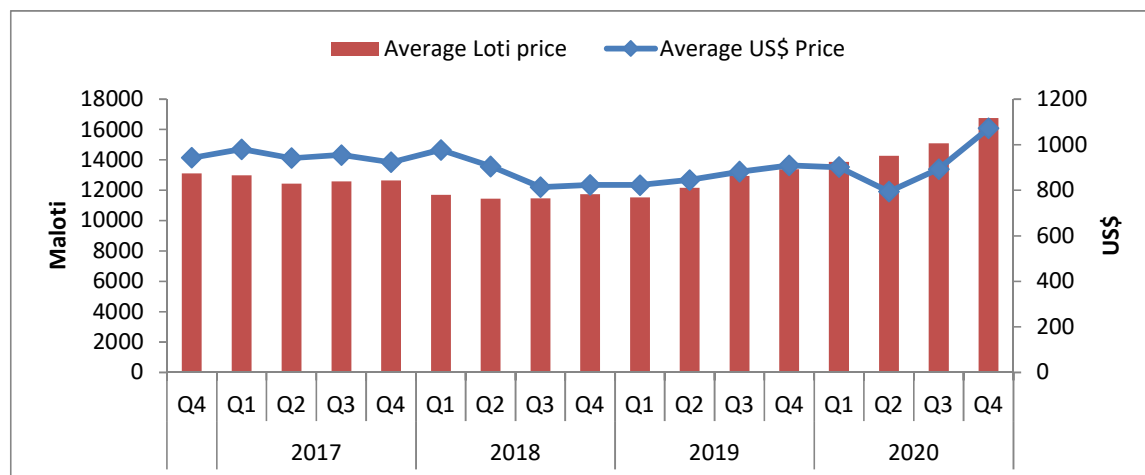
Source: Bloomberg

Platinum

The price of platinum increased by 20.03 per during the quarter under review to the average of USD1072.12 per ounce, having increased by 12.35 per cent in the third quarter

of 2020. The general lifting of lockdown measures led to increased industrial activity, hence increasing demand for platinum as an industrial base metal. There was also increased demand for automobiles, especially in China, which boosted demand for auto catalysts. In Maloti terms, the price of platinum increased by 11.00 per cent during the review quarter.

Figure 2: Average Price of Platinum



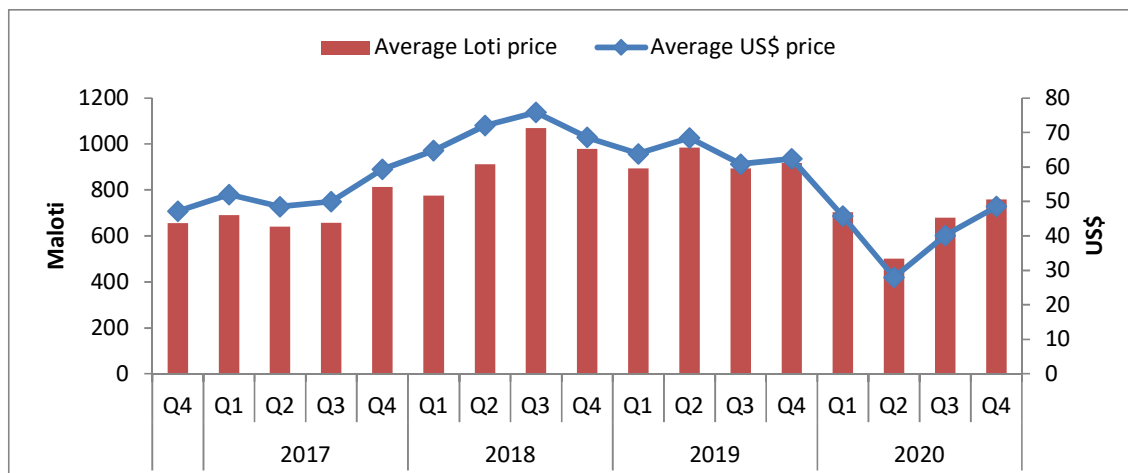
Source: Bloomberg

Energy

Oil

The price of crude oil increased by 20.64 per cent during the quarter ending in December 2020 to the average of USD48.52 per barrel compared with an a 43.63 per cent increase in the previous quarter. The steep increase in the price of oil was driven by strong demand from Asia. The widespread lifting of lockdown measures in a number of countries, and resumption of economic activity also contributed to increased demand for oil. On the supply side, there was effective supply management by OPEC+ members. In Maloti terms, the price of oil increased 11.56 per cent in the same period.

Figure 3: Average Price of Oil



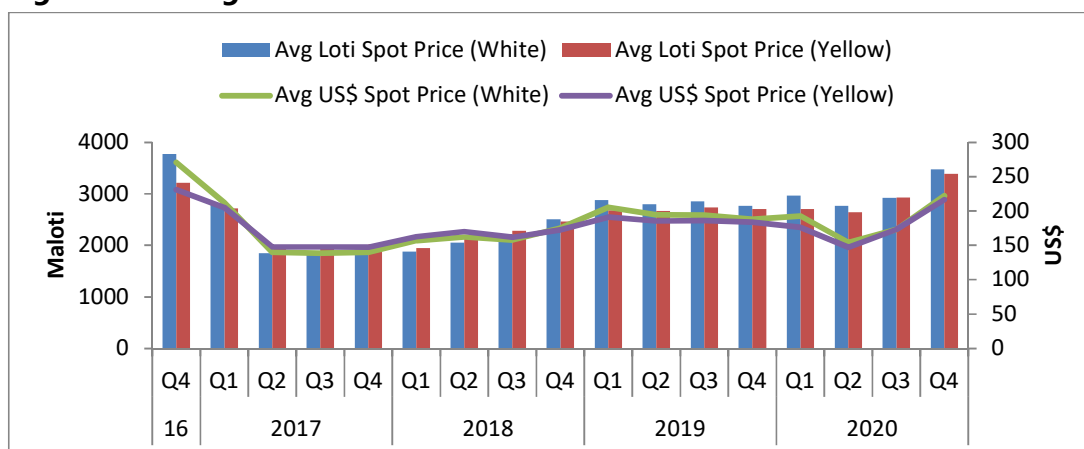
Source: Bloomberg

Agricultural Products

Maize

The price of maize increased significantly during the fourth quarter of 2020. It rose by 28.4 per cent for white maize from the increase of 12.2 per cent in the previous quarter while the yellow maize price grew by 24.99 per cent from 17.44 per cent increase in the previous quarter. There was a decline in production of maize from key producing areas, including Argentina, Europe and Canada. There was also a decline in the inventories hence, the lower maize supply during the quarter. The demand for maize was high, driven by China and Bangladesh. In Maloti terms, the price of maize increased by 18.76 per cent and 15.59 per cent for white and yellow maize, respectively.

Figure 4: Average Price of Maize

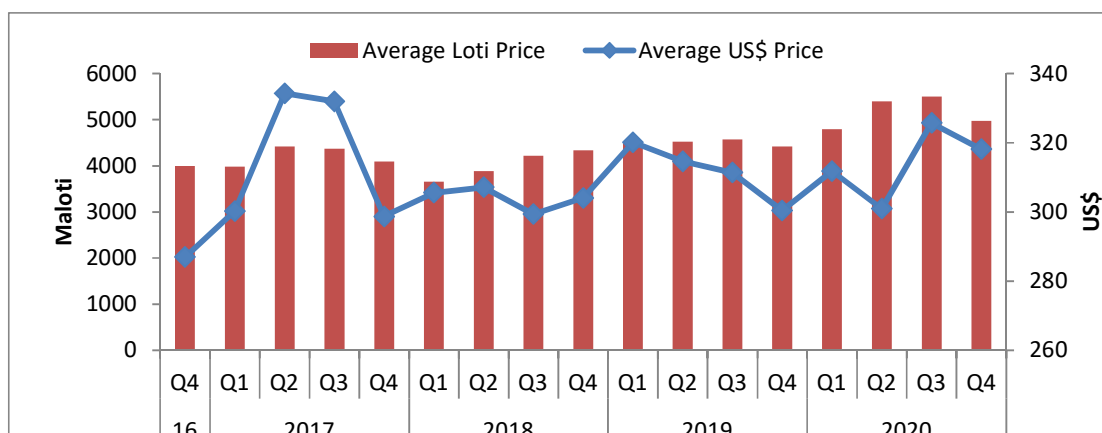


Source: Bloomberg

Wheat

The price of wheat declined by 2.32 per cent to the average of USD318.15 per ton to in the fourth quarter of 2020. This followed an increase of 8.24 per cent in the third quarter of 2020. The price increased due to the excess supply, driven by higher global production and falling inventories. The output increased the most in Australia, Russia and Canada, which pushed higher global supply. In Maloti terms, the price of wheat declined by 9.67 per cent during the quarter.

Figure 5: Average Price of Wheat

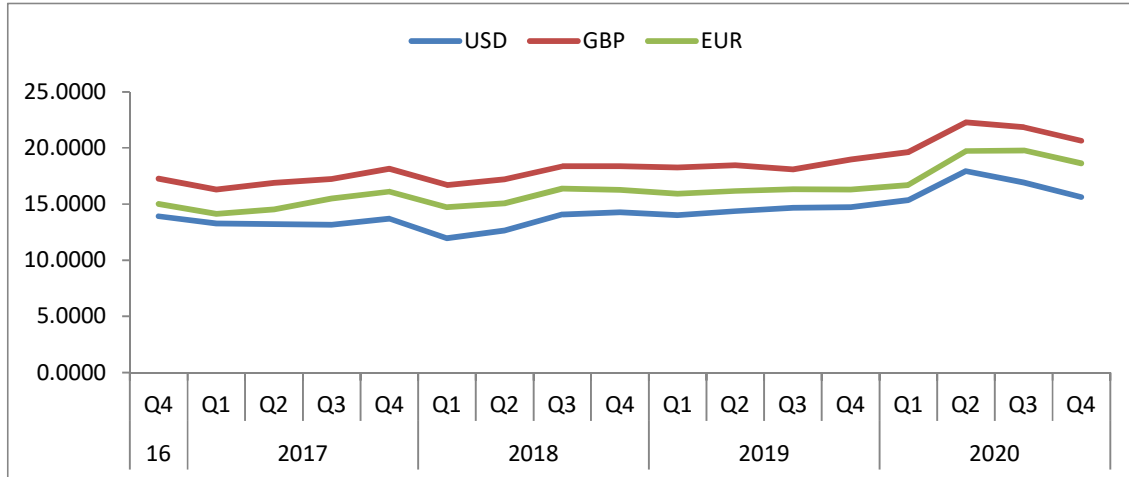


Source: Bloomberg

EXCHANGE RATES

The rand hence the loti strengthened against the major global trading currencies during the fourth quarter of 2020. This followed from the mixed performance in the third quarter of 2020. The rand appreciated by 7.52 per cent against the US dollar to the average of R15.63 per dollar, 5.60 per cent against the pound sterling to the average of R20.63 per pound, and 5.78 per cent against the euro to the average of R18.64 per Euro. The rand was supported by improving market sentiment for risky assets, including the SA bonds. The news with regard to covid19 vaccine led to increased risk appetite in the global markets. The decision by SARB to hold the key rate unchanged at 3.5 per cent, and its hawkish tone with regard to future path supported the rand.

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



Source: Bloomberg

3. Real Sector Developments

OVERVIEW

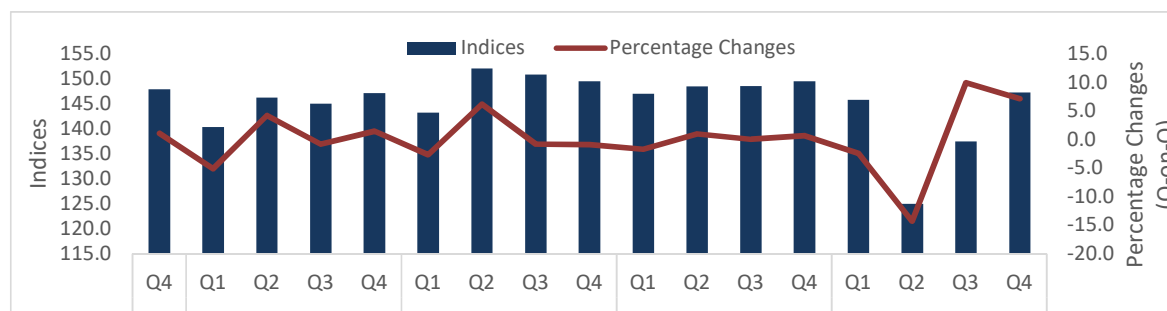
Economic activity was estimated to have continued to recover during the fourth quarter of 2020. Nonetheless, labour market conditions worsened, with all the three categories of employment, namely: LNDC-assisted companies, Government of Lesotho and migrant mineworkers recording losses in the quarter under review. Inflationary pressures, driven mainly by the prices of gas, abated in December 2020 in comparison to September 2020. Core and headline inflation rates continued to move in parallel, with core below its headline counterpart. Food and non-food inflation rates continued to move in opposite direction, with food inflation increasing while non-food inflation continued to decline.

OUTPUT DEVELOPMENTS

As measured by quarter-on-quarter change in the Composite Indicator of Economic Activity (CIEA), economic performance was estimated to have increased by a robust 7.2 per cent during the quarter under review though lower than the 10.0 per cent growth rate recorded in the previous quarter. Despite the slower rate of growth, the economy was operating close to the pre-pandemic output levels following the easing of lockdown restrictions. Both the domestic demand and the production sides of the economy showed improved performance. In addition, the construction subsector supported growth as indicated by the rise in cement imports; however, the transport subsector remained under pressure.

As shown in table 2, the demand side index increased significantly by 23.4 per cent relative to 3.8 per cent registered in the preceding quarter. The main contributors to the observed growth were Value Added Tax (VAT), Pay-As-You-Earn (PAYE), and government compensation of employees. Positive contribution by the VAT collections meant increased demand for goods and services in the economy during the review quarter, while positive contributions by PAYE and compensation of employees meant increased earnings in the private and government sectors in the review period, respectively. With regard to the manufacturing side, the index increased slightly by 1.8 per cent in comparison to the 18.4 per cent in the previous quarter. The growth of the index was mostly attributed to positive contributions from water consumption used for industrial purposes, while other components of the index such as industrial electricity consumption and exports of clothing and textiles contributed negatively.

Figure 7: Quarterly Indicator of Economic Activity



Source: Central Bank of Lesotho

Table 2: Contributions to Growth

Indices	2019		2020		
	Q4	Q1	Q2	Q3	Q4
CIEA	149.5	145.8	125.0	137.4	147.3
Quarter-on-quarter changes	0.7	-2.5	-14.3	10.0	7.2
Domestic Demand	137.8	128.1	111.6	115.8	142.9
Quarter-on-quarter changes	2.6	-7.0	-12.9	3.8	23.4
Manufacturing and Production Category	113.1	116.7	86.1	101.9	103.7
Quarter-on-quarter changes	-3.5	3.2	-26.2	18.4	1.8

Source: Central Bank of Lesotho

EMPLOYMENT DEVELOPMENTS

The number of employees in LNDC-assisted companies continued to decline, albeit at a slower rate, during the quarter ending in December 2020. Employment declined by 0.7 per cent on a year-on-year basis in December 2020, from a 4.7 per cent decline recorded in the end of the preceding quarter. The main contributors to the decline were knit garments, electronics, as well as, fabrics and yarn firms. However, employment in woven garments, construction, food and beverages, as well as, footwear manufacturing industries moderated the decline.

Table 3: Employment by LNDC-Assisted Companies

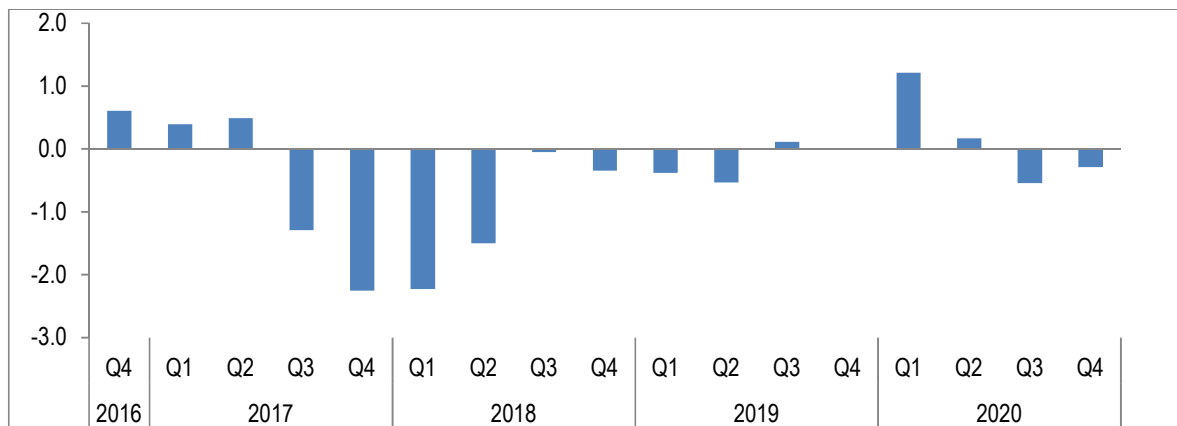
Industry	2019		2020			% Changes	
	Q4	Q1	Q2	Q3	Q4*	Q/Q	Y/Y
Knit Garments.....	28602	30371	27757	26596	27630	3.9	-3.4
Woven Garments.....	15304	15675	14145	15130	15718	3.9	2.7
Footwear.....	940	1287	1006	986	1024	3.9	9.0
Fabrics, Yarn etc.....	1849	1767	1754	1718	1785	3.9	-3.5

Construction.....	334	334	399	399	399	0.0	19.5
Food & Beverages.....	479	444	700	704	704	0.0	47.0
Electronics.....	1052	1828	1018	1008	1008	0.0	-4.2
Retail.....	190	179	186	186	186	0.0	-2.1
Hotel Accommodations.....	394	394	394	394	394	0.0	0.0
Other.....	1306	1349	1326	1259	1259	0.0	3.6
TOTAL.....	50450	53988	48685	48380	50107	3.6	-0.7

Source: Lesotho National Development Corporation

Government employment continued to fall during the review quarter. Total employment declined by 0.3 per cent in December 2020, compared with the 0.5 per cent decline recorded in September 2020. Civil servants, teachers and daily paid workers all contributed to the decline in employment numbers.

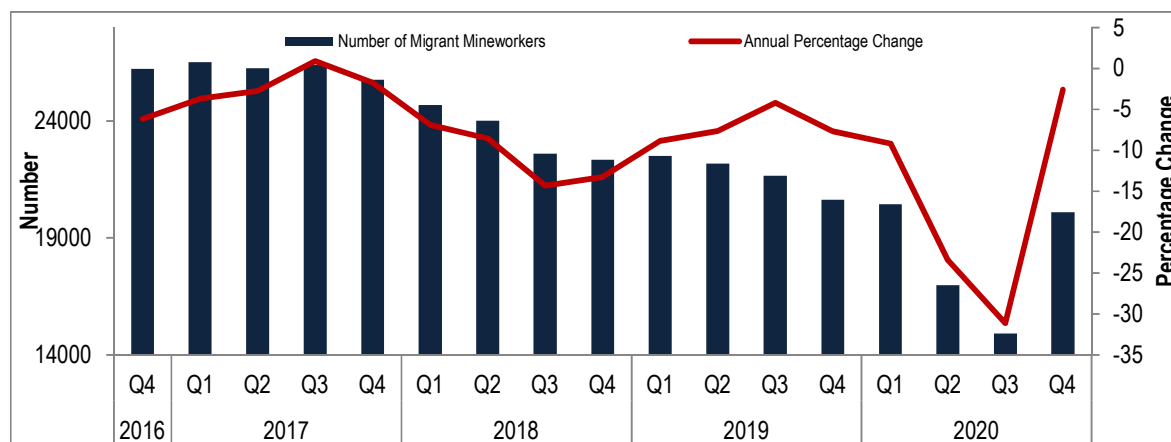
Figure 8: Government Employment (Annual Percentage Changes)



Source: Ministry of Finance

The number of migrant mineworkers in South African (SA) mines continued to decline in the fourth quarter of 2020. Employment in this sector declined by 2.6 per cent by the end of the quarter compared to the 31.1 per cent decline in the previous quarter. The slowdown in the rate of decline was attributed to easing of lockdown restriction in both Lesotho and South Africa which enabled Basotho migrant mineworkers to cross borders and resume their work. The slowdown was also in line with the improved performance of the mining sector in SA. Good profitability, gains in commodity prices boosted by weaker rand (ZAR) as well as improvement in gold prices all contributed to the robust performance of the subsector as a whole.

Figure 9: Migrant Mineworkers (Annual Percentage Changes)



Source: The Employment Bureau of Africa (TEBA)

PRICE DEVELOPMENTS

Inflation rate, measured as year-on-year percentage change in the Consumer Price Index (CPI), decelerated from 5.9 per cent in the quarter ending in September 2020 to 5.7 per cent in the quarter ending in December 2020. The major decelerations during the review period were observed in the prices of clothing & footwear, housing, water, electricity, gas & other fuels, recreation & culture and transport. Nonetheless, prices of food & non-alcoholic beverages as well as alcoholic beverages & tobacco moderated the disinflation during the review period.

The major drivers of headline inflation during the review period were heterogeneous and mainly included the negative oil supply shock due to COVID-19 restrictions on movements of people both at the international and domestic front. Most economic sectors, which include among others, restaurants and recreation facilities, were highly restricted and this contributed to the disinflation. However, the demand for food and supply-chain disruptions meant that food prices continued to increase, thus moderating the deceleration in inflation during the review period.

Table 4: Inflation Rate (Annual Percentage Changes)

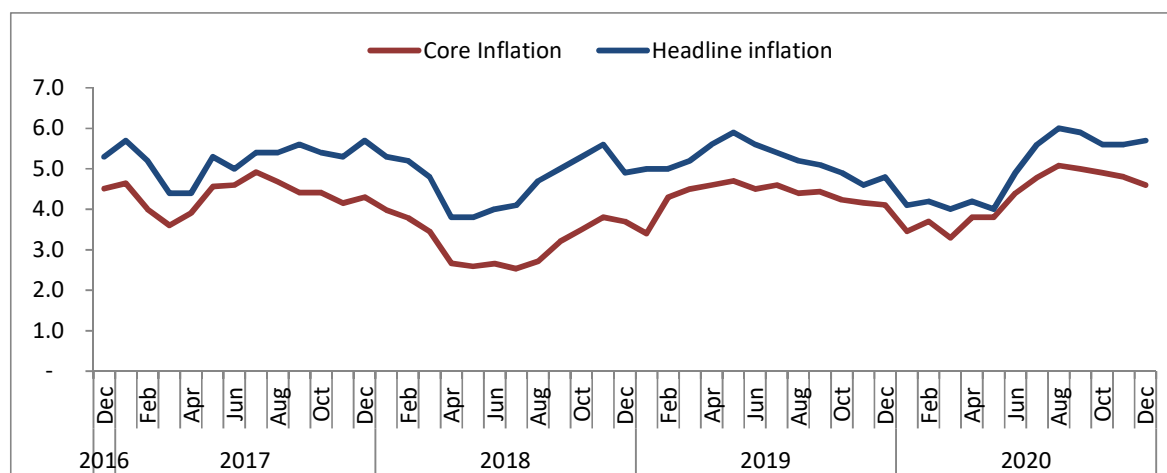
	Weight	2020				
		Aug	Sep	Oct	Nov	Dec
All items	1000	6	5.9	5.6	5.6	5.7
Food and non-alcoholic beverages	361.13	12.9	12.7	12.7	13.3	13.4
Alcoholic beverages & Tobacco	33.31	6.8	4.4	4.7	4.6	4.9
Clothing & footwear	130.57	3.8	3.6	3.1	3.1	2.4
Housing, water, electricity, gas & other fuels	123.97	-3	-3.2	-4.1	-4.2	-4

Furniture, households equipment & routine maintenance	84.77	2.7	2.6	2.2	2.5	2.2
Health	15.04	4	3.9	3.8	3.8	3.3
Transport	48.21	3.2	3.8	2.4	2.3	2.6
Communications	21.05	0.6	0.6	0.6	0.6	0.6
Recreation & Culture	57.08	3.5	3.4	3.4	3.4	0.8
Education	42.00	4.1	4.1	4	4	4
Restaurant & Hotels	10.30	2.3	2.5	2.5	3	2.4
Miscellaneous goods & services	72.59	2.1	2.3	2.3	2.4	2.1

Source: Bureau of Statistics

Both headline and core inflation decelerated during the review period. Headline inflation rate fell from 5.9 per cent in quarter ending in September 2020 to reach 5.7 per cent in the quarter ending in December 2020, while core inflation decelerated from 5.0 per cent to 4.6 per cent during the review period.

Figure 10 Core vs Headline Inflation

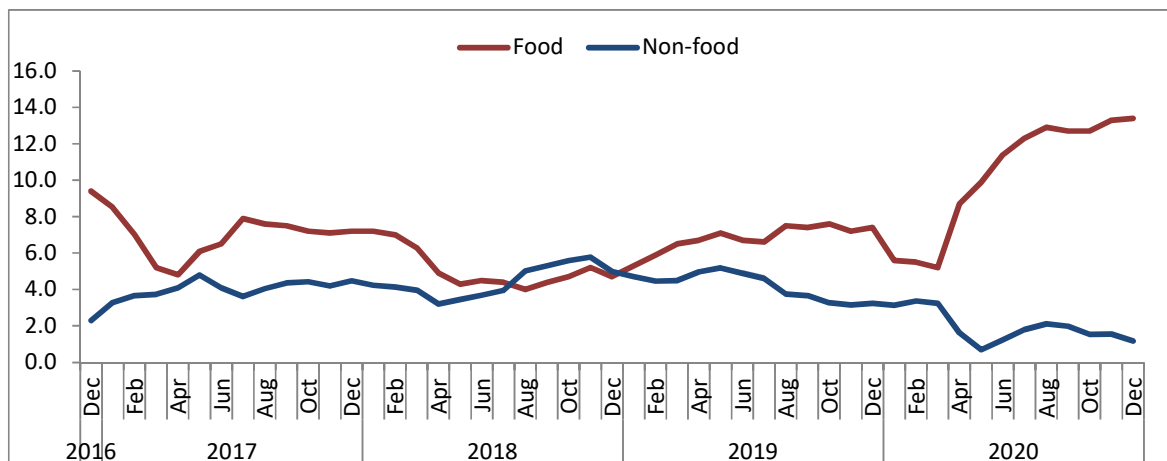


Source: CBL Computations

During the period under review, food inflation increased while non-food inflation declined. Prices of some food items such as bread and cereals, meat, as well as, food products not elsewhere classified, as well as, oils and fats increased during the review periods, while for non-food inflation, the major contributions emanated from transport, recreation & culture and housing & utilities¹ sectors.

¹ Housing, water, electricity, gas & other fuels

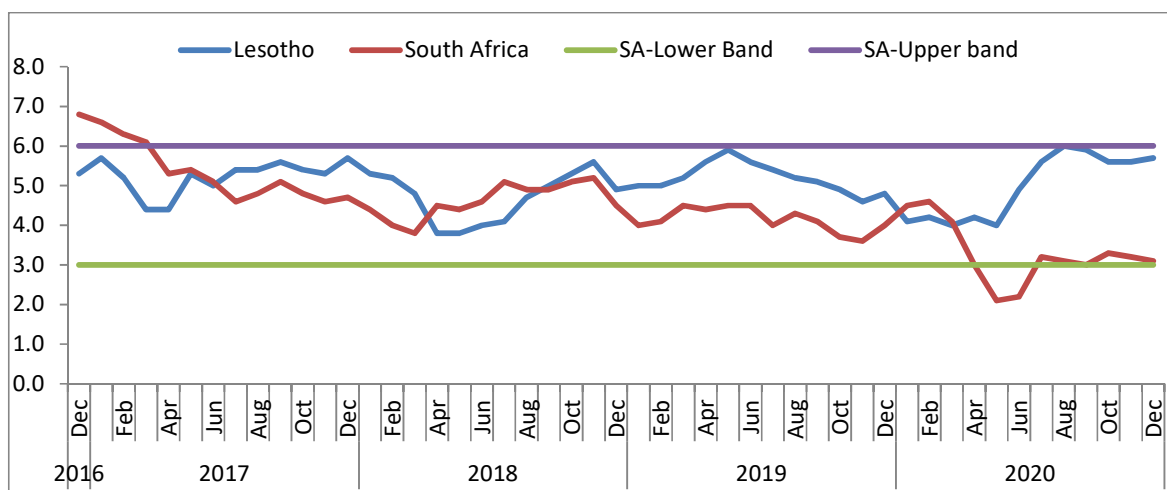
Figure 11: Food vs Non-food Inflation



Source: BoS and CBL Computations

CPI inflation in Lesotho continued to grow faster than its SA counterpart during the review period. While Lesotho’s inflation declined by 0.3 percentage points from 6.0 per cent in the quarter ending in September 2020, SA inflation remained relatively constant at 3.0 per cent during the review period. Food inflation contributed to the high inflation rate in Lesotho while non-food inflation was the main contributor to the developments in the SA inflation rate during the review period.

Figure 12: Lesotho and South Africa's Inflation



Source: Bureau of Statistics, Statistics South Africa

4. Monetary and Financial Developments

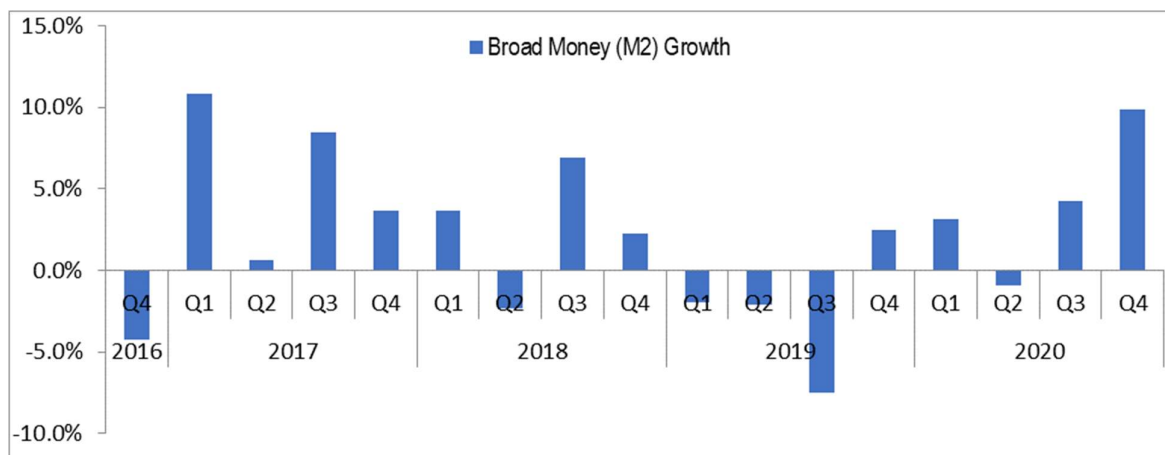
OVERVIEW

Monetary and credit aggregates point towards an improved economic landscape during the last quarter of 2020, as the easing of lockdown restrictions continued. Growth in the broadly defined money supply (M2), accelerated between quarters, resulting from an increase in domestic claims and net foreign assets. The total of loans and advances extended to the private sector also increased, supported by a growth in the demand for credit. Short-term interest rates remained stable and aligned to the Central Bank of Lesotho's policy rate, which was unchanged between the last two quarters of the year.

BROAD MONEY (M2)

The fourth quarter of 2020 was characterised by rapid growth in the broadly defined money supply (M2), which went up by 9.9 per cent in December, relative to a rise of 4.3 per cent in September 2020. The sustained increase in money supply resulted from growth in both domestic claims and net foreign assets by 4.0 per cent and 4.3 per cent, respectively. The robust growth in M2 was also evident on an annual basis, as it grew by 17.1 per cent in the last quarter of 2020, following a growth of 9.3 per cent in the third quarter of the year. In real terms, M2 rebounded from a downward trajectory and increased by 4.2 per cent in December, compared to a decline of 1.6 per cent in September 2020.

Figure 13: Broad Money (M2) (Quarterly Changes)



Source: Central Bank of Lesotho

Determinants of M2

Domestic Claims

The quarter on quarter growth in domestic claims decelerated from a high of 19.5 per cent in September to 4.0 per cent in December 2020. This was due to a more than two-fold increase in commercial banks' net claims on government, resulting from the drawdown in government deposits held with commercial banks, as well as, the banks' increase in the uptake of government securities. Private sector credit rose marginally by 0.5 per cent, contributing to the growth in domestic claims in the review period. On a year-on-year basis, domestic claims fell by 3.7 per cent in December, following a decline of 9.7 per cent in the previous quarter.

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

	2019		2020			Changes(%)	
	Q4	Q1	Q2	Q3	Q4	Quarterly	Annual
Domestic Claims	5517.40	6002.15	4272.77	5106.94	5312.44	4.02	-3.71
Net Claims on Government	-2117.34	-1886.68	-3250.19	-2606.87	-2455.51	5.81	-15.97
Commercial Banks Net Claims	468.44	440.56	52.96	-44.24	389.84	981.23	-16.78
Claims on Central Government	2162.87	2028.14	2051.63	2037.71	2132.91	4.67	-1.39
Liabilities to Central Government	1694.43	1587.58	1998.67	2081.94	1743.07	-16.28	2.87
Central Bank Net Claims	-2585.78	-2327.24	-3303.15	-2562.63	-2845.35	-11.03	-10.04
Claims on Central Government	515.65	593.31	492.49	785.71	855.25	8.85	65.86
Liabilities to Central Government	3101.43	2920.55	3795.64	3348.35	3700.60	10.52	19.32
Claims on Other Sectors	7634.73	7888.83	7522.95	7713.82	7767.95	0.70	1.74
Claims on OFCs	231.35	145.41	232.18	276.19	266.77	-3.41	15.31
Claims on Public Nonfinancial Corporations	38.20	47.98	63.25	58.62	87.00	48.42	127.74
Claims on St & Local Government	0.00	0.00	0.00	0.00	0.00		
Claims on Private Sector	7365.18	7695.44	7227.52	7379.01	7414.18	0.48	0.67
Claims on Business Enterprises	2172.34	2423.99	2043.19	2079.65	2015.45	-3.09	-7.22
Claims on Households	5192.84	5271.46	5184.32	5299.36	5398.73	1.88	3.96

Source: Central Bank of Lesotho

Net Foreign Assets

Growth in total net foreign assets (NFA) went up from 1.1 per cent in the third quarter to 4.3 per cent in the fourth quarter of 2020. This was at the back of an increase in both central bank's and commercial banks' NFA by 5.7 per cent and 2.0 per cent, respectively. The central bank's NFA was boosted by a decline in liabilities to non-residents, which benefitted from revaluation gains as the exchange value of the Rand (and hence Loti) appreciated. The central bank's foreign assets also maintained a positive trajectory, influenced by the slow government budget execution in the current fiscal quarter. Moreover, commercial banks' NFA was enhanced by an increase in placements abroad, underpinned by an unprecedented surge in the deposit liabilities and a slow growth in

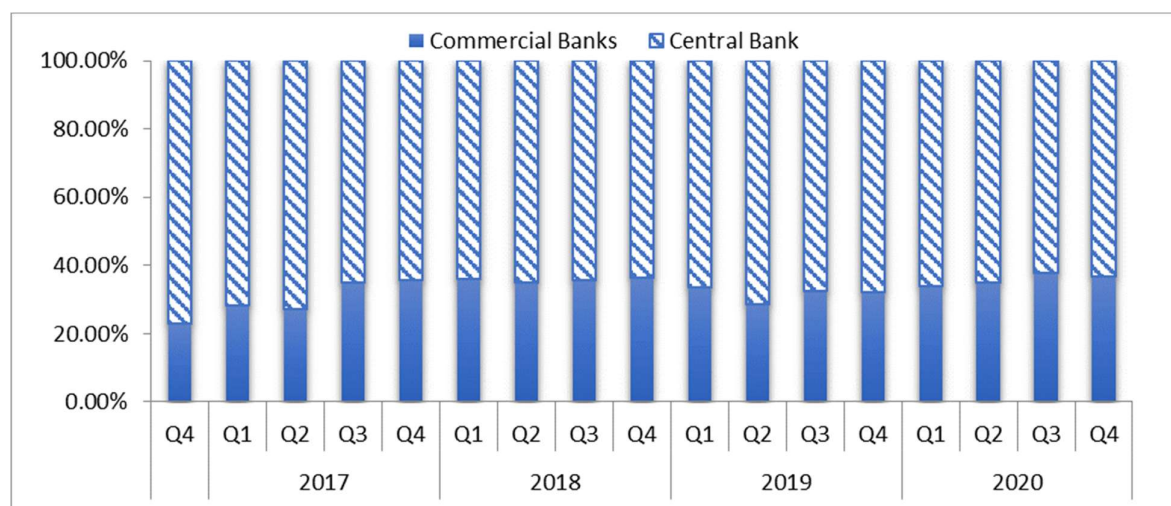
the demand for credit. On an annual basis NFA rose by 20.7 per cent, following an increase of 17.1 per cent in September 2020.

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

	2019		2020			Changes (%)	
	Q4	Q1	Q2	Q3	Q4	Quarterly	Annual
Commercial Banks	4603.91	5138.76	5755.04	6247.28	6374.23	2.03	38.45
Claims on Non-residents	5026.74	5510.98	6028.01	6529.04	6679.44	2.30	32.88
Liabilities to Non-residents	422.83	372.22	272.97	281.76	305.20	8.32	-27.82
Central Bank	9734.77	10077.75	10656.94	10344.71	10937.57	5.73	12.36
Claims on Non-residents	10849.60	11477.62	11903.50	12398.33	12680.16	2.27	16.87
Liabilities to Non-residents	1114.83	1399.86	1246.56	2053.62	1742.59	-15.15	56.31
Net Foreign Assets Total	14338.68	15216.52	16411.98	16591.99	17311.80	4.34	20.73

Source: Central Bank of Lesotho

Figure 14: Net Foreign Assets (percentage shares)



Source: Central Bank of Lesotho

Components of M2

Considering the components of money supply, both narrow money (M1) and quasi money increased in the last quarter of 2020. This was against the backdrop of COVID-19 related uncertainties, which led to an increased hoarding of money by business enterprises. Growth in M1 accelerated from 11.8 per cent in September to 19.2 per cent in December 2020, emanating from a rise in currency in circulation and transferable deposits held mainly by the mining industry and non-bank financial institutions. Quasi money also increased, following a rise in call deposits during the review quarter.

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

	2019		2020			Changes (%)	
	Q4	Q1	Q2	Q3	Q4	Quarterly	Annual
Broad Money (M2)	12195.22	12582.63	12467.68	13000.90	14282.90	9.86	17.12
Narrow Money (M1)	5333.90	5774.30	5216.40	5829.60	6950.30	19.22	30.30
Currency Outside DCs	1148.90	1095.25	1094.74	1236.02	1370.83	10.91	19.32
Transferable Deposits	4185.00	4679.04	4121.66	4593.58	5579.47	21.46	33.32
Quasi Money	6861.32	6808.33	7251.28	7171.29	7332.60	2.25	6.87
Other Deposits Commercial Banks	6811.49	6765.16	7209.11	7135.73	7299.95	2.30	7.17
Other Deposits Central Bank	49.83	43.17	42.18	35.56	32.65	-8.18	-34.48

Source: Central Bank of Lesotho

CREDIT EXTENSION

Quarterly growth in private sector credit was 0.5 per cent in the fourth quarter, relative to a rise of 2.1 per cent recorded in the third quarter of 2020. The marginal increase in private sector credit was attributable to a weak growth in loans and advances extended to the household sector, coupled with a contraction in loans to the business sector. Moreover, credit extension grew by 0.7 per cent on an annual basis, compared with a decline of 1.6 per cent in September. Measured in real terms, private sector credit fell by 5.2 per cent in the review period, following a decline of 3.8 per cent in the preceding quarter.

Trends of Credit Extended to Business Enterprises

Total loans and advances extended to business enterprises declined by 3.1 per cent in the quarter ending in December 2020, from a rise of 1.8 per cent in the third quarter. The contraction in business credit was pervasive across sectors, mainly due to the underutilization of existing overdraft facilities. The biggest decline in credit extension was within the construction and mining sectors, as some of the companies made repayments of loans following improved business activity. This was possibly reflective of great risk aversion regarding the impact of COVID-19 on economic activity in the future. On annual basis, business sector credit fell by 7.2 per cent, compared to 10.7 per cent recorded in the previous quarter.

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

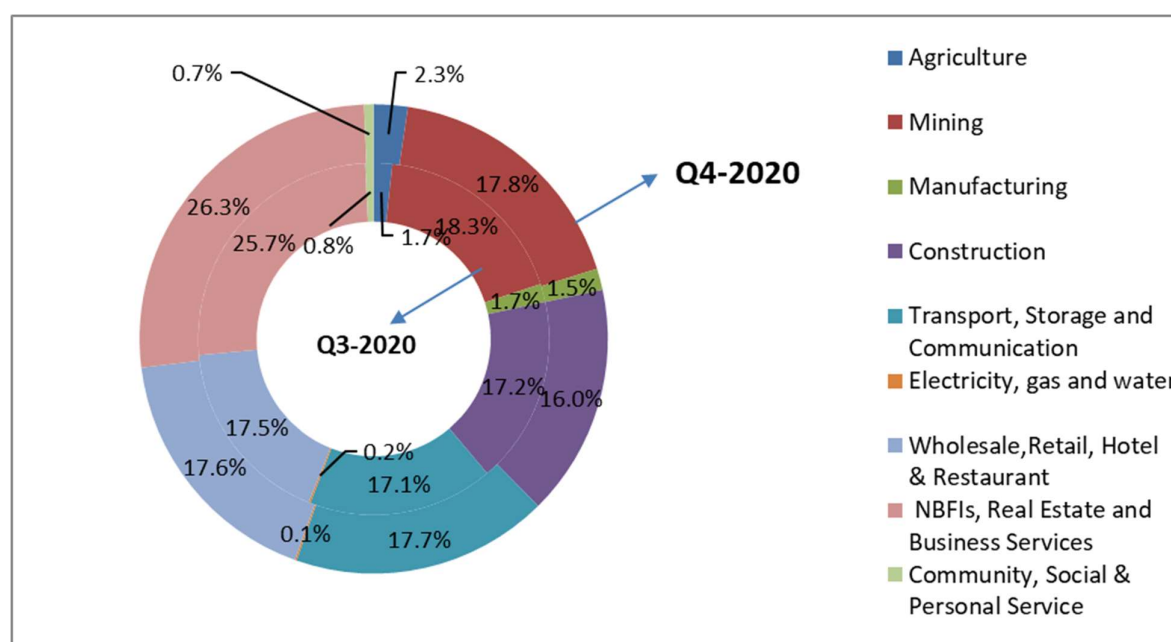
SECTOR	2019		2020			Changes (%)	
	Q4	Q1	Q2	Q3	Q4	Quarterly	Annual
Agriculture	29.23	28.37	29.73	35.41	47.22	33.35	61.56
Mining	419.93	713.77	355.95	379.55	359.16	-5.37	-14.47
Manufacturing	57.95	38.83	41.36	34.49	29.74	-13.75	-48.68
Electricity, gas and water	6.46	20.17	4.52	3.31	2.42	-26.75	-62.45
Construction	328.05	331.56	354.72	357.86	321.87	-10.06	-1.88
Wholesale, Retail, Hotel & Restaurant	387.47	380.54	377.86	363.79	354.36	-2.59	-8.54
Transport, Storage and Communication	423.67	403.56	385.83	354.75	357.52	0.78	-15.61
NBFIs, Real Estate and Business Services	504.62	490.67	476.13	534.57	530.03	-0.85	5.04
Community, Social & Personal Service	14.97	16.52	17.09	15.92	13.41	-15.74	-10.42
All Sectors	2172.34	2423.99	2043.19	2079.65	2015.74	-3.07	-7.21

Source: Central Bank of Lesotho

Distribution of credit Extended to Business Enterprises

With regard to the sectoral distribution of credit to business enterprises, the largest proportion of credit was allocated to the non-bank financial institutions sector with a share of 26.3 per cent. This was followed by mining and wholesale, retail, hotel & restaurant sectors, which took 17.8 per cent and 17.6 per cent, respectively. In addition, the allocation of credit to the agricultural sector improved slightly in December, rising from a historical average of 1.3 per cent to 2.3 per cent in the review period, mainly supported by increased demand from the livestock subsector.

Figure 15: Distribution of Credit (Percentage Shares)

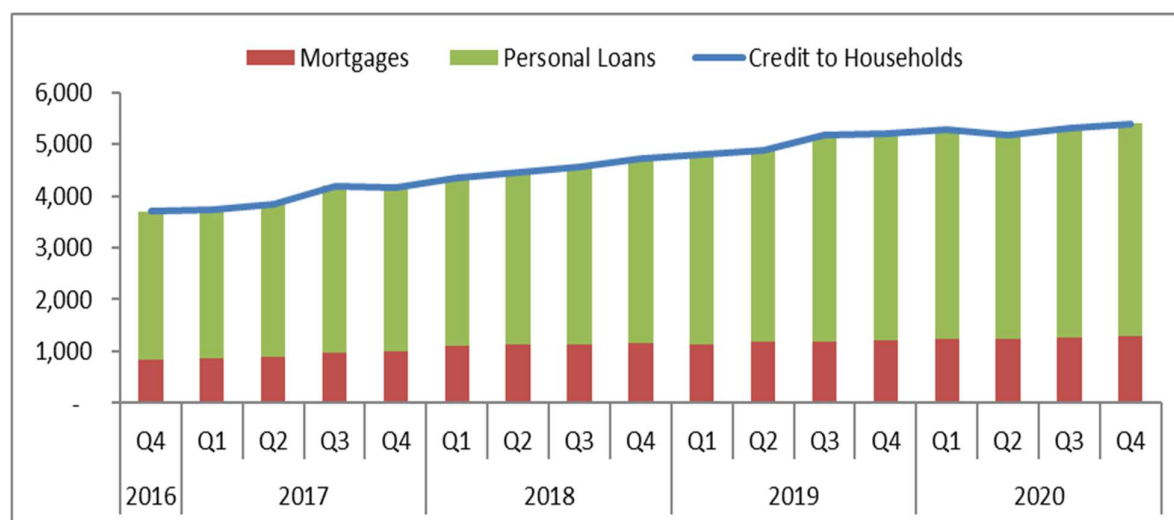


Source: Central Bank of Lesotho

Credit extended to Households

Total loans and advances extended to the household sector rose by 1.9 per cent in December 2020, relative to a 2.2 per cent growth recorded in September 2020. Personal loans remained the most dominant category of household credit and increased by 1.6 per cent in the fourth quarter, while mortgage loans rose by 2.7 per cent. The increase in household credit was mainly attributed to the usual growth in the demand for credit over the festive season, following a further easing of lockdown restrictions. Compared to the same period a year ago, the overall credit extended to the household sector grew by 4.0 per cent.

Figure 16: Credit Extension to Household (Million Maloti)



Source: Central Bank of Lesotho

LIQUIDITY OF COMMERCIAL BANKS

Components of liquidity

The overall banking sector liquidity declined during the last quarter of the year, as evidenced by a fall in the liquidity ratio from 49.4 per cent to 43.0 per cent. This was at the back of a fall in the commercial banks' holding of liquid assets, coupled with an increase in total deposits. The commercial banks' credit to deposit ratio also declined from 52.6 per cent in September to 49.9 per cent in December 2020. This was due to a notable increase in total deposits, notwithstanding the rise in private sector credit. On an annual basis, the credit to deposit ratio declined by a significant 7.2 per cent, underpinned by huge growth in the deposit liabilities. Furthermore, the decline in the credit to deposit

ratio on both quarterly and annual basis indicates a deterioration in the sector's level of intermediation.

Table 9: Components of Liquidity (Million Maloti)

	2019		2020		
	Q4	Q1	Q2	Q3	Q4
Credit to Deposit Ratio	57.10%	58.19%	53.34%	52.62%	49.94%
Private Sector Credit	7257.25	7588.93	7116.56	7275.07	7309.67
Total Deposits	12708.95	13040.98	13341.85	13824.64	14636.53
Liquidity Ratio	42.36%	44.30%	46.89%	49.40%	42.99%
Notes and Coins	726.47	579.30	539.87	495.97	707.97
Net Balance due from banks in Lesotho	-369.15	47.86	46.78	-0.95	-2.73
Net Balance due from banks in SA	2671.03	3219.61	3461.19	4237.32	3197.43
Surplus funds	192.30	-97.11	156.67	59.69	257.04
Government Securities	2162.87	2028.14	2051.63	2037.71	2132.91
Total	5383.53	5777.80	6256.15	6829.74	6292.62

Source: Central Bank of Lesotho

Commercial Banks Sources of Funds

Commercial banks' total deposit liabilities maintained a positive growth on both quarterly and annual basis, increasing by 5.9 per cent and 15.2 per cent, respectively. The quarterly growth was primarily influenced by an increase of 34.8 per cent in transferable deposits held by business enterprises. This was a likely result of increased cash flows in the last quarter, which were boosted by the easing of lockdown restrictions. Moreover, growth in other deposits was dominated by an increase in call deposits held by businesses, accelerating from 0.3 per cent in the previous quarter to 15.4 in the review period. On the contrary, government deposits fell by 16.1 per cent in the quarter ending in December, as various ministries and extra-budgetary institutions drew down on deposits held with the commercial banks.

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

	2019		2020			Changes (%)	
	Q4	Q1	Q2	Q3	Q4	Quarterly	Annual
Transferable Deposits Incl. in BM	4185.00	4679.04	4121.66	4593.58	5579.47	21.46	33.32
Other Financial Corporations	52.27	31.56	40.30	76.33	79.32	3.92	51.76
Public Nonfinancial Corporations	60.37	297.07	44.10	83.50	31.41	-62.38	-47.97
Private Sector	4019.06	4333.88	4030.40	4381.48	5431.75	23.97	35.15
Other NFCs	2781.99	3014.48	2598.91	2887.94	3893.93	34.83	39.97
Other Sectors (Households)	1237.07	1319.40	1431.50	1493.54	1537.82	2.96	24.31
Other Deposits Incl. in BM	6811.49	6765.16	7209.11	7135.73	7299.95	2.30	7.17
Other Financial Corporations	273.45	257.84	62.01	132.05	92.48	-29.97	-66.18
Public Nonfinancial Corporations	329.13	281.32	319.29	224.40	221.14	-1.45	-32.81

Private Sector	6208.92	6226.00	6827.80	6779.29	6986.33	3.05	12.52
Other NFCs	4184.67	4052.88	4684.58	4486.65	4723.34	5.28	12.87
Other Sectors (Households)	2024.24	2173.12	2143.21	2292.64	2262.99	-1.29	11.79
Deposits excluded in MB	1712.47	1596.78	2011.08	2095.32	1757.12	-16.14	2.61
Total Deposits	12708.95	13040.98	13341.85	13824.64	14636.53	5.87	15.17

Source: Central Bank of Lesotho

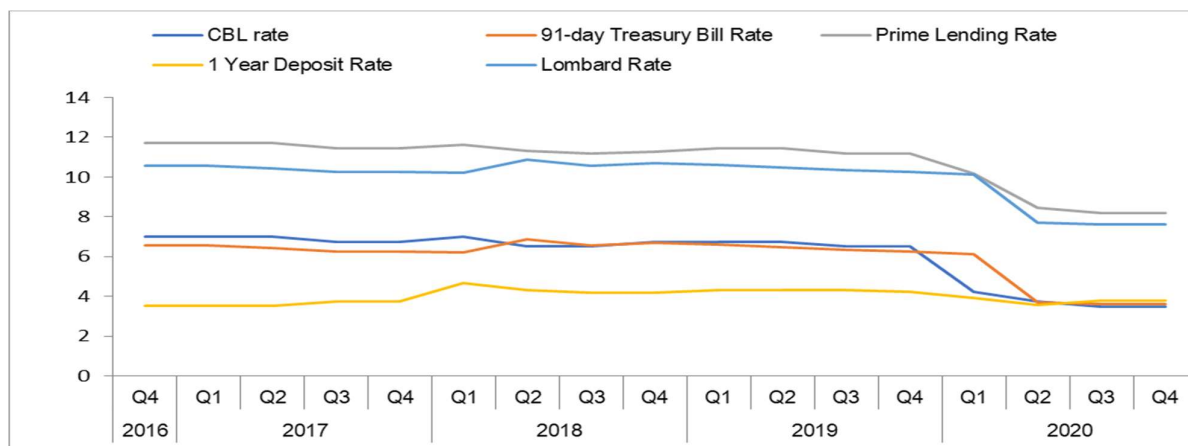
MONEY AND CAPITAL MARKET DEVELOPMENTS

Money Market

Interest Rates

On its sitting of the 24th November 2020, the Central Bank of Lesotho's Monetary Policy Committee (MPC) maintained the key policy rate at 3.50 per cent, in an attempt to stir economic activity through the maintenance of favourable lending conditions. Most short-term domestic rates also remained aligned to the policy rate between quarters, as the average prime lending rate and the one-year deposit rate remained at 8.19 per cent and 3.79 per cent, respectively. However, the 91-day Treasury bill (T-Bill) rate declined by 41 basis points to 3.20 per cent, albeit, remaining within the desired range of +/- 200 basis points to the South African counterpart rate.

Figure 17: Short Term Interest Rates (Per Cent per Annum)



Source: Central Bank of Lesotho

Table 11: Interest rates

	2019		2020		
	Q4	Q1	Q2	Q3	Q4
Central Bank					
CBL rate	6.50	4.25	3.75	3.50	3.50
T-Bill Rate - 91 days	6.26	6.11	3.70	3.61	3.20
Lombard Rate	10.26	10.11	7.70	7.61	7.20
Commercial Banks					

Call	1.09	0.81	0.99	0.99	0.99
Time:					
31 days	0.70	0.69	0.67	0.67	0.67
88 days	2.08	1.94	1.88	1.88	1.88
6 months	3.25	2.97	3.00	3.00	3.00
1 year	4.24	3.94	3.58	3.79	3.79
Savings	0.70	1.26	0.70	0.70	0.70
Prime	11.19	10.19	8.44	8.19	8.19
South Africa					
Repo	6.50	5.25	3.75	3.50	3.50
T-Bill Rate - 91 days	7.16	5.60	4.09	3.47	3.87
Prime	10.00	8.75	7.25	7.00	7.00

Source: Central Bank of Lesotho

Holding of Treasury Bills

The total holding of government treasury bills remained stable during the review quarter, rising by 0.02 per cent in the third quarter to 0.01 per cent in the review period. This was at the back of a rise in the banking sector holdings, notwithstanding the decline in the stock of outstanding treasury bills held by the non-banking sector. However, the overall holding of treasury bills decreased by 7.5 per cent year-on-year.

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

	2019		2020		
	Q4	Q1	Q2	Q3	Q4
Treasury Bills	1418.58	1305.67	1311.80	1312.05	1312.12
Banking System	1176.91	1067.74	1071.36	997.00	1013.21
Non-Bank Sector	241.67	237.93	240.44	315.05	298.91
Memorandum Item					
Yield Bills (91-days)	6.34	6.20	3.73	3.38	3.23

Source: Central Bank of Lesotho

Holding of Treasury Bonds

The total holding of government bonds rose by 12.1 per cent between the last two quarters of 2020, following bond auctions in support of fiscal policy operations. The increased uptake of treasury bonds was predominantly a result of improved subscription by commercial banks during the review period. Moreover, the banking sector's share of government bond holdings rose from 40.9 per cent to 46.5 per cent, while the non-bank sector stood at 53.5 per cent, from 59.1 per cent in the previous quarter. On year-on-year basis, the holding of government bonds increased by a substantial 35.8 per cent in the last quarter of the year.

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

	2019		2020		
	Q4	Q1	Q2	Q3	Q4
Holding of Treasury Bonds	2044.67	2382.73	2382.10	2476.80	2776.80
Banking System	963.96	980.03	981.19	1012.60	1290.94
Non-Bank Sector	1080.71	1402.70	1400.91	1464.20	1485.87

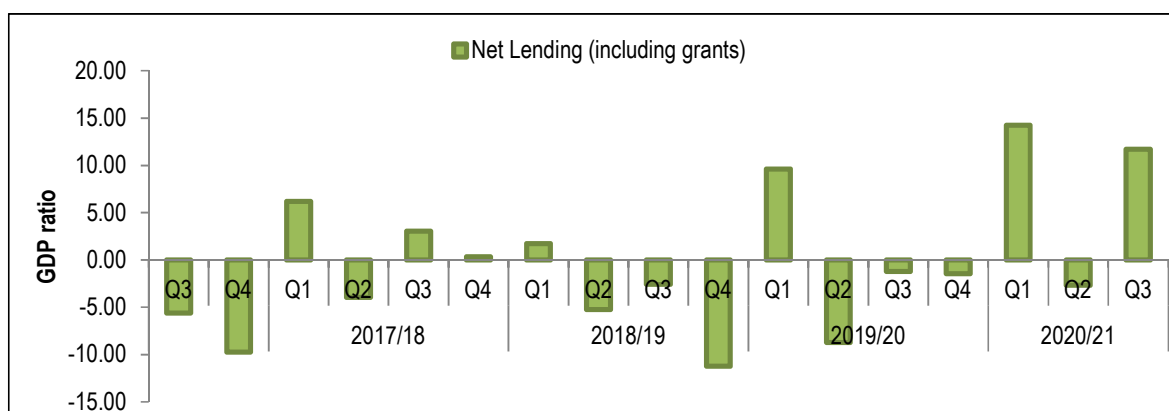
Source: Central Bank of Lesotho

5. Government Finance

OVERVIEW

Government budgetary operations resulted in a surplus equivalent to 11.7 per cent of GDP during the third fiscal quarter of 2020/21, as opposed to a revised fiscal deficit of 2.7 per cent of GDP in the second fiscal quarter of 2020/21. The surplus resulted from a significant increase in revenue amidst declining expenditure. Public debt stock was estimated at to increase from a revised 69.2 per cent of GDP at the end of the previous quarter to 69.4 per cent of GDP at the end of the review quarter . The debt sustainability threshold of 60.0 per cent of GDP has been breached since the last quarter of the fiscal year 2019/20.

Figure 18: Fiscal Balance (Percent of GDP)



Source: Central Bank of Lesotho and Ministry of Finance

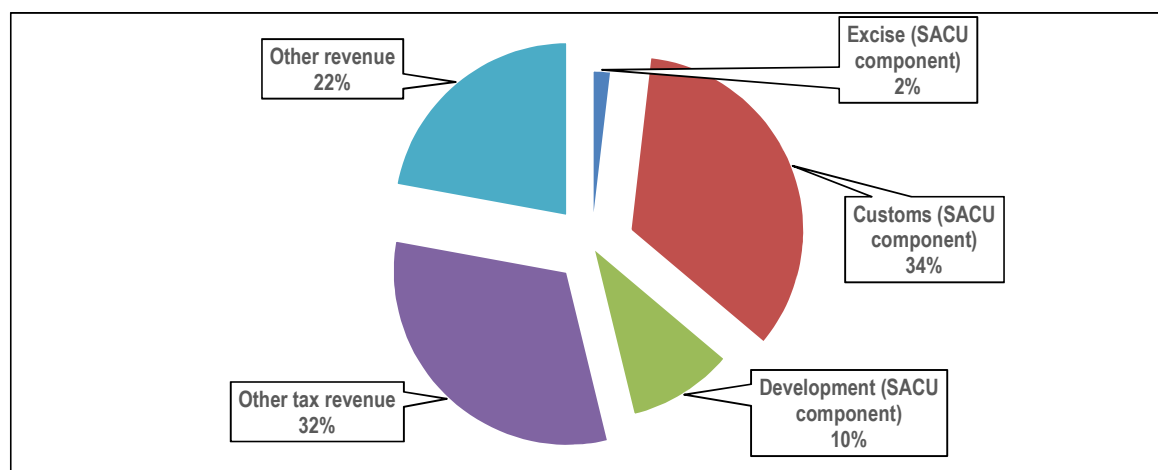
REVENUE²

Government revenue increased by 14.5 per cent during the review quarter following an increase of 6.1 per cent in the previous quarter. The increase was mainly due to higher collections from personal income tax, company tax, value added tax (VAT), withholding tax, excise taxes, electricity sales, mining royalties, as well as water royalties. The rise in personal income tax, company tax and VAT, followed a deferment (tax relief measures) by Lesotho Revenue Authority to mitigate the impact of COVID-19 in the first two quarters of the fiscal year. On year-on-year basis, revenue increased by 28.1 per cent during the

² SACU receipts have been disaggregated into three components: excise tax, customs and other imports duties, and grants from international organisations. They are received during the first month of each quarter, making four inflows in a fiscal year.

quarter ending in December 2020, following an increase of 6.1 per cent realised in the quarter ending in September 2020.

Figure 19: Total Revenue (Million Maloti)

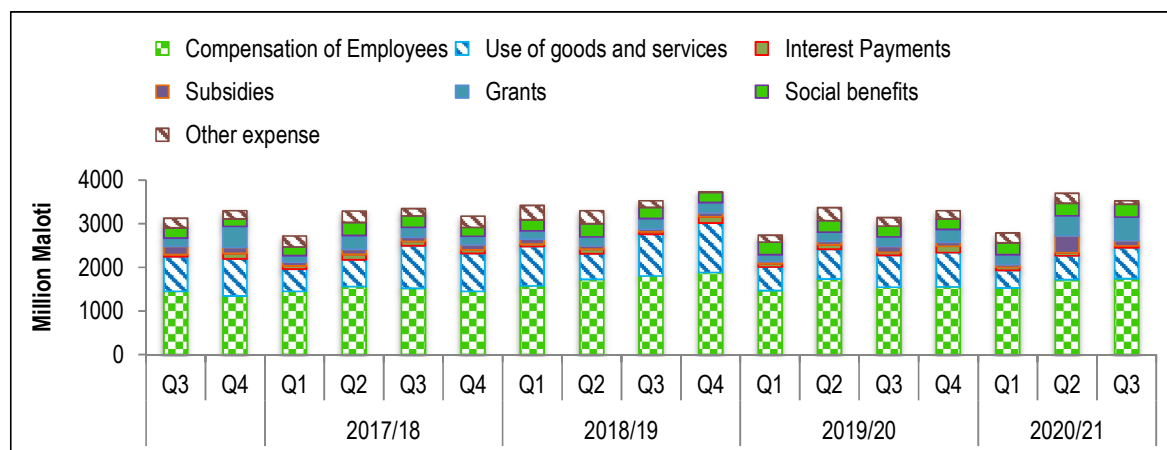


Source: Central Bank of Lesotho and Ministry of Finance

TOTAL EXPENDITURE

Total government expenditure decreased by 12.7 per cent during the quarter under review, relative to a revised increase of 44.3 per cent in the previous quarter. Both expense and nonfinancial assets declined, with nonfinancial assets falling significantly by 50.9 per cent. The reduction in spending was realised mainly in interest payments, subsidies to nonfinancial corporations, petroleum levy, student grants, buildings and structures, as well as Government-funded projects. On an annual basis, total spending declined by 0.5 per cent during the quarter under review, following a revised decline of 5.4 per cent in the preceding quarter. This slight fall was explained by reduced international and domestic travel and transport, interest payments, subsidies, student grants, non-resident buildings, other structures, as well as other machinery and equipment.

Figure 20: Total Expense (Million Maloti)



Source: Central Bank of Lesotho and Ministry of Finance

Table 2: Statement of Government Operations (Million Maloti)

	2019/20		2020/21			Q-to-Q (%)	Y-on-Y (%)	GDP ratio (%)
	Q3	Q4	Q1	Q2	Q3			
Total Revenue	3792.76	3980.98	3997.34	4242.72	4859.73	14.5	28.1	58.3
Tax revenue	3106.54	3308.75	3050.75	3409.45	3784.57	11.0	21.8	45.4
Income Tax	993.24	979.86	756.99	848.62	1014.83	19.6	2.2	12.2
Value Added Tax	719.23	768.97	424.46	679.51	850.10	25.1	18.2	10.2
SACU Receipts Components	1217.77	1217.77	1756.49	1756.49	1756.49	0.0	44.2	21.1
Other tax revenue	176.29	342.15	112.82	124.83	163.16	30.7	-7.5	2.0
Grants	371.54	363.19	504.81	499.70	514.73	3.0	38.5	6.2
o/w SACU Receipts Component	338.78	338.78	488.65	488.65	488.65	0.0	44.2	5.9
Other revenue	314.68	309.04	441.78	333.57	560.43	68.0	78.1	6.7
Total Expense	3139.19	3299.97	2788.77	3701.61	3517.19	-5.0	12.0	42.2
Compensation of Employees	1550.01	1554.18	1524.92	1717.95	1739.65	1.3	12.2	20.9
Use of goods and services	728.54	785.21	409.28	545.87	709.04	29.9	-2.7	8.5
O/W Purchase of Health Services	232.74	260.89	225.38	211.04	267.30	26.7	14.8	3.2
Interest Payments	66.85	145.78	69.31	76.77	44.60	-41.9	-33.3	0.5
Subsidies	131.13	89.87	58.18	387.00	119.57	-69.1	-8.8	1.4
Grants	223.41	298.52	233.46	452.51	532.93	17.8	138.5	6.4
Social benefits	244.13	240.28	262.63	293.37	294.29	0.3	20.5	3.5
Other expense	195.14	186.13	231.00	228.14	77.12	-	-60.5	0.9
Net Operating Balance	653.57	681.01	1208.57	541.11	1342.55	-	-	16.1
Total Nonfinancial Assets	764.67	803.31	296.53	749.47	367.89	-50.9	-51.9	4.4
Fixed Assets	759.88	803.31	296.53	749.47	367.89	-50.9	-51.6	4.4
Non-Produced Assets	4.80	0.00	0.00	0.00	0.00	-	-	0.0
Expenditure	3903.87	4103.28	3085.30	4451.08	3885.08	-12.7	-0.5	46.6
Primary balance	-44.26	23.48	981.34	-131.59	1019.25	-	-	12.2
Net lending/borrowing	-111.11	-122.30	912.04	-208.36	974.65	-	-	11.7
Financing	-225.91	-246.47	1089.28	-363.45	587.43	-	-	7.1
Net Acquisition of Financial assets	-249.26	-336.73	1323.49	191.74	-567.22	-	-	-6.8
O/W Domestic Currency and Deposits	-163.81	-353.67	1298.42	195.45	-567.22	-	-	-6.8
Net Incurrence of Liabilities	-23.35	-90.26	234.21	555.19	-1154.65	-	-	-13.9
O/W Domestic Other Accounts								
Payable	71.21	-173.21	289.67	-206.22	-434.68	-	-	-5.2
Statistical Discrepancy	114.80	124.17	-177.25	155.09	387.23	-	-	4.6

Memo Items

SACU receipts	1556.55	1556.55	2245.13	2245.13	2245.13	0.0	44.2	26.9
GDP (quarterly, red colour = forecast)	9228.93	8558.56	6401.16	7771.44	8330.99	-	-	-

Source: Central Bank of Lesotho and Ministry of Finance

TOTAL OUTLAYS BY FUNCTIONS OF GOVERNMENT³

Consistent with the above section, total outlays by functions of Government declined during the period under review. The major declines were observed under housing, followed by economic affairs and health functions. Ministry of Water, with compensation of employees and grants, was responsible for the decline under housing function, while that in economic affairs was mainly due to the low grants by the Ministry of Trade and Industry, and other expenses in the Ministry of Development Planning. The decline in health outlays was attributed to compensation of employees, subsidies and social benefits.

Capital outlays increased more than two fold during the third quarter of the fiscal year, with major increases observed under functions of public order and safety, housing and general public services. The observed increase in public order and safety spending was largely due to mobilisation and improvement of the judicial services. Housing outlays increased mainly on account of maintenance of public assets. Finally, the general public service function increased because of compensation of employees from the Ministry of Finance.

Table 3: Total Outlays by Functions of Government (Million Maloti)

	2019/20		2020/21			Q-to-Q (%)	Y-on-Y (%)	GDP ratio (%)
	Q3	Q4	Q1	Q2	Q3			
Recurrent Outlays	3027.70	3284.35	2692.45	3588.68	3278.44	-8.6	8.3	39.4
General public services	367.76	475.31	350.40	520.65	662.09	27.2	80.0	7.9
Defense	144.91	153.09	137.24	155.23	147.03	-5.3	1.5	1.8
Public order and safety	311.46	294.29	278.41	330.53	315.76	-4.5	1.4	3.8
Economic affairs	474.22	524.37	416.08	528.79	285.06	-46.1	-39.9	3.4
Environmental protection	5.26	3.57	2.63	4.45	4.54	2.1	-13.7	0.1
Housing and community amenities	40.05	82.17	27.46	74.32	33.11	-55.5	-17.3	0.4
Health	512.96	606.20	382.69	750.64	555.48	-26.0	8.3	6.7
Recreation, culture and religion	25.81	25.91	22.05	25.06	20.19	-19.4	-21.8	0.2
Education	658.64	586.35	559.39	643.84	695.76	8.1	5.6	8.4
Social protection	486.63	533.09	516.09	555.15	559.41	0.8	15.0	6.7
Capital Outlays	611.98	60.11	0.00	5.59	315.74	5544.4	-48.4	3.8
General public services	120.42	16.52	0.00	2.25	107.89	4688.0	-10.4	1.3
Defense	12.79	0.00	0.00	0.00	8.64	-	-	0.1
Public order and safety	71.86	15.40	0.00	0.39	78.80	20007.3	9.7	0.9

³ This COFOG excludes interest payments and financing items (ie loan principal repayments and payment of arrears). The classification of Lesotho's COFOG is compatible with the IMF's GFS manual of 2014.

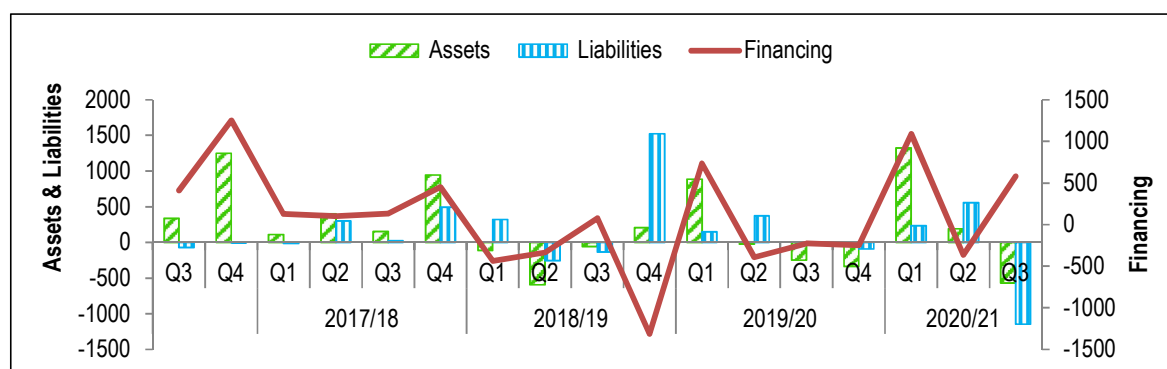
Economic affairs	203.68	9.01	0.00	1.58	22.59	1334.1	-88.9	0.3
Environmental protection	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Housing and community amenities	111.75	2.28	0.00	1.37	89.50	6416.1	-19.9	1.1
Health	23.20	10.14	0.00	0.00	1.03	#DIV/0!	-	0.0
Recreation, culture and religion	48.64	5.94	0.00	0.00	3.70	-	-92.4	0.0
Education	19.64	0.82	0.00	0.00	3.59	-	-81.7	0.0
Social protection	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Total Outlays	3639.67	3344.46	2692.45	3594.27	3594.18	0.0	-1.2	43.1
General public services	488.18	491.82	350.40	522.91	769.98	47.2	57.7	9.2
Defense	157.70	153.09	137.24	155.23	155.67	0.3	-1.3	1.9
Public order and safety	383.32	309.70	278.41	330.92	394.56	19.2	2.9	4.7
Economic affairs	677.90	533.38	416.08	530.37	307.65	-42.0	-54.6	3.7
Environmental protection	5.26	3.57	2.63	4.45	4.54	2.1	-13.7	0.1
Housing and community amenities	151.80	84.45	27.46	75.69	122.60	62.0	-19.2	1.5
Health	536.16	616.34	382.69	750.64	556.52	-25.9	3.8	6.7
Recreation, culture and religion	74.44	31.85	22.05	25.06	23.89	-4.7	-67.9	0.3
Education	678.28	587.17	559.39	643.84	699.35	8.6	3.1	8.4
Social protection	486.63	533.09	516.09	555.15	559.41	0.8	15.0	6.7
Unidentified Outlays	264.20	758.82	392.85	856.81	290.90	-66.0	10.1	3.5

Source: Ministry of Finance

FINANCIAL ASSETS AND LIABILITIES⁴

Government financials recorded a fall in both financial assets and liabilities. The decline in financial assets came from a drawdown in currency and deposits, whereas the decline in liabilities was caused by redemption of a 7-year Treasury bond as well as a decline in other accounts payable. These liabilities were financed by the surplus realised this quarter.

Figure 21: Total Financing (Million Maloti)



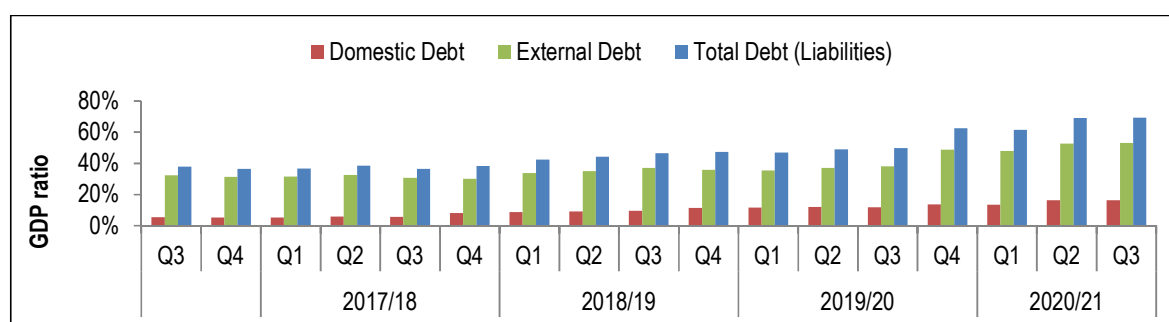
Source: Central Bank of Lesotho and Ministry of Finance

⁴ All categories are on net terms. The difference between financing and net lending is captured under other accounts payable. However, existing statistical discrepancy caters for some funds in the banks that are totally unexplained as they are highly aggregated.

TOTAL PUBLIC DEBT⁵

The stock of public debt was estimated at 69.4 per cent of GDP at the end of the quarter under review, reflecting an increase of 0.2 per cent from the previous quarter. The increase in debt was driven by external loan disbursements, while domestic debt slightly declined. Domestic debt declined despite bond issuance as a result of a partial redemption of a 7-year Treasury bond during the quarter. On year-on-year basis, the public debt stock increased by 26.3 per cent in the fiscal quarter ending in December 2020, subsequent to a revised increase of 28.1 per cent in the fiscal quarter ending September 2020. The increase was observed under both external debt and domestic debt.

Figure 22: Outstanding Public Debt (*Million Maloti*)



Source: Central Bank of Lesotho and Ministry of Finance

⁵ All categories are on net terms. The stock of public external debt is converted using an end-of-period exchange rate.

Table 4: Public Debt Stock (Million Maloti)

	2019/20		2020/21			Q-to-Q (%)	Y-on-Y (%)	Debt/GDP (%)
	Q3	Q4	Q1	Q2	Q3			
Total Public Debt	17057.40	19463.77	19107.58	21509.18	21544.83	0.2	26.3	69.4
EXTERNAL DEBT	13013.53	15171.66	14904.22	16409.27	16515.41	0.6	26.9	53.2
Bilateral Loans	1044.28	1223.43	1160.64	1158.44	1119.44	-3.4	7.2	3.6
Concessional	1044.28	1223.43	1160.64	1158.44	1119.44	-3.4	7.2	3.6
Non-concessional	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Multilateral Loans	11001.83	12771.51	12546.95	13217.81	13307.91	0.7	21.0	42.8
Concessional	9459.91	11239.39	11033.95	11672.62	11726.14	0.5	24.0	37.8
Non-concessional	1541.92	1532.13	1513.00	1545.19	1581.77	2.4	2.6	5.1
Financial Institutions	0.00	0.00	0.00	0.00	0.00	-	#DIV/0!	0.0
Concessional	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Non-concessional	0.00	0.00	0.00	0.00	0.00	-	#DIV/0!	0.0
Suppliers' Credit	967.42	1176.72	1196.63	2033.03	2088.06	2.7	115.8	6.7
DOMESTIC DEBT	4043.87	4292.11	4203.36	5099.91	5029.42	-1.4	24.4	16.2
Banks	2721.48	2652.11	2562.01	3381.10	3364.07	-0.5	23.6	10.8
Long-term	1481.45	1584.37	1490.65	2323.66	2318.45	-0.2	56.5	7.5
Treasury bonds	963.96	980.55	981.71	1012.60	1096.06	8.2	13.7	3.5
Central Bank (IMF-ECF)	517.49	603.82	508.94	1311.05	1222.39	-6.8	136.2	3.9
Short-term (t-bills)	1240.04	1067.74	1071.36	1057.44	1045.63	-1.1	-15.7	3.4
Non-bank	1322.38	1640.00	1641.35	1718.81	1665.35	-3.1	25.9	5.4
Short-term (t-bills)	241.67	237.93	240.44	254.61	261.60	2.7	8.2	0.8
Long-term (t-bonds)	1080.71	1402.07	1400.91	1464.20	1403.74	-4.1	29.9	4.5
DEBT INDICATORS								
External Debt-to-Total Debt	76.3	77.9	78.0	76.3	76.7	-	-	-
Domestic Debt-to-Total Debt	23.7	22.1	22.0	23.7	23.3	-	-	-
Concessional Debt-to-External Debt	80.7	82.1	81.8	78.2	77.8	-	-	-
External Debt Service-to-GDP	2.2	2.5	2.8	2.6	1.7	-	-	-
External Debt Service-to-Revenue	5.5	5.3	4.5	4.9	2.9	-	-	-
External Debt Service-to-Exports	4.8	5.2	9.2	5.2	3.3	-	-	-

Source: Central Bank of Lesotho and Ministry of Finance

6. Foreign Trade and Payments

OVERVIEW

The external sector position improved to a surplus equivalent to 6.5 per cent of GDP during the last quarter of 2020, higher than a surplus equivalent to 2.8 per cent of GDP in the preceding quarter. The observed surplus on the external sector mainly emanated from the narrowing of the current account deficit. The external sector position was further supported by the higher surplus in the capital account together with increased financial account outflows during the quarter under review.

CURRENT ACCOUNT

The deficit in the current account narrowed down by 74.8 per cent to M200.95 million during the fourth quarter of 2020, following an upwardly revised deficit of M796.94 in the previous quarter. This resulted from the contraction in the goods and services account deficit, together with increased surpluses in both the primary income account and the secondary income account. As a percentage of GDP, the current account deficit accounted for 2.4 per cent in the quarter under review from a deficit of 10.3 percent in the preceding quarter.

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

	2019	2020				% Changes	
	Q4	Q1	Q2	Q3*	Q4+	Q/Q	Y/Y
Current Account	-128,05	25.28	78.89	-796.94	-200.95	74.8	-56.9
(a) Goods	-2301.72	-2366.67	-2735.67	-3578.55	-3051.97	14.7	-32.6
Merchandise exports, f.o.b.	4312.34	4122.97	1962.37	3987.25	4298.70	7.8	-0.3
Of which diamonds	1048.09	1066.43	525.57	1153.46	1 217.29	5.5	16.1
Of which textiles & clothing	2506.01	2095.24	928.34	2211.63	2 424.11	9.6	-3.3
Of which water	148.67	234.78	255.44	253.07	287.56	13.6	93.4
Of which agriculture	96.08	86.51	85.75	86.50	105.53	22.0	9.8
Of which re-exports	213.70	36.31	19.52	36.87	34.59	-6.2	-83.8
Other exports	299.79	603.70	151.75	245.72	229.62	-6.6	-23.4
Merchandise imports, f.o.b.	6614.06	6498.64	4698.04	7565.80	7350.67	-2.8	11.1
(b) Services	-1467.29	-1426.54	-1279.14	-1 499.41	-1 477.66	1.5	-0.7
(c) Primary Income	1549.34	1588.32	1347.86	1505.85	1 533.21	1.8	-1.0
(d) Secondary Income	2091.61	2230.17	2745.84	2775.18	2 795,48	0.7	33.7

Source: Central Bank of Lesotho

Merchandise Exports

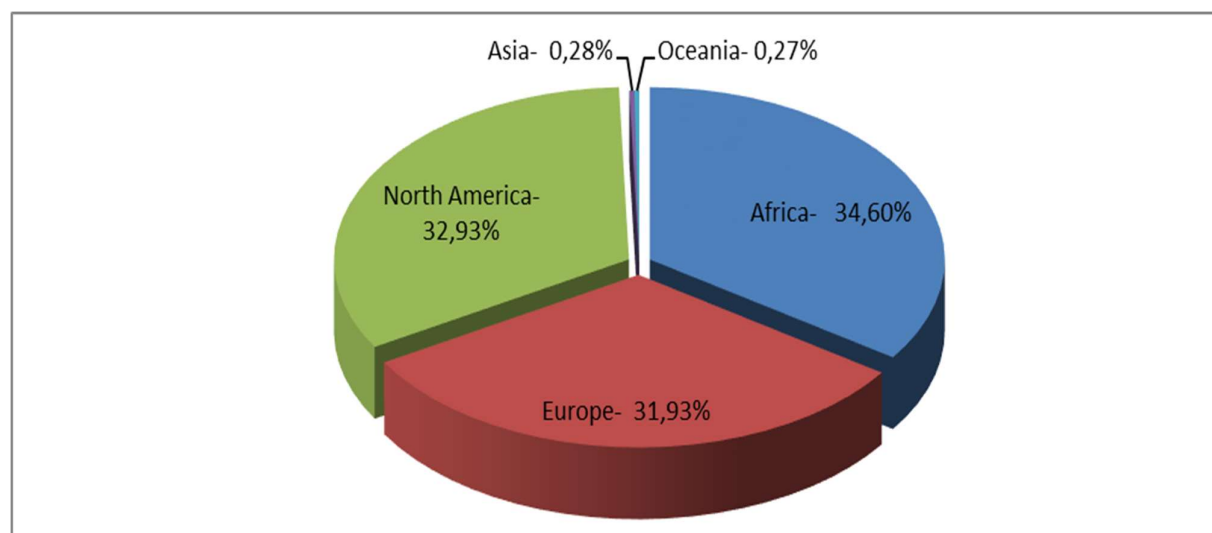
Merchandise exports grew by 7.8 per cent during the quarter ending in December 2020, after increasing more than two-fold in the third quarter of 2020. This was attributable to an increase in exports of diamonds, textiles and clothing, water and agriculture related

commodities. Diamond exports were boosted mostly by the recovery of high value carats in one of the mines, as well as favourable prices of diamonds in the international markets. Meanwhile, textiles and clothing exports rose on account of increased demand by Lesotho’s major textiles and clothing markets – the US and South Africa. The increase in exports was further supported by a rise in water and agricultural products (comprising of mostly fish, live animals and vegetables). Relative to the same period last year, exports edged down by 0.3 per cent, after increasing by 2.7 per cent in the previous quarter. As a ratio of GDP, merchandise exports accounted for 52.3 per cent, a slight fall from 51.3 per cent in the third quarter of 2020.

Direction of Trade - Exports

During the last quarter of 2020, the largest share of Lesotho’s exports, constituting 34.6 was destined to Africa. They comprised mostly textiles and clothing, and food and live animals to South Africa, as well as medicaments and textiles and clothing exports to the Kingdom of Eswatini. the second largest share of exports, 32.9 per cent, went to North America. , It consisted exclusively of textiles and clothing to the US, Canada and Mexico. Europe came third with exports accounting for 31.9 per cent, comprising mostly of diamond exports to Belgium and textiles and clothing to Germany. Exports to Asia and Oceania continued to comprise the least shares of 0.3 per cent each.

Figure 23: Direction of Merchandise Exports (Percentage Share)



Source: Central Bank of Lesotho

Merchandise Imports

During the quarter ending in December 2020, merchandise imports contracted by 2.8 per cent, after increasing by 61.0 per cent in the previous quarter. Seven out of ten import

categories fell, with significant declines observed for food and live animals; manufactured goods classified chiefly by material; miscellaneous manufactured articles; and machinery & transport equipment. On an annual basis, imports rose by 11.1 per cent during this period, relatively lower than 13.4 per cent increase in the previous quarter. As a percentage of GDP, imports constituted 89.5 per cent, compared with 88.8 per cent share of GDP in the quarter ending in September 2020.

Services account

The deficit on the services account narrowed by 1.5 per cent during the fourth quarter of 2020, following a 17.1 per cent increase in the previous quarter. The deficit on the services account narrowed at a backdrop of reduced payments on telecommunication services acquired from abroad, as well as a decline in freight services in line with a fall in imports during the review quarter. However, business travel picked up from the very low levels observed in the past two quarters, but still remained below the pre-pandemic levels due to the resurgence of COVID-19 infections and ultimate re-imposition of lockdowns, curfews and other restrictive measures in most parts of the world. Relative to the same period a year ago, the deficit on the services account grew by a modest 0.9 per cent, after increasing by 3.4 per cent in the prior quarter. As a share of GDP, the services account deficit amounted to 17.7 per cent relatively lower than 22.3 per cent in the quarter ending September 2020.

Primary Income Account

The surplus on the primary income account rose by 1.8 per cent during the quarter ending in December 2020, easing from a 17.5 per cent expansion in the previous quarter. This was supported mostly by increased interest receipts on central bank's investments abroad, together with relatively higher receipts for Lesotho Highlands Water Project – Phase I maintenance and operational related costs. These increases were however, moderated by a reduction in interest receipts on commercial banks' investments held abroad, as well as a rise in interest payments on the government's foreign loans. Year-on-year, the surplus in the primary income account declined by 1.0 per cent, following a 4.7 per cent rise in the third quarter of 2020. As a proportion of GDP, the surplus amounted to 18.7 per cent, compared to 23.5 per cent share in the prior quarter.

Secondary Income Account

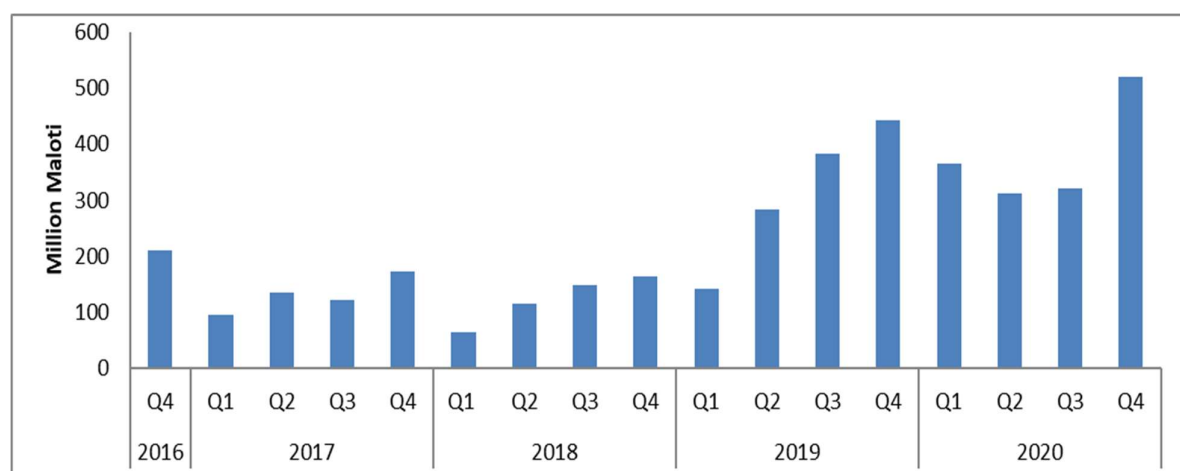
During the quarter ending in December 2020, the surplus on the secondary income account rose by 0.7 per cent, after increasing by 1.1 per cent in the third quarter of 2020. The surplus reflected the fall in subscriptions to international organisations during the quarter. Other components of the secondary income account, particularly SACU revenue

were unchanged during the quarter under review. On an annual basis, the surplus on the secondary income account rose by 3.7 per cent, following a robust 32.2 per cent gain in the previous quarter. As a percentage of GDP, the surplus on the secondary income account amounted to 34.0 per cent, comparatively lower than a 41.1 per cent recorded in the prior quarter.

CAPITAL ACCOUNT

The surplus on the capital account continued on an upward trajectory - it expanded by 62.5 per cent to M520.34 million during the period under review, following a revised 2.3 per cent rise or M320.12 million in the previous quarter. The account benefited from a marked increase in advanced infrastructure activities related to the Lesotho Highlands Water Project – Phase II, amid a continual easing of COVID-19 containment measures during the quarter under review. This was however offset by a modest contraction in capital grants for government related projects. On an annual basis, the surplus rose by 13.2 per cent, after a 13.1 per cent drop in the prior quarter. As a share of GDP, the surplus accounted for 6.3 per cent, easing from a share of 10.1 per cent in the previous quarter.

Figure 24: Capital Account (*Million Maloti*)



Source: Central Bank of Lesotho

FINANCIAL ACCOUNT

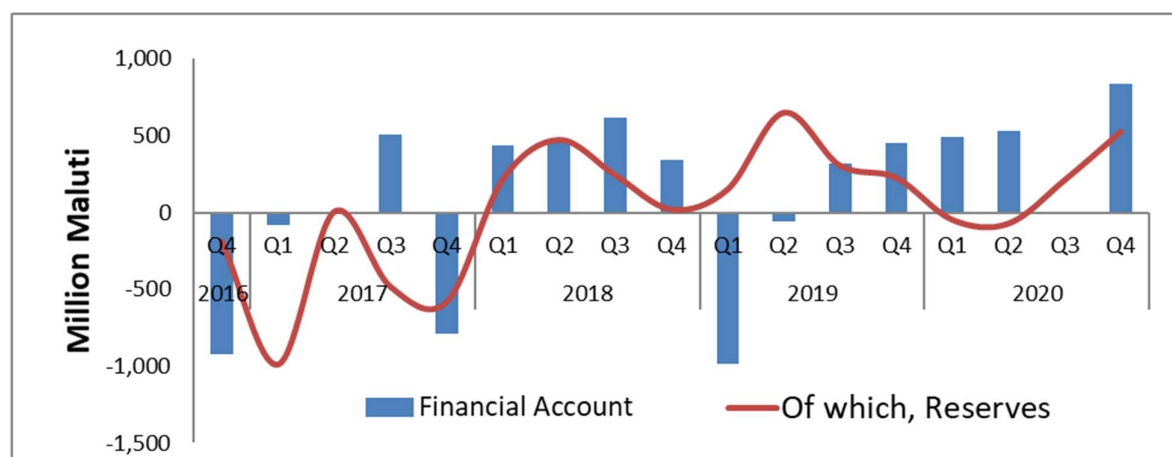
The financial account recorded a net outflow amounting to M812.40 million during the quarter under review compared to a net inflow amounting to M5.53 million in the previous quarter. As a share of GDP, the financial account outflows amounted to 9.9 per cent in the review quarter following 0.1 per cent in the third quarter of 2020.

Table 18: Financial Account Balance (Million Maloti)

	2019	2020			
	Q4	Q1	Q2	Q3	Q4
Financial account	453.19	584.31	532.24	-5.53	812.40
Direct Investments, net	-128.90	-128.90	-128.90	-128.90	-128.90
Portfolio Investments, net	7.10	7.10	7.10	7.10	7.10
Financial Derivatives, net	0.00	0.00	0.00	0.00	0.00
Other Investments, net	346.18	752.13	724.58	-97.24	404.73
Of which Loans	170.98	103.60	140.58	-644.44	223.80
Claims on Non Residents	34.48	34.48	34.48	34.48	34.48
Liabilities to Non Residents	-136.50	-69.12	-106.10	678.92	-189.32
Of which Currency and Deposits	249.26	722.59	658.06	621.26	253.98
Claims on Non Residents	230.78	671.98	558.81	630.05	277.42
Liabilities to Non Residents	-18.46	-50.61	-99.25	8.79	23.44
Reserve Assets	228.81	-46.02	-70.54	213.51	529.48

Source: Central Bank of Lesotho

The surge in the financial account outflows mainly emanated from a reduction in the foreign loan liabilities to the central bank as well as a decline in disbursements and repayments of foreign loans by the government during the fourth quarter of 2020 compared to the previous quarter. The quarter under review was preceded by a quarter in which the central bank had contracted RCF/RFI loans from the IMF, for balance of payments support, and this had a substantial increase in loan liabilities in the third quarter of 2020. Financial account outflows were further boosted by an increase in the central bank and commercial banks' claims on non-residents in form of currency and deposits during the last quarter of 2020 compared to the previous quarter. Commercial banks in particular increased their deposits abroad to manage excess liquidity.

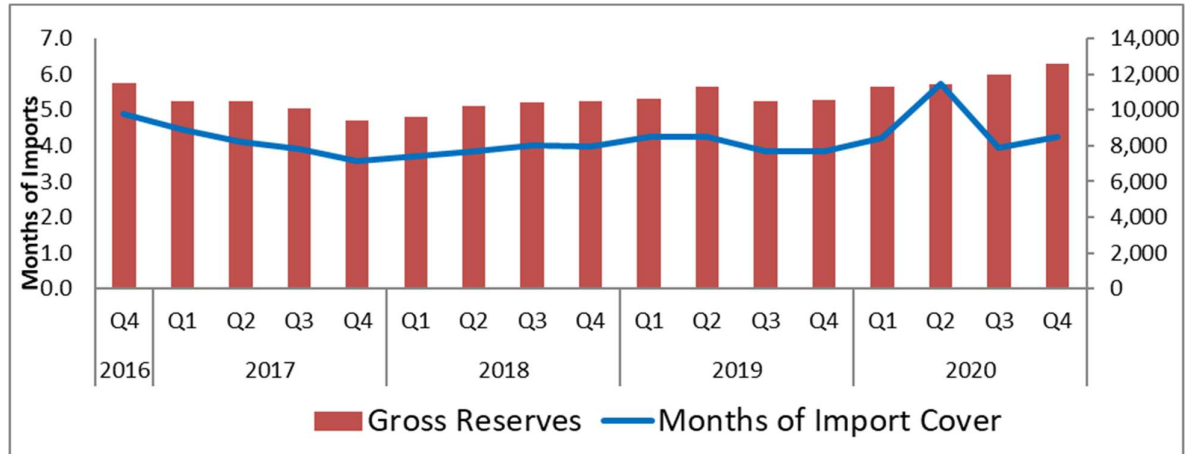
Figure 25: Financial Account (Million Maloti)

Source: Central Bank of Lesotho

RESERVE ASSETS

In the fourth quarter of 2020, the stock of international reserves grew to M12.60 billion from M11.97 billion in the previous quarter. This resulted from a build-up in government deposits during the quarter under. The observed increase in the stock of official reserves together with the decline in the import bill resulted in months of import cover rising to 4.3 months during the same quarter compared to 3.9 months in the previous quarter.

Figure 26: Reserves Assets



Source: Central Bank of Lesotho