

# Central Bank of Lesotho



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## QUARTERLY ECONOMIC REVIEW

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Maseru Kingdom of Lesotho

September, 2019

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# 1. Executive Summary

The global economic growth continued to slow down in the third quarter of 2019. Real GDP growth weakened in the major global economies, including China, bar Japan. Growth was driven mainly by trade, investment and manufacturing output. Generally, employment conditions improved in the review quarter. South Africa was an exception though, recording an eleven-year record high in unemployment. Inflationary pressures continued to abate globally, and most central banks adopted a monetary easing path.

The domestic economy recovered from two successive contractions in September 2019, registering modest growth. The recovery was a result of increased domestic demand for goods and services, even though the manufacturing side continued to be under pressure with declining use of utilities, that is, water and electricity. The labour markets showed mixed signals, with the public sector employment growing, while the manufacturing and migrant mineworkers' employment declined. Lesotho and South Africa's inflationary pressures subsided in the quarter under review on account of declining oil prices.

The money supply (M2) grew during the review quarter in contrast to a decline observed in the previous quarter. The recovery was a result of an increase in both net foreign assets and domestic claims. Domestic claims grew as a result of accelerated execution in government budget, coupled with growth in credit to private sector, whereas net foreign assets growth was supported by increased private sector deposits, outstripping demand for credit.

Government budgetary operations resulted in a fiscal deficit equivalent to 3.4 per cent of GDP in the quarter under review (second fiscal quarter of 2019/20), compared to the surplus recorded in the preceding quarter. The deficit resulted from high spending on expenses and non-financial assets, offsetting a marginal increase in revenue collections. Public debt stock increased due to exchange rate depreciation and issuance of Treasury bonds.

External sector position worsened, mainly because of the deteriorating deficit in the current account. The decline of the sector was, however, moderated by the capital account surplus. Accordingly, months of import cover fell to 4.2 in the quarter under review from 4.5 in the quarter ending in June 2019.

## 2. International Economic Developments

### GLOBAL ECONOMIC DEVELOPMENTS

Growth in the global economy exhibited a generally broad-based slowdown in the third quarter of 2019. Growth weakened in both advanced and emerging economies, and was driven mainly by trade and investment, as well as, manufacturing output. The consumption was relatively resilient in the advanced countries, and also the services sector remained strong. The unemployment conditions improved further during the quarter in the advanced economies. On the contrary, unemployment situation deteriorated in South Africa and Japan. The major risks to global economy were the ongoing trade tension between the US and China, Brexit, as well as, escalation of other geopolitical tensions.

Inflationary pressures generally subsided in the major advanced economies, reflecting falling energy prices. Emerging economies experienced mixed inflation developments. In particular, inflation rose in China and India. The monetary policy remained accommodative in advanced economies. The major central banks embarked on a monetary policy easing path, with the Fed cutting its rate twice during the quarter and ECB also extending the timeframe for its asset purchasing programme. The Bank of Japan signalled further stimulus should economic activity continue to deteriorate. The risks and uncertainties were elevated in the global financial markets. As a result, the price of gold and platinum rose, driven by demand for safe haven assets. The oil prices declined, mainly due to fears of a global growth slowdown.

**Table 1: Key World Economic Indicators**

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	Q2-19	Q3-19	Q2-19	Q3-19	Q2-19	Q3-19	Q2-19	Q3-19
United States	2.3	2.0	1.6	1.7	2.50	2.00	3.7	3.5
Euro Area	1.2	1.1	1.3	0.8	0.00	0.00	7.5	7.5
Japan	0.9	1.3	0.7	0.2	-0.10	-0.10	2.3	2.4
United Kingdom	1.3	1.0	2.0	1.7	0.75	0.75	3.8	3.8
China	6.2	6.0	2.7	3.0	4.35	4.35	3.6	3.6
India	5.0	N/A	3.2	3.9	6.25	5.40	N/A	N/A
South Africa	0.9	N/A	4.5	4.1	6.75	6.50	29.0	29.1

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

### ADVANCED ECONOMIES

#### *United States (US)*

Growth in the US economy, measured by real GDP growth rate, slowed down to 2.0 per cent, down from 2.3 per cent in the second quarter of 2019. This benefited from stronger consumer spending, government spending, as well as, residential investment. However, there was a decline in the business

investment and a slowdown in the exports growth, which offset the gains made. The unemployment rate fell to 3.5 per cent during the quarter, from 3.7 per cent in the second quarter of 2019. The services sector remained resilient and contributed to moderate employment gains.

Annual inflation rate was registered at 1.7 per cent in the third quarter of 2019, up from 1.6 per cent in the preceding quarter. Inflation developments were mainly driven by a moderate increase in the food prices and transportation costs. The Federal Open Market Committee (FOMC) cut the key policy rate by 50 basis points to the target range of 1.75 - 2.0 per cent, during the third quarter of 2019. This was done to preserve robust economic activity, amid global economic slowdown risks, strong labour markets, and subdued inflation pressures.

### *Euro Area*

Growth in the Euro Area slowed down to 1.1 per cent during the third quarter of 2019, from a 1.2 per cent growth recorded in the previous quarter. The uncertain external environment weighed on the exports. The manufacturing sector remained under pressure, offsetting increase in a relatively resilient consumer spending. The rate of unemployment remained unchanged at 7.5 per cent that was observed in the previous quarter. The struggling industrial sector continued to shed jobs, but losses were offset by gains in the services sector.

Consumer prices rose at the slower pace of 0.8 per cent in the review period, compared with the 1.3 per cent increase in the second quarter of 2019. The falling inflation rate was on account of slowing prices of food and non-energy industrial goods. The European Central Bank kept the key policy rate unchanged at zero per cent in the third quarter of 2019 to stimulate economic growth and to prop up inflation towards its price stability target of 2.0 per cent. In addition, it scaled up on its asset purchase programme, by extending time to reinvest principal from maturing assets.

### *Japan*

Growth in Japan recovered slightly during the third quarter of 2019, after real GDP rose by 1.3 per cent, from 0.9 per cent in the preceding quarter. This was driven by household and investment spending, while exports declined moderating effect on growth. The unemployment rate increased to 3.4 per cent in the third quarter of 2019, from 3.3 per cent in the second quarter of 2019. This resulted from a decline in production sector employment.

The annual inflation rate fell to 0.2 per cent in the third quarter of 2019, from 0.7 per cent in the quarter ending in June 2019. The decline in the inflation rate was driven by a reduction in transportation and communication costs, due to declining gasoline prices and mobile phone fees. The Bank of Japan kept its key policy rate unchanged at -0.1 per cent in the quarter ending in September 2019 in order to support economic activity. The Bank also continued with the asset purchases programme to influence long-term interest rates.

### *United Kingdom (UK)*

Economic activity weakened in the UK, with real GDP growing at 1.0 per cent during the third quarter of 2019, following a 1.3 per cent growth in the previous quarter. The slowdown resulted from contraction in business investment spending and slowing government spending. However, resilient household spending and a moderate increase in exports dampened the decline. The unemployment rate remained unchanged at 3.9 per cent in the quarter under review.

Consumer Inflation rate fell to 1.7 per cent during the third quarter of 2019, from 2.0 per cent in the second quarter of 2019. The inflationary pressure was mostly abated by slowing transport costs, driven by a decline in the fuel prices. The Bank of England maintained its key policy rate at 0.75 per cent during the quarter under review.

## **EMERGING MARKETS**

### *China*

The real GDP increased at the annual rate of 6.0 per cent in the third quarter of 2019, following 6.2 per cent realised in the second quarter of 2019. The slowdown in the economic activity emanated from subdued domestic demand as the authorities continued their efforts to contain risks prevalent in the economy, coupled with the trade conflict with the US. The unemployment rate remained unchanged at 3.6 per cent during the third quarter of 2019.

Consumer inflation rose by 3.0 per cent in the quarter ending in September 2019 up from 2.7 in the previous quarter, mainly driven by food prices, as the pork prices rose further. The pork supplies were severely affected by African swine fever outbreak. The key policy rate in China was steady at 4.35 per cent during the third quarter of 2019. To extend support to the economy, the Bank of China reduced the level of required reserves, and introduced the loan prime rate as the benchmark for the credit extended to the private sector.

### *India*

India's economic activity was expected to have slowed down in the quarter ending in September 2019. The early indicators pointed to weakened domestic demand, due to the demonetisation process. Industrial output declined and exports were adversely affected by the unfavourable external environment.

Consumer inflation rate for India picked up to 3.9 per cent in the quarter ending in September 2019, from 3.2 per cent in the previous quarter. The increase was driven mainly by the food and housing prices. The Reserve Bank of India (RIB) cut the repo rate by 35 basis points to 5.4 per cent in the third quarter of 2019. In doing so, RIB considered the need to support economy as inflation remained below the target.



## South Africa

The economic activity indicators were mixed in the third quarter of 2019, but generally pointed to the weakened growth. Manufacturing output declined, while retail sales rose at the feeblor pace, and mining output was weaker during the review period. However, exports were resilient following the growth which exceeded the expectations in the second quarter of 2019. The unemployment worsened as the rate rose to 29.1 per cent in the third quarter of 2019, from 29.0 per cent in the previous quarter.

The annual consumer inflation rate for South Africa was 4.1 per cent in the third quarter of 2019, slowing down from 4.5 per cent in the preceding quarter. The observed slowdown was mainly driven by easing transport, housing and utilities costs. The Reserve Bank of South Africa kept the repo rate unchanged at 6.5 per cent in the third quarter of 2019.

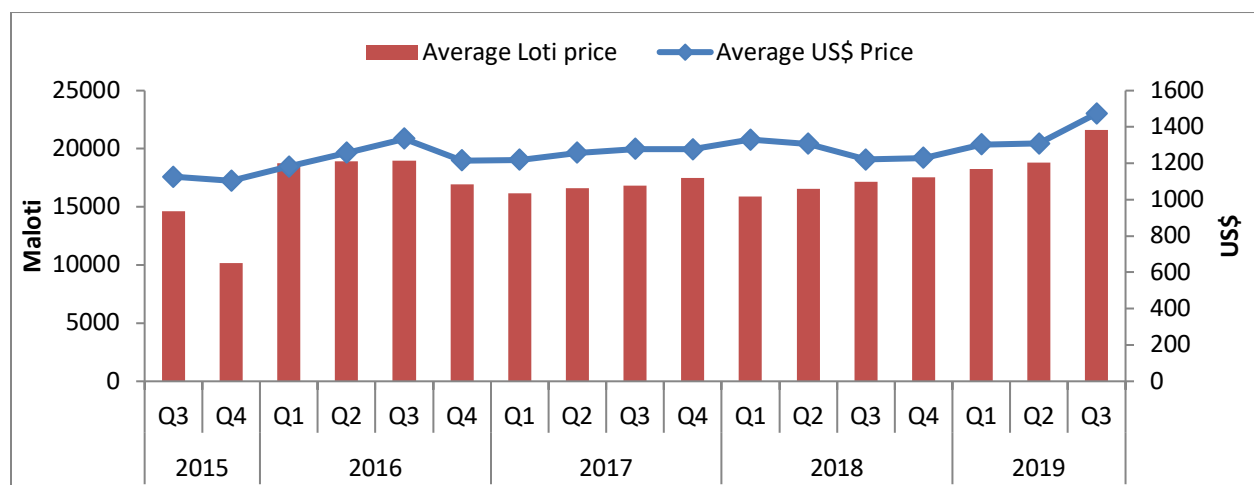
## COMMODITIES

### Minerals

#### Gold

The price of gold followed an upward trajectory during the third quarter of 2019, extending gains made in the previous quarter. The average price of gold increased by 12.7 per cent to US\$ 1474.31 an ounce, following a 0.3 per cent increase in the second quarter. It was boosted by increased demand for investment purposes, as reflected by a surge in the holding of gold-backed exchange traded funds (ETFs). The monetary policy easing in the major economies, trade policy uncertainty, geopolitical tensions, as well as, a rising proportion of negative yield bonds, steered volatility in the global financial markets. Therefore, this volatility led to increased inflows in the safe haven assets. However, the demand for jewellery, gold coins and bars weakened, with moderating effects on the gold price.

Figure 1: Average price of gold

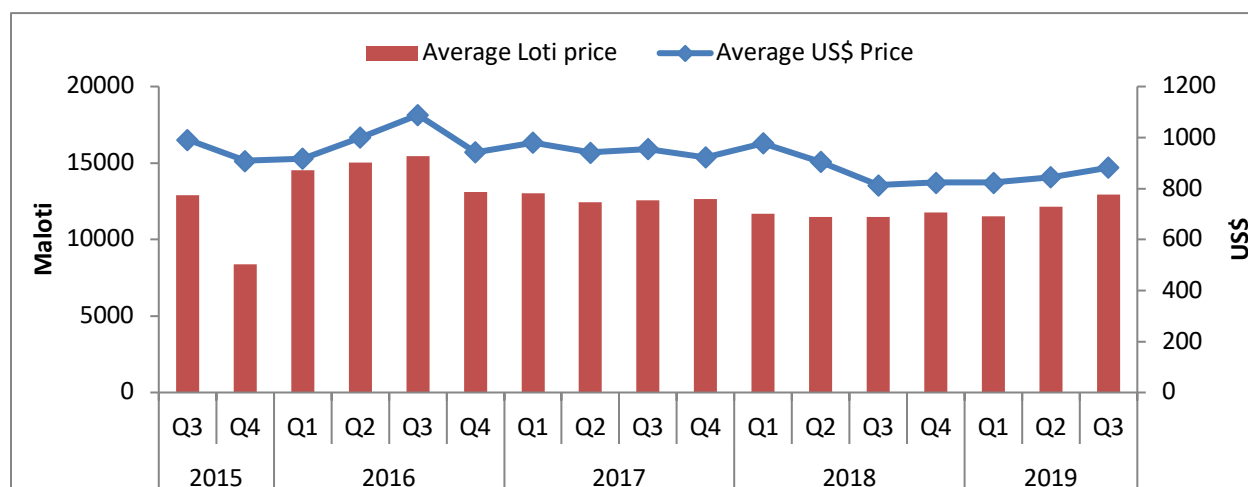


Source: Bloomberg

## Platinum

The price of platinum rose by the average of 4.3 per cent to US\$ 881.80 per ounce in the third quarter of 2019, following an increase of 2.7 per cent in the preceding quarter. The increase was mainly driven by narrowing surplus in the global markets, as demand rose faster than supply. Generally, the price of platinum rose alongside other safe haven assets, driven by escalating risks and uncertainties in the global financial markets. There was volatility in the global financial markets, especially in the capital markets.

**Figure 2: Average price of Platinum**



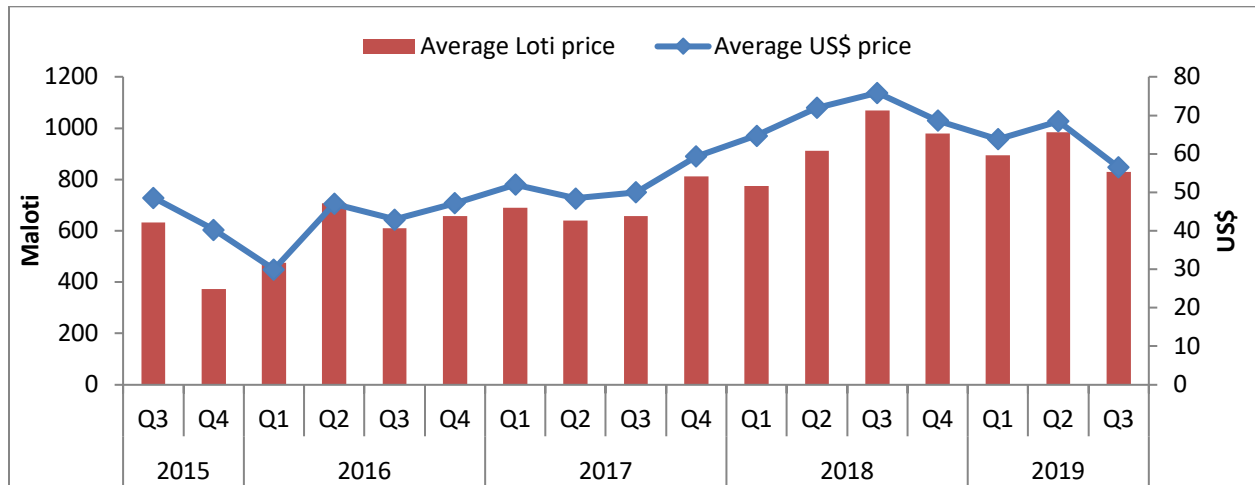
**Source:** Bloomberg

## Energy

### Crude Oil

The price of crude oil declined sharply to US\$ 56.52 a barrel during the third quarter of 2019 from US\$ 68.47 in the previous quarter, owing to concerns on global economic growth slowdown. There was a notable decline in the industrial production worldwide, as well as, in trade and investment, including in the major consuming countries. The supply in the global markets was relatively balanced, but increased for most non-OPEC producers.

Figure 3: Average price of oil



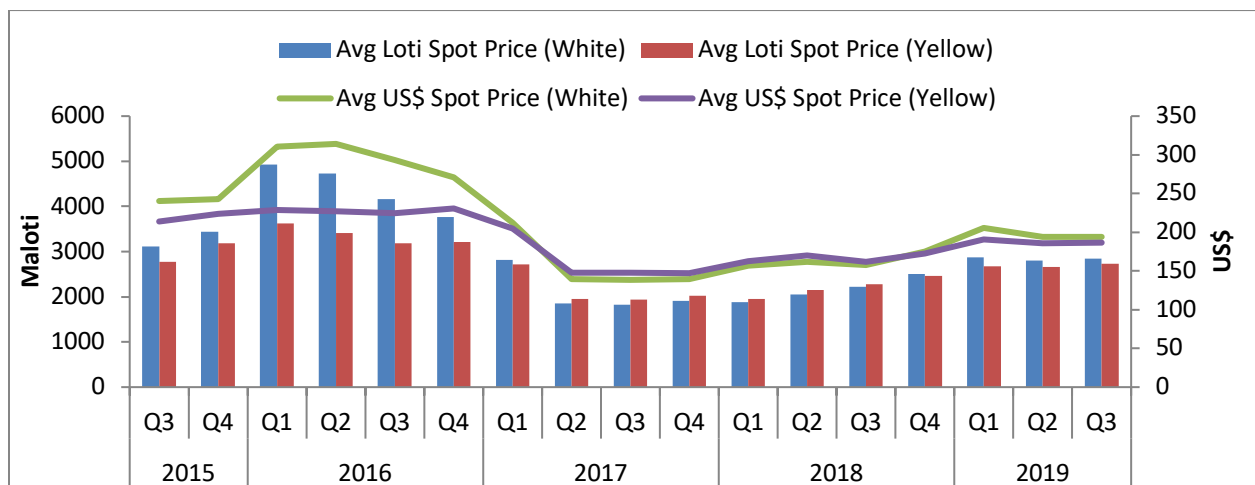
Source: Bloomberg

## Agricultural Products

### Maize

The prices of the white and yellow maize were mixed in the quarter under review. The average price of white maize registered a decline of 0.1 per cent to US\$ 194.24 per tonne, following a decline of 5.4 per cent in the second quarter of 2019. The price of yellow maize, however, rose by 0.5 per cent to US\$186.28 per tonne, recovering from a decline of 2.9 per cent in the previous quarter. On the one hand, prices of yellow maize were boosted by increased demand for feeding and tight supply conditions. On the other hand, the price of white maize fell due to weaker demand in the global markets, particularly, decreased demand for industrial use, such as production of ethanol for fuel.

Figure 4: Average price of maize

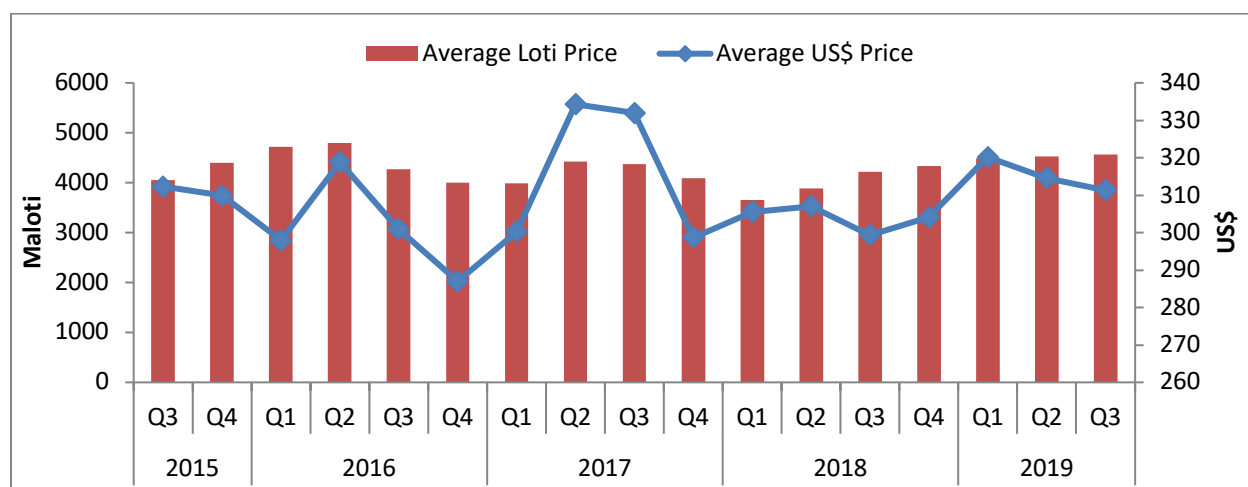


Source: Bloomberg

## Wheat

The average price of wheat declined further in the third quarter of 2019, extending a trend seen since the first quarter of 2019. The price of wheat declined by 1.0 per cent to US\$ 311.37 per tonne in the third quarter of 2019, following a 1.7 per cent fall in the previous quarter. The decline in the wheat prices reflected excess supply of the commodity in the global markets. There were high inventories of wheat at the end of the quarter due to, amongst others, high stock piles in the US, Russia and Europe.

Figure 5: Average Price of Wheat

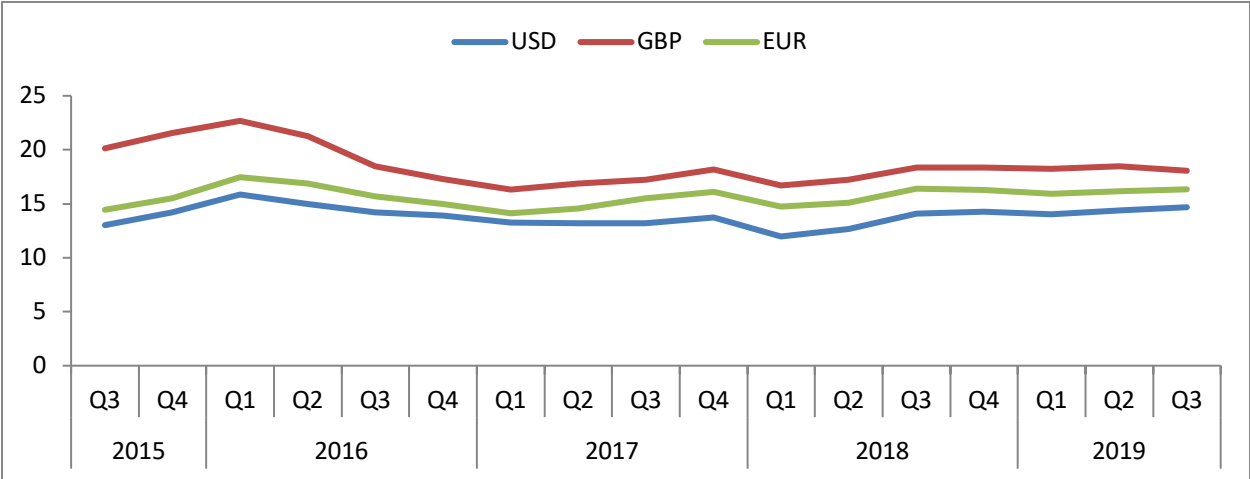


Source: Bloomberg

## EXCHANGE RATES

The rand hence the loti displayed a mixed performance against the major trading currencies, during the third quarter of 2019. In particular, it depreciated by 0.9 per cent and 2.0 per cent against the US dollar and the euro, respectively, while it appreciated by 2.1 per cent against the pound. The rand remained under pressure during the quarter on account of weaker economic outlook in South Africa. With regard to the pound, the rand gained due to escalating risks associated with Brexit in the UK.

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



Source: Bloomberg

### 3. Real Sector Developments

#### OVERVIEW

The domestic economy was estimated to have recovered in the third quarter, after contracting in the past two quarters. The labour markets showed mixed signals as government of Lesotho (GoL) recorded growth in employment, whereas employment in LNDC-assisted companies and migrant mineworkers continued to decline. Inflationary pressures continued to abate in the review quarter, with both headline and core inflation declining.

#### OUTPUT DEVELOPMENTS

Economic activity indicator, the QIEA, estimated the economy to have grown by 0.3 per cent in the third quarter, following a 1.0 per cent contraction in the preceding quarter. The recovery mainly emanated from the demand side of the economy, which registered a 0.6 per cent increase. The domestic demand was boosted by improvement in VAT collections, as well as, imports of goods and services from South Africa. Moreover, the transport and construction sectors also contributed positively to growth. Nonetheless, the expansion was moderated by the continued contraction in the manufacturing sector. The sector declined at a slower pace of 0.4 per cent in the third quarter of 2019 compared to 1.4 per cent in the preceding quarter. Utilities consumption (water and electricity) also contributed to the decline in production side.

Figure 7: Quarterly Indicator of Economic Activity



Source: Central Bank of Lesotho

**Table 2: Contributions to Growth**

Indices	2018		2019		
	Q3	Q4	Q1	Q2	Q3
<b>CIEA</b>	<b>116.6</b>	<b>117.2</b>	<b>117.1</b>	<b>115.9</b>	<b>116.2</b>
Quarter-on-quarter changes	1.0	0.6	-0.2	-1.0	0.3
<b>Domestic Demand</b>	<b>116.2</b>	<b>116.7</b>	<b>117.3</b>	<b>115.4</b>	<b>116.1</b>
Quarter-on-quarter changes	1.7	0.4	0.6	-1.6	0.6
<b>Manufacturing and Production Category</b>	<b>108.5</b>	<b>108.7</b>	<b>107.8</b>	<b>106.3</b>	<b>105.9</b>
Quarter-on-quarter changes	0.2	0.2	-0.8	-1.4	-0.4

**Source:** Central Bank of Lesotho

## EMPLOYMENT DEVELOPMENTS

Firms assisted by the LNDC shed jobs by 1.6 per cent in the third quarter of 2019, following a contraction of 1.0 per cent in the preceding quarter. The demand for labour in the manufacturing sector was suppressed by the global economic slowdown as orders from both the U.S and South Africa were curtailed. The most declines were recorded in the woven garments, footwear, Fabric, Yarn e.t.c.. Nonetheless, the knit garments, which accounts for over 50.0 per cent of the total employment moderated the contraction in employment.

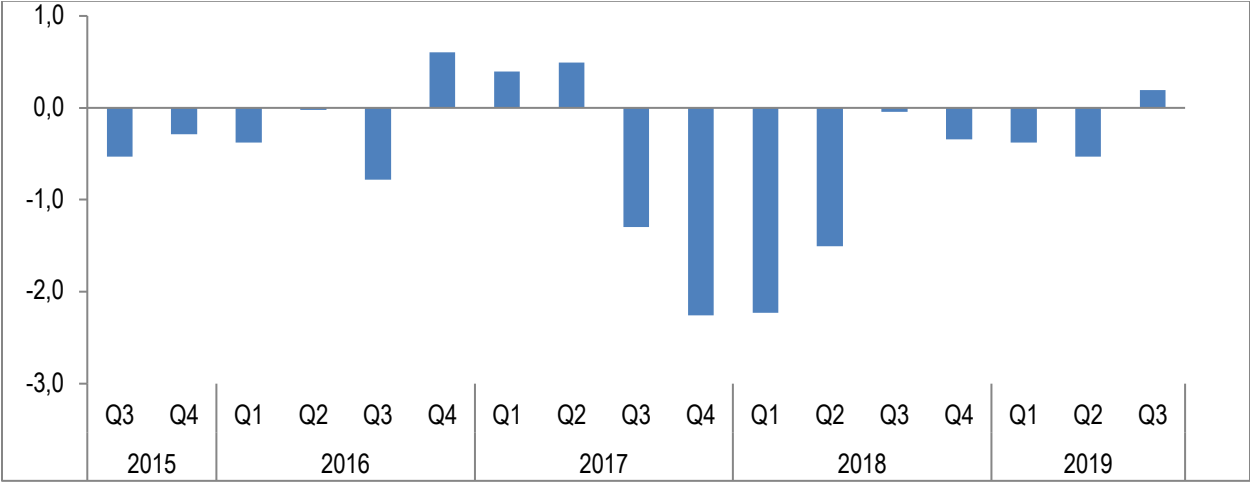
**Table 3: Employment by LNDC-Assisted Companies**

Industry	2018		2019			% Change	
	Q3	Q4	Q1	Q2	Q3	Q/Q	Y/Y
Knit Garments.....	27436	26771	27559	26425	28476	7.8	3.8
Woven Garments.....	17515	17166	15812	15260	15803	3.6	-9.8
Footwear.....	998	1010	1023	937	934	-0.3	-6.4
Fabrics, Yarn etc.....	1835	1839	1782	2718	1818	-33.1	-0.9
Construction.....	345	344	385	373	375	0.5	8.7
Food & Beverages.....	724	708	705	588	480	-18.4	-33.7
Electronics.....	942	974	928	1676	1029	-38.6	9.2
Retail.....	170	168	168	213	217	1.9	27.6
Hotel Accommod.....	515	515	576	389	394	1.3	-23.5
Other.....	1063	1047	1149	1210	1216	0.5	14.4
<b>TOTAL.....</b>	<b>51543</b>	<b>50542</b>	<b>50087</b>	<b>49789</b>	<b>50742</b>	<b>1.9</b>	<b>-1.6</b>

**Source:** Lesotho National Development Corporation

Employment by the public sector increased marginally by 0.1 per cent in the third quarter of 2019 compared with a contraction of 0.5 per cent recorded in the preceding quarter. The number of civil servants mainly contributed to the increase in government employment. The health was one of the major contributors to growth.

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

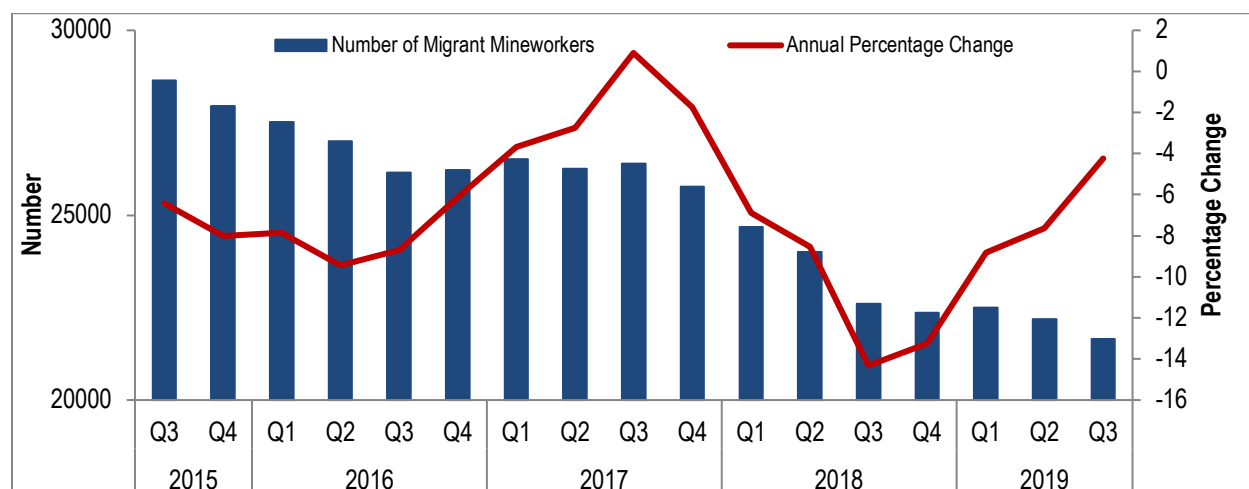


**Source:** Ministry of Finance

The number of Basotho migrant mineworkers continued to decline, albeit at a slower pace of 4.2 per cent in the third quarter of 2019, relative to 7.6 per cent recorded in the preceding quarter. The continued decline was attributed to some external factors such as the sustained low price challenges by the platinum and diamond mines, as well as, the internal factors, which include aging infrastructure and lack of appropriate skills, among others.



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



Source: The Employment Bureau of Africa (TEBA)

## PRICE DEVELOPMENTS

Inflation rate, measured as the year-on-year change in Consumer Price Index (CPI), declined by 0.5 percentage points from 5.6 per cent estimated in June 2019 to 5.1 per cent estimated in September 2019. The main driver of the deceleration was the fall in energy prices, especially the fall in international crude oil prices, which was moderated by rising food prices, as well as, the depreciation of the Loti against major trading currencies.

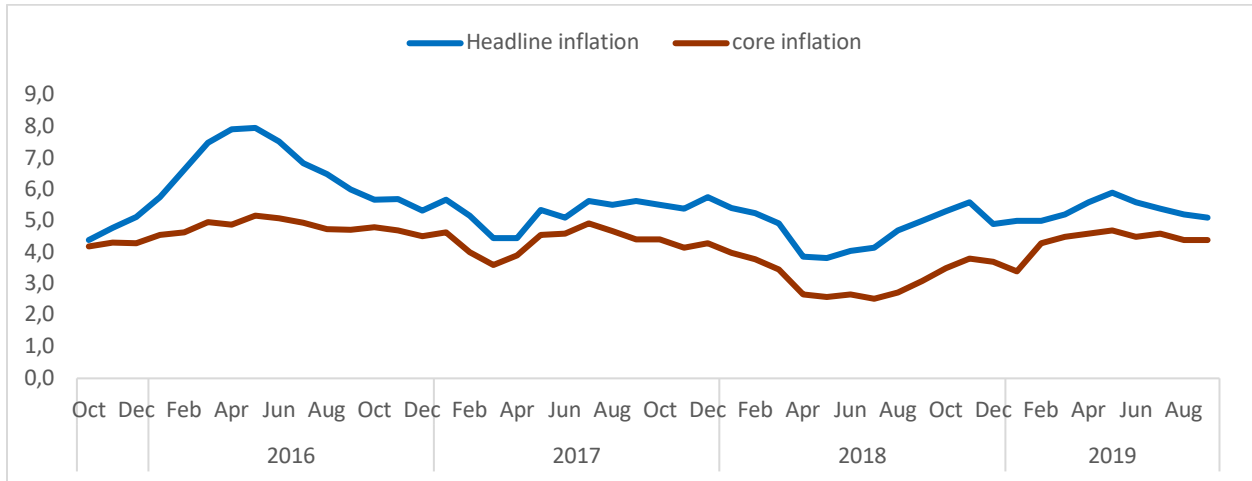
**Table 4: Inflation Rate** (Annual Percentage Changes)

	Weight	2019				
		May	Jun	Jul	Aug	Sep
<b>All items</b>	<b>1000</b>	<b>5.9</b>	<b>5.6</b>	<b>5.4</b>	<b>5.2</b>	<b>5.1</b>
Food and non-alcoholic beverages	<b>361.13</b>	7.1	6.7	6.6	7.5	7.4
Alcoholic beverages & Tobacco	<b>33.31</b>	4.9	4.9	5.3	5.0	5.2
Clothing & footwear	<b>130.57</b>	3.5	3.6	3.7	3.3	3.8
Housing, electricity gas & other fuels	<b>123.97</b>	11.8	10.5	9.2	7.7	7.5
Furniture, households equipment & routine maintenance	<b>84.77</b>	3.0	3.0	3.1	3.0	3.3
Health	<b>15.04</b>	0.7	0.7	0.7	0.7	0.7
Transport	<b>48.21</b>	7.6	6.5	5.1	-0.3	-1.4
Communication	<b>21.05</b>	1.2	1.2	1.1	1.1	0.2
Leisure, entertainment & Culture	<b>57.08</b>	4.7	4.8	4.6	4.6	3.3
Education	<b>42.00</b>	1.0	1.0	1.0	1.0	1.0
Restaurant & Hotels	<b>10.30</b>	2.0	1.7	1.7	1.9	2.1
Miscellaneous goods & services	<b>72.59</b>	3.3	3.5	3.8	3.4	3.7

Source: Bureau of Statistics

Core inflation, which excludes the CPI items with extreme price changes, also decelerated at an estimated rate of 4.4 per cent in the third quarter of 2019 from 4.5 per cent recorded in the preceding quarter. The headline inflation was moving in tandem with the underlying pressures in the economy.

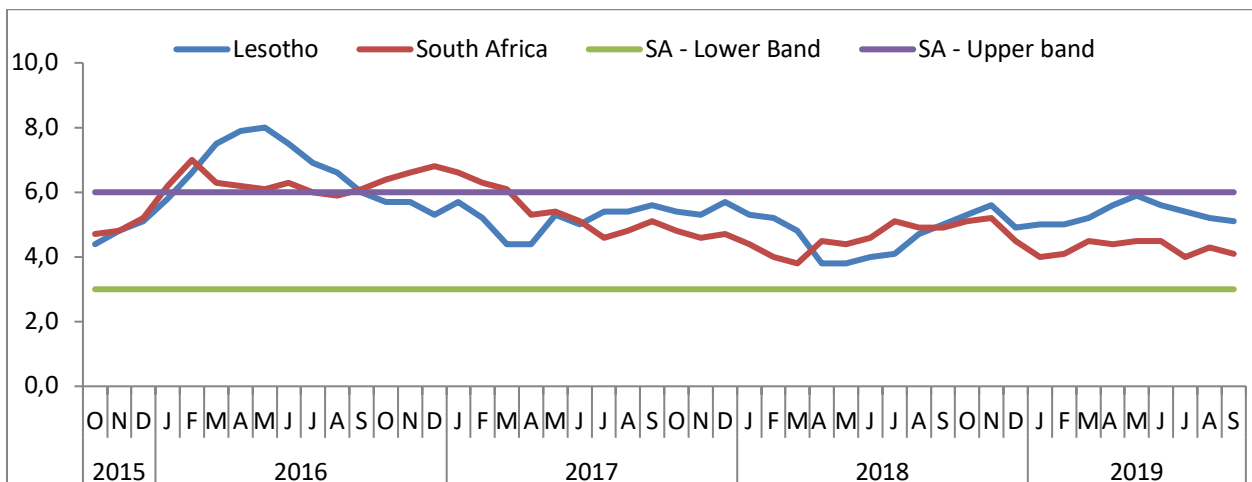
**Figure 10: Core vs Headline Inflation**



**Source:** CBL Computations

On a comparative basis, the Lesotho and SA inflation rates continued to move in tandem spiralling downwards during the review period. Lesotho’s inflation rate was above that of South Africa by 1.0 percentage points in both June 2019 and September 2019. Lesotho’s estimated inflation rate was 5.1 per cent in September after falling from 5.6 per cent in June 2019, while that of South Africa fell to 4.1 per cent during the review period from 4.5 per cent in the preceding quarter.

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



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

## 4. Monetary and Financial Developments

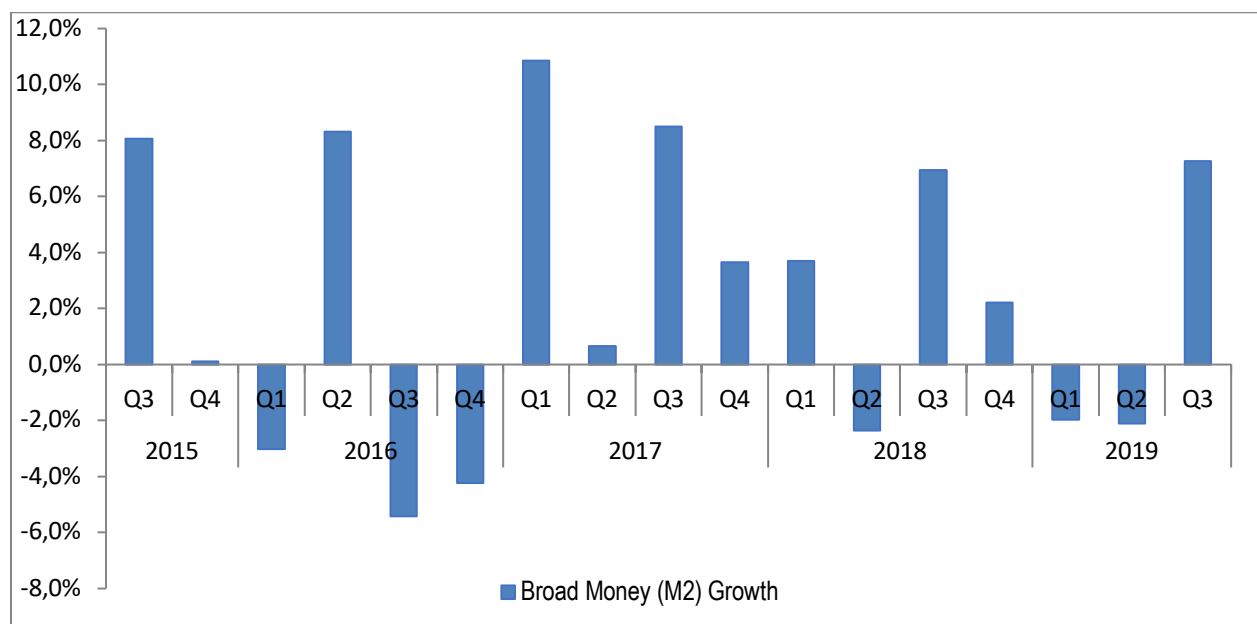
### OVERVIEW

During the third quarter of 2019, money supply increased by 7.2 per cent, following a rise in both net foreign assets (NFA) and domestic claims. The increase in domestic claims was at the back of acceleration in net claims on central government coupled with a growth in credit to private sector. Furthermore, total deposits rose during the review quarter, and led to an upsurge in commercial banks' NFA, notwithstanding the observed increase in credit extension.

### BROAD MONEY (M2)

Broad measure of money supply (M2) grew by 7.2 per cent during the quarter ending September 2019, compared with a 2.1 per cent decline observed during the previous quarter. On annual basis, money supply increased by 5.2 per cent, following a growth of 4.9 per cent in the previous quarter. The quarterly increase in money supply was on account of a rise in domestic claims, as well as, an increase in net foreign assets.

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



**Source:** Central Bank of Lesotho

## Determinants of M2

### Domestic Claims

Domestic claims, including net claim on government, increased by 20.0 per cent during the quarter under review, compared to a 6.1 per cent decline during the second quarter of 2019. The notable growth in domestic claims was on account of an accelerated spending by the government, as well as, an increase in claims on other sectors following a growth in private sector credit

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

	2018		2019			Changes(%)	
	Sept	Dec	Mar	Jun	Sept	Quarterly	Annual
<b>Domestic Claims</b>	<b>6154.84</b>	<b>6401.46</b>	<b>6705.95</b>	<b>6296.08</b>	<b>7551.89</b>	<b>19.95</b>	<b>22.70</b>
<b>Net Claims on Government</b>	<b>-811.16</b>	<b>-665.51</b>	<b>-314.60</b>	<b>-964.42</b>	<b>-239.36</b>	<b>75.18</b>	<b>70.49</b>
<b>Commercial Banks Net Claims</b>	<b>1283.37</b>	<b>1391.33</b>	<b>1944.32</b>	<b>2007.85</b>	<b>2087.88</b>	<b>3.99</b>	<b>62.69</b>
Claims on Central Government	1288.88	1396.23	1950.66	2013.54	2088.54	3.72	62.04
Liabilities to Central Government	5.51	4.90	6.34	5.69	0.67	-88.26	-87.88
<b>Central Bank Net Claims</b>	<b>-2094.53</b>	<b>-2056.84</b>	<b>-2258.92</b>	<b>-2972.27</b>	<b>-2327.24</b>	<b>21.70</b>	<b>-11.11</b>
Claims on Central Government	753.93	729.75	706.34	716.31	720.65	0.60	-4.41
Liabilities to Central Government	2848.46	2786.58	2965.26	3688.58	3047.88	-17.37	7.00
<b>Claims on Other Sectors</b>	<b>6966.01</b>	<b>7066.97</b>	<b>7020.54</b>	<b>7260.50</b>	<b>7791.25</b>	<b>7.31</b>	<b>11.85</b>
Claims on OFCs	243.68	256.68	203.16	184.68	211.53	14.54	-13.19
Claims on Public Nonfinancial Corporations	0.00	0.00	0.00	0.00	0.00		
Claims on St & Local Government	0.00	0.00	0.00	0.00	0.00		
<b>Claims on Private Sector</b>	<b>6722.32</b>	<b>6810.29</b>	<b>6817.38</b>	<b>7075.82</b>	<b>7579.72</b>	<b>7.12</b>	<b>12.75</b>
Claims on Business Enterprises	2153.04	2097.60	2027.52	2188.16	2410.42	10.16	11.95
Claims on Households	4569.28	4712.69	4789.86	4887.66	5169.30	5.76	13.13

Source: Central Bank of Lesotho

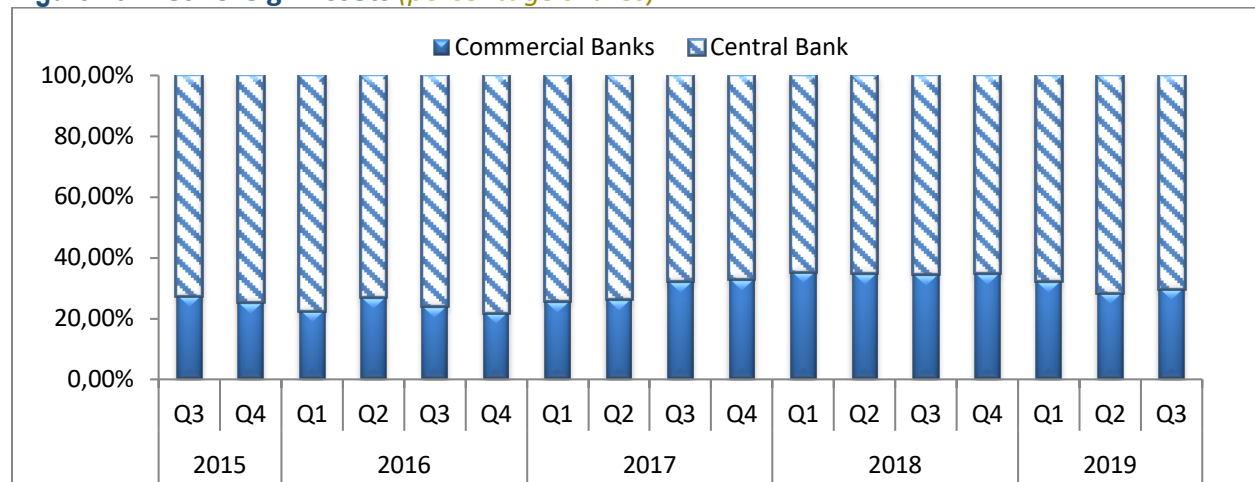
### Net Foreign Assets

The overall banking system Net Foreign Assets (NFA) edged up by 1.1 per cent at the end of September 2019, from a muted increase of 0.4 per cent at the end of June 2019. On a year-on-year basis, NFA grew by 2.4 per cent compared with an increase of 5.1 per cent in the previous quarter. The quarterly growth in NFA was supported by a substantial rise in commercial banks NFA. Following the considerable increase in deposits that exceeded credit extension, domestic banks invested excess funds abroad. In contrast, the Central Bank NFA declined by 3.7 per cent during the review quarter on account of reduced Central Bank's liabilities to central government. In terms of shares, the commercial banks' NFA accounted for 30.6 per cent of the total NFA while that of the Central Bank stood at 69.4 per cent at the end of September 2019.

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

	2018		2019			Changes (%)	
	Sep	Dec	Mar	Jun	Sep	Quarterly	Annual
<b>Commercial Banks</b>	<b>5019.71</b>	<b>5200.68</b>	<b>4723.62</b>	<b>4037.40</b>	<b>4599.40</b>	<b>13.92</b>	<b>-8.37</b>
Claims on Non-residents	5640.12	5700.44	5343.20	4490.49	5040.71	12.25	-10.63
Liabilities to Non-residents	620.41	499.76	619.58	453.09	441.31	-2.60	-28.87
<b>Central Bank</b>	<b>9645.12</b>	<b>9841.94</b>	<b>10068.42</b>	<b>10820.24</b>	<b>10415.71</b>	<b>-3.74</b>	<b>7.99</b>
Claims on Non-residents	10980.01	11192.19	11361.78	12075.90	11697.66	-3.13	6.54
Liabilities to Non-residents	1334.89	1350.25	1293.36	1255.66	1281.95	2.09	-3.97
<b>Net Foreign Assets Total</b>	<b>14664.83</b>	<b>15042.62</b>	<b>14792.04</b>	<b>14857.64</b>	<b>15015.09</b>	<b>1.06</b>	<b>2.39</b>

Source: Central Bank of Lesotho

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

Source: Central Bank of Lesotho

## Components of M2

Both components of M2 (narrow money (M1) and quasi money) increased during the review quarter. In particular, M1 rose by 9.4 per cent, while quasi money recorded a 5.7 per cent growth during the quarter. Growth in M1 was underpinned by a 10.9 per cent increase in transferable deposits. The rise in both M1 and quasi money stemmed mainly from an increase in demand deposits and other deposits by business enterprises.

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

	2018			2019		Changes (%)	
	Sep	Dec	Mar	Jun	Sep	Quarterly	Annual
<b>Broad Money (M2)</b>	<b>13109.30</b>	<b>13400.60</b>	<b>13135.38</b>	<b>12859.94</b>	<b>13793.02</b>	<b>7.26</b>	<b>5.22</b>
<b>Narrow Money (M1)</b>	<b>6572.51</b>	<b>6158.64</b>	<b>6087.97</b>	<b>5499.41</b>	<b>6015.94</b>	<b>9.39</b>	<b>-8.47</b>
Currency Outside DCs	1032.73	1040.50	1014.01	1003.29	1031.25	2.79	-0.14
Transferable Deposits	5539.78	5118.14	5073.97	4496.12	4984.68	10.87	-10.02

<b>Quasi Money</b>	<b>6536.79</b>	<b>7241.96</b>	<b>7047.41</b>	<b>7360.54</b>	<b>7777.08</b>	<b>5.66</b>	<b>18.97</b>
Other Deposits Commercial Banks	6501.81	7185.42	6993.31	7306.83	7723.02	5.70	18.78
Other Deposits Central Bank	34.98	56.54	54.09	53.71	54.06	0.66	54.55

**Source:** Central Bank of Lesotho

## CREDIT EXTENSION

Total loans and advances extended to the private sector accelerated, both on quarterly and annual basis. On a quarterly basis, credit to the private sector grew by 7.1 per cent relative to a 3.8 per cent expansion in the second quarter of the year. Over the twelve-month period, private sector credit rose by 11.6 per cent in the quarter under review, compared with 8.2 per cent recorded in the previous quarter. The stronger growth in private sector credit was supported by increased demand for credit by both business enterprises and households during the quarter under review.

### Trends of Credit Extended to Business Enterprises

Growth in credit extended to business enterprises during the review quarter recorded the highest growth of 8.3 per cent since September 2018. On an annual basis, growth in credit granted to business enterprises rose by 8.2 per cent in the third quarter of 2019, following an increase of 4.7 per cent realised in the second quarter of the year. This development was on account of higher demand for credit line facilities to mainly finance day to day operations while some credit was used for investment by businesses.

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

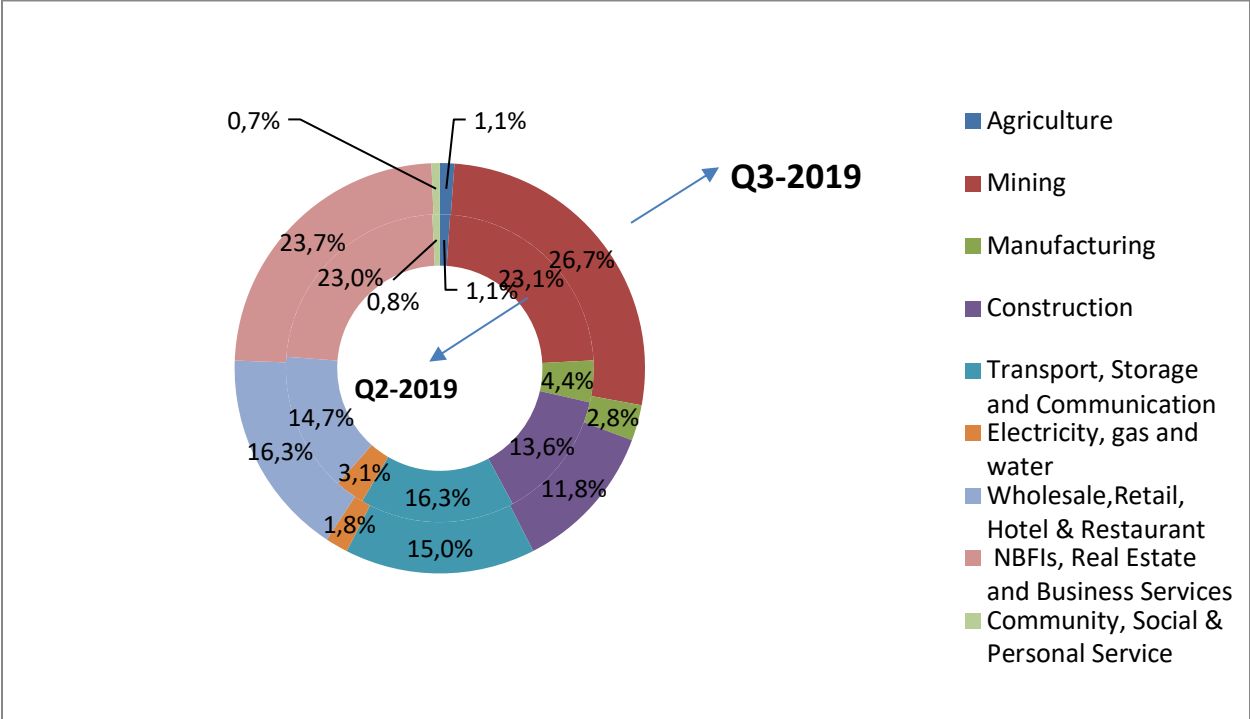
SECTOR	2018		2019			Changes (%)	
	Sep	Dec	Mar	Jun	Sep	Quarterly	Annual
Agriculture	54.87	30.31	29.16	23.48	27.09	15.39	-50.62
Mining	430.72	379.73	353.32	505.67	633.92	25.36	47.18
Manufacturing	195.17	174.08	104.06	95.92	66.79	-30.37	-65.78
Electricity, gas and water	49.09	46.21	51.05	68.49	42.62	-37.77	-13.17
Construction	291.69	301.83	277.17	297.23	278.94	-6.16	-4.37
Wholesale, Retail, Hotel & Restaurant	224.83	261.68	355.29	320.60	386.68	20.61	71.99
Transport, Storage and Communication NBFIs, Real Estate and Business	341.76	349.65	346.82	355.77	355.94	0.05	4.15
Services	563.36	553.24	492.96	503.99	562.78	11.67	-0.10
Community, Social & Personal Service	1.55	0.89	17.69	17.01	15.52	-8.74	898.97
<b>All Sectors</b>	<b>2153.04</b>	<b>2097.60</b>	<b>2027.52</b>	<b>2188.16</b>	<b>2370.29</b>	<b>8.32</b>	<b>10.09</b>

**Source:** Central Bank of Lesotho

### Distribution of credit Extended to Business Enterprises

Similar to the second quarter of 2019, the greater share of loans and advances extended to business enterprises in the quarter under review was taken by mining, followed by real estate, wholesale, retail, hotel & restaurant and construction sectors at 26.7 per cent, 23.7 per cent and 16.3 per cent respectively. The least shares went to agriculture and community, social and personal service sectors.

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



Source: Central Bank of Lesotho

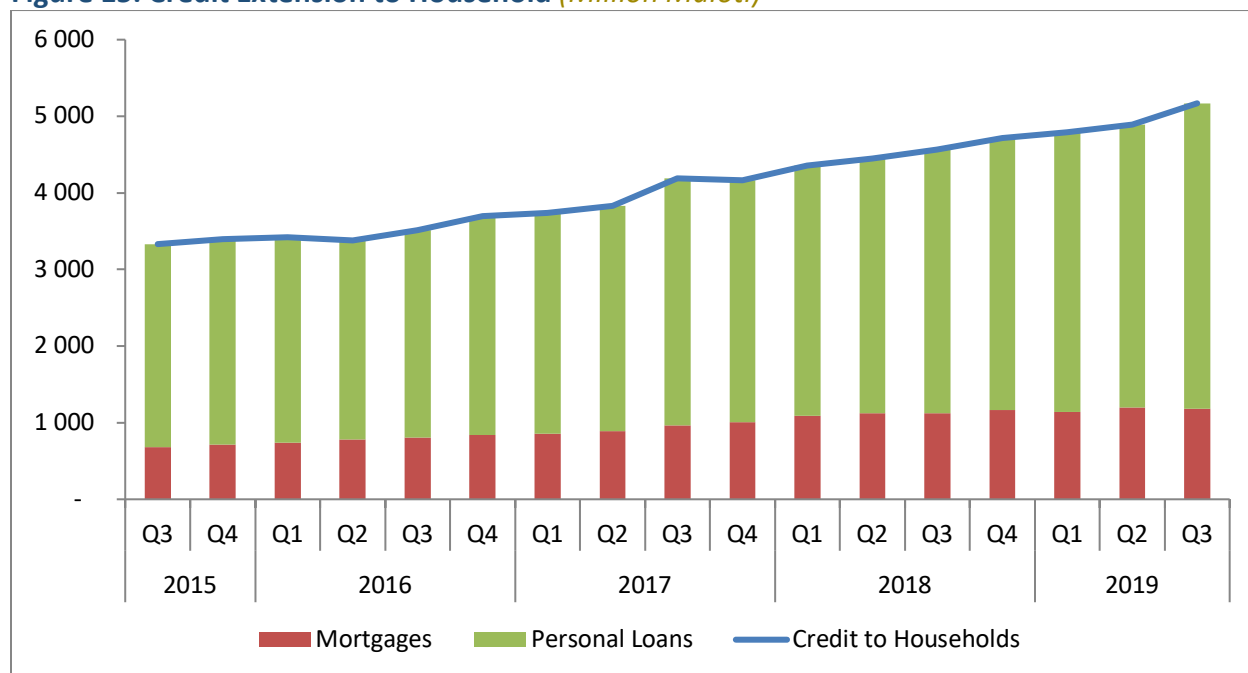
**Credit extended to Households**

During the third quarter of 2019, credit extended to households maintained upward trend, supported by personal loans, while mortgages moderated the increase. On a year-on-year basis, growth in households’ credit increased by 13.1 per cent, following 9.9 per cent in the preceding quarter. Total household credit increased by 5.8 per cent between the second and third quarter of 2019. Growth in

personal loans during the review quarter accelerated by 7.9 per cent from a low 1.1 per cent in the previous quarter. The increase in personal loans was, in part, supported by the ease of access to unsecured credit through different banking channels. However, growth in mortgages declined by 0.9 per cent quarter-on-quarter, from an expansion of 5.2 per cent in the preceding quarter. As a share of total loans to households, personal loans continued to constitute the major part of households' credit. At the end of the third quarter, personal loans accounted for 77.1 per cent of total credit to households, while the remaining 22.9 per cent towards mortgages.



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



Source: Central Bank of Lesotho

### Components of liquidity

The liquidity of commercial banks declined, both on quarterly and annual basis during the third quarter of 2019. The ratio of total banks liquid assets to total deposits fell slightly to 64.1 per cent in the third quarter of 2019 compared to 65.5 per cent observed in the preceding quarter. Measured over a twelve-month period, the liquidity ratio of commercial banks declined by 10.5 percentage points. The credit to deposit ratio dropped to 56.7 per cent in the review quarter, from 58.6 per cent observed in the previous quarter. The lower credit to deposit ratio was influenced by greater supply of deposits by the private sector, relative to growth in credit extended.

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

	2018			2019	
	Sep	Dec	Mar	Jun	Sep
<b>Credit to Deposit Ratio</b>	<b>54.65%</b>	<b>54.19%</b>	<b>55.27%</b>	<b>58.64%</b>	<b>56.71%</b>
Private Sector Credit	6,627.01	6,712.99	6722.61	6,971.13	7,256.52
Total Deposits	12,126.08	12,387.65	12,153.23	11,888.75	12,795.59
<b>Liquidity Ratio</b>	<b>74.62%</b>	<b>71.19%</b>	<b>69.69%</b>	<b>65.47%</b>	<b>64.12%</b>
Notes and Coins	392.83	741.60	407.22	438.74	429.56
Balance due from banks in Lesotho	23,87.61	1,779.25	1260.47	1,261.56	1,348.06
Balance due from banks in SA	5,063.14	4,949.68	4771.92	3,909.05	4,158.96
Surplus funds	-80.99	-45.72	82.02	163.44	198.74
Government Securities	1,288.88	1,396.23	1950.66	2,013.54	2,128.67
<b>Total</b>	<b>9,048.94</b>	<b>8,818.52</b>	<b>8,469.71</b>	<b>7,783.76</b>	<b>8,204.49</b>

Source: Central Bank of Lesotho

## Commercial Banks Sources of Funds

Commercial banks total deposits increased by 7.6 per cent during the review quarter compared to a 2.2 per cent decline in the preceding quarter. Transferable deposits rose by 10.9 per cent while other deposits grew by 5.7 per cent. The growth in banks funding was supported by increased deposits from business enterprises. To a large extent, this development is reflective of acceleration in government budget execution observed during the quarter under review. In terms of shares, total deposits from business enterprises accounted for 51.5 per cent of total deposits held with commercial banks, while households were second at 26.7 per cent.

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

	2018			2019		Changes (%)	
	Sep	Dec	Mar	Jun	Sep	Quarterly	Annual
<b>Transferable Deposits</b>	<b>5580.76</b>	<b>5160.94</b>	<b>5112.27</b>	<b>4535.29</b>	<b>5027.88</b>	<b>10.86</b>	<b>-9.91</b>
Other Financial Corporations	33.77	32.99	52.03	42.01	36.67	-12.73	8.56
State and Local Government	17.69	17.69	17.69	17.69	17.69	0.00	0.00
Central Government	0.03	0.03	0.03	0.03	0.03	0.00	0.00
Public Nonfinancial Corps	56.14	60.58	99.82	60.10	51.98	-13.51	-7.42
Private Sector	5432.17	5006.88	4904.43	4376.31	4878.35	11.47	-10.20
Other NFCs	3887.48	3471.06	3473.25	2927.53	3563.40	21.72	-8.34
Other Sectors (Households)	1544.69	1535.82	1431.18	1448.79	1314.95	-9.24	-14.87
Non-residents	36.05	36.90	33.89	34.31	37.16	8.32	3.08
<b>Other Deposits</b>	<b>6545.32</b>	<b>7226.70</b>	<b>7040.96</b>	<b>7353.45</b>	<b>7767.71</b>	<b>5.63</b>	<b>18.68</b>
Other Financial Corporations	84.55	58.20	163.82	51.89	47.56	-8.35	-43.75
State and Local Government	10.78	8.08	15.69	16.33	22.12	35.49	105.20
Central Government	5.48	4.87	6.31	5.66	0.64	-88.75	-88.37
Public Nonfinancial Corps	275.03	254.00	499.24	450.57	385.72	-14.39	40.25
Private Sector	6142.23	6873.21	6330.25	6804.37	7289.74	7.13	18.68
Other NFCs	4203.28	4941.00	4279.08	4676.05	5199.39	11.19	23.70
Other Sectors (Households)	1938.95	1932.21	2051.17	2128.32	2090.35	-1.78	7.81
Non-residents	26.82	27.93	25.24	24.15	21.37	-11.52	-20.34
<b>Total Deposits</b>	<b>12126.08</b>	<b>12387.65</b>	<b>12153.23</b>	<b>11888.75</b>	<b>12795.59</b>	<b>7.63</b>	<b>5.52</b>

Source: Central Bank of Lesotho

## MONEY AND CAPITAL MARKET DEVELOPMENTS

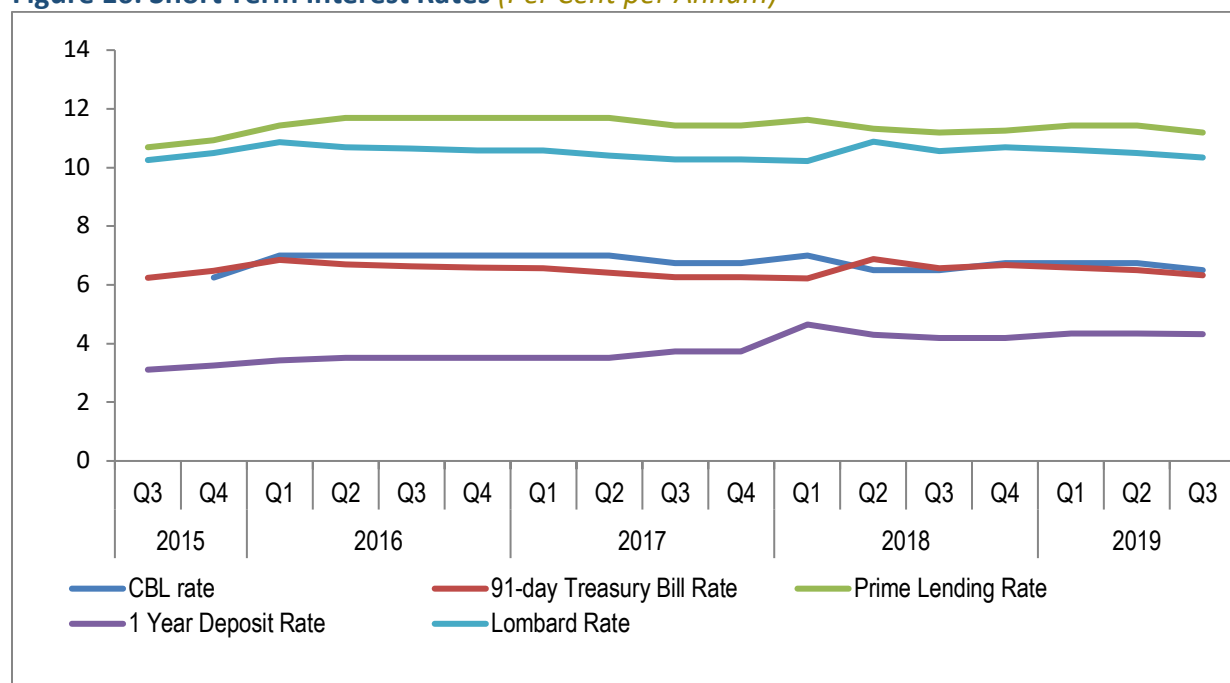
### Money Market

#### Interest Rates

The Central Bank of Lesotho's Policy rate declined by 25 basis points during the third quarter of 2019. This followed the decision of Central Bank's Monetary Policy Committee to lower the policy rate from 6.75 per cent to 6.50 per cent in July 2019. Following the decrease in policy rate, most other short-term domestic interest rates followed suit. For instance, domestic 91-day T-Bill rate declined by 16 basis points to 6.34 per cent at the end of the third quarter of 2019. However, it remained within the desired band of +/-200 basis points from the South African counterpart. The average prime lending rate fell by 25 basis points to 11.19 at the end of September 2019. Similarly, the 1-year deposit

rate declined slightly by 2 basis points to 4.32 per cent, during the period under review. The average savings rate however, remained unchanged at 0.70 per cent.

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



**Source:** Central Bank of Lesotho

**Table 11: Interest rates**

	2018			2019	
	Sep	Dec	Mar	Jun	Sep
<b>Central Bank</b>					
CBL rate	6.50	6.75	6.75	6.75	6.50
T-Bill Rate - 91 days	6.56	6.69	6.60	6.49	6.34
Lombard Rate	10.56	10.69	10.60	10.49	10.34
<b>Commercial Banks</b>					
Call	1.12	1.12	1.22	1.22	1.09
Time:					
31 days	0.35	0.35	0.70	0.70	0.70
88 days	1.33	1.33	1.34	1.34	2.08
6 months	2.54	2.54	2.65	2.65	3.25
1 year	4.19	4.19	4.34	4.44	4.32
Savings	0.70	0.70	0.70	0.70	0.70
Prime	11.19	11.25	11.44	11.44	11.19
<b>South Africa</b>					
Repo	6.50	6.75	6.75	6.75	6.50
T-Bill Rate - 91 days	7.14	7.48	6.98	7.10	6.87
Marginal Lending Rate					
Prime	10.00	10.25	10.25	10.25	10.00

**Source:** Central Bank of Lesotho and South African Reserve Bank

## Holding of Treasury Bonds and T-Bonds Rates

### *Holding of Treasury Bills*

The total treasury bills holding declined marginally by 0.1 per cent between the second and third quarters of 2019. At the end of September 2019, the total Treasury bill holdings stood at M1, 418.25 million, reflecting a decline of M1.83 million from end of June position. This was due to a fall in Treasury bill holdings by the non-bank sector by M6.38 million, while the banking sector increased moderately. Nonetheless, on an annual basis, the total T-bill holdings increased substantially by 66.6 per cent during the review quarter.

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

	2018		2019		
	Sep	Dec	Mar	Jun	Sep
<b>Treasury Bills</b>	<b>852.54</b>	<b>875.25</b>	<b>1,476.77</b>	<b>1,420.08</b>	<b>1418.25</b>
Banking System	592.33	620.88	1,223.79	1,165.45	1170.00
Non-Bank Sector	260.21	254.37	252.98	254.63	248.25
<b>Memorandum Item</b>					
Yield Bills (91-days)	6.67	6.80	6.74	6.60	6.34

**Source:** Central Bank of Lesotho

### *Holding of Treasury Bonds*

During the quarter under review, the total Treasury bonds holdings improved by 7.1 per cent compared to 7.8 per cent recorded in the second quarter of the year. Both the holdings by the banking system and non-banking sector contributed to the rise in total Treasury bonds holdings. The treasury bonds held by the banking sector increased by 4.6 per cent while that of the non-bank sector expanded by 9.4 per cent between the second and third quarter of 2019. On year-on-year, the total Treasury bonds holdings rose significantly by 47.2 per cent.

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

	2018		2019		
	Sep	Dec	Mar	Jun	Sep
<b>Holding of Treasury Bonds</b>	<b>1,359.53</b>	<b>1,584.66</b>	<b>1,732.22</b>	<b>1,867.96</b>	<b>2000.54</b>
Banking System	716.23	786.12	760.97	883.30	923.66
Non-Bank Sector	643.30	798.54	971.25	984.67	1076.88

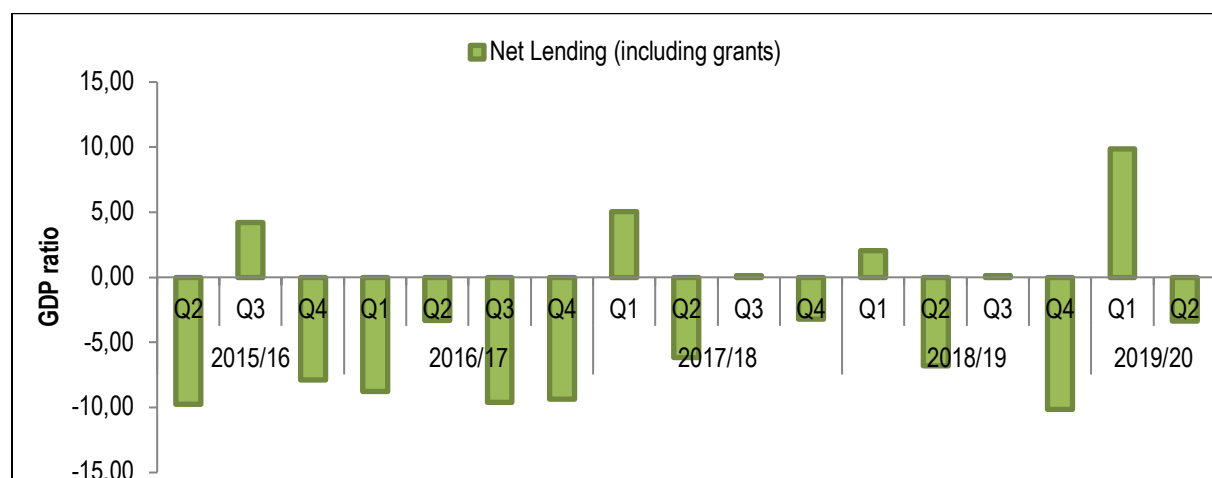
**Source:** Central Bank of Lesotho

## 5. Government Finance

### OVERVIEW

The Government budgetary operations were estimated to have recorded fiscal deficit equivalent to 3.4 per cent of GDP in the second fiscal quarter of 2019/20, in contrast to a surplus worth 9.9 per cent of GDP in previous quarter. The fiscal deficit was as a result of high spending on both expenses and non-financial assets, which offset the marginal increase in revenue collections. The public debt stock was 45.2 per cent of GDP during the review quarter, compared with 42.9 per cent of GDP in the previous quarter. The debt expansion was mainly due to exchange rate depreciation effect and issuance of Treasury bonds.

**Figure 17: Fiscal Balance (Percent of GDP)**

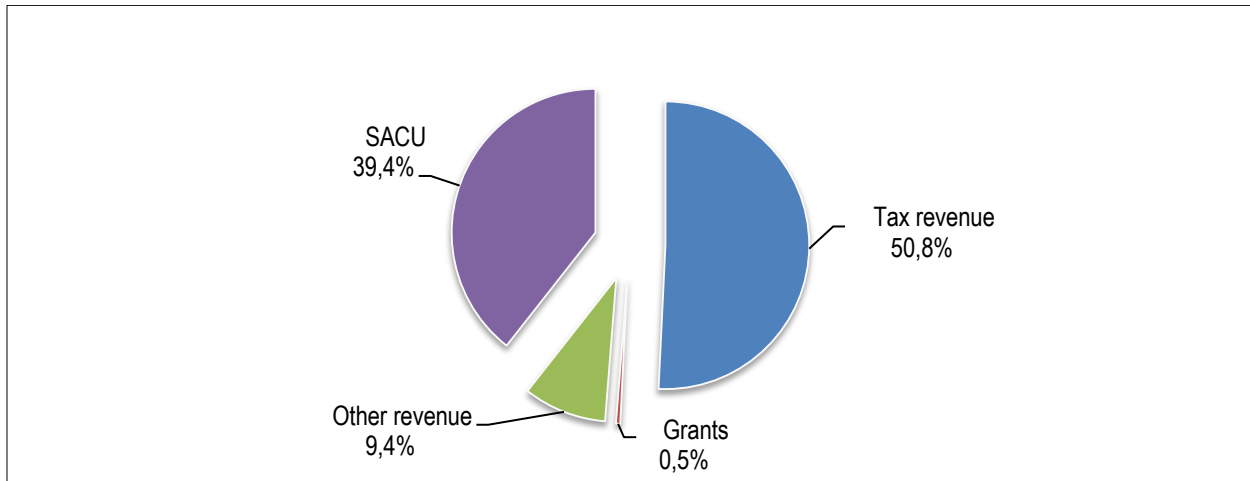


**Source:** Central Bank of Lesotho (CBL) and Ministry of Finance (MOF)

### REVENUE

The Government revenue increased by 3.2 per cent during the second fiscal quarter, relative to a fall of 5.8 per cent in the previous quarter. The main drivers of high revenue included tax revenue, and sales of electricity from Muela hydropower. Accordingly, most components of tax revenue, particularly personal income tax, VAT and excise taxes increased. On an annual basis, total revenue grew by 12.9 per cent during this fiscal quarter in contrast to a fall of 1.5 per cent in the previous quarter.

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

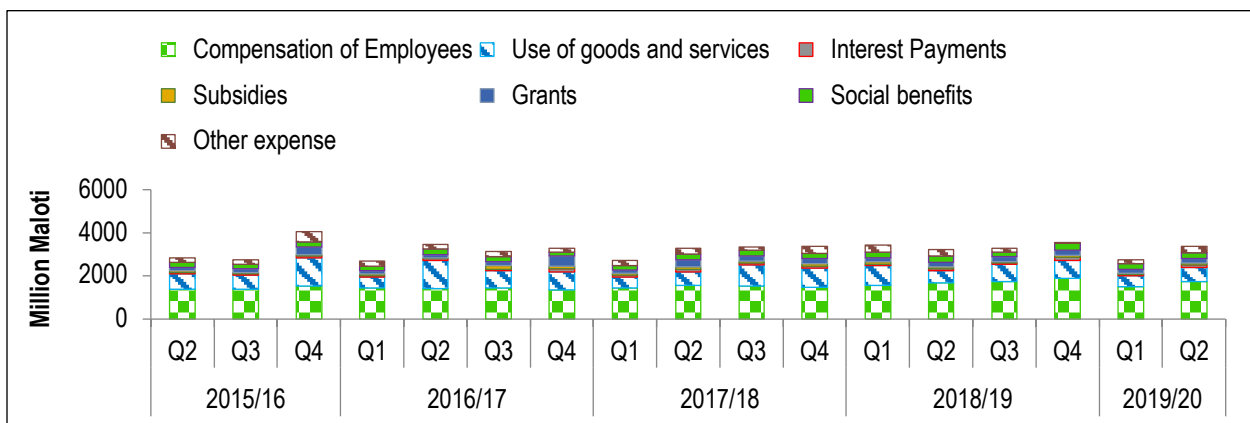


Source: CBL and MOF

### TOTAL EXPENDITURE

The Government expenditure increased considerably by 46.8 per cent during the second fiscal quarter, compared with a decline of 41.5 per cent in the previous quarter. This hike was largely attributable to, amongst others, the increase in compensation of employees, use of goods and services, interest payments on external loans, subsidies to non-financial corporations, current and capital grants to extra-budgetary entities, non-life insurance and students' loan bursary. The compensation of employees was driven by payments of arrears on 2015 salary-adjustment, while use of goods and services was on account of the travel and transport spending. On annual basis, total spending increased by 4.5 per cent, compared with a decline of 21.8 per cent in the previous quarter.

**Figure 19: Total Expenditure (Million Maloti)**



Source: CBL and MOF

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

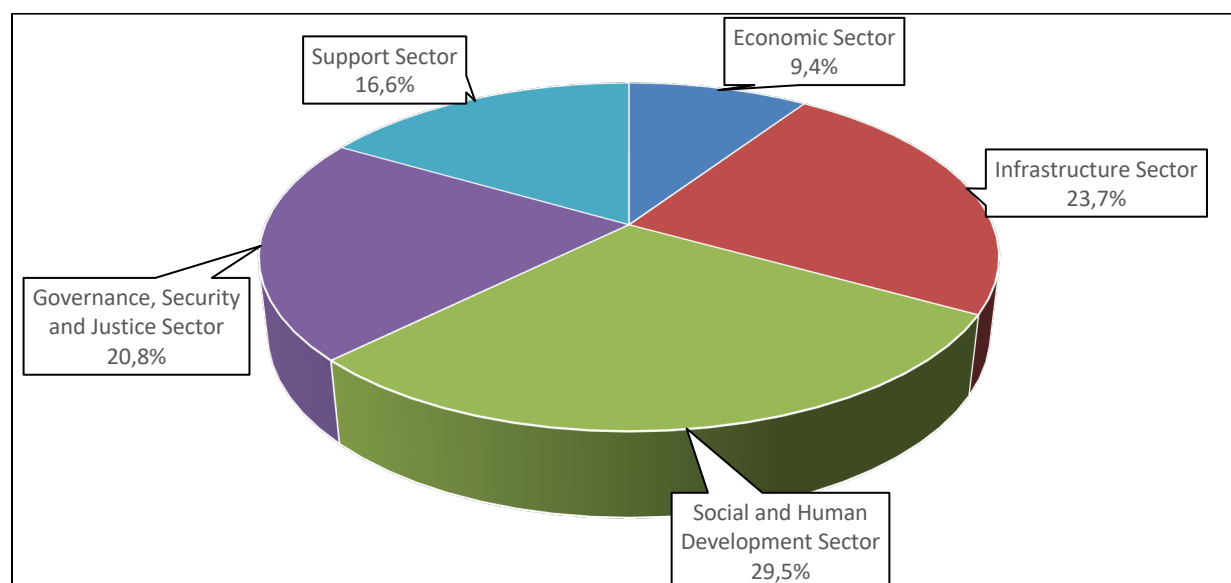
	2018/19			2019/20		Y-on-Y (%)	GDP ratio (%)
	Q2	Q3	Q4	Q1	Q2		
<b>Total Revenue</b>	<b>3500.03</b>	<b>3788.99</b>	<b>4060.73</b>	<b>3827.01</b>	<b>3951.21</b>	<b>12.9</b>	<b>42.3</b>
Tax revenue	1717.96	1947.98	2253.69	1717.27	2005.82	16.8	21.5
O/W Income Tax	946.65	1088.74	1122.3	934.55	1040.05	9.9	11.1
O/W Value Added Tax	641.98	703.87	755.46	689.96	774.39	20.6	8.3
Grants	21.09	18.68	22.94	16.09	19.29	-8.5	0.2
Other revenue	375.42	436.76	398.53	537.09	369.54	-1.6	4
SACU receipts	1385.56	1385.56	1385.56	1556.55	1556.55	12.3	16.7
<b>Total Expense</b>	<b>3222.89</b>	<b>3271.5</b>	<b>3518.08</b>	<b>2747.39</b>	<b>3385.16</b>	<b>5</b>	<b>36.3</b>
Compensation of Employees	1688.5	1738.4	1886.96	1513.64	1743.38	3.3	18.7
Use of goods and services	543.34	792.03	828.8	497.25	652.38	20.1	7
O/W Purchase of Health Services	571.71	49.16	256.51	232.74	260.89	-54.4	2.5
Interest Payments	104.7	59.63	147.71	60.3	109.92	5	1.2
Subsidies	73.99	58.7	91.3	53.73	81.97	10.8	0.9
Grants	225.47	237.1	249.56	173.38	217.47	-3.5	2.3
Social benefits	294.42	233.52	304.92	287.95	259.86	-11.7	2.8
Other expense	292.46	152.13	8.83	161.15	320.16	9.5	3.4
<b>Net Operating Balance</b>	<b>277.13</b>	<b>517.49</b>	<b>542.64</b>	<b>1079.62</b>	<b>566.05</b>	<b>104.3</b>	<b>6.1</b>
<b>Total Nonfinancial Assets</b>	<b>856.67</b>	<b>505.05</b>	<b>1451.72</b>	<b>158.15</b>	<b>879.38</b>	<b>2.7</b>	<b>9.4</b>
Fixed Assets	856.67	505.05	1446.92	158.15	879.38	2.7	9.4
Non-Produced Assets	0	0	4.8	0	0	-	0
<b>Expenditure (2+31)</b>	<b>4079.56</b>	<b>3776.55</b>	<b>4969.8</b>	<b>2905.54</b>	<b>4264.53</b>	<b>4.5</b>	<b>45.7</b>
<b>Net lending (+)/borrowing(-)</b>	<b>-579.53</b>	<b>12.44</b>	<b>-909.08</b>	<b>921.47</b>	<b>-313.32</b>	<b>-</b>	<b>-3.4</b>
<b>Financing</b>	<b>-647.68</b>	<b>282.43</b>	<b>-986.28</b>	<b>595.17</b>	<b>-789.51</b>	<b>-</b>	<b>-8.5</b>
Net Acquisition of Financial assets	-603.01	-54.73	238.66	776.41	-564.89	-	-6.1
O/W Domestic Currency and Deposits	-620.64	-62.49	238.66	664.13	-587.44	-	-6.3
Net Incurrence of Liabilities	44.67	-337.16	1224.94	181.24	224.62	-	2.4
O/W Domestic Other Accounts Payable	<b>-0.27</b>	<b>-429.85</b>	<b>793.53</b>	<b>62.89</b>	<b>175.32</b>	-	1.9
Statistical Discrepancy	68.15	-269.99	77.21	326.3	476.19	-	5.1

Source: CBL and MOF

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

The Government spending by sectors increased significantly during the review quarter. The high spending was observed in almost all sectors, with infrastructure sector taking a lead in overall spending. Under recurrent outlays, more spending was attributable to support sector, while infrastructure sector together with social and human development sector recorded high outlays under capital outlays

**Figure 20: Total Outlays by Functions of Government (Percentage Share)**



Source: CBL and MOF

**Table 15: Statement of Government Operations (Million Maloti)**

	2018/19			2019/20		Y-on-Y (%)	GDP ratio (%)
	Q2	Q3	Q4	Q1	Q2		
<b>Recurrent Outlays</b>	<b>2533.03</b>	<b>2657.83</b>	<b>2200.21</b>	<b>843.57</b>	<b>2619.78</b>	3.4	28.1
Economic Sector	221.90	256.63	183.55	53.16	245.35	10.6	2.6
Infrastructure Sector	175.13	201.03	188.59	30.68	134.68	-23.1	1.4
Social and Human Development Sector	949.61	1238.70	1052.17	533.79	1062.06	11.8	11.4
Governance, Security and Justice Sector	625.39	536.98	520.73	178.17	644.56	3.1	6.9
Support Sector	560.98	424.49	255.17	47.77	533.12	-5.0	5.7
<b>Capital Outlays</b>	<b>848.11</b>	<b>452.16</b>	<b>1260.40</b>	<b>124.25</b>	<b>1169.36</b>	37.9	12.5
Economic Sector	121.83	56.32	155.51	20.65	110.26	-9.5	1.2
Infrastructure Sector	491.37	151.81	622.13	26.87	764.32	55.5	8.2
Social and Human Development Sector	31.76	47.90	120.12	1.41	55.58	75.0	0.6
Governance, Security and Justice Sector	139.77	117.66	206.24	30.20	142.43	1.9	1.5

<sup>1</sup> This sectoral COGOG excludes financing items i.e. loan principal repayments. It also excludes aggregated spending on certain budget heads. Again, the classification of this COFOG does not correspond exactly with GFS's COFOG.



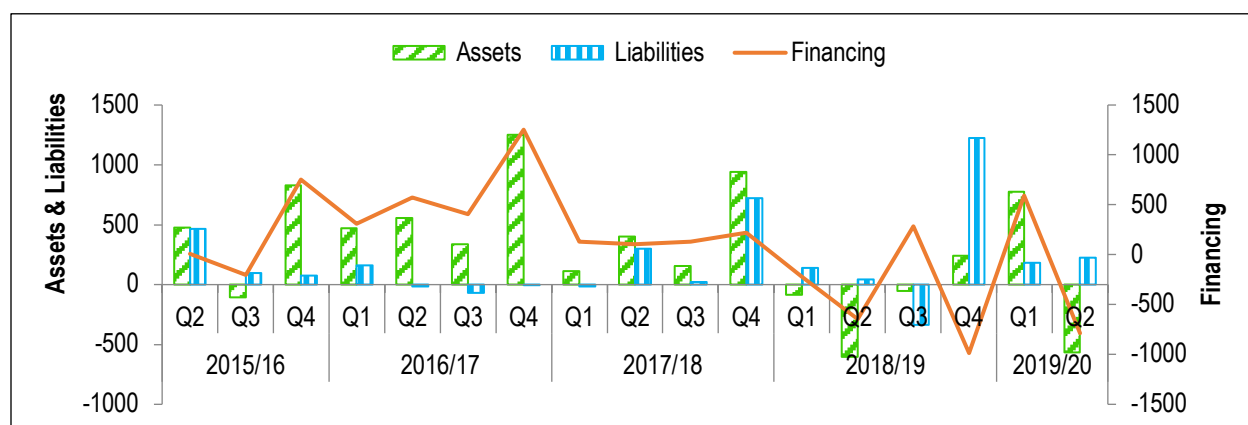
Support Sector	63.38	78.48	156.40	45.11	96.78	52.7	1.0
<b>Total Outlays</b>	<b>3381.14</b>	<b>3109.98</b>	<b>3460.61</b>	<b>967.81</b>	<b>3789.14</b>	12.1	40.6
Economic Sector	343.74	312.95	339.06	73.82	355.61	3.5	3.8
Infrastructure Sector	666.50	352.84	810.72	57.56	899.00	34.9	9.6
Social and Human Development Sector	981.37	1286.60	1172.29	535.20	1117.64	13.9	12.0
Governance, Security and Justice Sector	765.16	654.63	726.97	208.37	786.98	2.9	8.4
Support Sector	624.36	502.96	411.57	92.87	629.90	0.9	6.7
<b>Unidentified Outlays</b>	<b>850.82</b>	<b>707.48</b>	<b>831.96</b>	<b>137.22</b>	<b>501.17</b>	<b>-41.1</b>	<b>5.4</b>

Source: CBL and MOF

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

The shortfall in Government revenue collections forced the Government to drawdown its deposits with banking system to finance high spending that was experienced during the quarter under review. This was further complemented by acquisition of liabilities in the form of external loans and issuance of domestic securities to finance the shortfall. Consequently, outstanding debt and arrears on payments of goods and services increased significantly.

Figure 21: Total Financing (Million Maloti)



Source: CBL and MOF

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

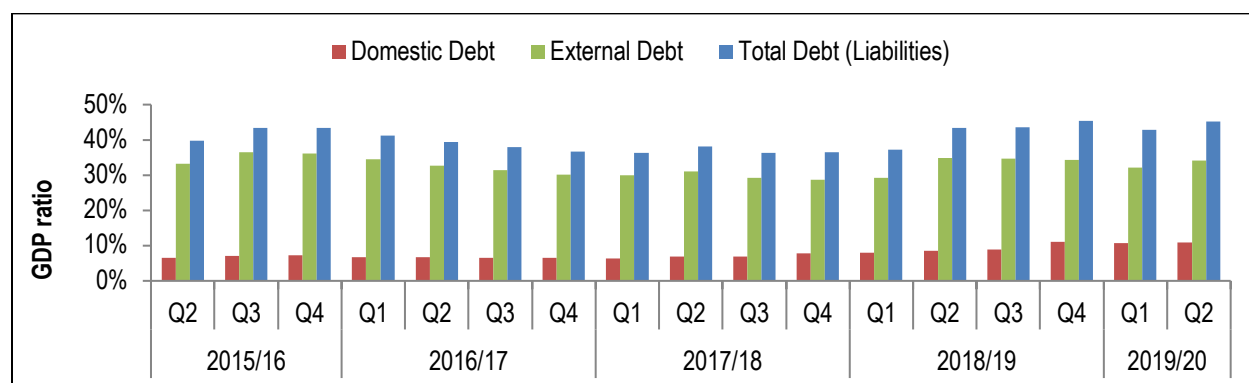
The public debt stock increased by 5.3 per cent during the review quarter, compared with a slight reduction of 0.6 per cent in the first fiscal quarter. The growth was mainly on account of a 6.5 per cent increase in external debt during the review quarter, due to acquisition of new debt and currency depreciation. This was in contrast to a 1.6 per cent fall in the previous fiscal quarter. Similarly, the

<sup>2</sup> All categories are on net terms.

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

domestic debt grew by 1.9 per cent during the review quarter, following a 2.6 per cent rise in the previous quarter. The domestic debt has maintained an upward trend since the last fiscal quarter of 2017/18, mainly owing in part, to the issuance of securities for fiscal operations.

Figure 22: Outstanding Public Sector Debt (Percent of GDP)



Source: CBL and MOF

Table 16: Public Sector Debt Stock (Million Maloti)

	2018/19			2019/20		Q-to-Q (%)	Debt/GDP (%)
	Q2	Q3	Q4	Q1	Q2		
<b>Total Public Debt</b>	<b>15,420.88</b>	<b>15,500.20</b>	<b>16,113.36</b>	<b>16,016.19</b>	<b>16,872.08</b>	<b>5.3</b>	<b>45.2</b>
<b>EXTERNAL DEBT</b>	<b>12,400.12</b>	<b>12,328.61</b>	<b>12,192.95</b>	<b>11,994.39</b>	<b>12,771.91</b>	<b>6.5</b>	<b>34.2</b>
Bilateral Loans	951.49	961.92	1,008.42	1,028.81	1,082.75	5.2	2.9
Concessional	951.49	961.92	1,008.42	1,028.81	1,082.75	5.2	2.9
Non-concessional	0.00	0.00	0.00	0.00	0.00	-	0.0
Multilateral Loans	10,733.73	10,674.92	10,196.56	10,025.63	10,742.48	7.2	28.8
Concessional	9,135.01	9,079.29	8,615.45	8,455.34	9,186.96	8.7	24.6
Non-concessional	1,598.72	1,595.63	1,581.11	1,570.29	1,555.52	-0.9	4.2
Financial Institutions	0.23	0.23	0.29	0.11	0.00	-100.0	0.0
Concessional	0.00	0.00	0.00	0.00	0.00	-	0.0
Non-concessional	0.23	0.23	0.29	0.11	0.00	-100.0	0.0
Suppliers' Credit	714.68	691.54	987.68	939.84	946.68	0.7	2.5
<b>DOMESTIC DEBT</b>	<b>3,020.76</b>	<b>3,171.60</b>	<b>3,920.41</b>	<b>4,021.80</b>	<b>4,100.17</b>	<b>1.9</b>	<b>11.0</b>
Banks	2,117.26	2,120.69	2,696.18	2,782.50	2,775.04	-0.3	7.4
Long-term	1,524.93	1,499.81	1,472.39	1,553.93	1,541.92	-0.8	4.1
Treasury bonds	717.48	787.54	760.97	883.30	923.66	4.6	2.5
Central Bank (IMF-ECF)	807.45	712.27	711.42	670.63	618.26	-7.8	1.7
Short-term (t-bills)	592.33	620.88	1,223.79	1,228.57	1,233.13	0.4	3.3
Non-bank	903.50	1,050.90	1,224.23	1,239.30	1,325.13	6.9	3.5
Short-term (t-bills)	260.21	252.37	252.98	254.63	248.25	-2.5	0.7
Long-term (t-bonds)	643.30	798.54	971.25	984.67	1,076.88	9.4	2.9
<b>DEBT INDICATORS</b>							
External Debt-to-Total Debt	80.4	79.5	75.7	74.9	75.7	-	-
Domestic Debt-to-Total Debt	19.6	20.5	24.3	25.1	24.3	-	-
Concessional Debt-to-External Debt	81.3	81.4	78.9	79.1	80.4	-	-
External Debt Service-to-GDP	0.7	0.4	0.8	0.7	0.8	-	-
External Debt Service-to-Revenue	1.2	1.6	1.1	1.8	1.6	-	-
External Debt Service-to-Exports	1.0	1.6	1.0	2.1	1.5	-	-

Source: CBL and MOF

## 6. Foreign Trade and Payments

### OVERVIEW

Lesotho's external sector position deteriorated during the review quarter, mainly on account of the worsened deficit on the current account. This was, however, moderated by the surplus on the capital account during the same quarter. As a share of GDP, the overall deficit accounted for 4.1% of GDP from a surplus equivalent to 7.7% in the previous quarter.

### CURRENT ACCOUNT

The current account deficit widened to M730.40 million during the quarter ending in September 2019, from a revised deficit of M41.90 million in the previous quarter. As a percentage of GDP, the current account deficit constituted 7.8 per cent from a revised 0.5 per cent of GDP in the second quarter of 2019. The deterioration of the current account was mainly a result of the worsened goods account deficit. The services account weakened during the same quarter, thus dragging the current account deficit further. The primary income account surplus edged up slightly while the secondary income account remained unchanged between the quarter under review and the preceding quarter.

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

	2018		2019			% Changes	
	Q3	Q4	Q1	Q2*	Q3+	Q/Q	Y/Y
<b>Current Account</b>	<b>-366.58</b>	<b>114.93</b>	<b>-193.7</b>	<b>-41.9</b>	<b>-730.4</b>	<b>1644.8</b>	<b>99.3</b>
<b>(a) Goods (Net)</b>	-2526.14	-2116.91	-2736.9	-2588.4	-3234.5	-25.0	28.0
Merchandise exports, f.o.b.	3781.21	4253.73	3254.2	3917.1	3420.9	-12.7	-9.5
Of which diamonds	1302.81	1462.85	1124.9	1090.7	908.9	-16.7	-30.2
Of which textiles & clothing	1872.32	2150.94	1539.6	1715.9	1841.5	7.3	-1.6
Of which water	235.69	233.68	228.5	236.6	219.5	-7.2	-6.9
Of which agriculture	46.73	60.41	59.7	81.7	91.1	11.5	95.0
Of which re-exports	18.26	33.01	20.5	42.6	39.9	-6.5	118.3
Other exports	305.4	312.84	281.1	749.6	320.1	-57.3	4.8
Merchandise imports, f.o.b.	6307.35	56370.63	5991.1	6505.5	6655.4	2.3	5.5
<b>(b) Services (Net)</b>	<b>-1481.26</b>	<b>-1484.72</b>	<b>-1528.9</b>	<b>-150.5</b>	<b>-1573.6</b>	<b>-4.5</b>	<b>6.2</b>
<b>(c) Primary Income (Net)</b>	<b>1769.72</b>	<b>1844.65</b>	<b>1881.0</b>	<b>1963.7</b>	<b>1989.37</b>	<b>1.3</b>	<b>12.1</b>
<b>(d) Secondary Income (Net)</b>	<b>1871.09</b>	<b>1871.90</b>	<b>2191.1</b>	<b>2088.3</b>	<b>2088.4</b>	<b>0.0</b>	<b>11.6</b>

+ Preliminary, \* Revised

**Source:** Central Bank of Lesotho

### Merchandise Exports

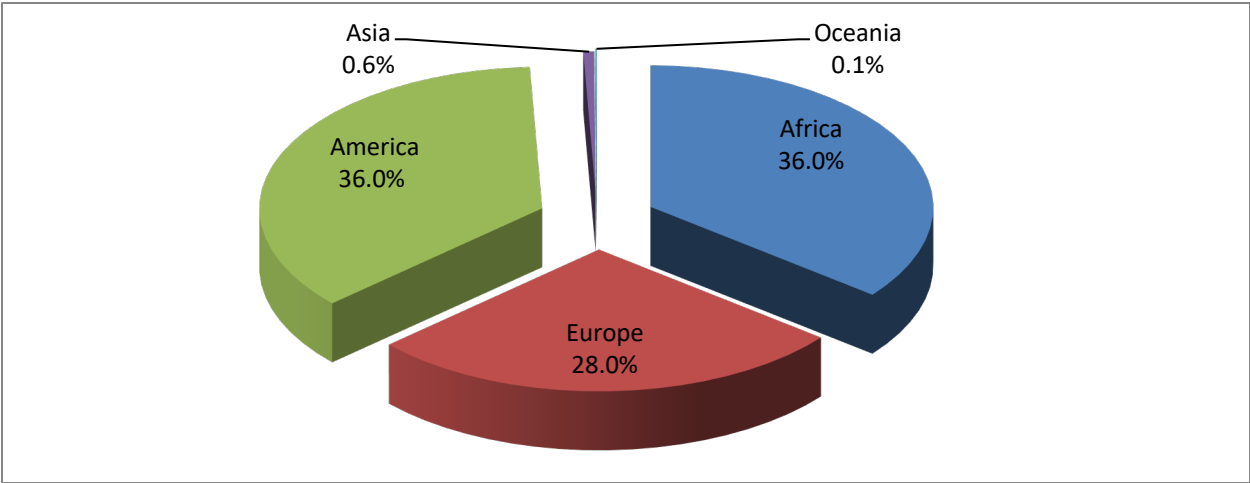
During the review period, merchandise exports contracted by 12.7 per cent, in contrast to an increase of 20.4 per cent in the quarter ending in June 2019. The fall in merchandise exports resulted from a

decline in exports of diamonds, water and other exports. Diamond exports dropped by 16.7 per cent during the third quarter of 2019, from a 3.0 per cent fall in the previous quarter, as production was halted at one of the diamond mines, in addition to the fact that high value large diamonds continued to experience price pressures during the review period. Water exports declined by 7.2 per cent following an increase of 3.5 per cent in the preceding quarter. The maintenance of the Muela Tunnel, together with the prevailing drought which has hit hard on the country, threatening its major water sources (especially reservoirs, rivers and wetlands), affected the normal delivery of water to South Africa. Other exports were dragged down by amongst others, lower exports of wool and mohair relative to the previous quarter. The decline in merchandise exports was moderated by an increase in clothing and textiles, and to a lesser extent, a rise in agriculture exports during the review quarter. On an annual basis, exports rose by 9.5 per cent during the review quarter, relative to an increase of 6.6 per cent in the previous quarter.

**Direction of Trade-Exports**

In the quarter under review, Lesotho’s exports were destined mostly to Africa and America, both with a share of 36.0 per cent of total exports. Compared to the previous quarter, the share of exports to Africa and America rose from 31.6 per cent and 30.0 per cent, respectively due to a surge in textiles and clothing exports to South Africa and the US. Europe came third with exports constituting 28.0 per cent, a downturn from 38.0 per cent in the previous quarter, following the decline of diamond exports to Belgium. Exports to Asia and Oceania continued to account for minimal shares of 0.6 per cent and 0.1 per cent respectively.

**Figure 23: Direction of Merchandise Exports (Percentage Share)**



**Source:** Central Bank of Lesotho

## Merchandise Imports

Merchandise imports increased by 2.3 per cent during the third quarter of 2019, relative to an 8.6 per cent rise in the preceding quarter. Significant increases were observed under imports for machinery, medicaments, textiles and clothing, prepared foodstuffs and live animals. Imports of machinery firmed up on account of, among others, an increase in capital spending by the government. However, these increases were offset by a decline in imports of vehicles, vegetables, as well as, animal and vegetable fats during the same quarter. On an annualised basis, merchandise imports rose by 5.5 per cent compared to an increase of 0.7 per cent in the previous quarter.

## Services Account

The services account deficit grew by 4.5 per cent during the period under review, after declining by 1.5 per cent in the second quarter of 2019. Significant increase in terms of services acquired abroad were observed for freight services, which expanded by 3.3 per cent and consistent with a rise in imports during the third quarter of 2019. The deficit on the services account was further fuelled by increased payments associated with business travel, as well as, more payments for the telecommunications services during the quarter. Year-on-year, the deficit widened by 5.2 per cent, compared to 1.2 per cent in the previous quarter. As a proportion of GDP, the deficit account constituted 16.9 per cent, slightly higher than 16.1 per cent of GDP in the preceding quarter.

## Primary Income Account

The surplus on the primary income account expanded by 1.3 per cent during the quarter ending in September 2019, after a 4.4 per cent rise in the previous quarter. The surplus on the primary income account rose because of increased subsidies for maintenance operational costs of LHWP dams together with higher returns on commercial banks investments held abroad. However, there were increased interest payments for government foreign loans, together with the reduction in the Central Bank's returns on its investments abroad, which moderated the surplus on the primary income account. Expressed as a percentage of GDP, the primary income surplus accounted for 21.3 per cent of GDP, from 21.0 per cent of GDP in the second quarter. On an annual basis, the primary income account surplus rose by 12.4 per cent during the review quarter compared to 6.4 per cent in the quarter ending in June 2019.

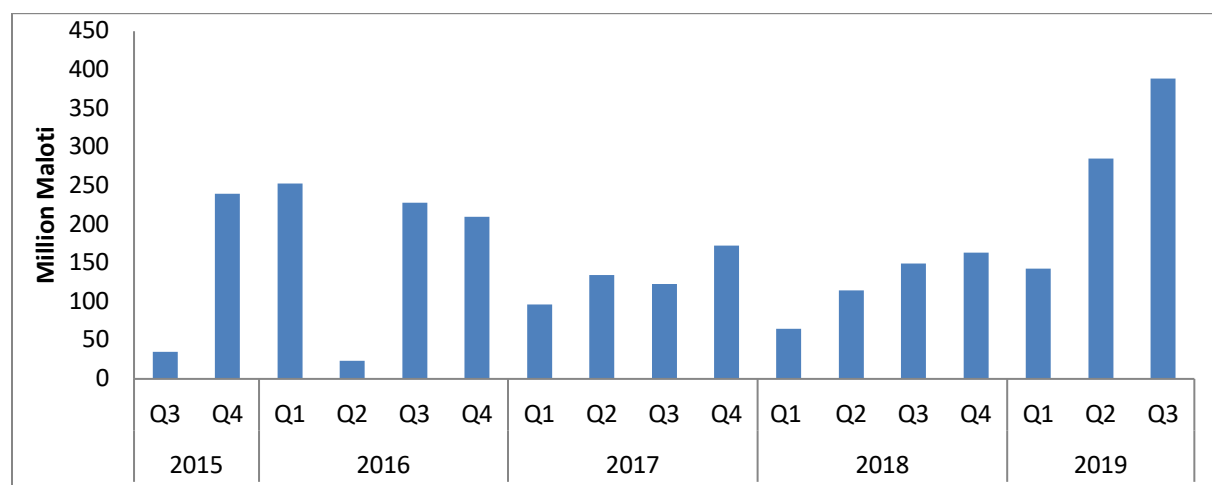
## Secondary Income Account

During the third quarter of 2019, the secondary income account remained relatively stable, recording a surplus of M2088.38 million, relatively unchanged from M2088.29 million in the previous quarter. SACU revenue, which accounts for the largest share of the Secondary income account, remained invariant during the quarter under review. On an annual basis, the surplus on the secondary income account edged up by 11.6 per cent from 9.8 increase in the previous quarter. The secondary income surplus, as a percentage of GDP, was 22.5 per cent, slightly higher than the 22.4 per cent realised in the preceding quarter.

## CAPITAL ACCOUNT

The capital account inflows continued to be robust in the third quarter of 2019, increasing slightly to M369.34 million, 4.2 per cent of GDP, from M285.00 million, 3.1 per cent of GDP, in the preceding quarter. Capital account inflows were propped mainly by capital transfers for the Phase II of LHWP, for advanced infrastructure. Capital grants to the government for capital related projects also rose during the quarter under review and supported the capital account further.

**Figure 24: Capital Account** (*Million Maloti*)



**Source:** Central Bank of Lesotho

## FINANCIAL ACCOUNT

During the quarter ending in September 2019, the financial account recorded a net outflow of M410.24 million, higher than a revised net outflow of M270.36 million in the second quarter of 2019. Expressed as a proportion of GDP, the financial account net outflows amounted to 4.4 per cent of GDP in the third quarter from the revised 2.9 per cent in the previous quarter.

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

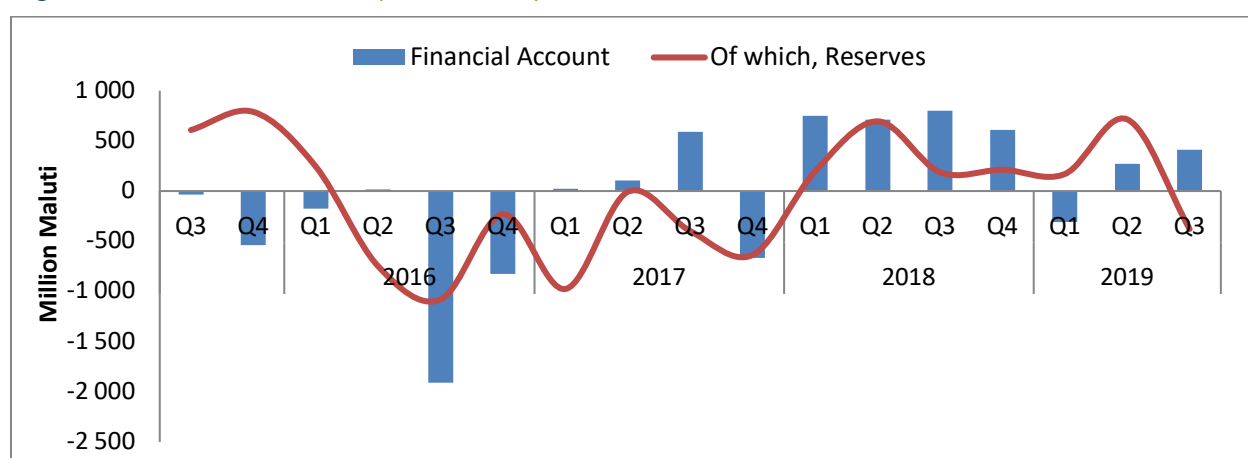
	2018			2019		
	Q2	Q3	Q4	Q1	Q2	Q3
<b>Financial account</b>	<b>709.52</b>	<b>799.34</b>	<b>606.34</b>	<b>-311.48</b>	<b>270.36</b>	<b>410.24</b>
Direct Investments, net	-128.90	-128.90	-128.90	-128.90	-128.90	-128.90
Portfolio Investments, net	7.10	7.10	7.10	7.10	7.10	7.10
Financial Derivatives, net	0.00	0.00	0.00	0.00	0.00	0.00
Other Investments, net	136.74	733.70	515.95	-359.26	-321.96	910.28
Of which Loans	-74.91	116.76	69.31	-247.97	17.68	65.71
Claims on Non Residents	34.48	34.48	34.48	34.48	34.48	34.48
Liabilities to Non Residents	109.39	-82.28	-34.83	282.45	16.80	-31.23
Of which Currency and	285.72	691.00	520.71	-37.23	-265.58	918.63
Deposits						
Claims on Non Residents	160.72	835.03	415.42	25.70	-469.77	933.14

Liabilities to Non Residents	-125.00	144.03	-105.29	62.93	-204.19	14.51
Reserve Assets	694.58	187.44	212.19	169.58	714.12	-378.24

**Source:** Central Bank of Lesotho

The observed movements of the financial account were mainly a result of increased foreign assets held by commercial banks. The increase in commercial banks' foreign assets emanated from large injections of business enterprises' deposits with commercial banks during the review quarter. Nonetheless, there was a fall in reserve assets coupled with higher repayments of government foreign loans during the same quarter, which therefore partly offset the observed increase in net foreign assets.

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



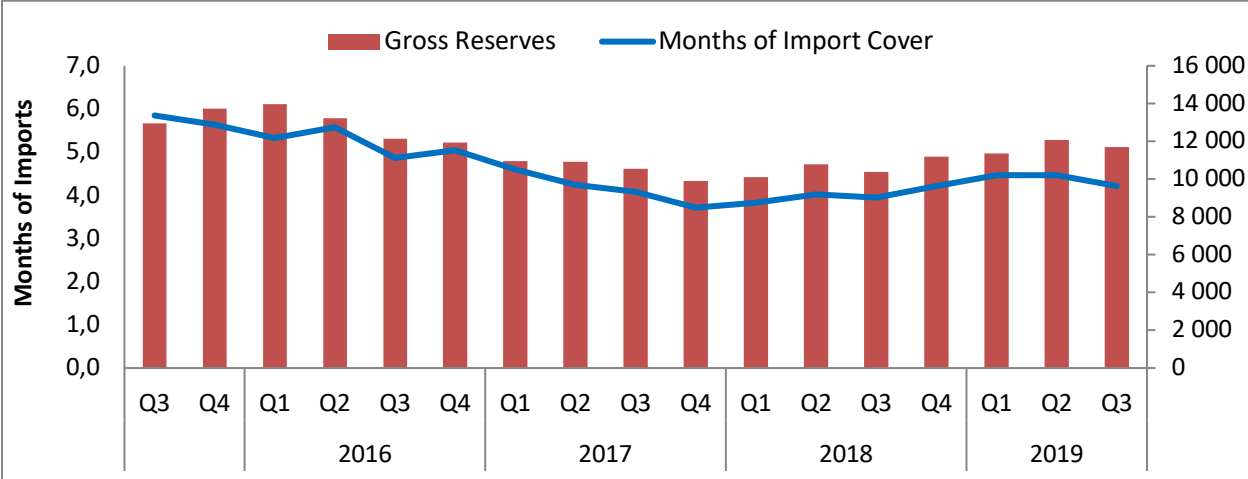
**Source:** Central Bank of Lesotho

## RESERVE ASSETS

The stock of international reserves fell to M11.70 billion during the quarter under review from M12.08 in the second quarter of 2019. This resulted as the government drew down its reserves to finance government expenditure during the third quarter of 2019. Accordingly, months of import cover fell to 4.2 in the quarter under review from 4.5 in the quarter ending in June 2019.



Figure 26: Reserves Assets



Source: Central Bank of Lesotho