Central Bank Of Lesotho

QUARTERLY ECONOMIC REVIEW

December 2018

MASERU KINGDOM OF LESOTHO

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1. Executive Summary

Global economic activity lost momentum during the fourth quarter of 2018. Growth weakened in both the advanced and emerging economies. Labour market conditions remained favourable during the quarter, with unemployment rates declining in most countries. Inflation was generally low due to falling oil prices in both advanced and emerging market economies.

The domestic economic performance continued to improve mainly due to domestic demand during the review period. The labour market developments were mixed with the manufacturing sector exhibiting a growth in employment, whereas the government and Basotho migrant mineworkers' categories depicted a decline. The inflation rate marginally declined during the fourth quarter of 2018 compared to the previous quarter.

Money supply increased during the review quarter because of growth in Net Foreign Assets (NFA) and domestic claims. The growth in commercial banks' NFA was at the back of increase in deposits mainly from private sector, whereas the rise in Central Bank's NFA mainly reflected revaluation gains. Private sector credit also improved during the quarter under review, owing mainly to a rise in credit extended to households.

The budgetary operations of the Government resulted in a marginal fiscal surplus during the third fiscal quarter of 2018/19, from a deficit realised in the previous quarter. The fiscal surplus emanated from higher revenue collections that outstripped the corresponding expenditure. The slowdown in spending was mainly attributed to budget consolidation that was employed during the quarter. The public debt stock slightly rose during the quarter under review following an issuance of Treasury Bonds.

The external sector position improved in the fourth quarter of 2018, which reflected net lending to the rest of the world. The overall balance of payments recorded a net lending equivalent to 2.5 per cent of GDP from a revised 2.3 per cent of GDP in the preceding quarter. The surplus was attributable to favourable performance of the financial account coupled with higher inflows in the capital account, notwithstanding the widening of the current account balance.

2. International Economic Developments

Global economic activity was generally expected to lose momentum during the fourth quarter of 2018. Growth is expected to weaken in advanced and emerging economies. During the review period, there was a decline in exports and investment spending in a number of countries. This resulted from the uncertain trade policy direction in the US, which weakened business and consumer confidence in most economies. However, the US economy continued to perform well, supported mainly by strong consumption spending and a pickup in the business investment. The Euro Area's largest economy, Germany, experienced a deceleration in growth. This translated into weaker overall performance for the region. The Chinese economy also slowed down for the second consecutive quarter, during the fourth quarter of 2018 but growth remained robust. The falling demand for exports, following imposition of tariffs by the US, contributed to the decline in economic growth.

Inflation was generally low, in both advanced and emerging market economies due to falling oil prices, which offset the effect of rising cereal prices. While the price of oil fell due to concerns over the global economic slowdown and increased US oil productio, the prices for cereals picked up due to tighter supply conditions and strong demand in the global markets. Furthermore, the prices rose for gold and platinum rose as risks in the global financial markets led to increased demand for safe haven assets. There was indication of tightening monetary policy in the advanced countries, as the US hiked the Fed funds rate and the ECB ended its asset purchases programme. The rising interest rate in the US led to sell off in the assets of Emerging countries, hence weakened currencies, including the Loti.

Table 1: Key World Economic Indicators

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	Sep-18	**Dec-18**	**Sep-18**	**Dec-18**	**Sep-18**	**Dec-18**	**Sep-19**	**Dec-18**
United States	3	3.1	2.3	1.9	2.25	2.5	3.7	3.9
Euro Area	1.6*	1.2	2.1	1.6	0	0	8.1	7.9
Japan	0.1	0.0	1.2	0.3	-0.1	-0.1	2.3	2.5
United Kingdom	1.6*	1.3	2.4	2.1	0.75	0.75	4.1	4
China	6.5	6.4	2.5	1.9	4.35	4.35	3.82	3.8
India	7.0	6.6	3.7	2.2	6.5	6.5	N/A	N/A
South Africa	1.3	1.1	4.9	4.5	6.5	6.75	27.5	27.1

*Updated

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

ADVANCED ECONOMIES

United States (US)

Economic growth in the US continued to be strong in the fourth quarter of 2018. The real GDP rose at the annual rate of 3.1 per cent, compared with 3.0 per cent in the previous quarter. The acceleration in business investment spending and strong consumption spending, underpinned economic growth. Consumption spending was supported by increases in income and wealth at the household level. In general, the tax cuts effected in late 2017 continued to boost consumption and business spending. The US unemployment rate rose to 3.9 per cent in the quarter ending in December 2018, from 3.7 per cent in the previous quarter. The increase in unemployment rate was driven mainly by workers voluntarily leaving their current jobs in search of new/better ones.

Consumer inflation, measured by the consumer price index (CPI), rose by 1.9 per cent in the review period, following a 2.3 per cent increase in the previous quarter. The slowdown was mainly due to falling gasoline prices, as oil prices were generally low in the global markets. Monetary policy continued to be accommodative, despite the FOMC raising the fed funds rate by 25 basis points to the range of 2.25-2.50 per cent during the last quarter of 2018. The Fed continued with the policy rate normalisation due to strong performance of the economy and the labour markets. This move by the fed was seen as to avert the risks of economic overheating and also of overshooting inflation rate target.

Euro Area

Economic conditions in the Euro Area deteriorated somewhat during the review period. Real GDP growth slowed to 1.2 per cent during the fourth quarter of 2018, from 1.6 per cent in the previous quarter. The escalation in trade tensions and elevated political uncertainties had a negative impact on growth. Investment spending was subdued, due to low business confidence and export demand. The unemployment rate fell marginally to 7.9 per cent in the fourth quarter of 2018, from 8.0 per cent in the third quarter of 2018. The decrease in the unemployment rate was driven mainly by a decline in the youth unemployment, as they were absorbed in the services sector.

Inflationary pressures abated during the quarter ending in December 2018. The inflation rate fell to 1.6 per cent, from 1.9 per cent in the previous quarter. The slowdown in inflation emanated from lower rates of increase in food and energy prices. The governing council of the European Central bank kept its policy rate at 0.00 per cent during the last quarter of 2018. The decision was taken to spur inflation towards inflation target of 2.0 per cent and support growth. However, the Bank ended the asset purchase programme in December 2018, but would continue to reinvest principal payments from maturing securities, which were purchased under the same programme to maintain adequate liquidity in the economy.

Japan

Japan's economic activity stagnated in the fourth quarter of 2018. Real GDP grew at the same annual rate of 0.1 per cent as in the previous quarter, as the gains from consumption and investment spending were offset by a decline in exports. The Japanese economy also suffered a series of natural disasters in the previous quarter, whose effects were felt in the fourth quarter. The disasters led to some disruptions in the economic activity, with negative effect on the productive capacity and investment spending, as well as the retail sales. The unemployment rate for Japan increased slightly to 2.4 per cent in the fourth quarter of 2018, from 2.3 per cent in the quarter ending in September 2018. Unemployment rose as people quit their current jobs to look for better positions, in a relatively tight labour market.

Consumer inflation fell to the annual rate of 0.3 per cent during the last quarter of 2018, from 1.2 per cent in the third quarter of 2018. The deceleration in the inflation rate was due to falling food prices, housing and transportation costs. The Bank of Japan maintained its accommodative monetary policy stance, keeping the key policy rate unchanged at -0.1 per cent during the fourth quarter of 2018. The Bank also decided to continue with asset purchases in the form of government bonds, and other assets including exchange traded funds (ETFs) and corporate bonds, in order to lower the long term interest rates. Japan maintained accommodative stance to support economic growth and to ensure sustainable convergence to the inflation target of 2.0 per cent.

United Kingdom (UK)

The uncertainty surrounding Brexit continued to weigh negatively on the UK economy. Real GDP growth declined to 1.3 per cent in the fourth quarter of 2018, from a revised 1.6 per cent growth in the third quarter of 2018. Growth was adversely affected by the subdued gross capital formation due to the uncertainty on Brexit as well as waning exports. This was moderated by the resilient consumer spending and increased government spending. The unemployment rate declined from 4.1 per cent in the quarter ending in September 2018 to 4.0 per cent in the fourth quarter of 2018 as more jobs were created in the manufacturing and hospitality industries.

The UK level of inflation rose by 2.1 per cent in the quarter ending in December 2018, compared with 2.4 per cent in the previous quarter. Inflationary pressures eased due to the slowing prices of petrol, in line with global oil prices, and falling air fares. The Bank of England maintained an accommodative monetary policy stance amid intensifying uncertainties associated with Brexit. It kept its key policy rate unchanged at 0.75 per cent during the fourth quarter of 2018. The Bank also voted to continue with asset purchase programme comprising of investment-grade corporate bonds and government bonds.

EMERGING MARKET ECONOMIES

China

Real GDP increased at a lower rate of 6.4 per cent during the fourth quarter of 2018, compared with 6.5 per cent in the preceding quarter. The slowdown reflected weakened domestic demand due to the measures implemented to curb financial risks, and the on-going trade disputes with the US, which led to an unprecedented decline in exports. The unemployment rate declined slightly from 3.82 per cent in the third quarter of 2018, to 3.8 per cent during the fourth quarter of 2018. The decrease in the rate of unemployment reflected government intervention in the economy through pro-growth policies, which supported employment creation.

Inflationary pressures eased during the fourth quarter of 2018, as inflation decelerated from 2.5 per cent in the previous quarter to 1.9 per cent. This was due slowing non-food prices, including the reduction in transportation costs and easing household goods and services prices. The Bank of China kept its key interest rate steady at 4.35 per cent during the review period. Bank of China has not made any changes to its policy rate since October 2015. However, the Bank slashed required reserves to inject liquidity into the economy, to counteract the slowing economic activity and the negative impact of the trade war.

India

The Indian economy grew by 6.6 per cent in the quarter ending in December 2018. This presented a slowdown, compared to a 7.0 per cent growth in the third quarter of 2018. The easing of growth resulted from weakened consumer and government spending. Consumer spending was choked by relatively higher interest rates. In addition, the consumer confidence weakened during the quarter, due to a decline in the economy and jobs sub-components of the Index. Lower manufacturing output also weighed on growth during the review quarter. However, investment and exports rose during the quarter, moderating the slowdown in economic growth.

The annual inflation rate for India declined to 2.2 per cent during the quarter ending in December 2018, from 3.7 per cent in the preceding quarter. This was due to a continued decline in the food prices as the favourable Monsoon weather pattern improved vegetable production. The repo rate in India was unchanged at 6.50 per cent in the quarter ending in December 2018. The decision to maintain the rate was taken amid easing inflationary pressures. However, the risks to inflation outlook in the medium term were elevated and were on the upside, from domestic and global events including global financial markets uncertainties. The risks to the growth were, however, on the downside.

South Africa -

South Africa's economic performance continued to be low in the last quarter of 2018. The annual real GDP rose by 1.1 per cent during the fourth quarter of 2018, slightly slower than a revised 1.3 per cent recorded in the previous quarter. A decline in mining and construction output, together with a slowdown in electricity, gas and water production, dragged GDP growth. Growth was further hampered by low business confidence, owing to policy and political uncertainty, as reflected by a decline in investment spending in fixed capital. The unemployment rate declined by 0.4 percentage points to 27.1 per cent during the fourth quarter of 2018. The new jobs were created in the formal sector, agriculture and private households, while employment was shed in the informal sector.

Consumer inflation slowed down from 4.9 per cent in the third quarter of 2018 to 4.5 per cent in the fourth quarter of 2018. The easing inflation was driven by food and transportation costs. The SARB hiked the repo rate by 25 basis points to 6.75 per cent in the fourth quarter of 2018. The decision was prompted by the elevated long-term risks to the inflation outlook. Although inflation was expected to remain within the target, it was expected to deviate significantly from the mid-point on the upside. However, the SARB viewed the rate as accommodative enough to support growth.

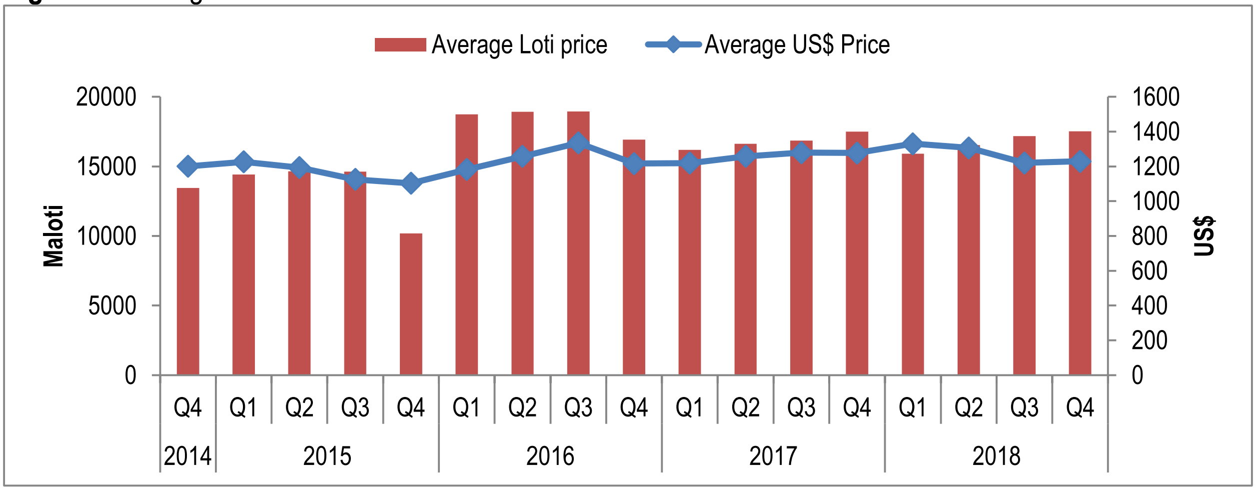
COMMODITIES

Minerals

Gold

The price of gold increased by 0.76 per cent during the fourth quarter of 2018. This followed a decline of 6.61 per cent in the previous quarter. Gold prices increased due to a rise in demand for safe haven assets as a result of the heightened volatility in the global financial markets, particularly stock markets, and growing fears of slowdown in the global economy. The major financial indexes, particularly stock market indexes fell. Key to the sources of these volatility was escalating trade tensions between the US and China, raising Fed funds rate by the FOMC as well as heightened geopolitical tensions. Investors were more risk cautious by selling volatile assets, to buy relatively stable ones. Apart from this, the increased demand for gold which was influenced by the Diwali festival in India, contributed to increased gold prices.

Figure 1: Average Price of Gold

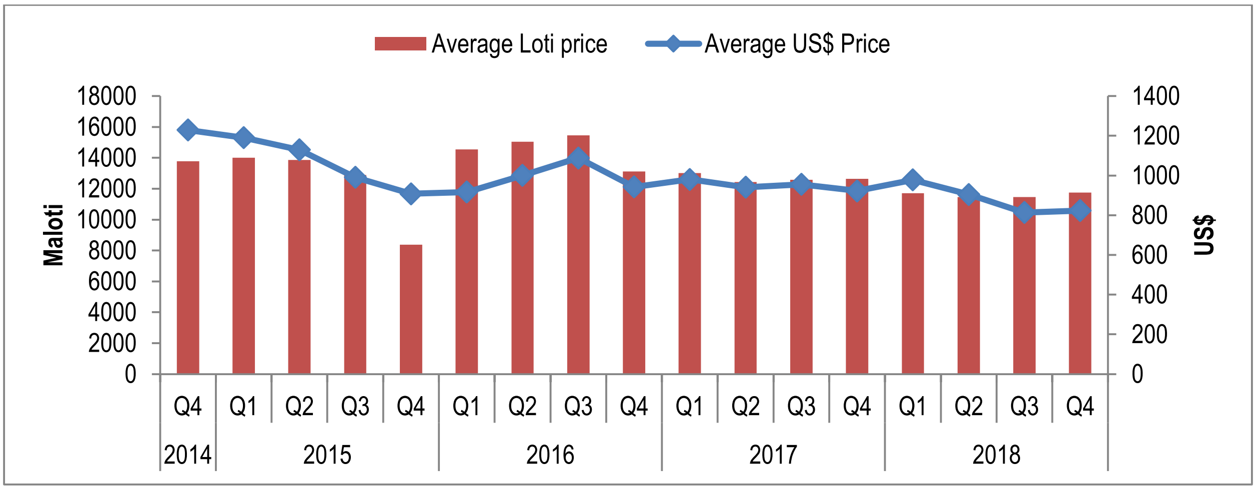


Source: Bloomberg

Platinum

The price of platinum made a comeback in the fourth quarter of 2018. It rose by a 1.22 per cent compared with a decline of 10.07 per cent in the previous quarter. The reason for this performance is increased demand for investment purposes, as the volatile financial markets stoked a fear among the investors. There was growing uncertainty in the global markets in connection to trade tensions and geopolitical tensions. The other factors that led to an increase in the platinum price include: increased demand for jewellery in China and India, as well as the gasoline vehicle auto catalyst manufacturing, as there is increased practice of substituting palladium for platinum. Traditionally, platinum is used for manufacturing of auto catalysts for diesel vehicles, hence an important driver of its price. The introduction of stricter emission Laws affected production of diesel vehicles negatively. The resulting slack in the platinum supply was picked by demand from gasoline vehicles manufactures.

Figure 2: Average Price of Platinum



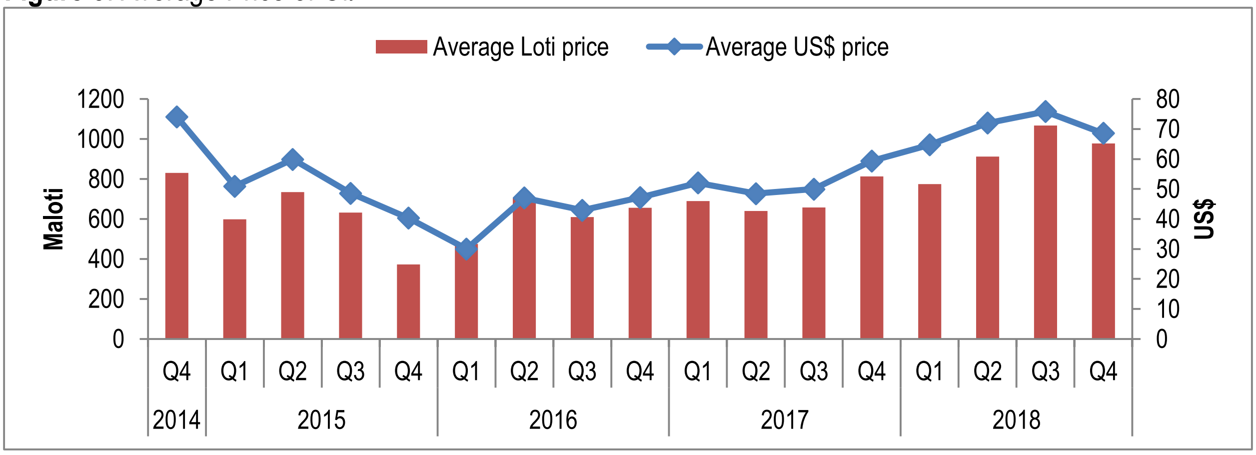
Source: Bloomberg

Energy

Oil

The price of oil decreased by 9.55 per cent to US$68.60 per cent during the fourth quarter of 2018. There was indication of increased supply due to US production during the review period. On the demand side, weakening Chinese economy and fears of global growth slowdown, raised the speculation that the demand for oil will fall. Hence relative excess supply of and falling demand for oil had a downward pressure on its price. During the third quarter of 2018, the price of oil had increased by 5.35 per cent.

Figure 3: Average Price of Oil



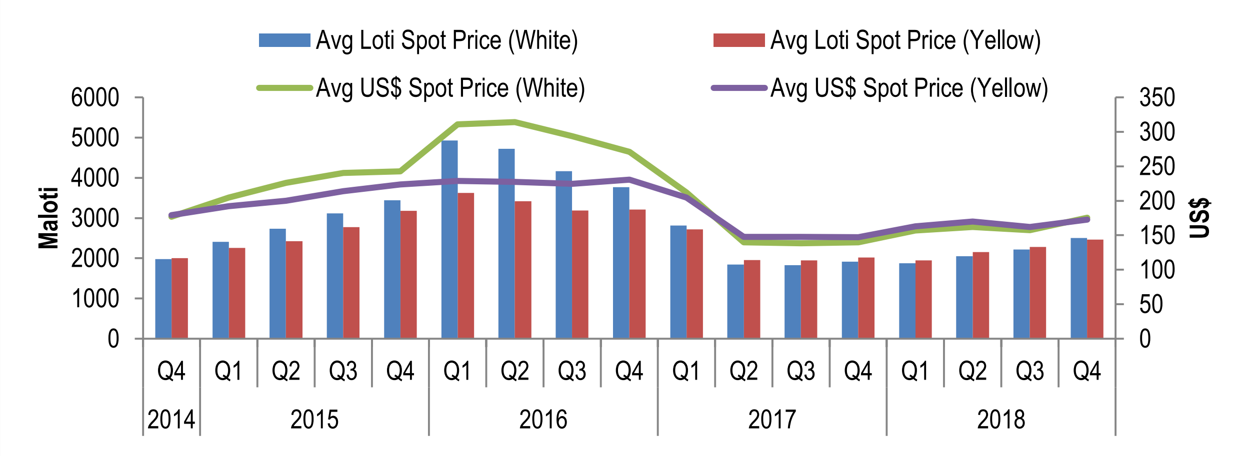
Source: Bloomberg

Agricultural Products

Maize

The price of maize generally rose during the review quarter. It rose by 12.71 per cent to US$ 175.40 for the white maize, and by 6.63 per cent to US$ 172.59 for the yellow maize. In comparison, in the previous quarter maize prices declined by 2.82 per cent for white maize, and 4.69 per cent for yellow maize, respectively. The increase in the maize prices during the fourth quarter was driven by high demand in the global markets. There were unfavourable weather conditions in the key producing countries, especially in the southern hemisphere with countries including South Africa experiencing drought. A decline in production, together with a fall in inventories had a downward pressure in the global supply, hence the increase in the prices.

Figure 4: Average Price of Maize

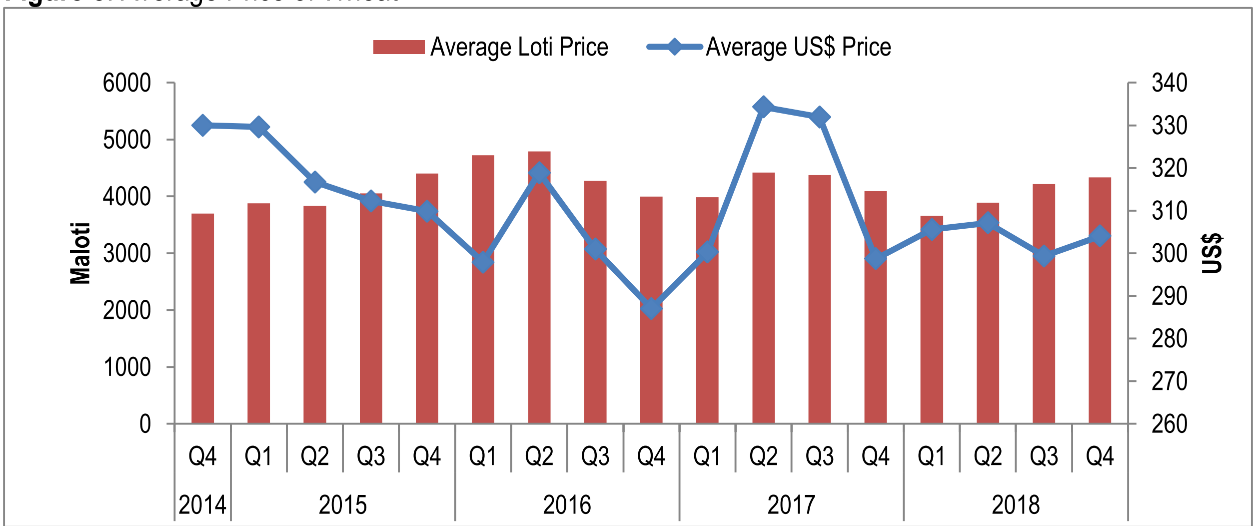


Source: Bloomberg

Wheat

The wheat price increased by 1.57 per cent to US$304.03 in the quarter under review, rebounding from a decline of 2.52 per cent in the previous period. Wheat prices were driven by tightening supplies in the global markets. Some of the major wheat producing areas, especially in the Northern hemisphere, including the European Union and Black Sea Area, experienced drought which disrupted wheat supplies. Furthermore, wheat inventories were falling during the review period.

Figure 5: Average Price of Wheat



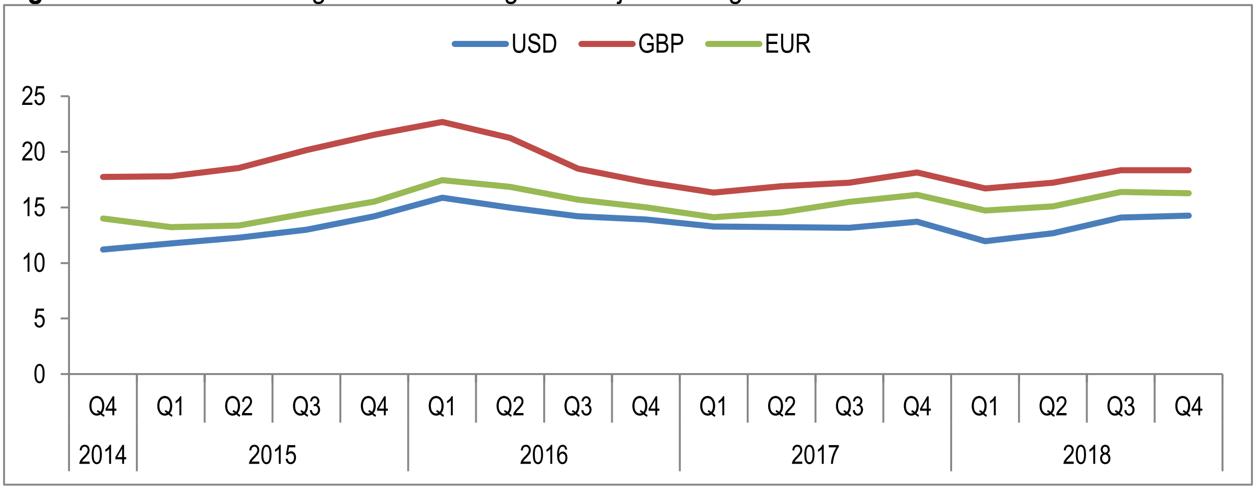
Source: Bloomberg

EXCHANGE RATES

The rand, hence the loti, depreciated by 1.26 per cent against the dollar and by 0.02 per cent against the pound, during the fourth quarter of 2018. In the third quarter of 2018, the rand weakened by

11.24 per cent against the dollar and 6.59 per cent against the pound. However, the rand appreciated by 0.61 per cent against the euro, following an 8.63 per cent decline in the third quarter of 2018. The rand suffered alongside other emerging market currencies, due to heightened selloff, pressured by rising interest rates in the US. The moderate decline of the rand during the quarter, relative to the previous quarter, was explained by; South Africa's emergence from the technical recession, indications of continued low interest rates in the advanced economies. However, the rand remained vulnerable to the weakened domestic growth prospects, political developments and policy uncertainties.

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



Source: Bloomberg

3. Real Sector Developments

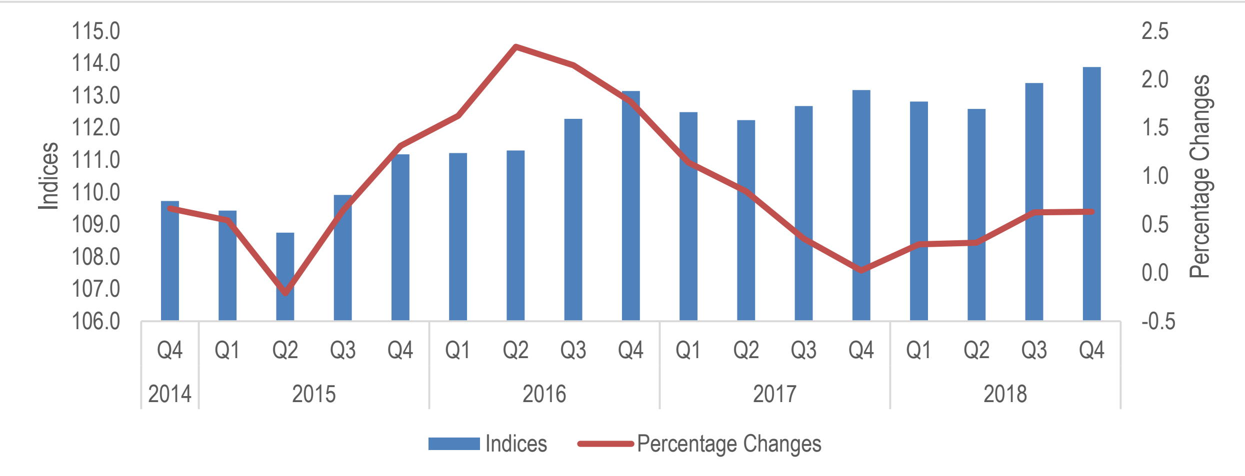
OVERVIEW

The domestic economy sustained the positive performance during the period under review mainly supported by domestic demand. The labour market showed mixed signals with the manufacturing sector depicting growth in employment, while both government and Basotho migrant mineworkers' categories continued to shed jobs albeit at a faster rate for the former while the latter's pace decreased. With regard to the general price level, the inflation rate increased in December 2018.

OUTPUT DEVELOPMENTS

Economic performance, as measured by the Composite Indicator of Economic Activity (CIEA), grew at the same rate of 0.6 per cent in the quarter under review as in the preceding quarter. The growth emanated from increased domestic demand, coupled with strong activity in the transport sector as indicated by increased fuel consumption especially for diesel and petrol. In addition, credit to the private sector contributed positively, boosting economic performance in the review quarter. On the contrary, the production side of the economy showed some contractions, and this was at the back of negative contributions from electricity and water consumption for industrial purposes.

Figure 1: Quarterly Indicator of Economic Activity



Source: CBL

EMPLOYMENT DEVELOPMENTS

Employment by LNDC-assisted companies grew by 2.2 per cent in the fourth quarter of 2018 compared to the 4.4 per cent recorded in the previous quarter. The main contributors to the growth were; woven garments, footwear, retail, and hotel and accommodation companies. Employment in knit garments, fabrics, yarn etc, construction as well as food & beverages companies declined during the re view period. Casual and short term employees were the main contributors to the increase in employment. The increase in employment tallied with the increase in the volume of exports to US market in the quarter under review.

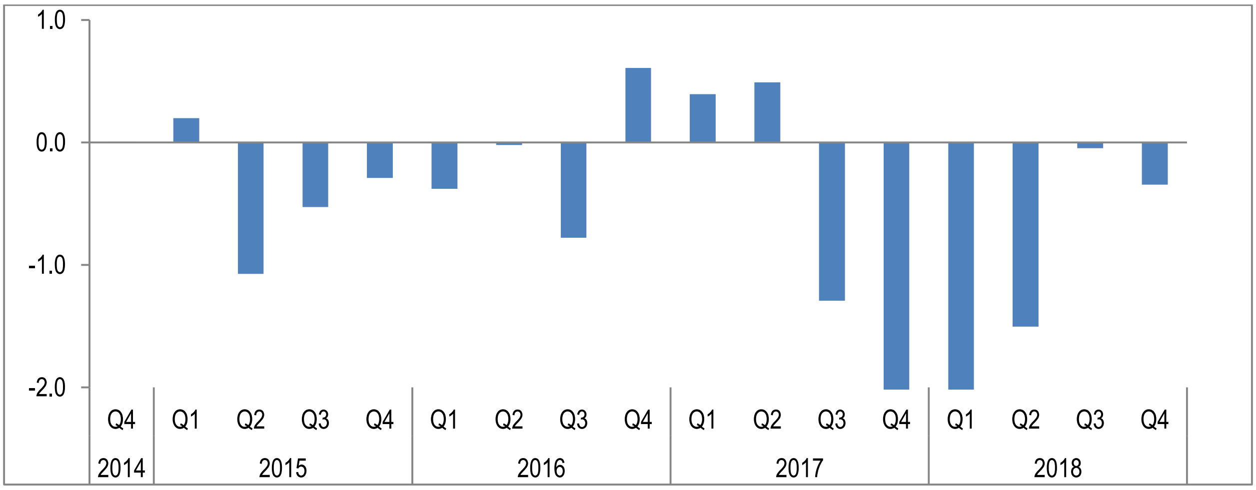
Table 2: Employment by LNDC-Assisted Companies

Industry	2017	2018				% Change	
	Q4	Q1	Q2	Q3	Q4	Q/Q	Y/Y
Knit Garments…………..	27159	27723	26858	27436	26771	-2.4	-1.4
Woven Garments…….	15613	15924	16800	17515	17166	-2.0	9.9
Footwear………………….	942	1005	1010	998	1010	1.2	7.2
Fabrics, Yarn etc……….	1972	2052	1840	1835	1839	0.2	-6.7
Construction…………….	360	363	344	345	344	-0.3	-4.4
Food & Beverages……….	736	781	708	724	708	-2.2	-3.8
Electronics…………………	959	943	920	942	974	3.4	1.6
Retail………………………..	152	159	168	170	168	-1.2	10.5
Hotel Accomm………..	481	526	526	515	515	0.0	7.1
Other……………………..	1061	1097	1126	1063	1047	-1.5	-1.3
TOTAL…………………..	**49435**	**50573**	**50300**	**51543**	**50542**	**-1.9**	**2.2**

Source: Lesotho National Development Corporation

Government employment continued to decline for the sixth consecutive quarter in the fourth quarter of 2018. It fell by 0.3 per cent The decline was due to government's continued effort to manage the wage bill as stipulated in the 2018/2019 budget speech, this was executed by removal of ghost workers from the payroll, freezing of new positions, and limiting hiring to only critical positions.

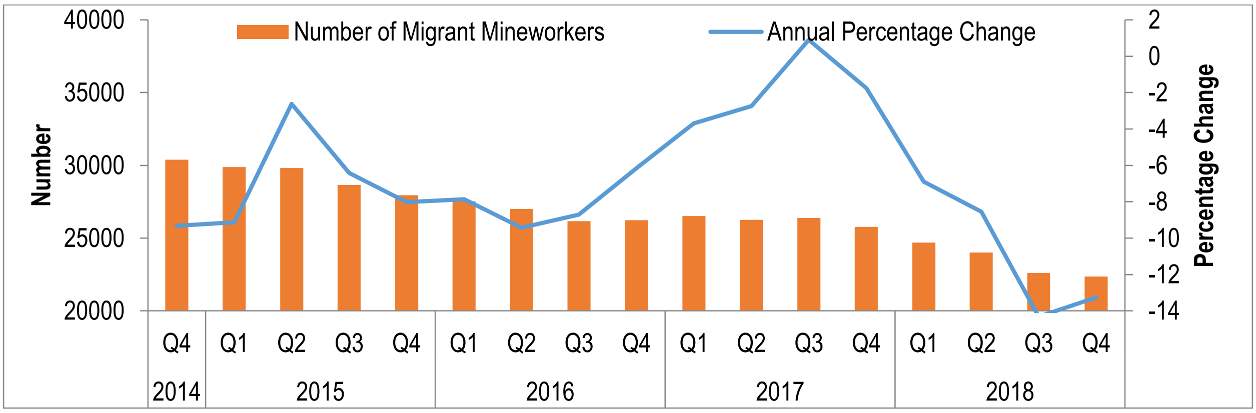
Figure 5: Government Employment *(Annual Percentage Change)*



Source: Ministry of Finance

The number of migrant mineworkers continued to decline in the quarter under review albeit at a reduced rate of 13.5 per cent as compared to the 14.3 per cent decline registered in the third quarter of 2018. The observed decline was an indication of challenges faced by the SA mining industry, especially the platinum and gold mines where a large number of Basotho migrant mineworkers are employed. The two precious metals' mines were under pressure during the course of 2018, and this was at the back of relatively weak prices and low production volumes faced by the mines. In addition, the strengthening of the rand against major currencies exacerbated the impact in the second half of 2018, putting deep-level South African gold and platinum producers under significant pressure as reflected in the market capitalisation of such entities.

Figure 6: Migrant Mineworkers *(Annual Percentage Changes)*



Source: The Employment Bureau of Africa (TEBA)

PRICE DEVELOPMENTS

Inflation rate, as measured by the year-on-year percentage change in the Consumer Price Index (CPI), declined to of 4.9 per cent at the end of the quarter, from the 5.0 per cent recorded by the end of the preceding quarter. The slight decline in the rate was a result the fall in regional (Southern Africa) prices of maize and fuels in the fourth quarter. An outlook of a good harvest due to rains in the quarter was the major contributor to the decline in food prices.

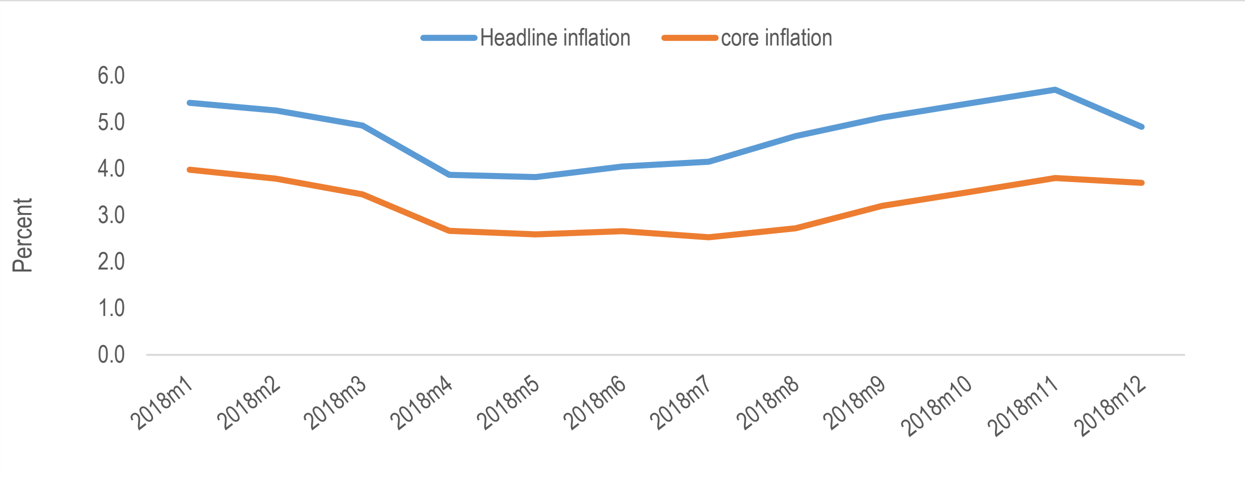
Table 2: Inflation Rate *(Annual Percentage Change)*

		2017		2018		
	Weight	Aug	Sep	Oct	Nov	Dec
All items	**1000**	**4.7**	**5.0**	**5.3**	**5.6**	**4.9**
Food and non-alcoholic beverages	**361.13**	4.0	4.4	4.7	5.2	4.7
Alcoholic beverages & Tobacco	**33.31**	6.3	6.3	5.6	5.9	4.4
Clothing & footwear	**130.57**	2.3	2.3	2.5	2.5	2.7
Housing, electricity gas & other fuels	**123.97**	11.1	12.4	13.3	14.3	11.8
Furniture, households equipment & routine maintenance	**84.77**	3.6	3.3	3.4	2.9	3.4
Health	**15.04**	0.9	1.1	1.0	1.0	1.1
Transport	**48.21**	10.3	10.6	11.3	11.3	6.4
Communication	**21.05**	-0.8	0.0	0.0	0.0	0.0
Leisure, entertainment & Culture	**57.08**	4.1	4.4	4.6	4.9	5.6
Education	**42.00**	1.7	1.6	1.5	1.4	1.4
Restaurant & Hotels	**10.30**	2.2	2.0	2.3	2.3	2.1
Miscellaneous goods & services	**72.59**	2.7	2.7	2.9	3.1	2.9

Source: Bureau of Statistics

Core inflation is an extraction from the overall inflation that excludes all the volatile components of the headline inflation and it has been moving in tandem with the headline inflation for the major parts of the year. Core inflation increased by 0.5 percentage points on a quarterly basis from 3.2 per cent recorded in the end of the third quarter to 3.7 per cent in December of 2018.

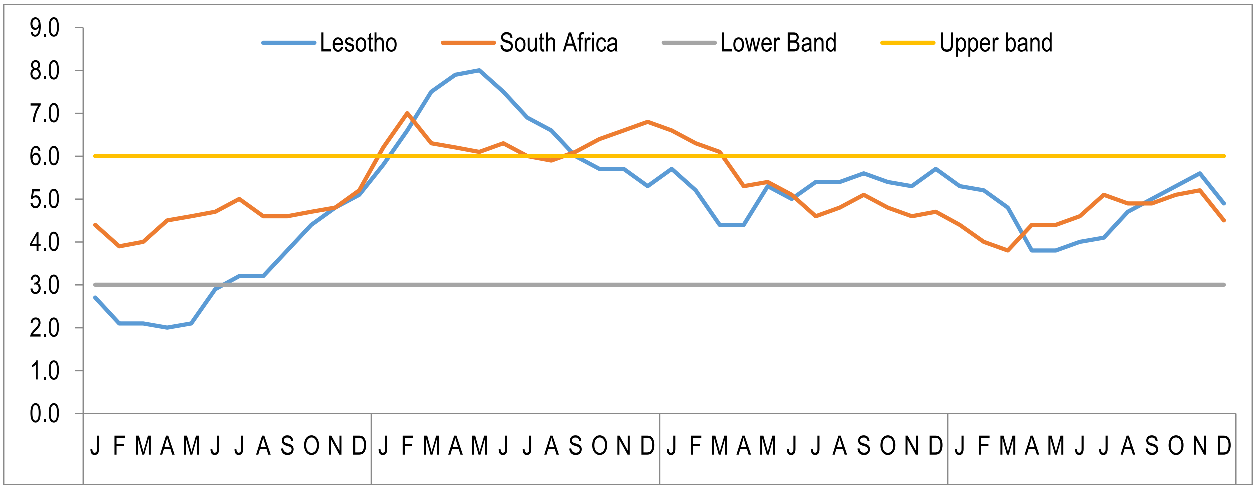
Figure 7: Headline vs Core Inflation



Source: Central Bank of Lesotho

The inflation rates of Lesotho and South Africa have continued to move in tandem, even though in the quarter under review Lesotho has registered slightly higher rates than those of South Africa. From November to December both countries' inflation rates decreased by 0.7 percentage points.

Figure 7: Lesotho and South Africa's Inflation



Source: Bureau of Statistics, Statistics South Africa

4. Monetary and Financial Developments

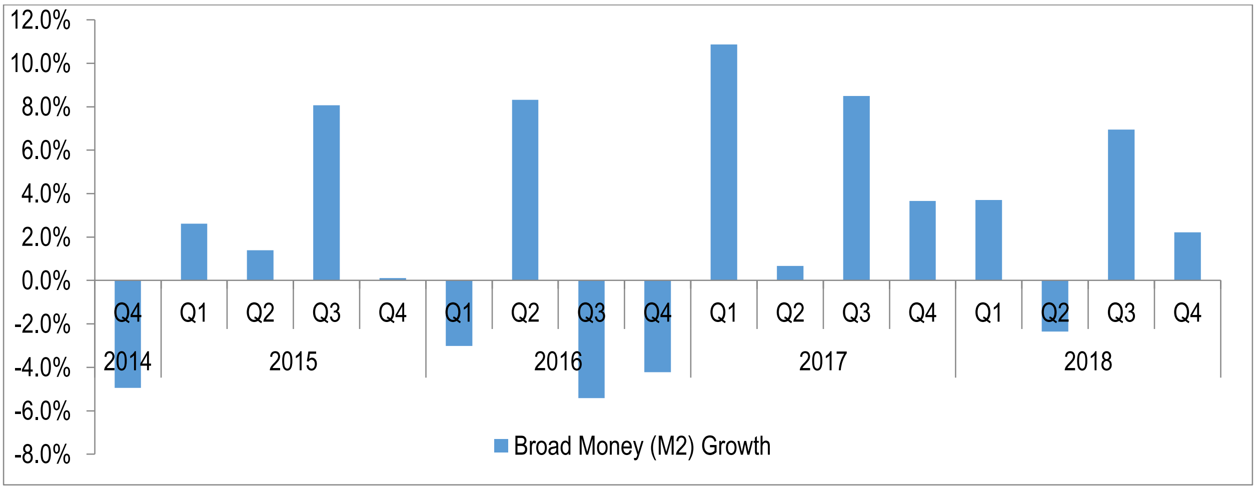
OVERVIEW

Money supply increased during the review quarter on account of growth in Net Foreign Assets (NFA) and domestic claims. The growth in commercial banks' NFA was at the back of an increase in deposits, mainly from private sector, during the quarter. Private sector credit also improved during the quarter under review. Credit extended to households rose owing to grow in both mortgages and personal loans. Conversely, credit to business enterprises declined because of the runoffs that out-stripped the new loans.

BROAD MONEY (M2)

Money supply increased by 2.2 per cent during the fourth quarter of 2018, from an increase of 6.9 per cent registered in quarter ending September 2018. This was due to a growth in both the Domestic Claims and Net Foreign Assets.

Figure 7: Broad Money (M2)



Source: Central Bank of Lesotho

Determinants of M2

Domestic Credit

Domestic claims, including net claims on government, grew by 4.0 per cent during the review quarter, compared with a 17.9 per cent decline recorded in the previous quarter. This development was attributable to an increase in net claims on government, emanating from a drawdown in government deposits with Central Bank. Furthermore, claims on other sectors rose by 1.5 per cent stemming from 5.3 per cent increase in claims on other financial corporations and 1.3 per cent growth in private sector claims.

Table 3: Domestic Claims *(Million Maloti: End Period)*

	2018					Changes (%)	
	Dec	Mar	June	Sept	Dec	Quarterly	Annual
Domestic Claims	**5376.19**	**4776.15**	**5110.58**	**6154.84**	**6401.46**	**4.01**	**19.07**
Net Claims on Government	**-770.46**	**-1630.07**	**-1502.38**	**-811.16**	**-665.51**	**17.96**	**13.62**
Commercial Banks Net Claims	**995.55**	**1103.58**	**1213.18**	**1283.37**	**1391.33**	**8.41**	**39.75**
Claims on Central Government	1002.12	1109.37	1218.60	1288.88	1396.23	**8.33**	**39.33**
Liabilities to Central Government	-6.57	-5.79	-5.41	-5.51	-4.90	**-11.03**	**-25.43**
Central Bank Net Claims	**-1766.02**	**-2733.65**	**-2715.56**	**-2094.53**	**-2056.84**	**1.80**	**-16.47**
Claims on Central Government	842.18	817.81	753.63	753.93	729.75	**-3.21**	**-13.35**
Liabilities to Central Government	-2608.19	-3551.46	-3469.19	-2848.46	-2786.58	**-2.17**	**6.84**
Claims on Other Sectors	**6146.66**	**6406.22**	**6612.96**	**6966.01**	**7066.97**	**1.45**	**14.97**
Claims on OFCs	77.96	78.88	74.37	243.68	256.68	**5.33**	**229.26**
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		
Claims on Private Sector	6068.70	6327.34	6538.59	6722.32	6810.29	**1.31**	**12.22**
Claims on Business Enterprises	1999.08	1974.30	2090.01	2153.04	2097.60	**-2.57**	**4.93**
Claims on Households	4069.61	4353.04	4448.58	4569.28	4712.69	**3.14**	**15.80**

Source: Central Bank of Lesotho

Net Foreign Assets

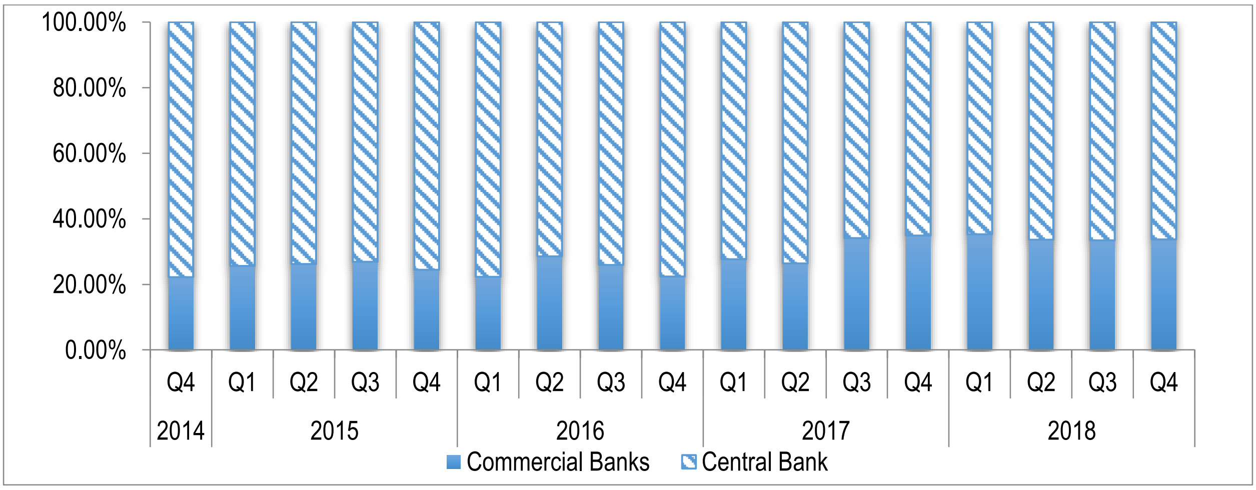
The overall banking system Net Foreign Assets (NFA) grew by 2.7 per cent during the quarter under review, from an increase of 6.4 per cent observed in the previous quarter. This was due to 3.6 per cent rise in Commercial Banks' NFA, complemented by 2.2 per cent increase in Central Bank's NFA. The growth in commercial banks NFA was facilitated by increased deposits – mainly from the private sector – coupled with sluggish growth in credit. The growth in Central Bank's NFA was at the back of revaluation gains during the review quarter.

Table 4: Net Foreign Assets *(Million Maloti: End Period)*

	2018					Changes (%)	
	Dec	Mar	June	Sept	Dec	Quarterly	Annual
Commercial Banks	**4523.72**	**4727.26**	**4742.55**	**5019.71**	**5200.68**	**3.61**	**14.96**
Claims on Non-residents	5010.79	5354.56	5160.19	5640.12	5700.44	**1.07**	**13.76**
Liabilities to Non-residents	-487.07	-627.31	-417.64	-620.41	-499.76	**-19.45**	**2.61**
Central Bank	**8435.22**	**8657.60**	**9372.74**	**10003.30**	**10221.28**	**2.18**	**21.17**
Claims on Non-residents	9901.86	10097.99	10792.57	10980.01	11192.19	**1.93**	**13.03**
Liabilities to Non-residents	-1466.64	-1440.39	-1419.82	-976.72	-970.91	**-0.59**	**-33.80**
Net Foreign Assets Total	**12958.94**	**13384.86**	**14115.29**	**15023.01**	**15421.96**	**2.66**	**19.01**

Source: Central Bank of Lesotho

Figure 8: Net Foreign Assets *(percentage shares)*



Source: Central Bank of Lesotho

Components of M2

The major components of broad money (M2) are narrow money (M1) and quasi money. The broad measure of money supply increased by 2.2 per cent during the quarter under review, compared to 6.9 per cent growth realised in the preceding quarter. This was underpinned by an increase of 10.8 per cent in quasi money, moderated by 6.3 per cent fall in narrow money. The growth in quasi money follows an increase in deposits by public non-financial corporations and the mining sector. On the contrary, the fall in narrow money was at the back of transfers from demand deposits to call deposits by private sector coupled with increased withdrawals by commercial banks' customers during the festive season.

Table 5: Components of Money Supply *(Million Maloti: End Period)*

	2018					Changes (%)	
	Dec	Mar	June	Sept	Dec	Quarterly	Annual
Broad Money (M2)	**12105.97**	**12553.70**	**12257.62**	**13109.30**	**13400.60**	**2.22**	**10.69**
Narrow Money (M1)	**6160.77**	**6457.05**	**6147.10**	**6572.51**	**6158.64**	**-6.30**	**-0.03**
Currency Outside DCs	1111.09	1053.77	1016.00	1032.73	1040.50	**0.75**	**-6.35**
Transferable Deposits	5049.68	5403.28	5131.10	5539.78	5118.14	**-7.61**	**1.36**
Quasi Money	**5945.20**	**6096.65**	**6110.52**	**6536.79**	**7241.96**	**10.79**	**21.81**
Other Deposits Commercial Banks	5906.33	6058.22	6066.92	6501.81	7185.42	**10.51**	**21.66**
Other Deposits Central Bank	38.87	38.43	43.60	34.98	56.54	**61.63**	**45.46**

Source: Central Bank of Lesotho

CREDIT EXTENSION

Trends of credit extended to Business Enterprises

During the review quarter, credit extended to business enterprises declined by 2.6 per cent compared to a 5.3 per cent increase during the previous quarter. The observed drop was underpinned mostly by run-offs, which overshadowed the newly extended credit recorded during the quarter under review.

Table 6: Credit Extension by Economic Activity *(Million Maloti)*

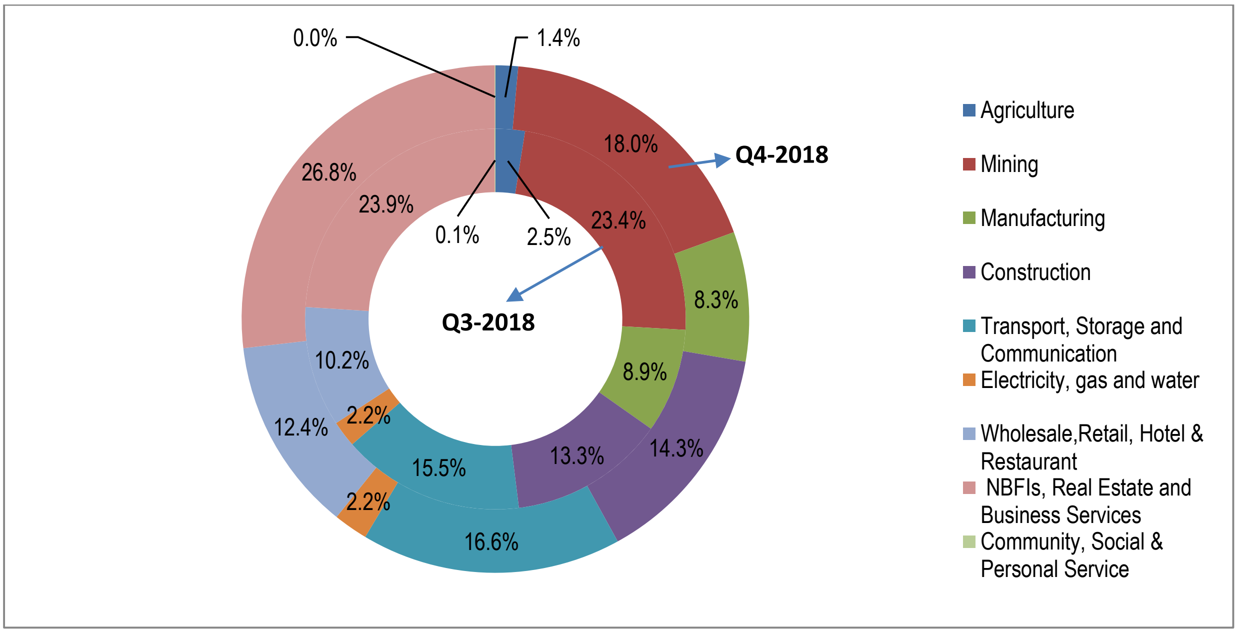
	2018					Changes (%)	
SECTOR	**Dec**	**Mar**	**Jun**	**Sep**	**Dec**	**Quarterly**	**Annual**
Agriculture	16.98	18.10	14.15	54.87	30.31	**-44.8**	**78.5**
Mining	284.14	401.39	460.86	430.72	379.73	**-11.8**	**33.6**
Manufacturing	252.10	224.31	220.58	195.17	174.08	**-10.8**	**-30.9**
Electricity, gas and water	41.15	40.56	47.69	49.09	46.21	**-5.9**	**12.3**
Construction	283.98	253.17	243.47	291.69	301.83	**3.5**	**6.3**
Wholesale, Retail, Hotel & Restaurant	167.13	197.55	211.44	224.83	261.68	**16.4**	**56.6**
Transport, Storage and Communication	370.89	330.34	347.69	341.76	349.65	**2.3**	**-5.7**
NBFIs, Real Estate and Business Services	522.95	505.80	542.77	563.36	553.24	**-1.8**	**5.8**
Community, Social & Personal Service	43.87	3.08	1.35	1.55	0.89	**-42.8**	**-98.0**
All Sectors	**1,983.19**	**1,974.30**	**2,090.01**	**2,153.04**	**2,097.60**	**-2.6**	**5.8**

Source: Central Bank of Lesotho

Distribution of credit Extended to Business Enterprises

With regard to distribution of credit extended to business enterprises, real estate, mining and transport, storage & communication accounted for the largest shares of 26.8 per cent, 18.0 per cent and 16.6 per cent respectively. Agriculture continued to get the smallest share of total credit extended to business enterprises.

Figure 9: Distribution of Credit *(Percentage Shares)*



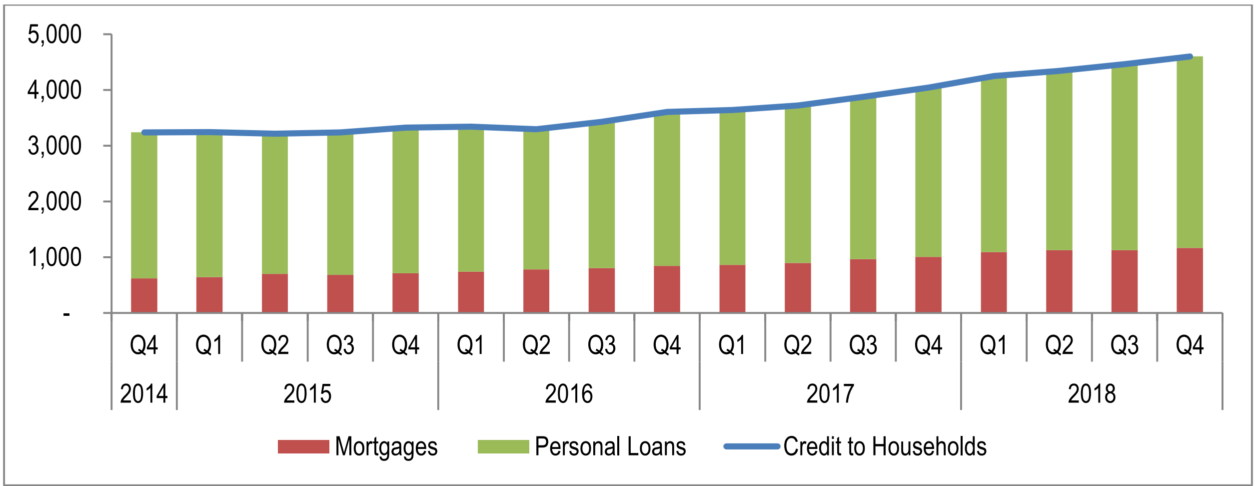
Source: Central Bank of Lesotho

Credit extended to Households

During the quarter under review, credit to households a grew by 3.4 per cent from an increase of 1.7 per cent for the quarter ending September 2018. This follows respective growths of 3.7 per cent and

3.0 per cent in mortgages and personal loans in the previous quarter. Growth in mortgages was supported by banks' efforts to promote mortgage loans through various strategies while an increase in personal loans was as a result of aggressive sales' strategies coupled with personal disbursements.

Figure 10: Credit Extension to Household *(Million Maloti)*



Source: Central Bank of Lesotho

LIQUIDITY OF COMMERCIAL BANKS

Components of liquidity

The credit to deposit ratio declined from 55.0 per cent to 54.6 per cent between the third and the fourth quarter of 2018. The decline was due to an increase in total deposits that overshadowed the growth of private sector credit. Similarly, the liquidity ratio declined from 75.2 per cent to 71.7 per cent during the review period, and was attributable to a decline in balances due from both banks in Lesotho and in South Africa, coupled with a moderate growth in total deposits.

Table 7: Components of Liquidity *(Million Maloti)*

	2017		2018			
	Sept	Dec	Mar	Jun	Sep	Dec
Credit to Deposit Ratio	**55.43%**	**55.18%**	**54.43%**	**57.57%**	**55.03%**	**54.56%**
Private Sector Credit	5,847.28	6,045.47	6,238.43	6,446.75	6,627.01	6,712.99
Total Deposits	10,548.49	10,956.02	11,461.50	11,198.02	12,041.59	12,303.56
Liquidity Ratio	**79.71%**	**74.30%**	**73.04%**	**82.14%**	**75.17%**	**71.70%**
Notes and Coins	390.48	740.98	463.42	414.58	392.83	741.60
Balance due from banks in Lesotho	2,158.94	2,157.63	2,195.94	2,924.23	23,87.61	1,779.25
Balance due from banks in SA	4,763.20	4,198.18	4,347.05	4,557.63	5,063.14	4,949.68
Surplus funds	106.36	41.02	255.97	83.42	-80.99	-45.72
Government Securities	988.78	1,002.12	1,109.37	1,218.60	1,288.88	1,396.23
Total	**8,407.76**	**8,139.94**	**8,371.74**	**9,198.45**	**9,051.47**	**8,821.04**

Source: Central Bank of Lesotho

Commercial Banks Sources of Funds

The commercial banks' total deposits, which are the main source of funds for the banks, increased by 2.2 per cent in the fourth quarter of 2018. This was mostly at the back of 17.6 per cent increase in other deposits held by the business enterprises. However, the decline in transferable deposits held by the business enterprises moderated the total deposits' growth.

Table 8: Sources of funds for ODCs *(Million Maloti)*

	2017	2018				Changes (%)	
	Dec	Mar	June	Sept	Dec	Quarterly	Annual
Transferable Deposits Incl. in BM	**5,049.68**	**5,403.28**	**5,131.10**	**5,539.78**	**5,118.14**	**-7.61**	**1.36**
Other Financial Corporations	36.54	38.26	29.31	33.77	32.99	**-2.32**	**-9.72**
Public Nonfinancial Corporations	98.33	138.74	107.26	56.14	60.58	**7.90**	**-38.39**
Private Sector	4,897.13	5,208.60	4,976.84	5,432.17	5,006.88	**-7.83**	**2.24**
Other NFCs	3,480.92	3,759.94	3,395.51	3,887.48	3,471.06	**-10.71**	**-0.28**
Other Sectors (Households)	1,416.21	1,448.66	1,581.33	1,544.69	1,535.82	**-0.57**	**8.45**
Other Deposits Incl. in BM	**5,906.33**	**6,058.22**	**6,066.92**	**6,501.81**	**7,185.42**	**10.51**	**21.66**
Other Financial Corporations	71.79	54.98	51.63	84.55	58.20	**-31.16**	**-18.93**
Public Nonfinancial Corporations	345.11	404.16	265.01	275.03	254.00	**-7.64**	**-26.40**
Private Sector	5,489.43	5,599.08	5,750.28	6,142.23	6,873.21	**11.90**	**25.21**
Other NFCs	3,673.15	3,664.03	3,821.80	4,203.28	4,941.00	**17.55**	**34.52**
Other Sectors (Households)	1,816.29	1,935.05	1,928.47	1,938.95	1,932.21	**-0.35**	**6.38**
Total Deposits	**10,956.02**	**11,461.50**	**11,198.02**	**12,041.59**	**12,303.56**	**2.18**	**12.30**

Source: Central Bank of Lesotho

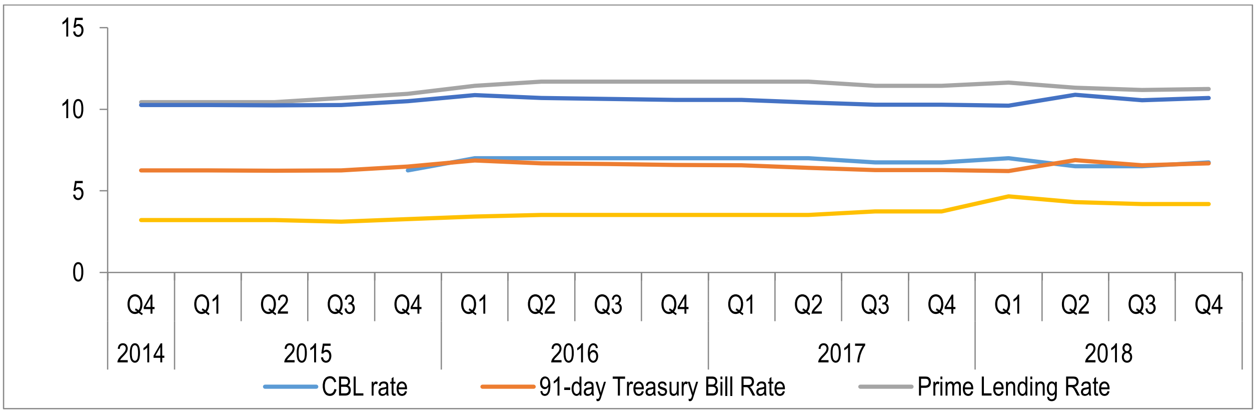
MONEY AND CAPITAL MARKET DEVELOPMENTS

Money Market

Interest Rates

During the review quarter, the Central Bank Policy Rate increased by 25 basis points to 6.75 per cent. Similarly, the 91-day Treasury bill rate and the prime lending rate increased by 13 basis points and 6 basis points to 6.69 per cent and 11.25 per cent, respectively. However, 1-year deposit rate remained unchanged at 4.19 per cent.

Figure 11: Short Term Interest Rates *(Per Cent per Annum)*



Source: Central Bank of Lesotho

Table 9: Interest rates

	2017	2018			
	Dec	**Mar**	**June**	**Sept**	**Dec**
Central Bank					
CBL rate	6.75	7.00	6.50	6.50	6.75
T-Bill Rate - 91 days	6.27	6.22	6.88	6.56	6.69
Lombard Rate	10.27	10.22	10.88	10.56	10.69
Commercial Banks					
Call	1.06	1.31	1.36	1.12	1.12
Time:					
31 days	0.36	0.70	0.40	0.35	0.35
88 days	1.31	1.63	1.40	1.33	1.33
6 months	2.45	2.55	2.67	2.54	2.54
1 year	3.73	4.65	4.30	4.19	4.19
Savings	0.76	0.73	0.73	0.70	0.70
Prime	11.44	11.63	11.31	11.19	11.25
South Africa					
Repo	6.75	6.50	6.50	6.50	6.75
T-Bill Rate - 91 days	7.60	6.87	7.07	7.14	7.48
Marginal Lending Rate					
Prime	10.25	10.00	10.00	10.00	10.25

Source: Central Bank of Lesotho

Holding of Treasury Bills and T-Bill Rates

The total treasury bill holding increased by 2.7 per cent to M875.25 million during the review period. The increase in total treasury bill holding was driven by the banking sector, whose holdings rose by M28.55 million in December 2018, following an increase of M9.89 million in September 2018. The non-banking sector treasury bill holdings declined by 5.8 per cent to M254.37 million in December 2018.

Table 10: Holding of Bills and Yields *(Million Maloti)*

	2017	2018			
	Dec	**Mar**	**Jun**	**Sep**	**Dec**
Treasury Bills	**724.70**	**874.71**	**865.67**	**852.54**	**875.25**
Banking System	477.88	566.10	582.44	592.33	620.88
Non-Bank Sector	246.82	308.61	283.23	260.21	254.37
Memorandum Item					
Yield Bills (91-days)	6.37	6.22	6.88	6.67	6.80

Source: Central Bank of Lesotho

Holding of Treasury Bonds

The holdings of Treasury bonds increased by 16.6 per cent in December 2018 compared to an increase of 8.4 per cent realized in September 2018. This was on account of bond auctions held in December 2018 to support government operations. Both the banking and non-banking sectors contributed to the rise in Treasury bond holdings, with increases of 9.8 per cent and 24.1 per cent respectively.

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

	2017	2018			
	Dec	**Mar**	**Jun**	**Sep**	**Dec**
Holding of Treasury Bonds	**957.84**	**1096.50**	**1254.74**	**1359.53**	**1584.66**
Banking System	525.89	525.65	646.147	716.23	786.12
Non-Bank Sector	431.96	570.85	608.588	643.30	798.54

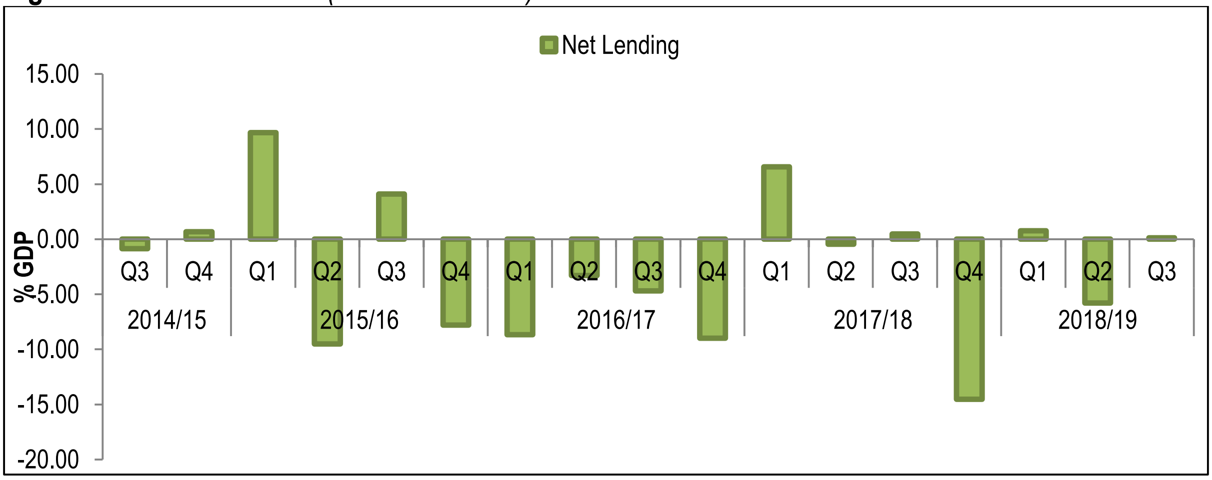
Source: Central Bank of Lesotho

5. Government Finance

OVERVIEW

The budgetary operations of the Government produced a marginal fiscal surplus of 0.1 per cent of GDP[1] during the third fiscal quarter of 2018/19 compared with the revised deficit of 6.1 per cent of GDP in the previous quarter. This fiscal surplus emanated from increased revenue collections while expenditure declined. As a percentage of GDP, the total revenue was 38.4 per cent, while spending was 38.3 per cent. The slowdown in spending was mainly attributed to budget consolidation that was employed during the quarter. The public debt stock slightly rose to 39.3 per cent of GDP in the fiscal quarter under review compared with 39.1 per cent of GDP recorded in the previous quarter. This was a result of issuance of M225.31 million of Treasury Bonds..

Figure 12: Fiscal Balance *(Per cent of GDP)*



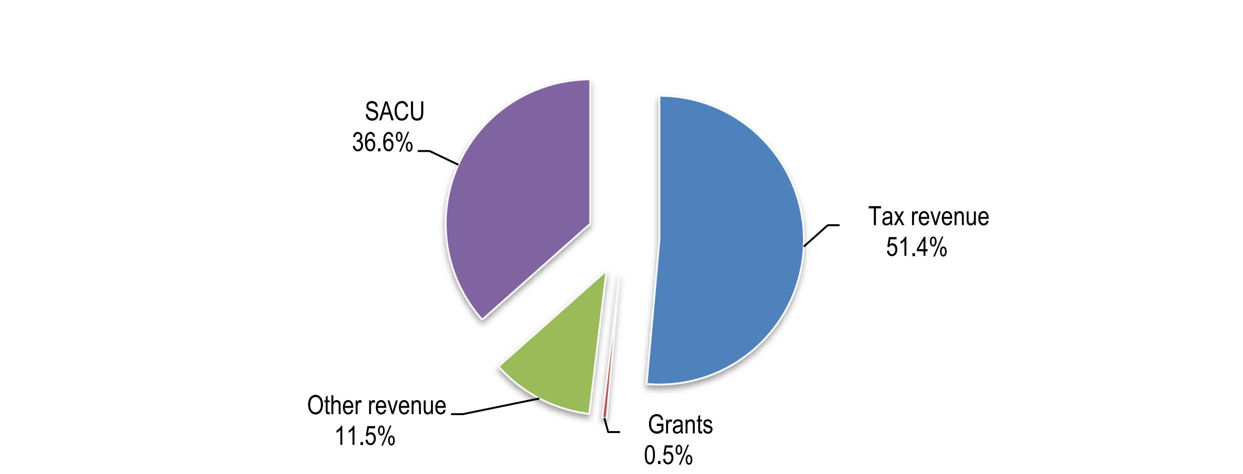
Source: Central Bank of Lesotho (CBL) and Ministry of Finance (MOF)

TOTAL REVENUE

The Government revenue increased by 9.2 per cent during the quarter under review, following a revised fall of 30.1 per cent in the quarter ending in September 2018. Higher collections were realised in almost all components of revenue, except SACU receipts. On an annual basis, total revenue fell by 5.1 per cent, mainly due to the fall in taxes and grants.

[1] Apart from debt stock in which the projected 'annual GDP' has been used, all other GFS components have been analysed using actual 'quarterly GDP' produced by Bureau of Statistics. The projected figures are produced by CBL.

Figure 13: Total Revenue *(Million Maloti)*

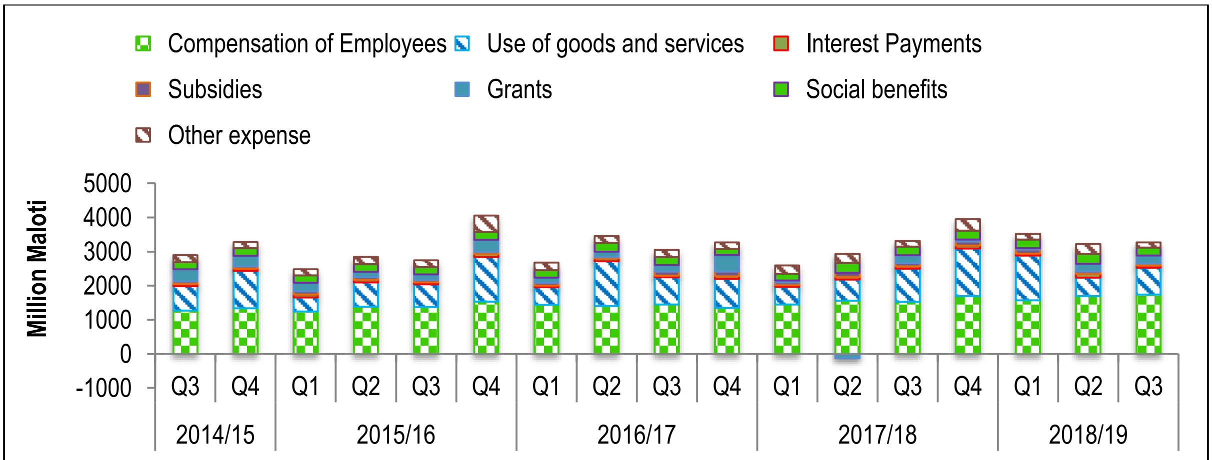


Source: CBL and MOF

TOTAL EXPENDITURE

Government spending fell by 7.2 per cent during the fiscal quarter ending in December 2018 relative to the revised rise of 6.9 per cent in the quarter ending in September 2018.Non-financial assets fell by 40.5 per cent, while the expenses expanded by 1.5 per cent. The increase in expenses was on account of 14.3 per cent rise in compensation of employees, while all other categories of expenses recorded a decline. The fall in non-financial assets was largely explained by low spending on maintenance of assets. The year-on-year changes under total spending reflected a decrease of 4.3 per cent.

Figure 14: Total Expense *(Million Maloti)*



Source: CBL and MOF

Table 12: Statement of Sources and Uses of Cash *(Million Maloti)*

		2017/18 Q3	2017/18 Q4	2018/19 Q1	2018/19 Q2	2018/19 Q3	Y-on-Y (%)	GDP ratio (%)
1	**Total Revenue**	**3990.95**	**3900.79**	**4964.08**	**3469.84**	**3788.99**	**-5.1**	**38.4**
11	Tax revenue	1988.90	1941.18	1820.25	1687.78	1947.98	**-2.1**	19.7
	O/W Income Tax	1080.43	843.64	1012.67	946.65	1088.74	0.8	11.0
	O/W Value Added Tax	721.72	628.45	720.07	641.98	703.87	-2.5	7.1
13	Grants	92.26	45.73	1156.19	21.09	18.68	-79.7	0.2
14	Other revenue	371.23	375.33	602.09	375.42	436.76	17.7	4.4
	SACU receipts	1538.55	1538.55	1385.56	1385.56	1385.56	-9.9	14.0
2	**Total Expense**	**3313.79**	**3950.18**	**3524.45**	**3222.89**	**3271.50**	-1.3	**33.1**
21	Compensation of Employees	1520.63	1691.48	1571.13	1688.50	1738.40	14.3	17.6
22	Use of goods and services	981.17	1400.48	1315.93	543.34	792.03	-19.3	8.0
	O/W Purchase of Health Services	242.57	146.06	305.73	571.71	49.16	-79.7	0.5
24	Interest Payments	61.31	85.39	52.53	104.70	59.63	-2.7	0.6
25	Subsidies	94.86	116.32	118.25	73.99	58.70	-38.1	0.6
26	Grants	229.88	56.97	43.37	225.47	237.10	3.1	2.4
27	Social benefits	261.72	267.86	254.74	294.42	233.52	-10.8	2.4
28	Other expense	164.20	331.68	168.50	292.46	152.13	-7.4	1.5
	Net Operating Balance	**677.16**	**-49.39**	**1439.63**	**246.94**	**517.49**	**-**	**5.2**
31	**Total Nonfinancial Assets**	**633.09**	**828.47**	**284.36**	**848.82**	**505.05**	**-20.2**	**5.1**
311	Fixed Assets	633.09	828.47	284.36	848.82	505.05	-20.2	5.1
314	Non-Produced Assets	0.00	0.00	0.00	0.00	0.00	0.0	0.0
	Net lending (+)/borrowing(-)	**44.07**	**-877.86**	**1155.27**	**-601.88**	**12.44**	**-**	**0.1**
	Financing	**178.93**	**67.55**	**-425.97**	**647.68**	**-282.43**	**-**	**-2.9**
32	Net Acquisition of Financial assets	155.39	-962.15	-468.85	603.01	54.73	-	0.6
	O/W Domestic Currency and Deposits	153.39	-942.48	-537.88	620.64	62.49	-	0.6
33	Net Incurrence of Liabilities	23.54	1029.70	42.88	44.67	-337.16	-	-3.4
	O/W Domestic Other Accounts Payable		757.49	-186.41	-0.27	-429.85	-	-4.4
	Statistical Discrepancy	223.00	-810.31	729.29	45.80	-269.99	-	-2.7

Blue colour = missing data

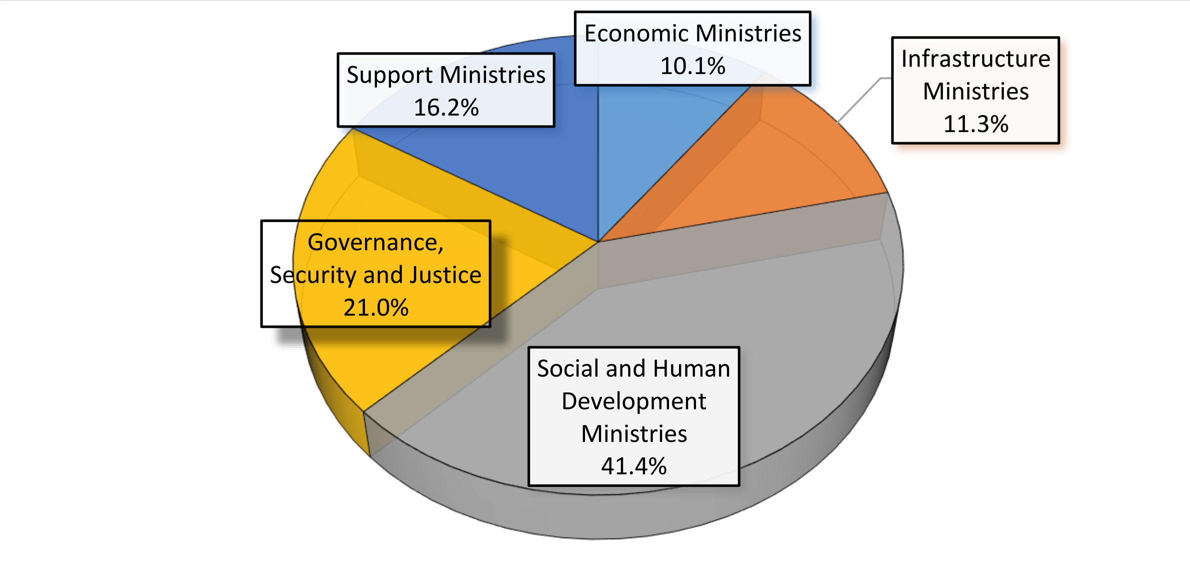
Source: CBL and MOF

SECTORAL OUTLAYS BY FUNCTIONS OF GOVERNMENT[2]

The highest proportion of spending, 41.4 per cent of total expenditure, went towards 'social and human development sector' while the 'economic sector' and 'infrastructure sector' constituted lower proportions of 10.1 per cent and 11.3 per cent, respectively. The main drivers of spending in the 'social and human development sector' were education and health. This sector accounted for t 46.6 per cent of the recurrent spending in the quarter under review. About 84.8 per cent of spending under education was on 'salaries established posts'. Out of the health outlays, 71.1 per cent was directed towards both 'purchase of health services' and drugs. Furthermore, the capital outlays were driven by infrastructure and 'governance, security and justice' sectors.

[2] This sectoral COFOG excludes financing items ie Loan principal repayments and disbursements. The classification of this COFOG does not correspond exactly with GFS's COFOG

Figure 15: Total Outlays by Functions of Government *(Million Maloti)*



Source: MOF

Table 13: Sector Outlays By Functions of Government *(Million Maloti)*

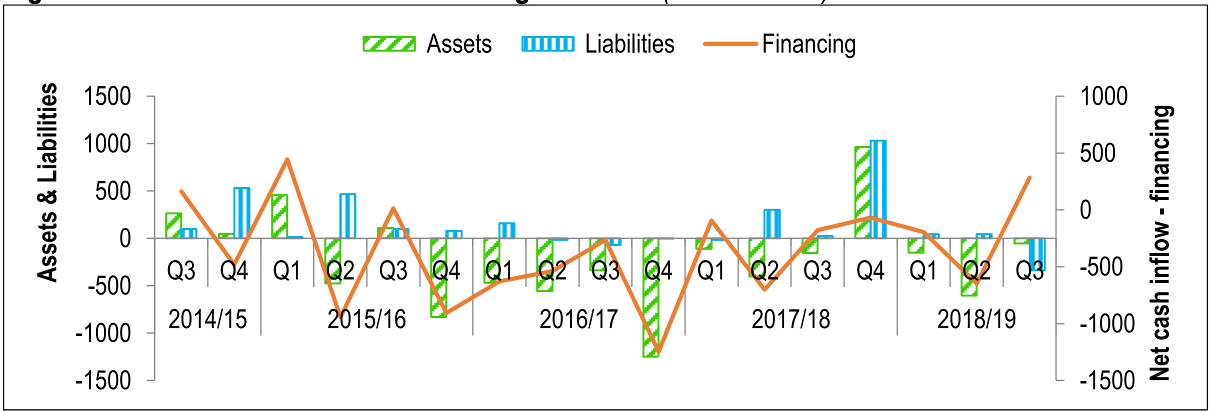
	2017-18		2018-19			Y-on-Y (%)	GDP ratio (%)
	Q3	Q4	Q1	Q2	Q3		
Recurrent Outlays	**2456.48**	**3059.45**	**2775.63**	**2533.03**	**2657.83**	**8.2**	**26.9**
Economic Sector	146.89	183.46	221.50	221.90	256.63	74.7	2.6
Infrastructure Sector	163.07	229.77	196.98	175.13	201.03	23.3	2.0
Social and Human Development Sector	1089.68	1318.28	1409.44	949.61	1238.70	13.7	12.6
Governance, Security and Justice Sector	630.23	623.14	505.65	625.39	536.98	-14.8	5.4
Support Sector	426.61	704.80	442.05	560.98	424.49	-0.5	4.3
Capital Outlays	**628.85**	**779.28**	**278.09**	**848.11**	**452.16**	**-28.1**	**4.6**
Economic Sector	175.19	285.24	11.23	121.83	56.32	-67.9	0.6
Infrastructure Sector	348.63	146.70	180.57	491.37	151.81	-56.5	1.5
Social and Human Development Sector	17.04	71.70	11.18	31.76	47.90	181.1	0.5
Governance, Security and Justice Sector	41.12	196.72	58.24	139.77	117.66	186.1	1.2
Support Sector	46.87	78.93	16.87	63.38	78.48	67.4	0.8
Total Outlays	**3085.33**	**3838.73**	**3053.72**	**3381.14**	**3109.98**	**0.8**	**31.5**
Economic Sector	322.08	468.70	232.73	343.74	312.95	-2.8	3.2
Infrastructure Sector	511.70	376.47	377.56	666.50	352.84	-31.0	3.6
Social and Human Development Sector	1106.72	1389.97	1420.62	981.37	1286.60	16.3	13.0
Governance, Security and Justice Sector	671.34	819.86	563.89	765.16	654.63	-2.5	6.6
Support Sector	473.48	783.72	458.92	624.36	502.96	6.2	5.1

Source: MOF

FINANCIAL ASSETS AND LIABILITIES[3]

The Government took an initiative to reduce its liabilities by paying the previously accumulated arrears (other account payable) that were owed to the suppliers. These arrears have been financed by drawing down Government deposits in the banking system, which led to a corresponding reduction in net financial assets. Thus, the liabilities fell by the same amount, resulting in a decrease in the net incurrence of liabilities.

Figure 16: Net Cash Inflow from Financing Activities *(Million Maloti)*



Source: CBL and MOF

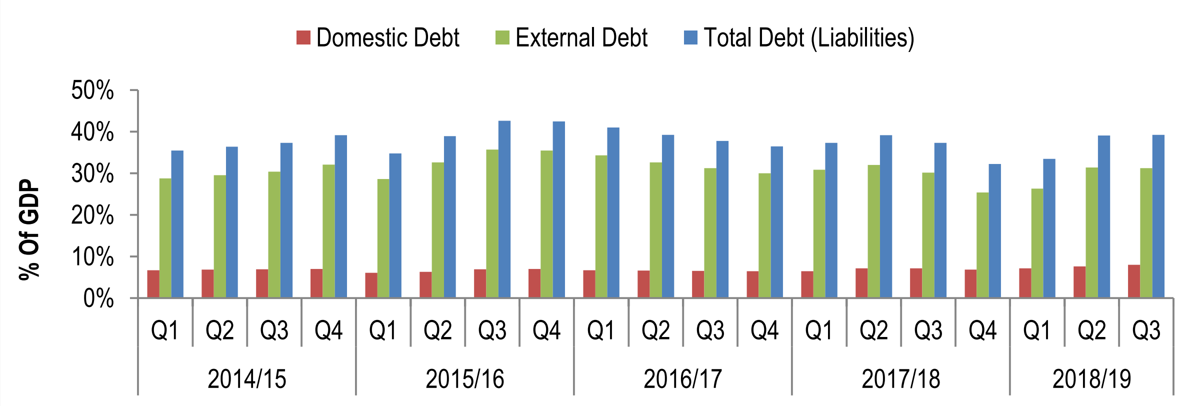
TOTAL PUBLIC DEBT[4]

The public debt stock increased, by 0.5 per cent in the third quarter of the fiscal year, to close the quarter at 39.3 per cent of GDP. External debt declined by 0.6 per cent to 31.2 per cent of GDP, while domestic debt increased by 5.0 per cent to 8.0 per cent of GDP. , External debt represented 79.5 per cent of total debt. The bulk of the external debt, 81.4 per cent, continued to be concessional debt. . Liquidity indicators remain below debt sustainability thresholds, with external debt service-to-GDP at 1.2 per cent, external debt service-to-revenue at 3.1 per cent and external debt service-to-exports at 3.0 per cent.

[3] All categories are on net terms.

[4] All categories are on net terms.

Figure 17: Outstanding Public Debt *(Million Maloti)*



Source: CBL and MOF

Table 14: External Debt Stock *(Million Maloti)*

	2017/18		2018/19			Q-to-Q (%)	Debt/GDP (%)
	Q3	Q4	Q1	Q2	Q3		
Total Public Debt	**12,650.87**	**12,718.20**	**13,198.95**	**15,420.88**	**15,500.20**	**0.5**	**39.3**
EXTERNAL DEBT	**10,224.63**	**10,016.36**	**10,373.71**	**12,400.12**	**12,328.61**	**-0.6**	**31.2**
Bilateral Loans	864.91	828.71	878.69	951.49	961.92	1.1	2.4
Concessional	864.91	828.71	878.69	951.49	961.92	1.1	2.4
Non-concessional	0.00	0.00	0.00	0.00	0.00		0.0
Multilateral Loans	8,678.89	8,536.65	8,822.04	10,733.73	10,674.92	-0.5	27.0
Concessional	7,053.90	6,920.95	7,206.46	9,135.01	9,079.29	-0.6	23.0
Non-concessional	1,624.99	1,615.69	1,615.59	1,598.72	1,595.63	-0.2	4.0
Financial Institutions	0.54	0.34	0.34	0.23	0.23	0.0	0.0
Concessional	0.00	0.00	0.00	0.00	0.00		0.0
Non-concessional	0.54	0.34	0.34	0.23	0.23	0.0	0.0
Suppliers' Credit	680.29	650.67	672.64	714.68	691.54	-3.2	1.8
DOMESTIC DEBT	**2,426.25**	**2,701.84**	**2,825.24**	**3,020.76**	**3,171.60**	**5.0**	**8.0**
Banks	1,747.47	1,822.39	1,933.50	2,117.26	2,120.69	0.2	5.4
Long-term	1,269.59	1,256.29	1,351.07	1,524.93	1,499.81	-1.6	3.8
Treasury bonds	525.89	526.59	647.09	717.48	787.54	9.8	2.0
Central Bank (IMF-ECF)	743.70	729.70	703.98	807.45	712.27	-11.8	1.8
Short-term (t-bills)	477.88	566.10	582.44	592.33	620.88	4.8	1.6
Non-bank	678.78	879.46	891.73	903.50	1,050.90	16.3	2.7
Short-term (t-bills)	246.82	308.61	283.23	260.21	252.37	-3.0	0.6
Long-term (t-bonds)	431.96	570.85	608.51	643.30	798.54	24.1	2.0
DEBT INDICATORS							
External Debt-to-Total Debt	80.8	78.8	78.6	80.4	79.5	-	-
Domestic Debt-to-Total Debt	19.2	21.2	21.4	19.6	20.5	-	-
Concessional Debt-to-External Debt	77.4	77.4	77.9	81.3	81.4	-	-
External Debt Service-to-GDP	1.7	2.0	1.3	2.3	1.2	-	-
External Debt Service-to-Revenue	3.9	5.0	2.7	6.5	3.1	-	-
External Debt Service-to-Exports	4.2	4.4	2.5	5.5	3.0	-	-

Source: CBL and MOF

6. Foreign Trade and Payments

OVERVIEW

During the last quarter of 2018, the external sector position continued to strengthen. and A surplus equivalent to 2.5 per cent of GDP was realised in the review period, following a revised surplus 2.3 per cent of GDP in the preceding quarter. The surplus was mainly supported by the favourable performance of the financial account coupled with higher inflows in the capital account. The surplus was however, moderated by the widening of the current account balance.

CURRENT ACCOUNT

During the fourth quarter of 2018, the current account balance worsened to a deficit of M748.44 million from a revised deficit of M582.76 million in the previous quarter. As a share of GDP, the current account deficit amounted to 9.0 per cent of GDP during the review quarter compared to a revised 6.7 per cent of GDP in the third quarter of 2018. The deterioration of the current account balance emanated from the poorer performance of the goods and services account balance during the quarter under review relative to the previous quarter. On the one hand, the goods account deficit widened by 9.4 per cent in the quarter ending in December 2018 from a revised deficit expansion of 11.6 per cent in the preceding quarter. On the other hand, the deficit on the services account worsened by 0.5 per cent during the review quarter after shrinking by 0.7 per cent in the quarter ending in September 2018. Nonetheless, the balances on the primary and secondary income accounts improved during the quarter under review relative to the previous quarter and therefore partly offset the overall deficit on the current account balance. The primary income account surplus grew by 6.7 per cent during the fourth quarter of 2018 from a fall of 6.4 per cent in the previous quarter. The secondary income account surplus increased marginally by 0.1 per cent during the quarter under review after declining by 1.6 per cent in the third quarter of 2018.

Table 15: Current Account Balance *(Million Maloti)*

	2017		2018				% Changes	
	Q3	**Q4**	**Q1**	**Q2**	**Q3***	**Q4+**	**Q/Q**	**Y/Y**
Current Account	**-398.96**	**-583.15**	**-38.76**	**-219.95**	**-582.76**	**-748.44**	**28.4**	**28.3**
(a) Goods	-2375.50	-2774.27	-2432.13	-2263.83	-2526.14	-2764.07	**9.4**	**-0.4**
Merchandise exports, f.o.b.	3813.34	3599.71	3856.58	4191.98	3781.21	3606.57	**-4.6**	**0.2**
Of which diamonds	1199.54	1431.08	1640.73	1424.61	1302.81	938.38	**-28.0**	**-34.4**
Of which textiles & clothing	1875.43	1483.59	1644.45	1856.15	1872.32	2028.25	**8.3**	**36.7**
Of which re-exports	50.87	59.48	51.33	28.52	18.26	33.01	**80.8**	**-44.5**
Other exports	393.23	313.37	243.51	584.34	305.40	312.84	**2.4**	**-0.2**
Merchandise imports, f.o.b.	6188.84	6373.98	6288.71	6455.81	6307.35	6370.64	**1.0**	**-0.1**
(b) Services	**-1027.44**	**-1075.46**	**-1072.74**	**-1052.80**	**-1045.84**	**-1050.96**	**0.5**	**-2.3**
(c) Primary Income	**1004.72**	**1236.51**	**1165.30**	**1198.69**	**1122.42**	**1197.35**	**6.7**	**-3.2**
(d) Secondary Income	**1999.26**	**2030.08**	**2300.81**	**1898.00**	**1866.80**	**1869.24**	**0.1**	**-7.9**

+ Preliminary

*** Revised**

Source: Central Bank of Lesotho

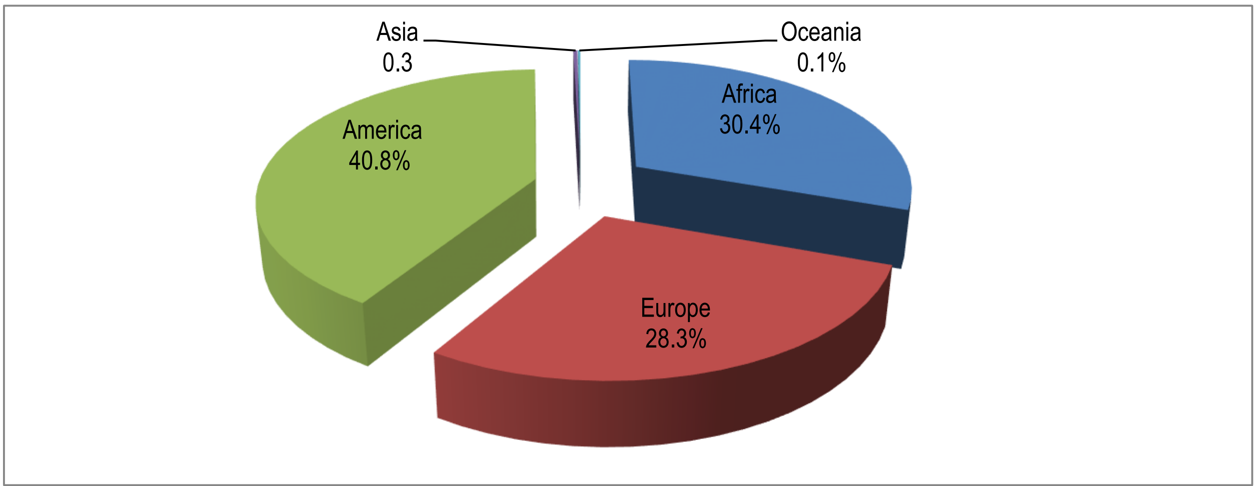
Merchandise Exports

Merchandise exports fell by 4.6 per cent during the fourth quarter of 2018 following a revised drop of 9.8 per cent in the quarter ending in September 2018. The decline in merchandise exports was underpinned by the fall in diamond exports while textiles and clothing exports edged up during the review quarter. Diamond exports dropped by 28.0 per cent during the review quarter compared to a fall of 8.6 per cent in the previous quarter due to lower diamond prices associated with lower quality diamond recoveries by one of the mines. The increase in clothing and textiles exports extended further by 8.3 per cent from a revised increase of 0.9 per cent in the previous quarter. Clothing and textile exports rose as firms resumed operations in earnest following the partial closure in some firms during the previous quarter. As a share of GDP, merchandise exports therefore constituted 43.3 per cent during the fourth quarter of 2018 relative to a revised 45.3 per cent in the quarter ending in September 2018.

Direction of Trade - Exports

During the fourth quarter of 2018, exports to the American market rebounded and outperformed exports to the rest of the world. Exports to America constituted 40.8 per cent in the last quarter of 2018, from a share of 28.0 per cent in the previous quarter. The robust performance was underpinned by the surge in exports of clothing and textiles destined to the American market during the quarter under review. Exports to African countries came second and constituted 30.4 per cent of total exports from Lesotho. Exports to the African market continued to be supported mainly by exports to Lesotho's immediate neighbor, South Africa. Europe became the third largest recipient of Lesotho's exports, accounting for 28.3 per cent during the fourth quarter from 38.4 per cent in the preceding quarter, in line with the drop in diamond exports destined to Belgium. Asia and Oceania remained the least recipients of Lesotho exports, with a share of 0.3 per cent and 0.1 per cent respectively, following the shares of 0.1 per cent and 0.2 per cent in the previous quarter.

Figure 18: Direction of Merchandise Exports *(Percentage Share)*



Source: Central Bank of Lesotho

Merchandise Imports

During the last quarter of 2018, the value of merchandise imports rose by 1.0 per cent from a decline of 2.3 per cent in the quarter ending in September 2018. The largest contribution to the observed performance came from South Africa, whose imports accounted for the largest share of imports into Lesotho. The largest increases were observed in imports of mineral products and prepared food stuffs. Year on year, the value of merchandise imports slightly dropped by 0.1 per cent in the review quarter compared to an increase of 1.9 per cent in the previous quarter. Expressed as a share of GDP, the value of merchandise imports constituted 76.4 per cent in the last quarter relative to 75.6 per cent in the previous quarter.

Services

The services account deficit expanded by 0.5 per cent during the fourth quarter of 2018 from a revised contraction of 0.7 per cent in the third quarter of 2018. This occurred as payments for the telecommunications sub-sector as well as payments for business trips rose during the quarter under review. In contrast, receipts for the tourism sub-sector rose during the same quarter and therefore partly offset the deficit on the services account. On an annual basis, the services account deficit shrank by 2.3 per cent compared to a 1.8 per cent expansion in the previous quarter. As a share of GDP, the services account deficit registered 12.6 per cent during the fourth quarter of 2018; slightly higher than a revised 12.5 per cent share in the preceding quarter.

Primary Income

During the last quarter of 2018, the primary income account surplus widened by 6.7 per cent following a revised surplus contraction of 6.4 per cent in the quarter ending in September 2018. The improved performance of the primary income account was a result of higher interest receipts by the Central Bank and commercial banks coupled with lower interest payments on government foreign loans. Receipts for maintenance and operational costs for phase I of the LHWP rose during the quarter under review and further boosted the primary income account. Relative to a year earlier, the primary income account surplus declined by 3.2 per cent after increasing by 11.7 per cent in the previous quarter. As a percentage of GDP, the primary income account surplus accounted for 14.4 per cent from a revised 13.5 per cent in the previous quarter.

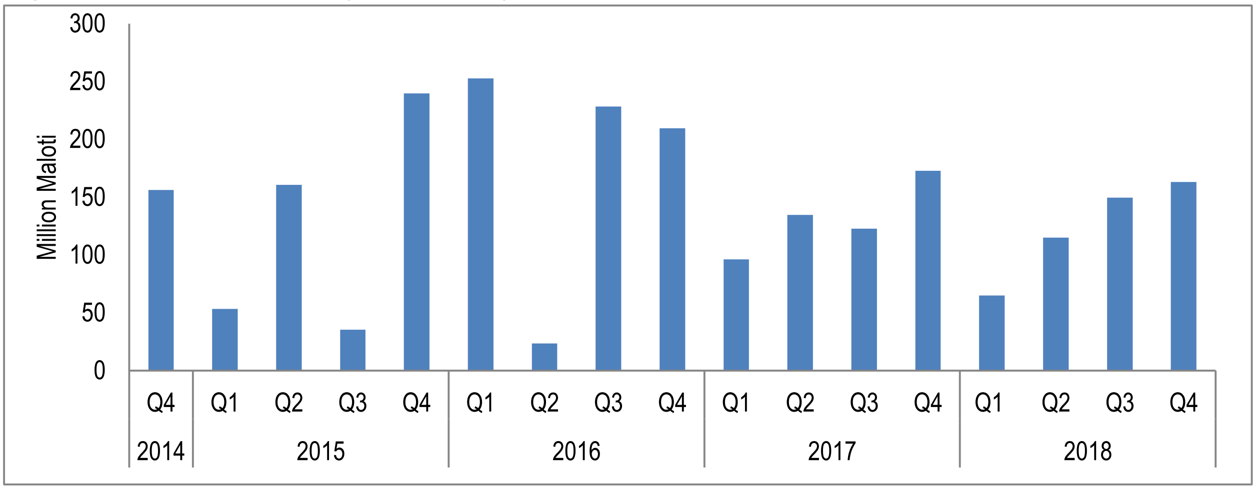
Secondary Income

The secondary income account surplus rose by 0.1 per cent during the quarter ending in December 2018 after a decline of 1.6 per cent in the previous quarter. The observed performance of the secondary income account emanated from a slight decrease in payments for subscriptions to international organizations during the last quarter of 2018. The largest component of the secondary income account, SACU receipts remained unchanged during the quarter under review. Year on year, the secondary income account surplus declined by 7.9 per cent in the review quarter compared to a fall of 6.6 per cent in the previous quarter. Expressed as a share of GDP, the secondary income account surplus accounted for a stable share of 22.4 per cent during the last quarter of 2018 compared to the preceding quarter.

CAPITAL ACCOUNT

The capital account balance continued to increase during the quarter under review. Capital inflows rose to M163.01 million during the quarter ending in December 2018, compared with M149.45 million in the third quarter of 2018. Expressed as a share of GDP, capital inflows amounted to 2.0 per cent of GDP in the last quarter of 2018 compared to a revised share of 1.8 per cent in the previous quarter. The increased inflows during the review quarter reflected higher capital injections into Lesotho for construction works under phase II of the LHWP. Nonetheless, grants received by the government for other capital related projects decreased during the same quarter..

Figure 19: Capital Account *(Million Maloti)*

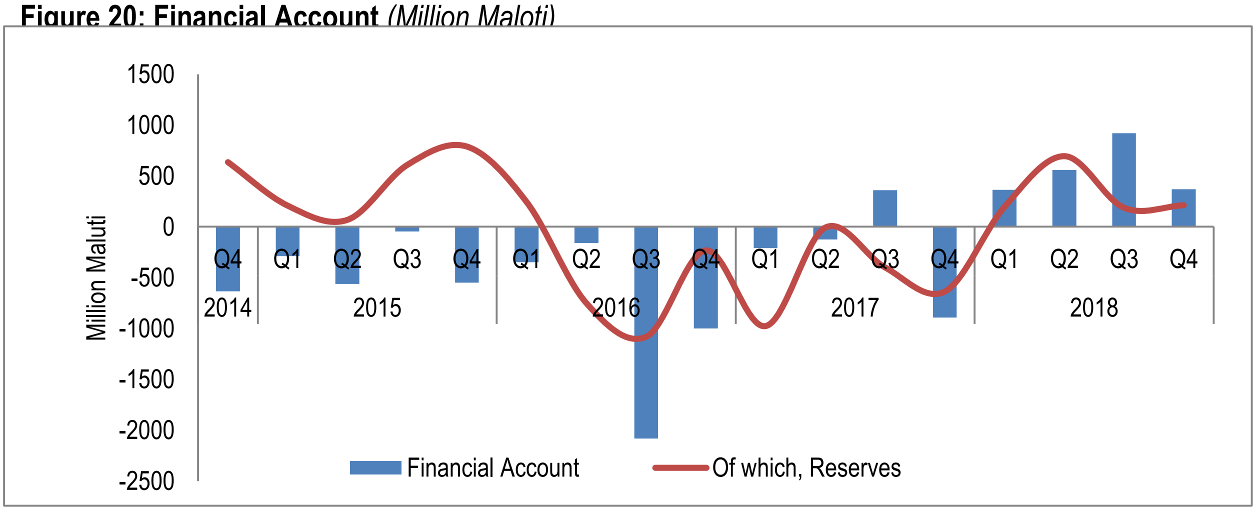


Source: Central Bank of Lesotho

FINANCIAL ACCOUNT

During the last quarter of 2018, the financial account net outflows amounted to M368.90 million, equivalent to 4.4 per cent of GDP after registering revised net outflows amounting to M918.30 million million or 11.0 per cent of GDP in the preceding quarter in the preceding quarter. The surplus on the financial account emanated from the rise in foreign assets held by commercial banks, although at a slower pace relative to the previous quarter, together with an increase in reserve assets during the review quarter. Commercial banks' foreign assets were underpinned by an increase in deposits during the review quarter. The observed surplus financial account was also supported by lower foreign loans disbursements and amortization by the government which were lower during the same quarter .in.

Figure 20: Financial Account *(Million Maloti)*

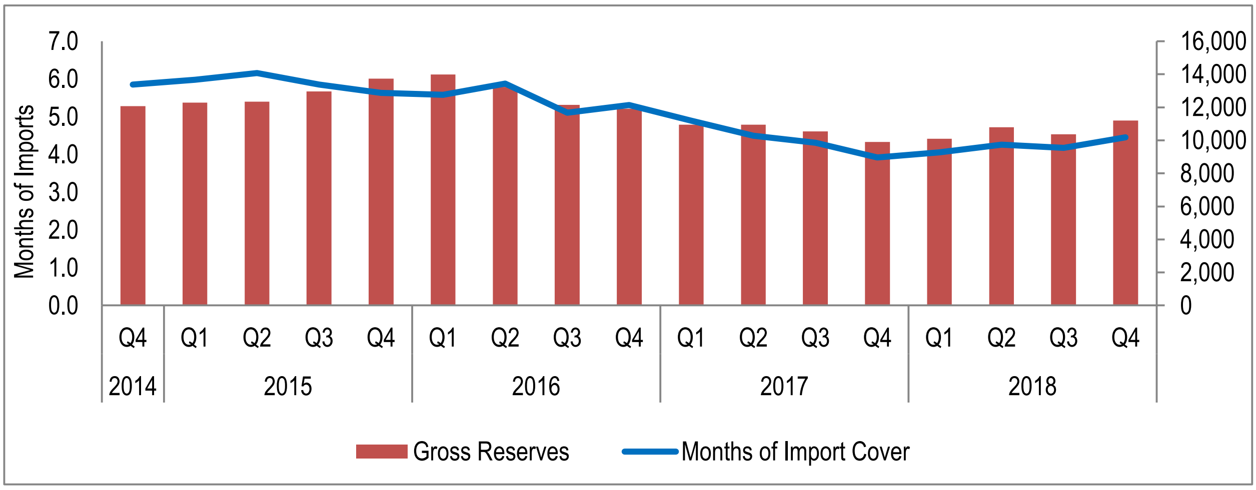


Source: Central Bank of Lesotho

Reserve Assets

The stock of international reserve assets rose by 1.9 per cent during the fourth quarter of 2018 from an increase of 1.7 per cent in the quarter ending in September 2018. As a result, gross international reserves expressed in months of import cover rose to 4.5 during the quarter under review from a revised 4.2 months in the preceding quarter. This is an indication that despite the increase in imports, reserves assets were sufficient enough to finance the increased imports during the quarter under review.

Figure 21: Reserves Assets



Source: Central Bank of Lesotho