

CENTRAL BANK OF LESOTHO

QUARTERLY REVIEW

MARCH, 2015

MASERU

KINGDOM OF LESOTHO

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1. Executive Summary

The world economy was characterized by a mixed and uneven performance by major economies and regions. The United States (US) which had showed buoyant performance in recent times, slowed down during the first quarter of 2015. Its performance was hampered by adverse winter conditions during the first quarter which impacted on production coupled with lay-offs in the oil industry and work slowdown in the west coast. The performance in the Euro zone on the other hand improved during the first quarter of 2015 contrary to the previous quarter slowdown. Growth was mainly supported by the expansion in Italy and France, further stimulus package initiated by the European Central Bank (ECB), easing oil prices and the weakening of the euro.

Economic activity in China continued to slow down during the first quarter of 2015. Real GDP growth slowed down to 7.0 per cent from 7.3 per cent in the previous quarter - the slowest growth in six years. The slowdown was due to the decline in fixed asset investment and industrial production. Economic activity in South Africa (SA) improved modestly during the review quarter. The growth reflected higher mining and agricultural production, increased banking activities and large output in wholesale and retail trade. However, electricity supply constraints and low consumer and business confidence still present a major challenge to the SA economy.

Lesotho's economic performance, measured by the Economic Activity Indicator (EAI), remained strong in the first quarter of 2015. The EAI rose by 5.4 per cent in the first quarter of 2015 compared with an increase of 5.9 per cent in the previous quarter. This mainly reflected robust growth by the government subsector as well as the construction subsector, of which government still plays a dominant role.

Lesotho's inflation rate dropped to 2.1 per cent in March 2015 from 3.6 per cent in December 2014. The observed decline was attributed to a contraction in the following components: housing, electricity, gas and other fuels, transport, food and nonalcoholic beverages, alcoholic beverages and tobacco, clothing and footwear and education. Money supply increased by 2.6 per cent during the first quarter of 2015 following a 4.9 per cent decline recorded in the fourth quarter of 2014. The driving force behind the quarterly increase was an increase in net foreign assets moderated by a decrease in domestic credit. In line with interest rates developments in South Africa, domestic interest rates remained unchanged. To a great extent, this was indicative of uncertainty surrounding the conduct of monetary policy globally which prompted the South African Reserve Bank (SARB) to take a safe and conservative monetary policy stance.

Government registered a fiscal deficit during the first quarter of 2015. The deficit reflected high government expenditure during the first quarter against the normal quarterly receipts. The stock of public and publicly guaranteed as a ratio of GDP declined to 40.3 per cent in March, 2015. This mirrored a reduction in loans from multilateral creditors and suppliers' credit during the quarter under review. The current account balance registered a deficit during the first quarter of 2015. The deficit was mainly against a backdrop of a rise in the trade deficit. The growth in trade deficit was driven by an increase in imports of both merchandise goods and services while merchandise exports contracted.

2. International Economic Developments

The world economic growth was modest during the first quarter of 2015. While slower growth was observed in the Euro Area, growth was slowing down in China, United States (US) and United Kingdom (UK). The Euro Area growth benefited from the decline in oil prices, weak currency and the ECB monetary stimulus. The slowdown in growth in the US reflected the work slowdown at west coast ports as well as the strong US Dollar which negatively impacted on investment and export growth. Growth in the UK was held back by weak output in construction, agriculture and industrial sectors. China continued to slow down due its structural transformation, whereby the services sector currently accounts for a larger share of GDP (51.6 per cent) than the manufacturing sector.

Oil prices remained low, which had a positive impact on the oil-importing countries, while at the same time weighing down on the oil-exporting countries. On average, low oil prices, low consumer spending and softer prices for other commodities contributed to the low inflation and deflationary pressures. Due to declining inflation and weak economic growth, the key policy rates remained low in advanced countries, while emerging market economies had cut their policy rates. The UK, Japan and Euro Area also maintained their quantitative easing measures.

Table 1: Key World Economic Indicators

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	2014	2015	2014	2015	2014	2015	2014	2015
	QIV	QI	QIV	QI	QIV	QI	QIV	QI
United States	2.2	-0.7	0.8	-0.1	0.25	0.25	5.6	5.5
Euro Area	0.9	1.0	-0.2	-0.1	0.05	0.05	11.4	11.3
Japan	0.4	2.4	2.4	2.3	0.00	0.00	3.4	3.4
United Kingdom	3.0	2.4	0.5	0.0	0.50	0.50	5.7	5.5
China	7.3	7.0	1.5	1.4	5.60	5.35	4.1	4.1
India	6.6	7.5	5.0	5.2	8.00	7.50	n/a	n/a
South Africa	1.3	2.1	5.3	4.0	5.75	5.75	23.4	26.4

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

United States (US)

Economic activity in the US was weighed down by adverse winter conditions, work slowdown at West Coast ports and large layoffs in the oil industry. Real GDP declined by 0.7 per cent in the first quarter of 2015 down from 2.2 per cent in the previous quarter. The deceleration in real GDP reflected declines in personal consumption expenditures, exports and non-residential fixed investment. However, a fall in imports and increased private inventory investment contributed positively to GDP. The unemployment rate declined from 5.6 per cent in the previous quarter to 5.5 per cent in the review quarter due to the increase in nonfarm employment.

Consumer inflation declined by 0.1 per cent in March 2015 from an increase of 0.8 per cent in the quarter ending in December 2014. The inflationary pressures were due to a fall in energy prices which fell by 18.3 per cent, which offset a 2.3 per cent increase in food prices. The US Federal Open Market Committee (FOMC) decided to maintain its key policy rate at 0.25 per cent, in order to support the continued progress towards maximum employment and price stability. Further, improvements in the labour market and the move towards the 2 per cent inflation might warrant the FOMC to raise the key policy rate in the future.

Euro Area

Real GDP in the Euro Area rose by 1.0 per cent in March 2015 up from 0.9 per cent in the previous quarter. Growth was mainly supported by the expansion in Italy and France. A combination of the stimulus package from the European Central Bank (ECB), easing oil prices and the weakening of the euro also contributed to the growth in the Eurozone. However, the sharp real GDP growth slowdown in Germany (Eurozone's largest economy), as well as Greece's economic conditions, remained a risk to the observed growth. Greece fell back into recession in the first quarter of 2015 as there was still uncertainty over its solvency, the euro membership and a possible default over its next repayment to the IMF. The Eurozone unemployment rate declined to 11.3 per cent in March 2015 following 11.4 per cent in December 2014. The lowest unemployment rates were recorded in Germany, Greece and Spain. Youth unemployment fell by 1.5 percentage points to 22.7 per cent.

The Euro area remained in a deflation in March 2015. The inflation rate declined from -0.2 in December 2014 to -0.1 per cent in March 2015. The highest increases were in the prices of services, food, alcohol and tobacco, which were offset by a fall in energy prices. The governing council of ECB decided to keep the main interest rate unchanged at 0.05 per cent. The decision was consistent with improving business and consumer sentiment which would strengthen the transmission mechanism of accommodative monetary policy, further improving economic activity and the growth outlook. The governing council also decided to launch an expanded asset purchase programme so as to anchor inflation expectations in line with price stability over the medium term.

Japan

Japan's economy continued to recover in the review period. Real GDP increased by 2.4 per cent in March 2015 up from 0.4 per cent in the previous quarter. The large increase was due to a sharp increase in inventories by private companies and low oil prices. Consumption and investment contributed 1.1 percentage points while residential fixed investment contributed 0.2 percentage points to GDP. The effects of the consumption tax hike that was implemented in April 2014 seem to be fading as manifested by the rebound in consumer and business spending. Unemployment rate remained constant at 3.4 per cent during the quarter ending in March 2015.

Inflation rose to 2.3 per cent in March 2015 from 2.4 per cent in the previous quarter, weighed down by a fall in oil prices and tepid consumer spending. The Policy Board of the Bank of Japan had decided on some guidelines for money market operations. The Policy Board decided to maintain the quantitative and qualitative monetary easing to achieve price stability target of 2 per cent. The key policy rate was also left unchanged at 0.00. Amid threats of declining energy prices,

the Policy Board would continue to monitor both the upward and downward pressures to inflation and make appropriate policy adjustments as necessary.

United Kingdom

According to the preliminary GDP estimates in the UK, real GDP rose by 2.4 per cent in the quarter ending in March 2015, compared with an increase of 3.0 per cent in the previous quarter. While output in services increased, output in construction, production (mining, utilities and manufacturing) and agriculture declined by 1.6 per cent, 0.2 per cent and 0.1 per cent, respectively. Labour market conditions continued to improve with the unemployment rate that falling from 5.7 per cent in the previous quarter to 5.5 per March 2015.

The rate of inflation declined to zero per cent in March 2015, from 0.5 per cent observed in the previous quarter. This was the lowest rate since the estimates of the CPI measure began in the late 1980s. The fall in the prices of motor fuel and food was offset by the increase in the prices of footwear and clothing. The Bank of England Monetary Policy Committee (MPC) maintained the policy interest rate at 0.5 per cent. The policy interest rate had been kept low at 0.5 per cent since March 2009. The MPC also agreed to maintain the stock of purchased assets financed by the issuance of central bank reserves at £375 billion under its quantitative easing program.

China

Economic activity in china continued to slowdown in the first quarter of 2015. Real GDP declined from 7.3 per cent in the previous quarter to 7.0 per cent in the quarter ending in March 2015 registering the slowest growth in six years. The slowdown was attributable to the decline in fixed asset investment and industrial production. This was in line with China's move to the 'new normal' whereby lackluster economic performance is expected and the structural shift from export-oriented heavy industrial production to increased production of consumer services. The unemployment rate in China remained flat at 4.1 per cent in the review period.

Inflation, as measured by CPI, declined slightly from 1.5 per cent to 1.4 per cent in March 2015. The slowdown was due to the falling food prices, especially the fruits and vegetables prices. The People's Bank of China cut the benchmark interest rate by 25 basis points to 5.35 per cent, in response to the deflationary pressures as well as a slowdown in economic activity.

India

Real GDP in India rose by 7.5 per cent in March 2015 up from 6.6 per cent in the previous quarter. The high growth was supported by increased output in manufacturing, financial and real estate as wells as utility services sectors. The upward bias also reflected the new methodology¹ that was used to calculate the growth of the economy. However, weak domestic credit conditions and tepid consumer demand and the adverse weather conditions that impacted negatively on agricultural output, remained the downside risks to the observed growth.

¹ Under the new methodology, the measure of economic growth is based on market prices with the base year as 2011/12 instead of 2004/05. The new calculation includes more comprehensive data on corporate activity and new surveys of spending by households and informal businesses, and hence changes in the parameters and weights used in GDP calculation. The new methodology also focuses on calculating GDP at market prices, while the old methodology calculated GDP at factor costs.

The inflation rate in India rose to 5.17 per cent in March 2015 up from 5.00 per cent in December 2014. The pickup was at the back of increasing food prices, especially beverages, vegetables and fruits. The food price index rose by 1.36 percentage points to 6.14 per cent. The unseasonal rains and hailstorms that damaged crops during the quarter contributed to the rise in inflation.

The Reserve Bank of India (RBI) decided to reduce the repo rate by 50 basis points from 8.00 to 7.5 per cent in order to curb inflation. This came after the Government of India had given the RBI the legal mandate to adopt flexible inflation targeting. The RBI aims to bring inflation below 6 per cent by January 2016. For the financial year 2016/17 and all the subsequent years the consumer inflation target would be 4 per cent with a band of +/-2 per cent.

South Africa

Economic activity in SA was modest during the review quarter. Real GDP growth increased to 2.1 per cent in the review quarter, following 1.3 per cent in the quarter ending in December 2014. The strong growth reflected high mining and agricultural production, increased banking activities and large output in wholesale and retail trade. However, the economy continued to be held back by low consumer and business confidence and electricity supply constraints.

The inflation rate, as measured by CPI, rose by 4.0 per cent in March down from 5.6 per cent observed in the previous quarter. The decline in the prices of food and non-alcoholic beverages and energy contributed more to the change in CPI, whereas the largest price increases were recorded for education and alcoholic beverages. The South African Reserve Bank's MPC decided to keep the repurchase rate unchanged at 5.75 per cent in the review period. This decision was reached taking into account the weak domestic economy and the (uncertainties) pertaining to US monetary policy normalization.

The unemployment rate rose from 23.4 per cent in December 2014 to 26.4 per cent in March 2015. The increase reflected use of the new population sample based on the 2011 census, which showed an increase in the economically active population.

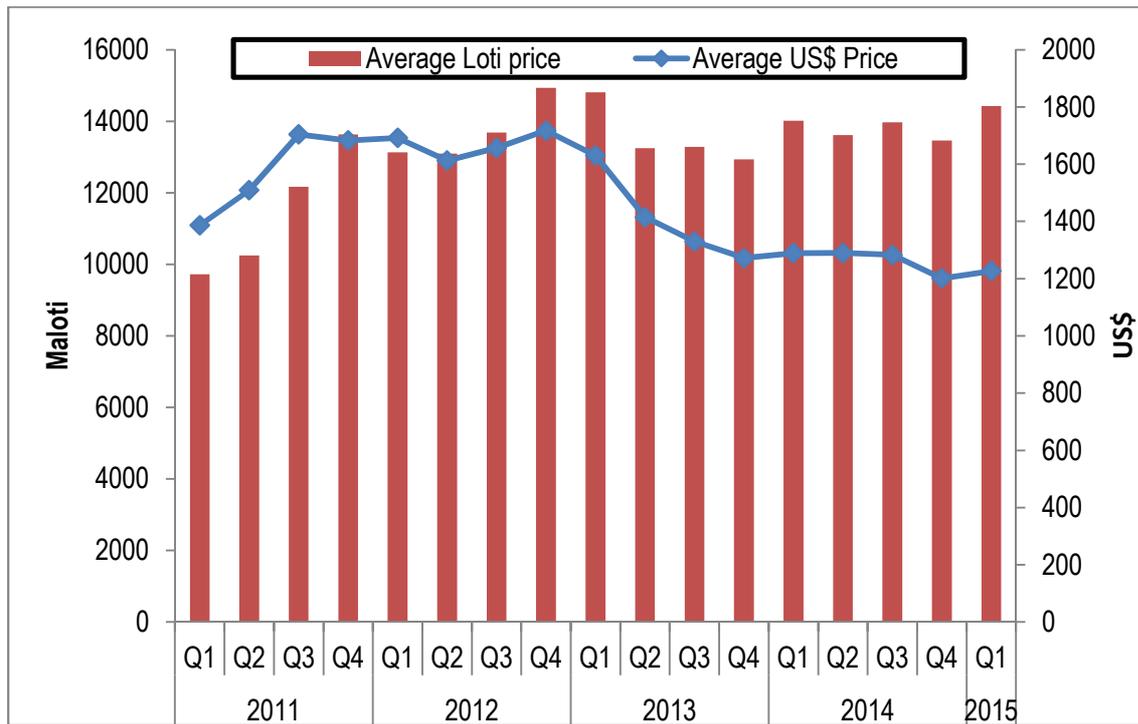
COMMODITIES

Minerals

Gold

The average US Dollar price of gold rose during the quarter under review. In US Dollar terms, it increased by 2.2 per cent to US\$1 227 per ounce relative to a decline of 6.4 per cent in the fourth quarter of 2014. The recorded increase was in response to US FOMC statement that indicated weak economic activity and delay in raising the key policy rate. The rise was also prompted by the increased demand from jewelers, mainly in India. In Maloti terms, it rose by 7.2 per cent to M14 428 per ounce compared with a decrease of 3.7 per cent in the previous quarter.

Figure 1: Average Price of Gold

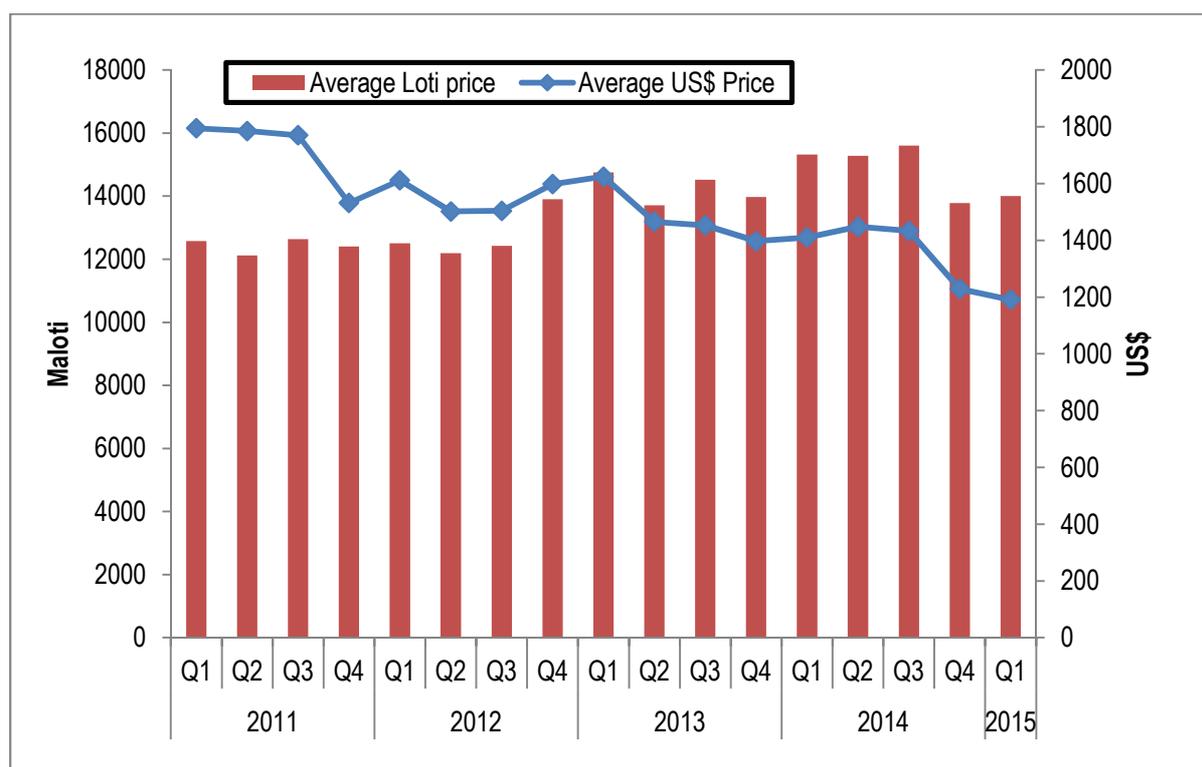


Source: Bloomberg

Platinum

The average price of platinum, in US Dollar terms, declined by 3.1 per cent to US\$ 1 191 per ounce during the first quarter of 2015 compared to a decline of 14.2 per cent in the previous quarter. The fall was attributed to slower growth in China and Europe, the major consumers of platinum. Since platinum is an industrial metal, a large percentage of its demand comes from its use in automobile industry. The decline in prices was despite the supply deficit that still prevails in the platinum market. In Maloti terms, it increased by 1.7 per cent to M14 005 relative to 11.7 per cent decline in the previous quarter.

Figure 2: Average Price of Platinum



Source: Bloomberg

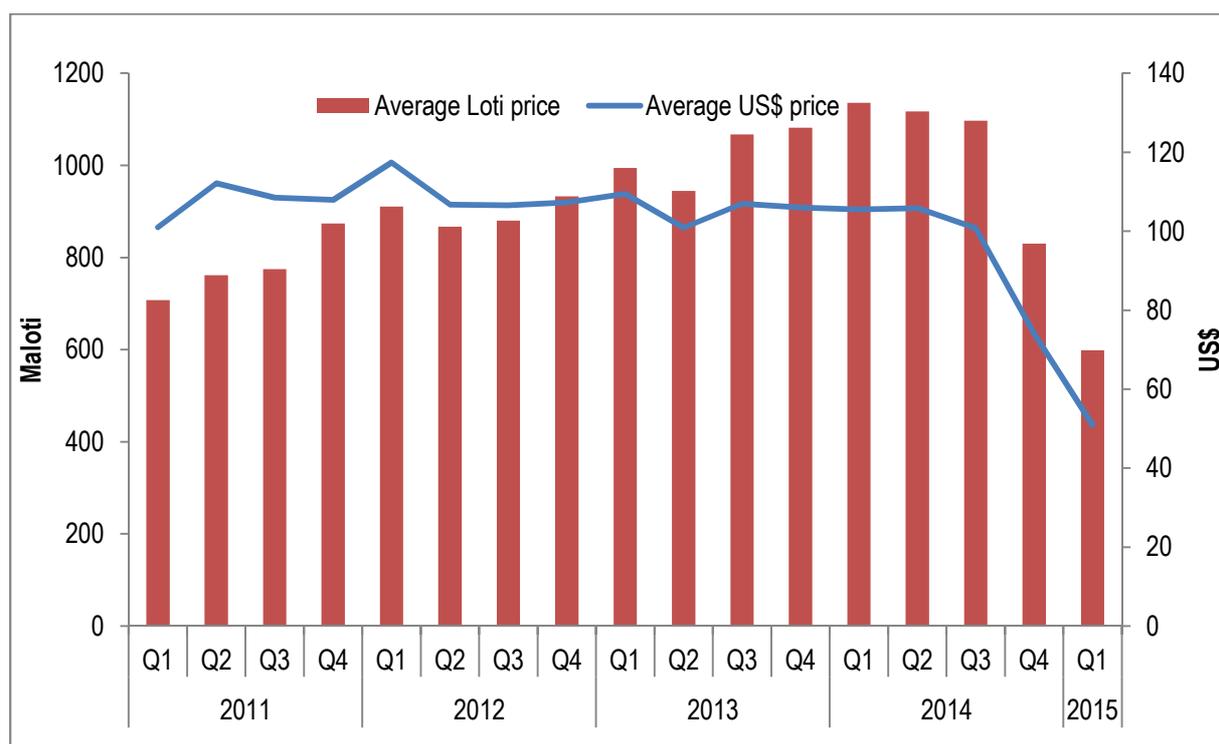
Energy

Oil

Crude oil prices continued to tumble during the quarter under review, driven mainly by large inventory build-ups in the US coupled with increased production in Saudi Arabia (Organisation of the Petroleum Exporting Countries' (OPEC) largest producer). The over-production of the OPEC was an attempt to win the oil market share that has been dominated by the US shale producers. From the demand perspective, the slowdown in China further exacerbated the decrease. In US Dollar terms, the average price of oil declined by 31.2 per cent to US\$51 per barrel relative to a fall of 26.6 per cent in the last quarter of 2014.

In Maloti terms, the average price of oil declined by 27.9 per cent to M599 per barrel compared with 24.4 per cent fall in the previous quarter. Consequently the domestic prices were revised downwards during the review quarter. Petrol price closed the review quarter with a lower price of M9.25 per litre, from M10.60 recorded in the quarter ending in December 2014. Diesel was M9.75 per litre in the review period following M11.25 per litre in the previous quarter. Paraffin also declined to M7.05 per litre in the quarter ending in March 2015, from M8.30 per litre recorded in the previous quarter.

Figure 3: Average Price of Oil



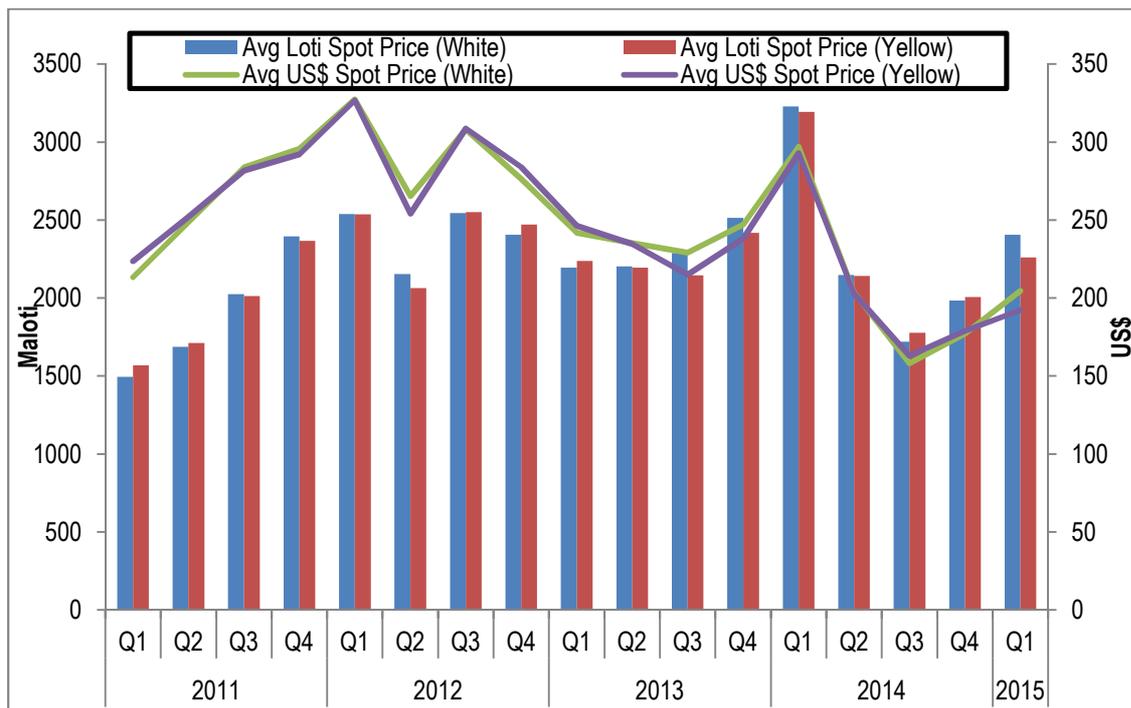
Source: Bloomberg

Agricultural Products

Maize

During the review period, the average US Dollar price of white maize increased by 15.6 per cent to US\$204.58 per tonne during the first quarter of 2015 relative to 15.3 per cent in the previous quarter. The average price of yellow maize rose by 7.4 per cent to US\$192.23 per tonne compared with a decline of 19.7 per cent in the previous quarter. The increase emanated from the weather related supply concerns as well as tensions in the Black Sea region. Moreover, the delays in early sowing activities in the US and an expected reduction in 2015 planting led to further decline. In Maloti terms, the average prices of both white and yellow maize increased by 21.3 per cent to M2 405.86 per tonne and by 12.7 per cent to M2 260.57, respectively.

Figure 4: Average Price of Maize

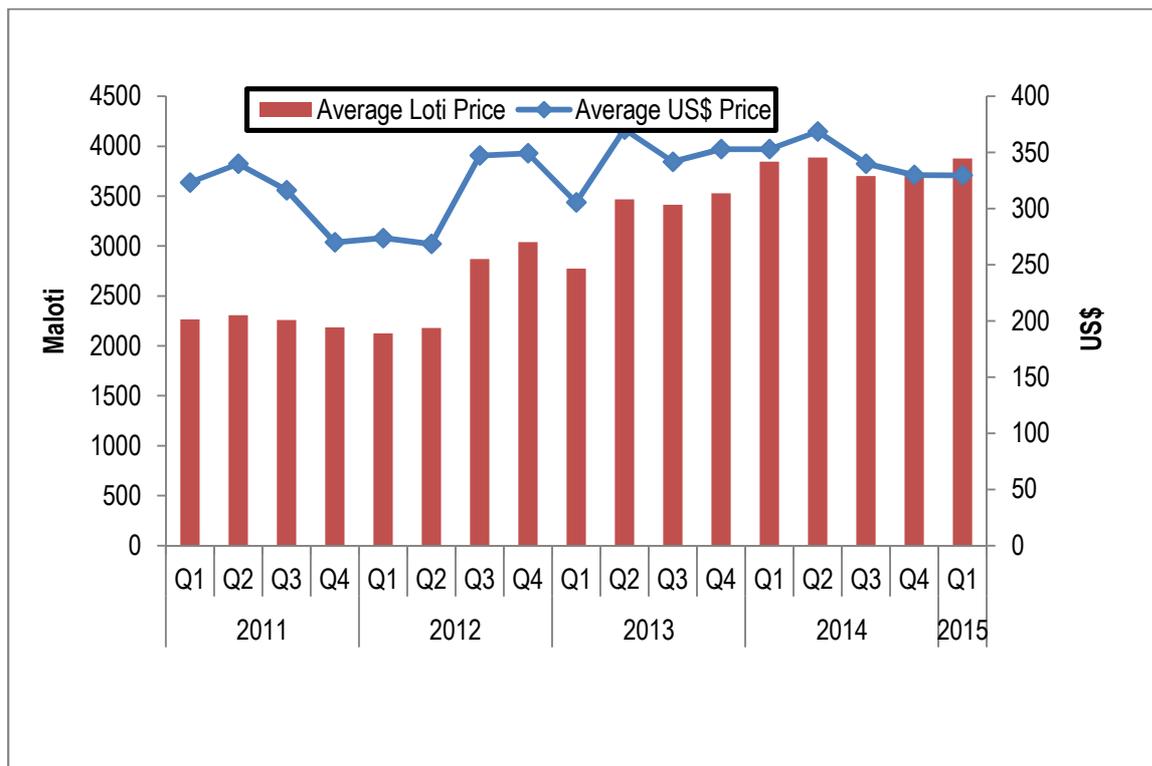


Source: Bloomberg

Wheat

In US Dollar terms, the average price of wheat remained unchanged at US\$330 in relation to the previous quarter. Large global supplies and favourable prospects for 2015 crops led to a downward pressure on prices while concerns about the dry weather in the US led to an upward trend in prices. In Maloti terms, it increased by 4.8 per cent to US\$3 876.25 per tonne relative to a 2.9 per cent decline in the previous quarter.

Figure 5: Average Price of Wheat

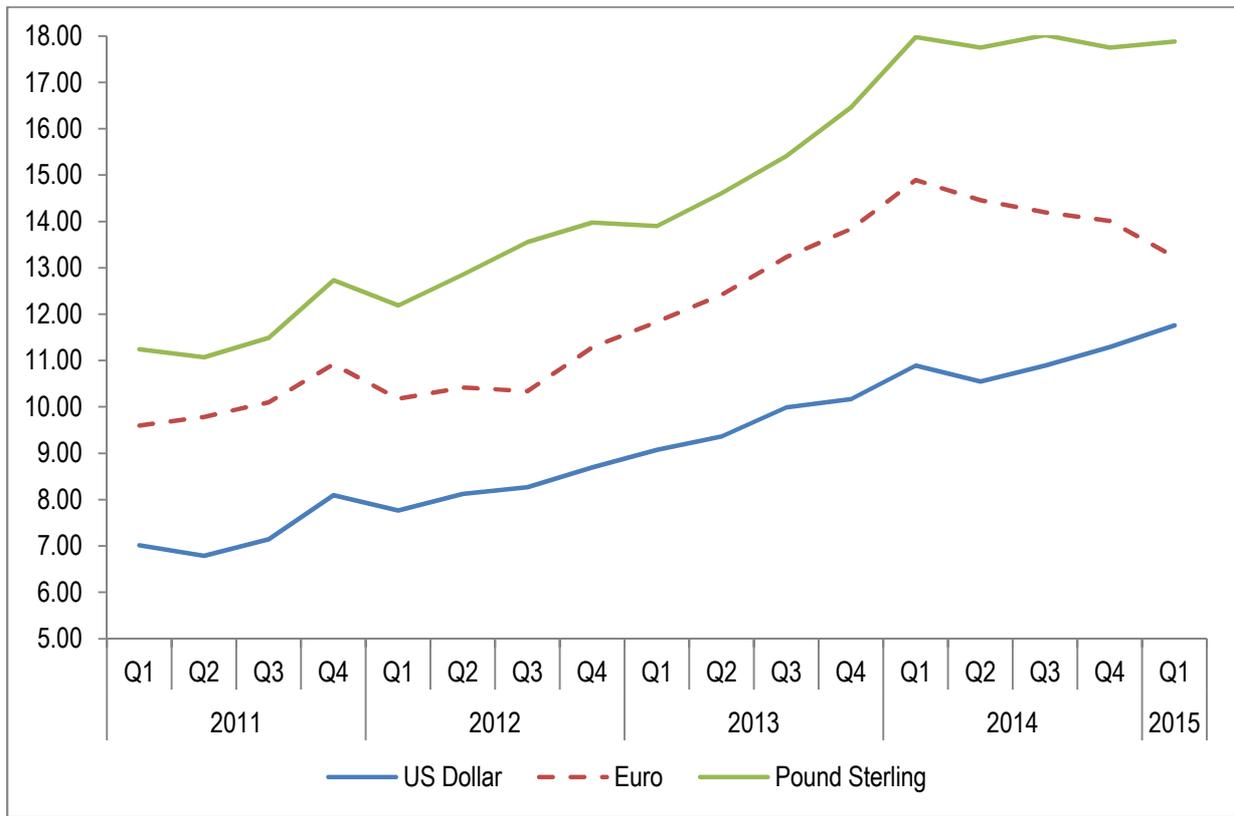


Source: Bloomberg

EXCHANGE RATES

During the fourth quarter of 2014, the Rand and hence Loti depreciated against the US Dollar and the Pound Sterling while it appreciated against the Euro. The depreciation of the Rand led to increased demand for Dollar-denominated assets and therefore the appreciation of the US-Dollar. The depreciation of the Rand against the US Dollar resulted from the expectations that the US Federal Reserve Bank will start tightening the monetary policy in the second half of the year. The Loti also remained sensitive to the weak trade data, electricity supply constraints and weak domestic growth outlook in South Africa. The exchange rate depreciated by 4.2 per cent to M11.76 and by 0.2 per cent to M17.88 against the US Dollar and the Pound Sterling, respectively while it appreciated by 5.6 per cent to M13.23 against the Euro.

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



Source: Bloomberg

3. Real Sector Development

OVERVIEW

Economic performance remained strong in the first quarter of 2015. The measure of economic performance, the Economic Activity Indicator (EAI) rose by 5.4 per cent in the first quarter of 2015 compared with an increase of 5.9 per cent in the previous quarter. Nonetheless, this mainly reflected the strong dominance of the public sector in the economy. The strong performance was a result of robust growth by the government subsector and the construction subsector, in which government still plays a major role.

OUTPUT DEVELOPMENTS

Despite a slowdown economic performance remained strong in the review period. The EAI increased by 5.4 per cent in the quarter ending March 2015 compared with an increase of 5.9 per cent in the previous quarter.

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

	Weight	2014				2015
		Q1	Q2	Q3	Q4	Q1
Primary Sector						
Mining	8.9	-0.5	4.9	-0.7	-9.2	-12.8
Secondary Sector						
Manufacturing	18.5	-22.8	4.6	10.2	10.0	-20.1
Electricity	1.1	-2.2	13.9	-0.8	-12.6	-5.8
Water	4.9	-7.2	35.1	6.7	-28.6	-7.0
Construction	7.6	55.2	-59.4	94.7	-5.5	26.5
Tertiary Sector						
Trade	11.0	7.8	-24.1	-2.8	11.0	-6.1
Telecom	5.1	-8.1	-3.8	13.5	8.3	9.7
Financial Sector	6.5	-4.6	-9.7	12.1	2.0	0.2
Other services	5.7	3.6	9.7	9.6	10.5	0.2
Government	30.6	50.8	-35.9	8.9	17.8	25.9
EAI	100.0	13.6	-19.1	10.9	5.9	5.4

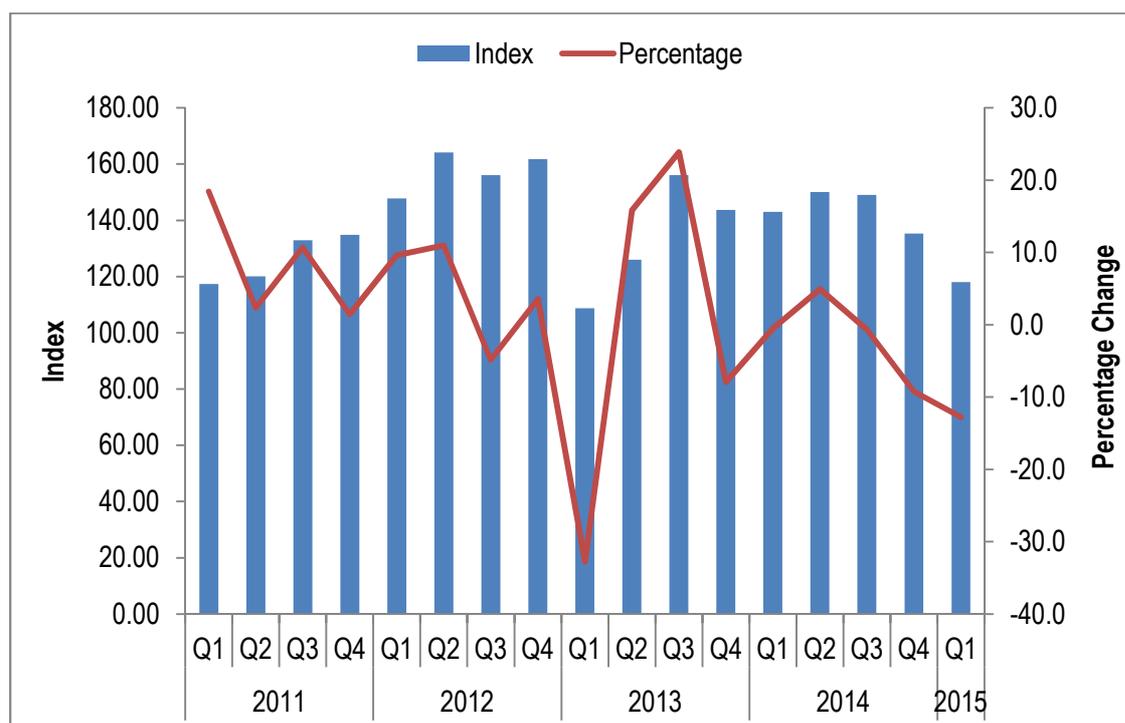
Source: Central Bank of Lesotho

Primary Sector

Mining and Quarrying

The mining and quarrying index declined further by 12.8 per cent in the quarter ending in March 2015 following a decline of 9.2 per cent in the quarter ending in December 2014. The decline was attributed to a reduction in carats recovered by both Lets'eng and Kao diamond mines. The decline in carats recovered at Let'seng mine were due to lower tonnes of ore treated, which resulted from upgrading works undertaken by the mine. The work was completed in the review period as planned earlier. In addition the plant was shut down for 19 days to accommodate the upgrades. With regard to Kao Diamond mine, the reduced output resulted from soil tests which were undertaken in the review period. The tests were undertaken to verify the grade of diamonds each soil type holds as predicted by experts. On the demand side, the diamond prices remained favorable during the period under review mainly driven by a solid global demand of diamonds.

Figure 7: Mining and Quarrying Index



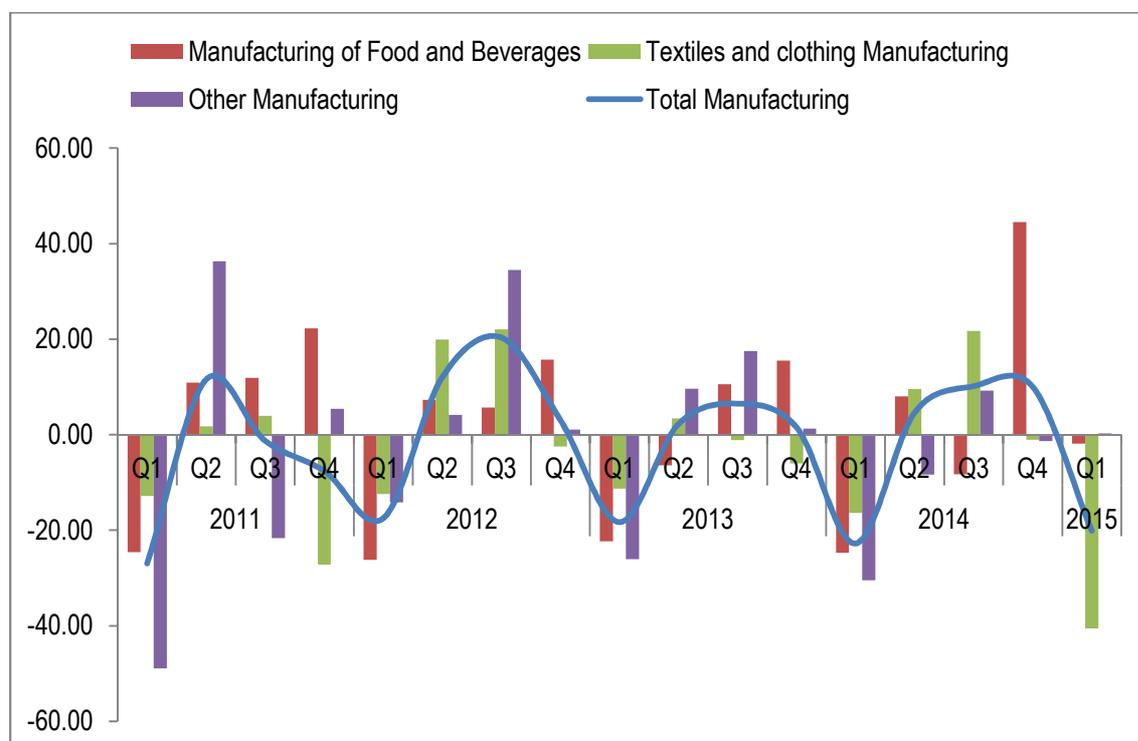
Source: Central Bank of Lesotho

Secondary Sector

Manufacturing

The total manufacturing index declined significantly by 20.1 per cent in the first quarter of 2015 compared with an increase of 10.0 per cent in the previous quarter. The decline was attributed to 40.5 per cent and 1.9 per cent fall in the manufacturing of textiles and clothing, and manufacturing of food and beverages indices, respectively. The decline turned to overshadow a marginal increase of 0.3 per cent in other manufacturing index. The declining output by the textiles and clothing firms resulted from a shift in orders, which resulted from the uncertainty surrounding the renewal of African Growth and Opportunity Act (AGOA). Some of the US buyers are shifting orders to Asian countries such as Cambodia and Vietnam and for companies which have sister companies elsewhere, orders are shifted from Lesotho to such operations in order to retain buyers. The expectation is that if AGOA is not renewed by June 2015, the situation is expected to worsen in terms of reduced output and job losses. In addition, one knit garment firm closed down its operations during the review period. On annual basis, the manufacturing index declined 1.3 per cent in the first quarter of 2015 compared with a decline of 2.1 per cent in the fourth quarter of 2014.

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



Source: Central Bank of Lesotho

Electricity

Electricity index declined by 5.8 per cent in the first quarter of 2015 compared with a decline of 12.6 per cent in the previous quarter. The decline in electricity was attributed to 2.8 per cent and 9.0 per cent decline in electricity consumption by domestic, and commercial and industrial categories, respectively. The decline in electricity consumed is a signal of low output in the economy during the review period. The decline in electricity consumption by the textiles and clothing, mining industry and some food and beverage manufacturing companies bears testimony to this. With regard to the annualized changes, the electricity index declined by 6.9 per cent in the first quarter of 2015 compared with a decline of 3.4 per cent in the previous period.

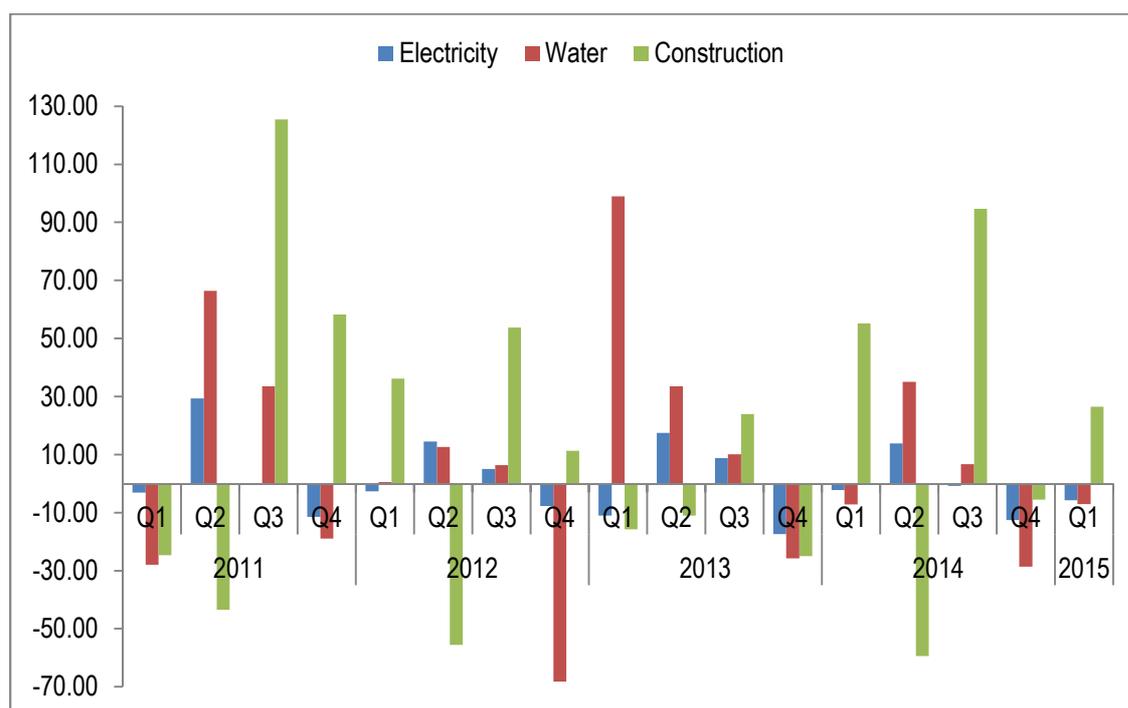
Water

The water sector index declined by 7.0 per cent in the review quarter compared with a decline of 28.6 per cent in the fourth quarter of 2014. It has to be noted that water exports to SA constitute 98.8 per cent of the total output by the water sector, while the remaining 1.2 per cent constitute locally consumed water. The decline in output by the sector mainly reflected the 7.0 per cent decline in water exported to SA. That is, water export to SA was consistent with lower electricity consumption, given that water is utilized for electricity generation before being exported and electricity generation depends on domestic usage of electricity. Water consumed locally declined by 8.9 per cent in the first quarter of 2015 compared with an increase of 13.9 in the previous quarter. The reduced local water consumption was partially due to a series of water cuts which occurred during the review quarter. This was due to some maintenance works which were undertaken on the major distribution lines. On annual basis, water index declined by 4.3 per cent in the review period compared with a 4.4 decline in the quarter ending in December 2014.

Construction

The construction index rose by 26.6 per cent in the quarter ending in March 2015 following a decline of 5.5 per cent in the fourth quarter of 2014. This increase was in line with increased capital expenditure by Government during the review quarter. This is because normally during the end of the fiscal year government expenditures increase mainly due to processing of payments, even those which stalled during the fiscal year were processed.

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



Source: Central Bank of Lesotho

Tertiary Sector

Trade

The trade index, which comprises motor trade, wholesale and retail trade in fuel, and wholesale and retail trade declined by 6.1 per cent in the quarter ending in March 2015 compared with an increase of 11.0 per cent increase in the previous quarter. The decrease was in line with the reduced output by the wholesale and retail sectors. This is an indication of lower demand for goods and services in the economy during the review period. On annual basis, the index for wholesale and retail declined by 23.1 per cent in the review period.

Telecommunications

The index for telecommunications increased by 9.7 per cent in the first quarter of 2015 compared with an increase of 8.3 per cent in the fourth quarter of 2014. The observed increase indicated growth of the telecommunications subsector. This is due to improved technology and introduction of promotional products like nchoathi on mobile and fixed lines, weekly data bundles and upgrading of Ecosure policies by the service providers.

Other Services²

The services index increased marginally by 0.2 per cent in the quarter ending in March 2015 compared with an increase of 10.5 per cent in the previous quarter. The increase was attributed to a slight increase in output related to renting of land transport equipment, other business activities, maintenance and repairs of office equipment, advertising and legal activities.

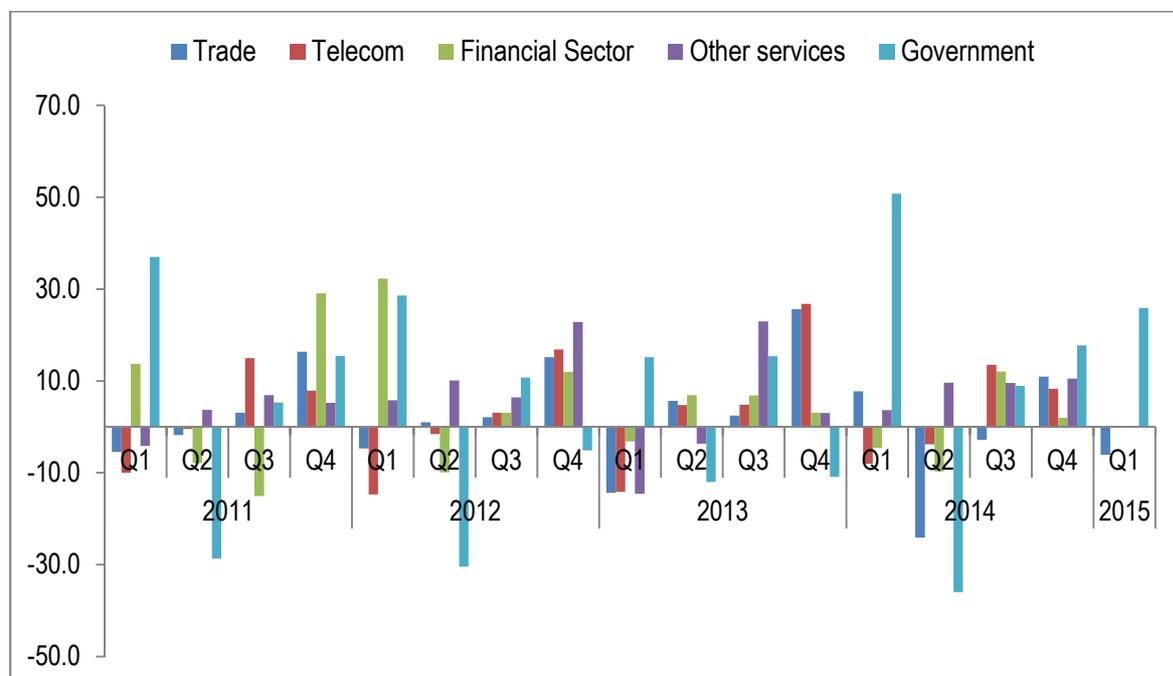
Government

The index for government activities increased by 25.9 per cent in the first quarter of 2015 compared with an increase of 17.8 per cent in the previous quarter. The improved performance was in line with high government expenses in the first quarter of 2015. This is normally the case towards the end of the fiscal year as line ministries fast track implementation of their budgets. On annualized changes, the government activity index rose by 3.4 per cent in the review quarter compared with a significant increase of 23.9 per cent in the preceding quarter.

Finance

The financial sector index increased marginally by 0.2 per cent in the first quarter of 2015 compared with a 2.0 per cent increase in the previous quarter. The marginal increase was at the back of a decline in the stock of loans offered by the commercial banks. The observed decline in the stock of loans was in line with a decline in credit extended to all sectors of the economy

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



Source: Central Bank of Lesotho

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

EMPLOYMENT DEVELOPMENTS

Employment by LNDC assisted companies declined significantly by 7.5 per cent during the quarter ending in March 2015 compared with a decline of 1.3 per cent per cent in the previous quarter. The persistent decline in employment stems from the closure of one knit garment firm and partially from reduction in orders from the US buyers as a result firms try to cut more especially on temporarily employed worker.

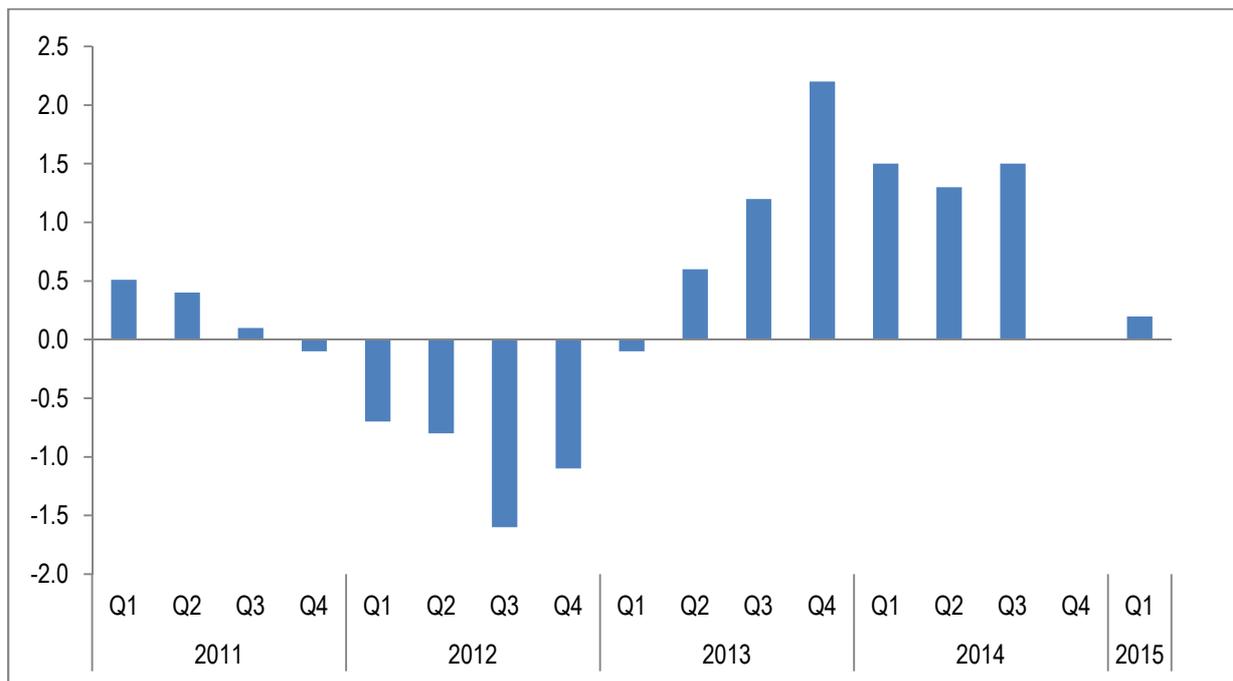
Table 3: Employment by LNDC Assistant Companies

Industry	2014				2015
	Q1	Q2	Q3	Q4	Q1*
Knit Garments.....	22072	22457	23910	23553	21519
Woven Garments.....	15914	16490	16036	15798	14947
Footwear.....	2230	1925	1586	1694	1442
Fabrics, Yarn etc.....	1774	1765	1564	1567	1671
Construction.....	309	309	306	306	313
Food & Beverages.....	565	565	1026	906	887
Electronics.....	912	912	965	965	645
Retail.....	128	128	130	137	137
Hotel Accom.....	412	412	415	415	416
Other.....	624	653	1407	1396	1598
TOTAL.....	44940	45616	47345	46737	43227

Source: Lesotho National Development Corporation *Preliminary

The number of government employees increased marginally by 0.2 per cent in the quarter ending in March 2015 given that there were no new recruitments in the previous quarter. The increase was observed despite slight declines of 0.5 per cent, 1.1 per cent and 2.3 per cent in the number of civil servants, teachers and daily paid workers, respectively.

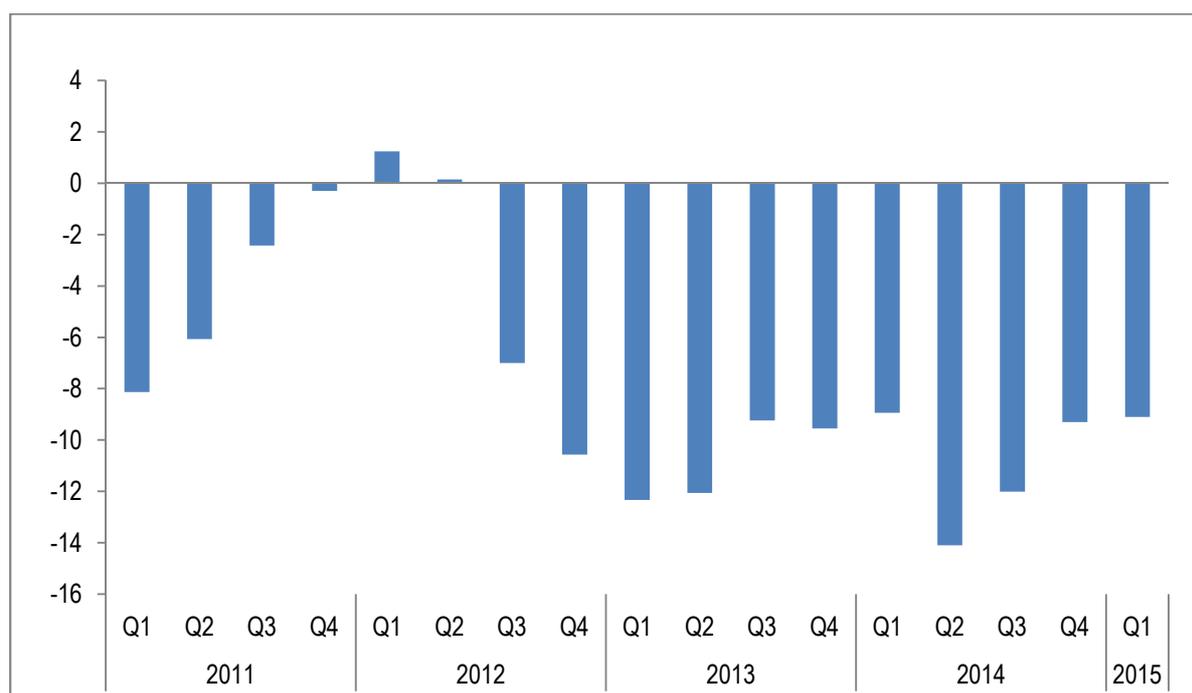
Figure 11: Government Employment (*Annualized Percentage Change*)



Source: Ministry of Finance

The number of Basotho Migrant Mine Workers employed in SA mines declined by 9.1 per cent in the quarter ending in March 2015 compared with a decline of 9.3 per cent in the previous quarter. Employment of Basotho migrant mine workers has been declining for the past 3 years and this is due to the fact that there have not been new recruitments during that time, as such any changes are reducing the already available number of workers.

Figure 12: Migrant Mineworkers (Annualized Percentage Changes)



Source: The Employment Bureau of Africa (TEBA)

PRICE DEVELOPMENTS

Lesotho's inflation rate, measured as a percentage change in the Consumer Price Index (CPI) was 2.1 per cent in March 2015 from 3.6 per cent in December 2014. The observed decline was attributed to a significant contraction in housing, electricity, gas and other fuels, and transport inflation rates and a moderation in food and nonalcoholic beverages, alcoholic beverages and tobacco, clothing and footwear and education inflation rates. The contraction in housing, electricity gas and other fuels, and transport inflation rates was at the back of reduced domestic pump prices of petrol, diesel and illuminating paraffin, which resulted from a decline in the international crude oil prices. The decline in international oil prices were at the back of high supply from US coupled with increased production from Saud Arabia. The food and non-alcoholic beverages inflation measured 4.3 per cent in March 2015 from 5.2 per cent in December 2014. The decline reflected moderation in the prices of bread and cereals, meat and milk, cheese and eggs. The moderation in food prices was at the back of large global food supply and weak export demand especially for wheat coupled with favourable outlook for 2015 production. The FAO food price index fell for the third consecutive month in March 2015 reflective of large global supplies for a bulk of commodities included in the index.

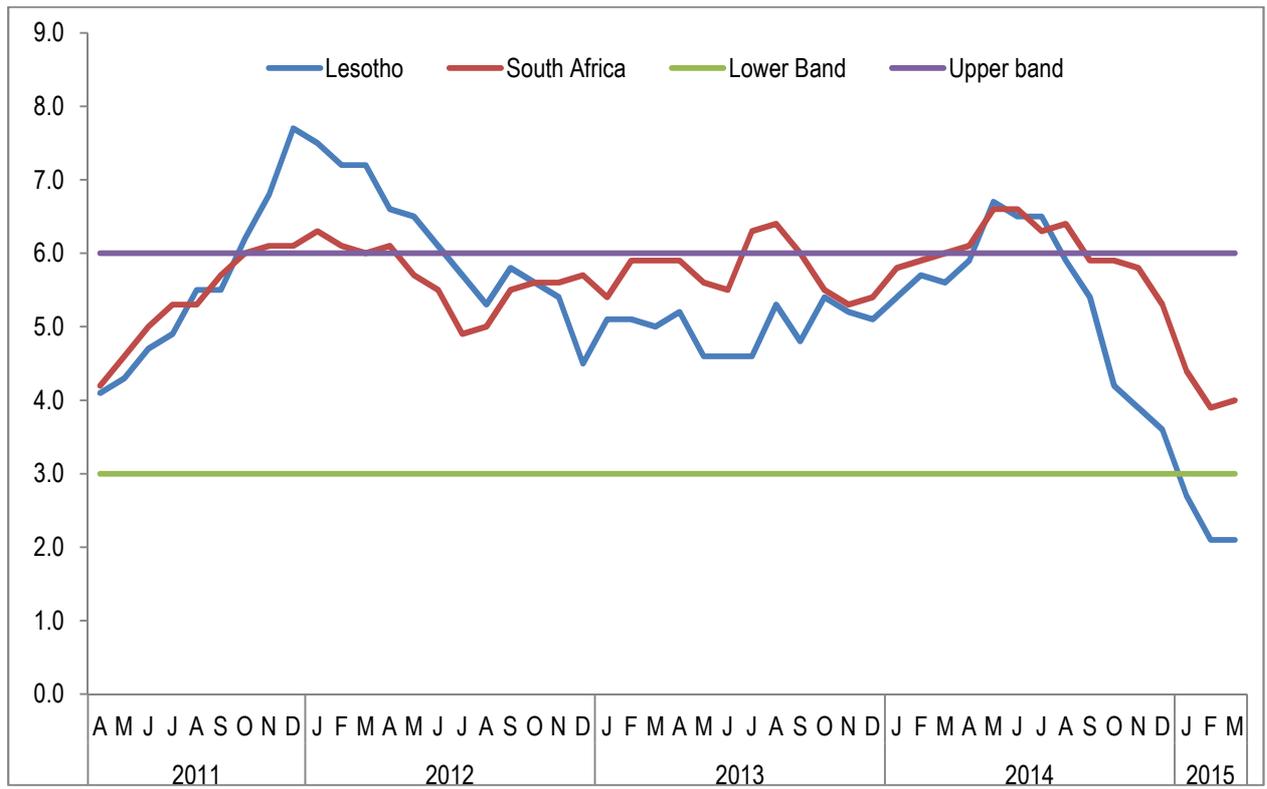
Table 4: Inflation Rate (Annualized Percentage Changes)

	Weight	2014		2015		
		Nov	Dec	Jan	Feb	Mar
All items	100	3.9	3.6	2.7	2.1	2.1
Food and non-alcoholic beverages	38.1	5.0	5.2	5.1	4.9	4.3
Alcoholic beverages & Tobacco	1.2	6.9	6.7	6.2	6.1	5.9
Clothing & footwear	17.4	4.6	4.7	4.6	4.5	4.5
Housing, electricity gas & other fuels	10.6	1.2	-1.4	-6.8	-10.7	-9.3
Furniture, households equipment & routine maintenance	9.4	2.6	2.7	2.8	3.2	3.9
Health	1.9	1.3	1.2	1.2	1.4	1.1
Transport	8.5	0.8	0.7	0.2	-0.4	-0.1
Communication	1.2	0.0	0.0	0.0	0.0	0.0
Leisure, entertainment & Culture	2.4	2.7	2.9	3.0	3.2	3.0
Education	2.7	7.1	7.1	3.9	3.9	3.9
Restaurant & Hotels	0.7	4.7	4.6	4.7	4.4	4.3
Miscellaneous goods & services	5.8	4.0	3.1	3.0	3.3	3.0

Source: Bureau of Statistics

Lesotho's inflation rate continues to move in the same direction with that of SA, though declining at a faster rate. SA's inflation rate measured 4.0 per cent in March 2015 from 5.3 per cent in December 2014. Both Lesotho and SA inflation rates moderated in the review period due to lower food and fuel prices and the decline was observed regardless of the depreciation in the Rand-Loti exchange value.

Figure 13: Lesotho and South Africa's Inflation



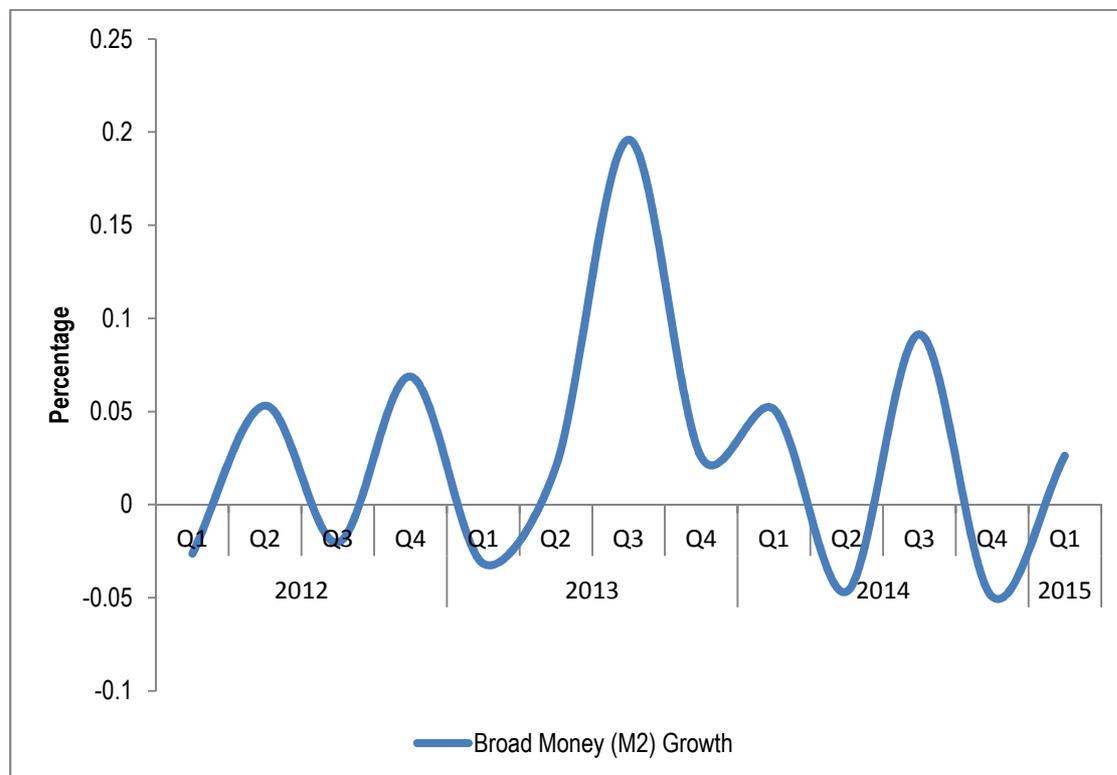
Source: Bureau of Statistics, Statistics South Africa

4. Monetary and Financial Developments

BROAD MONEY (M2)

Money supply increased by 2.6 per cent during the first quarter of 2015 following a 4.9 per cent decline recorded in the fourth quarter of 2014. On an annual basis money supply rose by 1.5 per cent in March 2015 compared to a growth of 4.0 percent in March 2014. The driving factor behind the quarterly increase was an increase in Net foreign Assets moderated by a decrease in domestic claims.

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



Source: Central Bank of Lesotho

Determinants of M2

Domestic Credit

Domestic claims, including net claims on government declined by 121.6 per cent during the quarter under review compared to 58.7 per cent fall in the previous quarter. This development was driven by an increase in deposits of central government and a decline in private sector credit.

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

	2014				2015	Changes (%)	
	Mar	Jun	Sep	Dec	Mar	Annual	Quarterly
Domestic Claims	1005.2	117.5	414.9	171.2	-37.1	-103.7	-121.7
Net Claims on Government	-3569.0	-4572.1	-4650.9	-4962.6	-5153.2	44.4	3.8
Commercial Banks Net Claims	681.1	632.5	642.6	597.3	577.6	-15.2	-3.3
Claims on Central Government	690.1	645.6	655.9	610.8	587.3	-14.9	-3.8
Liabilities to Central Government	9.0	13.1	13.3	13.4	9.7	7.8	-27.9
Central Bank Net Claims	-4250.1	-5204.6	-5293.5	-5559.9	-5730.8	34.8	3.1
Claims on Central Government	833.6	844.2	853.3	849.8	850.4	2.0	0.1
Liabilities to Central Government	5083.7	6048.8	6146.8	6409.7	6581.2	29.5	2.7
Claims on Other Sectors	4574.2	4689.6	5065.8	5133.8	5116.0	11.9	-0.4
Claims on OFCs	12.4	10.0	10.5	12.5	15.0	20.9	19.8
Claims on St & Local Government	0	0.0	0.0	0.0	0.0		
Claims on Private Sector	4561.8	4679.6	5055.3	5121.3	5101.1	11.8	-0.4
Claims on Business Enterprises	1824.83	1554.24	1835.75	1815.14	1791.9	-1.8	-1.3
Claims on Households	2736.94	3125.31	3219.54	3306.17	3309.2	20.9	0.1

Source: Central Bank of Lesotho

Net Foreign Assets

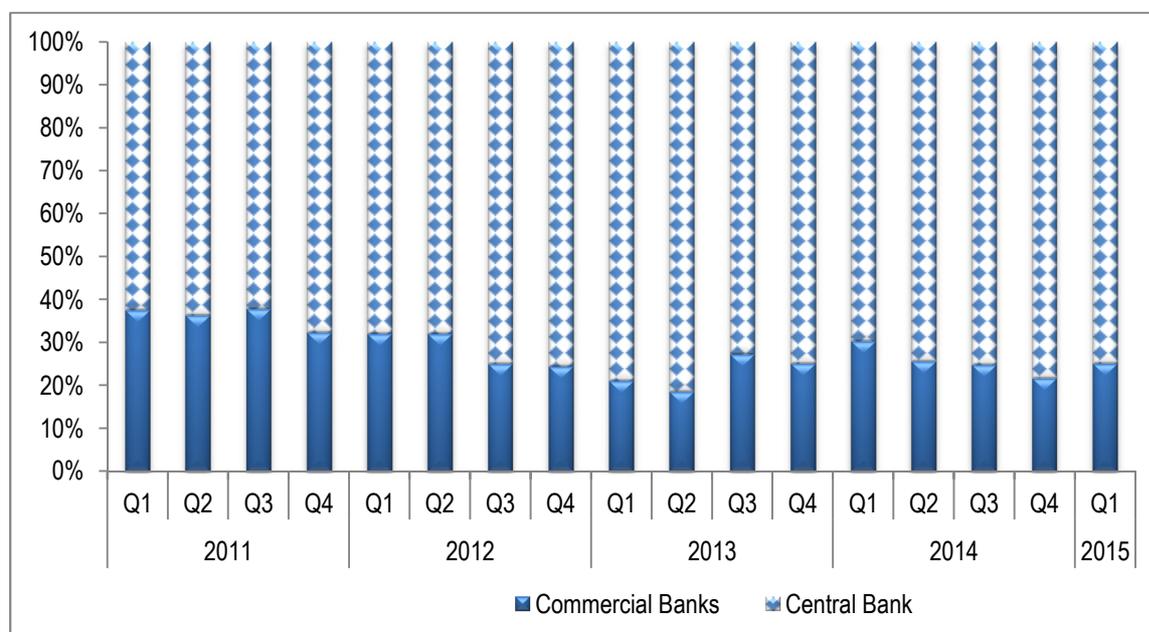
The overall banking system net foreign assets grew by 6.5 per cent during the first quarter of 2015, this compares to a marginal expansion of 0.3 per cent registered during the previous quarter. The rise in commercial bank net foreign assets was as a result of bank transfers abroad following an injection of liquidity into the banking system due to government spending. Moreover, demand for money for transactions during the first quarter is normally lower than the last quarter of the year which is accompanied by more spending during the festive season as a result deposits increased during the first quarter of 2015 as compared to during the last quarter of 2014. Consequently, commercial banks had more funds at their disposal which were in return invested in South African money markets. On the other hand, Central Bank net foreign assets increase was as a result of an increase in deposits of the Central government as a result of rand compensation. These deposits were then invested in higher interest bearing accounts in South Africa.

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

	2014				2015	Changes (%)	
	Mar	Jun	Sep	Dec	Mar	Annual	Quarterly
Commercial Banks	3915.2	3335.9	3418.7	3039.5	3746.1	-4.3	23.3
Claims on Non-residents	4475.8	3782.3	3838.8	3329.4	4,098.78	-8.4	23.1
Liabilities to Non-residents	560.6	446.5	420.1	289.9	352.7	-37.1	21.7
Central Bank	8955.1	9637.9	10283.4	10923.5	11130.6	24.3	1.9
Claims on Non-residents	10337.4	11026.9	11707.7	12342.0	12550.2	21.4	1.7
Liabilities to Non-residents	1382.4	1389.0	1424.3	1418.5	1419.6	2.7	0.1
Net Foreign Assets Total	12870.3	12973.8	13702.1	13962.9	14876.6	15.6	6.5

Source: Central Bank of Lesotho

Figure 15: Net Foreign Assets (percentage Shares)



Source: Central Bank of Lesotho

Components of M2

Narrow money (M1) and quasi money are the major components of broad money (M2). During the quarter under review, broad money increased by 2.6 per cent. This was on account of an increase in narrow money as well as quasi money. The increase in narrow money was driven by an increase of 6.4 per cent increase in transferrable deposits, moderated by a 3.6 per cent fall in currency in circulation. Transferable deposits growth is largely attributed to normalisation of consumer spending following the festive season. On the other hand, the decline in currency in circulation reflects the seasonal pattern in demand for money as alluded to earlier. The increase in quasi money was as a result of a 1.4 increase in other deposits of commercial banks moderated by a 3.4 per cent decline in other deposits of the Central Bank.

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

	2014				2015	Changes (%)	
	Mar	Jun	Sep	Dec	Mar	Annual	Quarterly
Broad Money (M2)	9104.6	8678.8	9472.0	9003.8	9239.8	1.5	2.6
Narrow Money (M1)	4155.8	4003.4	4230.7	4096.6	4265.7	2.6	4.1
Currency Outside DCs	840.0	799.8	813.9	941.5	907.2	8.0	-3.7
Transferable Deposits	3315.8	3203.6	3416.8	3155.1	3358.4	1.3	6.4
Quasi Money	4948.7	4675.4	5241.3	4907.2	4974.1	0.5	1.4
Other Deposits Commercial Banks	4940.4	4631.2	5173.7	4849.2	4918.0	-0.5	1.4
Other Deposits Central Bank	8.4	44.2	67.7	58.0	56.1	569.0	-3.4

Source: Central Bank of Lesotho

CREDIT EXTENSION

Trends of Credit extended to Business Enterprises

Credit extended to Business Enterprises declined by 1.3 per cent during the period under review compared to a 1.0 per cent decline in the previous quarter. Electricity, gas and water, transport, storage and communication as well as mining recorded the largest contraction in credit. This was as a result of a decrease in electricity demand in the economy as a result of low production in textile and food manufacturing and low output in the mining sector due to upgrading works being undertaken in some of the mines.

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

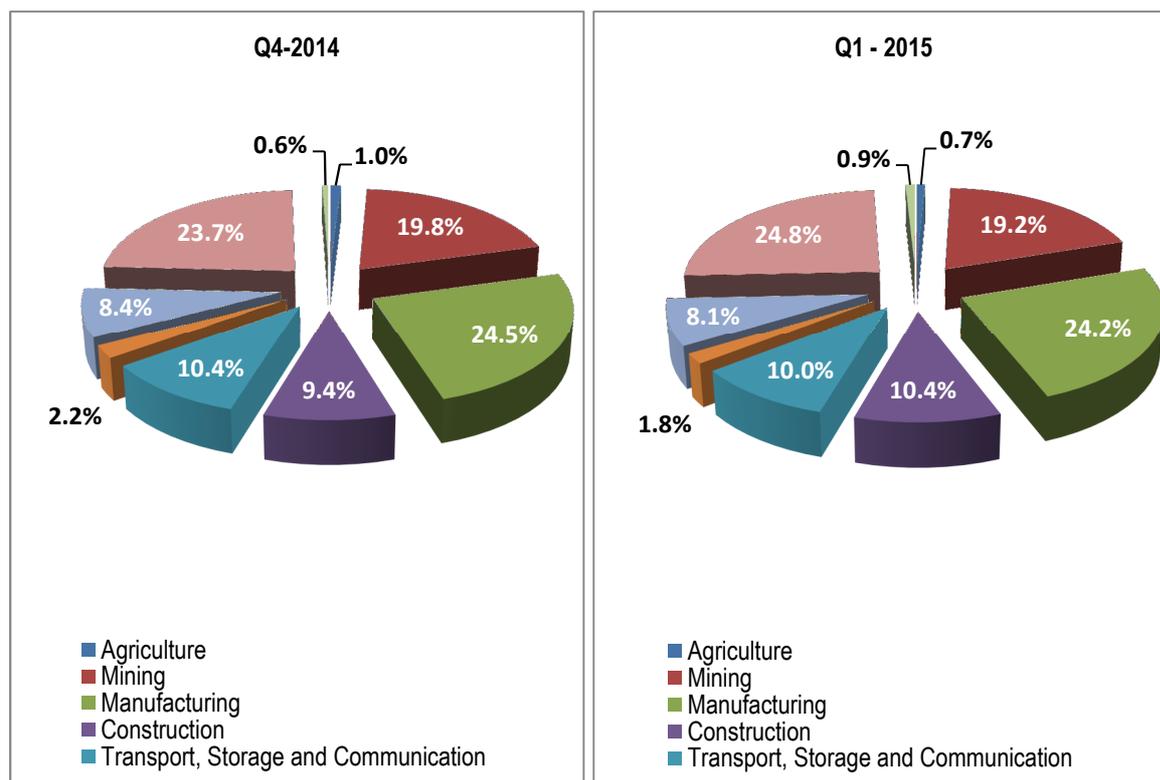
SECTOR	2014				2015	Changes (%)	
	Mar	Jun	Sep	Dec	Mar	Annual	Quarterly
Agriculture	16.9	16.5	18.0	17.4	13.4	-21.1	-23.3
Mining	194.2	142.5	289.0	358.7	343.2	76.7	-4.3
Manufacturing	343.2	372.2	390.5	445.4	434.0	26.5	-2.6
Construction	197.1	124.4	156.8	171.2	186.4	-5.4	8.9
Transport, Storage and Communication	133.1	184.6	184.3	188.5	179.0	34.5	-5.0
Electricity, gas and water	33.2	27.7	29.5	40.4	31.9	-4.0	-21.0
Wholesale, Retail, Hotel & Restaurant NBFIs, Real Estate and Business Services	227.5	264.4	363.3	153.2	144.8	-36.4	-5.5
Community, Social & Personal Service	331.2	353.5	347.4	429.9	444.0	34.0	3.3
Community, Social & Personal Service	338.4	68.4	56.9	10.3	15.3	-95.5	47.9
All Sectors	1814.8	1554.2	1835.7	1815.1	1791.9	-1.3	-1.3

Source: Central Bank of Lesotho

Distribution of credit Extended to Business Enterprises.

Real Estate and Business services, manufacturing and mining continue to have the larger share of credit extended to business enterprises. This is in line with their respective contribution to the economy. On the other hand, agriculture and community, social and personal services sectors have the smallest share of credit. Manufacturing share of credit slightly contracted during the quarter under review mainly due to uncertainties pertaining to renewal of AGOA.

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

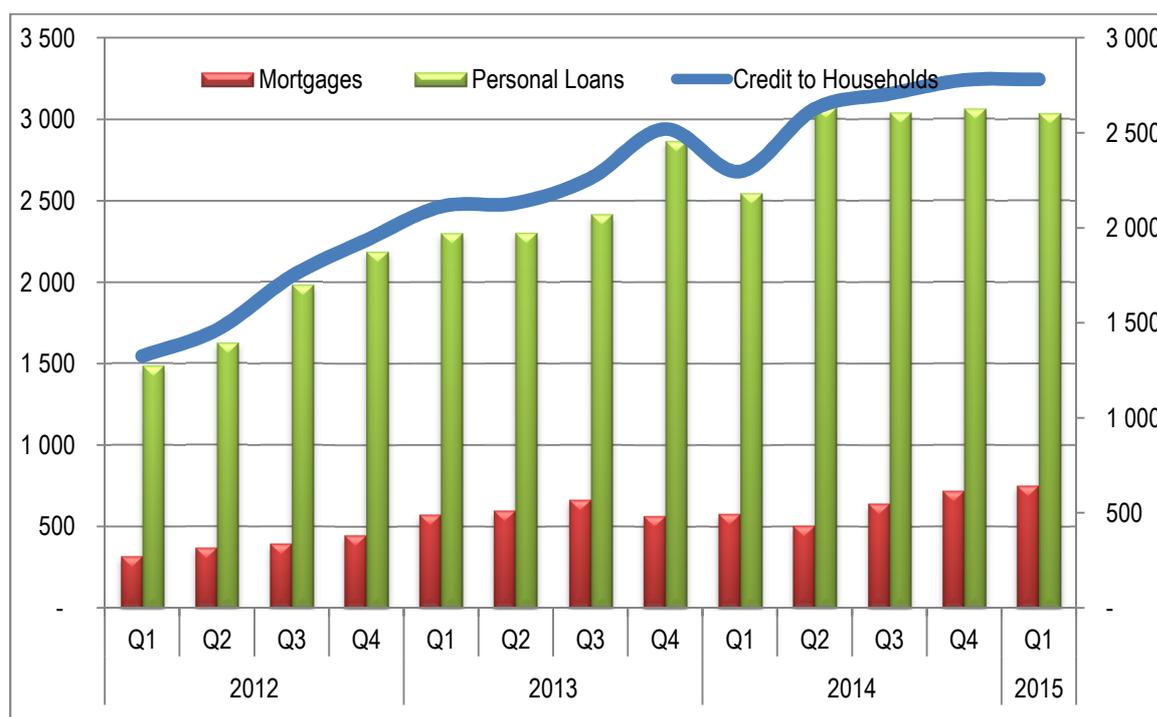


Source: Central Bank of Lesotho

Credit extended to households

Credit extended to households increased slightly by 0.1 per cent in the first quarter of 2015. This was contrary to the 3 per cent increase in the last quarter of 2014. This slight increase was caused by growth in mortgages that was moderated by a fall in personal loans (which constitutes a large share of credit to households). This decline is reflective of a shift in focus from unsecured lending to asset based lending by commercial banks.

Figure 17: Credit Extension to Households (Million maloti: End Period)



Source: Central Bank of Lesotho

LIQUIDITY OF COMMERCIAL BANKS

Components of liquidity

Commercial banks' liquidity ratio increased to 86 per cent from 80 per cent in the previous quarter. This was as a result of a surge in both balances due from banks in Lesotho and balances due from banks in SA and this outweighed an increase in total deposits. On the contrary, credit to deposit ratio contracted marginally by 2 percentage point following a slight fall in private sector credit as well as growth in deposits. This indicates a relative fall in the level of financial intermediation in Lesotho by the commercial banks.

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

	2014				2015
	Mar	Jun	Sep	Dec	Mar
Credit to Deposit Ratio	55%	59%	58%	63%	61%
Private Sector Credit	4509.5	4624.1	4997.3	5060.3	5040.1
Total Deposits	8256.2	7834.8	8590.5	8004.3	8276.4
Liquidity Ratio	93%	86%	84%	80%	86%
Notes and Coins	229.8	258.9	260.5	361.6	268.5
Balance due from banks in Lesotho	2370.5	2287.5	2688.5	2149.5	2381.9
Balance due from banks in SA	4264.8	3431.8	3539.1	2954.0	3864.3
Surplus funds	98.2	127.9	102.5	303.9	14.4
Government Securities	690.1	645.6	655.9	610.8	587.3
Total	7653.3	6751.9	7246.4	6379.7	7116.4

Source: Central Bank of Lesotho

Commercial Banks Sources of Funds

The main sources of funds are deposits which comprise of transferable and other deposits. Total deposits increased by 3.4 per cent during the quarter under review compared to a 1.2 per cent in the last quarter. This was mainly driven by increased payment of government expenditure through the banking system as well as reduced demand for money by the public compared to the previous festive season.

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

	2014				2015	Changes (%)	
	Mar	Jun	Sep	Dec	Mar	Annual	Quarterly
Transferable Deposits Incl. in BM	3315.8	3203.6	3416.8	3155.1	3358.4	1.3	6.4
Other Financial Corporations	0.0	0.0	0.0	0.0	0.0		
Public Nonfinancial Corporations	42.2	75.8	163.8	109.2	1.6	-96.1	-98.5
Private Sector	3255.6	3109.9	3235.1	3028.0	3338.8	2.6	10.3
Other NFCs	2447.2	2405.1	2489.1	2280.2	2583.6	5.6	13.3
Other Sectors (Households)	808.4	704.8	745.9	747.8	755.3	-6.6	1.0
Other Deposits Incl. in BM	4940.4	4631.2	5173.7	4849.2	4918.0	-0.5	1.4
Other Financial Corporations	0.0	0.0	0.0	12.4	20.5		65.6
Public Nonfinancial Corporations	66.5	77.8	43.2	57.2	169.2	154.6	196.0
Private Sector	4873.9	4553.3	5130.5	4779.6	4728.2	-3.0	-1.1
Other NFCs	3031.4	3203.3	3693.9	3300.4	3327.0	9.8	0.8
Other Sectors (Households)	1842.5	1350.1	1436.6	1479.2	1401.2	-23.9	-5.3
Total Deposits	8256.2	7834.8	8590.5	8004.3	8276.4	0.2	3.4

Source: Central Bank of Lesotho

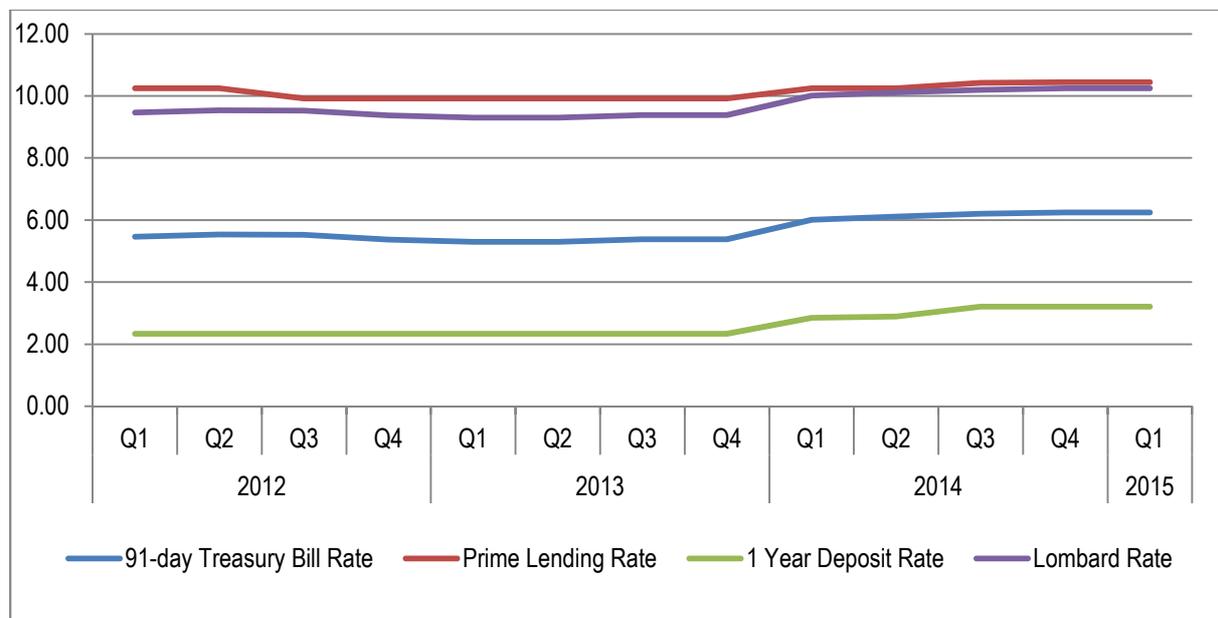
MONEY AND CAPITAL MARKET DEVELOPMENTS

Money Market

Interest rates

Owing to low and stabilising inflation in South Africa as well as moderate inflation expectation, the South African Reserve Bank (SARB) kept the policy rate unchanged. Consequently, most money markets interest rates remained unchanged in South Africa with an exception of the South African 91 day T-bill rate. Due to the Common Monetary Area (CMA) framework where Lesotho Loti is pegged to South African Rand, the Central Bank of Lesotho defends this peg by ensuring Lesotho money market rates move in line to those of South Africa. As a result, money market interest rates remained unchanged in Lesotho.

Figure 18: Short-term Interest Rates (Per Cent per Annum)



Source: Central Bank of Lesotho

Table 11: Interest rates

	2014				2015
	Mar	Jun	Sep	Dec	Mar
Central Bank					
T-Bill Rate - 91 days	6.01	6.11	6.20	6.25	6.25
Lombard Rate	10.01	10.11	10.20	10.25	10.25
Commercial Banks					
Call	1.03	1.03	0.99	0.99	0.99
Time:					
31 days	1.14	1.14	1.23	1.23	1.23
88 days	1.53	1.66	1.72	1.72	1.72
6 months	2.01	2.04	2.31	2.31	2.31
1 year	2.85	2.89	3.21	3.21	3.21
Savings	0.95	0.80	0.86	0.86	0.86
Prime	10.25	10.25	10.42	10.44	10.44
South Africa					
Repo	5.50	5.50	5.75	5.75	5.75
T-Bill Rate - 91 days	5.66	5.97	5.97	6.12	5.78
Marginal Lending Rate					
Prime	9.00	9.00	9.25	9.25	9.25

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

Holding of Treasury Bills and T-Bill Rates

The holding of Treasury bills increased by 1 per cent in the current quarter compared to 0.03 per cent in the previous quarter. This occurred despite the constant t-bill rates and was driven by commercial banks' need to maintain the minimum local requirement.

Capital Market

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

	2014				2015
	Mar	Jun	Sep	Dec	Mar
Treasury Bills	531.7	548.9	570.4	586.0	594.3
Banking System	406.26	399.98	397.94	407.25	406.33
Non-Bank Sector	125.41	148.96	172.47	178.72	187.93
Memorandum Item					
Yield Bills (91-days)	6.10	6.20	6.30	6.35	6.35

Source: Central Bank of Lesotho

Holding of Treasury Bonds

Holding of Treasury bonds increased by 4 per cent this quarter compared to 0.03 per cent in the previous quarter as a result of a reissue of treasury bonds that occurred during this quarter. This was largely meant to further develop the capital markets.

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

	2014				2015
	Mar	Jun	Sep	Dec	Mar
Holding of Treasury Bonds	504.1	520.7	537.5	553.33	572.7
Banking System	317.87	321.06	321.25	321.26	336.47
Non-Bank Sector	186.19	199.65	216.22	232.07	236.27

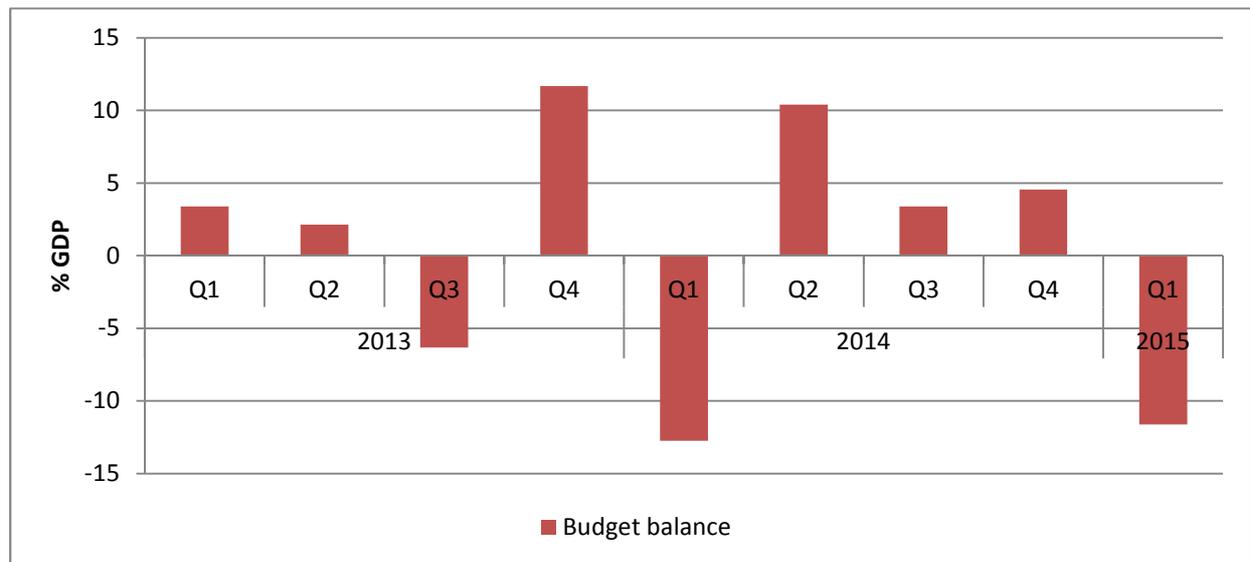
Source: Central Bank of Lesotho

5. Government Finance

OVERVIEW

In the review quarter the Government of Lesotho registered a deficit equivalent to 11.6 per cent of GDP during the first quarter of March 2015. The stock of public and publicly guaranteed debt as a proportion of GDP declined to 40.3 per cent in March, 2015 reflective of a reduction in loans from multilateral creditors and suppliers' credit during the quarter under review.

Figure 19: Fiscal Balance (Per cent of GDP)



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

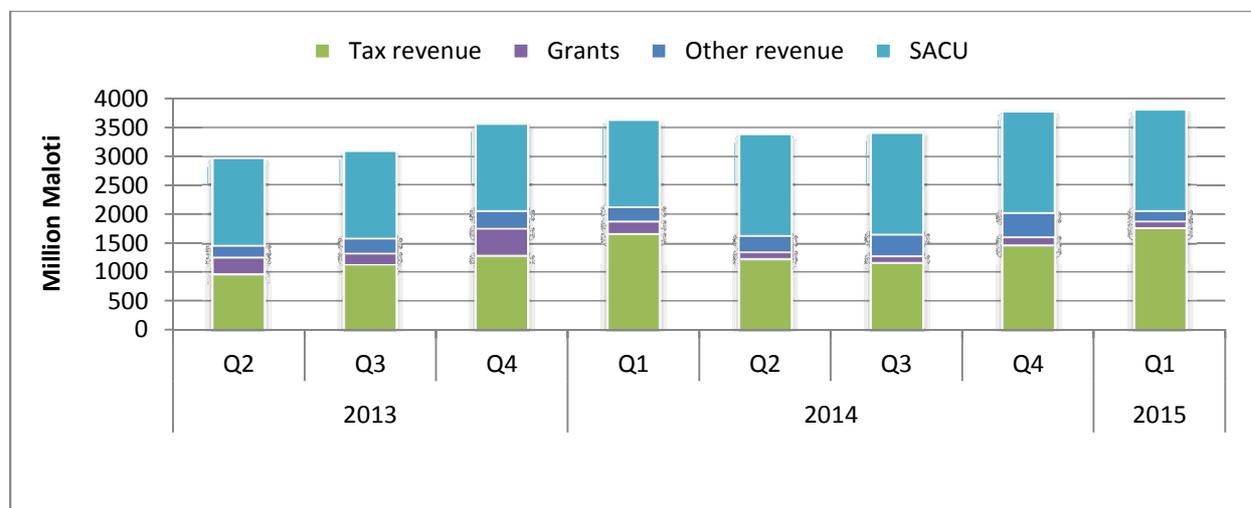
REVENUE

Total revenue increased by 0.9 per cent in the quarter ending March, 2015 compared with 10.6 per cent increase that was recorded in the previous quarter. The slow growth in total revenue is attributed to a decline in grants and other revenue. Capital grants from foreign governments decreased by 16.3 per cent in the quarter under review relative to 16.2 per cent increase experienced in the quarter ending in December, 2014. Other revenue, declined by 58.8 per cent in March, 2015 on account of a reduction in property income. There were no dividends received during the quarter ending in March, 2015. Water royalties usually decline during the last quarter of the fiscal year thereby reflecting a reduction in the volume of water that is being transferred to South Africa. In addition, the administrative fees, incidental sales of goods and services, and fines and forfeits contributed to the decrease in other revenue. As a result, the non-tax revenues that are collected by Ministries underperformed during the first quarter of 2015.

The tax revenue contributed 46.3 percentage share of total revenue, and increased by 19.9 per cent during the quarter ending in March, 2015 compared with 25.4 per cent realised in the fourth

quarter of 2014. The reduction of 4.5 percentage points in the growth of tax revenue is due to under performance of taxes on income, profits and capital gains during the first quarter of 2015. SACU receipts, as illustrated by the figure below, accounted for 46.2 percentage share of total revenue, holding the second position after tax revenue.

Figure 20: Total Revenue (Million Maloti)



Source: CBL and MOF

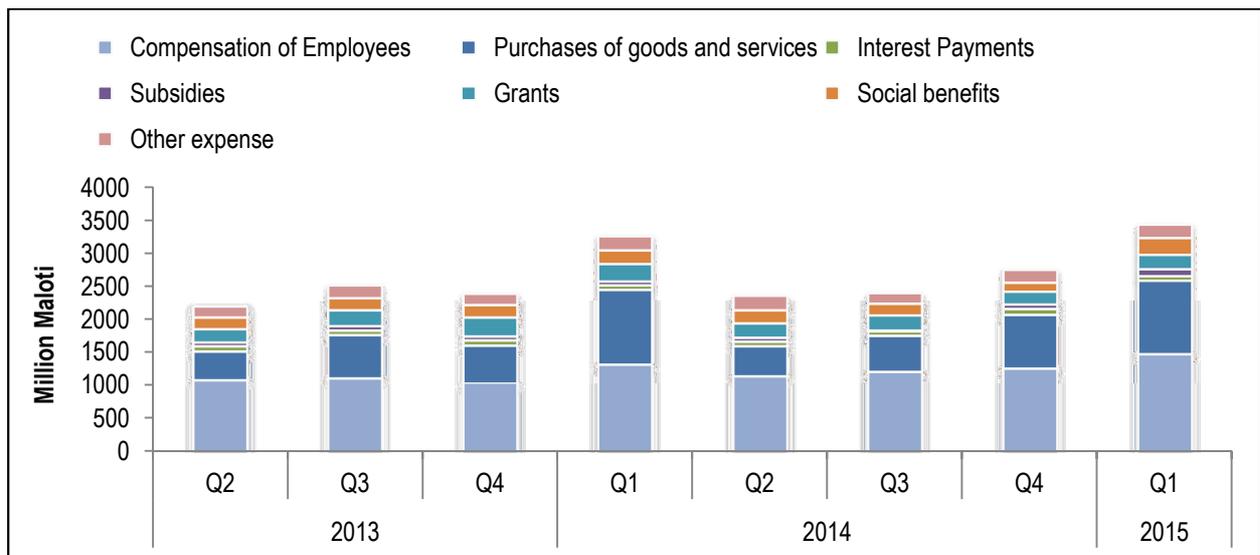
TOTAL EXPENDITURE

The expense increased by 9.8 percentage points in March 2015 over and above 14.6 per cent rise that was experienced in the quarter ending in December, 2014. This increase can be attributed to a rise on wages and salaries, pension contributions and unfunded social contributions³. Other expense items which contribute to increase in total recurrent spending include, purchases of goods and services which registered 40.5 per cent growth in the quarter ending in March, 2015, subsidies to nonfinancial public corporations increased by 66.3 per cent, and social benefits by 95.3 per cent. The domestic travel and transport increased by 9.1 per cent. On the other hand, interest payments declined by 29.2 per cent; while other expense category dropped by 1.1 per cent. The fall in the interest payments is due to the medium to long term domestic bonds that pay interest semi-annually. This means that during the quarter ending in March, 2015, the Government did not pay interest regarding those bonds. The other reason is linked to the appreciation of Loti against certain foreign currencies which hold part of the public debt portfolio.

The spending on non-financial assets expanded by 47.9 per cent during the quarter under review relative to a fall of 7.1 per cent which was recorded in December, 2014. The fixed assets, and more specifically, other structures and transport equipment registered a growth of 109.9 per cent and 415.8 per cent, respectively.

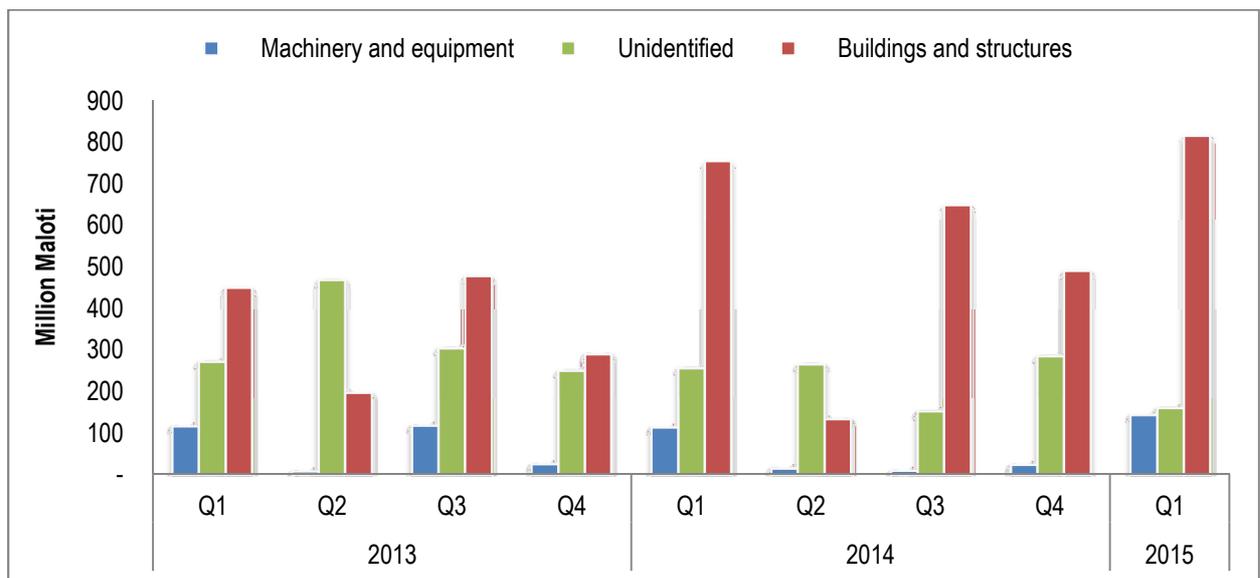
³ Unfunded social contributions refer to the civil pensions and gratuities for public officers who were illegible to Public Officers' Defined-Contribution Pension Fund in 2009/2010 because they were above the age of 45 years

Figure 21: Total Expenses (Million Maloti)



Source: CBL and MOF

Figure 22: Total Non-financial Assets or Capital Expenditure (Million Maloti)



Source: CBL and MOF

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

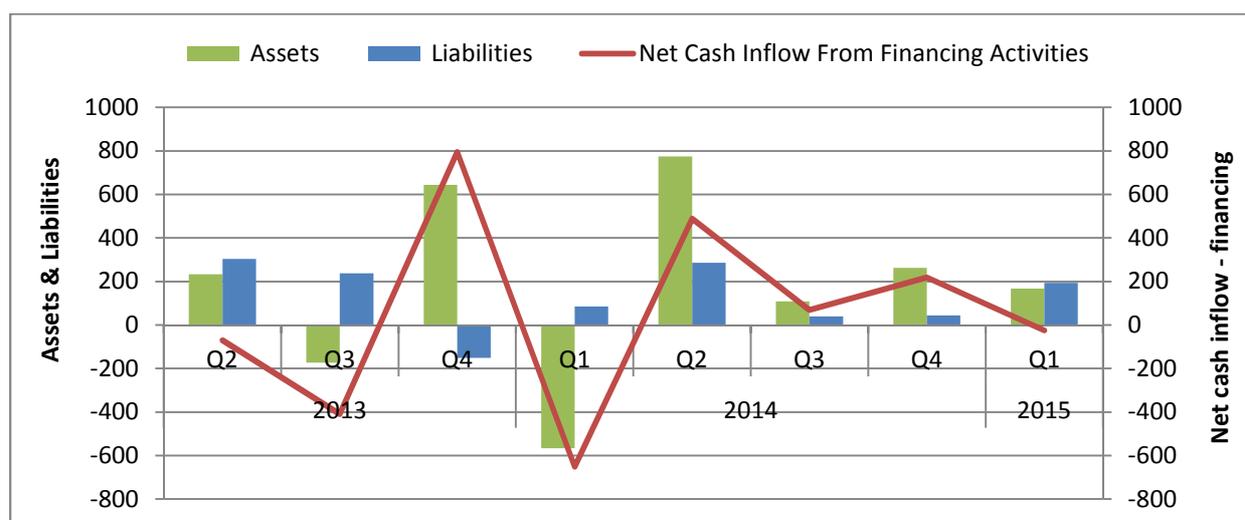
	2013	2014				2015	Changes (%)		
	Q4	Q1	Q2	Q3	Q4	Q1	Q-o-Q	Y-o-Y	YTD
Total Revenue	3,564.37	3,625.90	3,381.33	3,410.66	3,773.37	3,806.95	0.9	5.0	5.0
Tax revenue	1,290.75	1,664.35	1,237.28	1,172.03	1,470.09	1,761.92	19.9	5.9	5.9
Grants	465.14	208.62	123.57	117.40	136.36	118.34	-13.2	-43.3	-43.3
Other revenue	294.83	239.29	261.95	362.71	408.40	168.17	-58.8	-29.7	-29.7
SACU receipts	1,513.64	1,513.64	1,758.52	1,758.52	1,758.52	1,758.52	-	16.2	16.2
Total Expense	2,393.47	3,252.06	2,358.30	2,401.46	2,753.21	3,426.39	24.5	5.4	5.4
Compensation of Employees	1,035.10	1,315.76	1,146.28	1,209.07	1,260.59	1,470.23	16.6	11.7	11.7
Purchases of goods and services	563.05	1,132.14	448.32	535.19	795.40	1,117.78	40.5	-1.3	-1.3
Interest Payments	78.62	66.79	67.89	66.89	90.71	64.22	-29.2	-3.9	-3.9
Subsidies	61.98	55.68	57.98	15.02	62.58	104.04	66.3	86.9	86.9
Grants	277.03	264.36	209.31	223.62	213.62	220.27	3.1	-16.7	-16.7
Social benefits	188.31	202.33	197.62	171.16	127.81	249.56	95.3	23.3	23.3
Other expense	189.39	215.00	230.89	180.51	202.52	200.30	-1.1	-6.8	-6.8
Net Cash Inflow From Operating Activities	1,170.89	373.84	1,023.02	1,009.19	1,020.16	380.56	-62.7	1.8	1.8
Total Nonfinancial Assets	565.37	1,123.10	411.91	810.76	752.92	1,113.79	47.9	-0.8	-0.8
Fixed Assets	565.37	1,123.10	411.91	810.76	752.92	1,113.79	47.9	-0.8	-0.8
Non-Produced Assets	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.0	0.0
Cash deficit(-)/surplus(+)	605.53	-749.26	611.12	198.44	267.24	-733.24	-	-	-
Net Cash Inflow From Financing Activities	-794.96	650.69	-487.74	-68.73	-218.73	25.14	-	-	-
Net Acquisition of Financial assets	-643.77	565.57	-773.85	-108.90	-263.07	-167.80	-	-	-
Net Incurrence of Liabilities	-151.19	85.11	286.11	40.17	44.34	192.94	-	-	-
Statistical Discrepancy	-189.43	-98.57	123.38	129.71	48.50	-708.10	-	-	-

Source: CBL and MOF

FINANCIAL ASSETS AND LIABILITIES

The net cash inflow from financing activities, or net financial assets, reflected a dis-saving to the tune of M25.1 million. The financial assets recorded M167.8 million while the liabilities registered M192.9 million showing reduction in reserve-holding of the Government with the banking sector. Thus, the increase in liabilities is due to the foreign loan disbursements that increased by 127.2 per cent during the quarter under review compared with 73.2 per cent growth in December, 2014.

Figure 23: Net Financial Assets (Million Maloti)



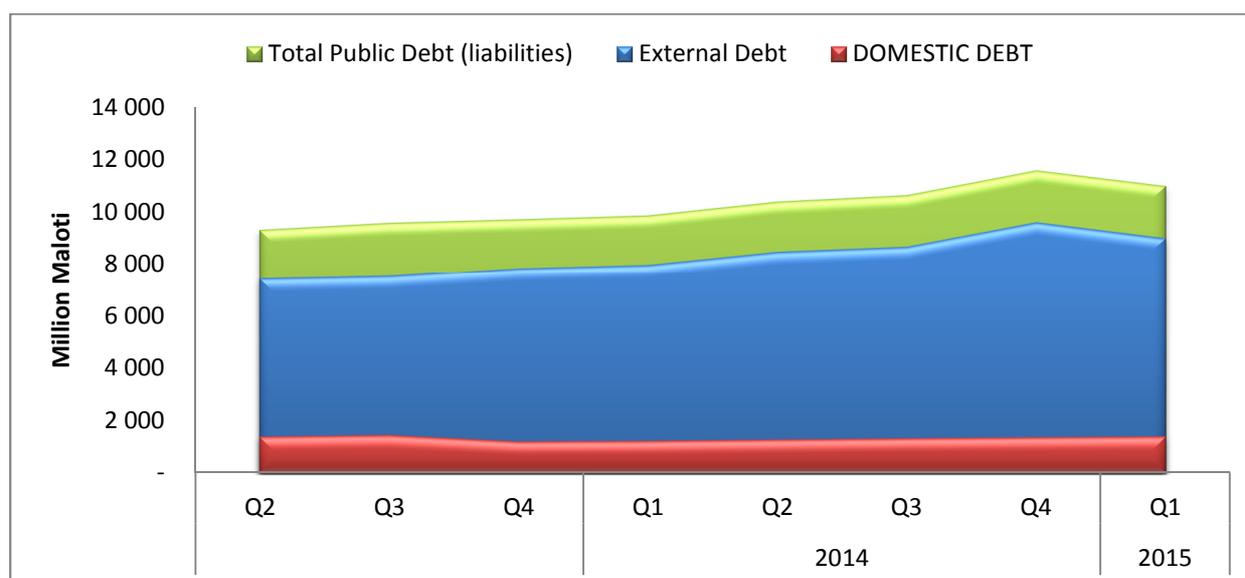
Source: CBL and MOF

PUBLIC AND PUBLICLY GUARANTEED DEBT

The public debt stock as of March 2015 declined to M10, 170.0 million which was down from M10, 760.2 million recorded in December, 2014. As a share of GDP, the stock of public debt registered 40.3 per cent in the quarter ending in March, 2015 compared with 45.8 per cent in December 2014. It decreased by 5.5 per cent during the quarter under review moving down from 9.9 per cent in the quarter ending in December, 2014. The fall in the stock of public debt is attributed to the decline in the stock of external debt by 6.4 per cent in March, 2015. The loans from multilateral creditors, financial institutions and suppliers' credit all declined in March, 2015. This decline can therefore be attributed to the XDR (special drawing rights) and Euro – denominated external debt stock which has expanded as Euro and XDR depreciated against Loti during the quarter ending March, 2015. However, the stock of the domestic debt increased by 1.2 per cent on account of the inclusion of extended credit facility⁴ of the International Monetary Fund which has been on-lent by the Central Bank of Lesotho to the Government of Lesotho.

⁴ This loan has mistakenly been excluded from the stock of domestic debt in previous Quarterly Review reports

Figure 24: Outstanding Public Debt (Million Maloti)



Source: CBL and MOF

Table 15: External Debt (Million Maloti)

	2014				2015	Debt / GDP (%) 2014/2015		
	Q1	Q2	Q3	Q4	Q1	Q3	Q4	Q1
EXTERNAL DEBT	7,989.21	8,489.03	8,687.00	9,620.50	9,001.69	36.95	40.92	35.69
Bilateral Loans	551.15	614.67	657.50	737.88	764.96	2.80	3.14	3.03
Concessional	551.15	614.67	657.50	737.88	764.96	2.80	3.14	3.03
Non-concessional	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Multilateral Loans	6,887.04	7,286.05	7,441.25	8,104.95	7,594.38	31.65	34.47	30.11
Concessional	6,109.98	6,180.67	6,354.61	6,461.77	6,335.42	27.03	27.48	25.12
Non-concessional	777.05	1,105.39	1,086.63	1,643.18	1,258.96	4.62	6.99	4.99
Financial Institutions	57.93	57.93	59.20	56.52	55.08	0.25	0.24	0.22
Concessional	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Non-concessional	57.93	57.93	59.20	56.52	55.08	0.25	0.24	0.22
Suppliers' Credit	493.10	530.38	529.04	721.16	587.28	2.25	3.07	2.33

Source: MOF

Table 16: Domestic Debt (Million Maloti)

	2014				2015	Debt / GDP (%) 2014/2015		
	Q1	Q2	Q3	Q4	Q1	Q3	Q4	Q1
DOMESTIC DEBT	1,886.83	1,912.33	1,958.09	1,967.63	1,991.69	8.33	8.37	7.90
Banks	724.64	727.95	719.61	728.94	744.15	3.06	3.10	2.95
Long-term (t-bonds)	318.30	321.49	321.62	321.69	336.90	1.37	1.37	1.34
Short-term (t-bills)	406.34	406.46	397.99	407.25	407.25	1.69	1.73	1.61
Non-bank	322.84	348.71	388.75	410.79	424.20	1.65	1.75	1.68
Short-term (t-bills)	136.66	149.06	172.47	178.72	187.93	0.73	0.76	0.75
Long-term (t-bonds)	186.19	199.65	216.28	232.07	236.27	0.92	0.99	0.94
Central Bank (IMF)	839.35	835.66	849.73	827.90	823.34	3.61	3.52	3.26

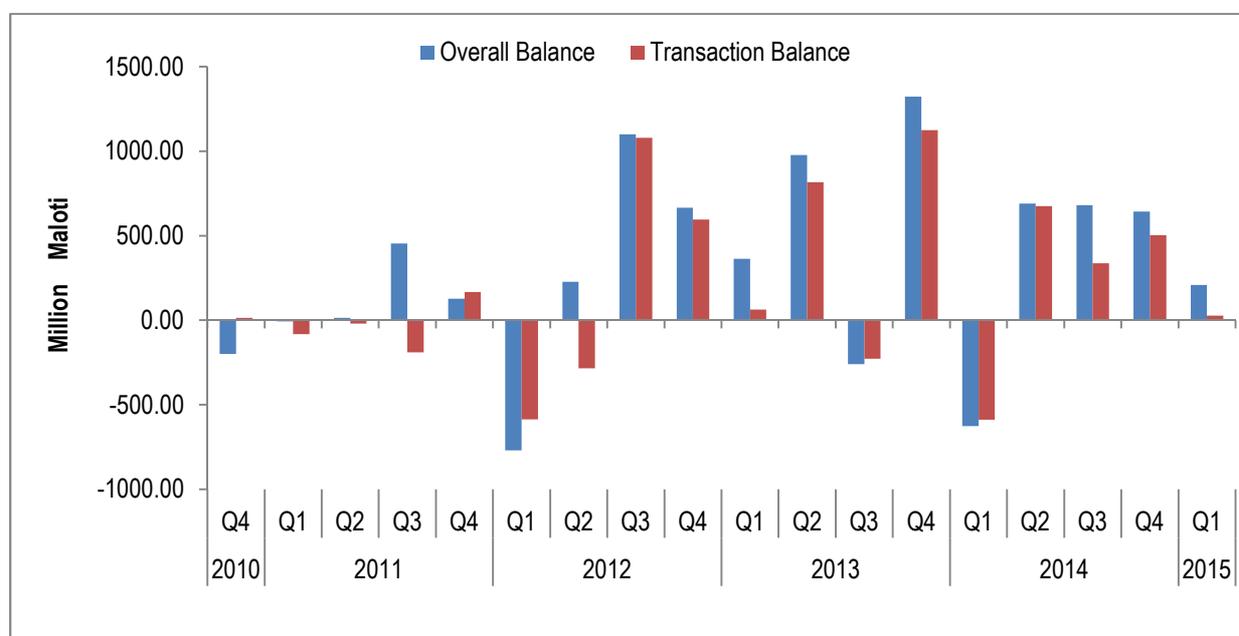
Source: CBL

6. Foreign Trade and Payments

OVERVIEW

The external sector position continued to improve albeit at a slower pace, with the overall balance recording a surplus of M208.1 million in the first quarter of 2015, following that of M634.3 million realised in the previous quarter. The lower overall surplus was largely a result of the widening of the current account due to an increase in trade account deficit. The observed performance of overall balance was also driven by a decline in inflows of capital and financial account. Similarly, the transactions balance, which represents the overall balance without the effects of currency movements, registered a surplus of M27.2 million in the review quarter, compared with a surplus of M141.10 million in the previous quarter.

Figure 25: External Sector Position (Million Maloti)



Source: CBL

CURRENT ACCOUNT

The current account balance continued to register a deficit in the first quarter of 2015. It recorded a deficit of M714.4 million in the quarter under review, higher than a deficit of M679.5 million in the previous quarter. The observed performance was attributed largely to a rise in the trade deficit. The balance of trade in goods and services rose to a deficit of M4.1 billion in the review quarter, from a deficit of M3.8 billion in the previous quarter. The growth in trade account deficit was driven by an increase in imports of both merchandise goods and services as well as a decline in merchandise exports. However, the widening of current account deficit was partly offset by an increase in current transfers' receivables, driven by Rand compensation from

SA and the growth in the income account balance due to rise in CBL's returns on portfolio investment abroad.

Table 17: Current Account Balance (Million Maloti)

	2014				2015
	Q1	Q2	Q3	Q4*	Q1+
Current Account	-1209.1	-372.1	-226.1	-679.5	-714.4
(a) Goods	-3299.46	-2531.6	-2458.7	-2912.2	-3170.1
Merchandise exports f.o.b.	1944.3	2324.1	2386.0	2308.2	2195.3
Of which diamonds.....	659.9	988.2	666.7	752.8	942.1
Of which textiles and clothing	767.0	833.4	1137.5	983.4	688.5
Other exports.....	500.7	494.2	565.8	519.8	547.7
Merchandise imports f.o.b.	-5243.7	-4855.7	-4844.8	-5220.5	-5365.4
(b) Services	-752.2	-777.0	-858.2	-883.1	-903.9
(c) Income	722.2	761.4	902.1	922.5	973.2
(d) Current Transfers	2120.3	2175.2	2188.7	2193.3	2386.4

Source: CBL, + Preliminary Estimates, *Revised Estimates

Merchandise Exports

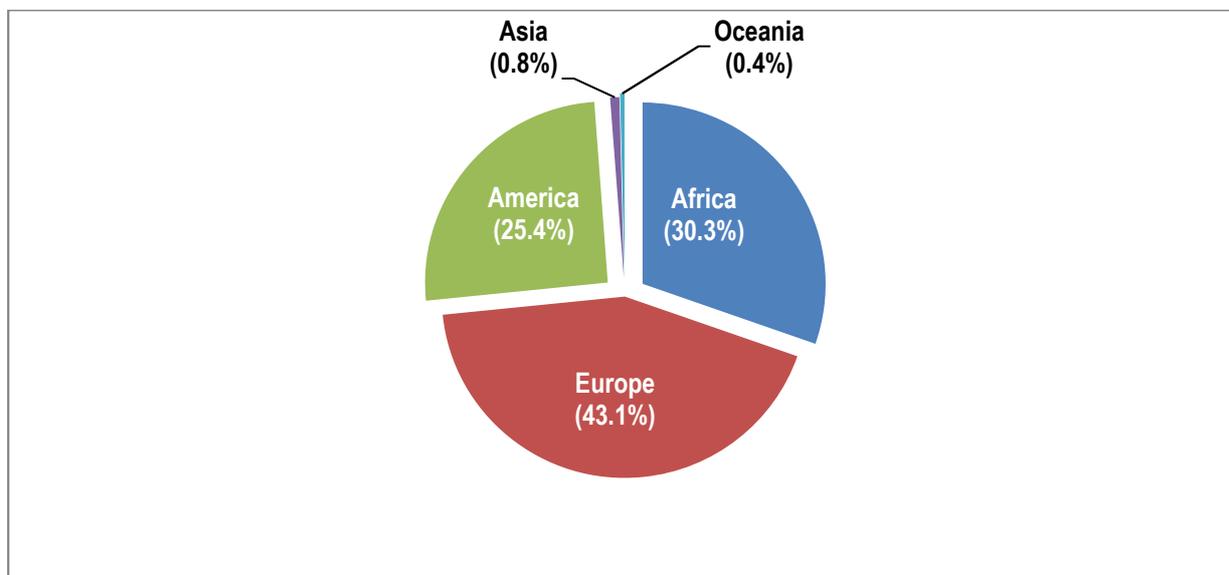
The value of merchandise exports declined in the first quarter of 2015. It fell by 4.9 per cent in the review period, compared with a fall of 3.3 per cent in the previous quarter. The drop in merchandise exports emanated largely from a 30.0 per cent decrease in textiles and clothing exports during the quarter, following a decline of 13.5 per cent realised in the previous quarter. However, the fall in merchandise exports was moderated by the growth in diamond exports, which was boosted by new sales of diamonds from Storm diamond mine. Export earnings from diamonds were mainly boosted by the favourable international diamond prices and the depreciating local currency despite low production in the mining industry. On an annual basis, merchandise exports grew by 12.9 per cent in the review quarter, compared with 8.1 per cent growth recorded in the previous quarter. As a percentage of GDP, merchandise exports constituted 35.0 per cent during the quarter ending in March 2015, following 39.3 per cent in the quarter ending in December 2014.

Direction of Trade - Exports

In the first quarter of 2015, the European market, where Lesotho's rough diamonds exports are destined, surpassed the African market and became the largest receiver of Lesotho's exports with a share of 43.1 per cent of the total exports, higher than 32.9 per cent realised in the previous quarter. The second largest recipient market of Lesotho's exports was Africa, particularly the SACU region with a share of 30.3 per cent in the review quarter. The third largest destination of

the Lesotho's exports was the American market with a share of 25.4 per cent in the first quarter of 2015. American market continued to receive the largest share of Lesotho's textiles and clothing. The Asian and Oceania markets remained the least recipients of Lesotho's exports at 0.8 per cent and 0.4 per cent, respectively, in the quarter under review.

Figure 26: Direction of Merchandise Exports (Percentage Share)



Source: CBL

Merchandise Imports

During the first quarter of 2015, the value of merchandise imports rose by 2.8 per cent compared with an increase of 7.7 per cent in the previous quarter. The growth in the merchandise imports was driven largely by an increase in government expenditure which translated in to higher imports of goods. On an annual basis, merchandise imports fell by 2.3 per cent in the first quarter of 2015, compared with a rise of 20.4 per cent in the previous quarter. The value of merchandise imports stood at 85.1 per cent of GDP in the first quarter of 2015, lower than 88.8 per cent of GDP in the previous quarter.

Services Account

Lesotho's imports of services increased during the first quarter of 2015. The services account balance registered an outflow of M903.9 million, following an outflow of M883.1 million in the quarter ending in December 2014. The increased outflows emanated from government services resulting from increased expenditure by Lesotho embassies abroad during the period. In addition, the widening of the services account was driven by a rise in payments for freight services on imported goods during the quarter. On an annual basis, net outflows of services account increased by 20.2 per cent in the review quarter, in contrast with a decline of 3.5 per cent in the previous quarter.

Income

The net income account balance rose by 5.5 per cent to M973.2 million during the quarter under view, following an increase of 2.2 per cent in the previous quarter. This was largely influenced by the growth in interest earned by CBL on its portfolio investments abroad during the period. In addition, interest earned by commercial banks from their investments abroad contributed to the observed performance of the income account, albeit at the lower rate compared to the previous quarter. The improvement in income account was however moderated by an increase in payments of interest on government external loans during the quarter. Relative to GDP, the net income account balance constituted 15.4 per cent during the quarter ending in March 2015 which was marginally lower than 15.7 per cent registered in the preceding quarter.

Current Transfers

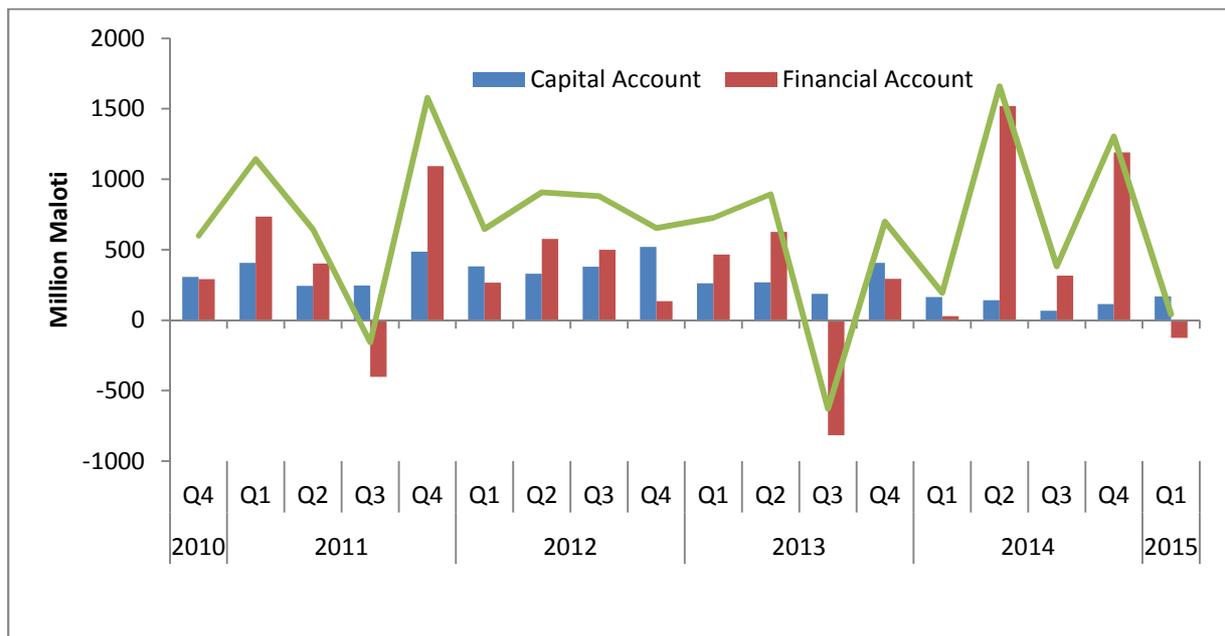
The current transfers grew by 8.8 per cent in the review quarter after remaining unchanged in the previous quarter. The increase was influenced by a receipt of rand compensation in the first quarter of 2015. Rand compensation is usually received in the first quarter as a compensation for seignorage forgone due to the free circulation of the SA Rand in Lesotho. SACU receipts, which accounts for the largest share of net current transfers, remained unchanged during the review quarter.

CAPITAL AND FINANCIAL ACCOUNT

The net capital and financial account balance deteriorated sharply from a surplus of M1179.3 million, equivalent to 20.1 per cent of GDP in the quarter ending in December 2014 to a surplus of M93.90 million or 1.5 per cent of GDP in the quarter under review. This emanated largely from the slowdown in inflows of both capital account and financial account. The capital account inflows declined by 35.4 per cent in the review quarter, in contrast to a rise of 71.1 per cent realised in the previous quarter.

The financial account registered a net an inflow of M20.5 million in the first quarter of 2015 compared to an inflow of M1.1 billion in the fourth quarter of 2014. This mainly reflected increased commercial banks' foreign assets. Commercial banks increased their foreign assets by M769.4 million during the review quarter, compared to a drawdown in foreign asset to the tune of M509.4 million that was meant to support domestic economic activity in the preceding quarter.

Figure 27: Capital and Financial Account (Million Maloti)

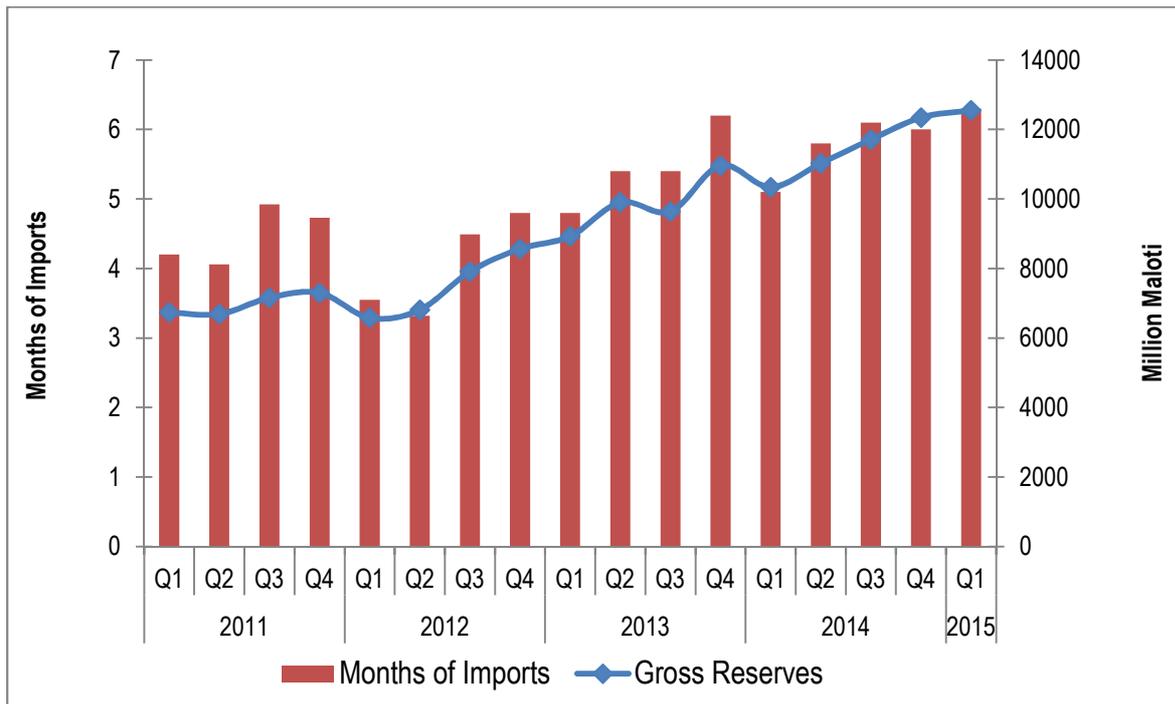


Source: CBL

RESERVE ASSETS

The stock of international reserves continued to increase in the quarter under review. It rose by 1.7 per cent to M12.6 billion, following a rise of 5.4 per cent in the last quarter of 2014. Measured in months of import cover, gross official reserves declined marginally to 5.9 months in the first quarter of 2015 from 6.0 months in the previous quarter. The drop in months of import cover reflected an increase in payments for imports during the quarter.

Figure 28: Reserve Assets



Source: CBL