CENTRAL BANK OF LESOTHO

QUARTERLY REVIEW

March 2016

MASERU

KINGDOM OF LESOTHO

Table of Contents

List of Tables

List of Figures

1. Executive Summary

Global economic activity remained largely subdued during the quarter ending March 2016. This was against the backdrop of slowdown of economic activity within emerging markets, especially China, coupled with low commodity and energy prices. Advanced economies displayed mixed signals. Growth in United States (U.S) was sluggish on account of low oil prices that discouraged investment by oil companies as well as weak exports performance. This was somewhat offset by private consumption that remained resilient during the review period. Eurozone displayed signs of recovery following improved economic activity in major economies as well as improved consumer spending within the region. Advanced and Emerging Economies generally followed accommodative monetary policy in order to stimulate economic growth. However, South Africa hiked its key policy rate twice during the review quarter owing to deteriorating inflation outlook.

The domestic economic activity improved during the review period compared to the previous quarter. The measure of economic performance, Economic Activity Indicator (EAI), rose by 10.1 per cent during the first quarter of 2016 compared to a decline of 1.6 per cent recorded during the previous quarter. This was due to an impressive performance by both secondary and tertiary sectors of the economy. Secondary sector was boosted by increased economic activity in all the subsectors with the exception of water subsector. Tertiary sector benefited mainly from government subsector following increased government expenditure. On the other hand, primary sector poor performance was caused by unsatisfactory performance of mining and quarrying subsector. In terms of employment developments, employment by LNDC assisted companies declined by 4.9 per cent compared to the decline of 1.2 per cent registered during the previous period. This is on account of seasonality associated with clothing and textiles subsector. Employment by government continued to decline during the review period as it registered 0.4 per cent decline compared to a 0.3 per cent declined recorded during the quarter ending December 2015.

Contrary to the preceding quarter, money supply on quarterly basis decreased by 3.0 per cent compared to a 0.1 per cent decline for the quarter ending December 2015. This is ascribed to a decline in Net Foreign Assets (NFA) that was moderated by an increase in Domestic Claims. The fall in overall NFA was at the back of a decline in commercial banks NFA following drawdown of domestic banks deposits in South African money markets. This was to finance heightened demand in credit since domestic deposits were not adequate. The increase in domestic claims was supported by draw down of government deposits as well as growth in domestic credit.

During the review period, government overall balance registered a preliminary deficit equivalent to 8.4 of GDP. This is reflective of increased government expenditure as the review period corresponds to the end of the fiscal year. The preliminary public debt stock fell to 48.7 per cent of GDP from the revised 54.4 per cent of GDP registered for the previous quarter. This is on account of higher GDP forecasts for 2016 that out-weighed growth of public debt.

The external sector of the economy deteriorated somewhat during the review period. The development is mainly due to weak performance of both the current and financial accounts. The widening of the current account deficit was driven by low merchandise exports against growing import bill. The financing of current account deficit coupled with drawdown of foreign assets caused the widening of financial account deficit.

2. International Economic Developments

Global economic activity was subdued during the first quarter of 2016. Global growth was adversely affected by the slowdown in the emerging market economies, especially in China. The low commodity and energy prices also negatively affected growth in most commodity exporting countries. Growth was also close to stagnation in a number of advanced economies. As a result, a number of countries have adopted macroeconomic policy measures to counteract the slowdown in their domestic economies.

Central banks in emerging and developed economies generally adopted accommodative monetary policies. Key interest rates were cut in China, India and the Euro Area. However, South Africa hiked its policy rate twice during the quarter, in order to keep inflation under control. In advanced countries, inflation rates were generally low and below targets during the quarter.

Table 1: Key World Economic Indicators

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	QIV 2015	QI 2016	QIV 2015	QI 2016	QIV 2015	QI 2016	QIV 2015	QI 2016
United States	1.4	0.8*	0.7	0.9	0.50	0.50	5.0	5.0
Euro Area	1.6	1.8*	0.2	0.0	0.05	0.00	10.4	10.2
Japan	-1.1	1.9*	0.2	-0.1	0.00	-0.10	3.3	3.2
United Kingdom	2.1	2.0*	0.2	0.5	0.50	0.50	5.1	5.1
China	6.8	6.7	1.6	2.3	4.35	4.35	4.1	4.0
India	7.2*	7.9	5.6	4.8	6.75	6.75	n/a	n/a
South Africa	0.4*	-1.2	5.2	6.3	6.25	7.00	24.5	26.7

* Revised figures

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)

The US GDP increased at a lower rate of 0.8 per cent in the first quarter of 2016, compared with a GDP growth rate of 1.4 per cent in the last quarter of 2015. The exports weighed on growth given the strong dollar and sluggish global demand which have negatively affected the export sector. The low oil prices also discouraged investment spending by oilfield companies hence slowdown in growth. Private consumption moderated but remained resilient in the first quarter.

The US continued to register positive gains in employment in the first quarter. However, that gain was moderated by the decline in the inactive workers, hence leaving the rate flat at 5.0 per cent. The employment gains were realised in the retail trade, and health care, while mining shed some jobs.

The inflation rate rose to 0.9 per cent in March 2016, from 0.7 per cent in December 2015. The increase in the inflation rate reflected increased food prices, in particular vegetables and fruits, as well as a slower decline in energy prices. The US Federal Open Market Committee (FOMC) left the key interest rate unchanged at 0.5 per cent in the review period, following a hike in the last quarter. This decision took into account the uncertain global economic outlook and domestic economic developments that were not conducive for a rate hike. Although the labour market conditions improved, inflation was below the Committee's long run objective of 2 per cent, amid volatile financial conditions. The FOMC was of the view that the timing and pace of future adjustments to the stance of monetary policy would be determined by on-going assessment of economic and financial data.

Euro Area

The Eurozone showed signs of recovery during the first quarter of 2016. GDP rose by 1.8 per cent from 1.6 per cent in the fourth quarter of 2015. Improved growth in France, Austria and Italy together with Germany contributed positively to the area's economic performance. Furthermore, the growth has benefited from the improved consumer spending in the region. The manufacturing sector however, declined for three consecutive months as indicated by the Purchasing Manager's Index (PMI) index, for the first quarter of 2016. The unemployment rate declined to 10.2 per cent in the first quarter from 10.4 per cent in the last quarter of the 2015. The Czech Republic registered the lowest unemployment rate in the region while the unemployment rate for Greece and Spain remained high. The decrease in the unemployment rate has come mainly as a result of increased youth employment in the Euro Area.

The inflation rate in the first quarter was still far below the target inflation rate of below but close to 2 per cent. The inflation rate declined to 0.0 per cent in the quarter ending March from 0.2 per cent in the last quarter of 2015. This was mainly a result of the fall in energy prices. The European Union central bank maintained its accommodative policy in response to the declining inflation rate and slow economic recovery. It cut its key interest rate to 0.00 per cent in the first quarter, from 0.05 the previous quarter.

Japan

The Japanese economy rebounded during the first quarter of 2016 following a 1.1 per cent decline in GDP in the fourth quarter of 2015. The annual real GDP increased by 1.9 per cent in the first quarter. The GDP growth was boosted by increased domestic demand, mainly higher household spending. The observed increase was partly offset by a decline in exports due to the slowdown in the global and the Chinese economy. The unemployment rate decelerated to 3.2 per cent in the first quarter of 2016 from 3.3 per cent in the previous quarter.

Japan experienced a deflation in the first quarter of 2016. The inflation rate decelerated from 0.2 per cent in December 2015 to -0.1 per cent in March 2016. Even though the prices of food, clothes and footwear and other goods and services increased, they could not offset the decline in the costs of housing; fuel, light and water charges, and transport and communications costs.

The Bank of Japan cut the rate of interest into the negative territory from 0.00 in the last quarter of 2015 to -0.10 per cent in the first quarter.

United Kingdom (UK)

The UK economic growth rate slipped marginally to 2.0 per cent in the first quarter of 2016 from 2.1 per cent in the previous quarter. The increase in agriculture, forestry and fishing and services was offset by declines in the production and a construction industry and the overall effect was a slowdown in the growth rate. The unemployment rate for the UK remained flat at 5.1 per cent for the fifth consecutive month in March 2016. The employment rates improved but also the rate of inactive workers declined hence no change in the unemployment rate.

The Inflation rate rose to 0.5 per cent in March 2016 from 0.2 per cent in the fourth quarter of 2015. Inflation accelerated at the back of rallying prices of motor fuels, clothing and to a lesser extent food prices. The UK has left the prime lending rate unchanged at 0.50 per cent in the first quarter of 2016, maintaining accommodative monetary policy at back of global economic uncertainty. The MPC was of the view that the uncertainty surrounding the forthcoming referendum on UK membership to the European Union was likely to have been a significant driver of the decline in Pound Sterling and may also depress growth of aggregate demand in the near term.

China

China continued its efforts to transform the economy to a low and stable growth where consumption and services would be the main drivers of growth. Real GDP grew by 6.7 per cent in the first quarter, which was 0.1 percentage points lower than that realised in the last quarter of 2015. The growth was driven mainly by the services sector. However, relative to the last quarter, services sector has marginally slowed down. The slowdown in the global economy was also weighing on the Chinese economy as imports and exports declined. The unemployment rate declined from 4.1 per cent in the fourth quarter of 2015 to 4.0 per cent in the first quarter of 2016, owing to improved labour markets.

The inflation rate accelerated to 2.3 per cent in March from 1.6 per cent realised in the last quarter of 2015. The increase in the inflation rate was attributable mainly to a surge in food prices. The People's Bank of China (PBOC) left the benchmark rate unchanged at 4.35 per cent. While the PBOC maintained the relatively loose monetary policy to stimulate growth, it was mindful not to induce capital flight in the economy.

India

The Indian GDP grew by 7.9 per cent in the quarter ending March 2016 from 7.2 per cent realised in December 2015. This growth rate made India the world's fastest growing economy in the first quarter. Growth benefited from acceleration of the manufacturing sector and the agricultural sector output. Growth was largely supported by the private spending while investment and exports declined.

The consumer price index rose by 4.83 per cent during the first quarter of 2016 relative to 5.6 per cent in the previous quarter. Compared with last quarter, there was a slowdown in the increase of fuel and light prices, food and beverage which were driven by a decline in fruits prices, and there was also an ease in clothing and footwear prices. The deceleration in inflation has created more space for monetary stimulus to reach the growth target of 7.7 per cent set by the Indian government. The Reserve Bank of India left the repo rate unchanged at 6.75 per cent in the first quarter. The inflationary pressures in the economy have led to the Bank to take this stance.

South Africa

The South African economy deteriorated in the first quarter of 2016. Real GDP contracted by 1.2 per cent in the first quarter after it increased by 0.4 per cent in the fourth quarter of 2015. South Africa has registered a negative growth after two quarters of positive growth, although marginal, since contracting in the second quarter of 2015. The contraction in GDP was partly due to mining and quarrying which shrank by 18.1 per cent. Output also declined in transport, storage and communications; agriculture, forestry and fishing; electricity, gas and water. The finance, real estate and business services sectors contributed positively to the GDP. Generally, growth was adversely affected by weak domestic demand and the decline in exports due to slowdown in global economy as well as falling commodity prices. The economic slowdown was also reflected in in the labour market as the unemployment rate rose to 26.7 per cent in the quarter ending in March 2016, relative to 24.5 per cent in the previous quarter. Job losses were recorded in manufacturing, agriculture and transport sectors.

The consumer inflation rate accelerated to 6.3 per cent in the first quarter, higher than 5.2 per cent realised in December 2015. The severe drought, which has driven up food costs and the weak Rand, added to pressure on consumer prices. Taking into account the inflationary pressure and the fragile economic activity, the SARB Monetary Policy Committee (MPC) hiked its repo rate from 6.25 per cent to 7.00 per cent in a quarter ending March. The MPC was of the view that the upside risks to inflation emanating from high food prices due to drought conditions and the depreciation of the exchange rate remained high. Inflation was expected to average 6.6 per cent in 2016, above the 3-6 per cent target range, and then return to within the target range in the last quarter of 2017.

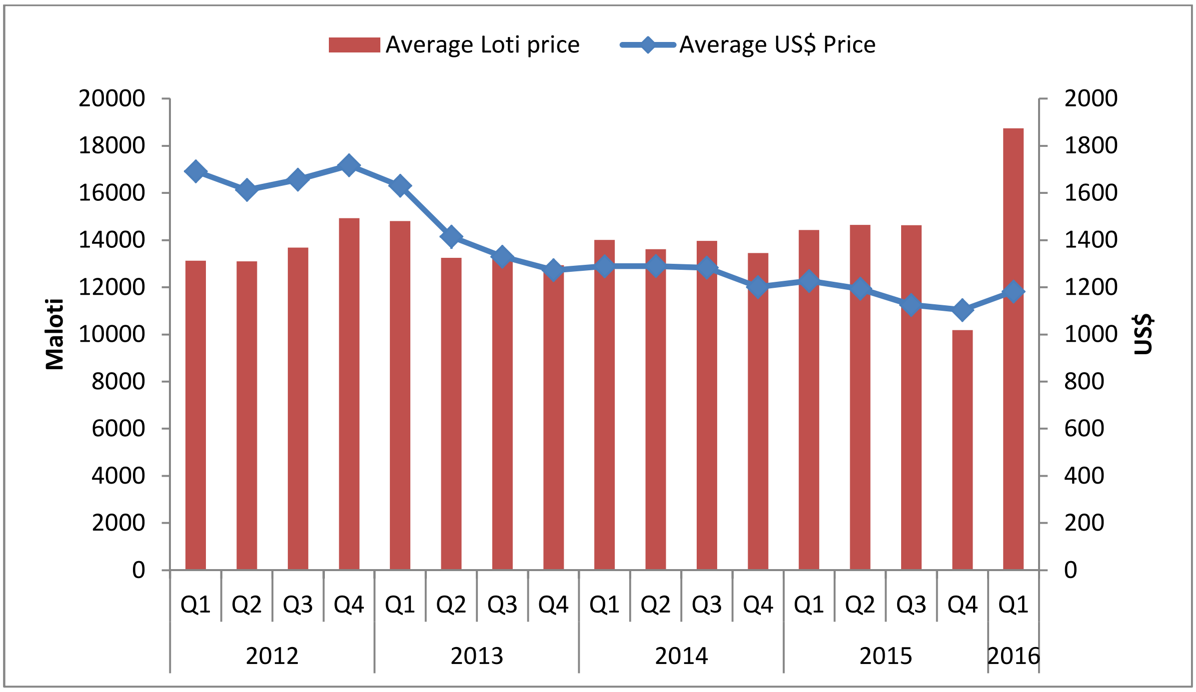
COMMODITIES

Minerals

Gold

The average price of Gold increased during the quarter under review. In US Dollar terms, it increased by 7.1 per cent to US$1182.44 an ounce relative to a 1.9 per cent decline in the previous quarter. The gold prices climbed on the back of increased safe-haven demand due to heightened uncertainty in the financial markets, weak global economic activity and the decision by the Federal Reserve to hold the interest rate constant. In Loti terms, the price of gold increased by 84 per cent due to the depreciation of the local currency against US dollar. The price of gold has recovered from 30 per cent loss in the fourth quarter of 2015.

Figure 1: Average Price of Gold

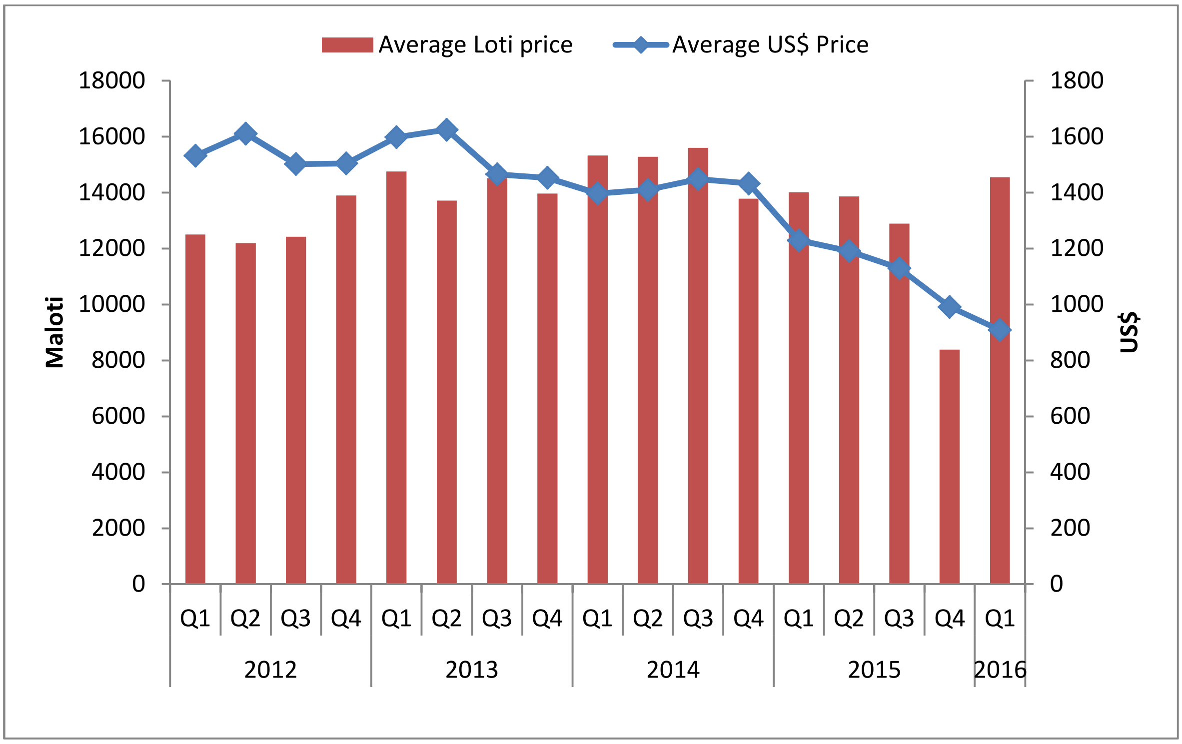


Source: Bloomberg

Platinum

The average US Dollar price of platinum, increased by 1.0 per cent to US$917.15 per ounce during the quarter ending in March 2016 compared to a decline of 8.4 per cent in the previous quarter. The price of platinum was boosted by the decline in mining production in South Africa as well as improved automotive sales. The price of platinum in Loti terms increased substantially to M14544.00 due to Loti depreciation against the US dollar. In the previous quarter, platinum price lost 35 per cent to M8384.00.

Figure 2: Average Price of Platinum



Source: Bloomberg

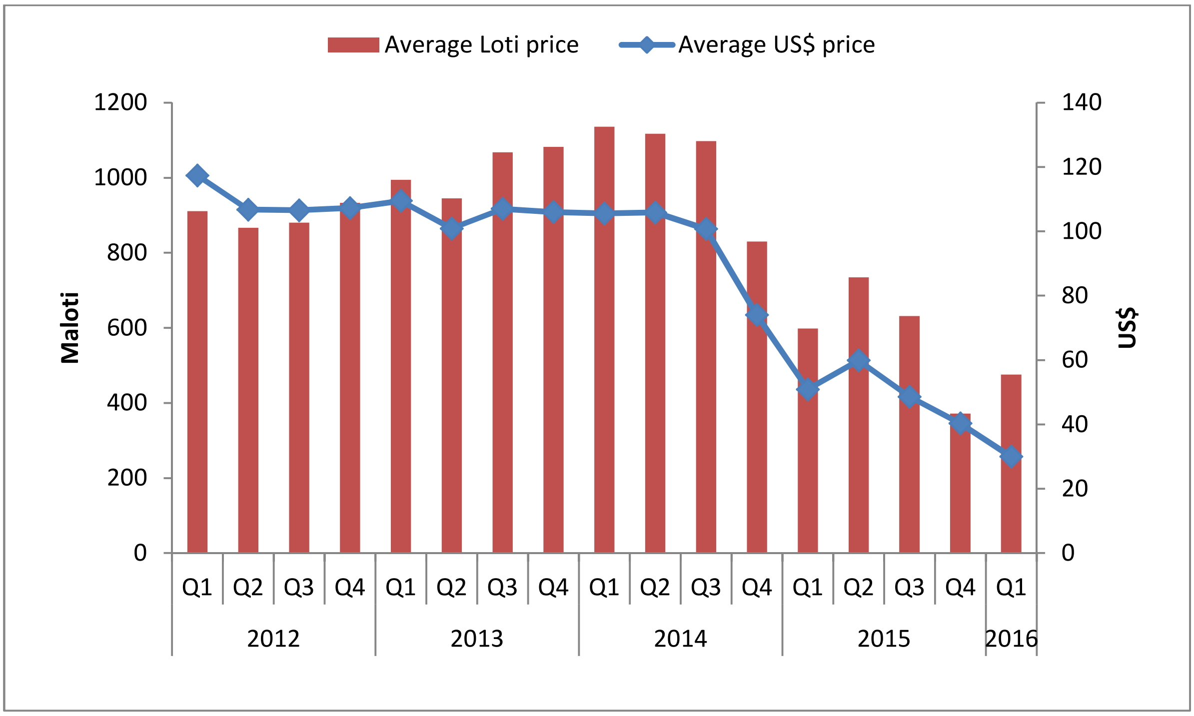
Energy

Oil

The average US Dollar price of oil fell by 25.4 per cent to US$30.08 per barrel relative to a 17.0 per cent decline in the quarter ending in December 2015. The plunge in oil prices was mainly due to strong supply from members of the Organization of the Petroleum Exporting Countries (OPEC), Russia as well as the Islamic Republic of Iran's return to world oil markets. Turmoil in financial markets, as well as a strong US dollar, has also been putting downward pressure on oil prices. The collapse in oil prices continued during the quarter, amid the geopolitical risks in the Middle East and the slowdown in the US shale oil production. At a meeting in Doha, oil ministers from Qatar, Russia, Saudi Arabia, and Venezuela made a proposal to freeze output, and the Islamic Republic of Iran and Iraq subsequently welcomed the initiative, but without any commitment to slow their scheduled production increases.

In Maloti terms, the average price of oil increased by 27.91 per cent per barrel compared with a 41.1 per cent decline in the previous quarter. The increase in Maloti terms reflected a depreciation of the local currency in the review period. In the case of Lesotho, domestic oil prices mimicked the international oil prices. The price of diesel declined from M9.50 in the previous quarter to M8.60 in the first quarter of 2016. The price of diesel declined 15.0 per cent during the first quarter to M8.65. The price of paraffin declined from M6.80 in the fourth quarter of 2015 to M5.90 in the first quarter of 2016.

Figure 3: Average Price of Oil



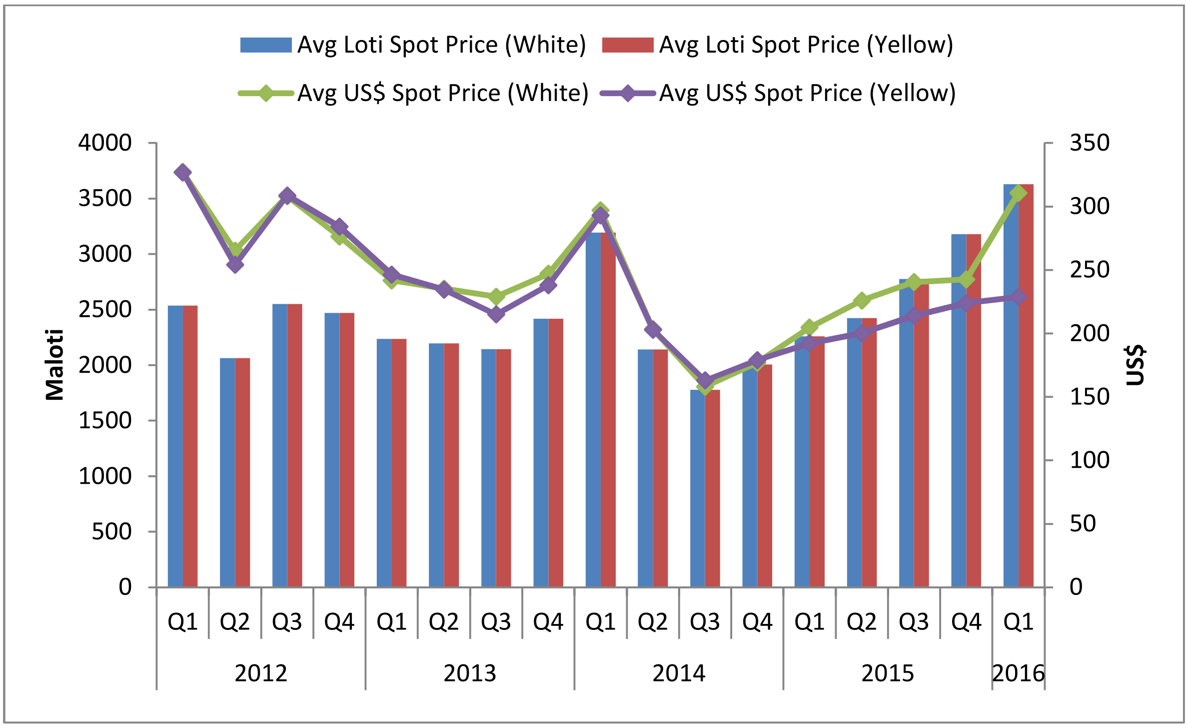
Source: Bloomberg

Agricultural Products

Maize

During the review period, the average US Dollar price of white maize rose by 28.1 per cent to US$310.71 per tonne following a 0.9 per cent increase in the previous quarter. The average price of yellow maize increased by 2.2 per cent to US$228.83 per tonne compared with an increase of 4.7 per cent in the previous quarter. The increase in maize prices reflected an increase in food utilization relative to production. Maize production was affected by unfavourable weather conditions associated with El Niño in Southern Africa and South America. In Maloti terms, the average prices of white and yellow maize increased by 43.0 per cent to M4926.74 per tonne and by 14.1 per cent to M3628.74, respectively.

Figure 4: Average Price of Maize

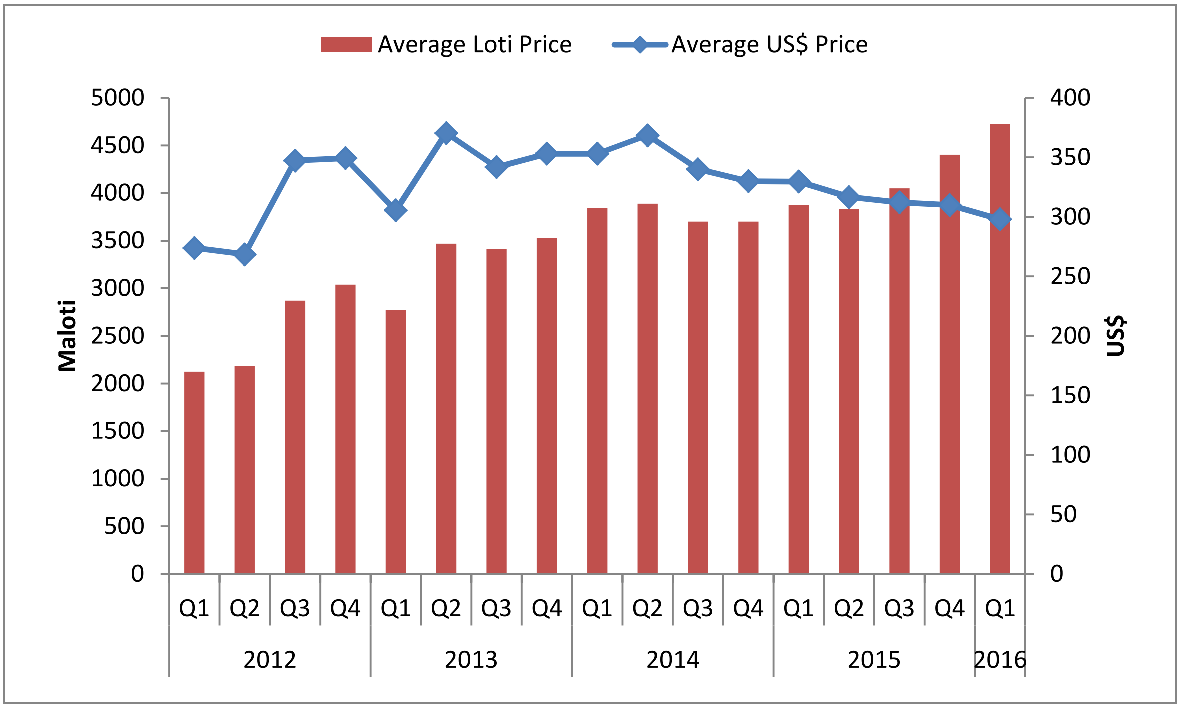


Source: Bloomberg

Wheat

In US Dollar terms, the average price of wheat decreased by 3.9 per cent to US$297.91 during the quarter ending in March 2016, after decreasing by 0.8 per cent in the previous quarter. The wheat price declined as a result of low demand globally. In Maloti terms, it increased by 7.3 per cent to M4723.82 per tonne relative to an 8.7 per cent rise in the previous quarter.

Figure 5: Average Price of Wheat

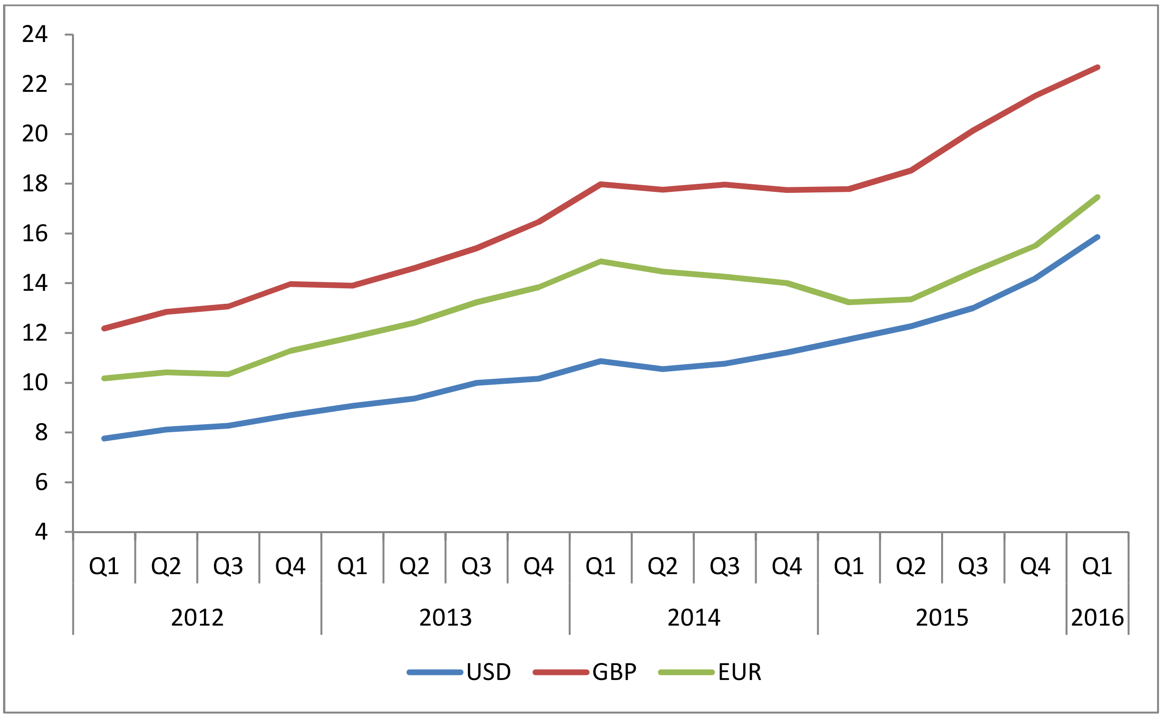


Source: Bloomberg

EXCHANGE RATES

During the first quarter of 2016, the Rand and hence Loti weakened against the major world currencies. The Loti depreciated by 11.6 per cent to M15.86, by 5.3 per cent to M22.68 and by 12.6 per cent to M17.46 against the US Dollar, the Pound Sterling and the Euro, respectively. The Rand was adversely affected by the political developments, the low growth outlook and concerns about the possible ratings downgrade by rating agencies. The exchange rate to the dollar also remained sensitive to the uncertainty in the pace of US monetary policy decisions. The rand exchange rate against the Euro and the pound was affected by the strengthening of these two currencies. The Euro responded to speculation that the ECB would increase its monetary stimulus to boost the economic recovery and to bring inflation towards the 2 per cent target. The Pound Sterling appreciated due to the strong UK economic data which added weight to the speculation that the Bank of England will increase interest rates.

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



Source: Bloomberg

3. Real Sector Development

OVERVIEW

Economic activity improved significantly in the quarter ending March 2016 as indicated by the measure of economic activity – the Economic Activity Indicator (EAI) compared with deterioration in output in the last quarter of 2015. The improved performance was at the back of good performance by the following subsectors: manufacturing, electricity, construction, trade, telecommunications, and government.

OUTPUT DEVELOPMENTS

The domestic economic performance increased in the first quarter of 2015. The EAI rose by 10.1 per cent in the quarter ending March 2016 compared with a decline of 1.6 per cent in the last quarter of 2015.

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

		2015				2016
	Weight	Q1	Q2	Q3	Q4	Q1
EAI	**100**	**13.4**	**2.0**	**13.7**	**-1.6**	**10.1**
Primary Sector						
Mining	**8.9**	-13.8	13.1	-2.8	3.4	-2.0
Secondary Sector						
Manufacturing	**18.5**	21.9	39.0	23.6	-0.9	16.9
Electricity	**1.1**	-5.8	17.3	6.1	-11.8	1.3
Water	**4.9**	-7.0	37.5	3.2	-12.4	-24.2
Construction	**7.6**	23.3	-7.7	5.5	7.5	21.5
Tertiary Sector						
Trade	**11.0**	-16.9	-2.9	18.6	15.7	2.1
Telecom	**5.1**	45.9	3.6	29.2	4.2	11.0
Financial Sector	**6.5**	0.2	-3.3	7.8	4.3	-7.6
Other services	**5.7**	3.1	41.0	-15.6	-31.6	-1.2
Government	**30.6**	22.8	-30.4	22.4	-3.3	29.6

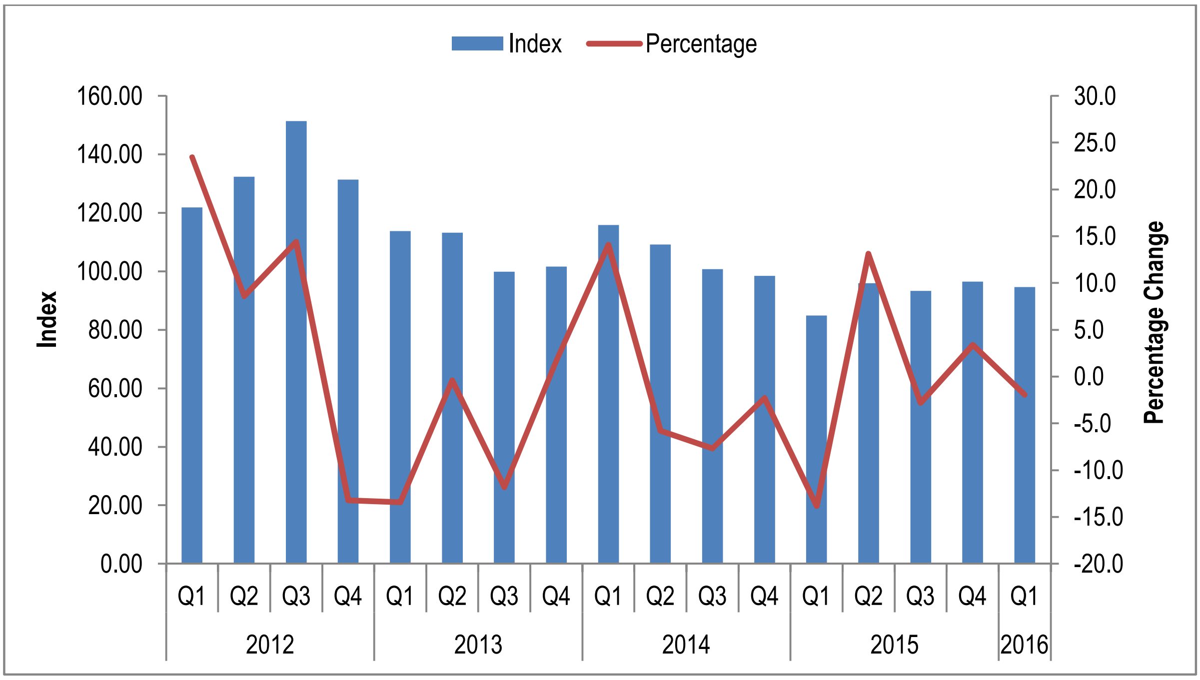
Source: Central Bank of Lesotho

Primary Sector

Mining and Quarrying

The mining and quarrying index declined by 2.0 per cent in the first quarter of 2016 compared with an increase of 3.4 per cent in the last quarter of 2015. The decline was attributed to fewer diamonds recovered at Lets'eng Diamond mine. This was due to the rainfall experienced in the review period which impacted access to the ore and treatment rates, thus reducing the tonnage treated when compared to the previous quarter. With regard to the diamond market, the price of rough diamonds was $1938 per carat in the review period compared to $2117 per carat in the last quarter of 2015. The slight decline in the price of diamonds was attributed to continued slowdown in Chinese retail demand, a strong US dollar and reports of continued high levels of polished inventories.

Figure 7: Mining and Quarrying Index



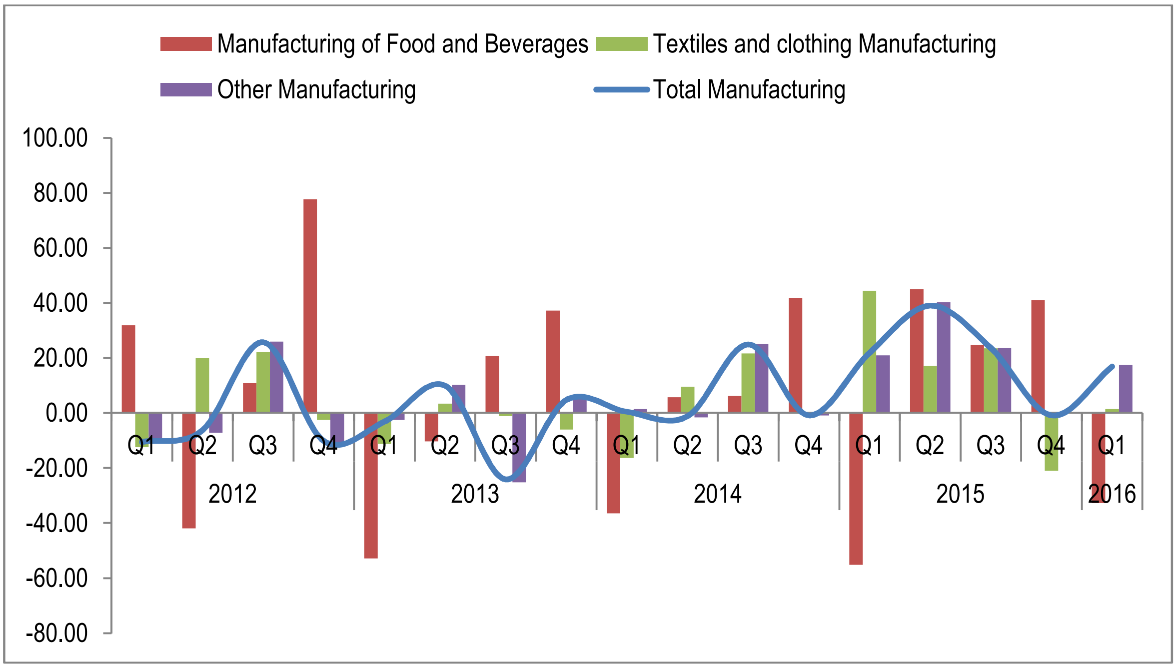
Source: Central Bank of Lesotho

Secondary Sector

Manufacturing

The manufacturing index increased by 16.9 per cent in the first quarter of 2016 compared with a decline of 0.9 per cent observed in the previous quarter. The increase was attributed to a 17.5 per cent and 1.5 per cent increase in the indices of other manufacturing, and textile and clothing manufacturing, respectively given that food manufacturing registered a decline of 32.7 per cent. The slight increase in textiles and clothing manufacturing was due to increased exports of textiles and clothing to South Africa, which offset a reduction in textiles and clothing exports to the US market. The increase in other manufacturing index was due to increased manufacturing of furniture. The decline in food manufacturing was due to reduced output by liquor and soft drinks manufacturing, reflective of the fact that we are from the festive season where demand was high.

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



Source: Central Bank of Lesotho

Electricity

The electricity consumption index rose by 1.3 per cent in the quarter under review compared with a decline of 11.8 per cent in the quarter ending in December 2015. The increase was attributed to 4.4 per cent and 3.9 per cent increase in electricity consumed by the general purpose and commercial and industrial categories.

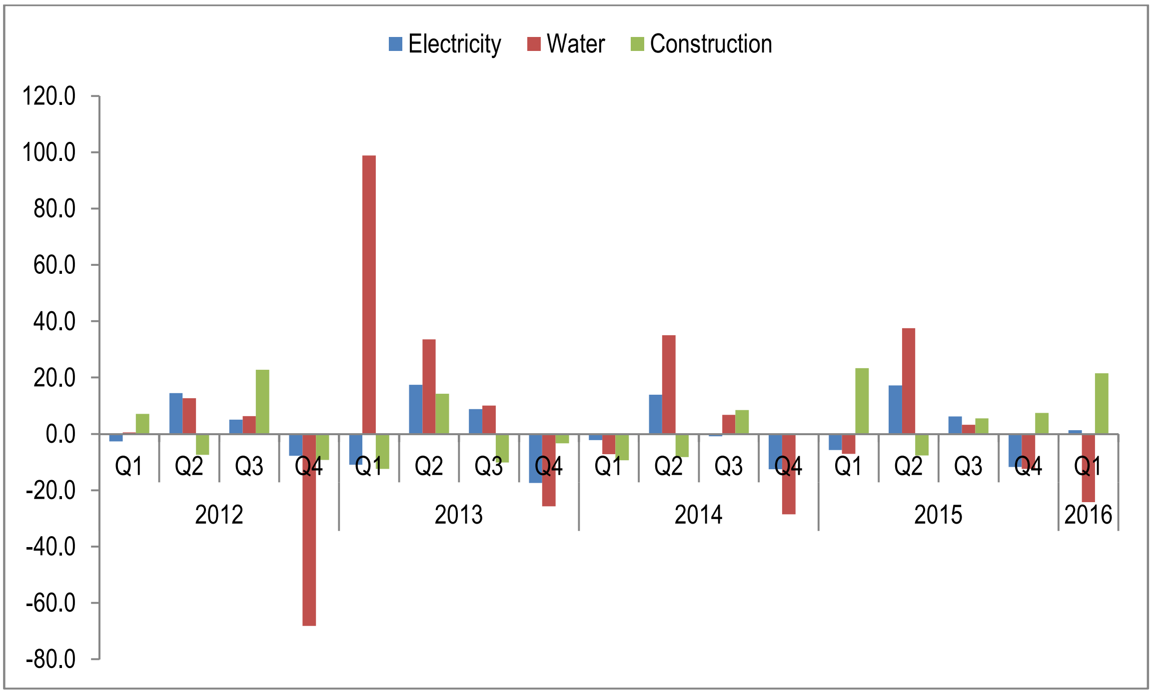
Water

The water sector index, which comprises of locally consumed water and exports of water to South Africa, declined further by 24.2 per cent in the quarter ending in March 2016 compared with a decline of 12.4 per cent in the previous quarter. The decline was attributed to a 24.5 per cent decline in exports of water to SA. With regard to locally consumed water, there was a decline of 6.7 per cent in the review period, and it was attributed to a fall in water consumed by all categories, namely: domestic, industrial and other categories. In addition, there were 520 new water connections in the review quarter as opposed to 799 connections in the previous quarter.

Construction

The construction index increased by 21.5 per cent in the first quarter of 2016 compared with an increase of 7.5 per cent in the quarter ending in December 2015. The observed increased was in line with increased capital expenditure related to construction activity by a sizeable number of Government ministries.

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



Source: Central Bank of Lesotho

Tertiary Sector

Trade

The wholesale and retail index declined by 18.8 per cent in the quarter ending March 2016 compared with an increase of 15.7 per cent in the last quarter of 2015. The decline in wholesale and retail was a signal of low demand of goods and services in the economy. The observed trend is normally experienced in the first quarter of every year because we are from the festive season which is characterized by high spending.

Telecommunications

Telecommunications index rose by 11.0 per cent in the quarter ending in March 2016 compared with an increase of 4.2 per cent in the last quarter of 2015. The improvement was a result of introduction of promotional services by different service providers in an effort to beat the competition.

Finance

The index for financial services declined by 7.6 per cent in the quarter ending in March 2016 compared with an increase of 4.3 per cent observed in the last quarter of 2015. The decline was mainly on account of a reduction in revenue generated from other bank charges given that interest earned on loans surged in the review period.

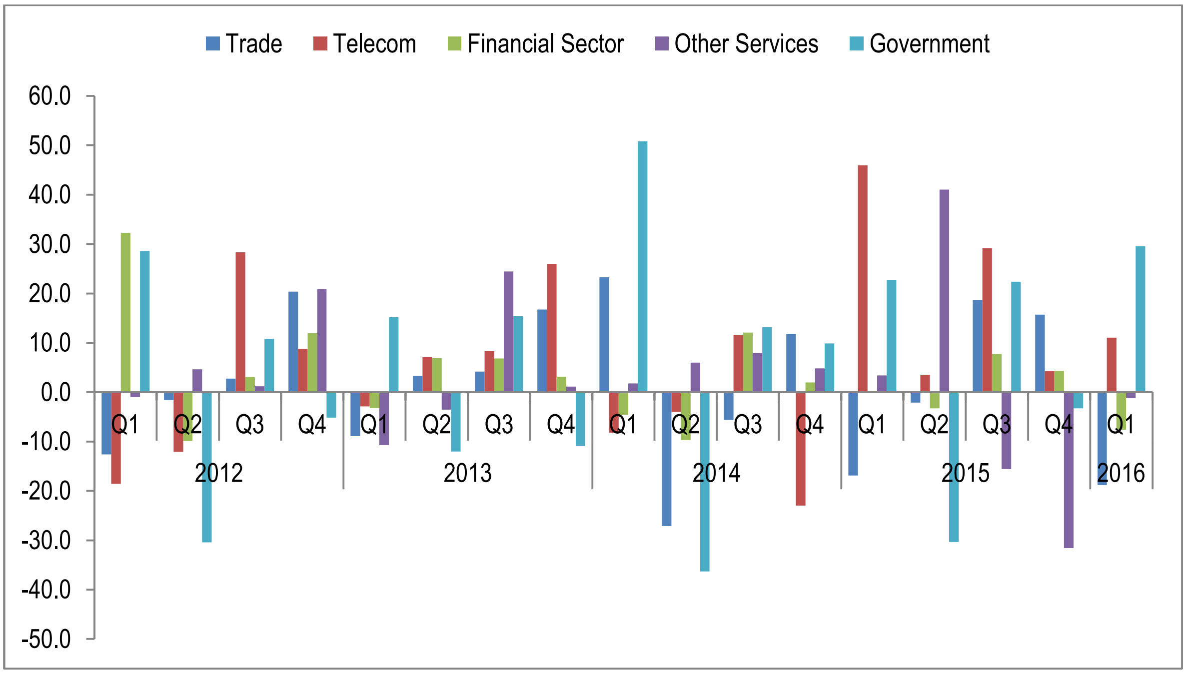
Other Services[1]

The services index declined marginally by 1.2 per cent in the first quarter of 2016 compared with a significant decline of 31.6 per cent in the quarter ending in December 2015. The decline was due to reduced output related to washing and dry cleaning, hairdressing and other beauty treatment, funeral, legal, accounting, bookkeeping and auditing, business management consultancy, architectural and engineering, advertising and photographic activities.

Government

Government activity index rose significantly by 29.6 per cent in the review quarter compared with a decline of 3.3 per cent in the previous quarter. The increment was an indication of increased government expenditures, which normally occurs at the end of every fiscal year.

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



Source: Central Bank of Lesotho

[1] 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, aintenance and repair services, Advertising, software publishing, investigation and security activities, printing etc.

EMPLOYMENT DEVELOPMENTS

Employment by LNDC assisted companies declined by 4.9 per cent in the first quarter of 2016 compared with a decline of 1.2 per cent in the quarter ending in December 2015. The second consecutive decline in employment was accounted by the seasonality associated with the orders placed with the textiles and clothing firms, this is because a larger proportion of orders are normally processed in the third quarter every year. In addition, the declined signaled some problems which are faced by the textiles and clothing firms, because a number of firms have placed their work force on short term and this means that firms cannot afford to high temporary staff. This was done due to fewer orders received by the firms.

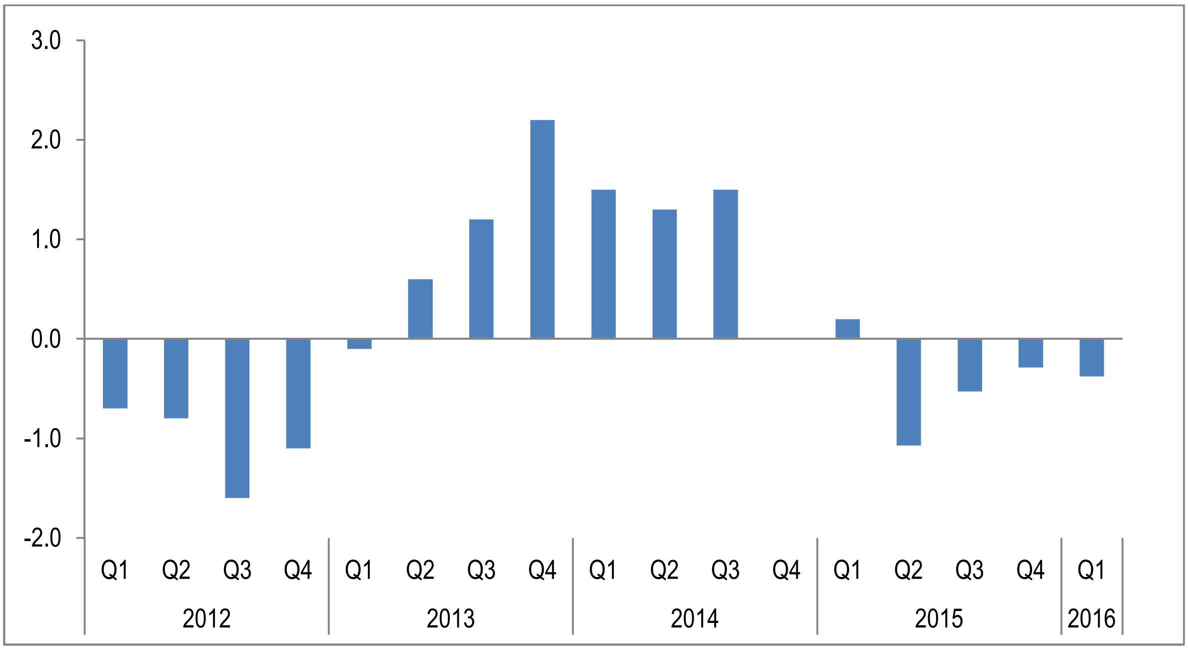
Table 3: Employment by LNDC Assistant Companies

Industry	2015				2016	**% Change**	
	Q1	Q2	Q3	Q4	Q1	**Q/Q**	**Y/Y**
Knit Garments…………..	22913	23427	24772	24601	23398	-4.9	2.1
Woven Garments…….	15781	16027	16347	16241	15273	-6.0	-3.2
Footwear………………….	1592	1616	1839	1680	1711	1.8	7.5
Fabrics, Yarn etc……….	1724	1715	1801	1768	1721	-2.7	-0.2
Construction…………….	309	317	317	301	322	7.0	4.2
Food & Beverages…..	1089	904	901	826	662	-19.9	-39.2
Electronics………………	953	926	908	872	923	5.8	-3.1
Retail………………………	128	127	135	135	134	-0.7	4.7
Hotel Accomm………..	392	385	519	580	365	-37.1	-6.9
Other……………………..	1647	1612	1720	1689	1818	7.6	10.4
TOTAL……………………	**46528**	**47056**	**49259**	**48693**	**46327**	-4.9	-0.4

Source: Lesotho National Development Corporation

Government employment continued to decline at a slow pace in the review period. Employment declined by 0.4 per cent in the quarter ending in March 2016 compared with 0.3 per cent decline in the last quarter of 2015. The reduction was attributed to a 0.6 per cent fall in the number of teachers employed, while the civil servants category remained unchanged.

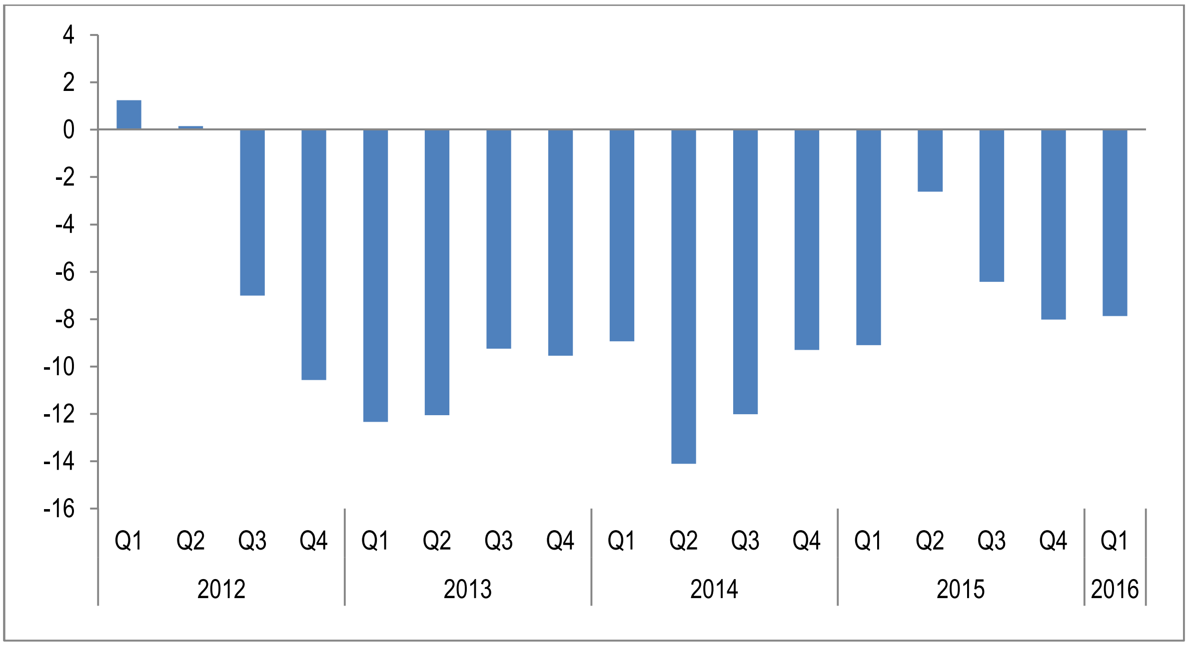
Figure 11: Government Employment *(Annualized Percentage Change)*



Source: Ministry of Finance

The number of Basotho Migrant Mine Workers employed in SA mines continues to decline in the first quarter of 2016, the decline was 7.9 per cent compared with a decline of 8.0 per cent in the previous quarter. This was in line 2.1 per cent reduction in employment from South African mines. Lonmin mines retrenched about 5,433 of its work force in the period under review.

Figure 12: Migrant Mineworkers *(Annualized Percentage Changes)*



Source: The Employment Bureau of Africa (TEBA)

PRICE DEVELOPMENTS

Lesotho's inflation rate as measured by the percentage change in the Consumer Price Index (CPI) measured 7.5 per cent in March 2016 compared with 5.1 per cent in December 2015. The hike in the inflation rate emanated from soaring food prices which prevailed during the period under review. The food and non-alcoholic beverages inflation measured 13.8 per cent in March 2016 compared with 9.3 per cent in December 2015. The high domestic food prices were driven by high cost of importing food items from South Africa coupled with lower than expected domestic cereal supply due to drought which prevailed towards the end of 2015. However, the housing, electricity, gas and other fuels category contracted on account of lower paraffin prices, while the transport category increased at a lower rate due to slight increase in the domestic pump prices of petrol and diesel.

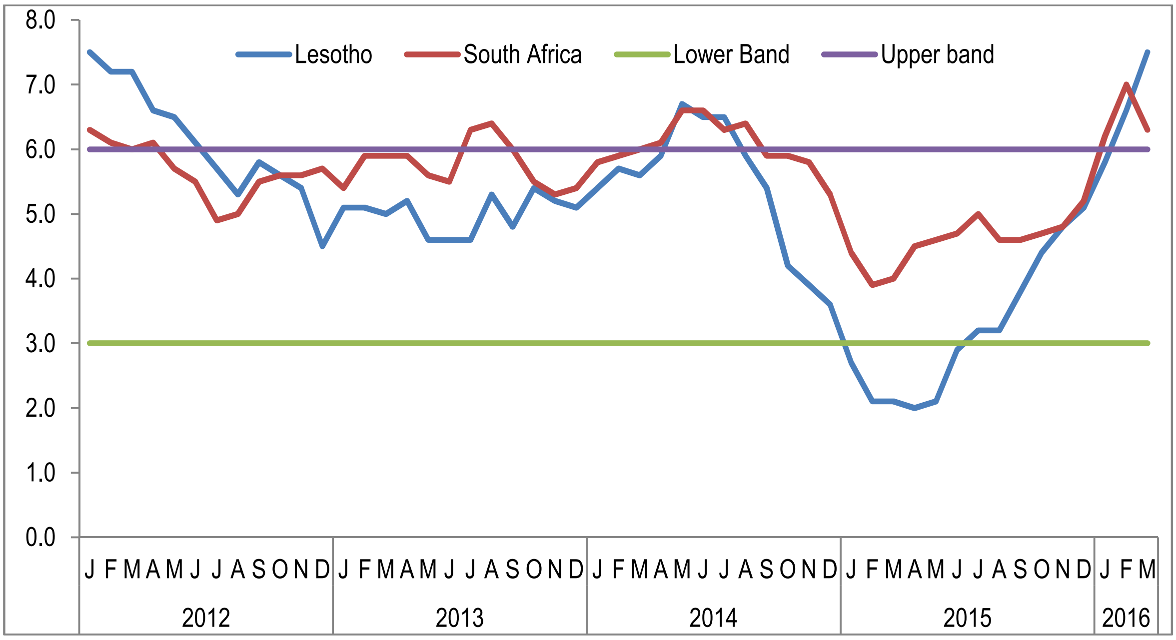
Table 4: Inflation Rate *(Annualized Percentage Changes)*

				2015		
	Weight	Nov	Dec	Jan	Feb	Mar
All items	**100**	**4.8**	**5.1**	**5.8**	**6.6**	**7.5**
Food and non-alcoholic beverages	38.1	8.9	9.3	10.2	11.5	13.8
Alcoholic beverages & Tobacco	1.2	5.8	6.2	6.1	3.9	3.9
Clothing & footwear	17.4	4.3	4.3	4.4	4.7	4.9
Housing, electricity gas & other fuels	10.6	-3.8	-2.8	-1.3	1.3	-0.4
Furniture, households equipment & routine maintenance	9.4	4.8	4.8	4.6	4.4	3.6
Health	1.9	1.0	1.4	1.6	1.4	1.8
Transport	8.5	0.5	0.8	0.9	1.2	1.1
Communication	1.2	0.0	0.0	0.0	0.0	0.0
Leisure, entertainment & Culture	2.4	2.3	2.2	2.3	2.2	2.2
Education	2.7	3.9	3.9	4.9	4.9	4.9
Restaurant & Hotels	0.7	0.7	0.8	2.2	2.3	2.4
Miscellaneous goods & services	5.8	5.2	5.3	5.3	5.0	5.0

Source: Bureau of Statistics

South African inflation rate measured 6.3 per cent in March 2016 compared with 5.2 per cent in December 2015. Like the Lesotho's inflation, SA inflation rate was mainly influenced by high food prices. This was due to drought which occurred sometime towards the end of 2015. The aftermath of the drought was falling production in crops such as maize, sunflower and sugar cane. Thus, forcing SA to import maize to make up for the shortfall. Due to lower than expected yields in 2016, most South African farmers face a problem of servicing their loan as they get a large chuck of their finances from the Banks. This makes it difficult for them to borrow for the next planting season. The weakening Rand has also provided support by driving up the prices of imports such as wheat, hence raising the inflation rate.

Figure 13: Lesotho and South Africa's Inflation



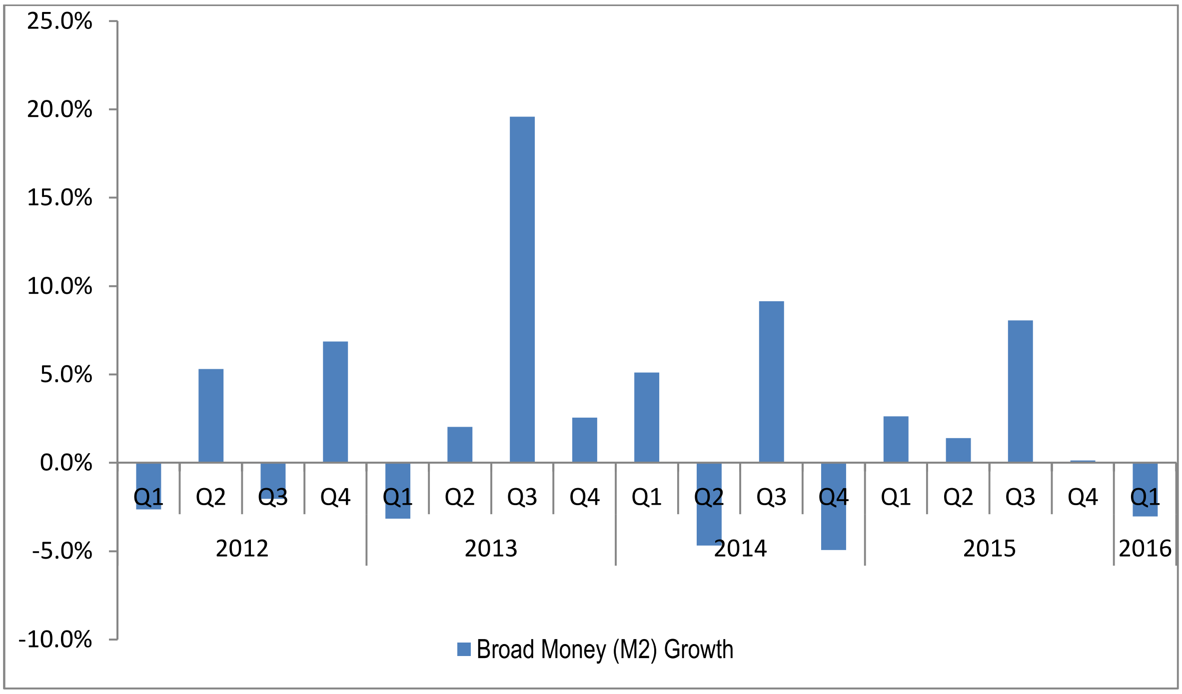
Source: Bureau of Statistics, Statistics South Africa

4. Monetary and Financial Developments

BROAD MONEY (M2)

Money supply declined during the quarter under review as opposed to an increase in the preceeding quarter. Overall money supply decreased by 3.0 percent during the review quarter compared to a 0.1 percent increase recorded at the end of the previous quarter. This development was on account of a decrease in Net Foreign Assets(NFA) moderated by an increase in domestic claims.

Figure 14: Broad Money (M2)



Source: **Central Bank of Lesotho**

Determinants of M2

Domestic Claims

Domestic claims, including net claims on government, increased by M876.4 million in March 2016 compared to a slight increase of M140.4 million in December 2015. This was mainly on account of a drawdown in gorvenment deposits and an increase in private sector credit which comprises more of mortgage loans to household.

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

	2015				2016	Changes (%)	
	Mar	Jun	Sept	Dec	Mar	Annual	Quarterly
Domestic Claims	**-37.11**	**-467.56**	**533.12**	**673.47**	**1549.94**	**-4276.2**	**130.1**
Net Claims on Government	**-5153.15**	**-5620.40**	**-4919.72**	**-4790.12**	**-3972.47**	**-22.9**	**-17.1**
Commercial Banks Net Claims	**577.65**	**565.50**	**663.29**	**717.61**	**799.51**	**38.4**	**11.4**
Claims on Central Government	587.35	576.10	674.66	825.42	850.15	**44.7**	**3.0**
Liabilities to Central Government	9.70	10.60	11.36	107.81	50.64	**422.1**	**-53.0**
Central Bank Net Claims	**-5730.80**	**-6185.90**	**-5583.01**	**-5507.73**	**-4771.97**	**-16.7**	**-13.4**
Claims on Central Government	850.40	868.00	986.20	1073.81	1034.41	**21.6**	**-3.7**
Liabilities to Central Government	6581.20	7053.90	6569.21	6581.53	5806.38	**-11.8**	**-11.8**
Claims on Other Sectors	**5116.04**	**5152.84**	**5452.84**	**5463.58**	**5522.40**	**7.9**	**1.1**
Claims on OFCs	14.97	14.40	0.00	31.39	79.81	**433.1**	**154.3**
Claims on St &Local Government	0.00	0.00	0.00	0.00	0.00	**0.0**	**0.0**
Claims on Private Sector	**5101.07**	**5138.44**	**5452.84**	**5432.19**	**5442.59**	**6.7**	**0.2**
Claims on Business Enterprises	1791.90	1859.11	2121.70	2103.45	2097.12	**17.0**	**-0.3**
Claims on Households	3309.17	3279.33	3331.14	3328.75	3345.47	**1.1**	**0.5**

Source: **Central Bank of Lesotho**

Net Foreign Assets

During the review period, there was a decrease in overall banking system Net Foreign Assets (NFA) contrary to the previous quarter. Overall banking system NFA recorded a 0.1 per cent decrease for the current quarter against a growth of 2.2 per cent realized during the previous quarter. This decline was driven mainly by a fall in commercial banks NFA moderated by an increase in the Central bank NFA. Commercial bank NFA declined due to a drawdown of deposits in South African banks to finance demand for credit since deposits declined during the review period. Central bank NFA on the other hand increased due to the increase in quota requirement by the IMF. Effective from January 2016 the IMF doubled country quotas[2]. This led to the above metioned increase in central bank NFA.

[2] In light of the IMF general review of quotas conducted on December 2010, there was a 100 per cent increase in total quotas and a major realignment of quota shares that took effect on January 2016. This better reflects the changing relative weights of the IMF's member countries in the global economy.

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

	2015				2016	Changes (%)	
	Mar	**June**	**Sept**	**Dec**	**Mar**	**Annual**	**Quarterly**
Commercial Banks	**3746.07**	**3869.42**	**4169.14**	**3859.15**	**3527.63**	**-5.8**	**-8.6**
Claims on Non-residents	4098.78	4233.30	4578.92	4244.11	3873.12	**-5.5**	**-8.7**
Liabilities to Non-residents	352.71	363.88	409.79	384.96	345.49	**-2.0**	**-10.3**
Central Bank	**10872.47**	**10910.96**	**11323.81**	**11957.92**	**12267.04**	**12.8**	**2.6**
Claims on Non-residents	12274.44	12342.84	12950.71	13739.59	13983.68	**13.9**	**1.8**
Liabilities to Non-residents	1401.97	1431.89	1626.90	1781.67	1716.64	**22.4**	**-3.7**
Net Foreign Assets Total	**14618.54**	**14780.38**	**15492.95**	**15817.07**	**15794.67**	**8.0**	**-0.1**

Source: Central Bank of Lesotho

Figure 15: Net Foreign Assets *(percentage shares)*

Source: Central Bank of Lesotho

Components of M2

The major components of broad money (M2) are narrow money (M1) and quasi money. Broad money decelarated by 3.0 per cent during the first quarter of 2016. This development is ascribed to a decrease in M1 dampened by an increase in quasi money. The decrease in M1 was on account of decline in currency in circulation and transferable deposits. Transferable deposits declined due to withdrawals for various reasons including payment of dividends and payment of school fees. Contrary to the fourth quarter which is associated with increased demand for cash for transactional purposes, currency in circulation during the review quarter declined as there was relatively lesser demand for cash. Quasi money increased due to an increase of other deposits of commercial banks. This owes to the fact that banks interest earned on these other deposits were more attaractive thus increasing demand on other deposits.

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

	2015				2016	Changes (%)	
	Mar	**June**	**Sept**	**Dec**	**Mar**	**Annual**	**Quarterly**
Broad Money (M2)	**9239.8**	**9368.6**	**10124.0**	**10134.6**	**9829.4**	**6.38**	**-3.01**
Narrow Money (M1)	**4265.7**	**4368.9**	**4860.6**	**5295.3**	**4927.0**	**15.50**	**-6.96**
Currency Outside DCs	907.2	842.1	912.7	1014.5	907.2	**-0.01**	**-10.58**
Transferable Deposits	3358.4	3526.9	3947.9	4280.8	4019.8	**19.69**	**-6.10**
Quasi Money	**4974.1**	**4999.6**	**5263.4**	**4839.2**	**4902.4**	**-1.44**	**1.30**
Other Deposits Commercial Banks	4918.0	4953.5	5223.1	4801.3	4850.3	**-1.38**	**1.02**
Other Deposits Central Bank	**56.1**	46.2	40.4	38.0	52.1	**-7.10**	**37.12**

Source: Central Bank of Lesotho

CREDIT EXTENSION

Trends of credit extended to Business Enterprises

During the review period, credit extended to business enterprises declined by 0.3 percent compared to a 0.9 per cent decrease registered for the previous quarter. This was driven by Credit to Manufacturing which decreased by 9.9 per cent in March 2016 compared to an increase of 3.4 per cent in December 2015 and Credit to Wholesale, retail, hotel and restaurant which declined by 34.4 per cent in March 2016 compared to an increase of 20.5 per cent in December 2015. For both the sectors, the decline was due to runoffs during this period however in manufacturing this decline was also due to unutilised current accounts on foreign currency. This is likely linked to slow down in exports of textiles and clothing to the US.

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

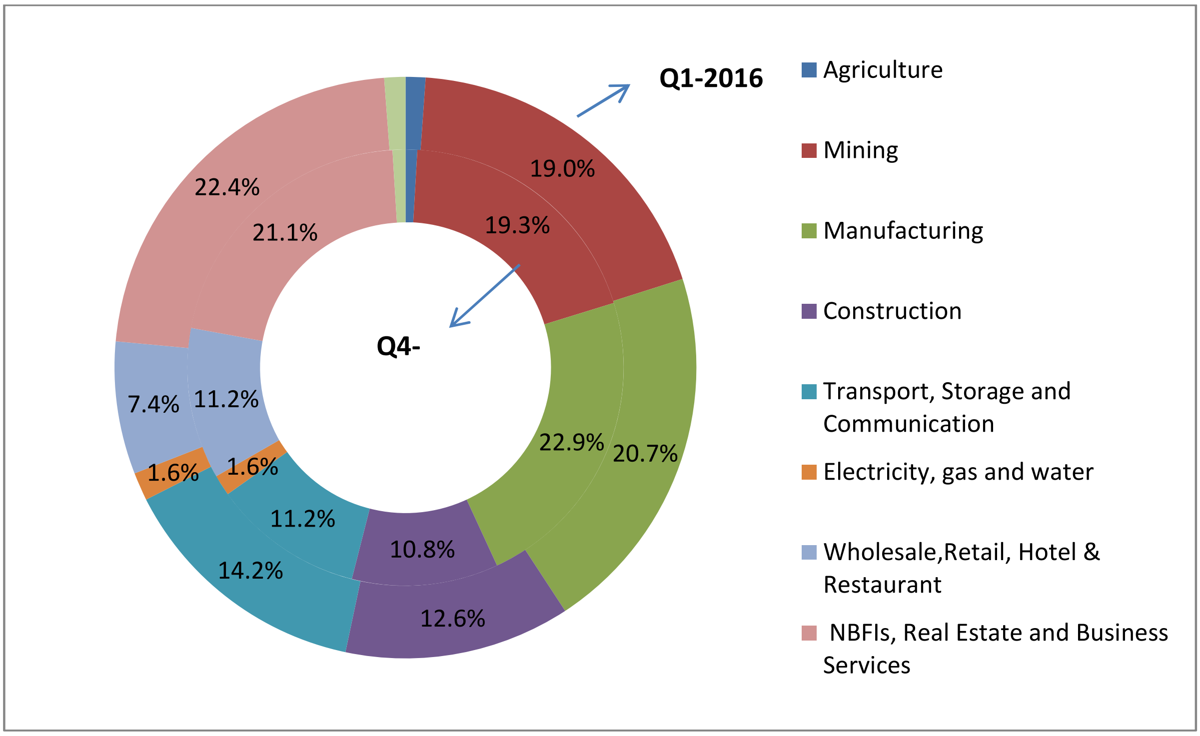
	2015				2016	Changes (%)	
SECTOR	**Mar**	**June**	**Sept**	**Dec**	**Mar**	**Annual**	**Quarterly**
Agriculture	13.36	12.81	17.20	18.10	23.21	**73.7**	**28.2**
Mining	343.25	340.18	475.40	406.92	397.53	**15.8**	**-2.3**
Manufacturing	433.96	401.31	465.80	481.74	433.99	**0.0**	**-9.9**
Construction	186.42	229.36	234.50	228.17	263.28	**41.2**	**15.4**
Transport, Storage and Communication	179.01	158.79	236.90	235.34	297.74	**66.3**	**26.5**
Electricity, gas and water	31.91	62.66	34.90	32.89	32.80	**2.8**	**-0.3**
Wholesale, Retail, Hotel & Restaurant	144.76	173.10	195.80	235.85	154.60	**6.8**	**-34.4**
NBFIs, Real Estate and Business Services	443.96	464.19	444.10	444.62	469.48	**5.7**	**5.6**
Community, Social & Personal Service	15.27	16.71	17.00	19.82	24.51	**60.5**	**23.6**
All Sectors	**1791.90**	**1859.11**	**2121.60**	2103.45	2097.12	**17.0**	**-0.3**

Source: Central Bank of Lesotho

Distribution of credit Extended to Business Enterprises

Regarding the allocation of credit extended to business enterprises by sector, Real estate and Business services have the biggest distribution of 22.4 percent followed by 20.7 per cent of manufacturing and 19.0 per cent mining and lastly 14.2 per cent of transport storage and communication. This is contrary to the previous quarter where manufacturing had the biggest distribution of credit of 22.9 percent followed by real estate and Business Services by 21.1 percent. This mimics reduced credit levels in manufacturing. The agriculture sector in both the previous and current quarter continues to have the lowest share of total credit due to its small contribution in economic development.

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

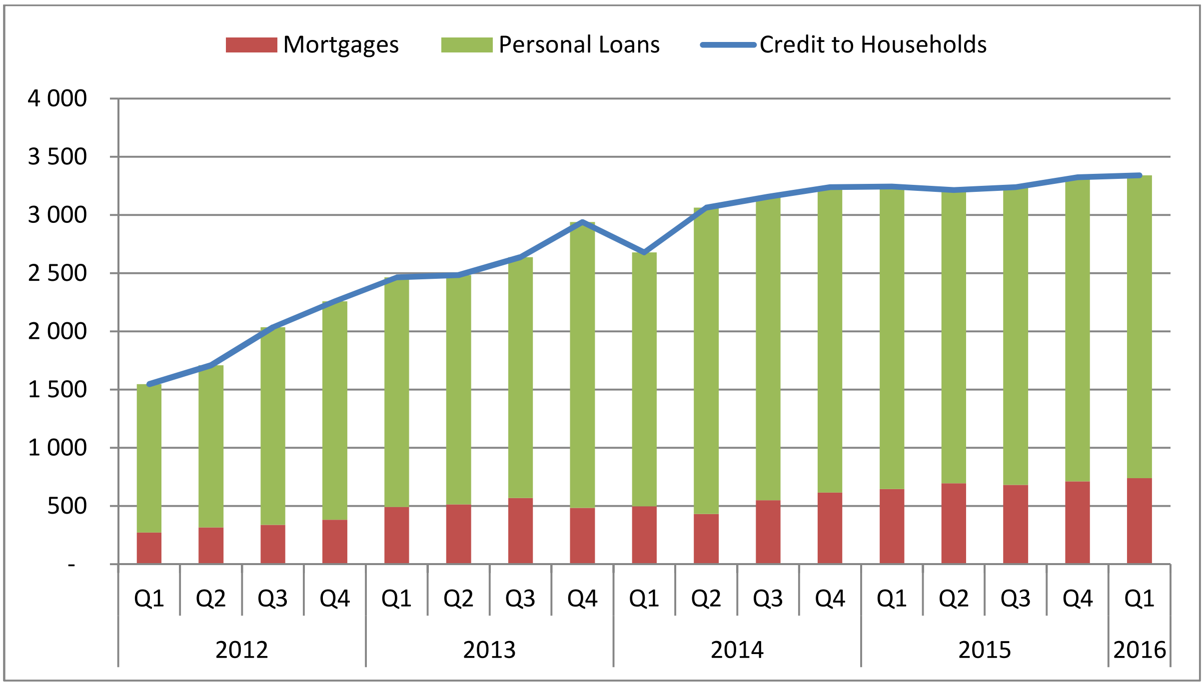


Source: Central Bank of Lesotho

Credit extended to Households

Credit extended to households increased by 0.6 per cent in the first quarter of 2016. This was contrary to the 2.6 per cent increase in the fourth quarter of 2015. This increase in credit extended to households was caused by a 3.9 per cent growth in mortgages that was moderated by a 0.3 per cent fall in personal loans (which constitutes a large share of credit to households). These movements are reflective of a shift in focus from unsecured lending to asset based lending by commercial banks.

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



Source: Central Bank of Lesotho

LIQUIDITY OF COMMERCIAL BANKS

Components of liquidity

Commercial banks' credit to deposit ratio grew marginally by 1.0 per cent between December 2015 and March 2016. This was the result of a rise in private sector credit and a decline in total deposits. This indicates a relative increase in the level of financial intermediation in Lesotho by the commercial banks. Furthurmore, the liquidity ratio increased from 83 per cent to 89 per cent in the review period. The reason behind the uptick is a 33.0 per cent increase in balances due from banks in Lesotho and a 3.0 per cent increase in commercial bank holdings of government securities.

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

	2015				2016
	Mar	June	Sept	Dec	Mar
Credit to Deposit Ratio	**60.9%**	**59.9%**	**58.8%**	**59.8%**	**61.4%**
Private Sector Credit	5040.13	5076.70	5389.12	5432.19	5442.59
Total Deposits	8276.44	8480.33	9170.98	9082.06	8870.10
Liquidity Ratio	**86.3%**	**81.7%**	**78.6%**	**82.6%**	**89.4%**
Notes and Coins	268.47	304.97	293.04	476.34	375.41
Balance due from banks in Lesotho	2381.93	2411.64	2395.28	2343.95	3139.31
Balance due from banks in SA	3864.25	3669.12	3723.89	3760.57	3284.10
Surplus funds	14.39	-65.61	122.88	96.42	284.96
Government Securities	610.16	610.16	674.66	825.42	850.15
Total	**7139.20**	**6930.27**	**7209.75**	**7502.69**	**7933.93**

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 decreased by 0.9 per cent in March 2016 compared to an 8.1 per cent increase during the previous quarter. This was on account of depositors withdrawing money to facilitate a wide array of private payments ranging from payment of company dividends to the payment of school fees.

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

Source: Central Bank of Lesotho

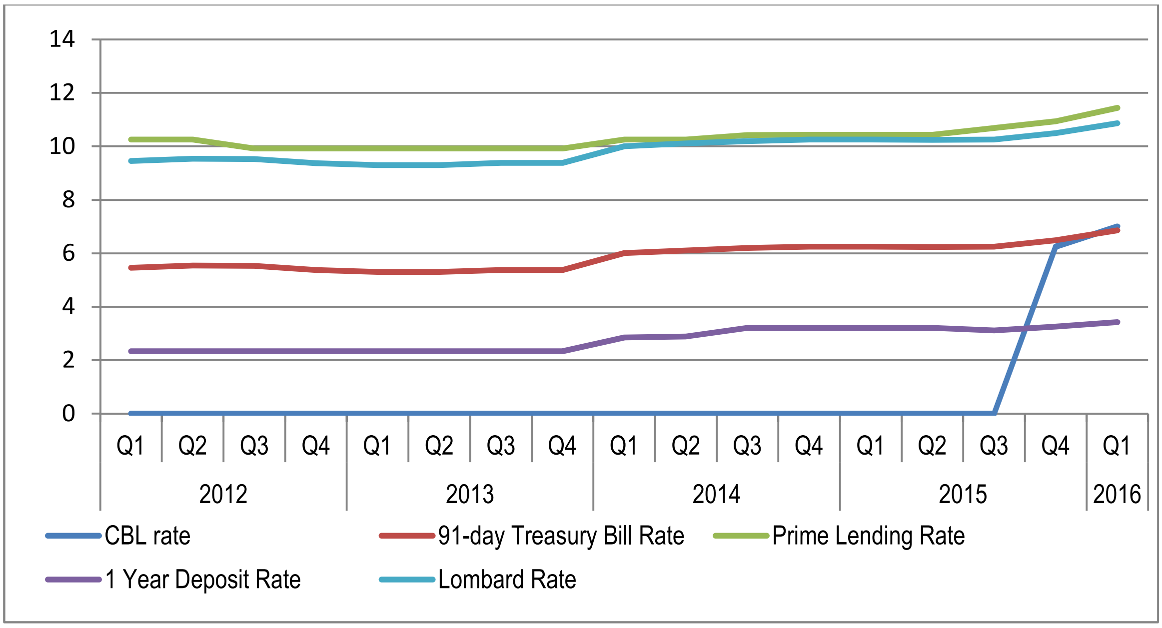
MONEY AND CAPITAL MARKET DEVELOPMENTS

Money Market

Interest Rates

The Central Bank of Lesotho (CBL) introduced the CBL rate in November 2015 to inform pricing in the financial sector. The rate was introduced at 6.3 per cent and increased by a total of 75 basis points to 7.0 per cent by the end of March 2016. This increase was meant to align Lesotho's cost of funds with those of the rest of the region. Similarly, domestic money market rates took an upward trajectory. Specifically, the commercial bank prime lending rate, the 91 day Tbill rate and the 1 year deposit rate increased by; 50 basis points, 37 basis points and 17 basis points respectively over the review period.

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



Source: Central Bank of Lesotho

Table 11: Interest rates

	2015				2016
	Mar	Jun	Sept	Dec	Mar
Central Bank					
CBL rate	-	-	-	6.25	7.00
T-Bill Rate - 91 days	6.25	6.24	6.25	6.49	6.86
Lombard Rate	10.25	10.24	10.24	10.49	10.86
Commercial Banks					
Call	0.99	0.99	0.85	1.03	1.74
Time:					
31 days	1.23	1.23	0.83	0.48	0.41
88 days	1.72	1.72	2.13	1.04	1.09
6 months	2.31	2.31	2.18	2.26	2.44
1 year	3.21	3.21	3.11	3.26	3.43
Savings	0.86	0.86	0.61	0.51	0.55
Prime	10.44	10.44	10.69	10.94	11.44
South Africa					
Repo	5.75	5.75	6.00	6.25	7.00
T-Bill Rate - 91 days	5.78	5.72	6.21	6.98	7.10
Marginal Lending Rate					
Prime	9.25	9.25	9.50	9.75	10.5

Source: Central Bank of Lesotho

Holding of Treasury Bills and T-Bill Rates

The holding of Treasury bills decreased by 1 per cent in the current quarter compared to 10 per cent increase in the previous quarter. The 91 day Treasury bill average yield rate increased from 6.6 per cent to 7.0 per cent during the same period. The decline in Treasury bill holding was due to banks reduced appetite in holding of treasury bills.

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

	2015				2016
	Mar	Jun	Sept	Dec	Mar
Treasury Bills	**594.26**	**592.26**	**542.12**	**595.85**	**592.48**
Banking System	406.33	396.53	331.90	395.61	394.70
Non-Bank Sector	187.93	195.73	210.22	200.24	197.78
Memorandum Item					
Yield Bills (91-days)	6.35	6.34	6.35	6.6	7

Source: Central Bank of Lesotho

Holding of Treasury Bonds and T-Bonds Rates

The holding of Treasury bonds increased by 9.5 per cent. This increse is similar to the one observed in the previous qurter. The increase was driven by two bond re openings that increased the holding of treasury bonds. One auction was in December while another was in March. Interstingly, the increase in bond holdings was mostly driven by a 36 per cent increase in the holdings of the Non-Bank sector in March 2016 following a 34 per cent decline in this sector's holdings realised in the previous quarter.

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

	2015				2016
	Mar	Jun	Sept	Dec	Mar
Holding of Treasury Bonds	**572.74**	**573.17**	**573.17**	**622.87**	**681.79**
Banking System	336.47	338.97	339.39	468.03	471.70
Non-Bank Sector	236.27	234.20	233.78	154.84	210.09

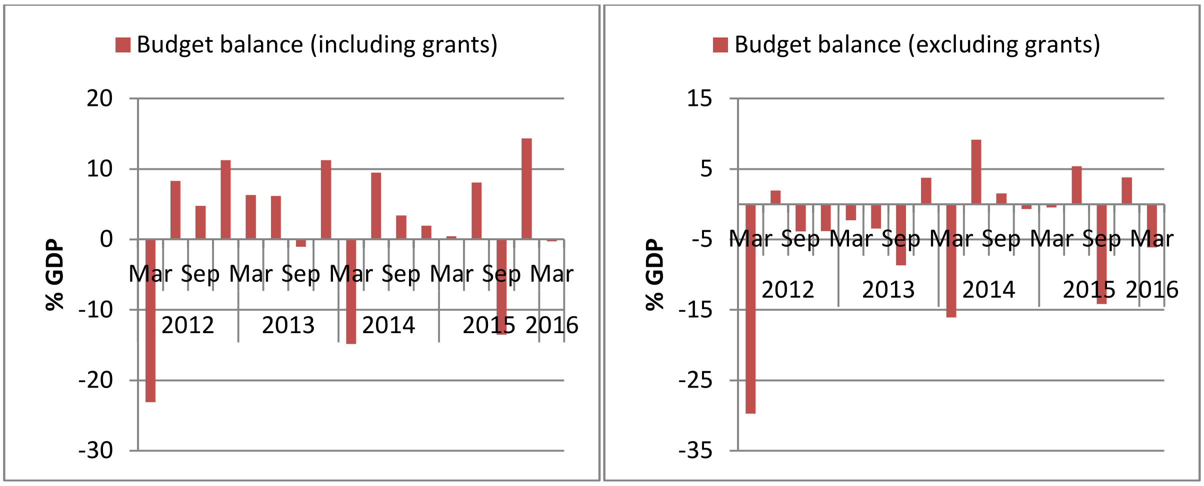
Source: Central Bank of Lesotho

5. Government Finance

OVERVIEW

The last quarter of the fiscal year 2015/16 showed a preliminary cash deficit with and without grants. The deficit including grants recorded 8.4 per cent of GDP while 14.3 per cent excluding grants. Thus, this disaggregation of the fiscal deficit is due to the new comprehensive database on grants receipts that has been established by the Ministry of Finance. It is therefore worth analysing the fiscal strength of the Government in conjunction with these significant amounts of grants (foreign revenues), and hence, the grants' implication on the budget outturn. The spending of the Government during this quarter of the year usually exceeds the revenue flows. The preliminary public debt stock fell to 48.7 per cent of GDP during the quarter ending March, 2016 compared with the revised 54.4 per cent of GDP in the previous quarter, given the projected growth in GDP for 2016. The projected GDP outpaced the debt levels during this quarter.

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



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

REVENUE

The revenue flows including grants constituted 58.0 per cent of GDP during the quarter ending March, 2016 compared to 68.5 per cent in 2016 in the fourth quarter of 2015. These flows reflect a decline of 5.3 per cent in the quarter under review relative to the revised increase of 28.6 per cent during the last quarter of 2015. This fall is attributable to the decrease in grants from the external creditors. However, the grants receipts as a proportion to total revenue, recorded a significant share of 15.4 per cent during the quarter under review compared with 1.2 per cent registered in the previous quarter. The contributing sub-category of grants includes grants from international organisations. The tax revenues and other revenue (including mining dividends, mining royalties, and LHDA[3] water royalties) increased marginally during the quarter under review while the SACU receipts remained constant.

Furthermore, the total revenue excluding grants registered 52.2 per cent of GDP in the first quarter of 2016 compared with 57.9 per cent in the last quarter of 2015. The total revenue as a result, increased marginally by 0.6 per cent during the quarter under review which is down from the rise of 10.2 per cent experienced in the previous quarter.

Figure 20: Total Revenue *(Million Maloti)*

Source: CBL and MOF

TOTAL EXPENDITURE

The total expenditure registered 66.4 per cent of GDP in the quarter under review which is up from 54.1 per cent of GDP during the quarter ending December, 2015. This acceleration is attributable to the expenses which increased by 36.3 per cent and a rise of 40.7 per cent in the non-financial assets. The significant rise in expenses emanates from purchases of goods and services, interest payments to non-residents (due to exchange rate effects), and grants to extra-budgetary units. Compensation of employees, in particular the wages and salaries in cash, increased moderately during the quarter under review. The non-financial expenditure (capital) increased by 40.7 per cent in the quarter ending March, 2016 compared to a decline of 52.2 per cent in the last quarter of 2015. Thus, the increase in the acquisition of fixed assets is attributable to the significant rise in buildings and structures (324.9 per cent) and, machinery and equipment component (102.5 per cent) while unidentified fixed assets which are funded through grants and loans experienced a fall (15.5 per cent).

[3] LHDA refers to Lesotho Highlands Development Authority

Figure 21: Total Expense (Million Maloti)

Source: CBL and MOF

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

Source: CBL and MOF

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

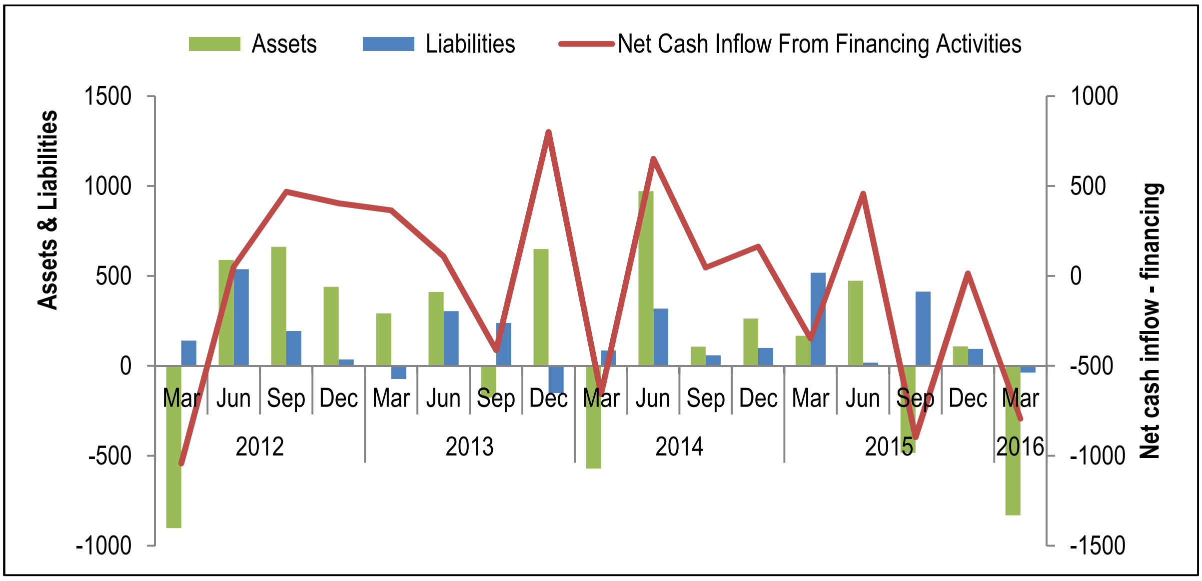
				2015	2016	Changes (%)	
	Mar	Jun	Sep	Dec	Mar	Q-to-Q	Y-on-Y
Total Revenue	**4,047.41**	**3,768.87**	**3,374.84**	**4,354.49**	**4,121.09**	**-5.3**	**1.8**
Tax revenue	1,821.04	1,559.33	1,527.46	1,700.59	1,711.99	0.7	-6.0
Grants	57.50	168.57	31.59	669.70	415.38	-38.0	622.4
Other revenue	410.35	373.52	238.74	407.14	416.66	2.5	1.5
SACU receipts	1,758.52	1,667.45	1,577.06	1,577.06	1,577.06	0.0	-10.3
Total Expense	**3,278.66**	**2,575.16**	**2,881.36**	**2,791.03**	**3,803.33**	**36.3**	**16.0**
Compensation of Employees	1,332.37	1,270.35	1,406.24	1,395.94	1,456.37	4.3	9.3
Purchases of goods and services	1,100.88	451.81	736.38	705.57	1,313.80	86.2	19.3
Interest Payments	68.87	88.96	72.87	52.70	76.21	44.6	10.7
Subsidies	61.92	99.82	72.28	69.96	67.39	-3.7	8.8
Grants	312.10	287.24	153.59	151.11	367.03	142.9	17.6
Social benefits	219.17	203.96	229.49	217.65	211.40	-2.9	-3.5
Other expense	183.36	173.02	210.51	198.36	311.12	56.8	69.7
Net Cash Inflow From Operating Activities	**768.75**	**1,193.72**	**493.49**	**1,563.47**	**318.22**	**-79.6**	**-58.6**
Total Nonfinancial Assets	**741.11**	**681.51**	**1,363.97**	**651.46**	***916.70***	***-40.7***	**23.7**
Fixed Assets	741.11	681.51	1,363.97	651.46	916.70	*-40.7*	23.7
Non-Produced Assets	0.00	0.00	0.00	0.00	0.00	0.0	0.0
Cash deficit(-)/surplus(+)	**27.64**	**512.21**	**-870.48**	**912.01**	**-598.48**	**-**	**-**
Net Cash Inflow From Financing Activities	**153.10**	**-441.10**	**887.07**	**-28.98**	**793.15**	**-**	**-**
Net Acquisition of Financial assets	-175.18	-457.90	475.97	-108.77	831.34	-	-
Net Incurrence of Liabilities	328.28	16.79	411.10	79.78	-38.20	-	-
Statistical Discrepancy	180.74	71.10	16.59	883.03	194.66	-	-

Source: CBL and MOF

FINANCIAL ASSETS AND LIABILITIES

The net flows in both financial assets and liabilities declined during the quarter under review relative to an increase in the fourth quarter of 2015. Thus, the net financial assets flows accounted for a decline of M831.34 million during the quarter ending March, 2016 relative to the revised accumulation of financial assets contributing to M108.77 million in the previous quarter. Currency and deposits category in the Central Bank and domestic commercial banks has contributed to this decline. Another contributing factor to the fall in net financial assets is on-lent loans category. On-lent loans (net assets flows) declined by M0.97 million during the quarter of January-March 2016 while there was no change in the previous quarter. Furthermore, the net liabilities transactions declined by M38.20 million during the quarter under review compared to the revised M94.39 million registered in the last quarter of 2015. This decline is mainly due to the fall in the net foreign liabilities whereby amortization exceeds disbursements. The net domestic liabilities increased by M37.94 million which are attributable to the difference between securities other than shares (treasury bills and bonds), and domestic loan in terms of extended credit facility of the IMF.

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



Source: CBL and MOF

TOTAL PUBLIC DEBT

The total outstanding public debt constituted M13,804.68 million in the last quarter of the fiscal year 2015/16 which decreased from the revised M13,831.78. The public debt stock has therefore fell by 0.2 per cent during the quarter under review relative to an increase of 9.3 per cent during the fourth quarter of 2015. In terms of the debt-to-GDP ratio, the quarter ending March, 2016 registered an estimated 48.6 per cent compared with 54.4 per cent experienced in the last quarter of 2015. Thus the ratio of debt-to-GDP has declined due to the high levels of GDP estimates for 2016 which outpaced the growth in the stock of public debt. Though the recent two quarters show high levels of public debt, the debt-to-revenue ratio of 334.9 per cent in the quarter ending March, 2016 describes the Government's capability to service its debt, which is up from 317.6 per cent recorded in the previous quarter.

Furthermore, the multilateral concessional external loans (excluding the extended credit facility from the IMF through the Central Bank of Lesotho) registered a fall of 0.8 per cent during the quarter under review which is down from 11.0 per cent in the quarter ending in December, 2015. The reason for the fall is attributable to the high levels of amortisation over the disbursements, despite the depreciation of the Loti against major international currencies. Thus, the new debt due to the exchange rate depreciation recorded M49.00 million during the quarter ending March, 2016, which is down from M1,225.60 million registered in the previous quarter.

The domestic debt, on the other hand, registered an increase of 0.7 per cent in the quarter ending March, 2016 compared with 9.1 per cent recorded in the previous quarter. This marginal growth reflected a fall in both the extended credit facility loan (on-lent external debt) and the short term domestic debt (treasury bills).

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

Source: CBL and MOF

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

	2015				2016	Debt / GDP (%)		Debt / Revenue (%)	
	Mar	Jun	Sep	Dec	Mar	Dec-15	Mar-16	Dec-15	Mar-16
TOTAL PUBLIC DEBT	**11,033.73**	**11,351.43**	**12,661.53**	**13,831.78**	**13,804.68**	**54.38**	**48.58**	**317.64**	**334.94**
EXTERNAL DEBT	**9,014.95**	**9,317.92**	**10,560.03**	**11,539.26**	**11,495.51**	**45.37**	**40.45**	**265.00**	**278.91**
Bilateral Loans	839.26	873.53	978.13	1,116.44	1,142.11	4.39	4.02	25.64	27.71
Concessional	839.26	873.53	978.13	1,116.44	1,142.11	4.39	4.02	25.64	27.71
Non-concessional	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Multilateral Loans	7,546.92	7,782.81	8,873.05	9,698.46	9,633.89	38.13	33.90	222.72	233.74
Concessional	6,318.82	6,554.68	7,426.55	8,246.85	8,180.72	32.42	28.79	189.39	198.49
Non-concessional	1,228.10	1,228.12	1,446.50	1,451.61	1,453.17	5.71	5.11	33.34	35.26
Financial Institutions	55.08	55.08	54.40	1.52	1.52	0.01	0.01	0.03	0.04
Concessional	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Non-concessional	55.08	55.08	54.40	1.52	1.52	0.01	0.01	0.03	0.04
Suppliers' Credit	573.70	606.51	654.46	722.84	717.99	2.84	2.53	16.60	17.42
DOMESTIC DEBT	**2,018.78**	**2,033.50**	**2,101.50**	**2,292.52**	**2,309.18**	**9.01**	**8.13**	**52.65**	**56.03**
Banks	1,594.58	1,603.57	1,657.49	1,937.44	1,901.25	7.62	6.69	44.49	46.13
Long-term (t-bonds)	1,187.33	1,206.99	1,325.59	1,541.83	1,506.45	6.06	5.30	35.41	36.55
Treasury bonds	336.90	338.97	339.39	468.03	472.04	1.84	1.66	10.75	11.45
Central Bank (IMF-ECF)	850.43	868.02	986.20	1,073.81	1,034.41	4.22	3.64	24.66	25.10
Short-term (t-bills)	407.25	396.58	331.91	395.61	394.80	1.56	1.39	9.09	9.58
Non-bank	424.20	429.93	444.01	355.08	407.93	1.40	1.44	8.15	9.90
Short-term (t-bills)	187.93	195.73	210.22	200.24	197.78	0.79	0.70	4.60	4.80
Long-term (t-bonds)	236.27	234.20	233.78	154.84	210.15	0.61	0.74	3.56	5.10

Source: CBL and MOF

6. Foreign Trade and Payments

Implementation of New Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6) Compilation Framework

The Central Bank of Lesotho has adopted and implemented the new International Monetary Fund (IMF) Balance of Payments and International Investment Position (BOP&IIP) framework with effect from the first quarter of 2016. The framework is consistent with the sixth edition of the Balance of Payments Manual (BPM6). Previous publications were based on fifth edition of the Balance of Payments Manual (BPM5). In line with this, the data has been revised from 1982 in quarterly and annual basis.

The BPM6 was released in 2009 and it replaces the fifth edition which was released in 1993. The new manual takes into account important developments in the global economy since the release of the fifth edition. The new manual also works in parallel with System of National Account 2008 (SNA) in order to ensure consistency between external and domestic macroeconomic statistics. The three major factors that influenced the revision of the manual include:

i) Globalization which highlighted the increased use of cross-border production processes, complex international company structures and international labour mobility;

ii) Balance sheet analysis approach that is more relevant for understanding international economic developments consistent with other statistical frameworks;

iii) Financial innovation which is more complex on financial instruments.

The new manual has re-classified, re-named and changed the sign convention for some of the components in the previously published BOP statements, hence balances in BPM6 differs from those presented in the BPM5 statement. BPM6 categorizes BOP statement into; a) *Current account, which is composed of goods, services, primary income (previously named income) and secondary income (previously named current transfers)*; b) *Capital account and*; c) *Financial account* which now includes official reserve assets.

OVERVIEW

The external sector position deteriorated during the first quarter of 2016 amid large increases in external liabilities which outweighed the economy's increase in external assets. This resulted in a net borrowing/deficit amounting to M1.01 billion in the quarter under review compared with a deficit of M590.34 million recorded in the quarter ending in December 2015. The worsening of the deficit was largely influenced by the weak performance of the financial account coupled with an expansion of the current account deficit. In addition, the appreciation of the local currency against currencies in which CBL's foreign reserves were held contributed to the observed deficit.

CURRENT ACCOUNT

The current account balance widened further during the first quarter of 2016, characterised by subdued demand and weak global financial conditions leading to the weak performance of exports of both goods and services. The current account deficit was M964.53 million in the first quarter of 2016, following a deficit of M900.56 million realised in the last quarter of 2015. Exports of goods and services registered a meagre growth of 1.5 per cent during the review quarter compared with 4.3 per cent growth recorded in the preceding quarter. The weak export performance together with the rising import bill weighed heavily on the country's trade balance and thus, leading to a further deterioration of the current account balance. In addition, the primary income declined during the review quarter as a result of higher payment of interest on government foreign borrowing thus contributing to the bleak performance of the current account. The sluggish performance of the current account was however, moderated by the secondary income, which continued to exhibit remarkable resilience despite rising uncertainties in the SA economy, where most of this income accrue.

Table 16: Current Account Balance *(Million Maloti)*

	2015				2016	% Changes	
	Q1	Q2	Q3	Q4	Q1	Q/Q	Y/Y
CurrentAccount	-939.39	-450.15	-197.52	-900.56	-964.53	7.10	2.68
(a) Goods	-3,384.93	-2,652.48	-2,297.90	-3,263.65	-3,543.23	8.57	4.68
Merchandise exports, f.o.b.	1980.50	2396.50	3282.98	3191.09	3220.85	0.93	62.63
Of which diamonds	685.83	917.20	1,134.78	990.11	981.30	-0.89	43.08
Of which textiles & clothing	688.54	949.24	1,561.95	1,486.58	1,488.86	0.15	116.23
Of which re-exports	0.81	0.74	18.35	69.02	52.66	-23.70	6401.23
Other exports	605.32	529.32	567.9	645.38	698.03	8.16	15.32
Merchandise imports, f.o.b.	-5,365.43	-5,048.98	-5,580.88	-6,454.74	-6,764.08	4.79	26.07
(b) Services	-897.32	-883.11	-897.79	-702.44	-685.41	-2.43	-23.62
(c) Primary Income	955.85	981.54	969.03	1,044.26	1,029.88	-1.38	7.74
(d) Secondary Income	2,387.01	2,103.90	2,029.14	2,021.27	2,234.22	10.54	-6.40

+ Preliminary Estimates

**Revised Estimates*

Source: Central Bank of Lesotho

Merchandise Exports

The weak external environment, characterised by subdued global growth and thus weak demand continued to depress Lesotho's exports. Merchandise exports registered a marginal growth of 0.9 per cent in the quarter under review from a decline of 2.8 per cent in the previous quarter. Textile exports grew tepidly by 0.2 per cent in the first quarter of 2016 compared to a 4.8 per cent decline in the previous quarter, reflecting weak economic activity in the US which led to a decline in orders for Lesotho's textiles and clothing products. The mining sector, however, remained largely stable despite the weak diamond prices. Diamond exports fell by 0.9 per cent in the review quarter compared to a fall of 12.7 per cent in the preceding quarter. On an annual basis, merchandise exports grew by 62.6 per cent during the review quarter up from 38.2 per cent in the previous quarter.

Direction of Trade - Exports

During the quarter under review, Africa, particularly the SACU region, continued to be the major destination for Lesotho's exports. Its share increased to 40.0 per cent in the first quarter of 2016 from 37.0 per cent in the previous quarter. Exports to Africa largely comprise textiles and apparel. Europe overtook America by becoming the second largest recipient of Lesotho's export during the review quarter. It accounted for 30.9 per cent of total exports during the first quarter of 2016 from 31.3 per cent recorded in the last quarter of 2015. Exports to this region mainly consist of diamonds, which are traded at Antwerp World Diamond Centre (AWDC) in Belgium. America, whose exports are dominated by textiles, stood at the third place with a 28.5 per cent share of the total exports during the review quarter down from 31.4 per cent in the last quarter of 2015. Exports to this region continue to benefit from the duty-free, quota free access to the US market. Oceania and Asia markets continued to receive the smallest share of Lesotho's exports. Oceania's share remained unchanged at 0.2 per cent compared to the previous quarter, while Asia's share picked slightly to 0.5 per cent during the review quarter compared with 0.1 per cent in the previous quarter.

Figure 25: Direction of Merchandise Exports *(Percentage Share)*

Source: Central Bank of Lesotho

Merchandise Imports

Merchandise imports rose by 4.8 per cent in the first quarter of 2016 compared with 15.7 per cent increase in the last quarter of 2015, largely driven by a surge in declarations at the border posts. The increase also reflected higher government purchases of goods and services, which normally picks up in the first quarter of the year as this also marks the end of the fiscal year. On a year by year basis, imports increased by 26.1 per cent from a 23.6 per cent growth realised in the previous quarter.

Services

The services account deficit slightly contracted during the review quarter. The deficit in net services narrowed further by 2.4 per cent in the first quarter of 2016 following a contraction of 21.76 per cent in the previous quarter. The narrowing of the deficit reflected higher exports of telecommunication services which overshadowed imports of services. On an annual basis, the deficit in net services widened by 23.62 per cent during the review quarter compared with a 20.72 per cent increase in the previous quarter.

Primary Income

The primary income account balance fell by 1.4 per cent in the first quarter of 2015 compared with an increase of 7.8 per cent in the last quarter of 2015 reflecting an increase in government interest payments on external loans. The observed performance was however moderated by increased interest earnings on CBL's portfolio investments abroad together with a rise in compensation of employees from SA in line with an increase in inflation. On an annual basis, the net primary income account balance rose by 7.7 per cent during the review period compared with an increase of 13.2 per cent in the preceding quarter.

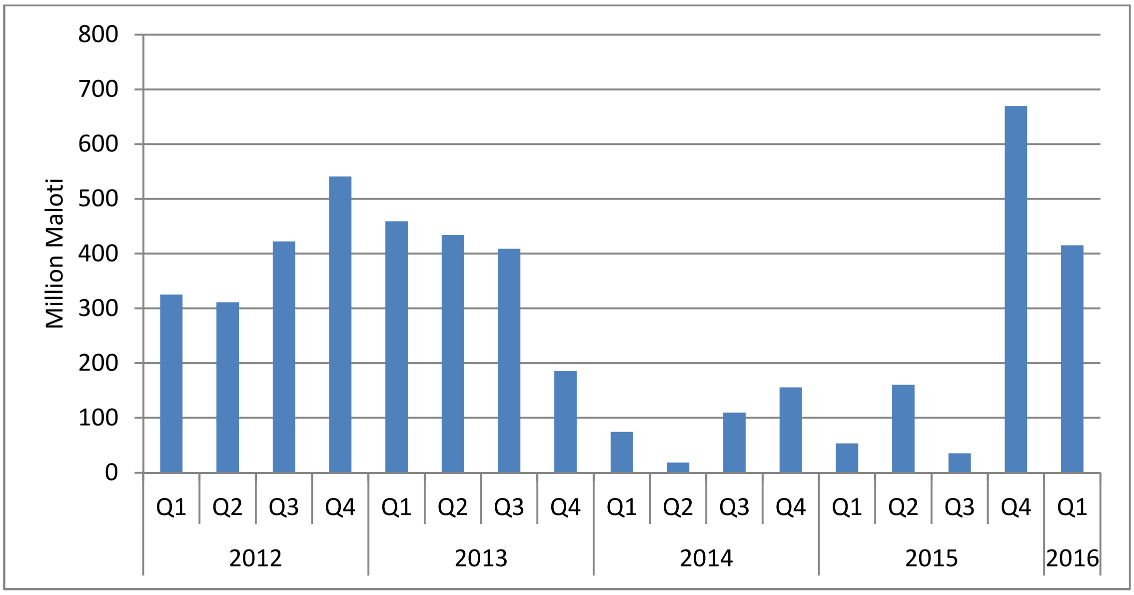
Secondary Income

Secondary income account balance grew by 10.5 per cent during the first quarter of 2016, following a decline of 0.4 per cent recorded in the previous quarter. This was largely driven by the rand compensation inflow, which was received during the review period as an annual payment made to Lesotho for the loss of seigniorage. However, the observed performance was dampened by an increase in payment of subscriptions to international organisations. On an annual basis, secondary income fell by 6.4 per cent in the review quarter after a 7.8 per cent drop in the previous quarter.

CAPITAL ACCOUNT

The capital account balance continued to surge during the review quarter. An inflow equivalent to M415.30 million was realised in the first quarter of 2016, following with a revised balance of M669.7 million in the previous quarter. The observed performance reflected continuous support to Lesotho government projects by foreign donors. During the quarter under review, grants amounting to M342.57 million were mainly provided by the European Union and were earmarked for the following projects; i) Support to Lesotho HIV/AIDS response, ii) Upgrading and strengthening of paved primary road network covering 110 kilometres, iii) Capacity building in economic planning ii) and Public financial management – IFMIS. Other donors who provided funds during the first quarter included African Development Fund (ADF), United Nations Children's Emergency Fund (UNICEF) and International Fund for Agricultural Development (IFAD).

Figure 26: Capital Account *(Million Maloti)*

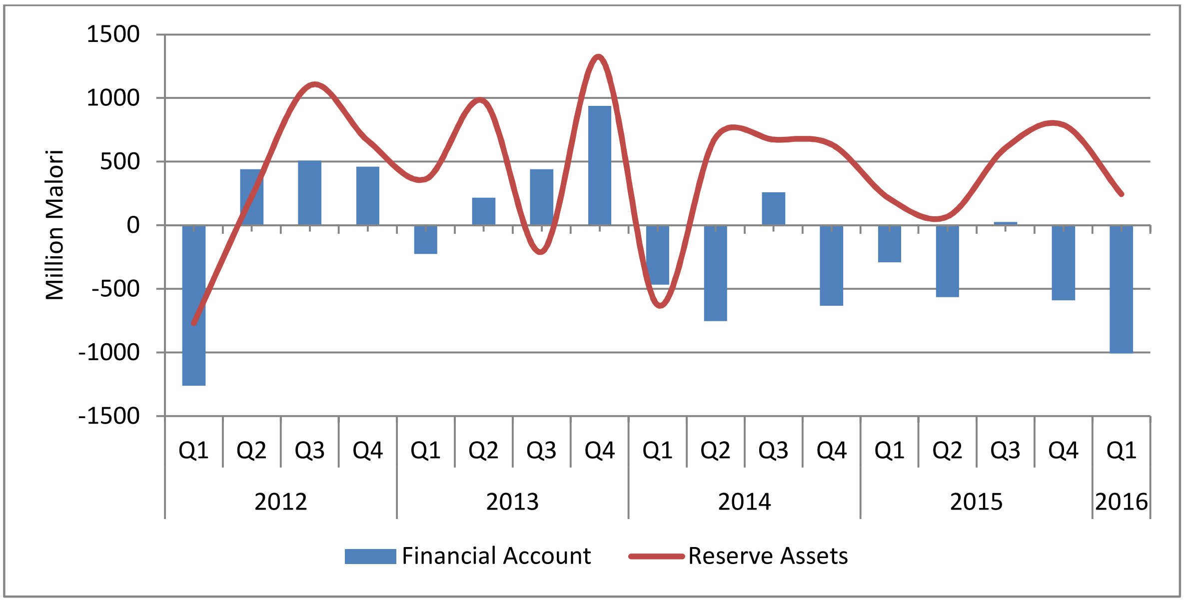


Source: Central Bank of Lesotho

FINANCIAL ACCOUNT

The financial account registered a deficit for the second consecutive quarter during the review period. A deficit of M1.01 billion was recorded in the quarter ending in March 2016, higher than a deficit of M590.34 million realised in the quarter ending in December 2015. An increase in the deficit reflected growth in payments for imports of goods and services during the quarter. In addition, the drawdown of foreign assets coupled with an increase in payments of liabilities by commercial banks contributed to the widening of the financial account deficit. However, building up of official reserve assets, though at the lower rate, moderated the widening of the deficit during the quarter.

Figure 27: Financial Account *(Million Maloti)*

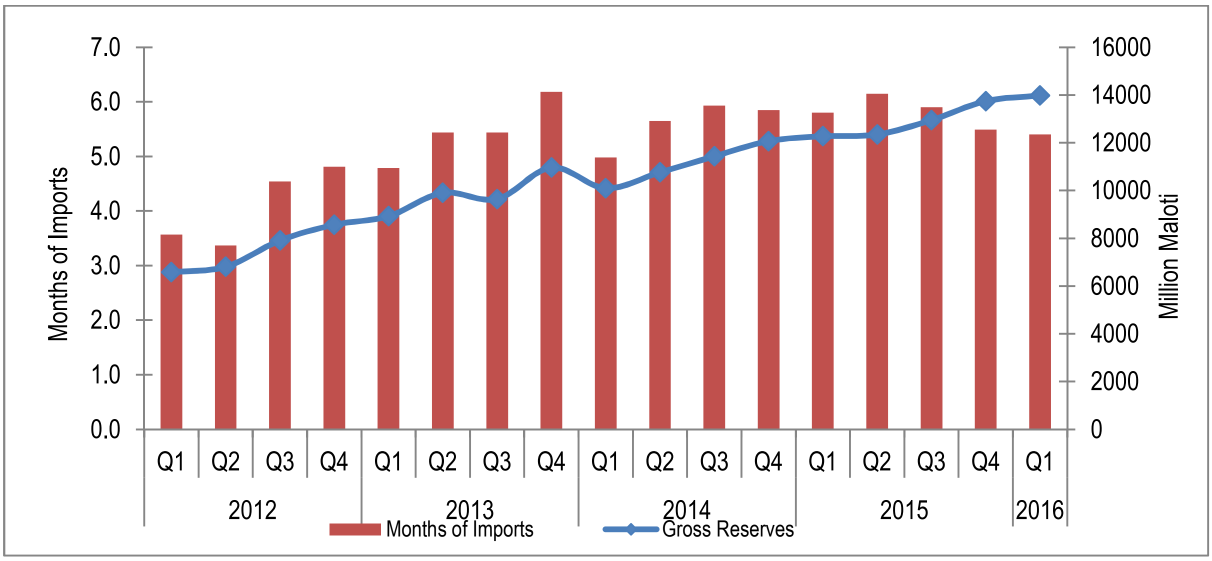


Source: Central Bank of Lesotho

Reserve Assets

The stock of international reserves rose by 1.8 per cent to M14.0 billion in the quarter ending in March 2016, following an increase of 6.1 per cent in the quarter ending in December 2015. The deceleration in reserves was influenced by an increase in imports and the valuation loss due to the appreciation of the rand hence the loti against foreign currencies where official reserves were held. As a result, in months of import cover, gross official reserves fell marginally to 5.4 months in the quarter ending in March 2016, from 5.5 months in the previous quarter.

Figure 28: Reserves Assets



Source: Central Bank of Lesotho