

CENTRAL BANK OF LESOTHO

QUARTERLY REVIEW

December, 2015

MASERU

KINGDOM OF LESOTHO

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1. Executive Summary

Similar to the quarter ending September 2015, global economic activity remained moderate during the review quarter. There was a slowdown of economic activity in advanced economies underpinned largely by a decline in industrial output coupled with sluggish government and consumer spending. Emerging markets economies economic activity recovered slightly compared to the previous quarter. This was driven by robust consumer spending that overshadowed weaker performance of investment and manufacturing output. Similar to the previous quarter, economic growth decelerated during the quarter under review. This was on account of both consumers and business cut back on spending while exports were hurt by economic weakness in international markets. Growth in the Euro Area was muted despite European Central Bank stimulus measures and positive spillovers of cheap oil prices owing to decline in industrial production. Monetary policies of most countries remained accommodative in support of economic activity although South Africa started hiking cycle while China reduced its key interest rate.

Economic performance moderated in the fourth quarter of 2015. The measure of economic performance, the Economic Activity Indicator (EAI) rose by 2.1 per cent compared with 17.9 per cent in the previous quarter. The moderation was at the back of poor performance by both the primary and the secondary sectors; however the tertiary sector provided support for the growth of the economy. The primary sector's performance weakened slightly in the review period and this was at the back of reduced output by Lets'eng given that Kao diamond mines showed increased diamond output. The secondary sector's performance deteriorated on account of poor performance by all the subsectors namely, manufacturing, electricity, water, and construction. Within the tertiary sector, all the subsectors economic performance increased except for wholesale and retail which showed a contraction. In the labour market, employment by both Government and Basotho migrant mineworker declined by 0.5 per cent and 8.0 per cent, respectively while LNDC assisted companies' employment increased though at a lower rate of 0.3 per cent.

Money supply slowed down during the review period following a relatively high growth during the previous quarter. On a quarterly basis, money supply grew by 0.1 per cent during the quarter ending December 2015 compared to 8.1 per cent increase registered during the previous review period. This development is ascribed to slight growth in both domestic claims and net foreign assets (NFA). Minimal growth in domestic claims was supported mainly by a slight growth in private sector credit coupled with a surge in claims on central government following a significant depreciation of Rand (and hence Loti) during the review quarter. This increase in claims on central government overshadowed the increase in liabilities to central government. Similarly the slight increase in NFA was due to revaluation gains which boosted the central bank investment abroad thus the central bank net foreign assets. The central bank NFA was however moderated by the decrease in commercial bank NFA due to retrieval of banks balances in South Africa to increase their credit.

Owing to an accelerated spending by government, government registered a negative budget balance during the review quarter compared to revised fiscal deficit recorded for the previous quarter. In particular, government budget balance registered a deficit equivalent to 0.1 per cent of GDP for the quarter ending December 2015 compared a deficit of 9.4 per cent of GDP for the previous quarter. The public debt increased from 53.4 per cent of GDP in September 2015 to 58.7 per cent during the review period. This significant increase is largely ascribed to Rand (and hence Loti) depreciation during the review period since most of Lesotho's public debt is denominated in foreign currencies.

The external sector continued to improve in the fourth quarter of 2015. The overall balance recorded a surplus of M749.7 million or 11.9 per cent of GDP in the fourth quarter 2015, from a surplus of M586.2 million, equivalent to 9.3 per cent of GDP in the previous quarter. The improvement in the overall balance was mainly supported by an increase in both the capital and financial account inflows. In addition, the depreciation of the local currency against currencies in which CBL's foreign reserves were held contributed to the observed surplus. The observed performance was however offset by an expansion of the current account deficit, which stemmed from the deteriorating trade account balance as a result of declining exports and the increasing import bill.

2. International Economic Developments

Global economic activity was subdued in the quarter ending in December 2015. Economic growth slowed down in the advanced and in emerging market economies. On the one hand, the slowdown in advanced economies was underpinned mainly by a decline in industrial output and sluggish government and consumer spending. On the other hand, in emerging market economies growth was supported by robust consumer spending, which was offset by weaker performance of investment, agricultural and manufacturing production.

Commodity prices continued to fall in the review period. This reflected weak global activity, slow demand growth, especially from China and oversupply in the case of oil. On the contrary inflation rates rebounded in both advanced and emerging market economies due to lower food prices. Monetary policies were kept accommodative in support of economic activity. However, policy tightening began in the South Africa and US, while China reduced its key interest rate.

Table 1: Key World Economic Indicators

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	QIII	QIV	QIII	QIV	QIII	QIV	QIII	QIV
United States	2.0*	0.7	0.0	0.7	0.25	0.50	5.1	5.0
Euro Area	1.6	1.5	-0.1	0.2	0.05	0.05	10.8	10.4
Japan	-0.8	-1.4	0.0	0.1	0.00	0.00	3.3	3.3
United Kingdom	2.1*	1.9	-0.1	0.2	0.50	0.50	5.3	5.1
China	6.9	6.8	1.6	1.6	4.60	4.35	4.1	4.1
India	7.4	7.3	4.4	5.6	6.75	6.75	n/a	n/a
South Africa	1.0	n/a	4.6	5.2	6.00	6.25	25.5	24.5

* Revised figures

Source: Bloomberg, STATSSA and SARB, US Bureau of Labour Statistics, US Bureau of Economic Analysis, National Bureau of Statistics China, Statistics Bureau of Japan, Japan Cabinet Office, Government of India Department of Labour, India Ministry of Statistics and Programme Implementation, United Kingdom Office for National Statistics

United States (US)

Economic growth in the US decelerated as both consumers and businesses cut back on spending, while exports were hurt by economic weakness in overseas markets. Real GDP rose by 0.7 per cent in the last quarter of 2015, down from an increase of 2.0 per cent in the previous quarter. The increase in real GDP primarily reflected a smaller decrease in private inventory investment, deceleration in imports, and acceleration in federal government spending. However, the increase was partly offset by negative contributions from deceleration in personal consumption expenditures, exports, nonresidential fixed investment, and state and local government spending. The unemployment rate rose by 5.0 in the review period following 5.1 per cent in the previous quarter due to increased employment in construction, professional and technical services, and health care.

Consumer inflation rate rose to 0.7 per cent in September, up from zero per cent in the previous quarter. The pickup was at the back of increases in the prices of shelter, healthcare and motor vehicle insurance. However, this increase was counterbalanced by the decline in the energy and food prices. The US Federal Open Market Committee (FOMC) increased the key interest rate by 25 basis points to 0.50 per cent. This decision was a response to the substantial progress in the labour market towards achieving the Committee's objective of maximum employment and their reasonable confidence that inflation would move to 2 percent over the medium term.

Euro Area

Growth was muted despite the European Central Bank's stimulus measures and the positive impact of cheap oil. Real GDP grew by 1.5 per cent in the fourth quarter of 2015 after a 1.6 per cent in the previous quarter. Growth was held back by a decline in industrial production which fell by 1.3 per cent in the review period due to lower production of energy and capital goods. The Eurozone unemployment rate registered 10.4 per cent in December 2015, down from 10.8 per cent in the September 2015. This is the lowest rate recorded in the Eurozone since September 2011. The lowest unemployment rates were recorded in the Czech Republic, Germany and Malta.

The inflation rate was 0.2 per cent in December compared to -0.1 per cent observed in September 2015. The largest upward impact came from restaurants & cafés, tobacco and vegetables, moderated by the downward impact from fuels for transport, heating oil and gas. The Governing Council of the ECB decided to maintain the main interest rate at 0.05 per cent and to extend the asset purchase program to March 2017 or beyond if necessary. Another decision was also taken to lower the interest rate on the deposit facility by 10 basis points to -0.30 per cent. These decisions were taken in order to secure a return of inflation rates towards levels that are below, but close to 2 per cent and thereby to anchor medium-term inflation expectations.

Japan

The Japanese economy contracted in the review quarter, despite Abenomic's policies to spur inflation and growth. Real GDP contracted by 1.4 per cent in the fourth quarter of 2015 from a 1.3 per cent increase in the previous quarter. The contraction was at the back of a slowdown in consumer spending, which accounts for 60 per cent of GDP, driven by slow wage growth and consumers' anticipation of a consumption tax hike in 2016. The slowdown in GDP also reflected a decline in exports on account of sluggish emerging market demand, particularly from China, appreciation of the Yen and the weakness of oil and commodity prices. The unemployment rate remained flat at 3.3 per cent in the quarter ending in December 2015.

The consumer inflation picked up slightly by 0.1 per cent in the quarter ending in December 2015 on account of an increase in food prices. The Bank of Japan maintained the monetary policy unchanged in the review quarter. The Bank would continue with the qualitative and quantitative easing measures with the aim of achieving the price stability target of 2 per cent.

United Kingdom

In the UK, GDP growth decelerated from 2.1 per cent in the previous quarter to 1.9 per cent in the fourth quarter of 2015. The slowdown reflected contraction in agricultural, construction and industrial production output. The weak foreign demand, strength of Sterling Pound, and mild weather, which depressed demand for oil and gas also exerted a downward pressure on GDP. Despite the weak wage growth, unemployment dropped to its lowest rate of 5.1 per cent since 2006.

The consumer inflation rate recorded 0.2 per cent in the quarter ending in December 2015 following -0.1 per cent in the previous quarter. The upward pull came from price movements of restaurants and hotel bills, transport costs and education costs such as university tuition fees. The Bank of England Monetary Policy Committee (MPC) maintained the policy interest rate at 0.5 per cent and maintained the stock of purchased assets financed by the issuance of central bank reserves at £375 billion. The MPC indicated that higher volatility in commodity prices and global financial markets which have the potential to add to the global headwinds to UK growth and inflation may warrant an interest rate hike on a gradual basis.

China

The Chinese economy continued to show signs of the economic rebalancing away from manufacturing and towards consumption and services. Real GDP growth rate registered 6.8 per cent for the quarter ending in December 2015, compared to 6.9 per cent in the previous quarter. The primary, secondary and tertiary industries rose by 3.9 per cent, 6.0 per cent and 8.3 per cent, respectively. The slowdown in GDP reflected a growth decline in fixed asset investment and exports. Consumption continued to expand robustly, supported by solid wage growth. The unemployment rate rose slightly to 4.1 per cent in the review quarter.

The consumer price index remained constant at 1.6 per cent in December 2015. The People's Bank of China (PBOC) cut its benchmark interest rate by 25 basis points to 4.35 per cent, and also lowered the amount of cash that banks must hold as reserves. This was done to combat deflationary pressures and slowing Chinese economy.

India

During the fourth quarter of 2015 economic activity in India lost momentum. Real GDP rose by 7.3 per cent during the quarter ending in December, lower than the 7.7 per cent realized in the previous quarter. Positive contributions to GDP came from strong private consumption and manufacturing production buoyed by a significant fall in inputs costs following the collapse of global commodity prices. However, this increase was offset by a slowdown in electricity generation due to lower demand from state distribution companies; a contraction in agriculture on account of a 23.0 per cent shortfall in monsoon rainfall; and investment demand as rural demand continued to decline.

The consumer inflation rate decelerated to 5.6 per cent in December, after a 4.4 per cent increase in September 2015. The increase in CPI was led by a 43 per cent surge in pulses; a key ingredient in many Indian recipes. The Reserve Bank of India maintained the repo rate at 6.75 per cent. The Bank assessed that the inflation target for January 2016 at 6 per cent was within reach.

Inflation is expected to broadly follow the projection path with risks slightly to the downside, with a target of 5 per cent by 2017.

South Africa

Economic activity in SA remained subdued in the last quarter of 2015. According to the SARB's forecasts for GDP, growth is likely to decline in the fourth quarter of 2015, with downwards revisions for the year. This reflected the subdued performance of the manufacturing sector while the mining and construction sectors are expected to have contracted. The agricultural sector is also projected to have contracted due to the ongoing drought conditions. For the period October to November 2015, manufacturing and mining production showed a slowdown due to weak demand and declining commodity prices, while retail sales showed some improvement. Consumption expenditure by households continued to be inhibited by low consumer confidence, declining disposable income growth and slow employment growth. The unemployment rate registered 24.5 per cent in the quarter ending in December 2015 compared with 25.5 per cent in the previous quarter. Employment gains were mainly observed in the formal sector, mainly in the finance and other business services, trade and community and social services industries.

The South African annual consumer price inflation was 5.2 per cent in December 2015, up from 4.8 per cent in November 2015. The increase was due to increases in the prices of food, housing and utilities, which rose by 5.9 per cent and 3.5 per cent, respectively. The South African Reserve Bank Monetary Policy Committee (MPC) decided to increase the repurchase rate by 25 basis points to 6.25 per cent. The MPC noted that the upside risks to inflation that relate to persistent exchange rate depreciation, electricity tariffs and food prices, were more pronounced. The MPC had to act to keep inflation expectations anchored and somehow influence the possible second round effects on inflation.

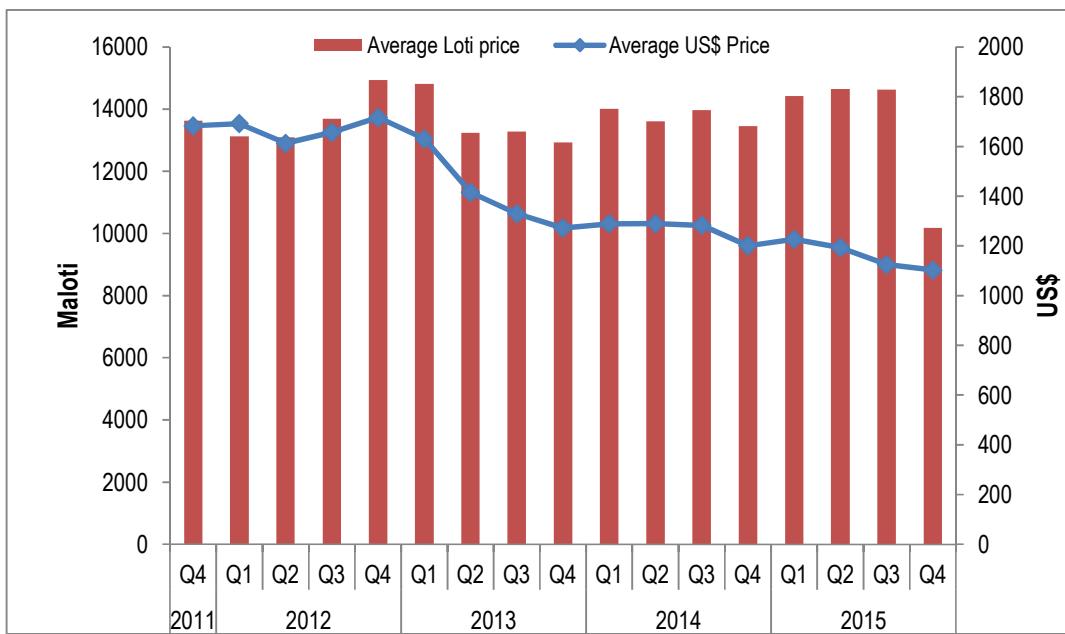
COMMODITIES

Minerals

Gold

The average US Dollar price of gold fell during the quarter under review. In US Dollar terms, it declined by 1.9 per cent to US\$1 103.65 per ounce relative to a 5.7 per cent increase in the previous quarter. The gold prices responded to the US Dollar appreciation as well as the US interest rate hike, which reduced the appeal for non-interest paying assets like gold. In Maloti terms, it fell by 30.4 per cent to M10 186.66 per ounce from M14 629.42 in the previous quarter.

Figure 1: Average Price of Gold

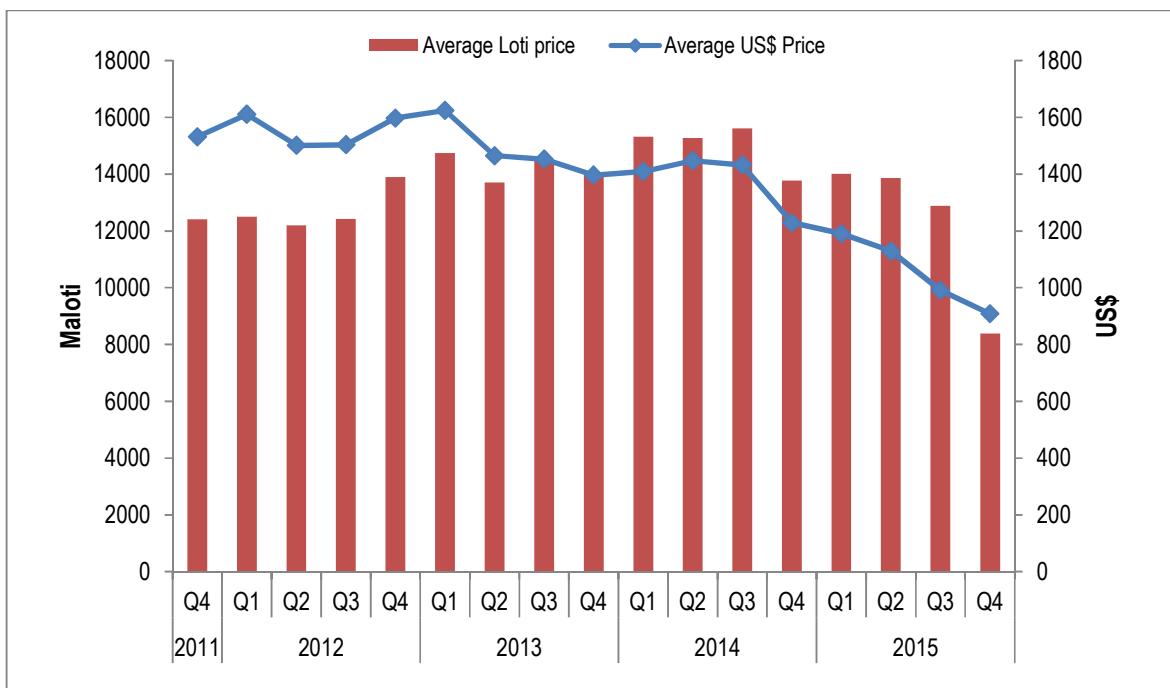


Source: Bloomberg

Platinum

The average price of platinum, in US Dollar terms, declined by 8.4 per cent to US\$908.37 per ounce during the quarter ending in December 2015 compared to a decline of 12.2 per cent in the previous quarter. The decline was reflected by low demand from key importers, including Europe and China, which use platinum in the manufacturing of cars. In Maloti terms, it dropped by 34.9 per cent to M8384.21 relative to a 7.0 per cent decline in the previous quarter.

Figure 2: Average Price of Platinum



Source: Bloomberg

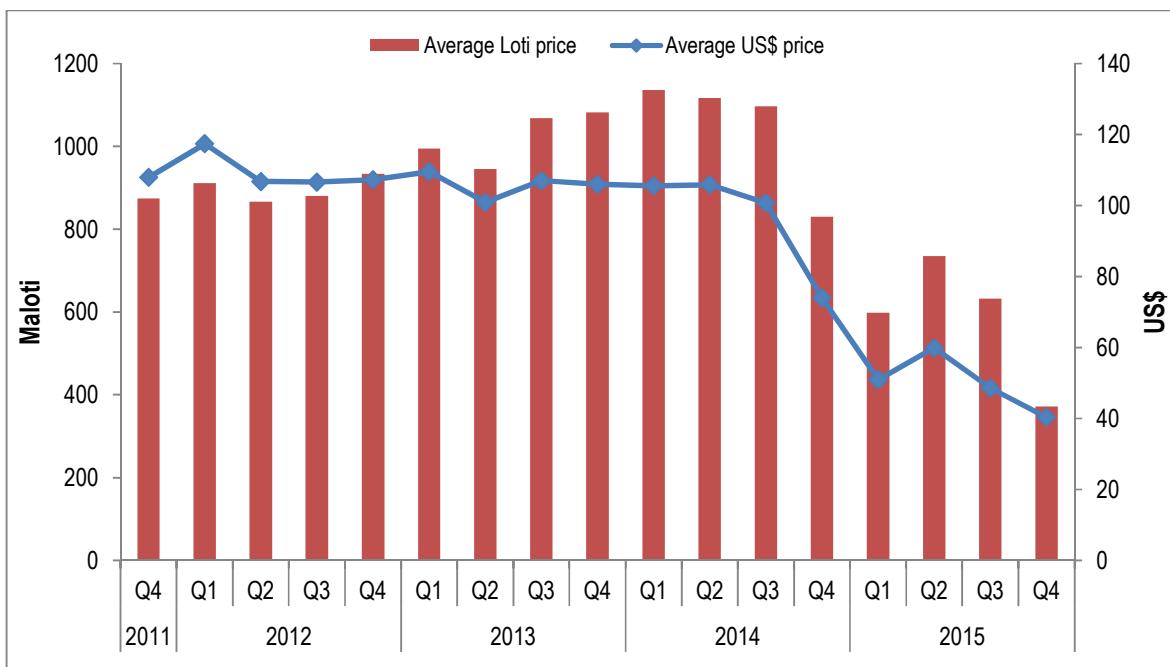
Energy

Oil

In US Dollar terms, the average price of oil fell by 17.0 per cent to US\$40.32 per barrel relative to 18.9 per cent in the quarter ending in September 2015. The low oil prices reflected sluggish fuel demand, weak global economic activity; prospects of higher production in Iran as well as higher than expected supply in the US and other OPEC member countries.

In Maloti terms, the average price of oil declined by 41.1 per cent to M372.15 per barrel compared with a 14.1 per cent rise in the previous quarter. As a result of the movement in the exchange rates and the international crude oil prices, the domestic fuel prices were revised during the review quarter. Petrol price closed the review quarter with a lower price of M9.50 per litre, from M9.60 recorded in the quarter ending in September 2015. Diesel was M9.95 per litre in the review period following M9.60 per litre in the previous quarter. Paraffin picked slightly to M6.80 per litre in the quarter ending in December 2015, from M6.40 per litre recorded in the previous quarter.

Figure 3: Average Price of Oil



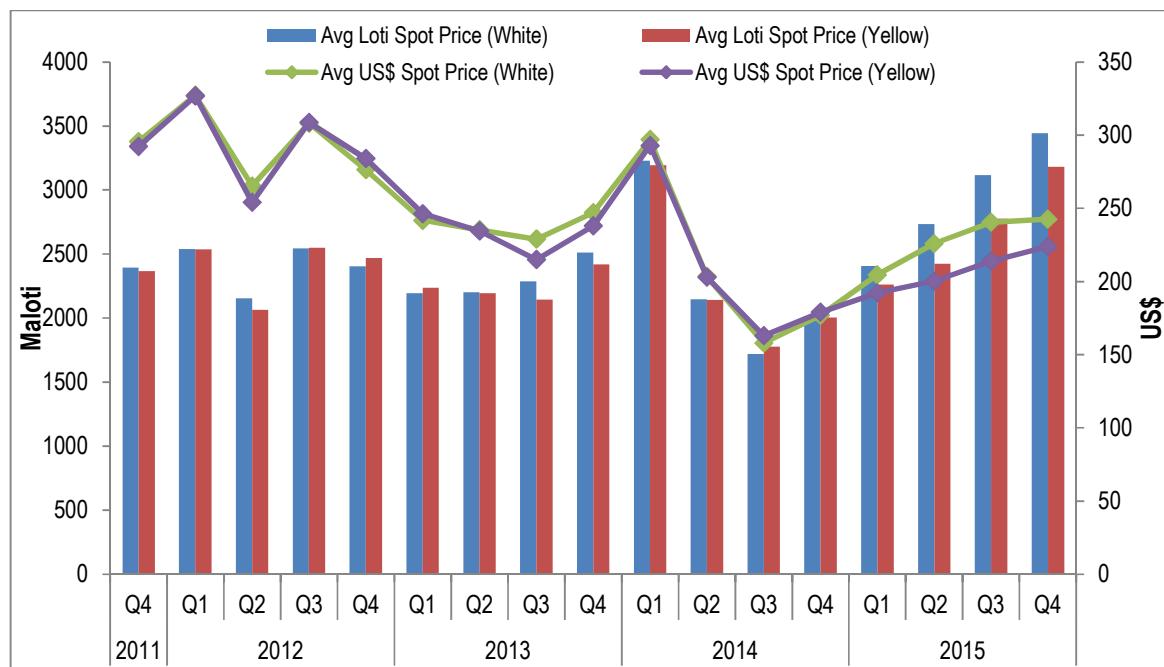
Source: Bloomberg

Agricultural Products

Maize

During the review period, the average US Dollar price of white maize rose by 0.9 per cent to US\$242.57 per tonne during the last quarter of 2015 following a 6.4 per cent increase in the previous quarter. The average price of yellow maize increased by 4.7 per cent to US\$223.94 per tonne compared with an increase of 6.9 per cent in the previous quarter. The increase in maize prices was attributed to rising consumer demand, negative production sentiments from Brazil due to unfavourable weather conditions as well as drought conditions, especially in Southern Africa. In Maloti terms, the average prices of both white and yellow maize increased by 10.6 per cent to M3 445.36 per tonne and by 14.6 per cent to M3 180.80, respectively.

Figure 4: Average Price of Maize

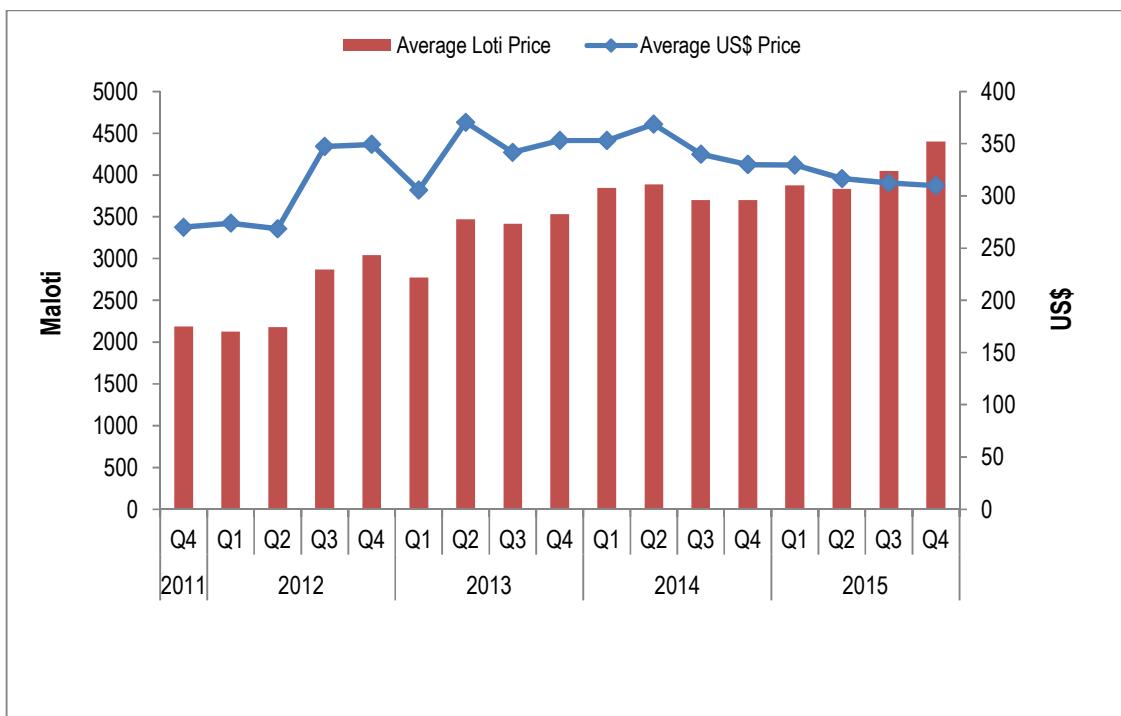


Source: Bloomberg

Wheat

In US Dollar terms, the average price of wheat decreased by 0.8 per cent to US\$309.85, after a 1.4 per cent decline in the previous quarter. Wheat prices remained suppressed because of large supplies and intensified competition for export markets. In Maloti terms, it increased by 8.7 per cent to US\$4 400.95 per tonne relative to a 5.7 per cent rise in the previous quarter.

Figure 5: Average Price of Wheat

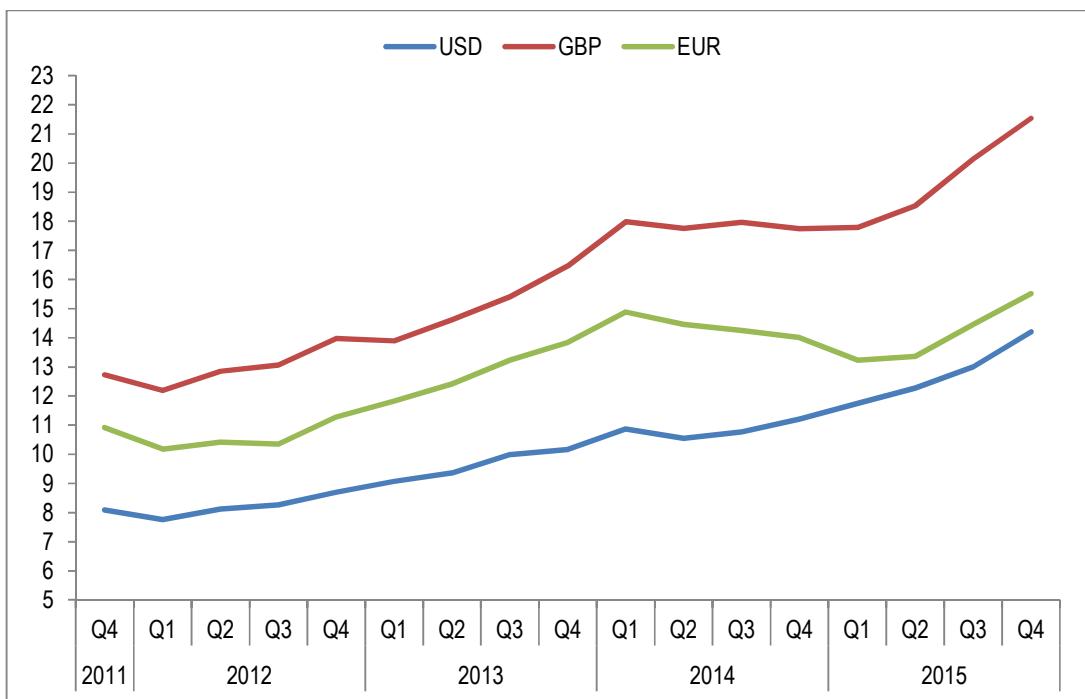


Source: Bloomberg

EXCHANGE RATES

In the fourth quarter of 2015, the Rand and hence Loti weakened against the major trading currencies. The Loti depreciated by 9.2 per cent to M14.20, by 6.9 per cent to M21.54 and by 7.2 per cent to M15.51 against the US Dollar, the Pound Sterling and the Euro, respectively. The appreciation of the US Dollar was mainly due to 25 basis points interest rate hike by the Federal Reserve Bank. 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 would increase interest rates.

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



Source: Bloomberg

3. Real Sector Development

OVERVIEW

Domestic economic performance moderated in the fourth quarter of 2015. The measure of economic performance, the Economic Activity Indicator (EAI) rose at a lower rate in the fourth quarter of 2015. The observed moderation was on account of weak performance by the primary and secondary sectors, while growth was mainly supported by the tertiary sector.

OUTPUT DEVELOPMENTS

The domestic economic performance increased at a lower rate in the review period. The EAI increased by 2.1 per cent in the quarter ending December 2015 compared with a significant increase of 17.9 per cent in the third quarter of 2015.

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

	Weight	2013		2014		
		Q4	Q1	Q2	Q3	Q4
EAI	100	5.3	1.7	-10.2	17.9	2.1
Primary Sector						
Mining	8.9	-9.2	-12.2	28.2	-4.7	-0.2
Secondary Sector						
Manufacturing	18.5	10.0	-31.2	22.4	20.9	-0.8
Electricity	1.1	-12.6	-5.8	17.3	6.1	-11.8
Water	4.9	-28.6	-7.0	37.5	3.2	-12.4
Construction	7.6	-0.9	19.2	-58.7	146.7	-22.5
Tertiary Sector						
Trade	11	12.4	-11.7	-0.3	-3.6	12.2
Telecom	5.1	9.0	6.5	2.6	3.8	9.0
Financial Sector	6.5	2.0	0.2	-3.3	7.8	4.3
Other services	5.7	18.7	-1.6	10.3	4.3	17.1
Government	30.6	9.9	22.8	-29.2	27.2	3.6

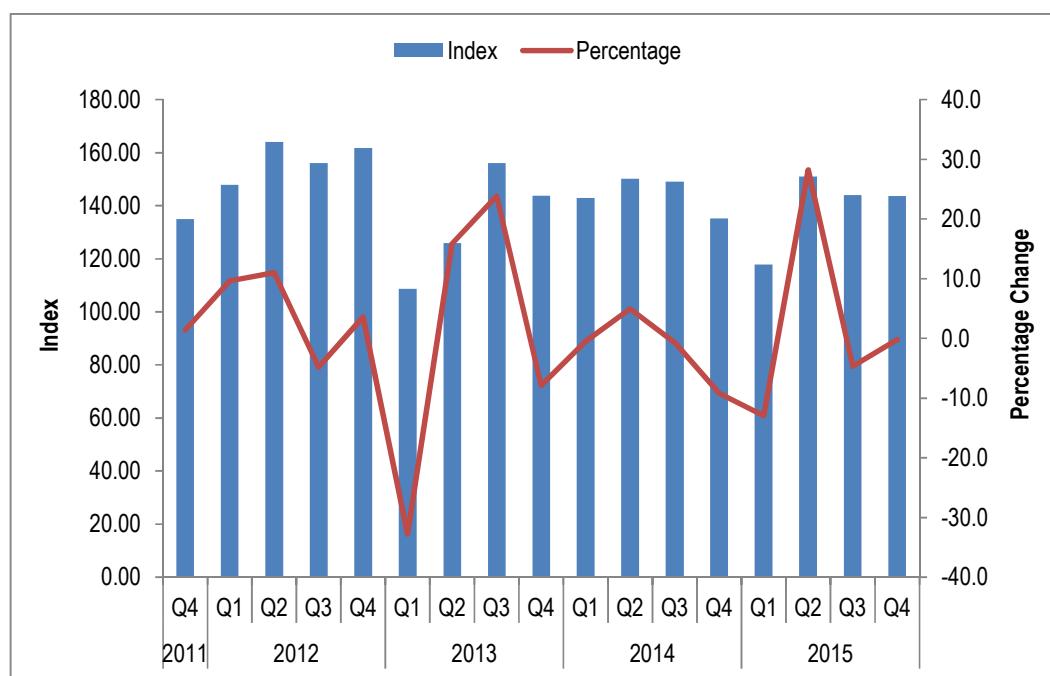
Source: Central Bank of Lesotho

Primary Sector

Mining and Quarrying

The mining and quarrying index declined marginally by 0.2 per cent in the period under review compared with a decline of 4.7 per cent in the previous quarter. The decline was attributed to a slight decline in carats recovered by Lets'eng; given that Kao diamond mine recovered more carats recovered in the review period. On the demand side, the diamond market remained weak during the review period and this was backed by the slowdown in Chinese retail demand together with high polished diamond inventory levels.

Figure 7: Mining and Quarrying Index



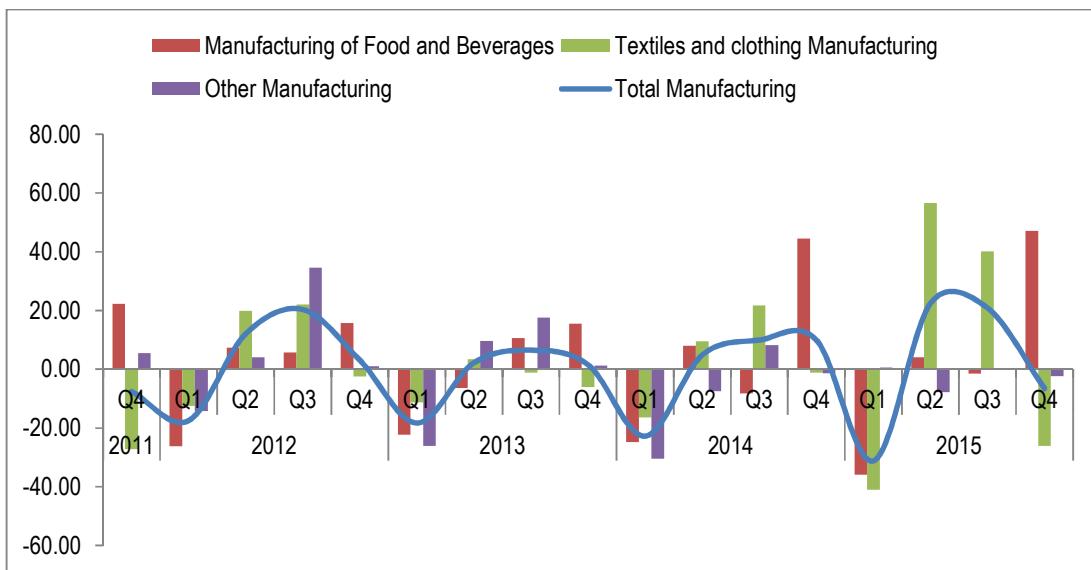
Source: Central Bank of Lesotho

Secondary Sector

Manufacturing

The manufacturing index declined marginally by 0.8 per cent in the fourth quarter of 2015 compared with 20.9 per cent increase registered in the previous quarter. The observed decline was at the back of 16.5 per cent and 2.3 per cent by manufacturing of textiles and clothing, and other manufacturing indices, respectively in the review quarter. The decline in these indices overshadowed a 47.2 per cent increase in the manufacturing of food, which was brought about by high demand for food products during the review period.

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



Source: Central Bank of Lesotho

Electricity

Electricity index declined by 11.8 per cent in the fourth quarter of 2015 compared with an increase of 6.1 per cent in the previous quarter. The decline in electricity consumption was attributed to a fall in general electricity usage. With the commercial and industrial category recording the biggest declined of 15.2 per cent in the review quarter as opposed to a 5.5 per cent increase by the category in the third quarter of 2015. The decline in electricity consumption was highly in line with poor performance by the primary and secondary sectors in the review quarter.

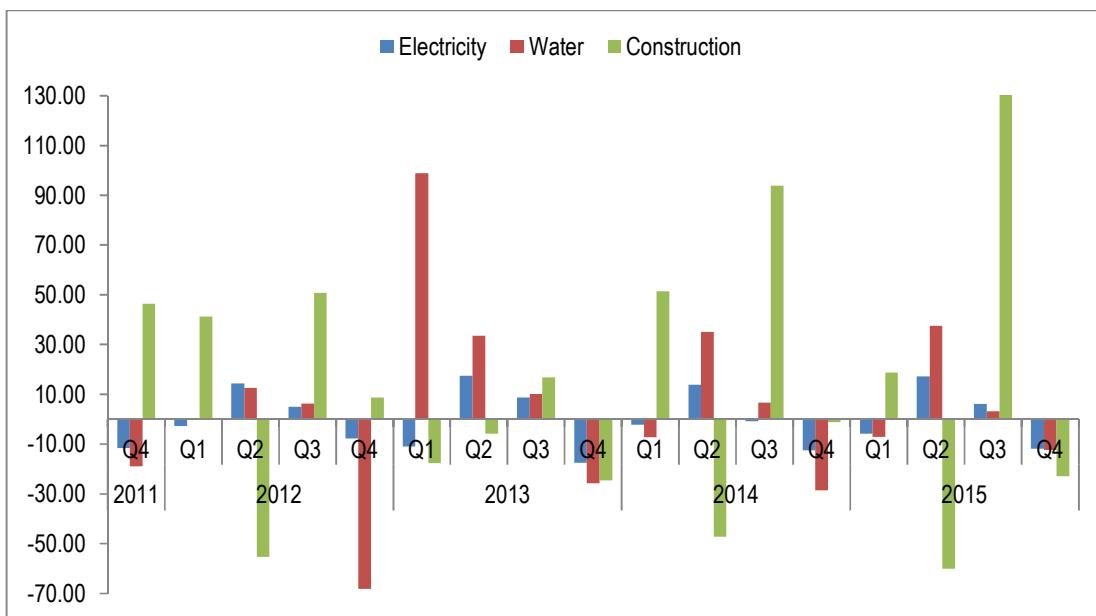
Water

The water index declined by 12.4 per cent in the review quarter compared with an increase of 3.2 per cent in the third quarter of 2015. The decline in overall water usage mainly reflected the decline in water exported to SA given that local water consumption increased. Water exports to SA declined by 12.7 per cent in the review quarter compared with an increase of 3.3 in the last quarter. Locally consumed water increased by 6.7 per cent in the fourth quarter of 2015 compared with a decline of 1.9 per cent in the previous quarter. The increase was as a result of increased water usage by the domestic category, and this was in line with new water connections during the review period given the completion of the Metolong water project.

Construction

The construction index declined by 22.5 per cent in the fourth quarter of 2015 compared with 146.7 per cent increase in the previous quarter. The decline was attributed to a large payment of around 500 million by the Ministry of Works towards the integrated transport project and resealing and spot improvements of paved roads in the previous quarter.

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



Source: Central Bank of Lesotho

Tertiary Sector

Trade

The trade index rose by 12.2 per cent in the last quarter of 2015 compared with a decline of 3.6 per cent in the previous quarter. The increase was attributed to a surge in wholesale and trade sales, mainly driven by high consumer spending during the festive season. The observed trend is in line with increased imports of goods and services.

Telecommunications

The telecommunications index increased significantly by 9.0 per cent in the fourth quarter of 2015 compared with an increase of 3.8 per cent in the third quarter of 2015. The increase is partially attributed to increased usage of mobile money services during the review period.

Other Services¹

The services index increased by 17.1 per cent in the fourth quarter of 2015 compared with a 4.3 per cent increase in the previous quarter. The increase was attributed to a surge in sales of services related to restaurants, bars and canteens, renting of land transport equipment, renting of construction and civil engineering machinery and equipment and other business activities.

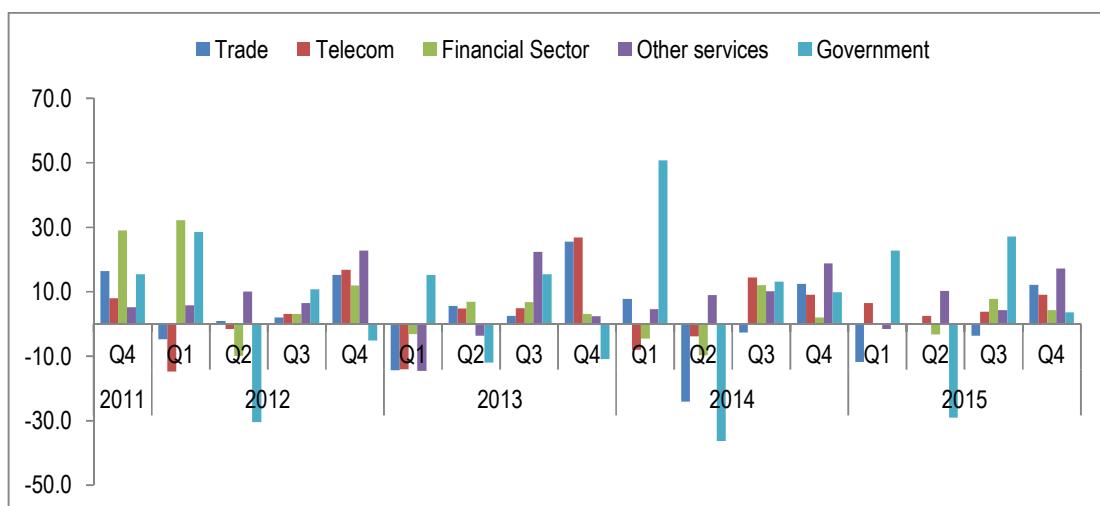
Government

The government activity index increased by 3.6 per cent in the fourth quarter of 2015 compared with a significant increase of 27.2 per cent in the previous quarter. The moderation mainly reflected lesser government expenditures during the review period.

Finance

The financial sector index increased at a lower rate of 4.3 per cent in the quarter under review compared with a significant increase of 7.8 per cent in the third quarter of 2015. The moderated performance was as a result of a lower increase in the interest earned on loans. The moderated performance was in line with marginal increase in credit to all sectors of the economy

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, maintenance and repair services, Advertising, software publishing, investigation and security activities, printing etc.

EMPLOYMENT DEVELOPMENTS

Employment by LNDC assisted companies increased marginally by 0.3 per cent in the review quarter compared with an increase of 4.1 per cent in the previous quarter. The increase was attributed to 1.8 per cent and 11.8 per cent increase in employment by the knit garments, and hotels and accommodation, respectively. The increased employment by the hospitality sector has been realized ever since the introduction of Avani Lesotho. However it has to be noted that one firm in the category of food and beverages closed down its operations in December 2015 due to financial constraints.

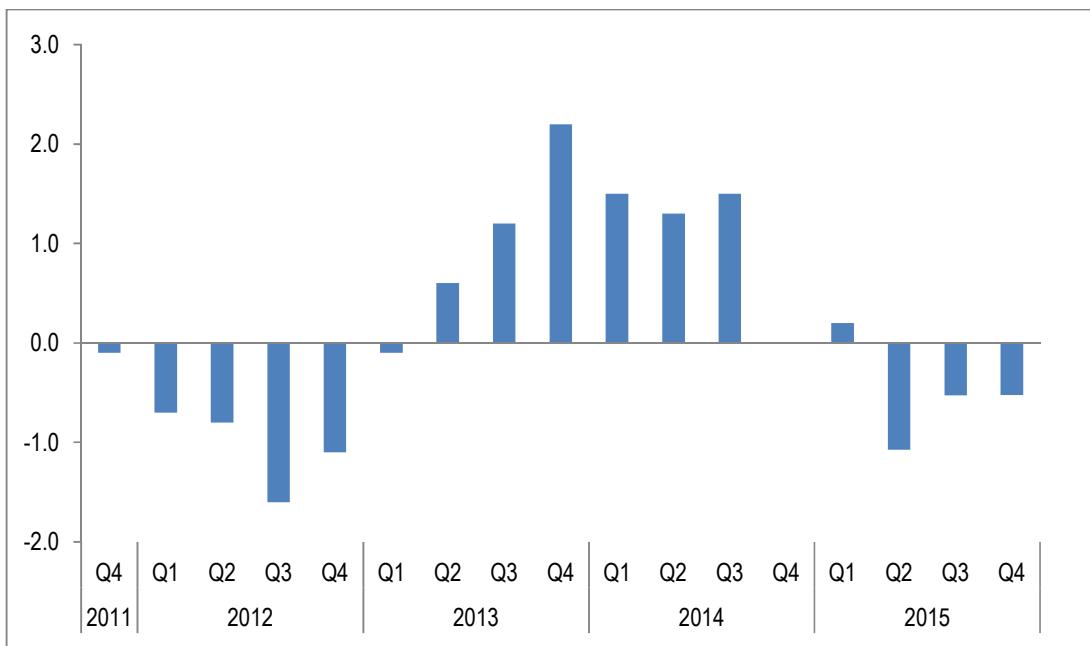
Table 3: Employment by LNDC Assistant Companies

Industry	2014		2015		% Change		
	Q4	Q1	Q2	Q3	Q4	Q/Q	Y/Y
Knit Garments.....	23553	22913	23427	24521	24963	1.8	6.0
Woven Garments.....	15798	15781	16027	16347	16241	-0.6	2.8
Footwear.....	1694	1592	1616	1839	1776	-3.4	4.8
Fabrics, Yarn etc.....	1567	1724	1715	1801	1738	-3.5	10.9
Construction.....	306	309	317	317	301	-5.0	-1.6
Food & Beverages.....	906	1089	904	901	847	-6.0	-6.5
Electronics.....	965	953	926	908	872	-4.0	-9.6
Retail.....	137	128	127	135	135	0.0	-1.5
Hotel Accomm.....	415	392	385	519	580	11.8	39.8
Other.....	1396	1647	1612	1720	1689	-1.8	21.0
TOTAL.....	46737	46528	47056	49008	49142	0.3	5.1

Source: Lesotho National Development Corporation

On quarterly basis, the total number of government employees declined marginally by 0.5 per cent in the review period compared with a decline of the same 0.5 per cent in the previous period. This was as a result of 0.2 per cent and 0.6 per cent decline in the number of civil servant and daily paid workers, respectively, while teacher's employment increased marginally by 0.2 per cent in the quarter ending in December 2015.

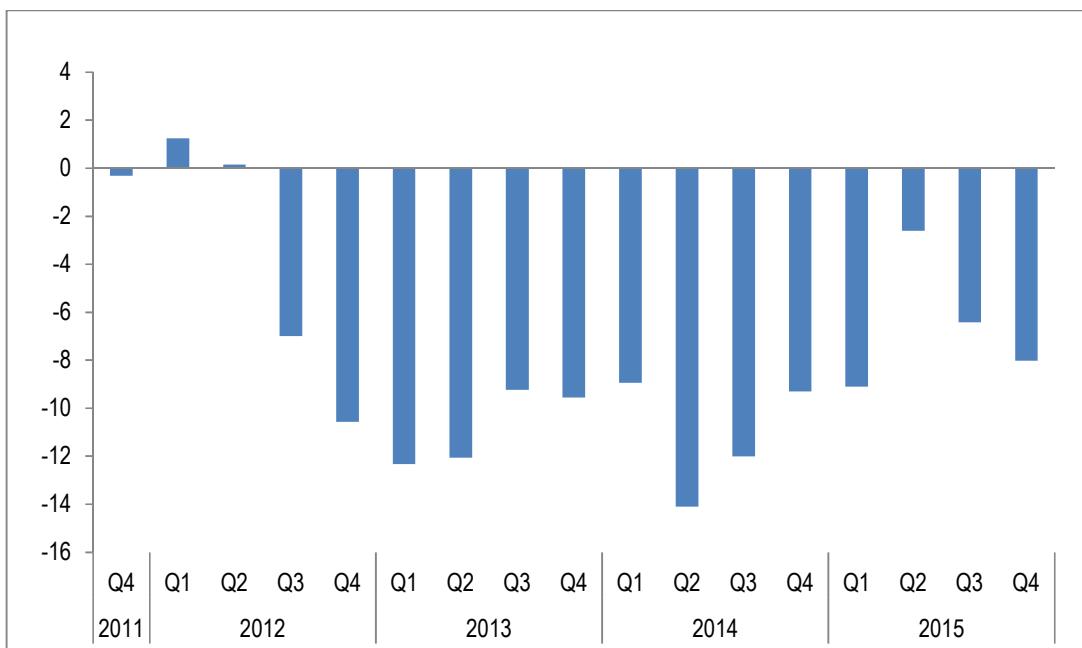
Figure 11: Government Employment (Annualized Percentage Change)



Source: Ministry of Finance

The number of Basotho migrant mineworkers employed in South African (SA) mines declined further by 8.0 per cent in the fourth quarter of 2015 compared with a 6.4 per cent registered in the previous period. The declining employment trends were as a result of non-replacement of retiring Basotho migrant mineworkers.

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) was 5.1 per cent in December 2015 compared with 3.8 per cent in September 2015. The acceleration in the inflation rate was at the back of a tremendous increase in food and nonalcoholic beverages inflation and to some extends alcoholic beverages and tobacco, health and miscellaneous goods and services. The food and nonalcoholic beverages inflation measured 9.3 per cent in December 2015 compared with 8.1 per cent in September 2015. The hike was at the back of increases in bread and cereal prices which emanated from the low domestic cereal production coupled with inflationary pressures from South Africa. The dry conditions which affected the start of the 2015/2016 crop season and the general depreciation of the Loti against the dollar supported the upward pressure on prices. However it has to be noted that the housing, electricity, gas and other fuels and transport inflation remained very low in December 2015 signaling reduced pump prices of petrol, diesel and paraffin due to reduced international crude oil prices.

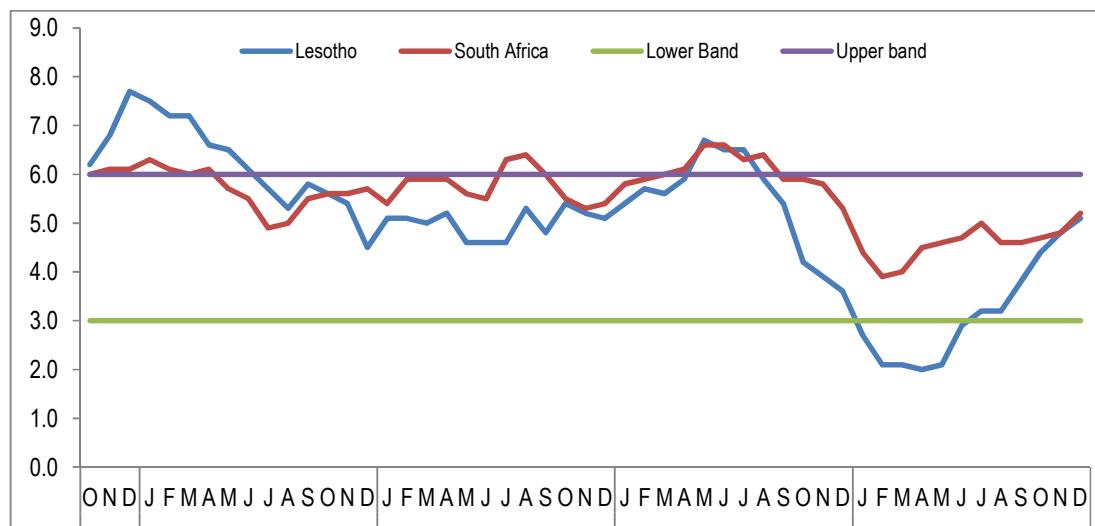
Table 4: Inflation Rate (Annualized Percentage Changes)

	Weight	2015				
		Aug	Sep	Oct	Nov	Dec
All items	100	3.2	3.8	4.4	4.8	5.1
Food and non-alcoholic beverages	38.1	5.8	8.1	8.8	8.9	9.3
Alcoholic beverages & Tobacco	1.2	6.1	5.9	5.7	5.8	6.2
Clothing & footwear	17.4	4.6	4.0	3.8	4.3	4.3
Housing, electricity gas & other fuels	10.6	-6.7	-8.3	-5.8	-3.8	-2.8
Furniture, households equipment & routine maintenance	9.4	3.7	4.8	4.6	4.8	4.8
Health	1.9	0.5	0.9	0.9	1.0	1.4
Transport	8.5	0.4	0.4	0.5	0.5	0.8
Communication	1.2	-0.8	0.0	0.0	0.0	0.0
Leisure, entertainment & Culture	2.4	3.6	3.9	3.9	2.3	2.2
Education	2.7	3.6	3.9	3.9	3.9	3.9
Restaurant & Hotels	0.7	4.7	0.8	0.8	0.7	0.8
Miscellaneous goods & services	5.8	4.6	4.7	4.8	5.2	5.3

Source: Bureau of Statistics

Lesotho and SA's inflation rate continue to move in the same direction, for the month of December 2015 Lesotho inflation rate was increasing at almost the same rate as that of SA. SA's inflation rate measured 5.2 per cent in December 2015 compared with 4.6 per cent in September 2015. Both inflation rates were driven by the alarming food prices, which resulted from the dry conditions which prevailed towards the end of 2015.

Figure 13: Lesotho and South Africa's Inflation



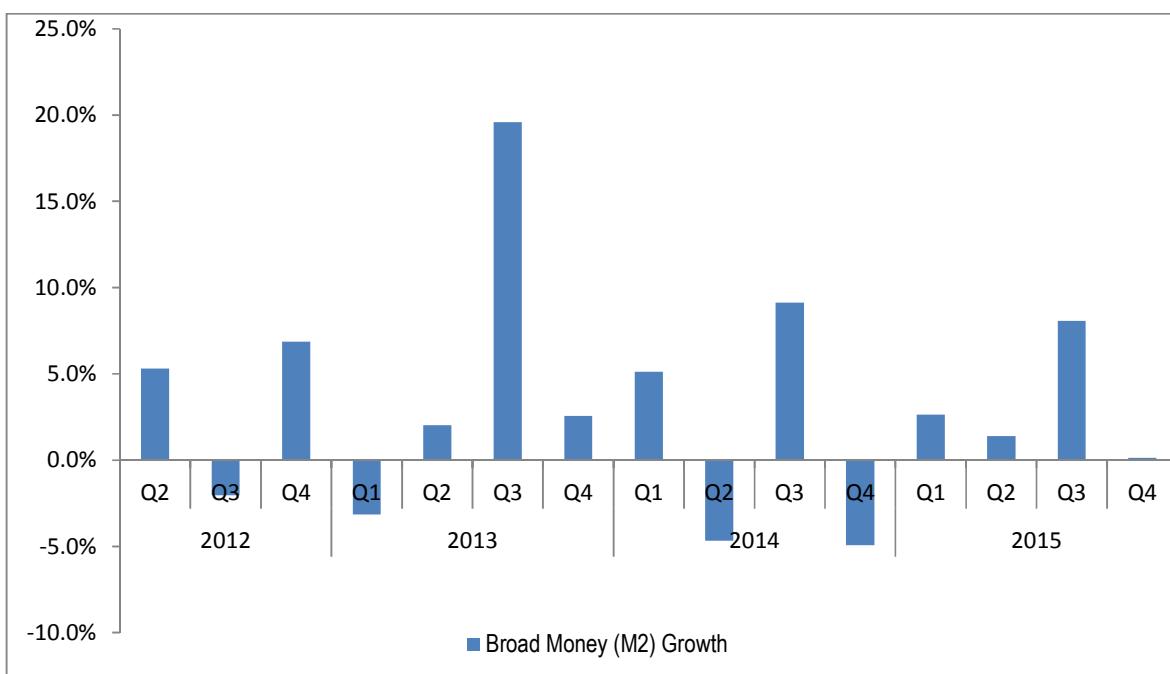
Source: Bureau of Statistics, Statistics South Africa

4. Monetary and Financial Developments

BROAD MONEY (M2)

Domestic claims, including net claims on government, increased slightly by M226.6 million in December 2015 compared to a M1 billion increase in September 2015. This was mainly on account of a minimal growth in private sector credit coupled with a surge in claims on central government following a significant depreciation of Rand (and hence Loti) during the review quarter. This increase in claims on central government overshadowed the increase in liabilities to central government.

Figure 14: Broad Money (M2)



Source: Central Bank of Lesotho

Determinants of M2

Domestic Credit

Domestic claims, including net claims on government, increased slightly by M226.6 million in December 2015 compared to a M1 billion increase in September 2015. This was mainly on account of a minimal growth in private sector credit coupled with a surge in claims on central government following a significant depreciation of Rand (and hence Loti) during the review quarter. This increase in claims on central government overshadowed the increase in liabilities to central government.

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

	2014					2015		Changes (%)	
	Dec	Mar	Jun	Sept	Dec	Annual	Quarterly		
Domestic Claims	171.2	-37.1	-467.6	533.1	759.7	343.65	42.51		
Net Claims on Government	-4962.6	-5153.2	-5620.4	-4919.7	-4773.3	-3.81	-2.98		
Commercial Banks Net Claims	597.3	577.6	565.5	663.3	717.6	20.14	8.19		
Claims on Central Government	610.8	587.3	576.1	674.7	825.4	35.15	22.35		
Liabilities to Central Government	13.4	9.7	10.6	11.4	107.8	701.77	848.64		
Central Bank Net Claims	-5559.9	-5730.8	-6185.9	-5583.0	-5490.9	-1.24	-1.65		
Claims on Central Government	849.8	850.4	868.0	986.2	1090.6	28.34	10.59		
Liabilities to Central Government	6409.7	6581.2	7053.9	6569.2	6581.5	2.68	0.19		
Claims on Other Sectors	5133.8	5116.0	5152.8	5452.8	5533.0	7.78	1.47		
Claims on OFCs	12.5	15.0	14.4	0.0	31.4	151.09	0.00		
Claims on St &Local Government	0.0	0.0	0.0	0.0	0.0	0	0		
Claims on Private Sector	5121.3	5101.1	5138.4	5452.8	5501.7	7.43	0.90		
Claims on Business Enterprises	1815.14	1791.9	1859.1	2121.7	2103.4	15.88	-0.86		
Claims on Households	3306.17	3309.2	3279.3	3331.1	3398.2	2.78%	2.01%		

Source: Central Bank of Lesotho

Net Foreign Assets

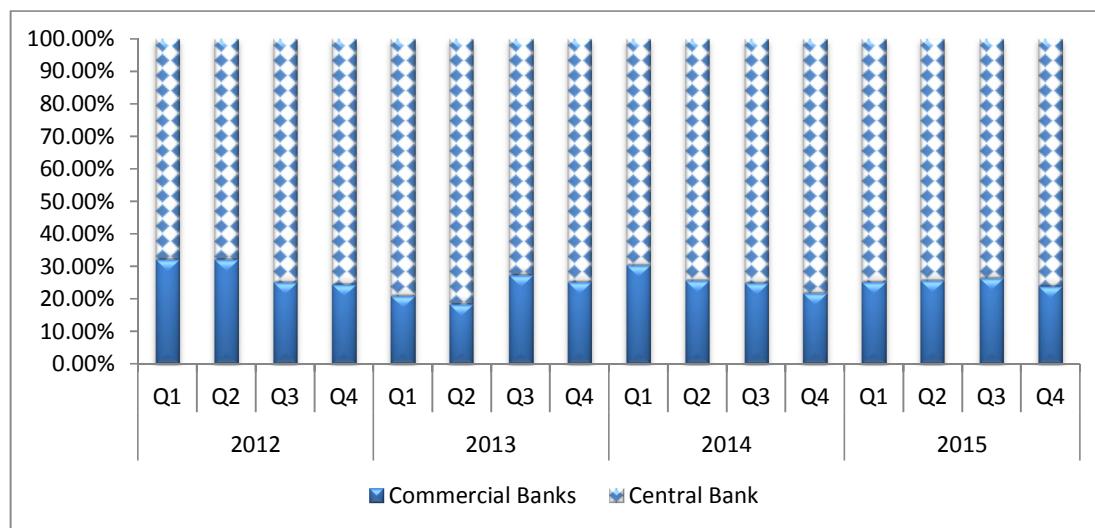
During the review period, there was an increase in overall banking system Net Foreign Assets (NFA) as was the case in the previous quarter. Overall banking system NFA recorded a 2.15 per cent increase for the current quarter against a growth of 4.98 per cent realized during the previous quarter. This is at the back of an increase Central Bank NFA moderated by a decline in commercial banks NFA. The revaluation gains owing to Rand/Loti depreciation boosted Central Bank's investments abroad and thus increasing Central Banks NFA. On the other hand, the decrease in commercial bank NFA was due to retrieval of banks balances in South Africa to increase their credit.

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

	2014					2015		Changes (percentage)	
	Dec	Mar	June	Sept	Dec	Annual	Quarterly		
Commercial Banks	3039.5	3746.1	3869.4	4169.1	3859.2	26.97	-7.44		
Claims on Non-residents	3329.4	4,098.78	4233.3	4578.9	4244.1	27.47	-7.31		
Liabilities to Non-residents	289.9	352.7	363.9	409.8	385.0	32.78	-6.06		
Central Bank	10923.5	11130.6	11174.4	11624.5	12274.8	12.37	5.59		
Claims on Non-residents	12342.0	12550.2	12624.3	13210.5	13960.2	13.11	5.68		
Liabilities to Non-residents	1418.5	1419.6	1449.9	1586.0	1685.4	18.81	6.27		
Net Foreign Assets Total	13962.9	14876.6	15043.8	15793.6	16133.9	15.55	2.15		

Source: Central Bank of Lesotho

Figure 15: Net Foreign Assets (percentage shares)



Components of M2

The major components of broad money (M2) are narrow money (M1) and quasi money. Broad money rose by 0.1 per cent during the third quarter of 2015. This development is ascribed to an increase in M1 moderated by a decline in quasi money. The increase in M1 was largely on account of growth in transferable deposits and currency in circulation as demand for transactions edges up during the festive season. Quasi money fell due to a decline of other deposits of commercial banks.

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

	2014					2015		Changes (percentage)	
	Dec	Mar	June	Sept	Dec	Annual	Quarterly		
Broad Money (M2)	9003.8	9239.8	9368.6	10124.0	10136.9	12.58	0.13		
Narrow Money (M1)	4096.6	4265.7	4368.9	4860.6	5295.3	29.26	8.94		
Currency Outside DCs	941.5	907.2	842.1	912.7	1014.5	7.75	11.15		
Transferable Deposits	3155.1	3358.4	3526.9	3947.9	4280.8	35.68	8.43		
Quasi Money	4907.2	4974.1	4999.6	5263.4	4841.6	-1.34	-8.01		
Other Deposits Commercial Banks	4849.2	4918.0	4953.5	5223.1	4803.6	-0.94	-8.03		
Other Deposits Central Bank	58.0	56.1	46.2	40.4	38.0	-34.54	-5.84		

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 0.9 percent compared to a 14.1 per cent increase registered for the previous quarter. This was driven by mining which declined by 14.4 percent and electricity gas and water which declined by 5.8 percent. For both mining and electricity gas and water there were loan repayments thus the declines. This declines were however moderated by increases in wholesale retail hotel and restaurant.

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

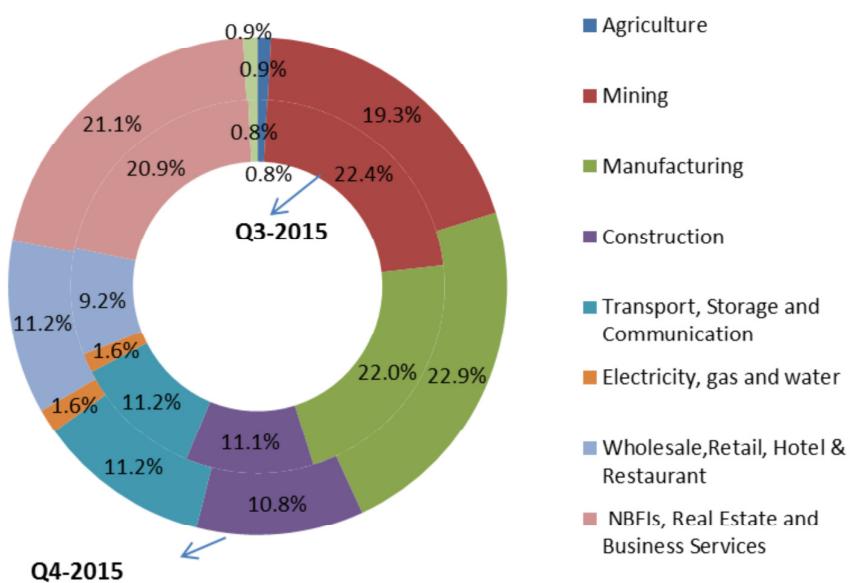
SECTOR	2014					2015		Changes (percentage)	
	Dec	Mar	June	Sept	Dec	Annual	Quarterly		
Agriculture	17.4	13.4	12.8	17.2	18.1	-1.3	5.2		
Mining	358.7	343.2	340.2	475.4	406.9	32.5	-14.4		
Manufacturing	445.4	434.0	401.3	465.8	481.7	4.6	3.4		
Construction	171.2	186.4	229.4	234.5	228.2	37.0	-2.7		
Transport, Storage and Communication	188.5	179.0	158.8	236.9	235.3	25.7	-0.7		
Electricity, gas and water	40.4	31.9	62.7	34.9	32.9	-13.6	-5.8		
Wholesale, Retail, Hotel & Restaurant NBFI, Real Estate and Business	153.2	144.8	173.1	195.8	235.8	27.8	20.5		
Services	429.9	444.0	464.2	444.1	444.6	3.3	0.1		
Community, Social & Personal Service	10.3	15.3	16.7	17.0	19.8	64.7	16.6		
All Sectors	1815.1	1791.9	1859.1	2121.6	2103.4	16.9%	-0.9%		

Source: Central Bank of Lesotho

Distribution of credit Extended to Business Enterprises

Regarding the allocation of credit extended to business enterprises by sector Manufacturing recorded the biggest share of credit at 22.9 per cent of total credit followed by NBFIs real estate and business with 21.1 per cent, then Mining with 19.3 per cent. The agriculture sector continues to have the lowest share of total credit.

Figure 16: Distribution of Credit (Percentage Shares)

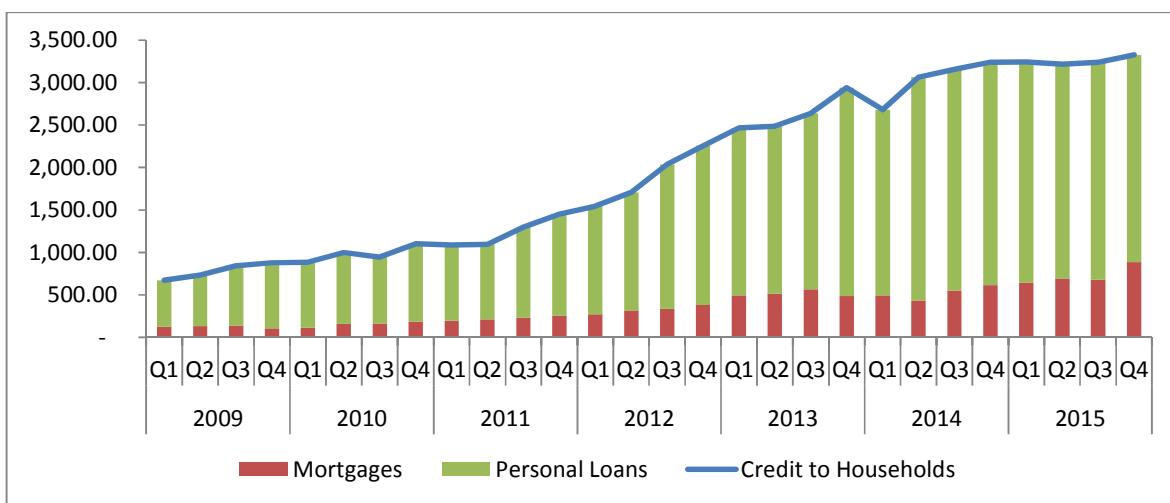


Source: Central Bank of Lesotho

Credit extended to Households

Credit extended to households increased by 3 per cent in the fourth quarter of 2015. This was contrary to the 1 per cent increase in the third quarter of 2015. This recovery in credit extended to households was caused by a 30 per cent growth in mortgages that was moderated by a 5 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' liquidity ratio increased from 79 per cent to 83 per cent in the current quarter. This was as a result of a decline in total deposits albeit an increase in liquidity components. Similarly, credit to deposit ratio increased by 1 percentage point following a rise in private sector credit and a decline in deposits. This indicates a relative increase in the level of financial intermediation in Lesotho by the commercial banks.

Table 9: Components of Liquidity (Million Maloti)

	2014		2015		
	Dec	Mar	June	Sept	Dec
Credit to Deposit Ratio	63%	61%	60%	59%	60%
Private Sector Credit	5060.3	5040.1	5076.7	5389.124	5432.195
Total Deposits	8004.3	8276.4	8480.3	9170.977	9084.447
Liquidity Ratio	80%	86%	82%	79%	83%
Notes and Coins	361.6	268.5	305.0	293.0	476.3409
Balance due from banks in Lesotho	2149.5	2381.9	2411.6	2395.3	2343.948
Balance due from banks in SA	2954.0	3864.3	3669.1	3723.9	3760.57
Surplus funds	303.9	14.4	-65.6	122.9	96.34394
Government Securities	610.8	610.2	610.2	674.7	825.4198
Total	6379.7	7139.2	6930.3	7209.8	7502.6

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 compared to 8.1 per cent increase during the previous quarter. This was driven by customers transferring their deposits to more interest bearing accounts outside the country.

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

	2014					2015		Changes (%)	
	Dec	Mar	June	Sept	Dec	Annual	Quarterly		
Transferable Deposits Incl. in BM	3155.1	3358.4	3526.9	3947.9	4280.8	35.7	8.4		
Other Financial Corporations	0.0	0.0	0.0	0.0	0.0				
Public Nonfinancial Corporations	109.2	1.6	56.3	92.8	83.5	-23.5	-10.0		
Private Sector	3028.0	3338.8	3452.6	3837.1	4179.3	38.0	8.9		
Other NFCs	2280.2	2583.6	2582.9	2780.3	2813.9	23.4	1.2		
Other Sectors (Households)	747.8	755.3	869.7	1056.8	1365.4	82.6	29.2		
Other Deposits Incl. in BM	4849.2	4918.0	4953.5	5223.1	4803.6	-0.9	-8.0		
Other Financial Corporations	12.4	20.5	26.1	22.1	87.5	604.9	294.9		
Public Nonfinancial Corporations	57.2	169.2	94.1	187.4	118.2	106.8	-36.9		
Private Sector	4779.6	4728.2	4833.3	5013.5	4598.0	-3.8	-8.3		
Other NFCs	3300.4	3327.0	3610.4	3748.4	3053.7	-7.5	-18.5		
Other Sectors (Households)	1479.2	1401.2	1222.9	1265.1	1544.3	4.4	22.1		
Total Deposits	8004.3	8276.4	8480.3	9171.0	9084.4	13.5%	-0.9%		

Source: Central Bank of Lesotho

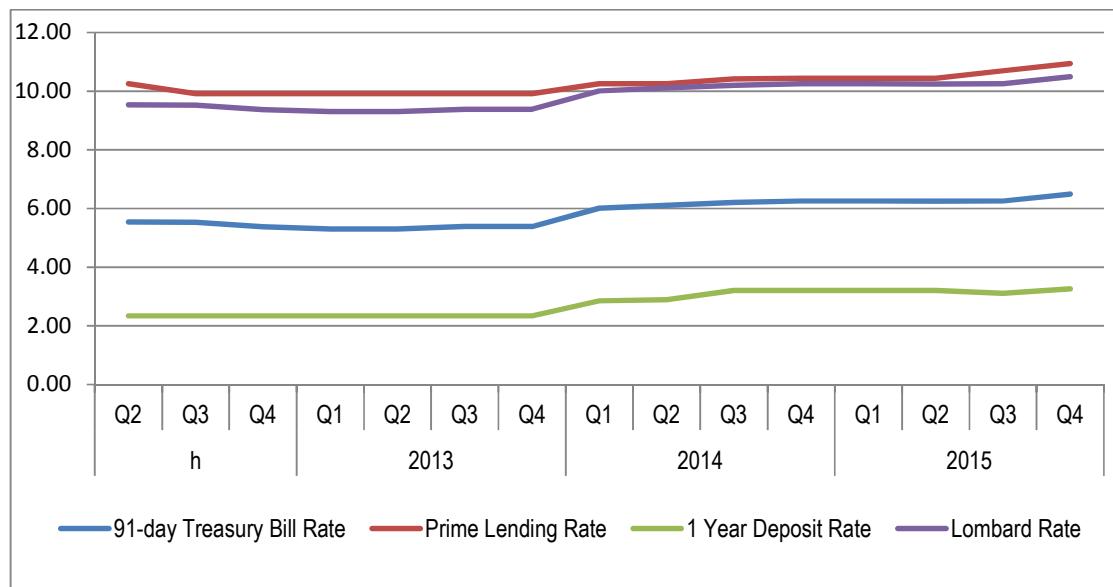
MONEY AND CAPITAL MARKET DEVELOPMENTS

Money Market

Interest Rates

During the quarter under review the South African Reserve Bank hiked its repo rate by 25 bps owing to deteriorating inflation outlook as well as plummeting exchange rates conditions. Consequently, the Central bank of Lesotho MPC set its newly introduced policy rate at 6.25 per cent. This was to ensure that the domestic costs of funds is aligned to those in the region especially South Africa in order to contain capital outflow that would undermine the one to one peg between South African Rand and Loti. Consequently, most money markets interest rates in Lesotho increased even though with a different magnitude. The prime rate increased with 25 basis points, the 91 day bill rate increased with 24 basis points and the one year deposit rate increase with 15 basis points.

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



Source: Central Bank of Lesotho

Table 11: Interest rates

	2014		2015		
	Dec	Mar	Jun	Sept	Dec
Central Bank					
T-Bill Rate - 91 days	6.25	6.25	6.24	6.25	6.49
Lombard Rate	10.25	10.25	10.24	10.24	10.49
Commercial Banks					
Call	0.99	0.99	0.99	0.85	1.03
Time:					
31 days	1.23	1.23	1.23	0.83	0.48
88 days	1.72	1.72	1.72	2.13	1.04
6 months	2.31	2.31	2.31	2.18	2.26
1 year	3.21	3.21	3.21	3.11	3.26
Savings	0.86	0.86	0.86	0.61	0.51
Prime	10.44	10.44	10.44	10.69	10.94
South Africa					
Repo	5.75	5.75	5.75	6.00	6.25
T-Bill Rate - 91 days	6.12	5.78	5.72	6.21	6.98
Marginal Lending Rate					
Prime	9.25	9.25	9.25	9.50	9.75

Source: Central Bank of Lesotho

Holding of Treasury Bills and T-Bill Rates

The holding of Treasury bills increased by 10 per cent in the current quarter compared to 8 per cent decline in the previous quarter. The 91 day Treasury bill average yield rate increased from 6.35 per cent to 6.60 per cent during the same period

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

	2014				2015			
	Mar	Jun	Sep	Dec	Mar	Jun	Sept	Dec
Treasury Bills	531.7	548.9	570.4	586.0	594.3	592.3	542.1	595.9
Banking System	406.26	399.98	397.94	407.25	406.33	396.53	331.90	395.61
Non-Bank Sector	125.41	148.96	172.47	178.72	187.93	195.73	210.22	200.24
Memorandum Item								
Yield Bills (91-days)	6.10	6.20	6.30	6.35	6.35	6.34	6.350	6.6

Source: Central Bank of Lesotho

Holding of Treasury Bonds and T-Bonds Rates

The holding of Treasury bonds increased by 9.0 per cent in the current quarter. There was no change observed in the previous quarter. The increase observed was as a result of bond issuance to finance the government budget deficit.

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

	2014				2015			
	Mar	Jun	Sep	Dec	Mar	Jun	Sept	Dec
Holding of Treasury Bonds	504.1	520.7	537.5	553.33	572.7	573.2	573.2	622.9
Banking System	317.87	321.06	321.25	321.26	336.47	338.97	339.39	468.03
Non-Bank Sector	186.19	199.65	216.22	232.07	236.27	234.20	233.78	154.84

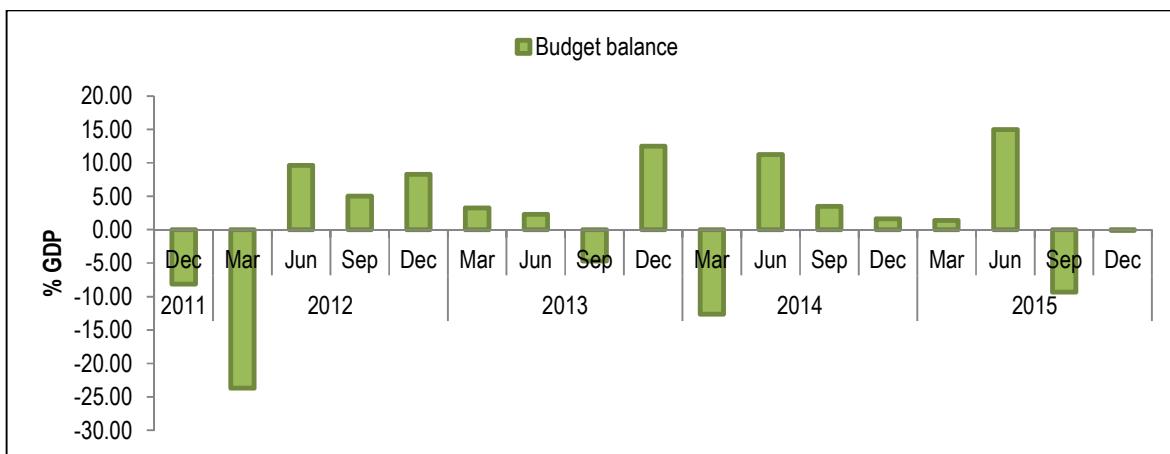
Source: Central Bank of Lesotho

5. Government Finance

OVERVIEW

The Government registered a deficit of 0.1 per cent of GDP in the quarter ending December, 2015 compared with a revised deficit of 9.4 per cent in the quarter ending September, 2015. The public debt stock recorded 58.7 per cent of GDP during the quarter under review compared to the revised 53.4 per cent in the quarter ending September, 2015. This debt increase, among others, reflects Loti depreciation against major foreign currencies in which debt is dominated. Further accumulation of external debt stock may threaten the sustainability of future debt service obligations.

Figure 19: Fiscal Balance (Per cent of GDP)

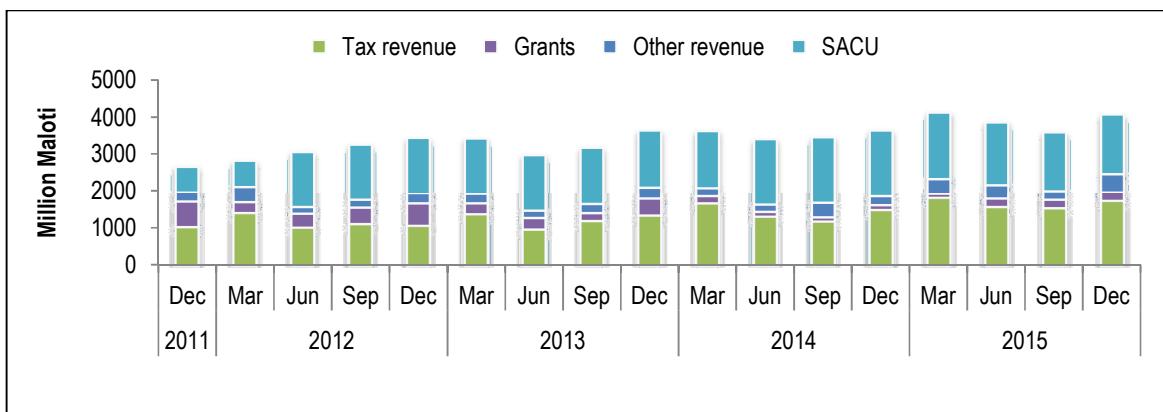


Source: Central Bank of Lesotho (CBL) and Ministry of Finance (MOF)

REVENUE

The total revenue contributed 64.2 per cent of GDP in the quarter ending December, 2015 compared with 56.9 per cent in the quarter ending September, 2015. It increased by 12.7 per cent during the quarter under review relative to the revised fall of 6.6 per cent in previous quarter. The increase in revenue is attributable to 13.1 per cent in tax revenue, 8.4 per cent in grants, and 96.0 per cent in other revenue. SACU receipts remained constant. That is, all components of tax revenue (taxes on income, on goods and services, on international trade, and other taxes) contributed to the increase in total revenue. Capital grants from foreign governments also registered an increase, together with property income (mining royalties) under other revenue.

Figure 20: Components of Revenue (Million Maloti)



Source: CBL and MOF

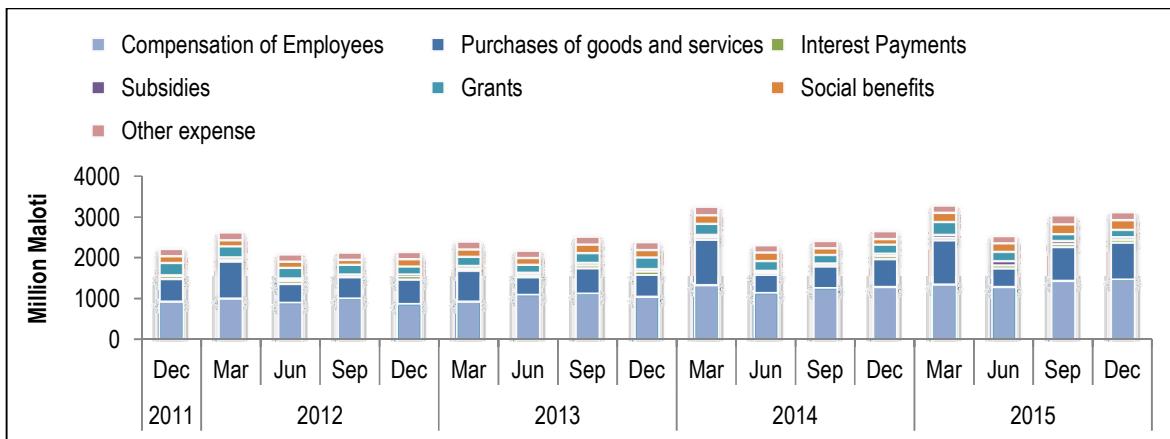
TOTAL EXPENDITURE

Government expenditure contributed 64.3 per cent of GDP in the quarter ending December, 2015 compared with the revised 66.3 per cent in the third quarter of 2015. It decreased by 3.1 per cent during the fourth quarter of 2015 relative to a revised rise of 44.3 per cent during the quarter ending September, 2015. In terms of proportions, the share of expense (or recurrent) to the total expenditure recorded 76.8 per cent during the fourth quarter of 2015 up from 72.6 per cent in the preceding quarter. The non-financial assets registered a lower share of 23.2 per cent during the quarter ending in December, 2015 compared with 27.4 per cent from the previous quarter.

The expense increased by 2.6 per cent in 2015 October-December quarter compared to the revised 19.6 per cent in 2015 July-September quarter. The increase in expense is attributable to a rise in compensation of employees, purchases of goods and services, and grants to other general government units. The interest payments, subsidies and social benefits registered a decline during the quarter under review. The interest payments, in particular, recorded a fall due to the redemption of M350 million Treasury bond in October, 2015.

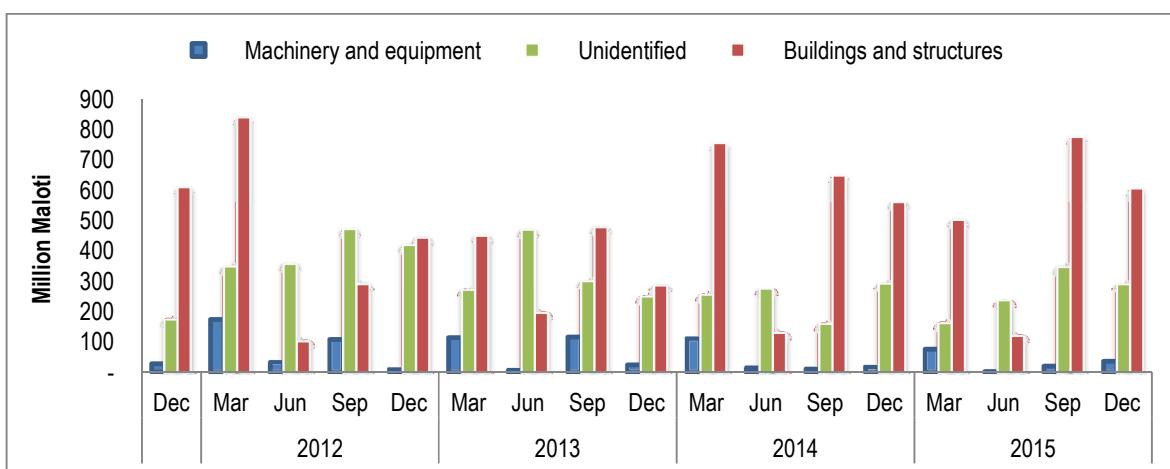
The non-financial assets decreased by 18.2 per cent during the quarter ending December, 2015 compared to the revised significant rise of 217.7 per cent in third quarter of 2015. Though the capital spending registered a fall, a record of some budget items including dwellings and ‘other machinery and equipment’ categories more than doubled the previous record of the third quarter of 2015.

Figure 21: Components of Expense (Million Maloti)



Source: CBL and MOF

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



Source: CBL and MOF

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

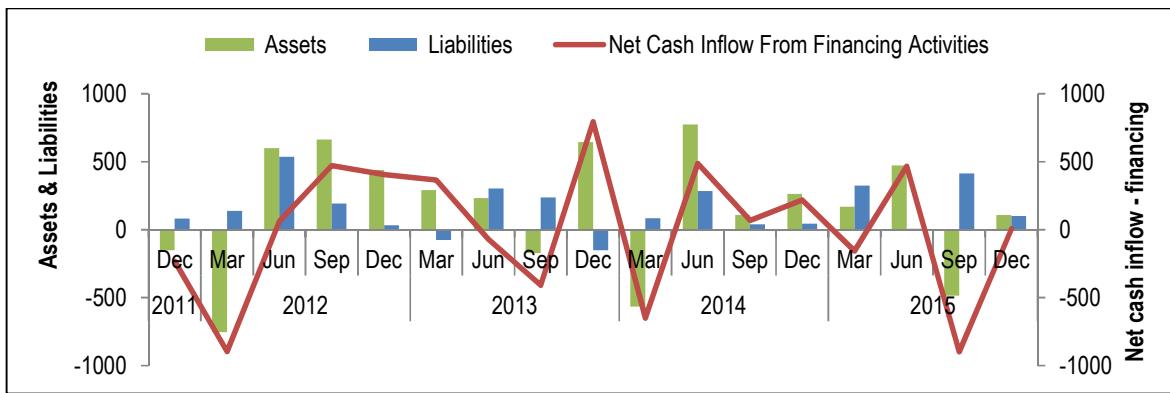
	2014					2015		Changes (%)	
	Dec	Mar	Jun	Sep	Dec	Q-to-Q	Y-on-Y		
Total Revenue	3631.75	4105.90	3847.14	3593.14	4049.91	12.7	11.5		
Tax revenue	1493.61	1821.04	1570.29	1537.26	1738.51	13.1	16.4		
Grants	136.40	118.30	239.35	233.05	252.55	8.4	85.2		
Other revenue	243.23	408.04	370.05	245.77	481.79	96.0	98.1		
SACU receipts	1758.52	1758.52	1667.45	1577.06	1577.06	0.0	-10.3		
Total Expense	2660.34	3275.67	2537.99	3036.45	3116.11	2.6	17.1		
Compensation of Employees	1272.93	1332.37	1273.68	1422.46	1455.74	2.3	14.4		
Purchases of goods and services	708.99	1100.88	478.59	843.88	925.42	9.7	30.5		
Interest Payments	71.51	65.88	73.26	77.10	66.41	-13.9	-7.1		
Subsidies	62.58	61.92	99.82	72.28	66.33	-8.2	6.0		
Grants	213.62	312.10	235.65	170.74	173.91	1.9	-18.6		
Social benefits	127.81	219.17	203.96	239.49	227.81	-4.9	78.2		
Other expense	202.91	183.36	173.02	210.51	200.48	-4.8	-1.2		
Net Cash Inflow From Operating Activities	971.42	830.22	1309.15	556.69	933.81	67.7	-3.9		
Total Nonfinancial Assets	874.98	741.11	361.08	1147.11	938.71	-18.2	7.3		
Fixed Assets	874.98	741.11	361.08	1147.11	938.71	-18.2	7.3		
Non-Produced Assets	0.00	0.00	0.00	0.00	0.00	0.0	0.0		
Cash deficit(-)/surplus(+)	96.43	89.11	948.07	-590.42	-4.90	-	-		
Net Cash Inflow From Financing Activities	-218.73	157.18	-466.34	898.60	-6.12	-	-		
Net Acquisition of Financial assets	-263.07	-167.80	-473.61	483.94	-108.77	-	-		
Net Incurrence of Liabilities	44.34	324.98	7.27	414.65	102.64	-	-		
Statistical Discrepancy	-122.30	246.29	481.73	308.18	-11.02	-	-		

Source: CBL and MOF

FINANCIAL ASSETS AND LIABILITIES

The net financial assets recorded an increase in deposits amounting to M108.8 million during the quarter ending December, 2015 relative to the revised fall of M483.9 million in 2015 July-September quarter. The domestic currency and deposits contributed to the rise in net financial assets. Furthermore, the net incurrence of liabilities increased by M102.6 million in the fourth quarter of 2015 compared with M414.7 million in the previous quarter. This increase in liabilities is mainly due the rising domestic securities other than shares and domestic loans (the IMF's extended credit facility). The increase in the IMF's extended credit facility is attributable to the exchange rate effect since no disbursements were received during the quarter ending December, 2015. The net foreign liabilities on the one hand recorded a decline due to high amortization during the quarter under review.

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



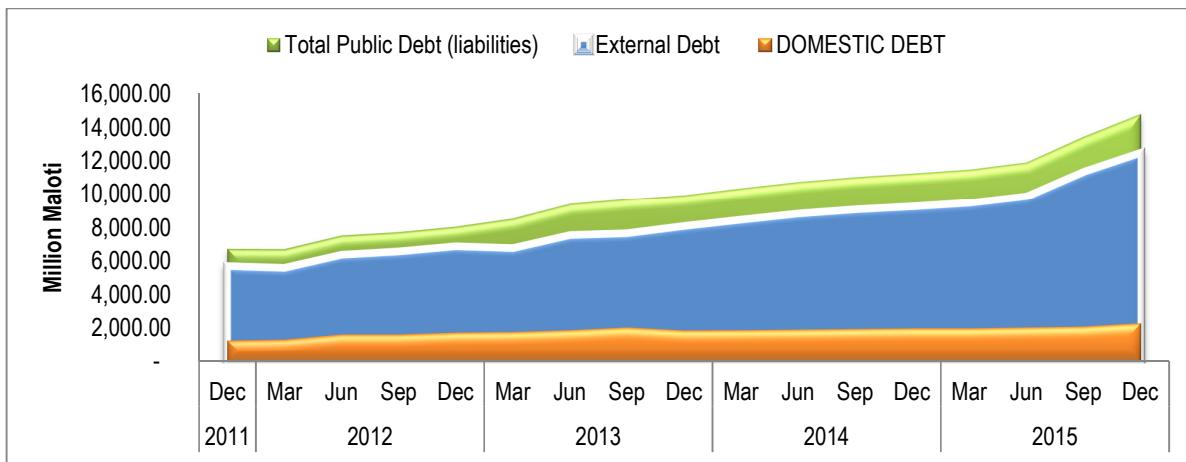
Source: CBL and MOF

TOTAL PUBLIC DEBT

The total outstanding public debt (including publicly guaranteed debt) accumulated to M14,804.8 million as at 31st December, 2015, reflecting an increase of M1,336.7 of new debt from the 30th September, 2015. The total public debt accounted for 58.7 per cent of GDP during the quarter under review compared with the revised 53.4 per cent in 2015 July-September quarter. The accumulation of public debt stock is attributable to the depreciation of Loti against major foreign currencies in which external debt is denominated.

The external debt recorded 49.6 per cent of GDP during the quarter ending December, 2015 up from the revised 45.0 per cent in the third quarter of 2015. It contributed 84.5 percentage share to total public debt in the fourth quarter of 2015 compared with 84.4 per cent in the quarter ending September, 2015. It increased by 10.0 per cent during the quarter under review down from 15.0 per cent rise in the previous quarter. Furthermore, the domestic debt recorded 9.1 per cent during the quarter under review compared with 8.3 per cent in the quarter ending September, 2015. It constituted a share of 15.5 per cent to the total public debt in 2015 October-December quarter, down from 15.6 per cent in 2015 July-September quarter. It increased by 9.4 per cent during quarter ending December, 2015 compared with a revised rise of 3.0 per cent in the previous quarter.

Figure 24: Outstanding Public Debt (Million Maloti)



Source: CBL and MOF

Table 15: External Debt Stock (Million Maloti)

	2014		2015			Debt / GDP (%)	
	Dec	Mar	Jun	Sep	Dec	Sep-15	Dec-15
EXTERNAL DEBT							
Bilateral Loans	9277.15	9506.71	9887.49	11370.03	12509.81	45.05	49.57
Concessional	1103.77	1186.94	1225.73	1373.62	1502.93	5.44	5.95
Non-concessional	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Multilateral Loans	7553.62	7690.99	8000.17	9287.56	10282.52	36.80	40.74
Concessional	6486.81	6363.41	6622.15	7495.13	8326.91	29.70	32.99
Non-concessional	1066.81	1327.58	1378.02	1792.43	1955.61	7.10	7.75
Financial Institutions	56.52	55.08	55.08	54.40	1.52	0.22	0.01
Concessional	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Non-concessional	56.52	55.08	55.08	54.40	1.52	0.22	0.01
Suppliers' Credit	563.23	573.70	606.51	654.46	722.84	2.59	2.86

Source: MOF

Table 16: Domestic Debt Stock (Million Maloti)

	2014		2015			Debt / GDP (%)	
	Sep	Mar	Jun	Sep	Dec	Sep-15	Dec-15
DOMESTIC DEBT							
Banks	1986.86	1991.69	2036.39	2098.05	2294.94	8.31	9.09
Short-term (t-bills)	1576.07	1567.49	1606.46	1654.04	1939.86	6.55	7.69
Long-term	407.25	407.25	396.58	331.91	395.61	1.32	1.57
Treasury bonds	1168.82	1160.24	1209.88	1322.14	1544.25	5.24	6.12
Central Bank (IMF-ECF)	321.7	336.9	339.0	339.4	468.0	1.34	1.85
Non-bank	847.13	823.34	870.91	982.75	1076.22	3.89	4.26
Short-term (t-bills)	410.79	424.20	429.93	444.01	355.08	1.76	1.41
Long-term (t-bonds)	178.72	187.93	195.73	210.22	200.24	0.83	0.79

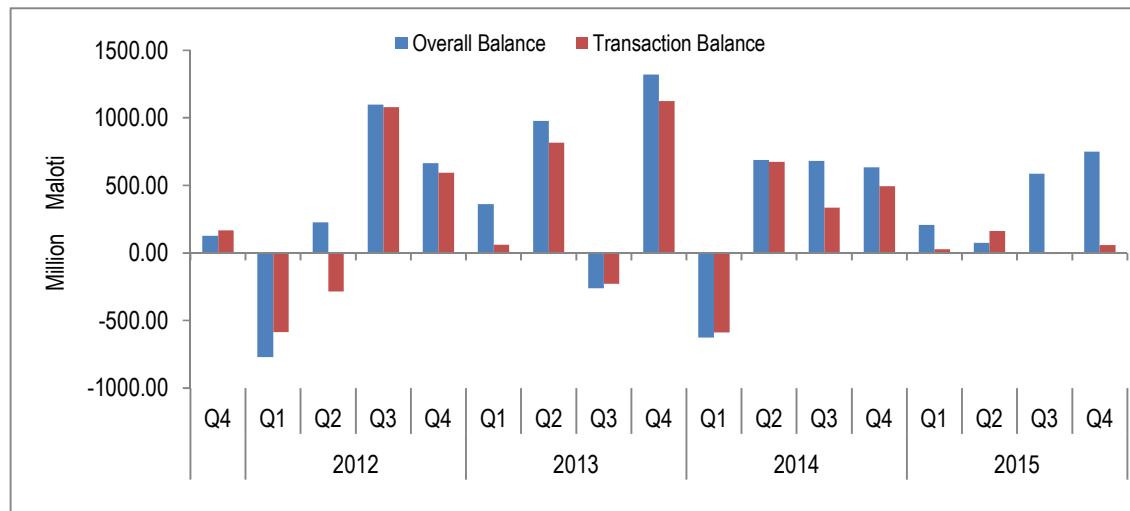
Source: CBL

6. Foreign Trade and Payments

OVERVIEW

The external sector continued to improve in the fourth quarter of 2015. The overall balance recorded a surplus of M749.7 million or 11.9 per cent of GDP in the last quarter 2015, from a surplus of M586.2 million, equivalent to 9.3 per cent of GDP in the previous quarter. The improvement in the overall balance reflected an increase in both the capital and financial account inflows. In addition, the depreciation of the local currency against currencies in which CBL's foreign reserves were held contributed to the observed surplus. However, the improvement in the overall balance was dampened by an expansion of the current account deficit, which stemmed from the worsening trade deficit. The transactions balance, which measures the overall balance excluding the effects of currency fluctuations, recorded a surplus of M59.5 of million during the review quarter against a deficit of 8.4 million in the previous quarter, indicating that the depreciation of the local currency had a huge positive impact on the external sector position.

Figure 25: External Sector Position (Million Maloti)



Source: Central Bank of Lesotho

CURRENT ACCOUNT

The current account balance recorded a deficit of M807.1 million during the last quarter of 2015 from a deficit of M231.2 million in the previous quarter. The worsening current account deficit was underpinned by the deteriorating trade account balance. The trade account balance widened to a deficit of M3.9 billion in the quarter under review from a deficit of M3.2 billion in the previous quarter. This was mainly attributed to a 4.8 per cent fall in exports of textiles and apparel as well as a 12.2 per cent decline in exports of diamonds. The deficit in the current account was further worsened by an increase in imports of goods and services in line with the on-going construction in the country, which depends to a large extent on imported capital goods. The current account deficit was however, moderated by a rise in net income flows reflecting an

increase in interest earnings by Both the CBL and commercial banks. As a percentage of GDP, the current account balance recorded a deficit of 13.6 per cent in the review quarter, compared with a deficit of 3.7 per cent of GDP in the previous quarter.

Table 17: Current Account Balance (Million Maloti)

	2014 Q4	2015				% Changes	
		Q1	Q2	Q3*	Q4 ⁺	Q/Q	Y/Y
Current Account	-690.44	-950.06	-463.52	-231.15	-860.65	272.33	24.65
(a) Goods	-2912.24	-3384.93	-2652.48	-2297.85	-2961.47	28.88	1.69
Merchandise exports, f.o.b.	2308.24	1980.50	2396.50	3283.03	3191.09	-2.80	38.25
Of which diamonds	752.84	685.83	917.20	1134.78	990.11	-12.75	31.52
Of which textiles & clothing	983.36	688.54	949.24	1561.95	1486.58	-4.83	51.17
Other exports	519.85	589.16	521.66	569.64	659.55	15.78	26.87
Merchandise imports, f.o.b.	-5220.48	-5365.43	-5048.98	-5580.88	-6152.56	10.24	17.85
(b) Services	-893.99	-908.62	-896.49	-925.02	-957.52	3.51	7.11
(c) Income	922.47	956.46	981.54	969.12	1037.05	7.01	12.42
(d) Current Transfers	2193.32	2387.02	2103.91	2022.59	2021.28	-0.06	-7.84

+ Preliminary Estimates

*Revised Estimates

Source: Central Bank of Lesotho

Merchandise Exports

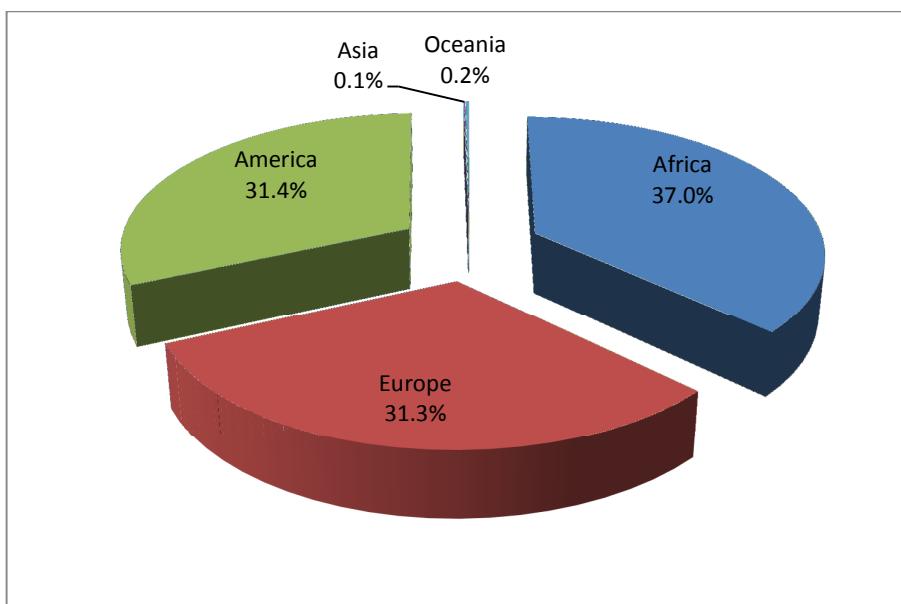
Merchandise exports fell by 2.8 per cent in the review quarter in contrast to a rise of 37.0 per cent in the quarter ending in September 2015. The decline was mainly driven by a plunge in both diamonds and textile exports despite the continued depreciation of the rand hence the loti against major international currencies. Textile exports on the one hand declined owing to the decreased volume exported, resulting from subdued production in the manufacturing sector as firms usually close early for the festive season. Diamond exports on the other hand plummeted on account of declining prices of diamonds, which took a knock from the currently tight liquidity conditions in the international markets. On a year by year basis, exports however, showed a massive growth of 38.2 per cent in the last quarter of the year from an increase of 37.6 per cent in the third quarter. As a share of GDP, merchandise exports accounted for 50.6 per cent in the review quarter in contrast with a 52.0 per cent share in the previous quarter.

Direction of Trade - Exports

During the last quarter of 2015, Africa (particularly SACU region) overtook America and Europe by becoming the largest recipient of Lesotho's exports. Africa accounted for about 37.0 per cent of total exports from Lesotho during the review period compared with 18.6 per cent in the

previous quarter. Exports to Africa predominately consist of textiles and apparel. America became the second largest recipient of Lesotho's exports by absorbing a smaller share of 31.4 per cent in the review quarter down from 44.9 per cent in the previous quarter. Similarly, Lesotho's exports to America are also dominated by textiles and apparel. However, the reduced exports to America during the review quarter led to America's lower share in Lesotho's total exports. Europe, whose exports mainly comprise of diamonds, became the third recipient of Lesotho's exports. Its share dropped from 36.2 per cent in the third quarter of 2015 to 31.3 per cent in the last quarter of 2015. The Oceania and Asia markets remained insignificant during the review quarter with shares of 0.2 and 0.1 per cent respectively, compared with shares of 0.1 and 0.2 per cent in the previous quarter.

Figure 26: Direction of Merchandise Exports (Percentage Share)



Source: Central Bank of Lesotho

Merchandise Imports

Merchandise imports rose by 10.2 per cent in the review quarter compared to a 10.5 per cent increase in the previous quarter reflecting higher purchases of capital goods required for the ongoing construction activities in the diamond mining industries as well as other private construction in the country. On a year by year basis imports posted a growth of 17.2 per cent in the fourth quarter of 2015 from 15.2 per cent in the previous quarter. As a share of GDP, payments for imports constituted 97.5 per cent in the quarter ending in December 2015 from 88.4 per cent of GDP in the previous quarter, indicating the country's high reliance on imported goods.

Services Account

The deficit in net services rose to M957.5 million during the fourth quarter of 2015 compared with a deficit of 925.0 million observed in the previous quarter. The larger deficit was primarily driven by an increase in payments for freight imports in line with the increased imports of goods during the review quarter. On an annual basis, the deficit in net services rose by 7.1 per cent during the review period compared with a 6.7 per cent increase in the previous quarter. As a percentage of GDP, net services accounted for 15.2 per cent in the review quarter compared with a 14.7 per cent share recorded in the third quarter of 2015.

Income

The net income account balance grew by 7.0 per cent in the last quarter of 2015 in contrast to a decline of 1.3 per cent in the quarter under review in line with increased interest earnings on both the CBL and commercial bank's portfolio investments abroad. The observed performance was further supported by a lower payment of interest on government foreign denominated debt. On an annual basis, the net income account balance rose by 12.4 per cent during the fourth quarter of 2015, compared with an increase of 7.4 per cent during the previous quarter. As a share of GDP, the net income account balance registered 16.4 per cent in the review quarter compared with 15.4 per cent in the third quarter of 2015.

Current Transfers

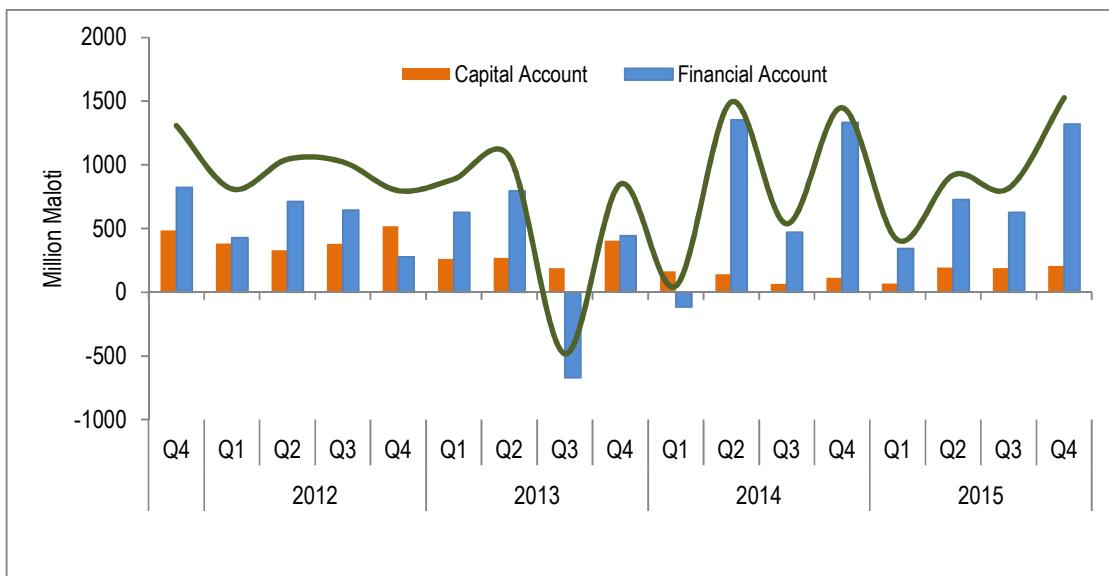
During the period under review, the net current transfers fell slightly by 0.1 per cent following a drop of 3.9 per cent in the previous quarter. The decline in net current transfers reflected an increase in payments of subscriptions to international organisations. The SACU receipts, which take the largest share of current transfers, remained unchanged during the quarter under review. However, on an annual basis, SACU receipts fell by 10.6 per cent, indicating a contraction in SACU revenue pool in 2015. As a per cent of GDP, net current transfers constituted 32.0 per cent during the review quarter compared with 32.1 per cent in the previous quarter.

CAPITAL AND FINANCIAL ACCOUNT

During the quarter under review, the net capital and financial account registered a higher surplus of M1.5 billion, equivalent to 24.2 per cent of GDP compared with a surplus of M816.7 million or 12.9 per cent of GDP in the quarter ending in September 2015. The net capital account inflows on the one hand, rose by 8.4 per cent to M252.6 million from an inflow of M233.05 million in the preceding quarter, reflecting continued donor support for government developmental projects during the period. The financial account on the other hand displayed an inflow of M1.3 billion in the quarter under review, which was a massive increase compared to an inflow of M628.6 million recorded in the third quarter of 2015. The increase was mainly driven by a drawdown in commercial banks' assets abroad to support economic activity during the quarter. The observed performance was further supported by the CBL's accumulation of foreign

liabilities, though at the lower rate compared to the previous quarter. The growth in financial account surplus was however, weakened by an increase in payment for government foreign loans during the review period.

Figure 27: Capital and Financial Account (Million Maloti)

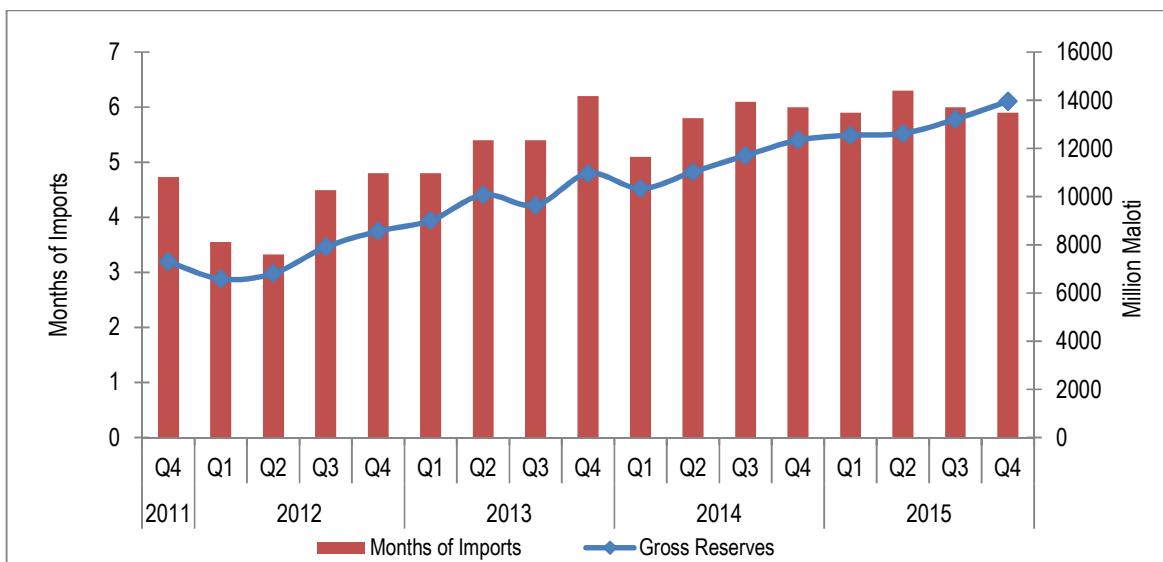


Source: Central Bank of Lesotho

RESERVE ASSETS

The stock of international reserves rose by 5.7 per cent to M13.9 billion during the last quarter 2015, compared with an increase of 4.6 per cent in the previous quarter. The pickup in reserves was largely driven by the depreciation of the rand hence the loti against foreign currencies where official reserves were held. However, the months of import cover dipped slightly to 5.8 in the review quarter from 6.0 owing to the growing import bill in the goods and services account.

Figure 28: Reserves Assets



Source: Central Bank of Lesotho