

CENTRAL BANK OF LESOTHO

QUARTERLY REVIEW

JUNE, 2014

MASERU

KINGDOM OF LESOTHO

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1. Executive summary

The global economy gained momentum during the second quarter of 2014 after a slowdown in the previous quarter. The bulk of the pickup came from the advanced countries while emerging market economies (EMEs) continued to slow down. Recovery in the advanced countries was led by improved economic activity in the US and full recovery in the United Kingdom (UK) as growth exceeded its pre-crisis peak level. In Japan, growth lost momentum due to the sales tax hike in April, which reduced domestic demand. The Euro Area remained fragile as the gap in economic performance amongst the member countries widened. The growth in the Euro Area was driven by Germany, the largest economy within the bloc. However, performance in some of the euro economies, such as France and Italy continued to deteriorate. Commodity prices continued to rise during the second quarter. Prices of agricultural products showed mixed signals during the quarter. The price of maize fell due to ample supply, while the price of wheat rose as a result of lower production.

Domestic economic performance deteriorated during the second quarter of 2014. The Economic Activity Indicator (EAI) registered a decline in the second quarter of 2014 compared with an increase in the previous quarter. Economic performance was driven by robust mining activity. The manufacturing, electricity and water subsectors showed improved performance, while the construction subsector deteriorated. The services sector also depicted mixed signals. With regard to labour market developments, employment by both Lesotho National Development Corporation (LNDC) assisted companies and government increased.

Lesotho's inflation rate, measured as an annualized percentage change in the Consumer Price Index (CPI) was 6.5 per cent in June 2014 compared with 5.6 per cent in March 2014. Major movements were observed in the following categories: food and non-alcoholic beverages, clothing and footwear, housing, electricity, gas and other fuels and transport. Money supply expanded during the second quarter and was driven by the increase in net foreign assets. Money market rates remained relatively stable in line with monetary policy conduct by the South African Reserve Bank (SARB).

Government recorded a fiscal surplus of 5.7 per cent of GDP, and was reflective revenues in excess of expenses. The current account deficit narrowed to M187.3 million in the second quarter of 2014, from a deficit of M239.7 million in the quarter ending in March 2014. The improvement in the current account deficit emanated largely from higher SACU transfers as well as interest earned by the Central Bank.



2. International Economic Developments

The global economy gained momentum during the second quarter of 2014 after a slowdown in the previous quarter due to a harsh winter in the US, financial market turbulence in the Euro Area and crisis in Ukraine. The bulk of the pickup came from the advanced countries while emerging market economies (EMEs) continued to slow down.

Recovery in the advanced countries was supported by improved economic activity in the United States and full recovery in the United Kingdom as growth exceeded its pre-crisis peak level. Growth in Japan lost momentum due to the sales tax hike in April, which reduced domestic demand. The Euro Area remained fragile as the gap in economic performance between countries widened. The growth in the area was driven by Germany, the largest economy within the bloc. However, performance in some of the euro economies, such as France and Italy continued to deteriorate.

Inflation rates increased moderately in most advanced countries. However, in the Euro Area inflation remained at low levels. Most countries kept their interest rates unchanged in order to support economic activity. Nonetheless, the Euro Area introduced a series of policies, including reducing its key interest rate, in order to ease credit. Unemployment rates declined, with the exception of Japan, signalling recovery in advanced economies.

Emerging market economies (EMEs) recovered modestly during the quarter under review. In South Africa (SA), economic growth showed a positive sign, reflecting an increase of output in construction, agriculture, transport, general government services, finance and real estates. However, improvement in SA was moderated by a decline of production in the mining industry. China's growth picked up slightly due to the implementation of the fiscal stimulus, which boosted domestic demand, while growth in India remained relatively low. Inflation rates remained high in the emerging market economies, but not enough to induce the central banks to change their monetary policy stances.

Commodity prices, except oil which remained unchanged, continued to rise during the review period. Prices in agricultural products showed a mixed signal during the quarter. The price of maize fell due to ample supply, while the price of wheat rose as a result of lower production.



Table 1: Key World Economic Indicators

	Real GDP Growth		Inflation Rate		Key Policy Rates		Unemployment Rate	
	2014		2014		2014		2014	
	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2
US	1.9	2.4	1.5	2.1	0.25	0.25	6.7	6.1
Euro Area	0.9	0.7	0.5	0.5	0.25	0.15	11.8	11.5
Japan	3.0	-0.1	1.3	3.6	0.00	0.00	3.6	3.7
UK	3.0	3.1	1.6	1.9	0.50	0.50	6.8	6.4
SA	1.6	1.0	6.0	6.6	5.50	5.50	25.2	25.5
China	7.4	7.5	2.4	2.3	6.00	6.00	4.1	n/a
India	4.6	n/a	8.3	7.3	8.00	8.00	n/a	n/a

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

ADVANCED ECONOMIES

United States (US)

US economic activity improved in the second quarter of 2014 after having slowed down in the first quarter due to a severely cold winter. Real GDP rose to 2.4 per cent in the second quarter of 2014 relative to 1.9 per cent growth in the previous quarter. The pickup was attributed to higher consumption expenditure, private inventory investment and exports.

The inflation rate remained unchanged at 2.1 per cent in June 2014 as in March 2014, despite the increased cost of gasoline, while food prices declined during the quarter. The Federal Reserve Open Market Committee (FOMC) left the key policy rate unchanged at 0.25 per cent during the quarter. The US labour market conditions continued to improve with the unemployment rate falling to the lowest level since 2008. It declined to 6.1 per cent in June 2014 relative to 6.7 per cent in the first quarter of 2014. This rate was slightly above the US unemployment target rate of 6 per cent, indicating that the US economy was regaining momentum.



Euro-Area¹

Economic recovery in the Euro Area remained fragile as the region experienced slowdown in economic growth during the second quarter of 2014. Real GDP growth moderated to 0.7 per cent in the second quarter of 2014 compared with 0.9 per cent growth in the previous quarter. The slowdown was driven by lower economic growth in Germany and France, the region's largest economies, while Italy went into a recession.

The rate of inflation remained unchanged at 0.5 per cent in June 2014 as in March 2014. That was considerably lower than the 2 per cent inflation goal of the European Central Bank (ECB). The cost of food fell while services and energy prices increased. To address the issue of low levels of inflation, the ECB reduced the main refinancing rate from 0.25 per cent to 0.15 per cent.

The labour market showed signs of improvement during the review period. Unemployment rate declined to 11.5 per cent during the second quarter of 2014 compared to 11.8 per cent in the previous quarter. Countries with the lowest unemployment rates were Austria, Germany and Malta while Greece and Spain remained with the highest unemployment rates during the review quarter.

Japan

The economy of Japan contracted during the second quarter of 2014 after having realised a strong growth in the previous quarter. Real GDP contracted by 0.1 per cent during the second quarter of 2014 relative to 3.0 per cent growth in the first quarter on account of a sharp decline in consumers' spending. The fall in consumption spending, which accounts for 60 per cent of Japan's economic activity, was due to the sales tax increase from 5.0 per cent to 8.0 per cent in April 2014, which was aimed at boosting government revenue.

The inflation rate rose from 1.3 per cent in March 2014 to 3.6 per cent in June 2014. This increase reflected higher prices of food, utilities and furniture and household utensils as a result of the sales tax increase in April. The Bank of Japan's monetary policy remains largely accommodative, with the monetary base continuing to be increased at an annual pace of 60-70 trillion yen. The discount rate was left unchanged at 0.0 per cent during the quarter. The unemployment rate rose to 3.7 per cent in June from 3.6 per cent in March 2014 due to an increase in the number of job-seekers who got encouraged by the country's signs of recovery in the first quarter of 2014.

¹ Euro Area: Austria, Belgium, Croatia, Cyprus, Estonia, Germany, Greece, Finland, France, Ireland, Italy, Latvia, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain.



United Kingdom

For the first time since the 2008 financial crisis, the UK economy realised growth above its pre-crisis peak level, a sign that the economy continued to recover during the quarter under review. Real GDP growth rose to 3.1 per cent in the quarter ending in June 2014 compared with a 3.0 per cent growth realised in the previous quarter. The largest contribution to growth came from construction, industrial production and services.

The rate of inflation increased to 1.9 per cent in June 2014 from 1.6 per cent in March 2014. The increase was attributed to higher prices of clothing, food, non-alcoholic drinks and air transport. The Bank of England left its policy rate unchanged at 0.5 per cent in June 2014 to support economic growth. The unemployment rate declined to 6.4 per cent in the second quarter of 2014 from 6.8 per cent in the first quarter of 2014, boosted by the country's resilient economic growth.

EMERGING MARKET ECONOMIES

China

Economic growth improved in China in the second quarter of 2014 owing to implementation of the government stimulus during the quarter. The stimulus package intended to boost economic growth included an injection of \$24.6 billion of government bonds and cutting taxes on small businesses. Real GDP grew from 7.4 per cent in the first quarter of 2014 to 7.5 per cent in the second quarter of 2014, driven by increased consumption and investment spending.

The inflation rate moderated slightly to 2.3 per cent in June compared with 2.4 per cent in March 2014. This resulted from lower prices of food. The Reserve Bank of China left the policy rate unchanged at 6 per cent.

India

Preliminary estimates indicated an increase in economic performance in India during the second quarter of 2014. Industrial production rose by 3.4 per cent in June 2014, following a decline of 0.5 per cent in March 2014. The growth resulted from higher production in manufacturing, mining and energy sectors.

Inflationary pressures eased somewhat in the second quarter of 2014. The rate of inflation declined to 7.3 per cent in June 2014 from 8.3 per cent in March 2014, as a result of lower food and fuel prices. This reduced pressure on the Reserve Bank of India to increase its key interest rate in an effort to curb inflation. The key interest rate was left unchanged at 8.0 per cent in June 2014 to support economic growth.



South Africa

Economic growth in South Africa decelerated in the second quarter of 2014, on an annual basis, while on a quarterly basis it improved relative to previous quarter. On an annual basis, South Africa's GDP grew by 1.0 per cent in the second quarter of 2014, following a growth of 1.6 per cent in the previous quarter. The observed growth was driven by increased output in agriculture, construction, transport, and communications and general government services. However, the growth was dampened by reduced output in the mining and quarrying industry largely as a result of industrial action in the platinum mines during the first half of 2014.

On a quarterly basis, the SA grew by 0.6 per cent in the quarter under review, in contrast with a decline of 0.6 per cent in the previous quarter. This was attributed to the positive growth in the general government services, transport, storage and communication industry and finance, real estate and business services. Other industries deteriorated and moderated the observed growth during the review quarter.

The rate of inflation rose from 6.0 per cent in March 2014 to 6.6 per cent in June 2014. The increased inflation emanated from higher food, housing and utilities prices. At this rate, inflation was above the South African Reserve Bank's (SARB's) Monetary Policy Committee (MPC) target range of 3-6 per cent and thus continues to put pressure on the Reserve Bank to increase interest rates. The MPC left the repo rate unchanged at 5.5 per cent during the second quarter of 2014 to support economic growth.

In the labour market front, the number of unemployed SA persons increased to 5.2 million during the review quarter, the highest level since 2008, due to major job losses in the manufacturing and agriculture industries. As a result, unemployment rate rose to 25.5 per cent during the quarter ending in June 2014, from 25.2 per cent in the previous quarter.

COMMODITIES

Minerals

Gold

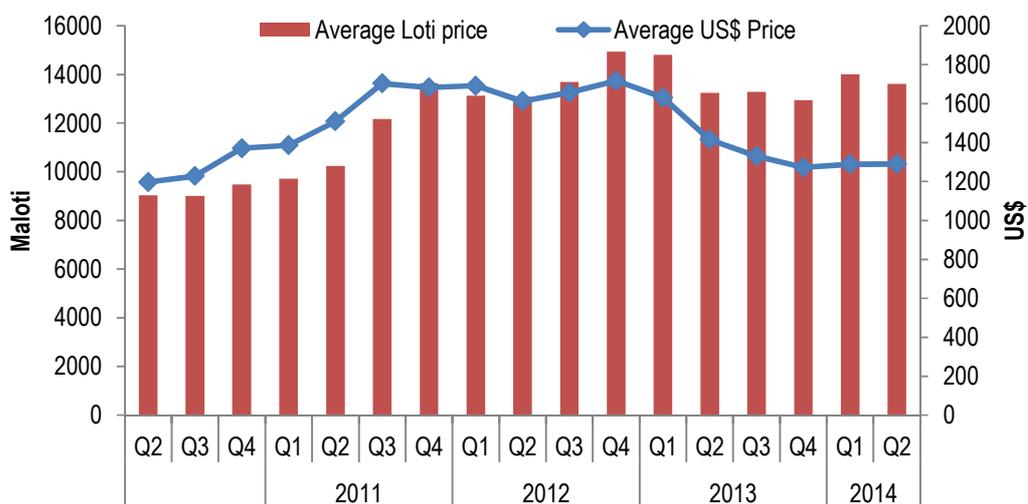
In US Dollar terms, the average price of gold rose marginally by 0.1 per cent to US\$1 290 per ounce during the second quarter of 2014 compared with an increase of 1.3 per cent in the quarter ending in March 2014. In Maloti terms, it declined by 2.9 per cent to M13 610 per ounce relative to 8.4 per cent increase in the previous quarter, due to the strengthening of the local currency during the quarter.

The increase resulted from higher demand for gold following the US Federal Reserve Bank's announcement that it would not hurry to hike interest rates in the near future. The increase in gold



price was however, moderated by India's restrictions on gold imports to curb its current account deficit, which put a downward pressure on demand for gold.

Figure 1: Average Price of Gold



Source: Bloomberg

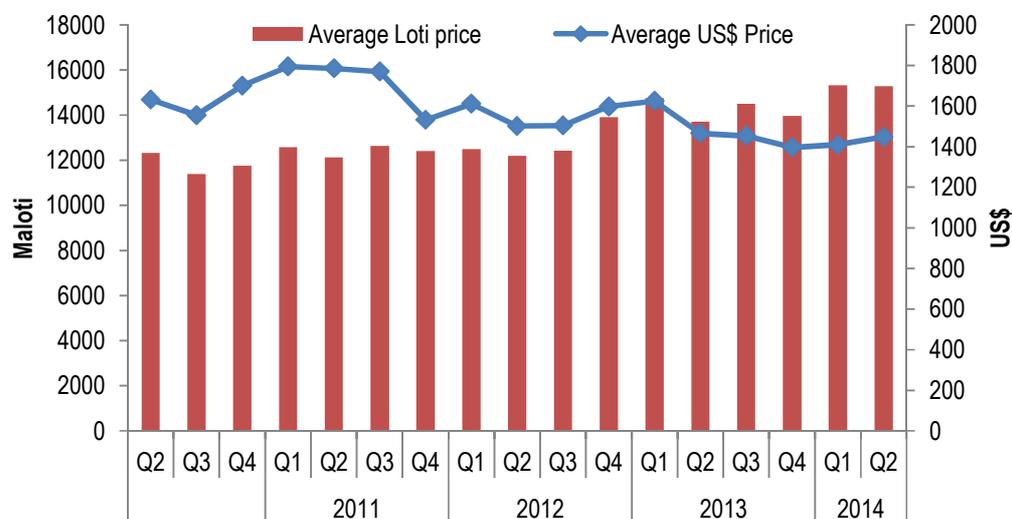
Platinum

The average price of platinum in US Dollar terms continued to increase in the second quarter of 2014. It rose by 2.7 per cent to US\$1 448 per ounce in the review quarter compared to a 0.9 per cent increase in the previous quarter. The increase was attributed to a halt in production as a result of the industrial actions in the platinum mines during the review quarter. The growth in prices also resulted from higher demand for European cars, which mainly use platinum in their production.

In Maloti terms, the average price declined by 0.3 per cent to M15 276 per ounce compared with a 9.7 per cent increase in the previous quarter, reflecting appreciation the local currency during the period.



Figure 2: Average Price of Platinum



Source: Bloomberg

Energy

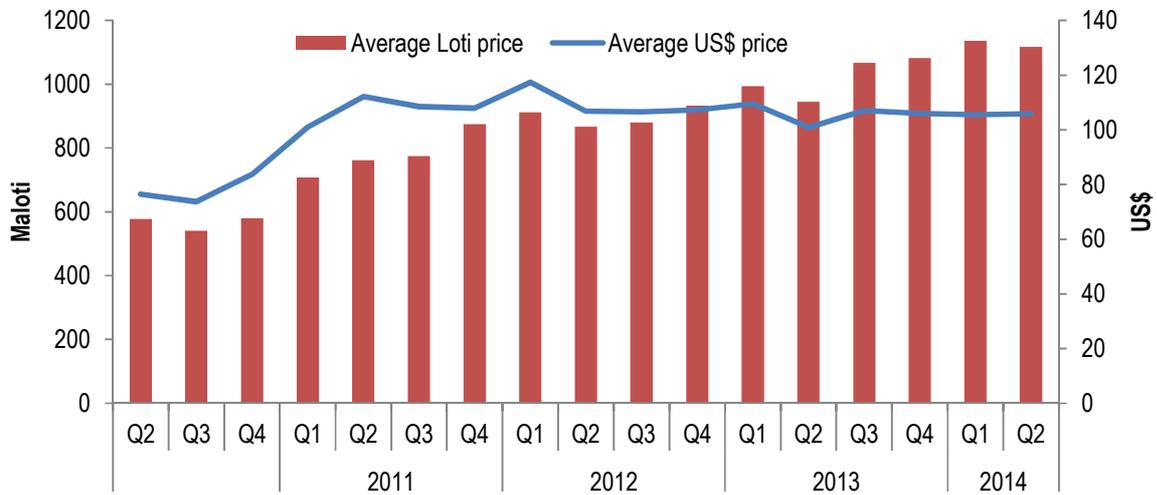
Oil

The international oil price remained relatively stable during the quarter ending in June 2014, despite the recent geopolitical risks particularly in Iran, Libya and Ukraine. On average, international oil price remained unchanged at US\$106 per barrel during the review period.

In Maloti terms, the average price of oil decreased by 1.7 per cent to M1 117 per barrel during the quarter ending in June 2014 relative to the increase of 5.0 per cent in the first quarter of 2014, due to appreciation of the local currency during the quarter. As a result, domestic fuel prices were revised downward during the review quarter. Petrol price closed the review quarter with a lower price of M12.50 per litre, from M12.85 recorded in the quarter ending in March 2014. Diesel stood at M12.90 per litre in the review period from M13.65 per litre in the previous quarter. Paraffin also declined to M9.60 per litre in the quarter ending in June 2014, from M10.30 per litre recorded in the previous quarter.



Figure 3: Average Price of Oil



Source: Bloomberg

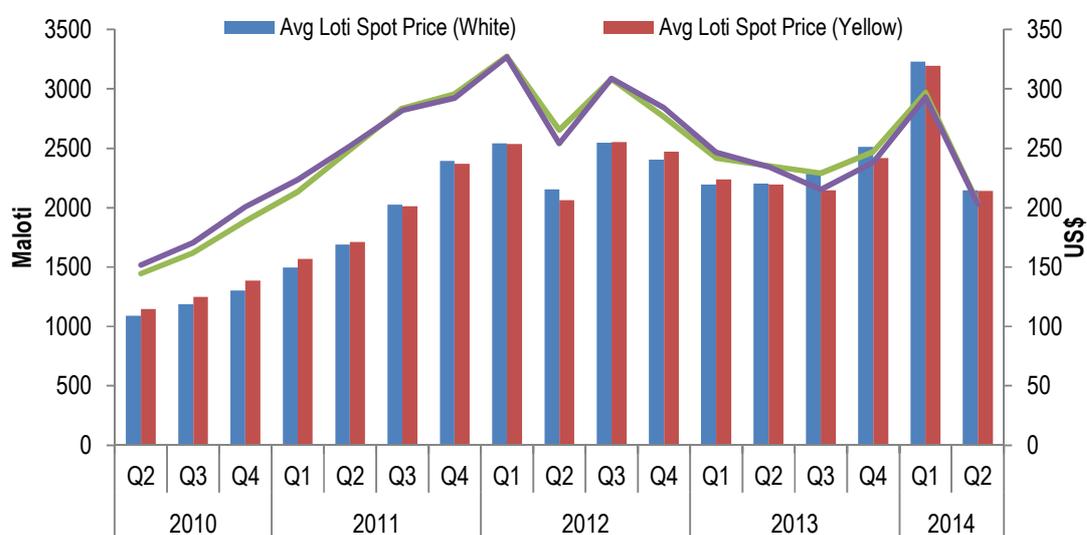
Agricultural Products

Maize

In US dollar terms, the average price of both white and yellow maize declined by 31.0 per cent during the second quarter of 2014. This compared with 20.0 per cent and 23.0 per cent increase for white and yellow maize, respectively in the previous quarter. In Maloti terms, the average price of white maize declined by 34.0 per cent compared with a 28.5 per cent increase while that of yellow maize declined by 33.0 per cent relative to increase of 32.1 per cent. The decline was attributed to higher production and good prospects for maize production in key producing countries.



Figure 4: Average Price of Maize



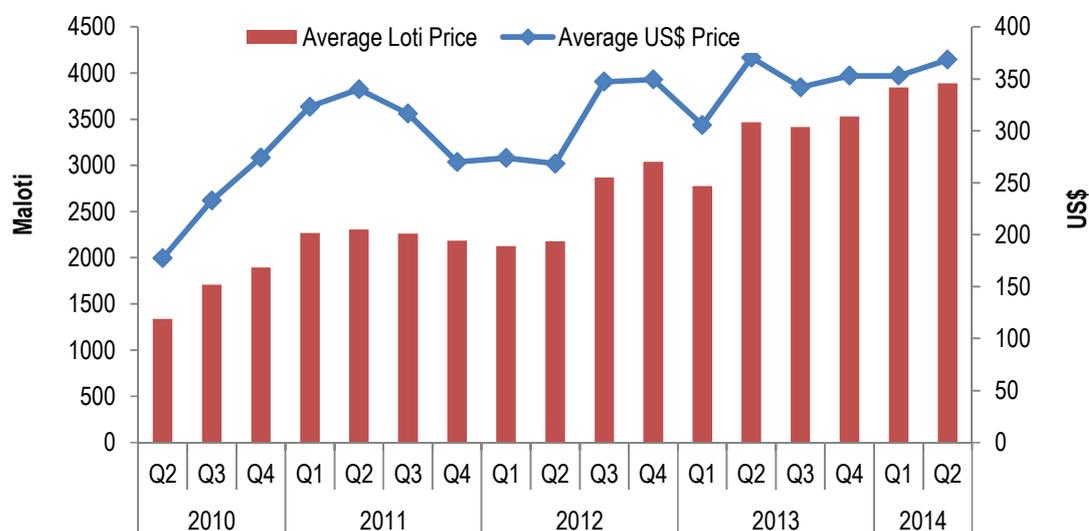
Source: Bloomberg

Wheat

In US dollar terms, the average price of wheat rose by 4.4 per cent during the quarter ending in June 2014 relative to a 0.1 per cent increase in the first quarter of 2014. In Maloti terms, it increased by 1.1 per cent compared with 9.0 per cent in the previous quarter. Escalating tension in Ukraine and deteriorating crop conditions which resulted in slow planting in the US during the first quarter due to winter, led to the realised growth.



Figure 5: Average Price of Wheat



Source: Bloomberg

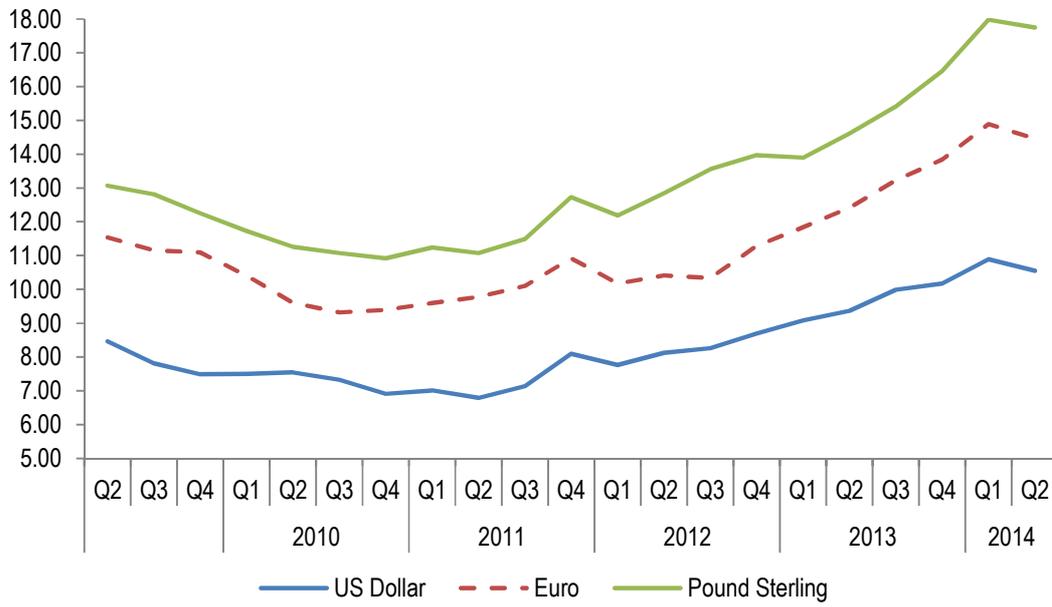
EXCHANGE RATES

The Loti, which is fixed at par to the Rand, appreciated during the second quarter of 2014. The appreciation resulted from the announcement made by the Federal Reserve Open Market Committee (FOMC) that it had no intentions of increasing the interest rates in the near future, which weakened the Dollar. This led to inflows into the emerging markets, including South Africa, and thus strengthened the Rand. The appreciation of the Rand and hence the Loti was despite the industrial action in South Africa's platinum mines, which impacted negatively on investors' perception and economic growth.

On a quarterly basis, the Loti/Rand appreciated by an average of 3.1 per cent to M10.55, 1.3 per cent to M17.75 and 2.9 per cent to M14.46 against the US dollar, the pound Sterling and the Euro, respectively, during the first quarter of 2014.



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



Source: Bloomberg



3. Real Sector Developments

OVERVIEW

Economic performance deteriorated in the second quarter of 2014. The measure of economic performance, the Economic Activity Indicator (EAI) registered a decline in the second quarter of 2014 compared with an increase in the previous quarter. The primary sector's performance improved in the review period despite the decline in total carats produced by the diamond mining sector. The secondary sector showed mixed signals as the manufacturing, electricity and water subsectors showed improved performance, while the construction subsector deteriorated significantly. Within the tertiary sector the trade and other services subsectors depicted increased performance while telecommunication, financial and government activity subsectors showed sluggish performance. With regard to labour market developments, employment by both LNDC assisted companies and government increased in the review quarter while that of Basotho migrant mine workers declined. The inflation rate hiked in June 2014 compared with March 2014.

OUTPUT DEVELOPMENTS

Economic performance deteriorated in the review quarter. The EAI declined by 5.5 per cent in the quarter ending in June 2014 compared with 4.4 per cent increase in the first quarter of 2014. The observed decline was a result of weak performance by the secondary and tertiary sectors while the primary sector's performance improved.

Table 2: Economic Performance by Industry (Indices)

	Weight	2013			2014	
		Q2	Q3	Q4	Q1	Q2
EAI	100.0	110.3	123.8	123.8	129.2	122.1
Primary Sector						
Mining	8.9	126.0	156.0	143.7	143.0	150.1
Secondary Sector						
Manufacturing	18.5	83.9	90.2	90.1	71.8	77.7
Electricity	1.1	120.7	131.3	108.4	105.9	120.7
Water	4.9	109.3	120.3	89.4	83.0	112.1
Construction	7.6	108.5	114.0	128.4	111.6	67.1
Tertiary Sector						
Trade	11.0	125.3	128.5	160.8	126.4	149.3
Telecom	5.1	108.9	114.1	144.7	133.0	128.0
Financial Sector	6.5	176.3	188.4	194.3	185.5	172.2



Other services	5.7	151.9	184.0	183.4	186.2	202.7
Government	30.6	95.4	112.9	100.6	150.3	119.7

Source: Central Bank of Lesotho

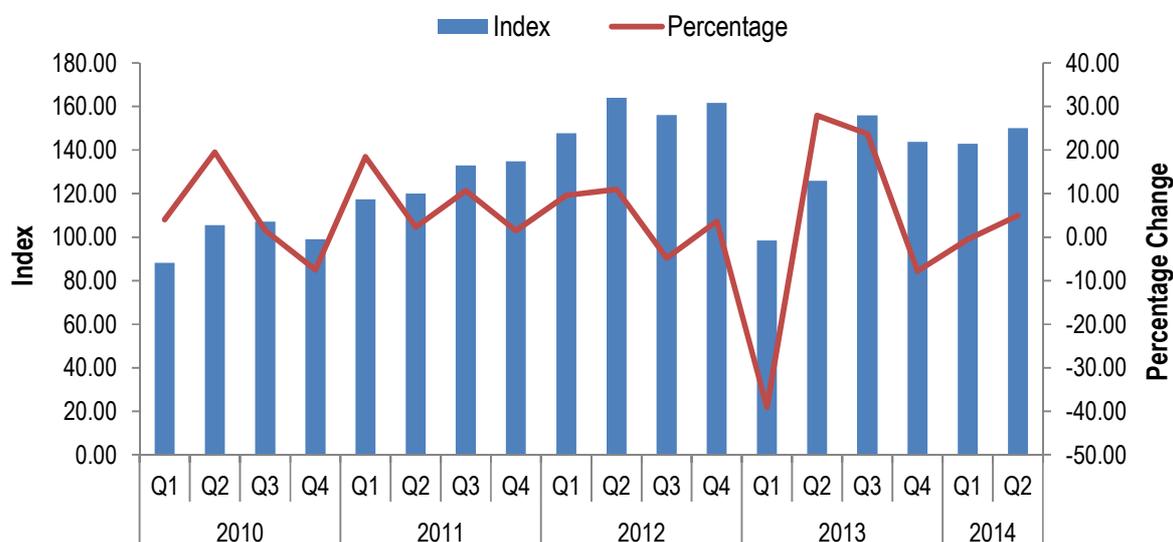
Primary Sector

Mining and Quarrying

The mining and quarrying index increased by 5.0 per cent in the quarter ending in June 2014 compared with a decline of 0.5 per cent in the previous quarter. The index increased regardless of the slight decline in the total carats produced by the two mines, Lets'eng and Kao that were operating during the review period, which mainly reflected the 9.3 per cent decline in Kao's production while that of Lets'eng rose by 9.9 per cent. The index increased because in its calculation mining production is weighted by the base period prices that were attained by the mines. Lets'eng mine produces the highest quality diamonds that sell at the highest price compared to the other mines. Lets'eng's price in the base period was higher than the next better price by more than 300 fold. The recent projects implemented by Lets'eng have increased diamond liberation and reduced diamond damage, thus contributing to the increase in its output. In addition, the higher share of Satellite Pipe ore mined during the period has resulted in an increase in carats recovered by Lets'eng. The increase in the mining index was despite zero production by Liqhobong mine. Liqhobong had not been producing since October 2013 when the preparatory work for construction of the main treatment plant and supporting infrastructure commenced. Liqhobong mine had all along been operating on its pilot plant. Construction work started during the review quarter and the project is planned for completion in the first half of 2016. Diamond prices remained favorable during the period under review mainly driven by solid global demand for diamonds.



Figure 7: Mining and Quarrying Index



Source: Central Bank of Lesotho

Secondary Sector

Manufacturing

The total manufacturing index increased by 8.1 per cent in the second quarter of 2014 compared with a decline of 19.8 per cent in the previous quarter. The increase was attributed to 8.2 per cent and 15.9 per cent increases in the manufacturing of food and beverages and manufacturing of textiles and clothing indices, respectively, which out weight the 5.0 per cent decline in the other manufacturing index. The improvement in the index for manufacturing of textiles and clothing is an indication of increased orders; hence demand by US based retailers. The increase in the manufacture of food and beverages index reflected increased output by the major food and beverages manufacturing firms.

Electricity

The electricity index increased by 13.5 per cent in the second quarter of 2014 compared with a decline of 2.2 per cent observed in the previous quarter. This reflected higher electricity consumption by the commercial and industrial, and the domestic categories at 19.4 per cent and 11.4 per cent, respectively. The increase in electricity consumption was in part due to high usage of electricity during the cold winter season, two months of which fall within the review quarter. The rise electricity consumption by the industrial category was in line with increased production by the mining and the textile and clothing manufacturing subsectors. Electricity consumption by the



textiles and clothing firms, and by the mining industry increased by 3.0 and 11.1 per cent, respectively.

Water

The water index rose by 35.1 per cent in the review period compared to a decline of 7.2 per cent in the previous quarter. Water consumption by the industrial and other categories increased by 9.9 per cent and 0.3 per cent, respectively. The increase was in line with the rise in new water connections to 959 in the period under review compared with 886 connections done in the previous quarter. In addition, water exports to SA increased in the quarter ending in June 2014. This was in line with the 34.7 per cent increase in electricity generated at the Muela Hydropower Station (MHS) during the review quarter. The water is used to generate electricity before it could be exported to SA.

Construction

The construction index fell by 39.9 per cent in the quarter ending in June 2014 following a decline of 13.1 per cent in the first quarter of 2014. This decline was in line with reduced capital expenditure by government during the review quarter. Government of Lesotho funded capital projects stalled during this first quarter of the fiscal year due to delays in the completion of the budgeting process. The delayed gazettment of the appropriation bill and the entry of budget estimates into the electronic information system meant that funds towards such projects could not be expended.

Table 3: Secondary Sector Growth Rates

	Weight	2013			2014	
		Q2	Q3	Q4	Q1	Q2
Secondary Sector	18.5	1.5	7.5	-0.1	-19.8	8.1
Manufacturing						
Manufacturing of Food and Beverages	21.1	-6.4	10.6	15.5	-24.8	8.2
Textiles and clothing	51.3	3.4	-1.2	-6.0	-16.4	15.9
Other Manufacturing	27.6	5.1	22.8	-4.0	-19.7	-5.0
Electricity	1.1	17.4	8.8	-17.4	-2.2	13.9
Water	4.9	33.5	10.1	-25.7	-7.2	35.1
Construction	7.9	-33.4	5.0	12.7	-13.1	-39.9

Source: Central Bank of Lesotho



Tertiary Sector

Trade

The index for trade, which comprises motor trade, wholesale and retail trade in fuel, and wholesale and retail trade hiked by 18.2 per cent in the quarter ending in June 2014 compared with a 21.4 per cent fall in the previous quarter. The highest increase was observed in the wholesale and retail sector's output. In addition, there was a substantial increase in the sale of automotive fuels. The hike in the index for trade signals that there was strong demand for goods during the review period.

Telecommunications

The index for telecommunications declined by 3.8 per cent in the second quarter of 2014 compared with a fall of 8.1 per cent in the first quarter of 2014. The observed decline was partly attributable to interruptions on the telecommunications network, which occurred during the review period. These interruptions were blamed on the vandalism on telecommunications infrastructure, the main disruptive of which was reported in May 2014. These interruptions negatively affected the quality and availability of voice and data services.

Financial Sector

The Financial Sector index declined by 7.1 per cent in the period under review compared with a 4.6 decline observed in the previous quarter, indicating reduced activity by commercial banks in the economy. The low activity was reflected by the decline in both interest and commission income earned and was despite a marginal increase in the commercial banks' stock of loans. In addition, the low government activity during the review period contributed to the observed decline, due to late execution of government budget.

Other Services²

The index for other services surged by 8.9 per cent in the quarter ending in June 2014 compared with an increase of 1.6 per cent in the previous quarter. The increase was attributed to a surge in output related to real estate activities and renting of land transport equipment.

Government Activities

The index for government activities declined by 20.4 per cent in the second quarter of 2014 compared with an increase of 49.4 per cent in the previous quarter. The lackluster performance was in line with low government expenses in the second quarter of 2014, which, in turn, was attributable to delays in the budgeting process and the resultant lack of access to funds.

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



Table 4: Tertiary Sector Growth Rates

	Weight	2013			2014	
		Q2	Q3	Q4	Q1	Q2
Tertiary Sector						
Trade	11	5.2	2.5	25.1	-21.4	18.2
Telecom	5.1	4.8	4.8	26.8	-8.1	-3.8
Financial Sector	6.5	6.9	6.8	3.1	-4.6	-7.1
Other services	5.7	-4.3	21.1	-0.3	1.6	8.9
Government	30.6	-25.0	18.3	-10.9	49.4	-20.4

Source: Central Bank of Lesotho

EMPLOYMENT DEVELOPMENTS

Employment by LNDC assisted companies increased by 1.5 per cent during the quarter ending in June 2014 compared with a decline of 9.4 per cent in the previous quarter. The major contributor to this positive development was the textiles and clothing industry, particularly the knit and woven garments firms. The surge in employment by the textiles and clothing industries was in line with the increase in these industries' output.

Table 5: Employment by LNDC Assisted Companies

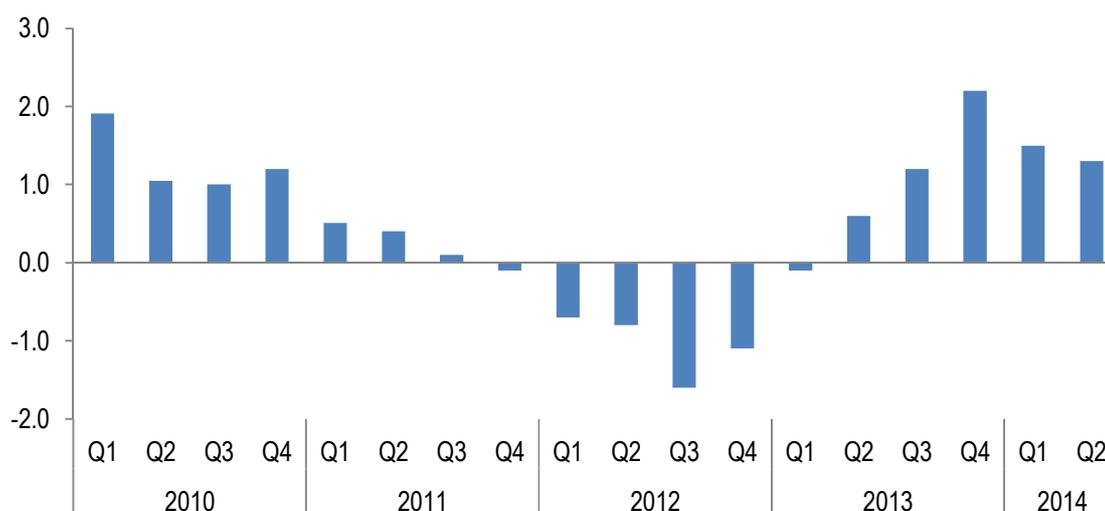
Industry	2013			2014	
	Q2	Q3	Q4	Q1	Q2
Knit Garments.....	23760	24309	23540	21436	21821
Woven Garments.....	15787	17008	16820	15914	16490
Footwear.....	2691	2619	2619	2230	1925
Fabrics, Yarn etc.....	1669	1658	1604	1774	1765
Construction.....	294	308	302	309	309
Food & Beverages.....	545	545	577	565	565
Electronics.....	1354	1365	1365	912	912
Retail.....	128	128	128	128	128
Hotel Accommod.....	405	405	411	412	412
Other.....	503	578	545	624	653
TOTAL.....	47136	48923	47971	44304	44 980

Source: Lesotho National Development Corporation



On quarterly basis, the number of government employees increased marginally by 0.2 per cent in the review period compared with a decline of 0.4 per cent in the previous quarter. The number of civil servants and teachers fell by 0.5 per cent and 0.3 per cent, respectively, while the number of daily paid workers declined by 0.6 per cent. On an annual basis, the number of government employees increased by 1.3 per cent in the review quarter compared with 1.5 per cent in the previous period. The sluggish growth in government employment was in line with government’s policy of freezing creation of new positions and mainly reflected the filling of vacant positions.

Figure 8: Government Employment (Annualized Percentage Changes)

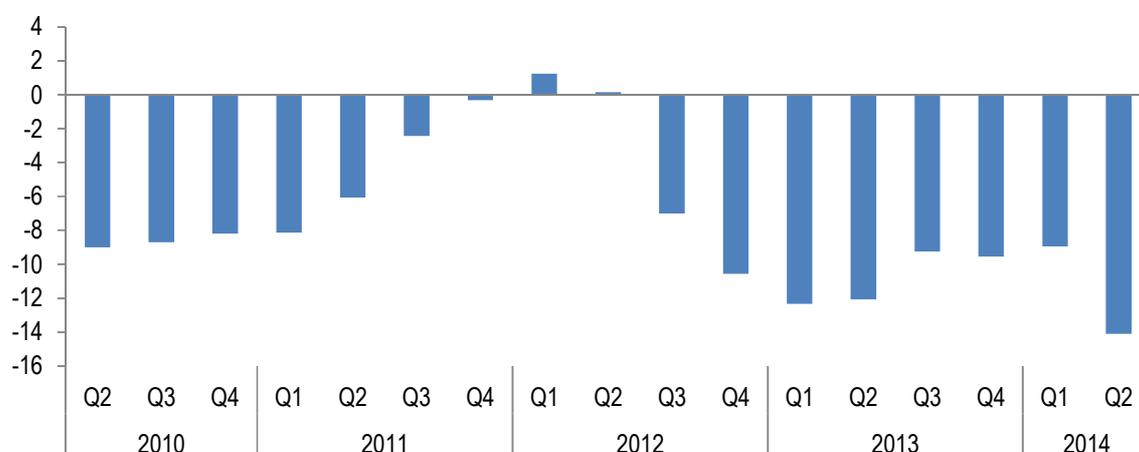


Source: Ministry of Finance

The number of Basotho migrant mine workers employed in SA mines declined further by 14.1 per cent in the quarter ending in June 2014 compared with a decline of 8.9 per cent in the previous quarter. The observed decline was attributed to the strike in the platinum sector which lasted for almost five months since January 2014. While the mines affected by the strike did not lay off workers during the review period, employment contracts that expired during the strike were not renewed, resulting in the affected workers being technically regarded as unemployed. The observed decline was also in line with 1.5 per cent decline in employment by SA’s.



Figure 9: Migrant Mineworkers (Annualized Percentage Changes)



Source: The Employment Bureau of Africa (TEBA)

PRICE DEVELOPMENTS

Lesotho's inflation rate, measured as an annualized percentage change in the Consumer Price Index (CPI) was 6.5 per cent in June 2014 compared with 5.6 per cent in March 2014. The observed increase was attributed to food and non-alcoholic beverages, clothing and footwear, housing, electricity, gas and other fuels and transport. The most significant increase was observed in food and non-alcoholic beverages at 6.6 per cent in the review quarter compared with 4.7 per cent in March 2014. This mainly reflected a rise in bread and cereals, and meat prices.

Table 6: Inflation Rate (Annualized Percentage Changes)

	Weight	2013			2014	
		Feb	Mar	Apr	May	Jun
All items	100	5.7	5.6	5.9	6.7	6.5
Food and non-alcoholic beverages	38.1	3.9	4.7	5.5	6.4	6.6
Alcoholic beverages & Tobacco	1.2	7.1	6.8	6.2	6.1	6.1
Clothing & footwear	17.4	2.8	3.0	3.3	3.3	3.3
Housing, electricity gas & other fuels	10.6	12.9	10.1	9.8	12.3	10.6
Furniture, households equipment & routine maintenance	9.4	3.0	2.9	3.0	3.2	2.9
Health	1.9	0.6	0.9	0.9	0.9	0.9
Transport	8.5	13.9	13.5	13.7	13.9	13.8
Communication	1.2	0	0	0	0	0
Leisure, entertainment & Culture	2.4	0.8	0.8	0.9	0.8	0.9

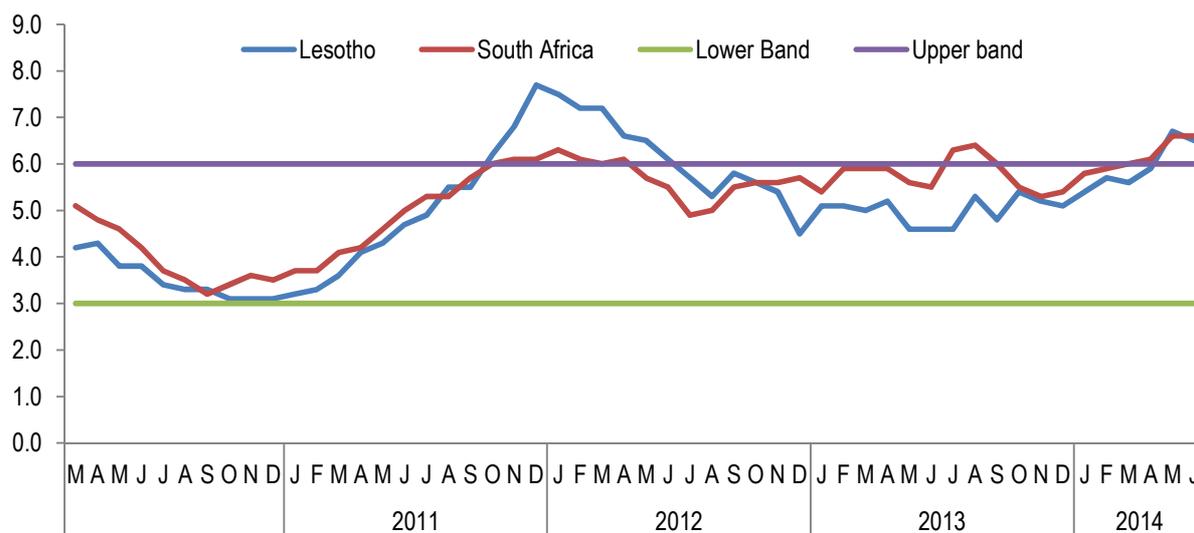


Education	2.7	7.1	7.1	7.1	7.1	7.1
Restaurant & Hotels	0.7	0.9	1.0	0.9	0.9	0.9
Miscellaneous goods & services	5.8	4.6	4.9	4.9	4.8	4.5

Source: Bureau of Statistics

Given the trade linkages between SA and Lesotho, much of the latter's inflation is explained by price developments in SA. Lesotho's inflation rate continued to move in line with that of SA. SA's inflation rate accelerated to 6.6 per cent in June 2014 from 6.0 per cent in March 2014. Like Lesotho's inflation rate, SA's inflation rate was attributed to increases in the price of food and nonalcoholic beverages, clothing and footwear and transport. In the second quarter of 2014, international food and oil prices remained fairly stable on a downward trend. The increase in domestic food and petrol prices mainly reflected exchange rate pass through rather than demand and supply pressures.

Figure 10: Lesotho's and South Africa's Inflation Rates



Source: Bureau of Statistics, Statistics South Africa

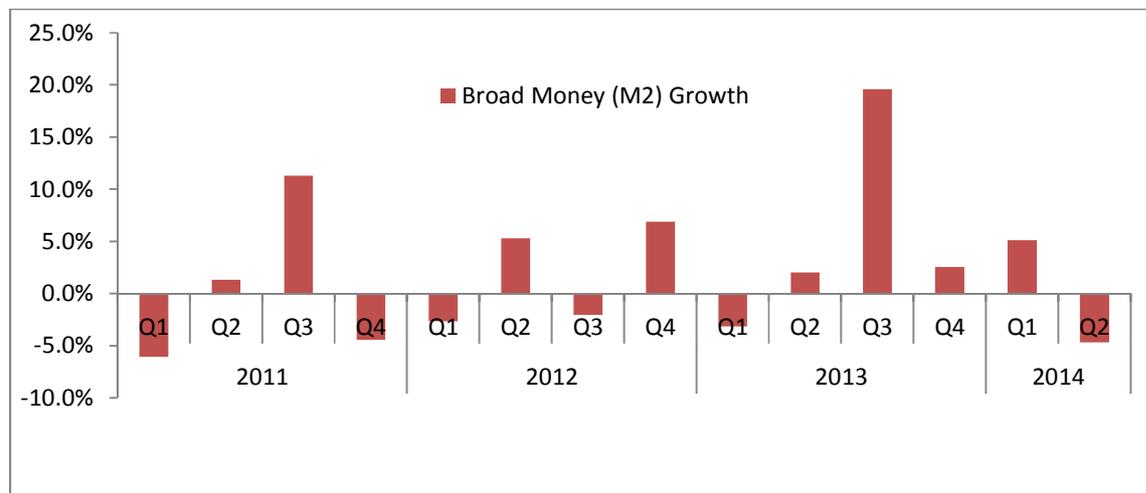


4. Monetary and Financial Developments

BROAD MONEY (M2)

Money supply contracted during the second quarter of 2014. On a quarter to quarter basis, money supply declined by 4.7 per cent during the second quarter of 2014 following a 5.1 per cent growth recorded during the first quarter of 2014. On annual basis, it recorded an increase of 22.9 per cent in June 2014 against an increase of 3.4 per cent in June 2013. This development was against a backdrop of a drastic fall in domestic claims (including net claims on government) while net foreign assets grew albeit at a minimal pace.

Figure 11: Money Supply Growth Rate



Source: Central Bank of Lesotho



Determinants of M2

Domestic Claims

Domestic claims, including net claims on government, slumped by 88.4 per cent during the period under review compared to a 157.8 per cent surge during the previous quarter. This is ascribed largely to a 28.1 per cent fall in net claims on government following high SACU revenue receipts, Metolong dam construction loan disbursement from European Investment Bank and a sluggish spending by the government during the quarter ending June 2014. On the contrary, credit to private sector expanded by 0.4 per cent mainly driven by growth in household credit moderated by a fall in credit to business enterprises. The fall in credit to business enterprises is accredited to the payment of loans which out-weight the extension of new loans. On the demand side, the upward adjustment of civil servants salaries coupled with downward adjustment of income tax, despite the more stringent requirements on credit extension to households, contributed somewhat to growth in household credit.

Table 7 : Domestic Claims (Million Maloti: End Period)

	2013			2014		Changes	
	Jun	Sep	Dec	Mar	Jun	Y-Y	Q-Q
Domestic Claims	472.6	1077.6	390.0	1,005.2	117.4	-75.2%	-88.4%
Net Claims on Government	-3751.8	-3358.0	-4177.8	-3568.9	-4572.1	-21.9%	-28.1%
Commercial Banks Net Claims	790.4	848.7	652.1	681.1	632.6	-20.0%	-7.1%
Claims on Central Government	791.5	849.8	664.9	690.1	645.6	-18.4%	-6.4%
Liabilities to Central Government	1.1	1.1	12.8	9.0	13.1	1090.9%	45.5%
Central Bank Net Claims	-4542.2	-4206.7	-4829.9	-4250.0	-5204.6	-14.6%	-22.5%
Claims on Central Government	644.6	796.5	834.6	833.6	844.2	31.0%	1.3%
Liabilities to Central Government	5186.8	5003.2	5664.5	5083.7	6048.8	16.7%	19.0%
Claims on Other Sectors	4224.4	4435.6	4567.8	4,574.2	4689.5	11.0%	2.5%
Claims on OFCs	11.6	12.1	11.7	12.4	10.0	-13.8%	-19.4%
Claims on State and Local Government	0.0	0.0	0.0	0.0	0.0	0.0%	0.0%
Claims on Private Sector	4212.8	4423.5	4556.1	4,561.8	4579.6	8.7%	0.4%
Claims on Business Enterprises	1671.3	1727.3	1558.34	1824.8	1554.2	-7.0%	-14.8%
Claims on Households	2541.4	2696.2	2997.77	2736.9	3125.3	23.0%	14.2%

Source: Central Bank of Lesotho



Net Foreign Assets

The banking system net foreign assets rose marginally by 0.8 per cent during the second quarter of 2014 compared to an increase of 0.3 per cent recorded for the previous quarter. This was on account of a 7.6 per cent growth in the Central Bank net foreign assets which was moderated by 14.8 per cent decline in commercial banks net foreign assets. High SACU revenue receipt was the main driver of an increase in Central Bank net foreign assets. On the contrary, commercial banks net foreign assets fell following the drop in business enterprises deposits, particularly from mining sector. Consequently, the contraction in liquidity of commercial banks implied lower surplus funds to invest in South African money markets. Moreover, slower government budget execution during the quarter under review compounded the decline in commercial banks net foreign assets.

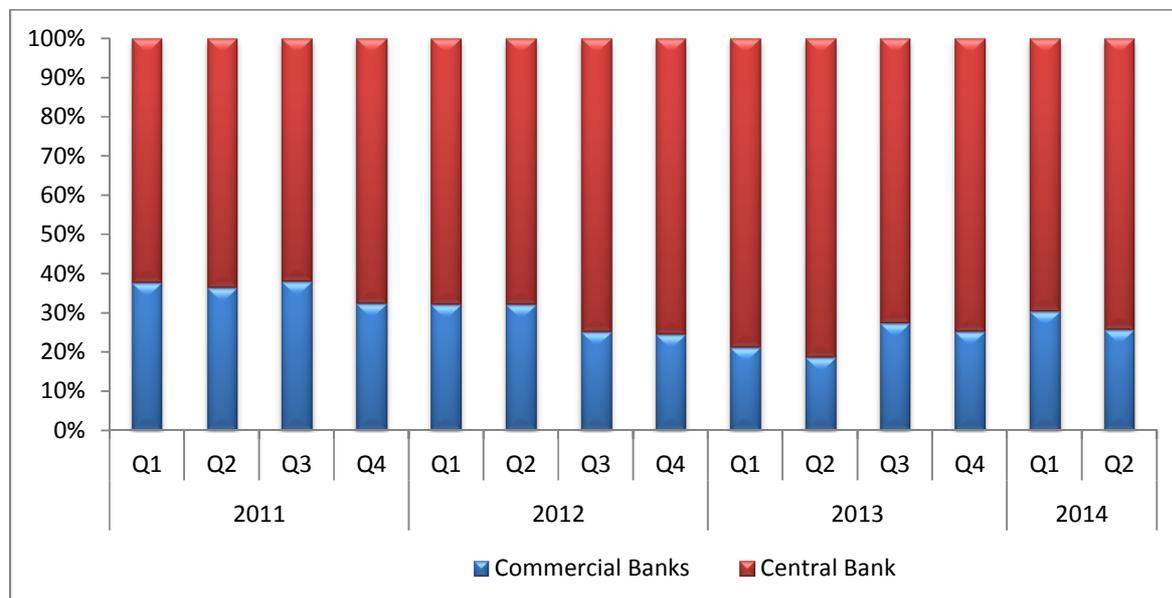
Table 8: Net Foreign Assets (Million Maloti: End Period)

	2013			2014		Changes	
	Jun	Sept	Dec	Mar	Jun	Y-Y	Q-Q
Commercial Banks	2030.9	3137.4	3,236.6	3915.2	3335.9	64.3%	-14.8%
Claims on Non-residents	2411.0	3296.9	3,627.3	4475.8	3782.3	56.9%	-15.5%
Liabilities to Non-residents	-380.1	-159.4	-390.7	-560.6	-446.5	17.5%	-20.4%
Central Bank	8846.9	8342.9	9,598.7	8955.1	9637.9	8.9%	7.6%
Claims on Non-residents	9903.9	9635.1	10,965	10337.4	11026.9	11.3%	6.7%
Liabilities to Non-residents	-1057.	-1292	-1,365.7	-1382.4	-1389.0	31.4%	0.5%
Net Foreign Assets Total	10877.8	11480.4	12,835.4	12870.26	12973.8	19.3%	0.8%

Source: Central Bank of Lesotho



Figure 12: 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. During the quarter under review, broad money (M2) registered a 4.7 per cent contraction following a 5.1 per cent growth during the previous quarter. This was brought about by 3.7 per cent decline in M1 while quasi money recorded a fall of 5.5 per cent. A fall in transferable deposits (which account for a larger share of narrow money) following a slow budget execution by the government and a fall in business enterprises deposits caused a decline in narrow money. On the other hand, the 6.3 per cent fall in commercial banks other deposit caused the decline in quasi money.



Table 9: Components of Money Supply (Million Maloti: End Period)

	2013			2014		Changes	
	Q2	Q3	Q4	Q1	Q2	Annual	Quarterly
Broad Money (M2)	7062.5	8446.3	8661.6	9104.6	8678.8	22.9%	-4.7%
Narrow Money (M1)	3666.4	4024.2	3988.2	4155.8	4003.4	9.2%	-3.7%
Currency Outside DCs	807.7	864.1	953.3	840.0	799.8	-1%	-4.8%
Transferable Deposits	2858.7	3160.0	3034.9	3315.8	3203.6	12.1%	-3.4%
Quasi Money	3396.1	4422.2	4673.4	4948.7	4675.4	37.7%	-5.5%
Other Deposits Commercial Banks	3380.6	4410.3	4663.8	4940.4	4631.2	37.0%	-6.3%
Other Deposits Central Bank	15.5	11.9	9.6	8.4	44.2	185.2%	426.2%

Source: Central Bank of Lesotho

CREDIT EXTENSION

Trends of Credit Extended to Business Enterprises

During the second quarter of 2014, credit extended to business enterprises declined by 14.4 per cent compared to a 16.5 per cent rise during the previous quarter. Community, social and personal services, construction, mining and electricity gas and water experienced the biggest fall in credit. This is reflective of a subdued economic activity during the quarter under review as measured by economic activity indicator (EAI).



Table 10: Credit Extension by Economic Activity (Million Maloti: End Period)

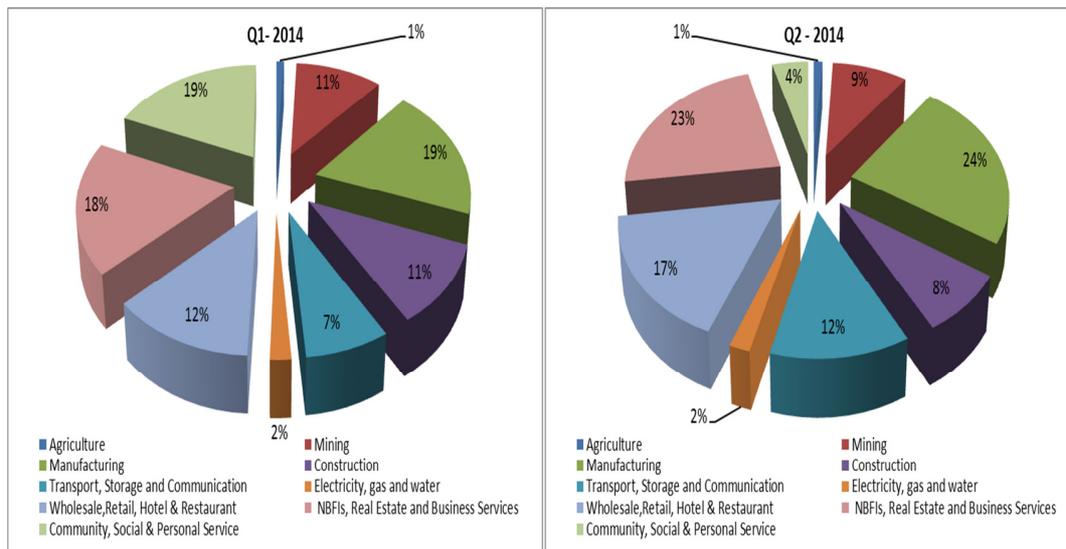
SECTOR	2013			2014		Changes	
	June	Sept	Dec	Mar	June	Annual	Quarterly
Agriculture	18.1	18.3	16.3	16.9	16.5	-8.8%	-2.3%
Mining	226.0	218.7	185.4	194.2	142.5	-36.9%	-26.6%
Manufacturing	352.8	379.0	320.79	343.2	372.2	5.5%	8.4%
Construction	243.1	246.8	212.7	197.1	124.4	-48.8%	-36.9%
Transport, storage and communication	114.6	115.5	112.3	133.1	184.6	61.1%	38.7%
Electricity, gas and water	43.1	40.0	36.8	33.2	27.7	-35.7%	-16.6%
Wholesale, retail, hotel and restaurant	230.9	221.0	225.7	227.5	264.4	14.5%	16.2%
Real estate and business services	308.1	326.6	204.8	331.2	353.5	14.7%	6.7%
Community, social and personal services	134.6	161.4	243.6	338.4	68.4	-49.2%	-79.8%
All sectors	1671.3	1727.3	1558.3	1814.8	1554.2	-7.0%	-14.4%

Distribution of Credit Extended to Business Enterprise

Manufacturing continued to register the largest and growing share of the total credit extended to business enterprises during the period under review. This appears to be in line with its contribution to the economy. It is followed by real estate and business services, wholesale, retail, hotel and restaurant and then transport, storage and communication sectors. Share of community, social and personal services sector is on the steep downward trajectory due to an on-going reclassification of loans in that sector.



Figure 13: Credit Extension by Economic Activity (Percentage Shares)



Source: Central Bank of Lesotho

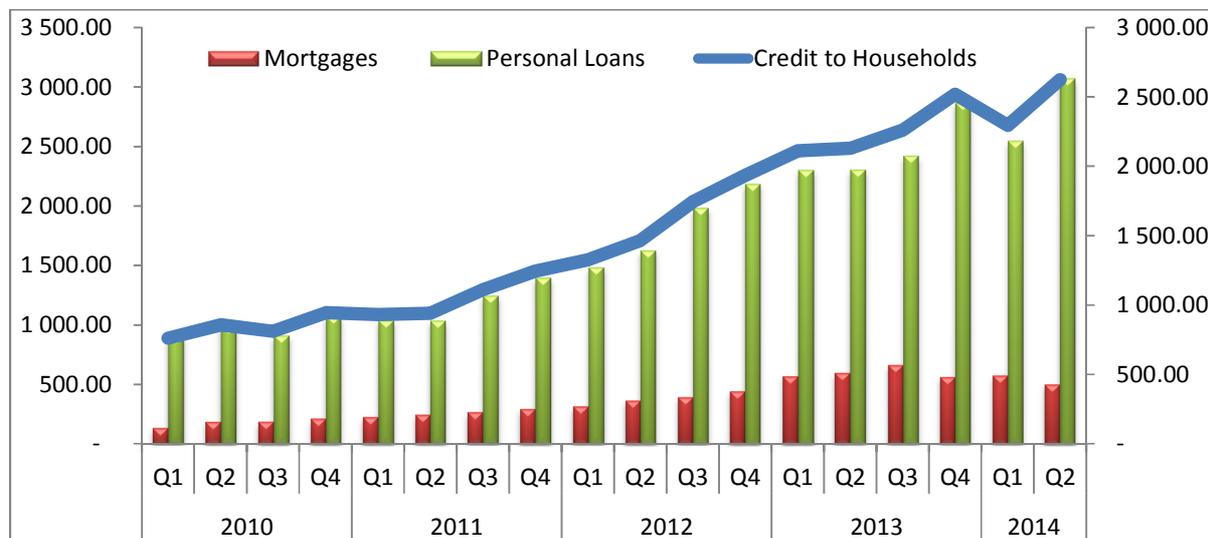
Credit extended to Households

Contrary to the first quarter of 2014 where credit to households registered a fall of 8.9 per cent, it rebounded somewhat during the quarter under review as it recorded a 14.4 per cent increase. This was on account of a 20.5 per cent surge in personal loans moderated by a 12.9 decline in mortgages³. The revised government employees' salaries, coupled with downward revision of income tax rate, caused a surge in personal loans especially vehicle and asset finance.

³ This was on account of a re-classification of business funded mortgages



Figure 14: Credit Extension to Households (Million Maloti: End Period)



Source: Central Bank of Lesotho

LIQUIDITY OF COMMERCIAL BANKS

Components of liquidity

Commercial banks liquidity ratio stood at 89.2 per cent in the second quarter of 2014 compared to 93.7 per cent in the quarter ending March 2013. The major driver of this fall in liquidity ratio is a slowdown in deposits mainly from business enterprises. As a result, commercial banks deposits with banks in South Africa decreased. On the other hand, the credit to deposit ratio increased to 55.7 per cent in the second quarter compared to 54.6 per cent. The slowdown in deposits earlier alluded to and a growth in credit extension, albeit at a moderated rate, caused this growth in credit to deposit ratio.



Table 11: Components of Liquidity (*Million Maloti: End Period*)

	2013			2014	
	Q2	Q3	Q4	Q1	Q2
Credit to Deposit Ratio	66.7%	57.7%	58.0%	54.6%	55.7%
Private Sector Credit	4 163.8	4 372.4	4,465.1	4509.5	4525.9
Total Deposits	6 239.3	7 572.0	7,698.7	8256.2	8121.6
Liquidity Ratio	79.9%	81.3%	85.6%	93.7%	89.2%
Notes and Coins	201.2	207.7	396.0	229.8	264.6
Balances Due from Banks in Lesotho	1 497.4	1 914.7	1,859.6	2370.5	2192.7
Balances Due from Banks in SA	2 307.8	3 190.2	3,416.7	4347.5	4086.6
Surplus funds	189.5	(8.6)	50.9	98.2	30.7
Government Securities	791.5	849.8	864.0	690.1	670.3
Total	4 987.3	6 153.8	6,587.2	7735.9	7245.0

Source: Central Bank of Lesotho

Sources of funds of ODCs

Deposits, which comprise of transferable and other deposits, are the main source of funds for commercial banks. Total deposits fell by 5.1 per cent during the second quarter of 2014 down from a growth of 7.2 per cent during the previous quarter. This was at the back of a fall in deposits from private sector as well as slow government expenditure.



Table 12: Sources of funds for ODCs (*Million Maloti: End Period*)

	2013			2014		Changes	
	Q2	Q3	Q4	Q1	Q2	Annual	Quarterly
Transferable Deposits Incl.	2858.7	3161.7	3034.9	3315.8	3203.6	12.1%	-3.4%
Other Financial Corporations	0.0	0.0	0.0	0.0	0.0	0.0%	0.0%
Public Nonfinancial Corporations	3.1	3.0	4.6	42.2	75.8	2365.1%	79.4%
Private Sector	2837.7	3140.7	3012.3	3255.6	3109.9	9.6%	-4.5%
Other NFCs	1974.8	2295.7	2320.8	2447.2	2405.1	21.8%	-1.7%
Other Sectors (Households)	862.8	845.1	691.5	808.4	704.8	-18.3%	-12.8%
Other Deposits Incl.	3380.6	4410.3	4663.8	4940.4	4631.2	37.0%	-6.3%
Other Financial Corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public Nonfinancial Corporations	3.0	24.6	57.3	66.5	77.8	2464.3%	17.1%
Private Sector	3377.6	4385.7	4606.5	4873.9	4553.3	34.8%	-6.6%
Other NFCs	1758.2	2596.6	2718.6	3031.4	3203.3	82.2%	5.7%
Other Sectors (Households)	1619.4	1789.2	1887.9	1842.5	1350.1	-16.6%	-26.7%
Total Deposits	6239.3	7572.0	7698.7	8256.2	7834.8	25.6%	-5.1%



MONEY AND CAPITAL MARKET DEVELOPMENTS

Money Market

Interest rates

Money markets interest rates remained relatively stable during the second quarter of 2014. Following a monetary policy tightening by South Africa during the previous quarter, the South African Reserve Bank left the repo rate unchanged at 5.50 per cent. Consequently, Lesotho interest rates changed slightly while some remained unchanged though we are still in the rising interest rate cycle. The Lesotho prime rate remained constant at 10.25 per cent during the period under review. The Lesotho 91 day T-bill discount rate (and therefore Lombard rate) marginally increased from 6.10 to 6.11 per cent during the same period.

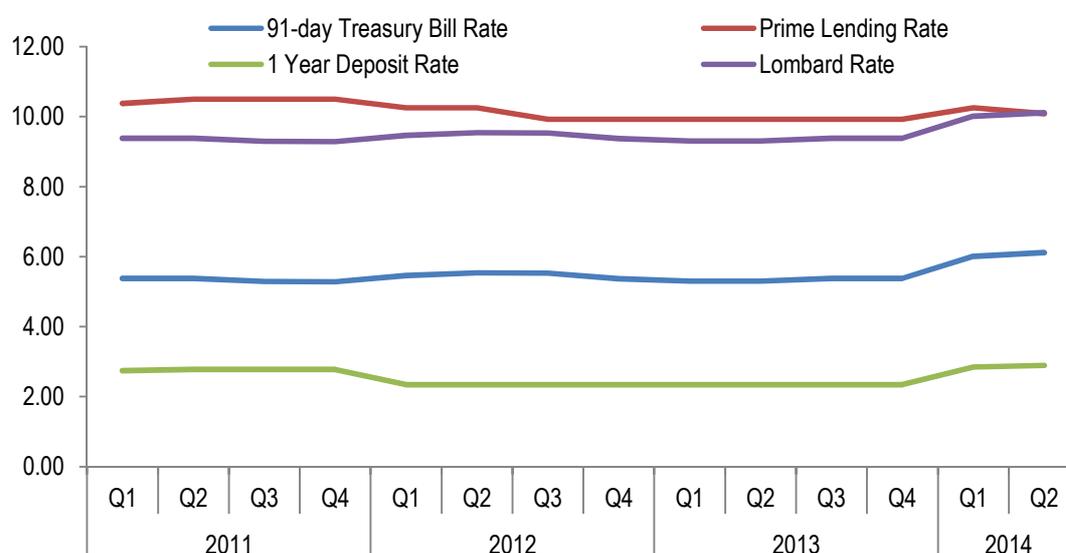
Table 13: Components of Liquidity (*Million Maloti: End period*)

	2013			2014	
	Jun	Sept	Dec	Mar	June
Central Bank					
T Bill Rate – 91 Days	5.27	5.38	5.18	6.10	6.11
Lombard Rate	9.27	9.38	9.18	10.10	10.11
Commercial Banks⁵					
Call	0.77	0.77	0.77	1.03	1.03
Time:					
31 days	0.91	0.91	0.91	0.91	1.14
88 days	1.41	1.41	1.41	2.35	2.85
6 months	1.69	1.69	1.69	1.69	2.04
1 year	2.34	2.34	2.34	2.34	2.89
Savings	0.84	0.84	0.84	0.95	0.80
Prime	9.92	9.92	9.92	10.25	10.25
South Africa*					
Repo	5.00	5.00	5.00	5.50	5.50
T Bill Rate – 91 Days	5.15	5.05	5.18	5.73	5.97
Marginal Lending Rate	10.50	10.50	10.50	10.50	10.50
Prime	8.50	8.50	8.50	9.0	9.0

Source: Central Bank of Lesotho



Figure 15: Short-term Interest Rates (Per cent per Annum)



Source: Central Bank of Lesotho

Holding of Treasury Bills and T-Bill Rates

The holding of treasury bills between March 2014 and June 2014 declined by 1.9 per cent compared to 0.01 per cent decline during the quarter ending March 2014. The 91 day Treasury bill average yield rate increased from 6.48 per cent to 6.61 per cent during the same period. This is indicative of a tightening monetary policy stance.

Table 14: Holding of Treasury Bills and Yields (Million Maloti: End Period)

	2013			2014	
	Jun	Sept	Dec	Mar	June
Treasury Bills	541.5	620.9	547.71	573.89	563.04
Banking System	424.4	492.3	402.52	406.25	407.83
Non-Bank Sector	117.1	128.5	145.19	167.64	155.21
Memorandum Item					
Average Yield Bills (per cent)	5.54	5.54	5.60	6.48	6.61

Source: Central Bank of Lesotho



CAPITAL MARKETS

Holding of Treasury Bonds and Yield rates

Following an issuance of treasury bonds in June 2014, the holding of treasury bonds increased by 3.30 per cent between March 2014 and June 2014 compared to 14.1 per cent decline recorded during the previous quarter. The stock of treasury bonds held by non-bank sector increased by 7.23 per cent while the holding of treasury bonds increased marginally by 0.87 per cent.

Table 15: Holding of Bonds and Yields (*Million Maloti: End Period*)

	2013			2014	
	Jun	Sept	Dec	Mar	June
Holding Treasury Bonds	618.8	618.6	586.79	504.06	520.71
Banking System	405.2	405.3	405.3	318.30	321.06
Non-Bank Sector	213.6	213.3	181.49	186.19	199.65
Memorandum Item					
Average Yield Bonds (per cent)*	9.60	9.60	9.60	9.60	9.60

Source: Central Bank of Lesotho



5. Government Finance

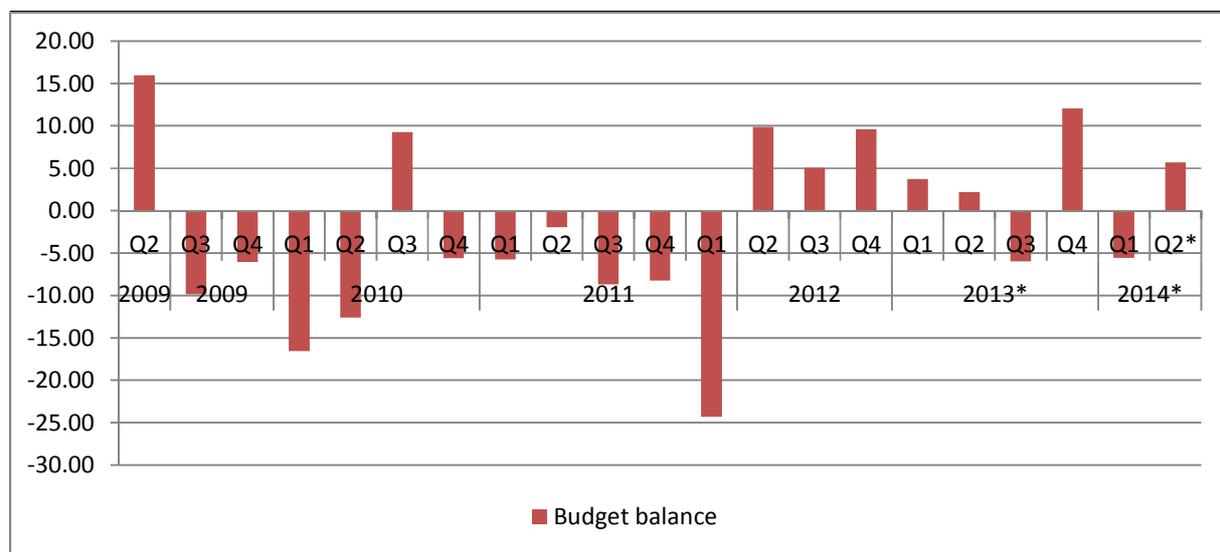
OVERVIEW

At the end of the second quarter of 2014, the cash balance (of the budgetary central government of the Government of Lesotho (GOL) as a share of GDP or gross domestic product) registered a surplus compared to a revised deficit in the first quarter of 2014. The public debt liabilities-to-GDP as at 30th June, 2014 registered an increase compared with the first quarter ending March, 2014. The on-lending disbursed outstanding debt, which contributes to the financial assets of debt instruments of the GOL, recorded a rise in the second quarter of 2014 compared with the previous quarter. This analysis will consider the budget operations of the budgetary central government and the public & publicly guaranteed debt during the second quarter of 2014 and compare the data with the revised figures of the first quarter of 2014.

GOVERNMENT SURPLUS

The budget operations of the budgetary central government recorded a surplus of 5.7 per cent of GDP in the second quarter of 2014 compared to a revised deficit of 5.6 per cent in the first quarter of 2014. This was the third time, after the financial crisis, the GOL experienced the cash surplus during the second quarter of the calendar year which is the first quarter of the fiscal year (April to March). Thus, the revenue receipts outran the expenditure transactions both expense and capital.

Figure 16: Fiscal Balance (Per cent of GDP)



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

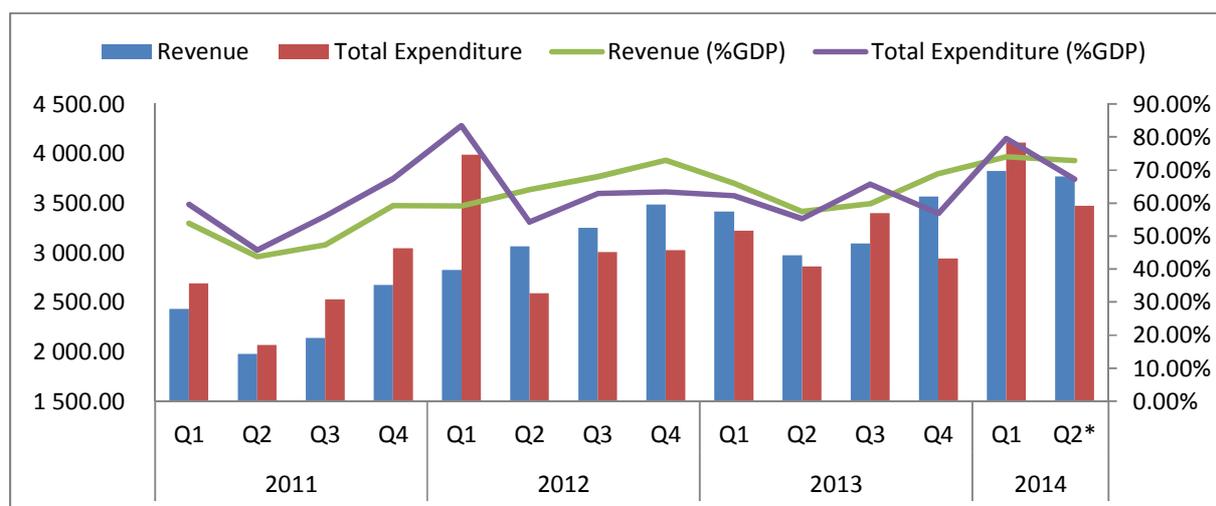
*Preliminary estimates



GOVERNMENT REVENUE AND EXPENDITURE

The budgetary central government is considered to be important in the economy since it contributes largely to GDP in terms of its revenue and expenditure. The revenue amounted to 72.9 per cent as a share to GDP during the quarter under review down from 74.0 per cent in the first quarter of 2014. The ratio of total expenditure, expense and non-financial assets, to GDP amounted to 67.2 per cent in the second quarter of 2014 down from the 79.5 per cent in the first quarter of 2014.

Figure 17: Total Revenue and Expenditure (Million Maloti and Percentage of GDP)



Source: CBL and MOF

Government Revenue

The components of budgetary central government revenue are taxes, social contributions (always zero regarding Lesotho's fiscal statistics), grants, other revenue, and Southern African Customs Union (SACU) receipts. The total revenue fell by 1.4 per cent in the second quarter of 2014 compared to a growth of 7.3 per cent in first quarter of 2014. Thus, the main contributor to a fall of total revenue was a reduction in the tax revenue in terms of a decline in taxes on income, profits, and capital gains.



Tax revenue

The tax revenue has constituted about 34.3 per cent share of the total revenue in the second quarter of 2014 and that has put it in the second position following SACU receipts down from the first position at 42.4 per cent in the first quarter of 2014. Tax revenue fell by 20.2 per cent in the quarter under review compared to an increase of 25.5 per cent experienced in the previous quarter ending March, 2014. The decline in the tax revenue was due to a declining growth in most sub-categories: taxes on income, profits, and capital gains; taxes on property; and taxes on international trade and transactions.

The main reason for the slow growth in the taxes on income, profits, and capital gains during the quarter ending June, 2014 was attributed to high remittances received in the first quarter ending in March, 2014 when large companies, whose financial year is January-December, submitted the adjustments of the actual sales of the year 2013 in the first quarter of their current financial year ending March, 2014. These high remittances during the quarter ending in March 2014 have led to a low performance in the subsequent quarter ending June, 2014 whose collection reflected the accrued tax revenue for the current financial year. Thus, the adjustments to the accounts payable during the current financial year of these large companies in terms of tax revenue are usually made in the first quarter of the next year.

The fall of 86.4 per cent and 90.5 per cent in the growth of both taxes on property and taxes on international trade and transactions has contributed to a decline in tax revenue. The main contributing factor to the low growth in the taxes on property was the Rand Monetary Compensation (RMC) whose remittances were received only in the quarter ending March, 2014. The RMC are usually received once in a year (during the first quarter of the calendar year) by the budgetary central government. The category of taxes on exports (mainly diamond exports), which forms part of taxes on international trade and transactions, decreased by 90.5 per cent during the quarter under review compared with 100 per cent increase in the first quarter of 2014. The decline in the tax revenue was also due to the slow growth of taxes on goods and services at 5.0 per cent in the second quarter of 2014 compared with 9.8 per cent rise in the first quarter of 2014. Other taxes did not change during the second quarter of 2014.

Grants

The revenue on grants is categorised by current and capital grants from foreign governments, international organisations and other general government units. The international organisations and other general government units have contributed zero revenue to the budgetary central government during the second quarter of 2014, while the current and capital grants from foreign governments have remained constant.



Other revenue

The last category of revenue, other revenue, has the following components: property income, sales of goods and services, fines and forfeits, voluntary transfers other than grants, and miscellaneous and unidentified revenue (always zero regarding Lesotho's fiscal statistics). Other revenue experienced a slow growth of 8.6 per cent in the second quarter of 2014 compared with a high growth of 12.1 per cent in the first quarter of 2014.

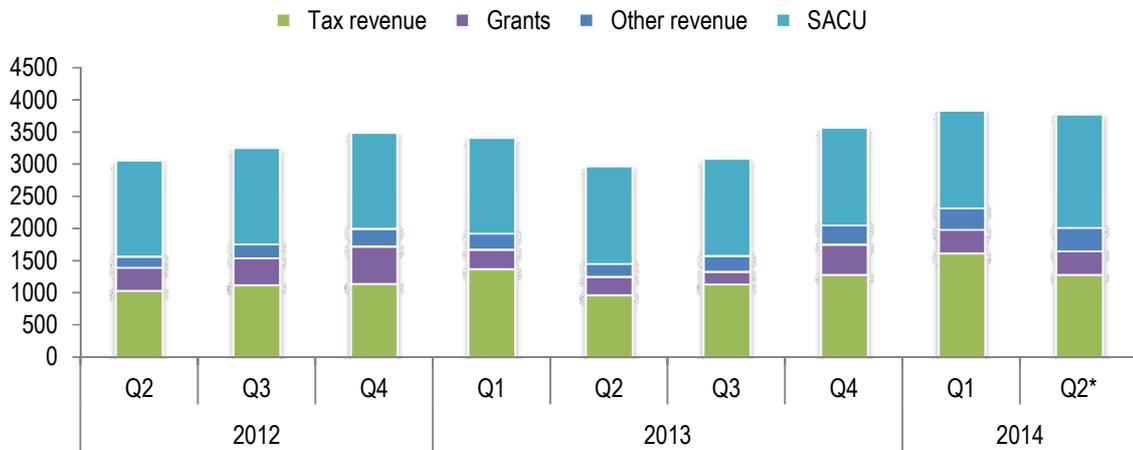
The slow growth of other revenue was attributed by the deterioration of growth in the *sales of goods and services, and, fines and forfeits* by 31.5 per cent and 77.9 per cent respectively in the review quarter. The property income on the other hand, taking 65.0 per cent proportional share of other revenue, grew by 58.8 per cent in the second quarter of 2014 compared with 597.2 per cent growth in the first quarter of 2014. The main contributor for the slow growth in the property income was the 78.7 per cent decline in the interest earnings, 31.5 per cent fall in the sales of goods and services (receipts from Lesotho Highlands Water Authority - electricity 'Muela and water royalties decreased). The dividends, on the other hand, performed well by growing at 293.5 per cent in the second quarter of 2014 compared with a rise of 57.4 per cent in the first quarter of 2014.

Southern African Custom Union (SACU)

The share of Lesotho's SACU receipts accounted for 34.0 per cent of GDP in the second quarter of 2014 putting SACU receipts in a high rank among the revenue-contributing-items relative to the second level of 29.3 per cent of GDP in the first quarter of 2014. SACU receipts have grown by 16.2 per cent in the second quarter of 2014 compared to 0.0 per cent in the first quarter of 2014. The SACU receipts remained constant during the four quarters of the fiscal year which ends in March, with an exception of adjustments (receipts/repayments) that reflect the actual SACU collection in the past 2 years.



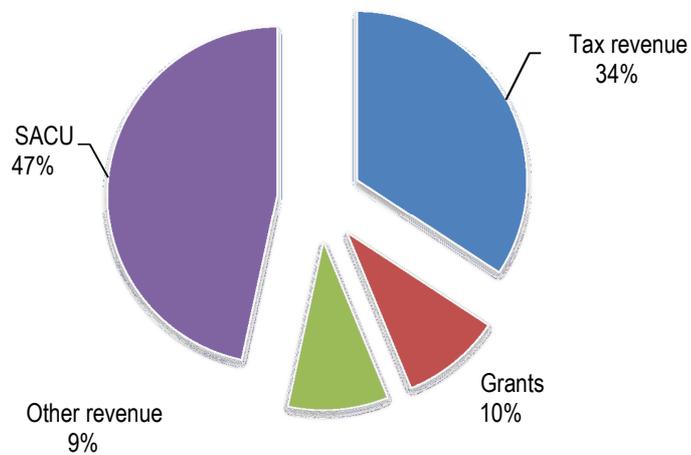
Figure 18: Components of Revenue (Million Maloti)



Source: CBL and MOF

*Preliminary

Figure 19: Components of Revenue (Percentage Share)



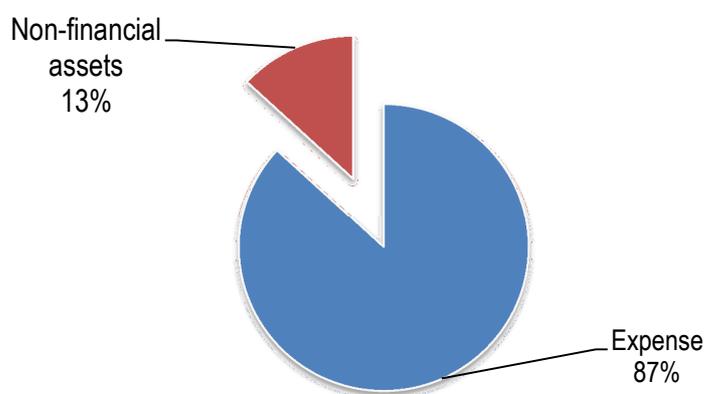
Source: CBL and MOF



Government Expenditure

The components of Government total expenditure are economic classification of expense or recurrent expenditure and transactions in non-financial assets or capital expenditure. The expense accounted for 58.4 per cent of GDP during the second quarter of 2014 down from 63.1 per cent in the previous quarter while the non-financial assets recorded 8.8 per cent of GDP during the second quarter of 2014 down from 16.5 per cent in the quarter ending in March, 2014. The expense has taken the largest share of total expenditure amounting to 86.8 per cent in the second quarter of 2014 which is up from the 79.3 per cent recorded in the first quarter of 2014. The non-financial assets recorded 13.2 per cent share in the second quarter of 2014 which is down from 20.7 per cent share in the first quarter of 2014. The deterioration in the total expenditure has been attributed by both expense and capital expenditure. The low spending was mainly due to the fact that at the start of each fiscal year (which is the second quarter of the calendar year) the Government has to complete the budgeting process with respect to the finalisation of the appropriation bill and the entry process of budget estimates into the electronic information system prior to budget implementation as per the Budget Strategic Paper and other national development strategies. The situation has therefore led to low economic activities during the quarter under review.

Figure 20: Total Spending (Percentage Share)



Source: CBL and MOF

Expense

The expense has declined by 7.5 per cent in the second quarter of 2014 compared to a 37.2 per cent growth in the first quarter of 2014. The decrease in expense was mainly due to the fall in the purchases of goods and services which is a norm during the second quarter of every calendar year,



thereby reflecting the slow implementation of the approved budget estimates during the first quarter of the fiscal year.

Compensation of employees

Compensation of employees (COE) constitutes two sub-categories: wages and salaries (cash and in-kind), and social contributions. Social contributions comprise actual social contributions, imputed social contributions and unfunded social contributions. The COEs have taken the largest share of expense than amounting to 43.5 per cent in the second quarter of 2014 up from 37.4 per cent in the previous quarter. In the second quarter of 2014, the COE experienced a slow growth of 7.8 per cent compared with a 17.7 per cent in the previous quarter. During the second quarter of 2014, the wages and salaries of the civil servants and disciplined forces including pensioners' benefits were adjusted upwards by 4 per cent. The social contributions grew moderately by 1.4 per cent in second quarter of 2014 compared with 53.9 per cent increase in the previous quarter due to low performance of the Government pension contributions to the Public Officers Defined-Contribution Pension Fund.

Purchases of goods and services

The purchases of goods and services are composed of travel and transport (domestic and international), and operating costs. They have constituted the second place following the COE with a record of 21.6 per cent in the quarter ending June, 2014 that is down from 37.0 per cent in the previous quarter. They have increased by 114.4 per cent in the first quarter of 2014 compared to a fall of 46.1 per cent during the second quarter of 2014. The decrease in expenditure on purchases of goods and services reflected a decline in all sub-categories. The reason for the deceleration was the slow budget implementation process during the start of the fiscal year.

Interest payments

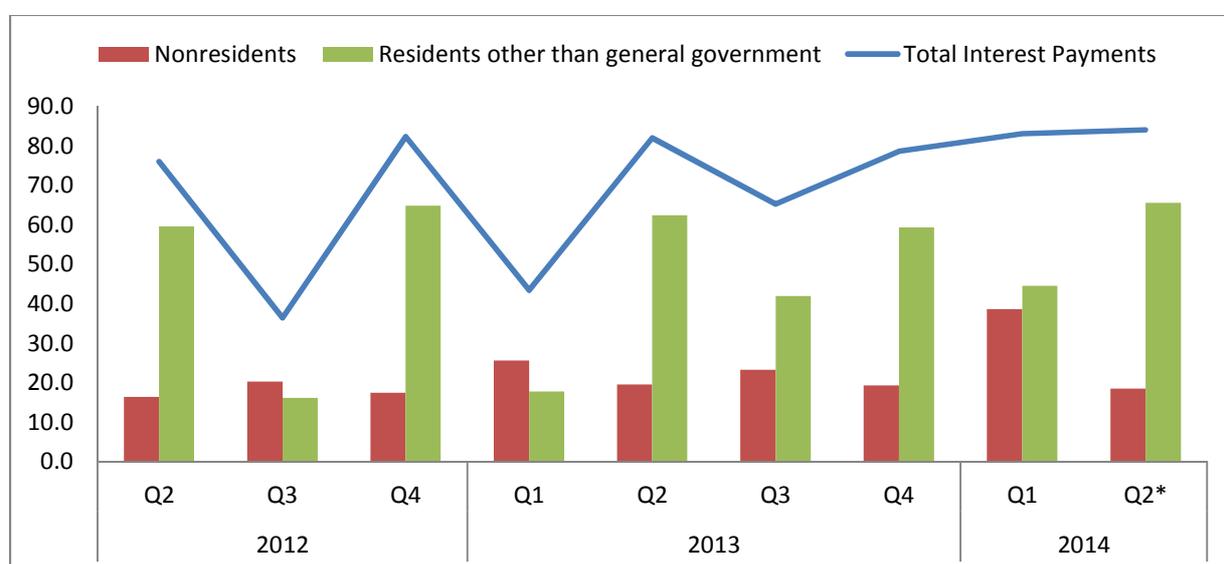
The interest payments category reflects the cost of servicing domestic and external public debt. It comprises of payments to non-residents or payments on external loans; and payments on domestic loans i) to residents other than general government sector⁴ (public corporations and private sector in which the Government has some share-holding), and ii) to other general government units (always zero regarding Lesotho's fiscal statistics). The interest payments category contributed 2.8 per cent of expense in the second quarter of 2014 which is up from 2.5 per cent share in the quarter ending in

⁴ General Government is classified into budgetary central government (government departments and agencies such as ombudsman, Independent Electoral Commission), extra-budgetary central government (i.e. Lesotho Revenue Authority, Center for Accounting Studies), and local governments (community councils and Maseru City Council which is a Municipal). It excludes state-owned enterprises.



March, 2014. It has increased by 1.1 per cent in the second quarter of 2014 down from a rise of 5.7 per cent in the previous quarter. The growth in the interest payments was mainly due to payment to non-residents (external interest) which increased by 99.9 per cent in the first quarter of 2014 relative to a 52.0 per cent decline during the quarter under review. The interest payment to residents other than general government sector (domestic interest) increased by 47.2 per cent in the quarter under review compared to 25.0 per cent fall in the first quarter of 2014. The growth on the interest on securities (domestic interest) fluctuated due to the fact that the treasury bills pay interest every quarter while the treasury bonds pay interest on every other quarter.

Figure 21: Debt Servicing Costs (Million Maloti)



Source: CBL

Grants and other transfers

Grants and other transfers (subsidies and social assistance benefits) have in general been growing during the second quarter of 2014. The share of grants, subsidies and social benefits to expense have amounted to 12.1 per cent, 3.5 per cent and 9.2 per cent in the second quarter of 2014 which were up from 8.1 per cent, 1.8 per cent and 7.9 per cent in the previous quarter, respectively. Subsidies have increased by 78.8 per cent in the quarter under review compared to the fall of 5.3 per cent in the first quarter of 2014 mainly due to a grant amounting to M60 million that was meant to subsidise the church-owned health facilities, as per the signed memorandum of understanding between Christian Health Association of Lesotho and the Government of Lesotho. Grants have increased in the quarter ending in June, 2014 by 38.4 per cent down from 4.9 per cent decline in the first quarter of 2014. The grants to other general government units or the local governments or the Community

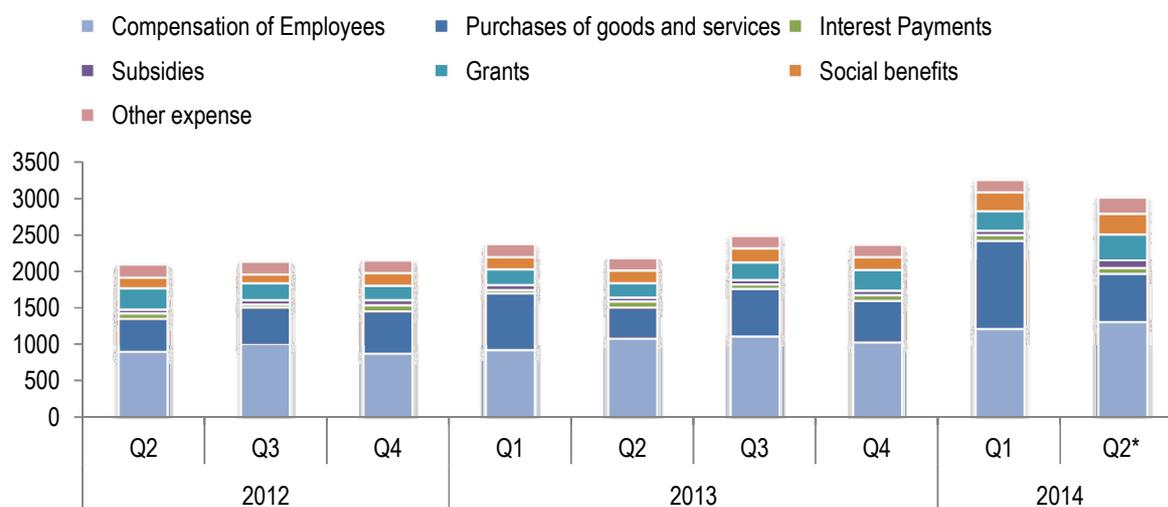


Councils have increased by 47.8 per cent in the second quarter of 2014 compared to a decline of 10.9 per cent in the first quarter of 2014. Social benefits have grown by 8.0 per cent during the second quarter of 2014 down from 36.3 per cent in the previous quarter. The reason for the increase was contributed by the 8.1 per cent increase of social assistance benefits in cash, mainly old age grants which. According to the budget speech 2014/2015, the social assistance benefits were increased from M450 per month per senior citizen to M500 per month per senior citizen during the second quarter of 2014 (or the beginning of the fiscal year).

Other expense

Other expense is composed of property expense other than interest (spending on rent - a purchase of non-produced non-financial asset), and miscellaneous other expense (including non-profit institutions serving households and loan bursary to Basotho nationals). Other expense category has recorded a proportional share of 7.4 per cent of expense in the second quarter of 2014 which was up from 5.3 per cent in the previous quarter. Other expense has grown by 28.2 per cent in the second quarter of 2014 up from 0.8 per cent in the previous quarter, which was mainly driven by the capital subvention to Government entities.

Figure 22: Economic Classification of Expenses (Million Maloti)

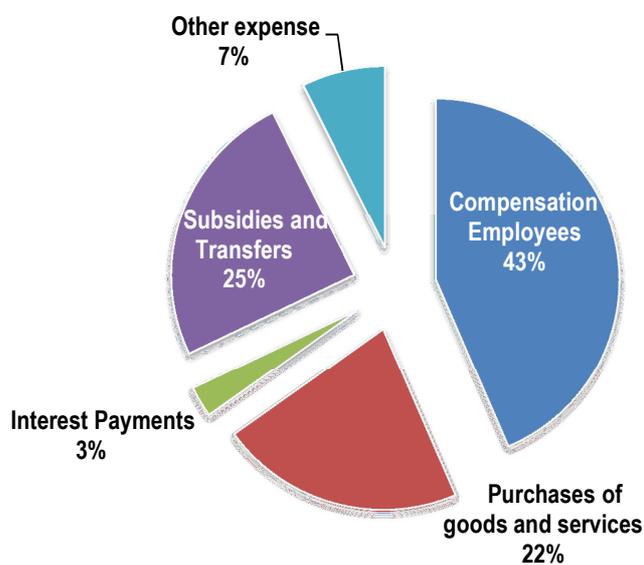


Source: CBL and MOF

*Preliminary estimates



Figure 23: Expense Categories (Percentage Share)



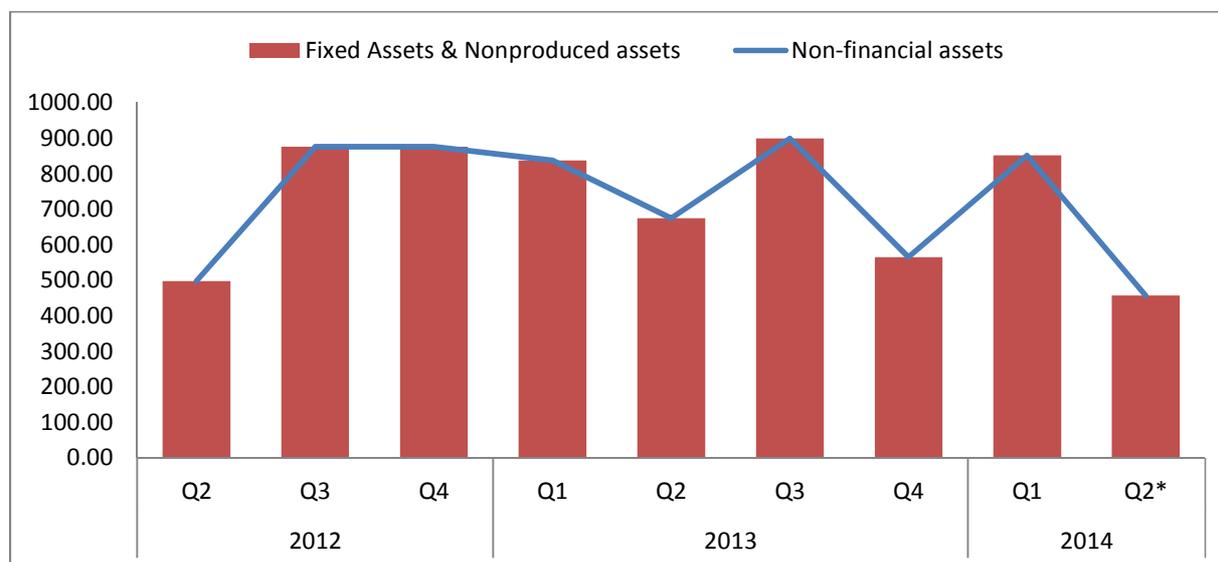
Sources: CBL and MOF

Non-financial Assets or Capital expenditure

As a proportion to total expenditure, the non-financial assets accounted for 13.2 per cent share in the second quarter of 2014 compared with 20.7 per cent during the quarter ending March, 2014. The non-financial assets constituted about 8.8 per cent of GDP under the quarter two of 2014 down from 16.5 per cent of GDP during quarter one of 2014. The non-financial assets decreased by 46.3 per cent during the second quarter of 2014 relative to 50.6 per cent increase in the previous quarter. The slow budget implementation process during the first quarter of the fiscal year has hindered the normal spending on capital expenditure. In comparison of a quarter-to-quarter basis, this behaviour of low spending has been experienced during the past first quarters of the fiscal years.



Figure 24: Transactions in Non-financial assets or Capital expenditure (Million Maloti)



Source: CBL and MOF

Table 16: Statement of Sources and Uses of Cash (Million Maloti)

	2013	2013	2013	2014	2014	Changes (%)		
	Q2	Q3	Q4	Q1	Q2*	Q-to-Q	Y-on-Y	YTD
Classification of Revenue	2,970.79	3,091.95	3,564.37	3,824.05	3,769.35	-1.4	26.9	18.9
Tax revenue	956.13	1,124.74	1,290.75	1,620.31	1,292.20	-20.2	35.1	0.0
Grants	306.62	214.57	465.14	359.52	359.52	0.0	17.3	-12.8
Other revenue	194.40	239.01	294.83	330.58	359.11	8.6	84.7	10.3
SACU receipts	1,513.64	1,513.64	1,513.64	1,513.64	1,758.52	16.2	16.2	8.1
Economic Classification of Expense	2,184.64	2,500.77	2,375.99	3,260.73	3,017.18	-7.5	38.1	11.4
Compensation of Employees	1,087.85	1,114.78	1,035.10	1,218.38	1,313.94	7.8	20.8	12.4
Purchases of goods and services	422.44	644.30	563.05	1,207.17	650.41	-46.1	54.0	4.9
Interest Payments	81.96	65.24	78.62	83.09	84.03	1.1	2.5	3.3
Subsidies	52.61	62.34	61.98	58.71	104.95	78.8	99.5	35.6
Grants	198.19	236.88	277.03	263.55	364.64	38.4	84.0	16.2
Social benefits	169.89	202.01	188.31	256.61	277.14	8.0	63.1	20.0
Other expense	171.69	175.21	171.91	173.22	222.07	28.2	29.3	14.5
Net Cash Inflow From Operating Activities	786.15	591.18	1,188.37	563.32	752.17	33.5	-4.3	-24.9
Transactions in Nonfinancial Assets	674.88	899.21	565.37	851.28	457.26	-46.3	-32.2	-7.6
Fixed Assets	674.88	899.21	565.37	851.28	457.26	-46.3	-32.2	-7.6
Non-Produced Assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cash deficit(-)/surplus(+)	111.28	-308.03	623.00	-287.96	294.91	-202.4	-165.0	-97.9
Net Cash Inflow From Financing Activities	73.54	412.35	-785.84	591.24	-748.82	-226.7	-1118.	-19.0
Net Acquisition of Financial assets	-233.47	172.39	-667.05	573.23	-699.17	-222.0	199.5	-34.2
Net Incurrence of Liabilities	307.01	239.96	-118.79	18.01	49.65	-375.7	-116.2	-68.6
Statistical Discrepancy	184.82	104.32	162.84	303.28	-453.90	-249.7	-345.6	-207.2



Source: CBL and MOF

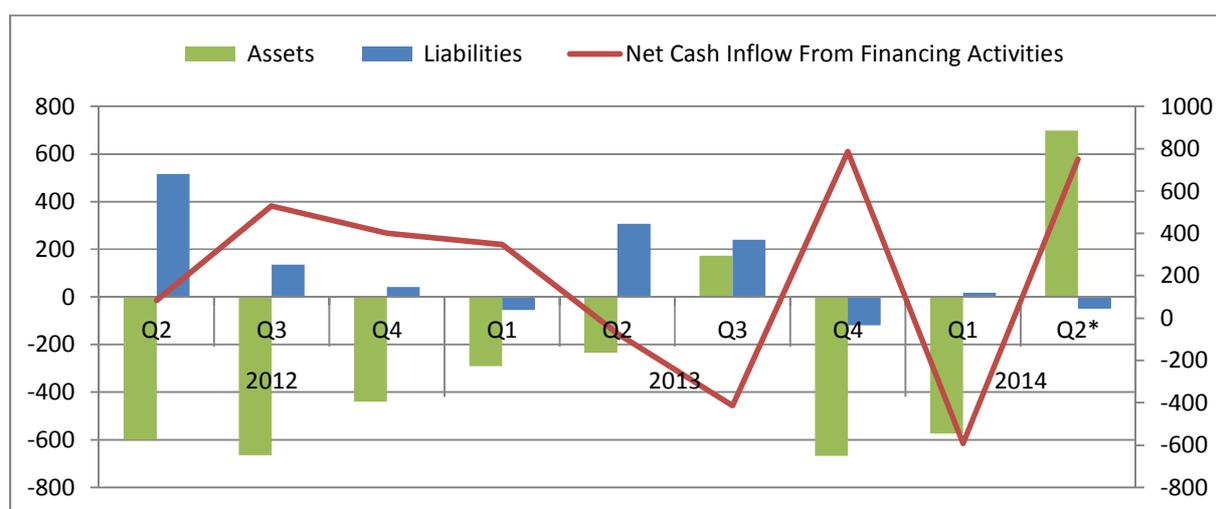
*Preliminary estimates

FINANCIAL ASSETS AND LIABILITIES

The composition of transactions in financial assets and liabilities can be by residency or by financial instruments. The residency deals with the domestic and external assets and liabilities. The financial instruments entail the currency and deposits; securities other than shares, and loans. Government's net position in financial assets and liabilities transactions was positive, and thus reflecting largely an increase of 222.0 per cent in domestic assets during the second quarter of 2014 up from 185.9 per cent experienced in the first quarter of 2014 mainly due to the increased deposits of SACU receipts. The domestic assets constituted 100 per cent share of the total financial assets in terms of currency and deposits, and on-lend loans.

On the other hand, total liabilities have contracted by 375.7 per cent during the quarter ending June, 2014 compared to a rise of 115.2 per cent in the first quarter of 2014. The contraction was reflected by a fall in the domestic debt amounting to 370.4 per cent in the second quarter of 2014 relative to an increase of 117.8 per cent in the previous quarter. The domestic debt, in terms of treasury bills and treasury bonds, has increased from the banking system point of view while the share of the non-bank public sector has declined. The foreign debt has increased by 355.7 per cent during the quarter ending June, 2014 up from a decline of 133.8 per cent in the quarter ending March, 2014 due to high loan drawings or disbursements relative to low loan repayments or amortization.

Figure 25: Net Foreign Assets (Million Maloti)



Source: CBL and MOF

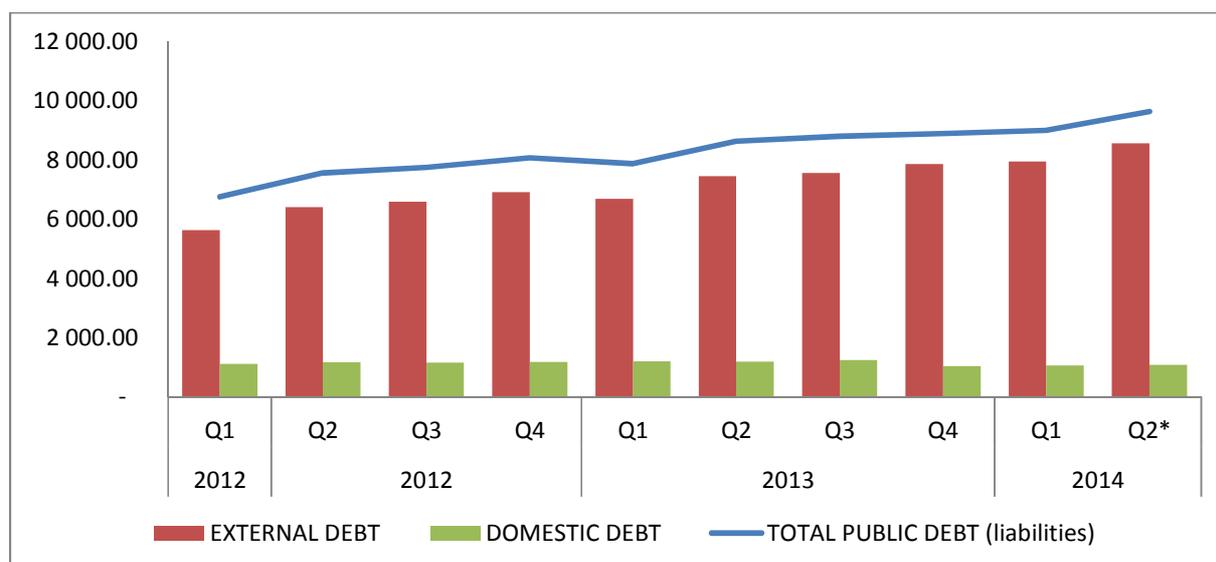
*Preliminary estimates



PUBLIC DEBT AND ON-LENDING

The stock of public and publicly guaranteed debt⁵ (on-lending), or PPGD, to GDP ratio amounted to 46.6 per cent in the second quarter of 2014 compared with 43.5 per cent in the first quarter on 2014. The PPGD increased by 7.1 per cent during the second quarter of 2014 compared with 1.1 per cent in the previous quarter. External debt continued to be the largest component of the overall debt stock at 88.8 per cent while domestic debt constituted 11.2 per cent of total public debt stock.

Figure 26: Outstanding Public Debt (Million Maloti)



Source: CBL and MOF

External Debt and On-Lending

The disbursed outstanding external debt (DOD) by external creditors, for public and publicly guaranteed entities (on-lending), is composed of bilateral loans, multilateral loans, financial institutions loans, and suppliers' credit. It can also be classified according to the concessionality⁶ of the loan. As a ratio of GDP, the DOD registered 41.4 per cent in the second quarter ending June, 2014 compared with 38.4 per cent during the previous quarter ending March, 2014.

⁵ Public and publicly guaranteed debt stock is made up of both external and domestic borrowing by budgetary central government (government ministries) for general government, public corporations, and private entities with Government share-holding.

⁶ According to IMF (2012) 'concessional loans occur when units lend to other units and the contractual interest rate is intentionally set below the market interest rate that would otherwise apply'. The state of concessionality can be described by a grace period, frequencies of payments and a maturity period.



The DOD has increased by 7.7 per cent in the second quarter of 2014 compared with a rise of 1.0 per cent recorded in the first quarter. The concessional external loans have registered a growth of 7.0 per cent in the second quarter of 2014 up from 1.8 per cent in the first quarter of 2014. The non-concessional loans have increased to 11.2 per cent during the quarter under review relative to 2.6 per cent decline in the previous quarter.

Bilateral loans

The bilateral loans or loans borrowed from other governments grew by 75.8 per cent in the second quarter of 2014 following a rise of 4.6 per cent that was experienced during the previous quarter. The bilateral loans are 100 per cent concessional loans from the following creditors: Abu Dhabi Fund for Economic Development, Banque Worms and Natex Banque, Kuwait Fund for Arab Economic Development, Natexis South Africa, Peoples's Republic of China, and The Saudi Fund for Development.

Multilateral loans

The multilateral loans or loans from international institutions increased by 2.8 per cent in the quarter ending June, 2014 compared with a 1.1 per cent increase during the previous quarter. About 87.4 per cent of multilateral loans are classified as concessional loans while 12.6 per cent fall under non-concessional loans.

Financial institutions' loans and Suppliers' credit

As a proportional to the total external debt, the loans from financial institutions remained unchanged at 0.7 per cent share in the second quarter of 2014 compared with the previous quarter. All the loans under the financial institutions have proven to be non-concessional during the review period. The suppliers' credit category of external debt has grown by 6.7 per cent in the second quarter of 2014 up from 3.3 per cent contraction that was experienced in the first quarter of 2014.



Table 17: External Debt (Million Maloti)

	2013			2014		Changes (%)		
	Q2	Q3	Q4	Q1	Q2*	Q-to-Q	Y-on-Y	YTD
EXTERNAL DEBT	7,447.4	7,550.5	7,863.8	7,944.9	8,554.6	7.7%	14.9%	4.4%
Bilateral Loans	414.3	426.1	484.4	506.9	890.9	75.8%	115.0%	41.0%
Concessional	414.3	426.1	484.4	506.9	890.9	75.8%	115.0%	41.0%
Non-concessional	0.0	0.0	0.0	0.0	0.0	0.0%	0.0%	0.0%
Multilateral Loans	6,477.3	6,589.4	6,810.4	6,887.0	7,079.4	2.8%	9.3%	2.0%
Concessional	5,758.2	5,835.7	6,015.9	6,110.0	6,186.7	1.3%	7.4%	1.4%
Non-concessional	719.1	753.7	794.5	777.1	892.7	14.9%	24.1%	6.2%
Financial Institutions	59.8	59.3	59.3	57.9	57.9	0.0%	-3.2%	-1.2%
Concessional	0.0	0.0	0.0	0.0	0.0	0.0%	0.0%	0.0%
Non-concessional	59.8	59.3	59.3	57.9	57.9	0.0%	-3.2%	-1.2%
Suppliers' Credit	495.9	475.6	509.8	493.1	526.4	6.7%	6.1%	1.7%

Source: MOF

Domestic Debt

Domestic debt stock, as a share of GDP, amounted to 5.1 per cent in the first quarter of 2014 and recorded 5.2 per cent in the second quarter of 2014. It increased by 2.8 per cent during the quarter ending in June, 2014 in comparison to a 7.0 per cent decrease recorded in the quarter ending in March, 2014. The government domestic debt comprises long term debt (including treasury bonds) and short term debt (including treasury bills and rarely, loans from commercial banks) from local banks and non-bank sector. The loans from the local banks expanded by 0.5 per cent during the quarter under review compared to a decrease of 10.3 per cent in the first quarter of 2014. The non-bank loans increased by 1.5 per cent in the quarter ending March, 2014 compared with an expansion of 8.0 per cent during the quarter ending June, 2014.

Table 18: Domestic Debt (Million Maloti)

	2013			2014		Changes (%)		
	Q2	Q3	Q4	Q1	Q2*	Q-to-Q	Y-on-Y	YTD
DOMESTIC DEBT	1,181.3	1,239.7	1,126.0	1,047.5	1,076.7	2.8%	-8.9%	-2.3%
Banks	845.6	897.6	807.8	724.6	728.0	0.5%	-13.9%	-5.2%
Long-term (t-bonds)	405.2	405.2	405.3	318.3	321.5	1.0%	-20.7%	-11.6%
Short-term (t-bills)	440.4	492.4	402.5	406.3	406.5	0.0%	-7.7%	0.5%
Non-bank	335.7	342.1	318.2	322.8	348.7	8.0%	3.9%	4.8%
Short-term (t-bills)	122.1	128.5	136.8	136.7	149.1	9.1%	22.1%	4.5%
Long-term (t-bonds)	213.6	213.6	181.4	186.2	199.6	7.2%	-6.5%	5.0%

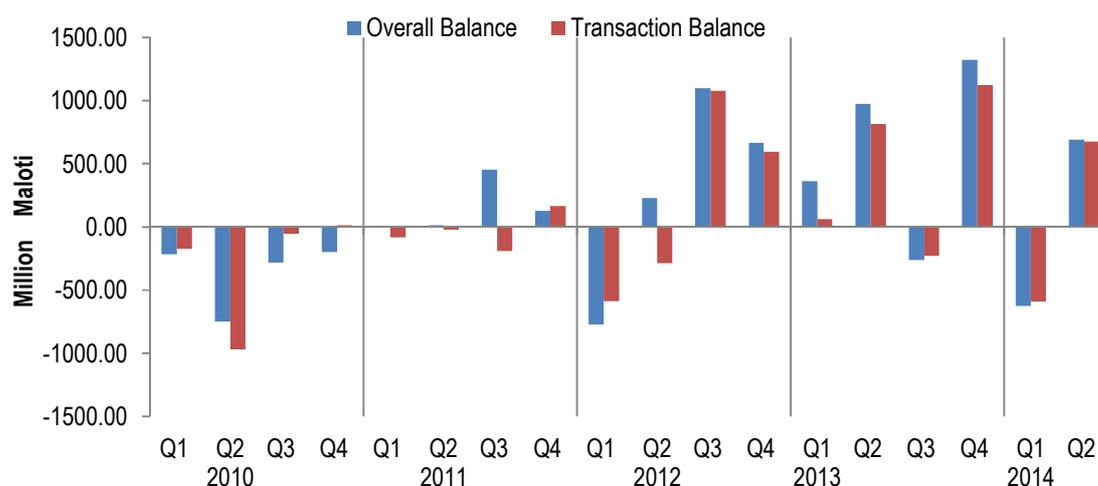
Source: CBL

6. Foreign Trade and Payments

OVERVIEW

In the second quarter of 2014, the external sector position went into a surplus relative to a deficit registered in the previous quarter. The overall balance recorded a surplus of M689.5 million, equivalent to 14.4 per cent of GDP in the second quarter of 2014, compared with a deficit of M627.0 million or 13.1 per cent in the previous quarter. The overall surplus was attributed to the narrowing of the current account, largely due to an increase in current transfers and income account. The observed performance of overall balance was also influenced capital and financial account inflows during the review period, relative to outflows realised in the previous quarter. Similarly, the transaction balance which represents the overall balance excluding the effects of currency fluctuations registered a surplus of M674.8 million in the review quarter, compared with a deficit of M589.3 million in the preceding quarter.

Table 19: External Sector Position (Million Maloti)



CURRENT ACCOUNT

The current account deficit narrowed to M187.3 million in the second quarter of 2014, from a deficit of M239.7 million in the quarter ending in March 2014. The improvement in the current account deficit emanated largely from the net income account and the current transfers balance. The improvement in income account balance was driven largely by an increase in returns on the central



bank and commercial banks investments abroad. The current transfers balance was underpinned by a rise in SACU receipts during the review quarter. However, the growth in payments for services acquired abroad moderated the improvement in current account balance. In addition, the widening of the merchandise trade deficit restrained the narrowing of current account deficit. Relative to GDP, the current account deficit was equivalent to 3.9 per cent during the review period, compared with a 5.0 per cent of GDP deficit in the previous quarter.

Table 20: Current Account Balance (Million Maloti)

	2013			2014	
	Q2	Q3	Q4	Q1*	Q2+
Current Account	-497.8	220.9	56.3	-239.7	-187.4
(a) Goods	-2777.7	-2197.3	-2202.9	-2577.3	-2594.7
Merchandise exports f.o.b.	1786.6	2289.8	2134.5	2666.4	2261.0
Of which diamonds.....	393.3	676.2	660.5	1382.0	925.1
Of which textiles and clothing	801.1	1009.2	998.5	767.0	833.4
Other exports.....	595.2	604.3	475.5	517.0	502.5
Merchandise imports f.o.b.	-4564.3	-4487.0	-4337.4	-5243.7	-4855.6
(b) Services	-718.5	-651.5	-815.2	-656.6	-682.1
(c) Income	1090.8	1182.7	1114.9	952.2	992.4
(d) Current Transfers	1907.6	1887.0	1959.44	2042.1	2097.0

+ Preliminary Estimates

*Revised Estimates

Merchandise Exports

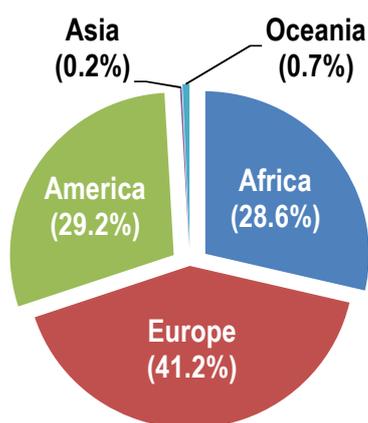
During the quarter ending in June 2014, the value of merchandise exports declined by 15.2 per cent, in contrast with a growth of 24.9 per cent registered in the preceding quarter. The deterioration in the merchandise exports resulted largely from a fall in diamond exports, following a surge in earnings from diamond exports in the previous quarter, as a result of sales of two exceptionally big rough diamonds by Lets'eng diamond mine. However, this was partially offset by the improvement in exports of textiles and clothing. On an annual basis, merchandise exports grew at a lower rate of 26.5 per cent in the review quarter, compared with 35.3 per cent increase realised in the previous quarter. As a percentage of GDP, merchandise export registered 47.3 per cent during the quarter ending in June 2014, following 55.8 per cent in the quarter ending in March 2014.



Direction of Trade - Exports

In the second quarter of 2014, the European market continued to receive the largest, albeit reduced, share of Lesotho's exports. It received 41.2 per cent of total exports, following 52.0 per cent in the previous quarter. Exports to the European market comprised mainly of rough diamonds. The second largest market for Lesotho's exports was America with an increased share of 29.2 per cent of the total exports relative to that of 23.9 per cent in the previous quarter. The American market is the main destination for Lesotho's textiles and clothing exports. The African market became the third largest destination of Lesotho's exports with a share of 28.6 per cent during the period, compared with 23.2 per cent recorded in the previous quarter. The Asia and Oceania markets received respective shares of 0.2 per cent and 0.7 per cent of Lesotho exports in the quarter ending in June 2014.

Figure 27: Direction of Merchandise Exports (Percentage Share)



Merchandise Imports

The value of merchandise imports dropped by 7.4 per cent in the second quarter of 2014, compared with an increase of 20.9 per cent in the previous quarter. The deterioration in merchandise imports largely reflected a fall in government expenditure during the period, following a significant increase in the previous quarter. Nonetheless, on an annual basis imports rose by 6.4 per cent year-on-year basis, after growing by 10.8 per cent year-on-year in the previous quarter. As a percentage of GDP, the value of merchandise imports was 101.6 per cent in the quarter ending in June 2014 and 109.7 per cent in the previous quarter.



Services Account

Lesotho continued to be net importer of services during the quarter ending in June 2014. The services account balance increased by 3.9 per cent to a net outflow of M682.1 million during the review period, compared with an outflow equivalent to M656.6 million observed in the previous quarter. The increased payments for services acquired abroad were observed in the communication services, largely services from Singapore, Finland, South Africa and Mauritius. In addition, the growth in payments for services was driven by government services, owing to increased expenditure by Lesotho embassies abroad. However, a decline in payments for services on insurance and freight for imported goods moderated an increase of imports of services. On an annual basis, net outflows of services account increased by 5.1 per cent in the review quarter, higher than a rise of 3.3 per cent in the previous quarter.

Income

During the quarter under review, net income account balance rose by 4.2 per cent to M992.4 million, compared with a decline of 14.6 per cent in the previous quarter. The improvement emanated largely from interest earned by both CBL and commercial banks on their portfolio investments abroad. Returns on CBL's investment grew by 10.2 per cent during the period, while those of commercial banks increased by 20.9 per cent. In addition, an increase in net income account balance was supported by lower interest payments on government's external loans during the review quarter. However, on an annual basis, the net income account declined by 9.0 per cent in the review quarter, compared with a fall of 12.6 per cent in the previous quarter. Relative to GDP, the net income account balance constituted 20.8 per cent during the quarter ending in June 2014 which was marginally higher than the 19.9 per cent of GDP registered in the preceding quarter.

Current Transfers

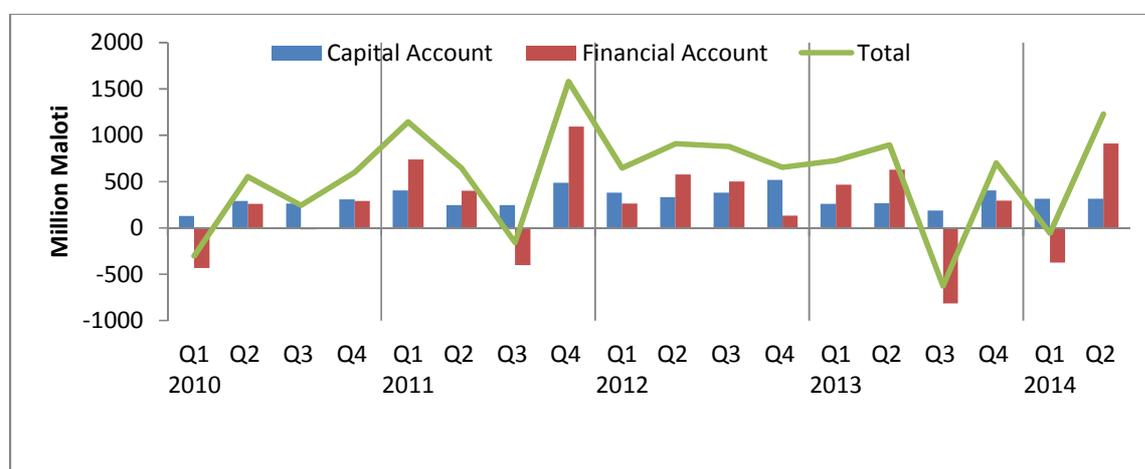
A net inflow of current transfers continued to be realised during the quarter ending in June 2014. They grew by 2.7 per cent during the review quarter, relative to 4.2 per cent increase in the previous quarter. This was driven largely by the 17.4 per cent growth in SACU receipts, which constitutes the largest share of current transfers. However, a significant increase in payments for subscriptions to international organisation offset the improvement in current transfer balance. On an annual basis, the net current transfers rose by 9.9 per cent in the review quarter, higher than 1.8 per cent recorded in the previous quarter. As a percentage of GDP, the net current transfers displayed 43.9 per cent in the quarter ending in June 2014, compared with 42.7 per cent in the previous quarter.



Capital and Financial Account

The capital and financial account went into surplus in the quarter ending in June 2014, in contrast with a deficit realised in the first quarter of 2014. Capital and financial account net inflows of M1.2 billion were realised during the quarter, following a net outflow in the previous quarter. The observed performance was driven by financial account, while capital account remained unchanged during the period. The surplus of M912.9 million was recorded in the financial account driven by reduced commercial banks foreign assets as they brought resources back into the country to support domestic economic activity during the review quarter. Moreover, a decline in government external loan repayments contributed to the surplus in the financial account.

Figure 28: Capital and Financial Account (Million Maloti)

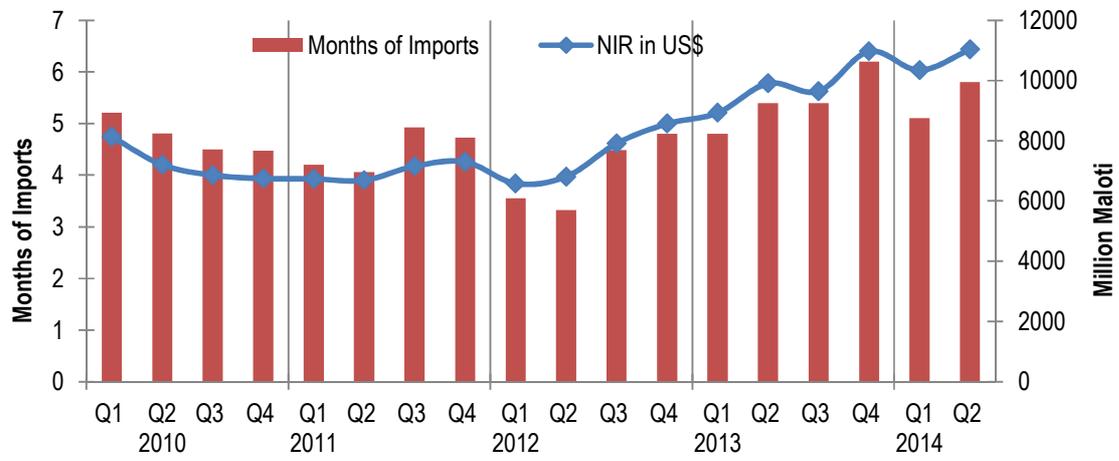


RESERVE ASSETS

At the end of second quarter of 2014, the stock of gross international reserves had grown by 6.7 per cent to M11.0 billion, compared with a decline of 5.7 per cent in the quarter ending in March 2014. The increase in official reserves reflected a build-up in government deposits as a result of a rise in SACU receipts during the quarter. The growth in reserves was also attributed to the fall in both interest payments and repayments of government external loans during the review period. Measured in months of import cover, gross official reserves rose to 5.8 months in the quarter ending in June 2014, from 5.1 months registered at the end of the previous quarter.



Figure 29: Reserve Assets



7. Statistical Appendix

