

Central Bank of Lesotho



QUARTERLY ECONOMIC REVIEW

September 2020

Maseru Kingdom of Lesotho

Table of Contents

1. Executive Summary	4
2. International Economic Developments	6
OVERVIEW	6
ADVANCED ECONOMIES.....	6
EMERGING MARKETS.....	8
COMMODITIES.....	9
3. Real Sector Developments	13
OVERVIEW	13
OUTPUT DEVELOPMENTS	13
EMPLOYMENT DEVELOPMENTS	14
PRICE DEVELOPMENTS	16
4. Monetary and Financial Developments	18
OVERVIEW	18
BROAD MONEY (M2)	18
CREDIT EXTENSION.....	21
LIQUIDITY OF COMMERCIAL BANKS.....	23
MONEY AND CAPITAL MARKET DEVELOPMENTS.....	24
5. Government Finance	27
OVERVIEW	27
REVENUE	27
TOTAL EXPENDITURE.....	28
TOTAL OUTLAYS BY FUNCTIONS OF GOVERNMENT	31
FINANCIAL ASSETS AND LIABILITIES.....	32
TOTAL PUBLIC DEBT.....	32
6. Foreign Trade and Payments	34
OVERVIEW	34
CURRENT ACCOUNT	34
CAPITAL ACCOUNT	37
FINANCIAL ACCOUNT	37
RESERVE ASSETS	38

List of Tables

Table 1: Key World Economic Indicators	6
Table 2: Contributions to Growth	14

Table 3: Employment by LNDC-Assisted Companies	14
Table 4: Inflation Rate (<i>Annual Percentage Changes</i>).....	16
Table 5: Domestic Claims (<i>Million Maloti: End Period</i>)	19
Table 6: Net Foreign Assets (<i>Million Maloti: End Period</i>).....	20
Table 7: Components of Money Supply (<i>Million Maloti: End Period</i>)	21
Table 8: Credit Extension by Economic Activity (<i>Million Maloti</i>).....	21
Table 9: Components of Liquidity (<i>Million Maloti</i>).....	23
Table 10: Sources of funds for ODCs (<i>Million Maloti</i>)	24
Table 11: Interest rates	25
Table 12: Holding of Bills (<i>Million Maloti</i>)	26
Table 13: Holding of Bonds (<i>Million Maloti</i>)	26
Table 14: Statement of Government Operations (<i>Million Maloti</i>).....	30
Table 15: Total Outlays by Functions of Government (<i>Million Maloti</i>)	31
Table 16: Public Debt Stock (<i>Million Maloti</i>).....	Error! Bookmark not defined.
Table 17: Current Account Balance (<i>Million Maloti</i>).....	34
Table 18: Financial Account Balance (<i>Million Maloti</i>).....	38

List of Figures

Figure 1: Average Price of Gold	9
Figure 2: Average Price of Platinum	10
Figure 3: Average Price of Oil	10
Figure 4: Average Price of Maize.....	11
Figure 5: Average Price of Wheat.....	11
Figure 6: Nominal Exchange Rate of Loti against Major Trading Currencies	12
Figure 7: Quarterly Indicator of Economic Activity	13
Figure 8: Government Employment (<i>Annual Percentage Changes</i>).....	15
Figure 9: Migrant Mineworkers (<i>Annual Percentage Changes</i>)	15
Figure 10: Core vs Headline Inflation.....	16
Figure 11: Food vs Non-food Inflation.....	17
Figure 12: Lesotho and South Africa's Inflation	17
Figure 13: Broad Money (M2) (<i>Quarterly Changes</i>).....	18
Figure 14: Net Foreign Assets (<i>Percentage Shares</i>)	20
Figure 15: Distribution of Credit (<i>Percentage Shares</i>).....	22
Figure 16: Credit Extension to Household (<i>Million Maloti</i>).....	23
Figure 17: Short Term Interest Rates (<i>Per Cent per Annum</i>).....	25
Figure 18: Fiscal Balance (<i>Percent of GDP</i>)	27
Figure 19: Total Revenue (<i>Million Maloti</i>)	28
Figure 20: Total Expense (<i>Million Maloti</i>)	28
Figure 21: Total Non-financial assets or Capital expenditure (<i>Million Maloti</i>).....	29
Figure 22: Total Financing (<i>Million Maloti</i>)	32
Figure 23: Outstanding Public Debt (<i>Million Maloti</i>).....	33
Figure 24: Direction of Merchandise Exports (<i>Percentage Share</i>).....	35
Figure 25: Capital Account (<i>Million Maloti</i>).....	37
Figure 26: Financial Account (<i>Million Maloti</i>).....	38
Figure 27: Reserves Assets.....	39

1. Executive Summary

International economic activity remained subdued in the third quarter of 2020, albeit at a better level than that recorded in the preceding quarter. Economic activity in both the developed world and emerging markets economies stabilised even though only China recorded positive growth in gross domestic product (GDP). However, relaxation of lockdown measures and increased policy support boosted the globally economy. Even though unemployment improved in some parts of the world, the current rates were still higher than pre-pandemic levels. Inflationary pressures revealed mixed signals in both the developed world and emerging markets economies. Monetary policy stance was mostly accommodative, with policies geared towards mitigating the impact of COVID-19 pandemic, while also stimulating economic recovery.

According to the Central Bank of Lesotho (CBL) quarterly indicator of economic activity (QIEA), the economy was estimated to have recovered significantly, registering 9.2 per cent growth in September 2020, in contrast to the revised 14.2 per cent contraction observed the previous quarter. Labour markets revealed unfavourable conditions, with employment at Lesotho National Development Corporation (LNDC)-assisted companies falling by 4.7 per cent following 3.6 decline per cent recorded in June 2020, as some textile manufacturing firms had to abandon operations on account of the effects of pandemic. The number of migrant mineworkers into South Africa continued to decline with a 31.1 per cent contraction during the period as higher operating costs and the transition to highly capital-intensive shallower mining (among many others) forced numbers down. The number of public servants also declined by 0.5 per cent in the quarter, due mainly a fall in the number of teachers in public schools.

Inflationary pressures, driven mainly by the prices of food, worsened in September in comparison to the June inflation rate. The inflation rate - the year-on-year percentage change in the Consumer Price Index (CPI) - increased to 5.9 per cent in September 2020 from 4.9 per cent estimated for June 2020. Food and non-food inflation rates rose from 11.4 per cent and 1.2 per cent in June 2020 to reach 12.7 and 2.0 per cent per cent in September 2020, respectively. Food inflation was driven mainly by the prices of bread and cereals, meat, oils and fats, and vegetables, while the non-food counterpart was driven predominantly by clothing and footwear, more so clothing garments. In comparison to South Africa (SA) inflation rate, Lesotho inflation rate continued to diverge, with the latter hovering around the 6.0 per cent mark while the SA counterpart was around 3.0 per cent.

The easing of COVID-19 restrictions in the third quarter of 2020 had some economic benefits as reflected by a resurgence of monetary and financial aggregates. The broadly defined money supply (M2), increased by 4.3 per cent during the third quarter of 2020, following a contraction of 0.9 per cent observed in the previous quarter. The improvement was a result of increases in both domestic claims and net foreign assets. Credit to the private sector rose by 2.1 per cent during the quarter, recovering from a contraction of 6.1 per cent observed in June 2020. The easing of COVID-19 restrictions enticed the growth in credit to the private sector. Most short-term interest rates continued to fall as the Monetary Policy Committee (MPC) of the Central Bank of Lesotho continued to cut its key policy rate, in order to ease the adverse economic impacts of COVID-19 global pandemic.

The Government of Lesotho budgetary operations recorded a fiscal deficit equivalent to 4.3 per cent of GDP during the second fiscal quarter of 2020/21, in contrast to a revised surplus of 13.8 per cent

of GDP recorded in the first fiscal quarter of the same year. The deficit was a result of higher spending on expenses and non-financial assets in the review quarter. The public debt stock increased to 62.8 per cent of GDP, compared with the revised 59.8 per cent of GDP in the previous fiscal quarter. Sale of new securities by the government coupled with on-lent extended credit facility from the International Monetary Fund (IMF) influenced mainly the domestic debt, while external debt was influenced mainly by suppliers' credit and exchange rate effect.

The external sector position recorded a surplus equivalent to 5.8 per cent of GDP, slightly lower than a surplus of 6.0 per cent of GDP in the previous quarter. The external sector position surplus was mainly attributed to the increased surplus on the capital account, while the deficit in the current account balance moderated the gains. The financial account outflows declined and therefore partly offset the impact of the capital account surplus. Reserves, in months of import cover, declined to 4.9 months in September 2020 from 5.9 months in the previous quarter, as the import bill increased in response to resumption of most economic activities during the same period.

2. International Economic Developments

OVERVIEW

The global economy continued to deteriorate in the third quarter of 2020, but at the slower pace compared to the previous quarter. In the emerging market economies, China realised positive economic growth during the quarter. The global economy benefited from increased policy support and relaxation of lockdown measures in most countries. The employment situation improved in the United States of America (US) and China, while it deteriorated in most countries. In countries where unemployment situation improved, the rates were higher than the pre-pandemic levels.

Inflation picked up in some advanced economy countries, including the US and United Kingdom (UK), while in other advanced countries it slowed down. There were deflationary pressures in the Euro Area. In the case of the emerging economies, inflation rose in South Africa and India while fell in China. Inflation developments were shaped by the COVID-19 pandemic, subsequent lockdowns, and lifting of lockdown measures. Monetary policy was accommodative, with lower interest rates and asset purchases programmes in place. The policy stance was in line with supporting economic recovery and achieving inflation targets, especially in the advanced economies.

Table 1: Key World Economic Indicators

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	Q2 2020	Q3 2020	Q2 2020	Q3 2020	Q2 2020	Q3 2020	Q2 2020	Q3 2020
United States	-9.0*	-2.9	0.6	1.4	0.00	0.00	11.1	7.9
Euro Area	-14.8*	-4.4	0.3	-0.3	0.00	0.00	7.8	8.2
Japan	-10.2*	-5.8	0.1	0.2	-0.10	-0.10	2.8	3.0
United Kingdom	-21.5*	-9.6	0.6	0.5	0.10	0.10	3.9	4.8
China	3.2	4.9	2.5	1.7	3.85	3.85	5.7	5.4
India	-23.9	N/A	6.1	7.3	4.00	4.00	N/A	N/A
South Africa	-17.1	N/A	2.2	3.0	3.75	3.50	23.3	30.8

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

ADVANCED ECONOMIES

US

There was moderate improvement in the economic activity in the US during the third quarter of 2020. Real GDP contracted by 2.9 per cent, an improvement from a 9.0 per cent decline in the second quarter. The real GDP was driven mainly by a moderate increase in government spending, and less decline in consumption and investment spending. On an annualised basis, the real GDP increased by 33.1 per cent, recovering from 31.4 per cent decline in second quarter of 2020. Unemployment rate fell to 7.9 per cent during the quarter, from 11.1 per cent in the second quarter of 2020. The decline in the rate of unemployment reflected a recovery in the labour market, driven by lifting of lockdown measures.

The annual inflation rate rose to 1.4 per cent during the third quarter of 2020, from 0.6 per cent in the previous quarter. The increase in consumer prices was driven by higher costs of used and new vehicles while oil prices and medical care commodities declined at a slower rate. The Federal Open Market Committee left the FED funds rate unchanged at the range of -0.25 per cent in the third quarter of 2020. The Bank maintained accommodative monetary policy to support the economy and to achieve price stability at the inflation target rate of the average of 2.0 per cent.

Euro Area

There was a slight improvement in the Euro Area economic activity, although the economy remained under pressure in the quarter ending in September 2020. The real GDP fell at the annual rate of 4.4 per cent, following a steep decline of 14.8 per cent in the second quarter of 2020. Economic activity was supported by increased consumer spending and industrial production as most countries in the region relaxed lockdown measures and financial conditions remained accommodative. The unemployment rate increased to 8.3 per cent, from 7.8 per cent in second quarter of 2020. There were job losses due to the resurgence of COVID-19 infections, hence some countries delayed lifting lockdown measures.

The Euro Area experienced deflation during the third quarter of 2020. The annual inflation rate was reported at -0.3 per cent, following an increase of 0.3 per cent in the preceding quarter. The fall in the inflation rate was driven by the lower costs of energy and non-energy industrial goods, as well as, a slowdown in services costs. The European Central Bank kept the key policy rate at zero per cent during the review quarter. The Bank also maintained the asset purchases program at 1.35 trillion US dollars. The monetary policy stance was accommodative, to support the economy.

Japan

Japan's economy continued to contract in in the third quarter of 2020, albeit at a slower rate compared to the previous quarter. The real GDP contracted at the annual rate of 5.8 per cent, easing from a decline of 10.2 per cent in the previous quarter. The slow decline in real GDP was supported by small declines in consumption spending, industrial production, as well as, exports. Economic activity was facilitated by the easing of lockdown measures and increased policy support. The rate of unemployment was recorded at 3.0 per cent during the third quarter of 2020, increasing from 2.8 per cent in the previous quarter.

The annual inflation rate for Japan was recorded at zero per cent during the quarter ending in September 2020, falling from 0.1 per cent in the second quarter of 2020. The slowdown in the inflation rate was driven by food prices and education related costs. The Bank of Japan's monetary policy stance was accommodative to support the economy and to drive inflation towards the target of 2.0 per cent. It maintained the key policy rate at -0.1 per cent in the second quarter of 2020. The Bank also continued with asset purchases programme to suppress long-term interest rates at zero per cent.

UK

The UK's economy continued to decline during the third quarter of 2020, although there was a modest improvement in the activity. The annual GDP declined by 9.6 per cent during the quarter, the slower pace compared with 21.5 per cent decline in the previous quarter. There was an increase in exports, while consumer spending, fixed investment and industrial production declined at the softer pace. The unemployment rate was recorded at 4.8 per cent in the third quarter of 2020, increasing from 3.9 per

cent in the preceding quarter. The rate of unemployment increased as the COVID-19 pandemic disrupted the labour market. Most businesses had to close to comply with lockdown measures.

The annual inflation rate eased to 0.5 per cent during the quarter ending in September 2020, from 2.2 per cent in the preceding quarter. The falling inflationary pressures were due to the decline in the furniture and transport costs. Monetary policy continued to be accommodative in the third quarter of 2020. Bank of England left the key policy rate unchanged at 0.1 per cent, and also maintained its asset purchases program at 750 billion pounds. The stance was taken to support the economy and ensure inflation increased to the official target of 2.0 per cent.

EMERGING MARKETS

China

The recovery in the China's economy gained momentum during the third quarter of 2020. Real GDP grew at an annual rate of 4.9 per cent, an increase from a 3.2 per cent growth in the previous quarter. Growth was driven mainly by higher consumer spending and industrial production, as well as, increased exports. China successfully controlled the spread of COVID-19 pandemic, and loosened monetary and fiscal policies to supported the economy. The unemployment rate fell to 5.4 per cent in the third quarter of 2020, from 5.7 per cent in the preceding quarter. The decline in the unemployment rate was supported by a moderate recovery in the economy.

The annual inflation rate for China eased to 1.7 per cent during the quarter under review, from 2.5 per cent in the second quarter of 2020. The slowdown in inflation was due to weaker food prices. The People's Bank of China kept the key policy rate unchanged at 3.85 per cent in the third quarter of 2020. The Bank maintained an accommodative monetary policy stance in order to support the economic recovery. Most economic indicators were pointing to a recovery in the economy, but the risks remained elevated due to the global pandemic.

India

The composite PMI for India indicated that the economy was headed to a recovery in the third quarter of 2020. The composite PMI rebounded to the expansion zone in September 2020, reaching 54.6 per cent. There was a slight improvement in exports, though they remained below the pre-pandemic levels. The declines in the industrial production were also reversed, with a positive growth in September 2020.

The annual inflation rate increased to 7.4 per cent in the third quarter of 2020, up from 6.2 per cent in the second quarter of 2020. It mainly emanated from rising prices of food, clothing and footwear, as well as, higher transport and education costs. The Reserve Bank of India kept the repo rate unchanged at 4.0 per cent in the quarter ending in September 2020. The Bank maintained an accommodative monetary policy stance to support economic activity, while also keeping inflationary pressures under check.

South Africa

South Africa's economy continued to under-perform in the third quarter of 2020 albeit signs of limited improvement. The PMI remained under 50, indicating that the economy was still contracting. Nonetheless, retail sales declined at the reduced pace, exports increased, industrial production declined but at a slower pace, during the quarter. The unemployment situation worsened, with the rate of

unemployment rising to 30.8 per cent during the third quarter of 2020, from 23.3 per cent in the second quarter of 2020. More people lost their jobs due to the effects of the COVID-19 pandemic on the economy, while less jobs were created following the lifting of COVID-19 related restrictions and opening of the economy.

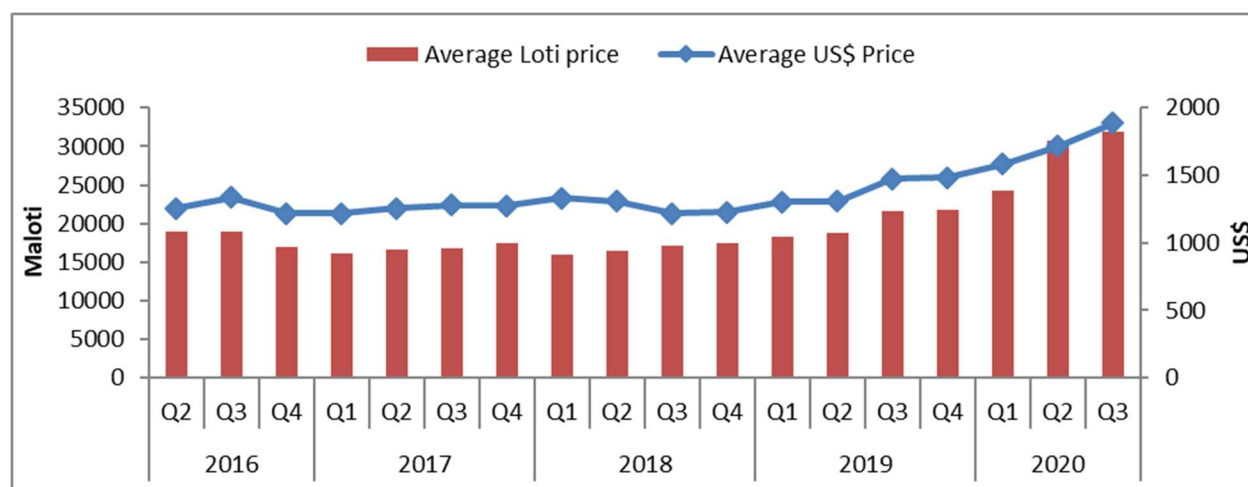
The annual inflation rate for South Africa increased to 3.0 per cent during the third quarter of 2020, from 2.2 per cent in previous quarter. It was driven mainly by food prices and increased costs of health services, as well as, alcoholic beverages. The Reserve Bank of South Africa kept the repo rate unchanged at 3.5 per cent during the quarter. The bank maintained accommodative monetary policy stance to support the economy.

COMMODITIES

Precious Metals

Gold

Figure 1: Average Price of Gold



Source: Bloomberg

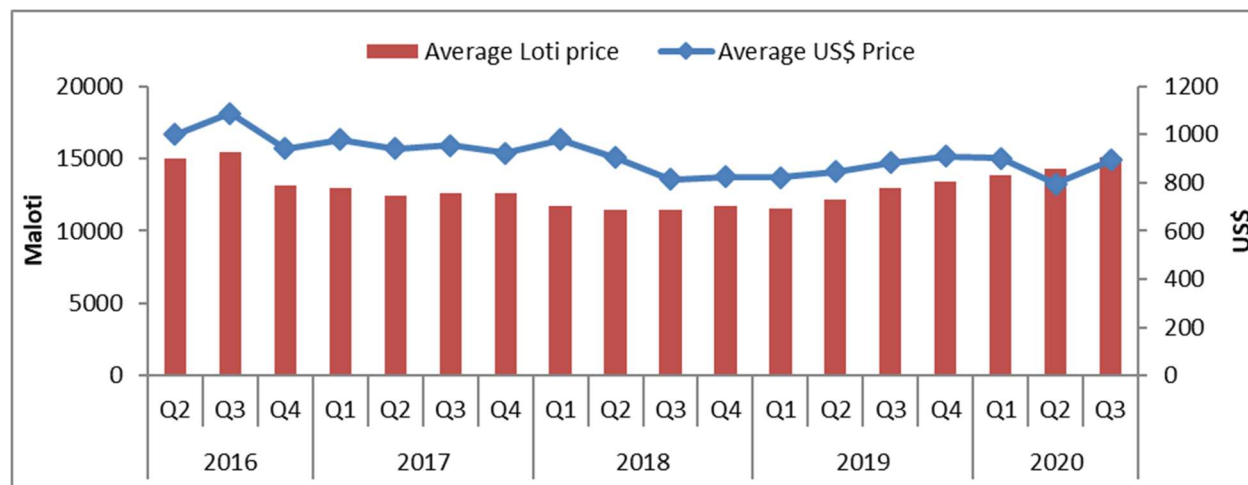
The price of gold increased by 10.1 per cent in the third quarter of 2020 to the average of 1885.82 US dollars. The increase extended an 8.3 per cent growth in the second quarter of 2020. The price of gold was driven mainly by increased demand for investment purposes in the global markets. However, the overall demand for gold declined moderately as lockdowns and falling incomes negatively affected consumer sectors, including jewellery. Purchases by central banks were modest, while demand from the technology sector was weak during the review period. The supply of gold also declined faster, due to production disruptions of COVID-19 related restrictions. In maloti terms, the price of gold increased by 3.7 per cent during the quarter under review.

Platinum

The price of platinum increased by 12.4 per cent during the third quarter of 2020, recovering from a decline of 11.8 per cent in the previous quarter. Platinum price was supported by strong demand for investment, as witnessed by increased flows in platinum backed Exchange Traded Funds. The lifting of lockdown measures also boosted demand for automobiles and industrial demand. The supply of

the commodity declined during the quarter, as COVID-19 and measures to control it negatively affected production of platinum. In Maloti terms, the price of platinum increased by 5.8 per cent.

Figure 2: Average Price of Platinum

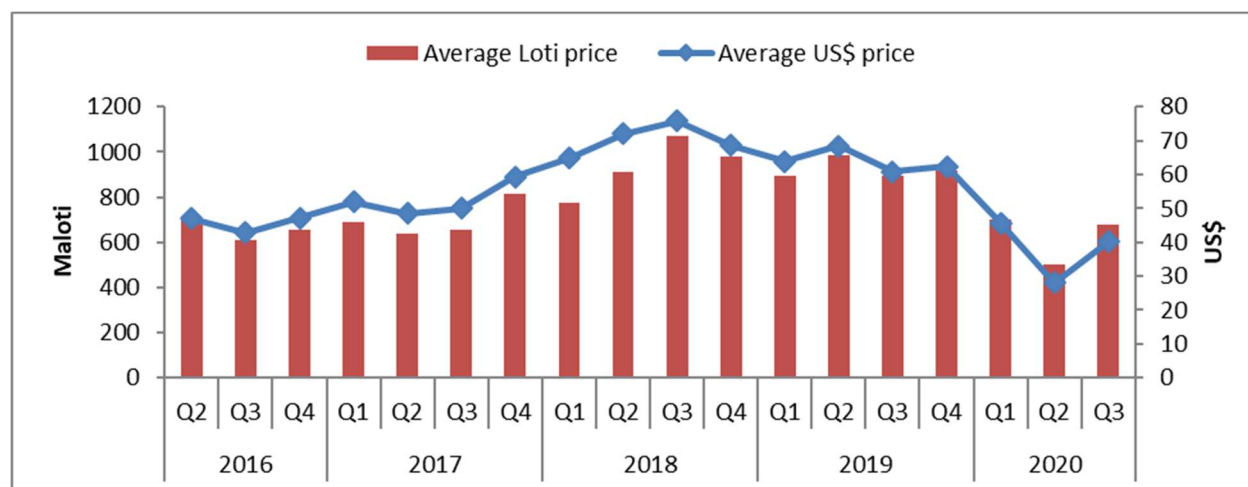


Source: Bloomberg

Crude Oil

The price of crude oil increased by 43.6 per cent in the third quarter of 2020, to the average of 40.22 US dollars. It recovered from a decline of 38.8 per cent in the previous quarter. The price of oil was driven by easing of lockdown measures in most countries, and strong recovery from China boosted demand for oil hence its price. In Maloti terms, price of crude oil increased by 35.3 per cent during the review period.

Figure 3: Average Price of Oil



Source: Bloomberg

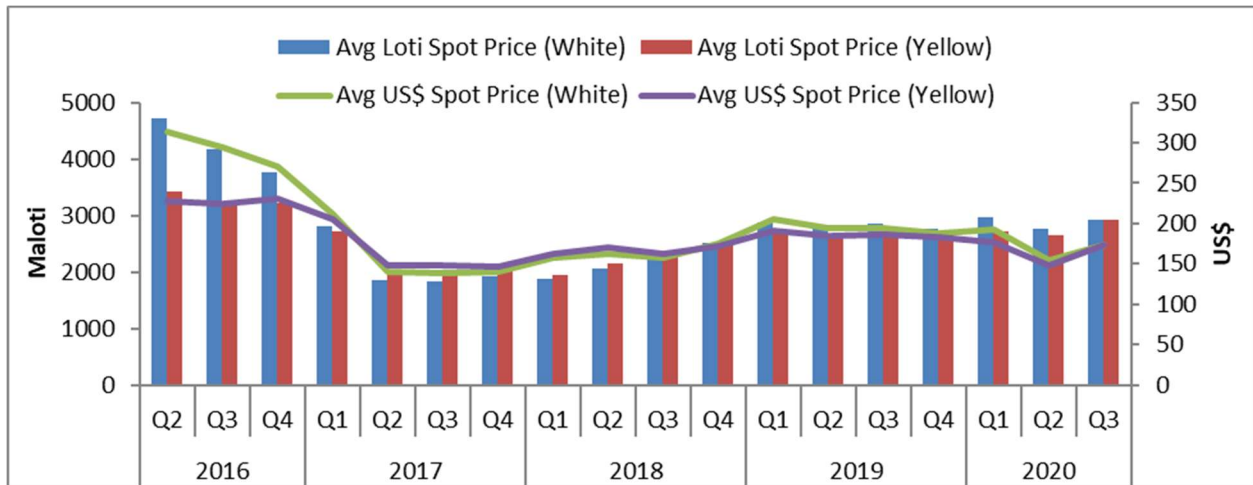
Cereal Prices

Maize

The price of maize, both white and yellow, increased during the third quarter of 2020. The price of white maize increased by 12.2 per cent to the average of 173.02 US dollars, recovering from a decline of 20.0 per cent in the previous quarter. The price of yellow maize increased by 17.4 per cent to the

average of 173.17 US dollars in the review period, rebounding from a decline of 16.3 per cent in the second quarter of 2020. The price of maize was driven by falling inventories due to decline in Ukraine production. The demand for maize was strong during the quarter, driven mainly by China. In Maloti terms, the price of white maize increased by 5.7 per cent, while that of yellow maize increased by 10.6 per cent.

Figure 4: Average Price of Maize

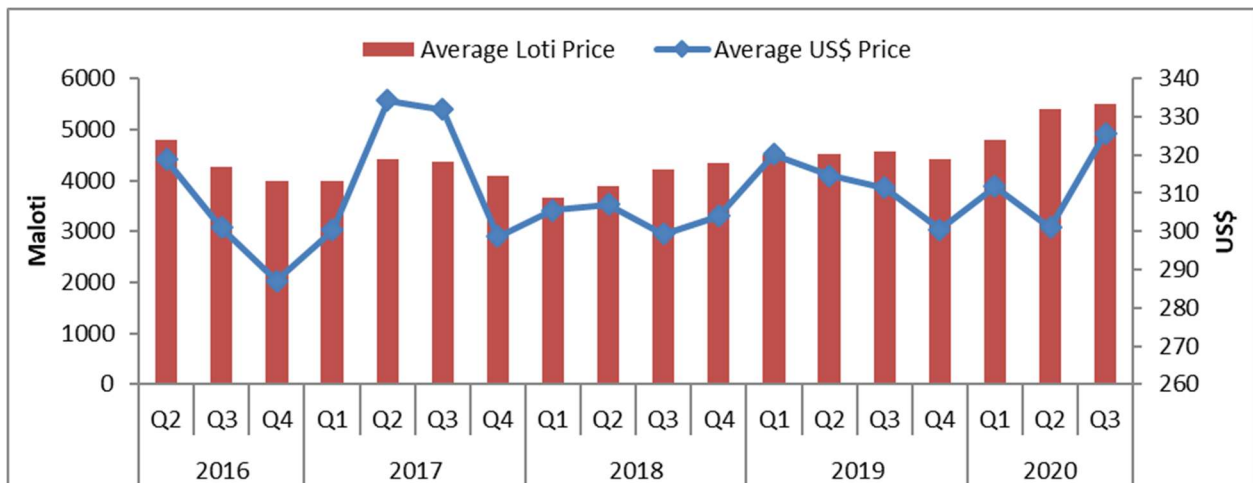


Source: Bloomberg

Wheat

The price of wheat increased by 8.2 per cent to the average of 325.72 US dollars in the third quarter of 2020, recovering from a decline of 3.5 per cent in previous quarter. It was driven by increased demand from China, Europe and the US. The use of wheat was mainly for consumption and feeding. There was a modest increase in supply of wheat during the quarter, relative to demand. In Maloti terms, the price of wheat increased by 1.9 per cent during the quarter under review.

Figure 5: Average Price of Wheat

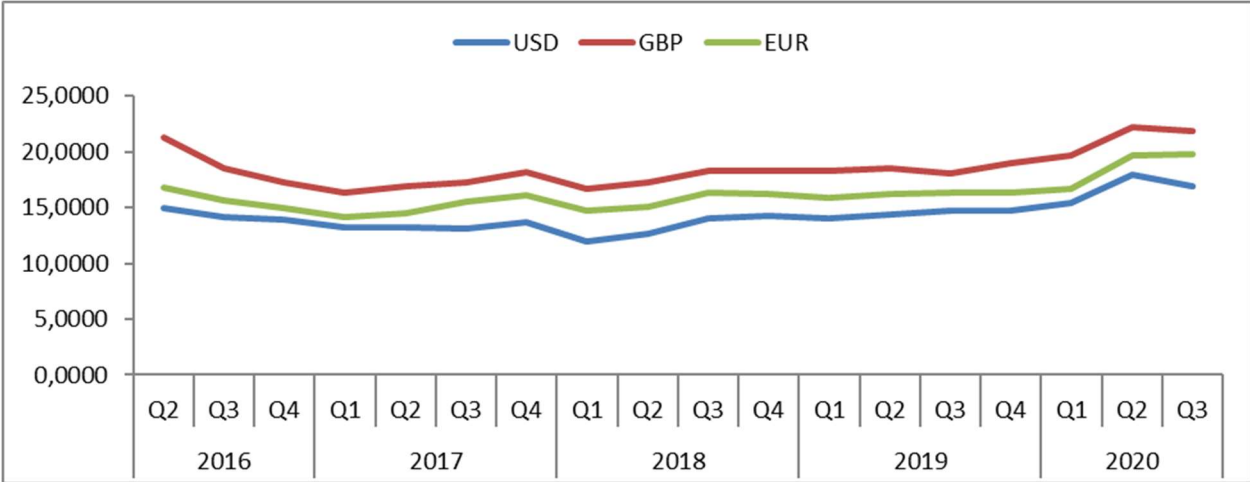


Source: Bloomberg

Exchange Rates

The rand hence the loti strengthened against the pound and the US dollar, and weakened against the euro, during the third quarter of 2020. Particularly, the rand appreciated by 5.8 per cent to the average of 16.90 against the US dollar and 1.8 per cent to the average of 21.86 against the pound, while it depreciated by 0.2 per cent to the average of 19.78 against the euro. The rand was supported by increased flows into South Africa, driven by global liquidity and improving risk appetite in the global markets. There was positive progress in the research for COVID-19 vaccine which lifted market risk sentiment. This was also the case in other emerging markets, as the investors were searching for the yields, given low rates in advanced markets.

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



Source: Bloomberg

3. Real Sector Developments

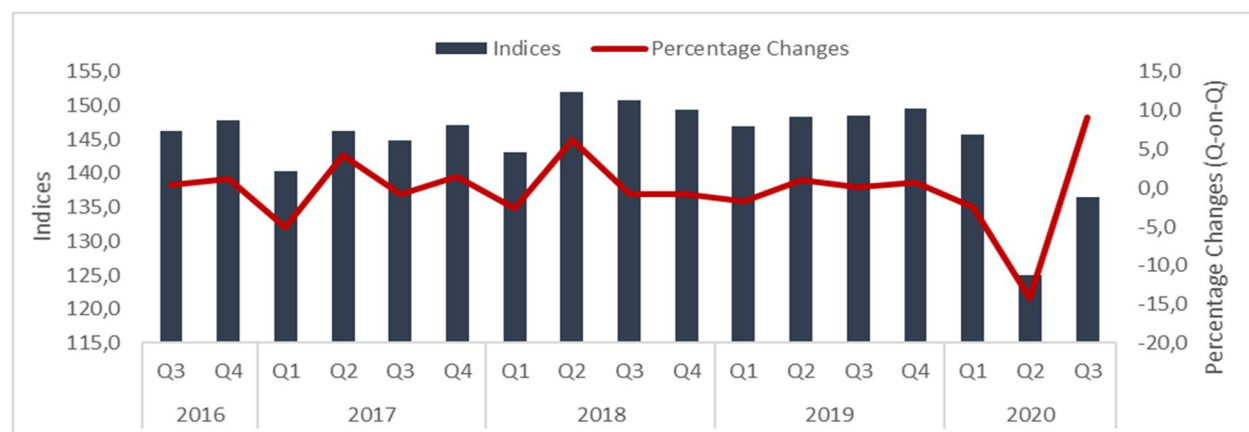
OVERVIEW

Economic activity was estimated to have been on recovery during the review quarter. Labour markets revealed unfavourable conditions in employment numbers, with all the three categories of interest – LNDC-assisted companies, government of Lesotho and migrant mineworkers – recording losses in employment. Inflationary pressures, driven mainly by the prices of food, worsened in September in comparison to the June inflation rate. Core and headline inflation rates moved in tandem with each other, with core still below its headline counterpart. Food and non-food inflation rates continued on a divergent trend. In comparison to SA inflation rate, Lesotho inflation rate continued to diverge, with the Lesotho inflation rate hovering around 6.0 per cent, while the SA counterpart is around the 3.0 per cent mark.

OUTPUT DEVELOPMENTS

The quarterly indicator of economic activity (QIEA) showed a v-shaped recovery in the quarter ending in September 2020. Economic activity was hence estimated to have grown by 9.2 per cent in September 2020 in comparison to the 14.2 per cent contraction estimated in June. For the first two months of the quarter, activity was boosted mainly by manufacturing as most textile firms resumed operations. This followed relaxation of lockdown restrictions, with orders re-emerging after losing both short and long-term orders. Despite a decline in textile exports to the US markets, imports from SA and use of utilities (water and electricity) boosted the production index, as firms curbed the adverse impacts of the pandemic by diversifying both their products and market destinations. Demand seemed to gradually pick up in the last two months of the quarter, with movements of people, as well as, goods and services highly relaxed. The demand side index was buoyed mainly by government’s purchases and tax collections – both income and output taxes. Despite the v-shaped recovery in the index, pre-pandemic output levels are still a bit far from attainment.

Figure 7: Quarterly Indicator of Economic Activity



Source: Central Bank of Lesotho

Table 2: Contributions to Growth

Indices	2019		2020		
	Q3	Q4	Q1	Q2	Q3
CIEA	148.5	149.5	145.7	125.0	136.5
Quarter-on-quarter changes	0.0	0.7	-2.6	-14.2	9.2
Domestic Demand	134.3	138.0	128.1	111.1	115.8
Quarter-on-quarter changes	-1.2	2.7	-7.2	-13.3	4.2
Manufacturing and Production Category	117.2	113.3	117.5	86.1	99.9
Quarter-on-quarter changes	1.7	-3.4	3.7	-26.8	16.1

Source: Central Bank of Lesotho

EMPLOYMENT DEVELOPMENTS

The number of employees by LNDC-assisted companies declined by 4.7 per cent on a year-on-year basis in the third quarter of 2020 from 3.6 per cent decline in the previous quarter. This was despite some recovery in production in the manufacturing sector during the review period, but was mainly due to firms trying to cope with the aftermath of the lockdown and uncertainty, which still crippled the sector in the third quarter of 2020. The main contributors to decline were the knit and woven garments, fabrics, Yarn, etc., and the retail components. Nonetheless, food and beverages moderated the decline in employment during the review period.

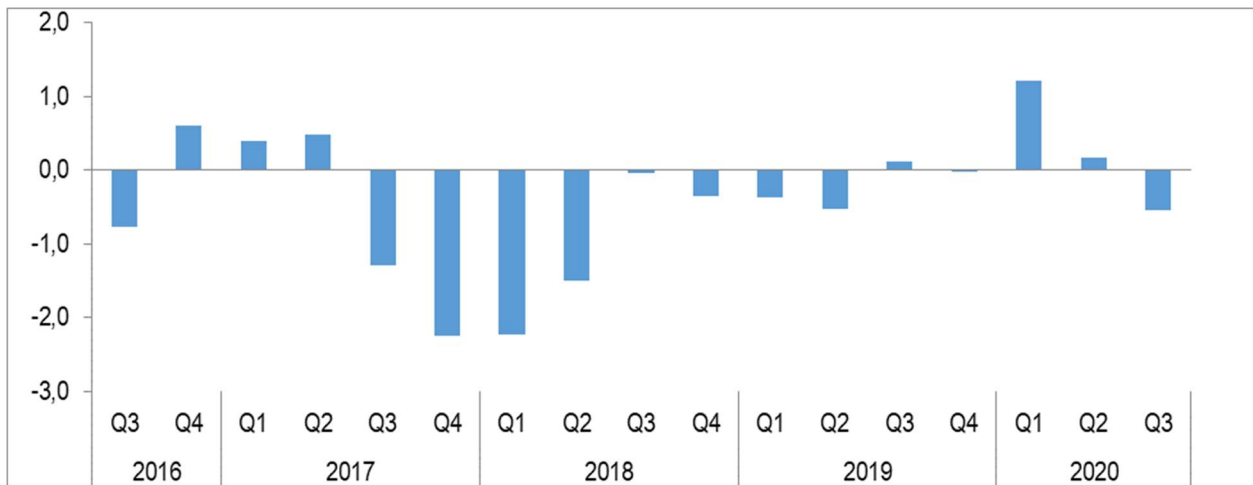
Table 3: Employment by LNDC-Assisted Companies

Industry	2019		2020			% Change	
	Q3	Q4	Q1	Q2	Q3	Q/Q	Y/Y
Knit Garments.....	28476	28602	30371	27757	26596	-4.2	-6.6
Woven Garments.....	15803	15304	15675	14145	15130	7.0	-4.3
Footwear.....	934	940	1287	1006	986	-2.0	5.6
Fabrics, Yarn etc.....	1818	1849	1767	1754	1718	-2.1	-5.5
Construction.....	375	334	334	399	399	0.0	6.4
Food & Beverages.....	480	479	444	700	704	0.6	46.7
Electronics.....	1029	1052	1828	1018	1008	-1.0	-2.0
Retail.....	217	190	179	186	186	0.0	-14.3
Hotel Accommodations.....	394	394	394	394	394	0.0	0.0
Other.....	1216	1306	1349	1326	1259	-5.1	3.5
TOTAL.....	50742	50450	53988	48685	48380	-0.6	-4.7

Source: Lesotho National Development Corporation

The public sector employment declined by 0.5 per cent in the third quarter of 2020 from a moderate expansion of 0.2 per cent recorded in the previous quarter. The fall in government employment came from a fall in number of teachers as well as daily paid workers during the review period.

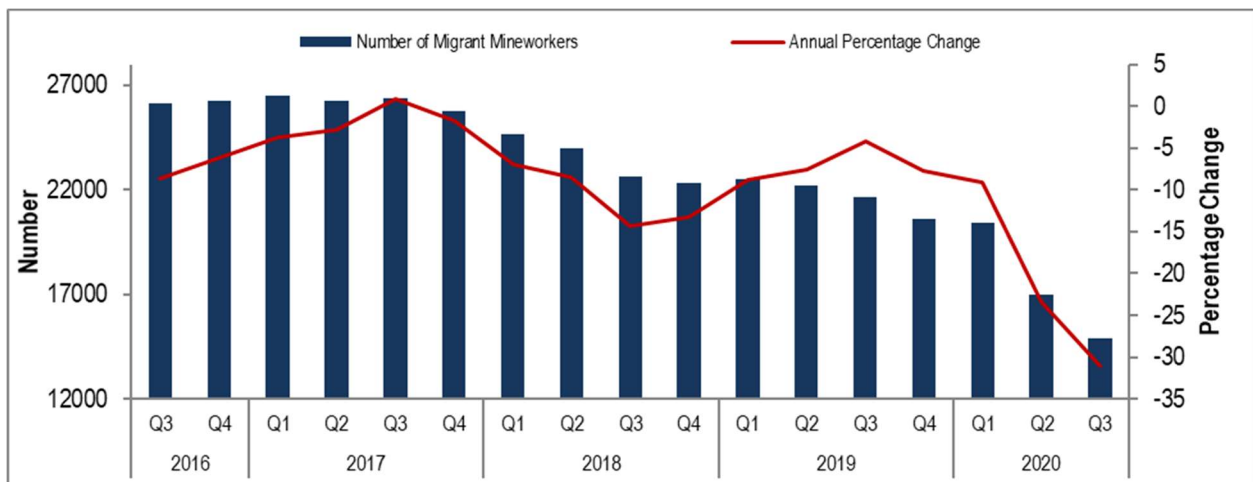
Figure 8: Government Employment (Annual Percentage Changes)



Source: Ministry of Finance

The number of migrant mineworkers in South African mines continued to decline in the third quarter of 2020. Employment in this sector declined by 31.1 per cent during the review period from 23.4 per cent decline in the previous quarter. The continued decline in the sector’s employment was mainly due to measures taken to control and contain the spread of COVID-19, in addition to continuously high operating costs.

Figure 9: Migrant Mineworkers (Annual Percentage Changes)



Source: The Employment Bureau of Africa (TEBA)

PRICE DEVELOPMENTS

The inflation rate (the year-on-year percentage change in the Consumer Price Index (CPI)) increased to 5.9 per cent in September 2020 from 4.9 per cent estimated for June 2020. This was mainly due to increasing food prices as well as energy prices, among others, as consumers' demand was buoyed by the relaxation of COVID-19 rules around the globe.

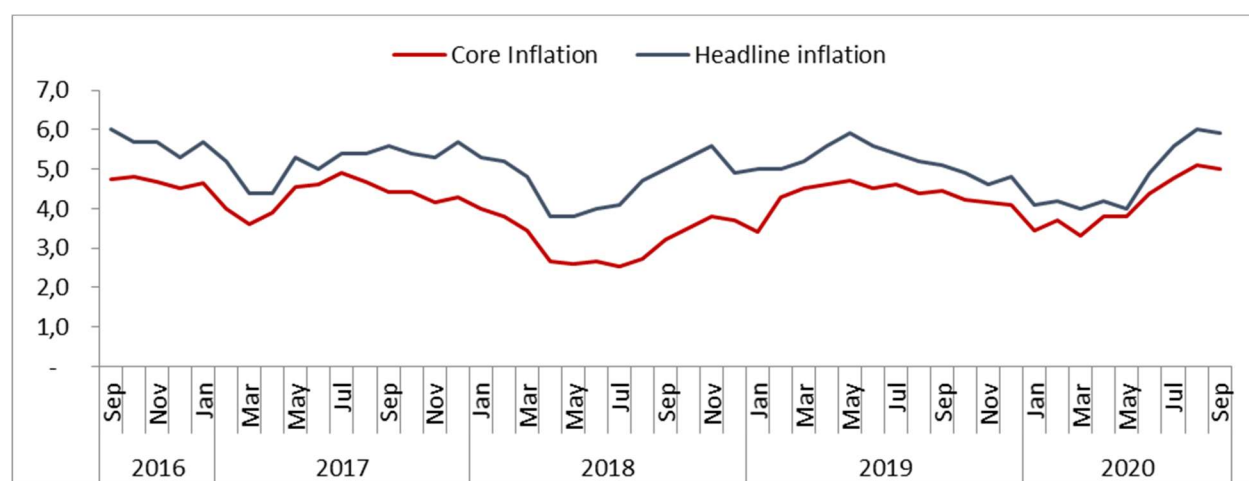
Table 4: Inflation Rate (Annual Percentage Changes)

	Weight	2020				
		May	Jun	Jul	Aug	Sep
All items	1000	4.0	4.9	5.6	6	5.9
Food and non-alcoholic beverages	361.13	9.9	11.4	12.3	12.9	12.7
Alcoholic beverages & Tobacco	33.31	2.8	4.7	6.2	6.8	4.6
Clothing & footwear	130.57	4.0	4.2	4.0	3.8	3.6
Housing, electricity gas & other fuels	123.97	-5.7	-5.1	-4.2	-3	-3.2
Furniture, households equipment & routine maintenance	84.77	1.9	2.3	2.3	2.7	2.6
Health	15.04	1.5	2.7	3.4	4	3.9
Transport	48.21	-3.1	-1.0	3.2	3.2	3.8
Communication	21.05	0.4	0.4	0.6	0.6	0.6
Leisure, entertainment & Culture	57.08	3.4	3.5	3.5	3.5	3.4
Education	42.00	4.1	4.1	4.1	4.1	4.1
Restaurant & Hotels	10.30	2.0	2.3	2.3	2.3	2.5
Miscellaneous goods & services	72.59	1.5	1.8	1.8	2.1	2.3

Source: Bureau of Statistics

During the review period, both headline and core inflation rates accelerated from 4.9 per cent and 4.4 per cent in June 2020 to reach 5.9 per cent and 5.0 per cent respectively, driven by increased demand due to amongst others, the supply-side disruptions.

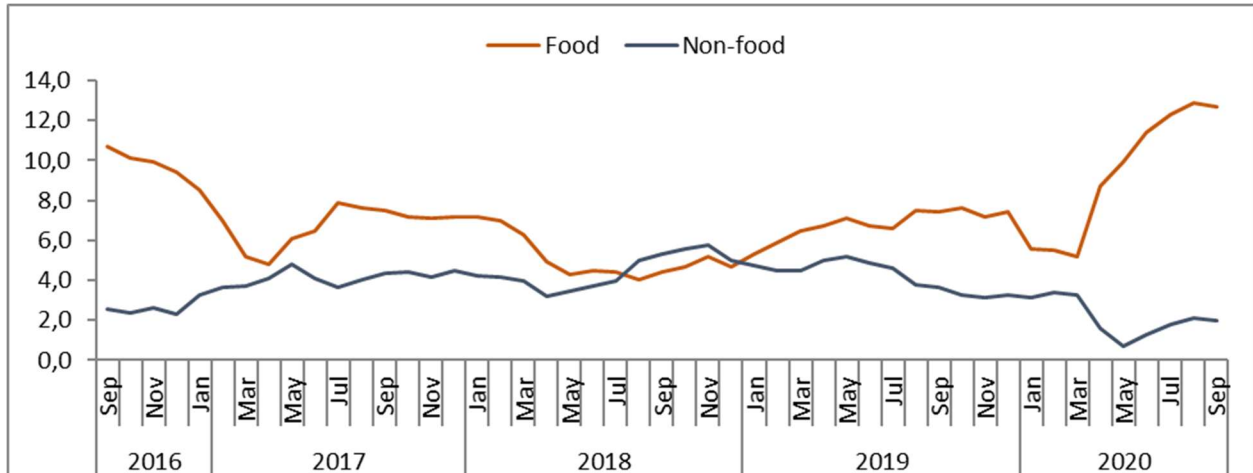
Figure 10: Core vs Headline Inflation



Source: CBL Computations

Food and non-food inflation rates rose from 11.4 per cent and 1.2 per cent in June 2020 to reach 12.7 and 2.0 per cent in September 2020, respectively. The acceleration in inflation rates during the review period was mainly due to higher demand for food, as well as, energy due to easing of lockdown restrictions in Lesotho and South Africa during the review period.

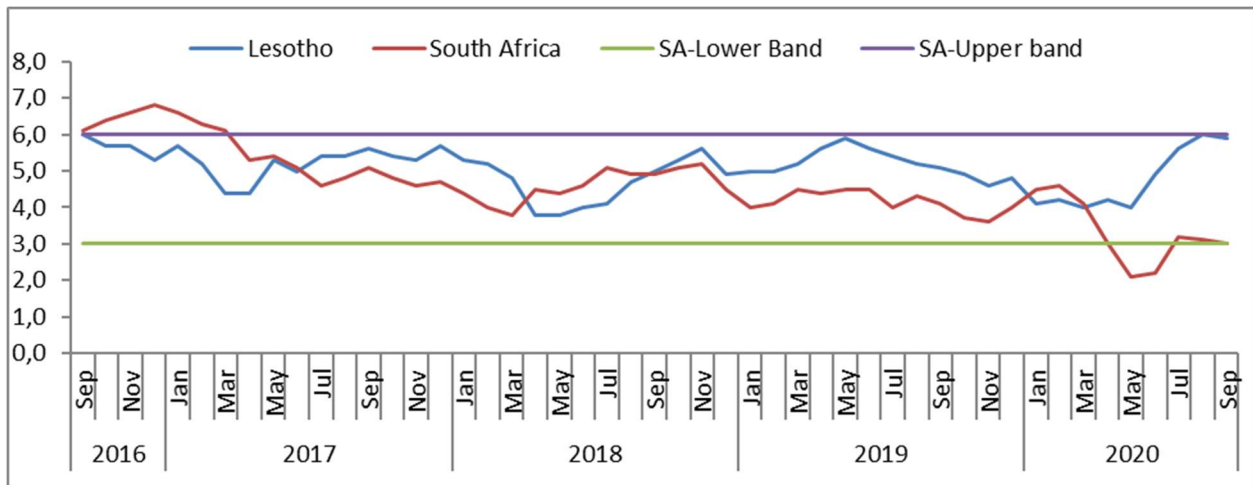
Figure 11: Food vs Non-food Inflation



Source: BoS and CBL Computations

Inflation rate in Lesotho was much higher than that of SA, the former at almost the upper bound of the SA target rate at 5.9 per cent, while the SA inflation rate was at the lower bound, 3.0 per cent in September 2020.

Figure 12: Lesotho and South Africa's Inflation



Source: Bureau of Statistics, Statistics South Africa

4. Monetary and Financial Developments

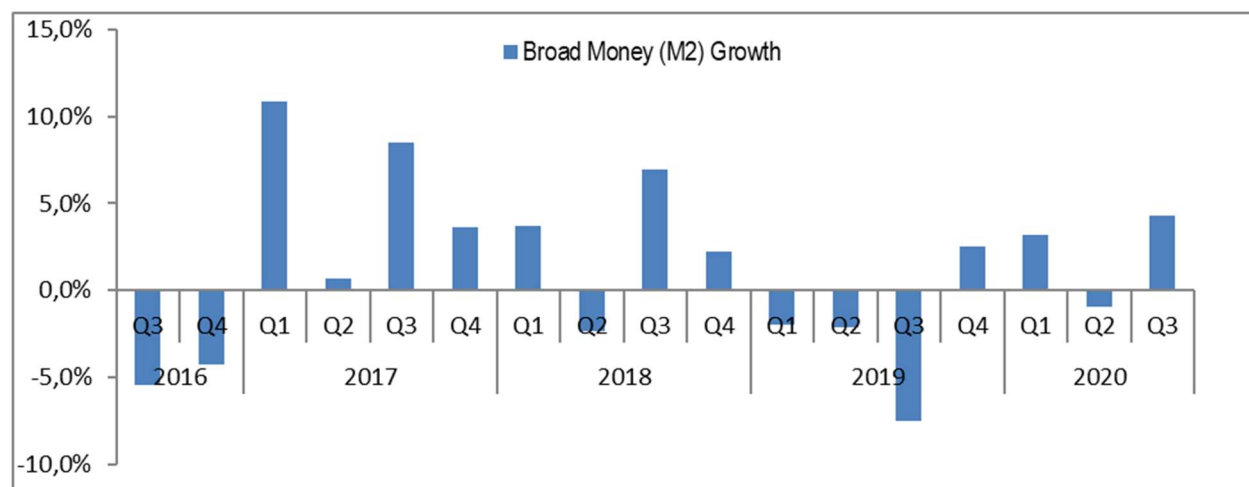
OVERVIEW

The easing of COVID-19 restrictions in the third quarter of 2020 had some economic benefits as reflected by the growth in monetary and financial aggregates. The broadly defined money supply (M2), increased as a result of a rise in domestic claims and net foreign assets. Loans and advances extended to business enterprises and households increased during the period, largely reflecting higher economic activity as COVID-19 containment measures were gradually relaxed. Most short-term interest rates continued to fall as the Monetary Policy Committee (MPC) of the Central Bank of Lesotho continued to cut its key policy rate, in order to ease the adverse economic impacts of COVID-19 global pandemic.

BROAD MONEY (M2)

Money supply increased by 4.3 per cent during the third quarter of 2020, following a contraction of 0.9 per cent observed in the previous quarter. The growth in M2 was a result of an increase of 19.5 per cent and 1.1 per cent in domestic claims and net foreign assets, respectively. On annual basis, M2 grew by 9.3 per cent in September 2020 compared to a decline of 3.1 per cent in June 2020. In real terms, M2 fell by 1.6 per cent during the quarter under review, following to a decline of 5.8 per cent in the previous quarter.

Figure 13: Broad Money (M2) (Quarterly Changes)



Source: Central Bank of Lesotho

Determinants of M2

Domestic Claims

Domestic claims increased by 19.5 per cent quarter on quarter, in contrast to a fall of 29.8 per cent realised in the previous quarter. The growth in domestic claims driven by a 22.4 per cent increase in Central Bank's net claims on government and 2.1 per cent growth in credit to private sector. The Central bank's net claims on government rose due to the IMF loan¹ on-lend to government. Private sector credit benefited from an increase in credit extended to both the business enterprises and households. On a year-on-year comparison, domestic claims fell by 9.7 per cent.

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

	2019		2020			Changes (%)	
	Q3	Q4	Q1	Q2	Q3	Q/Q	Y/Y
Domestic Claims	5656.55	5517.40	6002.15	4272.77	5106.94	19.52	-9.72
Net Claims on Government	-2094.57	-2117.34	-1886.68	-3250.19	-2606.87	19.79	24.46
Commercial Banks Net Claims	232.67	468.44	440.56	52.96	-44.24	-183.53	-119.01
Claims on Central Government	2128.67	2162.87	2028.14	2051.63	2037.71	-0.68	-4.27
Liabilities to Central Government	1896.00	1694.43	1587.58	1998.67	2081.94	4.17	9.81
Central Bank Net Claims	-2327.24	-2585.78	-2327.24	-3303.15	-2562.63	22.42	10.11
Claims on Central Government	720.65	515.65	593.31	492.49	785.71	59.54	9.03
Liabilities to Central Government	3047.88	3101.43	2920.55	3795.64	3348.35	-11.78	9.86
Claims on Other Sectors	7751.12	7634.73	7888.83	7522.95	7713.82	2.54	-0.48
Claims on OFCs	211.53	231.35	145.41	232.18	276.19	18.95	30.57
Claims on Public Nonfinancial Corporations	40.67	38.20	47.98	63.25	58.62	-7.33	44.12
Claims on St & Local Government	0.00	0.00	0.00	0.00	0.00		
Claims on Private Sector	7498.92	7365.18	7695.44	7227.52	7379.01	2.10	-1.60
Claims on Business Enterprises	2329.62	2172.34	2423.99	2043.19	2079.65	1.78	-10.73
Claims on Households	5169.30	5192.84	5271.46	5184.32	5299.36	2.22	2.52

Source: Central Bank of Lesotho

Net Foreign Assets

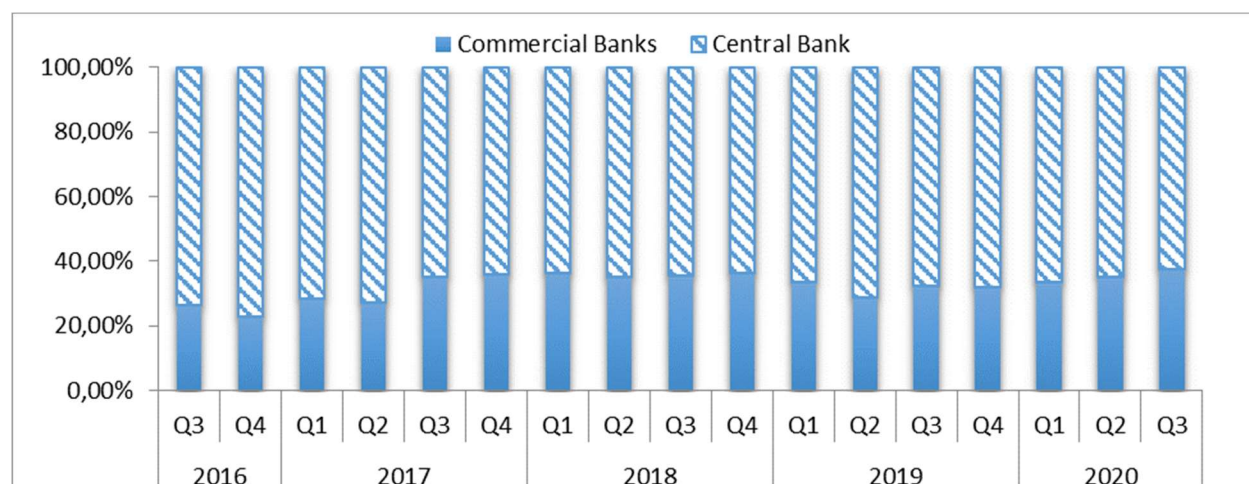
The overall banking system net foreign assets (NFA) rose by 1.1 per cent during the quarter under review from an increase of 8.2 per cent recorded in the previous quarter. The rise in NFA was at the back of an 8.6 per cent growth in commercial banks' NFA, moderated by a fall of 2.9 per cent in Central Bank's NFA. Commercial banks' NFA was enhanced by an increase in placements abroad for clearing and investment purposes. The fall in central bank's NFA was due to a surge in liabilities to non-residents, largely explained by recently contracted IMF loan meant to address the balance of payment needs in the wake of COVID-19 pandemic, which overshadowed the growth in central bank's foreign assets.

¹ In July 2020, IMF approved US\$49.1 million (equivalent to M 847 million) emergency support under the Rapid Credit Facility and the Rapid Financing Instrument to help Lesotho meet urgent balance of payments needs stemming from the COVID-19 pandemic.

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

	2019		2020			Changes (%)	
	Q3	Q4	Q1	Q2	Q3	Quarterly	Annual
Commercial Banks	4599.38	4603.91	5138.76	5755.04	6247.28	8.55	35.83
Claims on Non-residents	5040.69	5026.74	5510.98	6028.01	6529.04	8.31	29.53
Liabilities to Non-residents	441.31	422.83	372.22	272.97	281.76	3.22	-36.15
Central Bank	9566.71	9734.77	10077.75	10656.94	10344.71	-2.93	8.13
Claims on Non-residents	10848.66	10849.60	11477.62	11903.50	12398.33	4.16	14.28
Liabilities to Non-residents	1281.95	1114.83	1399.86	1246.56	2053.62	64.74	60.19
Net Foreign Assets Total	14166.09	14338.68	15216.52	16411.98	16591.99	1.10	17.12

Source: Central Bank of Lesotho

Figure 14: Net Foreign Assets (*Percentage Shares*)

Source: Central Bank of Lesotho

Components of M2

In terms of components of money supply, M2 rose following an increase in narrow money (M1), notwithstanding a fall in quasi money. In particular, M1 grew by 11.8 per cent, emanating from a rise in currency in circulation and transferable deposits. Transferable deposits benefited mainly from a growth in demand deposits held by business enterprises and households. In contrast, quasi money fell mainly due to a drop in call deposits held by state-owned enterprises and a fall in fixed time deposits of business enterprises.

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

	2019		2020			Changes (%)	
	Q3	Q4	Q1	Q2	Q3	Quarterly	Annual
Broad Money (M2)	11897.68	12195.22	12582.63	12467.68	13000.90	4.28	9.27
Narrow Money (M1)	4988.34	5333.90	5774.30	5216.40	5829.60	11.76	16.86
Currency Outside DCs	1031.25	1148.90	1095.25	1094.74	1236.02	12.91	19.86
Transferable Deposits	3957.09	4185.00	4679.04	4121.66	4593.58	11.45	16.08
Quasi Money	6909.34	6861.32	6808.33	7251.28	7171.29	-1.10	3.79
Other Deposits Commercial Banks	6855.28	6811.49	6765.16	7209.11	7135.73	-1.02	4.09
Other Deposits Central Bank	54.06	49.83	43.17	42.18	35.56	-15.69	-34.22

Source: Central Bank of Lesotho

CREDIT EXTENSION

The total loans and advances granted to the private sector rose by 2.1 per cent during the quarter ending in September 2020, recovering from a contraction of 6.1 per cent observed in June 2020. This was due to a growth in credit extended to both the business enterprises and households as COVID-19 restrictions began to be eased nationwide. However, measured year-on-year, private sector credit fell by 1.6 per cent in the third quarter of 2020. In real terms, credit extension fell by 3.8 per cent during the review period, from a sharp decline of 11.0 per cent in the previous period.

Trends of Credit Extended to Business Enterprises

Credit extended to business enterprises increased by 1.8 per cent during the third quarter of 2020, compared to a sharp decline of 15.0 per cent recorded in the previous quarter. The sectors that experienced an increase were agriculture, mining, construction and real estate and business services. The growth in credit extended to business enterprises reflected some recovery in economic activity as restrictions imposed by government to curb the spread of COVID-19 were gradually lifted. This boosted the demand for credit, and increased the utilisation of existing overdraft facilities by business enterprises. However, on annual basis, loans to business enterprises fell by 10.7 per cent.

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

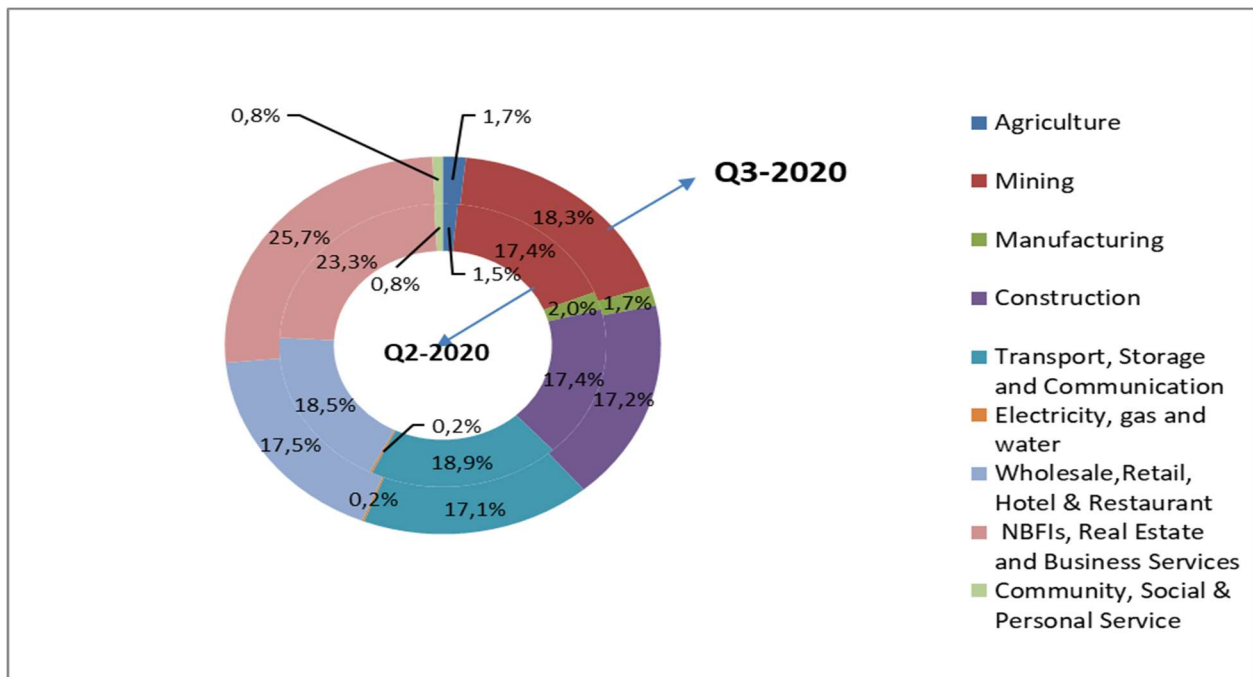
SECTOR	2019		2020			Changes (%)	
	Q3	Q4	Q1	Q2	Q3	Quarterly	Annual
Agriculture	27.09	29.23	28.37	29.73	35.41	19.12	30.71
Mining	633.92	419.93	713.77	355.95	379.55	6.63	-40.13
Manufacturing	66.79	57.95	38.83	41.36	34.49	-16.61	-48.37
Electricity, gas and water	1.95	6.46	20.17	4.52	3.31	-26.81	70.08
Construction	278.94	328.05	331.56	354.72	357.86	0.89	28.29
Wholesale, Retail, Hotel & Restaurant	386.68	387.47	380.54	377.86	363.79	-3.72	-5.92
Transport, Storage and Communication	355.94	423.67	403.56	385.83	354.75	-8.06	-0.33
NBFIs, Real Estate and Business Services	562.78	504.62	490.67	476.13	534.57	12.27	-5.01
Community, Social & Personal Service	15.52	14.97	16.52	17.09	15.92	-6.86	2.55
All Sectors	2329.62	2172.34	2423.99	2043.19	2079.65	1.78	-10.73

Source: Central Bank of Lesotho

Distribution of credit Extended to Business Enterprises

In terms of the allocation of credit to business enterprises, real estate and business services received the biggest share of total credit extended to business enterprises of 25.7 per cent. This was followed by mining, wholesale, retail, hotel & restaurant, and construction with 18.3 per cent, 17.5 per cent and 17.2 per cent, respectively. The electricity, gas and water sector continued to receive the lowest share of credit of 0.9 per cent.

Figure 15: Distribution of Credit (Percentage Shares)

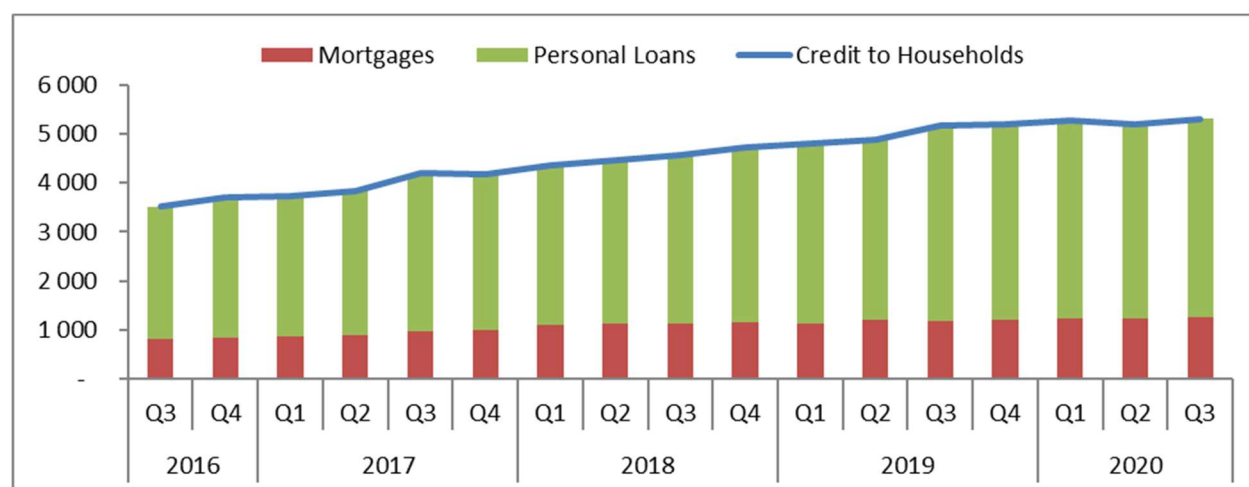


Source: Central Bank of Lesotho

Credit extended to households

At the end of September 2020, overall credit granted to household sector rose by 2.2 per cent, from a decline of 1.7 per cent observed in June 2020. Personal loans increased by 1.9 per cent, whereas mortgage loans rose by 3.4 per cent. This represents a recovery from a contraction of 0.2 per cent for mortgage and 2.2 per cent for personal loans realized in second quarter of 2020. The relaxation of COVID-19 restrictions meant more companies could resume their operations, resulting in companies gradually restoring their employees' salaries that were adversely affected by the lockdown measures. As such, demand for household loans rose as more people became eligible to apply for credit in the third quarter of 2020. On annual basis however, loans and advances extended to households grew by 2.5 per cent.

Figure 16: Credit Extension to Household (Million Maloti)



Source: Central Bank of Lesotho

LIQUIDITY OF COMMERCIAL BANKS

Components of liquidity

Commercial banks' credit to deposit ratio registered a slight decline from 53.3 per cent in June to 52.6 per cent in September 2020. The decline was because of an increase in total deposits, which outweighed the growth in private sector credit. The liquidity ratio stood at 49.4 per cent during the review quarter, following the revised 46.9 per cent in quarter two of 2020. The growth in liquidity ratio was mainly due to an increase in commercial banks' net balances due from banks in South Africa. Compared to the same period a year ago, the banking industry's liquidity ratio declined by 2.1 percentage points.

Table 9: Components of Liquidity (Million Maloti)

	2019		2020		
	Q3	Q4	Q1	Q2	Q3
Credit to Deposit Ratio	57.00%	57.10%	58.19%	53.34%	52.62%
Private Sector Credit	7256.52	7257.25	7588.93	7116.56	7275.07
Total Deposits	12730.49	12708.95	13040.98	13341.85	13824.64
Liquidity Ratio	51.54%	42.36%	44.30%	46.89%	49.40%
Notes and Coins	429.56	726.47	579.30	539.87	495.97
Net Balances due from banks in Lesotho	-158.99	-369.15	47.86	46.78	-0.95
Net Balances due from banks in SA	3962.72	2671.03	3219.61	3461.19	4237.32
Surplus funds	198.74	192.30	-97.11	156.67	59.69
Government Securities	2128.67	2162.87	2028.14	2051.63	2037.71
Total	6560.69	5383.53	5777.80	6256.15	6829.74

Source: Central Bank of Lesotho

Commercial Banks Sources of Funds

Total deposits held with the commercial banks rose by 3.6 per cent in September 2020, following a growth of 2.3 per cent in June 2020. This was due to an increase of 11.5 per cent in transferable deposits and 4.2 per cent in government deposits. Transferable deposits increased across all the money-holding sectors of the economy. The government deposits were supported by an increase in deposits held by the extra-budgetary institutions. Compared with a year ago, total deposits held with commercial banks rose by 8.6 per cent.

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

	2019		2020			Changes (%)	
	Q3	Q4	Q1	Q2	Q3	Quarterly	Annual
Transferable Deposits Incl. in BM	3957.09	4185.00	4679.04	4121.66	4593.58	11.45	16.08
Other Financial Corporations	36.67	52.27	31.56	40.30	76.33	89.41	108.16
Public Nonfinancial Corporations	51.98	60.37	297.07	44.10	83.50	89.35	60.66
Private Sector	3775.99	4019.06	4333.88	4030.40	4381.48	8.71	16.04
Other NFCs	2461.04	2781.99	3014.48	2598.91	2887.94	11.12	17.35
Other Sectors (Households)	1314.95	1237.07	1319.40	1431.50	1493.54	4.33	13.58
Other Deposits Incl. in BM	6855.28	6811.49	6765.16	7209.11	7135.73	-1.02	4.09
Other Financial Corporations	252.00	273.45	257.84	62.01	132.05	112.94	-47.60
Public Nonfinancial Corporations	385.72	329.13	281.32	319.29	224.40	-29.72	-41.82
Private Sector	6217.55	6208.92	6226.00	6827.80	6779.29	-0.71	9.03
Other NFCs	4127.20	4184.67	4052.88	4684.58	4486.65	-4.23	8.71
Other Sectors (Households)	2090.35	2024.24	2173.12	2143.21	2292.64	6.97	9.68
Deposits excluded in MB	1918.12	1712.47	1596.78	2011.08	2095.32	4.19	9.24
Total Deposits	12730.49	12708.95	13040.98	13341.85	13824.64	3.62	8.59

Source: Central Bank of Lesotho

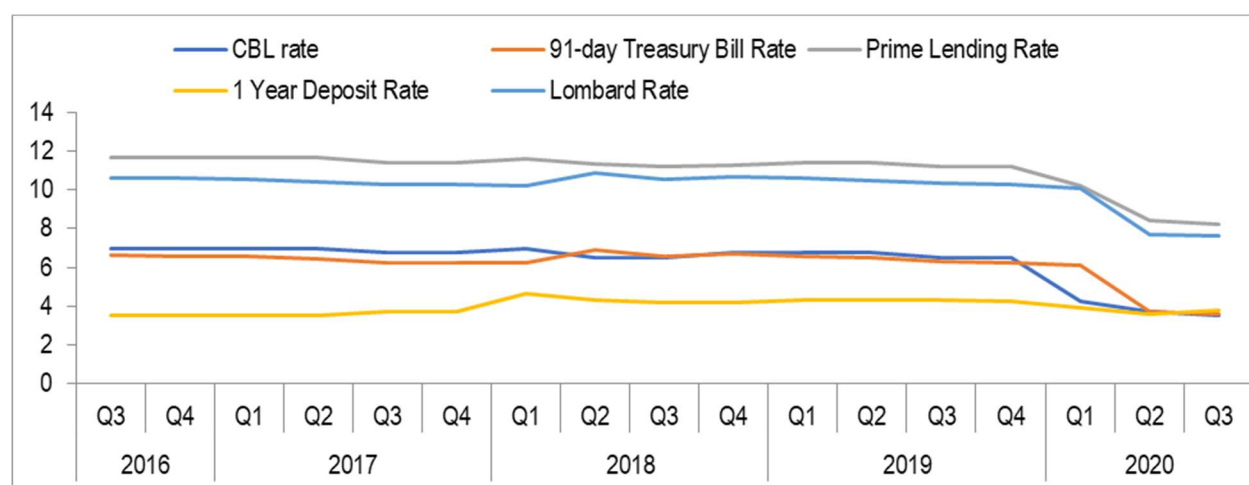
MONEY AND CAPITAL MARKET DEVELOPMENTS

Money Market

Interest Rates

The Central Bank of Lesotho's Monetary Policy Committee (MPC) reduced the key policy rate by 25 basis points from 3.75 per cent to 3.50 per cent between June and September 2020. In line with the reduced policy rate, most domestic short-term rates fell during the review period. The 91-day Treasury bill (T-Bill) rate declined by 9 basis points to 3.61 per cent but remained within the desired range of +/- 200 basis points compared to the South African similar rates. The average prime lending rate fell by 25 basis points to 8.19 per cent. On the contrary, the one-year deposit rate rose by 21 basis points and stood at 3.79 per cent by the end of September 2020.

Figure 17: Short Term Interest Rates (Per Cent per Annum)



Source: Central Bank of Lesotho

Table 11: Interest rates

	2019			2020		
	Q2	Q3	Q4	Q1	Q2	Q3
Central Bank						
CBL rate	6.75	6.50	6.50	4.25	3.75	3.50
T-Bill Rate - 91 days	6.49	6.34	6.26	6.11	3.70	3.61
Lombard Rate	10.49	10.34	10.26	10.11	7.70	7.61
Commercial Banks						
Call	1.22	1.09	1.09	0.81	0.99	0.89
Time:						
31 days	0.70	0.70	0.70	0.69	0.67	0.57
88 days	1.34	2.08	2.08	1.94	1.88	1.88
6 months	2.65	3.25	3.25	2.97	3.00	3.00
1 year	4.34	4.32	4.24	3.94	3.58	3.79
Savings	0.70	0.70	0.70	1.26	0.70	0.70
Prime	11.44	11.19	11.19	10.19	8.44	8.19
South Africa						
Repo	6.75	6.50	6.50	5.25	3.75	3.50
T-Bill Rate - 91 days	7.10	6.87	7.16	5.60	4.09	3.47
Prime	10.25	10.00	10.00	8.75	7.25	7.00

Source: Central Bank of Lesotho

Holding of Treasury Bills

The total stock of outstanding government treasury bills increased marginally by 0.02 per cent during the quarter under review, from an increase of 0.5 per cent in the preceding quarter. The increase was mainly at the back of a rise in the holding of non-banking sector. The banks' holding of T-Bills remain stable at 81.0 per cent of total T-Bills in the third quarter of 2020. However, year-on-year, the stock of outstanding treasury bills decreased by 7.5 per cent.

Table 12: Holding of Bills (Million Maloti)

	2019		2020		
	Q3	Q4	Q1	Q2	Q3
Treasury Bills	1418.25	1418.58	1305.67	1311.80	1312.05
Banking System	1170.00	1176.91	1067.74	1071.36	1057.44
Non-Bank Sector	248.25	241.67	237.93	240.44	254.61
Memorandum Item					
Yield Bills (91-days)	6.44	6.34	6.20	3.73	3.38

Source: Central Bank of Lesotho

Holding of Treasury Bonds

The total holdings of government bonds rose by 4.0 per cent between the second and third quarter of 2020. This was as a result of improved subscription in bond auctions by both the commercial banks and non-banking sectors during the period under review. The holdings of government bonds increased by 23.8 per cent year-on-year. As at end of September 2020, the share of government bond holdings by the banking sector stood at 40.9 per cent, while the non-banking sector takes the rest.

Table 13: Holding of Bonds (Million Maloti)

	2019		2020		
	Q3	Q4	Q1	Q2	Q3
Holding of Treasury Bonds	2000.54	2044.67	2382.73	2382.10	2476.80
Banking System	923.66	963.96	980.03	981.19	1012.60
Non-Bank Sector	1076.88	1080.71	1402.70	1400.91	1464.20

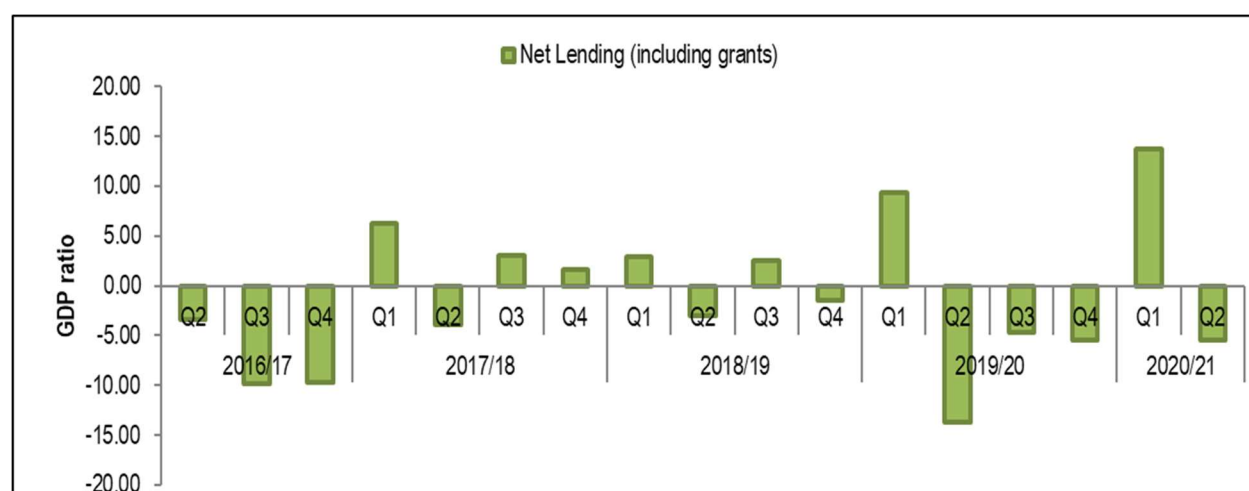
Source: Central Bank of Lesotho

5. Government Finance

OVERVIEW

The Government budgetary operations recorded a fiscal deficit equivalent to 4.3 per cent of GDP during the second fiscal quarter of 2020/21 in contrast to a considerably high revised surplus of 13.8 per cent of GDP in the first fiscal quarter of the same year. Higher spending on both expenses and non-financial assets mainly drove this deficit. The public debt stock was estimated at 62.8 per cent of GDP in the quarter ending in September 2020, compared with the revised 59.8 per cent of GDP in the previous fiscal quarter. At this level, public debt stock was higher than the sustainability threshold prescribed by the IMF and the SADC convergence criteria of 60.0 per cent of GDP.

Figure 18: Fiscal Balance (Percent of GDP)



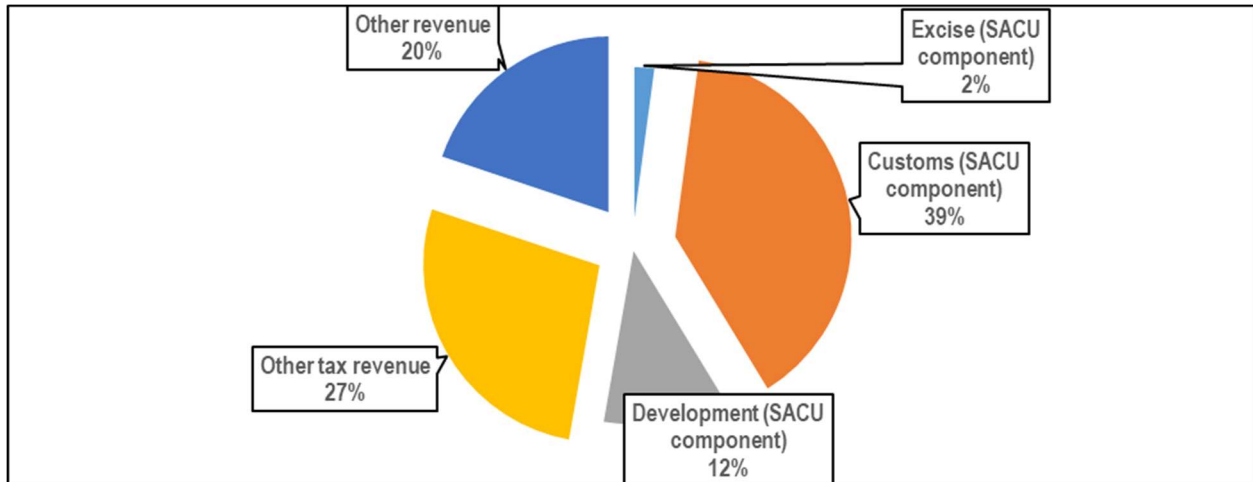
Source: Central Bank of Lesotho and Ministry of Finance

REVENUE²

The Government revenue increased by 6.4 per cent during the period under review compared with a marginal rise of 0.4 per cent in the previous quarter. This increase was mainly due to VAT, personal income tax, withholding tax, excise taxes and LHWP water royalties. The rise in VAT, in particular, was triggered by the deferred tax collection that was aimed to minimise the impact of COVID-19 containment measures. The components of SACU receipts remained unchanged despite the fact that they took the largest share of 47.2 per cent out of total revenue. On the year-on-year basis, revenue rose by 7.0 per cent during the quarter ending in September 2020 following an increase of 3.7 per cent experienced in the quarter ending in June 2020. SACU receipts, LHWP water royalties, and petroleum levy brought about this surge in revenue.

² SACU receipts have been disaggregated into three components: excise tax, customs and other imports duties, and grants from international organizations. They are received during the first month of each quarter, making four inflows in a fiscal year.

Figure 19: Total Revenue (Million Maloti)

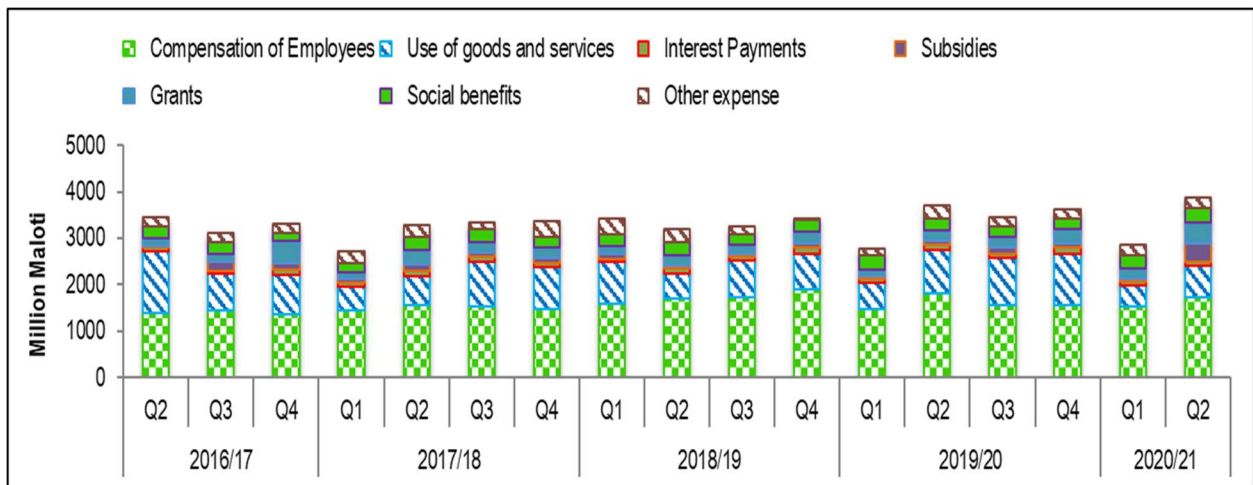


Source: Central Bank of Lesotho and Ministry of Finance

TOTAL EXPENDITURE

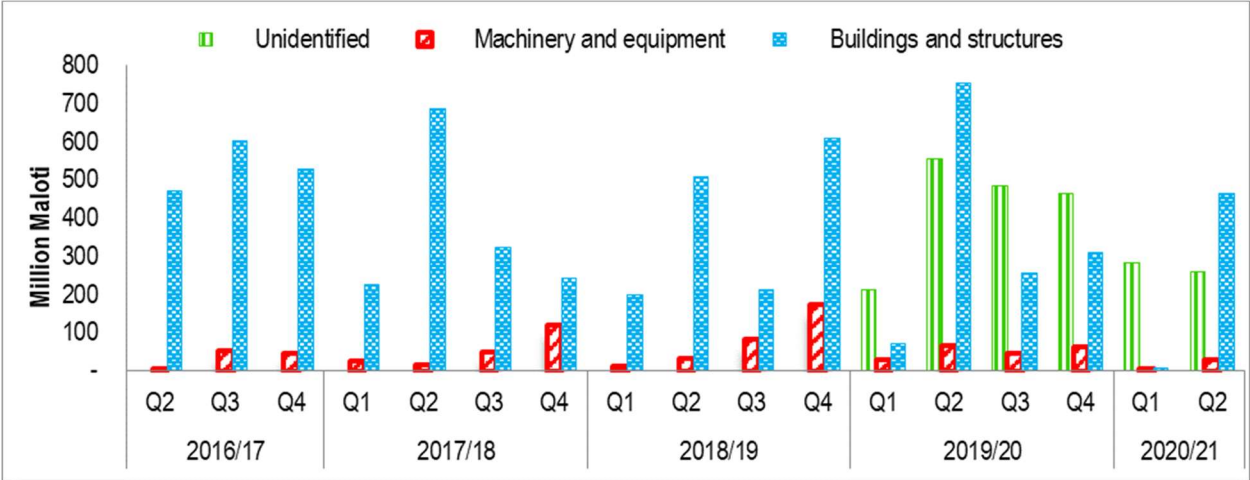
The Government expenditure increased significantly by 47.0 per cent during the second fiscal quarter of 2020/21, relative to a drastic fall of 29.4 per cent in the previous quarter. The rise in spending was mainly driven by maintenance of assets. Other drivers included wages and salaries in cash and in kind, operating costs, domestic travel and transport, old age pension scheme, public assistance in cash and in kind, current grants to extra-budgetary units, capital grants to local governments, subsidies to non-financial public corporations, and interest payments on external and domestic debt. On an annual basis, total spending declined by 9.1 per cent during the quarter under review following an increment of 1.7 per cent in the preceding quarter.

Figure 20: Total Expense (Million Maloti)



Source: Central Bank of Lesotho and Ministry of Finance

Figure 21: Total Non-financial assets or Capital expenditure (Million Maloti)



Source: Central Bank of Lesotho and Ministry of Finance

Table 14: Statement of Government Operations (Million Maloti)

	2019/20			2020/21		Q-to-Q (%)	Y-on-Y (%)	GDP ratio (%)
	Q2	Q3	Q4	Q1	Q2			
Total Revenue	3977.09	3792.76	3980.98	3997.34	4254.48	6.4	7.0	63.0
Tax revenue	3249.67	3106.54	3308.75	3050.75	3409.45	11.8	4.9	50.5
Income Tax	1115.61	993.24	979.86	756.99	848.62	12.1	-23.9	12.6
Value Added Tax	725.19	719.23	768.97	424.46	679.51	60.1	-6.3	10.1
SACU Receipts Components	1217.77	1217.77	1217.77	1756.49	1756.49	0.0	44.2	26.0
Other tax revenue	191.10	176.29	342.15	112.82	124.83	10.7	-34.7	1.8
Grants	358.07	371.54	363.19	504.81	511.46	1.3	42.8	7.6
o/w SACU Receipts Component	338.78	338.78	338.78	488.65	488.65	0.0	44.2	7.2
Other revenue	369.35	314.68	309.04	441.78	333.57	-24.5	-9.7	4.9
Total Expense	3713.19	3452.82	3615.53	2848.29	3870.90	35.9	4.2	57.3
Compensation of Employees	1805.41	1565.76	1569.24	1535.80	1734.67	12.9	-3.9	25.7
Use of goods and services	947.74	1017.47	1075.55	457.52	682.90	49.3	-27.9	10.1
O/W Purchase of Health Services	232.74	260.89	225.38	211.04	267.30	26.7	14.8	4.0
Interest Payments	107.92	66.87	145.83	69.34	76.78	10.7	-28.9	1.1
Subsidies	78.03	136.60	94.46	58.18	392.96	575.4	403.6	5.8
Grants	217.51	226.46	303.23	233.64	460.96	97.3	111.9	6.8
Social benefits	259.86	244.52	240.84	262.81	294.50	12.1	13.3	4.4
Other expense	296.73	195.14	186.38	231.00	228.14	-	-23.1	3.4
Net Operating Balance	263.90	339.94	365.45	1149.05	383.58	-	-	5.7
Total Nonfinancial Assets	1374.57	791.61	838.80	296.99	751.68	153.1	-45.3	11.1
Fixed Assets	1374.37	786.82	838.80	296.99	751.68	153.1	-45.3	11.1
Non-Produced Assets	0.20	4.80	0.00	0.00	0.00	-	-	0.0
Expenditure	5087.76	4244.43	4454.33	3145.28	4622.58	47.0	-9.1	68.5
Primary balance	-1002.75	-384.80	-327.52	921.40	-291.32	-	-	-4.3
Net lending/borrowing	-1110.67	-451.67	-473.36	852.06	-368.10	-	-	-5.5
Financing	-777.27	-566.48	-597.52	1029.27	-534.95	-	-	-7.9
Net Acquisition of Financial assets	-23.30	-249.26	-336.73	1323.49	191.74	-	-	2.8
O/W Domestic Currency and Deposits	-72.20	-163.81	-353.67	1298.42	195.45	-	-	2.9
Net Incurrence of Liabilities	753.98	317.22	260.80	294.22	726.69	-	-	10.8
O/W Domestic Other Accounts Payable	76.83	411.77	177.84	349.68	-34.72	-	-	-0.5
Statistical Discrepancy	-333.39	114.80	124.17	-177.21	166.85	-	-	2.5
Memo Items								
SACU receipts	1556.55	1556.55	1556.55	2245.13	2245.13	0.0	44.2	33.2
GDP (quarterly, * = forecast)	8070.29	9586.51	8744.03	6183.60	8522.50*	-	-	-

Source: Central Bank of Lesotho and Ministry of Finance

TOTAL OUTLAYS BY FUNCTIONS OF GOVERNMENT³

The proportional share of Government total outlays by functions displayed the largest share under economic affairs, followed by health and education, while environmental protection received the least. High spending on general economic and commercial affairs largely drove the leading economic affairs function. As usual, the most percentage share of 84.0 per cent out of the total outlays by functions was directed towards recurrent spending.

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

	2019/20			2020/21		Q-to-Q (%)	Y-on-Y (%)	GDP ratio (%)
	Q2	Q3	Q4	Q1	Q2			
Recurrent Outlays	3596.58	3344.52	3509.35	2744.11	3759.10	37.0	4.5	55.7
General public services	514.77	411.71	521.61	351.65	539.26	53.4	4.8	8.0
Defense	201.67	160.62	167.95	137.89	165.06	19.7	-18.2	2.4
Public order and safety	444.83	336.15	315.37	280.09	346.52	23.7	-22.1	5.1
Economic affairs	539.26	522.71	556.25	461.66	552.94	19.8	2.5	8.2
Environmental protection	3.45	5.37	3.70	2.63	4.62	75.9	34.1	0.1
Housing and community amenities	41.78	45.31	84.78	27.52	75.12	173.0	79.8	1.1
Health	597.34	667.36	683.17	383.86	838.52	118.4	40.4	12.4
Recreation, culture and religion	29.10	29.80	31.35	22.08	25.44	15.2	-12.6	0.4
Education	663.93	673.54	605.20	559.59	654.33	16.9	-1.4	9.7
Social protection	560.46	491.95	539.97	517.14	557.29	7.8	-0.6	8.3
Capital Outlays	1181.92	636.94	530.01	157.11	717.40	356.6	-39.3	10.6
General public services	162.04	128.04	180.44	59.00	115.74	96.2	-28.6	1.7
Defense	12.36	12.79	9.15	0.00	5.75	-	-	0.1
Public order and safety	115.96	76.94	136.33	59.40	83.98	41.4	-27.6	1.2
Economic affairs	567.70	206.27	91.79	32.76	334.38	920.6	-41.1	5.0
Environmental protection	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Housing and community amenities	262.84	119.87	17.52	5.70	122.52	2047.8	-53.4	1.8
Health	30.55	23.20	26.89	0.25	26.51	10660.0	-	0.4
Recreation, culture and religion	24.77	49.78	33.94	0.00	24.31	-	-1.9	0.4
Education	5.68	20.05	33.95	0.00	4.22	-	-25.7	0.1
Social protection	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Total Outlays	4778.50	3981.46	4039.36	2901.22	4476.50	54.3	-6.3	66.3
General public services	676.81	539.75	702.05	410.65	655.00	59.5	-3.2	9.7
Defense	214.04	173.41	177.09	137.89	170.81	23.9	-20.2	2.5
Public order and safety	560.79	413.09	451.70	339.49	430.50	26.8	-23.2	6.4
Economic affairs	1106.96	728.99	648.05	494.42	887.32	79.5	-19.8	13.1
Environmental protection	3.45	5.37	3.70	2.63	4.62	75.9	34.1	0.1
Housing and community amenities	304.62	165.17	102.30	33.23	197.64	494.8	-35.1	2.9
Health	627.89	690.56	710.07	384.11	865.03	125.2	37.8	12.8
Recreation, culture and religion	53.87	79.58	65.28	22.08	49.74	125.2	-7.7	0.7
Education	669.61	693.59	639.14	559.59	658.55	17.7	-1.7	9.8
Social protection	560.46	491.95	539.97	517.14	557.29	7.8	-0.6	8.3
Unidentified Outlays	309.26	262.97	414.97	244.06	146.08	-40.1	-52.8	2.2

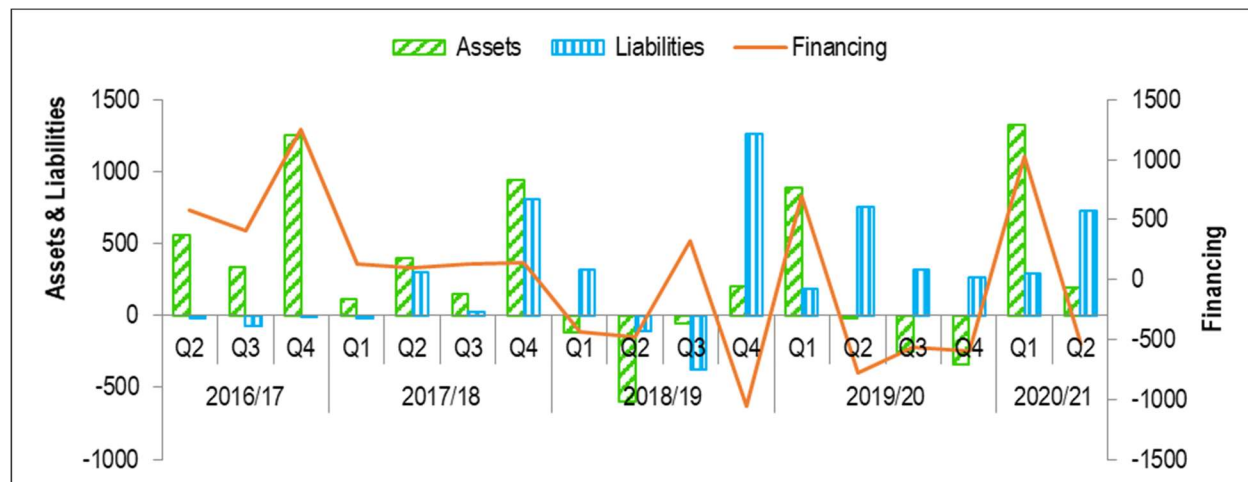
Source: Ministry of Finance

³ This COFOG excludes interest payments and financing items (ie loan principal repayments and payment of arrears). The classification of Lesotho's COFOG is compatible with the IMF's GFS manual of 2014.

FINANCIAL ASSETS AND LIABILITIES⁴

The Government financials recorded an increase in both financial assets and liabilities. The rise in financial assets came from an increment in currency and deposits whereas the increase in liabilities was caused by issuance of Treasury bonds and new external debt. These liabilities were used to finance the fiscal deficit and to support the balance of payments. The payment regarding the arrears on goods and services were estimated at 3.4 per cent of GDP, and cumulatively stood at 6.5 per cent of GDP.

Figure 22: Total Financing (Million Maloti)



Source: Central Bank of Lesotho and Ministry of Finance

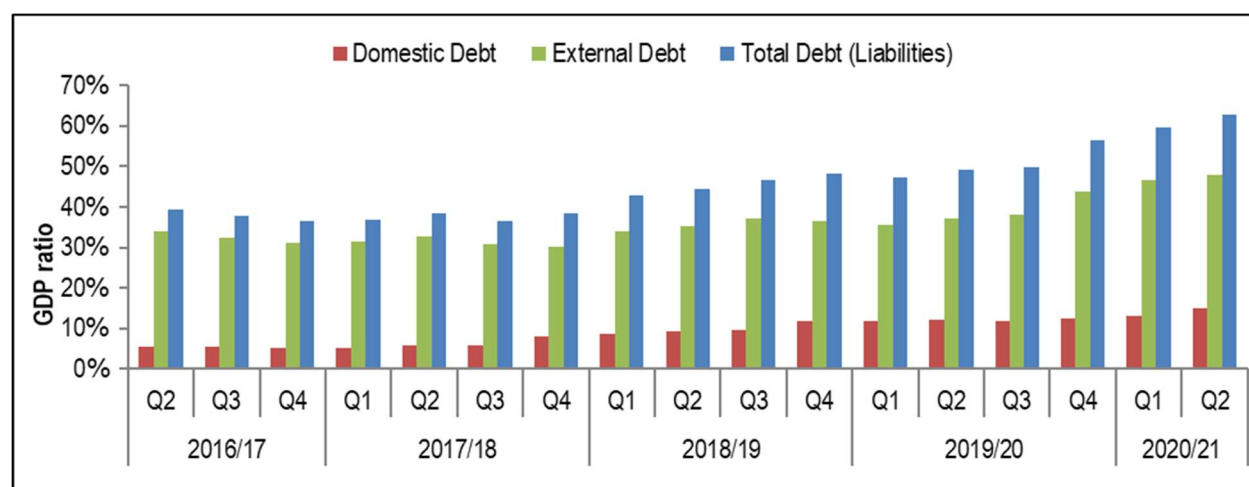
TOTAL PUBLIC DEBT⁵

The stock of public debt increased by 12.1 per cent during the quarter under review while in the previous quarter it contracted by 1.8 per cent. This expansion was noticed under both domestic debt and external debt. The domestic debt accumulation was attributable to new securities coupled with on-lent extended credit facility from the IMF, whereas the external debt experienced new debt under suppliers' credit and exchange rate effect. In terms of year-on-year basis, the public debt stock escalated by 27.6 per cent in the fiscal quarter ending in September 2020 compared with 19.1 per cent in the first fiscal quarter. A major increase was in external debt due to disbursement of the supplier's credit.

⁴ All categories are on net terms. The difference between financing and net lending is captured under other accounts payable. However, existing statistical discrepancy caters for some funds in the banks that are totally unexplained as they are highly aggregated.

⁵ All categories are on net terms. The stock of public external debt is revaluated using an end-of-period exchange rate.

Figure 23: Outstanding Public Debt (Million Maloti)



Source: Central Bank of Lesotho and Ministry of Finance

Table 16: Public Debts Components

	2019/20			2020/21		Q-to-Q (%)	Y-on-Y (%)	Debt/GDP (%)
	Q2	Q3	Q4	Q1	Q2			
Total Public Debt	16788.97	17057.40	19464.41	19108.71	21417.37	12.1	27.6	62.8
EXTERNAL DEBT	12695.81	13013.53	15172.30	14905.35	16317.46	9.5	28.5	47.9
Bilateral Loans	1082.77	1044.28	1223.43	1160.64	1143.70	-1.5	5.6	3.4
Concessional	1082.77	1044.28	1223.43	1160.64	1143.70	-1.5	5.6	3.4
Non-concessional	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Multilateral Loans	10670.91	11001.83	12772.15	12548.08	13141.16	4.7	23.1	38.5
Concessional	9115.00	9459.91	11240.03	11035.08	11596.58	5.1	27.2	34.0
Non-concessional	1555.91	1541.92	1532.13	1513.00	1544.58	2.1	-0.7	4.5
Financial Institutions	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Concessional	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Non-concessional	0.00	0.00	0.00	0.00	0.00	-	-	0.0
Suppliers' Credit	942.13	967.42	1176.72	1196.63	2032.60	69.9	115.7	6.0
DOMESTIC DEBT	4093.16	4043.87	4292.11	4203.36	5099.91	21.3	24.6	15.0
Banks	2768.03	2721.48	2652.11	2562.01	3381.10	32.0	22.1	9.9
Long-term	1534.90	1481.45	1584.37	1490.65	2323.66	55.9	51.4	6.8
Treasury bonds	923.66	963.96	980.55	981.71	1012.60	3.1	9.6	3.0
Central Bank (IMF-ECF)	611.25	517.49	603.82	508.94	1311.05	157.6	114.5	3.8
Short-term (t-bills)	1233.13	1240.04	1067.74	1071.36	1057.44	-1.3	-14.2	3.1
Non-bank	1325.13	1322.38	1640.00	1641.35	1718.81	4.7	29.7	5.0
Short-term (t-bills)	248.25	241.67	237.93	240.44	254.61	5.9	2.6	0.7
Long-term (t-bonds)	1076.88	1080.71	1402.07	1400.91	1464.20	4.5	36.0	4.3
DEBT INDICATORS								
External Debt-to-Total Debt	75.6	76.3	77.9	78.0	76.2	-	-	-
Domestic Debt-to-Total Debt	24.4	23.7	22.1	22.0	23.8	-	-	-
Concessional Debt-to-External Debt	80.3	80.7	82.1	81.8	78.1	-	-	-
External Debt Service-to-GDP	3.1	2.2	2.4	2.9	2.4	-	-	-
External Debt Service-to-Revenue	6.3	5.5	5.3	4.5	4.8	-	-	-
External Debt Service-to-Exports	6.4	5.9	5.3	4.7	12.0	-	-	-

Source: Central Bank of Lesotho and Ministry of Finance

6. Foreign Trade and Payments

OVERVIEW

During the quarter ending in September 2020, the external sector position recorded a surplus equivalent to 7.3 per cent of GDP, slightly higher than a surplus of 6.9 per cent of GDP in the previous quarter. The external sector position surplus was mainly explained by the increased surplus on the capital account, while the current account balance worsened and the financial account outflows declined and therefore partly offset the impact of the capital account surplus.

CURRENT ACCOUNT

The current account balance recorded a deficit amounting to M698.37 million during the third quarter of 2020, following a revised surplus of M76.27 million in the preceding quarter. The downward pressure came from increased deficits in both the goods and services accounts. However, the surpluses in the primary and secondary income accounts rose, therefore moderating the observed impact of the goods and services accounts on the current account balance. As a share of GDP, the current account deficit amounted to 10.3 per cent from a surplus of 1.2 per cent of GDP in the previous quarter.

Table 16: Current Account Balance (Million Maloti)

	2019		2020			% Changes	
	Q3	Q4	Q1	Q2	Q3*	Q/Q	Y/Y
Current Account	-591.88	-128.05	-76.27	76.27	-698.37	-1015.6	-18.0
(a) Goods	-2751.48	-2301.72	-2366.67	-2735.67	-3 555,93	-30.0	-29.2
Merchandise exports, f.o.b.	3903.92	4312.34	4122.97	1 962,37	4 009,87	104.3	2.7
Of which diamonds	908.93	1048.09	1066.43	525.57	1 153,46	119.5	26.9
Of which textiles & clothing	2324.43	2506.01	2095.24	928,34	2 234,25	140.7	-3.9
Of which water	219.50	148.67	234.78	255.44	253,07	-0.9	15.3
Of which agriculture	91.12	96.08	86.51	81.75	86,50	5.8	-5.1
Of which re-exports	39.87	213.7	36.31	19.52	36,87	88.9	-7.5
Other exports	320.07	299.79	603.70	70.00	245,72	61.9	-23.2
Merchandise imports, f.o.b.	6655.4	6614.06	6489.64	4698.04	7 565,80	61.0	13.7
(b) Services	-1451.07	-1467.29	-1492.82	-1 281,76	-1 500,94	-17.1	-3.4
(c) Primary Income	1511.89	1549.34	1588.32	1347.86	1 583,33	17.5	4.7
(d) Secondary Income	2098.77	2230.17	2230.17	2745.84	2 775,18	1.1	-32.2

Source: Central Bank of Lesotho

Merchandise Exports

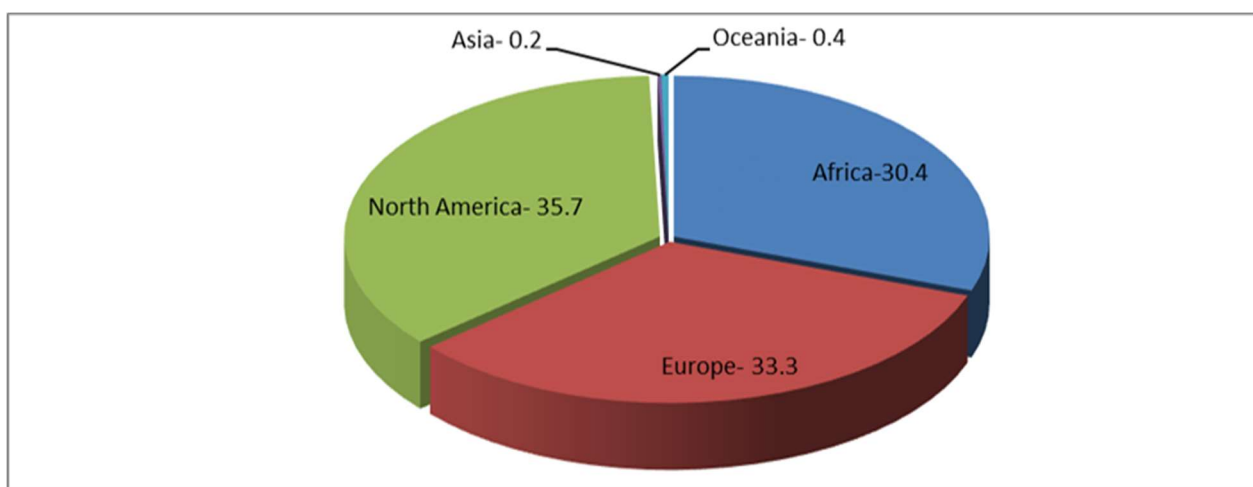
During the quarter under review, merchandised exports increased by more than two-fold following a 52.4 per cent fall in the previous quarter. The largest positive contributions came from exports of textile and clothing as well as diamond. Diamond exports surged as there was improved market conditions in the aftermath of the COVID-19 lockdowns globally. Moreover, there was improved diamond resource and high valued carats from one of the mines, which further supported sales. Textiles and clothing exports were supported by higher production and thus sales including inventories as the further easing of lockdown restrictions enabled workers in the industry to return to work. Relative to a year earlier, merchandise exports increased by 2.7 per cent from a decline of 49.9 per cent in the preceding quarter. As a share of GDP, merchandise exports accounted for 59.4 per

cent in the quarter under review, increasing from a revised 27.6 per cent in the quarter ending in June 2020.

Direction of Trade - Exports

During the quarter ending in September 2020, North America was the largest recipient of Lesotho's exports, with a share of 35.8 per cent of total exports, mainly comprising textiles and clothing exports to the US, Mexico and Canada. Europe and Africa were the second and third largest recipients of Lesotho's exports, with shares of 33.3 per cent and 30.4 percent of total exports respectively. Exports to Europe mainly comprised of diamond exports to Belgium, while exports to Africa were mostly explained by clothing and textiles exports to South Africa. Asia and Oceania continued to be the least recipients of Lesotho's exports, with shares of 0.2 per cent and 0.4 per cent respectively.

Figure 24: Direction of Merchandise Exports (Percentage Share)



Source: Central Bank of Lesotho

Merchandise Imports

Merchandise imports increased by 61.0 percent in the quarter under review following a 27.6 percent decline in the preceding quarter, as the easing of lockdown and cross border movement restrictions enabled for more purchases by traders. Imports increased across almost all categories, with building materials, clothing and textiles as well as medical equipment accounting for the largest shares. Year on year, merchandise imports increased by 13.4 per cent from a decline of 27.8 in the previous quarter. Expressed as a share of GDP, merchandise imports accounted for more than two fold during the review quarter compared to 66.1 per cent in the previous quarter.

Services Account

The services account deficit increased by 17.1 per cent in the quarter ending in September 2020 following a decline of 14.1 per cent in the preceding quarter. This resulted from increased services acquired from abroad as countries started to ease some of the travel restriction imposed at the beginning of the COVID-19 era. The largest services payments were for freight, in line with the increased imports during the quarter under review. The deficit on the services account was further exacerbated by the reduction in travel receipts, as the tourism sector was severely hampered by the COVID-19 led travel restrictions. Year on year, the services account deficit increased by 3.4 per cent, compared to a decrease of 6.2 per cent in the previous quarter. As a share of GDP, the services account deficit constituted 22.2 per cent during the review quarter compared to 18.1 per cent in the previous quarter.

Primary Income Account

During the review period, the surplus on the primary income account expanded by 17.5 per cent, following a 15.1 per cent decline in the quarter ending in June 2020. The primary income account was buoyed by higher compensation of employees, particularly migrant workers in South Africa. The primary income account also benefited from the receipts for maintenance and operational costs of the project of the Lesotho Highlands Water Project - Phase I. These increases were however offset by a decline in interest receipts on commercial banks and the central banks' investments held abroad as well as increased interest payments for the government's foreign loans. On an annual basis, the surplus on the primary income account rose by 4.7 per cent, following a 15.5 per cent fall in the preceding quarter. As a percentage of GDP, the surplus accounted for 23.5 per cent, from 21.8 per cent in the quarter ending in June 2020.

Secondary Income Account

The surplus on the secondary income account grew by 1.1 per cent during the third quarter of 2020, relatively lower than a 23.1 per cent rise in the previous quarter. This marginal increase was mostly on account of a decline in government subscriptions to international organisations, while SACU receipts, which account for the largest share of transfers remained unchanged during this period. Year on year, the surplus on the secondary income account declined by 32.2 per cent, after increasing by 30.8 per cent in the preceding quarter. As a ratio of GDP, the surplus on the secondary income account constituted 41.1 per cent of GDP, from 44.4 per cent in the previous quarter.

CAPITAL ACCOUNT

During the quarter ending in September 2020, the surplus on the capital account expanded by 6.1 per cent to M331.88 million, recovering from a 14.1 per cent fall or a surplus of M312.85 million in the previous quarter. Significant increases were observed on investment spending on construction activities related to Lesotho Highland Water Project Phase II, as a result of increased activity due to the relaxation of COVID-19-led restrictions. The account further benefited from increased capital grants to the government for capital related projects during the same period. Compared with the same period a year earlier, capital transfers contracted by 13.1 per cent, following a 10.1 per cent increase in the previous quarter. As a percentage of GDP, capital inflows accounted for 4.9 per cent of GDP, compared to a share of 5.1 per cent in the previous quarter.

Figure 25: Capital Account (*Million Maloti*)



Source: Central Bank of Lesotho

FINANCIAL ACCOUNT

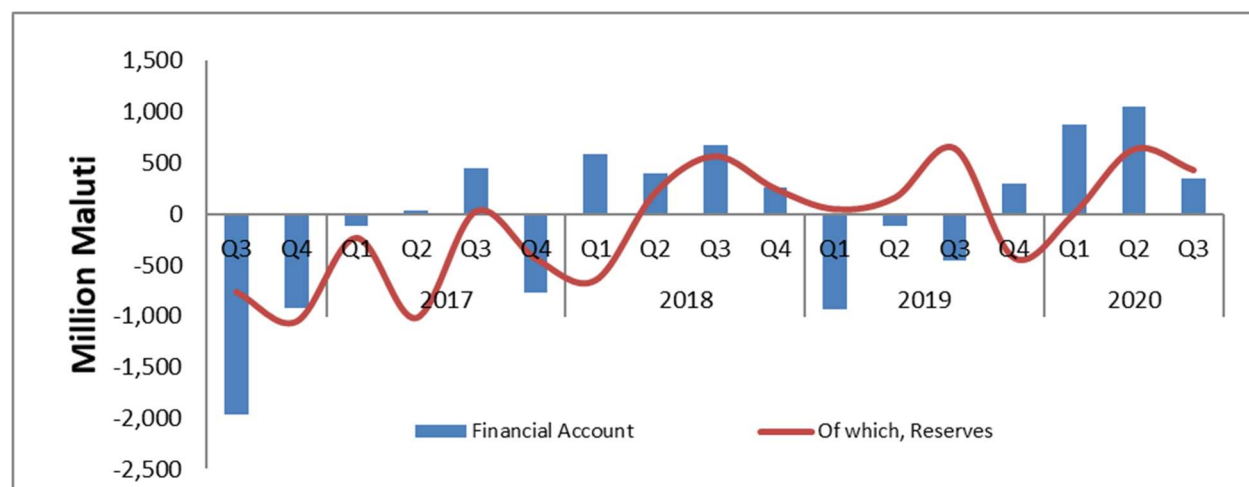
During the third quarter of 2020, the financial account net outflows amounted to M333.15 million, lower than a net outflow of M1.05 billion in the second quarter of 2020. Expressed as a share of GDP, the financial account net outflows amounted to 4.0 per cent during the quarter under review compared to 14.8 per cent share in the previous quarter.

Table 17: Financial Account Balance (Million Maloti)

	2019		2020		
	Q3	Q4	Q1	Q2	Q3
Financial account	-462.84	301.46	880.73	1054.18	333.15
Direct Investments, net	-128.90	-128.90	-128.90	-128.90	-128.90
Portfolio Investments, net	7.10	7.10	7.10	7.10	7.10
Financial Derivatives, net	0.00	0.00	0.00	0.00	0.00
Other Investments, net	91.20	422.22	374.57	750.07	-39.86
Of which Loans	-531.53	79.90	91.78	16.31	-640.57
Claims on Non Residents	34.48	34.48	34.48	34.48	34.48
Liabilities to Non Residents	566.01	-45.42	-57.30	18.17	675.05
Of which Currency and Deposits	696.79	416.38	356.85	807.82	674.77
Claims on Non Residents	711.30	230.78	591.27	555.27	688.16
Liabilities to Non Residents	14.51	-185.60	234.42	-252.55	13.39
Reserve Assets	-432.24	1.04	627.96	425.91	494.81

Source: Central Bank of Lesotho

The observed decline on the financial account outflows was mainly explained by the substantial increase in reported liabilities by the central bank during the third quarter of 2020 as a result of the RCF and RFI loan provided by the IMF for the BOP support. However, the government's foreign liabilities declined as the disbursements dropped significantly during the same quarter, therefore moderating the increase in the central bank's foreign liabilities. There was also an increase in commercial banks' foreign assets as well as central bank's reserves assets held abroad, which also partly offset the observed increase in foreign liabilities.

Figure 26: Financial Account (Million Maloti)

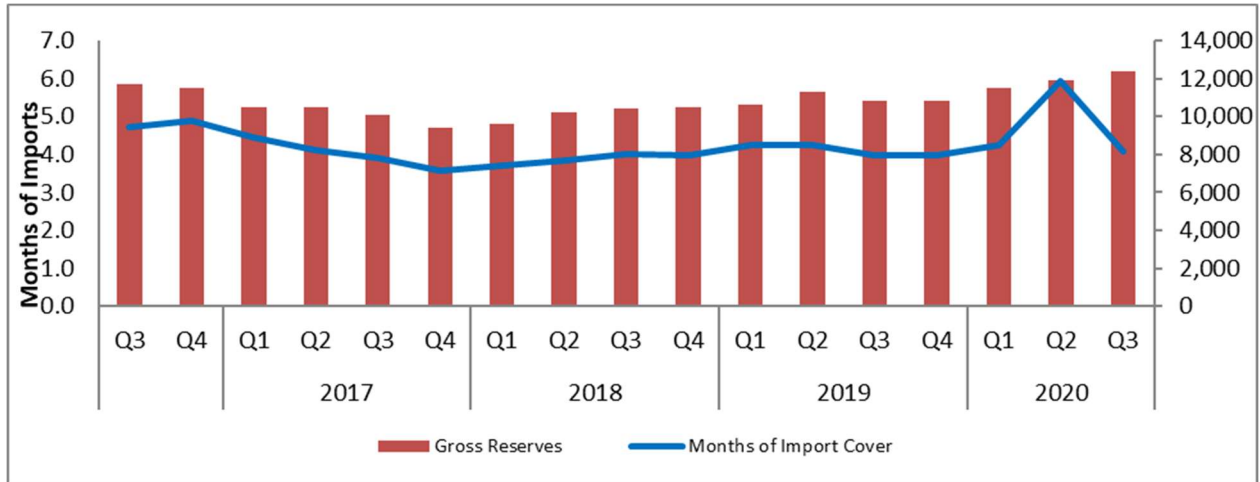
Source: Central Bank of Lesotho

RESERVE ASSETS

The stock of foreign reserves increased to M12.40 billion in September 2020 from M11.90 billion in June 2020. The observed increase was explained by amongst others, the RCF and RFI loan provided

by the IMF to Lesotho for the BOP support, which therefore buffered the stock of reserves assets. However, expressed in months of import cover, reserves assets declined to 4.9 months in September 2020 from 5.9 months in the previous quarter, as the import bill increased significantly during the same period. Therefore, months of import cover declined to 4.9 months in September 2020 from 5.9 months in the previous quarter, as the import bill increased significantly during the same period.

Figure 27: Reserves Assets



Source: Central Bank of Lesotho