CENTRAL BANK OF LESOTHO

QUARTERLY REVIEW

JUNE, 2009

VOLUME XXXIII, NO. 2

MASERU
KINGDOM OF LESOTHO

Table of Contents

I. Introduction **1**
II. International Economic Developments **2**
United States (US) 2
Euro-zone 3
South Africa (SA) 4
Emerging Asian Markets and Japan 4
Commodity Prices 5
III. Real Sector, Employment and Price Developments **10**
Overview 10
Primary Sector Developments 10
Secondary Sector Developments 11
Tertiary Sector Developments 13
Investment Expenditure 16
Employment Developments 17
Price Developments 19
IV. Monetary and Financial Developments **21**
Determinants of Money Supply 21
Components of Money Supply 23
Commercial Banks' Deposits by Holder 24
Liquidity of Commercial Banks 25
Demand for Money 27
Domestic Credit 27
Net Foreign Assets 32
Money Market Developments 34
Money Market and Short-term Interest Rates 35
V. Government Finance **37**
Summary of Budget Outturn 37
Revenue 38
Expenditure 40
Financing 42
Public Debt 43
External debt 44
Domestic Debt 45
VI. Foreign Trade and Payments **46**
Overview 46
Current Account 46
Investment Income 52
Current Transfers 52
Capital and Financial Account 52
Reserve Assets 53
Exchange Rates 55
STATEMENT OF MONETARY POLICY COMMITTEE **56**
VII. Statistical Tables 58

List of Tables

Table 1: Key World Economic Indicators 3
Table 2: Electricity Consumption 12
Table 3 : Water Consumption 13
Table 4: Telephone Traffic Statistics 15
Table 5: Motor Vehicle Imports+ 16
Table 6: Employment Trend of LNDC-Assisted Companies 17
Table 7: Inflation Rate 20
Table 8: Determinants of Money Supply 22
Table 9: Money Supply 23
Table 10: Commercial Banks' Deposits by Holder 25
Table 11: Components of Commercial Banks' Liquidity 26
Table 12: Consolidated Balance Sheet of Commercial Banks 27
Table 13: Domestic Credit Excluding Net Claims on Government 28
Table 14: Sectoral Distribution of Credit to Enterprises+ 30
Table 15: Banking System's Net Claims on Government 32
Table 16: Banking System's Foreign Assets and Liabilities 33
Table 17: Holding of Treasury Bills 35
Table 18: Major Money Market Interest Rates 36
Table 19: Government Revenue 39
Table 20: Government Expenditure 41
Table 21: Government Financing 43
Table 22: External Debt 45
Table 23: Current Account Balance 47
Table 24: Value of Exports by Section of the S.I.T.C. # 49
Table 25: Direction of Trade - Exports and Re-Exports, f.o.b. 50
Table 26: Capital and Financial Account 53

List of Figures

Figure 1: Average Price of Gold 6
Figure 2: Average Price of Platinum 7
Figure 3: Average Price of Oil 8
Figure 4: Average Spot Prices of Maize 9
Figure 5: Average Spot Prices of Wheat 10
Figure 6: Diamond Production Index 11
Figure 7: Value of Sales Turnover 14
Figure 8: Government Employment 18
Figure 9: Migrant Mineworkers Employment 19
Figure 10: Annual Inflation Rate for Urban Households 21
Figure 11: Overview of Recent Monetary Developments 22
Figure 12: Components of Money Supply 24
Figure 13: Distribution of Credit by Holder 28
Figure 14: Commercial Banks' Credit to Business Enterprises 31
Figure 15: Net Foreign Assets 34
Figure 16: Short-Term Interest Rates 37
Figure 17: Primary Balance versus Overall Balance 38
Figure 18: Sources of Government Revenue 40
Figure 19: Recurrent Expenditure by Type 42
Figure 20: Outstanding Public Debt 44
Figure 21: Direction of Merchandise Exports 51
Figure 22: Reserve Assets 54
Figure 23: Balance of Payments 54
Figure 24: Real Exchange Rate of the Loti against Major Currencies 55

I. Introduction

The global economic environment continues to be weak with most economies contracting further during the quarter. Notably, economies of the United States (US), Euro Area and South Africa contracted during the quarter. This may imply that the retrenchments observed in Lesotho's textiles and clothing industry may continue for sometime. It is expected that the mix of fiscal and monetary policy interventions that are being implemented in developed countries would soon yield positive results on economic activity. Prices are also falling in the Euro Area and the US, driven largely by the prices of food and crude oil. However, in South Africa, inflation remains above the upper limit of the inflation target. It seems that South Africa and Lesotho may not benefit from the current food deflation that has already spanned two quarters. Inflation in Lesotho is tied to that of South Africa through pegging of the loti to the South African Rand.

The developments in the domestic economy also continued to reflect the weakening economic activity. Data on mining production showed that output from the mines improved significantly during the quarter driven mainly by the recovery in the price of rough diamonds. It remains to be seen whether the recovery in the price will be sustained. Production in the sector depends largely on the price. It should be noted that mining output is still far below the performance displayed before the financial crisis. On the textiles and clothing sub sector, the signs are still mixed. The observed improvement in electricity consumption is more indicative of high demand for electricity during winter months. It is expected that the recovery in the textiles and clothing industry, which is the largest sub-sector in the manufacturing sector, will follow the demand in the US. However, the strengthening Loti against the US Dollar may negatively affect demand for Lesotho's exports.

Employment in Lesotho Development Corporation (LNDC) - assisted companies fell by 1.0 per cent in June 2009 mainly due to the ongoing retrenchment in the manufacturing export sector. The Level of employment in public sector continued to increase during the quarter under review. Employment of Basotho in the South African mines continues to decline, though commodity prices such as gold and platinum have remained relatively high over the period.

Inflationary pressures in Lesotho seem to be abating in line with the global price developments, though at a slower pace. Inflation in Lesotho rose 8.9 per cent in June 2009 compared with 10.1 per cent in March 2009. The rather slow deceleration in inflation is also observed in the neighboring South Africa.

In the financial sector, money supply fell due to the fall in both net foreign assets and domestic credit. Interest rates continued on the downward trend in line with the monetary easing observed in South Africa. The South African Reserve Bank reduced the repo rate further to 7.50 per cent. The key interest rate in Lesotho, the 91 day Treasury bill rate, as well as the prime lending and deposit rates, reflected these developments.

Government budgetary operations are estimated to have registered a surplus of 18.8 per cent of Gross Domestic Product (GDP) during the quarter under review, manly due to under spending emanating from problems related to the implementation of the new management system called Integrated Financial Management Information System (IFMIS). The system replaced the old one called GOLFIS which had serious shortcomings.

The stock of public debt rose due to loans from both multi lateral and bilateral sources. Although Lesotho's ratio of debt to GDP seems to be approaching the SADC benchmark of 60 per cent, the debt has a high concessionality which renders it sustainable beyond the threshold.

The external sector registered an overall deficit of M71.8 million in the quarter under review, mainly due to the strengthening of the local currency against the major currencies. There are indications that exports of diamonds improved during the quarter, mainly due to improvement in the price of rough diamonds.

II. International Economic Developments

United States (US)

The real Gross Domestic Product (GDP) in the US contracted by 1.0 per cent in the quarter under review, compared with the revised 5.5 per cent observed in the previous quarter. This was indicative of improvement in economic activities, largely due to the strong government spending which increased by 5.6 per cent during the quarter. Other expenditure components such as exports and non residential fixed investment registered smaller declines of 7.0 per cent and 8.9 per cent, respectively. Consumer spending, which accounts for 70 per cent of the US GDP, declined by 1.0 per cent in the review quarter compared with an increase of 0.6 per cent in the previous quarter.

The inflation rate remained below zero during the review quarter. The consumer price index (CPI) decreased by 1.4 per cent in June 2009 compared with a fall of 0.4 per cent in the previous quarter. This was due mainly to the continued decline in consumer spending and business investment.

The unemployment rate rose to 9.5 per cent during the quarter, from 8.5 per cent in the previous quarter. The Federal Reserve Bank's Open Market Committee (FOMC) left the benchmark lending rate unchanged at 0.25 per cent during the period ending June 2009.

Table 1: Key World Economic Indicators

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	QI 09	QII 09	QI 09	QII 09	QI 09	QII 09	QI 09	QII 09
China	6.10	7.90	-1.20	-1.70	5.31	5.31	9.00_{2008}	9.00_{2008}
Euro Area	-4.90	-4.60	0.60	-0.10	1.50	1.00	8.90	9.40
India	5.80	N/A	9.60	9.30	3.50	3.25	6.80_{2008}	6.80_{2008}
Japan	-8.70	-6.40	-0.30	-1.80	0.10	0.10	4.80	5.40
South Africa	-6.40	-3.00	8.50	6.90	9.50	7.50	23.50	23.60
United States	-5.50	-1.00	-0.40	-1.40	0.25	0.25	8.50	9.50

Source: Bloomberg, The Economist, STATSSA and SARB

*Real GDP growth rates (measured as the annualised percentage change on previous quarter) are shown for all countries except China and India for which year-on year growth rates are provided because their Governments do not publish the former.

Euro-zone[1]

The Euro-area economy, on an annual basis, contracted by 4.6 per cent during the review quarter, compared with a fall of 4.9 per cent recorded in the first quarter of 2009. On quarterly basis, the economy in the Euro zone contracted by a modest 0.1 per cent, signalling a recovery in the economy. The recovery seems to be emanating from the two largest Euro Area economies (Germany and France). Other Euro Area countries continue to record declines in economic activity.

The harmonised unemployment rate in the Euro-zone increased from 8.9 per cent in March 2009 to 9.4 per cent in June 2009. Price developments in the Euro-zone seem to follow those in the US with inflation declining in June 2009. Inflation as measured by changes in the Harmonised Index of Consumer Prices (HICP) declined by 0.1 per cent at the end of the second quarter compared with 0.6 per cent in March 2009. The observed deflation reflects the downward base effects of past declines in the price of crude oil.

---

[1] Euro-zone: Austria, Belgium, Cyprus, Germany, Greece, Finland, France, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain. Slovakia became the 16th Euro-zone member country with effect from the 1st of January.

The European Central Bank (ECB) reduced its benchmark lending rate further by 50 basis points to end the quarter at 1.00 per cent. At this low level, interests rates are expected to stimulate economic activity in the Area. The ECB is further injecting liquidity into the economy through purchase of securities.

South Africa (SA)

SA's economy contracted for the third consecutive quarter during the review period, its GDP fell by an annualised rate of 3.0 per cent compared with 6.4 per cent in the previous quarter. The recessionary conditions continue to dominate economic developments in South Africa. The agricultural sector registered a steeper than expected decline of 17.1 per cent, quarter to quarter, largely due to the deterioration in livestock production. Manufacturing industry continued to deteriorate albeit at the small percentage. Mining and construction grew by 5.5 per cent and 12.2 per cent, respectively, during the quarter.

Inflation, measured by CPI, declined in June 2009. The CPI increased at a lower rate of 6.9 per cent compared with 8.5 per cent in March. The main drivers behind this deceleration were the decline in the price of petrol and the lower increase in food inflation. In light of the deteriorating economic performance and abating inflation, the South African Reserve Bank's (SARB) Monetary Policy Committee (MPC) reduced the repo rate to 7.5 per cent at the end of the review quarter, from 9.5 per cent at the end of the previous quarter.

Emerging Asian Markets and Japan

China

Preliminary estimates indicate that GDP growth in the world's fourth largest economy, 'China' accelerated to 7.9 per cent in the second quarter of 2009 compared with 6.1 per cent in the previous quarter. The acceleration was a result of the impact of the fiscal stimulus on investment and increased general availability of credit due to low interest rates which have counteracted the fall in exports.

China's inflation rate fell further by 1.7 per cent in June, compared with 1.2 per cent in March 2009. Inflation in China has been on a decline since February 2009, mainly on account of the continued decline in fuel and food prices. The People's Bank of China (PBC) kept the one-year benchmark lending rate at 5.3 per cent during the period ending June 2009.

Japan

Japan's real GDP contracted by 6.4 per cent in June 2009 compared with the decline of 8.7 per cent in the previous quarter. The lower contraction reflects the impact of the series of government stimulus aimed at reviving the economy during the unfolding recession. Public investment and consumer spending rose significantly during the quarter under review. It is noteworthy that there was a modest pick in Japan's exports during the quarter, which was offset by strong imports.

The Japanese unemployment rate worsened to 5.4 per cent in June compared with 4.8 per cent in March. The core CPI, which excludes prices of fruits, vegetables and fish, declined by 1.8 per cent in June 2009 compared with 0.3 per cent in March. The Bank of Japan (BOJ) left its key interest rate unchanged at 0.1 per cent in the quarter ending June 2009.

India

India's major economic indicators signalled that economic growth might have recovered in the second quarter of 2009. Industrial production registered a monthly growth of 7.8 per cent in June compared with a contraction of 2.3 per cent observed in March 2009. This was largely driven by manufacturing sector which accounts for two-thirds of industrial production. This performance indicates that India's stimulus measures such as low interest rates, tax cuts and an increase in government spending are well performed during the quarter.

The preliminary estimates indicated that India's inflation decelerated to 8.6 per cent in June 2009 from 9.3 per cent recorded in March 2009. The deceleration was largely driven by a fall in prices of oil, metals and food grains. The Reserve Bank of India reduced repo rate from 3.5 per cent registered in the previous quarter to 3.25 per cent during the period ending June 2009, in order to maintain an accommodative monetary stance until robust signs of recovery emerge.

Implications on Lesotho's Economy

The global economic conditions continue to reflect weak economic activity. However, it is noteworthy that spikes of an upturn were observed in most economies reviewed. The recovery seems to reflect the impact of fiscal stimulus packages implemented to ameliorate the adverse effects of the second round effects of the financial crisis. However, the global economic fundamentals remain weak. The situation continues to pose mounting challenges to Lesotho as it cannot afford significant fiscal stimulus packages to turn the economy around. The continued weak demand in the US and South Africa, which are major markets for Lesotho's products, imply that the textile and clothing sub-sector in Lesotho still has a long way to go before recovery. Retrenchments of workers in the sector are expected to continue during the quarter.

Commodity Prices

Overview

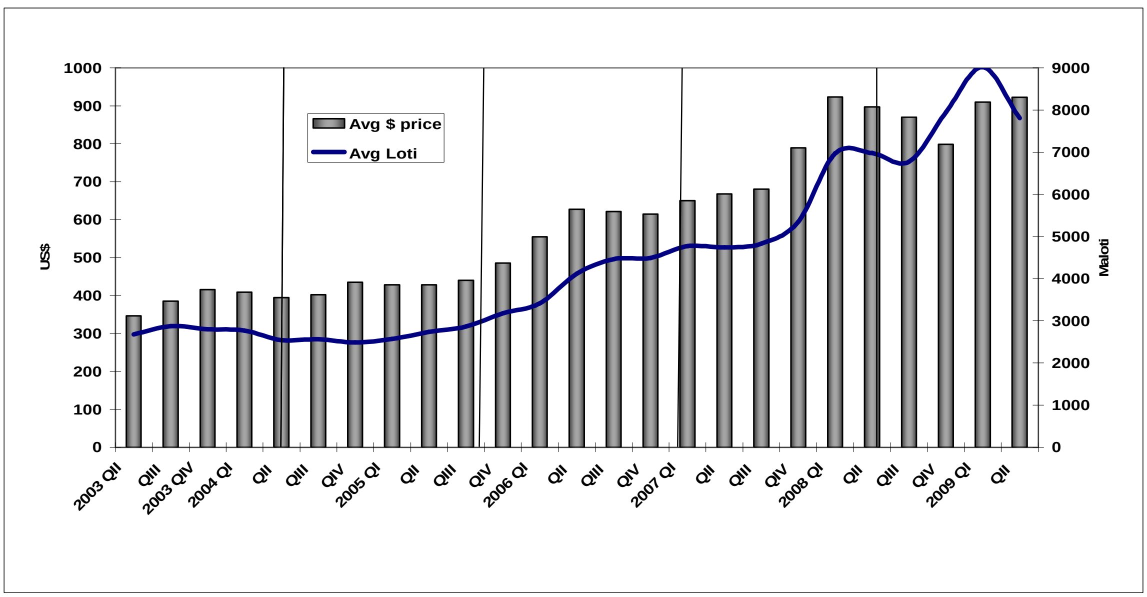
The prices of minerals and agricultural products depicted an upward trend during the quarter under review. Measured in US Dollar, all commodity prices increased partly due to the recovery in the demand for those commodities. However, in Rand terms, the commodity prices fell, except oil price which accelerated in the period ending June 2009. A decline in commodity prices was due to the net effect of appreciation of the Rand during the period under review.

Mineral Products

Gold

The average price of gold grew by 1.3 per cent to US$922.2 per ounce during the review quarter, compared with the 13.9 per cent rise recorded in the previous quarter. However, in Rand terms, the average price of gold fell by 13.4 per cent to R7 808.3 per ounce in the review period, in contrast with a rise of 13.3 per cent in the previous quarter.

Figure 1: Average Price of Gold

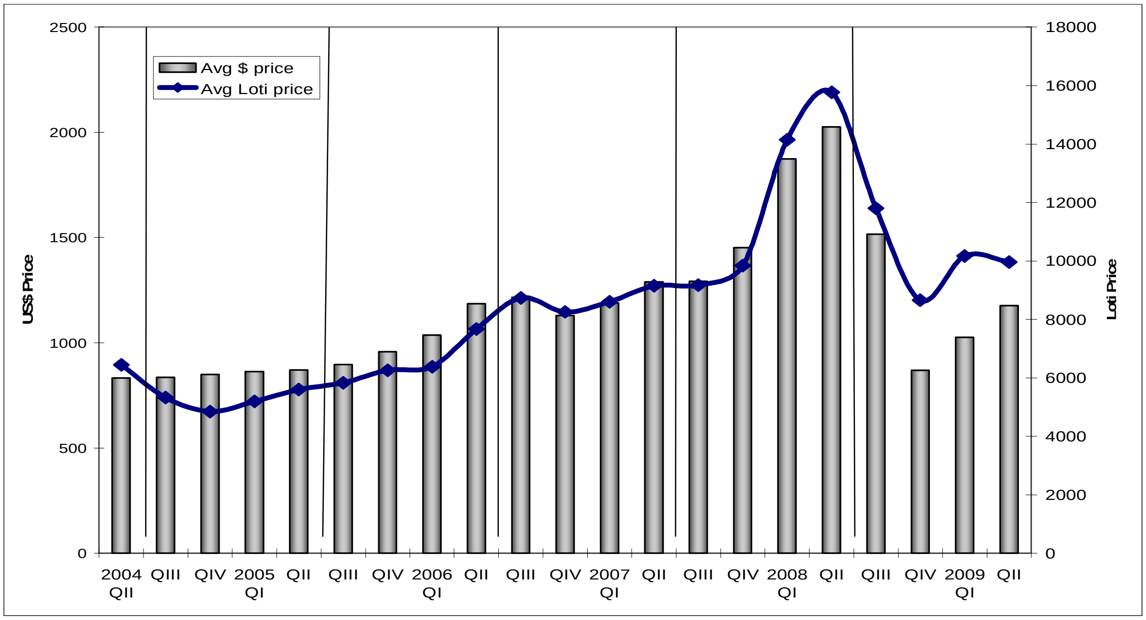


Source: Bloomberg

Platinum

The average price of platinum rose to US$1176.6 per ounce in the review period from US$1026.3 per ounce registered in the previous quarter due to, among other factors, the increase in demand in Asian market. In Rand terms, the average price of platinum dropped by 2.1 per cent to R9962.4 per ounce during the review quarter.

Figure 2: Average Price of Platinum



Source: Bloomberg

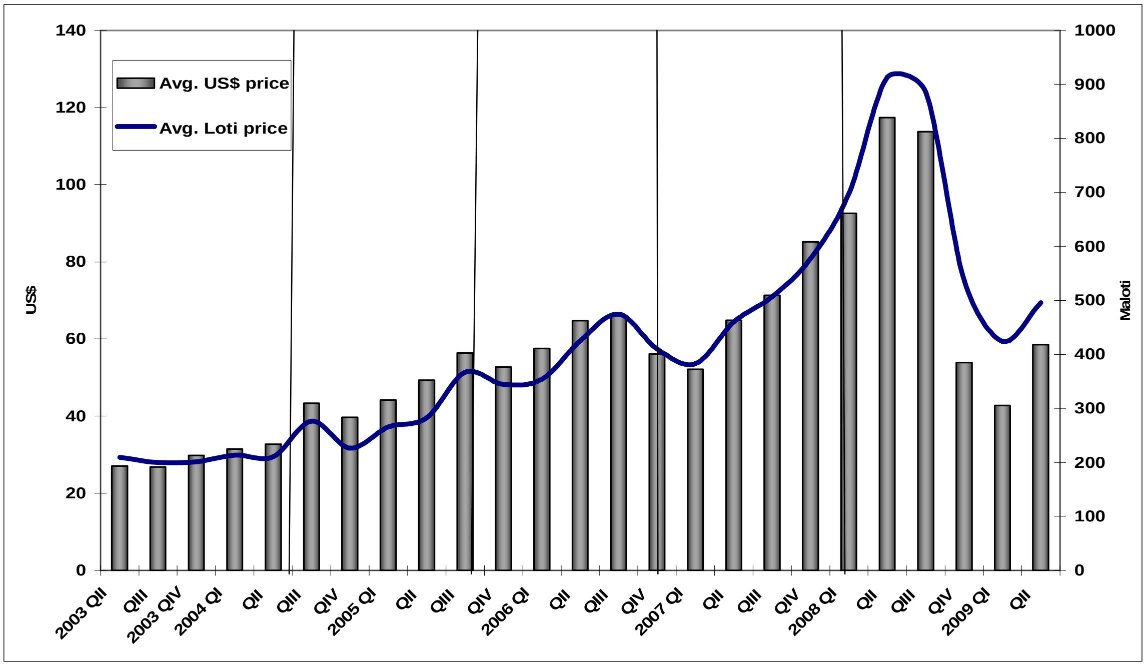
The increase in international price of gold assisted in dampening the negative impact of the exchange rate in the Rand price of gold. It could encourage gold mining companies in SA to curb retrenchments, thereby increasing prospects for Basotho migrant mineworkers.

Oil

During the quarter under review, the average price of crude oil depicted an upward movement after a decline of two consecutive quarters. The average price of crude oil rose by 36.7 per cent to US$58.6 per barrel in the review quarter from US$42.8 per barrel recorded in the previous quarter. In Maloti terms, the price of crude oil increased to M495.9 per barrel during the quarter from M424.2 per barrel in the previous quarter. The rise in crude oil price led to an upward revision of domestic petrol price.

In line with global improvement in the crude oil prices, there were three upward revisions of petrol prices while diesel and paraffin prices were revised downward during the quarter under review. The pump price per litre of petrol closed the quarter at M6.45 from M6.30 registered in the quarter ending March 2009. The price of diesel and illuminating paraffin closed the quarter at M6.55 and M4.30 compared with M6.75 and M4.40 observed at the end of March 2009, respectively.

Figure 3: Average Price of Oil



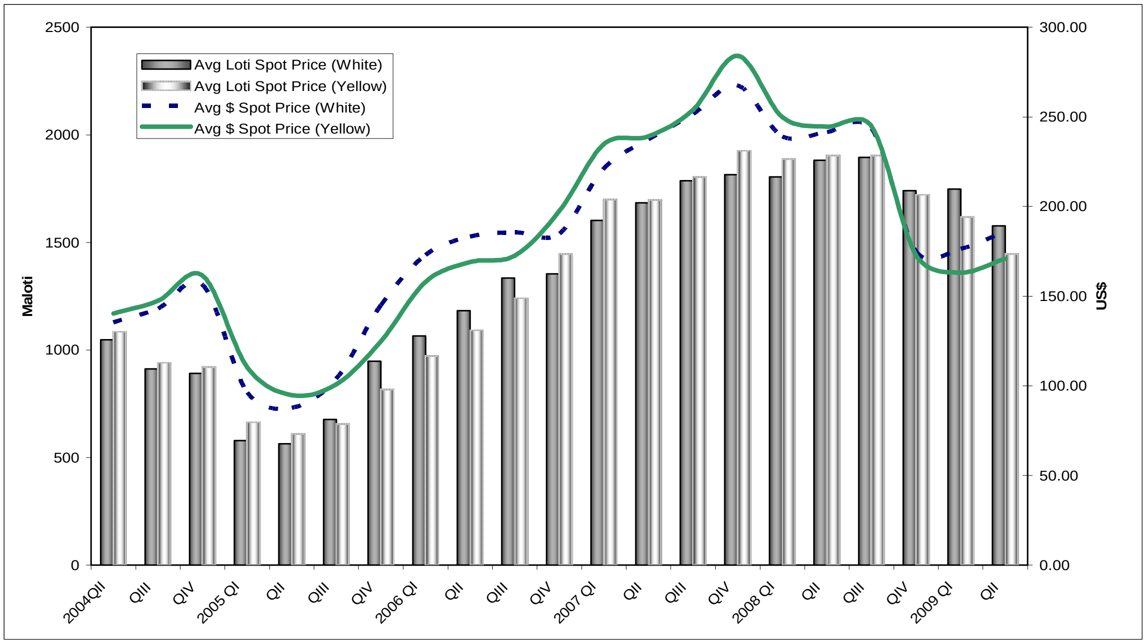
Source: Bloomberg

Agricultural Products

Maize

The average spot prices of both white and yellow maize during the quarter increased by 5.6 per cent and 4.7 per cent to US$186.3 per tonne and US$170.9 per tonne, respectively, compared with US$176.4 per tonne and US$163.3 per tonne recorded in the previous quarter. However, in Maloti terms, the average prices of both white and yellow maize declined in the review quarter. The average spot price of white maize fell to M1577.3 per tonne from M1748.6 per tonne in the previous quarter, and that of yellow maize decreased to M1447.0 per tonne from M1618.3 per tonne recorded in the previous quarter.

Figure 4: Average Spot Prices of Maize

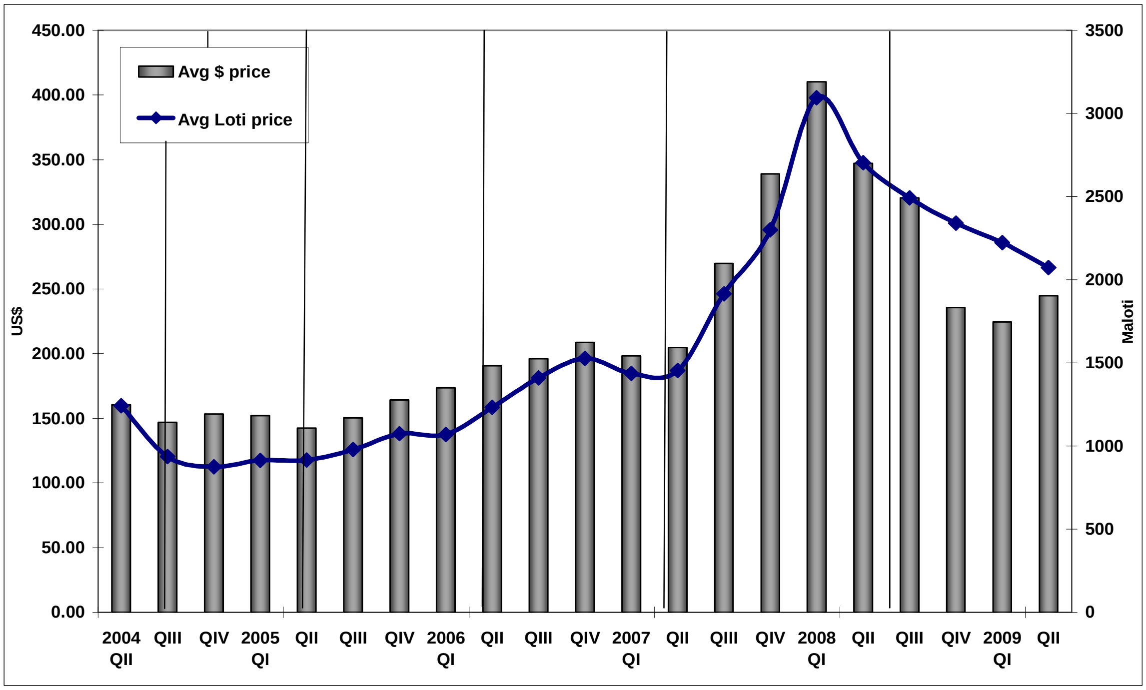


Source: South African Futures Exchange (SAFEX)

Wheat

During the quarter under review, the average spot price of wheat rose by 9.1 per cent to US$244.9 per tonne in contrast with a fall of 4.8 per cent recorded in the previous quarter. However, In Maloti terms, the average spot price of wheat fell by 6.8 per cent to M2073.6 per tonne in the review period from M2224.1 per tonne registered in the previous quarter.

Figure 5: Average Spot Prices of Wheat



Source: South African Futures Exchange (SAFEX)

III. Real Sector, Employment and Price Developments

Overview

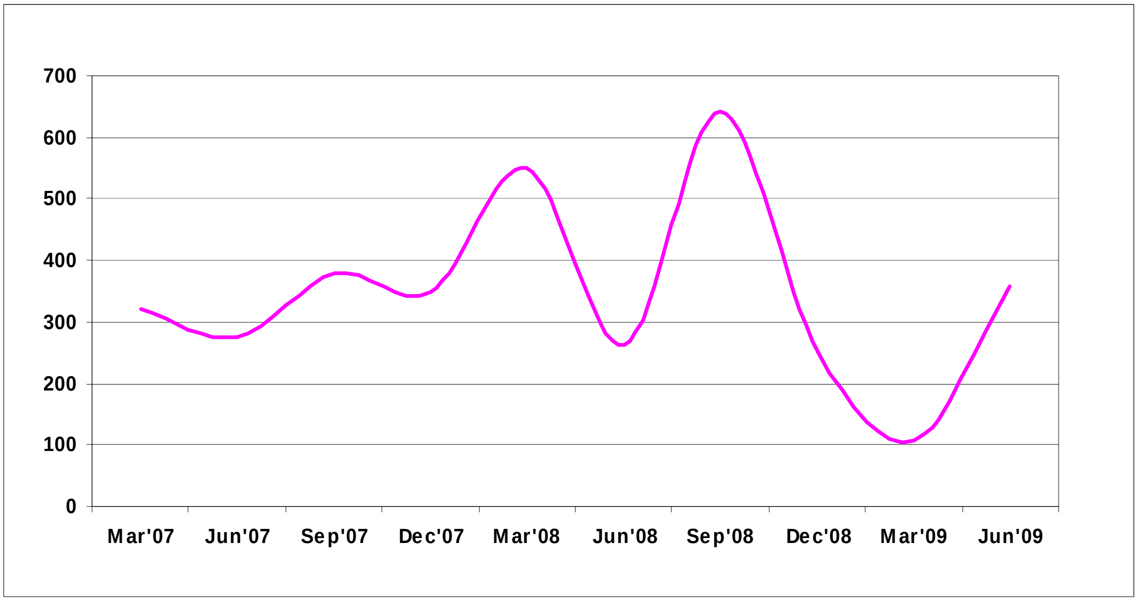
Overall, the real sector of the economy showed some mixed signs in the second quarter of 2009. The primary sector, measured by the mining sub-sector, recovered after a deceleration in the previous quarter due to substantial buoyancy in the mining sector. The secondary and tertiary sectors showed mixed signs, reflecting the effects of the continuing global economic slowdown.

Primary Sector Developments

The diamond production index improved substantially in the second quarter of 2009, rising by more than two hundred percentage points to 357.7 points compared with 106.2 points in the first quarter. The diamond mining sector bottomed out mainly due to recovery in rough diamond prices in the international markets. The prices of rough diamonds rose by 20.0 per cent during the second quarter. The diamond market recovered from the unprecedented decline of prices of rough diamonds in the last quarter of 2008. The recovery in the price of rough diamond may be indicative of the recovery in the global economy.

Figure 6: Diamond Production Index

(2005: QI=100)



Source: Department of Mines and Geology

Secondary Sector Developments

Electricity Consumption

Electricity consumption increased by 17.0 per cent, on a quarterly basis, in the second quarter of 2009, mainly due to a large increase in both 'domestic and commercial & industrial' categories. The general purpose category also increased but only marginally. The recovery in the sub-sector may be indicative of increased demand for electricity as winter approaches, and the impact of increased tariffs. The observed improvement may have no linkages to the current economic slowdown.

Table 2: Electricity Consumption

(Million Maloti)

	2008				2009			
	QIII		QIV		QI		QII	
	Kwh	Value	Kwh	value	Kwh	Value	Kwh	Value
General Purpose	14.58	10.55	19.50	12.82	20.24	13.70	21.84	15.63
Domestic	30.74	17.45	36.12	21.51	38.49	23.58	45.04	29.20
Commercial & Industrial	56.46	24.28	69.33	31.92	65.60	32.92	78.60	37.53
Total	101.78	52.48	124.96	66.25	124.34	69.19	145.48	82.37

Source: Lesotho Electricity Authority and Lesotho Electricity Company

Water Consumption

Water consumption increased by 11.9 per cent on a quarterly basses as compared with 5.6 per cent in the first quarter of 2009. On an annual basis, water consumption increased by 13.0 per cent. The overall increase is consistent with the industrial category which increased by 47.1 per cent and 37.2 per cent, on a quarterly and on annual bases, respectively. However, the rise in water consumption may reflect an increase in tariffs in the second quarter, does not necessarily indicate impact of the global economic slowdown which has negatively affected Lesotho's manufactured exports to the United States, the main trading partner.

Table 3 : Water Consumption

(Units in Million kilo-litres; value in Million Maloti)

		Domestic	Industrial	Other	Total
2008					
II	Units	0.95	1.46	0.62	3.03
	Value	4.38	8.15	3.77	16.30
	Units*		1.48		3.08
III	Units	0.87	1.46	0.55	2.88
	Value	5.67	8.67	3.77	17.53
	Units*		1.39		2.74
IV	Units	0.76	1.23	0.53	2.52
	Value	4.97	8.03	4.22	17.22
	Units*		1.11		2.27
2009					
I	Units	0.92	1.18	0.56	2.66
	Value	3.68	7.55	3.37	14.60
	Units*		1.38		3.11
II	Units	0.87	2.00	0.56	3.43
	Value	3.65	8.75	3.71	16.11
	Units*		2.03		3.48

Source: Water and Sewerage Authority

*denotes seasonally adjusted figures

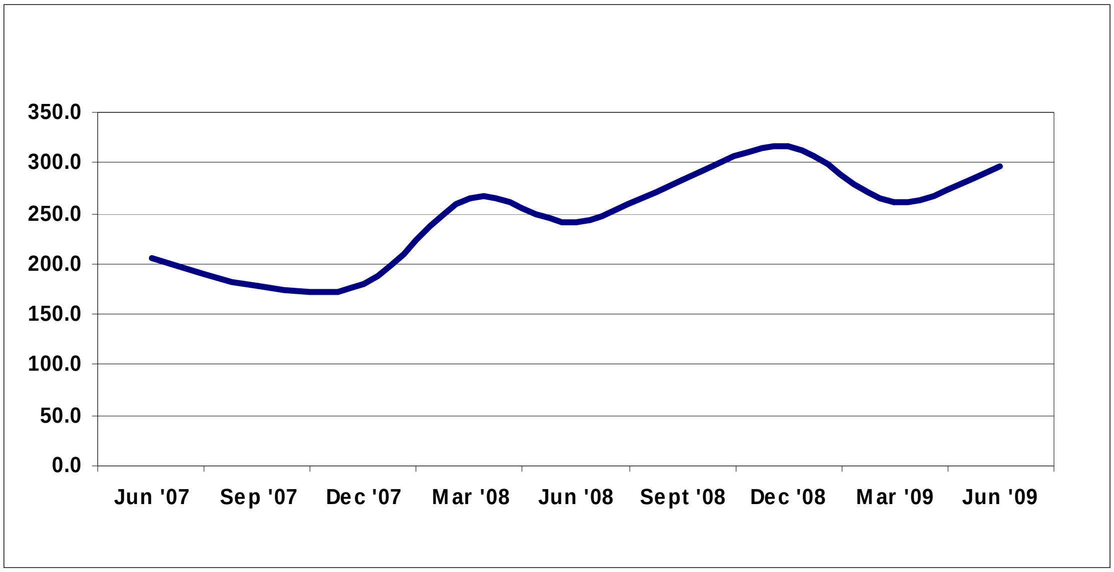
Tertiary Sector Developments

Sales Turnover

The value of sales turnover rose by 13.0 per cent during the quarter under review as compared with the decline of 17.5 per cent observed during the previous quarter. On an annual basis, the value of sales turnover increased by 22.1 per cent. The observed upsurge is still below the level recorded in December 2008. The increase in VAT collections largely reflects the impact of the income tax refunds plan implemented at the beginning of the second quarter 2009 and a general recovery of some sectors. The Government of Lesotho refunded the taxpayers about M100 million when the proposed tax cuts were implemented.

Figure 7: **Value of Sales Turnover**

(Million Maloti)



Source: Lesotho Revenue Authority

Telephone Statistics

The total number of telephone calls declined by 9.4 per cent in the second quarter of 2009 compared with 13.3 per cent decline in the first quarter. The decline on a quarterly basis could reflect the adverse impact of persistent global financial and economic crisis on trade. On an annual basis, the total number of calls declined by 62.0 per cent compared with 59.6 per cent in June 2008.

Table 4: Telephone Traffic Statistics

		SA Outgoing Calls	International Calls	Total Calls
2008				
II	No. of calls (millions)	4.76	0.2	4.96
	No. of calls*			5.6
	Total Duration (million minutes)	5.74	0.68	6.41
	Nominal Value (million maloti)	13.19	5.411	18.61
III	No. of calls (millions)	2.58	0.17	2.75
	No. of calls*			2.49
	Total Duration (million minutes)	4.15	0.57	4.72
	Nominal Value (million maloti)	9.54	4.49	14.03
IV	No. of calls (millions)	2.02	0.12	2.14
	No. of calls*			2.16
	Total Duration (million minutes)	3.41	0.39	3.8
	Nominal Value (million maloti)	7.85	2.69	10.54
2009				
I	No. of calls (millions)	2.09	0.12	2.21
	No. of calls*			2.25
		3.51	0.42	3.92
	Total Duration (million minutes)			
	Nominal Value (million maloti)	8.06	3.13	11.19
II	No. of calls (millions)	1.95	0.11	2.06
	No. of calls*			2.13
	Total Duration (million minutes)	3.39	0.36	3.75
	Nominal Value (million maloti)	7.79	2.57	10.36

Source: Tele-Com Lesotho and Vodacom Lesotho

* Adjusted for seasonality.

Investment Expenditure

Imported Motor Vehicles

The total number of imported motor vehicles increased by a 10.0 per cent in the second quarter of 2009 compared with a decline of 4.3 per cent in the previous quarter. On an annual basis, the number of imported motor vehicles increased by 9.1 per cent. The upsurge on a quarterly basis was mainly in the 'cars', 'buses' and 'trucks' categories. The increase in the truck category is line with preparations for construction of the major roads and the Metolong dam project which are expected to commence latter in the year.

Table 5: Motor Vehicle Imports+

(Value in Million Maloti)

		Cars	Vans	Truck	Buses	Tractors	M/ Cycles	Trailers	Total
2008									
II	Value	39.02	66.21	17.78	14.46	0.95	0.09	0.58	139.68
	Units*								787.90
	Units	373	404	46	46	6	2	8	885
III	Value	37.96	138.49	18.34	25.57	1.57	0.11	1.065	223.11
	Units*								1220.46
	Units	455	736	34	75	17	4	20	1341
IV	Value	27.44	56.16	18.92	15.60	0.92	1.44	1.16	243.30
	Units*								816.70
	Units	269	314	32	68	13	16	9	729
2009									
I	Value	36.8	59.16	20.54	10.72	1.37	0.06	2.80	131.45
	Units*								781.71
	Units	385	340	34	46	5	3	18	831
II	Value	28.96	66.18	65.95	12.48	0.15	0.09	2.40	176.21
	Units*								859.80
	Units	317	354	84	42	4	1	11	813

Source: Avis Fleet Services Lesotho and Customs Department

*denotes seasonally adjusted figures.
+Includes imports of second hand cars.

Employment Developments

Employment by LNDC-Assisted companies declined by 1.0 per cent on a quarterly basis to 44235 employees compared with 5.4 per cent in the first quarter. On an annual basis, the total number of people employed by the sub-sector declined by 2.9 per cent. The decline in employment by LNDC-assisted companies heightened as manufactured exports to the US economy dwindled due to the persistent economic recession. The contraction in the US's economy moderated substantially in the second quarter as growth declined by only 1.0 per cent on a quarterly basis.

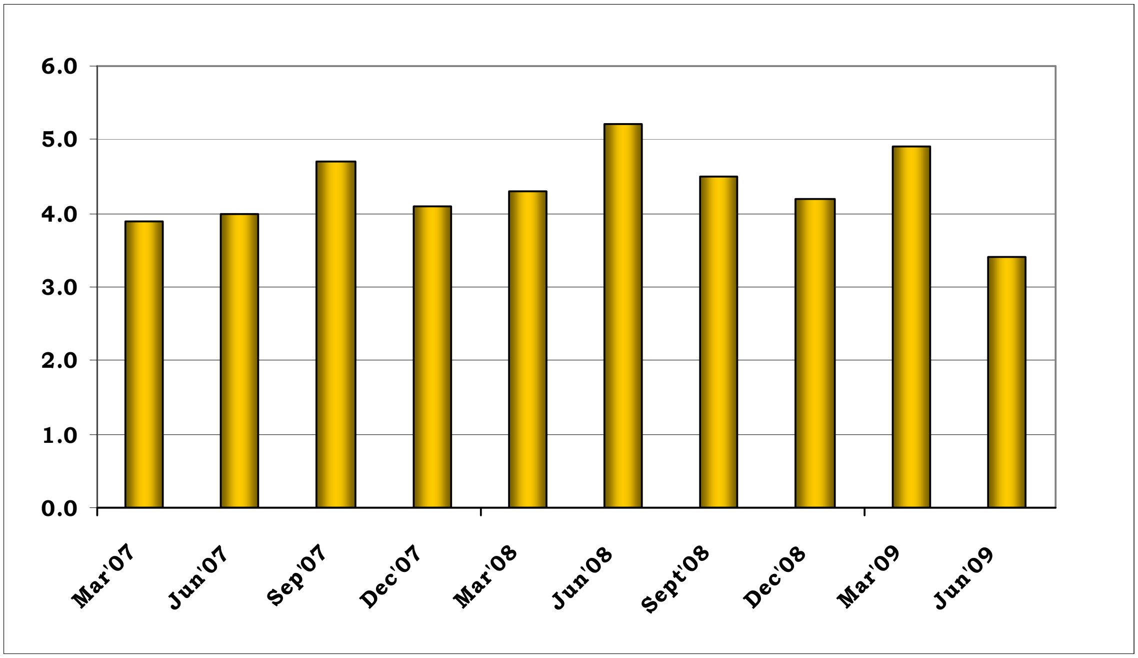
Table 6: Employment Trend of LNDC-Assisted Companies

Period	QI	QII	QIII	QIV
2009	44665	44235		
2008	45650	45549	48621	47204
2007	47731	49392	46772	46633
2006	40459	45140	46189	47462
2005	41985	40111	39597	43131
2004	52532	53525	52922	50607
2003	43525	46960	49862	51187
2002	36906	39255	42011	43773

Source: Lesotho National Development Corporation

Figure 8: **Government Employment**

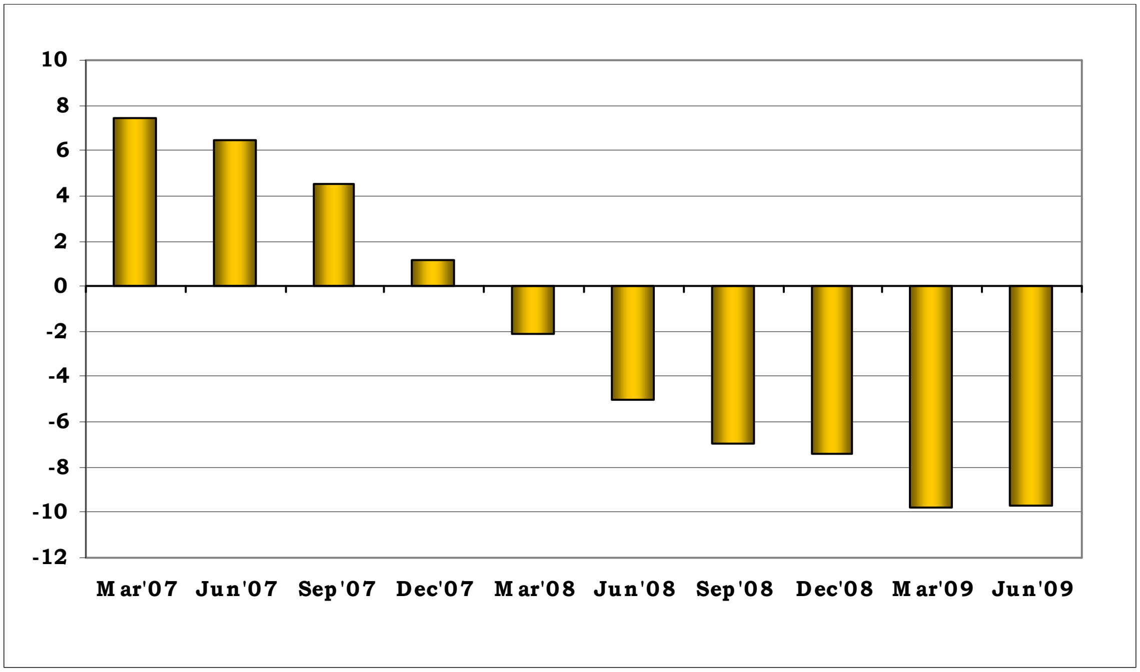
(Annual Percentage Change)



Employment by the government rose marginally by 0.8 per cent in the second quarter of 2009 compared with 0.9 percent in the first quarter. On an annual basis, public sector employment increased at a slower pace to 3.4 per cent in the first quarter as compared to 4.9 per cent in the first quarter of 2009. The major quarterly contribution to the improved performance of employment by the government sector was largely due to teachers' category, which rose by 1.7 per cent. The increase in the "teacher category" continues to reflect the staffing of newly build schools across the country.

Figure 9: Migrant Mineworkers Employment

(Annual Percentage Change)



The number of Basotho migrant mineworkers declined by 2.8 per cent and 9.7 per cent on a quarterly and annual basis, respectively. The mining sector in South Africa, the largest employer of Basotho, has been under considerable pressure since the last quarter of 2008. Low commodity prices and weak global demand have squeezed the profitability of most mining companies resulting in suspension of operations and shutdown of some mines. This has serious implications for the flow of remittances into Lesotho's economy, rural household consumption as well as employment status of the country. However, the increase in the price of gold in the international markets, during the quarter under review, bodes well for employment prospects. It is noteworthy, however, that the price of gold declined in Rand terms.

Price Developments

Inflationary developments in Lesotho are trending downwards from the record high of 12.1 per cent in September, 2008. The rate of inflation as measured by changes in Consumer Price Index (CPI) registered 8.1 per cent for the quarter ending June 2009. At this point, the rate of inflation is lower than the rate recorded in the first quarter of this year by 2.0 percentage points. The decline is mainly attributable to the following CPI categories: "food and non-alcoholic beverages" at 11.1 per cent, down by 250 basis points from the previous quarter, "housing, electricity, gas & other fuels" at 0.1 per cent as compared with 10.5 per cent in the first quarter; and "transport" at 3.9 per cent compared with 8.8 per cent in the quarter ending March 2009. The South African inflation rate which recorded 6.9 per cent in the second quarter of 2008 is lower than that of Lesotho and this trend has been persistent since November 2008.

Table 7: Inflation Rate

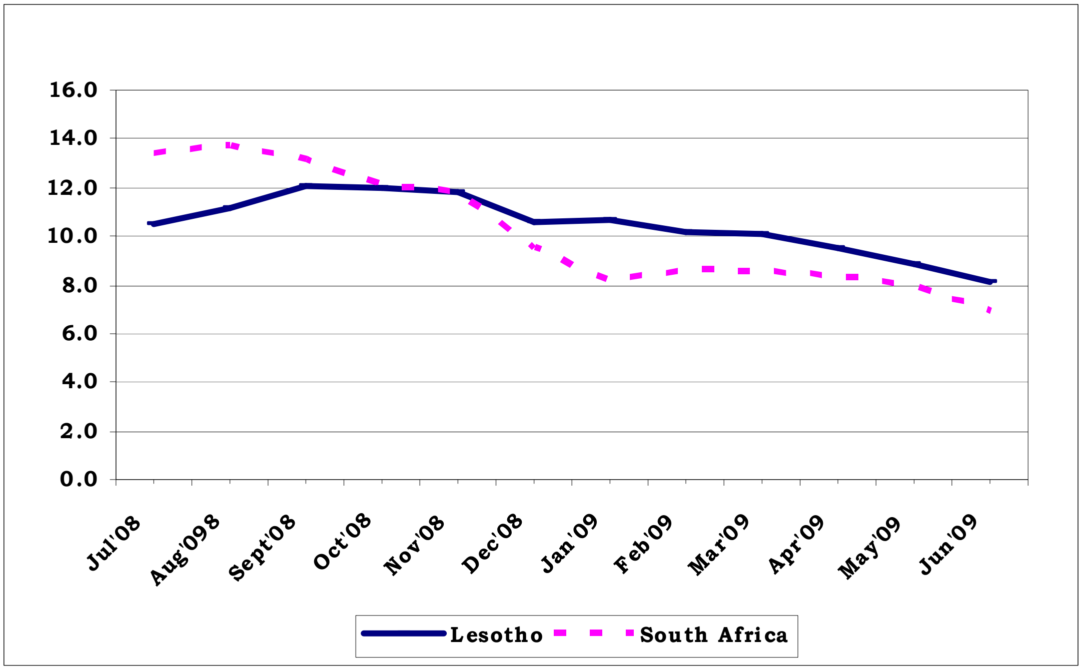
(Annualised Percentage Change: April 1997=100)

	Weight	2009				
		Feb	Mar	Apr	May	Jun
All items	100.0	10.2	10.1	9.5	8.9	8.1
Food and non-alcoholic beverages	39.8	13.5	13.6	13.0	12.1	11.1
Alcoholic beverages & Tobacco	6.4	5.0	5.6	6.2	6.5	6.1
Clothing & footwear	15.6	6.1	6.1	6.1	6.0	6.1
Housing, electricity gas & other fuels	3.7	12.3	10.5	6.7	3.5	0.1
Furniture, households equipment & routine maintenance of house	17.0	7.2	7.0	6.7	7.4	6.7
Health	1.4	-0.1	1.4	1.6	1.5	1.6
Transport	7.8	10.3	8.8	6.7	4.4	3.9
Communication	0.1	0.0	0.0	0.0	0.0	0.0
Leisure, entertainment & Culture	1.2	6.8	7.6	8.0	7.3	7.3
Education	3.2	2.8	2.8	2.9	3.0	3.0
Restaurant & Hotels	0.4	10.6	9.1	7.9	7.6	8.0
Miscellaneous goods & services	3.2	7.5	7.5	7.1	7.2	6.8

Source: Bureau of Statistics, Lesotho

Figure 10: Annual Inflation Rate for Urban Households

(Percent)



IV. Monetary and Financial Developments

Determinants of Money Supply

Table 7 below shows that the broad money aggregate declined by M54.0 million in the quarter ended June 2009. The decline was driven by a 19.1 per cent fall in net claims on government, which mainly reflected a strong build up of government deposits held with the banking sector. Net foreign assets also declined during the period under review, but the fall indicated the effect of currency appreciation as evidenced by the change in 'net other items'. Thus the effect on money supply of the strong fall in net claim on government was moderated by the underlying increase in net foreign assets as well as a 7.5 per cent increase in credit to the private sector. On annual basis, money supply grew by 14.3 per cent in June 2009, following a 34.8 per cent rise in the first quarter of 2009.

Figure 11: **Overview of Recent Monetary Developments**

(Million Maloti: End of Period)

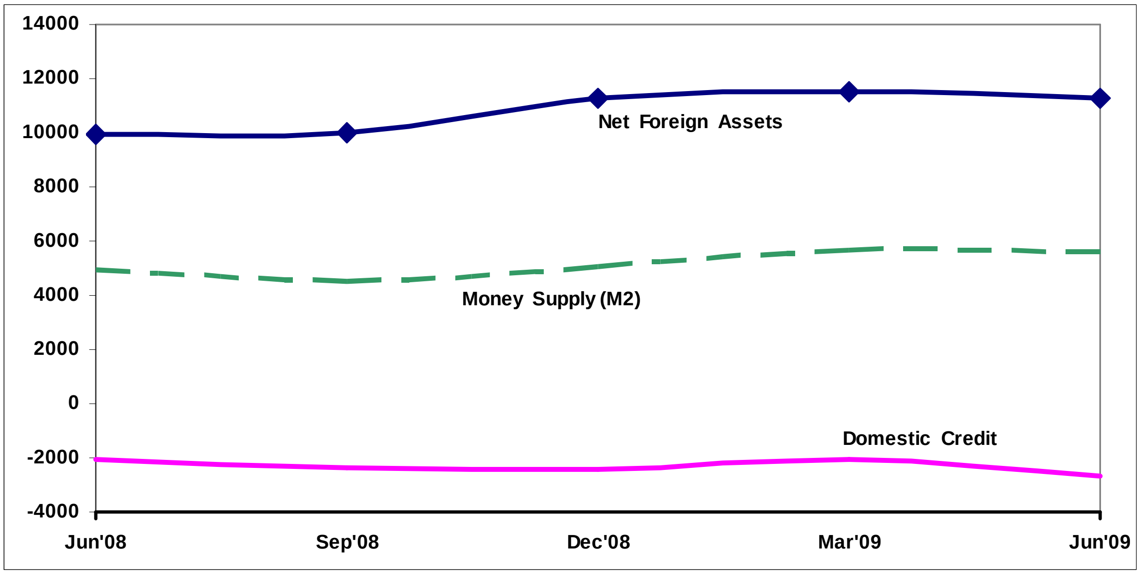


Table 8: **Determinants of Money Supply**

(Million Maloti: Changes)

Determinants	2008			2009	
	Jun	Sep	Dec	Mar	Jun
Net foreign assets	675.2	55.0	1296.9	227.1	-218.3
Domestic credit	-119.2	-325.5	-65.4	378.4	-581.3
Net Claims on Govt	-250.4	-388.0	-38.5	328.0	-693.0
Statutory bodies	-2.4	-3.5	-0.4	-3.8	-2.4
Private sector	133.7	66.0	-26.5	54.6	114.1
Other items, net	-146.6	102.6	715.9	-1.5	-745.8
Money Supply (M2)	702.7	-372.9	515.6	607.0	-54.8

Components of Money Supply

The fall in money supply reflected a decline in narrow money, which is made up of currency in circulation and demand deposits held by the banking system. Narrow money declined by 1.0 per cent in June 2009, compared with a rise of 12.1 per cent in the quarter to March 2009. The decline in narrow money in the second quarter of 2009 was influenced by a decline in currency with public and demand deposits held with commercial banks of 1.5 per cent and 4.1 per cent, respectively.

Quasi money rose in the quarter under review, recording 8.6 per cent growth from an increase of 8.0 per cent in March 2009. Both components of quasi money grew, with savings deposits expanding by 1.0 per cent and time deposits by 15.5 per cent.

Table 9: Money Supply

(Million Maloti; End of Period)

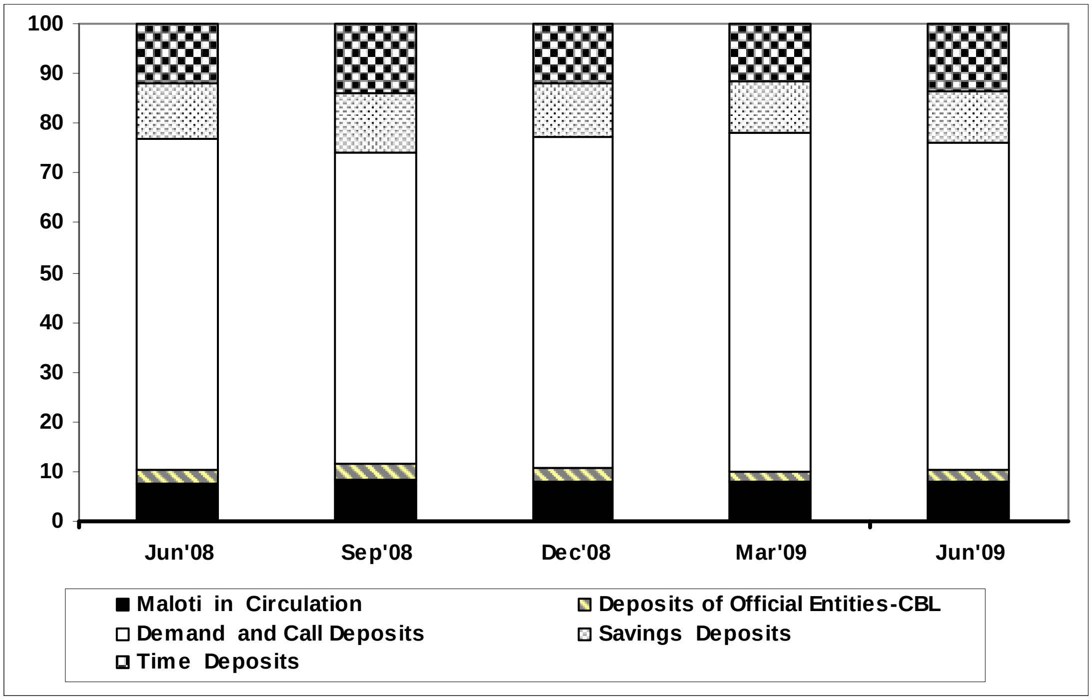
	2008			2009	
	Jun	Sep	Dec	Mar	Jun
Money Supply (M2)	4879.3	4506.5	5022.0	5629.1	5574.8
Money (M1)	3757.8	3346.2	3879.4	4394.8	4234.5
Maloti with public	366.3	378.0	406.6	441.3	434.8
Demand deposits[1]	3248.6	28017.9	3346.1	3823.9	36668
Deposits of official Entities with CBL	142.9	150.3	126.7	129.8	133.8
Quasi-Money	1121.5	1160.3	1142.7	1234.3	1340.3
Savings deposits	538.5	540.1	545.4	587.3	593.1
Time deposits	583.0	620.1	597.2	647.0	747.2

[1] includes call deposits
NB: Totals may not tally due to rounding off

Figure 12 indicates that the share of demand and call deposits of commercial banks in money supply declined from 67.9 per cent in March 2009 to 65.8 per cent in June 2009. This implies that the decline in demand and call deposits was larger than the fall in money supply. However, these transferable deposits continue to form the largest component of money supply.

Figure 12: Components of Money Supply

(Percentage shares)



Commercial Banks' Deposits by Holder

Total deposits of the private sector and statutory bodies held with commercial banks declined by 1.0 per cent in the three month ended June 2009. The fall reflected decreases in deposit holdings of both sectors. Private sector deposits fell by 0.8 per cent, as a result of a 3.6 per cent decline in its demand deposits. Saving and time deposits of the private sector rose by 1.0 and 15.5 per cent, moderating the fall in demand deposits. The share of private sector deposits in total deposits improved to 98.0 in June 2009 from 97.8 per cent in March 2009. Deposits of statutory bodies continued to form a small portion of total deposits in the quarter to June 2009, falling by 11.8 per cent during the period.

Table 10: Commercial Banks' Deposits by Holder

(Million Maloti: End of Period)

	2008			2009	
	Jun	**Sep**	**Dec**	**Mar**	**Jun**
Total Deposits	4359.1	3665.9	4477.3	5029.3	4977.7
Private Sector	3596.0	3243.4	4133.8	4918.4	4879.9
Demand deposits	2602.6	2220.0	3128.2	3685.6	3541.4
Savings deposits	538.4	540.0	545.3	587.2	593.0
Time deposits	455.0	583.4	460.3	645.5	745.5
Statutory Bodies	763.2	722.5	343.5	110.9	97.8

NB: Totals may not tally due to rounding off

Liquidity of Commercial Banks

The level of liquidity in the banking system declined in the review period. The liquidity ratio, which is measured by liquid assets (listed in Table 11) over deposit liabilities and placements with other banks, fell to 77.9 per cent in June 2009 from 82.5 per cent in March. The decline was driven by a fall in liquid assets which overshadowed the effect of a decline in liabilities. Total liquid assets fell by 9.5 per cent in the quarter to June 2009, due mainly to a decline in balances in foreign banks and banks in Lesotho, as well as a decrease in clearing balances with the Central Bank.

Table 11: Components of Commercial Banks' Liquidity

(Million Maloti: End of Period)

COMPONENT	2008			2009	
	Jun	Sep	Dec	Mar	Jun
Maloti Notes and Coins	46.3	60.8	74.6	59.8	62.7
Rand Notes and Coins	27.3	37.4	48.7	37.0	38.6
Balances due from Lesotho Banks	869.1	842.2	775.4	994.9	875.1
Balances due from Foreign Banks	2318.0	1784.3	2660.3	3286.1	2954.0
Clearing Balances with CBL	105.3	278.0	91.4	233.9	196.8
CBL Bills	0.0	0.0	0.0	0.0	0.0
Lesotho Government Securities	481.8	498.4	426.2	480.2	479.7

The credit to deposit ratio measures the extent to which commercial banks intermediate between deficit and surplus entities in the economy through the issue of loans using deposits mobilised from the private sector. The ratio increased to 33.0 per cent during the quarter under review, from 30.5 per cent in the first quarter of 2009. The increase was influenced by a 7.2 per cent increase in credit between the two quarters, and a slight fall in deposits.

Table 12: Consolidated Balance Sheet of Commercial Banks

(Million Maloti: End of Period)

	2008			2009	
	Jun	Sep	Dec	Mar	Jun
Net foreign assets	2905.0	2260.0	3034.1	3321.6	3133.1
Deposits with CBL	105.3	278.0	91.4	233.9	196.8
Credit:	2001.3	2057.9	1934.8	2040.4	2172.6
Statutory Bodies	47.7	44.3	43.8	40.0	37.6
Private Sector	1404.0	1466.5	1437.0	1493.2	1605.4
Government securities	559.5	574.1	476.0	530.2	529.6
Assets/Liabilities	4896.9	4490.3	4855.9	5466.4	5502.5
Private sector deposits[2]	4359.1	3665.9	4477.3	5029.3	4977.7
Government deposits	169.7	167.7	194.1	37.8	33.8
Capital, reserves & other, net	502.0	186.2	320.9	542.3	491.0

[2] includes statutory bodies' deposits.

Demand for Money

Domestic Credit

Total loans to the private sector and statutory bodies rose by 7.2 per cent on quarterly basis in June 2009, following a 3.5 per cent rise in March 2009. The increase reflected a rise in credit to the private sector of 7.5 per cent in the review period. Credit to statutory bodies declined modestly during the period. On annual basis, total credit rose by 13.4 per cent in June 2009.

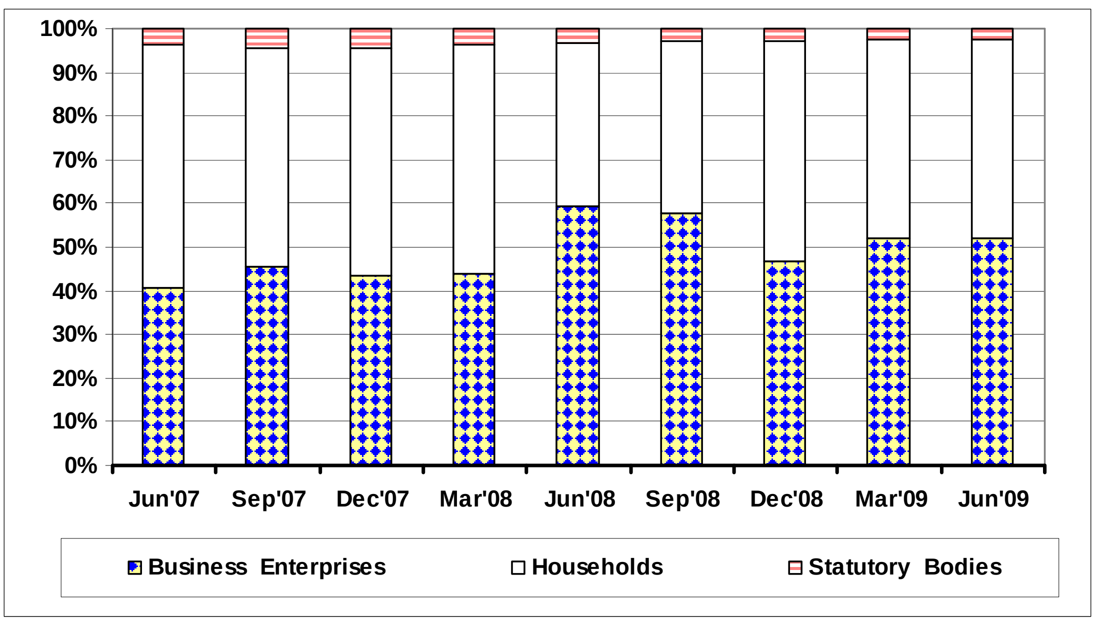
Table 13: Domestic Credit Excluding Net Claims on Government

(Million Maloti: End of Period)

	2008			2009	
	Jun	Sep	Dec	Mar	Jun
Domestic Credit	1448.8	1510.7	1480.9	1533.2	1643.0
Credit to private sector	1401.0	1466.5	1437.0	1493.2	1605.4
Business enterprises	871.5	874.5	693.3	797.7	852.2
Households	529.2	592.0	743.8	695.5	753.2
Credit to statutory bodies	47.7	44.2	43.8	40.0	37.6

Figure 13: Distribution of Credit by Holder

(Percentage shares)



Credit to Private Sector

The increase in private sector credit was driven by an improvement in credit to both business entities and households. Credit extended to business entities increased by 6.8 per cent on a quarterly basis in June 2009, after a rise of 15.1 per cent in March. Households saw an improvement in credit of 8.3 per cent in the second quarter of 2009, compared with a decline of 6.5 per cent in the first quarter. The rise in credit to the private sector could be partly influenced by falling lending rates. The rise in credit is appreciable given the prevailing slowdown in global economic activity, which had an adverse effect on domestic sectors such as manufacturing. However, a rise in non-performing loans and provisioning of bad debts has been observed in the review period. This indicated that an increased number of borrowers were struggling to service their loans due possibly to the weak economic environment. It implies that commercial banks could reduce credit extension in the coming quarters if the situation does not improve.

Credit to Statutory Bodies

Credit to statutory bodies remained on a downward trend for more than four quarters in the review period. It fell by 6.1 per cent on a quarterly basis in June 2009, from a decline of 8.6 per cent at the end of the quarter to March 2009. On annual basis, credit to this sub-sector fell by 21.2 per cent in June 2009, following a decline of 20.2 per cent at the end of March 2009.

Sectoral Distribution of Credit

The construction sector continued to account for the largest share of total credit to the business enterprises and statutory bodies at 26.3 per cent, after declining slightly in the quarter to June 2009. However, the shares of some sectors in total credit changed significantly in the second quarter of 2009. Credit to the category ‘transport, storage and communication’ increased by 88.1 per cent, increasing the group’s share to total credit from 12.3 per cent in March 2009 to 22.7 per cent in June 2009. The rise in credit to this group mainly reflected new loans to telecommunications companies. The category of nonbank financial institutions and real estate saw a 44.5 per cent decline in credit, but continued to account for a relatively large share of total credit at 11.9 per cent.

The group ‘community, social and personal services’ accounted for the fourth largest share of credit and Manufacturing took the fifth largest share, though they both experienced significant decreases in credit in the quarter to June 2009. Credit to the manufacturing sector fell by 24.1 per cent during the quarter due to partial payment of loans contracted to ease the adverse effects of the global credit crunch on textile exporters. Sectors that traditionally hold smaller shares of total credit, such as ‘electricity, gas and water’ and agriculture, showed strong growths in credit. The latter saw a seven fold increase in credit as a result of block farming related loans contracted in preparation for the planting season. Mining also increased its credit by 34.4 per cent in the second quarter, mainly due to credit to companies leasing machinery to the mining sector.

Table 14: Sectoral Distribution of Credit to Enterprises+

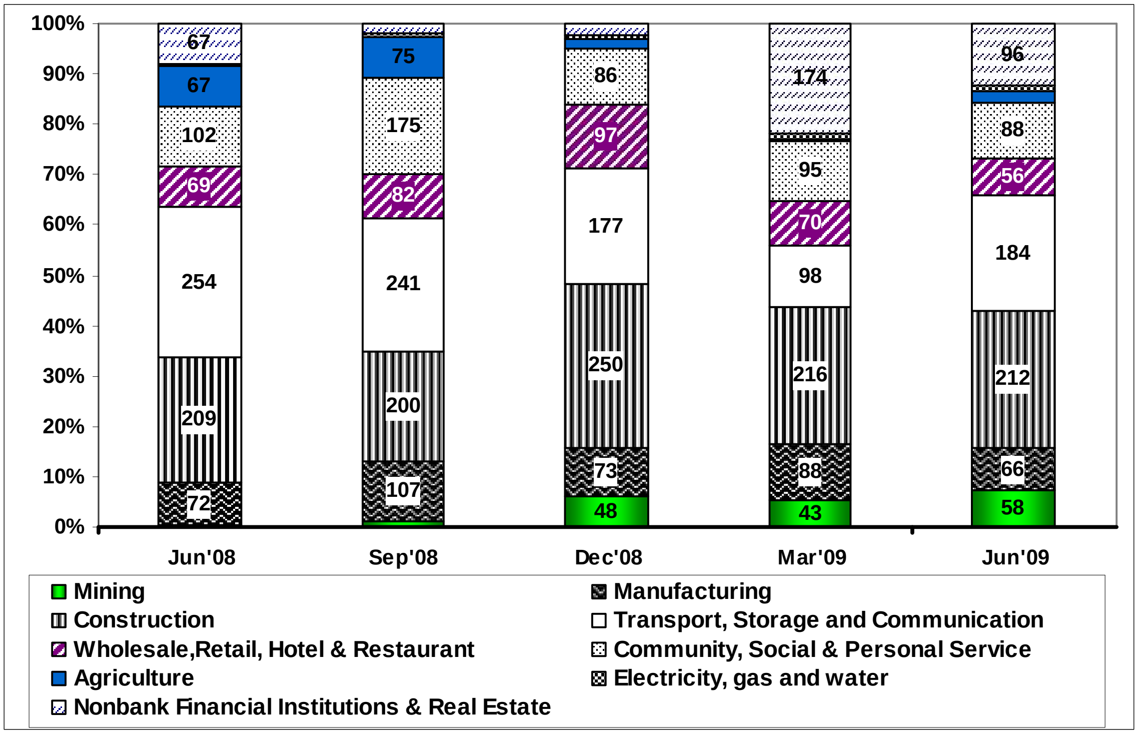
(Million Maloti: End of period)

SECTOR	2008			2009	
	Jun	**Sep**	**Dec**	**Mar**	**Jun**
Agriculture	67.0	74.8	12.6	2.2	15.5
Mining	3.7	11.3	47.9	43.0	57.8
Manufacturing	72.2	92.2	72.5	87.5	66.4
Construction	209.8	199.3	250.1	215.5	212.9
Transport, storage and communication	253.8	204.3	176.5	97.8	184.0
Electricity, gas and water	6.2	7.6	10.0	10.5	32.9
Wholesale, retail, hotel and restaurant	69.3	67.1	97.3	69.8	56.3
Non-bank financial institutions and real estate	67.2	15.0	16.4	173.7	96.4
Community, social and personal services.	101.8	163.3	86.1	94.5	88.3
All sectors	851.0	834.9	769.5	795.0	810.2

+excludes non-performing loans

Figure 14: Commercial Banks' Credit to Business Enterprises

(Percentage shares)



Net Claims on Government

Net claims on government by the banking system fell significantly in the three months to June 2009, driven by a 14.4 per cent build-up in government deposits with the Central Bank. The period under review is the first quarter of the fiscal year and is usually marked by slowdown in government expenditure. However, the 19.1 per cent fall in total net claims on government implies that this was more than a seasonal shock. It could be attributed to a reduction in government expenditure caused by technical problems encountered during implementation of the new government financial management system. Claims on government by both the Central Bank and commercial banks declined during the second quarter of 2009, further worsening the decline in net claims.

Table 15: Banking System's Net Claims on Government

(Million Maloti: End of Period)

Holder	2008			2009	
	Jun	Sep	Dec	Mar	Jun
Commercial banks	389.8	406.3	281.9	492.4	495.7
Claims on Government	559.5	574.1	475.9	530.2	529.6
o/w MP T Bills[3]	455.2	468.2	454.0	461.8	490.5
Less Government deposits	169.7	167.7	194.1	37.8	33.8
CBL	-3914.0	-4318.5	-4232.6	-4115.0	-4811.4
Claims on Government[4]	311.7	316.6	529.9	345.5	292.8
Less Government deposits	4115.7	4635.1	4762.5	4460.5	5104.2
o/w blocked account	509.5	535.0	424.8	475.7	506.1
Total Net Claims	-3531.7	-3939.2	-3972.7	-3645.7	-4315.7

[3] 'MP T Bills' means monetary policy treasury bills.
[4] IMF loans on-lent to the GOL.

Net Foreign Assets

Total net foreign assets declined by 1.9 per cent in the second quarter of 2009, following an increase of 2.0 per cent in the preceding quarter. Holdings of external reserves by both the Central Bank and commercial banks declined. Net foreign assets of the Central Bank fell by 0.4 per cent while commercial banks saw a 5.7 per cent decline in the quarter to June 2009. The decline in net foreign assets mainly reflected the effect of currency revaluation losses. This was caused by appreciation of the domestic currency against currencies of major economies such as the US and the Euro area, in which the bulk of the country's external reserves are held. The country's balance of payments statement shows that underlying foreign exchange flows and external trade led to a mild deterioration of official reserves between the first and second quarters of 2009.

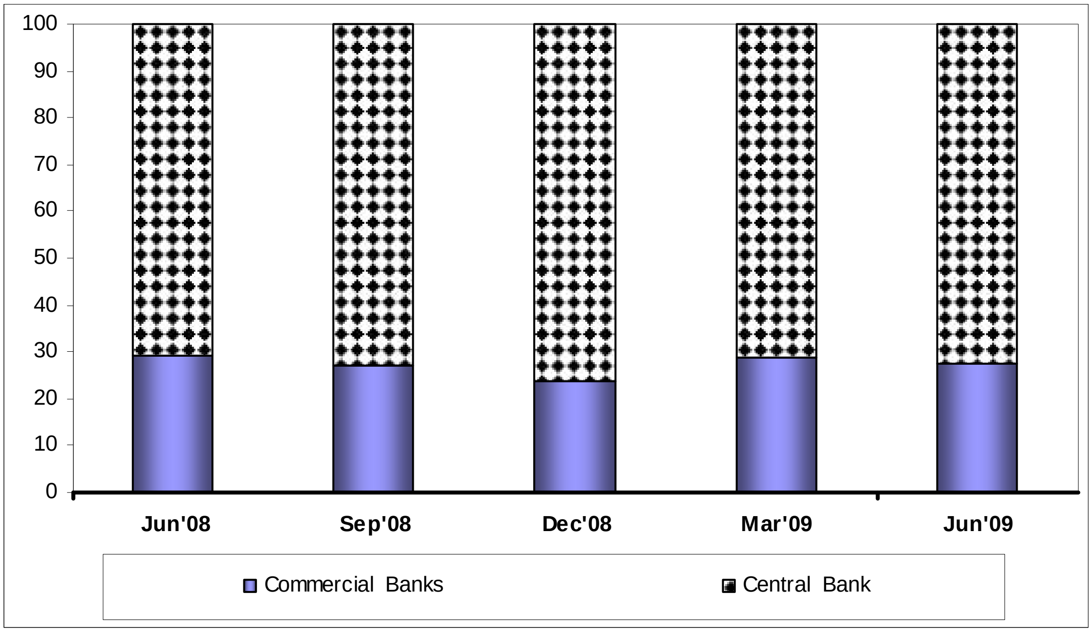
Table 16: Banking System's Foreign Assets and Liabilities

(Million Maloti: End of Period)

Holder	2008			2009	
	Jun	Sep	Dec	Mar	Jun
A. Commercial Banks	2905.0	2260.0	3034.1	3321.6	3133.1
Foreign Assets	2970.9	2305.5	3126.7	3453.3	3206.2
Foreign Liabilities	-65.9	-45.5	-92.7	-131.7	-73.1
B. Central Bank of Lesotho	7028.8	7728.7	8251.6	8191.2	8160.8
Foreign Assets	7725.8	8430.4	8989.2	8921.9	8852.0
Foreign Liabilities	-697.0	-701.7	-737.7	-730.8	-691.1
Net Total	9933.7	9988.7	11285.6	11512.8	11294.0

Figure 15: Net Foreign Assets

(Percentage shares)



Money Market Developments

Overview

The total amount of treasury bills issued by the Central Bank increased by 18.1 per cent in the second quarter of 2009, from a rise of 3.1 per cent in the preceding quarter. All Treasury bills issued during the period were for monetary policy purposes, as the Government of Lesotho does not issue fiscal securities yet. Treasury bills holdings of the two major categories of investors, bank and non-bank sectors increased during the quarter under review. The banking system increased its holding of short-term government securities by 10.3 per cent, while the non-bank sector raised Treasury bills holdings by a larger 91.9 per cent. The bulk of the increase in Treasury bills holdings of non-bank investors emanated from non-bank financial institutions such as insurance companies. This group increased their holding of securities almost two-fold during the review period, improving their share of Treasury bills issued from 1.3 per cent in March 2009 to 22.4 per cent in June 2009. The yield on the 91-day Treasury bills declined slightly to 7.05 in the second quarter of 2009.

Table 17: Holding of Treasury Bills

(Face Value; Million Maloti)

Type of Holder	2008			2009	
	Jun	Sep	Dec	Mar	Jun
Total	533.2	537.7	544.6	561.4	663.2
Banking System	455.5	468.5	485.8	507.4	559.5
Central Bank	0.3	0.3	0.3	0.3	0.3
Commercial Banks	455.2	468.2	485.5	507.1	559.2
Non-Bank Sector	77.7	69.2	58.8	54.0	103.6
NBFIs	0.3	0.3	0.3	7.3	48.4
Others	77.4	68.9	57.9	46.7	55.2
Memorandum Item					
Average Yield (per cent)	10.16	11.91	10.66	9.92	7.05

Money Market and Short-term Interest Rates

Interest rates continued on a downward trend in the quarter to June 2009, influenced by easing inflationary pressures and concerns on weakening economic activity in the region and around the world. South African Reserve Bank (SARB) reduced the repurchase rate , prompting other interest rates in the CMA region to fall.

The prime lending rate in Lesotho dropped by 233 basis points in the review period, which was higher than the 208 basis points decline in the quarter to March 2009. The decline in the prime rate during the second quarter of 2009 was higher than the drop in the South Africa prime rate by 33 basis points. Thus the margin between the two prime rates narrowed from 150 basis points to 117 basis points in the three months to June 2009. Compared to June 2008 however, the margin between the Lesotho's and South Africa's prime rates rose by 42 basis points. Deposit rate fell across the broad spectrum of instruments offered by domestic commercial banks. As Table 18 below indicates, the average call deposit rate experienced the largest quarter-to-quarter fall at 300 basis points while the one-year time deposits rate fell by only 153 basis points. With the exception of the savings rate, the decline in all deposit rates was larger in the second quarter than in the first quarter of 2009.

Table 18: Major Money Market Interest Rates

(Percent: End of Period)

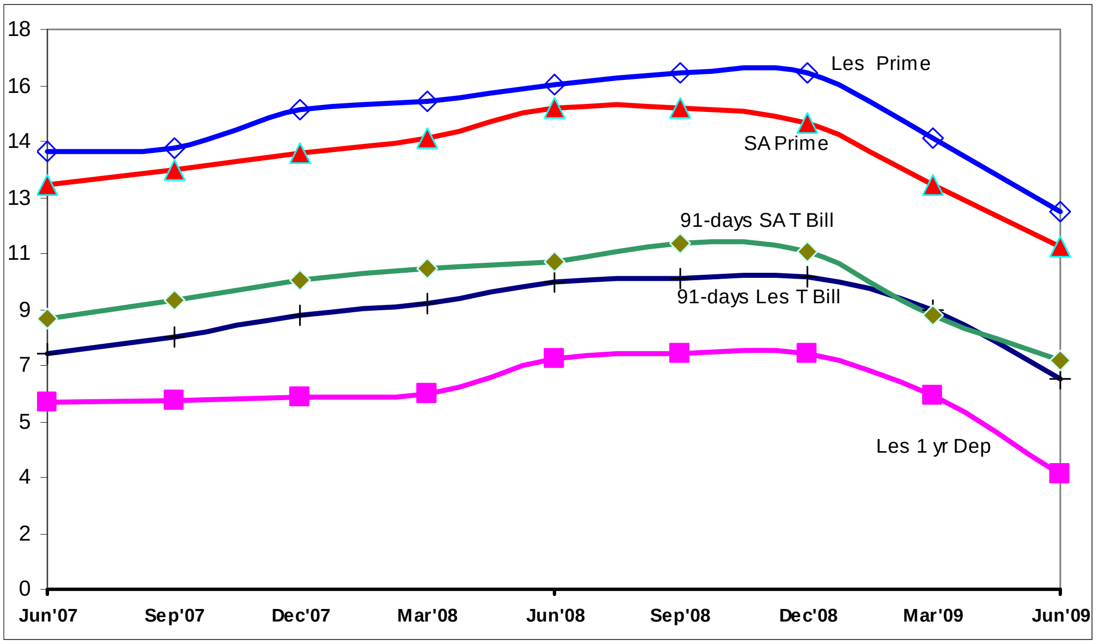
Interest Rates by Type	2008			2009	
	Jun	Sep	Dec	Mar	Jun
Central Bank					
T Bill Rate – 91 Days	9.91	10.01	10.05	9.00	6.76
Lombard Rate	13.81	14.01	14.05	13.00	10.76
Commercial Banks[5]					
Call	5.02	6.75	6.75	4.75	1.75
Time:					
31 days	5.41	5.54	5.54	3.96	1.65
88 days	6.09	6.22	6.22	4.64	2.20
6 months	6.52	6.60	6.60	5.02	2.63
1 year	7.42	7.57	7.57	6.23	3.69
Savings	5.04	5.04	5.48	3.64	2.11
Prime	16.25	16.58	16.58	14.50	12.17
South Africa*					
Repo	12.00	12.00	11.50	9.50	7.50
T Bill Rate – 91 Days	10.55	11.11	10.84	8.82	7.38
Marginal Lending Rate	17.00	17.00	16.50	14.50	12.50
Prime	15.50	15.50	15.00	13.00	11.0

* Figures for South Africa were obtained from the SARB

[5] Average rates by commercial banks

Treasury bill rates also declined in the second quarter of 2009. The 91-day Treasury bill rate decreased by 224 basis points, on quarterly basis, in June 2009, while its South African counterpart fell by 144 basis points during the same period. This resulted in the Lesotho's rate falling below that of South Africa, with a margin of 62 basis points between the two rates (see Figure 16).

Figure 16: Short-Term Interest Rates
(Percent Per Annum)



V. Government Finance

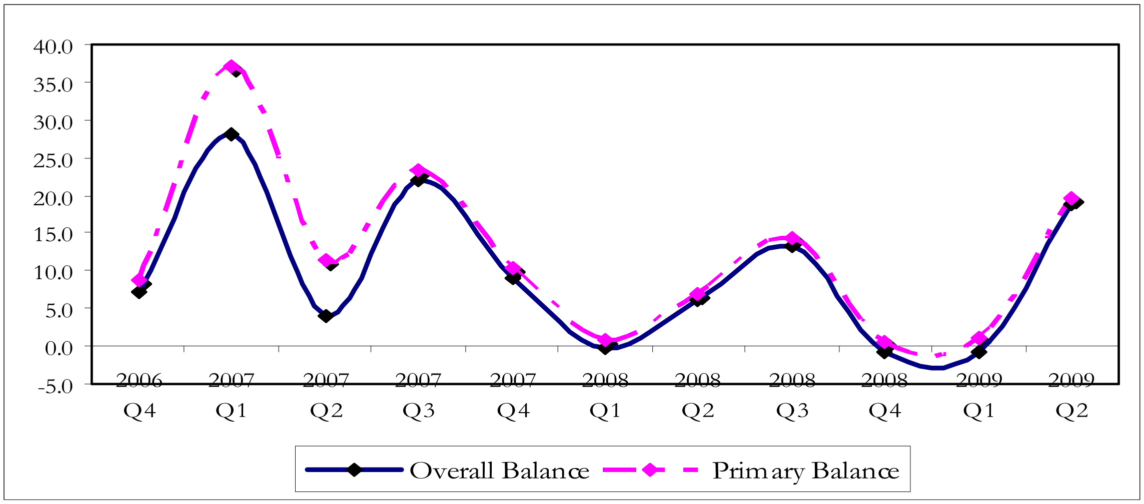
Summary of Budget Outturn

Preliminary estimates on government budgetary operations indicate a surplus during the period under review. The surplus equivalent to 18.8 per cent of GDP was mainly attributed to a plunge in recurrent expenditure associated with the capacity constraints which were experienced during implementation of the Government's financial management system, IFMIS. The surplus recorded in the review quarter followed a 10.0 per cent deficit realised in the first quarter. Total revenue and grants were also estimated to have contracted by 7.1 per cent. As figure 17 below shows, the primary balance[2] was slightly higher than the overall balance.

Government expenditure and net lending dropped by 42.2 per cent over the same period. As a share of total expenditure, recurrent expenditure stood at 72.0 per cent, compared with 82.4 per cent observed in the previous period. Capital expenditure constituted 27.7 per cent of total expenditure.

[2] Primary balance is a good indicator of budgetary operations since it excludes interest costs on public debt.

Figure 17: Primary Balance versus Overall Balance



Revenue

Total receipts, including grants, fell by 7.1 per cent during the review period. The drop was largely driven by a fall in income tax (specifically personal income tax). Although there was an improvement in the "other tax components", the net effect on tax revenue was still negative given the minimal contribution of these taxes to overall tax receipts. Southern African Customs Union (SACU) revenue continues to comprise a greater percentage of total receipts at 60.1 per cent. Therefore, any threats to SACU revenue would have adverse effects on overall revenue. The share of income tax and value added tax (VAT) as a proportion of total receipts was 19.3 per cent and 13.1 per cent, respectively.

Table 19: Government Revenue

(Million Maloti)

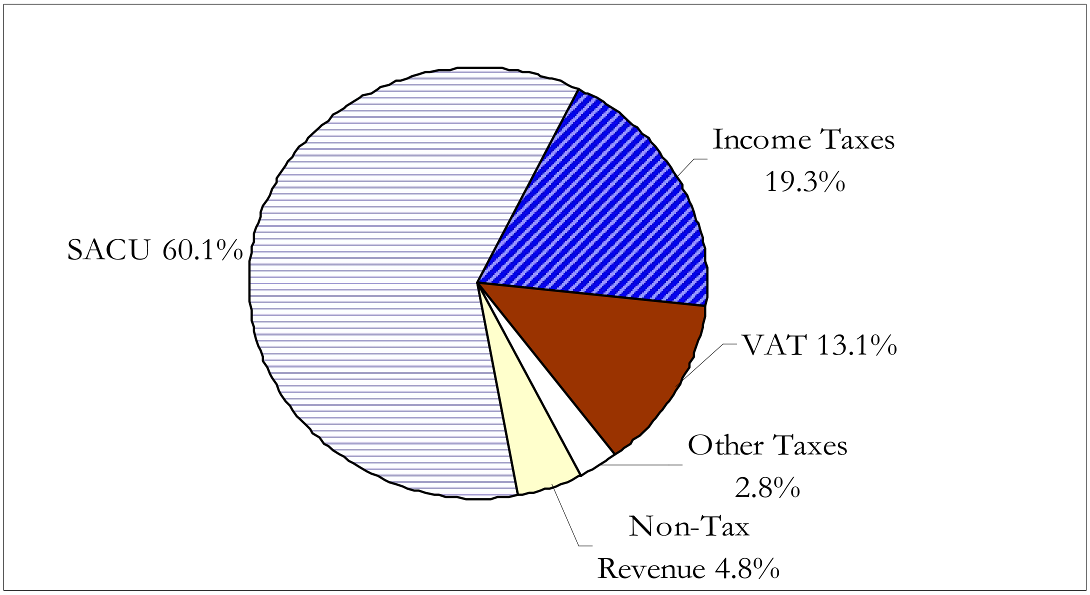
	2008/09				2009/10
	Apr-Jun	**Jul-Sep**	**Oct-Dec**	**Jan-Mar** Revised	**Apr-Jun *** Preliminary
Total Revenue and Grants	2041.8	2223.2	2221.6	2337.6	2114.9
Total Revenue	1985.1	2151.4	2190.8	2306.7	1988.1
Tax Revenue	1866.3	1898.0	1967.4	1925.2	1890.5
Customs	1225.2	1225.2	1225.2	1225.2	1229.5
Non-customs	641.1	672.7	742.1	700.0	713.8
Income Taxes	390.1	392.6	331.0	429.3	393.8
Taxes on goods & services	248.5	277.2	258.6	247.0	263.3
Other Taxes	2.5	2.9	152.6	23.7	56.6
Non-Tax Revenue	118.8	253.5	223.4	381.5	97.66
Of which: Water royalties	77.9	96.7	81.6	67.9	78.5
Grants	56.7	71.7	30.8	30.8	126.8

Source: Ministry of Finance and Development Planning (MoFDP)
*Preliminary estimates

Following a 1.7 per cent fall in the first quarter of 2009, VAT collections picked up by 6.7 per cent during the second quarter of 2009. Income tax dropped by 8.3 per cent, partly due to the 38.2 per cent decline in personal income tax. The decrease in personal income tax offset a rise in company tax.

The non-tax revenue component dropped by 74.4 per cent during the review period, following a 70.8 percent growth recorded in the previous period. Non-tax revenue comprises water royalties, administrative fees, dividends, interest on loans on-lent to public enterprises. The drop in non-tax revenue was driven by a slump in all components of non-tax revenue, except water royalties. Development grants rose quite significantly in line with implementation of several grant-supported projects.

Figure 18: Sources of Government Revenue



Expenditure

Government expenditure and net lending dropped by 42.2 per cent during the review period, driven largely by 49.3 per cent decrease in recurrent expenditure. The drop in recurrent expenditure was driven by transfers and subsidies, expenditure on goods and services. As earlier indicated, the decline was a result of the introduction of a new financial information system, IFMIS, which experienced technical problems.

Wages and salaries rose by 16.4 percent and thus reflective of the annual adjustment of civil servants salaries. Salaries and wages rose by 8.5 per cent from April. This increase was also consistent with the rise in the number of civil servants during the quarter. It is worth noting that salaries and wages continue to constitute a greater share of total recurrent expenditure. Interest payments rose by 44.7 and this was due to a surge in both foreign and domestic components.

Table 20: Government Expenditure

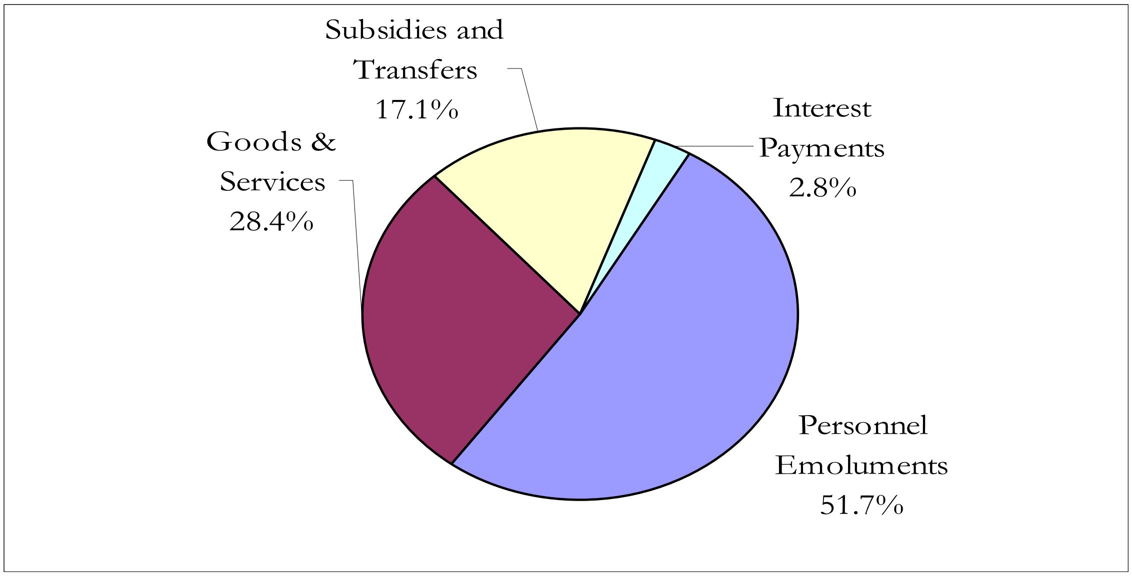
(Million Maloti)

	2008/09				2009/10
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar Revised	Apr-Jun * Preliminary
Total Expenditure & Net Lending	1837.9	1778.4	2248.2	2670.5	1543.9
Recurrent Expenditure	1306.7	1344.4	1768.1	2201.7	1115.7
Personnel Emoluments	479.0	482.8	495.4	495.7	576.9
Interest Payments	30.2	35.9	41.5	21.6	31.3
Foreign	13.1	17.7	22.5	11.6	13.5
Domestic	17.1	18.2	19.0	10.0	17.8
Other Expenditure	797.5	825.6	1231.2	1684.4	507.5
Capital Expenditure	531.8	434.5	480.1	468.8	428.2
Net Lending	-0.6	-0.5	0.0	0.0	0.0

Source: MoFDP
*Preliminary estimates

Capital expenditure dropped further in the second quarter. It fell by 8.7 per cent following a 2.4 per cent drop during the previous period. Capital expenditure as a share of total expenditure remains low, which does not bode well for a developing country such as Lesotho. Nonetheless, there are number of projects in the pipeline as outlined in the 2009/10 budget speech, such as construction and maintenance of urban and rural roads. Capital expenditures are funded from three sources, namely, Government funds, Grants and Loans.

Figure 19: Recurrent Expenditure by Type



Financing

Government budgetary operations were projected to result in a fiscal surplus during the period under review. The surplus was a result of accumulation of deposits with the banking system. The surplus reflected, largely, the disruptions caused by the introduction of IFMIS. It is therefore expected that once this becomes fully operational and running smoothly, expenditures will return to normal.

Table 21: Government Financing

(Million Maloti)

	2008/09				2009/10
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar Revised	Apr-Jun * Preliminary
Financing	-203.9	-444.8	26.8	332.9	-627.7
Foreign	50.6	-36.1	69.1	2.7	17.9
Loan drawings	82.2	33.6	142.8	53.2	68.5
Amortization	-31.6	-69.7	-73.7	-50.5	-50.6
Domestic	-254.5	-408.7	-42.3	330.2	-645.6
Bank Financing	-257.4	-408.0	-33.5	327.0	-693.0
Non – Bank	2.9	-0.7	-8.8	3.2	47.4

Source: MoFDP

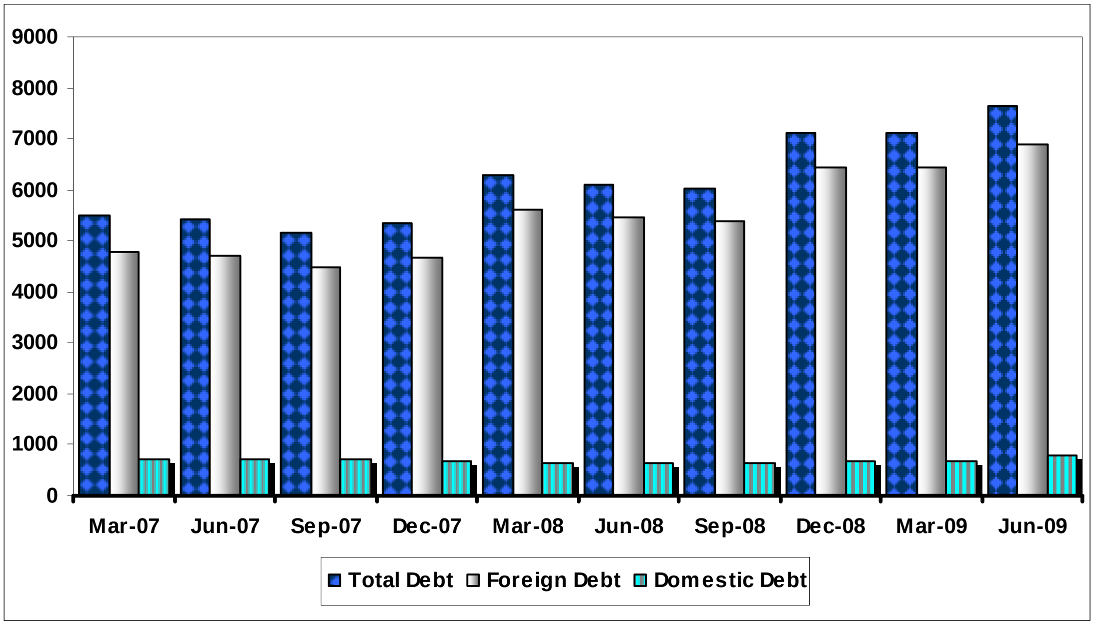
Public Debt

Overview

The Government of Lesotho contracts both foreign and domestic debt to finance its budgetary operations. Total debt rose by 7.7 per cent from the level recorded in the fourth quarter of 2008. As a percentage of GDP, public debt was estimated at 57.3 per cent, approaching the 60 per cent threshold set by SADC for the macroeconomic convergence purposes. Debt service ratio also remained within the sustainability threshold during the review period, recorded at 2.4 per cent. This is calculated as the ratio of debt service to exports of goods and services and factor income where applicable. External debt continued to constitute a greater percentage of overall debt stock. During the second quarter, the ratio of external debt to total debt was 89.8 per cent while the ratio of domestic debt to total debt was 10.2 per cent.

Figure 20: Outstanding Public Debt

(Million Maloti: End of Period)



External debt

External debt increased by 6.9 per cent in the second quarter of 2009 in contrast to a 0.3 per cent marginal drop in the previous quarter. The rise in external debt was driven, largely, by a rise in both bilateral and multilateral loans. Loans from bilateral sources rose by 74.3 per cent in the second quarter compared with 9.4 percent growth observed in the previous quarter. Credit from financial institutions dropped by 6.1 per cent. Multilateral loans continued to constitute a greater percentage of total external debt.

It was also observed that external debt accounted for 51.4 per cent of GDP compared with 48.1 per cent in the previous quarter. Nevertheless, concessional debt as a percentage of external debt dropped slightly from 97.0 to 96.9 per cent. This bodes well for Lesotho as it plays a critical role in easing the debt service burden and attaining debt sustainability.

Various rules of thumb have been developed by different institutions in an effort to assist countries to test for debt sustainability. These rules of thumb are used as early warning signals for debt sustainability, depending on the nature and composition of public debt stock. External debt service ratio grew from 2.0 per cent recorded in the previous period to 2.4 per cent.

Table 22: External Debt

(Million Maloti)

	2008			2009	
	QII	QIII	QIV	QI	QII
External Debt	5455.2	5378.3	6457.1	6435.1	6882.0
Bilateral Loans	261.2	316.7	390.6	426.3	743.0
Concessional	221.5	279.9	348.2	387.6	709.7
Non-concessional	39.7	36.8	42.4	38.7	33.3
Multilateral Loans	5058.5	4931.3	5932.6	5874.6	6021.9
Concessional	4900.4	4810.7	5892.0	5833.6	5939.5
Non-concessional	158.1	120.7	40.6	41.0	82.4
Financial Institutions	79.8	77.1	75.7	75.3	70.7
Concessional	24.0	21.5	21.5	22.4	17.8
Non-concessional	55.8	55.6	54.2	52.9	52.9
Suppliers' Credit	55.7	53.2	58.2	58.9	46.4

Source: MoFDP

Domestic Debt

Domestic debt is the component of public debt owed to domestic residents. Holding of domestic debt increased by 15.0 per cent in the quarter under review, compared with 2.5 per cent growth in the previous quarter. The increase was on the back of both bank and non-bank sectors' increase in holding of treasury bills. It is a reflection of the introduction of the new and longer-dated-tenure Treasury bills and a higher frequency of auctions. In contract to the 8.2 per cent decline in holding of domestic debt by the non-bank sector, holding of treasury bills by this sector rose by 91.8 per cent in the second quarter and this reflects increased participation by the non-bank sector in the securities market.

Short-term debt comprised Treasury bills issued for monetary policy purposes and development of the money market, while long-term debt represented a ten year bond issued to finance the restructuring of state-owned banks in 1999. As a percentage of GDP, domestic debt increased from 5.1 per cent to 5.8 percent.

VI. Foreign Trade and Payments

Overview

The external sector position continued to display a deficit for the second consecutive quarter in 2009. This was marked by an overall balance which, in seasonally adjusted terms, recorded a deficit of M72.0 million in the second quarter of 2009, compared to a deficit of M71.8 million observed in the first quarter of 2009. The deficit reflected strong performance of the local currency against the major trading currencies, where the CBL's foreign reserves were held. However, transaction balance, which represents the overall balance without the effects of currency fluctuations, in seasonally adjusted terms, registered a surplus equivalent to M562.9 million during the review quarter in contrast with a deficit of M124.1 million in the previous quarter. The surplus is largely attributable to the moderate increase in current account on the back of recovery in diamond exports.

Current Account

Despite the current global economic uncertainty, current account position continued to show surpluses. The current account widened to a surplus of M355.2 million in the review quarter from a surplus of M323.0 million in the previous quarter. The improvement in the current account emanated from the growth of diamonds export earnings. Relative to GDP, current account registered 13.8 per cent in the review quarter compared with the revised 12.5 per cent in the previous quarter.

Table 23: Current Account Balance

(Million Maloti)

	2008			2009	
	QII	QIII	QIV	QI*	QII+
I. Current Account	829.12	269.04	330.59	322.98	356.20
(a) Goods	-1223.39	-1724.69	-1705.87	-1779.45	-1566.17
Merchandise exports f.o.b.	1846.99	2216.05	1675.60	1403.67	1485.46
Of which diamonds	391.69	784.98	270.40	187.80	355.67
Of which textiles & clothing	990.44	880.96	876.67	846.12	773.09
Other exports#	464.86	550.11	528.53	399.75	356.70
Merchandise imports f.o.b.	-3070.38	-3940.74	-3381.47	-3183.12	-3051.63
(b) Services	-78.33	-109.48	-102.42	-80.08	-131.06
(c) Income	1036.63	1020.03	1045.53	979.06	956.81
(d) Current Transfers	1094.21	1083.18	1093.35	1203.45	1095.61

* Revised estimates
\+ Preliminary estimates
\# All other merchandise exports excluding 'textiles and clothing' and 'diamonds'

Merchandise exports

During the quarter under review, merchandise exports, in seasonally adjusted terms, rose by 6.7 per cent in contrast with the decline of 11.3 per cent recorded in the previous quarter. The increase is attributed to the recovery in diamond exports, which is line with the moderate increase in rough diamond's price in the international markets. The improved performance of merchandise exports was counterbalanced by deterioration of manufactured goods exports, in particular, textiles and clothing, due to the weak demand in the US market. However, on an annual basis, merchandise exports fell by 19.6 per cent. As percentage of GDP, merchandise exports recorded 57.7 per cent in the review quarter compared with 54.5 per cent in the previous quarter.

Merchandise imports

Merchandise imports, in seasonally adjusted terms, fell by 0.2 per cent during the quarter compared with an increase of 0.5 per cent registered in the previous quarter. Generally, the weak domestic and global demand conditions threatened the volume of merchandise imports. In addition, deterioration in merchandise import was supported by a decline in government expenditure, due to the effects of disruptions in the new financial information system with regard to government payments. On an annual basis, merchandise imports dropped by 0.6 per cent. As a percentage of GDP, merchandise imports declined to 118.5 per cent in the review quarter compared with 123.6 per cent observed in the previous quarter

Table 24: Value of Exports by Section of the S.I.T.C. #

(Million Maloti)

COMMODITY	2008			2009	
	QII	QIII	QIV	QI*	QII+
0. Food & Live Animals	88.24	123.60	47.30	58.16	52.14
Cattle	0.00	0.01	0.00	0.00	0.0
Wheat Flour	48.43	46.38	17.59	17.53	14.32
Maize Meal	3.24	0.45	1.06	12.14	5.77
Other	36.57	76.76	28.65	28.49	32.05
1. Beverages & Tobacco	48.39	55.08	27.08	36.38	38.53
Beverages	48.39	55.06	27.08	36.38	38.53
2. Crude Materials	395.16	792.14	283.61	193.49	356.99
Textiles fibres	3.47	7.15	13.22	5.69	1.29
Of which Wool	3.17	6.44	12.82	5.69	1.13
Of which Mohair	0.30	0.71	0.39	0.00	0.16
Crude fertilizers & crude minerals	391.69	784.98	270.39	187.80	355.70
Of which Diamond	391.69	784.98	270.39	187.80	355.70
5. Manufactured Goods	68.00	36.26	32.11	49.78	46.35
Of which textiles yarn and fabric	47.71	21.79	17.16	36.04	41.19
Other manufactured goods	20.29	14.47	14.95	13.74	5.16
6. Machinery & Transport Goods	259.41	267.01	354.31	198.03	201.82
7. Miscellaneous Manufactured Goods	984.77	914.71	911.32	853.42	780.48
Of which clothing accessories	942.73	859.17	859.50	810.09	731.91
Other	32.04	55.54	51.82	43.33	48.57
8. Unclassified Goods	1.67	22.18	19.88	14.41	9.15
TOTAL EXPORTS	1846.99	2216.00	1675.60	1403.67	1485.46

Note: Totals may not tally due to rounding
* Revised estimates
+ Preliminary estimates
# Standard International Trade Classification

Direction of Trade

During the review quarter, Africa, in particular SACU region, remained the largest recipient of Lesotho's exports with a share of 41.9 per cent. This is slightly higher than 41.6 per cent registered in the previous quarter. The second largest destination of Lesotho's exports was US market. In line with the slowing down of demand in the US, Lesotho's exports to US declined to a 32.1 per cent share during the quarter, compared with a share of 42.8 per cent in the previous quarter. The European market remained the third largest recipient of Lesotho's exports, with a share of 24.1 per cent in the review quarter compared with 13.9 per cent in the previous quarter. A large portion of Lesotho's diamond exports is destined for the European market. Lesotho's exports to the Asian market remained insignificant at 0.4 per cent.

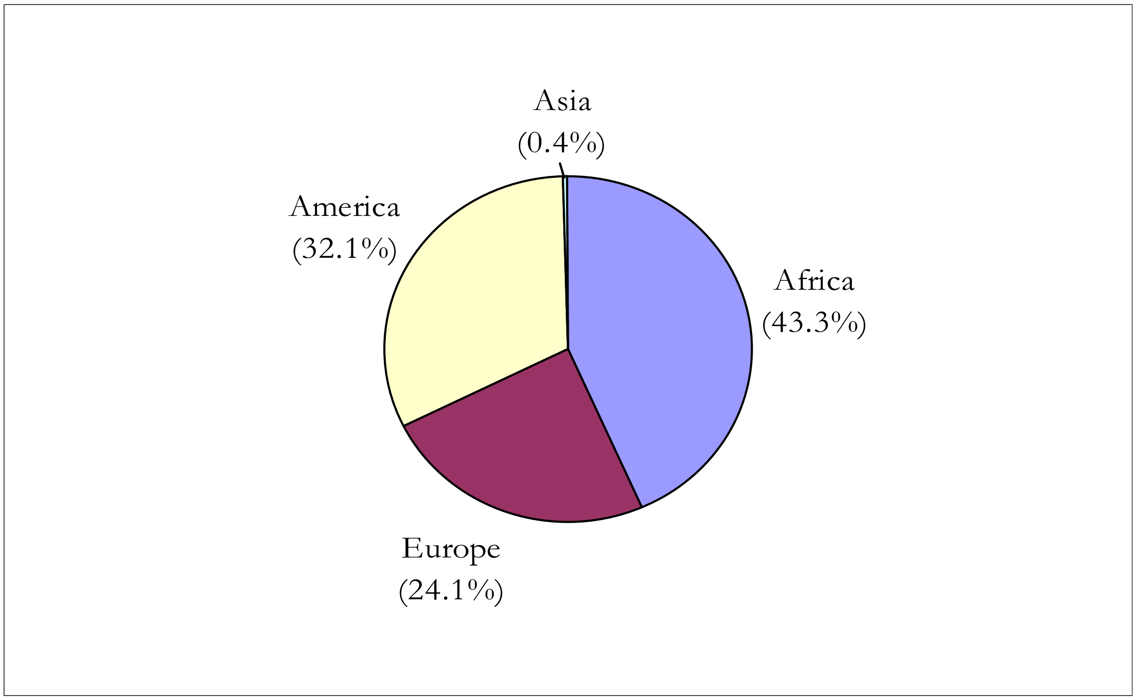
Table 25: Direction of Trade - Exports and Re-Exports, f.o.b.

(Million Maloti)

Region	2008			2009	
	QII	QIII	QIV	QI*	QII+
World	1846.99	2216.05	1675.60	1403.67	1485.46
Africa	807.71	717.26	769.60	601.41	643.74
SACU	768.57	704.23	753.06	585.28	622.54
SADC	3.98	0.03	3.11	3.79	0.52
Other	35.16	13.00	13.43	12.34	20.68
Europe	391.29	783.87	271.48	195.07	358.29
EC	391.29	783.87	271.48	195.07	358.29
America	632.74	709.73	621.29	600.75	477.52
Asia	10.96	5.19	13.22	6.44	5.91

Note: Total may not tally due to rounding
* Revised estimates
+ Preliminary estimates

Figure 21: Direction of Merchandise Exports



Services Account

Net services account continued to show outflows during the review quarter. It recorded an outflow of M131.1 million from a revised outflow of M80.1 million registered in the previous quarter, due to higher payments on transportation services, coupled with an increased expenditure by Lesotho's embassies abroad.

Travel

During the quarter under review, international travel services registered a net inflow of M34.9 million, lower than an inflow of M41.9 million, observed in the previous quarter. The weakness of inflows emanated from, among other factors, the global economic slowdown which hampered improvement in travel receipts category. Travel receipts fell by 9.4 per cent to M34.9 million, in contrast with an increase of 0.2 per cent in the previous quarter. However, travel payment rose by 1.5 per cent during the quarter compared with a rise of 2.7 per cent in the previous quarter. This is a result of increased expenditure on the Lesotho Government funded Basotho students abroad.

Income

The net income continued to decline for the second conservative quarter in 2009. Net income declined by 2.2 per cent in the quarter under review, following a fall of 6.3 per cent in the previous quarter. The deterioration is largely attributed to a drop in labour income and returns on investment.

Labour income

Labour income, in unadjusted terms, fell by 2.3 per cent during the quarter under review from a fall of 3.4 per cent registered in the previous quarter, due to poor performance of miners' remittances. This was on the back of the decline in the number of Basotho migrant mineworkers, due to the current global economic downturn which led to a fall in demand of mineral products. However, a good performance of commodity prices may hold back the negative impact on mining products in the international market. On an annual basis, labour income fell by 8.7 per cent.

Investment Income

During the quarter under review, net investment income dropped by 2.0 per cent to M170.5 million compared with a 17.8 per cent fall recorded in the previous quarters. The continuing decline resulted from deterioration in both inflows and outflows of investments.

The inflow in investment income plummeted by 6.7 per cent in the second quarter of 2009 compared with a drop of 5.1 per cent in the first quarter of 2009. The deterioration of inflows emanated from a fall in returns on investments for both CBL and commercial banks. During the review period, interest earnings on CBL and commercial banks' investments dropped by 7.6 per cent and 5.1 per cent, respectively. The appreciation of the local currency during the quarter contributed to a decline in returns on investments. Furthermore, a decline in interest rate in the CMA region also pulled down returns on investment income inflows. Investment outflows declined by 19.6 per cent during the quarter, from an increase of 63.8 per cent registered in the previous quarter, due to a fall in distributed earnings.

Current Transfers

Current transfers, in seasonally adjusted terms, decreased by 7.8 per cent to M1.1 billion in the quarter ending June 2009 in contrast with a rise of the same magnitude in the previous quarter. The observed quarterly decline was largely a reflection of the fact that rand compensation is paid to Lesotho during the first quarter of the calendar year.

Capital and Financial Account

The capital and financial account improved significantly to a net inflow of M607.2 million during the quarter under review, from an inflow of M132.8 million registered in the previous quarter, largely due to an increase in financial inflows of commercial banks which reduced their foreign assets during the period. The commercial banks' foreign assets recorded an inflow equivalent to M247.1 million during the quarter compared with an outflow of M319.6 million observed in the previous quarter.

Table 26: Capital and Financial Account

(Million Maloti)

	2008			2009	
	QII	QIII	QIV	QI*	QII+
I. Capital and Financial Account	117.74	1083.26	-184.20	132.85	607.24
Capital Account	6.70	47.30	30.80	30.80	6.70
Financial Account	111.04	1035.96	-215.00	102.05	600.54
Special Financing – LHWP	49.93	22.88	27.49	27.98	45.21
II. Reserve Assets	-165.33	-704.65	-558.82	67.28	70.01

* Revised estimates
+ Preliminary estimates

Reserve Assets

As a result of strengthening local currency, gross reserves fell by 0.8 per cent to M8.8 billion in the period ending June 2009, from M8.9 billion registered in the previous quarter. However, the Net International Reserves (NIR) registered US$896.9 million in the second quarter of 2009 compared with US$855.8 million observed in the previous quarter. Measured in months of import cover, gross official reserves dropped marginally to 7.2 months in the quarter under review from 7.3 months recorded in the previous quarter.

Figure 22: Reserve Assets

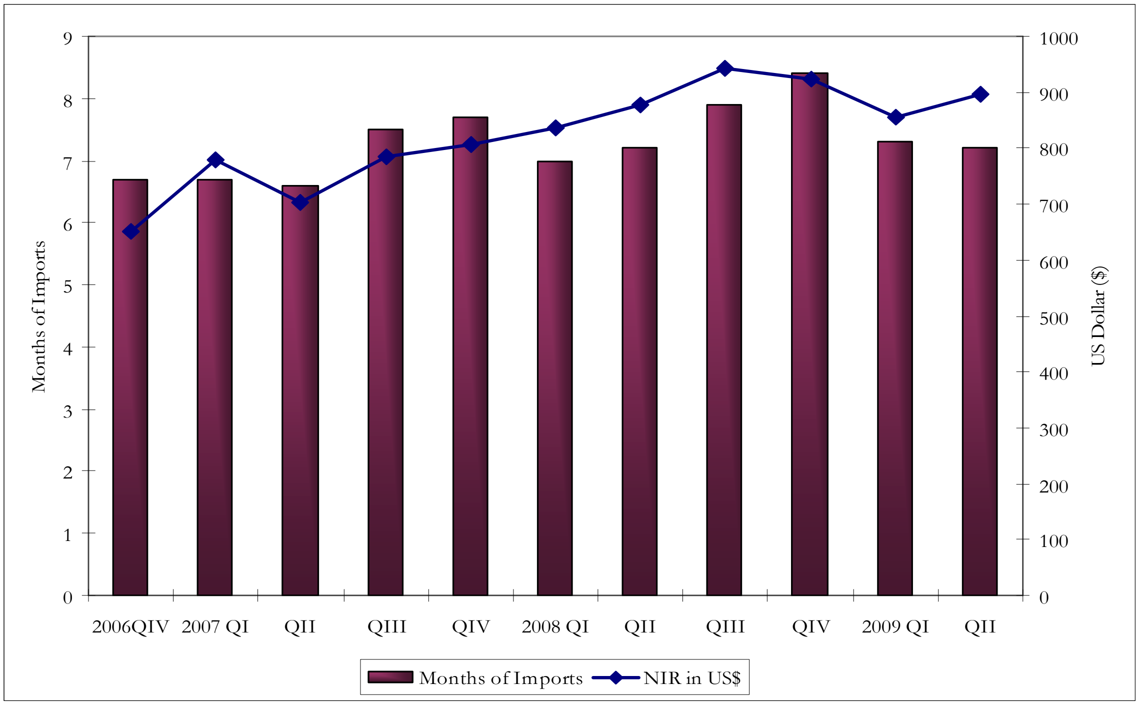
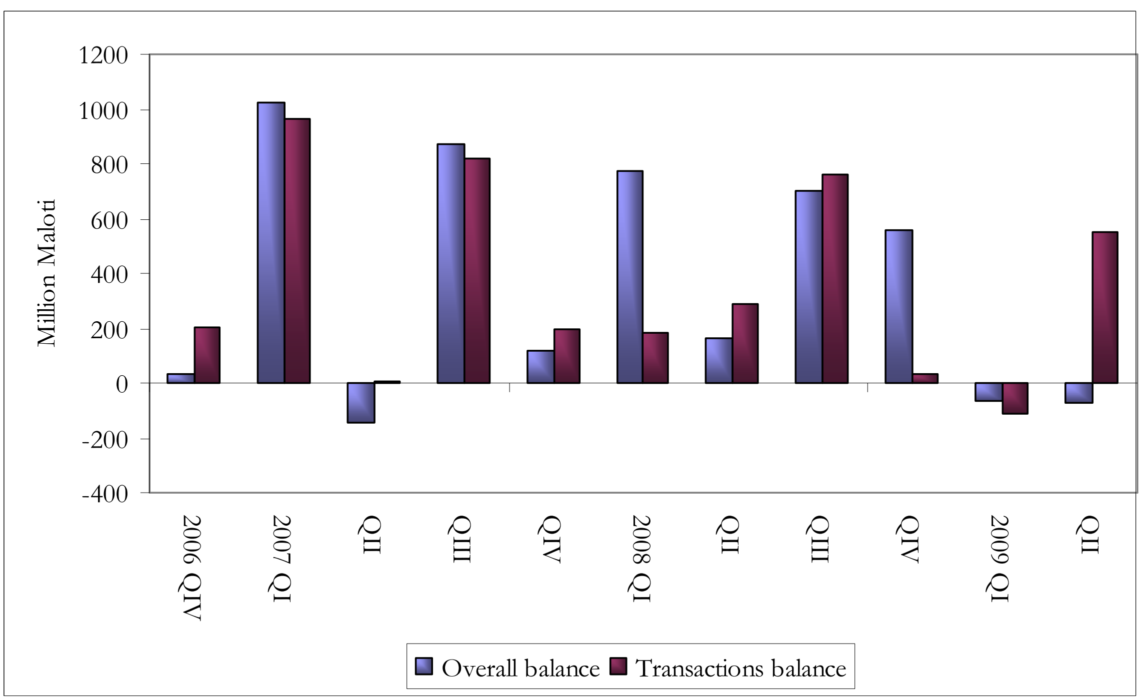


Figure 23: Balance of Payments

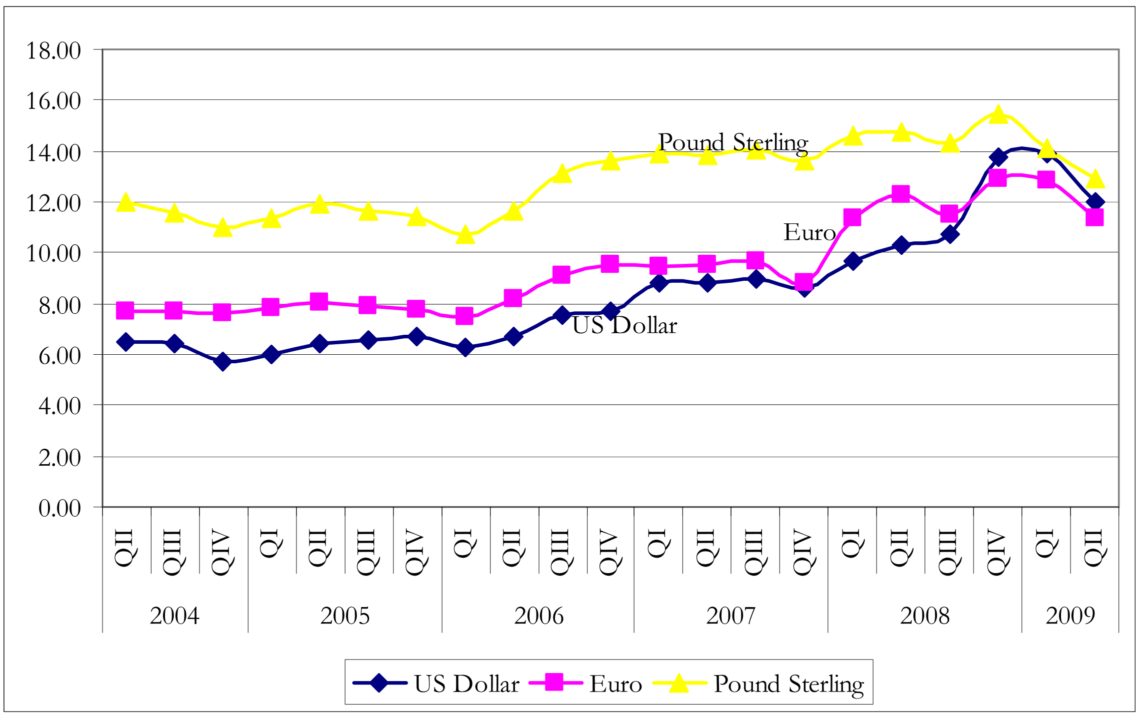


Exchange Rates

The Loti, which is at par with the Rand continued to appreciate for the second conservative quarter in 2009, against the major trading currencies during the period ending June 2009, due partly to the impact of tight monetary policy stance. On average, and in nominal terms, the Loti strengthened by 14.6 per cent, 11.2 per cent and 8.5 per cent against the US Dollar, the Euro and the Pound Sterling, respectively.

In real terms, the Loti appreciated by 13.5 per cent against the US Dollar. The Loti also appreciated by 11.2 per cent and 8.5 per cent against the Euro and Pound Sterling in real terms. However, the strengthening of the local currency could negatively affect the price competitiveness of Lesotho's exports in the international markets.

Figure 24: Real Exchange Rate of the Loti against Major Currencies



STATEMENT OF MONETARY POLICY COMMITTEE

12 May 2009

1. Introduction

The Monetary Policy Committee (MPC) of the Central Bank of Lesotho (CBL) met at its 19th meeting on 12th May 2009 to discuss the recent economic developments and their implications on monetary policy operations. The deliberations are held to ensure that the price stability mandate of the Bank is achieved. This mandate is attained through maintenance of adequate level of foreign reserves, which are kept to support the parity between the South African (SA) Rand and the loti.

The membership in Common Monetary Area (CMA) allows Lesotho to benefit from monetary policy actions in SA. Furthermore, the model could be used towards realising the continent's resolve and SADC's goal of harmonising macroeconomic policies, especially, monetary policy. Thus the MPC sets the minimum target level of external reserves and monitors performance of open market operations (auction of treasury bills) in achieving the target.

The Committee met against the backdrop of worsening global financial crisis and economic downturn. The global economy experienced recession in the latter part of 2008, which continued in the first quarter of 2009. The recession is more pronounced in the developed economies and its second round effects impact negatively on the exports sector of the developing countries. As a result, unemployment is rising in most developed and developing countries and asset prices are tumbling. The region has not been spared the effects of the crisis. South Africa is experiencing a slowdown in economic growth which may affect Lesotho's employment through retrenchment of migrant mineworkers, and fiscal policy through a reduction in SACU revenue. In addition, regional currencies are experiencing volatility, raising concerns on mounting debt service costs and inflationary pressures.

However, the Committee was encouraged by policy responses across the world and in the region. The group of 20 countries (G20) resolved at its meeting in April 2009 to augment efforts to support developing countries to weather the crisis. The Committee noted the need for easing of monetary policy to complement fiscal policy, and welcomed the South African Reserve Bank's (SARB's) actions of reducing interest rates in its recent meetings. The Committee will continue to monitor the domestic financial sector to ensure financial and price stability in these challenging times.

2. Inflation Developments

The Committee noted that inflation rate maintained a downward trend after reaching a peak of 12.1 per cent in September 2008. It measured 10.1 per cent in March, due mainly to the overall slowdown in non-food prices. The Committee acceded to the possibility of a continued slowdown in overall inflation developments in the coming months. This was mainly attributable to a continued decrease in producer price index and stability of the international crude oil prices at around US$50 per barrel, and the subdued global economic performance. These developments also translated into further reductions in domestic fuel prices in May 2009.

The Committee took note of inflation developments in SA, which continued to be above the target range of 3 to 6 per cent. Inflation, as measured by the re-weighted and reconstituted consumer price index for all urban areas, increased to 8.6 per cent in February 2009 and then moderated to 8.5 per cent in March. This new measure replaced the CPIX as the target instrument of the SARB. The SARB expects inflationary pressures to ease in the coming months as a result of the low prices of crude oil and a continued decrease in producer price index. Therefore, the SARB's MPC reduced its key interest rate, the repo rate, by 100 basis points in line with conditions prevailing in the global economy.

3. Prospects for the Maintenance of Price Stability

a. Balance of Payments

The volatile exchange rate of the local currency continues to pose upside risk to the inflation outlook. The loti is currently trading at around M8.30 against the US dollar, a level better than that prevailed at the time of the previous MPC meeting, but higher than levels that prevailed a year ago. However, the Net International Reserves (NIR) remained adequate to underwrite the fixed exchange rate system due to positive net financial inflows in the balance of payments.

As a result, the current account surplus in March was recorded at almost the same level as that realised in December 2008. This was largely on account of the rise in current transfers which more than offset the fall in income. However, official reserves decreased to 7.3 months of imports compared with 8.6 months of import cover in the fourth quarter of 2008.

The accumulation of foreign reserves is important for monetary policy in Lesotho to underwrite the fixed exchange rate arrangement with SA. This is particularly so with the observed shrinkage in export earnings in the face of the global economic turmoil. The IMF expects the global output to contract by 1.3 per cent in 2009, before recovering gradually to 1.9 per cent in 2010. World trade is also expected to contract by 9.5 per cent in 2009.

b. Fiscal Balance Outlook

Government's budgetary operations continued to support favourable macroeconomic environment. Nonetheless, the period realised a higher fiscal deficit following implementation of civil servants defined contributory pension scheme in January 2009. The position is expected to improve in the first quarter of the fiscal year 2009/10.

4. Monetary Policy Stance

While maintaining an import cover of no less than 5 months and observing movements in the exchange rates, the Committee decided to revise the NIR target range upwards to

US$500 million and US$550 million. At this level, NIR is deemed sufficient to underwrite the fixed exchange rate arrangement between the loti and the SA rand.

M.P. Senaoana (PhD)
GOVERNOR

12 May 2009

VII. Statistical Tables