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I. Introduction

The global economic conditions continue to be dominated by the unfolding second round effects of the financial crisis. The financial crisis began in the home loans sector of the United States (US) in 2007 and has been characterised by the collapse of major banks around the world and general credit squeeze in the financial markets. This situation has resulted in the general economic slowdown in advanced countries which has culminated into a recession. Large corporations in the motor vehicle industry have reported near bankruptcy financial position. Economic activity in the United States (US), Japan and the Euro-zone contracted for the second consecutive quarter in the first quarter of 2009, thereby falling into definitional recession. It is worth pointing out that the South African economy has also registered a second contraction of real gross domestic product. Due to the strong financial and trade links with Lesotho, the performance of the South African economy has a direct bearing on Lesotho's economy.

There has been an integrated effort both at national level, international organisations and multilateral groupings to come up with strategies to curb the negative impact of the unfolding crisis. Advanced countries like the US implemented bail out plans for the banking sector and to keep the financial market sufficiently liquid. The bail out packages have also been extended to other corporations in the production sectors. During the quarter, the Group of Twenty (G20) held a meeting in Britain and proposed a number of measures aimed at curbing the adverse impact of the crisis. These included the US$1.1 trillion pledge to the International Monetary Fund (IMF) to restore credit, economic growth and jobs. In Lesotho, the Government has, according to the budget speech, set aside M600 million to assist sectors mostly affected by the recession over the next two years.

Lesotho cannot be immune from these challenging economic conditions because of her export oriented economic structure. A number of domestic economic indicators show that the economy of Lesotho is affected negatively by the global economic recession. Diamond production continued to decline during the quarter in line with falling price of rough diamonds. Price of rough diamonds is reported to have fallen by 30 per cent to 50 per cent. In the secondary sector, electricity and water consumption fell on a quarterly basis. The manufacturing sector is dominated by wet subsector, textiles and clothing. In the tertiary sector, retail sales turnover fell by 17.7 per cent during the quarter under review indicating that the consumers may be prioritising on their spending.

Employment in the Lesotho National Development Corporation (LNDC)-assisted companies fell by 2.2 per cent in March 2009 mainly due to the retrenchments as orders are drying up. Employment in LNDC assisted companies has fallen to the lowest level in two and half years. The level of employment in the public sector continued to increase as Government intensified efforts to improve service delivery in areas of health, education and public service. The number of migrant mineworkers fell by 3.9 per cent during the quarter ending March 2009. The decline is not expected to be sustained as the price of gold has begun to rise and is expected to stabilise the operation costs in the mining industry.

In line with the global developments, inflationary pressures in Lesotho seem to be abating. Inflation rate rose 10.1 per cent in March 2009 compared with 10.6 per cent in December 2008 mainly due to the slowdown in food and fuel prices. In South Africa, the new targeted inflation measure remains above the target band, 3 to 6 per cent, at 8.5 per cent at the end of the first quarter. The new measure is intended to bring compilation of SA inflation in line with international standards by dropping interest rates on mortgage bonds as the indicator of changes in housing costs and replacing it with a measure of Owners' Equivalent Rent which is paid on rentals paid for similar dwellings as those found in the owner-occupied market.

In the financial sector, money supply grew due to a significant increase in both net foreign assets and domestic credit. Interest rates movements in the region are beginning to reflect the loosening monetary policy environment in response to the global economic slowdown and the ease in inflationary pressures. The South African Reserve Bank reduced the key policy rate by 2 per cent during the quarter. 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 further deficit during the quarter under review mainly due to the payment of M600 million towards the defined contribution pension scheme for civil servants aged 40 and below. This follows the establishment of the pension fund in the 2008/2009 budget speech. The stock of public debt remained the same as the previous quarter.

The external sector registered an overall deficit equivalent to M71.8 million mainly due to the narrowing of the current account surplus coupled with the appreciation of the local currency against major currencies. The decline in exports of textiles and diamonds, due to the low demand in the US and Europe, is impacting on the country's external sector position negatively. Measured in months of import cover, the external sector position ended the quarter at 7.3 months.

II. International Economic Developments

United States (US)

Preliminary estimates indicate that the US economy shrank during the quarter under review. The real Gross Domestic Product (GDP) contracted by 5.5 per cent in the review period compared with the revised decline of 6.3 per cent in the previous quarter. The decline resulted mainly from the fall in exports, private inventory investment as well as construction activity. It is, however, noteworthy that real personal consumption expenditure showed signs of recovery. It rose by 2.2 per cent in the first quarter compared with a decline of 4.3 per cent in the fourth quarter, with durable and non-durable goods increasing by 9.4 and 1.3 per cent, respectively.

The inflation rate fell below zero during the review quarter. The consumer price index (CPI) decreased by 0.4 per cent in March 2009 following an increase of 0.1 per cent in December 2008. This was mainly due to the continued decline in oil and food prices. The Federal Reserve Bank's Open Market Committee (FOMC) left the benchmark lending rate unchanged at the previous quarter's level of 0.25 per cent. The unemployment rate rose to 8.5 per cent during the quarter from 7.2 per cent in the previous quarter.

The contraction in the US economy is expected to have negative spill over effects on Lesotho's economy because the bulk of Lesotho's exports is destined for the US. The observed deflation in the US, if sustained could prolong the recession because the declining prices and nominal wages can hinder consumption and investment expenditure.

Table 1: Key World Economic Indicators

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	QIV 08	QI 09	QIV 08	QI 09	QIV 08	QI 09	QIV 08	QI 09
China	6.8*	6.1	1.2	-1.2	5.31	5.31	9.00_{2008}	9.00_{2008}
Euro Area	-6.2	-4.9	1.6	0.6	2.50	1.50	8.2	8.9
India	5.3*	5.8	9.7	9.6	5.00	3.50	6.80_{2008}	6.80_{2008}
Japan	-12.1	-15.2	0.2	-0.3	0.10	0.10	4.4	4.8
South Africa	-1.8	-6.4	9.5	8.5	11.50	9.50	21.9	23.5
United States	-6.3	-5.5	0.1	-0.4	0.25	0.25	7.2	8.5

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 shrank further by 4.9 per cent during the review quarter compared with 6.2 per cent in the previous quarter, with Germany (Europe's largest economy) recording the largest decline of almost 7.0 per cent followed by Italy at 5.9 per cent. In addition, Industrial production fell by monthly rates of 3.5 and 2.3 per cent in January and February respectively, with production of energy and non-durable consumer goods contributing most to the decline

The harmonised unemployment rate in the Euro-zone increased marginally from 8.2 per cent in December 2008 to 8.9 per cent in March 2009. Inflation as measured by changes in the Harmonised Index of Consumer Prices (HICP) decelerated from 1.6 per cent at the end

[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.

of 2008 to 0.6 per cent in the last month of the first quarter of 2009. At this level, the inflation rate is below the target rate of 2.0 per cent as determined by the European Central Bank (ECB). Thus the ECB reduced its benchmark lending rate from 2.5 per cent in the last quarter to close the review quarter at 1.5 per cent.

South Africa (SA)

SA's economy contracted for the second consecutive quarter during the review period, thereby falling into definitional recession. Its GDP fell by an annualised rate of 6.4 per cent following a decline of 1.8 per cent in the previous quarter. The main contributor to the poor economic performance was the mining sector, which appears to be suffering the most from the global economic recession. In addition, the leading indicators of economic growth, manufacturing and mining production as well as car sales reflected weak economic performance. Manufacturing production fell by 15.0 per cent between February 2008 and February 2009. During the same period, mining production fell by 12.8 per cent with non-gold mining registering a decline of 14.9 per cent and gold mining an increase of 2.7 per cent. Car sales also plummeted by 15.3 per cent.

Inflation, measured by CPI[2], declined in March 2009. The CPI increased at a lower rate of 8.5 per cent in March compared with 9.5 per cent in December. 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 signs of abating inflation, the South African Reserve Bank's (SARB) Monetary Policy Committee (MPC) reduced the repo rate to 9.5 per cent at the end of the review quarter from 11.5 per cent at the end of the previous quarter.

Due to close trade links between Lesotho and SA, economic developments in SA impact directly on Lesotho's economy. The contraction in economic growth could imply lower demand for imports from Lesotho and the weak performance of the mining industry could negatively affect the number of Basotho migrant mineworkers in the SA mines. However, lower inflationary pressures could filter into the domestic economy in the coming quarters.

Emerging Asian Markets and Japan

China

Preliminary estimates indicate that GDP growth in the world's fourth-largest economy decelerated to 6.1 per cent in the first quarter of 2009 compared with 6.8 per cent in the fourth quarter of 2008. The deceleration was a result of the fall in the demand for China's

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[2] The South African authorities have replaced the CPIX (CPI excluding interest on mortgage bonds) by the CPI as the inflation target measure with effect from January 2009. The objective was to bring the SA inflation measure in line with international standards by dropping interest rates on mortgage bonds as the indicator of changes in housing costs and replacing it with a measure of Owners' Equivalent Rent which is paid on rentals paid for similar dwellings as those found in the owner-occupied market.

exports, which has led to the closure of a number of Chinese factories and a decline in employment.

China recorded a negative inflation rate of 1.2 per cent in March 2009 compared with an increase of 1.2 per cent in December 2008, 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 the previous quarter's rate of 5.3 per cent.

Developments in the Chinese economy may have implications for Lesotho. The fall in inflation could have negative effects on the Chinese economy, which could have spill-over effects on Lesotho since Lesotho imports most of the manufacturing sector's inputs from China.

Japan

Japan's economy exhibited mixed signals during the quarter. On the one hand, Japan's real GDP contracted by a higher rate of 15.2 per cent in the first quarter compared with 12.1 per cent in the previous quarter mainly on account of a bigger decline in exports and a collapse in business investment. On the other hand, industrial production in Japan registered monthly declines of 10.0 and 9.4 per cent in January and February respectively, followed by an increase of 1.6 per cent in March. These compared with a decline of 9.6 per cent in December 2008.

The Japanese unemployment rate worsened to 4.8 per cent in March compared with 4.4 per cent at the end of the previous quarter. The core CPI, which excludes prices of fruits, vegetables and fish, declined by 0.3 per cent in March compared with an increase of 0.2 per cent in December. The Bank of Japan (BOJ) left its key interest rate unchanged at the previous quarter's rate of 0.1 per cent.

India

India's economic growth continued to be strong in the first quarter of 2009, registering a growth of 5.8 per cent. This growth overshadowed a decrease in industrial production, which registered a monthly decline of 2.3 per cent in March compared with a fall of 2.0 per cent in December 2008. The decline in March emanated from the weak performance by the food, wood and wood products sectors

The rate of inflation was 9.6 per cent in February compared with 9.7 per cent in December. Consequently, the Reserve Bank of India (RBI) reduced its repurchase rate by 150 basis points during the quarter. Thus it closed the quarter at 3.5 per cent.

Commodity Prices

Overview

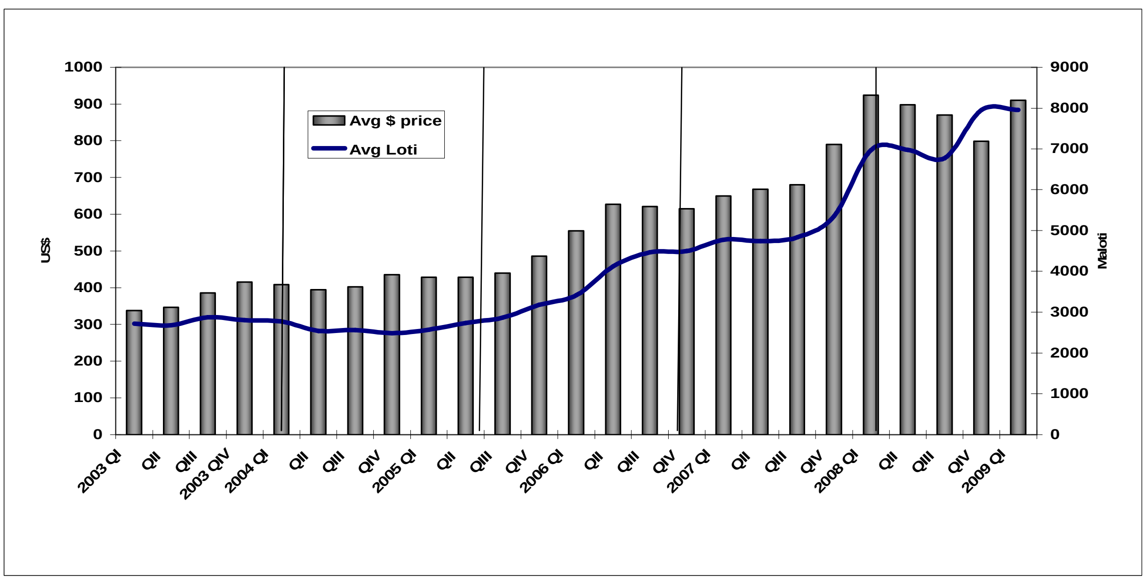
The prices of minerals depicted mixed signals. The prices of gold and platinum registered increases while that of crude oil declined during the review quarter. With respect to agricultural products, the spot price of white maize recorded a slight increase while spot prices of yellow maize and wheat fell.

Mineral Products

Gold

The average price of gold rose from US$798.84 per ounce in the previous quarter to US$910.05 an ounce in the first quarter. The demand for gold as a safe haven increased during the quarter and supported its price as stock markets fell and made equities risky to invest in. In addition, gold became more affordable as the US$ depreciated during the review quarter. In Rand terms, the average price of gold increased by 13.4 per cent from R7 954.37 per ounce in the last quarter to R9 020.42 despite the appreciation of the Rand against the US$ during the quarter.

Figure 1: Average Price of Gold

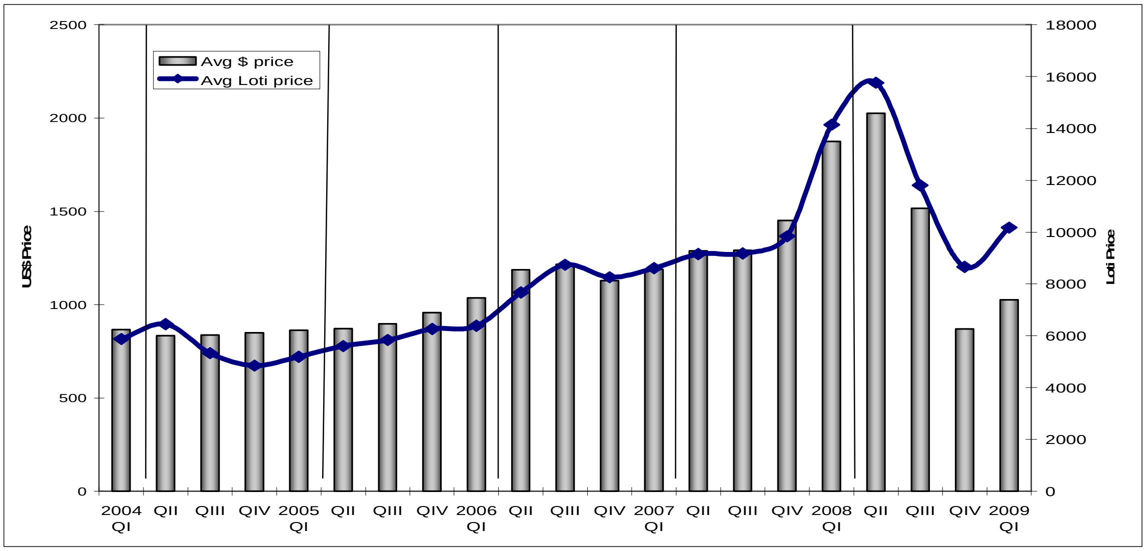


Source: Bloomberg

Platinum

The average price of platinum increased from US$869.70 per ounce in the previous quarter to US$1 026.32 per ounce in the first quarter of 2009. The same factors that supported gold also contributed to the rise in the price of platinum during the review quarter. In Rand terms, the average price of platinum rose by 17.5 per cent from R8 660.00 per ounce in the previous quarter to R10 172.88 per ounce during the review quarter.

Figure 2: Average Price of Platinum



Source: Bloomberg

Judging from the factors that are responsible for the rise in the prices of gold and platinum, one could conclude that this positive development may not last long enough to have a substantial positive impact on the SA mining sector as well as employment prospects for Lesotho's migrant mine workers.

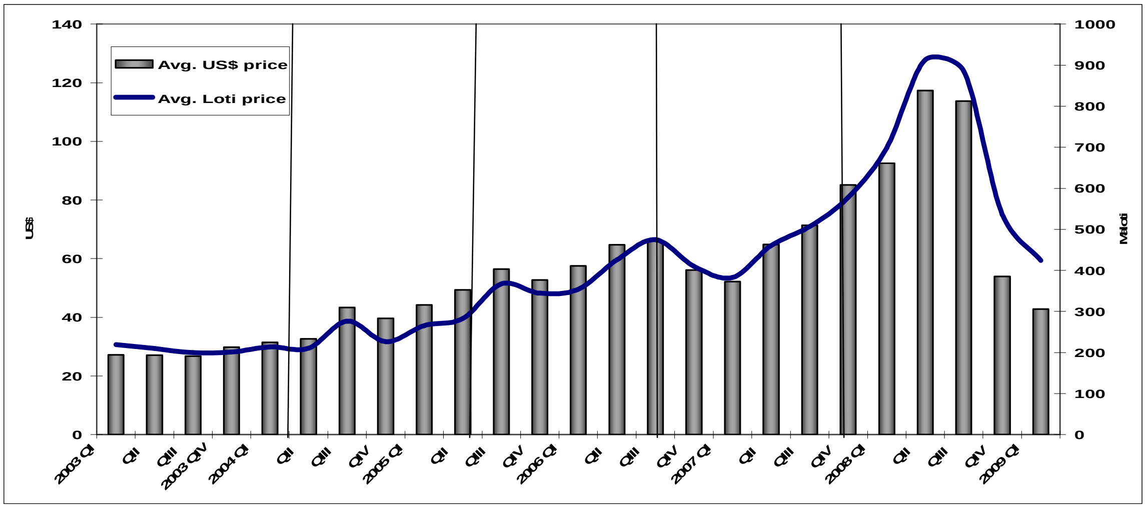
Oil

During the quarter under review, the average price of crude oil recorded a significant decrease of 20.6 per cent, from US$53.90 per barrel in the previous quarter to US$42.81 per barrel. The Organisation of Petroleum Exporting Countries (OPEC) has reported that global economic slowdown continued to erode oil demand growth, particularly in the US, Japan and China, resulting in a build-up of inventories of crude oil and petroleum products during the quarter.

In Maloti terms, the price fell by 20.9 per cent, from M536.70 per barrel in the previous quarter to M424.33. It is expected that this fall in the price of crude oil, in both US Dollar and Rand terms, will help reduce inflationary pressures both in Lesotho and in the region given that Lesotho imports all its petroleum products.

Due to the developments in the international oil prices, fuel prices in Lesotho were revised downwards during the review quarter. The pump price of petrol in Lesotho closed the review quarter lower at M6.30 per litre. The price of diesel and illuminating paraffin also closed the quarter lower at M6.75 per litre and M4.40 per litre, respectively. These compare with M6.55 per litre of petrol, M8.75 per litre of diesel and M6.20 per litre of illuminating paraffin at the end of the quarter ending December 2008.

Figure 3: Average Price of Oil



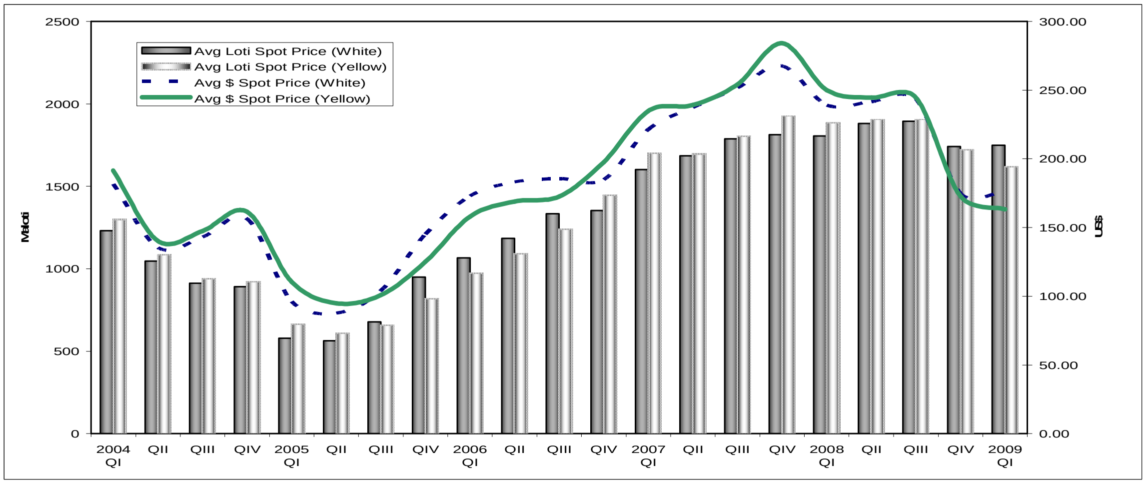
Source: Bloomberg

Agricultural Products

Maize

The average prices of white maize rose slightly while the price of yellow maize declined during the quarter under review. The average spot price of the former rose to US$176.42 per tonne from US$174.78, while that of yellow maize declined from US$172.81 in the previous quarter to US$163.26 per tonne in the review quarter. In Maloti terms, these translate into an increase from M1 740.84 per tonne to M1 748.64 for white maize and a fall from M1 721.22 per tonne in the previous quarter to M1 618.27 during the quarter under review for yellow maize.

Figure 4: Average Spot Prices of Maize

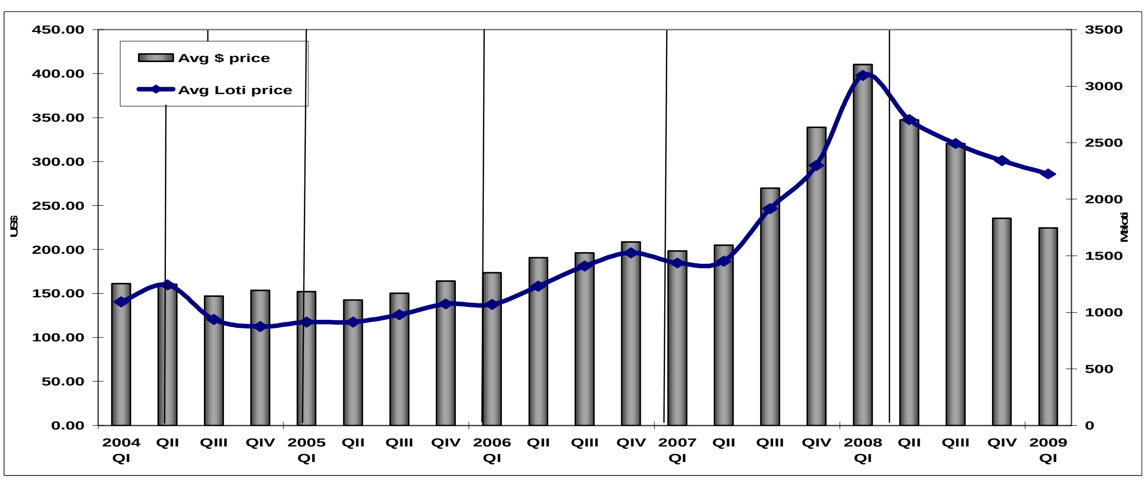


Source: South African Futures Exchange (SAFEX)

Wheat

The quarterly average spot price of wheat decreased by 4.8 per cent from US$235.62 per tonne registered in the fourth quarter to US$224.38 during the quarter under review. In Maloti terms, the average spot price of wheat decreased from M2 346.21 per tonne in the last quarter to M2 224.07 in the quarter under review.

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 continued to show weakening performance, especially from the primary sector (particularly the mining sub-sector) and the tertiary sector which comprises of the service sub-sector in the period under review. These sectors were adversely affected by the prevailing challenges in the global economy, which have reduce consumer demand in major economies. The secondary sector of the economy showed mixed results in terms of electricity and water consumption. Water consumption has increased while electricity consumption has declined.

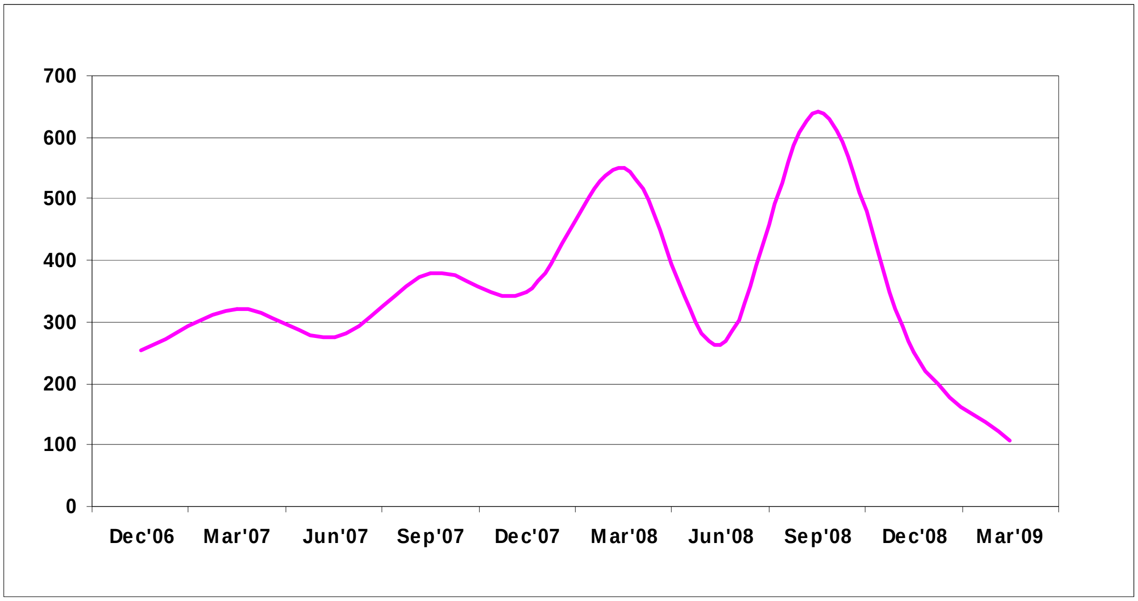
Primary Sector Developments

The diamond production index continued to decline during the review period. It declined by 57.7 per cent from 250.8 points in December 2008 to 106.2 points in the period ending March 2009. This was mainly driven by sharp fall in prices of rough diamonds due to the present global economic downturn, particularly in European[3] markets. Due to global economic slowdown, domestic producers of diamonds reduced their production in line with the global slump in demand for rough diamonds. In addition, the global credit crunch freezed financing to this sector, leading to a slowdown in its operations. The decline in domestic diamond production, therefore, translated into a fall in the growth of the primary sector, employment and economic growth. Recently, the mining sub-sector emerged as an important contributor to Gross Domestic Product (GDP) in Lesotho.

[3] Lesotho's diamonds are mainly destined for European markets, particularly Belgium.

Figure 6: **Diamond Production Index**

(2005: QI=100)



Source: Department of Mines and Geology

Secondary Sector Developments

Electricity Consumption

Electricity consumption declined by 0.5 per cent on a quarterly basis. Significant decline observed mainly in 'commercial and industrial' category. On an annual basis, it increased by 2.7 per cent. The decline on quarterly basis mainly reflects the impact of global downturn as firms and businesses responded by cutting down production costs and reducing output.

Table 2: Electricity Consumption

(Value in Million Maloti)

	2008						2009	
	QII		QIII		QIV		QI	
	Kwh	value	Kwh	value	Kwh	Value	Kwh	Value
General Purpose	20.08	13.19	14.58	10.55	19.50	12.82	20.24	13.70
Domestic	40.85	23.18	30.74	17.45	36.12	21.51	38.49	23.58
Commercial & Industrial	78.17	34.88	56.46	24.28	69.33	31.92	65.60	32.92
Total	139.10	71.25	101.78	52.48	124.96	66.25	124.34	69.19

Source: Lesotho Electricity Authority and Lesotho Electricity Company

Water Consumption

Water consumption increased by 5.6 per cent in March 2009 compared with 12.5 per cent decline observed in December 2008. On an annual basis, it increased by 3.9 per cent. However, the industrial water consumption declined by 4.1 per cent in March 2009. The decline in commercial and industrial water consumption was largely attributable to the slowdown in manufacturing productivity as a result of weak global demand for manufacturing products, particularly textiles and clothing. The Lesotho manufacturing sub-sector is dominated by the textile, food and beverages industries which rely heavy on water and as a result water usage by the industrial sector is one of the indicators of manufacturing activity.

Table 3 : **Water Consumption**

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

		Domestic	Industrial	Other	Total
2008					
I	Units	0.87	1.18	0.52	2.56
	Value	3.65	5.83	2.58	12.06
	Units*		1.40		2.99
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
III	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

Source: Water and Sewerage Authority
*denotes seasonally adjusted figures

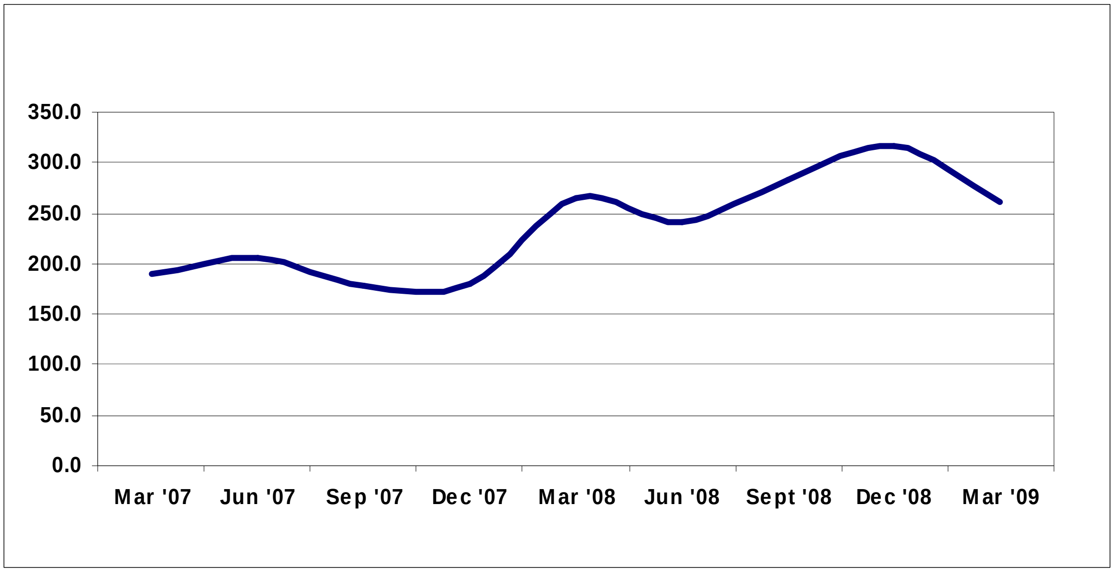
Tertiary Sector Developments

Sales Turnover

The value of sales turnover declined by 17.5 per cent during the quarter under review, compared with an increase of 12.2 per cent observed in the previous quarter. On annual basis, sales turnover fell by 1.5 per cent. The subdued consumption demand indicates weak consumer confidence and deteriorating labour market due to the ongoing retrenchment in the domestic industry and regional mining sector. This resulted in consumers tightening their budget due to a decline in incomes available for spending. This does not bode well for economic growth.

Figure 7: Value of Sales Turnover

(Million Maloti)



Source: Lesotho Revenue Authority

Telephone Statistics

The total number of telephone calls increased by 5.6 per cent on a quarterly basis. However, the total number of calls declined by 58.6 per cent on annual basis. The number of calls to South Africa also declined on annual basis. The general slowdown observed in the rest of the economy is expected to impact negatively on the telecommunications sub-sector particularly when workers are being laid off and operations are being suspended in other sectors. However, the growth of relatively new services like the internet is likely to support value added by this sub-sector

Table 4: Telephone Traffic Statistics

		SA Outgoing Calls	International Calls	Total Calls
2008				
I	No. of calls (millions)	4.97	0.21	5.18
	No. of calls*			5.51
	Total Duration (million minutes)	5.73	0.75	6.48
	Nominal Value (million maloti)	13.19	6.09	19.28
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*			2.28
	Total Duration (million minutes)	3.51	0.42	3.92
	Nominal Value (million maloti)	8.06	3.13	11.19

Source: Tele-Com Lesotho and Vodacom Lesotho
* Adjusted for seasonality.

Investment Expenditure

Imported Motor Vehicles

The number of imported motor vehicles decreased by a seasonally adjusted 4.3 per cent on a quarterly basis. However, it increased by 82.2 per cent on an annual basis. The downturn on quarterly basis was mainly in the 'buses', 'tractors' and 'motorcycles' categories. This indicator has been affected by the change of the government fleet management company with the new one increasing its stock. It is expected that the situation will stabilise in the next few quarters and the indicator will reflect real sector activity.

Table 5: Motor Vehicle Imports+

(Value in Million Maloti)

		Cars	Vans	Trucks	Buses	Tractors	M/ Cycles	Trailers	Total
2008									
I	Value	15.02	51.60	8.85	5.05	1.04	0.01	0.62	82.19
	Units*								428.95
	Units	206	306	16	18	3	1	6	556
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

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 5.4 per cent during the first quarter of 2009. It also declined by 2.2 per cent on annual basis. The decline was mainly attributable to global economic downturn particularly in the United States (US). Due to recession in the US, there has been a significant decline in demand for imports including clothing and textiles by US consumers. This situation affected mostly the manufacturing sub-sector as US is the main clothing and textiles exports market for Lesotho. As a result, the manufacturing sub-sector was forced to scale down its operations (some firms suspended their operations) and hence laying off significant number of workers

The manufacturing sub-sector has been an important contributor to employment and hence economic growth in Lesotho. Therefore, the current global economic downturn does not augur well for the economy of Lesotho. It is expected that employment of LNDC-assisted companies would remain under pressure for the rest of 2009 on account of the global economic slowdown.

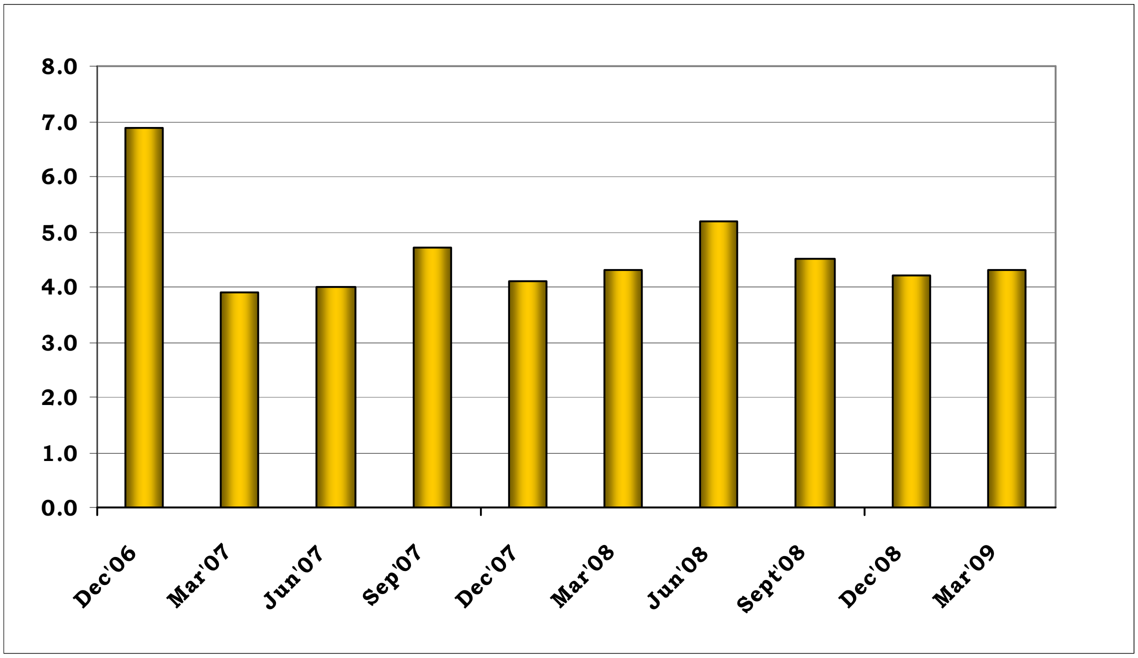
Table 5: Employment Trend of LNDC-Assisted Companies

Period	QI	QII	QIII	QIV
2009	44665	n/a	n/a	n/a
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)

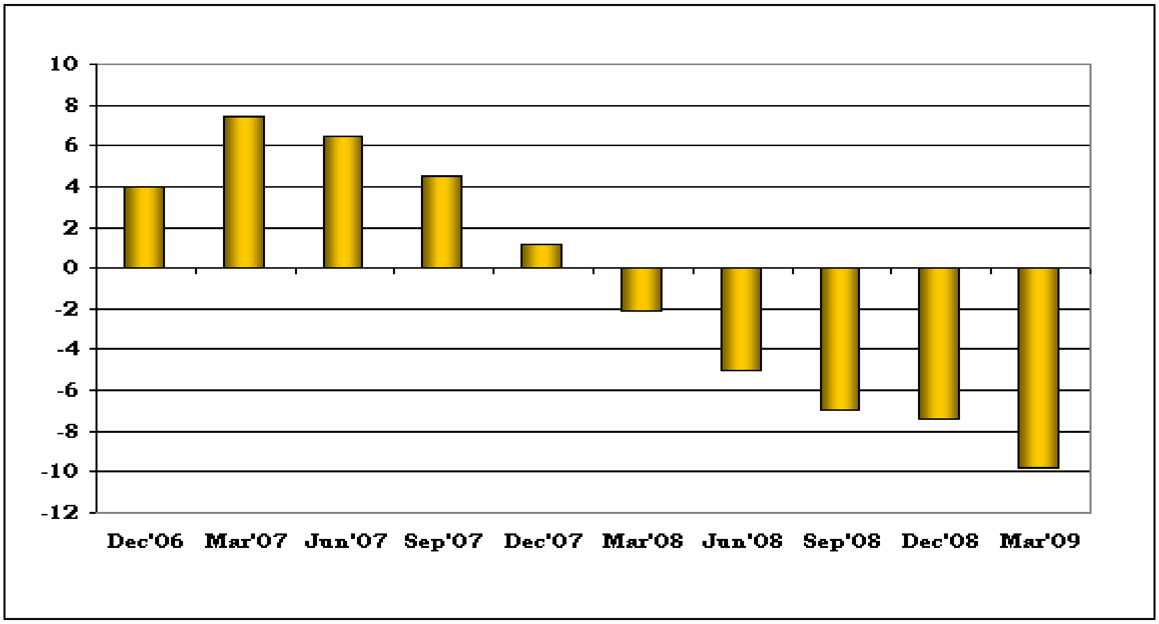


The number of government employees rose by 0.92 per cent and 4.9 per cent on a quarterly basis and annual basis respectively. The increase reflected the Government's effort to fill-up existing posts within the public sector so as to improve service delivery.

The annual increase in the public sector employment was mainly attributable to the increase in civil servants' employment (6.2 per cent) as well as teachers' employment (4.5 per cent). The quarterly increase was largely due to an increase in employment of civil servants (2.2 per cent). However, the decline in the number of teachers employed (-1.3 per cent) moderated the increase in government employment on quarterly basis. The decline in the number of teachers employed was due to migration of unqualified teachers from the teaching posts to civil servants posts.

Figure 9: **Migrant Mineworkers Employment**

(Annual Percentage Change)



The number of migrant mineworkers declined by 3.9 per cent on a quarterly basis during the period ending in March 2009. The number declined from 50 686 to 48 715 on an annual basis, equivalent to 9.8 per cent decline driven mainly by the global downturn and weak domestic demand that hit South Africa in the first quarter of 2009. South Africa's mining sector has been negatively affected by the global economic downturn in major trading partners (particularly European markets). This does not augur well for employment of Basotho migrant workers.

Price Developments

The rate of inflation registered 10.1 per cent for the quarter ending March 2009. This is lower than the 10.6 per cent recorded in the quarter ending December 2008. The decrease was driven mainly by the following categories: "food and non-alcoholic beverages' at 13.6 per cent compared with 14.3 per cent recorded in the previous quarter, "housing, electricity, gas and other fuels" at 10.5 per cent compared with 16.5 per cent registered in the previous quarter and "transport" at 8.8 per cent compared with 11.4 per cent in the previous quarter. The Lesotho's inflation rate was higher than the South African new measure of inflation rate which stood at 8.5 per cent in March 2009.

Table 6: Inflation Rate

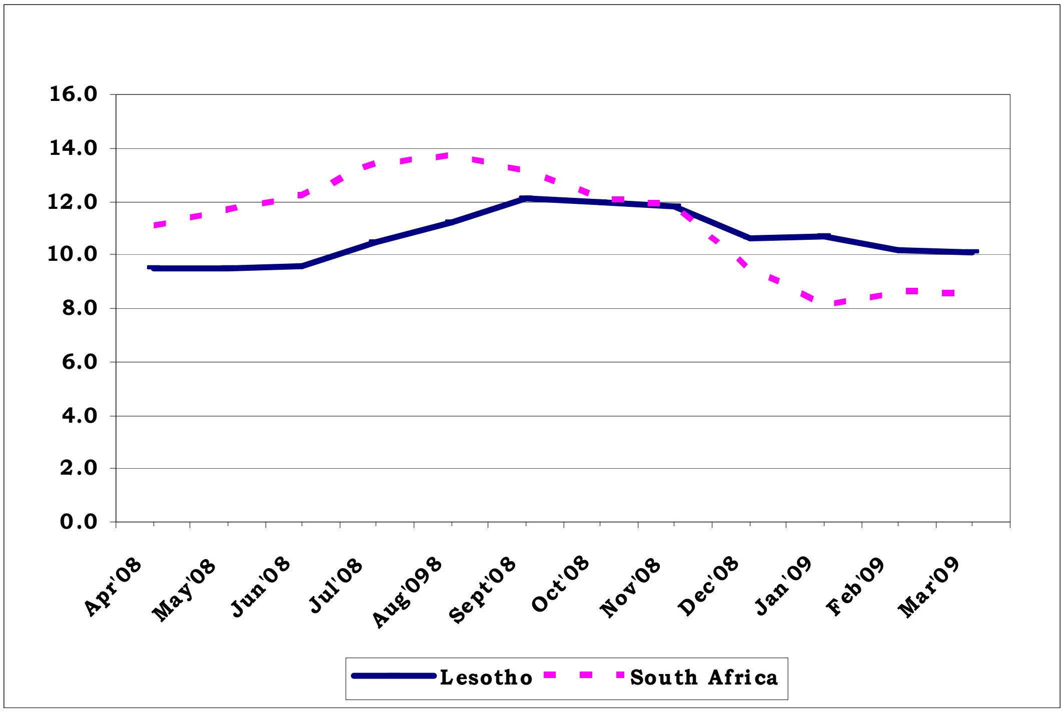
(Annualised Percentage Change: April 1997=100)

	Weight	2008		2009		
		Nov	Dec	Jan	Feb	Mar
All items	100.0	11.8	10.6	10.7	10.2	10.1
Food and non-alcoholic beverages	39.8	15.7	14.3	14.2	13.5	13.6
Alcoholic beverages & Tobacco	6.4	5.8	5.5	5.5	5.0	5.6
Clothing & footwear	15.6	6.7	5.8	6.4	6.1	6.1
Housing, electricity gas & other fuels	3.7	17.8	16.5	13.5	12.3	10.5
Furniture, households equipment & routine maintenance of house	17.0	6.2	6.2	6.2	7.2	7.0
Health	1.4	1.8	1.9	0.4	-0.1	1.4
Transport	7.8	14.9	11.4	11.4	10.3	8.8
Communication	0.1	0.0	0.0	0.0	0.0	0.0
Leisure, entertainment & Culture	1.2	5.1	7.6	6.4	6.8	7.6
Education	3.2	2.8	2.9	2.9	2.8	2.8
Restaurant & Hotels	0.4	11.7	11.5	12.0	10.6	9.1
Miscellaneous goods & services	3.2	8.5	8.3	8.0	7.5	7.5

Source: Bureau of Statistics, Lesotho

Figure 10: Annual Inflation Rate for Urban Households

(Percent)



IV. Monetary and Financial Developments

Determinants of Money Supply

During the quarter ending March 2009, the broad measure of money (M2) rose by 12.5 per cent, a growth higher than the 11.5 per cent recorded in December 2008. The increase resulted from a rise in both the banking system's net foreign assets and domestic credit. On an annual basis, money supply grew by 31.4 per cent following a 19.7 per cent per cent rise at the end of December last year. Annual money supply growth was also strong in real terms due to steady inflation. It jumped from 9.1 per cent in the last quarter of 2008 to 21.3 per cent in March 2009. The year-on-year growth was driven by a robust increase in domestic credit.

Figure 11: Overview of Recent Monetary Developments

(Million Maloti: End of Period)

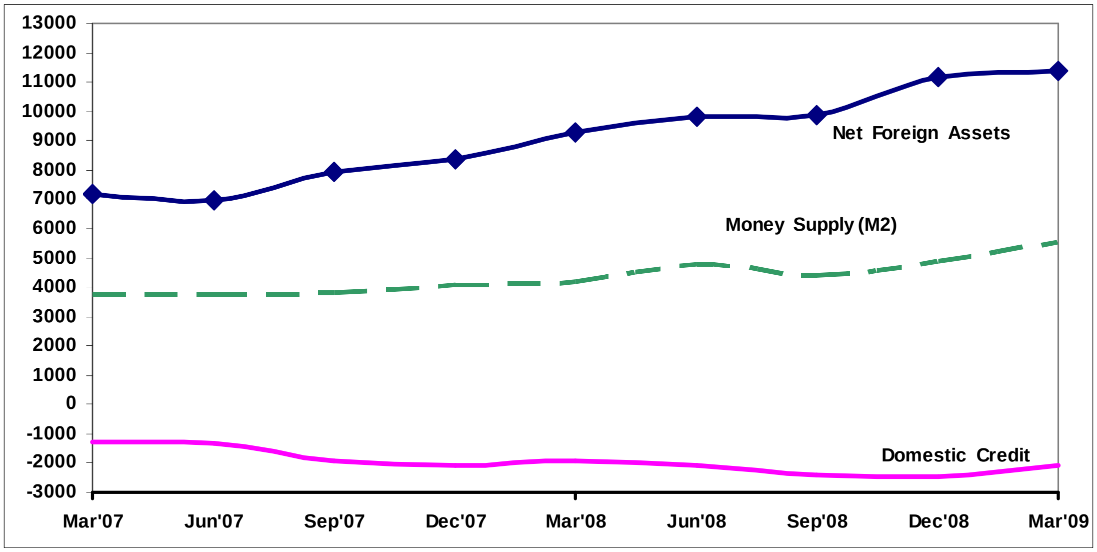


Table 7: Determinants of Money Supply

(Million Maloti: Changes)

Determinants	2008				2009
	Mar	**Jun**	**Sep**	**Dec**	**Mar**
Net foreign assets	895.5	526.2	70.3	1281.1	220.1
Domestic credit	137.3	-126.3	-345.5	-60.4	377.4
Net Claims on Govt	50.6	-257.4	-408.0	-33.5	327.0
Statutory bodies	-1.3	-2.4	-3.5	-0.4	-3.8
Private sector	79.6	159.6	66.0	-26.5	54.6
Other items, net	935.2	-171.4	94.2	718.3	-10.0
Money Supply (M2)	97.5	571.3	-369.3	502.4	608.0

Components of Money Supply

The growth in broad money reflected increase in its two components, narrow money (M1) and quasi money. M1 rose by 13.5 per cent in the quarter ended March 2009, compared with 15.7 per cent observed at the end of December last year. The slower increase was influenced by a 14.3 per cent rise in demand and call deposits, down from 18.9 per cent in December. This overshadowed the impact of strong growth in currency with public, which rose by 10.5 per cent, and recovery in deposits of official entities held with the Central Bank during the review period. Quasi money increased by 8.5 per cent during the same period following a decrease of 2.4 per cent registered at the end of the previous quarter. It reflected increases in both savings and time deposits, which rose over 8 per cent each on quarterly basis.

Table 8: Money Supply

(Million Maloti; End of Period)

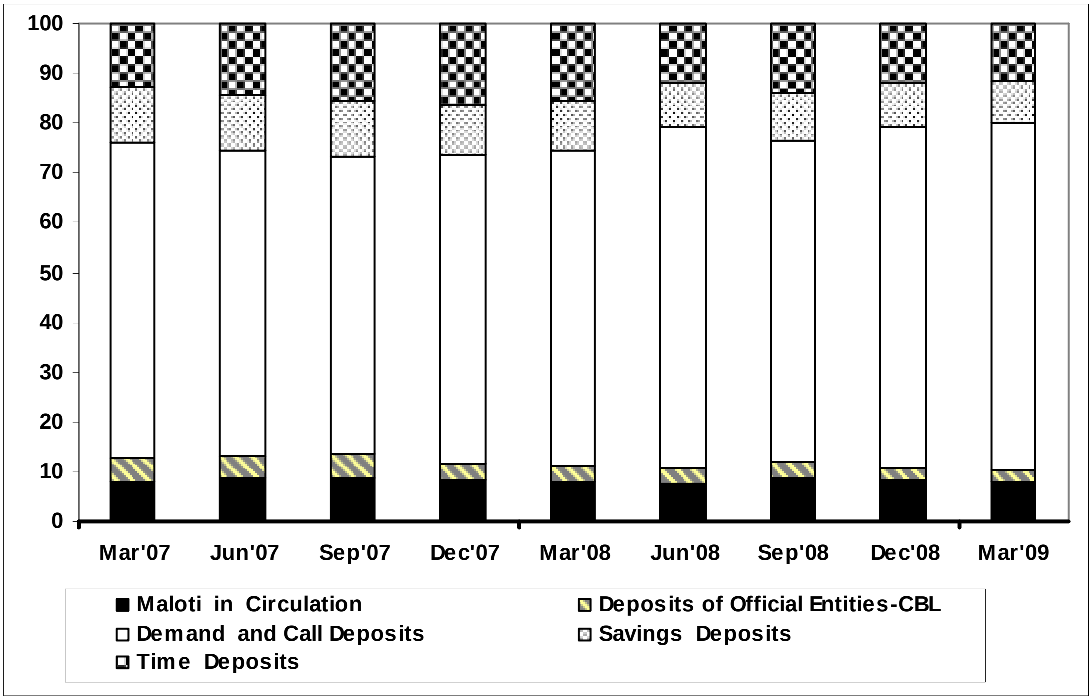
	2008				2009
	Mar	**Jun**	**Sep**	**Dec**	**Mar**
Money Supply (M2)	4176.5	4747.9	4378.6	4881.0	5489.0
Money (M1)	3112.6	3760.4	3347.8	3874.8	4397.6
Maloti with public	331.0	368.9	379.6	402.1	444.1
Demand deposits[1]	2640.5	3248.6	2817.9	3346.1	3823.7
Deposits of official Entities with CBL	141.1	142.9	150.3	126.7	129.8
Quasi-Money	1063.9	987.5	1030.7	1006.2	1091.3
Savings deposits	411.4	427.9	424.4	423.1	460.9
Time deposits	652.5	559.7	606.3	583.1	630.5

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

The share of demand deposits in broad money increased further in the first quarter of 2009, registering a share of 69.7 per cent against 68.9 per cent in December. Other components of money experienced small deceases in their shares.

Figure 12: Components of Money Supply

(Percentage shares)



Commercial Banks' Deposits by Holder

The volume of deposits held with the commercial banks was dominated by deposits of the private sector, which accounted for 97.7 per cent share. Total deposits rose by 10.0 per cent, at the end of March 2009 compared with 12.9 per cent recorded at the end of December 2008. The rise was manifested in all deposit components of the private sector. Demand deposits of the private sector registered the largest absolute increase of M557.4 million and time deposit the largest percentage increase at 41.0 per cent. However, statutory bodies saw a 67.7 per cent decline in deposits held with commercial banks

Table 9: Commercial Banks' Deposits by Holder

(Million Maloti: End of Period)

	2008				2009
	Mar	Jun	Sep	Dec	Mar
Total Deposits	3693.7	4225.2	3836.4	4340.8	4889.3
Private Sector	3117.7	3462.0	3113.9	3997.4	4775.4
Demand deposits	2186.3	2602.6	2220.0	3128.2	3685.6
Savings deposits	411.1	427.7	424.3	423.0	460.7
Time deposits	519.8	431.7	469.6	446.2	629.1
Statutory Bodies	576.2	763.2	722.5	343.5	110.9

NB: Totals may not tally due to rounding off

Liquidity of Commercial Banks

Liquidity ratio measures the ability of commercial banks to honour withdrawals of deposits by customers. It improved from 73.1 per cent in December 2008 to 81.8 per cent in the quarter to March 2009. The rise was driven by a 25.2 per cent increase in liquid assets, which was stronger than the effect of a 12.0 per cent growth in deposit liabilities and claims by local and foreign banks. All liquid assets grew in the fist quarter of 2009, except loti and rand cash held by commercial banks (see Table 11).

Table 10: Components of Commercial Banks' Liquidity

(Million Maloti: End of Period)

COMPONENT	2008				2009
	Mar	Jun	Sep	Dec	Mar
Maloti Notes and Coins	55.8	43.8	59.1	79.2	57.0
Rand Notes and Coins	36.4	27.3	37.4	56.4	37.0
Balances due from Lesotho Banks	690.1	843.5	828.2	775.0	989.5
Balances due from Foreign Banks	1719.1	2205.0	1687.1	2547.3	3166.0
Clearing Balances with CBL	2.3	103.1	269.6	75.2	224.4
CBL Bills	0.0	0.0	0.0	0.0	0.0
Lesotho Government Securities	452.0	476.84	471.4	404.2	457.2

The credit deposit ratio declined from 34.1 per cent registered in December 2008 to 31.4 per cent in the quarter ended March 2009. The decrease reflected a faster growth in deposit liabilities which exceeded the rise in credit extended during the review quarter. This indicates that commercial banks are extending a lower share of private sector deposits as credit.

Table 11: Consolidated Balance Sheet of Commercial Banks

(Million Maloti: End of Period)

	2008				2009
	Mar	Jun	Sep	Dec	Mar
Net foreign assets	2371.4	2792.5	2162.8	2921.1	3201.6
Deposits with CBL	32.0	103.1	269.6	75.2	224.4
Credit:	1825.5	2001.3	2057.9	1934.8	2040.4
Statutory Bodies	50.1	47.7	44.3	43.8	40.0
Private Sector	1242.6	1404.0	1466.5	1437.0	1493.2
Government securities	532.8	552.5	547.1	454.0	507.2
Assets/Liabilities	4228.9	4896.9	4490.3	4855.9	5466.4
Private sector deposits[2]	3963.7	4225.2	3836.4	4340.7	4886.3
Government deposits	146.6	169.7	167.7	194.1	37.8
Capital, reserves & other, net	118.6	502.0	186.2	320.9	542.3

[2] includes statutory bodies' deposits.

Demand for Money

Domestic Credit

At the end of March 2009, domestic credit showed a recovery on a quarterly basis, registering an increase of 3.5 per cent compared with 2.0 per cent decline observed at the end of the previous quarter. The increase was driven by an increase in credit extended to the private sector, as credit to statutory bodies fell during the period. Domestic credit grew by 16.3 per cent on an annual basis at the end of March compared with 17.1 per cent recorded at the end of December.

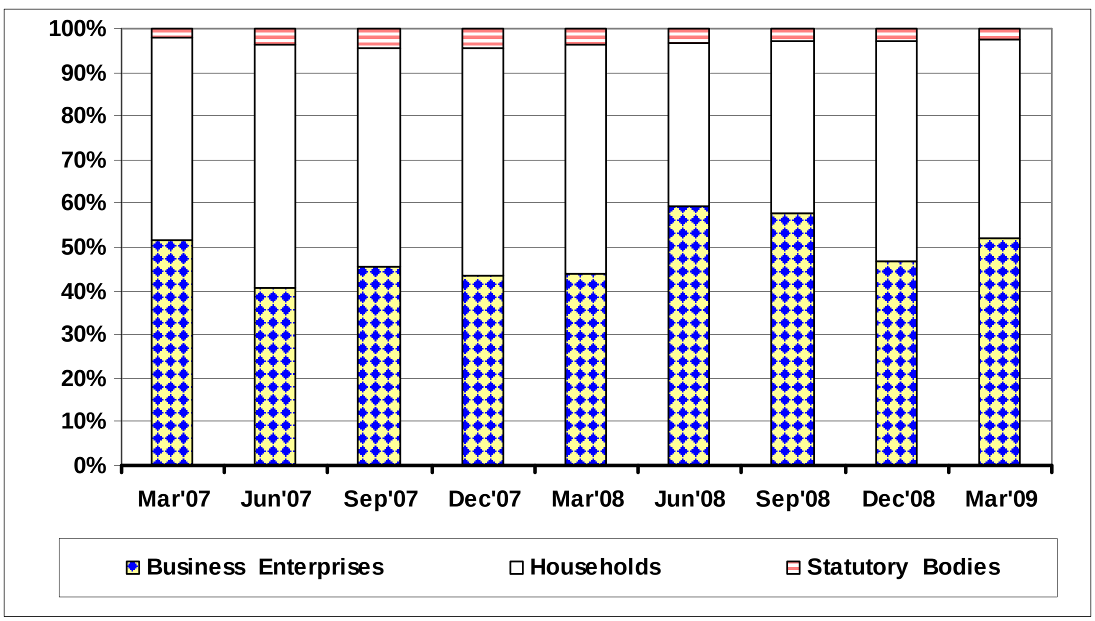
Table 12: Domestic Credit Excluding Net Claims on Government

(Million Maloti: End of Period)

	2008				2009
	Mar	Jun	Sep	Dec	Mar
Domestic Credit	1318.8	1448.8	1510.7	1480.9	1533.2
Credit to private sector	1268.6	1401.0	1466.5	1437.0	1493.2
Business enterprises	731.0	871.5	874.5	693.3	797.7
Households	537.6	529.2	592.0	743.8	695.5
Credit to statutory bodies	50.1	47.7	44.2	43.8	40.0

Figure 13: Distribution of Credit by Holder

(Percentage shares)



Credit to Private Sector

The rise in credit to the private sector reflected a 15.1 per cent increase in credit contracted with business entities. The rise in credit granted to business enterprises is encouraging, given the prevailing credit crunch in international financial markets. It could boost the slowing economic activity observed in the recent months. However, credit to households fell by 6.5 per cent in the review period, following a 25.6 per cent increase in the last quarter of 2008.

The recent downward trend of lending rates could boost demand for credit by households in the coming quarters.

Credit to Statutory Bodies

Credit to statutory bodies continued a downward trend, declining by 8.6 per cent at the end of March 2009. Its share to total non-government credit stood at 2.6 per cent at the end of the quarter.

Sectoral Distribution of Credit[4]

Total distribution of credit to all sectors of the economy, including statutory bodies but excluding government, grew by 3.3 per cent in March 2009. The rise was mainly realised in non-bank financial institutions and real estate, as well as in the category 'community, social and personal services', while the drop in the other sectors, with transport, storage and communication sector falling by 44.6 per cent, moderated the increase. The rise in total credit is a positive development for the economy to recover from effects of the global financial crisis.

Most sectors undertook sizable repayments of loans during the quarter probably due to high interest rates and expected global economic slowdown. However, there were some positive developments, with credit to manufacturing growing by 20.7 per cent. This is in contrast to the general expectation following the global economic turmoil during the review period. Credit to the non-bank financial institutions and real estate registered more than a nine fold upsurge. Community, social and personal services subsector experienced a 9.8 per cent improvement in credit in the quarter to March, after declining by 47.3 per cent in December 2009.

The construction saw a reduction in credit during the quarter, falling by 13.4 per cent after rising by a 24.1 per cent in the fourth quarter. However, credit to the sector is expected to improve in the future with infrastructural developments gaining momentum. The rest of other sectors experienced a double digit drop in credit.

[4] Data on sectoral distribution has been revised following data correction efforts of one the commercial banks where some credit to business enterprises were wrongly classified as being granted to households. The revision corrects the overestimate of credit extended to households.

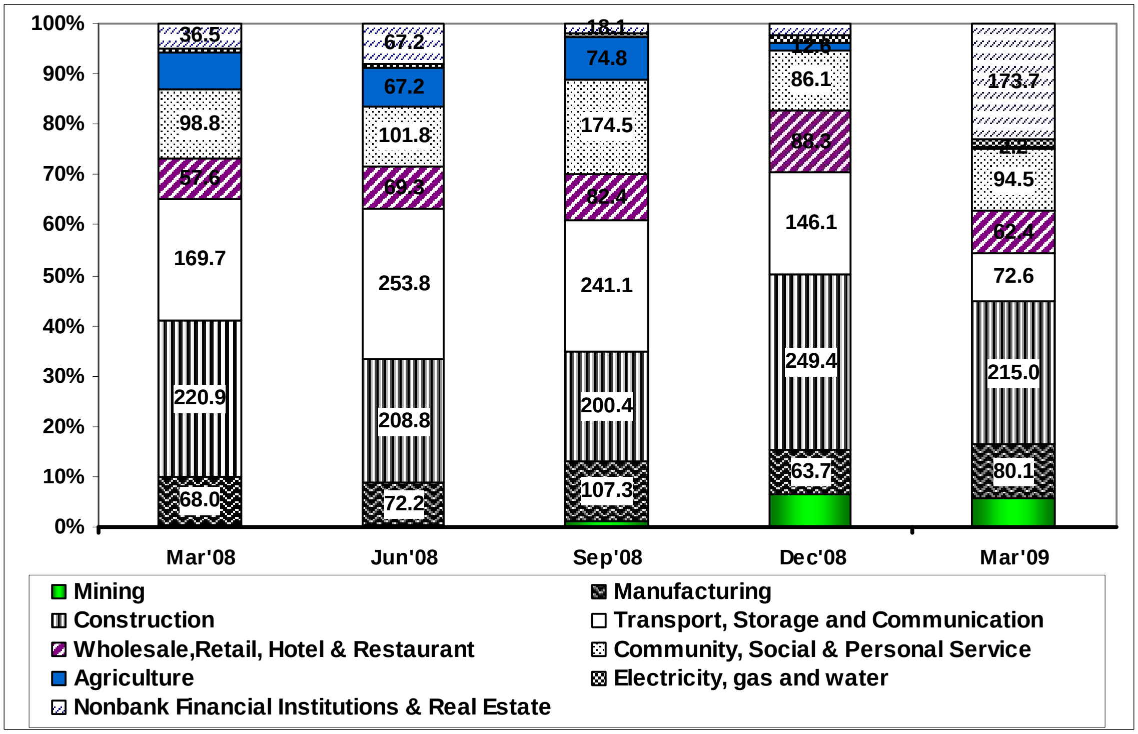
Table 13: Sectoral Distribution of Credit to Enterprises

(Million Maloti: End of period)

SECTOR	2008			2009
	Jun	Sep	Dec	Mar
Agriculture	67.0	74.8	12.6	2.2
Mining	3.7	11.3	47.9	43.0
Manufacturing	72.2	92.2	72.5	87.5
Construction	209.8	199.3	250.1	215.5
Transport, storage and communication	253.8	204.3	176.5	97.86
Electricity, gas and water	6.2	7.6	10.0	10.5
Wholesale, retail, hotel and restaurant	69.3	67.1	97.3	69.8
Non-bank financial institutions and real estate	67.2	15.0	16.4	173.7
Community, social and personal services.	101.8	163.3	86.1	94.5
All sectors	851.0	834.9	769.5	795.0

Figure 14: Commercial Banks' Credit to Business Enterprises

(Percentage shares)



Net Claims on Government

Net creditor position of Government with the banking system weakened significantly between December 2008 and March 2009, registering an 8.2 per cent fall compared with a small growth observed during the quarter ended December 2008. The fall was a result of a draw-down in government deposits held with both the Central Bank and commercial banks (see Table 8). Claims on government by commercial banks increased through higher holdings of treasury bills, while claims by the Central Bank declined.

Table 14: Banking System's Net Claims on Government
(Million Maloti: End of Period)

Holder	2008				2009
	Mar	Jun	Sep	Dec	Mar
Commercial banks	386.2	382.8	379.3	259.9	469.4
Claims on Government	532.8	552.5	547.1	454.0	507.2
o/w MP T Bills[3]	457.9	455.2	468.2	454.0	461.8
Less Government deposits	146.6	169.7	167.7	194.1	37.8
CBL	-3660.0	-3914.0	-4318.5	-4232.6	-4115.0
Claims on Government[4]	327.7	311.7	316.6	529.9	345.5
Less Government deposits	3987.7	4115.7	4635.1	4762.5	4460.5
o/w blocked account	510.3	509.5	535.0	424.8	475.7
Total Net Claims	-3273.8	-3531.7	-3939.2	-3972.7	-3645.7

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

Net Foreign Assets

Net foreign assets of the banking system rose by 2.0 per cent at the end of March 2009 compared with 13.0 per cent observed in December 2008. The slower growth mainly reflected a decline in net foreign assets of the Central Bank, which partially dampened the effect of an increase in external reserves of commercial banks. Commercial banks' net foreign assets increased by 9.6 per cent in March 2009 from a growth of 35.1 per cent in December 2008.

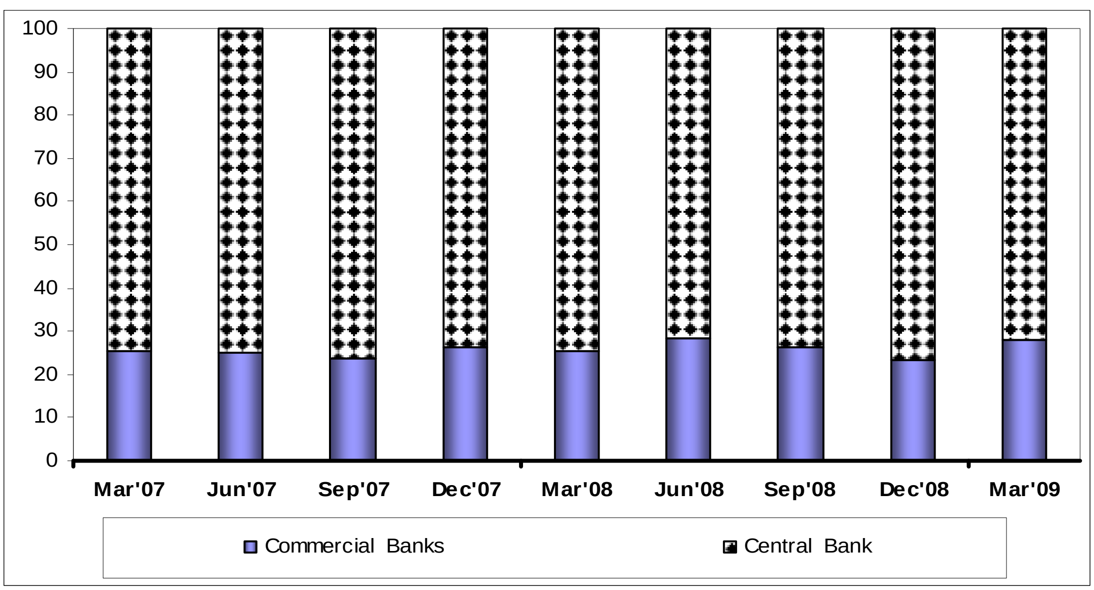
Table 15: Banking System's Foreign Assets and Liabilities

(Million Maloti: End of Period)

Holder	2008				2009
	Mar	Jun	Sep	Dec	Mar
A. Commercial Banks	2371.4	2792.5	2162.8	2921.1	3201.6
Foreign Assets	2448.4	2858.4	2208.3	3013.7	3333.3
Foreign Liabilities	-77.0	-65.9	-45.5	-90.7	-131.7
B. Central Bank of Lesotho	6887.2	7028.8	7728.7	8251.6	8191.2
Foreign Assets	7560.4	7725.8	8430.4	8989.2	8921.9
Foreign Liabilities	-673.2	-697.0	-701.7	-737.7	-730.8
Net Total	9258.6	9821.2	9891.5	11172.6	11392.8

Figure 15: Net Foreign Assets

(Percentage shares)



Money Market Developments

Overview

The stock of Treasury bills issued increased by 3.1 per cent during the first quarter of 2009. The total amount of securities issued during this period was M544.6 million. As Table 17 indicates, the yield on the 91-day treasury bills declined from 10.62 per cent in December 2008 to 9.92 per cent in March 2009 despite the increase in total stock of securities offered. This was in line with interest rate movements in the region as well as strong demand for domestic securities.

Commercial bank's holdings of Treasury bills continued to constitute the largest proportion at 90.3 per cent. They grew by 4.4 per cent compared with their share in the previous quarter. Holdings by the non-bank sector maintained a downward trend, falling by 8.2 per cent during the period under review.

Table 16: Holding of Treasury Bills

(Face Value; Million Maloti)

Type of Holder	2008				2009
	Mar	Jun	Sep	Dec	Mar
Total	533.0	533.2	537.7	544.6	561.4
Banking System	458.2	455.5	468.5	485.8	507.4
Central Bank	0.3	0.3	0.3	0.3	0.3
Commercial Banks	457.9	455.2	468.2	485.5	507.1
Non-Bank Sector	74.8	77.7	69.2	58.8	54.0
NBFIs	0.3	0.3	0.3	0.3	7.3
Others	74.5	77.4	68.9	57.9	46.7
Memorandum Item					
Average Yield (per cent)	9.76	10.16	11.91	10.66	9.92

Money Market and Short-term Interest Rates

In response to the prevailing global economic turmoil, countries are providing monetary and fiscal stimuli. As a result, money market rates are on a downward trend and lending rates are being reduced to stimulate economic recovery. The region was not an exception, with South African Reserve Bank (SARB) reducing repurchase rate by 200 basis points during the quarter. Consequently, the prime lending rate declined by the same margin. The policy initiative was spread throughout the Common Monetary Area.

At the end of March 2009, the prime lending rate in Lesotho dropped by 208 basis points to 14.50 per cent. Deposits rates also fell across the board, with call deposits rates falling by 200 basis points as shown in table 17 below. The average savings rate declined by 164 basis points. The fall in time deposit rates ranged from 134 basis points to 158 basis points.

Table 17: Major Money Market Interest Rates

(Percent: End of Period)

Interest Rates by Type	2008				2009
	Mar	Jun	Sep	Dec	Mar
Central Bank					
T Bill Rate – 91 Days	9.21	9.91	10.01	10.05	9.00
Lombard Rate	13.21	13.81	14.01	14.05	13.00
Commercial Banks[5]					
Call	5.20	5.02	6.75	6.75	4.75
Time:					
31 days	6.25	5.41	5.54	5.54	3.96
88 days	5.55	6.09	6.22	6.22	4.64
6 months	5.75	6.52	6.60	6.60	5.02
1 year	6.28	7.42	7.57	7.57	6.23
Savings	4.59	5.04	5.04	5.48	3.64
Prime	15.67	16.25	16.58	16.58	14.50
South Africa*					
Repo	11.00	12.00	12.00	11.50	9.50
T Bill Rate – 91 Days	10.29	10.55	11.11	10.84	8.82
Marginal Lending Rate	16.00	17.00	17.00	16.50	14.50
Prime	14.50	15.50	15.50	15.00	13.00

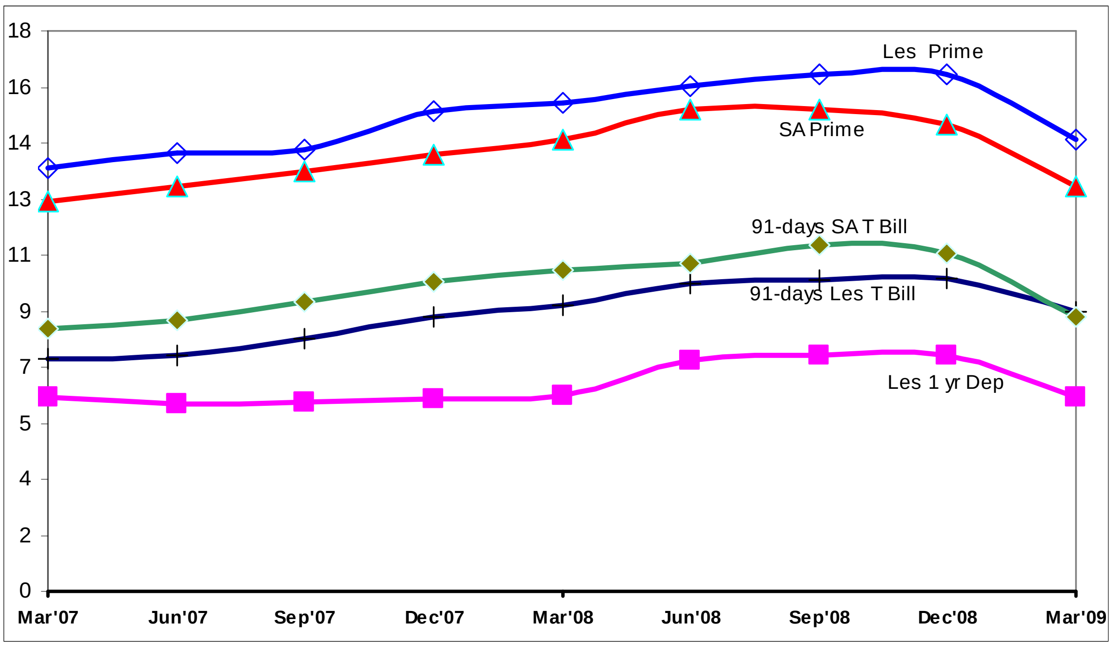
* Figures for South Africa were obtained from the SARB

[5] Average rates by commercial banks

The 91-day Treasury bill rate decreased 9.00 per cent in March 2009 compared with 10.05 per cent in December 2008 while its South African counterpart fell by 2.02 per cent during the period. The Lesotho rate climbed above South Africa's for the first time in more than 12 months.

Figure 16: Short-Term Interest Rates

(Percent Per Annum)



V. Government Finance

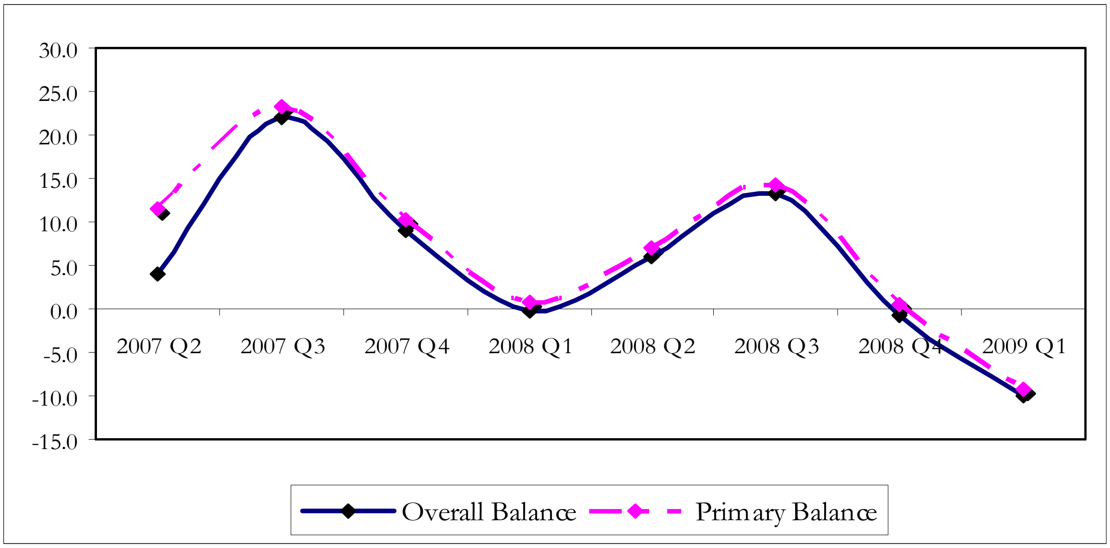
Summary of Budget Outturn

Preliminary estimates on government budgetary operation indicate a deficit during the period under review. The deficit equivalent to 9.3 per cent of GDP was mainly attributed to an increase in recurrent expenditure following transfers made to defined contributory pension scheme for civil servants. This followed a smaller deficit realised in the previous quarter. Total revenue and grants were estimated to increase by 5.2 per cent. The primary balance[5] was slightly higher as figure 17 below depicts.

Government expenditure and net lending grew by 18.8 per cent during the same period. As a share of total expenditure, recurrent expenditure stood at 82.4 per cent, compared with 78.6 per cent observed in the previous period. Capital expenditure measured 17.6 per cent of total expenditure.

[5] 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, increased by 5.2 per cent during the period under review. This was mainly on account of non-tax revenue which surged by 70.8 per cent following receipts of dividends and royalties from diamond mines. SACU revenue continued to dominate tax revenue during the period under review, registering a staggering 63.6 per cent of total share, while the income tax and VAT occupied 22.3 per cent and 12.8 per cent, respectively.

Table 18: Government Revenue

(Million Maloti)

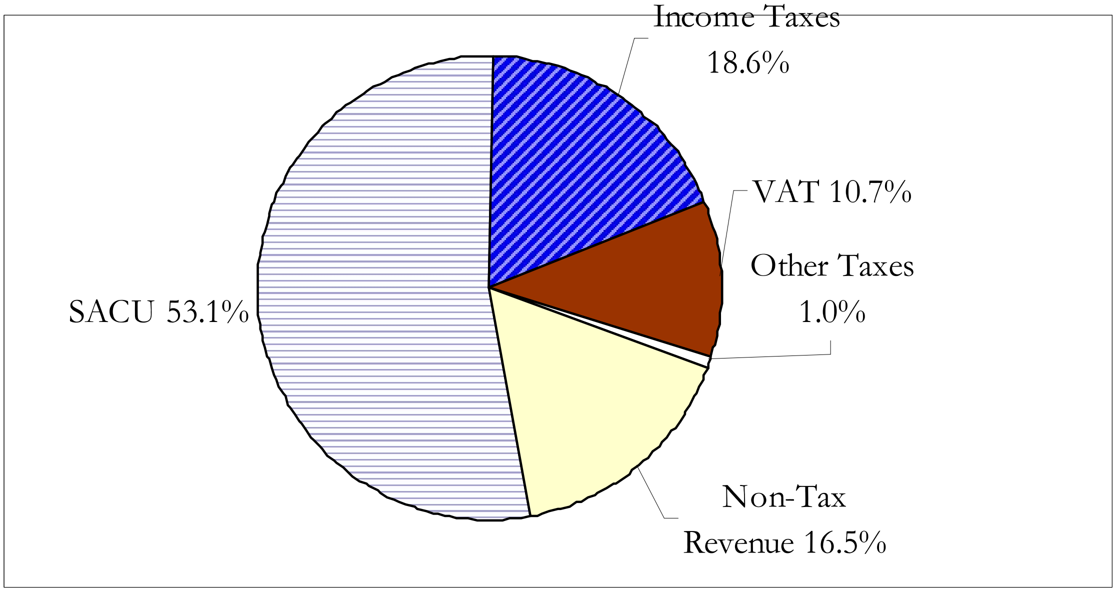
	2007/08	2008/09			
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec Revised	Jan-Mar * Preliminary
Total Revenue and Grants	1778.6	2041.8	2223.2	2221.6	2337.6
Total Revenue	1748.8	1985.1	2151.4	2190.8	2306.7
Tax Revenue	1497.4	1866.3	1898.0	1967.4	1925.2
Customs	959.1	1225.2	1225.2	1225.2	1225.2
Non-customs	538.3	641.1	672.7	742.1	700.0
Income Taxes	301.8	390.1	392.6	331.0	429.3
Taxes on goods & services	230.5	248.5	277.2	258.6	247.0
Other Taxes	6.0	2.5	2.9	152.6	23.7
Non-Tax Revenue	251.4	118.8	253.5	223.4	381.5
Of which: Water royalties	67.0	77.9	96.7	81.6	67.9
Grants	29.8	56.7	71.7	30.8	30.8

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

Following a 4.0 per cent fall in the last quarter of 2008, VAT collections dropped by 1.7 per cent at the end of the first quarter of 2009. The decrease in VAT was in line with developments in inflation rate as discussed in Section II and low economic activity in the economy. Income tax rose by 29.7 per cent, reflecting a 23.1 per cent jump in personal income tax and a more than two fold growth in other income taxes respectively. Increases in the two sub-items overshadowed the effect of a 24.4 per cent decline in company tax on income tax.

The non-tax revenue augmented by 70.8 per cent during the period under review, in contrast to a plunge recorded in the previous period. Non-tax revenue comprises water royalties, administrative fees, dividends, interest on loans on-lent to public enterprises. The climb in non-tax revenue was driven by a more than two fold rise in dividends and other property income. Development grants remained relatively small, despite the successful implementation of several grant-supported projects. This item is expected to improve in the future when more projects gain momentum.

Figure 18: Sources of Government Revenue



Expenditure

Government expenditure and net lending rose by 18.8 per cent during the review period, driven mainly by 24.5 per cent growth in recurrent expenditure. The growth in recurrent expenditure was driven by transfers and subsidies. The transfers to Civil Servants' pension scheme triggered a 76.6 per cent escalation in this expenditure item.

Wages and salaries remained almost unchanged during the period under review. In response to currency movements and a downward trend in domestic and regional interest rates, interest payments decreased by 47.8 per cent.

Table 19: Government Expenditure

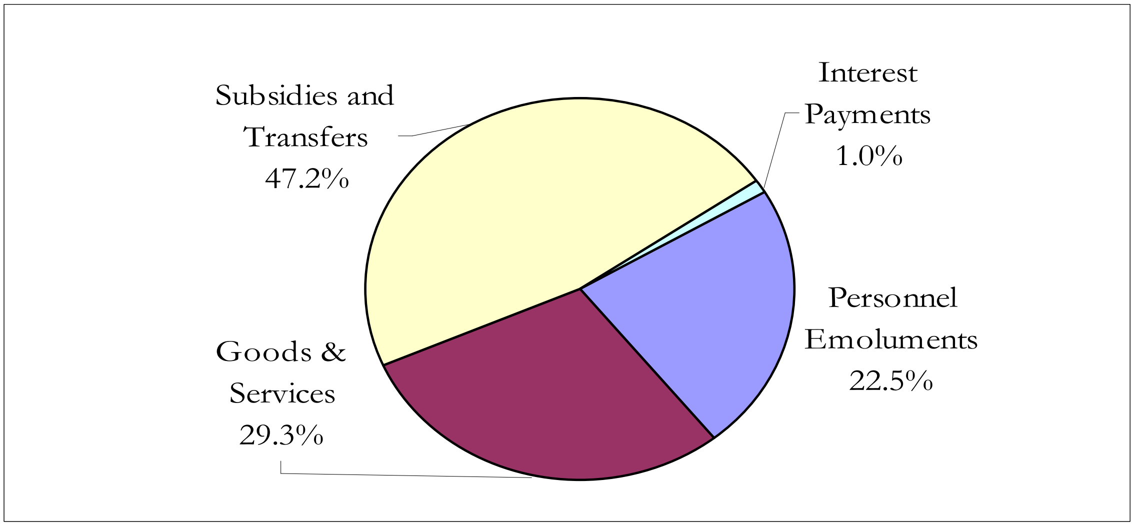
(Million Maloti)

	2007/08	2008/09			
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec Revised	Jan-Mar * Preliminary
Total Expenditure & Net Lending	1788.4	1837.9	1778.4	2248.2	2670.5
Recurrent Expenditure	1208.5	1306.7	1344.4	1768.1	2201.7
Personnel Emoluments	406.9	479.0	482.8	495.4	495.7
Interest Payments	30.9	30.2	35.9	41.5	21.6
Foreign	12.5	13.1	17.7	22.5	11.6
Domestic	18.4	17.1	18.2	19.0	10.0
Other Expenditure	770.8	797.5	825.6	1231.2	1684.4
Capital Expenditure	582.8	531.8	434.5	480.1	468.8
Net Lending	-2.9	-0.6	-0.5	0.0	0.0

Source: MoFDP
*Preliminary estimates

Capital expenditure fell by 2.4 per cent during the reporting period. Government funded expenditure on development projects accounted for 80.0 per cent of total expenditure, while loan and grant funded expenditures accounted for 12.6 per cent and 7.4 per cent, respectively. This is expected to improve in the near future with construction of roads, health and water related infrastructure.

Figure 19: Recurrent Expenditure by Type



Financing

As mentioned earlier, Government budgetary operations were projected to result in a fiscal deficit during the period under review. The deficit was financed by running down government deposits with the banking sector. It is expected that the deficit will be lower in the coming periods as the lump-sum pension fund contribution was a once off event.

Table 20: Government Financing

(Million Maloti)

	2007/08	2008/09			
	Jan-Mar	**Apr-Jun**	**Jul-Sep**	**Oct-Dec** Revised	**Jan-Mar *** Preliminary
Financing	9.8	-203.9	-444.8	26.8	332.9
Foreign	-26.0	50.6	-36.1	69.1	2.7
Loan drawings	36.7	82.2	33.6	142.8	53.2
Amortization	-62.7	-31.6	-69.7	-73.7	-50.5
Domestic	35.8	-254.5	-408.7	-42.3	330.2
Bank Financing	50.6	-257.4	-408.0	-33.5	327.0
Non – Bank	-14.8	2.9	-0.7	-8.8	3.2

Source: MoFDP

Public Debt

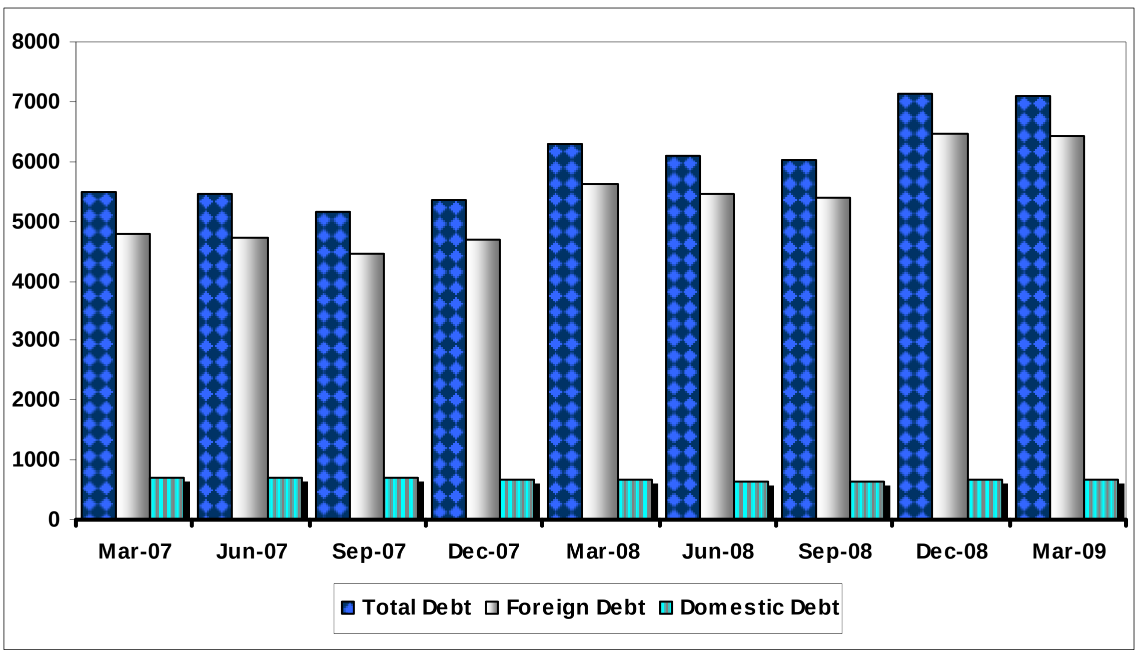
Overview

Government contracts foreign and domestic debt to finance its budgetary operations. Total debt remained unchanged from the level recorded in the fourth quarter of 2008.

As a percentage of GDP, public debt was estimated at 53.2 per cent, the same position recorded in the previous period. Debt service ratio also remained within the sustainability threshold during the review period, recorded at 2.0 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 occupy the lion's share of the total public debt, accounting for 90.5 per cent compared with 9.5 per cent of domestic debt. As a result, public debt is remains vulnerable to foreign exchange volatility.

Figure 20: Outstanding Public Debt

(Million Maloti: End of Period)



External debt

External debt (or foreign debt) is defined as the liability of Government to creditors outside the country. External debt decreased marginally by 0.3 per cent in the current quarter in contrast to 20.1 per cent in the previous quarter. The fall in external debt was largely driven by a 1.0 per cent drop in multilateral credits. As a result, multilateral debt fell marginally from 91.9 per cent of external debt recorded in the last quarter to 91.3 per cent. Loans from bilateral sources rose from 6.0 per cent observed in the last quarter to 6.6 per cent, while that from financial institutions remained unchanged at 1.2 per cent.

It was also observed that external debt accounted for 48.1 per cent of GDP compared to 48.3 per cent in the previous quarter. Nevertheless, concessional debt as a percentage of external debt maintained the level recorded in the previous period. This bodes well for Lesotho as it plays a critical role to ease debt service burden, and also to meet debt sustainability indicators.

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 declined from 3.3 per cent recorded in the previous period to 2.0 per cent. Excluding factor income, the ratio was recorded higher at 3.1 per cent compared to a 5.3 per cent in the third quarter.

Table 21: External Debt

(Million Maloti)

	2008				2009
	QI	QII	QIII	QIV	QI
External Debt	5626.5	5455.2	5378.3	6457.1	6435.1
Bilateral Loans	275.1	261.2	316.7	390.6	426.3
Concessional	234.0	221.5	279.9	348.2	387.6
Non-concessional	41.1	39.7	36.8	42.4	38.7
Multilateral Loans	5210.7	5058.5	4931.3	5932.6	5874.6
Concessional	5051.1	4900.4	4810.7	5892.0	5833.6
Non-concessional	159.6	158.1	120.7	40.6	41.0
Financial Institutions	81.3	79.8	77.1	75.7	75.3
Concessional	24.0	24.0	21.5	21.5	22.4
Non-concessional	57.3	55.8	55.6	54.2	52.9
Suppliers' Credit	59.4	55.7	53.2	58.2	58.9

Source: MoFDP

Domestic Debt

Domestic debt is the component of public debt which is owed to domestic residents. Holding of domestic debt increased by 2.5 per cent in the quarter under review compared with 1.0 per cent in the previous quarter. The increase reflects diversity in holding of debt portfolio by the banking sector, following introduction of the new and longer-dated-tenure Treasury bills and a higher auction frequency. This was in spite of an 8.2 per cent decline in holding of domestic debt by the non-bank sector.

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 the financial sector in 1999. As a percentage of GDP, domestic debt increased slightly to 5.1 per cent.

VI. Foreign Trade and Payments

Overview

The external sector position deteriorated in the period under review. The overall balance registered a deficit of M71.8 million in seasonally adjusted terms, compared with a surplus of M567.0 million observed in the previous quarter, due to a decline in the current account balance. This is the first deficit since the second quarter of 2007. The strengthening of the local currency against major currencies also contributed to the deficit. Transaction balance, which represents the overall balance excluding the effects of currency fluctuations, also recorded a seasonally adjusted deficit of M124.1 million in the review quarter, from a surplus of M37.9 million in the previous quarter, on account of the narrowing of current account surplus.

Current Account

Current account continued to register a surplus during the quarter under review. The surplus narrowed to M330.7 million from a revised surplus of M414.4 million recorded in the fourth quarter of 2008. Deterioration in the current account position resulted largely from a decline in exports earnings and net income. However, a rise in current transfers moderated decline in the current account position. As a share of GDP, current account registered 12.8 per cent in the quarter under review compared with a revised 16.8 per cent in the previous quarter

Table 22: Current Account Balance

(Million Maloti)

	2008				2009
	QI	QII	QIII	QIV*	QI+
I. Current Account	525.97	829.12	327.85	414.37	330.69
(a) Goods	-1399.37	-1223.39	-1724.69	-1705.87	-1779.45
Merchandise exports f.o.b.	1445.27	1846.99	2216.05	1675.60	1403.67
Of which diamonds	291.69	391.69	784.98	270.40	187.80
Of which textiles & clothing	877.11	942.73	880.96	876.67	811.66
Other exports#	276.37	512.57	550.11	528.53	404.21
Merchandise imports f.o.b.	-2844.64	-3070.38	-3940.74	-3381.47	-3183.12
(b) Services	-61.52	-78.33	-109.48	-71.30	-72.40
(c) Income	1039.16	1036.63	1078.84	1098.19	979.06
(d) Current Transfers	947.70	1094.21	1083.18	1093.35	1203.48

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

Merchandise exports

Merchandise exports continued to decline during the quarter under review, largely reflecting the negative impact of the unfolding economic recession in developed countries. In seasonally adjusted terms, merchandise exports fell by 11.3 per cent in the first quarter of 2009 compared with a fall of 24.1 per cent registered in the previous quarter. Textiles and clothing exports dropped by 7.4 per cent during the quarter, following a decrease of 0.5 per cent in the quarter ending December 2008, due to low demand in the US market where a large portion of Lesotho's manufactured goods is destined for. As indicated earlier, the US and South Africa economies are in recession. In addition, a deterioration of diamond exports which accounted for 13.4 per cent of total exports in the review quarter contributed to a reduction in merchandise exports. On an annual basis, merchandise exports plummeted by

2.9 per cent. Relative to GDP, merchandise exports stood at 54.5 per cent compared with 68.0 per cent recorded in the previous quarter.

Merchandise imports

In seasonally adjusted terms, merchandise imports grew marginally by 0.5 per cent in the quarter under review, from a rise of 16.7 per cent observed in the previous quarter. The slowdown in the growth of merchandise imports partly reflects the impact of the global economic slowdown on trade volume. A large share of Lesotho's imports constitutes inputs to the manufacturing of textiles and clothing. However, imports continued to be supported by the implementation of capital projects by the government. On an annual basis, merchandise imports augmented by 11.9 per cent. As a percentage of GDP, merchandise imports recorded a lower 123.6 per cent in the first quarter of 2009 compared with 137.3 per cent observed in the fourth quarter of 2008.

Table 23: Value of Exports by Section of the S.I.T.C. #

(Million Maloti)

COMMODITY	2008				2009
	QI	QII	QIII	QIV*	QI+
0. Food & Live Animals	56.52	88.24	123.60	47.30	58.16
Cattle	0.08	0.00	0.01	0.00	0.00
Wheat Flour	26.84	48.43	46.38	17.59	17.53
Maize Meal	3.08	3.24	0.45	1.06	12.14
Other	26.52	36.57	76.76	28.65	28.49
1. Beverages & Tobacco	31.97	48.39	55.08	27.08	36.38
Beverages	31.97	48.39	55.06	27.08	36.38
2. Crude Materials	295.98	395.16	792.14	283.61	193.49
Textiles fibres	4.29	3.47	7.15	13.22	5.69
Of which Wool	3.94	3.17	6.44	12.82	5.69
Of which Mohair	0.36	0.30	0.71	0.39	0.00
Crude fertilizers & crude minerals	291.69	391.69	784.98	270.39	187.80
Of which Diamond	291.69	391.69	784.98	270.39	187.80
5. Manufactured Goods	34.67	68.00	36.26	32.11	49.78
Of which textiles yarn and fabric	19.42	47.71	21.79	17.16	36.04
Other manufactured goods	15.25	20.29	14.47	14.95	13.74
6. Machinery & Transport Goods	133.47	259.41	267.01	354.31	234.56
7. Miscellaneous Manufactured Goods	886.96	984.77	914.71	911.32	818.95
Of which clothing accessories	859.65	942.73	859.17	859.50	775.62
Other	27.31	32.04	55.54	51.82	43.33
8. Unclassified Goods	3.92	1.67	22.18	19.88	12.35
TOTAL EXPORTS	1445.29	1846.99	2216.00	1675.60	1403.67

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

Direction of Trade

During the quarter under review, Africa, particularly SACU region remained the largest destination of Lesotho's exports with a share of 42.9 per cent of total exports, compared with 45.9 per cent registered in the previous quarter. The US maintained its position as the second largest recipient of Lesotho's exports during the review quarter. It recorded a share of 42.8 per cent compared with 37.1 per cent recorded in the previous quarter. The bulk of Lesotho's manufactured goods are destined for the US market. The third largest destination of Lesotho's exports, particularly diamond exports, is the European market with a share of 13.9 per cent from 16.2 per cent registered in the previous quarter. Lesotho's exports to the Asian market remained insignificant with a share of 0.4 per cent.

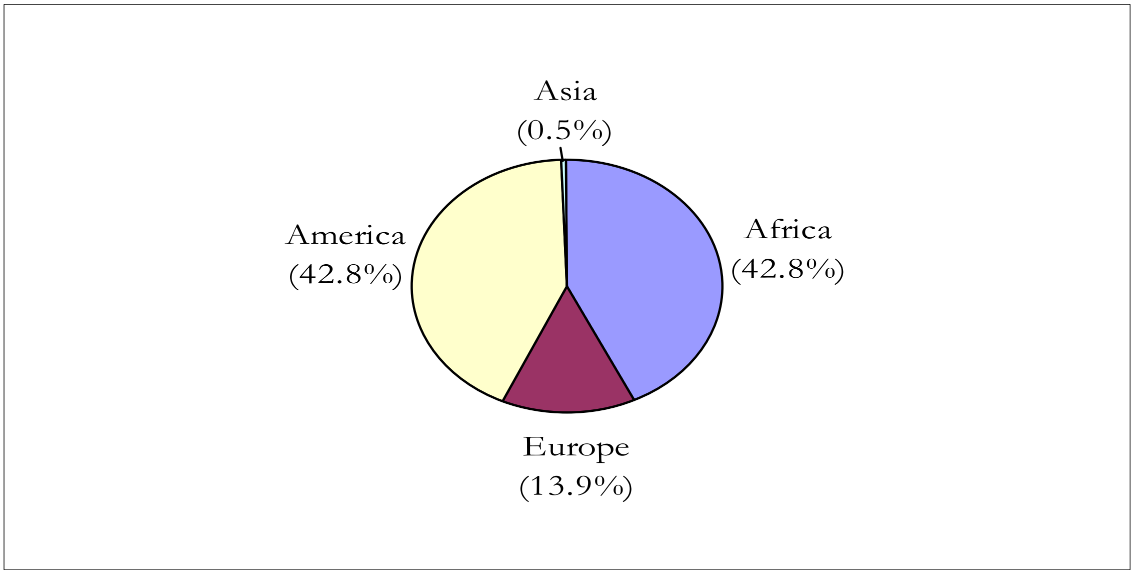
Table 24: Direction of Trade - Exports and Re-Exports, f.o.b.

(Million Maloti)

Region	2008				2009
	QI	QII	QIII	QIV*	QI+
World	1445.27	1846.99	2216.05	1675.60	1403.67
Africa	566.54	807.71	717.26	769.60	601.41
SACU	513.07	768.57	704.23	753.06	585.28
SADC	14.45	3.98	0.03	3.11	3.79
Other	39.02	35.16	13.00	13.43	12.34
Europe	295.85	391.29	783.87	271.48	195.07
EC	295.85	391.29	783.87	271.48	195.07
America	572.92	632.74	709.73	621.29	600.75
Asia	9.96	10.96	5.19	13.22	6.44

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

Figure 21: Direction of Merchandise Exports



Services Account

During the quarter under review, net services account continued to show net outflows. It registered a net outflow of M72.4 million in the first quarter of 2009 from a revised M71.3 million in the previous quarter. An increase in net outflow reflected higher Lesotho embassies' expenditure abroad which rose by 17.3 per cent.

Travel

International travel services registered a net inflow of M41.9 million during the review quarter, compared with an inflow of 42.5 million in the previous quarter. The value of travel receipts rose marginally by 0.2 per cent during the quarter, in contrast with a fall of 5.0 per cent in the previous quarter. Travel payments rose by 1.3 per cent, largely driven by a rise in government international subsistence allowance which rose by 27.9 per cent during the review quarter.

Income

During the review quarter, net income declined by 10.8 per cent, from an increase of 1.8 per cent registered in the quarter ending December 2008. The fall emanated largely from a decline in labour income coupled with a drop in investment income. In addition, high payments in distributed earnings contributed to the fall in net income.

Labour income

Labour income, in seasonally adjusted terms, grew by 2.6 per cent during the review period, in contrast with a fall of 0.2 per cent recorded in the previous quarter. The mining industry in South Africa has not been immune from the current prevailing economic slowdown. However, the observed recovery in the price of commodity may curb the impact. On an annual basis, labour income fell by 8.2 per cent.

Investment Income

Net investment income dropped by 17.8 per cent to a net inflow of M174.0 million during the first quarter of 2009, from a net inflow of M211.7 million in the previous quarter, as a result of the decline in inflows while outflows increased.

Investment income inflows fell by 5.1 per cent from an increase of 14.9 per cent recorded in the previous quarter. The weakness in inflows resulted from a fall in interest earnings of CBL which declined by 20.3 per cent, following a rise of 17.0 per cent in the previous quarter. The deterioration also emanated from appreciation of local currency which pulled down the value of investment portfolios outside the CMA region. Investment income outflows rose significantly by 63.8 per cent during the quarter under review, due to an increase in distributed earnings which rose by more than two-fold.

Current Transfers

During the quarter ending March 2009, current transfers grew by 7.8 per cent in seasonally adjusted terms compared with a rise of 1.1 per cent in the previous quarter. The observed improvement was on account of inflows in Rand compensation worth M113.9 million. Rand compensation is the payment made by SA Government to Lesotho for loss of seigniorage due to the Rand circulation in Lesotho. On an annual basis, current transfers rose by 27.0 per cent.

Capital and Financial Account

During the quarter under review, the net capital and financial account registered an inflow of M132.8 million, in contrast with an outflow of M184.2 million registered in the previous quarter. The observed performance is largely attributable to commercial banks' foreign assets' outflows which declined to M319.6 million during the quarter, from an outflow of M805.4 million recorded in the previous quarter.

Table 25: Capital and Financial Account

(Million Maloti)

	2008				2009
	QI	QII	QIII	QIV*	QI+
I. Capital and Financial Account	330.96	117.74	1083.26	-184.20	132.85
Capital Account	29.80	6.70	47.30	30.80	30.80
Financial Account	301.16	111.04	1035.96	-215.00	102.05
Special Financing – LHWP	37.79	49.93	22.88	27.49	27.98
II. Reserve Assets	-774.19	-165.33	-704.65	-558.82	67.28

* Revised estimates
\+ Preliminary estimates

Reserve Assets

Gross reserves declined marginally by 0.7 per cent to M8.9 billion in the review quarter, after an increase of 6.6 per cent observed in the previous quarter. The deterioration in the current account emanating from a fall in exports and current fiscal spending may put pressure on the gross reserves. This led the Net International Reserves (NIR) to decrease to US$855.7 million in the quarter under review, following US$924.8 million recorded in the fourth quarter of 2008. Measured in months of import cover, gross official reserves fell to 7.3 months in the quarter ending March 2009, compared with 8.4 months registered in the previous quarter.

Figure 22: Reserve Assets

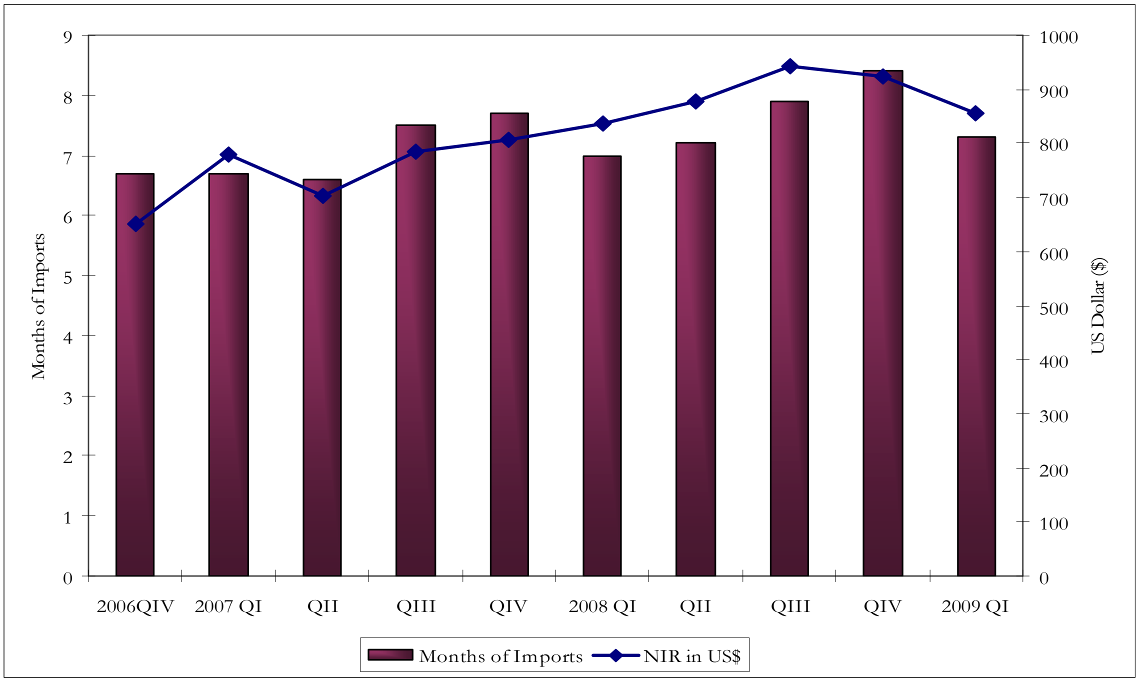
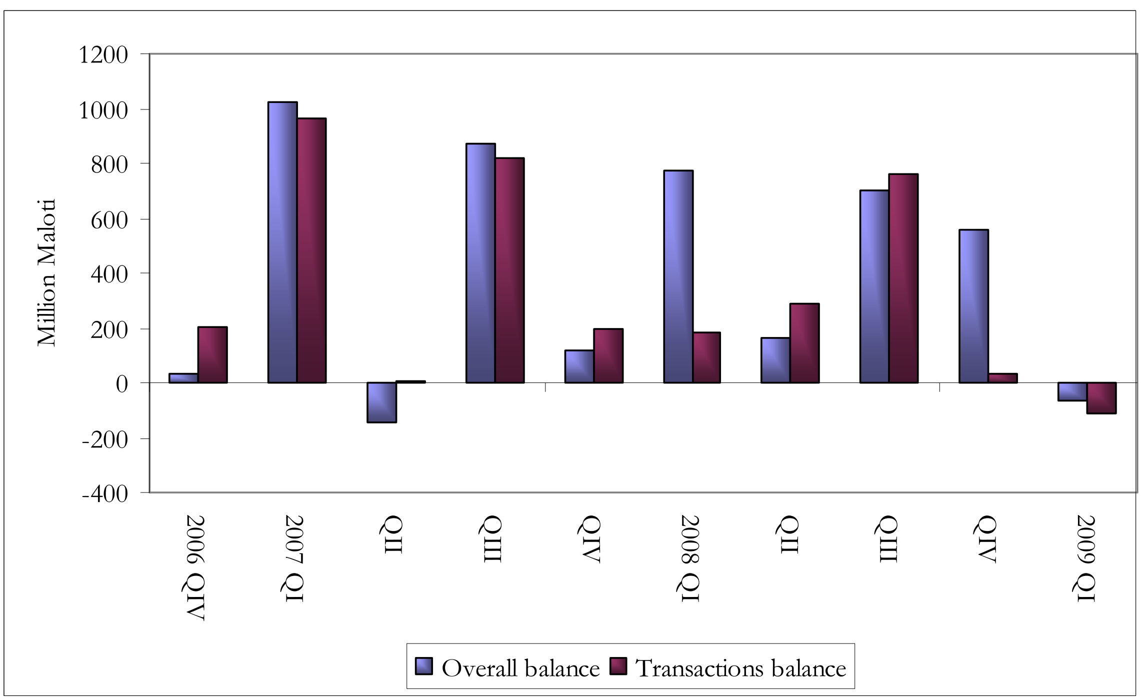


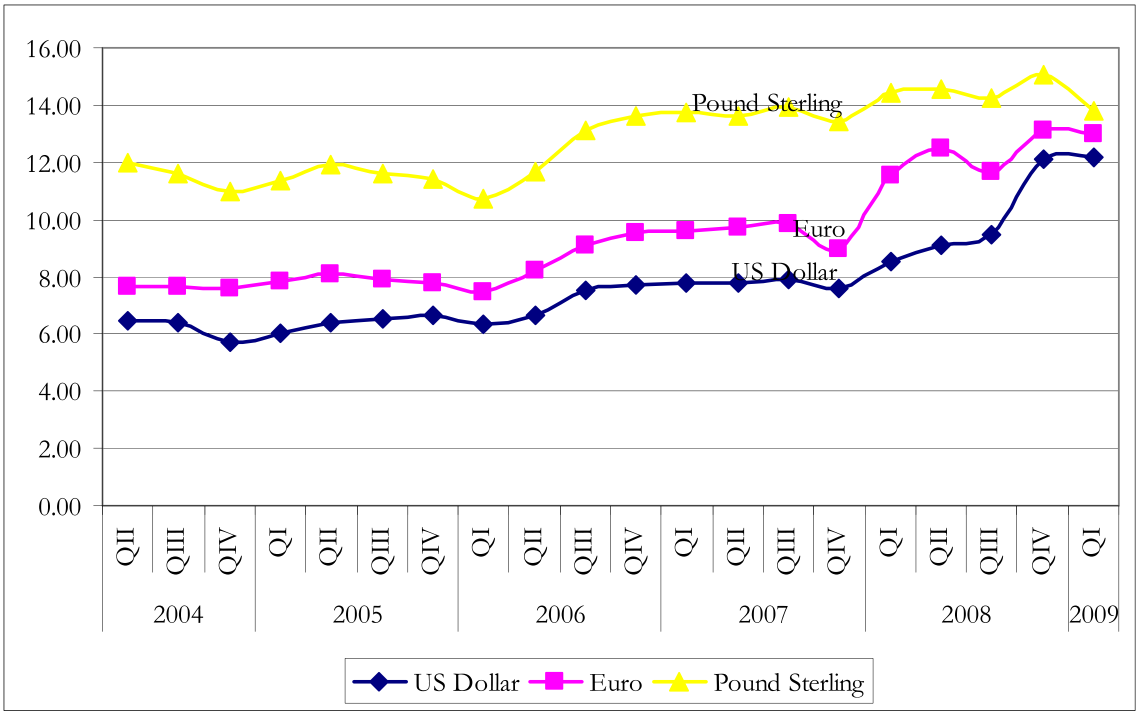
Figure 23: Balance of Payments



Exchange Rates

During the review period, the local currency showed mixed signals against the major trading currencies. In real terms, the Loti which is at par to the Rand depreciated marginally by 0.7 per cent against the US Dollar. Against the Euro and the Pound Sterling, the Loti appreciated by 0.8 per cent and 8.5 per cent, respectively.

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



STATEMENT OF THE MONETARY POLICY COMMITTEE

24 February 2009

1. Introduction

The Monetary Policy Committee (MPC) of the Central Bank of Lesotho (CBL) met at its 18th meeting on 24th February 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 the maintenance of adequate level of foreign reserves. The reserves are kept to support the parity between the South African (SA) rand and the loti which, in turn, facilitates a coordinated approach to inflation management with the South African Reserve Bank (SARB).

Thus the membership in Common Monetary Area (CMA) allows Lesotho to benefit from monetary policy actions in SA. Furthermore, the arrangement is a model towards realising the continent's resolve and SADC's goal of harmonising macroeconomic policies, specifically, monetary policy. Thus the MPC sets 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. The US experienced recession in the latter part of 2008 and more countries continue to be affected by the problem. Unemployment is rising in most developed countries and asset prices are tumbling. The housing mortgage problem resulted in a banking crisis and credit crunch, which in turn are adversely affecting other sectors such as the car industry, steel and manufacturing as a whole. The region has not been spared effects of the crisis. South Africa is experiencing a slowdown in economic growth while Lesotho saw a fall in manufacturing and mining activity. In addition, regional currencies are depreciating, 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. Unprecedented measures have been taken in the developed world to address the housing market problem, the banking crises and to stimulate the economies. The budget speeches rendered in South Africa and Lesotho in the recent weeks revealed efforts to mitigate against economic slowdown and to assist failing sectors. The Committee noted the need for easing of monetary policy to complement fiscal policy, and applauded the South Africa Reserve Bank's actions to reduce interest rates in its recent meetings. The Committee will continue to monitor the domestic financial sector to ensure stability in these challenging times.

2. Inflation Developments

The Committee noted that inflation rate is on a downward trend after reaching a peak of 12.1 per cent in September 2008. It closed the year at 10.6 per cent, due mainly to the overall slowdown in food and fuel prices. The deceleration in food component of the Consumer Price Index (CPI) largely reflected the slower increases in prices of cereals, bread and vegetables. The Committee acceded to the possibility of a continued slowdown in overall inflation developments in the coming months. This was mainly attributable to a stability of the international crude oil prices at around $40 per barrel, and the subdued global economic performance. These developments also translated into further reductions in domestic fuel prices.

The Committee took note of inflation developments in SA, which continued to be above the target range of 3 to 6 per cent. However, there were signs of moderation in December when the CPIX, increased by 10.3 per cent, a figure approaching a single digit for the first time since March 2008. The SARB expects inflationary pressures to ease in the coming months as a result of the falling prices of crude oil and a continued decrease in producer price index. This was supported by data on household consumption expenditure and private sector credit, which showed that the aggregates remained on a downward trend in recent months. 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 the main upside risk to the inflation outlook. The loti is currently trading at around M10.00 against the US dollar, a level similar to that which 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 was recorded at 15.2 per cent of GDP in December 2008, following a 10.9 per cent of GDP in the third quarter. This was largely on account of the rise in income and current transfers. Consequently, official reserves increased to 8.6 months of imports cover in the fourth quarter.

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. Accordingly, the International Monetary Fund significantly downgraded its forecast for the global economic growth in 2009 to 0.5 per cent.

b. Fiscal Balance Outlook

Government budgetary operations continued to support favourable macroeconomic environment. The fiscal balance has been in surplus in recent periods, thereby accumulating reserves with the banking sector. The fiscal deficit, equivalent to 0.8 per cent of GDP, was realised in the fourth quarter of 2008. The deficit was mainly attributed to recurrent expenditures, which rose in response to government commitment to improve service delivery.

4. Monetary Policy Stance

On the basis of the above discussions and the actual NIR position valued at US$966.65 million on the 20th February 2009, the Committee decided to keep the NIR target unchanged at US$450- 500 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

24 February 2009

VII. Statistical Tables