

# **CENTRAL BANK OF LESOTHO**

**QUARTERLY REVIEW**

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## **I. International Economic Developments and their Implications for the Lesotho Economy**

### ***United States (US)***

In the first quarter of 2004, the US economy grew at roughly the same pace as in the fourth quarter. According to preliminary estimates, real gross domestic product (GDP) in the US realised a 4.2 per cent annual growth rate in the review quarter compared with 4.1 per cent during the previous quarter. This growth was driven mainly by two factors. Firstly, personal consumption expenditure (PCE) rose by 3.8 per cent against an increase of 3.2 per cent in the last quarter. PCE was boosted by spending on non-durable goods and on services, which grew by 6.4 per cent and 4.3 per cent, respectively. Meanwhile, purchases of durable goods fell by 4.7 per cent. Secondly, military spending rose by 10.1 per cent mainly as a result of increased expenditure on defence. In addition, growth in imports decelerated to 2.0 per cent from 16.4 per cent in December 2003.

However, a number of factors had a dampening effect on the US economic growth during the quarter. These included a reduction in the rate of increase of exports of goods and services, a slowdown in demand for equipment and software as well as the deceleration in fixed investment. Exports grew by 3.2 per cent, in contrast with an increase of 10.9 per cent realised in the last quarter. Spending on equipment and software rose by 11.5 per cent compared with 14.9 per cent in the previous quarter. Investment in residential and non-residential property rose by 2.1 per cent and 7.2 per cent, compared with 7.9 per cent and 10.9 per cent, respectively, in the previous quarter.

In spite of strong GDP growth, the unemployment rate in the US remained unchanged at the previous quarter's level of 5.7 per cent. However, there were indications that employment was picking up, with about 170,000 job vacancies filled in March.

Inflation remained subdued during the review period. On annual basis, the headline consumer price inflation decelerated from 1.9 per cent in December 2003 to 1.7 per cent in March 2004. But, at the same time, core inflation, which is the consumer price index excluding food and energy, accelerated from 1.1 per cent to 1.6 per cent. As a result of relatively low inflation, the Federal Reserve Bank's (Fed's) Open Market Committee left the benchmark overnight bank-lending rate unchanged at one per cent.

Continued improvement in the US economy augurs well for Lesotho, as the US is the main market for Lesotho's exports. Increased final

demand in the US is likely to stimulate growth in Lesotho's clothing and textiles' industry.

### ***Euro-zone<sup>1</sup>***

Economic growth in the Euro area remained weak in the first quarter of 2004. On an annual basis, GDP was estimated to have grown by 0.4 per cent. The pace of growth in this region continued to be influenced by sluggish economic performance of Germany, the largest economy in the area and Italy, which is the third largest. The high level of unemployment in the area might have deterred growth in consumer spending.

The unemployment rate in the region remained unchanged at 8.8 per cent for the ninth month in March. Business confidence in the region remained generally low and companies reluctant to employ additional workers.

In line with the generally weak economic activity, inflation in the region continued to be subdued during the review period. The rate of inflation remained below the European Central Bank's (ECB's) limit of 2 per cent for a third month in March. It decelerated from 2.0 per cent at the end of the fourth quarter to 1.7 per cent. Consequently, the ECB kept its benchmark-lending rate at 2 per cent. This was also expected to stimulate economic growth in the region.

Economic developments in the Euro-zone have a direct effect on SA's economy, as the European Union is South Africa's (SA's) main trading partner. Meanwhile, as the economy of Lesotho is highly interrelated with that of SA, shocks to the latter have spillover effects for Lesotho. In this regard, weak economic performance by the Euro-zone bodes ill for both the SA and Lesotho economies.

### ***South Africa (SA)***

A series of interest rate cuts effected by the South African Reserve Bank (SARB) Monetary Policy Committee (MPC) in 2003 seem to have boosted domestic demand in SA. This was evidenced by sales of new vehicles, which increased by an annual rate of 6.9 per cent in March 2004. However, consumer confidence declined during the first quarter from a four-year high in the previous quarter, on expectations that the SARB's MPC would raise interest rates later in the year. Nonetheless, business confidence, boosted by the currently low interest rates, remained optimistic.

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<sup>1</sup> Euro-zone: Austria, Belgium, Germany, Greece, Finland, France, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain.

Consumer inflation continued to be largely under control during the review period. The CPI-X inflation rate, which excludes mortgage interest costs, rose from 4.0 per cent in December 2003 to 4.4 per cent in March 2004. At the same time, the headline consumer inflation rate accelerated to 0.4 per cent from 0.3 per cent. Core inflation, which excludes mortgage interest and some food items, also rose faster by 4.7 per cent relative to 4.5 per cent that was registered in the previous quarter. Upward pressure on prices mainly emanated from transport and education costs. The increase in transport costs originated from the increase in international oil prices due mainly to a rise in the dollar price of crude oil.

Producer inflation in SA maintained a downward trend during the first quarter. The producer price index (PPI) fell by 1.2 per cent on annual basis in March 2004 compared with a decline of 1.8 per cent in December 2003.

As a result of low inflation, the SARB's MPC kept its benchmark-lending rate (repurchase rate) unchanged at 8 per cent during the quarter. This was also reinforced by the favourable inflation outlook.

On the external sector, the trade surplus narrowed by 63 per cent from R5.7 billion in December 2003 to R2.1 billion in March 2004. This could be attributed to the relative strength of the rand against major currencies. Despite a moderate depreciation during the review quarter, the value of the rand remained fairly strong compared to its level a year ago, which continued to impact negatively on competitiveness as well as the rand value of SA exports.

As already indicated, due to a strong socio-economic relationship between Lesotho and SA, economic developments in SA normally have spin-offs for the economy of Lesotho. As low interest rates continued to stimulate aggregate demand in SA, this might also boost demand for Lesotho's exports in SA. In addition, declining inflation in SA impacts positively for price developments in Lesotho, since most of Lesotho's inflation is imported from SA.

### ***Commodity prices***

#### **Gold**

The average price of gold increased from \$392.78 an ounce in the fourth quarter of 2003 to \$408.42 during the review quarter. The rise in the dollar price of gold coupled with the depreciation of the rand against the US dollar resulted in an increase in the average rand price of gold, from R2649.30 per ounce in the previous quarter to R2768.70 in the review period. An improvement in the price of gold could boost gold mining profitability in SA and, as such, bodes well for Basotho mineworkers' employment prospects. This might also impact positively

on miners' remittances, which constitute a large proportion of Lesotho's foreign exchange earnings.

## Oil

The price of oil has, on average, increased by 7.6 per cent from \$28.79 per barrel in the fourth quarter of 2003 to \$30.98 at the end of March 2004. Expressed in rand terms, the average price of oil rose to R210.01 from R194.20 a barrel in the last quarter. One of the factors that continued to exert upward pressure on crude oil price was the decision by the Organisation of Petroleum Exporting Countries (OPEC) to reduce output by 900,000 barrels per day (bpd) to 24.5 billion bpd in November 2003. In addition, high demand by the fast growing economies, such as China, stimulated oil price increases. Persistent conflicts in the Middle East, which is the major source of the world's oil supply, also have a negative effect on oil prices.

Significant increases in the price of crude oil could generally be harmful for the global economy, by raising the costs of production in the oil importing countries. This could also impact negatively on the Lesotho economy by increasing the import bill for petroleum products.

## **II. Overview of Macroeconomic Developments in Lesotho**

There are some indications that the performance of the Lesotho economy deteriorated during the first quarter of 2004. Indicators ranging from building permits, water consumption, motor vehicle imports and telecommunications statistics were mixed but more inclined towards deterioration. Preliminary estimates showed that the value of building permits, motor vehicle imports and the value of telephone calls declined during the quarter. On the contrary, water consumption rose by 4.3 per cent and 3.9 per cent in unit and value terms, respectively. However, increased water consumption was driven mainly by household demand, as the value of industrial consumption declined by 0.7 per cent.

Employment, on the average, improved during the review quarter. The level of employment in the government sector declined by 1.5 per cent. But, the number of workers in the manufacturing sector and Basotho miners in the SA mining industry increased.

Price developments in Lesotho maintained a downward trend in the first quarter of 2004. Inflation, as measured by changes in the CPI, rose to 5.2 per cent in March compared with 5.5 per cent in February. The slowdown was mainly due to the food and non-beverages component, which decelerated to 1.9 per cent in March against 2.2 per cent in February. However, the inflation trend may change once the observed

increases in food prices and the impact of increased oil prices in SA start feeding into Lesotho's prices.

The balance of payments position worsened from 5.5 to 5.1 months of import cover during the first quarter of 2004. This deterioration was mainly due to the decline in the capital and financial account and the revaluation loss experienced due to the strengthening of the loti against major currencies. The capital and financial account deteriorated from a net inflow of M317.03 million in December 2003 to a net outflow of M23.53 million in the review quarter. This resulted mainly from commercial banks' transfers abroad for investment purposes.

On the monetary sector, growth in money supply slowed down from 3.9 per cent to 0.5 per cent in the review period. This was driven mainly by a deceleration in the pace of increase in net foreign assets, notwithstanding a relatively strong growth in domestic credit. Net Foreign Assets rose by 0.6 per cent compared with 0.9 per cent in the last quarter, while domestic credit increased by 9.4 per cent compared with 1.4 per cent in December 2003. The slow down in money supply growth bodes well for inflation outlook.

Interest rates remained relatively unchanged in the first quarter of the year. An exception was observed with the 91-day treasury bill rate, which declined from 9.83 per cent in December 2003 to 8.80 per cent at the end of the quarter.

Fiscal operations were estimated to have registered an overall surplus equivalent to 6.8 per cent of GDP during the first quarter of 2004. This resulted mainly from considerably improved performance in revenue, coupled with reduced expenditures. Revenue rose from 41.5 per cent in December 2003 to 48.5 per cent of GDP, while total expenditure declined by 0.5 percentage points to 41.8 per cent of GDP. The decline in total expenditure was driven entirely by recurrent spending, as capital expenditure rose by 31.7 per cent on a quarterly basis.

The public debt position improved from 67.0 of GDP at the end of December 2003 to 57.2 per cent of GDP during the quarter. This was made possible by reductions in both external and domestic indebtedness. Foreign loans fell from 53.1 percent to 47.1 percent of GDP, mainly due to the exchange rate movements. Domestic debt, on the other hand, declined from 13.9 to 10.1 per cent of GDP mainly as a result of the retirement of fiscal policy treasury bills during the quarter.

### III. Economic Indicators

#### *Household and Business Sector Housing Statistics*

The first quarter of 2004 displayed a year-on-year improvement in both the value and number of building structures erected. The number of structures erected increased by 7.1 per cent compared to the first quarter of 2003. In value terms, these structures grew by over 58.8 per cent on an annual basis. However, the number of permits issued for commercial buildings fell by half during the same period, though their value increased by 48.9 per cent. The increase in the value of commercial building permits could be a reflection of both price increases and the relatively large commercial buildings proposed for the quarter ended March 2004.

The annual decline in the number of commercial buildings proposed for the review period was compensated for by increases in the number of permits issued for residential and other buildings. This is why the overall number of building permits improved.

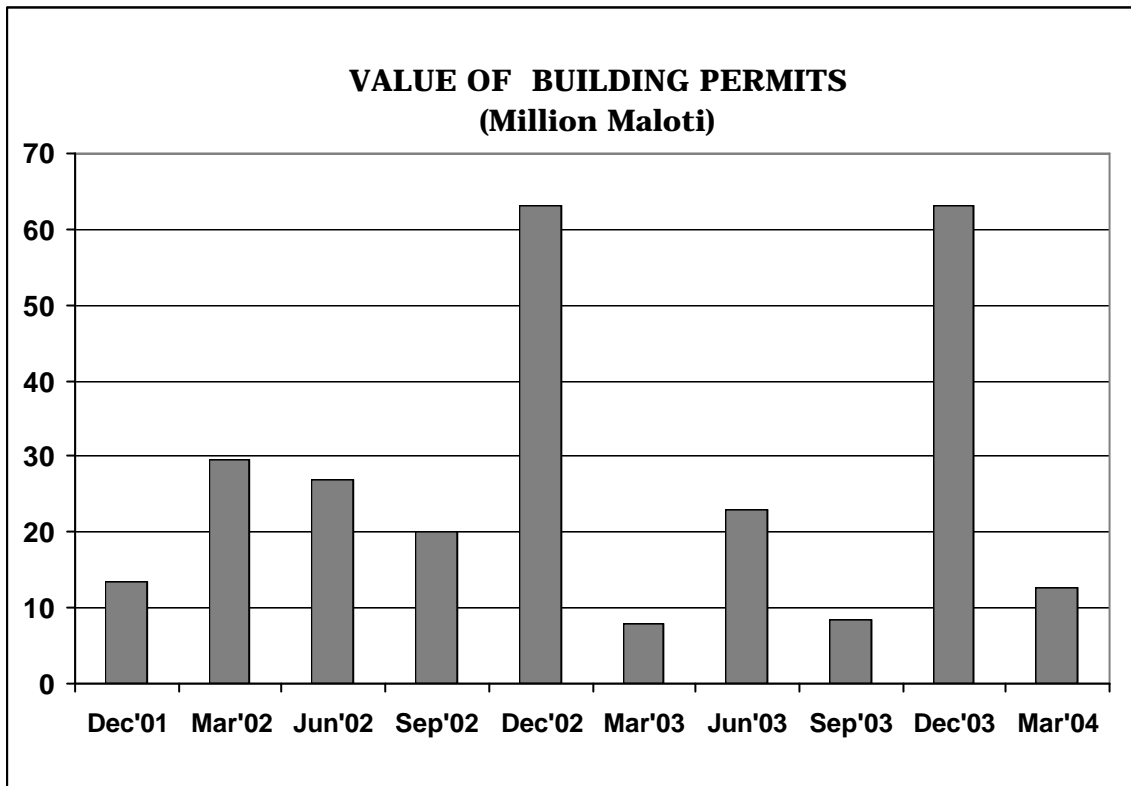
#### **BUILDING PERMITS BY TYPE OF BUILDING<sup>1</sup>** (Value in Million Maloti)

Type	Permits	2002	2003				2004
		QIV	QI	QII	QIII	QIV	QI
Residential	Value	5.41	2.91	5.59	4.77	6.94	3.75
	Number	31	18	25	20	32	20
Commercial	Value	51.84	4.44	4.37	1.56	55.06	6.61
	Number	8	8	4	7	8	4
Other	Value	5.89	0.65	13.07	2.10	1.28	5.34
	Number	7	2	5	3	3	6
Total	Value	63.14	8.00	23.03	8.43	63.28	12.70
	Number	46	28	34	30	43	30

Source: Maseru City Council and Land Survey and Physical Planning

(1) Excludes data on buildings constructed without obtaining building permits. The table also excludes data on Mafeteng, Mokhotlong and Mohale's Hoek districts.

**Figure 1**



### ***Imported Motor Vehicles***

Imports of motor vehicles maintained a downward trend in the first quarter of 2004. The value of all new motor vehicles purchased fell by 28.7 per cent on annual basis during the review period, compared with a decline of 25.6 per cent in the previous quarter. The annual decline was roughly the same as the quarterly decrease. The year-on-year decline was driven by a fall in purchases of vans, which decreased by 62.8 per cent and 44.2 per cent in value and number terms, respectively. This was largely a reflection of the Government's policy of reducing vehicle purchases, in an attempt to contain fleet management costs, with no vehicles bought by the Government in the last month of the quarter. In addition, the decline in vehicle purchases could be attributed to the generally steady vehicle prices despite the appreciation of the rand. Generally, vehicle dealers have not reduced prices, despite the relatively stronger currency.

**MOTOR VEHICLE IMPORTS**  
(Value in Million Maloti)

		<b>Cars</b>	<b>Vans</b>	<b>Trucks</b>	<b>Buses</b>	<b>Trac- tors</b>	<b>M/ Cycles</b>	<b>Trail- ers</b>	<b>Total</b>
2002									
I	Value	6.51	9.90	6.71	2.64	0.11	0.00	0.30	26.13
	Number	146	168	49	36	6	0	13	418
II	Value	9.10	14.72	0.64	2.78	0.40	0.04	0.13	27.81
	Number	149	191	11	40	5	2	4	402
III	Value	12.38	22.81	3.48	4.04	0.23	0.03	0.34	43.31
	Number	209	235	12	36	3	1	9	505
IV	Value	17.21	31.71	4.84	5.62	0.32	0.04	0.47	60.21
	Number	253	285	14	43	5	2	11	613
2003									
I	Value	10.53	27.90	1.13	5.17	0.15	0.00	0.15	45.03
	Number	136	249	12	39	4	0	5	445
II	Value	25.50	33.42	8.75	2.62	0.21	0.00	0.40	70.90
	Number	253	330	23	22	7	0	10	645
III	Value	17.46	29.33	3.42	5.26	0.15	0.00	0.16	55.78
	Number	173	237	20	42	4	0	8	484
IV	Value	18.89	13.46	9.27	2.60	0.07	0.00	0.52	44.81
	Number	203	146	20	29	4	0	9	411
2004									
I	Value	15.91	10.37	1.31	3.73	0.22	0.00	0.55	32.09
	Number	198	139	2	24	8	0	9	380

Source: Imperial Fleet Services Lesotho and Customs Department

***Water Consumption***

The Lesotho manufacturing sub-sector is dominated by the textile and food and beverages industries. These industries are heavily reliant on water, and as such, water usage by the industrial sector is used as one of the indicators of manufacturing activity. In the first quarter of 2004, performance of the manufacturing sub-sector as indexed by the amount of water consumed by the industrial sector continued to deteriorate. The industrial water consumption in this period fell by 2.6 per cent and 0.7 per cent in unit and value terms, respectively. However, the total water consumption during the same period

increased slightly by 1.2 and 0.9 percent in unit and value terms, respectively. This reflected strong household consumption, which rose by 4.3 per cent in unit terms and 3.9 per cent in value terms.

### **WATER CONSUMPTION**

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

<b>Quarter</b>		<b>Domestic</b>	<b>Industrial</b>	<b>Other</b>	<b>Total</b>
2002 II	Units	0.50	0.82	0.34	1.66
	Value	1.74	3.39	1.29	6.42
III	Units	0.41	0.81	0.37	1.59
	Value	1.82	3.08	1.39	6.29
IV	Units	0.74	0.84	0.51	2.09
	Value	2.43	3.19	1.97	7.59
2003 I	Units	0.79	0.91	0.58	2.28
	Value	2.67	3.45	2.25	8.37
II	Units	0.79	1.08	0.64	2.51
	Value	2.70	4.08	2.46	9.24
III	Units	0.73	1.12	0.61	2.46
	Value	2.45	4.24	2.35	9.04
IV	Units	0.88	1.16	0.53	2.57
	Value	3.09	4.42	2.04	9.55
2004 I	Units	0.92	1.13	0.55	2.60
	Value	3.21	4.39	2.04	9.64

Source: Water and Sewerage Authority

However, units and value of household and industrial water consumption increased on an annual basis. This was in line with a rise in the number and value of building permits issued during the same period. Notwithstanding the decline in the number of permits issued for commercial buildings, increased water consumption for industrial purposes augurs well for overall economic activity. This was also in line with the rise in the value of commercial buildings during the review period.

### ***Telecommunications***

The value of cross-border telephone calls (fixed line) rose on quarterly basis but fell year-on-year. The quarterly upsurge was driven by an increase in the duration of calls destined to countries other than South

Africa. On the other hand, the yearly decline was also influenced by a fall in non-South Africa calls. The annual drop is in contrast with the rise in industrial consumption of water and value of buildings, which implied a recovery in manufacturing production.

### **TELEPHONE TRAFFIC STATISTICS**

	<b>RSA Outgoing Calls</b>	<b>International Calls</b>	<b>Total Calls</b>
<b><u>2002 Quarter IV</u></b>			
No. of Calls (millions)	2.30	0.21	2.81
Total Duration (million minutes)	4.72	0.76	5.48
Nominal Value (million maloti)	9.83	4.90	14.73
<b><u>2003 Quarter I</u></b>			
No. of Calls (millions)	2.57	0.31	2.88
Total Duration (million minutes)	4.81	1.52	6.33
Nominal Value (million maloti)	10.02	13.15	23.17
<b><u>Quarter II</u></b>			
No. of calls (millions)	2.23	0.15	2.38
Total Duration (million minutes)	4.28	0.60	4.88
Nominal Value (million maloti)	9.45	4.30	13.75
<b><u>Quarter III</u></b>			
No. of calls (millions)	3.97	0.18	4.15
Total Duration (million minutes)	6.83	0.70	7.53
Nominal Value (million maloti)	14.35	4.78	19.13
<b><u>Quarter IV</u></b>			
No. of calls (millions)	3.26	0.15	3.41
Total Duration (million minutes)	5.24	0.53	5.77
Nominal Value (million maloti)	11.00	4.09	15.09
<b><u>2004 Quarter I</u></b>			
No. of calls (millions)	3.01	0.16	3.17
Total Duration (million minutes)	5.18	0.57	5.75
Nominal Value (million maloti)	10.89	4.22	15.11

Source: Tele-Com Lesotho

## **IV. Employment and Prices**

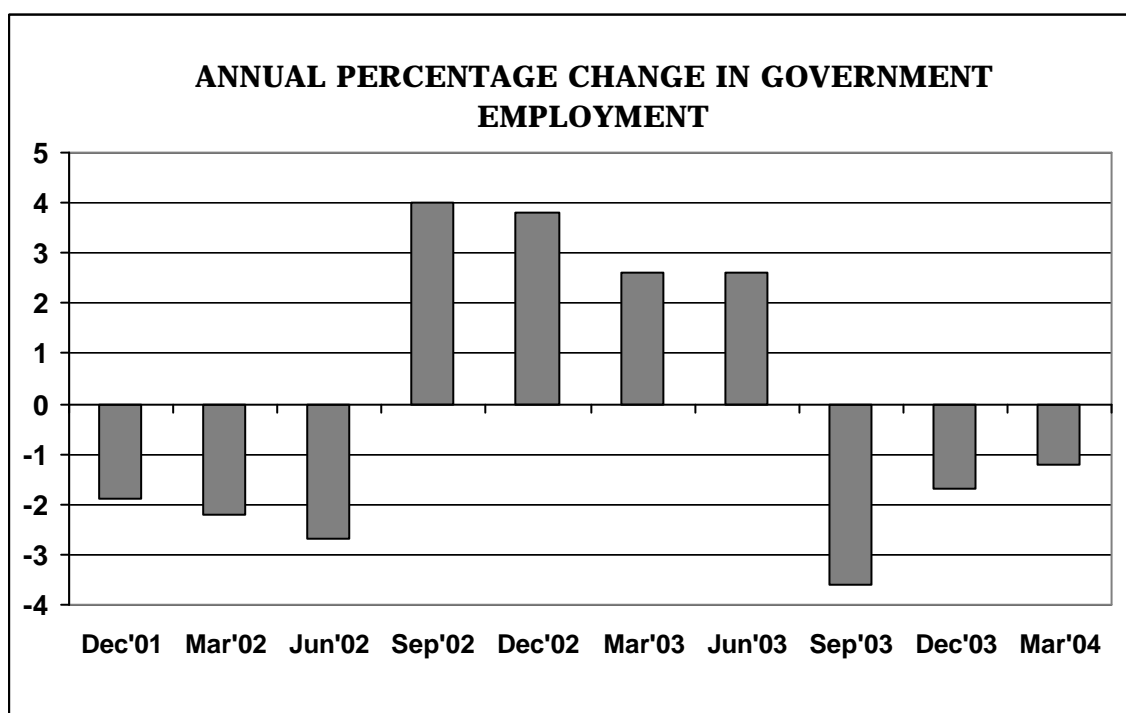
### ***Employment***

Manufacturing is the largest formal sub-sector employer in the domestic economy. This has been made possible by strong investments in the sector in response to the AGOA initiative. Under this initiative, Lesotho, along with 33 other countries in Sub-Saharan Africa, has been given the most liberal access to the US market available to any country

that does not have a Free Trade Agreement with the US. Employment in this sector rose by 6.9 per cent to 54,676 in the quarter under review, after registering growth of 3.5 per cent in the preceding quarter. On annual basis, it grew by 25.2 per cent. This was in line with the yearly rise in water consumption by the sector.

On the other hand, Government employment fell by 1.5 per cent from 36,146 in the fourth quarter of 2003 to 35,609. The decline reflected decreases in all the three components of government employment: civil servants, teachers and the armed forces. As figure 2 indicates, Government employment has been falling, at a decreasing rate, since the third quarter of 2003. On an annual basis, it dropped by 1.2 per cent.

**Figure 2**

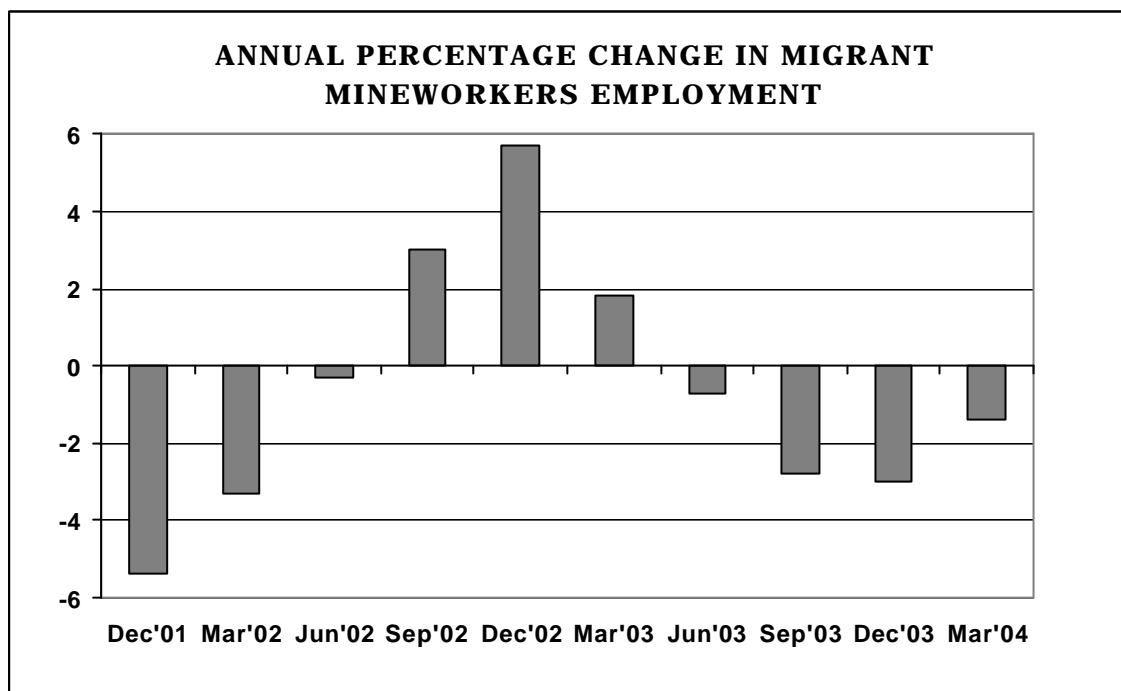


The unemployment problem in the country has for years been alleviated by migration to the Republic of South Africa. The majority of these migrants are in the South African mining industry and, according to Lesotho Labour Force Survey of 1999, they constitute about 13 per cent of the labour force. At the end of the first quarter 2004, migrant mine employment was estimated at 61 525, which was a slight increase from the 61 424 registered in the preceding quarter

The miners' employment level was sustained by the generally strong price of gold that impacted positively on the profitability of the mines. In addition, this was also boosted by modest quarterly depreciation of the currency. As mentioned in Section I of this report, the average price

of gold rose to \$408.4 an ounce in the review period from \$392.8 during the last quarter of 2003. However, miners' employment deteriorated by 1.4 per cent on annual basis. This could be ascribed to the effect of currency appreciation, year-on-year.

**Figure 3**



### **Prices**

The overall inflation rate fell to 5.2 per cent year-on-year in March 2004, from 5.9 per cent in December 2003. This reflected the impact of easing inflationary pressures on most of the items in the Consumer Price Index (CPI), given the generally steady currency during the quarter. The loti, which is anchored to the rand on a one-to-one basis, weakened to M6.7795 per US dollar on average during the first quarter of 2004, from M6.7448 the previous quarter.

All major categories of the CPI experienced declining rates except the 'food and non-alcoholic beverages' category. This component grew by 1.9 per cent in March after a growth of 0.7 per cent in December 2003. This could be attributed to food price increases due mainly to drought-related fall in supply. Increasing food inflation could exert pressure on overall inflation rate, since the food category accounts for the largest weight in the CPI basket of goods at 39.8 per cent (see table that follows). Other components that recorded strong growth rates were health and catering (hotels and restaurants), though their impact on the overall inflation is not significant.

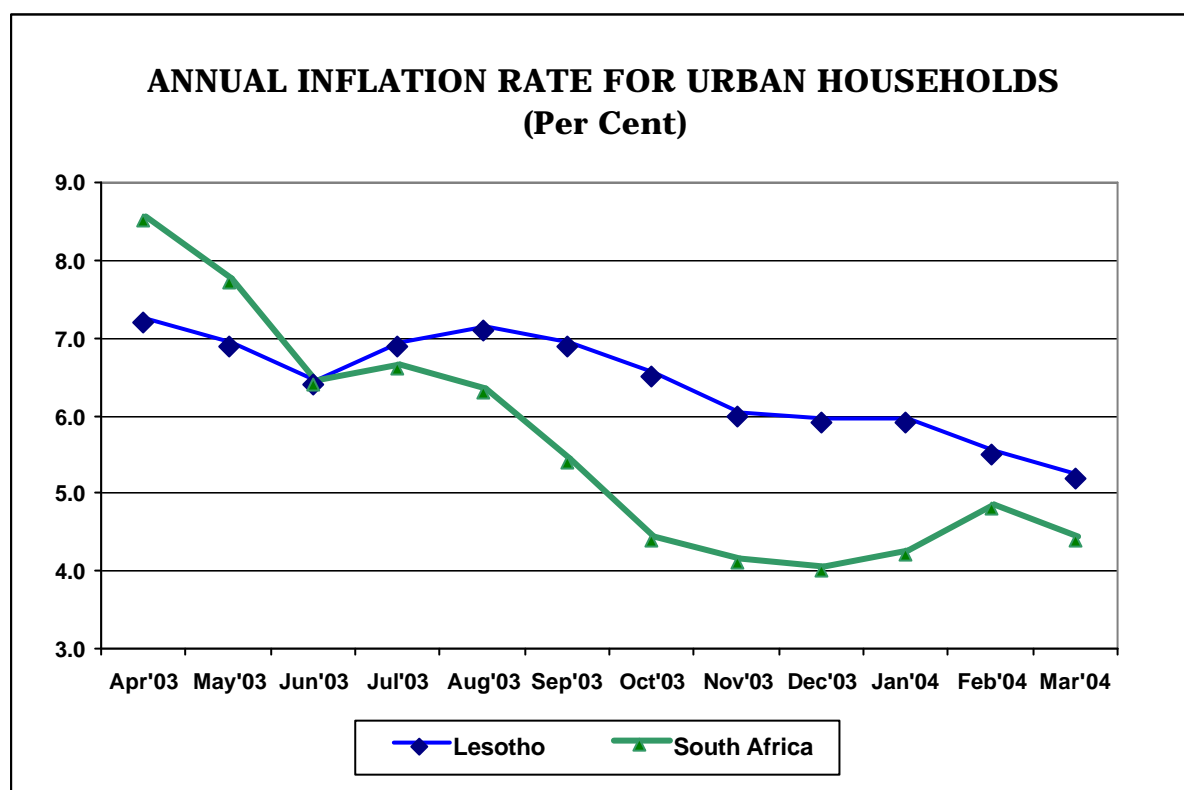
Clothing, household furniture, and beverages and transport components slowed down during the review period. These dampened the effect of increased food prices, as the combined weight of these categories in the CPI is 46.8 per cent.

**INFLATION RATE**  
(Percentage Change)

	Weight	2003			2004		
		Oct	Nov	Dec	Jan	Feb	Mar
All items	100.0	6.5	6.0	5.9	5.9	5.5	5.2
Food and non-alcoholic beverages	39.8	0.9	0.8	0.7	1.4	2.2	1.9
Alcoholic beverages & Tobacco	6.4	12.5	11.6	11.1	10.9	12.3	10.0
Clothing & footwear	15.6	3.5	3.9	3.8	3.9	3.4	3.5
Housing, electricity gas & other fuels	3.8	7.1	4.6	5.0	5.5	4.7	4.7
Furniture, households equipment & routine maintenance of house	17.0	9.0	7.4	7.8	6.6	6.7	6.1
Health	1.4	3.6	3.9	4.4	3.7	4.2	4.5
Transport	7.8	8.2	7.4	7.0	6.3	5.7	5.7
Communication	0.1	43.4	43.4	43.4	43.4	43.4	43.4
Leisure, entertainment & Culture	1.2	10.8	10.8	11.3	9.9	7.4	7.8
Education	3.2	4.8	4.8	4.5	7.5	4.1	4.3
Restaurant & Hotels	0.4	3.3	4.8	4.3	2.2	4.3	4.4
Miscellaneous goods & services	3.2	9.0	9.5	7.8	7.8	6.3	6.5

Source: Bureau of Statistics, Lesotho

**Figure 4**



## **V. Balance of Payments (BOP)**

### **Overview**

The external sector position weakened during the first quarter of 2004. The overall balance, seasonally adjusted, registered a deficit of M262.0 million compared to a surplus of M164.7 million in the final quarter of last year. The country's gross foreign reserves fell from 5.5 to 5.1 months of import cover. Despite a moderate quarterly improvement in the current account deficit, the capital and financial account registered a net outflow and thereby resulted in the deterioration of the transactions balance. The latter fell from a seasonally adjusted surplus of M184.3 million to a deficit of M149.2 million. As indicated in the BOP summary table below, negative revaluation (the adjustment due to exchange rate appreciation) also contributed significantly to the deterioration in the country's balance of payments position.

**SUMMARY OF BALANCE OF PAYMENTS**  
(Million Maloti)

	2003				2004
	QI	QII	QIII	QIV*	QI+
<b>I. CURRENT ACCOUNT</b>	-359.66	-304.79	-300.59	-297.09	-248.79
<u>Goods, Services and Income</u>	-685.43	-670.60	-601.61	-566.72	-582.96
(a) GOODS	-1090.65	-1085.41	-964.57	-997.68	-988.66
Merchandise exports f.o.b.	824.89	801.74	1011.68	919.60	849.02
Merchandise imports f.o.b.	-1915.54	-1887.15	-1976.25	-1916.74	-1837.68
(b) SERVICES	-47.65	-60.71	-94.00	-58.05	-58.38
(c) INCOME	452.87	475.52	456.96	489.01	464.08
Labour	448.11	453.51	450.92	515.53	468.64
Other	4.76	22.01	6.04	-26.52	-4.56
(d) CURRENT TRANSFERS	325.77	365.81	301.02	269.63	334.17
Government, net	309.68	353.89	281.65	254.86	322.84
SACU non-duty receipts	286.66	272.74	265.90	256.49	245.59
Other	23.02	81.15	15.75	-1.63	77.05
Other Sectors	16.09	11.92	-19.37	14.77	11.53
<b>II. CAPITAL AND FINANCIAL ACCOUNT</b>	137.71	319.29	155.52	317.03	-23.53
(e) CAPITAL ACCOUNT	69.80	46.10	39.50	52.70	39.50
(f) FINANCIAL ACCOUNT	67.91	273.19	116.02	264.33	-63.03
Special Financing – LHWP	101.01	131.01	221.01	99.23	93.08
<b>III. RESERVE ASSETS</b>	282.75	-0.82	391.66	-156.57	257.49
<b>IV. ERRORS AND OMISSIONS</b>	-60.77	-13.68	-246.59	136.63	14.83
of which valuation adjustment	-188.03	-66.22	-168.54	-23.97	-118.92

\* Revised estimates

+ Preliminary estimates

## ***Merchandise Trade***

### Exports

Merchandise exports, seasonally adjusted, declined further by 2.7 per cent during the review quarter after falling by of 8.8 cent in the last quarter. On an annual basis, they fell by 7.6 per cent. Two main factors were responsible for poor export performance during the review period. Firstly, notwithstanding the fact that, on average, the local currency depreciated in March compared with December 2003, it still remained strong relatively to all other quarters of 2003. This could continue to impact negatively on the local currency value and the external competitiveness of the country's exports. It was also possible that exchange rate movements had a lagged effect on exports. Secondly, although the US economy showed signs of recovery, it still remained somewhat fragile. This might have adversely affected Lesotho's exports, the bulk of which are destined to the US.

### Imports

Imports remained weak during the review quarter. According to preliminary estimates, merchandise imports seasonally adjusted grew by 0.4 per cent following an increase of 0.5 per cent in the last quarter. Compared to the same period last year, imports fell by 4.1 per cent. This decrease arose from a relatively low activity in the manufacturing sector, as indicated by the decline in exports. This contributed to the fall in imports through low demand for intermediate goods. However, strong government activity during the quarter, as reflected by the 31.6 per cent increase in capital expenditure, might have ensured that imports' growth remained positive.

**VALUE OF EXPORTS BY SECTION OF THE S.I.T.C.**  
(Million Maloti)

COMMODITY	2002	2003				2004
	IV	I	II	III	IV*	I+
0. Food & Live Animals	29.76	26.68	26.25	33.28	31.70	29.21
Cattle	2.31	2.01	2.65	3.38	3.22	2.96
Wheat Flour	9.72	8.60	7.64	9.74	9.28	8.57
Maize Meal	6.23	5.58	5.12	6.52	6.21	5.72
Other	11.50	10.49	10.84	13.64	12.99	11.95
1. Beverages & Tobacco	24.47	23.46	15.72	31.94	25.33	21.21
Beverages	24.47	23.46	15.72	31.94	25.33	21.21
2. Crude Materials	15.23	14.24	21.78	27.79	26.48	24.51
Wool	15.23	14.24	21.78	27.79	26.48	24.51
4. Chemicals	11.61	10.12	11.23	14.31	13.63	12.57
5. Manufactured Goods	15.10	13.43	13.21	16.74	15.95	14.68
6. Machinery & Transport Goods	89.44	86.15	85.58	102.10	100.01	92.38
7. Miscellaneous Manufactured Goods	808.08	648.64	625.84	782.15	702.77	649.63
8. Unclassified Goods	3.89	2.17	2.13	3.37	3.19	4.84
<b>TOTAL EXPORTS</b>	<b>997.58</b>	<b>824.89</b>	<b>801.74</b>	<b>1011.68</b>	<b>919.06</b>	<b>849.02</b>

Note: Totals may not tally due to rounding

\* Revised estimates

+ Preliminary estimates

#### Direction of Trade

As mentioned above, the US continued to be the largest recipient of Lesotho's exports. During the review period, the share of exports to the US increased by 3.7 percentage points to 81.2 per cent, from 77.5 per cent in the previous quarter. However, in absolute terms, Lesotho's exports to the US registered a quarterly decline of 3.2 per cent, in line with the general decrease in total exports. Southern African Customs Union (SACU) remained the second largest consumer of Lesotho's exports at 18.6 per cent compared to 21.7 per cent in the last quarter. The share of Lesotho's exports to Europe, Asia and Oceania remained negligible during the review period.

**DIRECTION OF TRADE - EXPORTS AND RE-EXPORTS, f.o.b.**  
(Million Maloti)

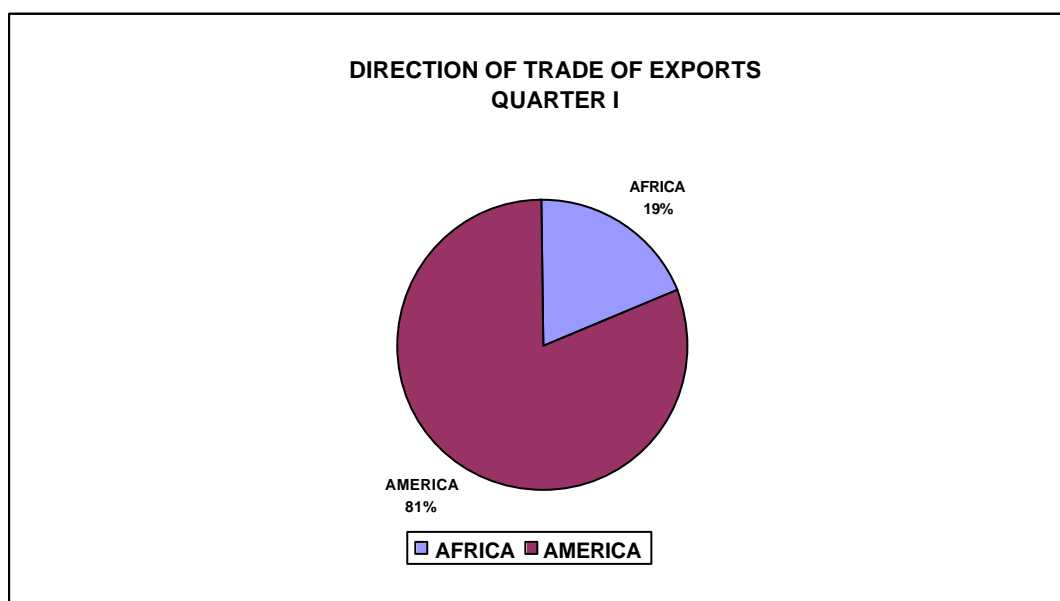
REGION	2003						2004	
	QII AMOUNT	% SHARE	QIII AMOUNT	% SHARE	QIV* AMOUNT	% SHARE	QI+ AMOUNT	% SHARE
World	801.74	100.00	1011.68	100.00	919.06	100.00	849.02	100.00
Africa	154.67	19.29	154.57	15.28	199.92	21.75	158.96	18.72
SACU	149.61	18.66	154.57	15.28	199.72	21.73	158.06	18.62
SADC	0.03	0.00	0.00	0.00	0.20	0.02	0.90	0.11
Other	5.03	0.63	0.00	0.00	0.00	0.00	0.00	0.00
Europe	0.94	0.12	0.91	0.09	0.68	0.07	0.17	0.02
EC	0.94	0.12	0.91	0.09	0.68	0.07	0.17	0.02
Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
America	645.24	80.48	855.41	84.55	712.05	77.48	689.50	81.21
Asia	0.89	0.11	0.79	0.08	6.41	0.70	.39	0.05

Note: Totals may not agree due to rounding

\* Revised estimates

+Preliminary estimates

**Figure 5**



### ***Labour Income***

Labour income, seasonally adjusted, fell by 0.3 per cent in the review quarter following an increase of 1.1 per cent in the previous quarter. This could be attributed mainly to the decline in the growth rate of miners' remittances from 1.5 per cent in the last quarter to 0.2 per cent. The slowdown in remittances was somewhat contradictory to the moderate improvement in the number of mineworkers during the quarter.

### ***Investment Income***

Inflows from investment income rose by 57.3 per cent, which was a significant recovery after falling in the previous two quarters. In December 2003, they fell by 32.2 per cent. The improvement realised during the review quarter was driven by interest earnings by the Central Bank of Lesotho and the commercial banks, which rose by 16.6 per cent and more than three fold, respectively.

Meanwhile, investment outflows continued to increase. Following a rise of 73.0 per cent in the last quarter, they grew by 17.0 per cent. This growth emanated mainly from distributed earnings, which increased by 74.6 per cent. However, this merely reflected a seasonal factor as the financial years of the majority of foreign enterprises end in December.

### ***Travel***

The country's earnings on travel fell by 5.5 per cent during the quarter. On an annual basis, they declined by 10.3 per cent. The main contributing factor to this decrease was a fall of 25.0 per cent in personal expenditure by expatriates. However, this was in contrast with an increase in government spending on capital projects, which normally boost expenditure by expatriates. Tourism spending remained sluggish.

Travel payments increased by 16.2 per cent following a decline of 17.4 per cent in the last quarter. This mainly resulted from the increase in expenditure on education abroad. Expenditure by privately sponsored students increased more than five fold compared to the last quarter.

### ***Current Transfers***

Net current transfers, seasonally adjusted, rose by 6.5 per cent during the review period following a fall of 2.7 per cent in the last quarter. On an annual basis, current transfers rose by 2.6 per cent. The observed quarterly increase was mainly due to the receipt of the payment of rand compensation worth M64.3 million. This was, to some extent, minimised by the rise in payments of subscriptions to international organisations by the Government, which more than doubled compared to the previous quarter. The fall in SACU non-duty receipts, which

constitute the bulk of transfers to the Government, also exerted negative pressure on the transfers. SACU revenue for the current fiscal year (which ended in March 2004) declined by 3.3 per cent compared to the previous fiscal year.

### ***Capital and Financial Account***

The capital and financial account, excluding LWHP, deteriorated significantly from a net inflow of M317.0 million to a net outflow of M23.5 million in the review period. This was mainly influenced by the decline in the 'other investment' category, which deteriorated from a net inflow of M84.1 million in the last quarter to a net outflow of M247.1 million. The reduction in 'other investments' was caused mainly by commercial banks' cross-border activities that resulted in a net out flow of funds. Commercial banks' foreign assets increased substantially by M229.4 million, after declining by M35.5 million in the previous quarter. The deterioration in the capital and financial account was somewhat moderated by an improvement in the net official loans' position. The latter improved from a net outflow of M46.1 million to a net inflow of M37.0 million, as disbursements increased by 10.2 per cent while repayments declined by 72.3 per cent.

## **VI. Money and Banking**

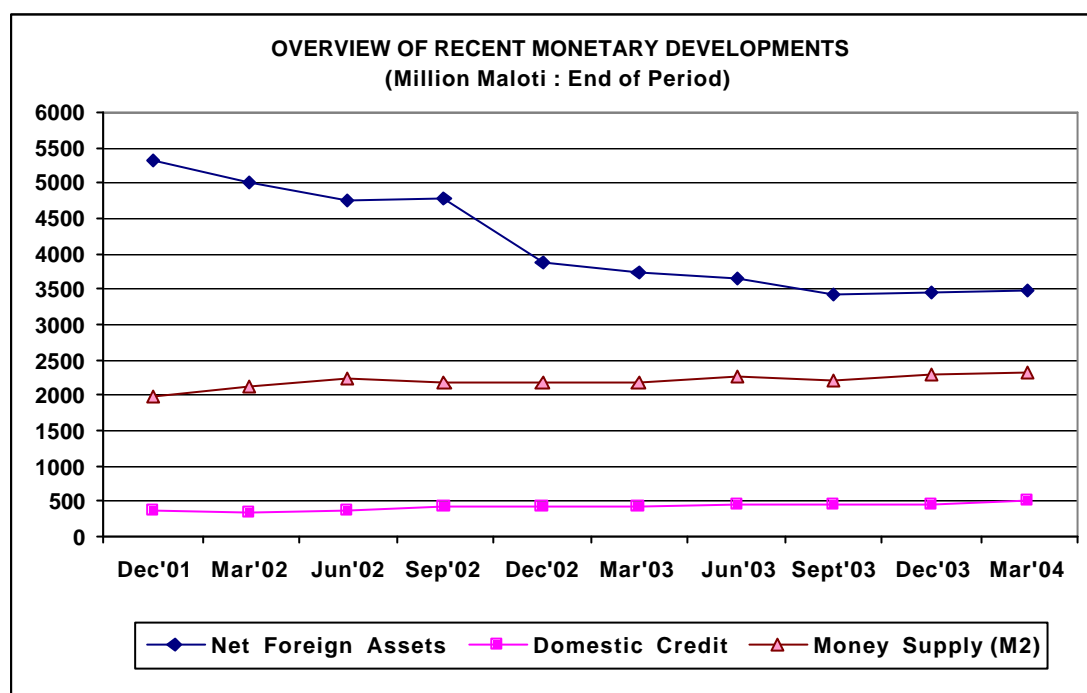
### ***Money Supply***

#### Determinants of Money Supply

Following a 3.9 per cent increase in December 2003, growth in money supply slowed down to 0.5 per cent at the end of March 2004. The change in money supply was within the CBL's non-inflationary guideline range of -3 to +3 per cent. On annual basis, money supply grew by 5.3 per cent against 6.0 per cent observed in December. This was in line with the observed decline in inflation rate between December 2003 and March 2004. As mentioned earlier under the subsection on prices, inflation in March rose by 5.2 per cent compared with 5.9 per cent in December.

As depicted by the table on determinants of money supply below, the deceleration in quarterly growth of money supply was largely a reflection of a subdued increase in the banking system's net foreign assets (NFA), despite a relatively strong growth in domestic credit. NFA rose marginally by 0.6 per cent in the review period compared with 0.9 per cent in December 2003. At the same time, domestic credit increased by 9.4 per cent against 1.4 per cent in the previous quarter.

**Figure 6**



**DETERMINANTS OF MONEY SUPPLY**

(Million Maloti; Changes)

Determinants	2002	2003				2004
	Dec	Mar	Jun	Sep	Dec	Mar
Net foreign assets	-731.0	-161.8	-86.7	-205.0	30.3	19.5
Domestic credit	11.3	-16.2	29.1	19.8	-6.4	43.1
To statutory bodies	-10.8	-6.1	2.3	1.8	-1.8	7.1
To private sector	22.1	-10.1	26.8	18.0	-4.7	36.0
Other items, net	-690.8	-201.2	-120.6	-142.5	-62.3	52.0
Money Supply (M2)	-19.2	23.1	63.1	-42.7	86.2	10.5

## Components of Money Supply

Both the narrow and quasi components of money were observed to increase at the end of the review quarter. Following an 8.1 per cent rise in December, narrow money (M1) increased marginally by 0.1 per cent in March. M1 registered a relatively sluggish growth on account of a decline in demand deposits, which partly offset a 13.1 per cent increase in maloti with public. Growth in maloti with public could be a demonstration of increased public demand for cash in the run-up to the Easter holidays.

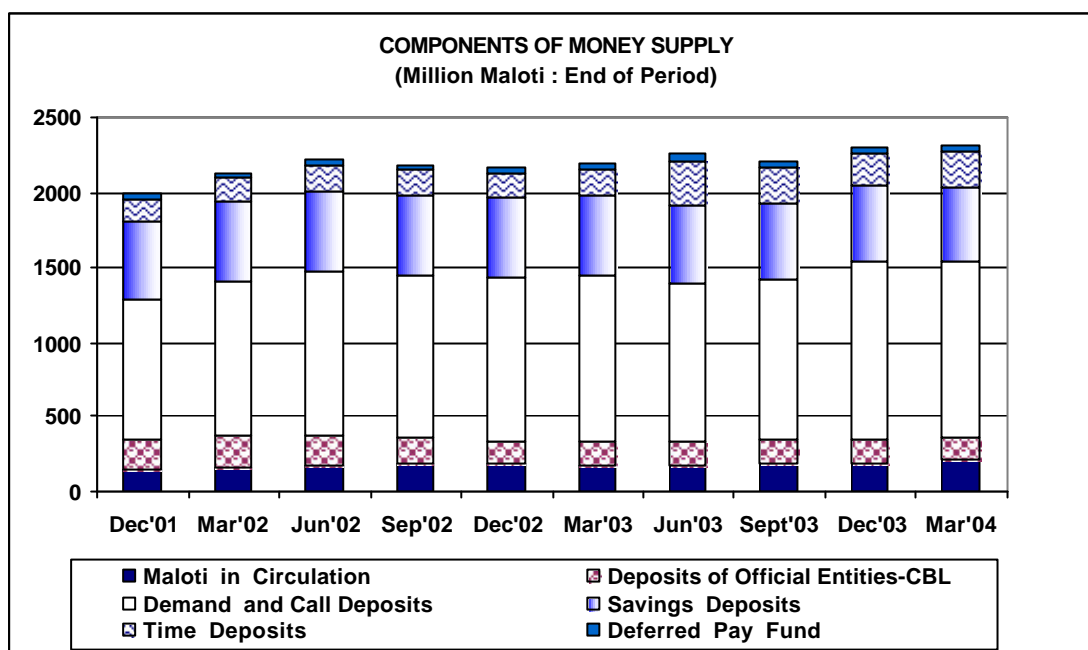
On the other hand, quasi-money recovered by 1.2 per cent following a 3.6 per cent slump at the end of December. The upward movement in quasi-money was largely a result of 6.7 per cent increase in time deposits that more than offset a 1.5 per cent decline in savings deposits.

### **MONEY SUPPLY** (Million Maloti; End of Period)

	<b>2002</b>	<b>2003</b>				<b>2004</b>
	<b>Dec</b>	<b>Mar</b>	<b>Jun</b>	<b>Sep</b>	<b>Dec</b>	<b>Mar</b>
Money Supply (M2)	2168.2	2191.3	2254.4	2211.6	2297.8	2308.4
Money (M1)	1440.9	1443.9	1395.8	1422.9	1537.7	1539.1
Maloti with public	179.7	178.6	175.8	188.2	183.5	207.6
Demand deposits <sup>(1)</sup>	1109.9	1114.1	1069.9	1073.9	1195.9	1174.0
Deposits of official Entities with CBL	151.3	151.1	150.0	160.8	158.4	157.4
Quasi-Money	727.2	747.5	858.6	788.7	760.1	769.3
Savings deposits	527.0	540.1	521.2	505.9	507.0	499.3
Time deposits	200.3	207.3	337.5	282.8	253.1	270.0

(1) - includes call deposits

**Figure 7**



### Commercial Banks' Deposits by Holder

At the end of the review period, total deposits of the private sector and statutory bodies, including migrant mineworkers' deferred pay fund, fell by a marginal 0.7 per cent following a 5.0 per cent recovery at the end of December 2003. As can be observed from the table below, all private sector deposits except time deposits declined. A decrease in the deposits of the statutory bodies also contributed to the overall decline. However, deferred pay fund grew, by 20.4 per cent, for the first time since June 2003.

## COMMERCIAL BANKS DEPOSITS BY HOLDER

(Million Maloti; End of Period)

	2002	2003				2004
	Dec	Mar	Jun	Sep	Dec	Mar
<b>TOTAL DEPOSITS</b>	1826.4	1850.9	1918.2	1852.3	1945.3	1932.5
<b>Private Sector</b>	1389.4	1398.6	1487.3	1481.2	1578.5	1571.7
Demand deposits	753.6	743.8	778.8	814.4	929.1	925.6
Savings deposits	526.8	539.9	521.1	505.8	507.0	499.3
Time deposits	109.0	114.9	187.4	161.0	142.4	146.9
<b>Statutory Bodies</b>	402.6	415.8	389.6	333.3	335.4	323.0
<b>Deferred Pay Fund</b>	34.5	36.5	41.4	37.8	31.4	37.8

### Liquidity of Commercial Banks

At the end of the review period, commercial banks' liquidity further increased to 65.2 per cent from 64.7 per cent in December. Against the minimum required ratio of 25 per cent, commercial banks in Lesotho remained highly liquid. The improvement in this ratio was driven mostly by growth in balances from abroad that more than offset the effect of a reduction in holdings of both the Lesotho Government's and SA short-term securities. This ratio represents the banks' ability to meet customers' demand for cash withdrawals. It also measures the extent of financial intermediation in the economy. The higher the ratio, the higher the ability of banks to meet customers' withdrawal demands. However, high liquidity also reflects the banks' reluctance to extend credit to the public.

**COMPONENTS OF COMMERCIAL BANKS' LIQUIDITY**  
(Million Maloti; End of Period)

COMPONENT	2002	2003				2004
	Dec	Mar	Jun	Sep	Dec	Mar
Maloti Notes and Coins	43.4	31.7	37.5	34.7	51.5	43.1
Rand Notes and Coins	10.3	6.3	6.1	7.3	15.5	9.0
Balances due from Lesotho Banks	125.2	247.9	253.5	341.3	449.6	411.2
Balances due from Foreign Banks	595.8	724.7	334.6	304.9	167.8	720.0
Clearing Balances with CBL	45.9	40.1	0.0	0.0	34.3	0.0
RSA Short-term Securities	175.0	110.0	315.8	214.2	668.6	14.6
CBL Bills	0.0	150.0	120.0	0.0	0.0	0.0
Lesotho Government Securities	518.4	386.8	671.6	557.1	702.3	471.9

Another important ratio in determining the depth of financial intermediation in the economy is the credit deposit ratio. This ratio seeks to establish the extent to which banks utilise deposits mobilised from the private sector and statutory bodies to provide lending to these sectors. At the end of the review period, this ratio increased to 25.1 per cent from 22.7 per cent in December, as loans and advances picked-up faster than deposits.

## CONSOLIDATED BALANCE SHEET OF COMMERCIAL BANKS

(Million Maloti; End of Period)

	2002	2003				2004	
	Dec	Mar	Jun	Sep	Dec	Mar	
Net foreign assets	672.7	766.3	579.3	743.1	610.7	903.4	
Deposits with CBL	105.4	104.4	173.0	34.7	114.5	50.6	
Credit	1243.7	1075.9	1380.1	1295.1	1433.0	1245.5	
<b>ASSETS/LIABILITIES</b>	2021.8	1946.6	2132.4	2073.0	2158.2	2199.5	
Private sector deposits <sup>(2)</sup>	1826.4	1850.9	1918.2	1852.3	1945.3	1932.5	
Government deposits	63.9	73.1	80.5	71.9	68.3	59.7	
Capital, reserves & other, net	131.6	22.6	133.7	148.8	144.5	207.3	

(2) - includes statutory bodies' deposits and deferred pay fund.

### ***Demand for Money***

#### Domestic Credit

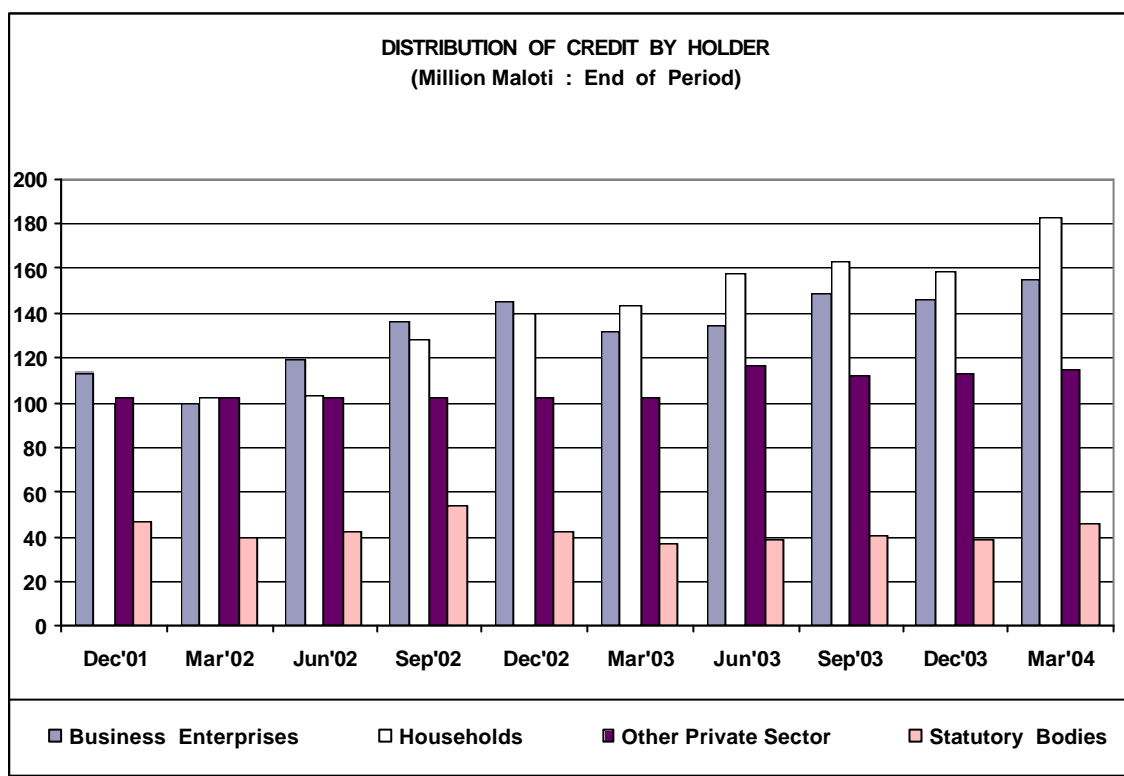
At the end of the review quarter, domestic credit increased by 9.4 per cent, in contrast to a 1.4 per cent fall registered in December. This reflected increased credit extended to both the private sector and statutory bodies.

### **DOMESTIC CREDIT**

(Million Maloti; End of Period)

	2002	2003				2004	
	Dec	Mar	Jun	Sep	Dec	Mar	
<b><u>DOMESTIC CREDIT</u></b>	430.2	414.0	443.1	463.0	456.5	499.6	
Credit to private sector	387.5	377.4	404.2	422.2	417.6	453.6	
Business enterprises	145.7	131.5	134.4	147.2	146.1	155.2	
Households	139.9	144.0	157.8	163.1	158.6	183.0	
Others	101.8	101.8	111.9	111.9	112.9	115.4	
Credit to statutory bodies	42.8	36.7	38.9	40.7	38.9	46.0	

**Figure 8**



### Credit to Private Sector

In contrast to a 1.1 per cent quarterly decline registered at the end of December, credit to the private sector rose by 8.6 per cent at the end of the review quarter. The strong recovery in credit to this sector was reflective of lower borrowing costs for this sector as lending rates remained unchanged since December. Major components of private sector credit are credit to businesses and credit to households. At the end of the review period, credit to businesses was observed to recover by 6.2 per cent following a marginal slowdown of 0.8 per cent at the end of December. Meanwhile, credit to households increased by 15.4 per cent in contrast to a 2.8 per cent decline in December.

On annual basis, private sector credit increased by 20.2 per cent following a 7.8 per cent in December. As credit to the private sector has been increasing since June 2001, it might boost growth in this sub-sector in the medium to long term.

## Credit to Statutory Bodies

Credit to official entities rose by 18.2 per cent in end-March following a 4.3 per cent decline at the end of December. On an annual basis, credit to this sub-sector grew by 25.6 per cent. However, this is the first such growth since end of June 2002. In essence, credit to this sector has been waning and should be expected to struggle in the medium to long-term, due to the diminishing size of the sector, as the privatisation process continues.

## Sectoral Distribution of Credit to Business Enterprises and Statutory Bodies

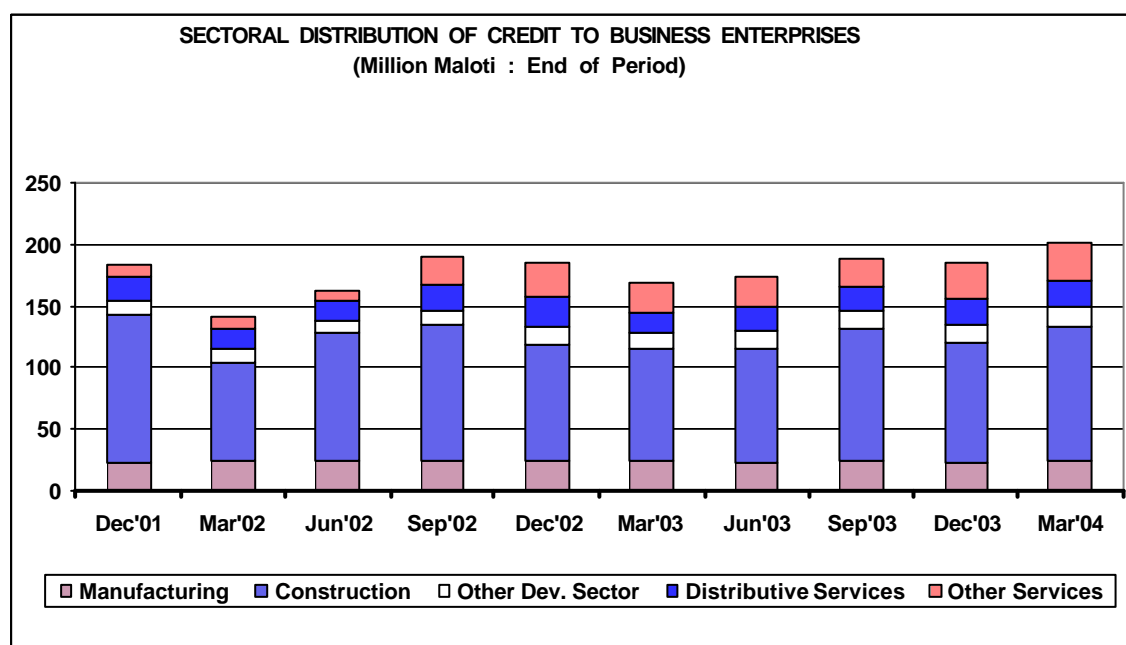
Total distribution of credit to all sectors of the economy, including statutory bodies, but excluding government and non-performing loans, increased by 8.8 per cent in the review quarter, following a 1.5 per cent decline registered in December. Although this surge could be attributed to increased credit across all sectors of the economy, in the forefront was the recovery in credit to the construction sector.

Credit to the construction subsector grew by 12.3 per cent following a 10.3 per cent slump in December. Credit to the manufacturing sector also recovered from a 3.7 per cent slump to register a 6.0 per cent rise. These increases are in line with slight recovery observed in the world economy since the second half of 2003, which tends to increase demand for Lesotho exports and hence credit to the sector. Credit to other development services, which comprise electricity, gas and water as well as transport, storage and communication grew by 2.0 per cent. Credit received by distributive services and other services components grew by 8.0 and 3.6 per cent as respectively from 2.4 and 30.3 per cent in December.

**SECTORAL DISTRIBUTION OF CREDIT TO ENTERPRISES**  
(Million Maloti; End of period)

SECTOR	2002	2003				2004
	Dec	Mar	Jun	Sep	Dec	Mar
Manufacturing	24.6	24.5	22.3	24.2	23.3	24.7
Construction	94.7	90.3	92.8	107.7	96.6	108.4
Other development sectors	14.4	13.3	14.5	13.7	15.4	15.7
Distributive services	23.4	16.8	19.3	19.5	19.9	21.5
Other services	27.7	23.3	24.5	22.9	29.9	30.9
All sectors	184.9	168.2	173.4	187.9	185.0	201.2

**Figure 9**



## Net Claims on Government

At the end of the review quarter, the banking system's net claims on Government fell by 91.5 per cent, following an increase of 18.3 per cent in December. The decrease was attributable to a decline in net claims by commercial banks that more than offset increased claims by the CBL. As shown in the accompanying table below, net claims by the commercial banks fell by 24.0 per cent, mainly on account of a reduction in the holdings of treasury bills.

On the part of the CBL, Government deposits fell, while gross claims rose. However, this increase merely reflected the disbursement of funds, amounting to SDR3.5 million, under the Government's PRGF loan with the IMF, which is processed through the CBL for administrative purposes. The increase was partially offset by SDR 0.378 million repayment to the IMF by the Government during the same period.

### **BANKING SYSTEM'S NET CLAIMS ON GOVERNMENT** (Million Maloti; End of Period)

Holder	2002	2003				2004
	Dec	Mar	Jun	Sep	Dec	Mar
<b>Commercial banks</b>	744.5	602.0	880.3	774.1	923.1	701.5
Claims on Government	806.7	675.0	960.7	846.0	991.4	761.2
<i>o/w MP T Bills</i> <sup>(3)</sup>	394.1	287.4	505.3	458.3	536.0	305.8
Less Government deposits	63.9	73.1	80.5	71.9	68.3	59.7
<b>Central Bank of Lesotho</b>	-1066.0	-792.2	-966.1	-971.1	-1090.1	-1021.4
Claims on Government	191.3	184.0	196.1	183.2	173.8	196.1
Less Government deposits	1257.3	976.2	1162.1	1154.3	1263.9	1217.4
<i>o/w those in blocked acct.</i>	500.9	356.5	605.1	551.58	605.9	519.2
<b>TOTAL NET CLAIMS</b>	-323.1	-190.3	-85.8	-197.1	-167.0	-319.9

(3) – 'o/w' means of which and 'MP T Bills' means monetary policy treasury bills

### **Net Foreign Assets (NFA)**

The NFA of the banking system grew by a marginal 0.5 per cent at the end of March from 0.9 per cent growth in December 2003. This increase was mainly a reflection of the accumulation of foreign asset

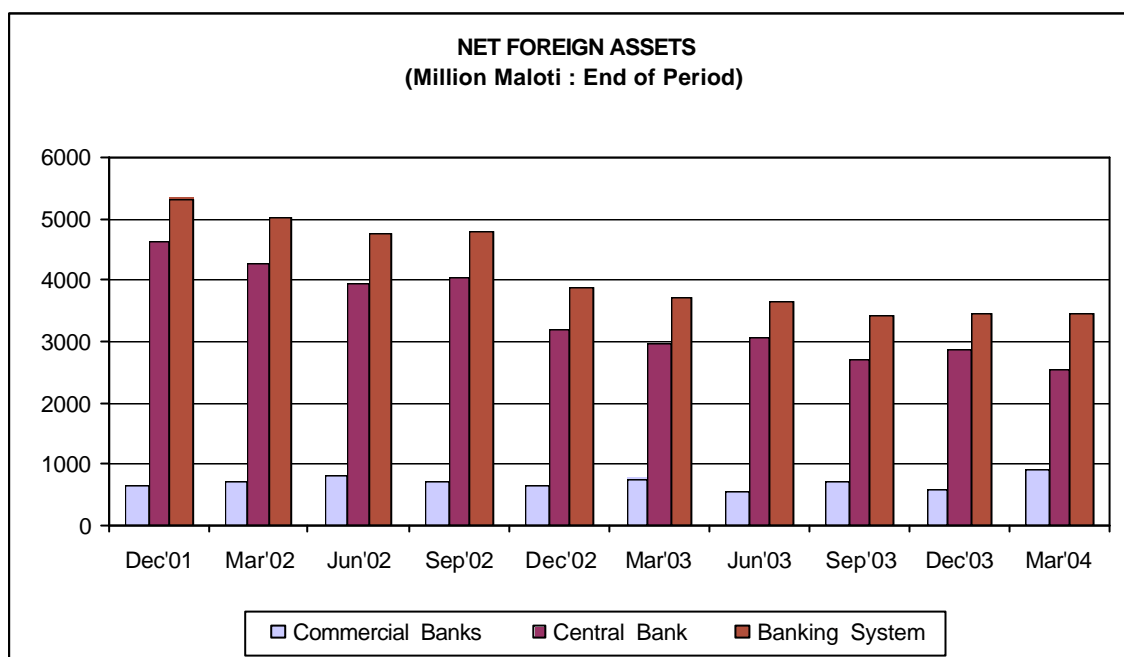
holdings by the commercial banks, which rose by 47.9 per cent following a 17.8 per cent decrease observed in December. In contrast, the CBL's NFA fell by 9.7 per cent compared with a 5.9 per cent recovery in December.

The improvement in commercial banks' foreign assets emanated from cross border transfers; as banks continued to prefer investment in short term securities to credit extension. Notably, the banks' latest transfer resulted from the proceeds of the fiscal policy securities, which were issued in December 2003 but were not rolled over after they matured at the end of March 2004. However, banks also have to transfer funds abroad for other business purposes including transactions on behalf of their customers. For instance, of the M613.6 million net transfers effected through the CBL during the review period, only about M292.7 million ended as foreign investments. Nonetheless, these transfers were largely responsible for the decline in CBL foreign assets. Revaluation loss of about M82 million, as the local currency appreciated against other currencies, also contributed to the fall in CBL NFA

**BANKING SYSTEM'S FOREIGN ASSETS AND LIABILITIES**  
(Million Maloti; End of Period)

Holder	2002	2003				2004
	Dec	Mar	Jun	Sep	Dec	Mar
<b>A. Commercial Banks</b>	672.7	766.3	569.3	743.09	610.7	903.4
Foreign Assets	772.3	835.7	651.1	875.91	840.4	1069.8
Foreign Liabilities	-99.6	-69.4	-81.8	-132.8	-229.6	-166.4
<b>B. Central Bank of Lesotho</b>	3211.4	2956.0	3066.2	2694.7	2853.0	2576.9
Foreign Assets	3858.2	3575.4	3576.2	3184.5	3341.0	3083.5
Foreign Liabilities	-646.7	-619.5	-510.0	-489.7	-488.0	-506.6
<b>NET TOTAL</b>	4782.8	3722.3	3635.5	3437.8	3463.7	3480.3

**Figure 10**



## VII. Money and Capital Markets

### ***Money Market Developments***

At the end of March 2004, total holdings of treasury bills fell by 32.6 per cent to M519.3 million from December's M770.5 million. During the quarter, three 91-day treasury bill auctions were undertaken in contrast to four undertaken in December. All of these were for monetary policy purposes, aimed at maintaining favourable liquidity conditions in the economy. The total amount of these monetary policy securities issued was M442.0 million, at face value, out of M550 million that was auctioned. However, in addition to the monetary policy securities, a total of M59.0 million 182-day securities, out of M60 million auctioned, was issued during the quarter.

The banking sector continued to hold the largest share of treasury bills. However, their share fell from 77.1 per cent of the total at the end of December to 73.1 per cent in the review quarter. The non-bank financial institutions and the general public held 19.5 per cent and 7.4 per cent, respectively.

**HOLDING OF TREASURY BILLS**  
(Million Maloti)

Holders Type	2002	2003				2004
	Dec	Mar	Jun	Sep	Dec	Mar
<b>Total</b>	<b>515.7</b>	<b>464.9</b>	<b>698.1</b>	<b>588.7</b>	<b>770.5</b>	<b>519.3</b>
<b>Banking System</b>	402.0	405.4	579.4	437.5	593.3	379.6
Central Bank	2.3	19.4	0.1	0.0	0.0	0.0
Commercial Banks	402.0	405.4	579.4	437.5	593.3	379.6
<b>Non-Bank Sector</b>	113.7	59.5	118.6	151.2	177.2	139.7
NBFIs*	23.7	10.5	72.1	93.1	102.1	101.4
Others	90.0	49.0	46.5	58.1	75.1	38.3
<b>Memorandum Item</b>						
Average Yield per cent	13.18	14.27	13.26	11.79	10.46	9.35

\* NBFIs = Non-bank Financial Institutions

***Money Market and Short-term Interest Rates***

During the quarter under review, money market rates in Lesotho remained largely unchanged. As shown in the accompanying table below, a significant change was observed only in the three-month treasury bill rate, which declined by 103 basis points from 9.83 per cent at the end of December to stand at 8.8 per cent. At this level, it was 100 basis points above its SA counterpart. This represented a significant narrowing in the margin between the two rates from 229 basis points in December 2003.

In line with the overall trend, the prime lending rate in the country remained the same as in December at 12.5 per cent. This represented a margin of 100 basis points above the prime rate in SA during the review period.

As indicated in the table below, the average deposit rates remained very low in the review quarter, which maintained a wide margin between the prime lending and deposit rates. At the inflation rate of 5.2 per cent in March, real deposit rates (adjusted for inflation) remained negative. For instance, the six-month real deposit rate was negative 1.13 per cent.

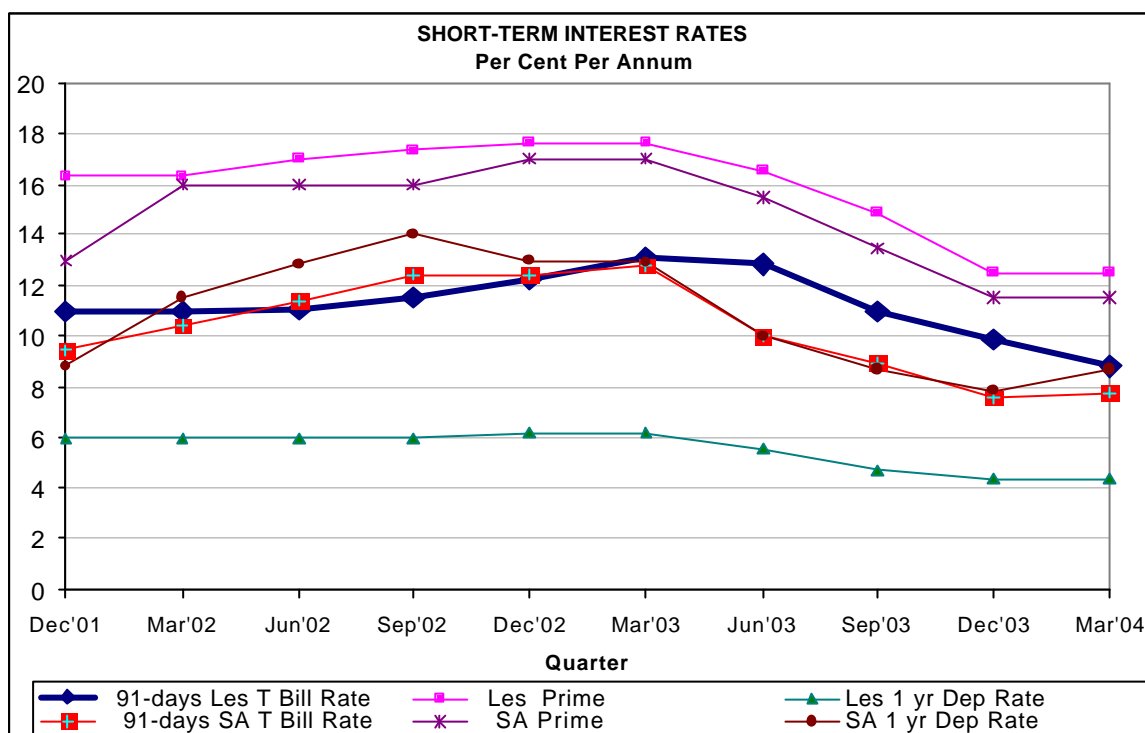
## MAJOR MONEY MARKET INTEREST RATES

(Per cent; End of Period)

Interest Rates by Type	2002	2003				2004
	Dec	Mar	Jun	Sep	Dec	Mar
Central Bank						
T Bill Rate - 91 Days	12.19	13.12	12.83	10.99	9.83	8.80
Lombard Rate	16.19	17.12	16.83	14.71	15.00	13.00
Commercial Banks <sup>(5)</sup>						
Call	5.06	5.06	3.80	3.55	3.04	3.06
Time						
31 days	4.50	4.50	4.29	4.13	3.32	3.32
88 days	5.50	5.50	4.97	4.40	3.87	3.87
6 months	5.50	5.50	5.05	4.72	4.07	4.07
1 year	6.17	6.17	5.57	4.72	4.37	4.37
Savings	3.44	3.44	2.51	2.51	1.95	1.89
Prime	17.67	17.67	16.50	14.83	12.50	12.50
South Africa						
Repo	13.50	13.50	12.00	10.00	8.00	8.00
T Bill Rate - 91 Days	12.42	12.75	10.78	8.97	7.54	7.80
Marginal Lending Rate	18.5	18.5	17.00	15.00	13.00	13.00
Time						
31 days	13.03	12.94	11.49	9.35	7.69	7.66
1 year	13.02	12.91	10.02	8.65	7.84	8.7
Prime	17.00	17.00	15.5	13.50	11.50	11.50

(5) - Average rates by commercial banks.

**Figure 11**



### **Foreign Exchange Rates**

The performance of the rand and hence that of the loti against major currencies was mixed during the quarter. The local currency unit depreciated during the first month of the quarter and regained strength in the last two months. On average, it depreciated by 3.7 per cent against the SDR, 5.6 per cent against the Euro, 0.5 per cent against the US dollar and 7.7 per cent against the British pound sterling.

The following factors could have exerted pressure on the domestic currency. Firstly, SA companies sought to take advantage of the rand's rally and purchased foreign currencies to pay for their imports. Secondly, the SARB also bought US dollars to boost its foreign currency reserves, which was interpreted by some investors as a move to prevent further strengthening of the rand. Thirdly, SA's current account deficit widened and raised concerns that the country would not be able to attract enough inflows to finance the deficit. Furthermore, investors might have cut their holdings of rand assets prior to the elections.

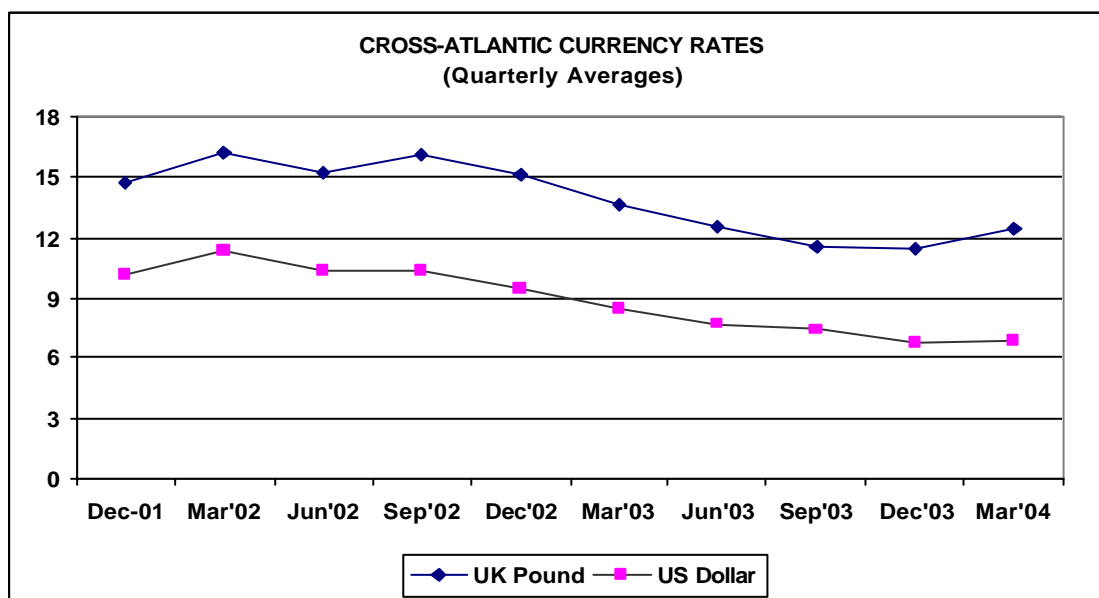
However, certain factors continued to work in favour of the loti during the quarter. Firstly, the interest rate differential between SA and the worlds' major economies continued to enhance the attractiveness of rand denominated assets. Secondly, the continued strengthening of the price of gold coupled with the relatively high price of platinum – gold

and platinum account for about 20 per cent of SA's export earnings - maintained the external value of the rand and thus the loti.

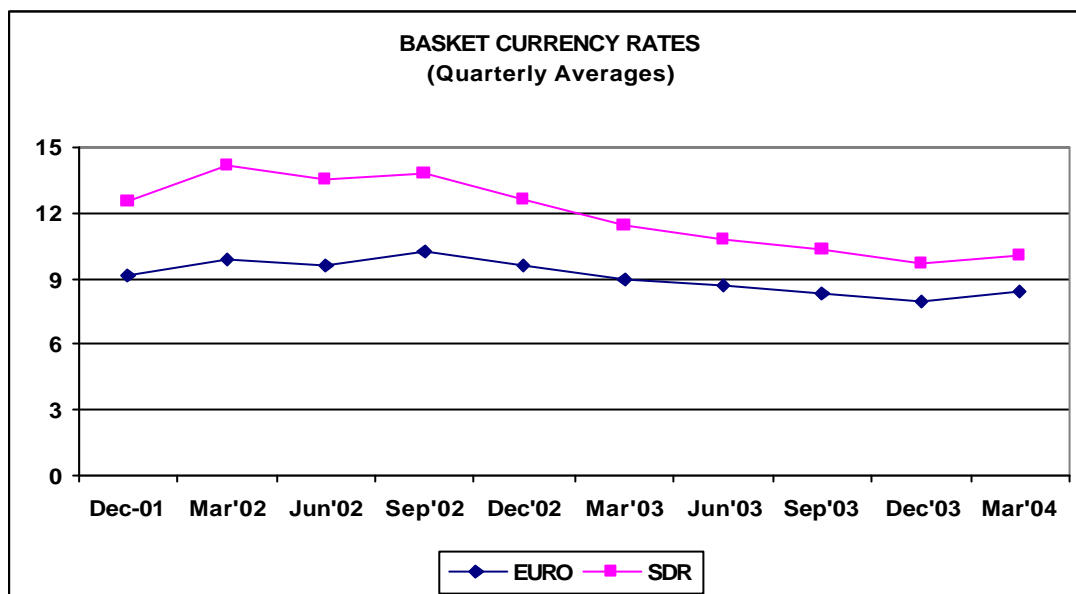
**SELECTED EXCHANGE RATES**  
(Loti per Currency units; Quarterly Averages)

Currency	2002	2003				2004
	Dec	Mar	Jun	Sept	Dec	Mar
SDR	12.620	11.451	10.785	10.331	9.730	10.103
EURO	9.608	8.956	8.762	8.340	8.004	8.484
USD	9.483	8.474	7.737	7.416	6.745	6.779
UK	15.128	13.038	12.538	11.534	11.510	12.462

**Figure 12**



**Figure 13**



## VIII. Government Finance

### *Summary of Budget Outturn*

Government budgetary operations for the last quarter of the 2003/04 fiscal year were estimated to have resulted in an overall surplus equivalent to 6.8 per cent of GDP. The good fiscal performance during this period was a result of improved revenue collections as well as some expenditure containment by Government. Total receipts grew from 41.5 per cent of GDP in the previous quarter to 45.5 per cent of GDP while total spending fell by half a percentage point to 41.8 per cent of GDP. The surplus realised during the quarter enabled Government to pay-off some of its domestic debt.

### *Revenue*

Total revenue and grants received by Government were estimated to have increased by 17.2 per cent, in nominal terms, during the last quarter of the 2003/04 fiscal year. As a percentage of GDP, they rose from 41.5 per cent in the last quarter to 48.5 per cent. Increases in both tax and non-tax receipts were responsible for this improvement.

Overall, tax revenue was estimated to have increased by 9.3 per cent during the review period. The main source of this growth was the 26.0 per cent nominal rise in income taxes. This was the result of revenue enhancement measures undertaken by the Income Tax Department of

the Lesotho Revenue Authority during the same period. These included intensified follow-ups on debtors to pay their tax obligations.

In contrast, the level of VAT revenue declined by 4.1 per cent from the previous quarter's level. The reason for this was that, even though actual VAT collections did not fall, the level of refunds processed during the quarter was significantly high and that translated into less VAT revenue going to Government. During the review period all outstanding VAT refunds, including refunds that were applicable under the old general sales tax (GST) system were paid out so that they would not roll over into the next fiscal/financial year. On an annual basis, VAT collections had increased by more than 40 per cent, reflecting efficiency gains of substituting VAT for GST. SACU revenue remained the same as that received in the last quarter, as it is usually an annual allocation, disbursed in four equal tranches.

Non-tax revenue grew by more than one hundred per cent. The receipt of rand compensation during the quarter was the main contributing factor to this growth. At the same time, the level of grants fell by 25 per cent, on account of the reduction in budgetary support grants. Project financing grants were estimated to have increased by 34.0 per cent.

**GOVERNMENT BUDGETARY OPERATIONS**  
(Million Maloti)

DETAILS	2002/03	2003/04			
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec Revised	Jan-Mar Prelimi- nary
<b>Total Revenue and Grants</b>	<b>868.3</b>	<b>772.0</b>	<b>960.9</b>	<b>887.1</b>	<b>1039.3</b>
<b>Total Revenue</b>	798.5	725.9	921.4	834.4	999.8
<i>Tax Revenue</i>	701.9	591.0	767.9	743.4	812.8
Customs	367.5	355.4	355.4	355.4	355.4
Non-customs	334.4	235.6	412.5	388.0	475.4
Income Taxes	215.0	134.0	257.5	204.0	264.6
Taxes on goods & services	117.0	100.5	153.7	181.3	167.4
Other Taxes	2.4	1.1	1.3	2.7	25.4
<i>Non-Tax Revenue</i>	96.6	134.9	153.5	91.0	187.0
Of which: Water royalties	52.9	46.9	57.2	46.7	42.3
<b>Grants</b>	69.8	46.1	39.5	52.7	39.5
<b>Total Expenditure &amp; Net Lending</b>	<b>945.7</b>	<b>918.6</b>	<b>871.0</b>	<b>904.7</b>	<b>893.4</b>
<b>Recurrent Expenditure</b>	759.9	714.3	747.6	783.1	727.4
Personnel Emoluments	270.6	278.5	279.2	281.8	283.8
Interest Payments	58.7	39.4	53.4	68.1	55.8
Foreign	29.4	14.1	18.1	33.5	25.1
Domestic	29.3	25.3	35.3	34.6	30.7
Other Expenditure	430.6	396.4	415.0	433.2	387.8
<b>Capital Expenditure</b>	213.5	208.0	123.4	126.7	166.7
<b>Net Lending</b>	-27.7	-3.7	0.0	-5.1	-0.7
<b>Surplus/deficit before grants</b>	-147.2	-192.7	50.4	-70.3	106.4
<b>Surplus/deficit after grants</b>	-77.4	-146.6	89.9	-17.6	145.9
<b>Financing</b>	77.4	146.7	-89.8	17.6	-145.9
Foreign	1.7	-16.4	-9.4	-46.1	37.0
Loan drawings	37.6	29.3	34.5	48.2	58.4
Amortization	-35.9	-45.7	-43.9	-94.3	-21.4
Domestic	75.7	163.1	-80.4	63.7	-182.9
Bank Financing	142.7	104.5	-111.3	37.5	-152.9
Non - Bank	-67.0	58.6	30.9	26.2	-30

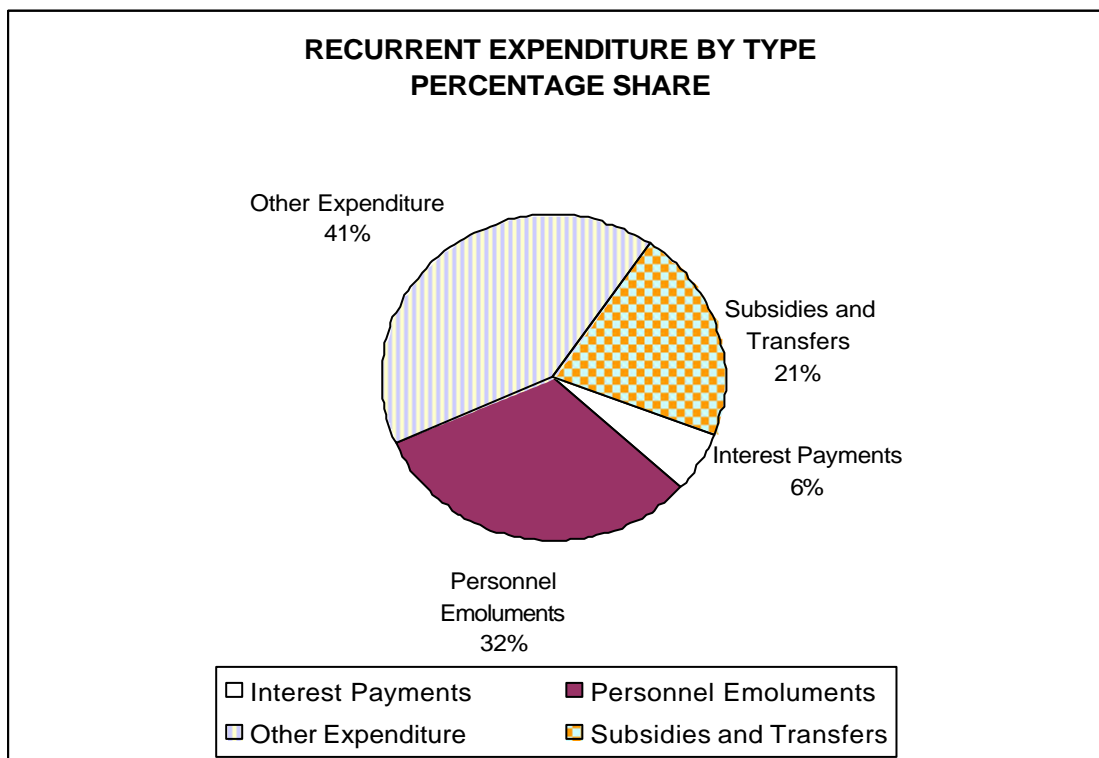
**Expenditure**

Total Government expenditure and net lending was estimated to have declined by 1.2 per cent in nominal terms, during the review period. As a proportion of GDP, it was recorded at 41.8 per cent compared with 42.3 per cent in the previous quarter. This mainly emanated from a decrease in recurrent expenditure.

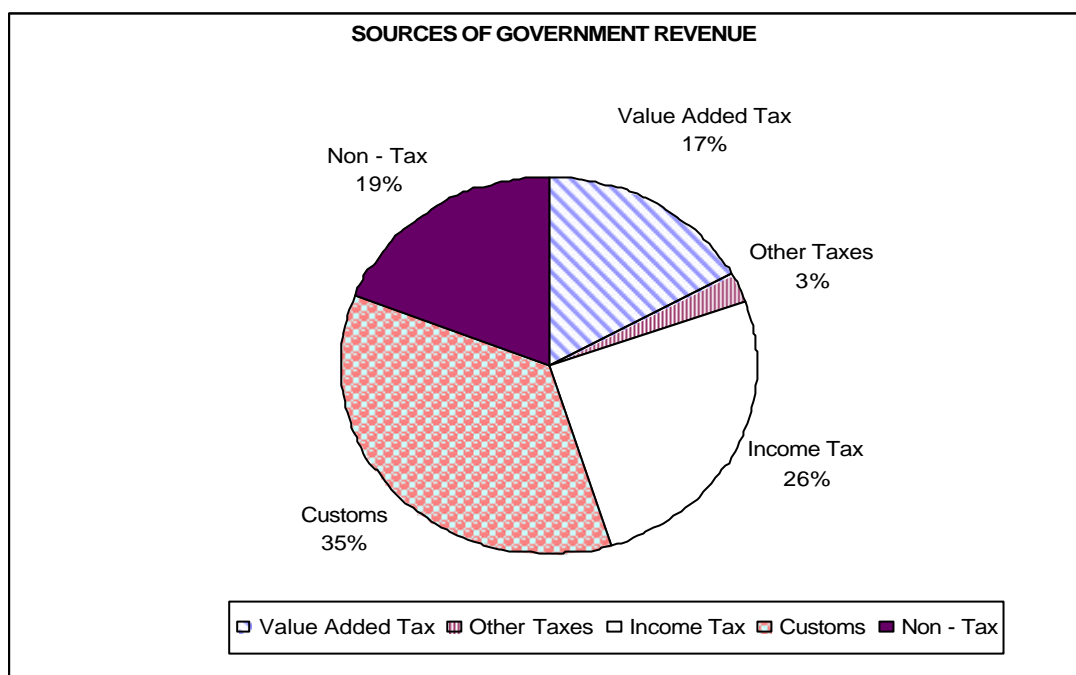
Recurrent spending was estimated to have decreased by 7.0 per cent largely as a result of a reduction in the purchases of goods and services. The latter fell by 36.8 per cent from the previous quarter's level. To some extent, this could be a result of expenditure rationalisation measures that have been put in place by the Government in order to control spending. In addition, some saving emanated from the postponement of the local government elections, which were scheduled to take place during the 2003/04 fiscal year. Wages and salaries only grew marginally during the quarter. Subsidies and transfers rose by 59.2 per cent, on account of higher subventions to institutions supported by the Government. These included the National Manpower Development Secretariat (NMDS), which sponsors Basotho students primarily in institutions of higher learning. Interest payments fell by 17.7 per cent reflecting the general downward trend in interest rates as well as the effect of the appreciation of the loti against external currencies.

Capital expenditure was reported to have increased by 31.7 per cent on a quarterly basis. This was a reflection of growth of 31.6 per cent, 21.2 per cent and 34.3 per cent in spending on Government of Lesotho funded, loan funded and grant funded projects, respectively.

**Figure 14**



**Figure 15**



### ***Financing***

As already indicated, a budget surplus of 6.8 per cent of GDP was realised during the last quarter of the 2003/04 fiscal year. This facilitated net repayments of M182.9 million in Government's domestic debt, thereby reducing the total stock of domestic indebtedness, mainly treasury bills, by 20.5 per cent. In terms of foreign financing, loan drawings surpassed repayments by M37.4 million. This was primarily due to the fact that the amount of loan repayments due in the review quarter was relatively low.

### ***Public Debt***

#### Overview

During the quarter ending in March 2004, a significant improvement in the Government's debt position was realised. Total debt declined by almost 10 percentage points from 67.0 per cent of GDP in the last quarter to 57.2 per cent of GDP. The improvement was partly brought about by the decrease in the level of external loans from 53.1 per cent of GDP to 47.1 per cent due to the appreciation of the loti against major world currencies. Domestic debt also declined from 13.9 per cent of GDP in December to 10.1 per cent of GDP at the end of March. This resulted from the retirement of a high volume of treasury bills during the quarter.

## External Debt

The stock of external debt fell by 2.5 per cent in nominal terms, during the review period, mainly as a result of the appreciation of the loti against major world currencies in which Government foreign loans are denominated. As a percentage of GDP, external debt was registered at 47.1 per cent compared with 53.1 per cent of GDP at the end of December 2003. This indicated an improvement in the external debt sustainability as the level of indebtedness fell further below the 60 per cent of GDP sustainability threshold for developing countries. The external debt service ratio also indicated continued sustainability at 1.4 per cent during the quarter.

The bulk of external debt continued to be concessional, at 72.4 per cent of total external debt. Multilateral loans accounted for 78.8 per cent foreign debt while bilateral and financial institutions' loans constituted 11 per cent and 7.8 per cent, respectively.

## Domestic Debt

Following a nominal increase of 18.6 per cent in the previous quarter, domestic debt declined by 20.4 per cent during the review period. This reversal resulted from the retirement of all treasury bills that had been issued to finance fiscal operations. As indicated earlier, fiscal operations resulted in a surplus during the review period, thus enabling the Government to pay off the mentioned treasury bills. Short-term debt constituted about 69 per cent of domestic debt, while the remainder was made up of long-term bonds. About 89 per cent of domestic debt was owed to the banking sector. As a percentage of GDP, the domestic debt stock was 10.1 per cent.

**OUTSTANDING GOVERNMENT DEBT**  
(Million Maloti)

	2003				2004
	QI	QII	QIII	QIV	QI
<b>A. EXTERNAL DEBT</b>	<b>4684.1</b>	<b>4559.5</b>	<b>4376.0</b>	<b>4432.0</b>	<b>4320.4</b>
Bilateral Loans	403.4	378.7	369.3	504.4	484.2
Concessional	202.3	286.0	203.0	205.3	196.3
Non-concessional	201.1	92.7	166.3	299.1	287.9
Multilateral Loans	3771.0	3729.2	3563.2	3485.8	3406.6
Concessional	3105.4	3434.5	3060.7	2997.7	2929.9
Non-concessional	665.6	294.7	502.5	488.1	476.7
Financial Institutions	372.7	353.2	349.3	343.8	338.9
Concessional	0.9	3.0	0.8	0.8	0.8
Non-concessional	371.8	350.2	348.5	343.0	338.1
Suppliers' Credit	137.0	98.4	94.2	98.0	90.7
<b>B. DOMESTIC DEBT</b>	<b>758.7</b>	<b>1085.7</b>	<b>919.5</b>	<b>1159.7</b>	<b>922.0</b>
Banks	701.2	967.1	826.4	982.5	818.7
Long-term	287.7	287.7	287.7	287.7	287.7
Short-term	413.5	679.4	538.7	694.8	531.0
<i>Of which: treasury bills</i>	412.9	679.4	537.5	693.3	531.0
Non-bank	57.5	118.6	151.2	177.2	103.3
Short-term (TBs)	57.5	118.6	151.2	177.2	103.3
<b>TOTAL (A + B)</b>	<b>5442.8</b>	<b>5645.2</b>	<b>5295.5</b>	<b>5591.7</b>	<b>5242.4</b>

Source: Ministry of Finance and Central Bank of Lesotho

**Figure 16**

