

**CENTRAL BANK OF LESOTHO**

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## **I. Introduction**

The third quarter of 2007 is characterized by robust growth of the world economy. Real Gross Domestic Product (GDP) of the United States (US) economy grew by 3.9 per cent compared with 3.8 per cent registered in the previous quarter. Consumer spending continued to be strong despite the subprime mortgage crisis that hit the US at the beginning of the quarter. In addition, good performance was observed in most regions such as the Euro zone, Asia and South Africa. However, the increasing price of oil continues to be a threat to price stability world-wide. The price of oil ended the quarter just below US\$80 per barrel and is expected to end the year above US\$100 per barrel.

The Lesotho economy exhibited mixed indications during the third quarter of 2007. The Government of Lesotho with the assistance of the European Union (EU) and Food Agricultural Organisation (FAO) are implementing the 'inputs subsidy program' for the 2007/2008 cropping season to assist farmers to cope with the current drought. On a positive note, the mining sub-sector continued to display sound growth due to significant expansions in diamond mining.

In the secondary sector, electricity consumption rose by 13.4 per cent during the quarter. However, the water sub-sector measured by water consumption showed a steep decline on a seasonally adjusted basis.

The tertiary sector showed strengthened during the quarter under review. Data from the Lesotho Revenue Authority (LRA) indicates that the value of sales turnover rose by 21.6 per cent. The telecommunications sub-sector measured by the number of calls rose by a seasonally adjusted 2.1 per cent on quarterly basis.

Employment in the Lesotho National Development Corporation (LNDC) assisted companies declined by 1.4 per cent during the quarter due to the closure of three firms. Other employment categories namely; employment in civil service and migrant mineworkers continued to increase.

Inflation developments continued to follow those of the region. Inflation rose by 8.6 per cent compared with 8.0 per cent recorded in the previous period. In South Africa, the South African Reserve Bank targeted inflation measure, CPIX, remained above the target band of 3 to 6 per cent. The continuing increase in the price of crude oil is exerting immense pressure on the cost structures of firms in the region.

Developments in the financial sector show that money supply grew by 1.1 per cent on a quarterly basis and by 37.8 per cent on an annual basis. Domestic credit continued to increase during the quarter. Credit extended to private sector rose by 8.4 per cent while credit to statutory bodies rose by 40.9 per cent. Net foreign assets of the banking system rose by 14.0 per cent compared with a 2.7 per cent decline registered during the previous quarter. The CBL net foreign assets were driven by the receipt of back payment of customs revenue while those of commercial banks was due to the foreign currency earnings by the private sector.

The 91 day Treasury bill rate continued to remain below that of South Africa. The rate rose to 8.12 per cent from 7.56 per cent registered at the end of the previous quarter. The 91 day Treasury bill rate was 118 percentage points below that of South Africa. Other interest rates in the economy remained in line with those of South Africa.

Government budgetary operations are estimated to have resulted in a surplus equivalent to 21.7 per cent of GDP resulting mainly from the back payment of customs revenue and the decline in foreign interest payments.

During the third quarter of 2007, the overall balance of payments registered a surplus equivalent to M869.3 million compared to a deficit of M145.0 million recorded in the previous quarter. The surplus was mainly due to the good performance of the current transfers and the continued improvement in the private sector foreign exchange earnings.

## **II. International Economic Developments**

### United States

Growth of the US economy strengthened during the quarter under review. On an annual basis, real GDP grew by 2.6 per cent against a revised 1.9 per cent registered in the previous quarter due to faster growth in consumer expenditure and improved performance in trade.

However, unemployment rate in the US rose from 4.5 per cent during the second quarter to 4.7 per cent during the quarter under review while the rate of inflation also accelerated to 2.8 per cent in September 2007 compared with 2.7 per cent observed in June. The latter is largely due to a faster increase in both food and oil prices. At this rate, the overall inflation rate in the US is still considered to be relatively low. Consequently, the Federal Reserve Bank's Open Market Committee (FOMC) reduced the benchmark lending rate from 5.25 per cent observed in both March and June to 4.75 per cent in September (the FOMC had kept the rates unchanged since June 2006). The sub-prime mortgage lending problem also contributed towards the interest rate reduction.

The acceleration in the US economic growth may have positive implications on the Lesotho economy by increasing its export earnings through continued growth in Lesotho's exports to the US. This could be reflected in a subsequent improvement in the balance of payments position. Furthermore, continued high US demand for Lesotho's exports may lead to the creation of further employment opportunities in the textile and clothing sub-sector. However, the rising unemployment rate in the US could potentially lead to a decrease in consumer spending and hence lower demand for Lesotho's exports.

**Table 1: World Economic Indicators**  
(Quarter II versus Quarter III: 2007)

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	QII	QIII	QII	QIII	QII	QIII	QII	QIII
China	11.9	11.5	4.4	6.2	6.57	7.29	4.4	4.1
Euro Area	2.5	2.6	1.9	2.1	4	4	7.5	7.3
India	9.3	n/a	7.5	6.4	7.75	7.75	7.6*	7.6*
Japan	1.5	2.2	-0.3	-0.3	0.5	0.5	3.7	4.0
South Africa	4.4	4.7	6.4	6.7	9.5	10.0	25.5*	25.5*
Unites States	1.9	2.6	2.7	2.8	5.25	4.75	4.5	4.7

\* as in March 2007

Source: Bloomberg, Economist, Eurostat, SARB and STATSSA

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

On an annual basis, real GDP of the Euro zone grew slightly by 2.6 per cent during the third quarter of the year compared with 2.5 per cent realised during the previous quarter. The major driver of growth in this region appeared to be Netherlands which rose by 1.8 per cent.

The harmonised unemployment rate in the thirteen nations sharing the Euro improved during the quarter under review. It declined from 7.5 per cent in June to 7.3 per cent in September. Prospects of improved economic growth in the Euro-zone made firms keen to hire more workers. Inflation in the Euro-zone as measured by changes in the Harmonised Index of Consumer Prices (HICP) accelerated from 1.9 per cent recorded in June to 2.1 per cent in September. This was the first time in more than a year that the inflation rate exceeded the targeted rate of 2.0 per cent as determined by the European Central Bank (ECB). However, the inflation outlook led the ECB to keep its benchmark lending rate unchanged at 4.00 per cent in September.

Economic developments in the Euro-zone have both direct and indirect impact on Lesotho's economy. Firstly, a large portion of Lesotho's exports, in particular diamonds, is destined to the Euro-zone. Secondly, developments in the Euro-zone have direct implications for the South African economy because about 30 per cent of SA exports are destined to the Euro-zone. SA is Lesotho's main trading partner.

#### South Africa (SA)

The real economic growth rate in SA (in seasonally adjusted terms) accelerated to 4.7 per cent on an annual basis during the review quarter from a revised 4.4 per cent registered in the second quarter. The main contributors towards the increase in economic activity during the review quarter were finance, real estate and business services industry (2.5 per cent), wholesale, retail and motor trade, hotels and restaurants industry (0.6 per cent), the

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



construction industry (0.5 per cent) and the transport, storage and communication industry and general government sector (each contributing 0.4 per cent).

The labour market situation in SA has generally been stable since March 2001 to March 2007 with the unemployment rate remaining virtually unchanged at 25.5 per cent in March 2007 compared with 25.6 per cent in March 2006. The South African Reserve Bank's (SARB) monetary policy target, the consumer price index excluding interest on mortgage bonds (CPIX), continued to remain above the targeted range of 3 to 6 per cent. The CPIX has exceeded the 6 per cent ceiling since April this year and is expected to peak above 7.0 per cent early next year before subsiding. During the quarter under review, this measure of inflation rose to 6.7 per cent in September compared with 6.4 per cent registered in June as a result of higher fuel and food prices. As a way to curb the high inflation rate, the SARB Monetary Policy Committee (MPC) maintained a monetary policy tightening stance and raised the key benchmark rate by 50 basis points to 10.00 per cent in August.

Positive economic activity in SA augurs well for the Lesotho economy. However, upward pressure on general price levels and interest rates remains a threat because of trade and financial links between these two countries.

## Asian Emerging Markets and Japan

### China

Preliminary estimates indicated that GDP in the world's fourth-largest economy slowed down slightly as it grew by 11.5 per cent in the third quarter compared with 11.9 per cent registered in the previous quarter. This growth rate was buoyed by investment in factories, retail sales and exports. On the labour market, unemployment rate in seasonally adjusted terms improved from 4.4 per cent in June to 4.1 per cent in September.

The rate of inflation rose to 6.2 per cent in the review period from 4.4 per cent registered in June. This high inflation rate was attributable to food and oil prices. Food prices increased due to, among others, poor global harvests as well as drought in China's main cropping areas. At this rate, inflation was way above the 3.0 per cent target of the People's Bank of China (PBC). Consequently, the PBC raised the one-year benchmark interest rate from 6.57 per cent in May to 7.29 per cent in September in order to curb inflation.

Higher inflation in China, where a large proportion of Lesotho's manufacturing inputs are sourced, could negatively affect the competitiveness of Lesotho's exports.

### Japan

On an annual basis, real GDP in Japan grew by 2.2 per cent during the third quarter of the year compared with 1.5 per cent realised during the previous quarter. The faster growth rate emanated largely from increased exports and capital investment which increased by 2.7 per cent and 2.9 per cent respectively.

The Japanese unemployment rate in seasonally adjusted terms increased from 3.7 per cent registered in June to 4.0 per cent in September. The core CPI which excludes fresh foods

prices declined by 0.3 per cent in September, the same rate observed in June. The inflation outlook led the Bank of Japan (BOJ) to keep its key interest rate unchanged at 0.50 per cent during the third quarter.

## India

An index of industrial production in India maintained an upward trend during the quarter under review as it increased by 1.7 per cent in August.

In sharp contrast to global trends, the inflation rate fell to 6.4 per cent in September from 7.5 per cent recorded at the end of June due to a fall in food prices. Although the inflation rate has dropped, the Reserve Bank of India (RBI) has warned that the spiralling international oil prices could push it up. Therefore, inflation expectations led the Reserve Bank of India (RBI) to keep the key interest rate unchanged at 7.75 per cent during the third quarter.

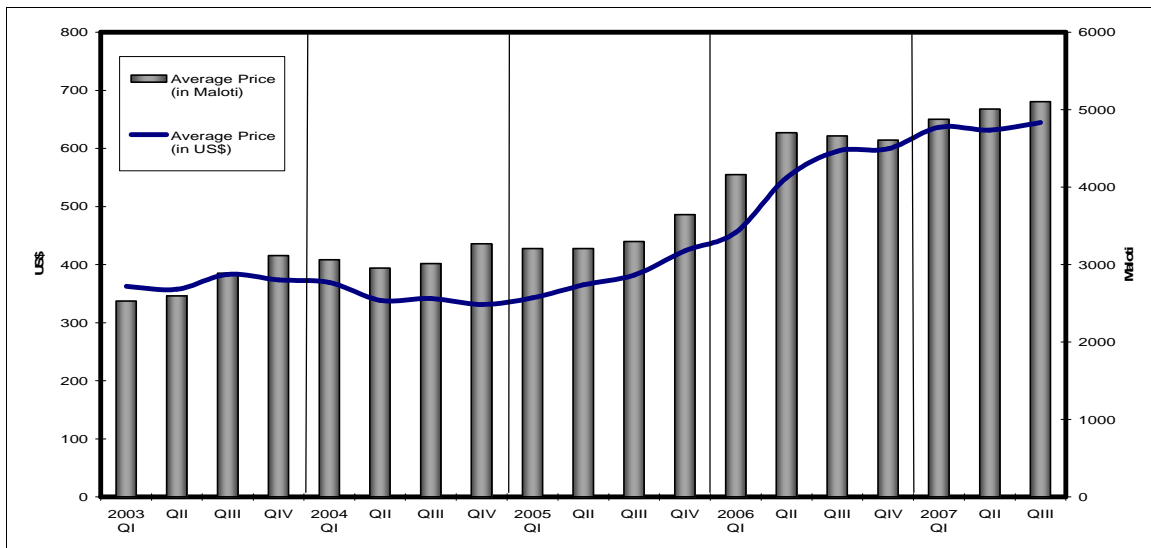
## Commodity Prices

### Gold

The average price of gold increased from US\$667.6 per ounce in the previous quarter to US\$680.4 per ounce in the third quarter. It ranged between a minimum and maximum of US\$649.5 per ounce and US\$743.6 per ounce, respectively. In Rand terms, the average price of gold increased by 2.0 per cent from R4 737.2 per ounce in the previous quarter to R4 832.3 per ounce during the quarter.

The sustained high price of gold has benefited the Lesotho economy in both employment generation and the balance of payments position. Migrant miners' remittances increased by 6.9 per cent during the quarter under review. Furthermore, an increase in gold and platinum export earnings is expected to support the Rand currency. A stronger Rand may reduce the cost of imports to SA and as a result help curb inflation both in SA and Lesotho.

**Figure 1: Commodity Prices (Gold)**

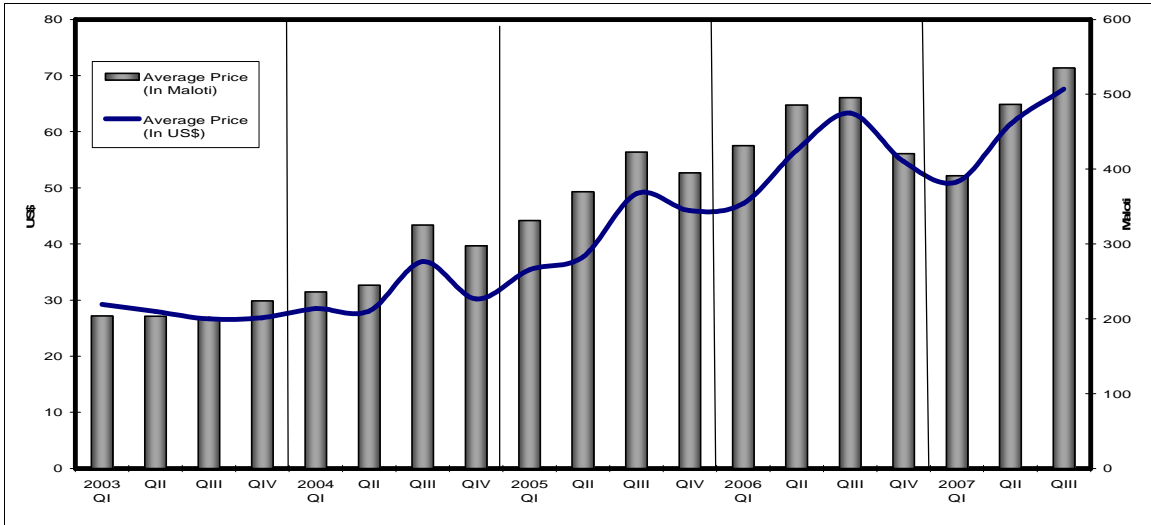


## Oil

During the quarter under review, the average price of crude oil increased by 10.0 per cent, from US\$64.9 per barrel in the previous quarter to US\$71.36 per barrel. The increase was due to, among others, concerns about the hurricanes in the US which disrupted refinery capacity and also concerns about supply-demand imbalance. The oil price ranged between a minimum and maximum of US\$66.6 per barrel and US\$77.3 per barrel, respectively. In Maloti terms, it rose by 10.1 per cent, from M460.2 per barrel in the previous quarter to M506.8 per barrel in the third quarter. A rise in the price of crude oil in both US Dollar and Loti terms could impact negatively on the Lesotho's economy. The increase in the oil price may have more inflationary pressures given that Lesotho imports all its petroleum products. Moreover, the country's balance of payments position may deteriorate as the value of oil imports rises. However, the magnitude of the impact of the increase in the price of oil on Lesotho's economy may be mitigated by the recent strengthening of the Rand and hence the Loti.

Due to the developments in the international oil prices, there were three revisions of fuel prices in the country during the review quarter. The pump price of petrol in Lesotho closed the review quarter lower at M6.70 per litre compared with M6.90 realised in the previous quarter. Unlike the price of petrol, the price of diesel and illuminating paraffin closed the quarter higher at M7.15 per litre and M4.80 per litre, respectively. These compare with M6.80 per litre of diesel and M4.60 per litre of illuminating paraffin at the end of second quarter.

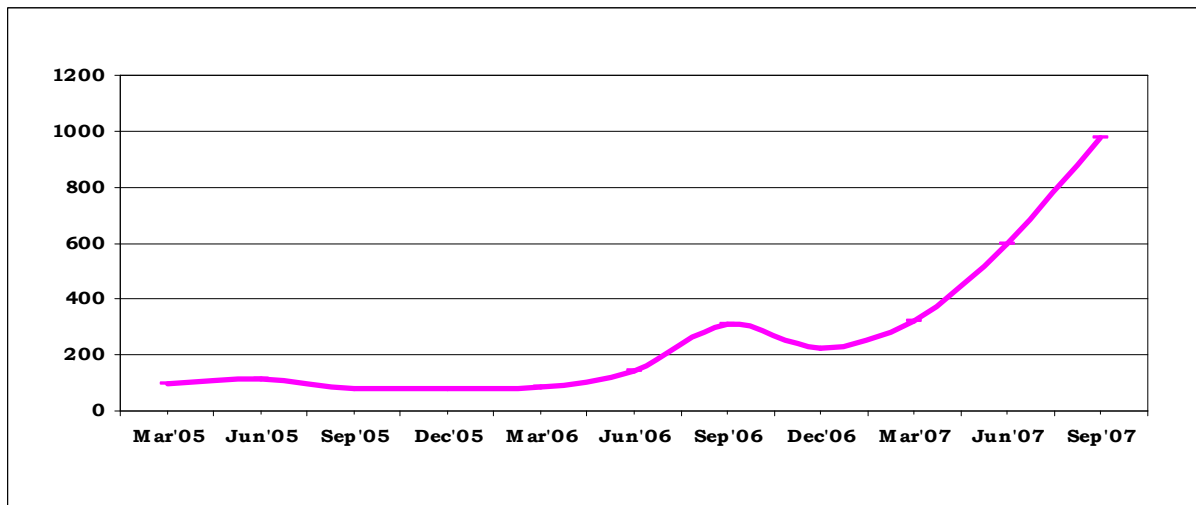
**Figure 2: Commodity Prices (Oil)**



**III. Real Sector, Employment and Price Developments**

The mining production index has kept an exponential growth for the quarter ending September. Production index increased from 597.78 points in June to 977.77 points in September. The increase in output is a reflection of streamlining of efficiency gains that accrued due to additional investment that the sector benefited from. The investment is likely to be rewarded in the international market as there is a shift from liquid stock market instruments to commodities in particular precious metals.

**Figure 3: Diamond Production Index**  
(2005: QI=100)



Source: Department of Mines and Geology

## Secondary Sector Developments

### Electricity Consumption

The aggregate electricity consumption increased in the review period with major changes observed in mainly ‘domestic’ and ‘commercial and industrial’ categories. The overall quarterly increase registered 13.4 per cent. Electricity consumption has kept a higher increase inline with exports performance and general good sentiments about the performance of the economy during the review period. It was however noted that there might be fluctuations on consumption mainly attributable to a delay in reporting of the pricing mechanism under the maximum demand charges, because of a change in measurement from kilowatts (Kwh) to kilovalves (Kva).

**Table 2: Electricity Consumption**

(Million Maloti)

	2006		2007					
	QIV		QI		QII		QIII	
	Kwh	value	Kwh	value	Kwh	value	Kwh	value
<b>General Purpose</b>	16.27	11.14	17.84	11.50	20.98	13.89	20.95	13.84
<b>Domestic</b>	28.22	14.51	28.55	13.99	35.43	17.36	38.97	18.36
<b>Commercial &amp; Industrial</b>	64.79	28.27	62.87	25.74	69.74	31.42	83.17	34.05
<b>Total</b>	109.28	53.92	109.26	51.23	126.15	62.67	143.09	66.25

Source: Lesotho Electricity Authority

### Water Consumption

Water consumption has decreased during the quarter ending September. The units of water consumed declined by a significant 54.8 per cent on seasonally adjusted quarterly basis. This is a huge reversal of the recent upward trend that has been recorded. The reversal is due to reforms that are underway in the water sector. This has led to a delay in capturing households under new water connections, thus leading to a drop in the ‘domestic’ category. On the ‘industrial’ category, water consumption decreased because of the closure of some factories during the quarter under review, thus contributing to the overall decline in water consumption. This anomaly is better contextualised by observing that on an annual basis

water consumption increase by 3.8 percent. Overall water consumption is expected to retreat to its long term trend in the following quarter.

**Table 3: Water Consumption**

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

Quarter		Domestic	Industrial	Other	Total
<b>2006</b> <b>III</b>	Units	0.78	1.51	0.65	2.94
	Value	3.11	7.05	2.87	13.03
	Units*		1.36		2.6*
<b>IV</b>	Units	0.94	1.44	0.59	2.97
	Value	3.96	6.39	2.70	13.05
	Units*		1.30		2.68
<b>2007</b> <b>I</b>	Units	1.01	1.38	0.62	3.01
	Value	4.34	6.42	2.88	13.64
	Units*		1.61		3.52
<b>II</b>	Units	1.47	3.27	1.15	5.89
	Value	3.85	7.38	3.00	14.22
	Units*		3.32		5.98
<b>III</b>	Units	0.75	1.56	0.49	2.80
	Value	2.25	7.71	2.45	12.41
	Units*		1.48		2.7

Source: Water and Sewerage Authority

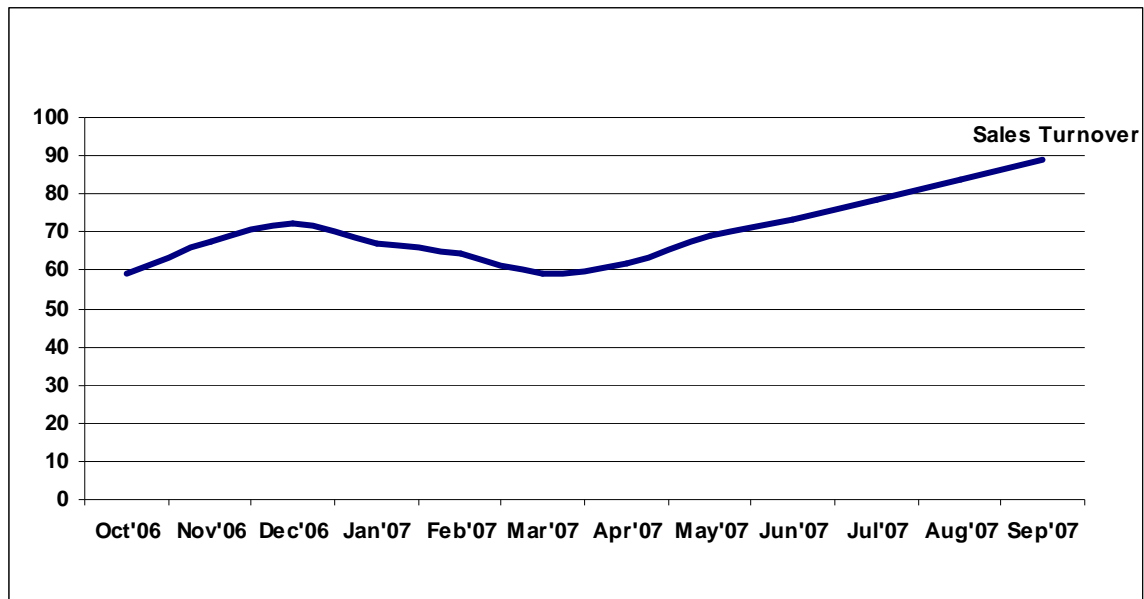
\*denotes seasonally adjusted figures

### Tertiary Sector Developments

#### Retail Sales Turnover

The value of sales turnover continues to show soundness with the increase recorded since the second quarter of the year. This may be a reflection of strong consumer demand and better economic outlook. On a quarterly basis the increase was recorded at 21.6 per cent and on an annual basis the increase was stronger at 53.1 per cent. The increase is also reflected by a higher value added tax (VAT) in the statement of government operations.

**Figure 4: Value of Sales Turnover**  
(Million Maloti)



Source: Lesotho Revenue Authority

#### Telephone Statistics

The total number of telephone calls increased by a seasonally adjusted 2.1 percent on a quarterly basis, and 15.9 per cent on an annual basis. The increase is attributed to expansionary measures that most service providers have undertaken. The sub-sector is forging cooperation with international service providers in certain services such as roaming, thus increasing their coverage and clientele. It is expected that the sector will experience more growth as it is also likely to benefit from the overall infrastructure development project that government is implementing.

**Table 4: Telephone Traffic Statistics**

(In minutes)

Quarter		SA Outgoing Calls	International Calls	All Calls
<b>2006</b> <b>III</b>	No. of calls (millions)	3.81	0.28	4.09
	No. of calls *		.....	3.71
	Total Duration (million)	5.37	1.64	7.01
	Nominal Value (million)	12.36	12.02	24.38
<b>IV</b>	No. of calls (millions)	3.98	0.20	4.18
	No. of calls *		.....	4.22
	Total Duration (million)	5.02	0.81	5.83
	Nominal Value (million)	11.55	6.53	18.08
<b>2007</b> <b>I</b>	No. of calls (millions)	4.04	0.19	4.23
	No. of calls *		.....	4.50
	Total Duration (million)	5.11	0.71	5.82
	Nominal Value (million)	10.72	6.74	17.46
<b>II</b>	No. of calls (millions)	3.90	0.16	4.06
	No. of calls *		.....	4.21
	Total Duration (million)	4.71	0.57	5.28
	Nominal Value (million)	11.36	5.74	17.10
<b>III</b>	No. of calls (millions)	3.88	0.37	4.75
	No. of calls *		.....	4.30
	Total Duration (million)	5.05	3.26	8.31
	Nominal Value (million)	12.05	18.67	30.72

Source: Tele-Com Lesotho

\* Seasonality adjusted figures.

# Projection

## Investment Expenditure

## Imported Motor Vehicles

The number of imported motor vehicles has declined on a seasonally adjusted quarter to quarter basis. A contrary position holds when the figures are not adjusted for seasonality, with 0.7 per cent. On an annual basis it maintained a downward trend with the decrease of 17.5 per cent. The developments can be attributed to a change in consumer patterns where



there is a shift from second hand cars to the more affordable and new Asian type cars. This has led the National Association of Automobile Manufacturers of South Africa (Naamsa) to revise downwards the car industry sales and production. It was further reported that during the third quarter vehicle sales fell by 10.7 per cent to 102 145 units compared with 114 344 units in the same period last year.

Table 5: Motor Vehicle Imports<sup>+</sup>  
(Value in Million Maloti)

		Cars	Vans	Trucks	Buses	Trac-tors	Motor Cycles	Trail-ers	Total	
<b>2006</b>	<b>III</b>	Value	38.29	27.59	6.00	6.16	0.11	0.04	1.10	79.29
		Units*	296	212	25	23	3	3	13	575
<b>IV</b>	<b>IV</b>	Value	13.55	19.83	4.15	5.22	0.33	0.04	0.31	43.43
		Units*	148	133	10	37	8	5	6	347
<b>2007</b>	<b>I</b>	Value	23.48	30.21	2.92	1.81	0.33	0.08	0.33	59.16
		Units*	205	209	11	12	2	1	19	459
<b>II</b>	<b>II</b>	Value	21.79	37.93	3.74	6.58	0.42	0.10	0.10	70.66
		Units*	234	218	13	27	3	4	7	506
<b>III</b>	<b>III</b>	Value	22.82	43.05	5.04	4.74	1.13	0.32	1.00	78.10
		Units*	256	259	15	22	4	6	21	583

Source: Imperial Fleet Services Lesotho and Customs Department

\*denotes seasonally adjusted figures

<sup>+</sup>Includes imports of second hand cars

### Employment Developments

Employment in the LNDC assisted companies declined in the review period. This decline of 1.4 per cent is observed only on a quarter to quarter basis due to the closure of three manufacturing factories for the period ending September. It is notable that the closure of some of these factories does not seem to have significantly affected the increase in the

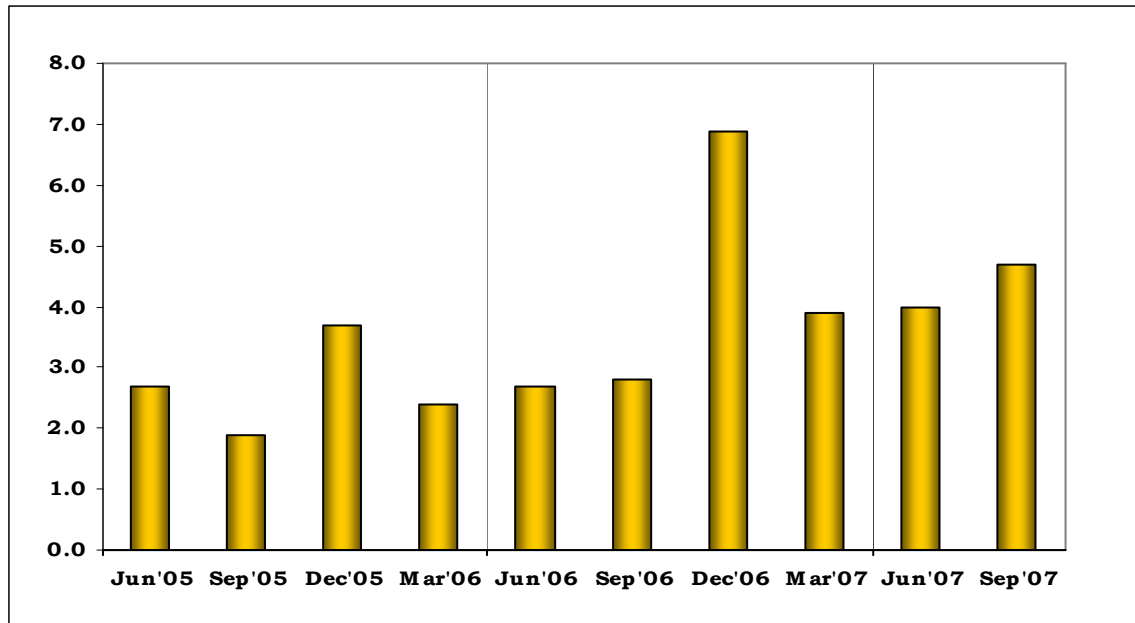
overall exports and in particular textile and clothing. On an annual basis, employment in these companies increased by 5.5 per cent.

**Table 6: Employment Trend of LNDC Assisted Companies**

Period	QI	QII	QIII	QIV
2007	47609	49416	48710	
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

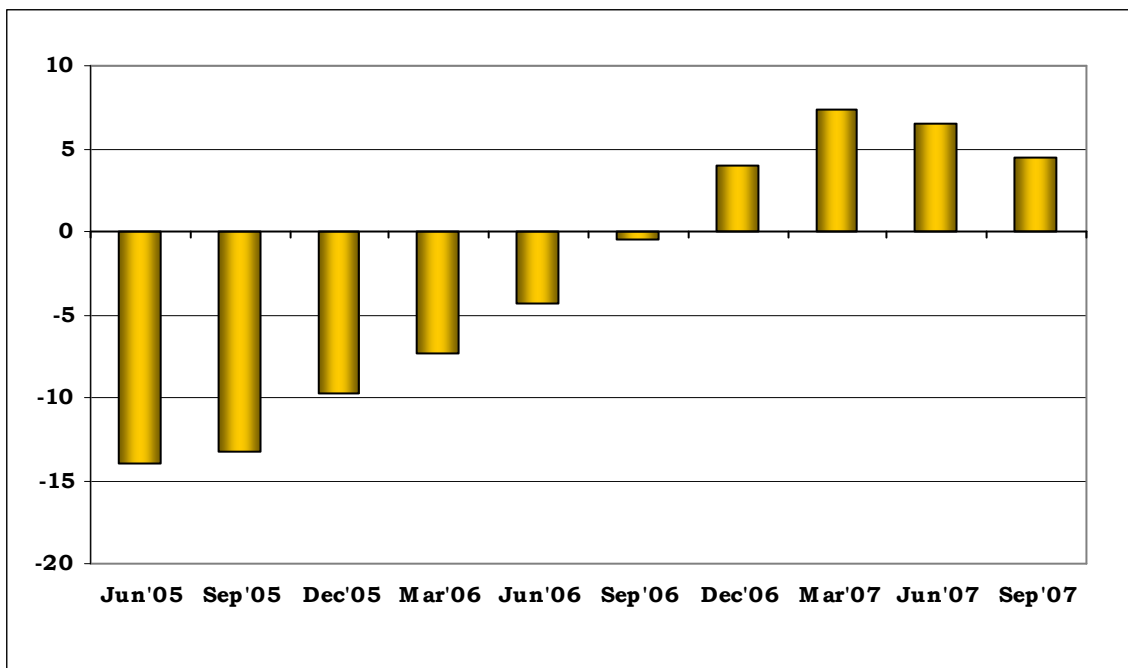
Source: Lesotho National Development Corporation

**Figure 5: Government Employment**  
(Annual Percentage Change)



The number of government employees increased from 39 617 to 40 109 on a quarterly basis. This is equivalent to 1.2 per cent increase. On an annual basis the number of employees increased by 4.7 per cent. The increase was influenced mainly by dominant categories of teachers and overall civil servants. The increase in general civil servants is also a sign of the expansions of the government system due to decentralisation program that is underway.

**Figure 6: Migrant Mineworkers Employment**  
(Annual Percentage Change)



The number of migrant mineworkers increased by 0.2 per cent to 54 072 for the quarter ending September owing to the increased price of gold in international markets. The increase was higher on an annual basis at 4.5 per cent. The investors' shift to precious metals was prompted by the increase in downside risk due to the US sub-prime mortgage crisis that took place in the review period. This led to uncertainty and possibilities of massive defaults and lack of securitisation for some asset classes.

### Price Developments

The rate of inflation accelerated from 8.0 per cent in the second quarter to 8.6 per cent in the third quarter. The increase has been predominately influenced by the 'food and non alcoholic beverages' and 'transport' categories. In particular maize meal increased by 7.7 points, while illuminated paraffin increased by 0.3 points and bus and taxi fares by 0.3 points. Inflation has, on average, maintained an upward trend which is likely to continue in the medium term given increasing prices of food and Brent crude. This was also reflected in the South African CPIX bridging its target band of 3-6 percent since April this year.

The Government of Lesotho, under Famine Relief Program (RFP), has implemented two mitigation strategies in order to cushion any price shock being transmitted to households and poor consumers. The first one was the M10 million food subsidies, which is expected to cut the price of basic food items by 20 percent for the period October 2007 to March 2008. Some of the food items included are maize meal, sugar beans, peas, and fresh and sour milk.

The second strategy was farmers' inputs subsidy financed by the European Union and Food and Agricultural Organisation. The project has a budget of M24 million and is likely to affect 35 000 vulnerable households from across the country. The inputs will be for 2007/2008 cropping season and it is estimated that 385 tonnes of seeds will be accessed by farmers. This will translate into an estimated 5 600 metric tonnes of maize, sorghum and beans yield.

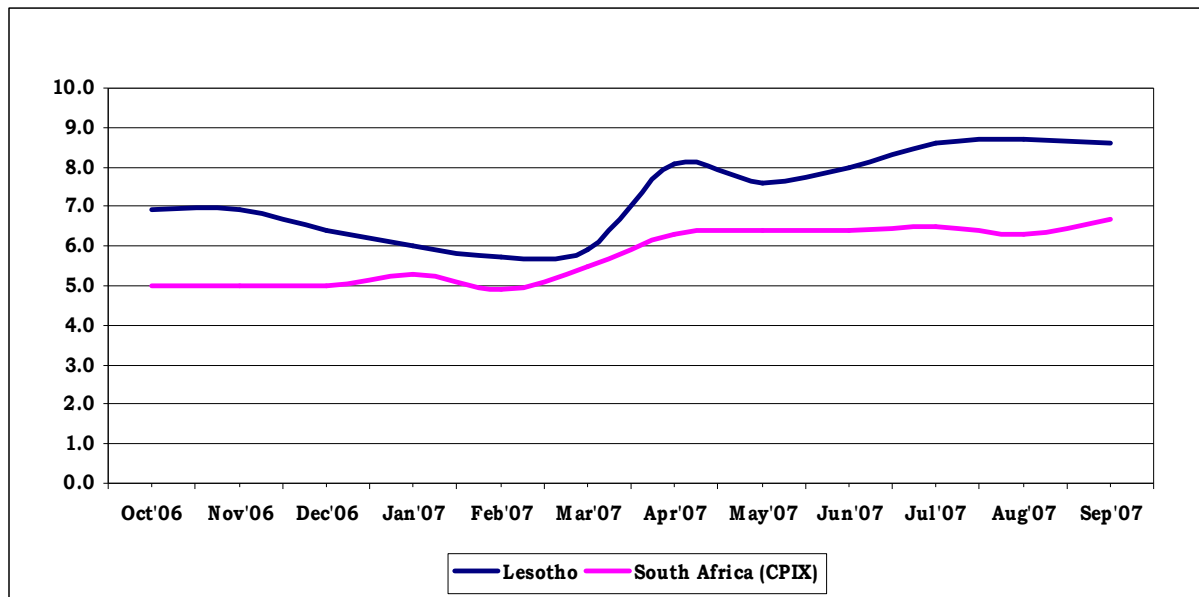
**Table 7: Inflation Rate**

(Annualised Percentage Change: April 1997=100)

	Weight	2007				
		May	June	July	Aug	Sept
All items	100.0	7.6	8.0	8.6	8.7	8.6
Food and non-alcoholic beverages	39.8	13.3	14.1	14.8	14.8	15.1
Alcoholic beverages & Tobacco	6.4	4.9	6.1	6.4	6.0	5.6
Clothing & footwear	15.6	2.3	2.1	2.4	3.5	4.0
Housing, electricity gas & other fuels	3.7	8.2	9.4	10.0	9.4	8.9
Furniture, households equipment & routine maintenance of house	17.0	1.4	1.5	1.7	1.7	1.7
Health	1.4	-1.8	-1.7	-1.7	-1.6	-1.6
Transport	7.8	4.5	4.3	5.0	5.0	2.1
Communication	0.1	3.4	0.0	0.0	0.0	0.0
Leisure, entertainment & Culture	1.2	-0.6	0.1	-1.0	0.5	0.1
Education	3.2	2.4	2.6	2.7	2.7	2.7
Restaurant & Hotels	0.4	24.9	21.7	23.3	25.9	23.2
Miscellaneous goods & services	3.2	4.1	3.2	3.5	2.6	2.8

Source: Bureau of Statistics, Lesotho

**Figure 7: Annual Inflation Rate for Urban Households**  
(Percent)

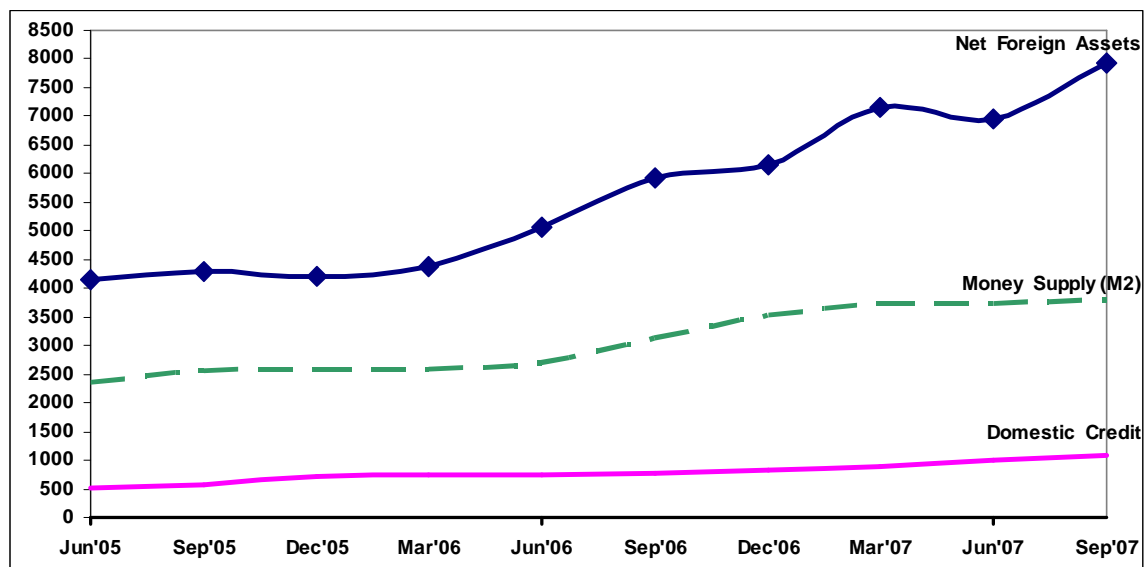


#### IV. Monetary and Financial Developments

##### Determinants of Money Supply

Owing to the increase in both domestic credit and the overall banking system's net foreign assets, the broad measure of money supply (M2) rose by 1.1 per cent during the quarter ending September after remaining unchanged at the end of the previous quarter. On an annual basis, money supply retained an upward trend recording a 20.7 per cent increase in September compared to 37.8 per cent at the end of June.

**Figure 8: Overview of Recent Monetary Developments**  
(Million Maloti: End of Period)



**Table 8: Determinants of Money Supply**  
(Million Maloti: Changes)

Determinants	2006		2007		
	Sep	Dec	Mar	Jun	Sep
Net foreign assets	858.8	215.2	1009.6	-194.1	974.3
Domestic credit	-58.6	-56.3	-715.5	-31.8	-597.2
Net Claims on Govt.	-112.2	-102.6	-776.5	-145.2	-679.7
Statutory bodies	-2.5	2.0	0.2	16.7	14.0
Private sector	56.2	37.0	58.1	95.5	66.1
Other items, net	382.7	-225.4	75.3	-227.3	337.3
Money Supply (M2)	417.5	384.3	219.0	1.5	39.9

## Components of Money Supply

Broad money comprises narrow money (M1) and quasi money. Narrow money (M1) declined by a small 0.9 per cent in the quarter ended September, compared with a fall of 2.0 per cent registered at the end of June. The fall mainly reflected a decrease of 1.7 per cent in demand and call deposits which overshadowed a rise of 4.3 per cent in currency in circulation. However, quasi money recorded an increase of 6.8 per cent during the same period compared with 6.5 per cent registered at the end of the previous quarter. The rise largely resulted from 1.3 and 11.1 per cent growth in time and savings deposits, respectively.

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

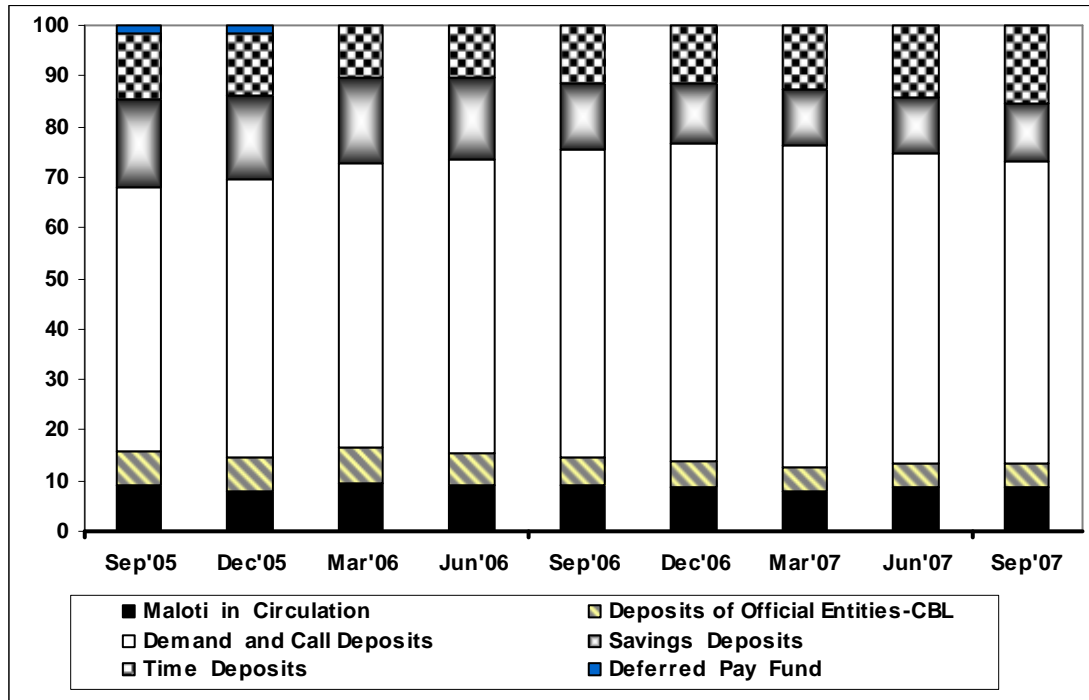
	2006		2007		
	Sep	Dec	Mar	Jun	Sep
Money Supply (M2)	3121.5	3505.8	3724.7	3726.2	3766.1
Money (M1)	2348.6	2686.7	2836.2	2779.7	2755.4
Maloti with public Demand deposits <sup>1</sup>	283.1 1888.1	309.4 2199.0	293.1 2365.8	321.5 2281.2	335.5 2242.4
Deposits of official Entities with CBL	177.4	178.3	177.4	176.9	177.5
Quasi-Money	772.8	819.1	888.5	946.6	1010.8
Savings deposits	409.5	415.2	415.5	415.9	421.4
Time deposits	363.4	403.9	473.0	530.7	589.3

<sup>1</sup> includes call deposits

NB: Totals may not tally due to rounding off



**Figure 9: Components of Money Supply**  
(Percentage shares)



### Commercial Banks' Deposits by Holder

Commercial banks held M3.2 billion worth of deposits from the private sector and statutory bodies during the review quarter, and the former held a dominant share. The total amount of deposits rose by a small 0.8 per cent at the end of September, converse to a fall of the same magnitude registered at the end of June. The increase was attributable to a 12.3 per cent rise in deposits held by statutory bodies which overshadowed a decline of 1.8 per cent in private sector deposits (see Table 10).

**Table 10: Commercial Banks' Deposits by Holder**  
(Million Maloti: End of Period)

	2006		2007		
	Sep	Dec	Mar	Jun	Sep
<b>Total Deposits</b>	2649.4	3006.3	3242.1	3216.7	3242.3
<b>Private Sector</b>	2140.6	2426.9	2679.4	2629.3	2582.7
Demand deposits	1469.5	1712.3	1901.5	1812.3	1704.3
Savings deposits	409.5	415.2	415.5	415.8	421.4
Time deposits	261.7	299.6	362.5	401.3	457.1
<b>Statutory Bodies</b>	508.8	579.4	562.6	587.4	659.6

NB: Totals may not tally due to rounding off

#### Liquidity of Commercial Banks

The liquidity of commercial banks is measured by the ratio of their cash and near cash assets, including investments with maturities of less than twelve months, to deposit liabilities. Although the liquidity level remained high, the ratio declined from 75.3 per cent in June to 74.0 per cent during the quarter ending September reflecting an increase in interbank transactions and commercial banks' holding of foreign short-term instruments (see Table 11).

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

Component	2006		2007		
	Sep	Dec	Mar	Jun	Sep
Maloti Notes and Coins	43.3	68.3	36.2	29.1	41.9
Rand Notes and Coins	34.2	59.3	23.0	19.3	28.6
Balances due from Lesotho Banks	15.7	420.3	467.0	418.3	474.7
Balances due from Foreign Banks	1382.5	1542.3	1728.2	1769.3	1884.9
Clearing Balances with CBL	15.9	2.8	10.5	112.6	-6.5
RSA Short-term Securities	0.0	0.0	0.0	0.0	0.0
CBL Bills	0.0	0.0	0.0	0.0	0.0
Lesotho Government Securities	409.6	520.5	511.5	520.8	492.5

During the review quarter, the credit to deposit ratio increased further from 31.7 per cent observed in June to 32.7 per cent in the quarter ended September reflecting a steady growth in credit extended during the review period which exceeded the increase in commercial banks' deposits. The steady increase in credit extension coupled with the increase in deposits mark a positive development which may augment economic growth.

**Table 12: Consolidated Balance Sheet of Commercial Banks**

(Million Maloti: End of Period)

	2006		2007		
	Sep	Dec	Mar	Jun	Sep
Net foreign assets	1614.6	1772.4	1832.4	1731.5	1876.1
Deposits with CBL	101.5	112.9	131.8	235.0	131.6
Credit:	1242.8	1393.2	1442.1	1563.7	1629.3
o/w*: Statutory Bodies	15.4	17.4	17.6	34.3	48.3
Private Sector	740.1	777.6	835.3	930.8	1010.8
Government:	487.4	598.3	589.3	598.6	570.2
o/w: Securities	487.4	598.3	589.3	598.6	570.2
Loans and Advances	0.0	0.0	0.0	0.0	0.0
Assets/Liabilities	2958.9	3278.8	3406.4	3530.1	3637.0
Private sector deposits <sup>2</sup>	2649.4	3006.3	3242.1	3216.7	3242.3
Government deposits	110.6	123.1	113.5	111.2	131.5
Capital, reserves & other, net	199.0	149.5	50.8	202.2	263.3

\* of which

<sup>2</sup> includes statutory bodies' deposits.

## Demand for Money

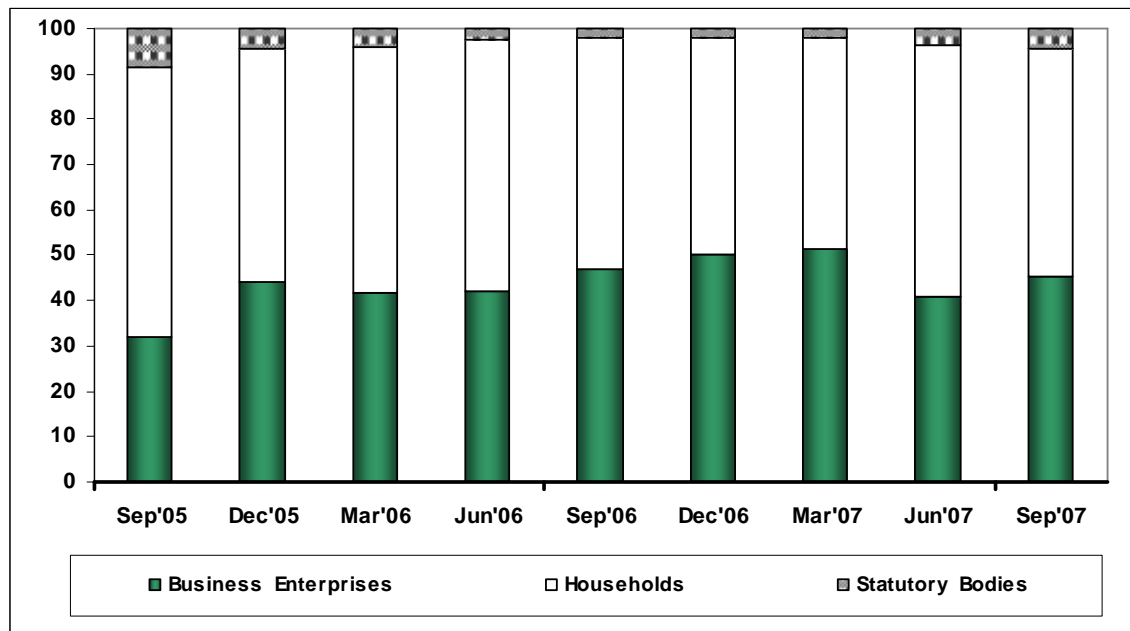
## Domestic Credit

The financial sector provides the finance necessary for supporting economic activity through credit extension. Domestic credit maintained a steady upward trend on a quarterly basis and registered an increase of 9.6 per cent at the end of September, compared with 12.8 per cent observed at the end of the June quarter. The growth in credit extended to both the private sector and statutory bodies accounted for this quarter to quarter increase. Moreover, domestic credit increased by 39.5 per cent on an annual basis during the review quarter compared with 35.1 per cent recorded at the end of June.

**Table 13: Domestic Credit Excluding Net Claims on Government**  
(Million Maloti: End of Period)

	2006		2007		
	Sep	Dec	Mar	Jun	Sep
Domestic Credit	777.1	817.9	875.9	988.3	1082.8
Credit to private sector	761.7	800.5	858.3	954.1	1034.5
Business enterprises	365.8	409.9	452.0	473.2	492.6
Households	395.9	390.6	406.3	480.9	541.9
Credit to statutory bodies	15.4	17.4	17.6	34.3	48.3

**Figure 10: Distribution of Credit by Holder**  
(Percentage shares)



#### Credit to Private Sector

Credit private sector accounted for the largest share of total credit extended in the economy. During the quarter ended September, it increased by 8.4 per cent as a consequence of an increase in credit granted to both households and business enterprises which grew by 12.7 per cent and 4.1 per cent, respectively. This reflected increased private sector activity during the quarter ending September. Moreover, on an annual basis, credit to the private sector

retained a steady growth registering 39.3 per cent at the end of September compared with 35.2 per cent observed at the end of June. This robust growth was largely at the back of credit granted to households which realised a 36.9 per cent growth at the end of September compared with 18.6 per cent recorded at the end of the previous quarter.

It is notable however, that at the end of September, the share of credit to business enterprises fell to 47.6 per cent of total private sector credit from June's 47.9 per cent while the share of credit to households rose to 52.4 per cent. The steady growth in credit to the private sector, augurs well for the Government's private sector-led growth strategy. However, it is noteworthy that it is desirable that a greater share of total private credit should be extended to business enterprises in order to drive investment in the economy.

### Credit to Statutory Bodies

Credit channelled to statutory bodies saw a rise of 40.9 per cent in September, compared with 94.7 per cent observed in June. Furthermore, credit to this sub-sector registered a jump of 214.2 per cent on an annual basis at the end of September following 91.4 per cent recorded at the end of June. As Figure 10 shows however, the share of credit to this sub-sector to total credit remained on a steady growth path.

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

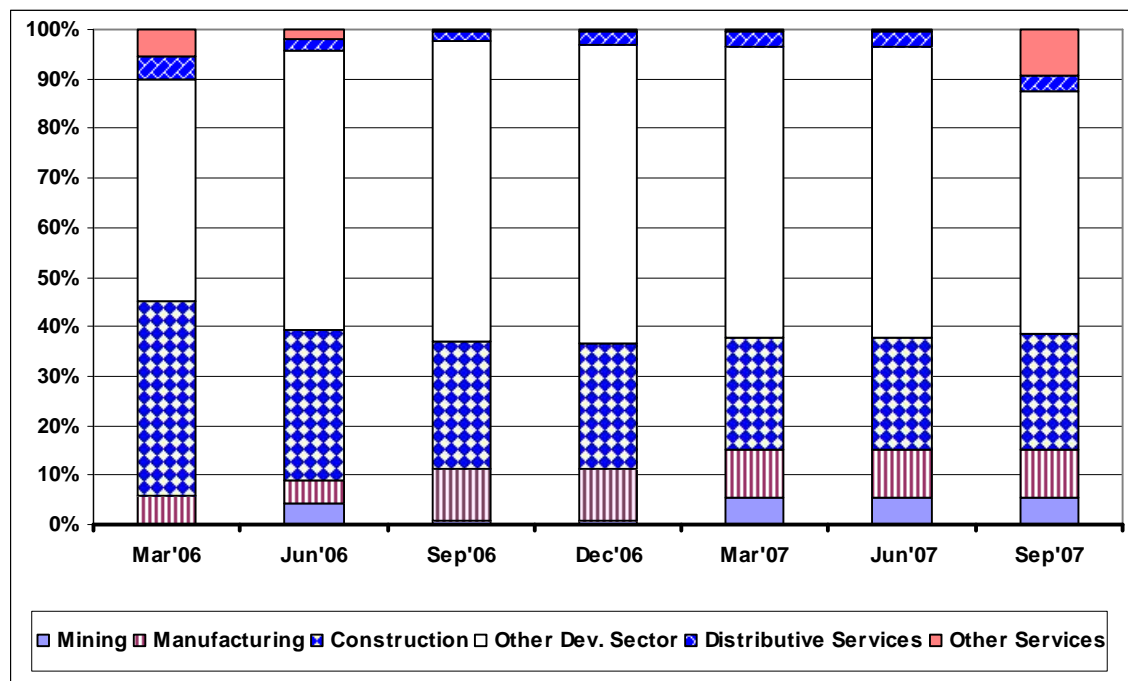
At the end of the quarter under review total credit distributed to all business sub-sectors of the economy, including official entities, but excluding non-performing loans, increased further by 7.6 per cent compared with 7.0 per cent recorded in June. The increase was driven mainly by credit granted to manufacturing, distributive services, and other services sub-sectors.

The amount of credit offered to the manufacturing and distributive services (wholesale, retail, hotel and restaurant) sub sectors increased by 18.4 and 49.5 per cent at the end of September, respectively. In addition, credit allocated to other services sub-sector which comprises non-financial institutions, real estate, and community, social and personal services increased significantly during the same period contrasted with **3.4 per cent** observed during the previous quarter.

**Table 14: Sectoral Distribution of Credit to Enterprises**  
(Million Maloti: End of period)

Sector	2006		2007		
	Sep	Dec	Mar	Jun	Sep
Mining	3.0	2.8	26.5	28.6	29.6
Manufacturing	44.0	45.7	44.3	44.0	52.1
Construction	97.8	107.9	112.5	128.3	127.5
Other development sectors	241.5	257.1	273.7	288.6	264.1
Distributive services	12.0	12.3	11.3	11.9	17.8
Other services	0.9	1.1	1.5	1.4	50.0
All sectors	399.3	426.9	469.8	502.9	540.9

**Figure 11: Commercial Banks' Credit to Business Enterprises**  
(Percentage shares)



#### Net Claims on Government

Net claims on Government by the banking system plummeted by 28.1 per cent in September compared with 6.4 per cent fall realised at the end of the previous quarter. This stemmed mainly from a good fiscal position facilitated by a build-up in government deposits.

**Table 15: Banking System's Net Claims on Government**

(Million Maloti: End of Period)

Holder	2006		2007		
	Sep	Dec	Mar	Jun	Sep
Commercial banks	376.8	475.2	475.7	487.4	438.7
Claims on Government	487.4	598.3	589.3	598.6	570.2
o/w MP T Bills <sup>3</sup>	417.6	529.3	586.2	508.6	480.2
Less Government deposits	110.6	123.1	113.5	111.2	131.5
CBL	-1773.0	-1973.9	-2751.0	-2907.8	-3538.8
Claims on Government <sup>4</sup>	282.1	257.6	268.8	261.5	261.2
Less Government deposits	2055.0	2231.5	3019.8	3169.3	3800.0
o/w blocked account	529.1	565.1	573.9	587.9	590.9
Total Net Claims	-1396.2	-1498.8	-2275.3	-2420.4	-3100.1

<sup>3</sup> 'MP T Bills' means monetary policy treasury bills<sup>4</sup> IMF loans on-lent to the GOL

#### Net Foreign Assets

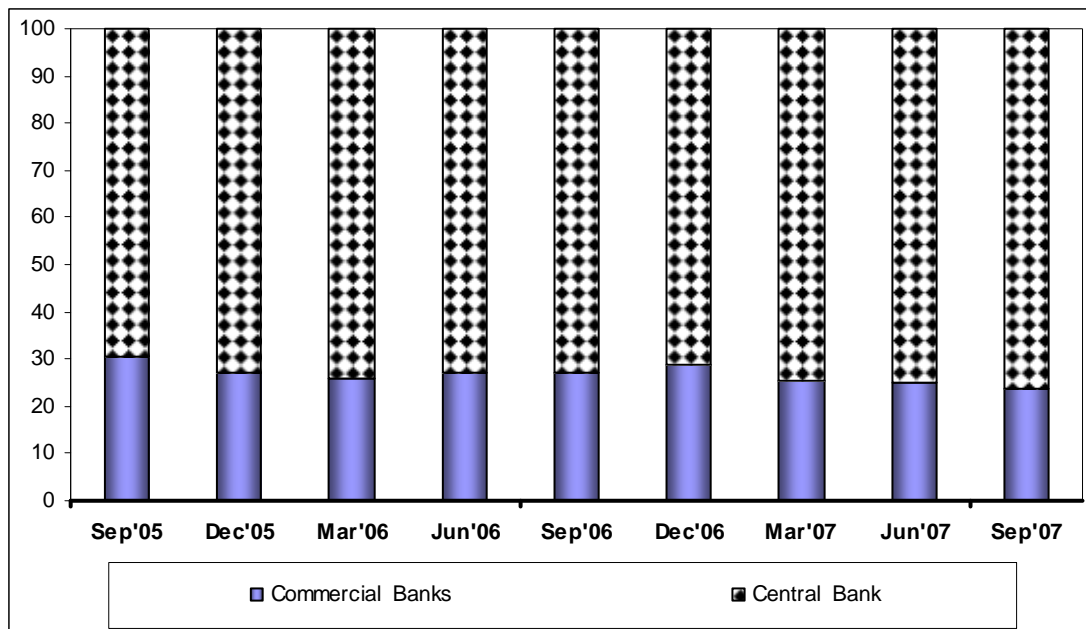
The net foreign assets of the banking system increased by 14.0 per cent at the end of September contrasted with a decline of 2.7 per cent recorded in June due to the expansion in the volume of both CBL and commercial banks' net foreign assets. Commercial banks' net foreign assets saw an increase of 8.4 per cent indicating increased foreign currency earnings by the private sector, mainly the mining sub-sector, during the quarter. Meanwhile, the Central Bank's net foreign assets increased due to SACU revenue receipts during the quarter under review.



**Table 16: Banking System's Foreign Assets and Liabilities**  
(Million Maloti: End of Period)

Holder	2006		2007		
	Sep	Dec	Mar	Jun	Sep
A. Commercial Banks	1614.6	1772.4	1832.4	1731.5	1876.1
Foreign Assets	1683.1	1845.4	1969.7	1858.2	1971.3
Foreign Liabilities	-68.6	-72.9	-137.2	-126.7	-95.1
B. Central Bank of Lesotho	4319.9	4377.2	5326.8	5233.7	6063.4
Foreign Assets	4885.9	4918.7	5942.6	5799.2	6670.1
Foreign Liabilities	-566.0	-541.5	-615.8	-565.5	-606.7
Net Total	5934.4	6149.7	7159.3	6965.2	7939.5

**Figure 12: Net Foreign Assets**  
(Percentage shares)



## Money Market Developments

### Overview

The CBL continued to conduct treasury bill auctions in order to achieve its two-fold objective of monetary policy implementation and financial deepening in Lesotho. During the quarter ended September, five auctions were conducted comprising three 91-day and two 182-day treasury bill auctions. The total stock of securities for the quarter was valued at M590.3 million, having declined from a total holding of M601.0 million registered at the end of September quarter.

Participants during the various auctions were made up of commercial banks and other institutions other than the Non-Bank Financial Institutions (NBFIs). The banking sector continued to play a dominant role in the market during the review quarter and held a substantial share of 81.4 per cent of the total holdings which represented a drop from 84.6 per cent observed in the quarter ending June. Furthermore, the share of the general public increased from 15.3 per cent in June to 18.6 per cent in September. There were no holding of securities by the NBFIs during the review quarter

**Table 17: Holdings of Bills**

(Face Value; Million Maloti)

Type of Holder	2006		2007		
	Sep	Dec	Mar	Jun	Sep
Total	544.7	576.4	586.9	601.0	590.3
Banking System	423.2	498.0	495.0	508.9	480.4
Central Bank	4.9	0.0	0.4	0.3	0.3
Commercial Banks	418.3	498.0	494.6	508.6	480.1
Non-Bank Sector	121.5	78.4	90.9	92.2	109.9
NBFIs	66.0	0.5	0.4	0.5	0.0
Others	55.5	77.9	90.5	91.7	109.9
Memorandum Item					
Average Yield (percent)	7.16	7.05	7.82	7.79	9.32

### Money Market and Short-term Interest Rates

The Lesotho 91-day treasury bill rate continued to hover below its SA counterpart rate at the end of September and it exceeded its June value by 56 basis points registering 8.12 per cent. The SA 91-day treasury bill rate rose by 62 basis points in the same period to 9.30 per cent.

Consequently, the margin between the two rates widened from 112 basis points observed in June to 118 basis points at the end of September.

The deposit rates remained on the upward trend in harmony with similar rates in the region. The one year deposit rate rose by 7 basis points at the end of September from 6.00 per cent recorded at the end of the previous quarter. Needless to say, real interest rates on a one year deposit continued to be negative during the review quarter. Furthermore, the prime lending rate increased modestly from 14.08 per cent reported in June to 14.17 per cent in September. As a result, the spread between the domestic lending rates and the deposits rates widened slightly from 8.08 percentage points in June to 8.10 percentage points at the end of the September quarter.

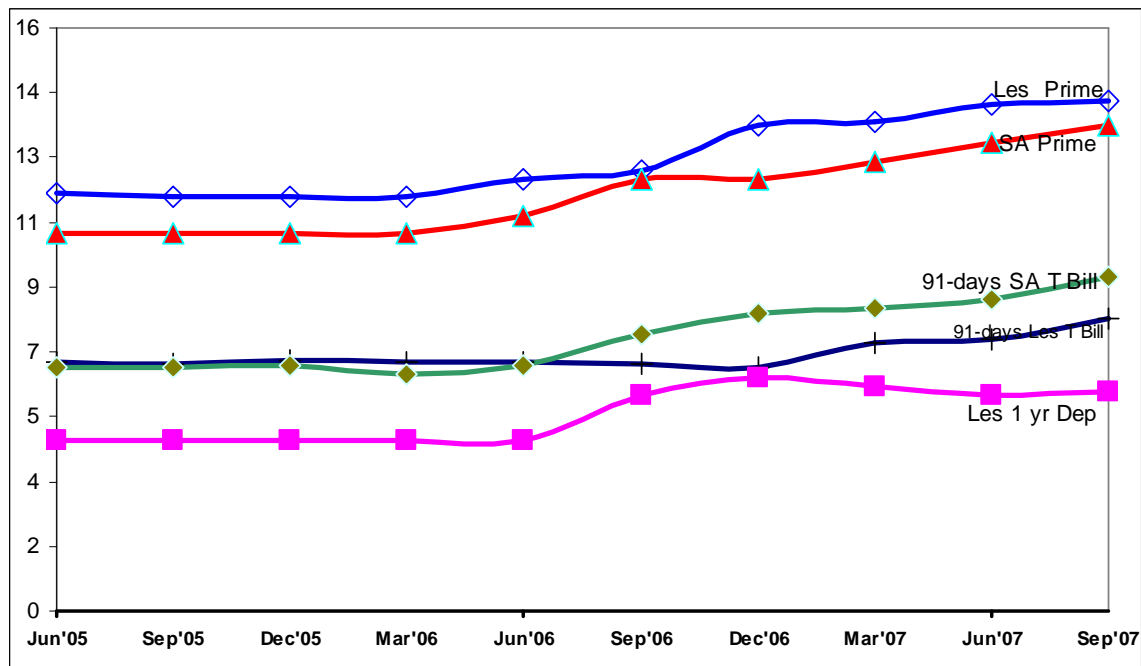
**Table 18: Major Money Market Interest Rates**  
(Percent: End of Period)

Interest Rates by Type	2006		2007		
	Sep	Dec	Mar	Jun	Sep
Central Bank					
T Bill Rate – 91 Days	6.86	6.76	7.46	7.56	8.12
Lombard Rate	10.36	10.26	11.46	11.56	12.12
Commercial Banks <sup>5</sup>					
Call	3.13	3.83	3.83	3.95	4.27
Time:					
31 days	3.50	3.50	3.50	3.90	4.88
88 days	5.50	5.00	4.50	4.52	5.47
6 months	5.80	6.25	4.58	4.77	5.87
1 year	6.00	5.50	5.00	6.00	6.07
Savings	2.96	5.00	2.68	3.21	4.05
Prime	12.33	13.50	13.58	14.08	14.17
South Africa*					
Repo	8.00	9.00	9.00	9.50	10.00
T Bill Rate – 91 Days	8.00	8.26	8.41	8.68	9.30
Marginal Lending Rate	13.00	12.00	14.00	14.50	15.00
Prime	11.50	12.50	12.50	13.00	13.50

\* Figures for South Africa were obtained from the SARB

<sup>5</sup> Average rates by commercial banks

**Figure 13: Short-Term Interest Rates**  
(Percent Per Annum)



## V. Government Finance

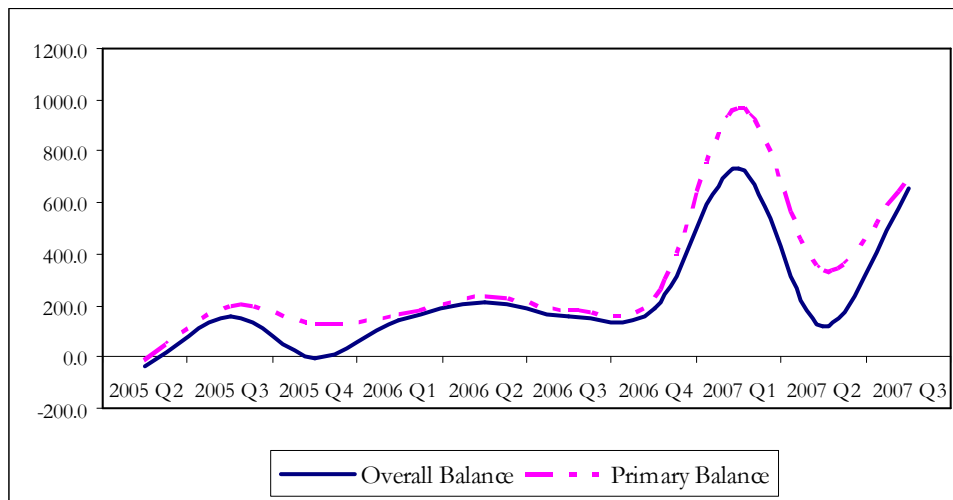
### Summary of Budget Outturn

During the period under review government budgetary operations resulted in an estimated surplus equivalent to 21.7 per cent of GDP. This was mainly attributable to, among others, receipts of the backward adjustment made on the SACU revenue that materialised during the period under review.

Government expenditure and net lending fell drastically during the period under review, largely reflecting normalisation of interest payments after accelerated payment made on contingent liabilities in the preceding quarter. For this reason, the primary balance accounted for 22.9 per cent of GDP<sup>2</sup>. As a result, the gap between the primary and overall balances narrowed to 1.2 per cent against 7.3 per cent in the previous period. Recurrent expenditure stood at 79.9 per cent of total expenditure in contrast to 81.4 per cent in the previous quarter.

<sup>2</sup> Primary balance is a good indicator of budgetary operations since it excludes interest costs on public debt.

**Figure 14: Primary Balance versus Overall Balance**



### Revenue

As result of the SACU windfall, revenue including grants grew by 7.1 per cent at the end of the period under review. Total revenue and grants increased to 63.3 per cent of GDP compared with 59.6 per cent observed in the previous quarter.

**Table 19: Government Revenue**  
(Million Maloti)

	2006/07			2007/08	
	Jul-Sept	Oct-Dec	Jan-Mar	Apr-Jun Revised	Jul-Sep* Preliminary
Total Revenue and Grants	1400.6	1391.2	2269.5	1883.2	2017.2
Total Revenue	1373.2	1360.5	2261.6	1798.2	1908.2
<i>Tax Revenue</i>	1230.8	1244.0	2099.4	1598.6	1748.4
Customs	772.3	772.3	1626.3	959.1	1220.5
Non-customs	458.5	471.7	473.2	639.6	528.0
Income Taxes	251.6	254.4	233.1	407.3	276.2
Taxes on goods & services	188.2	196.8	199.4	227.2	241.7
Other Taxes	18.8	20.5	40.7	5.2	10.0
<i>Non-Tax Revenue</i>	142.4	116.5	162.2	199.6	159.8
Of which: Water royalties	70.9	69.7	63.6	63.6	80.7
<i>Grants</i>	27.4	30.8	7.9	85.0	109.0

Source: Ministry of Finance and Development Planning (MoFDP)

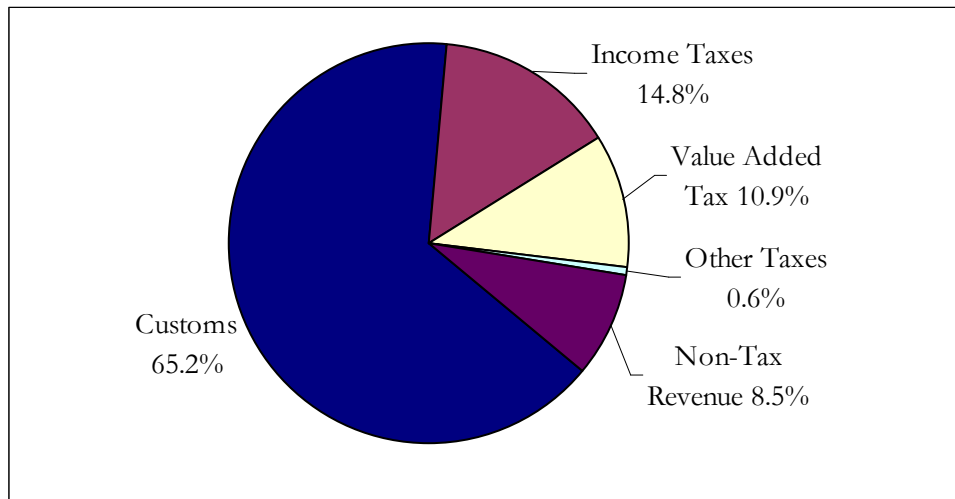
\*Preliminary estimates

Collections from VAT grew by 3.4 per cent following a 13.9 per cent observed at the end of June 2007. Income tax collections dropped by 32.2 per cent, in contrast to the surge recorded in the second quarter, reflecting 33.2 per cent and 40.6 per cent decreases in both personal income tax and company tax respectively. The increase in income tax in the previous period was mainly influenced by end of financial year filing by tax payers, hence a rise in company tax collections. The other income tax components dropped marginally by 1.8 per cent.<sup>3</sup>

SACU receipts rose by 27.3 per cent during the period under review. It continued to dominate tax revenue, constituting 71.3 per cent of total tax receipts, while income tax and VAT registered 16.1 per cent and 11.9 per cent, respectively.

Non-tax revenue decreased by 19.9 per cent during the period under review. This item comprises, among others, water royalties, dividends and Rand Monetary Compensation (the latter two are received once a year). Following the increase observed in the previous quarter, development grants increased by 28.2 per cent.

**Figure 15: Sources of Government Revenue**



### Expenditure

Government expenditure and net lending was estimated to have plummeted by 22.7 per cent during the review period, as a result of a 22.6 per cent drop in recurrent expenditure. As a percentage of GDP, total expenditure dropped to 45.2 per cent, against 58.4 per cent in the previous quarter.

The decline in recurrent expenditure was mainly in response to, among others, an 83.4 per cent and 38.0 per cent decreases in interest payments and expenditure on goods and services, respectively. Government had accelerated payments of non-concessional debt in the previous period.

<sup>3</sup> Other Income tax component comprises withholding and fringe benefits taxes.

The level of subsidies and transfers extended during the review period almost remained unchanged from the level recorded in the previous period. This expenditure category is directed to, among others, educational entities, health establishments and finances of pensions and gratuities. A 4.5 per cent rise in expenditure on pensions and gratuities was more than moderated by a fall in other categories of this expenditure item.

**Table 20: Government Expenditure**  
(Million Maloti)

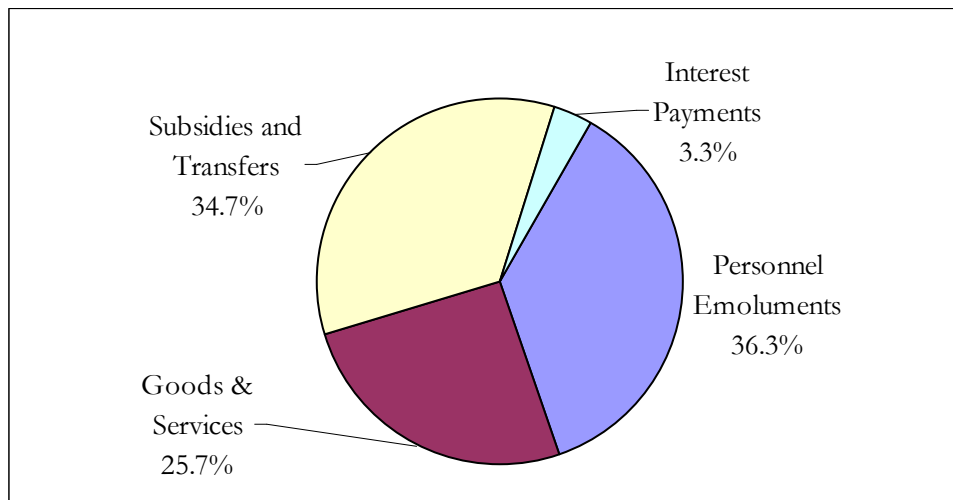
	2006/07			2007/08	
	Jul-Sept	Oct-Dec	Jan-Mar	Apr-Jun Revised	Jul-Sep * Preliminary
Total Expenditure & Net Lending	1242.1	1200.7	1536.4	1762.0	1362.2
Recurrent Expenditure	1005.8	1034.5	1322.8	1433.5	1088.0
Personnel Emoluments	341.9	342.9	334.1	387.7	394.9
Interest Payments	25.7	36.1	234.4	218.8	36.2
Foreign	13.0	24.2	221.1	203.1	10.8
Domestic	12.7	11.9	13.3	15.7	25.4
Other Expenditure	638.2	655.5	754.4	826.9	656.9
Capital Expenditure	238.8	166.2	215.6	329.6	275.9
Net Lending	-2.5	0.0	-2.0	-1.1	-1.8

Source: MoFDP

\*Preliminary estimates

Expenditure on development projects declined by 16.3 per cent during the period under review after some improvement in the preceding quarter. This item financed the ongoing construction of roads, education and health sector related infrastructure throughout the country. Grants surpassed government financing, registering 43.4 per cent, against 33.6 per cent, while loans accounted for the remaining 23.0 per cent.

**Figure 16: Recurrent Expenditure by Type**



### Financing

Government budgetary operations resulted in a surplus equivalent to 21.7 per cent of GDP during the period under review. This enabled Government to continue to accumulate deposits with the banking sector. The healthy financial position of Government could mitigate the negative impact of the anticipated decline in SACU revenue, and improve the Government's credibility before potential creditors and investors.

**Table 21: Government Financing**

(Million Maloti)

	2006/07			2007/08	
	Jul-Sept	Oct-Dec	Jan-Mar	Apr-Jun Revised	Jul-Sep* Preliminary
Financing	-158.5	-190.5	-733.1	-121.3	-655.0
Foreign	38.0	-44.4	32.7	23.0	15.7
Loan drawings	79.5	20.8	78.3	81.2	57.8
Amortization	-41.5	-65.2	-45.6	-58.2	-42.1
Domestic	-196.5	-146.1	-765.8	-144.3	-670.7
Bank Financing	-112.2	-102.6	-776.5	-145.2	-679.7
Non – Bank	-84.3	-43.5	10.7	0.9	9.0

Source: MoFDP

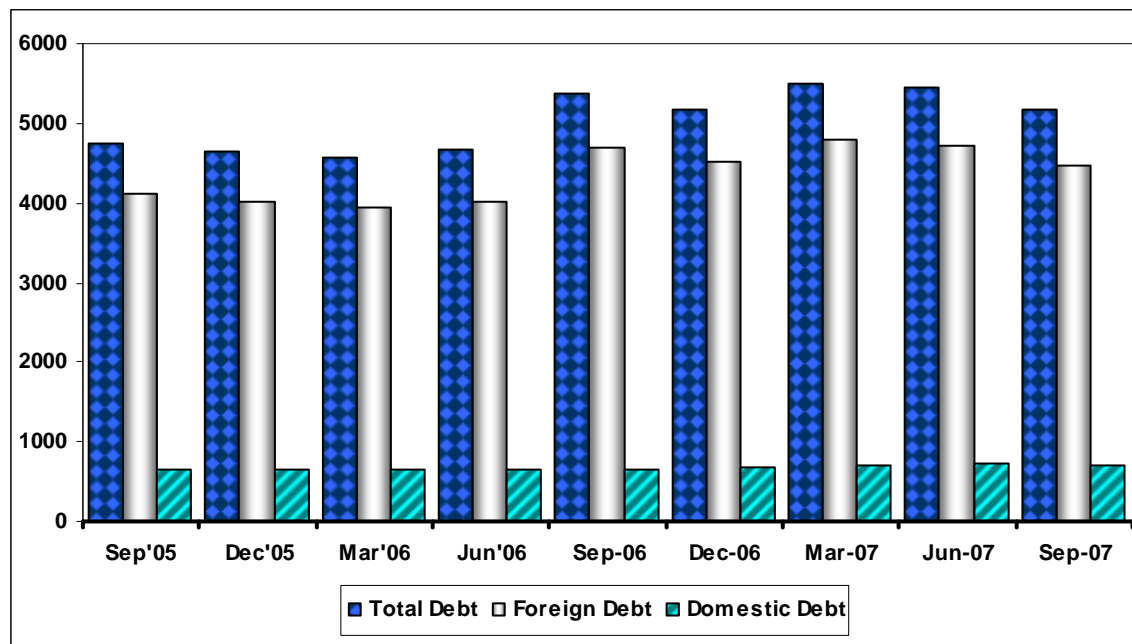


## Public Debt

### Overview

Public debt declined by 5.0 per cent during the period under review, mainly on account of a 5.5 per cent drop in external debt. This was influenced by, among others, reduction in both concessional and non-concessional debt. As a ratio of GDP, the total debt stock was estimated to have declined to 43.3 per cent compared with 45.6 per cent observed in the previous quarter. External debt accounts for the larger share of total debt stock.

**Figure 17: Outstanding Public Debt**  
(Million Maloti: End of Period)



### External debt

External debt fell by 5.5 per cent during the period under review. The decrease was observed from all sources of debt, the main culprits being the bilateral loans. As a share of total debt stock, external debt fell marginally by 0.4 per cent to 86.4 per cent. However, the degree of concessionality of external debt remained unchanged at 94.1 per cent of total debt stock. This composition plays a critical role to maintain debt stock affordable. It reflects Government's commitment to limit borrowing to concessional terms in order to moderate future debt burden.

Various rules of thumb have been developed in an effort to assist countries to test for debt sustainability and can be used as early warning signals for fiscal sustainability, depending on the nature and composition of public debt stock. As a ratio of GDP, external debt eased to

37.4 per cent, in contrast to 39.6 per cent in the previous period. At this level, the debt to GDP ratio was below the 60 per cent sustainability threshold<sup>4</sup>. Debt service fell to 2.9 per cent, in contrast to 12.4 per cent increase observed in the previous period. It stood at 4.4 per cent when factor income is excluded. This was far below the 15 per cent threshold prescribed by international community.

**Table 22: External Debt**  
(Million Maloti)

	2006		2007		
	QIII	QIV	QI	QII	QIII
External Debt	4013.9	4699.9	4514.3	4725.0	4464.6
Bilateral Loans	383.2	385.4	386.9	346.6	224.9
Concessional	381.5	322.3	327.1	299.7	188.1
Non-concessional	1.7	63.0	59.9	46.9	36.8
Multilateral Loans	3443.8	4129.2	3968.4	4230.8	4109.1
Concessional	2992.4	3612.8	3480.7	4119.2	3990.0
Non-concessional	451.4	516.3	487.7	111.6	119.1
Financial Institutions	113.1	113.6	101.1	87.6	81.4
Concessional	2.4	2.4	2.3	29.4	24.4
Non-concessional	110.7	111.1	98.8	58.2	57.0
Suppliers' Credit	73.8	71.8	57.8	60.0	49.2

#### Domestic Debt

Domestic debt dropped by 1.5 per cent during the period under review, in contrast to an increase of a 2.1 per cent recorded in the previous quarter. This was a result of 5.6 per cent decrease in the holding of government securities by the banking sector. However, 19.2 per cent rise in the holdings of domestic debt by both the non-banking sector moderated the decline. Short-term debt represents treasury bills issued for monetary policy purposes. Long-term debt, which is made up of the ten year bond, maintained the level of the previous quarter<sup>5</sup>. As a percentage of GDP, domestic debt stood at 5.9 per cent during the period under review. It grew by 0.4 per cent to register 13.6 per cent of total debt stock.

<sup>4</sup> The Maastricht Treaty Rules of Thumb and SADC Convergence Criteria

<sup>5</sup> This bond had been issued to finance the restructuring of the old Lesotho Bank in 1999.

## VI. Foreign Trade and Payments

### Overview

The external sector position continued to register a surplus during the quarter under review. The overall balance, in seasonally adjusted terms, recorded a surplus equivalent to M869.3 million in contrast with a deficit of M145.0 observed in the previous quarter, as a result of improvement in the current account. The weakness of the local currency during the quarter also supported this position. The transactions balance, which represents the overall balance excluding the effects of currency fluctuations, in seasonally adjusted terms, increased to a surplus of M815.9 million in the review quarter from a surplus of M17.6 million registered in the previous period.

### Current account

The current account continued to register a surplus equivalent to M465.7 million during the review period compared with a revised surplus of M62.7 million recorded in the previous quarter. Improvement in the current account was due to growth in merchandise exports, SACU non-duty receipts and also a rise in labour and investment income.

**Table 23: Current Account Balance**  
(Million Maloti)

	2006		2007		
	QIII	QIV	QI	QII*	QIII <sup>+</sup>
<b>I. Current Account</b>	151.78	18.50	716.63	62.68	465.67
<b>(a) Goods</b>	-1139.80	-1309.84	-1397.28	-1360.30	-1489.23
Merchandise exports f.o.b.	1517.91	1293.24	1305.93	1244.83	1656.58
Of which diamonds	263.90	136.49	277.62	178.54	341.21
Of which textiles & clothing	968.59	983.66	826.05	797.02	991.10
Other exports <sup>#</sup>	285.42	173.09	202.26	269.27	324.27
Merchandise imports f.o.b.	-2657.71	-2603.08	-2703.21	-2605.13	-3145.81
<b>(b) Services</b>	-67.77	-61.93	-74.91	-45.29	-64.62
<b>(c) Income</b>	667.99	708.74	553.42	592.62	849.92
<b>(d) Current Transfers</b>	679.74	697.19	1635.39	875.65	1169.60

\* Revised estimates

<sup>+</sup> Preliminary estimates

<sup>#</sup> All other merchandise exports excluding 'textiles and clothing' and 'diamonds'

## Merchandise exports

Merchandise exports, in seasonally adjusted terms grew by 27.0 per cent in the review period in contrast with a fall of 3.8 per cent registered in the previous quarter. The observed performance emanated from among others, an increase in the value of exports of diamonds and 'textiles and clothing' which rose by 91.8 per cent and 24.4 per cent, respectively. On an annual basis, merchandise exports increased by 9.1 per cent. Depreciation of the Loti against the US Dollar supported the performance of manufactured exports.

## Merchandise imports

Preliminary estimates of merchandise imports indicated a further drop during the third quarter. In seasonally adjusted terms, merchandise imports fell by 3.1 per cent compared with a fall of 0.2 per cent recorded in the second quarter of 2007. However, on an annual basis, merchandise imports increased by 18.4 per cent.

**Table 24: Value of Exports by Section of the S.T.T.C. #**  
(Million Maloti)

COMMODITY	2006		2007		
	QIII	QIV	QI	QII*	QIII <sup>+</sup>
0. Food & Live Animals	31.82	29.31	57.54	60.69	38.45
Cattle	0.25	0.55	0.27	0.45	0.02
Wheat Flour	15.57	13.12	15.92	23.60	19.81
Maize Meal	7.07	6.52	15.09	6.52	6.66
Other	8.93	9.12	26.26	30.57	11.96
1. Beverages & Tobacco	39.62	31.97	30.29	40.98	46.73
Beverages	39.62	31.97	30.29	40.98	46.69
2. Crude Materials	2.55	5.87	7.17	1.98	2.85
Textiles fibres	2.55	5.87	7.17	1.98	2.85
Of which Wool	0.75	5.17	7.07	1.19	0.97
Of which Mohair	1.79	0.70	0.09	0.80	1.88
3. Mineral Fuels & Related Products	3.01	0.95	0.32	0.84	0.35
4. Chemicals	2.68	3.66	0.67	0.60	1.59
5. Manufactured Goods	321.45	245.75	297.81	209.03	367.23
Of which diamonds	263.90	136.49	277.62	178.54	341.21
Of which textiles yarn and fabric	48.49	30.38	13.57	22.09	15.98
Other manufacture goods	9.06	78.88	6.62	8.4	10.04
6. Machinery & Transport Goods	143.80	152.52	82.70	112.69	178.23
7. Miscellaneous					
Manufactured Goods	969.78	990.78	826.82	815.55	1017.69
Of which clothing accessories	917.55	947.40	805.31	772.94	972.27
Other	52.23	43.38	21.51	42.61	45.42
8. Unclassified Goods	1.41	2.20	2.93	2.47	3.46
<b>TOTAL EXPORTS</b>	<b>1517.91</b>	<b>1293.24</b>	<b>1305.93</b>	<b>1244.83</b>	<b>1656.58</b>

Note: Totals may not tally due to rounding

\* Revised estimates

+ Preliminary estimates

# Standard International Trade Classification

#### Direction of Trade

The US remained the largest recipient of Lesotho's exports during the quarter under review. Its share recorded 46.5 per cent compared with 51.6 per cent observed in the previous quarter. The second largest destination of Lesotho's exports was Africa at a share of 32.3 per cent compared with 33.2 per cent registered in the previous quarter. The European market where a large portion of Lesotho diamonds is destined continued to be the third largest

recipient with a share of 20.9 per cent compared with 14.7 per cent recorded in the previous quarter. The proportion of exports to Asia declined to 0.3 per cent compared with 0.6 per cent registered in the second quarter.

**Table 25: Direction of Trade - Exports and Re-Exports, f.o.b.**  
(Million Maloti)

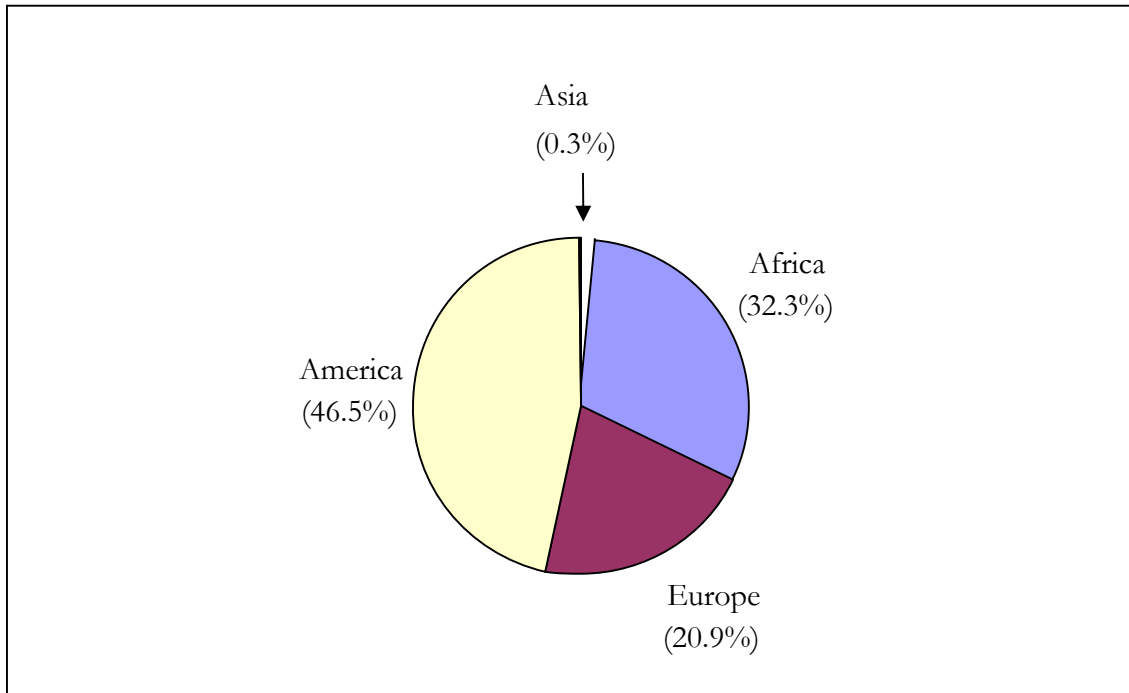
Region	2006		2007		
	QIII	QIV	QI	QIII <sup>+</sup>	QIII <sup>+</sup>
World	1517.91	1293.24	1305.93	1244.83	1656.58
Africa	410.64	384.74	297.30	413.22	535.26
SACU	375.55	359.87	272.33	363.02	513.45
SADC	0.60	3.39	2.50	1.99	1.21
Other	34.49	21.48	22.47	48.21	20.60
Europe	266.73	141.01	280.68	182.34	346.23
EC	266.73	141.01	280.68	182.34	346.23
America	839.50	766.19	725.14	642.38	770.76
Asia	1.04	4.30	2.81	6.89	4.33

Note: Total may not tally due to rounding

\* Revised estimates

+ Preliminary estimates

Figure 18: Direction of Merchandise Exports



#### Services Account

Net services registered an outflow of M64.6 million during the review quarter compared with a revised outflow of M45.3 million recorded in the previous quarter, due to an increase in payments of transportation and travel categories.

#### Travel

Net travel declined by 10.0 per cent during the quarter in contrast with a revised 87.2 per cent rise registered in the previous period. Travel receipts grew by 7.7 per cent compared with an increase of 32.8 per cent registered in the previous quarter, due to a rise in expatriates' expenditure. Total travel payments increased by 2.3 per cent during the quarter in contrast with a fall of 15.8 per cent observed in the previous quarter, as a result of a rise in government international subsistence allowance.

#### Income

Net income increased to M849.9 million during the review period following a revised M592.6 million recorded in the previous quarter, as a result of a rise in investments income.

#### Labour Income

The growth in labour income, in seasonally adjusted terms, increased by 13.1 per cent during the quarter in contrast with a revised fall of 3.2 per cent registered in the previous quarter.

This emanated from a rise in miners' remittances due to an increase in the average number of Basotho migrant mineworkers in SA. On an annual basis, labour income increased by 21.1 per cent. The high price of gold and platinum continue to be responsible for positive developments in the mining industry.

#### Investment Income

The net position of investment income was equivalent to an inflow of M126.5 million during the review quarter compared with a revised outflow of M93.2 million observed in the previous quarter. The growth in net investment income resulted from higher returns on CBL and commercial banks investment together with a decline on official loan interest payments.

Investment income inflows grew by 28.1 per cent in the review period compared with a fall of 3.4 per cent registered in the previous quarter, due to a rise in banks' investments. However, investment income outflows fell significantly by 83.9 per cent during the review quarter compared with a drop of 8.1 per cent recorded in the previous quarter. The decline emanated from interest payments on government loans.

#### Current Transfers

In seasonally adjusted terms, current transfers improved to M1.2 billion in the third quarter from M875.6 million registered in the second quarter, as a result of an increase in SACU non-duty revenue which rose by 33.3 per cent. On an annual basis, current transfers increased by 72.1 per cent.

#### Capital and Financial Account

The capital and financial account registered a lower net inflow equivalent to M245.4 million during the review quarter compared with a revised net inflow of M390.5 million observed in the previous quarter, due to commercial banks' foreign assets which increased by M113.1 million in contrast with a decline of M111.5 million recorded in the previous quarter.



**Table 26: Capital and Financial Account**  
(Million Maloti)

	2006		2007		
	QIII	QIV	QI	QII*	QIII <sup>+</sup>
<b>I. Capital and Financial Account</b>	33.90	-23.31	278.94	390.49	245.40
Capital Account	27.20	16.30	7.90	85.00	109.00
Financial Account	6.70	-39.61	271.04	305.49	136.40
Special Financing – LHWP	31.26	31.49	37.79	45.56	37.91
<b>II. Reserve Assets</b>	-641.50	-32.81	-1023.89	143.38	-870.86

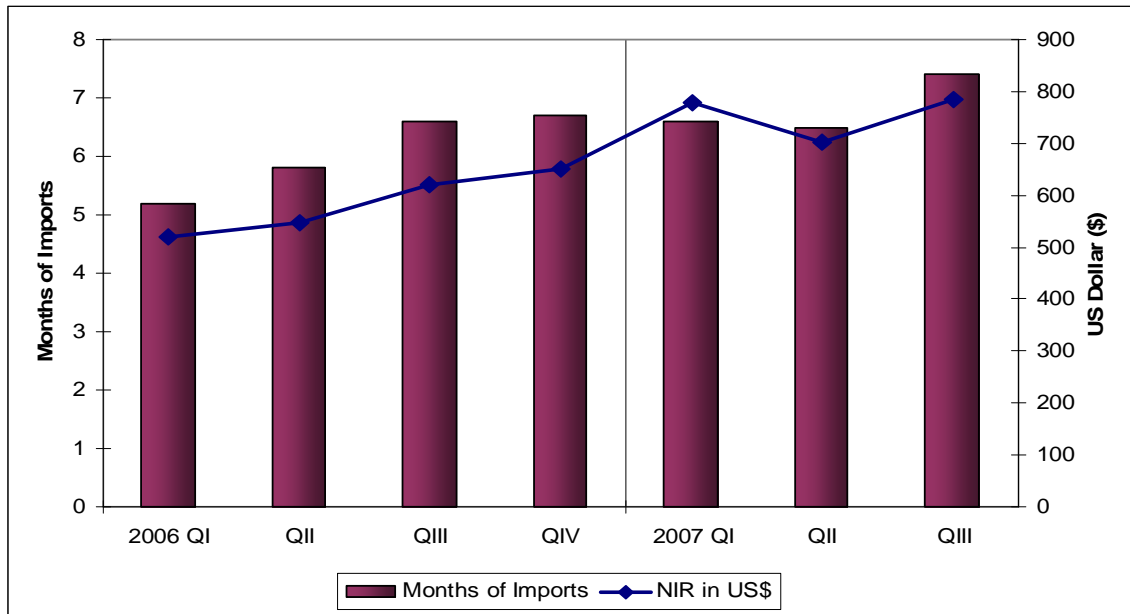
\* Revised estimates

<sup>+</sup> Preliminary estimates

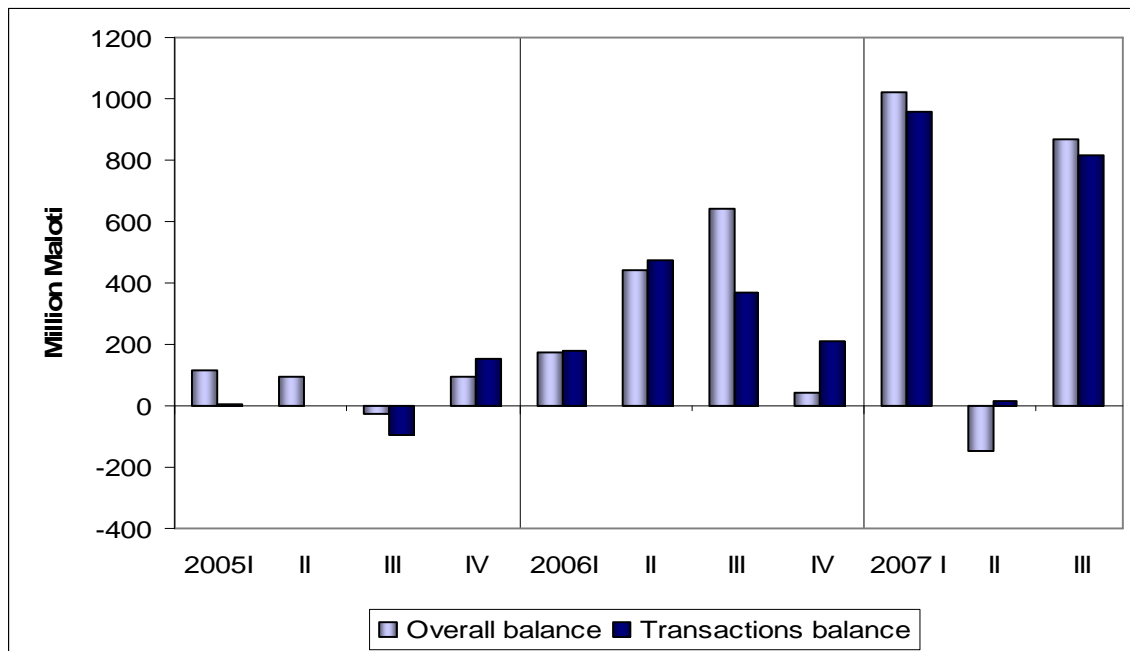
#### Reserve Assets

Gross reserves rose to M6.7 billion during the review period, against M5.8 billion registered in the previous quarter. Expressed in months of import cover, official reserves increased to 7.4 months from 6.5 months observed in the previous quarter. The Net International Reserves (NIR) also grew by 11.6 per cent to US\$783.5 million in September 2007, mainly as a result of a rise in SACU revenue.

**Figure 19: Reserve Assets**



**Figure 20: Balance of Payments**



## Exchange Rates

The Loti showed some weakness against major currencies during the quarter under review. In real terms, the Loti depreciated by 2.1 per cent against the US Dollar. The Loti also weakened against the Euro and Pound Sterling by 3.9 per cent and 3.8 per cent, respectively in real terms.

**Figure 21: Real Exchange Rate of the Loti against Major Currencies**

