

**CENTRAL BANK OF LESOTHO**

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## **I. Introduction**

The global economic prospects continued to be marked by uncertainty as the full impact of the sub-prime mortgage bond crisis unfolds. During the first quarter of 2008, real Gross Domestic Product (GDP) in the United States (US) decelerated to 2.5 per cent from 2.8 per cent rise in the previous quarter due to continued slump in the housing market and the deceleration in consumer spending. Similar trend was observed in South Africa (SA) with declines in mining production and manufacturing output. However, the Euro-Zone remained relatively strong during the quarter. Commodity price boom continued during the quarter, with gold and platinum closing the quarter at US\$923.7 per ounce and US\$1 874.19 per ounce respectively. Crude oil price also continued to increase reaching a maximum of US\$102.88 per barrel exacerbating inflationary pressures around the globe.

The Lesotho economy exhibited mixed indications during the first quarter of 2008. The primary sector performance continued to be dominated by sound growth of the mining industry. In the secondary sector, electricity consumption declined on quarterly basis while water consumption registered a slight growth. The manufacturing sub-sector is faced with the challenge of minimising the negative implications of the global economic slowdown particularly the US. The performance of the tertiary sector measured by the retail sales turnover, indicated an increase both on a quarterly and annual basis.

Employment in the Lesotho National Development Corporation (LNDC) assisted companies and migrant mineworkers registered some declines while Government employment rose modestly. The slowdown in the US economy may be having some negative effects on the manufacturing sector with some firms are shedding jobs.

Inflation developments continued to follow those of the region. Inflation rate was recorded at 10.7 per cent for the period ending March mainly reflecting the impact of the continued increase in prices of crude oil and food. The current global food shortages have aggravated the negative impact of the price of crude oil on inflation.

Monetary conditions measured by the growth in broad money supply (M2), slowed down to 2.4 per cent during the quarter under review largely due to the increases in domestic credit. Credit extension continued to register substantial growth. Money market interest rates in Lesotho continued to follow those of the region. The 91 day treasury bill rate rose to 9.21 per cent compared with 10.29 per cent in South Africa. Other interest rates in the economy also edged upwards.

During the period under review government budgetary operations resulted in a modest deficit mainly attributable to, among others, improvement in implementation of development projects. Public debt measured as a ratio of GDP rose by 17.2 per cent to 53.2 per cent mainly due to the depreciation of the loti against other major currencies. In particular, the loti depreciated by 13.2 per cent against the US dollar.

The external sector position continued to register some surpluses during the quarter under review. The overall balance, in seasonally adjusted terms, widened to a surplus equivalent to M769.6 million from M124.3 million registered in the previous quarter, as a result of improvement in the current transfers coupled with capital and financial account.

## **II. International Economic Developments**

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

Preliminary estimates indicated that the growth of the US economy slowed down during the review quarter. On an annual basis, real GDP grew by 2.5 per cent in the review period compared with 2.8 per cent registered in the previous quarter, due to among other factors, the slump in the housing market and slower growth in consumer spending. New residential home sales fell by 8.5 per cent in March 2008, a 17-year low, compared with a fall of 4.7 per cent realised in December 2007. Furthermore, reduced factory inventories and a drop in exports also contributed to the slower growth rate.

The US Government through the Internal Revenue Services (IRS) introduced temporary fiscal stimulus package in the form of tax relief and tax rebates in order to bolster business investment and consumer spending, in an attempt to keep the US economy out of recession this year. On the consumer front, taxes were cut from 10 per cent to zero per cent on the first US\$6 000 of taxable income for individual taxpayers, and the first US\$12 000 of taxable income for couples. Tax payers also receive rebates of up to US\$600 for individuals and US\$1 200 for couples. Parents also receive an additional US\$300 for each eligible child younger than 17 years of age. On the business front, 50 per cent is deducted on the cost of investment for businesses that buy new equipment this year. This is intended to encourage businesses to expand and create new jobs, because buying equipment, software and tangible property would lower their taxes.

Unemployment rate rose marginally to 5.1 per cent during the review quarter from 5.0 per cent registered in the previous quarter. Inflation rate recorded 4.0 per cent in March 2008 compared with 4.1 per cent realised in December 2007, largely due to high food and oil prices. However, the Federal Reserve Bank's Open Market Committee (FOMC) reduced the benchmark lending rate from 3.00 per cent observed in December to 2.25 per cent in March due to a slowdown in consumer spending, tighter credit conditions and the deepening of the housing contraction.

The slow down in the US economy is expected to have negative spill over effects on Lesotho's exports.

**Table 1: Key World Economic Indicators**  
(Quarter IV: 2007 versus Quarter I: 2008)

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	QIV	QI: 2008	QIV	QI: 2008	QIV	QI: 2008	QIV	QI: 2008
China	11.2	10.6	6.5	8.3	7.47	7.47	9.5	9.5 <sup>2007</sup>
Euro Area	2.7	2.3	3.1	3.5	4.0	4.0	7.2	7.1 <sup>Feb</sup>
India	8.4	n/a	5.5	5.5 <sup>Feb</sup>	7.8	7.75	7.6	7.2 <sup>2007</sup>
Japan	1.9	1.8	-0.3	1.0 <sup>Feb</sup>	0.5	0.5	3.8	3.9 <sup>Feb</sup>
South Africa	5.3	2.1	8.6	10.6	11.0	11.0	25.5	23.0 <sup>Sept</sup>
United States	2.8	2.5	4.1	4.0	3.0	2.25	5.0	5.1

**Source:** Bloomberg, The Economist, STATSSA and SARB

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

Economic growth in the euro zone decelerated from 2.7 per cent registered in the previous quarter to 2.3 per cent during the quarter under review. The slower growth rate was attributable to *inter alia*, spill over effects of the US sub-prime lending crises.

The harmonised unemployment rate in the fifteen nations sharing the Euro remained almost unchanged during the quarter under review. It declined from 7.2 per cent in December to 7.1 per cent in March 2008. Inflation in the Euro-zone, as measured by changes in the Harmonised Index of Consumer Prices (HICP) accelerated from 3.1 per cent recorded in December to 3.6 per cent in March largely due to high food and oil prices. At this rate, the inflation rate remained above the targeted rate of 2.0 per cent as determined by the European Central Bank (ECB). Nevertheless, the ECB decided to keep its benchmark lending rate unchanged at 4.00 per cent in March.

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

In seasonally adjusted terms, real economic growth eased to 2.1 per cent on an annual basis in the first quarter of 2008 compared with 5.3 per cent recorded in the fourth quarter of 2007. The weaker performance was largely seen in the mining, manufacturing and electricity sectors. Low production both in manufacturing and mining industries was attributable to the electricity shortages during the quarter under review.

On the inflation front, South African Reserve Bank's (SARB) monetary policy target, the consumer price index excluding interest on mortgage bonds (CPIX), continued to remain

<sup>1</sup> Euro-zone: Austria, Belgium, Cyprus, Germany, Greece, Finland, France, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovenia and Spain. (Cyprus and Malta joined on the 1<sup>st</sup> January 2008).

above the targeted range of 3 to 6 per cent. The CPIX has exceeded the 6 per cent ceiling since April 2007. During the quarter under review, this measure of inflation rose to 10.1 per cent in March 2008 compared with 8.6 per cent registered in December 2007 as a result of higher fuel and food prices. Furthermore, increases in administered prices, and elevated levels of credit extension also contributed towards the increase in the inflation rate. However, the SARB Monetary Policy Committee (MPC) kept the key benchmark rate at 11.00 per cent after increasing it by 50 basis points in December 2007.

Due to close trade links between Lesotho and SA, any negative or positive economic developments in SA impact Lesotho's economy directly. A decline of production in the mining industry could negatively affect the number of Basotho migrant mineworkers in the SA mines and thus, reduce remittances to Lesotho. A continued upward pressure on prices from persistent increases in the food and oil prices remains a challenge to the Lesotho economy, as it implies a higher imported inflation from SA.

## **Asian Emerging Markets and Japan**

### **China**

Preliminary estimates indicated that GDP in the world's fourth-largest economy grew by 10.6 per cent in the first quarter of 2008 compared with 11.2 per cent registered in the previous quarter. Although the rate has declined, it is still considered strong. This growth rate was buoyed by investment in factories, retail sales and exports.

Inflation rate rose to 8.3 per cent in the review period, from 6.5 per cent registered in December 2007. This high inflation rate was attributable to high food and oil prices. At this level, inflation was way above the 3.0 per cent target of the People's Bank of China (PBC). The inflation expectations led PBC to keep the one-year benchmark interest rate unchanged at 7.47 per cent in March.

Developments in the Chinese economy may have implications for Lesotho. Inflation developments in the Chinese economy may have negative impact for Lesotho economy, since Lesotho imports most of its manufacturing inputs from China.

### **Japan**

Japanese economic growth slowed down to an annual rate of 1.8 per cent in March compared to 1.9 per cent in December 2007. Furthermore, a leading indicator of economic growth, industrial production, declined by 3.1 per cent in March, the largest decline for at least five years, supporting the slower economic growth during the quarter under review.

The Japanese unemployment rate in seasonally adjusted terms, remained almost unchanged at 3.9 per cent registered in February. On the inflation front, the core CPI which excludes fresh food prices, increased by 1.0 per cent in February. The inflation outlook led the Bank of Japan (BOJ) to keep its key interest rate unchanged at 0.50 per cent during the first quarter.

### **India**

Industrial production fell by 3.0 per cent in March 2008 compared with a rise of 7.6 per cent registered in December 2007, due to poor performance observed in mining, manufacturing and electricity sectors. Manufacturing production, which accounted for 80



per cent share in the index of industrial production grew by 2.9 per cent year on year, compared with a rise of 8.4 per cent recorded in December 2007.

Inflation rate in February 2008 was 5.5 per cent. However, the Reserve Bank of India (RBI) has warned that the spiralling international food and oil prices could push the inflation rate upwards. Surprisingly, RBI reduced the key interest rate from 7.8 per cent during the fourth quarter to 7.75 per cent in the first quarter of 2008.

### Commodity Prices

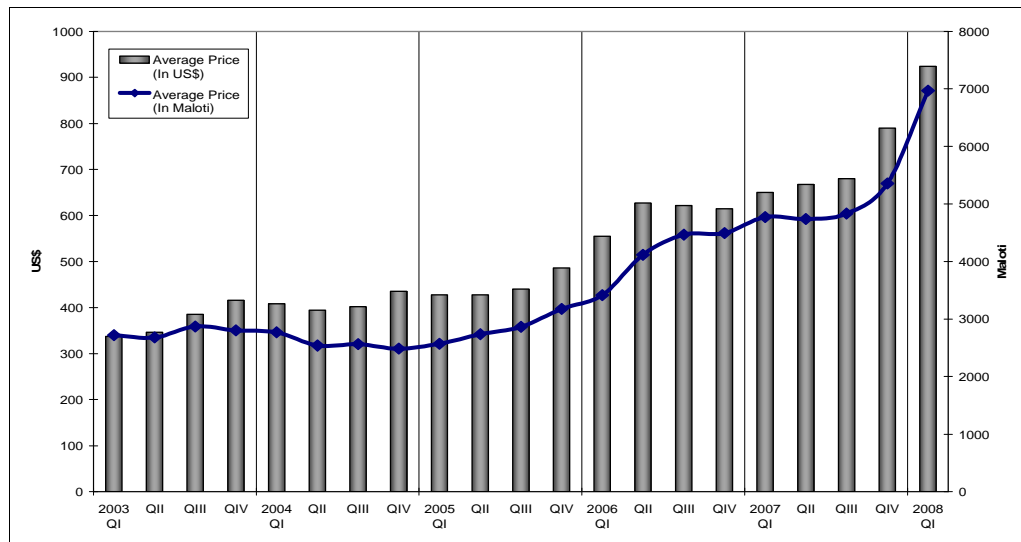
Commodity prices continued on their upward trend irrespective of decelerating global demand. World economic activity was still strong enough to maintain demand for platinum and oil. Demand for Platinum is mainly driven by increasing use in the conversion of vehicles toxic emissions into less harmful exhausts due to adoption of environmental legislations and tighter controls some countries. In addition, the metal's use in jewellery continues to contribute significantly to its demand.

Weather problems and increasing incomes around the globe, especially in previously poor regions of Asia, have resulted in demand-supply mismatches in cereals which led to generally increasing prices. However, price decreases were observed during the quarter for some cereals. Uncertainty over global economic performance in the coming periods has maintained strong purchases of gold for hedging against risk. Production disruptions in South Africa, which is one of the largest producers, have exerted further upward pressure on the price of gold.

### Gold

The average price of gold increased from US\$789.5 per ounce in the previous quarter to US\$923.7 per ounce in the first quarter of 2008. It ranged between a minimum and maximum of US\$833.7 per ounce and US\$1003.0 per ounce, respectively. In Rand terms, the average price of gold increased by 30.2 per cent from R5 353.9 per ounce in the previous quarter to R6 968.8 per ounce during the quarter.

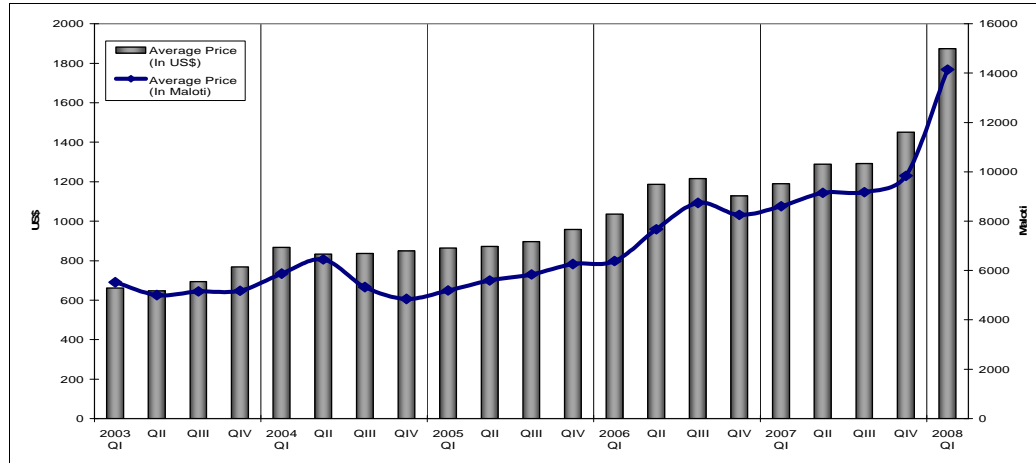
**Figure 1: Average Price of Gold**



## Platinum

The average price of platinum increased from US\$1 451.27 per ounce in the previous quarter to US\$1 874.19 per ounce in the first quarter of 2008. It ranged between a minimum and maximum of US\$1 523.0 per ounce and US\$2 250.5 per ounce, respectively. In Rand terms, the average price of platinum increased by 43.7 per cent from R9 841.78 per ounce in the previous quarter to R14 145.41 per ounce during the quarter.

**Figure 2: Average Price of Platinum**



The sustained high price of gold and platinum augurs well for the Lesotho economy in terms of both employment generation and improvement of the balance of payments position. However, during this quarter, the positive effect of these price increases was outweighed by a decline in mining production.

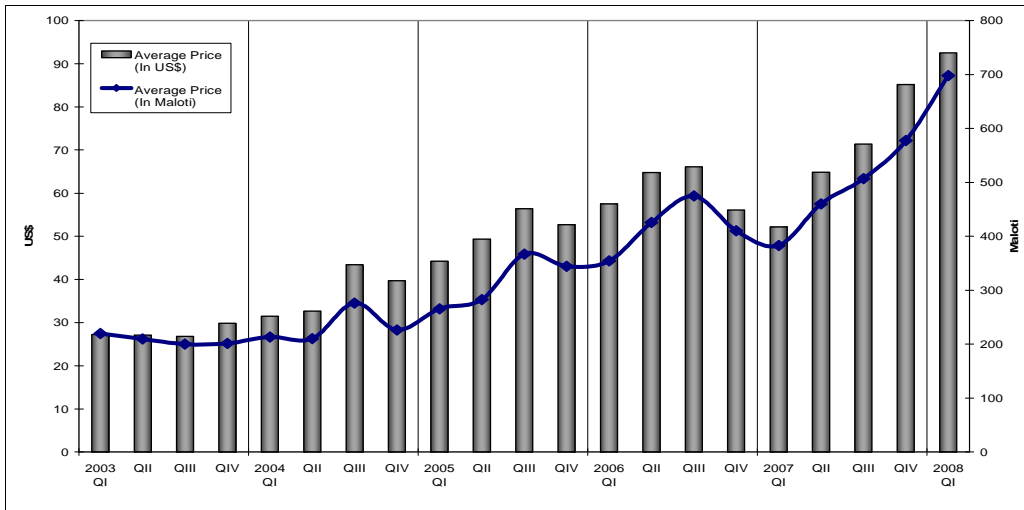
## Oil

During the quarter under review, the average price of crude oil increased by 8.7 per cent, from US\$85.14 per barrel in the previous quarter to US\$92.51 per barrel. The increase in international oil prices resulted largely from geopolitical concerns, supply constraints and strong demand, especially from China, India, Middle East and the United States

The oil price ranged between a minimum and maximum of US\$83.84 per barrel and US\$102.88 per barrel, respectively. In Maloti terms, it rose by 20.9 per cent, from M577.4 per barrel in the previous quarter to M697.9 per barrel in the first quarter of 2008. A rise in the price of crude oil in both US Dollar and Loti terms could impact negatively on the Lesotho economy. The increase in the oil price may have 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.

Due to the developments in the international oil prices, there were three upward revisions of fuel prices in the country during the review quarter. The pump price of petrol in Lesotho closed the review quarter higher at M8.05 per litre. The price of diesel and illuminating paraffin also closed the quarter higher at M9.00 per litre and M6.45 per litre, respectively. These compare with M7.05 per litre of petrol, M7.95 per litre of diesel and M5.70 per litre of illuminating paraffin at the end of the previous quarter.

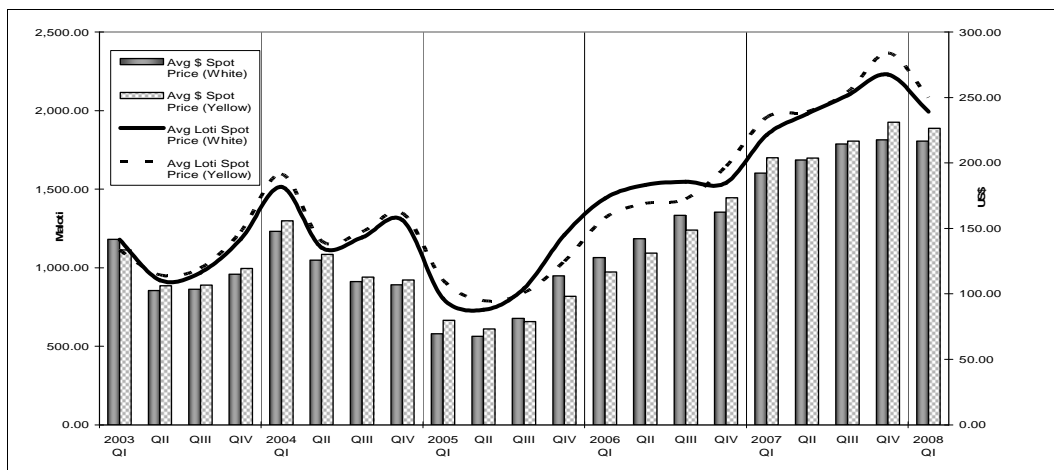
**Figure 3: Average Price of Oil**



**Maize**

Maize prices decreased during the quarter under review. The average spot price decreased from US\$267.52 in the previous quarter to US\$239.11 in the review quarter for white maize, and from US\$284.0 in the previous quarter to US\$250.0 in the review quarter, for yellow maize. In maloti terms, the spot price of white maize decreased from M1 814.21 per tonne in the previous quarter to M1 804.7 per tonne during the review quarter, whereas that of yellow maize decreased from M1 926.1 per tonne in the previous quarter to M1 886.9 per tonne during the quarter under review.

**Figure 4: Average Prices of Maize**

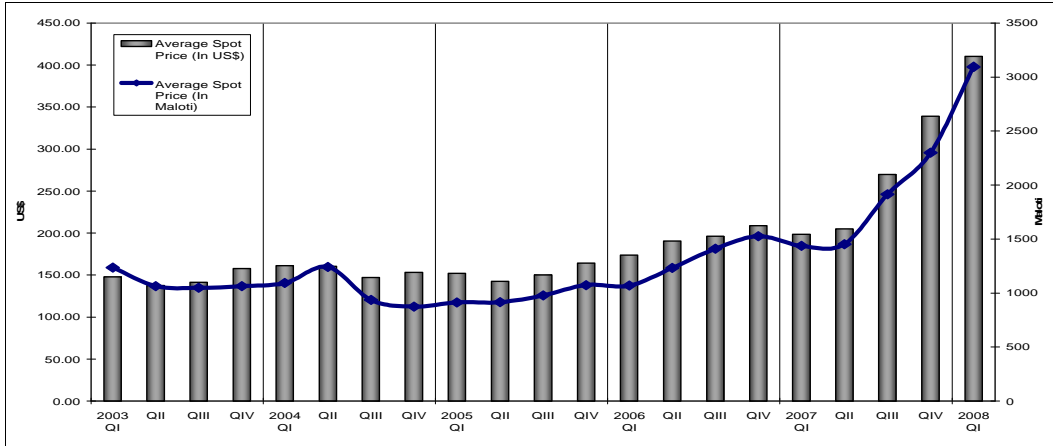


**Wheat**

The quarterly average spot price of wheat increased by 20.9 per cent from US\$339.03 per tonne registered in the fourth quarter to US\$410.05 per tonne recorded during the

quarter under review. In maloti terms, the average spot price of wheat increased from M2 299.10 per tonne realised in the previous quarter to M3 094.84 per tonne realised during the quarter under review.

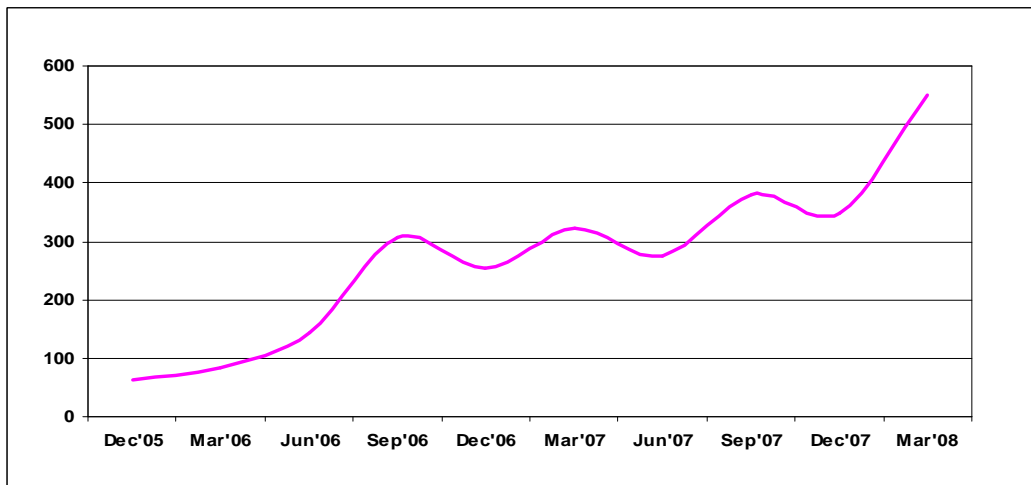
**Figure 5: Average Prices of Wheat**



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

Diamond production index increased from 348.6 points to 549.4 points for the period ended March 2008. The rise in the index is a reflection of continued buoyancy in the diamond mining industry. This was also reflected in the progress in some of the prospecting mines that have reported discovery of diamonds in their areas. This is likely to boost growth of the industry. The industry is estimated to account for around 14 per cent of total GDP, using 2007 estimates.

**Figure 6: Diamond Production Index**  
(2005: QI=100)



Source: Department of Mines and Geology

## Secondary Sector Developments

### Electricity Consumption

Electricity consumption decreased by 18.2 per cent on a quarterly basis. The major driver of the fall was the 'load shedding' policy that the Lesotho Electricity Corporation introduced during the quarter. Further, this was exacerbated by a decline in the manufacturing export industry. Electricity consumption is likely to increase in the next quarter despite the newly adopted policy as consumers start to stock pile for the winter season.

**Table 2: Electricity Consumption**  
(Million Maloti)

	2007						2008	
	QII		QIII		QIV		QI	
	Kwh	value	Kwh	value	Kwh	value	Kwh	value
<b>General Purpose</b>	20.98	13.89	20.95	13.84	18.64	12.32	21.63	14.30
<b>Domestic</b>	35.43	17.36	38.97	18.36	43.42	20.45	36.57	17.23
<b>Commercial &amp; Industrial</b>	69.74	31.42	83.17	34.05	85.86	35.15	62.83	3.58*
<b>Total</b>	126.15	62.67	143.09	66.25	147.92	67.92	121.03	35.10

**Source:** Lesotho Electricity Authority

\*Excludes maximum demand charge

### Water Consumption

Water consumption increased by a seasonally adjusted 11.2 per cent on quarterly basis and declined by 15.1 per cent on an annual basis. The fall on an annual basis is also consistent with an annual decline in the 'industrial' category which is an indicator of activity in the wet industries, and is in conformity with a decline in overall export performance.

**Table 3: Water Consumption**

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

Quarter		Domestic	Industrial	Other	Total
<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		2.66
<b>IV</b>	Units	0.91	1.29	0.78	2.98
	Value	3.65	6.34	2.77	12.76
	Units*		1.16		2.69
<b>2008</b>					
<b>I</b>	Units	0.87	1.18	0.52	2.56
	Value	3.65	5.83	2.58	12.06
	Units*		1.40		2.99

**Source:** Water and Sewerage Authority

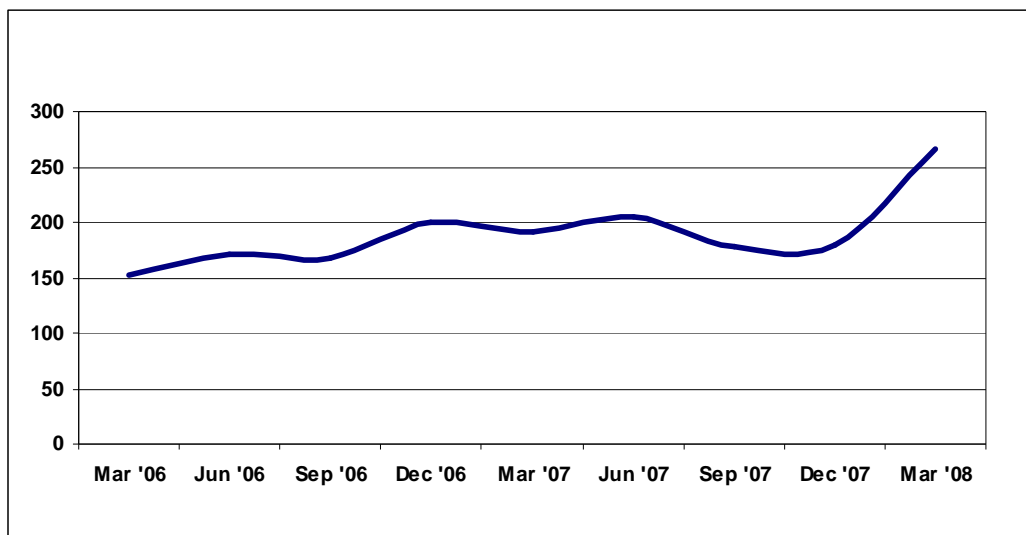
\*denotes seasonally adjusted figures

**Tertiary Sector Developments**

## Sales Turnover

The value of sales turnover increased by 47.4 per cent on a quarterly basis, and rose by 41.5 on an annual basis. The positive growth recorded in the quarter under review was mainly driven by increased and wide usage of telecommunications. It was recorded that retail and wholesale were subdued for the period ending March 2008. The slowdown in consumer demand is a result of higher interest rates and increased overall price level that has put restraint to consumption expenditure.

**Figure 7: Value of Sales Turnover**  
(Million Maloti)



**Source:** Lesotho Revenue Authority

### **Investment Expenditure**

#### Imported Motor Vehicles

The number of imported vehicles declined by 25.7 per cent on a seasonally adjusted quarterly basis, and by 0.7 per cent on an annual basis. The highest decline was in the categories 'cars' and 'vans'. The fall is largely due to high interest rates that dampened consumer demand. The decline in vehicles is in line with a slowdown in vehicle sales in South Africa for the quarter ending March. New vehicle sales fell by 4.9 per cent and used vehicle sales dropped by 1.8 per cent. Interest rates are expected to remain high for the remainder of the year.

**Table 4: Motor Vehicle Imports**

(Value in Million Maloti)

		Cars	Vans	Trucks	Buses	Trac-tors	M/ Cycles	Trail-ers	Total	
<b>2006</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	388
<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	432
<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	535	
<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	531	
<b>IV</b>	Value	20.63	32.83	2.97	7.58	0.41	0.05	0.90	65.38	
	Units*	230	224	13	24	9	2	13	576.95	
<b>2008</b>	<b>I</b>	Value	15.06	35.77	8.85	4.65	1.04	0.06	0.62	65.99
		Units*	210	204	16	16	3	1	6	428.95
									456	

**Source:** Imperial Fleet Services Lesotho and Customs Department

\*denotes seasonally adjusted figures

+Includes imports of second hand cars

**Employment Developments**

Employment in the LNDC-assisted companies declined by 2.8 per cent on a quarterly basis to 45 598 employees, and on an annual basis employment declined by 4.5 per cent. The fall in employment was due to retrenchments that came as a result of a slowdown in exports due to lack of placement of orders by international buyers. Employment is expected to increase in the next quarter due to a correction in the export market.



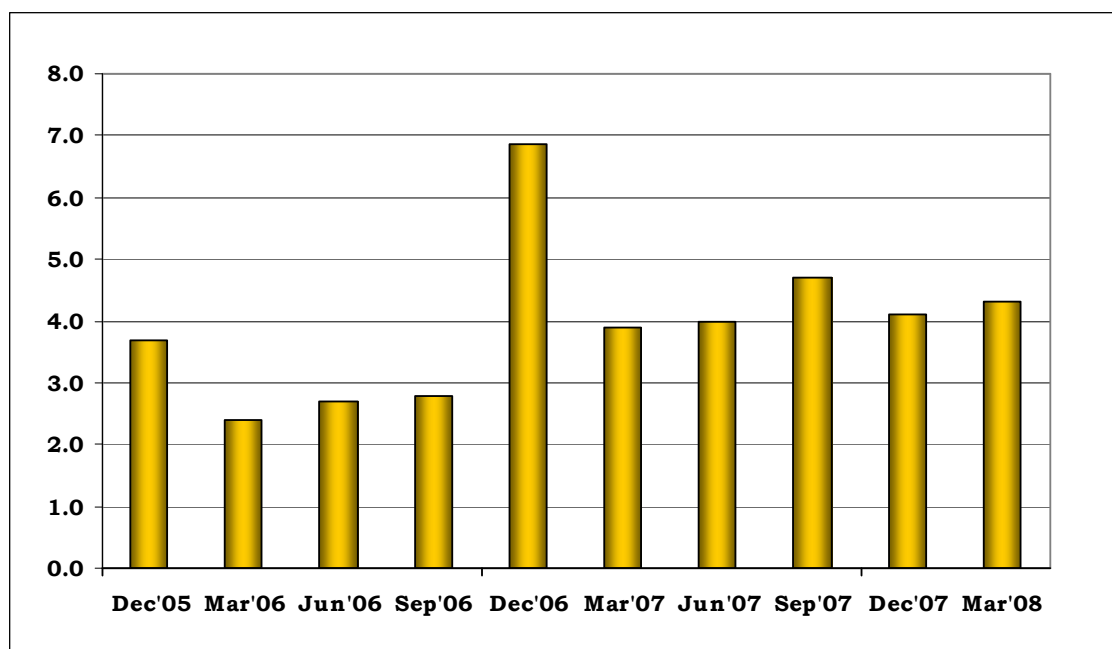
**Table 5: Employment Trend of LNDC-Assisted Companies**

Period	QI	QII	QIII	QIV
2008	45598			
2007	47731	48892	46772	46921
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

The number of government employees increased by 0.2 per cent on a quarterly basis to 40 742, and 4.3 per cent on an annual basis. The increase in employment was due to a general increase in the number of civil servants. The number of government employees is expected to increase by a higher rate as more teachers are captured in the current employee establishment.

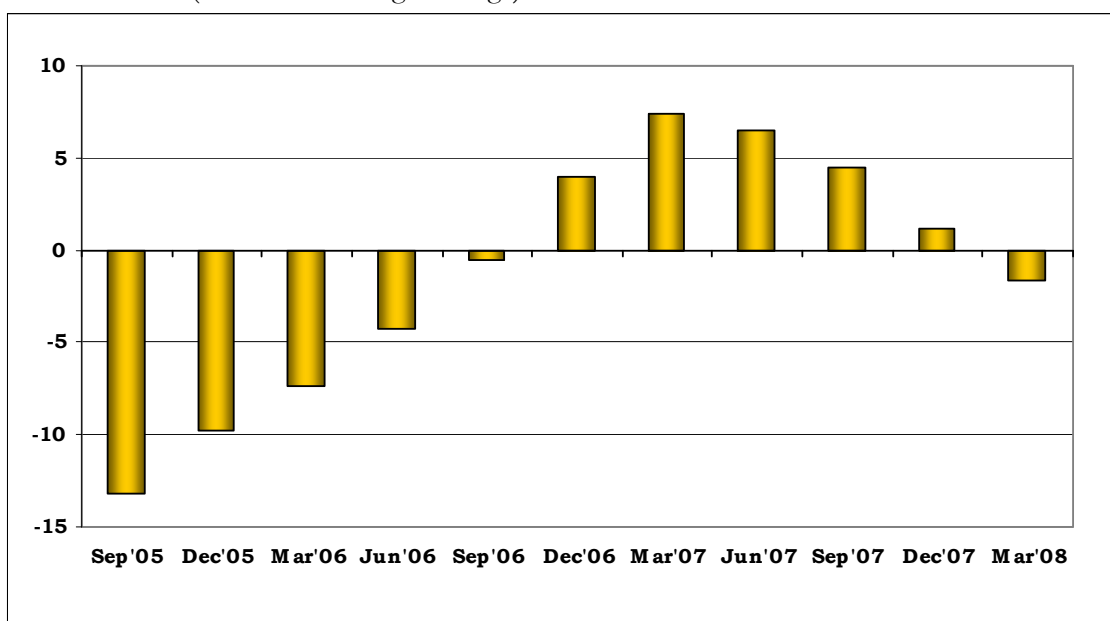
**Figure 8: Government Employment**  
(Annual Percentage Change)



The number of migrant mineworkers declined by 1.4 per cent on a quarterly basis and 1.6 per cent on an annual basis. The fall is due to power-related downward pressure in mining production in South Africa. This resulted in a seasonally adjusted decrease of 8.3 per cent in overall mining production. The major contributors were platinum groups with a drop of 5.0 percentage points, diamonds 1.8 percentage points and gold 1.3 percentage points.

A decline in the number of miners employed in South Africa implies falling incomes in Lesotho, as these workers form the largest number of formal sector employees. In addition, it may adversely affects the country's external position through reduced remittances. It increases the burden on the domestic sectors to create jobs, especially the two largest domestic employers – government and manufacturing.

**Figure 9: Migrant Mineworkers Employment**  
(Annual Percentage Change)



### Price Developments

Inflation rate was recorded at 10.7 per cent for the period ending March 2008. This is higher than the 10.5 per cent registered in quarter ending December 2007. The increase in inflation is driven by increases in the transport component, from 4.4 per cent in the last quarter of 2007 to 6.6 per cent in March 2008. In addition, increases in fuel prices led to a rise in the 'housing, electricity, gas and other fuels' category (see Table 6).

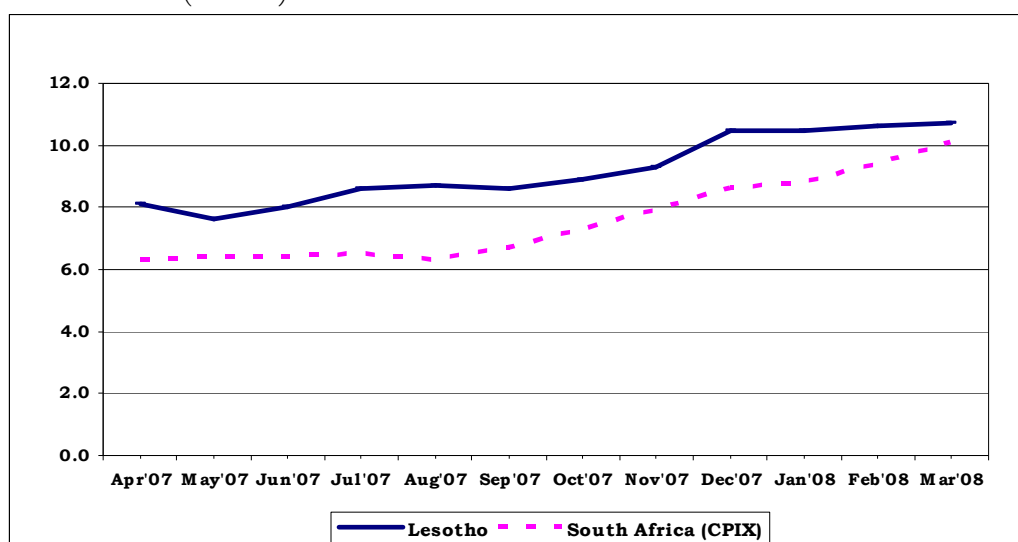
Food prices decelerated during the review period. Wheat meal increased by 1.9 points, bread flour by 0.9 points and maize meal by 7.2 points. The increase in cereal prices is expected to continue to the third quarter of the year. Administered prices are expected to exacerbate the current inflation environment with an increase expected to be announced in the second quarter of the year. Figure 10 illustrate that the inflation rate in Lesotho is growing at a slower rate than the South African CPIX, registered at 10.1 per cent, thus indicating convergence in the two rates.

**Table 6: Inflation Rate**  
(Annualised Percentage Change: April 1997=100)

	Weight	2007		2008		
		Nov	Dec	Jan	Feb	Mar
All items	100.0	9.3	10.5	10.5	10.6	10.7
Food and non-alcoholic beverages	39.8	16.5	18.4	18.2	18.3	17.8
Alcoholic beverages & Tobacco	6.4	5.6	6.0	6.1	5.4	5.5
Clothing & footwear	15.6	5.3	6.4	6.3	5.7	5.7
Housing, electricity gas & other fuels	3.7	7.6	8.7	8.8	8.7	9.5
Furniture, households equipment & routine maintenance of house	17.0	1.7	1.9	2.2	2.1	2.5
Health	1.4	-1.6	-1.3	0.3	0.5	0.4
Transport	7.8	2.2	2.3	2.6	4.4	6.6
Communication	0.1	0.0	0.0	0.0	0.0	0.0
Leisure, entertainment & Culture	1.2	0.6	-1.5	-1.2	-0.6	0.0
Education	3.2	2.6	2.6	2.5	2.6	2.6
Restaurant & Hotels	0.4	14.0	16.1	16.1	19.1	21.3
Miscellaneous goods & services	3.2	2.5	3.3	4.1	4.6	4.7

Source: Bureau of Statistics, Lesotho

**Figure 10: Annual Inflation Rate for Urban Households**  
(Percent)



## IV. Monetary and Financial Developments

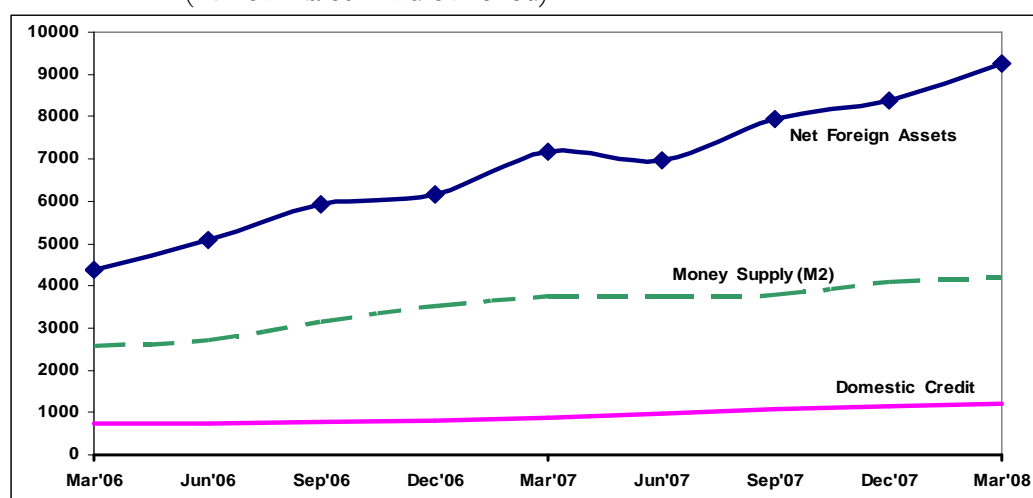
### Determinants of Money Supply

The rate of monetary expansion slowed to 2.4 per cent on a quarterly basis in the review period, compared with 10.3 per cent in the preceding quarter. As Figure 11 depicts, net foreign assets continued to grow strongly in the quarter ended December 2007. However, a large part of this growth did not have an impact on money supply as it was driven by revaluation gains resulting from loti depreciation (this also explains the large jump in 'other items' in Table 7).

Domestic credit also drove money supply upwards. It rose by 6.6 per cent against a decline of around M160.0 million the previous quarter. The increase in domestic credit was mainly driven by a jump in private sector credit.

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

(Million Maloti: End of Period)



**Table 7: Determinants of Money Supply**

(Million Maloti: Changes)

Determinants	2007				2008
	Mar	Jun	Sep	Dec	Mar
Net foreign assets	1009.6	-194.1	974.3	438.1	895.5
Domestic credit	-715.5	-31.8	-597.2	-161.7	137.3
Net Claims on Govt	-776.5	-145.2	-679.7	-224.2	50.6
Statutory bodies	0.2	16.7	14.0	3.2	-1.3
Private sector	58.1	95.5	66.1	55.5	79.6
Other items, net	75.3	-227.3	337.3	-38.5	935.2
Money Supply (M2)	219.0	1.5	39.9	313.0	97.5

## Components of Money Supply

The increase in broad money was largely reflected in a rise in narrow money, which grew by a slower 4.2 per cent relative to growth recorded in the quarter to December 2007. Narrow money growth mirrored an increase in demand deposits and deposits of official entities held with the Central Bank. Currency in circulation fell by 17.1 per cent, following a strong growth the previous quarter.

Quasi money fell by 2.5 per cent in the quarter under review, as both its components – savings and time deposits – declined during the same period.

**Table 8: Money Supply**  
(Million Maloti; End of Period)

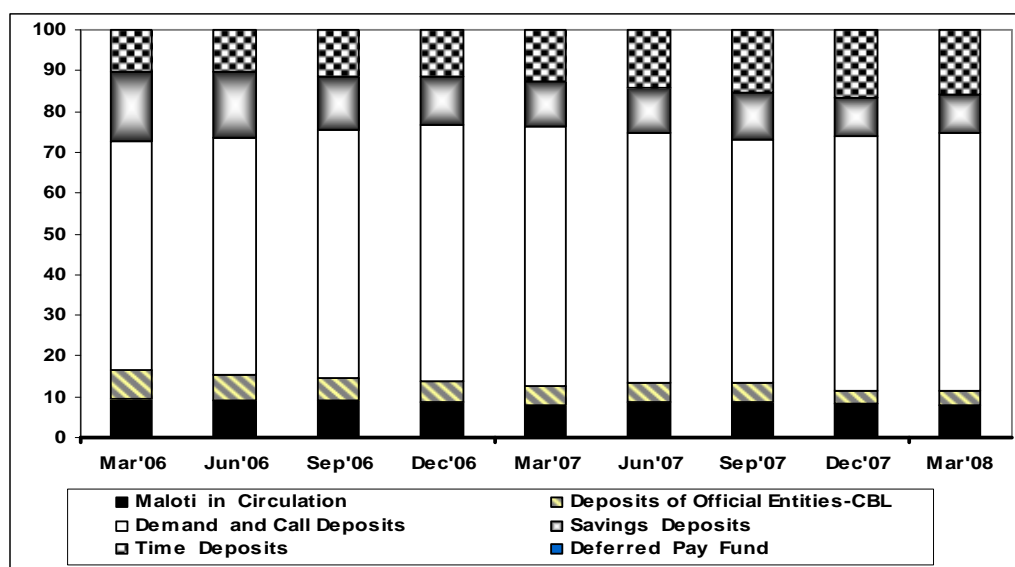
	2007				2008
	Mar	Jun	Sep	Dec	Mar
Money Supply (M2)	3724.7	3726.2	3766.1	4079.1	4176.5
Money (M1)	2836.2	2779.7	2755.4	2988.3	3112.6
Maloti with public	293.1	321.5	335.5	399.3	331.0
Demand deposits <sup>1</sup>	2365.8	2281.2	2242.4	2508.6	2640.5
Deposits of official Entities with CBL	177.4	176.9	177.5	140.4	141.1
Quasi-Money	888.5	946.6	1010.8	1090.8	1063.9
<i>Savings deposits</i>	415.5	415.9	421.4	404.0	411.4
Time deposits	473.0	530.7	589.3	686.8	652.5

<sup>1</sup> includes call deposits

NB: Totals may not tally due to rounding off

**Figure 12: Components of Money Supply**

(Percentage shares)



### Commercial Banks' Deposits by Holder

Total deposits of the private sector and statutory bodies continued on the increase in the quarter ended March 2008, though at a modest rate. This compared with a strong 13.0 per cent growth in the fourth quarter of 2007. Private sector deposits increased significantly, dampening the effect of a 21.3 per cent decline in deposits of statutory bodies.

Relatively liquid deposits of the private sector – demand and savings deposits – rose while time deposits declined by 6.8 per cent.

**Table 9: Commercial Banks' Deposits by Holder**

(Million Maloti: End of Period)

	2007				2008
	Mar	Jun	Sep	Dec	Mar
<b>Total Deposits</b>	3242.1	3216.7	3242.3	3662.7	3693.7
<b>Private Sector</b>	2679.4	2629.3	2582.7	2930.6	3117.7
Demand deposits	1901.5	1812.3	1704.3	1968.8	2186.3
Savings deposits	415.5	415.8	421.4	403.9	411.1
Time deposits	362.5	401.3	457.1	557.9	519.8
<b>Statutory Bodies</b>	562.6	587.4	659.6	732.1	576.2

NB: Totals may not tally due to rounding off

## Liquidity of Commercial Banks

Commercial banks' liquidity is measured by the ratio of liquid assets such as cash, balances with other local banks and short-term securities to the sum of total deposit liabilities, balances due to banks abroad and other borrowings. It represents the ability of the banks to honour customers' demands for cash withdrawals.

The ratio fell from 80.4 per cent in December 2007 to 67.4 per cent in March 2008. The decline in liquidity of commercial banks was reflected in all items of liquid assets shown in Table 10, except balances due from banks in Lesotho. In addition, total deposits held by commercial banks rose during the period.

**Table 10: Components of Commercial Banks' Liquidity**

(Million Maloti: End of Period)

COMPONENT	2007				2008
	Mar	Jun	Sep	Dec	Mar
Maloti Notes and Coins	36.2	29.1	41.9	62.9	55.8
Rand Notes and Coins	23.0	19.3	28.6	45.0	36.4
Balances due from Lesotho Banks	467.0	418.3	474.7	511.4	690.1
Balances due from Foreign Banks	1728.2	1769.3	1884.9	2261.5	1719.1
Clearing Balances with CBL	10.5	112.6	-6.5	-3.0	2.3
CBL Bills	0.0	0.0	0.0	0.0	0.0
Lesotho Government Securities	511.5	520.8	492.5	483.6	452.0

Information given by the liquidity ratio was confirmed by the credit to deposit ratio. The latter increased in the review period, recording 35.0 per cent against 30.9 per cent observed in the preceding quarter. This implied that part of the fall in liquidity was driven by increased extension of credit. Credit to the private sector rose and its increase was stronger than the effect of increased deposits on the ratio (see Table 11).

**Table 11: Consolidated Balance Sheet of Commercial Banks**

(Million Maloti: End of Period)

	2007				2008
	Mar	Jun	Sep	Dec	Mar
Net foreign assets	1832.4	1731.5	1876.1	2185.8	2371.4
Deposits with CBL	131.8	235.0	131.6	132.8	32.0
Credit:	1442.1	1563.7	1629.3	1797.8	1825.5
Statutory Bodies	17.6	34.3	48.3	51.5	50.1
Private Sector	835.3	930.8	1010.8	1213.5	1242.6
Government securities	589.3	598.6	570.2	559.3	532.8
Assets/Liabilities	3406.4	3530.1	3637.0	4116.4	4228.9
Private sector deposits <sup>2</sup>	3242.1	3216.7	3242.3	3662.7	3963.7
Government deposits	113.5	111.2	131.5	154.8	146.6
Capital, reserves & other, net	50.8	202.2	263.3	298.8	118.6

\* o/w means 'of which'

<sup>2</sup> includes statutory bodies' deposits.**Demand for Money****Domestic Credit**

Total credit extended to the private sector and statutory bodies rose by 13.4 per cent in March 2007, from an increase of 7.0 per cent in December. The growth was driven by a 14.1 per cent rise in credit to the private sector. The growth in private sector credit despite increasing lending rates and uncertain global economic developments, is an indication of strong business and consumer confidence which is supported by commercial banks.

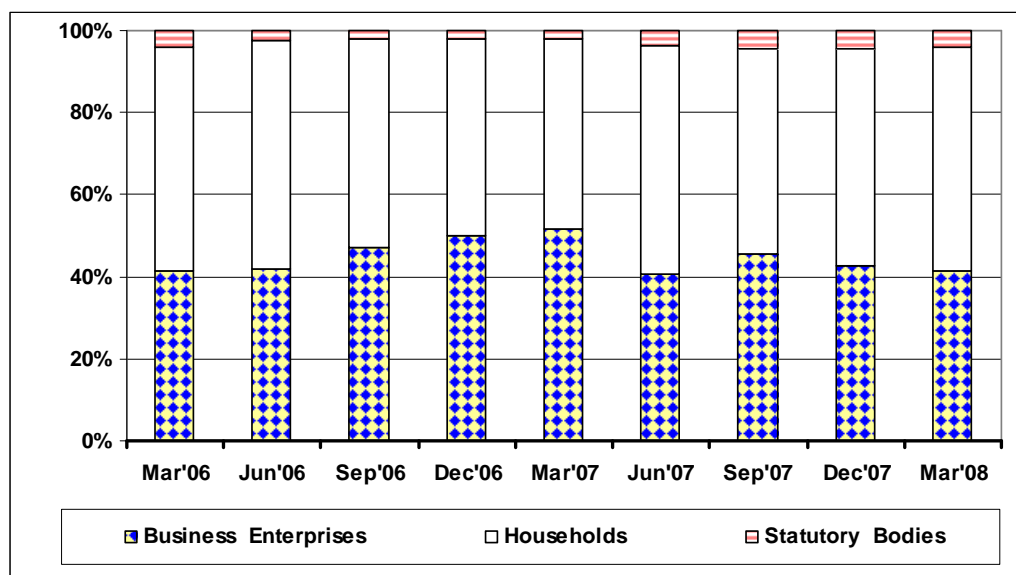
Credit to statutory bodies fell slightly during the period. However, its share remained roughly at the same level as the preceding quarter.



**Table 12: Domestic Credit Excluding Net Claims on Government**  
(Million Maloti: End of Period)

	2007				2008
	Mar	Jun	Sep	Dec	Mar
Domestic Credit	875.9	988.3	1082.8	1158.5	1313.6
Credit to private sector	858.3	954.0	1034.5	1107.0	1263.3
Business enterprises	452.0	473.2	492.6	500.9	578.8
Households	406.3	480.9	541.9	603.2	685.0
Credit to statutory bodies	17.6	34.3	48.3	51.5	50.1

**Figure 13: Distribution of Credit by Holder**  
(Percentage shares)



#### Credit to Private Sector

As Table 12 indicates, credit extended to the private sector sustained its steady increase during the quarter to March 2008. Commercial banks' claims on both business enterprises and households rose, registering 15.6 and 13.6 per cent respectively. As Figure 13 indicates, the stronger household credit growth relative to credit to businesses led to a slight decline in the latter's share to total credit (and lower than the March 2007 peak). An increasing share of credit to households is a welcome development. It implies that financial resources are being spread more evenly amongst deficit entities in the country, given the higher number of households relative to businesses.

## Credit to Statutory Bodies

Following a deceleration in the quarter ended December, credit to official entities declined slightly. Most development projects of statutory bodies are financed directly by government or through foreign loans and grants. For example, the water sector is set to benefit significantly from dam building and conveyance system that is financed largely under the Millennium Challenge Account signed between the US and Lesotho. This means that credit to this sector by domestic banks could remain limited. It gives the banks more scope to extend credit to the private sector as it removes the crowding-out effect.

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

Table 13 demonstrates that the growth in private sector credit was broad-based, covering most sub-sectors of the economy. Three subsectors experienced a decline in credit, 'transport, storage and communications', distributive services and other services. Other services comprises community, social and nonbank financial services as well as the real sector, whereas distributive services entail wholesale and retail trade, hotel and restaurant services. Ironically, these two groups experienced the highest percentage growth rates during the quarter ended December 2007.

Manufacturing recovered from a decline in the previous quarter to record over 10 per cent growth. However, its level of credit access from domestic banks remained below the September 2007 amount. The improvement is encouraging and could be influenced partly by the depreciation of the currency during the quarter.

A strong percentage growth rate was also recorded for credit to the mining subsector. This could be an indication of further expansion of the subsector, which is becoming increasingly important as a contributor to economic growth and a foreign currency earner.

**Table 13: Sectoral Distribution of Credit to Enterprises**

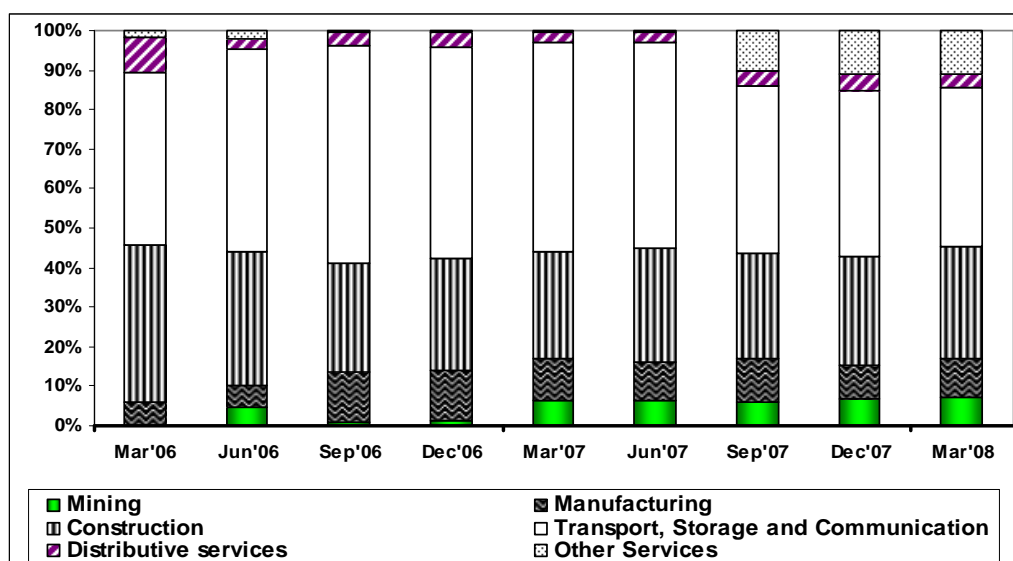
(Million Maloti: End of period)

SECTOR	2007				2008
	Mar	Jun	Sep	Dec	Mar
Mining	26.5	28.6	29.6	32.4	34.62
Manufacturing	44.3	44.0	52.1	42.2	47.56
Construction	112.5	128.3	127.5	132.0	135.97
Transport, Storage and Communication	219.36	234.37	204.48	205.24	192.30
Electricity, gas and water	52.6	52.6	57.6	58.50	75.40
Distributive services	11.3	11.9	17.8	19.5	17.57
Other services	1.5	1.4	50.0	53.6	52.46
All sectors	469.8	502.9	540.9	546.2	559.15

The ‘transport, storage and communications’ category continues to enjoy the largest though declining share of credit from commercial banks. Construction subsector has the second highest share of credit and its share appears to be steady. ‘Other services’ have increased their shares while distributive services, mining and manufacturing have remained steady.

**Figure 14: Commercial Banks' Credit to Business Enterprises**

(Percentage shares)



## Net Claims on Government

The net creditor position of the government with the banking system weakened in March 2008, following a sustained improvement in the preceding quarters (See Table 14). The decline mainly reflected an increase in net claims on government by the Central Bank. Claims by the Bank rose by 24.5 per cent due to revaluation gains on multilateral loans of government on which the Bank is a fiscal agent. In addition, government deposits held with the Central Bank fell during the same period.

Net claims on government by commercial banks declined by 4.5 per cent. Claims fell 4.7 per cent, which was stronger than the decrease in deposits.

**Table 14: Banking System's Net Claims on Government**

(Million Maloti: End of Period)

Holder	2007				2008
	Mar	Jun	Sep	Dec	Mar
Commercial banks	475.7	487.4	438.7	404.5	386.2
Claims on Government	589.3	598.6	570.2	559.3	532.8
o/w MP T Bills <sup>3</sup>	586.2	508.6	480.2	470.3	443.8
Less Government deposits	113.5	111.2	131.5	154.8	146.6
CBL	-2751.0	-2907.8	-3538.8	-3728.8	-3660.0
Claims on Government <sup>4</sup>	268.8	261.5	261.2	263.3	327.7
Less Government deposits	3019.8	3169.3	3800.0	3992.3	3987.7
o/w blocked account	573.9	587.9	590.9	537.8	510.3
Total Net Claims	-2275.3	-2420.4	-3100.1	-3324.3	-3273.8

<sup>3</sup> 'MP T Bills' means monetary policy treasury bills

<sup>4</sup> IMF loans on-lent to the GOL

## Net Foreign Assets

Foreign reserves of the banking system grew significantly during the quarter to March 2008. Net foreign assets of the Central Bank and commercial banks increased, recording 11.5 per cent and 7.8 per cent respectively. Over 80 per cent of the increase in net foreign asset of the Central Bank reflected revaluation gain due to depreciation of the loti. The rest of the growth emanated from a current account surplus driven by rand

compensation, SACU non-duty receipts, strong exports as well as net inflows in capital account driven by a rise in direct investment. Central bank net foreign assets continue to form the largest share of the total at over 70 per cent (see Figure 12).

Commercial banks' foreign assets rose by 7.7 per cent while liabilities rose by 4.9 per cent, leading to an increase in net foreign assets. Currency revaluation effects are smaller on commercial banks' reserves due to a lower holding of non-rand foreign assets.

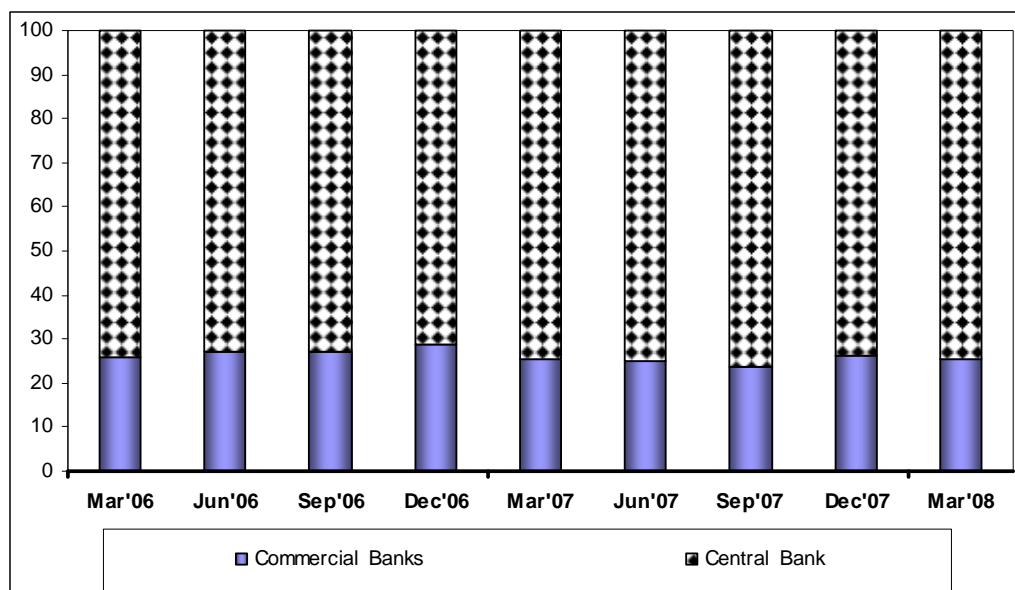
**Table 15: Banking System's Foreign Assets and Liabilities**

(Million Maloti: End of Period)

Holder	2007				2008
	Mar	Jun	Sep	Dec	Mar
A. Commercial Banks	1832.4	1731.5	1876.1	2200.3	2371.4
Foreign Assets	1969.7	1858.2	1971.3	2273.7	2448.4
Foreign Liabilities	-137.2	-126.7	-95.1	-73.4	-77.0
B. Central Bank of Lesotho	5326.8	5233.7	6063.4	6177.3	6887.2
Foreign Assets	5942.6	5799.2	6670.1	6786.3	7560.4
Foreign Liabilities	-615.8	-565.5	-606.7	-609.0	-673.2
Net Total	7159.3	6965.2	7939.5	8377.6	9258.6

**Figure 15: Net Foreign Assets**

(Percentage shares)



## Money Market Developments

### Overview

The fall in the total amount of treasury bills offered for auction continued during the quarter. The decrease was slightly lower than the 5.1 per cent fall in the preceding quarter. Both holdings of the banking sector and the non-bank sector declined during the period under review. The declining holding is driven to a large extent by the gradual decreases in amounts announced for auctions. The treasury bills are issued solely for monetary policy and auction amounts are determined on the basis of the difference between the prevailing levels of official reserves and the desired level. The strong increase in official reserves has reduced the necessity to issue more treasury bills.

**Table 16: Holding of Treasury Bills**

(Face Value; Million Maloti)

Type of Holder	2007				2008
	Mar	Jun	Sep	Dec	Mar
Total	586.9	601.0	590.3	560.2	533.0
Banking System	495.0	508.9	480.4	470.6	458.2
Central Bank	0.4	0.3	0.3	0.3	0.3
Commercial Banks	494.6	508.6	480.1	470.3	457.9
Non-Bank Sector	90.9	92.2	109.9	89.6	74.8
NBFIs	0.4	0.5	0.0	0.3	0.3
Others	90.5	91.7	109.9	89.3	74.5
Memorandum Item					
Average Yield (percent)	7.82	7.79	9.32	9.33	9.76

### Money Market and Short-term Interest Rates

Domestic interest rates continue to follow interest rates movements in South Africa. This is because the two countries are in the monetary union, which entails a currency peg and free movement of funds. Thus divergence of interest rates between the two countries would lead to undesirable shifts of capital and portfolio investments.

South African interest rates continued to increase as monetary authorities in the country hike the repurchase rate to control inflation. The repurchase rate and the prime rate increased by 50 basis points between December 2007 and March 2008. This influenced commercial banks in both countries to hike their lending and deposit rates. Lesotho's prime rate rose by 25 basis points, reducing the margin between prime lending rates of the two CMA members (see Table 16).

Most deposit rates in Lesotho increased by an average of 10 basis points. The average call deposit rate saw the largest percentage increase, jumping 19 per cent during the

period under review. Surprisingly, the average savings deposit rate fell. This could be a correction following relatively strong hikes in the preceding two quarters.

**Table 17: Major Money Market Interest Rates**

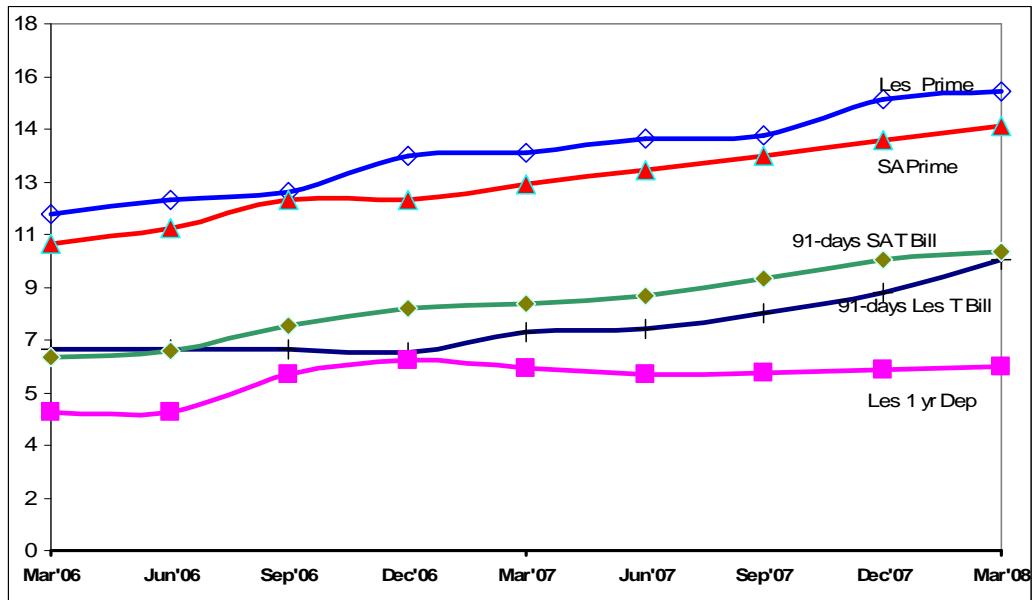
(Percent: End of Period)

Interest Rates by Type	2007				2008
	Mar	Jun	Sep	Dec	Mar
Central Bank					
T Bill Rate – 91 Days	7.46	7.56	8.12	8.82	9.21
Lombard Rate	11.46	11.56	12.12	12.82	13.21
Commercial Banks <sup>5</sup>					
Call	3.83	3.95	4.27	4.37	5.20
Time:					
31 days	3.50	3.90	4.88	4.88	6.25
88 days	4.50	4.52	5.47	5.38	5.55
6 months	4.58	4.77	5.87	5.63	5.75
1 year	5.00	6.00	6.07	6.17	6.28
Savings	2.68	3.21	4.05	4.67	4.59
Prime	13.58	14.08	14.17	15.42	15.67
South Africa*					
Repo	9.00	9.50	10.00	10.50	11.00
T Bill Rate – 91 Days	8.41	8.68	9.30	9.96	10.29
Marginal Lending Rate	14.00	14.50	15.00	15.50	16.00
Prime	12.50	13.00	13.50	14.00	14.50

\* Figures for South Africa were obtained from the SARB

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

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



## V. Government Finance

### Summary of Budget Outturn

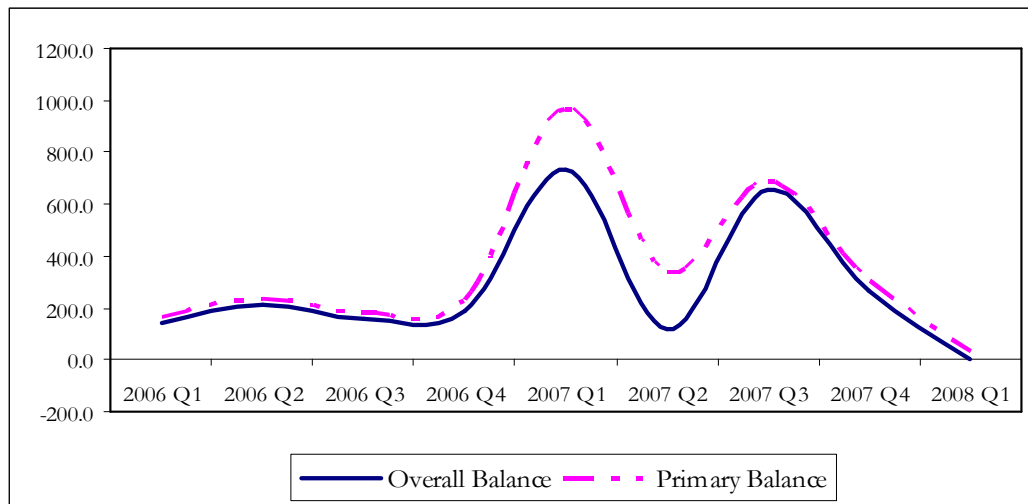
During the period under review government budgetary operations resulted in an estimated balanced budget. The primary balance was slightly higher at 1.0 per cent of GDP<sup>2</sup>. This was mainly attributable to, among others, an improvement in implementation of development projects. Most of the projects are financed on concessional terms to cap increases on interest payments.

Government expenditure and net lending grew by 15.5 per cent during the same period. This item accounted for 59.7 per cent of GDP, in contrast to 51.7 per cent recorded in the previous period, with revenue registering the same percentage. As a share of the total, recurrent expenditure stood at 78.8 per cent, compared with 21.2 per cent of expenditure on capital formation.

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



**Figure 17: Primary Balance versus Overall Balance**



### Revenue

SACU revenue continued to dominate tax revenue during the period under review. This sub-item occupied 64.1 per cent of tax revenue, compared with 20.2 per cent and 15.4 per cent from income tax and Value Added Tax (VAT), respectively. Revenue, including grants, fell by 1.8 per cent, mainly attributable to 11.0 per cent drop in non-customs revenue. The drop in this revenue item largely reflected a 19.8 per cent and 78.1 per cent decreases in taxes on goods and services, and other taxes category respectively.

**Table 18: Government Revenue**

(Million Maloti)

	2006/07	2007/08			
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec Revised	Jan-Mar* Preliminary
Total Revenue and Grants	2269.5	1885.0	2058.0	1790.7	1758.5
Total Revenue	2261.6	1800.0	1949.0	1766.2	1740.9
<i>Tax Revenue</i>	2099.4	1598.6	1782.3	1562.5	1496.3
Customs	1626.3	959.1	1220.5	959.1	959.1
Non-customs	473.2	639.6	561.8	603.4	537.3
Income Taxes	233.1	407.3	289.4	293.4	301.8
Taxes on goods & services	199.4	227.2	261.3	287.6	230.5
Other Taxes	40.7	5.2	11.1	22.4	4.9
<i>Non-Tax Revenue</i>	162.2	201.3	166.8	203.8	244.5
Of which: Water royalties	63.6	63.6	80.7	81.0	67.0
Grants	7.9	85.0	109.0	24.5	17.6

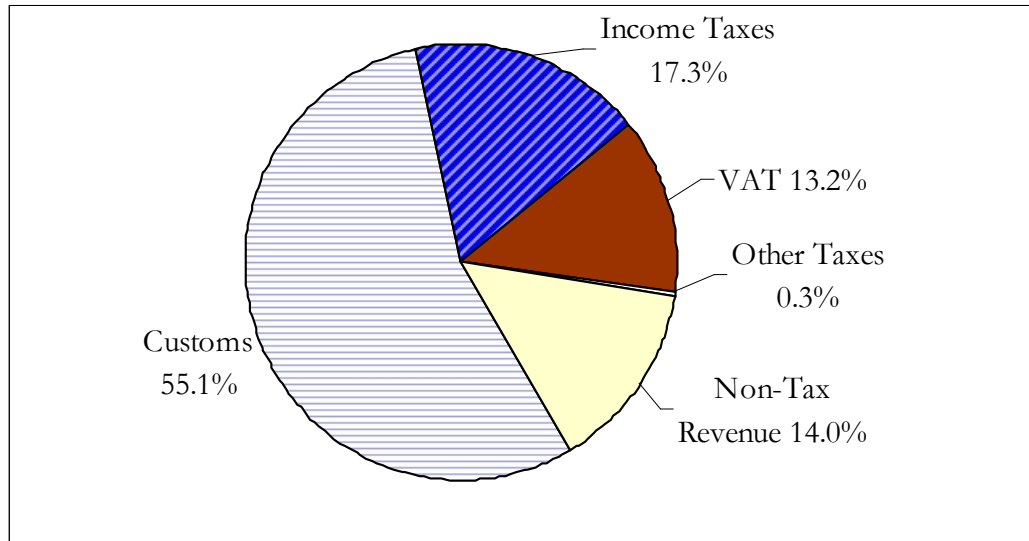
**Source:** Ministry of Finance and Development Planning (MoFDP)

\*Preliminary estimates

VAT declined by 15.0 per cent in contrast to an 18.1 per cent surge observed in the previous period. This mainly reflected economic activities during this period following the public's desire to shop during the festive season. Income tax collections rose by 2.9 per cent compared with 1.4 per cent recorded at the end of December 2007, largely on account of 14.5 per cent increase in personal income taxes. However, a 36.6 per cent decrease in company income tax component moderated the increase.

Non-tax revenue grew by 20.0 per cent during the period under review, mainly on account of receipts of Rand Monetary Compensation which is remitted once a year. This item also comprises administrative fees, royalties, dividends, interest on loans on-lent to public enterprises and other property income. Development grants remained relatively small during the review period. However, this item is expected to improve in the future with implementation of donor supported development projects.

**Figure 18: Sources of Government Revenue**



### **Expenditure**

Government expenditure and net lending rose by 15.5 per cent during the review period, mainly reflecting a 14.8 per cent growth in recurrent expenditure. The increase in recurrent expenditure was driven by transfers and subsidies and expenditure on goods and services.

Expenditure on goods and services responded to both inflation developments observed during the quarter and the prevalent food crisis, while transfers and subsidies was largely attributed to Government reaction to increased demand for services at central and local authorities.

The level of subsidies and transfers extended during the period under review rose by 28.1 per cent. This expenditure category is directed to, among others, educational entities, health establishments and finances of pensions and gratuities. Subventions and transfers surged by 34.9 per cent during the review period, while pensions and gratuities declined by 7.6 per cent.

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

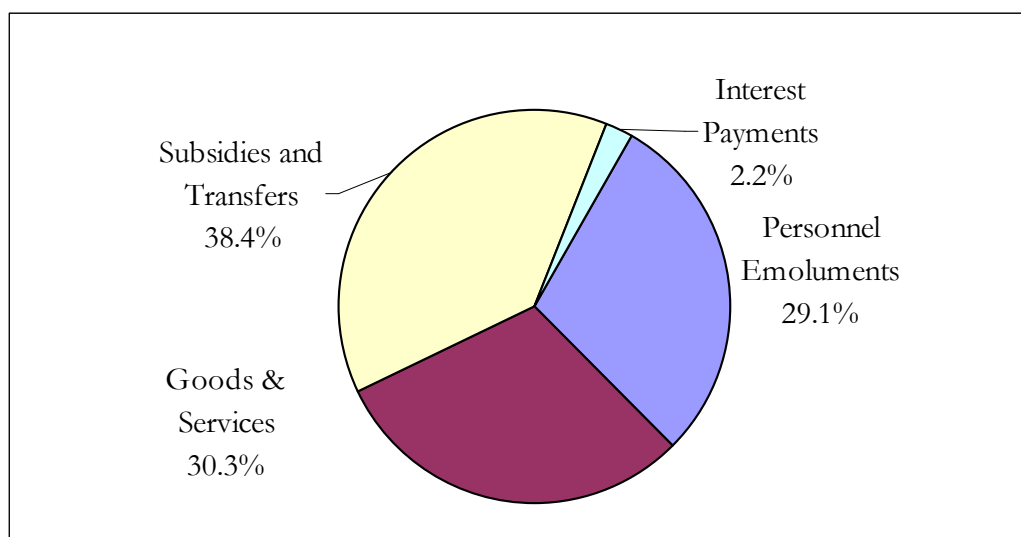
	2006/07	2007/08			
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec Revised	Jan-Mar* Preliminary
Total Expenditure & Net Lending	1536.4	1766.3	1406.2	1523.1	1759.8
Recurrent Expenditure	1322.8	1437.5	1120.1	1207.7	1386.2
Personnel Emoluments	334.1	387.7	402.3	407.1	403.4
Interest Payments	234.4	219.7	36.9	34.8	30.9
Foreign	221.1	204.0	11.5	14.2	12.5
Domestic	13.3	15.7	25.4	20.6	18.4
Other Expenditure	754.4	830.1	680.9	765.7	952.0
Capital Expenditure	215.6	329.9	287.9	315.5	373.6
Net Lending	-2.0	-1.1	-1.8	0.0	0.0

**Source:** MoFDP

\*Preliminary estimates

Following a slowdown in the previous quarter, capital expenditure grew by 18.4 per cent during the period under review. Government continued to dominate this expenditure category at 87.7 per cent, against 7.6 per cent and 4.7 per cent funded by loans and grants, respectively. However, this expenditure item remained below the budget.

**Figure 19: Recurrent Expenditure by Type**



### Financing

Government budgetary operations resulted in almost a balanced budget during the period under review. This was largely on account of increased recurrent expenditure, improvement in implementation of government projects, and a decline in non-SACU revenue. The decrease in the latter increased reliance on SACU revenue.

**Table 20: Government Financing**

(Million Maloti)

	2006/07	2007/08			
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec Revised	Jan-Mar* Preliminary
Financing	-733.1	-118.7	-651.8	-267.6	1.4
Foreign	32.7	25.6	18.9	-23.0	-34.4
Loan drawings	78.3	81.5	62.0	30.7	28.3
Amortization	-45.6	-55.9	-43.1	-53.7	-62.7
Domestic	-765.8	-144.3	-670.7	-244.6	35.8
Bank Financing	-776.5	-145.2	-679.7	-224.2	50.6
Non – Bank	10.7	0.9	9.0	-20.3	-14.8

Source: MoFDP

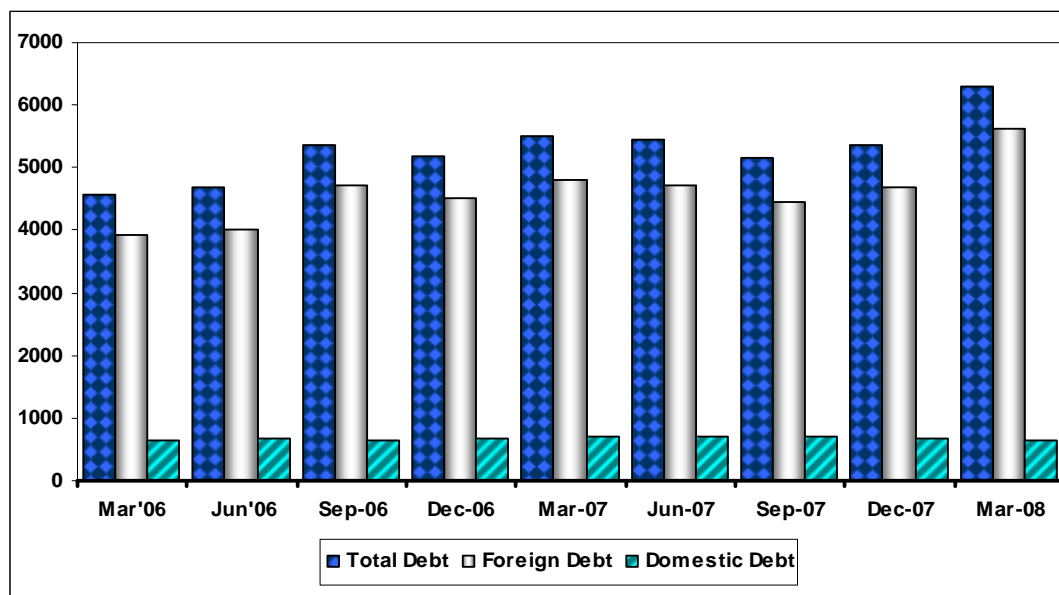
## Public Debt

### Overview

The total stock of debt increased by 17.2 per cent at the end of March 2008, largely driven by the external component. As a percentage of GDP, public debt was estimated at 53.2 per cent, compared with 45.4 per cent recorded in the previous period. It is lower than the 60 per cent threshold set by SADC under the macroeconomic convergence criteria. Foreign debt service ratio virtually remained unchanged during the review period. This is calculated as the ratio of debt service to exports of goods and services; it may include factor income depending on how significant that is to the overall value.

External debt continued to increase against the domestic component, accounting for 89.7 per cent compared with 10.3 per cent of the latter. As a result, public debt is vulnerable to foreign exchange volatility.

**Figure 20: Outstanding Public Debt**  
(Million Maloti: End of Period)



### External debt

External debt is defined as the liability of Government to creditors outside the country, or debt denominated in foreign currency. External debt is broken down into concessional and non-concessional. During the period under review, external debt increased by 20.2 per cent, following a 4.8 per cent growth in the previous quarter. The rise was attributed to 23.5 per cent rise in debt from multilateral agencies which was partly driven by currency depreciation against the major currencies with which debt is contracted. As a result, multilateral debt stood at 92.6 per cent of external debt, compared with 90.2 per cent in the last quarter while that from bilateral sources and financial institutions dropped further to 4.9 per cent and 1.4 per cent respectively. Consequent to a 4.2 per cent increase at the end of December 2007, concessional debt jumped by 21.2 per cent during the review period and increased its share to 94.4 per cent

of total external debt. This bodes well for Lesotho as it plays a critical role to ease debt service burden, and also to meet debt sustainability indicators.

**Table 21: External Debt**  
(Million Maloti)

	2007				2008
	QI	QII	QIII	QIV	QI
External Debt	4794.3	4725.0	4464.6	4680.6	5626.5
Bilateral Loans	349.5	346.6	224.9	296.3	275.1
Concessional	292.3	299.7	188.1	250.6	234.0
Non-concessional	57.2	46.9	36.8	45.7	41.1
Multilateral Loans	4282.7	4230.8	4109.1	4220.8	5210.7
Concessional	3756.8	4119.2	3990.0	4099.3	5051.1
Non-concessional	525.9	111.6	119.1	121.5	159.6
Financial Institutions	98.7	87.6	81.4	98.8	81.3
Concessional	2.1	29.4	24.4	29.4	24.0
Non-concessional	96.6	58.2	57.0	69.4	57.3
Suppliers' Credit	63.4	60.0	49.2	64.7	59.4

**Source:** MoFDP

### Domestic Debt

Domestic debt is that part of public debt which is denominated in local currency. This component maintained a downward trend, dropping by 4.0 per cent during the period under review, following a 4.3 per cent observed in the previous quarter. This was a result of a decrease in the holding of Government securities by both the banking and non-banking sectors. The holdings of domestic debt by the non-banking sector declined by 16.5 per cent, while that held by the banking sector dropped by 2.6 per cent.

Short-term debt comprised Treasury bills issued for monetary policy purposes, while long-term debt represented a ten year bond issued to finance the restructuring of Lesotho Bank in 1999. Long-term debt remained unchanged from the level recorded in the previous quarter. As a percentage of GDP, domestic debt dropped marginally to 5.5 per cent, and further declined by 2.3 percentage points to register 10.3 per cent of total debt stock.

## VI. Foreign Trade and Payments

### Overview

The external sector position improved significantly during the quarter under review. The overall balance, in seasonally adjusted terms, widened to a surplus equivalent of M769.6 million from M124.3 million registered in the previous quarter, as a result of improvement in the current transfers coupled with capital and financial account. The transactions balance, which represents the overall balance excluding the effects of currency fluctuations, narrowed to a seasonally adjusted surplus of M173.5 million from M199.9 million recorded in the previous quarter.

### Current Account

The current account continued to show a surplus in the first quarter of 2008. It registered a surplus of M517.6 million compared with M328.4 million recorded in the previous quarter. This largely emanated from increases in income as well as current transfers.

**Table 22: Current Account Balance**  
(Million Maloti)

	2007				2008
	QI	QII	QIII	QVI*	QI <sup>+</sup>
<b>I. Current Account</b>	697.86	36.83	440.15	328.39	517.63
<b>(a) Goods</b>	-1397.28	-1360.30	-1489.23	-1382.65	-1399.37
Merchandise exports f.o.b.	1305.93	1244.83	1656.58	1456.93	1445.27
Of which diamonds	277.62	178.54	341.21	357.30	291.69
Of which textiles & clothing	826.05	797.02	991.10	842.01	877.11
Other exports <sup>#</sup>	202.26	269.27	324.27	257.62	276.37
Merchandise imports f.o.b.	-2703.21	-2605.13	-3145.81	-2839.58	-2844.64
<b>(b) Services</b>	-65.97	-42.19	-61.27	-66.48	-63.03
<b>(c) Income</b>	553.42	591.72	849.22	950.00	1025.02
<b>(d) Current Transfers</b>	1635.39	875.65	1169.60	827.52	955.01

\* Revised estimates

<sup>+</sup> Preliminary estimates

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



### **Merchandise exports**

Merchandise exports declined by an unadjusted 0.8 per cent following another decline of 12.2 per in the previous quarter. The continued decline in exports is in line with the slow down in the US economy where a large portion of Lesotho's exports of manufactured goods is destined. In addition, diamond exports which accounted for 20.2 per cent of total merchandise exports declined during the period under review. On an annual basis, merchandise exports increased by 10.7 per cent.

### **Merchandise imports**

Merchandise imports, in seasonally adjusted terms, declined by 0.02 per cent in the review period compared with a rise of 11.5 per cent registered in the previous quarter. This is in line with the slow down in Lesotho's manufacturing sub-sector. On an annual basis, merchandise imports increased by 5.2 per cent. The annual increase in imports emanated from a rise in government capital expenditure.

**Table 23: Value of Exports by Section of the S.I.T.C. #**  
(Million Maloti)

COMMODITY	2007				2008
	QI	QII	QIII	QIV*	QI <sup>+</sup>
0. Food & Live Animals	57.54	60.69	38.45	49.00	61.57
Cattle	0.27	0.45	0.02	0.00	0.08
Wheat Flour	15.92	23.60	19.81	21.53	23.60
Maize Meal	15.09	6.52	6.66	7.86	12.41
Other	26.26	30.57	11.96	19.61	25.48
1. Beverages & Tobacco	30.29	40.98	46.73	34.67	37.24
Beverages	30.29	40.98	46.69	34.67	37.24
2. Crude Materials	7.17	1.98	2.85	3.09	3.77
Textiles fibres	7.17	1.98	2.85	3.09	3.77
Of which Wool	7.07	1.19	0.97	3.09	3.08
Of which Mohair	0.09	0.80	1.88	0.00	0.69
3. Mineral Fuels & Related Products	0.32	0.84	0.35	0.05	0.39
4. Chemicals	0.67	0.60	1.59	0.28	0.79
5. Manufactured Goods	297.81	209.03	367.23	368.54	320.44
Of which diamonds	277.62	178.54	341.21	357.30	291.69
Of which textiles yarn and fabric	13.57	22.09	15.98	8.06	18.31
Other manufactured goods	6.62	8.4	10.04	3.18	10.44
6. Machinery & Transport Goods	82.70	112.69	178.23	210.62	149.44
7. Miscellaneous					
Manufactured Goods	826.82	815.55	1017.69	790.60	869.43
Of which clothing accessories	805.31	772.94	972.27	778.43	835.62
Other	21.51	42.61	45.42	12.19	33.81
8. Unclassified Goods	2.93	2.47	3.46	0.08	2.20
<b>TOTAL EXPORTS</b>	<b>1305.93</b>	<b>1244.83</b>	<b>1656.58</b>	<b>1456.93</b>	<b>1445.27</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 destination of Lesotho's exports during the review quarter. Its share rose to 39.6 per cent from 36.9 per cent observed in the previous quarter. Africa, in particular, SACU region was the second recipient of Lesotho's exports at a share of 35.5 per cent compared with 35.2 per cent registered in the previous quarter. The third largest portion of Lesotho's exports was destined to the European market where a large amount of Lesotho diamond exports is destined. Its share declined to 20.5 per cent from 24.7 per cent recorded in the previous quarter. The proportion of exports to the Asian market remained negligible at a share of 0.7 per cent from 0.2 per cent registered in the previous quarter.

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

(Million Maloti)

Region	2007				2008
	QI	QIII	QIII	QIV*	QI <sup>+</sup>
World	1305.93	1244.83	1656.58	1456.93	1445.27
Africa	297.30	413.22	535.26	557.15	566.54
SACU	272.33	363.02	513.45	512.51	513.07
SADC	2.50	1.99	1.21	16.13	14.45
Other	22.47	48.21	20.60	28.55	39.02
Europe	280.68	182.34	346.23	360.34	295.85
EC	280.68	182.34	346.23	360.34	295.85
America	725.14	642.38	770.76	537.16	572.92
Asia	2.81	6.89	4.33	2.29	9.96

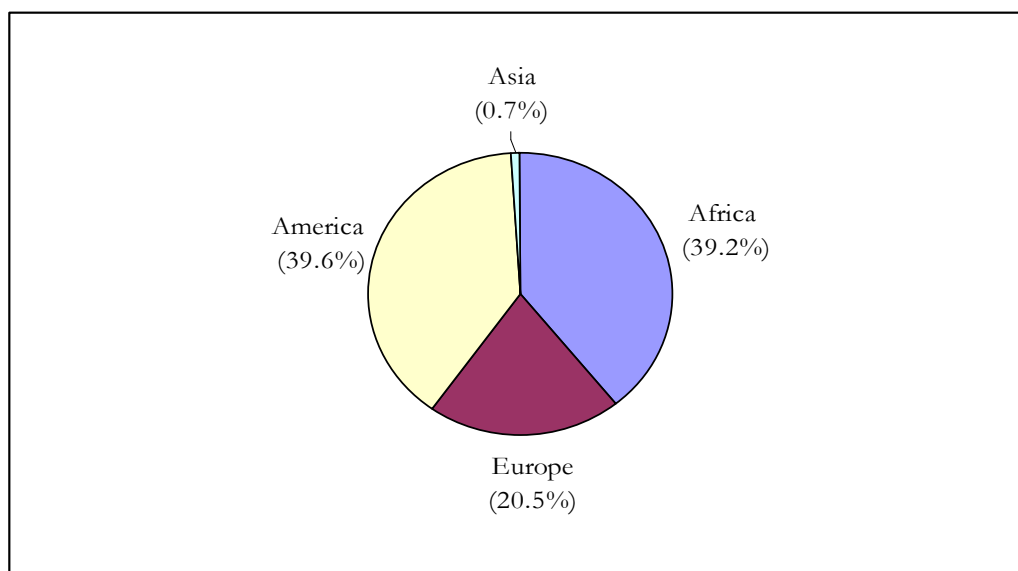
Note: Total may not tally due to rounding

\* Revised estimates

+ Preliminary estimates

Asia remains a possible market for export diversification purposes. This is especially important given the region's current strong growth and its future potential. Policy targeting growth of exports to this region will go a long way in sustaining the country's strong export performance.

**Figure 21: Direction of Merchandise Exports**



### **Services Account**

Net services registered a lower outflow of M63.0 million during the quarter under review, compared with a revised outflow of M66.5 million recorded in the previous quarter largely due to a decline in outflow of transportation services.

### **Travel**

During the first quarter of 2008, net travel further declined by 6.7 per cent following a decline of 33.0 per cent in the previous quarter. Rising fuel costs and transport fares will continue to exert downward pressure on travel flows. Travel receipts fell by 2.1 per cent during the quarter under review compared with a decline of 23.0 per cent observed in the previous quarter, due to a decrease in the car hire receipts. Travel payments rose by 4.9 per cent in contrast with a fall of 0.2 per cent registered in the previous quarter mainly due to an increase in government international subsistence allowance.

### **Income**

Net income rose by 7.9 per cent during the review quarter compared with a rise of 11.9 per cent observed in the previous period, mainly due to an increase in interest earned by CBL which rose by 5.9 per cent.

### **Labour income**

Labour income, in seasonally adjusted terms, fell by 2.4 per cent during the period under review in contrast with a rise of 1.3 per cent registered in the previous quarter. On an annual basis, labour income increased by 28.1 per cent. This annual increase can be accounted for by an annual increase of 29.3 per cent in miners' remittances. This is partly attributed to an increase in miner workers' earnings following wage negotiations that took place at the end of last year.

## **Investment Income**

Net Investment income registered a net inflow equivalent to M161.8 million during the quarter under review, compared with an inflow of M155.3 million recorded in the previous quarter, due to lower payments of interest on official loans together with a rise in receipts on interest earned by CBL.

The increase in regional interest rates boosted the rand portfolio of CBL reserves, and the depreciation of the loti increased the value of interest earned outside the CMA region. Furthermore, strong SACU revenue has increased official reserves, the base on which foreign currency interest is earned.

Investment income inflows fell by 0.3 per cent as a result of a decline in interest earned by commercial banks. Investment income outflows also declined by 20.4 per cent in the review period following a fall of 4.2 per cent observed in the previous quarter. This was mainly attributable to a decrease in interest paid on official loans which recorded 11.9 per cent.

## **Current Transfers**

Current transfer in seasonally adjusted terms, accelerated to M927.4 million during the quarter under review compared with M834.9 million registered in the previous quarter. The observed performance emanated from SACU non-duty receipts coupled with rand compensation receipt, which is payment for loss of seigniorage due to circulation of the Rand in the country.

## **Capital and Financial Account**

The capital and financial account improved to a net inflow of M310.4 million during the quarter from a revised net outflow of M83.2 million recorded in the previous quarter, due to a rise in direct investment and a decline in commercial banks foreign assets. Commercial banks foreign assets registered an outflow of M189.3 million from an outflow of M302.4 million registered in the previous quarter.

**Table 25: Capital and Financial Account**  
(Million Maloti)

	2007				2008
	QI	QII	QIII	QIV*	QI <sup>+</sup>
<b>I. Capital and Financial Account</b>	278.94	393.09	248.60	-83.21	310.36
Capital Account	7.90	85.00	109.00	24.50	17.60
Financial Account	271.04	305.49	136.40	-107.71	292.76
Special Financing – LHWP	37.79	45.56	37.91	50.97	37.79
<b>II. Reserve Assets</b>	-1023.89	143.38	-870.86	-116.19	-774.19

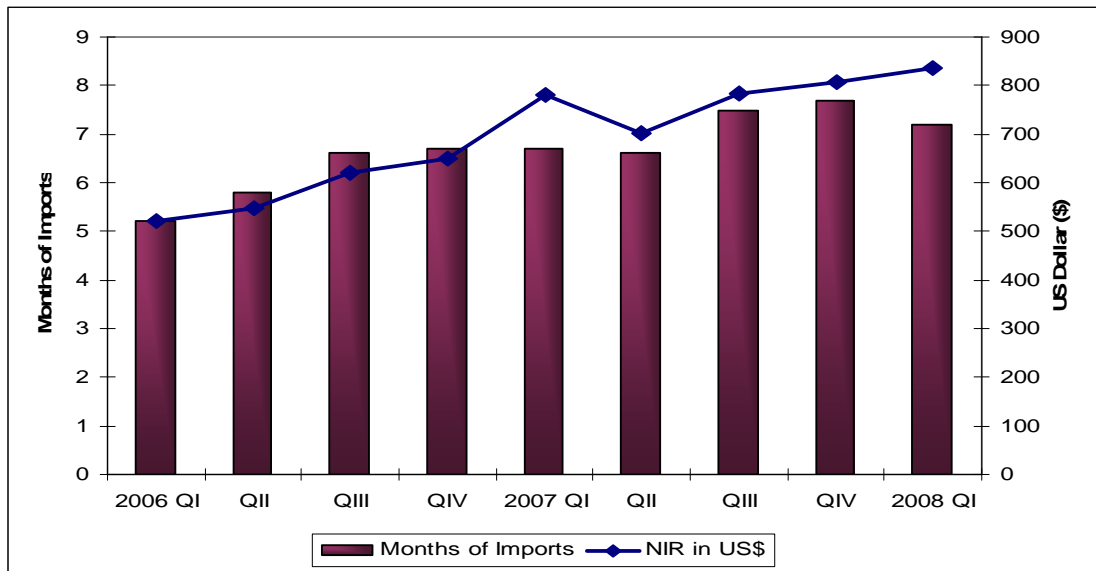
\* Revised estimates

+ Preliminary estimates

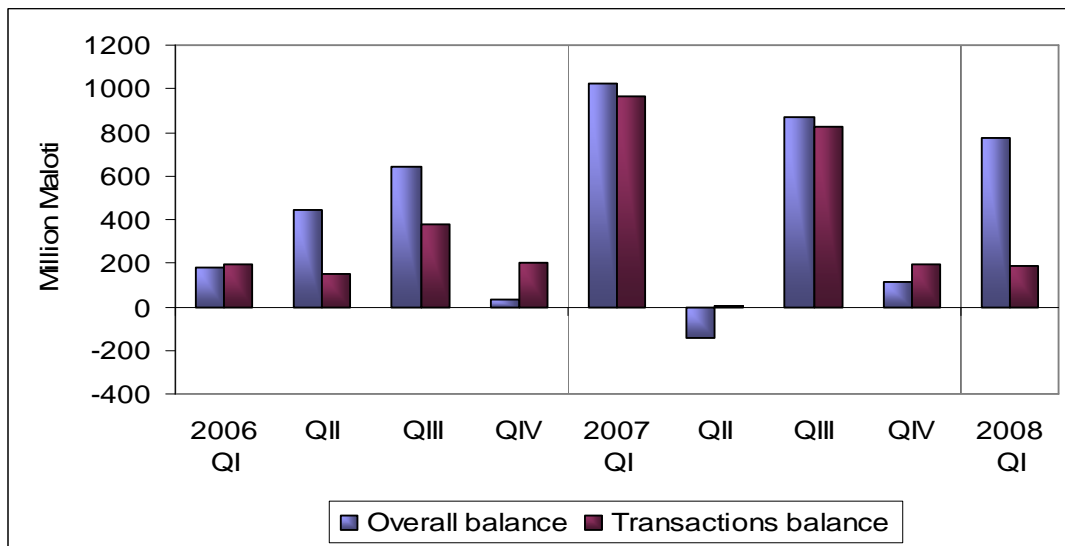
### **Reserve Assets**

Gross reserves rose to M7.6 billion during the quarter from M6.8 billion registered in the previous quarter. However, measured in months of imports cover, official reserves fell to 7.2 months in the review quarter from 7.7 months observed in the previous quarter. The Net International Reserves (NIR) increased by 3.9 per cent to US\$837.3 during the period under review.

**Figure 22: Reserve Assets**



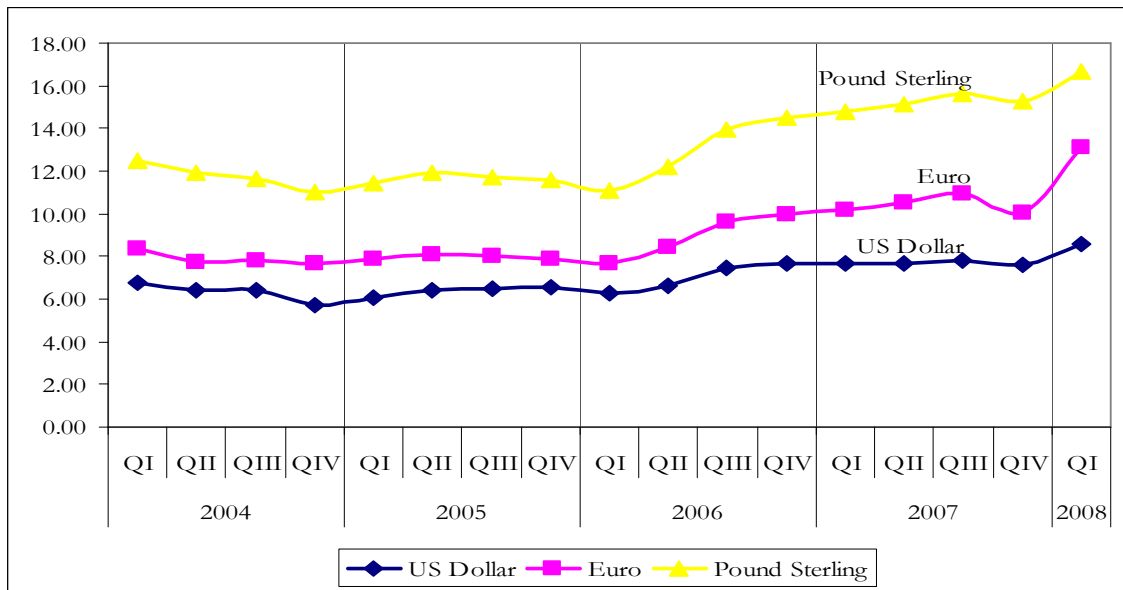
**Figure 23: Balance of Payments**



**Exchange Rates**

The Loti/Rand showed some weakness against major currencies during the quarter under review. In real terms, the Loti depreciated by 13.2 per cent against the US dollar, due to among other factors, shortage of electricity power which clouded the outlook for exports and economic growth of SA. The Loti also depreciated by 30.5 per cent and 9.5 per cent against the Euro and Pound Sterling, respectively.

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





## **VII. Appendix**

### **Statement of the Monetary Policy Committee**

09 January 2008

Issued by Dr. M. P. Senaoana, Governor of the Central Bank of Lesotho, at a meeting of the Monetary Policy Committee in Maseru

#### **1. Introduction**

At its 12<sup>th</sup> meeting held on 9<sup>th</sup> January 2008, the Monetary Policy Committee (MPC) of the Central Bank of Lesotho (CBL) discussed the latest monetary policy operations and inflation-related developments to ensure that the price stability mandate of the Bank is being achieved. The Committee maintained the NIR target at US\$450-500 million.

#### **2. Inflation Developments**

The Committee observed that inflationary pressures were still evident in the economy. The inflation rate was recorded at 9.3 per cent in November 2007 compared with 8.6 per cent at the end of July 2007. The food and non-alcoholic beverages category continue to be the main driver of the inflationary situation. The current food shortages are due to the drought conditions and the increased global demand for biofuels which are produced from cereals. Furthermore, the price of crude oil also continues to be high, thus exerting pressure on production and distribution costs. During the month of December the price of crude oil reached a peak of US\$90.9 and averaged US\$87.2 per barrel compared with US\$89.21 in September 2007.

The Committee noted that inflation in South Africa continues to be above the South African Reserve Bank (SARB) inflation target of 3 to 6 per cent. Inflation rate in South Africa was recorded at 7.9 per cent in November 2007. This development has led the South African Reserve Bank (SARB) Monetary Policy Committee to raise the repo rate by a further 50 basis points to 11.0 per cent in December.

#### **3. Prospects for the Maintenance of Price Stability**

##### **a. Balance of Payments**

The Committee noted that the Government of Lesotho with the assistance of the European Union (EU) and Food Agricultural Organisation (FAO) are implementing an 'inputs subsidy program' for the 2007/2008 cropping season to assist farmers to cope. In addition, the basic food items have been subsidised by 20 per cent for the period October 2007 to March 2008.

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 increase in current transfers and the continued improvement in the private sector foreign exchange earnings.

##### **b. Fiscal Balance Outlook**

Government budgetary operations are an important component of the cyclical factors affecting the balance of payments outlook. Government budgetary operations are estimated to have resulted in a surplus equivalent to 21.7 per cent of GDP. The surplus

was mainly due to the back payment of customs revenue and the decline in foreign interest payments.

#### **4. Monetary Policy Stance**

The strong foreign currency inflows from customs receipts and exports are contributing to the built up of the foreign exchange reserves. The NIR position as at December 2007 was US\$806.70 million. At this level, NIR is US\$306.70 million above the current NIR target. The Committee decided to keep the NIR target unchanged at US\$450- 500 million.

M.P. Senaoana (PhD)

**GOVERNOR**

**09 January 2008**

## **VIII. Statistical Appendix**