

CENTRAL BANK OF LESOTHO

QUARTERLY REVIEW

MARCH, 2013

**MASERU
KINGDOM OF LESOTHO**

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I. Executive Summary

The global economic activity remained weak during the first quarter of 2013. The weakness was noticeable in the advanced economies, particularly in the Euro area, while the United States (US) and Japan registered marginal rates of growth. Economic activity in emerging markets economies remained relatively strong, but was faced with challenges of lower external demand. International commodity prices moved in opposite directions, with price of oil and platinum increasing while price of gold and agricultural products declined during the review quarter.

Economic activity in the world's largest economy, the US, grew at a moderate pace of 1.8 per cent in the first quarter of 2013 compared with 1.7 per cent in the previous quarter. The growth reflected largely an increase in personal consumption expenditures resulting from a rise in personal income, an upturn in private inventory investment as well as exports. Inflation remained muted in the US in line with moderate economic activity. The slowdown in inflation rate was due to a fall in energy prices. The Euro zone continued to be mired in recession on the back of fiscal austerity. Real GDP growth was -1.0 per cent in March 2013 compared with -0.9 per cent recorded in the previous quarter. Much like the US, inflation pressures remained subdued in the Euro zone dropping from 2.2 per cent in December 2012 to 1.7 per cent at the end of March 2013.

In the emerging market economies, although economic activity slowed down, it was relatively stronger compared to the US and the Euro Zone. China grew at a rate of 7.7 per cent following, a slight moderation from the 7.9 per cent growth in the previous quarter. India on the other hand picked up from the 4.5 per cent of the last quarter to a preliminary 5 per cent for the quarter under review. During the first quarter of 2013, international crude oil prices increased due to cold weather conditions in the US. The price of gold declined in response to a fall in global demand during the period. Platinum prices increased as a result of weak global supply, while agricultural prices dropped on account of favourable weather conditions in the major growing regions.

During the first quarter of 2013, the Lesotho economy remained relatively weak. Production by the mining sector declined on account of low production by the Letšeng Mine. Activity in the textiles and clothing industry, proxied by exports of textiles and clothing to the US, improved. The value of sales turnover fell moderately though it remained strong while the telephone traffic statistics also showed a decline. Employment by LNDC assisted companies' employment increased while declines were observed in government employment and migrant mineworkers. Overall inflation accelerated though food prices increased at a lower rate compared to the quarter ending in December 2012.

Money supply contracted by 8.2 per cent during the quarter under review following a 6.9 per cent increase observed in the fourth quarter of 2012. The decrease in money supply was as a result of a 0.4 per cent contraction in net foreign assets and a 20.0 per cent decrease in domestic claims including net claims on government. Interest rates remained fairly stable in line with interest rate developments in the region.

Quarterly estimates indicate that government budgetary operations recorded a surplus equivalent to 8.1 per cent of GDP in the review quarter. The surplus largely reflects improved revenue collection and a moderation in government expenditures. Overall debt, as proportion of GDP,

fell from 40.6 per cent to 37.0 per cent. The decrease was largely due to a fall in external debt. The current account balance widened further during the first quarter of 2013 compared to the last quarter of 2012. It registered a deficit of M1.1 billion in the first quarter of 2013 against that of M655.0 registered in the quarter ending in December 2012. As a percentage of GDP, the current and previous deficits are 22.2 per cent and 13.2 per cent respectively. The deficit was driven by the deterioration in the trade balance as overall imports increased and exports declined. Official reserves, in months of import cover, declined from 4.8 to 4.6 months.

II. International Economic Developments

The global economic activity and employment creation remained weak in the first quarter of 2013. The weakness was noticeable in the advanced economies, particularly in the Euro area, while the United States (US) and Japan economic activities rebound, although at the slower pace during the first quarter of 2013 compared to the previous quarter. The economic activity in emerging markets economies continued to be the driver of global economic growth, but it was faced with challenges of lower demand which resulted largely from weak economic growth in advanced economies as they constitute major exports markets. International commodity prices depicted mixed signals, with prices of oil and platinum increasing while prices of gold and agricultural products declined during the review quarter.

United States (US)

The real GDP expanded by 1.8 per cent in the first quarter of 2013 compared with 1.7 per cent in the previous quarter. The growth reflected largely an increase in personal consumption expenditures resulting from a rise in personal income, an upturn in private inventory investment as well as exports.

Inflation rate decelerated to 1.5 per cent in March 2013 from 1.7 per cent in December 2012. This was despite the quantitative easing (QE) stance that the Federal Reserve has adopted. The slowdown in inflation rate was due to a fall in gasoline and fuel prices. The Federal Open Market Committee (FOMC) decided to keep its benchmark lending rate constant at 0.25 per cent during the quarter. This was in line with the Fed's commitment to keep interest rates low at least until unemployment falls to 6.5 per cent.

Unemployment rate declined from 7.8 per cent recorded in the previous quarter to 7.6 per cent in March 2013, the lowest since 2008. The slowdown was attributed to a fall in labour force participation as more people stopped looking for work and no longer counted as unemployed. This is, however, a methodological issue as no new employment actually took place during the review period.

Table 1: Key World Economic Indicators

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	QIV: 2012	QI: 2013	QIV: 2012	QI: 2013	QIV: 2012	QI: 2013	QIV: 2012	QI: 2013
US	1.7	1.8	1.7	1.5	0.25	0.25	7.8	7.6
Euro Area	-0.9	-1.0	2.2	1.7	0.75	0.75	11.8	12.1
Japan	0.4	0.4	-0.1	-0.9	0.00	0.00	4.2	4.1
SA	2.5	1.9	5.7	5.9	5.00	5.00	24.5	25.2
China	7.9	7.7	2.5	2.1	6.00	6.00	4.1	n/a
India	4.7	4.8	7.2	6.0	8.00	7.50	n/a	n/a

Source: Bloomberg, The Economist, STATSSA and SARB, OECD National Accounts Statistics (database), US Bureau of Economic Analysis, National Bureau of Statistics of China, Statistics Bureau of Japan, Government of India Department of labour

Euro-Area¹

In the Euro Area, economic activity remained weak in the first quarter of 2013, due to austerity measures², which have negatively affected the area's peripheral economies. Growth deteriorated and the burden of debt escalated. Real GDP growth was -1.0 per cent in March 2013 compared to -0.9 per cent recorded in the previous quarter. Member countries which noticeably experienced the drop in economic activity were Cyprus, Greece, Finland, France, Italy, Netherlands and Portugal while Germany, which is the largest economy in the area, grew marginally.

Inflation rate slowed down to 1.7 per cent in March 2013 from 2.2 per cent in December 2012, due to mainly lower oil prices as well as a slowdown in categories such as transport fuel, telecommunication, and medical and paramedical services. The European Central Bank decided to keep key interest rate unchanged at 0.75 per cent to continue stimulating the economy.

The harmonised unemployment rate continued to increase as a result of weak economic activity in the area. It rose to 12.1 per cent in the quarter ending in March 2013, from 11.8 per cent in the period ending in December 2012.

Japan

The economy of Japan registered the growth of 0.4 per cent in the first quarter of 2013 which is similar to the rise recorded in the previous quarter. This growth was ascribed to increased consumer spending, due to expectations for higher salaries, and a surge in exports as a result of increased car exports to the US. The pick-up in exports was boosted by the weakening of the Yen.

¹ Euro Area: Austria, Belgium, Cyprus, Estonia, Germany, Greece, Finland, France, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain.

² Austerity refers to measures taken by the governments to cut expenditure in an attempt to reduce growing budget deficits, especially during adverse economic conditions.

Inflation rate remained in the negative territory at the beginning of 2013, with higher deflation of 0.9 per cent in February 2013 compared with -0.1 per cent in December 2012. Food prices and prices of reading and recreational goods contributed significantly to these negative developments. In an attempt to encourage borrowing and jumpstart the economy out of the long slump, the Bank of Japan decided to keep the interest rate constant at 0.0 per cent.

Unemployment rate improved marginally to 4.1 per cent in March 2013 from 4.2 per cent in the previous quarter. The improvement resulted from higher recruitment of female workers, as a strategy to put more women into management positions, with an effort of boosting economic growth as well as business confidence.

Emerging Market Economies

China

According to preliminary estimates, real GDP growth increased by 7.7 per cent in the first quarter of 2013 compared to a rise of 7.9 per cent in the fourth quarter of 2012. The moderation was ascribed to reduction in consumption growth and a pause in inventory restocking. Inflation rate eased to 2.1 per cent in March 2013 from 2.5 per cent in the previous quarter. The deceleration was explained by a fall in food prices, which normalized after February's Lunar New Year seasonal spikes. The People's Bank of China maintained its benchmark lending rate unchanged at 6.0 per cent during the quarter to promote a stable and relatively faster economic growth.

India

The Indian economic growth increased by 4.8 per cent in the first quarter of 2013 compared to an increase of 4.7 per cent in the previous quarter. A moderate recovery in private spending, investment and exports were the main drivers of growth.

Inflation rate decelerated to 6.0 per cent in March 2013 compared to 7.2 per cent in the previous quarter. This slowdown was as a result of a fall of prices in food products, beverages, and tobacco and tobacco products. India's Central Bank cut the repo rate by 50 basis points to 7.5 per cent in March 2013 in an attempt to boost economic growth which has hit a decade low.

South Africa

In South Africa, economic growth increased by 1.9 per cent in the first quarter of 2013 compared to a rise of 2.5 per cent in the previous quarter. The slowdown in growth was attributed to a fall in consumer spending. In addition, the slower growth was fuelled by the deterioration in the secondary sector as a result of poor activity in manufacturing sub-sector. This sub-sector declined by 6.2 per cent in the review quarter, compared with the growth of 3.6 per cent in the previous quarter. Nevertheless, the deceleration in economic activity was moderated by the positive growth in both primary sector and tertiary sector.

On the labour market front, unemployment rate increased to 25.2 per cent in the quarter ending in March 2013, from 24.5 per cent in the quarter ending in December 2012. The deterioration of employment was largely driven by job losses in the trade and manufacturing industries.

The rate of inflation measured by changes in CPI, accelerated to 5.9 per cent at the end of the quarter ending March 2013 up from 5.7 per cent in December 2012. This reflected a surge in

petrol prices and actual rentals for housing. At this rate, inflation is within a target range of 3 to 6 per cent determined by South African Reserve Bank (SARB). The SARB's Monetary Policy Committee continued to keep the key policy rate (repo rate) unchanged at 5.0 per cent during the review quarter, amid concerns that the recent depreciation of the rand may fuel inflation despite sluggish domestic economic growth.

Commodity Prices

Overview

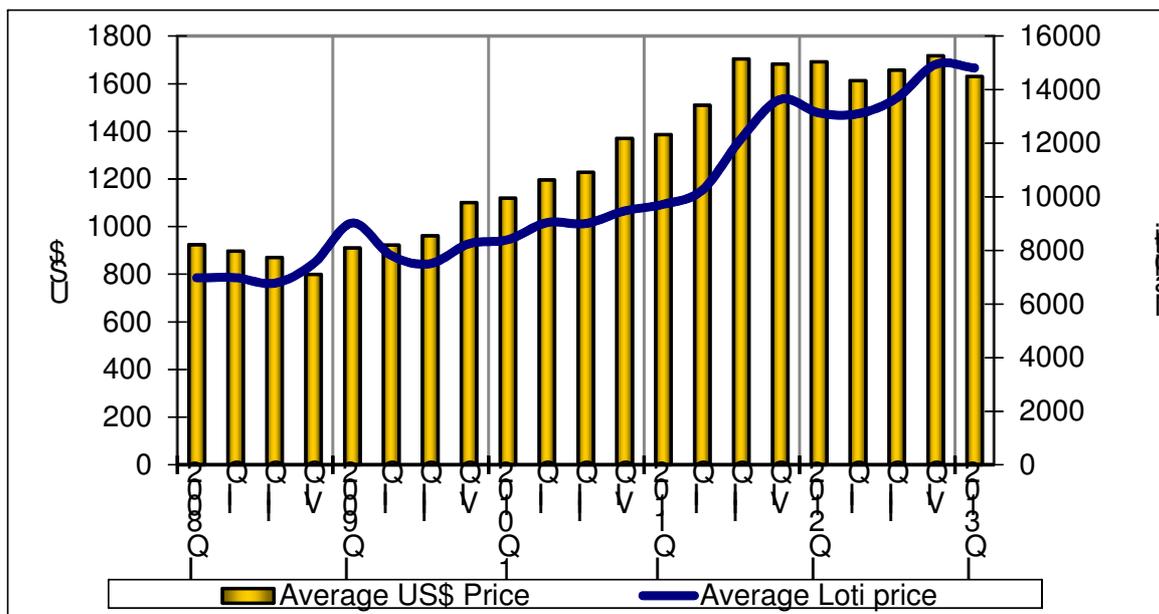
During the first quarter of 2013, international crude oil prices increased due to cold weather conditions in the US. The price of gold declined in response to a fall in global demand during the period. Platinum prices increased as a result of weak global supply, while agricultural prices dropped on account of favourable weather conditions in the major growing regions.

Mineral Products

Gold

The average price of gold in US Dollar terms, declined by 5.0 per cent to US\$1 630.7 per ounce during the quarter ending in March 2013, relative to an increase of 3.6 per cent in the previous quarter. The decline resulted from a drop in the demand for gold following subdued inflationary pressures in advanced and emerging economies, as investors perceived that there was no need to keep gold as a safe haven. In Maloti terms, it declined by 0.9 per cent to M14 806.46 per ounce, compared to an increase of 9.2 per cent observed in the quarter ending in December 2012.

Figure 1: Average Price of Gold

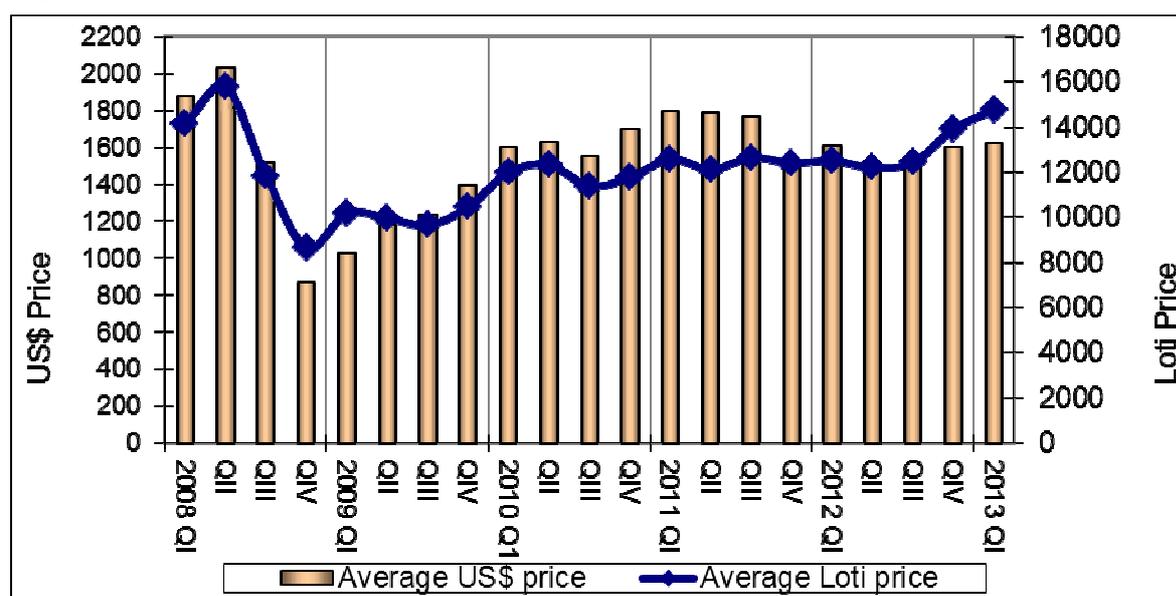


Source: Bloomberg

Platinum

The average price of platinum increased by 1.7 per cent to US\$1 624.61 per ounce during the review quarter, compared to an increase of 6.2 per cent registered in the previous quarter. In Maloti terms, it rose by 6.1 per cent to M14 751.42 per ounce, following an increase of 11.9 per cent realised in the fourth quarter of 2012. This surge is owed to weak global supply of platinum as South African production, which accounts for two thirds of world's platinum production, has been negatively affected by continuing labour disputes in the mining sector.

Figure 2: Average of Price of Platinum

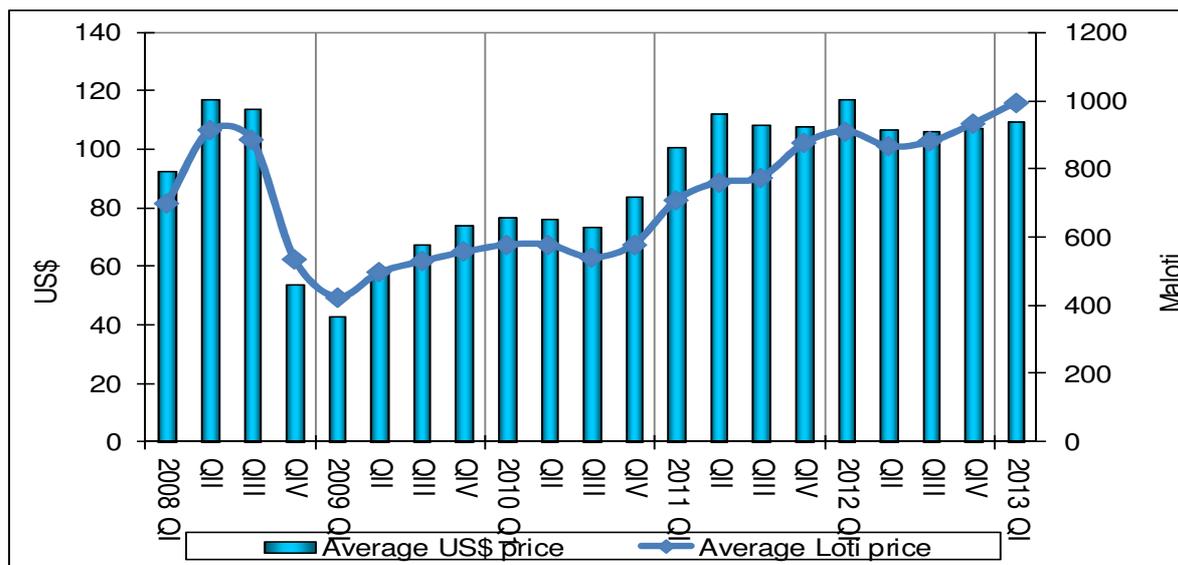


Source: Bloomberg

Oil

The quarterly average price of international crude oil increased by 2.1 per cent to US\$109.5 per barrel in the first quarter of 2013, compared to a rise of 0.6 per cent registered in the previous quarter. In Maloti terms, it increased by 6.5 per cent to M994.1 per barrel, compared to an increase of 1.6 per cent in the quarter ending in December 2012. The increase was mainly driven by a surge in demand for oil in the US due to winter season. In line with a rise in the international market price of oil, domestic fuel prices were revised upwards as follows; diesel price was increased from M11.35 per litre in the fourth quarter of 2012 to M11.71 per litre in the first quarter of 2013, while that of illuminating paraffin increased from M8.50 per litre to M9.23 per litre in the same period. The price of petrol also increased from M10.75 per litre in the fourth quarter of 2012 to M11.65 in the period under review.

Figure 3: Average Price of Oil



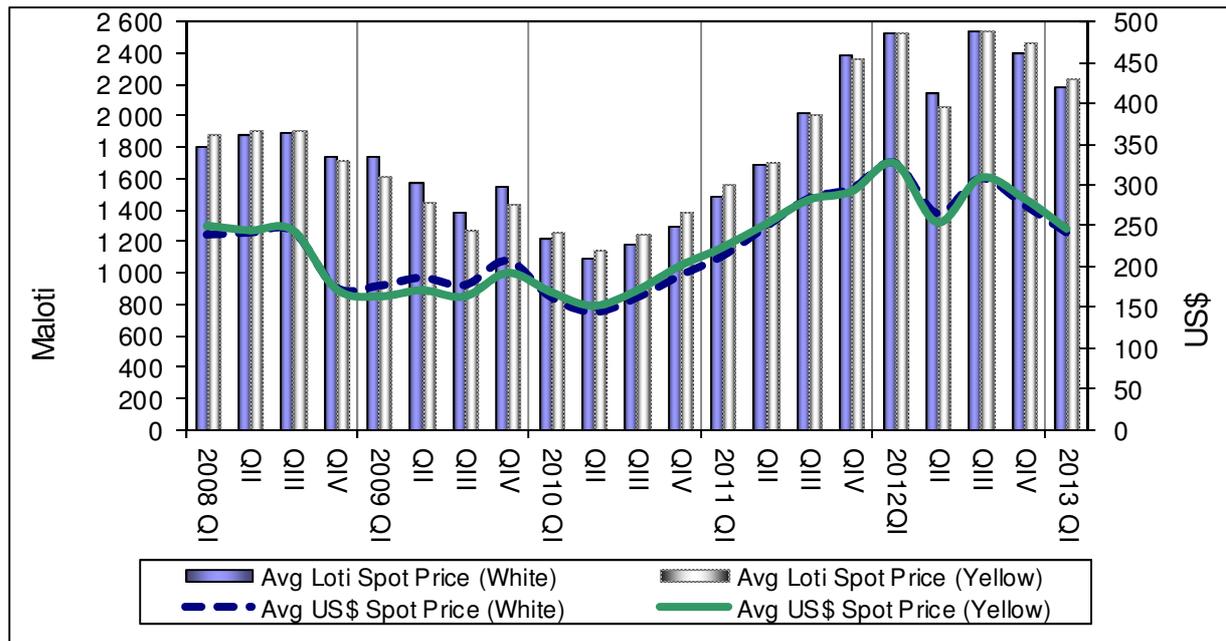
Source: Bloomberg

Agricultural Products

Maize

The average prices of white and yellow maize decreased during the first quarter of 2013. In US Dollar terms, they fell by 12.5 per cent to US\$241.8 per tonne and 13.3 per cent to US\$246.4 per tonne, respectively. In Maloti terms, the average prices of white and yellow maize decreased by 8.7 per cent to M2195.6 per tonne and 9.5 per cent to M2 236.99 per tonne, respectively. This was at the back of lower demand and improved supply conditions. Favourable weather conditions in South America, and record-high exports from Brazil, also contributed to international maize price moderation during the quarter under review.

Figure 4: Average Spot Price of Maize

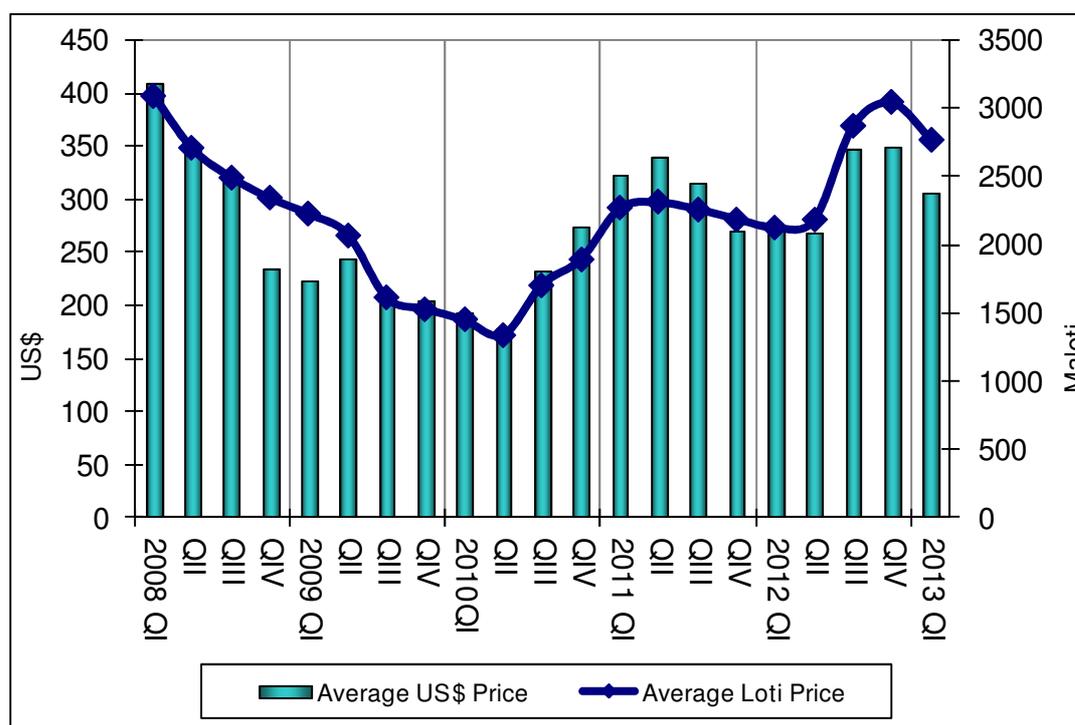


Source: Bloomberg

Wheat

In US Dollar terms, the average price of wheat declined by 12.5 per cent to US\$305.5 per tonne in the quarter under review, while in Maloti terms it declined by 8.7 per cent to M2 773.9 per tonne during the same period. This decline is attributed to favourable harvest prospects due to improved weather in world leading producing countries. Furthermore, wheat exports prices in Russia and Ukraine declined, which led to a further decline in world wheat prices.

Figure 5: Average Spot Price of Wheat



Source: Bloomberg

III. Real Sector, Employment and Price Developments

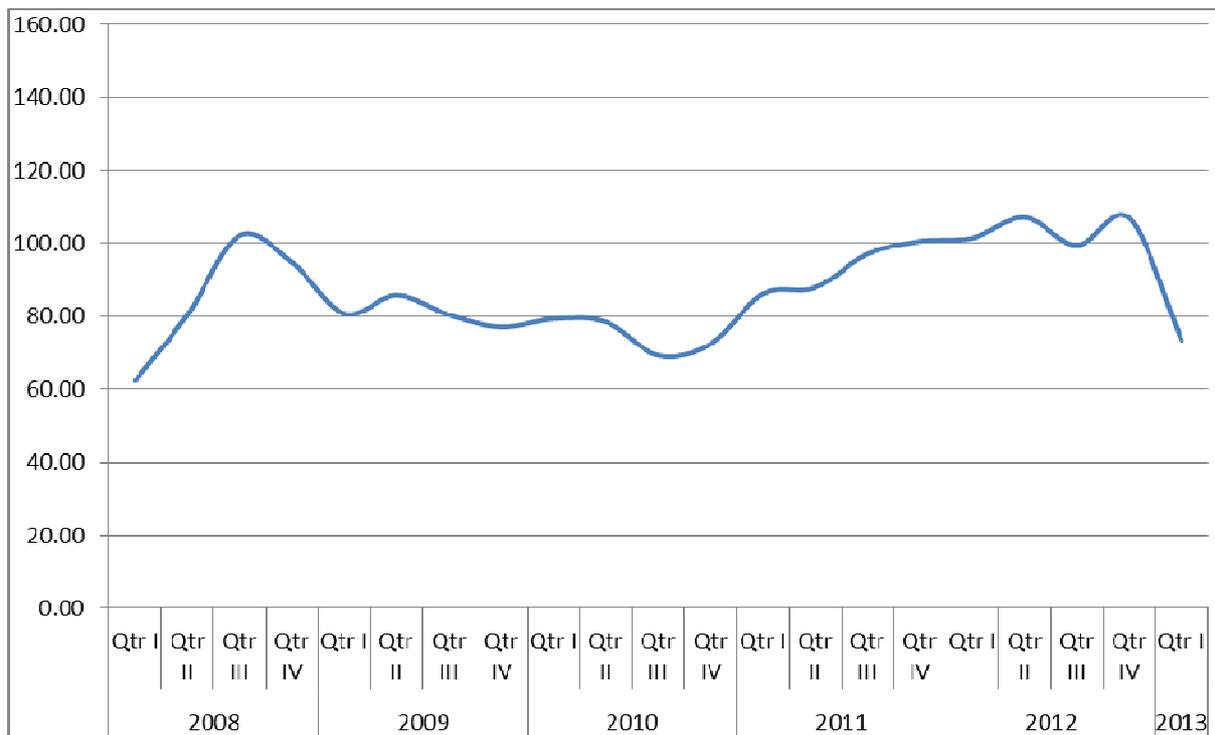
Overview

Lesotho’s economy displayed weak performance though it was uneven across the sectors of the economy during the first quarter of 2013. Output by the mining sub-sector declined due to reduced production by the Letseng mine. Activity in the textiles and clothing industry improved. Electricity consumption declined while water consumption recorded an increase. The value of sales turnover fell moderately though it remained strong while telephone traffic figures also registered a decline. Employment in the LNDC-assisted companies’ increased while declines were observed in government and migrant mineworkers’ employment. Overall inflation accelerated though food prices increased at a lower rate compared to the quarter ending in December 2012.

Primary Sector Developments

The weighted diamond production index (WDPI) declined by 31.4 per cent in the quarter ending in March 2013 following an increase of 7.3 per cent recorded in the quarter ending in December 2012. The tonnes of ore mined by Letseng declined during the review quarter due to the test work that was undertaken to establish diamond damage profiles at various throughput rates in preparation for the new crusher installations. In addition, the Mothae trial mining phase ended in September 2012 and production did not take place during the quarter under review as the way forward for the mine is being reviewed.

Figure 6: Weighted Diamond Production Index
(2008: August=100)



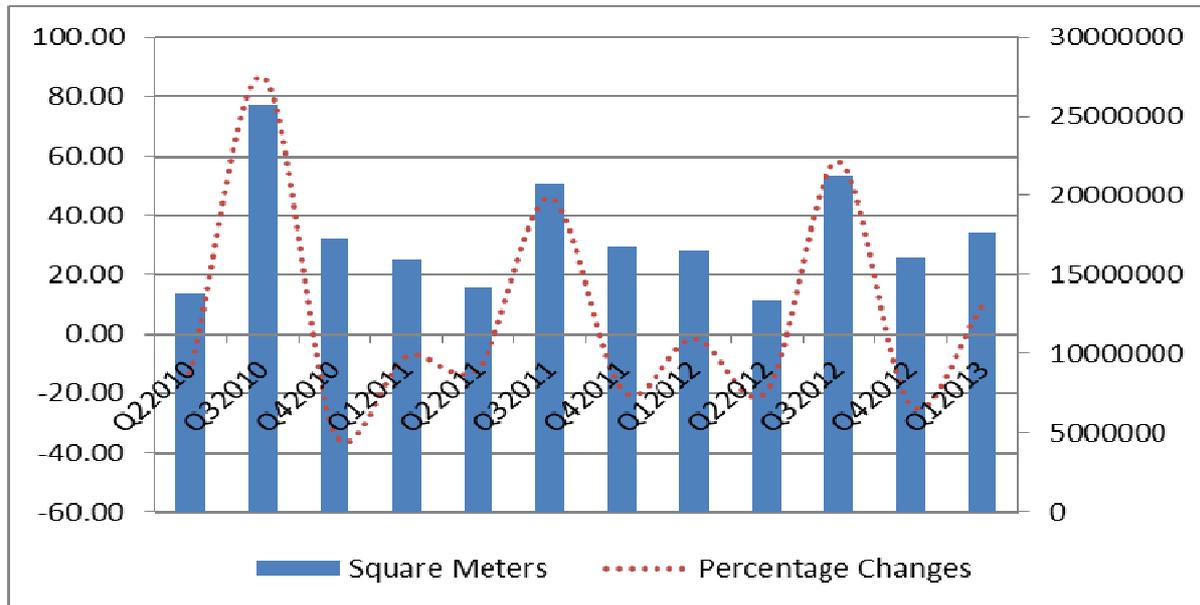
Source: Department of Mines and Geology

Secondary Sector Developments

Textiles and Clothing Manufacturing

The volume of the US's imports of textiles and clothing measured in square meters registered an increase of 10.0 per cent in the review quarter following a decline of 24.0 per cent in the previous quarter. This reflected an increase in orders by US based buyers indicating a recovery in their confidence following extension of the third country fabric provision under AGOA. In addition, a new textiles and clothing manufacturing firm commenced operations during the review quarter.

Figure 7: The US's Imports of Textiles and Clothing from Lesotho
(Square Meters)



Source: Website of U.S. Department of Commerce, Office of Textiles and Apparel

Electricity Consumption

Total electricity consumption declined further by 10.1 per cent in the quarter ending in March 2013 following a decline of 5.9 per cent observed in the previous quarter. All electricity consumption categories registered a decline, though at different magnitudes. The major decline was observed in the commercial and industrial category, which fell by 16.2 per cent. The domestic and general purpose categories declined by 2.8 per cent and 1.1 per cent, respectively during the review period. The slowdown in total electricity consumption, in particular the commercial and industrial category was in line with the fall in diamond production. The impact of the decline in electricity consumption as a result of low activity in the diamond mining industry outweighed that of the increase in production activity in the textiles and clothing industry.

Table 1: Electricity Consumption

(Units in Million Kilowatt Hours and Value in Million Maloti)

	2012						2013	
	QII		QIII		QIV		QI	
	Kwh	Value	Kwh	Value	Kwh	Value	Kwh	Value
General Purpose	24.25	23.02	25.46	25.32	21.92	21.72	21.67	21.44
Domestic	61.94	43.99	61.50	45.59	54.85	49.89	53.32	50.84
Commercial & Industrial	91.34	53.79	91.65	57.34	96.99	52.06	81.30	49.94
Total	177.53	120.80	184.61	128.25	173.76	123.67	156.29	122.22

Source: Lesotho Electricity Authority and Lesotho Electricity Company

Water Consumption

Total water consumption increased by 2.3 per cent on quarterly basis. The increase in water consumption mainly reflected the 9.6 per cent rise in water consumption by the industrial category. The increase in water consumption was in line with the increase in the US's imports of textiles and clothing from Lesotho during the review quarter, reflecting an increase in production by the industry. Water consumption by domestic category remained unchanged.

Table 2: Water Consumption

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

		Domestic	Industrial	Other	Total
2012	I				
	Units	1.29	1	0.97	3.2
	Value	5.6	10	6.84	22.29
	Units*		1		3.74
II	Units	1.08	1.2	0.62	2.89
	Value	6.02	10.87	5.42	22.31
	Units*		1.22		2.94
III	Units	1.04	1.37	0.6	3.02
	Value	6.34	11.54	5.67	23.54
	Units*		1.31		2.87

IV	Units	1.27	1.14	0.62	3.03
	Value	8	9.86	5.59	23.44
	Units*		1.03		2.74
2013 I	Units	1.27	1.25	0.59	3.10
	Value	6.51	10.28	5.33	22.12
	Units*		1.46		3.63

Source: Water and Sewerage Authority

* denotes seasonally adjusted figures

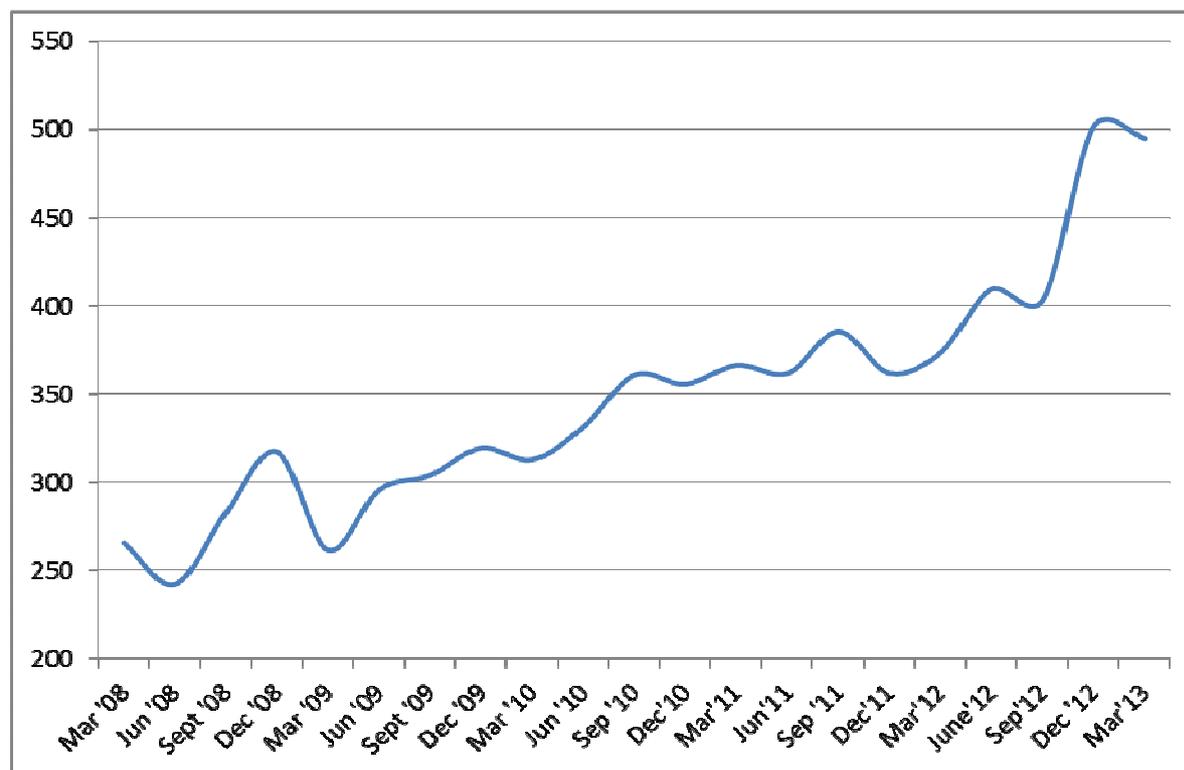
Tertiary Sector Developments

Value of Sales Turnover

The value of sales turnover declined by 1.4 per cent on quarterly basis and increased by 32.4 per cent on annual basis in the quarter ending in March 2013. Nevertheless, the value of sales turnover still remained high reflecting strong demand in the economy. The observed decline mainly reflected lower demand during the review quarter compared with the December 2012 quarter. This should be expected as the previous quarter was characterized by festive period shopping and increases in disposable income resulting from year-end bonuses for some of the working population.

Figure 8: Value of Sale Turnover

(Million Maloti)



Telephone Statistics

The number of telephone calls declined by 19.3 per cent in the quarter ending March 2013 compared to an increase of 4.4 per cent recorded in December 2012. On an annual basis, the number of telephone calls fell by 27.5 per cent in the first quarter of 2013 compared to an increase of 4.9 per cent observed in December 2012.

Table 3: Telephone Traffic Statistics

		SA Outgoing Calls	International Calls	Total Calls
2012				
I	No. of calls (millions)	2.09	0.16	2.25
	No. of calls*			2.39
	Total Duration (million minutes)	3.66	0.4	4.04
	Nominal Value (million maloti)	8.29	2.66	10.95
II	No. of calls (millions)	2.32	0.1	2.43
	No. of calls*			2.52
	Total Duration (million minutes)	2.78	0.31	3.1
	Nominal Value (million maloti)	1.67	6.78	8.46
III	No. of calls (millions)	2.71	0.1	2.82
	No. of calls*			1.98
	Total Duration (million minutes)	2.89	0.30	3.2
	Nominal Value (million maloti)	1.77	0.04	1.82
IV	No. of calls (millions)	1.9	0.11	2.02
	No. of calls*			2.04
	Total Duration (million minutes)	2.6	0.36	2.96
	Nominal Value (million maloti)	1.58	0.05	1.64
2013				
I	No. of calls (millions)	1.50	0.14	1.63
	No. of calls*			1.73
	Total Duration (million minutes)	2.25	0.46	2.72
	Nominal Value (million maloti)	1.44	0.04	1.49

Source: Tele-Com Lesotho and Vodacom Lesotho

* Adjusted for seasonality.

Investment Expenditure

Imported Motor Vehicles

The number of imported motor vehicles increased by a seasonally adjusted 43.5 per cent and 8.1 per cent on quarterly and annual basis, respectively. On a quarterly basis, the number of imported motor vehicles increased rapidly as compared to a 3.2 per cent decline registered in the quarter ending December 2012. However, the value of imported motor vehicles declined both on quarterly and annual basis reflecting increased preference for cheaper second hand cars imported from Asia compared with SA's.

Table 4: Motor Vehicle
(Value in Million Maloti)

		Cars	Vans	Trucks	Buses	Tractors	M/ Cycles	Trailers	Total
2012	I								
	Value	45.83	52.54	31.15	6.73	1.04	0.02	3.26	140.57
	Units*								1244
	Units	529	593	121	44	10	2	23	1322
II	Value	52.77	49.78	12.68	8.27	0.41	0.00	6.27	130.18
	Units*								999
	Units	444	384	35	41	7	0	34	945
III	Value	66.03	83.47	13.76	7.77	3.09	0.21	3.09	177.42
	Units*								968
	Units	452	498	29	40	20	3	22	1064
IV	Value	69.41	63.09	3.05	10.89	3.88	0.38	1.47	152.17
	Units*								937
	Units	443	612	24	39	57	3	14	1194
2013	I								
	Value	51.53	30.21	4.71	2.44	0.91	0.12	0.96	90.87
	Units*								1345
	Units	1085	274	18	26	13	2	12	1430

Source: Avis Fleet Services Lesotho and Customs Department

*denotes seasonally adjusted figures

+Includes imports of second hand cars

Employment Developments

During the first quarter of 2013, employment by LNDC assisted companies increased by 1.3 per cent compared to a marginal decrease of 0.2 per cent observed in the previous quarter. On an annual basis, an increase of 7.7 per cent was registered compared with a decline of 0.8 per cent in the quarter ending in December 2012. The increase in employment was mainly attributable to increase in employment by knit garments industry, which resulted from increase in orders. In addition, a new clothing manufacturing firm was opened during the review quarter. This is an indication that the US buyers' confidence was restored after the renewal of the third country

fabric provision, which meant that Lesotho's textiles and clothing producers will continue to export duty and quota free to the US market.

Table 5: Employment Trend of LNDC-Assisted Companies

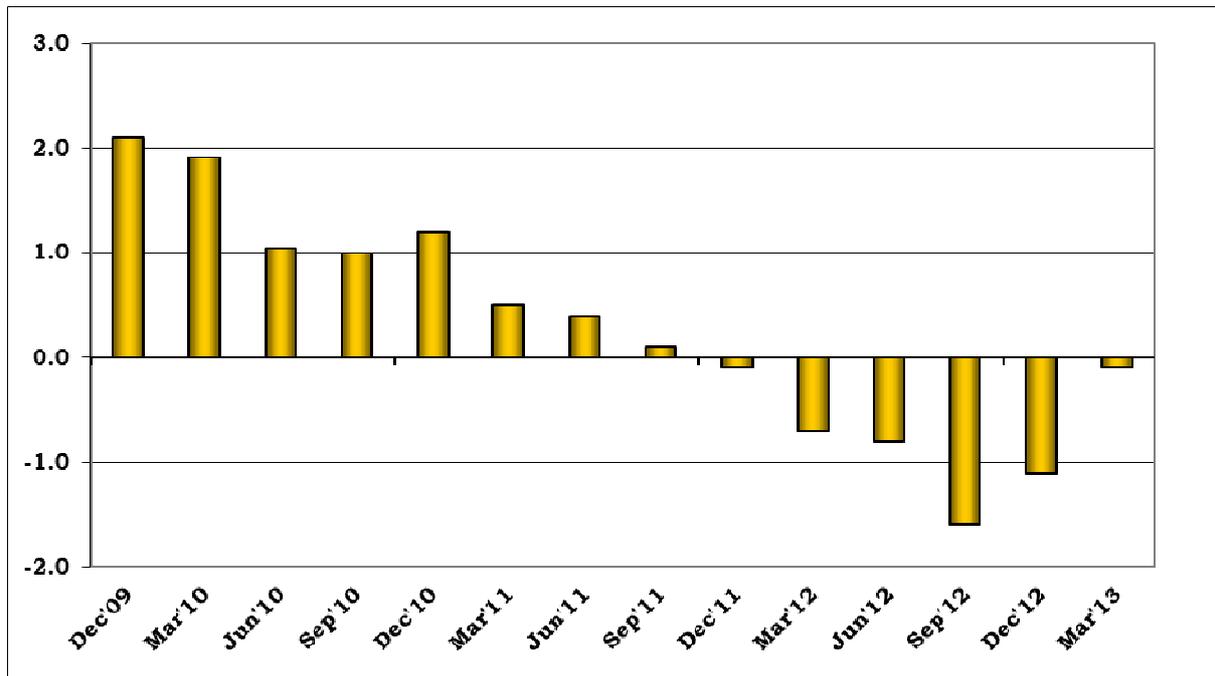
Industry	2012				2013
	QI	QII	QIII	QIV	QI
Knit Garments	22190	22451	22337	22824	23706
Woven Garments	12710	15243	15671	15220	14580
Footwear	2905	2907	2895	2885	2686
Fabrics, Yarn etc.	1658	1627	1725	1714	1688
Construction	272	295	299	295	302
Food & Beverages	1162	853	857	878	888
Electronics	1555	1363	1359	1290	1376
Retail	136	135	136	136	128
Hotel & Accommodation	394	400	408	398	765
Other	159	231	264	237	350
TOTAL	43141	45505	45951	45 877	46 469

Source: Lesotho National Development Corporation

*Preliminary estimates

The number of government employees declined marginally by 0.1 per cent in March 2013 compared with a 1.1 per cent decline observed in the quarter ending in December 2012. The decline was mainly attributed to the 0.8 and 0.3 per cent decreases in the number of armed forces and daily paid workers, respectively. This fall over-shadowed the 1.0 and 0.3 per cent increases in the categories of teachers and civil servants, respectively.

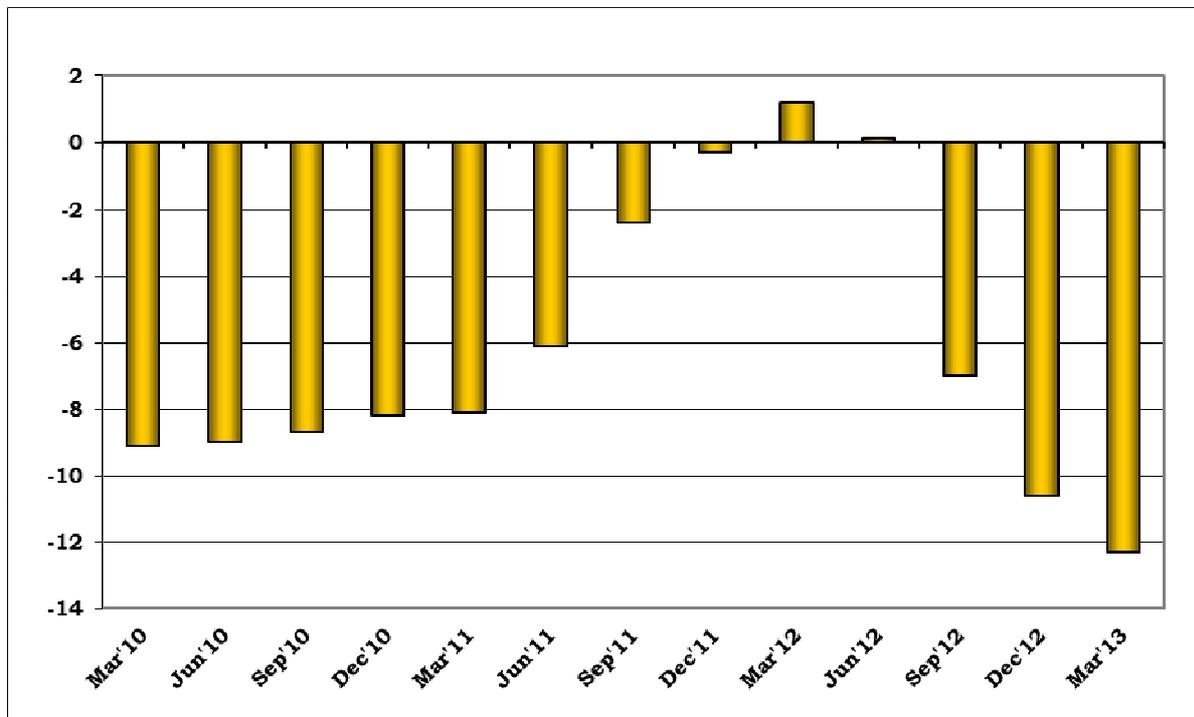
Figure 9: Government Employment
(Annual Percentage Change)



Source: Ministry of Finance

The number of Basotho migrant mineworkers declined by 12.3 per cent in the first quarter of 2013 compared with a decline of 10.6 per cent registered in the quarter ending in December 2012. This rapid decline in the employment of migrant mineworkers was in line with South Africa's stance to reduce unemployment by, among other things, favouring employment of local residents coupled with the instability that has dogged the mining industry over the past year. The decline in the dollar price of gold has also had a share.

Figure 10: Migrant Mineworkers Employment
(Annual Percentage Change)



Source: The Employment Bureau of Africa (TEBA)

Price Developments

During the first quarter of 2013, Lesotho's annual inflation rate measured as a percentage change in the consumer Price Index (CPI) accelerated to 5.0 per cent from 4.5 per cent in December 2012. The most significant increase was observed in the housing, electricity, gas and other fuels category. This mainly reflected the inflationary impact of high crude oil prices, hence upward revision of the prices of petrol, diesel and paraffin. The food and non-alcoholic beverages category increased at a lower rate of 6.5 per cent in the review period compared with 8.2 per cent in the previous quarter, in line with the decline in global food prices.

Table 6: Inflation Rate

(Annual Percentage Change: March 2010 =100)

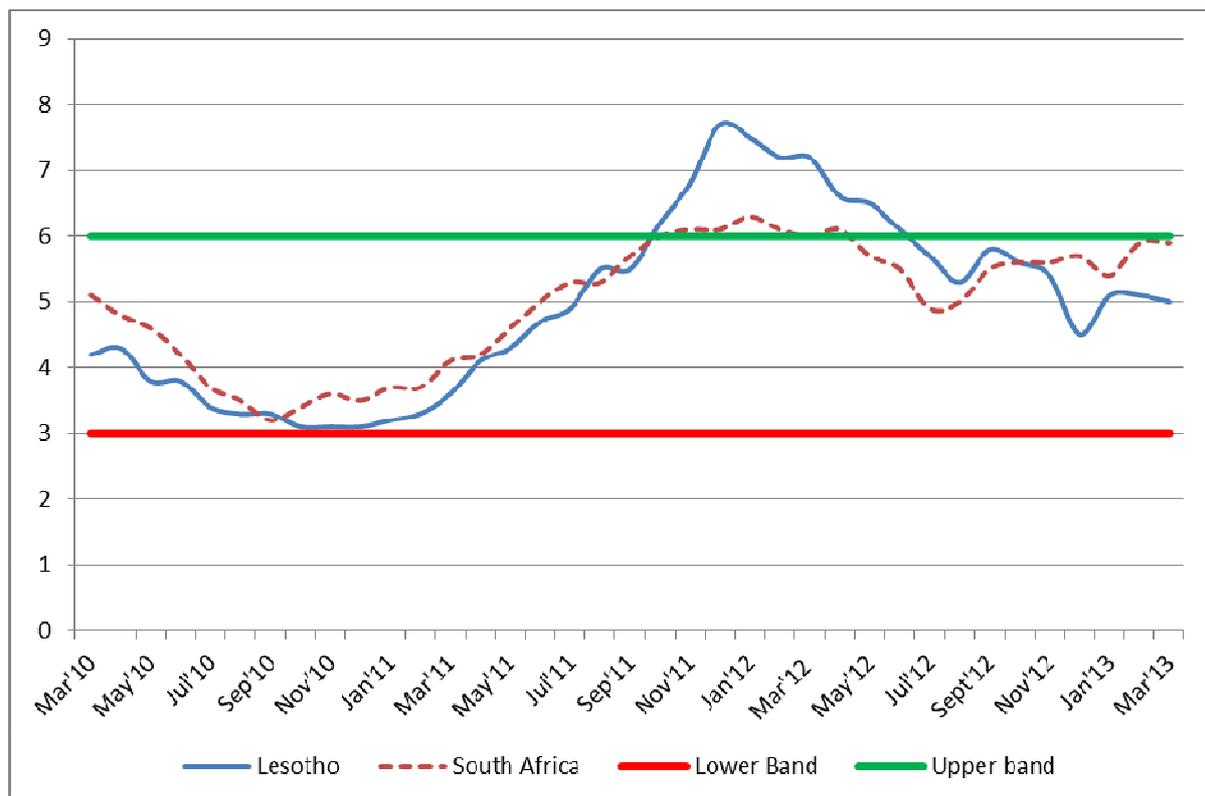
	Weight	2012				2013
		Nov	Dec	Jan	Feb	Mar
All items	100.0	5.4	4.5	5.1	5.1	5.0
Food and non-alcoholic beverages	38.1	8.7	8.2	7.8	7.2	6.5
Alcoholic beverages & Tobacco	1.2	6.0	5.8	5.7	6.9	5.8
Clothing & footwear	17.4	0.7	0.8	0.8	1.2	1.5
Housing, electricity gas & other fuels	10.6	5.6	3.8	5.7	7.2	9.8
Furniture, households equipment & routine maintenance of house	9.4	3.9	3.9	4.1	4.0	4.4
Health	1.9	0.5	0.4	0.4	0.5	0.5
Transport	8.5	6.3	1.0	0.9	0.8	0.9
Communication	1.2	0.0	0.0	0.0	0.0	0.0
Leisure, entertainment & Culture	2.4	1.6	1.7	1.5	1.3	1.2
Education	2.7	1.0	1.0	14.1	13.7	13.4
Restaurant & Hotels	0.7	0.1	0.0	-1.1	0.7	1.0
Miscellaneous goods & services	5.8	2.6	2.4	2.4	2.2	2.3

Source: Bureau of Statistics, Lesotho

Lesotho's inflation rate continued to track that of SA. The 50 basis points increase observed in the Lesotho CPI was along the corresponding 20 basis points increase in SA's CPI to 5.9 per cent during the review quarter. Both rates continue to be within the SA's inflation target band of 3 – 6 per cent albeit notable upward pressures.

Figure 11: Annual Inflation Rate for Urban Households

(Annual Percentage Change: March 2010 =100)



Source: Bureau of Statistics, Statistics South Africa

IV. Monetary and Financial Developments

Determinants of Money Supply

Money supply contracted by 8.2 per cent during the quarter under review following a 6.9 per cent increase observed in the fourth quarter of 2012. Year-on-year, money supply decreased by 5.6 per cent as opposed to an increase of 7.3 per cent observed in the previous quarter. The quarterly decrease in money supply was as a result of a decrease in net foreign assets by 0.4 per cent and a decrease in domestic claims including net claims on government by 20.0 per cent.

Figure 12: Overview of Recent Monetary Developments

(Million Maloti: End of Period)

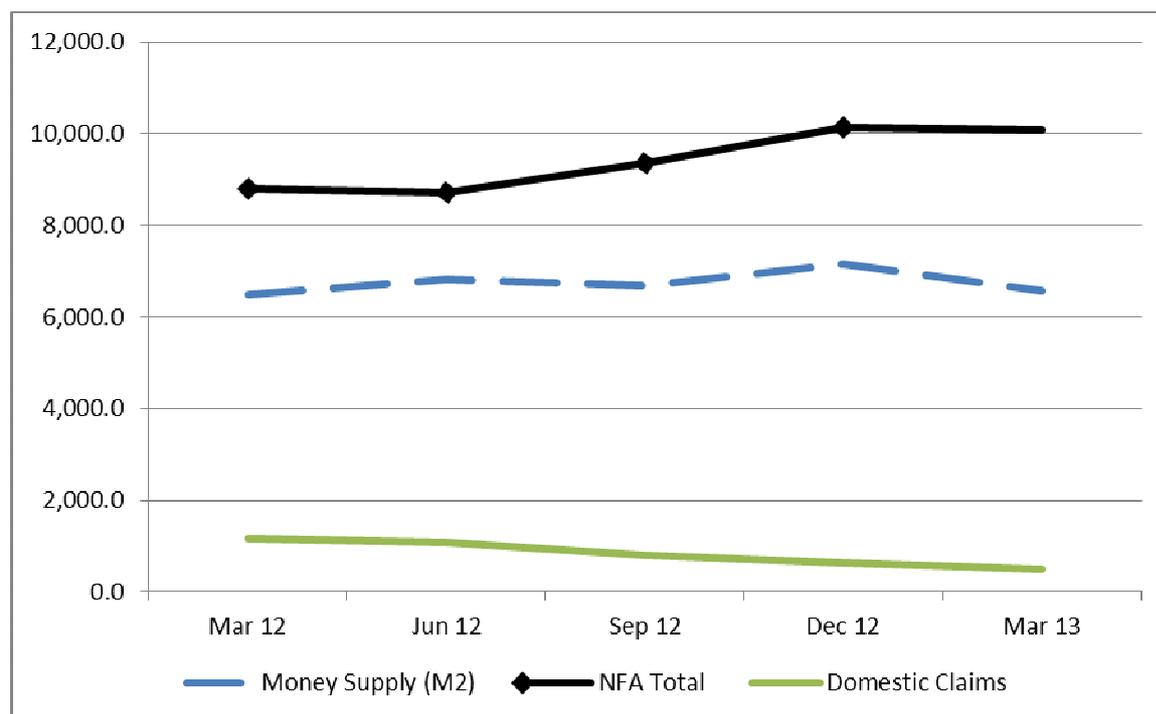


Table 7: Determinants of Money Supply

(Million Maloti: Changes)

	2012				2013
	Mar	Jun	Sep	Dec	Mar
Net Foreign Assets	-1,104.3	-74.1	646.8	766.9	-43.9
Domestic Claims	1,054.0	-82.1	-285.7	-164.1	-124.1
Net Claims on Central Government	842.8	-317.2	-612.8	-469.1	-482.2
Claims on other Sectors	-10.9	0.7	-2.4	-0.2	0.1
Claims on Private Sector	222.1	234.3	329.5	305.2	358.0
Shares and other equity	-41.0	373.5	73.9	170.7	579.6
Other Items (NET)	166.3	-874.2	426.6	-27.5	-312.5
Broad Money Liabilities (M2)	-175.7	344.5	-139.4	459.7	-588.9

Components of Money Supply

Money supply is also explained by its components³. The contraction in M2 was as a result of a 6.5 per cent decrease in narrow money and a 9.9 per cent fall in quasi money. The fall in narrow money was as a result of a decrease in transferable deposits by 9.2 per cent and the fall in quasi money was as a result of other deposits falling by 9.9 per cent.

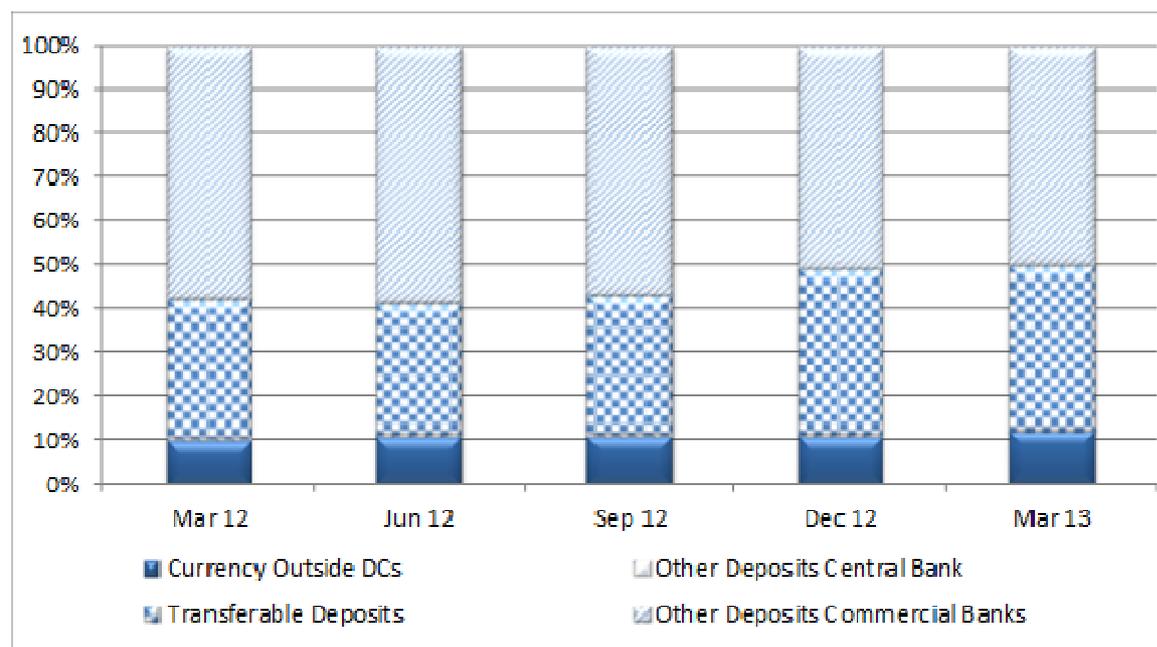
Table 8: Components Money Supply

(Million Maloti; End of Period)

	2012				2013
	Mar	Jun	Sep	Dec	Mar
Broad Money (M2)	6483.9	6828.4	6689.0	7148.7	6559.7
Narrow Money (M1)	2700.5	2789.2	2865.6	3476.3	3249.9
Currency Outside DCs	643.3	721.6	733.8	769.0	791.8
Transferable Deposits	2057.1	2067.6	2131.7	2707.2	2458.1
Quasi Money	3783.4	4039.1	3823.4	3672.4	3309.8
Other Deposits Commercial Banks	3749.0	4006.8	3797.9	3652.1	3291.4
Other Deposits Central Bank	34.4	32.3	25.6	20.3	18.5

Figure 13: Components of Money Supply

(Percentage shares)



³ Narrow and quasi money

Commercial banks deposits by holder

The quantity of deposits held with the local commercial banks decreased by 9.6 per cent at the end of March 2013 following a 7.2 per cent increase registered in the quarter ending December 2012. The decrease in deposits was driven by a 9.2 per cent decrease in transferable deposits and by a 9.9 per cent contraction in other deposits included in broad money. Transferable deposits by other nonfinancial corporations decreased by 39.9 per cent while transferable deposits held by other residents sector (households) increased by 40.8 per cent. Other non-transferable deposits held by nonfinancial corporation and households declined by 25.4 per cent and 4.9 per cent respectively.

Table 9: Commercial Banks; Deposits by Holder

(Million Maloti: End of Period)

	2012				2013
	Mar	Jun	Sep	Dec	Mar
Transferable Deposits Incl. in M2	2057.1	2067.6	2131.7	2707.2	2458.1
Other Financial Corporations	9.0	13.9	0.0	0.0	46.8
Public Nonfinancial Corporations	43.0	51.9	48.3	38.6	5.6
Private Sector	2005.2	2001.9	2066.1	2649.9	2063.6
Other NFCs	1183.9	1391.5	1415.1	2065.7	1240.9
Other Sectors (Households)	821.3	610.4	651.0	584.3	822.8
Other Deposits Incl. in M2	3749.0	4006.8	3797.9	3652.1	3291.4
Other Financial Corporations	0.0	0.0	0.0	0.0	299.4
Public Nonfinancial Corporations	34.2	25.6	22.4	20.3	3.0
Private Sector	3714.8	3981.2	3775.4	3631.8	2989.0
Other NFCs	2152.6	2393.6	2363.9	2261.7	1686.3
Other Sectors (Households)	1562.2	1587.5	1411.5	1370.1	1302.6
Total Deposits	806.1	6074.4	5929.6	6359.3	5749.5

NB: Totals may not tally due to rounding off

Liquidity of Commercial Banks⁴

The liquidity of commercial banks decreased further in the review quarter following a decrease in the quarter ending December 2012. The ratio of liquid assets to deposit liabilities and placements

⁴ Liquidity of commercial banks is the sum of Maluti and Rands notes and coins, Balances due from Lesotho and Foreign banks and Government securities divided by the sum of Private sector, nonresident and government deposits. .

with other banks decreased to 53.6 per cent, from 60.7 per cent registered in the fourth quarter of 2012. The credit deposit ratio increased from 57.7 per cent recorded in the previous quarter to 60.1 per cent in the review period. This increase in credit to deposit ratio was caused by the increase in credit for households and business enterprises exacerbated by a fall in deposits.

Table 10: Components of Commercial Banks' Liquidity

(Million Maloti: End of Period)

COMPONENT	2012				2013
	Mar	Jun	Sep	Dec	Mar
Maloti Notes and Coins	102.7	118.3	114.0	229.5	153.5
Rand Notes and Coins	59.6	68.8	66.6	107.5	91.0
Balances due from Lesotho Banks	837.8	753.6	990.6	931.3	1428.4
Balances due from Foreign Banks	2777.4	2884.0	2421.4	2410.4	2528.2
Clearing Balances with CBL	173.1	7.6	45.3	20.2	49.1
Lesotho Government Securities	744.8	777.5	784.0	753.5	728.0
Total Commercial Bank's Liquidity	4701.4	4616.2	4429.4	4438.1	4935.1

Table 11: Consolidated Balance Sheet of Commercial Banks

(Million Maloti: End of Period)

	2012				2013
	Mar	Jun	Sep	Dec	Mar
Net Foreign Assets	2826.5	2803.1	2357.9	2486.7	2137.9
Claims on Central Bank	474.2	297.2	251.9	419.2	363.9
Currency	102.7	118.3	114.0	229.5	153.5
Reserve Deposits and Securities	371.4	178.9	137.9	189.7	210.4
Net Claims on Central Government	817.9	840.6	875.1	837.1	606.4
Claims	840.1	864.0	877.0	839.1	815.9
Liabilities	-22.2	-23.4	-2.0	-2.0	-209.6
Claims on Other Sectors	2877.4	3108.8	3431.8	3735.8	4091.1
Claims on OFCs	0.0	0.0	0.0	0.0	0.0
Claims on PNFCs	1.7	2.5	0.0	-0.1	0.0
Claims on Private Sector	2875.6	3106.3	3431.8	3735.9	4091.1
Transferable Deposits Inc. in BM	2057.1	2067.6	2131.7	2707.2	2458.1
Other Deposits Inc. in BM	3749.0	4006.8	3797.9	3652.1	3291.4
Shares Equity and OIN	1189.8	975.2	987.0	1119.5	1295.9

Demand for Money**Domestic Claims**

Domestic credit, excluding net claims on government, expanded by 9.5 per cent during the quarter under review following an 8.8 per cent expansion realised during the fourth quarter of 2012. Year-on-year, domestic credit continued to register a double digit growth of 42.1 per cent following an expansion of 39.9 per cent recorded in the previous quarter. The increase in domestic claims on a quarterly basis was driven by 9.5 per cent increase in credit extended to the private sector.

Table 12: Domestic Credit Excluding Net Claims on Government*

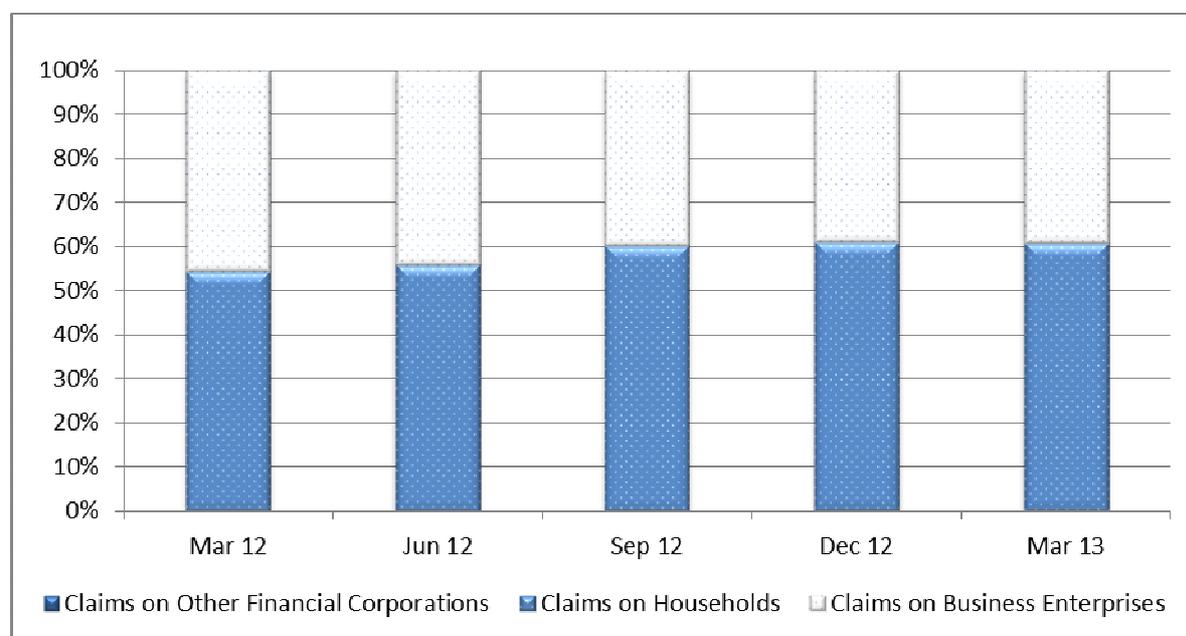
(Million Maloti: End of Period)

	2012				2013
	Mar	Jun	Sep	Dec	Mar
Claims on Other Sectors	2910.8	3145.9	3473.0	3778.0	4136.1
Claims on Other Financial Corporations	0.0	0.0	0.0	0.0	0.0
Claims on State and Local Government	0.0	0.0	0.0	0.0	0.0
Claims on Public Nonfinancial Corporations	1.7	2.5	0.0	-0.1	0.0
Claims on Private Sector	2909.1	3143.4	3473.0	3778.2	4136.1
Claims on Business Enterprises	1323.7	1391.0	1385.7	1470.8	1619.4
Claims on Households	1585.4	1752.4	2087.3	2307.3	2516.7

*excludes non-performing loans

Figure 14: Distribution of Credit by Holder

(Percentage shares)



Credit to Private Sector

During the last quarter of 2012, credit extended to the private sector increased by 9.5 per cent, following 8.8 per cent increase in the previous quarter. The increase in private sector credit on a

quarterly basis was driven by a rise of 9.1 per cent and 10.1 per cent in credit extended to households and business enterprises respectively. Credit extended to households constitutes the largest share of domestic credit with 60.8 per cent while the share of credit extended to businesses increased to 39.2 per cent.

Sectorial Distribution of Credit

Credit extension to enterprises in the quarter ending March 2013 was dominated by the following sectors; wholesale, retail and hotels (18.79 per cent), manufacturing 18.16 per cent), non-bank financial institutions (17.2 per cent) and construction (13.14 per cent) .There were significant increases in credit for the Community, Social and Personal Services (189.0 per cent), Agriculture, Hunting, Forestry and Fishing (46.0 per cent) and Manufacturing (30.0 per cent). However there was a sharp decline⁵ in credit to non-bank financial institutions and real estate.

Table 13: Sectorial Distribution of Credit to Enterprises*

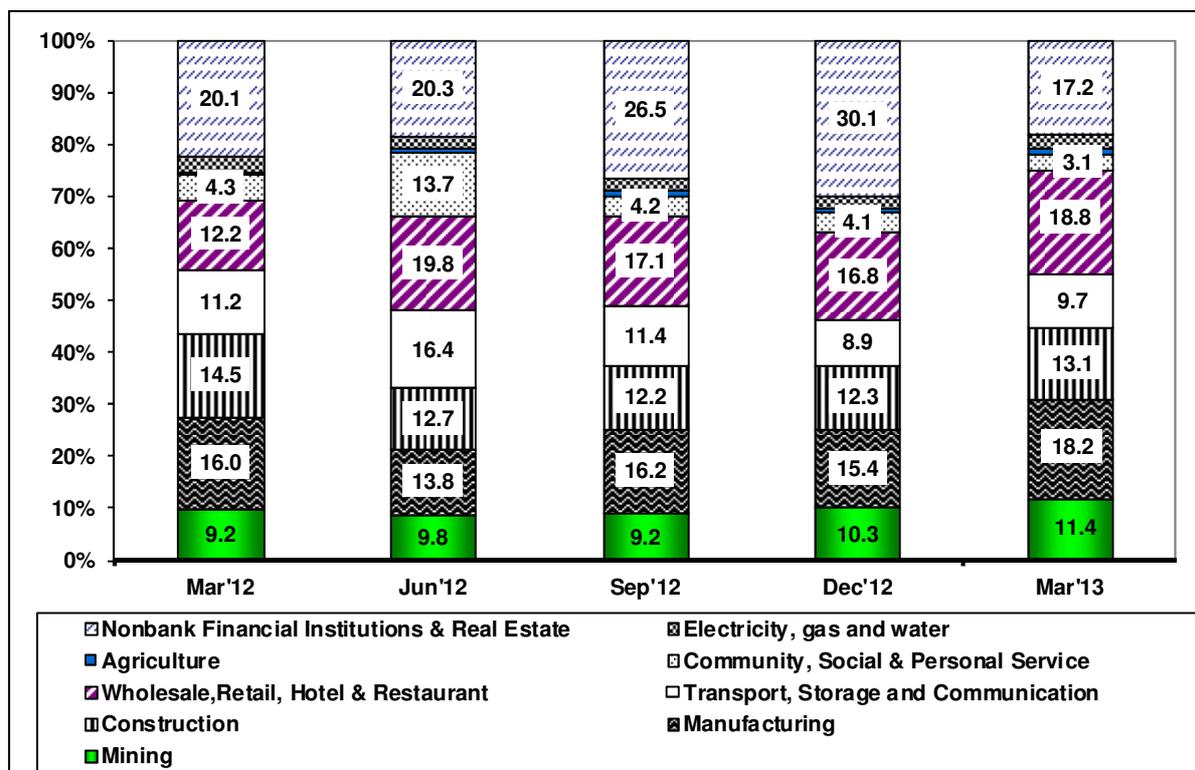
(Million Maloti: End of period)

SECTOR	2012				2013
	Mar	Jun	Sep	Dec	Mar
Agriculture	7.8	9.0	12.3	11.3	16.5
Mining	121.3	136.8	128.0	152.0	184.3
Manufacturing	211.6	192.9	224.8	226.0	294.1
Construction	191.7	176.5	169.1	181.4	212.8
Transport, storage and communication	148.1	228.5	158.3	130.2	157.2
Electricity, gas and water	35.5	33.5	32.4	33.9	39.9
Wholesale, retail, hotel and restaurant	161.6	275.7	236.6	246.9	304.3
Non-bank financial institutions and real estate	266.5	282.5	367.7	443.3	278.6
Community, social and personal services	181.7	58.0	56.4	45.7	131.8
All sectors	1325.4	1393.5	1385.7	1470.70	1619.5

* includes non-performing loans

⁵ This decline is a result of re-classification of items that were originally classified under non-bank financial institutions but were later re-classified to other sectors

Figure 15: Commercial Bank's Credit to Business Enterprises
(Percentage shares)



Net Claims on Government

The net claims on government by the banking system decreased further by 15.3 per cent during the first quarter of 2013, following a decrease of 17.5 per cent observed in the previous quarter. This decrease in total net claims by the banking sector was mainly driven by a 6.3 per cent decrease in net claims on Government by the Central Bank and a 27.6 per cent decrease in net claims on Government by the commercial banks. The decrease in net claims on government by Central Bank was as a result of an increase in revenue and the decline in government expenditures.

Table 14: Banking System's Net Claims on Government

(Million Maloti: End of Period)

	2012				2013
	Mar	Jun	Sep	Dec	Mar
Commercial Banks Net Claims	817.9	840.6	875.1	837.1	606.4
Claims on Central Government	840.1	864.0	877.0	839.1	815.9
o/w T-Bills and Bonds	824.0	847.7	843.9	856.7	850.7
Liabilities to Central Government	22.2	23.4	2.0	2.0	209.6
Central Bank Net Claims	-2567.7	-2907.6	-3554.9	-3986.1	-4237.5
Claims on Central Government	214.3	474.5	470.3	479.8	513.5
Liabilities to Central Government	2782.0	3382.2	4025.2	4465.8	4751.0
Total Net Claims Government	-1749.8	-2067.0	-2679.8	-3148.9	-3631.2

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

Net Foreign Assets

The net foreign assets of the entire banking system decreased by 0.4 per cent in the first quarter of 2013 following an increase of 8.2 per cent recorded in December, 2012. The decrease in total net foreign assets was on account of a 14.0 per cent fall in net foreign assets of the Commercial Banks moderated by an increase in net foreign assets of the Central Bank. The fall in net foreign assets of commercial banks was due to increase in commercial banks liabilities to non-residents and the increase in net foreign assets of the Central bank was as a result of an increase claims on non-residents.

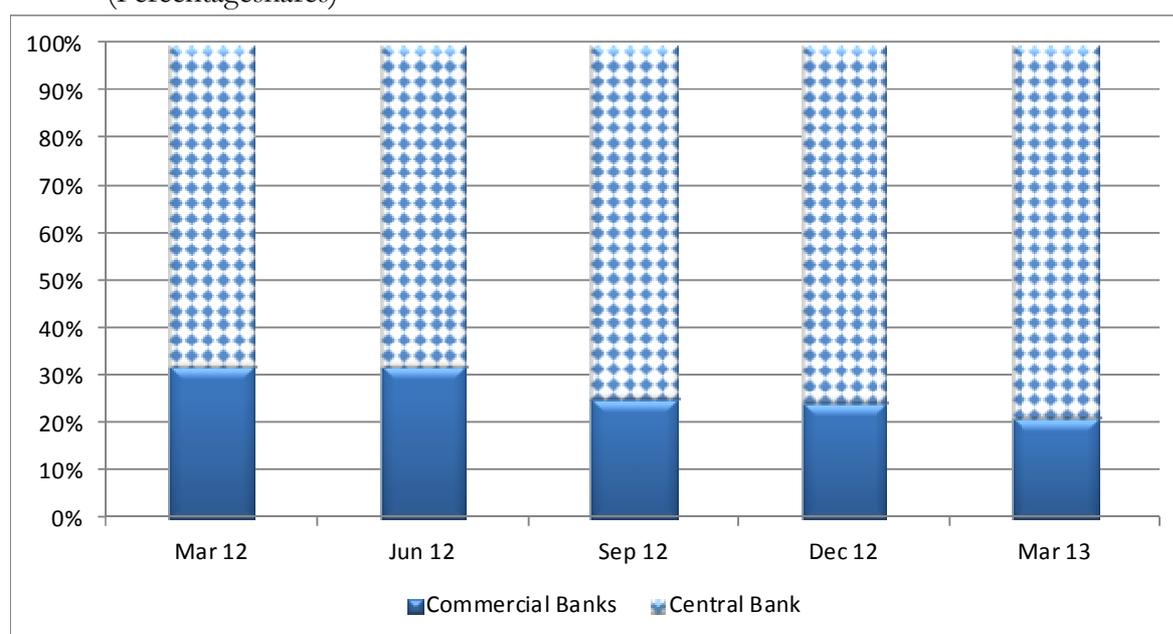
Table 15: Banking System's Claims and Liabilities on Non-residents

(Million Maloti: End of Period)

	2012				2013
	Mar	Jun	Sep	Dec	Mar
A. Commercial Banks	2826.5	2803.1	2357.9	2486.7	2137.9
Claims on Nonresidents	2880.7	2984.2	2540.8	2569.5	2669.1
Liabilities to Nonresidents	-54.1	-181.2	-182.9	-82.8	-531.2
B. Central Bank	5974.8	5924.2	7016.1	7654.2	7959.1
Claims on Nonresidents	6580.9	6808.0	7907.5	8563.6	8926.2
Liabilities to Nonresidents	-606.1	-883.8	-891.4	-909.3	-967.1
Net Foreign Assets Total	8801.3	8727.2	9374.0	10140.9	10097.0

Figure 16: Net Foreign Assets

(Percentage shares)



Money Market Developments

Treasury bills and bonds holdings increased by 1.6 per cent in the quarter under review as in the quarter ending December 2012. The increase in the review quarter was mainly as a result of a 2.2 per cent increase in holding of treasury bills as compared to a 2.1 per cent decline in the previous quarter and 1.1 per cent increase in holding of treasury bonds as compared to a 5.2 per cent increase in the previous quarter.

Table 16: Holding of Treasury Bills and Bonds

(Face Value; Million Maloti)

	2012				2013
	Mar	Jun	Sep	Dec	Mar
Total Holding of Bills and Bonds	1114.3	1159.2	1153.3	1171.5	1190.3
Treasury Bills	588.0	592.9	571.4	559.5	571.7
Banking System	449.1	472.7	467.8	455.4	445.7
Non-Bank Sector	138.9	120.2	103.6	104.1	126.0
Treasury Bonds	526.3	566.4	581.8	625.9	632.6
Banking System	374.9	375.0	376.1	401.2	405.0
Non-Bank Sector	151.4	191.3	205.7	224	227
Memorandum Item					
Average Yield Bills (per cent)	5.34	5.59	5.56	5.45	5.54
Average Yield Bonds (per cent)*	9.25	9.25	8.60	8.60	9.60

* Average of a five year bond

Money Market and Short-term Interest Rates

During the first quarter of 2013, all the Central Bank's interest rates declined while all commercial banks' interest rates remained unchanged. The 91-day Treasury bill and Lombard rates declined to 5.30 from 5.37 and 9.30 from 9.37 per cent respectively. Under the commercial banks, the prime lending rate, call rate, time deposit rates and savings rate were constant. In South Africa, the SARB MPC committee maintained the repo rate at 5.00 per cent. The 91-day TB rate increased slightly from 4.95 to 5.08 per cent while the prime lending rate remained flat at 8.50. The low and flat interest rates environment within the region reflects an accommodative monetary policy stance by monetary authorities as economic recovery is sluggish and inflation risks abate.

Table 17: Major Money Market Interest Rates

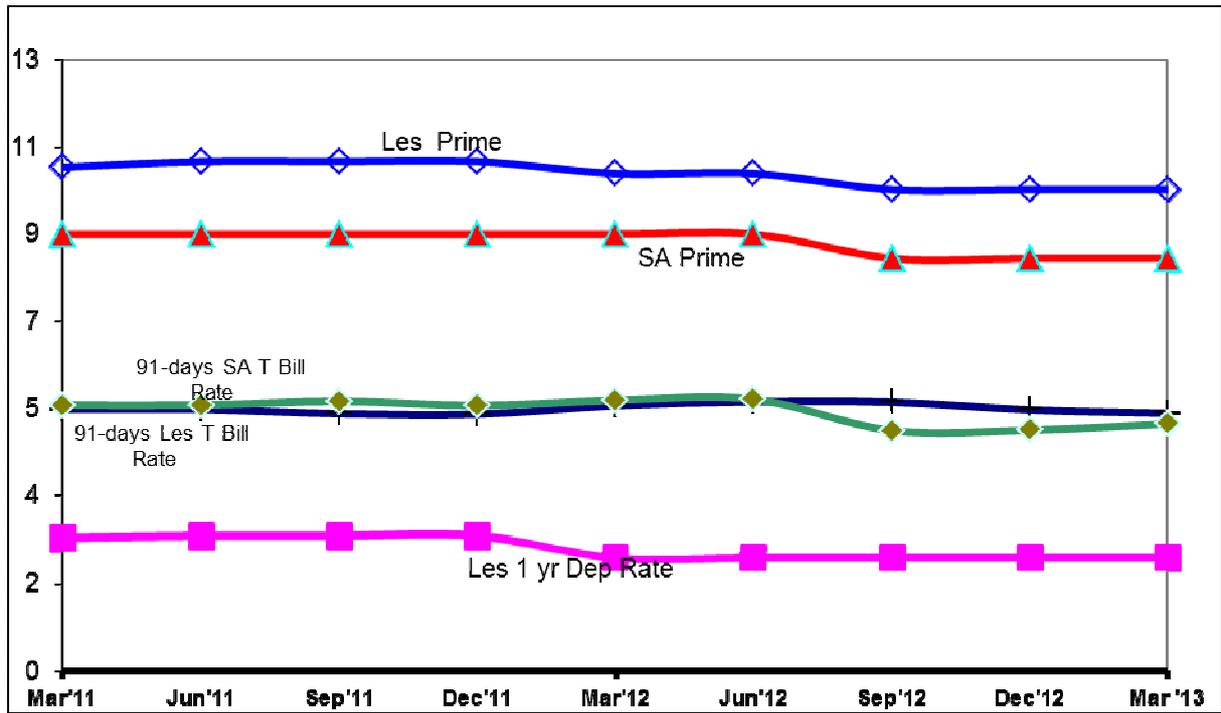
(Per cent: End of Period)

Interest Rates by Type	2012				2013
	Mar	Jun	Sep	Dec	Mar
Central Bank					
T Bill Rate – 91 Days	5.46	5.59	5.43	5.37	5.30
Lombard Rate	9.46	9.54	9.43	9.37	9.30
Commercial Banks ⁵					
Call	0.77	0.77	0.77	0.77	0.77
Time:					
31 days	0.91	0.91	0.91	0.91	0.91
88 days	1.41	1.41	1.41	1.41	1.41
6 months	1.69	1.69	1.69	1.69	1.69
1 year	2.34	2.34	2.34	2.34	2.34
Savings	0.84	0.84	0.84	0.84	0.84
Prime	10.25	10.25	9.92	9.92	9.92
South Africa*					
Repo	5.50	5.50	5.00	5.00	5.00
T Bill Rate – 91 Days	5.56	5.59	4.90	4.95	5.08
Marginal Lending					
Rate	10.50	10.50	10.50	10.5	10.50
Prime	9.00	9.00	8.50	8.5	8.5

* Figures for South Africa were obtained from the SARB

⁵ Average rates by commercial banks

Figure 17: Short-Term Interest Rates
 (Per cent Per Annum)

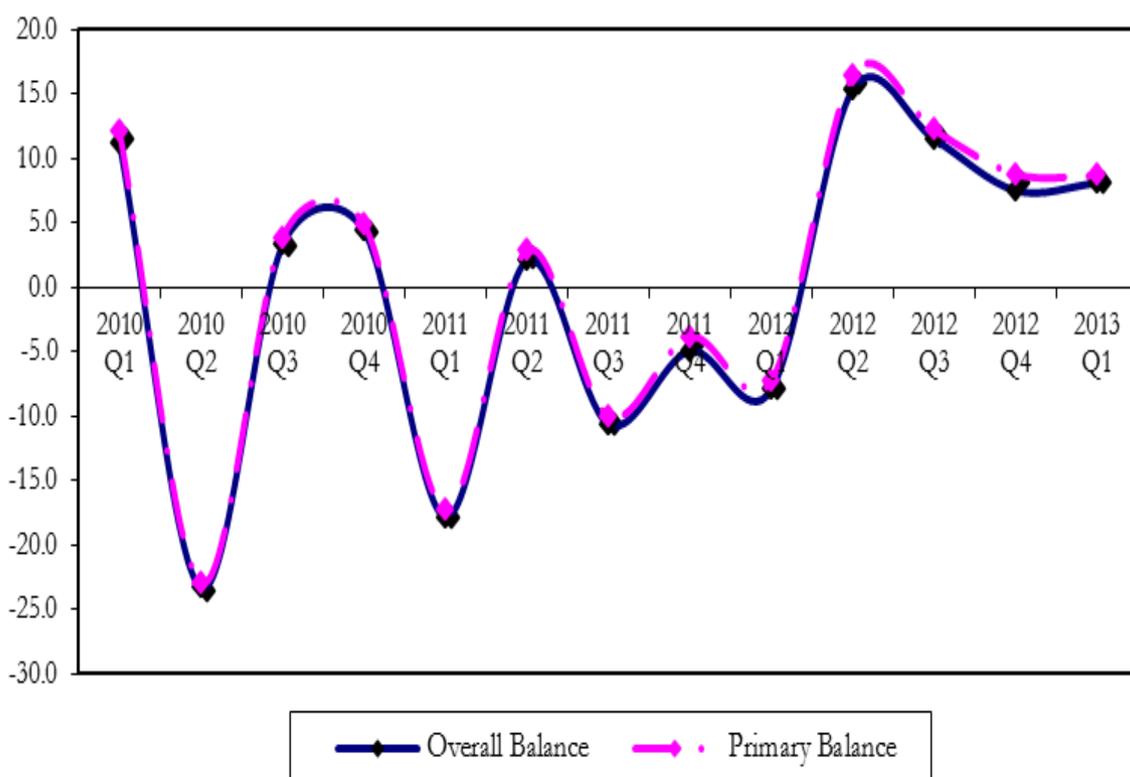


V. Government Finance

Summary of Budget Outturn

Quarterly estimates indicate that government budgetary operations, for the quarter ending in March 2013, recorded a surplus equivalent to 8.1 per cent of GDP. The surplus for this quarter is slightly higher than 7.5 per cent of GDP recorded in the quarter ending in December, 2012. The surplus is indicative of improved revenue collection and a moderation in government expenditures.

Figure 18: Primary Balance versus Overall Balance
(In per cent of GDP)



Revenue

Total revenue⁶ rose by 7.4 per cent during the quarter under review, compared with an increase of 0.1 per cent recorded in the previous quarter. The observed growth in total revenue resulted from an increase of 1.6 per cent in tax revenue and a 74.9 per cent increase in non-tax revenue. The good performance in tax revenue was attributed to an improved collection of VAT, in which spillovers to other business from large construction projects, such as the Roma-Semonkong-Qacha's Nek road and the two shopping malls, contributed immensely to the good performance. For the quarter under review, SACU revenue and income taxes remained the largest contributors to total revenue. However, SACU's contribution to total revenue declined from 52.1 per cent to 48.6 per cent while income tax as a share of total revenue decreased from 21.6 per cent to 20.2 per cent.

⁶ Total revenue comprises tax revenue and non-tax revenue.

Table 18: Government Revenue

(Million Maloti)

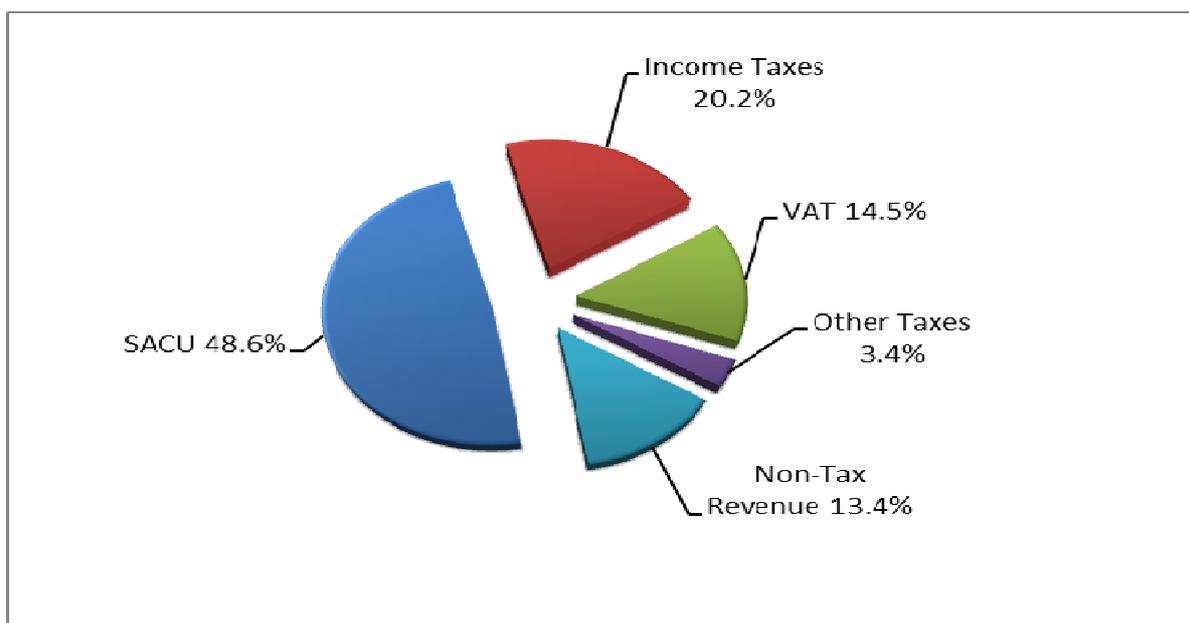
	2011/12	2012/13			
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec ⁺	Jan-Mar*
Total Revenue and Grants	2548.1	3178.2	3176.6	3544.7	3469.1
Total Revenue	2111.3	2801.1	2742.7	2950.8	3168.2
<i>Tax Revenue</i>	1938.2	2437.1	2538.3	2718.2	2761.5
Customs	688.2	1491.6	1491.6	1491.6	1491.6
Non-customs	1250	945.5	1046.7	1226.6	1269.9
Income Taxes	789.3	539.3	569.2	619.6	619.6
Taxes on goods & services	444.4	393	432.7	532.1	545.7
Other Taxes	16.3	13.2	44.8	74.9	104.6
<i>Non-Tax Revenue</i>	173.1	364	204.4	232.6	406.7
Of which: Water royalties	137.8	163	159.6	222.7	114.7
Grants	436.8	377.1	433.9	593.9	300.9

Source: Ministry of Finance (MoF)⁺Revised^{*}Preliminary estimates

Non-tax revenue⁷ increased by 76.7 per cent in the review quarter following a 23.2 per cent increase in the previous quarter. The rise in non-tax revenue reflected amongst others, the rand compensation received during the quarter. Preliminary estimates indicate that grants decreased by 28.5 per cent in the quarter under review, partly reflecting the once off budget support grants received in the previous quarter and winding down of some projects supported by the MCA.

⁷Non-tax revenue comprises dividends from operations of organisations with public ownership, royalties from Lesotho Highlands Water Project (LHWP), rand compensation and other revenues.

Figure 19: Sources of Government Revenue



Expenditure

Government expenditure and net lending which include recurrent and capital expenditures, fell during the quarter under review. Government expenditures registered a 3.3 per cent decrease in the quarter under review following an increase of 16.9 per cent in the previous quarter. The fall was reflective of a decrease in capital expenditure and interest payment which was high enough to offset the increase in personnel emoluments and other expenditures. Recurrent expenditures⁸ increased by 10.3 per cent, in contrast to a decrease of 4.3 per cent recorded in the previous quarter. Personnel emoluments continue to account for the largest share of recurrent expenditures at 45.0 per cent, higher than 41.2 per cent recorded in the previous quarter. In the second position is expenditure on goods and services at 32.5 per cent, down from 36.3 per cent recorded in the previous quarter. During the review period, capital expenditure decreased by 23.1 per cent, after an increase of 73.1 per cent observed in the quarter ending in December, 2012.

⁸ Recurrent expenditure is made up of amongst others, wages and salaries, expenditures on goods and services, subsidies and transfers.

Table 19: Government Expenditure
(Million Maloti)

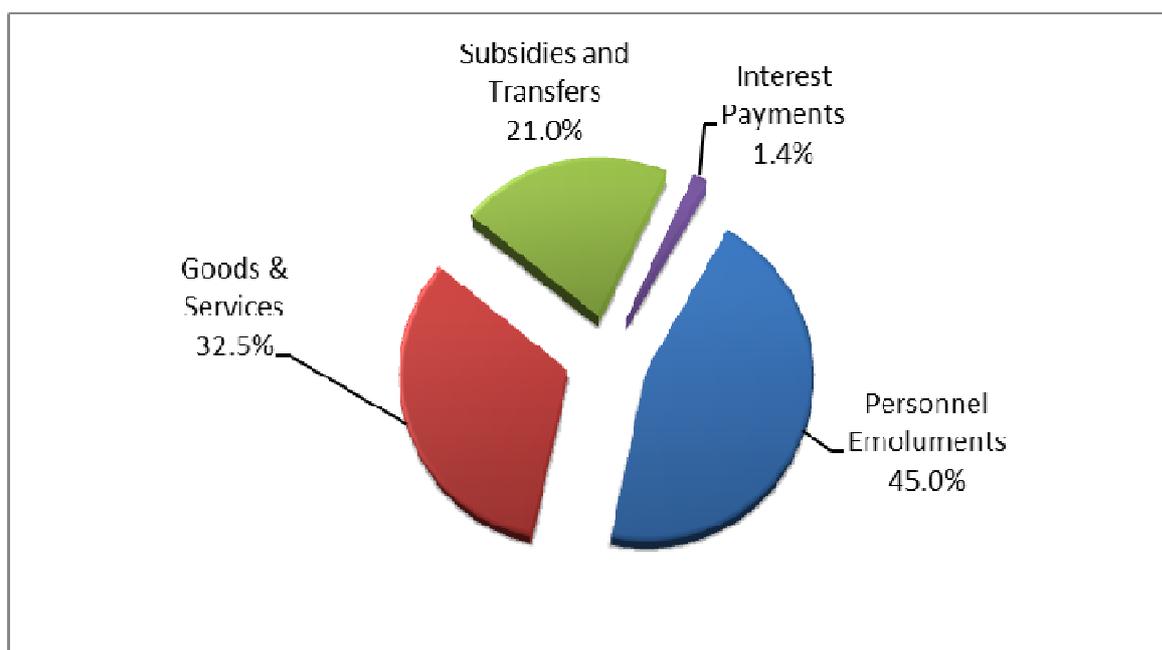
	2011/12	2012/13			
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec ⁺	Jan-Mar*
Total Expenditure & Net Lending	2871.7	2550	2704.2	3170.4	3072.7
Recurrent Expenditure	2434.9	2005.4	2097.8	1882.9	2082.3
Personnel Emoluments	1002.5	892.6	1083.7	829.1	852.4
Interest Payments	28.5	46.3	27.4	63.2	35.2
Foreign	18.2	16.5	18.7	26.7	25.6
Domestic	10.3	29.8	8.7	36.5	9.6
Other Expenditure	1403.9	1066.5	986.7	990.6	1194.7
Capital Expenditure	436.8	544.2	606.4	1287.5	990.4
Net Lending	-	-	-	-	-

Source: MoF

+Revised

*Preliminary estimates

Figure 20: Recurrent Expenditure by Type



Financing

As a result of a positive fiscal balance realized since the previous three quarters, government did not have immediate financing needs, hence why it continued to build its deposits with the banking system. Preliminary estimates reflect a surplus equivalent to 8.1 per cent of GDP during the review period, in contrast to 7.5 per cent realized in the previous quarter.

Table 20: Government Financing

(Million Maloti)

	2011/12	2012/13			
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec ⁺	Jan-Mar*
Financing	323.6	628.2	-470.8	-374.3	-452.8
Foreign	-77.4	-8.9	144.3	89.8	26.5
Loan drawings	9.8	24.2	208.9	129.3	120.8
Amortization	-87.2	-33.1	-64.6	-39.5	-94.3
Domestic	401	-619.3	-615.1	-464.1	-479.3
Bank Financing	382.7	-600	-618.9	-469.1	-482.2
Non – Bank	18.3	-19.3	3.8	5.0	2.9

Source: MoF

+Revised

*Preliminary estimates

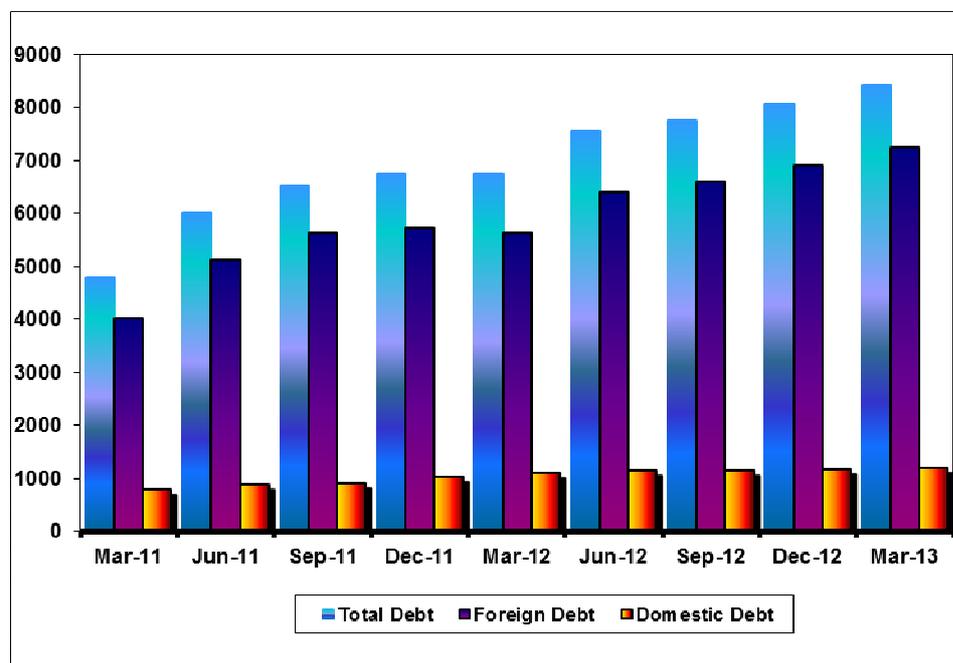
Public Debt

Overview

Outstanding government debt⁹ increased by 4.4 per cent in the quarter under review compared with 5.4 per cent increase recorded in the previous quarter. The increase in total public debt was due to an increase in external debt, caused, in part, by the depreciation of the Loti against the major currencies. External debt rose by 4.9 per cent and domestic debt by 1.6 per cent. As a percentage of GDP, public debt stood at 42.4 per cent compared with 40.6 per cent recorded in the previous quarter. At this level, public debt was still sustainable as it remained below the 60.0 per cent macroeconomic convergence target set by SADC, and provides enough fiscal space for the future. External debt continued to be the largest portion of the overall debt stock at 85.9 per cent while domestic debt constituted 14.1 per cent of total public debt stock.

⁹ Government debt stock is made up of both external and domestic borrowing.

Figure 21: Outstanding Public Debt
(Million Maloti: End of Period)



External debt

External debt increased by 4.9 per cent on a quarterly basis, compared with an increase of 4.7 per cent recorded in the quarter ending in December, 2012. Loans from multilateral sources continued to constitute a larger share of external borrowing at 88.2 per cent while bilateral loans constituted 5.1 per cent. As a percentage of GDP, external debt was 36.4 per cent during the review period, which is slightly higher than 34.7 per cent recorded in the previous quarter.

Table 22: External Debt
(Million Maloti)

	2012				2013
	QI	QII	QIII	QIV	QI
External Debt	5626.2	6397.7	6591.7	6901.4	7240.9
Bilateral Loans	242.8	260.6	312.5	340.6	367.4
Concessional	242.8	260.6	312.5	281.7	303.9
Non-concessional	0.0	0.0	0.0	58.9	63.5
Multilateral Loans	5058.8	5739.2	5863.3	6119.5	6387.9
Concessional	4869.4	5442.5	5412.0	5643.5	5891.0
Non-concessional	189.4	296.7	451.3	476.0	496.9
Financial Institutions	63.2	63.5	62.0	62.0	59.8
Concessional	0.0	0.0	0.0	0.0	0.0
Non-concessional	63.2	63.5	62.0	62.0	59.8
Suppliers' Credit	261.1	334.4	353.9	379.3	425.8

Source: MoF

Domestic Debt

Domestic debt stock mainly comprises Treasury bills and bonds. It increased by 1.6 per cent during quarter ending in March, in comparison to an increase of 9.3 per cent recorded in the previous quarter. Commercial banks hold the largest share of Treasury bills and bonds at 70.0 per cent, while the non-bank sector holds 30.0 per cent. As a percentage of GDP, domestic debt was 6.0 per cent on a quarter-to-quarter basis compared with a 7.0 per cent observed in the previous quarter.

Table 21: Domestic Debt
(Million Maloti)

	2012				2013
	QI	QII	QIII	QIV	QI
Domestic Debt	1114.3	1159.2	1153.3	1171.5	1190.3
Banks	824.0	847.7	843.9	960.7	850.7
Long-term	374.9	375.0	376.1	401.2	405.0
Short-term	449.1	472.7	467.8	559.5	445.7
Of which: treasury bills	449.1	472.7	467.8	559.5	445.7
Non -bank	290.3	311.5	309.3	314.8	339.6
Short-term (TBs)	138.9	120.2	103.6	104.1	126.0
Long-term	151.4	191.3	205.7	210.7	213.6

Source: MoF

VI. Foreign Trade and Payments

Current Account

The current account balance widened further during the first quarter of 2013 compared to the last quarter of 2012 registering a deficit of M976.3 million against the previous M613.9. The deficit was a result of the worsening of trade balance due to a rise in merchandise imports while merchandise exports declined. Trade in goods and services registered a deficit of M3.6 billion during the quarter compared to a deficit of M3.1 billion in the previous quarter. As a percentage of GDP current account balance registered a deficit of 19.6 per cent in first quarter of 2013 following a deficit of 12.3 per cent in the previous quarter.

Table 22: Current Account Balance
(Million Maloti)

	2012				2013
	QI	QII	QIII	QIV*	QI+
I. Current Account	-2059.61	-1419.02	-396.24	-613.91	-976.34
(a) Goods	-2997.28	-2992.63	-2061.52	-2280.21	-2716.94
Merchandise exports f.o.b.	1575.56	2114.96	2232.72	2075.89	2017.12
Of which diamonds	550.1	747.35	658.85	532.66	565.84
Of which textiles and clothing	630.22	868.04	958.18	953.75	820.63
Other exports	257.31	334.08	441.49	405.21	630.65
Merchandise imports f.o.b.	-4436.76	-4964.57	-4125.82	-4172.52	-4734.06
(b) Services	-834.11	-859.83	-823.69	-857.20	-843.50
(c) Income	502.78	520.10	541.45	520.76	544.49
(d) Current Transfers	1269.00	1913.35	1947.52	2002.74	2039.62

* Revised estimates

+ Preliminary estimates

Merchandise Exports

Merchandise exports continued to decline during the first quarter of 2013. A decline of 2.8 per cent was realised in the quarter ending in March 2013 following a decline of 7.0 per cent in the fourth quarter of 2012. The fall in merchandise exports was mainly driven by the disruptions that stemmed from the uncertainties that surrounded the extension of the Third Country Fabric Provision (TCFP) before its extension in September 2012. As a share of GDP, merchandise exports were 40.5 per cent compared to 42.0 per cent recorded in the previous quarter.

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

COMMODITY	2012				2013
	QI	QII	QIII	QIV*	QI+
0. Food & Live Animals	72.18	67.02	66.57	52.60	69.23
Cattle	0.00	0.00	0.00	0.00	0.00
Wheat Flour	39.14	41.56	37.97	31.36	33.97
Maize Meal	9.87	0.41	1.11	0.11	4.82
Other	23.17	25.05	27.49	21.13	30.44
1. Beverages & Tobacco	136.08	143.45	169.27	183.89	176.42
Beverages	136.08	143.45	169.27	183.89	176.42
2. Crude Materials	550.10	767.28	661.84	550.97	578.61
Textiles fibres	0.00	19.82	2.90	18.15	12.70
Of which Wool	0.00	19.82	2.90	18.15	12.70
Of which Mohair	0.00	0.00	0.00	0.00	0.00
Crude fertilizers & crude minerals	550.10	747.35	658.85	532.66	565.84
Of which Diamond	550.10	747.35	658.84	532.65	565.84
Other	0.00	0.10	0.09	0.16	0.07
4. Manufactured Goods	34.42	55.08	57.20	70.44	67.06
Of which textiles yarn and fabric	32.84	40.26	41.12	55.82	40.20
Of which manufactured goods	1.58	14.82	16.08	14.62	26.86
5. Machinery & Transport Goods	174.79	230.86	318.05	248.92	290.89
6. Miscellaneous Manufactured Goods	605.91	848.30	955.41	963.38	829.55
Of which clothing accessories	542.51	754.62	875.99	897.94	780.43
Other	63.40	93.68	79.42	65.44	49.12
7. Unclassified Goods	2.08	2.97	4.38	5.70	5.36
TOTAL EXPORTS	1575.56	2114.96	2232.72	2075.89	2017.12

Note: Totals may not tally due to rounding

* Revised estimates

+ Preliminary estimates

Standard International Trade Classification

Merchandise Imports

In the quarter under review, merchandise imports increased by 8.7 per cent, compared to 1.4 per cent registered in the quarter ending in December 2012. This increase was attributable to high demand of investment goods to support the booming construction activities associated with the Metolong dam project. The growth in imports was further fuelled by an increase of 36.3 per cent

in government purchases of goods and services in line with end of fiscal year purchases, which are normally higher. As a share of GDP, imports were 95.1 per cent in the first quarter of 2013, compared to 87.7 per cent in the previous quarter.

Direction of Trade

During the quarter ending in March 2013, the African continent, particularly the SACU region received the largest share of Lesotho's exports with a share of 37.9 per cent, following 37.7 per cent registered in the quarter ending in December 2012. The second largest destination of Lesotho's exports was the American market, where a large portion of Lesotho exports, in particular, textiles and clothing is destined for. Its share moderated to 32.2 per cent in the review quarter, from 36.9 per cent in the previous quarter. The third largest recipient market was Europe, in particular Belgium with a share of 28.2 per cent during the quarter, after having recorded 24.6 per cent in the previous quarter. This is where a large portion of Lesotho's diamonds is exported. The Asian and Oceania markets remained insignificant with a share of 0.6 per cent and 0.2 per cent, respectively during the quarter under review, compared with 1.0 per cent and 0.3 per cent registered in the previous quarter.

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

(Million Maloti)

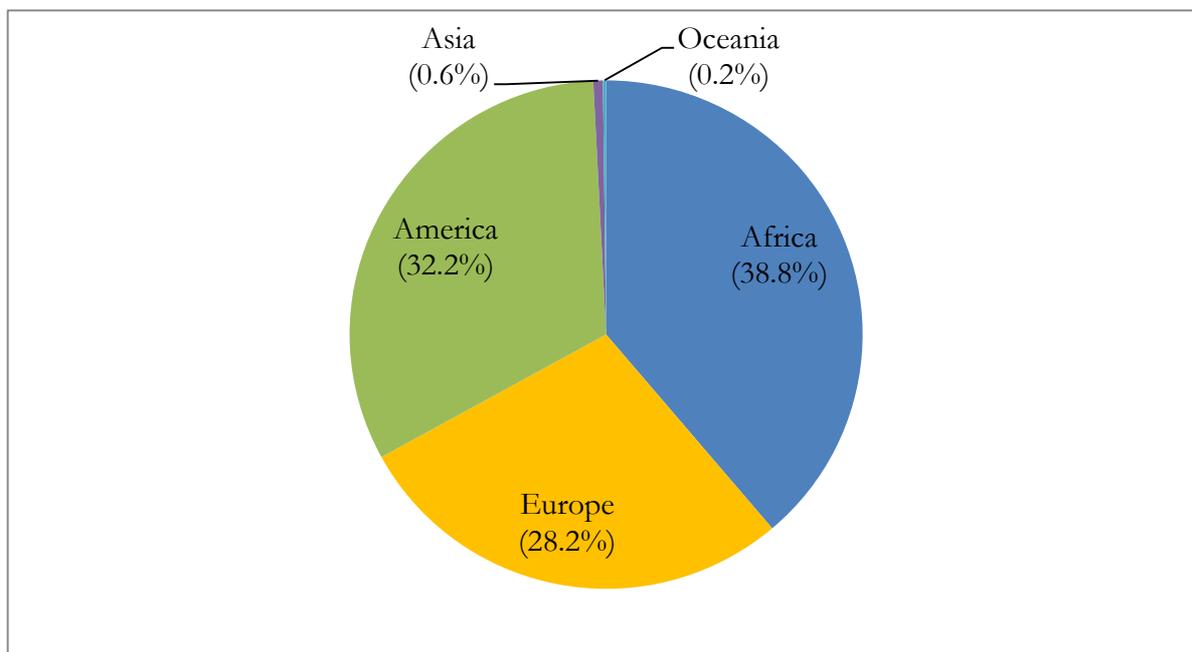
Region	2012				2013
	QI	QII	QIII	QIV*	QI+
World	1575.56	2114.96	2232.72	2075.89	2017.12
Africa	722.60	912.02	738.33	783.82	782.26
SACU	713.93	896.31	827.33	767.33	765.06
SADC	4.31	6.36	7.49	11.46	7.40
Other	4.36	9.35	2.55	5.03	9.80
Europe	463.56	665.26	657.45	511.70	569.64
EU	463.56	664.38	656.66	511.66	569.64
America	371.70	508.37	706.60	753.34	648.48
Asia	12.26	26.56	26.33	21.32	11.82
Oceania	5.44	2.75	4.97	5.71	4.92

Note: Total may not tally due to rounding

* Revised estimates

+ Preliminary estimates

Figure 22: Direction of Merchandise Exports



Services Account

The deficit in the net services account narrowed to M843.5 million in the quarter under review following a deficit of M857.2 million registered in the fourth quarter of 2012. The country, however, still remains the net importer of services. The drop in deficit was largely driven by the fall in payments for Lesotho's embassies abroad. As a share of GDP, net services recorded 16.9 per cent compared with 17.2 per cent registered in the previous quarter.

Income Account

The income account balance increased by 4.6 per cent in the first quarter of 2013, compared with a decline of 3.8 per cent realised in the previous quarter. The improvement emanated from an increase in LHDA receipts for operational cost. However, this was moderated by the drop in returns from investments abroad by both CBL and Commercial banks during the quarter. As a share of GDP, the income balance was 10.9 per cent in the first quarter of 2013 against 10.5 per cent recorded in the previous quarter.

Current Transfers

The current transfers' receivable rose by 1.8 per cent during the quarter under review, after an increase of 2.8 per cent in the quarter ending in December 2012. This resulted largely from rand compensation payment amounting to M144.1 million, which was received in March 2013. SACU receipts, which take the largest share of the current transfers, remained unchanged during the quarter under review. As a share of GDP, current transfers recorded 41.0 per cent in the quarter ending in March 2013 compared to 40.2 per cent in the previous quarter.

Capital and Financial Account

The capital and financial account continued to register net inflows of M1.2 billion in the first quarter of 2013, after having recorded a lower inflow of M1.0 billion in the quarter ending in December 2012. The observed inflows emanated largely from financial account which registered a surplus of M936.3 million, following M520.2 million in the previous quarter. The surplus was driven by an increase in both CBL and commercial banks' foreign liabilities. CBL increased its foreign liabilities by M57.7 million in the review quarter, while commercial banks' foreign liabilities recorded an inflow of M448.4 million during the same period. Relative to GDP, capital and financial account was 24.1 per cent in the quarter ending in March 2013, following 20.9 per cent realised in the quarter ending in December 2012.

Table 25: Capital and Financial Account
(Million Maloti)

	2012				2013
	QI	QII	QIII	QIV*	QI ⁺
I. Capital and Financial Account	1154.60	1277.30	1217.74	1039.83	1199.54
Capital Account	382.20	329.96	379.66	519.66	263.29
Financial Account	772.40	947.34	838.08	520.17	936.25
II. Reserve Assets	770.08	-227.12	-1098.93	-665.26	-486.07

* Revised estimates

+ Preliminary estimates

Reserve Assets

The gross international reserves grew by 4.2 per cent to M8.9 billion in the quarter ending in March 2013, compared with an increase of 8.3 per cent registered in the quarter ending in December 2012. The growth resulted from an increase in CBL foreign assets holdings largely on account of gains from depreciation of local currency against the major currencies where foreign reserves were held. The growth was also supported by an increase in government deposits during the quarter. However, measured in months of import cover, gross official reserves declined marginally to 4.6 months in the review quarter from 4.8 months in the previous quarter, due to a rise in payments for imports.

Figure 23: Reserve Assets

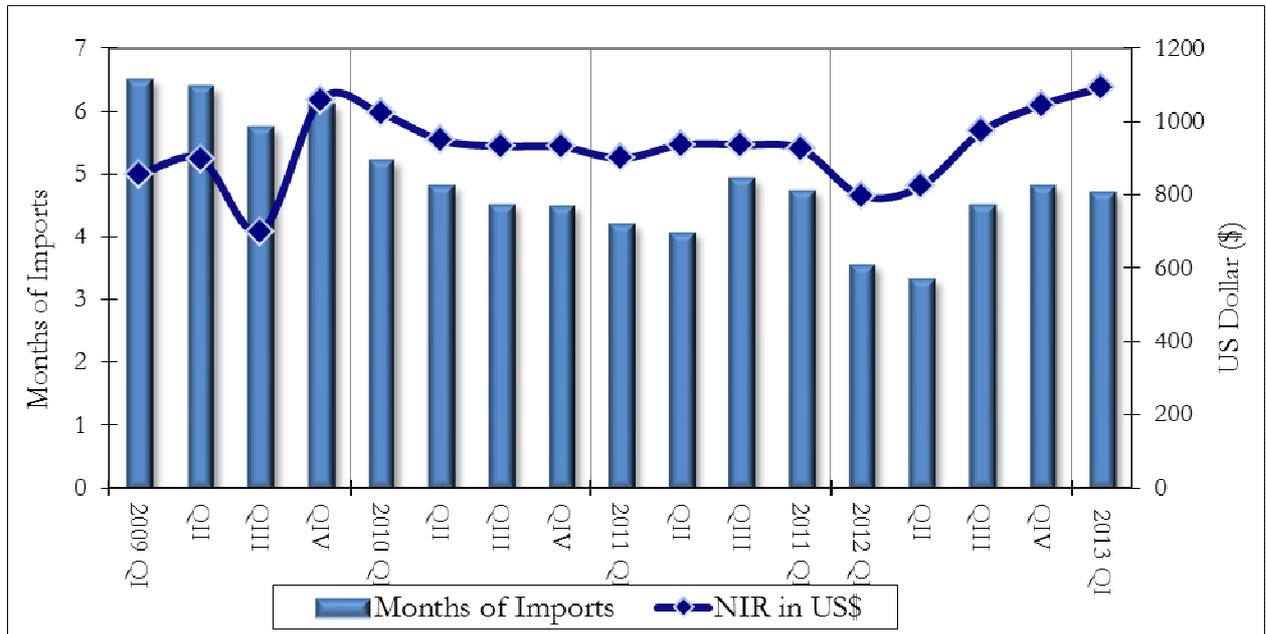
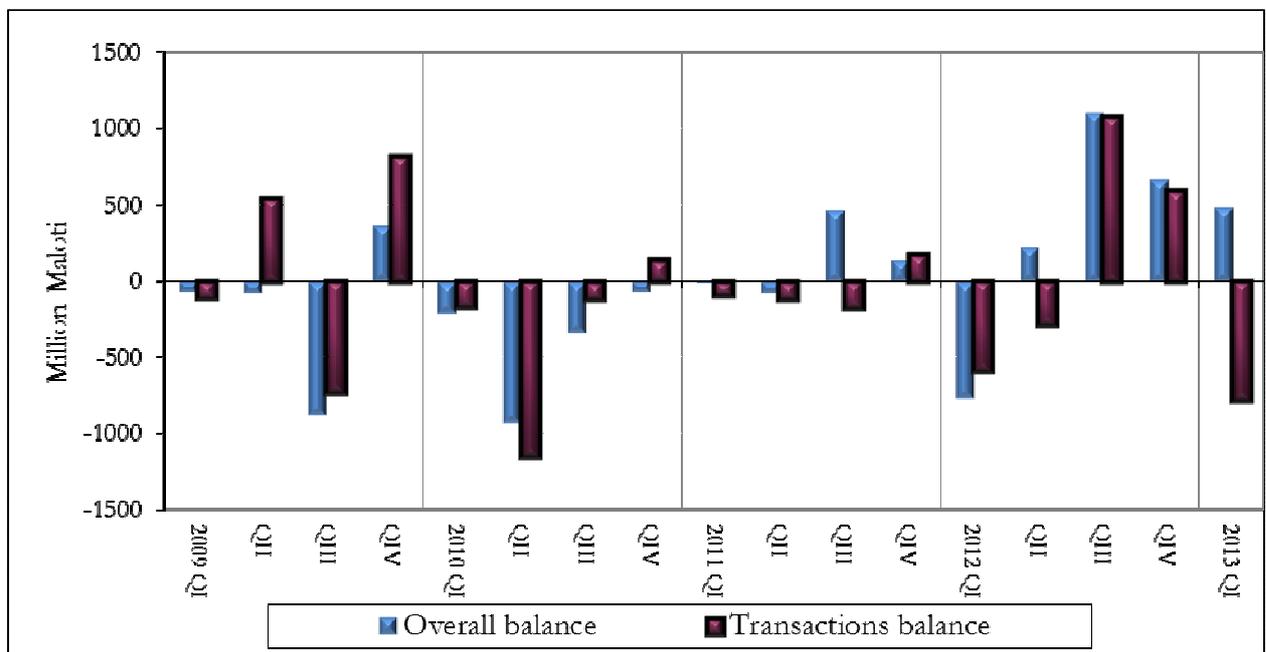


Figure 24: Balance of Payments



Exchange Rates

The domestic currency unit, the Loti, which is fixed at par to the South Africa Rand depreciated against the US Dollar and the Euro, while it appreciated against the Pound Sterling during the first quarter of 2013. The weakness of the Rand continued to be influenced by domestic factors such as resurgent labour market instability which negatively affected export sub-sector and widened trade deficit. The depreciation was further fuelled by the downgraded rating by Fitch at the beginning of the 2013. The Loti depreciated by quarterly average of 4.3 per cent to M9.07 and 4.9 per cent to M11.83 against the US Dollar and the Euro, respectively. However, it appreciated by 0.5 per cent against the Pound Sterling during the same quarter. The depreciation of the local currency could increase the competitiveness of Lesotho's exports, and thus lead to higher export earnings.

Figure 25: Nominal Exchange Rate of the Loti against Major Currencies

