

# **CENTRAL BANK OF LESOTHO**

## **QUARTERLY REVIEW**

**DECEMBER, 2012**

**MASERU  
KINGDOM OF LESOTHO**

## Table of Contents

<b>I. Introduction.....</b>	<b>1</b>
<b>II. International Economic Developments .....</b>	<b>2</b>
United States (US).....	2
Euro-area.....	3
China.....	4
India.....	4
South Africa (SA).....	5
Commodity Prices .....	5
Secondary Sector Developments.....	11
<b>IV. Monetary and Financial Developments.....</b>	<b>21</b>
Determinants of Money Supply.....	21
Components of Money Supply .....	23
Commercial Banks' Deposits by Holder .....	24
Liquidity of Commercial Banks .....	25
Demand for Money .....	27
Domestic Claims.....	27
Net Foreign Assets .....	31
Money Market Developments .....	33
Money Market and Short-term Interest Rates .....	33
<b>V. Government Finance.....</b>	<b>35</b>
Summary of Budget Outturn .....	35
Revenue.....	36
Financing.....	40
External debt.....	41
Domestic Debt.....	42
<b>VI. Foreign Trade and Payments .....</b>	<b>43</b>
Overview .....	43
Current Account .....	43
Current Transfers.....	48
Capital and Financial Account .....	48
Reserve Assets.....	49
Exchange Rates .....	51
<b>VII. Statistical Tables .....</b>	<b>52</b>

## List of Tables

Table 1:	Key World Economic Indicators .....	3
Table 2:	Electricity Consumption.....	12
Table 3:	Water Consumption .....	13
Table 4:	Telephone Traffic Statistics.....	15
Table 5:	Motor Vehicles .....	16
Table 6:	Employment Trend of LNDC Assisted Companies.....	17
Table 7:	Inflation Rate .....	20
Table 8:	Determinants of Money Supply.....	22
Table 9:	Money Supply .....	23
Table 10:	Commercial Banks; Deposits by Holder .....	25
Table 11:	Components of Commercial Banks' Liquidity .....	26
Table 12:	Consolidated Balance Sheet of Commercial Banks .....	27
Table 13:	Domestic Credit Excluding Net Claims on Government* .....	28
Table 14:	Sectoral Distribution of Credit to Enterprises*.....	29
Table 15:	Banking System's Net Claims on Government .....	31
Table 16:	Banking System's Claims and Liabilities on Non-residents.....	32
Table 17:	Holding of Treasury Bills and Bonds.....	33
Table 18:	Major Money Market Interest Rates.....	34
Table 19:	Government Revenue.....	37
Table 20:	Government Expenditure.....	39
Table 21:	Government Financing .....	40
Table 22:	External Debt.....	42
Table 23:	Domestic Debt .....	43
Table 24:	Current Account Balance .....	44
Table 25:	Value of Exports by Section on the S.I.T.C. # .....	45

Table 26:	Direction of Trade - Exports and Re-Exports, f.o.b.....	47
Table 27:	Capital and Financial Account .....	49

### List of Figures

Figure 1:	Average Price of Gold.....	6
Figure 2:	Average Price of Platinum.....	7
Figure 3:	Average Price of Oil.....	8
Figure 4:	Average Spot Price of Maize.....	9
Figure 5:	Average Spot Price of Wheat.....	10
Figure 6:	Weighted Diamond Production Index.....	11
Figure 7:	Value of Sales Turnover.....	14
Figure 8:	Government Employment .....	18
Figure 9:	Migrant Mineworkers Employment.....	19
Figure 10:	Annual Inflation Rate .....	21
Figure 11:	Overview of Recent Monetary Developments.....	22
Figure 12:	Components of Money Supply .....	24
Figure 13:	Distribution of Credit by Holder.....	28
Figure 14:	Commercial Bank's Credit to Business Enterprises.....	30
Figure 15:	Net Foreign Assets.....	32
Figure 16:	Short-Term Interest Rates .....	35
Figure 17:	Primary Balance versus Overall Balance.....	36
Figure 18:	Sources of Government Revenue.....	38
Figure 19:	Recurrent Expenditure by Type.....	39
Figure 20:	Outstanding Public Debt .....	41
Figure 21:	Direction of Merchandise Exports.....	47
Figure 22:	Reserve Assets.....	50
Figure 23:	Balance of Payments .....	50
Figure 24:	Nominal Exchange Rate of the Loti against Major Currencies .....	51

## I. Introduction

The world economic conditions continued to deteriorate during the fourth quarter of 2012, especially in the Euro zone, and this was reflective of the persistent sovereign debt stress in the Euro Area. Economic growth remained feeble in advanced economies at the back of weak domestic demand. The pace of expansion also slowed in emerging markets and developing economies, due to poor export sector performance in response to weak demand from the US and the Euro Area. International commodity prices rose modestly during the quarter, except for the price of maize which declined.

Domestic economic activity continued to remain moderate during the fourth quarter of 2012. Diamond production rose by 7.3 per cent during the quarter ending in December 2012 compared with a decline of 7.2 per cent in the previous quarter. On an annual basis, the weighted diamond production index rose by 6.3 per cent. This was explained by the increase in the volume of carats recovered by Letšeng and Liphobong Mines during the review quarter. Production by Letšeng, the largest diamond producer in Lesotho, recovered after deteriorating in the third quarter. While diamond production has recently been decelerating in a number of countries due to low global demand hence prices, Lesotho's diamond production continued to show resilience during the review quarter. This is mainly attributed to the quality of Lesotho's diamonds which continue to fetch higher prices. Consumption of utilities, a measure of activity in the manufacturing industry showed mixed signals. While electricity consumption fell, water consumption increased. Total employment by LNDC assisted companies showed a moderate increase while Government employment rose by a marginal 0.5 per cent.

Lesotho's annual inflation rate, measured as a percentage change in the consumer price index (CPI) for all households, declined to 4.5 per cent in December 2012 from 5.4 per cent in the previous quarter. The decline in the general price level was influenced by the deceleration in the prices of 'food and non-alcoholic beverages', 'alcoholic beverages and tobacco', 'housing, electricity, gas and other fuels', 'transport' as well as 'restaurants and hotels'. In terms of determinants, inflation continued to be influenced by movements in food and international oil prices, the weak exchange rate between the rand (hence loti) vis-à-vis other international currencies.

Money supply expanded by 6.9 per cent during the quarter under review following a 2.0 per cent contraction observed in the third quarter of 2012. On an annual basis, money supply increased by 7.3 per cent compared with a 4.0 per cent decline observed in the previous quarter. The quarterly increase in money supply was influenced an increase in net foreign assets and domestic claims excluding net claims on government by 8.2 and 8.8 per cent, respectively. Preliminary estimates indicate that government budgetary operations recorded a surplus equivalent to 9.2 per cent of GDP, which was slightly lower than 11.5 per cent recorded in the quarter ending in September, 2012. The surplus depicted the steady recovery in revenues while growth in expenditures remained relatively constant, in line with government policy under the Extended Credit Facility (ECF) programme. However, the narrowing of the fiscal surplus, during the quarter under review, was brought about by an increase in overall expenditures, which increased by 16.3 per cent in the period under review compared to a 6.0 per cent increase recorded in the previous quarter.

The current account deficit continued to deteriorate during the fourth quarter of 2012. It widened to M685.0 million in the quarter ending in December 2012, following a M344.1 million deficit recorded in the previous quarter. The deficit was largely driven by the widening of merchandise trade deficit, as a result of an increase in merchandise imports while merchandise exports shrank during the period. Trade in goods rose to a deficit of M2.3 billion in the review quarter, from 2.0 billion in the previous quarter. In addition, a marginal rise in payments for services acquired abroad contributed to the widening of current account balance. Relative to GDP, current account registered a deficit of 14.9 per cent in the review period, compared with 7.5 per cent in the previous quarter.

## **II. International Economic Developments**

The world economic output continued to deteriorate during the fourth quarter of 2012, amid continuing sovereign debt stress in the Euro Area. Economic growth remained sluggish in advanced economies at the back of weak domestic demand. The pace of expansion also slowed in emerging markets and developing economies, due to poor performance of the export sector owing to weak demand from the US and the Euro Area. International commodity prices rose modestly during the quarter, except for the price of maize which declined. The increasing commodity prices may lead to higher inflation which could erode the consumers' purchasing power.

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

Preliminary statistics indicated that economic growth in the US moderated to 1.5 per cent in the fourth quarter of 2012, compared with 2.6 per cent in the previous quarter. The lower growth in GDP emanated mainly from a reduction in private inventory investment, government spending and exports. However, this was offset by acceleration in non-residential fixed investment, personal consumption expenditure and a larger decrease in imports.

The US inflation rate subdued to 1.7 per cent in the quarter ending in December 2012, following 2.0 per cent recorded in the quarter ending in September 2012. The deceleration resulted largely from a decline in gasoline prices which overshadowed an increase in food prices. In order to continue supporting economic recovery and to help ensure that inflation is within the target, the Federal Open Market Committee decided to leave its benchmark lending rate unchanged at 0.25 per cent during the quarter.

In the labour market, the rate of unemployment remained unchanged at 7.8 per cent in December 2012, compared with September 2012, despite the lower economic activity during the review quarter.

**Table 1: Key World Economic Indicators**

	Real GDP Growth		Inflation Rate		Key interest Rate		Unemployment Rate	
	QIII	QIV	QIII	QIV	QIII	QIII	QII	QIV
<b>US</b>	2.6	1.5	2.0	1.7	0.25	0.25	7.8	7.8
<b>Euro area</b>	0.2	n/a	2.6	2.2	0.75	0.75	11.6	11.8
<b>Japan</b>	-0.9	-0.6	-0.3	-0.1	0.1	0.1	4.3	4.2
<b>SA</b>	2.3	n/a	5.5	5.7	5.0	5.0	25.5	n/a
<b>China</b>	7.7	7.8	1.9	2.5	6.0	6.0	4.1	n/a
<b>India</b>	5.3	n/a	9.73	10.56	8.0	8.0	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-area<sup>1</sup>**

In the Euro Area, economic indicators showed that economic activity continued to shrink in the fourth quarter of 2012. Given the strong trade and financial linkages in the Euro Area, the financial stress seemed to have filtered through to the Euro periphery. Industrial production fell by an annual rate of 3.7 per cent in November 2012 from a decline of 3.3 per cent in October 2012. The drop resulted from deterioration in production of durable and non-durable consumer goods together with capital and intermediate goods. This reflected a decline in domestic and external demand coupled with a drop in inventories during the period. In addition, the volume of retail trade fell by 3.2 per cent and 2.6 per cent in October and November, 2012.

Inflation, measured by changes in the Harmonized Index of Consumer Prices, slowed down to 2.2 per cent in December 2012 from 2.6 per cent observed in the previous quarter. The deceleration was largely due to decreases in prices of communication, household equipment and recreation and culture. In response to the slowing economic growth and moderation in prices, the ECB continued to keep its benchmark lending rate unchanged at 0.75 per cent in the fourth quarter of 2012.

The harmonised unemployment rate in the Euro Area increased marginally to 11.7 per cent in the period ending in December 2012, from 11.6 per cent in September 2012, as economic activity continued to remain feeble.

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

## **Japan**

Preliminary estimates of GDP indicate that Japan's economic growth contracted further by 0.6 per cent following the growth of 0.2 per cent in the previous quarter. The reduction largely reflected declining exports and industrial production as advanced economies remained weak. Business fixed investment showed some weakness while some resilience was observed in non-manufacturing.

Japan's consumer price index declined by 0.1 per cent in December 2012, from a 0.3 per cent fall in September 2012, due to a decline in energy prices and durable consumer goods. Given the falling prices of energy and consumer goods, the Bank of Japan (BOJ) continued monetary stimulus by boosting its asset buying programme, while maintaining its key interest rate unchanged at 0.1 per cent during the review quarter.

The Japanese labour market performance improved slightly in the fourth quarter, despite the slowing down of economic activity. The seasonally adjusted unemployment rate dropped to 4.2 per cent in the quarter ending in December 2012, from 4.3 per cent in September 2012.

## **Emerging Asian Markets**

### **China**

Economic activity in China improved marginally in the fourth quarter of 2012, due to the adverse trade spill-overs from weaknesses in the Euro Area, which weighed heavily on Asian exports. Real GDP grew by 7.8 per cent during the review period, compared with 7.7 per cent recorded in the previous quarter of 2012. China's exports which are the main driver of economic growth were drastically affected by the lower demand in the Euro Zone.

The inflation rate rose to 2.5 per cent in the quarter ending in December 2012 from 1.9 per cent in September 2012, due the rise in prices of food and non-food components. Consistent with fine-tuning and maintaining prudent monetary policy, the People's Bank of China (PBC) maintained its benchmark lending rate at 6.00 per cent in the quarter ending in December 2012, to promote stable and relatively faster economic growth.

### **India**

Economic indicators reflected weak economic activity in the fourth quarter of 2012. The Index of Industrial Production declined by 0.1 per cent during the month of November on year-to-year basis, from the growth of 8.3 per cent in October 2012, mainly due to poor performance by the manufacturing and mining sectors and a fall in the capital goods production. The depressed output was on account of Diwali holiday (the biggest Hindu festivals in India), which let many factories to shut-down for several days during the month.

The inflation rate in India accelerated to 10.56 per cent in December from 9.73 per cent in September 2012, largely due to an increase in prices of fuel, housing, clothing and footwear. Based on recent economic activity and the inflation outlook, the Reserve Bank of India kept its key interest rate unchanged at 8.00 per cent in December 2012.



## **South Africa (SA)**

Preliminary economic indicators suggest that South Africa's economy continued to expand at a moderate pace during the fourth quarter of 2012. Manufacturing sub-sector, which accounts for about 15 per cent of SA's GDP improved further by an annual rate of 3.4 per cent in November 2012, from the growth of 2.7 per cent in October 2012. The main contributors to the improvement were petroleum, chemical products, rubber and plastic products, furniture, radio, television and communication apparatus, textiles and clothing together with footwear and wood products. In addition, retail sales grew by 0.9 per cent and 3.4 per cent year-on-year basis, in October and November 2012, respectively, reflecting the growth in consumer spending. However, mining production continued to contract albeit at a lower rate of 4.5 per cent in November 2012 compared with a decline of 8.0 per cent in October 2012, amid strikes in the mining industry.

The rate of inflation, measured by changes in the CPI accelerated to 5.7 per cent in December 2012, higher than the corresponding annual rate of 5.5 per cent in September 2012. The acceleration was due to an increase in the prices of food and non-alcoholic beverages, housing and utility as well as transport. The inflation rate was still within the MPC target range of 3 – 6 per cent. Due to inflation outlook, SARB's MPC decided to keep repo rate unchanged at 5.0 per cent.

The unemployment rate improved to 24.9 per cent in the fourth quarter of 2012 from to 25.5 per cent in the quarter ending in September 2012. According to Statistics SA, there were no job losses observed in the mining industry despite recent strikes. The industry only recorded high absenteeism.

## **Commodity Prices**

### **Overview**

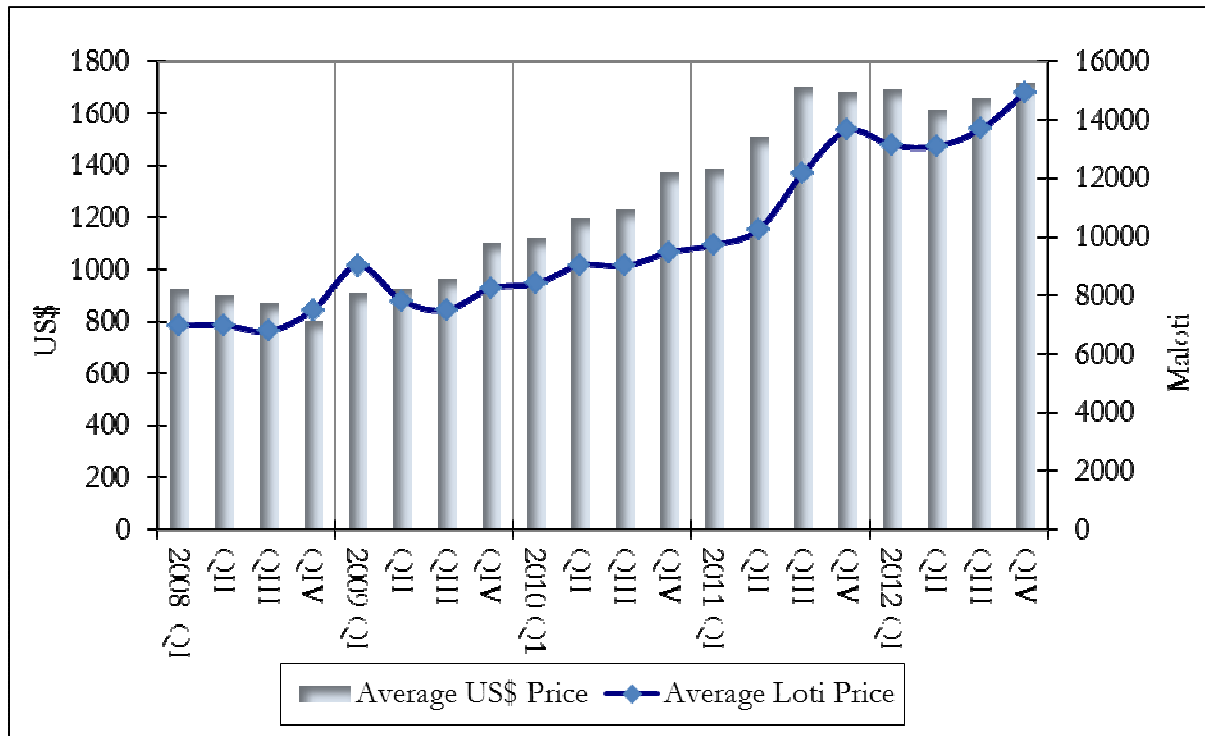
Crude oil prices increased, amid supply disruptions and geopolitical concerns in the Middle-East. The price of gold increased due to higher demand for gold as a store of value in the face of weak global economic performance. In particular, the weak economic performance in advanced economies continued to affect the consumption of base metals negatively worldwide. Platinum prices continued to be affected by a series of strikes and protests in South African mines. Agricultural prices depicted mixed signals during the quarter under review. The price of maize decreased while that of wheat increased during the review quarter due to weather-related supply developments.

### **Mineral Products**

#### **Gold**

The average price of gold in US Dollar terms, rose by 3.6 per cent to US\$1 716.9 per ounce during the quarter ending in December 2012, following an increase of 3.6 per cent recorded in the previous quarter. In Maloti terms, it increased by 9.2 per cent to M14 937.3 per ounce, compared with an increase of 4.5 per cent observed in the quarter ending in September 2012. The increase in the price of gold is attributable to an alternative use of this base metal as a store of value (safe haven) amid weak global economic situation.

**Figure 1: Average Price of Gold**

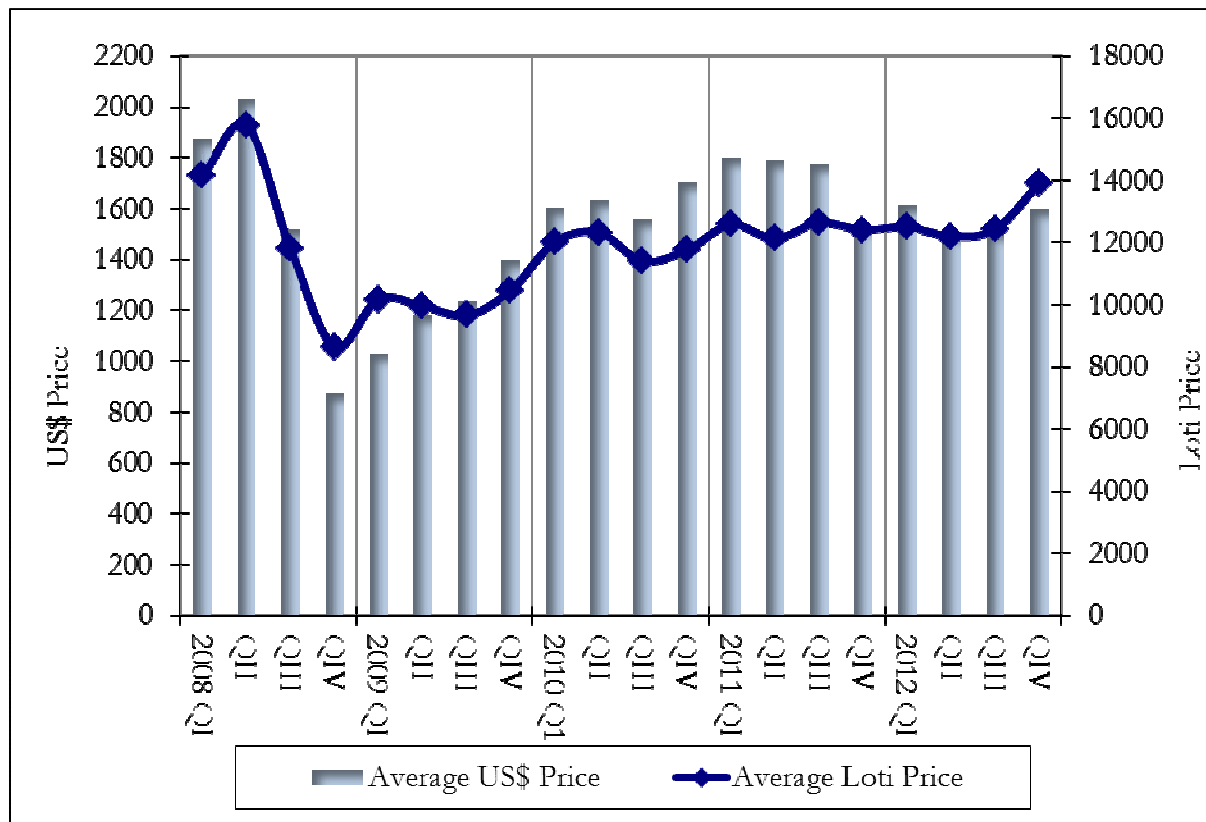


Source: Bloomberg

### Platinum

The average price of platinum increased by 6.2 per cent to US\$1 597.8 per ounce during the review quarter, compared with an increase of 0.2 per cent registered in the previous quarter. At the same time, in Maloti terms, it rose by 11.9 per cent to M13 901.1 per ounce, following an increase of 1.9 per cent realised in the third quarter of 2012. The increase in platinum prices is amid production disruptions due to strikes in the South African platinum mines given the fact that South Africa is the largest world platinum producer.

**Figure 2: Average Price of Platinum**



**Source:** Bloomberg

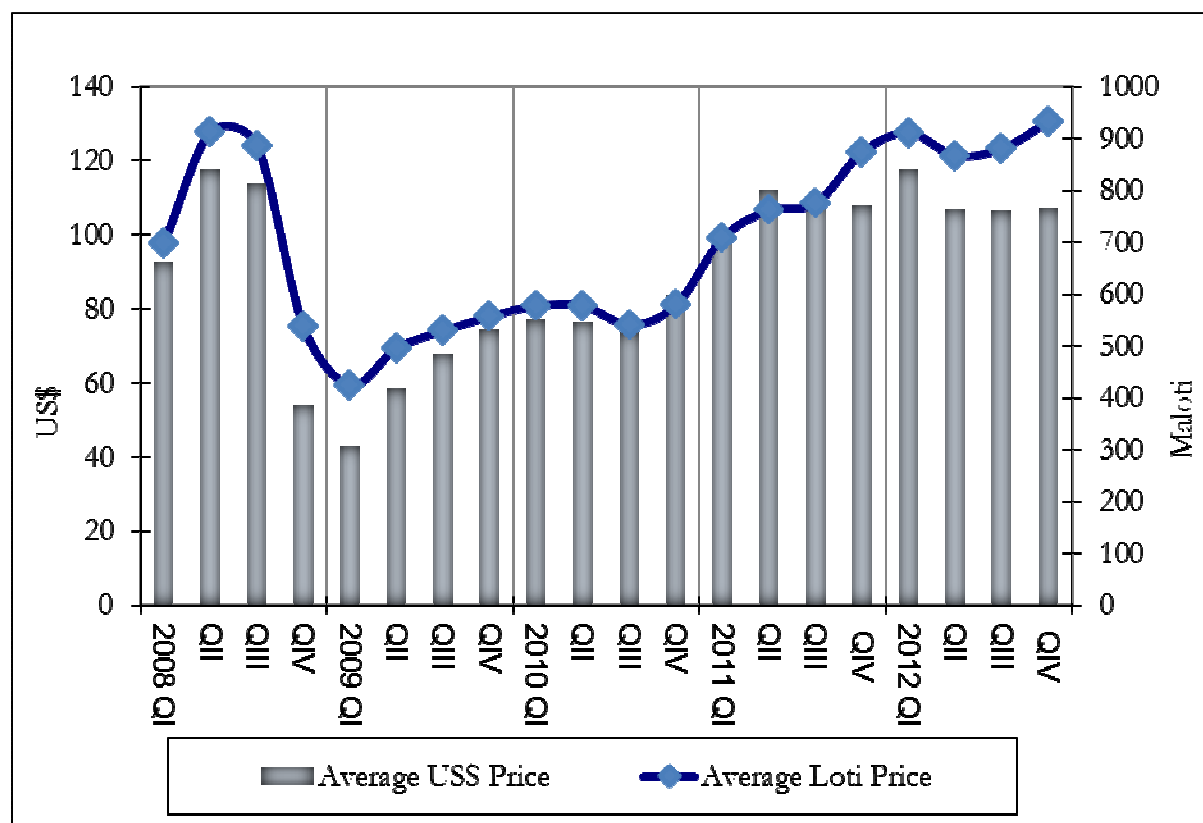
The increases in the price of gold and platinum bode well for the mining industry in South Africa, since this is expected to increase the profit margins for the entire industry. This could be viewed as a positive signal for improved mining employment prospects for Basotho.

### Oil

The quarterly average price of crude oil in the international market increased by 0.6 per cent to US\$107.3 per barrel in the fourth quarter of 2012, this compares with an increase of 0.2 per cent registered in previous quarter. In Maloti terms, it increased by 6.0 per cent to M933.1 per barrel, compared with an increase of 1.6 per cent in the quarter ending in September 2012. The increase is due to supply disruptions and geo-political concerns especially in the Middle-East.

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 M11.20 per litre in the third quarter to M11.35 per litre in the fourth quarter, while that of illuminating paraffin was increased from M8.25 per litre to M8.50 per litre in the same period. However, the price of paraffin remained unchanged at M10.75 per litre during the quarter under review.

**Figure 3: Average Price of Oil**



Source: Bloomberg

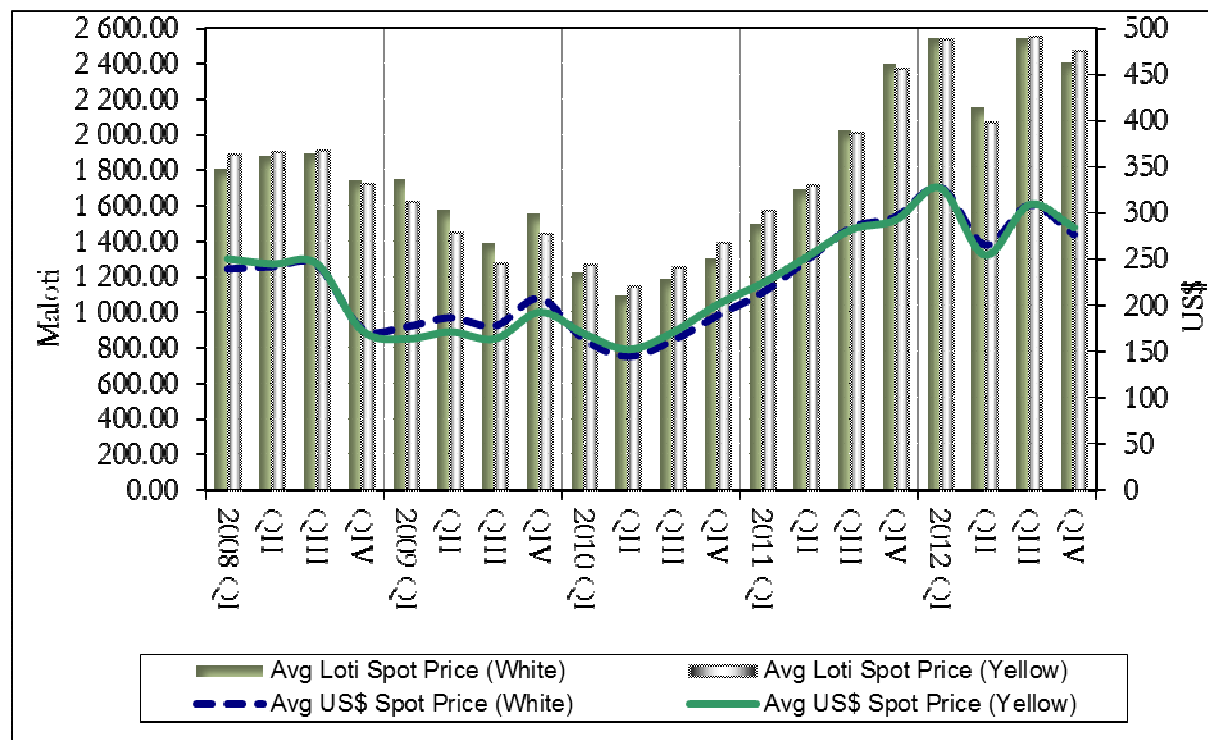
## Agricultural Products

### Maize

The average prices of white and yellow maize decreased during fourth quarter of 2012. In US Dollar terms, they fell by 10.3 per cent to US\$276.4 per tonne and 8.0 per cent to US\$284.0 per tonne, respectively. In Maloti terms, the average prices of white and yellow maize decreased by 5.5 per cent to M2 404.7 per tonne and 3.1 per cent to M2 470.9 per tonne, respectively.

According to the World Bank, the unexpected decline in the price of maize is attributable to significant rains that were experienced in the areas that were previously hit the most by the drought in the US. The downward pressure on the maize price was also due to slower industrial demand in the US, and increase in supply of maize from the Southern Hemisphere.

**Figure 4: Average Spot Price of Maize**



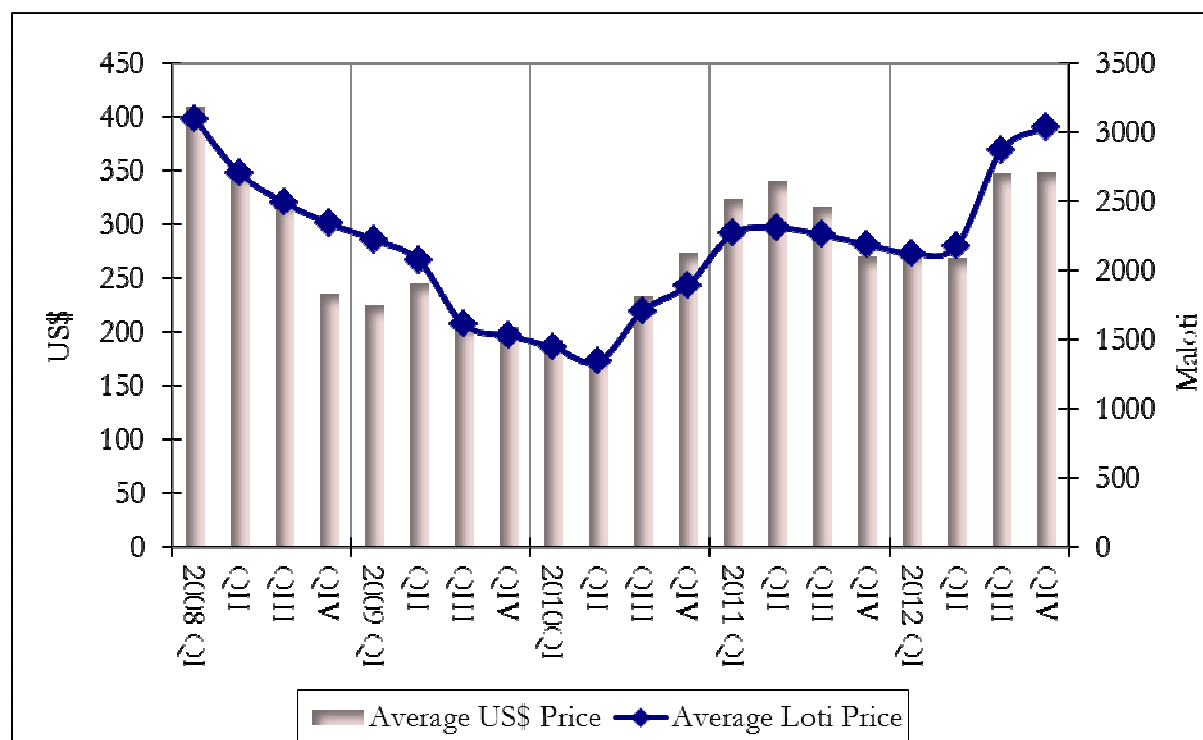
Source: Bloomberg

### Wheat

On a quarterly average and in US Dollar terms, wheat price rose by 0.6 per cent to US\$349 per tonne in the quarter under review, while in Maloti terms it rose by 5.9 per cent to M3 039.2 per tonne during the same period.

The increase in the price of wheat was largely driven by weather-related supply disruptions worldwide. The global food markets are usually vulnerable to supply setbacks because of low inventories/buffers. As a consequence of inadequate food reserves, food production shortages usually have instantaneous negative price response which ultimately spill-over to other food commodities. Several macroeconomic implications can be highlighted in this regard. Firstly, rising food prices automatically leads to higher inflation which ultimately erodes households' purchasing power. The impact may be quite significant in Lesotho since, food and non-alcoholic beverages, category has the largest weight in the consumer price basket. Secondly, amid the fact that Lesotho imports most of its food commodities from other countries, high global food prices are likely to have negative effect on the balance of payments.

**Figure 5: Average Spot Price of Wheat**



Source: Bloomberg

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

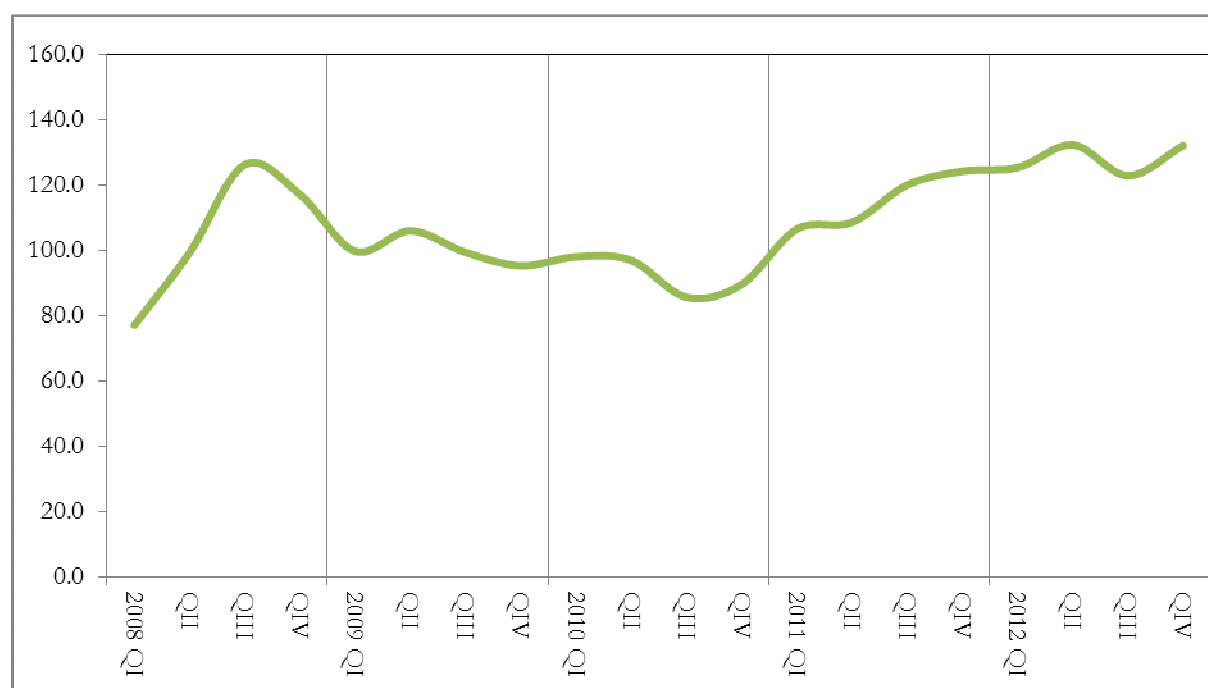
#### Overview

Lesotho’s economy continued to show positive performance, albeit uneven across sectors of the economy in the fourth quarter of 2012. The mining sub-sector reported increased production. The manufacturing sub-sector contracted during the review quarter as indicated by the decline in electricity and water consumption by the commercial and industrial sector. One Lesotho National Development Corporation (LNDC) assisted company that was engaged in the production of textiles and clothing closed operations during the fourth quarter of 2012. This indicated that the textiles and clothing manufacturing sub-sector remained under pressure on account of sluggish consumer demand in the US and tightening competition for the US market by Asian producers. Sales turnover reported a substantial increase as a result of buoyant consumer demand that was also facilitated by the expansion of the retail sector in the country. The labour market remained under pressure with the number of Basotho migrant mineworkers continuing to decline while marginal increases were reported in employment by LNDC assisted companies and by government. Inflation decelerated though food prices remained high during the review quarter.

## Primary Sector Developments

The weighted diamond production index (WDPI) rose by 7.3 per cent during the quarter ending in December 2012 compared with a decline of 7.2 per cent in the previous quarter. On an annual basis the weighted diamond production index rose by 6.3 per cent. The significant rise in the WDPI resulted from an increase in the volume of carats recovered by Lets'eng and Lihobong mines during the review quarter. Production by Lets'eng recovered significantly following a slump that resulted from power supply disruptions caused by heavy snow in the second quarter. While diamond production has recently been decelerating in a number of countries due to low global demand hence prices, Lesotho's production continued to show resilience during the review quarter. This is mainly attributable to the high quality of Lesotho's diamonds, which makes them sell at a higher price.

**Figure 6: Weighted Diamond Production Index**  
(2007: QII=100)



**Source:** Department of Mines and Geology

## Secondary Sector Developments

### Electricity Consumption

Total electricity consumption declined by 5.9 per cent in the quarter ending in December 2012 compared with a decline of 4.0 per cent registered in the previous quarter. All categories of electricity consumption registered declines of different magnitudes. The major decline was observed in the general purpose category, which fell by 13.4 per cent. The categories of domestic, and commercial and industrial declined by 10.8 per cent and 0.7 per cent, respectively. The decline in the commercial and industrial category was in line with the low manufacturing activity as firms temporarily closed operations during the festive season.

**Table 2: Electricity Consumption**

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

	2012							
	QI		QII		QIII		QIV	
	Kwh	Value	Kwh	Value	Kwh	Value	Kwh	Value
General Purpose	23.28	21.56	24.25	23.02	25.46	25.32	21.92	21.72
Domestic	52.61	37.34	61.94	43.99	61.50	45.59	54.85	49.89
Commercial & Industrial	79.17	43.04	91.34	53.79	97.65	57.34	96.99	52.06
<b>Total</b>	<b>155.06</b>	<b>101.95</b>	<b>177.53</b>	<b>120.80</b>	<b>184.61</b>	<b>128.25</b>	<b>173.76</b>	<b>123.67</b>

**Source:** Lesotho Electricity Authority and Lesotho Electricity Company**Water consumption**

The overall water consumption increased by a marginal 0.3 per cent in the fourth quarter of 2012. It registered a seasonally adjusted decrease of 4.5 per cent during the same period. This mainly reflected a substantial decrease of 16.8 per cent in water consumed by the industrial category, which was in line with sluggish activity in the textiles and clothing manufacturing sub-sector during the review quarter. This substantial decline offset the increase in water consumption by the domestic and other categories.



**Table 3: Water Consumption**

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

		Domestic	Industrial	Other	Total
<b>2011</b> <b>IV</b>	Units	1.31	0.95	0.78	3.04
	Value	8.56	7.78	8.78	52.1
	Units*		0.86		2.74
<b>2012</b> <b>I</b>	Units	1.29	1	0.97	3.2
	Value	5.6	10	6.84	22.29
	Units*		1		3.74
<b>II</b>	Units	1.08	1.2	0.62	2.89
	Value	6.02	10.87	5.42	22.31
	Units*		1.22		2.94
<b>III</b>	Units	1.04	1.37	0.6	3.02
	Value	6.34	11.54	5.67	23.54
	Units*		1.31		2.87
<b>IV</b>	Units	1.27	1.14	0.62	3.03
	Value	8	9.86	5.59	23.44
	Units*		1.03		2.74

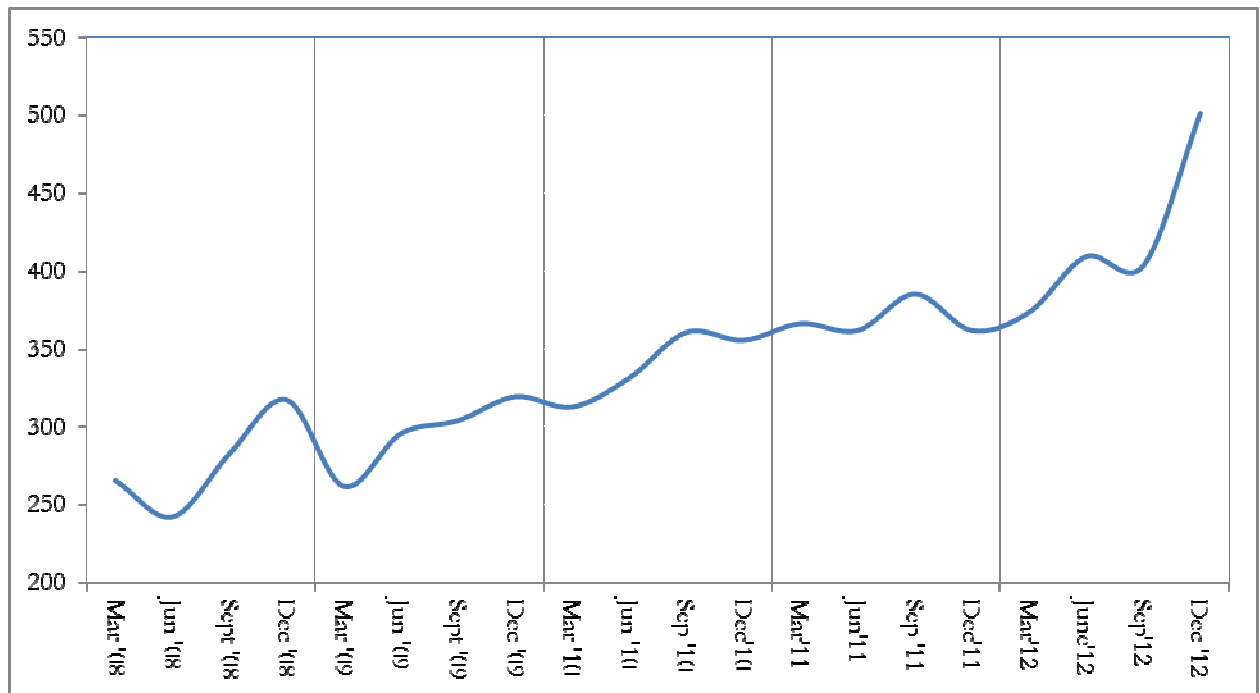
**Source:** Water and Sewage Company

\*denotes seasonally adjusted figures

**Tertiary Sector Developments****Sales Turnover**

The value of sales turnover increased by 24.3 per cent in the quarter ending in December 2012 compared with a decline of 1.4 per cent registered in the previous quarter. On an annual basis the value of sales turnover accelerated by 38.6 per cent. The increase in sales turnover generally reflected high consumer demand in the economy during the review quarter. Consumers responded positively to the expansion of the retail sector as new shops were opened at the malls during this quarter. Some people did their festive season shopping locally instead of shopping in SA. The rise in the value of sales turnover also indicated high consumer spending given that the festive season is correlated with a spending spree.

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



Source: Lesotho Revenue Authority

### Telephone Statistics

The seasonally adjusted total number of telephone calls increased by 4.4 per cent in the fourth quarter of 2012 compared with an increase of 0.4 per cent recorded in the previous quarter. On an annual basis, the number of telephone calls increased by 4.9 per cent.

**Table 4: Telephone Traffic Statistics**

		<b>SA Outgoing Calls</b>	<b>International Calls</b>	<b>Total Calls</b>	
<b>2011</b> <b>IV</b>	No of calls(Millions)	2.09	0.16	2.25	
	No of calls*			2.27	
	Total Duration (million minutes)	3.65	0.39	4.04	
	Nominal Value(million maloti)	8.28	2.65	10.93	
<b>2012</b>	<b>I</b>	No of calls(Millions)	2.09	0.16	2.25
		No of calls*			2.39
		Total Duration (million minutes)	3.66	0.4	4.06
		Nominal Value(million maloti)	8.29	2.66	10.95
	<b>II</b>	No of calls(Millions)	2.09	0.16	2.25
		No of calls*			2.33
		Total Duration (million minutes)	3.64	0.39	4.04
		Nominal Value(million maloti)	8.27	2.65	10.92
	<b>III</b>	No of calls(Millions)	2.10	0.16	2.26
		No of calls*			2.05
		Total Duration (million minutes)	3.66	0.40	4.06
		Nominal Value(million maloti)	8.29	2.66	10.94
<b>IV</b>	No of calls(Millions)	2.12	0.24	2.36	
	No of calls*			2.38	
	Total Duration (million minutes)	3.69	0.39	4.08	
	Nominal Value(million maloti)	8.30	2.65	10.95	

**Source:** Econet Telecom Lesotho

\*Adjusted for seasonality

## **Investment Expenditure**

### **Imported Motor Vehicles**

In seasonally adjusted terms, the number of imported cars declined by 3.2 per cent in the quarter ending in December 2012 compared with a decline of 28.5 per cent in the third quarter. However, a 12.5 per cent increase was recorded in non-seasonally adjusted terms during the review period. On an annual basis the number of imported motor vehicles increased by 6.4 per cent. The increase in imported cars was recorded in the categories of vans, and tractors while all other categories recorded a decline. While the total number of imported vehicles increased, their value declined, reflecting the increasing switch by consumers to cheaper cars imported from Asia, particularly Japan, as opposed to SA.

**Table 5: Motor Vehicles**

(Value in Million Maloti)

		Cars	Vans	Trucks	Buses	Tractors	M/cycles	Trailers	Total
<b>2011</b>									
<b>IV</b>	Value	42.82	43.50	25.70	7.09	1.32	0.49	1.96	122.89
	Units*								881
	Units	346	298	70	29	21	3	19	786
<b>2012</b>									
<b>I</b>	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
<b>II</b>	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
<b>III</b>	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
<b>IV<sup>+</sup></b>	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

**Source:** Avis Fleet Services Lesotho and the Customs Department

\*denotes seasonally adjusted figures

+ Preliminary estimates

**Employment Developments**

During the quarter ending in December 2012, total employment by LNDC assisted companies registered a marginal increase of 0.3 per cent compared with a decline of 1.4 per cent in the previous quarter. Employment by knit garment producing firms increased by 3.2 per cent during the review period as firms reinstated workers following the renewal of the third country fabric (TCF) provision of the African Growth and Opportunity Act (AGOA) in August 2012. The firms had reduced their employment in the third quarter on account of a decline in orders by US based retailers in the run up to the expiry of the TCF provision at the end of September 2012. The TCF allows lesser-developed sub-Saharan African (SSA) countries to produce duty and quota free clothing for the US market using fabric and yarn sourced from anywhere in the world. Its expiry would have meant that Lesotho producers would have had to stop sourcing inputs (fabric and yarn) from cheaper Asian producers and start buying from either SSA or the US. Consequently Lesotho producers would suffer loss of competitiveness in the US market. Annual

declines of 1.7 per cent and 7.6 per cent were observed on total employment and employment by knit garment firms, respectively, indicating that the textiles and clothing industry continued to struggle as a result of sluggish US consumer demand and increasing competition for the US market by Asian producers.

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

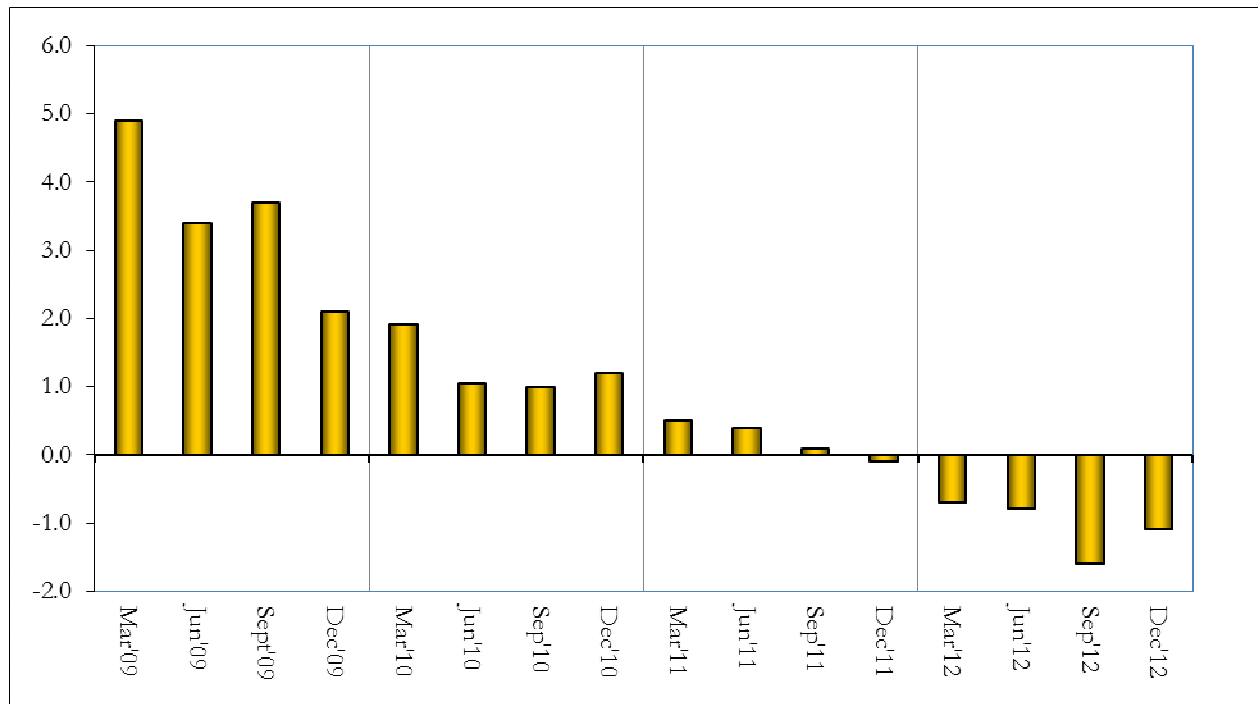
Industry	2011	2012			
	QIV	QI	QII	QIII	QIV <sup>+</sup>
<b>Knit Garments</b>	<b>24340</b>	<b>22190</b>	<b>22249</b>	<b>21786</b>	<b>22489</b>
Woven Garments	13772	12710	15243	15671	15220
Footwear	2789	2905	2907	2895	2885
Fabrics, Yarn etc.	1411	1292	1144	1300	1300
Construction	279	272	378	325	295
Food & Beverages	585	1162	853	857	878
Electronics	1613	1555	1363	1359	1266
Retail	140	136	135	136	136
Hotel & Accommodation	403	394	400	408	398
Other	169	159	148	139	139
<b>Total</b>	<b>45782</b>	<b>41432</b>	<b>45501</b>	<b>44876</b>	<b>45006</b>

**Source:** Lesotho National Development Corporation  
+ Preliminary estimates

### Government Employment

The number of government employees increased marginally by 0.5 per cent in December 2012 compared with a decline of 1.6 per cent in the previous quarter. The increase in the number of government employees was observed in all the categories except the daily paid workers. The number of civil servants, teachers and armed forces increased by 0.6 per cent, 0.5 per cent and 0.03 per cent respectively. The number of daily paid workers declined by 2.2 per cent during the fourth quarter of 2012. The marginal overall increase of 0.5 per cent was in line with the on-going fiscal consolidation efforts by Government.

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

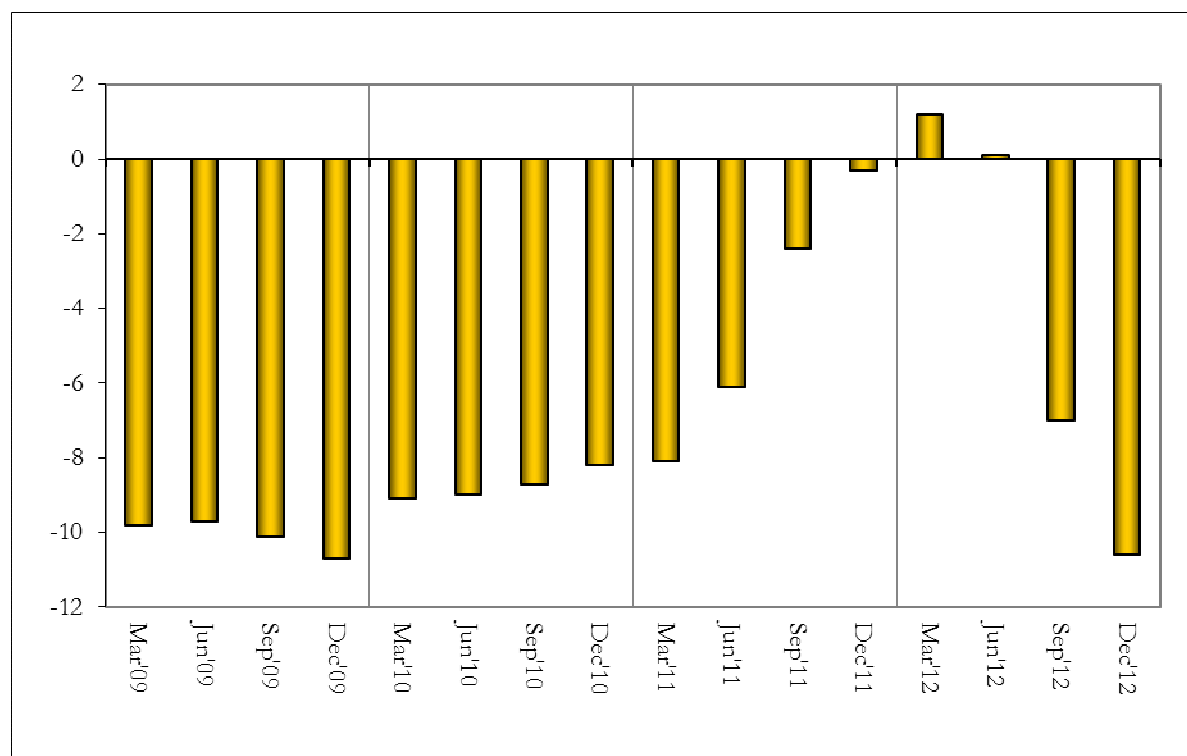


**Source:** The Ministry of Finance

### **Migrant Mineworkers Employment**

The number of Basotho migrant mineworkers declined by 10.6 per cent on an annual basis in the fourth quarter of 2012 compared with a decline of 7.0 per cent in the previous quarter. The number of Basotho men recruited by TEBA to work in the SA mines continued to decline during the fourth quarter. This was despite the increase in SA's mining sector employment during the same period, reflecting the continuing replacement of foreign workers in SA mines as South Africans continue to show interest in working for the mines.

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



**Source:** The Employment Bureau of Africa (TEBA)

### Price Developments

Lesotho's annual inflation rate, measured as a percentage change in the consumer price index (CPI) for all households declined to 4.5 per cent during the quarter ending in December 2012 from 5.4 per cent in the previous quarter. The decline in the general price level mainly reflected the slight deceleration in the prices of food and non-alcoholic beverages, alcoholic beverages and tobacco, housing, electricity, gas and other fuels, transport, and restaurants and hotels. Food prices had a much more significant impact on the inflation outcome because food takes the highest weight in Lesotho's CPI basket at 38.1 per cent. Food price inflation moderated from 9.7 per cent in September 2012 to 8.3 per cent in December 2012 as a result of lower increases in the prices of grain and vegetables.

**Table 7: Inflation Rate**

(Annual Percentage Change: March 2010=100)

	Weight	2012					
		Jul	Aug	Sep	Oct	Nov	Dec
<b>All items</b>	100.0	5.7	5.3	5.8	5.6	5.4	4.5
Food and non-alcoholic beverages	38.1	10.2	9.3	9.6	9.0	8.7	8.2
Alcoholic beverages & Tobacco	1.2	6.4	6.4	6.9	6.5	6.0	5.8
Clothing & footwear	17.4	0.6	0.5	0.4	0.4	0.7	0.8
Housing, electricity gas & other fuels	10.6	4.9	3.7	6.9	7.3	5.6	3.8
Furniture, households equipment & routine maintenance of house	9.4	2.8	3.3	3.5	3.3	3.9	3.9
Health	1.9	0.2	0.5	0.4	0.4	0.5	0.4
Transport	8.5	6.8	6.8	7.0	6.6	6.3	1.0
Communication	1.2	-0.6	0.0	0.0	0.0	0.0	0.0
Leisure, entertainment & Culture	2.4	2.4	1.9	1.7	1.7	1.6	1.7
Education	2.7	1.0	1.0	1.0	1.0	1.0	1.0
Restaurant & Hotels	0.7	0.8	-0.6	0.4	0.1	0.1	0.0
Miscellaneous goods & services	5.8	1.8	2.3	2.4	2.5	2.6	2.4

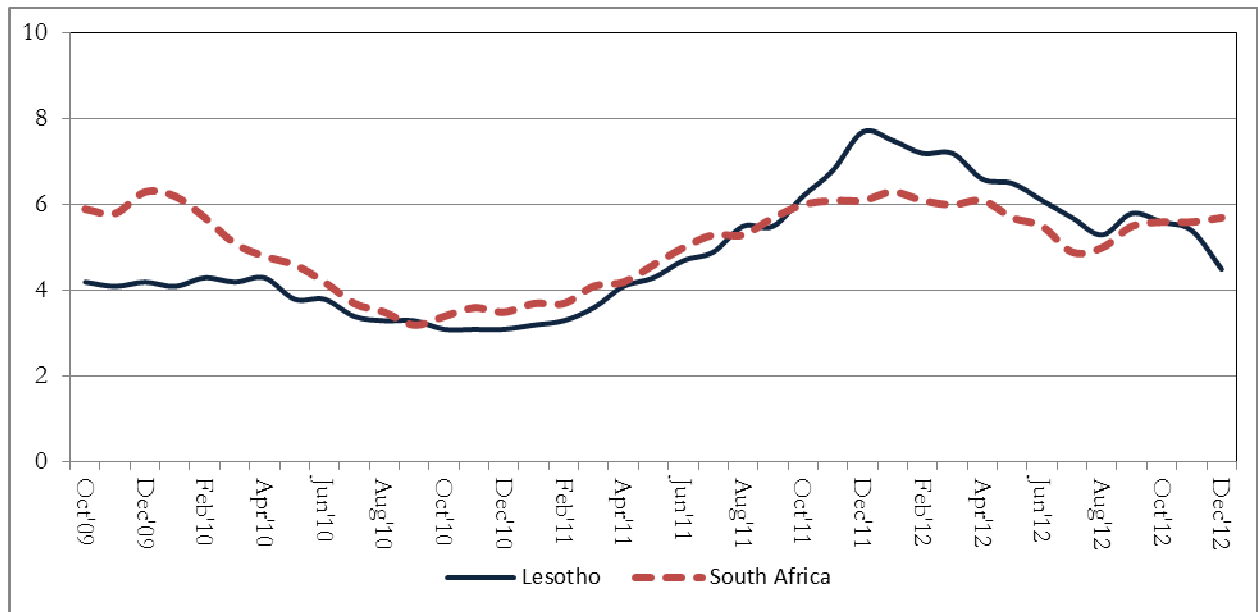
**Source:** Bureau of Statistics, Lesotho

Lesotho's inflation rate continued to move in line with that of SA largely reflecting Lesotho's high reliance on imports from SA. It fell below that of SA in December 2012 reflecting the higher weight of food in Lesotho's CPI basket compared with South Africa's CPI basket. Lesotho's inflation rate decelerated from 5.8 per cent in September 2012 to 4.5 per cent in December 2012, while that of SA rose from 5.5 per cent to 5.7 per cent during the same period. As indicated in Section II, the average global price of maize recorded a decline during the review quarter thus contributing to a deceleration in global food prices. Nonetheless, global food prices generally remained high during the review period.



**Figure 10: Annual Inflation Rate**

(Annual Percentage Changes: March 2010=100)



**Source:** Bureau of Statistics, Lesotho

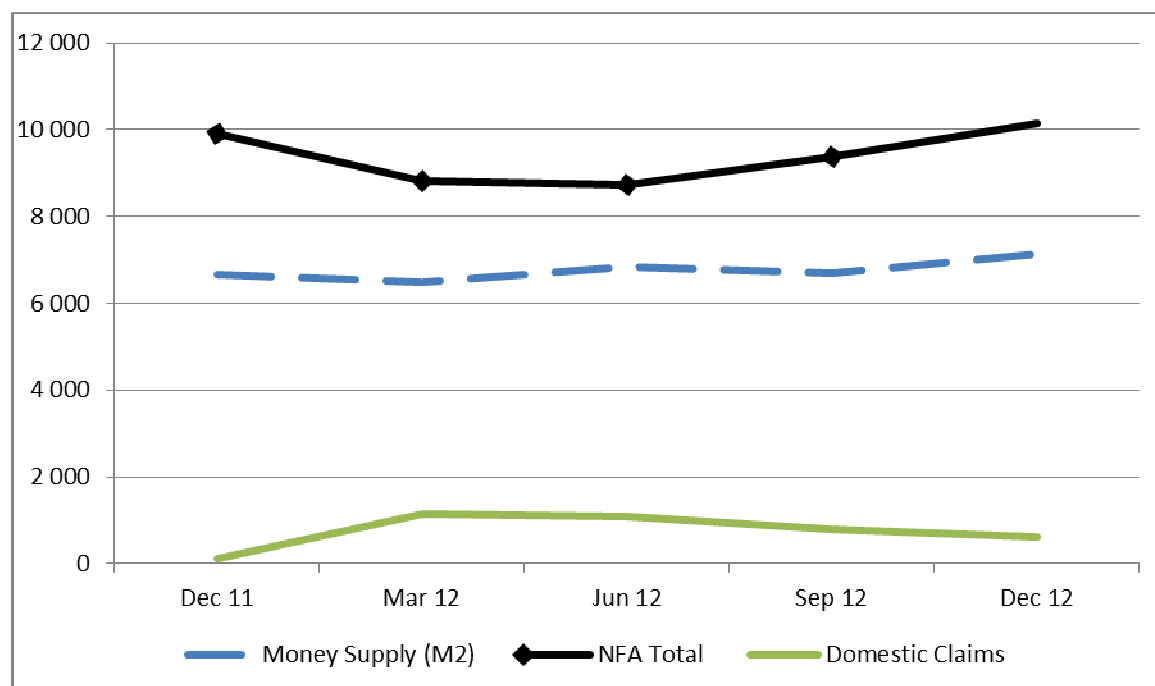
#### **IV. Monetary and Financial Developments**

##### **Determinants of Money Supply**

Money supply expanded by 6.9 per cent during the quarter under review following a 2.0 per cent contraction observed in the third quarter of 2012. On an annual basis, money supply increased by 7.3 per cent compared with a 4.0 per cent decline observed in the previous quarter. The quarterly increase in money supply was as a result of an increase in net foreign assets and domestic claims excluding net claims on government by 8.2 and 8.8 per cent respectively.

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

(Million Maloti: End of Period)



**Table 8: Determinants of Money Supply**

(Million Maloti: Changes)

	2011	2013			
	Dec	Mar	Jun	Sep	Dec
Net Foreign Assets	-306.7	-1 104.3	-74.1	646.8	766.9
Domestic Claims	-26.9	1 054.0	-82.1	-285.7	-164.1
Net Claims on Central Government	-93.7	842.8	-317.2	-612.8	-469.1
Claims on other Sectors	-2.6	-10.9	0.7	-2.4	-0.2
Claims on Private Sector	69.3	222.1	234.3	329.5	305.2
Shares and other equity	15.7	-41.0	373.5	73.9	170.7
Other Items (NET)	-40.6	166.3	-874.2	426.6	-27.5
Broad Money Liabilities (M2)	-308.7	-175.7	344.5	-139.4	459.7

## Components of Money Supply

Broad money (M2) increased by 6.9 per cent as compared to a 2.0 per cent reduction recorded in the previous quarter. The expansion in M2 was as a result of a 21.3 per cent increase in narrow money moderated by a 3.9 per cent fall in quasi money. Transferable deposits included in broad money were the major driver of an increase in M1 with a 27.0 per cent expansion while currency outside depository corporations increased by 4.8 per cent. The contraction in quasi money was driven by a 3.8 and 20.5 per cent fall in other non-transferable deposits held by the commercial banks and other non-transferable deposits held by the Central Bank respectively.

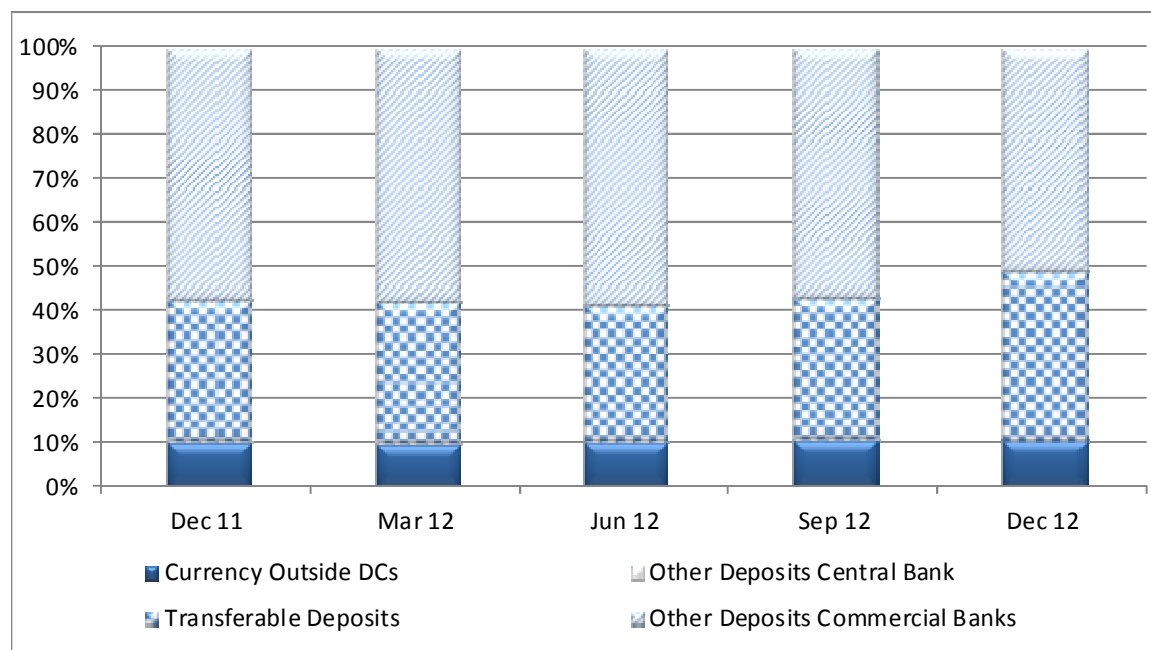
**Table 9: Money Supply**

(Million Maloti; End of Period)

	2011	2012			
	Dec	Mar	Jun	Sep	Dec
Broad Money (M2)	6659.6	6483.9	6828.4	6689.0	7148.7
Narrow Money (M1)	2801.1	2700.5	2789.2	2865.6	3476.3
Currency Outside DCs	688.7	643.3	721.6	733.8	769.0
Transferable Deposits	2112.4	2057.1	2067.6	2131.7	2707.2
Quasi Money	3858.6	3783.4	4039.1	3823.4	3672.4
Other Deposits Commercial Banks	3822.3	3749.0	4006.8	3797.9	3652.1
Other Deposits Central Bank	36.3	34.4	32.3	25.6	20.3

**Figure 12: Components of Money Supply**

(Percentage shares)



### Commercial Banks' Deposits by Holder

The quantity of deposits held with the local commercial banks increased by 7.2 per cent at the end of December 2012 following a 2.4 per cent decline registered in the quarter ending September 2012. The increase in deposits was driven by a 27.0 per cent increase in transferable deposits moderated by a 3.8 per cent reduction in other deposits included in broad money. Transferable deposits by other nonfinancial corporations increased by 46.0 per cent while transferable deposits held by other residents sector (households) decreased by 10.2 per cent. Other non-transferable deposits held by nonfinancial corporation and households declined by 4.3 per cent and 2.9 per cent respectively. Private sector (business enterprises and households) deposits form the largest share of deposits held at the commercial banks.

**Table 10: Commercial Banks; Deposits by Holder**

(Million Maloti: End of Period)

	2011	2012			
	Dec	Mar	Jun	Sep	Dec
<b>Transferable Deposits Incl. in BM</b>	2112.4	2057.1	2067.6	2131.7	2707.2
Other Financial Corporations	15.9	9.0	13.9	0.0	0.0
Public Nonfinancial Corporations	42.9	43.0	51.9	48.3	38.6
Private Sector	2053.6	2005.2	2001.9	2066.1	2649.9
Other NFCs	1267.6	1183.9	1391.5	1415.1	2065.7
Other Sectors (Households)	785.9	821.3	610.4	651.0	584.3
<b>Other Deposits Incl. in BM</b>	3822.3	3749.0	4006.8	3797.9	3652.1
Other Financial Corporations	0.0	0.0	0.0	0.0	0.0
Public Nonfinancial Corporations	39.3	34.2	25.6	22.4	20.3
Private Sector	3783.0	3714.8	3981.2	3775.4	3631.8
Other NFCs	1981.8	2152.6	2393.6	2363.9	2261.7
Other Sectors (Households)	1801.2	1562.2	1587.5	1411.5	1370.1
<b>Total Deposits</b>	<b>5934.7</b>	<b>5806.1</b>	<b>6074.4</b>	<b>5929.6</b>	<b>6359.3</b>

NB: Totals may not tally due to rounding off

**Liquidity of Commercial Banks**

The liquidity of commercial banks continued to depict a downward trend in the last quarter of 2012. The ratio of liquid assets to deposit liabilities and placements with other banks declined by 2 percentage points, from 62.5 per cent observed in the third quarter of 2012 to 60.5 per cent in the fourth quarter of 2012. The credit deposit ratio increased from 56.8 per cent recorded in the previous quarter to 57.7 per cent in the review period. The results above augurs well for the economy of Lesotho since commercial banks are transferring balances due from South African banks in order to meet their domestic liquidity needs.

**Table 11: Components of Commercial Banks' Liquidity**

(Million Maloti: End of Period)

COMPONENT	2011	2012			
	Dec	Mar	Jun	Sep	Dec
Maloti Notes and Coins	155.9	102.7	118.3	114.0	229.5
Rand Notes and Coins	95.3	59.6	68.8	66.6	107.5
Balances due from Lesotho Banks	1023.1	837.8	753.6	990.6	931.3
Balances due from Foreign Banks	3233.4	2777.4	2884.0	2421.4	2410.4
Clearing Balances with CBL	-44.8	173.1	7.6	45.3	75.3
Lesotho Government Securities	634.5	744.8	777.5	784.0	753.5
Total Commercial Bank's Liquidity	5105.3	4701.4	4616.2	4429.4	4438.1

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

(Million Maloti: End of Period)

	2011	2012			
	Dec	Mar	Jun	Sep	Dec
Net Foreign Assets	3209.5	2826.5	2803.1	2357.9	2486.7
Claims on Central Bank	292.1	474.2	297.2	251.9	419.2
Currency	154.9	102.7	118.3	114.0	229.5
Reserve Deposits and Securities	137.2	371.4	178.9	137.9	189.7
Net Claims on Central Government	700.2	817.9	840.6	875.1	837.1
Claims	722.2	840.1	864.0	877.0	839.1
Liabilities	-22.0	-22.2	-23.4	-2.0	-2.0
Claims on Other Sectors	2667.0	2877.4	3108.8	3431.8	3735.8
Claims on OFCs	11.3	0.0	0.0	0.0	0.0
Claims on PNFCs	1.4	1.7	2.5	0.0	-0.1
Claims on Private Sector	2654.4	2875.6	3106.3	3431.8	3735.9
Transferable Deposits Inc. in BM	2112.4	2057.1	2067.6	2131.7	2707.2
Other Deposits Inc. in BM	3822.3	3749.0	4006.8	3797.9	3652.1
Shares Equity and OIN	934.1	1189.8	975.2	987.0	1119.5

**Demand for Money****Domestic Claims**

Domestic credit, excluding net claims on government, expanded by 8.8 per cent during the quarter under review following a 10.4 per cent expansion realised during the third quarter of 2012. On annual basis, domestic credit continued to register a double digit growth of 39.9 per cent following an expansion of 31.9 per cent recorded in the previous quarter. The increase in domestic claims on a quarterly basis was driven by an 8.8 per cent increase in credit extended to the private sector. Domestic claims are mainly comprised of credit extended to the private sector.

**Table 13: Domestic Credit Excluding Net Claims on Government\***

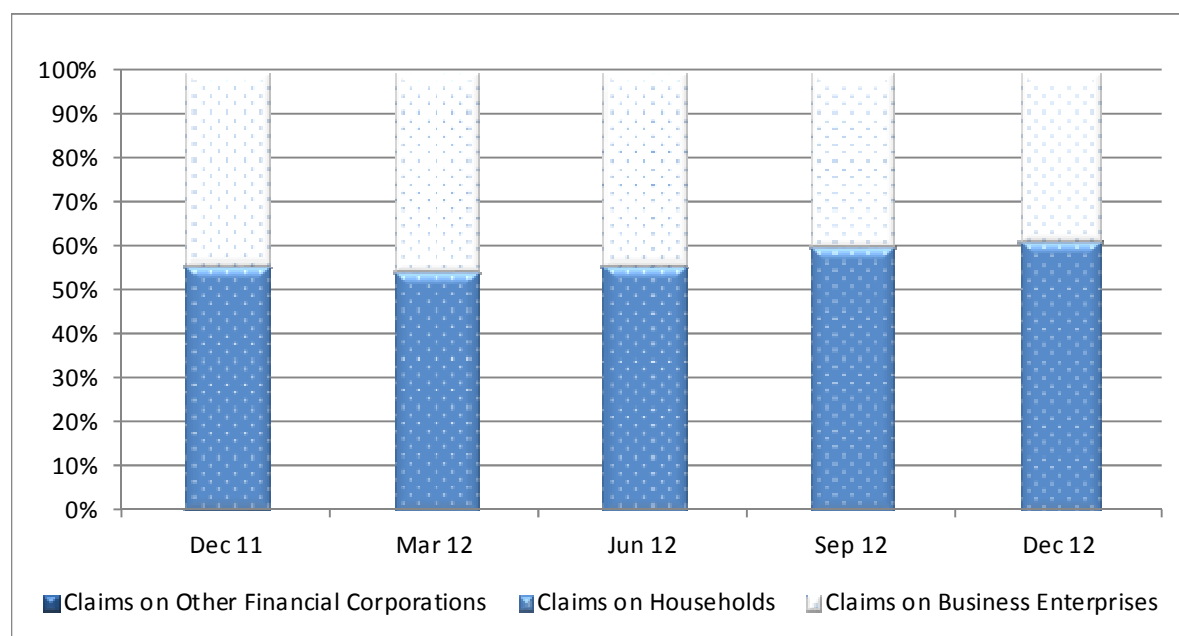
(Million Maloti: End of Period)

	2011	2012			
	Dec	Mar	Jun	Sep	Dec
Claims on Other Sectors	2699.6	2910.8	3145.9	3473.0	3778.0
Claims on Other Financial Corporations	11.3	0.0	0.0	0.0	0.0
Claims on Public Nonfinancial Corporations	1.4	1.7	2.5	0.0	-0.1
Claims on Private Sector	2687.0	2909.1	3143.4	3473.0	3778.2
Claims on Business Enterprises	1196.1	1323.7	1391.0	1385.7	1470.8
Claims on Households	1490.9	1585.4	1752.4	2087.3	2307.3

\*excludes non performing loans

**Figure 13: 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 8.8 per cent, following a 10.4 per cent increase in the previous quarter. The increase in private sector credit on a quarterly basis was driven by a rise of 10.5 per cent and 6.1 per cent in credit extended to households and business enterprises respectively. Credit extended to households constitutes the



largest share of domestic credit with 61.1 per cent while the share of credit extended to businesses declined to 38.9 per cent. The increase in credit extended to business enterprises and households reflects increased demand for money related to high demand in the festive season.

### Sectoral Distribution of Credit

Credit extension to enterprises in the quarter ending December 2012 was dominated by the following sectors: non-bank financial institutions and real estate (30.1 per cent); wholesale, retail and hotels (16.8 per cent), manufacturing (15.4 per cent); and construction (12.3 per cent). Significant improvements in credit extension were in non-bank financial institutions and real estate; and mining. However, credit extension to transport, storage and communications; agriculture; manufacturing; and community social and personal services were on the decline in the quarter under review. Sectoral distribution of credit in Lesotho is uneven across sectors and this may expose Commercial Banks in case of shocks to such dominant sectors.

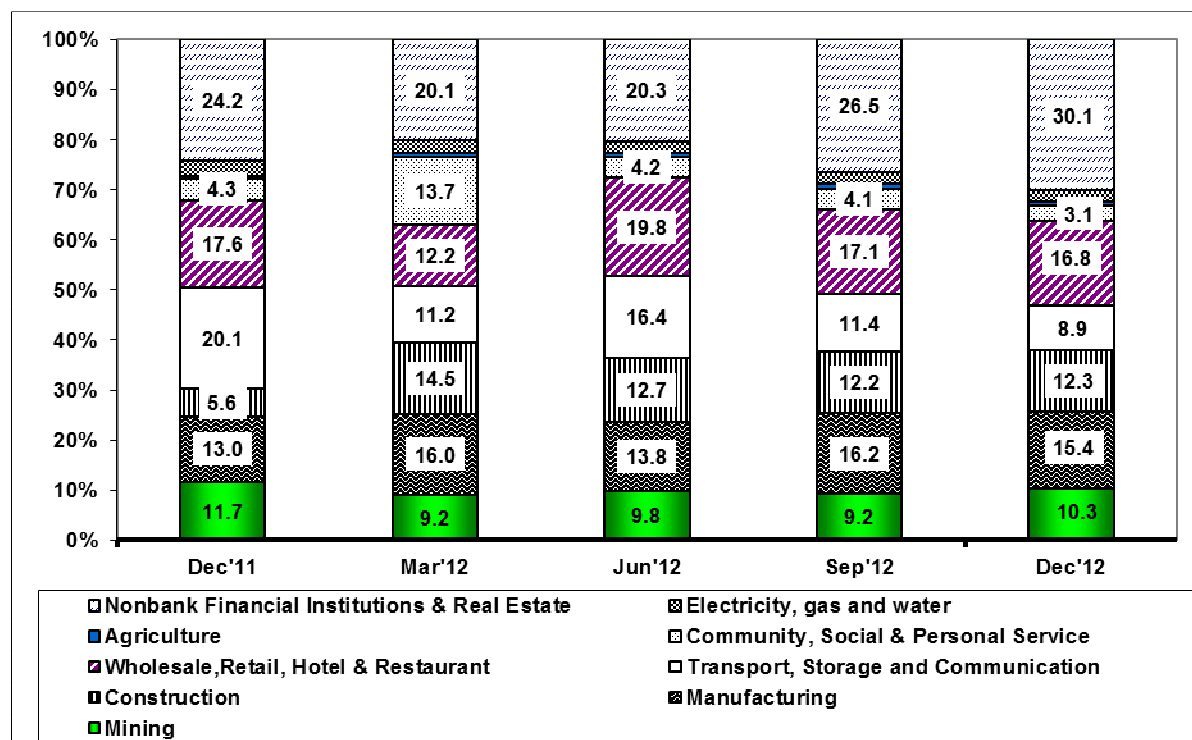
**Table 14: Sectoral Distribution of Credit to Enterprises\***

(Million Maloti: End of period)

SECTOR	2010	2012			
	Dec	Mar	Jun	Sep	Dec
Agriculture	4.7	7.8	9.0	12.3	11.3
Mining	139.7	121.3	136.8	128.0	152.0
Manufacturing	155.9	211.6	192.9	224.8	226.0
Construction	67.4	191.7	176.5	169.1	181.4
Transport, storage and communication	240.3	148.1	228.5	158.3	130.2
Electricity, gas and water	37.9	35.5	33.5	32.4	33.9
Wholesale, retail, hotel and restaurant	210.5	161.6	275.7	236.6	246.9
Non-bank financial institutions and real estate	289.9	266.5	282.5	367.7	443.3
Community, social and personal services	51.1	181.7	58.0	56.4	45.7
<b>All sectors</b>	<b>1197.5</b>	<b>1325.4</b>	<b>1393.5</b>	<b>1385.7</b>	<b>1470.7</b>

\* includes non-performing loans

**Figure 14: Commercial Bank's Credit to Business Enterprises**  
(Percentage shares)



### Net Claims on Government

The net claims on government by the banking system declined further by 17.5 per cent during the last quarter of 2012, following a massive decline of 29.6 per cent observed in the previous quarter. This decline in total net claims by the banking sector was mainly driven by a 12.1 per cent decline in claims on Government by the Central Bank moderated by a 4.3 per cent increase in claims on Government by the commercial banks. Furthermore, a 10.9 per cent rise in central Government deposits at the Central Bank compared with a 19.0 per cent rise in the previous quarter was the main contributor to this drop in net claim on government.

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

(Million Maloti: End of Period)

	2011	2012			
	Dec	Mar	Jun	Sep	Dec
Commercial Banks Net Claims	700.2	817.9	840.6	875.1	837.1
Claims on Central Government	722.2	840.1	864.0	877.0	839.1
o/w T-Bills and Bonds	751.9	824.0	824.0	824.0	824.0
Liabilities to Central Government	22.0	22.2	23.4	2.0	2.0
Central Bank Net Claims	-3292.8	-2567.7	-2907.6	-3554.9	-3986.1
Claims on Central Government	242.9	214.3	474.5	470.3	479.8
Liabilities to Central Government*	3535.7	2782.0	3382.2	4025.2	4465.8
Total Net Claims Government	-2592.6	-1749.8	-2067.0	-2679.8	-3148.9

\*IMF loans on-lent to the GOL.

**Net Foreign Assets**

The net foreign assets of the entire banking system increased by 8.2 per cent in the last quarter of 2012 following an increase of 7.4 per cent recorded in September, 2012. The increase in total net foreign assets was on account of a 9.1 per cent rise in net foreign assets of the Central Bank and an increase of 5.5 per cent in net foreign assets of the commercial banks. The increase in Commercial banks' net foreign assets was driven by a 1.1 per cent increase in commercial banks' claims on non-residents and a 54.7 per cent decline in liabilities to non-residents. On the part of the Central Bank, claims on non-residents increased by 8.3 per cent against a 2.0 per cent rise in liabilities to non-residents.

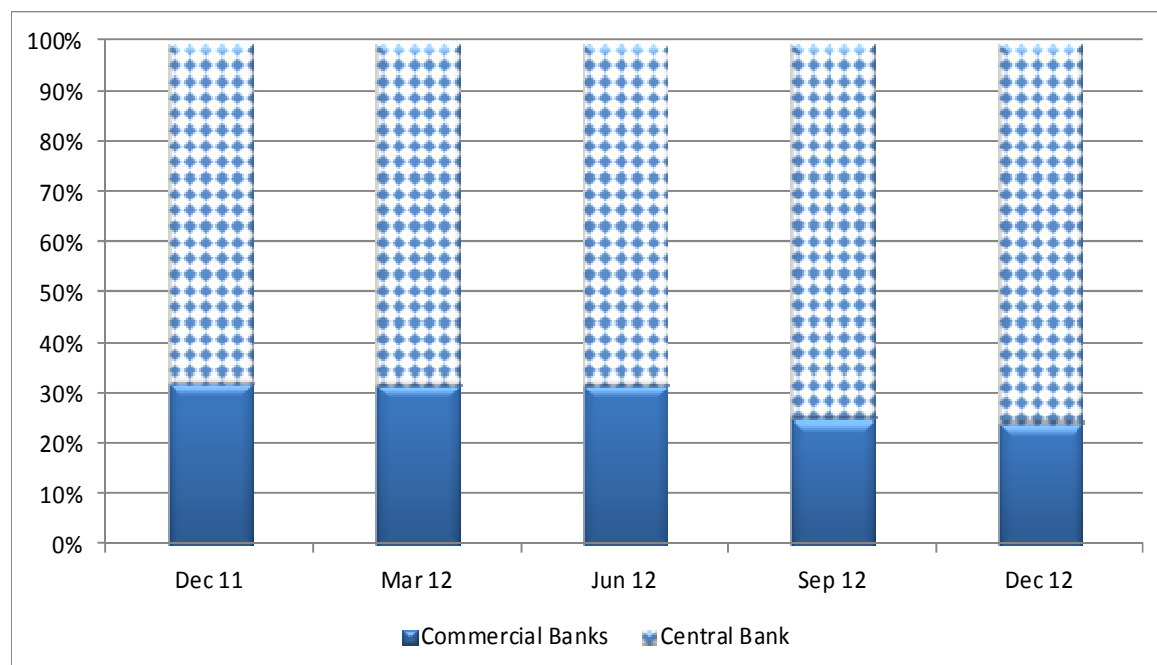
**Table 16: Banking System's Claims and Liabilities on Non-residents**

(Million Maloti: End of Period)

	2011	2012			
	Dec	Mar	Jun	Sep	Dec
Commercial Banks	3209.5	2826.5	2803.1	2357.9	2486.7
Claims on Nonresidents	3390.9	2880.7	2984.2	2540.8	2569.5
Liabilities to Nonresidents	-181.4	-54.1	-181.2	-182.9	-82.8
Central Bank	6696.1	5974.8	5924.2	7016.1	7654.2
Claims on Nonresidents	7350.6	6580.9	6808.0	7907.5	8563.6
Liabilities to Nonresidents	-654.5	-606.1	-883.8	-891.4	-909.3
Net Foreign Assets Total	9905.7	8801.3	8727.2	9374.0	10140.9

**Figure 15: Net Foreign Assets**

(Percentage shares)



## Money Market Developments

The total holding of Treasury bills and bonds increased by 1.6 per cent in the quarter under review as compared to a slight 0.5 per cent decrease recorded in the previous quarter. The increase was mainly as a result of a 5.2 per cent increase in holding of treasury bonds moderated by a 2.1 per cent decline in holding of Treasury bills. Treasury Bills held by the banking system declined by 2.7 per cent, while Treasury Bonds increased by 6.7 per cent. As for the non-bank sector, holding of Treasury Bills and bonds increased by 0.5 per cent and 2.4 per cent respectively.

**Table 17: Holding of Treasury Bills and Bonds**

(Face Value; Million Maloti)

	2011	2012			
	Dec	Mar	Jun	Sep	Dec
Total Holding of Bills and Bonds	1022.9	1114.3	1159.2	1153.3	1171.5
Treasury Bills	497.7	588.0	592.9	571.4	559.5
Banking System	377.1	449.1	472.7	467.8	455.4
Non-Bank Sector	120.6	138.9	120.2	103.6	104.1
Treasury Bonds	525.3	526.3	566.4	582.2	611.9
Banking System	374.8	374.9	375.0	376.1	401.2
Non-Bank Sector	150.5	151.4	191.3	205.7	210.7
Memorandum Item					
Average Yield Bills (per cent)	5.35	5.47	5.59	5.56	5.45
Average Yield Bonds (per cent)*	8.90	8.90	8.90	8.90	8.60

\* Average of a five year bond

## Money Market and Short-term Interest Rates

During the last quarter of 2012, 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 5.37 and 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 4.90 to 4.95 per cent while the prime lending rate remained flat at 8.50. The low and flat interest rates environment within the region reflects a relaxed monetary policy stance by monetary authorities as economic recovery is sluggish.

**Table 18: Major Money Market Interest Rates**

(Per cent: End of Period)

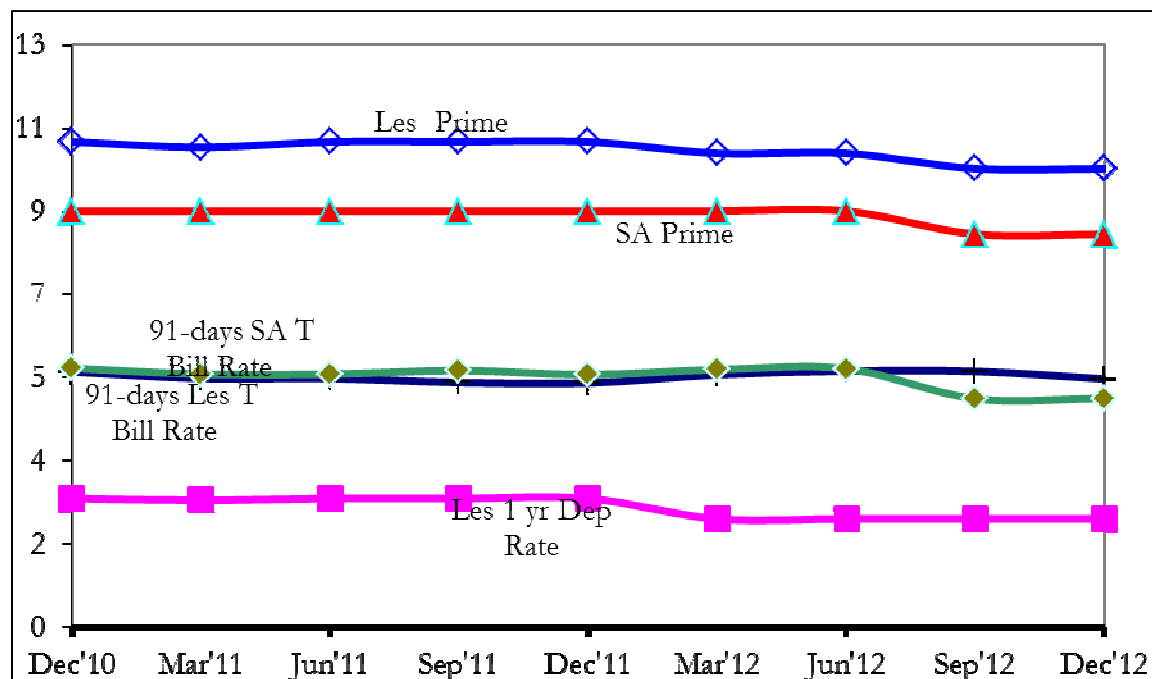
Interest Rates by Type	2011	2012			
	Dec	Mar	Jun	Sep	Dec
Central Bank					
T Bill Rate – 91 Days	5.28	5.46	5.59	5.43	5.37
Lombard Rate	9.28	9.46	9.54	9.43	9.37
Commercial Banks <sup>5</sup>					
Call	1.15	0.77	0.77	0.77	0.77
Time:					
31 days	1.21	0.91	0.91	0.91	0.91
88 days	1.67	1.41	1.41	1.41	1.41
6 months	1.94	1.69	1.69	1.69	1.69
1 year	2.78	2.34	2.34	2.34	2.34
Savings	1.15	0.84	0.84	0.84	0.84
Prime	10.50	10.25	10.25	9.92	9.92
South Africa*					
Repo	5.50	5.50	5.50	5.00	5.00
T Bill Rate – 91 Days	5.46	5.56	5.59	4.90	4.95
Marginal Lending					
Rate	10.50	10.50	10.50	10.50	10.50
Prime	9.00	9.00	9.00	8.50	8.50

\* Figures for South Africa were obtained from the SARB

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

**Figure 16: Short-Term Interest Rates**

(Per cent Per Annum)



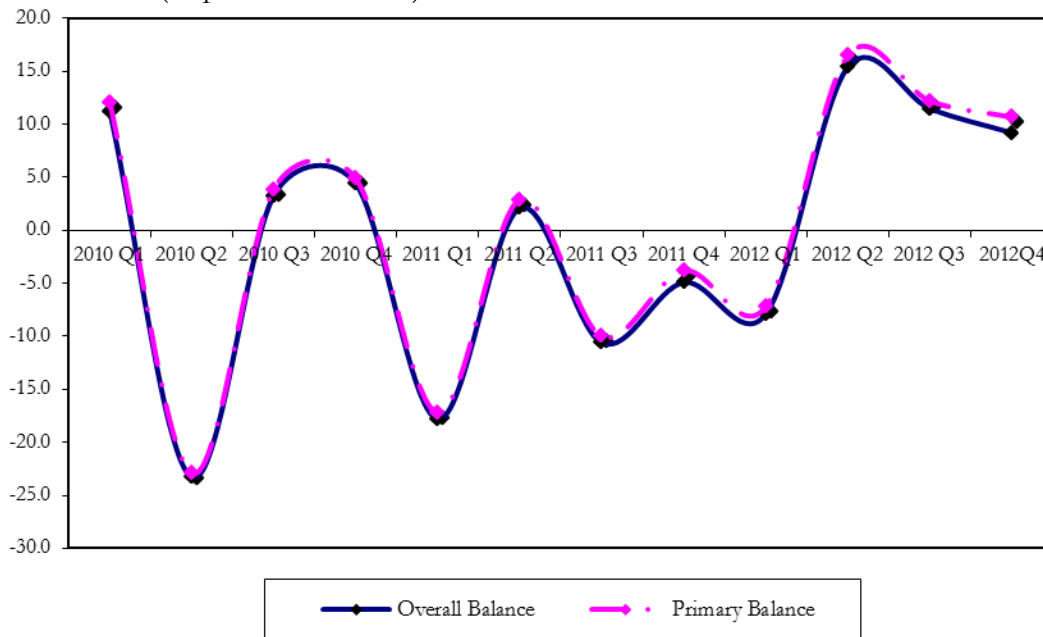
## V. Government Finance

### Summary of Budget Outturn

Fourth quarter estimates indicate that government budgetary operations recorded a surplus equivalent to 9.2 per cent of GDP, which is slightly lower than 11.5 per cent recorded in the quarter ending in September, 2012. The change is brought about by an increase in overall expenditure, which increased by 16.3 per cent in the period under review. Total revenue and grants increased by 10.8 per cent on a quarterly basis, compared with 3.0 per cent decrease recorded in the previous quarter. The increase in government expenditure and net lending reflected an increase in recurrent expenditures which was driven, mostly, by the increase in interest rates payments and capital expenditure. The increase in total revenue and grants was a result of an increase in other taxes, non-tax revenue and grants. Customs revenue remained constant between the third and fourth quarter.

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

(In per cent of GDP)



## Revenue

Total revenue which comprises tax revenue and non-tax revenue increased by 6.7 per cent during the quarter under review. This followed a decrease of 5.5 per cent in the previous quarter. The observed increase in total revenue emanated from an increase of 5.4 per cent in tax revenue and a 23.2 per cent increase in non-tax revenue. The increase in tax revenue was a result of an increase in tax on goods and services and other taxes. For the fourth quarter, SACU revenue and income taxes were the largest contributors to total revenue. However, SACU's contribution to total revenue declined from 53.4 per cent to 52.1 per cent while income tax as a share of total revenue increased from 18.2 per cent to 21.6 per cent.



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

	2011/12		2012/13		
	Oct-Dec	Jan-Mar	Apr-June	Jul-Sep <sup>+</sup>	Oct-Dec <sup>*</sup>
Total Revenue and Grants	2460.1	2548.1	3178.2	3176.6	3520.7
Total Revenue	2005.8	2111.3	2801.1	2742.7	2926.8
<i>Tax Revenue</i>	1641.8	1938.2	2437.1	2538.3	2674.9
Customs	688.2	688.2	1491.6	1491.6	1491.6
Non-customs	953.6	1250.0	945.5	1046.7	1183.6
Income Taxes	584.8	789.3	539.3	569.2	619.6
Taxes on goods & services	393.0	444.4	393.0	432.7	488.8
Other Taxes	13.2	16.3	13.2	44.8	125.6
<i>Non-Tax Revenue</i>	364.0	173.1	364.0	204.4	251.9
Of which: Water royalties	224.5	137.8	163.0	159.6	222.7
Grants	454.3	436.8	377.1	433.9	593.9

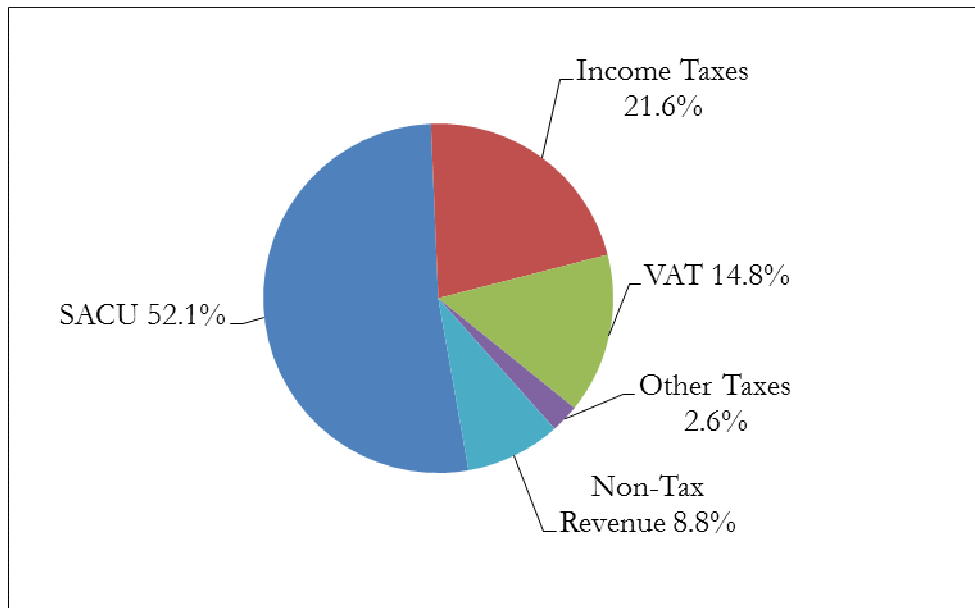
**Source:** Ministry of Finance (MoF)

<sup>+</sup>Revised

<sup>\*</sup>Preliminary estimates

The non-tax revenue component comprises dividends from operations of organisations with public ownership, royalties from Lesotho Highlands Water Project (LHWP), rand compensation and other revenues. It increased by 23.2 per cent following a 43.9 per cent decrease in the previous quarter. The rise in non-tax revenue reflected amongst others, the increase in water royalties which rose by 39.5 per cent from 2.1 per cent drop recorded in the previous quarter. Preliminary estimates indicate that grants increased in the quarter under review. It rose by a significant 36.9 per cent following a 15.1 per cent increase observed in the previous quarter.

**Figure 18: Sources of Government Revenue**



### **Expenditure**

Government expenditure and net lending which include recurrent and capital expenditures, rose during the quarter under review. It increased by 16.3 per cent in the fourth quarter compared with an increase of 2.4 per cent in the previous quarter. The growth was reflective of an 11.6 per cent increase in recurrent expenditures, which comprises amongst others, wages and salaries, expenditures on goods and services, subsidies and transfers. Personnel emoluments continue to account for the largest share of recurrent expenditures at 41.2 per cent, slightly lower than 47.8 per cent recorded in the previous quarter. In the second position is expenditure on goods and services at 36.3 per cent, in contrast to 24.3 per cent recorded in the previous quarter. During the third quarter, capital expenditure increased by 36.9 per cent, following an increase of 6.1 in the quarter ending in September, 2012.

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

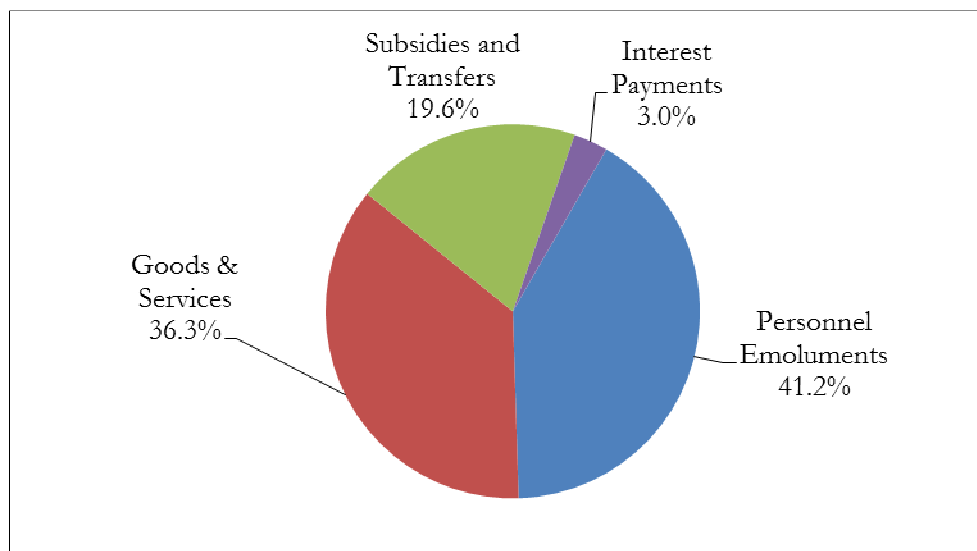
	2011/12		2012/13		
	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep <sup>+</sup>	Oct-Dec <sup>*</sup>
Total Expenditure & Net Lending	2659.7	2871.7	2550.0	2704.2	3146.0
Recurrent Expenditure	2205.4	2434.9	2005.4	2097.8	2340.2
Personnel Emoluments	965.8	1002.5	892.6	1083.7	870.9
Interest Payments	47.4	28.5	46.3	27.4	62.6
Foreign	12.6	18.2	16.5	18.7	17.4
Domestic	34.9	10.3	29.8	8.7	45.2
Other Expenditure	1192.2	1403.9	1066.5	986.7	1406.7
Capital Expenditure	454.3	436.8	544.2	606.4	805.8
Net Lending	-	-	-	-	-

Source: MoF

<sup>+</sup>Revised

<sup>\*</sup>Preliminary estimates

**Figure 19: Recurrent Expenditure by Type**



## Financing

Preliminary estimates reflect a surplus equivalent to 9.2 per cent of GDP during the review period, slightly lower than 11.5 per cent realized in the previous quarter. The deterioration of the surplus emanates from a significant increase in expenditure during the period under review. However, the positive fiscal balance will continue to improve government deposits with the banking system.

**Table 21: Government Financing**

(Million Maloti)

	2011/12		2012/13		
	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep <sup>+</sup>	Oct-Dec <sup>*</sup>
Financing	199.6	323.6	628.2	-470.8	-376.8
Foreign	105.7	-77.4	-8.9	144.3	89.8
Loan drawings	143.0	9.8	24.2	208.9	129.3
Amortization	-37.3	-87.2	-33.1	-64.6	-39.5
Domestic	93.9	401.0	-619.3	-615.1	-466.6
Bank Financing	86.7	382.7	-600.0	-618.9	-469.1
Non – Bank	7.2	18.3	-19.3	3.8	2.5

Source: MoF

<sup>+</sup>Revised

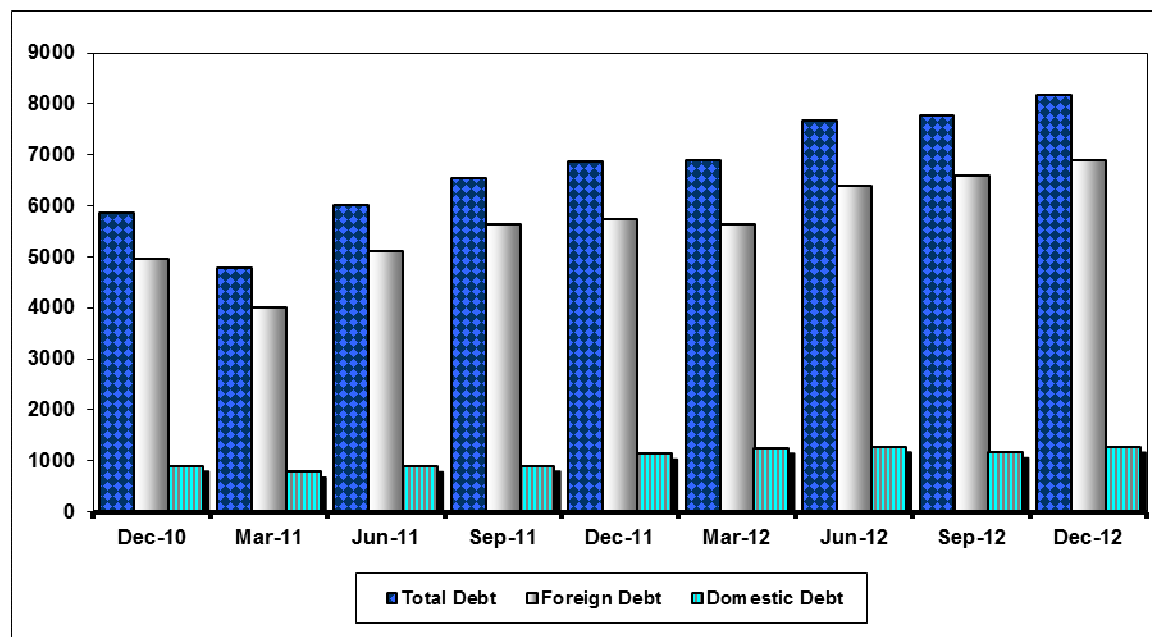
<sup>\*</sup>Preliminary estimates

## Public Debt

### Overview

Government debt stock includes both external and domestic borrowing. Outstanding government debt increased by 5.4 per cent in the quarter under review compared with 2.7 per cent increase recorded in the previous quarter. The increase in total public debt was due to an increase in both external and domestic debt. External debt rose by 4.7 per cent while domestic debt grew by 9.3 per cent. As a percentage of GDP, public debt stood at 44.6 per cent compared with 42.3 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 84.4 per cent while domestic debt constituted 15.6 per cent of total public debt stock.

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



### External debt

External debt increased by 4.7 per cent on a quarterly basis, compared with an increase of 3.0 per cent recorded in the quarter ending in September, 2012. The increase reflected the weakening of the rand against the US dollar during the quarter under review. Loans from multilateral sources continued to constitute a larger share of external borrowing at 88.7 per cent while bilateral loans constituted 4.9 per cent. As a percentage of GDP, external debt was 37.6 per cent during the review period, which is slightly lower than 36.0 per cent recorded in the previous quarter.

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

	2011	2012			
	QIV	QI	QII	QIII	QIV
External Debt	5646.6	5626.2	6397.7	6591.7	6901.4
Bilateral Loans	239.3	242.8	260.6	312.5	340.6
Concessional	239.3	242.8	260.6	312.5	281.7
Non-concessional	0.0	0.0	0.0	0.0	58.9
Multilateral Loans	5162.5	5058.8	5739.2	5863.3	6119.5
Concessional	4954.1	4869.4	5442.5	5412.0	5643.5
Non-concessional	204.4	189.4	296.7	451.3	476.0
Financial Institutions	66.5	63.2	63.5	62.0	62.0
Concessional	0.0	0.0	0.0	0.0	0.0
Non-concessional	66.5	63.2	63.5	62.0	62.0
Suppliers' Credit	267.8	261.1	334.4	353.9	379.3

Source: MoF

### Domestic Debt

Domestic debt stock mainly comprises Treasury bills and bonds. It increased by 9.3 per cent in the four quarter in comparison to an increase of 0.7 per cent recorded in the third quarter. The increase mainly reflected issuance of Treasury bonds during the quarter which was mainly aimed at keeping the market functional. Commercial banks hold the largest share of Treasury bills and bonds at 91.8 per cent, while the non-bank sector holds 8.2 per cent. As a percentage of GDP, domestic debt was 7.0 per cent on a quarter-to-quarter basis compared with a 6.4 per cent observed in the previous quarter.

**Table 23: Domestic Debt**  
(Million Maloti)

	2011	2012			
	QIV	QI	QII	QIII	QIV
Domestic Debt	1022.9	1114.3	1159.2	1153.3	1171.5
Banks	751.9	824.0	847.7	843.9	960.7
Long-term	374.8	374.9	375.0	376.1	401.2
Short-term	377.1	449.1	472.7	467.8	559.5
Of which: treasury bills	377.1	449.1	472.7	467.8	559.5
Non -bank	271.1	290.3	311.5	309.3	314.8
Short-term (TBs)	120.6	138.9	120.2	103.6	104.1
Long-term	150.5	151.4	191.3	205.7	210.7

Source: MoF

## VI. Foreign Trade and Payments

### Overview

The Lesotho's external sector position continued to register a surplus for the third consecutive quarter in the quarter ending in December 2012. The overall balance, in seasonally adjusted terms recorded a surplus of M673.4 million in the review quarter, lower than that of M1.1 billion realised in the previous quarter. The lower surplus reflected a widening of current account balance coupled with a decline in capital and financial account inflows during the review quarter. The seasonally adjusted transaction balance, which represents the overall balance without the effects of currency movements, also showed a surplus of M598.3 million in the quarter under review, compared with M1.1 billion observed in the previous quarter.

### Current Account

The current account balance continued to display deficit in the fourth quarter of 2012. It widened to a deficit of M685.0 million in the quarter ending in December 2012, after that of M344.1 million recorded in the quarter ending in September 2012. The observed performance was largely driven by the widening of merchandise trade deficit, as a result of an increase in merchandise imports while merchandise exports declined during the period. Trade in goods rose to a deficit of M2.3 billion in the review quarter, from 2.0 billion in the previous quarter. In addition, a marginal rise in payments for services acquired abroad contributed to the widening of

current account balance. Relative to GDP, current account registered a deficit of 14.9 per cent in the review period, compared with that of 7.5 per cent in the previous quarter.

**Table 24: Current Account Balance**

(Million Maloti)

	2011	2012			
	QIV	QI	QII	QIII*	QIV <sup>+</sup>
<b>I. Current Account</b>	-1034.32	-2103.41	-1449.93	-439.11	-685.06
<b>(a) Goods</b>	-2052.14	-2997.28	-2992.63	-2061.52	-2280.21
Merchandise exports f.o.b.	1843.28	1575.56	2114.96	2232.72	2075.89
Of which diamonds	448.71	550.10	747.35	658.85	532.66
Of which textiles & clothing	925.11	630.22	868.04	958.18	953.75
Other exports	469.46	395.24	499.57	615.69	589.48
Merchandise imports f.o.b.	-3895.42	-4572.84	-5107.59	-4294.24	-4356.10
<b>(b) Services</b>	-845.53	-912.81	-946.54	-900.88	-908.26
<b>(c) Income</b>	667.25	508.61	525.93	545.68	526.59
<b>(d) Current Transfers</b>	1196.10	1298.07	1963.31	1977.60	1976.82

\* Revised estimates

+ Preliminary estimates

### Merchandise Exports

During the final quarter of 2012, merchandise exports declined by 7.0 per cent, in contrast with the growth of 5.6 per cent realised in the third quarter of 2012. The deterioration resulted from a fall of 19.1 per cent in diamond export, amid sluggish demand in the Euro Zone where most of Lesotho's diamonds are destined. The decline in merchandise exports was also fuelled by a drop of 0.4 per cent in textiles and clothing exports, as a result of slower global consumer demand for Lesotho's manufactured goods during the period under review. On an annual basis, it rose by 12.6 per cent during the period. As a percentage of GDP, merchandise exports registered 45.3 per cent in the fourth quarter of 2012, following 48.7 per cent in the previous quarter.



**Table 25: Value of Exports by Section on the S.I.T.C. #**  
(Million Maloti)

COMMODITY	2011	2012			
	QIV	QI	QII	QIII*	QIV <sup>+</sup>
0. Food & Live Animals	74.23	72.18	67.02	66.57	52.60
Cattle	0.00	0.00	0.00	0.00	0.00
Wheat Flour	47.24	39.14	41.56	37.97	31.36
Maize Meal	0.17	9.87	0.41	1.11	0.11
Other	26.82	23.17	25.05	27.49	21.13
1. Beverages & Tobacco	222.53	136.08	143.45	169.27	183.89
Beverages	222.53	136.08	143.45	169.27	183.89
2. Crude Materials	460.69	550.10	767.28	661.84	550.97
Textiles fibres	11.65	0.00	19.82	2.90	18.15
Of which Wool	11.65	0.00	19.82	2.90	18.15
Of which Mohair	0.00	0.00	0.00	0.00	0.00
Crude fertilizers & crude minerals	448.71	550.10	747.35	658.85	532.66
Of which Diamond	448.71	550.10	747.35	658.84	532.65
Other	0.34	0.00	0.10	0.09	0.16
4. Manufactured Goods	52.59	34.42	55.08	57.20	70.44
Of which textiles yarn and fabric	39.41	32.84	40.26	41.12	55.82
Of which manufactured goods	13.18	1.58	14.82	16.08	14.62
5. Machinery & Transport Goods	127.39	174.79	230.86	318.05	248.92
6. Miscellaneous Manufactured Goods	899.86	605.91	848.30	955.41	963.38
Of which clothing accessories	835.60	542.51	754.62	875.99	897.94
Other	64.26	63.40	93.68	79.42	65.44
7. Unclassified Goods	5.99	2.08	2.97	4.38	5.70
<b>TOTAL EXPORTS</b>	<b>1843.28</b>	<b>1575.56</b>	<b>2114.96</b>	<b>2232.72</b>	<b>2075.89</b>

Note: Totals may not tally due to rounding

\* Revised estimates

+ Preliminary estimates

# Standard International Trade Classification

## **Merchandise Imports**

The growth of 1.4 per cent was realised in the merchandise imports in the quarter ending in December 2012, in contrast with a fall of 15.9 per cent in the quarter ending in September 2012. This emanated from an increase in declarations at border posts, reflecting high demand in the domestic economy during the quarter under review. In addition, a rise in imports from non-common customs area contributed to the observed performance of merchandise imports during the period. This was further exacerbated by depreciation of the local currency against the US dollar and other trading currencies, as that increases the value of imported goods. As a share of GDP, it registered 95.0 per cent in the fourth quarter, compared with 93.7 per cent in the previous quarter.

## **Direction of Trade**

In the fourth quarter of 2012, the African continent, particularly the SACU region continued to account for larger portion of Lesotho's exports in Africa. As a share of total exports, the African market registered 37.7 per cent, following 37.5 per cent realised in the previous quarter. The American market, where a large portion of Lesotho manufactured goods, in particular, textiles and clothing is destined for, was the second largest recipient. Its share was 36.3 per cent in the period under review, compared with 31.6 per cent in the previous quarter. The third largest destination of Lesotho's exports was the European market. It accounts for a large portion of Lesotho's diamond exports, with a share of 24.6 per cent in the fourth quarter of 2012, lower than 29.4 per cent observed in the previous quarter. The remaining share of 1.0 per cent and 0.3 per cent were recorded in the Asian and Oceania markets during the quarter under review compared 1.2 per cent and 0.2 per cent realised in the previous quarter.

**Table 26: Direction of Trade - Exports and Re-Exports, f.o.b.**  
(Million Maloti)

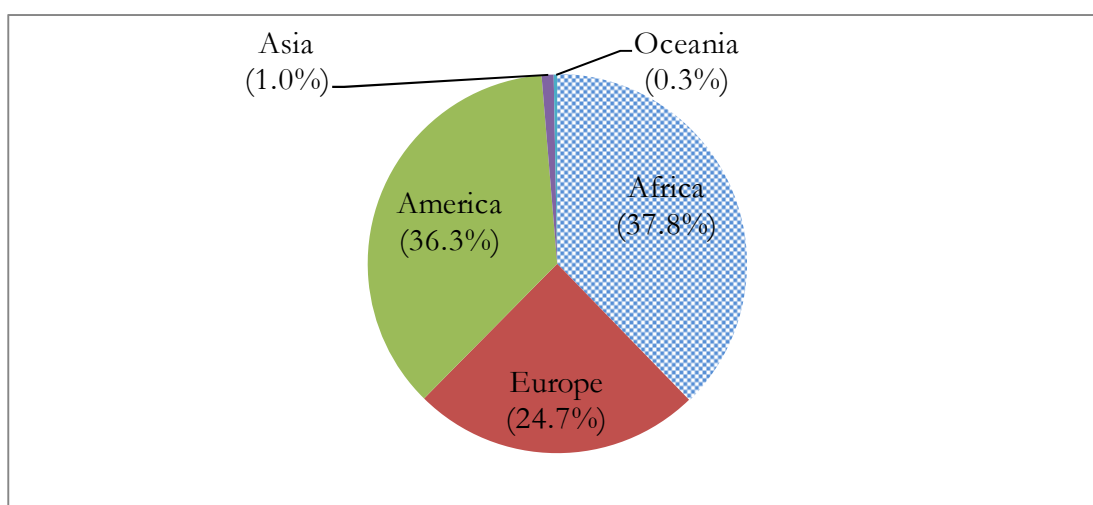
Region	2011	2012			
	QIV	QI	QII	QIII*	QIV <sup>+</sup>
World	1843.28	1575.56	2114.96	2232.72	2075.89
Africa	746.91	722.60	912.02	738.33	783.82
SACU	731.70	713.93	896.31	827.33	767.33
SADC	10.67	4.31	6.36	7.49	11.46
Other	4.54	4.36	9.35	2.55	5.03
Europe	424.93	463.56	665.26	657.45	511.70
EU	424.89	463.56	664.38	656.66	511.66
America	655.67	371.70	508.37	706..60	753.34
Asia	7.33	12.26	26.56	26.33	21.32
Oceania	8.44	5.44	2.75	4.97	5.71

Note: Total may not tally due to rounding

\* Revised estimates

<sup>+</sup> Preliminary estimates

**Figure 21: Direction of Merchandise Exports**



## **Services Account**

The net services account continued to reflect increased outflows during the fourth quarter of 2012, amid payments made for services acquired abroad. The outflow rose to M908.2 million during the quarter, from M900.8 million recorded in the previous quarter. An increase in outflow was attributed to a rise in payments for freight services. Moreover, the growth in payments for services in Lesotho embassies abroad contributed to the escalation of outflows in net services account during the quarter.

## **Income Account**

Income account balance declined by 3.7 per cent in the quarter ending in December 2012, after having increased by 3.7 per cent in the quarter ending in September 2012. The observed performance resulted from a fall in returns of both CBL and commercial banks on their investment abroad. However, a drop in interest payments for foreign government debt moderated the observed performance of net income.

## **Current Transfers**

During the quarter under review, net current transfers' receivable fell marginally by 0.04 per cent, which is equal to the same rate of decline recorded in the previous quarter. The drop in net inflows resulted from an increase in payments for subscription to international organisation during the period. SACU receipts, which take a large portion of current transfers' inflows remained constant during the quarter.

## **Capital and Financial Account**

The capital and financial account continued to register net inflows in the fourth quarter of 2012. A net inflow of M986.9 million was recorded in the review quarter, lower than M1.0 billion realised in the previous quarter. The lower inflows were attributable to the financial account which displayed an inflow of M355.1 million during the period, following an inflow of M670.3 million in the previous quarter. The observed performance of the financial account was driven largely by the outflows by commercial banks to increase their foreign asset as well as payments made for their liabilities abroad. Furthermore, lower inflows in financial account were driven by a decline in foreign government's loans during the quarter. However, an increase of 36.8 per cent in capital account moderated the slowdown in net capital and financial account, as more foreign grants were realised to support government's projects during the quarter.

**Table 27: Capital and Financial Account**

(Million Maloti)

	2011	2012			
	QIV	QI	QII	QIII*	QIV <sup>+</sup>
<b>I. Capital and Financial Account</b>	189.43	988.58	1092.29	1039.59	986.94
Capital Account	307.30	372.13	312.43	369.23	631.83
Financial Account	-117.87	616.45	779.86	670.36	355.11
<b>II. Reserve Assets</b>	109.75	770.08	-227.12	-1098.93	-665.26

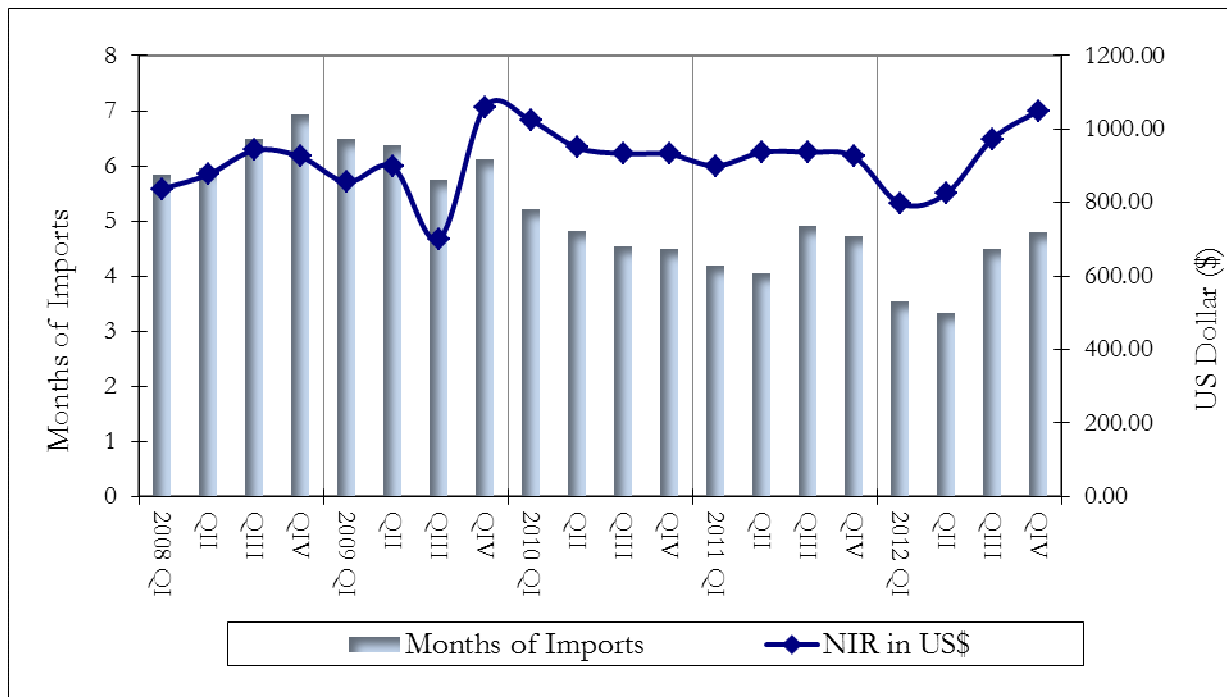
\* Revised estimates

+ Preliminary estimates

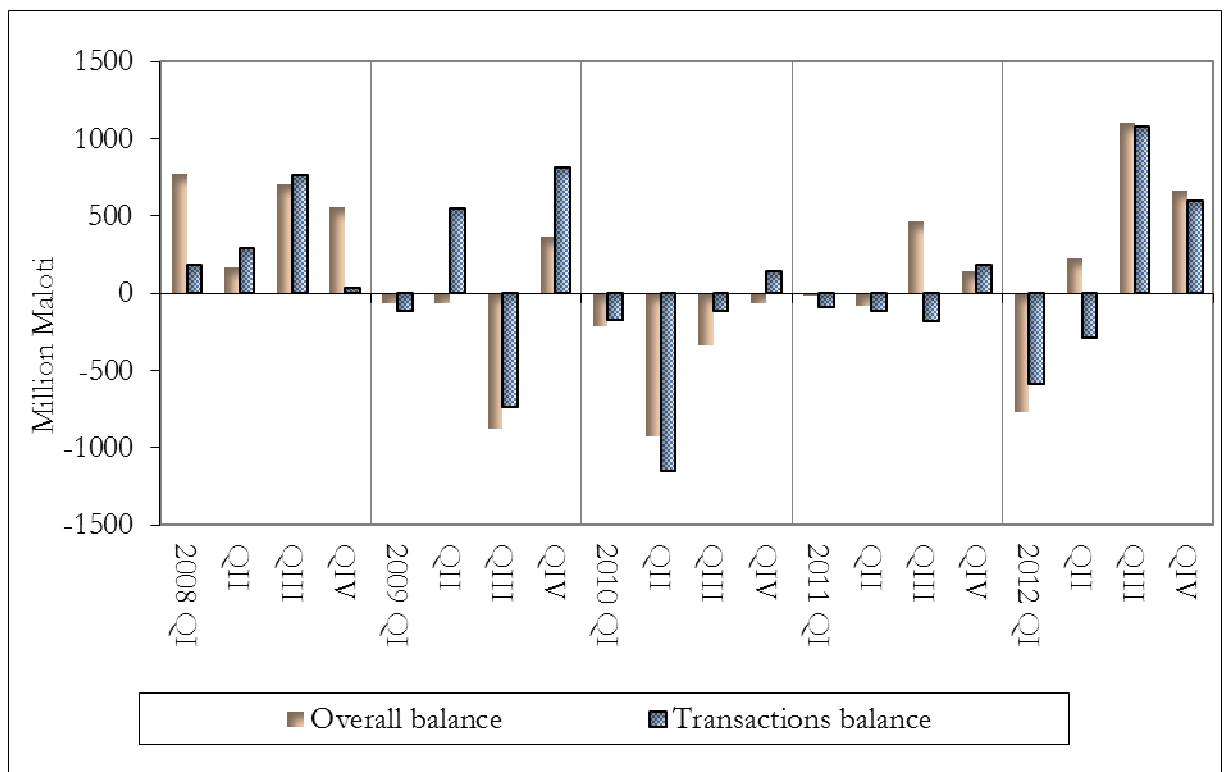
**Reserve Assets**

The gross international reserves grew by 8.4 per cent to M8.6 billion in the quarter ending in December 2012, compared with a rise of 10.1 per cent registered in the quarter ending in September 2012. The growth resulted from an increase in CBL foreign assets holdings as a result of a rise in government deposits during the period. As a result, measured in months of import cover, gross official reserves rose to 4.8 months in the fourth quarter of 2012, from 4.5 months realised in the previous quarter.

**Figure 22: Reserve Assets**



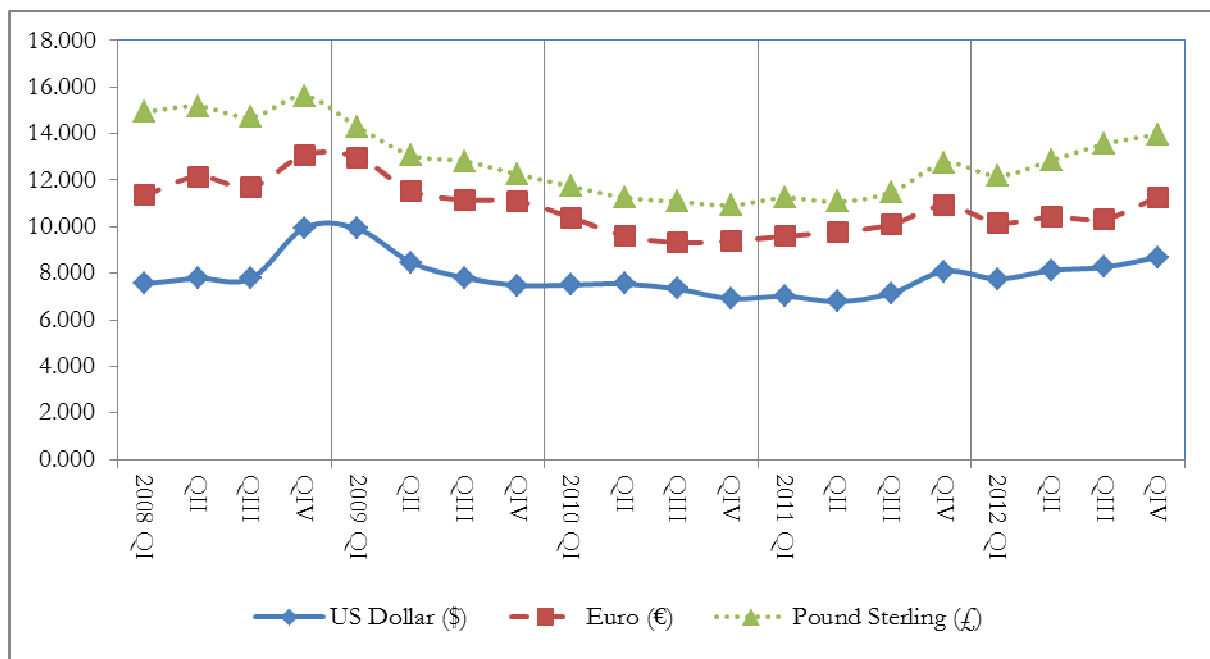
**Figure 23: Balance of Payments**



## Exchange Rates

The domestic currency unit, the loti, which is fixed at par to the South Africa rand, continued to depreciate against the major trading currencies during the quarter under review, as the rand continued to respond to erratic changes in global risk aversion in the global financial markets. It depreciated by quarterly average of 5.2 per cent to M8.21, 9.1 per cent to M11.28 and 7.0 per cent to M13.97, against the US Dollar, the Euro and the Pound Sterling, respectively. The weakness of the local currency could, on the one hand, compromise the inflation outlook, while on the other hand, it could boost earnings on Lesotho's exports as they would be more competitive in the international markets.

**Figure 24: Nominal Exchange Rate of the Loti against Major Currencies**



## VII. Statistical Tables