CENTRAL BANK OF LESOTHO

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I. Introduction

The global economy continued to recover, albeit unevenly, during the quarter under review. The recovery was driven by strong economic performance in emerging market economies, and accommodative macroeconomic policies in most of the advanced economies. However, a number of downside risks emanating from weak labour markets in advanced economies, the sovereign debt crisis in the Euro Area and the adverse global weather conditions continue to threaten this recovery.

The United States (US) economy maintained the recovery, with growth supported by increased household spending and business spending on equipment and software. However, growth was still not sufficient to bring about a significant improvement in employment. Despite the unfolding debt crisis in some EU member countries, economic activity in the Euro Zone, has rebounded. It has been driven mainly by the strong growth in Germany. The emerging economies are still the lone engine of the global recovery. Manufacturing growth accelerated across emerging Europe led by record expansion in Poland and Turkey, while in Asia, growth was led by India and China.

Commodity prices continued to rise significantly during the review period, reflecting the increased global demand as the world economy recovers. The US Dollar prices of gold, platinum and crude oil, rose by 11.6 percent, 9.4 percent and 13.6 percent, respectively, during the quarter under review. International prices of agricultural products also continued to rise, with maize and wheat prices increasing, on average, by about 17 percent. This was driven by a combination of high global demand and supply concerns related to adverse weather conditions during the quarter.

Preliminary indicators of domestic economic activity suggest that economic performance was subdued during the quarter. The primary sector seems to have grown during the quarter, supported by the increased production in diamond mining. Performance in the secondary sector appears to have been weak. Commercial and industrial consumption of electricity declined significantly, reflecting the low activity, and closure of some firms in the manufacturing sector due to low global demand. The increased water consumption implies that some parts of the sector may be starting to recover. With regard to the tertiary sector, all indicators point towards declining output.

Preliminary indications are that the employment situation in Lesotho worsened during the review period. Employment in LNDC- assisted companies declined by 5.6 per cent on a quarterly basis, while public sector employment increased by 0.1 per cent.

The level of inflation, measured as a percentage change in the Consumer Price Index (CPI), slowed to 3.1 per cent in the quarter ending in December 2010 from 3.3 per cent in the previous quarter. The main contributors to the slowdown in inflation included alcoholic beverages & tobacco and clothing & footwear.

In the financial sector, money supply expanded slightly by 0.2 per cent during the fourth quarter of 2010 following a much larger 5.8 per cent increase observed in the third quarter. The expansion in money supply was fuelled by the 12.1 per cent rise in domestic credit. Interest rates in Lesotho generally followed a downward trend, in line with developments in South Africa. The 91-day Treasury bill rate fell to 5.52 per cent from 5.91 per cent recorded in the third quarter. Its SA counterpart declined by 44 basis points to 5.60. Prime lending rates in Lesotho and South Africa fell by 58 and 100 basis points, respectively. The South African Reserve Bank reduced the repo rate by 50 basis points, from 6.0 per cent to 5.5 per cent, during the review period.

Government budgetary operations for the quarter ending in December 2010 are estimated to have recorded a surplus equivalent to 4.4 per cent of GDP following a surplus of 7.0 per cent of GDP during the previous quarter. Total revenue and grants fell from 67.4 percent of GDP in the previous quarter to 50.4 percent during the review period. However, the effect of this decline was partially offset by a fall in total expenditure and net lending from 60.4 percent of GDP to 45.9 percent of GDP. The fall in total revenue and grants came as a result of a decline in SACU receipts, which had doubled in the previous quarter due to a windfall receipt that resulted from arbitration. Government expenditure and net lending decreased due to reduced recurrent spending.

The level of public debt increased from 34.5 per cent observed in the previous quarter to 36.8 per cent of GDP during the quarter under review. This reflected mainly the effect of the exchange rate depreciation on the loti value of external debt and the increase in domestic debt due to new holdings of long term debt, which were facilitated by the introduction of treasury bonds. The debt service ratio was estimated at 0.4 per cent during the review period compared with 1.8 per cent observed in the previous quarter. External debt continued to constitute the bulk of the overall debt stock at 85.9 per cent while domestic debt accounted for 14.1 per cent.

The balance of payments (BOP) position improved, with the narrowing of the seasonally adjusted deficit during the quarter under review. The improvement was bolstered by improved export performance emanating from a 70 percent growth in diamond exports as well as the reduced imports of services. However, gross reserves, measured in months of imports, were estimated to have declined slightly as a result of the revaluation loss due to the strengthening of the local currency against major currencies.

II. International Economic Developments

According to preliminary estimates global economic activity continued to recover during the quarter ending December 2010, which suggested that global demand has started to pick up, regardless of sovereign debt vulnerabilities facing the European zone. The global recovery was supported by strong economic performance in emerging economies, in particular, China and India which continued to grow faster than advanced economies. However, global economic performance continued to be constrained by factors such as weak labour markets in advanced economies, tight credit in emerging markets, and adverse global weather conditions. In 2010, global Gross Domestic Product (GDP) was estimated to have increased by 5.0 per cent.

United States (US)

Economic activity in the US continued to recover during the review period. Real GDP grew by 3.2 per cent compared with 2.6 per cent registered in the previous quarter. This was driven by strong performance in consumer spending, which accounts for 70 per cent of US output. In addition growth benefited from increased real non-resident fixed investment as well as net exports of goods and services. The US real GDP is projected to grow by 2.9 per cent in 2010 following a decline of 2.6 per cent observed in 2009.

As an indication of improved economic activity, unemployment rate in the US dropped marginally to 9.4 per cent in the period ending in December 2010 from 9.6 per cent in September 2010, as employment in private sector started to increase.

With regard to price developments in the US, the inflation rate accelerated to 1.5 per cent in December 2010, from 1.1 per cent in September 2010. The increase emanated largely from a rise in the energy index due to high fuel prices. The acceleration was also supported by high prices of food, in particular, fruits and vegetables. However, the Federal Reserve Bank's Open Market Committee (FOMC) decided to leave the benchmark lending rate unchanged at 0.25 per cent during the fourth quarter of 2010.

Table 1: Key World Economic Indicators - 2010

	Real GDP Growth		Inflation Rate		Key interest Rate		Unemployment Rate	
	QIII*	QIV	QIII	QIV	QIII	QIV	QIII	QIV
China	9.60	9.80	3.60	4.60	5.31	4.20	4.10	4.10
Euro area	1.90	2.00	1.80	2.20	1.00	1.00	10.10	10.00
India	8.90	n/a	9.82	8.40	5.00	5.25	n/a	n/a
Japan	3.90	1.10	-0.60	-0.40	0.10	0.10	5.20	5.10
South Africa	2.60	3.80	3.20	3.50	6.00	5.50	25.3	24.0
United States	2.60	3.20	1.10	1.50	0.25	0.25	9.60	9.40

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

Euro-zone[1]

Economic activity in the Euro area gained momentum during the fourth quarter of 2010, despite vulnerabilities due to the sovereign debt crisis in some member countries, which threatened the region's financial stability and economic recovery. Preliminary estimates indicated that the Euro-zone's economy grew by 2.0 per cent in the review quarter, following 1.9 per cent registered in the previous quarter. Despite continuing weaknesses in some of the member countries, the observed performance was underpinned by strong growth in other members, led by Germany, which is the largest Euro-zone economy. Other countries such the Netherlands, Austria and Finland also realised notable growth rates. The Euro-zone's unemployment rate, on the other hand, remained high at 10.0 per cent, from 10.1 per cent in the third quarter.

The rate of inflation, measured by changes in the Harmonized Index of Consumer Prices (HCIP), accelerated to 2.2 per cent from 1.8 per cent recorded in the period ending September 2010. The main drivers of inflation were high food and energy prices. At the current level, the rate of inflation was slightly higher than the 2.0 per cent target as determined by European Central Bank (ECB). However, the ECB kept its benchmark lending rate unchanged at 1.0 per cent, consistent with continued efforts to support sustainable economic growth and job creation.

[1] Euro-zone: Austria, Belgium, Cyprus, Germany, Greece, Finland, France, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, Spain and Slovakia. Estonia became the 17th Euro-zone member country with effect from the 1st of January.

South Africa (SA)

Growth in SA economic activity accelerated during the fourth quarter of 2010. GDP grew by 3.8 per cent on an annual basis, compared with 2.7 per cent in the third quarter. The main sources of this expansion were mining and manufacturing sub-sectors, with growth rates of 10.9 per cent and 3.9 per cent, respectively. Mining output benefited from strong global demand for precious metals and high commodity prices. At the same time, growth in manufacturing production reflected a recovery in domestic and global demand. The following sub-sectors also grew notably: wholesale, retail, motor trade and accommodation (3.8 per cent); transport, storage and communication (3.8 per cent); and finance, real estate and business services (3.6 per cent).

In line with increased economic activity, the unemployment rate in SA declined to 24.0 per cent in December 2010 from 25.3 per cent in September 2010. The main employment contributors were community and social services, as well as manufacturing.

Meanwhile, the SA inflation rate, as measured by changes in headline CPI, increased to 3.5 per cent in December 2010, following 3.2 per cent recorded in September 2010. This was largely influenced by price increases in housing and utilities coupled with transportation, while food and non-alcoholic beverages index remained unchanged. At this level, the inflation rate remained within the South African Reserve Bank's (SARB's) target range of 3 to 6 per cent. On the other hand, the SARB's Monetary Policy Committee decided to reduce the repo rate by 50 basis points to 5.5 per cent in November 2010, consistent with global efforts to stimulate economic activity.

Emerging Asian Markets and Japan

China

The economic growth in China remained robust, GDP grew by 9.8 per cent in the quarter ending in December 2010, compared with 9.6 per cent observed in the previous quarter. This growth was driven mainly by industrial production, fixed asset investment and trade. However, China's urban unemployment rate remained unchanged from the third quarter of 2010 at 4.1 per. This was below a target rate of 4.6 per cent determined by the Government of China.

The strong economic growth in China fuelled inflationary pressures. As a result, CPI inflation accelerated to 4.6 per cent in December 2010 from 3.6 per cent recorded in September 2010. The increase in consumer inflation was attributed mainly to a rise in food prices, which were, in turn, influenced by severe weather conditions. Consequently, the People's Bank of China (PBC) tightened its monetary policy stance. It raised its benchmark lending rate by 25 basis points to 5.69 per cent and also announced a new reserve requirement management system.

Japan

GDP growth in Japan slowed down to 1.1 per cent during the fourth quarter of 2010 from 3.9 per cent realised in the previous quarter. The deceleration was influenced by the phasing out of the government stimulus programme on consumer goods that helped to increase demand in the previous quarter. The slowdown was also influenced by a moderation in exports' growth, partly as a result of its currency appreciation. In addition, Japan's GDP growth, during the review quarter, was dragged down by a significant decrease in public investments and a decline in private consumption.

At the same time, the unemployment rate declined by 0.1 percentage points from the previous quarter level to 4.9 per cent in December 2010.

The annual rate of decline in the CPI (deflation rate) in Japan slowed down to -0.3 per cent in December 2010 from -0.6 per cent registered in September 2010. Prices continued to decline in Japan as economic activity remained sluggish. As a result, the Bank of Japan (BOJ) left its key interest rate unchanged at 0.1 per cent.

India

Preliminary indicators showed that economic growth in India remained strong during the quarter under review. Production in factories, utilities and mines grew by 10.8 per cent, 3.6 per cent and 1.6 per cent in October, November and December 2010, respectively.

India's inflation rate decelerated to 8.4 per cent in December 2010 from 9.8 per cent registered in September 2010. Nonetheless, this was still above the target range of 4.0 to 4.5 per cent set by the Reserve Bank of India (RBI). Consequently, the RBI's Monetary Policy Committee raised the benchmark repurchase rate by 25 basis points to 5.25 per cent during the period ending in December 2010.

Commodity Prices

Overview

The prices of gold and platinum continued to rise during the quarter under review because of high global commodity demand which was underpinned by world economic recovery, particularly in China and India. In domestic currency terms, the international prices of both gold and platinum increased regardless of the strengthening of the rand and thus benefited the SA mining sector. SA is one of the major gold and platinum producing countries in the world. The price of crude oil also increased at the higher rate, in both US dollar and maloti terms, during the quarter to December 2010 than in the preceding quarter due to robust global demand for this commodity.

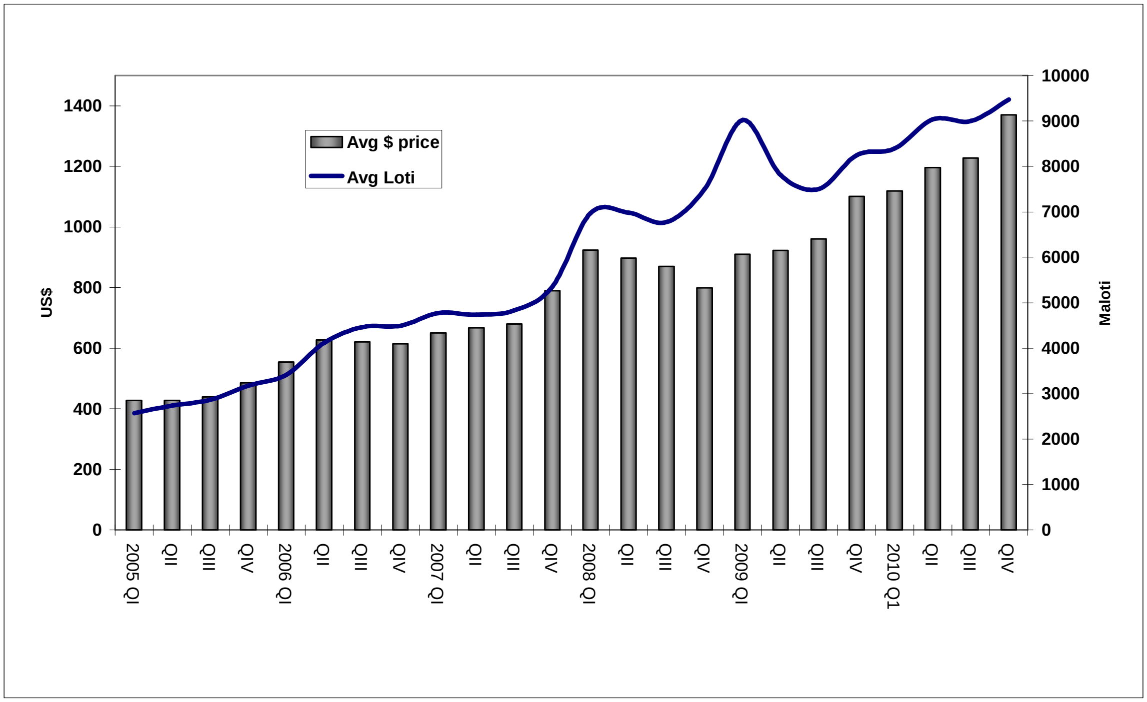
Prices of agricultural products in the international market continued to increase during the fourth quarter of 2010. The rising trend was driven by a combination of high global demand and supply constraints resulting from adverse weather conditions. Increases in prices of agricultural products have relatively more pronounced spill-over effects on inflation in Lesotho due to the importance of the food component in the aggregate consumer basket.

Mineral Products

Gold

The average international price of gold rose by 11.6 per cent to US$1 370.4 per ounce during the quarter ending in December 2010, following an increase of 2.6 per cent recorded in the previous quarter. In Maloti terms, the average price of gold grew by 5.2 per cent to M9 469.8 per ounce in the review period compared with a drop of 0.4 per cent observed in the quarter ending in September 2010.

Figure 1: Average Price of Gold

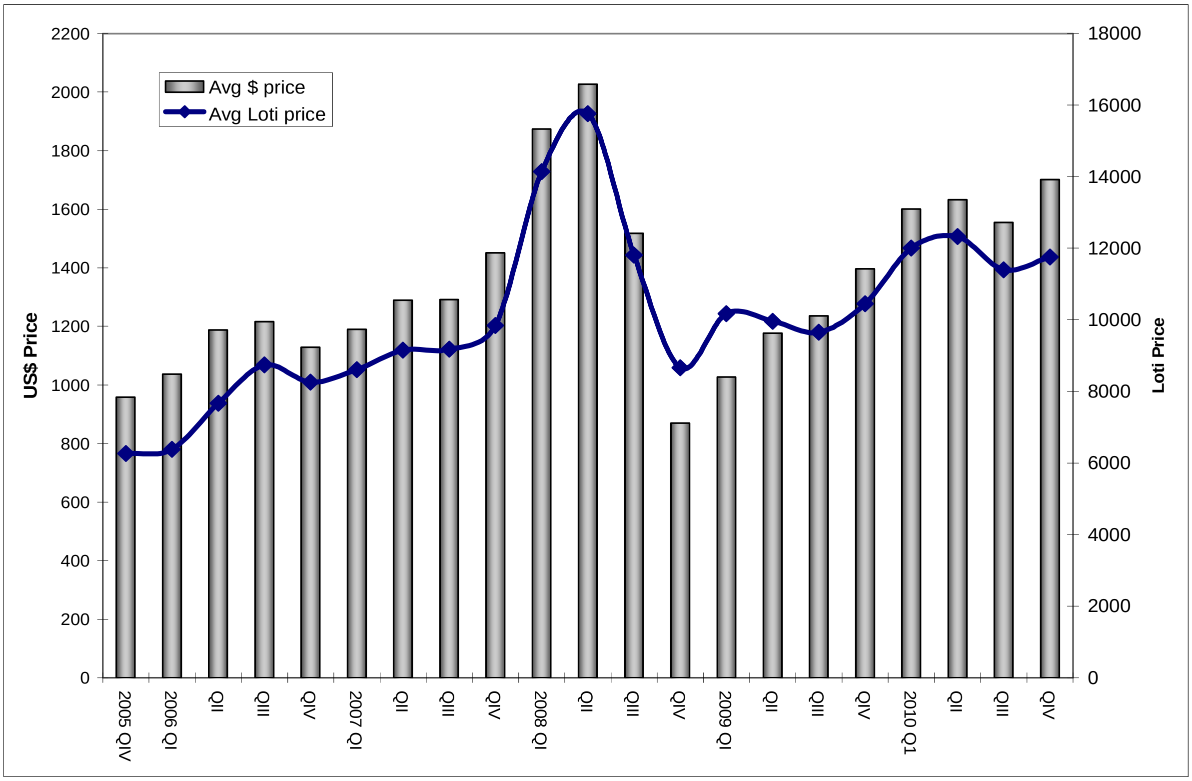


Source: Bloomberg

Platinum

During the quarter under review, the average price of platinum, in US Dollar terms, rose by 9.4 per cent to US$1 700.9 per ounce, in contrast with a decline of 4.7 per cent registered in the previous quarter. In Maloti terms, the average price of platinum increased by 3.1 per cent to M11 753.2 per ounce in the review period, following a drop of 7.5 per cent in the previous quarter.

Figure 2: Average of Price of Platinum



Source: Bloomberg

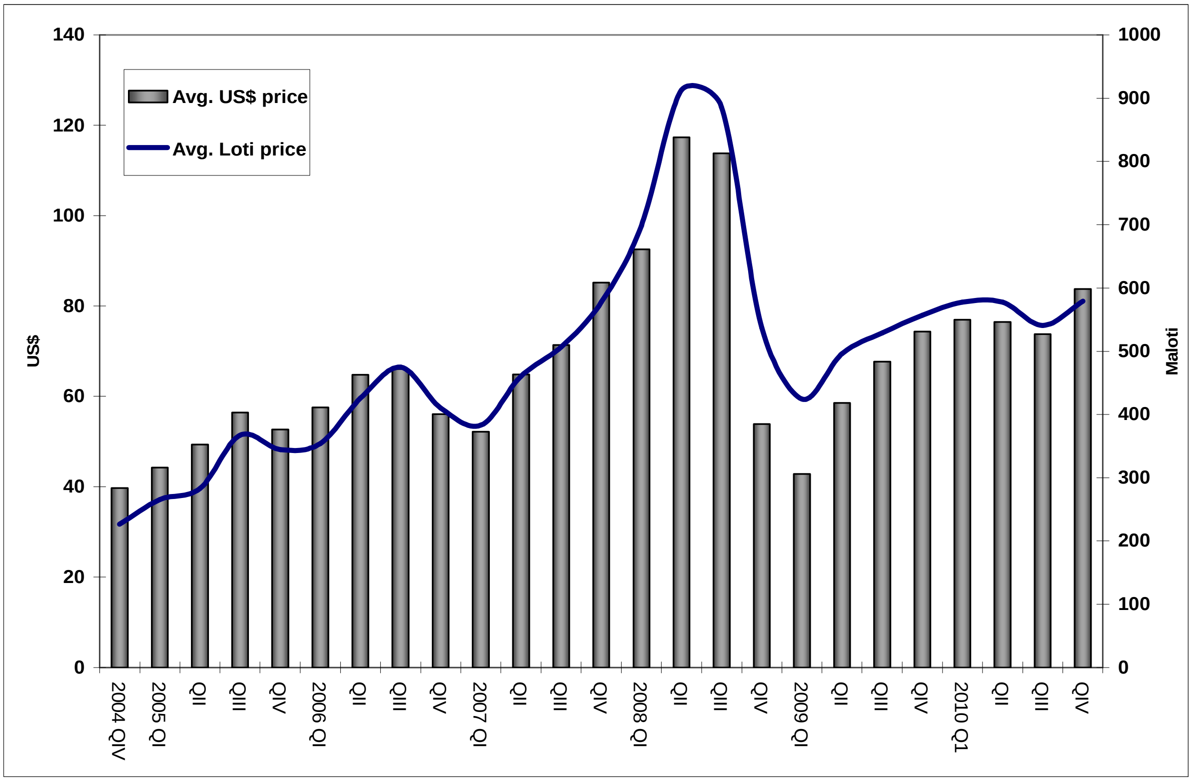
The increase in prices of gold and platinum augurs well for higher production and profitability in the SA mining industry. In addition, high commodity prices could dampen the adverse effect of the strengthening of the rand in the currency markets.

Oil

The average price of crude oil grew by 13.6 per cent to US$83.8 per barrel in the quarter ending in December 2010 compared with a drop of 3.5 per cent observed in the previous quarter. In Maloti terms, the average price of crude oil rose by 7.0 per cent following a decline of 6.4 per cent registered in September 2010.

In line with the increase in the international price of crude oil, domestic prices of petroleum products; petrol, diesel and illuminating paraffin rose, despite the strengthening of the local currency. Prices of petrol, diesel and illuminating paraffin ended the review quarter at M7.10, M7.55 and M5.25 per litre, respectively, compared with M6.80, M7.30 and M4.95 per litre recorded in the period ending in September 2010.

Figure 3: Average Price of Oil



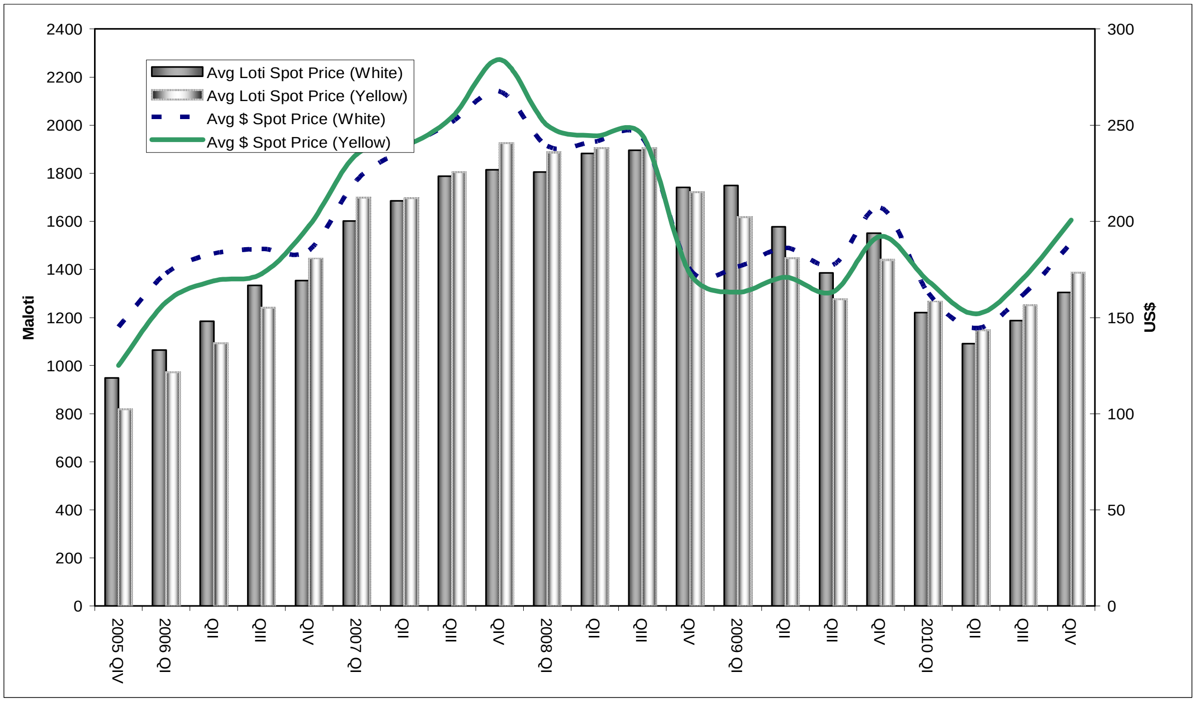
Source: Bloomberg

Agricultural Products

Maize

The average price of white and yellow maize continued to grow in the fourth quarter of 2010. They rose by 16.6 per cent and 17.6 per cent, from US$161.9 per tonne and US$170.6 per tonne during the preceding quarter, to US$188.8 per tonne and US$200.7 per tonne, respectively. In local currency terms, the prices increased by 9.8 per cent and 10.9 per cent to M1 303.8 per tonne and M1 386.1 per tonne respectively. High maize prices do not bode well for food as well as the overall inflation in Lesotho, due to the significance of the food component in the country's consumption basket.

Figure 4: Average Spot Price of Maize

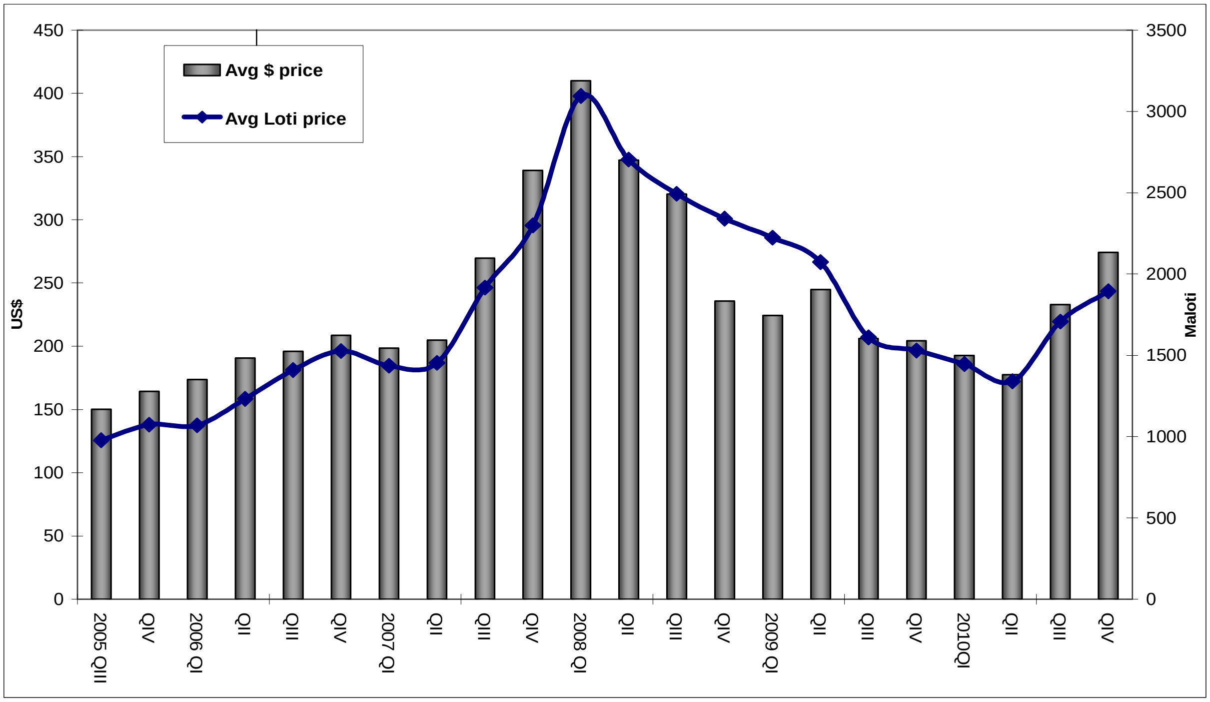


Source: Bloomberg

Wheat

The international price of wheat increased, on average, by 17.7 per cent to US$274.2 per tonne in the fourth quarter of 2010 from US$232.9 per tonne recorded in the previous quarter. In Maloti terms, it rose by 10.9 per cent to M1 893.8 per tonne compared with M1 707.3 per tonne registered in September 2010.

Figure 5: Average Spot Price of Wheat



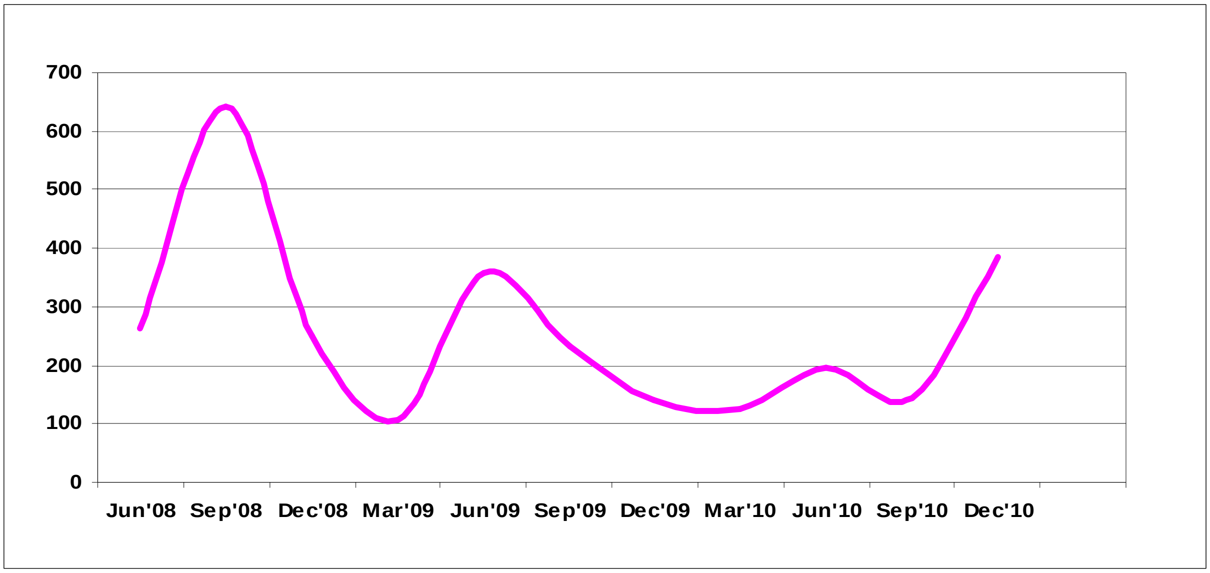
III. Real Sector, Employment and Price Developments

Primary Sector Developments

The diamond production index increased almost twofold during the quarter ending in December 2010 from a slump realized in the previous quarter. The improvement in the diamond mining production was largely driven by continued increase in the international price of rough diamonds. The improved performance in mining continued to emanate mainly from Letšeng mining company.

Figure 6: Diamond Production Index

(2005: QI=100)



Source: Department of Mines and Geology
*Preliminary estimates

Secondary Sector Developments

Electricity Consumption

Electricity consumption declined by 10.2 per cent during the quarter under review compared to a decline of 6.3 per cent in the previous quarter. The decline was observed mainly in the commercial and industrial category. This category declined by 19.0 per cent on a quarterly basis. Nonetheless, the general purpose and domestic categories increased, on a quarterly basis. The decline in the total electricity consumption reflected the low activity in the manufacturing sector as a result of low global demand. Four textiles and clothing manufacturing firms ceased operations during the review quarter.

Table 2: Electricity Consumption

	2010							
	QI		QII		QIII		QIV	
	Kwh	Value	Kwh	Value	Kwh	Value	Kwh	Value
General Purpose	21.92	16.86	20.52	17.65	26.34	15.27	22.37	17.64
Domestic	39.35	26.29	48.63	34.13	40.91	29.53	46.41	33.38
Commercial & Industrial	71.06	31.86	84.42	38.20	95.95	55.62	77.76	37.35
Total	**132.34**	**75.02**	**153.57**	**89.98**	**163.21**	**100.41**	**146.54**	**88.37**

Source: Lesotho Electricity Authority and Lesotho Electricity Company
*Preliminary estimates

Water Consumption

Water consumption rose by a seasonally adjusted 4.3 per cent in the quarter under review compared with a decline of 8.6 per cent observed in the previous quarter. On an annual basis, water consumption increased by a seasonally adjusted 4.7 per cent. The rise in total water consumption was mainly driven by increases in domestic and industrial categories, with the latter registering a much higher increase than the former.

Table 3: Water Consumption

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

		Domestic	Industrial	Other	Total
2009					
III	Units	0.88	1.01	0.57	2.46
	Value	3.85	8.04	3.44	15.33
	Units*		0.96		2.34
IV	Units	1.01	1.23	0.58	2.82
	Value	4.64	8.03	3.48	16.15
	Units*		1.11		2.54
2010					
I	Units	1.11	1.10	0.74	2.94
	Value	5.20	7.16	3.72	16.07
	Units*		1.28		3.44
II	Units	0.91	1.12	0.71	2.75
	Value	4.49	7.16	3.69	16.23
	Units*		1.14		2.79
III	Units	0.87	1.20	0.61	2.68
	Value	3.37	9.00	4.41	16.79
	Units*		1.14		2.55
IV	Units	1.06	1.30	0.59	2.95
	Value	5.37	8.31	4.23	17.91
	Units*		1.17		2.66

Source: Water and Sewerage Authority

*denotes seasonally adjusted figures

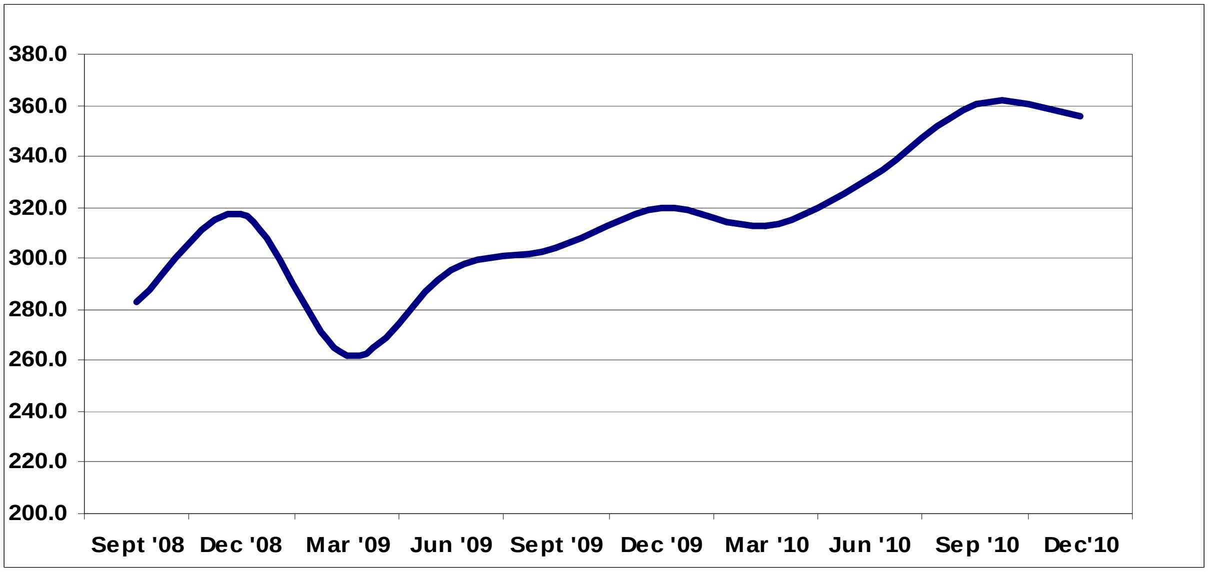
Tertiary Sector Developments

Sales Turnover

The value of sales turnover declined by 1.4 per cent in the quarter ending in December 2010 compared with an increase of 8.8 per cent recorded in the preceding quarter. On an annual basis, sales turnover increased by 11.3 per cent. The decline in the value of sales turnover reflects the subdued business activity during the quarter despite being a festive season. It indicates that the general economic activity was derailed by the lackluster performance of the major sectors of the economy like electricity consumption and the imported motor vehicles as well as the depressed manufacturing sector.

Figure 7: Value of Sales Turnover

(Million Maloti)



Source: Lesotho Revenue Authority

Telephone Statistics

The total number of telephone calls fell by 1.4 per cent in the quarter ending in December, 2010 compared with an increase of 1.4 per cent recorded in the preceding quarter. On an annual basis, however, the number of telephone calls increased by a modest 0.5 per cent compared with an increase of 0.9 per cent in the previous quarter. The deterioration was in line with lacklustre performance in clothing and textiles manufacturing industry.

Table 4: Telephone Traffic Statistics

		SA Outgoing Calls	International Calls	Total Calls
2009				
IV	No. of calls (millions)	2.04	0.12	2.15
	No. of calls*			2.17
	Total Duration (million minutes)	3.50	0.39	3.88
	Nominal Value (million maloti)	8.04	2.74	10.78
2010				
I	No. of calls (millions)	2.03	0.11	2.14
	No. of calls*			2.28
	Total Duration (million minutes)	3.52	0.37	3.89
	Nominal Value (million maloti)	8.09	2.63	10.72
II	No. of calls (millions)	2.05	0.11	2.16
	No. of calls*			2.23
	Total Duration (million minutes)	3.56	0.38	3.94
	Nominal Value (million maloti)	8.19	2.65	10.84
III	No. of calls (millions)	2.04	0.15	2.19
	No. of calls*			1.98
	Total Duration (million minutes)	3.53	0.40	3.93
	Nominal Value (million maloti)	8.11	2.67	10.78
IV	No. of calls (millions)	2.03	0.12	2.16
	No. of calls*			2.17
	Total Duration (million minutes)	3.52	0.39	3.91
	Nominal Value (million maloti)	8.09	2.66	10.75

Source: Tele-Com Lesotho and Vodacom Lesotho
* Adjusted for seasonality.

Investment Expenditure

Imported Motor Vehicles

The number of imported motor vehicles declined by a seasonally adjusted 17.4 per cent in December 2010 compared with an increase of 20.3 per cent in the quarter ending in September 2010. On an annual basis, the number of imported motor vehicles marginally declined by 0.6 per cent. The major contributors to the fall in the number of imported motor vehicles on a quarterly basis include "Vans, cars, and tractors". Nonetheless, other categories increased.

Table 5: Motor Vehicle Imports+

(Value in Million Maloti)

		Cars	Vans	Trucks	Buses	Tractors	M/ Cycles	Trailers	Total
2009									
IV	Value	51.29	45.6	5.29	9.07	0.43	0.08	2.03	113.8
	Units*								907
	Units	498	233	23	27	8	3	18	810
2010									
I	Value	39.99	52.1	8.91	3.09	2.4	0.13	1.61	110.3
	Units*								786
	Units	479	272	18	23	15	2	20	836
II	Value	36.15	46.5	16.66	8.79	1.72	0.10	6.56	116.4
	Units*								802
	Units	375	266	34	31	25	1	22	759
III	Value	46.64	58.5	17.7	3.56	1.18	0.18	0.52	128.3
	Units*								965
	Units	423	337	35	17	20	2	11	861
IV	Value	43.08	50.42	22.86	5.44	1.20	0.12	1.83	124.95
	Units*								902
	Units	411	299	38	22	17	2	16	805

Source: Avis Fleet Services Lesotho and Customs Department

*denotes seasonally adjusted figures

+Includes imports of second hand cars

Employment Developments

Employment in LNDC- assisted companies declined by 5.6 per cent and 1.7 per cent on quarterly and annual bases, respectively. Employment in textiles and clothing constituted the largest share of employment in LNDC-assisted companies. The quarterly decline mainly reflected a fall in the woven garments category. Employment in knit garments remained relatively flat. However, it is expected to improve when some firms resume production once the global economic recovery strengthens sufficiently. The domestic manufacturing sector remains weak as a result of a fragile economic recovery in the US. The sustained strength of the Loti against the US dollar also reduced the competitiveness of Lesotho's exports and worsened the employment situation in the sector.

Table 6: Employment Trend of LNDC-Assisted Companies

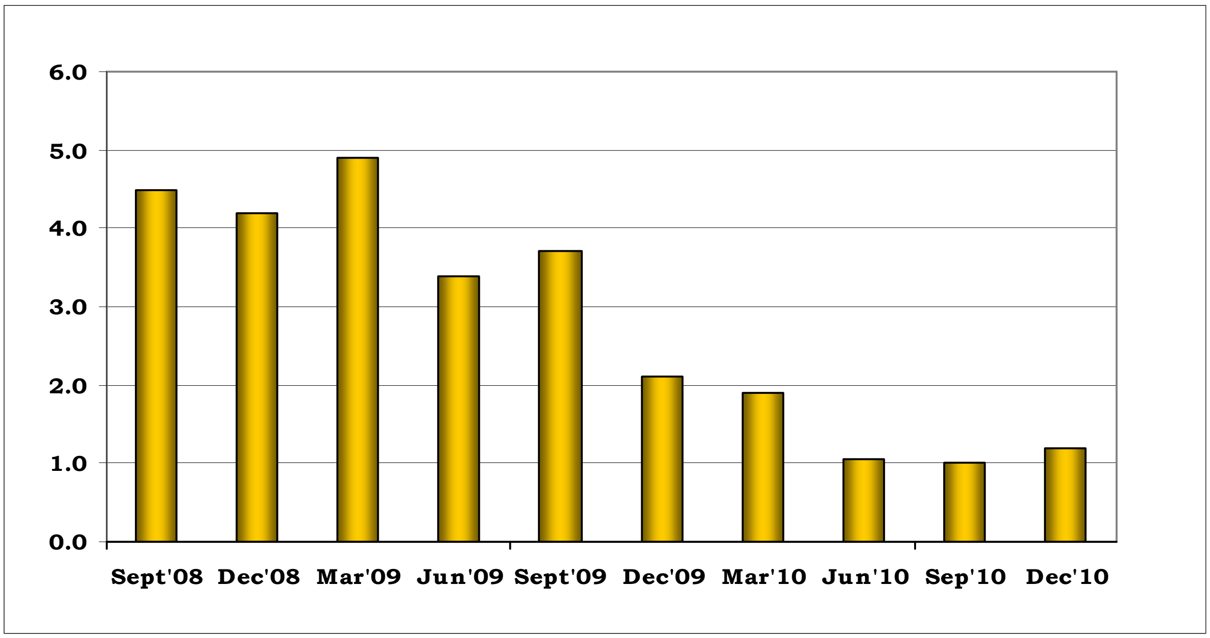
	2009	2010			
Industry	**QIV**	**QI**	**QII**	**QIII**	**QIV***
Knit Garments	24 427	22 228	22 822	21 581	21699
Woven Garments	13 443	13 677	15 433	18 366	14893
Footwear	2 929	2 884	2 879	2 879	2802
Fabrics, Yarn etc.	1 628	1 449	1 453	1 538	1581
Construction	270	295	282	275	281
Food & Beverages	867	855	863	799	1646
Electronics	1358	1456	1577	1650	1685
Retail	165	150	122	126	121
Hotel & Accommodation	404	461	462	599	465
Other	895	643	486	487	422
TOTAL	**46 386**	**44 098**	**46 379**	**48 300**	**45595**

Source: Lesotho National Development Corporation
*Preliminary estimates

The number of government employees increased by 0.1 per cent and 1.2 per cent on quarterly and annual bases, respectively, during the quarter ending in December 2010. The civil servants and teachers categories contributed to the increase in the public employment. They both registered increases of 0.3 per cent and 0.4 per cent, respectively. However, the daily paid category registered a decline of 2.4 per cent during the quarter under review. The low increase in the number of government employees reflects efforts by Government to contain the wage bill, hence the budget deficit.

Figure 8: Government Employment

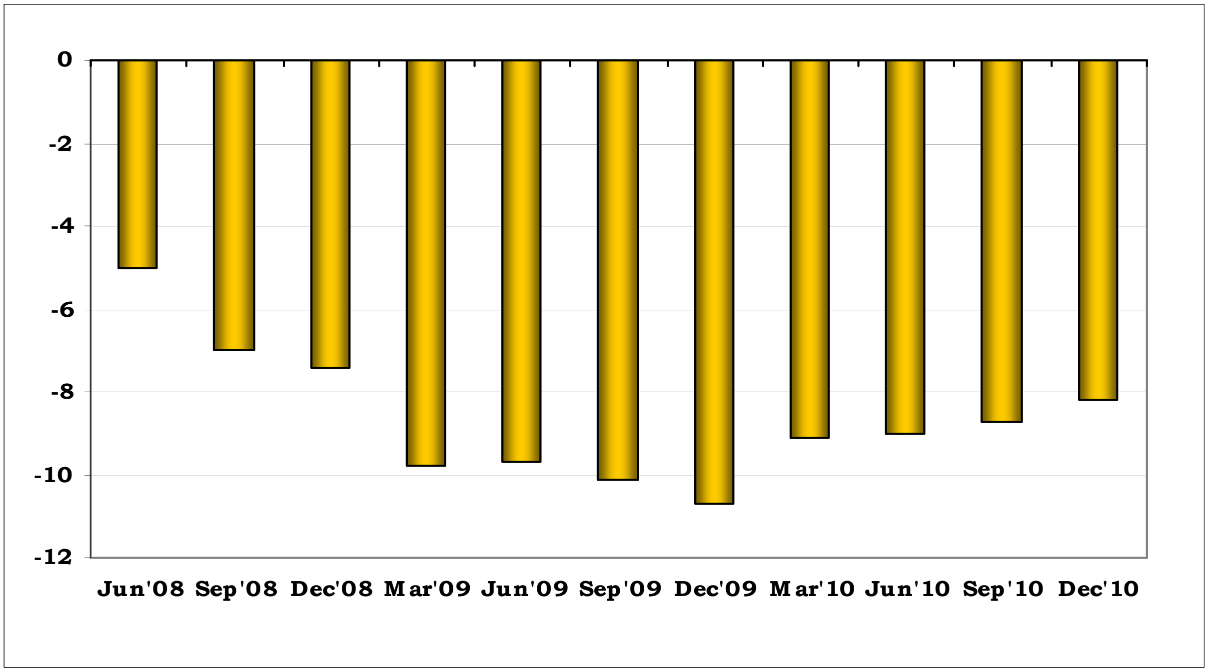
(Annual Percentage Change)



The number of migrant mineworkers continued to decline during the fourth quarter of 2010. It fell by 1.6 per cent on a quarterly basis compared to a 1.9 per cent recorded in the previous quarter. It declined from 45276 to 41555 on an annual basis, equivalent to 8.2 per cent decline. Nonetheless, the rate of decline in the number of Basotho employed in the SA gold mining industries has moderated at the back of improved gold prices.

Figure 9: Migrant Mineworkers Employment

(Annual Percentage Change)



Source: The Employment Bureau of Africa (TEBA)

Price Developments

The overall inflation rate, measured as a percentage change in the Consumer Price Index (CPI), slowed to 3.1 per cent in the quarter ending in December 2010 from 3.3 per cent recorded in the previous quarter. The major components that may have led to the decline in the rate of inflation include alcoholic beverages & tobacco and clothing & footwear.

This low inflation environment mainly reflects the subdued demand conditions in SA, though the consumer confidence is beginning to pick up, and the further appreciation of the foreign exchange rate of Rand. Inflation in South Africa and Lesotho is expected to remain low, hovering within the 3 to 6 per cent target band during 2011, but there are still upside risks to the inflation outlook at the back of the pick up in demand and increase in commodity prices.

Table 7: Inflation Rate

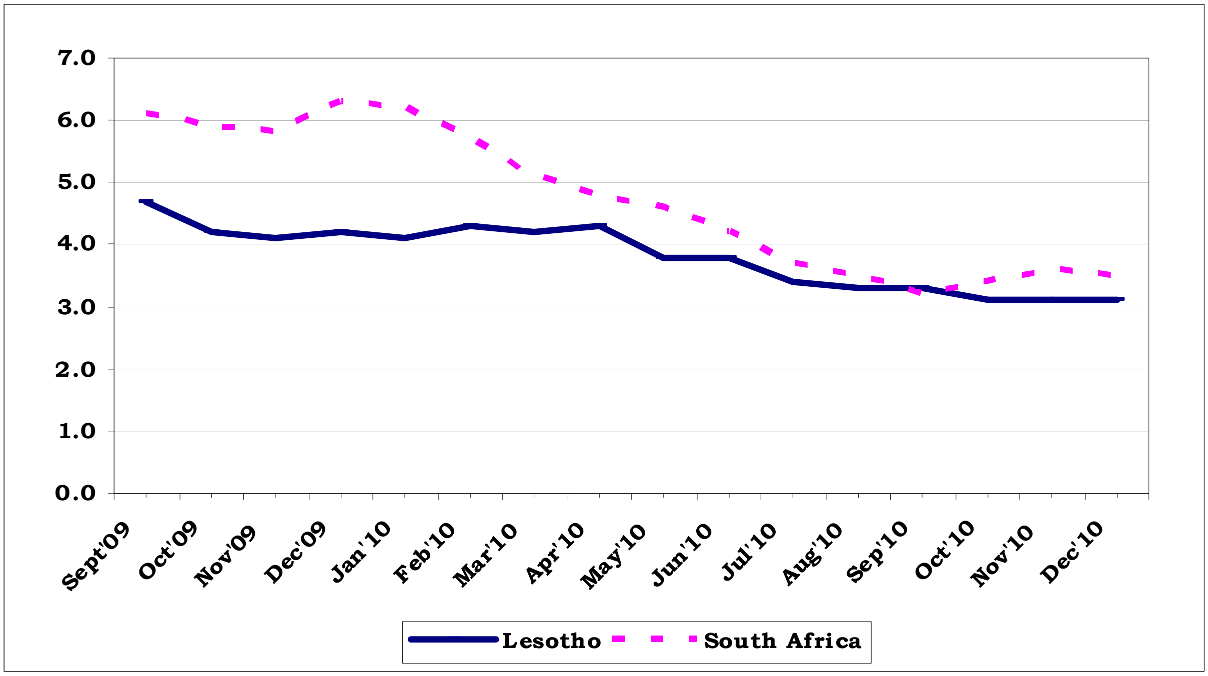
(Annualised Percentage Change: April 1997=100)

	Weight	2010				
		Aug	Sep	Oct	Nov	Dec
All items	**100.0**	**3.3**	**3.3**	**3.1**	**3.1**	**3.1**
Food and non-alcoholic beverages	39.8	3.5	3.8	3.7	3.8	3.9
Alcoholic beverages & Tobacco	6.4	9.8	8.7	8.5	8.7	8.4
Clothing & footwear	15.6	2.8	2.5	2.2	2.0	1.8
Housing, electricity gas & other fuels	3.7	4.7	5.2	4.5	5.0	5.0
Furniture, households equipment & routine maintenance of house	17.0	2.7	2.5	2.4	2.4	2.2
Health	1.4	2.1	2.2	2.5	2.4	2.2
Transport	7.8	2.2	1.8	1.7	1.2	1.2
Communication	0.1	2.3	2.3	2.3	1.1	1.1
Leisure, entertainment & Culture	1.2	1.5	1.3	1.8	1.7	1.8
Education	3.2	6.3	6.3	6.3	6.3	6.3
Restaurant & Hotels	0.4	3.2	3.0	5.0	5.1	5.2
Miscellaneous goods & services	3.2	3.9	3.3	3.4	2.7	2.4

Source: Bureau of Statistics, Lesotho

Figure 10: Annual Inflation Rate for Urban Households

(Percent)



IV. Monetary and Financial Developments

Determinants of Money Supply

Money supply expanded slightly by 0.2 per cent during the fourth quarter of 2010 following a 5.8 per cent increase observed in the third quarter. On annual basis, money supply grew by 14.8 per cent compared with a 2.3 per cent rise in the previous quarter. The expansion in money supply was fuelled by the 12.1 per cent increase in domestic credit (excluding net claims on government) and the moderate 0.4 per cent rise in net foreign assets.

Figure 11: Overview of Recent Monetary Developments

(Million Maloti: End of Period)

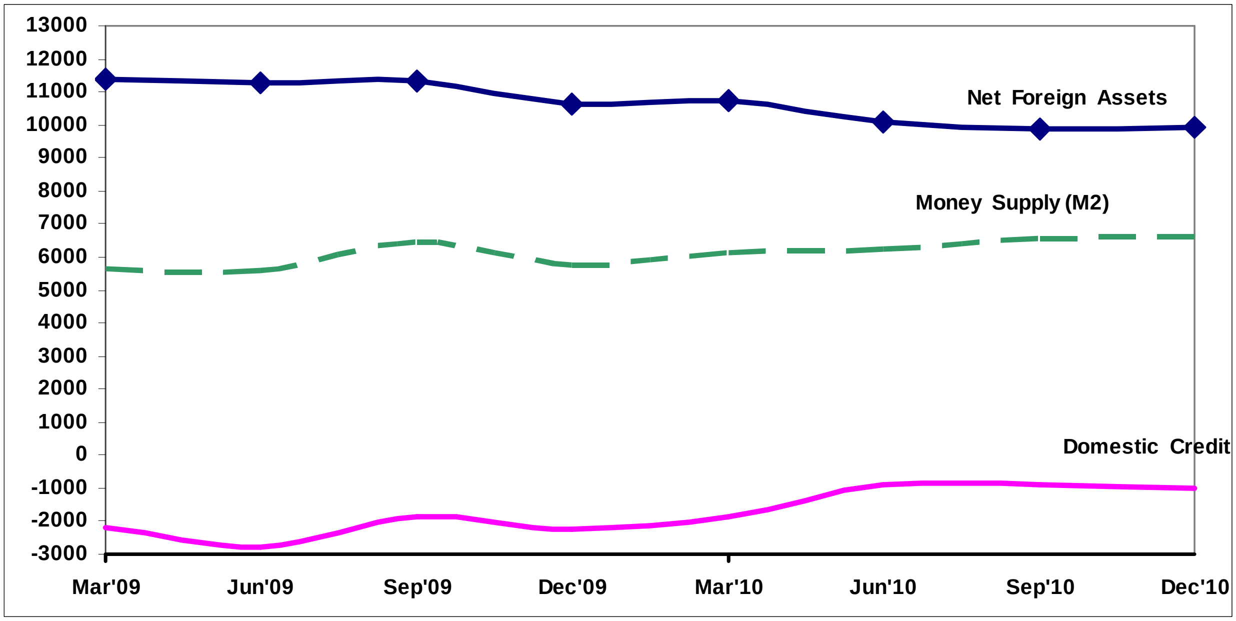


Table 8: Determinants of Money Supply

(Million Maloti: Changes)

Determinants	2009	2010			
	Dec	Mar	June	Sep	Dec
Net foreign assets	-662.0	88.8	-660.4	-178.3	37.0
Domestic credit	-247.3	349.6	1062.1	9.6	-108.2
Net Claims on Govt	-352.0	358.5	858.4	-238.3	-180.2
Statutory bodies	-35.4	0.0	0.0	3.2	-0.2
Private sector	140.1	-8.9	203.7	244.7	-72.2
Other items, net	-206.8	59.3	326.0	-529.0	-86.9
Money Supply (M2)	-686.3	398.2	75.7	360.3	15.8

Components of Money Supply

Broad money comprises narrow and quasi money. During the quarter under review, the two major components of money supply followed opposing trends, however, overall money supply increased marginally by 0.2 per cent. On the one hand, narrow money rose by 1.4 per cent in the quarter ending in December compared to a 7.8 per cent increase realised in the previous quarter. This increase in M1 was dominated by an increase in deposits by 1.5 per cent while Maloti in circulation rose marginally by 0.9 per cent. On the other hand, quasi money dropped by 3.3 per cent during the same quarter, largely because of a 5.5 per cent decline in time deposits and a 0.2 per cent marginal decline in savings deposits.

Table 9: Money Supply

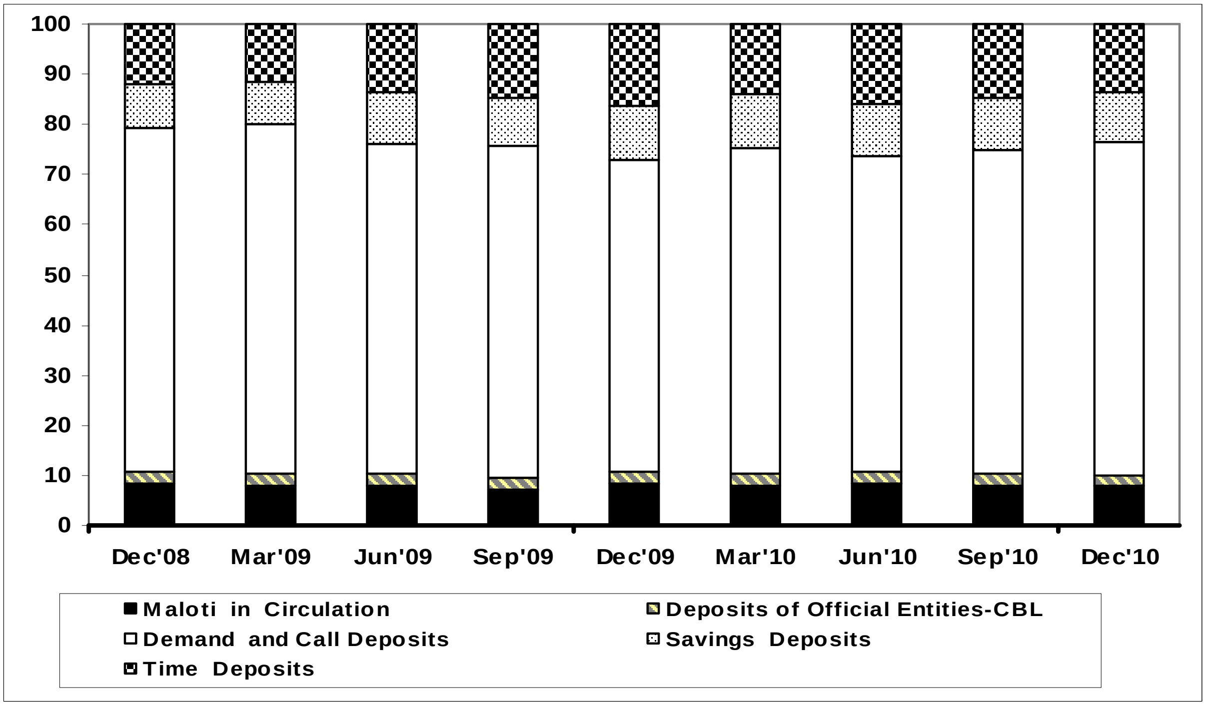
(Million Maloti; End of Period)

	2009	2010			
	Dec	Mar	June	Sep	Dec
Money Supply (M2)	5725.0	6123.1	6198.8	6559.1	6574.8
Money (M1)	4176.5	4602.8	4558.3	4915.8	4986.0
Maloti with public	487.2	498.9	523.1	533.8	539.0
Demand deposits[1]	3552.9	3967.2	3897.4	4242.5	4306.8
Deposits of official Entities with CBL	136.4	136.7	137.8	139.5	140.2
Quasi-Money	1548.5	1520.3	1640.5	1643.2	1588.8
Savings deposits	607.0	655.6	664.8	672.1	670.8
Time deposits	941.5	864.7	975.7	971.1	918.0

[1] includes call deposits
NB: Totals may not tally due to rounding off

Figure 12: Components of Money Supply

(Percentage shares)



Commercial Banks' Deposits by Holder

The quantity of deposits held with the local commercial banks grew slightly by 0.2 per cent at the end of December 2010 compared to an increase of 6.3 per cent registered in the quarter ending in September 2010. This marginal increase was at the back of 18.5 per cent decline in statutory bodies' holding of deposits. However, this large decline was moderated by the 1.4 per cent increase in private sector deposits. Demand deposits, which make a large share of total deposits increased by 3.3 per cent, whereas both savings and time deposits declined by 0.2 per cent and 5.5 per cent, respectively. The private sector remains the largest holder of deposits with the commercial banks at 96.1 per cent.

Table 10: Commercial Banks' Deposit by Holder

(Million Maloti: End of Period)

	2009	2010			
	Dec	Mar	June	Sep	Dec
Total Deposits	5041.4	5485.0	5501.1	5847.8	5862.2
Private Sector	4956.6	5270.3	5268.6	5519.7	5594.8
Demand deposits	3420.0	3751.9	3630.0	3878.2	4007.5
Savings deposits	606.9	655.5	664.7	672.0	670.7
Time deposits	929.7	862.9	974.0	969.5	916.5
Statutory Bodies	84.7	214.8	232.4	328.0	267.4

NB: Totals may not tally due to rounding off

Liquidity of Commercial Banks

The liquidity of commercial banks remained high in the fourth quarter of 2010. The ratio of liquid assets to deposit liabilities and placements with other banks declined by 10 basis points, from 75.5 per cent observed in the third quarter to 75.4 per cent in the forth quarter. The credit deposit ratio rose from 34.7 per cent recorded in the third quarter to 35.8 per cent in the review period. The increase in the credit deposit ratio reflected growth in credit to the private sector relative to private sector deposits. The low credit deposit ratio continues to reflect the structural bottlenecks facing the financial sector. Nonetheless, these bottlenecks are expected to be reduced when the credit bureau is established and operationalised.

Table 11: Components of Commercial Banks' Liquidity

(Million Maloti: End of Period)

COMPONENT	2009	2010			
	Dec	Mar	June	Sep	Dec
Maloti Notes and Coins	97.1	99.1	92.9	99.0	98.83
Rand Notes and Coins	65.9	63.9	60.2	66.9	58.44
Balances due from Lesotho Banks	1116.2	1482.6	1236.5	1086.8	1047.8
Balances due from Foreign Banks	3282.3	3330.1	3697.0	3924.8	3777.8
Clearing Balances with CBL	43.6	2.2	16.4	-73.9	8.7
CBL Bills	0.0	0.0	0.0	0.0	0.0
Lesotho Government Securities	472.8	500.6	500.2	441.56	388.55

Table 12: Consolidated Balance Sheet of Commercial Banks

(Million Maloti: End of Period)

	2009	2010			
	Dec	Mar	June	Sep	Dec
Net foreign assets	2986.7	3282.5	3502.9	3786.5	3799.8
Deposits with CBL	235.4	223.7	236.7	171.2	237.3
Credit:	2105.6	2121.7	2256.7	2547.7	2567.2
Statutory Bodies	0.0	0.0	0.0	0.0	0.0
Private Sector	1721.5	1712.6	1851.5	2027.3	2100.8
Government securities	384.1	409.1	405.2	519.3	466.3
Assets/Liabilities	5092.3	5627.9	5996.3	6504.4	6604.2
Private sector deposits[2]	5041.4	5485.0	5501.1	5847.8	5862.2
Government deposits	26.8	22.2	22.1	22.1	24.3
Capital, reserves & other, net	259.5	120.7	473.1	634.5	717.7

[2] includes statutory bodies' deposits.

Demand for Money

Domestic Credit

Domestic credit, excluding net claims on government, rose by 3.4 per cent during the quarter under review following a 10.0 per cent expansion realised in the third quarter of 2010. On an annual basis, domestic credit grew by 21.8 per cent following an expansion of 22.7 per cent in the third quarter of 2010. The increase in domestic credit was driven by the rise in credit extended to households. Credit extension to business enterprises declined during the review period. The growth in domestic credit may be reflective of increased demand for credit as the cost of borrowing fell following several interest rate cuts by the South African Monetary Policy Committee.

Table 13: Domestic Credit Excluding Net Claims on Government*

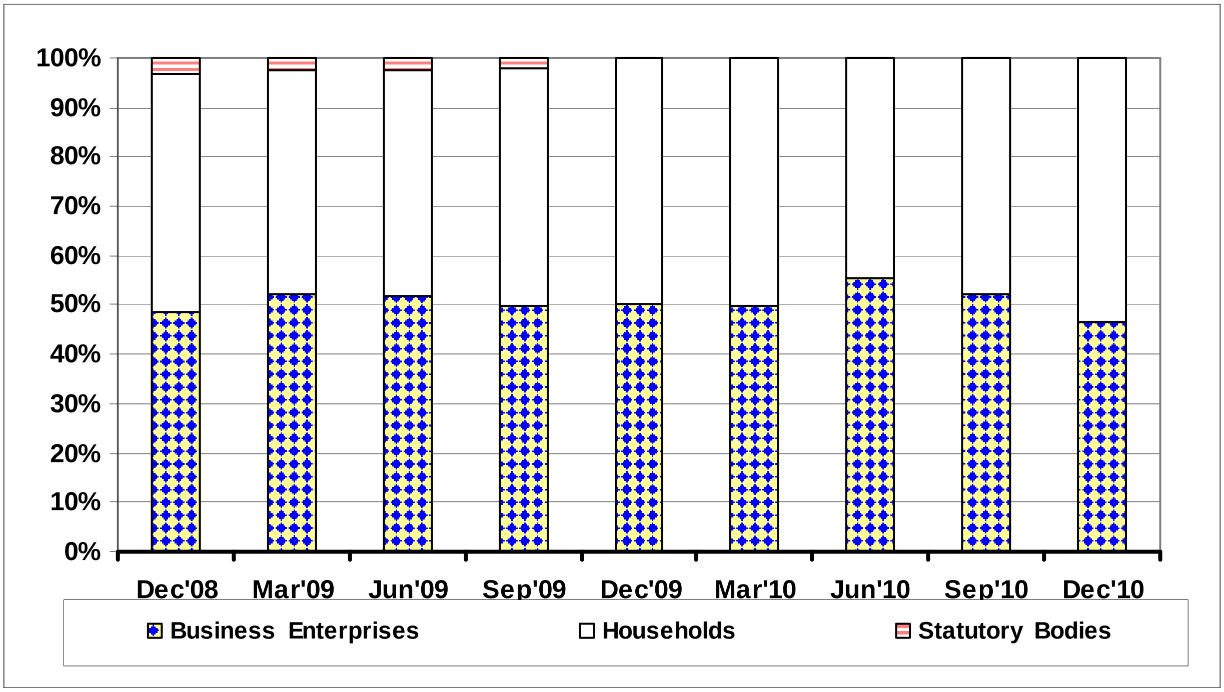
(Million Maloti: End of Period)

	2009	2010			
	Dec	Mar	June	Sep	Dec
Domestic Credit	1713.1	1696.4	1834.6	2018.1	2083.0
Credit to private sector	1713.1	1696.4	1834.6	2014.9	2084.0
Business enterprises	842.9	825.3	1043.3	1075.0	993.4
Households	870.2	871.1	789.3	934.9	1090.6
Credit to statutory bodies	0.0	0.0	0.0	3.2	3.0

*excludes non performing loans

Figure 13: Distribution of Credit by Holder

(Percentage shares)



Credit to Private Sector

During the fourth quarter of 2010 credit extended to the private sector rose by 3.4 per cent, following a 9.8 per cent surge in the previous quarter. The increase was largely due to a 16.7 per cent increase in credit extended to households in the review period. In contrast, credit extended to business enterprises declined by 7.6 per cent following a 3.0 per cent increase in the third quarter. Credit extension to households in the quarter under review, constituted the largest share at 52.3 while the share of credit extension to business enterprises declined to 47.7 per cent of total credit extension.

Sectoral Distribution of Credit

In terms of the sectoral distribution of credit in the quarter under review, credit extension to enterprises, was dominated by the following sectors: non-bank financial institutions and real estate (20.9 per cent); community, social and personal services (19.9 per cent); wholesale, retail, hotel and restaurant (15.4 per cent); and manufacturing (14.4 per cent). The significant improvement in credit extension was in electricity, gas and water, community, social and personal services, and Agriculture. Nonetheless, the share of construction, Transport, storage and communication, non-bank financial institutions and real estate, and manufacturing continued to decline.

Table 14: Sectoral Distribution of Credit to Enterprises*

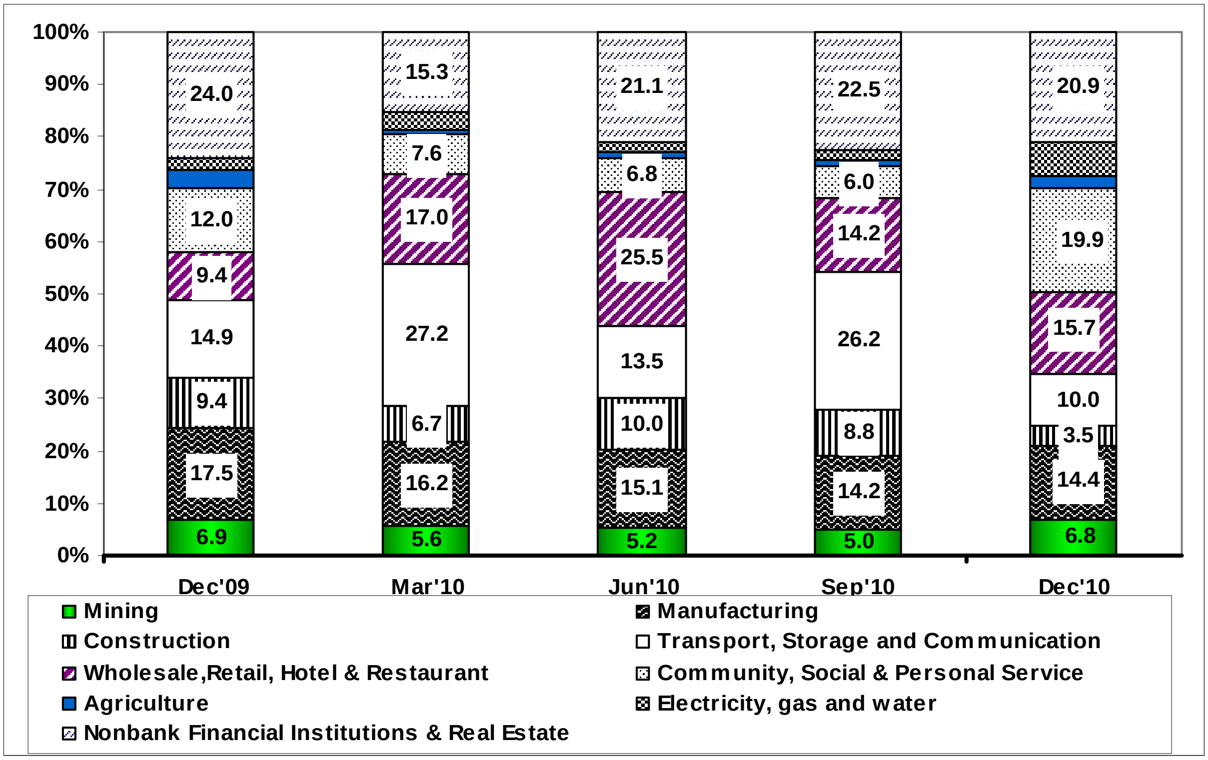
(Million Maloti: End of period)

SECTOR	2009	2010			
	Dec	Mar	June	Sep	Dec
Agriculture	32.3	8.4	11.6	15.0	24.1
Mining	61.9	52.5	57.3	56.9	71.7
Manufacturing	163.8	151.4	167.7	162.3	152.8
Construction	85.2	62.6	110.4	100.5	37.3
Transport, storage and communication	146.0	253.9	150.1	299.6	105.7
Electricity, gas and water	20.7	31.1	19.7	20.5	70.5
Wholesale, retail, hotel and restaurant	91.4	158.2	283.2	162.1	166.8
Non-bank financial institutions and real estate	218.4	142.8	234.0	256.7	221.7
Community, social and personal services.	117.5	71.2	75.6	68.6	211.6
All sectors	937.3	932.0	1109.7	1142.0	1062.3

* includes non-performing loans

Figure 14: Commercial Banks' Credit to Business Enterprises

(Percentage shares)



Net Claims on Government

The net claims on government by the banking system dropped by 6.0 per cent during the fourth quarter of 2010 compared with a 12.4 per cent surge observed in the previous quarter. On the one hand, net claims on Government by the commercial banks declined by 11.1 per cent following a 4.0 per cent increase recorded in the third quarter. On the other hand, net claims on government by the central bank declined further by 3.6 per cent following 11.1 per cent decline in the previous quarter. The decline in total net claims on Government reflects a continued build-up in government deposits held with the Central Bank.

Table 15: Banking System's Net Claims on Government

(Million Maloti: End of Period)

Holder	2009	2010			
	Dec	Mar	June	Sep	Dec
Commercial banks	357.3	386.9	478.1	497.2	442.0
Claims on Government	573.8	409.1	500.2	519.3	466.3
o/w MP T Bills[3]	472.8	319.1	500.2	429.3	376.3
Less Government deposits	26.8	22.2	22.1	22.1	24.3
CBL	-4353.4	-4024.4	-3162.2	-35.14.7	-3639.7
Claims on Government[4]	308.3	273.1	277.6	313.4	250.1
Less Government deposits	4661.7	4297.5	3439.8	3828.0	3889.1
o/w blocked account	509.9	514.3	623.9	626.9	629.9
Total Net Claims	-3806.3	-3637.5	-2779.1	-3017.4	-3197.6

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

Net Foreign Assets

The net foreign assets of the banking system recovered slightly by 0.4 per cent in the final quarter of 2010 following consecutive declines of 1.8 per cent in September and 6.2 in June. The recovery in net foreign assets was on account of 0.4 per cent rise in net foreign assets of both the central bank and commercial banks. Net foreign assets of the central bank continue to account for a greater proportion of overall net foreign assets of the banking system.

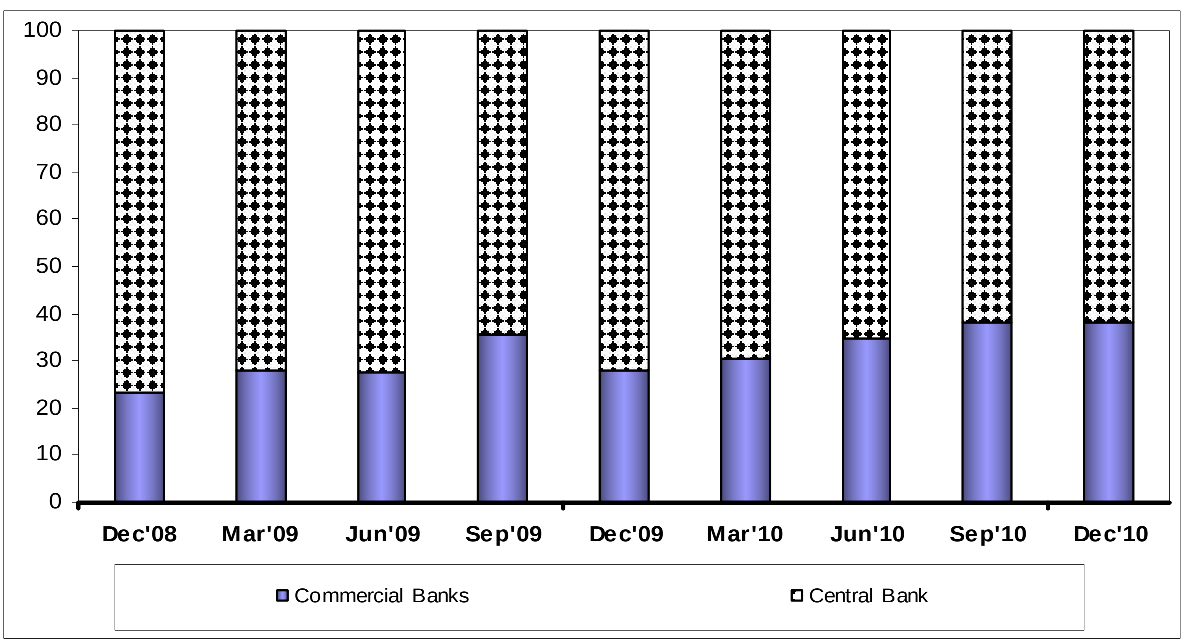
Table 16: Banking System's Foreign Assets and Liabilities

(Million Maloti: End of Period)

Holder	2009	2010			
	Dec	Mar	June	Sep	Dec
A. Commercial Banks	2986.7	3282.5	3502.9	3786.5	3799.8
Foreign Assets	3297.2	3345.1	3711.7	3940.4	3917.5
Foreign Liabilities	-310.5	-62.6	-208.8	-153.9	-117.7
B. Central Bank of Lesotho	7664.9	7457.8	6577.1	6115.2	6138.9
Foreign Assets	8345.4	8129.2	7201.2	6858.3	6749.5
Foreign Liabilities	-680.5	-671.3	-624.1	-743.1	-610.6
Net Total	10 651.6	10 740.3	10 080.0	9 901.7	9 938.7

Figure 15: Net Foreign Assets

(Percentage shares)



Money Market Developments

In October 2010, the Government of Lesotho and the Central Bank of Lesotho officially launched the Treasury bond market in Lesotho. Subsequently, two auctions on both the 3 and 5 year tenors were undertaken and the total of M187.3 million worth of bonds was issued in the quarter under review. The banking sector was by far the largest holder of treasury bills at 67.5 per cent and the non-banking sector held the rest at 32.5 per cent of the total treasury bonds. The total holding of treasury bills declined by 5.3 per cent in contrast with a huge increase of 21.4 per cent in the previous quarter. This decline was driven by the drop of 6.2 per cent in the banking system's holding of treasury bills whereas that of the non-bank sector increased by 37.8 per cent. This improved the share of the non-bank sector in overall holding of treasury bills to 3.2 per cent and reduced the Banking sector share to 96.8.

Table 17: Holding of Treasury Bills and Bonds

(Face Value; Million Maloti)

Type of Security and Holder	2009	2010			
	Dec	Mar	June	Sep	Dec
Total Holding of Bills and Bonds	509.1	514.8	542.4	658.6	811.2
Treasury Bills	509.1	514.8	542.4	658.6	623.9
Banking System	482.6	503.6	528.2	644.2	604.2
Non-Bank Sector	26.5	11.3	14.1	14.3	19.7
Treasury Bonds					187.3
Banking System					126.4
Non-Bank Sector					60.9
Memorandum Item					
Average Yield Bills (per cent)	6.94	6.73	6.64	6.69	5.60
Average Yield Bonds (per cent)					8.63

Money Market and Short-term Interest Rates

During the final quarter of 2010, all types of interest rates continued to show a downward trend in line with the quarterly interest rate developments in South Africa. This was reflective of monetary policy easing by the South African monetary authorities. The 91-day Treasury bill (TB) rate fell from 5.91 per cent to 5.52 per cent in the fourth quarter. However, the Lombard rate remained flat at 9.91 per cent. The prime lending rate fell by 58 basis points, from 11.08 per cent to 10.50 per cent. The repo rate was 50 basis points lower in the review period and the South African 91-day TB and prime lending rates declined by 36 and 100 basis points, respectively.

Table 18: Major Money Market Interest Rates

(Percent: End of Period)

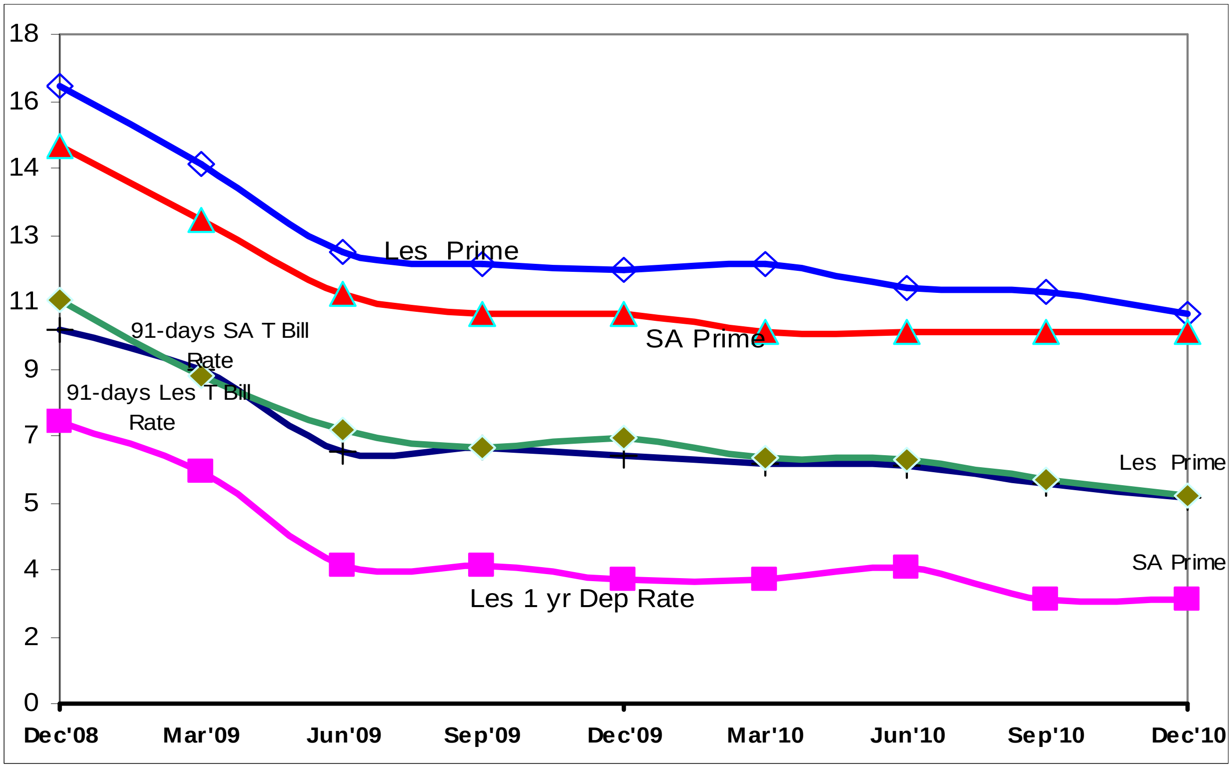
Interest Rates by Type	2009	2010			
	Dec	Mar	June	Sep	Dec
Central Bank					
T Bill Rate – 91 Days	6.66	6.46	6.38	5.91	5.52
Lombard Rate	10.66	10.46	10.38	9.91	9.91
Commercial Banks[5]					
Call	1.75	1.75	1.71	1.29	1.14
Time:					
31 days	1.65	1.65	1.67	1.25	1.21
88 days	1.95	1.95	2.20	1.78	1.67
6 months	2.26	2.26	2.21	1.94	1.94
1 year	3.35	3.35	3.65	2.78	2.78
Savings	2.05	2.05	2.03	1.21	1.21
Prime	11.67	11.50	11.17	11.08	10.50
South Africa*					
Repo	7.00	6.50	6.50	6.00	5.50
T Bill Rate – 91 Days	7.14	6.60	6.54	6.04	5.60
Marginal Lending Rate	12.00	11.50	11.50	11.00	10.50
Prime	10.50	10.00	10.00	10.00	9.00

* Figures for South Africa were obtained from the SARB

[5] Average rates by commercial banks

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

(Percent Per Annum)

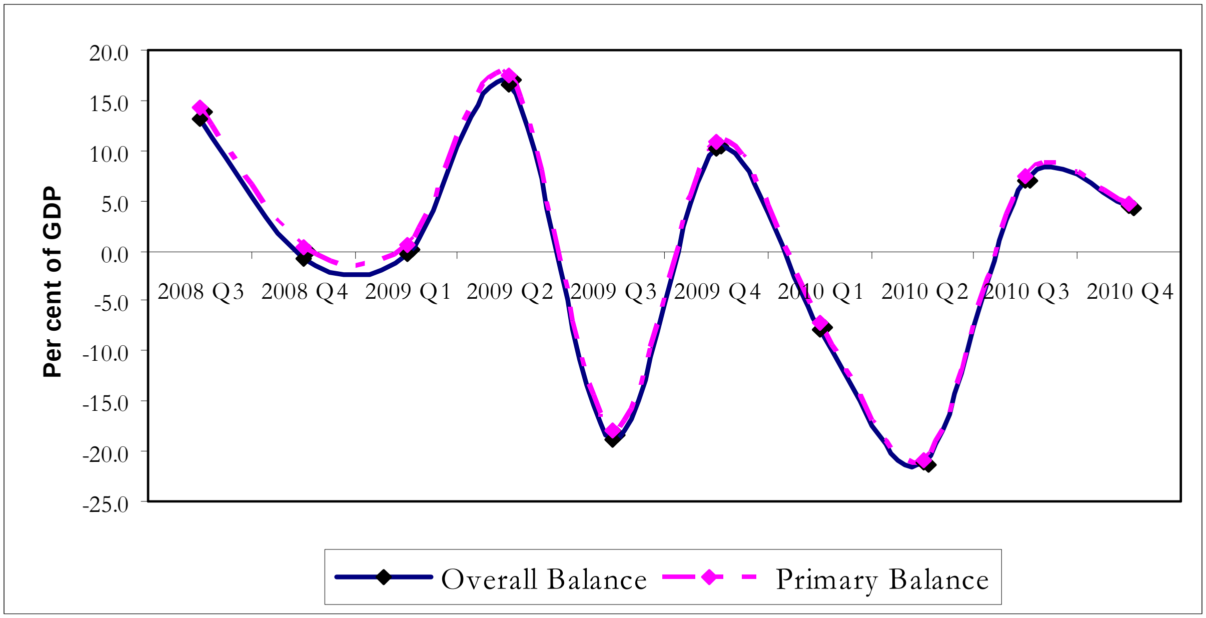


V. Government Finance

Summary of Budget Outturn

Quarterly estimates indicate that government budgetary operations registered a surplus equivalent to 4.4 per cent of GDP following a surplus equivalent to 7.0 per cent of GDP in the quarter ending in September, 2010. While total revenue and grants fell from 67.4 percent of GDP in the previous quarter to 50.4 percent during the review period, this was partially offset by a fall in total expenditure and net lending from 60.4 percent of GDP to 45.9 percent of GDP. The fall in total revenue and grants resulted from a decline in SACU receipts, which had doubled in the previous quarter due to a windfall receipt that resulted from arbitration. Government expenditure and net lending decreased due to reduced recurrent spending.

Figure 17: Primary Balance versus Overall Balance



Revenue

Total revenue and grants were estimated to have dropped by 25.3 per cent, in nominal terms, during the review period in contrast to 60.0 percent increase recorded in the quarter ending in September 2010. The increase observed in the previous quarter had emanated from an 86.3 per cent growth in customs revenue due to a windfall SACU receipt which was paid over and above the normal SACU allocation for the quarter. Non-tax revenue declined by 51.7 per cent on a quarterly basis, the perceptible peak in non-tax revenue in the previous quarter was attributable to dividends from the Central Bank of Lesotho (CBL) to the Government of Lesotho (GoL). Income taxes grew by 22.1 per cent and constituted the largest share of tax revenue at 32.8 per cent, followed by SACU at 30.0 per cent. Value added tax (VAT) increased by 13.9 per cent while non-tax revenue fell by 51.7 per cent; they constituted 19.2 per cent and 17.6 per cent of total revenue, respectively.

Table 19: Government Revenue

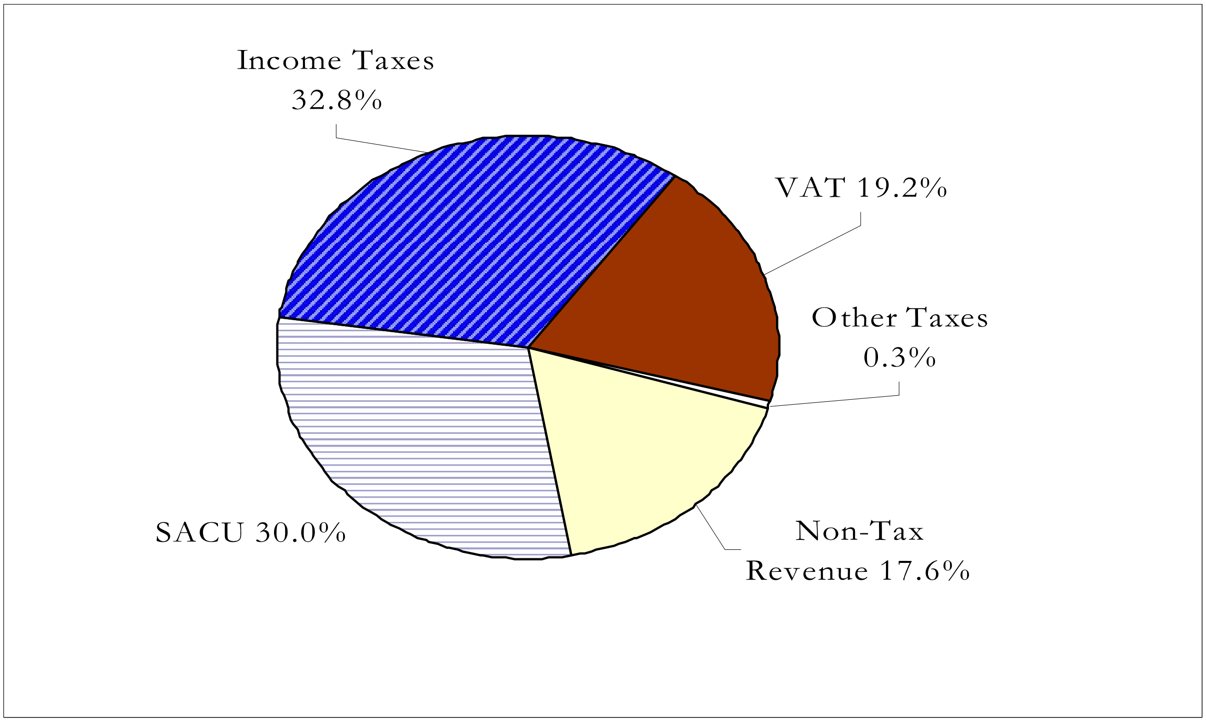
(Million Maloti)

	2009/10		2010/11		
	Oct-Dec	**Jan-Mar**	**Apr-Jun**	**Jul-Sep** Revised	**Oct-Dec*** Preliminary
Total Revenue and Grants	2284.1	2315.1	1723.4	2756.6	2059.8
Total Revenue	2114.8	2165.1	1392.0	2456.8	1799.1
Tax Revenue	1994.5	1947.0	1261.7	1800.0	1482.0
Customs	1229.5	1229.5	540.4	1006.7	540.5
Non-customs	765.0	717.5	721.3	793.3	941.6
Income Taxes	496.5	440.8	364.4	483.0	589.6
Taxes on goods & services	266.2	273.3	292.7	298.2	345.9
Other Taxes	2.3	3.4	64.2	12.1	6.1
Non-Tax Revenue	120.3	218.1	130.3	656.8	317.1
Of which: Water royalties	92.5	75.6	85.8	108.8	242.4
Grants	169.3	150.0	331.4	299.8	260.7

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

Non-tax revenue, which comprises dividends, royalties, rand compensation and other revenues, fell by half during the review period. As indicated earlier, the jump in non-tax revenue in the quarter ending September 2010 was on account of dividends remitted to Government by the Central Bank of Lesotho (CBL). Development grants dropped by 13.0 per cent on a quarterly basis, reflecting a fall in disbursements from MCA. Although the level of grants has fallen on a quarterly basis, the volume of on-going donor supported capital projects remains significant.

Figure 18: Sources of Government Revenue



Expenditure

Government expenditure and net lending fell by 24.0 per cent on a quarterly basis compared with a 4.6 per cent drop observed in the previous quarter. As a share of total expenditure, recurrent expenditure represented 81.3 per cent, while capital expenditure constituted 18.7 per cent. As figure 19 below depicts, personnel emoluments accounted for 47.8 per cent of recurrent expenditure, followed by goods and services at 35.8 per cent. Subsidies and transfers accounted for 15.6 per cent of the total. Expenditure on personnel emoluments increased by 8.2 per cent during the quarter under review, while subsidies and transfers declined by 44.1 per cent during the same period.

Table 20: Government Expenditure

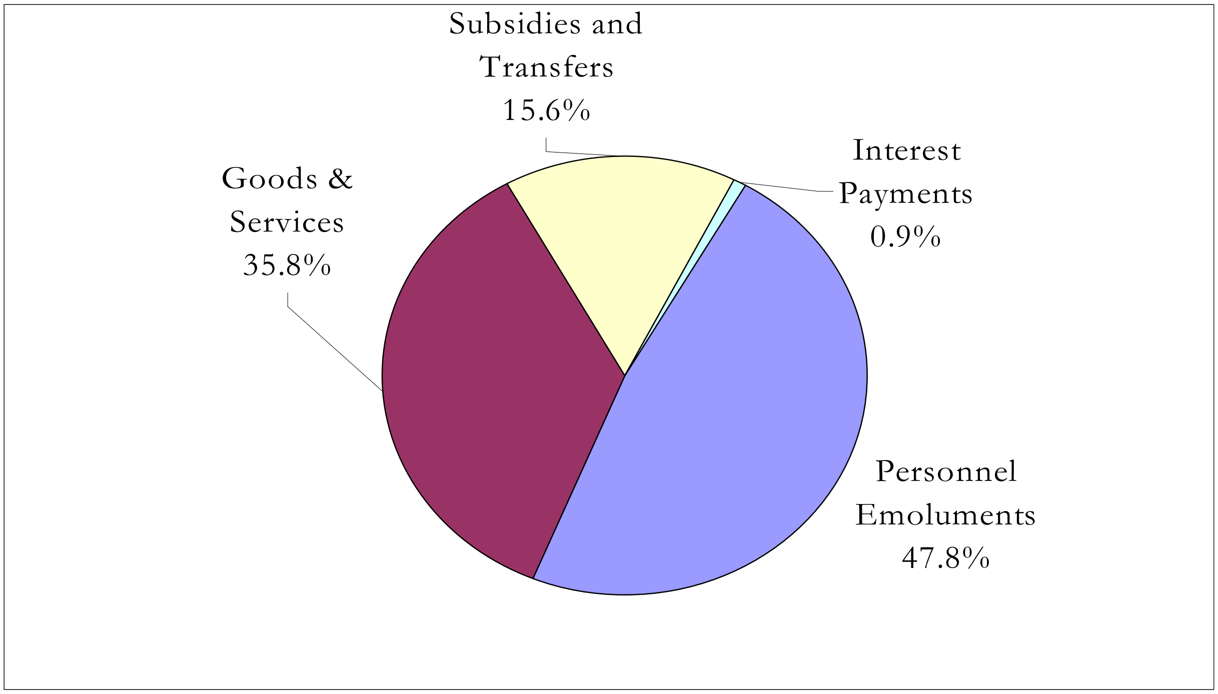
(Million Maloti)

	2009/10		2010/11		
	Oct-Dec	**Jan-Mar**	**Apr-Jun**	**Jul-Sep** Revised	**Oct-Dec*** Preliminary
Total Expenditure & Net Lending	1907.5	2609.5	2591.2	2472.2	1879.3
Recurrent Expenditure	1590.4	1737.2	2196.9	2122.2	1528.1
Personnel Emoluments	704.6	700.0	705.9	629.4	680.9
Interest Payments	31.3	27.2	18.4	23.7	21.4
Foreign	16.3	18.9	7.8	16.1	17.9
Domestic	15.0	8.3	10.6	7.6	3.5
Other Expenditure	854.5	1010.0	1472.6	1469.1	825.8
Capital Expenditure	317.1	872.3	394.3	350.0	351.2
Net Lending	0.0	0.0	0.0	0.0	0.0

Source: MoFDP
*Preliminary estimates

Capital expenditure increased by 0.3 per cent during the quarter under review against a slump of 11.2 per cent realised in the previous quarter. As a share of total expenditure, it increased to 18.7 per cent from 14.2 per cent observed in the quarter ending in September, 2010.

Figure 19: Recurrent Expenditure by Type



Financing

The fiscal surplus for the quarter ending in December 2010 was estimated at 4.4 per cent of GDP. The surplus enabled government to accumulate deposits with the domestic banking sector.

Table 21: Government Financing

(Million Maloti)

	2009/10		2010/11		
	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep Revised	Oct-Dec * Preliminary
Financing	-376.6	294.3	955..0	-136.6	-180.6
Foreign	-27.3	-59.4	96.2	100.5	-3.3
Loan drawings	30.2	27.5	124.3	163.0	22.3
Amortization	-57.5	-86.9	-28.1	-62.5	-25.6
Domestic	-349.3	353.5	858.8	-237.1	-177.3
Bank Financing	-352.0	358.5	858.4	-238.3	-180.2
Non – Bank	2.7	-4.7	0.4	1.2	2.9

Source: MoFDP Public Debt
*Preliminary estimates

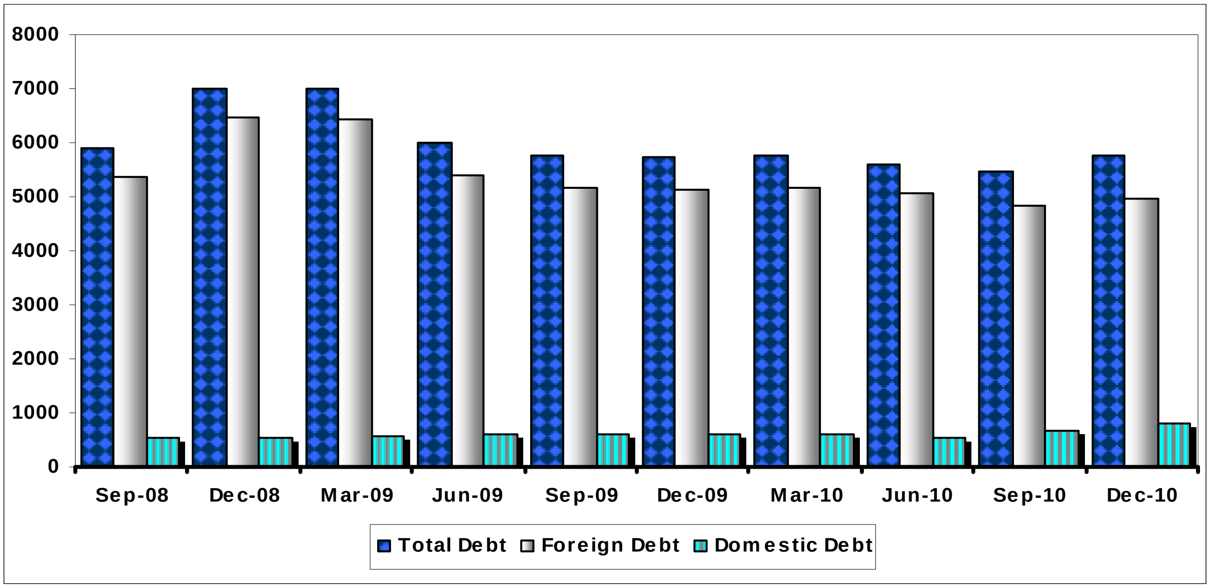
Public Debt

Overview

During the review period, total public debt increased by 5.1 per cent on a quarterly basis compared with a decline of 2.3 per cent recorded in the quarter ending in September 2010. Total debt was registered at 36.8 per cent of GDP vis-à-vis 34.5 per cent observed in the previous quarter. The debt service ratio, calculated as the ratio of debt service to exports of goods and services and factor income, was estimated at 0.4 per cent during the review period compared with 1.8 per cent observed in the previous quarter. External debt constituted a larger proportion of the overall debt stock at 85.9 per cent, while domestic debt accounted for 14.1 per cent.

Figure 20: Outstanding Public Debt

(Million Maloti: End of Period)



External debt

The level of external debt increased by 2.7 per cent to 30.3 per cent of GDP during the quarter under review. The increase was mainly attributable to exchange rate movements which reflected the depreciation of Loti against major currencies in which Lesotho's external debt is contracted. Loans from bilateral sources fell by 0.9 per cent compared with 5.9 per cent decline observed in the previous quarter, while loans from multilateral sources increased by 3.1 per cent in contrast to a fall of 5.0 per cent recorded in the quarter ending in September 2010. Loans from multilateral sources continued to constitute a larger share of 89.3 per cent of external debt. Supplier's credit also declined by 0.7 per cent against a drop of 7.6 per cent observed in the previous quarter. However, concessional debt as a percentage of external debt remained constant at 93.5 per cent during the quarter under review.

Table 22: External Debt

(Million Maloti)

	2009	2010			
	QIV	QI	QII	QIII	QIV
External Debt	5143.1	5160.8	5068.5	4823.8	4951.4
Bilateral Loans	239.7	250.1	228.4	215.7	213.7
Concessional	239.7	250.1	228.4	215.7	213.7
Non-concessional	0.0	0.0	0.0	0.0	0.0
Multilateral Loans	4635.6	4589.8	4522.6	4308.0	4439.3
Concessional	4609.1	4544.6	4490.8	4277.8	4410.4
Non-concessional	26.5	45.2	31.8	30.2	28.9
Financial Institutions	71.9	68.0	70.6	70.7	70.7
Concessional	19.0	15.1	17.7	17.8	17.8
Non-concessional	52.9	52.9	52.9	52.9	52.9
Suppliers' Credit	195.9	252.9	246.8	229.4	227.7

Source: MoFDP

Domestic Debt

A major development during the review period was the launch of the Treasury bond market as a step towards development of a capital market in Lesotho. The introduction of bonds is being done in a gradual manner starting in the short end and moving towards the longer end of the market at a later stage. In this regard, the initial bonds issued by the CBL on behalf of the Government, comprised 3 and 5 years tenors, which fall within the short end of the market. The bond market is expected to provide the Government of Lesotho with an alternative source of funding for infrastructure development and other public investment projects. The introduction of bonds thus contributed to the change in the total stock and composition of domestic debt.

The stock of domestic debt increased by 23.3 per cent compared with 17.6 per cent observed in the previous quarter. This emanated from the holding of long term debt facilitated by the introduction of treasury bonds. As a percentage of GDP, domestic debt increased from 4.1 per cent to 5.2 per cent on a quarterly basis. Long term debt constituted 23.1 percent of domestic debt while short tem debt accounted for 76.9 percent.

Table 23: Domestic Debt

(Million Maloti)

	2009	2010			
	QIV	QI	QII	QIII	QIV
Domestic Debt	508.8	514.6	542.0	657.8	810.8
Banks	482.3	503.3	527.9	643.5	791.1
Long-term	0.0	0.0	0.0	0.0	187.0
Short-term	482.3	503.3	527.9	643.5	604.1
of which: treasury bills	482.3	503.3	527.9	643.5	604.1
Non –bank	26.5	11.3	14.1	14.3	19.7
Sort-term (TBs)	26.5	11.3	14.1	14.3	19.7

VI. Foreign Trade and Payments

Overview

The external sector position improved for the second consecutive quarter in December 2010. In seasonally adjusted terms, the BOP deficit narrowed to M101.6 million during the review period from M342.9 million in September 2010. The decline in the deficit resulted largely from the improvement in the current account, which reflected growth in net exports of goods and services. The transactions balance, which measures the overall balance excluding the effects of currency movements, registered a seasonally adjusted surplus equivalent to M107.6 million during the review quarter, in contrast with a deficit of M122.9 million recorded in the previous quarter.

Current Account

As indicated above, the current account improved during the review period, from a deficit of M680.5 million in September to that of M547.7 million. Notwithstanding the significant decline in current transfers, the current account improved on account of growth in net exports, which were largely boosted by a surge in exports of diamonds and water. Relative to GDP, the current account deficit in the review period stood at 14.0 per cent compared with 17.4 per cent in the third quarter of 2010.

Table 24: Current Account Balance

(Million Maloti)

	2009	2010			
	QIV	QI	QII	QIII	QIV
I. Current Account	-331.42	-55.52	-891.37	-680.49	-547.75
(a) Goods	-2216.83	-2188.31	-2083.99	-2197.41	-1617.34
Merchandise exports f.o.b.	1299.75	1313.19	1335.23	1587.09	1759.19
Of which diamonds	233.23	332.25	219.88	286.83	489.81
Of which textiles & clothing	602.23	626.31	718.56	840.72	806.92
Other exports	464.29	354.63	396.79	459.54	462.46
Merchandise imports f.o.b.	-3516.58	-3501.50	-3419.22	-3784.50	-3376.53
(b) Services	-73.77	-102.26	-15.70	-86.36	-37.34
(c) Income	839.24	783.19	739.64	722.20	661.45
(d) Current Transfers	1119.94	1251.86	468.78	881.09	445.48

Merchandise Exports

Merchandise exports, in seasonally adjusted terms, rose by 11.2 per cent in the quarter under review, compared with a rise of 12.2 per cent registered in the quarter ending in September 2010. This reflected a significant increase in diamond and water exports, while textile and clothing exports deteriorated during the period. Diamond exports grew by 70.7 per cent in the review quarter, following the growth of 30.4 per cent recorded in the previous quarter. The strong growth in exports of diamonds was indicative of improving global demand and prices which boosted diamond sales considerably. In addition, water exports rose by 79.6 per cent, mainly, as a result of adjustments to previous water exports. However, textiles and clothing exports declined as a result of the closure of four firms during the quarter. The persistent appreciation of the loti also depressed export earnings, despite signs of recovery in US consumer demand. On an annual basis, merchandise exports increased by 35.3 per cent. As a percentage of GDP, merchandise exports rose to 44.9 per cent in the fourth quarter of 2010 compared with 40.5 per cent recorded in the previous quarter.

Merchandise Imports

Merchandise imports grew by 12.7 per cent, in seasonally adjusted terms, during the quarter ending in December 2010, in contrast with a fall of 1.6 per cent registered in the previous quarter. The improvement of merchandise imports, in seasonalised terms, reflected an increase in declarations at border post during the last quarter of 2010. This was also supported by slight increase in government capital expenditure due to continuing construction of rural and urban roads in the country. On an annual basis, merchandise imports declined by 4.0 per cent. As a percentage of GDP, merchandise imports constituted 86.2 per cent in the review period compared with 96.6 per cent realised in the previous quarter.

Table 25: Value of Exports by Section of the S.I.T.C. #

(Million Maloti)

COMMODITY	2009	2010			
	QIV	QI	QII	QIII*	QIV+
0. Food & Live Animals	51.22	49.75	33.51	35.92	38.90
Cattle	0.03	0.07	0.01	0.00	0.00
Wheat Flour	18.08	13.97	11.94	12.68	21.12
Maize Meal	15.20	13.47	13.55	9.57	2.68
Other	17.91	22.24	8.01	13.67	15.10
1. Beverages & Tobacco	46.09	42.22	0.00	62.57	112.38
Beverages	46.09	42.22	0.00	62.57	112.38
2. Crude Materials	249.49	334.48	221.98	290.81	503.27
Textiles fibres	16.23	12.25	2.09	3.98	13.46
Of which Wool	15.86	12.18	2.00	3.59	13.36
Of which Mohair	0.37	0.07	0.09	0.39	0.10
Crude fertilizers & crude minerals	233.23	322.25	219.88	286.83	489.81
Of which Diamond	233.23	322.25	219.88	286.93	489.81
5. Manufactured Goods	39.86	99.29	59.45	121.21	104.97
Of which textiles yarn and fabric	14.04	72.15	46.47	97.84	90.61
Of which manufactured goods	25.82	27.14	9.98	23.37	14.36
6. Machinery & Transport Goods	243.87	161.69	184.21	249.54	265.08
7. Miscellaneous Manufactured Goods	664.96	622.53	838.10	819.02	730.10
Of which clothing accessories	588.20	566.08	751.16	742.88	716.31
Other	79.76	56.45	86.94	76.14	16.79
8. Unclassified Goods	0.51	0.39	0.98	8.02	4.49
TOTAL EXPORTS	1299.75	1313.19	1335.23	1587.09	1759.19

Note: Totals may not tally due to rounding
* Revised estimates
+Preliminary estimates
#Standard International Trade Classification

Direction of Trade

During the fourth quarter of 2010, the SACU region remained the largest recipient of Lesotho's exports. Approximately 39 per cent of Lesotho's total exports went to SACU countries in the review period compared with 43.8 per cent recorded in the previous quarter. The US market was the second largest destination of Lesotho's manufactured goods, with a share of 32.8 per cent during the quarter under review compared with 37.6 per cent realised in the third quarter of 2010. A larger portion of Lesotho's textiles and clothing exports is destined for the US. The third largest recipient of Lesotho goods, European market, maintained its position as the largest importer of Lesotho's diamonds. It retained a share of 28.3 per cent in the fourth quarter of 2010 compared with 18.2 per cent in the third quarter of 2010. Lesotho's exports to Asia and Oceania markets remained insignificant at 0.3 per cent and 0.1 per cent, respectively.

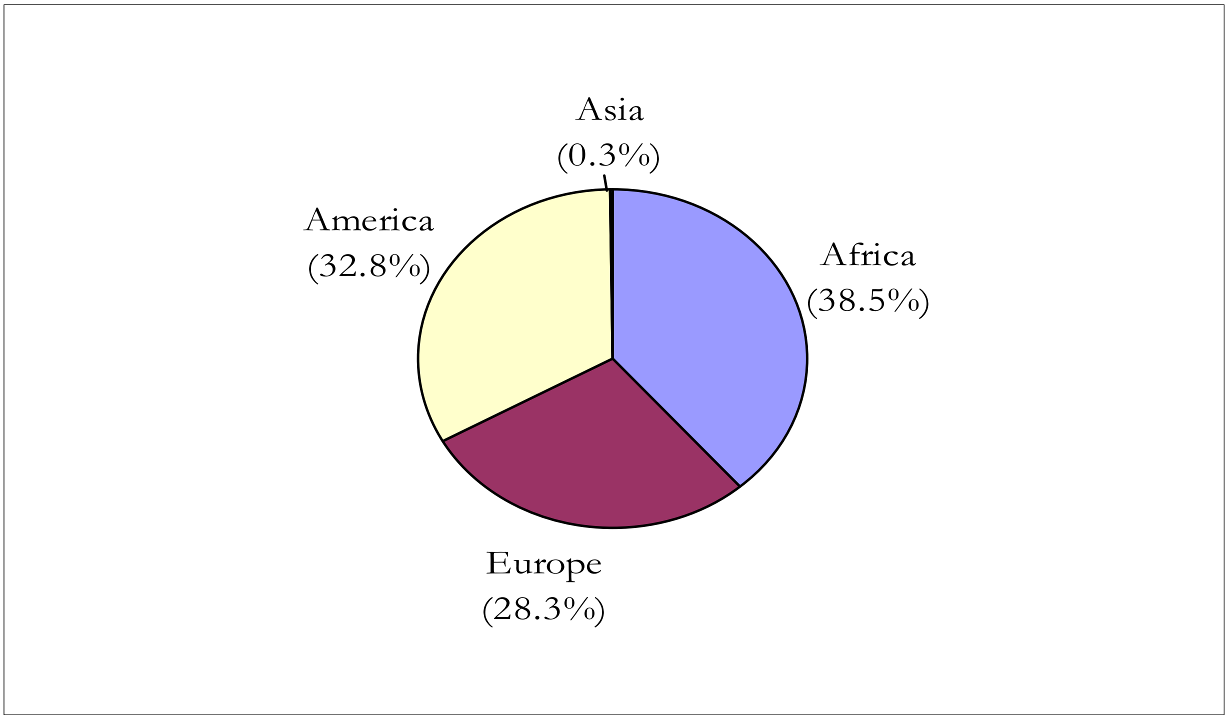
Table 26: Direction of Trade - Exports and Re-Exports, f.o.b.

(Million Maloti)

Region	2009	2010			
	QIV	QI	QII	QIII*	QIV+
World	1299.75	1313.19	1335.23	1587.09	1759.19
Africa	620.44	508.81	549.70	695.18	677.79
SACU	610.16	475.61	519.09	666.53	643.80
SADC	3.00	24.82	22.30	14.92	22.09
Other	7.28	8.38	8.31	13.73	11.90
Europe	236.65	355.18	223.73	289.45	498.26
EC	236.65	355.18	223.73	289.45	498.26
America	436.94	441.54	535.12	597.03	577.01
Asia	3.65	20.90	24.07	3.36	4.91
Oceania	2.07	6.76	2.61	2.07	1.22

Note: Total may not tally due to rounding
*Revised estimates
+Preliminary estimates

Figure 21: **Direction of Merchandise Exports**



Services Account

The Services account exhibited a lower net outflow of M37.3 million during the fourth quarter of 2010, compared with a revised outflow of M86.4 million recorded in the third quarter of 2010. This was driven by increased receipts for water royalties and a decline in payments for services rendered abroad. Payments for transportation services were estimated to have dropped while expenditure of Lesotho embassies abroad slowed down.

Travel

During the review quarter, international travel receipts recorded a lower net inflow of M93.4 million, compared with the revised inflow of M103.1 million realised in the previous quarter. The observed performance emanated largely from the fall in personal expenditure by expatriates in the country. The value of travel receipts declined by 7.0 per cent to M128.1 million in the fourth quarter of 2010 compared with a drop of 5.6 per cent registered in the third quarter of 2010. The value of travel payments remained unchanged during the quarter under review.

Income

Net income continued to decline during the quarter under review. It plummeted by 8.4 per cent to M661.4 million in the fourth quarter of 2010, following a fall of 2.3 per cent recorded in the third quarter of 2010. Deterioration in net income was underpinned by lower growth in investment income coupled with higher outflows for profits and dividends accruing to foreign investors in the country.

Labour income

Labour income rose by 0.3 per cent during the quarter ending in December 2010, following a rise of 0.1 per cent recorded in the previous quarter, largely due to a decline in outflows of services by expatriates in Lesotho and the marginal increase in other remittances.

Investment Income

During the quarter under review, net investment income performed poorly as a result of a decline in interest paid to both CBL and commercial banks on their investments abroad. It registered a lower net inflow of M31.4 million during the quarter from a net inflow of M93.9 million observed in the quarter ending in September 2010.

Investment income inflows dropped to M119.1 million during the quarter ending in December 2010, from an inflow of M121.8 million realised in the quarter ending in September 2010, largely due to the fall in investment returns for both CBL and commercial banks on the back of the appreciation of the local currency which put downward pressure on the value of investment portfolios in non-CMA regions. Also, low interest rates in SACU region contributed to the decline in investment portfolio returns. Investment income outflows rose significantly in the fourth quarter of 2010 as a result of increased profits and dividends by foreign investors in Lesotho. It recorded an outflow equivalent to M87.7 million in the review quarter, following an outflow of M28.0 million in the previous quarter.

Current Transfers

During the quarter ending in December 2010, current transfers, in seasonally adjusted terms, declined by 48.9 per cent to M454.0. The deterioration resulted largely from substantial drop in SACU non-duty receipts which decreased by 55.1 per cent during the period. In addition, an increase in payments of Lesotho's subscriptions to international organisations contributed to the net decline in current transfers. On an annual basis, current transfers plummeted by 60.2 per cent.

Capital and Financial Account

The net capital and financial account registered a lower inflow of M253.3 million during the quarter under review from an inflow of M328.4 million in the previous quarter. The observed lower performance was brought about by a drop in capital transfers to government together with small outflow in financial account influenced by CBL liabilities which recorded an outflow of M132.4 million during the quarter in contrast with an inflow of M119.0 million observed in the previous quarter. Commercial banks' liabilities also showed a lower outflow of M36.2 million in the review quarter compared with an outflow of M90.1 million in the quarter ending in September 2010.

Table 27: Capital and Financial Account

(Million Maloti)

	2009	2010			
	QIV	QI	QII	QIII*	QIV+
I. Capital and Financial Account	1303.29	-59.24	332.15	328.46	253.29
Capital Account	169.30	150.00	331.40	299.80	260.70
Financial Account	1133.99	-209.24	0.75	28.66	-7.41
Special Financing – LHWP	30.36	55.11	36.2	28.74	41.65
II. Reserve Assets	-368.88	216.18	928.04	342.90	109.75

* Revised estimates
\+ Preliminary estimates

Reserve Assets

The stock of international gross reserves fell by 1.6 per cent to M6.7 billion at the end of the fourth quarter of 2010, following a drop of 4.8 per cent observed in the previous quarter. The decline in official gross reserves emanated mainly from a sharp reduction in SACU receipts. In addition, the strengthening of the local currency against major world currencies coupled with near-zero global interest rates impacted negatively on Lesotho's international reserves. In terms of months of import cover, gross reserves fell to 5.9 months in the quarter under review, compared to 6.0 months of imports achieved in previous quarter.

Figure 22: Reserve Assets

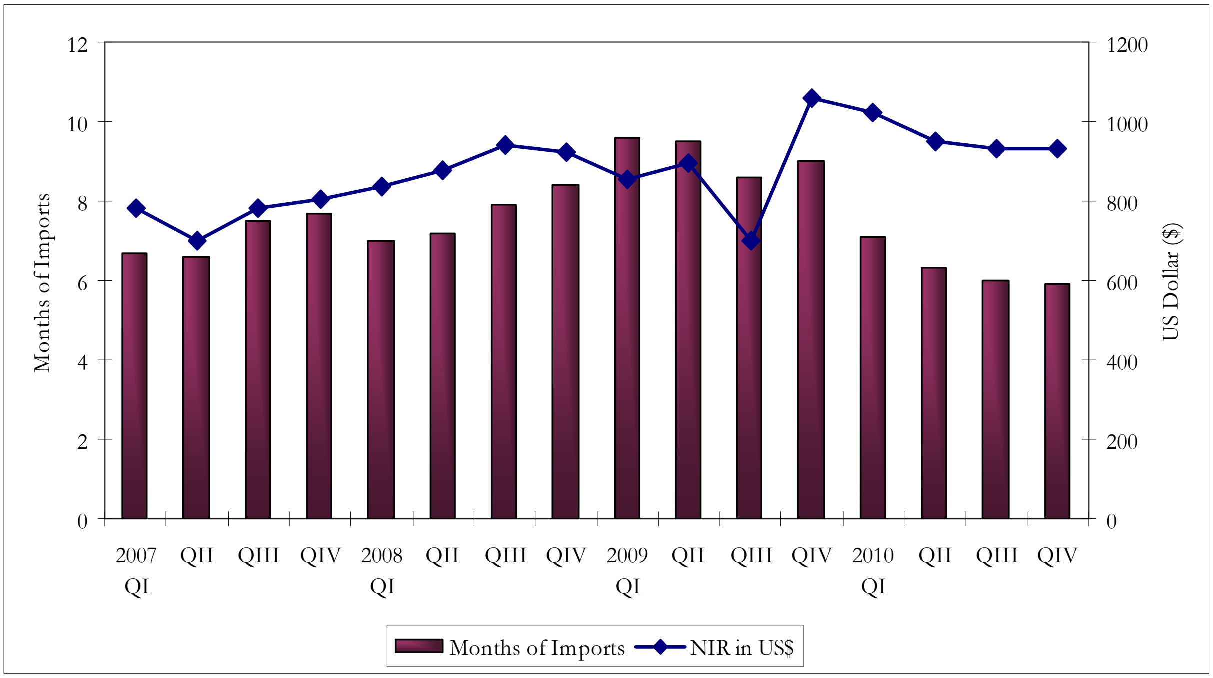
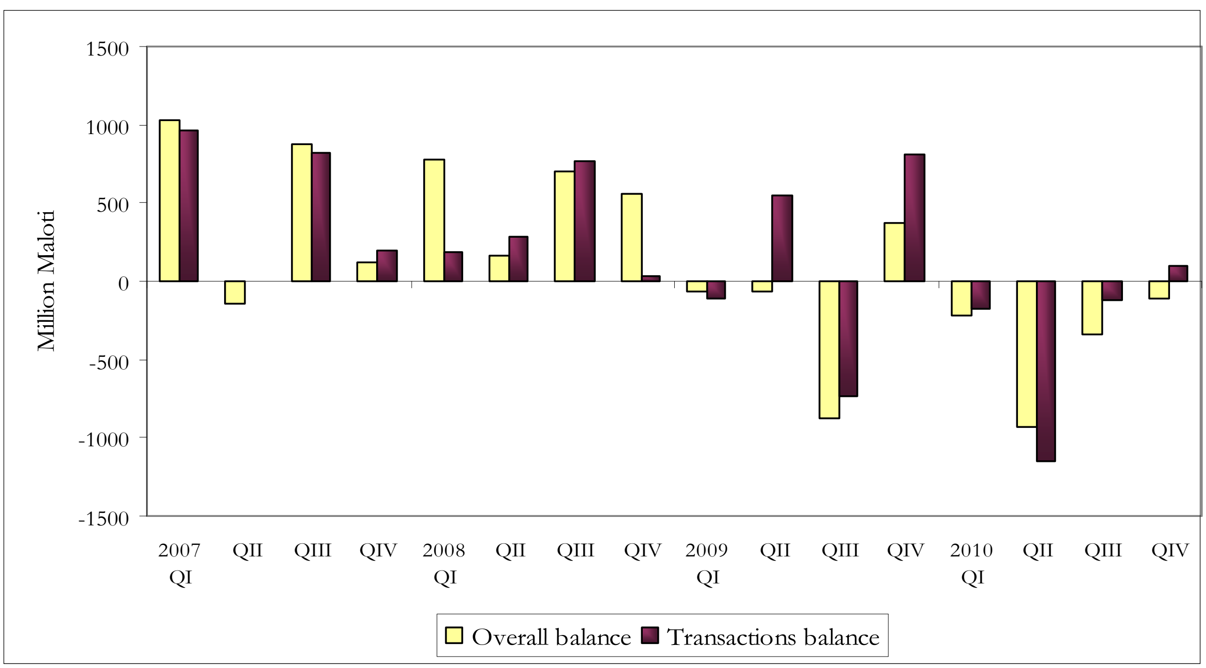


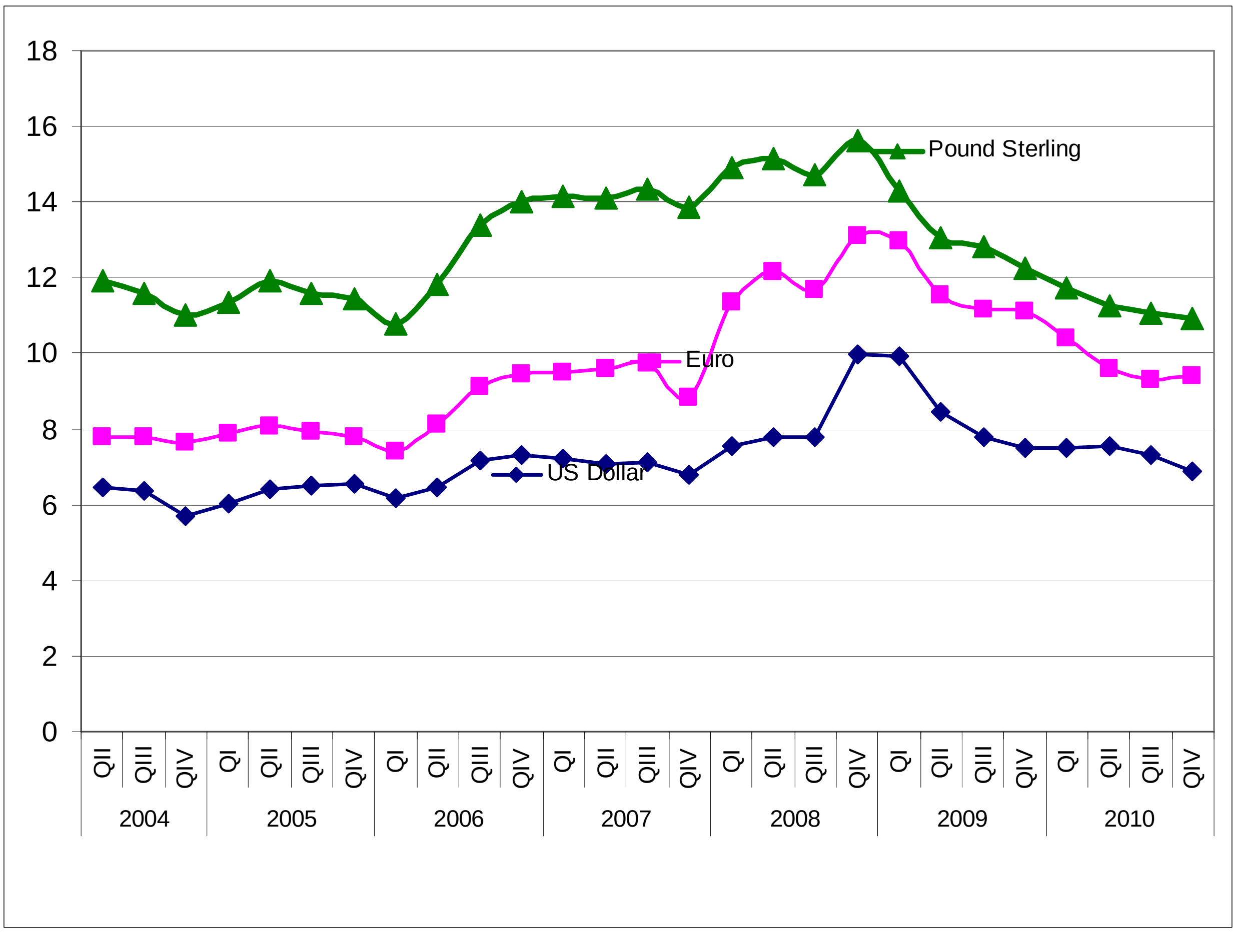
Figure 23: Balance of Payments



Exchange Rates

The loti/rand continued to appreciate against the major trading currencies during the review period. Among others, the following two factors remained significant contributors to exchange rate movements; First, the interest rate differential between SA and the advanced economies continued to attract capital inflows in SA: Secondly, the strong commodity prices tended to benefit the SA economy, SA is one of the major commodity exporters, and thus appreciated the value of the rand. In nominal terms, the average quarterly value of the rand, hence the loti, appreciated by 5.6 per cent to M6.91 against the US dollar, 0.6 per cent to M9.39 against the Euro and 3.8 per cent to M10.92 against British pound. The appreciation of the loti against major currencies has negative spill-over effects on Lesotho's export competitiveness.

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



VII. Statistical Tables