CENTRAL BANK OF LESOTHO

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MASERU
KINGDOM OF LESOTHO

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I. Introduction

The world economic recovery continued during the second quarter of 2010, however at a lower pace compared with the first quarter. The overall global economic developments during much of the second quarter showed a modest but steady recovery in most advanced economies and strong growth in many emerging and developing economies. Global economic activities remained relatively strong in April and it is expected to have stabilized during the last months of the quarter. Industrial production and trade recorded strong growth, consumer confidence continued to improve, and employment growth stabilized in most economies. In terms of the outlook, the world economic growth is projected to register strong growth in the medium term. Strong growth is largely on the back of the continuous implementation of policies to rebuild confidence and stability.

The United States (US) continued to lead the recovery among the advanced countries. Real Gross Domestic Product (GDP) grew by 2.7 per cent during the second quarter of 2010; a decline from 3.7 per cent growth realized in the previous quarter mainly due to the increase in real residential and non-residential fixed investment as well as real exports of goods and services. A slight improvement in the unemployment rate was also observed. In the Euro area, sluggish recovery continued, as major Euro economies implemented measures aimed at addressing unsustainable fiscal imbalances. The South African (SA) economy recorded the growth rate of 3.2 per in June 2010 compared with an increases of 4.6 per cent during the first quarter of 2010. The increase was largely at the back of manufacturing productivity; wholesale, retail, motor trade and accommodation productivity; finance, real estate and business services productivity; and general government services productivity. The SA inflation rate declined to 4.2 per cent in June 2010 which is within the target range of 3 to 6 per cent. As a result, the SA Reserve Bank's (SARB) Monetary Policy Committee maintained the repurchase rate at 6.50 per cent in June 2010.

The domestic economic activities continued to show signs of recovery during the review quarter. Economic activity in the primary sector increased as mining productivity improved compared with a decline in the previous quarter. The increase in mining productivity was mainly due to the recovery in diamond markets globally. The secondary sector also improved during the review period. Both water and electricity consumption increased by 19 per cent and 16 per cent, respectively, during the quarter. In the tertiary sector, the value of sales turnover increased by 5.9 per cent and 12.1 per cent on quarterly and annual basis, respectively. The increase reflected an increase in consumer demand and lower domestic inflation.

The domestic labour market conditions showed mixed signals during the quarter. Employment in Lesotho Development Corporation (LNDC)-assisted companies increased by 5.2 per cent and 0.7 per cent on quarterly and annual basis, respectively. The increase was an indication of global economic recovery. Nevertheless, employment of Basotho in the South African mines continues to decline. It declined by 2.7 per cent and 9.0 per cent on quarterly and annual basis, respectively.

The domestic inflation declined by 40 basis points to 3.8 per cent at the end of the quarter ending in June 2010. The decline was largely attributed to food and non-alcoholic beverages inflation, which constitutes a large portion of the Lesotho's CPI basket.

In terms of monetary and financial developments, money supply increased moderately by 1.2 per cent during the review quarter; a decline in growth compared with 7.9 per cent increase recorded in the previous quarter. On an annual basis, broad money recorded an increase of 11.2 per cent in June 2010. The increase in money supply during the review quarter was largely driven by a rise in total domestic credit, mainly net claims on government. However, the increase in money supply was moderated by a decline in net foreign assets (NFA).

Domestic interest rates declined moderately during the review period. The key interest rate, the 91-day Treasury bill rate, fell by 8 basis points from 6.46 per cent at the end of the quarter ending in March 2010 to 6.38 per cent in June 2010. Similarly, the counterpart rate in South Africa decreased by 6 basis points, from 6.60 per cent in March to 6.54 per cent during the review quarter. As a result, the interest rate differential between the two countries widened from 14 basis points observed at the end of March to 16 basis points during the quarter ending in June 2010. Domestic prime lending rate declined by 33 basis points to 11.17 per cent while the SA counterpart remained constant at 10.0 per cent.

Government budgetary operations are estimated to have recorded a deficit equivalent to 26.0 per cent of GDP during the review period compared to a deficit equivalent to 8.8 per cent of GDP in the previous quarter. The deficit was mainly due to a larger increase in government expenditures and net lending against a decline in total revenue. Government expenditure and net lending increased by 6.4 per cent while the total revenue declined by 17.8 per cent largely due to a decline of 56 per cent in Southern African Customs Union (SACU) revenue during the quarter. The decline in the SACU revenue poses a threat to macroeconomic stability in Lesotho. Therefore, the Government of Lesotho signed a three year Extended Credit Facility (ECF) with the International Monetary Fund (IMF) aimed at supporting the medium term adjustment and to reduce balance of payments risks.

The stock of public debt fell by 2.2 per cent compared with an increase of 0.4 per cent in the previous quarter. The decline was largely due to a drop in external debt. External debt, which constitutes the largest percentage (about 90.8 per cent) of public debt, dropped by 2.0 per cent in the quarter ending in June 2010. As a percentage of GDP, total debt registered 31.2 per cent. In this regard, Lesotho continues to meet the Southern African Development Community (SADC) convergence criteria of less than 60 per cent debt to GDP ratio.

The external sector position continued to deteriorate during the review quarter. The sector recorded a deficit for the second successive quarter in June 2010. The overall balance recorded a deficit equivalent to M930.0 million during the quarter compared with a deficit of M220.7 million observed in the previous quarter. The deficit was mainly due to current account deterioration on the back of a fall in current transfers, particularly Southern African Custom Union (SACU) non-duty receipts which fell significantly by 67.4 per cent, and income account. Gross reserves fell by approximately 11.4 per cent to M7.2 billion at the end of the quarter ending in June 2010. In months of import cover, external reserves stood at 5.9 months at the end of the quarter.

II. International Economic Developments

United States (US)

Preliminary estimates indicate that recovery in the US economy continued on a recovery path, as reflected by the first quarter estimate which was revised upwards from 2.7 per cent to 3.7 per cent. However, real Gross Domestic Product (GDP) plunged to 2.7 per cent in the period ending June 2010. The main drivers behind this growth were real residential fixed investment, non-residential fixed investment as well as real exports of goods and services which surged 27.9 per cent, 17.0 per cent and 10.3 per cent, respectively. The GDP growth was offset by acceleration in imports and deceleration in private inventory investment. Consumer spending, which accounts for 70 per cent of the economic activity, slowed down more than expected as retail sales shrank to 4.8 per cent and industrial production dropped to 6.6 per cent. High unemployment and sluggish pace of recovery dampened the consumers' confidence in the review period.

The Consumer Price Index (CPI) remained subdued during the review period. It rose by 1.1 per cent in June 2010 compared with an increase of 2.3 per cent in the previous quarter. The slowdown in inflation was the result of declining energy prices which fell by 3.0 per cent. The declining energy prices more than offset the acceleration in transportation and medical care services' prices, which rose by 4.9 per cent and 3.5 per cent, respectively.

The unemployment rate declined to 9.5 per cent during the quarter compared with 9.7 per cent in March 2010. High unemployment combined with the turmoil in financial markets and the subdued inflation environment are some of the factors considered by Federal Reserve Bank's Open Market Committee (FOMC) in deciding to have the benchmark lending rate unchanged at 0.25 per cent.

Table 1: Key World Economic Indicators

	Real GDP Growth		Inflation Rate		Key interest Rate		Unemployment Rate	
	QI	QII	QI	QII	QI	QII	QI	QII
China	11.9	10.3	2.40	2.90	5.31	5.31	4.30	4.20
Euro area	0.60	1.70	1.40	1.40	1.00	1.00	9.90	10.0
India	8.60	N/A	14.86	13.73	5.50	5.50	7.32	N/A
Japan	4.40*	0.40	-1.10	-0.70	0.10	0.10	4.90	5.30
South Africa	4.60	N/A	5.10	4.20	6.50	6.50	25.2	25.3
United States	3.70*	2.40	2.30	1.10	0.25	0.25	9.70	9.50

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

Euro-zone[1]

The Euro zone indicators showed a sluggish recovery in an environment of continued tension in some financial market segments and unusually high uncertainty during the quarter under review. However, the planned fiscal consolidation and austerity programmes are expected to slow down economic recovery in the short to medium-term. Industrial production increased by 9.5 per cent and 9.6 per cent in April and May 2010, respectively. The upturn in industrial production was mainly a result of an upsurge in exports on rebuilding inventories and in the production of intermediate and capital goods. However, retail sales rose by a low 0.4 per cent as households continue to battle a weak labour market paired with tight credit conditions.

The harmonized unemployment rate in the Euro-zone rose to 10.0 per cent in June 2010 compared with 9.90 per cent in the previous quarter. The high unemployment led the consumer sentiment to remain very low. Inflation, measured by changes in Harmonized Index of Consumer Prices (HCIP), remained below the target of 2.0 per cent, at 1.4 per

[1] Euro-zone: Austria, Belgium, Cyprus, Germany, Greece, Finland, France, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain. Slovakia became the 16th Euro-zone member country with effect from the 1st of January.

cent in June 2010. The rise in inflation was mainly a result of the rising energy and tobacco prices which rose by 3.9 per cent and 3.7 per cent in June 2010, respectively.

The European Central Bank (ECB) maintained its benchmark lending rate at 1.00 per cent in the review period. The ECB kept the rates on hold so as to fight inflation while ensuring liquidity to commercial banks to avoid the deepening of the debt crisis.

South Africa (SA)

A robust recovery was observed in the SA economy though there are some uncertainties emanating from the global economy posing the downside risks. Manufacturing production increased by 8.7 per cent and 7.9 per cent in April and May 2010 from a rise of 6.3 per cent in March 2010. This rise was indicative of higher production in motor vehicles, parts and accessories. Mining production grew by 2.7 per cent in April 2010, with the production of diamonds and non-metallic minerals being the main contributor.

Inflation rate, measured by headline CPI, fell to 4.2 per cent in June 2010, compared with 5.1 per cent in March 2010. This rate remained within the target range of 3 to 6 per cent. The decline in prices of food and non-alcoholic beverages mainly contributed to the slow down in CPI. Nonetheless housing and utilities, predominantly electricity, miscellaneous goods and services primarily insurance costs, as well hotel prices moderated the fall in CPI. The SARB's Monetary Policy Committee maintained the repurchase rate at 6.50 per cent in June 2010.

Emerging Asian Markets and Japan

China

Preliminary estimates showed that the slowdown is unfolding as expected in China. GDP growth in China was 10.3 per cent in the review quarter in comparison with 11.9 per cent observed in the previous quarter. The deceleration was mainly on account of attempts by government to gradually normalise fiscal and monetary policies after last year's unprecedented stimulus and to limit lending to home buyers by local governments. However, the slowdown was moderated by domestic demand as retail sales surged by 18.3 per cent, fixed asset investment rose by 25.9 per cent and industrial production soared by 13.7 per cent.

The CPI remained subdued during the review period. It rose by an annual 2.9 per cent in June 2010 compared with an increase of 2.4 per cent in the previous quarter. The stronger inflation largely reflected food and housing prices which rose 5.7 per cent and 3.9 per cent, respectively. Unemployment rate declined moderately to 4.2 per cent from 4.3 per cent in the period ending June 2010. The People's Bank of China kept the one year benchmark lending rate at 5.3 per cent during the quarter under review.

Japan

Japan's economy exhibited a fragile recovery during the period under review. Industrial output plummeted to 17.0 per cent from 31.8 per cent observed in the quarter ending March 2010. The slowdown was caused by deceleration in the production of iron and steel as producers feared that demand overseas could soon recede. Retail sales grew by a modest 3.2 per cent supported by the strong growth in auto sales, which rose by 12.4 in

June 2010. This growth was also reflective of government stimulus measures supporting auto sales, electronics and other durable goods. Japanese exports rose by 27.7 per cent underpinned by a rebound in the global demand, compared with 43.5 per cent in the period ending March 2010.

Japan recorded an unemployment rate of 5.3 per cent in June 2010 compared with 4.9 per cent in the period ending March 2010. However, deflation in Japan continued to fall during the quarter under review. Inflation rate fell by a moderate 0.70 per cent in June 2010 following a decline of 1.1 per cent in March 2010. The slow wage growth and the widening output gap seem to be delaying from exit from deflation in Japan. The Bank of Japan (BOJ) left its key interest rate unchanged at 0.1 per cent in the quarter ending March 2010. The key interest rate has been at this level since December 2008.

India

The preliminary economic indicators indicated that recovery continues to consolidate in India during the review quarter. Industrial production rose by 17.6 per cent and 11.5 per cent in April and May 2010, from a rise of 13.5 per cent in the previous quarter. Industrial growth was mainly a result of a 12.3 per cent growth in manufacturing, while mining and quarrying and electricity sectors expanded by 8.7 per cent and 6.4 per cent, respectively. Exports maintained their upward trend; they increased by 30.4 per cent in the review period. This growth indicates that export levels are returning to the pre-crisis levels. The sectors which registered a healthy growth were engineering, petroleum and oil products, and chemicals which rose 90 per cent, 66 per cent and 41 per cent, respectively.

The inflation rate in India declined to 13.7 per cent in June 2010 from 14.9 per cent in March 2010. High food prices exerted more pressure on the overall inflation. The Reserve Bank of India raised the benchmark repurchase rate by 25 basis points to 5.25 per cent in June 2010 in an effort to curb the rising inflation rates.

Commodity Prices

Overview

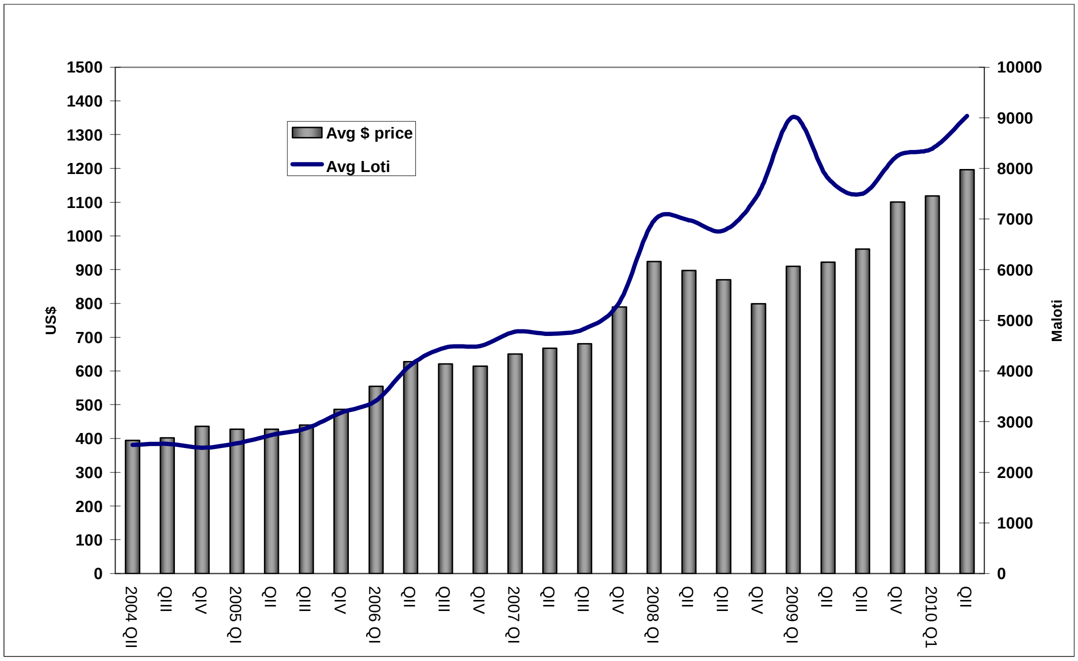
The prices of minerals continued to increase in both US Dollar and Maloti terms in the quarter ending June 2010. The improvement in prices of minerals reflected an increase in global demand due to recovery of global economy. However, prices of crude oil and agricultural products fell during the review quarter.

Mineral Products

Gold

The average price of gold rose by 6.9 per cent to US$1 196.5 per ounce in the second quarter of 2010 compared with an increase of 1.6 per cent registered in the first quarter 2010. In Rand terms, the average price of gold grew by 7.6 per cent to M9 033.8 per ounce during the review period, following a rise of 1.8 per cent recorded in the previous quarter.

Figure 1: **Average Price of Gold**

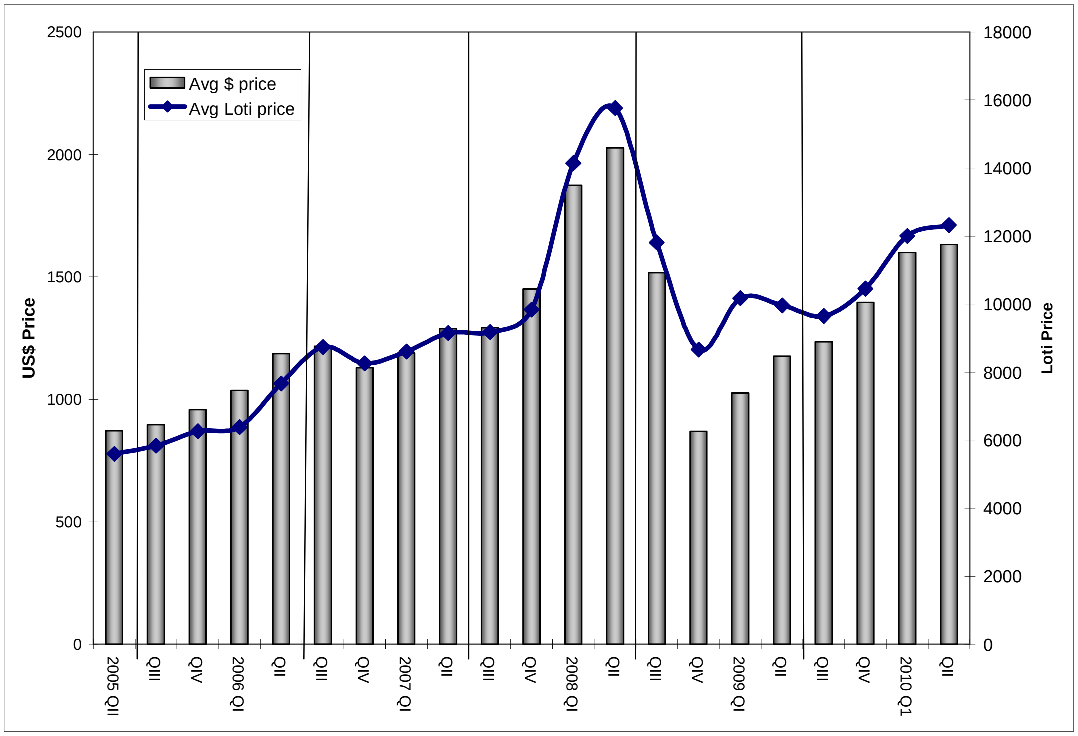


Source: Bloomberg

Platinum

During the quarter under review, the average price of platinum rose by 1.9 per cent to US$1 632.0 per ounce, compared with an increase of 14.7 per cent registered in the previous quarter. In Rand terms, the average price of platinum grew by 2.6 per cent to M12 321.4 per ounce in the second quarter of 2010, following M12 002.8 per ounce recorded in the previous quarter.

Figure 2: Average of Price of Platinum



Source: Bloomberg

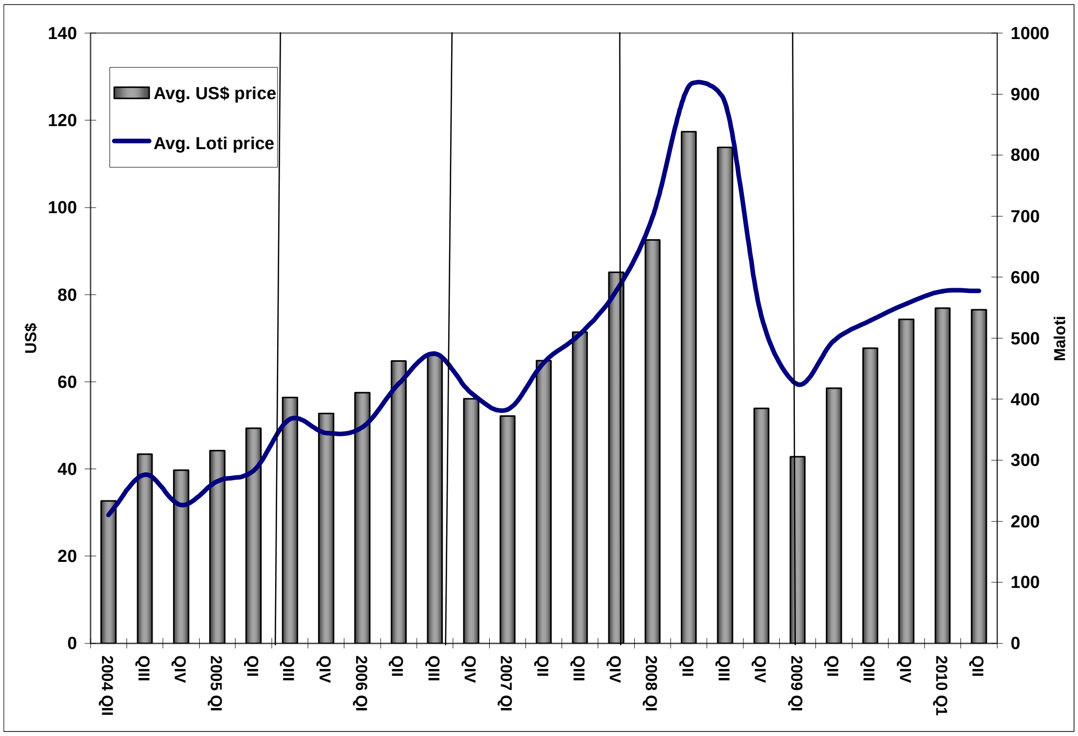
The observed recovery of the global economic activity during the review quarter supported improvements in the international price of gold and platinum. This could increase profitability of SA mining industry, and thus encouraged the gold and platinum mines to curb continuing retrenchments and possibly increase job prospects for Basotho migrant mineworkers and also affect positively the Lesotho's balance of payments.

Oil

The average price of crude oil declined by 0.6 per cent to US$76.5 per barrel during the quarter ending June 2010, in contrast with the growth of 3.5 per cent to US$76.9 per barrel registered in the previous quarter. In Maloti terms, the average price of crude oil rose marginally by 0.04 per to M577.5 per barrel in the review quarter from M577.3 per barrel recorded in the previous quarter.

In line with deterioration of international prices of crude oil, the domestic prices of petroleum products, in particular petrol diesel and illuminating paraffin declined during the period ending June 2010. Prices of petrol and diesel closed the review quarter at M7.20 and M7.60 per litre, while illuminating paraffin registered declined to M5.20 per litre.

Figure 3: Average Price of Oil



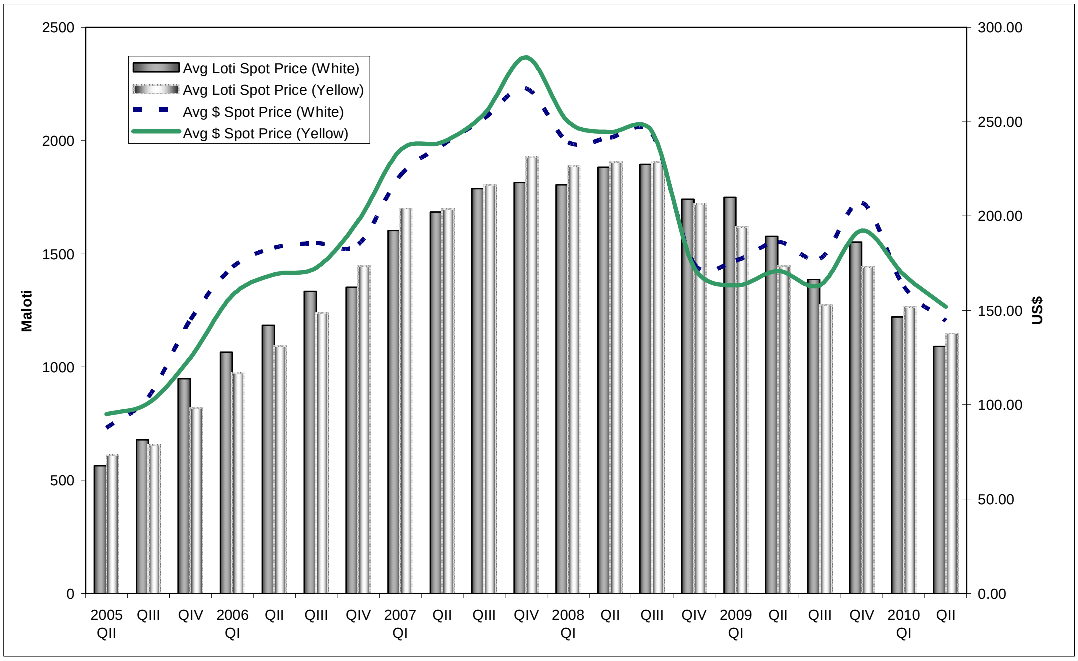
Source: Bloomberg

Agricultural Products

Maize

In US Dollar terms, the average prices of white and yellow maize declined by 10.6 per cent to US$1 090.6 per tonne and 8.9 per cent to US$1 147 during second quarter of 2010 from US$1 220.5 per tonne and US$1 266.9 per tonne registered in the first quarter of 2010. In Maloti terms, the average prices of white and yellow maize also fell by 11.2 per cent to M144.4 per tonne and 10.1 per cent to M151.9 per tonne during the quarter under review.

Figure 4: Average Spot Price of Maize

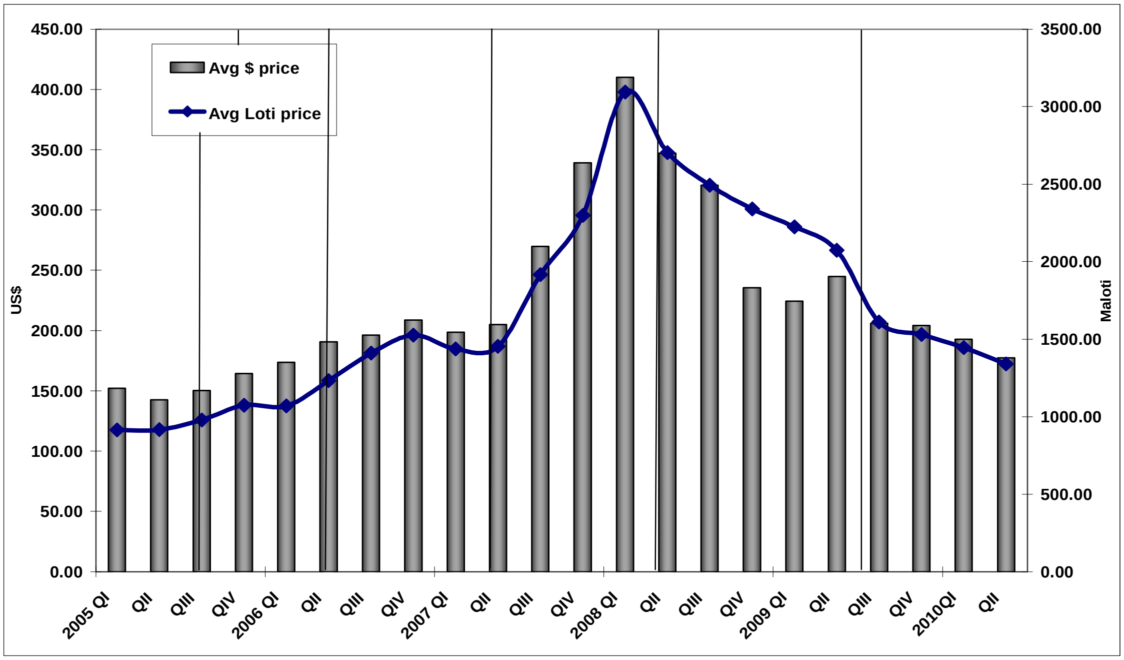


Source: Bloomberg

Wheat

During the quarter under review, the average spot price of wheat in US Dollar terms, declined by 7.9 per cent to US$177.5 per tonne compared with US$192.8 per cent registered in the quarter ending March 2010. In Maloti terms, the average spot price also fell by 7.3 per cent to M1 340.0 per tonne during the review period, in comparison with M1 445.9 per tonne observed in the previous quarter.

Figure 5: Average Spot Price of Wheat



III. Real Sector, Employment and Price Developments

Overview

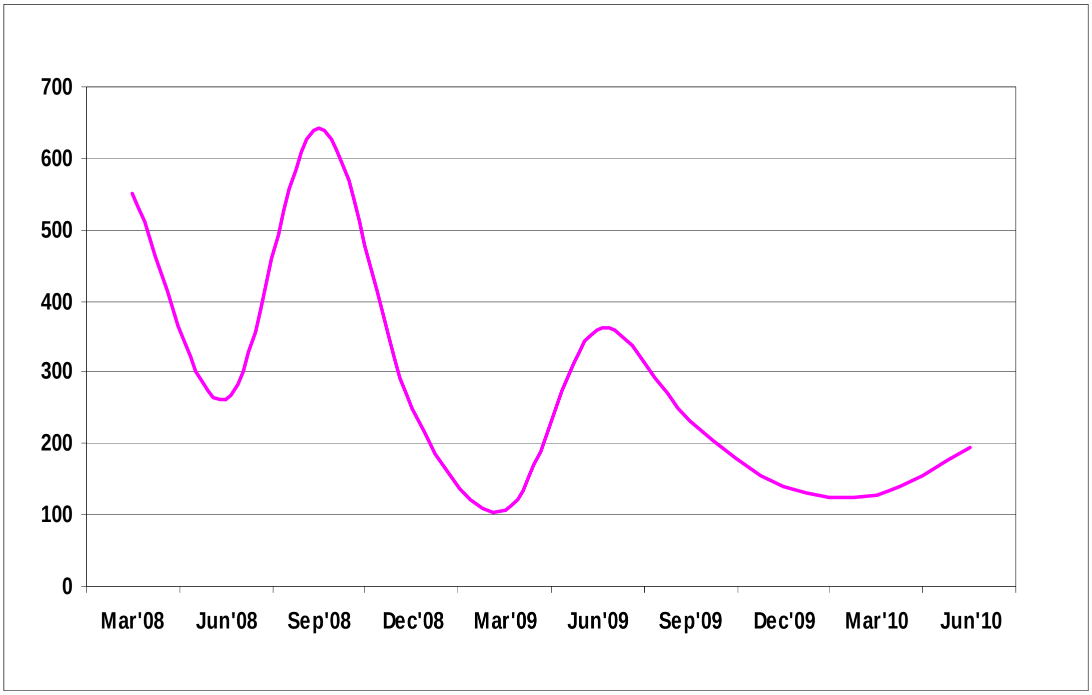
The domestic economy in the review period continued to show some signs of recovery. Economic activity in the primary sector improved as mining production increased. Secondary sector developments were also positive, with improved consumption of electricity and water in the industries. In addition, tertiary sector improved in the second quarter of 2010. Employment developments were favourable for LNDC-assisted companies and the government sector while migrant mine worker's employment continued to decline.

Primary Sector Developments

The diamond production index increased to 196.5 percentage points during the second quarter of 2010 from 126.6 percentage points recorded in the previous quarter. This improvement is largely driven by continued good performance by Lets'eng and the commencement of production by Mothae diamond mine, which started its two year trial operations during the quarter under review. The mining sector in Lesotho had been struggling since the economic downturn and this quarter's developments bode well for the recovery of the economy of Lesotho in general.

Figure 6: Diamond Production Index

(2005: QI=100)



Source: Department of Mines and Geology

Secondary Sector Developments

Electricity Consumption

Electricity consumption increased by 16.0 per cent during the quarter under review compared with a modest 1.4 per cent decline recorded in the previous quarter. Large increases were observed in the industrial and domestic categories whereas the general purpose category recorded a small decline as most schools closed for winter vacations. On the contrary, electricity consumption declined slightly by 0.3 per cent on annual basis compared to a higher 9.0 per cent decline observed in the previous quarter. This improvement is largely driven by better performance in the manufacturing sector which reaffirms recovery from the global economic downturn.

Table 2: Electricity Consumption

(Million Maloti)

	2009				2010			
	QIII		QIV		QI		QII	
	Kwh	Value	Kwh	Value	Kwh	Value	Kwh	Value
General Purpose	22.89	17.07	22.39	16.26	21.92	16.86	20.52	17.65
Domestic	46.92	31.39	42.95	28.69	39.35	26.29	48.63	34.13
Commercial & Industrial	84.28	40.64	68.86	33.58	71.06	31.86	84.42	38.20
Total	**154.09**	**89.10**	**134.2**	**78.54**	**132.34**	**75.02**	**153.57**	**89.98**

Source: Lesotho Electricity Authority and Lesotho Electricity Company

Water Consumption

Water consumption declined by a seasonally-adjusted 18.9 per cent in the quarter under review compared to a large increase of 35.4 per cent observed in the previous quarter. On an annual basis, it declined by a seasonally-adjusted 19.8 per cent. The fall in total water consumption is mainly driven by declines of 18 per cent and 4.1 per cent in domestic and other categories respectively, whereas, industrial water consumption increased by 1.8 per cent. Again, the small improvement in industrial water consumption is in line with the slow economic recovery.

Table 3: Water Consumption

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

		Domestic	Industrial	Other	Total
2009					
II	Units	0.87	2.00	0.56	3.43
	Value	3.65	8.75	3.40	16.11
	Units*		2.03		3.48
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					
1	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

Source: Water and Sewerage Authority
*denotes seasonally adjusted figures

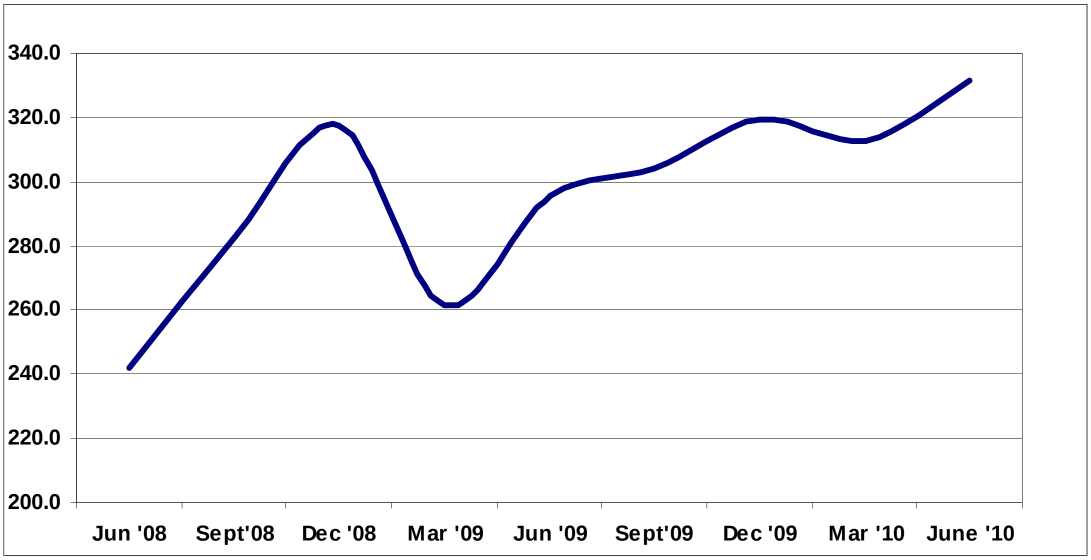
Tertiary Sector Developments

Sales Turnover

The value of sales turnover increased by 5.9 per cent in the quarter ending June 2010 compared to a decline of 2.1 per cent recorded in the preceding quarter. On an annual basis, sales turnover increased by 12.1 per cent. The increase may be indicative of the improvement in consumer demand. This bodes well for economic growth since the sales turnover is an indicator of the general business activity in the economy.

Figure 7: Value of Sales Turnover

(Million Maloti)



Source: Lesotho Revenue Authority

Telephone Statistics

The total number of telephone calls increased by an estimated 3.1 per cent in the quarter ending June 2010, from an increase of 5.1 per cent in the preceding quarter. On an annual basis, the number of telephone calls increased by 10.3 per cent. The quarterly increase may reflect signs of recovery by the textile and clothing subsector.

Table 4: Telephone Traffic Statistics

		SA Outgoing Calls	International Calls	Total Calls
2009				
II	No. of calls (millions)	1.95	0.11	2.06
	No. of calls*			2.13
	Total Duration (million minutes)	3.39	0.36	3.75
	Nominal Value (million maloti)	7.79	2.57	10.36
III	No. of calls (millions)	2.09	0.11	2.21
	No. of calls*			2.00
	Total Duration (million minutes)	3.67	0.37	4.04
	Nominal Value (million maloti)	8.44	2.58	11.02
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	2.27
	No. of calls*			2.35
	Total Duration (million minutes)	3.56	0.38	3.94
	Nominal Value (million maloti)	8.19	2.65	10.84

Source: Tele-Com Lesotho and Vodacom Lesotho
* Adjusted for seasonality.
\+ Preliminary estimates

Investment Expenditure

Imported Motor Vehicles

On a quarterly basis, the number of imported motor vehicles declined by a seasonally adjusted 7.8 per cent in contrast with a 26.1 per cent increase observed in the previous quarter. However, the number of imported motor vehicles increased by 7.0 per cent on an annual basis. The category of ‘Cars’ performed well while others categories declined. Imported trucks registered the highest increase both in values and units which could be at the back of Maseru City Council (MCC) related activities. Generally, this performance was mainly driven by a drastic decline in government vehicles whereas purchase of vehicles by the private sector rose.

Table 5: Motor Vehicle Imports+

(Value in Million Maloti)

		Cars	Vans	Trucks	Buses	Tractors	M / Cycles	Trailers	Total
2009									
II	Value	28.96	66.2	65.95	12.48	0.15	0.09	2.40	176.2
	Units*								859
	Units	317	354	84	42	4	1	11	813
III	Value	29.46	58.1	18.90	4.77	0.53	0.01	0.91	112.6
	Units*								719
	Units	374	329	42	20	11	1	14	791
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

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 increased by 5.2 per cent on a quarterly basis and increased by a modest 0.7 per cent on annual basis. Employment in textiles and clothing constitutes the largest share of employment in LNDC-assisted companies. The quarterly increase is mainly driven by increases in knit and woven garments categories by 2.7 and 12.8 per cent, respectively. On an annual basis, electronics was the main driver of employment in LNDC-assisted companies with a 15.4 per cent hike. Employment in construction, retail and "other" declined slightly whereas employment in hotels and food and beverages performed well. Good performance in textiles and clothing is in line with the current global economic recovery, particularly in the US.

Table 6: Employment Trend of LNDC-Assisted Companies

Industry	2009			2010	
	QII	QIII	QIV	QI	QII
Knit Garments	24 295	24 559	24 427	22 228	22 822
Woven Garments	13 298	13 588	13 443	13 677	15 433
Footwear	2 931	2 928	2 929	2 884	2 879
Fabrics, Yarn etc.	1 590	1 667	1 628	1 449	1 453
Construction	268	273	270	295	282
Food & Beverages	864	871	867	855	863
Electronics	1 367	1 349	1 358	1 456	1 577
Retail	165	165	165	150	122
Hotel & Accommodation	404	404	404	461	462
Other	895	895	895	643	486
TOTAL	**46 077**	**46 699**	**46 386**	**44 098**	**46 379**

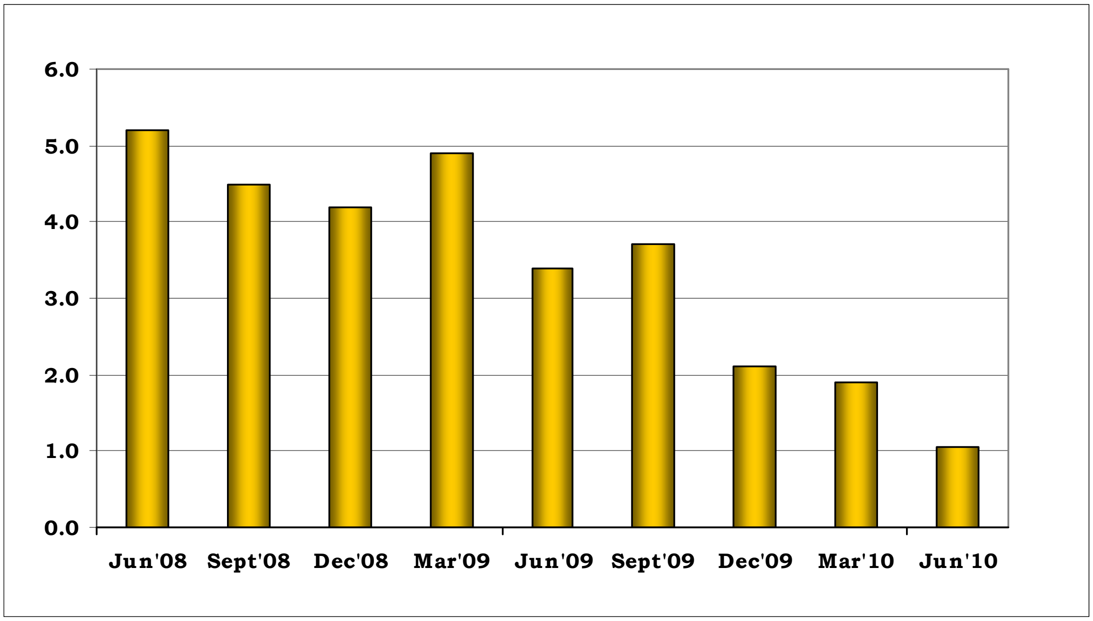
Source: Lesotho National Development Corporation

*denotes CBL projection

The number of government employees remained almost flat, declining by a mere 0.02 per cent during the quarter ending June 2010, compared to the 0.7 per cent increase registered in the previous quarter. On an annual basis, public sector employment increased by 1.0 per cent in the first quarter compared to the 1.9 per cent realized in the second quarter of 2010, representing a deceleration of almost 1 per cent. The category of civil servants and teachers registered small annual increases of 1.6 and 1.0 per cent, respectively, whereas daily paid workers were reduced by 2.8 per cent. This may be a result of efforts by Government to contain the wage bill, hence the budget deficit.

Figure 8: Government Employment

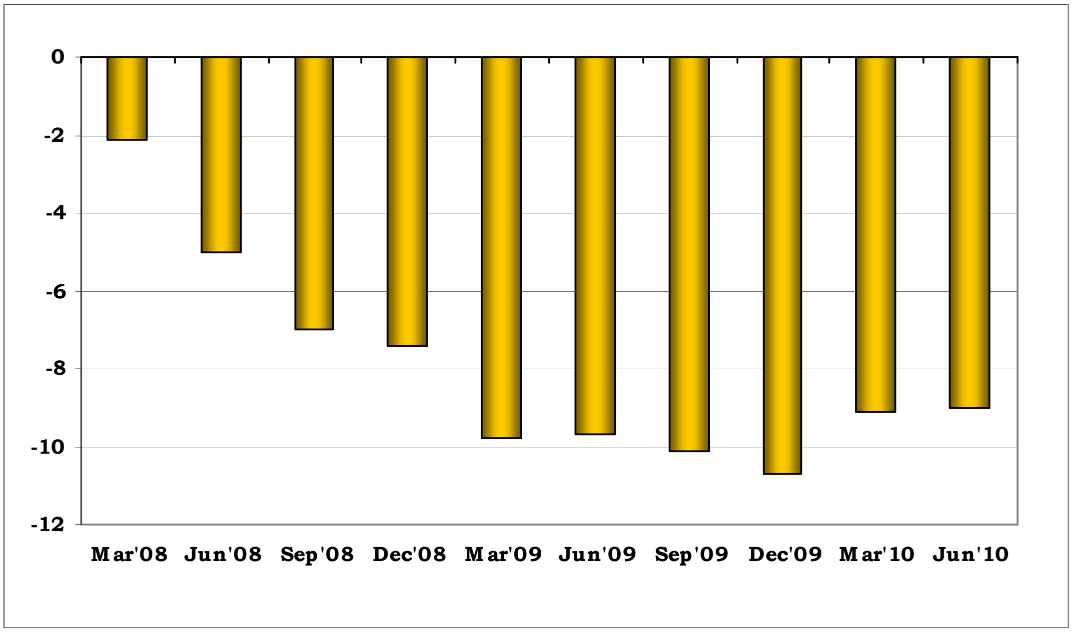
(Annual Percentage Change)



The number of migrant mineworkers continued to decline during the second quarter of 2010, falling by 2.7 per cent on a quarterly basis. It declined from 40 251 to 36 628 on an annual basis, equivalent to 9.0 per cent decline. This decline was recorded despite a 3 per cent increase in employment in South African mines in the quarter under review compared to the previous quarter. The mining sector also performed well as prices of gold and platinum were on the rise. This revelation suggests that preference is given to South African citizens and that Basotho migrant mine workers may be decimated by their South African counterparts over time.

Figure 9: **Migrant Mineworkers Employment**

(Annual Percentage Change)



Price Developments

The overall inflation rate, measured as a percentage change in Consumer Price Index (CPI), slowed to 3.7 per cent in April and 3.8 per cent in May and remained at 3.8 per cent in June. Overall, the quarter under review registered an average inflation rate of 3.8 per cent compared to 4.2 per cent registered in the previous quarter. The major drivers of inflation in this quarter, particularly in June, were alcoholic beverages and tobacco, transport, education, hotels and restaurants and the category of electricity, gas and other fuels. This prevailing inflation environment is favorable to consumers and the macroeconomic stability and it is expected that inflation in South Africa and hence Lesotho, will remain low, hovering within the 3 to 6 per cent target band for the second half of 2010.

Table 7: Inflation Rate

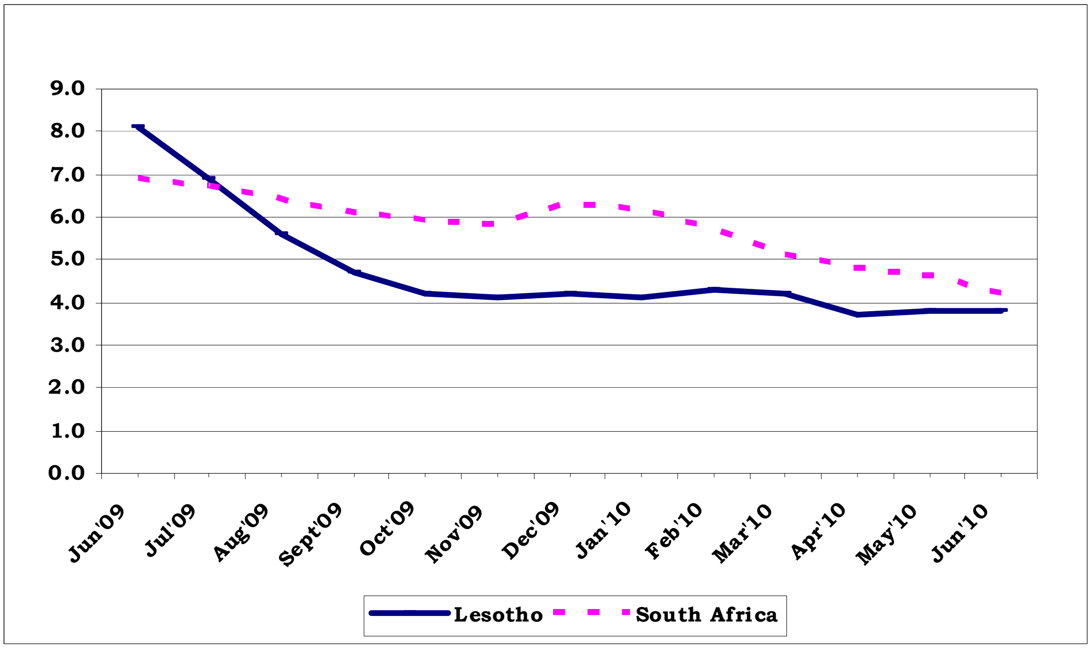
(Annualised Percentage Change: April 1997=100)

	Weight	2009		2010		
		Feb	Mar	Apr	May	June
All items	**100.0**	**4.3**	**4.2**	**3.7**	**3.8**	**3.8**
Food and non-alcoholic beverages	39.8	3.5	3.0	4.0	3.3	3.2
Alcoholic beverages & Tobacco	6.4	9.3	10.8	4.0	10.6	10.6
Clothing & footwear	15.6	5.0	5.2	4.0	3.6	3.2
Housing, electricity gas & other fuels	3.7	-2.4	-0.6	2.6	4.2	6.3
Furniture, households equipment & routine maintenance of house	17.0	4.8	4.7	2.8	2.4	2.3
Health	1.4	3.7	2.6	1.8	2.0	2.2
Transport	7.8	6.6	6.2	6.6	6.3	5.8
Communication	0.1	0.0	0.0	1.2	1.2	1.2
Leisure, entertainment & Culture	1.2	2.8	3.2	1.6	1.7	1.8
Education	3.2	5.6	5.7	6.3	6.3	6.3
Restaurant & Hotels	0.4	5.2	4.7	6.5	5.7	6.5
Miscellaneous goods & services	3.2	4.2	4.5	4.3	4.1	3.8

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 increased by 1.2 per cent during the quarter under review compared with 7.9 per cent recorded in the previous quarter. On annual basis, broad money recorded a rise of 11.2 per cent during the quarter ending June following a slower increase of 8.8 per cent registered in the first quarter of 2010. The growth in money supply during the review quarter was mainly due to an increase in total domestic credit including net claims on government which overshadowed the decline in net foreign assets (NFA).

Figure 11: Overview of Recent Monetary Developments

(Million Maloti: End of Period)

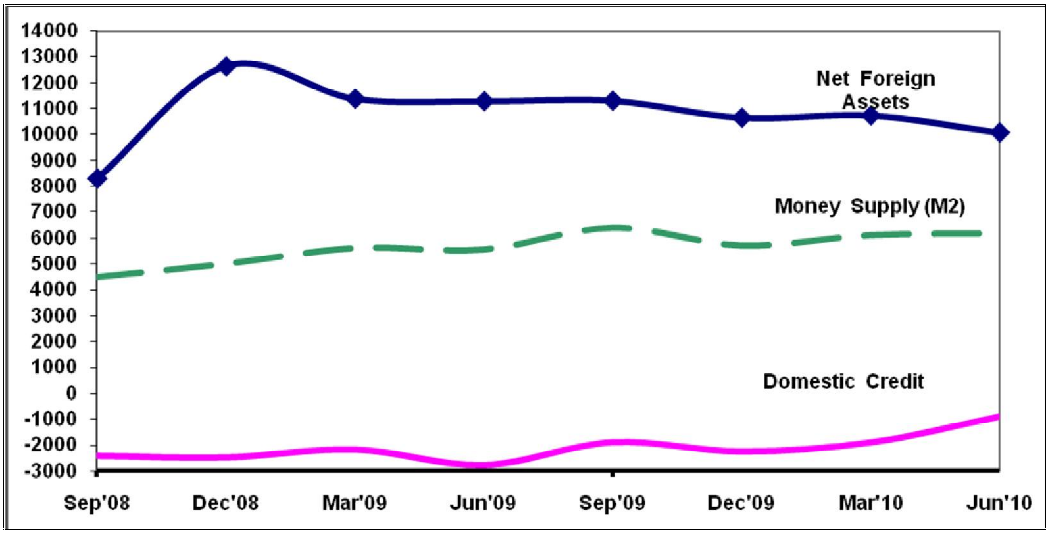


Table 8: Determinants of Money Supply

(Million Maloti: Changes)

Determinants	2009			2010	
	Jun	Sep	Dec	Mar	June
Net foreign assets	-218.3	19.6	-662.0	88.8	-660.4
Domestic credit	-581.3	760.9	-247.3	349.6	1062.1
Net Claims on Govt	-693.0	671.7	-352.0	358.5	858.4
Statutory bodies	-2.4	-2.2	-35.4	0.0	0.0
Private sector	114.1	91.5	140.1	-8.9	203.7
Other items, net	-745.8	-55.9	-206.8	59.3	326.0
Money Supply (M2)	-54.8	836.4	-686.3	398.2	75.7

Components of Money Supply

The components of broad money reflected opposite changes at the end of June 2010. Quasi money increased in line with broad money and offset the decline recorded in narrow money. Quasi money increased by 7.9 percent during the same period, mainly due to a rise of 12.8 and 1.4 per cent in time and savings deposits, respectively. Narrow money declined by 1.0 per cent at the end of June, contrasted with a 10.2 per cent increase registered at the end of March. The decrease was attributable to a 1.8 per cent fall in demand and call deposits held with commercial banks. The decline offset the increase observed in currency in circulation. Demand and call deposits remained the largest components of money supply during the review quarter.

Table 9: Money Supply

(Million Maloti; End of Period)

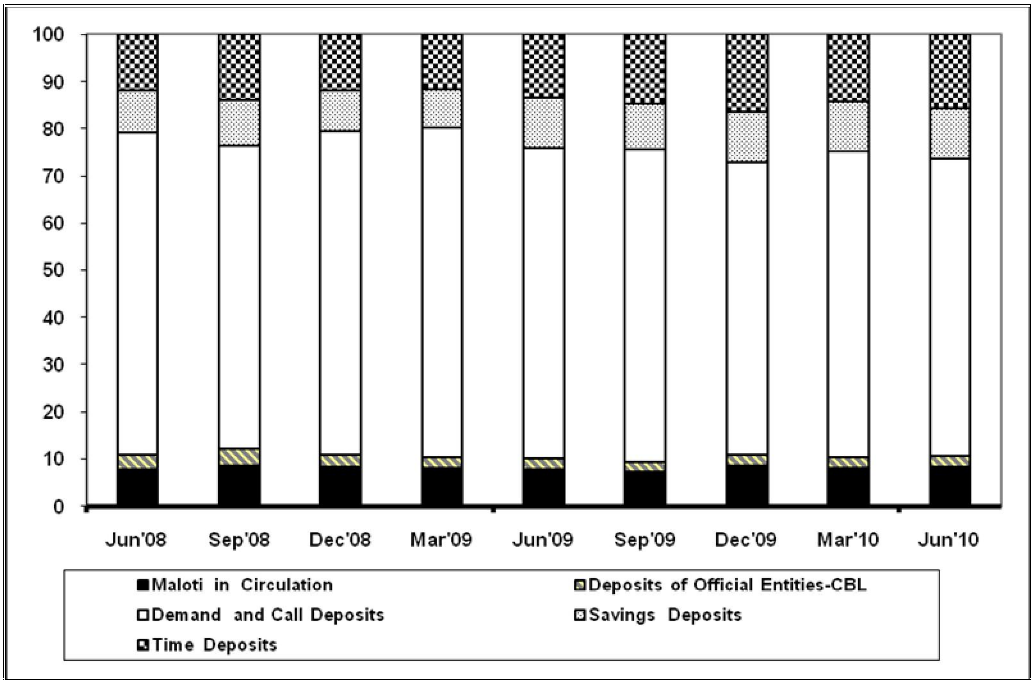
	2009			2010	
	Jun	Sep	Dec	Mar	June
Money Supply (M2)	5574.8	6411.2	5725.0	6123.1	6198.8
Money (M1)	4234.5	4853.6	4176.5	4602.8	4558.3
Maloti with public	434.8	471.0	487.2	498.9	523.1
Demand deposits[1]	3666.8	4221.1	3552.9	3967.2	3897.4
Deposits of official Entities with CBL	133.8	135.7	136.4	136.7	137.8
Quasi-Money	1340.3	1557.6	1548.5	1520.3	1640.5
Savings deposits	593.1	621.1	607.0	655.6	664.8
Time deposits	747.2	936.6	941.5	864.7	975.7

[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 total volume of deposits held with commercial banks rose by a small 0.3 per cent at the end of June 2010 following an increase of 8.8 per cent recorded at the end of March. The increase resulted from a rise in the deposits of both the private sector and statutory bodies. Private sector deposit grew marginally while deposits of statutory bodies registered 8.2 per cent rise at the end of June. The deposits of the private sector rose mainly as a result of a 12.9 per cent increase in time deposits coupled with a 1.4 per cent rise in savings deposits (see Table 10). However, demand and call deposits of the private sector moderated the increase by registering a fall of 3.2 per cent during the quarter ending June 2010. The increase in commercial bank's deposits may reflect a shift in deposit holdings in favour of longer maturities to guard against falling interest rates. The private sector continued to dominate the holding of deposits by commercial banks.

Table 10: Commercial Banks' Deposits by Holder

(Million Maloti: End of Period)

	2009			2010	
	Jun	Sep	Dec	Mar	June
Total Deposits	4977.7	5778.8	5041.4	5485.0	5501.1
Private Sector	4879.9	5637.0	4956.6	5270.3	5268.6
Demand deposits	3541.4	4082.0	3420.0	3751.9	3630.0
Savings deposits	593.0	621.0	606.9	655.5	664.7
Time deposits	745.5	933.9	929.7	862.9	974.0
Statutory Bodies	97.8	141.8	84.7	214.8	232.4

NB: Totals may not tally due to rounding off

Liquidity of Commercial Banks

The liquidity of commercial banks, measured by the ratio of liquid assets to deposit liabilities and placements of other banks, remained high at the end of the second quarter of 2010 (see Table 11). The ratio declined from 78.7 per cent observed in the previous quarter to 78.5 per cent recorded at the end of June 2010. The decrease resulted from a marginal rise in liquid assets held in foreign commercial banks. The credit deposit ratio improved from the 31.2 per cent registered in March 2010 to 33.7 per cent at the end of June. The increase in this ratio indicated that commercial banks supported increased economic activity financially during the review quarter.

Table 11: Components of Commercial Banks's Liquidity

(Million Maloti: End of Period)

COMPONENT	2009			2010	
	Jun	Sep	Dec	Mar	June
Maloti Notes and Coins	62.7	70.4	97.1	99.1	92.9
Rand Notes and Coins	38.6	40.8	65.9	63.9	60.2
Balances due from Lesotho Banks	875.1	1400.0	1116.2	1482.6	1236.5
Balances due from Foreign Banks	2954.0	4061.2	3282.3	3330.1	3697.0
Clearing Balances with CBL	196.8	190.4	43.6	2.2	16.4
CBL Bills	0.0	0.0	0.0	0.0	0.0
Lesotho Government Securities	479.7	477.8	472.8	500.6	500.2

Table 12: Consolidated Balance Sheet of Commercial Banks

(Million Maloti: End of Period)

	2009			2010	
	Jun	Sep	Dec	Mar	June
Net foreign assets	3133.1	4023.8	2986.7	3282.5	3502.9
Deposits with CBL	196.8	190.4	235.4	223.7	236.7
Credit:	2172.6	2140.3	2105.6	2121.7	2256.7
Statutory Bodies	37.6	35.4	0.0	0.0	0.0
Private Sector	1605.4	1694.9	1721.5	1712.6	1851.5
Government securities	529.6	410.0	384.1	409.1	405.2
Assets/Liabilities	5502.5	6354.5	5092.3	5627.9	5996.3
Private sector deposits[2]	4977.7	5778.8	5041.4	5485.0	5501.1
Government deposits	33.8	35.3	26.8	22.2	22.1
Capital, reserves & other, net	491.0	540.4	259.5	120.7	236.4

[2] includes statutory bodies' deposits.

Demand for Money

Domestic Credit

At the end of the quarter ending June, domestic credit including commercial banks' claims on government rose by 6.4 per cent following a small increase of 0.8 per cent at, the end of the quarter to March 2010. This increase reflected a rise in commercial banks holdings of Treasury bills during the review quarter. Excluding net claims on government, domestic credit increased by 7.9 per cent during the quarter to June, in contrast with the decline of 0.5 per cent observed in the previous quarter. Furthermore, domestic credit rose by 20.6 per cent on an annual basis during the quarter, following a rise of 19.5 per cent realised at the end of March 2010.

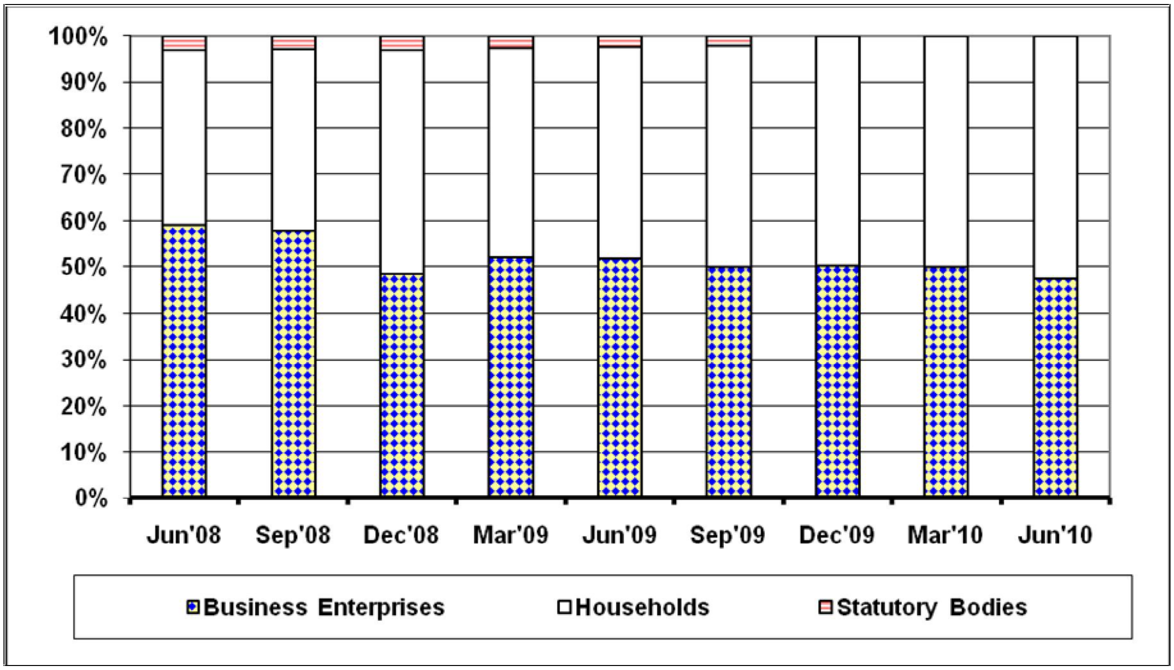
Table 13: Domestic Credit Excluding Net Claims on Government*

(Million Maloti: End of Period)

	2009			2010	
	Jun	Sep	Dec	Mar	June
Domestic Credit	1643.0	1730.3	1713.1	1696.4	1834.6
Credit to private sector	1605.4	1694.9	1713.1	1696.4	1834.6
Business enterprises	852.2	864.9	842.9	825.3	1043.3
Households	753.2	830.0	870.2	871.1	789.3
Credit to statutory bodies	37.6	35.4	0.0	0.0	0.0

*excludes non performing loans

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



Credit to Private Sector

At the end of June 2010, credit to the private sector increased by 8.2 percent, as opposed to a 1.0 per cent observed at the end of the previous quarter. The increase was due to credit extended to businesses which offset a decline in credit to households. Credit to businesses recorded a 26.4 per cent increase in the review quarter, in contrast with 2.1 per cent fall observed at the end of March. Credit to households fell by 9.4 per cent during the review quarter, converse to the increase of 0.1 recorded at the end of March. Consequently, the share of credit granted to businesses to total private sector credit rose from 47.7 per cent in March to 56.9 per cent in June. On an annual basis, credit to the private sector increased by 20.7 per cent following a 19.8 per cent recorded at the end of March. The growth in private sector credit was at the back of 27.7 per cent increase in credit to businesses as well as a 3.6 per cent rise in credit to households.

Sectoral Distribution of Credit

The distribution of credit to businesses indicates that wholesale, retail, hotel and restaurant sub-sector received the largest share of total credit at 25.5 per cent, followed by non-bank financial institutions and real estate sub-sector and manufacturing which received 21.1 and 15.1 per cent, respectively. As shown earlier, credit to businesses increased during the review period. The growth was a result of 79.0 per cent increase in credit granted to the wholesale, retail, hotel and restaurant sub-sector, 76.4 per cent rise in credit extended to the construction sub-sector, as well as 63.8 per cent jump in credit to the non-bank financial institutions and real estate sub-sector. Nevertheless, the rise in credit extended to business enterprises during the review quarter was moderated by the decline in credit to the electricity, gas and water sub-sector which slowed down by 36.8 per cent as well as 40.9 per cent decline in credit to transport, storage and communications.

Table 14: Sectoral Distribution of Credit to Enterprises*

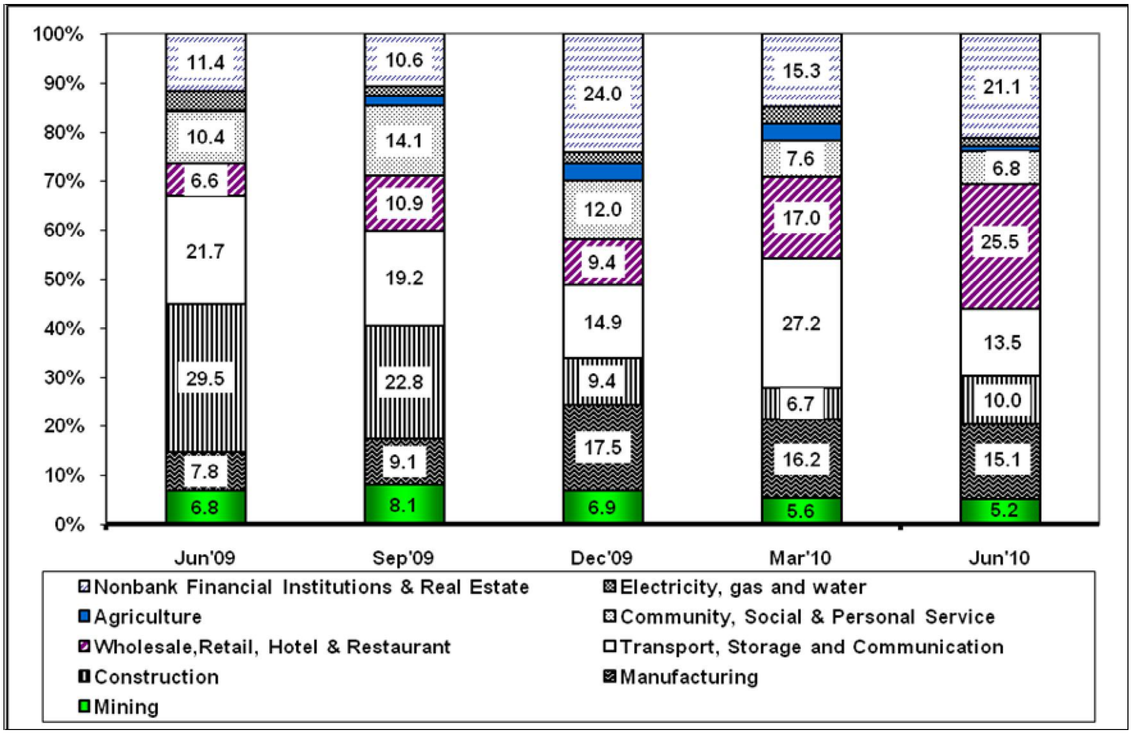
(Million Maloti: End of period)

SECTOR	2009			2010	
	Jun	Sep	Dec	Mar	June
Agriculture	15.5	28.4	32.3	8.4	11.6
Mining	57.8	69.7	61.9	52.5	57.3
Manufacturing	66.4	78.1	163.8	151.4	167.7
Construction	212.9	164.6	85.2	62.6	110.4
Transport, storage and communication	184.0	164.9	146.0	253.9	150.1
Electricity, gas and water	32.9	16.7	20.7	31.1	19.7
Wholesale, retail, hotel and restaurant	56.3	93.7	91.4	158.2	283.2
Non-bank financial institutions and real estate	96.4	91.1	218.4	142.8	234.0
Community, social and personal services.	88.3	121.4	117.5	71.2	75.6
All sectors	810.2	828.6	937.3	932.0	1109.7

* 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 increased by 24.2 per cent at the end of the quarter under review compared to a 6.9 per cent increase registered at the end of the previous quarter. On the one hand, net claims on government by the commercial banks, which are dominated by holdings of treasury bills, fell slightly by 0.7 per cent at the end of the review quarter compared with 6.5 per cent decrease recorded at the end of March. On the other hand, net claims on government by the CBL rose by 21.4 per cent during the quarter ending June following an increase of 7.6 per cent in March. The increase was at the back of a notable drawdown of 20.0 per cent in deposits of government held with the Central Bank. This reflected settlement of arrears, by the Government, from the previous quarter.

Table 15: Banking System's Net Claims on Government

(Million Maloti: End of Period)

Holder	2009			2010	
	Jun	Sep	Dec	Mar	June
Commercial banks	495.7	374.7	357.3	386.9	478.1
Claims on Government	529.6	582.3	573.8	409.1	500.2
o/w MP T Bills[3]	490.5	477.8	472.8	319.1	500.2
Less Government deposits	33.8	35.3	26.8	22.2	22.1
CBL	-4811.4	-4018.7	-4353.4	-4024.4	-3162.2
Claims on Government[4]	292.8	288.3	308.3	273.1	277.6
Less Government deposits	5104.2	4307.1	4661.7	4297.5	3439.8
o/w blocked account	506.1	512.0	509.9	514.3	623.9
Total Net Claims	-4315.7	-3644.0	-3806.3	-3637.5	-2779.1

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

Net Foreign Assets

During the quarter ended in June, the net foreign assets of the banking system plummeted by 6.1 per cent in contrast with a small increase of 0.8 per cent registered in March 2010. The decline resulted from 11.8 per cent fall in net foreign assets of the Central Bank. As a result, the share of foreign assets holdings by the Central Bank fell in favour of commercial banks at the end of June (see Figure 15). The net foreign assets of commercial banks rose by 6.7 per cent during the same period driven by an increase of 11.4 per cent in the volume of their foreign assets.

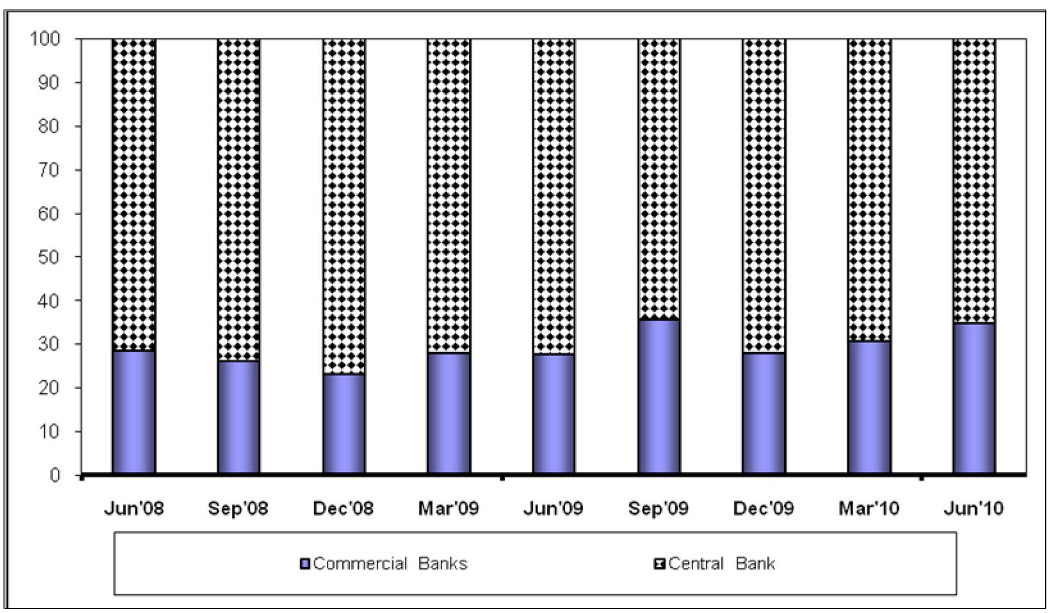
Table 16: Banking System's Foreign Assets and Liabilities

(Million Maloti: End of Period)

Holder	2009			2010	
	Jun	Sep	Dec	Mar	June
A. Commercial Banks	3133.1	4023.8	2986.7	3282.5	3502.9
Foreign Assets	3206.2	4075.7	3297.2	3345.1	3711.7
Foreign Liabilities	-73.1	-51.8	-310.5	-62.6	-208.8
B. Central Bank of Lesotho	8160.8	7289.8	7664.9	7457.8	6577.1
Foreign Assets	8852.0	7976.5	8345.4	8129.2	7201.2
Foreign Liabilities	-691.1	-686.7	-680.5	-671.3	-624.1
Net Total	11 294.0	11 313.6	10 651.6	10 740.3	10 080.0

Figure 15: Net Foreign Assets

(Percentage shares)



Money Market Developments

Overview

At the end of the second quarter of 2010, total holdings of Treasury bills shrank by 0.4 per cent in contrast with a rise of 1.1 per cent during the previous quarter. The holdings of Treasury bills by commercial banks declined by 0.6 per cent in June, viz-a-vis an increase of 4.4 per cent in March. However, commercial banks continued to hold the largest share of the market. As a consequence, the share of the non-bank sector in the total holding of Treasury bills rose slightly from 2.2 per cent in the quarter ending March to 2.4 per cent at the end of June. The share held by commercial banks fell marginally from 97.8 per cent in the previous quarter to 97.6 per cent in the quarter ending June.

Table 17: Holding of Treasury Bills

(Face Value; Million Maloti)

Type of Holder	2009			2010	
	Jun	Sep	Dec	Mar	June
Total	509.3	511.6	509.1	514.8	513.0
Banking System	506.4	487.7	482.6	503.6	500.5
Central Bank	0.3	0.3	0.3	0.3	0.3
Commercial Banks	506.1	487.4	482.3	503.3	500.2
Non-Bank Sector	2.9	24.0	26.5	11.3	12.5
NBFIs	0.3	15.1	20.2	5.3	5.1
Others	2.6	8.9	6.3	6.0	7.4
Memorandum Item					
Average Yield (per cent)	7.05	7.14	6.94	6.73	6.64

Money Market and Short-term Interest Rates

During the quarter under review, trends in the domestic deposit rates were generally mixed. For example, while the one-year deposit rate fell by 5 basis points during the review quarter, the 31-day and 88-day deposit rates rose by 2 and 25 basis points, respectively. The 91-day Treasury bill rate decreased from 6.46 per cent in March to 6.38 per cent at the end of June. Similarly, the counterpart rate in South Africa decreased from 6.60 per cent in March to 6.54 per cent during the review quarter. Consequently, the wedge between the two rates widened from 14 basis points observed at the end of March to 16 basis points during the quarter to June (see Table 18). However, the domestic prime lending rate remained unchanged at an average of 11.17 per cent in June 2010.

Table 18: Major Money Market Interest Rates

(Percent: End of Period)

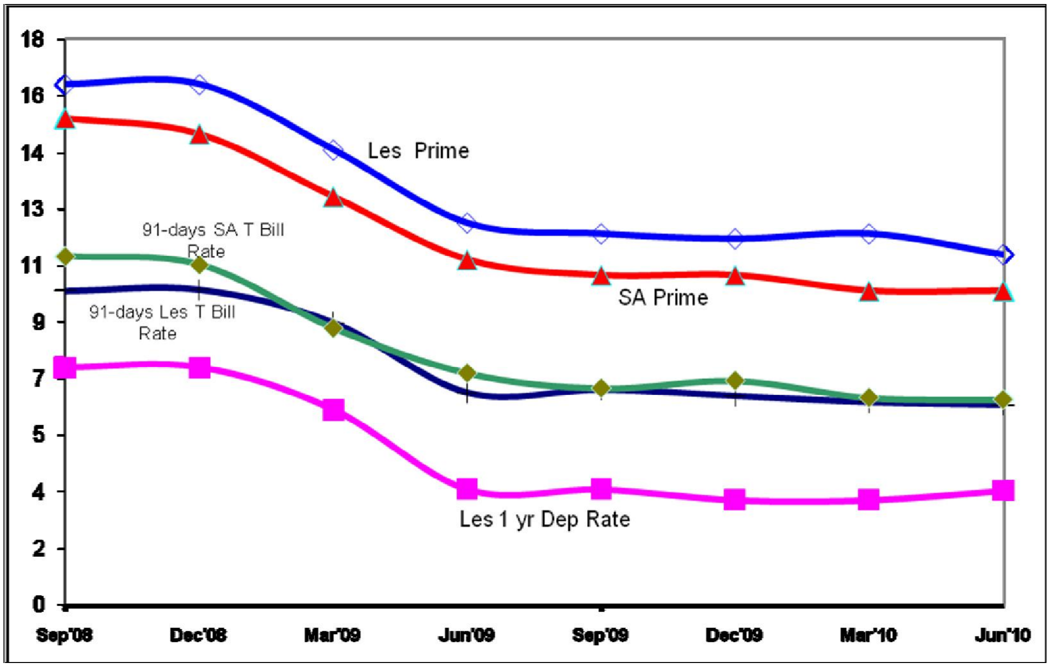
Interest Rates by Type	2009				2010
	Jun	Sep	Dec	Mar	June
Central Bank					
T Bill Rate – 91 Days	6.76	6.84	6.66	6.46	6.38
Lombard Rate	10.76	10.84	10.66	10.46	10.38
Commercial Banks[5]					
Call	1.75	1.75	1.75	1.75	1.71
Time:					
31 days	1.65	1.65	1.65	1.65	1.67
88 days	2.20	2.20	1.95	1.95	2.20
6 months	2.63	2.53	2.26	2.26	2.21
1 year	3.69	3.69	3.35	3.35	3.65
Savings	2.11	2.11	2.05	2.05	2.03
Prime	12.17	11.83	11.67	11.50	11.17
South Africa*					
Repo	7.50	7.00	7.00	6.50	6.50
T Bill Rate – 91 Days	7.38	6.90	7.14	6.60	6.54
Marginal Lending Rate	12.50	12.00	12.00	11.50	11.50
Prime	11.0	10.50	10.50	10.00	10.00

* Figures for South Africa were obtained from the SARB

[5] Average rates by commercial banks

Figure 16: Short-Term Interest Rates

(Percent Per Annum)

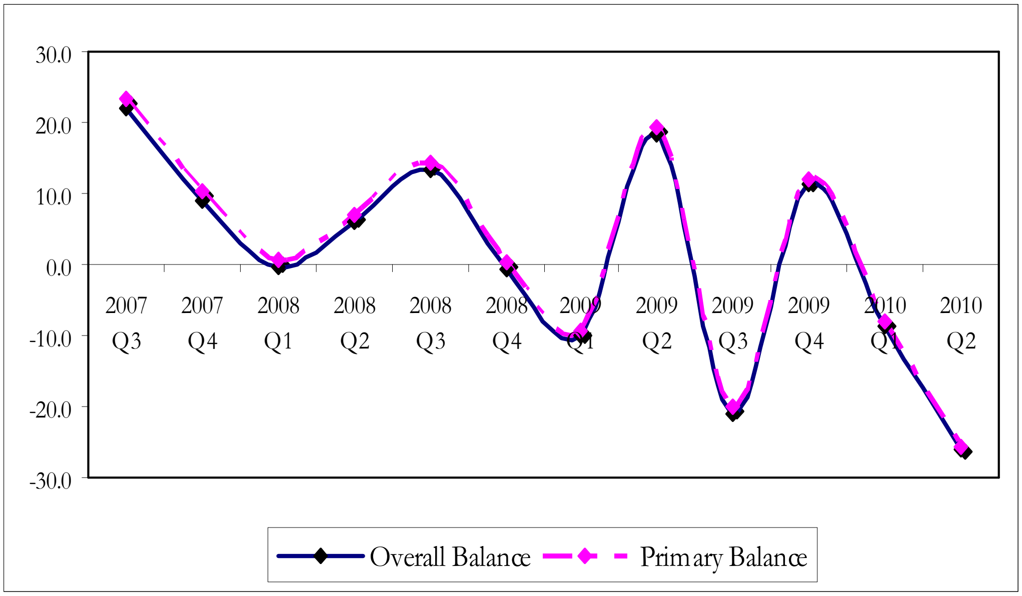


V. Government Finance

Summary of Budget Outturn

Preliminary estimates on government budgetary operations indicate a deficit equivalent to 26.0 per cent of GDP on a quarterly basis during the review period. The deficit followed 8.8 per cent deficit realised in the previous quarter. Total revenue (including grants) declined by 17.8 per cent while government expenditure and net lending increased by 6.4 per cent at the end of June. As a share of total expenditure, recurrent expenditure recorded 80.0 per cent, compared with 66.6 per cent observed in the previous quarter while capital expenditure constituted 20.0 per cent of total expenditure during the review period. The primary balance, which excludes interest costs, was 25.6 per cent of GDP.

Figure 17: Primary Balance versus Overall Balance



Revenue

Total revenue including grants dropped by 35.7 per cent on a quarterly basis. The plunge in total revenue was due to a deterioration in SACU revenue, which traditionally has been contributing significantly to overall revenue. SACU receipts dropped by 56 per cent due to the impact of the global financial crisis which led to a squeeze in revenue pool. SACU revenue fell from a share of 60 per cent of total revenue in March 2010 to about 40.1 per cent in June 2010. It is for this reason that Government has resorted to fiscal consolidation in response to this shock. Similarly, there was a 40.3 per cent drop in non-tax revenue.

Table 19: Government Revenue

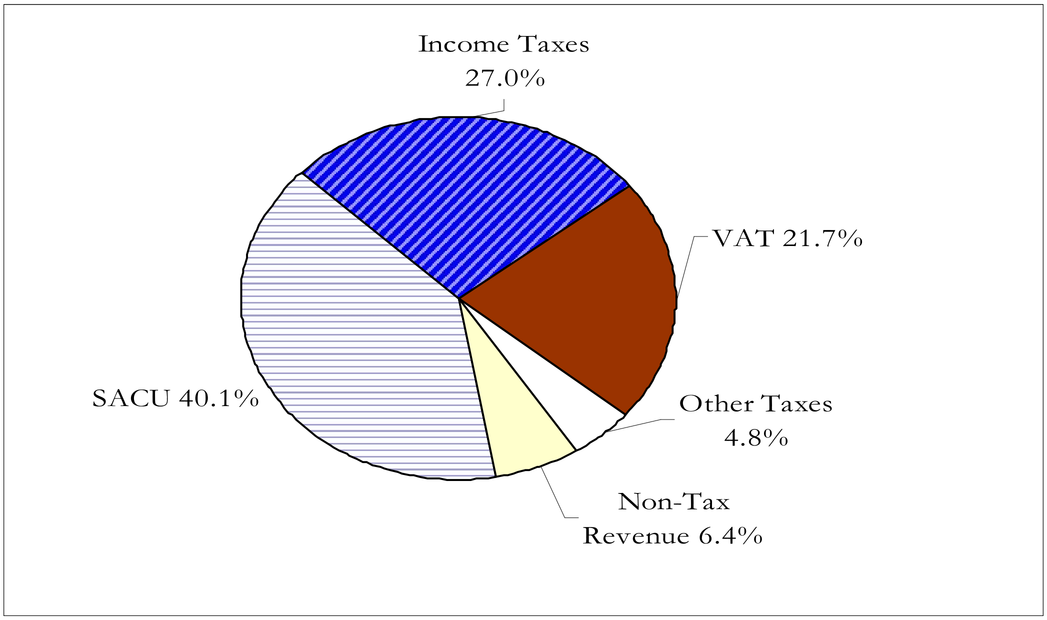
(Million Maloti)

	2009/10				2010/11
	Apr-Jun	**July-Sep**	**Oct-Dec**	**Jan-Mar** Revised	**April-Jun*** Preliminary
Total Revenue and Grants	2154.2	2302.6	2284.1	2315.1	1901.9
Total Revenue	1988.1	2034.1	2114.8	2165.1	1392.0
Tax Revenue	1890.4	1910.8	1994.5	1947.0	1261.7
Customs	1229.5	1229.5	1229.5	1229.5	540.4
Non-customs	660.9	681.3	765.0	717.5	721.3
Income Taxes	393.8	449.2	496.5	440.8	364.4
Taxes on goods & services	263.3	232.1	266.2	273.3	356.9
Other Taxes	3.8	0.0	2.3	3.4	64.2
Non-Tax Revenue	97.7	123.3	120.3	218.1	130.3
Of which: Water royalties	78.5	90.0	92.5	75.6	85.8
Grants	166.1	268.5	169.3	150.0	509.9

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

Non-tax revenue comprises water royalties, administrative fees, dividends and interest on loans on-lent to public enterprises. It contracted by 40.3 per cent during the quarter under review following 81.3 per cent growth in the previous quarter. It is important to indicate that the significant growth in the previous quarter was mainly reflective of receipt of rand compensation which is normally received during the first quarter of each year. As a percentage of total receipts, grants stood at 27 per cent. Grants rose quite significantly, reflecting donor disbursements for financing on-going capital projects in the economy.

Figure 18: Sources of Government Revenue



Expenditure

Government expenditure and net lending increased by 6.4 per cent following 36.8 per cent growth realised in the quarter ending March. Goods and services constituted the largest share of total expenditures at 45.8 per cent followed by expenditures on personnel emoluments. Expenditures on goods and services rose by 69.7 per cent following a 15.6 per cent rise in the previous quarter. The significant growth in expenditures on goods and services was indicative of delayed payments for activities undertaken during the previous fiscal year and which were made in the quarter under review. Expenditures on personnel emoluments rose by 6.1 per cent and thus indicative of the annual salary adjustment for civil servants. As a share of total expenditure, personnel emoluments contributed 33.4 per cent. Transfers and subsidies rose by 8.0 compared with 9.8 per cent contraction realised in the quarter ending March 2010.

Table 20: Government Expenditure

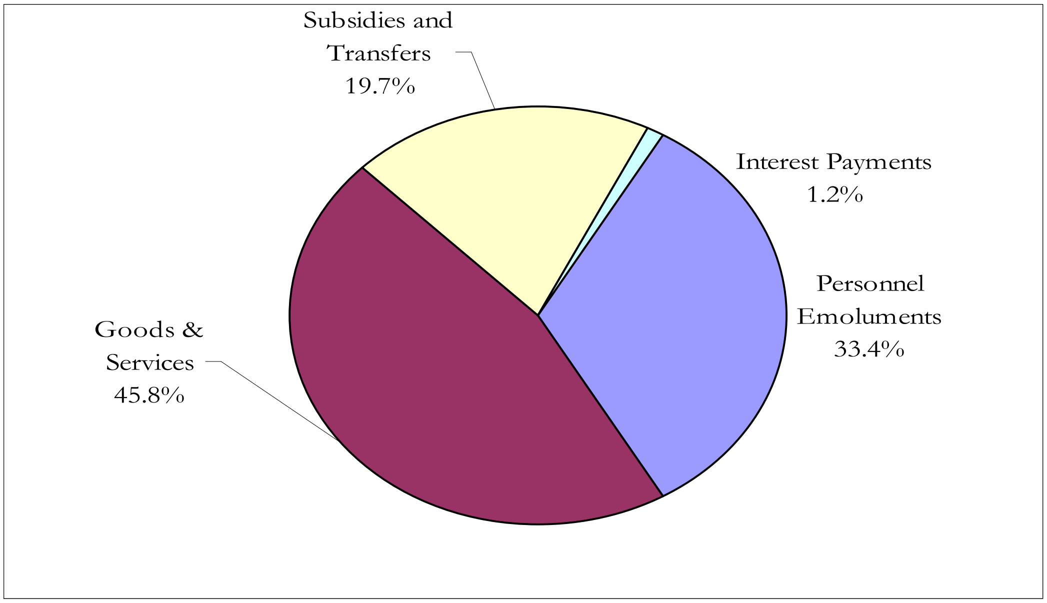
(Million Maloti)

	2009/10				2010/11
	Apr-Jun	**July-Sep**	**Oct-Dec**	**Jan-Mar** Revised	**Apr-Jun*** Preliminary
Total Expenditure & Net Lending	1534.9	3008.1	1907.5	2609.5	2777.1
Recurrent Expenditure	1079.0	1827.2	1590.4	1737.2	2220.6
Personnel Emoluments	636.7	711.4	704.6	700.0	742.5
Interest Payments	31.3	31.0	31.3	27.2	14.1
Foreign	13.5	17.1	16.3	18.9	7.8
Domestic	17.8	13.9	15.0	8.3	6.3
Other Expenditure	411.0	1084.8	854.5	1010.0	1464.0
Capital Expenditure	455.9	1180.9	317.1	872.3	556.5
Net Lending	0.0	0.0	0.0	0.0	0.0

Source: MoFDP
*Preliminary estimates

Capital expenditure dropped by 36.2 per cent in the quarter under review following 175.1 percent per cent growth in the previous quarter. Although there was a drop in capital expenditures, it continued to be high and was largely reflective of several capital projects that are being undertaken such as building of roads in the urban and rural areas. As a share of total expenditure, it was recorded at 20.0 per cent. These expenditures continued to be financed mainly through capital grants. However, it is important to indicate that expenditures are likely to be curtailed given the current fiscal challenges facing the economy.

Figure 19: Recurrent Expenditure by Type



Financing

Government fiscal deficit was predominantly financed through the domestic banking system and was projected to result in a fiscal deficit of 26.0 per cent of GDP during the current quarter compared to 8.8 per cent recorded in the quarter ending March 2010. As earlier indicated this huge deficit was largely due to the slump in revenue as well as payments of arrears from the past fiscal year. Government continued to drawdown its deposits with the Central Bank in order to finance the short-fall of revenue over expenditure.

Table 21: **Government Financing**

(Million Maloti)

	2009/10				2010/11
	Apr-Jun	**Jul-Sep**	**Oct-Dec**	**Jan-Mar** Revised	**Apr-Jun*** Preliminary
Financing	-622.5	705.5	-376.6	294.3	856.6
Foreign	44.0	2.6	-27.3	-59.4	8.9
Loan drawings	94.6	61.4	30.2	27.5	33.1
Amortization	-50.8	-58.8	-57.5	-86.9	-24.2
Domestic	-666.5	702.9	-349.3	353.5	856.7
Bank Financing	-693.0	671.7	-352.0	358.5	858.4
Non – Bank	26.5	31.2	2.7	-4.7	-1.7

Source: MoFDP Public Debt

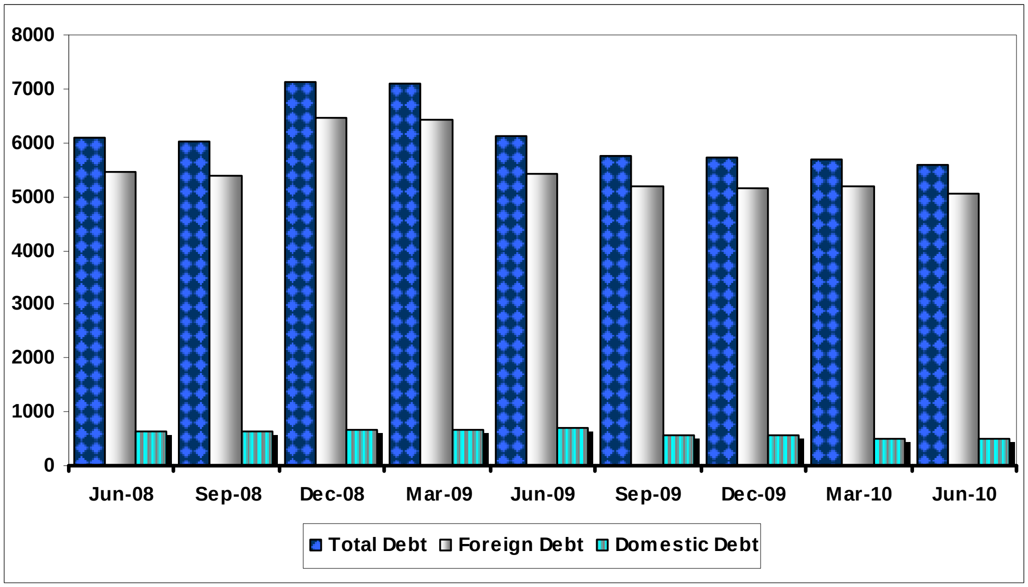
Public Debt

Overview

During the review period, total public debt dropped by 2.2 per cent compared to a 0.4 per cent growth on a quarterly basis. The decline was due to a fall in both domestic and external debt. Overall, public debt registered 31.2 per cent of GDP compared to 32.1 per cent during the quarter ending March 2010. Debt service ratio registered 2.9 per cent during the review period compared to the 3.1 per cent observed in the previous quarter. This is calculated as the ratio of debt service to exports of goods and services and factor income where applicable. External debt continued to constitute a greater percentage of overall debt stock. During the review quarter, the ratio of external debt to total debt was 90.8 per cent on a quarter-to-quarter basis while domestic debt's share was 9.2 per cent.

Figure 20: Outstanding Public Debt

(Million Maloti: End of Period)



External debt

External debt dropped by 2.0 per cent in the review quarter following a marginal increase in the previous quarter. The decline was attributed to the 2.7 per cent decline in multilateral loans. Multilateral loans constitute the largest share of external debt at 81.0 per cent. Loans from bilateral sources rose by 2.6 per cent following a 4.3 per cent increase in the previous quarter.

External debt accounted for 35.6 per cent of GDP compared with 40.1 per cent recorded in the previous quarter. It is important to indicate that a greater percentage of Lesotho's debt is concessional. Concesssional debt as a percentage of total external debt stood at 82.7 per cent.

Table 22: External Debt

(Million Maloti)

	2009			2010	
	QII	QIII	QIV	QI	QII
External Debt	5408.1	5181.5	5143.1	5160.8	5068.5
Bilateral Loans	231.5	227.4	239.7	250.1	228.4
Concessional	231.5	227.4	239.7	250.1	196.4
Non-concessional	0.0	0.0	0.0	0.0	32.0
Multilateral Loans	4895.9	4683.0	4635.6	4589.8	4522.6
Concessional	4864.4	4654.8	4609.1	4544.6	3934.7
Non-concessional	31.5	28.2	26.5	45.2	587.9
Financial Institutions	73.1	71.9	71.9	68.0	70.7
Concessional	20.2	19.0	19.0	60.7	60.7
Non-concessional	52.9	52.9	52.9	9.9	10.0
Suppliers' Credit	207.6	199.2	195.9	239.6	246.8

Source: MoFDP

Domestic Debt

Domestic debt reflects short-term debt comprising of treasury bills issued for monetary policy purposes. Domestic debt holding dropped by 0.4 per cent in the quarter under review, compared with a 0.9 per cent increase recorded in the quarter ending March, 2010. As a percentage of GDP, domestic debt was only 3.6 per cent.

VI. Foreign Trade and Payments

Overview

The external sector position continued to show a deficit for the second consecutive quarter in June 2010. The position was characterised by an overall balance which, in seasonally adjusted terms, widened to a deficit of M930.0 million in the second quarter of 2010 from a deficit of M220.7 million observed in the previous quarter. The deficit was a result of deterioration in the current account on the back of a fall in current transfers and the income account. However, the gains of M220.0 million originating from depreciation of the local currency against the currencies in which CBL reserves were held partially dampened the weakening of the current account. The transaction balance, which represents the overall balance without the effects of currency fluctuations, in seasonally adjusted terms, also widened to a deficit of M1.1 billion during the review quarter from a deficit of M183.0 million recorded in the previous quarter.

Current Account

During the quarter under review, the current account recorded a deficit of M936.1 million, which was higher than a revised deficit of M275.5 million observed in the previous quarter. The widening of the deficit was mainly on account of a decline in current transfers as a result of significant fall in SACU receipts during the quarter, despite the improvements of merchandise exports. In addition, the fall in the income account also contributed to the deficit. Relative to GDP, current account deficit increased to 23.7 per cent in the quarter ending June 2010 following 7.0 per cent registered in the quarter ending March 2010.

Table 23: Current Account Balance

(Million Maloti)

	2009			2010	
	QII	QIII	QIV	QI*	QII+
I. Current Account	379.82	-77.00	-331.42	-275.57	-936.12
(a) Goods	-1566.17	-1955.65	-2216.83	-2165.74	-2083.99
Merchandise exports f.o.b.	1485.46	1782.76	1299.75	1313.19	1335.23
Of which diamonds	355.67	343.92	233.23	332.25	219.88
Of which textiles & clothing	773.09	854.16	602.23	626.31	718.56
Other exports#	356.70	584.68	464.29	354.63	396.79
Merchandise imports f.o.b.	-3051.63	-3738.41	-3516.58	-3478.93	-3419.22
(b) Services	-94.11	-88.71	-73.77	-101.21	34.05
(c) Income	909.12	832.39	839.24	739.53	585.55
(d) Current Transfers	1130.98	1134.97	1119.94	1251.86	528.27

* Revised estimates
+ Preliminary estimates
# All other merchandise exports excluding 'textiles and clothing' and 'diamonds'

Merchandise Exports

Merchandise exports, in seasonally adjusted terms, rose by 2.6 per cent in the second quarter of 2010, compared with an increase of 5.9 per cent registered in the first quarter of 2010. The improvement reflected developments in the global economic conditions as exports of Lesotho's manufactured goods, textiles and clothing increased by 14.7 per cent during the review quarter. As a percentage of GDP, it rose to 55.9 per cent during the review quarter from 55.0 per cent recorded in the previous quarter. However, on an annual basis, merchandise exports plummeted by 10.1 per cent.

Merchandise Imports

During the quarter under review, merchandise imports, in seasonally adjusted terms, declined by 0.1 per cent compared with a rise of 0.1 per cent registered in the previous quarter. This emanated largely from deterioration in declarations at Border posts coupled with a fall in motor vehicle imports. As a percentage of GDP, merchandise imports fell to 86.7 per cent during the review quarter, from 88.2 per cent observed in the previous quarter. However, on an annual basis, merchandise imports grew by 12.0 per cent, reflecting improvements in the domestic expenditure relative to the global economic recovery.

Table 24: Value of Exports by Section of the S.I.T.C#

(Million Maloti)

COMMODITY	2009			2010	
	QII	QIII	QIV	QI*	QII+
0. Food & Live Animals	52.14	76.83	51.12	38.87	38.85
Cattle	0.0	0.05	0.03	0.01	0.10
Wheat Flour	14.32	23.21	18.04	13.94	12.24
Maize Meal	5.77	23.04	15.20	13.11	14.33
Other	32.05	30.53	17.85	11.81	12.18
1. Beverages & Tobacco	38.53	50.80	46.09	42.16	58.03
Beverages	38.53	50.80	46.09	42.16	58.03
2. Crude Materials	356.99	346.48	249.49	334.48	221.98
Textiles fibres	1.29	2.56	16.23	12.24	2.10
Of which Wool	1.13	0.74	15.86	12.17	2.01
Of which Mohair	0.16	1.82	0.37	0.07	0.01
Crude fertilizers & crude minerals	355.70	343.92	233.23	322.24	219.88
Of which Diamond	355.70	343.92	233.23	322.24	219.88
5. Manufactured Goods	46.35	51.36	39.86	88.71	69.26
Of which textiles yarn and fabric	41.19	25.30	14.04	71.62	51.06
Other manufactured goods	5.16	26.07	25.82	17.09	18.20
6. Machinery & Transport Goods	201.82	317.49	243.87	192.49	200.12
7. Miscellaneous Manufactured Goods	780.48	912.63	664.96	608.58	741.20
Of which clothing accessories	731.91	828.86	588.20	554.68	669.30
Other	48.57	83.77	79.76	53.90	71.90
8. Unclassified Goods	9.15	27.16	4.36	7.80	5.79
TOTAL EXPORTS	1485.46	1782.75	1299.75	1313.19	1335.23

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

During the quarter ending June 2010, the SACU region continued to be the largest recipient of Lesotho's exports with a share of 40.1 per cent while 37.2 per cent was registered in the quarter ending March 2010. The second largest destination of Lesotho's exports was the US market with a share of 40.0 per cent during the review quarter compared with 33.6 per cent observed in the previous quarter. A large portion of Lesotho's manufactured goods, particularly textiles and clothing is destined for the US. The third largest recipient of Lesotho's exports was European market where the bulk of Lesotho's diamonds is destined. Its share registered 16.8 per cent in the second quarter of 2010 compared with 27.0 per cent recorded in the previous quarter. The share of Lesotho's exports to Asian market recorded 1.8 per cent during the quarter, following 1.6 per cent in the previous quarter. The Oceania market remained insignificant with a share of 0.2 per cent during the second quarter of 2010.

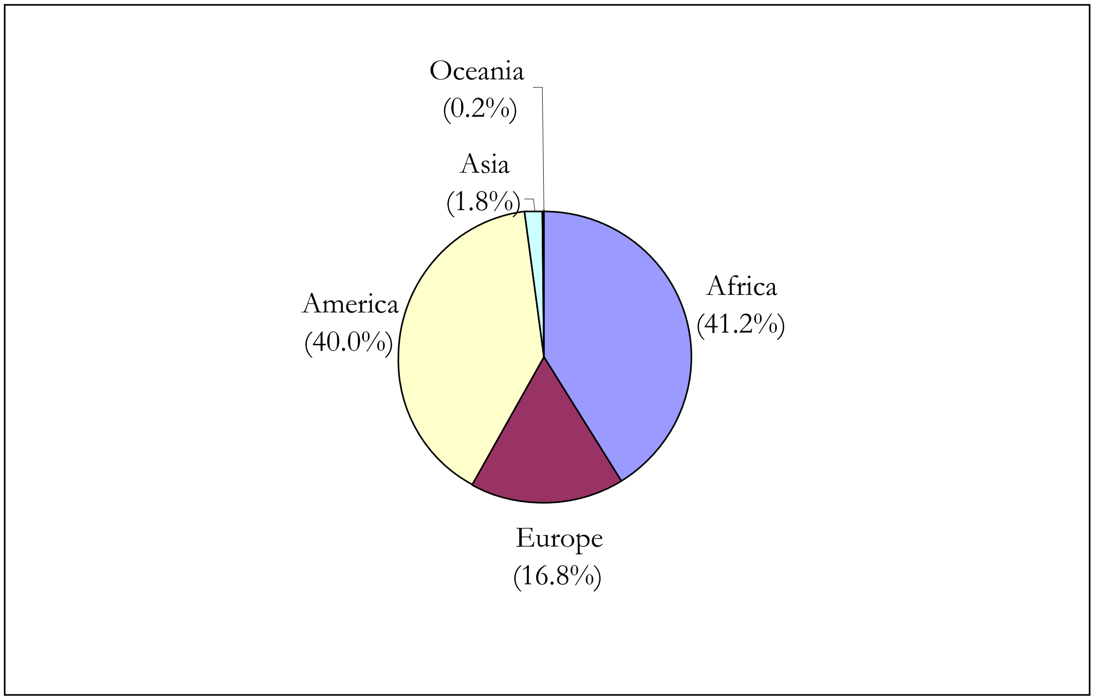
Table 25: Direction of Trade - Export and Re-Exports, f.o.b.

(Million Maloti)

Region	2009			2010	
	QII	QIII	QIV	QI*	QII+
World	1485.46	1782.75	1299.75	1313.19	1335.23
Africa	643.74	767.18	620.44	488.81	549.70
SACU	622.54	745.23	610.16	472.37	535.71
SADC	0.52	2.09	3.00	8.43	13.99
Other	20.68	19.86	7.28	8.01	0.00
Europe	358.29	348.90	236.65	355.18	223.73
EC	358.29	348.90	236.65	334.87	223.73
America	477.52	663.49	436.94	441.54	535.12
Asia	3.63	2.68	3.65	20.90	24.07
Oceania	2.28	0.51	2.07	6.76	2.61

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

Figure 21: Direction of Merchandise Exports



Services Account

The services account indicated a net inflow for the first time in the quarter under review, largely due to improvement in the travel receipts. The improvement in services account was also supported by decline in payments to Lesotho's embassies abroad. The net services registered an inflow of M34.0 million in the second quarter of 2010, following an outflow of M101.2 million recorded in the first quarter of 2010.

Travel

During the quarter under review, international travel services registered a net inflow equivalent to M161.1 million following a net inflow of M71.0 million realised in the previous quarter. An increase in net travel services emanated from, among other factors, a rise in personal expenditure by expatriates in Lesotho and a fall in payments to Lesotho's embassies abroad. The value of international receipts rose by 89.6 per cent to M190.5 million during the review period, while the value of international travel payments remained unchanged during the quarter.

Income

In the second quarter of 2010, net income declined by 20.8 per cent, following a fall of 11.9 per cent registered in the first quarter of 2010. The fall was attributed largely to the drop in labour income coupled with a decrease in investment income.

Labour income
During the quarter ending June 2010, labour income fell by 26.2 per cent, following a decline of 9.9 per cent recorded in the quarter ending March 2010. The deterioration of labour income could be attributed to a drop in miners' remittances on the back of decrease in the number of Basotho migrant mineworkers in SA mines, despite the improvements in the international prices of gold and platinum which could sustain profitability of mining sector in SA. Furthermore, high payments to services by expatriates during the quarter contributed to the drop in labour income. On an annual basis, labour income plummeted by 35.9 per cent.

Investment Income

Net investment income rose by 14.9 per cent to net inflows of M112.0 million in the second quarter of 2010, from the net inflow of M97.5 million realised in the first quarter of 2010. The improved performance was largely on account of a drop in payments of interests on foreign loans to the Government of Lesotho.

Investment income inflows dropped by 0.7 per cent to an inflow of M131.6 million during the quarter under review, from M132.7 million registered in the previous quarter. The decline resulted from a fall in returns from CBL investments abroad. Investment income outflows also recorded a lower outflow of M19.7 million in the second quarter of 2010, following M35.2 million observed in the first quarter of 2010, due to decrease in distributed earnings.

Current Transfers

In the quarter ending June 2010, current transfers, in seasonally adjusted terms, declined by 57.3 per cent to M528.2 million, from M1.2 billion registered in the previous quarter. The poor performance is attributable from the fall in SACU non-duty receipts which fell significantly by 67.4 per cent. In addition, an increase in payments of subscriptions to international organisations contributed to the fall in current transfers. On an annual basis, current transfers decreased by 53.3 per cent.

Capital and Financial Account

The net capital and financial account displayed an inflow during the quarter ending June 2010. It recorded an inflow equivalent to M387.4 million in the second quarter of 2010, from an outflow of M59.2 million recorded in the first quarter of 2010. The observed performance was underpinned by a rise in capital transfers to government coupled with commercial banks' foreign liabilities which registered an inflow of M146.2 million compared with an outflow of M247.9 million observed in the previous quarter.

Table 26: Capital and Financial Account

(Million Maloti)

	2009			2010	
	QII	QIII	QIV	QI*	QII+
I. Capital and Financial Account	607.24	-501.78	1303.29	-59.24	387.38
Capital Account	6.70	47.30	169.30	150.00	509.90
Financial Account	600.54	-549.06	1133.99	-209.24	-122.52
Special Financing – LHWP	45.21	22.88	30.36	55.11	36.20
II. Reserve Assets	70.01	875.49	-368.88	216.18	928.04

* Revised estimates
\+ Preliminary estimates

Reserve Assets

Gross reserves fell by 11.4 per cent to M7.2 billion during the review quarter compared with a fall of 2.6 per cent to M8.1 billion realised in the quarter ending March 2010. In line with poor performance in gross reserves, the months of import covered declined to 5.9 during the review period, from 6.7 months recorded in the previous quarter.

Figure 22: Reserve Assets

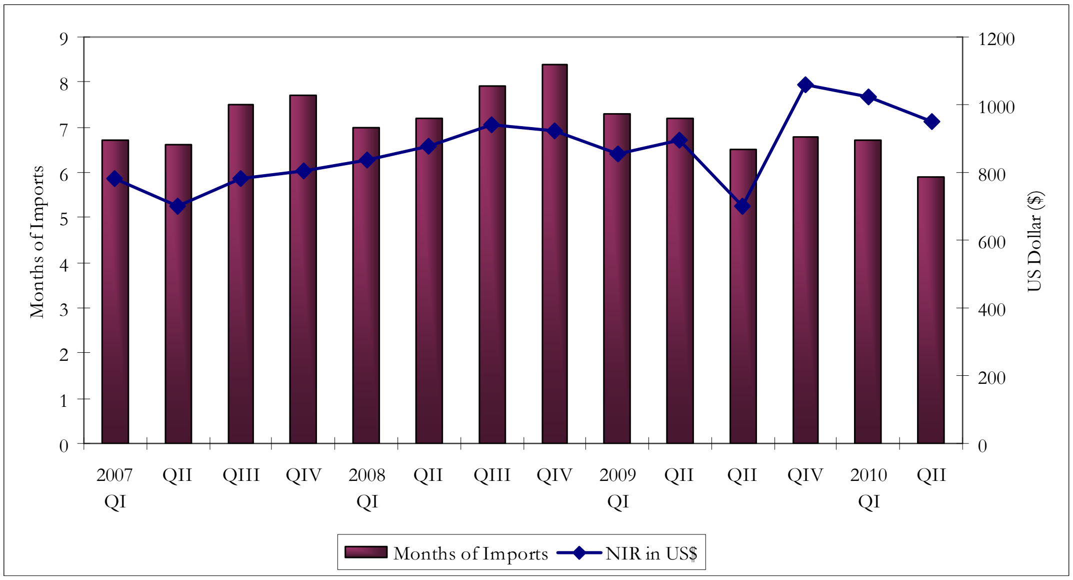
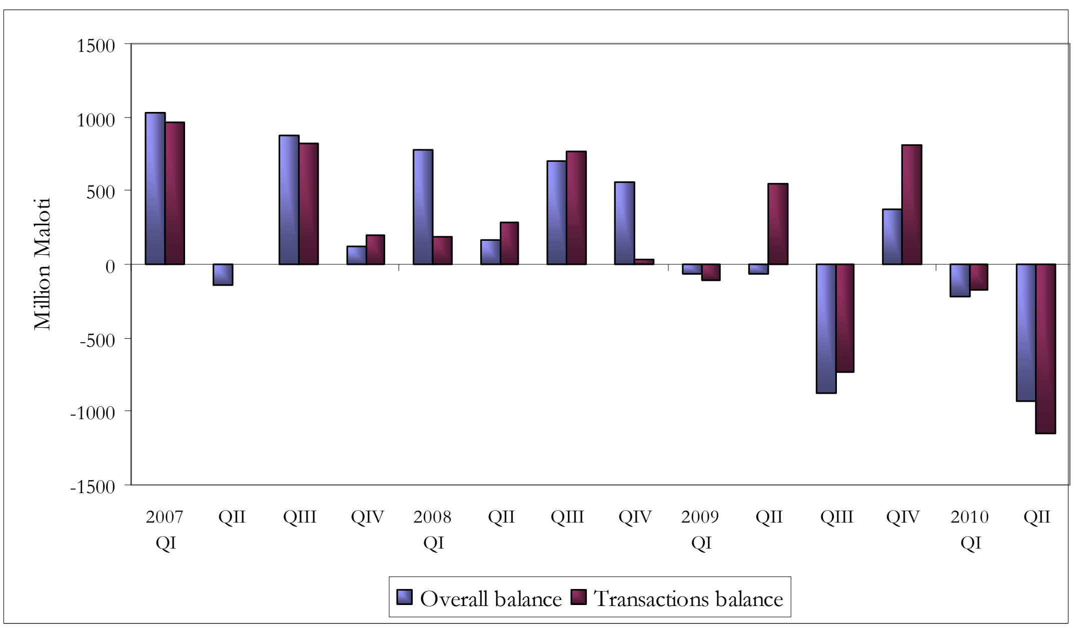


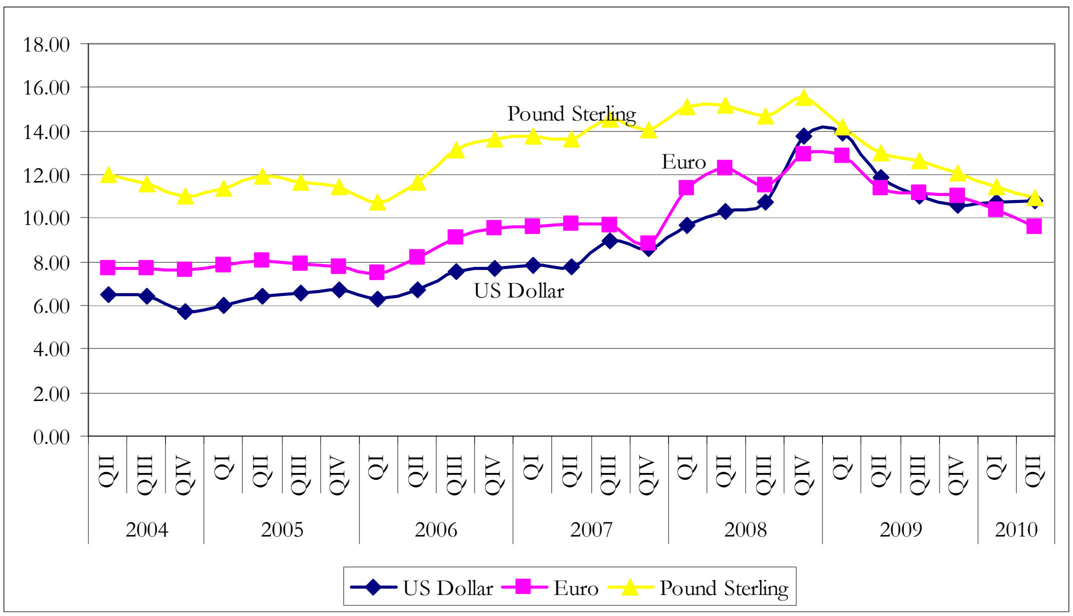
Figure 23: Balance of Payments



Exchange Rates

In the quarter ending June 2010, the Loti, which is at par with the Rand, weakened against the US Dollar, but strengthened against the Euro and Pound Sterling. On quarterly average, and in nominal terms, the loti depreciated by 0.6 per cent to M7.54 during the quarter under review. The weakness of the local currency resulted from among other factors, the impact of increased global risk aversion related to European debt which seemed to affect volatility of the US Dollar and Euro exchange rate. Against the Euro and Pound Sterling, the Loti appreciated by 8.3 per cent to M9.60 and 4.2 per cent to M11.25, respectively. In real terms, the local currency depreciated to M10.77 against the US Dollar, while against the Euro and Pound Sterling appreciated to M 9.59 and M10.97, respectively.

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



STATEMENT OF MONETARY POLICY COMMITTEE

6 April 2010

1. Introduction

On 6 April 2010, the Monetary Policy Committee (MPC) of the Central Bank of Lesotho (CBL) convened for its 25th meeting. The Committee discussed economic and financial developments in international, regional and domestic markets with a view to assess likely impact on domestic inflation outlook. The goal of MPC is to formulate and monitor the implementation of monetary policy of achieving price stability. This goal is consistent with the overall objective of the Bank as stipulated by the Central Bank Act (2000); which is to achieve and maintain price stability, and to support government policy of improving economic development.

2. Inflation Developments

The Committee observed that the rate of inflation was 4.3 per cent on annual basis in February 2010. The rate of inflation has remained steady around this level since October 2009, after it had declined from 4.7 per cent in September. Major components of the consumer price index (CPI) remained subdued in the recent months. Annual food inflation recorded 3.5 per cent in February 2010, after reaching a low point of 3.2 per cent in December 2009. Bread and cereals, which accounts for 22 per cent in the CPI basket and 57.3 percent of the food component, registered less than one percent inflation in December 2009 and 1.2 per cent in February 2010. Other major components of the CPI, such as 'clothing and footwear' and household furnishings, equipment and routine maintenance, recorded an annual price increase of roughly 5 per cent in February 2010.

Latest figures show that Lesotho's inflation rate is the lowest in the Common Monetary Area (which includes Namibia, South Africa and Swaziland). South Africa's inflation stood at 5.7 per cent in February 2010, while Swaziland recorded 5.4 per cent annual inflation rate during the same month. Subdued food inflation and relatively steady fuel prices appear to be the major contributors to the generally flat inflation trend in the recent months.

3. Prospects for the Maintenance of Price Stability

The balance of payments and government budgetary operations positions remained as observed by the Committee at its February 2010 meeting due to lack of new data.

a. Balance of Payments

The current account balance deteriorated to a deficit equivalent to 14.5 per cent of GDP during the fourth quarter of 2009, following surpluses in the preceding three quarters of the year. However, official reserves improved to 6.8 months of import cover in the last quarter of 2009 from the 6.5 month of imports recorded in the third quarter of 2009. The growth was influenced by an improvement in the capital and financial account.

b. Fiscal Balance Outlook

Government budgetary operations recorded a surplus equivalent to 9.9 per cent of GDP in the quarter ended December 2009. This indicated that the government financial position remained strong during the year 2009. The second and third quarters of the year also showed a combined surplus, implying that government expenditure remained below budget during the period. This outcome is favourable for the inflation outlook.

4. Monetary Policy Stance

The Net International Reserves (NIR) of the Central Bank of Lesotho continued to perform well against the target minimum set by the Committee. It recorded USD1.0 billion on 18 March 2010 against the target of USD700 million. The Committee concluded that the monetary policy target of adequate foreign reserves continue to be achieved, and decided to keep the NIR target unchanged at USD650-700 million.

M. P. Senaoana (PhD)
GOVERNOR

6 April 2010

VII. Statistical Tables