CENTRAL BANK OF LESOTHO

QUARTERLY REVIEW

SEPTEMBER, 2010

VOLUME XXIX, NO. 3

MASERU
KINGDOM OF LESOTHO

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I. Introduction

During the third quarter of 2010, economic recovery in major economies continued to be dominated by uncertainty. Though the world economy continues to grow, uncertainty surrounding sustainability of global recovery remains. Most advanced economies experienced moderate growth as consumers and businesses in those countries repair their balance sheets after the major economic downturn. On the other hand, emerging and developing markets are projected to have recorded a relatively strong performance compared to advanced economies. The overall macroeconomic policy in advanced economies remains accommodative with interest rates unchanged at historically low levels in an endeavour to foster economic recovery.

The United States (US) is projected to have registered a marginal increase in growth during the review quarter compared to the previous quarter. According to preliminary estimates, real Gross Domestic Product (GDP) rose by 2.0 per cent in the third quarter of 2010 compared to 1.7 per cent realised in the second quarter of 2010. Moderate growth was mainly on account of a sharp deceleration in imports in the wake of weak US dollar against other currencies. The increase in private inventory investment and private consumption expenditures also improved the performance of the US economy. However, a downturn in residential fixed investment and deceleration in non-residential fixed investment and exports moderated the growth of the US economy. This moderate growth was not adequate to create jobs. Unemployment continued to remain a major concern in the economy. In the wake of high unemployment rate and relatively weak consumer demand, US inflation remained subdued during the quarter.

The sovereign debt crisis that erupted in Europe and high levels of unemployment in the Euro area threatened the European financial system and the broader recovery. Although buoyant domestic demand and external trade conditions in some countries in the Euro Zone have subsequently underpinned growth, the fragile labour and housing markets are creating uncertainties regarding the sustainability of current economic conditions. The Euro area is therefore still experienced modest growth during the review quarter. Industrial production rose by 0.3 per cent in September 2010, reflecting recovery in economic activity of the euro zone. Needless to say, unemployment rate in the euro zone rose marginally during the review quarter.

Emerging markets and developing economies continue to display robust economic growth during the quarter. China and India remained on the lead supported largely by the growth of exports. Commodity prices remained strong, providing support to economic activity in resource-rich countries geared to make use of the favourable export opportunities, including many African countries. Nevertheless, the strengthing of emerging and developing markets currencies in the wake of capital inflows into the regions poses a serious threat to the recovery in the regions as it reduces export competitiveness.

In South Africa (SA), preliminary estimates indicate a further increase in economic activity during the review period. Both mining and manufacturing sectors are set to have boosted the performance of the economy. In addition, retail trade sales showed improvement. Inflation continued on a downward trend declining by 100 basis points to 3.2 per cent during the review quarter. In line with low inflation environment and relatively weak economic activities, the SA Reserve bank's (SARB) Monetary Policy Committee reduced repurchase rate by 50 basis points to 6.0 per cent during the quarter ending in September 2010.

The domestic economic activity continued on a recovery path during the quarter under review. Primary sector improved as mining productivity continue to benefit from increasing diamond prices in the global markets. The secondary sector also improved during the review period. Both water and electricity consumption rose on annual basis during the review period compared to substantial growth registered in the previous quarter. Tertiary sector also improved during the quarter. Value of sales turnover rose substantially in September 2010 compared to the previous quarter. The increase reflected low inflation environment.

In the labour market, employment in Lesotho National Development Corporation (LNDC)-assisted companies increased during the quarter. However, employment in the public sector and migrant mine worker's in the SA mines declined.

In line with regional developments, the domestic inflation continued to decline during the quarter. It fell by 60 basis points to 3.2 per cent at the end of the quarter ending in September 2010. The decline was mainly driven by weak domestic demand conditions and further appreciation of the foreign exchange rate of Rand/Loti.

In terms of monetary and financial developments, money supply increased by 5.8 per cent in the third quarter compared with 1.2 per cent in the previous quarter. On annual basis, broad money recorded an increase of 2.3 per cent in September 2010. The increase in money supply was largely driven by credit extended to the private sector, which rose by 11.9 per cent during the third quarter of 2010.

Domestic interest rates declined moderately during the review period. Domestic interest rates remained in line with trends in South Africa during the first nine months of the year. The key interest rate, the 91-day Treasury bill rate, fell from 6.66 per cent at the end of 2009 to 5.91 per cent in September 2010. Domestic prime lending rate declined by 11 basis points to 11.08 per cent while the SA counterpart remained constant at 10.0 per cent.

In the public sector, government budgetary operations are estimated to have recorded a surplus equivalent to 7.0 per cent of GDP during the review period compared to a deficit equivalent to 20.8 per cent of GDP in the previous quarter. The surplus was mainly on account of massive increase, of about 60.0 per cent, in total receipts against a decline of 4.7 per cent in government expenditures and net lending. The increase in government receipts was largely on account of Southern African Customs Union (SACU) arbitral award to the tune of M466.1 million in addition to the normal quarterly allocation to the country. In addition, non-tax revenue grew significantly during the quarter largely driven by dividends payment by the Central Bank of Lesotho (CBL). Recurrent expenditures continue to constitute the largest share of the total expenditures; about 77.0 per cent during the quarter.

The stock of public debt fell by 2.1 per cent on a quarterly basis compared with a decline of 0.8 per cent recorded in the previous quarter. The decline in total debt was largely due to a fall in external debt; external debt stock fell by 5.5 per cent. The decline in stock of total debt was attributable to the appreciation of the domestic currency against major currencies. As a percentage of GDP, total debt registered 34.5 per cent. Lesotho continues to meet the

Southern African Development Community (SADC) convergence criteria of the debt to GDP ratio of less than 60 per cent.

The external sector position improved during the review quarter. The overall balance showed a deficit equivalent to M342.1 million, in seasonally adjusted terms, compared with a deficit of M928.0 observed in the pervious quarter. The improvement was mainly at the back of current account improvements, particularly substantial growth of current transfers as a result of a rise in SACU non-duty receipts during the quarter. On the other hand, net capital and financial account displayed a lower inflow of M147.3 million compared with M423.2 million in the previous quarter. Gross reserves declined by 4.8 per cent to M6.8 billion in the review quarter following a fall of 11.4 per cent observed in the previous quarter. In months of import cover, gross reserves fell to 5.6 months in the quarter ending September 2010, compared with 5.9 months in the previous quarter.

II. International Economic Developments

The preliminary global economic indicators exhibited a continuing recovery with moderate momentum during the quarter ending in September 2010. In the advanced economies, economic growth remained moderate as consumers and businesses in those countries repair their balance sheets after the economic downturn.. Although the emerging markets are generally recovering faster than advanced economies they slowed down slightly during the third quarter of 2010.

United States (US)

Preliminary estimates indicate that the pace of recovery in economic activity in the US improved during the quarter ending September 2010. Real Gross Domestic Product (GDP) rose by 2.0 per cent in the third quarter of 2010, following a revised 1.7 per cent realised in the second quarter of 2010. The increase reflected positive contributions from consumer spending, which accounts for two-thirds of economic activity, government expenditure, private inventory investment, non-residential fixed investment coupled with real exports of goods and services. However, weak labour market conditions pose a threat to the economy.

Inflation rate in the US remained unchanged at 1.1 per cent in June and September 2010. The low inflation in the US continues to reflect sluggish consumer demand and weak global economic recovery. The unemployment rate rose marginally to 9.6 per cent in September 2010, from 9.5 per cent realised in June 2010. This was driven by a fall in government employment, reflecting the drop in the number of temporary jobs after 2010 Census. As a result of continuing economic recovery, albeit slowly, the Federal Reserve Bank's Open Market Committee (FOMC) decided to leave 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	
	QII	QIII	QII	QIII	QII	QIII	QII	QIII
China	10.30	9.60	2.90	3.60	5.31	5.31	4.20	4.10
Euro area	1.70	1.90	1.40	1.80	1.00	1.00	10.00	10.10
India	8.90	8.90	13.73	9.82	3.75	5.00	N/A	N/A
Japan	0.40	0.90	-0.70	-0.60	0.10	0.10	5.30	5.00
South Africa	3.0	2.6	4.20	3.20	6.50	6.00	25.2	25.3
United States	1.70	2.0	1.10	1.10	0.25	0.25	9.50	9.60

Source: Bloomberg, The Economist, STATSSA and SARB

Euro-zone[1]

The economic indicators in the euro area displayed a modest improvement during the third quarter of 2010. Real GDP grew by 1.9 per cent during the third quarter of 2010, following the growth of 1.7 per cent realized in the second quarter of 2010. The main contributor to the growth was domestic demand together with small positive contribution of net exports. The improvement suggested that the recovery in the euro area although fragile remains on track.

In the labour market front, the harmonised unemployment rate in the euro zone rose marginally to 10.1 per cent in September 2010, following 10.0 per cent observed since March 2010. The highest unemployment rate was recorded in three member states; Spain, Slovakia and Ireland. Inflation, measured by changes in the Harmonized Index of Consumer Prices (HCIP), rose to 1.8 per cent in September 2010 from 1.4 per cent realised in June 2010. The

[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.

main drivers of the rise were high prices in transport, alcohol and tobacco and housing. The rate remains below the target rate of 2.0 per cent set by European Central Bank (ECB).

The ECB kept its benchmark lending rate unchanged at 1.0 per cent in the review quarter, so as to maintain price stability over the medium term, thereby supporting the sustainable economic growth, job creation and financial stability.

South Africa (SA)

Real GDP in SA grew by 2.6 per cent in the third quarter of 2010, lower than the growth of 3.1 per cent registered in the second quarter of 2010. The slower growth was largely underpinned by positive performance of mining and quarrying industry together with manufacturing industry which rose by 6.5 per cent and 4.4 per cent during the review quarter. In addition, a rise in transport, storage and communication industry supported performance of the economy during the period.

Unemployment rate in SA accelerated to 25.3 per cent during the quarter ending September 2010 from 25.2 per cent in June 2010. This emanated largely from the fall in employment in community and social services. Inflation rate, measured by headline CPI, decelerated by 3.2 per cent in September 2010 following 4.2 per cent recorded in June 2010. The main drivers behind the fall were food and non-alcoholic beverages, transport and miscellaneous goods and services. The strength of the currency is also easing inflationary pressures. At this rate, inflation is within the target range of 3 to 6 per cent set by the South Africa Reserve Bank (SARB). SARB's Monetary Policy Committee decided to reduce repo rate by 50 basis points to 6.0 per cent in September 2010.

Emerging Asian Markets and Japan

China

Economic growth in China posted a slower growth in the third quarter of 2010. Real GDP in China grew by 9.6 per cent in the quarter ending September 2010, lower than 10.3 per cent recorded in the second quarter of 2010. Deterioration of China's economic growth resulted from a reduction in inventory investment, auto production and home appliance consumption. However, exports growth remained strong at 25 per cent in the quarter ending September 2010.

Unemployment rate declined marginally to 4.1 per cent in the quarter ending September 2010 from 4.2 per cent recorded in the second quarter of 2010. This was below the target rate of 4.6 per cent determined by the Government of China. CPI inflation increased to 3.6 per cent in the third quarter of 2010 compared with 2.9 per cent in the second quarter of 2010, led by increases in food and housing prices. The People's Bank of China kept the one year benchmark lending rate unchanged at 5.31 per cent during the quarter under review

Japan

Preliminary estimates of economic growth in Japan indicate improvement during the review quarter. Japan's GDP growth rose by 0.9 per cent in the quarter ending September 2010, higher than the growth of 0.4 per cent observed in the second quarter of 2010. This was supported by good performance of domestic demand which was underpinned by government subsidies. Furthermore, an increase in private residential investment also supported the economic growth in Japan. However, exports decelerated slightly due to the appreciation of the Yen during the period.

Unemployment rate in Japan fell to 5.0 per cent in the period ending September 2010, from 5.3 per cent in June 2010. This indicated that the job market improved even as the economy was threatened by strong yen. Inflation rate in Japan was down to -0.6 per cent in September 2010, compared with -0.7 per cent recorded in June 2010. The Bank of Japan (BOJ) left its key interest rate unchanged at 0.1 per cent in the quarter ending September 2010. The key interest rate has been at this level since December 2008.

India

Economic growth in India is estimated to have grown by 8.9 per cent during the third quarter of 2010. The growth rate was similar to the rate recorded in the previous quarter. The performance was driven by industrial and agricultural sectors which rose by 9.2 per cent and 4.4 per cent, respectively, while mining and energy sectors grew by 8.0 per cent and 3.4 per cent, respectively. In addition, exports continued to expand by 23.2 per cent in September 2010, reflecting sustained economic recovery in India.

Inflation rate in India decelerated to 9.8 per cent in the quarter ending September 2010, from 13.7 per cent observed in June 2010. Regardless of ease in inflation during the period, The Reserve Bank of India raised the benchmark repurchase rate to 5.0 per cent in September 2010 from 3.75 per cent.

Commodity Prices

Overview

The price of Gold in US Dollar terms continued on an upward trend during the quarter ending in September 2010 irrespective of weakness of the global economy, while platinum declined for the first time since the fourth quarter of 2008. In Maloti terms, they both fell as a result of strengthening of the Rand against the dollar during the review quarter. The appreciation of the Rand is expected to have negative spill over effects on SA's exports. The price of crude oil, both in US Dollar and Maloti terms, continued to deteriorate during the review quarter.

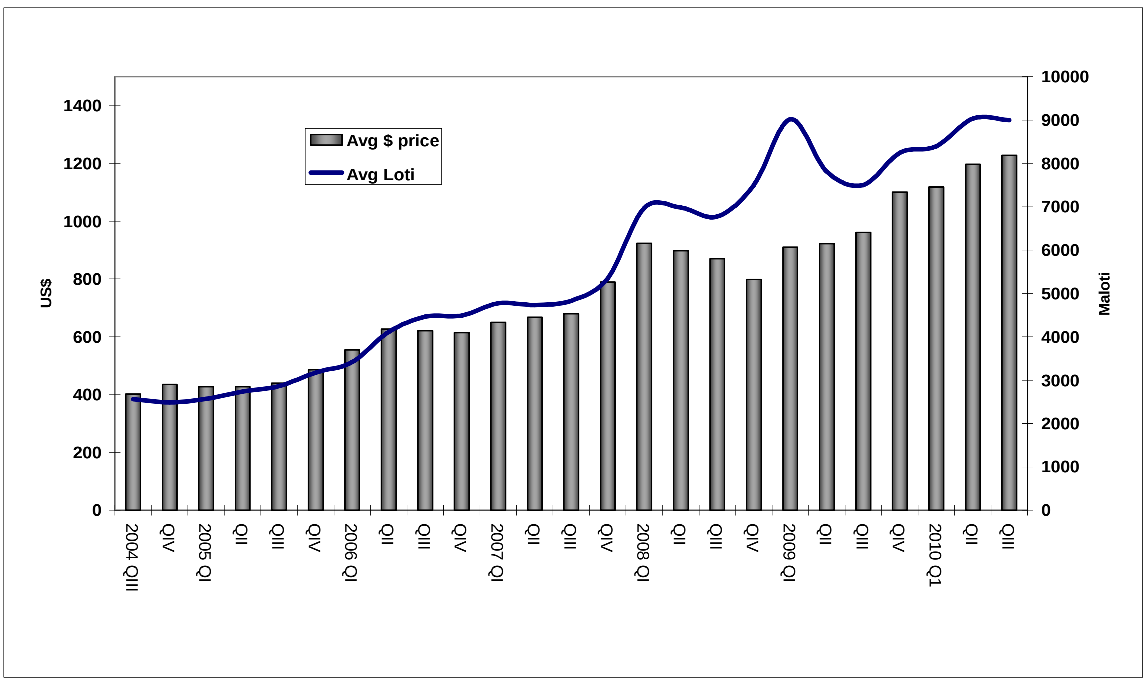
Prices of agricultural products prices in the international market depicted acceleration during the third quarter of 2010. This resulted from the shortages of cereals due to a fall in production on the back of bad whether conditions in most of cereals producing countries. Some experienced excessive rains and floods while others experienced dryness and wild fires.

Mineral Products

Gold

The average price of gold rose by 2.6 per cent to US$1 227.8 per ounce during the review period compared with a rise of 6.9 per cent recorded in the previous quarter. In Rand terms, the average price of gold declined by 0.4 per cent to M8 999.7 per ounce in the review quarter, in contrast with a rise of 7.6 per cent in the quarter ending June 2010, mainly due to appreciation of the Rand during the review quarter.

Figure 1: Average Price of Gold

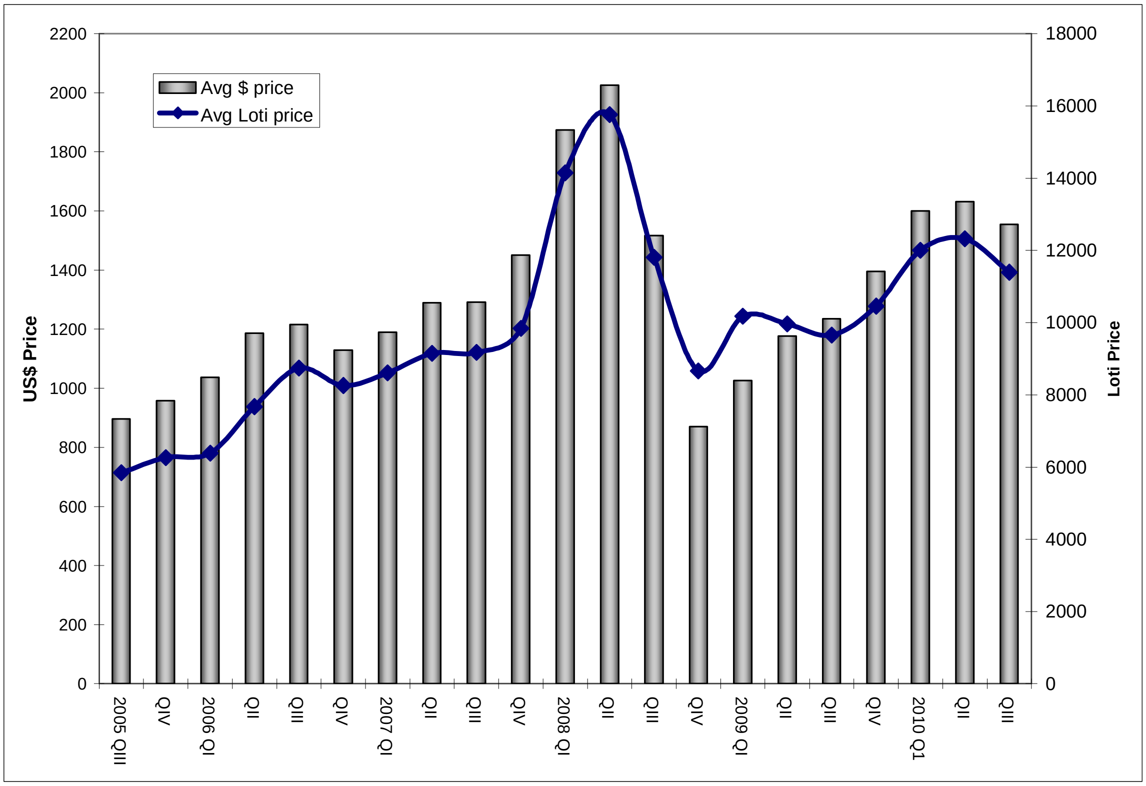


Source: Bloomberg

Platinum

In US Dollar terms, the average price of platinum plummeted by 4.7 per cent to US$1 554.8 per ounce in the third quarter of 2010 compared with a rise of 1.9 per cent in the second quarter of 2010. In Rand terms, the average price of platinum fell by 7.5 per cent to M11 396.9 per ounce during the same period, in contrast with an increase of 2.6 per cent registered in the second quarter.

Figure 2: Average of Price of Platinum



Source: Bloomberg

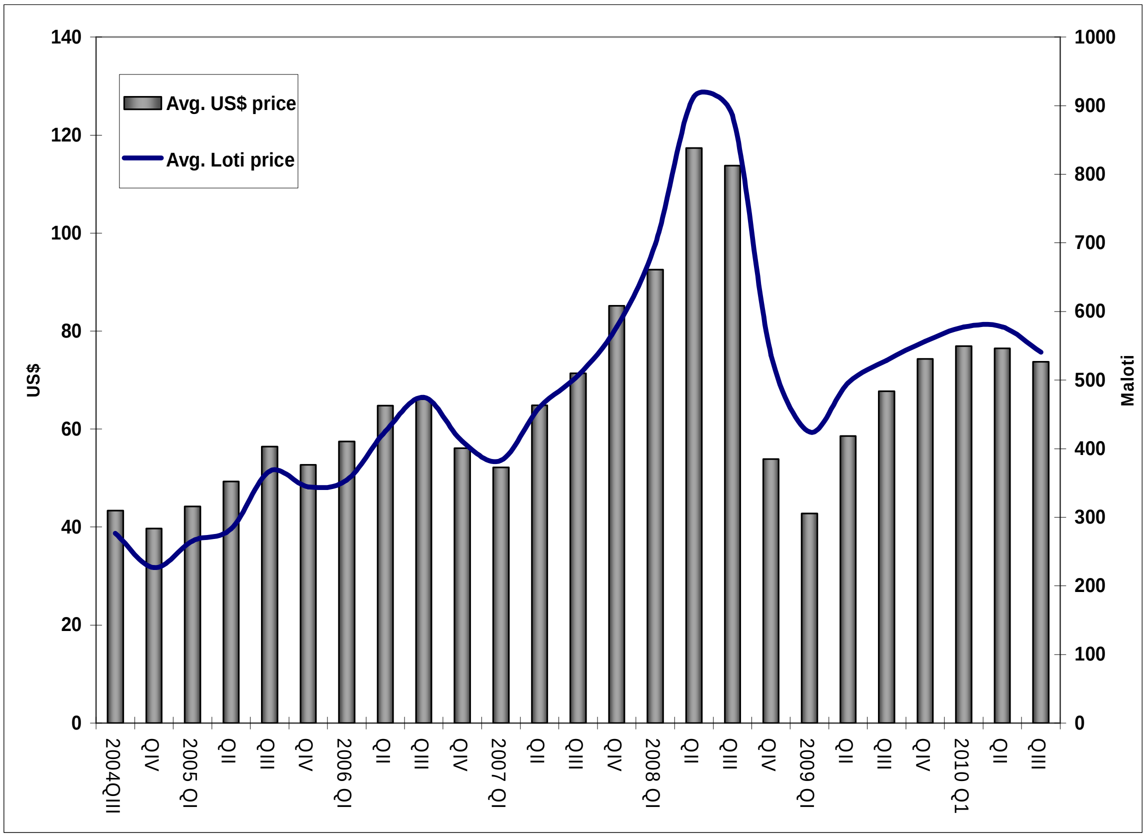
The improvement in the international price of gold during the quarter could dampen the effect of the strengthening Rand against the US Dollar and encourage SA gold mines to maintain their production at current levels.

Oil

During the quarter under review, the average price of crude oil, in US dollar terms, declined by 3.5 per cent to US$73.7 per barrel, following a drop of 0.6 per cent in the previous quarter. In Maloti terms, the average price of crude oil fell by 6.4 per cent to M540.7 per barrel in the review quarter in contrast with a rise of 0.04 per barrel realised in the previous quarter

In line with the 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 September 2010. Prices of petrol and diesel closed the review quarter at M6.80 and M7.30 per litre, while illuminating paraffin declined to M4.95 per litre.

Figure 3: Average Price of Oil



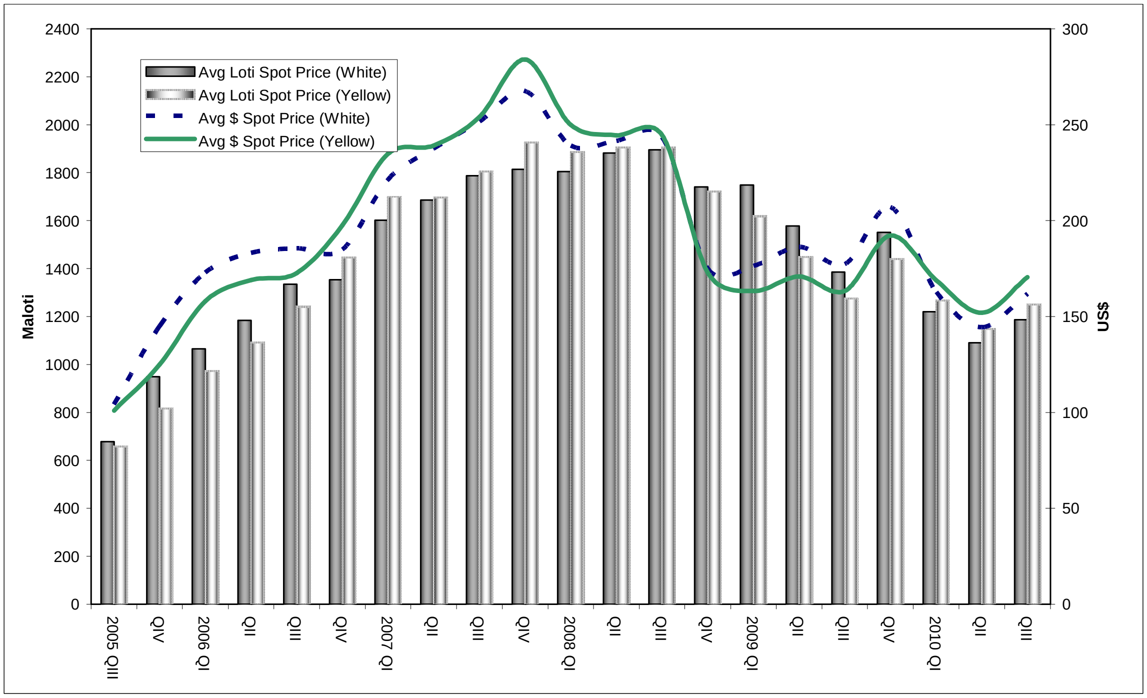
Source: Bloomberg

Agricultural Products

Maize

The average price of white and yellow maize, in US Dollar terms, grew by 12.1 per cent to US$161.9 per tonne and 12.3 per cent to US$170.6 per tonne during the review quarter, compared with a fall of 10.6 per cent and 8.9 per cent realised in the previous quarter. In Maloti terms, the average price of white and yellow maize also rose by 8.8 per cent to M1 187.0 per tonne and 9.0 per cent to M1 250.2 per tonne in the review period following a fall of 11.2 per cent and 10.1 per cent observed in the previous quarter. This is the first increase since December 2009. If the observed performance is sustained, it may be indication that food inflation will pick up in the next few months.

Figure 4: Average Spot Price of Maize

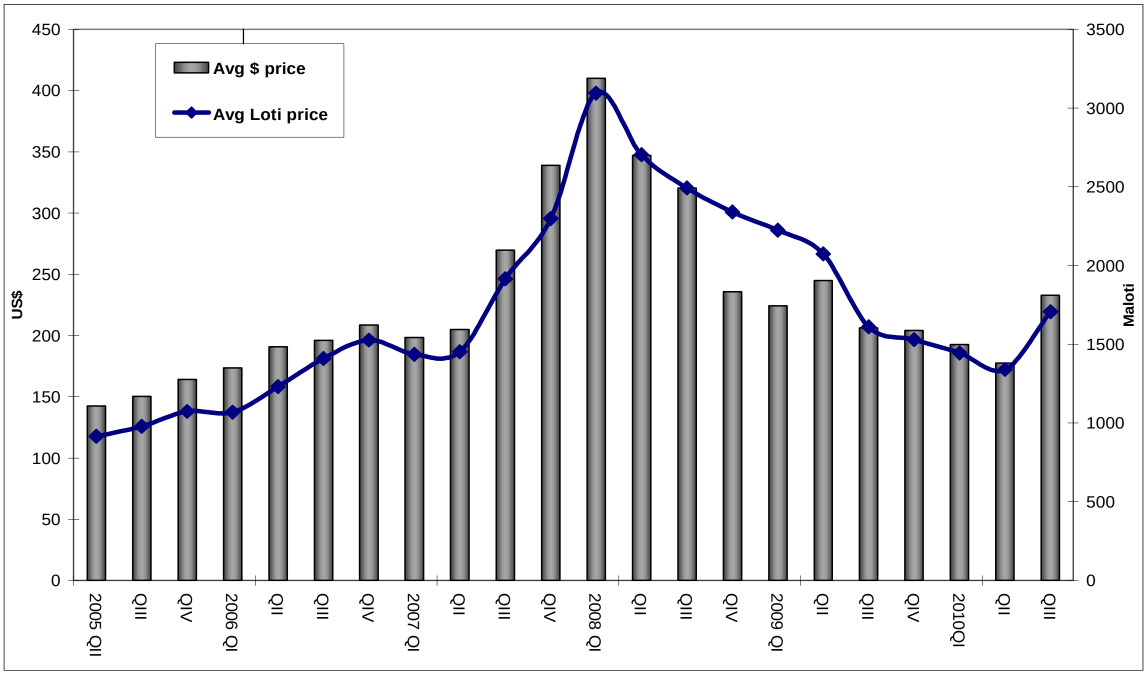


Source: Bloomberg

Wheat

During the quarter under review, the average spot price of wheat in US Dollar terms rose by 31.2 per cent to US$232.9 per tonne compared with US$177.5 per cent recorded in the quarter ending June 2010. In Maloti terms, the average spot price also grew by 27.4 per cent to M1 707.3 per tonne during the review period, in comparison with M1 340.0 per tonne observed in the previous quarter.

Figure 5: Average Spot Price of Wheat



III. Real Sector, Employment and Price Developments

Overview

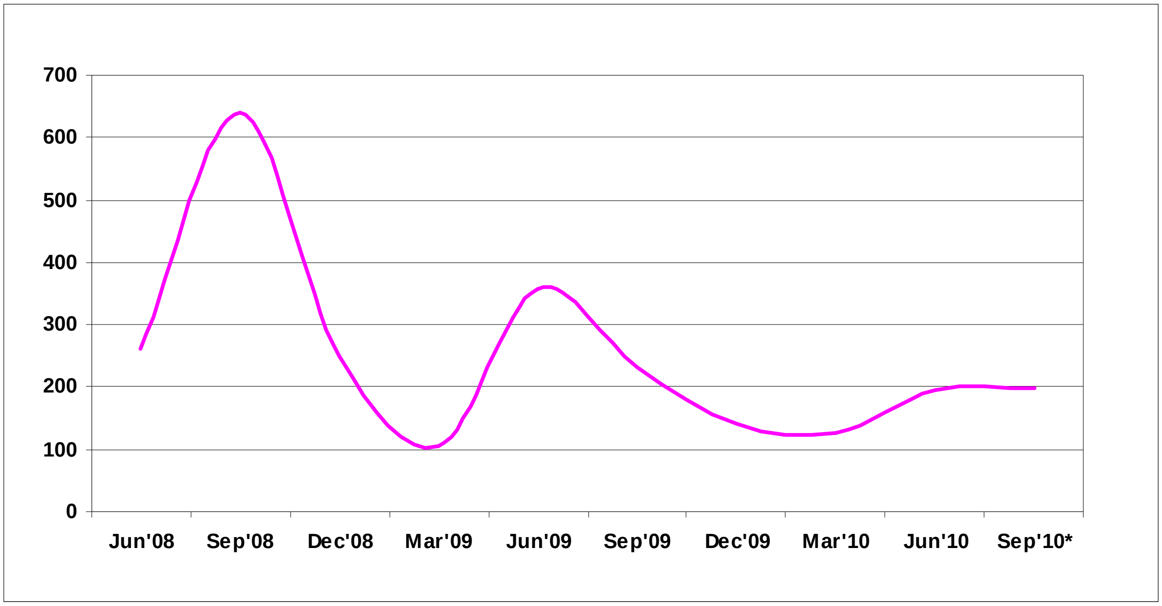
The domestic economy continued to show some signs of recovery in the review period. Economic activity in the primary sector improved as mining production increased. Secondary sector developments were also positive, with improved consumption of electricity and water, particularly by the industries. In addition, tertiary sector improved in the third quarter of 2010. Employment developments improved 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 197.0 percentage points during the third quarter of 2010 from 194.5 percentage points recorded in the previous quarter. This improvement is largely driven by continued better performance by Lets'eng and the commencement of production by Mothae diamond mine. Mothae and Lets'eng mines made two exceptional diamonds recoveries in June and August respectively. The former recovered 53.4 carat white type IIA diamond, while the latter recovered 196 white diamonds. The mining sector in Lesotho seems to be on a recovery path, however, the sustainability of the global economic recovery remains a challenge.

Figure 6: **Diamond Production Index**

(2005: QI=100)



Source: Department of Mines and Geology
*Preliminary estimates

Secondary Sector Developments

Electricity Consumption

Electricity consumption increased by 6.3 per cent during the quarter under review compared to a substantial increase of 16.0 per cent in the previous quarter. Notable increases were observed in the commercial and industrial categories. The general purpose category also recorded a positive growth during the quarter under review, following a small decline in the previous quarter, as most schools' sessions resumed. On the contrary, electricity consumption by the domestic category declined during the quarter under review. On an annual basis, electricity consumption increased by 5.9 per cent compared to a smaller 0.3 per cent decline observed in the previous quarter. The overall improvement is largely driven by recovery of the manufacturing sector despite fragile global recovery.

Table 2: Electricity Consumption

(Million Maloti)

	2009		2010					
	QIV		QI		QII		QIII*	
	Kwh	Value	Kwh	Value	Kwh	Value	Kwh	Value
General Purpose	22.39	16.26	21.92	16.86	20.52	17.65	26.34	15.27
Domestic	42.95	28.69	39.35	26.29	48.63	34.13	40.91	29.53
Commercial & Industrial	68.86	33.58	71.06	31.86	84.42	38.20	95.95	55.62
Total	**134.2**	**78.54**	**132.34**	**75.02**	**153.57**	**89.98**	**163.21**	**100.41**

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

Water Consumption

Water consumption declined by a seasonally adjusted 8.6 per cent in the quarter under review compared to a larger decline of 18.9 per cent observed in the previous quarter. On an annual basis, water consumption increased by a seasonally adjusted 9.0 per cent. The fall in total water consumption is mainly driven by declines in domestic and other categories. On the other hand, industrial water consumption performed better, increasing by 18.8 per cent on an annual basis and remaining flat on a quarterly basis. This improvement in industrial water consumption is in line with the improved performance in clothing and textiles.

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

Source: Water and Sewerage Authority
*denotes seasonally adjusted figures

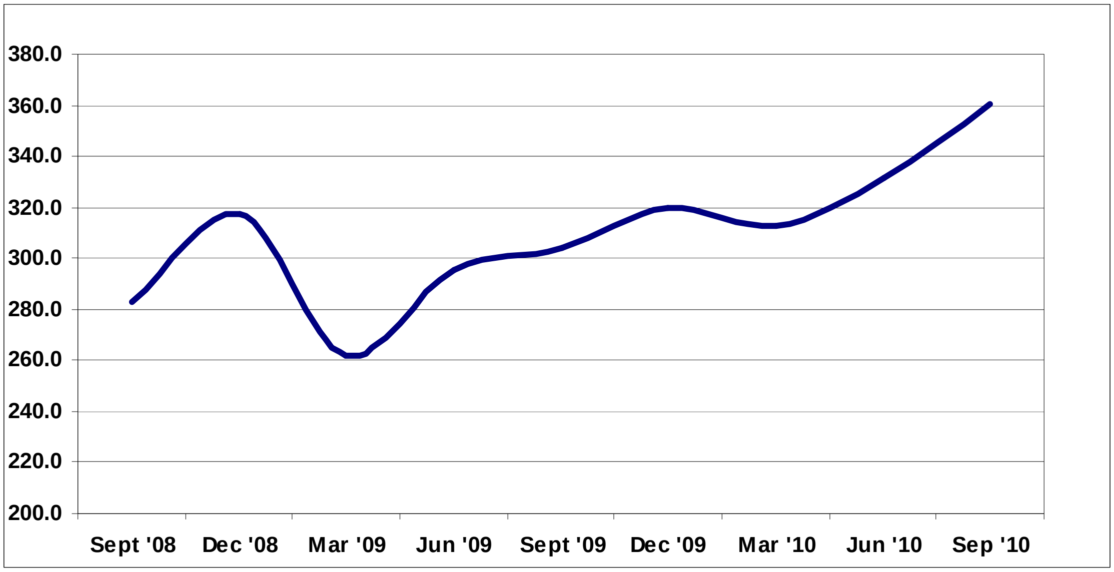
Tertiary Sector Developments

Sales Turnover

Sales turnover increased by 8.8 per cent in the quarter ending September 2010 compared with a 5.9 per cent increase recorded in the preceding quarter. On an annual basis, sales turnover increased by 18.7 per cent. The big increase was driven mainly by VAT on imports, particularly vehicles. The increase may be indicative of the improvement in consumer confidence, which bodes well for the general economic activity in the country.

Figure 7: Value of Sales Turnover

(Million Maloti)



Source: Lesotho Revenue Authority

Telephone Statistics

The total number of telephone calls increased by 1.4 per cent in the quarter ending in September 2010 compared with an increase of 3.1 per cent recorded in the preceding quarter. On an annual basis, however, the number of telephone calls declined by a modest 0.9 per cent compared with an increase of 10.3 per cent in the previous quarter. Nonetheless, the number of telephone calls declined by both seasonally adjusted 11.2 and 1.0 per cent, respectively, during the third quarter.

Table 4: Telephone Traffic Statistics

		SA Outgoing Calls	International Calls	Total Calls
2009				
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	2.16
	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

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

Investment Expenditure

Imported Motor Vehicles

In the third quarter, the number of imported motor vehicles increased by seasonally adjusted 20.3 per cent and 34.2 per cent on annual and quarterly basis, respectively. The major contributors to the increase in the number of imported motor vehicles include "Vans" and "Cars" categories, which increased by 26.7 and 12.8 per cent on quarterly basis, respectively. However, other categories declined. The overall increase in the number of imported vehicles was mainly driven by a notable increase in purchases of private vehicles whereas purchase of vehicles by the government sector declined.

Table 5: Motor Vehicle Imports+

(Value in Million Maloti)

		Cars	Vans	Trucks	Buses	Tractors	M/ Cycles	Trailers	Total
2009									
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
III	Value	464.4	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

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 4.1 per cent and 3.4 per cent on a quarterly and annual basis, respectively. Employment in textiles and clothing constitutes the largest share of employment in LNDC-assisted companies. The quarterly increase is mainly driven by increases in hotels and accommodation; woven garments; fabrics; and electronics categories. However, declines are recorded on knit garments; fabrics; food and beverages; and retail, on an annual basis. Employment in knit garments has been declining and the decline has been offset by employment in woven garments which has increased by 35.2 per cent compared to the third quarter of 2010. Overall, employment in textiles and clothing is expected to increase slowly in line with the current global economic recovery.

Table 6: Employment Trend of LNDC-Assisted Companies

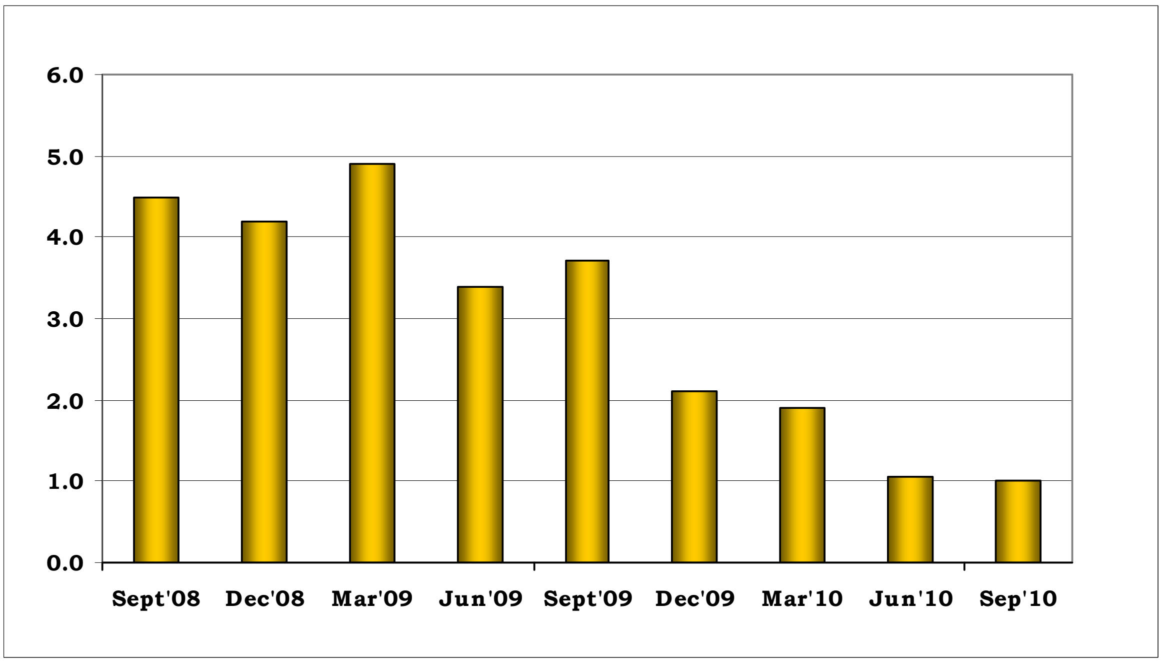
Industry	2009		2010		
	QIII	QIV	QI	QII	QIII*
Knit Garments	24 559	24 427	22 228	22 822	21 581
Woven Garments	13 588	13 443	13 677	15 433	18 366
Footwear	2 928	2 929	2 884	2 879	2 879
Fabrics, Yarn etc.	1 667	1 628	1 449	1 453	1 538
Construction	273	270	295	282	275
Food & Beverages	871	867	855	863	799
Electronics	1 349	1 358	1 456	1 577	1 650
Retail	165	165	150	122	126
Hotel & Accommodation	404	404	461	462	599
Other	895	895	643	486	487
TOTAL	**46 699**	**46 386**	**44 098**	**46 379**	**48 300**

Source: Lesotho National Development Corporation
*Preliminary estimates

The number of government employees declined by 0.4 per cent during the quarter ending September 2010, compared with the 0.02 per cent increase registered in the previous quarter. On an annual basis, public sector employment increased by 0.6 per cent in the third quarter of 2010. The category of civil servants registered a small annual increase of 0.3 per cent, whereas, teachers and daily paid categories registered declines of 0.1 and 0.9 per cent, respectively. The lower rate of increase in government employment may be as a result of efforts by Government to contain the wage bill.

Figure 8: Government Employment

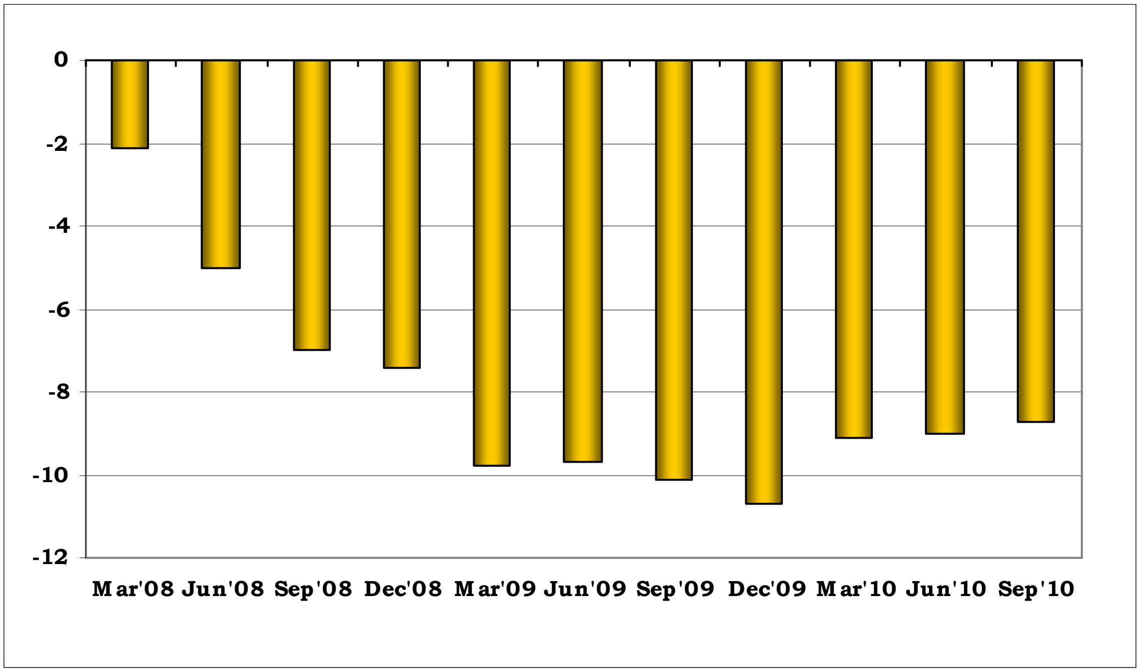
(Annual Percentage Change)



The number of migrant mineworkers continued to decline during the third quarter of 2010, falling by 1.9 per cent on a quarterly basis. It declined from 46 274 to 42 252 on an annual basis, equivalent to 8.7 per cent decline. Although prices of the main minerals (gold and platinum) are relatively strong in world markets, the strong Rand against the US Dollar is offsetting the impact of stronger prices. As a result, SA mining industry employment in the quarter under review was down 3.8 per cent and 0.3 per cent on a quarterly and annual basis, respectively.

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 Consumer Price Index (CPI), slowed to 3.4 per cent in July and 3.3 per cent in both August and September 2010. Overall, the quarter under review registered an average inflation rate of 3.3 per cent compared to 3.8 per cent in the previous quarter. The major drivers of inflation in this quarter were electricity, gas and other fuels; furniture and furnishings; education and alcoholic beverages and tobacco.

This low inflation environment mainly reflects weak domestic demand conditions in SA and the further appreciation of the Rand. Inflation in South Africa and Lesotho is expected to remain low, hovering within the 3 to 6 per cent target band through to the year 2011, but the advent of increasing food prices, from 3.2 per cent in June to 3.8 per cent in September, poses some upside risks to inflation expectations. Therefore, the prevailing inflation rates may be nearing the lowest in this cycle.

Table 7: Inflation Rate

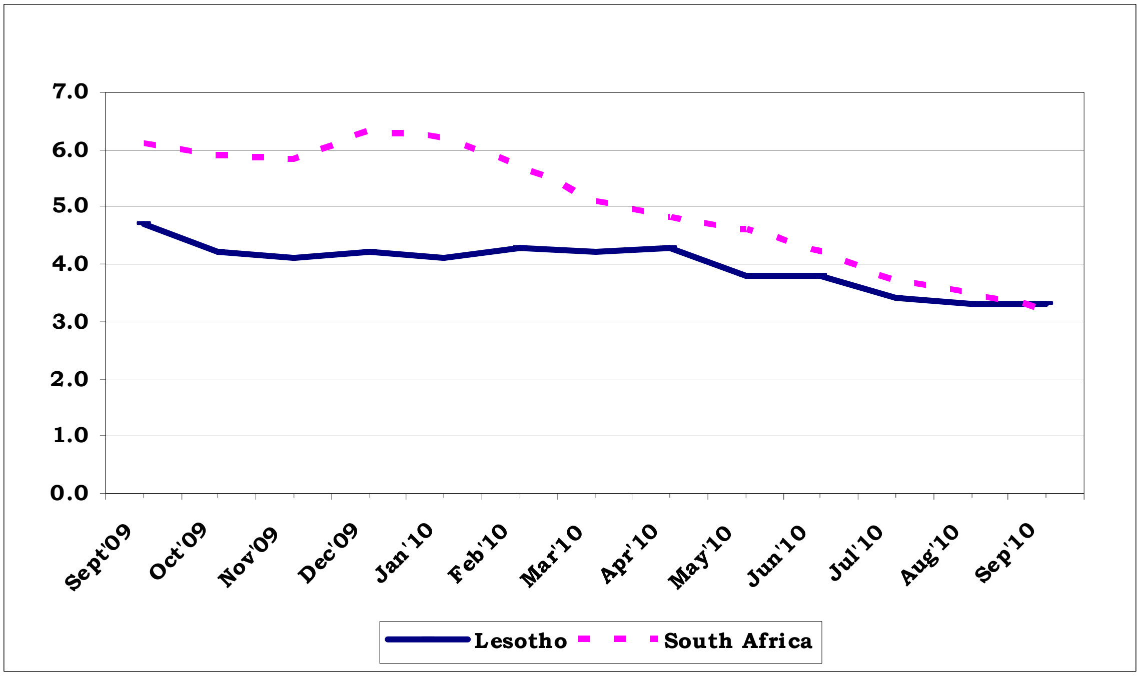
(Annualised Percentage Change: April 1997=100)

	Weight	2010				
		May	**June**	**July**	**August**	**Sep**
All items	**100.0**	**3.8**	**3.8**	**3.4**	**3.3**	**3.3**
Food and non-alcoholic beverages	39.8	3.3	3.2	3.4	3.5	3.8
Alcoholic beverages & Tobacco	6.4	10.6	10.6	10.7	9.8	8.7
Clothing & footwear	15.6	3.6	3.2	3.0	2.8	2.5
Housing, electricity gas & other fuels	3.7	4.2	6.3	6.1	4.7	5.2
Furniture, households equipment & routine maintenance of house	17.0	2.4	2.3	2.7	2.7	2.5
Health	1.4	2.0	2.2	2.1	2.1	2.2
Transport	7.8	6.3	5.8	2.2	2.2	1.8
Communication	0.1	1.2	1.2	2.3	2.3	2.3
Leisure, entertainment & Culture	1.2	1.7	1.8	1.6	1.5	1.3
Education	3.2	6.3	6.3	6.3	6.3	6.3
Restaurant & Hotels	0.4	5.7	6.5	4.4	3.2	3.0
Miscellaneous goods & services	3.2	4.1	3.8	3.9	3.9	3.3

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 by 5.8 per cent during the third quarter of 2010 following a 1.2 per cent increase observed in the second quarter. On annual basis, money supply grew by 2.3 per cent compared with 11.2 per cent rise in the previous quarter. The expansion in money supply was fuelled by growth in private sector credit extension, which offset the decline in net foreign assets of the banking system.

Figure 11: Overview of Recent Monetary Developments

(Million Maloti: End of Period)

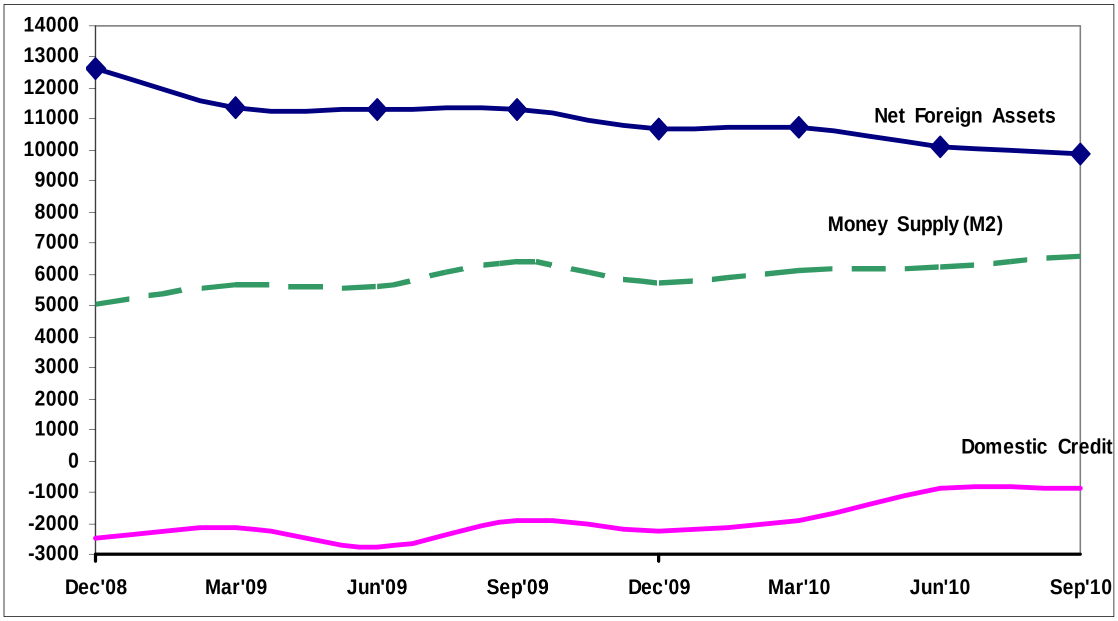


Table 8: Determinants of Money Supply

(Million Maloti: Changes)

Determinants	2009		2010		
	Sep	Dec	Mar	June	Sep
Net foreign assets	19.6	-662.0	88.8	-660.4	-178.3
Domestic credit	760.9	-247.3	349.6	1062.1	9.6
Net Claims on Govt	671.7	-352.0	358.5	858.4	-238.3
Statutory bodies	-2.2	-35.4	0.0	0.0	3.2
Private sector	91.5	140.1	-8.9	203.7	244.7
Other items, net	-55.9	-206.8	59.3	326.0	-529.0
Money Supply (M2)	836.4	-686.3	398.2	75.7	360.3

Components of Money Supply

All components of money supply, except time deposits, increased during the review period. Narrow money, which comprises currency in circulation, demand and call deposits, rose by 7.8 per cent in contrast to a 1.0 per cent decline observed in the previous quarter. The increase in narrow money reflected growth in demand and call deposits, and currency in circulation of 8.9 per cent and 2.0 per cent, respectively. Quasi money grew marginally by 0.2 per cent, following a 7.9 per cent increase observed in the second quarter.

Table 9: Money Supply

(Million Maloti; End of Period)

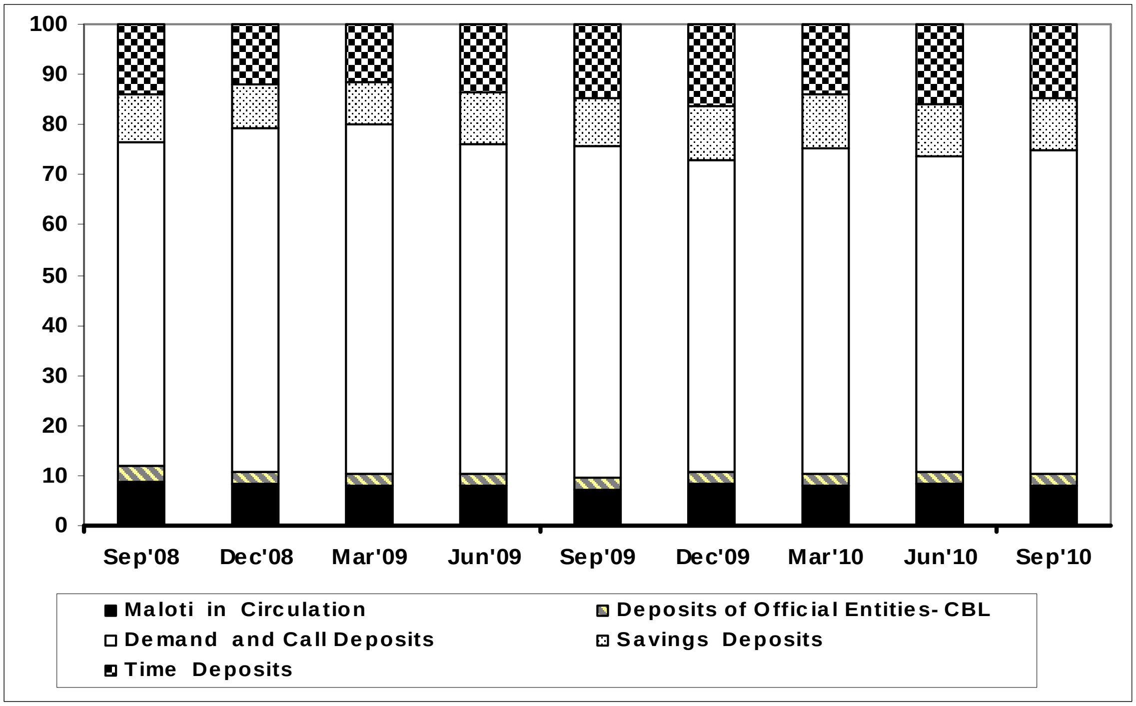
	2009		2010		
	Sep	**Dec**	**Mar**	**June**	**Sep**
Money Supply (M2)	6411.2	5725.0	6123.1	6198.8	6559.1
Money (M1)	4853.6	4176.5	4602.8	4558.3	4915.8
Maloti with public	471.0	487.2	498.9	523.1	533.8
Demand deposits[1]	4221.1	3552.9	3967.2	3897.4	4242.5
Deposits of official Entities with CBL	135.7	136.4	136.7	137.8	139.5
Quasi-Money	1557.6	1548.5	1520.3	1640.5	1643.2
1.1.1.1.1 Savings deposits	621.1	607.0	655.6	664.8	672.1
Time deposits	936.6	941.5	864.7	975.7	971.1

[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

As shown by Table 10 below, the bulk of commercial banks' deposits were held by the private sector, with a share of 94.4 per cent of the total during the review quarter. The remainder is held by statutory bodies. In growth terms, the total volume of deposits held with the commercial banks rose by 6.3 per cent at the end of September, compared with 0.3 per cent recorded in June 2010. This growth was driven mainly by an increase of 6.8 per cent in demand deposits held by the private sector. Holdings by the statutory bodies also rose noticeably.

Table 10: Commercial Banks' Deposits by Holder

(Million Maloti: End of Period)

	2009		2010		
	Sep	Dec	Mar	June	Sep
Total Deposits	5778.8	5041.4	5485.0	5501.1	5847.8
Private Sector	5637.0	4956.6	5270.3	5268.6	5519.7
Demand deposits	4082.0	3420.0	3751.9	3630.0	3878.2
Savings deposits	621.0	606.9	655.5	664.7	672.0
Time deposits	933.9	929.7	862.9	974.0	969.5
Statutory Bodies	141.8	84.7	214.8	232.4	328.0

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 in the third quarter. The ratio declined moderately from 78.5 per cent observed in the second quarter to 75.1 per cent, due mainly to an increase in deposit liabilities. The credit deposit ratio rose from 33.7 per cent in the second quarter to 34.7 per cent in the third quarter, on account of growth in credit to the private sector.

Table 11: Components of Commercial Banks' Liquidity

(Million Maloti: End of Period)

COMPONENT	2009		2010		
	Sep	Dec	Mar	June	Sep
Maloti Notes and Coins	70.4	97.1	99.1	92.9	99.0
Rand Notes and Coins	40.8	65.9	63.9	60.2	66.9
Balances due from Lesotho Banks	1400.0	1116.2	1482.6	1236.5	1086.8
Balances due from Foreign Banks	4061.2	3282.3	3330.1	3697.0	3924.8
Clearing Balances with CBL	190.4	43.6	2.2	16.4	-73.9
CBL Bills	0.0	0.0	0.0	0.0	0.0
Lesotho Government Securities	477.8	472.8	500.6	500.2	519.3

Table 12: Consolidated Balance Sheet of Commercial Banks

(Million Maloti: End of Period)

	2009		2010		
	Sep	Dec	Mar	June	Sep
Net foreign assets	4023.8	2986.7	3282.5	3502.9	3786.5
Deposits with CBL	190.4	235.4	223.7	236.7	171.2
Credit:	2140.3	2105.6	2121.7	2256.7	2547.7
Statutory Bodies	35.4	0.0	0.0	0.0	0.0
Private Sector	1694.9	1721.5	1712.6	1851.5	2027.3
Government securities	410.0	384.1	409.1	405.2	519.3
Assets/Liabilities	6354.5	5092.3	5627.9	5996.3	6504.4
Private sector deposits[2]	5778.8	5041.4	5485.0	5501.1	5847.8
Government deposits	35.3	26.8	22.2	22.1	22.1
Capital, reserves & other, net	540.4	259.5	120.7	473.1	634.5

[2] includes statutory bodies' deposits.

Demand for Money

Domestic Credit

Domestic credit, excluding net claims on government, rose by 10.0 per cent during the quarter under review, following an expansion of 8.2 per cent realised in the second quarter. On annual basis, domestic credit grew by 22.7 per cent following a 17.8 per cent expansion in the second quarter of 2010. The increase in domestic credit was driven by the rise in credit extended to both business enterprises and households. The growth in domestic credit reflects reduced cost of borrowing following several interest rate cuts by the South African monetary policy authorities.

Table 13: Domestic Credit Excluding Net Claims on Government*

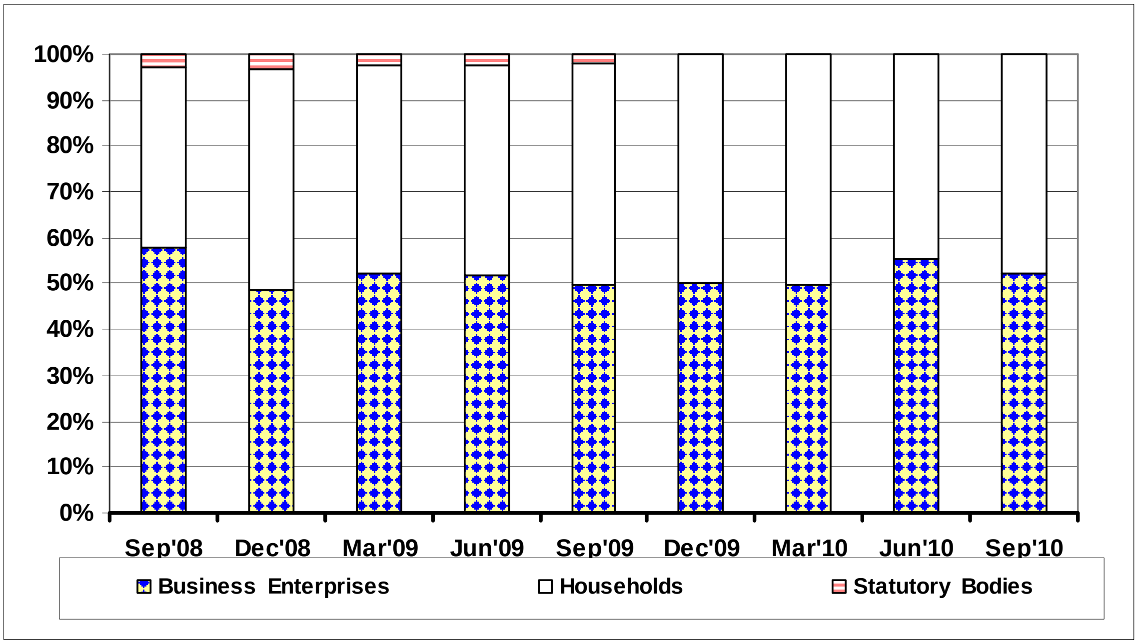
(Million Maloti: End of Period)

	2009		2010		
	Sep	Dec	Mar	June	Sep
Domestic Credit	1730.3	1713.1	1696.4	1834.6	2018.1
Credit to private sector	1694.9	1713.1	1696.4	1834.6	2014.9
Business enterprises	864.9	842.9	825.3	1043.3	1075.0
Households	830.0	870.2	871.1	789.3	934.9
Credit to statutory bodies	35.4	0.0	0.0	0.0	3.2

*excludes non performing loans

Figure 13: Distribution of Credit by Holder

(Percentage shares)



Credit to Private Sector

During the third quarter of 2010, credit extended to the private sector rose by 9.8 per cent, following an increase of 8.2 per cent observed in the previous quarter. The increase resulted from growth in credit to both business enterprises and households. Credit extended to business enterprises rose by 3.0 per cent compared with a 26.4 per cent jump recorded in the second quarter; while credit to households increased by 18.4 per cent, in contrast with a 9.4 per cent drop observed in the previous quarter. The share of credit to business enterprises fell from 56.9 per cent to 52.3 per cent.

Sectoral Distribution of Credit

Sectoral distribution of credit indicates that the bulk of total credit continued to be channelled to the following sectors: transport, storage and communication (26.2 per cent), non-bank financial institutions and real estate (22.5 per cent), manufacturing (14.2 per cent), and wholesale and retail (14.2 per cent). The significant improvement in credit extension was in transport, storage and communication sub-sector, whose share rose from 13.5 per cent in the second quarter to 26.2 per cent in the quarter under review.

Table 14: Sectoral Distribution of Credit to Enterprises*

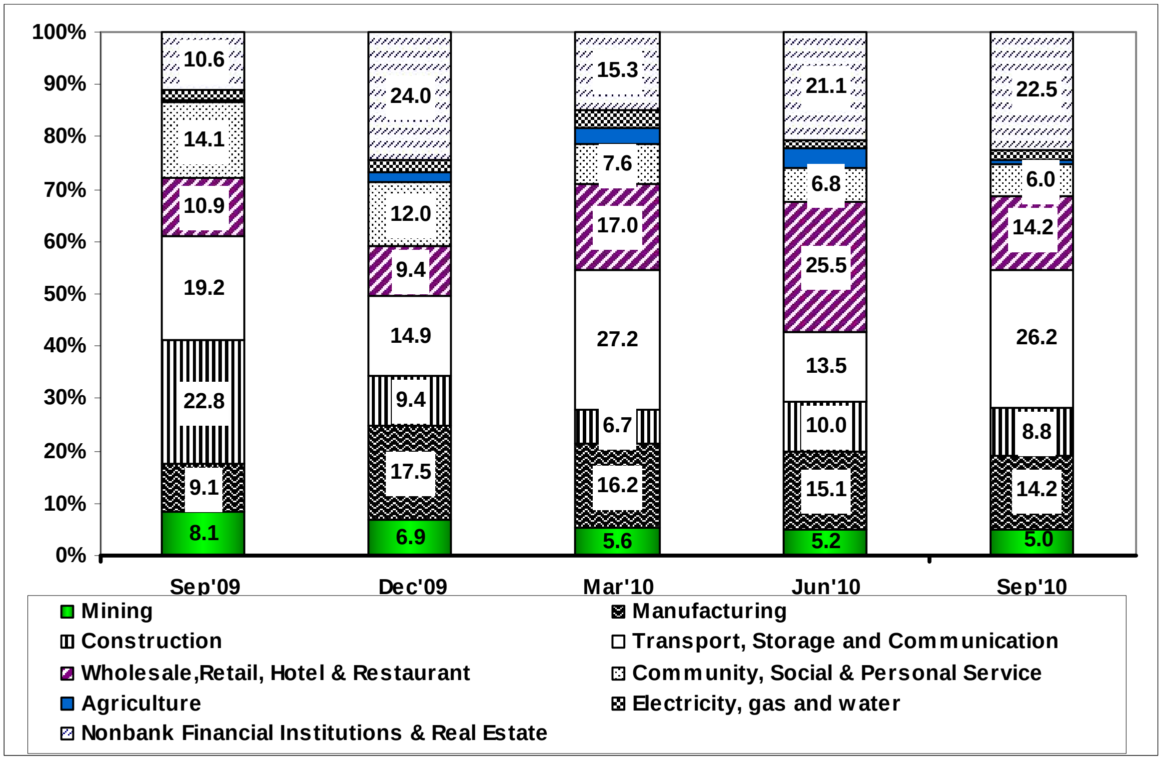
(Million Maloti: End of period)

SECTOR	2009		2010		
	Sep	Dec	Mar	June	Sep
Agriculture	28.4	32.3	8.4	11.6	15.0
Mining	69.7	61.9	52.5	57.3	56.9
Manufacturing	78.1	163.8	151.4	167.7	162.3
Construction	164.6	85.2	62.6	110.4	100.5
Transport, storage and communication	164.9	146.0	253.9	150.1	299.6
Electricity, gas and water	16.7	20.7	31.1	19.7	20.5
Wholesale, retail, hotel and restaurant	93.7	91.4	158.2	283.2	162.1
Non-bank financial institutions and real estate	91.1	218.4	142.8	234.0	256.7
Community, social and personal services.	121.4	117.5	71.2	75.6	68.6
All sectors	828.6	937.3	932.0	1109.7	1142.0

* 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 12.4 per cent during the third quarter of 2010, compared with 24.2 per cent surge observed in the previous quarter. On the one hand, net claims on government by the commercial banks increased by 4.0 per cent following a 0.7 per cent marginal decline in the second quarter. On the other hand, net claims on government by the central bank dropped by 11.1 per cent, after increasing by 21.4 per cent in the previous quarter. The decline reflected a build-up in government deposits, due in part to payment of dividends by the CBL and receipt of additional SACU revenue.

Table 15: Banking System's Net Claims on Government

(Million Maloti: End of Period)

Holder	2009		2010		
	Sep	Dec	Mar	June	Sep
Commercial banks	374.7	357.3	386.9	478.1	497.2
Claims on Government	582.3	573.8	409.1	500.2	519.3
o/w MP T Bills[3]	477.8	472.8	319.1	500.2	429.3
Less Government deposits	35.3	26.8	22.2	22.1	22.1
CBL	-4018.7	-4353.4	-4024.4	-3162.2	-3514.7
Claims on Government[4]	288.3	308.3	273.1	277.6	313.4
Less Government deposits	4307.1	4661.7	4297.5	3439.8	3828.0
o/w blocked account	512.0	509.9	514.3	623.9	626.9
Total Net Claims	-3644.0	-3806.3	-3637.5	-2779.1	-3017.4

[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 dropped by 1.8 per cent in the third quarter of 2010, following a 6.1 per cent reduction observed in the second quarter. The deterioration in total net foreign assets was influenced mostly by a 7 per cent decrease in CBL's holdings of foreign reserves. However, the decline was moderated by a rise in commercial banks' holding, which grew by 8.1 per cent.

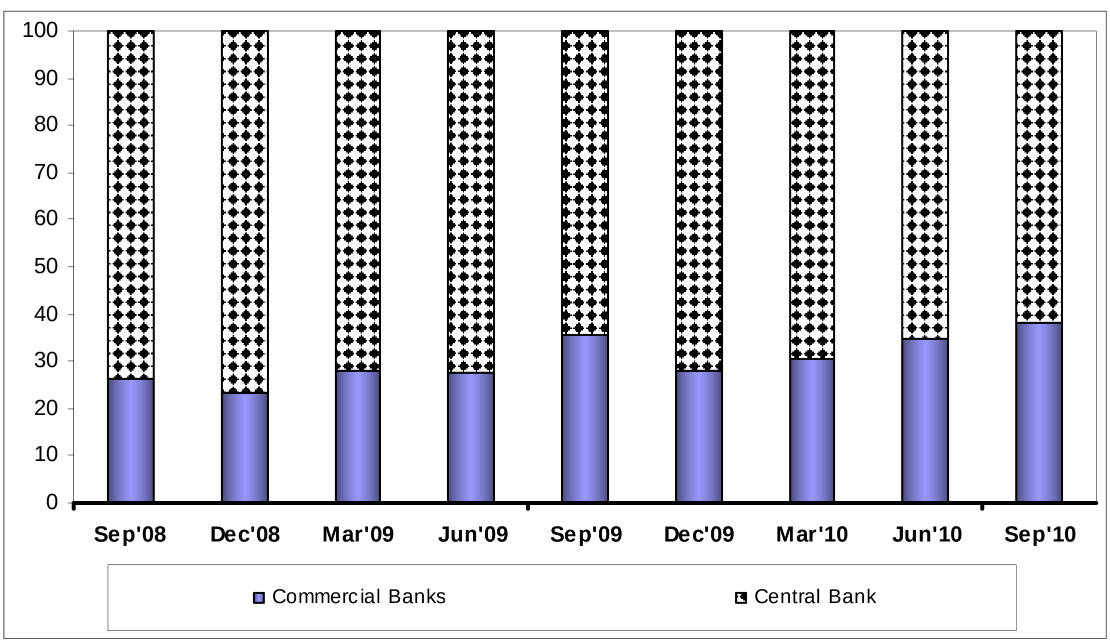
Table 16: Banking System's Foreign Assets and Liabilities

(Million Maloti: End of Period)

Holder	2009		2010		
	Sep	Dec	Mar	June	Sep
A. Commercial Banks	4023.8	2986.7	3282.5	3502.9	3786.5
Foreign Assets	4075.7	3297.2	3345.1	3711.7	3940.4
Foreign Liabilities	-51.8	-310.5	-62.6	-208.8	-153.9
B. Central Bank of Lesotho	7289.8	7664.9	7457.8	6577.1	6115.2
Foreign Assets	7976.5	8345.4	8129.2	7201.2	6858.3
Foreign Liabilities	-686.7	-680.5	-671.3	-624.1	-743.1
Net Total	11 313.6	10 651.6	10 740.3	10 080.0	9901.7

Figure 15: Net Foreign Assets

(Percentage shares)



Money Market Developments

During the third quarter of 2010, total holding of treasury bills increased by 21.4 per cent, compared growth of 5.4 per cent in the previous quarter. Holdings of treasury bills by commercial banks rose by 21.9 per cent, after rising by 5 per cent during the previous quarter. The proportion of treasury bills held by commercial banks remained very high at 97.7 per cent, with a relatively insignificant share held by the non-bank sector.

Table 17: Holding of Treasury Bills

(Face Value; Million Maloti)

Type of Holder	2009		2010		
	Sep	Dec	Mar	June	Sep
Total	511.6	509.1	514.8	542.4	658.6
Banking System	487.7	482.6	503.6	528.2	644.2
Central Bank	0.3	0.3	0.3	0.3	0.7
Commercial Banks	487.4	482.3	503.3	527.9	643.5
Non-Bank Sector	24.0	26.5	11.3	14.1	14.3
NBFIs	15.1	20.2	5.3	6.4	6.5
Others	8.9	6.3	6.0	7.7	7.8
Memorandum Item					
Average Yield (per cent)	7.14	6.94	6.73	6.64	6.69

Money Market and Short-term Interest Rates

During the review period, interest rates maintained a downward trend, consistent with monetary policy easing by the South African authorities. The 91-day TB rate fell from 6.38 per cent to 5.91 per cent. Similarly, the prime lending rate fell by 9 basis points, from 11.17 per cent to 11.08 per cent. It is important, however, to note that interest rates offered by the commercial banks on customer deposits remained negative in real terms (that is, when adjusted for inflation), despite falling inflation.

Table 18: Major Money Market Interest Rates

(Percent: End of Period)

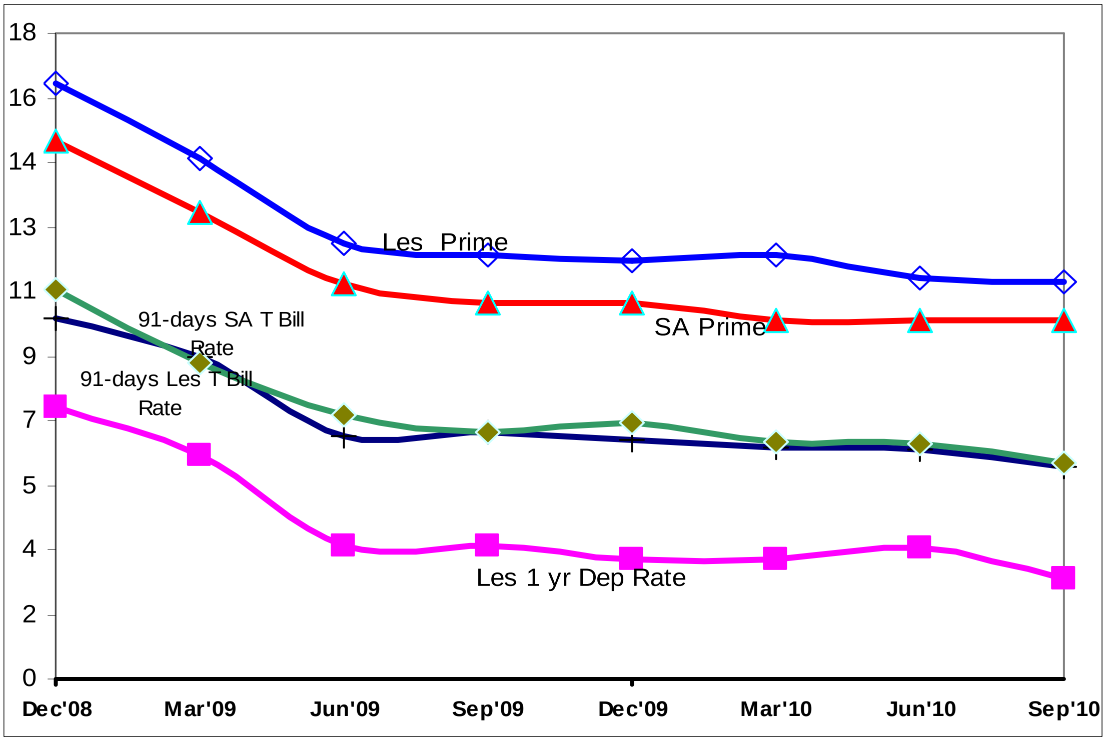
Interest Rates by Type	2009		2010		
	Sep	Dec	Mar	June	Sep
Central Bank					
T Bill Rate – 91 Days	6.84	6.66	6.46	6.38	5.91
Lombard Rate	10.84	10.66	10.46	10.38	9.91
Commercial Banks[5]					
Call	1.75	1.75	1.75	1.71	1.29
Time:					
31 days	1.65	1.65	1.65	1.67	1.25
88 days	2.20	1.95	1.95	2.20	1.78
6 months	2.53	2.26	2.26	2.21	1.94
1 year	3.69	3.35	3.35	3.65	2.78
Savings	2.11	2.05	2.05	2.03	1.21
Prime	11.83	11.67	11.50	11.17	11.08
South Africa*					
Repo	7.00	7.00	6.50	6.50	6.00
T Bill Rate – 91 Days	6.90	7.14	6.60	6.54	6.04
Marginal Lending Rate	12.00	12.00	11.50	11.50	11.00
Prime	10.50	10.50	10.00	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)

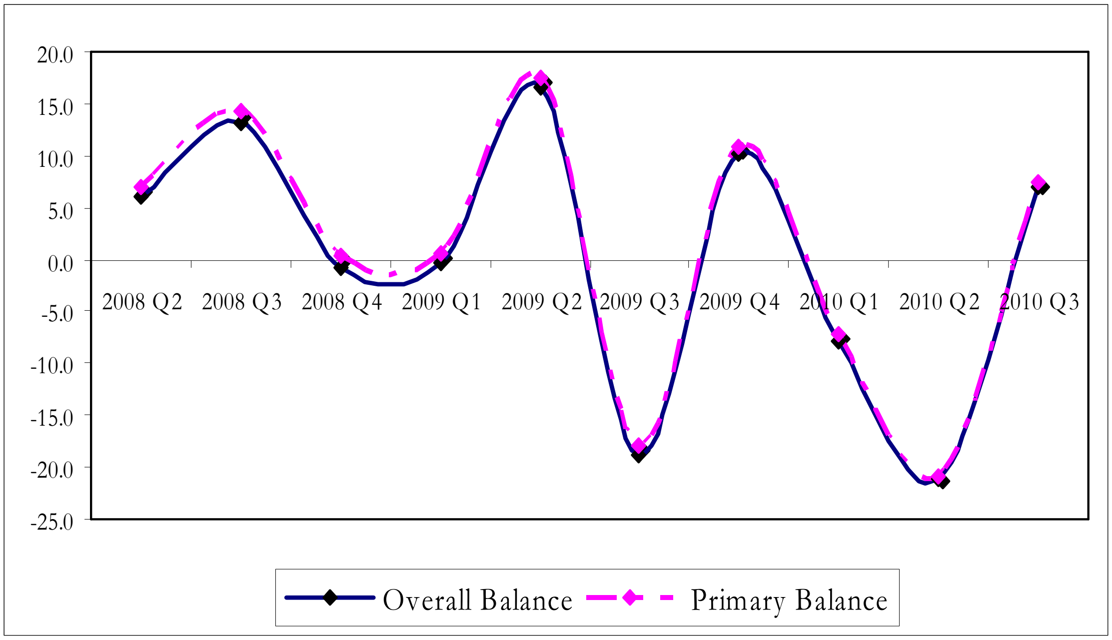


V. Government Finance

Summary of Budget Outturn

Preliminary estimates on government budgetary operations indicate a surplus equivalent to 7.0 per cent of GDP on a quarter-to-quarter basis, compared with a deficit of 20.8 per cent of GDP observed in June, 2010. Total revenue and grants were estimated to increase by 60.0 per cent against a decline of 25.6 per cent recorded in the previous quarter. Government expenditure and net lending decreased by 4.7 per cent on a quarterly basis. As a share of total expenditure, recurrent expenditure recorded 85.8 per cent, compared with 84.8 per cent observed in the previous quarter. Capital expenditure constituted 14.2 per cent of total expenditure during the review period.

Figure 17: Primary Balance versus Overall Balance



Revenue

As already indicated, total revenue and grants increased by 60.0 per cent on a quarter-to-quarter basis. The increase emanated from a windfall from customs revenue which grew by 86.3 per cent compared with 56.1 per cent decline in the previous quarter. Non-tax revenue to the tune of M656.8 million also contributed to the better performance in total revenue during the quarter under review, against M130.3 million recorded in the quarter ending June 2010. The increase in non-tax revenue was mostly due to dividends from the CBL. SACU revenue continued to comprise the largest share of total receipts at 41.0 per cent, while non-tax revenue accounted for the second largest share at 26.7 per cent, due to the dividend payment by CBL. Income and value-added taxes constituted 19.7 per cent and 12.1 per cent, respectively.

Table 19: Government Revenue

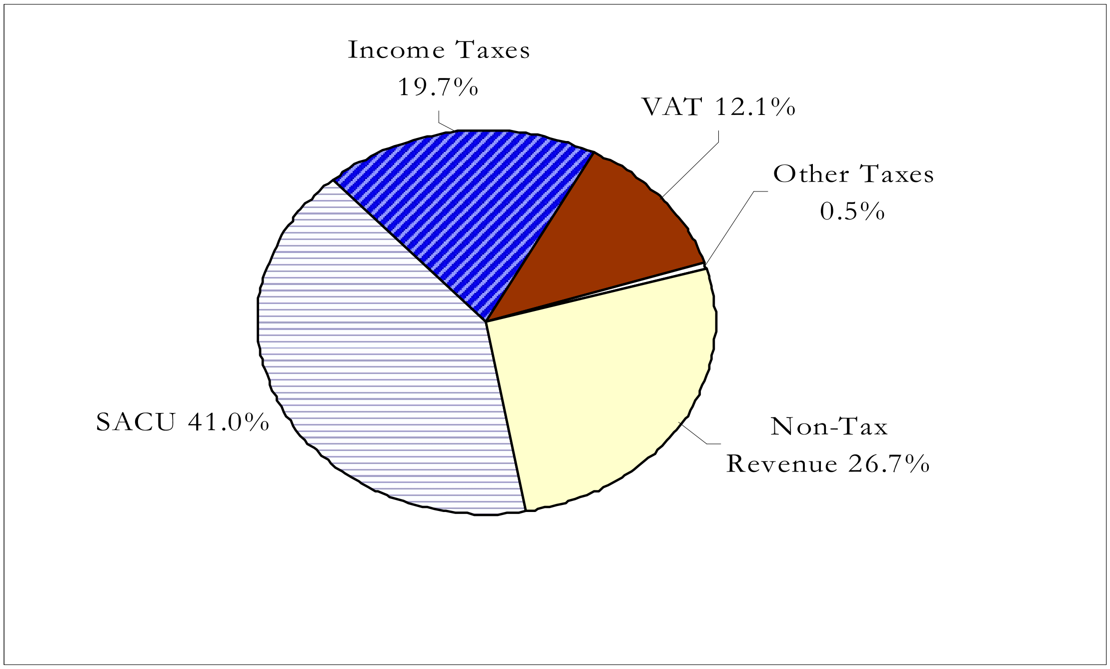
(Million Maloti)

	2009/10			2010/11	
	July-Sep	**Oct-Dec**	**Jan-Mar**	**Apr-Jun** Revised	**Jul-Sep** Preliminary
Total Revenue and Grants	2302.6	2284.1	2315.1	1723.4	2756.6
Total Revenue	2034.1	2114.8	2165.1	1392.0	2456.8
Tax Revenue	1910.8	1994.5	1947.0	1261.7	1800.0
Customs	1229.5	1229.5	1229.5	540.4	1006.7
Non-customs	681.3	765.0	717.5	721.3	793.3
Income Taxes	449.2	496.5	440.8	364.4	483.0
Taxes on goods & services	232.1	266.2	273.3	292.7	298.2
Other Taxes	0.0	2.3	3.4	64.2	12.1
Non-Tax Revenue	123.3	120.3	218.1	130.3	656.8
Of which: Water royalties	90.0	92.5	75.6	85.8	108.8
Grants	268.5	169.3	150.0	331.4	299.8

Source: Ministry of Finance and Development Planning (MoFDP)

Non-tax revenue comprises water royalties, administrative fees, dividends and interest on loans on-lent to public enterprises. This revenue component increased five-fold during the quarter under review, largely, as a result of dividends from the CBL. Development grants declined by 9.5 per cent, on a quarterly basis, following a two-fold increase that was observed in the quarter ending June 2010. Grants are a reflection of on-going donor-sponsored government projects.

Figure 18: Sources of Government Revenue



Expenditure

Government expenditure and net lending decreased by 4.6 per cent on a quarter-to-quarter basis compared with a 0.7 fall observed in the previous quarter. The decrease was a reflection of a decline in both recurrent and capital expenditures of 3.4 per cent and 11.2 per cent, respectively. As a share of total expenditure, recurrent expenditure registered 85.8 per cent while capital expenditure stood at 14.2 per cent. The main components of recurrent expenditure include purchases of goods and services, which accounted for 50.5 per cent of the total in the review period, followed by personnel emoluments at 29.7 per cent; while subsidies and transfers stood at 18.7 per cent.

Table 20: Government Expenditure

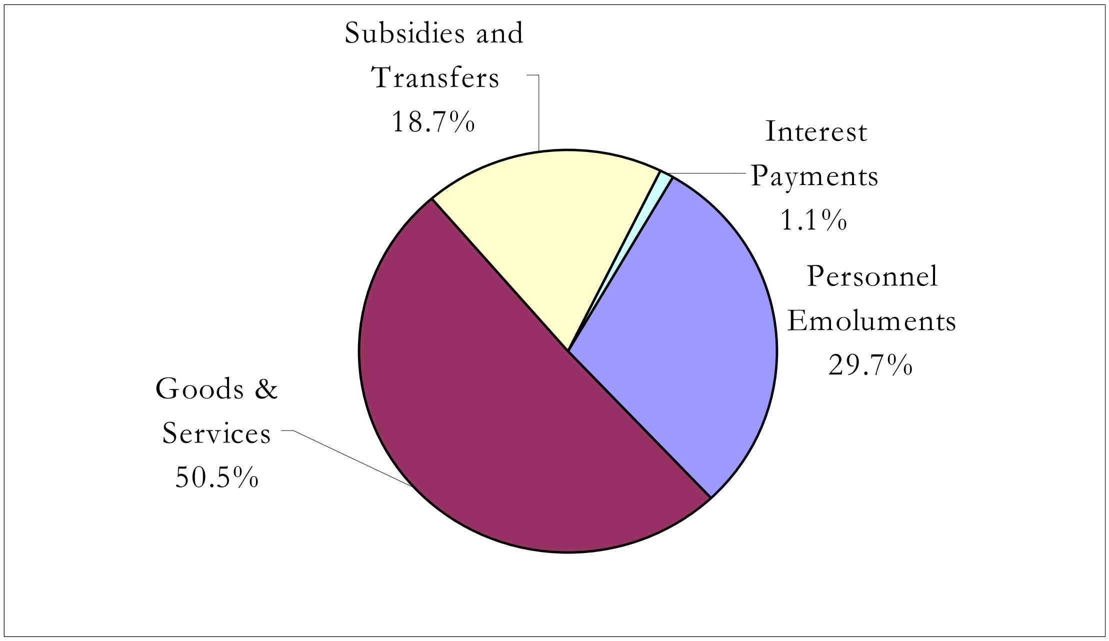
(Million Maloti)

	2009/10			2010/11	
	July-Sep	**Oct-Dec**	**Jan-Mar**	**Apr-Jun** Revised	**Jul-Sep** Preliminary
Total Expenditure & Net Lending	3008.1	1907.5	2609.5	2591.2	2472.23
Recurrent Expenditure	1827.2	1590.4	1737.2	2196.9	2122.2
Personnel Emoluments	711.4	704.6	700.0	705.9	629.4
Interest Payments	31.0	31.3	27.2	18.4	23.7
Foreign	17.1	16.3	18.9	7.8	16.1
Domestic	13.9	15.0	8.3	10.6	7.6
Other Expenditure	1084.8	854.5	1010.0	1472.6	1469.1
Capital Expenditure	1180.9	317.1	872.3	394.3	350.0
Net Lending	0.0	0.0	0.0	0.0	0.0

Source: MoFDP

Capital expenditure declined further by 11.2 per cent during the quarter under review, following a decrease of 54.8 per cent in the previous quarter. As a share of total expenditure it recorded 14.2 per cent compared with 15.2 per cent observed in the quarter ending June,2010.

Figure 19: Recurrent Expenditure by Type



Financing

The estimated budget surplus enabled the government to repay its foreign debt and accumulate deposits with the domestic banking system. As indicated in Table 21 below, the bulk of the surplus was reflected in improved government position with the banking sector while about 16 per cent reduced the government's external indebtedness.

Table 21: Government Financing

(Million Maloti)

	2009/10			2010/11	
	Jul-Sep	**Oct-Dec**	**Jan-Mar**	**Apr-Jun** Revised	**Jul-Sep** Preliminary
Financing	705.5	-376.6	294.3	867.5	-284.3
Foreign	2.6	-27.3	-59.4	8.7	-47.2
Loan drawings	61.4	30.2	27.5	36.8	15.3
Amortization	-58.8	-57.5	-86.9	-28.1	-62.5
Domestic	702.9	-349.3	353.5	858.8	-237.1
Bank Financing	671.7	-352.0	358.5	858.4	-238.3
Non – Bank	31.2	2.7	-4.7	0.4	1.2

Source: MoFDP Public Debt

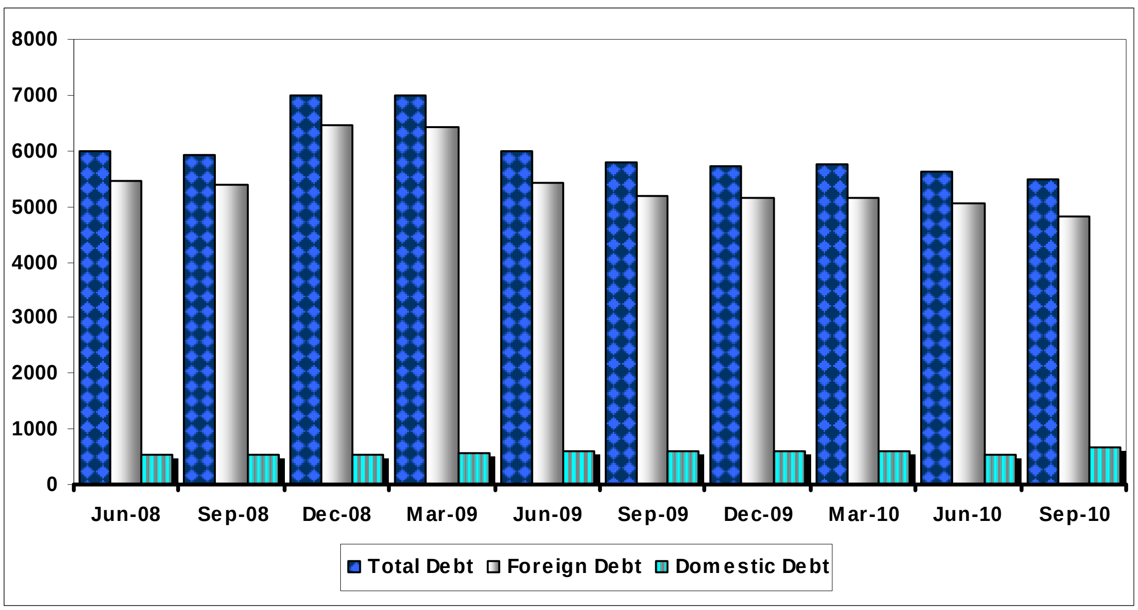
Public Debt

Overview

During the review period, total public debt decreased by 2.1 per cent on a quarterly basis compared with a decline of 0.8 per cent recorded in the quarter ending June 2010. As a share of GDP, total debt registered 34.5 per cent of GDP compared with 35.3 per cent in the previous quarter. External debt continued to constitute a greater percentage share of overall debt stock at 88.0 per cent, while domestic debt accounted for 12.0 per cent. The ratio of debt service to exports of goods and services (and factor income) increased to 1.8 per cent, from 0.8 per cent in the previous quarter.

Figure 20: Outstanding Public Debt

(Million Maloti: End of Period)



External debt

External debt decreased by 4.8 per cent in the quarter under review. The decline was largely attributable to the appreciation of the loti against major currencies. Loans from bilateral sources fell by 5.6 per cent compared with a decrease of 8.7 per cent observed in the previous quarter; while multilateral loans fell by 4.7 percent following a 1.5 per cent decrease in June. Supplier's credit also declined by 7.1 per cent against a decrease of 2.4 per cent observed in the quarter ending June 2010. As a share of GDP, external debt fell from 31.9 per cent in June 2010 to 30.3 per cent in September. The bulk of total external debt by the government continued to be from multilateral sources at 89.3 per cent; and remained predominantly concessional, at 93.5 per cent in the quarter under review.

Table 22: External Debt

(Million Maloti)

	2009		2010		
	QIII	QIV	QI	QII	QIII
External Debt	5181.5	5143.1	5160.8	5068.5	4823.8
Bilateral Loans	227.4	239.7	250.1	228.4	215.7
Concessional	227.4	239.7	250.1	228.4	215.7
Non-concessional	0.0	0.0	0.0	0.0	0.0
Multilateral Loans	4683.0	4635.6	4589.8	4522.6	4308.0
Concessional	4654.8	4609.1	4544.6	4490.8	4277.8
Non-concessional	28.2	26.5	45.2	31.8	30.2
Financial Institutions	71.9	71.9	68.0	70.6	70.7
Concessional	19.0	19.0	15.1	17.7	17.8
Non-concessional	52.9	52.9	52.9	52.9	52.9
Suppliers' Credit	199.2	195.9	252.9	246.8	229.4

Source: MoFDP

Domestic Debt

Domestic debt reflects short-term debt in the form of treasury bills issued for monetary policy purposes. During the quarter under review, domestic debt increased by 17.6 per cent in, compared with a decline of 0.3 per cent recorded in the previous quarter. As a percentage of GDP, domestic debt increased from 3.4 per cent to 4.1 per cent.

VI. Foreign Trade and Payments

Overview

The external sector position improved in the period under review. The overall balance showed a deficit of M342.1 million in seasonally adjusted terms, compared with a deficit of M928.0 observed in the pervious quarter, due to an improvement in the current account. The improvement in the deficit was reflective of a rise in exports, current transfers and income account. However, the loss of M226.7 million that originated from appreciation of the local currency against major currencies where CBL reserves were held counterbalanced the improvement. The transaction balance, which represents the overall balance without the effects of currency fluctuations, in seasonally adjusted terms, also narrowed to a deficit of M116.2 million during the review quarter from a deficit of M1.1 billion recorded in the previous quarter.

Current Account

The current account continued to register a deficit during the quarter under review. The deficit narrowed to M736.11 million from a revised deficit of 846.8 million recorded in the previous quarter. The narrowing of the deficit was mainly on account of an upsurge in current transfers as a result of a rise in SACU receipts during the quarter mainly due to the receipt of the arbitral amount from SACU. The improvement in merchandise exports and an increase in income also contributed to the improvement in the current account deficit. As a share of GDP, current account was 18.5 per cent in the quarter under review compared with a revised 21.5 per cent registered in the quarter ending June 2010.

Table 23: **Current Account Balance**

(Million Maloti)

	2009		2010		
	QIII	QIV	QI	QII*	QIII+
I. Current Account	-77.00	-331.42	-275.57	-846.78	-736.11
(a) Goods	-1955.65	-2216.83	-2165.74	-2083.99	-2242.91
Merchandise exports f.o.b.	1782.76	1299.75	1313.19	1335.23	1587.09
Of which diamonds	343.92	233.23	332.25	219.88	286.83
Of which textiles & clothing	854.16	602.23	626.31	718.56	840.72
Other exports#	584.68	464.29	354.63	396.79	459.54
Merchandise imports f.o.b.	-3738.41	-3516.58	-3478.93	-3419.22	-3830.00
(b) Services	-88.71	-73.77	-101.21	28.82	-96.48
(c) Income	832.39	839.24	739.53	680.12	733.36
(d) Current Transfers	1134.97	1119.94	1251.86	528.27	869.93

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

Merchandise Exports

Merchandise exports, in seasonally adjusted terms, rose by 12.6 per cent in the third quarter of 2010, compared with an increase of 2.6 per cent registered in the second quarter of 2010. Textile and clothing exports increased by 6.9 per cent during the quarter, following a rise of 14.7 per cent observed in the previous quarter. The recovery in consumer spending in the US market, although weak seems, to have positive impact on the sector. A large portion of Lesotho's manufactured goods is destined to the US. Diamond exports rose by 30.4 per cent from a fall of 33.8 per cent due to an increase in the price of commodities. On an annual basis, merchandise exports rose by 12.3 per cent. Relative to GDP, merchandise exports rose to 40.3 per cent compared with 33.9 per cent recorded in the previous quarter.

Merchandise Imports

In seasonally adjusted terms, merchandise imports rose by 1.9 per cent in the quarter ending June, from a slight decline of 0.1 per cent registered in the pervious quarter. The rise was mainly on account of declarations at border posts and rise in motor vehicle imports. As a percentage of GDP, merchandise imports fell to 97.2 per cent during the review quarter, from 86.7 per cent observed in the previous quarter. On an annual basis, merchandise imports grew by a lower 2.5 per cent, compared with a 12.0 per cent observed in the second quarter of 2010.

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

(Million Maloti)

COMMODITY	2009		2010		
	QIII	QIV	QI	QII*	QIII+
0. Food & Live Animals	74.06	51.22	49.75	33.51	35.92
Cattle	0.05	0.03	0.07	0.01	0.00
Wheat Flour	23.21	18.08	13.97	11.94	12.68
Maize Meal	23.04	15.20	13.47	13.55	9.57
Other	27.79	17.91	22.24	8.01	13.67
1. Beverages & Tobacco	50.81	46.09	42.22	0.00	62.57
Beverages	50.81	46.09	42.22	0.00	62.57
2. Crude Materials	346.48	249.49	334.48	221.98	290.81
Textiles fibres	2.56	16.23	12.25	2.09	3.98
Of which Wool	0.74	15.86	12.18	2.00	3.59
Of which Mohair	1.82	0.37	0.07	0.09	0.39
Crude fertilizers & crude minerals	343.92	233.23	322.25	219.88	286.83
Of which Diamond	343.92	233.23	322.25	219.88	286.93
5. Manufactured Goods	51.37	39.86	99.29	59.45	121.21
Of which textiles yarn and fabric	25.30	14.04	72.15	46.47	97.84
Of which manufactured goods	26.07	25.82	27.14	9.98	23.37
6. Machinery & Transport Goods	317.49	243.87	161.69	184.21	249.54
7. Miscellaneous Manufactured Goods	912.63	664.96	622.53	838.10	819.02
Of which clothing accessories	828.86	588.20	566.08	751.16	742.88
Other	83.77	79.76	56.45	86.94	76.14
8. Unclassified Goods	27.03	0.51	0.39	0.98	8.02
TOTAL EXPORTS	1782.76	1299.75	1313.19	1335.23	1587.09

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

Direction of Trade

During the quarter under review, the SACU region remained the largest recipient of Lesotho's exports with a share of 43.8 per cent compared with 40.1 per cent registered in the quarter ending June 2010. The US maintained its position as the second largest recipient of Lesotho's exports. It recorded a share of 37.6 per cent during the review quarter compared with 40.0 per cent observed in the previous quarter. The bulk of Lesotho's manufactured goods, particularly textiles and clothing is destined for the US market. The third largest recipient of Lesotho's exports, particularly diamond exports, was European market with a share of 18.2 per cent from 16.8 per cent registered in the previous quarter. Lesotho's exports to Asian market and the Oceania market remained insignificant at 0.2 per cent and 0.1 per cent, respectively.

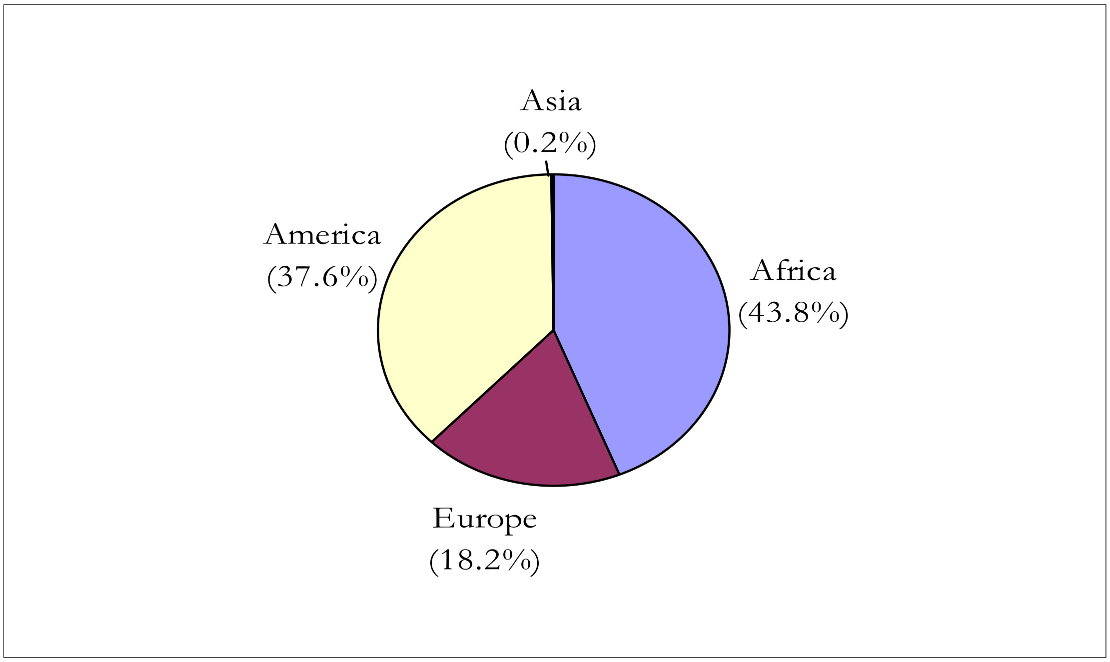
Table 25: Direction of Trade - Exports and Re-Exports, f.o.b.

(Million Maloti)

Region	2009		2010		
	QIII	QIV	QI	QII*	QII+
World	1782.75	1299.75	1313.19	1335.23	1587.09
Africa	767.18	620.44	508.81	549.70	695.18
SACU	745.23	610.16	475.61	519.09	666.53
SADC	2.09	3.00	24.82	22.30	14.92
Other	19.86	7.28	8.38	8.31	13.73
Europe	348.90	236.65	355.18	223.73	289.45
EC	348.90	236.65	355.18	223.73	289.45
America	663.49	436.94	441.54	535.12	597.03
Asia	2.68	3.65	20.90	24.07	3.36
Oceania	0.51	2.07	6.76	2.61	2.07

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

Figure 21: Direction of Merchandise Exports



Services Account

The overall services account showed an outflow during the quarter under review. An outflow of M96.5 million was observed in comparison with a revised inflow equivalent to M28.2 million recorded in the previous quarter. The significant outflow largely reflected higher Lesotho embassies' expenditure abroad which rose by 43.5 per cent.

Travel

International travel services registered a net inflow equivalent to M94.7 million during the quarter under review following an inflow of M155.9 million realised in the previous quarter. The fall in net travel services emanated from, among other factors, a decline in personal expenditure by expatriates in Lesotho. The value of international receipts fell by 32.1 per cent, in contrast with an increase of 89.6 per cent in the previous quarter, while the value of international travel payments remained unchanged during the quarter.

Income

During the review quarter, net income rose by 9.0 per cent, following a fall of 20.8 per cent registered in the quarter ending June 2010. The increase was indicative of the rise in labour income.

Labour income

During the quarter ending June 2010, labour income grew by 26.2 per cent, following a decline of 26.2 per cent recorded in the quarter ending March 2010. The improvement of labour income is attributed to the rise in other remittances and in services by expatriates. On an annual basis, labour income plummeted by 7.9 per cent reflecting the continuing decline in Basotho mineworkers in SA.

Investment Income

Net investment income fell by 13.5 per cent to net inflows of M93.9 million in the third quarter of 2010, from the net inflow of M112.0 million realised in the previous quarter, as a result of a drop in interest paid to CBL.

Investment income inflows dropped by 7.5 per cent to an inflow of M121.8 million during the quarter under review, from M131.6 million registered in the previous quarter. The decline resulted from the fall of returns in CBL investments abroad as well as the appreciation of the local currency which pulled down the value of investment portfolios outside CMA region. Investment income outflows also recorded an outflow of M28.0 million in the review quarter, compared with M19.7 million observed in the previous quarter, due to an increase in interest payments on official loans.

Current Transfers

During the quarter ending September 2010, current transfers, in seasonally adjusted terms, grew by 57.3 per cent to M528.2 million, in comparison with a decline of 57.3 per cent in the previous quarter. The observed improvement was attributed to the rise in SACU non-duty receipts which increased significantly to M763.0 million. On an annual basis, current transfers plummeted by 23.4 per cent.

Capital and Financial Account

The net capital and financial account displayed a lower inflow of M147.3 million during the quarter under review from an inflow of M423.2 million in the previous quarter. The observed performance was supported by a fall in capital transfers to government coupled with commercial banks' foreign liabilities which registered an outflow of M90.9 million.

Table 26: Capital and Financial Account

(Million Maloti)

	2009		2010		
	QIII	QIV	QI	QII*	QIII+
I. Capital and Financial Account	-501.78	1303.29	-59.24	423.15	147.26
Capital Account	47.30	169.30	150.00	509.90	266.30
Financial Account	-549.06	1133.99	-209.24	-86.75	-119.04
Special Financing – LHWP	22.88	30.36	55.11	36.2	28.74
II. Reserve Assets	875.49	-368.88	216.18	928.04	342.90

* Revised estimates
+ Preliminary estimates

Reserve Assets

Gross reserves declined by 4.8 per cent to M6.8 billion in the review quarter following a fall of 11.4 per cent observed in the previous quarter. The improvement in the current account, emanating from a rise in exports and SACU non-duty receipts, contributed to the improved performance in gross reserves. However, this improvement was counterbalanced by the appreciation of the local currency against other major trading currencies. Measured in months of import cover, gross reserves fell to 5.6 months in the quarter ending September 2010, compared with 5.9 months in the previous quarter.

Figure 22: Reserve Assets

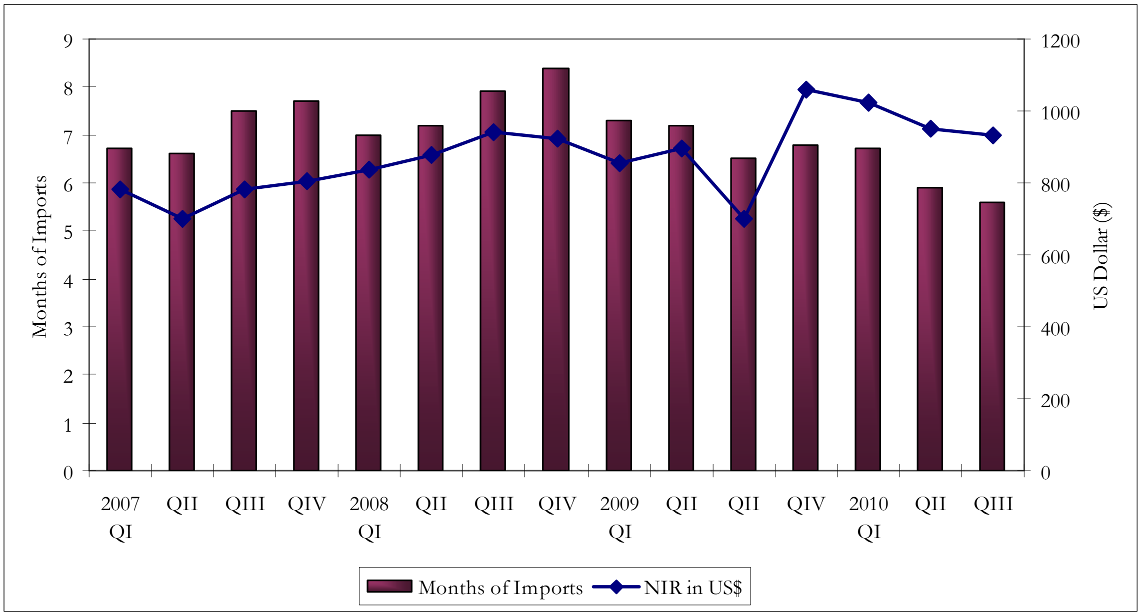
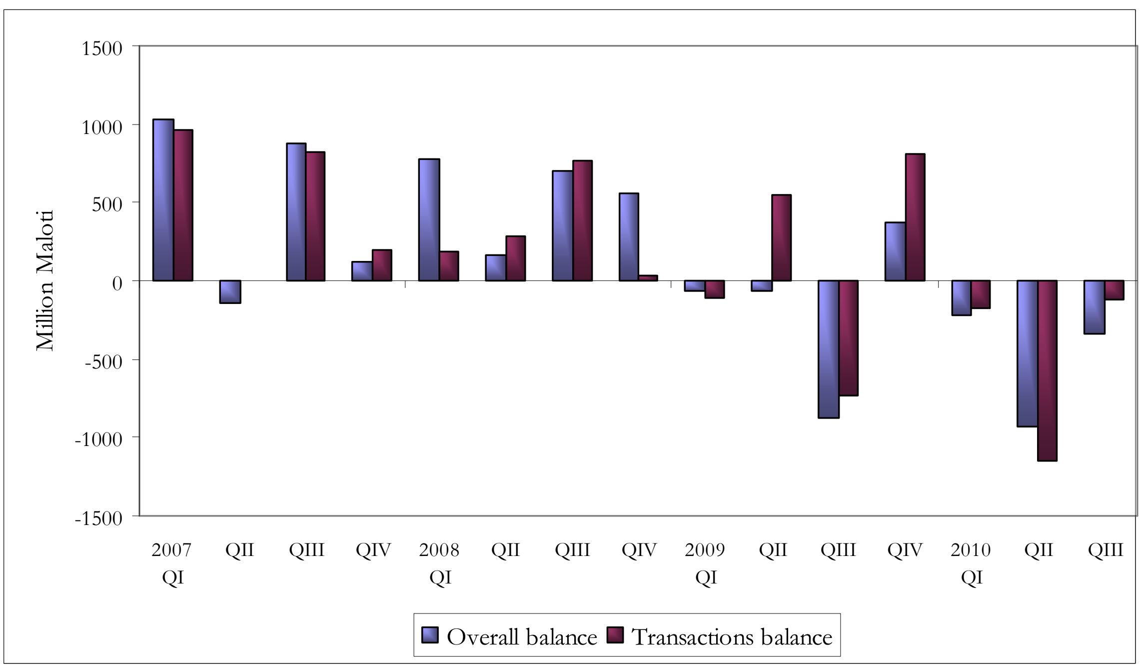


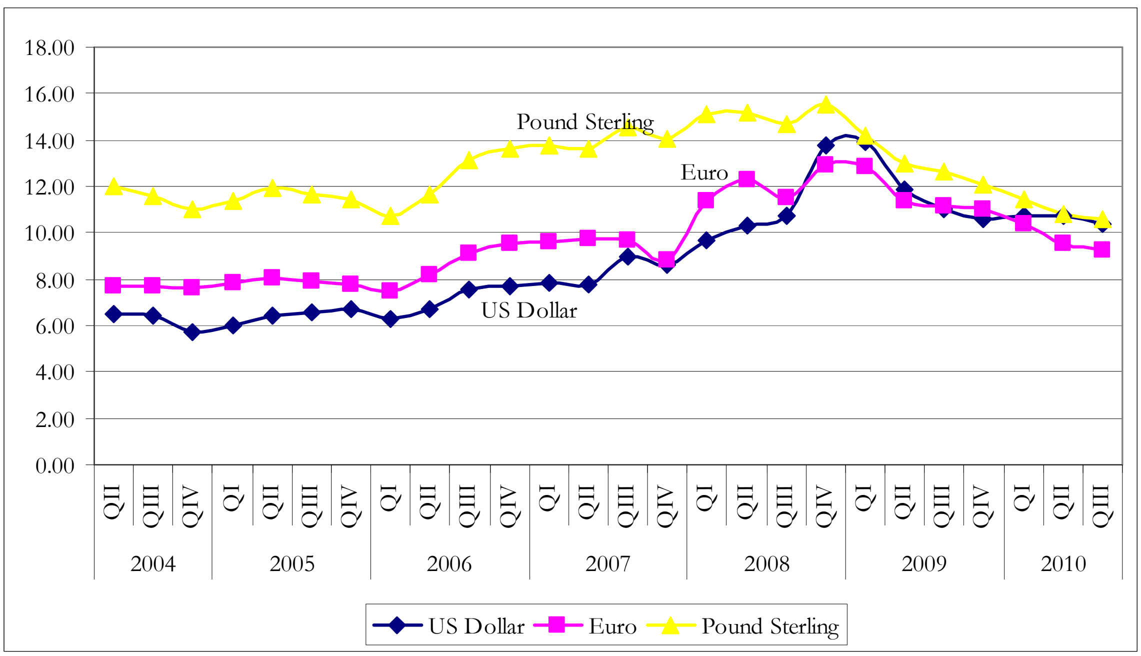
Figure 23: Balance of Payments



Exchange Rates

The Loti, which is at par with the Rand strengthened against the major trading currencies during the period ending September 2010. On quarterly average, and in nominal terms, the loti appreciated by 3.0 per cent to M7.33 against the US Dollar. It also appreciated by 2.9 per cent and 1.6 per cent against the Euro and Pound Sterling, respectively. In real terms, the local currency appreciated by 3.0 per cent, 2.9 per cent and 1.6 per cent against the US Dollar ,Euro and Pound Sterling respectively. The appreciation of the Loti against major currencies is negatively affecting the price competitiveness of Lesotho's exports in the international markets.

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



STATEMENT OF MONETARY POLICY COMMITTEE

3 August 2010

1. Introduction

At its meeting held on the 3 August 2010, the Central Bank of Lesotho Monetary Policy Committee (MPC) decided to revise the targeted minimum level for the Net International Reserves (NIR) from USD700 million to USD956 million. The new target is a performance criterion for the end of September 2010, agreed with the International Monetary Fund under a three-year Extended Credit Facility (ECF) programme signed in May 2010. Another quantitative benchmark for end September monitored by the Bank is a ceiling on the Bank's Net Domestic Assets (NDA) of M1884.0 million. The ECF is intended at supporting Government's effort to maintain macroeconomic stability following adverse effects of the global financial crisis and the shortfall in SACU revenue in the new fiscal year.

The new NIR target is expected to cope with any foreign currency demand of the economy which could be in excess of supply, while allowing the Central Bank to continue to maintain the fixed exchange rate arrangement between the local currency, loti, and the South African currency, the rand. The fixed exchange rate arrangement enables Lesotho's inflation developments to be anchored to those of its trading partner South Africa, which targets an annual inflation rate between 3 and 6 per cent. The NDA targets ensures that the bank does not finance government deficits, an action that could lead to a build-up in inflationary pressures or reduce the NIR to unfavourable levels.

2. Inflation Developments

The Committee observed that inflation rate remained low during the second quarter of 2010. It closed the quarter at 4.5 per cent up from 4.2 percent in March 2010. Marginal price increases for food and non-food items ensured that the inflation rate remained low. However, international prices of oil pose a significant risk to the inflation outlook. The price of crude oil has been on the increase since the last quarter of 2009, when it was below $50 a barrel on average. During the second quarter of 2010, the price of crude oil averaged $76.49 per barrel. South Africa's annual inflation rate was recorded at 4.2 per cent in June 2010.

3. Prospects for the Maintenance of Price Stability

a) Balance of Payments

Balance of payments figures for the first quarter of the fiscal year 2010/11 are yet to be finalised. The Committee noted that the external position could come out worse than the preceding quarter due to significant fall in SACU non-duty receipts in the new fiscal year. The current account balance had improved to a deficit equivalent to 9.1 per cent of GDP in the last quarter of the 2009/10 fiscal year, from a deficit of 14.4 per cent of GDP during the fourth quarter of 2009 due to an improvement in diamond exports and current transfers. Official reserves had remained almost unchanged at 6.7 months of import cover in the quarter to March 2010.

b) Fiscal Balance Outlook

Similarly, government budgetary operations are expected to have deteriorated in the first quarter of the fiscal year 2010/11 due to a combination of lower SACU revenue and payment of arrears from the preceding fiscal year. The government deficit was equivalent to 8.8 per cent of GDP in the first quarter of 2010, following a surplus of 11.2 per cent of GDP in the preceding quarter.

4. Monetary Policy Stance

Net International Reserves (NIR) of the Central Bank of Lesotho were recorded at USD956.2 million on 30 July 2010. At this level, the reserves were close to the minimum level targeted by the Committee, which is USD956 million for the end of September 2010. The Committee agreed to monitor the performance of the NIR closely and to adjust auction amounts in a manner that leads to a build up in the external reserves.

M.P. Senaoana (PhD)

GOVERNOR

STATEMENT OF MONETARY POLICY COMMITTEE

21 September 2010

1. Introduction

At its 28th meeting held on 21st September 2010, the Monetary Policy Committee (MPC) of the Central Bank of Lesotho (CBL) discussed latest monetary policy operations, performance of the external sector as well as inflation-related developments to ensure that the price stability mandate of the Bank is being achieved. The Bank's objective is attained through the maintenance of an adequate level of Net International Reserves (NIR), which has been agreed as a minimum stock of USD956 million for the period July to September 2010 under the Extended Credit Facility (ECF) signed by the Government of Lesotho and the International Monetary Fund (IMF).

These reserves are kept to underwrite the fixed exchange rate between the South African (SA) rand and the loti, and to meet external obligations of the Government if in excess of foreign currency inflows. The currency peg allows Lesotho to benefit from the monetary policy actions of the South African Reserve Bank (SARB) as the bulk of inflationary pressures in Lesotho emanate from the South African market.

The MPC monitors performance of open market operations (auction of treasury bills) on meeting the NIR target.

2. Inflation Developments

The rate of inflation declined to 3.4 per cent on annual basis in July 2010, from 3.8 per cent in the preceding month. The fall was influenced by a slowdown in non-food inflation, which registered 4.0 per cent in July 2010 against 4.4 per cent in June. Components of non-food inflation that decelerated included the transport component, which fell by 3.6 percentage points, as well as 'clothing and footwear', 'housing, water, electricity, gas and other fuels' and ‘restaurants and hotels’. These dampened the effect of accelerating inflation in components such as ‘furnishing, household equipment and routine maintenance for houses’ and ‘alcohol and tobacco’. The latter is the only component of inflation which recorded a double-digit annual inflation rate at 10.7 per cent in July 2010. Food inflation worsened to 3.4 per cent in July 2010 from 3.2 per cent the previous month, due to strong upward pressure on prices of ‘fruits and vegetables’ and ‘milk and eggs’.

Lesotho’s inflation was the lowest in the Common Monetary Area (CMA) in the month under review. Annual inflation rate in South Africa was recorded at 3.7 per cent, within the 3 to 6 per cent range pursued by the South African Reserve Bank (SARB). This improved the outlook of inflation to 4.8 in 2011. This scenario promises low imported inflation in Lesotho in the next year.

3. Prospects on Maintenance of Price Stability

a) Balance of Payments

As envisaged by the Committee at its last meeting in August 2010, the current account deficit worsened to 23.8 per cent of GDP during the first quarter of the fiscal year 2010/11, which ended in June 2010. The deterioration was driven mainly by a significant fall in SACU non-duty receipts in the new fiscal year. The current account balance had registered a deficit equivalent to 7.0 per cent of GDP in the last quarter of the 2009/10 fiscal year. SACU non-duty receipts fell by more than 50 per cent in the review period, and coupled with a decline in income account, overshadowed a 1.7 per cent quarterly increase in exports and a decline in imports.

b) Fiscal Balance Outlook

Government budgetary operations deteriorated to a deficit of 26.0 per cent in the quarter to June 2010, from a deficit of 8.8 per cent in three months to March 2010. Total revenue fell by 17.8 per cent while expenditure and net lending rose by 6.4 per cent during the quarter. The decline in revenue mainly reflected a drop in SACU receipts, which weakened from a 60 per cent share of total government revenue in the fist quarter of 2010 to 40.1 per cent in the second quarter, due to adverse effects of the global financial crisis on the customs revenue pool. The rise in expenditure was mainly influenced by payments of outstanding obligations from the previous fiscal year.

c) Monetary Policy Stance

Net International Reserves (NIR) were estimated at USD937.1 million on 17 September 2010, which was USD18.9 million below the targeted minimum of USD956 million. The Committee observed that the NIR could remain below the target until the end of September if remedial action is not taken. In addition to efforts by the Government to contain foreign currency expenditure prior to the end-September ECF benchmark date, the Committee resolved that more securities should be auctioned to improve the NIR level.

M.P. Senaoana (PhD)
GOVERNOR

VII. Statistical Tables