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I. Introduction

The preliminary economic indicators showed that global economic recovery lost momentum during the first quarter of 2012, as a result of economic growth impediments that prevailed in some advanced economies. Real economic growth in advanced countries slowed down further on account of the weakness in external and domestic demand and continuing tensions in the euro area debt markets. In emerging markets, economic growth also slowed somewhat, but remained much stronger than in advanced economies. Global inflation appeared to have eased during the review period, driven largely by a decline in food prices.

Economic activity in the US moderated in the first quarter of 2012. The deceleration in growth reflected the slowdown in private inventory investment and non-residential fixed investment that was partly moderated by marginal increase in consumer spending and exports. Despite the slowdown in economic growth, the unemployment rate remained unchanged. Inflation also decelerated, reflecting the slowdown in sub-component indices. Due to the stable inflation outlook together with deteriorating growth prospects, the Federal Reserve Bank's Open Market Committee (FOMC) decided to leave the benchmark lending rate unchanged during the review quarter.

Preliminary indications are that economic performance in the euro area remained weak during the first quarter of 2012. Industrial production declined further due to the reduction in production of intermediate goods, energy, as well as durable and non-durable goods during the quarter. The harmonized unemployment rate in the euro zone rose to 10.9 per cent while inflation remained unchanged at 2.7 per cent in March 2012. At that level, the inflation rate remained above European Central Bank (ECB) target of 2.0 per cent, however, the ECB Monetary Policy Committee kept the benchmark lending rate unchanged at 1.0 per cent during the review period.

In the first quarter of 2012, South Africa's (SA) economic growth weakened compared with the fourth quarter of 2011. The slower growth largely emanated from weaker wholesale, retail, motor trade and accommodation industries, general government services, transport, storage and communication sector, finance, real estate and business services. High rate of unemployment remained a major challenge to the SA economy as the number of jobs dropped in both the formal and informal sectors. The rate of inflation fell to 6.0 per cent in March 2012, from 6.1 per cent in December 2011. This was primarily influenced by a slowdown in prices of food and non-alcoholic beverages, utilities as well as housing prices. In consideration of the moderate domestic prices and favourable inflation outlook, the committee kept the repo rate unchanged at 5.5 per cent during the first quarter of 2012.

The economic performance in emerging Asian markets decelerated during the quarter under review, while economic activity in Japan showed signs of recovery. In China, economic activity slowed down in response to the less favourable external conditions and lower domestic demand. Inflation in China eased mainly on account of lower growth in prices of food and non-food categories. In light of reduced inflation expectations, the People's Bank of China left benchmark lending rate unchanged at 6.56 in the review quarter. India's economic performance also deteriorated in the first quarter of 2012 and this emanated from weak domestic and external demand. The inflation rate in India accelerated mainly due to rising food and fuel prices during the review period. Despite an increase in the inflation rate, the Reserve Bank of India (RBI) Monetary Policy Committee left its benchmark lending rate unchanged. Economic activity in Japan showed signs of recovery in the quarter under review. The recovery was boosted largely by the reconstruction of disaster-stricken homes and a rise in the production of consumables. The rate of inflation edged up to 0.3 per cent in March 2012, from a deflation of 0.1 per cent in December 2011, owing to an increase in food and energy prices. The Bank of Japan (BOJ) left its key interest rate unchanged at 0.1per cent during the quarter under review.

The international commodity prices increased during the first quarter of 2012, supported by the generally strong growth in emerging market economies, supply constraints and geopolitical tensions. Oil prices surged mainly due to expected supply losses from Iran because of U.S./EU sanctions. The international market for agricultural products also continued to be affected by unstable weather conditions and supply limitations.

Lesotho's economy continued to show mixed signs of performance, albeit at varying speeds across sectors of the economy. Economic activity in the primary sector improved as mining sector production increased. The secondary sector's performance also improved as both electricity consumption and water consumption increased, albeit at moderate rates compared with the last quarter. The tertiary sector exhibited mixed signals as on the one hand, sales turnover increased while on the other hand the number of telephone calls stagnated. In the labour market, employment declined in all categories during the quarter under review. Inflation decelerated though food prices remained high during the review quarter.

Broad money supply growth continued to contract during the quarter under review, influenced by a decline in net foreign assets. However, an increase in domestic credit extended to private sector moderated the decline in money supply. Interest rates remained low, in line with regional developments, which continued to support credit growth.

Government budgetary operations were estimated to result in a non-cumulative deficit equivalent to 7.9 per cent of GDP during the quarter under review, following a 4.9 per cent of GDP deficit in the quarter ending December 2011. The deficit was a result of an increase in other expenditures which largely reflected fiscal year-end settlements. Total revenue and grants were registered at 62.3 per cent of GDP on a quarterly basis, from 60.1 per cent of GDP in the previous quarter. The increase in total revenue and grants was attributable to a rise in tax revenue.

Outstanding government debt increased by 3.8 per cent during the review period compared with an increase of 8.7 per cent observed in the previous quarter. This was mainly attributable to a slight appreciation of the Loti against the US Dollar. Total debt amounted to 39.2 per cent of GDP at the end of the quarter ending in March 2012 compared with 37.7 per cent observed in the quarter ending December 2011. It remained lower than the 60.0 per cent threshold set by SADC under the macroeconomic convergence criteria.

The external sector position deteriorated in the first quarter of 2012, due to the deterioration in both the current account and capital and financial account balances. As a result, the import coverage of gross official reserves dropped from 4.5 months realised in the previous quarter to 3.3 months of imports in the first quarter of 2012. The domestic currency, the loti, which is fixed at par with the rand, strengthened against the major trading currencies during the quarter under review, in response to global economic developments.

II. International Economic Developments

The preliminary economic indicators showed that global economic activity weakened during the first quarter of 2012. The observed performance resulted from economic growth impediments that prevailed in some advanced economies, related to the weakness in external and domestic demand, the high unemployment rates and continuing tensions in the Euro area debt markets. In emerging markets, economic growth also decelerated somewhat, but remained much stronger than in advanced economies, and thus, making a significant contribution to global economic growth. Global inflation appeared to have eased during the review period, driven largely by a decline in food prices. However, international oil price developments, underpinned mainly by geopolitical factors, continued to pose an increasing risk to the inflation outlook.

United States (US)

Economic activity in the US moderated in the first quarter of 2012. Real GDP rose at an annual rate of 2.2 per cent during the review quarter, compared with an increase of 3.0 per cent observed in the quarter ending in December 2011. The deceleration in growth reflected a slowdown in private inventory investment and non-residential fixed investment that was partly counterbalanced by a marginal increase in consumer spending and exports. Despite the slowdown in economic growth, the unemployment rate remained unchanged at 8.3 per cent in the quarter ending in March 2012.

The inflation rate fell to 2.7 per cent in March 2012, from 2.9 per cent in December 2011. The slower growth reflected the drop in all sub-component indices during the review period. Due to the stable inflation outlook together with the mandate to continue supporting economic activity, the Federal Reserve Bank's Open Market Committee (FOMC) decided to leave benchmark lending rate unchanged at 0.25 per cent during the review quarter.

Table 1: Key World Economic Indicators

	Real GDP Growth		Inflation Rate		Key interest Rate		Unemployment Rate	
	QIV*	QI	QIV	QI	QIV	QI	QIV	QI
China	9.2	8.1	4.1	3.6	6.56	6.56	4.2	n/a
Euro area	0.7	n/a	2.7	2.7	1.00	1.00	10.4	10.9
India	6.1	n/a	6.5	9.5	8.50	8.50	n/a	n/a
Japan	-0.7	4.1	-0.2	0.3	0.10	0.10	4.6	n/a
South Africa	2.9	n/a	6.1	6.0	5.50	5.50	23.9	25.2
US	3.0	2.2	3.0	2.7	0.25	0.25	8.5	8.3

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

Euro Zone

Preliminary indications are that economic performance in the euro area remained weak during the first quarter of 2012. Industrial production declined by 2.2 per cent in March 2012, compared with a fall of 1.6 per cent in December 2011. The decline was driven by the reduction in production of intermediate goods, durable and non-durable goods during the quarter. The largest decreases were recorded in Luxembourg, Greece, Spain, Estonia, Finland and Italy. Furthermore, the volume of retail trade fell by 0.2 per cent in March 2012, following a decline of 1.7 per cent in December 2012.

During the quarter under review, the harmonized unemployment rate in the euro zone rose to 10.9 per cent, from 8.3 per cent in the quarter ending in December 2012. This was influenced largely by a drop in employment in Spain, Greece and Cyprus during the period.

Inflation, measured by changes in the Harmonised Index of Consumer Prices (HCIP), remained unchanged at 2.7 per cent in March 2012. At this level, the inflation rate remained above European Central Bank (ECB) target of 2.0 per cent. However, the ECB Monetary Policy Committee kept the benchmark lending rate unchanged at 1.0 per cent during the review period, to continue fostering economic growth and job creation in the zone.

South Africa (SA)

Economic activity in SA moderated in the first quarter of 2012. Real GDP grew by 2.1 per cent, year-on-year, during the review quarter, following a 2.9 per cent growth realized in the previous quarter. The observed performance was largely attributable to the wholesale, retail and motor trade, accommodation industry, general government services, transport, storage and communication, real estate and business services.

The high rate of unemployment remained a major challenge to the SA economy. It increased to 25.2 per cent during the first quarter of 2012, from 23.9 per cent in the previous quarter, as the number of jobs dropped in both the formal and informal sectors.

The rate of inflation, measured by changes in the consumer price index, decelerated to 6.0 per cent in March 2012, from 6.1 per cent in December 2011.This was primarily influenced by a slowdown in prices of food and non-alcohol beverages, utilities as well as housing prices. Nonetheless, the inflation rate was on the upper limit of the 3 -6 per cent target range set by Monetary Policy Committee of Reserve Bank of South Africa. In consideration of the moderate domestic prices and favourable inflation outlook, the committee kept the repo rate unchanged at 5.5 per cent during the first quarter of 2012.

Emerging Asian Markets and Japan

China

In China, economic activity slowed down during the first quarter of 2012. Real GDP grew by 8.1 per cent in the review quarter, following the growth of 9.2 per cent in the fourth quarter of 2011. This was a result of reduced performance in all economic sectors in response to the less favourable external conditions and lower domestic demand. The unemployment rate remained steady at 4.1 per cent in the quarter ending in March 2012.

The rate of inflation eased to 3.6 per cent in March 2012, from 4.1 per cent in December 2011. The reduction in the rate of inflation was influenced by a lower growth in prices of food and non-food categories. In light of reduced inflation expectations, the People's Bank of China left benchmark lending rate unchanged at 6.56 per cent in the review quarter.

Japan

Economic activity in Japan showed signs of recovery during the first quarter of 2012. On an annual basis, GDP expanded by 4.1 per cent, following a decline of 0.7 per cent realized in the previous quarter. The recovery was boosted largely by the reconstruction of disaster-stricken homes. In addition, the growth was supported by a rise in production of automobiles, notebook computers and communication equipment during the quarter. However, commodity exports were adversely affected by the appreciation of the yen during the quarter.

The level of inflation rate edged up to 0.3 per cent in March 2012, from a deflation of 0.1 per cent in December 2011, owing to an increase in food and energy prices. In order to continue to facilitate economic growth, the Bank of Japan (BOJ) left its key interest rate unchanged at 0.1 per cent during the quarter under review.

India

Preliminary economic indicators showed that India's economic performance deteriorated in the first quarter of 2012. Industrial production, the combined output of factories, mining and power utilities, contracted by 3.5 per cent in March 2012, following a rise of 1.1 per cent in December 2011. This emanated from weak domestic and external demand t during the period. Manufacturing production shrank by 4.4 per cent, while output of capital goods such as factory equipment, contracted by 2.0 per cent in March 2012.

The inflation rate in India rose to 9.5 per cent in March 2011, from 8.8 per cent in the quarter ending in December 2011. This was mainly attributable to rising food and fuel prices during the period. Despite an increase in inflation rate, the Reserve Bank of India (RBI) Monetary Policy Committee left its benchmark lending rate unchanged at 8.5 per cent in the review quarter.

Commodity Prices

Overview

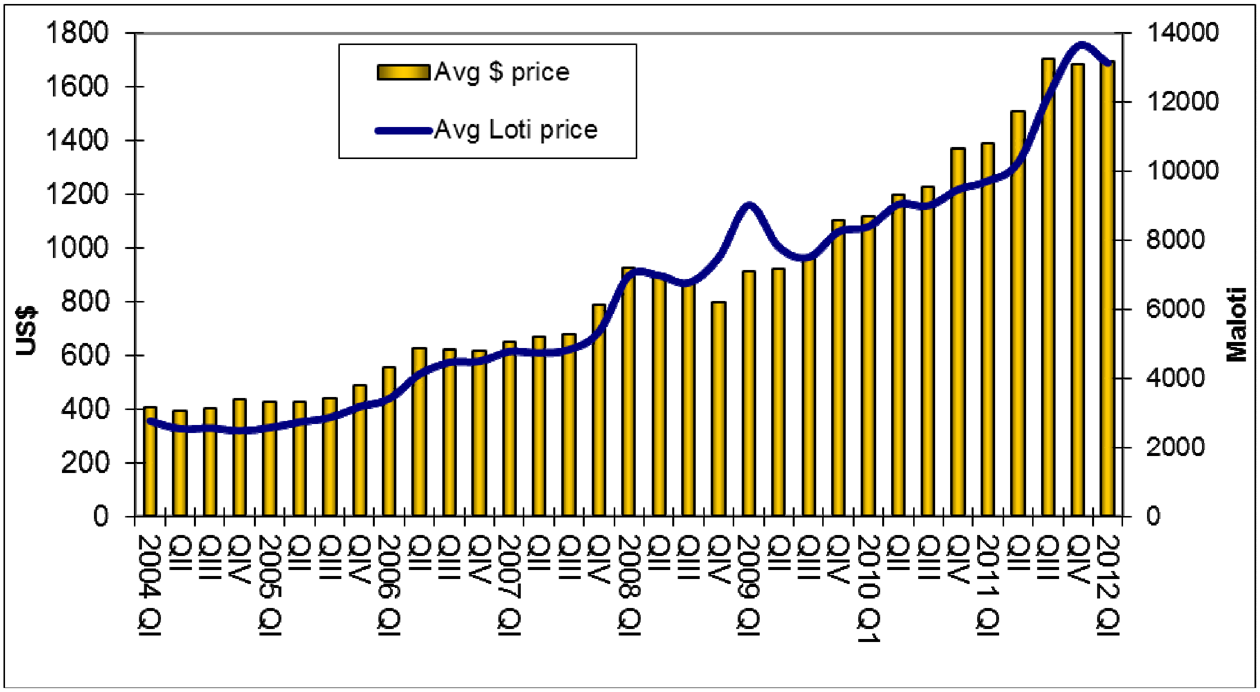
The international commodity prices increased during the first quarter of 2012, supported by the generally strong growth in emerging market economies, supply constraints and geopolitical tensions in the Middle East. Oil prices surged mainly due to expected supply losses from Iran because of U.S./EU sanctions. The international market for agricultural products also continued to be affected by unstable weather conditions and supply limitations.

Mineral Products

Gold

The average US Dollar price of gold increased by 0.5 per cent to US$1 691.8 per ounce during the quarter ending March 2012, following a decline of 1.2 per cent recorded in the previous quarter. In Maloti terms, it fell by 3.6 per cent to M13 128.6 per ounce, compared with a rise of 12.1 per cent observed in the quarter ending December 2011.

Figure 1: Average Price of Gold

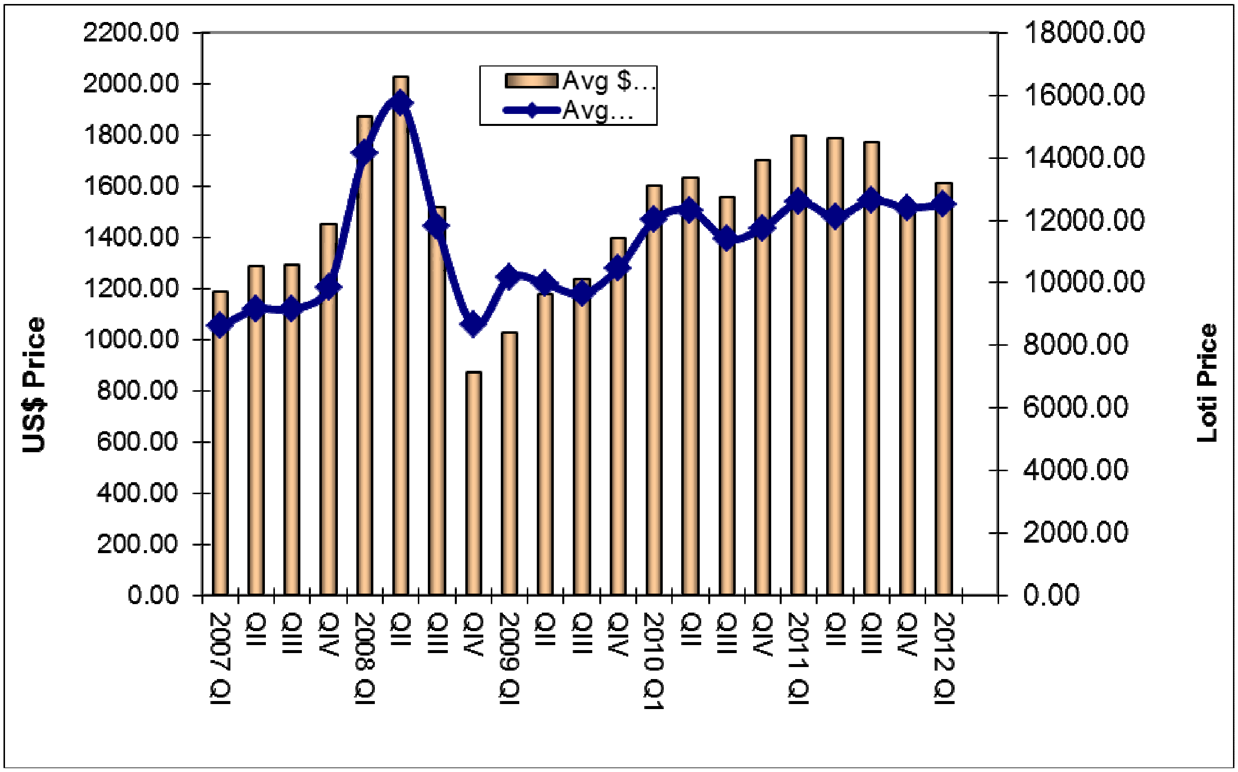


Source: Bloomberg

Platinum

During the first quarter of 2012, the average price of platinum grew by 5.2 per cent to US$1 611.3 per ounce compared with a decrease of 13.5 per cent registered in the previous quarter. In maloti terms, this represented an increase of 0.8 per cent to M12 503.4 per ounce, against a rise of 1.9 per cent in the previous quarter.

Figure 2: Average of Price of Platinum



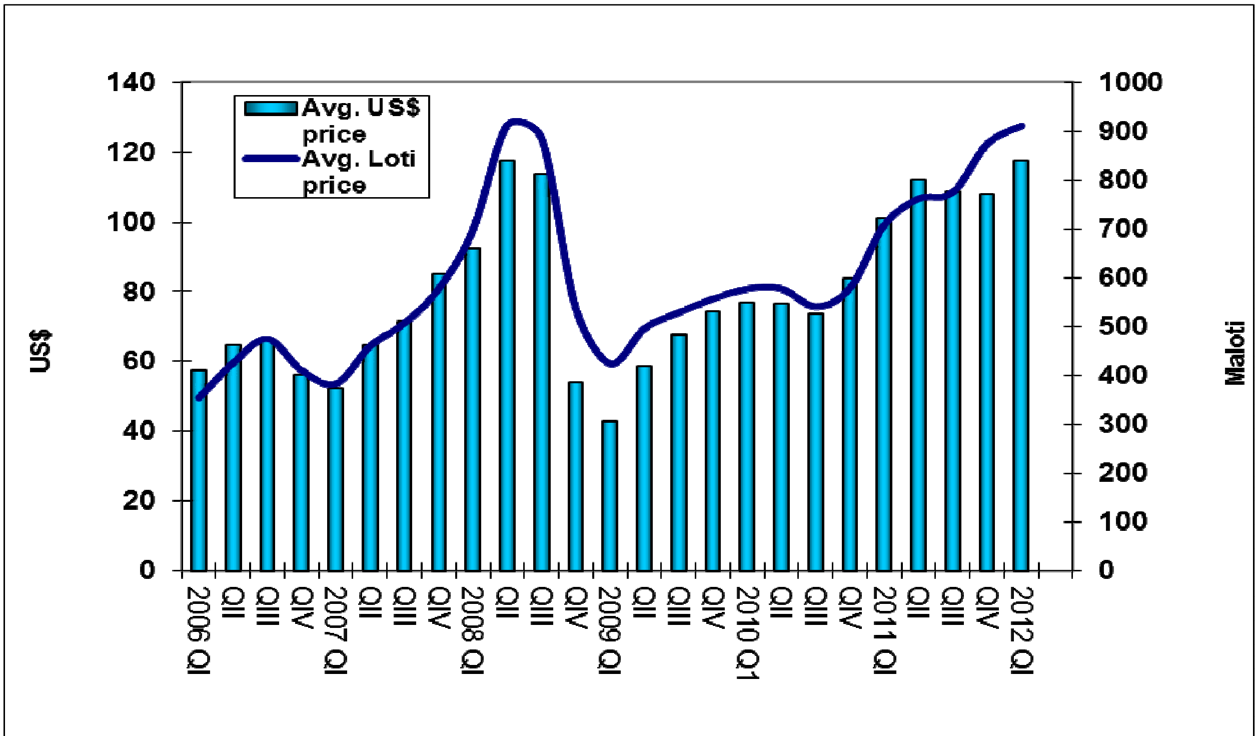
Source: Bloomberg

Oil

The price of crude oil increased, on the average, by 8.8 per cent to US$117.4 per barrel in the review period compared with a drop of 0.6 per cent observed in the preceding quarter. In Maloti terms, this amounted to a 4.2 per cent increase, following a 12.8 per cent rise during the quarter ending in December 2011.

Domestic prices of petroleum products also rose in the review period. The price of petrol increased to M10.15 per litre and those of diesel and illuminating paraffin closed the review quarter at M10.75 and M7.75 per litre, respectively.

Figure 3: Average Price of Oil



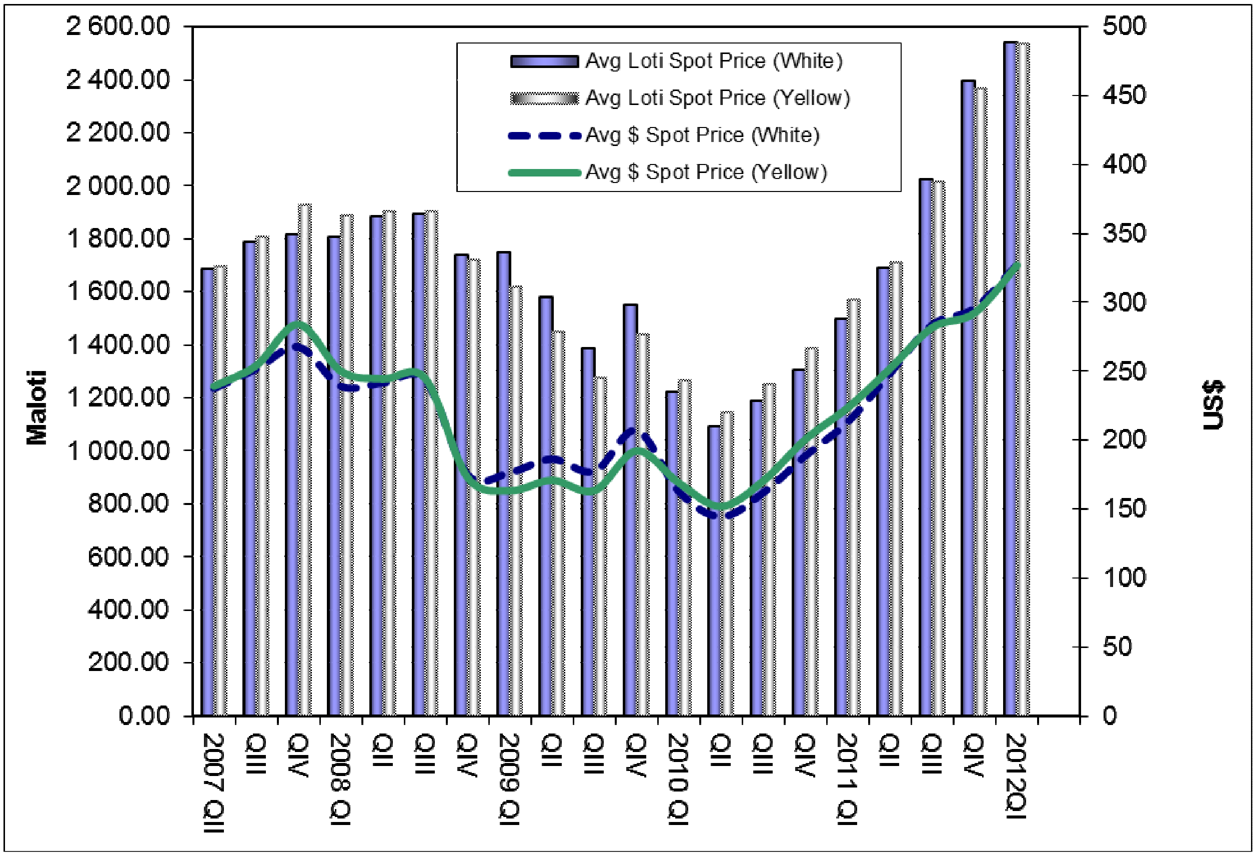
Source: Bloomberg

Agricultural Products

Maize

The average prices of white and yellow maize continued to increase in the first quarter of 2012. They grew by 2.3 per cent and 1.3 per cent from US$295.7 and US$292.2 per tonne, in December 2011, to US$327.3 and US$326.8 per tonne, respectively. In maloti terms, the average prices of white and yellow maize increased by 10.7 per cent and 11.8 per cent, to M2 539.5 and M2535.8 per tonne, from M2 394.9 and M2 367.1 per tonne, in the previous period, respectively.

Figure 4: Average Spot Price of Maize

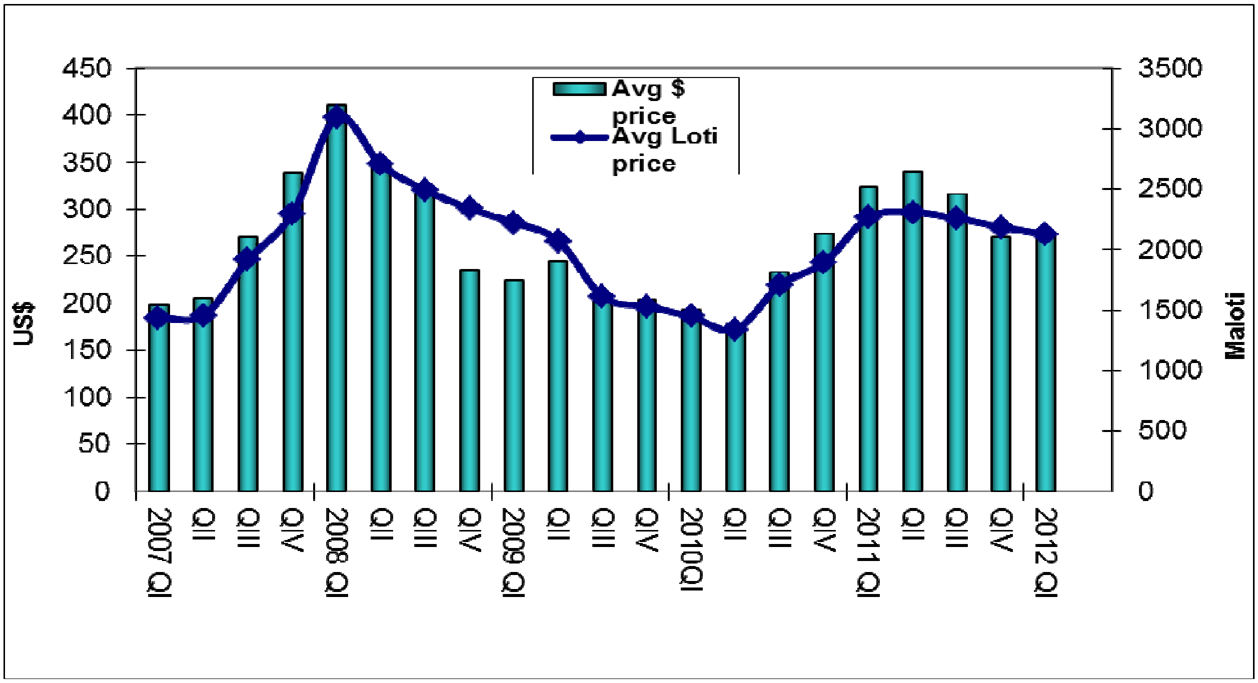


Source: Bloomberg

Wheat

The average wheat price increased by 1.4 per cent to US$273.8 per tonne in the first quarter of 2012 from US$270.02 per tonne recorded in the previous quarter. However, the maloti price of wheat fell by 2.9 per cent.

Figure 5: Average Spot Price of Wheat



III. Real Sector, Employment and Price Developments

Overview

Lesotho's economy continued to show positive performance, albeit uneven across sectors of the economy, in the first quarter of 2012. Economic activity in the primary sector improved as mining sector production increased. The secondary sector's performance also improved as both electricity consumption and water consumption increased, albeit at moderate rates compared with the previous quarter. The tertiary sector exhibited mixed signals. On the one hand, sales turnover increased while on the other hand the number of telephone calls stagnated for the third consecutive quarter reflecting subdued performance by the export sector. In the labour market, employment declined in all categories during the quarter under review. Inflation decelerated though food prices remained high during the review quarter.

Primary Sector Developments

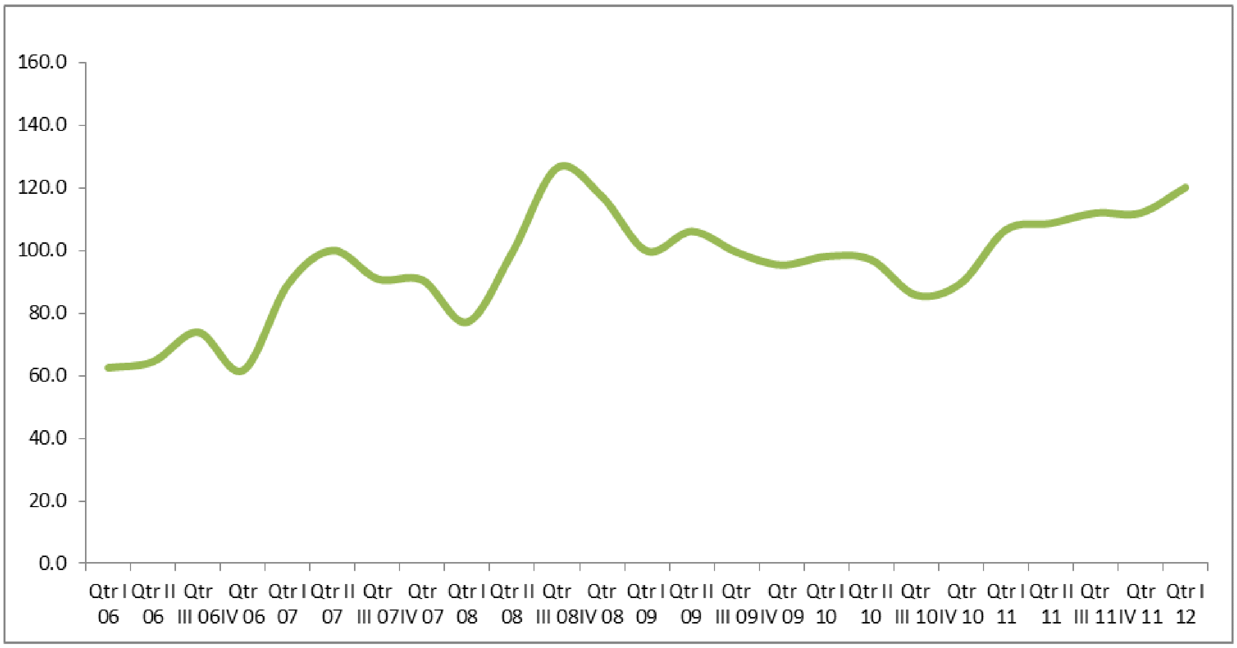
The weighted diamond production index[1] (WDPI) rose by 7.3 per cent during the quarter ending March 2012, following no increase in the previous quarter. The increase was mainly attributed to the commencement of the Letšeng diamond mine expansion project, Project Kholo in January 2012,

[1] The Central Bank of Lesotho has decided to introduce a weighted index to cater for the differences in the market value of diamonds produced by the different mines in Lesotho. In addition, the data has also been revised after obtaining more appropriate data on diamond production from the Department of Mines and Geology.

which was aimed at increasing the annual treatment capacity of the mine and double the carat output to around 200,000 carats per annum. However, Liqhobong diamond production was moderate as the pilot plant was temporarily stopped while modifications to increase output were being carried out. The relatively strong demand for jewellery, in China, Russia, India and other emerging market economies also played a role in the positive performance of Lesotho's diamond mines. On an annual basis, the diamond production index rose at a lower rate of 13.0 per cent in March 2012 compared with a 25.0 per cent increase observed in the preceding period.

Figure 6: Weighted Diamond Production Index

(2007: QII=100)



Source: Department of Mines and Geology

Secondary Sector Developments

Electricity Consumption

Overall electricity consumption, measured in kilowatt hours (kwh) grew by 5.3 per cent in the first quarter of 2012 compared with a decline of 14.3 per cent in the quarter ending December 2011. During the review period, the 'general purpose', 'commercial and industrial' and 'domestic' categories registered increases of 12.3 per cent, 5.8 per cent and 2.5 per cent, respectively. Looking at the three categories' contributions to the total increase in electricity consumption, the 'commercial and industrial category' contributed more due to the resumption of production by the manufacturing subsector after the festive season break. Electricity consumption by the commercial and industrial category increased despite the slowdown in the manufacturing subsector, especially in the textile and clothing industry.

Table 2: Electricity Consumption

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

	2011						2012	
	QII		QIII		QIV		QI	
	Kwh	Value	Kwh	Value	Kwh	Value	Kwh	Value
General Purpose	24.44	22.05	24.77	23.19	20.73	19.28	23.28	21.56
Domestic	56.63	45.33	56.76	47.85	51.32	43.32	52.61	37.34
Commercial & Industrial	93.04	47.83	90.28	48.94	75.20	42.50	79.17	43.04
Total	**174.11**	**115.22**	**171.81**	**119.97**	**147.24**	**105.11**	**155.06**	**101.95**

Source: Lesotho Electricity Authority and Lesotho Electricity Company

Water Consumption

Water consumption increased at a moderate rate of 5.3 per cent compared with the increase of 19.7 per cent realised in the previous quarter. In seasonally adjusted terms, water consumption increased by 36.6 per cent, while the annual total water consumption registered an increase of 27.7 per cent. Both the 'commercial and industrial', and 'other' categories reflected increases of 5.3 per cent and 24.4 per cent, respectively, which moderated the impact of the 1.5 per cent decline in domestic consumption. The moderation in total water consumption may be attributable to the sluggish performance of the domestic manufacturing subsector as the U.S economy slowed down during the quarter under review.

Table 3: Water Consumption

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

		Domestic	Industrial	Other	Total
2011					
I	Units	0.74	1.15	0.63	2.51
	Value	4.41	7.50	3.74	15.65
	Units*		1.34		2.93
II	Units	0.85	1.17	0.62	2.63
	Value	4.70	9.13	4.65	18.48
	Units*		1.19		2.67
III	Units	0.85	0.93	0.63	2.41
	Value	5.93	7.09	5.44	18.47
	Units*		0.88		2.29
IV	Units	1.31	0.95	0.78	3.04
	Value	8.56	7.78	8.78	25.1
	Units*		0.86		2.74
2012					
I	Units	1.29	1.00	0.97	3.20
	Value	5.60	10.00	6.84	22.29
	Units*		1.00		3.74

Source: Water and Sewerage Authority
* denotes seasonally adjusted figures

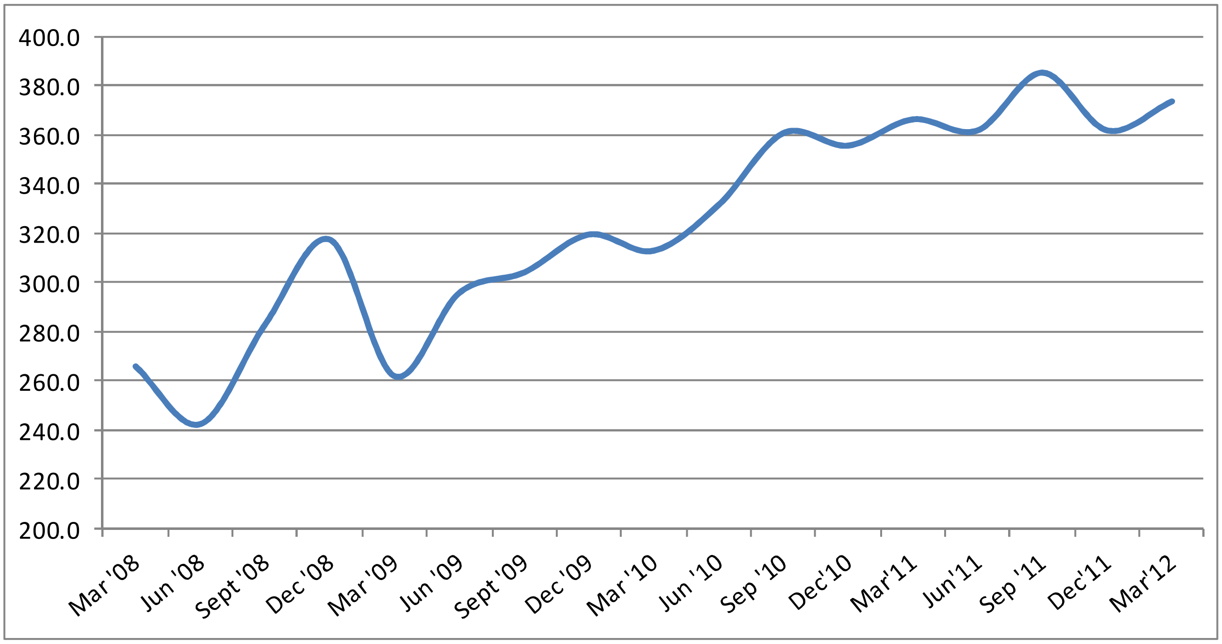
Tertiary Sector Developments

Sales Turnover

The value of sales turnover increased by 3.3 per cent and 1.9 per cent on quarterly and annual bases, respectively, in the quarter ending March 2012. This was against the quarterly decline of 6.1 per cent and the annual increase of 1.7 per cent in the preceding quarter. The increase in sales turnover mainly reflected buoyant business activity in the private sector (business enterprises and households) and the relatively stable consumer prices during the review period.

Figure 7: Value of Sales Turnover

(Million Maloti)



Source: Lesotho Revenue Authority

Telephone Statistics

The total number of telephone calls remained unchanged for the third consecutive quarter in March 2012. However, on an annual basis, the number of telephone calls increased by 2.7 per cent compared with 4.1 per cent recorded in the previous quarter. The quarterly position was in line with subdued activity in the manufacturing subsector and may be a reflection of a slowdown in external trade.

Table 4: Telephone Traffic Statistics

		SA Outgoing Calls	International Calls	Total Calls
2010				
IV	No. of calls (millions)	2.03	0.12	2.16
	No. of calls*			2.17
	Total Duration (million minutes)	3.52	0.39	3.91
	Nominal Value (million maloti)	8.09	2.66	10.75
2011				
I	No. of calls (millions)	2.05	0.14	2.19
	No. of calls*			2.28
	Total Duration (million minutes)	3.62	0.37	3.99
	Nominal Value (million maloti)	8.24	2.63	10.87
II	No. of calls (millions)	2.15	0.17	2.32
	No. of calls*			2.41
	Total Duration (million minutes)	3.71	0.42	4.13
	Nominal Value (million maloti)	8.36	2.67	11.03
III	No. of calls (millions)	2.08	0.17	2.25
	No. of calls*			2.04
	Total Duration (million minutes)	3.62	0.39	4.01
	Nominal Value (million maloti)	8.23	2.65	10.88
IV	No. of calls (millions)	2.09	0.16	2.25
	No. of calls*			2.27
	Total Duration (million minutes)	3.65	0.39	4.04
	Nominal Value (million maloti)	8.28	2.65	10.93
2012				
I+	No. of calls (millions)	2.09	0.16	2.25
	No. of calls*			2.39
	Total Duration (million minutes)	3.66	0.40	4.06
	Nominal Value (million maloti)	8.29	2.66	10.95

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

Investment Expenditure

Imported Motor Vehicles

In seasonally adjusted terms, the number of imported motor vehicles increased significantly by 41.2 per cent and 43.0 per cent on quarterly and annual bases, respectively. The increase in the total number of imported vehicles mainly resulted from the replacement of a significant number of old government vehicles whose service plans were long overdue. The timely replacement of these vehicles was hindered by supply disruptions that resulted from tsunamis and earthquakes that hit Japan in 2011, damaging infrastructure, hence hindering car production. The vehicles supply chain has now returned to normal as Japan has rebuilt its industry.

Table 5: Motor Vehicle Imports+

(Value in Million Maloti)

		Cars	Vans	Trucks	Buses	Tractors	M/ Cycles	Trailers	Total
2011									
I	Value	41.40	51.10	22.68	7.59	1.47	0.13	1.73	126.10
	Units*								870
	Units	407	372	55	35	19	2	20	910
II	Value	36.30	46.87	23.60	7.0	0.97	0.16	1.67	116.57
	Units*								955
	Units	396	352	79	40	20	5	11	903
III	Value	35.98	65.56	42.42	6.95	2.37	0.04	0.74	154.06
	Units*								913
	Units	385	380	69	36	15	4	24	831
IIV	Value	42.82	43.49	25.70	7.09	1.32	0.80	1.96	123.19
	Units*								881
	Units	346	298	70	29	21	3	19	786
2012									
I	Value	45.83	52.84	31.15	6.73	1.04	0.02	3.26	140.87
	Units*								1244
	Units	529	593	121	44	10	2	23	1322

*denotes seasonally adjusted figures
+Includes imports of second hand cars

Employment Developments

During the first quarter of 2012, employment by LNDC-assisted companies declined by 6.0 per cent following an increase of 9.8 per cent in the previous quarter. On an annual basis, a decline of 1.7 per cent was registered compared with a steeper decline of 10.4 per cent in the previous quarter. This performance mainly reflected negative pressures on Lesotho's manufacturing sector as the US economy slowed down during the quarter under review. This was despite the increase in the U.S's employment and consumer spending as consumer spending was more skewed towards services and services exports than consumables such as textiles and clothing. Major declines in domestic employment occurred in the apparel and textile industry, especially the knit and woven garments.

Table 6: Employment Trend of LNDC-Assisted Companies

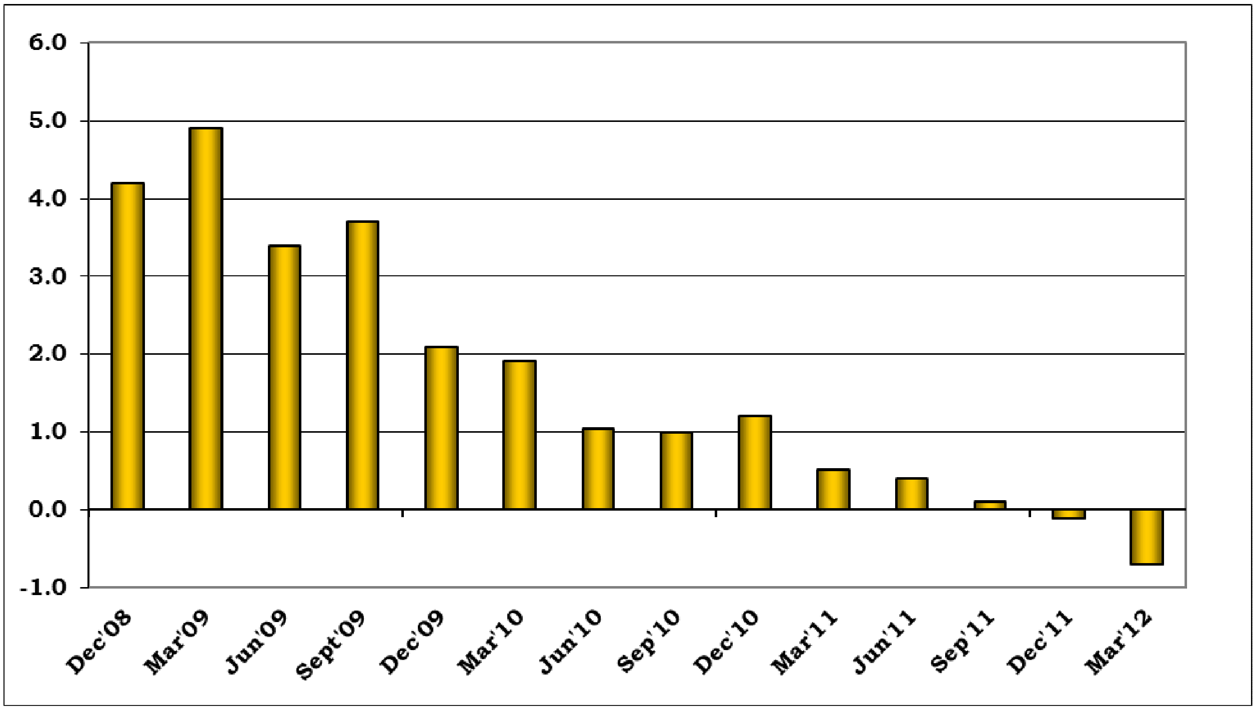
Industry	**2011**				**2012**
	QI	**QII**	**QIII**	**QIV**	**QI^{+}**
Knit Garments	21 212	22401	20082	24340	22190
Woven Garments	14 450	15578	13967	13772	12710
Footwear	2 622	2583	2756	2789	2905
Fabrics, Yarn etc.	1 427	1388	1388	1411	1292
Construction	260	277	257	279	272
Food & Beverages	842	841	585	585	1162
Electronics	1712	1678	1461	1613	1555
Retail	121	132	130	140	136
Hotel & Accommodation	445	469	378	403	394
Other	418	435	428	169	159
TOTAL	**43 509**	**45782**	**41432**	**45501**	**42775**

Source: Lesotho National Development Corporation
$^{+}$ Preliminary estimates

The number of government employees declined further by 0.6 per cent and 0.7 per cent, on annual and quarterly bases, respectively in March 2012. On a quarterly basis, the number of employees in the 'civil servants' and 'teacher' categories declined by 0.6 per cent and 0.9 per cent, respectively while the number of daily paid workers increased by 2.1 per cent during the same period. The decline in the number of government employees during the review period was in line with Government's efforts to contain the wage bill.

Figure 8: **Government Employment**

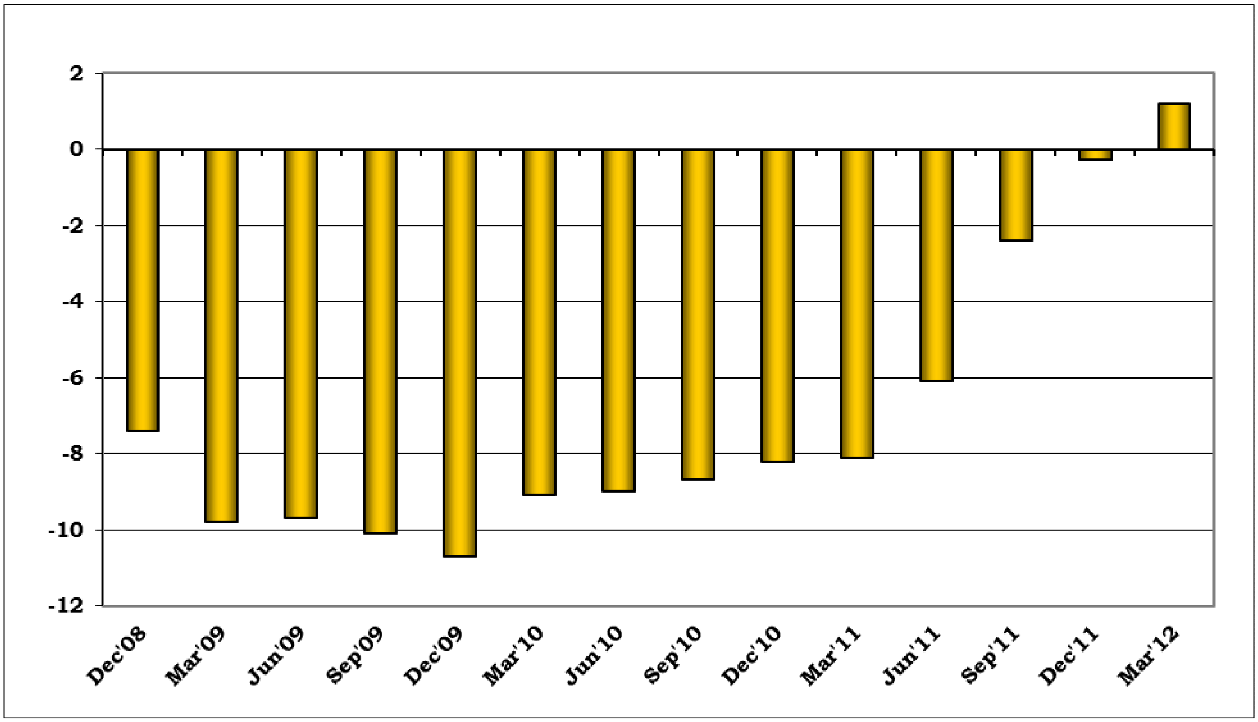
(Annual Percentage Change)



The number of migrant mineworkers declined by 0.6 per cent in the first quarter of 2012, compared with an increase of 0.5 per cent in the previous quarter. Nonetheless, on annual basis, the number of migrant mineworkers increased by 1.2 per cent. The quarterly decline may be reflective of the decline in the price of gold and output-disrupting safety stops that took place during the quarter, which were undertaken to improve Harmony mine safety conditions. During the review quarter, the Department of Mineral Resources in South Africa intensified enforcement measures to improve health and safety in the mines and to reduce fatalities.

Figure 9: **Migrant Mineworkers Employment**

(Annual Percentage Change)



Source: The Employment Bureau of Africa (TEBA) and CBL estimates

Price Developments

Lesotho's inflation, measured as a percentage change in the Consumer Price Index (CPI) for all urban households, decelerated to 7.2 per cent in March 2012 from 7.7 per cent in December 2011. The fall in the inflation rate was mainly contributed by prices of 'housing, electricity, gas & other fuels', and 'furniture, household's equipment & routine maintenance of houses'. They declined from 19.5 per cent and 3.2 per cent in December 2011 to 13.0 per cent and 2.5 per cent in March 2012, respectively. Nonetheless, prices of 'Food" and 'Alcoholic beverages remained high during the review period. The high contribution of food inflation in the overall inflation mainly reflected high global food prices.

Table 7: Inflation Rate

(Annual Percentage Change: March 2010 =100)

	Weight	2011	2012

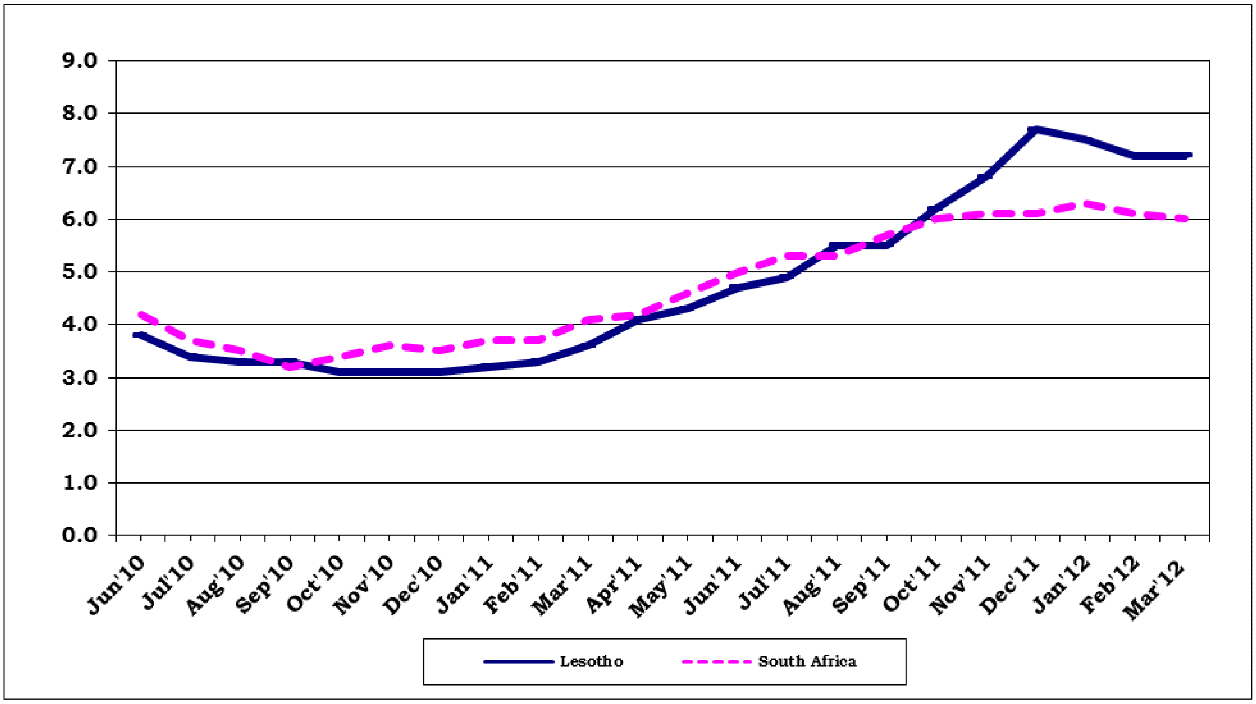
		Nov	Dec	Jan	Feb	Mar
All items	**100.0**	**6.8**	**7.7**	**7.5**	**7.2**	**7.2**
Food and non-alcoholic beverages	38.1	9.6	10.4	10.4	10.5	11.0
Alcoholic beverages & Tobacco	1.2	6.9	7.3	7.5	7.6	8.0
Clothing & footwear	17.4	1.7	1.7	1.8	1.6	1.5
Housing, electricity gas & other fuels	10.6	17.7	19.5	16.1	14.5	13.0
Furniture, households equipment & routine maintenance of house	9.4	3.1	3.2	3.3	3.3	2.5
Health	1.9	0.6	0.7	0.7	0.6	0.6
Transport	8.5	3.5	8.6	8.7	8.6	8.5
Communication	1.2	0.0	0.0	0.0	-0.6	-0.6
Leisure, entertainment & Culture	2.4	1.9	1.8	1.9	2.2	2.5
Education	2.7	0.8	0.8	0.3	0.7	1.0
Restaurant & Hotels	0.7	2.0	2.0	0.4	-1.2	-1.6
Miscellaneous goods & services	5.8	2.2	2.6	2.7	2.5	2.4

Source: Bureau of Statistics, Lesotho

Lesotho's inflation rate continued to move in line with that of SA, largely reflecting Lesotho's high reliance on imports from SA. Since the beginning of the fourth quarter of 2011, Lesotho's inflation had been faster than that of SA. At the beginning of 2012, inflation rates in both countries began to retreat with Lesotho's inflation rate stabilising at 7.2 in the last two months of the quarter ending in March 2012 from 7.7 per cent recorded in December 2011. SA's inflation rate also retreated from 6.1 per cent in December 2011 to 6.0 per cent in March 2012. The main drivers of inflation in the review period were the highly uncertain and increasing global oil prices and the depreciation of the rand exchange rate. Food prices also remained high.

Figure 10: Annual Inflation Rate for Urban Households

(Annual Percentage Change: March 2010 =100)



Source: Bureau of Statistics, Lesotho

IV. Monetary and Financial Developments

Determinants of Money Supply

Money supply contracted by 2.6 per cent during the quarter under review following a 4.4 per cent contraction observed in the last quarter of 2011. On an annual basis, money supply expanded by 4.9 per cent compared with a 2.9 per cent rise observed in the previous quarter. The decline in money supply on a quarterly basis was fuelled by an 11.1 per cent decline in net foreign assets moderated by a 7.8 per cent increase in domestic claims excluding net claims on government.

Figure 11: Overview of Recent Monetary Developments

(Million Maloti: End of Period)

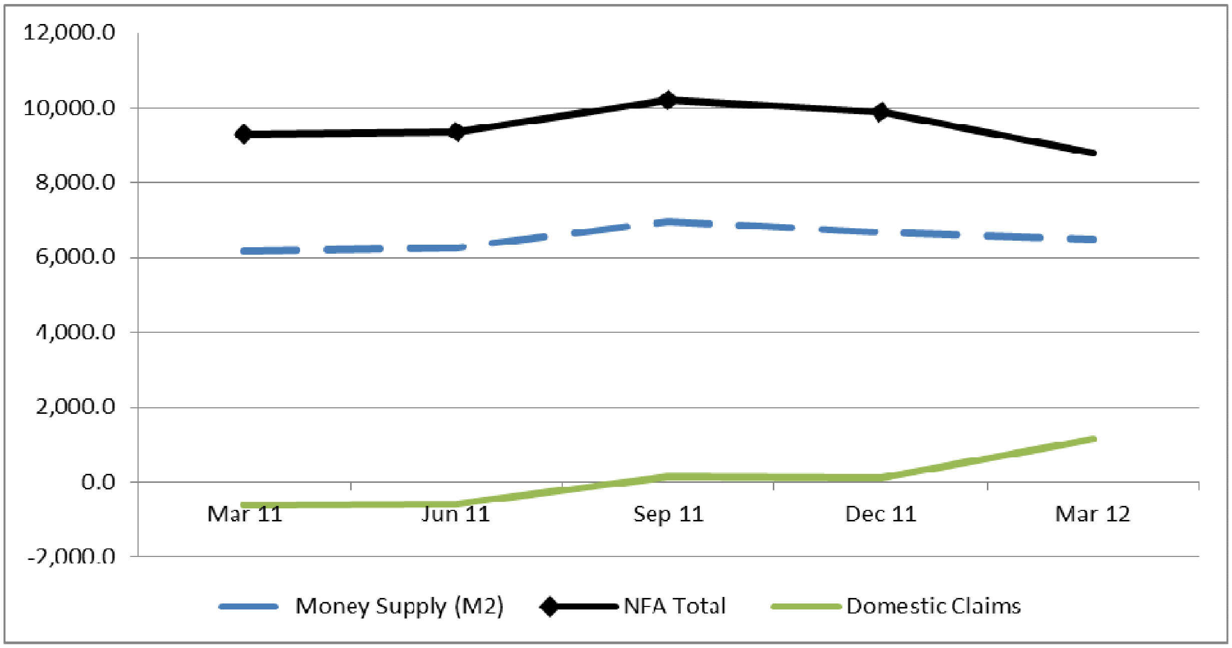


Table 8: Determinants of Money Supply

(Million Maloti: Changes)

	2011			2012
	Jun	Sep	Dec	Mar
Net Foreign Assets	46.13	862.53	-306.70	-1,104.34
Domestic Claims	36.05	709.18	-26.94	1,053.98
Net Claims on Central Government	-82.18	526.63	-93.66	842.80
Claims on other Sectors	11.17	-2.23	-2.56	-10.89
Claims on Private Sector	107.06	184.79	69.27	222.07
Shares and other equity	-63.69	687.29	15.65	-40.95
Other Items (NET)	64.62	178.24	-40.56	166.33
Broad Money Liabilities	81.24	706.19	-308.74	-175.74

Components of Money Supply

The major components of broad money comprise narrow and quasi money. During the first quarter of 2012, both narrow and quasi money contracted. Narrow money contracted by 3.6 per cent, compared with a 5.9 per cent contraction registered in the previous quarter. Currency outside depository corporations was the major driver of a decline in M1. It contracted by 6.6 per cent while transferable deposits (included in broad money) declined by 2.6 per cent. Quasi money contracted moderately by 1.9 per cent driven mainly by a 1.9 per cent decline in other non-transferable deposits held by the commercial banks.

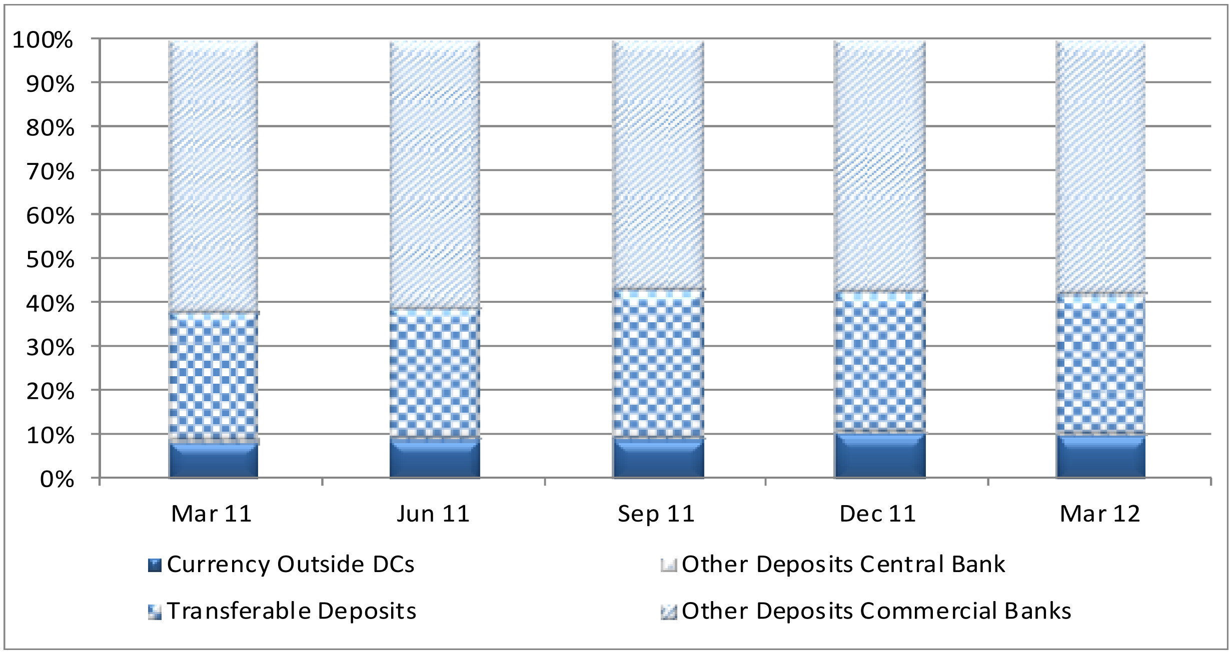
Table 9: Money Supply

(Million Maloti; End of Period)

	2011				2012
	Mar	**Jun**	**Sep**	**Dec**	**Mar**
Broad Money (M2)	6181.0	6262.2	6968.4	6659.6	6483.9
Narrow Money (M1)	2322.7	2428.4	2969.1	2801.1	2700.5
Currency Outside DCs	529.2	569.4	642.0	688.7	643.3
Transferable Deposits	1793.5	1859.0	2327.1	2112.4	2057.1
Quasi Money	3858.3	3833.8	3999.3	3858.6	3783.4
Other Deposits Commercial Banks	3821.9	3797.6	3962.5	3822.3	3749.0
Other Deposits Central Bank	36.3	36.2	36.8	36.3	34.4

Figure 12: Components of Money Supply

(Percentage shares)



Commercial Banks' Deposits by Holder

The quantity of deposits held with the local commercial banks declined by 2.2 per cent at the end of March 2012 following a 5.6 per cent decline registered in the quarter ending December 2011. Both transferable and other deposits recorded declines of 2.6 per cent and 1.9 per cent respectively. Private sector deposits formed the largest share of deposits held with commercial banks. Transferable deposits by nonfinancial corporations increased by 8.6 per cent while transferable deposits by other residents sector (households) increased by 4.5 per cent. Non-transferable households' deposits declined by 13.3 per cent.

Table 10: Commercial Banks; Deposits by Holder

(Million Maloti: End of Period)

	2011				2012
	Mar	Jun	Sep	Dec	Mar
Transferable Deposits Incl. in M2	1793.5	1859.0	2327.1	2112.4	2057.1
Other Financial Corporations	12.3	9.3	282.4	15.9	9.0
Public Nonfinancial Corporations	128.3	42.9	45.0	42.9	43.0
Private Sector	1652.9	1806.8	1999.8	2053.6	2005.2
Other NFCs	983.2	1154.8	1232.8	1267.6	1183.9
Other Sectors (Households)	669.6	652.0	766.9	785.9	821.3
Other Deposits Incl. in M2	3821.9	3797.6	3962.5	3822.3	3749.0
Other Financial Corporations	4.5	0.0	0.0	0.0	0.0
Public Nonfinancial Corporations	189.0	44.2	40.4	39.3	34.2
Private Sector	3628.5	3753.4	3922.1	3783.0	3714.8
Other NFCs	2171.6	2447.3	2595.4	1981.8	2152.6
Other Sectors (Households)	1456.9	1306.1	1326.7	1801.2	1562.2
Total Deposits	**5615.4**	**5656.6**	**6289.6**	**5934.7**	**5806.1**

NB: Totals may not tally due to rounding off

Liquidity of Commercial Banks

The liquidity of commercial banks continued to be high in the first quarter of 2012. The ratio of liquid assets to deposit liabilities and placements with other banks declined by 50 basis points, from 71.4 per cent observed in the fourth quarter of 2011 to 70.9 per cent in the first quarter of 2012. The credit deposit ratio increased from 44.1 per cent recorded in the previous quarter to 48.6 per cent in the review period. The increase in the credit deposit ratio reflected a 2.2 per cent contraction in private sector deposits coupled with a 7.8 per cent increase in credit to the private sector.

Table 11: Components of Commercial Banks' Liquidity

(Million Maloti: End of Period)

COMPONENT	2011				2012
	Mar	Jun	Sep	Dec	Mar
Maloti Notes and Coins	93.0	90.0	86.7	155.9	102.7
Rand Notes and Coins	53.3	52.3	49.2	95.3	59.6
Balances due from Lesotho Banks	1092.9	1003.3	1083.1	1023.1	837.8
Balances due from Foreign Banks	3440.5	3407.8	3855.0	3233.4	2777.4
Clearing Balances with CBL	-28.0	-78.7	22.9	-44.8	-173.1
CBL Bills	0.0	0.0	0.0	0.0	0.0
Lesotho Government Securities	471.7	563.5	568.0	634.5	744.8

Table 12: Consolidated Balance Sheet of Commercial Banks

(Million Maloti: End of Period)

	2011				2012
	Mar	Jun	Sep	Dec	Mar
Net Foreign Assets	3503.16	3404.82	3876.64	3209.50	2826.54
Claims on Central Bank	321.55	230.40	358.99	292.06	474.19
Currency	93.04	90.00	86.73	154.90	102.74
Reserve Deposits and Securities	228.52	140.41	272.26	137.16	371.45
Net Claims on Central Government	533.93	626.50	633.59	700.16	817.86
Claims	556.58	649.24	658.61	722.17	840.06
Liabilities	-22.65	-22.75	-25.02	-22.01	-22.20
Claims on Other Sectors	2302.07	2420.87	2602.83	2667.00	2877.36
Claims on OFCs	3.77	15.30	13.48	11.27	0.00
Claims on PNFCs	2.49	2.12	1.72	1.37	1.75
Claims on Private Sector	2295.82	2403.45	2587.64	2654.37	2875.61
Transferable Deposits Inc. in BM	1793.48	1858.99	2327.10	2112.37	2057.14
Other Deposits Inc. in BM	3821.91	3797.63	3962.51	3822.29	3748.98
Shares Equity and OIN	1045.32	1025.96	1182.44	934.06	1189.83

Demand for Money

Domestic Credit

Domestic credit, excluding net claims on government, expanded further by 7.8 per cent during the quarter under review, following a 2.5 per cent expansion realized during the fourth quarter of 2011. On an annual basis, domestic credit continued to register a double digit growth of 24.8 per cent following an expansion of 24.9 per cent recorded in the previous quarter. The quarterly increase in domestic claims was driven by 8.3 per cent rise in credit extended to the private sector. Nonetheless, credit extended to public nonfinancial corporations declined by 27.7 per cent.

Table 13: Domestic Credit Excluding Net Claims on Government*

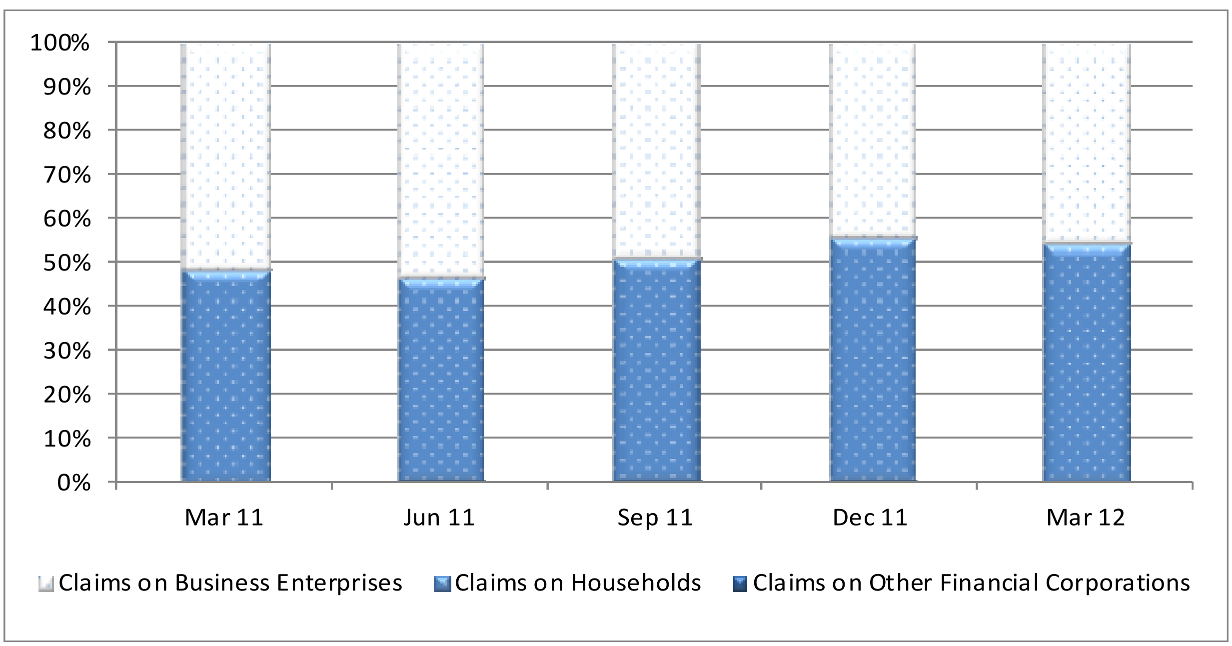
(Million Maloti: End of Period)

	2011				2012
	Mar	Jun	Sep	Dec	Mar
Claims on Other Sectors	2332.1	2450.4	2632.9	2699.6	2910.8
Claims on Other Financial Corporations	3.8	15.3	13.5	11.3	0.0
Claims on Public Nonfinancial Corporations	2.5	2.1	1.7	1.4	1.7
Claims on Private Sector	2325.9	2432.9	2617.7	2687.0	2909.1
Claims on Business Enterprises	1202.4	1300.6	1285.5	1196.1	1323.7
Claims on Households	1123.4	1132.3	1332.2	1490.9	1585.4

*excludes non-performing loans

Figure 13: Distribution of Credit by Holder

(Percentage shares)



Credit to Private Sector

During the first quarter of 2012, credit extended to the private sector increased by 8.3 per cent, following a 2.6 per cent increase in the previous quarter. The quarterly increase in private sector credit was driven by a 10.7 per cent rise in credit extended to business enterprises and a 6.3 per cent increase in credit extended to households. Credit extended to households constituted the largest share of domestic credit at 54.5 per cent while the share of credit extended to businesses increased to 45.3 per cent. Credit extended to statutory bodies remained negligible at 0.1 per cent.

Sectoral Distribution of Credit

Credit extension to enterprises in the quarter ending March 2012 continued to be dominated by the following sectors: non-bank financial institutions and real estate (20.1 per cent); manufacturing (16.0 per cent); construction (14.5 per cent); manufacturing (16.0 per cent) and community, social and personal services (9.2 per cent). Significant improvements in credit extension were in community, social and personal services; construction; and manufacturing. However, credit extension to mining; transport, storage and communications; wholesale, retail and hotels; and non-bank financial institutions and real estate subsectors was on the decline.

Table 14: Sectoral Distribution of Credit to Enterprises*

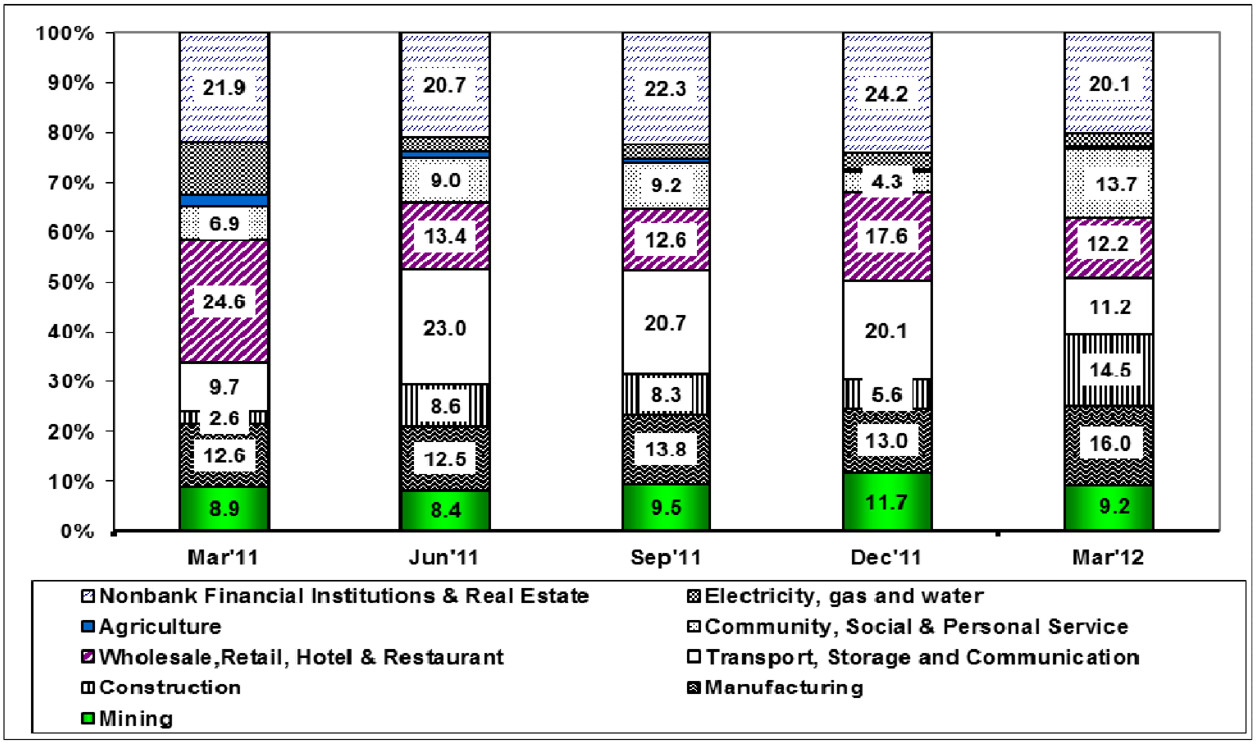
(Million Maloti: End of period)

SECTOR	2010				2012
	Mar	Jun	Sep	Dec	Mar
Agriculture	26.2	17.1	10.2	4.7	7.8
Mining	107.2	108.9	122.9	139.7	121.3
Manufacturing	151.4	163.0	177.1	155.9	211.6
Construction	117.0	111.9	106.5	67.4	191.7
Transport, storage and communication	296.3	300.1	266.0	240.3	148.1
Electricity, gas and water	31.4	40.2	37.4	37.9	35.5
Wholesale, retail, hotel and restaurant	128.6	174.6	161.9	210.5	161.6
Non-bank financial institutions and real estate	263.3	270.3	287.5	289.9	266.5
Community, social and personal services	83.5	116.7	117.8	51.1	181.7
All sectors	**1204.9**	**1302.7**	**1287.3**	**1197.5**	**1325.4**

* includes non-performing loans

Figure 14: Commercial Bank's Credit to Business Enterprises

(Percentage shares)



Net Claims on Government

The net claims on government by the banking system increased remarkably during the first quarter of 2012. It grew by 32.5 per cent, following a 3.7 per cent decline observed in the previous quarter. The increase in total net claims by the banking sector was mainly driven by a 16.8 per cent increase in claims on Government by the commercial banks coupled with a 22.0 per cent increase in claims on Government by the Central Bank. Furthermore, the Central Government deposits at the Central Bank were the main contributor to this surge in net claims on government.

Table 15: Banking System's Net Claims on Government

(Million Maloti: End of Period)

	2011				2012
	Mar	Jun	Sep	Dec	Mar
Commercial Banks Net Claims	533.9	626.5	633.6	700.2	817.9
Claims on Central Government	556.6	649.2	658.6	722.2	840.1
o/w MP TBs[3] and Bonds	561.2	645.6	650.4	751.9	824.0
Liabilities to Central Government	22.6	22.7	25.0	22.0	22.2
Central Bank Net Claims	-3477.4	-3652.1	-3132.6	-3292.8	-2567.7
Claims on Central Government [4]	174.5	235.0	249.7	242.9	214.3
Liabilities to Central Government	3651.9	3887.1	3382.3	3535.7	2782.0
Total Net Claims Government	-2943.4	-3025.6	-2499.0	-2592.6	-1749.8

[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 entire banking system declined further by 11.1 per cent in the first quarter of 2012 following a 3.0 per cent decline recorded in December, 2011. The fall in total net foreign assets was on account of 11.9 per cent fall in net foreign assets of the commercial banks and a 10.8 per cent decline in net foreign assets of the Central Bank. The large drop in Commercial banks' net foreign assets was driven by a 15.0 per cent fall in commercial banks' claims on non-residents, moderated by a 70.2 per cent decline in liabilities to non residents. The Central Bank's claims on non residents also declined by 10.5 per cent while Central Bank's liabilities to non residents declined by 7.4 per cent.

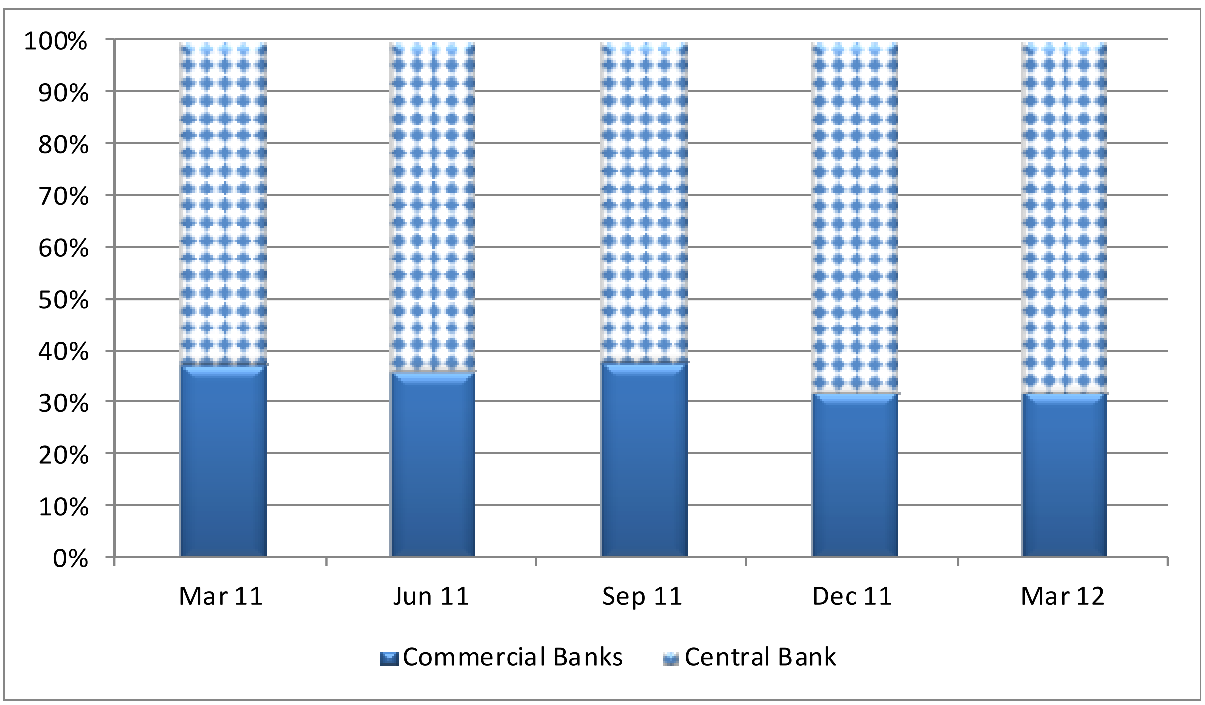
Table 16: Banking System's Claims and Liabilities on Non-residents

(Million Maloti: End of Period)

	2011				2012
	Mar	Jun	Sep	Dec	Mar
A. Commercial Banks	3503.2	3404.8	3876.6	3209.5	2826.5
Claims on Nonresidents	3559.9	3507.5	3962.6	3390.9	2880.7
Liabilities to Nonresidents	-56.7	-102.7	-86.0	-181.4	-54.1
B. Central Bank	5800.5	5945.0	6335.7	6696.1	5974.8
Claims on Nonresidents	6524.9	6538.6	7031.7	7350.6	6580.9
Liabilities to Nonresidents	-724.4	-593.6	-696.0	-654.5	-606.1
Net Foreign Assets Total	9303.7	9349.8	10212.4	9905.7	8801.3

Figure 15: Net Foreign Assets

(Percentage shares)



Money Market Developments

The total holding of Treasury bills and bonds increased by 8.9 per cent in the quarter under review, compared with the 13.1 per cent increase recorded in the previous quarter. The increase was mainly a result of an 18.1 per cent increase in holding of treasury bills while holding of treasury bonds remained unchanged. Treasury Bills held by the banking system increased by 19.1 per cent, while those held by the non-bank sector increased by 15.2 per cent.

Table 17: Holding of Treasury Bills and Bonds

(Face Value; Million Maloti)

	2011				2012
	Mar	Jun	Sep	Dec	Mar
Total Holding of Bills and Bonds	785.4	892.4	904.7	1022.9	1114.3
Treasury Bills	535.5	523.5	499.8	497.7	588.0
Banking System	423.7	417.9	387.9	377.1	449.1
Non-Bank Sector	111.8	105.6	111.9	120.6	138.9
Treasury Bonds	250.3	368.9	405.0	525.3	526.3
Banking System	137.5	227.8	262.5	374.8	374.9
Non-Bank Sector	112.8	141.2	142.4	150.5	151.4
Memorandum Item					
Average Yield Bills (per cent)	5.43	5.30	5.37	5.34	5.53
Average Yield Bonds (per cent)	8.50	8.63	8.63	9.00	9.08

Money Market and Short-term Interest Rates

During the first quarter of 2012, all the Central Bank's interest rates increased while all commercial banks' interest rates declined. The 91-day Treasury bill and Lombard rates increased to 5.46 and 9.46 per cent respectively. However, the call rate, the time deposit rates and prime lending rate recorded downward trends. In South Africa, the repo rate remained flat at 5.50 and the prime lending rate was unchanged at 9.00 per cent. However, the South African 91-day TB rate increased by 10 basis points to 5.56 per cent. The relatively low interest rates within the region reflect efforts by monetary authorities to stimulate their economies despite high inflation.

Table 18: Major Money Market Interest Rates

(Percent: End of Period)

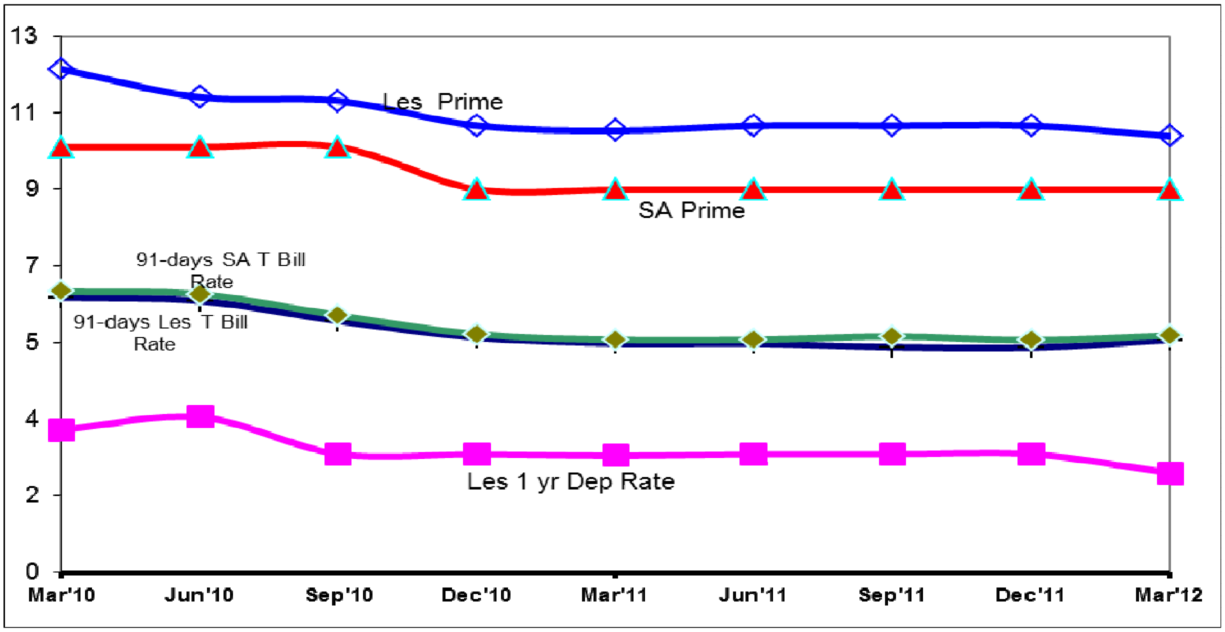
Interest Rates by Type	2011				2012
	Mar	Jun	Sep	Dec	Mar
Central Bank					
T Bill Rate – 91 Days	5.38	5.29	5.29	5.28	5.46
Lombard Rate	9.38	9.38	9.29	9.28	9.46
Commercial Banks[5]					
Call	1.14	1.14	1.15	1.15	0.77
Time:					
31 days	1.09	1.21	1.21	1.21	0.91
88 days	1.58	1.67	1.67	1.67	1.41
6 months	1.94	1.94	1.94	1.94	1.69
1 year	2.74	2.78	2.78	2.78	2.34
Savings	1.09	1.21	1.21	1.15	0.84
Prime	10.38	10.50	10.50	10.50	10.25
South Africa*					
Repo	5.50	5.50	5.50	5.50	5.50
T Bill Rate – 91 Days	5.47	5.47	5.55	5.46	5.56
Marginal Lending Rate	10.50	10.50	10.50	10.50	10.50
Prime	9.00	9.00	9.00	9.00	9.00

* Figures for South Africa were obtained from the SARB

[5] Average rates by commercial banks

Figure 16: Short-Term Interest Rates

(Percent Per Annum)



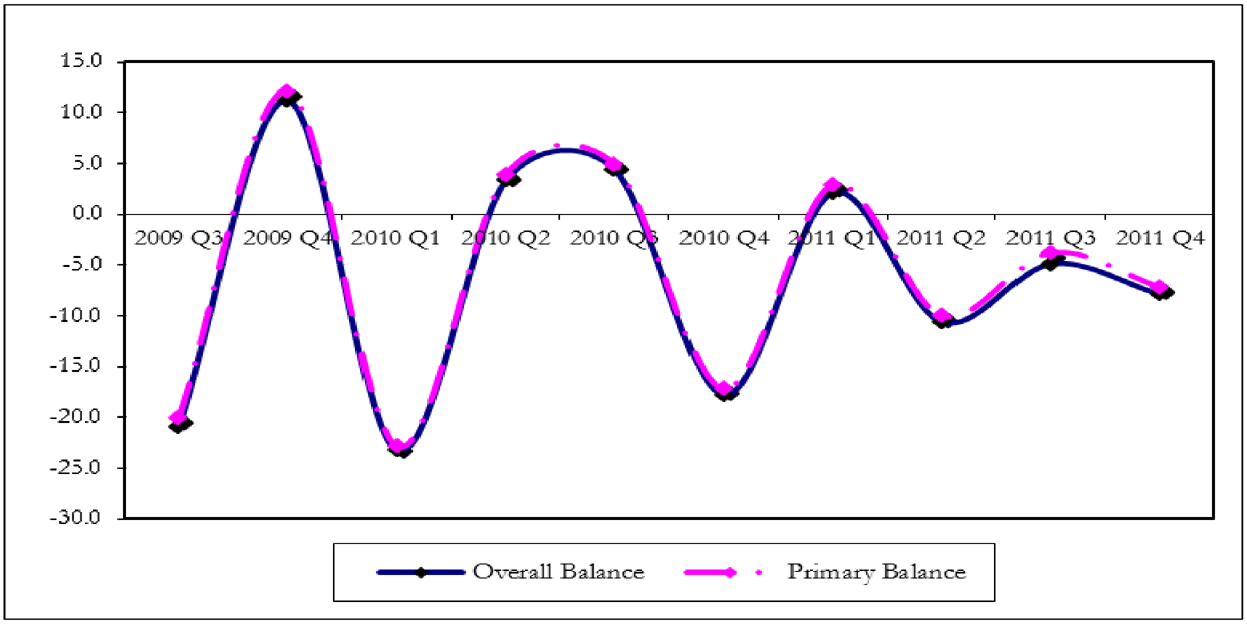
V. Government Finance

Summary of Budget Outturn

Quarterly estimates reflected that government budgetary operations resulted in a non-cumulative deficit equivalent to 7.9 per cent of GDP during the quarter under review, following a shortfall equivalent to 4.9 per cent in the quarter ending December 2011. The deficit was a result of an increase in other expenditures which largely reflected fiscal year-end settlements. Total revenue and grants increased to 62.3 per cent of GDP on a quarterly basis, from 60.1 per cent of GDP recorded in the previous quarter. The increase in total revenue and grants was attributable to an 18.1 per cent rise in tax revenue. Total expenditure and net lending was estimated to rise from 65.0 per cent of GDP in the last quarter to 70.2 per cent of GDP in the review period, while the surge in government expenditure and net lending was due to a growth observed in other expenditures as aforementioned.

Figure 17: Primary Balance versus Overall Balance

(In percent of GDP)



Revenue

Total revenue comprises tax revenue and non-tax revenue. It increased by 5.7 per cent in the review period, in comparison to a 10.3 per cent growth recorded during the quarter ending December, 2011. The growth in total revenue emanated from an 18.1 per cent upsurge in tax revenue, of which, non-customs revenue rose by 31.1 per cent. As depicted in figure 22 below, income taxes constituted 37.7 per cent of total revenue, followed by Southern African Customs Union (SACU) receipts at 32.9 per cent; while Value Added Tax (VAT) and non-tax revenue accounted for 20.4 per cent and 8.3 per cent, respectively.

Table 19: Government Revenue

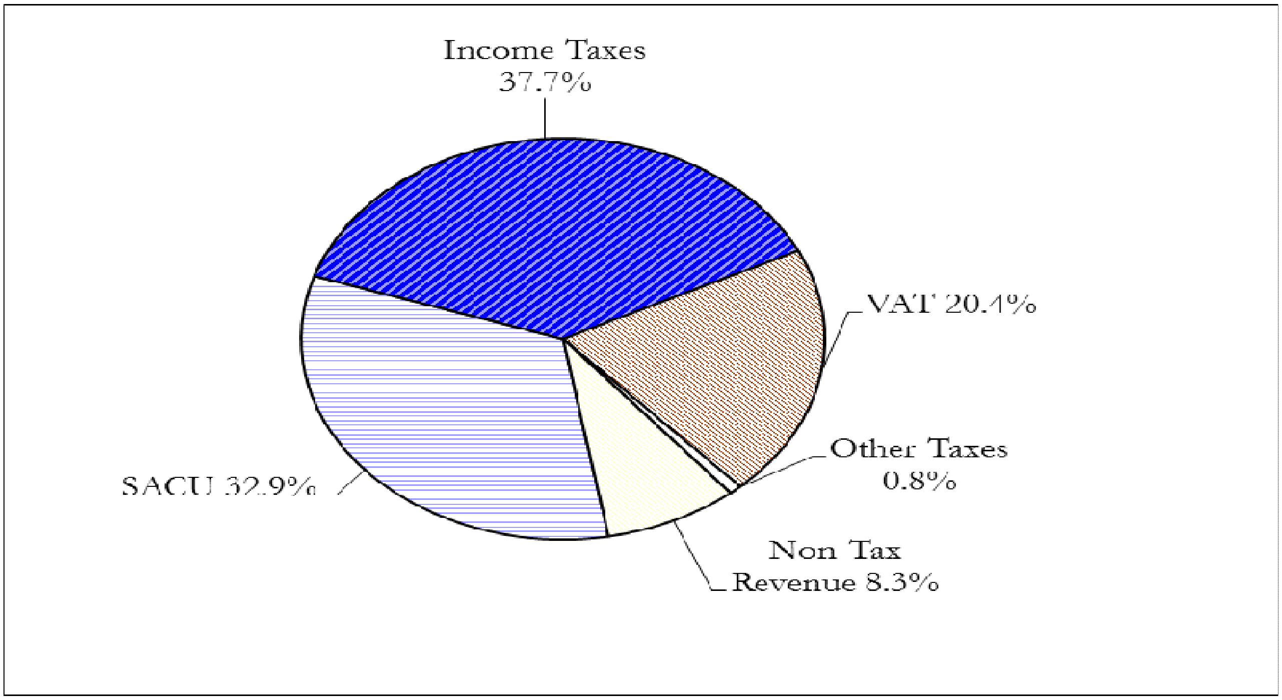
(Million Maloti)

	2010/11	2011/12			
	Jan-Mar	**Apr-Jun**	**Jul-Sep**	**Oct-Dec***	**Jan-Mar+**
Total Revenue and Grants	2144.3	1996.9	2098.3	2460.1	2548.1
Total Revenue	1679.8	1719.6	1818.0	2005.8	2111.3
Tax Revenue	1428.4	1562.1	1560.3	1641.8	1938.2
Customs	540.5	688.2	688.2	688.2	688.2
Non-customs	887.9	873.9	872.1	953.6	1250.0
Income Taxes	527.1	522.3	496.1	584.8	789.3
Taxes on goods & services	345.7	332.0	335.4	393.0	444.4
Other Taxes	15.1	19.6	20.6	13.2	16.3
Non-Tax Revenue	251.4	157.5	257.7	364.0	173.1
Of which: Water royalties	97.8	66.5	140.9	224.5	137.8
Grants	464.5	277.3	280.3	454.3	436.8

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

Non-tax revenue comprises dividends from operations of organisations with public ownership, royalties from Lesotho Highlands Water Project, and other revenues. It fell by 38.6 per cent during the review period, compared with a rise of 59.3 per cent recorded in the quarter ending December, 2011. Development grants were estimated to decline by 3.8 per cent during the review period in comparison with the 62.1 per cent increase recorded in the previous quarter. Grants continued to reflect implementation of donor supported development projects.

Figure 18: Sources of Government Revenue



Expenditure

Government expenditure and net lending comprises recurrent and capital expenditures. It rose by 8.0 per cent during the review period, compared with a 4.0 per cent increase recorded in the previous quarter. The growth emanated from the increase in recurrent expenditures which comprised other purchases, subsidies and transfers. The growth in recurrent expenditure was offset by the slight decrease in capital spending. As a share of total expenditure, recurrent expenditure constituted 84.8 per cent, while capital expenditure made up 15.2 per cent. Personnel emoluments continued to constitute the largest share at 41.2 per cent of recurrent expenditure, followed by goods and services at 37.6 per cent, subsidies and transfers at 20 per cent and interest payments at 1.2 per cent.

Table 20: Government Expenditure

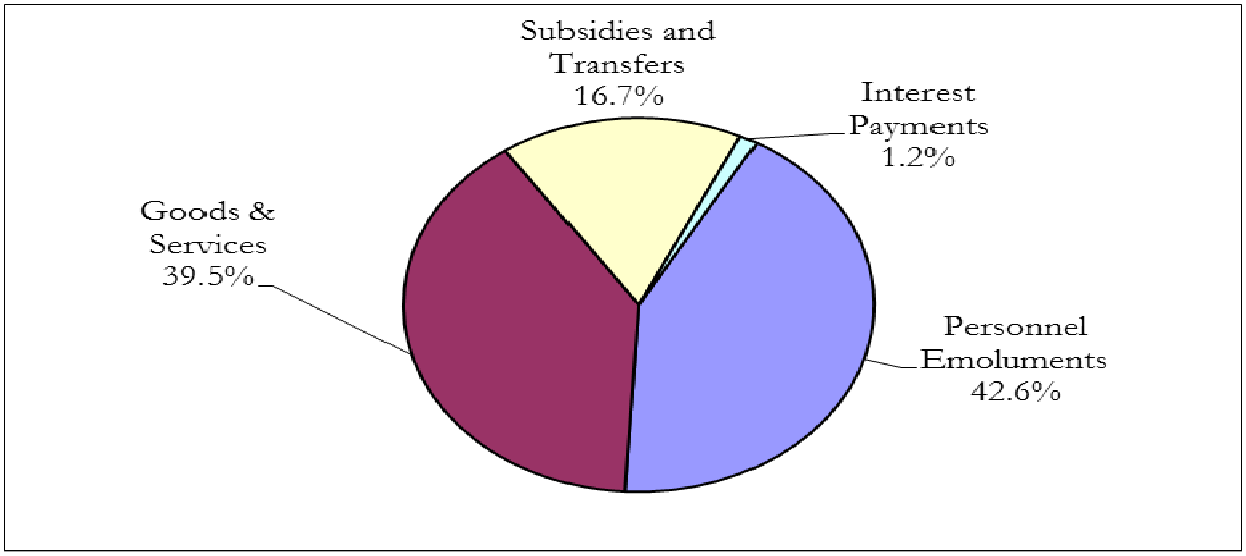
(Million Maloti)

	2010/11	2011/12			
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec*	Jan-Mar+
Total Expenditure & Net Lending	2873.1	1912.0	2556.7	2659.7	2871.7
Recurrent Expenditure	2408.6	1634.7	2276.4	2205.4	2434.9
Personnel Emoluments	947.5	871.5	858.8	965.8	1002.5
Interest Payments	25.2	34.6	25.5	47.4	28.5
Foreign	14.4	12.9	15.5	12.6	18.2
Domestic	10.8	21.7	10.0	34.9	10.3
Other Expenditure	1435.9	728.6	1392.1	1192.2	1403.9
Capital Expenditure	464.5	277.3	280.3	454.3	436.8
Net Lending	0.0	0.0	0.0	0.0	0.0

Source: MoFDP
*Revised
+Preliminary estimates

Following a 62.1 per cent rise in the quarter ending December 2011, capital expenditure fell by 3.8 per cent during the quarter under review. However, it constituted 15.2 per cent of total expenditure, which was lower than the 17.1 per cent proportion observed in the previous quarter.

Figure 19: Recurrent Expenditure by Type



Financing

Preliminary estimates reflected a fiscal deficit equivalent to 7.9 per cent of GDP during the review period compared with that of 4.9 per cent of GDP during the quarter ending December 2011. The deficit was mainly financed through the domestic banking system as Government continued to draw down its deposits with the banking system, as well as through the issuance of treasury bonds.

Table 21: Government Financing

(Million Maloti)

	2010/11	2011/12			
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec*	Jan-Mar+
Financing	728.8	-85.1	458.4	199.6	323.6
Foreign	-58.5	124.2	-36.6	105.7	-77.4
Loan drawings	22.3	153.5	30.9	143.0	9.8
Amortization	-80.6	-29.3	-67.5	-37.3	-87.2
Domestic	787.3	-209.2	495.0	93.9	401.0
Bank Financing	787.1	-202.9	497.2	86.7	382.7
Non – Bank	0.2	-6.4	-2.2	7.2	18.3

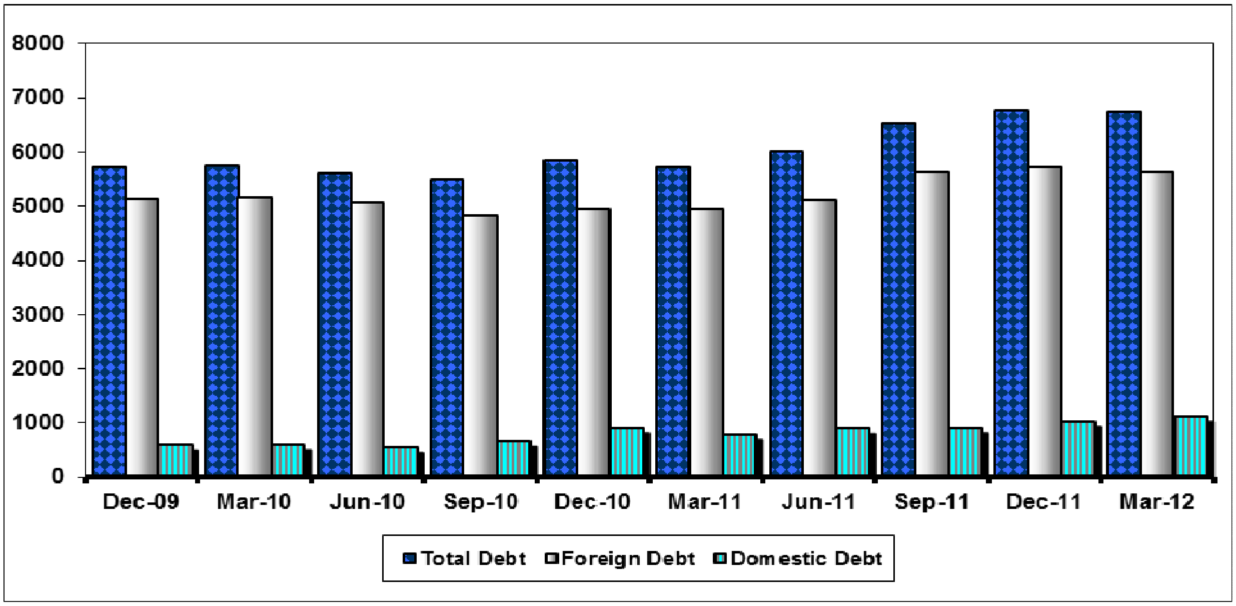
Source: MoFDP Public Debt
* Revised
\+ Preliminary estimates

Public Debt

Overview

Government debt stock includes both external and domestic borrowing. The level of outstanding government debt increased by 3.8 per cent during the review period compared with an increase of 8.7 per cent observed in the previous quarter. This was mainly attributable to a slight appreciation of the Loti against major currencies. Total debt was estimated at 39.2 per cent of GDP on a quarterly basis in comparison with 37.7 per cent observed in the quarter ending December 2011. The debt service ratio, calculated as the ratio of debt service to exports of goods and services and net factor income from abroad was estimated at 2.8 per cent during the review period compared with 1.5 per cent observed in the previous quarter. External debt continued to constitute the bulk of the overall debt stock at 83.5 per cent while domestic debt represented 16.5 per cent of total public debt stock.

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



External debt

External debt declined by 1.9 per cent on a quarterly basis, compared with an increase of 1.8 per cent in the quarter ending December 2011. The drop emanated from a slight appreciation of the Loti against major currencies. Loans from multilateral sources continued to constitute the largest share of external borrowing at 89.9 per cent, followed by supplier's credit at 4.6 per cent while bilateral loans constituted 4.3 per cent. External debt constituted 32.5 per cent of GDP during the review period, in comparison with 33.1 per cent of GDP recorded in the quarter ending December 2011.

Table 22: External Debt

(Million Maloti)

	2011				2012
	QI	QII	QIII	QIV	QI
External Debt	4953.2	5119.3	5633.0	5646.6	5626.2
Bilateral Loans	216.2	216.6	227.2	239.3	242.8
Concessional	216.2	216.6	227.2	239.3	242.8
Non-concessional	0.0	0.0	0.0	0.0	0.0
Multilateral Loans	4441.9	4608.9	5073.0	5162.5	5058.8
Concessional	4410.9	4429.0	4889.6	4954.1	4869.4
Non-concessional	31.0	179.9	183.4	204.4	189.4
Financial Institutions	68.0	68.0	66.5	66.5	63.5
Concessional	15.1	15.1	13.6	13.6	10.6
Non-concessional	52.9	52.9	52.9	52.9	52.9
Suppliers' Credit	227.1	225.8	266.3	267.8	261.1

Source: MoFDP

Domestic Debt

The domestic debt stock, which comprises treasury bills and bonds, increased by 8.9 per cent during the review period compared with an increase of 13.0 per cent recorded in the quarter ending December, 2011. Government continued to issue treasury bonds to finance capital projects in the country. Commercial banks remained the major subscribers to Government bonds and their holding of domestic debt rose by 8.1 per cent on a quarterly basis, compared with 13.7 per cent growth observed in the previous quarter. Non-banks holdings of bonds grew by 15.2 per cent in contrast to 7.8 per cent recorded in the quarter ending December, 2011. As a percentage of GDP, domestic debt was 6.4 per cent on a quarter-to-quarter basis compared with 5.9 per cent recorded in the previous quarter.

Table 23: Domestic Debt

(Million Maloti)

	2011				2012
	QI	QII	QIII	QIV	QI
Domestic Debt	785.8	893.1	905.4	1023.0	1114.3
Banks	674.0	787.5	793.5	902.4	975.4
Long-term	250.3	369.1	405.2	525.3	526.3
Short-term	423.7	418.4	388.3	377.1	449.1
Of which: treasury bills	423.7	418.4	388.3	377.1	449.1
Non –bank	111.8	105.6	111.9	120.6	138.9
Short-term (TBs)	111.8	105.6	111.9	120.6	138.9

VI. Foreign Trade and Payments

Overview

The external sector position weakened in the first quarter of 2012. The overall balance, in seasonally adjusted terms, registered a deficit equivalent to M754.3 million in the review quarter, in contrast with a surplus of M149.9 million in the quarter ending in December 2011. The observed performance reflected deterioration in the current account and the capital and financial account. In addition, the deficit was exacerbated by valuation loss due to the strengthening of the domestic currency against the major currencies in which CBL foreign reserves were held during the quarter. The transaction balance, which represents the overall balance without the effects of currency fluctuations, recorded a seasonally adjusted deficit of M574.5 million in the review quarter, compared with a surplus of M184.4 million in the fourth quarter of 2011.

Current Account

The current account position continued to deteriorate in the first quarter of 2012. The current account deficit widened to M2.3 billion from a revised deficit of M1.0 billion realised in the previous quarter. This was influenced by the growth of the merchandise trade deficit by 46.1 per cent, as a result of an increase in merchandise imports which outweighed the merchandise exports during the period. The escalation in payments for services acquired abroad also contributed to the widening of the current account deficit. However, an increase in current transfer receipts counterbalanced the deficit. As a ratio GDP, the current account deficit had widened to 53.3 per cent during the quarter, from a deficit of 23.8 per cent of GDP in the previous quarter.

Table 24: Current Account Balance

(Million Maloti)

	2011				2012
	QI	QII	QIII	QIV*	QI+
I. Current Account	-1267.81	-1086.61	-332.21	-1030.51	-2310.17
(a) Goods	-2041.96	-1809.36	-1229.53	-2052.14	-2997.28
Merchandise exports f.o.b.	1853.46	2086.06	2665.89	1843.28	1575.56
Of which diamonds	691.84	463.34	1017.77	448.71	550.10
Of which textiles & clothing	783.80	844.14	964.51	925.11	630.22
Other exports#	377.82	778.58	683.61	469.46	395.24
Merchandise imports f.o.b.	-3895.42	-3895.42	-3895.42	-3895.42	-4572.84
(b) Services	-943.11	-965.72	-806.00	-851.63	-1277.43
(c) Income	579.28	588.54	605.75	677.17	666.46
(d) Current Transfers	1137.99	1099.93	1097.58	1196.10	1298.07

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

Merchandise Exports

The value of exports, in seasonally adjusted terms, fell by 9.6 per cent during the quarter ending in March 2012, following a drop of 30.5 per cent in the quarter ending in December 2011. The deterioration was underpinned by a plunge in exports of textiles and clothing, due to weak global consumer demand during the period. Exports of textiles and clothing plummeted by 31.9 per cent in the first quarter of 2012, following a fall of 4.1 per cent in the fourth quarter of 2011. However, the growth in diamond exports, which increased by 22.6 per cent during the period, moderated the deterioration in merchandise exports. On a year to year basis, merchandise exports decreased by 15.0 per cent during the quarter under review. , Exports constituted 36.4 per cent of GDP in first quarter 2012, coming from 42.5 per cent of GDP in the previous quarter.

Table 25: Value of Export by Section on the S.I.T.C.

(Million Maloti)

COMMODITY	2011				2012
	QI	QII	QIII	QIV*	QI+
0. Food & Live Animals	24.00	59.81	83.35	74.23	72.18
Cattle	0.00	0.00	0.00	0.00	0.00
Wheat Flour	13.03	23.20	53.75	47.24	39.14
Maize Meal	1.63	3.21	5.62	0.17	9.87
Other	9.34	33.40	23.98	26.82	23.17
1. Beverages & Tobacco	81.04	294.62	145.65	222.53	136.08
Beverages	81.04	110.82	0.01	0.00	0.00
2. Crude Materials	697.21	465.24	1020.69	460.69	550.10
Textiles fibres	8.37	1.86	2.92	11.98	0.00
Of which Wool	8.26	1.86	2.92	11.98	0.00
Of which Mohair	0.11	0.00	0.00	0.00	0.00
Crude fertilizers & crude minerals	688.84	463.34	1017.77	448.71	550.10
Of which Diamond	688.84	463.34	1017.77	448.71	550.10
4. Manufactured Goods	96.84	164.06	136.26	52.59	34.42
Of which textiles yarn and fabric	87.93	146.31	118.52	39.41	32.84
Of which manufactured goods	8.91	17.75	17.74	13.18	1.58
5. Machinery & Transport Goods	248.51	258.93	385.99	127.39	174.79
6. Miscellaneous Manufactured Goods	703.15	841.53	891.77	899.86	605.91
Of which clothing accessories	692.83	740.67	824.53	835.60	539.51
Other	10.32	100.58	67.24	64.26	2.14
7. Unclassified Goods	2.72	1.87	2.18	6.29	2.08
TOTAL EXPORTS	**1853.46**	**2086.06**	**2665.89**	**1843.28**	**1575.56**

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

Merchandise Imports

A growth of 17.4 per cent in the merchandise imports was registered in the quarter ending in March 2012, following a rise of 6.3 per cent in the quarter ending in December 2011. The increase largely reflected the growth in declarations at border posts due to high demand in the domestic economy. In addition, there was an increase in motor vehicle imports, in particular, government vehicles, during the period. However, the deterioration in petroleum imports due to the rise in the international crude oil prices offset the observed performance of merchandise imports during the review quarter. On an annual basis, merchandise imports rose by 17.4 per cent to 105.6 per cent of GDP in the first quarter of 2012.

Direction of Trade

Exports of goods from Lesotho continued to be predominantly destined to the SACU region during the first quarter of 2012. It was the largest recipient of Lesotho's exports with a share of 45.6 per cent of the total exports, compared with a share of 39.8 per cent recorded in the fourth quarter of 2011. The second largest destination of Lesotho's exports was European market, despite the economic crisis in euro zone. This is where a large portion of Lesotho's rough diamond exports was destined. Its share rose from a share of 23.0 per cent in the previous quarter to 29.4 per cent in the review quarter. American market was the third largest recipient of Lesotho's exports with a share of 23.6 per cent during the review quarter, lower than a share of 35.5 per cent registered in the previous quarter. The remaining 0.8 per cent and 0.3 per cent went to the Asian and Oceania markets during the quarter under review.

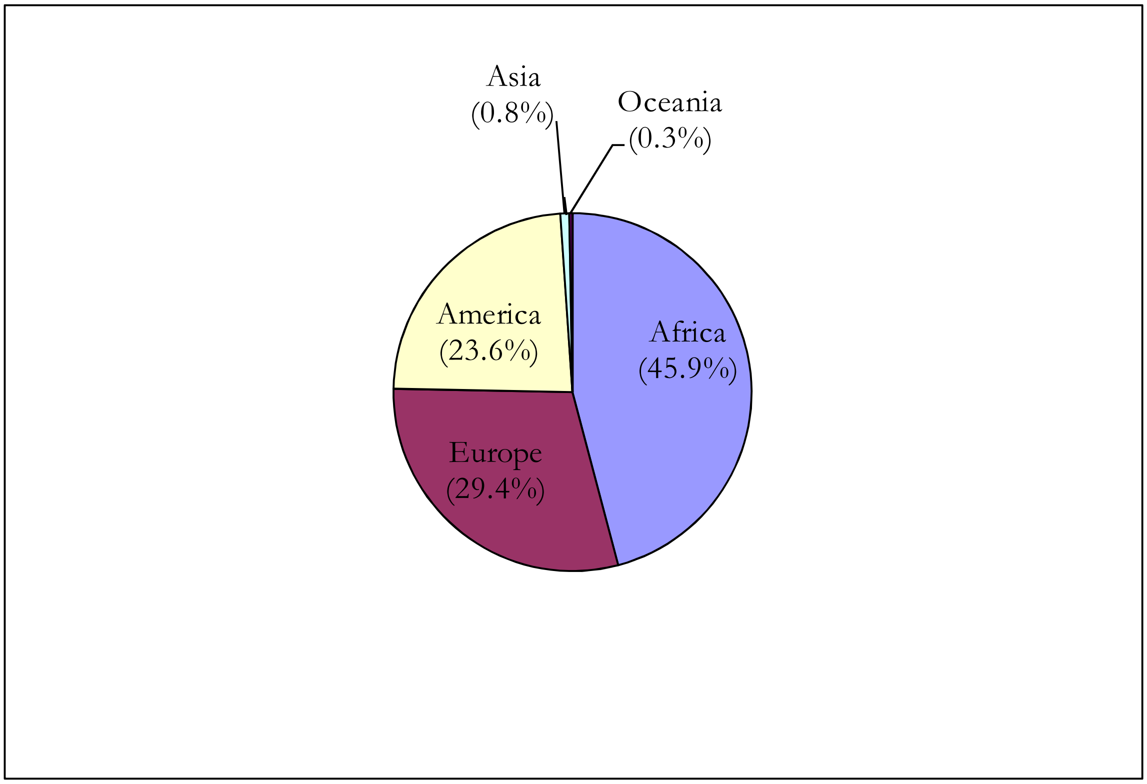
Table 26: Direction of Trade - Exports and Re-Exports, f.o.b.

(Million Maloti)

Region	2011				2012
	QI	QII	QIII	QIV*	QI+
World	1853.46	2086.06	2665.89	1843.58	1575.56
Africa	663.62	1101.31	865.14	753.44	723.45
SACU	650.87	1059.17	850.19	733.29	719.09
SADC	10.75	28.45	10.81	15.61	0.00
Other	2.00	13.69	4.14	4.54	4.36
Europe	694.40	462.16	1010.35	424.93	463.56
EU	694.40	462.16	1010.35	424.93	463.45
America	484.65	511.48	766.09	655.67	371.70
Asia	7.81	7.56	20.24	7.33	12.26
Oceania	2.98	3.55	4.07	2.21	4.59

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

Figure 21: Direction of Merchandise Exports



Services Accou**nt**

The net services account continued to show outflows during the quarter ending in March 2012. The outflows rose from a revised M851.6 million recorded in the fourth quarter of 2011 to M1.2 billion in the first quarter of 2012. This emanated from increased payments for transportation services, which rose by 34.0 per cent, as imports grew during the quarter under review. The growth in payments for services acquired abroad was also supported by an increase in payments for Lesotho embassies abroad which grew by 3.7 per cent during the period.

Income

During the first quarter of 2012, net income declined by 1.6 per cent, in contrast with the11.8 per cent rise realised in the fourth quarter of 2011. This largely emanated from a fall in returns from both CBL and commercial banks. The returns from CBL portfolio investments dropped by 58.3 per cent, while those of commercial banks declined by 16.3 per cent during the review period.

Current Transfers

The net current transfer's receivables rose by 8.5 per cent to M1.3 billion in the first quarter of 2012, from M1.2 billion in the previous quarter. The growth was largely attributed to rand compensation receipts worth M125.1 million from the SA Government to the Lesotho Government. This is paid at the beginning of every year to compensate Lesotho for loss of seigniorage due to rand circulation in Lesotho. In addition, a decline of 10.3 per cent in payments for subscriptions to international organisations supported the observed performance during the review quarter. Meanwhile, SACU receipts which constitute a large portion of current transfer receipts remained constant in the first quarter of 2012.

Capital and Financial Account

During the quarter under review, the capital and financial account registered net inflows equivalent to M867.2 million, lower than an inflow of M1.5 billion realised in the quarter ended in December 2011. This reflected a drop in financial account inflows, driven by the fall in commercial banks' foreign asset holdings together with a decline in foreign liabilities of both CBL and commercial banks. Commercial banks' foreign asset inflows declined to M460.3 million during the review period, compared to M619.6 observed in the previous quarter. At the same time, commercial banks' foreign liabilities recorded an outflow of M127.2 million during the review period. An outflow of M4.7 million registered in CBL's foreign liabilities also contributed to the reduced net inflows in financial account.

Table 27: Capital and Financial Account

(Million Maloti)

	2011				2012
	QI	**QII**	**QIII**	**QIV***	**QI+**
I. Capital and Financial Account	1130.50	280.36	-271.63	1487.80	867.24
Capital Account	399.83	235.70	237.98	477.50	399.83
Financial Account	730.67	44.66	-509.60	1010.30	467.41
II. Reserve Assets	13.55	83.28	-467.29	-141.75	747.79

* Revised estimates
+ Preliminary estimates

Reserve Assets

The stock of gross international reserves declined by 9.8 per cent to M6.6 billion during the quarter ending in March 2012, from M7.3 billion recorded in the previous quarter. This was on account of a valuation loss due to the appreciation of the Loti coupled with an increase in payments for imports during the quarter. As a result, of the import coverage of gross official reserves dropped from 4.5 months realised in the previous quarter to 3.3 months of imports in the first quarter of 2012.

Figure 22: Reserve Assets

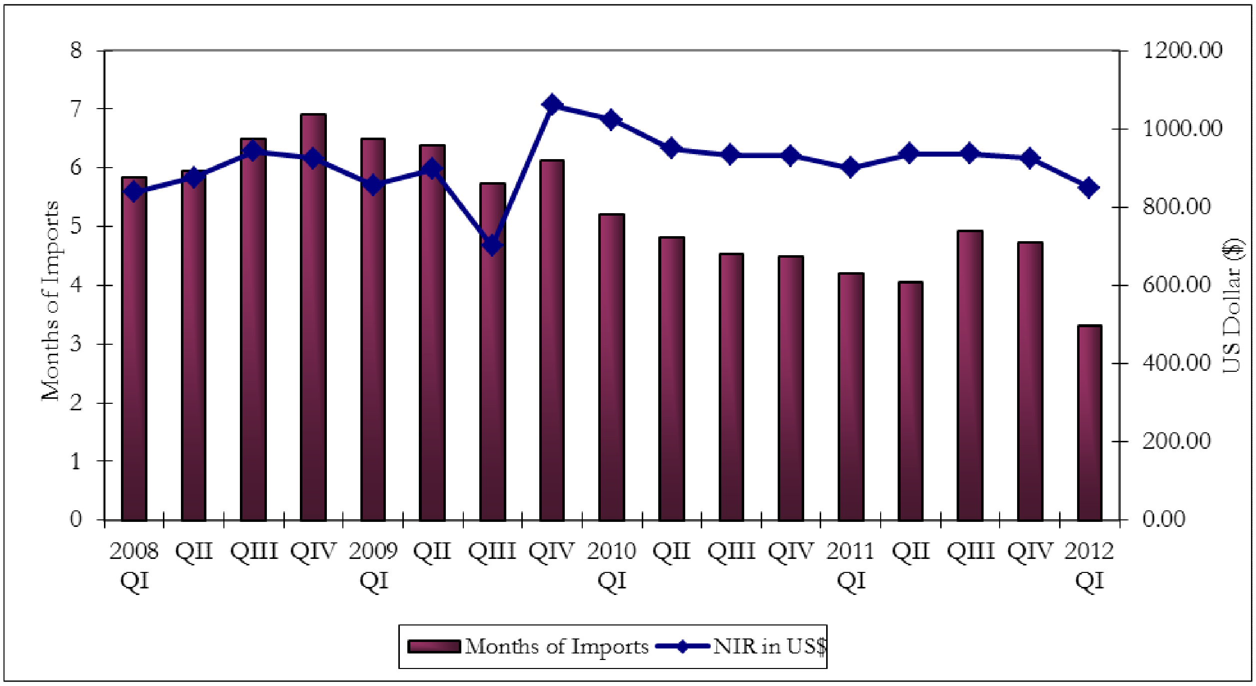
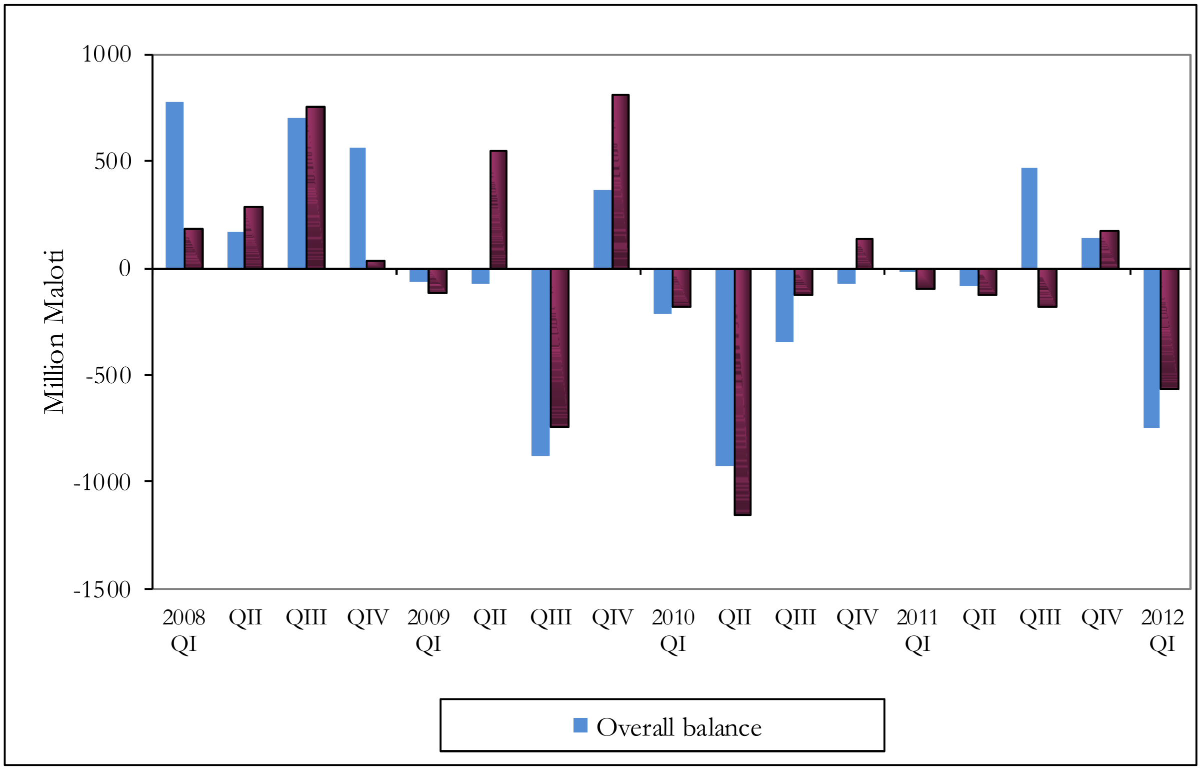


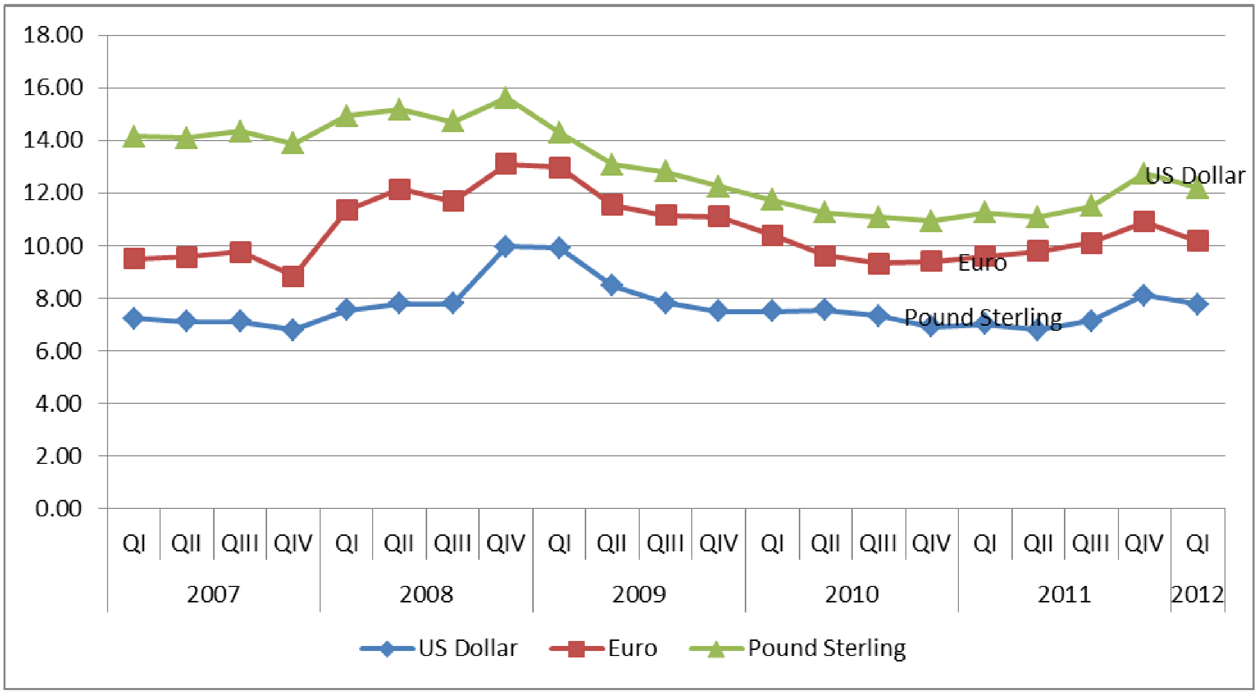
Figure 23: Balance of Payments



Exchange Rates

The domestic currency, the loti, which is fixed at par with the rand, strengthened against the major trading currencies during the quarter under review, in response to global economic developments. On a quarterly basis, the average value of the loti appreciated by 4.1 per cent to M7.76, 6.8 per cent to M10.18 and 4.3 per cent to M12.19, against the US Dollar, the Euro and the Pound Sterling, respectively. The appreciation of the local currency could, on the one hand, reduce the loti value of the import bill and thus, exert downward pressure on domestic inflation through a decline in prices of imports. On the other hand, it could weaken the proceeds on Lesotho's exports.

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



VII. Statistical Tables