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I. Introduction

Based on preliminary indicators, global economic activity slowed down during the third quarter of 2011. The pace of recovery slowed considerably in advanced economies while it remained strong in the emerging market economies. Developments in the industrial countries were still dominated by the deterioration in the sovereign debt crisis in the Euro area, as well as the political disagreements on the pace and nature of fiscal consolidation, which posed a threat to the global economy. Furthermore, volatile weather conditions, high commodity prices and the ongoing social unrest in the Middle East and North Africa continued to exert upward pressure on food and energy prices.

Economic activity in the US remained subdued with an increase in GDP growth. Growth in personal consumption expenditures, real non-residential fixed investment and exports of goods and services was moderated by a slowdown in personal consumption expenditure and a decline in state and local government spending. The US federal debt limit was increased and the federal budget deficit would also be reduced. All the same, inflation accelerated mainly due to high energy prices. However, in an effort to continue to stimulate strong economic recovery, the Federal Reserve Bank's Open Market Committee (FOMC) left its policy lending rate unchanged at 0.25 per cent, during the review period.

Economic developments the Euro zone were dominated by the resurgence of the sovereign debt crisis, particularly, in Greece. Prospects for addressing the problems in the Euro area aggravated, irrespective of the strong measures that were agreed upon at the July 2011 summit. Amidst the underlying weaknesses, Germany continued to grow strongly. However, the rate of inflation remained higher than the European Central Bank's 2.0 per cent target limit. The ECB maintained its benchmark lending rate at 1.25 per cent.

Preliminary indications were mixed about the performance of the South African (SA) economy during the review period. Manufacturing production and retail sales rose considerably in September 2011. On the other hand, mining production and sales declined sharply in August 2011. However, consistent with developments in the rest of the world, the rate of inflation in SA rose to 5.7 per cent in the review period. Nonetheless, the SA Reserve Bank's Monetary Policy Committee (MPC) kept its policy rate unchanged.

Generally, commodity prices continued to rise during the review period. The international price of gold maintained an increasing trend, driven mainly by the concerns about sovereign debt crisis in the Euro area. On the contrary, the price of platinum fell, in line with the global developments, in spite of the easing supply chain disruptions caused by the March earthquake and tsunami in Japan. On the other hand, the price of crude oil declined, mainly due to the weakening global demand. The international prices of agricultural products also continued to rise due, in part, to the unfavourable weather conditions and supply-side shocks.

According to preliminary indicators, economic activity in Lesotho's real sector was uneven during the review period. The performance of the primary sector was boosted by strong growth in diamond production, influenced by robust international demand. In contrast, the secondary sector weakened, as reflected by declining industrial consumption of water and electricity. Lesotho's industrial sector remained vulnerable to various factors and some of the firms ceased their operations in the review period. Similarly, the tertiary sector showed signs of weakness. Despite positive growth in the value of sales turnover, other variables such as the volume of motor vehicle imports and employment levels deteriorated noticeably.

At the same time, inflation maintained a strong upward trend, consistent with developments in SA and the rest of the world. The rate of inflation increased to 5.5 per cent in September compared with 4.3 per cent in June 2011, driven mainly by global increases in food, as well as energy, prices.

During the review period, broad money supply growth increased, as both domestic credit and net foreign assets grew strongly on quarterly as well as annual bases. Domestic credit was spurred by robust growth in credit extended to the private sector. Interest rates in the country remained low, in line with regional developments, which continued to support credit growth.

Based on preliminary estimates, government budgetary operations for the quarter ending September 2011 resulted in a non-cumulative deficit equivalent to about 12 per cent of GDP, compared to a deficit of 2 per cent of GDP observed in the previous quarter. The deficit, which was caused by a significant rise in total government expenditure, was financed by a drawdown in Government's deposits with the banking system.

The stock of outstanding government debt rose by 8.7 per cent during the review period. The bulk of the increase resulted from revaluation changes to the external debt component, as the local currency unit depreciated relative to the previous quarter. As a ratio of GDP, total debt rose from 30 per cent to 32.6 per cent during the quarter. Nonetheless, Government's debt stock remained largely concessional and with the multilateral development partners.

Lesotho's balance of payments position, as measured by the overall balance, registered a surplus estimated to about 2.5 per cent of GDP, during the review period. The estimated surplus was attributed mainly to a sharp increase in the value of exports of diamonds, coupled with a decrease in the value of imports of goods. The deficit in trade in services also declined significantly. The improvement in the country's external sector position was reflected in an increase in gross official reserves to 4.9 months of imports cover, from 4.1 months in the previous quarter.

II. International Economic Developments

According to preliminary indicators, the global economic activity slowed down, in the face of increased financial volatility and increased risk aversion and performance that has continued to diverge across regions during the quarter ending in September 2011. However, the global economy continued to be threatened by the intensifying fiscal credibility in the Euro Area and fiscal sustainability issues in the US. The emerging market economies experienced robust, while advanced economies realized modest growth.. In the meantime, adverse weather conditions, high commodity prices and the social unrest in the Middle East and North Africa continued to exert upward pressure on food and energy prices and thus on inflation expectations.

United States (US)

Economic activity in the US remained subdued in the third quarter of 2011. Real gross domestic product (GDP) rose by 1.6 per cent, compared with an increase of 1.3 per cent observed in the quarter ending in June 2011. The main growth contributors included an upturn in personal consumption expenditures, real non residential fixed investment and exports of goods and services. However, the positive effect of these factors was moderated by a deceleration in private inventory investment and a decline in state and local government spending. Personal consumption growth rebounded as a result of a rise in purchases of durable consumer goods, in line with the easing of supply disruptions caused by the Japanese earthquake. Concerns also continued to grow over the political disagreements on the pace and nature of the US fiscal consolidation. A consensus was reached in August to increase the US debt ceiling by US$1.2 trillion to US$16.4 trillion. The agreement included cutting the federal budget deficit by US$2.5 trillion over the next decade. Nevertheless, the plan did not include raising taxes. The uncertainty surrounding both the federal budget process and the future course of fiscal policy seem to have weighed down on business and consumer confidence.

The rate of inflation increased by 3.9 per cent in September 2011, compared with 3.6 per cent in the previous quarter. The acceleration in inflation was mainly attributable to high energy prices, of which fuel prices rose by 33.3 per cent and to some extend food prices. Nonetheless, the FOMC decided to leave its benchmark lending rate unchanged at 0.25 per cent, in an effort to support a stronger economic recovery.

In the labour market front, the unemployment rate declined marginally from 9.2 per cent in June 2011 to 9.0 per cent in September 2011, as private sector employment rose with a modest growth realised in health care and mining sectors.

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	9.6	9.4	6.4	6.1	6.31	6.56	4.1	4.3
Euro area	1.6	n/a	2.7	3.0	1.25	1.25	10.0	10.2
India	7.7	n/a	8.6	10.1	7.50	8.25	n/a	n/a
Japan	-2.1	n/a	0.2	0.0	0.10	0.10	4.6	4.1
South Africa	3.0	n/a	5.0	5.7	5.50	5.50	25.7	25.0
US	1.3	1.6	3.6	3.9	0.25	0.25	9.2	9.0

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

Euro-zone[1]

The sovereign debt crisis among the peripheral states and the threat of the crisis spreading throughout the region remained a danger to economic recovery in the Euro zone. Although a new package was passed for Greece, the situation has not improved. The aid package for Greece which covered Greece's financing needs, also involved lowering interest rates. It was also agreed that interest rates would be reduced and maturities on future loans made by the European Financial Stability Fund would be extended.

Retail trade in the Euro zone dropped by 1.5 per cent, which represented deterioration from a decline of 0.8 per cent that was observed in June 2011. New industrial orders rose by 8.9 per cent and 6.2 per cent in July and August 2011, respectively. Construction output increased by 2.0 per cent and 2.5 per cent in July and August 2011, respectively.. Germany continued to be the region's biggest economic power, growing faster than other member states. Retail sales and exports grew by 2.2 per cent and 10.5 per cent in Germany, respectively.

The harmonised unemployment rate in the Euro zone increased from 9.9 per cent in June 2011 to 10.2 per cent in the review period. The highest unemployment rates were recorded in Greece, Spain and Cyprus.

Inflation, measured by changes in the Harmonized Index of Consumer Prices (HCIP), rose by 3.0 per cent during the review period. The main contributing factors were prices of transport, housing and alcohol and tobacco. The highest inflation rates were observed in

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

Lithuania and Estonia with 5.4 per cent and 4.7 per cent, respectively. Given its inflation target rate of 2.0 per cent, ECB, maintained its benchmark lending rate at 1.25 per cent, to counteract the underlying inflationary pressures.

South Africa (SA)

Indications were that the SA economic recovery remained subdued during the review period. Manufacturing production growth rose from 1.1 per cent observed in June 2011 to 5.6 per cent in August 2011. The pickup was ascribed to the easing of the supply side constraints caused by the March earthquake and tsunami in Japan. Demand for SA's manufactured goods has been negatively affected by developments in the Euro area, which is one of SA's major export markets. However, mining production fell by 5.0 per cent and 3.4 per cent in July and August 2011. Retail sales rose by 6.1 per cent and 10.1 per cent in July and August 2011, respectively, from a 5.4 per cent growth in the previous quarter.

In line with the fragile economic activity and uncertain growth prospects, the SA unemployment rate remained high at 25.0 per cent in September 2011, from 25.7 per cent recorded in September 2011. Employment in the formal sector increased, primarily in mining, finance and other business services sub-sectors.

The rate of inflation, measured by changes in the CPI, increased to 5.7 per cent in September 2011, from 5.0 per cent observed in the previous quarter. The rise was largely driven by an increase in the prices of food and non-alcoholic beverages, as well as housing and utilities. However, the South African Reserve Bank's MPC decided to maintain the repo rate at 5.5 per cent. This decision was supported by the fact that significant upside risks to inflation outlook were mainly from the supply side. It was also considered that downside risks to inflation outlook emanated from heightened risks to global growth and its consequences for the domestic economy.

Emerging Asian Markets and Japan

China

According to preliminary estimates, China's economic activity decelerated slightly during the quarter under review. GDP growth slowed down from 9.5 per cent in the previous quarter to 9.4 per cent in the review period. The slowdown was a reflection of the government's efforts in curbing high property prices, curbing inflation and the regulation of government financing vehicles. Despite several monetary tightening measures and global uncertainties, sustained strong growth was supported mainly by industrial production, retail sales and fixed asset investment, which grew by 13.8 per cent, 17.7 per cent and 24.9 per cent, respectively. However, unemployment rate rose to 4.3 per cent in the quarter ending September 2011.

CPI inflation rate fell from 6.4 per cent to 6.1 per cent in September 2011, as a reflection of the government's price control efforts. The slowdown in inflationary pressure was also attributable to easing food prices which declined to 13.4 per cent. In an effort to curb the high inflation, the People's Bank of China continued to tighten monetary policy and raised its benchmark lending rate by 25 basis points to 6.56 in the quarter ending September 2011.

Japan

Based on the preliminary indicators, Japan's economic activity had started to pick up, as the supply chains were repaired following the March earthquake and tsunami disaster. Manufacturing and industrial production decreased by 2.9 per cent and 4.0 per cent, respectively in September 2011. This was due to a fall in new export business and a sharp increase in input costs, as demand conditions remained subdued. Retail sales declined by 2.6 per cent and 1.2 per cent in August and September 2011, respectively. However, exports rose by 2.4 per cent boosted by a rise in shipments of cars and car parts, compared with the decline of 1.6 per cent in the previous quarter. These exports continued to be weakened by the strengthening of the yen against other major currencies, as well as weakening global prospects. The unemployment rate declined to 4.1 per cent.

Inflation rate in Japan remained flat at around zero per cent in September 2011 as high energy prices were offset by lower prices for culture, furniture and household utensils. In an attempt to boost economic recovery, the Bank of Japan (BOJ) left its key interest rate unchanged at 0.1 per cent during the review quarter.

India

Preliminary indications were that the economic performance of India's remained robust in the second quarter of 2011. This continued in the third quarter in which exports rose by 36.3 per cent from 46.4 per cent in the previous quarter. The deceleration in exports was largely due to economic uncertainties in the US and Europe as the two regions are the largest markets for Indian merchandise. However, industrial output slowed down to 3.3 per cent, from a 5.2 per cent increase in June 2011, after series of interest rate hikes. In the meantime, imports rose by 32.4 per cent, from 42.4 per cent in the previous quarter.

The inflation rate in India rose from 8.6 per cent in June 2011 to 10.1 per cent in the review period. Inflationary pressures in the review period were primarily driven by rising food, fuel, and commodity prices**.** So as to combat increasing inflation, the Reserve Bank of India (RBI) Monetary Policy Committee raised its benchmark repurchase rate by 75 basis points to 8.25 per cent during the period ending September 2011.

Commodity Prices

Overview

The international prices of gold maintained an upward trend largely due to investor risk-aversion, driven by the sovereign debt crisis in the Euro area, coupled with moderate commodity demand in the emerging market economies. In contrast, platinum prices fell during the quarter under review, on account of the global economic activity despite the easing of the supply disruptions caused by the earthquake in Japan. On the other hand, the price of crude oil declined in the quarter under review, largely, on account of the slowing down of global oil demand mirroring developments in the global activity.

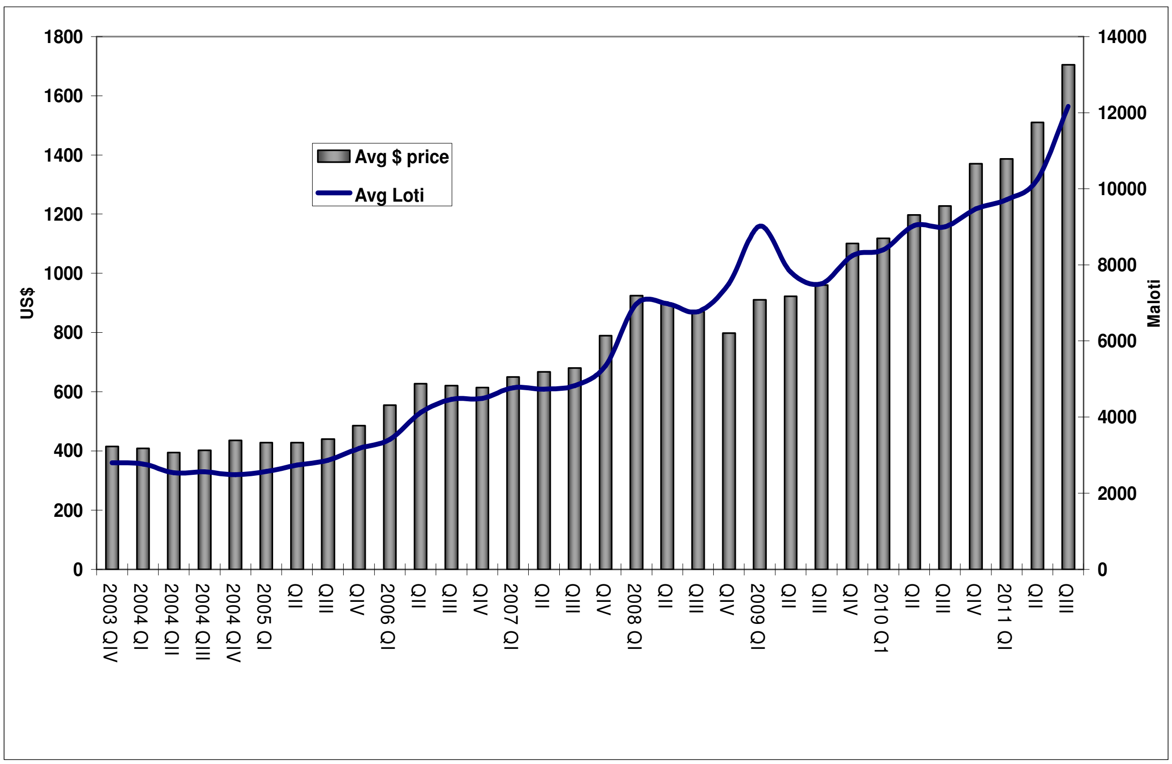
Prices of agricultural products in the international market also continued to rise. This increase was reflective of the volatile weather conditions; low inventories; supply shocks; and uncertainties related to biofuels.

Mineral Products

Gold

The average price of gold in US Dollar terms, rose by 12.9 per cent to US$1 704.0 per ounce during the quarter ending September 2011, following an increase of 8.9 per cent recorded in the previous quarter. In Maloti terms, it grew by 18.7 per cent to M12 166.4 per ounce, compared with a rise of 5.6 per cent observed in the quarter ending June 2011.

Figure 1: Average Price of Gold

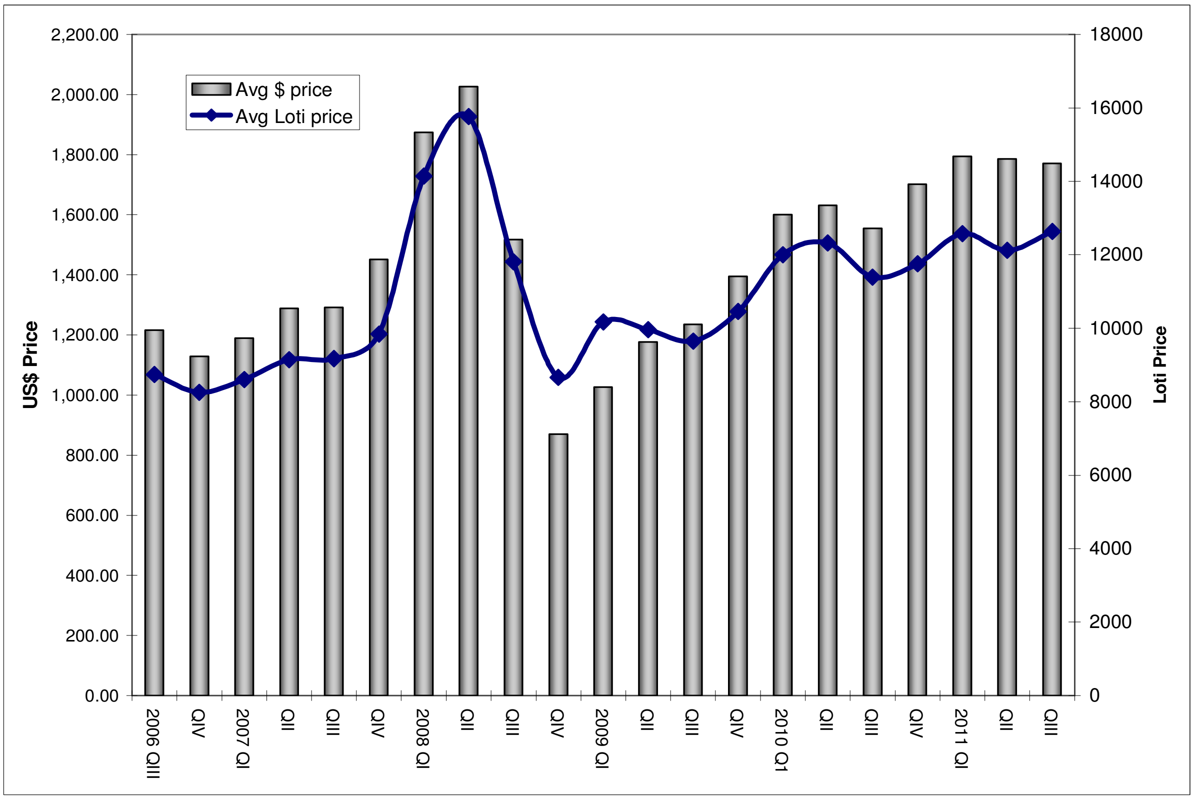


Source: Bloomberg

Platinum

The average price of platinum declined by 0.9 per cent to US$1 770.3 per ounce compared with a fall of 0.5 per cent registered in the previous quarter. In domestic currency terms, this represented an increase of 4.3 per cent to M12 122.7 per ounce, against a drop of 3.6 per cent in the previous quarter.

Figure 2: Average of Price of Platinum



Source: Bloomberg

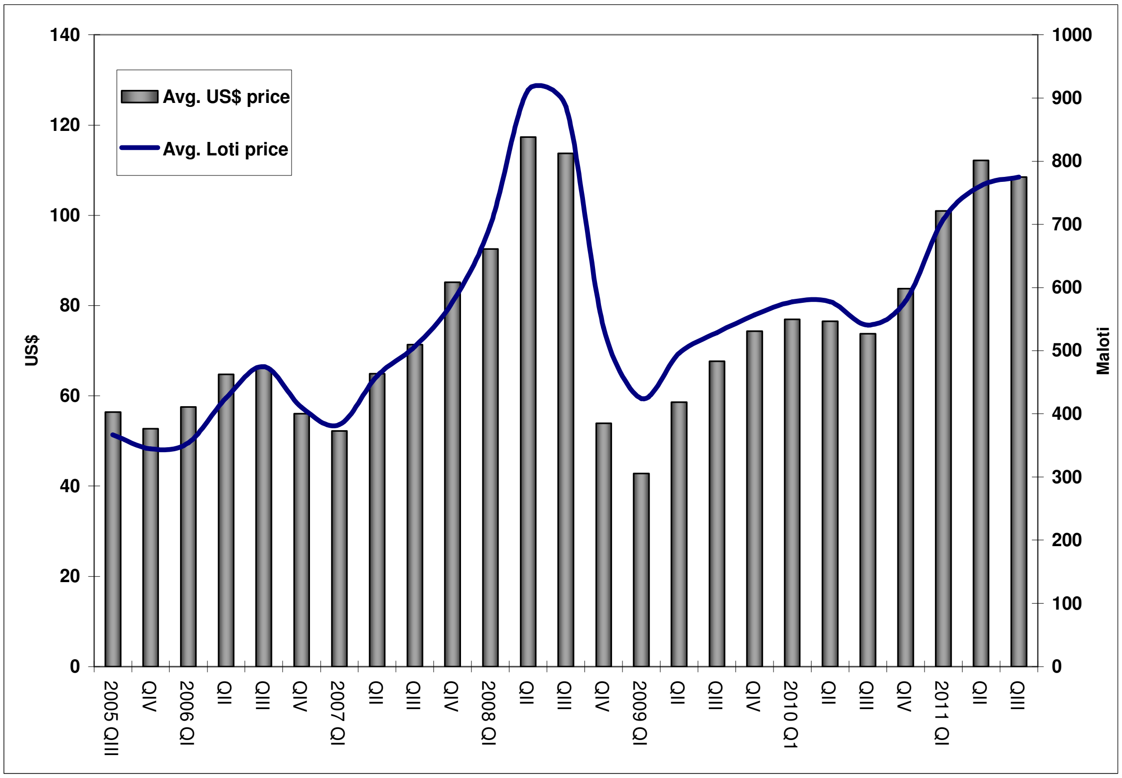
The SA mining industry continued to benefit from commodity price increases, despite a reduction in the price of platinum. This is expected to enhance the employment prospects of Lesotho's mine-work seekers and therefore inflows of migrant remittances.

Oil

The price of crude oil decreased, on the average, by 3.2 per cent to US$108.5 per barrel in the review period compared with a rise of 11.1 per cent observed in the preceding quarter. In Maloti terms, this corresponded with a 1.8 per cent increase, following that of 7.6 per cent in March 2011.

In line with rising international prices of crude oil, domestic prices of petroleum products also rose. Prices of petrol and diesel closed the review quarter at M9.1 and M9.6 per litre, respectively, while illuminating paraffin increased to M6.9 per litre.

Figure 3: Average Price of Oil



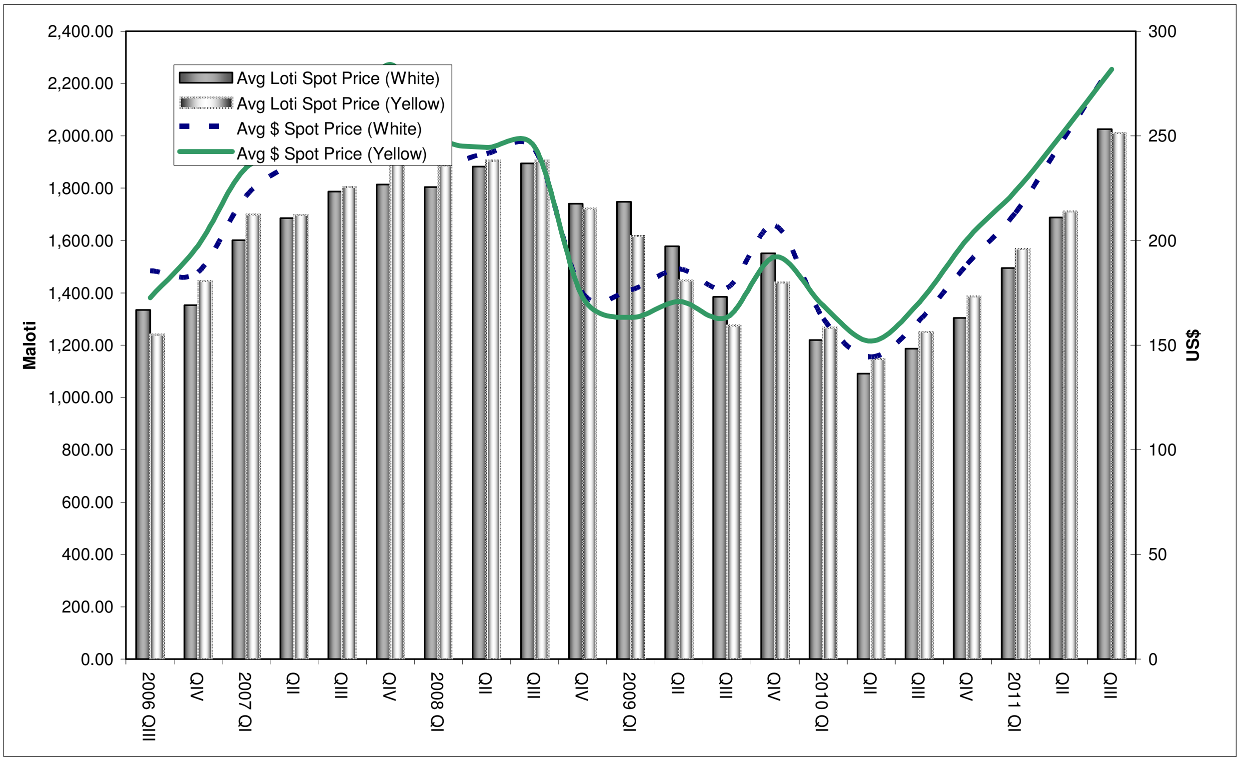
Source: Bloomberg

Agricultural Products

Maize

The average prices of white and yellow maize maintained an upward trend. They grew by 14.1 per cent and 11.8 per cent to US$283.7 and US$281.7 per tonne, from US$248.6 and US$252.0 per tonne realised in June 2011, respectively. In Maloti terms, the average prices of white and yellow maize increased by 20.0 per cent and 17.6 per cent, from M1 688.0 and M1 710.9 per tonne, respectively, recorded in the previous quarter, to M2 025.2 and M2 011.6 per tonne, respectively.

Figure 4: Average Spot Price of Maize

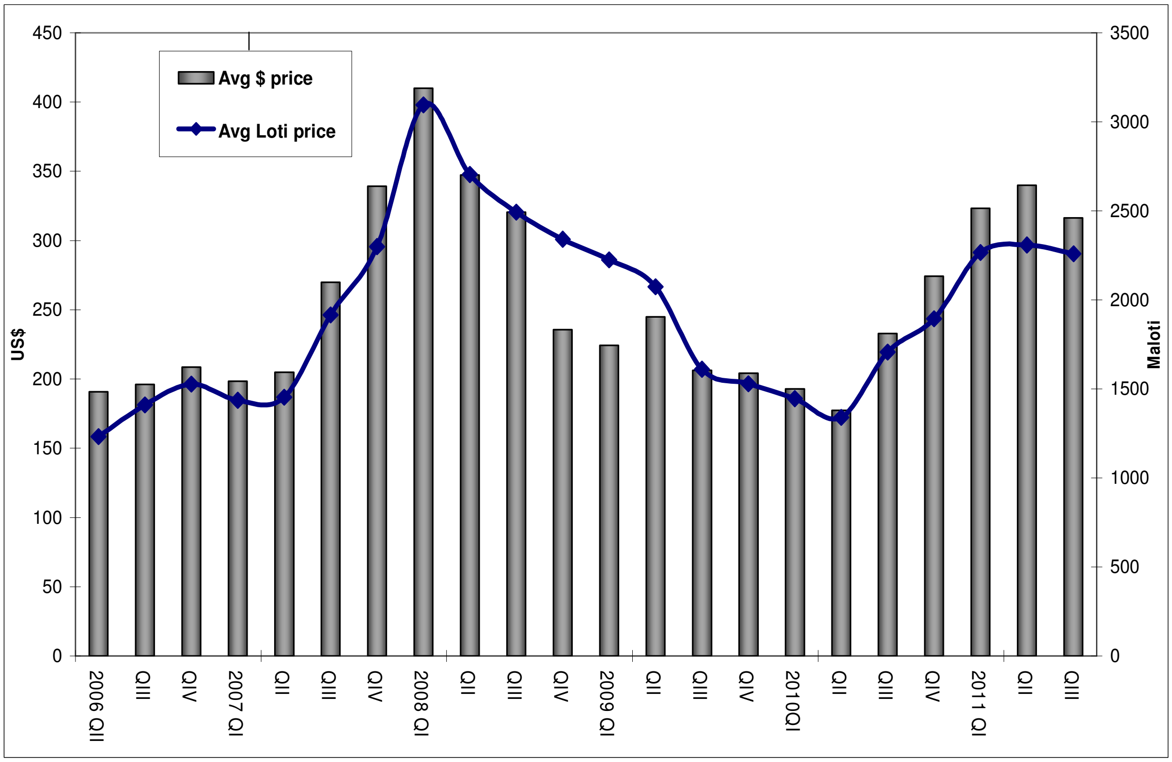


Source: Bloomberg

Wheat

Wheat price fell on average, by 6.9 per cent to US$316.4 per tonne in the review period from US$340.0 per tonne recorded in the previous quarter. This translated into the deceleration of 2.1 per cent, to M2 259.2 per tonne, registered in the quarter ending June 2011.

Figure 5: Average Spot Price of Wheat



III. Real Sector, Employment and Price Developments

Overview

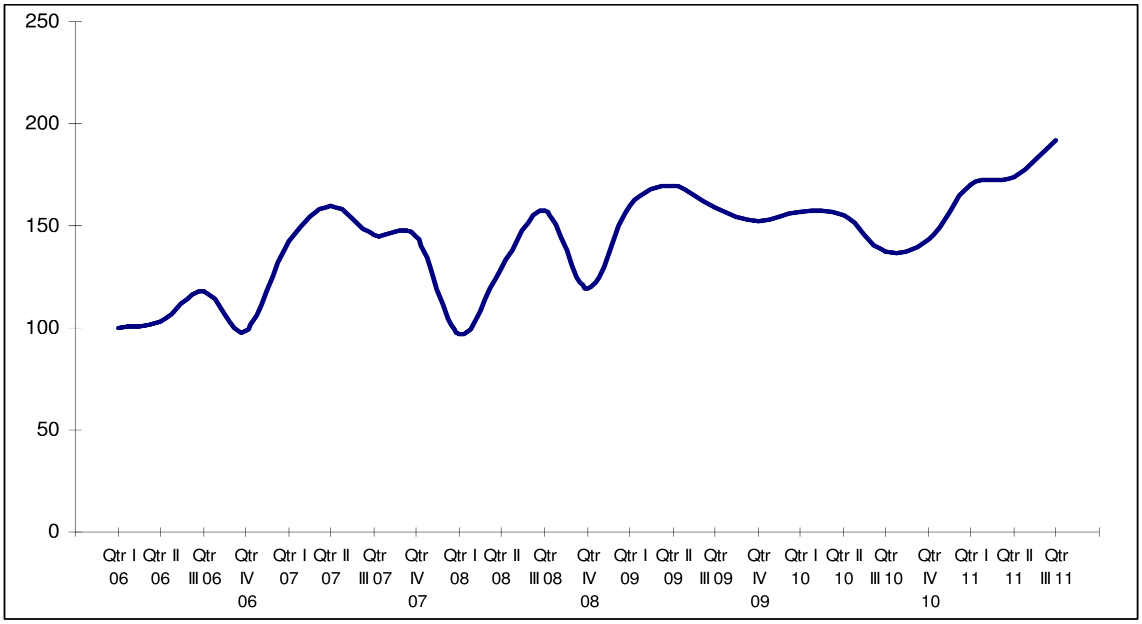
Lesotho's economy showed some signs of slow recovery, despite improvements in some sectors in the third quarter of 2011. Economic activity in the primary sector improved as mining production increased. The secondary sector dipped with electricity and water consumption registering declines. The tertiary sector showed some mixed signs with sales turnover increasing while the number of imported motor vehicles declined. Employment in LNDC-assisted companies fell while employment for government and migrant mineworkers increased moderately.

Primary Sector Developments

The diamond production index rose by 10.6 per cent during the quarter ending in September 2011 compared to a moderate increase of 1.8 per cent in the quarter ending in June 2011. This is attributable to good performance by the mines and the discovery of an exceptionally high value stone by Letšeng mine during the review quarter.

Figure 6: **Diamond Production Index**

(2006: QI=100)



Source: Department of Mines and Geology

Secondary Sector Developments

Electricity Consumption

Total electricity consumption declined by 1.3 per cent in the quarter ending in September 2011 compared to an increase of 22.8 per cent in the previous quarter. The major decline was observed in the commercial and industrial category, which declined by 3.0 per cent. Other categories showed improvement, with the general purpose category increasing by 4.0 per cent while the domestic category rose by 1.2 per cent. The slowdown in electricity consumption by the commercial and industrial sector is attributable to low production activity in the manufacturing subsector as a result of workers' strikes that occurred during the quarter under review. In addition, three Lesotho National Development Corporation (LNDC) assisted firms ceased operations during the review quarter.

Table 2: Electricity Consumption

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

	2010				2011			
	QIV		QI		QII		QIII	
	Kwh	Value	Kwh	Value	Kwh	Value	Kwh	Value
General Purpose	22.37	17.64	21.46	17.13	24.44	22.05	24.77	23.19
Domestic	46.41	33.38	44.94	32.32	56.63	45.33	56.76	47.85
Commercial & Industrial	77.76	37.35	75.33	35.87	93.04	47.83	90.28	48.94
Total	**146.54**	**88.37**	**141.73**	**85.33**	**174.11**	**115.22**	**171.81**	**119.97**

Source: Lesotho Electricity Authority and Lesotho Electricity Company

Water Consumption

Total water consumption declined in the quarter ending in September 2011 both on quarterly and annual bases. It registered quarterly and annual declines of 14.2 per cent and 10.2 per cent, respectively. This mainly reflected lower water consumption by the commercial and industrial sector while other sectors registered increases. Water consumption by the commercial and industrial category declined by 26.1 per cent and 22.8 per cent on quarterly and annual bases, respectively. The decline may be mainly attributed to workers' strikes and shutdown of some companies as mentioned above.

Table 3: Water Consumption

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

		Domestic	Industrial	Other	Total
2010	Units	0.87	1.20	0.61	2.68
III	Value	3.37	9.00	4.41	16.79
	Units*		1.14		2.55
IV	Units	1.06	1.30	0.59	2.95
	Value	5.37	8.31	4.23	17.91
	Units*		1.17		2.66
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

Source: Water and Sewerage Authority
* denotes seasonally adjusted figures

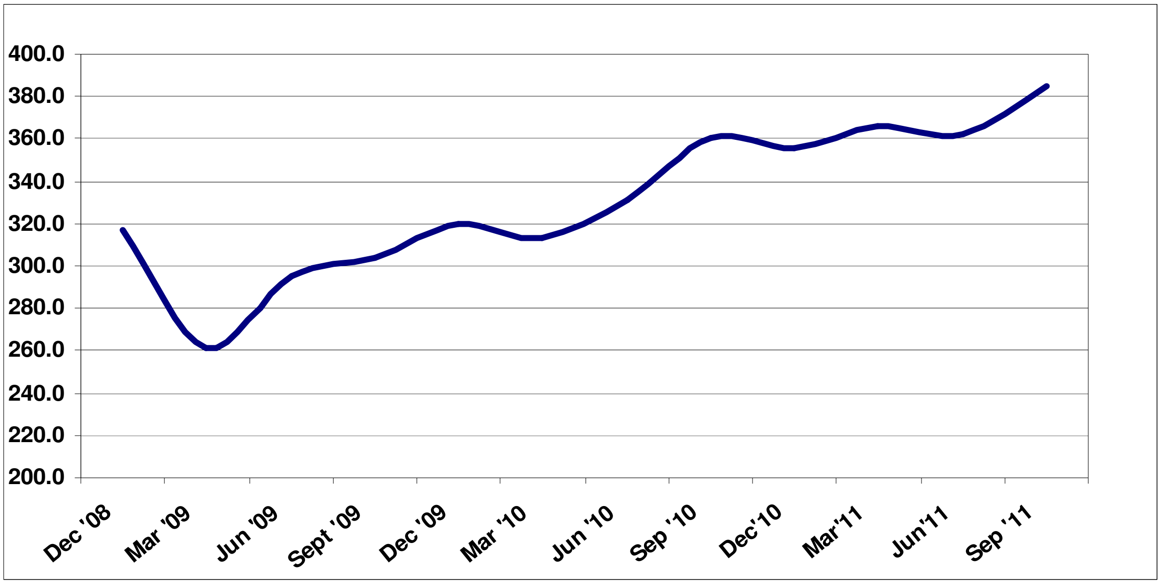
Tertiary Sector Developments

Sales Turnover

The value of sales turnover increased by 6.5 per cent in the third quarter of 2011 compared to a decline of 1.2 per cent in the previous quarter. On an annual basis, the value of sales turnover has decelerated to 6.8 per cent in the quarter ending in September from 9.2 per cent realised in the previous quarter. The rise in the value of sales turnover may be an indication of the general price increase in the economy compared to last quarter and last year.

Figure 7: Value of Sales Turnover

(Million Maloti)



Source: Lesotho Revenue Authority

Telephone Statistics

The number of telephone traffic statistics declined by a seasonally adjusted 15.4 per cent in the quarter ending in September 2011 compared with an increase of 5.7 per cent in the previous quarter. On an annual basis, the number of telephone calls rose by 3.3 per cent. The quarterly decline is in line with low economic activity in the country during the review quarter, particularly in the manufacturing sub-sector.

Table 4: Telephone Traffic Statistics

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

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

Investment Expenditure

Imported Motor Vehicles

The number of imported motor vehicles declined by 4.4 per cent and 5.4 per cent on quarterly and annual bases, respectively. On a quarterly basis, the number of imported motor vehicles declined at a relatively faster pace than in the previous quarter. All categories except vans registered declines.

Table 5: Motor Vehicle Imports +

(Value in Million Maloti)

		Cars	Vans	Trucks	Buses	Tractors	M/ Cycles	Trailers	Total
2010									
III	Value	46.64	58.5	17.7	3.56	1.18	0.18	0.52	128.3
	Units*								965
	Units	423	337	35	17	20	2	11	861
IV	Value	43.08	50.42	22.86	5.44	1.20	0.12	1.83	124.95
	Units*								902
	Units	411	299	38	22	17	2	16	805
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

Source: Avis Fleet Services Lesotho and Customs Department
*denotes seasonally adjusted figures
+Includes imports of second hand cars

Employment Developments

During the quarter ending in September 2011, employment by LNDC-assisted companies declined by 9.5 per cent and 14.2 per cent on quarterly and annual bases, respectively. The decline on a quarterly basis follows a modest growth of 0.3 per cent in the previous quarter. Major declines occurred in the knit garments, woven garments and electronics manufacturing industries. One electronics and two garment producing firms shut down during the quarter under review. In addition, a number of firms put workers on short time due to the decline in orders.

Table 6: Employment Trend of LNDC-Assisted Companies

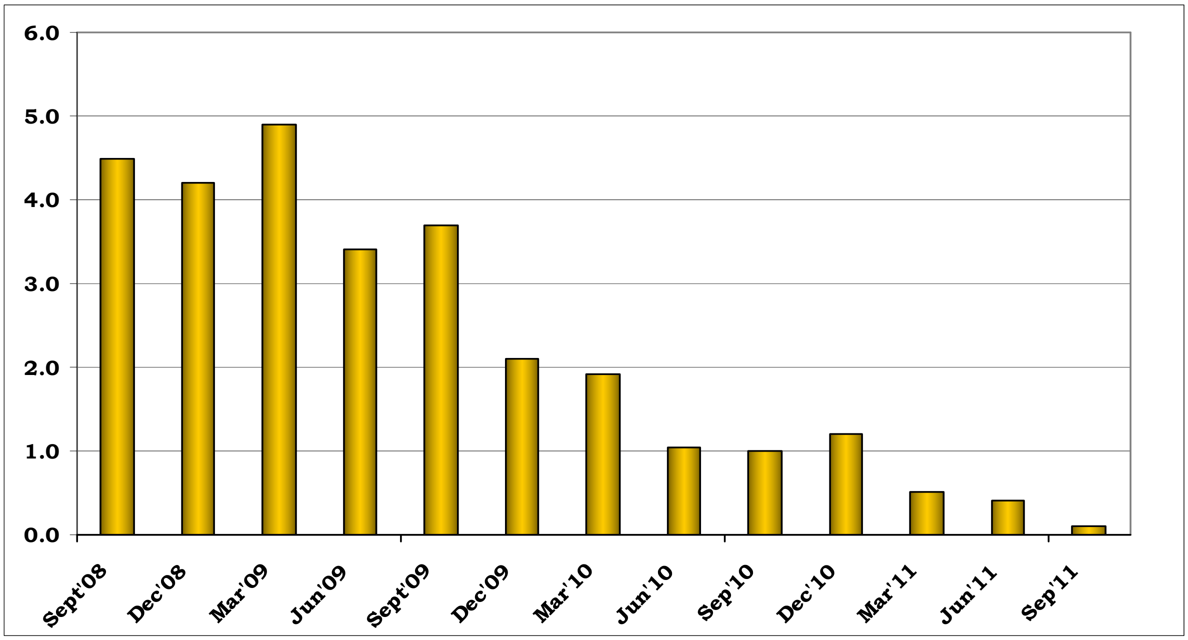
	2010		2011		
Industry	**QIII**	**QIV**	**QI**	**QII**	**QIII***
Knit Garments	21 581	21 699	21 212	22401	20082
Woven Garments	18 366	14 893	14 450	15578	13967
Footwear	2 879	2 802	2 622	2583	2756
Fabrics, Yarn etc.	1 538	1 581	1 427	1388	1388
Construction	275	281	260	277	257
Food & Beverages	799	1 646	842	841	585
Electronics	1 650	1 685	1712	1678	1461
Retail	126	121	121	132	130
Hotel & Accommodation	599	465	445	469	378
Other	487	422	418	435	428
TOTAL	**48 300**	**45 595**	**43 509**	**45782**	**41432**

Source: Lesotho National Development Corporation
*Preliminary estimates

The number of government employees increased by 0.1 per cent both on quarterly and annual bases. The deceleration in the rate of growth of the number of government employees was mainly observed in the teachers' category, which registered a 0.9 per cent decline, daily paid workers with 0.8 per cent decline and a modest decline of 0.1 per cent for civil servants category. The decline may be attributable to the ongoing Government's fiscal consolidation efforts.

Figure 8: Government Employment

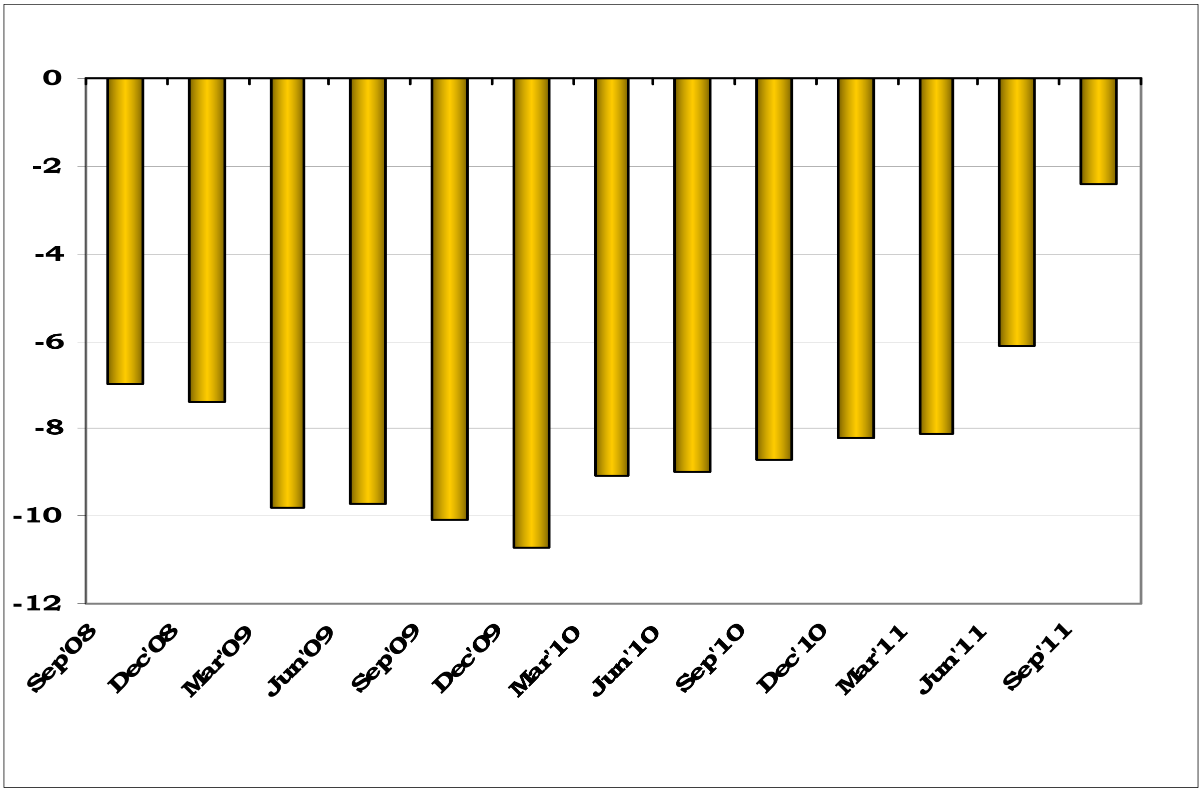
(Annual Percentage Change)



The number of migrant mineworkers increased by 1.8 per cent in the third quarter 2011 compared to a moderate decline in the previous quarter. On an annual basis, the number of migrant mineworkers continued to decline, albeit at a slower rate. The moderation in the decline is reflective of the buoyant profits by gold mining industry in the third quarter, which was manly driven by the high price of gold. The increase on a quarterly basis is attributable to increased production in order to take advantage of the weakening rand against the US Dollar from the previous quarter.

Figure 9: Migrant Mineworkers Employment

(Annual Percentage Change)



Source: The Employment Bureau of Africa (TEBA)

Price Developments

Lesotho's inflation rate, measured as a percentage change in the Consumer Price Index (CPI) for urban households has been accelerating since the beginning of the 2011 and this continued in the third quarter 2011. Nonetheless, in August and September 2011, the rate of inflation was constant and stood at 5.5 per cent. It increased by 0.8 percentage points in the third quarter of 2011 from 4.7 per cent in June 2011. The main contributors to the acceleration in the general price level were housing, electricity, gas & other fuels which increased by 2.8 percentage points, food and non-alcoholic beverages accelerated by 1.2 percentage points and culture increased by 1.0 percentage point.

Table 7: Inflation Rate

(Annual Percentage Change: March 2010 =100)

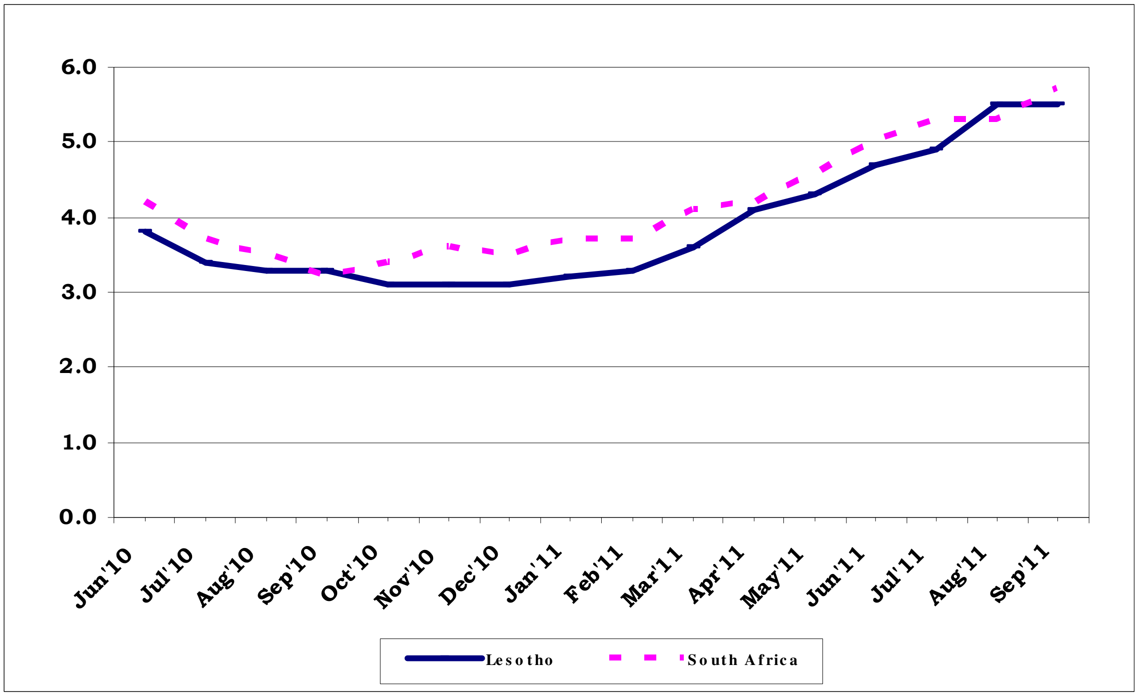
	Weight	2011				
		May	Jun	. July	Aug	Sept
All items	**100.0**	**4.3**	**4.7**	**4.9**	**5.5**	**5.5**
Food and non-alcoholic beverages	38.1	5.6	6.6	6.7	8.0	8.0
Alcoholic beverages & Tobacco	1.2	5.4	5.8	6	6.1	6.4
Clothing & footwear	17.4	1.1	1.6	1.6	1.7	1.7
Housing, electricity gas & other fuels	10.6	11.4	9.5	10.2	11.8	12.3
Furniture, households equipment & routine maintenance of house	9.4	4.4	4.5	3.7	3.2	2.8
Health	1.9	1.6	1.6	1.5	1.2	1.1
Transport	8.5	2.3	2.8	2.9	3.1	3.1
Communication	1.2	1.7	1.7	0.6	0	0
Leisure, entertainment & Culture	2.4	0.6	0.9	1	1.7	1.9
Education	2.7	0.8	0.8	0.8	0.8	0.8
Restaurant & Hotels	0.7	3.6	3.1	2.2	3.7	3.7
Miscellaneous goods & services	5.8	2	2.9	2.7	2.1	2.2

Source: Bureau of Statistics, Lesotho

Lesotho's inflation rate continued to closely track that of South Africa. This largely reflects Lesotho's high reliance on imports from South Africa (SA). In addition, Lesotho is a member of the Common Monetary Area (CMA) and under this arrangement; Lesotho's exchange rate is fixed as par to the SA rand. The high and accelerating food prices also contributed to the rise in inflation. Lesotho's CPI accelerated from 4.7 per cent in June 2011 to 5.5 per cent in September 2011 while that of SA rose from 5.0 per cent in June 2011 to 5.7 per cent during the review period.

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 expanded by 10.8 per cent during the quarter under review following a 2.0 per cent expansion observed in the second quarter of 2011. On annual basis, money supply expanded by 7.9 per cent compared with a 3.0 per cent rise in the previous quarter. The increase in money supply on a quarterly basis was fuelled by an increase of 10.2 per cent in net foreign assets and a 7.5 per cent increase in domestic credit excluding net claims on government.

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

(Million Maloti: End of Period)

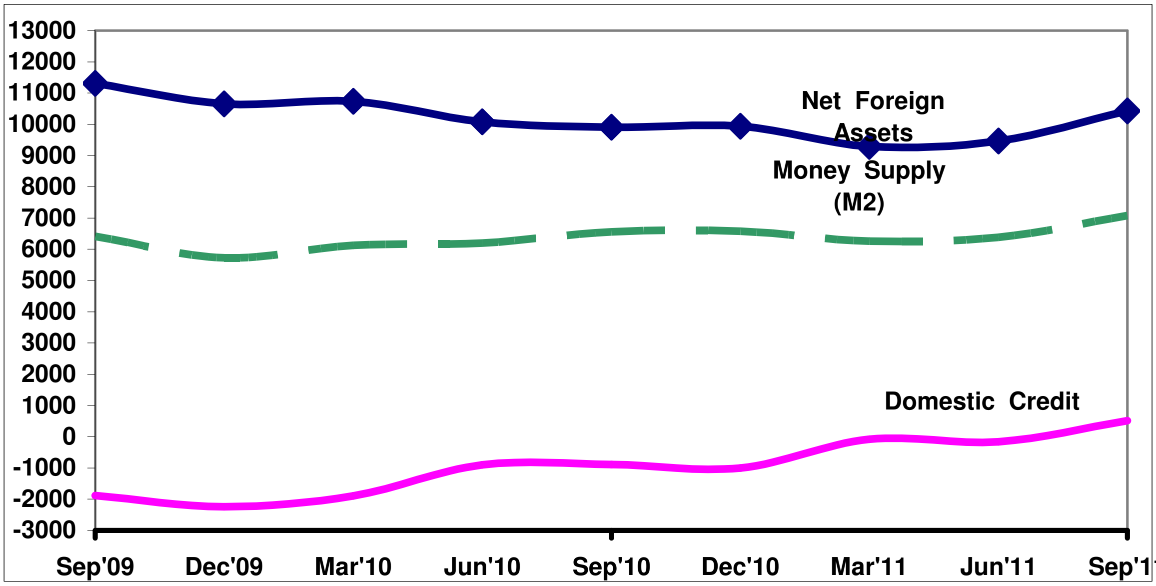


Table 8: **Determinants of Money Supply**

(Million Maloti: Changes)

Determinants	2010		2011		
	Sep	Dec	Mar	Jun	Sep
Net foreign assets	-178.3	37.0	-651.5	175.1	963.9
Domestic credit	9.6	-108.2	918.6	-84.7	681.5
Net Claims on Govt	-238.3	-180.2	787.1	-202.9	497.2
Statutory bodies	3.2	-0.2	-0.45	-0.4	-0.4
Private sector	244.7	-72.2	132.1	118.6	184.8
Other items, net	-529.0	-86.9	578.6	-32.7	954.0
Money Supply (M2)	360.3	15.8	-311.5	123.2	691.5

Components of Money Supply

The major components of broad money comprise narrow and quasi money. During the quarter under review, narrow money expanded in contrast with a decline in quasi money.

Narrow money expanded by 16.1 per cent in the quarter ending in September 2011, compared to a 1.5 per cent increase registered in the previous quarter. The expansion in M1 was dominated by a 17.6 per cent increase in demand and call deposits and a 12.8 per cent increase in Maloti in circulation. Quasi money contracted by 4.4 per cent driven by a 6.0 and 2.3 per cent declines in time and savings deposits respectively.

Table 9: Money Supply

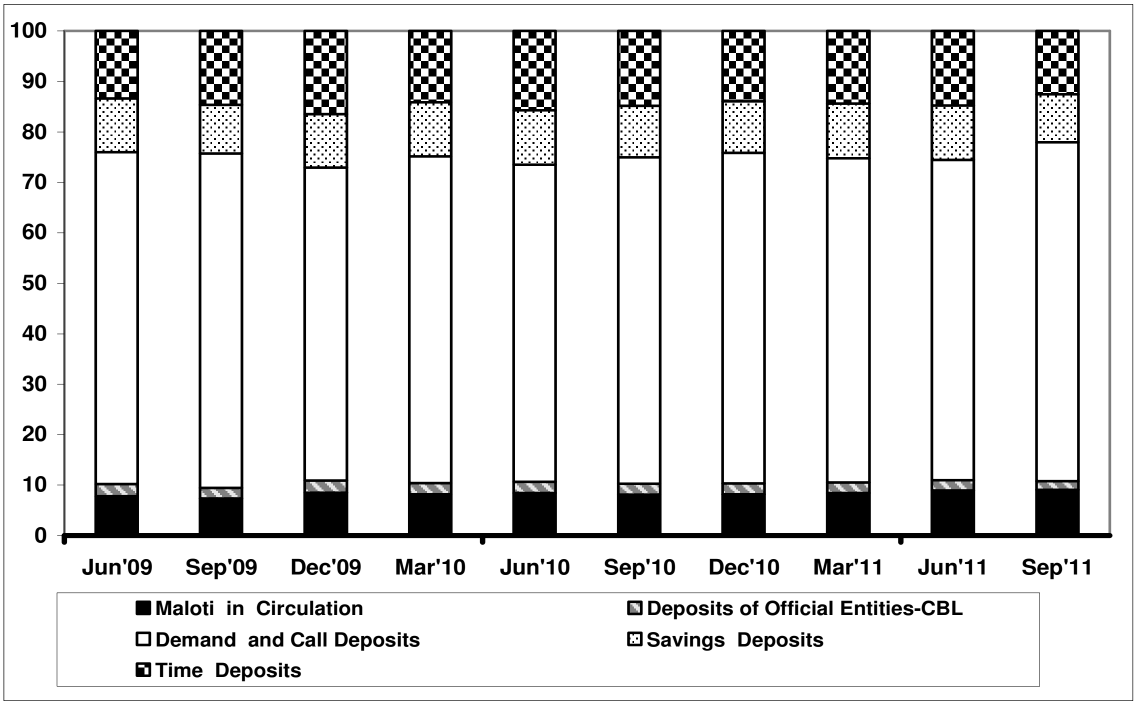
(Million Maloti; End of Period)

	2010		2011		
	Sep	**Dec**	**Mar**	**Jun**	**Sep**
Money Supply (M2)	6559.1	6574.8	6263.3	6386.5	7077.9
Money (M1)	4915.8	4986.0	4682.7	4753.9	5517.4
Maloti with public	533.8	539.0	529.2	569.4	642.0
Demand deposits[1]	4242.5	4306.8	4022.0	4053.0	4753.7
Deposits of official Entities with CBL	139.5	140.2	131.5	131.5	121.7
Quasi-Money	1643.2	1588.8	1580.6	1632.6	1560.5
Savings deposits	672.1	670.8	678.7	690.0	674.2
Time deposits	971.1	918.0	901.9	942.6	886.4

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

Figure 12: Components of Money Supply

(Percentage shares)



Commercial Banks' Deposits by Holder

The quantity of deposits held with the local commercial banks increased by 11.1 per cent at the end of September 2011 following a 1.5 per cent increase registered in the quarter ending in June 2010. This increase in deposits was at the back of an 11.3 per cent increase in deposits held by the private sector. This was, however, moderated by a 2.0 per cent decline in deposits held by statutory bodies. The increase in deposits held by the private sector was driven by an increase of 17.8 per cent in demand and call deposits while time and savings deposits declined by 6.0 and 2.3 per cent respectively.

Table 10: Commercial Banks; Deposits by Holder

(Million Maloti: End of Period)

	2010		2011		
	Sep	Dec	Mar	Jun	Sep
Total Deposits	5847.8	5862.2	5569.6	5652.5	6280.5
Private Sector	5519.7	5594.8	5338.8	5565.5	6195.2
Demand deposits	3878.2	4007.5	3759.7	3934.3	4636.0
Savings deposits	672.0	670.7	678.6	689. 9	674.1
Time deposits	969.5	916.5	900.6	941.2	885.1
Statutory Bodies	328.0	267.4	230.8	87.1	85.4

NB: Totals may not tally due to rounding off

Liquidity of Commercial Banks

The liquidity of commercial banks continued to remain high in the third quarter of 2011. The ratio of liquid assets to deposit liabilities and placements with other banks increased by 2.0 percentage points, from 72.1 per cent observed in the second quarter of 2011 to 74.1 per cent in the third quarter of 2011. The credit deposit ratio fell from 41.7 per cent recorded in the previous quarter to 40.4 per cent in the review period. The decline in the credit deposit ratio reflects an 11.1 per cent growth in private sector deposits relative to a smaller 7.9 per cent increase in credit to the private sector.

Table 11: Components of Commercial Banks' Liquidity

(Million Maloti: End of Period)

COMPONENT	2010		2011		
	Sep	Dec	Mar	Jun	Sep
Maloti Notes and Coins	99.0	98.83	93.0	90.0	86.7
Rand Notes and Coins	66.9	58.44	53.3	52.3	49.2
Balances due from Lesotho Banks	1086.8	1047.8	1092.9	1003.3	1083.1
Balances due from Foreign Banks	3924.8	3777.8	3440.5	3407.8	3855.0
Clearing Balances with CBL	-73.9	8.7	-28.0	-78.7	22.9
CBL Bills	0.0	0.0	0.0	0.0	0.0
Lesotho Government Securities	441.56	388.55	471.7	563.5	568.0

Table 12: **Consolidated Balance Sheet of Commercial Banks**
(Million Maloti: End of Period)

	2010		2011		
	Sep	**Dec**	**Mar**	**Jun**	**Sep**
Net foreign assets	3786.5	3799.8	3359.0	3310.5	3775.7
Deposits with CBL	171.2	237.3	187.2	145.2	256.7
Credit:	2547.7	2567.2	2776.7	2996.4	3185.3
Statutory Bodies	0.0	0.0	0.0	0.0	0.0
Private Sector	2027.3	2100.8	2229.4	2355.2	2539.6
Government securities	519.3	466.3	547.3	641.2	645.7
Assets/Liabilities	6504.4	6604.2	6322.9	6452.1	7217.7
Private sector deposits[2]	5847.8	5862.2	5569.6	5652.5	6280.5
Government deposits	22.1	24.3	22.6	22.7	25.0
Capital, reserves & other, net	634.5	717.7	730.6	776.9	912.2

[2] includes statutory bodies' deposits.

Demand for Money

Domestic Credit

Domestic credit, excluding net claims on government, expanded further by 7.9 per cent during the quarter under review, following a 5.8 per cent expansion realised during the second quarter of 2011. On annual basis, domestic credit continued to register a double digit growth of 25.4 per cent following an expansion of 27.9 per cent recorded in the previous quarter. The increase in domestic credit on a quarterly basis was driven by a 7.9 per cent rise in credit extended to the private sector, moderated by a 19.1 per cent decline in credit extended to statutory bodies.

Table 13: Domestic Credit Excluding Net Claims on Government*

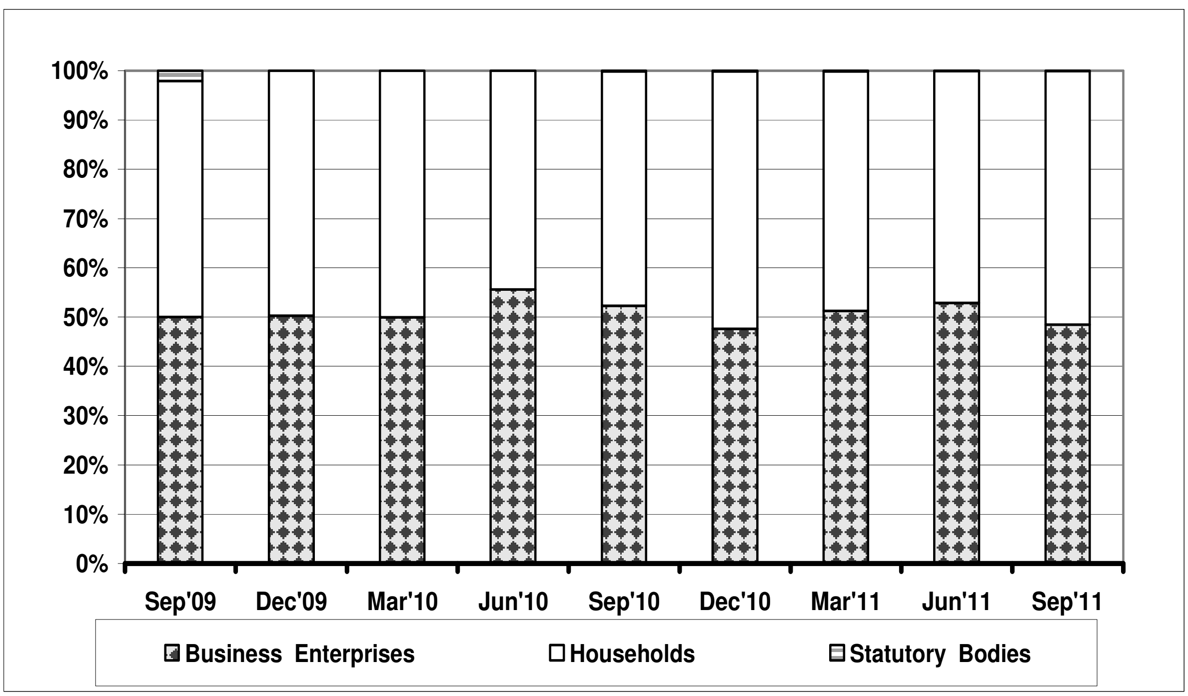
(Million Maloti: End of Period)

	2010		2011		
	Sep	Dec	Mar	Jun	Sep
Domestic Credit	2018.1	2087.0	2217.7	2347.0	2531.6
Credit to private sector	2014.9	2084.0	2215.3	2344.9	2529.9
Business enterprises	1075.0	993.4	1136.1	1240.8	1225.9
Households	934.9	1090.6	1079.2	1104.0	1304.0
Credit to statutory bodies	3.2	3.0	2.4	2.1	1.7

*excludes non performing loans

Figure 13: Distribution of Credit by Holder

(Percentage shares)



Credit to Private Sector

During the third quarter of 2011, credit extended to the private sector increased by 7.9 per cent, following a 5.9 per cent increase in the previous quarter. The increase in private sector credit on a quarterly basis was driven by an 18.1 per cent rise in credit extended to household moderated by 1.2 per cent decline in credit extended to business enterprises. Credit extended to households constitutes the largest share of domestic credit with 52 per cent while the share of credit extended to businesses declined to 48 per cent.

Sectoral Distribution of Credit

Credit extension to enterprises in the quarter ending September 2011 was dominated by the following sectors: non-bank financial institutions and real estate (23.9 per cent); transport, storage and communications (22.1 per cent); wholesale, retail, hotel and restaurant (13.4 per cent); and mining (10.2 per cent). Significant improvements in credit extension were in mining and non-bank financial institutions and real estate. However, credit extension to the agriculture, manufacturing and construction subsectors were on the decline in the quarter under review.

Table 14: Sectoral Distribution of Credit to Enterprises*

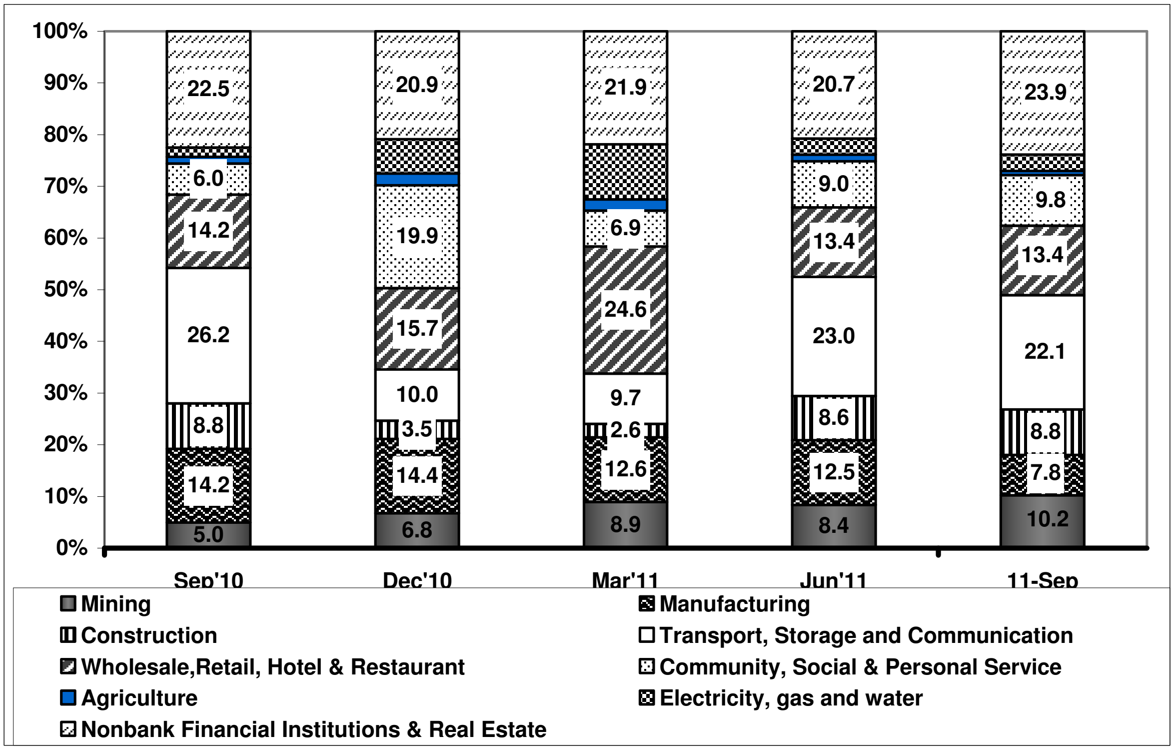
(Million Maloti: End of period)

SECTOR	2010		2011		
	Sep	Dec	Mar	Jun	Sep
Agriculture	15.0	24.1	26.2	17.1	10.2
Mining	56.9	71.7	107.2	108.9	122.9
Manufacturing	162.3	152.8	151.4	163.0	93.9
Construction	100.5	105.7	117.0	111.9	106.5
Transport, storage and communication	299.6	166.8	296.3	300.1	266.0
Electricity, gas and water	20.5	37.3	31.4	40.2	37.4
Wholesale, retail, hotel and restaurant	162.1	70.5	128.6	174.6	161.9
Non-bank financial institutions and real estate	256.7	221.7	263.3	270.3	287.5
Community, social and personal services	68.6	211.6	83.5	116.7	117.8
All sectors	**1142.0**	**1062.3**	**1204.9**	**1302.7**	**1204.0**

* 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 by 19.0 per cent during the third quarter of 2011 in contrast with a decline of 8.4 per cent observed in the previous quarter. This increase in total net claims by the banking sector was mainly driven by a 14.4 per cent decrease in Government deposits held by the Central Bank as opposed to a 7.4 per cent increase realised in the second quarter. Net claims on Government by the commercial banks increased marginally by 0.4 per cent as compared to 17.9 per cent increase recorded in the previous quarter.

Table 15: Banking System's Net Claims on Government

(Million Maloti: End of Period)

Holder	2010		2011		
	Sep	Dec	Mar	Jun	Sep
Commercial banks	497.2	442.0	524.7	618.5	620.7
Claims on Government	519.3	466.3	547.3	641.2	645.7
o/w MP T Bills[3]	429.3	376.3	457.3	551.2	555.7
Less Government deposits	22.1	24.3	22.6	22.7	25.0
CBL	-3514.7	-3639.7	-2935.3	-3231.9	-2737.0
Claims on Government[4]	313.4	250.1	264.1	202.6	202.5
Less Government deposits	3828.0	3889.1	3199.4	3434.5	2939.5
o/w blocked account	626.9	629.9	632.9	500.3	503.3
Total Net Claims	-3017.4	-3197.6	-2410.6	-2613.5	-2116.3

[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 increased by 10.2 per cent in the third quarter of 2011 following a lower 1.9 per cent increase recorded in June, 2011. The rise in total net foreign assets was on account of the 14.1 and 8.1 per cent increases in net foreign assets of the commercial banks and the Central Bank respectively. The large increase in Commercial banks' net foreign assets was driven by a 13.1 per cent increase in commercial banks' foreign assets against a 16.3 per cent decline in foreign liabilities. Central Bank's foreign assets also increased by 7.0 per cent, against a 5.8 per cent decline in net foreign assets.

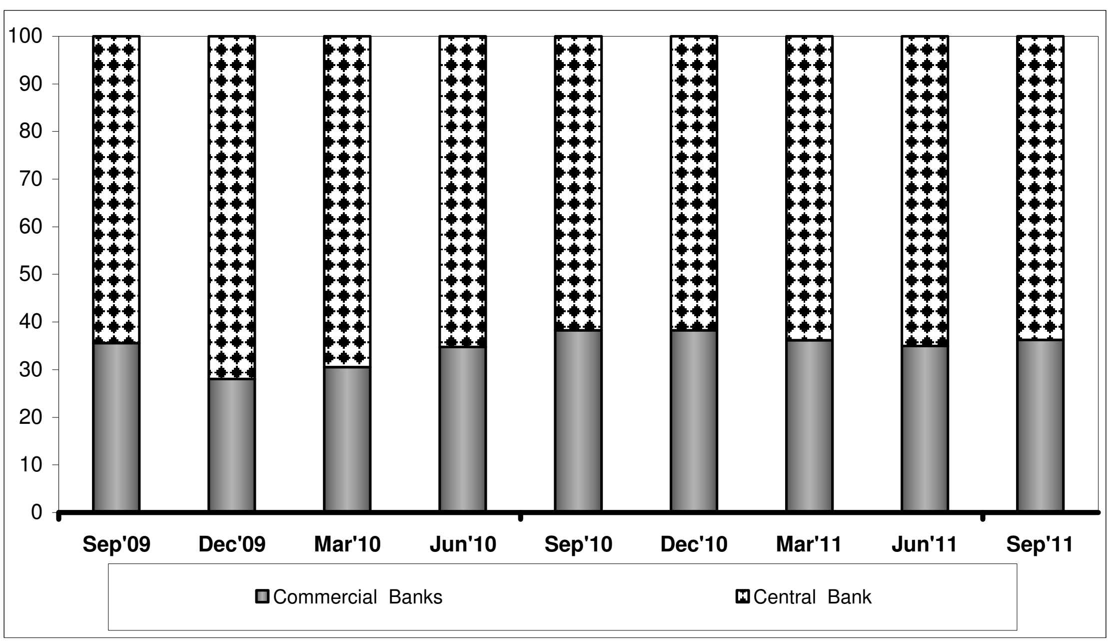
Table 16: Banking System's Foreign Assets and Liabilities

(Million Maloti: End of Period)

Holder	2010		2011		
	Sep	Dec	Mar	Jun	Sep
A. Commercial Banks	3786.5	3799.8	3359.0	3310.5	3775.7
Foreign Assets	3940.4	3917.5	3457.3	3413.2	3861.7
Foreign Liabilities	-153.9	-117.7	-98.3	-102.7	-86.0
B. Central Bank of Lesotho	6115.2	6138.9	5928.1	6151.7	6650.4
Foreign Assets	6858.3	6749.5	6734.8	6688.5	7155.8
Foreign Liabilities	-743.1	-610.6	-806.6	-536.8	-505.4
Net Total	9 901.7	9 938.7	9 287.2	9 462.2	10 426.1

Figure 15: Net Foreign Assets

(Percentage shares)



Money Market Developments

The total holding of Treasury bills and bonds increased by 1.4 per cent in the quarter under review as compared to the higher 13.6 per cent increase recorded in the previous quarter. This lower increase was as a result of a combination of a 9.8 per cent increase in treasury bonds and a 4.5 per cent decline in treasury bills. Bonds held by the banking system increased by 15.3 per cent, while those held by the non-bank sector increased by 0.9 per cent. The continued decline in treasury bills' holding was driven by the 7.1 per cent drop in Treasury bills held by the banking system while Treasury bills held by the banking system increased by 5.9 per cent.

Table 17: Holding of Treasury Bills and Bonds

(Face Value; Million Maloti)

	2010		2011		
	Sep	**Dec**	**Mar**	**Jun**	**Sep**
Total Holding of Bills and Bonds	663.1	780.6	785.4	892.4	904.7
Treasury Bills	663.1	593.3	535.5	523.5	499.8
Banking System	537.8	480.3	423.7	417.9	387.9
Non-Bank Sector	125.3	113.0	111.8	105.6	111.9
Treasury Bonds		187.3	250.3	368.9	405.0
Banking System		126.4	137.5	227.8	262.5
Non-Bank Sector		60.9	112.8	141.2	142.4
Memorandum Item					
Average Yield Bills (per cent)	6.69	5.60	5.43	5.30	5.37
Average Yield Bonds (per cent)		8.63	8.50	8.63	8.63

Money Market and Short-term Interest Rates

During the third quarter of 2011, the Central Bank's 91-day Treasury bill rate remained flat at 5.29 per cent while the Lombard rate declined from 9.38 to 9.29. With an exception of the call interest rate which increased from 1.14 to 1.15 per cent, most commercial bank's interest rates remained constant. The prime lending rate in Lesotho closed at 10.50 at the end of the review period. In South Africa, the repo rate remained flat at 5.50 and the prime lending rate at 9.00. However the South African 91-day TB rate increased by 8 basis points to 5.55 from 5.47 per cent recorded in the previous quarter.

Table 18: Major Money Market Interest Rates

(Percent: End of Period)

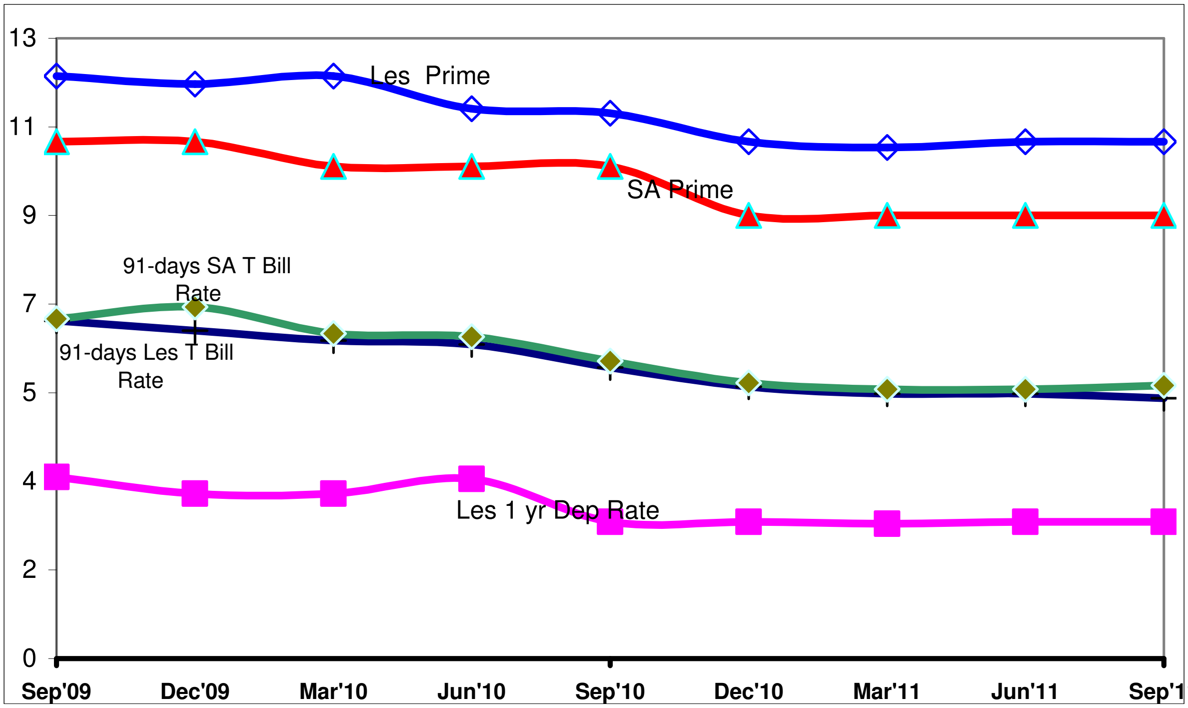
Interest Rates by Type	2010		2011		
	Sep	Dec	Mar	Jun	Sep
Central Bank					
T Bill Rate – 91 Days	5.91	5.52	5.38	5.29	5.29
Lombard Rate	9.91	9.91	9.38	9.38	9.29
Commercial Banks[5]					
Call	1.29	1.14	1.14	1.14	1.15
Time:					
31 days	1.25	1.21	1.09	1.21	1.21
88 days	1.78	1.67	1.58	1.67	1.67
6 months	1.94	1.94	1.94	1.94	1.94
1 year	2.78	2.78	2.74	2.78	2.78
Savings	1.21	1.21	1.09	1.21	1.21
Prime	11.08	10.50	10.38	10.50	10.50
South Africa*					
Repo	6.00	5.50	5.50	5.50	5.50
T Bill Rate – 91 Days	6.04	5.60	5.47	5.47	5.55
Marginal Lending Rate	11.00	10.50	10.50	10.50	10.50
Prime	10.00	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)



VI. Foreign Trade and Payments

Overview

The external sector position indicated a surplus for the first time in the third quarter of 2011, since the fourth quarter of 2009. The overall balance, in seasonally adjusted terms, registered a surplus equivalent to M465.7 million during the quarter under review, compared with a deficit of M85.3 million observed in the previous quarter. The surplus emanated largely from improvements in current account together with positive impact of depreciation of the local currency against trading currencies where CBL foreign reserves were held, despite the deterioration in capital and financial account. The seasonally adjusted transactions balance, which represents the overall balance excluding the effects of currency fluctuations, recorded a higher deficit of M184.7 million during the quarter from that of M103.7 million in the previous quarter

Current Account

The current account balance recorded a noticeable surplus equivalent to M412.0 million in the review quarter, compared with a revised deficit of 732.4 million recorded in the quarter ending in June 2011. The improvement was attributed largely to an increase in merchandise exports, net income and a drop in merchandise imports. However, payments for services rendered abroad dropped. As a percentage of GDP, the current account recorded a surplus of 10.5 per cent during the quarter under review, following a deficit of 18.8 per cent in the second quarter of 2011.

Table 19: Current Account Balance

(Million Maloti)

	2010		2011		
	QIII	**QIV**	**QI**	**QII***	**QII+**
I. Current Account	-723.35	-748.06	-813.89	-732.44	412.03
(a) Goods	-2173.04	-1792.54	-1827.98	-1691.88	-734.73
Merchandise exports f.o.b.	1695.47	1855.64	1853.46	2086.06	2665.89
Of which diamonds	286.83	489.81	691.84	463.34	1017.77
Of which textiles & clothing	898.97	801.69	783.80	844.14	964.51
Other exports#	509.67	564.14	377.82	778.58	678.27
Merchandise imports f.o.b.	-3868.51	-3648.18	-3681.44	-3777.94	-3400.62
(b) Services	-881.21	-852.34	-1037.22	-1063.56	-889.31
(c) Income	954.04	969.45	906.59	915.85	933.06
(d) Current Transfers	1376.86	927.38	1144.72	1107.15	1103.01

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

Merchandise Exports

In seasonally adjusted terms, merchandise exports grew by 21.6 per cent in the review quarter, following an increase of 13.4 per cent realised in the previous quarter, largely due to the growth in diamond exports coupled with textiles and clothing exports. Diamond exports rose by more than 100 per cent during the quarter, after a decline of 33.0 per cent recorded in the previous quarter. Exports of textiles and clothing expanded by 14.2 per cent in the review quarter, from a rise of 7.7 per cent in the previous quarter. This reflected the robust global demand during the period. On an annual basis, merchandise exports rose by 57.2 per cent in the third quarter of 2011. Relative to GDP, merchandise exports registered 68.0 per cent in the review quarter, following 53.2 per cent in the previous quarter.

Table 20: Value of Exports by Section of the S.I.T.C. #

(Million Maloti)

COMMODITY	2010		2011		
	QIII	QIV	QI	QII*	QII+
0. Food & Live Animals	35.92	38.90	24.00	59.81	83.35
Cattle	0.00	0.00	0.00	0.00	0.00
Wheat Flour	12.68	21.12	13.03	23.20	53.75
Maize Meal	9.57	2.68	1.63	3.21	5.62
Other	13.67	15.10	9.34	33.40	23.98
1. Beverages & Tobacco	108.38	172.02	81.04	294.62	145.65
Beverages	108.38	172.02	81.04	110.82	0.01
2. Crude Materials	290.81	503.27	697.21	465.24	1020.69
Textiles fibres	3.98	13.46	8.37	1.86	2.92
Of which Wool	3.59	13.36	8.26	1.86	2.92
Of which Mohair	0.39	0.10	0.11	0.00	0.00
Crude fertilizers & crude minerals	286.83	489.81	688.84	463.34	1017.77
Of which Diamond	286.93	489.81	688.84	463.34	1017.77
4. Manufactured Goods	121.21	104.97	96.84	164.06	136.26
Of which textiles yarn and fabric	97.84	90.61	87.93	146.31	118.52
Of which manufactured goods	23.37	14.36	8.91	17.75	17.74
5. Machinery & Transport Goods	280.83	301.89	248.51	258.93	385.99
6. Miscellaneous Manufactured Goods	850.31	730.10	703.15	841.53	891.77
Of which clothing accessories	774.17	716.31	692.83	740.67	824.53
Other	76.14	16.79	10.32	100.58	67.24
7. Unclassified Goods	8.02	4.49	2.72	1.87	2.18
TOTAL EXPORTS	**1695.48**	**1855.64**	**1853.46**	**2086.06**	**2665.89**

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

Merchandise Imports

Merchandise imports declined by 9.9 per cent during the quarter under review, in contrast with an increase of 2.6 per cent in the previous quarter. This fall emanated from deterioration in declarations at boarder post together with a drop in petroleum imports, reflecting a slow down in domestic economic activity during the quarter. The performance of imports was also fuelled by depreciation of the local currency against the US Dollar and other trading currency, as it increases the value of imported goods. On an annual basis, merchandise imports fell by 12.1 per cent during the period. Merchandise imports, as percentage of GDP, registered 86.8 per cent in the third quarter of 2011 compared with 96.4 per cent in quarter ending in June 2011

Direction of Trade

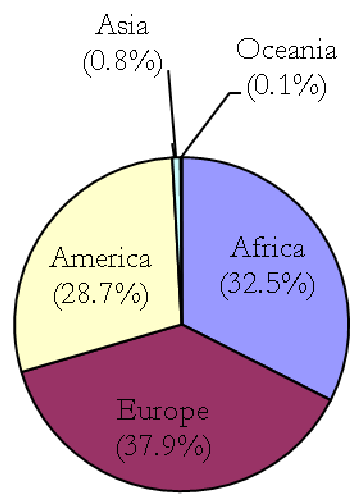
European market, in particular, Belgium, became the largest recipient of Lesotho's exports with a share of 37.9 per cent of total exports in the review quarter, compared with 22.1 per cent in the previous quarter. This is where a large portion of Lesotho's rough diamond exports are destined. The second largest destination of Lesotho's exports was Africa, largely SACU region, with a share of 32.5 per cent, lower than 52.8 per cent realised in the previous quarter. American market, which recorded a share of 28.7 per cent during the quarter compared with 24.5 per cent in the previous quarter, was the third largest importer of Lesotho's goods. This is where a large portion of Lesotho's manufactured goods, textiles and clothing, is destined for. Lesotho's exports to Asia and Oceania markets remained insignificant with a share of 0.8 per cent and 0.1 per cent, respectively.

Table 21: Direction of Trade - Exports and Re-Exports, f.o.b.
(Million Maloti)

Region	2010		2011		
	QIII	QIV	QI	QII*	QII+
World	1695.48	1855.64	1853.46	2086.06	2665.89
Africa	803.57	774.24	663.62	1101.31	865.14
SACU	774.92	740.25	650.87	1059.17	850.19
SADC	14.92	22.09	10.75	28.45	10.81
Other	13.73	11.90	2.00	13.69	4.14
Europe	289.45	498.26	694.40	462.16	1010.35
EU	289.45	498.26	694.40	462.16	1010.35
America	597.03	577.01	484.65	511.48	766.09
Asia	3.36	4.91	7.81	7.56	20.24
Oceania	2.07	1.22	2.98	3.55	4.07

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

Figure 17: Direction of Merchandise Exports



Services Account

The net services account continued to show outflows, but with a lower rate during the third quarter of 2011. It recorded an outflow equivalent to M889.3 million in the review period, following that of M1.0 billion observed in the previous quarter, as payments for services rendered abroad, particularly for transportation services declined. In addition, the drop in payments for communication and business services contributed to the observed performance of services account.

Income

During the quarter under review, net income rose by 1.8 per cent, in comparison with an increase of 1.0 per cent recorded in the previous quarter, due to the growth in returns on CBL investment portfolios abroad. Interest earned by CBL from abroad rose by 24.6 per cent, higher than 4.8 per cent recorded in the quarter ending in June 2011. However, an increase in interest payments for government foreign loans counterbalanced the improvement in income account during the period.

Current Transfers

Net current transfers' receivable went down by 0.4 per cent to M1103.0 million in the third quarter of 2011, from a decline of 3.3 per cent in the quarter ending in June 2011. The drop in inflows resulted from a rise in payments for subscriptions to international organisations which rose to M12.3 million in the review quarter from M4.2 million realised in the previous quarter.

Capital and Financial Account

During the quarter under review, capital and financial account recorded a net deficit of M381.7 million compared with a surplus of M161.8 million in the second quarter of 2011. This reflected an increase in outflows in financial account due to a rise in commercial banks' foreign assets and liabilities. Commercial banks' foreign assets registered an outflow of M448.4 million in the review quarter, after an inflow of M44.1 million in the previous quarter. They also registered an outflow equivalent to M16.7 million against their foreign liabilities during the period, compared with an inflow of M4.4 million in the previous quarter. In addition, a rise in repayment of government foreign loans contributed to the net outflow in the capital and financial account.

Table 22: Capital and Financial Account

(Million Maloti)

	2010		2011		
	QIII	**QIV**	**QI**	**QII***	**QIII+**
I. Capital and Financial Account	-4.60	195.62	1008.0	161.79	-381.74
Capital Account	262.33	307.30	469.18	308.97	319.49
Financial Account	-266.92	-111.67	538.89	-147.18	-701.23
II. Reserve Assets	342.90	109.75	13.55	83.28	-467.29

* Revised estimates

\+ Preliminary estimates

Reserve Assets

The stock of gross international reserves rose by 7.0 per cent to M7.2 billion during the period ending September 2011, after the drop of 0.9 per cent observed in the period ending June 2011. The improvement resulted largely from an increase in earnings from exports together with a rise in valuation due to depreciation of the local currency against the trading currencies where Lesotho's foreign reserves assets were held. As a result, measured in months of import cover, gross official reserves recorded 4.9 months in the review quarter, higher than 4.1 months realised in the previous quarter.

Figure 18: Reserve Assets

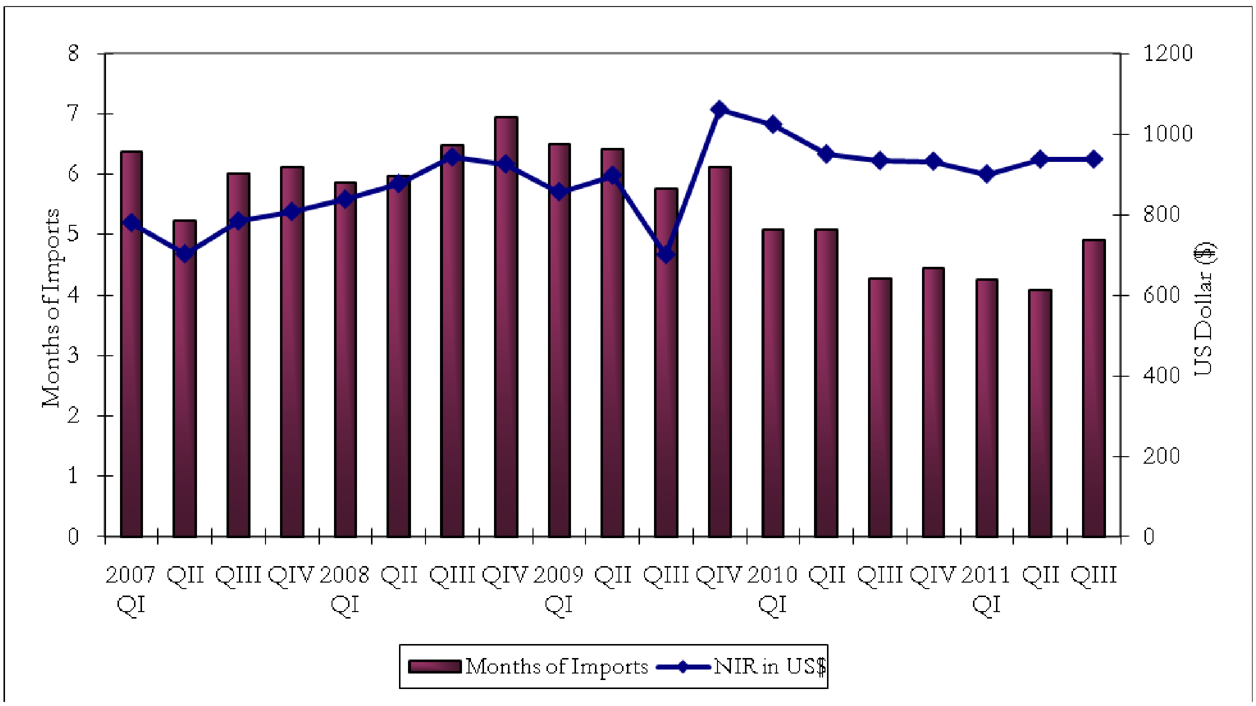
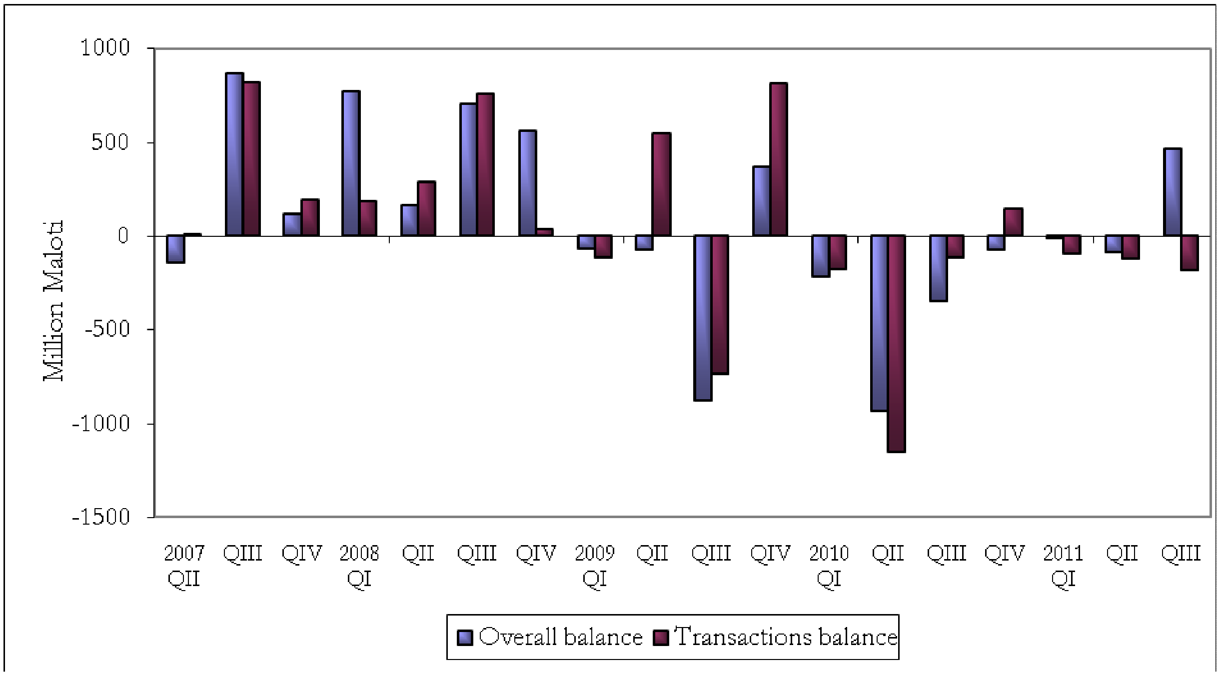


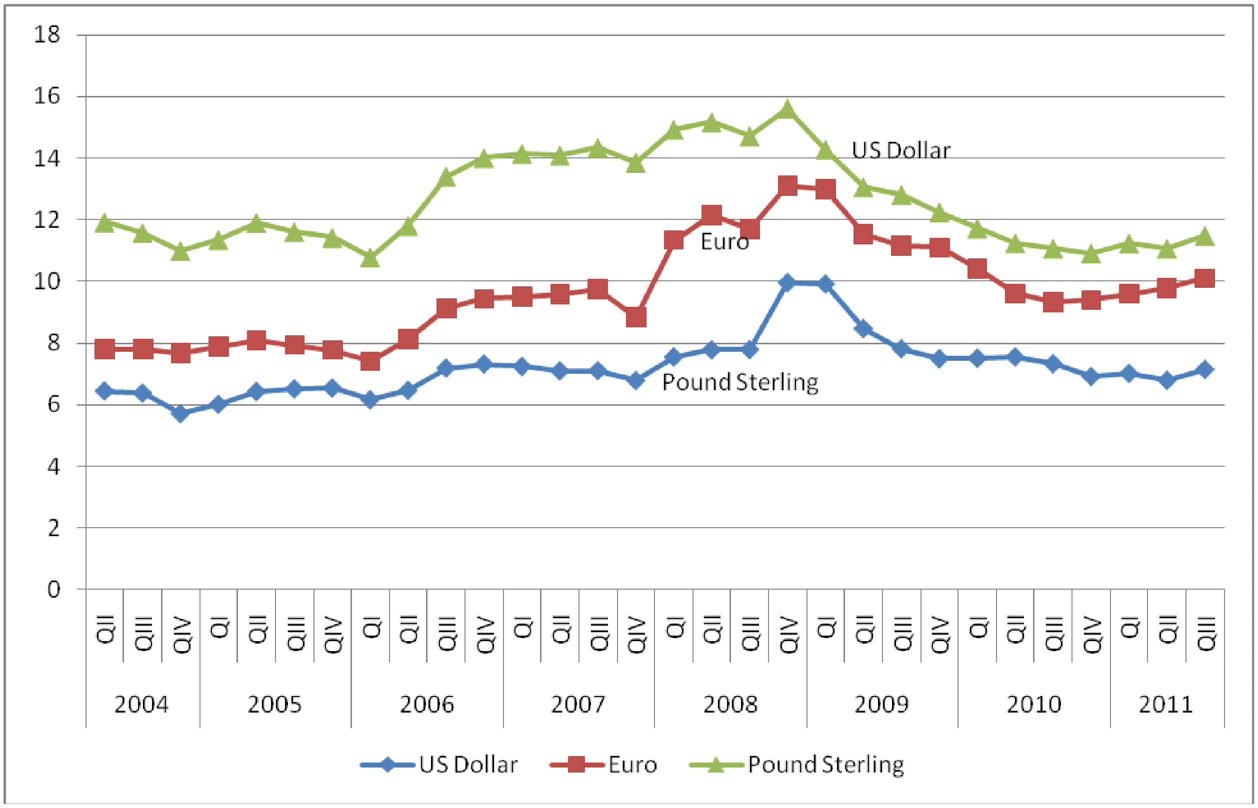
Figure 19: Balance of Payments



Exchange Rates

The domestic currency unit, the loti which is fixed at par with the South African rand, became weak during the third quarter of 2011, as it is more sensitive to changes in global risk perceptions. It depreciated by quarterly average of 5.2 per cent to M7.14, 3.2 per cent to M10.01 and 3.8 per cent to M11.49, against the US Dollar, the Euro and Pound Sterling, respectively. The weakness of the local currency could jeopardise the inflation outlook.

Figure 20: Nominal Exchange Rate of the Loti against Major Currencies



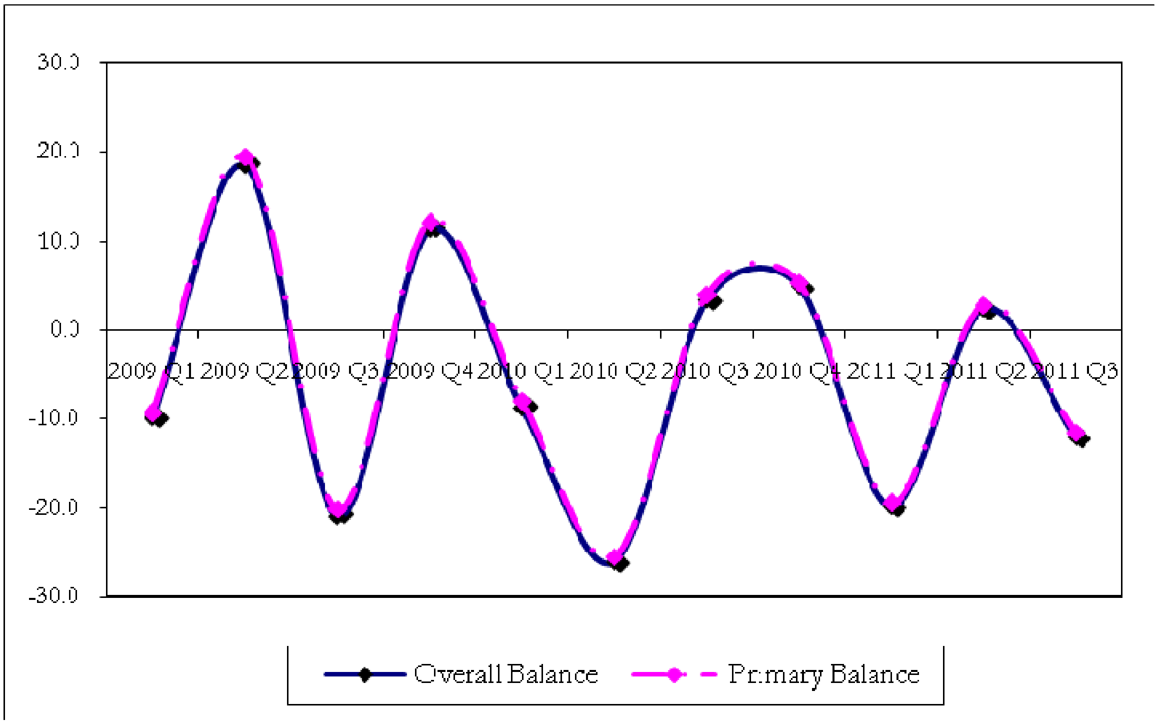
V. Government Finance

Summary of Budget Outturn

Preliminary quarterly estimates on government budgetary operations recorded a non-cumulative deficit equivalent to 12.1 per cent of GDP for the quarter ending September 2010, following a surplus equivalent to 2.1 per cent of GDP observed in the previous quarter. Total revenue and grants increased by 2.6 per cent from 55.5 per cent of GDP recorded in the last quarter to 58.1 per cent during the review period. Total expenditure and net lending increased from 53.2 per cent of GDP to 70.2 per cent of GDP on a quarterly basis. The increase in total revenue and grants was attributable to a rise in non tax revenue, while the increase in government expenditure and net lending was due to a growth observed in other expenditures which includes purchases and transfers to households.

Figure 21: Primary Balance versus Overall Balance

(in per cent of GDP)



Revenue

Quarterly projections indicate that total revenue increased by 5.0 per cent on quarter-to-quarter basis, while it was constant in the quarter ending June 2011. As indicated in figure 18 below, the major contributors to total revenue were Southern African Customs Union (SACU) receipts which constituted 41.6 per cent of total revenue, followed by income taxes and taxes on goods and services at 28.1 per cent and 17.1 per cent, respectively. Tax revenue increased by 1.9 per cent while non-tax revenue which includes property income rose threefold.

Table 23: Government Revenue

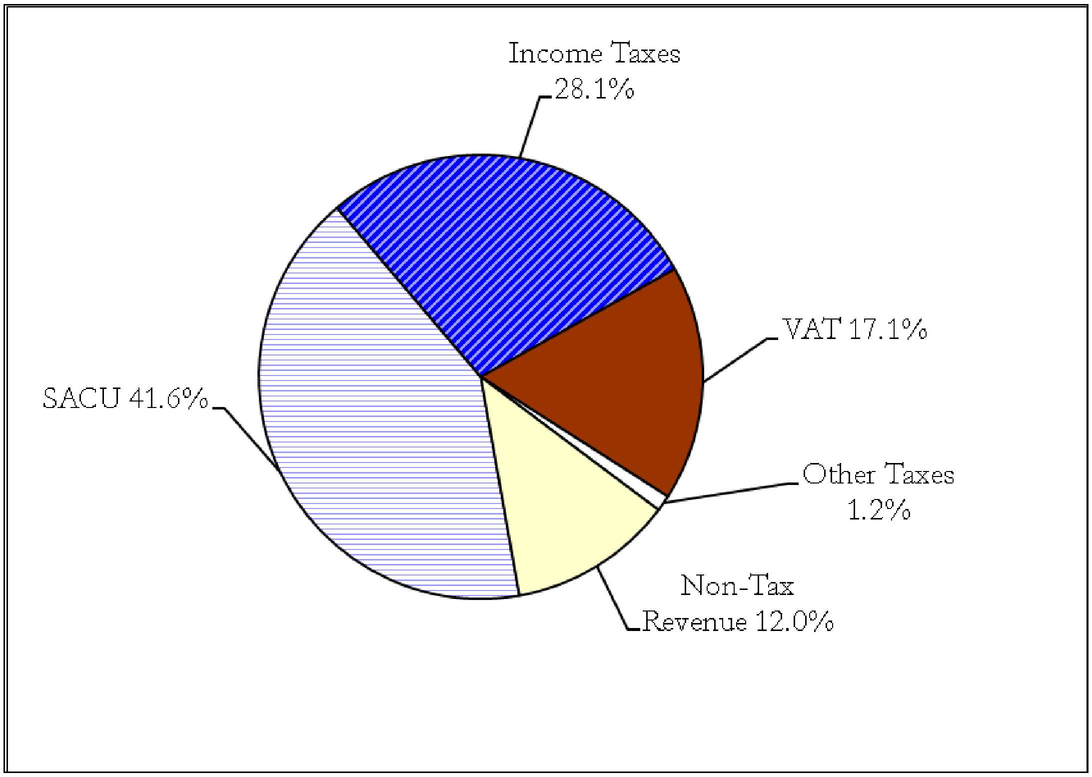
(Million Maloti)

	2010/11			2011/12	
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun Revised	Jul-Sep * Preliminary
Total Revenue and Grants	2756.6	2122.4	1909.2	1918.2	2127.2
Total Revenue	2456.8	1771.2	1670.8	1679.8	1763.5
Tax Revenue	1800.0	1488.1	1419.4	1522.3	1551.9
Customs	1006.7	540.5	540.5	688.2	733.1
Non-customs	793.3	947.7	878.9	834.1	818.8
Income Taxes	483.0	589.6	527.1	522.3	496.1
Taxes on goods & services	298.2	345.9	345.7	292.2	302.1
Other Taxes	12.1	12.2	6.1	19.6	20.6
Non-Tax Revenue	656.8	283.1	251.4	157.5	211.6
Of which: Water royalties	108.8	139.8	97.8	66.5	94.8
Grants	299.8	351.2	238.4	238.4	363.7

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

Non-tax revenue comprises dividends from operations of organisations with public ownership, royalties from Lesotho Highlands Water Project, rand compensation and other revenues; it increased threefold during the review period, compared with a slump of 37.4 per cent recorded in the quarter ending June 2011. The perceptible growth in non-tax revenue is attributable to dividends from the mining sector to government of Lesotho. Quarterly estimates indicate that development grants rose by 3 per cent during the review period in comparison with the 34.1 per cent fall recorded in the previous quarter. Grants continued to reflect the value of on-going donor supported capital projects

Figure 22: Sources of Government Revenue



Expenditure

Government expenditure and net lending increased by 31.9 per cent on a quarterly basis, compared with a 33.8 per cent decline observed in the quarter ending June 2011; the growth emanates from other expenditures; these comprise subsidies and transfers to households and other purchases. As a share of total expenditure, recurrent expenditure constituted 81.0 per cent, while capital expenditure made up 19.0 per cent. Personnel emoluments accounted for 55.4 per cent of recurrent expenditure, followed by goods and services at 26.0 per cent while subsidies and transfers and interest payments accounted for 17.4 per cent and 1.2 per cent, respectively. Other expenditures which include subsidies and transfers, as well as other operating costs decreased by 53.7 per cent following an increase of 59.5 per cent recorded in the previous quarter.

Table 24: Government Expenditure

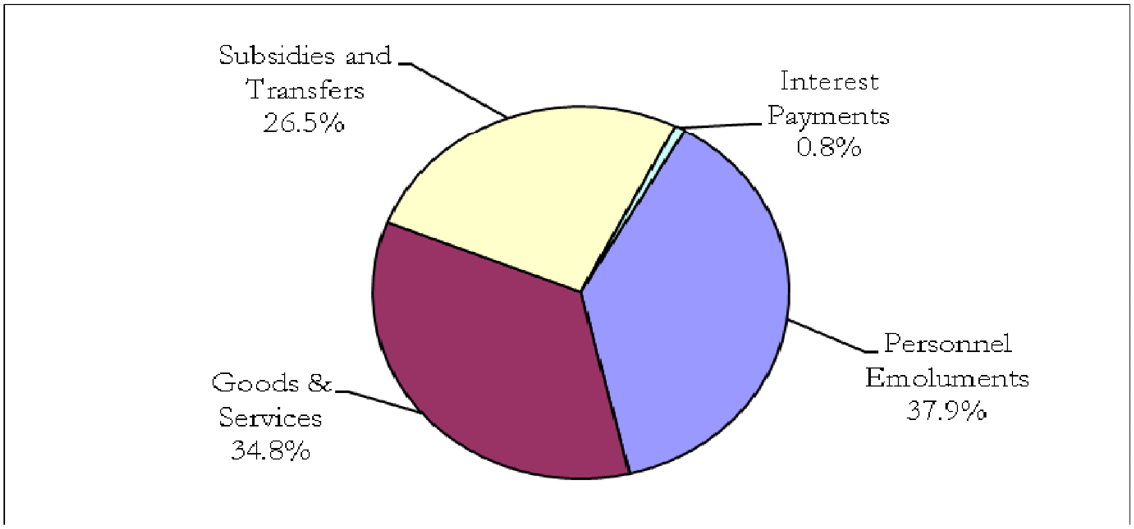
(Million Maloti)

	2010/11			2011/12	
	Jul-Sep	**Oct-Dec**	**Jan-Mar**	**Apr-Jun** Revised	**Jul-Sep*** Preliminary
Total Expenditure & Net Lending	2619.9	1942.0	2943.1	1947.8	2569.2
Recurrent Expenditure	2269.9	1562.2	2406.9	1594.7	2205.6
Personnel Emoluments	714.1	680.2	949.7	875.9	835.8
Interest Payments	23.7	12.4	16.5	18.0	17.5
Foreign	16.1	10.3	14.0	14.9	15.6
Domestic	7.6	2.1	2.5	3.1	1.9
Other Expenditure	1532.2	869.4	1440.7	700.8	1352.2
Capital Expenditure	350.0	379.8	536.2	353.9	363.7
Net Lending	0.0	0.0	0.0	0.0	0.0

Source: MoFDP
*Preliminary estimates

Capital expenditure increased by 3.0 per cent during the quarter under review in contrast with a drop of 34.1 per cent recorded in the quarter ending June 2011. However, it constituted 14.1 percentage share of total expenditure, lower than the 18.1 per cent proportion observed in the previous quarter.

Figure 23: Recurrent Expenditure by Type



Financing

Preliminary estimates reflect a deficit equivalent to 12.1 per cent of GDP during the review period compared with a surplus equivalent to 2.3 per cent of GDP during the quarter ending June 2011. The deficit reflects that Government is drawing down its level of financial assets with the domestic banking sector during the review period.

Table 25: Government Financing

(Million Maloti)

	2010/11			2011/12	
	Jul-Sep	**Oct-Dec**	**Jan-Mar**	**Apr-Jun** Revised	**Jul-Sep*** Preliminary
Financing	-136.6	-180.6	720.8	-85.1	442.0
Foreign	100.5	-3.3	-66.5	124.2	-59.9
Loan drawings	163.0	22.3	14.1	153.5	7.6
Amortization	-62.5	-25.6	-80.6	-29.3	-67.5
Domestic	-237.1	-177.3	787.3	-209.2	501.9
Bank Financing	-238.3	-180.2	787.1	-202.9	497.2
Non – Bank	1.2	2.9	0.2	-6.4	4.7

Source: MoFDP Public Debt

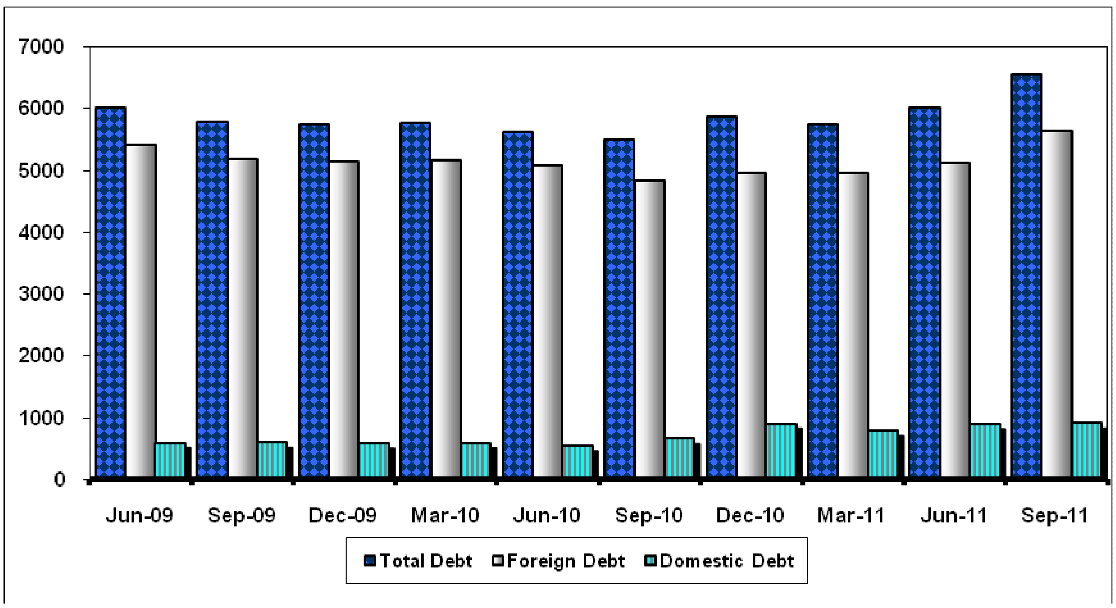
Public Debt

Overview

Outstanding government debt increased by 8.7 per cent during the review period compared with an increase of 4.8 per cent observed in the previous quarter. Total debt recorded 32.6 per cent of GDP on a quarterly basis in comparison with 30.0 per cent observed in the quarter ending June 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 1.9 per cent during the review period compared with 1.6 per cent observed in the previous quarter. External debt continued to amount to the bulk of the overall debt stock at 86.2 per cent while domestic debt represented 13.8 per cent of total public debt stock.

Figure 24: Outstanding Public Debt

(Million Maloti: End of Period)



External debt

External debt increased by 10 per cent on a quarterly basis, compared to 3.4 per cent recorded in the previous quarter. The growth was attributable to disbursements on Suppliers' credit and multilateral sources which grew by 17.9 per cent and 10.1 per cent respectively, on a quarter-to-quarter basis. Loans from bilateral sources also increased by 4.9 per cent compared with growth of 0.9 per cent recorded in the quarter ending June 2011. Loans from multilateral sources continued to constitute a larger share of external borrowing at 91.1 per cent, followed by supplier's credit at 4.7 per cent while bilateral loans constituted 4.0 per cent. External debt constitutes 42.8 per cent of GDP during the review period, in comparison with 39.4 per cent of GDP recorded in the previous quarter. Supplier's credit increased by 17.9 per cent against a drop of 0.6 per cent observed in the previous quarter.

Table 26: External Debt

(Million Maloti)

	2010		2011		
	QIII	QIV	QI	QII	QIII
External Debt	4823.8	4951.4	4953.2	5119.3	5633.0
Bilateral Loans	215.7	213.7	216.2	216.6	227.2
Concessional	215.7	213.7	216.2	216.6	227.2
Non-concessional	0.0	0.0	0.0	0.0	0.0
Multilateral Loans	4308.0	4439.3	4441.9	4608.9	5073.0
Concessional	4277.8	4410.4	4410.9	4429.0	4889.6
Non-concessional	30.2	28.9	31.0	179.9	183.4
Financial Institutions	70.7	70.7	68.0	68.0	66.5
Concessional	17.8	17.8	15.1	15.1	13.6
Non-concessional	52.9	52.9	52.9	52.9	52.9
Suppliers' Credit	229.4	227.7	227.1	225.8	266.3

Source: MoFDP

Domestic Debt

Domestic debt stock which comprises of long-term and short-term debt, it increased by 1.4 per during the review period compared with an increase of 13.7 per cent recorded in the quarter ending June 2011. Banks continued to invest in both treasury bills and bonds constituting 87.6 per cent of domestic debt stock while non-banks recorded 12.4 per cent. As a percentage of GDP, domestic debt registered 5.9 per cent on a quarter-to-quarter basis compared with 5.8 per cent observed in the previous quarter.

Table 27: Domestic Debt

(Million Maloti)

	2010			2011	
	QIII	QIV	QI	QII	QIII
Domestic Debt	663.1	780.3	785.8	893.1	905.4
Banks	537.8	667.3	674.0	787.5	793.5
Long-term	0.0	187.3	250.3	369.1	405.2
Short-term	537.8	480.3	423.7	418.4	388.3
Of which: treasury bills	537.8	480.3	423.7	418.4	388.3
Non -bank	125.3	113.0	111.8	105.6	111.9
Short-term (TBs)	125.3	113.0	111.8	105.6	111.9