CENTRAL BANK OF LESOTHO

QUARTERLY REVIEW

SEPTEMBER, 2012

MASERU
KINGDOM OF LESOTHO

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I. Introduction

The global economic performance remains weak, with broad based slowdown in both advanced and emerging market economies. The International Monetary Fund (IMF) projects global economic growth of 3.3 per cent, down from 3.8 per cent in 2011, with a modest pick-up in 2013. The IMF describes the chance of a steeper slowdown as "alarmingly high" given uncertainty about growth prospects in Europe and the United States. Economic growth is expected to remain fragile in developed countries with relatively stronger growth in developing countries. Inflation is projected to stay generally low, amid continued excess capacity and high unemployment, with a few exceptions among the emerging economies.

The Lesotho economy showed signs of positive performance during the third quarter of 2012. The weighted diamond production index (WDPI) continued on an upward trend, increasing by 0.9 per cent during the quarter ending in September 2012 compared with an increase of 2.5 per cent in the previous quarter. This reflects a resilience of the diamond mining industry in Lesotho in the face of weak global demand.

Consumption of water and electricity, which are indicators of activity by the 'wet' industries increased. Water consumption increased by 4.0 per cent while electricity consumption rose by 4.1 per cent during the third quarter of 2012. This was consistent with the increase in exports of textiles and apparel industry to the US. The textile and apparel industry remains the largest consumer of both electricity and water. However, the manufacturing sector, the largest sector in terms of its contribution to GDP, remains threatened due to a number of factors, *inter alia* severe competition from other textile and apparel producers.

Inflation, measured by the consumer price index (CPI), rose by 5.8 per cent in September compared with 5.7 per cent in the quarter ending in June. The major contributory factors to inflation during the third quarter were the following categories; food and beverages, housing, water, electricity, gas and other fuels. The major risks to inflation continue to be high food and crude oil prices as well the weak exchange rate.

Money supply contracted by 2.0 per cent during the quarter under review following a 5.3 per cent expansion observed in the second quarter of 2012. The quarterly reduction in money supply was fuelled by a 26.5 per cent drop in domestic claims, however, domestic claims excluding net claims on government increased by 10.4 per cent. The decline in domestic claims was moderated by a 7.4 per cent rise in net foreign assets.

Government budgetary operations showed a surplus equivalent to 11.4 per cent of GDP. The surplus reflects higher SACU receipts while expenditures remained contained during the third quarter of 2012. As at end of September, total public debt as a proportion of Gross National Income (GNI) was below the 60.0 per cent sustainability threshold at 43.9 per cent. The current account deficit was 2.8 per cent during the third quarter of 2012. The narrowing of the current account deficit was triggered by the improvement in the trade balance as exports increased while imports shrank.

II. International Economic Developments

The world economy continued on a gradual recovery, although the pace of recovery has been slowed due to sovereign debt stress in the euro area. Economic recovery remained sluggish in advanced economies, with elevated unemployment rates. The pace of expansion also slowed in emerging and developing market economies. This was related to past policy tightening as well as the weakening domestic demand and global economic activity. International commodity prices rose modestly during the review quarter.

Advanced Economies

United States (US)

Economic growth in the US rebounded in the third quarter of 2012. Year on year, real gross domestic products (GDP) grew by 2.0 per cent during the review quarter, from a 1.3 per cent registered in the previous quarter. The acceleration in GDP reflected an upturn in private consumer spending, federal government spending, residential fixed investment and a downturn in imports. However, this was dampened by declines in exports and non-residential fixed investment.

Consumer price index increased by 2.0 per cent in September 2012, compared with 1.7 per cent in June 2012. The noticeable acceleration in inflation mainly reflected an increase of 4.5 per cent in energy prices during the period. In an effort to continue promoting economic recovery and to help ensure that inflation is within the target, the Federal Open Market Committee (FOMC) decided to leave its benchmark lending rate unchanged at 0.25 per cent. The FOMC also increased policy accommodation by purchasing additional agency mortgage backed securities; extending the average holdings of its securities and by reinvesting principal payments from its holdings.

In the labour market, the rate of unemployment declined from 8.2 per cent in the previous quarter to 7.8 per cent in the review quarter. Employment rose in health care as well as transportation and warehousing 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
US	1.3	2.0	1.7	2.0	0.25	0.25	8.2	7.8
Euro area	-0.4	-0.6	2.4	2.6	1.00	0.75	11.4	11.6
SA	3.1	2.3	5.5	5.5	5.50	5.00	24.9	25.5
China	7.6	7.4	2.1	1.8	6.31	6.00	4.1	4.1
Japan	0.0	-3.5	-0.1	-0.3	0.10	0.10	4.3	4.2
India	5.5	n/a	10.0	9.7	8.50	8.00	n/a	n/a

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

Euro-area[1]

In the euro area, economic indicators showed that economic activity continued to contract in the third quarter of 2012. Given the strong trade and financial linkages in the euro area, the financial stress has escalated and spread in the euro periphery. Real GDP declined by 0.6 per cent during the review quarter in comparison with a decline of 0.4 per cent realized in the previous quarter. The deterioration reflected a drop in domestic and external demand coupled with a decline in inventories. The largest declines were observed in Greece, Italy, and Portugal. In an attempt to bring financial stability in the euro area, the European Commission had proposed a banking union within the euro area. This has also envisaged rapid implementation of a single supervisory mechanism by 2013, with the ECB empowered to act as the supervisor.

Inflation, measured by changes in the Harmonized Index of Consumer Prices (HCIP), increased to 2.6 per cent in September 2012 from 2.4 per cent observed in the previous quarter. The acceleration was largely due to increases in the prices of energy and in indirect taxes. In light of its inflation target rate of 2.0 per cent, the ECB reduced its benchmark lending rate by 25 basis points to 0.75 per cent in the third quarter of 2012, to boost the economic recovery. The ECB also announced the Outright Monetary Transactions (OMTs) program which will help address concerns and reduce sovereign spreads between the periphery and the core, and to reverse capital flight from the periphery.

The harmonised unemployment rate in the Euro area remained mired in recession. It increased to 11.6 per cent in the period ending in September 2012, from 11.4 per cent in June 2012, as continuing debt crisis and deepening economic slump prompted companies to cut jobs. The highest increases were observed in Greece, Cyprus, Spain and Portugal.

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

South Africa

Preliminary economic indicators showed subdued economic activity in the third quarter of 2012. Real GDP grew by 2.3 per cent in the quarter ending in September 2012 from 3.1 per cent in the previous quarter. The deceleration was mainly due to decline in the performance of mining and quarrying industry which reflected a decrease of 12.3 per cent. This showed the impact of strikes in the mining sector on the overall growth of the economy. Manufacturing production fell by 1.1 per cent, while retail sales rose by 4.3 per cent in the third quarter of 2012.

The unemployment rate rose from 24.9 per cent in the second quarter of 2012, to 25.5 per cent in the quarter ending in September 2012. This was due to job losses that were experienced mainly in the private households, mining, and trade sectors. This is consistent with the weak pace of recovery in real economic activity, driven by the weak external environment and declining mining output due to the recent strikes.

The rate of inflation, measured by changes in the CPI, remained flat at 5.5 per cent in the quarter ending in September 2012. The observed inflation was influenced by increases in the prices of alcoholic beverages and tobacco; transport; as well as housing and utilities; which rose by 7.3 per cent, 6.6 per cent and 5.9 per cent, respectively. Nonetheless, the South African Reserve Bank's Monetary Policy Committee (MPC) maintained the repo rate at 5.5 per cent during the review quarter so as to encourage growth and domestic investment. Upside risks to inflation from food and oil prices coupled with the exchange rate deterioration and the widening current account deficit.

Emerging Asian Markets and Japan

China

Economic activity in China continued to slowdown in the third quarter of 2012, albeit at a slower pace. Real GDP grew by 7.4 per cent during the review period, compared with 7.6 per cent recorded in the second quarter of 2012. China's exports which is the main driver for economic growth was adversely affected by the lower demand due to the current euro zone debt crisis. A stimulus programme was announced which entailed agriculture, energy and transport projects and processing export tax rebates for enterprises. In the labour market, the unemployment rate remained flat at 4.1 per cent in the quarter ending September 2012.

The inflation rate fell to 1.8 per cent in the quarter ending in September 2012, from 2.1 per cent in June 2012, in response to policy tightening and weakening economic activity during the review period. Consistent with fine-tuning and maintaining prudent monetary policy, the People's Bank of China (PBC) reduced its benchmark lending rate by 31 basis points to 6.00 per cent in the quarter ending in September 2012, to promote stable and relatively fast economic growth.

India

Economic indicators in India were tilted towards weak economic activity in the third quarter of 2012. Industrial production contracted by 0.4 per cent in the review quarter reflecting weak consumer demand and global economic activity. On the one hand, manufacturing production and capital goods production dropped by 1.5 per cent and 12.2 per cent, respectively while on the other hand, mining and electricity sectors registered growth of 5.5 per cent and 3.9 per cent, respectively during the review quarter. Exports shrank by 10.8 per cent and this led to the widening the of trade deficit to US$18.1 billion, largely on account of the rising price of fuel and inflation.

The inflation rate in India declined moderately from 10.0 per cent in June 2012, to 9.1 per cent in the review quarter. In line with the government initiative towards fiscal consolidation, the state-set diesel prices were increased by 14.0 per cent, leading to the high inflation rate, but the impact was not felt in the review period. The deceleration was moderated by food prices which declined to 7.9 per cent during the quarter. Consistent with the persistent inflationary pressures and higher sustainable growth trajectory, the Reserve Bank of India (RBI)'s Monetary Policy Committee held the benchmark repurchase rate steady at 8.00 per cent during the review quarter.

Japan

Japan fell into a recession in the third quarter of 2012. Its real GDP registered a negative growth rate of 3.5 per cent, following a growth of 1.4 per cent in the previous quarter. This was aggravated by the weak external demand; weak consumer spending; strong yen; worsening euro debt crisis and the tensions with China over sovereignty of some islands in East China. Exports and private consumption fell by 5.0 per cent and 0.5 per cent, respectively in the review period.

The Japanese labour market continued to improve modestly during the quarter, despite the slowing down of economic activity. The unemployment rate dropped to 4.2 per cent in the quarter ending in September 2012, from 4.3 per cent in June 2012.

Japan remained mired in deflation as Consumer prices in Japan declined by 0.3 per cent in September 2012, from a 0.2 per cent fall in June 2012, below the inflation target of 1 per cent. Owing to the falling prices of energy and consumer goods, the Bank of Japan (BOJ) continued monetary stimulus by boosting its asset buying programme, while maintaining its key interest rate unchanged at 0.1 per cent during the review quarter.

Commodity Prices

Overview

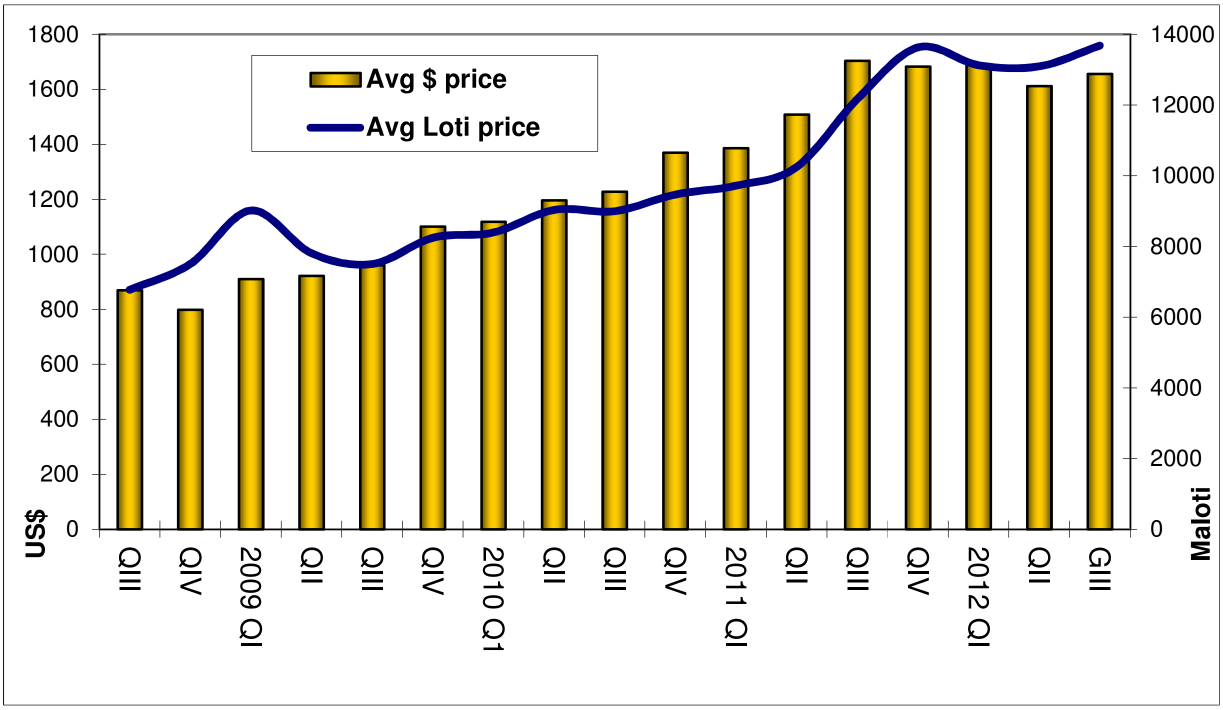
The international commodity prices generally rose during review quarter. Crude oil prices also rebounded, driven by a myriad of factors such as geopolitical concerns, maintenance in off-shore oil fields in the North Sea, contraction of US crude inventories,, speculation of further monetary easing in major central banks and improving economic sentiment in the US. Gold prices remained high on account of the on-going euro crisis which led to a surge in demand as many investors regard it as a hedge and safe-haven in crisis times. Prices of agricultural products also increased during the review quarter due to weather-related supply disruptions.

Mineral Products

Gold

The average price of gold in US Dollar terms, rose by 2.7 per cent to US$1 656.6 per ounce during the quarter ending in September 2012, following a decline of 4.7 per cent recorded in the previous quarter. In Maloti terms, it increased by 4.5 per cent to M13 683.4 per ounce, compared with a decline of 0.3 per cent observed in the quarter ending in June 2012.

Figure 1: Average Price of Gold

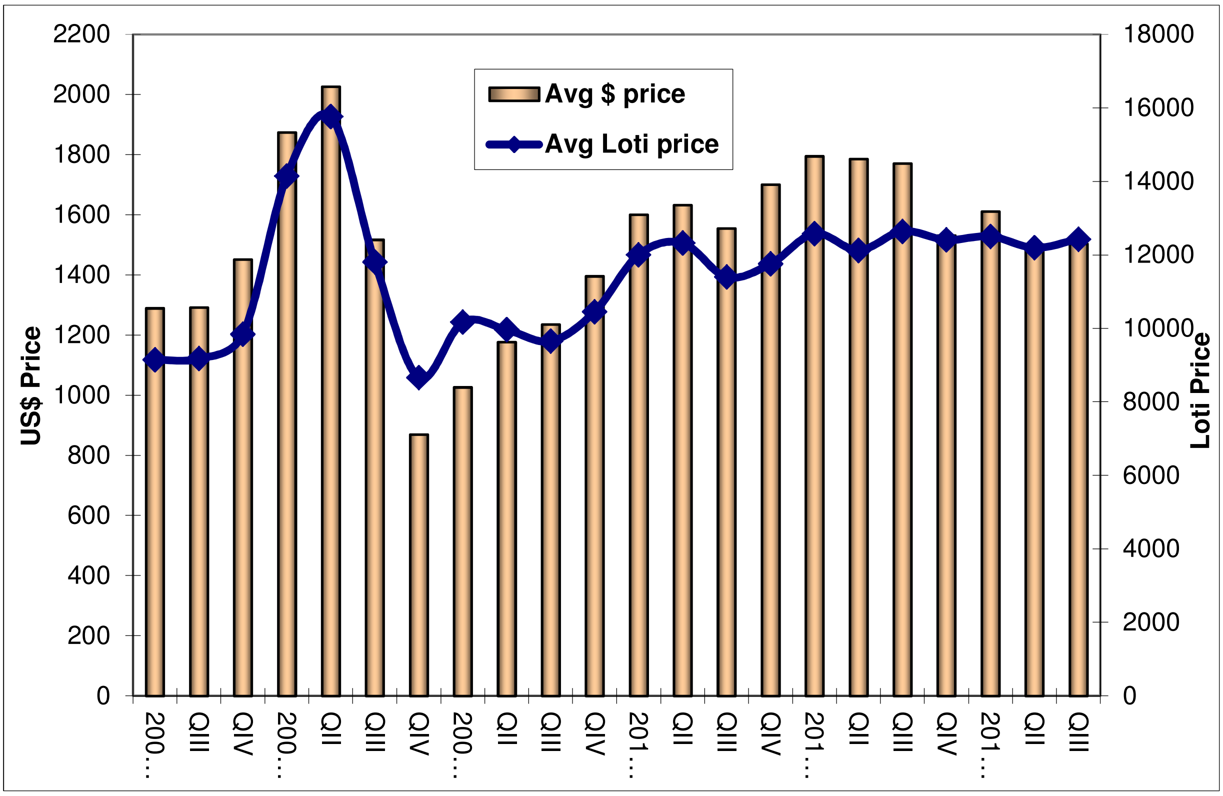


Source: Bloomberg

Platinum

The average price of platinum increased by 0.2 per cent to US$1 504.0 per ounce during the review quarter, compared with a drop of 6.8 per cent registered in the previous quarter. At the same time, in Maloti terms, it rose by 1.9 per cent to M12 423.3 per ounce, following a decrease of 2.5 per cent realised in the second quarter of 2012.

Figure 2: Average of Price of Platinum



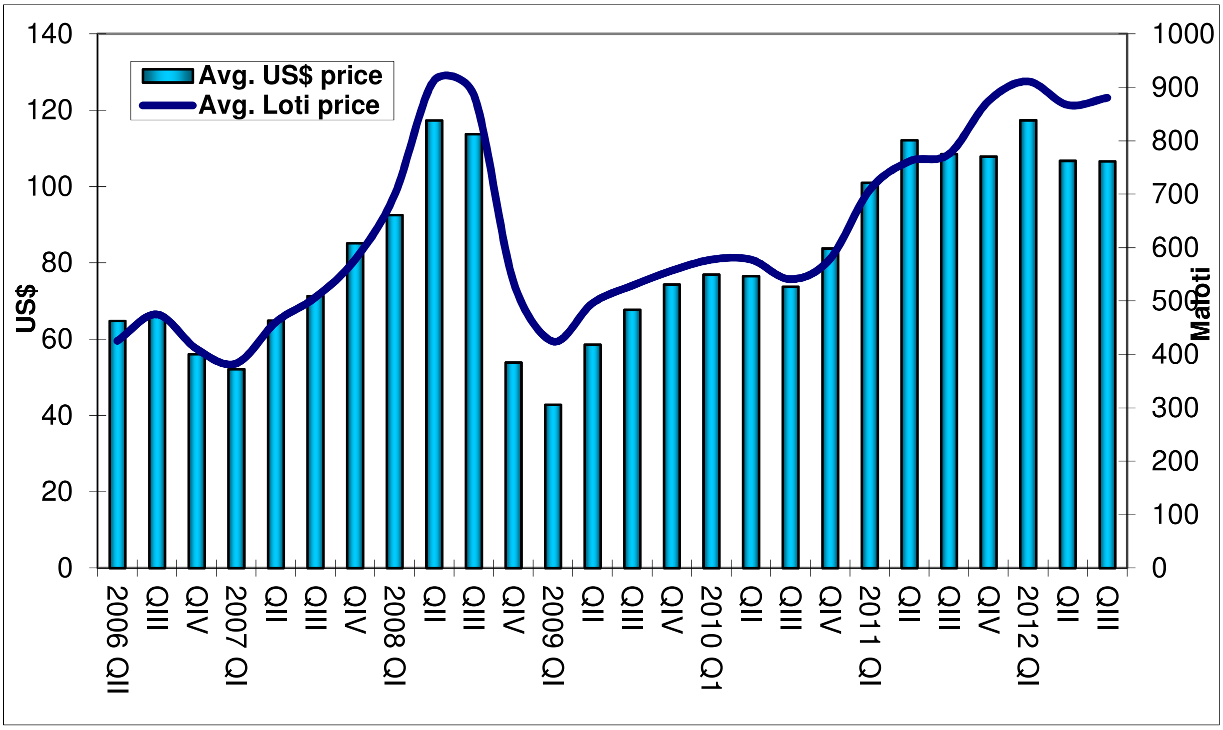
Source: Bloomberg

Oil

The quarterly average price of crude oil in the international market dropped by 0.2 per cent to US$106.6 per barrel in the third quarter of 2012, following a fall of 9.1 per cent registered in previous quarter. In contrast, it increased by 1.6 per cent to M880.4 per barrel in Maloti terms, compared with a fall of 4.8 per cent in the quarter ending in June 2012.

In line with a rise in the international market price of oil, domestic fuel prices showed upward trend. Domestic fuel prices closed the review quarter at M10.75 per litre of petrol, M11.20 per litre of diesel and M8.25 per litre of illuminating paraffin.

Figure 3: Average Price of Oil



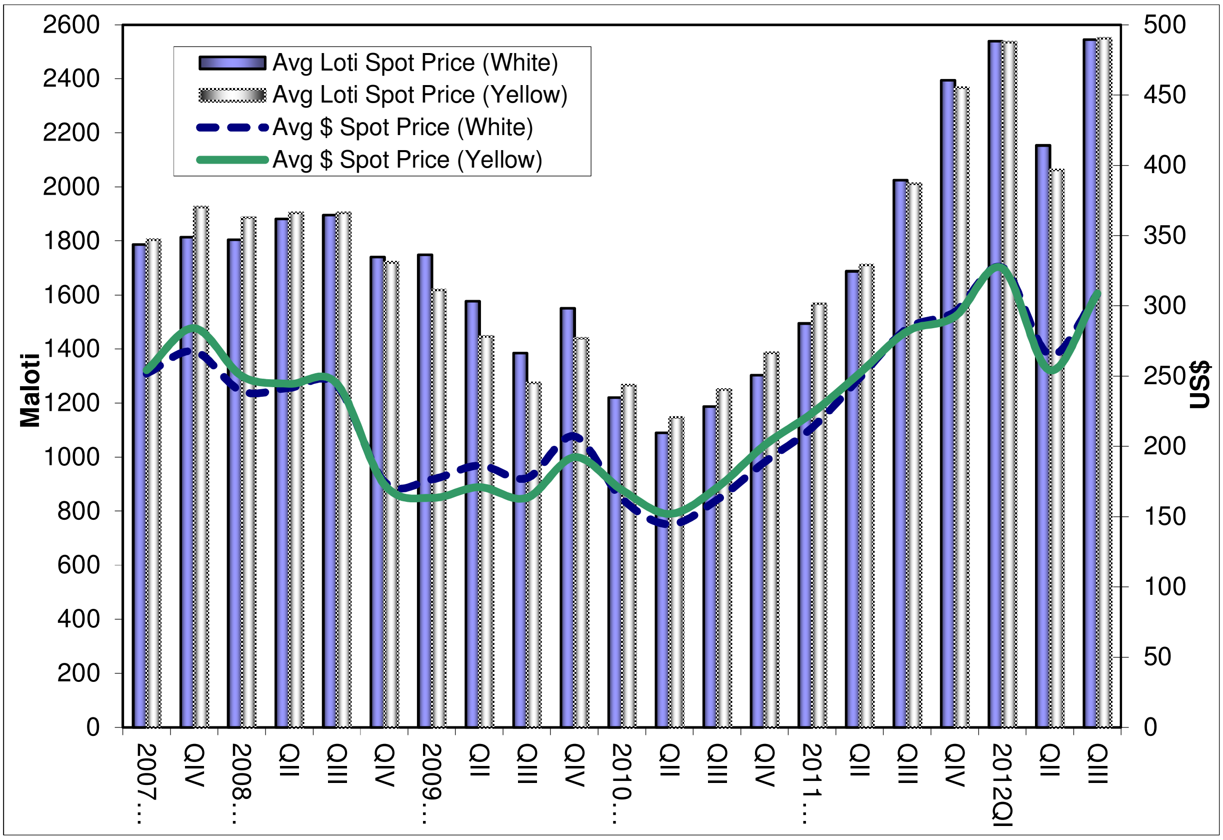
Source: Bloomberg

Agricultural Products

Maize

The average prices of white and yellow maize increased during third quarter of 2012. In US Dollar terms, they rose by 16.2 per cent to US$308.2 per tonne and 21.5 per cent to US$308.7 per tonne, respectively. In Maloti terms, the average prices of white and yellow maize increased by 18.2 per cent to M2 545.5 per tonne and 23.6 per cent to M2 549.9 per tonne, respectively.

Figure 4: Average Spot Price of Maize

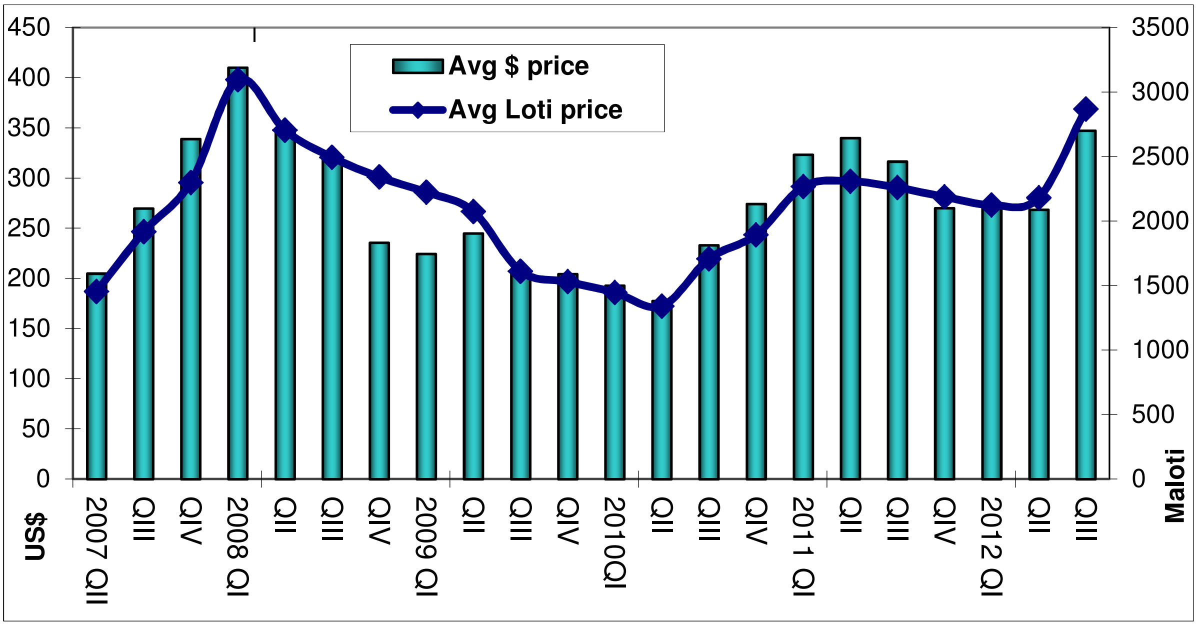


Source: Bloomberg

Wheat

On a quarterly average and in US Dollar terms, wheat price rose by 29.4 per cent to US$347.3 per tonne in the quarter under review, while in Maloti terms it rose by 31.6 per cent to M2 869.0 per tonne during the same period.

Figure 5: Average Spot Price of Wheat



Source: Bloomberg

III. Real Sector, Employment and Price Developments

Overview

Lesotho's economy continued to show positive performance during the third quarter of 2012. In the primary sector economic activity improved as mining production increased, albeit at slower pace. Electricity and water consumption also increased indicating improved performance by the secondary sector. Uneven performance was observed in the tertiary sector with sales turnover declining while the rest of the sub-sectors improved. On the one hand, employment by LNDC-assisted companies increased, mainly reflecting an increase in employment by the textiles and clothing industry. On the other hand government employment declined in line with the on-going fiscal consolidation measures in the country. Consumer prices continued to decelerate in line with inflation developments in SA.

Primary Sector Developments

The weighted diamond production index[2] (WDPI) continued on an upward trend rising by 0.9 per cent during the quarter ending in September 2012 compared with an increase of 2.5 per cent in the

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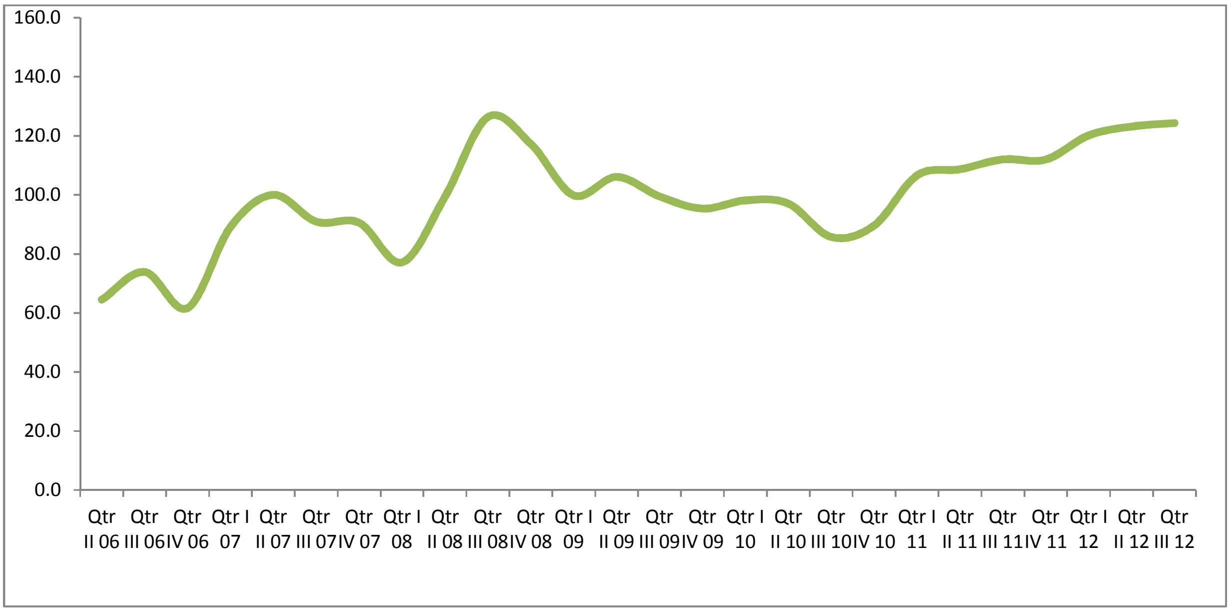
2 The Central Bank of Lesotho has introduced a weighted index to cater for the differences in the market value of diamonds produced by the different mines in Lesotho. In addition, the data have also been revised after obtaining more appropriate data on diamond production from the Department of Mines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

previous quarter. This reflected continued strong performance of the diamond mining industry in Lesotho. The moderation in the rate of increase of the WDPI indicates that lower carats were recovered during the review quarter. Lesotho's diamond mining industry has up to now exhibited resilience to the fall in global demand, which is dampening diamond mining production in other countries. This is mainly due to the high quality of Lesotho's diamonds, particularly from the Letšeng mine. It is worth mentioning that the Mothae mine, which has been operating on a trial basis since 2010 reached the end of its trial program at the end of the review quarter. The future of this mine depends on the findings of the preliminary economic assessment which is expected to be completed in the first quarter of 2013.

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 4.0 per cent in the third quarter of 2012 compared with 14.5 per cent in the previous quarter. During the review period, the 'general purpose' and, 'commercial and industrial' categories registered increases of 5.0 per cent and 6.9 per cent, respectively. However, the 'domestic' category declined by 0.7 per cent. The moderate increase in electricity consumption on a quarterly basis and the decline in household consumption could be as a result of the end of winter in July though it remained unexpectedly cold for the large part of the review quarter. Nonetheless, the business sector, particularly the retail and textiles and clothing manufacturing sub-sectors and the booming construction activity in the country contributed to the increase in electricity consumption during the review quarter.

Table 2: Electricity Consumption

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

	2011		2012					
	QIV		QI		QII		QIII	
	Kwh	**Value**	**Kwh**	**Value**	**Kwh**	**Value**	**Kwh**	**Value**
General Purpose	20.73	19.28	23.28	21.56	24.25	23.02	25.46	25.32
Domestic	51.32	43.32	52.61	37.34	61.94	44.00	61.50	45.59
Commercial & Industrial	75.20	42.50	79.17	43.04	91.34	53.79	97.65	57.34
Total	**147.24**	**105.11**	**155.06**	**101.95**	**177.53**	**120.80**	**184.61**	**128.25**

Source: Lesotho Electricity Authority and Lesotho Electricity Company

Water Consumption

Water consumption rose by 4.1 per cent in the quarter ending in September 2012 compared with a decline of 7.5 per cent in the previous quarter. On an annual basis, water consumption increased by 27.8 per cent in both seasonally and non-seasonally adjusted terms. As depicted in Table 2 below, the quarterly and annual increases in total water consumption mainly reflected higher consumption by the commercial and industrial category. Water consumption by the commercial and industrial category increased by 90.0 per cent on a quarterly basis and by more than two fold on an annual basis mainly reflecting the improved performance of the manufacturing sector, particularly, the textile and clothing sub-sector. The textile and clothing manufacturing sub-sector is a wet industry, as a result the increase in water consumption during the review quarter tallies with the increase in exports of textiles and clothing as indicated in Section VI below.

Table 3: Water Consumption

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

		Domestic	Industrial	Other	Total
2011					
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
II	Units	1.07	1.19	0.69	2.96
	Value	6.02	10.87	5.83	22.73
	Units*		1.21		3.00
III	Units	1.04	1.37	0.67	3.08
	Value	6.33	11.53	6.48	24.4
	Units*		2.30		2.93

Source: Water and Sewerage Authority
* denotes seasonally adjusted figures

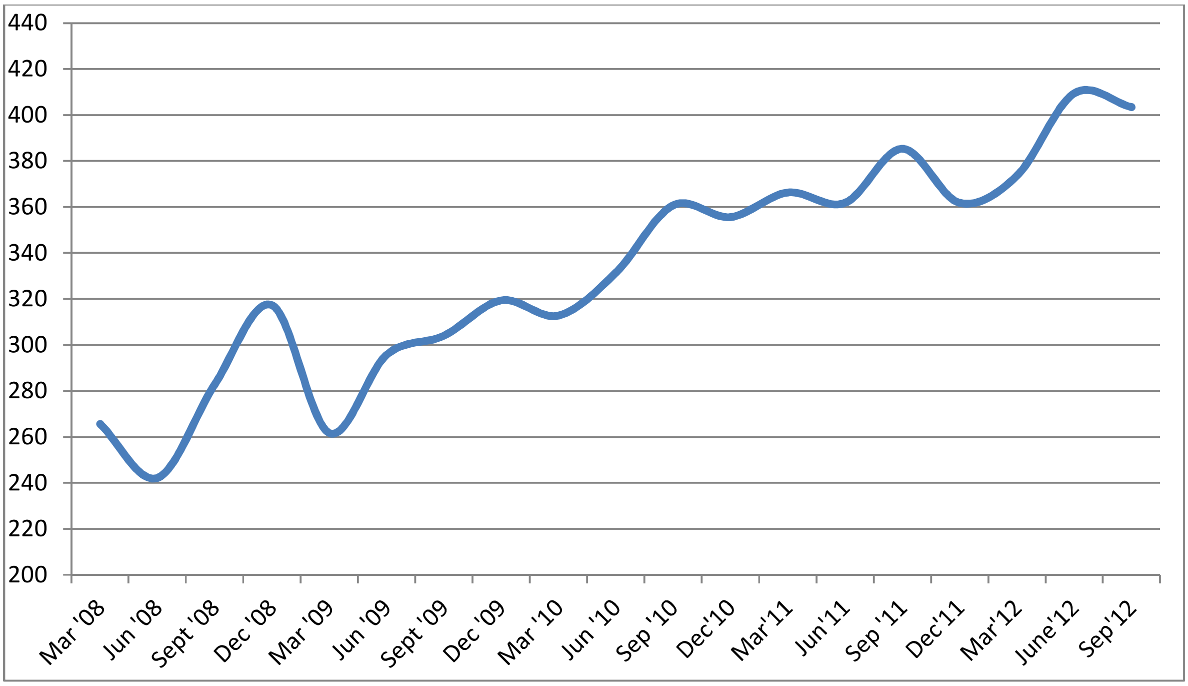
Tertiary Sector Developments

Sales Turnover

The value of sales turnover fell by 1.5 per cent on a quarterly basis in the quarter ending in September 2012 compared with an increase of 9.6 per cent in the previous quarter signalling weak demand in the economy. However, year-on-year sales turnover is up by 4.7 per cent indicating a relatively buoyant demand compared to the previous year.

Figure 7: Value of Sales Turnover

(Million Maloti)



Source: Lesotho Revenue Authority

Telephone Statistics

The total number of telephone calls increased moderately by 0.4 per cent both on quarterly and annual basis in the third quarter of 2012 after remaining constant in the quarter ending in June 2012. This indicated the continued improvement in the performance of the communications industry.

Table 4: Telephone Traffic Statistics

		SA Outgoing Calls	International Calls	Total Calls
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
II	No. of calls (millions)	2.09	0.16	2.25
	No. of calls*			2.33
	Total Duration (million minutes)	3.64	0.39	4.04
	Nominal Value (million maloti)	8.27	2.65	10.92
III	No. of calls(millions)	2.10	0.16	2.26
	No. of calls*Total			2.05
	Duration(million minutes)	3.66	0.40	4.06
	Nominal Value(million maloti)	8.29	2.66	10.94

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

Investment Expenditure

Imported Motor Vehicles

The number of imported motor vehicles increased by 12.6 per cent in the third quarter compared with a decline of 28.5 per cent in the previous quarter. Significant increases were recorded in the categories of cars, vans and tractors, which registered increases of 1.8 per cent, 29.7 per cent and double fold, respectively. On an annual basis, the number of motor vehicles increased by 28.0 per cent. The increase in the number of imported motor vehicles mainly reflected buoyant demand in the domestic economy.

Table 5: Motor Vehicle Imports+

(Value in Million Maloti)

		Cars	Vans	Trucks	Buses	Tractors	M/ Cycles	Trailers	Total
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
II	Value	52.77	49.78	12.65	8.27	0.41	0.00	6.27	130.18
	Units*								999
	Units	444	384	35	41	7	0	34	945
III	Value	66.03	83.67	13.76	7.77	3.05	0.21	3.09	177.42
	Units*								968
	Units	452	498	29	40	20	2	22	1064

*denotes seasonally adjusted figures

+Includes imports of second hand cars

Employment Developments

During the third quarter of 2012, employment by LNDC-assisted companies increased marginally by 0.1 per cent compared with 4.8 per cent in the previous quarter. On an annual basis, employment rose by 8.3 per cent compared to a year-on-year decline of 2.1 per cent that was registered in the previous quarter. This performance mainly reflected the relative buoyancy of Lesotho's manufacturing sector as US consumer spending picked up during the review period. The depreciation of the domestic currency may have also boosted competitiveness of Lesotho's exports of textiles and clothing in the US market. The main contributors to the increase in employment were in the apparel and textile industry, particularly woven garments and fabrics and yarn manufacturers. This was in line with the increase in Lesotho's exports of textiles and clothing during the review quarter.

Table 6: Employment Trend of LNDC-Assisted Companies

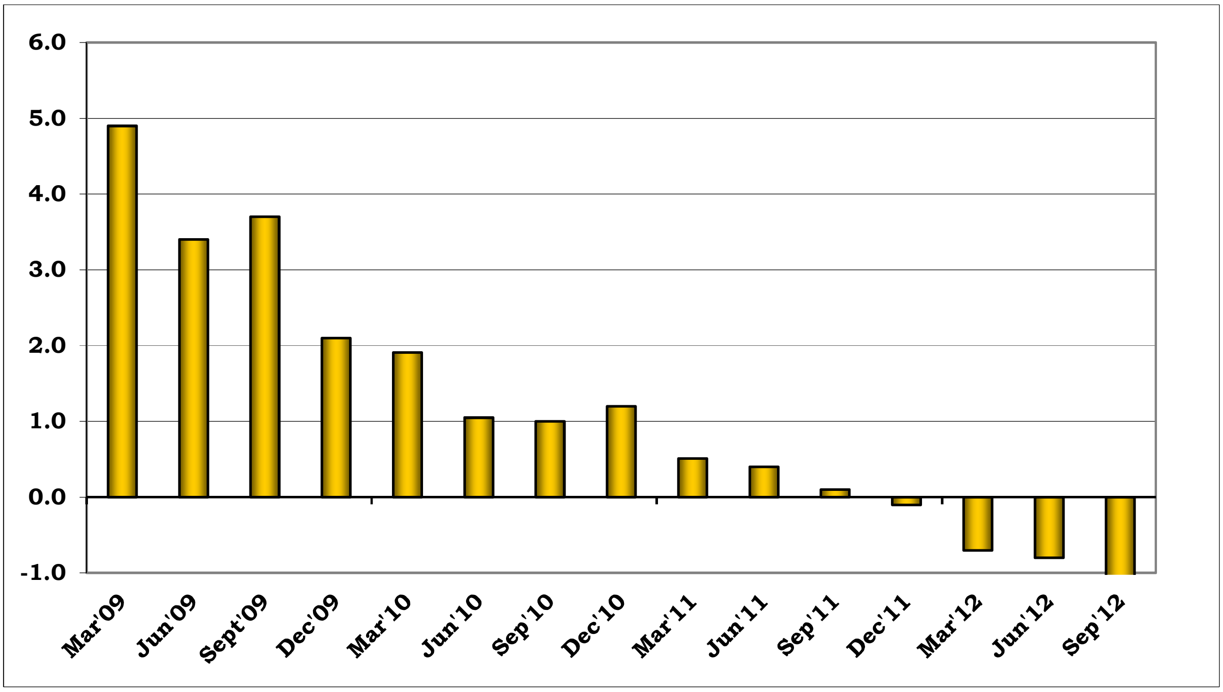
	2011		2012		
Industry	**QIII**	**QIV**	**QI**	**QII**	**QIII**
Knit Garments	20082	24340	22190	22249	21786
Woven Garments	13967	13772	12710	15243	15671
Footwear	2756	2789	2905	2907	2895
Fabrics, Yarn etc.	1388	1411	1292	1144	1300
Construction	257	279	272	378	325
Food & Beverages	585	585	1162	853	857
Electronics	1461	1613	1555	1363	1359
Retail	130	140	136	135	136
Hotel & Accommodation	378	403	394	400	408
Other	428	169	159	148	139
TOTAL	**41432**	**45501**	**42775**	**44820**	**44876**

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

Government employment continued on a downward trend in the quarter ending in September 2012. The number of government employees declined by 1.0 per cent compared with a fall of 0.8 per cent in the previous quarter. On annual basis, the number of government employees declined further by 1.5 per cent compared with 1.6 per cent recorded in the quarter ending in June 2012. On a quarterly basis, the number of employees in the 'civil servants' and 'teachers' and 'daily paid' categories declined by 1.7 per cent 1.2 per cent and 4.1 per cent, respectively. This decline was in line with fiscal consolidation efforts as was indicated in the current fiscal year's budget speech.

Figure 8: Government Employment

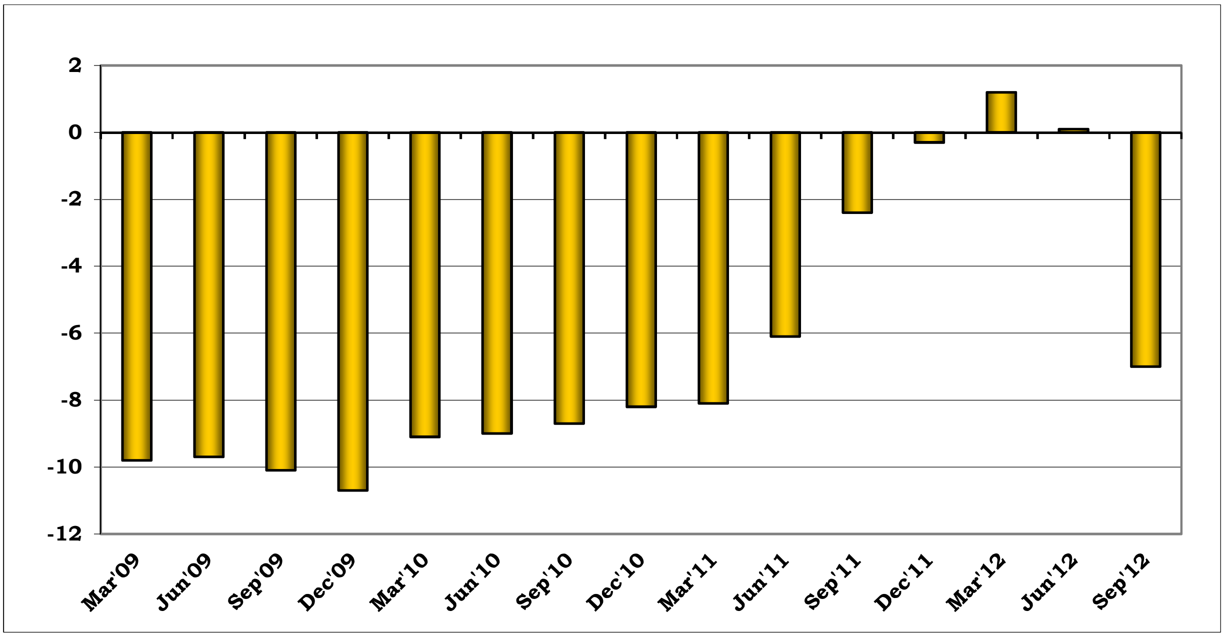
(Annual Percentage Change)



The number of migrant mineworkers declined further by 5.4 per cent in the third quarter of 2012 compared with 1.6 per cent in the second quarter of 2012. On annual basis, the number of migrant mineworkers fell by 7.0 per cent in the third quarter compared with a moderate year-on-year increase of 0.1 per cent in the previous quarter. The observed decline in the number of Basotho mineworkers in SA was in line with the quarterly decline of 2.2 per cent in mining employment in SA as reported in the South African Quarterly Labour force Survey, Quarter 3, 2012.

Figure 9: **Migrant Mineworkers Employment**

(Annual Percentage Change)



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

Price Developments

Lesotho's inflation rate, measured as a percentage change in the Consumer Price Index (CPI) for all urban households, decelerated to 5.8 per cent in September 2012 from 6.1 per cent in June 2012. The deceleration in the inflation rate was mainly driven by 'food and non-alcoholic beverages', 'clothing and footwear' and 'transport'. These categories declined from 10.1 per cent, 0.6 per cent, 8.2 per cent and 7.2 per cent in June 2012 to 9.6 per cent, 0.4 per cent, 6.9 per cent and 7.0 per cent, respectively. In spite of the observed deceleration in the food price inflation, food prices still remained high and are expected to accelerate as a result of unfavourable weather conditions that are adversely affecting global agricultural food production.

Table 7: Inflation Rate

(Annual Percentage Change: March 2010 =100)

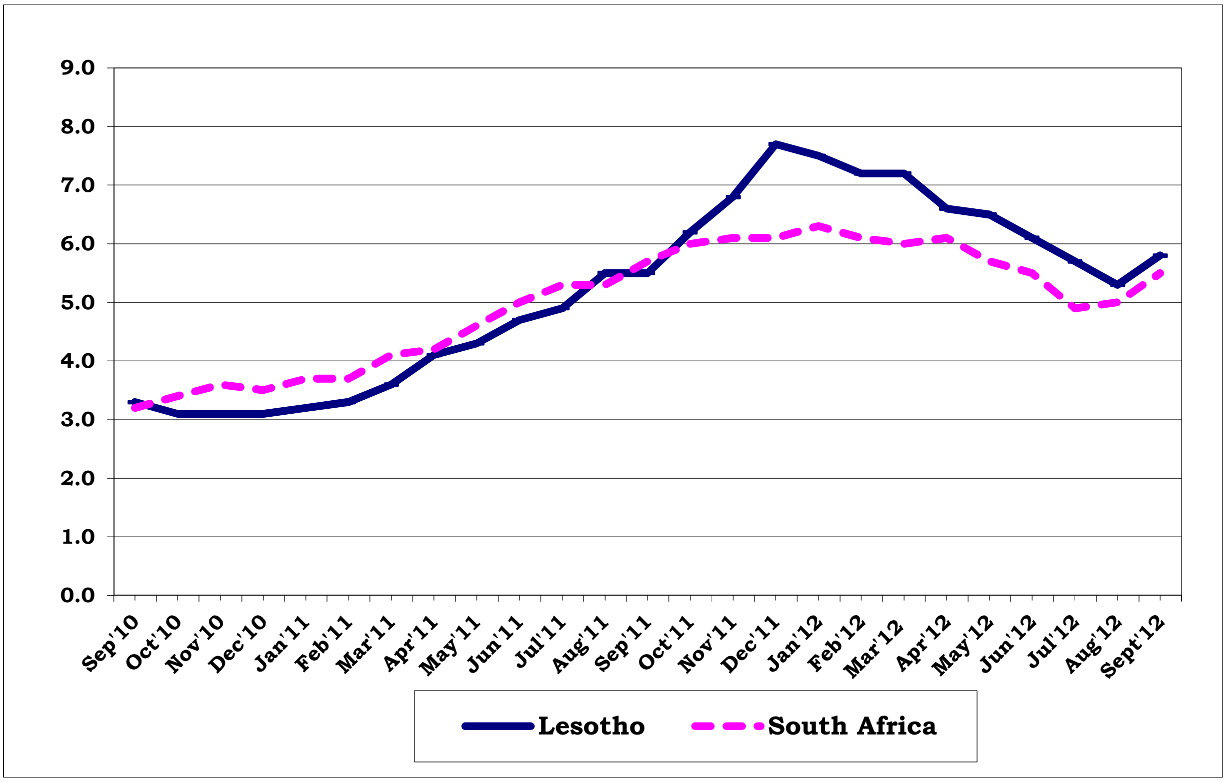
	Weight	2012				
		May	**June**	**July**	**Aug**	**Sept**
All items	**100.0**	**6.5**	**6.1**	**5.7**	**5.3**	**5.8**
Food and non-alcoholic beverages	38.1	10.7	10.1	10.2	9.3	9.6
Alcoholic beverages & Tobacco	1.2	7.3	6.6	6.4	6.4	6.9
Clothing & footwear	17.4	1.2	0.6	0.6	0.5	0.4
Housing, electricity gas & other fuels	10.6	7.8	8.2	4.9	3.7	6.9
Furniture, households equipment & routine maintenance of house	9.4	2.3	1.7	2.8	3.3	3.5
Health	1.9	0.4	0.3	0.2	0.5	0.4
Transport	8.5	7.4	7.2	6.8	6.8	7.0
Communication	1.2	-0.6	-0.6	-0.6	0.0	0.0
Leisure, entertainment & Culture	2.4	3.0	2.4	2.4	1.9	1.7
Education	2.7	1.0	1.0	1.0	1.0	1.0
Restaurant & Hotels	0.7	0.1	0.1	0.8	-0.6	0.4
Miscellaneous goods & services	5.8	2.3	2.2	1.8	2.3	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. In September 2012 SA recorded the same inflation rate of 5.5 per cent as in June 2012. SA's inflation is expected to have reached a trough in the review quarter and to rise marginally in the fourth quarter of 2012 mainly as a result of the depreciation of the Rand and the increase in food and fuel prices.

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 2.0 per cent during the quarter under review following a 5.3 per cent expansion observed in the second quarter of 2012. On an annual basis, money supply contracted by 4.0 per cent compared with a 9.0 per cent rise observed in the previous quarter. The quarterly reduction in money supply was fuelled by a 26.5 per cent drop in domestic claims, which was in turn driven largely by net claims on government The decline in domestic claims was moderated by a 7.4 per cent rise in net foreign assets.

Figure 11: Overview of Recent Monetary Developments

(Million Maloti: End of Period)

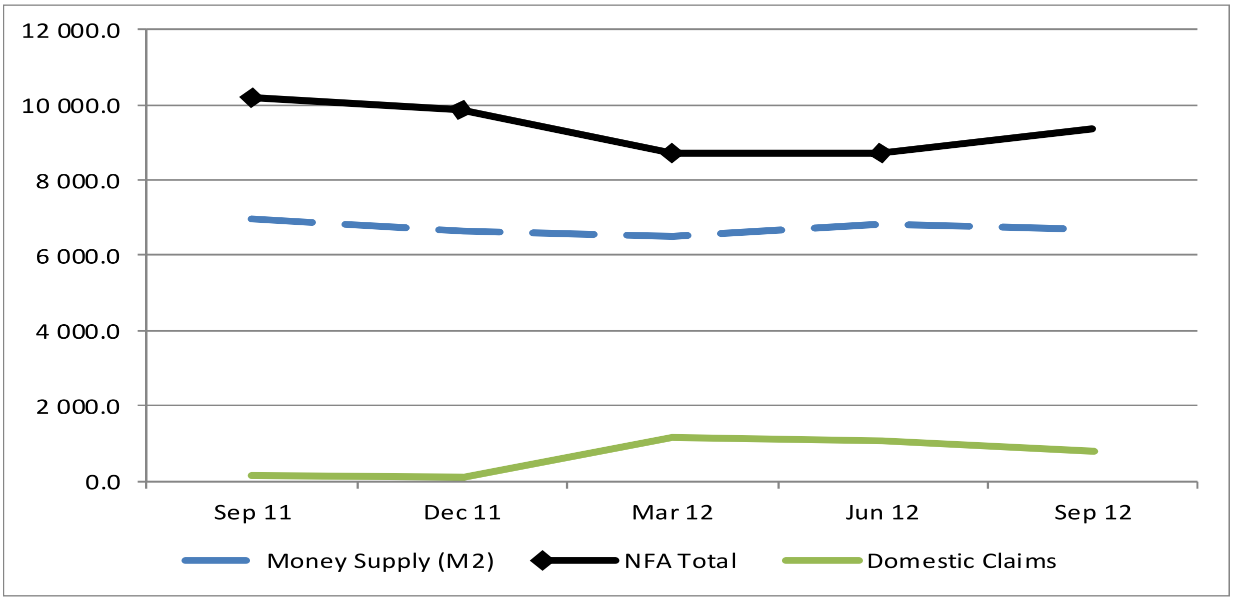


Table 8: Determinants of Money Supply

(Million Maloti: Changes)

	2011		2012		
	Sep	**Dec**	**Mar**	**Jun**	**Sep**
Net Foreign Assets	862.5	-306.7	-1 104.3	-74.1	646.8
Domestic Claims	709.2	-26.9	1 054.0	-82.1	-285.7
Net Claims on Central Government	526.6	-93.7	842.8	-317.2	-612.8
Claims on other Sectors	-2.2	-2.6	-10.9	0.7	-2.4
Claims on Private Sector	184.8	69.3	222.1	234.3	329.5
Shares and other equity	687.3	15.7	-41.0	373.5	73.9
Other Items (NET)	178.2	-40.6	166.3	-874.2	426.6
Broad Money Liabilities (M2)	706.2	-308.7	-175.7	344.5	-139.4

Components of Money Supply

The major components of broad money are narrow and quasi money. Broad money (M2) contracted by 2.0 per cent compared with a 5.3 per cent expansion recorded in the previous quarter. The contraction in M2 was as a result of a 5.3 per cent fall in quasi money moderated by a 2.7 per cent rise in narrow money. The contraction in quasi money was driven by a 5.2 and 21.0 per cent fall in other non-transferable deposits held by the commercial banks and other non-transferable deposits held by the Central Bank, respectively. Transferable deposits included in broad money were the major driver of an increase in M1 with a 3.1 per cent expansion while currency outside depository corporations increased slightly by 1.7 per cent.

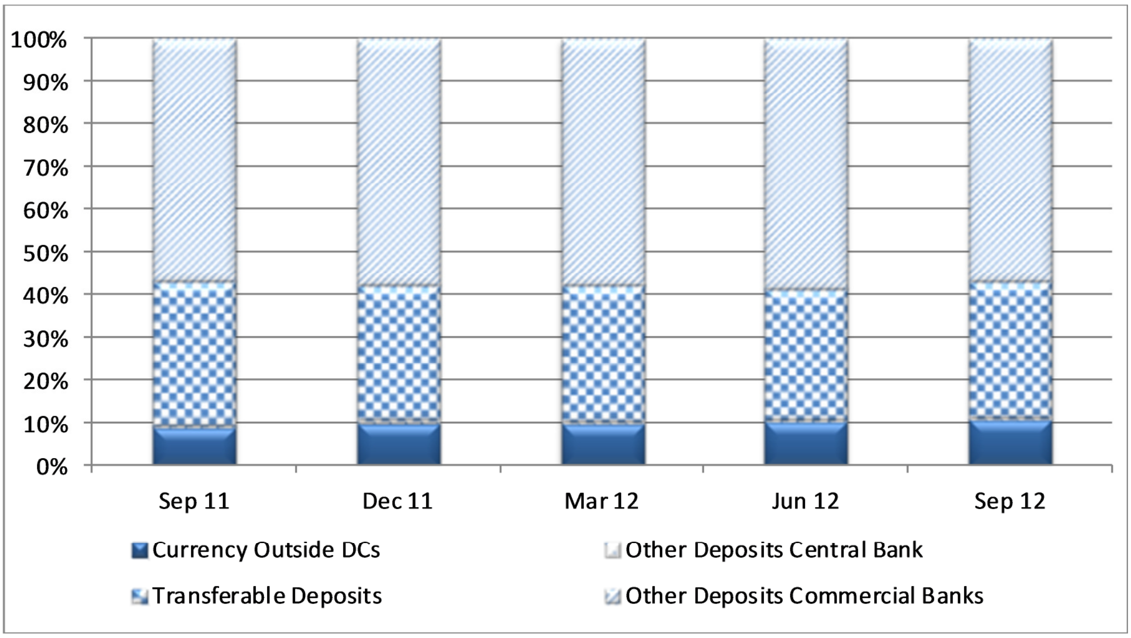
Table 9: Money Supply

(Million Maloti; End of Period)

	2011		2012		
	Sep	**Dec**	**Mar**	**Jun**	**Sep**
Broad Money (M2)	6968.4	6659.6	6483.9	6828.4	6689.0
Narrow Money (M1)	2969.1	2801.1	2700.5	2789.2	2865.6
Currency Outside DCs	642.0	688.7	643.3	721.6	733.8
Transferable Deposits	2327.1	2112.4	2057.1	2067.6	2131.7
Quasi Money	3999.3	3858.6	3783.4	4039.1	3823.4
Other Deposits Commercial Banks	3962.5	3822.3	3749.0	4006.8	3797.9
Other Deposits Central Bank	36.8	36.3	34.4	32.3	25.6

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 2.4 per cent at the end of September 2012 following a 4.6 per cent increase registered in the quarter ending in June 2012. The contraction in deposits was driven by a 5.2 per cent decline in other deposits included in broad money moderated by a 3.1 per cent increase in transferable deposits. Transferable deposits by other nonfinancial corporations increased by 1.7 per cent while transferable deposits held by other residents sector (households) increased by 6.6 per cent. Other non-transferable deposits held by nonfinancial corporation and households declined by 1.2 per cent and 11.1 per cent, respectively. Private sector deposits form the largest share of deposits held by commercial banks.

Table 10: Commercial Banks; Deposits by Holder

(Million Maloti: End of Period)

	2011		2012		
	Sep	Dec	Mar	Jun	Sep
Transferable Deposits Incl. in BM	2327.1	2112.4	2057.1	2067.6	2131.7
Other Financial Corporations	282.4	15.9	9.0	13.9	0.0
Public Nonfinancial Corporations	45.0	42.9	43.0	51.9	48.3
Private Sector	1999.8	2053.6	2005.2	2001.9	2066.1
Other NFCs	1232.8	1267.6	1183.9	1391.5	1415.1
Other Sectors (Households)	766.9	785.9	821.3	610.4	651.0
Other Deposits Incl. in BM	3962.5	3822.3	3749.0	4006.8	3797.9
Other Financial Corporations	0.0	0.0	0.0	0.0	0.0
Public Nonfinancial Corporations	40.4	39.3	34.2	25.6	22.4
Private Sector	3922.1	3783.0	3714.8	3981.2	3775.4
Other NFCs	2595.4	1981.8	2152.6	2393.6	2363.9
Other Sectors (Households)	1326.7	1801.2	1562.2	1587.5	1411.5
Total Deposits	**6289.6**	**5934.7**	**5806.1**	**6074.4**	**5929.6**

NB: Totals may not tally due to rounding off

Liquidity of Commercial Banks

The liquidity of commercial banks has been on the decency and continued to decline in the third quarter of 2012. The ratio of liquid assets to deposit liabilities and placements with other banks declined by 3.3 percentage points, from 65.8 per cent observed in the second quarter of 2012 to 62.5 per cent in the third quarter of 2012. The credit deposit ratio increased from 50.3 per cent recorded in the previous quarter to 56.8 per cent in the review period. The increase in the credit deposit ratio reflects a 10.4 per cent expansion in credit to the private sector exacerbated by a 2.4 per cent decline in private sector deposits.

Table 11: Components of Commercial Banks' Liquidity

(Million Maloti: End of Period)

COMPONENT	2011		2012		
	Sep	Dec	Mar	Jun	Sep
Maloti Notes and Coins	86.7	155.9	102.7	118.3	114.0
Rand Notes and Coins	49.2	95.3	59.6	68.8	66.6
Balances due from Lesotho Banks	1083.1	1023.1	837.8	753.6	990.6
Balances due from Foreign Banks	3855.0	3233.4	2777.4	2884.0	2421.4
Clearing Balances with CBL	22.9	-44.8	173.1	7.6	45.3
CBL Bills	0.0	0.0	0.0	0.0	0.0
Lesotho Government Securities	568.0	634.5	744.8	777.5	784.0
Total Commercial Bank's Liquidity	5671.4	5105.3	4701.4	4616.2	4429.4

Table 12: Consolidated Balance Sheet of Commercial Banks

(Million Maloti: End of Period)

	2011		2012		
	Sep	Dec	Mar	Jun	Sep
Net Foreign Assets	3876.6	3209.5	2826.5	2803.1	2357.9
Claims on Central Bank	359.0	292.1	474.2	297.2	251.9
Currency	86.7	154.9	102.7	118.3	114.0
Reserve Deposits and Securities	272.3	137.2	371.4	178.9	137.9
Net Claims on Central Government	633.6	700.2	817.9	840.6	875.1
Claims	658.6	722.2	840.1	864.0	877.0
Liabilities	-25.0	-22.0	-22.2	-23.4	-2.0
Claims on Other Sectors	2602.8	2667.0	2877.4	3108.8	3431.8
Claims on OFCs	13.5	11.3	0.0	0.0	0.0
Claims on PNFCs	1.7	1.4	1.7	2.5	0.0
Claims on Private Sector	2587.6	2654.4	2875.6	3106.3	3431.8
Transferable Deposits Inc. in BM	2327.1	2112.4	2057.1	2067.6	2131.7
Other Deposits Inc. in BM	3962.5	3822.3	3749.0	4006.8	3797.9
Shares Equity and OIN	1182.4	934.1	1189.8	975.2	987.0

Demand for Money

Domestic Claims

Domestic credit, excluding net claims on government, expanded further by 10.4 per cent during the quarter under review, following an 8.1 per cent expansion realised during the second quarter of 2012. On annual basis, domestic credit continued to register a double digit growth of 31.9 per cent following an expansion of 28.4 per cent recorded in the previous quarter. The increase in domestic claims on a quarterly basis was driven by 10.5 per cent rise in credit extended to the private sector.

Table 13: **Domestic Credit Excluding Net Claims on Government***

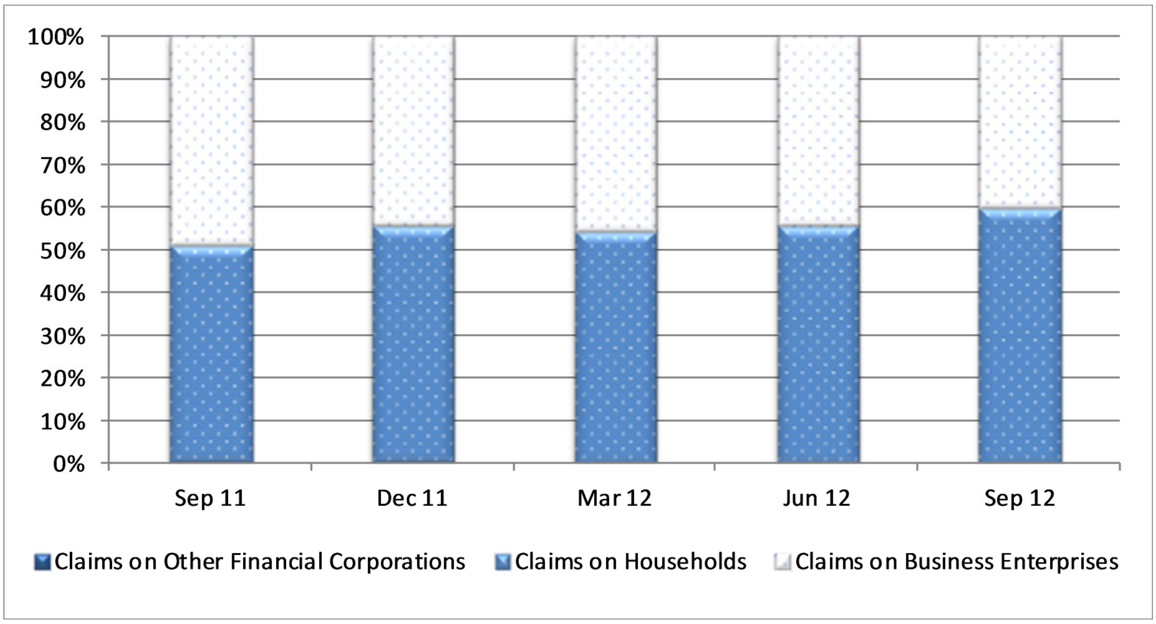
(Million Maloti: End of Period)

	2011		2012		
	Sep	**Dec**	**Mar**	**Jun**	**Sep**
Claims on Other Sectors	2 632.9	2 699.6	2 910.8	3 145.9	3 473.0
Claims on Other Financial Corporations	13.5	11.3	0.0	0.0	0.0
Claims on State and Local Government	0.0	0.0	0.0	0.0	0.0
Claims on Public Nonfinancial Corporations	1.7	1.4	1.7	2.5	0.0
Claims on Private Sector	2 617.7	2 687.0	2 909.1	3 143.4	3 473.0
Claims on Business Enterprises	1 285.5	1 196.1	1 323.7	1 391.0	1 385.7
Claims on Households	1 332.2	1 490.9	1 585.4	1 752.4	2 087.3

*excludes non performing loans

Figure 13: **Distribution of Credit by Holder**

(Percentage shares)



Credit to Private Sector

During the third quarter of 2012, credit extended to the private sector increased by 10.4 per cent, following an 8.1 per cent increase in the previous quarter. The increase in private sector credit on a quarterly basis was driven by a 19.1 per cent rise in credit extended to households moderated by a 0.4 per cent decline in credit extended to business enterprises. Credit extended to households constitutes the largest share of domestic credit with 60.1 per cent while the share of credit extended to businesses declined to 39.9 per cent.

Sectoral Distribution of Credit

Credit extension to enterprises in the quarter ending in September 2012 was dominated by the following sectors: non-bank financial institutions and real estate (26.5 per cent); wholesale, retail and hotels (17.1 per cent); transport, manufacturing (16.2 per cent); and construction (12.2 per cent). Significant improvements in credit extension were in agriculture; non-bank financial institutions and real estate; and manufacturing. However, credit extension to transport, storage and communications; wholesale, retail trade and hotels; mining and construction subsectors declined in the quarter under review.

Table 14: Sectoral Distribution of Credit to Enterprises*

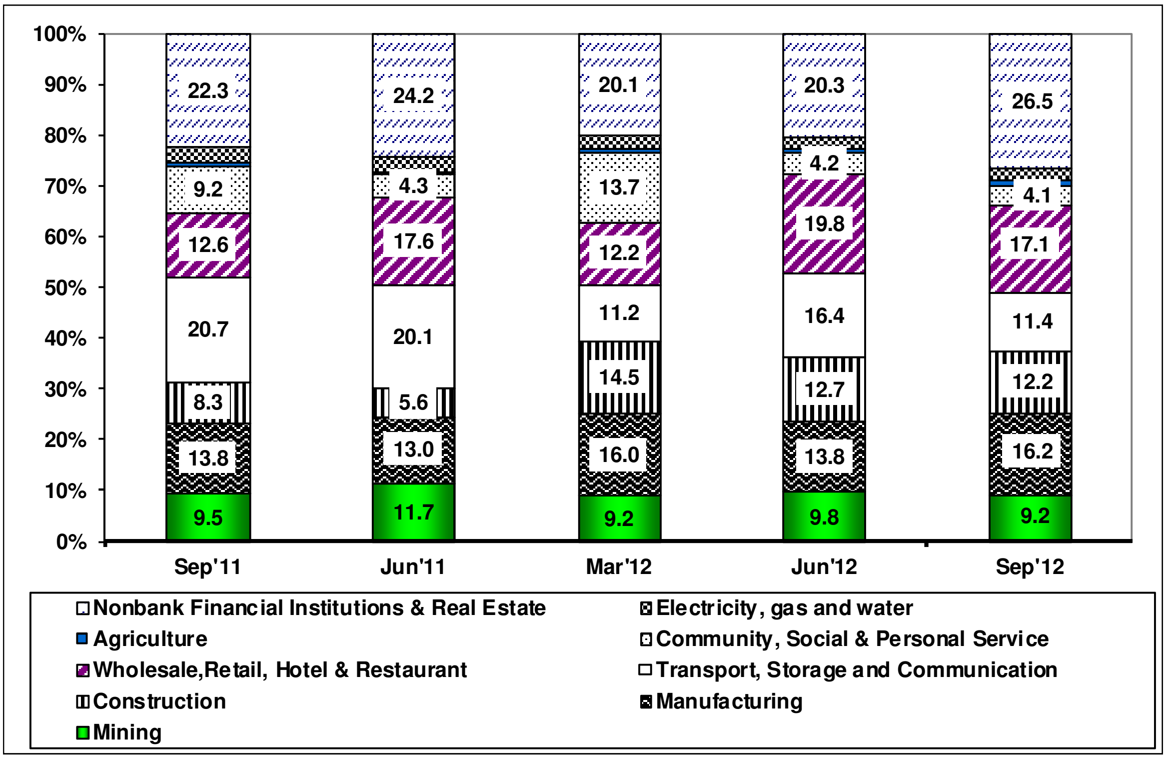
(Million Maloti: End of period)

SECTOR	2010		2012		
	Sep	**Dec**	**Mar**	**Jun**	**Sep**
Agriculture	10.2	4.7	7.8	9.0	12.3
Mining	122.9	139.7	121.3	136.8	128.0
Manufacturing	177.1	155.9	211.6	192.9	224.8
Construction	106.5	67.4	191.7	176.5	169.1
Transport, storage and communication	266.0	240.3	148.1	228.5	158.3
Electricity, gas and water	37.4	37.9	35.5	33.5	32.4
Wholesale, retail, hotel and restaurant	161.9	210.5	161.6	275.7	236.6
Non-bank financial institutions and real estate	287.5	289.9	266.5	282.5	367.7
Community, social and personal services	117.8	51.1	181.7	58.0	56.4
All sectors	**1287.3**	**1197.5**	**1325.4**	**1393.5**	**1385.7**

* 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 declined massively, by 29.6 per cent during the third quarter of 2012, following another double digit decline of 18.1 per cent observed in the previous quarter. This decline in total net claims by the banking sector was mainly driven by a 22.3 per cent decline in claims on Government by the Central Bank exacerbated by a 4.1 per cent decline in claims on Government by the commercial banks. The 19.0 per cent rise in Central Government deposits at the Central Bank was the main contributor to this drop in net claim on Government.

Table 15: Banking System's Net Claims on Government

(Million Maloti: End of Period)

	2011		2012		
	Sep	Dec	Mar	Jun	Sep
Commercial Banks Net Claims	633.6	700.2	817.9	840.6	875.1
Claims on Central Government	658.6	722.2	840.1	864.0	877.0
o/w T-Bills and Bonds	650.4	751.9	824.0	824.0	824.0
Liabilities to Central Government	25.0	22.0	22.2	23.4	2.0
Central Bank Net Claims	-3 132.6	-3 292.8	-2 567.7	-2 907.6	-3 554.9
Claims on Central Government	249.7	242.9	214.3	474.5	470.3
Liabilities to Central Government	3 382.3	3 535.7	2 782.0	3 382.2	4 025.2
Total Net Claims Government	-2 499.0	-2 592.6	-1 749.8	-2 067.0	-2 679.8

'MP T Bills' means monetary policy treasury bills.

IMF loans on-lent to the GOL.

Net Foreign Assets

The net foreign assets of the entire banking system increased by 7.4 per cent in the third quarter of 2012 following a slight fall of 0.8 per cent recorded in June, 2012. The increase in total net foreign assets was on account of an 18.4 per cent rise in net foreign assets of the Central Bank moderated by a 15.9 per cent decline in net foreign assets of the commercial banks. The drop in Commercial banks' net foreign assets was driven by a 14.9 per cent decline in commercial banks' claims to non-residents against a 1.0 per cent increase in liabilities to non-residents. On the part of the Central Bank, claims on non-residents increased by 16.2 per cent against a 0.9 per cent rise in liabilities to non-residents.

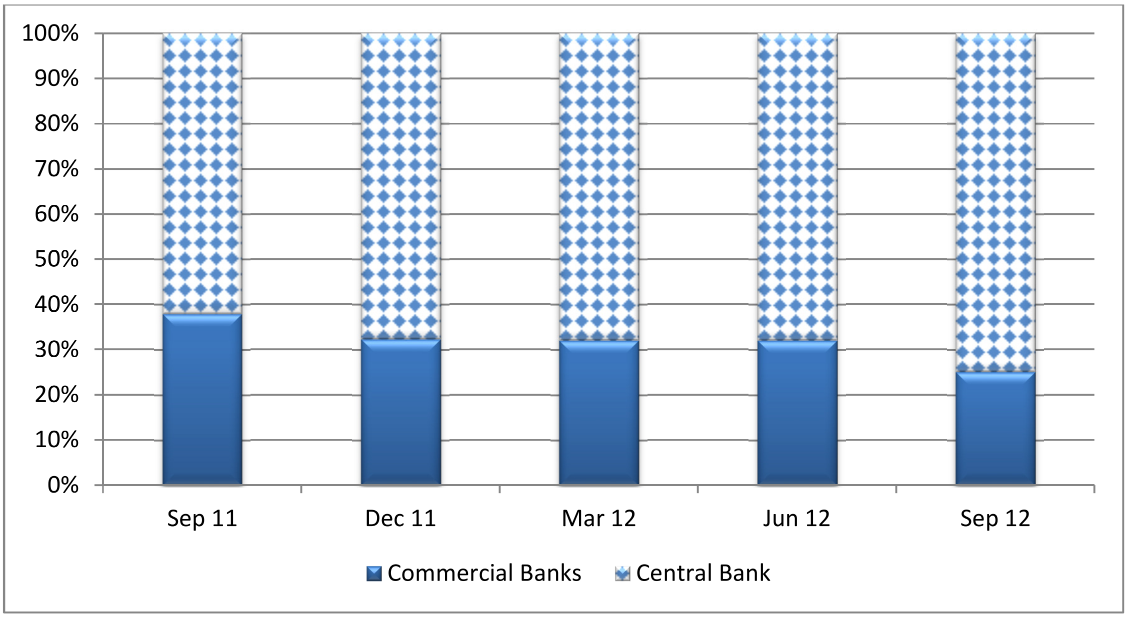
Table 16: Banking System's Claims and Liabilities on Non-residents

(Million Maloti: End of Period)

	2011		2012		
	Sep	Dec	Mar	Jun	Sep
A. Commercial Banks	3 876.6	3 209.5	2 826.5	2 803.1	2 357.9
Claims on Nonresidents	3 962.6	3 390.9	2 880.7	2 984.2	2 540.8
Liabilities to Nonresidents	-86.0	-181.4	-54.1	-181.2	-182.9
B. Central Bank	6 335.7	6 696.1	5 974.8	5 924.2	7 016.1
Claims on Nonresidents	7 031.7	7 350.6	6 580.9	6 808.0	7 907.5
Liabilities to Nonresidents	-696.0	-654.5	-606.1	-883.8	-891.4
Net Foreign Assets Total	10 212.4	9 905.7	8 801.3	8 727.2	9 374.0

Figure 15: Net Foreign Assets

(Percentage shares)



Money Market Developments

The total holding of Treasury bills and bonds declined slightly by 0.5 per cent in the quarter under review compared with a 4.0 per cent increase recorded in the previous quarter. The decline was mainly as a result of a 3.6 per cent decline in holding of Treasury bills moderated by a 2.7 per cent increase in holding of treasury bonds. Treasury bills held by the banking system declined by 1.0 per cent, while Treasury bonds increased slightly by 0.3 per cent while the non-bank sector holding of Treasury bills declined by 13.8 per cent and that of bonds increased by 7.5 per cent.

Table 17: Holding of Treasury Bills and Bonds

(Face Value; Million Maloti)

	2011		2012		
	Sep	Dec	Mar	Jun	Sep
Total Holding of Bills and Bonds	904.7	1022.9	1114.3	1159.2	1167.2
Treasury Bills	499.8	497.7	588.0	592.9	571.4
Banking System	387.9	377.1	449.1	472.7	467.8
Non-Bank Sector	111.9	120.6	138.9	120.2	103.6
Treasury Bonds	405.0	525.3	526.3	566.4	595.8
Banking System	262.5	374.8	374.9	375.0	376.1
Non-Bank Sector	142.4	150.5	151.4	191.3	219.7
Memorandum Item					
Average Yield Bills (per cent)	5.36	5.35	5.47	5.59	5.56
Average Yield Bonds (per cent)*	9.00	8.90	8.90	8.90	8.90

* Average of a five year bond

Money Market and Short-term Interest Rates

During the third quarter of 2012, all the Central Bank's interest rates declined while all commercial banks' interest rates remained unchanged with an exception of the prime lending rate. The 91-day Treasury bill and Lombard rates declined to 5.43 and 9.43 per cent, respectively. Under the commercial banks, the call rate, the time deposit rates and savings rate were constant while the prime lending rate declined to 9.92. In South Africa, the SARB Monetary Policy Committee (MPC) cut the repo rate by 50 basis points from 5.50 per cent to 5.00 per cent. This decision translated to a 50 basis points reduction in the prime lending rate to 8.50 while the South African 91-day TB rate declined by 69 basis points from 5.59 recorded in the previous quarter to 4.90 in the reporting period. The relatively low interest rates within the region reflect efforts by monetary authorities to stimulate their economies as inflation expectations are also easing.

Table 18: Major Money Market Interest Rates

(Percent: End of Period)

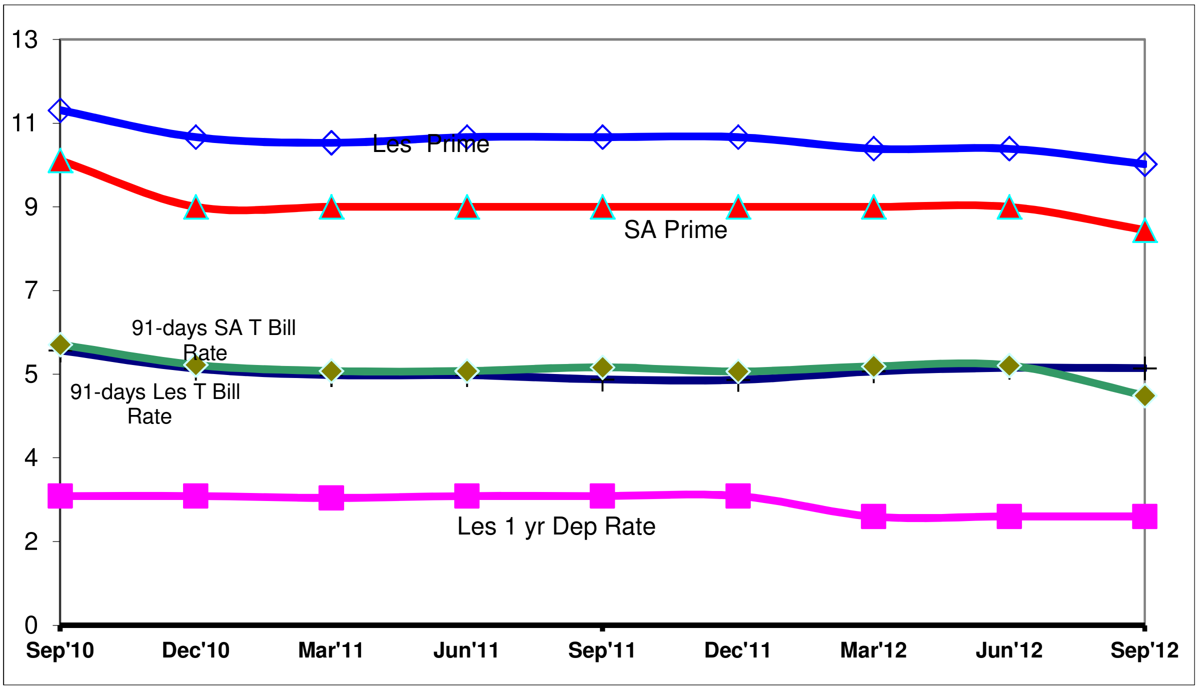
Interest Rates by Type	2011		2012		
	Sep	Dec	Mar	Jun	Sep
Central Bank					
T Bill Rate – 91 Days	5.29	5.28	5.46	5.59	5.43
Lombard Rate	9.29	9.28	9.46	9.54	9.43
Commercial Banks[5]					
Call	1.15	1.15	0.77	0.77	0.77
Time:					
31 days	1.21	1.21	0.91	0.91	0.91
88 days	1.67	1.67	1.41	1.41	1.41
6 months	1.94	1.94	1.69	1.69	1.69
1 year	2.78	2.78	2.34	2.34	2.34
Savings	1.21	1.15	0.84	0.84	0.84
Prime	10.50	10.50	10.25	10.25	9.92
South Africa*					
Repo	5.50	5.50	5.50	5.50	5.00
T Bill Rate – 91 Days	5.55	5.46	5.56	5.59	4.90
Marginal Lending					
Rate	10.50	10.50	10.50	10.50	10.50
Prime	9.00	9.00	9.00	9.00	8.50

* Figures for South Africa were obtained from the SARB

[5] Average rates by commercial banks

Figure 16: Short-Term Interest Rates

(Percent Per Annum)



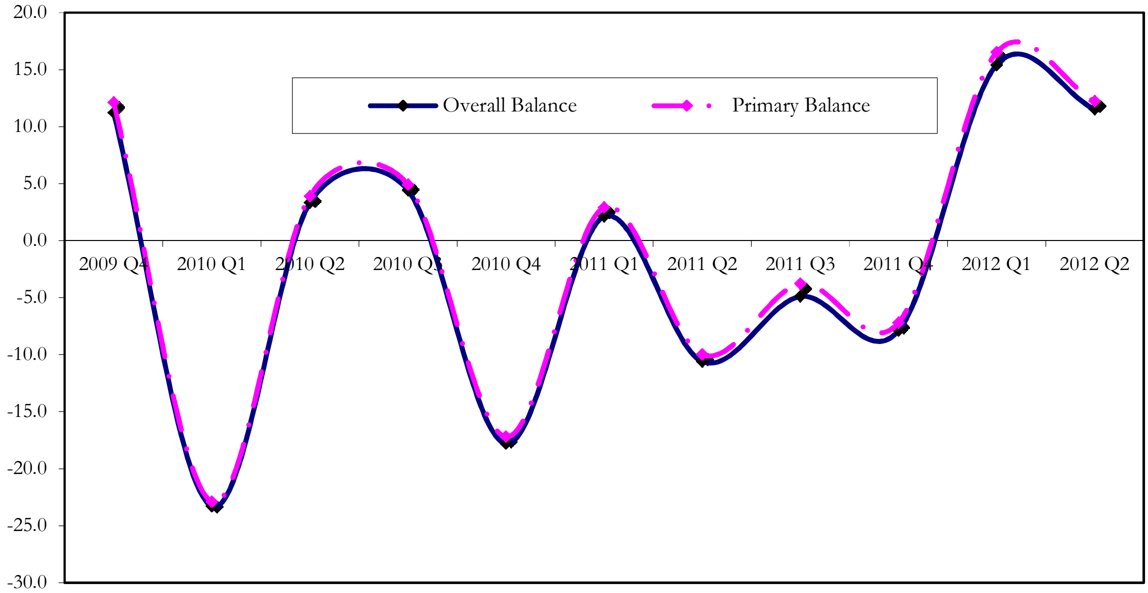
V. Government Finance

Summary of Budget Outturn

Second quarter estimates indicate that government budgetary operations recorded a surplus equivalent to 11.5 per cent of GDP, which reflects a rise in other taxes and grants. The surplus is slightly lower than 15.4 per cent surplus recorded in the quarter ending in June 2012. The narrowing of the fiscal surplus was brought about by a decrease in total revenue and grants coupled with an increase in overall expenditures over the same period. Total revenue and grants decreased by 3.0 per cent on a quarterly basis, compared with 24.7 per cent increase recorded in the previous quarter. Total expenditures and net lending increased by 2.4 per cent following a decrease of 11.2 per cent in the previous quarter. The decrease in total revenue and grants was a result of the deterioration in income tax while customs revenue remained constant between the two quarters. The increase in government expenditure and net lending reflected an increase in recurrent expenditures which was driven by the increase in personal emoluments and foreign interest payments.

Figure 17: Primary Balance versus Overall Balance

(In per cent of GDP)



Revenue

Total revenue, which comprises tax revenue and non-tax revenue, decreased by 5.5 per cent during the quarter under review. This followed an increase of 25.4 per cent in the previous quarter. The drop in total revenue emanated from a 43.9 per cent decrease in non-tax revenue and a small decrease of 0.3 per cent in tax revenue. The decrease in total tax revenue was a result a significant drop in income taxes and unchanged SACU revenue between the two quarters. Nonetheless SACU revenue and income taxes remained the largest contributors to total revenue. SACU's contribution to total revenue rose from 53.4 per cent to 57.3 per cent while income tax as a share of total revenue shrank marginally from 19.3 per cent to 18.2 per cent.

Table 19: Government Revenue

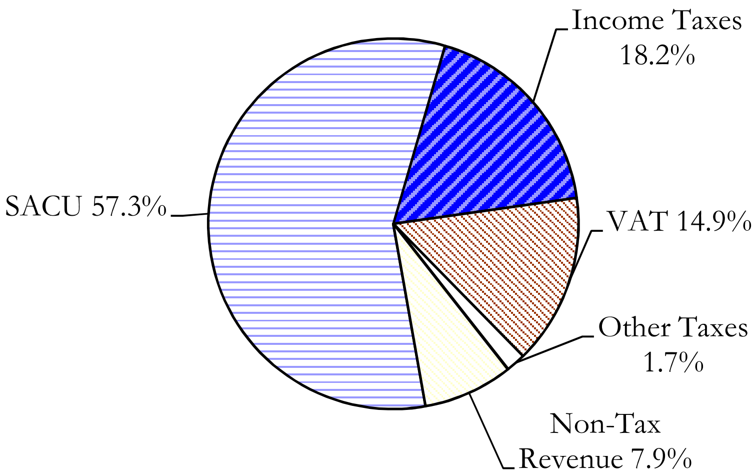
(Million Maloti)

	2011/12			2012/13	
	Jul-Sep	**Oct-Dec**	**Jan-Mar**	**Apr-June +**	**Jul-Sep ***
Total Revenue and Grants	2098.3	2460.1	2548.1	3178.2	3081.7
Total Revenue	1818.0	2005.8	2111.3	2801.1	2647.8
Tax Revenue	1560.3	1641.8	1938.2	2437.1	2443.4
Customs	688.2	688.2	688.2	1491.6	1491.6
Non-customs	872.1	953.6	1250.0	945.5	951.8
Income Taxes	496.1	584.8	789.3	539.3	474.3
Taxes on goods & services	335.4	393.0	444.4	393.0	432.7
Other Taxes	20.6	13.2	16.3	13.2	44.8
Non-Tax Revenue	257.7	364.0	173.1	364.0	204.4
Of which: Water royalties	140.9	224.5	137.8	163.0	159.6
Grants	280.3	454.3	436.8	377.1	433.9

Source: Ministry of Finance
+Revised
*Preliminary estimates

The non-tax revenue component comprises dividends from operations of organisations with public ownership, royalties from Lesotho Highlands Water Project (LHWP), rand compensation and other revenues. It decreased by 43.9 per cent following a 23.1 per cent increase in the previous quarter. The decline in non-tax revenue reflected amongst others, the drop in water royalties which fell by 2.1 per cent from 18.3 per cent increase recorded in the previous quarter. Preliminary estimates indicate that grants increased in the quarter under review. It rose by a significant 15.1 per cent following a 13.7 per cent deterioration observed in the previous quarter.

Figure 18: Sources of Government Revenue



Expenditure

Government expenditure and net lending which include recurrent and capital expenditures, continued to fluctuate. It increased by 2.4 per cent in the second quarter after decreasing by 11.2 per cent in the previous quarter. The growth was reflective of a 4.7 per cent increase in recurrent expenditures, which comprises amongst others, wages and salaries, expenditures on goods and services, subsidies and transfers. Personnel emoluments continue to account for the largest share of recurrent expenditures at 47.8 per cent in contrast to 41.2 per cent in the previous quarter. In the second position is expenditure on goods and services at 24.3 per cent, slightly lower than 37.6 per cent recorded in the previous quarter. During the third quarter, capital expenditures decreased by 6.1 per cent following an increase in the quarter ending in June, 2012.

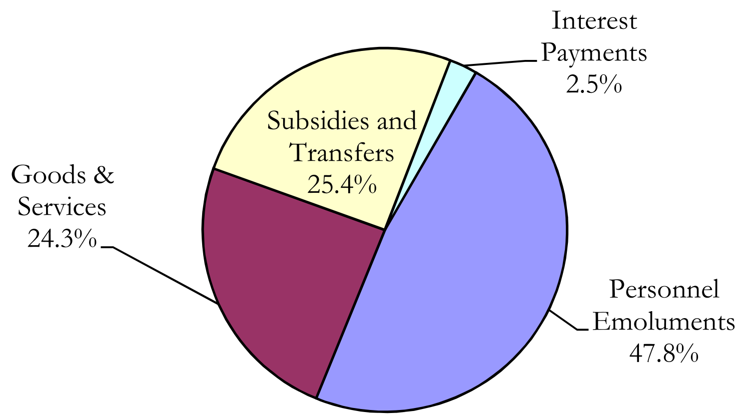
Table 20: Government Expenditure

(Million Maloti)

	2011/12			2012/13	
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun+	Jul-Sep*
Total Expenditure & Net Lending	2556.7	2659.7	2871.7	2549.6	2610.9
Recurrent Expenditure	2276.4	2205.4	2434.9	2005.4	2099.4
Personnel Emoluments	858.8	965.8	1002.5	892.6	1083.7
Interest Payments	25.5	47.4	28.5	46.3	29.0
Foreign	15.5	12.6	18.2	16.5	20.3
Domestic	10.0	34.9	10.3	29.8	8.7
Other Expenditure	1392.1	1192.2	1403.9	1066.5	986.7
Capital Expenditure	280.3	454.3	436.8	544.2	511.5
Net Lending	0.0	0.0	0.0	0.0	0.0

Source: Ministry of Finance
+Revised
*Preliminary estimates

Figure 19: Recurrent Expenditure by Type



Financing

Preliminary estimates reflect a surplus equivalent to 11.5 per cent of GDP during the review period, slightly lower than 15.4 per cent realized in the previous quarter. The surplus emanates from a significant increase in other taxes and grants during the period under review. The positive fiscal balance will continue to improve government deposits with the banking system.

Table 21: Government Financing

(Million Maloti)

	2011/12			2012/13	
	Jul-Sep	**Oct-Dec**	**Jan-Mar**	**Apr-Jun+**	**Jul-Sep***
Financing	458.4	199.6	323.6	628.2	-470.8
Foreign	-36.6	105.7	-77.4	-8.9	144.3
Loan drawings	30.9	143.0	9.8	24.2	208.9
Amortization	-67.5	-37.3	-87.2	-33.1	-64.6
Domestic	495.0	93.9	401.0	-619.3	-615.1
Bank Financing	497.2	86.7	382.7	-600.0	-618.9
Non – Bank	-2.2	7.2	18.3	-19.3	3.8

Source: Ministry of Finance
+Revised
*Preliminary estimates

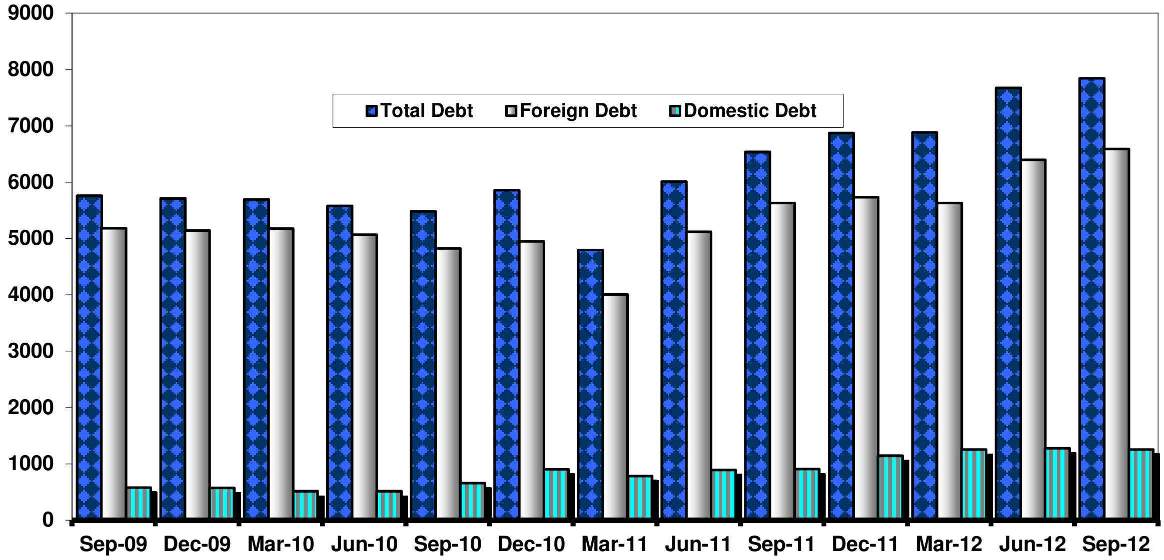
Public Debt

Overview

Government debt stock includes both external and domestic borrowing. Outstanding government debt increased by 2.2 per cent in the quarter under review compared with 11.6 per cent in the previous quarter. The increase in total public debt, which was at a rate lower than the previous quarter, was due to a slight increase and decrease in external and domestic debt, respectively. External debt rose by 3.0 per cent while domestic debt fell by 1.7 per cent. As a percentage ofGDP, public debt stood at 45.2 per cent compared with 44.0 per cent in the previous quarter. At this level, the debt level was still sustainable and provides enough fiscal space for the future. The debt service ratio, the ratio of debt service to exports of goods and services and net factor income from abroad was estimated at 2.9 per cent during the review period compared with 1.6 per cent observed in the previous quarter. External debt continued to constitute a largest proportion of the overall debt stock at 84.0 per cent while domestic debt represented 16.0 per cent of total public debt stock.

Figure 20: Outstanding Public Debt

(Million Maloti: End of Period)



External debt

External debt increased by 13.2 per cent on a quarterly basis, compared with a drop of 1.9 per cent recorded in the quarter ending in June 2012. The increase reflected the continued weakening of the Loti against the US dollar during the quarter under review, which hovered above M8.00 per USD since the beginning of the 2012/13 financial year. Loans from multilateral sources continued to constitute a larger share of external borrowing at 89.0 per cent, followed by supplier's credit at 5.4 per cent. Bilateral loans constituted 4.7 per cent. As a percentage of GDP, external debt was 38.4 per cent during the review period, in comparison with 37.2 per cent recorded in the previous quarter.

Table 22: External Debt

(Million Maloti)

	2011		2012		
	QIII	QIV	QI	QII	QIII
External Debt	5633.0	5646.6	5626.2	6397.7	6591.7
Bilateral Loans	227.2	239.3	242.8	260.6	312.5
Concessional	227.2	239.3	242.8	260.6	312.5
Non-concessional	0.0	0.0	0.0	0.0	0.0
Multilateral Loans	5073.0	5162.5	5058.8	5739.2	5863.3
Concessional	4889.6	4954.1	4869.4	5442.5	5412.0
Non-concessional	183.4	204.4	189.4	296.7	451.3
Financial Institutions	66.5	66.5	63.2	63.5	62.0
Concessional	0.0	0.0	0.0	0.0	0.0
Non-concessional	66.5	66.5	63.2	63.5	62.0
Suppliers' Credit	266.3	267.8	261.1	334.4	353.9

Source: Ministry of Finance

Domestic Debt

Domestic debt stock comprises Treasury bills and bonds. It decreased by 1.7 per cent compared with an increase of 2.0 per cent recorded in the quarter ending in June, 2012. The increase mainly reflected issuance of Treasury bonds during the quarter. Treasury bills declined by 3.4 per cent compared with an increase of 0.5 per cent observed in the previous quarter. Commercial banks hold the largest share of Treasury bills and bonds at 91.8 per cent, while the non-bank sector holds 8.2 per cent. As a percentage of GDP, domestic debt constituted 6.8 per cent on a quarter-to-quarter basis compared with 6.7. per cent observed in the previous quarter.

Table 23: Domestic Debt

(Million Maloti)

	2011			2012	
	QIII	QIV	QI	QII	QIII
Domestic Debt	1023.0	1114.3	1254.2	1278.6	1256.4
Banks	902.4	975.4	1115.3	1158.4	1152.8
Long-term	525.3	526.3	526.3	566.7	581.4
Short-term	377.1	449.1	589.0	591.7	571.4
Of which: treasury bills	377.1	449.1	589.0	591.7	571.4
Non -bank	120.6	138.9	138.9	120.2	103.6
Short-term (TBs)	120.6	138.9	138.9	120.2	103.6

Source: Ministry of Finance

VI. Foreign Trade and Payments

Overview

The external sector position continued to improve in the third quarter of 2012. The seasonally adjusted overall balance widened to a surplus equivalent to M1.1 billion during the review quarter, following a surplus of M225.1 million recorded in the previous quarter. This reflected improvements in current account coupled with an increase in capital and financial account inflows. In addition, the gains from price changes on foreign reserves assets abroad contributed to the surplus in overall balance. Transaction balance, which represents overall balance without the effects of currency movements, in seasonally adjusted terms, registered a surplus of M1.0 billion in the third quarter of 2012, in contrast with a deficit of M272.2 million in the quarter ending in June 2012.

Current Account

A deficit of M520.4 million was registered in the current account balance during the third quarter of 2012, after having a revised deficit of M1.6 billion realised in the previous quarter. The narrowing of current account deficit resulted from a decline in merchandise trade balance which fell from a deficit of M3.0 billion in the previous quarter to a deficit of M2.1 billion in the review quarter. The fall in merchandise trade deficit was underpinned by an increase in merchandise exports while imports declined during the period. The improvement in current account was also supported by the growth in current transfers and income account during the period. Relative to GDP, current account deficit declined from 38.3 per cent in the second quarter 2012 to 12.2 per cent in the third quarter of 2012.

Table 24: Current Account Balance

(Million Maloti)

	2011		2012		
	QIII	QIV	QI	QII*	QIII+
I. Current Account	-342.12	-1040.42	-2461.62	-1638.53	-520.40
(a) Goods	-1229.53	-2052.14	-2997.28	-2992.63	-2061.52
Merchandise exports f.o.b.	2665.89	1843.28	1575.56	2114.96	2232.72
Of which diamonds	1017.77	448.71	550.10	747.35	658.85
Of which textiles & clothing	824.53	875.01	575.36	794.88	917.12
Other exports#	823.59	519.56	450.10	572.73	656.75
Merchandise imports f.o.b.	-3895.42	-3895.42	-4572.84	-5107.59	-4294.24
(b) Services	-806.00	-851.63	-1277.33	-1136.74	-1078.77
(c) Income	595.83	667.25	514.91	527.53	547.28
(d) Current Transfers	1097.58	1196.10	1298.07	1963.31	2072.60

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

Merchandise Exports

Having an increase of 34.2 per cent in the second quarter of 2012, the value of merchandise exports rose by 5.6 per cent in third quarter of 2012. The lower growth attributed largely to the rise in textile and clothing exports as well as water export during the review period. Despite weakened global consumer demand during the period, the export of Lesotho's manufactured goods, 'textile and clothing' grew by 10.4 per cent while water export rose by 17.7 per cent. However, a decline of 11.8 per cent in diamond exports moderated the observed performance of merchandise exports during the quarter. On an annual basis, exports dropped by 16.2 per cent in third quarter of 2012. As percentage of GDP, merchandise exports registered 52.3 per cent in the quarter ending in September 2012, compared with 49.5 per cent recorded in the quarter ending in June 2012.

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

(Million Maloti)

COMMODITY	2010		2011		
	QIII	QIV	QI	QII*	QIII+
0. Food & Live Animals	83.35	74.23	72.18	67.02	66.57
Cattle	0.00	0.00	0.00	0.00	0.00
Wheat Flour	53.75	47.24	39.14	41.56	37.97
Maize Meal	5.62	0.17	9.87	0.41	1.11
Other	23.98	26.82	23.17	25.05	27.49
1. Beverages & Tobacco	145.65	222.53	136.08	143.45	169.27
Beverages	0.01	0.00	0.00	0.00	0.00
2. Crude Materials	1020.69	460.69	550.10	767.28	661.84
Textiles fibres	2.92	11.98	0.00	19.82	2.90
Of which Wool	2.92	11.98	0.00	19.82	2.90
Of which Mohair	0.00	0.00	0.00	0.00	0.00
Crude fertilizers & crude minerals	1017.77	448.71	550.10	747.35	658.85
Of which Diamond	1017.77	448.71	550.10	747.35	658.85
4. Manufactured Goods	136.26	52.59	34.42	55.08	57.20
Of which textiles yarn and fabric	118.52	39.41	32.84	40.26	41.12
Of which manufactured goods	17.74	13.18	1.58	14.82	16.08
5. Machinery & Transport Goods	385.99	127.39	174.79	230.86	318.05
6. Miscellaneous Manufactured Goods	891.77	899.86	605.91	848.30	955.41
Of which clothing accessories	824.53	835.60	542.51	754.62	875.99
Other	67.24	64.26	63.40	93.68	79.42
7. Unclassified Goods	2.18	6.29	2.08	2.97	4.38
TOTAL EXPORTS	**2665.89**	**1843.28**	**1575.56**	**2114.96**	**2232.72**

Note: Totals may not tally due to rounding

* Revised estimates

\+ Preliminary estimates

\# Standard International Trade Classification

Merchandise Imports

During the review quarter, merchandise imports declined by 15.9 per cent, following an increase of 11.7 per cent recorded in the previous quarter. The slowdown was driven largely by the fall in declarations at border posts, which is composed of business and private shoppers. Declaration imports (imports from SACU region, particularly South Africa) which take a larger share in total imports fell by 28.7 per cent, while imports from non-SACU area dropped by 24.4 per cent in the review quarter. The observed performance could be attributed to the weaker demand in the domestic economy. However, the deterioration in merchandise imports was moderated the growth in imports of government and private vehicles together with electricity and petroleum imports during the quarter. On an annual basis, merchandise imports rose by 10.2 per cent during the review period. As a share of GDP, merchandise imports declined to 100.5 per cent in the quarter ending in September, from 119.6 per cent in the quarter ending in June 2012

Direction of Trade

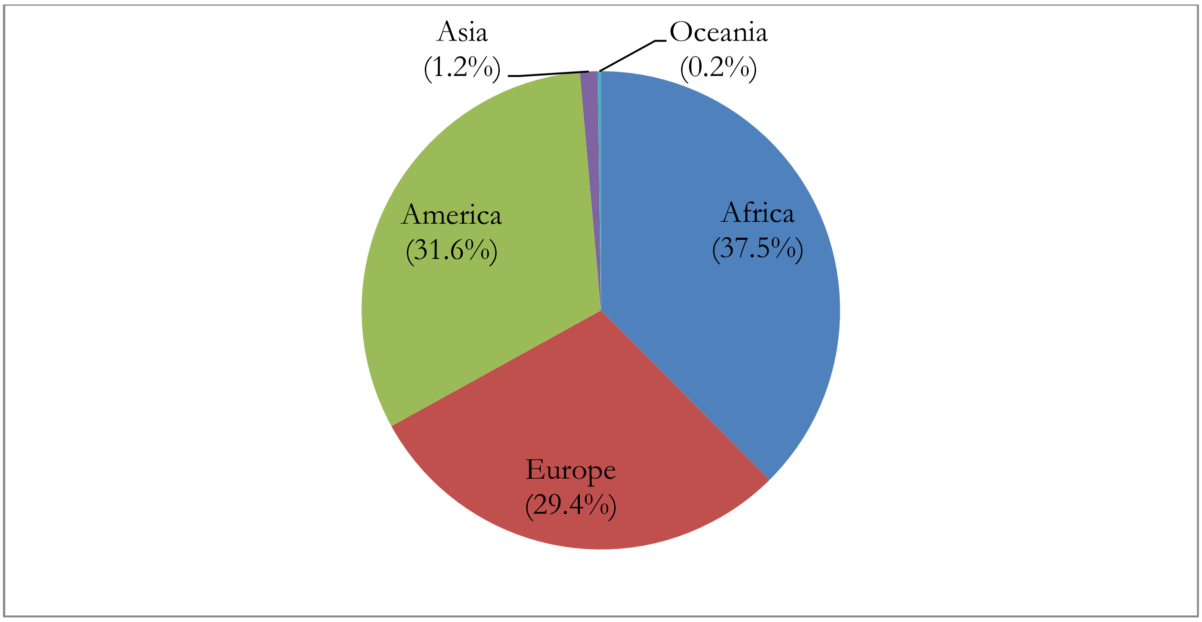
The first largest recipient of Lesotho's exports in the third quarter of 2012 was African continent, particularly SACU region. SACU region registered a share of 37.1 per cent of total export during the review quarter, after a record of 43.1 per cent in the previous quarter. American market became the second largest importer of Lesotho's goods, with a share of 31.6 per cent in the review quarter, compared with 24.0 per cent in the previous quarter. A third largest destination of Lesotho' export was European market which receives a larger portion of Lesotho's diamond exports. Its share recorded 29.4 per cent in the quarter ending in September 2012, following 31.4 per cent in the quarter ending in June 2012. The Asian market was the fourth destination of Lesotho's exports with a share of 1.2 per cent in the third quarter, compared with 1.3 per cent in the previous quarter. The remaining 0.2 per cent was exported to Oceania market during the quarter, compared with 0.1 per cent.

Table 26: Direction of Trade - Exports and Re-Exports, f.o.b.
(Million Maloti)

Region	2011		2012		
	QIII	QIV	QI	QII*	QIII+
World	2665.89	1843.58	1575.56	2114.96	2232.72
Africa	865.14	753.44	723.45	912.02	838.03
SACU	850.19	733.29	714.78	896.31	827.99
SADC	10.81	15.61	4.31	6.36	7.49
Other	4.14	4.54	4.36	9.35	2.55
Europe	1010.35	424.93	463.56	665.26	657.45
EU	1010.35	424.93	463.56	665.26	657.45
America	766.09	655.67	371.70	508.37	706.60
Asia	20.24	7.33	12.26	26.56	26.33
Oceania	4.07	2.21	4.59	2.75	4.31

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

Figure 18: Direction of Merchandise Exports



Services Account

The deficit on net services account with the rest of the world narrowed to M1 078.8 million in the third quarter of 2012, after having a deficit of M1 129.0 million in the previous quarter. The drop in outflows emanated from a fall in payments for transportation services acquired abroad which declined by 14.7 per cent in the review period, in contrast with an increase of 13.5 per cent realised in the previous quarter. Moreover, a decline in payments for Lesotho embassies abroad which fell by 7.9 per cent contributed to the slowdown of outflows in net services.

Income

The net income account rose to M547.3 million in the third quarter of 2012, following M527.9 million registered in the second quarter of 2012. The observed performance was driven largely by a rise in returns on CBL's investment portfolios abroad which rose by 37.4 per cent in the review period.

Current Transfers

Net current transfers' receivable rose by 5.6 per cent to M2.1billion in the quarter ending in September 2012, compared with an increase of 51.2 per cent recorded in the quarter ending in June 2012. The growth in current transfers influenced mainly by SACU receipts which soared by 6.4 per cent during the review period. In addition, a fall in payments for subscriptions to international organisations supported a rise in net current transfers in the third quarter of 2012.

Capital and Financial Account

The capital and financial account continued to show surplus in the third quarter of 2012. It registered a net inflow equivalent to M1 039.6 million in the review period, following an inflow of M1 092.3 million in the previous quarter. The lower growth attributed largely to deceleration in financial account inflows, while a rise in capital account moderated the observed performance in the net inflows. The capital account which is composed of foreign grants for government budget support rose by 15.0 per cent in the quarter ending in September 2012, following a decline of 13.7 per cent in the quarter ending in June 2012. The financial account inflows, however, dropped by 14.0 per cent to M670.4 million during the review quarter, compared with an increase of 26.5 per cent in the previous quarter, due to a decline in both CBL and commercial banks foreign loans as well as government loans during the period.

Table 27: Capital and Financial Account
(Million Maloti)

	2011		2012		
	QIII	**QIV**	**QI**	**QII***	**QIII+**
I. Capital and Financial Account	-346.94	1360.97	988.58	1092.29	1039.59
Capital Account	237.98	477.50	372.13	312.43	369.23
Financial Account	-584.92	883.47	616.45	779.86	670.36
II. Reserve Assets	-454.42	-127.14	770.08	-227.12	-1098.93

* Revised estimates
+ Preliminary estimates

Reserve Assets

The stock of gross international reserves rose by 16.1 per cent to M7.9 billion in the quarter ending in September 2012, following a rise of 3.4 per cent recorded in June 2012. The growth was mainly driven by an increase in CBL reserves assets, as a result of an upsurge in SACU revenue and a decline in payments for imports in the review period. As a result, measured in months of import cover, gross official reserves increased to 4.3 months in the third quarter of 2012, from 3.2 months realised in the second quarter of 2012.

Figure 19: Reserve Assets

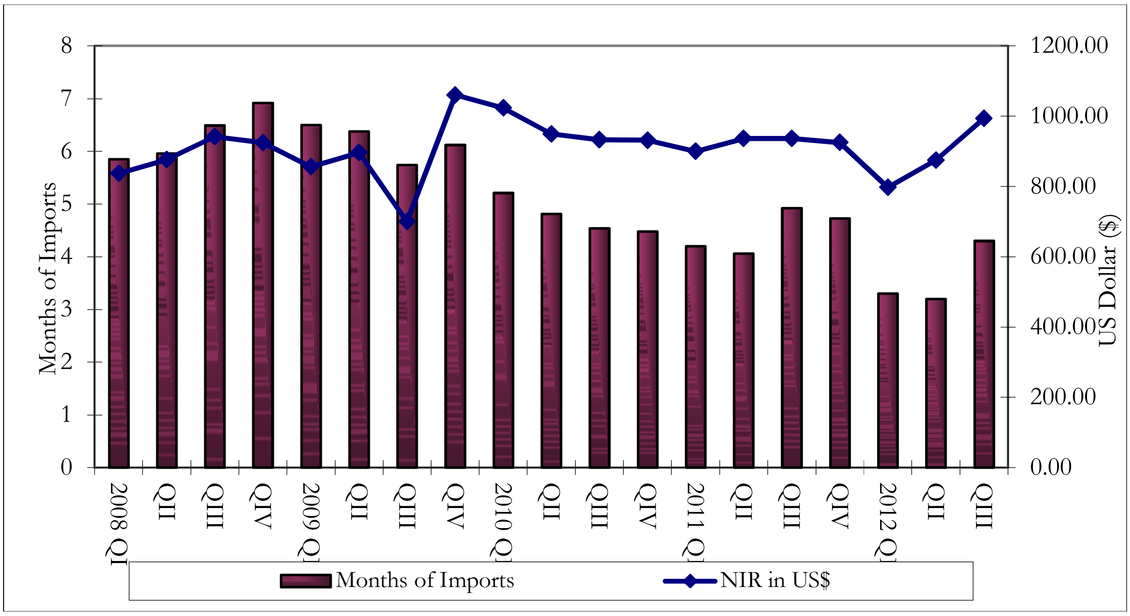
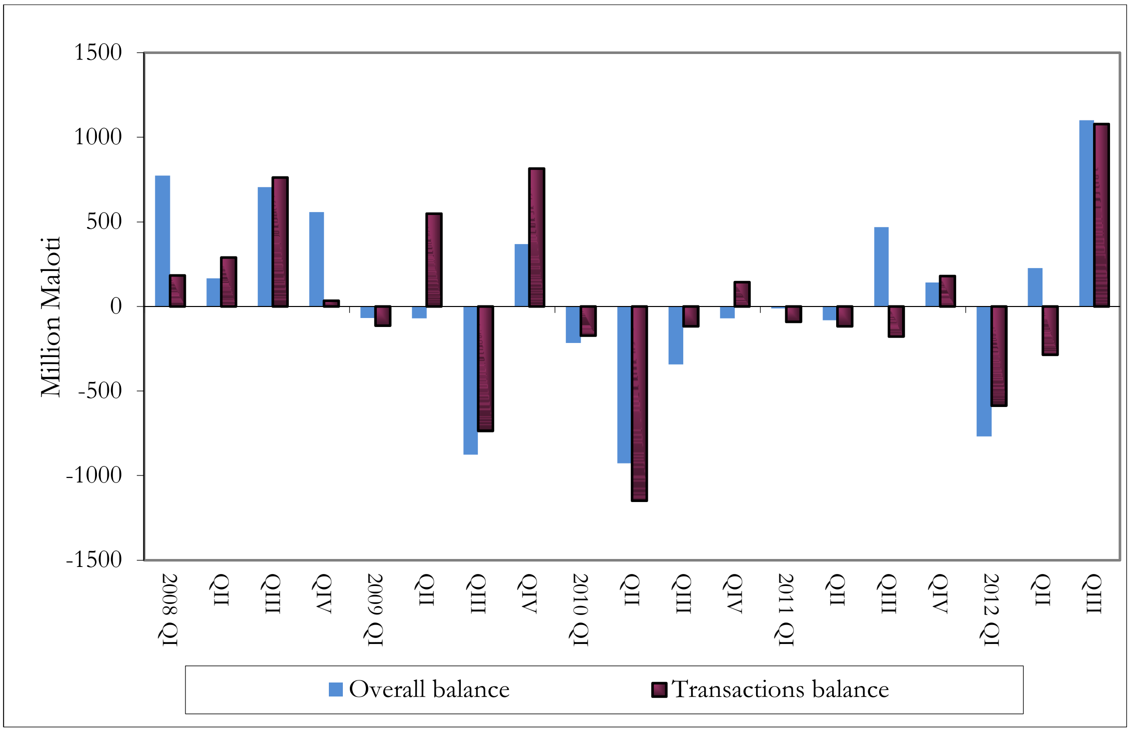


Figure 20: **Balance of Payments**



Exchange Rates

The loti, which is fixed at par with the rand, reflected continuing risks associated with the challenges facing the euro zone, which had led the volatility of the loti/rand against the major trading currencies during the quarter ending in September 2012. During the review quarter, the loti depreciated by quarterly average of 1.7 per cent to M8.26 and 1.6 per cent to M13.05 against the US dollar and Pound sterling, respectively. The loti has, however, appreciated by quarterly average of 0.7 per cent to M10.34 against the euro in the third quarter of 2012.

Figure 21: Nominal Exchange Rate of the Loti against Major Currencies