CENTRAL BANK OF LESOTHO

QUARTERLY REVIEW

DECEMBER, 2005

VOLUME XXIV, NO. 4

MASERU
KINGDOM OF LESOTHO

QUARTERLY REVIEW

VOL. XXIV December, 2005

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I. Key Economic Events during the Fourth Quarter

October: Central Bank of Lesotho hosts a Workshop on Integration of Financial Services into Poverty Reduction Strategies

The CBL hosted a workshop for forty participants from the Southern Sub-Region of the African Rural and Agricultural Credit Association (AFRACA). The two day workshop was preceded by the AFRACA Executive Committee meeting which was held on 10 October. AFRACA is mandated to promote rural development by fostering cooperation among African governments and financial institutions in agricultural credit and banking, targeted at rural financial development. The theme for the workshop was “Integrating Financial Services into Poverty Reduction Strategies”.

The activities of rural financial intermediation are important, particularly, during this era of increased momentum in the fight against poverty. The CBL has made strides in this direction through the Rural Savings and Credit Groups (RSCGs) scheme. The scheme enables the poor in the rural areas, who are generally unbanked, to get access to the banking infrastructure through formation of groups. In this way, the groups run bank accounts and can borrow funds from commercial banks. Furthermore, the groups get training on basic accounting and bookkeeping, as well as preparation of business plans. Over the long term, the scheme has a potential of creating and strengthening local small, micro and medium enterprises (SMMEs). Rural financial intermediation, with its focus on the rural poor, has a great potential of reducing poverty levels in the economy of Lesotho.

November: Lesotho Hosts Smart Partnership Dialogue

The Government of Lesotho hosted the Smart Partnership Movement (SPM) for three days in November 2005. The initiative is held under the auspices of the Commonwealth Partnership for Technology Management (CPTM). Focus was on private sector opportunities in infrastructure development, environmental management, international networks, and technology and quality management.

The hosting of the event is seen as a potential for unlocking opportunities for growth in the economy. Preliminary estimates indicated that the tourism sector benefited massively from the event, as hotels and food industries reported higher turn over. The transport industry also benefited, though marginally. The benefit that the initiative has is international networking, which will open more markets for Lesotho products and enhance chances of having more Private-Public Partnerships.

December: The Land Management Guidelines

In an effort to address the apparent land sprawl and misallocation, Government, through the Ministry of Local Government, has published a land management handbook. The aim of this booklet is to assist and guide community councils and land allocation committees to effectively allocate land in their areas. The document is expected to improve proper land-use planning and address the problem of the sprawl to agricultural/arable land and reserve other areas for industrial and promotion of ecotourism as well as other economic purposes.

Land administration is governed by the 1979 Land Act as amended. According to the Act, it was possible to allocate one piece of land to several people. The other problem was conversion of agricultural land to residential, without necessarily considering things, such as, soil fertility and other development plans. This made it difficult to plan land allocation for its various uses, while conserving natural resources both in the rural and urban areas. The old system would be very costly to re-orientate the current structures of the settlements (residential, Central Business District in Urban areas, and Selected Development Areas (SDA)). Proper training of people responsible for land management and administration has a potential to avoid those problems and attract investments.

II. International Economic Developments and their Implications for the Lesotho Economy

United States (US)

Preliminary estimates indicated that the US economy, as measured by changes in the real gross domestic product (GDP), grew by 1.1 per cent on an annualised basis, during the review quarter. This is compared with 4.1 per cent growth observed in the third quarter. The slowdown was attributed to the deceleration in consumer, government and investment spending. Consumer spending, which accounted for about 70 per cent of real GDP, rose by 1.1 per cent in the fourth quarter, in contrast with 4.1 per cent in the previous quarter. The rate of growth of government spending also fell by 7.0 per cent in the fourth quarter after rising by 7.4 per cent in the third quarter. Furthermore, business investment in equipment and software grew at a lower rate of 3.5 per cent, during the review quarter, compared with a growth rate of 10.5 per cent in the third quarter. The US economy was also impacted negatively by hurricanes in the Gulf Coast of the US during the second half of 2005.

On the inflation front, the US consumer price index (CPI) grew by a lower rate of 3.4 per cent in December, compared with 4.7 per cent in September. The US Federal Reserve Bank's Open Market Committee (FOMC) continuously raised its benchmark lending rate by 25 basis points, as a result, the rate closed the quarter at 4.25 per cent.

The labour market depicted an improvement during the quarter under review. Unemployment rate slowed down from 5.1 per cent in the third quarter to 4.9 per cent in the fourth quarter.

On the one hand, a sharp deceleration in the US economic growth during the fourth quarter is expected to have negative spill over effects on the Lesotho economy. One the other hand, declining inflation and improvement in the unemployment rate could boost demand for Lesotho exports in the US market.

Euro-zone[1]

The annualised economic growth rate in the Euro-zone, as measured by the growth of real GDP, accelerated slightly from 1.6 per cent in the third quarter to 1.7 per cent during the quarter under review. The slight acceleration emanated from both the consumer and investment spending during the quarter.

Annual inflation rate in the Euro-zone, as measured by changes in the Harmonised Index of Consumer Prices (HICP) slowed down from 3.8 per cent during the previous quarter to 2.2 per cent during the quarter under review. The European Central Bank's (ECB's) Monetary Policy Committee (MPC) raised its refinancing rate from 2.0 per cent to 2.25 per cent in December 2005. This interest rate hike was the first in five years.

Unemployment remained high in the Euro zone during the third quarter. However, the rate of unemployment declined slightly from 8.4 per cent in September to 8.3 per cent in December 2005.

Economic developments in the Euro-zone are expected to have a bearing on Lesotho's economy through the trade relations with South Africa (SA). In this regard, a sustained improvement in the Euro-zone's industrial production bodes well for South Africa's exports. In addition, a slowdown in inflation rate in the Euro-zone could have positive spin-offs for SA's imported inflation. However, the relatively stubborn unemployment rate remained worrisome for both Europe and its trading partners, such as SA. As already indicated, shocks to the SA economy could be transmitted to Lesotho through close socio-economic interrelationships that exist between the two economies.

[1] Euro-zone: Austria, Belgium, Germany, Greece, Finland, France, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain.

South Africa

The seasonally adjusted and annualized month-to-month mining production in SA, decreased by 3.7 per cent in October and by 2.1 per cent in November 2005. This emanated mainly from a decline in non-gold mineral production during the first two months of the quarter. However, another leading economic indicator, manufacturing production, increased by 2.1 per cent in November 2005.

The Consumer Price Index, excluding interest rates on mortgage bonds (CPIX) for the historical metropolitan and other urban areas, grew at an annual rate of 4.0 per cent in December compared with 4.7 in September. This resulted mainly from the relatively strong rand, which helped mitigate the impact of the persistent increase in the international oil prices. A slowdown in prices of clothing, vehicles and some food items also contributed to the deceleration in the CPIX.

In contrast, producer inflation, as measured by changes in the producer price index (PPI), accelerated during the review period. It rose by an annual rate of 5.1 per cent in December compared with 4.6 per cent in September. The increase mainly arose from the high international oil prices due to, among others, expanding demand in the US, China and India. Domestic price pressures also exacerbated the producer inflation. Increases were recorded in agricultural items, mining and quarrying, chemical products and non-electrical machinery.

The South African Reserve Bank (SARB) Monetary Policy Committee (MPC) left its key interest rate unchanged at 7.0 per cent during the review quarter. As such, the prime lending rate remained at the previous quarter's level of 10.5 per cent. Although inflation remained within the target band of 3 to 6 per cent, the MPC continued to note with concern the deterioration in the inflation outlook amid persistent increases in the international oil prices.

Subdued consumer inflation in SA implies relatively muted imported inflation for Lesotho. However, a surge in producer inflation does not bode well for the Lesotho economy. This could raise the manufacturing sub-sector's costs of production on the back of imported rising fuel prices.

Commodity prices

Gold

The average price of gold increased by 10.5 per cent from $440.02 an ounce in the third quarter to $486.01 an ounce during the review quarter. It reached a minimum and maximum of $456.9 and $528.0

an ounce, respectively. The dollar price of gold increased mainly due to the depreciation of the dollar against the other major currencies, such as the euro, which induced higher demand by European investors as the metal became less expensive. In rand terms, the price increased by 10.9 per cent from R2,864.49 per ounce in the previous quarter to R3,177.66 in the quarter under review.

The increase in the rand price of gold could boost the profitability of the SA gold mining industry. If sustained, this could at least help to secure the existing employment status of Basotho migrant workers in SA mines. Consequently, this would benefit miners' remittances, which are a major source of foreign exchange to Lesotho.

Oil

The average price of oil decreased by 6.5 per cent in the quarter under review compared with a rise of 14.3 per cent in the previous quarter. It fell from $56.39 per barrel in the previous quarter to $52.70 in the quarter under review. During the quarter under review, the oil price reached a minimum and maximum of $49.49 and $58.11 per barrel, respectively. Although the oil price has declined, at this level, it was still considerably higher than the upper limit of the Organisation of the Petroleum Exporting Countries (OPEC)[2] target band of $22 to $28 per barrel.

The insistent expansion in oil consumption in China and India was the main reason for the soaring prices. Uncertainties in Iraq and elsewhere in the Middle East still continued to exert upward pressure on the international oil prices. In addition, the price increased in response to the announcement by Iran that it was going to resume its nuclear development programme and consequently this led to tension between the Iranian Government and the US. The tension ultimately led to concerns in the oil market that Iran could raise the pressure and suspend its oil exports. In rand terms, the average price of oil decreased by 6.1 per cent from R367.10 per barrel in the previous quarter to R344.57 a barrel in the review quarter.

The decline in the international oil prices augurs well for the Lesotho economy. It could result in downward revision of fuel and heating oil prices and therefore decreased pressure on inflation.

[2] OPEC comprises Algeria, Indonesia, Islam Republic of Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela.

III. Overview of Macroeconomic Developments in Lesotho

Economic Growth

Lesotho does not as yet produce national accounts data on a quarterly basis. As a result, the Central Bank relies on various leading indicators to get a picture of the likely direction of the performance of the economy. During the last quarter of 2005, the various indicators generally reflected poor performance of the economy. Water consumption by the industrial sector, a measure of activity in the manufacturing sub-sector, dropped on both quarterly and yearly basis. In unit terms, it dropped by a seasonally adjusted 9.6 per cent in the quarter under review compared with 3.1 per cent rise observed in the previous quarter.

The number of permits issued, a proxy for building and construction activity, decreased by a seasonally adjusted 16.1 per cent following an 11.1 per cent deceleration registered in the previous quarter. The number of imported motor vehicles, also a measure of consumer demand and capital formation, fell by a seasonally adjusted 27.7 per cent, annually. The total number of calls to other countries is used as an indicator of the performance of the export sub-sector. This indicator improved in the quarter under review.

Inflation

At the end of December, inflation as measured by changes in the CPI registered 3.5 percent. The rate is lower than the rate observed in December 2004, thus indicating a favourable inflation outlook. The economy is expected to benefit from a stable inflation outlook.

Employment

Employment generated by the Lesotho National Development Corporation (LNDC) assisted companies increased by 8.9 percent for the period ending December 2005. The increase has been attributed mainly to retail stores as employment in this sub-sector increased due to accelerated consumer spending during the festive season.

Government employment continued on an upward trend. It increased by 3.7 per cent during the quarter. The major contributor to the increase was additional hiring of teachers.

The number of migrant mineworkers declined by 2.2 percent in the quarter under review. It is estimated that they declined from 51 989 in quarter three to 50 835 in quarter four. This was fuelled by an increase in operation costs in mining houses, thus leading to retrenchments.

Monetary Sector

At the end of the review quarter, the broad measure of money supply (M2) registered a quarterly increase of 1.8 per cent. This compared with an increase of 9.6 per cent registered at the end of September. The rise in M2 resulted from a significant growth in domestic credit which overtook a slight fall in the overall banking sector's net foreign assets adjusted for valuation changes.

The major money market rates followed a downward trend observed in the movement of similar rates in the region. For example, the movements in the Lesotho 91-day treasury bill rate continued to be in line with the general trend of rates in the region. However, in December, the 91-day treasury bill rate in Lesotho increased by 6 basis points from its September level of 6.89 per cent to 6.95 per cent. The margin between the two rates widened from 10 to 15 basis points.

Fiscal position

Preliminary estimates on the budget outturn indicated a deficit equivalent to 0.1 per cent of GDP. This was in contrast to the surplus that stood at 6.8 per cent of GDP in the previous quarter. The deficit resulted from a fall in revenue while government expenditure increased. The increase in expenditure was mainly due to penalty levied on the accelerated payment of a foreign loan. Overall government expenditure and net lending rose by 11.7 per cent.

Total outstanding public debt fell by 2.1 per cent during the quarter ending in December 2005. The decrease was a result of the decline in external debt which dropped by 2.3 percent mainly due to a fall in loans from the multilateral agencies. Domestic debt slightly weakened by 0.7 per cent.

Balance of Payments

Lesotho's BOP position improved during the fourth quarter of 2005 as compared with the previous quarter. The overall balance recorded a seasonally adjusted surplus of M95.0 million compared with a seasonally adjusted deficit of M28.1 million in the third quarter. The transactions balance, which represented the overall balance excluding the effects of currency fluctuations, was also higher, in seasonally adjusted terms, than in the previous quarter. It recorded a surplus of M79.4 million compared with a deficit of M35.4 million in the third quarter. The improvement in the BOP position during the review period was reflected in the increase in gross official reserves, from 4.8 months of import cover in the third quarter to 5.0 months.

IV. Economic Indicators

Household and Business Sector Housing Statistics

Building permits are usually used to gauge building and construction activity in the economy. Although these numbers do not represent actual new construction, they provide a general indicator on construction activity. During the fourth quarter of 2005, the number of building permits issued adjusted for seasonality, contracted further by 16.1 per cent following an 11.1 per cent drop realised in September. The drop in building permits for residential purposes contributed to the observed downward movement in the overall number of building permits issued during the same period.

The weak performance of the construction sub-sector, underpinned by the fall in number of permits issued, contributed negatively to the performance of economy. The fall was despite the drop in interest rates which continued to fuel domestic demand as credit extended to the private sector was on an upward trend.

BUILDING PERMITS BY TYPE OF BUILDING
(Value in Million Maloti)

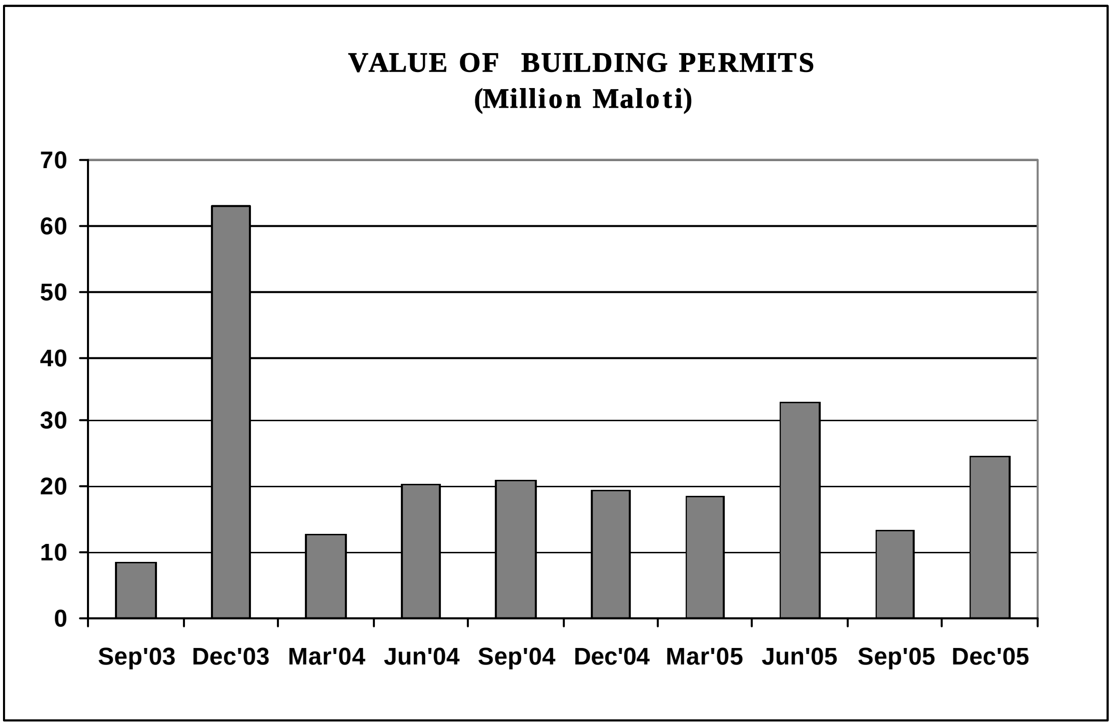
Type	Permits	2004		2005			
		QIII	QIV	QI	QII	QIII	QIV
Residential	Value	11.51	17.28	8.49	8.27	11.93	9.05
	Number	40	58	37	49	61	40
Commercial	Value	2.73	0.65	6.50	1.14	0.00	14.59
	Number	3	4	3	5	0	
Other	Value	6.65	1.49	3.44	22.87	1.38	1.12
	Number	5	5	4	18	3	2
Total	Value	20.89	19.42	18.43	32.28	13.31	24.76
	Number	48	67	44	72	64	49
	Number*	47	71	45	69	62	52

Source: Maseru City Council and Land Survey and Physical Planning

(1) Excludes data on buildings constructed without obtaining building permits. The table also excludes data on Mafeteng, Mokhotlong and Mohale's Hoek districts.

(2) Number denotes seasonally adjusted*

Figure 1



Imported Motor Vehicles

Data on imports of motor vehicles by both the private sector and Government is used as an indicator of consumer demand and capital formation (for both investment and consumption expenditure). Imports of motor vehicles increased in the fourth quarter of 2005. On a quarterly basis, the number of imported motor vehicles surged by a seasonally adjusted 45.1 per cent in contrast with a huge 57.0 per cent contraction observed in the previous quarter. However, the total number of imported motor vehicles fell by 27.8 per cent on an annual basis, thus reflecting sluggish economic activity.

MOTOR VEHICLE IMPORTS
(Value in Million Maloti)

		Cars	Vans	Trucks	Buses	Trac-tors	M/ Cycles	Trail-ers	Total
2003									
III	Value	17.46	29.33	3.42	5.26	0.15	0.00	0.16	55.78
	Number*								440
	Number	173	237	20	42	4	0	8	484
IV	Value	18.89	13.46	9.27	2.60	0.07	0.00	0.52	44.81
	Number*								460
	Number	203	146	20	29	4	0	9	411
2004									
I	Value	15.91	10.37	1.31	3.73	0.22	0.00	0.55	32.09
	Number*								357
	Number	198	139	2	24	8	0	9	380
II	Value	8.49	8.69	0.53	0.85	0.09	0.00	0.38	19.03
	Number*								406
	Number	198	164	2	11	4	0	5	384
III	Value	17.40	16.34	2.62	4.02	0.21	0.00	0.56	41.15
	Number*								1011
	Number	323	244	6	45	7	0	15	640
IV	Value	19.57	19.23	0.21	5.01	0.52	0.00	0.81	47.23
	Number*								700
	Number	346	205	5	45	12	0	12	625
2005									
I	Value	15.79	25.19	1.57	2.77	0.70	0.01	0.48	46.51
	Number*								658
	Number	349	299	2	26	8	1	13	698
II	Value	23.18	31.41	2.12	4.12	0.49	0.33	0.52	62.17
	Number*								809
	Number	385	364	5	26	5	7	9	801
III	Value	10.26	21.51	0.02	0.22	0.63	0.12	0.56	33.32
	Number*								348
	Number	165	180	2	15	12	8	10	392
IV	Value	15.42	28.25	2.78	4.08	0.19	0.05	0.24	51.01
	Number*								505
	Number	210	208	5	13	6	1	8	451

Source: Imperial Fleet Services Lesotho and Customs Department

(1) Number* denotes seasonally adjusted

Water Consumption

Water consumption is used as an indicator of the level of activity in the wet industries and in particular manufacturing sub-sector. The Lesotho manufacturing sub-sector is dominated by the textile, food and beverages industries, and these industries are heavily reliant on water. In the fourth quarter of 2005, performance of the manufacturing sub-sector, as indexed by the units of water consumed by the industrial sector was estimated to have dropped. Seasonally adjusted, total water consumption by the industrial sector fell by 9.6 per cent on a quarterly basis compared with 3.1 per cent decrease realised in September 2005. On an annual basis, it represented a 13.1 per cent slump.

The fall in water consumption on both quarterly and annual basis was reflective of the weak performance of the manufacturing sub-sector since the beginning of the year. On the outlook, performance of the sub-sector is expected to remain sluggish. However, efforts to diversify products and markets will mitigate the decline in output of the sub-sector.

WATER CONSUMPTION

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

Quarter		Domestic	Industrial	Other	Total
III	Units	0.73	1.12	0.61	2.46
	Value	2.45	4.24	2.35	9.04
	Units*	……	1.06	……	2.40
IV	Units	0.88	1.16	0.53	2.57
	Value	3.09	4.42	2.04	9.55
	Units*	……	1.05	……	2.59
2004					
I	Units	0.92	1.13	0.55	2.60
	Value	3.21	4.39	2.04	9.64
	Units*	……	1.32	……	2.56
II	Units	0.84	1.40	0.58	2.82
	Value	3.16	5.79	2.38	11.33
	Units*	……	1.42	……	2.93
III	Units	0.76	1.49	0.52	2.77
	Value	2.73	6.14	2.11	10.98
	Units*	……	1.42	……	2.70
IV	Units	0.95	1.44	0.54	2.93
	Value	3.66	5.88	2.24	11.78
	Units*	……	1.30	……	2.96
2005					
I	Units	0.95	1.20	0.53	2.68
	Value	3.69	4.97	2.20	10.86
	Units*	……	1.40	……	2.64
II	Units	0.79	1.36	0.61	2.76
	Value	3.07	6.05	2.59	11.71
	Units*	……	1.29	……	2.69
III	Units	0.80	1.38	0.57	2.75
	Value	3.07	6.14	2.53	11.74
	Units*	……	1.25	……	2.77
IV	Units	0.95	1.25	0.58	2.78
	Value	3.82	5.55	2.60	11.97
	Units*	……	1.13	……	2.80

Source: Water and Sewerage Authority

(1) Units denotes seasonally adjusted*

Telecommunications

Statistics on the number of calls destined to SA and other countries is used as an indicator of economic activity in the export sub-sector. During the quarter under review, the number of calls, seasonally adjusted, recovered by 6.6 per cent in contrast to 17.8 per cent decline registered in the previous quarter. On an annual basis, the number of calls rose by 10.9 per cent. The increase on both quarterly and annual basis was on the back of more calls destined to SA, as a result of the close trade links between the two economies. As depicted by the table below, the total number of calls destined to SA rose by 19.2 per cent, on a year-on-year basis.

TELEPHONE TRAFFIC STATISTICS

		SA Outgoing Calls	International Calls	Total Calls
2004				
III	No. of calls (millions)	2.72	0.13	2.85
	No. of calls*	*2.44*	……	*2.58*
	Total Duration (million	4.85	0.43	5.28
	Nominal Value (million	10.19	5.17	16.36
IV	No. of calls (millions)	3.06	0.12	3.18
	No. of calls*	*2.91*	……	*3.03*
	Total Duration (million	4.72	0.39	5.11
	Nominal Value (million	9.91	3.26	13.71
2005				
I	No. of calls (millions)	2.68	0.09	2.77
	No. of calls*	*2.93*	……	*3.01*
	Total Duration (million	4.68	0.29	4.97
	Nominal Value (million	9.82	2.60	12.42
II	No. of calls (millions)	3.43	0.11	3.54
	No. of calls*	*3.73*	……	*3.83*
	Total Duration (million	4.68	0.36	5.04
	Nominal Value (million	8.88	2.98	11.86
III	No. of calls (millions)	*3.19*	0.12	*3.31*
	No. of calls*	*3.25*	……	*3.15*
	Total Duration (million	4.53	0.35	4.88
	Nominal Value (million	8.60	2.88	11.84
IV	No. of calls (millions)	*3.42*	0.13	*3.55*
	No. of calls*	*3.47*	……	*3.36*
	Total Duration (million	4.82	0.41	5.23
	Nominal Value (million	10.12	3.41	13.53

Source: Tele-Com Lesotho

(1) No. of calls refers to number of calls that have been adjusted for seasonality.*

V. Employment and Prices

Employment Developments

Employment in LNDC assisted companies has increased from 39 597 employees in the third quarter, to 43 131 employees for the period ending December 2005. It is estimated to be an increase of 8.9 per cent on an annualised quarter to quarter basis.

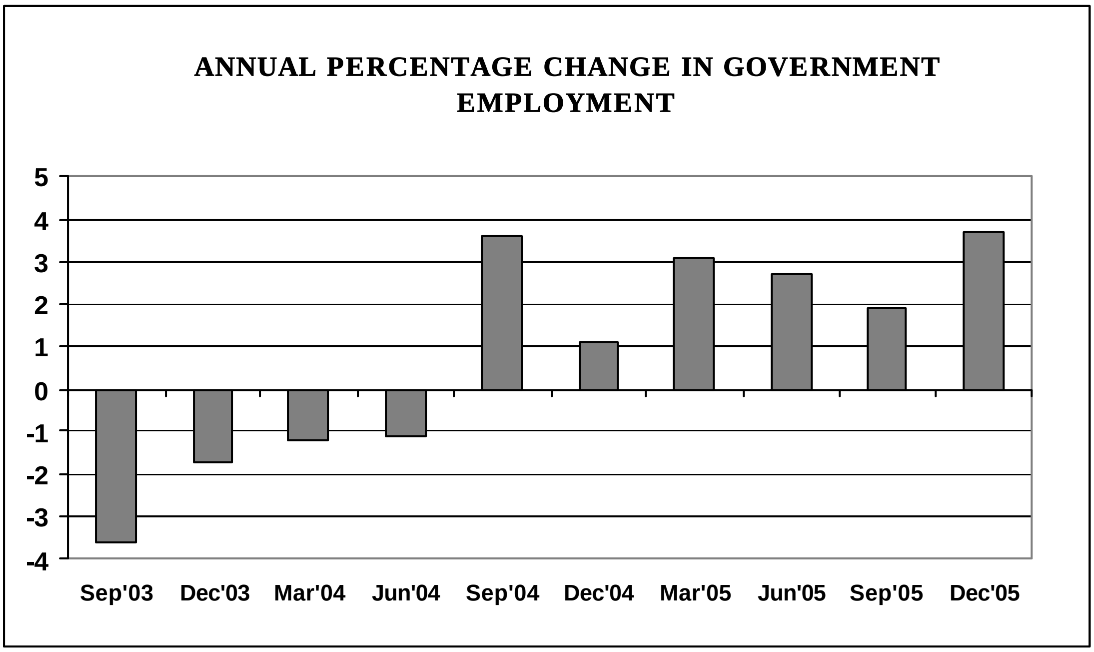
The increase in the employment was attributed mainly to retail chains that sell in the domestic market. The quarter under review represented a height of consumer expenditure and this necessitated the need to hire more labour to keep up with longer opening hours. Employment in the manufacturing sub-sector is expected to pick up again from 2006 going forward; given the government incentive scheme to assist with the competitiveness of the sub-sector.

EMPLOYMENT TREND OF LNDC ASSISTED COMPANIES

Period	QI	QII	QIII	QIV
2005	41985	40111	39597	43131
2004	52532	53525	52922	50607
2003	43525	46960	49862	51187
2002	36906	39255	42011	43773

Employment in the government sector increased by 1.7 per cent on an annualised quarter to quarter basis. The increase was largely due to an increase of an estimated 5.0 per cent in the number of teachers. The total number of government employees increased from 37265 in the third quarter to 37908 in the quarter under review.

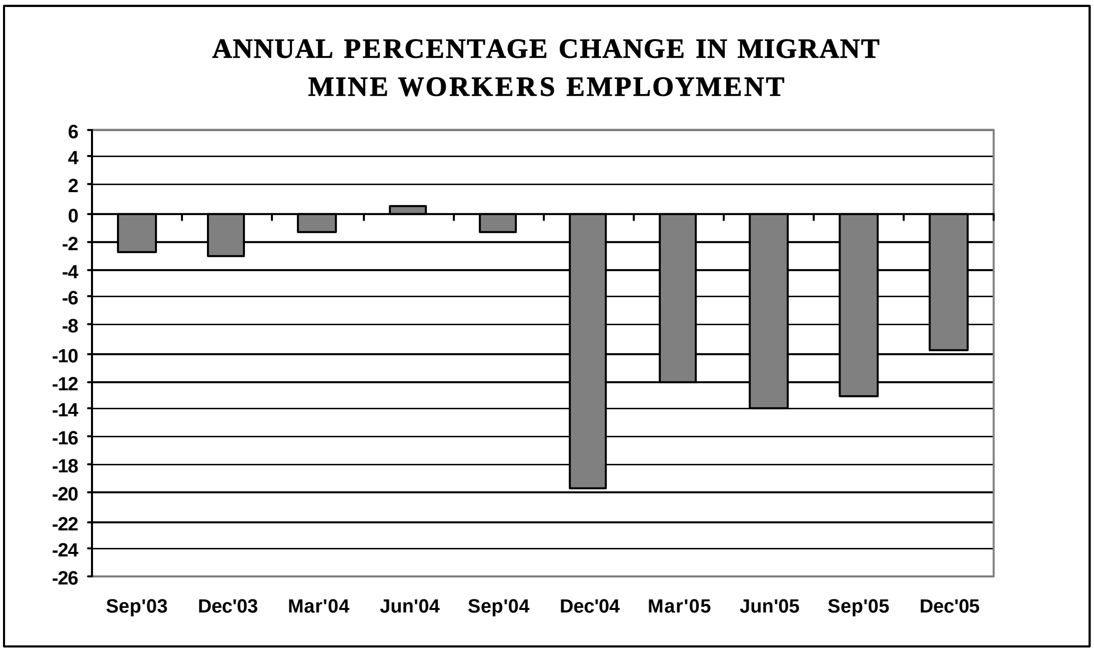
Figure 2



The number of mineworkers during the fourth quarter of 2005 was estimated at 50 835 from 51 989 in the quarter ending September the same year. The decline was as a result of mining companies that closed in the first quarter of 2005, as a result of increasing operation costs. There is however optimism amidst increases in the international price of gold, although modest.

The trend necessitated the urgency of Lesotho agencies to explore schemes that would absorb mine workers into productive activities, and sustain their livelihood post ante.

Figure 3



Price Developments

The overall price movement as measured by headline CPI, increased to 3.5 for the period ending December 2005. The increase is from 3.2 per cent registered in September 2005. This moderate increase is on the back of an increase in international oil price.

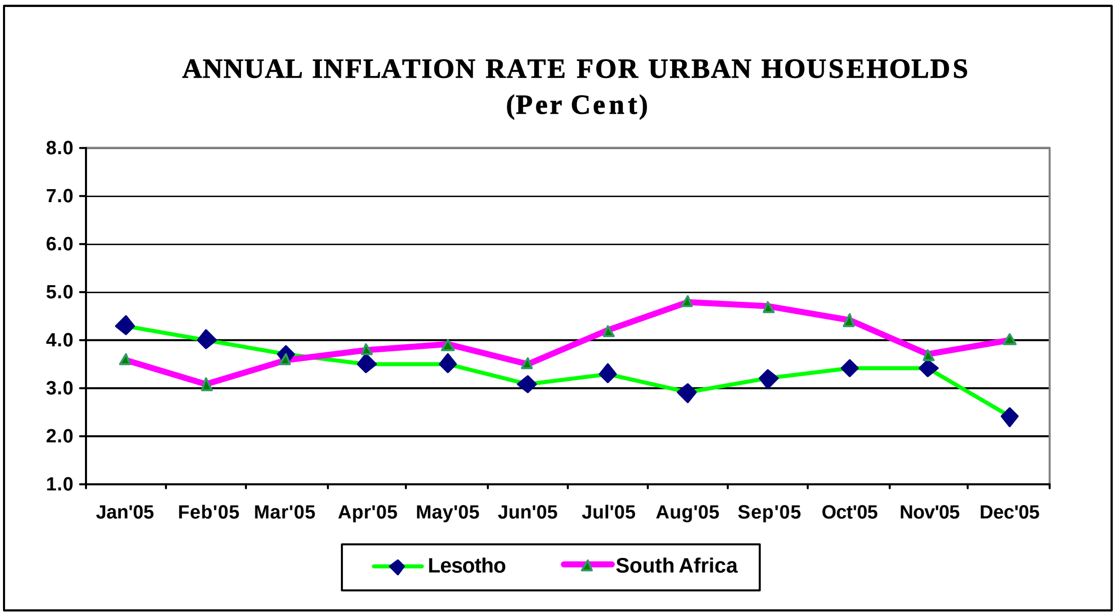
Movements in CPI were influenced by changes in indices in items that include; meat 1.2 per cent, bread and cereals 0.9 per cent, fruits and vegetables 1.0 percent, Furniture and carpets 0.4 per cent as well as household appliances 1.4 per cent. And non-alcoholic beverages decelerated by 0.4 per cent.

INFLATION RATE
(Annualised Percentage Change)
Base Period: 1997

	Weight	2005					
		Jul	Aug	Sep	Oct	Nov	Dec
All items	100.0	3.3	2.9	3.2	3.4	3.4	3.5
Food and non-alcoholic beverages	39.8	1.9	1.8	2.4	2.5	2.5	3.2
Alcoholic beverages & Tobacco	6.4	6.3	5.2	5.9	5.9	5.6	5.6
Clothing & footwear	15.6	3.5	3.6	3.3	3.0	3.3	3.7
Housing, electricity gas & other fuels	3.7	7.4	7.9	8.9	9.8	8.6	8.7
Furniture, households equipment & routine maintenance of house	17.0	1.9	2.5	2.5	2.9	2.9	3.1
Health	1.4	2.1	2.8	2.4	2.9	2.9	2.6
Transport	7.8	9.7	4.6	4.5	6.2	5.9	3.3
Communication	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Leisure, entertainment & Culture	1.2	0.1	0.1	0.3	-0.2	1.4	1.9
Education	3.2	1.1	1.1	1.1	1.0	0.9	0.8
Restaurant & Hotels	0.4	4.7	4.8	6.0	6.3	4.7	4.9
Miscellaneous goods & services	3.2	2.9	2.8	2.3	1.8	2.1	2.3

Source: Bureau of Statistics, Lesotho

Figure 4



VI. Balance of Payments (BOP)

Overview

Lesotho's BOP position improved during the fourth quarter of 2005 compared with the previous quarter because the overall balance recorded a seasonally adjusted surplus of M95.0 million, compared with a seasonally adjusted deficit of M28.1 million in the third quarter. The transactions balance, which represents the overall balance excluding the effects of currency fluctuations, was also higher, in seasonally adjusted terms, than in the previous quarter. It was estimated to record a surplus of M79.4 million compared with a deficit of M35.4 million in the third quarter. The improvement in the BOP position during the review period was reflected in the increase in gross official reserves, from 4.8 months of import cover in the third quarter to 5.0 months.

The improvement in the transactions balance reflected positive developments in the capital and financial account, which outweighed negative developments in the current account. The capital and financial account recovered from a net outflow of M24.3 million in the third quarter to a net inflow of M164.1 million during the review quarter. This was on the back of the decrease in repayments of official loans from M181.6 million in the previous quarter to M57.5 million in the quarter under review. Another contributing factor to the improvement was attributable to commercial banks' transactions. The commercial banks reduced their foreign asset holdings and increased their holding of Lesotho Government securities. The current account, on the other hand, registered a deficit of M76.4 million following a surplus of M10.7 million in the previous quarter. This was mainly due to current transfers, which had decreased by 4.4 per cent during the quarter under review compared with an increase of 22.7 per cent in the third quarter. The fall in the current transfers was largely a result of a decline in the SACU non-duty receipts during the quarter. Income also declined by 19.3 per cent in quarter four compared with an increase of 0.3 per cent in the previous quarter.

SUMMARY OF BALANCE OF PAYMENTS

(Million Maloti)

	2004	2005			
	QIV	QI	QII	QIII*	QIV+
I. CURRENT ACCOUNT	-95.93	31.33	-139.10	10.70	-76.44
Goods, Services and Income	-498.68	-446.06	-557.49	-502.50	-567.15
(a) GOODS	-951.87	-902.37	-990.51	-944.97	-919.90
Merchandise exports f.o.b.	1256.15	920.31	1060.65	992.00	1161.68
Merchandise imports f.o.b.	-2208.02	-1822.69	-2051.16	-1936.97	-2081.58
(b) SERVICES	-49.72	-43.52	-76.40	-68.38	-59.37
(c) INCOME	502.91	499.83	509.42	510.85	412.12
Labour	497.97	475.76	488.92	482.58	474.53
Other	4.94	24.07	20.5	28.27	-62.41
(d) CURRENT TRANSFERS	402.75	477.39	418.39	513.20	490.71
Government, net	393.55	473.19	398.38	496.66	474.17
SACU non-duty receipts	382.91	383.14	394.46	497.7	469.91
Other	1.44	90.05	3.92	-1.04	4.26
Other Sectors	9.20	4.20	20.01	16.54	16.54
II. CAPITAL AND FINANCIAL ACCOUNT	223.98	-15.24	277.65	-24.30	164.08
(e) CAPITAL ACCOUNT	24.00	54.60	36.00	34.50	8.20
(f) FINANCIAL ACCOUNT	199.98	-69.84	241.65	-58.80	155.88
Special Financing – LHWP	61.33	53.81	59.77	49.24	61.35
III. RESERVE ASSETS	-1.18	-119.83	-94.55	26.53	-86.90
IV. ERRORS AND OMISSIONS	0.81	-2.27	-44.22	-15.00	-12.00
V. VALUATION ADJUSTMENT	-127.68	106.01	0.21	2.06	11.26

* Revised estimates
\+ Preliminary estimates

Merchandise Trade

Exports

Merchandise exports increased during the review quarter compared with a decline in the previous quarter. In seasonally adjusted and nominal terms, they increased by 17.9 per cent following a decline of 12.6 per cent in the previous quarter. The increase was driven mainly by relatively higher sales of diamonds during the review period. The value of diamond exports during the review period increased by 75.4 per cent, from M95.5 million recorded in the third quarter, to M167.5 million.

Imports

Merchandise imports, in seasonally adjusted and nominal terms, decreased by 9.1 per cent during the quarter under review, compared with a positive growth rate of 0.8 per cent in the previous quarter. A decline in imports could be attributed to; firstly, lower imports of government motor vehicles and lower declarations at border posts. The value of declarations at border posts declined by 16.9 per cent from M1,129.8 million in the third quarter to M938.8 million in the quarter under review, largely as a result of under reporting at the border posts. Secondly, as explained under the government finance section, capital expenditure by Government declined by 16.2 per cent during the fourth quarter. This could have also led to decreased demand for imported input factors. However, in seasonally unadjusted terms, the value of imports increased by 7.7 and decreased by 5.5 during the fourth quarter, on quarterly and annual basis, respectively.

VALUE OF EXPORTS BY SECTION OF THE S.I.T.C.
(Million Maloti)

COMMODITY	2004		2005			
	III	IV	I	II	III*	IV+
0. Food & Live Animals	21.06	19.24	22.50	23.9	21.56	33.04
Cattle	3.15	3.13	2.13	2.22	1.83	1.79
Wheat Flour	6.65	5.72	8.97	9.72	6.64	8.33
Maize Meal	3.51	3.44	4.00	3.68	4.14	5.92
Other	7.75	6.95	7.40	8.29	8.95	17.00
1. Beverages & Tobacco	37.95	21.31	27.19	35.39	35.40	36.56
Beverages	37.95	21.31	27.19	35.36	35.36	36.39
2. Crude Materials	1.98	1.23	14.20	1.28	5.78	7.14
Wool	1.98	1.23	14.20	1.28	5.78	7.14
4. Chemicals	1.83	1.42	3.50	3.09	2.20	3.27
5. Manufactured Goods	233.06	329.16	153.23	236.21	105.36	194.63
6. Machinery & Transport Goods	68.80	68.94	64.80	58.23	92.21	113.91
7. Miscellaneous Manufactured Goods	1033.93	811.74	632.38	697.99	723.73	769.09
8. Unclassified Goods	3.46	3.10	2.36	4.34	5.76	4.04
TOTAL EXPORTS	1402.19	1256.15	920.31	1060.65	992.00	1161.68

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

Direction of Trade

North America still remained the largest recipient of Lesotho's exports. Among the exports to this region, 97.3 per cent was destined to the US and the remaining 2.7 per cent to Canada. However, the share of exports to the US decreased, from 66.05 per cent of total exports in the previous quarter to 57.9 per cent during the review period. Africa was the second largest consumer of Lesotho's exports at 27.4 per cent compared with 16.9 per cent in the previous quarter. SA continued to be the largest recipient of Lesotho's exports within the SACU region. Irrespective of the increase in the diamonds exports to the European market during the quarter under review, the share of exports to Europe declined from 16.3 per cent to 14.5 per cent in December 2005, with

Belgium continuing to be the largest recipient of Lesotho's diamond exports. The proportion of exports to Asia continued to remain negligible at 0.2 per cent.

DIRECTION OF TRADE - EXPORTS AND RE-EXPORTS, f.o.b.

(Million Maloti)

REGION	2005							
	QI AMOUNT	% SHARE	QII* AMOUNT	% SHARE	QIII* AMOUNT	% SHARE	QIV+ AMOUNT	% SHARE
World	920.31	100	1060.65	100	992.00	100	1161.68	100
Africa	146.75	15.96	183.09	17.26	168.11	16.95	314.68	27.09
SACU	117.80	12.80	155.10	14.62	136.85	13.80	303.89	26.16
SADC	1.89	0.21	1.76	0.17	0.46	0.05	0.43	0.04
Other	27.06	2.94	26.23	2.47	30.80	3.10	10.36	0.89
Europe	147.73	16.05	231.46	21.82	161.98	16.33	169.23	14.57
EC	147.73	16.05	231.46	21.82	161.98	16.33	169.23	14.57
America	622.87	67.68	644.46	60.76	655.26	66.05	675.22	58.12
Asia	2.96	0.32	1.64	0.10	6.65	0.67	2.55	0.22

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

Figure 5

Labour Income

Labour income, seasonally adjusted, registered a decline of 0.2 per cent in the review quarter following a drop of 3.1 per cent in the previous quarter. Similarly, in unadjusted terms, it fell both on quarterly and annual bases. It fell by 1.7 per cent and by 4.7 per cent on quarterly and annual bases, respectively. This decline could be attributed mainly to the persistent decline in miners' remittances. During the review quarter, miners' remittances fell by 2.2 per cent following a decline of 1.8 per cent in the third quarter. As earlier mentioned, the number of Basotho workers in SA mines was estimated to decline from 51989 in the third quarter to 50835 workers in the fourth quarter.

Prospects for improvement of labour income in the short to medium term on the one hand remained bleak as the SA mining companies' earnings declined on account of, among other factors, the strong rand. The SA mining companies trade in US dollars and get their earnings in rand terms, hence movements in exchange rate, could lead to losses or gains in profitability. Since these companies generally incur their costs in rand terms, the strength of the rand may hamper mining operation costs, and hence the number employed. On the other hand, the high price of gold if sustained can mitigate the effect of reduced earnings emanating from a strong currency. The reduction in labour income as a result could contribute to the deterioration in the current account of the BOP.

Investment Income

Inflows of investment income grew at a lower rate of 2.3 per cent in the quarter under review compared with 28.5 per cent in the previous quarter. Interest earned by CBL increased by 5.2 per cent from M51.5 million in the previous quarter to M54.2 million, while interest income earned by the commercial banks decreased by 2.4 per cent. The overall growth in investment inflows was partly attributable to changes in the investment structure of CBL's portfolio reserves. In addition, investment income benefited from revaluation gains due to the depreciation of the local currency against major currencies, such as the US dollar in particular.

Investment income outflows rose from M56.6 million in the third quarter to M149.2 million in the quarter under review. The observed increase arose mainly due to accelerated payment of one of the non-concessional loans, which therefore attracted some other charges.

Travel

The country's travel receipts decreased by 2.5 per cent during the review quarter compared with an increase of 4.2 per cent in the previous quarter. The slowdown in travel earnings in the review period continued to be driven mainly by personal expenditure by expatriates, which declined by 43 per cent during the quarter under review.

Travel payments fell by 1.7 per cent during the quarter under review, following an increase of 4.8 per cent in the previous quarter. This resulted mainly from decreased expenditure by the Government on its international subsistence allowance. Expenditures by Basotho students abroad, both government and private funded decreased. The former declined reflecting the seasonal payment structure of the National Manpower Development Secretariat (NMDS) to the SA learning institutions such as universities during the previous quarter.

Current Transfers

Net current transfers, in seasonally adjusted and nominal terms, fell by 4.0 per cent during the review period compared with an increase of 24.3 per cent in the previous quarter. On annual basis, they rose by 21.4 per cent. The observed quarterly decline was largely a reflection of the fall in the SACU non-duty receipt.

Capital and Financial Account

The capital and financial account improved from a net outflow of M24.3 million in the third quarter to a net inflow of M164.1 million during the quarter under review. Excluding the Lesotho Highlands Water Project (LHWP), the capital and financial account registered a surplus of M102.7million from a deficit of M73.5 million in the review quarter. This was on the back of the decrease in repayments of official loans from M181.6 million in the previous quarter to M57.5 million in the quarter under review. Grants in government budget also declined significantly by 76.2 per cent from M34.5 million in the third quarter to M8.2 million in the fourth quarter. The decline in grants is attributable to completion of construction of schools and the new national library building.

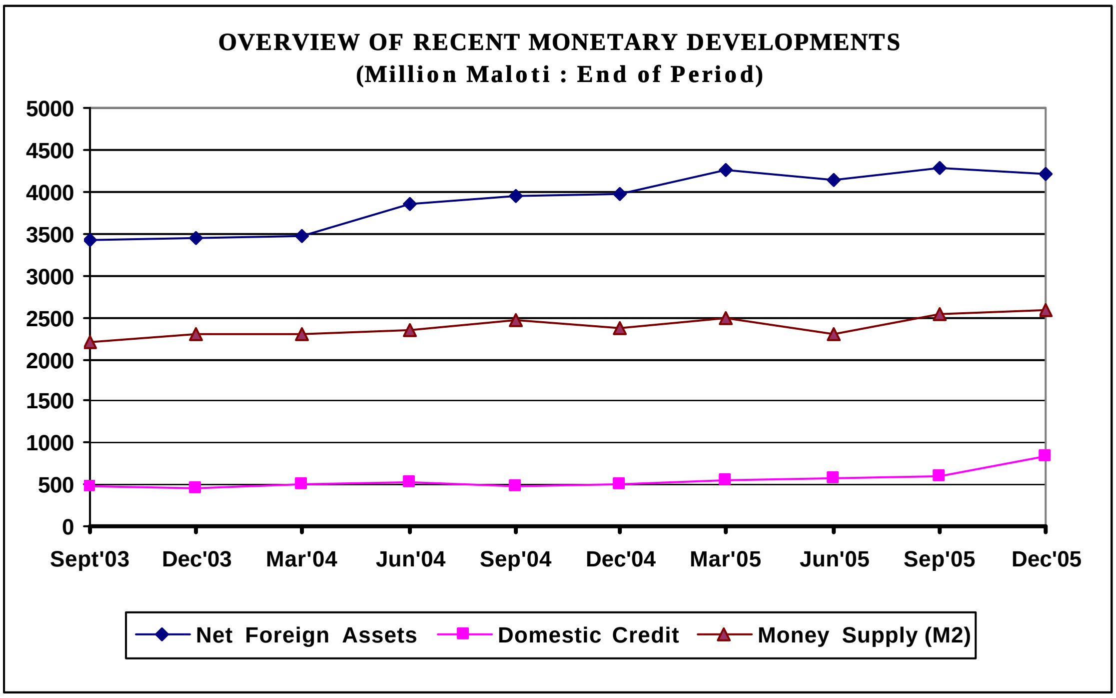
VII. Money and Banking

Money Supply

Determinants of Money Supply

At the end of the review quarter, the broad measure of money supply (M2) registered a quarterly increase of 1.8 per cent compared with a rise of 9.6 per cent registered at the end of September. On an annual basis, money supply rose by 9.1 per cent following a slower 2.8 per cent growth reported at the end of the previous quarter. The growth in money supply was at the back of a growth in domestic credit which overshadowed a slight fall in net foreign assets adjusted for valuation changes.

Figure 6



DETERMINANTS OF MONEY SUPPLY

(Million Maloti; Changes)

Determinants	2004		2005			
	Sep	Dec	Mar	Jun	Sep	Dec
Net foreign assets	180.7	-67.0	293.9	-115.3	144.8	-84.6
Domestic credit	-42.0	32.3	44.7	9.7	32.1	229.7
To statutory bodies	-5.8	4.5	10.7	-8.3	-7.8	-13.3
To private sector	-36.3	27.8	34.0	18.0	39.9	243.0
Other items, net	17.8	66.5	255.9	25.4	-46.6	99.5
Money Supply (M2)	120.8	-101.2	78.8	-130.9	223.5	45.6

Components of Money Supply

Money supply in Lesotho comprises Narrow money (M1) and quasi money. The narrow money increased by 4.2 per cent at the end of the review quarter compared with a rise of 16.0 per cent registered at the end of September. Conversely, quasi money fell by 3.5 per cent in December following a 2.3 per cent decline registered at the quarter ending September. The increase in narrow money mostly reflected a 6.9 per cent rise in demand and call deposits while the fall in quasi money was largely driven by a decline of 3.1 per cent and 4.1 per cent in savings and time deposits, respectively. The observed shifts in deposits categories indicate that costs incurred to hold money for transactional purposes are lower than those resulting from maintaining either savings or time deposits in view of the low real return and operational charges. Thus it was deemed viable to hold liquid assets during the review quarter.

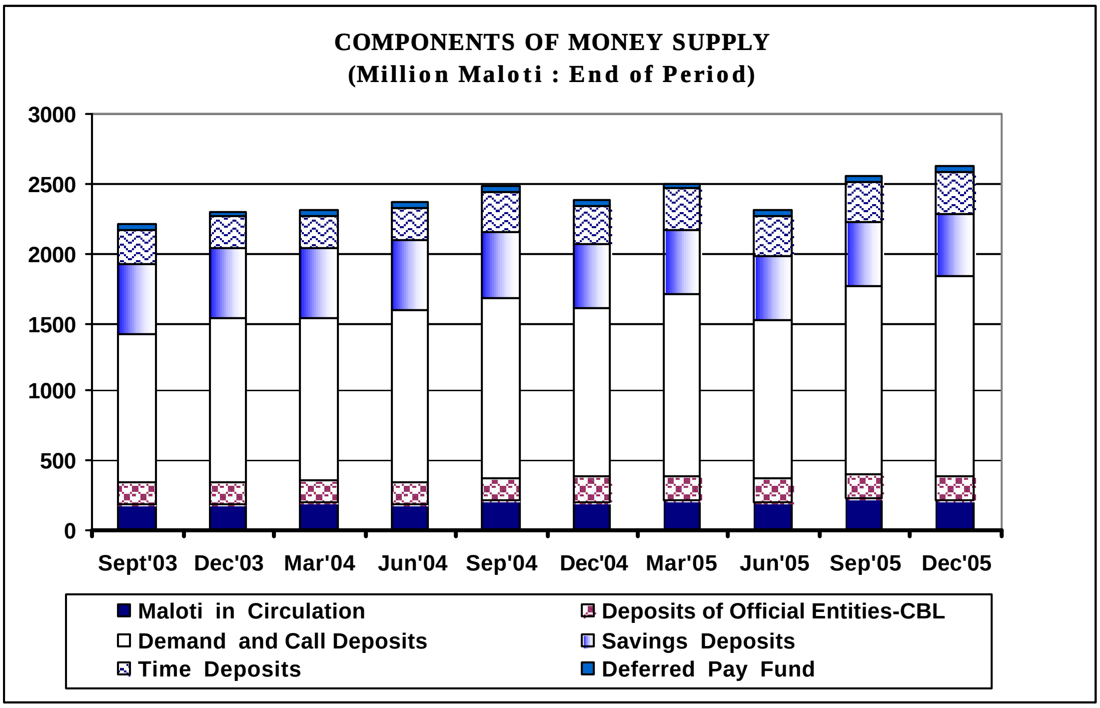
MONEY SUPPLY
(Million Maloti; End of Period)

	2004		2005			
	Sep	**Dec**	**Mar**	**Jun**	**Sep**	**Dec**
Money Supply (M2)	2474.3	2373.0	2451.8	2320.9	2544.4	2590.0
Money (M1)	1662.6	1589.4	1698.4	1514.2	1790.1	1760.8
Maloti with public	219.6	204.5	212.6	202.5	232.0	212.8
Demand deposits(1)	1283.9	1209.0	1308.9	1135.3	1347.4	1440.0
Deposits of official Entities with CBL	159.0	175.9	176.9	176.4	176.7	176.7
Quasi-Money	811.7	783.6	753.4	806.7	788.3	760.5
Savings deposits	480.9	463.4	453.2	453.4	451.1	437.1
Time deposits	330.9	320.3	300.2	353.3	337.2	323.4

(1)– includes call deposits

NB: Totals may not tally due to rounding off

Figure 7



Commercial Banks' Deposits by Holder

Savings mobilisation is one of the vital arms of the financial intermediation process. Mobilised resources are important in financing investment in the economy. In Lesotho, total deposits comprise the private sector, statutory bodies, and migrant mineworkers' deferred pay fund. During the quarter under review, total deposits rose further by 3.0 per cent following a 10.0 per cent increase observed at the end of the previous quarter. From the table below, it can be observed that the main driver of the rise was an increase in deposits held by statutory bodies which soared by 18.8 per cent during the review quarter. Private sector deposits decreased by a small 0.7 per cent due to a decline of 3.1 per cent in savings and time deposits, respectively. In addition, deferred pay fund decreased by 5.1 per cent in contrast to an 11.2 per cent increase registered at the end of September.

COMMERCIAL BANKS DEPOSITS BY HOLDER
(Million Maloti; End of Period)

	2004		2005			
	Sep	**Dec**	**Mar**	**Jun**	**Sep**	**Dec**
TOTAL DEPOSITS	2084.4	1981.1	2050.3	1930.1	2123.7	2188.4
Private Sector	1698.9	1628.9	1672.1	1543.7	1667.1	1655.7
Demand deposits	1027.6	968.4	1031.2	871.4	1014.8	1025.0
Savings deposits	480.8	463.3	453.2	453.4	451.1	437.1
Time deposits	190.5	197.2	187.6	219.0	201.2	193.7
Statutory Bodies	337.5	313.3	348.5	349.7	415.9	494.0
Deferred Pay Fund	48.0	38.9	29.8	36.7	40.8	38.7

NB: Totals may not tally due to rounding off

Liquidity of Commercial Banks

The liquidity of commercial Banks is measured by the ratio of all their assets that could be easily converted into cash, including investment with maturities of less than twelve months at issue, to all their deposit liabilities. The ratio declined from 78.5 per cent in September to 73.7 per cent in December. It thus reflected a relatively stable commercial banks' liquidity position. It could be deduced from the fall in the ratio that banks were holding a relatively smaller amount of assets with relatively shorter maturities during the review period compared with their holding last quarter in favour of credit extension.

COMPONENTS OF COMMERCIAL BANKS' LIQUIDITY

(Million Maloti; End of Period)

COMPONENT	2004		2005			
	Sep	Dec	Mar	Jun	Sep	Dec
Maloti Notes and Coins	43.8	52.4	57.9	58.3	57.1	85.2
Rand Notes and Coins	7.2	7.7	10.5	9.4	9.1	20.3
Balances due from Lesotho Banks	410.1	616.4	824.6	606.3	793.6	741.4
Balances due from Foreign Banks	839.4	818.4	1127.1	974.5	1152.2	1051.9
Clearing Balances with CBL	3.6	32.6	73.2	12.2	63.2	70.7
RSA Short-term Securities	0.0	0.0	0.0	0.0	0.0	0.0
CBL Bills	0.0	0.0	0.0	0.0	0.0	0.0
Lesotho Government Securities	467.9	427.7	196.6	376.9	378.9	383.3

The credit deposit ratio is an important measure of the depth of financial intermediation in the economy. This ratio seeks to establish the extent to which banks attempt to channel deposits mobilised from surplus sectors in the economy to deficit sectors. The ratio rose from 27.2 per cent in September to 36.9 per cent in December implying that banks extended more credit in the latter period than in the former. Furthermore, in line with the foregoing discussion on commercial banks' liquidity, it is evident that the fall in the liquidity ratio augured well for credit extension in the economy. Nonetheless, this development must be sustained in order to ultimately impact positively on economic growth.

CONSOLIDATED BALANCE SHEET OF COMMERCIAL BANKS

(Million Maloti; End of Period)

	2004		2005			
	Sep	Dec	Mar	Jun	Sep	Dec
Net foreign assets	1146.7	1117.9	1306.2	1150.1	1310.3	1135.0
Deposits with CBL	84.6	114.8	168.5	96.3	159.6	247.3
Credit:	461.9	494.2	538.2	547.6	578.0	807.2
o/w: Statutory Bodies	47.7	52.2	62.8	54.5	46.7	33.4
Private Sector	414.2	442.0	475.4	493.1	531.3	773.8
Government:	584.5	543.4	273.2	453.2	455.2	462.1
o/w: Securities	582.5	542.4	272.3	452.5	454.5	461.6
Loans and Advances	2.0	1.1	1.0	0.6	0.7	0.5
ASSETS/LIABILITIES	2356.8	2270.2	2282.2	2247.3	2503.2	2651.1
Private sector deposits (2)	2084.4	1981.1	2050.3	1930.1	2123.7	2188.4
Government deposits	57.9	57.8	87.5	77.1	140.4	171.9
Capital, reserves & other, net	214.8	231.3	148.2	240.1	239.1	290.8

(2) – includes statutory bodies' deposits and deferred pay fund.

Demand for Money

Domestic Credit

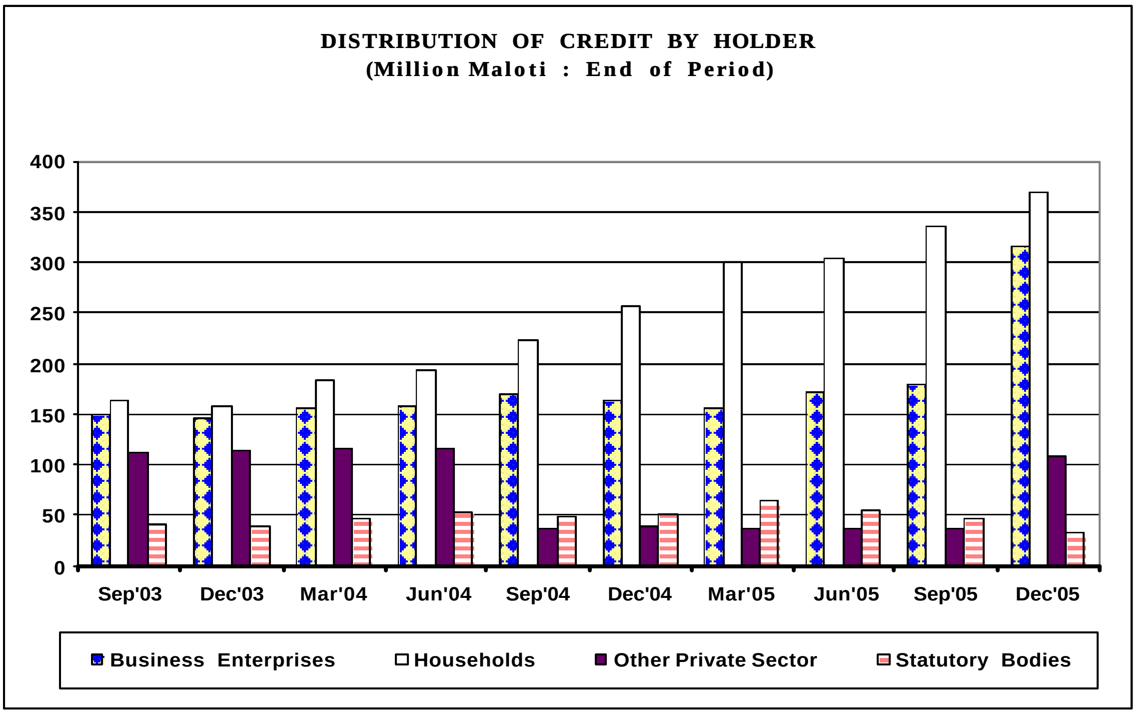
Domestic credit increased further by a considerable 38.5 per cent during the quarter under review following a 5.7 per cent increase noted at the end of the previous quarter. The increase was mainly due to a rise in credit extended to the private sector which offset the decrease in credit extended to statutory bodies. The private sector continued to benefit from the low cost of borrowing in the economy as a result of the low interest rates. On an annual basis, domestic credit was observed to rise further by a significant 61.9 per cent following an increase of 24.8 per cent registered at the end of September.

DOMESTIC CREDIT
(Million Maloti; End of Period)

	2004		2005			
	Sep	Dec	Mar	Jun	Sep	Dec
DOMESTIC CREDIT	478.2	510.4	555.1	564.8	596.9	826.6
Credit to private sector	430.5	458.3	492.3	510.3	550.2	793.3
Business enterprises*	170.7	162.7	155.5	171.1	179.1	316.6
Households	223.8	256.8	300.8	303.2	335.1	369.3
Others	36.0	38.8	36.0	36.0	36.0	107.4
Credit to statutory bodies	47.7	52.2	62.8	54.5	46.7	33.4

* This amount excludes credit to business enterprises extended by old Lesotho Bank

Figure 8



Credit to Private Sector

Credit to the private sector improved by a huge 44.2 per cent in December compared with 7.8 per cent increase observed at the end of September. The rise resulted from a massive increase of 76.7 per cent in credit extended to businesses as well as a 10.2 per cent increase in credit extended to households. The continued strong performance in credit extended to the private sector reflected lower borrowing costs for this sector as lending rates remained low during the review period.

During the period under review, private sector credit rose further by a significant 61.9 per cent on an annual basis compared with 24.8 per cent reported at the end of the September quarter. It could be highlighted that despite the sizeable rise in credit extended to business enterprises, a larger portion of the funds was still granted to households. The share of credit to households in total private sector credit fell from 60.9 per cent in September to 44.6 per cent in December. However, the share of credit to business enterprises increased from 32.6 per cent in September to 39.9 per cent during the review period. Thus, it should be noted that, although credit extended to households was still greater than that granted to businesses in absolute terms, the latter increased its share significantly.

Credit to Statutory Bodies

In line with the expectation that credit to statutory bodies would continue to shrink as a result of the on-going privatisation process in the medium to long-term, it declined further by 28.5 per cent in December, compared with a decrease of 14.4 per cent registered in September. In addition, credit to this sub-sector declined by 36.0 per cent on an annual basis following a 2.1 per cent fall documented at the end of September.

Sectoral Distribution of Credit to Business Enterprises and Statutory Bodies

The analysis of the distribution of credit provides a clear picture of which sectors in the economy benefit more from the pool of loanable funds. Hence, depending on the contribution of each sector to GDP growth, the analysis reveals the extent of financial deepening in the economy. Total credit distributed to all business-oriented sectors of the economy, including official entities, but excluding non-performing loans, increased by 55.1 per cent in December as opposed to a small decrease of 0.1 per cent reported in September. The hike in total credit during the quarter under review was largely attributable to an enormous increase in credit extended to other development, construction and other services sub sectors.

Credit allocated to other development sectors (made up of wholesale agriculture, storage, electricity, transport and communication) increased significantly by M125.0 million, which represented a considerable 1160.0 per cent in December, compared with a rise of

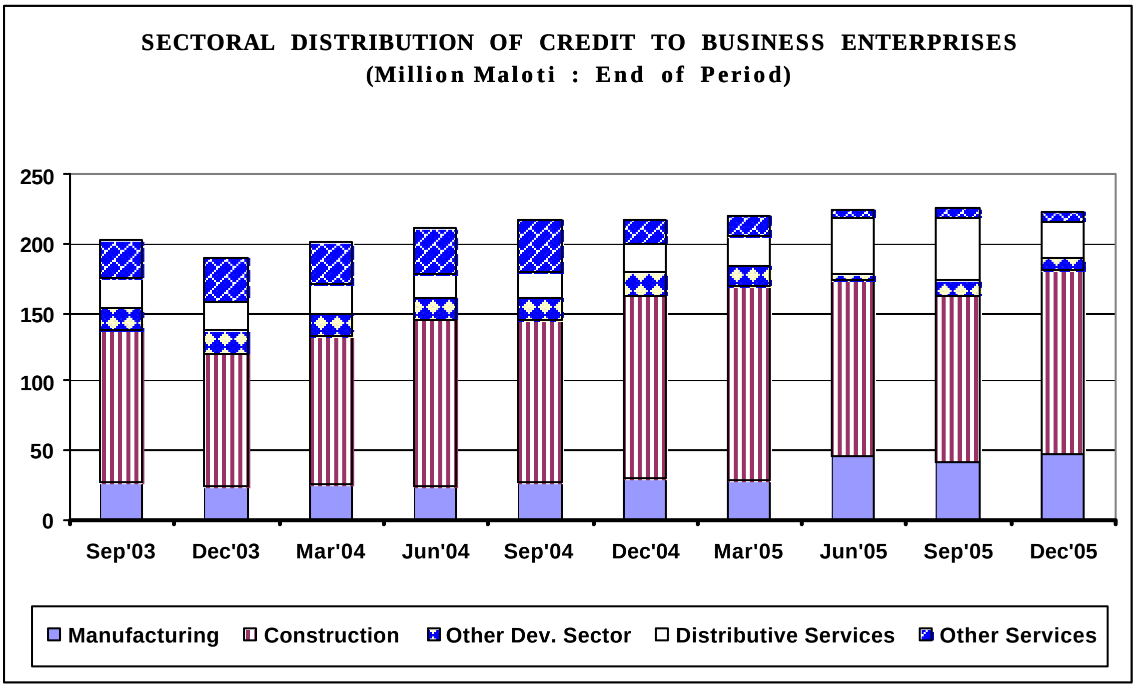
119.0 per cent reported at the end of September. This reflected a potential for increased activity in this sub sector particularly in the communication sub sector which benefited from this allocation. This increase in credit was the main driver of the rise in domestic credit in the economy.

SECTORAL DISTRIBUTION OF CREDIT TO ENTERPRISES
(Million Maloti; End of period)

SECTOR	2004		2005			
	Sep	Dec	Mar	Jun	Sep	Dec
Manufacturing	26.2	29.3	28.2	46.0	41.3	47.8
Construction	117.5	132.5	140.0	126.8	121.0	132.6
Other development sectors	17.6	16.7	14.3	4.9	10.7	135.2
Distributive services	18.1	20.9	20.7	42.2	46.5	27.5
Other services	39.0	18.1	15.1	6.0	6.1	6.9
All sectors*	218.4	217.4	218.3	225.9	225.7	350.0

*This amount excludes loans granted to business enterprises by old Lesotho Bank

Figure 9



Net Claims on Government

The quarter under review saw the banking system's net claims on Government plummet by 5.2 per cent following an increase of 5.8 per cent. The decrease was mainly driven by an increase in government deposits with commercial banks in order to provide for funds for project implementation during the review quarter. As a result, as demonstrated by the table below, net claims by the commercial banks decreased by 8.0 per cent compared with 16.3 per cent decline recorded in September. Furthermore, net claims by the Central bank also fell by 1.7 per cent in December against 1.1 per cent registered at the end of September.

BANKING SYSTEM'S NET CLAIMS ON GOVERNMENT
(Million Maloti; End of Period)

Holder	2004		2005			
	Sep	Dec	Mar	Jun	Sep	Dec
Commercial banks	526.6	485.7	185.7	376.1	314.9	289.8
Claims on Government	584.5	543.4	273.2	453.2	455.2	461.6
o/w MP T Bills (3)	*467.9*	*427.7*	*196.6*	*374.8*	*386.2,*	*359.9*
Less Government deposits	57.9	57.8	87.5	77.1	140.4	171.9
Central Bank of Lesotho	-1099.5	-1228.3	-1143.8	-1193.3	-1179.8	-1199.9
Claims on Government(4)	198.7	183.5	197.8	237.6	226.3	222.2
Less Government deposits	1298.2	1411.8	1341.6	1430.9	1406.2	1422.0
o/w those in blocked acct.	*533.3*	*536.3*	*292.3*	*478.72*	*484.2*	*519.6*
TOTAL NET CLAIMS	-572.9	-742.7	-958.1	-817.2	-865.0	-910.1

(3) – 'o/w' means of which and 'MP T Bills' means monetary policy treasury bills
(4) – IMF loans on-lent to the GOL

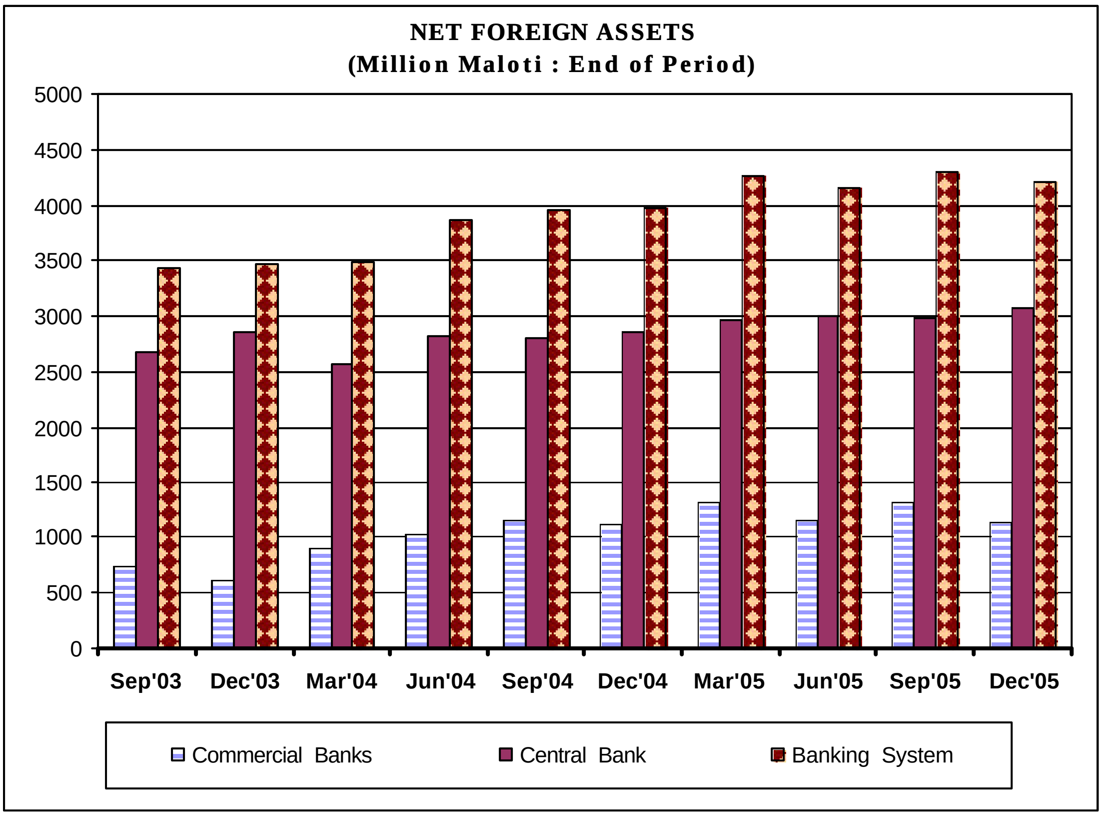
Net Foreign Assets

The banking system's Net Foreign Assets (NFA) decreased by 2.0 per cent in December. The decrease mainly reflected a faster decline in commercial banks' NFA which surpassed an increase in CBL's NFA. The commercial banks' foreign assets declined by 13.4 per cent due to a transfer of funds abroad in order to fund a huge loan granted in favour of the communications sub sector.

BANKING SYSTEM'S FOREIGN ASSETS AND LIABILITIES
(Million Maloti; End of Period)

Holder	2004		2005			
	Sep	Dec	Mar	Jun	Sep	Dec
A. Commercial Banks	1225.8	1117.9	1306.2	1150.2	1310.3	1135.0
Foreign Assets	1319.7	1253.8	1409.7	1274.3	1388.6	1241.8
Foreign Liabilities	-93.9	-135.9	-103.5	-124.1	-78.3	-106.9
B. Central Bank of Lesotho	2813.5	2854.5	2960.1	3000.9	2985.5	3076.2
Foreign Assets	3350.3	3351.5	3471.4	3566.0	3539.3	3625.6
Foreign Liabilities	-536.8	-497.0	-511.3	-565.1	-553.8	-549.3
NET TOTAL	4039.4	3972.4	4266.3	4151.0	4295.8	4211.2

Figure 10



VIII. Money and Capital Markets

Money Market Developments

One of the key objectives of CBL's monetary policy is to maintain favourable liquidity conditions in the economy. This objective is achieved through employment of Open Market Operations (OMOs). Three 91-day treasury bill auctions to the tune of M450.0 million, were undertaken to achieve monetary policy goals. In addition, M20 million worth of 182-day treasury bills were offered to encourage investment by all members of the public. Total holdings of treasury bills undercut September's total of M534.7 million, recording a decrease of 0.8 per cent, to M530.2 million for the quarter ending December.

Treasury bills in December were held by commercial banks, Non-Bank Financial Institutions (NBFI's), and other institutions. The banking sector continued to dominate the market by holding more securities than the NBFI's. The share of NBFI's increased to 20.4 per cent of the total in December following that of 16.8 per cent reported in September. The commercial banks' share rose from 72.2 per cent in September to 73.2 per cent during the review period. The general public controlled an 11.7 per cent share in December compared with 11.0 per cent in September.

HOLDINGS OF TREASURY BILLS (5)
(Million Maloti)

Holders Type	2004		2005			
	Sep	Dec	Mar	Jun	Sep	Dec
Total	**535.1**	**532.2**	**300.0**	**489.5**	**534.7**	**530.2**
Banking System	415.2	427.9	196.6	374.8	386.2	359.9
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0
Commercial Banks	415.2	427.9	196.6	374.8	386.2	359.9
Non-Bank Sector	119.9	104.4	103.4	114.7	148.6	170.3
NBFIs	68.9	33.9	45.7	77.3	89.8	108.3
Others	51.0	70.5	57.7	37.4	58.8	62.0
Memorandum Item						
Average Yield per cent	8.27	8.26	8.11	7.25	7.21	7.27

(5) – Figures at face value

Money Market and Short-term Interest Rates

As a signal of financial stability, movements in the Lesotho 91-day treasury bill rate continued to be in line with the general trend of rates in the region. The 91-day treasury bill rate fell by 6 basis points in December from its September level of 6.89 per cent to 6.95 per cent. The margin between the two rates widened from 10 to 15 basis points. As usual the local rate continued to hover above its South African counterpart.

The prime lending rate in the country stayed unchanged at 11.5 per cent in line with the overall tide of the money market prices in the region. In addition, the margin between this rate and the similar South African rate remained 100 basis points in December.

The average deposit rates remained constant and the spread between lending and deposit rates continued to be large. The magnitude of the spread reflected the efficiency of financial intermediaries in the economy. As such, a high spread could be linked to relative inefficiency. However, at the end of December, real interest rate on a 1 year deposit (adjusted for inflation) turned positive at 1.55 per cent. This simply meant that the return on deposits could, to some extent, protect the banking public against the loss of their purchasing power.

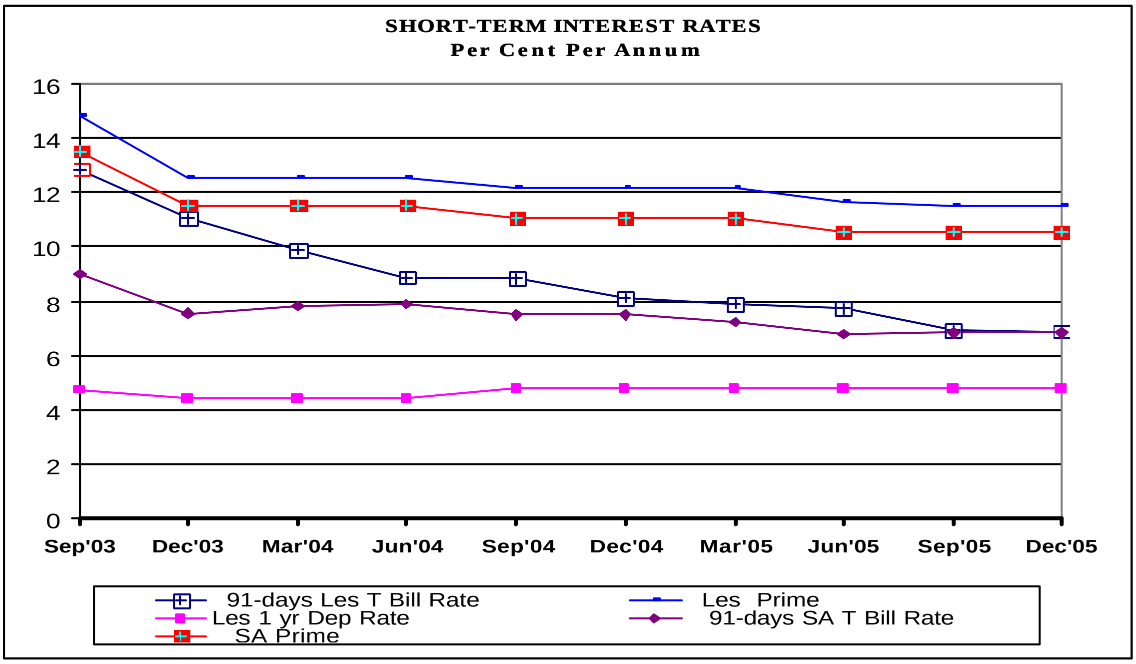
MAJOR MONEY MARKET INTEREST RATES
(Per cent; End of Period)

Interest Rates by Type	2004		2005			
	Sep	Dec	Mar	Jun	Sep	Dec
Central Bank						
T Bill Rate – 91 Days	8.10	7.86	7.72	6.93	6.89	6.95
Lombard Rate	13.00	13.00	13.00	13.00	13.00	13.00
Commercial Banks(6)						
Call	3.25	3.25	3.25	2.83	2.83	2.83
Time						
31 days	3.10	3.10	3.50	3.50	3.50	3.50
88 days	4.15	4.15	4.25	4.25	4.25	4.25
6 months	3.65	3.65	4.50	4.50	4.50	4.50
1 year	4.74	4.74	4.75	4.75	4.75	4.75
Savings	1.35	1.35	2.00	2.00	2.00	2.00
Prime	12.17	12.17	12.17	11.50	11.50	11.50
South Africa*						
Repo	7.50	7.50	7.50	7.00	7.00	7.00
T Bill Rate – 91 Days	7.49	7.49	7.17	6.76	6.79	6.80
Marginal Lending Rate	12.50	12.50	12.50	12.00	12.00	12.00
Prime	11.00	11.00	11.00	10.50	10.50	10.50

* Figures for South Africa were obtained from the SARB

(6) - Average rates by commercial banks

Figure 11



Foreign Exchange Rates

The rand, and therefore the loti was rather strong during the fourth quarter of 2005. On average, the local currency unit appreciated by 1.2, 2.1 and 1.6 per cent against the SDR, the euro and the pound sterling, respectively. However, it depreciated by 0.4 per cent against the US dollar.

On the one hand, several reasons were advanced for the weakening of the rand against the US dollar during the review quarter. The continuous increase in interest rates in the US during the quarter under review resulted in the revision of investment portfolios by the investors and therefore they switched away from gold denominated assets. As the demand for gold declined, the demand for rand and therefore its value also fell.

On the other hand, a number of factors continued to support the rand against other major currencies such as the SDR, euro and UK pound sterling. Mainly, the interest rates in SA remained relatively high compared to the world's major economies. This continued to enhance the attractiveness of rand denominated assets and therefore attracted portfolio investment flows into SA market. High metal prices, particularly gold, as mentioned under commodity prices analysis in section II, as well as stronger economic growth prospects in SA also contributed to the strengthening of the loti against these major currencies.

The depreciation of the rand, against the US dollar has some implications for the Lesotho economy since the loti is pegged at par to the rand. On the one hand, it improves the price competitiveness of the country's exports in foreign markets, particularly in the US, where the bulk of Lesotho's exports are destined. This, in turn, impacts positively on export earnings and therefore manufacturing production. On the other hand, it increases the cost of dollar denominated imports and thus increases inflationary pressure.

The appreciation of the loti, however, against the SDR, euro and pound sterling reduces the price competitiveness of the country's exports in those countries. This in turn, impacts negatively on Lesotho's exports earnings and therefore diamond exports. As already mentioned in section II, diamond exports are destined to the European markets. On the other hand, the appreciation of the loti reduces the cost of foreign currency denominated imports, and thus eases inflationary pressures.

SELECTED EXCHANGE RATES
(Loti per Currency units; Quarterly Averages)

Currency	2004		2005			
	Sep	Dec	Mar	Jun	Sep	Dec
SDR	9.347	8.778	9.154	9.584	9.512	9.398
EURO	7.788	7.665	7.874	8.077	7.937	7.772
USD	6.373	5.707	6.009	6.425	6.510	6.538
POUND STERLING	11.580	10.999	11.358	11.909	11.611	11.427

IX. Government Finance

Summary of Budget Outturn

During the quarter ending December 2005, preliminary estimates on the budget outturn indicated a deficit equivalent to 0.1 per cent of GDP. This resulted from increased government expenditure mainly due to a penalty levied on the accelerated payment of a foreign loan. This was in contrast to the surplus of 6.8 per cent of GDP in the previous quarter. The deficit was also attributed to a fall in revenue while expenditure surged. Total revenue and grants were estimated to decrease by 3.7 per cent.

Overall government expenditure and net lending rose by 11.7 per cent, as a result of the increase in recurrent expenditure. As a percentage of total expenditure, capital expenditure stood at 13.0 per cent, while recurrent expenditure constituted 87.0 per cent. This continued to reflect the need for a better balanced resource allocation, because economic development benefits more from capital than recurrent expenditure.

Revenue

The third quarter saw a marginal decline of 3.7 per cent in total Government revenue, including grants. This was mainly attributed to the fall in non-customs revenue, as well as a drop in capital grants. As a percentage of GDP, total revenue and grants fell to 48.3 per cent from 50.1 per cent realised in the previous quarter.

Tax revenue was estimated to decrease slightly by 0.2 per cent from the previous period. This emanated primarily from the decrease in non-customs revenue, which fell by 0.4 per cent during the period under review. Revenue from value added tax (VAT) increased by 5.5 per cent during the review period. The increase in tax collections reflected festive season activities coupled with the LRA's continued efforts to enhance revenue collections through tax payer education. Income tax collections for the review period grew marginally by 0.9 per cent.

SACU receipts maintained the previous period's level and continued to dominate tax revenue during the period under review. This took into account the intra SACU trade, excise duties, and domestic economic developments. SACU receipts constituted 59.9 per cent of total tax receipts during the review period. Income tax and VAT contributed 22.8 per cent and 16.6 per cent, respectively to tax revenue. The extensive reliance on SACU continued to expose Lesotho to the fiscal risk posed by the possible reductions in receipts from this source of revenue.

Non tax revenue was estimated to decline by 13.2 per cent during the period under review. This was primarily due to a fall in other property income, as well as, the decrease in administrative fees. Grants, which are normally used to finance development projects, were also estimated to decline by 76.2 per cent. This was in line with completion of construction of schools and the new library building.

GOVERNMENT BUDGETARY OPERATIONS

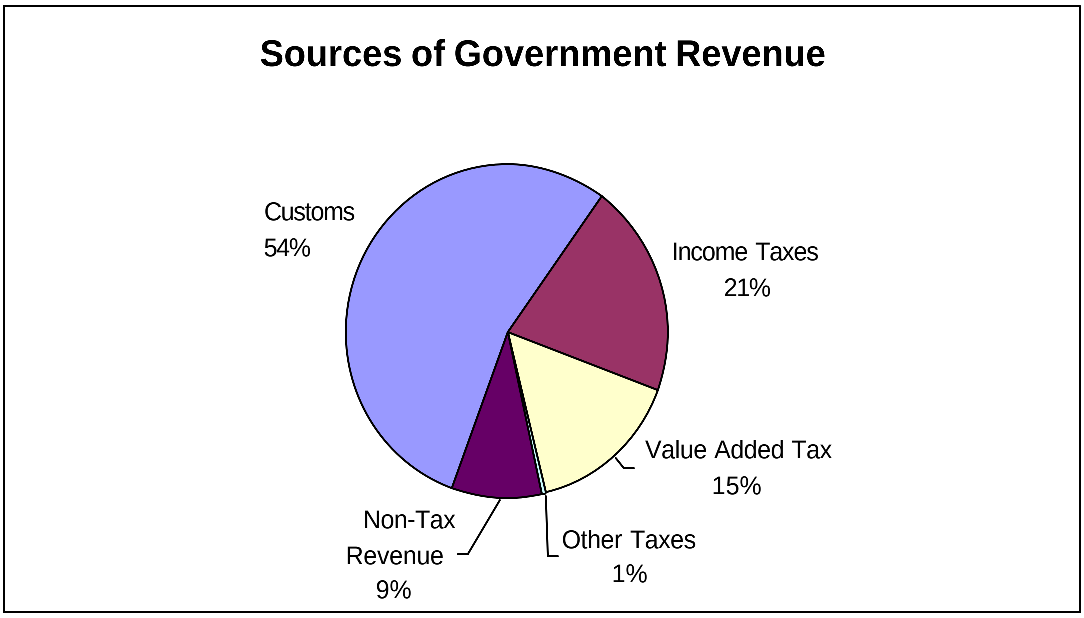
(Million Maloti)

DETAILS	2004/05		2005/06		
	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep Revised	Oct-Dec ?
Total Revenue and Grants	**1081.7**	**1081.8**	**1019.4**	**1174.6**	**1131.4**
Total Revenue	1057.7	1027.2	983.5	1140.1	1123.2
Tax Revenue	954.7	920.1	898.7	1024.8	1023.1
Customs	503.1	503.1	496.0	603.3	603.3
Non-customs	451.5	417.0	402.7	421.4	419.8
Income Taxes	248.8	226.5	227.3	227.6	229.6
Taxes on goods & services	201.4	185.8	163.4	172.7	182.8
Other Taxes	1.3	4.7	11.9	21.1	7.3
Non-Tax Revenue	103.1	107.1	84.8	115.3	100.1
Of which: Water royalties	49.0	41.3	43.7	66.5	63.6
Grants	**24.0**	**54.6**	**36.0**	**34.5**	**8.2**
Total Expenditure & Net Lending	**873.0**	**822.0**	**1058.8**	**1015.4**	**1134.0**
Recurrent Expenditure	735.5	698.7	884.4	835.9	986.9
Personnel Emoluments	295.3	298.6	309.7	313.1	318.7
Interest Payments	33.0	40.8	28.9	40.2	130.6
Foreign	19.4	24.9	21.5	22.5	119.5
Domestic	13.6	15.9	7.4	17.7	11.1
Other Expenditure	407.2	359.3	545.8	482.6	537.7
Capital Expenditure	112.9	123.3	175.6	179.6	150.5
Net Lending	24.6	0.0	-1.2	0.0	-3.4
Surplus/deficit before grants	184.7	205.2	-75.4	124.6	-10.8
Surplus/deficit after grants	208.7	259.8	-39.4	159.2	-2.6
Financing	-208.7	-259.8	39.4	-159.2	2.6
Foreign	-17.3	-39.8	-83.0	-143.0	-29.6
Loan drawings	38.5	28.5	32.1	38.6	27.9
Amortization	-55.8	-68.3	-115.1	-181.6	-57.5
Domestic	-191.4	-220.1	122.4	-16.2	32.2
Bank Financing	-172.3	-213.1	107.9	-47.8	-45.1
Non – Bank	-19.1	-7.0	14.5	31.6	77.3

Source: Ministry of Finance

*CBL Preliminary Estimates

Figure 12



Expenditure

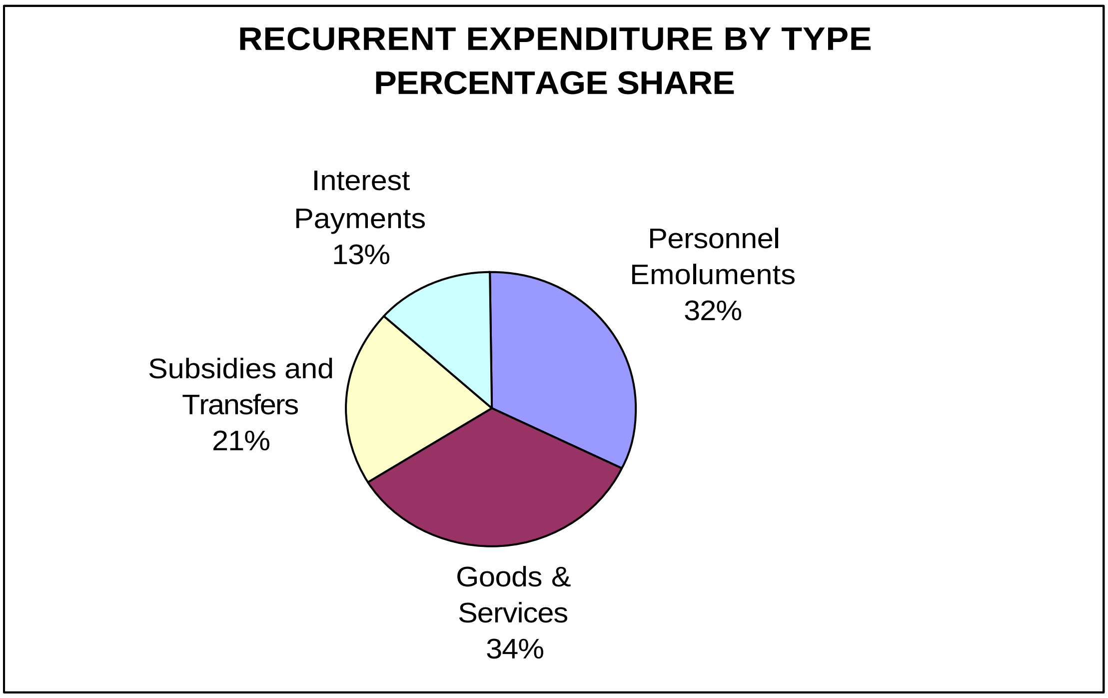
A nominal growth of 11.7 per cent in total expenditure and net lending, was estimated during the quarter ending in December 2005. As a percentage of GDP, they rose by almost 510 basis points from 43.4 per cent in the previous quarter to a level equivalent to 48.4 per cent of GDP. The growth was attributed to the rise in recurrent expenditure, which was estimated at18.1 per cent.

The increase in recurrent expenditure was largely driven by the hike in purchases of goods and services, which included subsidies and transfers, plus interest payments. The expenditure on goods and services increased by 11.4 per cent during the quarter ending in December 2005. Interest payments increased rapidly by 224.5 per cent during the review period. This was mainly due to penalties on the accelerated payment of one of the non-concessional loans. Domestic interest payments were estimated to be significantly lower than in the last quarter.

The level of subsidies and transfers extended during the review period declined by 18.6 per cent. This comprised subventions destined to public institutions, plus scholarships for students studying abroad, which fell by 23.6 per cent. Spending on pensions and gratuities fell by 6.7 per cent.

Capital expenditure was estimated to decline by 16.2 per cent on a quarterly basis. Government of Lesotho funded 76.0 per cent of capital expenditure; while those financed from external loans and grants accounted for 18.5 per cent and 5.5 per cent, respectively.

Figure 13



Financing

The fiscal operations during the review period were estimated to result in a deficit equivalent to 0.1 per cent of GDP. The deficit was financed by borrowing from domestic resources. This method of financing, however, does not bode well for economic growth. Funds that would otherwise be availed to the private sector for investments are directed to financing government operations, and hence, crowd out private investment.

Public Debt

Overview

Total outstanding public debt fell by 2.1 per cent during the quarter ending in December 2005. The decrease was a result of the decline in external debt. The overall external debt dropped by 2.3 percent mainly due to a fall in loans from the multilateral agencies. Domestic debt slightly weakened by 0.7 per cent. This was attributed to a fall in the holding of treasury bills by the banking sector. As a ratio of GDP, the total debt stock was estimated to have decreased to 49.7 per cent compared with 50.8 in the previous quarter. As usual, foreign debt accounted for the larger share of total debt stock at 86.2 per cent, while domestic debt comprised 13.8 per cent.

External debt

The level of external debt declined by 2.3 per cent during the fourth quarter. The decrease in foreign indebtedness was due to the fall in obligations destined to the multilateral agencies which declined by 2.5 per cent. External debt constituted 86.2 per cent of the total public debt stock and about 84 per cent of it was concessional. This was in line with Government's policy to borrow on concessional terms in order to moderate the country's future debt burden.

Debt sustainability indicators continued to show a relatively favourable position for the country during the review period, mainly as a result of the concessional nature of the overall government loans. As a percentage of GDP, the level of foreign debt had shrunk from 43.8 per cent to 42.8 per cent at the end of December 2005. At this level, the debt to GDP ratio was lower than the 60 per cent sustainability threshold for Highly Indebted Poor Countries (HIPC). This position was also strengthened by the maturity structure, concessionality and the long payment spread of the overall external debt stock.

OUTSTANDING GOVERNMENT DEBT
(Million Maloti)

	2004		2005			
	QIII	QIV	QI	QII	QIII	QIV
A. EXTERNAL DEBT	**4318.0**	**4112.8**	**4352.9**	**4379.4**	**4105.6**	**4011.6**
Bilateral Loans	485.2	531.4	467.3	422.0	408.6	396.9
Concessional	430.1	432.0	370.8	381.6	375.9	369.9
Non-concessional	55.1	99.4	96.5	40.4	32.7	27.1
Multilateral Loans	3407.3	3183.7	3490.6	3581.6	3484.6	3399.1
Concessional	3371.3	2737.4	3030.8	3125.0	3037.4	2985.9
Non-concessional	36.0	446.3	459.9	456.6	447.2	413.2
Financial Institutions	334.1	315.8	316.5	306.7	147.9	141.5
Concessional	63.4	60.1	58.0	2.7	2.6	2.6
Non-concessional	270.7	255.7	258.4	304.0	145.4	138.9
Suppliers' Credit	91.4	81.9	78.5	69.1	64.4	74.1
B. DOMESTIC DEBT	**665.7**	**647.1**	**415.7**	**604.2**	**649.3**	**644.9**
Banks	541.3	542.6	312.3	489.5	500.9	474.6
Long-term	114.7	114.7	114.7	114.7	114.7	114.7
Short-term	426.5	427.9	197.6	374.8	386.2	359.9
Of which: treasury bills	424.6	427.9	196.6	374.8	386.2	359.9
Non-bank	124.4	104.5	103.4	114.7	148.5	170.3
Short-term (TBs)	124.4	104.5	103.4	114.7	148.5	170.3
TOTAL (A + B)	**4983.7**	**4759.9**	**4768.6**	**4983.6**	**4754.9**	**4656.5**

N.B: External debt figures are from the Ministry of Finance

Domestic Debt

The level of domestic debt slightly dropped by 0.7 per cent during the review period. This was influenced by a drop in holding of short term debt by the banking sector. As a result, short term debt fell by 6.8 per cent, while the long term component, which constitutes entirely of the ten year bond[3] that was due to retire in 2009, remained unchanged.

[3]This bond had been issued to finance the restructuring of the old Lesotho Bank in 1999.

As a percentage of GDP domestic debt remained unchanged at 6.9 per cent recorded in the last quarter and it constituted 13.8 per cent of total public debt. Short term debt continued to consist entirely of treasury bills, which were issued in the monetary policy operations.

Figure 14