

**CENTRAL BANK OF LESOTHO**

**QUARTERLY REVIEW**

**DECEMBER, 2006**

**VOLUME XXVI, NO. 4**

**MASERU  
KINGDOM OF LESOTHO**

# QUARTERLY REVIEW

VOL. XXVI

December, 2006

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## **I. Key Economic Events in Lesotho during the Fourth Quarter**

During the quarter under review, several events took place in the economy. The Central Bank of Lesotho (CBL) conducted a survey of private capital flows with the objective of updating the balance of payments (BOP) and international investment position (IIP) statistics. Results of the country's sovereign rating were released by Fitch during the quarter. Two activities were undertaken to raise funds for a number of development objectives of the country. First, the Government hosted a donor conference with a view of soliciting funding for poverty reduction. Second, it signed an agreement for the disbursement for grants for HIV and AIDS as well as tuberculosis (TB) treatment.

### **Fieldwork on the Private Capital Flows Survey 2006**

Countries have recently found it prudent to know the magnitude, the composition and the sectors within economies to which capital is flowing. The composition and volatility of these flows have implications on economic policy and implementation. In the case of Lesotho, this is particularly important for various reasons. Firstly, private sector activity in the country has grown considerably in the recent past. As a result, foreign direct investment (FDI) and other capital flows are likely to grow. Secondly, Lesotho's membership of the Common Monetary Area (CMA) - with South Africa, Namibia and Swaziland - which allows free mobility of capital among the member countries, increases statistical challenges for the country. Lastly, the CBL has started the process of implementing gradual reforms to the capital account in an endeavour to maintain harmonisation of Lesotho's exchange rate controls with the rest of CMA and thereby retain its external competitiveness. This is expected to increase the movement of capital between Lesotho and the rest of the world.

The survey on private capital flows in Lesotho was launched in September 2006 through the signing of the Memorandum of Understanding (MOU) between the CBL, Bureau of Statistics (BOS) and the Lesotho National Development Corporation (LNDC). The CBL embarked on intense sensitisation campaigns for Chief Executive Officers (CEOs) and Managing Directors of privately owned companies operating in Lesotho. The fieldwork covered more than 800 business enterprises in the districts of Maseru, Leribe, Berea, Mafeteng, Mohales Hoek and Quthing. Data collection is on-going and is expected to be completed in the first quarter of 2007.

## **Lesotho Sovereign Rating for 2006**

The Fitch sovereign rating is important to investors as an indicator of the credit worthiness. A high rating assures investor confidence in the country. According to the Fitch sovereign credit ratings report for 2006, Lesotho continued to maintain its foreign currency rating at the same level as in the last three years (BB-) but was down-graded to BB from BB+ with regard to the local currency rating. This downgrade was due to concerns about the Government's ability to cope with the eminent decline in Southern African Customs Union (SACU) revenues given rising expenditure over the medium-term. The rating identified a number of Lesotho's strengths namely; the turn-around of the textile and clothing sub-sector and a significant improvement in the external sector outlook. In addition, the continued rise in official reserves and commercial banks' foreign assets enabled Lesotho to become a net external creditor. Other rating strengths included a strong fiscal position and intensive efforts to bring stability in the clothing and textile sub-sector. Nevertheless, the country continues to face a number of challenges. First, the weak economic growth remains a major medium-term challenge. Second, there is high reliance on the textile sub-sector, which faces increased competitive pressures from other textile exporters.

## **The 9<sup>th</sup> Donor Round Table Conference on Sustainable Economic Growth and Poverty Reduction**

The Government of Lesotho hosted the Ninth Donor Round Table Conference in November 2006 at the 'Manthabiseng Convention Centre. The objective of the conference was to present the Poverty Reduction Strategy (PRS) and to raise funds for its implementation. The PRS was completed in 2004 with the assistance of the development partners following consultations with over 20 000 people in 200 communities throughout the country and a number of groups such as the elderly, widows, orphans, unemployed and community based organizations.

The PRS outlines eight priority areas and two cross-cutting issues that need to be addressed in an endeavour to promote rapid economic growth and reduce poverty in Lesotho. The eight priority areas are employment creation; improvement of agricultural production and food security; development of infrastructure; deepening democracy, governance, safety and security; improvement of access to health care and social welfare; improvement of the quality of and access to education; enhancement of public service delivery; and management and conservation of the environment. The two cross-cutting issues are combating HIV and AIDS; and promoting gender equality and improving the lives of youth and children.

## **Lesotho receives further grants for HIV and AIDS and TB programme**

The Government of Lesotho (GOL) signed an agreement for a new round of HIV and AIDS grants from the Global Fund, effective November 2006. The disbursement for the quarter amounted to M23.0 million and was an addition to the M70.0 million for HIV and AIDS, and M12.0 million for TB received in January 2004. The funds are used for educating the youth on HIV and AIDS prevention and treatment. They are also utilized to provide care and support for people infected and affected by the scourge.

The HIV and AIDS prevalence rate in Lesotho is estimated between 28 per cent and 31 per cent by various organisations. The 'Stop TB' organization suggests that 10,598 people (against a population of around two million) were living with TB in 2003. The grants will help reduce the spread of HIV and AIDS and prolong the lives of those infected and affected by the illness. Effective treatment of TB would reduce the number of deaths related to the disease. All these would contribute to the improvement of the standard of living in the country.

## **II. International Economic Developments**

### ***United States (US)***

The growth of the US economy strengthened during the quarter under review. Growth in real gross domestic product (GDP) was recorded at 3.5 per cent on an annual basis compared with a revised figure of 3.0 per cent recorded in the previous quarter. This was explained by accelerated growth in consumer and government spending. Consumer spending grew by 4.4 per cent during the quarter. The higher spending by consumers helped mitigate a 19.2 per cent fall on investment spending, particularly on residential home building.

Unemployment rate in the US continued to show signs of improvement as it was recorded at 4.5 per cent in December compared with 4.6 per cent at the end of September 2006. The US inflation rate increased to 2.5 per cent at the end of December compared with 2.1 per cent realised in the previous quarter because of high oil prices. Consequently, the Federal Reserve Bank's Open Market Committee (FOMC) kept the benchmark lending rate unchanged at 5.25 per cent in December 2006.

Economic developments in the US have mixed implications for the Lesotho economy. The prominent economic acceleration in the US, if sustained, may have positive implications for the manufacturing sub-sector following a decline in 2005. However, rising inflationary pressures

could be detrimental to Lesotho's exports since they may reduce the country's export competitiveness.

### ***Euro-zone<sup>1</sup>***

Economic growth in the Euro-zone accelerated to 3.3 per cent in the twelve months ended December 2006 from 2.7 per cent realised in September because of higher consumer, investment and government spending. However, the rate of unemployment slightly worsened from 7.8 per cent at the end of September to 7.9 per cent at the end of December 2006.

Inflation in the Euro-zone measured by changes in the Harmonised Index of Consumer Prices (HICP) was registered at 1.9 per cent at the end of the fourth quarter compared with 1.7 per cent at the end of the third quarter. The rise was mainly driven by higher energy prices. At this rate, inflation is still below the European Central Bank (ECB) targeted rate of 2.0 per cent. This led the ECB to raise its benchmark lending rate by 25 basis points to 3.25 per cent in the review quarter.

A large proportion of Lesotho's diamond exports is destined to the European market and as such, a slight improvement in economic growth could induce higher demand for Lesotho's exports. Furthermore, the developments in the Euro-zone have direct implications for the South African economy which is a major trading partner of Lesotho.

### ***South Africa (SA)***

Preliminary estimates indicated that seasonally adjusted real GDP growth in SA increased from a revised 4.5 per cent recorded in the third quarter, to 5.6 per cent during the quarter under review. This growth was mainly due to improvements in the performance of the manufacturing industry, which rose from 0.8 per cent in the third quarter to 1.4 per cent in the fourth quarter.

The CPI excluding interest payments on mortgage loans (CPIX) rose by 5.0 per cent in December compared with 5.1 per cent in September. At this rate, the CPIX is still within the South African Reserve Bank (SARB) target range of 3 to 6 per cent, but close to the upper band due to oil and food prices as well as strong credit extension. The inflation outlook led the SARB Monetary Policy Committee (MPC) to increase its key interest

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<sup>1</sup> Euro-zone: Austria, Belgium, Germany, Greece, Finland, France, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain.



rate, the repo rate, by 100 basis points to 9.0 per cent at the end of December.

The observed increase in the SA economic growth, coupled with a slight deceleration in the inflation rate augurs well for the economy of Lesotho because of the trade linkages between the two countries.

## ***Commodity prices***

### ***Gold***

The average price of gold fell by 1.1 per cent, from US\$621.3 per ounce in the previous quarter to US\$614.36 per ounce during the quarter under review due to the strengthening of the US Dollar which rendered gold more expensive to holders of other currencies. During the quarter, it ranged between a minimum and maximum of US\$567.0 and US\$648.0 per ounce. However, in Rand terms, the price of gold rose by 0.7 per cent, from R4 464.70 per ounce in the previous quarter to R4 494.47 in the quarter under review, due to its depreciation.

The Dollar price of gold is the leading indicator on which prospects of the mining industry in SA are based. The depreciation of the Rand continued to offset the negative impact of the fall in the Dollar price of gold. The increase in the Rand price of gold could boost production of the SA gold mining industry. This could help to secure the existing employment status of Basotho migrant mineworkers in SA. As a consequence, this has positive implications on the miners' remittances to Lesotho.

### ***Oil***

On average, the price of oil decreased by 15.1 per cent, from US\$66.07 per barrel in the previous quarter to US\$56.08 per barrel during the quarter under review. It ranged between a minimum and maximum of US\$53.37 and US\$59.70 per barrel. In Rand terms, it decreased from R474.78 per barrel in the previous quarter to R410.26 per barrel in the fourth quarter of 2006.

Although the price of crude oil seems to be decreasing both in Rand and Dollar terms, at this level it is still considerably high. The decrease in the international oil prices could affect the Lesotho economy positively as it would exert downward pressure on prices. Lower oil prices could also reduce the cost of production which may positively affect industry profit margins and therefore employment levels.

### **III. Overview of Macroeconomic Developments in Lesotho**

In the quarter under review, most leading indicators pointed to a slow-down in the performance of the economy. This was observed in primary and secondary sectors. In particular, the mining, manufacturing and construction sub-sectors' performance declined during the quarter. However, the tertiary sector being the largest sector of the economy, showed some resilience.

The rate of inflation as measured by changes in the CPI declined in the fourth quarter consistent with inflation developments in SA. Employment conditions demonstrated mixed outcomes. A decline in employment was observed in the LNDC assisted companies while the number of government employees and migrant mineworkers increased.

Lesotho's external sector position continued to register a surplus during the fourth quarter. This surplus emanated from the current account due to current transfers, in particular non-duty SACU revenue, and revaluation gains. The capital and financial account continued to register net outflows.

During the quarter under review, broad money supply (M2) increased due to an increase in both the overall banking system's net foreign assets and domestic credit. The prime lending rate followed the upward trend observed in similar rates in the region, while the Lesotho 91-day treasury bill rate declined relative to a rise in its SA counterpart.

Preliminary estimates on the budget outturn indicated a surplus which was mainly attributed to a decline in total government expenditure and net lending during the period under review. Total public debt decreased as a ratio of GDP. External debt continued to account for a larger share of total government debt.

### **IV. Economic Indicators**

#### ***Diamond Production***

Diamond mining has become the second largest contributor of export earnings for the economy, after textiles and clothing. There was a quarterly decline in diamond production from 39 121.7 carats in the third quarter to 28 839.7 carats in the final quarter of the year. This amounted to a decline of 26.3 per cent on a quarterly basis while an annual change indicated an increase of 233.1 per cent. The huge increase realised was due to the opening of the second mine.

**Table 1: Diamond Production**

(In Carats)

<b>Period</b>	<b>QI</b>	<b>QII</b>	<b>QIII</b>	<b>QIV</b>
<b>2006</b>	10709.61	18426.62	39121.74	28839.72
<b>2005</b>	12716.28	14670.80	9833.54	8657.72
<b>2004</b>	-	7432.85	9833.54	8657.72

Source: Department of Mines and Geology

***Household and Business Sector Housing Statistics***

Activity in the construction sub-sector as measured by the number of building permits issued declined by 32.5 per cent on a seasonally adjusted quarterly basis. The major contributor to the trend was a slowdown in residential housing although construction of commercial related infrastructure increased slightly. The component of residential housing is expected to gradually pick up in the first half of 2007 in line with increases in mortgage loans and overall credit extension registered in the reporting period.

**Table 2: Building Permits by Type of Building<sup>1</sup>**  
(Value in Million Maloti)

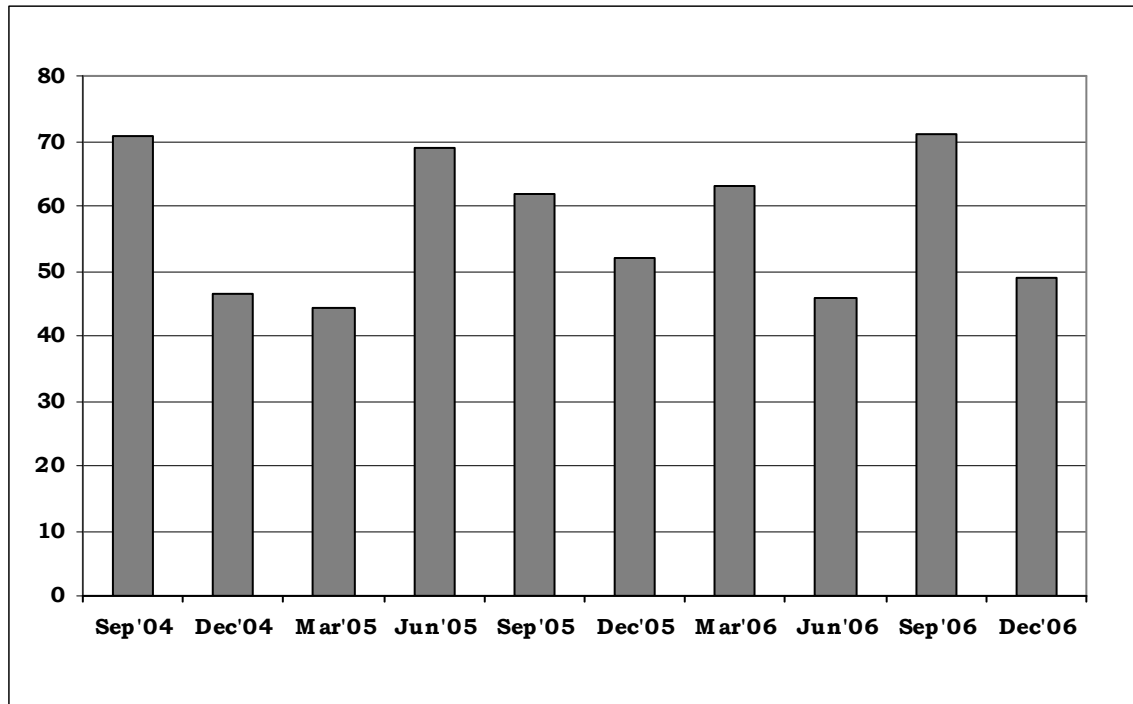
Type	Permits	2005		2006			
		QIII	QIV	QI	QII	QIII	QIV
Residential	Value	11.93	9.05	18.05	23.53	28.40	16.69
	Number	61	40	54	45	71	46
Commercial	Value	0.00	14.59	0.88	1.13	0.00	0.50
	Number	0	7	3	2	0	2
Other	Value	1.38	1.12	70.31	0.33	1.32	11.76
	Number	3	2	5	1	2	1
<b>Total</b>	Value	13.31	24.76	89.24	24.99	29.72	28.95
	Number	64	49	62	48	73	49
	Number*	62	52	63	46	77	52

Source: Maseru City Council and Land Survey and Physical Planning

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

\* denotes seasonally adjusted figures

**Figure 1: Number of Building Permits**



***Imported Motor Vehicles***

Statistics on imports of motor vehicles is used to gauge the direction of gross fixed capital formation in the economy. On a quarterly basis, imports of motor vehicles declined by a seasonally adjusted 32.5 per cent. There was also an estimated decline on an annual basis of 23.2 percent. Significant declines were mainly in the following categories; Cars, Vans and Trucks (see Table 2). The decline was also influenced by the current management of the government vehicles, which aims at a reduced but more efficient fleet. Imported vehicles are likely to pick up in the next review period in line with credit developments and the expected overall performance of the economy.

**Table 3: Motor Vehicle Imports<sup>+</sup>**  
(Value in Million Maloti)

		<b>Cars</b>	<b>Vans</b>	<b>Trucks</b>	<b>Buses</b>	<b>Trac-tors</b>	<b>M/ Cycles</b>	<b>Trail-ers</b>	<b>Total</b>
<b>2004 IV</b>	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
<b>2005 I</b>	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
<b>II</b>	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
<b>III</b>	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
<b>IV</b>	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
<b>2006 I</b>	Value	15.42	28.25	2.78	4.08	0.19	0.05	0.24	51.01
	Number*								307
	Number	152	135	0	22	9	0	8	326
<b>II</b>	Value	25.04	31.38	4.08	5.30	0.22	0.20	0.20	66.42
	Number*								659
	Number	336	223	13	31	5	7	9	624
<b>III</b>	Value	38.29	27.59	6.00	6.16	0.11	0.04	1.10	79.29
	Number*								644
	Number	296	212	25	23	3	3	13	575
<b>IV</b>	Value	13.55	19.83	4.15	5.22	0.33	0.04	0.31	43.43
	Number*								388
	Number	148	133	10	37	8	5	6	347

Source: Imperial Fleet Services Lesotho and Customs Department

\* denotes seasonally adjusted figures

+ Includes imports of second hand cars

### ***Electricity Consumption***

Consumption of electricity in the following categories; general purpose, domestic, and commercial and industrial registered a decline consistent with the general slowdown in the productive sector of the economy during the festive season. With early closure of the manufacturing firms, industrial activity slowed. On a quarterly basis, electricity consumption declined by 17.7 per cent. It is expected that this trend will reverse in the first half of the following year as the productive capacity improves.

**Table 4: Electricity Consumption by LEC Customers**

<b>Quarter</b>		<b>General Purpose</b>	<b>Domestic</b>	<b>Commercial &amp; Industrial</b>	<b>Total</b>
<b>2006 II</b>	kwh	17.43	33.71	74.64	125.78
	Value	12.14	17.36	32.60	62.10
<b>III</b>	kwh	19.38	34.59	79.54	133.51
	Value	13.08	17.82	33.87	64.76
<b>IV</b>	kwh	16.27	28.22	64.79	109.28
	Value	11.14	14.51	28.27	53.92

Source: Lesotho Electricity Authority

### ***Water Consumption***

Data on water consumption is used as an indicator of activity in the 'wet' industries, and in particular the manufacturing industries. The units of water consumed in the review period have marginally increased by a seasonally adjusted 1.3 per cent on a quarterly basis. A decline of 4.3 per cent was recorded on an annual basis. This highlighted moderation in the use of water in the industrial category in the fourth quarter of 2006.

**Table 5: Water Consumption**

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

<b>Quarter</b>		<b>Domestic</b>	<b>Industrial</b>	<b>Other</b>	<b>Total</b>	
<b>2005</b>						
	<b>I</b>	Units	0.95	1.20	0.53	2.68
		Value	3.69	4.97	2.20	10.86
	Units*		1.40		2.64	
<b>II</b>	Units	0.79	1.36	0.61	2.76	
	Value	3.07	6.05	2.59	11.71	
	Units*		1.29		2.69	
<b>III</b>	Units	0.80	1.38	0.57	2.75	
	Value	3.07	6.14	2.53	11.74	
	Units*		1.25		2.77	
<b>IV</b>	Units	0.95	1.25	0.58	2.78	
	Value	3.82	5.55	2.60	11.97	
	Units*		1.13		2.80	
<b>2006</b>						
	<b>I</b>	Units	0.92	1.16	0.58	2.65
		Value	3.72	5.19	2.60	11.97
	Units*		1.36		2.60	
<b>II</b>	Units	0.78	1.40	0.65	2.83	
	Value	3.20	6.52	3.05	12.77	
	Units*		1.42		2.93	
<b>III</b>	Units	0.78	1.51	0.65	2.94	
	Value	3.11	7.05	2.87	13.03	
	Units*		1.36*		2.65*	
<b>IV</b>	Units	0.94	1.44	0.59	2.97	
	Value	3.96	6.39	2.70	13.05	
	Units*		1.30		2.68	

Source: Water and Sewerage Authority

*\* denotes seasonally adjusted figures*



## Telephone Statistics

The total number of telephone calls increased by a seasonally adjusted 13.8 per cent in the quarter ending December 2006, and 25.6 per cent on an annual basis. The increase was realised mainly in the category of telephone traffic to SA. This reflects the continuing good performance of the telecommunications sub-sector.

**Table 6: Telephone Traffic Statistics**

		SA Outgoing Calls	International Calls	Total Calls
<b>2005</b> <b>III</b>	No. of calls (millions)	3.19	0.12	3.31
	No. of calls*	3.25	.....	3.15
	Total Duration	4.53	0.35	4.88
	Nominal Value	8.60	2.88	11.84
<b>IV</b>	No. of calls (millions)	3.42	0.13	3.55
	No. of calls*	3.47	.....	3.36
	Total Duration	4.82	0.41	5.23
	Nominal Value	10.12	3.41	13.53
<b>2006</b> <b>I</b>	No. of calls (millions)	3.41	0.15	3.56
	No. of calls*	3.25	.....	3.19
	Total Duration	4.86	0.56	5.42
	Nominal Value	10.21	5.11	15.32
<b>II</b>	No. of calls (millions)	3.21	0.08	3.29
	No. of calls*	3.75	.....	3.85
	Total Duration	3.02	0.36	3.38
	Nominal Value	6.66	3.89	10.55
<b>III</b>	No. of calls (millions)	3.81	0.28	4.09
	No. of calls*	.....	.....	3.71
	Total Duration	5.37	1.64	7.01
	Nominal Value	12.36	12.02	24.38
<b>IV</b>	No. of calls (millions)	3.98	0.20	4.18
	No. of calls*	.....	.....	4.22
	Total Duration	5.02	0.81	5.83
	Nominal Value	11.55	6.53	18.08

Source: Tele-Com Lesotho

\* *adjusted for seasonality.*

## V. Employment and Prices

### *Employment*

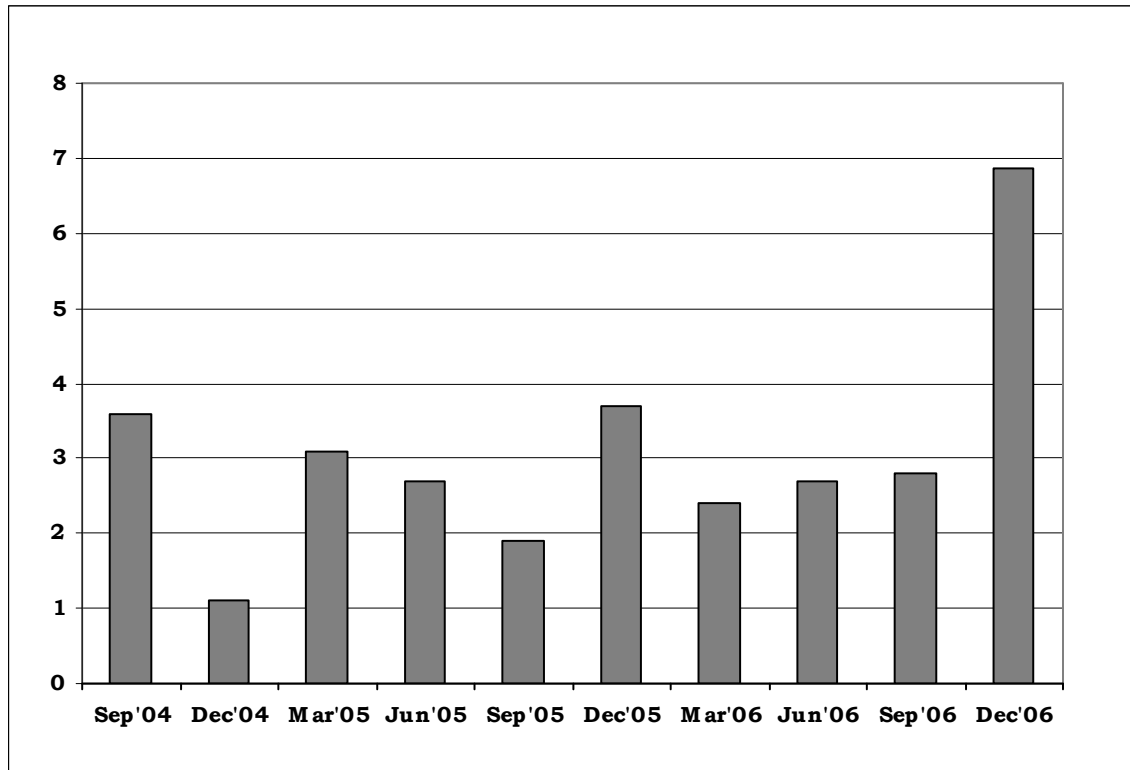
The level of employment in the formal sector of the economy is measured by employment in the LNDC assisted companies, Government employment and employment in the migrant mineworkers. Employment in LNDC assisted companies decreased to 44 213 in the review period from 46 189 in the previous quarter. This was equivalent to a decline of 4.3 per cent contrasted with an annualised increase of 7.6 per cent. The former signalled a slowdown in overall production of the exporting industries. Production declined as most of the companies closed for end of year break. This is therefore an indicator of temporary layoffs which reflect a change in the nature of employment contracts. Companies appear to be increasingly in favour of short-term contracts which allow them to respond to shocks.

**Table 7: Employment Trend of LNDC Assisted Companies**

<b>Period</b>	<b>QI</b>	<b>QII</b>	<b>QIII</b>	<b>QIV</b>
<b>2006</b>	40459	45140	46189	44213
<b>2005</b>	41985	40111	39597	43131
<b>2004</b>	52532	53525	52922	50607
<b>2003</b>	43525	46960	49862	51187
<b>2002</b>	36906	39255	42011	43773

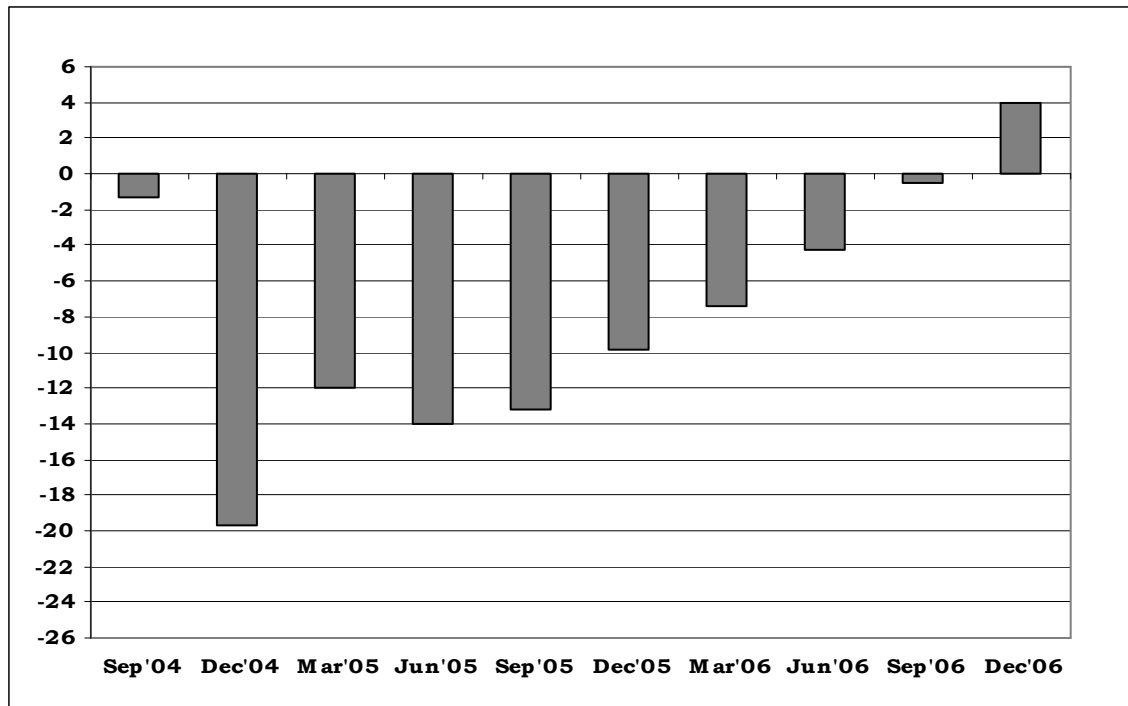
Source: LNDC

**Figure 2: Annual Percentage Change in Government Employment**



Government employment stood at 39 065 for the quarter ending December 2006 compared with an estimated 38 323 in the previous quarter. This represented an increase of 1.9 per cent on a quarterly basis, and 3.0 per cent on an annual basis. The major influence to this trend was the continuing increase in the number of teachers employed in line with the current education policy, which extends assistance to secondary education.

**Figure 3: Migrant Mineworkers Employment**  
(Annual Percentage Change)



The number of migrant mineworkers was estimated at 52 852 in the review period, compared with 51 724 recorded at the end of the previous quarter. This represented an increase of 2.2 per cent on a quarterly basis, and an annual increase of 0.8 per cent. The rise was supported by increased operations in some mines, and improvement in commodity prices in the international market.

### ***Price Developments***

Inflation rate decreased to 6.4 per cent in December from 6.8 per cent in September mainly due to a slowdown in prices in the category of food and non-alcoholic beverages which decreased by 0.4 per cent. Prices in the categories of housing, electricity, gas and other fuels as well as furniture, households equipment and routine maintenance of house both decreased by 0.8 per cent (see Table 8).

Inflationary pressures were lessened by a decline in the price of oil and a moderation in food inflation. A lower rate of inflation is again foreseeable given moderation in inflation in the South African economy.

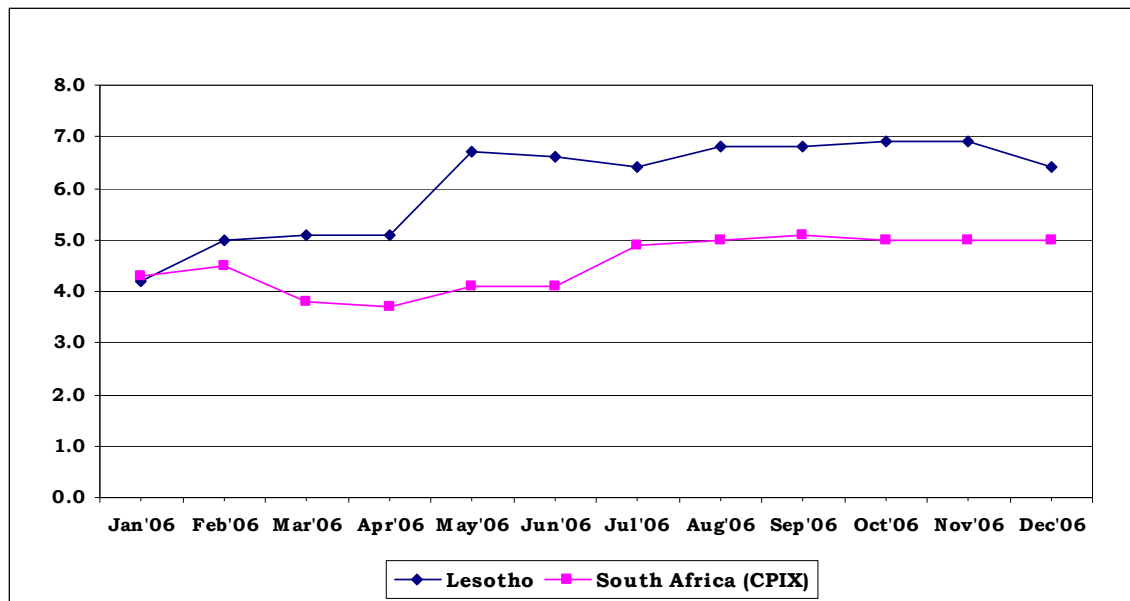
**Table 8: Inflation Rate**

(Annualised Percentage Change; April 1997=100)

	Weight	2006					
		Jul	Aug	Sep	Oct	Nov	Dec
All items	100.0	6.4	6.8	6.8	6.9	6.9	6.4
Food and non-alcoholic beverages	39.8	10.0	11.4	11.3	11.6	11.9	11.2
Alcoholic beverages & Tobacco	6.4	5.9	5.8	5.6	6.0	5.6	5.5
Clothing & footwear	15.6	2.5	1.8	1.2	0.9	0.5	0.4
Housing, electricity gas & other fuels	3.7	7.5	7.6	7.6	8.3	7.8	7.5
Furniture, households equipment & routine maintenance of house	17.0	4.6	4.0	3.7	3.2	3.4	2.9
Health	1.4	0.7	0.7	0.6	0.3	0.3	0.1
Transport	7.8	3.2	2.8	4.9	4.3	3.9	3.7
Communication	0.1	3.4	3.4	3.4	3.4	3.4	3.4
Leisure, entertainment & Culture	1.2	1.2	1.2	0.9	0.3	-0.6	-0.6
Education	3.2	0.7	0.7	0.8	0.8	0.9	0.9
Restaurant & Hotels	0.4	7.0	7.0	8.2	12.2	15.2	15.0
Miscellaneous goods & services	3.2	2.8	3.3	3.0	2.9	3.2	2.5

Source: Bureau of Statistics, Lesotho

**Figure 4: Annual Inflation Rate for Urban Households**  
(Percent)



## VI. Balance of Payments (BOP)

### *Overview*

The external position continued to register a surplus during the quarter under review. In seasonally adjusted terms, the overall balance narrowed from a surplus of M639.9 million in the third quarter to M40.9 million in the fourth quarter, as a result of deterioration in the current account balance coupled with an increase in outflows of capital and financial account.

The transaction balance, which represents the overall balance excluding the effects of currency fluctuations, declined from a seasonally adjusted surplus of M371.0 million in the previous quarter to M208.5 million during the quarter under review. This deterioration resulted mainly from the negative developments in the capital and financial account. The latter registered a net outflow equivalent to M81.2 million mainly driven by commercial banks outflows, whereas the current account surplus narrowed from M151.8 million to M18.9 million in the last quarter of 2006, mainly as a result of a decrease in exports.

**Table 9: Summary of Balance of Payments**  
(Million Maloti)

	2005	2006			
	QIV	QI	QII	QIII*	QIV+
I. CURRENT ACCOUNT	-284.61	19.27	256.41	151.78	18.88
Goods, Services and Income	-785.63	-563.00	-419.65	-527.96	-678.31
(a) GOODS	-1124.76	-1093.44	-976.11	-1139.80	-1309.84
Merchandise exports f.o.b.	1165.09	876.07	1049.43	1517.91	1293.24
Of which diamonds	106.64	77.61	141.18	263.90	136.49
Merchandise imports f.o.b.	-2289.84	-1969.52	-2025.54	-2657.71	-2603.08
(b) SERVICES	-73.00	-52.74	-56.56	-55.10	-75.03
(c) INCOME	412.12	583.18	613.01	666.94	706.56
Labour	474.53	539.04	565.88	597.29	635.25
Other	-62.41	44.14	47.13	69.65	71.31
(d) CURRENT TRANSFERS	501.02	582.27	676.06	679.74	697.19
Government, net	474.17	552.42	646.21	649.88	667.33
SACU non-duty receipts	469.91	473.06	641.83	644.60	664.95
Other	4.26	79.36	4.38	5.28	2.38
Other Sectors	26.85	29.85	29.85	29.86	29.86
II. CAPITAL AND FINANCIAL ACCOUNT	239.07	124.72	-154.91	-23.94	-81.15
(e) CAPITAL ACCOUNT	8.20	4.90	27.10	27.20	16.30
(f) FINANCIAL ACCOUNT	230.87	119.82	-182.01	-51.14	-97.45
Special Financing – LHWP	61.35	43.35	31.26	31.26	31.49
III. RESERVE ASSETS	-86.90	-177.17	-442.82	-641.50	-32.81
IV. ERRORS AND OMISSIONS	-143.70	44.44	359.99	249.94	267.14
V. VALUATION ADJUSTMENT	-11.26	-18.66	289.22	263.72	-172.06

\* Revised estimates

+ Preliminary estimates

## ***Merchandise Trade***

### ***Exports***

Merchandise exports, seasonally adjusted, declined by 14.5 per cent during the quarter under review after increasing by 38.4 per cent in the previous quarter. On an annual basis, merchandise exports increased by 11.3 per cent. The observed quarterly decline was in line with the developments in the real sector, in which the performance of the manufacturing sub-sector declined. The fall in exports was also at the back of a 48.2 per cent drop in diamond exports, which accounted for 9.6 per cent of the total exports.

### ***Imports***

Preliminary estimates indicated that merchandise imports rose by a seasonally adjusted 2.4 per cent during the quarter under review in contrast with a decrease of 4.7 per cent recorded in the previous quarter. On an annual basis, merchandise imports grew by 13.6 per cent. The hike in the seasonally adjusted merchandise imports emanated from increased demand for imported inputs for manufacturing production of the next quarter.



**Table 10: Value of Exports by Section of the S.I.T.C#**

(Million Maloti)

COMMODITY	2005	2006			
	IV	I	II	III*	IV+
0. Food & Live Animals	33.04	31.58	24.53	31.82	29.31
Cattle	1.79	1.28	0.13	0.25	0.55
Wheat Flour	8.33	10.62	13.18	15.57	13.12
Maize Meal	5.92	6.81	5.69	7.07	6.52
Other	17.00	12.87	5.53	8.93	9.12
1. Beverages & Tobacco	36.56	31.68	34.99	39.62	31.97
Beverages	36.39	31.68	34.99	39.62	31.97
2. Crude Materials	7.14	6.09	0.99	2.55	5.17
Wool	7.14	6.09	0.99	2.55	5.17
4. Chemicals	3.27	3.09	15.14	2.68	6.97
5. Manufactured Goods	194.63	103.84	161.63	321.45	245.75
6. Machinery & Transport Goods	113.91	84.39	79.05	143.80	152.52
7. Miscellaneous Manufactured Goods	772.50	612.74	730.25	969.78	821.01
8. Unclassified Goods	4.04	2.66	2.85	6.21	3.91
TOTAL EXPORTS	1165.09	876.07	1049.43	1517.91	1296.61

Note: Totals may not tally due to rounding

\* Revised estimates

+ Preliminary estimates

# Standard International Trade Classification

***Direction of Trade***

The US continued to be the largest recipient of Lesotho's exports during the review quarter. Compared to the previous quarter, the share of exports to the US rose by 3.8 percentage points to 59.1 per cent. This was partly ascribed to the depreciation of the Loti against the US Dollar as well as acceleration in personal consumer spending in the US during the review quarter. The SACU region remained the second largest consumer of Lesotho exports at a share of 27.8 per cent compared with 24.7 per cent in the previous quarter. Europe was the third largest

recipient of Lesotho exports at a share of 10.9 per cent compared with 17.6 per cent in the third quarter. This decrease is in line with the fall in the diamond exports, which are primarily destined to this region. Figure 5 depicts the direction of exports in the fourth quarter.

**Table 11: Direction of Trade - Exports and Re-Exports, f.o.b.**  
(Million Maloti)

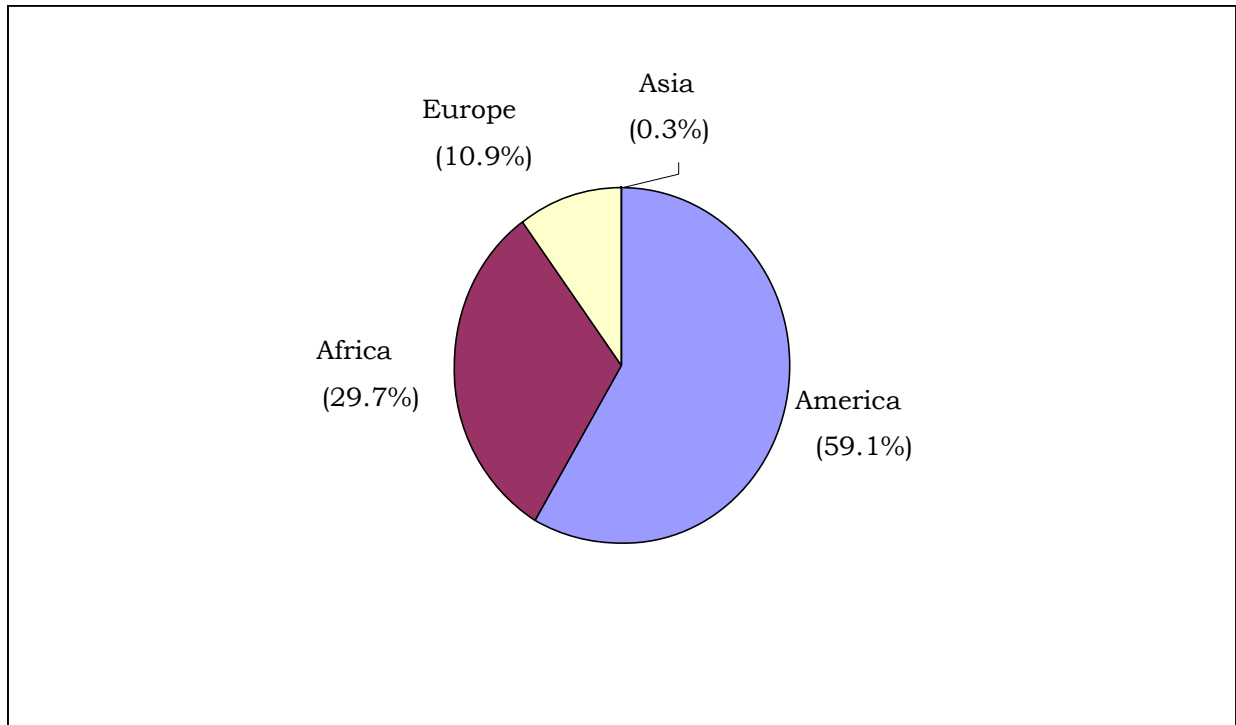
REGION	2005	2006			
	QIV	QI	QII	QIII*	QIV+
World	1165.09	876.07	1049.43	1517.91	1296.61
Africa	314.68	183.65	210.17	410.64	384.74
SACU	303.89	169.77	184.13	375.55	359.87
SADC	0.43	4.28	1.74	0.60	3.39
Other	10.36	9.60	24.3	34.49	21.48
Europe	172.64	80.89	142.78	266.73	141.01
EC	172.64	80.89	142.78	266.73	141.01
America	675.22	601.70	693.19	839.50	766.56
Asia	2.55	9.83	3.29	1.04	4.30

Note: Total may not tally due to rounding

\* Revised estimates

+ Preliminary estimates

**Figure 5: Direction of Merchandise Exports**



***Labour Income***

Growth in labour income in seasonally adjusted terms slowed down to 0.8 per cent in the review quarter from 13.2 per cent in the previous quarter. On an annual basis, labour income rose by 33.9 per cent on the back of a faster growth of miners' remittances from 5.6 per cent in the third quarter to 6.4 per cent during the fourth quarter. In turn, the growth in miners' remittances was induced by a rise in the number of migrant mineworkers. Although the average price of gold fell by 1.1 per cent in US Dollar terms, its impact on SA mining companies' earnings was counteracted by the depreciation of the Rand against the Dollar. In addition, total mining production in SA rose by a seasonally adjusted 5.5 per cent in the review period.

### ***Investment Income***

During the quarter under review, net position of investment income was recorded at M71.3 million up from M69.7 million registered in the previous quarter. The anticipated improvement emanated from higher investment receipts which outpaced the investment payments.

Investment income inflows grew by 9.4 per cent compared with an increase of 26.5 per cent registered in the previous quarter. The observed performance was attributed to interest earned on investment portfolio, due to favourable international interest rates.

The outflows of investment income increased by 23.8 per cent during the fourth quarter compared with the fall of 2.0 per cent during the previous quarter. The main contributor to increased outflows was interest paid on official loans, which increased by 86.1 per cent in the review quarter compared with a fall of 20.2 per cent recorded in the previous quarter.

### ***Travel***

Net travel services declined by 2.1 per cent in the quarter under review, as a result of travel payments which exceeded travel receipts. Travel receipts declined by 4.1 per cent compared with an increase of 5.1 per cent recorded in the previous quarter. This decline was mainly driven by a 48.0 per cent fall in personal expenditure by expatriates. However, tourism spending which accounts for the bulk of travel earnings rose by 0.9 per cent.

Travel payments increased by 5.3 per cent during the quarter under review, as a result of a 51.0 per cent increase in government international subsistence allowances.

### ***Current Transfers***

During the review period, current transfers, seasonally adjusted rose to M705.7 million compared with M686.5 million registered in the previous quarter. On an annual basis, current transfers rose by 39.1 per cent. The observed growth was mainly attributable to a rise in SACU non-duty revenue which increased by 3.2 per cent during the quarter.

## ***Capital and Financial Account***

During the quarter, the capital and financial account recorded a net outflow of M81.2 million compared with M23.9 million registered in the previous quarter. The observed performance was influenced by other investment category, which increased from a net outflow of M180.3 million in the previous quarter to M226.8 million in the review quarter. This was mainly because of the increase in commercial banks' foreign assets coupled with the fall in the CBL's liabilities. The commercial banks foreign assets rose by M162.2 million while central bank liabilities declined by M24.5 million. Furthermore, official loans moved from a net inflow of M38.0 million to an outflow of M44.4 million.

## **VII. Money and Banking**

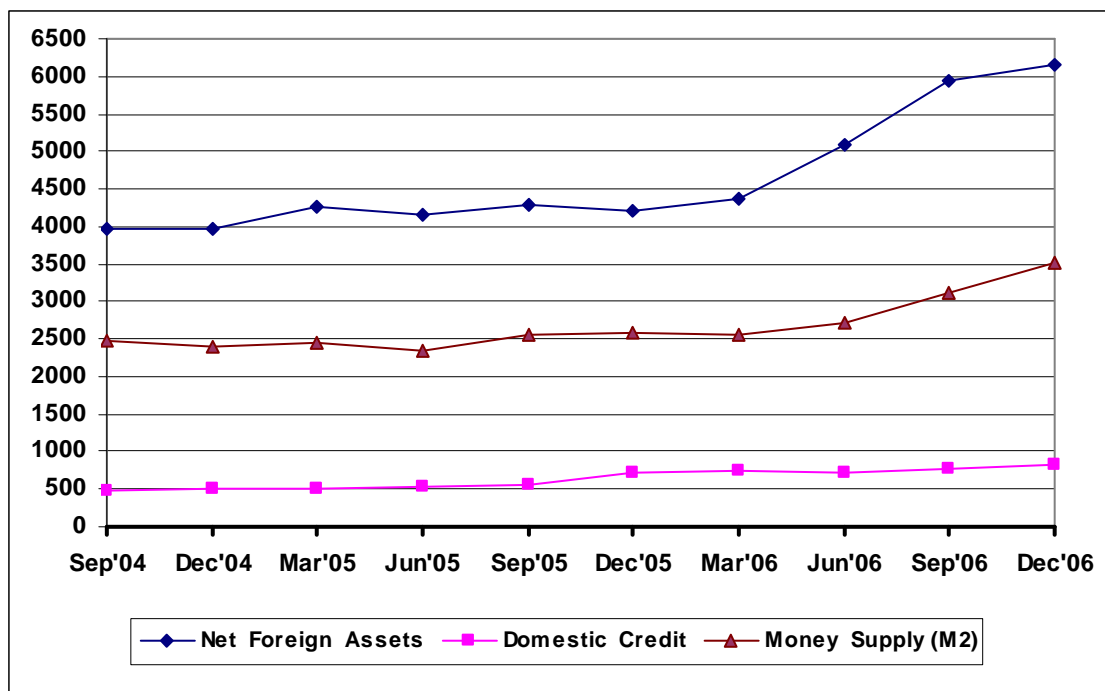
### ***Money Supply***

#### ***Determinants of Money Supply***

Changes in the measure of broad money supply (M2) are determined by movements in the net foreign assets of the overall banking system and domestic credit. At the end of the review quarter, M2 rose by 12.3 per cent, compared with a rise of 15.4 per cent recorded at the end of September. This increase was attributable to a rise in both the overall banking system's net foreign assets and domestic credit. On an annual basis, money supply rose by a significant 35.4 per cent following a 22.7 per cent rise at the end of September.

**Figure 6: Overview of Recent Monetary Developments**

(Million Maloti: End of Period)



**Table 12: Determinants of Money Supply**

(Million Maloti; Changes)

Determinants	2005		2006			
	Sep	Dec	Mar	Jun	Sep	Dec
Net foreign assets	154.2	-84.6	166.2	698.2	858.8	215.2
Domestic credit	-15.6	112.7	-91.0	-270.4	-58.6	-56.3
Net Claims on Govt	-47.8	-45.1	-117.1	-256.8	-112.2	-102.6
Statutory bodies	-7.8	-13.3	-4.0	-11.4	-2.5	2.0
Private sector	39.9	171.1	30.2	-2.3	56.2	37.0
Other items, net	-84.9	-17.6	98.4	290.7	382.7	-225.4
Money Supply (M2)	223.5	51.8	-23.1	137.0	417.5	384.3

### **Components of Money Supply**

Money supply is defined as the sum of narrow money (M1) and quasi money. M1 increased by 14.4 per cent in the quarter ended December, following a rise of 18.2 per cent recorded at the end of September. This increase was consistent with a 9.3 per cent rise in currency with public coupled with a 16.5 per cent increase in demand and call deposits. Furthermore, quasi money rose by 6.0 per cent in December following a 7.9 per cent increase which was observed at the end of the previous quarter. This reflected increases in both time and savings deposits which increased by 11.2 and 1.4 per cent, respectively.

**Table 13: Money Supply**

(Million Maloti; End of Period)

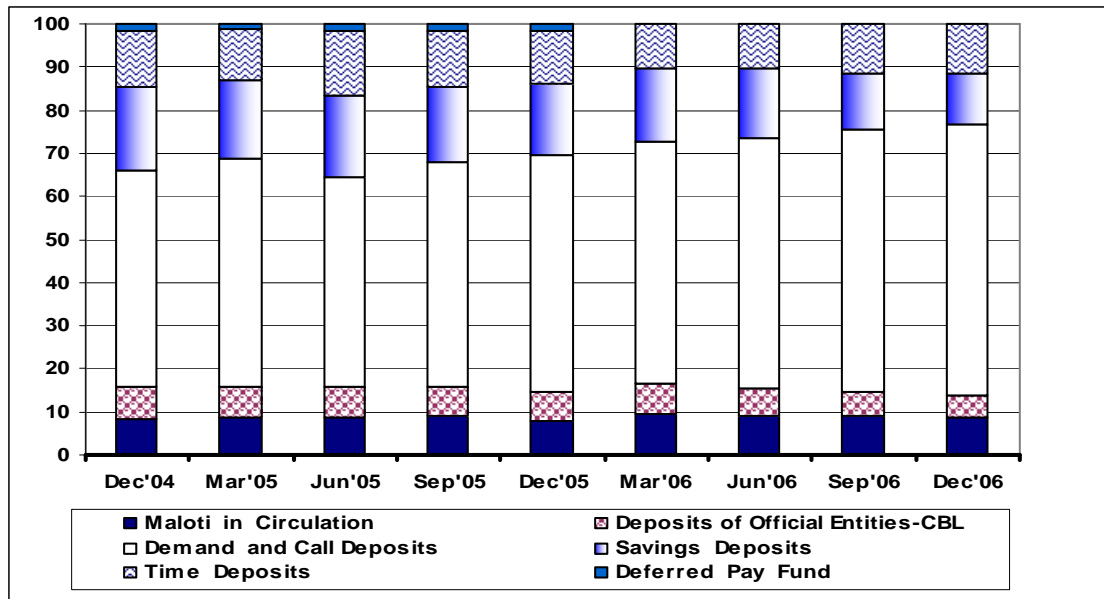
	2005		2006			
	Sep	Dec	Mar	Jun	Sep	Dec
Money Supply (M2)	2544.4	2590.0	2566.9	2704.0	3121.5	3505.8
Money (M1)	1790.1	1760.8	1864.8	1987.6	2348.6	2686.7
Maloti with public	232.0	212.8	247.4	242.6	283.1	309.4
Demand deposits <sup>1</sup>	1347.4	1440.0	1440.0	1568.3	1888.1	2199.0
Deposits of official Entities with CBL	176.7	176.7	177.4	176.7	177.4	178.3
Quasi-Money	788.3	760.5	702.2	716.4	772.8	819.1
Savings deposits	451.1	437.1	436.4	438.0	409.5	415.2
Time deposits	337.2	323.4	265.8	278.5	363.4	403.9

<sup>1</sup> includes call deposits

NB: Totals may not tally due to rounding off

Figure 7 indicates that the bulk of the growth in money supply mainly reflected an increase in demand deposits. Quasi money components and Maloti with public were also on the increase, albeit at a slower pace. Deposits of official entities held at the CBL remained rather steady during the period.

**Figure 7: Components of Money Supply**  
(Percentage shares)



***Commercial Banks' Deposits by Holder***

Deposits of the private sector and statutory bodies represented a large portion of the holdings with commercial banks. Total deposits rose by 13.5 per cent, at the end of the review quarter compared with a 16.6 per cent increase recorded at the end of September. Table 14 shows that the rise was largely driven by a 13.4 per cent increase in private sector deposits as well as a 13.9 per cent increase in deposits held by statutory bodies.



**Table 14: Commercial Banks Deposits by Holders**

(Million Maloti; End of Period)

	2005		2006			
	Sep	Dec	Mar	Jun	Sep	Dec
Total Deposits	2123.7	2188.4	2130.2	2271.5	2649.4	3006.3
Private Sector	1667.1	1655.7	1598.7	1660.8	2140.6	2426.9
Demand deposits	1014.8	1025.0	1001.3	1033.2	1469.5	1712.3
Savings deposits	451.1	437.1	436.4	437.9	409.5	415.2
Time deposits	201.2	193.7	161.0	189.6	261.7	299.6
Statutory Bodies	415.9	494.0	531.5	610.7	508.8	579.4
Deferred Pay Fund	40.8	38.7	0.0	0.0	0.0	0.0

NB: Totals may not tally due to rounding off

***Liquidity of Commercial Banks***

One important function performed by commercial banks is the management of liquidity risk in the economy. The liquidity of commercial banks is measured by the ratio of their cash and near cash assets, including investment with maturities of less than twelve months, to deposit liabilities. Commercial banks remained highly liquid as the ratio increased from 67.2 per cent in September to 80.6 per cent during the quarter under review as a result of the merger of two banks, which nullified their inter-bank dealings. Nevertheless, commercial banks increased their holding of SA short-term securities and also activated the domestic inter-bank market. Increased activity in the inter-banks market was observed in this quarter as banks strive to meet their liquidity requirements (see Table 15).

**Table 15: Components of Commercial Banks' Liquidity**

(Million Maloti; End of Period)

COMPONENT	2005		2006			
	Sep	Dec	Mar	Jun	Sep	Dec
Maloti Notes and Coins	57.1	85.2	64.7	69.6	43.3	68.3
Rand Notes and Coins	9.1	20.3	10.0	12.5	34.2	59.3
Balances due from Lesotho Banks	793.6	741.4	633.6	713.6	15.7	420.3
Balances due from Foreign Banks	1152.2	1051.9	938.1	1200.9	1382.5	1542.3
Clearing Balances with CBL	63.2	70.7	24.8	29.7	15.9	2.8
RSA Short-term Securities	0.0	0.0	0.0	0.0	0.0	298.9
CBL Bills	0.0	0.0	0.0	0.0	0.0	0.0
Lesotho Government Securities	378.9	383.3	415.0	328.6	409.6	522.6

The credit deposit ratio declined from 28.5 per cent registered in September to 26.4 per cent in December. This fall implied a faster increase in deposit liabilities which exceeded the rise in credit extended during the review quarter.

**Table 16: Consolidated Balance Sheet of Commercial Banks**

(Million Maloti; End of Period)

	2005		2006			
	Sep	Dec	Mar	Jun	Sep	Dec
Net foreign assets	1310.3	1135.0	1139.0	1375.2	1614.6	1836.1
Deposits with CBL	159.6	247.3	149.0	125.5	101.5	112.9
Credit:	995.5	1161.1	1217.4	1115.4	1247.8	1393.2
o/w*: Statutory Bodies	46.7	33.4	29.4	17.9	15.4	17.4
Private Sector	493.7	666.1	696.9	691.9	745.0	777.6
Government:	455.2	461.6	491.1	404.5	487.4	598.3
o/w: Securities	454.5	461.6	490.6	404.3	487.4	598.3
Loans and Advances	0.7	0.5	0.5	0.2	0.0	0.0
Assets/Liabilities	2465.5	2543.4	2505.4	2616.0	2963.9	3342.3
Private sector deposits <sup>2</sup>	2123.7	2188.4	2130.2	2271.5	2649.4	3006.3
Government deposits	140.4	171.9	164.1	171.7	110.6	123.1
Capital, reserves & other, net	201.5	183.1	211.0	171.6	203.9	212.9

\* of which

<sup>2</sup> includes statutory bodies' deposits.***Demand for Money******Domestic Credit***

Domestic credit registered an increase of 5.2 per cent at the end of the review period following a 6.1 per cent rise observed at the end of the previous quarter. The rise was mainly attributable to an increase in credit extended to the private sector and statutory bodies. In addition, domestic credit continued to grow on an annual basis recording a 13.4 per cent increase at the end of December *vis-à-vis* a 38.5 per cent rise recorded at the end of September.

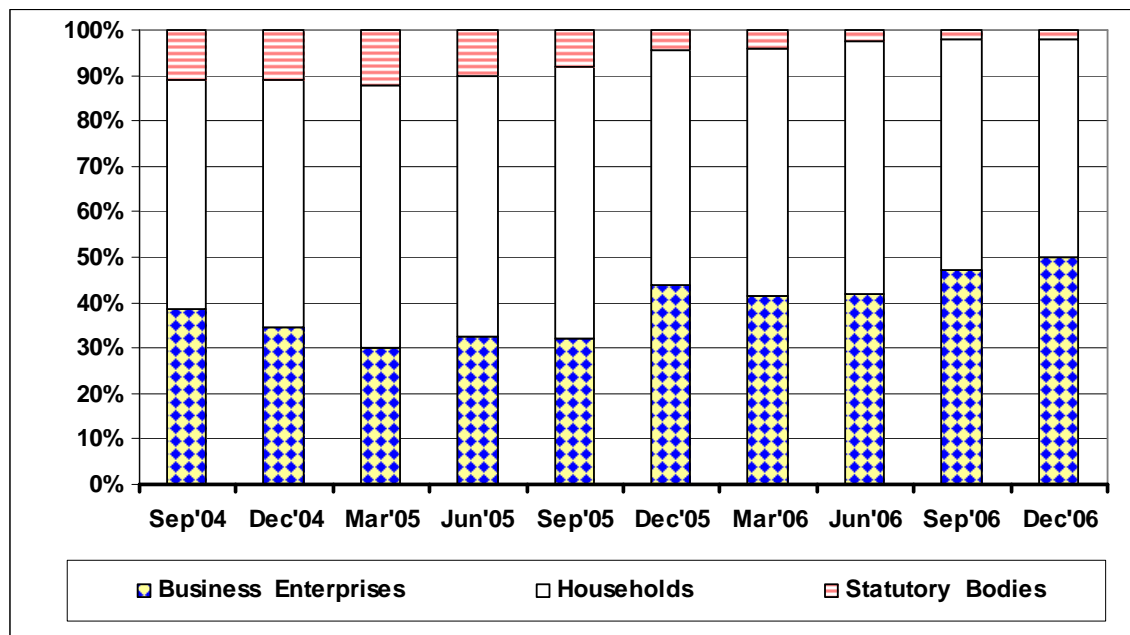
**Table 17: Domestic Credit**

(Million Maloti; End of Period)

	2005		2006			
	Sep	Dec	Mar	Jun	Sep	Dec
Domestic Credit	560.9	719.3	747.1	731.1	777.1	817.6
Credit to private sector	514.3	685.9	717.7	713.2	761.7	800.2
Business enterprises	179.1	316.6	310.5	307.8	365.8	409.6
Households	335.1	369.3	407.3	405.4	395.9	390.6
Credit to statutory bodies	46.7	33.4	29.4	17.9	15.4	17.4

**Figure 8: Distribution of Credit by Holder**

(Percentage shares)

**Credit to Private Sector**

Credit to the private sector registered an increase of 5.1 per cent during the quarter under review as a result of a 12.0 per cent increase in credit extended to business enterprises which offset a 1.4 per cent decline in

credit granted to households. This reflected increased economic activity driven by the private sector during the quarter ending December.

On an annual basis, private sector credit maintained a robust growth as it increased by 29.4 per cent following a two-fold hike observed at the end of September. Despite the fact that credit to households declined during the quarter ended December, it retained an upward trend on an annual basis. It increased by 5.8 per cent at the end of December compared with a rise of 18.1 per cent recorded at the end of the previous quarter.

The share of credit to businesses amounted to 51.2 per cent of total private sector credit reflecting an increase in the share from 48.0 per cent recorded at the end of September (see Figure 8). However, the share of credit extended to households was 48.8 per cent at the end of December, lower than 52.0 per cent observed at the end of September.

It is worth noting that private sector credit has been on a steady upward trend since June 2005. If sustained, the private sector would contribute more to economic growth in line with government policy of fostering private sector-led growth. It also implies that commercial banks are becoming more receptive to the domestic business environment and therefore more willing to extend credit.

### ***Credit to Statutory Bodies***

The amount of credit extended to statutory bodies increased by 13.1 per cent in December, converse to a decline of 14.2 per cent realised in September. Nevertheless, credit to this sub-sector declined by 47.9 per cent on an annual basis, following a decrease of 67.1 per cent at the end of September. As figure 8 indicates, the share of this credit to total credit continues to decline as well.

### ***Sectoral Distribution of Credit to Business Enterprises and Statutory Bodies***

Total credit distributed to all business sub-sectors of the economy, including official entities, but excluding non-performing loans, increased by 12.1 per cent in December compared with a rise of 16.9 per cent recorded in September. The rise in total credit during the quarter ending December was mainly a result of rising trends in credit extended to the manufacturing, distributive services and other development sub-sectors.

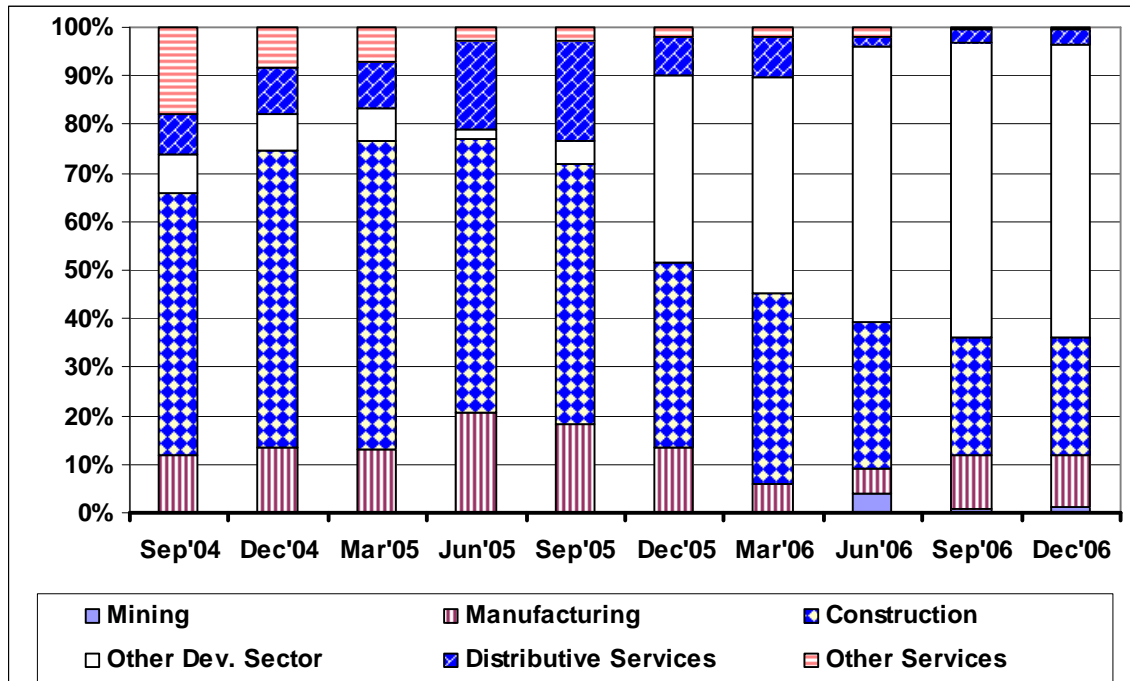
Credit allocated to other development sectors, made up of wholesale agriculture, storage, electricity, transport and communication recorded an increase of 11.7 per cent in December following a rise of 24.9 per cent noted in September. The manufacturing sub-sector realised an increase of 12.2 per cent in credit while the distributive services sub-sector received an additional 41.9 per cent of credit during the reporting quarter.

**Table 18: Sectoral Distribution of Credit to Enterprises**

(Million Maloti; End of period)

SECTOR	2005		2006			
	Sep	Dec	Mar	Jun	Sep	Dec
Mining	0.0	0.0	0.0	13.5	3.0	2.8
Manufacturing	41.3	47.8	20.4	15.6	44.0	45.7
Construction	121.0	132.6	133.3	99.1	97.8	107.9
Other development sectors	10.7	135.2	151.5	184.2	241.5	257.1
Distributive services	46.5	27.5	16.1	6.7	12.0	12.3
Other services	6.1	6.9	18.4	6.6	0.9	1.1
All sectors	225.7	350.0	339.6	325.8	399.3	426.9

**Figure 9: Commercial Banks' Credit to Business Enterprises**  
(As per cent of total)



### ***Net Claims on Government***

Net claims on Government by the banking system declined further by 7.3 per cent during the quarter under review, following a fall of 8.7 per cent observed at the end of September. The decrease was mainly driven by a build-up in government deposits with both the CBL and commercial banks. Consequently, net claims on Government by the CBL fell by 11.3 per cent.

**Table 19: Banking System's Net Claims on Government**

(Million Maloti; End of Period)

Holder	2005		2006			
	Sep	Dec	Mar	Jun	Sep	Dec
Commercial banks	314.9	289.8	327.0	232.7	376.8	475.2
Claims on Government	455.2	461.6	491.1	404.5	487.4	598.3
o/w MP T Bills <sup>3</sup>	386.2,	359.9	420.7	334.5	417.6	529.3
Less Government deposits	140.4	171.9	164.1	171.7	110.6	123.1
CBL	-1179.8	-1199.9	-1354.2	-1516.7	-1773.0	-1973.9
Claims on Government <sup>4</sup>	226.3	222.2	237.7	257.0	282.1	257.6
Less Government deposits	1406.2	1422.0	1591.9	1773.7	2055.0	2231.5
o/w blocked account	484.2	519.6	487.7	490.7	493.7	496.7
Total Net Claims	-865.0	-910.1	-1027.2	-1284.0	-1396.2	-1498.8

<sup>3</sup> 'MP T Bills' means monetary policy treasury bills

<sup>4</sup> IMF loans on-lent to the GOL

### **Net Foreign Assets**

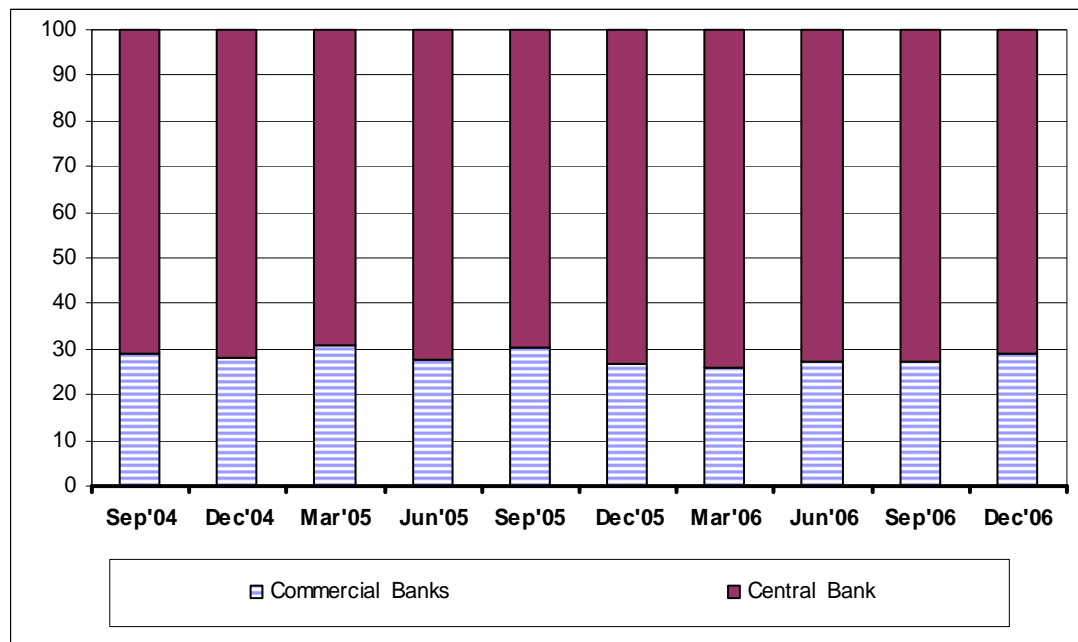
At the end of December, net foreign assets (NFA) of the banking system rose by 3.6 per cent compared with a 16.9 per cent rise recorded in September. The sustained upward trend mainly reflected a rise in both the NFA of the CBL and commercial banks. Commercial banks' net foreign assets increased by 9.8 per cent due to their net transfers abroad to take advantage of alternative investment opportunities. Moreover, the Central Bank's net foreign assets grew as a result of the recapitalization of increased bond coupon payments and revaluation gains observed during the review period.



**Table 20: Banking System's Foreign Assets and Liabilities**  
(Million Maloti; End of Period)

Holder	2005		2006			
	Sep	Dec	Mar	Jun	Sep	Dec
A. Commercial Banks	1310.3	1135.0	1139.0	1375.2	1614.6	1836.1
Foreign Assets	1388.6	1241.8	1248.1	1500.5	1683.1	1916.5
Foreign Liabilities	-78.3	-106.9	-109.1	-125.4	-68.6	-80.3
B. Central Bank of Lesotho	2985.5	3076.2	3238.4	3700.5	4319.9	4377.2
Foreign Assets	3539.3	3625.6	3803.3	4244.4	4885.9	4918.7
Foreign Liabilities	-553.8	-549.3	-564.9	-543.9	-566.0	-541.5
Net Total	4295.8	4211.2	4377.4	5075.7	5934.4	6213.4

**Figure 10: Net Foreign Assets**  
(Percentage shares)



## VIII. Money and Capital Markets

### *Money Market Developments*

CBL continued to issue government securities during the review quarter in an effort to develop the money market and implement monetary policy. A total of five treasury bill auctions were conducted during the quarter. They comprised three 91-day and two 182-day treasury bill auctions. The total stock of securities for the quarter under review amounted to M576.4 million. This value represented an increase from M544.7 million which was offered during the previous quarter.

Participants during these auctions comprised commercial banks, Non-Bank Financial Institutions (NBFIs), and other institutions. The holding of securities by the NBFIs dropped significantly due to the low return compared with what prevailed in SA. The banking sector continued to dominate the market by holding more securities. The share of the banking sector stood at 86.4 per cent of the total in contrast with 77.7 per cent recorded in the previous quarter, while that of the NBFIs dropped to 0.1 per cent in December in contrast to 12.1 per cent in September. The share of general public in total securities holding improved by 3.31 percentage points to 13.5 per cent.

**Table 21: Holdings of Treasury Bills**

(Face Value; Million Maloti)

Type of Holder	2005		2006			
	Sep	Dec	Mar	Jun	Sep	Dec
Total	534.7	530.2	530.2	545.8	544.7	576.4
Banking System	386.2	359.9	425.8	339.6	423.2	498.0
Central Bank	0.0	0.0	5.1	5.1	4.9	0.0
Commercial Banks	386.2	359.9	420.7	334.5	418.3	498.0
Non-Bank Sector	148.6	170.3	104.4	206.2	121.5	78.4
NBFIs	89.8	108.3	49.6	155.3	66.0	0.5
Others	58.8	62.0	54.8	50.9	55.5	77.9
Memorandum Item						
Average Yield (percent)	7.21	7.27	7.10	7.04	7.16	7.05

### ***Money Market and Short-term Interest Rates***

At the end of December, the margin between the Lesotho 91-day treasury bill rate and its SA counterpart continued to remain within the guideline range. The Lesotho 91-day treasury bill rate declined from 6.86 per cent in September to 6.76 per cent in December contrary to its SA counterpart which rose from 8.00 per cent to 8.26 per cent in December. This implies that the increased total amount of securities auctioned during the quarter did not lead to an increase in the treasury bill rate nor the narrowing in the margin. This strong demand for securities by banks, caused by their high levels of surplus funds, depressed the treasury bill rates.

Following the upward trend of the SA repo rate, the prime lending rate in the country increased from 12.33 per cent in September to 13.5 per cent in December. The deposit rates also maintained the upward trend. Nevertheless, at the end of December, the real interest rate on one-year deposits (adjusted for inflation) was still negative at 0.4 per cent. Thus, the return on deposits was still not sufficient to preserve depositors' purchasing power. However, the margin between the domestic lending rates and the deposits rates narrowed slightly.

**Table 22: Major Money Market Interest Rates**

(Percent; End of Period)

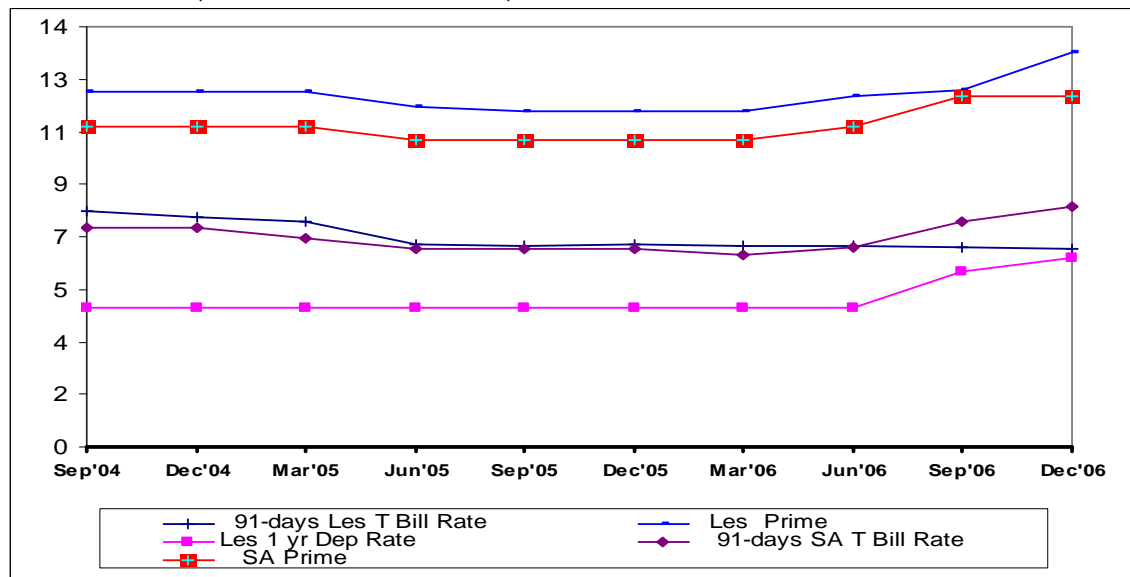
Interest Rates by Type	2005		2006			
	Sep	Dec	Mar	Jun	Sep	Dec
Central Bank T Bill Rate – 91 Days	6.89	6.95	6.90	6.90	6.86	6.76
Lombard Rate	13.00	13.00	10.40	10.40	10.36	10.26
Commercial Banks <sup>5</sup>						
Call	2.83	2.83	2.83	3.50	4.10	5.00
Time:						
31 days	3.50	3.50	3.50	3.50	3.50	3.50
88 days	4.25	4.25	4.25	4.25	5.5	6.00
6 months	4.50	4.50	4.50	4.50	5.8	6.25
1 year	4.75	4.75	4.75	4.75	6.0	6.50
Savings	2.00	2.00	2.00	2.00	2.96	5.00
Prime	11.50	11.50	11.50	12.00	12.33	13.50
South Africa*						
Repo	7.00	7.00	7.00	7.00	8.00	9.00
T Bill Rate – 91 Days	6.79	6.80	6.59	6.83	8.00	8.26
Marginal Lending Rate	12.00	12.00	12.00	12.50	13.00	12.00
Prime	10.50	10.50	10.50	11.00	11.50	12.50

\* Figures for South Africa were obtained from the SARB

<sup>5</sup> Average rates by commercial banks

**Figure 11: Short-Term Interest Rates**

(Percent Per Annum)



### Exchange Rates

During the fourth quarter of 2006, the Loti continued to weaken against major currencies. The currency depreciated by 1.8 per cent against the US Dollar. The observed weakness of Loti was due to the relatively high interest rates in developed countries. Measured against other currencies, the Loti depreciated by 2.8 per cent, 3.4 per cent and 4.4 per cent against SDR, Euro and Pound Sterling, respectively.

**Table 23: Selected Exchange Rates**

(Loti per foreign currency units: Quarterly Averages)

CURRENCY	2005		2006			
	Sep	Dec	Mar	Jun	Sep	Dec
SDR	9.512	9.398	8.871	9.537	10.601	10.895
Euro	7.937	7.772	7.403	8.127	9.118	9.434
USD	6.510	6.538	6.157	6.473	7.185	7.316
Pound Sterling	11.611	11.427	10.789	11.814	13.414	14.012

## **IX. Government Finance**

### ***Summary of Budget Outturn***

Preliminary estimates on the budget outturn indicated a surplus equivalent to 7.1 per cent of GDP for the fourth quarter. This was a result of improvement in domestic tax collections, coupled with a slowdown in Government expenditure during the period under review.

Overall Government expenditure and net lending declined by a 4.5 per cent during the quarter under review. As a share of total expenditure, recurrent expenditure increased to 87.2 per cent in contrast with 80.8 per cent registered in the previous quarter. Capital expenditure, declined to 12.8 per cent, on the back of a slowdown in implementation of development projects during the period under review.

### ***Revenue***

Government revenue including grants dropped marginally by 1.7 per cent at the end of the fourth quarter of 2006. The fall was mainly on account of a decrease in non-tax revenue, which plummeted by 18.2 per cent. This was mainly attributed to a drop in payments of dividends and interest on loans on-lent to semi autonomous agencies. As a percentage of GDP, total revenue and grants declined to 51.4 per cent in contrast with 52.3 per cent recorded in the previous quarter.

Tax revenue improved marginally by 1.1 per cent from the previous period, largely on account of a rise in non-customs tax revenue, which grew by 2.9 per cent. Value Added Tax (VAT) grew by 9.3 per cent reflecting economic activity during the festive season. Income tax was estimated to grow by 1.1 per cent, largely driven by the increase in company tax, which more than offset the decline in personal and other income tax components<sup>2</sup>.

SACU receipts maintained the level recorded at the end of the previous quarter. It continued to dominate tax revenue, constituting 62.1 per cent of total tax receipts during the review period. As share of tax revenue, income tax and VAT accounted for 20.4 per cent and 15.8 per cent respectively.

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<sup>2</sup> Other Income tax component comprises withholding and fringe benefits taxes.

Implementation of development projects slowed down during the period under review. This was evidenced by the decrease in disbursements of development grants, which dropped by 40.0 per cent.

**Table 24: Government Budgetary Operations**

(Million Maloti)

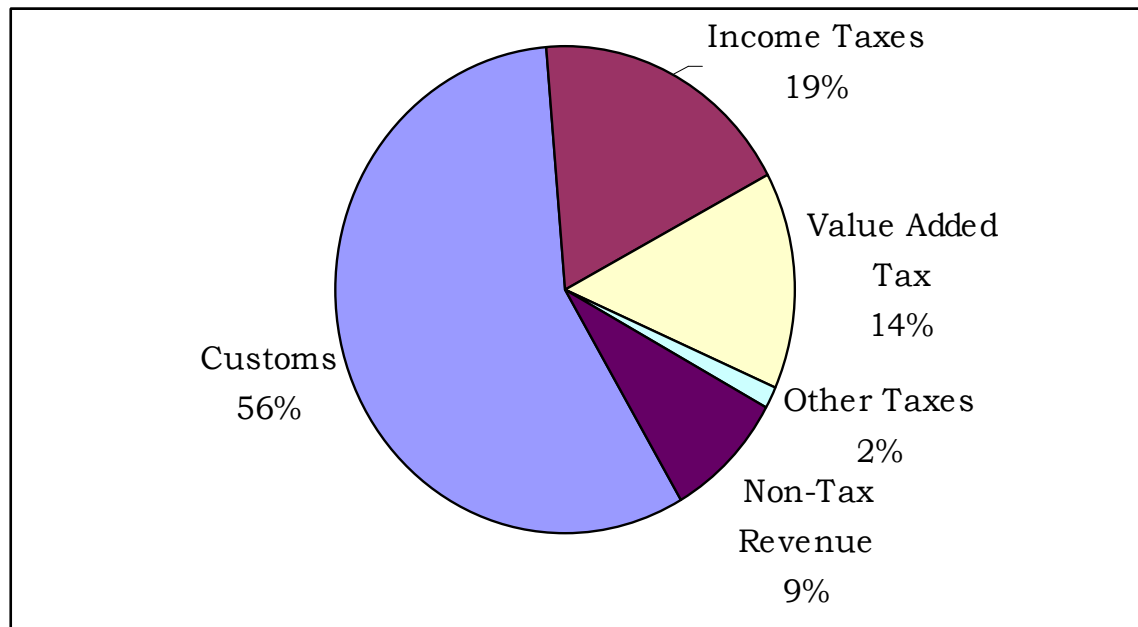
	2005/06		2006/07		
	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept Revised	Oct-Dec * Preliminary
<b>Total Revenue and Grants</b>	<b>1139.2</b>	<b>1222.5</b>	<b>1371.4</b>	<b>1400.5</b>	<b>1376.8</b>
<b>Total Revenue</b>	1130.9	1217.7	1344.3	1373.2	1360.5
<i>Tax Revenue</i>	1025.5	1049.9	1209.9	1230.8	1244.0
Customs	603.3	603.3	772.3	772.3	772.3
Non-customs	422.1	446.6	437.6	458.5	471.7
Income Taxes	229.6	240.1	234.0	251.6	254.4
Taxes on goods & services	188.0	194.7	194.6	188.2	196.8
Other Taxes	4.6	11.8	9.0	18.8	20.5
<i>Non-Tax Revenue</i>	105.5	167.7	134.3	142.4	116.5
Of which: Water royalties	63.6	62.0	58.1	70.9	69.7
<b>Grants</b>	<b>8.2</b>	<b>4.9</b>	<b>27.1</b>	<b>27.2</b>	<b>16.3</b>
<b>Total Expenditure &amp; Net Lending</b>	<b>1137.5</b>	<b>1077.3</b>	<b>1159.4</b>	<b>1242.0</b>	<b>1186.3</b>
<b>Recurrent Expenditure</b>	951.8	941.7	1000.1	1006.5	1037.0
Personnel Emoluments	318.7	321.4	340.6	341.9	342.9
Interest Payments	131.5	23.3	26.6	25.7	36.1
Foreign	120.4	10.7	16.3	13.0	24.2
Domestic	11.1	12.6	10.3	12.7	11.9
Other Expenditure	501.7	596.9	632.9	638.9	658.0
<b>Capital Expenditure</b>	189.0	138.9	159.3	238.0	151.8
<b>Net Lending</b>	-3.4	-3.3	0.0	-2.5	-2.5
<b>Surplus/deficit before grants</b>	<b>-6.5</b>	<b>140.4</b>	<b>184.9</b>	<b>131.3</b>	<b>174.2</b>
<b>Surplus/deficit after grants</b>	<b>1.7</b>	<b>145.2</b>	<b>212.0</b>	<b>158.5</b>	<b>190.5</b>
<b>Financing</b>	<b>-1.7</b>	<b>-145.2</b>	<b>-212.0</b>	<b>-158.5</b>	<b>-190.5</b>
Foreign	-33.9	-22.8	-55.1	38.0	-44.4
Loan drawings	28.1	9.6	27.8	79.5	20.8
Amortization	-62.0	-32.4	-82.9	-41.5	-65.2
Domestic	32.2	-122.4	-156.9	-196.5	-146.1
Bank Financing	-45.1	-117.1	-256.8	-112.2	-102.6
Non – Bank	77.3	-5.3	99.8	-84.3	-43.5

Source: Ministry of Finance and Development Planning (MoFDP)

\*CBL Preliminary Estimates



**Figure 12: Sources of Government Revenue**



### ***Expenditure***

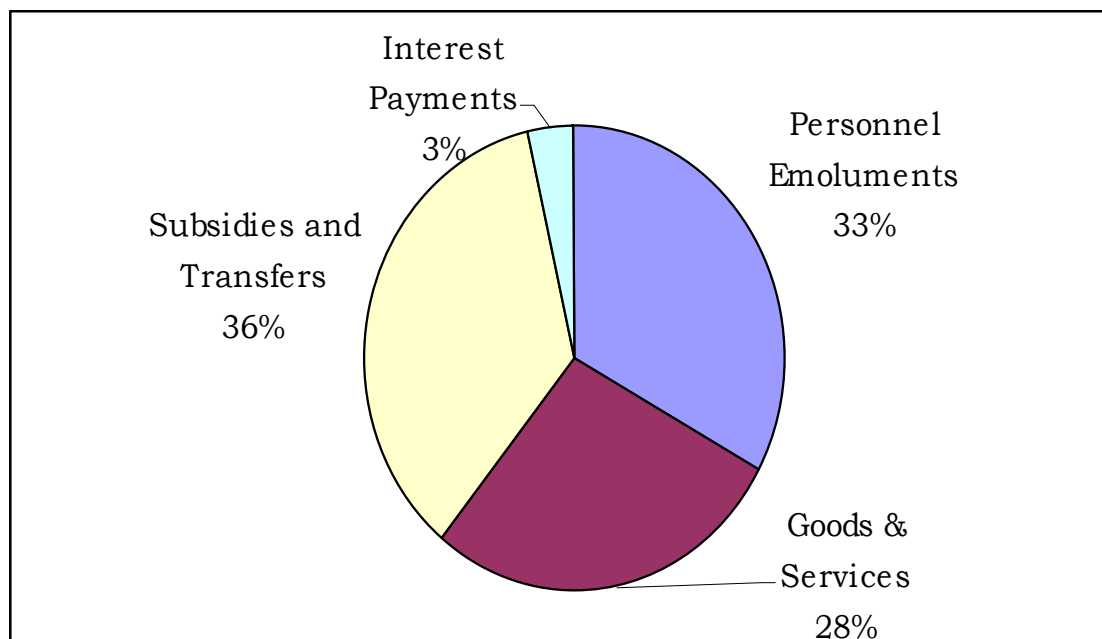
Total expenditure and net lending was estimated to have dropped by 4.5 per cent during the review period, due to among others, the decrease in capital expenditure by 36.2 per cent. As a percentage of GDP, total expenditure dropped to 44.3 per cent, compared with 46.4 per cent in the previous quarter.

Recurrent expenditure increased by 3.0 per cent following a 2.0 per cent increase observed in the previous quarter. The increase was mainly driven by the rise in transfers and subsidies, which more than offset the 1.3 per cent and 8.3 per cent decreases in personal emoluments and expenditure on goods and services, respectively. Interest payments grew by 40.5 per cent, largely due to the increase in its foreign component following depreciation of the local currency against major currencies with which debt is contracted.

The level of subsidies and transfers extended during the review period continued on an upward trend. They increased by 15.7 per cent against 5.4 per cent registered in September. This was mainly driven by transfers to government educational entities plus payments of pensions and gratuities which grew by 14.8 per cent.

Implementation of development projects slowed down during the period under review. Capital expenditure was estimated to have declined by 36.2 per cent on a quarterly basis due to among others, the slowdown in economic activity during the festive season. The implementation is expected to pick up in the final quarter of the fiscal year after resumption of work by the construction sub-sector. The Government continued to be a dominant financier of development projects. About 75.5 per cent of this expenditure category was Government funded, while loans and grants accounted for 13.7 per cent and 10.8 per cent, respectively.

**Figure 13: Recurrent Expenditure by Type**



### ***Financing***

Government budgetary operations realised a surplus equivalent to 7.1 per cent of GDP during the review period. This enabled Government to accumulate deposits with the banking sector. The healthy Government position with the banking system could mitigate the negative impact of the anticipated decline in SACU revenue. It also facilitated the build-up in net international reserves, which improved the import cover to 6.7 months.

## ***Public Debt***

### ***Overview***

Total public debt decreased by 2.3 per cent during the period under review, as a result of repayments of foreign loans which more than offset the effects of depreciation and the rise in domestic debt. As a ratio of GDP, the total debt stock was estimated to have declined to 48.9 per cent in contrast to 50.3 per cent observed in the previous quarter. External debt continued to account for the larger share of total debt stock during the review period. It registered approximately 86.7 per cent of total government debt, while domestic debt accounted for the remaining 13.3 per cent.

### ***External debt***

The level of external debt declined by 4.0 per cent following the slow implementation of development projects during the period under review. Consequently, concessional and non-concessional debt fell by 3.2 per cent and 6.4 per cent respectively, as a result of a 3.9 per cent reduction in loans from multilateral sources. As a percentage of total debt stock, external debt declined by 1.1 percentage points to 86.7 per cent. Nonetheless, the degree of concessionality of external debt stock increased to 84.4 per cent in contrast to 83.8 per cent of total debt stock. This reflected Government commitment to limit borrowing to concessional terms in order to moderate the country's future debt burden.

As a ratio of GDP, external debt stood at 42.4 per cent, compared with 44.1 per cent in the previous period. At this level, the debt to GDP ratio was below the 60 per cent sustainability threshold. Debt service was recorded at 3.0 per cent, compared with the 1.8 per cent observed in September.

**Table 25: Outstanding Government Debt**

(Million Maloti)

	2005		2006			
	QIII	QIV	QI	QII	QIII	QIV
A. EXTERNAL DEBT	4105.6	4011.6	3932.6	4013.9	4699.9	4514.3
Bilateral Loans	408.6	396.9	408.5	383.2	385.4	386.9
Concessional	375.9	369.9	386.2	381.5	322.3	327.1
Non-concessional	32.7	27.1	22.3	1.7	63.0	59.9
Multilateral Loans	3484.6	3399.1	3334.4	3443.8	4129.2	3968.4
Concessional	3037.4	2985.9	2939.3	2992.4	3612.8	3480.7
Non-concessional	447.2	413.2	395.1	451.4	516.3	487.7
Financial Institutions	147.9	141.5	117.2	113.1	113.6	101.1
Concessional	2.6	2.6	2.4	2.4	2.4	2.3
Non-concessional	145.4	138.9	114.8	110.7	111.1	98.8
Suppliers' Credit	64.4	74.1	72.5	73.8	71.8	57.8
B. DOMESTIC DEBT	649.3	644.9	644.9	661.0	654.5	691.0
Banks	500.9	474.6	540.4	454.7	533.0	612.7
Long-term	114.7	114.7	114.7	114.7	114.7	114.7
Short-term	386.2	359.9	425.7	340.0	418.3	498.0
Of which: treasury bills	386.2	359.9	425.7	339.6	418.3	498.0
Non-bank	148.5	170.3	104.4	206.3	121.5	78.4
Short-term (TBs)	148.5	170.3	104.4	206.3	121.5	78.4
TOTAL (A + B)	4754.9	4656.5	4577.5	4674.9	5354.4	5205.4

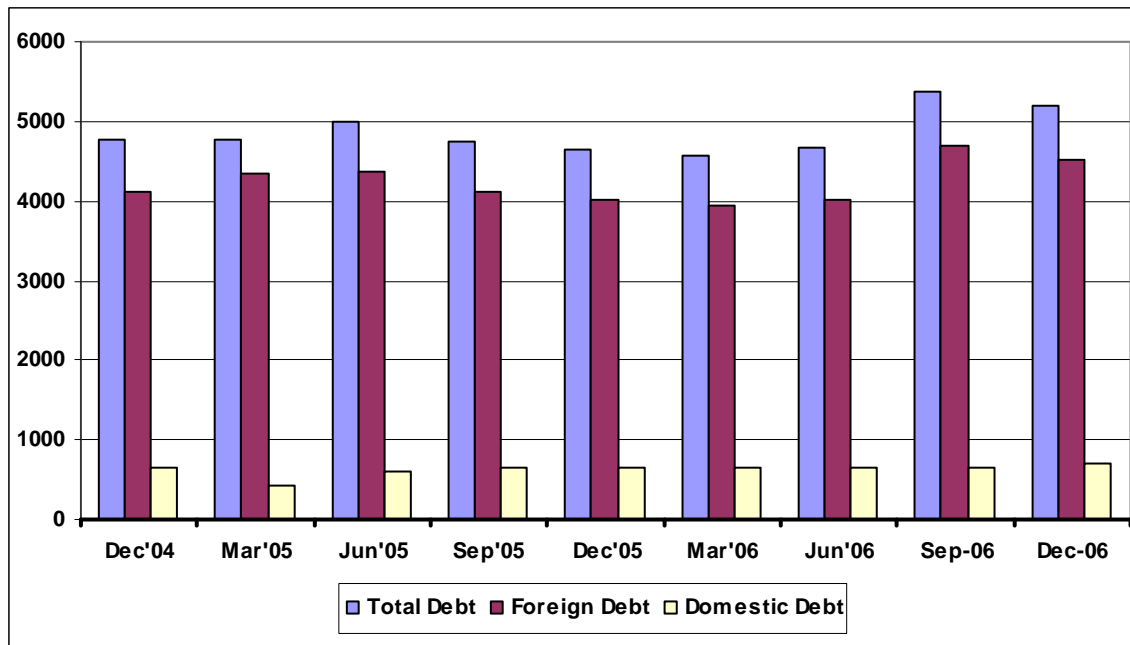
**N.B:** External debt figures are from MoFDP***Domestic Debt***

Domestic debt rose by 5.6 per cent during the quarter ending December 2006 due to a rise of 19.1 per cent in the holdings of domestic debt by the banking sector. Short-term debt continued to represent treasury bills issued in the monetary policy operations. Long-term debt, which is made

up of the ten year bond<sup>3</sup>, maintained the level of the previous quarter. As a percentage of GDP, domestic debt increased marginally to 6.5 per cent during the period under review. It was recorded at 13.3 per cent of total debt stock in contrast to 12.2 per cent observed in the previous period.

**Figure 14: Outstanding Public Debt**

(Million Maloti: End of Period)



<sup>3</sup> This bond had been issued to finance the restructuring of the old Lesotho Bank in 1999.

## **X. Statistical Tables**