CENTRAL BANK OF LESOTHO

QUARTERLY REVIEW

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MASERU
KINGDOM OF LESOTHO

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I. Introduction

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The fourth quarter of 2007 was characterized by uncertainty about the world economy. On an annual basis, real Gross Domestic Product (GDP) of the United States (US) economy decelerated to 2.5 per cent compared with 2.8 per cent registered in the previous quarter. This was mainly due to the effects of the sub-prime mortgage crisis that hit the US economy at the beginning of the third quarter of 2007. In addition, there is evidence of slower growth in other regions such as the Euro zone, Asia and South Africa. The persistent increase in the price of oil continues to be a threat to price stability world-wide. Varying responses to these threats have been observed across regions with the US reducing the main interest rates to salvage the economy from getting into a recession and South Africa hiking them to curb inflationary pressures.

The Lesotho economy also exhibited mixed indications during the fourth quarter of 2007. The mining sub-sector continued to display sound growth due to the operations in Letseng and Liqhobong. In the secondary sector, electricity consumption rose by 3.3 per cent during the quarter. However, the industrial water consumption which is a measure of the performance of the textile and clothing sub-sector showed some slow down signalling a sluggish performance of Lesotho exports.

The tertiary sector also showed some weakening during the quarter under review. Data from the Lesotho Revenue Authority (LRA) indicates that the value of sales turnover rose by 1.2 per cent on a quarterly basis and declined by 13.3 per cent on annual basis.

Employment in the Lesotho National Development Corporation (LNDC) assisted companies increased by 1.3 per cent during the quarter reflecting some weakness in the clothing and textile sub-sector. Migrant mineworkers continued to increase.

Inflation developments continued to follow those of the region. The rate of inflation rose to 10.5 per cent compared with 8.6 per cent recorded in the previous quarter. In South Africa, the South African Reserve Bank targeted inflation measure, CPIX, remained above the target band of 3 to 6 per cent. The continuing increase in the price of crude oil and food fuels the escalation in prices.

Money supply grew by 10.3 per cent during the quarter under review compared to the modest 1.1 per cent recorded in the previous quarter mainly due to the 5.5 per cent increase in the banking system's net foreign assets, which more than offset the 8.5 per cent contraction in domestic credit. Domestic credit fell by 14.0 per cent.

Comment [p1]: Not clear whether domestic credit fell by 14 per cent of 8.5 percent. Still both numbers cannot be offset by an increase of 5.5 percent in nfa.

The treasury bill rate continued on an upward trend in the fourth quarter, registering 8.82 per cent from 8.12 per cent in the quarter ended September. This was in line with the 66 basis point increase in the South African 91-day treasury bill rate during the same period. Other interest rates in the economy remained in line with those of South Africa.

Government budgetary operations are estimated to have resulted in a surplus equivalent to 9.1 per cent of GDP resulting mainly from prudent financial management by government and improved performance of the tax revenue.

During the fourth quarter of 2007, the overall balance of payments surplus narrowed to M116.9 million from that of M870.8 million recorded in the previous quarter due to the decline in current transfers and merchandise exports.

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II. International Economic Developments

The United States (US)

The growth of the US economy weakened during the quarter under review. On an annual basis, real GDP grew by 2.5 per cent against a revised 2.8 per cent registered in the previous quarter due to housing market slump and slower growth in consumer expenditure. New home sales fell by 4.7 per cent in December to their lowest level since 1995. Furthermore, reduced factory inventories and exports also contributed to the slower growth rate.

Unemployment rate rose from 4.7 per cent during the third quarter to 5.0 per cent during the quarter under review. The rate of inflation accelerated to 4.1 per cent in December compared with 2.8 per cent observed in September largely due to a faster increase in both food and oil prices. At this rate, the overall inflation rate in the US was on the high side. Consequently, the Federal Reserve Bank's Open Market Committee (FOMC) reduced the benchmark lending rate from 4.75 per cent observed in September to 4.25 per cent in December. The sub-prime mortgage lending problem also contributed towards the interest rate reduction.

The deceleration in the US economic growth may have negative implications on the Lesotho economy by reducing its export earnings since a bulk of textiles and clothing is destined to the US market. This could be reflected in a subsequent worsening of the balance of payments position. Furthermore, reduced US demand for Lesotho's exports may lead to reduced employment opportunities in the textile and clothing sub-sector

Table 1: World Key Economic Indicators

(Quarter III versus Quarter IV: 2007)

	Real GDP Growth		Inflation Rate		Key Interest Rate		Unemployment Rate	
	QIII	**QIV**	**QIII**	**QIV**	**QIII**	**QIV**	**QIII**	**QIV**
China	11.5	11.2	6.2	6.5	7.3	7.47	4.1	9.5
Euro Area	2.7	2.3	2.1	3.1	4.0	4.0	7.3	7.2
India	8.9	n/a	6.4	5.5	7.8	7.8	7.6	7.6
Japan	1.9	1.8	0.6	-0.3	0.5	0.5	4.0	3.8
South Africa	4.8	5.3	6.7	8.6	10.0	11.0	25.5	25.5
United States	2.8	2.5	2.8	4.1	4.8	4.3	4.7	5.0

Source: Bloomberg, The Economist, STATSSA and SARB

Euro-zone[1]

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

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Real economic growth in the Euro-zone decelerated during the quarter under review. On an annual basis, real GDP grew by 2.3 per cent during the quarter under review compared with 2.7 per cent registered in the previous quarter. This was backed up by performance of the industrial production as a leading indicator of economic growth. However industrial production increased at a slower pace of 0.1 per cent in December compared with 0.3 per cent in September 2007.

The harmonised unemployment rate in the Euro-Zone improved during the quarter under review. It declined from 7.3 per cent in September to 7.2 per cent in December. Inflation in the Euro-zone as measured by changes in the Harmonised Index of Consumer Prices (HICP) accelerated from 2.1 per cent recorded in September to 3.1 per cent in December, the highest rate since the adoption of the Euro in 1998. At this rate, the inflation rate remained above the targeted rate of 2.0 per cent as determined by the European Central Bank (ECB). The increase in the inflation rate was due to the soaring international oil prices and higher food prices. However, the inflation outlook led the ECB to keep its benchmark lending rate unchanged at 4.00 per cent in December.

Economic developments in the Euro-zone have both direct and indirect impacts on Lesotho's economy. Firstly, a large portion of Lesotho's exports, in particular diamonds, is destined to the Euro-zone. Secondly, developments in the Euro-zone have direct implications for the South African economy because an estimated 30 per cent of South African (SA) exports are destined to the Euro-zone. SA is Lesotho's main trading partner.

South Africa (SA)

Real economic growth accelerated during the quarter under review from 4.8 per cent recorded in the previous quarter to 5.3 per cent realized during the quarter under review. The main contributors towards this increase were, among others, performance of the manufacturing and construction sub-sector; finance, real estate and business services and wholesale, retail trade, hotels and restaurants.

The labour market situation in SA has generally been stable in recent years. Unemployment rate remained virtually unchanged at 25.5 per cent. The South African Reserve Bank's (SARB) monetary policy target, the consumer price index excluding interest on mortgage bonds (CPIX), continued to remain above the targeted range of 3 to 6 per cent. The CPIX has exceeded the 6 per cent ceiling since April 2007. During the quarter under review, this measure of inflation rose to 8.6 per cent in December compared with 6.7 per cent registered in September as a result of higher fuel and food prices. Furthermore, increases in administered prices and elevated levels of credit extended in the economy also contributed towards the increase in prices.

As a way to curb the high inflation rate, the SARB Monetary Policy Committee (MPC) maintained a monetary policy tightening stance and raised the key benchmark rate by 100 basis points to 11.00 per cent in December.

Positive economic activity in SA augurs well for the Lesotho economy. However, upward pressure on general price levels and interest rates remains a threat because of trade and financial links between these two countries. In addition, the electricity power shortages in SA, if sustained, could be detrimental to the SA economy, in particular, the mining and manufacturing sectors. Consequently the number of Basotho migrant mineworkers may decline and this would adversely affect the Lesotho's balance of payments position.

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Asian Emerging Markets and Japan

China

Preliminary estimates indicated that GDP in the world's fourth-largest economy, China, maintained a high growth of 11.2 per cent in the fourth quarter compared with 11.5 per cent registered in the previous quarter. This growth rate was buoyed by investment in factories, retail sales and exports.

Inflation rate rose to 6.5 per cent in the review period from 6.2 per cent registered in September. This high inflation rate was attributable to food and oil prices. Food prices increased due to, among others, shortages of pork and grain. At this rate, inflation was above the 3.0 per cent target of the People’s Bank of China (PBC). Consequently, the PBC raised the one-year benchmark interest rate from 7.29 per cent in September to 7.47 per cent in December in order to curb inflation.

Inflation developments in the Chinese economy may have negative implications for the Lesotho economy. Higher inflation in China, where a large proportion of Lesotho’s manufacturing inputs are sourced, could negatively affect the competitiveness of Lesotho’s exports and increase its import bill.

Japan

On an annual basis the Japanese real economic growth decelerated slightly from 1.9 per cent in the previous quarter to 1.8 per cent in the fourth quarter of 2007. Furthermore, a leading indicator of economic growth, industrial production, also rose by 1.4 per cent in December

The Japanese unemployment rate in seasonally adjusted terms improved from 4.0 per cent registered in September to 3.8 per cent in December. On the inflation front, the core CPI which excludes fresh foods prices declined by 0.3 per cent in December, the same rate observed in September. The inflation outlook led the Bank of Japan (BOJ) to keep its key interest rate unchanged at 0.50 per cent during the fourth quarter.

India

An index of industrial production in India maintained an upward trend during the quarter under review as it increased by 5.3 per cent in November.

The rate of inflation rate fell to 5.5 per cent in November from 6.4 per cent recorded at the end of September due to a fall in food prices. Although the inflation rate has dropped, the Reserve Bank of India (RBI) has warned that the spiralling international oil prices could push it up. Therefore, inflation expectations led the Reserve Bank of India (RBI) to keep the key interest rate unchanged at 7.75 per cent during the third quarter.

Commodity Prices

Gold

The average price of gold increased from US$680.4 per ounce in the previous quarter to US$789.5 per ounce in the fourth quarter. It ranged between a minimum and maximum of US$727.9 per ounce and US$840.5 per ounce, respectively. In Rand terms, the average price of gold increased by 10.8 per cent from R4 832.4 per ounce in the previous quarter to R5 353.9 per ounce during the quarter.

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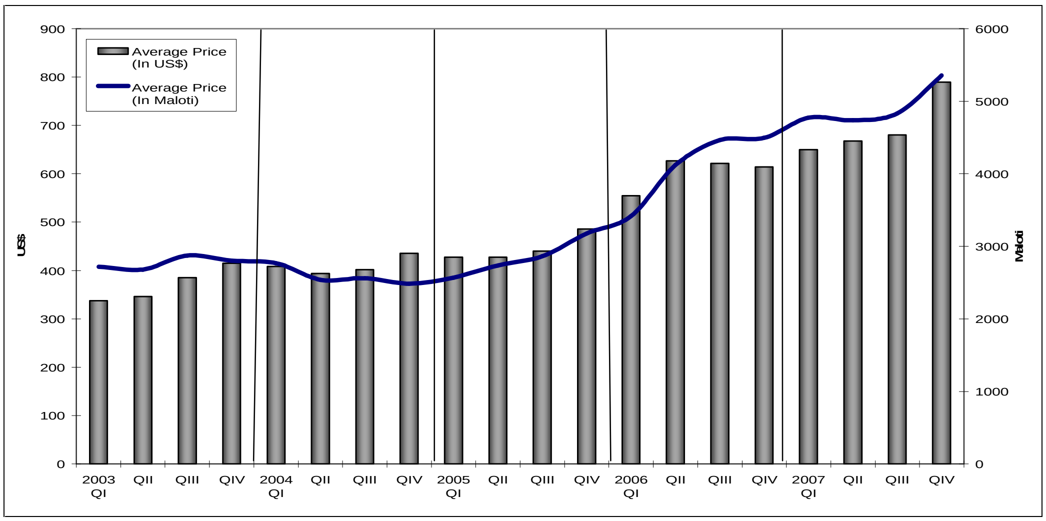
The sustained high price of gold has benefited the Lesotho economy in both employment generation and the balance of payments position. Migrant miners' remittances increased by 6.7 per cent during the quarter under review. Furthermore, an increase in gold and platinum export earnings is expected to support the Rand currency. However, the electricity power shortages in South Africa remain a threat and if sustained, may lead to closure of some marginal mines. This would in turn have negative implications in the number of Basotho migrant mineworkers' employment and hence remittances.

Figure 1: Commodity Prices (Gold)



Oil

During the quarter under review, the average price of crude oil increased by 19.3 per cent, from US$71.36 per barrel in the previous quarter to US$85.14 per barrel. The increase in international oil prices resulted largely from high demand due and tight supply. Geopolitical and supply risks coupled with strong demand, especially from China, India, Middle East and the United States also exerted pressure on the soaring oil prices.

The oil price ranged between a minimum and maximum of US$74.47 per barrel and US$91.91 per barrel, respectively. In Maloti terms, it rose by 13.9 per cent, from M506.8 per barrel in the previous quarter to M577.4 per barrel in the fourth quarter. A rise in the price of crude oil in both US Dollar and Loti terms could impact negatively on the Lesotho's economy. The increase in the oil price may have more inflationary pressures given that Lesotho imports all its petroleum products. Moreover, the country's balance of payments position may deteriorate as the value of oil imports rises.

Due to the developments in the international oil prices, there were three upward revisions of fuel prices in the country during the review quarter. The pump price of petrol in Lesotho closed the review quarter higher at M7.05 per litre compared with M6.70 realised in the previous quarter. The price of diesel and illuminating paraffin also closed the quarter higher at M7.95 per litre and M5.70 per litre, respectively. These compare with M7.15 per litre of diesel and M4.80 per litre of illuminating paraffin at the end of third quarter.

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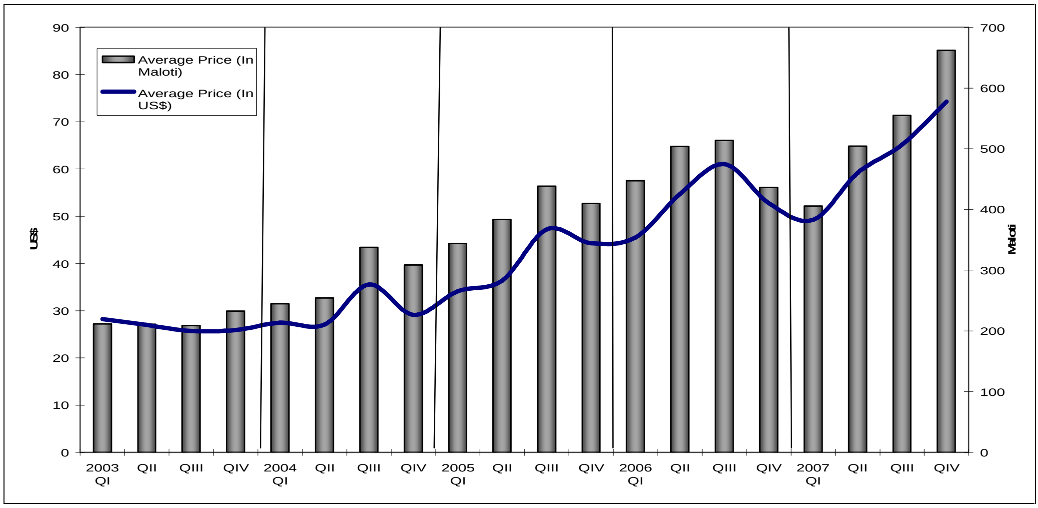
Figure 2: Commodity Prices (Oil)

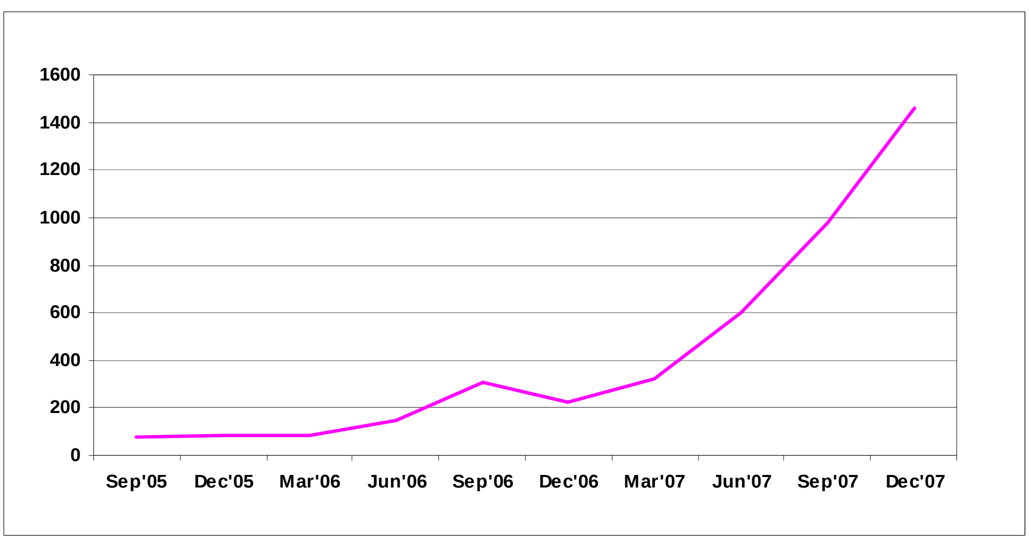


III. Real Sector, Employment and Price Developments

The diamond mining production index has increased from 977.77 points for the period ending September to 1460.79 in December 2007. The current growth is a reflection of benefits of financial injection that the sub-sector received during the last 12 months. The growth also coincided with the sale of a 406 carats diamond named 'Lesotho legacy' during the review quarter. It is expected that this growth will persist as more mining companies start operations.

Figure 3: Diamond Production Index

(2005: QI=100)



Source: Department of Mines and Geology

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Secondary Sector Developments

Electricity Consumption

Electricity consumption increased by 3.31 per cent on a quarterly basis and a higher 35.4 per cent on an annual basis. The 'commercial and industrial' component remains the main determinant of the direction of overall electricity consumption in the country. The annual growth rate is reflective of the expansive phase of the economy. The increase in the 'domestic' sub-category, which supplies households, is in line with the on-going rural electrification project that the government has embarked on.

Table 2: Electricity Consumption

(Million Maloti)

	2007							
	QI		QII		QIII		QIV	
	Kwh	**value**	**Kwh**	**value**	**Kwh**	**value**	**Kwh**	**value**
General Purpose	17.84	11.50	20.98	13.89	20.95	13.84	18.64	12.32
Domestic	28.55	13.99	35.43	17.36	38.97	18.36	43.42	20.45
Commercial & Industrial	62.87	25.74	69.74	31.42	83.17	34.05	85.86	35.15
Total	109.26	51.23	126.15	62.67	143.09	66.25	147.92	67.92

Source: Lesotho Electricity Authority

Water Consumption

Water consumption increased by 3.9 per cent on a seasonally adjusted quarterly basis, and by more than twofold on an annual basis mainly due to the increase in domestic water consumption during the quarter. 'Industrial' use of water increased marginally, signalling a slowdown in the exports performance, which may have been affected by demand in the export market. The households' consumption was further boasted by the reintroduction of pre-paid public standpipes, thus increasing access to water.

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Table 3: Water Consumption

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

Quarter		Domestic	Industrial	Other	Total
2006					
IV	Units	0.94	1.44	0.59	2.97
	Value	3.96	6.39	2.70	13.05
	Units*		1.30		2.68
2007					
I	Units	1.01	1.38	062	3.01
	Value	4.34	6.42	2.88	13.64
	Units*		1.61		3.52
II	Units	1.47	3.27	1.15	5.89
	Value	3.85	7.38	3.00	14.22
	Units*		3.32		5.98
III	Units	1.72	3.42	1.37	6.51
	Value	4.50	7.71	3.57	15.78
	Units*		3.42		6.19
IV	Units	1.87	3.84	1.42	7.13
	Value	4.49	7.87	3.70	16.06
	Units*		3.46		6.43

Source: Water and Sewerage Authority
*denotes seasonally adjusted figures

Tertiary Sector Developments

Retail Sales Turnover

The value of sales turnover increased by 1.2 per cent for the quarter ending December 2007, and declined by 13.3 per cent on an annual basis. The quarterly increase indicates that consumer demand was still modest despite the relatively high interest rates that prevailed. The annual decline was driven by a drop in demand of motor vehicles particularly for government, as no new stock was acquired during the quarter. It is important to note that the government fleet management service was taken over by a new operator during the quarter.

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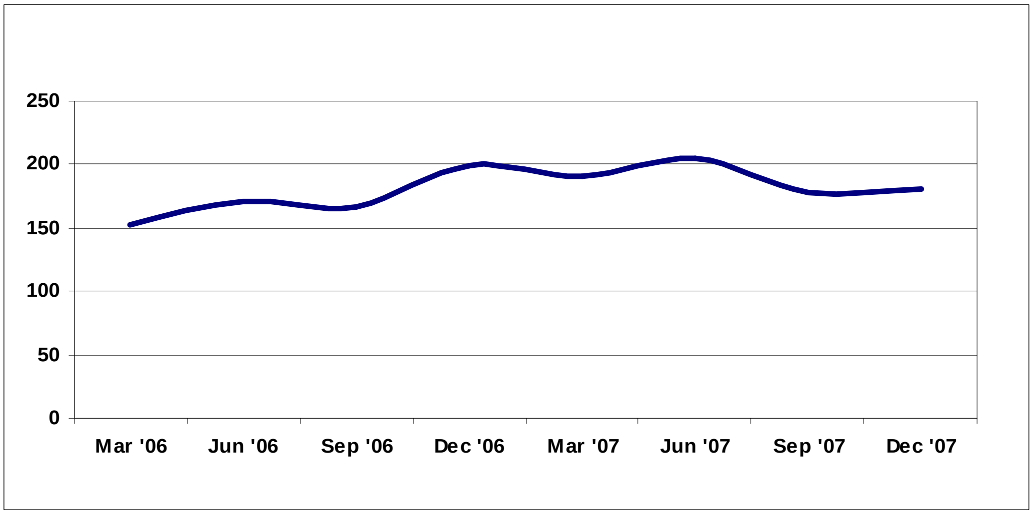
Figure 4: **Value of Sales Turnover**

(Million Maloti)



Source: Lesotho Revenue Authority

Investment Expenditure

Imported Motor Vehicles

The number of imported motor vehicles increased marginally by 0.2 per cent on a seasonally adjusted quarterly basis, and by 37.1 per cent on an annual basis. This reflected that there was no change in the stock of government vehicles, thus the increase was only indicative of private sector demand.

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Table 4: **Motor Vehicle Imports**[+]

(Value in Million Maloti)

		Cars	Vans	Trucks	Buses	Trac-tors	M/ Cycles	Trail-ers	Total
2006									
IV	Value	13.55	19.83	4.15	5.22	0.33	0.04	0.31	43.43
	Units *								388
	Units	148	133	10	37	8	5	6	347
2007									
I	Value	23.48	30.21	2.92	1.81	0.33	0.08	0.33	59.16
	Units *								432
	Units	205	209	11	12	2	1	19	459
II	Value	21.79	37.93	3.74	6.58	0.42	0.10	0.10	70.66
	Units *								535
	Units	234	218	13	27	3	4	7	506
III	Value	22.82	43.05	5.04	4.74	1.13	0.32	1.00	78.10
	Units *								531
	Units	256	259	15	22	4	6	21	583
IV	Value	18.15	28.60	2.97	7.48	0.41	0.05	0.74	58.40
	Units *								532
	Units	213	203	13	23	9	2	12	475

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

Employment Developments

Employment in the LNDC-assisted companies increased by 0.3 per cent to 46 921 employees on a quarterly basis, and dropped by 1.1 per cent on an annual basis. The increase was mainly underpinned by the hiring of temporary workers for the retail sector as it accommodated end of year consumer demand. This increase over-shadowed the slowdown in the export sector, which is generally the main determinant of the direction of employment growth.

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Table 5: Employment in LNDC Assisted Companies

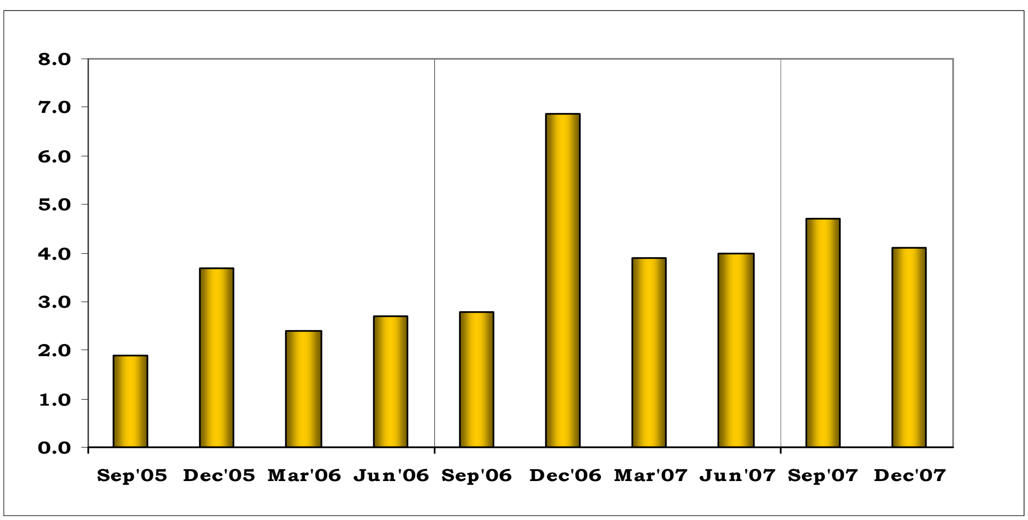
Period	QI	QII	QIII	QIV
2007	47731	48892	46772	46921
2006	40459	45140	46189	47462
2005	41985	40111	39597	43131
2004	52532	53525	52922	50607
2003	43525	46960	49862	51187
2002	36906	39255	42011	43773

Source: Lesotho National Development Corporation
*Adjusted figures

The number of government employees increased by 1.3 per cent on a quarterly basis, and by 4.1 per cent on an annual level mainly owing to increased employment of teachers and general government employees as Government is implementing the combined primary and secondary education, and the staff deployed for the local government operations.

Figure 5: Government Employment

(Annual Percentage Change)



The number of migrant mine workers declined by 1.1 per cent on a quarterly basis. On an annual basis, it rose by 1.2 per cent. A fall on a quarterly basis emulates stabilisation in the international commodity markets after a higher than expected demand for gold as investors switched from stocks.

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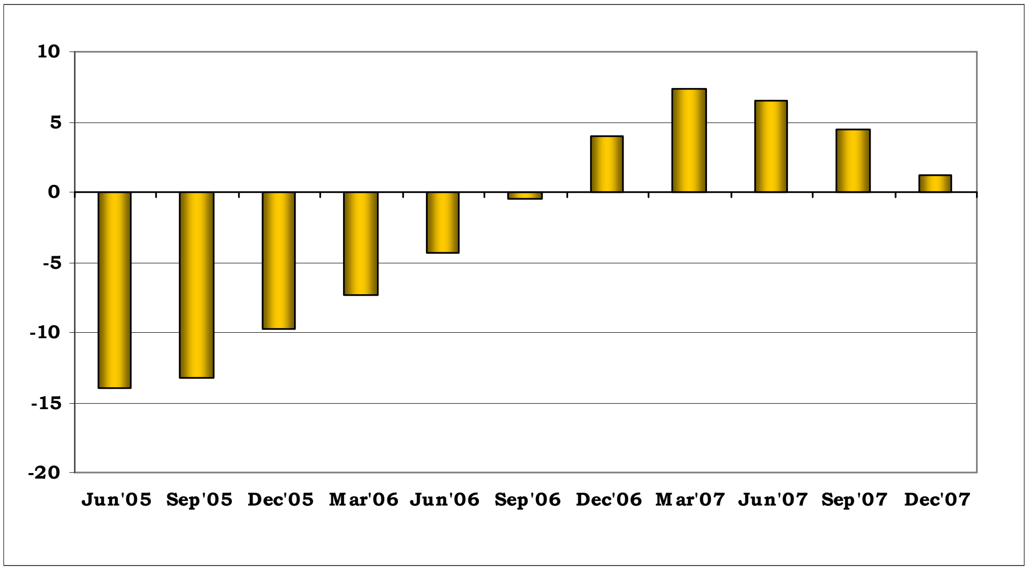
Figure 6: **Migrant Mineworkers Employment**

(Annual Percentage Change)



Price Developments

Inflation rate as measured by changes in the CPI increased to 10.5 per cent for the period ending December, compared with 8.6 per cent in the previous quarter. The increase in the last quarter of the year was due to the increase in the average price of Brent crude and selected food items.

It is interesting to note that inflation continued to rise despite the selected food items subsidisation that was instituted by Government since October 2007. It was expected that in the event that most subsidised food items are not in the sampled CPI basket, then substitution and a switch to the subsidised food items would lower the prices of other food items.

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Table 6: Inflation Rate

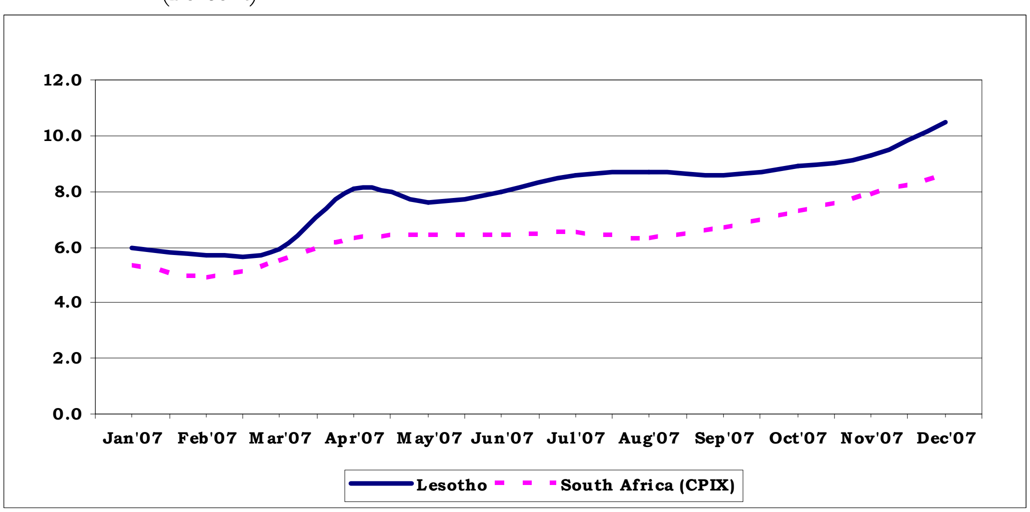
(Annualised Percentage Change: April 1997=100)

	Weight	2007				
		Aug	Sept	Oct	Nov	Dec
All items	100.0	8.7	8.6	8.9	9.3	10.5
Food and non-alcoholic beverages	39.8	14.8	15.1	15.6	16.5	18.4
Alcoholic beverages & Tobacco	6.4	6.0	5.6	5.2	5.6	6.0
Clothing & footwear	15.6	3.5	4.0	5.3	5.3	6.4
Housing, electricity gas & other fuels	3.7	9.4	8.9	7.8	7.6	8.7
Furniture, households equipment & routine maintenance of house	17.0	1.7	1.7	1.9	1.7	1.9
Health	1.4	-1.6	-1.6	-1.6	-1.6	-1.3
Transport	7.8	5.0	2.1	1.9	2.2	2.3
Communication	0.1	0.0	0.0	0.0	0.0	0.0
Leisure, entertainment & Culture	1.2	0.5	0.1	0.3	0.6	-1.5
Education	3.2	2.7	2.7	2.7	2.6	2.6
Restaurant & Hotels	0.4	25.9	23.2	17.4	14.0	16.1
Miscellaneous goods & services	3.2	2.6	2.8	3.2	2.5	3.3

Source: Bureau of Statistics, Lesotho

Figure 7: Annual Inflation Rate for Urban Households

(Percent)



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IV. Monetary and Financial Developments

Determinants of Money Supply

In contrast to a modest 1.1 per cent rise registered at the end of September, money supply increased by 10.3 per cent in December 2007. The quarter-to-quarter rise in money supply appears on the high side given that the economy is estimated to grow by 5.9 per cent on annual basis this year. The excessive growth in money supply could add to the upward pressure on inflation, which turned to double-digit for the first time in five year in December 2007.

As depicted by table 7 and figure 8, growth in money supply was driven mainly by a 5.5 per cent increase in the banking system's net foreign assets, which more than offset the 8.5 per cent contraction in domestic credit. The growth in net foreign asset was slower than the 14.0 per cent recorded in the preceding quarter, but the fall in domestic credit decelerated more significantly.

The effect of external reserves on money supply continued to be driven mainly by growth in net exports and labour income. The continuing decrease in domestic credit is driven by the improving net creditor position of government with banking system, which more than offset increases in credit extended to the private sector and statutory bodies.

Figure 8: Overview of Recent Monetary Developments

(Million Maloti: End of Period)

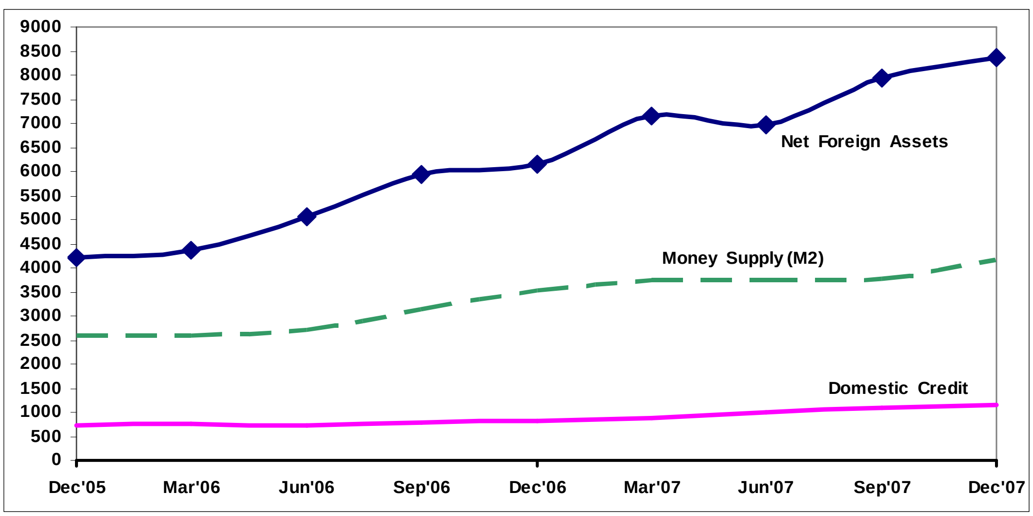

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Table 7: Determinants of Money Supply

(Million Maloti: Changes)

Determinants	2006	2007			
	Dec	Mar	Jun	Sep	Dec
Net foreign assets	215.2	1009.6	-194.1	974.3	438.1
Domestic credit	-56.3	-715.5	-31.8	-597.2	-161.7
Net Claims on Govt	-102.6	-776.5	-145.2	-679.7	-224.2
Statutory bodies	2.0	0.2	16.7	14.0	3.2
Private sector	37.0	58.1	95.5	66.1	55.5
Other items, net	-225.4	75.3	-227.3	337.3	111.6
Money Supply (M2)	384.3	219.0	1.5	39.9	388.0

Components of Money Supply

Following a slight decline in September, narrow money increased by 11.2 per cent, while quasi-money rose by 7.9 per cent, at the end of December. Thus the quarterly growth in broad money during the review quarter was reflected in increases in both narrow money and quasi money. As the table 8 indicates, all sub-components of narrow money increased except deposits of official entities held by the central bank, which fell by 20.9 per cent during the review period. Time deposits increased in the last quarter of 2007, while savings deposits fell by 4.7 per cent.

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Table 8: Money Supply

(Million Maloti; End of Period)

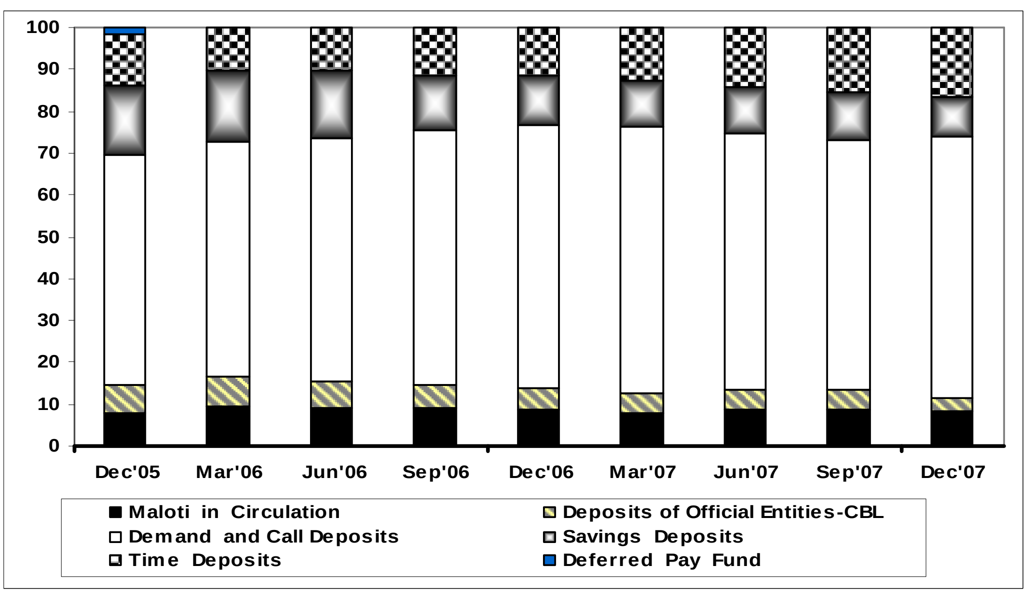
	2006	2007			
	Dec	Mar	Jun	Sep	Dec
Money Supply (M2)	3505.8	3724.7	3726.2	3766.1	4154.2
Money (M1)	2686.7	2836.2	2779.7	2755.4	3063.4
Maloti with public	309.4	293.1	321.5	335.5	399.3
Demand deposits[1]	2199.0	2365.8	2281.2	2242.4	2583.7
Deposits of official Entities with CBL	178.3	177.4	176.9	177.5	140.4
Quasi-Money	819.1	888.5	946.6	1010.8	1090.8
Savings deposits	415.2	415.5	415.9	421.4	404.0
Time deposits	403.9	473.0	530.7	589.3	686.8

[1] includes call deposits

NB: Totals may not tally due to rounding off

Figure 9: Components of Money Supply

(Percentage shares)



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Commercial Banks' Deposits by Holder

During the review period, total deposits of the private sector and statutory bodies increased by 13.0 per cent, compared with 0.8 per cent in September. The private sector's deposits rose by 13.5 per cent, reflecting a 15.5 per cent jump in demand and call deposits as well as a 22.1 per cent rise in time deposits. These movements helped dampen the effect of a 4.2 per cent decline in saving deposits. Total deposits of statutory bodies rose by 11.0 per cent during the review period, from a 12.3 per cent change the quarter before.

Table 9: Commercial Banks' Deposits by Holder

(Million Maloti: End of Period)

	2006	2007			
	Dec	Mar	Jun	Sep	Dec
Total Deposits	3006.3	3242.1	3216.7	3242.3	3662.7
Private Sector	2426.9	2679.4	2629.3	2582.7	2930.6
Demand deposits	1712.3	1901.5	1812.3	1704.3	1968.8
Savings deposits	415.2	415.5	415.8	421.4	403.9
Time deposits	299.6	362.5	401.3	457.1	557.9
Statutory Bodies	579.4	562.6	587.4	659.6	732.1

NB: Totals may not tally due to rounding off

Liquidity of Commercial Banks

At the end of December, commercial banks' liquidity rose to 77.6 per cent from 74.0 per cent registered in September. This is measured by the ratio of commercial banks' balances with banks in Lesotho and abroad, clearing balances held with the CBL, short-term securities plus maloti and rand currency holdings to their total deposit liabilities, balances due to banks abroad and other borrowings. It represents the ability of the banks to honour customers' demands for cash withdrawals. In the period under review, this ratio was mainly boosted by increases in cash balances and balances held with South African banks. These overshadowed the decreases in balances with local banks and holdings of Lesotho government securities, as well as an increase in deposits. At the prevailing level, commercial banks in Lesotho remained highly liquid. A high liquidity ratio is good for meeting customer obligations, but at this level it also indicates room for more lending to improve earnings.

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Table 10: Components of Commercial Banks' Liquidity

(Million Maloti: End of Period)

COMPONENT	2006	2007			
	Dec	Mar	Jun	Sep	Dec
Maloti Notes and Coins	68.3	36.2	29.1	41.9	62.9
Rand Notes and Coins	59.3	23.0	19.3	28.6	45.0
Balances due from Lesotho Banks	420.3	467.0	418.3	474.7	511.4
Balances due from Foreign Banks	1542.3	1728.2	1769.3	1884.9	2261.5
Clearing Balances with CBL	2.8	10.5	112.6	-6.5	-3.0
RSA Short-term Securities	0.0	0.0	0.0	0.0	0.0
CBL Bills	0.0	0.0	0.0	0.0	0.0
Lesotho Government Securities	520.5	511.5	520.8	492.5	483.6

The second important ratio in determining the depth of financial intermediation in the economy is the credit deposit ratio. This ratio seeks to establish the extent to which banks utilise deposits mobilised to provide lending to the private sector (including statutory bodies). At the end of December, this ratio declined marginally to 30.9 per cent from 32.7 per cent in September, as deposits grew faster than loans and advances. This could be explained partly by the rising interest rates on both deposits and loans.

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Table 11: Consolidated Balance Sheet of Commercial Banks

(Million Maloti: End of Period)

	2006	2007			
	Dec	**Mar**	**Jun**	**Sep**	**Dec**
Net foreign assets	1772.4	1832.4	1731.5	1876.1	2200.3
Deposits with CBL	112.9	131.8	235.0	131.6	132.8
Credit:	1393.2	1442.1	1563.7	1629.3	1690.1
o/w*: Statutory Bodies	17.4	17.6	34.3	48.3	51.5
Private Sector	777.6	835.3	930.8	1010.8	1079.3
Government:	598.3	589.3	598.6	570.2	559.3
o/w: Securities	598.3	589.3	598.6	570.2	559.3
Loans and Advances	0.0	0.0	0.0	0.0	0.0
Assets/Liabilities	3278.8	3406.4	3530.1	3637.0	4023.0
Private sector deposits[2]	3006.3	3242.1	3216.7	3242.3	3662.7
Government deposits	123.1	113.5	111.2	131.5	154.8
Capital, reserves & other, net	149.5	50.8	202.2	263.3	205.7

* o/w means 'of which'

[2] includes statutory bodies' deposits.

Demand for Money

Domestic Credit

At the end of the review quarter, domestic credit declined by 8.5 per cent, after a higher 45.5 per cent fall registered in September. As mentioned earlier, the decline in domestic credit was influenced by the decline in net claims on government as budgetary surpluses lead to a buildup of deposits with the banking system. Credit to both the private sector and statutory bodies increased during the review period, albeit at a slower rate compared to the third quarter. The deceleration could be the result of ongoing increases in lending rates of commercial banks.

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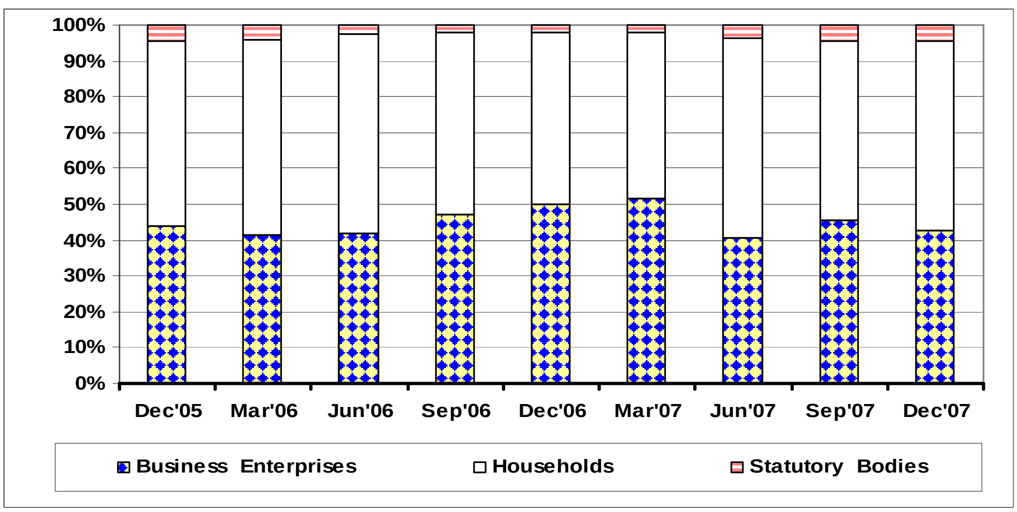
Table 12: Domestic Credit Excluding Net Claims on Government

(Million Maloti: End of Period)

	2006	2007			
	Dec	Mar	Jun	Sep	Dec
Domestic Credit	817.9	875.9	988.3	1082.8	1158.5
Credit to private sector	800.5	858.3	954.0	1034.5	1107.0
Business enterprises	409.9	452.0	473.2	492.6	500.9
Households	390.6	406.3	480.9	541.9	603.2
Credit to statutory bodies	17.4	17.6	34.3	48.3	51.5

Figure 10: Distribution of Credit by Holder

(Percentage shares)



Credit to Private Sector

Following a 6.2 per cent rise at the end of September, credit extended to the private sector rose further by 4.9 per cent at the end of the review quarter. As already indicated, the falling rate of credit extension could be influenced by rising costs of credit as lending rates increase in line with other interest rates in the region. However, the sustained upward trend is a welcome development, implying that commercial banks are no longer reluctant to lend to the private sector. The trend could also be underlined by strong economic activity in the economy.

Credit to Statutory Bodies

Similarly, credit to official entities rose at slower rate in the fourth quarter compared to the third quarter. Credit of this category rose by 6.5 per cent in December from a 40.9 per cent increase in

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September. Credit to statutory bodies has recovered from the sustained decline experienced in the past years as a result of the Government privatisation programme. The programme led to a reclassification of entities from public to private, and accompanying restructuring included repayment of government guaranteed loans. The sustained recovery could be indicative of growth in this group.

Sectoral Distribution of Credit to Business Enterprises and Statutory Bodies

Total distribution of credit to all sectors of the economy, including statutory bodies, but excluding government and non-performing loans, increased by a modest 1.0 per cent in the review quarter, following a 7.6 per cent surge registered in September. The slowdown is attributed to a 9.9 per cent fall in credit extended to manufacturing, and a stabilising growth in credit to other services.

The contraction in credit to the manufacturing sector may signal the impact of the appreciation of the Loti against major currencies, which could reduce the competitiveness of Lesotho's exports, and thereby lower the demand for credit by this sector. Credit to other services and distributive services showed highest growth rates of 7.2 per cent and 9.3 respectively.

Table 13: Sectoral Distribution of Credit to Enterprises

(Million Maloti: End of period)

SECTOR	2006	2007			
	Dec	Mar	Jun	Sep	Dec
Mining	2.8	26.5	28.6	29.6	32.4
Manufacturing	45.7	44.3	44.0	52.1	42.2
Construction	107.9	112.5	128.3	127.5	132.0
Other development sectors	257.1	273.7	288.6	264.1	263.7
Distributive services	12.3	11.3	11.9	17.8	19.5
Other services	1.1	1.5	1.4	50.0	53.6
All sectors	426.9	469.8	502.9	540.9	546.2

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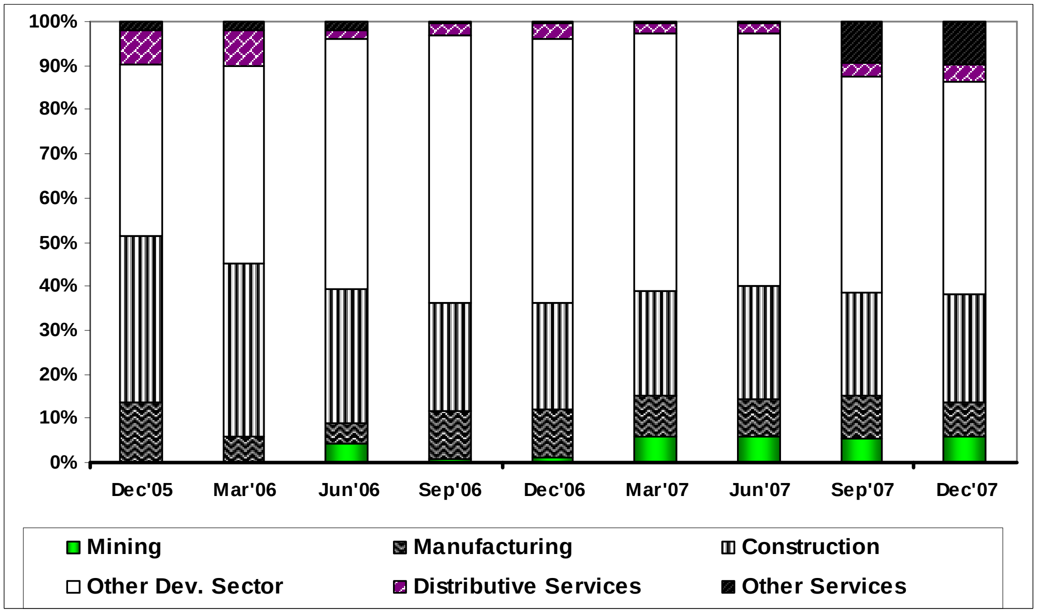
Figure 11: **Commercial Banks' Credit to Business Enterprises**

(Percentage shares)



Net Claims on Government

Following a 28.1 per cent slump registered in September, the banking system's net claims on Government fell further by 7.2 per cent at the end of December. As shown in table 14, claims by the central bank rose, while those by commercial banks dropped. The fall in claims was driven by decreased holdings of treasury bills by commercial banks. Government deposits held by both sets of institutions improved at stronger rate. On the central bank side, the increase in claims signaled movements in IMF-related accounts which the Bank hold as an obligation to IMF and a claim to government due to its status as the fiscal agent of government.

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Table 14: Banking System's Net Claims on Government

(Million Maloti: End of Period)

Holder	2006	2007			
	Dec	Mar	Jun	Sep	Dec
Commercial banks	475.2	475.7	487.4	438.7	404.5
Claims on Government	598.3	589.3	598.6	570.2	559.3
o/w MP T Bills[3]	529.3	586.2	508.6	480.2	470.3
Less Government deposits	123.1	113.5	111.2	131.5	154.8
CBL	-1973.9	-2751.0	-2907.8	-3538.8	-3728.8
Claims on Government[4]	257.6	268.8	261.5	261.2	263.3
Less Government deposits	2231.5	3019.8	3169.3	3800.0	3992.3
o/w blocked account	565.1	573.9	587.9	590.9	537.8
Total Net Claims	-1498.8	-2275.3	-2420.4	-3100.1	-3324.3

[3] 'MP T Bills' means monetary policy treasury bills
[4] IMF loans on-lent to the GOL

Net Foreign Assets

The net foreign assets of the banking system registered a quarterly growth rate of 5.5 per cent in December 2007, against a decrease of 14.0 per cent in the previous quarter. This increase was a reflection of the accumulation of foreign assets by both the central bank and commercial banks, whose external reserves rose by 1.7 and 15.3 per cent on quarterly basis, respectively. To a lesser extend, the growth in net foreign assets reflected a decline in foreign liabilities held by the banking sector. As mentioned earlier, growth in net foreign assets during the review quarter was mainly driven by receipts from SACU revenue, net exports and labour income.

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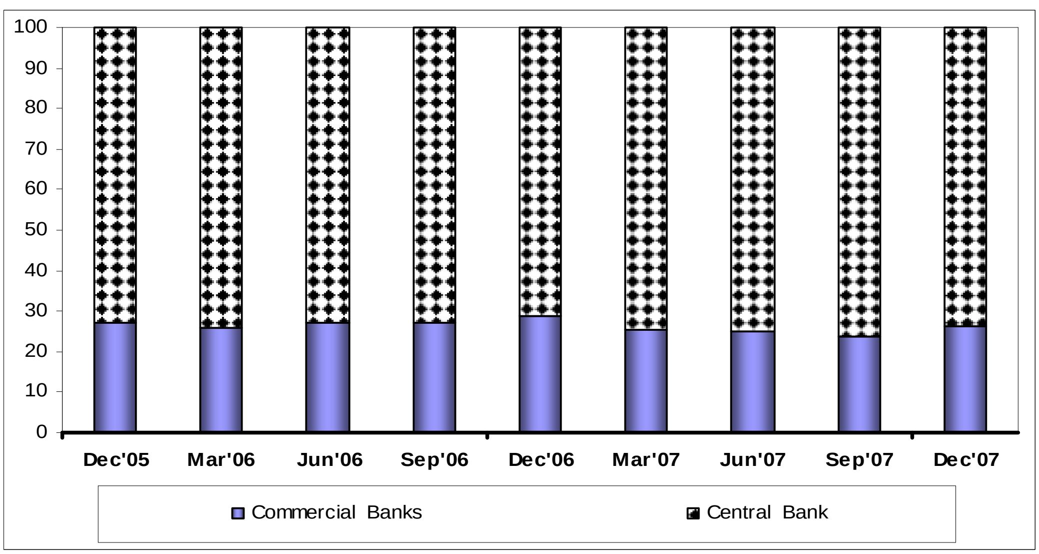
Table 15: Banking System's Foreign Assets and Liabilities

(Million Maloti: End of Period)

Holder	2006	2007			
	Dec	Mar	Jun	Sep	Dec
A. Commercial Banks	1772.4	1832.4	1731.5	1876.1	2200.3
Foreign Assets	1845.4	1969.7	1858.2	1971.3	2273.7
Foreign Liabilities	-72.9	-137.2	-126.7	-95.1	-73.4
B. Central Bank of Lesotho	4377.2	5326.8	5233.7	6063.4	6177.3
Foreign Assets	4918.7	5942.6	5799.2	6670.1	6786.3
Foreign Liabilities	-541.5	-615.8	-565.5	-606.7	-609.0
Net Total	6149.7	7159.3	6965.2	7939.5	8377.6

Figure 12: Net Foreign Assets

(Percentage shares)



Money Market Developments

Overview

Total holding of treasury bills fell by 5.1 per cent between December and September 2007, following a 1.8 per cent decline in the preceding quarter. The fall in the fourth quarter reflected decreases in both banking and non-banking sectors, with the later experiencing the largest fall at 18.5 per cent. The Bank gradually reduced the total amount offered in treasury bills auctions in

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line with the comfortable external reserves positions. The auctions are held primarily to mop up excess liquidity in the banking system, which could be translated into a decline in official reserves if banks opt to transfer the excess liquidity abroad.

The banking sector continued to hold the largest share of treasury bills at 84.0 per cent, from a slightly lower 81.3 per cent holding in the quarter ended September. The non-financial sector lost 2.7 percentage share to the banking sector, settling at 15.9 per cent share at the end of the review period.

Table 16: Holding of Treasury Bills

(Face Value; Million Maloti)

Type of Holder	2006	2007			
	Dec	Mar	Jun	Sep	Dec
Total	576.4	586.9	601.0	590.3	560.2
Banking System	498.0	495.0	508.9	480.4	470.6
Central Bank	0.0	0.4	0.3	0.3	0.3
Commercial Banks	498.0	494.6	508.6	480.1	470.3
Non-Bank Sector	78.4	90.9	92.2	109.9	89.6
NBFIs	0.5	0.4	0.5	0.0	0.3
Others	77.9	90.5	91.7	109.9	89.3
Memorandum Item					
Average Yield (percent)	7.05	7.82	7.79	9.32	9.33

Money Market and Short-term Interest Rates

The Central Bank of Lesotho influences interest rates in the economy through amounts it announces for 91-day treasury bills auctions. These amounts are determined on the basis of prevailing liquidity conditions in the banking system. They increase or decrease movements in excess reserves of commercial banks, depending on whether the Bank wants to reduce or maintain prevailing liquidity levels, and generally move in line with interest rates in the region. The changes in the treasury bill rate, which is the intermediate target of monetary policy, are expected to influence other interest rates in the economy. In reality, the Lombard rate tracks the treasury bill rate more closely as it is linked directly to it. Interest rates of commercial banks tend to move in line with rates in general, especially comparable interest rates in South Africa. Lending rates tend to exhibit this behaviour more than deposit rates.

The treasury bill rate continued on the upward trend in the fourth quarter, registering 8.82 per cent from 8.12 per cent in the quarter ended September. This was in line with the 66 basis point increase in the South African 91-day treasury bill are during the same period (see Table 11). The movements meant that the margin between the two interest rates narrowed marginally from 118 basis points in September to 114 basis points in December. Lending rates were also on the increase in the review period, with Lesotho's rates jumping by 125 basis points to an average of 15.42 per cent after South African counterpart rate increase by 50 basis points.

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Deposits rates moved in different directions during the period under review. Increased competition for customers and deposits amongst commercial banks has led to experimentations with interest rates offered on differing maturity instruments. The savings deposit, call deposit rate and one-year deposit rates increased, though by smaller margins relative to the lending rate. On the other hand, rates of interest paid on 88-days and six-months deposits fell by 1.6 per cent and 4.7 per cent respectively. Furthermore, the interest rate paid on 31-day deposit remained the same at 4.88 per cent.

Table 17: Major Money Market Interest Rates

(Percent: End of Period)

Interest Rates by Type	2006	2007			
	Dec	Mar	Jun	Sep	Dec
Central Bank					
T Bill Rate – 91 Days	6.76	7.46	7.56	8.12	8.82
Lombard Rate	10.26	11.46	11.56	12.12	12.82
Commercial Banks[5]					
Call	3.83	3.83	3.95	4.27	4.37
Time:					
31 days	3.50	3.50	3.90	4.88	4.88
88 days	5.00	4.50	4.52	5.47	5.38
6 months	6.25	4.58	4.77	5.87	5.63
1 year	5.50	5.00	6.00	6.07	6.17
Savings	5.00	2.68	3.21	4.05	4.67
Prime	13.50	13.58	14.08	14.17	15.42
South Africa*					
Repo	9.00	9.00	9.50	10.00	10.50
T Bill Rate – 91 Days	8.26	8.41	8.68	9.30	9.96
Marginal Lending Rate	12.00	14.00	14.50	15.00	15.50
Prime	12.50	12.50	13.00	13.50	14.00

* Figures for South Africa were obtained from the SARB

[5] Average rates by commercial banks

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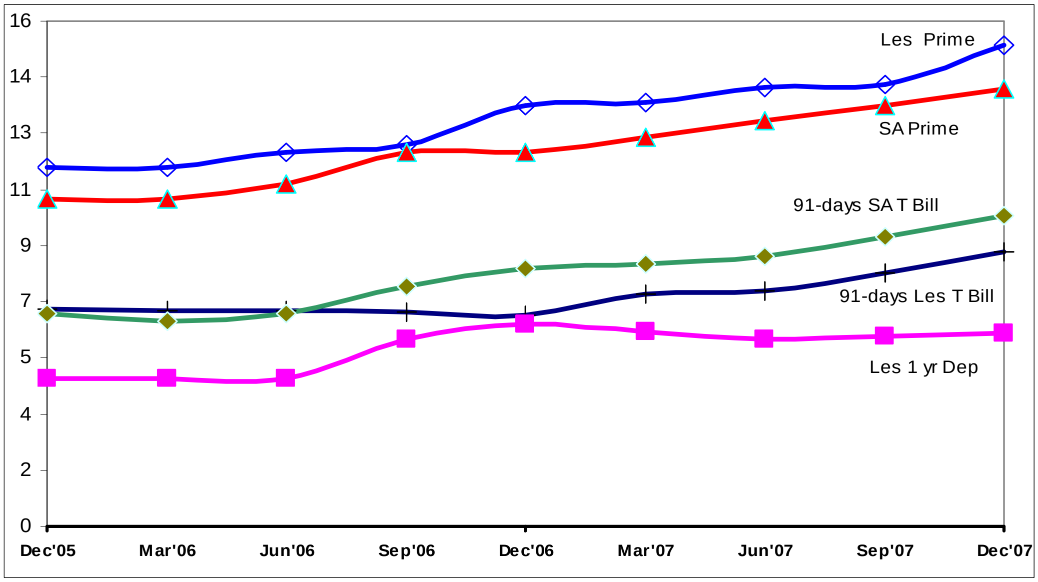
Figure 13: **Short-Term Interest Rates**

(Percent Per Annum)



V. Government Finance

Summary of Budget Outturn

During the period under review government budgetary operations resulted in an estimated surplus equivalent to 9.1 per cent of GDP. The primary balance was slightly higher at 10.3 per cent of GDP[2]. As a result, the gap between the primary and overall balances narrowed to 1.2 per cent. This was mainly attributable to, among others, improved performance of tax revenue, plus fiscal discipline exercised during the period under review.

Government expenditure and net lending grew by 5.0 per cent during the period under review. This item accounted for 49.3 per cent of GDP, in contrast to 47.0 per cent recorded in the previous period, while revenue stood at 58.4 per cent. As a share of total, recurrent expenditure stood at 83.1 per cent, compared with 16.9 per cent of expenditure on capital formation.

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[2] Primary balance is a good indicator of budgetary operations since it excludes interest costs on public debt.

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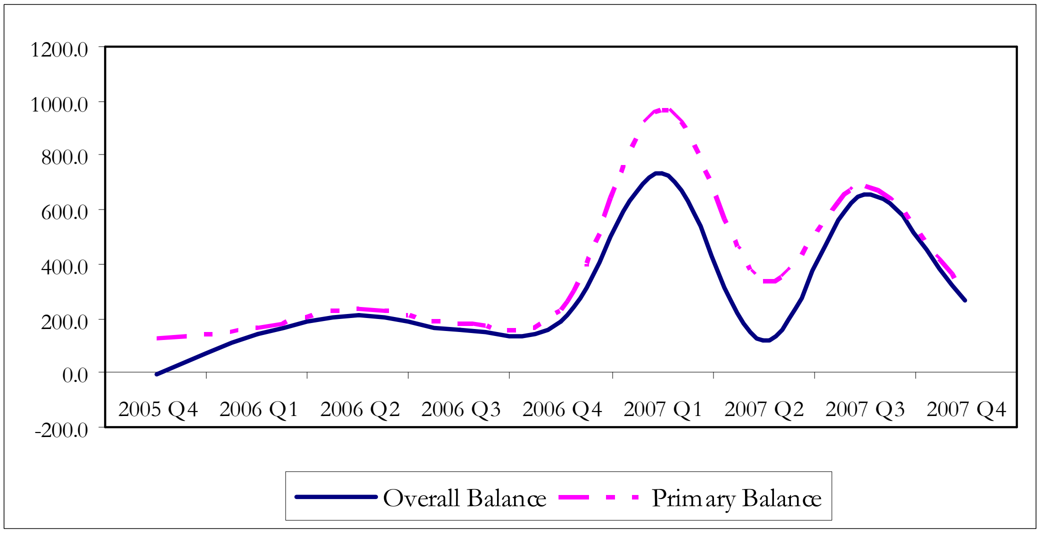
Figure 14: Primary Balance versus Overall Balance



Revenue

SACU revenue continued to dominate tax revenue during the period under review. This sub-item occupied 63.7 per cent, compared with 19.5 per cent and 16.0 per cent from income tax and Value Added Tax (VAT), respectively. Revenue including grants fell by 15.5 per cent, mainly attributable to 21.4 per cent drop in SACU revenue. The fall in SACU revenue, largely followed the normalisation after backward adjustment that was effected in the previous quarter.

Table 18: Government Revenue

(Million Maloti)

	2006/07		2007/08		
	Oct-Dec	**Jan-Mar**	**Apr-Jun**	**Jul-Sep** Revised	**Oct-Dec*** Preliminary
Total Revenue and Grants	1391.2	2269.5	1883.2	2035.0	1720.3
Total Revenue	1360.5	2261.6	1798.2	1926.1	1715.7
Tax Revenue	1244.0	2099.4	1598.6	1761.7	1533.2
Customs	772.3	1626.3	959.1	1220.5	959.1
Non-customs	471.7	473.2	639.6	541.2	574.1
Income Taxes	254.4	233.1	407.3	289.4	293.4
Taxes on goods & services	196.8	199.4	227.2	241.7	269.4
Other Taxes	20.5	40.7	5.2	10.0	11.3
Non-Tax Revenue	116.5	162.2	199.6	159.8	182.5
Of which: Water royalties	69.7	63.6	63.6	80.7	81.0
Grants	30.8	7.9	85.0	109.0	4.6

Source: Ministry of Finance and Development Planning (MoFDP)

*Preliminary estimates

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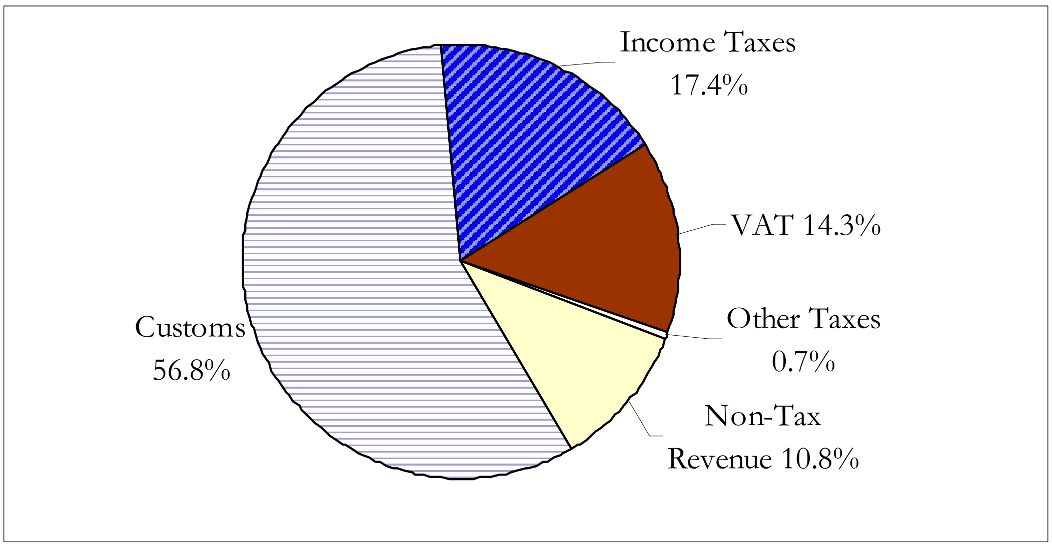
VAT grew by 18.1 per cent following a 3.4 per cent observed in the previous period. This was in line with inflation developments during the period under review, coupled with increased expenditure during festive season. Income tax collections rose by 1.4 per cent, in contrast to 32.2 per cent reduction recorded at the end of September 2007, largely on account of 8.2 per cent and 7.7 per cent increases in both company and personal income taxes, respectively. However, 36.3 per cent decrease in other income tax component moderated the surge.[3]

Non-tax revenue grew by 11.0 per cent during the period under review, mainly on account of receipts of other property income and dividends. This item comprises, among others, royalties, dividends, Rand Monetary Compensation and interest on loans on-lent to public enterprises. Development grants remained insignificant. However, with implementation of projects that fall under Millennium Challenge Account funding, this item is expected to improve in the future.

Figure 15: Sources of Government Revenue



Expenditure

Government expenditure and net lending rose by 5.0 per cent during the review period. The increase was mainly driven by a 10.1 per cent increase in recurrent expenditure. As a percentage of GDP, total expenditure came up to 49.3 per cent, in contrast to 47.0 per cent in the previous quarter.

The surge in recurrent expenditure was mainly in response to, among others, a 39.8 per cent and 2.3 per cent growth in expenditure on goods and services and personal emoluments, respectively. Expenditure on goods and services responded to inflation developments observed during the quarter.

The level of subsidies and transfers extended during the period under review declined by 2.3 per cent. This expenditure category is directed to, among others, educational entities, health

[3] Other Income tax component comprises withholding and fringe benefits taxes.

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establishments and finances of pensions and gratuities. A 9.1 per cent rise in expenditure on pensions and gratuities was more than moderated by a fall in other categories of this expenditure item.

Table 19: Government Expenditure

(Million Maloti)

	2006/07		2007/08		
	Oct-Dec	**Jan-Mar**	**Apr-Jun**	**Jul-Sep** Revised	**Oct-Dec*** Preliminary
Total Expenditure & Net Lending	1200.7	1536.4	1762.0	1383.2	1452.7
Recurrent Expenditure	1034.5	1322.8	1433.5	1097.1	1207.8
Personnel Emoluments	342.9	334.1	387.7	394.9	404.1
Interest Payments	36.1	234.4	218.8	36.9	34.8
Foreign	24.2	221.1	203.1	11.5	14.2
Domestic	11.9	13.3	15.7	25.4	20.6
Other Expenditure	655.5	754.4	826.9	665.3	768.8
Capital Expenditure	166.2	215.6	329.6	287.9	244.9
Net Lending	0.0	-2.0	-1.1	-1.8	0.0

Source: MoFDP

*Preliminary estimates

Provision of infrastructure remained Government priority, along with the construction of roads, health and educational facilities. As a result, Government continued to account for the largest share of this expenditure item at 85.6 per cent, in contrast to 12.5 per cent and 1.9 per cent from loans and grants, respectively. However, this expenditure item dropped by 14.9 per cent, largely reflecting end of year break, delayed reporting by implementing agencies and, to some extent, low coverage.

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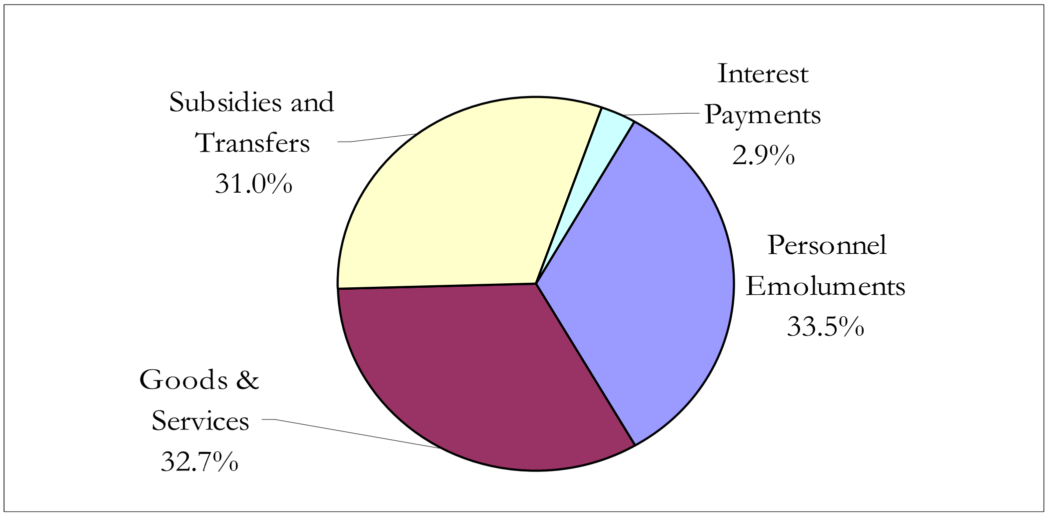
Figure 16: Recurrent Expenditure by Type



Financing

Government budgetary operations resulted in a surplus equivalent to 9.1 per cent of GDP during the period under review. This enabled Government to continue to accumulate deposits with the banking sector and be a net repayer of external debt.

Table 20: Government Financing

(Million Maloti)

	2006/07		2007/08		
	Oct-Dec	**Jan-Mar**	**Apr-Jun**	**Jul-Sep** Revised	**Oct-Dec*** Preliminary
Financing	-190.5	-733.1	-121.3	-651.8	-267.6
Foreign	-44.4	32.7	23.0	18.9	-23.0
Loan drawings	20.8	78.3	81.2	62.0	30.7
Amortization	-65.2	-45.6	-58.2	-43.1	-53.7
Domestic	-146.1	-765.8	-144.3	-670.7	-244.6
Bank Financing	-102.6	-776.5	-145.2	-679.7	-224.2
Non – Bank	-43.5	10.7	0.9	9.0	-20.3

Source: MoFDP

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Public Debt

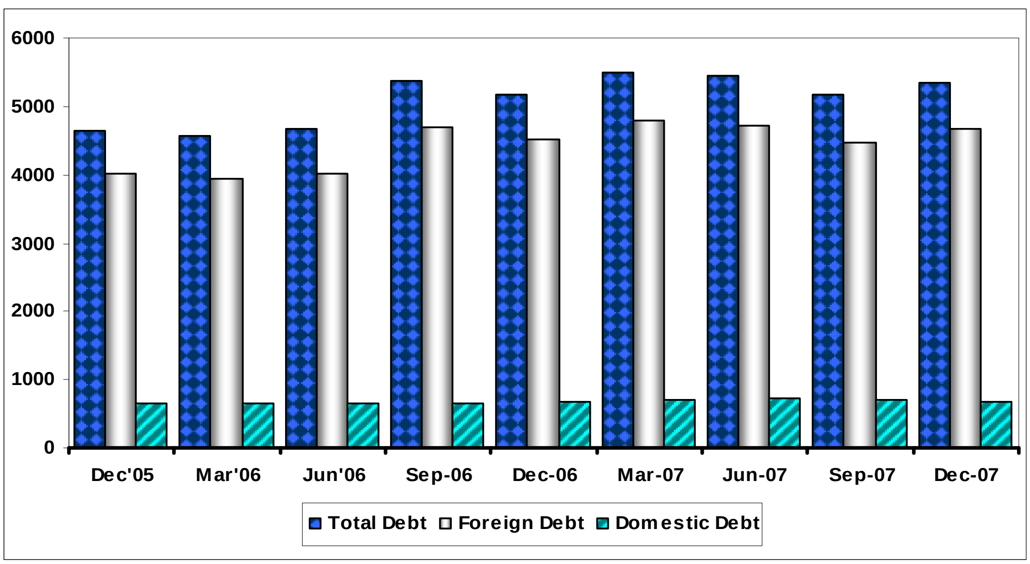
Overview

Public debt comprises external and domestic debt all of which is a liability of Government. The total stock increased by 3.6 per cent at the end of December 2007, largely driven by the external component. As a percentage of GDP, public debt was estimated at 45.5 per cent, up from 43.9 per cent recorded in the third quarter. At this level, the debt to GDP ratio was below the 60 per cent sustainability threshold[4]. Debt service increased to 2.8 per cent in contrast to 2.0 per cent drop observed in the previous period. It stood at 4.9 per cent when factor income is excluded. This was far below the 15 per cent threshold prescribed by international community.

External debt continued to account for the larger share of total debt stock at 87.4 per cent compared with a meagre 12.6 per cent of the domestic component. As a result, public debt is vulnerable to currency movements.

Figure 17: Outstanding Public Debt

(Million Maloti: End of Period)



External debt

External debt (or foreign debt) is defined as the liability of Government to creditors outside the country, or debt denominated in foreign currency. External debt is broken down into concessional and non-concessional. During the period under review, external debt increased by 4.8 per cent. The rise was observed from all sources of debt, due to the ongoing implementation of development projects. Concessional debt rose by 4.2 per cent, consequent to a 2.7 per cent rise in debt owed to the multilateral institutions. Multilateral debt stood at 90.2 per cent of external debt, compared with 6.3 per cent and 2.1 per cent of debt owed to bilateral and financial institutions, respectively. As a share of external debt, concessional component dropped marginally by 0.5 per cent registering 93.6 per cent. The concessionality plays critical role to ease debt service burden, and also to meet debt sustainability indicators.

[4] The Maastricht Treaty Rules of Thumb and SADC Convergence Criteria

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Various rules of thumb have been developed by different institutions in an effort to assist countries to test for debt sustainability. These rules of thumb can be used as early warning signals for fiscal sustainability, depending on the nature and composition of public debt stock. It was recorded at 39.8 per cent of GDP during the period under review.

Table 21: External Debt

(Million Maloti)

	2006	2007			
	QIV	QI	QII	QIII	QIV
External Debt	4699.9	4514.3	4725.0	4464.6	4680.6
Bilateral Loans	385.4	386.9	*346.6*	*224.9*	296.3
Concessional	322.3	327.1	299.7	188.1	250.6
Non-concessional	63.0	59.9	46.9	36.8	45.7
Multilateral Loans	4129.2	3968.4	*4230.8*	*4109.1*	4220.8
Concessional	3612.8	3480.7	4119.2	3990.0	4099.3
Non-concessional	516.3	487.7	111.6	119.1	121.5
Financial Institutions	113.6	101.1	*87.6*	*81.4*	98.8
Concessional	2.4	2.3	29.4	24.4	29.4
Non-concessional	111.1	98.8	58.2	57.0	69.4
Suppliers' Credit	71.8	57.8	60.0	49.2	64.7

Source: MoFDP

Domestic Debt

Domestic debt is that part of public debt which is denominated in local currency. This component maintained a downward trend, dropping by 4.3 per cent during the period under review, following a 1.5 per cent decrease observed in the previous quarter. This was a result of a decrease in the holding of Government securities by both the banking and non-banking sectors. The holdings of domestic debt by the non-banking sector declined by 18.5 per cent, while that held by the banking sector dropped by 1.6 per cent.

Short-term debt comprised Treasury bills issued for monetary policy purposes, while long-term debt represented a ten year bond issued to finance the restructuring of Lesotho Bank in 1999. Long-term debt maintained the level recorded in the previous quarter. As a percentage of GDP, domestic debt stood at 5.7 per cent, and fell by 1.0 per cent to register 12.6 per cent of total debt stock.

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VI. Foreign Trade and Payments

Overview

The external sector position continued to register a surplus during the quarter under review. The overall balance, in seasonally adjusted terms narrowed to M116.1 million from M870.8 million recorded in the previous quarter as a result of the decline in the current transfers following the receipt of a back payment from SACU in the previous quarter and the decline in exports. The transactions balance, which measures the overall balance excluding the effects exchange rate movement, in seasonally adjusted terms also recorded a smaller surplus equivalent to M196.1 million in contrast to M815.9 million in the previous quarter.

Current Account

The Lesotho current account continued to register a surplus. During the fourth quarter of 2007, the current account surplus narrowed to M374.3 million from M465.6 million in the previous quarter resulting from the return to normalcy of SACU revenue following the receipt of the back payment in the previous quarter. The decline in the performance of merchandise exports also contributed to the narrowing down of the current account surplus.

Table 22: Current Account Balance

(Million Maloti)

	2006	2007			
	QIV	QI	QII	QIII*	QVI+
I. Current Account	18.50	716.63	62.68	465.67	374.39
(a) Goods	-1309.84	-1397.28	-1360.30	-1489.23	-1382.65
Merchandise exports f.o.b.	1293.24	1305.93	1244.83	1656.58	1456.93
Of which diamonds	136.49	277.62	178.54	341.21	357.30
Of which textiles & clothing	983.66	826.05	797.02	991.10	842.01
Other exports#	173.09	202.26	269.27	324.27	257.62
Merchandise imports f.o.b.	-2603.08	-2703.21	-2605.13	-3145.81	-2839.58
(b) Services	-61.93	-74.91	-45.29	-64.62	-49.40
(c) Income	708.74	553.42	592.62	849.92	956.67
(d) Current Transfers	697.19	1635.39	875.65	1169.60	849.77

* Revised estimates
\+ Preliminary estimates
\# All other merchandise exports excluding ‘textiles and clothing’ and ‘diamonds’

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Merchandise exports

Merchandise exports seasonally adjusted declined by 11.7 per cent during the quarter under review compared with 26.9 per cent increase recorded in the previous quarter resulting from the decline in exports of textiles and clothing and other exports. A number of large manufacturing companies operating in Lesotho have indicated the reduction in the orders from their big customers in the US during the review period.

Merchandise imports

In seasonally adjusted terms, merchandise imports rose by 11.4 per cent compared with 3.1 per cent decline recorded in the previous quarter. On annual basis, imports rose by 9.1 per cent. The increase in imports is supported by increased government spending on goods and services observed during the period.

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Table 23: Value of Exports by Section of the S.I.T.C.#

(Million Maloti)

COMMODITY	2006	2007			
	QIV	QI	QII	QIII*	QIV+
0. Food & Live Animals	29.31	57.54	60.69	38.45	49.00
Cattle	0.55	0.27	0.45	0.02	0.00
Wheat Flour	13.12	15.92	23.60	19.81	21.53
Maize Meal	6.52	15.09	6.52	6.66	7.86
Other	9.12	26.26	30.57	11.96	19.61
1. Beverages & Tobacco	31.97	30.29	40.98	46.73	34.67
Beverages	31.97	30.29	40.98	46.69	34.67
2. Crude Materials	5.87	7.17	1.98	2.85	3.09
Textiles fibres	5.87	7.17	1.98	2.85	3.09
Of which Wool	5.17	7.07	1.19	0.97	3.09
Of which Mohair	0.70	0.09	0.80	1.88	0.00
3. Mineral Fuels & Related Products	0.95	0.32	0.84	0.35	0.05
4. Chemicals	3.66	0.67	0.60	1.59	0.28
5. Manufactured Goods	245.75	297.81	209.03	367.23	368.54
Of which diamonds	136.49	277.62	178.54	341.21	357.30
Of which textiles yarn and fabric	30.38	13.57	22.09	15.98	8.06
Other manufactured goods	78.88	6.62	8.4	10.04	3.18
6. Machinery & Transport Goods	152.52	82.70	112.69	178.23	210.62
7. Miscellaneous Manufactured Goods	990.78	826.82	815.55	1017.69	790.60
Of which clothing accessories	947.40	805.31	772.94	972.27	778.43
Other	43.38	21.51	42.61	45.42	12.19
8. Unclassified Goods	2.20	2.93	2.47	3.46	0.08
TOTAL EXPORTS	1293.24	1305.93	1244.83	1656.58	1456.93

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

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Direction of Trade

The US continued to be the major recipient of Lesotho's exports during the quarter under review. The share of Lesotho exports to the US fell to 36.9 per cent from 46.5 per cent in the previous quarter. The second largest destination of Lesotho's exports is SACU region with the share of 35.2 per cent. The share of Lesotho exports to Europe rose to 24.7 per cent compared with 20.9 per cent in the previous period. This was influenced by the export of 'Lesotho legacy' during the quarter. The share of exports to Asia continued to be negligible.

Table 24: Direction of Trade - Exports and Re-Exports, f.o.b.

(Million Maloti)

Region	2006	2007			
	QIV	QI	QIII	QIII*	QIV+
World	1293.24	1305.93	1244.83	1656.58	1456.93
Africa	384.74	297.30	413.22	535.26	557.15
SACU	359.87	272.33	363.02	513.45	512.51
SADC	3.39	2.50	1.99	1.21	16.13
Other	21.48	22.47	48.21	20.60	28.55
Europe	141.01	280.68	182.34	346.23	360.34
EC	141.01	280.68	182.34	346.23	360.34
America	766.19	725.14	642.38	770.76	537.16
Asia	4.30	2.81	6.89	4.33	2.29

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

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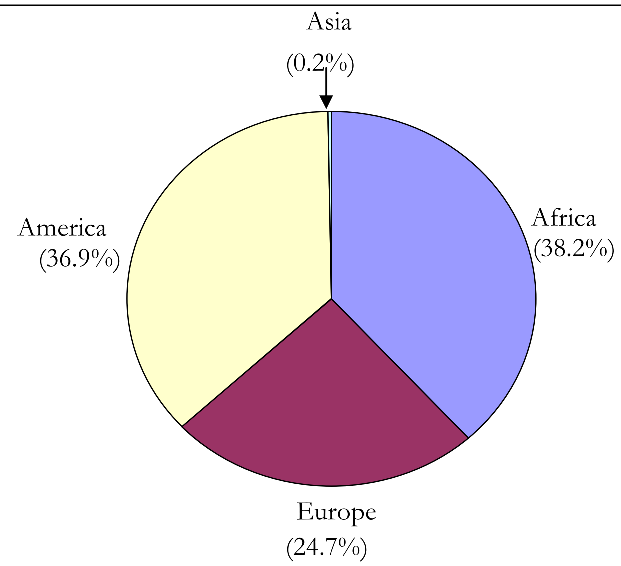
Figure 18: Direction of Merchandise Exports



Services Account

The services account continued to record a net payment position. The net payment position narrowed down to M43.6 million during the quarter from M64.6 million in the previous period due to a decline in the payments for transportation.

Travel

Net travel rose modestly by 7.6 per cent during the quarter in contrast with 10.0 per cent rise registered in the previous period. Travel receipts grew by 8.2 per cent compared with an increase of 7.7 per cent registered in the previous quarter due to 10.2 per cent increase in tourism spending. Total travel payments increased by 9.4 per cent during the quarter in contrast with a rise of 2.3 per cent observed in the previous quarter, as a result of a rise in government funding for students outside Lesotho.

Income

Net income increased to M956.6 million during the review period compared with M849.9 million recorded in the previous quarter, mainly due to continued increase labour income. Labour income seasonally adjusted rose by 1.4 per cent compared with 13.0 per cent in the third quarter. On annual basis, labour income rose by 26.1 per cent. The performance of labour income benefited from relatively high price of gold and platinum as discussed in section II. The bulk of Basotho mineworkers in South Africa are in gold and platinum mines.

Investment Income

During the quarter under review, the net position of investment income recorded an inflow of M155.2 million compared with M126.5 million observed during the previous quarter. Investment

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income inflows rose further by 42.4 per cent compared with 28.1 per cent in the third quarter of 2007. This was mainly due to 11.3 per cent and 33.8 per cent increases in interest earnings by central bank and commercial banks respectively. The continued increase in the stock of foreign assets by these financial institutions has been behind improved returns.

Investment outflows declined further by 2.2 per cent in the review period following that of 83.8 per cent in the previous period. This was due to the fall in distributed earnings, which more than offset the 31.4 per cent increase interest payments on official loans.

Current Transfers

Current transfers in seasonally adjusted terms rose to M858. 2 million in the fourth quarter of 2007 compared with M1176 million in the previous quarter. The lower current transfers reflected the decline in SACU transfers following the receipt of the windfall in the third quarter.

Capital and Financial Account

The capital and financial account registered a net outflow of M103.1 million during the last quarter of 2007 from a net inflow of M245.4 million in the previous quarter. This was due to a decline in grants to government and an increase in commercial banks foreign assets. Furthermore, official loans registered a net outflow of M23.0 million compared to the net inflow of M15.7 million in the previous quarter.

Table 25: Capital and Financial Account

(Million Maloti)

	2006	2007			
	QIV	**QI**	**QII**	**QIII***	**QIV+**
I. Capital and Financial Account	-23.31	278.94	390.49	245.40	-103.11
Capital Account	16.30	7.90	85.00	109.00	4.60
Financial Account	-39.61	271.04	305.49	136.40	-107.71
Special Financing – LHWP	31.49	37.79	45.56	37.91	50.97
II. Reserve Assets	-32.81	-1023.89	143.38	-870.86	-116.19

* Revised estimates
+ Preliminary estimates

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Reserve Assets

The Net International Reserves (NIR) position rose to US$806.7 million compared with US$783.5 million in the previous quarter. Measured in months on import cover, official reserves rose to 7.6 months from 7.4 months.

Figure 19: Reserve Assets

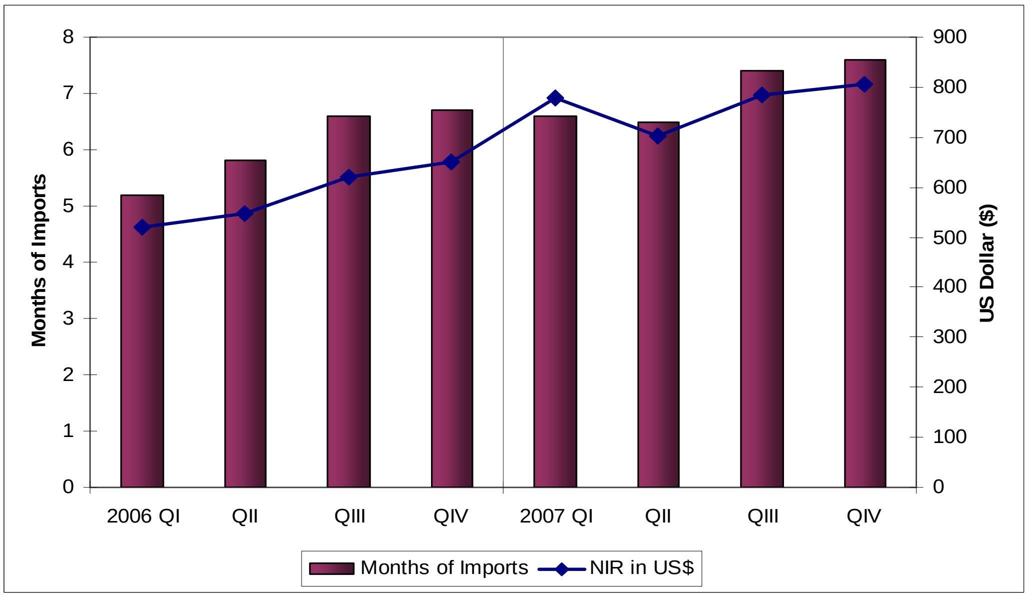
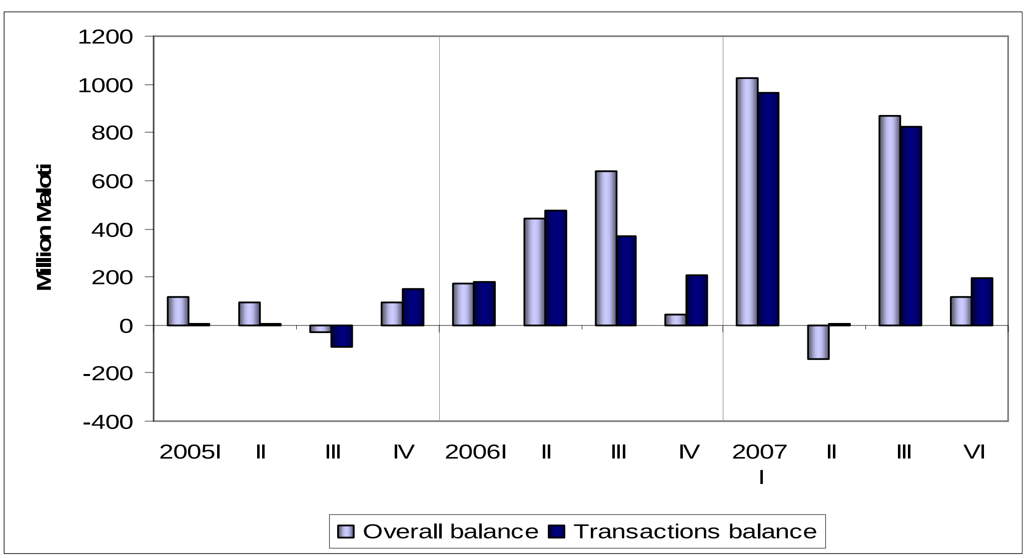


Figure 20: Balance of Payments



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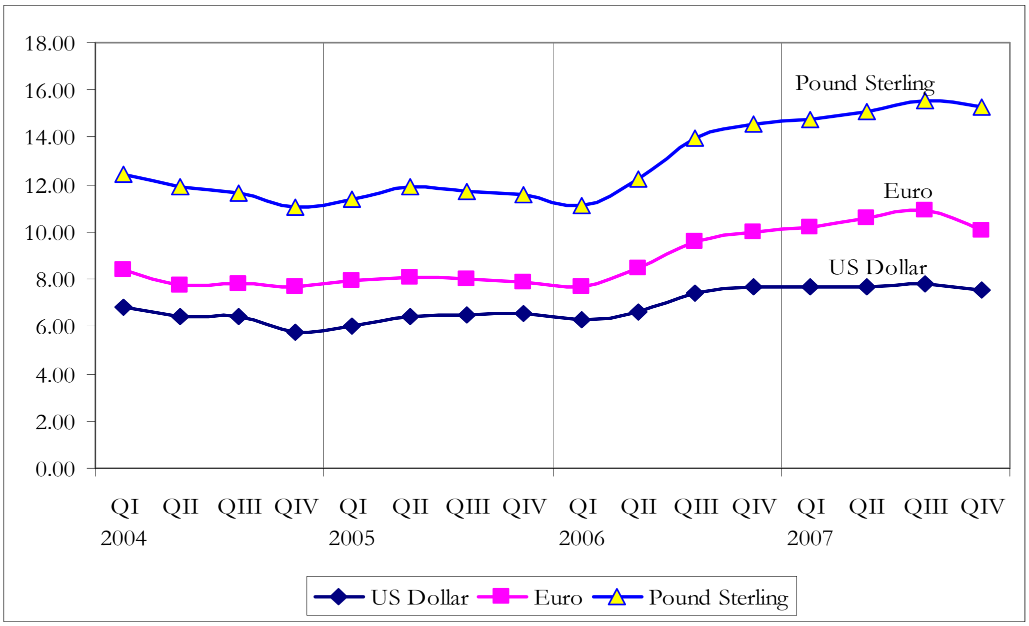
Exchange Rates

The Loti showed some strength against major currencies during the quarter under review. In real terms, the Loti appreciated by 4.4 per cent against the US Dollar. The Loti also strengthened against the Euro and Pound Sterling by 9.6 per cent and 3.3 per cent, respectively in real terms.

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



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