

CENTRAL BANK OF LESOTHO

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I. Introduction

Preliminary indications are that the global economic recovery moderated in the first half of 2012. However, this recovery continued to be threatened by weak economic activity in the euro area as a result of the sovereign debt crisis and general loss of confidence. Economic performance was weak in advanced economies while it remained relatively solid in emerging and developing countries. The international commodity prices fell in response to weaker global demand, leading to a decline in consumer price inflation.

Economic activity in the US was sluggish in the review period. The marginal growth was supported by increases in private inventory investment and exports. Nevertheless, the slowdown in consumer spending, federal government spending, residential and non-residential fixed investments and acceleration in imports dampened the GDP growth. In the euro zone output declined in the second quarter of 2012, as a result of the continuing sovereign solvency, fiscal consolidation problems, high unemployment rate and adverse global growth prospects. Consumer price inflation in advanced economies fell due to the slowdown in energy prices. Monetary policies in these economies remained accommodative in support of economic recovery.

Economic activity remained subdued in South Africa during the review quarter. Manufacturing production rose as more food and beverages, motor vehicles and petroleum were produced. Nonetheless, the observed decline in the production of copper and manganese ore led to the overall decrease in mining production. The rate of inflation maintained a downward trend mainly on account of falling food and alcoholic beverage prices. However, the South African Reserve Bank's Monetary Policy Committee (MPC) decided to maintain the repo rate at 5.5 per cent during the review quarter, in order to continue supporting economic recovery.

Economic activity in emerging Asian markets and Japan is estimated to have slowed down during the quarter under review. The slowdown in China, India and Japan was a mainly a result of the weak global demand. The rate of inflation fell in Japan and China as a result of the decline in commodity prices, as well as prices of energy and consumer goods. However, the inflation rate in India rose as food prices increased. In an effort to stimulate economic growth the benchmark lending rate was reduced in China while India and Japan left their key interest rates unchanged.

The international commodity prices continued to fall in response to weak global demand. Crude oil prices also weakened on account of slower global economic activity and seasonal demand factors. Prices of agricultural products also declined during the review quarter due to weakness of global demand.

Domestically, indications have been that economic activity improved in the second quarter supported mainly by the textiles and clothing manufacturing sub-sector as evidenced by the increase in water consumption by the commercial and industrial category. Diamond mining production decelerated due to production disruptions at Letseng mine during the review quarter. Sales turnover increased, the telephone calls traffic remained constant and the number of imported motor vehicles declined. Employment recovered in line with strong performance by the textiles and clothing manufacturing sub-sector.

Lesotho's inflation continued on a downward trend, in line with developments in SA and the rest of the world. Lesotho's inflation rate decelerated to 6.1 per cent in June 2012

from 7.2 per cent in March 2012. The deceleration in the inflation rate was more pronounced in ‘food and non-alcoholic beverages’, ‘alcoholic beverages and tobacco’, ‘clothing and footwear’ and ‘transport’.

Broad money supply growth rose during the quarter under review, influenced by an increase in domestic claims. However, a decline in net foreign assets sector moderated the decline in money supply. Interest rates in the country remained low, in line with regional developments, which continued to support economic stimulation amid easing consumer prices. Quarterly estimates indicate that government budgetary operations recorded a surplus equivalent to 15.4 per cent of GDP during the quarter ending in June 2012, in contrast with a deficit equivalent to 7.9 per cent in the quarter ending in March 2012. The surplus reflected a jump in total revenue and grants and a contraction in overall expenditures. Total revenue and grants increased by 24.7 per cent on a quarterly basis, compared with 3.6 per cent increase recorded in the previous quarter. Respective changes in total expenditures and net lending were a 11.2 per cent contraction and an 8.0 per cent increase. The increase in total revenue and grants was on account of a more than expected increase in customs revenue

Lesotho’s balance of payments position improved significantly during the second quarter of 2012. The improvement reflected the narrowing of the current account deficit as a result of increased SACU transfers and the improvement in the trade balance. Gross official reserves increased to 3.6 months of imports cover from 3.3 months in the first quarter.

II. International Economic Developments

The global economic recovery continued to be moderate in the first half of 2012, threatened by the intensifying strains in the euro area and the weakness of emerging markets economic growth. During the second quarter of 2012, economic activity in advanced economies lost its momentum due to a continuing weakness in euro zone economy. In emerging market economies, activity continued to moderate on account of past policy tightening and weaker external demand. International price crude of oil declined during the review quarter, reflecting the weakening global economy during the period. Consumer price inflation continued to ease during the review period at the back of retreating commodity prices.

United States (US)

Economic growth in the US slowed down in the second quarter of 2012. On an annual basis, real gross domestic products (GDP) grew by 1.5 per cent during the review quarter, down from the 2.0 per cent registered in the previous quarter. The deceleration in growth reflected the slowdown in consumer spending, federal government spending, residential and non-residential fixed investments and acceleration in imports. However, this was partly offset by an increase in private inventory investment together with exports.

Consumer prices increased at a lower rate of 1.7 per cent in June 2012, compared with 2.7 per cent in March 2012. The noticeable deceleration in inflation was reflective of a slowdown in energy prices which fell by 3.9 per cent during the period. Nonetheless, the FOMC decided to leave its benchmark lending rate unchanged at 0.25 per cent, in an effort to continue promoting economic recovery.

In the labour market, the rate of unemployment declined marginally to 8.2 per cent during the review quarter from 8.3 per cent in the quarter ending in March 2012, with more jobs observed to have come from professional and business services.

Table 1: Key World Economic Indicators

	Real GDP Growth		Inflation Rate		Key interest Rate		Unemployment Rate	
	QI	QII	QI	QII	QI	QII	QI	QII
US	2.0	1.5	2.7	1.7	0.25	0.25	8.3	8.2
Euro area	0.0	-0.4	2.7	2.4	1.00	1.00	11.0	11.2
SA	2.1	n/a	6.0	5.5	5.50	5.50	25.2	24.9
China	8.1	7.6	3.6	2.2	6.56	6.31	4.1	4.1
Japan	4.1	1.4	0.3	-0.2	0.10	0.10	4.5	4.3
India	5.3	n/a	9.5	10.0	8.50	8.0	n/a	n/a

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

Euro-zone¹

In the second quarter of 2012, economic activity declined in the euro zone. This was brought about by the continuous tensions in the zone's sovereign debt markets and their impact on financial conditions and high unemployment rate and on-going global economic slowdown. Real GDP declined by 0.4 per cent during the review quarter while zero growth was realized in the previous quarter. The deterioration reflected a drop in domestic and external demand coupled with a decline in inventories. The largest declines were observed in Greece, Italy, Cyprus, Portugal and Czech Republic.

Inflation, measured by changes in the Harmonized Index of Consumer Prices (HCIP), declined from 2.7 per cent in March 2012 to 2.4 per cent during the review period. The deceleration was attributed to a fall in energy prices. However, given its inflation target rate of 2.0 per cent, the ECB left its benchmark lending rate unchanged at 1.00 per cent in the second quarter of 2012, to boost the economic recovery.

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

The harmonised unemployment rate in the Euro zone maintained an upward trend due to negative economic developments in the zone. It increased to 11.2 per cent in the period ending in June 2012, from 11.0 per cent in March 2012, as continuing debt crisis and deepening economic slump prompted companies to cut jobs.

South Africa (SA)

Preliminary economic indicators of economic growth showed mixed signals in the second quarter of 2012. Manufacturing production rose by 2.0 per cent in the second quarter of 2012, compared with a rise of 1.0 per cent recorded in the previous quarter. The increase was mainly due to higher production in food and beverages, motor vehicles and other transport equipment, petroleum, chemical products, rubber and plastic products. However, the volume of mining production dropped by 2.1 per cent during the review quarter, compared with a decline of 9.4 per cent realised in the previous quarter. The main contributors to decline in mining production were copper, manganese ore, platinum group metals (PGMs) and other non-metallic minerals. This reflected moderated global demand in the review quarter.

The unemployment rate declined marginally to 24.9 per cent in the second quarter of 2012, from 25.2 per cent in the quarter ending in March 2012. The deceleration was influenced largely by creation of jobs in the formal sector and private household employment. However, the rate remains high and SA is facing a challenge of among other factors, external forces such as low global demand and declining commodity prices.

The rate of inflation, measured by changes in the CPI, maintained the downward trend from the beginning of 2012. It fell to 5.5 per cent in the quarter ending in June 2012, from 6.0 per cent in March 2012. The drop was largely driven by lower prices of food and non-alcoholic beverages. At this rate, it was within the South African Reserve Bank target range of 3-6 per cent. However, the South African Reserve Bank's MPC decided to maintain the repo rate at 5.5 per cent during the review quarter, in order to continue supporting economic recovery.

Emerging Asian Markets and Japan

China

Economic activity in China continued to slowdown in the second quarter of 2012. Real GDP grew by 7.6 per cent during the review period, compared with 8.1 per cent recorded in the first quarter of 2012. The deceleration mainly reflected slower growth in secondary sector. The observed performance was on account of weakened external trade due to Europe's debt crisis and high global unemployment rate that continue to negatively affect the global consumer demand. In the labour market, the unemployment rate remained unchanged at 4.1 per cent in the quarter ending June 2012.

The inflation rate fell to 2.2 per cent in the quarter ending in June 2012, from 3.6 per cent in March 2012, due to a drop in commodity prices during the period. The People's Bank of China reduced its benchmark lending rate by 25 basis points to 6.31 in the quarter ending in June 2012, in an effort to boost the decelerating economic growth.

India

Industrial production deteriorated in the second quarter of 2012, with a significant drop in output of capital goods adding to a continuing economic slowdown in Asia's third-largest economy. Production in factories, utilities and mines fell by 1.8 per cent in June 2012, after a rise of 2.5 per cent in May 2012. The capital goods output, an indication of investment in plants and machinery, dropped by 27.9 per cent the period. The fall in industrial production could be influenced by reduced external demand coupled with low domestic demand due to high inflation in India.

The inflation rate in India rose to 10.0 per cent in June 2012, from 9.5 per cent in March 2012, as food prices increased during the period. However, the Reserve Bank of India (RBI)'s Monetary Policy Committee left benchmark repurchase rate unchanged at 8.00 per cent during the review quarter.

Japan

Economic activity in Japan moderated in the second quarter of 2012. The economy grew at a slower annual rate of 1.4 per cent in the review quarter, following a rise of 4.1 per cent in the quarter ending in March 2012. This was brought about by the cooling global demand which put export sector under pressure amid the strong yen during the review quarter. In addition, the drop in domestic demand appeared to lose recovery during the quarter.

The Japanese labour market improved slightly during the quarter, despite the slowing down of economic activity. The unemployment rate dropped to 4.3 per cent in the quarter ending in June 2012, from 4.5 per cent in March 2012. The observed performance was driven by the increased employment in medical and welfare services, while a decline in manufacturing industry employment showed moderate improvement in the labour market during the period.

Consumer prices in Japan declined to 0.2 per cent in June 2012, from an inflation rate of 0.3 per cent in March 2012, owing to the falling prices of energy and consumer goods. In an attempt to stimulate economic recovery, the Bank of Japan (BOJ) left its key interest rate unchanged at 0.1 per cent during the review quarter.

Commodity Prices

Overview

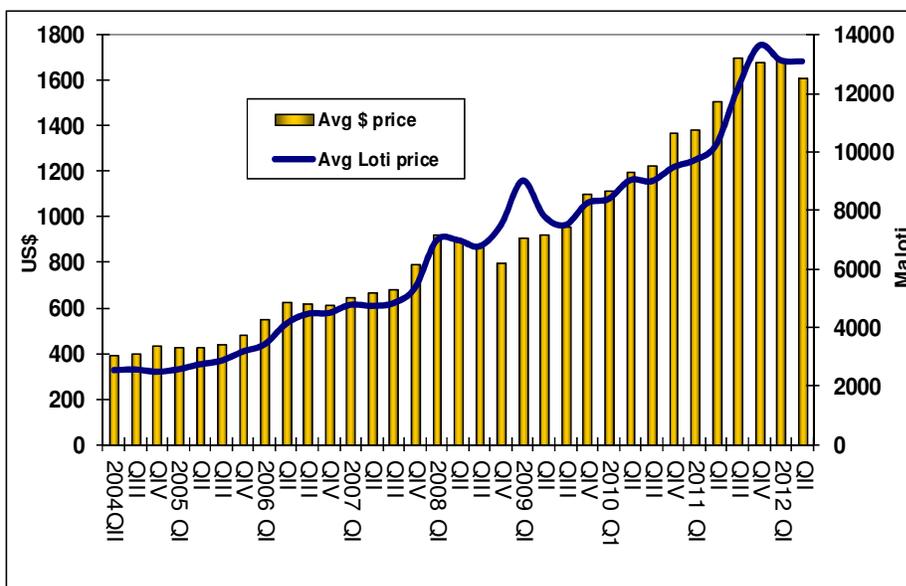
The international commodity prices remained on the downside in response to weaker global demand, as demand from China, the largest commodity consuming country, deteriorated during review quarter. Moreover, a moderate of global economic growth spurred by the sovereign debt risks in the Euro area, contributed to the easing of commodity prices. Crude oil prices also weakened on account of slower global economic activity and seasonal factors, as the oil demand of Organisation for Economic Co-operation and Development (OECD) economies normally declines in the second quarter of the year. Agricultural products prices also declined during the review quarter due to weakness of global demand.

Mineral Products

Gold

The average price of gold in US Dollar terms, decreased by 4.7 per cent to US\$1 612.6 per ounce during the quarter ending in June 2012, following an increase of 0.5 per cent recorded in the previous quarter. In Maloti terms, it fell by 0.3 per cent to M13 094.7 per ounce, compared with a decline of 3.7 per cent observed in the quarter ending in March 2012.

Figure 1: Average Price of Gold

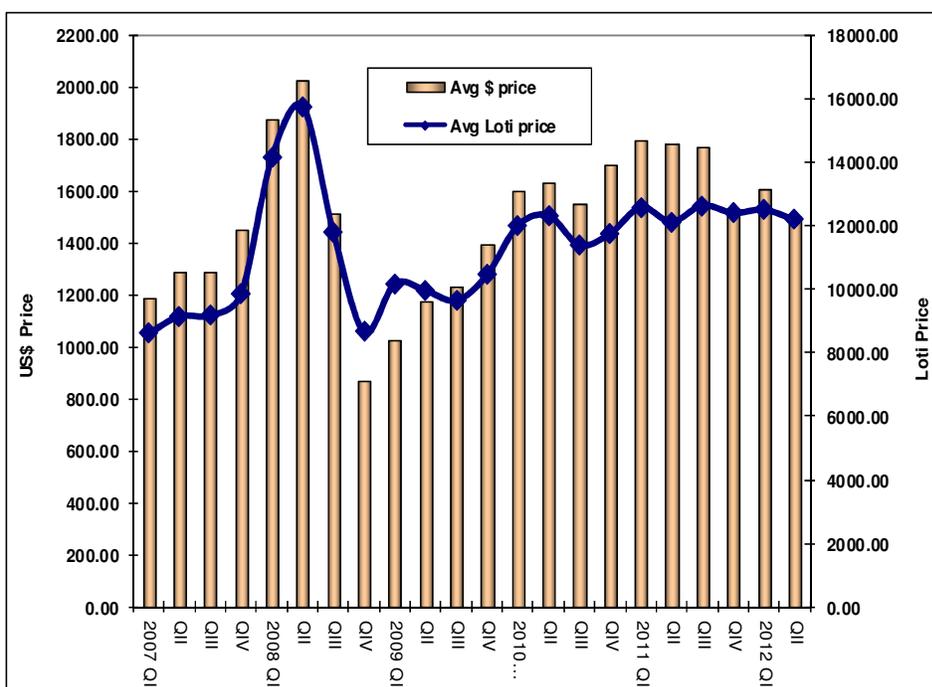


Source: Bloomberg

Platinum

The average price of platinum dropped by 6.8 per cent to US\$1 501.7 per ounce during the review quarter, compared with a rise of 5.2 per cent registered in the previous quarter. At the same time, in Maloti terms, it plummeted by 2.5 per cent to M12 193.7 per ounce, following an increase of 0.8 per cent realised in the first quarter of 2012.

Figure 2: Average of Price of Platinum



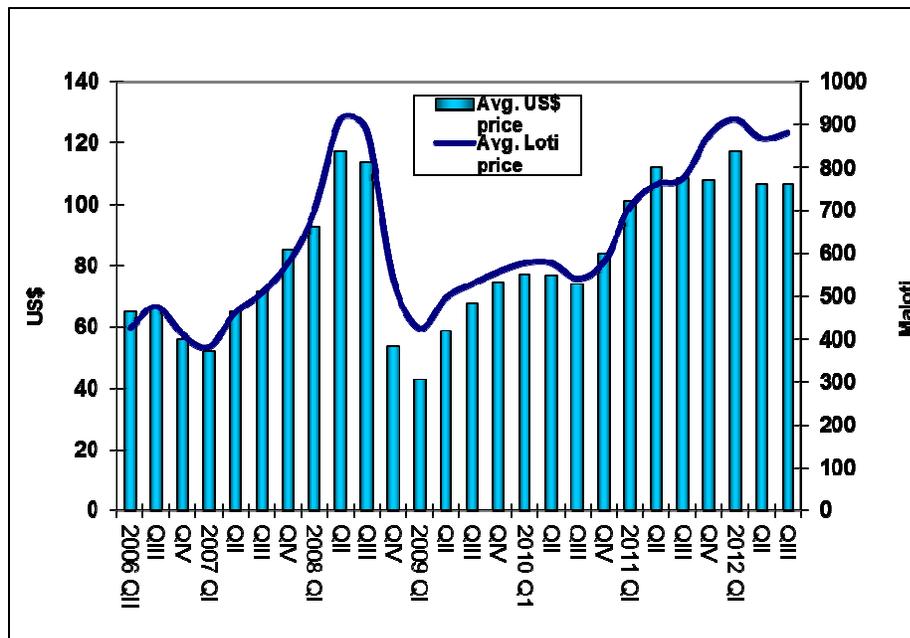
Source: Bloomberg

Oil

The quarterly average price of crude oil in the international market dropped by 9.1 per cent to US\$106.7 per barrel in the second quarter of 2012, in contrast with an increase of 8.8 per cent registered in previous quarter. It also decreased by 4.8 per cent to M866.8 per barrel in Maloti terms, compared with a rise of 4.2 per cent in the quarter ending in March 2012.

In line with a decline in international market prices of oil, despite the depreciation of the local currency against the major trading currency, domestic fuel prices followed the trend. Domestic fuel prices close the review quarter at M10.20 per litre of petrol, M10.85 per litre of diesel and M7.80 per litre of illuminating paraffin increased to M7.9 per litre.

Figure 3: Average Price of Oil



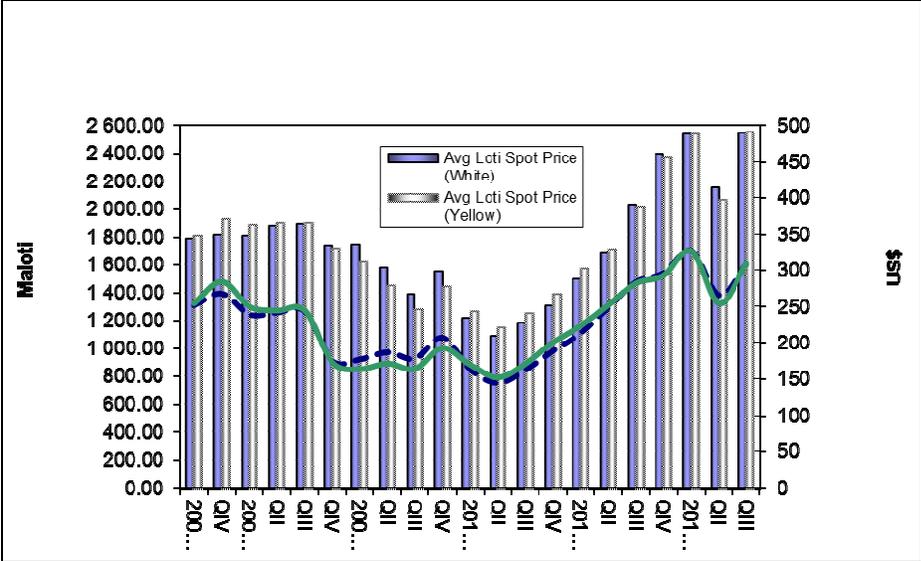
Source: Bloomberg

Agricultural Products

Maize

The average prices of white and yellow maize decreased during second quarter of 2012. In US Dollar terms, they dropped by 18.9 per cent to US\$265.5 per tonne and 22.2 per cent to US\$254.1 per tonne, respectively. In Maloti terms, the average prices of white and yellow maize reduced by 15.2 per cent to M2 153.7 per tonne and 18.6 per cent to M2 063.2 per tonne, respectively.

Figure 4: Average Spot Price of Maize

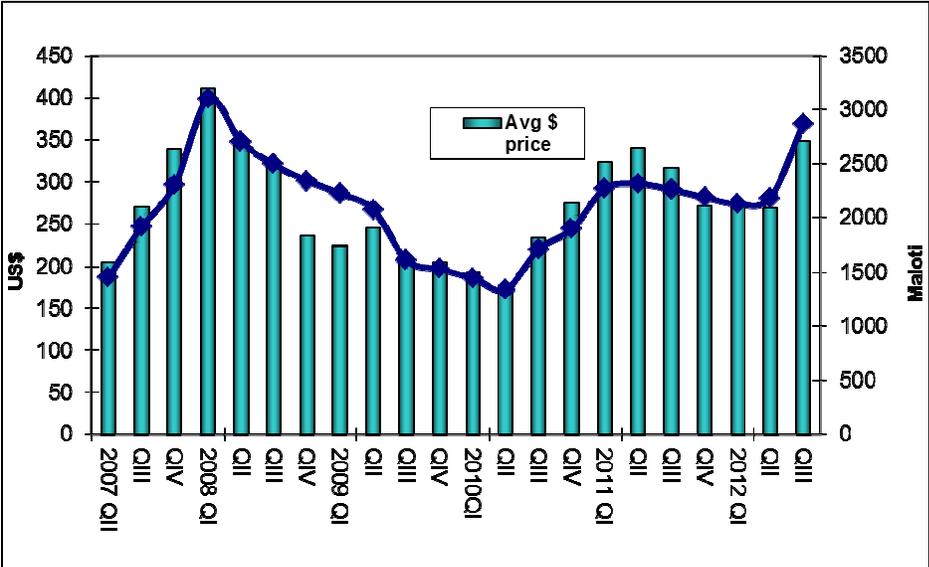


Source: Bloomberg

Wheat

On a quarterly average and in US Dollar terms, wheat price declined by 1.9 per cent to US\$268.5 per tonne in the quarter under review, while in Maloti terms it rose by 2.6 per cent to M2 180.4 per tonne during the same period.

Figure 5: Average Spot Price of Wheat



III. Real Sector, Employment and Price Developments

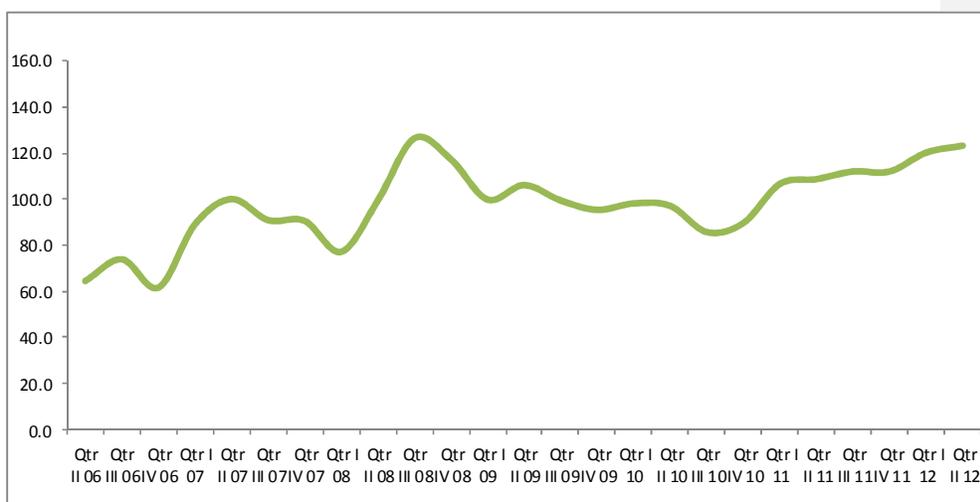
Overview

Lesotho’s economy showed positive performance during the second quarter of 2011, though it was uneven across the different sectors. A deceleration was observed in the primary sector as diamond mining production increased at a lower rate compared with the previous quarter. In the secondary sector water consumption registered a decline on account of the fall in water consumption by households while electricity consumption increased. Water consumption by the commercial and industrial category increased significantly during the review quarter signalling improved performance by the textiles and clothing manufacturing sub-sector. The tertiary sector was uneven with sales turnover increasing while the telephone calls traffic remained constant and the number of imported motor vehicles declined. Employment by the LNDC-assisted companies recovered in line with strong performance by the textiles and clothing manufacturing industry.

Primary Sector Developments

The weighted diamond production index (WDPI) rose by 2.5 per cent during the quarter ending in June 2012 following an increase of 7.3 per cent in the previous quarter. The slowdown in total production resulted from lower production by Letšeng mine due to production loss of two days on account of the general elections that took place during the quarter. In addition, Letšeng mine’s production was negatively affected by power supply disruptions caused by heavy snow that was experienced in June 2012. Production by the Liqhobong and Kao mines increased during the period under review. Three large diamonds were recovered from the Liqhobong mine in April and one of them was the largest since the mine was opened.

Figure 6: Weighted Diamond Production Index
(2007: QII=100)



Source: Department of Mines and Geology

Secondary Sector Developments

Electricity Consumption

Overall electricity consumption, measured in kilowatt hours (kwh) rose by 14.5 per cent in the second quarter of 2012 compared with 5.3 per cent in the first quarter of 2012. During the review period, the 'general purpose', 'commercial and industrial' and 'domestic' categories registered increases of 14.2 per cent, 17.7 per cent and 15.2 per cent, respectively. The increase in electricity consumption on a quarterly basis was in line with the improvement in the wet industries as performance by the manufacturing sector, especially the textile and clothing sub-sector improved during the review period. However, part of the increase was attributable to higher usage of electricity as the winter season began during the review quarter.

Table 2: Electricity Consumption

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

	2011				2012			
	QIII		QIV		QI		QII	
	Kwh	Value	Kwh	Value	Kwh	Value	Kwh	Value
General Purpose	24.77	23.19	20.73	19.28	23.28	21.56	24.25	23.02
Domestic	56.76	47.85	51.32	43.32	52.61	37.34	61.94	44.00
Commercial & Industrial	90.28	48.94	75.20	42.50	79.17	43.04	91.34	53.79
Total	171.81	119.97	147.24	105.11	155.06	101.95	177.53	120.80

Source: Lesotho Electricity Authority and Lesotho Electricity Company

Water Consumption

Water consumption declined by 7.5 per cent in the quarter ending in June 2012 compared with 5.3 per cent recorded in the previous quarter. In seasonally adjusted terms, water consumption declined by a substantial 19.8 per cent during the same period. However, on an annual basis, water consumption increased by 12.5 per cent in both seasonally and non-seasonally adjusted terms compared with 36.6 per cent that was realised in the previous quarter. The decline in total water consumption on a quarterly basis mainly reflected the impact of the decline in domestic water consumption during the quarter. Nonetheless, the commercial and industrial category recorded an increase in water consumption both on quarterly and annual bases. Water consumption by the commercial and industrial category increased by 21.0 per cent and 1.7 per cent on quarterly and annual bases, respectively. This was in line with the improved performance of the textiles and clothing manufacturing sub-sector.

Table 3: Water Consumption

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

		Domestic	Industrial	Other	Total
2011 II	Units	0.85	1.17	0.62	2.63
	Value	4.70	9.13	4.65	18.48
	Units*		1.19		2.67
III	Units	0.85	0.93	0.63	2.41
	Value	5.93	7.09	5.44	18.47
	Units*		0.88		2.29
IV	Units	1.31	0.95	0.78	3.04
	Value	8.56	7.78	8.78	25.1
	Units*		0.86		2.74
2012 I	Units	1.29	1.00	0.97	3.20
	Value	5.60	10.00	6.84	22.29
	Units*		1.00		3.74
II	Units	1.07	1.19	0.69	2.96
	Value	6.02	10.87	5.83	22.73
	Units*		1.21		3.00

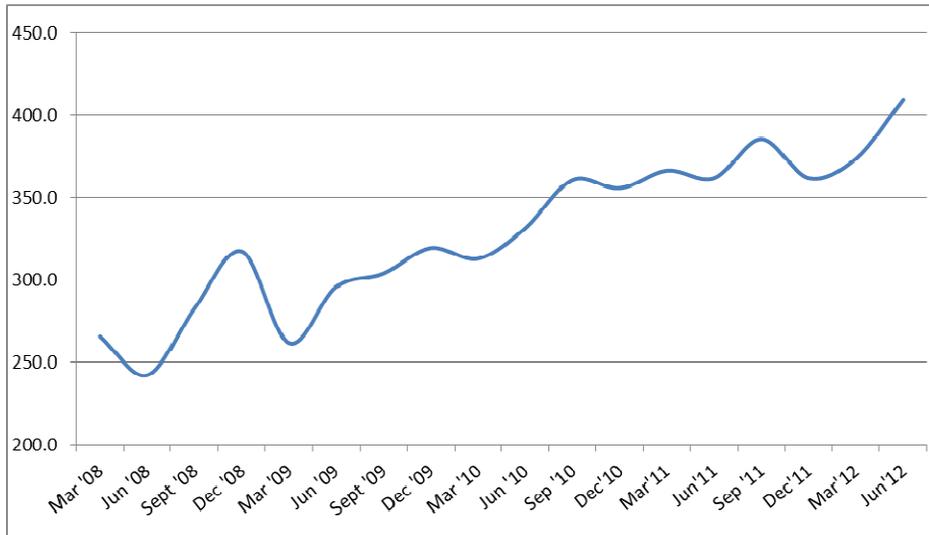
Source: Water and Sewerage Authority

* denotes seasonally adjusted figures

Tertiary Sector Developments**Sales Turnover**

The value of sales turnover increased by 9.6 per cent and 13.2 per cent on annual and quarterly bases, respectively. This was against the moderate increases of 3.3 per cent and 1.9 per cent on quarterly and annual bases, respectively in the previous quarter. The increase in sales turnover mainly reflected buoyant demand by business enterprises and households in the economy. The generally low inflation environment may have also contributed to the observed increase.

Figure 7: Value of Sales Turnover
(Million Maloti)



Source: Lesotho Revenue Authority

Telephone Statistics

The seasonally adjusted total number of telephone calls declined by 2.5 per cent in the quarter ending in June 2012 compared with an increase of 5.3 per cent in the quarter ending in March 2012. On an annual basis the number of telephone calls declined by 3.3 per cent compared with an increase of 2.7 per cent in the previous quarter.

Table 4: Telephone Traffic Statistics

		SA Outgoing Calls	International Calls	Total Calls
2011				
I	No. of calls (millions)	2.05	0.14	2.19
	No. of calls*			2.28
	Total Duration (million minutes)	3.62	0.37	3.99
	Nominal Value (million maloti)	8.24	2.63	10.87
II	No. of calls (millions)	2.15	0.17	2.32
	No. of calls*			2.41
	Total Duration (million minutes)	3.71	0.42	4.13
	Nominal Value (million maloti)	8.36	2.67	11.03
III	No. of calls (millions)	2.08	0.17	2.25
	No. of calls*			2.04
	Total Duration (million minutes)	3.62	0.39	4.01
	Nominal Value (million maloti)	8.23	2.65	10.88
IV	No. of calls (millions)	2.09	0.16	2.25
	No. of calls*			2.27
	Total Duration (million minutes)	3.65	0.39	4.04
	Nominal Value (million maloti)	8.28	2.65	10.93
2012				
I	No. of calls (millions)	2.09	0.16	2.25
	No. of calls*			2.39
	Total Duration (million minutes)	3.66	0.40	4.06
	Nominal Value (million maloti)	8.29	2.66	10.95
II	No. of calls (millions)	2.09	0.16	2.25
	No. of calls*			2.33
	Total Duration (million minutes)	3.64	0.39	4.04
	Nominal Value (million maloti)	8.27	2.65	10.92

Source: Tele-Com Lesotho and Vodacom Lesotho

* Adjusted for seasonality.

+ Preliminary estimates

Investment Expenditure

Imported Motor Vehicles

The number of imported motor vehicles declined by 19.7 per cent and 28.5 per cent in non-seasonally and seasonally adjusted terms, respectively, during the second quarter of 2012. This was against the significant increases of 41.2 per cent and 43.0 per cent on quarterly and annual bases, respectively during the previous quarter. On an annual basis,

the number of motor vehicles increased by 4.7 per cent. The decline in the number of imported motor vehicles mainly reflected normalisation after a jump that resulted from the replacement of a significant number of old government vehicles in the previous quarter. The decline in the number of imported motor vehicles was recorded in almost all categories except trailers.

Table 5: Motor Vehicle Imports⁺
(Value in Million Maloti)

		Cars	Vans	Trucks	Buses	Tractors	M/ Cycles	Trailers	Total	
2011	II	Value	36.30	46.87	23.60	7.0	0.97	0.16	1.67	116.57
	Units*	396	352	79	40	20	5	11	903	
III	Value	35.98	65.56	42.42	6.95	2.37	0.04	0.74	154.06	
	Units*	385	380	69	36	15	4	24	831	
IIV	Value	42.82	43.49	25.70	7.09	1.32	0.80	1.96	123.19	
	Units*	346	298	70	29	21	3	19	786	
2012	I	Value	45.83	52.84	31.15	6.73	1.04	0.02	3.26	140.87
	Units*	529	593	121	44	10	2	23	1322	
II	Value	52.77	49.78	12.65	8.27	0.41	0.00	6.27	130.18	
	Units*	444	384	35	41	7	0	34	945	

*denotes seasonally adjusted figures

+Includes imports of second hand cars

Employment Developments

During the second quarter of 2012, employment by LNDC-assisted companies increased by 4.8 per cent following a decline of 6.0 per cent in the previous quarter. On annual basis, employment declined by 2.1 per cent compared with a decline of 1.7 per cent that was registered in the previous quarter. This performance mainly reflected the relative buoyancy of Lesotho's manufacturing sub-sector as US's consumer demand picked up during the review period. Noticeable increases in employment were observed in the apparel and textile industry, especially the knit garments and woven garments firms.

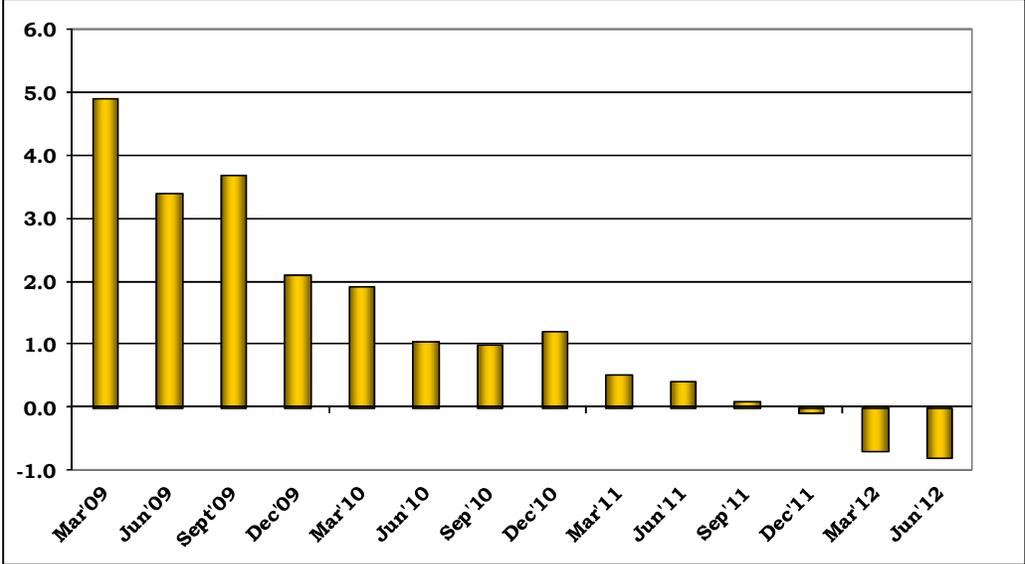
Table 6: Employment Trend of LNDC-Assisted Companies

Industry	2011			2012	
	QII	QIII	QIV	QI	QII
Knit Garments	22401	20082	24340	22190	22249
Woven Garments	15578	13967	13772	12710	15243
Footwear	2583	2756	2789	2905	2907
Fabrics, Yarn etc.	1388	1388	1411	1292	1144
Construction	277	257	279	272	378
Food & Beverages	841	585	585	1162	853
Electronics	1678	1461	1613	1555	1363
Retail	132	130	140	136	135
Hotel & Accommodation	469	378	403	394	400
Other	435	428	169	159	148
TOTAL	45782	41432	45501	42775	44820

Source: Lesotho National Development Corporation
 + Preliminary estimates

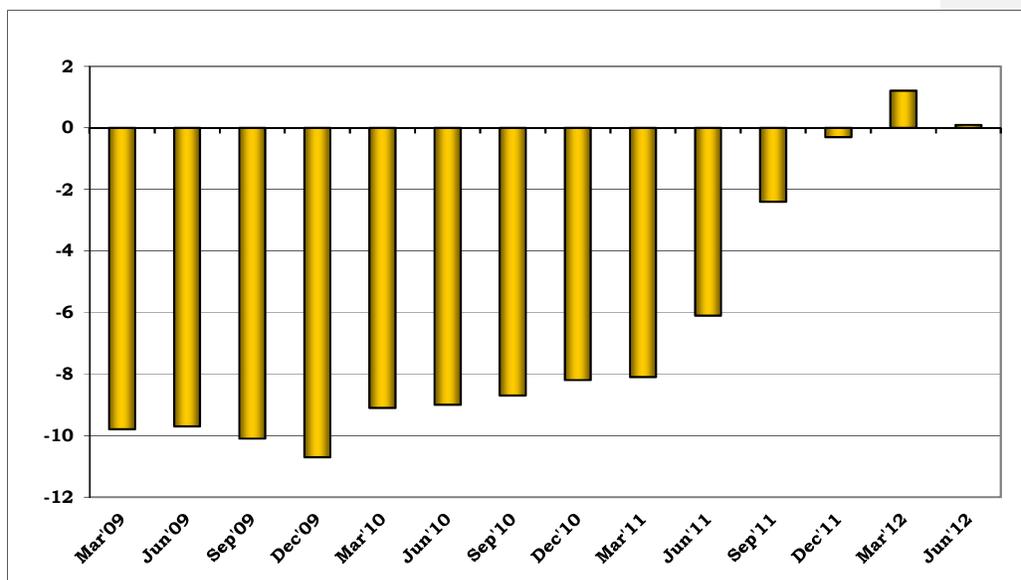
The number of government employees declined by a moderate 0.2 per cent in June 2012 compared with 0.6 per cent recorded in the quarter ending in March 2012. On annual basis, the number of government employees declined by a marginal 0.8 per cent compared with 0.7 per cent recorded in the previous quarter. On a quarterly basis, the number of employees in the 'civil servants' and 'daily paid' categories declined by 0.3 per cent and 0.8 per cent, respectively while the number of teachers increased by a marginal 0.4 per cent during the same period.

Figure 8: Government Employment
(Annual Percentage Change)



The number of migrant mineworkers declined further by 1.6 per cent in the second quarter of 2012 compared with a slight drop of 0.6 per cent in the first quarter of 2012. Nonetheless, on annual basis, the number of migrant mineworkers increased by a moderate 0.1 per cent in the second quarter from 1.2 per cent realised in the previous quarter.

Figure 9: Migrant Mineworkers Employment
(Annual Percentage Change)



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

Price Developments

Lesotho's inflation rate, measured as a percentage change in the Consumer Price Index (CPI) for all urban households, decelerated to 6.1 per cent in June 2012 from 7.2 per cent in March 2012. The deceleration in the inflation rate was more pronounced in 'food and non-alcoholic beverages', 'alcoholic beverages and tobacco', 'clothing and footwear' and 'transport'. They declined from 11.0 per cent, 8.0 per cent, 1.5 per cent, 13.0 per cent and 8.5 per cent in March 2012 to 10.1 per cent, 6.6 per cent, 0.6 per cent, 8.2 per cent and 7.2 per cent, respectively in June 2012.

Table 7: Inflation Rate

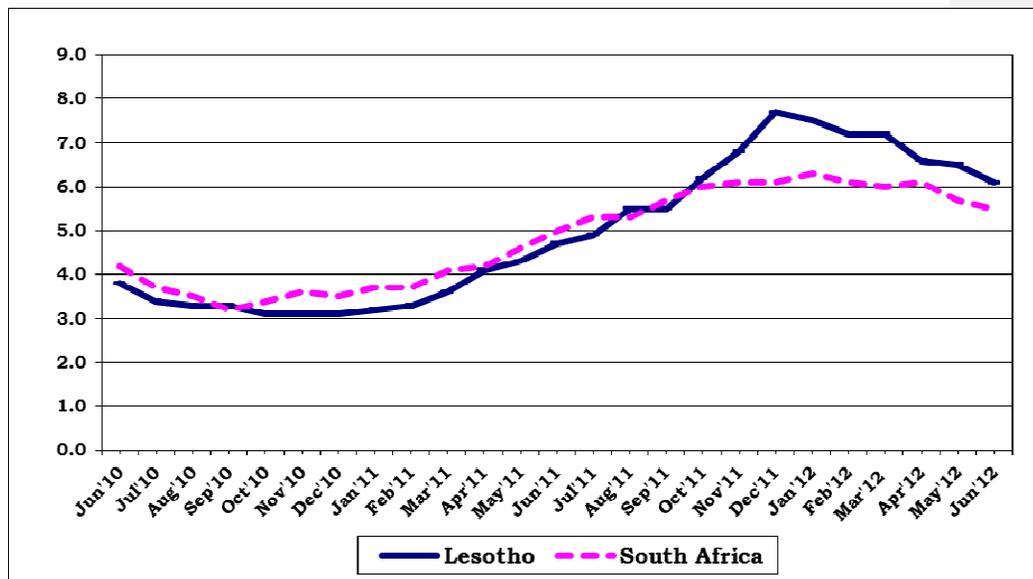
(Annual Percentage Change: March 2010 =100)

	Weight	2012				
		Feb	Mar	April	May	June
All items	100.0	7.2	7.2	6.6	6.5	6.1
Food and non-alcoholic beverages	38.1	10.5	11.0	10.7	10.7	10.1
Alcoholic beverages & Tobacco	1.2	7.6	8.0	7.5	7.3	6.6
Clothing & footwear	17.4	1.6	1.5	1.5	1.2	0.6
Housing, electricity gas & other fuels	10.6	14.5	13.0	10.0	7.8	8.2
Furniture, households equipment & routine maintenance of house	9.4	3.3	2.5	1.0	2.3	1.7
Health	1.9	0.6	0.6	0.3	0.4	0.3
Transport	8.5	8.6	8.5	8.2	7.4	7.2
Communication	1.2	-0.6	-0.6	-0.6	-0.6	-0.6
Leisure, entertainment & Culture	2.4	2.2	2.5	1.5	3.0	2.4
Education	2.7	0.7	1.0	1.0	1.0	1.0
Restaurant & Hotels	0.7	-1.2	-1.6	0.1	0.1	0.1
Miscellaneous goods & services	5.8	2.5	2.4	2.4	2.3	2.2

Source: Bureau of Statistics, Lesotho

Lesotho's inflation rate continued to move in line with that of SA, largely reflecting Lesotho's high reliance on imports from SA. The inflation rates in the two countries have been declining in line with global trends. Lesotho's inflation rate has remained above that of SA since the beginning of the fourth quarter of 2011. Lesotho's inflation rate declined from 7.2 per cent in March 2012 to 6.1 per cent in June 2012 while that of SA from 6.0 per cent in March 2012 to 5.5 per cent in June 2012. The observed deceleration in inflation mainly reflected slower increases in food prices and the decline in crude oil price during the quarter despite the depreciation of the Rand against major currencies.

Figure 10: Annual Inflation Rate for Urban Households
 (Annual Percentage Change: March 2010 =100)



Source: Bureau of Statistics, Lesotho

IV. Monetary and Financial Developments

Determinants of Money Supply

Money supply expanded by 5.3 per cent during the quarter under review following a 2.6 per cent contraction observed in the first quarter of 2012. On an annual basis, money supply expanded by 9.0 per cent compared with a 4.9 per cent rise observed in the previous quarter. The quarterly increase in money supply was fuelled by an 8.1 per cent rise in domestic claims excluding net claims on government which was slightly moderated by a 0.8 per cent decline in net foreign assets.

Figure 11: Overview of Recent Monetary Developments

(Million Maloti: End of Period)

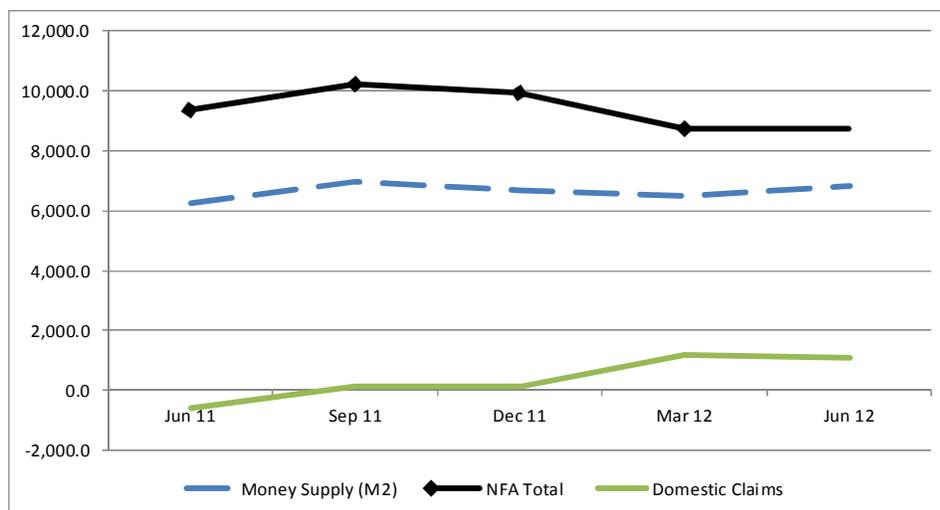


Table 8: Determinants of Money Supply

(Million Maloti: Changes)

	2011			2012	
	Jun	Sep	Dec	Mar	Jun
Net Foreign Assets	46.1	862.5	-306.7	-1,104.3	-74.1
Domestic Claims	36.0	709.2	-26.9	1,054.0	-82.1
Net Claims on Central Government	-82.2	526.6	-93.7	842.8	-317.2
Claims on other Sectors	11.2	-2.2	-2.6	-10.9	0.7
Claims on Private Sector	107.1	184.8	69.3	222.1	234.3
Shares and other equity	-63.7	687.3	15.7	-41.0	373.5
Other Items (NET)	64.6	178.2	-40.6	166.3	-874.2
Broad Money Liabilities (M2)	81.2	706.2	-308.7	-175.7	344.5

Components of Money Supply

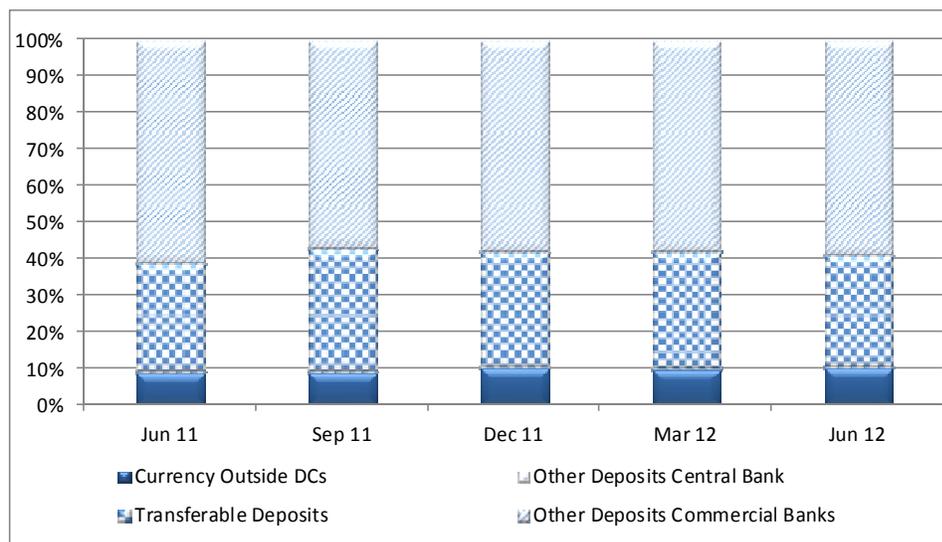
The major components of broad money comprise narrow and quasi money. During the second quarter of 2012, both narrow and quasi money expanded. Narrow money expanded by 3.3 per cent, compared to a 3.6 per cent contraction registered in the previous quarter. Currency outside depository corporations was the major driver of an increase in M1 with a 12.2 per cent expansion while transferable deposits included in

broad money increased slightly by 0.5 per cent. Quasi money expanded by 6.8 per cent driven mainly by a 6.9 per cent rise in other non-transferable deposits held by the commercial banks.

Table 9: Money Supply
(Million Maloti; End of Period)

	2011			2012	
	Jun	Sep	Dec	Mar	Jun
	Broad Money (M2)	6262.2	6968.4	6659.6	6483.9
Narrow Money (M1)	2428.4	2969.1	2801.1	2700.5	2789.2
Currency Outside DCs	569.4	642.0	688.7	643.3	721.6
Transferable Deposits	1859.0	2327.1	2112.4	2057.1	2067.6
Quasi Money	3833.8	3999.3	3858.6	3783.4	4039.1
Other Deposits Commercial Banks	3797.6	3962.5	3822.3	3749.0	4006.8
Other Deposits Central Bank	36.2	36.8	36.3	34.4	32.3

Figure 12: Components of Money Supply
(Percentage shares)



Commercial Banks' Deposits by Holder

The quantity of deposits held with the local commercial banks increased by 4.6 per cent at the end of June 2012 following a 2.2 per cent decline registered in the quarter ending March 2012. Both transferable and other non-transferable deposits recorded increases of 0.5 per cent and 6.9 per cent respectively. Transferable deposits by other nonfinancial corporations increased by 17.5 per cent while transferable deposits held by other residents sector (households) increased by 25.7 per cent. Other non-transferable deposits held by households increased by 1.6 per cent. Private sector deposits form the largest share of deposits held by commercial banks.

Table 10: Commercial Banks; Deposits by Holder

(Million Maloti: End of Period)

	2011			2012	
	Jun	Sep	Dec	Mar	Jun
Transferable Deposits Incl. in BM	1859.0	2327.1	2112.4	2057.1	2067.6
Other Financial Corporations	9.3	282.4	15.9	9.0	13.9
Public Nonfinancial Corporations	42.9	45.0	42.9	43.0	51.9
Private Sector	1806.8	1999.8	2053.6	2005.2	2001.9
Other NFCs	1154.8	1232.8	1267.6	1183.9	1391.5
Other Sectors (Households)	652.0	766.9	785.9	821.3	610.4
Other Deposits Incl. in BM	3797.6	3962.5	3822.3	3749.0	4006.8
Other Financial Corporations	0.0	0.0	0.0	0.0	0.0
Public Nonfinancial Corporations	44.2	40.4	39.3	34.2	25.6
Private Sector	3753.4	3922.1	3783.0	3714.8	3981.2
Other NFCs	2447.3	2595.4	1981.8	2152.6	2393.6
Other Sectors (Households)	1306.1	1326.7	1801.2	1562.2	1587.5
Total Deposits	5656.6	6289.6	5934.7	5806.1	6074.4

NB: Totals may not tally due to rounding off

Liquidity of Commercial Banks

The liquidity of commercial banks has been on the decline but remained high in the second quarter of 2012. The ratio of liquid assets to deposit liabilities and placements with other banks declined by 5 percentage points, from 70.9 per cent observed in the first quarter of 2012 to 65.8 per cent in the second quarter of 2012. The credit deposit ratio increased from 48.6 per cent recorded in the previous quarter to 50.3 per cent in the review period. The increase in the credit deposit ratio reflects an 8.7 per cent expansion contraction in credit to the private sector moderated by a 4.7 per cent increase in private sector deposits.

Table 11: Components of Commercial Banks' Liquidity
(Million Maloti: End of Period)

COMPONENT	2011				2012
	Jun	Sep	Dec	Mar	Jun
Maloti Notes and Coins	90.0	86.7	155.9	102.7	118.3
and Notes and Coins	52.3	49.2	95.3	59.6	68.8
Balances due from Lesotho Banks	1003.3	1083.1	1023.1	837.8	753.6
Balances due from Foreign Banks	3407.8	3855.0	3233.4	2777.4	2884.0
Clearing Balances with CBL	-78.7	22.9	-44.8	173.1	7.6
CBL Bills	0.0	0.0	0.0	0.0	0.0
Lesotho Government Securities	563.5	568.0	634.5	744.8	777.5
Total Commercial Bank's Liquidity	5043.8	5671.4	5105.3	4701.4	4616.2

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

	2011			2012	
	Jun	Sep	Dec	Mar	Jun
	Net Foreign Assets	3404.82	3876.64	3209.50	2826.54
Claims on Central Bank	230.40	358.99	292.06	474.19	297.17
Currency	90.00	86.73	154.90	102.74	118.28
Reserve Deposits and Securities	140.41	272.26	137.16	371.45	178.89
Net Claims on Central Government	626.50	633.59	700.16	817.86	840.61
Claims	649.24	658.61	722.17	840.06	864.05
Liabilities	-22.75	-25.02	-22.01	-22.20	-23.44
Claims on Other Sectors	2420.87	2602.83	2667.00	2877.36	3108.80
Claims on OFCs	15.30	13.48	11.27	0.00	0.00
Claims on PNFCs	2.12	1.72	1.37	1.75	2.46
Claims on Private Sector	2403.45	2587.64	2654.37	2875.61	3106.34
Transferable Deposits Inc. in BM	1858.99	2327.10	2112.37	2057.14	2067.62
Other Deposits Inc. in BM	3797.63	3962.51	3822.29	3748.98	4006.79
Shares Equity and OIN	1025.96	1182.44	934.06	1189.83	975.23

Demand for Money

Domestic Claims

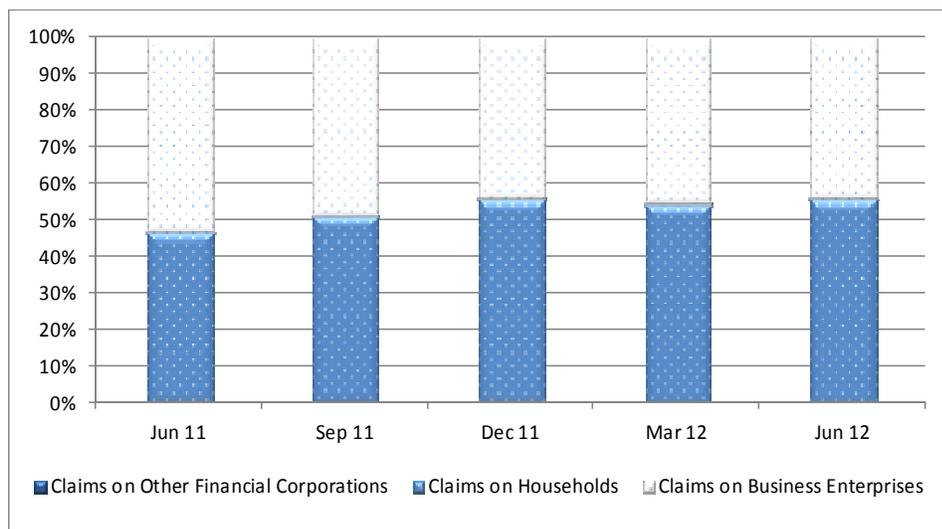
Domestic credit, excluding net claims on government, expanded further by 8.1 per cent during the quarter under review, following a 7.8 per cent expansion realised during the first quarter of 2012. This was driven by an 8.1 per cent rise in credit extended to the private sector, coupled with a 41.0 per cent increase in credit extended to public nonfinancial corporations. Year on year domestic credit continued to register a double digit growth of 28.4 per cent following an expansion of 24.8 per cent recorded in the previous quarter.

Table 13: Domestic Credit Excluding Net Claims on Government*
(Million Maloti: End of Period)

	2011			2012	
	Jun	Sep	Dec	Mar	Jun
Claims on Other Sectors	2 450.4	2 632.9	2 699.6	2 910.8	3 145.9
Claims on Other Financial Corporations	15.3	13.5	11.3	0.0	0.0
Claims on Public Nonfinancial Corporations	2.1	1.7	1.4	1.7	2.5
Claims on Private Sector	2 432.9	2 617.7	2 687.0	2 909.1	3 143.4
Claims on Business Enterprises	1 300.6	1 285.5	1 196.1	1 323.7	1 391.0
Claims on Households	1 132.3	1 332.2	1 490.9	1 585.4	1 752.4

*excludes non performing loans

Figure 13: Distribution of Credit by Holder
(Percentage shares)



Credit to Private Sector

During the second quarter of 2012, credit extended to the private sector increased by 8.1 per cent, following an 8.3 per cent increase in the previous quarter. The increase in private sector credit on a quarterly basis was driven by a 5.1 per cent rise in credit extended to business enterprises and a 10.5 per cent increase in credit extended to households. Credit extended to households constitutes the largest share of domestic credit with 55.7 per cent while the share of credit extended to businesses declined to 44.3 per cent. Credit extended to statutory bodies remains negligible at 0.1 per cent.

Sectoral Distribution of Credit

Credit extension to enterprises in the quarter ending June 2012 was dominated by the following sectors: non-bank financial institutions and real estate (20.3 per cent); wholesale, retail and hotels (19.8 per cent); transport, storage and communications (16.4 per cent); and manufacturing (13.8 per cent). Significant improvements in credit extension were in wholesale, retail trade and hotels; transport, storage and communications; mining; and non-bank financial institutions and real estate. However, credit extension to community, social and personal services; manufacturing; and construction subsectors declined in the review quarter.

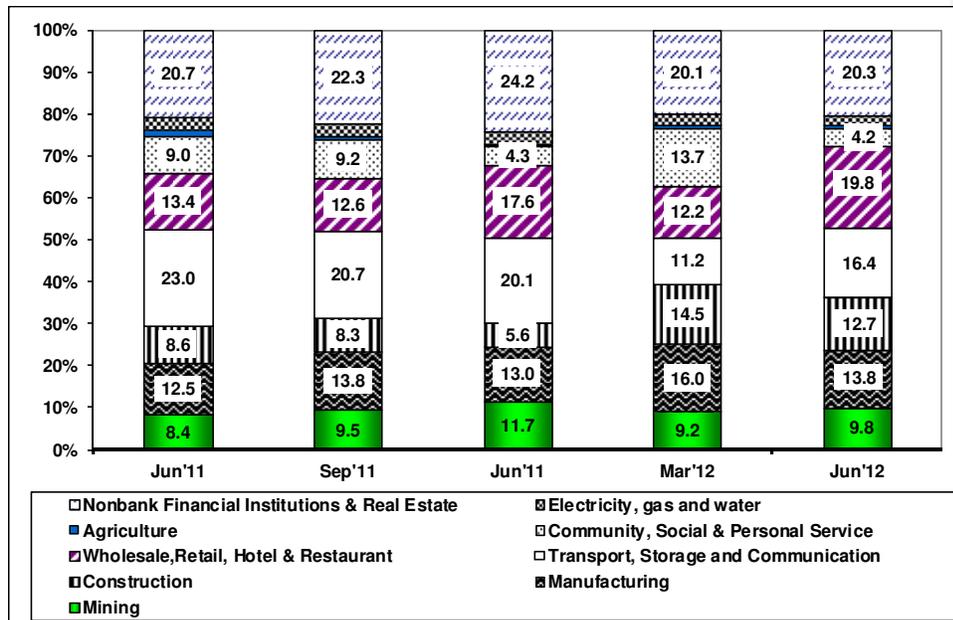
Table 14: Sectoral Distribution of Credit to Enterprises*

(Million Maloti: End of period)

SECTOR	2011			2012	
	Jun	Sep	Dec	Mar	Jun
Agriculture	17.1	10.2	4.7	7.8	9.0
Mining	108.9	122.9	139.7	121.3	136.8
Manufacturing	163.0	177.1	155.9	211.6	192.9
Construction	111.9	106.5	67.4	191.7	176.5
Transport, storage and communication	300.1	266.0	240.3	148.1	228.5
Electricity, gas and water	40.2	37.4	37.9	35.5	33.5
Wholesale, retail, hotel and restaurant	174.6	161.9	210.5	161.6	275.7
Non-bank financial institutions and real estate	270.3	287.5	289.9	266.5	282.5
Community, social and personal services	116.7	117.8	51.1	181.7	58.0
All sectors	1302.7	1287.3	1197.5	1325.4	1393.5

* includes non-performing loans

Figure 14: Commercial Bank's Credit to Business Enterprises
(Percentage shares)



Net Claims on Government

The net claims on government by the banking system declined by a remarkable 18.1 per cent during the second quarter of 2012, following a substantial increase of 32.5 per cent observed in the previous quarter. This decline in total net claims by the banking sector was mainly driven by a 13.2 per cent decline in claims on Government by the Central Bank moderated by a 2.8 per cent increase in claims on Government by the commercial banks. Furthermore, a 21.6 per cent rise in Central Government deposits at the Central Bank was the main contributor to this drop in net claim on government.

Table 15: Banking System's Net Claims on Government
(Million Maloti: End of Period)

	2011			2012	
	Jun	Sep	Dec	Mar	Jun
	Commercial Banks Net Claims	626.5	633.6	700.2	817.9
Claims on Central Government	649.2	658.6	722.2	840.1	864.0
o/w T-Bills and Bonds	645.6	650.4	751.9	824.0	824.0
Liabilities to Central Government	22.7	25.0	22.0	22.2	23.4
Central Bank Net Claims	-3,652.1	-3,132.6	-3,292.8	-2,567.7	-2,907.6
Claims on Central Government	235.0	249.7	242.9	214.3	474.5
Liabilities to Central Government	3,887.1	3,382.3	3,535.7	2,782.0	3,382.2
Total Net Claims Government	-3,025.6	-2,499.0	-2,592.6	-1,749.8	-2,067.0

³ 'MP T Bills' means monetary policy treasury bills.

⁴ IMF loans on-lent to the GOL.

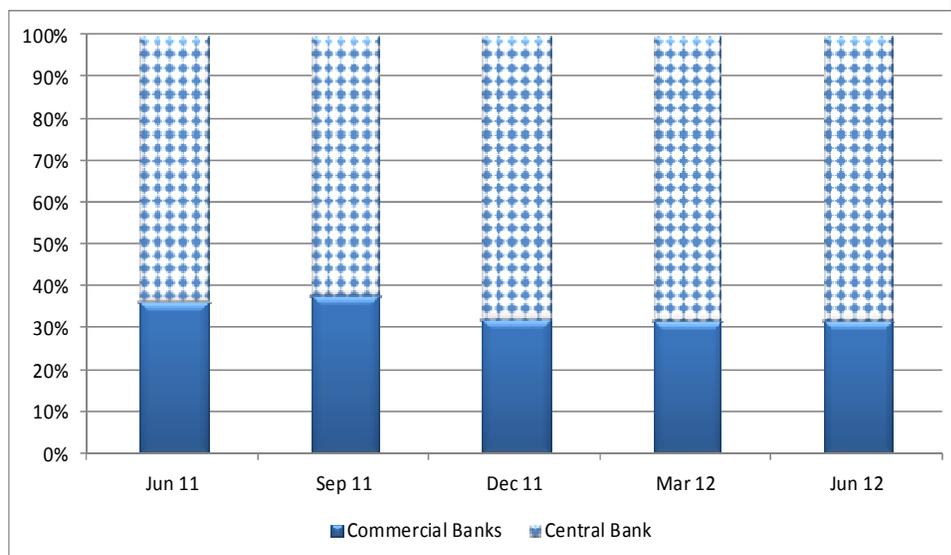
Net Foreign Assets

The net foreign assets of the entire banking system fell slightly by 0.8 per cent in the second quarter of 2012 following a large drop of 11.1 per cent recorded in March, 2012. The fall in total net foreign assets was on account of a 0.8 per cent fall in net foreign assets of both the commercial banks and the Central Bank. The drop in Commercial banks' net foreign assets was driven by a 234 per cent increase in commercial banks' liabilities to non-residents against a 3.6 per cent increase in claims on non-residents. On the part of the Central Bank, liabilities to non-residents increased by 45.8 per cent against a 3.5 per cent rise in claims on non-residents.

Table 16: Banking System's Claims and Liabilities on Non-residents
(Million Maloti: End of Period)

	2011			2012	
	Jun	Sep	Dec	Mar	Jun
	A. Commercial Banks	3,404.8	3,876.6	3,209.5	2,826.5
Claims on Nonresidents	3,507.5	3,962.6	3,390.9	2,880.7	2,984.2
Liabilities to Nonresidents	-102.7	-86.0	-181.4	-54.1	-181.2
B. Central Bank	5,945.0	6,335.7	6,696.1	5,974.8	5,924.2
Claims on Nonresidents	6,538.6	7,031.7	7,350.6	6,580.9	6,808.0
Liabilities to Nonresidents	-593.6	-696.0	-654.5	-606.1	-883.8
Net Foreign Assets Total	9,349.8	10,212.4	9,905.7	8,801.3	8,727.2

Figure 15: Net Foreign Assets
(Percentage shares)



Money Market Developments

The total holding of Treasury bills and bonds increased by 4.0 per cent in the quarter under review as compared to 8.9 per cent increase recorded in the previous quarter. The increase was mainly as a result of a 7.6 per cent increase in holding of treasury bonds

while holding of treasury bills increased marginally by 0.8 per cent. Treasury Bills held by the non-bank sector declined by 13.5 per cent, while Treasury Bonds held by the non-bank sector increased by 26.3 per cent.

Table 17: Holding of Treasury Bills and Bonds
(Face Value; Million Maloti)

	2011			2012	
	Jun	Sep	Dec	Mar	Jun
Total Holding of Bills and Bonds	892.4	904.7	1022.9	1114.3	1159.2
Treasury Bills	523.5	499.8	497.7	588.0	592.9
Banking System	417.9	387.9	377.1	449.1	472.7
Non-Bank Sector	105.6	111.9	120.6	138.9	120.2
Treasury Bonds	368.9	405.0	525.3	526.3	566.4
Banking System	227.8	262.5	374.8	374.9	375.0
Non-Bank Sector	141.2	142.4	150.5	151.4	191.3
Memorandum Item					
Average Yield Bills (per cent)	5.30	5.37	5.34	5.53	
Average Yield Bonds (per cent)	8.63	8.63	9.00	9.08	

Money Market and Short-term Interest Rates

During the second quarter of 2012, all the Central Bank's interest rates increased while all commercial banks' interest rates remained unchanged. The 91-day Treasury bill and Lombard rates increased to 5.54 and 9.54 per cent respectively. However, the call rate, the time deposit rates and prime lending rate were constant. In South Africa, the repo rate remained flat at 5.50 and the prime lending rate at 9.00. However, the South African 91-day TB rate increased by 3 basis points to 5.59 from 5.56 per cent recorded in the previous quarter. The relatively low interest rates within the region reflect efforts by monetary authorities to stimulate their economies as inflation expectations are also easing.

Table 18: Major Money Market Interest Rates

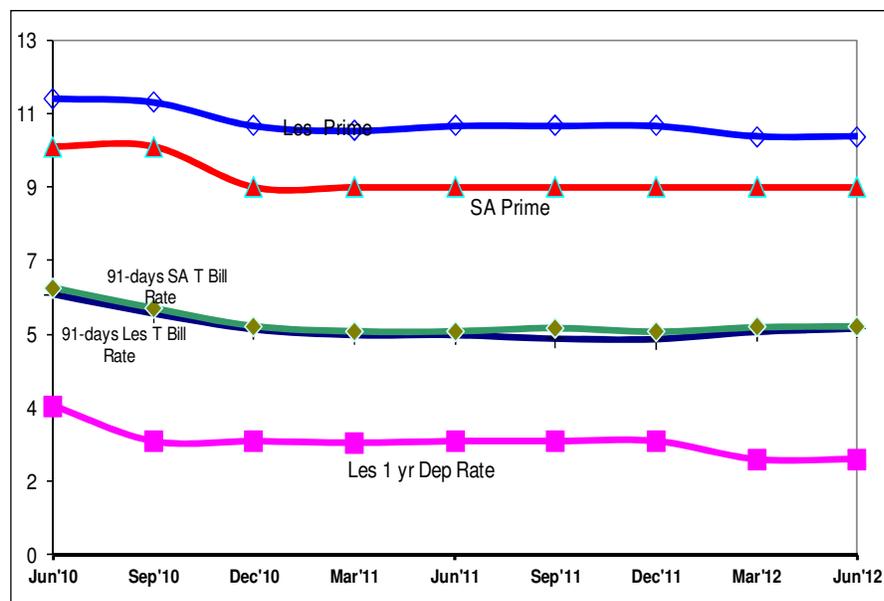
(Percent: End of Period)

Interest Rates by Type	2011			2012	
	Jun	Sep	Dec	Mar	Jun
Central Bank					
T Bill Rate – 91 Days	5.29	5.29	5.28	5.46	5.54
Lombard Rate	9.38	9.29	9.28	9.46	9.54
Commercial Banks ⁵					
Call	1.14	1.15	1.15	0.77	0.77
Time:					
31 days	1.21	1.21	1.21	0.91	0.91
88 days	1.67	1.67	1.67	1.41	1.41
6 months	1.94	1.94	1.94	1.69	1.69
1 year	2.78	2.78	2.78	2.34	2.34
Savings	1.21	1.21	1.15	0.84	0.84
Prime	10.50	10.50	10.50	10.25	10.25
South Africa*					
Repo	5.50	5.50	5.50	5.50	5.50
T Bill Rate – 91 Days	5.47	5.55	5.46	5.56	5.59
Marginal Lending					
Rate	10.50	10.50	10.50	10.50	10.50
Prime	9.00	9.00	9.00	9.00	9.00

* Figures for South Africa were obtained from the SARB

⁵ Average rates by commercial banks

Figure 16: Short-Term Interest Rates
(Percent Per Annum)

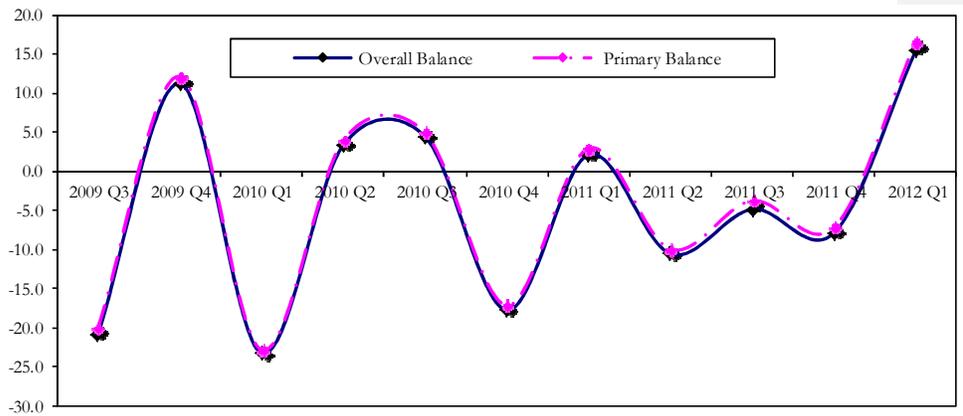


V. Government Finance

Summary of Budget Outturn

Quarterly estimates indicate that government budgetary operations recorded a surplus equivalent to 15.4 per cent of GDP during the quarter ending in June 2012, in contrast with a deficit equivalent to 7.9 per cent in the quarter ending in March 2012. The surplus reflected a jump in total revenue and grants and a contraction in overall expenditures. Total revenue and grants increased by 24.7 per cent on a quarterly basis, compared with 3.6 per cent increase recorded in the previous quarter. Total expenditures and net lending contracted by 11.2 per cent after increasing by 8.0 per cent in the previous quarter. The increase in total revenue and grants was on account of a more than expected increase in customs revenue. The deterioration in government expenditure and net lending reflected a decrease in recurrent expenditures which largely reflected a re-adjustment to normal expenditures. The higher level of expenditures in the previous quarter was largely reflective of end of fiscal year payments.

Figure 17: Primary Balance versus Overall Balance
(In percent of GDP)



Revenue

Total revenue increased by 32.7 per cent during the quarter under review. This was after increasing by 11.4 per cent in the quarter ending March 2012. The growth in total revenue emanated from a 25.7 per cent rise in tax revenue and a 110.3 per cent increase in non-tax revenue. The increase in tax revenue was driven by a strong growth in SACU receipts. SACU revenue reclaimed its position as the largest contributor to total revenue after deteriorating significantly in 2010. Its contribution to total revenue rose from 32.9 per cent to 53.4 per cent while income tax as a share of total revenue shrank from 37.7 per cent to 19.3 per cent.

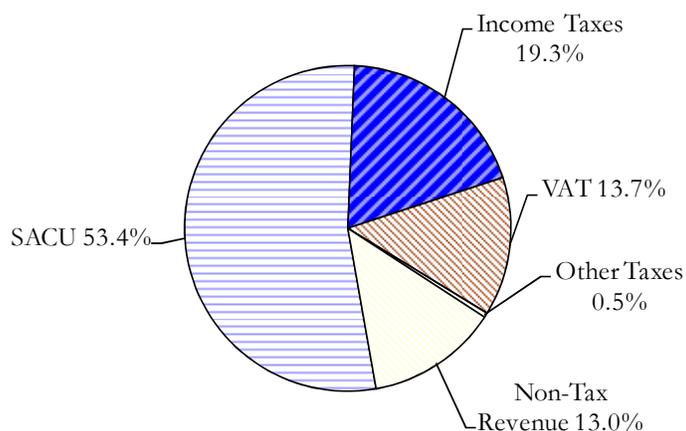
Table 19: Government Revenue
(Million Maloti)

	2011/12				2012/13
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar Revised	Apr-June Preliminary
Total Revenue and Grants	1996.9	2098.3	2460.1	2548.1	3178.2
Total Revenue	1719.6	1818.0	2005.8	2111.3	2801.1
<i>Tax Revenue</i>	1562.1	1560.3	1641.8	1938.2	2437.1
Customs	688.2	688.2	688.2	688.2	1491.6
Non-customs	873.9	872.1	953.6	1250.0	945.5
Income Taxes	522.3	496.1	584.8	789.3	539.3
Taxes on goods & services	332.0	335.4	393.0	444.4	393.0
Other Taxes	19.6	20.6	13.2	16.3	13.2
<i>Non-Tax Revenue</i>	157.5	257.7	364.0	173.1	364.0
Of which: Water royalties	66.5	140.9	224.5	137.8	163.0
Grants	277.3	280.3	454.3	436.8	377.1

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

The non-tax revenue component comprises dividends from operations of organizations with public ownership, royalties from Lesotho Highlands Water Project (LHWP), rand compensation and other revenues. It increased by 23.1 per cent following an 18.8 per cent contraction in the previous quarter. The significant growth in non-tax revenue reflected amongst others, the growth in water royalties. Preliminary estimates indicate that grants dropped in the quarter under review. It fell by 13.7 per cent following a 3.5 per cent deterioration observed in the previous quarter.

Figure 18: Sources of Government Revenue



Expenditure

Government expenditure and net lending constitute recurrent and capital expenditures. It contracted by 11.2 per cent in the second quarter of 2012 after increasing by 8.0 per cent in the previous quarter. The contraction was reflective of a 17.6 per cent deterioration in recurrent expenditures, which comprises amongst others, wages and salaries, expenditures on goods and services, subsidies and transfers. Personnel emoluments continue to account for the largest share of recurrent expenditures at 41.2 per cent followed by expenditures on goods and services at 37.6 per cent. On the contrary, capital expenditures increased by 24.6 per cent in the quarter ending in June compared with a 3.8 per cent drop in the previous quarter. The growth reflects the ongoing capital projects in the country.

Table 20: Government Expenditure

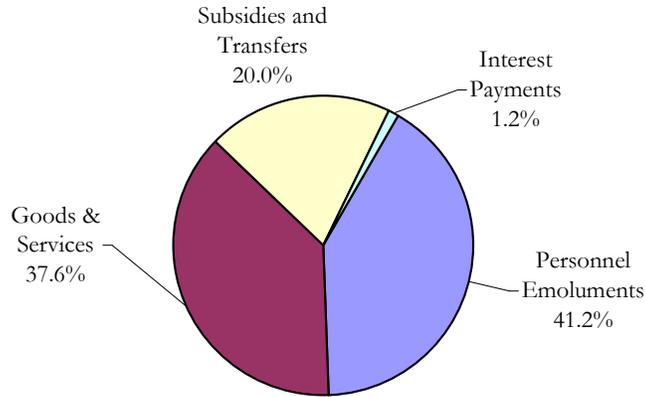
(Million Maloti)

	2011/12				2012/13
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar Revised	Apr-Jun Preliminary
Total Expenditure & Net Lending	1912.0	2556.7	2659.7	2871.7	2549.6
Recurrent Expenditure	1634.7	2276.4	2205.4	2434.9	2005.4
Personnel Emoluments	871.5	858.8	965.8	1002.5	892.6
Interest Payments	34.6	25.5	47.4	28.5	46.3
Foreign	12.9	15.5	12.6	18.2	16.5
Domestic	21.7	10.0	34.9	10.3	29.8
Other Expenditure	728.6	1392.1	1192.2	1403.9	1066.5
Capital Expenditure	277.3	280.3	454.3	436.8	544.2
Net Lending	0.0	0.0	0.0	0.0	0.0

Source: MoFDP

*Preliminary estimates

Figure 19: Recurrent Expenditure by Type



Financing

Preliminary estimates reflect a surplus equivalent to 15.4 per cent of GDP during the review period compared with a deficit equivalent to 7.9 per cent of GDP realised in the previous quarter. The surplus reflects a significant growth in SACU receipts. The surplus translated into a build-up in government deposits with the banking system.

Table 21: Government Financing
(Million Maloti)

	2011/12				2012/13
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar Revised	Apr-Jun Preliminary
Financing	-85.1	458.4	199.6	323.6	628.2
Foreign	124.2	-36.6	105.7	-77.4	-8.9
Loan drawings	153.5	30.9	143.0	9.8	24.2
Amortization	-29.3	-67.5	-37.3	-87.2	-33.1
Domestic	-209.2	495.0	93.9	401.0	-619.3
Bank Financing	-202.9	497.2	86.7	382.7	-600.0
Non – Bank	-6.4	-2.2	7.2	18.3	-19.3

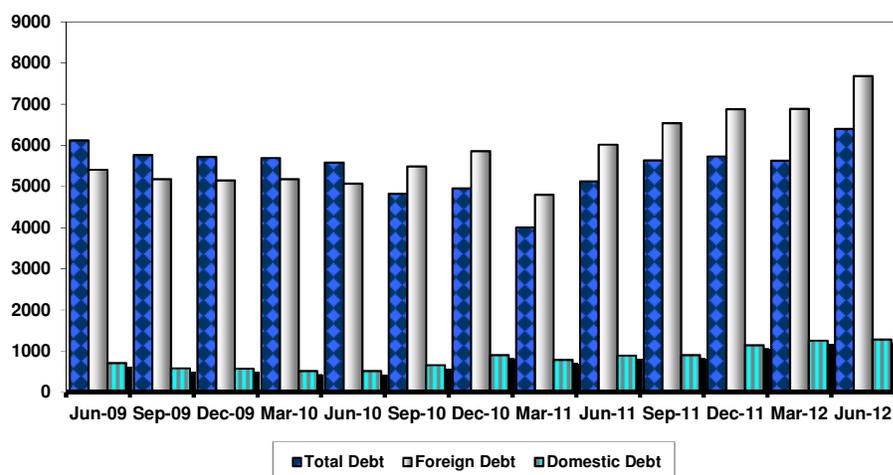
Source: MoFDP Public Debt
*Preliminary estimates

Public Debt

Overview

Government debt stock includes both external and domestic borrowing. Outstanding government debt increased by 11.6 per cent in the quarter under review compared with 3.8 per cent in the previous quarter. The increase in total public debt was due to an increase in both external and domestic debt. External debt rose by 13.7 per cent while domestic debt grew by 1.9 per cent. As a percentage of GDP, public debt stood at 44.1 per cent compared with 40.0 per cent in the previous quarter. At this level, the debt level was still sustainable as it remained below the 60.0 per cent macroeconomic convergence target set by SADC. The debt service ratio, the ratio of debt service to exports of goods and services and net factor income from abroad was estimated at 1.1 per cent during the review period compared with 4.2 per cent observed in the previous quarter. External debt continued to constitute a largest proportion of the overall debt stock at 83.3 per cent while domestic debt represented 16.7 per cent of total public debt stock.

Figure 20: Outstanding Public Debt
(Million Maloti: End of Period)



External debt

External debt increased by 13.2 per cent on a quarterly basis, compared with a drop of 1.9 per cent recorded in the quarter ending in March 2012. The increase reflected the weakening of the rand against the US dollar during the quarter under review. Loans from multilateral sources continued to constitute a larger share of external borrowing at 89.7 per cent, followed by supplier’s credit at 5.2 per cent. Bilateral loans constituted 4.1 per cent. As a percentage of GDP, external debt constituted 37.2 per cent of GDP during the review period, in comparison with 32.7 per cent recorded in the previous quarter.

Table 22: External Debt
(Million Maloti)

	2011				2012
	QII	QIII	QIV	QI	QII
External Debt	5119.3	5633.0	5646.6	5626.2	6397.7
Bilateral Loans	216.6	227.2	239.3	242.8	260.6
Concessional	216.6	227.2	239.3	242.8	260.6
Non-concessional	0.0	0.0	0.0	0.0	0.0
Multilateral Loans	4608.9	5073.0	5162.5	5058.8	5739.2
Concessional	4429.0	4889.6	4954.1	4869.4	5442.5
Non-concessional	179.9	183.4	204.4	189.4	296.7
Financial Institutions	68.0	66.5	66.5	63.2	63.5
Concessional	0.0	0.0	0.0	0.0	0.0
Non-concessional	68.0	66.5	66.5	63.2	63.5
Suppliers' Credit	225.8	266.3	267.8	261.1	334.4

Source: MoFDP

Domestic Debt

Domestic debt stock comprises Treasury bills and bonds. It increased by 2.0 per cent compared with an increase of 8.9 per cent recorded in the quarter ending in March, 2012. The increase mainly reflected issuance of Treasury bonds during the quarter. Issuance of Treasury bonds was aimed at financing infrastructure projects in the country. Commercial banks hold the largest share of Treasury bills and bonds at 90.6 per cent, while the non-bank sector holds 9.4 per cent. As a percentage of GDP, domestic debt registered 7.4 per cent on a quarter-to-quarter basis compared with 7.3 per cent observed in the previous quarter.

Table 23: Domestic Debt
(Million Maloti)

	2011				2012
	QI	QII	QIII	QIV	QI
Domestic Debt	893.1	905.4	1023.0	1114.3	1278.6
Banks	787.5	793.5	902.4	975.4	1158.4
Long-term	369.1	405.2	525.3	526.3	566.7
Short-term	418.4	388.3	377.1	449.1	591.7
Of which: treasury bills	418.4	388.3	377.1	449.1	591.7
Non -bank	105.6	111.9	120.6	138.9	120.2
Short-term (TBs)	105.6	111.9	120.6	138.9	120.2

VI. Foreign Trade and Payments

Overview

The external sector position improved in the second quarter of 2012, despite a slowdown of global economic growth during the period. The overall balance, in seasonally adjusted terms, was a surplus equivalent to M199.8 million in the quarter under review, compared with a revised deficit of M752.3 million observed in the previous quarter. The surplus reflected an improvement in the current account, as a result of an expansion in current transfers due to increased SACU revenue as well as a rise in merchandise export earnings during the quarter. In addition, the surplus was supported by the valuation gains that were realised as a result of the weakening of the domestic currency against the major currencies in which CBL' foreign reserves were held. However, the reduction in capital and financial account inflows moderated the performance of the external sector. The transactions balance, which represents the overall balance, excluding the effects of currency fluctuations, in seasonally adjusted terms, registered a lower deficit of M297.5 million in the review quarter, from a deficit of M574.5 million in the previous quarter.

Current Account

The current account position improved significantly during the second quarter of 2012. The current account balance narrowed down to a deficit of M976.0 million in the second quarter of 2012, from a deficit of M2.4 billion realised in the first quarter of 2012. The lower deficit was resulted from the growth in current transfers due to a significant rise in SACU receipts during the review period. The improvement in the current account deficit was also supported by the improvement of trade balance as a result of an increase in merchandise exports while imports deteriorated during the quarter. Trade in goods and services registered a deficit of M3.5 billion during the quarter, compared with a deficit of 4.3 billion in the previous quarter. A marginal increase in net income account also backed up the current account performance.

Table 24: Current Account Balance
(Million Maloti)

	2011			2012	
	QII	QIII	QIV	QI*	QII ⁺
I. Current Account	-1096.53	-342.12	-1040.42	-2461.72	-976.00
(a) Goods	-1809.36	-1229.53	-2052.14	-2997.28	-2359.37
Merchandise exports f.o.b.	2086.06	2665.89	1843.28	1575.56	2114.96
Of which diamonds	463.34	1017.77	448.71	550.10	747.35
Of which textiles & clothing	844.14	964.51	925.11	630.22	868.04
Other exports [#]	778.58	683.61	469.46	396.24	499.57
Merchandise imports f.o.b.	-3895.42	-3895.42	-3895.42	-4572.84	-4474.33
(b) Services	-965.72	-806.00	-851.63	-1277.43	-1107.47
(c) Income	578.62	595.83	667.25	514.91	527.53
(d) Current Transfers	1099.93	1097.58	1196.10	1298.07	1963.31

* Revised estimates

⁺ Preliminary estimates

[#] All other merchandise exports excluding 'textiles and clothing' and 'diamonds'

Merchandise Exports

The value of merchandise exports, in seasonally adjusted terms rose by 35.2 per cent during the review period, in contrast with a decline of 9.6 per cent realised in the previous quarter. This had resulted from a 35.8 per cent increase in diamond exports, higher than 22.6 per cent recorded in the previous quarter. Textiles and clothing exports increased by 37.7 per cent in the second quarter of 2012, in contrast to a fall of 31.9 per cent in the first quarter of 2012. This was also backed-up by a 5.1 per cent increase in water exports.

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

COMMODITY	2011			2012	
	QII	QIII	QIV	QI*	QII+
0. Food & Live Animals	59.81	83.35	74.23	72.18	67.02
Cattle	0.00	0.00	0.00	0.00	0.00
Wheat Flour	23.20	53.75	47.24	39.14	41.56
Maize Meal	3.21	5.62	0.17	9.87	0.41
Other	33.40	23.98	26.82	23.17	25.05
1. Beverages & Tobacco	294.62	145.65	222.53	136.08	143.45
Beverages	110.82	0.01	0.00	0.00	0.00
2. Crude Materials	465.24	1020.69	460.69	550.10	767.28
Textiles fibres	1.86	2.92	11.98	0.00	19.82
Of which Wool	1.86	2.92	11.98	0.00	19.82
Of which Mohair	0.00	0.00	0.00	0.00	0.00
Crude fertilizers & crude minerals	463.34	1017.77	448.71	550.10	747.35
Of which Diamond	463.34	1017.77	448.71	550.10	747.35
4. Manufactured Goods	164.06	136.26	52.59	34.42	55.08
Of which textiles yarn and fabric	146.31	118.52	39.41	32.84	40.26
Of which manufactured goods	17.75	17.74	13.18	1.58	14.82
5. Machinery & Transport Goods	258.93	385.99	127.39	174.79	230.86
6. Miscellaneous Manufactured Goods	841.53	891.77	899.86	605.91	848.30
Of which clothing accessories	740.67	824.53	835.60	542.51	754.62
Other	100.58	67.24	64.26	63.40	93.68
7. Unclassified Goods	1.87	2.18	6.29	2.08	2.97
TOTAL EXPORTS	2086.06	2665.89	1843.28	1575.56	2114.96

Note: Totals may not tally due to rounding

* Revised estimates

+ Preliminary estimates

Standard International Trade Classification

Merchandise Imports

In the second quarter of 2012, the value of merchandise import declined by 2.1 per cent, compared with a rise of 17.4 per cent registered in the previous quarter. The drop was driven largely by lower declarations at a border posts due to low demand in the domestic economy during the period. This was also supported by the weakness of the local currency against the US dollar and other trading currencies, as it increased the loti price of imported goods. In addition, the fall in imports was influenced by lower private

vehicle imports during the quarter. On an annual basis, merchandise imports rose by 14.2 per cent in the second quarter of 2012.

Direction of Trade

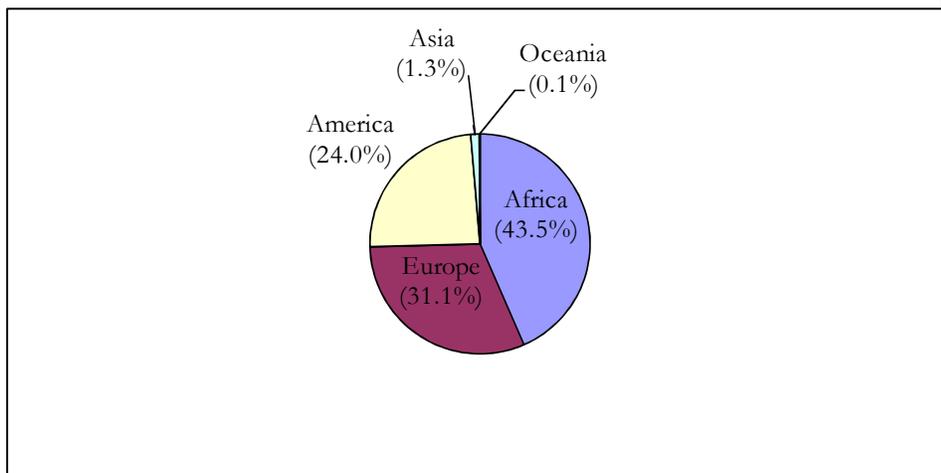
During the second quarter of 2012, the African continent, particularly the SACU region continued to be the largest importer of Lesotho's goods. As a share of total exports, the SACU region accounted for 42.7 per cent, compared with 45.6 per cent realised in the previous quarter. The second largest recipient of Lesotho's exports was the European market, particularly Belgium where a large proportion of Lesotho's rough diamonds are destined. Its share increased to 31.1 per cent in the review period, from a share of 29.4 per cent observed in the previous quarter. The American market where a large portion of Lesotho's manufactured goods, in particular, textiles and clothing, is exported was the third largest recipient of Lesotho's goods. It recorded a share of 24.0 per cent in the second quarter, compared with 23.6 per cent in the previous quarter. The remaining respective shares of 1.2 per cent and 0.1 per cent went to Asia and Oceania during the review quarter.

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

Region	2011			2012	
	QII	QIII	QIV	QI*	QII+
World	2086.06	2665.89	1843.58	1575.56	2114.96
Africa	1101.31	865.14	753.44	723.45	918.84
SACU	1059.17	850.19	733.29	719.09	903.13
SADC	28.45	10.81	15.61	0.00	6.36
Other	13.69	4.14	4.54	4.36	9.35
Europe	462.16	1010.35	424.93	463.56	658.44
EU	462.16	1010.35	424.93	463.56	658.44
America	511.48	766.09	655.67	371.70	508.37
Asia	7.56	20.24	7.33	12.26	26.56
Oceania	3.55	4.07	2.21	4.59	2.75

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

Figure 18: Direction of Merchandise Exports



Services Account

The net services account continued to reflect outflows during the quarter ending in June 2012. A net outflow of M1.1 billion was registered during the quarter, following a net outflow of M1.3 billion in the previous quarter. The lower outflows were attributed to reduced payments for transportation services rendered, the fall in payments for royalties and licence fees as well as a drop in payments for Lesotho embassies abroad.

Income

The level of net income rose by 2.4 per cent in the second quarter of 2012, in contrast with a fall of 22.8 per cent in the previous quarter, as a result of an increase of 15.0 per cent in returns from CBL's portfolio investments abroad. However, the growth in the income account was moderated by a decline in interest earned by commercial banks' foreign assets holdings during the quarter.

Current Transfers

Current transfer receivables grew significantly, by 51.2 per cent, in the review quarter, following a rise of 8.5 per cent registered in the previous quarter. It increased to a net inflow of M1.9 billion during the quarter, on account of M1.5 billion worth of SACU receipts which was significantly higher than the M666.5 million realised in the previous quarter. Nonetheless, increased payments for subscriptions to international organisations moderated the improvement of current transfers.

Capital and Financial Account

The capital and financial account registered a lower net inflow of M572.2 million in the second quarter of 2012, compared with an inflow of M899.5 million in the first quarter of 2012. This emanated largely from the financial account which recorded an inflow of M172.3 million during the period, following an inflow of M499.7 million in the previous quarter. The observed performance of financial account was influenced by an increase in commercial banks' foreign asset holdings which rose by M107.2 million during the quarter. In addition, the growth in CBL s' foreign liabilities contributed to the lower inflows in financial account.

Table 27: Capital and Financial Account
(Million Maloti)

	2011			2012	
	QII	QIII	QIV	QI*	QII ⁺
I. Capital and Financial Account					
Account	282.80	-269.18	1490.25	899.51	572.18
Capital Account	235.70	237.98	477.50	399.83	399.83
Financial Account	47.10	-507.16	1012.75	499.68	172.35
II. Reserve Assets	83.28	-467.29	-141.75	-747.79	-201.83

* Revised estimates

+ Preliminary estimates

Reserve Assets

The stock of gross international reserves rose by 3.4 per cent to 6.8 billion during the quarter ending in June 2012, compared with a decline of 9.8 per cent registered in the period ending in March 2012. The growth was primarily attributed to the rise in SACU revenue during the review period. As a result official reserve coverage increased to 3.6 months of import cover in the second quarter of 2012 from 3.3 months in the first quarter of 2012.

Figure 19: Reserve Assets

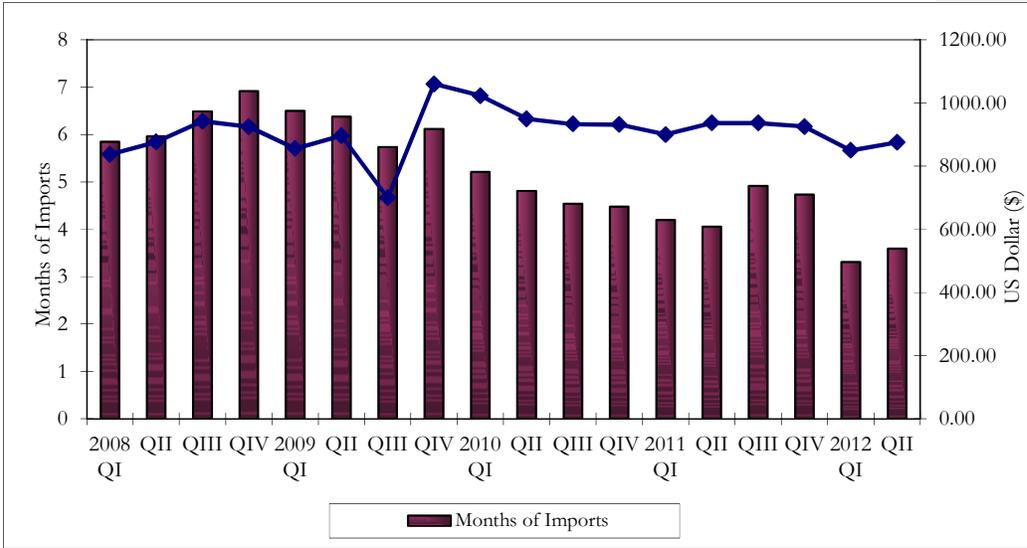
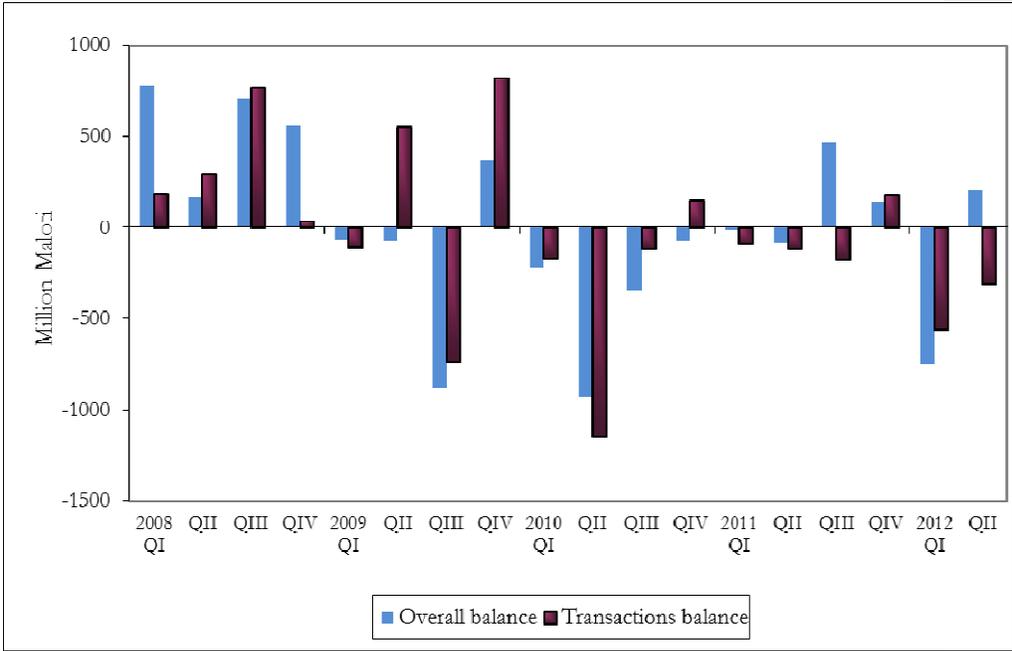


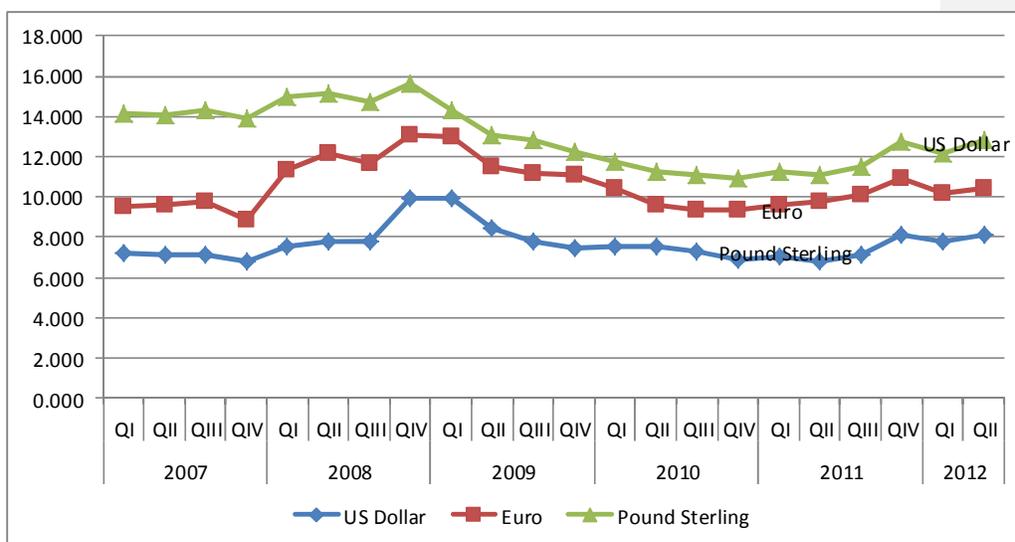
Figure 20: Balance of Payments



Exchange Rates

The domestic currency, the loti, which is fixed at par with the South African rand, depreciated against the major trading currencies during the quarter under review, as the rand remained vulnerable to erratic changes in global risk aversion in the global financial markets. It depreciated by quarterly average of 4.6 per cent to M8.12, 2.3 per cent to M10.41 and 5.4 per cent to M12.85, against the US Dollar, the Euro and Pound Sterling, respectively. The weakness of the loti could, on the one hand, jeopardise the inflation outlook, while on the other hand, it could boost Lesotho's exports as they would be more competitive in the international markets.

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



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