Central Bank of Lesotho

Annual Report

2004

Maseru, March 2005

Central Bank of Lesotho

BOARD OF DIRECTORS

E. M. Matekane	-	Governor & Chairman of the Board
P. Molapo [1]	-	Director
T. Foulo	-	Director
F. Baffoe [2]	-	Director
E. K. Molemohi	-	Director
G. T. Monaheng	-	Director
T. Chimombe (Mrs)	-	Director
M. Moiloa (Mrs)	-	Director
P. M. Makhetha [3]	-	Director

MANAGEMENT

E. M. Matekane	-	Governor
P. Molapo [1]	-	Deputy Governor I
T. Foulo	-	Deputy Governor II
M. Makhupane	-	Director of Operations
M. Mofelehetsi (Mrs)	-	Director of Supervision
T. Makara	-	Director of Administration
M. Makenete (Ms)	-	Director of International Finance
C. Kannapiran	-	Director of Research
P. Irgo [4]	-	Director of Information & Communication Technology

DIVISIONAL HEADS

GOVERNOR'S OFFICE

A. L. Ramone	-	Board Secretariat
M. Mashologu (Mrs)	-	Public Relations
M. Mahooana	-	Information Technology
J. Nts'ekhe [5]	-	Internal Audit
M. Motebang (Mrs) [6]	-	Internal Audit
L. Khaka	-	Accounts & Budget

ADMINISTRATION

M. Molekane (Mrs)	-	Human Resources
T. Malataliana	-	General Services & Maintenance
M.T. Nkuatsana	-	Security Services

RESEARCH

M. Monyau (Mrs) [7]	-	Real Sector
L. M. Lephoto (Ms) [6]	-	Finance
T. Tlelima [6]	-	Macroanalysis

FOOT NOTES

1 *Term expired on 31 July, 2004*
2 *Term expired on 29 February, 2004*
3 *Appointed on 18 October, 2004*
4 *Since June 2004*
5 *On Study Leave*
6 *Acting Head of Division*
7 *On Secondment*

OPERATIONS

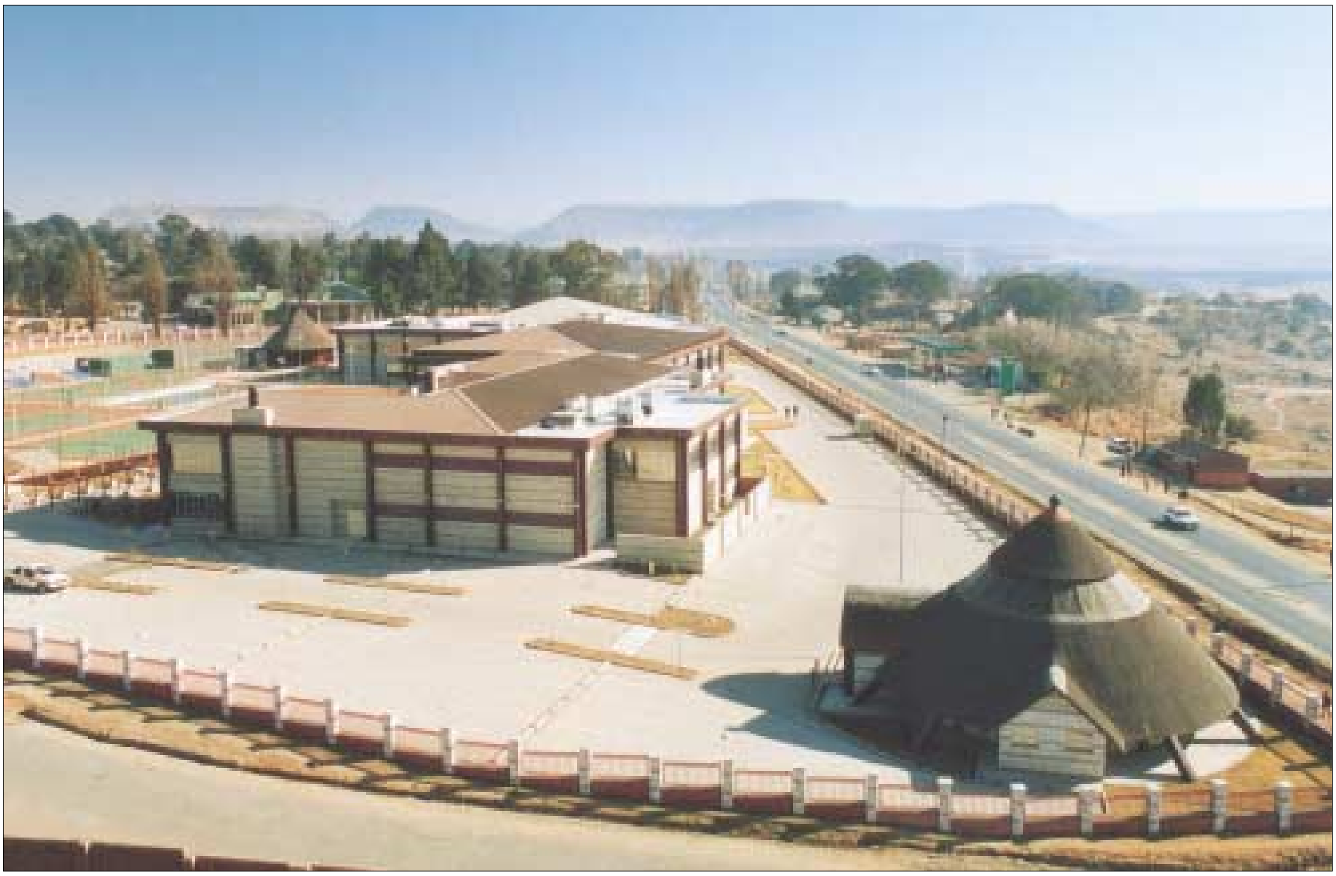
A. M. Letsie (Mrs)	-	Banking Operations
S. Phate (Ms)	-	Currency
T. Namane (Mrs)	-	Payment Systems
M. Tabane	-	Development Finance
N. Bereng (Mrs)	-	Rural Finance

SUPERVISION

M. F. Mohasoa (Mrs)	-	Financial Institutions Supervision
T. Metsing (Ms)	-	Supervisory Policies & Regulation
F. Morokole	-	Insurance Supervision
M. Keta (Mrs)	-	Policy, Regulations & Exchange Control

FINANCIAL MARKETS

R. Elias	-	Reserves Management
F. M. Hloaele	-	Securities Market



Lehakoe Recreation and Cultural Centre – CBL

Central Bank of Lesotho
P O Box 1184
MASERU 100
Lesotho

Honourable Minister of Finance and
Development Planning
Ministry of Finance
P O Box 395
MASERU 100
Lesotho

March 31, 2005

Honourable Minister

I have the honour to transmit the Annual Report of the Central Bank of Lesotho for the year 2004, which includes:

(a) a review of economic developments during the year; and

(b) in accordance with Section 53 (1) of the Central Bank of Lesotho Act No.2 of 2000,

i) the Bank's annual accounts for the year ended December 31, 2004, certified by Sheeran & Associates assisted by Pricewaterhouse Coopers, and

ii) a report on the Bank's operations and statement of affairs during 2004.

Yours faithfully

E. M. Matekane
GOVERNOR

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PART I: TWENTY-FIVE YEARS OF EXISTENCE OF THE CENTRAL BANK OF LESOTHO: ACHIEVEMENTS, EXPERIENCES AND LESSONS

1.1 Introduction

The end of 2004 marks the 25th anniversary of the Central Bank of Lesotho (CBL), to be celebrated at the beginning of 2005. It therefore presents an opportunity for the Bank to reflect on achievements, experiences and lessons learnt since its inception, against its primary objectives. In a sense, this assessment can form the basis for the way forward, by building on successes that have been achieved and experiences gained and lessons learnt. This retrospection begins by briefly chroniclering the Bank's journey from its inception. It, then, reviews achievements, experiences and lessons that might have been learnt during the 25 years of existence of the CBL. In conclusion, it summarises possible challenges lying ahead in the Bank's endeavour to achieve its mandate.

1.2 The evolution of the Bank and its core functions

The Bank was established as the Lesotho Monetary Authority (LMA) in 1978, by Act of Parliament, but became operational in January 1980. At the time, the LMA's main objectives were to issue and redeem currency; to promote and maintain internal and external stability, an efficient payments system and the liquidity, solvency and proper functioning of a sound monetary and financial system; and to foster monetary, credit and financial conditions conducive to the orderly, balanced and sustained economic development of Lesotho.

In 1982, the LMA's name was changed, through an amendment of the LMA Act of 1978, to Central Bank of Lesotho (CBL). This came with added responsibilities as the Bank then started to assume roles of the lender of the last resort as well as banker to Government. In 2000, the Parliament of Lesotho replaced the old Act with a new CBL Act (CBL Act 2000). According to the latter, the Bank's primary objective is to achieve and maintain price stability. This is supported by ten functions, stated as to:

(a) foster the liquidity, solvency and proper functioning of a stable market-based financial system;

(b) issue, manage and redeem the currency of Lesotho;

(c) formulate, adopt and execute monetary policy of Lesotho;

(d) formulate, adopt and execute foreign exchange policy of Lesotho;

(e) licence or register and supervise institutions pursuant to the Financial Institutions Act (FIA) 1999, the Money Lenders Act 1989, the Building Finance Institutions Act 1976, and the Insurance Act 1976;

(f) own, hold and manage official international reserves;

(g) act as a banker and advisor to, and as fiscal agent of, the Government of Lesotho;

(h) promote efficient operation of the payments system;

(i) promote safe and sound development of the financial system; and

(j) monitor and regulate the capital market.

1.3 Achievements, Experiences and Lessons

An assessment of the Bank's achievements, experiences and lessons learnt during the 25 years of its existence can properly be made against its objectives and core functions. In this manner, the performance of the Bank would be evaluated based on its legal mandate. Implicit in this could be an issue of whether or not such mandate was still sufficient to deal with developments that might have occurred from time to time.

In terms of its currency management function, CBL has over its 25 years of existence continued to issue and redeem Lesotho's currency, as expected. The same also applies to its responsibility as banker to Government, which, in normal times, does not entail much more than a banker-to-customer relationship. It is with regard to the remaining objectives, however, that CBL's history is characterised by a mixture of experiences.

To start with, it is now history that Lesotho's internal and external positions deteriorated sharply in the mid-1980s, as deficits on both the fiscal and current account grew increasingly unsustainable. The situation culminated in a Structural Adjustment Facility (SAF) programme between Lesotho and the International Monetary Fund (IMF), in an endeavour to help the country undertake reforms aimed at rejuvenating its economy. Presumably, this is the kind of experience that no policy maker or advisor would cherish.

Under such circumstances, the issue becomes the role that CBL could possibly play, given its mandate of promoting and maintaining internal and external stability as well as advisor to Government. This report does not necessarily attempt to answer this question, which is, after all, only intended to provide a basis for a broader evaluation of the Bank's experience and possible lessons for future.

Under Lesotho's fixed exchange rate regime, prudent fiscal management is of utmost importance and the success of the system depends almost entirely on it. As Lesotho is a net importer of goods and services, mainly from South Africa (SA), unsustainable fiscal deficits are simultaneously reflected in the widening of the current account deficit and a rundown on external reserves. This scenario prevailed in Lesotho in the 1980s before the Government sought assistance from the IMF.

In such circumstances, CBL would be required to advise the Government about the implications of running a large fiscal deficit on the economy as a whole and on the ability of CBL to maintain adequate external reserves. Assuming that the Government was under political pressure, it was possible that it could simply ignore any such advice until the problem became more complicated. This would, however, not preclude the Bank from playing its advisory role as robustly as it could possibly manage.

Those years of economic difficulties provided a rough experience for the Government and its agencies, particularly, CBL. Perhaps, there are important lessons that can be learnt from that. These include the need for increased coordination of fiscal and monetary policies. Such coordination depends on close working relationships between the Bank and the Ministry of Finance as well as other Government ministries and agencies. This would ensure that potential problems are dealt with as early and efficiently as possible. There is also a need to continue to invest in capacity building of national institutions, to maintain and enhance their ability to carry out policy analysis and provide sound advice to policy makers.

Another relatively harsh experience during the existence of CBL related to the collapse of government-owned banks in the late 1990s. The Lesotho Agricultural Development Bank (LADB) was liquidated in 1998 while Lesotho Bank was partially liquidated and restructured starting in 1999. These developments followed a period of difficulties by both institutions.

Did the Government, CBL and the country as a whole learn anything from this unpleasant experience? The answer is definitely in the affirmative. The restructuring of Lesotho Bank was only a part of a larger financial sector reform process. Obviously the experience reinvigorated the authorities' resolve to reform the entire financial sector. That included the promulgation of new legislation in the form of the Financial Institutions Act (FIA) 1999 and CBL Act 2000. These were intended to, among others, enhance CBL's supervisory powers and operational independence. In addition to bestowing operational independence on the Bank, the CBL Act also ensures that the Bank remains accountable and transparent to the Government and the public. These and other related reform measures are an indication that the country is drawing lessons from its history and that of its institutions to ensure that past mistakes do not recur.

As indicated above, the enactment of the new FIA and CBL Act was part of a wider process of reforms in the financial sector by the Bank and the Government. Other reform measures included efforts by the Bank in collaboration with other Government ministries and institutions to enhance financial intermediation. In this regard, notable examples included the establishment of the commercial court and the credit bureau. In spite of difficulties in its operationalisation, the commercial court is expected to facilitate litigation in commercial cases. This would, in turn, encourage banks to extend credit, with the confidence that defaulters would be dealt with expeditiously by the legal system. The Bank continued to work closely with the judicial authorities to ensure effective operation of the commercial court. The credit bureau, on the other hand, is envisaged to improve intermediation by providing a database on borrowers' creditworthiness.

Furthermore, in its endeavours to foster competition and thereby deepen financial intermediation, CBL successfully advised the Government to establish a post bank that would start operating early in 2005. This would benefit, in particular, the rural communities, whose access to formal banking services was reduced considerably by the collapse of the state owned banks at the end of the 1990s.

In addition, a new foreign bank was licensed and began operating in 2004. These and other financial sector reform measures represent recent strides by the Bank in promoting the development of a sound financial system.

The Bank's contribution has not been limited to its core functions. Among others, the Bank continued to administer the Export Finance and Insurance (EFI) and the Rural Finance (RF) Schemes, which are intended to support financial intermediation. On the one hand, the EFI Scheme is aimed at, inter alia, providing working capital and encouraging commercial banks to extend credit to Lesotho-based exporters. The RF Scheme, on the other hand, is an attempt to foster rural financial intermediation. Although these and related activities appear non-core to the traditional Central Bank's role, their close relationship with financial intermediation obligated CBL to act for the benefit of the country's economy, when there were capacity constraints on the part of the relevant Government institutions.

1.4 Challenges in going forward

As the Bank grows, it will continue to face old and new challenges. These new challenges may remain an unknown factor until they materialise. But, in terms of the old or existing challenges, the Bank must remain vigilant and draw lessons from the past. Arguably, the main challenges will continue to be with regard to the Bank's role as advisor to Government and supervisor of financial institutions. This will depend largely on the existence of, to paraphrase Dr. Maruping[8], a healthy relationship between the Central Bank and other Government ministries and agencies, on the one hand, and the commercial banks it supervises, on the other. Good coordination of fiscal and monetary policies, in particular, could ensure that the country avoids unnecessary 'surprises' in the form of economic difficulties. With regard to its supervisory role of other financial institutions, CBL will continue to foster close relationships with the rest of the financial sector and be alert to indications of potential problems within its regulatory and supervisory powers.

In terms of fostering financial intermediation, despite efforts described above, progress remains limited mainly on account of structural rigidities. But indications at the end of 2004 were that there could be light at the end of the tunnel. The entry of additional banks is expected to enhance competition in the financial sector. What remains is, for CBL and other relevant authorities, to ensure that other structural measures, such as the establishment of the commercial court and the credit bureau, become successfully operational.

Finally, under the Lesotho National Payments System Modernisation Project (LNPS), the Bank has spearheaded a process of reforms to the country's payments mechanism, in collaboration with other stakeholders. Lesotho's payments system has remained largely rudimentary, notwithstanding considerable technological advances globally. As such, the successful completion of this project will remain one of the major challenges for the Bank and all other stakeholders. But, given the progress that has been made so far, this should however not be an insurmountable challenge.

[8] *A statement by Dr M. Maruping on 19 January 1990, in his capacity as the then Governor of CBL, during the official opening of the current Bank's building.*

PART II: WORLD ECONOMIC DEVELOPMENTS AND THEIR IMPLICATIONS FOR THE LESOTHO ECONOMY

2.1 Industrialised Countries

The growth of the US economy accelerated in 2004 compared to the previous year. Growth was generally strong in the first three quarters of the year, even though it slowed down in the second quarter. An annual growth of 4.5 per cent was realised in the first quarter, followed by 3.3 per cent and 3.7 per cent in the second and third quarters, respectively. The buoyant growth resulted mainly from high consumer spending and the acceleration in business fixed investment. Based on the observed trend, the International Monetary Fund (IMF) forecasted the US economy to record an annual growth rate of 4.3 per cent in 2004 compared with the 3.0 per cent realised in the previous year.

As the US economic growth remained relatively strong, the US labour market also recovered. The rate of unemployment fell to 5.4 per cent in the third quarter from 5.7 per cent in the first one. The IMF had predicted an improvement in the rate of unemployment for the year 2004 to 5.5 per cent compared with 6.0 per cent in 2003.

The US dollar was rather weak against other major currencies during 2004. It started the year at $1.17 and closed it at $1.33 against the euro. This was influenced by the decline in the demand for dollar denominated assets due to low interest rates in the US coupled with the increase in the current account deficit. The weakening of the US dollar contributed to the appreciation of the loti against the US dollar in 2004.

Inflation in the US was subdued at the beginning of 2004 but started to rise as the year progressed. On an annual basis, the headline inflation accelerated from 1.9 per cent in January to 3.3 per cent in December. This resulted mainly from high prices of crude oil. The US Federal Reserve Bank increased the overnight lending rate by 0.25 percentage points each on three occasions between the second and third quarters. As a result, the rate closed the year at 1.75 per cent in contrast to 1.00 per cent at the end of 2003.

The generally favourable economic conditions in the US bode well for the economy of Lesotho. The decline in the rate of unemployment and the increase in consumer spending boosted demand for Lesotho's exports in the US. However, the country's export sector faces some challenges. First, the depreciation of the US dollar against other major currencies, which contributed to the appreciation of the loti against the US dollar minimised the growth of Lesotho's export earnings in maloti terms as well as the profitability of the textiles and clothing firms in Lesotho. Consequently, some firms experienced financial problems and had to be liquidated. This led to loss of jobs in the manufacturing sub-sector during the year. Secondly, under the World Trade Organisation's (WTO's) Agreement on Textiles and Clothing (ATC), quotas were lifted at the end of the review year. This is expected to intensify global competition for the market for textiles, Lesotho's main export commodity. Strong competition should be expected from countries like China and India, which are renowned for among others, high productivity, better quality and cheaper products. In spite of the extension of AGOA, this competition could negatively affect the demand for Lesotho's exports in the US.

The euro zone economy showed signs of recovery but remained relatively weak in 2004. Real GDP fluctuated during the first three quarters of the review year, growing at an annual rate of 1.4 per cent in the first quarter, followed by 2.1 per cent and 1.8 per cent in the second and third quarters, respectively. The economic growth in the region was primarily influenced by the performance of Germany, the largest economy in the region. According to the IMF projections, real GDP in the region would grow by 2.2 per cent in 2004 after gaining 0.5 per cent in 2003.

The euro zone labour market remained bleak as a result of slow economic recovery. The unemployment rate was forecast to rise to 9.0 per cent in the review period, compared with 8.9 per cent realised in the previous year.

Inflation in the region, as measured by the harmonised index of consumer prices (HICP), remained above the 2.0 per cent target since May 2004. It was, however, expected to record an annual average of 2.1 per cent, the same as in 2003. The inflationary pressures in the euro zone were fuelled by developments in international oil prices.

There was no monetary policy reaction in the region during the review year. The European Central Bank (ECB) stated that interest rates would be left unchanged until the recovery fed through into the labour market.

Since the European Union is South Africa's (SA's) major trading partner, economic developments in the euro area affect the SA economy. Shocks to the latter also have a bearing on Lesotho because of trade relations between the two countries. Thus, the sluggish economic performance by the euro zone does not augur well for the economies of both SA and Lesotho.

2.2 Emerging Markets

Rapid expansion was observed in the emerging economies, mainly influenced by the recovery in global industrial production and trade flows.

Emerging Asian economies realised strong growth during the first half of 2004. This happened despite the negative impact of high oil prices on a number of emerging Asian economies. In this regard, the IMF estimated that the region would realise growth of 7.3 per cent in 2004 compared to 7.2 per cent in the previous year. This growth would result from a confluence of factors. These included global economic expansion, the continued buoyant growth in China, recovery in domestic demand as well as highly competitive exchange rates in the region.

Annual consumer inflation in the region was estimated to rise to 4.3 per cent in the review year after increasing to 2.5 per cent in 2003. Inflationary pressures were expected to arise from the strong economic activity and the increase in commodity prices. High inflation in the region could exert upward pressure on the cost of raw materials to Lesotho's manufacturing firms.

Economic activity in Latin America was expected to recover strongly in 2004, supported mainly by a pick up in domestic demand as well as robust global recovery. The increase in oil prices had a two pronged effect on the region. It hurt oil importers, while benefiting oil exporters. Exporters of metals in the region also realised trade gains as a result of the rise in their prices.

Lesotho should endeavour to strengthen its position in global trade by, among others, diversifying its export sector across commodities and markets. This would enable it to benefit from strong economic performance such as that displayed by the emerging Asian and Latin American economies. More importantly, this would insulate the country's economy from shocks to specific commodities such as textiles, or specific markets.

2.3 SADC Region

The economy of SA strengthened in the first three quarters of 2004. In seasonally adjusted real terms, gross domestic product (GDP) increased by 3.8 per cent in the first quarter, followed by 4.5 per cent in the second quarter and 5.6 per cent in the third quarter. This acceleration was mainly supported by low interest rates, which boosted domestic demand in SA.

Although inflation in SA, as measured by the consumer price index excluding interest on mortgage bonds (CPIX), closed the year higher than at the end of the previous year, it remained largely within the target. The annual increase in the CPIX accelerated to 4.3 per cent at the end of the review year compared with 4.0 per cent at the end of the previous year. The increase in inflation resulted mainly from the rise in transportation costs as a consequence of the upward revision of fuel prices, in line with high international crude oil prices. The increase in inflation at the end of the year was, to some extent minimised by the appreciation of the rand, which moderated imported inflation. Producer inflation remained subdued, increasing by an annual rate of 0.6 per cent in December 2004 compared with 1.7 per cent in December 2003.

It is estimated that 70.0 per cent of Lesotho's inflation is imported from SA, as a result of trade relations between the two countries and the fixed exchange rate of the loti to the rand. Accordingly, consumer price movements in Lesotho normally follow trends in SA and the annual rate of inflation in Lesotho declined from 7.3 per cent in 2003 to 5.1 per cent in 2004.

The generally subdued inflation conditions and outlook allowed the South African Reserve Bank (SARB) Monetary Policy Committee (MPC) to reduce interest rates further during the year. Thus the repo rate was at 7.5 per cent compared with 8.0 per cent at the end of 2003.

Interest rates in Lesotho also declined in line with developments in SA. As mentioned in sub-section 3.4.5, the 91 day treasury bill rate and the average prime lending rate were at lower levels at the end of 2004 compared to the end of 2003.

Table 1

SELECTED ECONOMIC INDICATORS, 2000 – 2004

(Per centage changes from previous year, unless otherwise indicated)

Indicators	2000	2001	2002	2003	2004*
World Output	4.7	2.6	3.0	3.9	5.0
Advanced Economies	3.8	1.3	1.6	2.1	3.6
Other emerging markets and Developing Countries	5.8	4.3	4.8	6.1	6.6
Africa	2.8	3.8	3.5	4.3	4.5
Central and Eastern Europe	-	-	4.4	4.5	5.5
Commonwealth of Independent states	-	-	5.4	7.8	8.0
Developing Asia	6.8	5.8	6.6	7.7	7.6
Middle East and Europe	6.0	2.3	4.3	6.0	5.1
Western Hemisphere	4.2	1.7	-0.1	1.8	4.6
Consumer Prices					
Advanced Economies	2.3	2.4	1.5	1.8	2.1
Other emerging market and Developing Countries	6.0	5.9	6.0	6.1	6.0
World Trade Volume	12.4	2.7	3.3	5.1	8.8
(Goods and Services)					
Imports					
Advanced Economies	11.5	1.7	2.6	3.7	7.6
Other emerging market and Developing Countries	16.6	6.4	6.0	11.1	12.8
Exports					
Advanced Economies	11.5	1.7	2.2	2.6	8.1
Other emerging market and Developing Countries	15.1	5.0	6.6	10.9	10.8

Source: IMF World Economic Outlook October 2004
* IMF Projections

2.4 Commodity Price Developments and their Impact on the Economy of Lesotho

The price of gold was stronger in 2004 than in 2003 and increased on average from $363.95 an ounce to $411.17 an ounce. The surge in the price of gold was mainly influenced by high demand by European investors as the metal became cheaper due to the depreciation of the US dollar against the euro. In rand terms, however, the annual average price fell from R2752.19 per ounce in 2003 to R2600.98 in 2004. Thus the benefit of the increase in the international price of gold to SA gold mining companies was offset by the appreciation of the rand against the US dollar during the year.

The low rand price of gold impacted negatively on the profitability of the mining sector in SA during the review year. As a result, some mines laid off some workers to reduce production costs. This was evidenced by a reduction in the number of Basotho workers in SA mines, which fell from 61,424 at the end of 2003 to 56,353 at the end of 2004.

The oil market was characterised by sharp increases in crude oil prices in 2004. For the large part of the year, the price remained above the upper limit of the Organisation of Petroleum Exporting Countries' (OPEC's) target of $22-$28 per barrel. It closed the year at $36.43 per barrel compared with $29.87 per barrel at the end of last year. On average, it registered $35.99 per barrel compared with $28.14 in 2003. The high price of crude oil resulted from a combination of demand and supply factors. As a consequence of strong economic activity, demand for oil increased in Asia and China. Persistent conflicts in the Middle East, which is the major source of the world's oil supply, interrupted oil production and therefore contributed to the increase in its price. During the year, the political situation and social tensions in other oil producing countries such as, Nigeria, Russia and Venezuela also continued to exert upward pressure on the price of crude oil, which reached a record level of around $44.71 per barrel in August 2004.

In maloti terms, the price of crude oil increased from M225.81 per barrel at the end of 2003 to

M230.24 at the end of the review year. The small rise indicated the extent to which the appreciation of the loti against the dollar in 2004 had minimised increases in the local currency price of fuel. In line with global developments, prices of oil products in Lesotho closed the review year higher at M4.40 per litre of petrol and diesel and M3.05 per litre of illuminating paraffin. These compare with M3.63, M3.60 and M2.14 per litre at the end of 2003 for petrol, diesel and illuminating paraffin, respectively.

2.5 Lesotho in the Context of Regional Economic Cooperation

Lesotho continued to actively participate in the activities of regional organizations. These include the Southern African Customs Union (SACU) and the Southern African Development Community (SADC).

Following ratification by all member states, the new SACU Agreement came into effect in July 2004. This Agreement seeks to deepen and expand co-ordination and co-operation among member states by strengthening institutional arrangements. It also forms the basis for the harmonisation of policies on industrial, agriculture, competition and unfair trade practices.

The SACU Agreement provides for member states to negotiate free trade agreements with third parties on a collective basis. During 2004, SACU pursued a number of free trade negotiations in an endeavour to diversify the region's market access. The SACU/US free trade negotiations that started in 2003 continued during 2004. These negotiations were mainly aimed at enabling the region to continue enjoying the same benefits as under AGOA even after its expiry. Negotiations with the European Free Trade Association (EFTA) also continued during the year. The purpose of these negotiations was to improve market access given by the EFTA countries – Switzerland, Lichtenstein, Norway and Iceland, to SACU member states. It was expected that the Agreement would be signed sometime in June 2005. With regard to Southern Common Market, Mercado Com'un del Sur (MERCOSUR), the first phase of these negotiations was finalised during the year. It resulted in the signing of a Preferential Trade Agreement (PTA) by SACU and MERCOSUR Ministers. This Agreement covers issues of safeguards, dispute settlement and rules of origin. Phasing down of tariffs is expected to be the main issue in the next round of MERCOSUR negotiations.

Progress was also made with regard to SADC activities. Work on customs cooperation and trade facilitation continued during the year. The SADC Trade Protocol underwent a mid-term review, with the objective of assessing progress made on its implementation. This Protocol is a legal framework within which SADC is pursuing the target of tariff phase down as well as the elimination of non-tariff trade barriers in the region. It is also aimed at the establishment of a Free Trade Area by 2008 and a SADC Customs Union by 2010. The customs union roadmap, which outlines the programme to eventual implementation of the customs union by the year 2010, was adopted during the year. Furthermore, the Protocol on finance and investment was drafted. This Protocol is aimed at the establishment of a regional common market where there would be free movement of capital, labour and services.

PART III THE LESOTHO ECONOMY

3.1 Real Sector Developments

3.1.1 Trends in output and income

The Lesotho economy is estimated to have regained some growth momentum in 2004. According to the macroeconomic projections of the CBL, the economy registered a growth rate of 3.4 per cent compared with a 3.3 per cent growth rate realised in the previous year. The improvement was largely bolstered by the recovery in the performance of the primary sector. The latter benefited from a sudden increase with the re-opening of Lets'eng Diamond Mine, which resumed its operations in late 2003. This has elevated the potential of the sector as a diversification channel, away from the traditional export-led growth through manufacturing.

The manufacturing sub-sector further slowed down, mostly on the back of the strengthening of the rand hence loti against the US dollar. It registered a 5.0 per cent growth in the review year, as against a 5.2 per cent rise observed in the previous year. The slow-down in the performance of the sub-sector happened despite construction of a $100 million denim rolling mill at Thetsane Industrial Area. The performance of manufacturing sub-sector has further been put under strain and uncertainty with the phasing out of the Multi-Fibre Agreement under the World Trade Organisation (WTO) that ended in December 2004. The threat is that manufacturing products, particularly textiles, which are mostly destined to the US market, will face fierce competition from low-cost producers like Pakistan, China and India. Nonetheless, the manufacturing sub-sector remained the key economic driver in Lesotho, thus, the slow-down has an adverse impact on the overall economy.

Gross National Income (GNI) in real terms, is estimated to have increased by 3.6 per cent in 2004 in contrast to a 6.3 per cent upsurge realised in the preceding year. Although the performance slowed down, the rise was spurred by the improvement in net factor income from abroad. The major source of net factor income from abroad was miners' remittances emanating from RSA mining industry, which rose appreciably in 2004. Despite the appreciation of the rand that led to a lay-off in some Basotho employed in SA Mining Industry, miners' remittances remained on an upward trend. Remittances grew by 8.1 per cent as a result of 9.3 per cent increase in average earnings. The GNI per capita increased by 2.4 per cent in 2004 in contrast to a 4.0 per cent rise in 2003.

Table 2

AGGREGATE ECONOMIC INDICATORS
(Percentage Change)

	2000	2001	2002	2003	2004*
Constant 1995 Prices					
GDP	1.3	3.2	3.5	3.3	3.4
GNI	-3.2	0.2	1.6	6.3	3.6
GDP Per Capita	0.4	0.8	1.6	1.0	2.0
GNI Per Capita	-5.0	-2.1	-0.2	4.0	2.4

Source: Bureau of Statistics
* CBL Projections

BOX 1: LESOTHO'S SOVEREIGN RATING BY FITCH IS UPGRADED

Lesotho received its first sovereign rating by Fitch in September 2002. The objective of the rating for sovereign risk was to allow foreign investors and creditors to assess Lesotho more effectively as a possible investment destination. It also enables the country to compare its competitiveness relative to its rivals and to identify areas to improve in a bid to attract more foreign investment.

The first assessment of Lesotho's long-term foreign currency risk in 2002 resulted in a grading of B+, which represented 'speculative' grading. This rating was maintained in 2003. In November 2004, Fitch upgraded the country's long-term foreign currency rating to BB-. This 'speculative' rating is one notch below the investment grade, which starts at BBB. It represented an improvement to a relatively low probability of default on loan repayments. It was influenced mainly by the maintenance of Lesotho's historical strengths and improvements in other areas.

The historical strong points included strong fiscal revenue relative to peer countries, modest external debt and strong foreign currency reserves. Improvements that boosted the rating included progress on fiscal consolidation, which resulted from reforms on tax administration. In addition, the appreciation of the loti exchange rate against currencies of major creditors led to a 'substantial decline in the external debt burden'. The extension of preferential treatment of textile exports to the US market was seen as providing room for Lesotho's exporters to improve their cost competitiveness. Lastly, Lesotho has benefited from South African monetary policy, with inflation and interest rates at historic lows.

However, weaknesses such as a narrow-based economy, with focus mainly on textile and clothing, and adverse social factor like HIV/AIDS and high unemployment impaired the country's rating. Fitch also added 'threats to the textile and clothing sector' as a new weakness. This related to the risk that Lesotho's exports would face increased competition once the preferential treatment offered by the US expires. At the new rating, Lesotho is at the same level with Brazil and Vietnam, a step higher than Indonesia, Turkey and Venezuela, and just below the Philippines and Colombia. Its external debt levels are far lower than the median for its peers and its international liquidity ratio is higher than that of some countries rated higher. However, its current account deficit and GDP per capita are worse than those of its peers.

3.1.2 Performance of Sectoral Outputs

(a) Developments in the Primary Sector

In Lesotho, the primary sector consists of agriculture, mining and quarrying sub-sectors. In terms of its share to GDP, it remains a marginal contributor. Preliminary estimates indicate that this sector recovered after slumping into recession the previous year. The agricultural sub-sector has for the past years been a significant contributor to the primary sector, with mining and quarrying accounting for a minimal share. Although agriculture's share of GDP has been declining in recent years the development and performance of this sub-sector has contributed greatly to the country's economic development in the past.

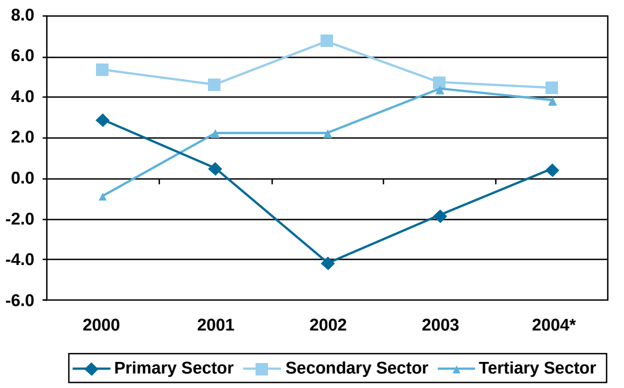
Estimates indicate that production in the agricultural sub-sector increased by 0.5 per cent in 2004, following a 1.8 per cent drop realised a year ago. The slight improvement was driven by Government's provision of input subsidies to farmers. Nonetheless, the provision of such subsidies will come to an end effective from 2005/06 owing largely to a failure to contribute positively to the sub-sector productivity. The sub-sector's continues to face serious bottlenecks. Several factors such as severe drought and poor arable land pose a major challenge to the performance of the sub-sector.

The threat to the sub-sector is further compounded by the prevalent rate of HIV/AIDS pandemic, which reduces human capital committed to productive activities.

Mining and quarrying sub-sector, displayed an exceptionally good performance in the review year. It rose by an estimated 150.0 per cent in 2004 following a 5.7 per cent increase in the preceding year. As mentioned earlier, the re-opening of the

Lets'eng Diamond Mine late in 2003 largely boosted the sub-sector. Although this sub-sector is a marginal contributor to GDP, growth in the sub-sector is important in ensuring sustained economic growth through employment creation, increased government revenue earnings and foreign investment, and an increase in foreign exchange earnings through exports.

Figure 1: Sectoral Real Growth Rates



Source: Bureau of Statistics
* CBL Projections

(b) Developments in the Secondary Sector

The secondary sector comprises manufacturing, electricity and water, building and construction sub-sectors. In 2004, the growth of GDP originating from the sector was estimated to have further slowed-down. It is estimated to have recorded 4.5 per cent growth compared with 4.7 per cent registered in 2003. This sector has largely been driven by the manufacturing sub-sector since the inception of AGOA in 2001, however, performance of the latter has deteriorated considerably in recent years. The strengthening of the loti against the US dollar continued to hamper textile exports to the US, hence, the slow-down in activity. This was further compounded by closure of some textile firms in the fourth quarter of 2004.

The relatively sluggish performance of the sub-sector occurred despite efforts by the Lesotho Authorities to expand the production base with the establishment of a $100 million denim mill at Thetsane Industrial Area. This mill was intended to supply domestic textile firms with input fabrics. Manufacturing sub-sector has been the engine of economic growth in Lesotho and the largest employer in the formal sector, and hence, a drop in performance does not bode well for the overall economy. In 2004, manufacturing sub-sector rose by a slower 5.0 per cent following a 5.2 per cent increase in the previous year.

The utilities (water and electricity) sub-sector is expected to increase at a slower pace of 4.2 per cent in 2004 compared with a 4.5 per cent rise in 2003. This was in accordance with a lower economic activity in both the manufacturing and construction sub-sectors. At the end of December 2004, water consumption for industrial purposes reflected a fall. The building and construction sub-sector also experienced lower activity, registering an estimated 4.0 per cent growth during the review period compared with a 4.3 per cent increase in 2003.

(c) Developments in the Tertiary Sector

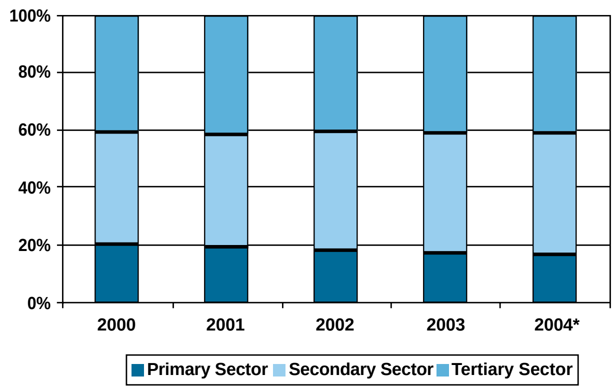
The tertiary sector still remains the second largest contributor to GDP after the secondary sector. The sector generally slowed down in the review period, registering 3.9 per cent growth, compared with 4.4 per cent rise in 2003. Most constituents of the sector declined, with the exception of public administration. Value added by Education, measured by wages, salaries and current expenditure on goods and services in the sub-sector, experienced the highest growth rate with an estimated 6.0 per cent in 2004, relative to 5.4 per cent rise in 2003. The growth in value added by the education sub-sector was fuelled by the expansion of the free primary education. Expenditure on education ranges from building of schools, payments of school fees and employment of additional teachers to accommodate increased enrolment.

The wholesale and retail trade and repairs sub-sector was projected to register 5.0 per cent growth in 2004 in contrast to 5.3 per cent recorded in 2003. The slow-down could have been influenced by reduced purchasing power of consumers, as more households lost income due to retrenchment of migrant labourers from SA mines. In addition, the closure of some textile and clothing firms, which resulted in job losses, had an adverse impact on the sub-sector.

Value-added by the health sub-sector, measured by wages, salaries and the current expenditures on goods and services in the sub-sector, increased by 2.5 per cent in 2004, following, 2.0 per cent rise in 2003. The growth rate has been influenced by increased expenditure on provision of health services in the economy. Since 2001, all Government ministries are required to allocate 2.0 per cent of their annual budget for HIV/AIDS activities. In 2004, government further instructed that half of those allocations be directed to the Ministry of Health to increase the pool of funds available for securing Anti Retroviral Drugs (ARVs) and other medications.

Post and Telecommunication sub-sector registered a real growth rate of 4.9 per cent in 2004, in contrast to 5.7 per cent in 2003. This was attributed to the possibility that telecommunication sub-sector in particular, might be reaching its supply peak. It was observed that fewer new customers were acquiring telephones services either in fixed line or in mobile phones.

Figure 2: Sectoral Shares in GDP at Factor Cost

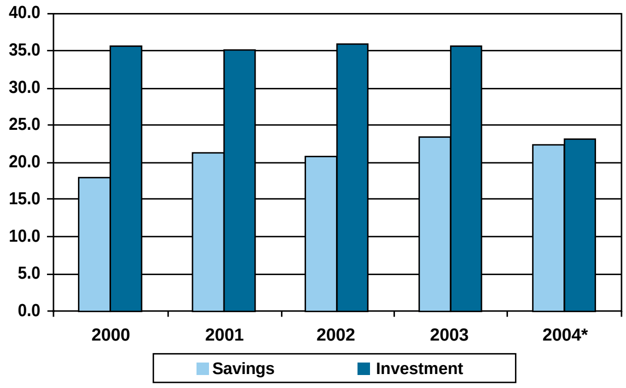


Source: Bureau of Statistics
* CBL Projections

3.1.3 Savings and Investment

A sustained increase in the country's economic performance requires high levels of investment. In most developing countries, savings levels do not normally match the required levels of investment. In Lesotho, there is a disparity between investment and savings. This savings-investment gap narrowed down in 2004. Gross national savings as a percentage of GNI was estimated at 22.3 per cent, while investment was projected at 23.2 per cent. The considerable low levels of savings were on account of a decline in private saving behaviour. Private saving as percentage GNI was 9.8 per cent in 2004 contrary to 18.4 per cent registered in 2003. The low levels of gross national savings were despite accumulation of government savings as a result of SACU revenue receipt.

Figure 3: Savings and Investment (as a percentage of GNI)



Source: Bureau of Statistics
* CBL Projections
** Investment excluding LHWP

3.2 Employment Wages and Prices

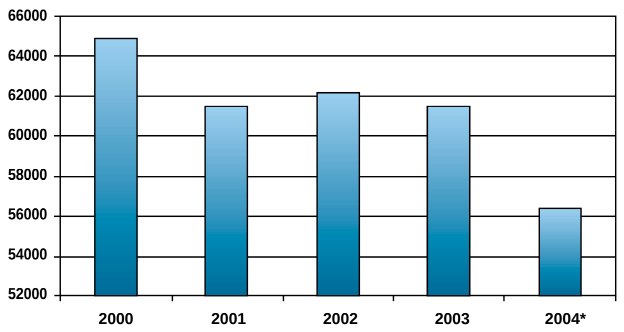
3.2.1 Employment

Employment data in Lesotho is reported for manufacturing and retail sub-sector, migrant mineworkers and government. It is important to observe that these categories are only indicative of movements in employment in the economy. The level of employment in manufacturing sub-sector was 50,607 people in the current year, compared with 51,187 observed in 2003. This represents an annual decline of 1.1 per cent. The marginal decline resulted from closure of some manufacturing firms in the fourth quarter of 2004. This was in line with a 5.0 per cent growth in value added by the manufacturing sub-sector compared with a 5.2 per cent rise registered in 2003.

Employment in government increased marginally from 36,004 in 2003, to 36,215 in 2004. Government employment comprises civil servants, teachers, and the armed forces. The slight increase in employment by Government resulted from an increase in number of teachers.

The South African Mining industry remained a key industry for growth and development in South Africa and its neighbouring states. The industry has an indirect multiplier effect on the economy of Lesotho through consumptive power of employees. During 2004, the average number of Basotho migrant mineworkers in SA declined from 61,413 in 2003 to 56,357 in 2004. The fall in employment was influenced mainly by strengthening of the rand against the US dollar, which was experienced from the first half of 2003. As indicated in part II, this reduced the rand value of gold, and thereby profitability of mining companies. In efforts to cut costs, some mines reduced their workforce.

Figure 4: Average Number of Migrant Mineworkers in RSA (In thousands)



Source: The Employment Bureau of Africa (TEBA)

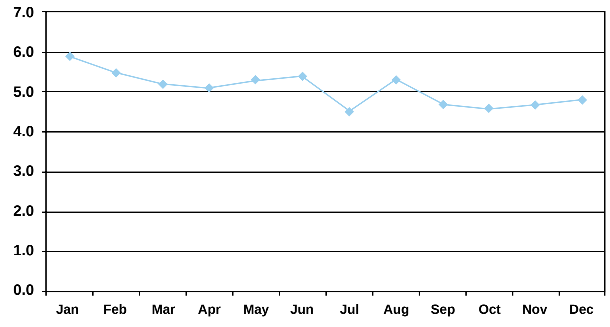
3.2.2 Wages

A tripartite Advisory Board determines minimum wages for different occupations in the private sector annually. This Board comprises representatives from Government, employers and the labour unions. The Wages Advisory Board resolved for a 5.5 per cent increase in the minimum wage with effect from October 2004. The review is carried out annually and is tailored to fulfil four basic policy objectives namely:

- The protection of low-paid workers who are considered to be in especially vulnerable position in the labour market.
- Minimum wage fixing to ensure the payment of what may be termed a "fair wage".
- Minimum wage fixing to provide a basic floor for the wage structure.
- Minimum wage fixing as an instrument of macroeconomic policy for achieving such broad national objectives as economic stability and growth and major improvements in the distribution of income.

Civil servants salaries were increased by 4.0 per cent in the fiscal year 2003/2004.

Figure 5: Lesotho Consumer Price Index (Annual percentage change)



Source: Bureau of Statistics

3.2.3 Prices

Inflationary pressures remained relatively subdued in 2004. Inflation, measured by changes in the consumer price index (CPI) maintained a downward trend. Overall inflation rate was recorded at an average of 5.1 per cent, down from 7.3 per cent registered in 2003. This augured well for Lesotho as it benefited from lower imported inflation.

The slowdown in inflation was mainly due to lower imported inflation from SA, which was driven by the strengthening of the rand against other major currencies. In addition, domestic inflation benefited from lower than expected food prices.

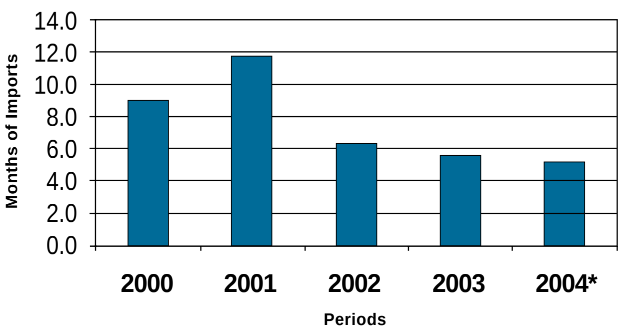
3.3 Balance of Payments (BOP)

3.3.1 Overall Balance

The external sector position showed some recovery in 2004. The overall balance registered a surplus of M10.6 million following a deficit of M517.0 million in 2003. This improvement was observed despite the appreciation of the loti against major currencies, particularly the US dollar, the pound sterling and the euro, in which a significant portion of the country's reserves were held during the year. BOP transactions, excluding exchange rate effects, particularly in the current account, facilitated this recovery. They constituted higher inflows than outflows.

The current account deficit was estimated to narrow significantly in 2004, owing mainly to the increase in current transfers and net income inflows as well as the fall in net payments on services. This outweighed the impact of the deterioration in the capital and financial account as well as the negative impact from revaluation losses due to the continued appreciation of the loti against major currencies. Thus the transactions balance was estimated to change from a deficit of M70.2 million in 2003 to a surplus of M153.7 million during the review year.

Figure 6: Official Reserves in Months of Imports



*CBL Projections

Gross official reserves increased by a marginal 0.3 per cent from M3341.16 million in 2003 to M3351.53 million in 2004, while the country's import bill was estimated to have grown faster by 8.2 per cent during the same period. As a result, official reserves in months of imports declined from 5.6 months in 2003 to 5.4 months during the review period.

Table 3

SUMMMARY OF BALANCE OF PAYMENTS
Excluding LHWP†
(as a percentage of GDP)

	2000	2001	2002	2003	2004*
Current Account	-10.99	-3.88	-14.22	-7.27	-0.58
Capital and financial Account	2.59	2.32	7.88	4.63	-0.18

† LHWP related imports and capital flows are excluded, as they are considered temporary.

* CBL Projections

3.3.2 The Current Account

The deficit on the current account was expected to narrow from 12.3 per cent of GDP in 2003 to 4.7 per cent in 2004. Excluding Lesotho Highlands Water Project (LHWP) related flows, the current account deficit fell to 0.6 per cent compared with 7.3 per cent in the previous year. The main contributing factor to this improvement was an increase of 25.1 per cent in current transfers. The latter were mainly boosted by 28.9 per cent surge in SACU non-duty receipts, which constituted the bulk of transfers to the Government. The developments in the income account also benefited the current account balance. The net inflows in the income account grew by 10.3 per cent. This was influenced by increases of 8.1 per cent in miners' remittances and 31.5 per cent in interest earnings by the CBL and commercial banks on their foreign investments. In addition, net payments on services declined by 12.0 per cent while the trade deficit fell by a marginal 0.4 per cent and thereby contributing to the improvement in the current account deficit. The trade deficit declined as a result of a relatively higher increase in exports than in imports.

3.3.3 Trade in Goods, Services and Income

Preliminary estimates indicate that exports regained strength in 2004 following a decline in the previous year. The nominal value of exports was estimated to increase to 46.0 per cent of GDP in the review period compared with 43.7 per cent of GDP in the previous year. This increase was attributed to the recovery in global demand, particularly in the US, where the bulk of Lesotho's exports are destined. This was in spite of the negative impact of the appreciation of the loti against the US dollar on the competitiveness of exports and on the local currency value of their earnings. Another contributing factor was the increase in exports of diamonds following the re-opening of Lets'eng Diamond Mine in the country, which started operating towards the end of 2003. Nonetheless, as mentioned in section 2, the outlook for Lesotho's exports growth appeared uncertain as a result of the appreciation of the loti and the lifting of quotas under the ATC.

The value of imports was also expected to increase by 10.6 per cent in 2004, following a decline of 6.9 per cent in 2003. Expressed as a percentage of GDP, the value of imports rose to 90.2 per cent from 88.7 per cent in the previous year. This sub-sector relies heavily on imported raw materials. Increased activity in the mining sub-sector as a result of the operations of the Lets'eng Diamond Mine could have also had some impact on imports. Government activity also contributed to the increase in imports. As explained under fiscal performance in section 3.5, expenditure on capital projects implemented by the Government during the 2004/05 fiscal year rose by 3.5 per cent.

Net payments on services acquired from abroad declined in 2004 following increases in the previous two years. They fell from M262.4 million in 2003 to M231.1 in the review year. This was mainly a reflection of a decline in payments by the Government from M64.7 million in the previous year to M18.3 million, as expenditure by Lesotho embassies abroad fell. The latter decreased by 38.1 per cent in 2004 after increasing by 4.2 per cent in 2003. This decline could have been influenced considerably by the appreciation of the loti against major currencies, coupled with continuing efforts by the Government to maintain prudent fiscal management. This overshadowed the impact of the 8.6 per cent increase in payments for shipment as well as the decrease in net receipts from travel services from M12.9 million in 2003 to M6.8 million in 2004.

Net income receipts increased further during the review period, supported mainly by labour income. Following an increase of 8.6 per cent in 2003, net income receipts rose by 10.3 per cent in 2004, as miners' remittances maintained an upward trend. Despite the 5.6 per cent decrease in the number of Basotho workers in SA mines, the remittances grew by 8.1 per cent as a result of the 9.3 per cent increase in average earnings. This was complemented by an increase of 31.5 per cent in investment income earnings while payments remained at more or less the same level as in 2003. Earnings on investment income were boosted by increases of 12.5 and 64.4 per cent in receipts of interest by the CBL and the commercial banks, respectively. This could be accounted for by interest rate hikes in countries such as the US and United Kingdom (UK), where part of the local banks' portfolio investments were held during the year.

3.3.4 Capital and Financial Account

The net inflows of the capital and financial account were estimated to have declined to 6.0 per cent of GDP in 2004 from 11.4 per cent in 2003. Excluding flows related to activities of the LHWP, the capital and financial account inflows were estimated to have fallen to 0.2 per cent of GDP compared to 4.6 per cent of GDP in the previous year. The deterioration emanated largely from cross border activities of the commercial banks. The latter increased their investments abroad, resulting in a surge of M399.9 million in their foreign assets compared to that of M68.0 million in the previous year. The reduction of M135.7 million in their liabilities, following an increase of M130.0 million in 2003, also contributed to the weakening of the capital and financial account.

The deterioration was to a certain extent, moderated by the improvement in the Government's external debt position. Net receipts of M7.4 million were realized during the year, as against net repayments of M70.2 million registered in 2003. This resulted from an increase of 44.3 per cent in official disbursements while repayments fell by 5.4 per cent. In addition, foreign direct investment increased by 8.8 per cent, which also helped minimize the decline in the capital and financial account inflows.

3.3.5 Foreign Exchange Rates

The SA rand, to which the local currency unit (loti) is pegged at par, continued to strengthen in 2004. On average, it appreciated by 12.3 per cent, 19.6 per cent, 4.9 per cent and 7.3 per cent against the Special Drawing Rights (SDR), the US dollar, the pound sterling and the euro, respectively.

A number of factors continued to support the rand during the year. Firstly, interest rates in SA remained relatively high compared to the world's major economies. This continued to enhance the attractiveness of rand-denominated assets and therefore attracted portfolio investment flows into the SA market. Secondly, the rand continued to benefit from high commodity prices, particularly, gold and platinum, which normally move in opposite direction to changes in the US dollar exchange rate. In addition, SA exporters continued to shorten the lag between the time of sale and repatriation of export proceeds into the SA market and thereby boosted the demand for rands.

The appreciation of the rand, and thus the loti, has variable implications for the economy of Lesotho. On the one hand, it reduces price competitiveness of the country's exports in overseas markets, particularly the US. As already mentioned, the bulk of Lesotho's exports are destined to the US. This, in turn, impacts negatively on export earnings and may therefore depress manufacturing production. On the positive side, however, the appreciation of the loti reduces the cost of non-rand denominated imports, when converted to local currency. As a result, Lesotho's manufacturers are likely to realise savings on imported production inputs. By lowering the price of imports, currency appreciation also has a dampening effect on inflation.

3.4 Money and Banking

3.4.1 Money Supply

Broad Money supply (M2)[9] grew at a slower annual rate of 3.3 per cent during the period under review compared with last year's increase of 6.0 per cent. The growth in money supply was in line with the end of year inflation rate of 4.8 per cent. A slower increase in money supply in 2004 was a reflection of a contraction in domestic credit including net claims on government, which more than offset the significant increase in net foreign assets. Almost all the components of money supply, except savings deposits, followed upward trends in 2004. Savings deposits continued to decline registering an 8.6 per cent fall following a decrease of 3.8 per cent observed in 2003. The decline in this form of deposits may be attributed to two factors, namely a decrease in the number of holders of savings accounts, because clients migrated away from this form of deposits due to high transaction costs. Secondly and more importantly, a fall in the volume of deposits in this component was due to falling interest rates for this type of deposit. Consequently, fixed time deposits rose slightly to 26.6 per cent of total deposits compared with 26.4 per cent recorded in 2003. Demand deposits also followed suit, recording a rise of 2.3 per cent in 2004 compared with 7.4 per cent registered in 2003.

[9] M2 is defined as the sum of currrency in circulation, demand, savings and time deposites with the commercial banks as well as demand deposits at te Central Bank.

BOX 2: THE DUAL CURRENCY SYSTEM IN LESOTHO: AN OVERVIEW OF THE PROS AND CONS

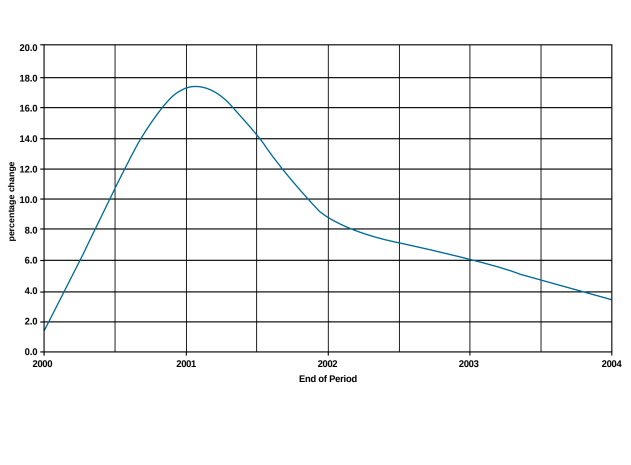
A dual currency system is an arrangement under which two currencies are used concurrently in an economy. Lesotho operates a formal dual monetary system in that the national currency, the loti, co-circulates with the South African (SA) rand; both are legal tender used to perform all the functions of money in the economy. An attempt is here made to provide an overview of the pros and cons of this dual currency frame-work.

Lesotho is a member of the Common Monetary Area (CMA), and thus cannot conduct an independent monetary policy. In accordance with a fixed peg exchange rate regime in the CMA, one unit of loti is equivalent to one unit of SA rand. It therefore becomes imperative to establish an appropriate monetary policy stance that supports price stability and growth. In implementing monetary policy, the Central Bank considers the reserve money as an operating target, and the Government of Lesotho 91-day Treasury bills is an intermediate target. The Bank aims at the attainment of reserve money target in line with the international reserves program target. Reserve money is the major liability of the Bank, and is composed of banker's deposits, and currency in circulation. Clearly, this base money is an important variable in the execution of monetary policy in Lesotho. However, currency in circulation comprises the Lesotho loti and the SA rand; this poses a mountain of a challenge to the Bank because there is no plausible method at its disposal to measure the rand in circulation in the economy.

The literature on economics is replete with dual currency systems, but discussions here only trace the merits and de-merits of such an arrangement beginning with the former and concluding with the latter. First, Lesotho can trade with SA with ease and without any foreign currency risk. Second, this arrangement, along with the loti/rand parity, and free trade between the two economies, helps Lesotho to enjoy price stability showering from the low inflation rates in SA. Moreover, as a result of price stability, investors gain confidence in the economy and this has a potential of attracting foreign direct investment. Lastly, the arrangement goes a long way in facilitating free mobility of capital between Lesotho and SA and eliminates possible imbalances that may result from integration during the operation of the envisaged CMA Central Bank.

Despite the merits, this arrangement does not go without defects. One of these disadvantages is that since the rand performs all functions of money that would otherwise be performed by the loti, a larger amount of loti would be issued than is currently the case, as such, Lesotho loses seigniorage revenues. However, in an effort to address this problem, Lesotho receives compensation on seigniorage from SA. Second, Lesotho has been forced to relinquish formulation and implementation of autonomous monetary and exchange rate policies. Furthermore, it complicates the measurability of the reserve money-due to its rand component- and hence, threatens the Bank's ability to precisely estimate liquidity conditions in the economy. Nevertheless, for Lesotho, the gains of the current system appear to outweigh the costs.

Figure 7 Money Supply Growth



3.4.2 Domestic Credit

The growth of total credit, excluding net claims on government and non-performing loans, accelerated to 11.6 per cent at the end of the year 2004 from its previous level of 6.1 per cent at the end of 2003. Credit to the private sector rose further by 9.6 per cent following a 7.8 per cent realised for end of 2003. The growth in 2004 was in line with falling interest rates which considerably reduced borrowing costs. It would, however, appear that banks are still reluctant to lend to the private sector. During 2004, banks continued to alternate their investments between the domestic treasury bills market and other instruments in South Africa. Meanwhile, the CBL persisted in its endeavour to pursue financial and structural reforms to enhance the credit accessibility by the private sector throughout the year 2004. For example, efforts have been expended to negotiate with companies that would provide credit bureau services. This was intended to go a long way in assisting banks to be able to screen bad from good credit and would build commercial banks' confidence in the private sector. The credit bureau may start its operations in 2005. Credit to statutory bodies, which has been plunging steeply since end of 1997, rose substantially during the review year. At the end of December 2004, credit extended to this sub-sector rose sharply by 34.0 per cent following an 8.9 per cent decline at the end of the previous year. Nevertheless, credit to the sub-sector still forms the smallest portion of domestic credit and may be expected to continue to diminish due to the on-going government privatisation strategy.

3.4.3 Net Foreign Assets

The net foreign assets of the banking system increased by 14.8 per cent in 2004, compared with a 10.9 per cent decline at end of 2003. Table 4 below furnishes more details about the main driver of this increase. The driver was a noteworthy jump in the net foreign assets of the commercial banks. In the previous year, the decline in net foreign assets was attributed to the fall in both commercial banks and Central Bank's net foreign assets.

The CBL net foreign assets remained virtually unchanged at the end of the review year. The opposite movements in some of the variables that accounted for this position offset each other. The revaluation loss as the local currency appreciated against major currencies was neutralised by a build-up in the reserves of government due to a good fiscal position during the same period.
The revaluation loss in the CBL's net foreign assets occurred as the local currency appreciated against currencies in which its non-rand financial assets were held, namely the euro, the US dollar and the British Pound. As observed in the previous section under foreign exchange rates, the rand has continued to appreciate against these currencies in 2004.

Table 4

BANKING SYSTEM'S NET FOREIGN ASSETS
Million Maloti: End of period

	2000	2001	2002	2003	2004
Commercial banks	469.1	686.8	672.7	607.7	1117.9
Assets	609.1	789.6	772.3	837.3	1253.79
Liabilities	-140.0	-102.8	-99.6	-229.6	-135.90
Central Bank	3116.2	4627.1	3211.4	2853.1	2854.5
Assets	3486.2	5136.9	3858.2	3341.1	3351.53
Liabilities	-370.0	-509.9	-646.8	-488.0	-497.01
Net Foreign Assets	3585.3	5313.9	3884.1	3460.8	3972.4

Commercial banks' net foreign assets sky rocketed by 84.0 per cent due to the fact that foreign assets rose by 49.7 per cent while foreign liabilities sunk by an enormous 40.8 per cent. The increase in foreign assets reflected a portfolio reallocation by commercial banks resulting from Government debt repayment to the tune of M273.0 million, comprising structural policy treasury bills worth M100.0 million and a five year bond valued at M173.0 million. Conversely, foreign liabilities plummeted due to a reduction in foreign bank investments with local banks to the tune of M60.0 million. The growth in banks' foreign assets was explained by their huge transfers abroad to invest in alternative money market instruments in SA and the rest of the CMA. It could be noted that the increase in commercial bank foreign assets was below their transfers abroad, which implies that some of the transfers were carried out to meet customers' transactions requirements abroad.

3.4.4 Commercial Banks' Liquidity

The liquidity ratio[10] measures banks' ability to adequately honour customers' demands in making withdrawals. The ratio stood at 68.7 per cent at the end of December 2004, up from 64.7 per cent at the end of 2003. The increase in the ratio, at the end of the review year, mainly portrayed a reduction in commercial banks foreign liabilities.

The credit to deposit ratio[11] accelerated from its previous level of 22.7 per cent at the end of December 2003 to 24.9 per cent at the end of December 2004. The increase in the ratio reflected short term credit extended in the form of overdrafts, and thus is indicative of the banks' preference of holding short term assets to long term ones such as loans.

[10] Liquidity is measured by by the ratio of commercial banks' notes and coins holdings, balances with banks in Lesotho and abroad, their clearing balances held with the CBL plus their short-term securities to their total deposit liabilities and other borrowings.

[11] This ratio seeks to establish how much credit is extended to the private sector and statutory bodies using these sectors' deposits from surplus sectors of the economy, and allocates these funds to deficit sectors.

BOX 3: IMPLICATIONS OF SURPLUS LIQUIDITY IN THE ECONOMY

Surplus liquidity occurs when the cash flow into the banking system is persistently more than withdrawals of liquidity from the market by a central bank. This is an important consideration for the central bank because the central bank has to know how money is used in the economy in order to manage price stability. Inflation erodes household welfare by reducing the amount that households have at their disposal.

In most developing countries like Lesotho, excess liquidity is highlighted by excess reserves that commercial banks keep with the central bank. The excess reserves highlight the cautionary stance of commercial banks in administering credit to the public. Therefore one would expect an inverse relationship between excess reserves and credit to the private sector.

In Lesotho, banks' liquidity is measured by a ratio of easily convertible assets to all their deposit liabilities. In the third quarter of 2004, commercial banks' liquidity decreased from 65.7 per cent in the second quarter to 60.7 percent. This is against the minimum required liquidity ratio of 25 per cent. This means that the bank keeps 35.7 per cent more than is required by the law. The greatest challenge is for the private sector to establish itself as an active participant in the economy and as viable debtors to the banking system. On the other hand, consequent to prevailing risk commercial banks have to lend more to sustain profitability and act as the important drivers of the economy.

It has also been observed that the level of liquidity of the commercial banks has been on the upward trend for the period 1999 to 2003. This is despite the phasing out of paying interest on excess reserves in 2001. In 1999 it increased to 61.3 per cent excluding M575.7 million worth of government bonds to Lesotho Bank. This rate has oscillated around 57.7 per cent in 2000. At the end of 2002, it stood at 71.8 per cent, and dropped again in 2003 to 64.7 per cent.

There are four strong implications for the observed trend; this implies that banks find it safer to invest in treasury bills, than to lend to the public. Banks are risk-averse, because they claim there are no mechanisms to enforce repayment of loans by the public. Next, it implies an under-developed inter-bank market. Then, it implies that credit extended to the private sector is below its full potential to have a significant impact in the economy. Lastly, the high liquidity is indicative of high interest rate spread in the economy. When the spread is calculated from an average deposit rate of 4.37 per cent and the average prime lending rate of 12.50 per cent, it is observed that the spread was 8.13 per cent in June 2004. In December, it jumped to 8.67 per cent with an average deposit rate of 3.50 per cent against the prime rate of 12.17 per cent. This indicates structural rigidities in the economy that impede the efficiency of the financial system. It is therefore suggested that institutionalisation and public campaigns on the functioning of the Commercial Court and the operation of the Credit Bureau should be expedited in order to address the structural bottlenecks.

3.4.5 Interest Rates

In line with the trend observed regionally, during the period under review, major money market rates in Lesotho generally followed a downward trend. As the rand recovered in 2003 to 2004, the oil price shock that threatened the stability of the general price level was absorbed. Consequently, inflationary pressures eased causing money market rates to follow the downward trend.

At the end of 2004, the average prime lending rate in Lesotho stood at 12.17 per cent, which was lower than the 12.5 per cent recorded at the end of 2003. The changes in this rate followed those in the SA prime lending rate which declined from 11.5 per cent in 2003 to 11.0 per cent in 2004. The decline in the SA lending rate was initiated by a 50 basis points reduction in the repo rate by the SARB during the third quarter. It could be observed that, even though the direction of the change in the prime lending rates in Lesotho and SA may be similar, the magnitude of the change may not necessarily be equal due to, among other factors, the differing levels of economic risk.

In line with other rates in the economy, commercial banks' deposit rates fell, albeit marginally. The one year deposit rate was 6.0 per cent at the end of 2003, but declined to 4.0 per cent at the end of 2004. At this level, the rate was 80 basis points below the 4.8 per cent inflation rate. Hence, real interest rates for commercial bank clients remained negative. This position may result from the fact that high liquidity positions in the economy make mobilization of more deposits from the public unattractive.

The 91-day treasury bills rate dropped from 9.21 per cent in January to 7.86 per cent in December 2004. At this level, the rate had reached a historical low since the inception of the open market operations in September 2001. Even at this level, the rate was still exceeding its counterpart in SA, indicating possibly differing liquidity levels, as well as the frequency at which the auctions are conducted in the two economies differ.

The margin between the two rates tends to narrow when the regional interest rates follow downward trends. This margin narrowed considerably from 189 basis points at the end of 2003 to 66 basis points at the end of 2004. The movements in money market rates influence commercial bank interest income, as well as their profitability. The sources of revenue for a commercial bank are transactional charges, fees and commission, and interest income. A major source is interest income which comprises of income from lending operations, and income from money market instruments. The latter generates most of the revenue for commercial banks. Clearly, as money market rates declined by 152 basis points in Lesotho and 29 basis points in SA at the close of 2004, commercial bank profitability also declined. The impact on each bank would depend on its investment maturities structure. For the industry, the structure has generally been skewed to short-term investments and as a result bank profits suffered.

3.5 Government Finance

3.5.1 Fiscal performance in recent years

During the last ten years, Government pursued fiscal policies that were consistent with macroeconomic stability. These were largely supported by some IMF programmes. The success of these policies was evident in the attainment of fiscal surpluses of 3.5, 5.2 and 2.0 per cent of GDP in 1995/96, 1996/97 and 1997/98, respectively. From 1998/99 to 2002/03, the surpluses were reversed into deficits as a result of a number of pressures. These included pressures for bank restructuring prior to the privatisation of Lesotho Bank in 1999 as well as reduced donor funding.

The highest deficit, at 7.1 per cent of GDP, was realised in 1999/2000. During that period, tax revenue collections had slowed down as a result of the disruption of economic activity by the September 1998 civil disturbances. This was compounded by pressure from the Government's settlement of the commercial loans associated with the Lesotho Highlands Water Project (LHWP). Delayed receipt of rand compensation and lack of disbursement of budget support grants were responsible for the 2001/02 deficit. Further expenditure pressures, including those from famine relief, led to yet another fiscal deficit in 2002/03.

The fiscal deficits mentioned above were largely financed from domestic resources, by running down government deposits with the Central Bank. Between 1998 and 2003 government deposits fell by more than 33.6 per cent. This negatively affected the external position of the country. Gross official international reserves deteriorated from M3549.85 million to M3351.53 million during the period.

In 2003/04, the budget was almost balanced, at a surplus of 0.8 per cent of GDP. This was primarily a result of concerted government efforts to consolidate expenditure during the second half of the fiscal year. This involved expenditure reduction measures that were targeted at non-essential public expenditures. Some revenue raising measures, which included the introduction of value added tax (VAT), also dampened the effects of the expenditure pressures that existed during 2003/04. VAT was set at a higher rate of 14 per cent compared to general sales tax (GST) which was at 10 per cent, thus raising more revenue than GST.

3.5.2 Fiscal performance in 2004/05

Government budgetary operations for the 2004/05 fiscal year were projected to result in a surplus equivalent to 5.4 per cent of GDP. The high level of government receipts realised during the review period was responsible for the achievement of the surplus.

- Revenue

Total revenue and grants were estimated to have grown by 23.9 per cent in 2004/05. The driving force behind this was the 41.6 per cent growth in SACU receipts as a result of the exceptionally high level of imports reported in 2002/03. Income tax collections were estimated to grow by 5.8 per cent while VAT grew by 30.5 per cent. The improvement in revenue collections from both income tax and VAT was a result of a number of revenue enhancement measures that were undertaken by the Lesotho Revenue Authority (LRA) during the review period. These included intensified tax payer education by conducting tax clinics throughout the country, verification visits to various businesses, tax payer audits as well as notifications to companies whose taxes were in arrears and collections of such arrears. Some administrative reforms were also introduced in order to facilitate tax compliance. These included the introduction of the self assessment system, enactment of the tax Amnesty Bill, improved VAT refund procedures as well as the second hand car amnesty and introduction of new second hand car importation procedures.

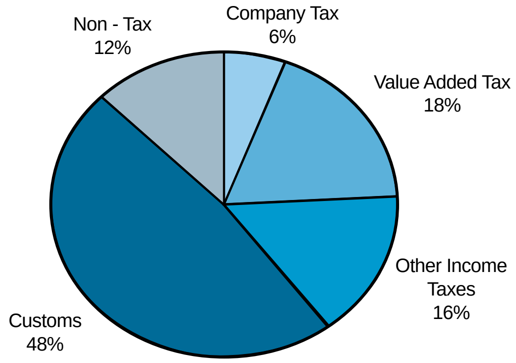
The self assessment system was introduced in April 2004, with the aim of giving the taxpayers the responsibility of assessing their own tax liabilities and to comply as required. This has led to improved compliance by taxpayers, especially companies, to quarterly deadlines. The Tax Amnesty Bill was enacted with the purpose of assisting tax defaulters who had accumulated arrears over the past years to comply. Many tax defaulters failed to comply with their tax obligations for fear of having to pay taxes they owed from previous years. It allows for total forgiveness of taxes due before 1st April 1999 as well as interest and penalties for late payment of those taxes. For taxes owed from 1st April 1999 to 31st March 2003, the principal assessments still have to be paid but all interest and penalties on such tax will be forgiven. In order to benefit from the amnesty the taxpayers have to voluntarily apply before the end of February 2005. It is believed that the taxpayers who had participated in the amnesty would then fall back in the tax net, thereby improving future tax collections.

A second hand car amnesty was also implemented between April and June 2004. This allowed for registration of previously unregistered cars paying VAT calculated at their current values as opposed to the value of such cars at the time of purchase. Slightly over 1000 such vehicles were registered during Amnesty period. New procedures for importation of second hand cars from SA were also introduced during the review period. These procedures allow the importer to submit the original VAT invoice, in lieu of a VAT payment to LRA. The LRA would then use the said invoice to claim the VAT from the South African Revenue Services (SARS). Thus the importer would not have to pay VAT twice or delay paying VAT in Lesotho while awaiting a refund from SARS.

Non-tax revenue was expected to decline by 1.1 per cent as a result of a decline in property income. This would be brought about by the reduction in the rand compensation payment from South Africa. Interest receipts from loans are also expected to fall in line with the trend in interest rates.

The level of grants is expected to grow by about 37.7 per cent. The bulk of these grants would go towards the financing of government projects while about 18 per cent would be for budgetary support.

Figure 8: Sources of Government Revenue



Source: Ministry of Finance and CBL projections

- Expenditure

An increase of 13.5 per cent in total expenditure and net lending was anticipated during 2004/05. This was expected to emanate from a 10.8 per cent increase in recurrent spending as well as the 26.1 per cent growth in capital outlays. Expenditure on goods and services was estimated to be the main driving force behind the rise in current spending. Wages and salaries were estimated to grow by 8.6 per cent due to an upward adjustment of 5.5 per cent in civil service salaries as well as the slight increase in civil service employment during the review period.

Expenditure on other goods and services grew by about 7.6 per cent. This was lower than planned as a result of low spending on numerous government activities as well as the postponement of the local government elections to April 2005. Only the expenditures on activities that prepare for the local government elections were expected to be incurred during the last two months of the 2004/05 fiscal year. The total cost of these elections was estimated at M84.1 million and approximately M59 million of that was expected to be spent during the fiscal year under review.

Interest payments were expected to decline by 22.7 per cent on account of lower interest paid on domestic debt. A number of factors were responsible for the reduction in domestic interest payments. These included the decline in interest rates during the review period as well as the reduction in the level of domestic debt during the same time. During the 2004/05 fiscal year, Government was able to retire the maturing stock of debt that had previously been issued for restructuring the banking industry. No new debt was issued domestically to finance fiscal operations as Government enjoyed a relatively comfortable fiscal position and did not need to borrow for that purpose. The stock of new domestic debt comprised only treasury bills issued for monetary policy purposes.

Subsidies and transfers rose by 32.7 per cent as a result of the introduction of old age pensions during the year. The payment of pensions, which were targeted at elderly people aged 70 or above, commenced in November 2004. Approximately 70,000 individuals are estimated to be eligible for the pension and the payment was set at M150 per person per month. Subventions to various government institutions were also estimated to contribute to the rise in subsidies and transfers.

Following a decline in the previous year, capital expenditure was estimated to rise by 26.5 per cent during the review period. Government funded projects accounted for 47.8 per cent of these outlays while loan and grant funded projects contributed 26.8 and 25.4 per cent, respectively.

Table 5

THE SUMMARY OF BUDGETARY OPERATIONS
Million Maloti

	2000/01	2001/02	2002/03	Revised 2003/04	Projections 2004/05
Total Receipts	2752.2	2976.3	3331.0	3594.5	4455.0
Revenue	2626.8	2787.5	3034.7	3416.7	4210.2
Customs	1126.2	1438.5	1470.0	1421.6	2012.4
Grants	125.6	188.8	296.3	177.8	244.8
Total Expenditure	2957.0	3018.9	3656.1	3532.2	4008.5
Recurrent expenditure	2457.9	2393.3	2876.2	2906.8	3220.2
Purchases of Goods & Services	1774.1	1793.7	2147.1	2059.1	2215.2
Capital Expenditure & net Lending	499.1	625.6	779.9	625.4	788.3
Surplus/Deficit before grants	-330.4	-231.4	-621.4	-115.5	201.7
Surplus/Deficit after grants	-204.8	-42.6	-325.1	62.3	446.5
Government Savings	294.3	583.0	454.8	687.7	1234.8
Financing					
Foreign, net	-221.7	31.9	53.4	-25.7	-49.7
Domestic	426.5	10.7	271.9	-36.5	-396.8
Bank	403.2	62.4	320.8	104.0	-363.2
Non-Bank	23.3	-51.7	-48.9	-140.5	-33.6
In per cent of GDP (unless indicated otherwise)					
Revenue (excluding Grants)	46.4	45.8	45.4	45.2	50.6
Customs (in % of revenue)	42.9	51.6	48.4	41.6	47.8
Grants	2.2	3.1	4.4	2.4	2.9
Total Expenditure	52.2	49.6	54.6	46.7	48.2
Surplus/Deficit Before grants	-5.8	-3.8	-9.3	-1.5	2.4
Surplus/Deficit after grants	-3.6	-0.7	-4.9	0.8	5.4
Government Savings	5.2	9.6	6.8	9.1	14.8
Memorandum item: GDP in current prices	5664.6	6089.0	6691.4	7562.6	8324.0

Source: Ministry of Finance and CBL Projections

3.5.3 The overall budget balance and financing

As indicated earlier, an overall fiscal surplus equivalent to 5.4 per cent of GDP was estimated to be realised by the end of the 2004/05 fiscal year. The said surplus was mainly a result of the 23.9 per cent increase in total revenue that was primarily facilitated by the exceptional increase in SACU revenue during the year. This enabled Government to repay part of the long term domestic debt to the tune of M273 million, which had been issued for the restructuring of the banking system in 1999. The Government was also able to accumulate some deposits with the banking sector and to become a net re-payer of foreign public debt.

3.5.4 Recurrent Expenditure By Functions Of Government

The bulk of recurrent expenditure for 2004/05 was estimated to go towards the provision of social and community services. They accounted for 48.9 per cent of total recurrent expenditure. More than 60 per cent of social spending went towards education. This went to support free primary education, which was extended to cover students in the 5th year of primary school, as well as to cover costs, including bursaries, of secondary and tertiary education. Subventions were also granted to government educational institutions such as the National University of Lesotho (NUL), the Lesotho College of Education (LCE), Lerotholi Polytechnic and the Institute of Development Management (IDM).

The health sector accounted for 15.7 per cent of social spending. The fight against the HIV/AIDS pandemic featured prominently amongst the health programmes covered under this expenditure category. Social security and welfare also took an equal share of expenditure to the health sector. The thrust of social welfare during the 2004/05 fiscal year was the provision of old age pensions to the elderly people aged 70 or above.

General government services continued to be the second largest spending category at 32.2 per cent of total recurrent expenditure. This went mainly towards the provision of general public services as well as public order and safety. Expenditure on economic services took third place at 9.5 per cent of recurrent spending. Agriculture, mining and industry were estimated to have utilized more than half of the funding for economic services.

3.6 Public Debt

3.6.1 Overview

Total outstanding government debt was recorded to have declined by 14.9 per cent at the end of 2004 to a level equivalent to 53.7 per cent of GDP. This significant improvement was a result of the 7.2 per cent reduction in the external debt stock as well as the 44.1 per cent fall in domestic indebtedness. The foreign debt reduction was mainly facilitated by the appreciation of the loti against major currencies in which it is contracted.

The repayment of more than 50 per cent of domestic long-term loans was instrumental in the improvement of Lesotho's foreign debt position from the 68.7 per cent of GDP level which is normally deemed unsustainable by developing country standards, to 53.7 per cent of which is within the developing country sustainability threshold of 60 per cent of GDP. However, the debt service ratio, excluding exports of factor services, rose from 5.8 per cent in 2003 to 12.3 per cent at the end of 2004. This indicated that the country's debt sustainability position was precarious.

Table 6

PUBLIC DEBT INDICATORS FOR END OF YEAR
In Per cent

	2000	2001	2002	2003	2004
Total debt as % of GDP	85.7	110.6	82.2	68.7	53.7
External debt as % of GDP	72.4	96.6	69.6	54.4	46.4
Domestic debt as % of GDP	13.2	14.0	12.6	14.2	7.3
External debt as a % of total	84.6	87.3	84.7	79.3	86.4
Domestic debt as a % of total	15.4	12.7	15.3	20.7	13.6
Concessional as % of External debt	81.6	76.2	70.2	72.3	78.5
Debt service ratio (1)	8.6	6.6	2.0	3.3	7.3
Debt service ratio (2)	22.0	12.9	3.4	5.8	12.3

Source: Ministry of Finance

(1) Ratio of debt service to exports of goods and services, including factor income

(2) Ratio of debt service to exports of goods and non-factor services, excluding factor income

3.6.2 External Debt

The level of foreign indebtedness continued to decline, for the third consecutive year, in 2004. It fell by 7.2 per cent in nominal terms to about 46.4 per cent of GDP compared with 54.4 per cent of GDP recorded last year. The appreciation of the loti against major world currencies, namely the US dollar, the SDR and the Euro, in which the bulk of foreign loans are denominated, was the main contributor to this decline.

External debt sustainability indicators exhibited mixed signals with the debt to GDP ratio suggesting an improved sustainability position while the debt service ratio pointed towards the opposite. However, both indicators remained within the generally accepted developing country sustainability thresholds of 60 per cent of GDP and the debt service ratio of 15 per cent. The debt to GDP ratio was recorded at 46.4 per cent compared with the 2003 ratio of 68.7 per cent. The debt service ratio, excluding factor income, deteriorated from 5.8 per cent in the previous year to 12.3 per cent. This shows that more caution must be exercised in the management of public external borrowing as it may not be very far from reaching levels that could be unsustainable. This is particularly important given the uncertainty surrounding the future of Lesotho's export sector, hence its foreign exchange earning capacity.

The composition of foreign debt continued to reflect the Government's policy of limiting external borrowing primarily to concessional terms. Concessional debt constituted 78.5 per cent of total foreign borrowing. Multilateral loans dominated the external debt portfolio at around 77 per cent of total outstanding foreign loans. Bilateral loans and loans from financial institutions constituted 12.9 and 7.8 per cent of foreign debt respectively. External debt constituted 86.4 per cent of the total stock of public debt. About 70 per cent of external debt had remaining maturities of 16 years and above while loans with maturities between 6 years and 15 as well as those below 6 years represented approximately 20 and 10 per cent of foreign debt respectively.

3.6.3 Domestic Debt

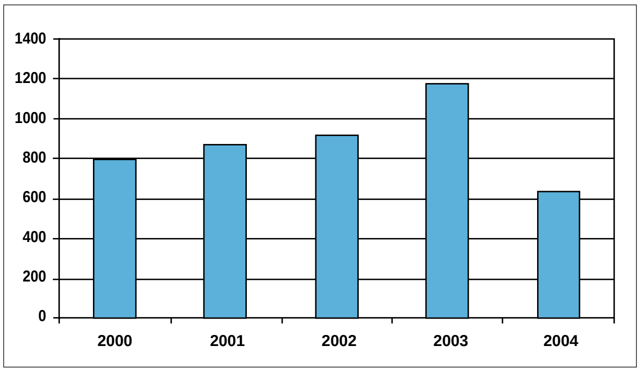
A substantial decline of about 44 per cent in the level of domestic debt was realised during 2004. This was in contrast with the 24.8 per cent increase realised in 2003 as a result of the issuance of fiscal policy treasury bills to finance Government's budgetary operations. During the review period government enjoyed some fiscal surpluses, thus eliminating the need to borrow domestically. In addition, the surpluses allowed Government to repay some of the domestic debt.

Long term debt fell by 60.2 per cent as a result of the repayment of the 5 year bond to one of the banks during the year. The bond had been issued for the privatisation of the old Lesotho Bank in 1999. The remainder of long-term debt is the 10 year bond which was issued for the same purpose as the 5 year bond mentioned above.

Short term debt, which constitutes primarily the holding of treasury bills by both the bank and non-bank sectors, also declined by 38.8 per cent. This was primarily due to the reduced holdings of these debt instruments by both the banking and non-banking sector. The banking sector held the highest proportion of treasury bills at 80.4 per cent.

Figure 9: Government Domestic Debt

(Million Maloti)



Supervision of Financial Institutions

The year 2004 started with the restructuring of the Supervision Department, that is, two divisions, namely, Development Finance and Rural Finance were transferred to Operations Department while the Policy and Exchange Control Division was relocated from the Financial Markets Department to Supervision Department.

The Board of Directors further approved the establishment of a new division with the responsibility of supervising the insurance industry. The establishment of the Insurance Supervision Division emanated from the realisation that despite the substantial growth in the insurance industry, the sector was not given the attention that it deserved as bias was more towards bank supervision.

In its quest to strengthen and streamline the insurance industry, the CBL, as the Commissioner of Insurance, intensified its efforts in the review of the Insurance Act 1976. The review was done with the assistance of a consultancy firm in the name of Financial Sector Reform and Strengthening Initiative (FIRST Initiative). The draft legislation is to be finalised in the first half of 2005.

Apart from the review of the insurance legislation, the Bank issued regulations for ancillary financial services providers, merger and transfer of assets. The Bank has started to review and strengthen the Financial Institutions Act 1999 to keep it in line with new developments. The Bank also reviewed laws, which were not under its jurisdiction, but impacted on the financial sector. A recommendation for the revision of such laws has been made to Government. A task team comprising representatives of the relevant government Ministries and the Bank will undertake the review.

A lot of interest to enter the banking industry was shown by various potential investors from inside and outside Lesotho. The interest was in the areas of private banking, commercial banking and merchant banking. For the first time in the history of banking in Lesotho, a foreign bank opened a branch in Lesotho. Before the enactment of the Financial Institutions Act 1999, foreign banks were not allowed to open branches in Lesotho. The entry of this new player, First National Bank Branch in Lesotho, will undoubtedly generate competition in the banking sector.

Another milestone was the licensing of the Lesotho PostBank (LPB) in October 2004. Although the Bank is wholly owned by the Government of Lesotho, it has been registered as a public company under the Companies Act 1967. The ultimate aim is to find a strategic partner that will take over the majority of shares in the Bank. The Bank has been issued a restricted licence that allows it to accept deposits only from the public. It is not permitted to grant credit and engage in foreign exchange activities. LPB has been re-established with the main objective of providing banking services to the rural communities that were left unbanked following the closure of the LADB in the late 1990s.

The year 2004 also saw the successful implementation of the Bank Supervision Application (BSA) in Lesotho. The Application provides an automated solution to banking supervision.

Throughout the year the Department of Supervision continued to discharge its core functions of off-site surveillance and on-site inspections of banks, insurance companies, collective investment schemes and money lenders. In general, the financial sector continued to be well capitalised, profitable and highly liquid.

- *Credit Bureau*

The regulatory framework for the operations of a credit bureau was finally put in place and one operator was licensed by the Ministry of Trade, Industry, Co-operatives and Marketing. The bureau is expected to commence its operations in 2005. The public education campaign to sensitise the public on the operations of the credit bureau started in earnest in 2004 and is scheduled to end in March 2005.

- *Basel II Capital Accord*

In June 2004, the Basel Committee on Banking Supervision issued a revised framework for capital measurement and capital standards for banks. A Task Team consisting of officials from the CBL, commercial banks and firms of accountants operating in Lesotho was established to evaluate the suitability of the new capital accord for banks in Lesotho and to plan for transition if the accord is to be adopted by Lesotho. The work of the Team will continue in 2005 and appropriate recommendations will be made to the CBL.

- *Vision on the Legislative and Supervisory Framework for the Financial Sector in Lesotho*

In June 2004, the CBL held a workshop to consider a vision paper on the institutional, legislative and supervisory framework for the financial sector in Lesotho. The various types of financial institutions were considered, the strengths and weaknesses of the various pieces of legislation governing those institutions were discussed and the different types of supervisory framework from which a selection could be made were identified and weighed. The recommendations of the workshop have been embodied in a blue-print that will be submitted to Government in due course.

Rural Finance Division

In fulfillment of its obligation to empower rural communities to engage in self sustaining economic activities, the Division undertook the following:

- *Credit Guarantee Fund (CGF) Investment Criteria*

During 2004, an investment criteria for the CGF account was drafted. The criteria explored possible means for earning good returns on the Fund. This was prompted by the need to grow the Fund and provide financial back up in capacity building during the execution of the Rural Savings and Credit Groups scheme.

- *Public Awareness Campaigns*

During the year under review, the public was sensitised about the operation of the Rural Financial Intermediation policy in the country. Electronic media and the local radio stations were used to facilitate information. To facilitate countrywide outreach, print media in the local newspapers and public gatherings were used. In that regard, public gatherings in the Southern districts of Mohale's hoek and Mafeteng together with the mountain districts of Qacha's Nek, Thaba Tseka and Mokhotlong were done later in the year.

- *Drafting of the Memorandum of Understanding (MoU) between the Central Bank of Lesotho (CBL) and Non Governmental Organisations (NGOs)*

The first draft of the MoU between CBL and NGOs was done and dispatched to contracting parties for their comments. That was in anticipation of NGOs' participation in group training.

- *Invitation to bid for training*

Both indigenous and international NGOs were requested to bid for groups' training as prescribed under the scheme. In that effort, NGOs were asked to submit profiles that would serve in the accreditation process. Submission of profiles was duly done during the period under review.

- *Rural Savings Credit Groups (RSCGs) Steering Committee familiarisation visits*

As a means of facilitating appreciation of group activities for self sustenance, members of the Steering Committee undertook exposure visits to both Southern and Northern districts.

- *Business Plan guidance*

Ready groups that had satisfied eligibility criteria were given guidance on the preparation of a business plan. That was done with the view to assist the groups to provide the necessary information to banks for purposes of loan applications appraisal.

- *The Sesotho version of the Blueprint*

During the year under review, the first draft of the Sesotho Blueprint was done after a public outcry for a Sesotho version and the version is still under consideration.

- *Microfinance Reference Group*

Sustainability of services to the poor and improvement of the livelihood for the microfinance sector have been issues of major concern. During the period under review, ways and means of addressing these concerns were imperative and as a result, a Microfinance Reference Group that identified issues crucial to the sector was formed. CBL, therefore, formed part of this forum whose main task was to devise strategies for improving financial services for the poor and vulnerable communities.

- *Executive Committee meeting of the African Rural and Agricultural Credit Association (AFRACA)*

The Central Bank of Lesotho hosted the 14th General Assembly of AFRACA at RoseBank in South Africa. The venue for the meeting changed from Lesotho to South Africa due to infrastructural set up and the events on going in Lesotho at that time. A major achievement in the conference was the appointment of the CBL to the office of chairmanship of AFRACA for the next two years.

Development Finance

- *Export Finance and Insurance Scheme*

In pursuance of its efforts to facilitate financial intermediation between banks and the exporters as another form of contributing towards the creation of employment, so as to combat poverty, the central bank through its Development Finance Division continued to promote the Export Finance and Insurance Scheme throughout the country by holding meetings with business communities. In addition, advertisements were launched with both local newspapers and radio stations so as to reach as many potential exporters as possible.

During this period, under review three large scale exporters in the textile industry accessed the scheme to the tune of M15.0 million. Fifty per cent of this facility was guaranteed by the scheme for a period of twelve months.

Small scale indigenous exporters did not access the scheme. This is because they were unable to meet some of the conditions laid down by the scheme.

Portfolio Management

- *New Policy*

The Board approved the new Reserves Management Policy and Investment Guidelines aimed at improving the process of reserves management in March, 2004.

As a result of the new Policy, the Monetary and Exchange Policy Committee, which had previously sat to review reports on portfolio management on a weekly basis, was dissolved and two new committees, the Investment Committee and its technical arm the Investment Technical Committee, (ITC) were established.

The ITC is charged with the sole responsibility of overseeing the investment management function of the Bank and providing advice to the Investment Committee.

The major revisions to the Policy included the ranking of the objectives for holding the reserves, and the raising of the weight of the rand held from 30 per cent to 60 per cent of the reserves.

- *SWIFT Operations*

The Bank upgraded its SWIFT platform, the payments and settlements system, from protocol X.25 to SWIFTNet Fin technology. This ensured that the Bank remains efficient and effective in undertaking payments and settlements.

The level of reserves as at 31st December 2004 was recorded at M 2,949 million, compared with M 2,935 million that was recorded at the end of 2003.

Policy and Exchange Control

- *The Cross-Border Foreign Exchange Transactions New Reporting System Project*

In an effort to improve the liberalisation process towards the removal of exchange controls, the Bank undertook an initiative by joining other CMA member countries in the launching of a New Reporting System Project. The Project is intended to introduce a comprehensive data capturing of the inflows and outflows of information outside the boundaries of Lesotho.

The Project was launched early in March 2004 and was projected to be completed by August 2005.

- *Money Laundering*

As a member of the Eastern and South African Anti-Money Laundering Group (ESAMLG), Lesotho underwent a mutual evaluation during the months of June and July 2004.

The purpose of the evaluation was to ascertain whether the country complies with the international standards/requirements, based on the Financial Action Task Force (FATF) 40+9 recommendations in the fight against money laundering and financing of terrorism.

The assessment was successfully completed and the country awaits the report.

- *Capital Account Liberalisation*

The gradual relaxation of exchange controls in general, and of the capital account liberalization in particular, of the past few years have increased the threshold within which commercial banks, could execute transactions on behalf of their clients without reference to the Exchange Control Division of the Central Bank. As a result fewer applications were submitted for prior approval by the Central Bank in 2004. The total amount approved was M56.5 million covering loan repayments, current and capital transfers and dividends.

To complement the liberalization process the Bank embarked on the modernization of the exchange control legislation so that it could be more in tune with a liberalizing economy. To this end the Foreign Financial Transaction Bill was completed in 2004 and will be submitted to the government authorities in preparation for the legislative process.

The purpose of the new exchange control legislation was to move away from the old prohibitive regulatory framework. The characteristics of the new law would be a user friendly instrument that would portray Lesotho as a destination for foreign direct investment and other capital inflows.

During the second half of 2004 the Division undertook a partial on-site examination of the foreign exchange operations of Nedbank Lesotho. The purpose of the examination was to verify Nedbank's compliance with Exchange Control Regulations and Rulings with special emphasis on repatriation of export proceeds by its exporting clients. This examination resolved queries on outstanding export proceeds amounting to millions of maloti.

Securities Trading

Primary auctions continued to be conducted during the period under review. The table below shows a schedule of both the 91- and 182-day treasury bills auctioned:

The table shows that on average, the domestic interest rates in the Treasury bill market were 0.87 per cent above those in the same market in South Africa. In the previous year, the margin was 1.27 per cent. The table also shows that, unlike in the

Type of security	Auction date (2004)	Amount Offered (Million Maloti)	Amount issued (Million Maloti)	Discount rate	Rates in RSA
91-day T. bills	07 Jan.	200.00	92.00	9.01	7.56
182-day T. bills	14 Jan.	40.00	39.40	8.50	8.46
91-day T. bills	04 Feb.	100.00	99.99	9.01	7.56
91-day T. bills	03 Mar.	250.00	250.00	8.84	7.58
182-day T. bills	11 Mar.	20.00	19.60	8.10	7.76
91-day T. bills	07 Apr.	100.00	100.00	8.84	7.83
91-day T. bills	05 May	100.00	100.00	8.84	7.69
182-day T. bill	12 May	50.00	35.40	8.74	7.85
91-day T. bill	02 June	250.00	250.00	8.80	7.75
91-day T. bill	07 July	100.00	100.00	8.76	7.86
182-day T. bill	14 July	50.00	44.50	8.55	7.99
91-day T. bill	04 Aug.	100.00	100.00	8.44	7.87
91-day T. bill	01 Sept.	250.00	249.00	8.10	7.15
182-day T. bill	08 Sept.	20.00	19.80	7.70	7.05
91-day T. bill	06 Oct.	100.00	100.00	8.02	7.20
91-day T. bill	03 Nov.	100.00	100.00	7.90	7.41
182-day T. bill	10 Nov.	50.00	17.90	8.17	7.48
91-day T. bill	01 Dec.	250.00	250.00	7.86	7.33
CBL Reports					

previous year, no treasury bills were issued for fiscal purposes.

There were no repurchase transactions during the year. However, one commercial bank applied and was granted a Lombard (overnight) facility worth M17.4 million.

M0.11 million worth of treasury bills were disinvested prematurely during the year. All the transactions were concluded with the Central Bank. Collateral transactions worth M215.3 million were concluded during the year.

National Payment System

The modernisation and reform process of the Lesotho payment system continued during the year under review. Consultants were engaged for the business analysis and conceptual design phase of the Lesotho National Payment System (LNPS) project.

The project scope for the consultants covered the following main components:

1. Produce a high level architecture of the current payment system
2. Produce a high level architecture of the envisaged payment system
3. Identify strategies to be followed to align the current payment system with the one envisaged
4. Break down the strategies into implementable individual projects
5. Break down the conceptual design into business specifications

Based on the consultancy assignment, an expanded Vision Statement was produced and the final deliverables are:

1. Review of the current payment system: In large part, this reaffirmed the findings of the Stocktaking and Situational Analysis previously carried out by the LNPS Project team. It covered participants in the system, trading instruments, the infrastructure, Central Bank operations, cash management, cheques and debit clearing, funds transfer processes, card and ATM operations, Forex operations, CMA and Cross Border transactions, and risks and risk controls.

2. Envisaged Payment System: The purpose of this document is to produce a high level conceptual design of the envisaged payment and settlement system, detailing how the system will meet the objectives contained in the Vision document, and also ensuring compliance with the Bank for International Settlements (BIS) Core Principles for Systemically Important Payment Systems.

The document covers the expanded Vision Statement, the conceptual financial infrastructure, the high level business requirements (depicting the different envisaged payment streams, stakeholders, role players and the NPS structures), implementation strategies and projects, general approach to implementation, and projects to be implemented including the high level project schedule.

3. Business Process Model: This defines the end-to-end flow of payment instructions and depicts the integration of payment streams that will participate in the Lesotho NPS. It details functions of each payment stream and their part in the payment clearing and settlement process.

The rationale or philosophy that would be followed in the implementation of the strategies and projects would be to start with those payment reforms that give most benefit to the corporate clients and the economically active population, then move on to payment needs of the unbanked population. A high-level project schedule was prepared and this outlines the various projects and estimates of their duration. All in all, the bulk of the reform process will kick-off in 2005. The first project is the reform of the legal and regulatory framework, followed by the introduction of the RTGS system, then the Electronic Clearing House. It is expected that by 2008 about 80 per cent of the projects would have been implemented.

Research and Publications

The Bank continued to disseminate information on economic developments in Lesotho and internationally through its periodic publications such as the monthly Economic Reviews, Quarterly Reviews and the Annual Report. Research/policy papers were also undertaken with the view to advise the Government and the Board of Directors of the Bank. A paper on establishment of a Stock Exchange in Lesotho was prepared and presented to the Capital Market Steering Committee[1] and the Board of Directors of the Bank. In addition, the Bank initiated some research projects, which represented work-in-progress, during the review period. These included, amongst others, the development of monetary sector and inflation models for Lesotho; a paper on Poverty Analysis in Lesotho; surveys on transportation costs by Lesotho Residents in South Africa and migrant mineworkers. There was also progress on the private capital flows project, with technical assistance of the IMF.

Currency Management

Currency Management by the Central Bank of Lesotho included, inter alia, handling of bulk deposits and withdrawals by commercial banks, sorting of maloti notes and coins and the systematic issue of new and re-usable currency. It also included acceptance and onward repatriation of South African Rand Currency to South African Reserve Bank (Bloemfontein Branch) in accordance with the bi-lateral agreement between Lesotho and South Africa. Whilst the South African Currency enjoys legal tender status in Lesotho, the policy of Central Bank of Lesotho has been to promote use of Maloti Currency in the country and in

[1] This Committee was established by Government following the need for an organised capital market to facilitate the sale and purchases of shares in the economy. Hence, the role of this Committee is spearheading the development of the capital markets in Lesotho.

that regard, local commercial banks, have been urged, to issue Maloti to the Public and only in the event of need Rand Currency. The collected Rand Currency by commercial banks through deposits by the Public is to be deposited with Central Bank of Lesotho.

Currency Management Activities

- *Rand Deposits and Repatriation*

Comparative rand currency deposits by commercial banks which was repatriated to the SARB are shown in the table below:

Table 8

RAND REPATRIATION
(Million Rand)

	1999	2000	2001	2002	2003	2004
Rand Repatriation	211.5	233.7	237.2	182.8	149.8	321.4

The figure shows an increase of 114.6 % in 2004.

- *Maloti notes and coin issued*

Since the use of CPS 600 note processing Machine started in 1999, the reissuable notes have increased by 24.3 % as compared to 2003. Table 9 below shows the details:

Table 9

REISSUABLE NOTES
(Million Maloti)

	1999	2000	2001	2002	2003	2004
Rand Repatriation	535.2	680.6	567.7	676.0	771.7	959.0

- *Maloti notes and coins*

Maloti notes issued (both new and reissuable) showed a moderate increase of 9.2% in 2004 as compared to 2003. Table 10 gives the details below:

Table 10

MALOTI CURRENCY ISSUED
(Million Maloti)

	1999	2000	2001	2002	2003	2004
Rand Repatriation	149.6	173.0	187.9	223.8	235.5	257.2

- *Maloti Repatriation from South Africa*

Maloti Repatriation from South Africa has shown erratic movements in the past five years.

Table 11

MALOTI REPATRIATION FROM SOUTH AFRICA
(Million Rand)

	1999	2000	2001	2002	2003	2004
Rand Repatriation	133.4	193.6	231.9	218.2	270.8	223.8

Maloti repatriation from South Africa decreased by 17.4% compared to 2003 as shown in table 11.

Human Resource Management

- *Performance Management*

In its quest to manage performance and continuously improve its services, the Bank initiated a new approach to managing individual staff performance at all levels bank-wide. The newly approved system of performance management was implemented for the first time during 2004.

- *Creation of a New Division*

An Insurance Supervision Division has been newly created in the Supervision Department. The insurance supervision function was separated from other financial institutions supervision in order to pay closer attention to the insurance supervision function in the country.

- *Training and Development*

In its quest to develop a pool of qualified staff, the Bank has continued to support staff training and development by providing sponsorship for staff to embark on long term training in order to acquire the required qualification. This year 28 members pursued further studies on long term training studying at different levels, both on full time and part time basis. The break-down of study levels is as follows:

Postgraduate level	11
Graduate level	10
Other	07

- *Recruitment*

Following the transition in the Security Services Division which resulted in phasing out the Lesotho Defence Force personnel as sole providers of security in the Bank, the recruitment figures leapt significantly higher as compared to previous periods. The said Division alone recruited 28 members of staff to man various sections and units. They ranged from professional to sub-professional level. Additional to that, ten more new staff were recruited to fill vacant positions in various departments bank-wide. Recruitment by level for 2004 was as follows:-

Contract staff	02
Section Head Level	02
Professional level	08
Sub-professional	25
General Service	01

- *Separation from Service*

The 2004 separations occurred as follows:

Resignations

01 Executive Management
02 Professional staff
01 General service staff

- *Promotions*

During the year, most promotions occurred at professional level where seven holders of positions were promoted to Heads of Section. At a more senior level two Heads of Section were promoted to head the divisions. At other levels, four General services staff were promoted to supervisory positions.

- *Staff Welfare*

In response to the Government's call on people to know their status on HIV/AIDS, the Bank contracted the services of Population Services International (PSI) to counsel staff and engage them in the voluntary counselling and testing. Several members of staff participated in the campaign despite some scepticism due to 'fear' which still appeared to reign among some of them. However, the Bank intends to take further steps in the fight against HIV/AIDS.

- *Recreation*

The Lehakoe recreational centre comprising of gymnasium and clubhouse facilities became fully operational in October 2004. The Bank outsourced the management of the centre to a local company. Members of staff are fully using the facility as much as members of the general public do.

- *Social Activities*

The Bank, together with other Central Banks in the region continues to support the annual social and sporting events and interchanging of venues. In 2004, such event was hosted by Banco de Mocambique in Maputo.

- *Community Work*

Staff, through the Staff Association Committee planted trees in cooperation with the rural community at Nyakosoba situated in the outskirts of the city. This is seen as a vital role played by the Bank in response to the Government's call to the nation to prevent soil erosion and contribute towards combating the negative effects on the environment.

BANK INFORMATION

Status:	Statutory body duly constituted in terms of the Central Bank of Lesotho Act No.2 of 2000
Registered address:	Cnr Airport & Moshoeshoe Roads Maseru 100 Lesotho
Postal address:	P.O. Box 1184 Maseru 100 Lesotho
Auditors:	Sheeran & Associates Chartered accountants (Lesotho) Assisted by PricewaterhouseCoopers Inc.
Attorneys:	In-house Legal Counsel

CONTENTS

During the reporting period, the full complement of the Board of Directors comprising of three executive and five non-executive Directors was in place. The Board held six ordinary meetings as required in terms of Section 13(2) of the Central Bank of Lesotho Act No. 2 of 2000 and four special meetings. The Audit Committee continued to oversee the financial interests,, internal controls and external audit issues, amongst others, on behalf of the Board. The Committee rendered its oversight through four ordinary and six special meetings. The majority of the special meetings were in consideration of external audit issues for the accounts of the Bank for the financial year ending 31 December 2003 and budget preparations for the financial year 2005.

Over and above the supportive role played by the Audit Committee to the Board of Directors, the Bank established a Remuneration Committee during the month of April 2004. The Remuneration Committee comprises of three non-executive Directors with one of them being the Chairperson of the Committee. The introduction of the Committee in the Bank further enhances the extent to which conflicts of interest are avoided and ensures that the best interests of the Bank prevails at all times.

In further pursuing the corporate governance precepts of accountability and transparency, the Bank established a Monetary Policy Committee ("MPC"). The Committee consists of all executive Director's two non-executive Directors one of who is a person of recognised standing and experience in economics. Members from outside the ranks of the Bank include the Principal Secretary of the Ministry of Finance and Development Planning and a representative of the business community. With regard to the social responsibility precept, the Bank committed funds in excess of M25 million to the health sector as an appreciation of the impact of its activities on the citizens of the Kingdom of Lesotho.

In the quest to conduct its business in an orderly and efficient manner, the Bank has in place operational frameworks that monitor and measure performance against goals. Primary of all the frameworks are work programmes that are developed each year by the operational unit ("Divisions") of the Bank.

During the development states of the Annual Work Programmes, a participatory approach, in terms of which middle and senior Management as well as representatives of staff members ("the Expanded Executive Committee") meet, is followed to consider the activities of each Division. Intrinsic in this approach is also the dissemination of knowledge about the operations of all the Divisions.

The Annual Work Programmes spell out the day-to-day activities of each Division geared towards the achievement of stated operational goals. Furthermore, responsibilities over each activity are assigned to individual staff members with expected outputs noted accordingly.

At the end of each quarter of the financial year, the Expanded Executive Committee considers progress reports of all the Divisions. During consideration thereof, performances are benchmarked against the Annual Work Programmes. The resultant report, which forms the basis of not only a performance appraisal system of individual staff members but also serves as an indicator on the conduct of the business of the Bank, is submitted for consideration by the Board of Directors.

In the context of corporate governance, the Annual Work Programmes are systems of accountability, which internally instil ownership of the Bank among staff members. From the perspective of the Board, the programmes facilitate the ability of Directors to better govern the Bank, enhance corporate accountability and the attainment of the objective of the Bank provided in Section 5 of the Central Bank of Lesotho Act No. 2 of 2000 as "... to achieve and maintain price stability. ..."

A.L. Ramone
Secretary to the Board

The Directors are responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and the related information. The auditors are responsible for reporting on the fair presentation of the financial statements. The financial statements presented on pages 34 - 60 have been prepared in accordance with International Accounting Standards (IAS) in all material respects as applicable to Central Banks, and in the manner required by the Central Bank of Lesotho Act, No. 2 of 2000.

The Directors are also responsible for the Bank's systems of internal financial control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of the assets, and to prevent and detect mis-statement and loss. Nothing has come to the attention of the Directors to indicate that any material break-down in the functioning in these controls, procedures and systems has occurred during the year under review.

The financial statements have been prepared on the going concern basis, since the Directors have every reason to believe that the Bank has adequate resources in place to continue in operation for the foreseeable future.

The financial statements were approved by the Board of Directors on 30 March 2005 and are signed on its behalf by:

E.M. Matekane
Governor

E.K. Molemohi
Director

REPORT OF THE INDEPENDENT AUDITORS

TO THE MINISTER OF FINANCE

We have audited the financial statements of the Central Bank of Lesotho set out on pages 34 to 60 for the year ended 31 December 2004. These annual financial statements are the responsibility of the Bank's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with International Auditing Standards and Guidelines as adopted by the Lesotho Institute of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures included in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion the financial statements fairly present, in all material respects, the financial position of the Bank at 31 December 2004 and the results of its operations and cash flows for the year then ended in accordance with International Accounting Standards as adopted by the Lesotho Institute of Accountants, and in a manner required by the Central Bank of Lesotho Act, No. 2 of 2000.

Sheeran and Associates
Chartered Accountants and Auditors (Lesotho)
Private Bag A420
Maseru 100
Lesotho

30 March 2005

PricewaterhouseCoopers Inc.
Registered Accountants and Auditors
Chartered Accountants (S.A.)
PO Box 818
Bloemfontein 9300

30 March 2005

The Directors present their annual report, which forms part of the audited financial statements of the Bank, for the year ended 31 December 2004. The financial statements are expressed in Maloti, the national currency of Lesotho.

Nature of business

The Central Bank of Lesotho is regulated in terms of an Act of Parliament. In terms of this Act, the Bank's primary objective is the achievement and maintenance of price stability in Lesotho.

Financial results

The financial results of the Bank are set out in the income statement on page 41. The residual profits after appropriations have been made to the general and other reserves, are paid over to the Government of Lesotho's Consolidated Fund as dividends in accordance with Section 21 of the Central Bank of Lesotho Act No. 2 of 2000. These appropriations have been fully disclosed in the statement of changes in equity on page 42 - 43.

Dividends

Dividends paid to the Government of Lesotho's Consolidated Fund in terms of Section 21 (5) of the Central Bank of Lestho Act No. 2 of 2000 are set out in the statement of changes in equity.

Share capital

There were no changes in the Bank's authorised and issued share capital during the year under review. The entire issued share capital is held by the Government of Lesotho.

Directors

Director	Date of appointment	Position held
Matekane E.M.	September 2001	Governor and Chairman
Molapo P [1].	October 2001	Deputy Governor I
Foulo T.	November 2000	Deputy Governor II
Molemohi E.K.	March 2001	Non-executive director
Monaheng G.T.	March 2002	Non-executive director
Moiloa M.	March 2002	Non-executive director
Baffoe F. [2]	March 2001	Non-executive director
Chimombe T.	March 2002	Non-executive director
Makhetha P.M. [3]	October 2004	Non-executive director

Secretary
Ramone A.L. July 1998 Secretary to the Board

1. Term expired on 31 July 2004
2. Term expired on 29 February 2004
3. Appointed on 18 October 2004

Events subsequent to balance sheet date

The Directors are not aware of any material fact or circumstance, which is necessary for the appreciation of the financial statements, which may have occurred between the end of the financial year and the date of this report.

Auditors

Sheeran & Associates (Chartered Accountants) Lesotho, in association with PricewaterhouseCoopers Inc. carried out the statutory audit of the Bank.

E.M. Matekane
Governor

E.K. Molemohi
Director

CENTRAL BANK OF LESOTHO
BALANCE SHEET

as at 31 December 2004

	Notes	2004 M '000	2003 M '000
ASSETS			
Cash and Balances with Banks	2	2 410 035	2 546 633
Treasury bills	3	603 443	426 081
IMF Subscription account	4	349 041	340 993
IMF Holding of Special Drawing Rights	5	4 011	4 118
IMF funded PRGF advances	6	245 031	174 674
Lesotho Government securities	7	33	45
Deferred currency expenses	8	582	1 163
Property, plant and equipment	9	144 796	134 696
Deferred Tax Asset	10	2 382	-
Other assets	11	81 525	29 322
TOTAL ASSETS		3 480 879	3 657 725
LIABILITIES AND EQUITY			
LIABILITIES			
Notes and coins issued	12	256 934	234 992
Deposits	13	449 644	367 838
Lesotho Government deposits		1 313 450	1 195 323
IMF Maloti Currency holding	14	313 516	306 393
Allocation of Special Drawing Rights	15	37 395	36 532
IMF - PRGF facility	16	245 031	174 674
Taxation liabilities	17	7 935	4 487
Due to Government of Lesotho's Consolidated Fund	18	41 748	35 653
Internal provisions and accruals		51 469	22 769
TOTAL LIABILITIES		2 717 122	2 378 661
EQUITY			
Share capital	19	25 000	25 000
General Reserve		72 330	54 816
Other reserves		1 026 427	1 199 248
TOTAL EQUITY		1 123 757	1 279 064
TOTAL LIABILITIES AND EQUITY		3 840 879	3 657 725

CENTRAL BANK OF LESOTHO

INCOME STATEMENT for the year ended 31 December 2004

	Notes	2004 M '000	2003 M '000
Revenue			
Interest income	20	152 596	141 619
Interest expense	21	(1 420)	(2 173)
Net interest income		151 176	139 446
Other income	22	4 713	454
Total income		155 889	139 900
Operating costs		(61 444)	(53 493)
Personnel costs	23	(30 326)	(27 062)
Other operating costs	24	(31 118)	(26 431)
Profit before taxation		94 445	86 407
Taxation	25	(32 981)	(30 979)
Net profit for the year after taxation		61 464	55 428

CENTRAL BANK OF LESOTHO
STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2004

	Accumulated Profit M '000	Share Capital M '000	General Reserve M '000	Rand Compensatory Reserve M '000	SDR Revaluation Reserve M '000	Foreign Revauation Reserve M '000	Property Revaluation Reserve M '000	Special Reserve M '000	TOTAL M '000
Balance at 1 January 2003	-	25 000	45 578	135 648	11 233	1 428 951	29 376	25 388	1 701 174
Profit after tax	55 428	-	-	-	-	-	-	-	55 428
Transfer to reserves	(9 238)	-	9 238	-	-	-	-	-	-
Interim dividend paid	(10 539	-	-	-	-	-	-	-	(10 539)
Final dividend payable	(35 651)	-	-	-	-	-	-	-	(35 651)
Rand compensatory receipts	-	-	-	16 501	-	-	-	-	16 501
Exchange profit/(loss)	-	-	-	-	14 662	(462 511)	-	-	(447 849)
Balance at 31 December 2003	-	25 000	54 816	152 149	25 895	966 440	29 376	25 388	1 279 064
Profit after tax	61 464	-	-	-	-	-	-	-	61 464
Transfer to reserves	(10 244)	-	10 244	-	-	-	-	-	-
Prior year adjustment	-	-	7 270	-	-	-	-	-	7 270
Interim dividend paid	(9 472)	-	-	-	-	-	-	-	(9 472)
Final dividend payable	(41 748)	-	-	-	-	-	-	-	(41 748)
Rand compensatory receipts	-	-	-	16 068	-	-	-	-	16 068
Transfer from Special Reserves	-	-	-	-	-	-	-	(25 388)	(25 388)
Exchange (loss)/profit	-	-	-	-	(7)	(163 494)	-	-	(163 501)
Balance at 31 December 2004	-	25 000	72 330	168 217	25 888	802 946	29 376	-	1 123 737
			*	*	*	*	*	*	

* = Total Other Reserves R1 026 427

Explanatory notes

General Reserve

The General Reserve has been appropriated in terms of Section 21(2)(a) of the Central Bank of Lesotho Act No. 2 of 2000.

Dividends

The residual amounts after transfers to General Reserve are paid as dividends to the Government of Lesotho's Consolidated Fund in terms of Section 21(3) of the Central Bank of Lesotho Act of 2000.

Rand Compensatory Reserve

The Rand Compensatory Reserve represents amounts received by the Central Bank from the Government of Lesotho, being the Bank's share of the Rand Compensatory payments received by the Government, in terms of the Multilateral Monetary Agreement between the Government of Namibia, Swaziland, Lesotho and the Republic of South Africa. The Government has directed that this amount be treated as a reserve.

Foreign Exchange Revaluation Reserve Account

In terms of Section 54 of the Central Bank of Lesotho Act No. 2 of 2000, the gains and losses arising from any changes in the valuation of the Bank's assets or liabilities in, or denominated in, gold or foreign currencies, or Special Drawing Rights as a result of changes in the exchange rate for the Maloti or of any change in the values, parities or exchange rates of such assets with respect to the Maloti shall be carried to a special account called the Revaluation Reserve Account. The profits or losses arising from such change shall not be included in the computation of the annual profits and losses of the Bank.

CASH FLOW STATEMENT

for the year ended 31 December 2004

	Notes	2004 M '000	2003 M '000
Cash flow from operating activities			
Cash flow from operating activities	26	134 106	(327 719)
Taxation paid	17	(31 915)	(64 120)
Rand compensatory receipts		16 068	16 500
Payment to Government of Lesotho Consolidated Fund	18	(45 125)	(64 416)
Net cash flow from / (utilised by) operations		73 134	(439 755)
Cash flow from investment activities			
Additions to property and equipment		(16 248)	(21 878)
Proceeds from sale of fixed assets		89	-
Increase in other assets	11	(38 163)	612
Net decrease in local investments	7	12	2 231
Net decrease in foreign investments	3	(177 362)	428 628
Deferred currency expenditure	8	-	(1 744)
Purchase and disposal of foreign exchange	2	136 597	19 997
Net cash flow from investment activities		(95 075)	427 846
Cash flow from financing activities			
Notes and coins issued	12	21 941	11 909
Net cash flow from financing activities		21 941	11 909
Net increase in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the year		-	-
Cash and cash equivalents at the end of the year	2	-	-

1 Accounting Policies

The following are the principal accounting policies adopted in the preparation of the financial statements of the Bank. The policies are consistent with those used in previous years.

1.1 Basis of presentation

These financial statements have been prepared on the historical cost basis, except for certain fixed assets which were revalued and certain financial instruments which are stated at fair value.The financial statements comply with the requirements of International Accounting Standards, as applicable to Central Banks in all material respects and in the manner required by the Central Bank of Lesotho Act 2000.

Where necessary, comparatives have been restated or reclassified for disclosure purposes.

1.2 Revenue Recognition

Interest income is recognised on an accrual basis by applying the effective rates on the assets invested in, over the periods to maturity.

Rental income is recognised on an accrual basis.

1.3 Expenses

Expenses are recognised on an accruals basis.

1.4 Liabilities and provisions

Liabilities, including provisions, are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. No liability is recognised where the Bank has a possible obligation arising from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within its control. In such cases, a contingent liability is disclosed.

Employee entitlements to gratuities and other service benefits are recognised as they accrue. Provisions are made for the estimated liability for gratuities and other service benefits accrued for services rendered up to the balance sheet date.

1.5 Foreign currency translation

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised and transferred to Revaluation Reserve account in compliance with Section 54 of the Central Bank of Lesotho Act No. 2 of 2000.

1.6 Cash and cash equivalents

For purposes of the cash flow statement, cash and cash equivalents comprise of balances with local, South African and overseas banks, as well as bank notes and coins on hand.

1.7 Financial assets and liabilities

Financial assets and liabilities carried on the balance sheet exclude fixed assets, taxation and intangible assets.

Financial assets and liabilities are initially measured at cost, which includes transaction costs. Subsequent to initial recognition these instruments are measured as set out below.

Cash and cash equivalents and local and foreign balances with banks are all stated at cost, converted to the local currency at year-end rates.

Investments in the United States (US) and Lesotho Government treasury bills are stated at fair values, which approximate their amortised cost due to their short term maturities.

Invesments in US Government treasury bills are held to maturity, and as such are carried at amortised cost.

Although the Bank does not yet use fair value accounting, the fair values of all the above instruments do not differ materially from their year-end carrying values.

1.8 Property, plant and equipment

Property and equipment comprise of owner occupied properties and equipment held for use in the supply of services or for the bank's administrative purpose. These are all initially recorded at cost. Properties under development are reflected at cost.

Subsequent to initial recognition, property and equipment are reflected at a valuation based on open-market fair value as determined every three years by independent professional valuers, less accumulated depreciation.

Unrealised surpluses or deficits arising on revaluation of property and equipment are transferred to a revaluation reserve account.

The most recent independent valuation was performed at 31 December 2000.

Property and equipment are depreciated on a straight line basis at rates which are calculated to reduce the carrying values of these assets to estimated residual values over their expected remaining useful lives at the following rates:

Fixed Assets	Rates
Buildings	1.5%
Motor Vehicles	25%
Computers	20%
Office Equipment	20%
Housing Equipment	20%
Housing Furniture	10%
Office Furniture	10%
Security Equipment	20%
Sporting Equipment	20%

Buildings in progress are not depreciated until they are put into use.

1.9 Taxation

The bank became liable to normal income tax on its profits with effect from 1 April 1989. The charge for current year taxation is based on the results for the year, adjusted for items which are non - assessable or disallowed. It is calculated using tax rates enacted as at balance sheet date and any adjustments for taxation payable on previous year assessments.

Deferred tax is provided on the liability method based on temporary differences arising due to differences in the treatment of certain items for tax and accounting purposes. Deferred tax is charged to the income statement except where it relates to transactions recognised directly through equity. A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which it can be utilised.

1.10 Deferred Currency expenditure

Expenditure incurred in connection with printing, minting and issue of Maloti Notes and Coin is amortised over a period of 3 years. The appropriateness of this amortisation period is reviewed from time to time by the directors.

1.11 Retirement and terminal benefits

The Bank participates in a multi employer defined benefit pension plan, the assets of which are held in a separate trustee administered fund. The pension plan is funded by payments from employees and the employees taking into account the recommendations on independent qualified actuaries.

The pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement to spread the regular costs over the service lives of employees in accordance with the advice of qualified actuaries who carry out a full valuation of the plan every three years. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates of government securities that have terms to maturity approximately equal to the terms of the related liability.

All unrealised actuarial gains and losses are spread forward over the average remaining service lives of employees.

	2004 M '000	2003 M '000
2 Cash and Balances with Banks		
Foreign Cash	185	378
Rand Currency Holding	35 736	25 946
ZAR Coins Holding	126	416
ZAR Notes Holding	35 610	25 530
Balances with banks	2 374 114	2 520 309
Current and Call Accounts		
Overseas Banks	214 640	435 079
Lesotho Banks	4 082	-
South African Banks	309 999	467 628
Total current and call accounts	528 721	902 707
Fixed deposits		
Overseas Banks	665 393	1 157 602
South African Banks	1 180 000	460 000
Total fixed deposits	1 845 393	1 617 602
Cash and cash equivalents		
Cash and cash equivalents	-	-
	2 410 035	2 546 633

Notes and coins held by the Bank as cash on hand at the end of the financial year have been netted off against the liability for notes and coins in circulation because it does not represent currency in circulation.

	2004 M '000	2003 M '000
3 Treasury Bills		
US Treasury bills at fair value		
Maturing within 1 month	169 114	196 875
Maturing within 1 to 3 months	196 928	229 206
ZAR Treasury bills at fair value		
Maturing within 1 month	107 469	-
Maturning within 1 to 3 months	129 932	-
	603 443	426 081
The movements in investments are:		
Opening carrying amount	426 081	854 709
Additions	1 999 410	1 852 200
Disposals	(1 822 048)	(2 116 800)
Exchange revaluation	-	(164 028)
Closing carrying amount	603 443	426 081

Treasury bills are debt securities issued by the US treasury department for a term of three months, six months or a year. All bills are subject to variable/fixed interest rate risk.

	2004 M '000	2003 M '000
4. IMF Subscription Account		
Balance at beginning of year	256 440	496 185
Value adjustments during the year	7 232	(139 439)
Exchange revaluation	85 369	(15 753)
	349 041	340 993

The Lesotho Government Quota in the International Monetarty Fund is SDR 34,900,000. The local currency equivalent of the subscription account at balance sheet date is converted at the rate of 0.0999877 (2003: 0.102348).

	2004 M '000	2003 M '000
5 Holding of Special Drawing Rights		
Balance at 1 January	4 118	6 273
Net transactions	(204)	(202)
Exchange revaluation	97	(1 953)
Balance at 31 December	4 011	4 118

The value of SDR401081 allocated by the International Monetary Fund less utilisation was converted at 0.0999877 (2003: SDR421,522 at 0.102,348)

	2004 M '000	2003 M '000

6 IMF funded PRGF advances

	2004	2003
Balance at 1 January	174 674	83 936
Disbursed during the year	68 750	38 837
Ministry of Finance trance	-	42 456
Paid during the year	(3 743)	-
Exchange revaluation	5 352	9 445
Balance at 31 December	245 032	174 674

These are funds secured under the IMF Poverty Reduction and Growth Facility and on-lent through the Government of Lesotho. The SDR equivalents and translation thereof are shown in note 15.

7 Lesotho Government Securities

	2004	2003
Maturing within 1 month	7	45
Maturing within 1 to 3 months	4	-
Maturing within 3 to 6 months	22	-
Total treasury bills stated at fair value	33	45

Treasury bills are debt securities issued by the Lesotho Treasury Department for a term of three months, six months or a year. All bills are subject to fixed interest rate risk and they are held to maturity.

8 Deferred currency expenditure (notes and coin)

	2004	2003
Balance at 1 January	1 163	3 411
Expenditure during the year	-	1 744
Amortised during the year	(581)	(3 992)
Balance at 31 December	582	1 163

Expenditure incurred in connection with printing, minting and issue of Maloti notes and coin is amortised over three years.

9. Property, Plant and Equipment

	CBL Building M'000	Residential Building M'000	Lehakoe Building M'000	Agric Bank Building M'000	Motor Vehicles M'000	Office Computer M'000	Office Comp Lehakoe M'000	Office Equipment M'000	Housing Equipment M'000	Security Equipment M'000	Sports/Music Equipment M'000	Lehakoe Furniture M'000	Office Furniture M'000	Housing Furniture M'000	TOTAL M'000
Cost/Valuation															
At 31:12:2004	47 340	3 531	68 698	-	1 491	4 883	-	8 546	100	801	6 484	-	2 996	282	145 152
Additions	14	-	1 127	13 000	1 039	606	-	190	-	40	5	-	191	36	16 248
Disposals	-	-	-	-	(89)	(200)	-	(71)	-	-	-	-	(6)	-	(366)
Transfers	-	-	888	-	-	-	152	-	-	-	(3 688)	2648	-	-	-
At 31.12.2004	47 354	3 531	70 713	13 000	2 441	5 289	152	8 665	100	841	2 801	2648	3 181	318	161 034
Accumulated Depreciation															
At 31.12.2003	2118	159	-	-	1 086	2 309	-	3 556	60	212	51	-	820	84	10 455
On Disposal	-	-	-	-	(85)	(151)	-	-	-	-	-	-	(45)	-	(281)
For the year	710	53	945	-	407	953	-	1 719	20	170	498	243	317	29	6 054
At 31.12.2003	2 828	212	945	-	1 408	3 111	-	5 275	80	382	549	243	1092	113	16 238
Net carrying value															
At 31.12.2003	45 222	3 372	68 698	-	405	2574	-	4 990	40	589	6 433	-	2 176	198	134 696
At 31.12.2004	44 526	3 319	69 768	13000	1 033	2 178	152	3 390	20	459	2 252	2 405	2 089	205	144 796

	2004 M '000	2003 M '000

9.1 Property, Plant & Equipment regarding Kotulo

Included under property is a property held by the Kotulo Properties (Pty) Ltd to the value of M13-million. This company was formed by the Bank specifically to own the property of the liquidated Lesotho Agricultural Development Bank that the Government of Lesotho allocated to the Bank for the purpose of providing office space for another commercial bank to enter the financial market in Lesotho.

The shareholders of Kotulo (Pty) Ltd are holding the shares on behalf of the Bank and therefore the property and accompanying rent collected are included in the financial statements of the Bank.

The Bank plans to dispose of the property as soon as possible.

10 Deferred taxation

	2004 M '000	2003 M '000
Balance at 1 January	-	789
Arising/(Reversing) in current year	1 149	(789)
Arising due to IAS 39	1 233	-
Balance at 31 December	2 382	-

11. Other assets

	2004 M '000	2003 M '000
Cheques for collection and uncleared items	43 518	3 574
Claims on staff	12 687	14 957
Other Prepayments	495	531
Other Claims	2 081	1 556
	58 781	20 618
Accrued Interest Receivable:		
Due from banks		
ZAR Call Accounts	(12)	16
ZAR Fixed Deposit Accounts	21 588	6 688
Non ZAR Call Accounts	294	2
Non ZAR Fixed Deposit Accounts	874	1 998
	81 525	29 322

	2004 M '000	2003 M '000
12. Notes and coins issued		
Notes	247 585	225 588
Coins	9 349	9 404
	256 934	234 992

The Bilateral Monetary agreement between the Government of the Republic of South Africa and the Government of the Kingdom of Lesotho states that both Rand currency issued by the South African Reserve Bank and Maloti currency issued by the Central Bank of Lesotho are legal tender within Lesotho and are convertible at par.

Notes and coins held by the Bank as cash on hand at the end of the financial year have been netted off against the liability for notes and coins in circulation because it does not represent currency in circulation.

	2004 M '000	2003 M '000
13. Deposits		
Deposits from Banks - Non-interest bearing		
Bankers	210 665	185 157
Other Deposits - Non-interest bearing		
International Institutions	2 257	2 257
Parastatals and others	225 525	170 048
Other Deposits - Interest bearing		
Staff call account	11 197	10 376
Total other deposits	238 979	182 681
Total other deposits	449 644	367 838
14. IMF Maloti currency holding		
Securities account	234 937	227 704
General resources accounts	78 579	78 689
	313 516	306 393

		2004 M '000	2003 M '000
15	IMF Special Drawing Rights allocation		
	Balance at 1 January	36 532	53 169
	Revaluation	863	(16 637)
	Balance at 31 December	37 395	36 532

Lesotho's allocation by IMF of SDR3,739,000 converted at 0.0999877 (2003: 0.102348)

		2004 M '000	2003 M '000
16	IMF-PRGF facilities		
	Balance at 1 January	174 674	83 936
	Drawn down during the year	68 750	38 837
	Ministry of Finance tranche	-	42 456
	Paid during the year	(3 743)	-
	Exchange revaluation	5 350	9 445
	Balance at 31 December	245 031	174 674

These IMF loans were secured under the Poverty Reduction and Growth no. 1 and no. 2 facilities. The Ministry of Finance tranche is now accounted for through the Bank's records to present the total amounts due to the IMF on a consolidated basis. The combined balance due to the IMF amounted to SDR 24,500,000 converted at 0.0999877 as at 31 December 2004. The loans have been on-lent as per note 6. Interest expense and exchange rate differences are borne by the Government of Lesotho.

		2004 M '000	2003 M '000
17	Taxation liabilities		
	Balance at 1 January	4 487	38 641
	Paid during the year	(4 487)	(38 641)
	Current year charge	34 223	29 966
	Prior year underprovision	1 140	-
	Provisional payments made	(27 428)	(25 479)
		7 935	4 487

	2004 M '000	2003 M '000
18 Due to Government of Lesotho's Consolidated Fund		
Balance at 1 January	35 653	53 877
Prior year final dividend paid in current year	(35 653)	(53 877)
Profit appropriations for the current year	51 220	46 192
Current year interim dividend paid	(9 472)	(10 539)
Balance due at 31 December	41 748	35 653
19 Share capital		
Authorised		
Authorised capital	100 000	100 000
Issued		
Issued and fully paid	25 000	25 000

The entire Issued share capital is held by the Government of Lesotho.

	2004 M '000	2003 M '000
20 Interest from		
Foreign Currency Deposits	140 324	133 253
Foreign Currency Investments	11 230	7 351
Government Securities	2	685
Staff loans	1 021	278
Other institutions	10	52
	152 596	141 619
21 Interest paid		
Parastatal and Governnment deposits	8	-
Local bank deposits	13	663
IMF SDR allocation account	620	681
Staff call account	779	829
	1 420	2 173
22. Other income includes		
Rent received	4 280	217
Other	433	237
	4 713	454

	2004 M '000	2003 M '000
23 Personnel costs		
Non-executive directors' fees	343	66
Executive directors' salaries	1 010	1 122
Staff salaries and expenses	25 876	22 947
Pension fund contributions	1 456	1 379
Gratuity and severance expenses	1 641	1 548
	30 326	27 062
24 Other Operating costs		
Administration and other expenses	20 356	15 764
Auditors' remuneration - current year	490	2
Deferred currency expenses amortised	581	3 992
Depreciation	6 064	3 844
Property expenses	3 627	2 829
	31 118	26 431
25 Tax		
Normal tax for the year	34 223	29 966
Prior year underprovision	1 140	1 802
Deferred tax / (reversal)	(2 382)	(789)
	32 981	30 979
Reconciliation of tax expense:		
Profit before tax	94 445	84 607
Tax calculated at a tax rate of 35% (2003: 35%)	33 056	29 612
Add:		
Donations	48	-
Severance pay provision	268	-
Training Expenses	787	-
Legal fees	6	17
Depreciation	2 122	-
50 % Entertainment	15	12
Deferred Currency	203	407
Less:		
Capital allowances	(1 242)	-
Disposal of Assets	(56)	-
Training expenses 125%	(984)	(82)
Income tax expense	34 223	29 966

		2004 M '000	2003 M '000
26	Cash utilised by operations		
	Reconciliation of profit before tax to cash generated from operations:		
	Profit before tax	94 445	84 607
	Adjustments for:		
	Depreciation	6 064	3 844
	Deferred currency expenses amortised	582	3 992
	Net loss on disposal of fixed assets	(5)	-
	Promissory note for Agricultural Bank Building	13 000	-
	Net cash generated by operating activities	114 086	92 443
	Changes in working capital:		
	Balances due from other banks and other debtors' accounts	(14 040)	2 938
	Deposit accounts	199 935	18 425
	Creditors and other liability accounts	15 700	5 090
	Decrease/(increase) in IMF Maloti Currency holding	7 123	(139 477)
	Exchange rate fluctuations	(163 501)	(447 848)
	Changes in IMF Subscription account	(8 049)	155 192
	Changes in Special Drawing Rights holding account	107	2 155
	Changes in Special Drawing Rights allocation account	863	(16 637)
	General Reserve Adjustments	7 270	-
	Changes in Financing Activities	(25 388)	-
	Cash utilised by changes in working capital	20 020	(420 162)
	Cash utilised by operating activities	134 106	(327 719)

27 Transfers directly to reserves

As outlined in the explanatory notes to the Statement of changes in Equity the net currency exchange gains and losses are taken directly to reserves in terms of Section 54 of the Central Bank of Lesotho Act No. 2 of 2000. Had the net currency exchange gains and losses been taken to the income statement in terms of International Accounting Standards, net income would have been reported as:

	2004	2003
Loss before taxation	(67 887)	(363 242)
Taxation and deferred taxation	(32 981)	(30 979)
Net loss for the year after taxation	(100 868)	(394 221)

	2004	2003
	M '000	M '000

28 Capital Commitments

There were no capital commitments at the end of 2004.

29 Post retirement obligations

The Bank contributes towards a post retirement pension scheme that covers all employees. This fund is a multi-employer plan and the assets and liabilities relating to the employees of the company cannot be separately determined. The pensions benefits are defined based on final salary and are fully funded. The assets of the fund are held in an independent trustee administered fund.

The fund is valued every three years using the projected unit credit method. The latest full actuarial valuation performed on 31 December 2002 showed the fund to be in surplus.

RISK MANAGEMENT STATEMENT

Risk is an inherent feature of the Bank's activities. The Bank is committed to managing these risks by applying appropriate structures, systems and procedures. These structures, systems and procedures evolve continuously in response to changes in the financial and economic environment in which the Bank operates.

Management structures

The organisational structure of the Bank is designed to ensure an appropriate allocation of responsibilities. This is supported by formal delegation of authority and segregation of duties to achieve sound internal controls.

Risk elements

The main risk elements in the Bank's activities are market price, credit, market liquidity, operational, human resource, legal and reputational risks. These are discussed below.

Market price risk

Market price risk is the risk of loss resulting from changes in market conditions and prices in its monetary policy operations, the Bank may be obliged to accept certain market-related risks, which would not be fully compatible with pure commercial practice.

The Bank manages its market risks responsibly utilising appropriate organisational structures and procedures. Exposures and limits are measured continuously and strategies are routinely reviewed by management on a regular basis.

The following table summarises the Bank's exposure to Foreign currency exchange rate fluctuations as at 31 December 2004.

Currency	Value of Currency	Exchange Rate	Maloti Equivalent M'000
Cash and Balances with Banks			
South Africa	1 527 573	1.0000	1 527 573
United States	67 646	5.6450	381 860
Botswana	98	1.3220	130
England	16 859	10.9001	183 760
European Union	40 399	7.6965	310 930
Switzerland	339	4.9821	1 690
Sweden	8	1.1732	9
Treasury Bills			
United States	64 844	5.6450	366 042
South Africa	237 401	1.0000	237 401

Market liquidity risk

Market liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments as they fall due.

The Bank maintains sufficient short term liquid funds to meet obligations or commitments as they fall due. It also has sufficient reserves to absorb losses arising from market fluctuations.

Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet its contractual obligations. Credit risk arises from advances to and deposits the Bank makes with other institutions, and the settlement of financial instruments.

Credit risk policies are formulated by a committee, which sets counterparty limits and security arrangements.

Operational risk

Operational risk is the risk of loss due to factors such as inadequate systems, management failure ineffective internal controls, fraud, human error or other external events.

The Bank addresses these risks through comprehensive internal controls, back-up facilities, contingency planning and regular internal audit reviews.

Human resource risk

The particular nature of the Bank's activities necessitates specialised knowledge in certain areas.

In order to ensure an adequate knowledge base at all times, the Bank invests significantly in staff training and succession planning for key personnel.

Legal risk

Legal risk arises from any uncertainty of enforceability, whether through legal or judicial processes, of the obligations of the Bank's counterparties.

The Bank minimises such uncertainties through continuous consultation with internal and external legal advisers to better understand the nature of such risks and to improve the documentation and structure of transactions.

In addition, the Bank has put in place procedures designed to ensure compliance with all statutory and regulatory requirements.

Reputational risk

The Bank's objectives of achieving and maintaining price stability in Lesotho exposes it to external scrutiny and possible criticism in the event of any failures.

The Bank adheres to best practice established in keeping with international standards and, to this end, it maintains close liaison with its regional peers.

The Bank also strives for full compliance with the Basel Core Principles for effective banking supervision.

TABLE OF CONTENTS FOR STATISTICAL APPENDIX

Table A1

GROSS DOMESTIC PRODUCT BY KIND OF ECONOMIC ACTIVITY
(1995 = 100)
Million Maloti

	1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004***
Primary Sector:	527.70	620.30	623.70	642.60	670.30	689.70	693.30	664.50	652.30	655.30
Agriculture	524.40	617.30	620.20	640.00	667.60	686.50	689.90	661.00	648.60	646.00
Mining & Quarrying	3.30	3.00	3.50	2.60	2.70	3.20	3.40	3.50	3.70	9.30
Secondary Sector:	1153.20	1258.90	1461.80	1289.00	1301.00	1370.40	1433.30	1529.90	1602.20	1673.60
Manufacturing	469.30	535.10	560.60	542.00	540.10	563.80	608.10	650.20	684.10	718.30
Electricity & Water	82.40	93.20	244.00	168.40	226.00	219.90	230.20	243.50	254.40	265.10
Building & Construction	601.50	630.60	657.20	578.60	534.90	586.70	595.00	636.20	663.70	690.20
Tertiary Sector:	1263.60	1344.60	1429.60	1448.20	1451.10	1438.20	1469.70	1501.90	1568.00	1628.50
Wholesale and Retail Trade	274.00	297.80	323.10	309.40	294.00	281.60	288.60	301.50	317.40	333.30
Catering	40.20	46.80	49.20	43.50	49.70	54.70	53.40	55.60	60.60	63.10
Trans. & Communication	117.70	122.30	137.40	131.00	137.90	144.20	153.20	160.00	168.30	176.30
Finance & Insurance	112.70	116.50	103.20	102.90	136.10	201.50	210.40	267.70	293.10	308.30
Real Estate & Bus. Serv.	59.60	59.30	79.90	69.70	61.50	59.00	55.40	60.40	59.70	60.30
Ownership of Dwellings	152.80	155.90	159.00	162.20	165.40	168.70	172.10	175.50	179.00	182.60
Public Administration	232.50	245.20	254.20	283.30	277.90	269.60	267.40	259.40	266.00	276.60
Education	274.00	281.30	298.60	307.40	313.10	316.00	330.10	337.60	355.90	377.30
Health	56.40	63.30	59.50	71.50	73.30	64.50	65.00	64.80	66.10	67.80
Other Services	40.20	40.40	41.00	41.50	42.10	42.70	43.20	43.80	44.40	45.00
Less: Imputed Bank Serv. Charg.	96.50	84.20	75.50	74.20	99.90	164.30	169.10	224.40	242.50	262.10
GDP at Factor Cost	2944.50	3223.80	3515.10	3379.80	3422.40	3498.30	3596.30	3696.30	3822.50	3957.40
Plus: Indirect taxes, Net	439.20	496.80	508.40	457.20	424.00	398.70	425.70	466.40	476.70	488.60
GDP at Market Prices	3383.70	3720.60	4023.50	3837.00	3846.40	3897.00	4022.00	4162.70	4299.20	4446.00

Source: Bureau of Statistics
* CBL Projections

Table A2

GROSS DOMESTIC PRODUCT BY KIND OF ECONOMIC ACTIVITY
(1995 = 100)
Percentage Changes

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004*
Primary Sector:	-4.30	17.55	0.55	3.03	4.31	2.89	0.52	-4.15	-1.84	0.46
Agriculture	-4.84	17.72	0.47	3.19	4.31	2.83	0.50	-4.19	-1.88	-0.40
Mining & Quarrying	1000.00	-9.09	16.67	-25.71	3.85	18.52	6.25	2.94	5.71	151.35
Secondary Sector:	7.80	9.17	16.12	-11.82	0.93	5.33	4.59	6.74	4.73	4.46
Manufacturing	7.05	14.02	4.77	-3.32	-0.35	4.39	7.86	6.92	5.21	5.00
Electricity & Water	11.05	13.11	161.80	-30.98	34.20	-2.70	4.68	5.78	4.48	4.21
Building & Construction	7.90	4.84	4.22	-11.96	-7.55	9.68	1.41	6.92	4.32	3.99
Tertiary Sector:	5.01	6.41	6.32	1.30	0.20	-0.89	2.19	2.19	4.40	3.86
Wholesale and Retail Trade	5.10	8.69	8.50	-4.24	-4.98	-4.22	2.49	4.47	5.27	5.01
Catering	20.72	16.42	5.13	-11.59	14.25	10.06	-2.38	4.12	8.99	4.13
Trans. & Communication	9.30	3.90	12.30	-4.66	5.27	4.57	6.24	4.44	5.19	4.75
Finance & Insurance	-22.86	3.37	-11.42	-0.29	32.26	48.05	4.42	27.23	9.49	5.19
Real Estate & Bus. Serv.	-9.28	-0.50	34.74	-12.77	-11.76	-4.07	-6.10	9.03	-1.16	1.01
Ownership of Dwellings	2.00	2.03	1.99	2.01	1.97	2.00	2.02	1.98	1.99	2.01
Public Administration	15.73	5.46	3.67	11.45	-1.91	-2.99	-0.82	-2.99	2.54	3.98
Education	5.71	2.66	6.15	2.95	1.85	0.93	4.46	2.27	5.42	6.01
Health	-6.31	12.23	-6.00	20.17	2.52	-12.01	0.78	-0.31	2.01	2.57
Other Services	-0.25	0.50	1.49	1.22	1.45	1.43	1.17	1.39	1.37	1.35
Less: Imputed Bank Serv. Charg.	-19.98	-12.75	-10.33	-1.72	34.64	64.46	2.92	32.70	8.07	8.08
GDP at Factor Cost	4.40	9.49	9.04	-3.85	1.26	2.22	2.80	2.78	3.41	3.53
Plus: Indirect taxes, Net	5.42	13.11	2.33	-10.07	-7.26	-5.97	6.77	9.56	2.21	2.50
GDP at Market Prices	4.53	9.96	8.14	-4.64	0.24	1.32	3.21	3.50	3.28	3.41

Source: Bureau of Statistics
* CBL Projections

Table A3

ESTIMATED AREA PLANTED AND SHARE HARVESTED
FOR THE MAIN CROPS
(Area planted in hectares; share harvested in percentage)

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04*
Maize										
Area planted	91928	155676	161813	98131	140800	170102	195037	145762	131025	129434
Share harvested	83.70	96.90	89.10	99.90	94.00	92.70	91.00	94.25	97.29	98.60
Sorghum										
Area planted	11048	43450	39578	13409	31952	27802	55082	30070	26442	29378
Share harvested	77.70	96.80	91.10	99.90	93.60	91.80	95.30	93.81	95.32	99.37
Wheat										
Area planted	22419	29600	20930	21249	12663	14284	20532	17486	15998	16032
Share harvested	76.70	75.00	98.90	99.90	98.90	89.90	97.21	95.36	98.57	97.92
Beans										
Area planted	6256	11315	16767	8835	12707	13948	15188	9788	12364	9261
Share harvested	58.10	88.50	84.60	84.60	91.60	81.50	81.43	73.98	90.33	92.53
Peas										
Area planted	4801	6743	4807	5553	4079	5123	6594	5463	3276	2710
Share harvested	78.00	65.40	93.90	99.90	94.20	86.30	95.27	82.17	91.97	93.94

Source: Bureau of Statistics
*Preliminary estimates

Table A4

ESTIMATED PRODUCTION (1)
AND AVERAGE YIELD (2)
OF MAIN CROPS - 1994/95 TO 2003/04

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04*
Maize										
Production	62.50	188.50	141.50	118.70	124.50	106.80	158.19	111.21	82.08	81.00
Yield	6.80	12.00	8.80	12.10	8.80	6.30	8.11	6.71	4.67	4.61
Sorghum										
Production	6.90	36.10	29.10	22.40	33.30	20.50	45.35	11.92	11.95	10.30
Yield	6.30	8.30	7.30	11.50	10.40	7.30	8.23	6.17	6.19	5.20
Wheat										
Production	10.60	31.30	33.60	26.90	15.40	23.20	37.41	18.96	13.11	11.65
Yield	4.70	10.60	16.10	12.70	12.10	16.20	18.22	13.67	9.45	8.27
Beans										
Production	4.50	6.60	14.20	8.20	9.30	14.30	7.86	4.36	3.70	4.83
Yield	7.10	5.80	8.50	9.30	3.70	10.30	5.18	3.89	3.30	4.30
Peas										
Production	1.10	4.00	3.40	3.80	3.00	2.80	3.67	3.04	3.04	1.50
Yield	2.30	5.90	7.10	6.90	7.30	5.50	5.57	4.18	4.18	1.40

Source: Bureau of Statistics
(1) Production of summer crops in thousand tons
(2) Average yield means output in 100kg per hectare
* Preliminary Etimates

Table A5

GROSS DOMESTIC PRODUCT BY KIND OF ECONOMIC ACTIVITY
(At Current Prices)
Million Maloti

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004*
Primary Sector:	527.70	664.00	689.90	791.10	877.90	1010.40	1096.50	1175.60	1319.60	1396.40
Agriculture	524.40	661.10	686.30	787.20	873.10	1002.80	1087.40	1165.60	1307.9	1365.60
Mining & Quarrying	3.30	2.90	3.60	3.90	4.80	7.60	9.10	10.00	11.70	30.80
Secondary Sector:	1153.20	1399.30	1778.70	1713.90	2071.40	2211.50	2477.90	2791.00	3007.90	3306.70
Manufacturing	469.30	585.00	683.90	775.60	823.20	909.40	1054.40	1353.00	1432.50	1582.30
Electricity & Water	82.40	123.70	313.70	225.30	322.30	317.80	367.20	347.10	360.90	395.60
Building & Construction	601.50	690.60	781.10	713.00	925.90	984.30	1056.30	1090.90	1214.50	1328.80
Tertiary Sector:	1263.60	1486.20	1730.80	1918.90	2085.60	2183.10	2397.00	2651.60	2998.80	3280.90
Wholesale and Retail Trade	274.00	325.70	394.30	408.10	425.40	490.30	545.10	636.60	770.80	851.40
Catering	40.20	51.10	58.60	56.30	69.00	80.40	83.90	102.20	146.70	160.80
Trans. & Communication	117.70	138.70	163.70	161.30	182.90	192.00	215.10	277.00	331.40	365.10
Finance & Insurance	112.70	127.70	126.10	130.90	152.30	257.80	269.10	345.80	383.40	424.30
Real Estate & Bus. Serv.	59.60	64.60	96.10	88.80	82.70	96.80	92.20	114.20	124.60	132.40
Ownership of Dwellings	152.80	168.50	175.00	186.30	190.00	193.80	251.90	257.00	262.10	281.20
Public Administration	232.50	271.00	326.10	408.20	450.00	452.80	476.10	490.40	534.10	584.30
Education	274.00	319.10	361.90	423.90	471.90	469.70	508.60	533.70	561.80	626.50
Health	56.40	68.70	73.50	98.80	113.10	102.20	108.70	113.40	122.40	132.00
Other Services	40.20	43.60	48.80	53.40	58.00	62.40	67.60	77.20	83.80	89.40
Less: Imputed Bank Serv. Charg.	96.50	92.50	93.30	97.10	109.70	215.10	221.30	295.90	322.30	366.50
GDP at Factor Cost	2944.50	3549.50	4199.40	4423.90	5034.90	5405.00	5971.40	6618.20	7326.30	7984.00
Plus: Indirect taxes, Net	439.20	504.20	520.10	496.80	530.00	558.50	621.80	750.70	817.30	881.30
GDP at Market Prices	3383.70	4053.70	4719.50	4920.70	5564.90	5963.50	6593.20	7368.90	8143.60	8865.30

Source: Bureau of Statistics
* CBL Projections

Table A6

SUPPLY AND DEMAND FOR RESOURCES

(At Current Prices)

Million Maloti

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004*
Supply										
GDP at Market Prices	3383.70	4053.70	4719.50	4920.70	5564.90	5963.50	6564.50	7368.90	8143.60	8865.30
Imports of Goods & Services	4066.10	4801.80	5287.60	5284.60	5275.60	5511.90	6458.30	8560.10	8535.40	8507.60
Total supply	7449.80	8855.50	10007.10	10205.30	10840.50	11475.40	13022.80	15929.00	16679.00	17372.90
Demand										
Consump. Expenditure	4682.50	5521.90	6199.40	6567.00	6810.90	7180.80	7636.90	8697.90	9135.70	10118.30
Gross Fixed Cap. Form.	2071.20	2360.20	2593.50	2411.00	2651.00	2657.10	2810.00	3254.60	3558.00	2535.90
Changes in Stocks	-24.30	7.80	-47.10	-93.40	56.20	-138.10	-171.10	-135.40	52.90	0.00
Exports of Goods & Services	720.40	965.60	1261.30	1320.70	1322.40	1775.60	2747.00	4112.90	3932.70	4718.70
Total Demand	7449.80	8855.50	10007.10	10205.30	10840.50	11475.40	13022.80	15930.00	16679.30	17372.90

Source: Bureau of Statistics
* CBL Projections

Table A7

INCOME AND OUTLAY ACCOUNT

(At Current Prices)

Million Maloti

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004*
Income										
Dom. Factor Incomes	2944.50	3549.50	4199.40	4423.90	5034.90	5405.00	5971.40	6618.20	7326.30	7984.00
Plus:Indirect taxes, Net	439.20	504.20	520.10	496.80	530.00	558.50	593.10	750.70	817.30	881.30
GDP at Market Prices	3383.70	4053.70	4719.50	4920.70	5564.90	5963.50	6564.50	7368.90	8143.60	8865.30
Factor Income from abroad, Net	1410.90	1421.50	1538.90	1384.90	1492.50	1522.30	1509.00	1698.10	1874.36	2087.10
Gross National Product	4794.60	5475.20	6258.40	6305.60	7057.40	7485.80	8073.50	9067.00	10017.96	10952.30
Transfers from abroad, Net	918.60	998.30	1137.90	967.30	998.10	1043.70	1284.80	1516.90	1283.56	1605.90
National Disposable Income	5713.20	6473.50	7396.30	7272.90	8055.50	8529.50	9358.30	10583.90	11301.50	12558.20
Outlay										
Consumption	4682.50	5521.90	6199.40	6567.00	6810.90	7180.80	7636.90	8697.90	9135.70	10118.30
Gross Saving	1030.70	951.60	1196.90	705.90	1244.60	1348.70	1717.60	1885.40	2352.20	2439.90
National Disposable Income	5713.20	6473.50	7396.30	7272.90	8055.50	8529.50	9358.30	10583.90	11301.50	12558.20
Saving ratio %	21.50	17.38	19.12	11.19	17.64	18.02	21.27	20.79	23.48	22.28

Source: Bureau of Statistics
* CBL Projections

Table A8

NUMBER OF BASOTHO MINEWORKERS EMPLOYED IN RSA

(and average earnings)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Average number employed	103744	101262	95913	80445	68604	64907	61412	62158	61415	57989
Change over previous year (%)	-7.96	-2.39	-5.28	-16.13	-14.72	-5.39	-5.38	1.21	-1.20	-5.58
Average earnings (1) Maloti	16801	19186	21193	24678	27657	30131	32030	35326	38513	42116
Change over previous year (%)	15.38	14.20	10.46	16.44	12.07	8.95	6.30	10.29	9.02	9.36

(1) Represents annual average earnings rate, including overtime, per mineworker, supplied by Chamber of Mines.

Table A9

LESOTHO CONSUMER PRICE INDICES

(All Urban Households)

April 1997= 100

Item	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
All Items	63.35	72.13	77.30	85.00	92.70	100.60	108.45	117.83	125.05	133.70
Food, Beverages & Tobacco	62.73	69.23	73.60	83.80	91.80	100.30	109.30	118.20	124.75	133.15
Clothing & Footwear	71.58	83.30	83.00	86.90	94.40	101.40	110.20	120.90	126.40	133.88
Water, Fuel & Power	50.13	54.70	79.88	79.83	88.15	99.95	106.35	109.98	115.55	129.63
Furniture & Household Equipment	67.58	78.03	80.00	85.00	93.50	101.10	109.30	122.30	130.80	139.08
Transport & Communication	63.28	68.98	82.70	83.20	96.80	101.00	103.90	111.00	125.88	141.50
Other Goods & Services	63.98	85.15	84.20	88.90	94.00	100.10	105.00	111.50	115.90	120.95
% Change from the previous year										
All Items	17.04	13.85	7.18	9.96	9.06	8.50	7.80	8.64	6.13	6.92
Food, Beverages & Tobacco	23.54	10.36	6.32	13.86	9.55	9.26	8.97	8.14	5.54	6.73
Clothing & Footwear	17.92	16.38	-0.36	4.70	8.63	7.42	8.68	9.71	4.55	5.91
Water, Fuel & Power	2.24	9.13	46.02	-0.06	10.43	13.39	6.40	3.41	5.07	12.18
Furniture & Household Equipment	11.97	15.46	2.53	6.25	10.00	8.13	8.11	11.89	6.95	6.33
Transport & Communication	2.97	9.01	19.90	0.60	16.35	4.34	2.87	6.83	13.40	12.41
Other Goods & Services	13.73	33.10	-1.12	5.58	5.74	6.49	4.90	6.19	3.95	4.36

Source: Bureau of Statistics, Lesotho

Table A10

LESOTHO CONSUMER PRICE INDICES
April 1997= 100

Item	2001	2002	2003	2004
All Items	135.21	150.10	161.33	169.43
Food and non-alcoholic beverages	132.78	166.10	173.84	181.24
Alcoholic beverages & Tobacco	147.20	157.59	173.33	189.25
Clothing & footwear	134.78	138.83	144.83	149.02
Housing, electricity gas & other fuels	130.78	142.91	155.93	164.49
Furniture, households equipment & routine maintenance of house	140.07	146.23	158.64	165.23
Health	129.46	131.18	135.80	140.55
Transport	143.58	155.39	166.30	177.01
Communication	100.80	100.70	131.75	151.83
Leisure, entertainment & Culture	124.45	132.33	144.92	152.16
Education	114.03	115.60	120.08	125.16
Restaurant & Hotels	149.25	172.64	194.43	199.90
Miscellaneous goods & services	126.42	133.61	145.48	151.73
% Change from the previous year				
All Items		11.01	7.48	5.02
Food and non-alcoholic beverages		25.10	4.66	4.26
Alcoholic beverages & Tobacco		7.06	9.99	9.18
Clothing & footwear		3.01	4.32	2.89
Housing, electricity gas & other fuels		9.27	9.11	5.49
Furniture, households equipment & routine maintenance of house		4.40	8.49	4.15
Health		1.33	3.52	3.50
Transport		8.23	7.02	6.44
Communication		-0.10	30.83	15.24
Leisure, entertainment & Culture		6.33	9.51	5.00
Education		1.37	3.88	4.23
Restaurant & Hotels		15.67	12.62	2.82
Miscellaneous goods & services		5.69	8.88	4.30

Source: Bureau of Statistics, Lesotho

Table A11

SUMMARY OF BALANCE OF PAYMENTS

(Million Maloti)

	1995	1996	1997	1998	1999	2000	2001	2002	2003+	2004*
I CURRENT ACCOUNT	-1174.43	-1350.63	-1295.69	-1413.72	-1349.40	-1083.76	-837.32	-1489.07	-1000.59	-419.35
Goods, Services and Income	-1936.28	-2154.82	-2227.37	-2255.89	-2252.43	-2019.87	-1990.18	-2766.79	-2284.15	-2025.21
a) GOODS	-2995.90	-3490.87	-3818.14	-3589.63	-3707.35	-3582.18	-3398.18	-4250.29	-3896.09	-3880.32
Merchandise Exports f.o.b.	580.57	812.13	903.98	1109.60	1054.09	1468.35	2425.97	3739.89	3557.37	4300.12
Merchandise Imports f.o.b.	-3576.47	-4303.00	-4722.12	-4699.23	-4761.44	-5050.53	-5824.15	-7990.18	-7453.46	-8180.44
b) SERVICES	-80.20	-86.86	46.69	-58.09	-38.51	-1.24	-99.72	-214.63	-262.42	-231.95
c) INCOME	1139.82	1422.91	1544.08	1391.83	1493.43	1563.55	1507.72	1698.13	1874.36	2087.06
Labour Income	1213.03	1390.21	1472.72	1409.56	1473.53	1553.81	1555.30	1712.81	1868.07	2027.53
Other	-73.21	32.70	71.36	-17.73	19.90	9.74	-47.58	-14.68	6.29	59.53
d) CURRENT TRANSFERS	761.85	804.19	931.68	842.17	903.03	936.11	1152.86	1277.72	1283.56	1605.86
Government, net	749.04	792.58	921.40	826.39	891.46	919.84	1121.82	1241.21	1221.41	1547.46
SACU Non-duty Receipts	599.52	682.62	804.25	709.84	792.76	803.22	1016.99	1097.22	1081.79	1394.61
Other	149.52	109.96	117.15	116.55	98.70	116.62	104.83	143.99	139.62	152.85
Other Sectors	12.81	11.61	10.28	15.78	11.57	16.27	31.04	36.51	62.15	58.40
II CAPITAL AND FINANCIAL ACCOUNT	1426.50	1699.85	1672.26	1595.84	922.70	762.18	924.57	1176.76	929.55	535.83
e) CAPITAL ACCOUNT	158.32	194.20	206.10	122.60	92.90	139.30	138.00	247.10	208.10	203.30
f) FINANCIAL ACCOUNT	1268.18	1505.65	1466.16	1473.24	829.80	622.88	786.57	929.66	721.45	332.53
Special Financing - LHWP	913.64	1107.40	1093.78	1303.13	798.23	608.12	772.23	595.70	552.26	467.47
III RESERVE ASSETS	-346.87	-487.40	-626.38	-589.10	-285.73	-92.00	-1637.18	1278.78	516.99	-10.61
IV ERRORS AND OMISSIONS (1)	94.80	138.18	249.81	406.98	140.98	413.47	1549.93	-966.47	445.95	-106.04
of which Valuation Adjustment	21.72	152.00	-3.61	303.26	-1.12	328.80	1510.20	-940.31	-446.76	-141.59

(1) Including Valuation Adjustments
+ Revised Estimates
* Preliminary Estimates

Table A12

VALUE OF EXPORTS BY S.I.T.C. SECTION

(Million Maloti)

	1995	1996	1997	1998	1999	2000	2001	2002	2003+	2004*
Food and Livestock	35.10	34.00	46.10	44.20	49.70	54.40	81.60	123.16	117.91	98.90
Beverages and Tobacco	1.60	0.40	0.10	38.50	94.00	63.90	72.60	94.86	96.45	100.00
Crude Materials,Inedible	34.60	31.60	29.20	19.70	17.80	37.50	60.10	64.61	90.28	27.80
Minerals and Related Products	0.50	0.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Chemicals and Related Products	6.90	20.80	16.60	7.10	4.90	6.50	18.60	45.53	49.28	24.60
Manufactured Goods (classified by material)	13.10	30.70	38.70	26.40	17.40	25.00	38.50	64.43	59.30	758.50
Machinery and Transport Equipment	66.50	113.60	139.80	167.60	111.70	173.30	254.50	371.37	373.84	272.20
Miscellaneous and Manufactured Goods	422.20	580.40	633.20	794.80	751.00	1104.69	1894.49	2962.24	2759.45	3002.80
Commodities	0.10	0.40	0.30	11.30	7.60	3.12	5.49	13.69	10.86	15.20
TOTAL	580.60	812.10	904.00	1109.60	1054.10	1468.41	2425.88	3739.89	3557.37	4300.00

Source: Bureau of Statistics and Customs Department

\+ Revised Estimates

* Preliminary Estimates

Table A13

DIRECTION OF TRADE - EXPORTS F.O.B.

(Million Maloti)

Region	1995	1996	1997	1998	1999	2000	2001	2002	2003+	2004*
World	580.50	812.10	904.00	1109.60	1054.10	1468.41	2426.00	3739.89	3557.33	4300.20
Africa	306.60	406.20	581.40	728.60	569.50	730.00	899.10	856.44	695.62	424.40
SACU	299.60	394.00	580.00	726.90	568.20	727.30	897.00	856.01	689.68	389.10
SADC #	5.40	12.20	1.40	1.70	1.30	2.66	0.00	0.27	0.23	0.00
Other	1.60	0.00	0.00	0.00	0.00	0.00	2.10	0.16	5.71	35.30
Europe	54.20	74.40	13.50	6.00	2.50	1.19	3.50	8.07	3.73	695.00
EU	53.70	74.10	13.20	5.90	2.40	1.19	3.50	7.75	3.73	692.00
Other	0.50	0.30	0.30	0.10	0.10	0.00	0.00	0.32	0.00	3.00
North America	218.30	331.10	308.40	373.00	480.60	736.50	1522.50	2874.58	2849.09	3168.60
Asia	1.40	0.40	0.70	1.60	0.30	0.72	0.90	0.80	8.89	12.20
Oceania	0.00	0.00	0.00	0.40	1.20	0.00	0.00	0.00	0.00	0.00

Source: Bereau of Statistics and Customs Department
+ Revised Estimates
* Preliminary Estimates

Table A14

DIRECTION OF TRADE - IMPORTS C.I.F.

(Million Maloti)

Region	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003+	2004*
World	3119.60	4014.70	4840.30	5253.40	5199.80	5287.80	5611.30	6399.76	8517.45	8415.93	9235.90
Africa	2568.50	3608.90	4505.80	4704.30	4615.70	4736.70	4876.90	5305.99	6270.25	7247.06	6828.00
SACU	2552.60	3605.20	4439.90	4687.00	4612.20	4734.10	4870.00	5296.60	6261.64	7238.50	6783.70
SADC #	10.80	1.30	2.70	1.80	0.80	1.70	6.60	6.43	7.04	4.08	38.20
Other	5.10	2.40	63.20	15.50	2.70	0.90	0.30	2.96	1.57	4.48	6.10
Europe	88.90	122.20	77.40	98.80	117.80	97.80	45.80	46.51	93.18	12.13	73.20
EU	84.90	87.10	63.50	87.90	103.60	82.70	42.70	44.53	82.50	10.76	70.40
Other	4.00	35.10	13.90	10.90	14.20	15.10	3.10	1.98	10.68	1.37	2.80
North America	48.50	38.80	27.50	52.50	70.10	50.00	104.80	41.72	53.35	15.09	97.50
Asia	407.10	244.50	229.20	394.90	372.20	372.40	526.00	953.33	2021.70	1109.67	2183.50
Oceania	6.60	0.30	0.40	2.90	24.00	30.90	57.80	52.21	78.97	31.98	53.70

Source: Bureau of Statistics and Customs Department
+ Revised Estimates
* Preliminary Estimates

Table A15

FOREIGN EXCHANGE RATES

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Botswana Pula	1.309	1.294	1.267	1.307	1.315	1.358	1.464	1.660	1.522	1.369
ECU / EURO	4.753	5.405	5.276	6.124	6.504	6.398	7.718	9.846	8.514	7.932
French Franc	0.727	0.835	0.798	0.928	1.019	0.965	0.856	0.659	0.716	0.829
German Mark	2.533	2.841	2.683	3.110	3.394	3.271	3.917	5.179	4.359	4.055
Japanese Yen	0.039	0.039	0.038	0.042	0.054	0.064	0.071	0.083	0.065	0.061
Saudi Riyal	0.969	1.140	1.247	1.464	1.624	1.851	2.281	2.804	2.011	1.691
SDR	5.504	6.211	6.408	7.433	8.353	9.137	10.790	13.492	10.575	6.415
Swidish Kronor	0.510	0.637	0.611	0.690	0.744	0.757	0.812	0.925	0.932	0.870
Swiss Franc	3.072	3.460	2.619	3.777	4.064	4.110	5.095	6.702	5.617	5.145
UK Pound	5.726	6.667	6.221	9.079	9.884	10.496	12.407	15.677	12.344	11.742
US Dollar	3.628	4.274	4.671	5.483	6.105	6.943	8.619	10.416	7.562	6.326
Zimbabwe Dollar	0.419	0.431	0.366	0.236	0.160	0.159	0.155	0.189	0.027	0.001

Loti per unit of foreign currency, annual average
EURO - from 1999

Table A16

BALANCE SHEET OF THE CENTRAL BANK OF LESOTHO

(Million Maloti:End of Period)

A - ASSETS

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
FOREIGN ASSETS	1802.01	2310.26	2929.82	3549.85	3349.33	3486.15	5136.94	3858.15	3341.14	3351.53
Cash and Balances	797.14	1455.89	2069.99	2425.22	1538.26	1211.91	3112.18	2590.78	2571.67	2437.03
Investments	274.30	412.24	628.78	611.93	1277.72	1769.47	1498.50	854.71	426.08	366.93
IMF Accounts	20.31	29.85	29.00	36.28	37.03	39.91	59.58	46.51	38.71	34.55
Holdings of SDRs	1.27	6.21	5.86	7.12	7.18	5.03	6.92	5.15	4.29	3.60
Reserve Tranche	19.04	23.64	23.14	29.15	29.85	34.88	52.66	41.36	34.42	30.95
Other Foreign Assets	710.26	412.27	202.05	476.42	496.31	464.87	466.68	366.15	304.69	513.03
CLAIMS ON GOVERNMENT	287.65	308.22	163.76	139.70	107.84	104.95	246.60	191.31	173.76	183.51
CLAIMS ON PRIVATE SECTOR	8.91	8.69	10.52	11.54	12.20	13.90	13.56	13.53	14.99	16.30
UNCLASSIFIED ASSETS	62.17	110.16	98.28	53.53	65.82	47.06	99.25	141.48	177.45	217.65
Fixed Assets	39.82	41.15	28.58	29.19	48.27	35.88	78.30	117.25	134.69	130.63
Other Assets	21.89	57.33	64.64	18.04	15.11	11.18	20.95	24.23	42.76	87.02
TOTAL	2160.74	2737.32	3202.37	3754.61	3535.18	3652.05	5496.35	4204.46	3707.34	3768.99

Note: From December 1998, Claims on Government includes IMF loans to Government

Table A16 *(continued)*

BALANCE SHHEET OF THE CENTRAL BANK OF LESOTHO

(Million Maloti:End of period)

B - L I A B I L I T I E S

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
FOREIGN LIABILITIES	261.78	292.62	264.26	283.56	368.13	369.97	509.86	646.75	488.00	497.01
IMF Deposits	116.08	128.31	124.13	138.57	256.25	281.67	317.41	445.87	306.39	313.52
IMF Accounts	140.00	158.10	133.88	138.30	105.23	84.04	180.57	189.04	173.71	183.48
Trust Fund Loans/ PRGF	98.25	120.48	113.05	127.08	102.68	84.04	180.57	189.04	173.71	183.48
Use of Fund Credit/SAF	41.75	37.62	20.83	11.21	2.55	0.00	0.00	0.00	0.00	0.00
Other Foreign Liabilities	5.70	6.21	6.26	6.69	6.65	4.25	11.89	11.84	7.89	0.02
RESERVE MONEY	312.16	336.83	381.00	528.38	703.93	646.90	293.27	338.81	364.93	379.40
Maloti in Circulation Outside CBL	97.97	107.04	111.24	153.40	148.71	172.56	187.51	223.08	234.99	256.93
Rand Notes and Coins	25.34	17.11	12.55	11.63	9.33	15.39	10.30	10.32	15.47	7.71
Bankers Deposits	188.85	212.68	257.21	363.35	545.89	458.95	95.45	105.41	114.47	114.76
DEPOSIT LIABILITIES	1367.86	1669.04	2070.77	2137.27	1615.99	1379.28	1708.45	1419.41	1432.93	1599.22
Government	1350.20	1659.51	2062.83	2125.53	1602.61	1356.40	1502.35	1257.31	1263.91	1411.84
Official Entities	14.05	5.92	3.32	5.55	5.47	15.19	195.33	151.33	158.36	175.9
Private Sector	3.61	3.60	4.61	6.19	7.90	7.68	10.76	10.77	10.66	11.48
CAPITAL ACCOUNTS	185.68	368.79	409.23	735.54	805.42	1208.97	2856.93	1771.79	1392.94	1204.22
UNCLASSIFIED LIABILITIES	33.25	70.04	77.10	69.86	41.71	46.95	127.85	27.71	28.55	89.15
Other liabilities and payables	33.06	68.92	74.67	69.73	41.85	46.95	127.85	27.71	28.55	89.15
TOTAL	2160.74	2737.32	3202.37	3754.61	3535.18	3652.05	5496.35	4204.46	3707.34	3768.99

Table A17

CONSOLIDATED BALANCE SHEET OF COMMERCIAL BANKS

(Million Maloti: End of Period)

A - ASSETS

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
RESERVES	165.68	245.58	245.22	490.59	573.72	506.81	127.06	159.15	181.10	172.46
Rand Notes and Coins	25.34	17.11	12.55	11.63	9.33	15.39	10.30	10.32	15.47	7.71
Maloti Notes and Coins	23.86	22.95	18.73	18.90	26.05	33.22	40.37	43.40	51.48	52.40
Balances due from CBL	116.49	205.51	213.94	460.06	538.34	458.20	76.38	105.44	114.16	112.36
FOREIGN ASSETS	237.24	273.27	203.46	427.59	494.65	609.09	789.61	772.31	837.34	1253.79
CLAIMS ON PRIVATE SECTOR	665.46	667.27	979.29	227.87	270.83	258.60	301.68	373.94	402.58	441.18
CLAIMS ON STATUTORY BODIES	80.53	141.33	127.62	83.77	81.66	42.77	46.39	42.75	38.94	52.16
CLAIMS ON GOVERNMENT	74.91	74.35	74.23	51.53	586.38	586.20	691.32	806.75	991.45	543.43
UNCLASSIFIED ASSETS	404.15	264.37	340.33	953.81	1039.09	881.69	952.18	985.25	764.87	885.39
TOTAL	1627.97	1666.15	1970.15	2235.16	3046.32	2885.15	2908.24	3140.15	3216.28	3348.42

Table A17 *(continued)*

CONSOLIDATED BALANCE SHEET OF COMMERCIAL BANKS

(Million Maloti: End of Period)

B - L I A B I L I T I E S

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
DEMAND DEPOSITS	481.36	589.36	730.20	912.37	897.69	941.42	1002.26	1162.90	1253.46	1255.16
Private Sector	363.34	432.96	480.85	519.14	459.88	582.95	625.14	753.63	929.14	968.40
Government	35.45	41.36	43.63	75.45	76.42	67.69	63.22	63.74	68.25	57.66
Statutory Bodies	82.57	115.04	205.72	317.78	361.39	290.78	313.90	345.53	256.07	229.11
TIME DEPOSITS	120.79	168.18	173.29	173.25	158.60	120.98	136.51	157.18	208.95	275.12
Private Sector	109.10	155.78	139.30	116.19	109.64	80.78	69.30	100.24	129.60	190.88
Government	1.96	2.17	2.28	1.19	0.59	0.60	0.09	0.09	0.09	0.05
Statutory Bodies	9.73	10.24	31.71	55.87	48.37	39.60	67.13	56.85	79.27	84.20
SAVINGS DEPOSITS	429.77	472.47	519.81	573.56	527.63	506.52	521.82	527.01	507.05	463.42
Private Sector	429.37	472.04	519.37	571.19	527.32	506.21	521.60	526.78	506.97	463.34
Government	0.12	0.13	0.13	0.13	0.11	0.09	0.00	0.05	0.01	0.06
Statutory Bodies	0.29	0.30	0.31	2.24	0.20	0.23	0.22	0.19	0.07	0.02
DEFERRED PAY FUND	52.57	54.04	53.27	40.18	34.99	38.12	42.19	43.19	44.19	45.19
FOREIGN LIABILITIES	60.23	60.06	56.89	47.20	39.89	140.01	102.82	99.63	229.64	135.90
CAPITAL ACCOUNTS	119.12	56.11	-74.15	-38.31	209.92	318.90	279.18	287.36	303.43	345.75
UNCLASSIFIED LIABILITIES	364.13	265.93	510.84	526.92	1177.59	819.20	823.46	862.88	669.56	827.88
TOTAL	1627.97	1666.15	1970.15	2235.16	3046.32	2885.15	2908.24	3140.15	3216.28	3348.42

Table A18

MONETARY SURVEY

(Million Maloti:End of Period)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Foreign Assets, Net	1717.24	2230.85	2812.12	3646.68	3435.95	3585.26	5313.88	3884.08	3460.84	3972.41
Commercial Banks	177.01	213.21	146.57	380.39	454.76	469.08	686.80	672.68	607.70	1117.90
Central Bank of Lesotho	1514.89	2000.53	2653.00	3254.65	2971.87	3100.79	4616.78	3201.08	2837.68	2846.81
Rand with Banks	25.34	17.11	12.55	11.63	9.33	15.39	10.30	10.32	15.47	7.71
Domestic Credit	-270.28	-503.33	-753.46	-1687.89	-620.83	-418.36	-266.10	107.08	289.47	-233.02
Claims on private sector & Statutory Bodies	754.90	817.28	1117.42	323.18	364.68	315.27	361.63	430.22	456.51	509.64
Claims on Government,net of deposits	-1025.17	-1320.60	-1870.88	-2011.07	-985.52	-733.63	-627.73	-323.14	-167.04	-742.66
Money Supply (M2)	1138.73	1334.01	1530.99	1768.82	1677.83	1700.88	1992.71	2168.18	2297.85	2373.05
Narrow Money (M1)	537.69	641.61	787.02	983.15	957.30	1035.95	1292.27	1440.94	1537.75	1589.42
Maloti with public	74.11	84.09	92.51	134.50	122.66	139.34	147.14	179.68	183.52	204.54
Demand and call deposits	449.53	551.60	691.18	843.10	829.17	881.42	949.80	1109.93	1195.86	1208.98
Official entities deposits with CBL	14.05	5.92	3.32	5.55	5.47	15.19	195.33	151.33	158.36	175.90
Quasi-money	601.05	692.40	743.97	785.67	720.52	664.94	700.44	727.24	760.10	783.63
Time deposits	171.39	220.06	224.29	212.24	193.00	158.51	178.62	200.28	253.06	320.27
Savings deposits	429.65	472.34	519.68	573.43	527.52	506.43	521.82	526.96	507.04	463.36
Other items,net	308.23	393.51	527.68	189.96	1137.30	1466.02	3055.06	1822.98	1452.46	1366.35

Table A19

DOMESTIC CREDIT

(Million Maloti: End of Period)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Private Sector Total	674.37	675.95	989.81	239.41	283.03	272.49	315.24	387.47	417.57	457.48
Business Enterprises	408.55	431.74	485.12	130.44	132.76	100.26	113.53	145.68	146.05	162.04
Households	212.19	233.08	426.07	29.80	49.19	71.15	99.87	139.94	158.59	256.64
Other	53.63	11.13	78.62	79.16	101.08	101.08	101.84	101.84	112.93	38.80
Statutory bodies	80.53	141.33	127.62	83.77	81.66	42.77	46.39	42.75	38.94	52.16
Government (net)	-1025.17	-1320.60	-1870.88	-2011.07	-985.52	-733.63	-627.73	-323.14	-167.04	-742.66
Grand Total	-270.28	-503.33	-753.46	-1687.89	-620.83	-418.36	-266.10	107.08	289.47	-233.02

Table A20

BANKING SYSTEM'S NET FOREIGN ASSETS

(Million Maloti: End of Period)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Commercial Banks	177.01	213.21	146.57	380.39	454.76	469.08	686.80	672.68	607.70	1117.90
Assets	237.24	273.27	203.46	427.59	494.65	609.09	789.61	772.31	837.34	1253.79
Liabilities	-60.23	-60.06	-56.89	-47.20	-39.89	-140.01	-102.82	-99.63	-229.64	-135.90
Central Bank	1540.23	2017.64	2665.55	3266.29	2981.19	3116.18	4627.08	3211.40	2853.14	2854.52
Assets	1802.01	2310.26	2929.82	3549.85	3349.33	3486.15	5136.94	3858.15	3341.14	3351.53
Liabilities	-261.78	-292.62	-264.26	-283.56	-368.13	-369.97	-509.86	-646.75	-488.00	-497.01
Net Foreign Assets	1717.24	2230.85	2812.12	3646.68	3435.95	3585.26	5313.88	3884.08	3460.84	3972.41

Table A21

BANKING SYSTEM'S CLAIMS ON GOVERNMENT

(Million Maloti:End of Period)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Commercial Banks	37.38	30.69	28.19	-25.24	509.26	517.82	628.01	742.86	923.10	485.67
Claims	74.91	74.35	74.23	51.53	586.38	586.20	691.32	806.75	991.45	543.43
Less Deposits	37.53	43.66	46.04	76.77	77.12	68.38	63.31	63.89	68.35	57.76
Central Bank	-1062.56	-1351.29	-1899.07	-1985.83	-1494.77	-1251.45	-1255.75	-1066.00	-1090.15	-1228.33
Claims	287.65	308.22	163.76	139.70	107.84	104.95	246.60	191.31	173.76	183.51
Less Deposits	1350.20	1659.51	2062.83	2125.53	1602.61	1356.40	1502.35	1257.31	1263.91	1411.84
Net Total	-1025.17	-1320.60	-1870.88	-2011.07	-985.52	-733.63	-627.73	-323.14	-167.04	-742.66
Memorandum Items: Securities held by Banks #										
Commercial Banks	68.01	70.90	70.68	47.98	586.08	585.77	693.27	806.08	989.92	542.38
Central Bank	147.92	160.68	32.51	7.58	5.16	20.91	66.04	2.28	0.05	0.03
Total	215.93	231.58	103.18	55.56	591.24	606.67	759.31	808.35	989.96	542.41

Figures at cost value

Table A22

HOLDINGS OF TREASURY BILLS

(Million Maloti)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total holdings	154.10	154.10	154.10	154.10	154.10	234.70	451.80	515.70	770.50	532.30
Banking system (1)	108.80	88.40	71.60	50.20	14.70	28.30	350.80	402.00	593.30	427.90
Central Bank	39.10	15.20	5.80	0.90	3.90	16.60	67.10	0.00	0.00	0.00
Commercial Banks	69.70	73.20	65.80	49.30	10.80	11.70	283.70	402.00	593.30	427.90
Non-Bank Sector	45.30	65.70	82.50	103.90	139.40	206.40	101.00	113.70	177.20	104.40
NBFIs (2)	19.30	11.20	15.50	15.40	15.80	90.10	36.10	23.70	102.10	33.90
Other entities	26.00	54.50	67.00	88.50	123.60	116.30	64.90	90.00	75.10	70.50
Memorandum Item										
Yield	13.00	14.30	14.00	16.60	9.90	9.97	10.99	13.18	10.46	8.27

(1) Excludes government securities issued to Lesotho Bank (1999) Ltd on privatisation of the Old Lesotho Bank, amounting to M575.7 million.

(2) NBFIs = Non-bank financial institutions.

Table A23

MAJOR MONEY MARKET INTEREST RATES

(Per cent per annum:End of Period)

	1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Central Bank (1)										
91-Day T-Bill Rate	13.00	14.30	13.92	16.56	9.90	9.30	10.99	12.19	9.83	7.86
Call rate	11.00	15.00	13.17	15.99	8.88	7.88	7.88	0.00	0.00	0.00
31 days	11.50	15.25	13.50	16.25	9.33	15.00	13.00	0.00	0.00	0.00
Commercial Banks										
Time deposits										
31 days	10.25	10.00	8.80	11.00	4.00	4.00	4.00	4.75	3.75	3.10
1 year	13.60	11.25	10.50	10.35	5.50	5.50	6.00	6.25	6.00	4.00
Savings deposits (range)	*6.15-10.00*	*6.00-11.00*	*6.00-9.65*	*4.00-7.00*	*0.00-3.50*	*0.00-3.50*	*2.17-4.00*	*2.58-4.00*	*1.68-2.48*	*0.96-1.35*
Prime lending	16.50	18.00	17.10	22.00	18.00	17.00	16.33	17.67	17.67	12.17
South Africa (2)										
Prime lending	18.50	20.25	19.25	19.34	15.50	14.50	13.00	17.00	11.50	11.00
Call deposits (3) (range)	*13.00-15.00*	*16.50-18.50*	*14.00-15.30*	*17.25-20.25*	*9.75-10.80*	*8.50-9.75*	*8.25-8.85*	*8.75-9.50*	*7.70-7.72*	*7.70-8.72*

(1) In September 2001, the Central Bank introduced indirect instruments of monetary policy and also ceased to remunerate banks deposits
(2) **Source:** Financial Mail
(3) Maximum rate for deposits of R100,000+

Table A24

SUMMARY OF BUDGETARY OPERATIONS
(Million Maloti)

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	Revised 2003/04	Projections 2004/05
Total Receipts	1844.80	2238.00	2426.40	2289.60	2442.80	2752.20	2976.30	3331.00	3594.50	4455.00
Revenue	1681.60	2034.60	2248.00	2169.60	2312.80	2626.60	2787.50	3034.70	3416.70	4210.20
Tax revenue	1413.50	1553.70	1795.10	1698.90	1888.80	1942.00	2325.30	2575.90	2887.50	3687.00
Customs	906.50	1006.00	1172.80	1033.30	1183.10	1126.20	1438.50	1470.00	1421.60	2012.40
Income Taxes	275.80	299.00	340.10	392.00	419.50	468.80	579.50	762.20	852.50	902.20
Individual Income Tax	184.10	204.60	221.70	278.00	306.50	356.30	371.80	663.30	504.00	543.80
Company Tax	74.10	52.60	69.70	65.00	58.50	75.10	159.20	86.30	244.90	247.30
Other Income Taxes	17.60	41.80	48.70	49.00	54.50	56.00	48.50	12.60	103.60	111.10
Taxes on Goods and Services	220.70	240.00	273.30	269.60	283.20	343.60	302.00	343.70	602.90	762.40
Other Taxes	10.50	8.70	8.90	4.00	3.00	3.40	5.30	0.00	10.50	10.00
Non-tax revenue	268.10	480.90	452.90	470.70	424.00	684.60	462.20	458.80	529.20	523.20
of which: Water Royalties	0.00	142.80	76.00	120.00	142.90	154.90	176.10	213.40	193.10	228.00
Grants	163.20	203.40	178.40	120.00	130.00	125.60	188.80	296.30	177.80	244.80
Total Expenditure & Net Lending	1736.50	2052.70	2342.10	2438.40	2780.60	2957.00	3018.90	3656.10	3532.20	4008.50
Recurrent expenditure	1118.10	1179.00	1473.80	1942.70	2300.70	2457.90	2393.30	2876.20	2906.80	3220.20
Purchases of Goods & Services	892.10	970.40	1182.60	1341.70	1578.90	1774.10	1793.70	2147.10	2059.10	2215.20
Personnel Emoluments	518.70	604.40	721.30	837.60	835.90	921.80	992.40	1082.10	1123.20	1219.30
Other Goods & Services	373.40	366.00	461.30	504.10	743.00	852.30	801.30	1065.00	935.90	995.90
Interest payments	59.20	66.30	90.00	128.50	183.40	252.40	203.30	219.70	216.40	167.30
External	32.00	36.60	59.90	96.20	101.60	148.20	126.00	109.50	90.50	91.30
Domestic	27.20	29.70	30.10	32.30	81.80	104.20	77.30	110.20	125.90	76.00
Subsidies & Transfers	166.80	142.30	201.20	472.50	538.40	431.40	396.30	509.40	631.30	837.70
of which:Bank Restructuring	0.00	0.00	50.00	237.70	22.00	0.00	0.00	0.00	0.00	0.00
LHDA	--	--	--	--	263.80	0.00	0.00	0.00	0.00	0.00
Capital Expenditure & net Lending	618.40	873.70	868.30	495.70	479.90	499.10	625.60	779.90	625.40	788.30
Surplus/Deficit Before grants	-54.90	-18.10	-94.10	-268.80	-467.80	-330.40	-231.40	-621.40	-115.50	201.70
Surplus/Deficit after grants	108.30	185.30	84.30	-148.80	-337.80	-204.80	-42.60	-325.10	62.30	446.50
Financing	-108.30	-185.30	-84.30	148.80	359.10	204.80	42.60	325.30	-62.20	-446.50
Foreign,net	211.20	352.00	345.50	18.10	-78.10	-221.70	31.90	53.40	-25.70	-49.70
Domestic	-319.50	-537.30	-429.80	130.70	437.20	426.50	10.70	271.90	-36.50	-396.80
Bank	-309.70	-522.00	-448.20	116.20	415.90	403.20	62.40	320.80	104.01	-363.17
Non-Bank	-9.80	-15.30	18.40	14.50	21.30	23.30	-51.70	-48.90	-140.51	-33.63

Source: Ministry of Finance and CBL Projections

Table A25

RECURRENT EXPENDITURE BY MAJOR FUNCTIONS OF GOVERNMENT

(Million Maloti)

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	Revised 2003/04	Projections 2004/05
GENERAL GOVERNMENT SERVICES	408.00	373.60	496.20	806.20	802.60	743.00	794.00	1032.20	1022.32	1036.18
01 General Public Services	158.40	133.00	210.40	479.80	368.80	329.20	380.50	506.90	502.05	419.87
02 Defence Aaffairs & Services	133.50	118.00	137.00	159.30	224.50	207.90	199.20	208.50	206.50	201.47
03 Public Order & Safety Affairs	116.10	122.60	148.80	167.10	209.30	205.90	214.30	316.80	313.77	414.80
COMMUNITY & SOCIAL SERVICES	478.20	541.20	668.40	777.10	980.60	1048.30	1103.10	1346.60	1333.71	1576.03
04 Education	284.60	355.40	443.60	491.60	673.40	720.50	696.00	867.30	859.00	994.92
05 Health	109.20	100.90	128.20	151.50	172.20	182.60	190.70	227.60	225.42	247.07
06 Social Security & Welfare	33.30	31.20	36.30	64.10	65.30	66.70	122.00	140.80	139.45	243.08
07 Housing & Community Amenities	22.20	25.70	25.40	29.10	28.30	25.40	40.30	62.00	61.41	78.00
08 Recreation & Cultural Affairs	28.90	28.00	34.90	40.80	41.40	53.10	54.10	48.90	48.43	12.96
ECONOMIC SERVICES	156.90	178.80	209.90	213.40	207.00	234.70	266.10	296.80	293.96	305.40
09 Fuel & Energy Affairs	3.20	2.70	3.30	3.90	6.50	18.50	3.80	5.70	5.65	17.85
10 Agriculture	43.10	48.90	60.20	69.90	82.80	61.20	126.30	138.00	136.68	122.00
11 Mining & Industry	17.90	20.20	25.20	21.10	28.30	32.40	34.80	40.40	40.01	88.58
12 Transport & Communications	56.50	58.10	66.70	69.90	69.80	101.60	79.80	93.50	92.60	55.26
13 Other Economic Services	36.20	48.90	54.50	48.60	19.60	21.00	21.40	19.20	19.02	21.71
UNCLASSIFIED EXPENDITURE	74.90	85.40	99.30	146.00	310.50	431.90	230.10	259.40	256.92	302.59
14.0.1 Public debt	59.20	72.20	90.00	128.50	228.70	252.40	203.30	224.50	222.35	202.01
14.0.2 Other transfers	15.70	13.20	9.30	17.50	81.80	179.50	26.80	34.90	34.57	100.58
TOTAL RECURRENT EXPENDITURE	1118.00	1179.00	1473.80	1942.70	2300.70	2457.90	2393.30	2935.00	2906.90	3220.20

Source: Ministry of Finance and CBL Projections

Table A26

EXTERNAL DEBT OUTSTANDING BY REMAINING MATURITIES

(Million Maloti)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1-5 Years	586.30	262.10	104.80	50.20	12.70	1.70	0.00	0.00	0.00	0.00
6-10Years	423.10	388.40	369.90	338.50	292.50	239.30	175.40	114.60	66.10	30.60
11-15 Years	413.80	388.90	382.80	371.30	358.00	341.30	324.10	306.30	287.90	268.80
16 Years & above	3337.75	3163.30	3319.10	3430.10	3440.30	3405.70	3320.20	3220.50	3117.30	3009.80
Total	**4760.95**	**4202.70**	**4176.60**	**4190.10**	**4103.50**	**3988.00**	**3819.70**	**3641.40**	**3471.30**	**3309.20**
In Per Cent of Total										
1-5 Years	12.31	6.24	2.51	1.20	0.31	0.04	0.00	0.00	0.00	0.00
6-10 Years	8.89	9.24	8.86	8.08	7.13	6.00	4.59	3.15	1.90	0.92
11-15 Years	8.69	9.25	9.17	8.86	8.72	8.56	8.48	8.41	8.29	8.12
16 Years & above	70.11	75.27	79.47	81.86	83.84	85.40	86.92	88.44	89.80	90.95
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Table A27

OUTSTANDING PUBLIC DEBT

(Million Malot)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
A. EXTERNAL DEBT	1861.50	2283.60	2313.40	3185.10	3121.90	4319.60	6246.50	5130.50	4432.00	4112.84
1. Bilateral Loans	*179.60*	*299.70*	*266.00*	*365.40*	*340.80*	*626.10*	*592.00*	*451.60*	*504.40*	*531.44*
Concessional	176.60	257.30	225.90	322.00	301.20	380.50	431.40	201.90	205.30	432.02
Non-concessional	3.00	42.40	40.10	43.40	39.60	245.60	160.60	249.70	299.10	99.42
2. Multilateral Loans	*1555.80*	*1907.60*	*1883.90*	*2549.20*	*2518.50*	*3181.70*	*4968.60*	*4139.40*	*3485.80*	*3183.68*
Concessional	1462.20	1806.70	1850.40	2468.50	2460.00	3088.20	4310.70	3397.50	2997.70	2737.38
Non-concessional	93.60	100.90	33.50	80.70	58.50	93.50	657.90	741.90	488.10	446.30
3. Financial Institutions	*107.80*	*70.80*	*144.10*	*247.10*	*244.60*	*357.50*	*443.70*	*383.80*	*343.80*	*315.78*
Concessional	0.70	35.60	29.80	32.00	30.10	54.60	18.90	1.00	0.80	60.06
Non-concessional	107.10	35.20	114.30	215.10	214.50	302.90	424.80	382.80	343.00	255.72
4. Suppliers' Credit	*18.30*	*5.50*	*19.40*	*23.40*	*18.00*	*154.30*	*242.20*	*155.70*	*98.00*	*81.94*
B. DOMESTIC DEBT	270.20	303.30	190.20	160.10	730.20	788.50	906.00	929.00	1159.70	648.11
5. Banks	*224.90*	*237.60*	*108.20*	*56.20*	*590.80*	*603.70*	*777.40*	*815.30*	*982.50*	*543.61*
Long-term	7.40	3.80	3.60	3.60	288.00	287.70	310.90	287.70	287.70	114.66
Short-term	217.50	233.80	104.60	52.60	302.80	316.00	466.50	527.60	694.80	428.95
of which : treasury bills	108.80	88.40	72.10	50.20	302.70	306.30	340.90	527.00	693.30	427.9
6. Non-bank	*45.30*	*65.70*	*82.00*	*103.90*	*139.40*	*184.80*	*128.60*	*113.70*	*177.20*	*104.50*
Short-term	45.30	65.70	82.00	103.90	139.40	184.80	128.60	113.70	177.20	104.5
Treasury bills	45.30	65.70	82.00	103.90	139.40	184.80	128.60	113.70	177.20	104.5
7. TOTAL (A + B)	2131.70	2586.90	2503.60	3345.20	3852.10	5108.10	7152.50	6059.50	5591.70	4760.95

Table A27 *(continued)*

OUTSTANDING PUBLIC DEBT

(Million Malot)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
C. MEMORANDUM ITEMS (In Million Maloti)										
8. GDP	3383.70	4053.70	4719.50	4920.70	5564.90	5963.50	6593.20	7368.90	8143.60	8865.30
9. GNI	4794.60	5475.20	6258.40	6305.60	7057.40	7485.80	8073.50	9067.00	10017.96	10952.30
10. Foreign debt service	102.90	106.70	167.10	213.70	294.40	322.70	313.50	127.90	206.10	527.00
11. Exports of goods & services, incl. factor services	2440.90	2605.40	2816.00	2987.00	2976.10	3766.91	4747.62	6275.30	6214.51	7220.32
12. Exports of goods & non-factor services	652.10	929.70	1022.70	1221.10	1198.60	1468.36	2425.97	3739.89	3557.37	4300.12
Ratios										
Total debt as a % of GDP	63.00	63.82	53.05	67.98	69.22	85.66	108.48	82.23	68.66	53.70
External debt as a % of GDP	55.01	56.33	49.02	64.73	56.10	72.43	94.74	69.62	54.42	46.39
Domestic debt as a % of GDP	7.99	7.48	4.25	3.25	13.12	13.22	13.74	12.61	14.24	7.31
External debt as a % of total	87.32	88.28	135.19	95.21	81.04	84.56	87.33	84.67	79.26	86.39
Domestic debt as a % of total	12.68	11.72	7.60	4.79	18.96	15.44	12.67	15.33	20.74	13.61
Concessional as a % of external debt	88.07	91.94	91.04	88.62	89.41	81.57	76.22	70.18	72.29	78.52
Debt service (1)	4.22	4.10	5.93	7.15	9.89	8.57	6.60	2.04	3.32	7.30
Debt service(2)	15.78	11.48	16.34	17.50	24.56	21.98	12.92	3.42	5.79	12.26

Source: Ministry of Finance

(1) Ratio of debt service to exports of goods and services, including factor income.
(2) Ratio of debt service to exports of goods and non-factor services.