Central Bank of Lesotho

Annual Report

2005

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2005

Maseru, March 2006

Central Bank of Lesotho

BOARD OF DIRECTORS

E. M. Matekane - Governor & Chairman of the Board
T. Foulo [1] - Director
E. K. Molemohi - Director
G. T. Monaheng [2] - Director
T. Chimombe (Mrs) [2] - Director
M. Moiloa (Mrs) [2] - Director
P. M. Makhetha - Director
M. G. Tau-Thabane (Mrs) [3] - Director
P. M. I. S. Ledimo (Mrs) [4] - Director
J. Q. Lesitha [5] - Director

MANAGEMENT

E. M. Matekane - Governor
Vacant - Deputy Governor I
T. Foulo [1] - Deputy Governor II
M. Makhupane [6] - Director of Operations
M. Mofelehetsi (Mrs) [7] - Director of Supervision
T. Makara [8] - Director of Administration
L. Kili (Ms) [9] - Director of Administration
M. Makenete (Ms) [10] - Director of Financial Markets
C. Kannapiran [11] - Director of Research
P. Irgo [12] - Director of Information & Communication Technology
S. M. Mahooana [13] - Director of Information & Communication Technology

DIVISIONAL HEADS

GOVENOR'S OFFICE

A. L. Ramone - Board Secretariat
M. Mashologu (Mrs) - Public Relations
M. Mahooana - Business Solutions Development
T. Mpheteng [14] - Infrastructure & Operations
J. Nts'ekhe - Internal Audit
L. Khaka - Accounts & Budget

ADMINISTRATION

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

FOOT NOTES

[1] Term expired on 09 November 2005
[2] Term expired on 28 February 2005
[3] Appointed on 15 July 2005
[4] Appointed on 07 November 2005
[5] Appointed on 05 December 2005
[6] Term expired on 30 June 2005
[7] Initial term expired on 30 June 2005 and renewed on 05 September 2005
[8] Term expired on 16 February 2005 and appointed General Manager, Lehakoe Recreation and Cultural Centre on 03 August 2005
[9] Appointed on 07 September 2005
[10] Initial term expired on 30 June 2005 and renewed on 05 August 2005
[11] Resigned 10 June 2005
[12] Changed terms and conditions of employment from Director to Advisor on 01 July 2005
[13] Acting Director from 01 July 2005
[14] Appointed on July 2005

DIVISIONAL HEADS

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	- Dealing and Strategy
F. M. Hloaele	- Treasury Operations

RESEARCH

M. Monyau (Mrs) [15]	- Real Sector
L. M. Lephoto (Ms) [16]	- Finance
T. Tlelima [17]	- Macroanalysis

[15] On secondment
[16] On secondment from 08 September 2005
[17] Acting Head of Division

Lehakoe Recreation and Cultural Centre - CBL

Central Bank of Lesotho
P O Box 1184
MASERU 100
Lesotho

March 31, 2006

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

Honourable Minister

I have the honour to transmit the Annual Report of the Central Bank of Lesotho for the year 2005, 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, 2005, certified by Sheeran & Associates assisted by Pricewaterhouse Coopers; and

ii) a report on the Bank's operations and statement of affairs during 2005.

Yours faithfully

E. M. Matekane
GOVERNOR

PART 1: THE DECLINE IN MANUFACTURING ACTIVITY IN 2005: CAUSES AND POSSIBLE SOLUTIONS.

1.1 Introduction

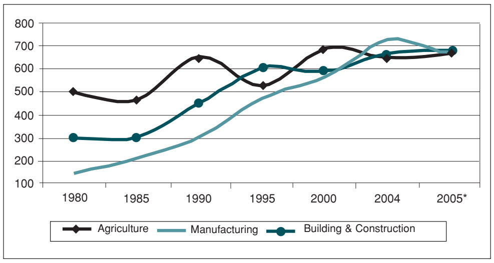
The manufacturing sub-sector has been growing over the years as an important contributor to economic growth and employment creation. From a relatively low contribution to GDP in the early 1980s, accounting for about 8.0 per cent, manufacturing reached a peak of 16.2 per cent in 2004. However, this strong growth turned to a decline in 2005, posing challenges for economic development.

In this article, section 1.2 traces the evolution of the manufacturing sub-sector with a view to understanding factors that led to its growth. Section 1.3 focuses on the impact of African Growth and Opportunity Act (AGOA) while section 1.4 reviews the behaviour of the sub-sector in 2005, in particular. Section 1.5 highlights policy responses.

1.2 Growth of manufacturing in the 1980s and 1990s

In the early 1980s, manufacturing formed a small portion of GDP relative to agriculture and construction sub-sectors. Manufacturing activities were concentrated in the food and beverages industries, which constituted 72.7 per cent of all manufacturing, with the textile and footwear industries second at 7.4 per cent. As figure 1 indicates, apart from 2005, performance of the manufacturing sub-sector has followed a strong upward trend over the years. The growth was driven by promotion of the sub-sector to foreign investors by the Lesotho National Development Corporation (LNDC), in a relatively stable political environment in the early 1990s. The Government aimed at boosting the country's balance of payments position and employment through an export-oriented manufacturing sub-sector, and this resulted in the growth of textile trade. The macroeconomic environment was also favourable after the introduction of the Structural Adjustment Programme (SAP) in 1988, with the Government running budget surpluses and increasing its savings while the loti-rand peg facilitated price stability and strong external reserves.

Figure 1: Sectoral Trends in constant 1995 prices (million maloti)



As the 1990s approached, manufacturing's share of GDP began to grow faster while the share of agriculture experienced slower growth. Manufactured exports were mainly destined to the Southern African Customs Union (SACU)[18] market, especially South Africa. In 1990, the SACU market accounted for 60 per cent of manufactured exports, followed by the European market at 19.4 per cent and the United States (US) at 13.3 per cent. The growth of the sub-sector in the 1990s reached its peak in 1996, when manufacturing grew by 14.0 per cent in real terms, on a year-on-year basis.

After 1996, the sub-sector's activity began to slowdown. This was worsened by the social and political unrest in 1998, which disrupted production and undermined business confidence.

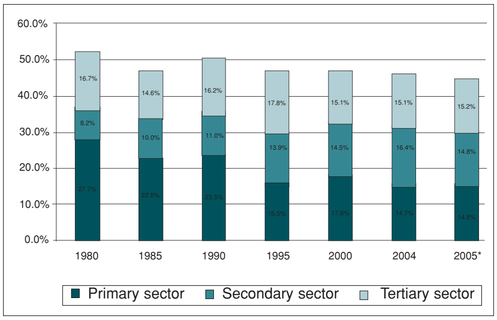
1.3 The introduction of African Growth and Opportunity Act

The performance of the manufacturing sub-

[18]SACU: Botswana, Lesotho, Namibia, South Africa and Swaziland.

sector however improved in 2000 following the introduction of AGOA by the US Government. AGOA provided duty and quota free access to the US market on selected products. AGOA led to a significant increase in manufactured exports and the US grew in importance as a trading partner of Lesotho relative to SACU countries, until it became the largest destination of exports at 50 per cent in 2000. In 2001 export earnings for the first time exceeded miners' remittances, which traditionally were the major source of foreign exchange earnings. The manufacturing sub-sector also overtook Government as the largest employer in the domestic formal sector with 44537 workers in 2002. The AGOA-driven trend continued until its pinnacle in 2004, when exports to the US accounted for 73.6 per cent of all exports. The share of manufacturing to GDP surpassed that of agriculture at this point (see Figure 2).

Figure 2: Sectoral Shares



This meant that Lesotho's textile and clothing exports to the US continued to grow despite the adverse economic conditions in the US, which were exacerbated by the September 2001 terrorist attacks and the instability that followed. The strong export performance was partly boosted by the depreciation of the loti against the US dollar and the relatively small share of Lesotho's clothing exports in the US market (which helped them to be marginally affected by the slowdown in US consumer demand).

1.4 The slowdown in 2005

The expiry of quota restrictions, at the end of 2004, in the world trading system, increased competition for Lesotho's exports from countries such as China and India.

In addition, the depreciation of the dollar against loti squeezed the loti value of sales revenue and profits. The situation became worse towards the end of 2004 because the loti strengthened by 39.3 per cent against the US dollar since 2002. As a result, some firms closed early in 2005 and about 14 per cent of workers were laid off.

1.5 Policy Responses and the Way Forward

The Government has taken steps to assist the sub-sector to recover. On the administrative side, the processing of work and residence permits has been eased. Task teams have been established under the Ministry of Trade, Industry, Cooperatives and Marketing to investigate legal, tax and economic reforms that could be undertaken. Plans are underway to facilitate the establishment of a fabric textile mill. This mill will be essential to meet AGOA third country fabric sourcing requirement of 2008, which would prevent Lesotho-based firms from exporting products manufactured with imported fabric under AGOA concessions.

Furthermore, recommendations of the task team on duty credit certificate (DCC) are being considered at SACU level, where Lesotho has concurred that the scheme should be extended for 18 months and that the certificates should be tradable. The DCC scheme gives a rebate on import duty based on the value of goods a firm exported. A firm may use the duty credit for not paying duty on the next shipment of imported raw materials or sell it through a broker to another importer.

The Government is also at advanced stages of establishing a "one-stop-shop" for the processing of import and export permits, to facilitate speedy and hassle free issuance of permits. Also, plans to improve security and infrastructure (water, electricity, refuse removal and others) are underway. Finally, the Lesotho Revenue Authority (LRA) agreed to implement a new system for improving the process of refunding value added tax, in order to lessen the cash-flow problem of firms.

The experience of 2005 has shown that the manufacturing sub-sector needs to improve ways of hedging against foreign exchange rate risk. In this connection, CBL has introduced gradual capital account reforms (effective from 2003), which allow business entities to open foreign currency and off-shore accounts. These measures enable local businesses to hedge against foreign exchange risk.

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

2.1 Industrialised Countries

Economic growth in the US was expected to decelerate in 2005 compared to the previous year. On average, a real GDP growth rate of 3.6 per cent was realised during the first three quarters of the year. The main growth drivers during this period were consumer, investment and government spending. Based on the observed trend, the International Monetary Fund (IMF) forecast a GDP real growth rate of 3.5 per cent for 2005, which represented a deceleration from the 4.2 per cent realised in 2004. Economic activity in the US was expected to be overshadowed by negative impacts of hurricanes Katrina and Rita, which were considered to be the most costly natural disasters in recent years.

Despite a slowdown in the US economic growth during the year, unemployment rate fluctuated between 5.2 per cent and 5.0 per cent from the first to the third quarter. The IMF estimated an annual unemployment rate of 5.2 per cent compared with 5.5 per cent in 2004.

Inflation in the US maintained an upward trend throughout the year. After registering 3.1 per cent in the first quarter, it generally accelerated and closed the year at 4.7 per cent. The pick-up in the rate of inflation was fuelled by high international oil prices due to uncertainties in the Middle-East, lower crude oil production by the Organisation of the Petroleum Exporting Countries (OPEC)[19], expansion in oil consumption in India and China, and hurricanes in the Gulf Coast of the US, which disrupted oil production and refining facilities.

At the end of the first quarter of the year under review, the US benchmark lending rate was recorded at 2.75 per cent. However, the Federal Reserve Bank's Open Market Committee (FOMC) maintained the trend of tightening the monetary policy by raising its benchmark lending rate by 25 basis points in all its meetings. Consequently, the rate closed the year at 4.25 per cent compared with 1.75 per cent at the end of 2004.

As a result of slower economic growth and a decline in the unemployment rate in the US, implications for the economy of Lesotho are mixed. On the one hand, prospects for economic slowdown in the US do not bode well for the economy of Lesotho, since a large proportion of Lesotho's exports are destined to the US market. On the other hand, a fall in the unemployment rate is expected to have positive spill overs onto the economy of Lesotho, by boosting demand for Lesotho's exports in the US.

In the Euro-zone [20], economic recovery lagged behind that of the US and remained largely weak throughout the year. Real GDP growth rate ranged between 1.1 per cent and 1.5 per cent during the first three quarters. According to the IMF projections, real GDP in the region would grow by 1.2 per cent in 2005 against 2.0 per cent realised in 2004. However, despite the weak economic performance in the Euro-zone, the unemployment rate improved throughout the year. It was recorded at 8.9, 8.8 and 8.4 per cent during the first, second and third quarters, respectively. The IMF forecast a rate of 8.7 per cent for 2005 against 8.9 per cent realised in 2004.

Like in the US, inflation in thee Euro-zone generally accelerated during the year on the back of higher international oil prices. The annual inflation rate in the region, as measured by changes in the Harmonised Index of Consumer Prices (HICP), was recorded at 2.1, 3.2 and 3.8 per cent during the first, second and third quarters, respectively. According to the IMF projections, the rate of inflation in the Euro-zone was expected to close the year at 2.1 per cent in

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

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

2005, the same rate as in the previous year.

As a consequence, the European Central Bank (ECB) kept its benchmark-lending rate unchanged at 2.0 per cent throughout the year. This was intended to stimulate economic growth in the region.

Economic developments for the Euro-zone have a direct effect on South Africa's (SA's) economy, since the European Union (EU) is SA's main trading partner. Shocks to the SA economy can easily be transmitted to Lesotho since the two countries are closely linked. Furthermore, Lesotho exports a large proportion of diamonds to the EU. Thus, the seemingly sluggish economic performance of the Euro-zone does not augur well for both SA and Lesotho economies.

2.2 Emerging Markets

Economic activity in the emerging market economies generally slowed down in 2005. While growth in China and India remained relatively robust, the expansion in much of the rest of the region decelerated, reflecting, among other factors, the negative impact of the high oil prices on a number of emerging Asian economies. As a result, the IMF estimated that the region would realise growth of 7.3 per cent in 2005 as opposed to 7.9 per cent in the previous year. Recent data suggest that industrial production and trade in the region is picking up. However, the global economic slowdown is likely to have negative spill-over effects in the region.

Annual consumer inflation rate in the region was estimated at 3.9 per cent in the review year compared to 4.0 per cent in 2004. Inflationary pressures were expected to arise from the increase in commodity prices, especially oil prices. The observed slowdown in inflation rate in the region could exert downward pressure on the cost of raw materials to Lesotho's manufacturing firms thereby lowering the country's import bill, as most of the local firms source raw materials from Asia. This could, to some extent, enhance Lesotho's export competitiveness by lowering the manufacturing sub-sectors' production costs.

On the balance of payments (BOP) front, the current account surplus in the emerging Asian economies was projected to decline to 3.7 per cent of GDP in 2005, from 4.1 per cent in 2004. Although the current account surplus in China continued to rise due to rapid growth in manufacturing exports, aided by the phasing out of the quotas under the Agreement on Textiles and Clothing (ATC), current account deficits were observed in other countries in the region. This was due to higher oil prices, slower growth in exports and exchange rate appreciation.

Economic activity in Latin America was expected to weaken in 2005 due to a decline in domestic demand as well as global economic activity. The hurricanes, Katrina and Rita, in the Gulf of Mexico and Gulf Coast of the US also contributed to the slowdown in economic activity in the region. The IMF projections indicated a deceleration in the growth rate of GDP from 5.6 per cent realised in 2004 to 4.1 per cent in 2005.

2.3 Southern African Development Community (SADC)[21] Region

The SA economic performance continued to remain positive during 2005. The seasonally adjusted real GDP at market prices grew by an annualised rate of 4.6 per cent, 5.4 per cent, 4.2 per cent and 3.3 per cent in the first, second, third and fourth quarters, respectively. The strong growth was mainly supported by low interest rates, which boosted domestic demand in SA.

[21] SADC: Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

The rate of inflation in SA, as measured by changes in the consumer price index, excluding interest on mortgage bonds (CPIX), closed the year lower than at the end of the previous year. Like in 2004, it remained within the target range of 3 to 6 per cent. The annual percentage change in the CPIX decelerated to 3.9 per cent in the review year compared to 4.3 per cent realised during the previous year. The relatively strong rand helped mitigate the adverse effect arising from the high international oil prices on inflation. However, on average, producer price inflation in 2005 was recorded higher than in 2004 due to pressure from oil price increases in the international markets. It accelerated from an annual rate of 0.6 per cent during 2004 to 3.1 per cent in 2005.

It is estimated that about 70.0 per cent of Lesotho's inflation is imported from SA, as a result of trade relations between the two countries. Accordingly, price movements in Lesotho normally follow trends in SA and the average annual rate of inflation in Lesotho was expected to decline from 5.2 per cent in 2004 to 3.4 per cent in 2005.

The generally subdued inflation conditions and positive outlook allowed the SA Reserve Bank's Monetary Policy Committee (MPC) to reduce interest rates further during the year. Thus the repo rate closed the year at 7.0 per cent compared with 7.5 per cent at the end of 2004. Hence the average prime lending rate in Lesotho closed the review year at a lower rate of 11.5 per cent compared with 12.17 per cent at the end of 2004.

The benign economic conditions in SA augur well for Lesotho's economy. The favourable inflation conditions and outlook and low interest rates imply positive conditions for Lesotho, which may enhance the country's investment climate.

Table 1

SELECTED ECONOMIC INDICATORS, 2001 – 2005*

(Percentage changes from previous year)

Indicators	2001	2002	2003	2004	2005*
World Output	**2.6**	**3.0**	**4.0**	**5.1**	**4.3**
Advanced Economies	**1.3**	**1.6**	**1.9**	**3.3**	**2.5**
Other Emerging Markets and					
Developing Countries	**4.3**	**4.8**	**6.5**	**7.3**	**6.4**
Africa	3.8	3.5	4.6	5.3	4.5
Central and Eastern Europe	-	4.4	4.6	6.5	4.3
Commonwealth of					
Independent states	-	5.4	7.9	8.4	6.0
Developing Asia	5.8	6.6	8.1	8.2	7.8
Middle East and Europe	2.3	4.3	6.5	5.5	5.4
Western Hemisphere	1.7	-0.1	2.2	5.6	4.1
Consumer Prices					
Advanced Economies	2.4	1.5	1.8	2.0	2.2
Other emerging market and					
Developing Countries	5.9	6.0	6.0	5.8	5.9
World Trade Volume	**2.7**	3.3	5.4	10.3	7.0
(Goods and Services)					
Imports					
Advanced Economies	1.7	2.6	4.1	8.8	5.4
Other emerging market and					
Developing Countries	6.4	6.0	11.1	16.4	13.5
Exports					
Advanced Economies	1.7	2.2	3.1	8.3	5.0
Other emerging market and					
Developing Countries	5.0	6.6	10.8	14.5	10.4

Source: IMF World Economic Outlook September 2005
* IMF Projections

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

The price of gold was stronger in 2005 than in 2004. Its annual average price increased from $411.17 an ounce in 2004 to $445.42 an ounce during the review year. The minimum and maximum price levels were recorded at $412.70 and $528 an ounce, respectively. 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 major currencies, such as the euro. In rand terms, the annual average price increased from R2,600.98 per ounce in 2004 to R2,837.55 in 2005.

The increase in the price of gold, both in dollar and rand terms, bode well for the SA mining sector and employment prospects for Lesotho. This is because it could offset the impact of an increase in oil prices, which is used as an input in the SA mining sector. Furthermore, the increase in the rand price of gold, if sustained, could result in the improvement in profitability of the SA mining companies.

The oil market was also characterised by sharp increases in crude oil prices during the year under review. For the large part of the year, the price by far exceeded the upper limit of OPEC's target of $22-$28 per barrel. The minimum and maximum price levels were recorded at $35.67 and $61.37 per barrel, respectively. It closed the year at $51.73 per barrel compared to $36.43 per barrel at the end of 2004. On average, it registered $50.61 per barrel in 2005 compared to $35.99 in 2004. This resulted from a combination of demand and supply-side factors. Expansion in oil consumption in China, Japan and India continued to be the main reason for the soaring oil prices. Secondly, uncertainties in Iraq and in the Middle East also continued to exert upward pressure. Thirdly, the price increased in response to lower crude oil production by the OPEC. Furthermore, the increase in oil prices was exacerbated by disturbances in oil supplies as a result of unfavourable weather conditions in the Gulf of Mexico and Gulf Coast of the US. Infrastructure in some of the oil refineries was damaged by the hurricanes, Katrina and Rita, and disrupted oil production.

In maloti terms, the price of crude oil increased, on average, from M230.24 per barrel at the end of 2004 to M322.41 at the end of the review year. In line with global developments, there were five upward revisions of prices of fuel in the country during the review year. Prices of oil products in Lesotho closed the review year higher at M5.40 per litre of petrol, M5.60 per litre of diesel and M4.05 per litre of illuminating paraffin. These compare with M4.40 per litre of petrol and diesel, and M3.05 per litre of illuminating paraffin at the end of 2004. The main reason for the surge in petroleum prices domestically, as already mentioned, emanated from the increases in the international oil prices.

2.5 Lesotho in the Context of Regional Economic Cooperation

Lesotho continued to actively participate in the activities of regional organisations, which are intended to address common challenges through regional integration, cooperation and coordination. These include the Common Monetary Area (CMA), SACU and the SADC. Although member states of these groups are at different levels of economic development, they all face common challenges such as poverty alleviation and sustainable economic growth.

SACU negotiated numerous free trade agreements (FTAs) with major trading blocs and also participated in the Doha Development Agenda negotiations. The essence of the Doha negotiations in November was to seek a new balance between the needs of developed and developing countries. Specifically, it was intended to redress an imbalance against the developing countries that existed in the world trade system. The main objective of FTAs is to reduce trade barriers between member states and liberalise trade and investment rules. This improves market access, which is key to foreign export earnings and investment. In this regard, SACU's efforts during 2005 were aimed at enhancing the region's market access.

The SACU/US free trade negotiations that started in 2003 continued during 2005. These negotiations were mainly aimed at ensuring that the region would continue to enjoy preferential trade benefits in the US even after the expiry of AGOA. The negotiations were expected to be concluded by the end of 2006. Under AGOA, SACU exports, mainly textiles and clothes, enjoy preferential market access to the US.

Negotiations with the European Free Trade Association (EFTA)[22] were finalised in June 2005. The Agreement was expected to open up duty-free and quota-free access for SACU industrial products to EFTA's markets. It was also expected to yield similar or improve upon rules-of-origin requirements as applicable to the trade agreement between SA and the EU. The new Agreement, which has been in the pipeline since May 2002, will only be implemented in 2006. The agreement excludes issues such as trade in services, intellectual property rights, investment, competition and government procurement.

Progress was also made with regard to SADC activities. For example, throughout the years, movement of seed from one SADC member state to another was hampered by the diverse and fragmented seed regulations. As a result of this, countries in seed deficit were unable to take advantage of the benefits of surpluses in other member states. In addressing this difficulty, the SADC Seed Security Network through guidance of Food, Agriculture and Natural Resources Directorate facilitated technical discussions on the need to harmonise seed regulations. At their recent technical meeting, regional seed experts finalised technical specifications regarding crop variety release and seed certification. The experts further requested SADC Secretariat, through the Seed Network, to begin the process of presenting the technical specifications to the ministerial level with a view to seek approval. It is therefore envisaged that when approved, the harmonised specifications will facilitate easy movement of seed in the SADC region.

The manner in which the monetary and exchange rate policies are implemented within the CMA is asymmetric in nature. For example, SA is largely responsible for monetary policy formulation and implementation. The inflation targeting framework in SA is practically a *de facto* monetary policy framework for the CMA as a whole. This creates a need for a symmetric monetary union. As a consequence, a joint rsolution was adopted by the CMA Governors to investigate the possibility of deepening monetary policy coordination in the region. One way of achieving this objective is through establishment of a Common Central Bank (CCB) for the CMA countries. A study was therefore commissioned by the Governors and proposals were made to the respective Governments through the Ministers of finance for approval.

[22] EFTA: Iceland, Lichtenstein, Norway and Switzerland

3.1 Real Sector Developments

3.1.1 Trends in output and income

According to the macroeconomic projections of the Central Bank of Lesotho (CBL), the Lesotho economy was projected to grow at a rate of 1.2 per cent in 2005 compared with 3.1 per cent realised in the previous year, as seen in table 2 below. This growth rate is far less than 4.5 per cent projected for Africa in 2005. It is insufficient to bring about a reduction in unemployment and poverty levels in the economy.

The downward trend largely reflected the poor performance of the secondary sector, as manufacturing output contracted. The manufacturing sub-sector has largely been driven by textile and clothing industries in Lesotho since 2001. However, their performance deteriorated, owing to the end of the ATC in January 2005. The expiry has resulted in increased competition from low-cost producers in China and other Asian economies. Furthermore, the weak performance was compounded by the relatively strong rand hence loti vis-à-vis the US dollar, which hampered textile and clothing exports to the US. Value added by the manufacturing sub-sector was estimated to decline by 8.3 per cent in real terms in 2005, following a 5.9 per cent rise observed in the previous year. This sub-sector is the pillar of Lesotho's economy, as a result, the deceleration had an adverse impact on the overall economy. Value added by the construction sub-sector (the second largest contributor to real GDP) increased by 2.0 per cent in contrast to a 0.4 per cent rise recorded in 2004.

Gross National Income (GNI), in real terms, was estimated to register a lacklustre growth of 0.3 per cent in 2005, in contrast with 6.1 per cent increase realised in 2004. The low growth rate was a result of the decline in net factor income from abroad. A major source of net factor income from abroad is miners' remittances emanating from the SA mining industry. Remittances fell significantly in 2005. The decline in miners' remittances was on the back of several factors, *inter alia*, the relatively strong rand coupled with the persistent increase in international oil prices. They both impacted negatively on the profitability of the SA mining industry and hence resulted in lay-offs of some mine workers. Remittances contracted by 5.6 per cent compared with 8.1 per cent rise recorded in the previous year. GNI per capita was estimated to decrease by 0.9 per cent in 2005 in contrast with 2.4 per cent rise in 2004.

Table 2

AGGREGATE ECONOMIC INDICATORS
(Percentage Change)

	2001	2002	2003	2004	2005*
Constant 1995 Prices					
GDP	3.2	3.5	3.3	3.1	1.2
GNI	0.2	1.6	6.0	6.1	0.3
GDP Per Capita	0.8	1.6	1.0	2.0	-0.1
GNI Per Capita	-2.1	-0.2	4.0	2.4	-0.9

Source: Bureau of Statistics
* CBL Projections

3.1.2 Performance of Sectoral Outputs

(a) Developments in the Primary Sector.

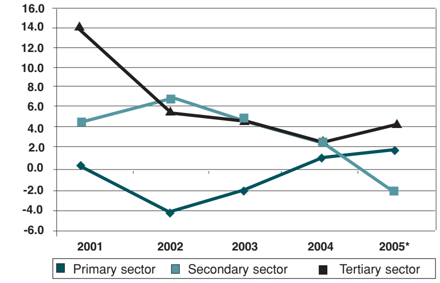
In Lesotho, the primary sector consists of agriculture, mining and quarrying sub-sectors. The sector's share in GDP is about 20.0 per cent. Preliminary estimates indicated that performance by this sector increased by 1.8 per cent after registering a 1.2 per cent upturn in 2004. The agricultural sub-sector has for the past years been a significant contributor to the primary sector, with mining and quarrying accounting for a small share.

Preliminary estimates indicated that value added by the agricultural sub-sector increased by 1.7 per cent in 2005, following a 0.2 per cent increase realised in the preceding year. Although there was an improvement in the performance of the agricultural sub-sector, the increase is still very low to bring about a reduction in poverty since the sub-sector provides livelihood for the majority of the poor in Lesotho. This sub-sector continues to face serious challenges *inter alia*, adverse weather conditions and limited arable land. The other threat to this sub-sector and other sectors in general, is the HIV and AIDS pandemic.

Due to the unsatisfactory performance of the agricultural sub-sector, as a result of the aforementioned factors, Lesotho is facing severe food shortage. A report released by Food Agricultural Organisation (FAO) and World Food Programme (WFP) showed that Lesotho is facing the fourth successive year of severe food insecurity. Cereal import requirements for 2005/06 marketing year were estimated at about 293 000 tonnes, of which 213 000 tonnes were expected to be imported commercially. According to the report, an estimated 548 800 people would have a significant food shortage between June 2005 and March 2006.

The mining and quarrying sub-sector, continued to display buoyant performance in 2005. Value added by the sub-sector was estimated to rise by 10.0 per cent in the review year compared with 164.1 per cent in the preceding year. Growth in this sub-sector continued to be underpinned by the pick-up in diamond exports, following the re-opening of the Lets'eng Diamond mine late in 2003. The sub-sector is likely to continue to contribute positively to the economy of Lesotho, with another diamond mine expected to come on stream in 2006/07. Although this sector is a marginal contributor to GDP, growth in this sub-sector is important in ensuring sustained economic growth, creating employment prospects, increasing government revenue earnings and foreign investment, and increasing foreign exchange earnings through higher exports.

Figure 3: Sectoral Real Growth Rates



Source: Bureau of Statistics
* CBL Projections

(b) Developments in the Secondary Sector

In Lesotho, the secondary sector comprises manufacturing, electricity and water, building and construction sub-sectors. This sector was estimated to register a contraction in output in the review year. As earlier mentioned, the downward trend was mostly on account of weak performance of the manufacturing sub-sector. Value added by the sub-sector was estimated to drop by 8.3 per cent in the year under review compared with 5.9 per cent growth recorded in 2004. The poor performance of the sub-sector has been on the back of the expiry of the ATC in January 2005 (as explained in part II of the report) which has resulted in the closure of a number of textile firms.

In addition, the loti continued to remain strong against the US dollar and hence exacerbated the already weak performance of the textile and clothing industries. However, the extension of AGOA is expected to mitigate the cessation of all textile and clothing quotas under the ATC, implying that Lesotho will continue to enjoy duty free access to the US. Despite this, the greatest challenge for Lesotho is to diversify its products and markets to restore its competitiveness in the world markets.

In 2005, performance of the utilities (water and electricity) sub-sector was expected to improve by 3.5 per cent compared with a 0.6 per cent fall realised in 2004. This moderate increase was expected despite the negative spill-over effects related to the weak performance of the textile and clothing industries. However, the increase in the performance of the sub-sector was associated with the increase in the number of electricity connections as well as overall electricity consumption. The building and construction sub-sector's output was estimated to improve appreciably. It was estimated to rise by 2.0 per cent following a 0.4 per cent increase, realised in the previous year. The pick-up was related to road construction activities undertaken by Government. The rise in building permits for both residential and commercial purposes also explained the estimated growth of the sub-sector.

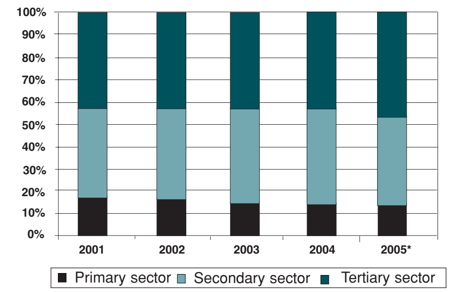
(c) Developments in the Tertiary Sector

The tertiary sector remained the main contributor to GDP in 2005, at a share of 44.8 per cent. The performance of the sector was estimated to improve from a growth rate of 2.5 per cent in 2004 to 4.4 per cent in the review year. Improved performance was largely accounted for by catering and finance and insurance activities. Value added by the catering sub-sector was projected to rise by 7.1 per cent following a 4.5 per cent increase recorded in 2004. This sub-sector received a boost from various international conferences and seminars held in the country during the year under review. Finance and insurance activities were expected to benefit from the entry of two financial institutions into the banking industry in 2005. Value added by finance and insurance was estimated to increase by 10 per cent in 2005 after rising by 0.5 per cent a year ago.

Value added by the transport and communications sub-sector was estimated to slow down slightly, reflecting the impact of the rise in international oil prices. The increase in international oil prices negatively impacted on the profitability of most business enterprises in the economy.

In 2005, the wholesale and retail trade sub-sector was estimated to register a growth rate of 2.5 per cent in value added in 2005 compared with 4.7 per cent rise realised in the previous year. The slowdown emanated from a reduction in the purchasing power of consumers, as more households lost income following the retrenchments of migrant labourers from the SA mining industry and job losses in the textile and clothing industry.

Figure 4: Sectoral Shares in GDP at Factor Cost

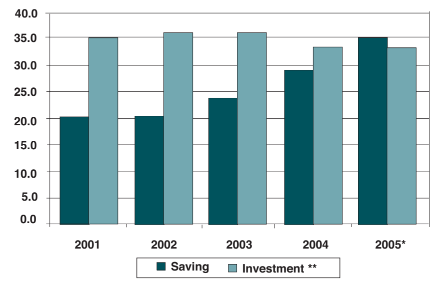


Source: Bureau of Statistics
* CBL Projections

3.1.3 Savings and Investment

Savings as a proportion of GNI slightly exceeded investment in 2005. Thus savings-investment gap was 0.5 per cent of GNI in 2005. Gross national savings as a percentage of GNI was estimated at 34.8 per cent, while Gross national investment was projected at 34.9. The rise in levels of savings was on account of a pick-up in both private and government savings. The marginal rise in government savings reflected receipt of SACU revenue windfall.

Figure 5: Savings and Investment (As a percentage of GNI)



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

Saving as a share of GNDI

National savings is obtained as a balancing item, in which case it is derived from GNDI less final consumption. Saving as a ratio of GNDI has recorded a lower magnitude, of 25.3 for 2004 and 30.0 for the year under review, relative to the trend observed in saving as a ratio of GNI as depicted in figure 3. The low levels in the former are largely a result of fluctuations in the current transfer's category in GNDI, which is considered erratic.

3.2 Employment, Wages and Prices

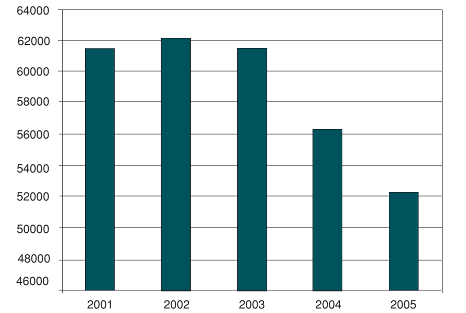
3.2.1 Employment Developments

Employment developments are gauged through employment in the manufacturing sub-sector, migrant mineworkers and Government. However, this data are not indicative of overall employment in the economy, as it excludes data in other sectors of the economy.

The level of employment in the manufacturing sub-sector was reported at 43 131 in the review year, compared with 50 607 observed in 2004. This represented an annual decline of 14.8 per cent. The drop resulted from the closure of some textile and clothing firms following the phasing-out of the ATC. This was in line with an expected 8.3 per cent contraction in the output of the manufacturing sub-sector compared with a 5.9 per cent rise registered in 2004. Government employment, which is the second largest, increased marginally in 2005. It rose from 36 215 in 2004 to 37 245 in 2005. The increase in overall employment by Government emanated from a rise in the number of civil servants and teachers.

The SA mining industry has for several years been a significant contributor to the economy of Lesotho by absorbing thousands of Basotho men. However, the average number of Basotho migrant mineworkers in SA declined from 56 357 in 2004 to 52 450 in 2005. This 6.9 per cent decline in employment was driven by, among others, the strong rand vis-à-vis the US dollar and a rise in international oil prices. These factors negatively affected the profitability of the SA mining industry. Therefore, in an effort to engage in cost cutting measures some mines laid-off workers.

Figure 6: Average Number of Migrant Mineworkers in SA



Source: The Employment Bureau of Africa (TEBA)

3.2.2 Wages

Minimum wage levels for different occupations are determined annually by the Government, based on the advice of a tripartite advisory board. This Advisory Board consists of representatives of the Government, employers and labour unions. Minimum wages for various categories were increased on average, by 5.0 per cent for 2004/05. The increment came into operation in October 2004. In October 2005, they were adjusted by 3.5 per cent for 2005/06. In adjusting the minimum wage levels, the Board takes into consideration price developments. With the average annual rate of inflation registered at 5.0 per cent and 3.4 per cent in 2004 and 2005 respectively, the increment compensated employees for wage erosion by inflation.

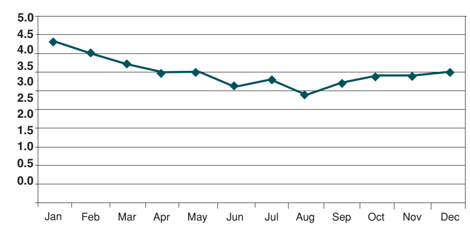
The Government granted a 5.0 per cent increment for civil servants salaries and wages, in the fiscal year 2005/06. The increment was also based on price developments.

3.2.3 Price Developments

Inflationary pressures continued to remain relatively subdued in 2005. Overall inflation rate measured by changes in the Consumer Price Index (CPI) recorded an average of 3.5 per cent, down from 5.1 per cent registered in 2004. The slow-down in inflation continued to benefit from the generally low level of inflation in SA, given the close trade links between the two economies. This augured well for Lesotho as the country benefited from lower imported inflation on the back of the strong rand vis-à-vis major international currencies, which mitigated import costs.

Nonetheless, oil and food price developments are potential threats to the inflation outlook. The price of brent crude oil hovered around US$65 per barrel, which remained a serious threat to oil importing countries such as Lesotho. Furthermore, shortages in food production (and hence higher food prices), are expected to pose a threat given that food inflation accounts for about 39.8 per cent in the CPI basket.

Figure 7: Lesotho Consumer Price Index (Annual Percentage Change)



Source: Bureau of Statistics

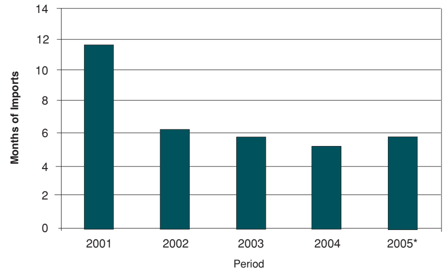
3.3 Balance of Payments (BOP)

3.3.1 Overall Balance

The external sector position was expected to continue to improve in 2005. According to the projections by CBL, the overall surplus in the BOP was expected to increase from M10.6 million in 2004 to M260.0 million in 2005. The BOP surplus indicated that earnings from economic transactions between Lesotho residents and the rest of the world during the year exceeded the payments. This means that the country is building reserves.

The expected improvement in the country's BOP position resulted from positive developments in the current account. The current account deficit was estimated to narrow significantly in 2005, owing mainly to a 14.0 per cent increase in current transfers, which were driven largely by the receipt of the SACU revenue windfall. Furthermore, net payments on services were anticipated to decline by 15.9 per cent in 2005. These outweighed the impact of the deterioration in the capital and financial account. The transactions balance, which is a measure of change in reserves without the effect of exchange rate movements, was also estimated to narrow from a surplus of M175.7 million in 2004 to that of M151.2 million during the review year.

Figure 8: Official Reserves in Months of Imports



*CBL Projections

Gross official reserves increased by 8.4 per cent from M3343.8 million in 2004 to M3625.6 million in 2005. As a result, official reserves in months of imports increased from 5.2 months in 2004 to 5.8 months during the review period.

BOX 1: LOW INFLATION AND INTEREST RATES: PROSPECTS FOR GROWTH

Low interest rates are a catalyst for economic growth, as they encourage both investment and consumption. Though, benefits depend on the magnitude of the impact on other macroeconomic variables, like the direction of saving. Low inflation is conducive for consumer boom. Inflation is mainly influenced by demand, supply and structural factors. Low inflation preserves the purchasing power of people's income and creates a stable business environment that allows firms to plan their production and investment activities with a reasonable degree of certainty.

Due to membership to the Common Monetary Area (CMA), Lesotho's currency is pegged to the SA Rand. This allows Lesotho to benefit from a relatively low inflation environment. In addition, the CMA Agreement provides for free movement of funds among the member countries. Coupled with low and stable inflation outlook, this ensures that interest rate movements in Lesotho are usually in line with trends in SA.

Following the introduction of explicit inflation targeting by the South African authorities in February 2000, both inflation and interest rates maintained downward trends, with the expected positive spin-offs for Lesotho. Recently, Lesotho's inflation has been hovering around an average of 5 per cent. Interest rates also followed suit and the prime lending rate by the commercial banks declined from 17.67 per cent in 2003 to 11.50 per cent in 2005. The outlook for inflation and interest rates remained positive and thus conducive for investment and consumption expenditure, despite potential pressure from the crude oil price increases. As a result, it is expected that consumer and investor confidence will remain high in 2006.

A conducive inflation and interest rate environment provides a good base for economic growth through availability of funds at relatively low costs. However, this assumes the existence of an effective intermediation process, whereby banks are willing to extend credit to the private sector, particularly, for investment purposes.

Table 3

SUMMARY OF BALANCE OF PAYMENTS
Excluding LHWP+
(as a percentage of GDP)

	2001	2002	2003	2004	2005*
Current Account	-3.6	-14.3	-7.1	1.2	0.6
Capital and Financial Account	2.3	7.9	4.7	1.8	0.5

+LHWP related imports and capital flows are excluded, as they are considered to be transitory.
*CBL Projections

3.3.2 The Current Account

The current account balance was expected to show some improvement in 2005. Including Lesotho Highlands Water Project (LHWP) related flows, the current account balance was expected to improve from a deficit of 2.9 per cent of GDP in 2004 to that of 1.2 per cent in 2005. The main contributing factor to this improvement, as already mentioned, was an increase of 14.0 per cent in current transfers. The latter were mainly boosted by 19.3 per cent surge in SACU non-duty receipts, which constituted the bulk of transfers to the Government. In addition, net payments on services were expected to decrease by 15.9 per cent resulting in the narrowing of the current account deficit. However, excluding LHWP related flows, the current account balance was expected to decline from a surplus of 1.2 per cent of GDP in 2004 to 0.6 per cent in the review year.

3.3.3 Income and Trade in Goods and Services

Preliminary estimates indicated that exports lost strength in 2005, following an increase in the previous year. The nominal value of exports cent, driven largely by increases of 26.0 per cent and 32.0 per cent in interest income by the CBL and the commercial banks, respectively. On the other hand, miners' remittances fell by 10.9 per cent in 2005, as the number of Basotho employed in SA mines maintained a downward trend. A decline in miners' remittances compared with an increase of 6.6 per cent registered in 2004.

3.3.4 Capital and Financial Account

The net inflows of the capital and financial account were estimated to decline to 2.8 per cent of GDP in 2005 from 6.9 per cent in 2004. Excluding flows related to activities of the LHWP, the capital and financial account inflows were estimated to fall to 0.5 per cent of GDP compared with 1.8 per cent of GDP in the previous year. The deterioration emanated largely from the official loan repayment during the second half of the year, therefore leading to an increase in the official repayments. Slow implementation of government projects, as reflected in the substantial decline in official grants also impacted adversely on the capital and financial account. Furthermore, Foreign Direct Investment (FDI) also declined in line with developments in the manufacturing subsector. However, despite the significant fall from 6.9 per cent of GDP in 2004 to 2.8 per cent in 2005, capital and financial account surplus was still sufficient to finance the current account deficit.

3.3.5 Foreign Exchange Rates

The loti, which is pegged at par to the SA rand continued to strengthen in 2005. On average, the local currency unit appreciated by 0.03 per cent, 1.42 per cent and by 0.21 per cent against the Special Drawing Rights (SDR), the UK pound sterling and the euro respectively. However, it depreciated by 0.71 per cent against the US dollar.

was estimated to decrease to 44.1 per cent of GDP in the review period compared to 51.3 per cent in the previous year. This decrease was attributed to the slowdown in consumer spending in the US, as the bulk of Lesotho's exports were destined to the US market. Some textile and clothing manufacturing companies closed down at the end of 2004. The closing down of these companies was largely a result of the phasing out of the quota system, under the ATC of the World Trade Organisation (WTO), at the end of December 2004. The appreciation of the loti as well as cash-flow problems further worsened the situation for the Lesotho export manufacturers. These factors impacted negatively on manufacturing production and exports.

The nominal value of imports was also expected to decrease by 4.1 per cent in 2005 following an increase of 10.5 per cent in 2004. Expressed as a percentage of GDP, the value of imports was estimated to decline to 85.5 per cent from 93.2 per cent in the previous year. The decrease resulted from the relatively weak performance by the manufacturing sub-sector, as indicated by a reduction in imports of raw materials, since the sub-sector relies heavily on imported inputs. In addition, the sluggish capital expenditure due to slow implementation of government projects also harmed imports.

Net payments on services acquired from abroad were estimated to continue to decline in 2005. They fell from M209.2 million in 2004 to M176.0 million in the review year. This was ascribed to, among others, an estimated 4.1 per cent decline in payments for shipment.

Net income receipts increased, albeit marginally, during the review period. Following an increase of 9.4 per cent in 2004, net income receipts were projected to rise by 0.8 per cent in 2005. The marginal growth in net income receipts mainly reflected a combination of a robust increase in investment income and a steep decline in miners' remittances. On the one hand, investment income rose by 28.3 per

A number of factors continued to support the loti during the year. Interest rates in the CMA 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.

The appreciation of the loti against other major currencies such as the euro and the UK pound sterling had various implications for the economy of Lesotho. On the one hand, it may reduce price competitiveness of the country's exports in overseas (*Euro*-zone and United Kingdom) markets. This, in turn, may impact negatively on earnings accruing to Lesotho companies. Furthermore, the appreciation could negatively affect SA's exports due to trade relations between SA and the European Union, which would in the long-run affect the rand, hence the loti. On the other hand, by reducing the cost of euro and pound sterling denominated imports, the appreciation of the local currency eases inflationary pressures.

The depreciation of the loti against the US dollar could improve the price competitiveness of Lesotho's exports in the US, where the bulk of country's exports are destined. This in turn, has positive implications on the country's export earnings and therefore manufacturing production. However, it simultaneously increases the cost of US dollar denominated imports and may thus increase inflationary pressure.

BOX 2: CAPITAL FLOWS AND MACROECONOMIC STABILITY

Policy makers and economists researchers alike concede that international private capital flows are a boost to development for most developing countries. Lesotho as a developing country is categorised as a beneficiary of such flows. It is however noted that in recent history there has been an increase in capital flows among developing countries themselves. Capital flows can be divided into three broad categories, namely, foreign direct investment (FDI), financial flows (bank credit), and portfolio flows.

First, FDI is considered the most stable, and tends to be the largest component of capital flows to countries at Lesotho's level of development. In Lesotho, FDI rose significantly from 1995 when the Government embarked on a privatisation programme. It was also boosted by infrastructural development in the manufacturing sub-sector, in particular textile and clothing. The sub-sector is mainly dominated by investors from the Asian region, of Taiwanese descent/origin. FDI in this sector is coordinated by LNDC which is charged with the mandate of monitoring industrial development and foreign investment. Bank credit often assists developing countries with trade finance, as trade has important implications for development. This is provided by development banks, multilateral institutions, specialised firms and insurance guarantee houses. Lesotho gets this type of assistance through the International Monetary Fund and United Nations Conference for Trade and Development (UNCTAD). Third, portfolio flows are regarded as the most volatile. These include bonds and equity financing, and their use is wide spread in countries with more developed financial systems,

It is vital to understand the movement of capital flows in their various categories. This has proved paramount for policy in the wake of the Asian crises of 1997/1998. A full knowledge of the magnitudes and direction of such flows helps policy makers to know with a reasonable degree of certainty the vulnerability of the Lesotho economy to inflows and/or outflows of capital. Massive flows are a source of shock and instability in most developing economies. The Central Bank of Lesotho (CBL) has since launched a private capital flows survey, with the intention of improving information on capital flows to and from Lesotho. The target population for the survey is entities that have foreign assets and liabilities.

3.4 Money and Banking

3.4.1 Money Supply

At the end of December 2005, broad money supply (M2)[23] grew at a faster rate of 9.1 per cent compared with last year's slower increase of 3.3 per cent. The increase in money supply in 2005 was attributable to an increase in domestic credit including net claims on Government, as well as net foreign assets.

M2 grew as a result of a significant rise of 15.1 per cent in narrow money (M1) which offset a fall of 2.9 per cent in quasi money. The increase in M1 was mainly driven by a jump of 16.7 per cent in demand and call deposits. The increase in this category of deposits was mainly due to two factors. First, it resulted from an increase in the number of holders of call and current accounts, in view of insignificant returns attracted by funds in interest earning accounts. Second, the environment of generally low interest rates in the economy reduced the opportunity cost of maintaining current accounts. This situation encouraged the public to hold money largely for transaction purposes during the review period. Consequently, fixed time deposits also saw a small increase of about 1.0 per cent of total deposits following a 26.6 per cent rise observed at the end of last year.

[23] M2 is defined as the sum of currency in circulation, demand, savings and time deposits with the commercial banks as well as demand deposits at the central bank.

BOX 3: THE ROLE OF RURAL FINANCIAL INTERMEDIATION TO POVERTY REDUCTION

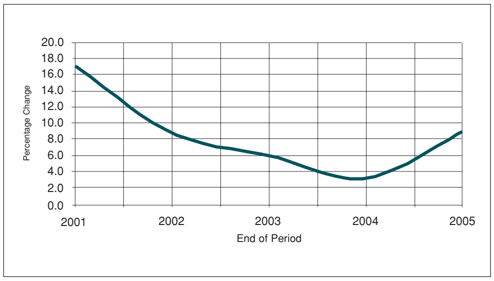
One of the major challenges facing poverty reduction efforts in Lesotho is the provision of financial services especially to the rural areas where the majority of the population lives. According to the Labour Force Survey 1999, it is estimated that 82.7 percent of the population resides in the rural areas where 81.1 percent of males and 75.1 per cent of females practice in subsistence farming. However, natural hazards such as droughts and hailstorms have decreased output in this sector, thus worsening the incidence of poverty. Hence, the role of the financial system within the ambit of poverty reduction becomes imperative, because finance can facilitate availability of inputs, allow for diversification in products, and enhance research and development in modern farming methods and techniques.

The financial sector in Lesotho is relatively underdeveloped. The sector comprises five banks, five insurance companies and twenty–one registered money lenders mostly located in the urban areas. As a result, financial intermediation in the country, particularly in the rural areas, is at the low ebb. The liquidation and privatisation of Lesotho Bank and the ultimate closure of the Lesotho Agricultural Development Bank created a vacuum in the provision of financial services to the small and medium sized enterprises in the rural areas. Consequently, the Government instituted a Rural Finance and Enterprises Support Project (RF & ESP).

Strategies under the project encompassed the following: (i) the re-orientation of financial policies and institutions to suit the needs of the rural poor; (ii) the provision of training and technical support to families engaged in micro enterprises; (iii) making financial services accessible to the rural communities; and (iv) improvement of rural infrastructure and marketing facilities. Another stride towards rural financial intermediation is the establishment of the Lesotho Post Bank. This bank caters for the banking needs of small investors and small entrepreneurs who live in the rural areas.

In an attempt to reach out for the goals set under the RF & ESP, the CBL developed the Rural Savings and Credit Groups (RSCGs) scheme to promote rural financial intermediation in the country. The objective of the effort is attainment of poverty reduction by linking the informal rural entrepreneurial groups with the formal banking sector. A rural credit guarantee fund which would be phased out with time has been established to induce the commercial banks to assist the RSCGs. The groups are used as vehicles of savings based credit to the rural households. Without having to change their current structures, the RSCGs have to formally register under the Societies Act of 1966 as amended. Training on proper business practices on issues of bookkeeping and accounting is highly embraced as a way of standardising record keeping by groups. The funding is targeted at business oriented village based groups that invest in activities, in any sector, that have the potential of improving the livelihoods of the poor. Currently, poultry farmers are the main beneficiaries under the scheme.

Figure 9: Money Supply Growth



3.4.2 Domestic Credit

The contribution of the financial sector to economic growth during the review period was reflected by the growth in total credit, excluding net claims on government and non-performing loans. This rose by a considerable 61.8 per cent at the end of the year 2005 from its previous increase of 11.6 per cent at the end of 2004. The increase was propelled by a huge growth registered by credit to the private sector, which overshadowed the fall in credit granted to statutory bodies.

At the end of December 2005, credit to the private sector increase by a substantial 72.9 per cent, following a 9.6 per cent realised at the end of 2004. This growth partly reflected that commercial banks had regained confidence in the private sector. Nevertheless, banks largely continued to alternate their investments between the domestic treasury bills market and other instruments in South Africa.

In the mean time, the CBL persisted in its pursuit of financial and structural reforms to improve credit extension in the economy throughout 2005. For example, efforts have been made in an attempt to prepare the Bank to provide in-house credit bureau services. Since credit information would be availed to commercial banks, this would go a long way in assisting banks to distinguish credit worthy people and thus enhance commercial banks' confidence in the private sector. Furthermore, the Financial Institutions Act of 1999 had been reviewed to keep apace with recent developments in the financial sector.

Credit to statutory bodies, which has been plunging steeply since the end of 1997, fell further during the review year. At the end of December 2005, credit extended to this subsector declined sharply by 36.0 per cent. The size of credit granted 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 overall banking system increased by a slower 7.0 per cent in 2005, compared with a 13.7 per cent increase recorded at the end of 2004. Table 4 below demonstrates that the main drivers of this increase were net foreign assets of both the commercial banks and the Central Bank. The net foreign assets of commercial banks and the CBL rose by 1.5 per cent and 9.2 per cent, respectively.

The CBL net foreign assets rose by 9.2 per cent, year on year, at the end of December 2005. This increase was a consequence of an expansion in the CBL foreign asset portfolio in local currency terms. This expansion was attributable to a portfolio revaluation, and recapitalisation during the year. Furthermore, the increase in the net foreign assets of commercial banks reflected a contraction in their foreign liabilities to the tune of 21.4 per cent. Nonetheless, their foreign assets sunk by 1.0 per cent indicating net transfers from abroad in response to an increase in auction amounts by M50.0 million. Since the domestic money market rates hover above their counterpart SA rates, commercial banks reduced their SA holding of securities in favour of local securities holding.

Table 4

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

	2001	2002	2003	2004	2005
Commercial banks	686.8	672.7	607.7	1117.9	1135.0
Assets	789.6	772.3	837.3	1253.8	1241.8
Liabilities	-102.8	-99.6	-229.6	-135.9	-106.9
Central Bank	4627.1	3211.4	2853.1	2816.2	3076.2
Assets	5136.9	3858.2	3341.1	3343.8	3625.6
Liabilities	-509.9	-646.8	-488.0	-527.6	-549.3
Net Foreign Assets	5313.9	3884.1	3460.8	3934.1	4211.2

* Figures may not tally due to rounding

3.4.4 Commercial Banks' Liquidity

The liquidity ratio[24] measures commercial banks' ability to adequately honour customers' demands in making withdrawals. The ratio was registered at 66.9 per cent at the end of December 2005, down from 68.7 per cent at the end of 2004. The decline in the ratio, at the end of the review year, mainly indicated an increase in long term assets of commercial banks.

The credit to deposit[25] ratio accelerated from its previous level of 24.9 per cent at the end of December 2004 to 36.6 per cent at the end of December 2005. The increase in the ratio reflected an increase in credit extended in the form of overdrafts and loans, thus indicating that commercial banks used a relatively larger amount of their deposit liabilities to finance credit during the year under review. This is a good development as it shows that the financial sector is gradually attempting to provide the much needed funds to finance economic activity.

3.4.5 Interest Rates

Major money market rates in Lesotho generally followed downward trends in line with regional trends. This situation was at the back of subdued inflationary pressures to the economy. Despite the threats of oil price hikes, inflation remained under control during the year under review.

At the end of 2005, the average prime lending rate in Lesotho stood at 11.50 per cent. At this level the rate was 67 basis points below last year's record. The decline resembled a reduction in the SA prime lending rate which fell by 50 basis points from its 2004 level of 11.0 per cent. During the second quarter of the year the SARB lowered its repo rate by 50 basis points. Consequently, money market rates were similarly influenced to fall. It could be observed that, even though the direction of the change in the two rates may be similar, the magnitude of the change may not necessarily be equal due to, among other factors, the differing risk profiles of the two economies.

Similarly, commercial banks' deposit rates followed downward regional trends. For example, the one year deposit rate was 5.0 per cent at the end of 2004, but declined by 25 basis points to 4.75 per cent at the end of 2005. At this level the rate was 135 basis points above the November 2005 inflation rate of 3.4 per cent. While real interest rates on short term deposit remained negative, real interest rates on one year deposits turned out positive. This situation may result from the fact that inflationary pressures remained subdued and commercial banks were reluctant to significantly reduce interest rates on long term deposits as a strategy to induce the public to invest long term.

[24] Liquidity is measured 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

[25] This ratio seeks to establish how much credit is extended to the private sector and statutory bodies using these sectors' deposits with the banking system. It thus assesses the degree to which the financial sector mobilises deposits from surplus sectors of the economy, and allocates these funds to deficit sectors.

When this happens commercial banks are able to control the risk which accrues from the liquidity-investment mismatch.

The 91-day treasury bills rate dropped by 91 basis points from 7.86 per cent in December 2004 to 6.95 per cent in December 2005. At this rate, it had reached a year on year historical low since the inception of the open market operations in September 2001. As expected, the rate was still exceeding its counterpart in SA, reflecting difference in liquidity levels, as well as the different frequencies at which the auctions are conducted in the two economies.

The margin between the two rates narrowed from 54 basis points observed last year to 15 basis points observed at the end of 2005. A narrower margin indicates a convergence of the Lesotho rate towards the regional levels.

3.5 Government Finance

3.5.1 Fiscal reforms in recent years

The last ten years came with several reforms aimed at enhancing fiscal efficiency and prudential budgetary operation. Most of these reforms emanated from the privatisation programme which was authorised in 1995 and accompanied with some regulatory reforms. One of the major reforms was the liquidation of Lesotho Agricultural Development Bank and the subsequent privatisation of Lesotho Bank in 1999. As discussed under monetary developments, these reforms greatly help to reduce the amount of credit to Government in favour of the private sector.

The Lesotho Revenue Authority (LRA) became operational in 2003, during which year a fiscal surplus of 0.8 per cent of GDP was realised. Consequently, the value added tax (VAT) was introduced at a higher rate than the General Sales Tax (GST). The Tax Amnesty Bill was also enacted with the purpose of assisting tax defaulters who had accumulated arrears over the past years to comply. This facilitated improvement in income tax compliance and realised higher collections.

The revenue raising measures were not done in isolation. For instance, efforts to consolidate expenditure were also exerted during the period. Those involved expenditure reduction measures that were targeted at non-essential public expenditures.

To further consolidate fiscal performance measures, while ensuring overall macroeconomic improvement, the national long term vision and the subsequent Poverty Reduction Strategy (PRS) were approved in 2004. The fiscal year 2004/05 saw the piloting of the Medium Term Expenditure Framework (MTEF) with the three Government ministries.

3.5.2 Fiscal performance in 2005/06

Following backward adjustment made to SACU revenue, government budgetary operations for the 2005/06 fiscal year were projected to result in a surplus equivalent to 1.5 per cent of GDP.

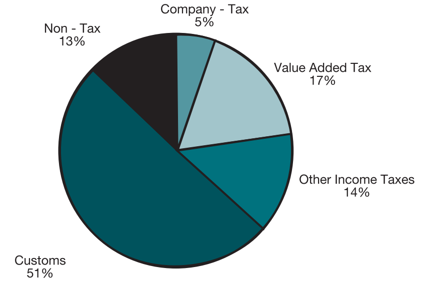
- *Revenue*

Total revenue and grants were estimated to grow by 8.2 per cent in nominal terms during 2005/06. The increase was attributed to SACU revenue that grew by 14.6 per cent in nominal terms. Income tax collections, on the one hand, were estimated to increase marginally by 0.8 per cent. This may be an indication that collection of income tax arrears was exhausted. VAT collections, on the other hand, dropped by 2.0 per cent as a result of the slowdown in economic activities. This was despite a number of revenue enhancing measures that were undertaken by the LRA during the review period. 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.

Non-tax revenue was expected to increase by 27.9 per cent during the period under review. The increase was attributable to water royalties which rose by 7.9 per cent, as well as a hike in property income. Interest receipts from loans were also expected to rise in line with an increase in loans on-lent to semi-autonomous agencies.

The level of capital grants was expected to fall by about 35.2 per cent during the review period. The whole amount was earmarked for implementation of capital projects such as schools and the National Library.

Figure 10: Sources of Government Revenue



Source: Ministry of Finance and Development Planning, and CBL estimates

• *Expenditure*

Total government expenditure was expected to grow by 26.7 per cent during 2005/06. This was expected to be driven by 23.6 per cent increase in recurrent spending coupled with 39.9 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 5.0 per cent due to an upward adjustment of civil service salaries as well as the slight increase in employment of teachers due to the implementation of the Free Primary Education (FPE) programme during the review period.

Following the local government elections held in April 2005, plus its operationalisation, expenditure on other goods and services was estimated to grow by about 44.4 per cent. This was ascribed to the refurbishment of some office space for local councils, as well as catering for their operating costs.

Total interest payments were expected to escalate by 25.2 per cent during the period under review. This was at the back of foreign interest payments which grew by 65.8 per cent following the accelerated payment of one of the non-concessional loans. However, the increase was moderated by the decline of 29.2 per cent in domestic interest payments. The stock of new domestic debt comprised only treasury bills issued for monetary policy purposes.

Subsidies and transfers rose by 29.2 per cent during the year. This was mainly driven by pensions paid to elderly people aged 70 years and above, and support to HIV and AIDS affected people. Subventions to various government institutions were also estimated to contribute to the rise in subsidies and transfers.

Capital expenditure was estimated to rise by 39.9 per cent during the review period. Government funded projects accounted for 51.1 per cent of these outlays while loan and grant funded projects contributed 33.5 and 15.5 per cent respectively.

Table 5

SUMMARY OF BUDGETARY OPERATIONS
Million Maloti

	2001/02	2002/03	2003/04	Revised 2004/05	Projections 2005/06
Total Receipts	2976.3	3331.0	3594.5	4361.8	4719.2
Revenue	2787.5	3034.7	3416.7	4130.4	4569.2
Customs	1438.5	1470.0	1421.6	2012.4	2305.9
Grants	188.8	296.3	177.8	231.4	150.0
Total Expenditure	3018.9	3656.1	3532.2	3613.5	4578.9
Recurrent expenditure	2393.3	2876.2	2906.8	2919.7	3608.1
Purchases of Goods & Services	1793.7	2147.1	2059.1	2002.5	2429.1
Capital Expenditure & net Lending	625.6	779.9	625.4	693.8	970.8
Surplus/Deficit before grants	-231.4	-621.4	-115.5	516.9	-9.7
Surplus/Deficit after grants	-42.6	-325.1	62.3	748.3	140.3
Government Savings	583.0	454.8	687.7	1442.1	1111.1
Financing					
Foreign, net	31.9	53.4	-25.7	-63.7	-177.2
Domestic	10.7	271.9	-36.5	-684.6	36.9
Bank	62.4	320.8	104.0	-638.7	-84.0
Non-Bank	-51.7	-48.9	-140.5	-45.9	120.9
In per cent of GDP (unless indicated otherwise)					
Revenue (excluding Grants)	41.2	40.2	41.4	46.3	48.8
Customs (in % of revenue)	51.6	48.4	41.6	48.7	50.5
Grants	2.8	3.9	2.2	2.6	1.6
Total Expenditure	44.6	48.5	42.8	40.5	48.9
Surplus/Deficit before grants	-3.4	-8.2	-1.4	5.8	-0.1
Surplus/Deficit after grants	-0.6	-4.3	0.8	8.4	1.5
Government Savings	8.6	6.0	8.3	16.1	11.9
Memorandum item: GDP in current prices	6766.2	7541.1	8248.6	8930.5	9369.1

Source: Ministry of Finance and Development Planning, and CBL Projections

3.5.3 The overall budget balance and financing

It has been indicated earlier, that an overall fiscal surplus equivalent to 1.5 per cent of GDP would be realised during the period under review. The said surplus enabled Government to repay part of the non-concessional debt to the tune of M222.3 million without reducing its international reserves. 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

During the fiscal year 2005/06, recurrent expenditure was estimated at M3608.1 million. The expenditure on community and social services accounted for 52.9 per cent of the total recurrent budget. In support of FPE, about 60 per cent of social spending went towards education which was extended to cover students in the 6th 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).

In an effort to curb the HIV and AIDS scourge and other chronic illnesses, the health sector expenditure increased by 130 basis points to 17 per cent of expenditure on social services. Social security and welfare was estimated at 18.3 per cent. The thrust of social welfare during the fiscal year was the provision of old age pensions to the elderly people aged 70 or above and support of the HIV and AIDS orphans.

General government services slightly increased by 20 basis points to 32.4 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 8.3 per cent of recurrent spending. Agriculture was estimated at 41.2 per cent of the economic services, followed by mining and industry, and transport and communication.

3.6 Public Debt

3.6.1 Overview

Total outstanding government debt was recorded to decline by 2.2 per cent at the end of 2005 to a level equivalent to 50.5 per cent of GDP. This improvement was a result of the 2.5 per cent reduction in the external debt stock following accelerated payment of one of the non-concessional loans and a slight appreciation of the loti against some major currencies in which it is contracted.

The repayment improved Lesotho's foreign debt position further by retaining her position below the developing countries' sustainability threshold of 60 per cent of GDP. The debt service ratio, excluding exports of factor services, also declined to 10.6 per cent at the end of 2005, from 12.3 per cent realised in 2004. This indicated that the country's debt sustainability position was better in the period under review.

Table 6

PUBLIC DEBT INDICATORS FOR END OF YEAR
In per cent

	2001	2002	2003	2004	2005
Total debt as % of GDP	110.6	82.2	68.7	53.7	50.5
External debt as % of GDP	96.6	69.6	54.4	46.4	43.5
Domestic debt as % of GDP	14.0	12.6	14.2	7.3	7.0
External debt as % of total	87.3	84.7	79.3	86.4	86.2
Domestic debt as % of total	12.7	15.3	20.7	13.6	13.8
Concessional as % of External debt	76.2	70.2	72.3	78.5	83.7
Debt service ratio(1)	6.6	2.0	3.3	7.3	6.6
Debt service ratio(2)	12.9	3.4	5.8	12.3	10.6

Source: Ministry of Finance and Development Planning

(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 maintained a downward trend, in 2005. It fell by 2.5 per cent in nominal terms to about 43.5 per cent of GDP compared with 46.6 per cent of GDP recorded last year. Maturity of several non-concessional loans from financial institutions and bilateral creditors were responsible for the fall in external debt.

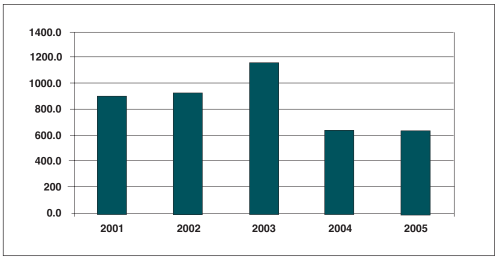
External debt remained within sustainability thresholds of 60 per cent of GDP and the debt service ratio of 15 per cent. The external debt to GDP ratio was recorded at 43.5 per cent compared with the 2004 ratio of 46.6 per cent. The debt service ratio, excluding factor income, slightly improved from 12.3 per cent in the previous year to 10.6 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.

Government continued to limit external borrowing primarily to concessional terms. Concessional debt constituted 83.7 per cent of total foreign borrowing. The redemption of non-concessional loans firmed up the dominance of Multilateral loans to 84.7 per cent of the external debt portfolio. Bilateral loans and loans from financial institutions constituted 9.9 and 3.5 per cent of foreign debt respectively. External debt marginally fell by 40 basis points to 86.2 per cent of the total stock of public debt. About 79 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 15 and 6 per cent of foreign debt respectively.

3.6.3 Domestic Debt

Domestic debt maintained almost a similar position to that recorded in the previous year. This was in contrast to the 44 per cent decrease realised in 2004 as a result of the repayment of the 5 year bond to one of the banks during the year. As a consequence to the fiscal surplus earlier mentioned, short term domestic debt mainly constituted the treasury bills issued for monetary policy purposes. The short term debt, which was spread between the bank and non-bank institutions, fell by 16.1 per cent. This was primarily due to the reduced holdings of these debt instruments by the banking sector. However, the increase in holding by the non-banking sector moderated the decline.

Figure 11: Government Domestic Debt (Million Maloti)



Long term debt maintained the level recorded at the end of 2004. This comprised of a 10 year bond which had been issued for the privatisation of the old Lesotho Bank in 1999.

4.1 Supervision of Financial Institutions

The CBL carried out its supervisory role by collecting and analysing information about financial institutions which fall under its purview. The supervisory approach combines off-site surveillance and on-site inspection.

In pursuit of its objective of focusing more attention to the insurance industry, monitoring was undertaken through the twin approach as well as constant interaction with both the insurance companies and insurance brokers. Issues discussed, during such interactions centered on the industry performance, matters of supervisory concern as well as developments in the insurance industry and the financial system as a whole. There was an introduction of a risk – based approach to the supervisory practices and has made marked progress considering its recent creation.

The Central Bank has initiated a process of reviewing the laws under its jurisdiction, with a view to address emerging supervisory challenges and to fall in line with international standards of supervision. In this connection the revision of the Insurance Act 1976 which was started in 2004 was pursued intensively in 2005 and it is hoped that the draft bill will be presented to parliament during the course of 2006. In addition, the CBL has commenced a review of the Financial Institutions Act (FIA) 1999, with a view to introduce among others, a tiered banking system in Lesotho. The CBL believes that tiering of the banking sector will facilitate entry of local investors into the banking industry. The intention of the review is to allow for the development of three tiers of the banking sector. Tier 1 will represent fully fledged commercial banks, tier 2 will comprise dedicated or narrow banks whose banking activities will be limited to fixed term and savings deposits as well as credit extension. Tier 2 banks will, of course, include the Lesotho Post Bank and cooperative banks. Tier 3 will be represented by micro-finance institutions. In 2005, the process of nurturing some cooperative societies, with the aim of upgrading them to the status of cooperative banks continued with vigour.

The Bank was still concerned about the low level of financial intermediation in the country. In its endeavour to remove structural impediments so as to level the playing field, the Bank sponsored a study tour to the commercial court of Uganda. This was done in an effort to learn how the Lesotho commercial court can be set in motion. The tour was undertaken by a judge of the High Court and two officials. Following this tour which revealed that such an institution is indeed viable, appropriate recommendations were submitted to the relevant Government authorities.

In the previous annual report, it was envisaged that the close of 2005 would witness the establishment of the first credit bureau in Lesotho. When the much hoped for development did not materialise, the Bank pursued an option of a Credit Information Registry (CIR) to be located at the Bank. An application for technical assistance has been submitted to the IMF.

The 2004 annual report had indicated the re-establishment of Lesotho Post Bank to provide banking services to the rural population. The end of 2005 saw the successful completion of the pilot phase of the re-establishment. Eleven branches were opened in the remotest mountain areas.

In an effort to address the dearth of micro-finance, which is an impediment to economic development, the CBL sought technical assistance from several donor agencies, in order to develop policy and legal frameworks for micro- finance in the country. African Rural and Agricultural Credit Association (AFRACA) and Deutsche

Gesellschaft fur Technische Zusammenarbeit (GTZ) responded positively and in March 2005, commissioned two consultants to review the situation on the ground and to assist with the development of the framework. The Board of Directors of the Bank endorsed the consultants report and recommended to Government that the next phase of implementation of the policy and legal frameworks, as well as building capacity within the CBL be undertaken. The Bank wishes for a well regulated and supervised micro- finance sector that will contribute to poverty alleviation while complying with the requirements of financial safety and soundness.

In tandem with all other central banks around the world, the CBL remains interested in the new capital adequacy framework, even though there are no immediate plans to implement the Accord. The Task Team that was set up to consider the benefits of the revised framework in the context of Lesotho's banking system, presented its report to the Committee of Bankers. In its recommendations the Team advocated for the Accord to be embraced, while the Team continues to determine the conditions, scope and timing for implementation.

4.2 Policy and Exchange Control

• *The Exchange Control Regime*

The Exchange Control Regime of Lesotho is administered in the context of the Multi Lateral Monetary Agreements among the member countries of the CMA. Lesotho is responsible for administering its own exchange control provisions which essentially have to be consistent to those of South Africa in terms of the Bi-Lateral Monetary Agreement between the two countries.

• *The Balance of Payments Cross Border Foreign Exchange Transactions New Reporting System*

The BOP project is a regional (CMA) project designed for the comprehensive data capturing of inflows and outflows of currency to and from Lesotho. While it is based on international standards of reporting currency flows in the manner that bears relevance to economic data in the region, it marks another stage in the gradual move away from the purely prohibitive/restrictive regime to the new era of simply recording financial transactions. For the first time currency flows between member countries of the CMA are being recorded.

The project was expected to go life in August 2005, but due to some unforeseen technical problems some banks only managed to go life in September 2005. Several meetings were held throughout the year with stakeholders, namely the Authorised Dealers (ADs), CBL, Information and Communications Technology Division and South African Reserve Bank (SARB) Team to prepare the project for the smooth take off. The operational documents prepared to assist ADs were put on the CBL website and can be viewed at (www.centralbank.org.ls): Operations Manual, Business and Technical Specifications and Validation.

• *Money Laundering and Financing of Terrorism*

Lesotho as a member of Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) underwent mutual evaluation/assessment in June/July 2004. The Mutual Evaluation Report (MER) was completed and presented for approval before the ESAAMLG Council of Ministers of Finance in Swaziland in November 2005.

In the intervening period prior to November 2005 the Division and the Anti Money

Laundering Task Team were engaged in validating and commenting on the MER.

The weaknesses identified in the MER as a result of which Lesotho may not have a rigorous Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) regime are largely systemic. These include lack of capacity in the judiciary and law enforcement agencies and inadequate legal frameworks on which even the existing fragile systems can function. Critical short-comings include shortage of skills and resources (both human and material).

The importance of the Mutual Evaluation process to the envisaged AML/CFT regime was the contribution of the ESAAMLG assessors by commenting on the Money Laundering and Proceeds of Crime Bill. The bill also benefited from the comments made by the IMF mission. Once the bill is enacted into law it will form a solid foundation for implementation of an effective AML/CFT regime. The bill has been perfected for the legislative process during 2006.

• *Illegal Exportation of Bank Notes*

According to Exchange Control Rulings, which assisted the Authorised Dealers to implement the Exchange Control Regulations 1989, the exportation and importation of local currency bank notes is only allowed up to prescribed limits. During the period under review the Bank assisted the law enforcement agencies in two incidences that occurred at Moshoeshoe I International Airport, where there was an alleged illegal exportation of bank notes of substantial amount in excess of the prescribed limits. These incidences led to court cases in which the bank was directly involved.

4.3 Developments in Rural Financial Intermediation

During the year 2005, the Bank largely embarked on sensitisation of rural communities on the operation of the Rural Savings and Credit Scheme. Visits to remote areas of the country were made in collaboration with the Ministry of Agriculture. The Bank facilitated a media coverage by AFRICA REPORT where site visits were made and activities of the RSCGs captured. The coverage was on three RSCGs from the districts of Teyateyaneng and Botha-Bothe.

During the review period, that the CBL initiated translation of the RSCGs Blueprint into Sesotho. This was in response to the public request for a Sesotho version of the policy. A consultant was outsourced to undertake the translation assignment and a contract for translation was duly completed during the year. The final draft was approved by the management of the CBL.

In furtherance of the policy for Financial Intermediation, it became apparent that qualification into the RSCGs scheme was rather stringent when it came to grouping by villages. The Bank, therefore, submitted a proposal to review village grouping as connoted in the blueprint. A paper justifying and augmenting village grouping by clustering according to area, was approved by the RSCGs steering committee.

An increase in ready groups was noted with a total of 46 RSCGs registered and holding active accounts with commercial banks. Despite the slow take-off, geographically the groups' dispersion truly represented rurality and met eligibility criteria by virtue of the achieved coverage in the seven districts of the country. Moreover, the bank continuously received enquiries from would-be users of the scheme and requests for training in business management, a responsibility to be assigned to Non Governmental Organisations (NGOs).

Selection of NGOs for training of groups had been anticipated to reach completion during the year. However, that did not materialise due to financial constraints encountered by the Fund. Under the circumstances, a training budget was submitted to the Board for approval.

The Credit Guarantee Fund (CGF) realised a growth of about 2.88% in interest from April to December 2005. The reported growth was a result of an investment in Treasury Bills and Call deposits.

The year 2005, saw the emergence of three group loans from the districts of Quthing and Berea. At the end of the year, performance of those groups was satisfactory with repayments up-to-date. More applications for finance under the guarantee of the CBL managed Credit Guarantee Fund were under process and these were in the sector of manufacturing, service and production. Appraisal of those loans was at different stages of development at the close of the year.

The Bank continuously participated in microfinance activities bordering on poverty issues. In the strife to share experiences and exchange views on poverty related matters, workshops and seminars were attended regionally. This culminated in a Sub-Regional Workshop for Southern African countries organised by AFRACA and hosted by CBL. The workshop theme was “Integrating Financial Services into Poverty Reduction Strategies” and country papers were presented with CBL presenting a case for Lesotho.

4.4 Development Finance

• *Development Finance Services*

During the period under review, the CBL, in an effort to develop the private sector, intensified measures to assist both the existing and potential indigenous exporters to access credit under the Export Finance and Insurance Scheme. Access to credit from the financial institutions has always been a problem for indigenous entrepreneurs in Lesotho because of the classical requirements of security, down payments etc. In most cases these requirements cannot easily be met by these entrepreneurs due to their level of production which is relatively small.

The Central Bank has, therefore, intensively promoted the scheme amongst cooperatives which are also encouraged to pool their resources so that they can enhance their chances of meeting the requirements under the Scheme and hence enter the export market.

The promotion campaign took the form of advertisements through the local media, public gatherings, visits to existing cooperatives and national exhibitions/shows. These campaigns, it is believed will make the existing cooperatives aware of the benefits offered by the scheme.

As another means of addressing the private sector, the CBL together with the Ministry of Finance and Development Planning, are currently working on the operational modalities for the Development Fund aimed at small to medium entrepreneurs in various industries of the economy.

4.5 Portfolio Management

The year 2005 saw the full implementation of the Reserves Management Investment Policy that had been approved by the Board in March 2004. The major focus in 2005 was to bring staff of the Department of Financial Markets and members of the Investment Technical Committee up to speed on the investment in fixed income instruments such as bonds. This exercise was successfully undertaken, and investments in the rand and dollar bond market were undertaken by the Bank for the first time, in May. This new measure has been largely successful as evidenced by, among others, an increase in the revenue of the Bank. Another major achievement was realised in the internal capacity that the Bank built in this area of financial markets.

4.6 Securities trading

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

Table 7

TREASURY BILL AUCTIONS

Type of Security	Auction Date (2005)	Amount Offered (Million maloti)	Amount Issued (Million maloti)	Discount Rate	RSA Discount Rate	RSA Lesotho Spread
91-day T/Bills	5-Jan-05	100.00	12.40	7.90	7.46	0.44
182-day T/Bills	12-Jan-05	50.00	50.00	8.32	7.10	1.22
91-day T/Bills	2-Feb-05	100.00	100.00	7.94	7.37	0.57
91-day T/Bills	2-Mar-05	100.00	100.00	7.72	7.33	0.39
182-day T/Bills	9-Mar-05	20.00	20.00	7.80	7.06	0.74
91-day T/Bills	6-Apr-05	145.00	145.00	7.70	7.30	0.40
91-day T/Bills	6-May-05	155.00	155.00	7.16	6.84	0.32
182-day T/Bills	11-May-05	20.00	19.90	7.00	6.90	0.10
91-day T/Bills	1-Jun-05	100.00	100.00	6.94	6.88	0.06
91-day T/Bills	6-Jul-05	150.00	150.00	7.08	6.87	0.21
182-day T/Bills	13-Jul-05	50.00	49.80	6.95	6.92	0.03
91-day T/Bills	3-Aug-05	155.00	155.00	7.02	6.84	0.18
91-day T/Bills	31-Aug-05	100.00	150.00	6.90	6.82	0.08
182-day T/Bills	7-Sep-05	20.00	19.90	7.00	6.67	0.33
91-day T/Bills	5-Oct-05	150.00	150.00	6.74	6.91	-0.17
91-day T/Bills	2-Nov-05	150.00	150.00	6.60	6.96	-0.36
182-day T/Bills	9-Nov-05	20.00	10.40	6.98	7.09	-0.11
TOTALS		**1,585.00**	**1,537.40**	**7.28**	**7.02**	**0.26**

The table shows that on average, the domestic interest rates in the Treasury bill market were 0.26 percentage points above those in the same market in South Africa. In the previous year, the margin was 0.87 per cent. The table also indicates that 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 M13.6 million. M0.19 million worth of Treasury bills were disinvested prematurely during the year. All the transactions were concluded with the Central Bank. Collateral transactions worth M40.1 million were also concluded during the year.

4.7 National Payment System

The year 2005 saw a kick-off of the implementation of the strategies as contained in the Vision and Strategic Framework of the Lesotho National Payment System (LNPS) Modernisation Project.

Developments of the Project were as follows:

• *Legal and Regulatory Framework*

The requested technical assistance that had been sought from the IMF to review the LNPS legal framework was finally granted. This assistance was with regards to the establishment of a legal and regulatory framework that supports a modern payment system.

Towards the end of the year, a Legal Expert from IMF visited Lesotho for a preliminary and fact finding mission. This was carried out through meetings with stakeholders, commercial banks and legal practitioners in the country. He also held a workshop to sensitise the LNPS project members, commercial banks and other major players in the payment system, on legal and regulatory matters as they affect the payment system.

A first draft of the mission report (Aide Memoire) was prepared. This identified a number of sections from the existing legislation that will need to be amended to cater for the LNPS as well as the need for a fully fledged NPS Act.

• *Real Time Gross Settlement (RTGS)*

A Request for Proposal (RFP) was issued in July 2005 for the establishment and installation of a Real Time Gross Settlement (RTGS) system at the Central Bank of Lesotho. This system is intended to settle large value and time critical payments in real time and at gross value without netting. This project was given top priority given its importance in reduction of settlement and associated risks and shall be followed by the Automated Clearing House (ACH) project.

• Automated Clearing

An ACH project is expected to follow the RTGS project and commence subsequent to the RTGS going live. Millennium Challenge Corporation (MCC) has tentatively shown an interest in providing assistance for the establishment of an ACH in Lesotho, following the initial study and the recommendations from FIRST Initiative (FIRST). FIRST has promised to send a consultant from Electronic Payments and Commerce to Lesotho in January 2006 to undertake the study and come up with a strategic plan for the proposed ACH. It is expected that the ACH shall be a joint venture between the Central Bank of Lesotho and the commercial banks and shall be housed outside the CBL.

• *Developments in Banking Sector*

Debit Cards

One of the key strategies of the LNPS modernisation project is to establish the debit card payment stream as a backbone for the retail payments in Lesotho. The preferred debit cards are interoperable, universally accepted and can be also used as an Automated Teller Machine (ATM) card for cash withdrawal at the ATMs. Standard Bank Lesotho Ltd issued Maestro Debit Cards towards the end of 2004 and these cards are internationally accepted and are interoperable, but there is no local switch. The other problem is that there are few merchants with Point of Sale (POS) machines where the cards can be operated. The challenge now is to encourage more merchants to install POS card readers in order to promote the use of debit cards and to encourage all the commercial banks to issue universally accept-

able interoperable debit cards. This could largely reduce the use of cash and the risks associated with it.
Following its introduction in October 2004, FNB (Lesotho branch) also issued VISA Electron debit cards which are also internationally acceptable and are interoperable.

Internet Banking

Nedbank Lesotho introduced Internet banking in 2005 with the main aim of providing customers with real time access to their accounts and ability to perform electronic transfers to third parties. The project is reported to have gone well in its pilot year and the bank intends to undertake intensive marketing to promote this product.

4.8 Research and Publications

The Central Bank of Lesotho disseminates information on the Lesotho economic environment and its relationship with the international community through its publications. The publications in the year 2005 included Monthly Economic Reviews, Quarterly Reviews and Annual Report. There were also a series of research papers undertaken to inform policy makers at the Bank and in Government. For this purpose the following research papers were commissioned; analysis of the economic impact of privatisation in Lesotho a paper on determinants of Lesotho exports: Emerging Trends and Policy Options, with particular emphasis on the impact of exchange rate volatility. Another research paper was the analysis of the lending and profitability of commercial banks and along side was the research paper on the role of the financial sector in economic growth in Lesotho. The other category of papers included research on tax incidence, highlighting implications for the poor, and research work on the relationship between inflation and economic growth.

4.9 Currency Management

Currency Management by the Central Bank of Lesotho involves, inter alia, handling of bulk deposits and withdrawals by commercial banks, sorting of Maloti notes and coins and the systematic issue of new and reissuable currency. It also includes 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 CBL has been to promote the use of Maloti Currency in the country and in that regard, local commercial Banks have been urged to issue rand to the public only in the event of need for rand currency. The collected rand currency by commercial banks, through deposits by the public, has to be deposited with CBL.

Currency Management Activities

- ***Rand Deposits and Repatriation***

There was a decrease of 5.8 per cent in 2005, as shown in Table 8 below.

Table 8

RAND REPATRIATION
(Million Rand)

	2001	2002	2003	2004	2005
Rand Repatriation	237.2	182.8	149.8	321.4	303.7

- ***Reissuable Notes***

The reissuable notes produced when processing deposited Maloti currency drastically reduced because of break down of our processing machines, refer to Table 9 below.

Table 9

REISSUABLE NOTES
(Million Maloti)

	2001	2002	2003	2004	2005
Reissuable Notes	567.7	676.0	771.7	959.0	20.2

• *Maloti Currency Issued*

Maloti notes issued has increased by 13.10 per cent compared to 2004 in Table 10 below.

Table 10

MALOTI CURRENCY ISSUED
(Million Maloti)

	2001	2002	2003	2004	2005
Maloti Issued	187.9	223.8	235.5	257.2	296.0

• *Maloti Repatriation from South Africa*

Maloti Repatriation from South Africa has shown erratic movement in the past five years. It has increased by 1.7 per cent in 2005 as shown in Table 11 below.

Table 11

MALOTI REPATRIATION FROM SOUTH AFRICA
(Million Rand)

	2001	2002	2003	2004	2005
Maloti Repatriation	231.9	218.2	270.8	223.8	227.6

4.10 Human Resources Management

• *Recruitment*

In order to ensure that the Bank remains fully operational at all times for the achievement of its objectives, the Bank has continued to fill vacant positions as they occurred throughout the Bank. This year vacancies occurred at all levels from Executive to General Services level. At Executive level the occurrence was mainly due to end of contract periods and as a result of this, five Executive positions were filled. One position was filled at the level of Head of Division. At sectional head and professional level, five positions each were filled through internal promotions, lateral transfers, transfer-on-promotion and new entrants, while four positions were filled at general service level.

• *Separation*

This year the Bank saw several separations from service in different ways from Executive Management to the General Service levels. Two executive members of staff and one Head of Division resigned their positions with the Bank. Contracts of employment for four other members of the executive came to end between February and June 2005. Two members of staff in the Department of Administration lost their lives due to illnesses. May their Souls Rest in Peace.

• *Training*

The Bank places a high priority on developing and maintaining competent staff through organised annual training and staff development programme. Out of a total of fifteen students on full time training this year, eight are studying towards obtaining first degree while seven are pursuing postgraduate qualifications in various specialised areas of the Bank's operations. Nine other members of staff are provided support to study on part time basis at all levels from Diploma to Postgraduate qualification.

• *Administrative Policies*

The Bank continues to revise and develop new policies and procedures in order to maintain consistency, instil discipline among staff, and to ensure that the Bank operates in accordance with best HR practices.

• *Community Service*

Staff of the Bank planted trees in Thaba Bosiu this year.

• *Social Activity*

This year the Bank hosted other sister banks in the SADC region for the annual sporting and social event.

BANK INFORMATION

Status:	Statutory body duly continuing in existence 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) In association with PricewaterhouseCoopers Inc.
Lawyers:	In-house legal Counsel

CONTENTS

The corporate governance statement for the financial year ended 31 December, 2005 focuses on the legislative and operational frameworks of the Bank. The choice of the theme is in recognition of the existence of the Bank for a period spanning a quarter of a century culminating in the 25th anniversary celebration in the month of January 2005.

Since its inception, the Bank experienced different phases of development initiated by the Lesotho Monetary Authority Act No. 13 of 1978. This Act laid down the foundation for the operation of the Authority in 1980. Furthermore, the Act enabled the Authority to carry out its functions and objectives in a legally responsible manner meeting the expectations of Government (the primary shareholder), Lesotho citizens and the global community in which the Bank operates.

Further legislative developments included the change of the name of the Lesotho Monetary Authority to the Central Bank of Lesotho in 1982 in accordance with the Lesotho Monetary Authority Amendment Act No. 2 of 1982. The change of the name was influenced by the the additional functions such as the Bank becoming a bank to the Government and commercial banks as well as the lender of last resort. The 1982 amendment of the Act was followed by a holistic legislative revision, culminating in the present Central Bank of Lesotho Act No. 2 of 2000. This revision was brought about by the desire to grant the Bank operational autonomy and central bank independence in the main.

On the operational front, the Bank's business is conducted by its staff led by the Governor, with oversight from the Board of Directors. In discharging its oversight responsibilities, the Board relies on advice from the officers of the Bank, Committees of the Board, namely, the Audit Committee, Remuneration Committee, Monetary Policy Committee and Executive Committee and independent professionals (including external auditors, architects, etc).

The Board carries out its oversight function by reviewing periodic financial statements, periodic performance reports, strategic plans and the recruitment of senior and middle managers. The Board also formulates policies that govern the administration and operations of the Bank and issues reports informative about the Bank to its shareholders, the general public and international community.

A.L. Ramone
Secretary to the Board

CENTRAL BANK OF LESOTHO
STATEMENT OF FINANCIAL RESPONSIBILITY BY THE BOARD OF DIRECTORS

for the year ended 31 December 2005

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 42 - 67 have been prepared in accordance with International Financial Reporting Standards (IFRS) 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 misstatement and loss. Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of 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 31 March 2006 and are signed on its behalf by:

E.M. Matekane
Governor

J.Q. Lesitha
Director

REPORT OF INDEPENDENT AUDITORS TO THE MINISTER OF FINANCE

We have audited the financial statements set out on pages 42 to 67 for the year ended 31 December 2005. 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.

Qualification - Foreign exchange gains and losses

As stated in notes 1.5 and 30 of the financial statements, the Central Bank of Lesotho Act, No 2 of 2000 (Section 54) states that the net currency exchange gains and losses should be taken directly to reserves, this is not in accordance with International Accounting Standards No 21. Had the net currency exchange gains and losses been taken to the income statement, in terms of International Accounting Standard No 21, net profit for the year after taxation would have been M247,207,000.

Audit opinion

In our opinion, except for the non-compliance with the International Standards No 21 as noted in the preceding paragraph, the financial statements fairly present, in all material respects, the financial position of the Bank at 31 December 2005 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 & Associates

Sheeran and Associates
Chartered Accountants and Auditors (Lesotho)
In association with PricewaterhouseCoopers Inc.
Date 31 MARCH 2006

The Directors present their annual report, which forms part of the audited financial statements of the Central Bank of Lesotho, for the year ended 31 December 2005. The financial statements are expressed in Maloti, the national currency of Lesotho.

Nature of business

The Bank is constituted and governed by the Central Bank of Lesotho Act No. 2 of 2000 (the Act). In terms of this Act, the Bank's primary objective is the achievement and maintenance of price stability.

Financial results

The financial results of the Bank are set out in the income statement on page 43. The residual profits after appropriations have been allocated to the general and other reserves, are paid over to the Government of Lesotho Consolidated Fund as dividends in accordance with Section 21 of the Act. These appropriations have been fully disclosed in the statement of changes in equity on page 44.

Dividends

Dividends paid to the Government of Lesotho Consolidated Fund in terms of Section 21 (5) of the Act 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

Name	Date of appointment	Position held
Matekane E.M.	September 2001	Governor and Chairman
Foulo T.[1]	November 2000	Deputy Governor II
Molemohi E.K.	March 2001	Non-Executive Director
Monaheng G.T.[2]	March 2002	Non-Executive Director
Moiloa M.[2]	March 2002	Non-Executive Director
Chimombe T.[2]	March 2002	Non-Executive Director
Makhetha P.M.	October 2004	Non-Executive Director
Tau-Thabane M.G	July 2005	Non-Executive Director
Ledimo P.M.I.S.	November 2005	Non-Executive Director
Lesitha J.Q.	December 2005	Non-Executive Director
Secretary		
Ramone A.L.	July 1998	Secretary to the Board

1. Term expired on 09 November, 2005
2. Term expired on 28 February, 2005

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

J.Q. Lesitha
Director

CENTRAL BANK OF LESOTHO
BALANCE SHEET as at 31 December 2005

	Notes	2005 M '000	2004 M '000
ASSETS			
Cash and Balances with Banks	1	**1 915 323**	2 410 035
Due from Banks	2	**14 777**	22 744
Treasury Bills	3	**49 320**	603 443
Treasury Notes & Bonds	4	**1 423 832**	-
IMF Subscription Account	5	**364 657**	349 041
IMF Holding of Special Drawing Rights	6	**3 249**	4 011
IMF Funded PRGF Advances	7	**255 993**	245 031
Lesotho Government Securities	8	**141**	33
Deferred Currency Expenditure	9	**2 824**	582
Property, Plant and Equipment	10	**160 265**	144 796
Deferred Taxation	11	**791**	2 382
Claims on Staff	12	**19 718**	12 687
Other Assets	13	**3 241**	46 094
TOTAL ASSETS		**4 214 131**	3 840 879
LIABILITIES AND EQUITY			
LIABILITIES			
Notes and Coins Issued	14	**295 332**	256 934
Deposits	15	**452 455**	449 644
Lesotho Government Deposits		**1 381 247**	1 313 450
IMF Maloti Currency Holding	16	**327 291**	313 516
IMF Special Drawing Rights Allocation	17	**39 067**	37 395
IMF - PRGF Facility	18	**255 993**	245 031
Taxation Liabilities	19	**11 099**	7 935
Due to Government of Lesotho Consolidated Fund	20	**44 527**	41 748
Internal Provisions and Accruals	21	**56 340**	51 469
TOTAL LIABILITIES		**2 863 351**	2 717 122
EQUITY			
Share Capital	22	**25 000**	25 000
General Reserve		**83 515**	72 330
Other Reserves		**1 242 265**	1 026 427
TOTAL EQUITY		**1 350 780**	1 123 757
TOTAL LIABILITIES AND EQUITY		**4 214 131**	3 840 879

CENTRAL BANK OF LESOTHO
INCOME STATEMENT for the year ended 31 December 2005

	Notes	2005 M '000	2004 M '000
Revenue			
Interest Income	23	**194 417**	152 596
Interest Expense	24	**(15 404)**	(1 420)
Net Interest Income		**179 013**	151 176
Other Income	25	**7 607**	4 713
Total income		**186 620**	155 889
Operating costs		**(81 906)**	(61 444)
Personnel Costs	26	**(39 388)**	(30 326)
Other Operating Costs	27	**(42 518)**	(31 118)
Profit before taxation		**104 714**	94 445
Taxation	28	**(37 609)**	(32 981)
Net profit for the year		**67 105**	61 464

CENTRAL BANK OF LESOTHO
STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2005

	M '000 Accumulated Profit	M '000 Share Capital	M '000 General Reserve	M '000 Rand Compensatory Reserve	M '000 SDR Revaluation Reserve	M '000 Foreign Exchange Revaluation Reserve	M '000 Property Revaluation Reserve	M '000 Special Reserve	M '000 Total
Balance at 1 January 2004	-	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 profit/(loss)	-	-	-	-	(7)	(163 494)	-	-	(163 501)
Balance at 31 December 2004	-	25 000	72 330	168 217	25 888	802 946	29 376	-	1 123 757
Profit after tax	67 105	-	-	-	-	-	-	-	67 105
Transfer to reserves	(11 185)	-	11 185	-	-	-	-	-	-
Interim dividend paid	(11 393)	-	-	-	-	-	-	-	(11 393)
Final dividend payable	(44 527)	-	-	-	-	-	-	-	(44 527)
Rand compensatory receipts	-	-	-	18 328	-	-	-	-	18 328
Exchange (loss)/profit	-	-	-	-	2 767	180 101	-	-	182 868
Asset Revaluation							14 811		14 811
Winding up of previous revaluation							(169)		(169)
Balance at 31 December 2005	**-**	**25 000**	**83 515**	**186 545**	**28 655**	**983 047**	**44 018**	**-**	**1 350 780**

Explanatory notes

General Reserve

The General Reserve has been allocated in terms of Section 21(2)(b) 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(5) of the Central Bank of Lesotho Act of 2000.

Rand Compensatory Reserve

The Rand Compensatory Reserve represents amounts received by the 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.

CASH FLOW STATEMENT

for the year ended 31 December 2005

	Notes	2005 M '000	2004 M '000
Cash flow from operating activities			
Cash flow from operating activities	29	**379 960**	121 106
Taxation paid	19	**(35 236)**	(31 915)
Deferred tax		**2 382**	-
Rand compensatory receipts		**18 328**	16 068
Payment to Government of Lesotho Consolidated Fund	20	**(53 141)**	(45 125)
Net cash flow from / (utilised by) operations		**312 293**	60 134
Cash flow from investing activities			
Additions to property and equipment		**(7 638)**	(3 248)
Proceeds from sale of fixed assets		**465**	89
(Increase)/decrease in claims on staff	12	**(7 031)**	2 270
Decrease/(increase) in other assets	13	**42 853**	(40 433)
Net increase in local investments	8	**(108)**	12
Net decrease/(increase) in treasury bills	3	**554 123**	(177 362)
Net increase in foreign investments	4	**(1 423 832)**	-
Deferred currency expenditure	9	**(4 235)**	-
Purchase and disposal of foreign exchange	1	**494 712**	136 597
Net cash flow from investing activities		**(350 691)**	(82 075)
Cash flow from financing activities			
Notes and coins issued	14	**38 398**	21 941
Net cash flow from financing activities		**38 398**	21 941
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 Financial Reporting Standards, as applicable to central banks in all material respects and in the manner required by the Central Bank of Lesotho Act No. 2 of 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 accrual 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 the 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 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.

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

Bonds are accounted for at fair value.

1.8 Property, plant and equipment

Property, plant and equipment comprises 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 year end 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 2005.

Property, plant 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 Asset	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 Coins is amortised over a period of three 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 employer taking into account the recommendations made by the 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.

	2005 M '000	2004 M '000
1 Cash and Balances with Banks		
Foreign Cash	**225**	185
Rand Currency Holding	**29 472**	35 736
ZAR Coins Holding	**112**	126
ZAR Notes Holding	**29 360**	35 610
Balances with banks	**1 885 626**	2 374 114
Current and Call Accounts		
Overseas Banks	**268 179**	214 640
Lesotho Banks	**5 724**	4 082
South African Banks	**400 386**	309 999
Total Current and Call Accounts	**674 289**	528 721
Fixed deposits		
Overseas Banks	**491 337**	665 393
South African Banks	**720 000**	1 180 000
Total Fixed deposits	**1 211 337**	1 845 393
Cash and cash equivalents		
Cash and cash equivalents	**-**	-
	1 915 323	2 410 035

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 for the purpose of the cash flow statement because they do not represent currency in circulation.

	2005 M '000	2004 M '000
2 Due from Banks		
Accrued Interest receivable:		
Due from banks		
ZAR Call Accounts	**1**	(12)
ZAR Fixed Deposit Accounts	**13 149**	21 588
NON ZAR Call Accounts	**1 580**	294
NON ZAR Fixed Deposit Accounts	**47**	874
	14 777	22 744
3 Treasury Bills		
US Treasury bills at fair value		
Maturing within 1 month	**-**	169 114
Maturing within 1 to 3 months	**-**	196 928
ZAR Treasury bills at fair value		
Maturing within 1 month	**-**	107 469
Maturing within 1 to 3 months	**49 320**	129 932
	49 320	603 443
The movements in investments are:		
Opening carrying amount	**603 443**	426 081
Additions	**1 116 873**	1 999 410
Disposals	**(1 670 996)**	(1 822 048)
Exchange revaluation	**-**	-
Closing carrying amount	**49 320**	603 443

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 fixed interest rate risk (2004: variable/fixed).

		2005 M '000	2004 M '000
4	**Treasury Notes & Bonds**		
	US Bonds at fair value	**517 877**	-
	ZAR Bonds at fair value	**905 955**	-
		1 423 832	-
	The movements in investments are:		
	Opening carrying amout	**-**	-
	Additions	**1 335 857**	-
	Exchange revaluation	**87 975**	-
	Closing carrying amount	**1 423 832**	-

The Treasury Notes & Bonds held by the Bank are treated as available for sale instruments and revaluations are done quarterly.

		2005 M '000	2004 M '000
5	**IMF Subcription Account**		
	Balance at beginning of year	**349 041**	256 440
	Value adjustments during the year	**10 510**	7 232
	Exchange revaluation	**5 106**	85 369
		364 657	349 041

The Lesotho Government Quota in the International Monetary Fund is SDR 34,900,000. The local currency equivalent of the subscription account at balance sheet date is converted at the rate of 0.0957062 (2004: 0.0999877).

		2005 M '000	2004 M '000
6	**IMF Holding of Special Drawing Rights**		
	Balance at 1 January	**4 011**	4 118
	Net transactions	**(817)**	(204)
	Exchange revaluation	**55**	97
	Balance at 31 December	**3 249**	4 011

The value of SDR310951 allocated by the International Monetary Fund less utilisation is converted at 0.0957062 (2004: SDR401081 at 0.0999877).

	2005 M '000	2004 M '000

7 IMF Funded PRGF Advances

	2005 M '000	2004 M '000
Balance at 1 January	**245 031**	174 674
Disbursed during the year	**-**	68 750
Paid during the year	**-**	(3 743)
Exchange revaluation	**10 962**	5 350
Balance at 31 December	**255 993**	245 031

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 18.

8 Lesotho Government Securities

	2005 M '000	2004 M '000
Maturing within 1 month	**102**	7
Maturing within 1 to 3 months	**39**	4
Maturing within 3 to 6 months	**-**	22
Total treasury bills stated at fair value	**141**	33

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.

9 Deferred Currency Expenditure (notes and coins)

	2005 M '000	2004 M '000
Balance at 1 January	**582**	1 163
Expenditure during the year	**4 235**	-
Amortised during the year	**(1 993)**	(581)
Balance at 31 December	**2 824**	582

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

10. Property, Plant and Equipment

	CBL Building M '000	Work in Progress 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	47 354	-	3 531	70 713	13 000	2 441	5 289	152	8 665	100	841	2 801	2 648	3 181	318	161 034
Additions	1 012	3 541	-	17	-	1 234	452	9	919	-	-	27	72	293	62	7 638
Disposals	-	-	-	-	-	(536)	-	-	-	-	-	-	-	-	(7)	(543)
Transfers	-	-	-	(290)	-	-	-	-	(71)	-	-	225	-	-	-	(136)
Revaluation	6 601	-	379	5 336	-	722	(649)	-	1 735	-	-	-	687	-	-	14 811
At 31.12.2005	54 967	3 541	3 910	75 776	13 000	3 861	5 092	161	11 248	100	841	3 053	3 407	3 474	373	182 804
Accumulated Depreciation																
At 31.12.2004	2 828	-	212	945	-	1 408	3 111	-	5 275	80	382	549	243	1 092	113	16 238
On Disposal	-	-	-	-	-	(370)	-	-	-	-	-	-	-	-	-	(370)
For the year	711	-	53	1 137	-	333	1 113	32	1 742	20	166	665	295	374	30	6 671
At 31.12.2005	3 539	-	265	2 082	-	1 371	4 224	32	7 017	100	548	1 214	538	1 466	143	22 539
Carrying Amount																
At 31.12.2004	44 526	-	3 319	69 768	13 000	1 033	2 178	152	3 390	20	459	2 252	2 405	2 089	205	144 796
At 31.12.2005	51 428	3 541	3 645	73 694	13 000	2 490	868	129	4 231	-	293	1 839	2869	2 008	230	160 265

	2005 M '000	2004 M '000

10.1 Property, Plant & Equipment regarding Kotulo

Included under property is a property held by Kotulo Properties (Pty) Ltd to the value of M 13 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 Properties (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.

As at the end of the 2005 financial year, the voluntary winding-up of Kotulo Properties (Pty) Ltd was being finalised, which then lead to the disposal of the property.

11 Deferred Taxation

	2005 M '000	2004 M '000
Balance at 1 January		
(Reversing) in current year	**2 382**	-
Arising in the current year	**(2 382)**	1 149
	791	1 233
Balance at 31 December	**-**	
	791	2 382

12 Claims on Staff

	2005 M '000	2004 M '000
Housing Loans	**9 688**	5 717
Car Loans	**7 410**	4 983
Furniture Loans	**1 206**	996
Other Loans & Advances	**1 414**	991
	19 718	12 687

		2005 M '000	2004 M '000
14	**Other Assets**		
	Cheques for collection and uncleared items	**84**	43 518
	Other Prepayments	**454**	495
	Other Claims	**2 703**	2 081
		3 241	46 094
15	**Notes and Coins Issued**		
	Notes	**285 619**	247 585
	Coins	**9 713**	9 349
		295 332	256 934

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 for the purpose of the cash flow statement because they do not represent currency in circulation.

		2005 M '000	2004 M '000
16	**Deposits**		
	Deposits from Banks - Non-interest bearing		
	Bankers	**211 853**	210 665
	Other Deposits - Non-interest bearing		
	International Institutions	**2 257**	2 257
	Parastatals and others	**226 537**	225 525
	Other Deposits - Interest bearing		
	Staff call account	**11 808**	11 197
	Total Deposit	**452 455**	449 644

		2005 M '000	2004 M '000
16	**IMF Maloti Currency Holding**		
	Securities account	**245 447**	234 937
	General resources accounts	**81 844**	78 579
		327 291	313 516
17	**IMF Special Drawing Rights Allocation**		
	Balance at 1 January	**37 395**	36 532
	Revaluation	**1 672**	863
	Balance at 31 December	**39 067**	37 395

Lesotho's allocation by IMF of SDR3,739,000 converted at 0.0957062 (2004: 0.0999877)

		2005 M '000	2004 M '000
18	**IMF-PRGF Facility**		
	Balance at 1 January	**245 031**	174 674
	Drawn down during the year	**-**	68 750
	Paid during the year	**-**	(3 743)
	Exchange revaluation	**10 962**	5 350
	Balance at 31 December	**255 993**	245 031

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 SDR24,500,000 converted at 0.0957062 as at 31 December 2005 (2004: 0.0999877). The loans have been on-lent as per note 6. Interest expense and exchange rate differences are borne by the Government of Lesotho.

		2005 M '000	2004 M '000
19	**Taxation Liabilities**		
	Balance at 1 January	**7 935**	4 487
	Paid during the year	**(7 935)**	(4 487)
	Current year charge	**38 400**	34 223
	Prior year underprovision	**-**	1 140
	Provisional payments made	**(27 301)**	(27 428)
		11 099	7 935
20	**Due to Government of Lesotho Consolidated Fund**		
	Balance at 1 January	**41 748**	35 653
	Prior year final dividend paid in current year	**(41 748)**	(35 653)
	Profit appropriations for the current year	**55 920**	51 220
	Current year interim dividend paid	**(11 393)**	(9 472)
	Balance due at 31 December	**44 527**	41 748
21	**Internal Provisions and Accruals**		
	Donations suspense	**27 177**	25 835
	Internal provisions	**7 111**	7 220
	Promissory note for Agric Bank building	**13 000**	13 000
	Other	**9 052**	5 414
		56 340	51 469
22	**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.

		2005 M '000	2004 M '000
23	**Interest Income**		
	Foreign Currency Deposits	**125 711**	140 324
	Foreign Currency Investments	**68 052**	11 239
	Government Securities	**1**	2
	Staff loans	**365**	703
	IAS 39 Interest - off-market loan adjustment	**275**	318
	Other institutions	**13**	10
		194 417	152 596
24	**Interest Expense**		
	Parastatal and Government deposits	**253**	8
	Local bank deposits	**6**	13
	IMF SDR allocation account	**1 217**	620
	Other Investments	**13 017**	-
	Staff call account	**911**	779
		15 404	1 420
25	**Other Income**		
	Rent received	**1 900**	4 280
	Other	**5 707**	433
		7 607	4 713
26	**Personnel Costs**		
	Non-executive directors' fees	**141**	343
	Executive directors' salaries	**677**	1 010
	Key management	**1 479**	1 580
	Staff salaries and expenses	**32 693**	24 296
	Pension fund contributions	**2 003**	1 456
	Gratuity and severance expenses	**2 395**	1 641
		39 388	30 326

Key management refers to departmental heads.

	2005 M '000	2004 M '000
28 Other Operating Costs		
Administration and other expenses	**27 414**	20 356
Auditors' remuneration - current year	**795**	490
Deferred currency expenses amortised	**1 993**	581
Depreciation	**6 671**	6 064
Property expenses	**5 645**	3 627
	42 518	31 118
Taxation		
Normal tax for the year	**38 400**	34 223
Prior year underprovision	**-**	1 140
Deferred tax (reversal)	**(791)**	(2 382)
	37 609	32 981
Reconciliation of tax expense:		
Profit before tax	**104 714**	94 445
Tax calculated at a tax rate of 35% (2004: 35%)	**36 650**	33 056
Add:		
Donations	**417**	48
Severance pay Provision	**382**	268
Gratuity Provision	**457**	-
Training Expenses	**805**	787
Legal fees	**-**	6
Depreciation	**2 335**	2 122
50 % Entertainment	**9**	15
Deferred Currency	**-**	203
Less:		
Capital Allowances	**(1 057)**	(1 242)
Deferred Computer Software	**(119)**	-
Deferred Computer Software - Lehakoe	**(17)**	-
Disposal of Assets	**(114)**	(56)
2004 Staff loans interest unwound	**(246)**	-
2005 Staff loans interst unwound	**(96)**	-
Deferred tax arising	**-**	-
Training expenses 125%	**(1 006)**	(984)
Income tax expense	**38 400**	34 223

	2005 M '000	2004 M '000
29 Cash Flow from Operating Activities		
Reconciliation of profit before tax to cash generated from operations:		
Profit before tax	**104 714**	94 445
Adjustments for:		
Depreciation	**6 671**	6 064
Deferred currency expenses amortised	**1 993**	582
Net Profit/loss on disposal of fixed assets	**(326)**	(5)
Deferred tax arising	**-**	-
Net cash generated by operating activities	**113 052**	101 086
Changes in working capital:		
Balances due from other banks and other debtors'accounts	**7 967**	(14 040)
Deposit accounts	**70 608**	199 935
Creditors and other liability accounts	**4 871**	15 700
Decrease/(increase) in IMF Maloti Currency holding	**13 775**	7 123
Exchange rate fluctuations	**182 868**	(163 501)
Changes in IMF Subscription account	**(15 616)**	(8 049)
Changes in Special Drawing Rights holding account	**762**	107
Changes in Special Drawing Rights allocation account	**1 673**	863
General Reserve Adjustment	**-**	7 270
Changes in Financing Activities	**-**	(25 388)
Cash utilised by changes in working capital	**266 908**	20 020
Cash flow from operating activities	**379 960**	121 106

	2005 M '000	2004 M '000

30 **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 Act No. 2 of 2000. Had the net currency exchange gains and losses been taken to the income statement in terms of the International Financial Reporting Standards, net income would have been reported as:

	2005 M '000	2004 M '000
Profit/(Loss) before taxation	**284 816**	(67 887)
Taxation and deferred taxation	**(37 609)**	(32 981)
Net Profit/(Loss) for the year	**247 207**	(100 868)

31 **Capital Commitments**

There were capital commitments at the end of 2005 in respect of the security revamping project in the amount of M3.08 million and improvements on residential buildings in the amount of M120,000.00.

32 **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 seperately 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. The December 2005 actuarial valuation is still underway.

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 2005:

Currency	Value of Currency	Exchange Rate	Maloti Equivalent
			M'000
Cash and Balances with Banks			
South Africa	753 375	1.0000	753 375
United States	16 368	5.3411	87 423
Botswana	41	1.1537	47
England	13 205	10.9148	144 130
European Union	31 158	7.4860	233 249
Switzerland	340	4.3148	1 467
Treasury Bills			
South Africa	49 320	1.0000	49 320
Treasury Notes & Bonds			
South Africa	906	1.0000	906
United States	96 961	5.3411	517 878

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 objective 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.

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Table A1

GROSS DOMESTIC PRODUCT BY KIND OF ECONOMIC ACTIVITY

(1995 = 100)

Million Maloti

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005*
Primary Sector:	620.30	623.70	642.60	670.30	689.70	693.30	664.50	652.70	660.40	672.40
Agriculture	617.30	620.20	640.00	667.60	686.50	689.90	661.00	648.80	650.10	661.10
Mining & Quarrying	3.00	3.50	2.60	2.70	3.20	3.40	3.50	3.90	10.30	11.30
Secondary Sector:	1258.90	1461.80	1289.00	1301.00	1370.40	1433.30	1529.90	1597.30	1638.70	1600.60
Manufacturing	535.10	560.60	542.00	540.10	563.80	608.10	650.20	683.90	724.10	664.00
Electricity & Water	93.20	244.00	168.40	226.00	219.90	230.20	243.50	249.70	248.30	257.00
Building & Construction	630.60	657.20	578.60	534.90	586.70	595.00	636.20	663.70	666.30	679.60
Tertiary Sector:	1428.80	1505.10	1522.40	1551.00	1602.50	1638.80	1726.30	1803.50	1848.80	1930.10
Wholesale and Retail Trade	297.80	323.10	309.40	294.00	281.60	288.60	301.50	317.40	332.40	340.70
Catering	46.80	49.20	43.50	49.70	54.70	53.40	55.60	60.60	63.30	67.80
Trans. & Communication	122.30	137.40	131.00	137.90	144.20	153.20	160.00	176.20	191.20	205.20
Finance & Insurance	116.50	103.20	102.90	136.10	201.50	210.40	267.70	293.10	294.60	324.10
Real Estate & Bus. Serv.	59.30	79.90	69.70	61.50	59.00	55.40	60.40	59.70	59.90	61.10
Ownership of Dwellings	155.90	159.00	162.20	165.40	168.70	172.10	175.50	179.00	182.60	186.30
Public Administration	245.20	254.20	283.30	277.90	269.60	267.40	259.40	254.90	249.60	256.60
Education	281.30	298.60	307.40	313.10	316.00	330.10	337.60	354.70	367.00	378.00
Health	63.30	59.50	71.50	73.30	64.50	65.00	64.80	63.50	63.20	64.70
Other Services	40.40	41.00	41.50	42.10	42.70	43.20	43.80	44.40	45.00	45.60
GDP at Factor Cost (unadjusted)	3308.00	3590.60	3454.00	3522.30	3662.60	3765.40	3920.70	4053.50	4147.90	4203.10
Less: Imputed Bank Serv. Charg.	84.20	75.50	74.20	99.90	164.30	169.10	224.40	242.50	219.10	231.80
GDP at Factor Cost	3223.80	3515.10	3379.80	3422.40	3498.30	3596.30	3696.30	3811.00	3928.80	3971.30
Plus: Indirect taxes, Net	496.80	508.40	457.20	424.00	398.70	425.70	466.40	480.40	497.70	508.60
GDP at Market Prices	3720.60	4023.50	3837.00	3846.40	3897.00	4022.00	4162.70	4291.40	4426.50	4479.90

Source: Bureau of Statistics
* CBL Projections

Table A2

GROSS DOMESTIC PRODUCT BY KIND OF ECONOMIC ACTIVITY

(1995 = 100)

Percentage Changes

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005*
Primary Sector:	17.55	0.55	3.03	4.31	2.89	0.52	-4.15	-1.78	1.18	1.82
Agriculture	17.72	0.47	3.19	4.31	2.83	0.50	-4.19	-1.85	0.20	1.69
Mining & Quarrying	-9.09	16.67	-25.71	3.85	18.52	6.25	2.94	11.43	164.10	9.71
Secondary Sector:	9.17	16.12	-11.82	0.93	5.33	4.59	6.74	4.41	2.59	-2.33
Manufacturing	14.02	4.77	-3.32	-0.35	4.39	7.86	6.92	5.18	5.88	-8.30
Electricity & Water	13.11	161.80	-30.98	34.20	-2.70	4.68	5.78	2.55	-0.56	3.50
Building & Construction	4.84	4.22	-11.96	-7.55	9.68	1.41	6.92	4.32	0.39	2.00
Tertiary Sector:	5.05	5.34	1.15	1.88	3.32	2.27	5.34	4.47	2.51	4.40
Wholesale and Retail Trade	8.69	8.50	-4.24	-4.98	-4.22	2.49	4.47	5.27	4.73	2.50
Catering	16.42	5.13	-11.59	14.25	10.06	-2.38	4.12	8.99	4.46	7.11
Trans. & Communication	3.91	12.35	-4.66	5.27	4.57	6.24	4.44	10.13	8.51	7.32
Finance & Insurance	3.37	-11.42	-0.29	32.26	48.05	4.42	27.23	9.49	0.51	10.01
Real Estate & Bus. Serv.	-0.50	34.74	-12.77	-11.76	-4.07	-6.10	9.03	-1.16	0.34	2.00
Ownership of Dwellings	2.03	1.99	2.01	1.97	2.00	2.02	1.98	1.99	2.01	2.03
Public Administration	5.46	3.67	11.45	-1.91	-2.99	-0.82	-2.99	-1.73	-2.08	2.80
Education	2.66	6.15	2.95	1.85	0.93	4.46	2.27	5.07	3.47	3.00
Health	12.23	-6.00	20.17	2.52	-12.01	0.78	-0.31	-2.01	-0.47	2.37
Other Services	0.50	1.49	1.22	1.45	1.43	1.17	1.39	1.37	1.35	1.33
GDP at Factor Cost (unadjusted)	8.78	8.54	-3.80	1.98	3.98	2.81	4.12	3.39	2.33	1.33
Less: Imputed Bank Serv. Charg.	-12.75	-10.33	-1.72	34.64	64.46	2.92	32.70	8.07	-9.65	5.80
GDP at Factor Cost	9.49	9.04	-3.85	1.26	2.22	2.80	2.78	3.10	3.09	1.08
Plus: Indirect taxes, Net	13.11	2.33	-10.07	-7.26	-5.97	6.77	9.56	3.00	3.60	2.19
GDP at Market Prices	9.96	8.14	-4.64	0.24	1.32	3.21	3.50	3.09	3.15	1.21

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)

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05*
Maize										
Area planted	155676	161813	98131	140800	170102	195037	145762	131025	129434	122338
Share harvested	96.90	89.10	99.90	94.00	92.70	91.00	94.25	97.29	98.60	99.59
Sorghum										
Area planted	43450	39578	13409	31952	27802	55082	30070	26442	29378	33179
Share harvested	96.80	91.10	99.90	93.60	91.80	95.30	93.81	95.32	99.37	99.87
Wheat										
Area planted	29600	20930	21249	12663	14284	20532	17486	15998	16032	16858
Share harvested	75.00	98.90	99.90	98.90	89.90	97.21	95.36	98.57	97.92	98.41
Beans										
Area planted	11315	16767	8835	12707	13948	15188	9788	12364	9261	8672
Share harvested	88.50	84.60	84.60	91.60	81.50	81.43	73.98	90.33	92.53	96.07
Peas										
Area planted	6743	4807	5553	4079	5123	6594	5463	3276	2710	2400
Share harvested	65.40	93.90	99.90	94.20	86.30	95.27	82.17	91.97	93.94	96.46

Source: Bureau of Statistics
* CBL Projections

Table A4

ESTIMATED PRODUCTION (1) AND AVERAGE YIELD (2) OF MAIN CROPS - 1995/96 TO 2004/05

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05*
Maize										
Production	188.50	141.50	118.70	124.50	106.80	158.19	111.21	82.08	81.00	74.98
Yield	12.00	8.80	12.10	8.80	6.30	8.11	6.71	4.67	4.61	4.24
Sorghum										
Production	36.10	29.10	22.40	33.30	20.50	45.35	11.92	11.95	10.30	10.32
Yield	8.30	7.30	11.50	10.40	7.30	8.23	6.17	6.19	5.20	5.06
Wheat										
Production	31.30	33.60	26.90	15.40	23.20	37.41	18.96	13.11	11.65	11.13
Yield	10.60	16.10	12.70	12.10	16.20	18.22	13.67	9.45	8.27	7.42
Beans										
Production	6.60	14.20	8.20	9.30	14.30	7.86	4.36	3.70	4.83	5.23
Yield	5.80	8.50	9.30	3.70	10.30	5.18	3.89	3.30	4.30	4.92
Peas										
Production	4.00	3.40	3.80	3.00	2.80	3.67	3.04	3.04	1.50	1.36
Yield	5.90	7.10	6.90	7.30	5.50	5.57	4.18	4.18	1.40	1.27

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

Table A5

GROSS DOMESTIC PRODUCT BY KIND OF ECONOMIC ACTIVITY

(At Current Prices)

Million Maloti

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005*
Primary Sector:	**664.00**	**689.90**	**791.10**	**877.90**	**1010.40**	**1096.50**	**1175.60**	**1317.50**	**1552.20**	**1647.70**
Agriculture	661.10	686.30	787.20	873.10	1002.80	1087.40	1165.60	1304.50	1368.80	1439.10
Mining & Quarrying	2.90	3.60	3.90	4.80	7.60	9.10	10.00	13.00	183.40	208.60
Secondary Sector:	**1399.30**	**1778.70**	**1713.90**	**2071.40**	**2211.50**	**2477.90**	**2791.00**	**2996.80**	**3260.90**	**3272.20**
Manufacturing	585.00	683.90	775.60	823.20	909.40	1054.40	1353.00	1432.00	1623.70	1539.60
Electricity & Water	123.70	313.70	225.30	322.30	317.80	367.20	347.10	350.30	375.60	402.00
Building & Construction	690.60	781.10	713.00	925.90	984.30	1056.30	1090.90	1214.50	1261.60	1330.60
Tertiary Sector:	**1578.70**	**1824.10**	**2016.00**	**2195.30**	**2398.20**	**2618.30**	**2947.50**	**3283.40**	**3475.40**	**3738.40**
Wholesale and Retail Trade	325.70	394.30	408.10	425.40	490.30	545.10	636.60	770.80	861.70	913.30
Catering	51.10	58.60	56.30	69.00	80.40	83.90	102.20	146.70	160.40	177.60
Trans. & Communication	138.70	163.70	161.30	182.90	192.00	215.10	277.00	334.70	343.70	379.40
Finance & Insurance	127.70	126.10	130.90	152.30	257.80	269.10	345.80	383.40	401.90	457.10
Real Estate & Bus. Serv.	64.60	96.10	88.80	82.70	96.80	92.20	114.20	124.60	136.50	144.00
Ownership of Dwellings	168.50	175.00	186.30	190.00	193.80	251.90	257.00	262.10	267.30	281.90
Public Administration	271.00	326.10	408.20	450.00	452.80	476.10	490.40	511.80	532.30	565.80
Education	319.10	361.90	423.90	471.90	469.70	508.60	533.70	548.30	559.00	595.30
Health	68.70	73.50	98.80	113.10	102.20	108.70	113.40	117.20	123.40	130.50
Other Services	43.60	48.80	53.40	58.00	62.40	67.60	77.20	83.80	89.20	93.50
GDP at Factor Cost(unadjusted)	**3642.00**	**4292.70**	**4521.00**	**5144.60**	**5620.10**	**6192.70**	**6914.10**	**7597.70**	**8288.50**	**8658.30**
Less: Imputed Bank Serv. Charg.	92.50	93.30	97.10	109.70	215.10	221.30	295.90	322.30	293.40	321.00
GDP at Factor Cost	**3549.50**	**4199.40**	**4423.90**	**5034.90**	**5405.00**	**5971.40**	**6618.20**	**7275.40**	**7995.10**	**8337.30**
Plus: Indirect taxes, Net	504.20	520.10	496.80	530.00	558.50	593.10	750.70	778.20	837.90	885.40
GDP at Market Prices	**4053.70**	**4719.50**	**4920.70**	**5564.90**	**5963.50**	**6564.50**	**7368.90**	**8053.60**	**8833.00**	**9222.70**

Source: Bureau of Statistics
* CBL Projections

Table A6

SUPPLY AND DEMAND FOR RESOURCES

(At Current Prices)
Million Maloti

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005*
Supply										
GDP at Market Prices	4053.70	4719.50	4920.70	5564.90	5963.50	6564.50	7370.20	8053.60	8833.00	9222.70
Imports of Goods & Services	4801.80	5287.60	5284.60	5275.60	5511.90	6458.30	8560.10	8526.30	9235.30	8115.60
Total supply	**8855.50**	**10007.10**	**10205.30**	**10840.50**	**11475.40**	**13022.80**	**15930.30**	**16579.90**	18068.30	**17338.30**
Demand										
Consump. Expenditure	5521.90	6199.40	6567.00	6810.90	7171.00	7637.20	8699.20	9039.20	9511.30	9175.60
Gross Fixed Cap. Form.	2360.20	2593.50	2411.00	2651.00	2657.10	2810.00	3254.60	3558.00	3620.10	3743.20
Changes in Stocks	7.80	-47.10	-93.40	56.20	-138.10	-171.10	-135.40	49.90	8.70	0.00
Exports of Goods & Services	965.60	1261.30	1320.70	1322.40	1775.60	2747.00	4111.90	3932.80	4928.20	4419.50
Total Demand	**8855.50**	**10007.10**	**10205.30**	**10840.50**	**11465.60**	**13023.10**	**15930.30**	**16579.90**	**18068.30**	**17338.30**

Source: Bureau of Statistics
* CBL Projections

Table A7

INCOME AND OUTLAY ACCOUNT
(At Current Prices)
Million Maloti

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005*
Income										
Dom. Factor Incomes	3549.50	4199.40	4423.90	5034.90	5405.20	5971.70	6619.50	7275.60	7995.10	8337.30
Plus:Indirect taxes, Net	504.20	520.10	496.80	530.00	558.50	593.10	750.70	778.20	837.90	885.50
GDP at Market Prices	4053.70	4719.50	4920.70	5564.90	5963.70	6564.80	7370.20	8053.80	8833.00	9222.80
Factor Income from abroad, Net	1421.50	1538.90	1384.90	1492.50	1522.30	1509.00	1698.10	1874.36	2050.70	2066.20
Gross National Income	5475.20	6258.40	6305.60	7057.40	7486.00	8073.80	9068.30	9928.16	10883.70	11289.00
Transfers from abroad, Net	998.30	1137.90	967.30	998.10	1043.70	1284.80	1516.90	1283.56	1597.00	1820.50
National Disposable Income	6473.50	7396.30	7272.90	8055.50	8529.90	9358.60	10585.20	11211.70	12480.60	13109.50
Outlay										
Consumption	5521.90	6199.40	6567.00	6810.90	7181.00	7637.20	8699.20	9039.20	9511.30	9175.60
Gross Saving	951.60	1196.90	705.90	1244.60	1348.70	1717.60	1885.40	2358.20	3159.20	3933.90
National Disposable Income	6473.50	7396.30	7272.90	8055.50	8529.90	9358.60	10585.20	11211.70	12480.60	13109.50
Saving - GNI ratio	17.38	19.12	11.19	17.64	18.02	21.27	20.79	23.75	29.03	34.85
Saving - NDI ratio	14.70	16.18	9.71	15.45	15.81	18.35	17.81	21.03	25.31	30.01

Source: Bureau of Statistics
* CBL Projections

Table A8

NUMBER OF BASOTHO MINEWORKERS EMPLOYED IN RSA
(and average earnings)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Average number employed	101262	95913	80445	68604	64907	61412	62158	61415	56357	52450
Change over previous year (%)	-2.39	-5.28	-16.13	-14.72	-5.39	-5.38	1.21	-1.20	-8.24	-6.93
Average earnings (1)										
Maloti	19186	21193	24678	27657	30131	32030	35326	38513	42116	46117
Change over previous year (%)	14.20	10.46	16.44	12.07	8.95	6.30	10.29	9.02	9.36	9.50

(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

	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

Table A10

LESOTHO CONSUMER PRICE INDICES

April 1997= 100

Item	2001	2002	2003	2004	2005
All Items	135.21	150.10	161.33	169.43	175.30
Food and non-alcoholic beverages	132.78	166.10	173.84	181.24	186.04
Alcoholic beverages & Tobacco	147.20	157.59	173.33	189.25	200.41
Clothing & footwear	134.78	138.83	144.83	149.02	153.14
Housing, electricity gas & other fuels	130.78	142.91	155.93	164.49	175.78
Furniture, households equipment & routine maintenance of house	140.07	146.23	158.64	165.23	168.79
Health	129.46	131.18	135.80	140.55	143.02
Transport	143.58	155.39	166.30	177.01	190.13
Communication	100.80	100.70	131.75	151.83	154.30
Leisure, entertainment & Culture	124.45	132.33	144.92	152.16	152.33
Education	114.03	115.60	120.08	125.16	126.38
Restaurant & Hotels	149.25	172.64	194.43	199.90	207.18
Miscellaneous goods & services	126.42	133.61	145.48	151.73	155.67
		% Change from the previous year			
All Items		11.01	7.48	5.02	3.46
Food and non-alcoholic beverages		25.10	4.66	4.26	2.65
Alcoholic beverages & Tobacco		7.06	9.99	9.18	5.90
Clothing & footwear		3.01	4.32	2.89	2.76
Housing, electricity gas & other fuels		9.27	9.11	5.49	6.86
Furniture, households equipment & routine maintenance of house		4.40	8.49	4.15	2.15
Health		1.33	3.52	3.50	1.76
Transport		8.23	7.02	6.44	7.41
Communication		-0.10	30.83	15.24	1.63
Leisure, entertainment & Culture		6.33	9.51	5.00	0.11
Education		1.37	3.88	4.23	0.97
Restaurant & Hotels		15.67	12.62	2.82	3.64
Miscellaneous goods & services		5.69	8.88	4.30	2.60

Source: Bureau of Statistics, Lesotho

Note: Compilation methodology changed in January 2002
(for both coverage and classification)

Table A11

SUMMARY OF BALANCE OF PAYMENTS
(Million Maloti)

	1996	1997	1998	1999	2000	2001	2002	2003	2004+	2005*
I CURRENT ACCOUNT	**-1350.63**	**-1295.69**	**-1413.72**	**-1349.40**	**-1083.76**	**-820.84**	**-1492.00**	**-983.92**	**-489.26**	**-145.31**
Goods, Services and Income	-2154.82	-2227.37	-2255.89	-2252.43	-2019.87	-1990.18	-2769.72	-2267.48	-2086.22	-2081.19
a) GOODS	-3490.87	-3818.14	-3589.63	-3707.35	-3582.18	-3398.18	-4245.55	-3890.73	-3827.12	-3757.85
Merchandise Exports f.o.b.	812.13	903.98	1109.60	1054.09	1468.35	2425.97	3739.89	3557.37	4533.18	4134.63
Merchandise Imports f.o.b.	-4303.00	-4722.12	-4699.23	-4761.44	-5050.53	-5824.15	-7985.44	-7448.10	-8360.30	-7892.48
b) SERVICES	-86.86	46.69	-58.09	-38.51	-1.24	-99.72	-222.30	-251.11	-208.68	-255.57
c) INCOME	1422.91	1544.08	1391.83	1493.43	1563.55	1507.72	1698.13	1874.36	1949.58	1932.23
Labour Income	1390.21	1472.72	1409.56	1473.53	1553.81	1555.30	1712.81	1868.07	2006.88	1921.79
Other	32.70	71.36	-17.73	19.90	9.74	-47.58	-14.68	6.29	-57.30	10.44
d) CURRENT TRANSFERS	804.19	931.68	842.17	903.03	936.11	1169.34	1277.72	1283.56	1596.96	1935.88
Government, net	792.58	921.40	826.39	891.46	919.84	1138.30	1241.21	1221.41	1538.00	1842.5
SACU Non-duty Receipts	682.62	804.25	709.84	792.76	803.22	1017.01	1097.22	1081.79	1396.26	1745.21
Other	109.96	117.15	116.55	98.70	116.62	121.30	143.99	139.62	141.74	97.29
Other Sectors	11.61	10.28	15.78	11.57	16.27	31.04	36.51	62.15	58.96	93.38
II CAPITAL AND FINANCIAL ACCOUNT	**1699.85**	**1672.26**	**1595.84**	**922.70**	**773.68**	**924.57**	**1177.80**	**929.55**	**611.66**	**371.96**
e) CAPITAL ACCOUNT	194.20	206.10	122.60	92.90	150.70	138.00	247.10	208.10	216.30	133.30
f) FINANCIAL ACCOUNT	1505.65	1466.16	1473.24	829.80	622.98	786.57	930.70	721.45	395.36	238.66
Special Financing - LHWP	1107.40	1093.78	1303.13	798.23	608.12	772.23	595.70	552.26	457.16	224.17
III RESERVE ASSETS	**-487.40**	**-626.38**	**589.10**	**-285.73**	**-92.00**	**-1637.18**	**1278.78**	**516.99**	**-10.61**	**-274.75**
IV ERRORS AND OMISSIONS (1)	**138.18**	**249.81**	**406.98**	**142.10**	**84.68**	**39.73**	**-26.16**	**21.94**	**53.29**	**-71.44**
of which Valuation Adjustments	152.00	-3.61	303.26	-1.12	328.80	1510.20	-940.31	-446.76	-165.10	119.54

(1) Including Valuation Adjustments
+ Revised Estimates
* CBL Projections

Table A12

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

(Million Maloti)

	1996	1997	1998	1999	2000	2001	2002	2003	2004+	2005*
Food and Livestock	34.00	46.10	44.20	49.70	54.40	81.60	123.16	117.91	98.90	101.00
Beverages and Tobacco	0.40	0.10	38.50	94.00	63.90	72.60	94.86	96.45	100.00	134.60
Crude Materials,Inedible	31.60	29.20	19.70	17.80	37.50	60.10	64.61	90.28	27.80	28.40
Minerals and Related Products	0.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Chemicals and Related Products	20.80	16.60	7.10	4.90	6.50	18.60	45.53	49.28	24.60	12.10
Manufactured Goods (classified by material)	30.70	38.70	26.40	17.40	25.00	38.50	64.43	59.30	758.50	689.40
Machinery and Transport Equipment	113.60	139.80	167.60	111.70	173.30	254.50	371.37	373.84	272.20	329.10
Miscellaneous and Manufactured Goods	580.40	633.20	794.80	751.00	1104.69	1894.49	2962.24	2759.45	3235.90	2824.40
Commodities	0.40	0.30	11.30	7.60	3.12	5.49	13.69	10.86	15.20	15.50
TOTAL	**812.10**	**904.00**	**1109.60**	**1054.10**	**1468.41**	**2425.88**	**3739.89**	**3557.37**	**4533.10**	**4134.50**

Source: Lesotho Revenue Authority

Table A13

DIRECTION OF TRADE - EXPORTS F.O.B.
(Million Maloti)

Region	1996	1997	1998	1999	2000	2001	2002	2003	2004+	2005*
World	**812.10**	**904.00**	**1109.60**	**1054.10**	**1468.30**	**2426.00**	**3739.89**	**3557.33**	**4533.30**	**4134.60**
Africa	406.20	581.40	728.60	569.50	607.50	899.10	856.44	695.62	657.50	812.60
SACU	394.00	580.00	726.90	568.20	607.10	897.00	856.01	689.68	622.20	713.60
SADC **	12.20	1.40	1.70	1.30	0.40	0.00	0.27	0.23	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.00	2.10	0.16	5.71	35.30	99.00
Europe	74.40	13.50	6.00	2.50	1.80	3.50	8.07	3.73	695.00	710.40
EU	74.10	13.20	5.90	2.40	1.80	3.50	7.75	3.73	692.00	710.40
Other	0.30	0.30	0.10	0.10	0.00	0.00	0.32	0.00	3.00	0.00
North America	331.10	308.40	373.00	480.60	858.30	1522.50	2874.58	2849.09	3168.60	2597.80
Asia	0.40	0.70	1.60	0.30	0.60	0.90	0.80	8.89	12.20	13.80
Oceania	0.00	0.00	0.40	1.20	0.10	0.00	0.00	0.00	0.00	0.00

Source: Lesotho Revenue Authority
+ Revised EStimates
* CB L Projections
** SADC Member States, excluding SACU

Table A14

DIRECTION OF TRADE - IMPORTS C.I.F.
(Million Maloti)

Region	1996	1997	1998	1999	2000	2001	2002	2003	2004+	2005*
World	**4840.30**	**95253.40**	**5199.80**	**5287.80**	**5611.30**	**6399.76**	**8767.51**	**8180.63**	**9036.60**	**7870.20**
Africa	4505.80	4704.30	4615.70	4736.70	4876.90	5305.99	6520.31	7011.76	6628.70	6641.80
SACU	4439.90	4687.00	4612.20	4734.10	4870.00	5296.60	6511.70	7003.20	6584.40	6603.30
SADC **	2.70	1.80	0.80	1.70	6.60	6.43	7.04	4.08	38.20	36.70
Other	63.20	15.50	2.70	0.90	0.30	2.96	1.57	4.48	6.10	1.80
Europe	77.40	98.80	117.80	97.80	45.80	46.51	93.18	12.13	73.20	56.70
EU	63.50	87.90	103.60	82.70	42.70	44.53	82.50	10.76	70.40	53.00
Other	13.90	10.90	14.20	15.10	3.10	1.98	10.68	1.37	2.80	3.70
North America	27.50	52.50	70.10	50.00	104.80	41.72	53.35	15.09	97.50	32.80
Asia	229.20	394.90	372.20	372.40	526.00	953.33	2021.70	1109.67	2183.50	1133.10
Oceania	0.40	2.90	24.00	30.90	57.80	52.21	78.97	31.98	53.70	5.80

Source: Lesotho Revenue Authority
+ Revised EStimates
* CB L Projections
** SADC Member States, excluding SACU

Table A15

FOREIGN EXCHANGE RATES

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Botswana Pula	1.294	1.267	1.307	1.315	1.358	1.464	1.660	1.522	1.369	1.255
ECU / EURO	5.405	5.276	6.124	6.504	6.398	7.718	9.846	8.514	7.932	7.915
French Franc	0.835	0.798	0.928	1.019	0.965	0.856	0.659	0.716	0.829	0.829
German Mark	2.841	2.683	3.110	3.394	3.271	3.917	5.179	4.359	4.055	4.048
Japanese Yen	0.039	0.038	0.042	0.054	0.064	0.071	0.083	0.065	0.061	0.058
Saudi Riyal	1.140	1.247	1.464	1.624	1.851	2.281	2.804	2.011	1.691	1.699
SDR	6.211	6.408	7.433	8.353	9.137	10.790	13.492	10.575	9.415	9.412
Swidish Kronor	0.637	0.611	0.690	0.744	0.757	0.812	0.925	0.932	0.870	0.853
Swiss Franc	3.460	2.619	3.777	4.064	4.110	5.095	6.702	5.617	5.145	5.115
UK Pound	6.667	6.221	9.079	9.884	10.496	12.407	15.677	12.344	11.742	11.577
US Dollar	4.274	4.671	5.483	6.105	6.943	8.619	10.416	7.562	6.326	6.371
Zimbabwe Dollar	0.431	0.366	0.236	0.160	0.159	0.155	0.189	0.027	0.001	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

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
FOREIGN ASSETS	**2310.26**	**2929.82**	**3549.85**	**3349.33**	**3486.15**	**5136.94**	**3858.15**	**3341.14**	**3351.53**	**3625.55**
Cash and Balances	1455.89	2069.99	2425.22	1538.26	1211.91	3112.18	2590.78	2571.67	2437.03	1920.65
Investments	412.24	628.78	611.93	1277.72	1769.47	1498.50	854.71	426.08	366.93	1335.64
IMF Accounts	29.85	29.00	36.28	37.03	39.91	59.58	46.51	38.71	34.55	36.02
Holdings of SDRs	6.21	5.86	7.12	7.18	5.03	6.92	5.15	4.29	3.60	3.73
Reserve Tranche	23.64	23.14	29.15	29.85	34.88	52.66	41.36	34.42	30.95	32.28
Other Foreign Assets	412.27	202.05	476.42	496.31	464.87	466.68	366.15	304.69	513.03	333.25
CLAIMS ON GOVERNMENT	**308.22**	**163.76**	**139.70**	**107.84**	**104.95**	**246.60**	**191.31**	**173.76**	**183.51**	**222.16**
CLAIMS ON PRIVATE SECTOR	**8.69**	**10.52**	**11.54**	**12.20**	**13.90**	**13.56**	**13.53**	**14.99**	**16.30**	**19.48**
UNCLASSIFIED ASSETS	**110.16**	**98.28**	**53.53**	**65.82**	**47.06**	**99.25**	**141.48**	**177.45**	**217.65**	**260.43**
Fixed Assets	41.15	28.58	29.19	48.27	35.88	78.30	117.25	134.69	130.63	133.66
Other Assets	57.33	64.64	18.04	15.11	11.18	20.95	24.23	42.76	87.02	126.77
TOTAL	**2737.32**	**3202.37**	**3754.61**	**3535.18**	**3652.05**	**5496.35**	**4204.46**	**3707.34**	**3768.99**	**4127.63**

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

Table A16 (continued)

BALANCE SHEET OF THE CENTRAL BANK OF LESOTHO

(Million Maloti: End of period)

B - LIABILITIES

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
FOREIGN LIABILITIES	**292.62**	**264.26**	**283.56**	**368.13**	**369.97**	**509.86**	**646.75**	**488.00**	**497.01**	**549.33**
IMF Deposits	128.31	124.13	138.57	256.25	281.67	317.41	445.87	306.39	313.52	327.29
IMF Accounts	158.10	133.88	138.30	105.23	84.04	180.57	189.04	173.71	183.48	222.02
Trust Fund Loans/ PRGF	120.48	113.05	127.08	102.68	84.04	180.57	189.04	173.71	183.48	222.02
Use of Fund Credit/SAF	37.62	20.83	11.21	2.55	0.00	0.00	0.00	0.00	0.00	0.00
Other Foreign Liabilities	6.21	6.26	6.69	6.65	4.25	11.89	11.84	7.89	0.02	0.02
RESERVE MONEY	**336.83**	**381.00**	**528.38**	**703.93**	**646.90**	**293.27**	**338.81**	**364.93**	**379.40**	**545.31**
Maloti in Circulation Outside CBL	107.04	111.24	153.40	148.71	172.56	187.51	223.08	234.99	256.93	297.97
Rand Notes and Coins	17.11	12.55	11.63	9.33	15.39	10.30	10.32	15.47	7.71	29.47
Bankers Deposits	212.68	257.21	363.35	545.89	458.95	95.45	105.41	114.47	114.76	247.34
DEPOSIT LIABILITIES	**1669.04**	**2070.77**	**2137.27**	**1615.99**	**1379.28**	**1708.45**	**1419.41**	**1432.93**	**1599.22**	**1610.85**
Government	1659.51	2062.83	2125.53	1602.61	1356.40	1502.35	1257.31	1263.91	1411.84	1422.01
Official Entities	5.92	3.32	5.55	5.47	15.19	195.33	151.33	158.36	175.9	176.72
Private Sector	3.60	4.61	6.19	7.90	7.68	10.76	10.77	10.66	11.48	12.12
CAPITAL ACCOUNTS	**368.79**	**409.23**	**735.54**	**805.42**	**1208.97**	**2856.93**	**1771.79**	**1392.94**	**1204.22**	**1338.41**
UNCLASSIFIED LIABILITIES	**70.04**	**77.10**	**69.86**	**41.71**	**46.95**	**127.85**	**27.71**	**28.55**	**89.15**	**83.73**
other liabilities and payables	68.92	74.67	69.73	41.85	46.95	127.85	27.71	28.55	89.15	83.73
TOTAL	**2737.32**	**3202.37**	**3754.611**	**3535.18**	**3652.05**	**5496.35**	**4204.46**	**3707.34**	**3768.99**	**4127.63**

Table A17

CONSOLIDATED BALANCE SHEET OF COMMERCIAL BANKS
(Million maloti: End of Period)

A - ASSETS

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
RESERVES	**245.58**	**245.22**	**490.59**	**573.72**	**506.81**	**127.06**	**159.15**	**181.10**	**172.46**	**275.41**
Rand Notes and Coins	17.11	12.55	11.63	9.33	15.39	10.30	10.32	15.47	7.71	20.26
Maloti Notes and Coins	22.95	18.73	18.90	26.05	33.22	40.37	43.40	51.48	52.40	85.19
Balances due from CBL	205.51	213.94	460.06	538.34	458.20	76.38	105.44	114.16	112.36	169.95
FOREIGN ASSETS	**273.27**	**203.46**	**427.59**	**494.65**	**609.09**	**789.61**	**772.31**	**837.34**	**1253.79**	**1241.81**
CLAIMS ON PRIVATE SECTOR	**667.27**	**979.29**	**227.87**	**270.83**	**258.60**	**301.68**	**373.94**	**402.58**	**441.18**	**772.17**
CLAIMS ON STATUTORY BODIES	**141.33**	**127.62**	**83.77**	**81.66**	**42.77**	**46.39**	**42.75**	**38.94**	**52.16**	**33.37**
CLAIMS ON GOVERNMENT	**74.35**	**74.23**	**51.53**	**586.38**	**586.20**	**691.32**	**806.75**	**991.45**	**543.43**	**461.65**
UNCLASSIFIED ASSETS	**264.37**	**340.33**	**953.81**	**1039.09**	**881.69**	**952.18**	**985.25**	**764.87**	**885.39**	**1139.65**
TOTAL	**1666.15**	**1970.15**	**2235.16**	**3046.32**	**2885.15**	**2908.24**	**3140.15**	**3216.28**	**3348.42**	**3924.07**

Table A17 (continued)

CONSOLIDATED BALANCE SHEET OF COMMERCIAL BANKS

(Million maloti: End of Period)

B - LIABILITIES

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
DEMAND DEPOSITS	**589.36**	**730.20**	**912.37**	**897.69**	**941.42**	**1002.26**	**1162.90**	**1253.46**	**1255.16**	**1599.62**
Private Sector	432.96	480.85	519.14	459.88	582.95	625.14	753.63	929.14	968.40	1024.96
Government	41.36	43.63	75.45	76.42	67.69	63.22	63.74	68.25	57.66	171.75
Statutory Bodies	115.04	205.72	317.78	361.39	290.78	313.90	345.53	256.07	229.11	402.90
TIME DEPOSITS	**168.18**	**173.29**	**173.25**	**158.60**	**120.98**	**136.51**	**157.18**	**208.95**	**275.12**	**284.71**
Private Sector	155.78	139.30	116.19	109.64	80.78	69.30	100.24	129.60	190.88	193.68
Government	2.17	2.28	1.19	0.59	0.60	0.09	0.09	0.09	0.05	0.00
Statutory Bodies	10.24	31.71	55.87	48.37	39.60	67.13	56.85	79.27	84.20	91.03
SAVINGS DEPOSITS	**472.47**	**519.81**	**573.56**	**527.63**	**506.52**	**521.82**	**527.01**	**507.05**	463.42	**437.25**
Private Sector	472.04	519.37	571.19	527.32	506.21	521.60	526.78	506.97	463.34	437.10
Government	0.13	0.13	0.13	0.11	0.09	0.00	0.05	0.01	0.06	0.13
Statutory Bodies	0.30	0.31	2.24	0.20	0.23	0.22	0.19	0.07	0.02	0.03
DEFERRED PAY FUND	**54.04**	**53.27**	**40.18**	**34.99**	**38.12**	**42.19**	**43.19**	**44.19**	**45.19**	**38.70**
FOREIGN LIABILITIES	**60.06**	**56.89**	**47.20**	**39.89**	**140.01**	**102.82**	**99.63**	**229.64**	**135.90**	**106.86**
CAPITAL ACCOUNTS	**56.11**	**-74.15**	**-38.31**	**209.92**	**318.90**	**279.18**	**287.36**	**303.43**	**345.75**	**403.83**
UNCLASSIFIED LIABILITIES	**265.93**	**510.84**	**526.92**	**1177.59**	**819.20**	**823.46**	**862.88**	**669.56**	**827.88**	**1053.10**
TOTAL	**1666.15**	**1970.15**	**2235.16**	**3046.32**	**2885.15**	**2908.24**	**3140.15**	**3216.28**	**3348.42**	**3924.07**

Table A18

MONETARY SURVEY
(Million Maloti: End of Period)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Foreign Assets, Net	**2230.85**	**2812.12**	**3646.68**	**3435.95**	**3585.26**	**5313.88**	**3884.08**	**3460.84**	**3934.13**	**4211.18**
Commercial Banks	213.21	146.57	380.39	454.76	469.08	686.80	672.68	607.70	1117.90	1134.95
Central Bank of Lesotho	2000.53	2653.00	3254.65	2971.87	3100.79	4616.78	3201.08	2837.68	2816.23	3076.23
o/w Rands with Commercial Banks	17.11	12.55	11.63	9.33	15.39	10.30	10.32	15.47	7.71	20.26
Central Bank of Lesotho*	…	…	…	…	…	…	…	…	35.74	29.47
Domestic Credit	**-503.33**	**-753.46**	**-1687.89**	**-620.83**	**-418.36**	**-266.10**	**107.08**	**289.47**	**-202.44**	**-85.05**
Claims on private sector & Statutory Bodies	817.28	1117.42	323.18	364.68	315.27	361.63	430.22	456.51	509.64	825.03
Claims on Government,net of deposits	-1320.60	-1870.88	-2011.07	-985.52	-733.63	-627.73	-323.14	-167.04	-712.08	-910.08
Money Supply (M2)	**1334.01**	**1530.99**	**1768.82**	**1677.83**	1700.88	1992.71	2168.18	2297.85	2373.05	2590.01
Narrow Money (M1)	**641.61**	**787.02**	**983.15**	**957.30**	**1035.95**	**1292.27**	**1440.94**	**1537.75**	**1589.42**	**1829.48**
Maloti with public	84.09	92.51	134.50	122.66	139.34	147.14	179.68	183.52	204.54	212.78
Demand and call deposits	551.60	691.18	843.10	829.17	881.42	949.80	1109.93	1195.86	1208.98	1439.98
Official entities deposits with CBL	5.92	3.32	5.55	5.47	15.19	195.33	151.33	158.36	175.90	176.72
Quasi-money	**692.40**	**743.97**	**785.67**	**720.52**	**664.94**	**700.44**	**727.24**	**760.10**	**783.63**	**760.54**
Time deposits	220.06	224.29	212.24	193.00	158.51	178.62	200.28	253.06	320.27	323.41
Savings deposits	472.34	519.68	573.43	527.52	506.43	521.82	526.96	507.04	463.36	437.13
Other items,net	**393.51**	**527.68**	**189.96**	**1137.30**	**1466.02**	**3055.06**	**1822.98**	**1452.46**	**1358.64**	**1536.12**

* Prior to 2004 the monetary survey did not separate rand holdings by the CBL and Commercial Banks.

Table A19

DOMESTIC CREDIT
(Million Maloti: End of Period)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Private Sector Total	**675.95**	**989.81**	**239.41**	**283.03**	**272.49**	**315.24**	**387.47**	**417.57**	**457.48**	**791.66**
Business Enterprises	431.74	485.12	130.44	132.76	100.26	113.53	145.68	146.05	162.04	316.63
Households	233.08	426.07	29.80	49.19	71.15	99.87	139.94	158.59	256.64	369.28
Other	11.13	78.62	79.16	101.08	101.08	101.84	101.84	112.93	38.80	105.75
Statutory bodies	**141.33**	**127.62**	**83.77**	**81.66**	**42.77**	**46.39**	**42.75**	**38.94**	**52.16**	**33.37**
Government (net)	**-1320.60**	**-1870.88**	**-2011.07**	**-985.52**	**-733.63**	**-627.73**	**-323.14**	**-167.04**	**-712.08**	**-910.08**
Grand Total	**-503.33**	**-753.46**	**-1687.89**	**-620.83**	**-418.36**	**-266.10**	**107.08**	**289.47**	**-202.44**	**-85.05**

Table A20

BANKING SYSTEM'S NET FOREIGN ASSETS
(Million Maloti: End of Period)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Commercial Banks	**213.21**	**146.57**	**380.39**	**454.76**	**469.08**	**686.80**	**672.68**	**607.70**	**1117.90**	**1134.95**
Assets	273.27	203.46	427.59	494.65	609.09	789.61	772.31	837.34	1253.79	1241.81
Liabilities	-60.06	-56.89	-47.20	-39.89	-140.01	-102.82	-99.63	-229.64	-135.90	-106.86
Central Bank	**2017.64**	**2665.55**	**3266.29**	**2981.19**	**3116.18**	**4627.08**	**3211.40**	**2853.14**	**2816.23**	**3076.23**
Assets	2310.26	2929.82	3549.85	3349.33	3486.15	5136.94	3858.15	3341.14	3343.82	3625.55
Liabilities	-292.62	-264.26	-283.56	-368.13	-369.97	-509.86	-646.75	-488.00	-527.59	549.33
Net Foreign Assets	**2230.85**	**2812.12**	**3646.68**	**3435.95**	**3585.26**	**5313.88**	**3884.08**	**3460.84**	**3934.13**	**4211.18**

Table A21

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

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Commercial Banks	**30.69**	**28.19**	**-25.24**	**509.26**	**517.82**	**628.01**	**742.86**	**923.10**	**485.67**	**289.77**
Claims	74.35	74.23	51.53	586.38	586.20	691.32	806.75	991.45	543.43	461.65
Less Deposits	43.66	46.04	76.77	77.12	68.38	63.31	63.89	68.35	57.76	171.88
Central Bank	**-1351.29**	**-1899.07**	**-1985.83**	**-1494.77**	**-1251.45**	**-1255.75**	**-1066.00**	**-1090.15**	**-1197.75**	**-1199.85**
Claims	308.22	163.76	139.70	107.84	104.95	246.60	191.31	173.76	214.09	222.16
Less Deposits	1659.51	2062.83	2125.53	1602.61	1356.40	1502.35	1257.31	1263.91	1411.84	1422.01
Net Total	**-1320.60**	**-1870.88**	**-2011.07**	**-985.52**	**-733.63**	**-627.73**	**-323.14**	**-167.04**	**-712.08**	**-910.08**
Memorandum Items: Securities held by Banks #										
Commercial Banks	70.90	70.68	47.98	586.08	585.77	693.27	806.08	989.92	542.38	461.11
Central Bank	160.68	32.51	7.58	5.16	20.91	66.04	2.28	0.05	0.03	0.14
Total	**231.58**	**103.18**	**55.56**	**591.24**	**606.67**	**759.31**	**808.35**	**989.96**	**542.41**	**461.25**

Figures at cost value

Table A22

HOLDINGS OF TREASURY BILLS
(Million Maloti)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total holdings	**154.10**	**154.10**	**154.10**	**154.10**	**234.70**	**451.80**	**515.70**	**770.50**	**532.3**	**530.20**
Banking system (1)	**88.40**	**71.60**	**50.20**	**14.70**	**28.30**	**350.80**	**402.00**	**593.30**	**427.90**	**359.90**
Central Bank	15.20	5.80	0.90	3.90	16.60	67.10	0.00	0.00	0.00	0.00
Commercial Banks	73.20	65.80	49.30	10.80	11.70	283.70	402.00	593.30	427.90	359.90
Non-Bank Sector	**65.70**	**82.50**	**103.90**	**139.40**	**206.40**	**101.00**	**113.70**	**177.20**	**104.40**	**170.30**
NBFIs (2)	11.20	15.50	15.40	15.80	90.10	36.10	23.70	102.10	33.90	108.30
Other entities	54.50	67.00	88.50	123.60	116.30	64.90	90.00	75.10	70.50	62.00
Memorandum Item										
Yield	14.30	14.00	16.60	9.90	9.97	10.99	13.18	10.46	8.27	7.27

(1) Excludes government securities issued to Lesotho Bank (1999) Ltd on privatisation of the Old Lesotho Bank, amounting to M575.7 million. (2) NBFIs
(2) NBFIs = Non-bank financial institutions.

Table A23

MAJOR MONEY MARKET INTEREST RATES
(Per cent per annum: End of Period)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Central Bank (1)										
91-Day T-Bill Rate	14.30	13.92	16.56		9.30	10.99		9.83	7.86	6.95
Call rate	15.00	13.17	15.99	9.90	7.88	7.88	12.19	0.00	0.00	0.00
31 days	15.25	13.50	16.25	8.88	15.00	13.00	0.00	0.00	0.00	0.00
				9.33			0.00			
Commercial Banks										
Time deposits										
31 days	10.00	8.80	11.00	4.00	4.00	4.00	4.75	3.75	3.10	3.50
1 year	11.25	10.50	10.35	5.50	5.50	6.00	6.25	6.00	4.00	4.75
Savings deposits - (range)	6.00-	6.00-	4.00-	0.00-	0.00-	2.17-	2.58	1.68-	0.96-	0.97-
	11.00	9.65	7.00	3.50	3.50	4.00	4.00	2.48	1.35	2.00
Prime lending	18.00	17.10	22.00	18.00	17.00	16.33	17.67	17.67	12.17	11.50
South Africa(2)										
91-Day T-Bill Rate	16.10	14.65	17.03	10.17	10.25	9.47	12.42	7.54	7.32	6.80
Prime lending	20.25	19.25	19.34	15.50	14.50	13.00	17.00	11.50	11.00	10.50
Call deposits (3)	16.50-	14.00-	17.25-	9.75-	8.50-	8.25-	8.75-	7.70-	7.70-	6.00-
	18.50	15.30	20.25	10.80	9.75	8.85	9.50	7.72	8.72	6.50

(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)

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	Revised 2004/05	Projections 2005/06
Total Receipts	**2238.00**	**2426.40**	**2289.60**	**2442.80**	**2752.20**	**2976.30**	**3331.00**	**3594.50**	**4361.80**	**4719.21**
Revenue	2034.60	2248.00	2169.60	2312.80	2626.60	2787.50	3034.70	3416.70	4130.40	4569.21
Tax revenue	1553.70	1795.10	1698.90	1888.80	1942.00	2325.30	2575.90	2887.50	3678.30	3991.21
Customs	1006.00	1172.80	1033.30	1183.10	1126.20	1438.50	1470.00	1421.60	2012.40	2305.94
Income Taxes	299.00	340.10	392.00	419.50	468.80	579.50	762.20	852.50	901.90	909.32
Individual Income Tax	204.60	221.70	278.00	306.50	356.30	371.80	663.30	504.00	567.40	550.90
Company Tax	52.60	69.70	65.00	58.50	75.10	159.20	86.30	244.90	219.20	247.32
Other Income Taxes	41.80	48.70	49.00	54.50	56.00	48.50	12.60	103.60	115.30	111.10
Taxes on Goods and Services	240.00	273.30	269.60	283.20	343.60	302.00	343.70	602.90	749.80	734.60
Other Taxes	8.70	8.90	4.00	3.00	3.40	5.30	0.00	10.50	14.20	41.35
Non-tax revenue	480.90	452.90	470.70	424.00	684.60	462.20	458.80	529.20	452.10	578.00
of which: Water Royalties	142.80	76.00	120.00	142.90	154.90	176.10	213.40	193.10	194.70	210.00
Grants	203.40	178.40	120.00	130.00	125.60	188.80	296.30	177.80	231.40	150.00
Total Expenditure & Net Lending	**2052.70**	**2342.10**	**2438.40**	**2780.60**	**2957.00**	**3018.90**	**3656.10**	**3532.20**	**3613.50**	**4578.90**
Recurrent expenditure	1179.00	1473.80	1942.70	2300.70	2457.90	2393.30	2876.20	2906.80	2919.70	3608.10
Purchases of Goods & Services	970.40	1182.60	1341.70	1578.90	1774.10	1793.70	2147.10	2059.10	2002.50	2429.10
Personnel Emoluments	604.40	721.30	837.60	835.90	921.80	992.40	1082.10	1123.20	1174.30	1233.00
Other Goods & Services	366.00	461.30	504.10	743.00	852.30	801.30	1065.00	935.90	828.20	1196.10
Interest payments	66.30	90.00	128.50	183.40	252.40	203.30	219.70	216.40	152.20	190.50
External	36.60	59.90	96.20	101.60	148.20	126.00	109.50	90.50	87.10	144.40
Domestic	29.70	30.10	32.30	81.80	104.20	77.30	110.20	125.90	65.10	46.10
Subsidies & Transfers	142.30	201.20	472.50	538.40	431.40	396.30	509.40	631.30	765.00	988.50
of which:Bank Restructuring	0.00	50.00	237.70	22.00	0.00	0.00	0.00	0.00	0.00	0.00
LHDA	--	--	--	263.80	0.00	0.00	0.00	0.00	0.00	0.00
Capital Expenditure & net Lending	**873.70**	**868.30**	**495.70**	**479.90**	**499.10**	**625.60**	**779.90**	**625.40**	**693.80**	**970.80**
Surplus/Deficit Before grants	-18.10	-94.10	-268.80	-467.80	-330.40	-231.40	-621.40	-115.50	516.90	-9.69
Surplus/Deficit after grants	185.30	84.30	-148.80	-337.80	-204.80	-42.60	-325.10	62.30	748.30	140.31
Financing	-185.30	-84.30	148.80	359.10	204.80	42.60	325.30	-62.20	-748.33	-140.30
Foreign,net	352.00	345.50	18.10	-78.10	-221.70	31.90	53.40	-25.70	-63.70	-177.20
Domestic	-537.30	-429.80	130.70	437.20	426.50	10.70	271.90	-36.50	-684.63	36.90
Bank	-522.00	-448.20	116.20	415.90	403.20	62.40	320.80	104.01	-638.73	-84.00
Non-Bank	-15.30	18.40	14.50	21.30	23.30	-51.70	-48.90	-140.51	-45.90	120.90

Source: Ministry of Finance and CBL Projections

Table A25

RECURRENT EXPENDITURE BY MAJOR FUNCTIONS OF GOVERNMENT
(Million Maloti)

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	Revised 2004/05	Projections 2005/06
GENERAL GOVERNMENT SERVICES	**373.60**	**496.20**	**806.20**	**802.60**	**743.00**	**794.00**	**1032.20**	**1022.32**	**921.17**	**1170.30**
01 General Public Services	133.00	210.40	479.80	368.80	329.20	380.50	506.90	502.05	369.87	521.30
02 Defence Aaffairs & Services	118.00	137.00	159.30	224.50	207.90	199.20	208.50	206.50	201.47	217.90
03 Public Order & Safety Affairs	122.60	148.80	167.10	209.30	205.90	214.30	316.80	313.77	349.83	431.10
COMMUNITY & SOCIAL SERVICES	**541.20**	**668.40**	**777.10**	**980.60**	**1048.30**	**1103.10**	**1346.60**	**1333.71**	**1501.03**	**1909.40**
04 Education	355.40	443.60	491.60	673.40	720.50	696.00	867.30	859.00	959.92	1128.60
05 Health	100.90	128.20	151.50	172.20	182.60	190.70	227.60	225.42	222.07	324.40
06 Social Security & Welfare	31.20	36.30	64.10	65.30	66.70	122.00	140.80	139.45	228.08	349.30
07 Housing & Community Amenities	25.70	25.40	29.10	28.30	25.40	40.30	62.00	61.41	78.00	96.60
08 Recreation & Cultural Affairs	28.00	34.90	40.80	41.40	53.10	54.10	48.90	48.43	12.96	10.50
ECONOMIC SERVICES	**178.80**	209.90	**213.40**	**207.00**	**234.70**	**266.10**	**296.80**	**293.96**	**279.71**	**297.68**
09 Fuel & Energy Affairs	2.70	3.30	3.90	6.50	18.50	3.80	5.70	5.65	17.85	14.38
10 Agriculture	48.90	60.20	69.90	82.80	61.20	126.30	138.00	136.68	97.00	122.60
11 Mining & Industry	20.20	25.20	21.10	28.30	32.40	34.80	40.40	40.01	87.89	44.00
12 Transport & Communications	58.10	66.70	69.90	69.80	101.60	79.80	93.50	92.60	55.26	39.00
13 Other Economic Services	48.90	54.50	48.60	19.60	21.00	21.40	19.20	19.02	21.71	77.70
UNCLASSIFIED EXPENDITURE	**85.40**	**99.30**	**146.00**	**310.50**	**431.90**	**230.10**	**259.40**	**256.92**	**217.78**	**230.72**
14.0.1 Public debt	72.20	90.00	128.50	228.70	252.40	203.30	224.50	222.35	152.20	134.35
14.0.2 Other transfers	13.20	9.30	17.50	81.80	179.50	26.80	34.90	34.57	65.58	96.37
TOTAL RECURRENT EXPENDITURE	**1179.00**	**1473.80**	**1942.70**	**2300.70**	**2457.90**	**2393.30**	**2935.00**	**2906.90**	**2919.69**	**3608.10**

Source: Ministry of Finance and CBL Projections

Table A26

EXTERNAL DEBT OUTSTANDING BY REMAINING MATURITIES
(Million Maloti)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1-5Years	238.00	86.70	38.70	8.70	0.30	0.00	0.00	0.00	0.00	0.00
6-10Years	446.90	420.50	382.00	336.70	276.10	211.00	153.30	107.50	67.10	54.40
11-15Years	159.00	163.10	156.60	147.30	132.80	116.60	100.20	83.70	66.90	49.90
16Years & above	3095.80	3239.10	3359.90	3452.00	3451.40	3425.60	3347.50	3258.90	3167.20	3065.90
Total	**3939.70**	**3909.40**	**3937.20**	**3944.70**	**3860.60**	**3753.20**	**3601.00**	**3450.10**	**3301.20**	**3170.20**
					In Per Cent					
1-5Years	6.04	2.22	0.98	0.22	0.01	0.00	0.00	0.00	0.00	0.00
6-10Years	11.34	10.76	9.70	8.54	7.15	5.62	4.26	3.12	2.03	1.72
11-15Years	4.04	4.17	3.98	3.73	3.44	3.11	2.78	2.43	2.03	1.57
16Years & above	78.58	82.85	85.34	87.51	89.40	91.27	92.96	94.46	95.94	96.71
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 Maloti

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
A. EXTERNAL DEBT	**2283.60**	**2313.40**	**3185.10**	**3121.90**	**4319.60**	**6246.50**	**5130.50**	**4432.00**	**4112.84**	**4011.64**
1. Bilateral Loans	***299.70***	***266.00***	***365.40***	***340.80***	***626.10***	***592.00***	***451.60***	***504.40***	***531.44***	***396.94***
Concessional	257.30	225.90	322.00	301.20	380.50	431.40	201.90	205.30	432.02	369.87
Non-concessional	42.40	40.10	43.40	39.60	245.60	160.60	249.70	299.10	99.42	27.07
2. Multilateral Loans	***1907.60***	***1883.90***	***2549.20***	***2518.50***	***3181.70***	***4968.60***	***4139.40***	***3485.80***	***3183.68***	***3399.11***
Concessional	1806.70	1850.40	2468.50	2460.00	3088.20	4310.70	3397.50	2997.70	2737.38	2985.93
Non-concessional	100.90	33.50	80.70	58.50	93.50	657.90	741.90	488.10	446.30	413.18
3. Financial Institutions	***70.80***	***144.10***	***247.10***	***244.60***	***357.50***	***443.70***	***383.80***	***343.80***	***315.78***	***141.51***
Concessional	35.60	29.80	32.00	30.10	54.60	18.90	1.00	0.80	60.06	2.56
Non-concessional	35.20	114.30	215.10	214.50	302.90	424.80	382.80	343.00	255.72	138.95
4. Suppliers' Credit	***5.50***	***19.40***	***23.40***	***18.00***	***154.30***	***242.20***	**155.70**	**98.00**	**81.94**	**74.08**
B. DOMESTIC DEBT	**303.30**	**190.20**	**160.10**	**730.20**	**788.50**	**906.00**	**929.00**	**1159.70**	**648.11**	**644.86**
5. Banks	***237.60***	***108.20***	***56.20***	***590.80***	***603.70***	***777.40***	***815.30***	***982.50***	***543.61***	***474.56***
Long-term	3.80	3.60	3.60	288.00	287.70	310.90	287.70	287.70	114.66	114.66
Short-term	233.80	104.60	52.60	302.80	316.00	466.50	527.60	694.80	428.95	359.90
of which:										
treasury bills	88.40	72.10	50.20	302.70	306.30	340.90	527.00	693.30	427.90	359.90
6. Non-bank	***65.70***	***82.00***	***103.90***	***139.40***	***184.80***	***128.60***	***113.70***	***177.20***	***104.50***	***170.30***
Short-term	65.70	82.00	103.90	139.40	184.80	128.60	113.70	177.20	104.50	170.30
treasury bills	65.70	82.00	103.90	139.40	184.80	128.60	113.70	177.20	104.50	170.30
7. TOTAL (A + B)	**2586.90**	**2503.60**	**3345.20**	**3852.10**	**5108.10**	**7152.50**	**6059.50**	**5591.70**	**4760.95**	**4656.50**

Table A27 (continued)

OUTSTANDING PUBLIC DEBT

Million Maloti

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
C. MEMORANDUM ITEMS (In Million Maloti)										
8. GDP	4053.70	4719.50	4920.70	5564.90	5963.50	6564.50	7370.20	8053.60	8833.00	9222.70
9. GNI	5475.20	6258.40	6305.60	7057.40	7486.00	8073.80	9068.30	9928.16	10883.70	11289.00
10.Foreign debt service	106.70	167.10	213.70	294.40	322.70	313.50	127.90	206.10	527.00	458.20
11.Exports of goods & services, incl. factor services	2605.40	2816.00	2987.00	2976.10	3766.91	4747.62	6275.30	6214.51	7220.32	6949.81
12.Exports of goods & non-factor services	929.70	1022.70	1221.10	1198.60	1468.36	2425.97	3739.89	3557.37	4300.12	4326.83
Ratios										
Total debt as a % of GDP	63.82	53.05	67.98	69.22	85.66	108.96	82.22	69.43	53.90	50.49
External debt as a % of GDP	56.33	49.02	64.73	56.10	72.43	95.16	69.61	55.03	46.56	43.50
Domestic debt as a % of GDP	7.48	4.25	3.25	13.12	13.22	13.80	12.60	14.40	7.34	6.99
External debt as a % of total	88.28	135.19	95.21	81.04	84.56	87.33	84.67	79.26	86.39	86.15
Domestic debt as a % of total	11.72	7.60	4.79	18.96	15.44	12.67	15.33	20.74	13.61	13.85
Concessional as a % of external debt	91.94	91.04	88.62	89.41	81.57	76.22	70.18	72.29	78.52	83.72
Debt service (1)	4.10	5.93	7.15	9.89	8.57	6.60	2.04	3.32	7.30	6.59
Debt service (2)	11.48	16.34	17.50	24.56	21.98	12.92	3.42	5.79	12.26	10.59

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.