Central Bank of Lesotho

Annual Report

2003

Central Bank of Lesotho

Annual Report

2003

Maseru, March 2004

Central Bank of Lesotho

BOARD OF DIRECTORS

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

MANAGEMENT

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

DIVISIONAL HEADS

GOVERNOR'S OFFICE

A. L. Ramone	-	Board Secretariat
M. Mashologu (Mrs)	-	Public Relations
M. Mahooana	-	Information Technology
J. Nts'ekhe[2]	-	Internal Audit
M. Motebang (Mrs)*	-	Internal Audit
L. Khaka	-	Accounts & Budget

ADMINISTRATION

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

OPERATIONS

A. M. Letsie (Mrs)	-	Banking
S. Phate (Ms)	-	Currency
F. M. Hloaele	-	Securities Market
T. Namane (Mrs)	-	Payment systems

SUPERVISION

M. F. Mohasoa (Mrs)	-	Financial Institutions Supervision
M. Tabane	-	Development Finance
T. Metsing (Ms)	-	Supervisory Policies & Regulation
N. Bereng (Mrs)	-	Rural Finance

INTERNATIONAL FINANCE

M. Keta (Mrs)	-	Exchange Control
M. Mohapi (Mrs) *	-	Reserves Management

RESEARCH

M. Monyau (Mrs)	-	Real Sector
L. M. Lephoto (Ms)*	-	Finance
T. Tlelima*	-	Macroanalysis

[1] Since December, 2003
[2] On study leave from July 2002
* Acting

Lehakoe Recreation and Cultural Centre – CBL

Central Bank of Lesotho
P O Box 1184
MASERU 100
Lesotho

March 31, 2004

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

Honourable Minister

I have the honour to forward herewith the Annual Report of the Central Bank of Lesotho for the year ended December 2003. This includes:

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

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

(c) the Bank's annual accounts for the year ended December 31, 2003, certified by Sheeran & Associates assisted by Pricewaterhouse Coopers, and

(d) a report on the Bank's operations and statement of affairs during 2003.

Yours faithfully

E. M. Matekane
GOVERNOR

TABLE OF CONTENTS

PART I LESOTHO'S FISCAL AND MONETARY POLICIES IN A FIXED EXCHANGE RATE REGIME: THE NEED TO MAINTAIN PRUDENCE

1.1 Background

Lesotho's fiscal and monetary policies operate within the context of the membership of the Common Monetary Area (CMA), which also includes Namibia, Swaziland and Republic of South Africa (RSA). In terms of the CMA Agreement, the national currency unit of Lesotho – the loti – is fixed at par to the RSA rand. The latter is also legal tender and co-circulates with the loti in Lesotho.

Two of the salient features of the CMA Agreement provide as follows:

- Maloti issued should be fully backed by foreign currency reserves, which means that the Central Bank of Lesotho (CBL) should have an equivalent amount of foreign currency reserves for all maloti notes and coins.

- Capital flows freely among the member countries, but common controls with the rest of the world are maintained.

In spite of several benefits that Lesotho derives out of the CMA arrangement - such as easy availability of rands for Basotho, the elimination of exchange rate risk between Lesotho and RSA and, more importantly, macroeconomic stability – the Agreement poses some policy challenges for Lesotho. These challenges hinge largely upon synchronisation of fiscal and monetary policies.

1.2 Monetary policy and financing of the fiscal deficit

The primary objective of monetary policy in Lesotho is to "achieve and maintain price stability", as set out in the CBL Act of 2000. As stipulated by the CMA Agreement, the CBL must hold sufficient foreign currency reserves to support the exchange rate parity between the loti and the rand, which must enable the Bank to provide foreign currency in exchange for maloti to the Government, business community and public at large. To comply with this requirement, the CBL conducts open market operations, through which it seeks to influence the treasury bill rate, in line with monetary policy decisions in RSA. This will effectively affect the level of reserves through changes in the interest rate differential between Lesotho and RSA.

However, monetary policy does not operate in isolation but in conjunction with a particular fiscal policy stance. For instance, if government expenditure cedes its revenue (and grants), this may result in excess aggregate demand and thus exert inflationary pressure in the economy. In the context of Lesotho's fixed exchange rate arrangement, this may also exert downward pressure on the country's foreign exchange reserves. As discussed below, since this treads on monetary policy area, the CBL may have to react by counteracting the inflationary effect and the negative impact on reserves.

The fiscal position impacts generally on other macroeconomic variables and particularly on monetary aggregates, through a chosen or available financing method. Thus, to understand the monetary and fiscal policy interdependencies and limitations, it is necessary to evaluate various financing options and their implications. In doing so, a fiscal deficit is assumed, which can be justified on the grounds that a policy challenge for governments is normally to strike a balance between an endless list of competing demands and the sustainability of overall fiscal operations.

A fiscal deficit may be financed from either domestic or foreign sources. A review of the financing options and their macroeconomic implications is discussed here.

(a) Domestic financing

Domestically, a government can finance its deficit from a combination of bank and non-bank sources. Bank financing may take the form of a reduction in government deposits with (or an increased borrowing from) the central bank, as well as borrowing from the commercial banks. Central bank financing, which is usually referred to as 'monetisation of the deficit', may be inflationary since it amounts to increasing money stock in the economy. In a fixed exchange rate arrangement such as Lesotho's, this may also put pressure on foreign exchange reserves through increased import demand.

Similarly, financing a deficit by borrowing from the commercial banks may fuel inflationary pressure in the economy, unless banks are forced to reduce credit to the private sector, which is normally referred to as “crowding out effect”. However, crowding out is not desirable since it has the effect of stifling growth and development of the private sector.

In the event that bank financing fuels inflationary pressure within a fixed exchange rate regime, the central bank may have to sell treasury securities to mop up the excess liquidity as well as accumulate foreign reserves. Interest expense on government securities may force the government to divert funds from the provision of services or actually worsen the fiscal position. Increased demand for funds, both for deficit financing and monetary policy purposes, may also put upward pressure on domestic interest rates. This further complicates the conduct of monetary policy.

As indicated, a government can also finance its deficit by issuing debt instruments, such as treasury bills, to private entities within the economy. This financing option is deemed non-inflationary since it amounts to the reallocation, as opposed to the increase, of money stock. But, excessive reliance on non-bank financing also has negative implications. It can significantly increase the government’s debt stock as well as future interest costs. As argued above, in the worst-case scenario, debt service obligations may force the government to reduce funding for some of the basic social services. In addition, and similar to the effect of bank financing, heavy dependence on domestic borrowing by government has the potential to distort the economic conditions. A clear example is the tendency to push interest rates upwards, which may hamper economic growth by increasing the cost of investment funds.

(b) External financing

Financing of the government operations from external sources may be the most preferable option, on condition that concessional borrowing is available. But, reliance on commercial borrowing may be highly costly in terms of future debt service requirements. Unsustainable foreign debt may result in the deterioration of the balance of payments position and, within the context of a fixed exchange rate system, the depletion of foreign reserves. The latter would clearly complicate the conduct of monetary policy since reserves are required to meet the country’s international obligations and thereby maintain the currency parity.

1.3 Recent developments in Lesotho

In the 1990s, the Government of Lesotho maintained a strong financial position, which was characterised by budget surpluses. These resulted from a deliberate fiscal strategy by the Government to manage its finances prudently, combined with a strong growth in customs revenue. Consequently, the country’s foreign exchange reserves grew to quite favourable levels. This enabled the Government to finance emergencies without risking macroeconomic instability or serious depletion of reserves.

However, several negative factors led to a change of fortunes for the Government from 1998/99 fiscal year, when budgetary operations started to record deficits. Most of the factors responsible for the deterioration in the fiscal position were largely of an unforeseen nature, which made it rather difficult for the Government to prepare for. But, the negative impact of the deficit on CBL reserve holding was clearly predictable, once evidence of pressure on budgetary operations surfaced.

At the beginning, due to a healthy base, the impact on international reserves was manageable, since they remained largely above 8 months of imports cover (that is, sufficient to pay for the country’s import bill for more than 8 months). But, over time, pressure increased and gross reserves fell to just over 5 months of imports at the end of 2003. Although the Government took the necessary steps to address the situation, the low levels of reserves caused uncertainty, given the country’s exchange rate arrangement. This forced the CBL to sell treasury bills to drain liquidity from the economy and augment the foreign exchange reserves, which are the only cushion against shocks in a fixed exchange rate system. At times, this meant that the yield on domestic treasury securities remained significantly above RSA interest rates. This was necessitated by the need to attract enough participation in the local market for treasury bills.

1.4 The need to maintain prudence

Lesotho's fixed exchange rate system, within the CMA arrangement, has undoubtedly served the country well so far. However, as already explained, the threat of unforeseen government expenditure requirements may exert considerable pressure on the level of foreign exchange reserves. This raises the issue of developing an appropriate strategy to deal with any such emergencies without the risk of macroeconomic instability. One way of doing this would be to build up reserves by maintaining budgetary surpluses in normal times. This would act as a cushion for the Government in times of emergencies.

2.1 Industrialised Countries

Economic growth in the United States was on an upward trend throughout the year. Real gross domestic product (GDP) increased by 1.6 per cent in the first quarter of 2003. The growth rate gained momentum in the remainder of the year. In the second and third quarters, it accelerated to 3.3 per cent and 8.2 per cent, respectively. The main growth drivers were increased consumer, investment and government spending. Strong consumer and investment spending were fuelled by low interest rates and tax cuts that were experienced at the beginning of the year. The International Monetary Fund (IMF) has forecast a growth rate of 2.6 per cent in real GDP for 2003 as against 2.4 per cent realised in 2002.

Although the US economic growth was positive, unemployment rate fluctuated between 5.8 per cent and 6.4 per cent from the first to the fourth quarter. The IMF estimated that the unemployment rate, for the whole year, would be 6.0 per cent compared with 5.8 per cent in 2002.

Inflation in the US maintained a downward trend throughout the year. After the consumer price index (CPI) increased by 3 per cent in the first quarter, it generally decelerated and closed the year at 1.9 per cent. According to the IMF estimates, the US inflation rate for 2003 would be 2.1 per cent compared with 1.6 per cent in 2002.

Against the backdrop of relatively weak economic recovery, initially, the Federal Reserve Bank's (Fed) Open Market Committee lowered it's benchmark lending rate from 1.25 per cent at the end of 2002 to 1 per cent at the end of 2003.

In spite of favourable economic growth, the fluctuating unemployment rate in the US is sending out mixed signals about the overall performance of that economy. Nonetheless, prospects for economic recovery in the US bode well for the economy of Lesotho, since a large proportion of Lesotho's exports is destined to the US market.

In the Euro-zone[1], economic recovery lagged behind that of the US and remained largely weak throughout the year. Real GDP growth rate ranged between 0.1 per cent and 0.6 per cent during the first three quarters. According to the IMF estimates, real GDP growth rate of 0.5 per cent would be realised for the year 2003. Weak economic performance in the Euro-zone led to the increase in the rate of unemployment from 8.6 per cent at the end of 2002 to 8.8 per cent at the end of 2003. Inflation in the dozen nations sharing the euro generally declined and closed the year at 2.0 per cent.

As a consequence of subdued inflation, the European Central Bank (ECB) reduced its benchmark-lending rate twice during the year in an effort to stimulate economic growth in the region. It cut the interest rate by a total of 0.75 percentage points from 2.75 per cent to 2.0 per cent.

Economic developments for the Euro-zone have a direct effect on the RSA's economy, since the European Union is RSA's main trading partner. Shocks to the RSA economy can easily be transmitted to Lesotho since the two countries are closely linked. Thus, the seemingly sluggish economic performance by the Euro-zone does not augur well for both RSA and Lesotho economies.

2.2 Emerging Markets

The first half of 2003 was characterised by disappointing global economic developments partly due to continued after-effects of the uncertainties created by the war in Iraq, high oil price and concerns regarding Severe Acute Respiratory Syndrome (SARS), particularly in the Asian region. However, financial conditions eased significantly in the second quarter, aided by low interest rates in the industrial countries and improved sentiment toward a number of key emerging markets. Real GDP for emerging Asian markets was estimated to have grown by 6.4 per cent in 2003, the same as in 2002.

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

Domestic demand was weak throughout the Asian region, except China. Thus, inflation in the region remained low during the year. It is estimated to have recorded an average of 2.3 per cent in 2003, from 2.0 per cent in the previous year. Low inflation in the region dampened inflationary pressures on Lesotho's imports, and hence augurs well for the textile industry in Lesotho, as this would enable the country's manufacturing firms to continue to source raw materials at a low cost from Asia. This may enhance Lesotho's export competitiveness through a reduction in the cost of production, despite the negative impact of the appreciation of the loti.

Economic activity in Latin America appeared to have stabilised and external confidence in the region, particularly, Brazil, improved significantly. The recovery in the region reflected a number of factors, including a pickup in exports, helped by stronger global growth. The recovery nevertheless remained fragile; some countries were faced with significant debt problems and political uncertainties and thus exposing the region to a reversal in financial market sentiment. The fragility of the recovery underscores the need to implement reforms to make the region more resilient to economic shocks. The decline in domestic demand and therefore economic growth in emerging markets poses a challenge for the developing economies to diversify their exports as well as their markets.

2.3 SADC Region

RSA's real GDP growth rate ranged between 0.5 per cent and 1.3 per cent during the four quarters of 2003. The main contributors to growth were mining, transport and communication sectors.

Consumer prices in RSA were on a downward trend during the year. The inflation rate decelerated to within the targeted range of 3 - 6 per cent in October 2003. The South African Reserve Bank's (SARB's) targeted measure, the consumer price index excluding mortgage interest costs (CPI-X), declined from 12.4 per cent in December 2002 to 4.1 per cent in December 2003. The decline in inflation was attributable to a slowdown in price increases of food and clothing throughout the year. The annual average increases in 2003 were 5.8 per cent and 6.8 per cent for the CPI and CPI-X, respectively. This compared with 9.2 per cent and 9.3 per cent, respectively, in 2002. The core CPI, which excludes mortgage interest and some food items, averaged 6.5 per cent in 2003 compared to 8.2 per cent in 2002.

In response to declining inflation, the SARB's Monetary Policy Committee (MPC) lowered its benchmark lending rate (repurchase agreement rate) by a total of 5.5 percentage points from 13.5 per cent that prevailed since September 2002 to 8.0 per cent in December 2003. Consequently, RSA's commercial banks reduced their prime lending rates by a similar magnitude during the same period, from 17.0 per cent to 11.5 per cent. The interest rate reductions are expected to provide relief to consumers and stimulus to the RSA economy.

In line with developments in RSA, interest rates in Lesotho also followed a downward trend. The 91-day treasury bill rate declined from 12.19 per cent in December 2002 to 9.83 per cent at the end of 2003. At the same time, the average prime-lending rate by the commercial banks dropped from 17.67 per cent to 12.50 per cent.

As most of the inflation in Lesotho is imported from RSA, consumer price movements in Lesotho followed those in RSA. The rate of inflation declined from 11.2 per cent in December 2002 to 5.9 per cent in December 2003. On average terms, consumer price inflation decelerated from 12.1 per cent recorded in 2002 to 7.2 per cent in 2003.

Table 1

OVERVIEW OF THE WORLD ECONOMIC OUTLOOK PROJECTIONS 2001 – 2003
(Annual percentage changes)

Indicators	2001	2002	2003*
World Output	2.4	3.0	3.2
Advanced Economies	1.0	1.8	1.8
United States	0.3	2.4	2.6
Euro Area	1.5	0.9	0.5
Japan	0.4	0.2	2.0
United Kingdom	2.1	1.9	1.7
Canada	1.9	3.3	1.9
Other advanced economies	1.6	2.7	1.7
Developing Countries	4.1	4.6	5.0
Africa	3.7	3.1	3.7
Asia	5.8	6.4	6.4
Middle East and Turkey	2.0	4.8	5.1
Western Hemisphere	0.7	-0.1	1.1
Countries in Transition	5.1	4.2	4.9
Consumer Prices			
Advanced economies	2.2	1.5	1.8
Developing countries	5.8	5.3	5.9
Countries in transition	16.2	11.1	9.7
World Trade Volume (goods & services)	0.1	3.2	2.9
Imports			
Advanced economies	-1.0	2.2	2.8
Developing countries	1.6	6.0	5.1
Countries in transition	11.9	6.3	6.6
Exports			
Advanced economies	-0.8	2.2	1.6
Developing countries	2.7	6.5	4.3
Countries in transition	6.0	6.3	5.8

Source: IMF World Economic Outlook September 2003
* Projections

2.4 Commodity Price Developments and their Impact on Lesotho Economy

The price of gold rose steadily throughout the year. It rose from $349.25 an ounce at the end of 2002 to $412.25 at the end of 2003. The annual average price of gold was $363.95 an ounce in 2003 compared to $310.57 in 2002. The surge in the gold price emanated from various factors. The main one was the prolonged weakness in the US economy, with the depreciation of the US dollar against other major currencies. This prompted investors to switch from dollar denominated assets to holdings of gold, which was considered a safe haven.

A high dollar-price of gold could have a positive impact on the Lesotho economy. By counteracting the impact of the rand's appreciation on the gold mining profitability, gold price increases augur well for Basotho mineworkers' employment prospects.

At the end of the year, the price of oil had risen above the upper limit of the Organisation of Petroleum Exporting Countries' (OPEC's) target of between $22 - $28 per barrel. It closed the year at $29.87 per barrel. On average, it registered $28.14 per barrel in 2003 compared with $24.40 in 2002. The increase in the international oil price was fuelled by the OPEC's decision to cut output by 900,000 barrels per day (bpd) to 24.5 billion bpd from the 1st November 2003. This decision was triggered by the members' expectation of a seasonal stock build up at the end of 2003. Normally, oil stocks decline over winter in the Northern Hemisphere due to heavy use of heating oil.

Other contributing factors to a hike in the international oil price are the US/Iraq war, community unrest emanating from ethnic clashes in Nigeria during the second quarter, the strike in Venezuela and persistent conflicts in the Middle East. All these factors led to uncertainty in the oil trade and hence disrupted world's oil supply. Outside the OPEC, Nigeria and Venezuela are among the biggest suppliers of oil. Therefore, uncertainties in these countries could affect the world price of oil. Further upward pressure on oil prices resulted from calls by Venezuelan President for the cartel to target a basket price range of between US$25 and US$32 per barrel instead of the current target of US$22 – US$28 per barrel.

Although the international price of oil generally increased during the year, the rand's massive appreciation against the US dollar had an offsetting effect on the fuel price increases in RSA, from where Lesotho imports its petroleum products. As a consequence, the Lesotho Petroleum Fund Board lowered fuel prices to M3.63, M3.60 and

M2.14 per litre at the end of 2003, respectively, for petrol, diesel and illuminating paraffin. These compared, respectively, with M3.90, M3.92 and M2.98 per litre at the end of 2002.

2.5 Lesotho in the Context of Regional Economic Cooperation

Lesotho continued to demonstrate a strong commitment to economic cooperation through its membership and participation in the activities of regional economic organisations. These include the CMA, Southern African Customs Union (SACU)[2], and the Southern African Development Community (SADC)[3] .

SACU countries have continued their economic reform programmes, where trade and investment liberalisation have played key roles. A re-negotiation of SACU Agreement was concluded in 2002, but still has to be ratified by all parties. Though the Agreement has been ratified by Botswana and Lesotho during 2003, it is yet to be ratified by Swaziland and South Africa. The Agreement will enter into force thirty days after the deposit of the instruments of ratification by all member states.

The 2002 SACU Agreement provides for:

(i) A more democratic institutional structure
(ii) Dispute settlement mechanism
(iii) Requirement to have common policies on industrial development, agriculture, competition and unfair trade practices.
(iv) New system regarding the common revenue pool and sharing formula.

It is envisaged that, once in force, the new SACU Agreement, combined with multilateral trade liberalisation and outward-orientation, will help SACU countries to foster their integration into the world economy.

Under the new revenue sharing formula, the concept of RSA's share being the residual after calculating the shares of the other countries, which was in the 1969 formula, has disappeared. Instead, each member's share is specifically calculated. The new formula also eliminates the revenue floor, and the time lag between actual trade and distribution of tax receipts is made shorter. In addition, the new revenue-sharing formula is also meant to ensure a more stable flow of funds to its members, allowing them to plan their fiscal budgets more effectively. SACU members acknowledge that in order to promote long-term economic growth, they need to move towards sources of income other than the SACU revenue pool.

SACU economic outlook depends on global economic prospects, especially in the EU and US, the two principal destinations for products outside the customs union. It also depends on the evolution of the New Partnership for Africa's Development (NEPAD), which is aimed at eradicating poverty and therefore place African countries, both individually and collectively, on a sustainable growth and development path. Furthermore, it is also aimed at promoting the integration of the continent into the globalisation process.

During the year, SACU undertook a number of free trade negotiations. The fourth round of US/SACU free trade negotiations took place during the third quarter. However, the negotiations are scheduled for completion at the end of 2004. As far as negotiations with European Free Trade Association (EFTA) were concerned, exchange of information was being finalised and the deadline for negotiations is the end of 2004. Fully-fledged free trade negotiations with Southern Common Market, Mercado Común del Sur (MERCOSUR[4]) have not yet commenced, but preparations are already underway. In a similar manner, preparations are already made for free trade negotiations between SACU and Nigeria, on the one hand, and India, on the other hand, which are scheduled for 2004.

In the SADC, two memoranda of understandings (MoUs) for the finance and investment sector have economic convergence and another on cooperation in taxation and related matters. The objective

[2] Comprises of Botswana and CMA countries.

[3] Comprises of Angola, Democratic Republic of Congo, Malawi, Mauritius, Mozambique, Seychelles, Tanzania, Zambia, Zimbabwe and SACU countries.

[4] Southern Common Market (Mercado Comun del Sur) comprises of Argentina, Brazil, Paraguay and Uruguay, together with Bolivia and Chile (associate members of Mercosur).

of the MoU on macro-economic convergence is to establish a macro-economic stability coordination framework in the SADC region. The MoU on cooperation in taxation and related matters seeks to harmonise tax regimes, promote the application and treatment of tax incentives, direct taxes and treaties to avoid double taxation, indirect taxation, develop a dispute settlement mechanism and foster cooperation on capacity building in the area of taxation.

Work is ongoing to finalise the MoU on investment. One of the sub-structures of the SADC Finance and Investment sector that was involved in developing the MoUs was the Committee of Central Bank Governors (CCBG). At the end of 2003, completed MoUs were related to cooperation and coordination in the areas of: payments, settlement and clearing systems; information and communication technology; and exchange control. These MoUs have also been endorsed by the SADC Ministers responsible for Finance and Investment. However, they await standardisation by the SADC Legal sector and adoption by the SADC Council of Ministers for eventual signing and implementation by the CCBG.

3.1 Real Sector Developments

3.1.1 Trends in output and income

Economic activity slowed down during 2003. Preliminary estimates indicate that real GDP grew by 3.3 per cent down from 3.8 per cent observed the year before (see Table 2).

The GOL is pursuing an export-led economic growth strategy documented in the Poverty Reduction and Growth Facility (PRGF) programme signed in collaboration with the International Monetary Fund (IMF). Under the PRGF, developing countries receive financial assistance from the IMF in the form of loans that carry an annual interest rate of 0.5 per cent. Repayments are made semi-annually but only begin five and a half years after disbursement. The Fund provides loans primarily to support countries' balance of payments, while technical assistance is geared towards advising on prudent macroeconomic policies. This may include certain structural reforms in areas such as fiscal management and tax administration. The entire PRGF programme is however, wholly consistent with the country's overall poverty reduction strategy.

The export promotion strategy takes advantage of duty-free access and exemptions on the rules of origin offered for the US market under the Africa Growth and Opportunities Act (AGOA). Lesotho's textile manufacturing sub-sector has grown significantly since the inception of the Act. Exports to the US have more than doubled from M1486.4 million in 2000 before AGOA to M3906.0 million in 2002. In addition, the US is now the largest destination of Lesotho's exports since 2000, while SACU is the second largest. Employment in the manufacturing sector also rose after the introduction of AGOA. It jumped from roughly 26 000 in 2000 to approximately 50 000 in 2003 after new firms opened business and existing ones expanded their operations.

However, the slowdown in real GDP growth in 2003 was driven by lower growth in manufacturing and construction. The manufacturing activity decelerated on the back of currency appreciation and weak global economic developments. Following large depreciation in 2001 which reached a peak of M11.623 per US dollar at the end of January 2002, the loti appreciated gradually until it reached M6.563 a dollar in December 2003. The relatively slower pace in the performance of the construction sub-sector was a reflection of less ambitious government capital projects in 2003, after strong road construction activity in 2002. The downward pressure of the manufacturing and construction sub-sectors was partially dampened by a 3.6 per cent recovery in the tertiary sector and a relative lower decline of 0.4 per cent in the agricultural sub-sector.

Real Gross National Income (GNI) was stronger in 2003 at 2.7 per cent than the preceding year (2.0 per cent) despite the lower GDP growth rate. Net factor income rose at a lower rate in 2003 due to a decline in the number of mineworkers in South Africa. The negative impact of the strong rand on mining production overshadowed the rise in the price of gold, resulting in a fall in Basotho miner's employment. The price of gold usually increases on expectations of lower global economic growth, uncertainty caused by war or instability in international financial markets. The year 2003 was characterised by slower than expected economic recovery in the US, and concerns on results of war in Iraq. This pushed demand for gold as investors buy gold to hedge against possible depreciation of the dollar and subdued performance of alternative investments.

Table 2

AGGREGATE ECONOMIC INDICATORS
(Percentage Changes)

	1999	2000	2001	2002	2003*
Constant 1995 Prices					
GDP	0.20	1.30	3.20	3.80	3.30
GNI	-3.90	-3.20	0.60	2.00	2.67
GDP Per Capita	-1.70	0.60	0.90	3.30	2.80
GNI Per Capita	-5.60	-5.00	-1.70	1.50	2.00

Source: Bureau of Statistics
* CBL Projections

Box 1: Implications of African Growth and Opportunity Act (AGOA) for Lesotho economy

AGOA is an Act promulgated in the United States (US) that significantly liberalised trade between the US and 37 designated Sub-Saharan African (SSA) countries, including Lesotho. The Act covers the 8-year period from October 2000 to September 2008. Beneficiary countries have been chosen according to various pre-determined criteria, including progress made towards a market-based economy, respect of the rule of law, the embracement of general democratic principles and human rights issues.

In 2001 and 2002, about 99 per cent of Lesotho's exports to the US were 'textiles and apparel' category, of which about 98 per cent were AGOA-eligible. Lesotho having been classified as a 'Lesser Developed Country' received preferential access under AGOA in 2000, including exemption from the AGOA rules of origin until 2004. The rules of origin state that the input fabric used by the textile factory must originate from the US or a qualifying African country. If the current exemption from AGOA rules of origin is not extended after September 2004, a large part of Lesotho's textile exports would loose its duty free access to the US market because it is not made with US or local fabrics. The construction of a $100 million denim rolling mill at Thetsane Industrial Area in Maseru has been completed late in 2003 and recruitment processes are underway. This would position Lesotho's production process, since domestic and international textile factories would purchase raw materials/inputs from this denim mill. Another textile milling investment was recently opened in Mohale's Hoek creating an estimated 3,000 jobs. This means that Lesotho would experience higher employment levels and increased exports to the rest of the world. As a consequence, this would enable the country to narrow its trade deficit.

Due to AGOA, for the first time in Lesotho's history, private sector employment through manufacturing, exceeded that of the civil service. Manufacturing is deemed to be the largest employer in the formal sector of the domestic economy with 49,428 people in the third quarter of 2003 compared to 44,537 recorded at the end of 2002. However, the phasing-out of AGOA in September 2008 would have negative implications for the Lesotho economy. This would mean that fewer exports would be destined to the US market, as opening up of trade would increase competition of domestically produced commodities in international markets and this implies fewer exports to the US from Lesotho. Conse-quently, this would lead to a widening trade deficit in the country's balance of payments position. Phasing-out of AGOA may also imply an increase in unemployment and hence reduction in the gross domestic product. In addition, the current quotas under the Agreement on Textiles and Clothing (ATC) will be abolished in 2005 and this is likely to hurt small producers like Lesotho.

3.1.2 Performance of Sectoral Output

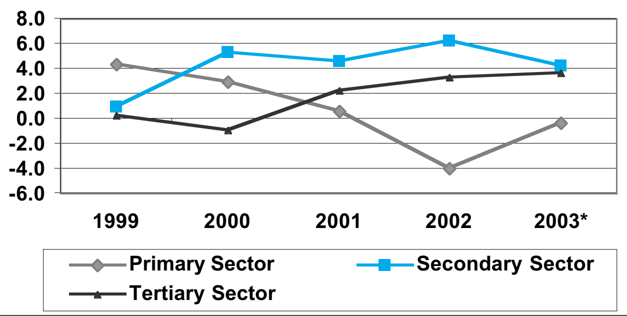
(a) Developments in the Primary Sector

The primary sector, consisting of agriculture, mining and quarrying, is the smallest sector in terms of its contribution to GDP. The sector accounted for an estimated 16.8 per cent of nominal GDP in 2003 – a slight deterioration from the 17.4 per cent share in 2002. However, the sector is believed to be the largest employer in the country, accounting for an estimated 70 per cent of the labour force (as per Labour Force Survey of 1999). Therefore, its growth would make a direct contribution of higher incomes to the largest number of households. This also implies that sustained growth of this sector would significantly reduce poverty in the country.

However, this sector is faced with various challenges. Overgrazing and poor cultural practices caused prolonged soil erosion despite attempts to reduce it. This resulted in a reduction of the already small arable land. The government responded to this problem through the Ministry of Forestry and Land Reclamation. Secondly, the influx of Basotho to urban areas, migration of men to work in South African mines, as well as higher sickness and death toll rates resulting from HIV/AIDS, stripped the sector of a large number of active workers. The third challenge faced by the sector is erratic weather conditions. Lesotho was hit by drought on several occasions during the past decade. This resulted in a decrease in grazing land, adversely affecting livestock, and discouraged some farmers from planting the fields. The latest drought prompted the government to announce a state of famine early in 2002 and to introduce a programme for supporting farmers with agricultural inputs such as seeds and fertilisers. The last challenge was the growing incidence of stock theft in the past years. Steps to dismantle major stock theft operatives were undertaken by the police to reduce this problem.

Preliminary estimates indicated that agricultural growth fell by a lower 0.4 per cent in 2003, from a decline of 4.0 per cent in 2002. The slower decline was remedied by agriculture input support provided by government in 2002/03, which cut the decline in crop production by half to 6.0 per cent in 2003. Livestock production rose, but at a slower rate compared to 2002.

Figure 1: Sectoral Real Growth Rates



Source: Bureau of Statistics
* CBL Projections

Mining and quarrying activities rose appreciably by 3.0 per cent. The sub-sector was possibly boosted by increasing mining in the Mokhotlong (northern district) region. A new mining company discovered diamonds worth US $5.6 million in November 2003. Improved activity in this sector is encouraging. However, the sub-sector is expected to remain a marginal contributor to GDP.

(b) Developments in the Secondary Sector

Manufacturing, construction, electricity and water recorded a combined 4.2 per cent growth, down from 6.3 per cent in 2002. All components of the secondary sector experienced lower growths relative to 2002. As mentioned earlier, manufacturing decelerated from 6.9 per cent in 2002 to 5.0 per cent in 2003 due to the appreciation of the loti and expected decline in clothing demand in the US. The latter resulted from:

- above-normal US unemployment rate;
- fears of slow world economic recovery;
- weak US stock market and housing market performance, as well as
- generally low consumer and business confidence.

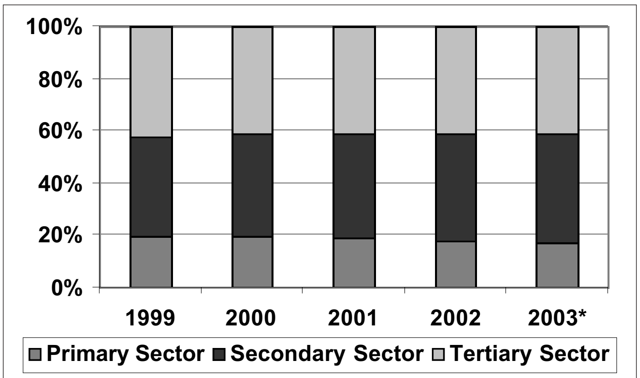
The utilities (water and electricity) sub-sector suffered a modest slowdown in 2003. Production of clean water suffered in 2003 due to the drought situation. The capital city, Maseru, experienced shortages which were resolved through a water divergence arrangement with the Lesotho Highland Water Project – which supplies water to South Africa. On the demand side, the slowdown in water consumption was a reflection of a fall in industrial water usage as textile firms reduce their production.

The building and construction sub-sector also experienced lower activity, registering an estimated 4.0 per cent growth during the review period from 6.9 per cent increase in the previous year. This reflected a decline in capital expenditure planned by the government for 2003, as major road construction works came to an end. The government's capital expenditure was estimated at 7.3 per cent of GNI in 2003, compared to the budget of 8.4 per cent of GNI in 2002.

(c) Developments in the Tertiary Sector

The tertiary sector is the second largest sector since 2002, having been outgrown by the secondary sector when manufacturing expands. The tertiary sector accounted for 41.1 per cent of real GDP in the year under review. However, the government should design policies to further boost this sector in an attempt to spread the economic growth base of the country, and to further diversify the manufacturing sector (which is predominantly exposed to the US market). The tertiary sector recorded a higher growth of 3.6 per cent in 2003, from 3.3 per cent increase realised in the preceding year.

Figure 2: Sectoral Shares in GDP at Factor Cost



Source: Bureau of Statistics
* CBL Projections

Education is the largest tertiary sub-sector. The education sub-sector continued to grow in the period under review as the Government expanded its free primary education programme. The free primary education was extended to cover one more grade in 2003, extending the coverage to the first four years of primary education. At this rate, the whole of primary school education would be free by 2006 and the country would be in a position to achieve the millennium development goal of universal primary education by 2015. Free primary education would encourage more children from poor families to attend school, thus increasing net enrolment rates towards the desired 100 per cent. However, the Government needs to monitor expenditure on this programme closely as it could be unsustainable. The sub-sector rose by a slightly higher rate of 4.5 per cent during the year.

The wholesale and retail sub-sector's contribution was marginally lower to that of education at 9.7 per cent of GDP. The sub-sector grew by 4.5 per cent in 2002, and rose by a further 6.5 per cent in 2003. It could have benefited from increased demand as the slowdown in inflation boosted the purchasing power of consumers. In addition, increasing sales could have been driven by higher employment in the manufacturing sub-sector, increased private sector credit, as well as lower retrenchments and higher average earnings of mineworkers.

The growth of the tertiary sector could have been higher if its third largest sub-sector, public administration, did not experience a decrease in 2003. Value added by public administration fell by 1.3 per cent in 2003, compared with an increase of 1.2 per cent in 2002. Budgetary operations of government recorded an estimated deficit of 2.5 per cent of GNI for the calendar year 2003, compared to 2.7 per cent during the preceding years.

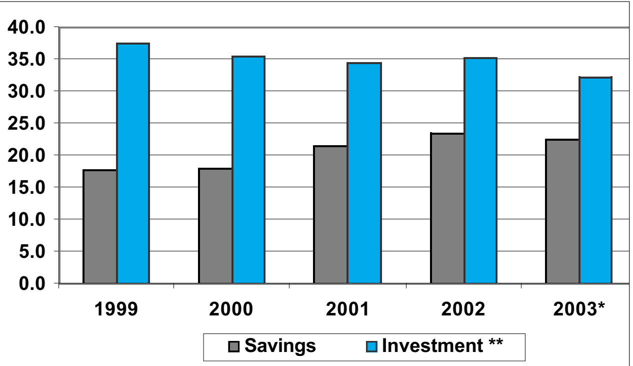
Financial intermediation generated a rise in value added of 8.2 per cent from 7.7 per cent in the preceding year. This reflected underlying growth in credit extension and higher investments in Lesotho treasury bills. Commercial banks' extension of credit to the private sector has been growing steadily since the restructuring of the banking system in the late 1990s. In 2003, this trend could have been reinforced by the fall in interest rates. In addition, increased holding of treasury bills of GOL boosted interest received by banks. These securities were yielding higher returns than comparable investment instruments in neighbouring countries. The margins of treasury bill rates between Lesotho and South Africa were higher in 2003 due to increases in treasury bill issues and auctions as Government raised money for budgetary and monetary policy purposes.

The contribution by the Post and Telecommunications sub-sector rose by 3.3 per cent, from a fall of 0.9 per cent in 2002. This could be ascribed to the expansion of telecommunication industries, as reflected in growing numbers of fixed-line and mobile telephone services.

3.1.3 Savings and Investment

The extent to which economic agents save represents the economy's ability to finance its own investment needs. In an ideal world the total amount saved should at least be equal to investment demand in an economy. Such an economy stands a chance of strong economic growth, as domestic savings tend to be cheaper to borrow and their borrowing requirements could be less stringent than funds borrowed outside the country. It is widely believed that developing countries such as Lesotho should record annual economic growth of at least 5.0 per cent in order to create significant employment.

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



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

As figure 3 indicates, the savings-investment gap of Lesotho has been narrowing in the four years to 2002. This has been driven by a combination of falling investment and rising savings level. In the review period, investment fell to 32.3 per cent of GNI from 35.3 per cent in 2002. Savings also fell from 23.6 per cent of GNI in 2002 to 22.6 in 2003. The larger decline in investment resulted in the narrowing of the gap. Investment is on a downward trend partly on account of a high base in 1990s when LHWP activities were at their peak. The decline in SACU revenue and government's long-term commitments on education and health resulted in government dissaving. Subdued performance of the agriculture sub-sector could have led to the decline in private savings.

3.2 Employment Wages and Prices

3.2.1 Employment

In 2003, regular employment data for Lesotho was not comprehensive, as it covered only a few sub-sectors of the economy. There was no data on employment levels under unemployment and disguised in the primary sector, which was believed to be the largest employer in the country. The Labour Force Survey of 1999 estimated that agriculture accounted for about 70 per cent of the labour force. These were mainly unskilled and semi-skilled workers practising subsistence farming. As mentioned earlier however, employment in this sub-sector fell due to declining production levels and migration of people to urban centres.

In the secondary sector, only labour statistics in the manufacturing sub-sector were available (i.e. there was no frequent data for employment in the construction sub-sector). Manufacturing was deemed the largest employer in the formal sector of the domestic economy with 51 160 people in the last quarter of 2003. At this level, the manufacturing employment was higher than the 44 537 recorded at the end of 2002 by 14.9 per cent. It would appear that the slowdown in the manufacturing sub-sector, driven by the strengthening of the currency and a fall in textile demand in the US, did not impact negatively on employment. New firms that opened during the year could have driven the number of workers employed by manufacturing firms. However, the stabilisation of the currency and a recovery in the US market is needed for the upward trend to continue. According to the 1999 Labour Force Survey, construction accounted for 4.8 per cent of working people above the age of ten, while electricity, gas and water sub-sector employed only 0.5 per cent.

In the tertiary sector, employment was measured only for the government. This covered the public administration and a large part of the education and health sub-sectors, as most teachers and health officials were under the Government payroll. The numbers represented employment in the civil service, the armed forces and teachers. Government employment closed the year almost unchanged at 36,004, from 36,038 in 2002. The government was pursuing a civil service reform programme that aimed at achieving a leaner and more efficient government. This was pursued through natural attrition. Therefore it was expected that government employment would be steady or fall as the government tries to achieve lower wages and salaries bill, which was around 30 per cent of revenue in the 2003 calendar year. According to the 1999 Labour Force Survey, the wholesale and retail sub-sector employed almost the same percentage of workers as the construction sub-sector. This was slightly higher than government employment at that time.

Lesotho is in a unique position where the external sector accounts for a significant number of employees. This was largely influenced by the tradition of temporary migration of Lesotho men to work in South African mines. The number of mineworkers remained relatively large (outstripping employment level of the largest formal employer in the domestic economy) despite drastic retrenchments in the past years as the gold price declined and mines became more technological. In December 2003, mining employment was estimated at 61 415, which is a 1.2 per cent decline compared with the 62 125 employed in December 2002. The opposing pressures of an appreciating rand and a rising international price of gold resulted in a fall in the price of gold in rand terms, influencing the mines to cut their employment. Like in the case of manufacturing, however, a more stable currency would help increase miners' employment. However, miners' employment is unlikely to recover to its historic peak.

Box 2: Free Primary Education (FPE) Programme

The GOL introduced the FPE in 2000. The programme offered free tuition and lunch to students attending schools under the government payroll. It also covers costs of building schools. It was introduced on a gradual basis, with one class incorporated every fiscal year since its introduction. In 2004, the programme would cover up to the fifth grade of primary education.

The government intended to achieve the following goals:

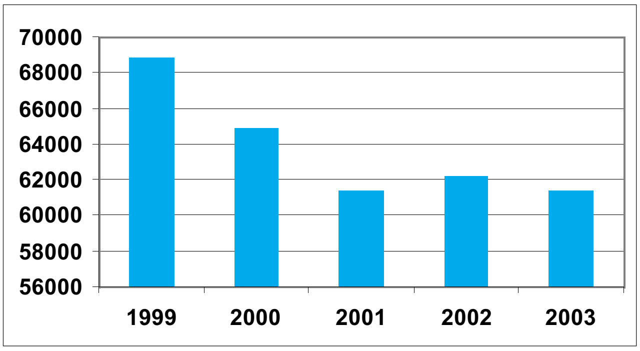
- Reduction of the burden of poverty by enabling households to save on education costs. The savings would contribute directly to poverty reduction as households could use the savings on other necessities such as health and nutrition.
- Improvement of the overall quality for life of the people of Lesotho through higher literacy levels in the future.
- Provision of income and employment opportunities to teachers, workers building schools, and those awarded contracts under the school feeding scheme.
- Provision of nutrition to poor children attending schools.
- Provision of relevant pastime for poor children and HIV/AIDS orphans.

Evidence of a strong increase in primary enrolment implied that the programme could bear fruits. It also implied that the country would be in a position to achieve the millennium development goal of universal primary education by 2015. The programme contributed to economic activity in the country. Education (with the largest share of the tertiary sub-sector at 22.9 per cent) grew in excess of 4.0 per cent in real terms since 2001, after the inception of the programme.

However, the programme poses the following challenges to the Government:

- It may not be sustainable due to high costs. Lesotho planned to spend 21.4 per cent of the 2003/04 budget on education. This would be used to finance FPE for grade 1 to 4, transfers to tertiary institutions and provision of loan bursaries. This means that the programme might need larger budgetary allocations as more grades are added. This problem could be addressed by obtaining external funding or controlling costs. The measures such as setting the maximum enrolment age of each grade, or using donor-supplied food, could help contain the costs related to the programme.
- Education officials would need to work hard to safeguard the quality of education as numbers increase. This means that the pace of expanding school buildings would need to match the increasing enrolment rate. More instruction equipment should be purchased and more teachers hired.
- Increased primary enrolment implied that plans should be made to prepare higher education institutions (high school and tertiary) for the larger intake.

Figure 4: Average Number of Migrant Mine Workers in RSA



3.2.2 Wages

Efforts have been taken by the government since 2001 to improve the setting of the minimum wage in Lesotho. Minimum wages for different occupations in the private sector are determined annually by a tripartite Advisory Board. This resulted in provision of technical assistance by the International Labour Organisation in 2002, which was followed by discussions by all domestic stakeholders. The general agreement is to move from the present arrangement of setting minimum wages by occupations, to a sector based wage setting. In addition, it was planned that bilateral negotiations would take place at sector level between workers and employers while the government would be the facilitator.

The Wages Advisory Board would remain in its present state for a while, before it is phased out gradually. The Board is responsible for the setting of occupational minimum wages, and consists of representatives from government, employers and labour unions. Bargaining disputes in the Board are resolved by the Minister of Employment and Wages, whose decision is final. The new approach is expected to relieve the Minister of this burden over time. It was agreed that the textile, retail and construction sub-sectors would be used as case studies to monitor the success or otherwise of the proposed sectoral minimum wage fixing. Four factors would be considered in the setting of the minimum wage:

- Needs of workers and their families;
- The ability of the firm to pay;
- The level of income and other wages within the economy; and
- Requirements for economic development.

The prevailing system was used to adjust minimum wages in October 2003. The prevailing minimum wage was hiked by 5.5 per cent. The adjustment was lower than the 2003 average inflation of 7.2 per cent. The Government announced 4 per cent salary increase of civil servants in its 2003/2004 budget speech. This was lower than the 8 per cent adjustment in the preceding fiscal year.

3.2.3 Prices

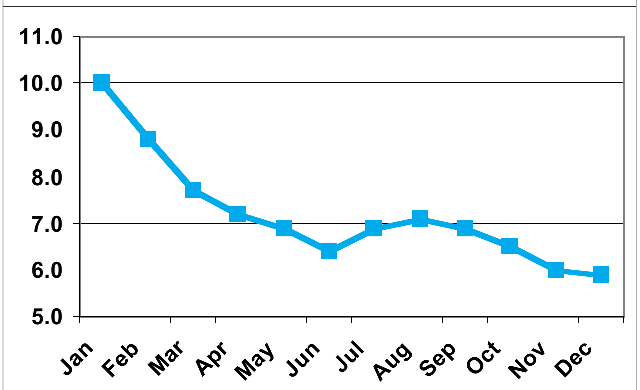
As predicted in the 2002 Annual Report, inflation rate fell in the review period from the 11.9 per cent peak registered in 2002. Overall inflation was recorded at an average of 7.2 per cent for the whole of 2003 (see figure 5). The turnaround was influenced by the reversal of factors that drove the 2002 inflation:

- Modest recovery in food production domestically and abroad.
- The 27.4 per cent recovery of the loti exchange rate (annual average), following a depreciation of 20.8 per cent in 2002. This led to lower import prices and prices of foods such as cereals, whose prices are benchmarked against foreign currency prices in major international commodity markets.
- The generally lower rand price of crude oil.

The combination of improved food security situation and the strengthening of the currency drove the food component of the Consumer Price Index (CPI) to grow by only 0.7 per cent for the twelve months ended December 2003, against a jump of 26.3 per cent in 2002. Lesotho Early Warning Unit projected a lower maize deficit of 14.6 thousand tonnes in its September 2003 report, compared to a deficit of 42.8 thousand tonnes forecast in September 2002.

International oil price changes can have a significant, but lagged impact on overall inflation since fuel is an important input in most production and distribution processes. In the review period, international oil prices were relatively higher at an average of $28.14 a barrel against $24.40 in 2002. However, the appreciation of the rand (from an average of $10.416 in 2002 to $7.562) resulted in the lower price of oil in rand terms. This translated into lower fuel prices in 2003, with the petrol price registering a weighted average of M3.80 a litre in Lesotho compared to M3.86 in 2002.

Figure 5: Lesotho Consumer Price Index
(Annual Percentage Change)



Source: Bureau of Statistics

The slowdown in inflation enabled the Government to introduce value added tax (VAT) at a higher rate of 14 per cent without causing significant erosion of the purchasing power of people's income. The rate of inflation jumped slightly from 6.4 per cent in June to 6.9 per cent in July when the VAT was introduced. The rate then continued to decline until it closed the year at 5.9 per cent. Important food items were zero-rated under VAT to minimise its negative impact on the poor.

The prolonged drought and possible depreciation of the rand in the near future implies that the inflation rate could rise in 2004.

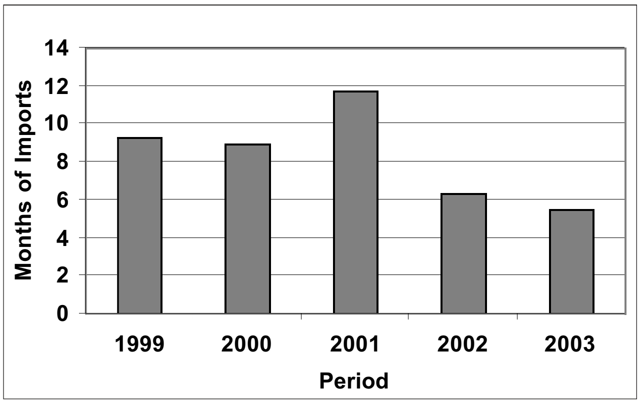
3.3 Balance of Payments

3.3.1 Overall Balance

Lesotho's balance of payments position was expected to continue to register a deficit for the second consecutive year in 2003. According to the preliminary estimates of the Central Bank of Lesotho, the overall balance was expected to register a deficit of M512.6 million in 2003 compared with that of M1278.8 million in 2002. This resulted mainly from the appreciation of the loti against the major currencies, particularly the US dollar, the UK pound sterling and the Euro, in which a large proportion of the country's foreign reserves is held.

Although the deficit on the overall balance improved from the previous year's position, it was still expected to result in a decline in official reserves from 6.4 to 5.5 months of import cover. Apart from revaluation losses, the reduction in the country's foreign reserves resulted from the deterioration in the capital and financial account. As indicated in Part I, Lesotho's fixed exchange rate regime makes it essential to hold adequate foreign reserves in order to maintain the parity between the loti and the rand.

Figure 6: Official Reserves in Months of Imports



The transactions balance narrowed from a deficit of M338.5 million in 2002 to that of M65.8 million in 2003. This improvement was attributed to developments in the current account. As explained below, the trade deficit was expected to narrow marginally. This could be reinforced by an increase in the income account.

Table 3

SUMMARY OF BALANCE OF PAYMENTS EXCLUDING LHWP
(As a percentage of GNP)

	1999	2000	2001	2002	2003*
Current Account	-10	-8.8	-2.9	-8.6	-7.8
Capital and financial account	1.8	2.2	1.9	5.8.	4.3

* CBL Projections
LHWP is excluded because it is a temporary shock to the economy

3.3.2 The Current Account

The current account balance showed some improvement, during the review period. Excluding the Lesotho Highlands Water Project (LHWP), the current account deficit narrowed from 8.6 per cent of GNI in 2002 to 7.8 per cent in the review period. This could be ascribed to a deceleration in growth of imports, which rose by 2.4 per cent in 2003 against 33 per cent registered in 2002. Although the rate of growth of exports also declined from 54.2 per cent in 2002 to 1.9 per cent in the review period, its negative impact was overshadowed by the magnitude of the decrease in imports. The main reason for the slowdown in the rate of growth of imports was a decline in government capital expenditure. The latter fell by 4.7 per cent as implementation of capital projects remained sluggish throughout the year. The current account balance also benefited from an improvement in the income account, which was spurred by a 4.3 per cent rise in miners' remittances.

Current transfers declined by 0.3 per cent during the review period compared with an increase of 9.3 per cent in 2002. This was largely due to a reduction of 1.4 per cent in SACU non-duty receipts, which constituted the largest proportion of transfers to the Government. A decline of 20.8 per cent in the financing of expatriates also exerted downward pressure on current transfers.

3.3.3 Trade in Goods, Services and Income

According to preliminary estimates, exports of goods continued to be on a downward trend during the year. The nominal value of exports was estimated to fall to 36.5 per cent of GNI in 2003 from 39.5 per cent of GNI in 2002. The deterioration was attributed to the loti's appreciation against the US dollar, which reduced the value of export earnings as well as export competitiveness. Weak global demand also contributed to the slowdown in exports growth. As already explained, the value of imports also declined and imports excluding the LHWP fell from 79.2 per cent of GNI in 2002 to 73.4 per cent in 2003.

Net payment for services abroad continued to increase during 2003 as in the past two years. They rose from M212.1 million in 2002 to M252.7 million in 2003, due to several factors. Firstly, payments for shipment increased, which was in line with the nominal growth in imports. Secondly, expenditure by Basotho students abroad remained strong and grew from M76.1 million in 2002 to M110.3 million in 2003. In addition, government expenditure on services abroad, mainly on Lesotho embassies, maintained pressure on the services balance. Government international subsistence allowance also rose significantly from M3.6 million in 2002 to M12.4 million during the review period. Income from tourism spending in Lesotho remained sluggish although increasing by 9.5 per cent from M79.8 million in 2002 to M87.3 million in 2003.

Net income continued to increase during the review period, spurred primarily by labour income. Following a 12.8 per cent increase in 2002, net income rose by 7.2 per cent in 2003, as miners' remittances remained robust. Despite a decline in the number of Basotho mineworkers in RSA over the year, miners' remittances grew by 4.3 per cent. However, negative pressure emanated from investment income, with interest to the CBL declining from M172.3 million to M152.9 million in the review period, largely due to a general decline in global interest rates.

3.3.4 Capital and Financial Account

The capital and financial account excluding LHWP was estimated to have declined from 5.8 per cent of GNI in 2002 to 4.3 per cent of GNI in 2003. The decline emanates largely from the "other investment" category, which registered a net outflow of M122.9 million in 2003 compared to a net inflow of M50.2 million in 2002. This resulted mainly from the significant reduction in the liabilities of CBL, which far outweighed the net inflow of funds by the commercial banks. The CBL repaid M150.9 million worth of foreign liabilities against an increase of M17.5 million realised in 2002. In contrast, commercial banks foreign assets decreased by M96.4 million in 2003 compared to M7.6 million in 2002. Additional pressure emanated from the net repayment of official loans to the tune of M50.2 million, as disbursements declined considerably.

The deterioration in the capital and financial account was to a certain extent moderated by a 4.1 per cent improvement in grants to the Government. This could be an indication of continued donor support for the country in pursuing the PRGF, which is considered as an indicator of the authorities' determination to foster macroeconomic stability.

3.3.5 Foreign Exchange Rates

During the review period, the loti strengthened against major currencies. Against the US dollar, the loti appreciated by 25.2 per cent. This reflected largely the general weakening of the US dollar and the improvement in gold price. The tension in the Middle East and the war in Iraq, coupled with the general weakness in the global economy, caused uncertainty in the international markets. As a result, investors switched from dollar-denominated assets to gold, which is considered as a safe haven. Increased demand exerted upward pressure on gold price, which benefited the rand, as RSA is one of the main exporters of gold. Moreover, there is a sizeable interest rate differential between RSA and most of the industrialised countries, which attracted financial inflows into RSA to take advantage of better yields. Against the euro, the loti appreciated by 13.5 per cent. But, despite the appreciation of the loti, Lesotho's exports to the US continued to expand mainly as a result of strong consumer demand in the US.

3.4 Money and Banking

3.4.1 Money Supply

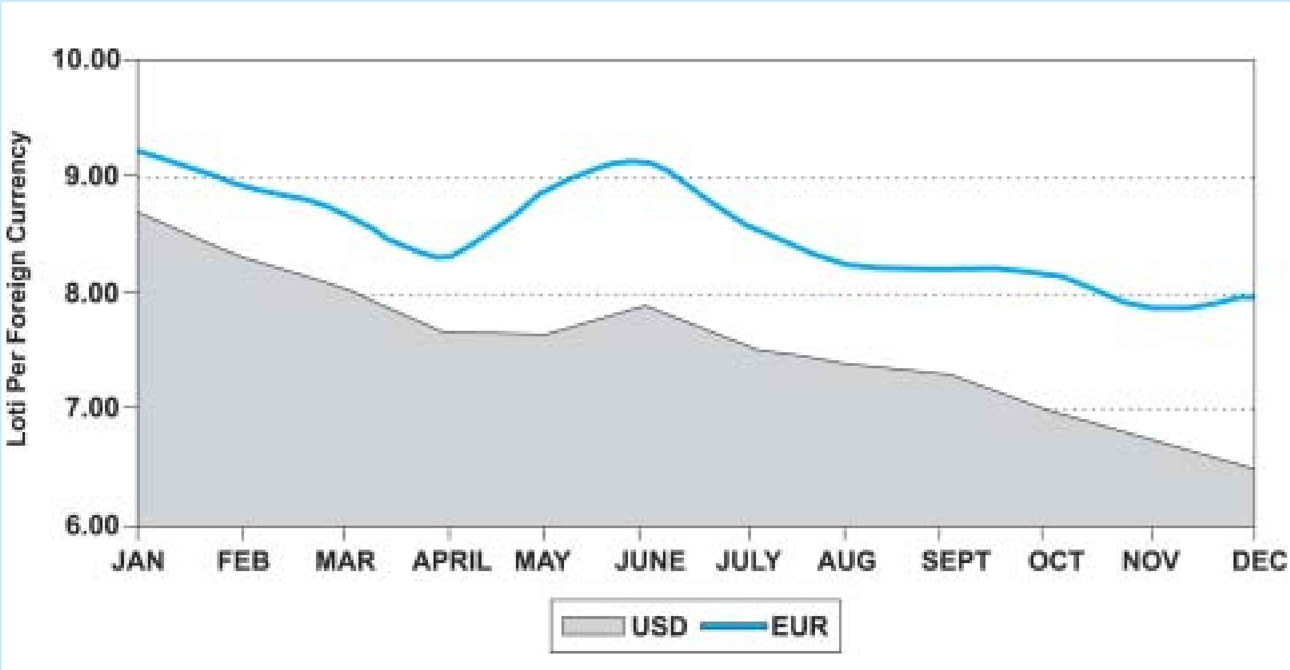
At the end of December 2003, broad Money supply (M2), grew by an annual 6.0 per cent down from an increase of 8.8 per cent a year ago. M2 is defined as the currency in circulation, demand and term deposits with the depository corporations. Although the RSA rand is a legal tender in Lesotho, it is not included in the measurement of money supply. Hence, money supply in Lesotho is under-stated by the amount of rand in circulation. This measure is also understated by the exclusion of deposits mobilised by other depository corporations, such as credit co-operatives.

The growth in money supply was in line with the end of year inflation of 5.9 per cent. A slower increase in money supply in 2003 was a reflection of continued contraction in the net foreign assets that more than offset the large increase in domestic credit.

Nearly all the components of money supply in 2003 displayed upward movements. Only savings deposits, the second largest component, registered a 3.8 per cent decline following an increase of 1.0 per cent observed in 2002. The decline in this form of deposits seemed to follow the falling trend in savings rates for 2003 vis-à-vis 2002. Increased costs associated with frequent transactions may have initiated a migration away from this form of deposits. In 2003, banks increased several transaction fees, especially related to savings book holders. Consequently, an increase of 26.4 per cent was observed in fixed deposits in 2003, following a 12.1 per cent rise in 2002. On the other hand, demand deposits, which have been on a continuous rise since December 2000 climbed by a further 7.7 per cent following a 10.1 per cent rise in 2002.

Box 3: Impact of the Currency Appreciation in 2003

Chart 3 Loti Movement against the US dollar and the Euro in 2003.

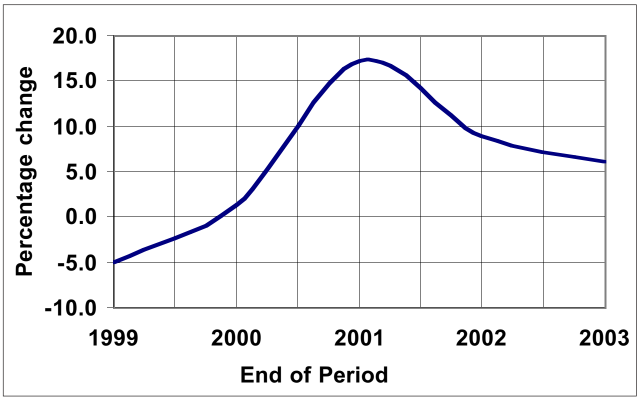


The local currency loti (pegged one on one to the South African rand) continued to strengthen against major currencies in 2003. Measured against the US dollar, the loti appreciated from R8.93 at the end of 2002 to R6.50 at the end of 2003. A similar pattern was observed against the euro. It reached R7.97 at the end of 2003 from R9.08 at the end of the previous year. The continued strengthening of the local currency was to a large extent driven by the weakening of the US dollar.

The appreciation of the loti poses a number of impacts to the local economy.

- The country's exports loose price competitiveness in the US market. This is important because about 75 per cent of the country exports are destined to the US market. Thus the value of Lesotho exports grew sluggishly by 1.9 per cent in 2003. As a result the economic growth measured by real GDP slowed down from 3.8 per cent in 2002 to 3.3 per cent in the review period.
- Although, Lesotho tourism sector is still in its infant stage, the appreciation of the currency leads to an increase in the prices paid by foreigners and hence discourage them from visiting the country.
- The bulk of Lesotho inflation is imported from the neighbouring South Africa. The appreciation of the currency reduces the cost of imports of raw materials and other commodities priced in US dollars like crude oil and maize. During the year, inflation rose by 7.2 per cent compared with 11.9 per cent in 2002.
- The reduced inflation pressures led to the decline in interest rates in the economy. The main rate in the economy, the 91-days Treasury bills declined from 12.19 per cent at the end of 2002 to 9.83 per cent at the end of 2003. Other domestic interest rates followed the same trend.
- A large portion of the country's external debt stock is denominated in US dollars. The currency appreciation reduces the loti denominated external debt stock. During 2003, the stock of external debt declined to 42.4 per cent of GNI from 55.8 per cent of GNI in the previous period.

Figure 7: Money Supply Growth



3.4.2 Domestic Credit

Total credit, excluding net claims on government and non-performing loans, grew by 6.1 per cent at the end of December 2003 from its position in December 2002. The increase was lower than the 19.0 per cent registered at the end of 2002.

Credit to the private sector rose by 7.8 per cent down from a higher 22.1 per cent realised for end of 2002. The lower growth in 2003 was despite the falling interest rates. It appears that the existence of alternative investment opportunities elsewhere, deemed less risky than lending to the private sector, has continued to sideline the robust growth in credit to this sector. During 2003, banks continued to alternate their investments between the domestic treasury bills market and other instruments in South Africa.

In 2003, the CBL continued to pursue financial sector reforms aimed at enhancing the accessibility of the private sector to financial services. These reforms were aimed at enabling the private sector to attract more funds from banks to spearhead the much needed economic growth and development in the country. Among these reforms was the establishment of Rural Savings and Credit Guarantee Fund worth M2.5 million. The aim of this fund is to facilitate access to credit by rural savings and credit groups, through sharing of credit risk faced by the commercial banks. Beneficiaries of this fund are expected to be low-income rural based communities that have formed cohesive rural savings and credit groups. This also broadened the extent of financial intermediation through linking of the small savers to the formal banking sector.

Credit to statutory bodies has continued to fall since end of 1997 to the review year. At the end of December 2003, credit extended to this sub-sector fell by a further 8.9 per cent following a 7.8 per cent decline at the end of the previous year. Credit to the sub-sector now forms the smallest component of domestic credit and would be expected to continue to decline as long as the government privatisation strategy continues. However, as the number of privatised firms increases, it is expected that the decline in credit to statutory bodies would be offset by growth in private sector credit. This is based on the assumption that privatisation would result in more efficient and hence creditworthy firms.

3.4.3 Net Foreign Assets

The net foreign assets of the banking system declined by a further 10.8 per cent in 2003 after a 26.9 per cent decline was observed for end of 2002. From table 4 below, it can be observed that the main reason behind this decline was the fall in both the net foreign assets of the Central Bank and those of the commercial banks. In the previous year, the decline emanated solely from the fall in CBL net foreign assets.

The fall in CBL net foreign assets in the review year was caused by among others, the revaluation loss as the currency appreciated against major currencies, government expenditure abroad using its deposits with the CBL and transfers abroad by residents of excess liquidity in the economy caused by high government local expenditure. In some countries, experience has shown that high government spending causes the holding of foreign exchange to shift from the Central Bank to the private hands, as the public loses confidence in the local currency and other financial assets. This appears to be a result of inflationary pressures that induce residents to preserve their wealth in other foreign currencies. With the gradual liberalisation of the capital account in the economy, excessive government spending may

Table 4

BANKING SYSTEM'S NET FOREIGN ASSETS

Million Maloti: End of period

	1999	2000	2001	2002	2003
Commercial banks	454.8	469.1	686.8	672.7	610.7
Assets	494.7	609.1	789.6	772.3	840.4
Liabilities	-39.9	-140.0	-102.8	-99.6	-229.6
Central Bank	2981.2	3116.2	4627.1	3211.4	2853.1
Assets	3349.3	3486.2	5136.9	3858.2	3341.1
Liabilities	-368.1	-370.0	-509.9	-646.8	-488.0
Net Foreign Assets	3436.0	3585.3	5313.9	3884.1	3463.7

possibly result in more foreign currency accounts being opened to the detriment of the country's reserves.

The revaluation loss in the CBL's net foreign assets occurred as the local currency appreciated against currencies in which its non-rand financial assets are held. Some of these currencies are the euro, the US dollar and the Great Britain Pound. As observed in the previous section under foreign exchange rates, the rand has continued to appreciate against these currencies in 2003.

Commercial banks' net foreign assets declined, reflecting liabilities that rose faster than the growth in the foreign assets. The increased foreign liabilities may imply that, the local banking system was borrowing money abroad to invest in the high yield local treasury bills market. The growth in banks' foreign assets was possibly due to transfers abroad for various reasons, such as investments. However, given the frequency and magnitude of banks' outflows that were more than what was reflected in the increase in foreign assets, it may be deduced that some of the transfers were on behalf of their customers.

3.4.4 Commercial Banks' Liquidity

At the end of December 2003, the liquidity of commercial banks stood at 64.7 per cent down from a revised 71.8 per cent at the end of December 2002. 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 borrowing. The ratio measures banks' ability to adequately honour customers' demands in making withdrawals. The decline in the ratio, at the end of the review year, mainly emanated from increased borrowing from abroad, as observed under the section on net foreign assets above. The balances due from banks abroad were observed to fall sizeably and this form of investment was seemingly being replaced by investments with local banks, holdings of both Lesotho Government and South African securities.

Another important ratio used to measure the performance of banks in the economy is the credit-deposit ratio. 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. The ratio decelerated slightly from its position of 22.8 per cent at the end of December 2002 to 22.7 per cent at the end of December 2003. The marginal decline in the ratio was a result of a 6.5 per cent growth in these sectors' deposits that more than offset a combined growth in credit to the sectors. Although the returns associated with loan extensions to the two sectors are always higher than other investment opportunities, the perceived risk involved tends to discourage robust credit extension to these sectors. Therefore the stagnation in the ratio seems to suggest the existence of alternative forms of investments, viewed as less risky, which compete with the private sector for funds. As already observed under the discussion on liquidity ratio above, inter-bank investments and purchase of short-term securities appear to be more attractive.

3.4.5 *Interest Rates*

In contrast to 2002, when major money market rates in Lesotho generally followed an upward trend, in 2003 these rates experienced a downward trend. This trend, which also prevailed in the region, came as inflationary pressures eased following the recovery in the rand currency in 2002 to 2003. The appreciation of the rand resulted in reduced imports costs that ultimately filtered into lower production costs in the CMA region as most raw materials are imported.

The average prime lending rates in Lesotho ended the review year at 12.5 per cent, which is substantially lower than 17.7 per cent recorded at end of 2002. The changes in this rate tracked those in the RSA prime lending rate that declined from 17.0 per cent in 2002 to 11.5 per cent in 2003. The decline in the RSA lending rate was initiated by a record five cuts in the repo rate by the SARB following the easing of inflationary pressures in the review year and a better inflationary outlook. The cut in the repo also ensured that the wide gap between global rates and CMA regional rates was sizeably narrowed.

The Lesotho 91-days treasury bill rate ended the year at 9.83 per cent. This was the lowest level it had reached since the introduction of the current treasury bills auction system in September 2001 to control the liquidity in the economy. At this level, the rate was higher than a similar rate in SA. The differential between the two rates may be a reflection of different liquidity conditions and the frequency of securities trading in the two countries. In the case of Lesotho the 91-day treasury bills auction takes place once a month as opposed to weekly auctions in SA. The system in Lesotho allows liquidity to build up and consequently renders it relatively more expensive to mop up the excess liquidity.

It also appears that some of the investors in the country aim to get the maximum return on their funds. The lack of enough competition in the local 91-day treasury bills market also plays a major role in pushing the prices up.

The banks' deposit rates remained low along the same lines as the other falling rates in the economy. The highest of them, the maximum of the one year deposit rates, ended the year at 6.00 per cent; 120 basis points below the average inflation rate of 7.2 per cent. Thus, real deposit rates in the economy remained negative. From the previous sub-section, it would be recalled that the liquidity condition of the banks in 2003 was comfortable enough. Hence, they did not need to raise deposits rates to attract more deposits from the public.

3.5 Government Finance

3.5.1 *Fiscal Performance in recent years*

Fiscal performance over the last ten years has been mixed. During the period prior to 1998/99 Government realised fiscal surpluses as a result of prudent fiscal policies that were pursued under various IMF supported programmes. Beginning in 1998/99, the fiscal position deteriorated into deficits due to several factors. Increased pressures from the restructuring of state owned banks coupled with reduced donor support in the absence of an IMF supported economic programme resulted in the 1998/99 budget deficit. In 1999/2000, expenditure pressures from government's settlement of LHDA loans coupled with low tax collections as the economy had not yet recovered from the 1998 civil unrest, perpetuated the fiscal deficit.

An overall deficit of 0.5 percent of GNI in 2001/02 was a result of delayed payment of rand compensation as well as in disbursements of the budget support grants. In 2002/03 the fiscal position worsened to a deficit of 3.3 percent of GNI due to increased expenditure pressures. The most significant of these was spending on agricultural support and famine relief, which was aimed at reducing the impact of the famine on the poor.

3.5.2 *Fiscal performance in 2003/2004*

The budget outturn for the fiscal year 2003/04 was estimated to be an overall deficit of 2.3 per cent of

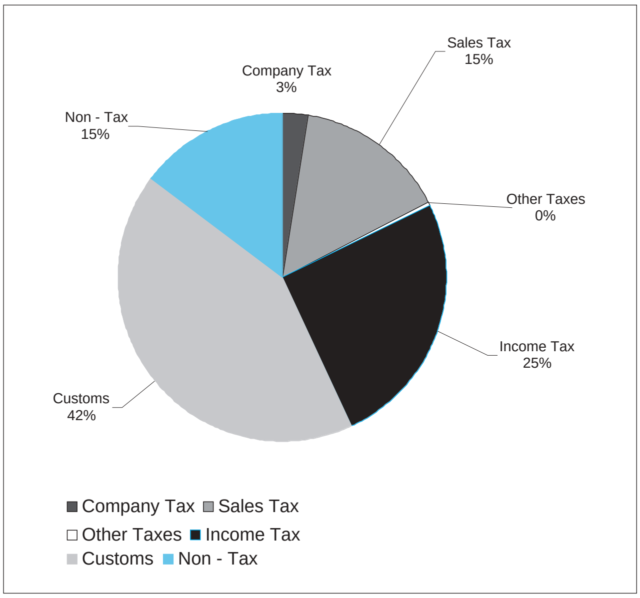
GNI. This was a result of continued expenditure pressures on Government.

Total revenue, including grants, was estimated to grow by 9.4 per cent despite the 3.4 per cent fall in SACU revenue received during the year. Lesotho's share of SACU revenue was reduced due to the lower level of imports reported during 2001. Income tax revenue was estimated to grow by 24.7 per cent as a result of measures put in place by the LRA to improve tax compliance. In July 2003, the LRA introduced value added tax (VAT) to replace general sales tax (GST). This resulted in an estimated increase, in tax collection, of 46.0 per cent compared with the previous year's collections. VAT was introduced as it is a more efficient tax than sales tax. The VAT rate was also set at 14 per cent as opposed to 10 per cent under GST. The effect of the increased tax rate was however dampened by the zero rating of some basic goods and services in order to improve access for the poor.

Overall expenditure and net lending was estimated at 37.0 per cent of GNI. In nominal terms it had grown by about 6.5 per cent on an annual basis. This growth mainly emanated from recurrent expenditure, which grew by 10.0 per cent from the previous year's level. The driving forces behind vices, was estimated at 5.0 per cent. At this level the rise in recurrent spending were 3.8 per cent growth in the wage bill, reflecting 4 per cent salary increase for civil servants, and the 18.4 per cent increase in expenditure on other goods and services. The rise in expenditure on goods and services was mainly due to high spending on transport services which had exceeded the budget by quite a significant amount. During the third quarter of the fiscal year, Government took measures to cut transport costs by reducing the number of vehicles hired. However this did not bring a sizeable reduction in costs as Government had to pay penalties for returning some vehicles before the expiry of their contracts. The impact of the reduction in transport costs on government expenditure is expected to be realised in the next fiscal year. Subsidies and transfers were estimated to grow by 10.9 per cent. This was mainly a result of the approved additional spending on national manpower scholarships as well as agricultural support.

As a result of the decline in global interest rates a marginal fall in interest payments on public debt was realised. Capital expenditure was also estimated to be lower than in the previous year by 10.9 per cent.

Figure 8: Sources of Government Revenue



3.5.3 The Overall budget balance and financing

Government budgetary operations were estimated to result in a deficit of 2.3 per cent of GNI during the 2003/04 fiscal year. The deficit was expected to be financed entirely from domestic resources. This would be through issuance of government securities as well as depletion of government deposits. Each of these measures would finance 50 per cent of the deficit. Financing government expenditure by issuing treasury bills has resulted in the increase in domestic debt. At the end of 2003, domestic debt had increased to 11.1 per cent of GNI from 10.1 per cent of GNI at the end of the previous year. Running down of government deposits is expected to contribute to the deterioration in the level of external reserves, given that the bulk of government expenditure is on foreign transactions. It is estimated that the level of international reserves would decline from the 6.4 months of import coverage realised last year to about 5.5 months at the end of 2003.

3.5.4 Recurrent Expenditure by functions of the Government

During the 2003/04 fiscal year, recurrent expenditure was estimated at M3165.1 million. Community and social services was estimated to be the largest spending category at 45.9 per cent of total recurrent expenditure. Most of this spending was accounted for by education spending which took up 29.6 per cent of total recurrent expenditure. The bulk of funds set aside for education went for free primary education, which was at its fourth year in 2003. National Manpower scholarships also took up a sizeable chunk of education expenditures. Health and social welfare accounted for 7.8 per cent and 4.8 per cent of recurrent spending respectively.

Expenditure on general government services was estimated at 35.2 per cent of recurrent expenditure. This was divided into general public services at 17.3 per cent, defence affairs and services at 7.1 per cent and 10.8 per cent for public order andsafety. Economic services took up 10.1 per cent of the recurrent spending. Almost half of this went to agriculture. The purpose of this was to provide agricultural services and to restructure the sector as well as to provide famine relief to the farmers.

3.6 Public Debt

3.6.1 Overview

An appreciable improvement in the public debt position was realised during 2003. The total debt stock declined by 7.7 per cent to 53.6 per cent of GNI. This was a result of the reduction in foreign debt due to the strengthening of the loti against major currencies in which external debt is contracted. Approximately 79 per cent of total government debt was from external sources while domestic debt constituted about 21 per cent. The level of domestic debt was higher than that of the previous year by 12.2 per cent. This was due to increased issuance of Government securities. The debt service ratio, excluding exports of factor services, was estimated at 6.4 per cent. At this level , the debt service ratio indicates that external debt remained sustainable. External debt is considered to be unsustainable if this ratio exceeds 15 per cent. However, it is important that Government continues to restrain contracting of new debt, especially unconcessional debt, as it may lead to sustainability problems.

Table 6

PUBLIC DEBT INDICATORS
FOR END OF YEAR
In Per cent

	1999	2000	2001	2002	2003
Total debt as % of GNI	54.6	68.3	88.1	64.0	53.6
External debt as % of GNI	44.2	57.7	77.0	54.2	42.5
Domestic debt as % of GNI	10.3	10.5	11.2	9.8	11.1
Concessional as % of External debt	89.4	81.6	76.2	70.2	72.3
External debt as % of total	81.0	84.6	87.3	84.7	79.3
Domestic debt as % of total	19.0	15.4	12.7	15.3	20.7
Debt service ratio(1)	9.9	9.7	6.6	2.0	4.3
Debt service ratio(2)	24.6	20.5	11.4	3.1	5.0

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

Box 4: Implications of the Budget for the Economy of Lesotho

The budget process is very important for any economy in several ways. An important principle of any budget is normally to target specific quantitative goals such as economic growth, employment, price stability and external sector stability. Coherent budgetary goals also serve as a draw-card for external donors and other development partners.

The government through annual budgets has continued to improve accessibility of its people to social services such as health, education, most particularly Free Primary Education which completed its fourth year in 2003, and improvement of pension schemes for the African Peace Corps. The government has privatised most of its public enterprises in order to increase their efficiency and to free funds (subventions) for other purposes.

The government has encouraged employment creation through public works, especially construction of roads, which included upgrading of most roads to bitumen standard. This would in the medium to long-term also open the unexplored parts of the country to opportunities such as tourism and increase access to markets by farmers.

The introduction of VAT in July 2003 at a higher rate of 14 per cent from GST's 10 per cent has given a positive outlook to revenue raising measures, particularly given the fact that budgets in Lesotho have traditionally been mostly dependent on SACU revenue (45 per cent of revenue on average) whose longer-term sustainability is in question. However, allocations to economic services, comprising Agriculture and Food Security, Trade, Industry, Co-operatives and Marketing, Tourism, Environment and Culture, Science and Technology, and Public Works and Transport have been dwindling. Given the important role that these economic services play in raising revenue, they deserve more.

The effect of government expenditure on economic growth is assessed through its contribution to savings and investment hence growth rate capacity of output in the long-run. Between 1998/1999 and 2003/2004 the budgets in Lesotho have been consumption driven with recurrent expenditure accounting for about 81 per cent of the budget, on average and the remaining 19 per cent only available for capital expenditure. During this period, budgetary operations were in deficits, meaning the government had to borrow from both the domestic sector and foreign sector but not with proper structures put in place for sustainable growth and hence employment in the longer-term.

Government expenditure effects are also felt through efficiency in resource allocation among competing uses and hence impact on the level of current output and future growth. In Lesotho's case, an under-spending of the already low levels of capital investment would likely contribute to slackening growth. In addition to economic growth, capacity building in the delivery of services as well as the appropriate design of government are also necessary for the country's long-term development. Proper plans need to be in place to manage shocks such as drought-induced crop failure and famine.

The impact of budgets on the monetary sector is usually from financing of a deficit. For the period 1998/1999 to 2003/2004, the deficits have been financed mostly by using government deposits with banks and as well as through domestic and overseas borrowing. Prior to 1998, the surpluses were used to build government deposits with the Central Bank and in turn the country's reserves. Hence running down its deposits, the government jeopardizes the country's reserve position, its membership in CMA and its credibility to investors. The use of deposits has also contributed to a higher liquidity in the economy, which the Central Bank has had to mop up at an interest cost to Government. Using foreign borrowing has its limitations and a country has to maintain its debt-to-GDP ratio sustainable.

Table 5

SUMMARY OF BUDGETARY OPERATIONS

Million Maloti

	1999/00	2000/01	2001/02	2002/03 Revised	2003/04 Projec-tions
Total Receipts	2442.6	2752.2	2976.3	3331.3	3644.9
Revenue	2312.6	2626.6	2787.5	3034.7	3368.1
Customs	1183.1	1125.2	1438.5	1470.0	1421.6
Grants130.0	125.6	188.8	296.3	276.8	
Total Expenditure	2801.7	2957.0	3018.9	3656.1	3892.2
Recurrent	2307.5	2457.9	2393.3	2876.2	3165.0
Capital & net Lending	494.2	499.1	625.6	779.9	727.2
Surplus/Deficit (-) before grants	-488.9	-330.4	-231.4	-621.4	-524.1
Surplus/Deficit (-) after grants	-359.1	-204.8	-42.6	-325.1	-247.3
Government Savings	135.1	168.7	583.0	545.2	479.9
Financing	359.1	204.8	42.6	325.1	247.3
Foreign	-78.1	-221.7	31.9	53.4	-25.9
Domestic, net	437.2	426.5	10.7	271.9	273.2
Bank	415.9	403.2	62.4	320.8	191.4
Non-bank	21.3	23.3	-51.7	-48.9	81.8
In Percent of GNI (unless indicated otherwise)					
Revenue (excluding grants)	32.0	33.0	33.6	31.3	32.0
Customs in % of revenue	51.2	43.0	51.6	48.4	42.2
Grants	1.8	1.6	2.3	3.1	2.6
Total Expenditure	38.7	37.2	36.4	37.7	37.0
Surplus/Deficit (-) before grants	-6.8	-4.2	-2.3	-6.4	-5.0
Surplus/Deficit (-) after grants	-5.0	-2.6	-0.5	-3.3	-2.3
Government Savings	1.9	2.4	6.9	5.6	4.6
Memorandum Item:					
GNI in current prices	7233.0	7164.5	8456.6	9709.7	10542.5

Source: Ministry of Finance and CBL Projections

3.6.2 *External Debt*

A significant reduction in the level of public external debt was realised during 2003. It fell from 54.2 per cent of GNI in 2002 to 42.5 per cent in 2003. This was a result of the continued appreciation of the loti against major world currencies, which began during the previous year. The appreciation of the loti was primarily a result of the weakening of the US dollar.

The external debt service ratio was estimated to increase from 3.1 per cent in 2002 to 5.0 per cent in 2003. This was brought about by the increase in debt repayments while export earnings remained virtually unchanged compared with the previous year.

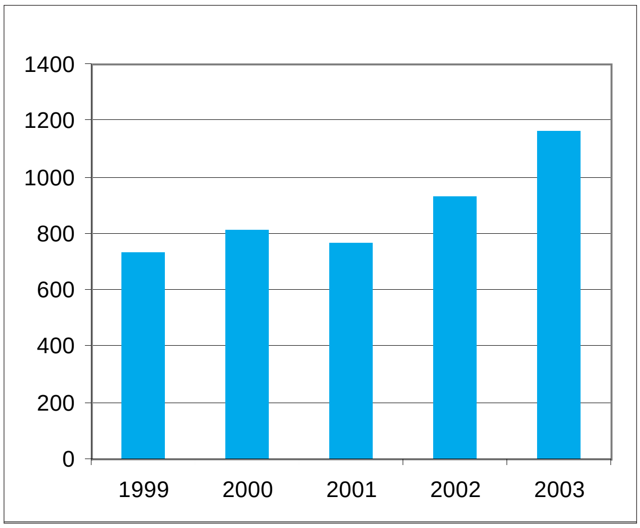
The above mentioned debt service ratio indicates that the external debt position remained sustainable. At 42.4 per cent of GNI external debt was also significantly less than the 60 percent of GNI which is the sustainability threshold for classification of less indebted countries. Concessional borrowing constituted about 72.3 per cent of foreign debt in line with Government's debt management policy of limiting external borrowing to concessional terms.

3.6.3 *Domestic Debt*

Public domestic indebtedness increased by 24.8 per cent during 2003. This emanated primarily from the issuance of fiscal policy treasury bills to the tune of M130 million in December. Normally the issuance of treasury bills in Lesotho is for monetary policy purposes. However during the 2003/04 fiscal year Government found it necessary to issue some securities to finance its budgetary operations. The level of domestic debt at the end of 2003 was equivalent to 11.1 percent of GNI. It constituted 20.7 per cent of total public debt.

Commercial bank borrowing continued to constitute the bulk of domestic debt at 84.7 per cent. It grew by 20.5 per cent as the banking sector invested more in government securities during the review period. Non-bank borrowing also increased by 55.8 per cent and constituted 15.3 per cent of domestic debt.

Figure 10 : Government Domestic Debt
(In Million Maloti)



Supervision of Financial Institutions

The Supervision Department continued in 2003 to perform its core functions and other additional activities that play a major role in enhancing the supervisory responsibility. The Department used complementing tools of off-site surveillance and on-site inspections.

The Department continued to monitor the financial soundness of financial institutions as well as their compliance with the relevant statutory and regulatory provisions through analysis of regular financial and compliance returns submitted by those institutions to CBL.

It is the Bank's policy to examine each licensed bank at least once every eighteen months. In line with this policy a routine examination of all the three banks operating in Lesotho was conducted in 2003. The banks were found to be well capitalised, profitable and highly liquid with compliance ratios far in excess of the prescribed minimum. During the year under review the banks' capital amounted to 24 per cent of risk weighted assets. At this level, the capital was three times the prescribed minimum requirement. As at the end of 2003 the ratio of non-performing loans to total loans stood at 3 per cent, showing a marked improvement from its previous year level of 11 per cent. While on the one hand the banks were found to be financially sound and generally in compliance with the statutory and regulatory requirements, on the other hand the level of financial intermediation continued to be unacceptably low with a loans-to-deposit ratio of 22.7 per cent.

With the assistance of the Lesotho Government Privatisation Unit, under the Lesotho Utilities Sector Reform Project, the Off-Site Surveillance Section was able to visit the Financial Services Board in South Africa. The purpose of the visit was to build capacity in the supervision of the insurance industry and collective investment schemes. This visit enlightened the team on regulatory reporting requirements. In addition to the examination of banks, the On-Site Examination Section inspected one unit trust management company and four insurance companies.

In recognition of the need to harmonise and enhance the quality of supervision, with particular emphasis on the off-site surveillance function, the East and Southern Africa Banking Supervisors Group (ESAF), in conjunction with the SADC Central Banks, embarked on a joint project to automate the supervisory function within the region. This resulted in the conception of the Bank Supervision Application (BSA). The system definition, design and development that started in 2002 were successfully completed in 2003. The system was first implemented and tested in Mozambique in 2003. The system rollout to the rest of the region will be undertaken in 2004 starting with Zambia to be followed by Zimbabwe and Lesotho. Deployment of the system in Lesotho is expected to start in July 2004.

In preparation for the envisaged system implementation in Lesotho, the Central Bank of Lesotho appointed a task team to work on all arrangements necessary to ensure that the implementation is effected as smoothly as possible. The task team was mandated to specify returns to be submitted by reporting institutions, to establish and document the CBL specific parameters to be used by the system, to identify and document the CBL specific processes and workflows as well as to specify reports to be generated by the system. The task team comprised of staff from the Financial Institutions Division, Supervisory Policies and Regulation Division, Policy and Exchange Control Division, Development Finance Division as well as the Information Technology Division. The exercise has since been completed.

• *Deposit Insurance Scheme*

In 2002 CBL prepared a paper on Deposit Insurance Scheme. This was prompted by the realisation that millions of taxpayers' monies had been used by the Government to pay the depositors of the failed two state-owned banks in 1998 and 1999. The paper was discussed at a workshop held by the Bank in May 2003. Participants were drawn from the banks, insurance industry, business community, consumers and the Government. The stakeholders generally agreed on the desirability of establishing a Deposit Insurance Scheme in Lesotho. What remains to be done is to propose a modus operandi for such a scheme. Subsequent to the workshop, the Bank sent its staff to Kenya and Tanzania to study how the deposit insurance schemes operate in those countries. The workshop report and the report on the study tours will be used to map the way forward.

• *Commercial Court*

It will be recalled that the Government of Lesotho established the Commercial Court in an effort to expedite the hearing of commercial cases and thus promote financial intermediation. However, despite the high numbers of pending commercial cases, the Court is under-utilised.

As a measure to enhance the performance of the Commercial Court, the High Court of Lesotho and CBL jointly secured funding for a six-day Trial Advocacy Course for commercial lawyers. The course was held in October and the resource persons were drawn from the Black Lawyers Association in the Republic of South Africa while participants were from the Government, private sector and non-governmental organisations. The purpose of the course was to assist commercial lawyers with a better understanding of the rules and procedures of the Commercial Court. It is hoped that, as a result of this training, the operations of the Court will be accelerated and delays in adjudicating commercial cases will be avoided.

• *Credit Bureau*

The arrangements for the establishment of a credit bureau continued in 2003. It is generally agreed that it is in the best economic interest of Lesotho that a credit bureau be established in Lesotho. However, given the recent banking history in Lesotho, many individuals and companies who borrowed heavily from state-owned banks are likely to oppose the idea of setting up a credit bureau in Lesotho. They may see the project as a witch-hunt or an attempt to possibly expose their recent credit histories. Therefore, care must be taken to ensure that the public understands what the bureau is all about and buys into the project.

In recognition of this concern, the prospective users of the credit bureau information agreed to jointly mount a public education campaign. Tenders for the campaign were invited from consultants in the country. The response was good and the selection process will be finalised early in 2004. It is hoped that the education campaign will start soon thereafter.

• *The new Basel Capital Accord*

In January 2001 the Basel Committee on Banking Supervision issued a proposal for a new Capital Accord. Throughout the following years the proposal was reviewed and re-drafted using inputs emanating from several consultative papers and discussions held with various stakeholders such as regulatory and supervisory authorities, banks and other professional bodies. According to the timetable of the Committee, the new accord, generally referred to as Basel II, is to be implemented in January 2007. In the new capital adequacy framework, banks are encouraged to place emphasis on risk measurement and risk management.

Because of the complexity of the new accord, it is appropriate for each jurisdiction to consider carefully the benefits of the new framework in the context of its own banking system and to develop a timetable and approach to implementation consistent with the state of readiness of both the banking system and the supervisory authority and in a manner that suits the rational circumstances. Taking cognisance of this situation, CBL has decided to establish a task team of all stakeholders in Lesotho to evaluate the suitability of the new framework for banks in Lesotho and to plan for transition to the new accord.

• *Capital Markets Regulation and Supervision*

During the mid-1990's the Government of Lesotho took a decision to privatise some of the state-owned enterprises. The need for an organised capital market in the country to facilitate the sale and purchase of shares emerged. As a first step towards addressing this need the Government of Lesotho established a capital markets steering committee. The role of this committee is to spearhead the development of the capital markets in Lesotho.

In order for a market to function properly and effectively there must be an appropriate legal and supervisory framework. In recognition of this need, CBL has found it appropriate to start introducing its staff to the theory of regulating and supervising capital markets. The capacity building effort started with a workshop on collective investment schemes. The workshop was conducted in 2002 by the African Capital Markets Forum based in Ghana. This training was followed in 2003 by a four-day workshop on capital market regulation and supervision, still conducted by the African Capital Markets Forum. The workshop covered the foundations of financial markets, linkages between money and capital markets, market functions and the objectives of regulation, key elements of a legal regime, securities regulation in emerging markets, compliance and supervisory standard for securities market operations. The training programme was funded under the Lesotho Utilities Sector Reform Project managed by the Privatisation Unit.

• *Microfinance Institutions*

CBL believes that the provision of financial services to the low-income population that cannot access such services from the formal banking sector is critical to the empowerment of the poor. The Bank is accordingly putting in place strategies for the development of the microfinance sector. These strategies include the development of the regulatory framework with the assistance of consultants from GTZ, a German based institution, as well as the provision of appropriate training for the Bank staff.

As part of the Bank's program to prepare for the development of the microfinance sector, a five-day workshop on the Application of the ACCION CAMEL for evaluating microfinance institutions was conducted for the Bank by Southern Africa Microfinance & Enterprise Enhancement Facility (SAMCAF). Workshop participants were drawn from the Central Bank of Lesotho, micro lending organisations and accounting firms. The main objectives of the workshop were to:

- Enable participants appreciate the various operating principles and lending technologies used in microfinance

- Enable participants appreciate the salient features of microfinance, which may necessitate a different regulatory regime for the sector.

- Enable participants appreciate the main components of the ACCION CAMEL and its application for evaluating the performance of microfinance institutions.

Rural Finance

During the year 2003, Rural Finance Division in furtherance of the policy for rural financial intermediation and in fulfilment of its objectives embarked on the following activities:

(a) Sensitisation of stakeholders - meetings with stakeholders were convened as part of the sensitisation efforts to bring to the forefront all players featuring in rural financial service provision. Both indigenous and international NGOs were met with the purpose of mapping together the required interventions and devise a coordinated approach. In this regard, all expressed commitment towards ensuring the successful implementation of the policy through various means of which, training of Rural Savings and Credit Groups (RSCGs) was given the highest priority. This was one effort towards achieving a thorough understanding of the necessary ingredients in credit training and administration.

(b) Setting of the Credit Guarantee Fund - the Board of CBL approved a sum of M2.5 million for the establishment of a Credit Guarantee Fund (CGF) that will cover the exposure of banks during the execution of credit by banks to RSCGs. This is aimed at ensuring implementation of the linkage-banking programme.

(c) Launch of the RSCGs scheme - the scheme was officially launched during the period with further developments embracing opening of the CGF account with CBL. On the same breath, a Steering committee, which is representative of stakeholders, held its first meeting to address salient issues of the scheme's take-off.

(d) Familiarisation visits to RSCGs - members of the Steering committee were taken to districts on familiarisation tours to visit RSCGs within their respective places of business. The visits facilitated a deeper understanding and appreciation of the groups' operations in line with the requirements for linkage banking programme. Through such interactions, committee members and groups obtained knowledge on activities, products and future plans earmarked for the linkage process. In the same spirit, it can be deduced that a proactive step towards developing an institutional underpinning of an effective rural financial intermediation policy was taken. The year under review has thus been a period of greater activity in preparing for the start of events.

(e) The African Rural and Agricultural Credit Association (AFRACA) Executive Commit-tee meeting.

In the year 2002, CBL was appointed to the position of Deputy Chairman in AFRACA Executive Committee. As per practice, the institution that has been allocated this seat is to host the meeting of the Executive Committee. In line with this practice, the division facilitated the hosting of AFRACA Executive Committee meeting held at the Central Bank of Lesotho in June 2003. Pertinent issues discussed covered the following:

- The need to revive the Central Africa Sub-Region;
- AFRACA's Diplomatic recognition by the Kenyan Government;
- New membership fees;
- Review of AFRACA constitution;
- AFRACA strategic Plan for 2004-2008;
- Themes for the Sub-Regional workshops 2003/2004;
- AFRACA audited accounts 2002.

(f) Participation in AFRACA sponsored seminars and exposure programme.

The division participated in micro finance seminars in Sri-Lanka and Ethiopia and in an exposure programme at the Bank of Ghana. The attachment provided appreciation of rural banking in the context of Ghana.

Development Finance

• *Export Finance*

During the period under review, the bulk of the work has been the promotion of the scheme, particularly amongst the indigenous exporters, as this is part of the population, which is being targeted by the government policy on poverty alleviation.

In collaboration with the Ministry of Trade and Industry, public gatherings were held in most of the districts. In the first instance, the idea was to sensitise on the existence of the small indigenous and or potential exporters. Secondly, to establish their needs, particularly in relation to accessing the banking services.

Meetings were also held with the large exporters as well. It was through these meetings that it became clear that these companies are not, least for now, in need of financial assistance. These companies do get every support they need from their parent companies as they are foreign owned.

• *Development Fund*

All the logistical preparations for the establishment of the Development Fund have been completed and recommendations have been made to Government. Many stakeholders were involved in the preparations. They included: Co-ordinated Representation of the Private Sector in Lesotho (Corpsol), Privatisation Unit, Ministry of Finance, Basotho Enterprise Development Corporation, Ministry of Trade & Industry, Cooperatives and Marketing (MTICM), Lesotho National Development Corporation (LNDC), the Central Bank and the financial institutions including the registered money lenders.

The main objective of the scheme is to assist Basotho entrepreneurs to access credit from the financial sector. The participating financial institutions are to disburse all the loan proceeds accordingly once the necessary conditions have been met by the applicant. Thereafter, the participating financial institutions shall submit their claim of 80 per cent of the disbursed amount from the fund. The loan repayment shall be through the participating financial institutions. In their collections, the financial institutions shall submit the 80 per cent of the repaid principal and 50 per cent of interest raised to the fund (at CBL) and keep the other 50 per cent of interest as an incentive to them for their participation in the scheme.

Reserves Management

The level of reserves as at 31st December 2003 was recorded at M2,935 million, compared with M3, 397 million that was recorded at the end of 2002.

The Bank continued to manage the country's reserves in accordance with the approved Investment Policy and Guidelines. During 2003, the Division was however in the process of finalising the review of the Policy and Investment Guidelines that are aimed at improving the process of Reserves Management in line with the objectives of holding them.

During the review of the Bank's overall organisational structure, Management approved the new structure of the Division. This entailed the segregation of the Front and Middle Offices, the move that is intended to enhance the management and monitoring of risk.

Policy & Exchange Control

• *Capital Account Liberalisation*

The Exchange Control regime has undergone significant evolution with the review of the legislation, the regulations and the rulings. During the reporting period major strides were made in the liberalisation of the capital account. Limited reforms in Capital Transfers by private individuals (Natural persons resident in Lesotho), Foreign Investments by private individuals (Natural persons resident in Lesotho), Direct Investments by Corporates in Countries outside CMA, Customer Foreign Currency Accounts (C.F.C.s) or Bank-administered Accounts, were introduced with effect from June 2003. These limits have been set at lower levels than South African Limits.

Allowing residents and citizens to invest outside the CMA and to hold foreign currency accounts would enable these parties to manage their portfolio more effectively and to hedge against loti depreciation. The new changes have been designed to minimise capital outflows that would result from the reforms and other potential hazards. In addition, measures to further enhance the benefits of these reforms, and others to mitigate against the risk of liberalisation have been identified. The former includes removal of other structural impediments to capital flows such as law enforcement issues and development of capital markets, while the latter entails improvement of regulatory and supervisory measures.

It is worth noting that institutional investors such as insurance companies, pension funds and unit trusts in Lesotho already enjoy the same level of concessions as their South African counterparts on their non-CMA investments. Insurance companies and pension funds in both countries are allowed to acquire foreign portfolio investments of up to 15 per cent of their total assets, while unit trust are allowed 20 per cent. In addition, all these companies are allowed to acquire a separate portfolio investment amounting to 20 per cent of their total assets in Southern African Development Community (SADC) countries.

• *Money Laundering Activities*

The draft Money Laundering and Proceeds of Crime Bill has been completed and reviewed by all stakeholders. The Bill has been submitted to the drafting section of Law Office for further action.

The enactment of this law will give assurance to the international community as to the determination of Lesotho to firmly shut the door against all forms of economic and commercial crime.

Securities Market

The year under review marked the second active trading in government securities (treasury bills) under the newly restructured auction system that commenced in September 2001.

Trading in the treasury bill market continued smoothly during the year. The 91-day market was used satisfactorily to achieve the monetary policy objectives of the Central Bank. These range from small individual investors to large institutional ones.

(a) to achieve a certain reserve money target;

(b) to attain interest rates that are determined by the market; and

(c) to achieve a certain level of net international reserves (NIR).

The 182-day market also received satisfactory participation from investors of various magnitude ranging from small individual investors to large institutional ones.

The table below shows a schedule of primary auctions conducted during the year:-

Table 7

SCHEDULE OF PRIMARY AUCTIONS

Type of security	Auction date (2003)	Amount Offered (Million Maloti)	Amount issued (Million Maloti)	Discount rate	Rates in RSA
91-day T. bills	02 Jan.	120.00	113.00	12.35	12.42
182-day T. bills	15 Jan.	20.00	11.20	12.00	11.92
91-day T. bills	05 Feb.	120.00	59.60	12.55	12.38
91-day T. bills	05 Mar.	240.00	130.00	13.12	12.73
182-day T. bills	12 Mar.	20.00	16.9	12.03	11.83
91-day T. bills	02 Apr.	150.00	150.00	13.19	12.75
91-day T. bills	07 May	100.00	100.00	13.24	12.73
182-day T. bill	14 May	50.00	49.60	12.03	12.09
91-day T. bill	04 June	200.00	200.00	12.99	12.03
91 FISC T. bill	25 June	100.00	100.00	12.84	10.78
91-day T. bill	25 June	100.00	70.00	12.84	10.78
91-day T. bill	02 July	200.00	200.00	13.04	10.68
182-day T. bill	16 July	33.00	31.70	12.03	10.16
91-day T. bill	06 Aug.	100.00	16.40	12.63	10.63
91-day T. bill	03 Sept.	250.00	250.00	12.63	9.96
182-day T. bill	10 Sept.	50.00	14.60	12.03	9.49
91-day T. bill	24 Sept.	100.00	10.30	10.99	8.97
182 FISC T. bill	24 Sept.	100.00	16.10	11.00	8.51
91-day T. bill	01 Oct.	200.00	200.00	10.71	8.81
182 FISC T. Bill	29 Oct.	80.00	Nil	Nil	Nil
91-day T. bill	05 Nov.	100.00	95.90	10.01	7.81
182-day T. bill	12 Nov.	50.00	32.00	9.49	7.49
91-day T. bill	03 Dec.	250.00	250.00	10.01	7.14
91 FISC T. bill	24 Dec.	130.00	130.00	9.83	7.49

The table shows that treasury bills were issued for the first time in June for the Government's budgetary operations. Three more issues were made during the year for this purpose.

While there were few cases where domestic interest rates were much higher than those in the Republic of South Africa, in most cases the rates compared fairly well.

M270-million worth of repurchase agreements were entered into during the year. The transactions involved all the three commercial banks.

Treasury bills worth M0.12-million were disinvested prematurely during the year in the Secondary Market. All the transactions were concluded with the Central Bank.

Collateral transactions worth M0.03-million of treasury bills were concluded during the year.

National Payment System

The year under review saw the progress of the Lesotho National Payment System (LNPS) Modernisation Project moving ahead steadily. Though in terms of the annual work programme for the year in question it had been indicated that Lesotho would have implemented a suitable solution by the end of the year, this could not be achieved. The stocktaking and situational analysis exercise took longer than expected, the reason being that the assignment was shared amongst different expert teams comprising the LNPS Sub-Committees and the Central Bank through its National Payment System (NPS) division, thus needing collaboration and coordination with different bodies.

The stocktaking and situational analysis exercise was eventually completed during the year under review. The results of this exercise, all in all, indicated to the need for the reform of the payment system. It more especially brought to the fore the lack of payment system infrastructure, especially in the rural areas of Lesotho, the narrow base of payment instruments, manual processing of paper-based funds transfer system, and lack of suitable large-value transfer system and time critical payment transactions.

Based on these results, a vision was formulated which was adopted by the LNPS Council. The vision is stated as follows: "By 2015, Lesotho will have a widely accessible, secure, reliable and efficient payment and settlement system. The system shall facilitate and support Lesotho's development objectives".

The vision paper also outlined the main objectives of the reform process, and deadlines were set for the achievement of each specific objective.

Towards the end of the year a draft strategic framework was prepared. This identified future characteristics of the new payment system, the critical success factors against which the successful implementation of the reform process would be measured, and the fundamental principles that will guide the development, deployment and management of the new system.

The LNPS joint meeting of the Steering Committee and Sub-Committees agreed on policy issues governing the new payment systems. These included, among other things, the access criteria that will be used for payment instructions transfers, clearinghouse, and settlement, the ownership and operation of the clearinghouse, and the funding of the clearing system and the settlement system.

Efforts were underway to engage business analysis consultants, information technology consultants and legal framework consultants. These are expected to assist in the carrying out of the remaining phases of the project, and it is expected that by the end of 2005 solutions of the new payment system would be implemented.

Research and Publications

The Bank continued to produce periodic reports and research/policy papers to advise the Government and the Board of Directors on domestic and international economic conditions and about their impact as well as that of the

Bank's policies on the domestic economy. The periodic reports include the monthly Economic Review and Quarterly Review. A number of research and policy papers was also produced during the review period. The first one was titled 'The Comparative Analysis of the Cost of Banking Services in SACU countries'. The paper investigated the cost of banking services in Lesotho in comparison with the other SACU members. Second, a paper that looked at the macro-effects of value added tax (VAT) in Lesotho, under the title 'Introduction of VAT in Lesotho' was prepared. These papers were disseminated to the public at large through radio broadcast.

Currency Management

Currency Management by the Central Bank of Lesotho included, inter alia, handling of bulk deposits and withdrawals by commercial banks, sorting of maloti notes and coins and the systematic issue of new and re-usable currency. It also included acceptance and onward repatriation of South African Rand Currency to South African Reserve Bank (Bloemfontein Branch) in accordance with the bilateral agreement between Lesotho and South Africa. Whilst the South African Currency enjoys legal tender status in Lesotho, the policy of Central Bank of Lesotho has been to promote the use of Maloti Currency in the country and in that regard, local commercial banks, have been urged, to issue Maloti to the Public and only in the event of need Rand Currency. The collected Rand Currency by commercial banks through deposits by the Public is to be deposited with Central Bank of Lesotho.

Currency Management Activities

– *Rand Deposits and Repatriation*

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

Table 8

RAND REPATRIATION
(Million Rand)

	1998	1999	2000	2001	2002	2003
Rand Repatriation	365.8	211.5	233.7	237.2	182.8	149.8

The figure shows the decrease of 18.05 per cent in 2003.

– *Maloti notes processed*

Since the CPS 600 note processor started to be used in 1999, the reissuable notes have increased as it sorts 600 notes per minute.

Table 9 below shows the details:

Table 9

REISSUABLE NOTES
(Million Maloti)

	1998	1999	2000	2001	2002	2003
Re-usable Notes	470.0	535.2	680.6	567.7	676.0	771.7

– *Maloti notes and coins*

Maloti notes issued (both new and reissuable) showed a moderate increase in 2003 compared to 2002 as indicated below:

Table 10

MALOTI CURRENCY ISSUED
(Million Maloti)

	1998	1999	2000	2001	2002	2003
Maloti issued	154.0	149.6	173.0	187.9	223.8	235.5

• *Maloti Repatriation from South Africa*

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

Table 11

MALOTI REPATRIATION FROM SOUTH AFRICA
(Million Maloti)

	1998	1999	2000	2001	2002	2003
Maloti Repatriated	160.4	133.4	193.6	231.9	218.2	270.8

Maloti repatriation from South Africa increased by 24.1% compared to 2002 as shown in table 11.

Human Resource Issues

• *Restructuring*

Following a major restructuring we undertook in 2003, the Bank has been committed to the continuous improvement in efficiency, through relocation and harmonisation of divisions and activities with the objectives of the departments under which they fall.

• *Departments*

In this regard all departments were reallocated among the Governors of the Bank.

International Finance Department was re-designated as Financial Markets Department to more accurately reflect the overall objectives of the department.

In recognition of the importance, and the strategic role played by information and communications technology in its success, the Bank elevated the Information Technology (IT) Division to a departmental level. Due to a dynamic nature of technology, this move will facilitate quick decisions and swift actions in order to keep pace with rapid changes in technology, and ensure optimal alignment of technology with the needs of the Bank.

The Bank now has six departments.

• *Divisions*

Like departments, some divisions have been reshuffled to departments where they would operate more efficiently or whose activities are more aligned to those departments in line with the mission of the Bank. New divisions were also created.

– Rural Finance and Development Finance Divisions were relocated from Supervision to Operations Department

– Exchange Control Division was relocated from Financial Markets to Supervision Department where its functions are more in harmony with the Department's overall objectives.

– To maintain the harmony mentioned above, Securities Market Division was relocated to Financial Markets Department

– Security Services Division is undergoing a transition from the direct control of Lesotho Defence Force (LDF) to become directly responsible to the Bank. The gradual top-to-bottom phasing out of the security personnel from LDF, and their replacement with the Bank's own security has begun.

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

– Macro-analysis & Balance of Payments Divisions in the Research Department were merged into a single Division performing both functions.

• *Training & Development*

The Bank continues to encourage staff development in order to maintain a pool of qualified and competent people who can perform efficiently for the Bank. In 2003, 31 members of staff embarked on long term training, both on full time and part time basis as follows: -

Postgraduate studies	07
Graduate level	12
Advanced Diploma	04
Diploma level	06
Certificate	01
Accounting technician	01

• *Recruitment*

Eight (8) people were recruited for newly created positions and replacements of separated staff in 2003 as follows: -

Section Head Level	03
Professional level	03
Sub-professional	01
General Service	01

• *Separation from Service*

The 2003 separations occurred as follows: -

End of contract	02 Professional staff
Resignations	02 Section Heads
	03 professional staff
Retirement	01 General service staff

• *Welfare Issues*

Existing policies, regulations and administrative procedures were amended as necessary to maintain their relevance and conformity to changes in both staff and Bank's needs and expectations. This was done as part of the review of the Bank's Schemes of Service since their inception in 1999.

• *Recreation*

The new recreational centre was officially opened in November 2003. Named "Lehakoe Recreation & Cultural Centre", the facility will benefit both staff and members of the public. The Bank is in the process of outsourcing its management to a professional firm with expertise in the field of health, fitness and related areas.

• *Social Activities*

The Bank, together with other Central Banks in the region continues to support the annual social and sporting events and interchanging of venues. In 2003, such event was hosted by the Reserve Bank of Zimbabwe and held in Harare, Zimbabwe. The next event will be hosted by the Bank of Mozambique in Maputo.

• *Community Work*

Staff, through the Staff Association Committee planted 1,500 trees in cooperation with the rural community at Setleketseng situated in the north-eastern side of Maseru, the capital city. This is proving to be an effective way of taking the Bank to the people.

The Bank continues to support community development by giving grants to disadvantaged communities. Activities supported include HIV/AIDS programmes, religious societies and cultural organisations.

BANK INFORMATION

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

CONTENTS

Page

In the same statement to the Annual Report of the Bank for the financial year 2002, reference was made to the Board of Directors. Focus in this year's report will be on the impartiality, independence and objectivity of the Board in serving the interests of the Bank as a whole during the reporting period. The statement on the issues may not be comprehensive, but it will, nevertheless shed a light on the accountability, independence and responsibility of the Board during the year 2003.

During the reporting period, the Board comprised of five non-executive and three executive Directors. This mixture makes the Board representative and unitary in nature. In the performance of its duties, the Board utilised the services of an Audit Committee which has formal terms of reference. This Committee formally and fully reports its activities at the regular meetings of the Board. The Committee is made up of two non-executive Members of the Board, one of whom is the Chairperson, and an independent third person. Consideration is under way for the establishment of a Remunerations Committee.

The non-executive Directors have been appointed from persons of recognised standing in the areas of accounting, business, economics, and law. Presumably, they possess the calibre, credibility, skills and experience entitling them to act independently of Management. Executive Directors on the other hand are involved full-time in the day-to-day management of the Bank. Accordingly, they devote sufficient time to their management responsibilities.

The Board in total held thirteen meetings in the year 2003. Seven of them being special and six statutory held once every two months. Decision making during Board proceedings has been by unanimous consent. Prior to Board meetings, Directors are provided with documentation on issues to be considered at any given meeting. Although neither specifically stated nor practised, non-executive Directors have direct access to Management. The qualitative and quantitative performance of all operational units of the Bank are assessed by the Board through quarterly progress reports.

The reports serve as a mechanism through which the Board retains full and effective control over the Bank. It is also a tool by which the Board monitors Management in the implementation of plans and strategies it (i.e. the Board) has approved. In addition, the Board has unrestricted access to all documents, information, property, records etc. of the Bank.

The Bye-Laws of the Bank goes further to detail the responsibilities of the Board. These include powers reserved for the Board and matters delegated to Management by the Board. In addition, Part V of the Bye-Laws is devoted to the conduct of Board meetings. These include the types of meetings the Board can have, attendance thereof including the formation of a quorum, voting procedures at meetings as well as the recognition of "round-robin" resolutions.

A.L. Ramone
Secretary to the Board

31 March 2004

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 6 - 31 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 in these controls, procedures and systems has occurred during the year under review.

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

The financial statements were approved by the Board of directors on 24 March 2004 and are signed on its behalf by:

E.M. Matekane Governor	E.K. Molemohi Director

REPORT OF THE INDEPENDENT AUDITORS

TO THE MINISTER OF FINANCE / BOARD OF CBL

We have audited the financial statements set out on pages 6 to 31 for the year ended 31 December 2003. These annual financial statements are the responsibility of the Bank's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

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

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

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

Audit opinion

In our opinion the financial statements fairly present, in all material respects, the financial position of the Bank at 31 December 2003 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.

Supplementary information

The supplementary schedules set out on pages 21 to do not form part of the annual financial statements and are presented as additional information. We have not audited these schedules and accordingly we do not express an opinion on them.

Sheeran a Associates

Sheeran and Associates
Chartered Accountants and Auditors (Lesotho)
Assisted by PricewaterhouseCoopers Inc.

The directors present their annual report, which forms part of the audited financial statements of the bank, for the year ended 31 December 2003. The financial statements are expressed in Maloti, the national currency of Lesotho.

Nature of business

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

Financial results

The financial results of the Bank are set out in the income statement on page 9. The residual profits after appropriations have been made to the general and other reserves, are paid over to the Government of Lesotho's Consolidated Fund as dividends in accordance with Section 21 of the Central Bank of Lesotho Act 2000. These appropriations have been fully disclosed in the statement of changes in equity on page 10.

Dividends

Dividends paid to the Government of Lesotho's 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

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

Secretary

Ramone A.L.	July 1998	Secretary to the Board

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. were appointed as statutory auditors of the Bank during the prior year.

E.M. Matekane
Governor

E.K. Molemohi
Director

CENTRAL BANK OF LESOTHO

BALANCE SHEET for the year ended 31 December 2003

	Notes	2003 M '000	2002 M '000
ASSETS			
Foreign exchange	2	2 546 633	2 566 630
Cash and cash equivalents	3	-	-
Treasury bills	4	426 081	854 709
Due from banks	5	8 704	11 642
IMF Subscription account	6	340 993	496 185
IMF Holding of Special Drawing Rights	7	4 118	6 273
IMF funded PRGF advances	8	174 674	83 936
Lesotho Government securities	9	45	2 276
Deferred currency expenses	10	1 163	3 411
Property, plant and equipment	11	134 696	116 660
Other assets	12	20 618	21 230
TOTAL ASSETS		3 657 725	4 162 952
LIABILITIES AND EQUITY			
LIABILITIES			
Notes and coins issued	13	234 993	223 083
Deposits	14	367 838	283 689
Lesotho Government deposits		1 195 322	1 261 047
IMF Maloti Currency holding	15	306 393	445 870
Allocation of Special Drawing Rights	16	36 532	53 169
IMF - PRGF facility	17	174 674	83 936
Deferred taxation	19	-	789
Taxation liabilities	18	4 487	38 641
Due to Government of Lesotho's Consolidated Fund	20	35 653	53 877
Internal provisions and accruals		22 769	17 678
TOTAL LIABILITIES		2 378 661	2 461 77
EQUITY			
Share capital	21	25 000	25 000
General Reserve		54 816	45 578
Other reserves		1 199 248	1 630 595
TOTAL EQUITY		1 279 064	1 701 173
TOTAL LIABILITIES AND EQUITY		3 657 725	4 162 952

INCOME STATEMENT

for the year ended 31 December 2003

	Notes	2003 M '000	2002 M '000
Revenue			
Interest income	22	141 619	175 385
Interest expense	23	(2 173)	(9 571)
Net interest income		139 446	165 814
Other income	24	454	1 976
Total income		139 900	167 520
Operating costs		(53 493)	(45 899)
Personnel costs	25	(27 062)	(23 275)
Other operating costs	26	(26 431)	(22 624)
Profit before taxation		86 407	120 798
Taxation	27	(30 979)	(42 199)
Net profit for the year after taxation		55 428	78 599

CENTRAL BANK OF LESOTHO

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2003

	M '000 Accumulated Profit	M '000 Share Capital	M '000 General Reserve	M '000 Rand Compensatory Reserve	M '000 SDR Revaluation Reserve	M '000 Exchange Revaluation Reserve	M '000 Property Revaluation Reserve	M '000 Special Reserve	Total
Balance at 1 January 2002	-	25 000	32 478	121 068	10 255	2 373 285	29 138	25 388	2 616 612
Profit after tax	78 599	-	-	-	-	-	-	-	78 599
Transfer to reserves	(13 100)	-	13 100	-	-	-	-	-	-
Interim dividend paid	(11 622)	-	-	-	-	-	-	-	(11 622)
Final dividend payable	(53 877)	-	-	-	-	-	-	-	(53 877)
Rand compensatory receipts	-	-	-	14 580	-	-	-	-	14 580
Exchange profit/(loss)	-	-	-	-	978	(944 334)	-	-	(943 356)
Assets revaluation	-	-	-	-	-	-	237	-	237
Balance at 31 December 2002	-	25 000	45 578	135 648	11 233	1 428 951	29 376	25 388	1 701 173
Profit after tax	55 428	-	-	-	-	-	-	-	55 428
Transfer to reserves	(9 238)	-	9 238	-	-	-	-	-	-
Interim dividend paid	(10 539)	-	-	-	-	-	-	-	(10 539)
Final dividend payable	(35 651)	-	-	-	-	-	-	-	(35 651)
Rand compensatory receipts	-	-	-	16 501	-	-	-	-	16 501
Exchange profit/(loss)	-	-	-	-	14 662	(462 511)	-	-	(447 849)
Balance at 31 December 2003	-	25 000	54 816	152 149	25 895	966 440	29 376	25 388	1 279 064
				*	*	*	*	*	

* =Total Other Reserves 1 199 248

Explanatory notes

General Reserve

The general reserve has been appropriated in terms of Section 21(a) of Lesotho Act of 2000

Dividends

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

Rand Compensatory Reserve

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

Special Reserve

The Special Reserve was set up from Rand Compensatory Receipts in 1987 and 1988. This reserve will now be utilised for specific purposes to be determined by the Board of Directors.

Foreign Exchange Revaluation Reserve Account

In terms of s54 of the Central Bank of Lesotho Act of 2000, the gains and losses arising from any changes in the valuation of the Bank's assets or liabilities in, or denominated in, gold or foreign currencies, or Special Drawing Rights as a result of changes in the exchange rate for the Maloti or of any change in the values, parities or exchange rates of such assets with respect to the Maloti shall be carried to a special account called the Revaluation Reserve Account. The profits or losses arising from such change shall not be included in the computation of the annual profits and losses of the Bank.

CASH FLOW STATEMENT

for the year ended 31 December 2003

	Notes	2003 M '000	2002 M '000
Cash flow from operating activities			
Cash flow from operating activities	28	(327 718)	(1 164 247)
Taxation paid	18	(64 120)	(12 927)
Rand compensatory receipts		16 501	14 580
Payment to Government of Lesotho Consolidated Fund	20	(64 416)	(31 670)
Net cash flow from / (utilised by) operations		(439 753)	(1 194 264)
Cash flow from investment activities			
Additions to property and equipment		(21 878)	(40 681)
Proceeds from sale of fixed assets		-	148
Decrease in other assets	12	612	3 781
Net decrease in local investments	9	2 231	63 477
Net decrease in foreign investments	4	428 628	643 702
Deferred currency expenditure	10	(1 744)	(675)
Purchase and disposal of foreign exchange	2	19 997	537 492
Net cash flow from investment activities		427 846	1 207 245
Cash flow from financing activities			
Notes and coins issued	13	11 909	35 569
Net cash flow from financing activities		11 909	35 569
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	3	-	-

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 2000.

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

1.2 Revenue Recognition

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

Rental income is recognised on an accrual basis.

1.3 Expenses

Expenses are recognised on an accruals basis.

1.4 Liabilities and provisions

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

In such cases, a contingent liability is disclosed.

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

1.5 Foreign currency activities

Assets and liabilities in foreign currencies are converted to Lesotho Maloti at rates ruling at the close of the financial year. Exchange profits and losses are transferred to the revaluation reserve account in compliance with section 54 of the Central Bank of Lesotho Act 2000.

1.6 Cash flow

No cash balances are shown because of the Bank's role as central bank in the creation of money.

1.7 Financial instruments

Measurement

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

Investments

Investments are carried at fair value. Investment in US and Lesotho treasury bills' fair value approximates their amortised cost due to their short term maturities.

Trade and other receivables

Trade and other receivables originated by the group are stated at cost less provision for doubtful debts.

Financial liabilities

Financial liabilities are recognised at amortised cost, namely original debt less principal payments and amortisations.

1.8 Property, plant and equipment

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

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

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

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

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

Fixed 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 Coin is amortised over a period of 3 years. The appropriateness of this amortisation period is reviewed from time to time by the directors.

1.11 Retirement and terminal benefits

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

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

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

	2003 M '000	2002 M '000
2 Foreign exchange		
Foreign Cash	378	233
Rand Currency Holding	25 946	19 670
ZAR Coins Holding	416	150
ZAR Notes Holding	25 530	19 520
Balances with banks	2 520 309	2 546 726
Current and Call Accounts		
Overseas Banks	435 079	1 223 067
South African Banks	467 628	358 524
Sub-total	902 707	1 581 591
Fixed deposits		
Overseas Banks	1 157 602	525 136
South African Banks	460 000	440 000
Sub-total	1 617 602	965 136
	2 546 633	2 566 630

3 Cash and cash equivalents

Cash and cash equivalents	-	-

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

	2003 M '000	2002 M '000

4 Treasury Bills

	2003 M '000	2002 M '000
US Treasury bills at fair value		
Maturing within 1 month	196 875	256 704
Maturing within 1 to 3 months	229 206	427 606
Maturing within 3 to 6 months	-	170 399
	426 081	854 709

The movements in investments are:

	2003 M '000	2002 M '000
Opening carrying amount	854 709	1 498 411
Additions	1 852 200	3 146 075
Disposals	(2 116 800)	(3 403 950)
Exchange revaluation	(164 028)	(385 827)
Closing carrying amount	426 081	854 709

5 Due from banks

Accrued Interest receivable

	2003 M '000	2002 M '000
ZAR Call Accounts	16	115
ZAR Fixed Deposit Accounts	6 688	8 985
NON ZAR Call Accounts	2	173
NON ZAR Fixed Deposit Accounts	1 998	2 369
	8 704	11 642

6 IMF Subscription Account

	2003 M '000	2002 M '000
Balance at beginning of year	496 185	353 188
Value adjustments during the year	(139 439)	128 496
Exchange revaluation	(15 753)	14 500
	340 993	496 185

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 0.102348 (2002: 0.0703367).

	2003 M '000	2002 M '000

7 Holding of Special Drawing Rights

Balance at 1 January	6 273	4 703
Net transactions	(202)	(153)
Exchange revaluation	(1 953)	1 808
Balance at 31 December	4 118	6 273

The value of SDR421,522 allocated by the International Monetary Fund less utilisation was converted at 0.102348 (2002: SDR441,263 at 0.0703367).

8 IMF funded PRGF advances

Balance at 1 January	83 936	35 384
Disbursed during the year	38 837	48 552
Ministry of Finance tranche	42 456	-
Exchange revaluation	9 445	-
Balance at 31 December	174 674	83 936

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 16.

9 Investment Securities

Lesotho Government Securities

Maturing within 1 month	45	2 276
Total treasury bills stated at fair value	45	2 276

10 Deferred currency expenditure (notes and coin)

Balance at 1 January	3 411	7 370
Expenditure during the year	1 744	675
Amortised during the year	(3 992)	(4 633)
Balance at 31 December	1 163	3 411

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

11 Property, Plant and Equipment

	CBL Building M '000	Residential Building M '000	Building - in Progress M '000	Lehakoe Building M'000	Motor Vehicles M '000	Office Computer M '000	Office Equipment M '000	Housing Equipment M '000	Security Equipment M '000	Recreational Equipment M '000	Office Furniture M '000	Housing Furniture M '000	TOTAL M '000
Cost/Valuation													
At 31.12.2002	47 082	3 531	57 594	-	1 491	4 180	5 641	100	360	85	2 927	282	123 273
Additions	257	-	17 503	-	-	703	2 905	-	441		69	-	21 878
Disposals	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	(75 097)	68 698	-	-	-	-	-	6 399	-	-	-
At 31.12.2003	47 340	3 531	-	68 698	1 491	4 883	8 546	100	801	6 484	2 996	282	145 152
Accumulated Depreciation													
At 31.12.2002	1 412	106	-	-	713	1 402	2 209	40	115	34	522	59	6 612
For the year	706	53	-		373	907	1 347	20	97	17	298	25	3 843
At 31.12.2002	2 118	159	-	-	1 086	2 309	3 556	60	212	51	820	84	10 455
Net Carrying value													
At 31.12.2002	45 670	3 425	57 594	-	778	2 778	3 432	61	245	51	2 405	223	116 661
At 31.12.2003	45 222	3 372	-	68 698	405	2 573	4 990	41	590	6 433	2 176	198	134 697

		2003 M '000	2002 M '000
12	**Other assets**		
	Cheques for collection and uncleared items	3 574	5 641
	Claims on staff	13 528	13 556
	Other Prepayments	531	360
	Other Claims	1 556	1 701
		20 618	21 230
13	**Notes and coin issued**		
	Notes	225 588	214 421
	Coin	9 404	8 662
		234 993	223 083

The Bilateral Monetary agreement between the Government of the Republic of South Africa and the Government 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 coin 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 coin in circulation because it does not represent currency in circulation.

		2003 M '000	2002 M '000
14	**Deposits**		
	Non-interest bearing		
	Bankers	185 157	117 085
	International Institutions	2 257	2 257
	Parastatals and others	170 048	153 888
		357 462	273 230
	Interest - bearing		
	Staff call account	10 376	10 459
		367 838	283 689

	2003 M '000	2002 M '000

15 IMF Maloti currency holding

	2003 M '000	2002 M '000
Securities account	227 704	367 143
General resources accounts	78 689	78 727
	306 393	445 870

16 IMF Special Drawing Rights allocation

	2003 M '000	2002 M '000
Balance at 1 January	53 169	37 839
Revaluation	(16 637)	15 330
Balance at 31 December	36 532	53 169

Lesotho's allocation by IMF of SDR3,739,000 converted at 0.102348 (2002: 0.0703367)

17 IMF-PRGF facilities

	2003 M '000	2002 M '000
Balance at 1 January	83 936	35 383
Drawn down during the year	38 837	48 553
Ministry of Finance tranche	42 456	-
Exchange revaluation	9 445	-
Balance at 31 December	174 674	83 936

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 Central 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 SDR17,877,500 converted at 0.102348 as at 31 December 2003. The loans have been on-lent as per note 7. Interest expense and exchange rate differences are borne by the Government of Lesotho.

18 Taxation liabilities

	2003 M '000	2002 M '000
Balance at 1 January	38 641	10 158
Paid during the year	(38 641)	(10 158)
Current year charge	29 966	41 410
Provisional payments made	(25 479)	(2 769)
	4 487	38 641

	2003 M '000	2002 M '000

19 Deferred taxation

Balance at 1 January	789	-
(Reversing)/arising in current year	(789)	789
Balance at 31 December	-	789

20 Due to Government of Lesotho's Consolidated Fund

Balance at 1 January	53 877	20 048
Prior year final dividend paid in current year	(53 877)	(20 048)
Profit appropriations for the current year	46 192	65 499
Current year interim dividend paid	(10 539)	(11 622)
Balance due at 31 December	35 653	53 877

21 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.

22 Interest from:

Foreign Currency Deposits	133 253	149 384
Foreign Currency Investments	7 351	22 628
Government Securities	685	3 100
Staff loans	278	269
Other institutions	52	4
	141 619	175 385

		2003 M'000	2002 M '000
23	**Interest paid on:**		
	Parastatal and Government deposits	-	2 985
	Local bank deposits	663	2 620
	IMF SDR allocation account	681	860
	Staff call account	829	823
		2 173	7 288
24	**Other income includes:**		
	Rent received	217	130
	Other	237	1 576
		454	1 706
25	**Personnel costs**		
	Non-executive directors' fees	66	52
	Executive directors' salaries	1 122	1 122
	Staff salaries and expenses	22 947	19 614
	Pension fund contributions	1 379	1 250
	Gratuity and severance expenses	1 548	1 237
		27 062	23 275
26	**Other**		
	Administration and other expenses	5 764	11 109
	Auditors' remuneration - current year	2	500
	Deferred currency expenses amortised	3 992	4 633
	Depreciation	3 844	3 372
	Loss on disposal of fixed assets	-	431
	Property expenses	2 829	2 579
		26 431	22 624

	2003 M '000	2002 M '000
27 Tax		
Normal tax for the year	29 966	41 410
Prior year underprovision (see note 17)	1 802	-
Deferred tax charge / (reversal)	(789)	789
	30 979	42 199
Reconciliation of tax expense:		
Profit before tax	84 607	120 798
Tax calculated at a tax rate of 35%(2002: 35%)	29 612	42 279
- Legal fees	17	23
- 50 % Entertainment	12	12
Less: 25 % Additional training tax	(82)	(115)
Add: Depreciation timing difference	-	405
Less: Deferred currency expenses	407	(1 194)
Income tax expense	29 966	41 410
28 Cash utilised by operations		
Reconciliation of profit before tax to cash generated from operations:		
Profit before tax	84 607	120 798
Adjustments for:		
Depreciation	3 844	3 372
Deferred currency expenses amortised	3 992	4 633
Net loss on disposal of fixed assets	-	44
Net cash generated by operating activities	92 443	128 848
Changes in working capital:		
Balances due from other banks and other debtors' accounts	2 938	(6 445)
Deposit accounts	18 425	(368 473)
Deposits + Gov Dep		
Creditors and other liability accounts	5 090	26 938
Other liabilities + Internal provisions		
Decrease/(increase) in IMF Maloti Currency holding	(139 477)	128 458
Exchange rate fluctuations	(447 848)	(944 334)
Changes in IMF Subscription account	155 192	(142 997)
Changes in Special Drawing Rights holding account	2 155	(1 570)
Changes in Special Drawing Rights allocation account	(16 637)	15 330
Cash utilised by changes in working capital	(420 161)	(1 293 094)
Cash utilised by operating activities	(327 718)	(1 164 247)

	2003 M '000	2002 M '000

29 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 s54 of the Central Bank of Lesotho Act of 2000. Had the net currency exhange gains and losses been taken to the income statement in terms of Internation Financial Reporting Standards net income would been reported as:

	2003 M '000	2002 M '000
Loss before taxation	(363 242)	(822 558)
Taxation and deferred taxation	(30 979)	(42 199)
Net loss for the year after taxation	(394 221)	(864 757)

	2003	2002
	M '000	M '000

30 Contingent liabilities

In respect of promisory note issued in connection with Kotulo Properties (Pty) Ltd amounting to M13 million (2002: M13 million).

31 Capital Commitments

There were no capital commitments at the end of 2003 as the recreational buildings had been completed.

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 separately determined. The pensions benefits are defined based on final salary and are fully funded. The assets of the fund are held in an independent trustee administered fund.

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

Risk Management Statement

Risk is an inherent feature of the bank's activities as the Central Bank of Lesotho. 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.

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.

TABLE OF CONTENTS FOR STATISTICAL APPENDIX

Table A1

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

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003*
Primary Sector:	551.40	527.70	620.30	623.70	642.60	670.30	689.70	693.51	665.50	663.10
Agriculture	551.10	524.40	617.30	620.20	640.00	667.60	686.50	690.11	662.00	659.50
Mining & Quarrying	0.30	3.30	3.00	3.50	2.60	2.70	3.20	3.40	3.50	3.60
Secondary Sector:	1070.20	1153.20	1258.90	1461.80	1289.00	1301.00	1370.40	1432.90	1522.60	1586.40
Manufacturing	438.40	469.30	535.10	560.60	542.00	540.10	563.80	608.10	650.20	682.70
Electricity & Water	74.20	82.40	93.20	244.00	168.40	226.00	219.90	230.20	236.50	242.40
Building & Construction	557.60	601.50	630.60	657.20	578.60	534.90	586.70	594.60	635.90	661.30
Tertiary Sector:	1203.30	1263.60	1344.60	1429.60	1448.20	1451.10	1438.20	1469.90	1518.00	1572.50
Wholesale and Retail Trade	260.70	274.00	297.80	323.10	309.40	294.00	281.60	288.60	301.50	321.10
Catering	33.30	40.20	46.80	49.20	43.50	49.70	54.70	53.40	55.60	57.90
Trans. & Communication	107.70	117.70	122.30	137.40	131.00	137.90	144.20	153.20	156.20	162.60
Finance & Insurance	146.10	112.70	116.50	103.20	102.90	136.10	201.50	210.40	226.60	245.20
Real Estate & Bus. Serv.	65.70	59.60	59.30	79.90	69.70	61.50	59.00	55.40	60.40	66.00
Ownership of Dwellings	149.80	152.80	155.90	159.00	162.20	165.40	168.70	172.10	175.50	179.00
Public Administration	200.90	232.50	245.20	254.20	283.30	277.90	269.60	267.50	270.70	267.20
Education	259.20	274.00	281.30	298.60	307.40	313.10	316.00	330.20	344.50	360.00
Health	60.20	56.40	63.30	59.50	71.50	73.30	64.50	65.00	67.00	69.30
Other Services	40.30	40.20	40.40	41.00	41.50	42.10	42.70	43.20	43.80	44.40
Less: Imputed Bank Serv. Charg.	120.60	96.50	84.20	75.50	74.20	99.90	164.30	169.10	183.80	200.20
GDP at Factor Cost	2824.90	2944.50	3223.80	3515.10	3379.80	3422.40	3498.30	3596.31	3706.10	3822.10
Plus: Indirect taxes, Net	416.60	439.20	496.80	508.40	457.20	424.00	398.70	425.80	469.00	490.10
GDP at Market Prices	3241.50	3383.70	3720.60	4023.50	3837.00	3846.40	3897.00	4022.11	4175.10	4312.20

Source: Bureau of Statistics
* CBL Projections

Table A2

GROSS DOMESTIC PRODUCT BY KIND OF ECONOMIC ACTIVITY

(1995 = 100)

Percentage Changes

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003*
Primary Sector:	-2.85	-4.30	17.55	0.55	3.03	4.31	2.89	0.55	-4.04	-0.36
Agriculture	-2.55	-4.84	17.72	0.47	3.19	4.31	2.83	0.53	-4.07	-0.38
Mining & Quarrying	-85.71	1000.00	-9.09	16.67	-25.71	3.85	18.52	6.25	2.94	2.86
Secondary Sector:	5.11	7.80	9.17	16.12	-11.82	0.93	5.33	4.56	6.26	4.19
Manufacturing	6.23	7.05	14.02	4.77	-3.32	-0.35	4.39	7.86	6.92	5.00
Electricity & Water	5.10	11.05	13.11	161.80	-30.98	34.20	-2.70	4.68	2.74	2.49
Building & Construction	4.10	7.90	4.84	4.22	-11.96	-7.55	9.68	1.35	6.95	3.99
Tertiary Sector:	5.48	5.01	6.41	6.32	1.30	0.20	-0.89	2.20	3.27	3.59
Wholesale and Retail Trade	13.74	5.10	8.69	8.50	-4.24	-4.98	-4.22	2.49	4.47	6.50
Catering	8.12	20.72	16.42	5.13	-11.59	14.25	10.06	-2.38	4.12	4.14
Trans. & Communication	1.00	9.30	3.90	12.30	-4.66	5.27	4.57	6.24	1.96	4.10
Finance & Insurance	-0.61	-22.86	3.37	-11.42	-0.29	32.26	48.05	4.42	7.70	8.21
Real Estate & Bus. Serv.	4.78	-9.28	-0.50	34.74	-12.77	-11.76	-4.07	-6.10	9.03	9.27
Ownership of Dwellings	1.97	2.00	2.03	1.99	2.01	1.97	2.00	2.02	1.98	1.99
Public Administration	4.96	15.73	5.46	3.67	11.45	-1.91	-2.99	-0.78	1.20	-1.29
Education	1.65	5.71	2.66	6.15	2.95	1.85	0.93	4.49	4.33	4.50
Health	0.67	-6.31	12.23	-6.00	20.17	2.52	-12.01	0.78	3.08	3.43
Other Services	1.26	-0.25	0.50	1.49	1.22	1.45	1.43	1.17	1.39	1.37
Less: Imputed Bank Serv. Charg.	-6.07	-19.98	-12.75	-10.33	-1.72	34.64	64.46	2.92	8.69	8.92
GDP at Factor Cost	3.61	4.40	9.49	9.04	-3.85	1.26	2.22	2.80	3.05	3.13
Plus: Indirect taxes, Net	2.21	5.42	13.11	2.33	-10.07	-7.26	-5.97	6.80	10.15	4.50
GDP at Market Prices	3.43	4.53	9.96	8.14	-4.64	0.24	1.32	3.21	3.80	3.28

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)

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03*
Maize										
Area planted	181773	91928	155676	161813	98131	140800	170102	195037	145762	131025
Share harvested	95.00	83.70	96.90	89.10	99.90	94.00	92.70	91.00	94.25	97.29
Sorghum										
Area planted	71654	11048	43450	39578	13409	31952	27802	55082	30070	26442
Share harvested	96.90	77.70	96.80	91.10	99.90	93.60	91.80	95.30	93.81	95.32
Wheat										
Area planted	32545	22419	29600	20930	21249	12663	14284	20532	17486	15998
Share harvested	84.50	76.70	75.00	98.90	99.90	98.90	89.90	97.21	95.36	98.57
Beans										
Area planted	8861	6256	11315	16767	8835	12707	13948	15188	9788	12364
Share harvested	94.40	58.10	88.50	84.60	84.60	91.60	81.50	81.43	73.98	90.33
Peas										
Area planted	5720	4801	6743	4807	5553	4079	5123	6594	5463	3276
Share harvested	77.00	78.00	65.40	93.90	99.90	94.20	86.30	95.27	82.17	91.97

Source: Bureau of Statistics

* Preliminary Etimates

Table A4

ESTIMATED PRODUCTION (1) AND AVERAGE YIELD (2) OF MAIN CROPS - 1993/94 TO 2002/03

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03*
Maize										
Production	149.10	62.50	188.50	141.50	118.70	124.50	106.80	158.19	111.11	82.08
Yield	8.20	6.80	12.00	8.80	12.10	8.80	6.30	8.11	6.71	4.67
Sorghum										
Production	60.70	6.90	36.10	29.10	22.40	33.30	20.50	45.35	11.92	11.95
Yield	8.50	6.30	8.30	7.30	11.50	10.40	7.30	8.23	6.17	6.19
Wheat										
Production	12.00	10.60	31.30	33.60	26.90	15.40	23.20	37.41	18.96	13.11
Yield	3.70	4.70	10.60	16.10	12.70	12.10	16.20	18.22	13.67	9.45
Beans										
Production	2.70	4.50	6.60	14.20	8.20	9.30	14.30	7.86	4.36	3.70
Yield	3.00	7.10	5.80	8.50	9.30	3.70	10.30	5.18	3.89	3.30
Peas										
Production	1.40	1.10	4.00	3.40	3.80	3.00	2.80	3.67	3.04	3.04
Yield	2.50	2.30	5.90	7.10	6.90	7.30	5.50	5.57	4.18	4.18

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

Table A5

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

Million Maloti

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003*
Primary Sector:	466.50	527.70	664.00	689.90	791.10	877.90	1010.40	1096.80	1188.10	1264.90
Agriculture	466.20	524.40	661.10	686.30	787.20	873.10	1002.80	1087.70	1178.10	1253.8
Mining & Quarrying	0.30	3.30	2.90	3.60	3.90	4.80	7.60	9.10	10.00	11.10
Secondary Sector:	991.10	1153.20	1399.30	1778.70	1713.90	2071.40	2211.50	2475.70	2922.30	3270.00
Manufacturing	418.60	469.30	585.00	683.90	775.60	823.20	909.40	1054.40	1353.00	1524.40
Electricity & Water	67.50	82.40	123.70	313.70	225.30	322.30	317.80	365.70	348.90	383.70
Building & Construction	505.00	601.50	690.60	781.10	713.00	925.90	984.30	1055.60	1220.40	1361.90
Tertiary Sector:	1104.00	1263.60	1486.20	1730.80	1918.90	2085.60	2183.10	2414.30	2700.20	3003.80
Wholesale and Retail Trade	241.20	274.00	325.70	394.30	408.10	425.40	490.30	545.10	636.60	727.50
Catering	30.40	40.20	51.10	58.60	56.30	69.00	80.40	83.90	102.20	114.30
Trans. & Communication	105.00	117.70	138.70	163.70	161.30	182.90	192.00	225.80	256.80	287.40
Finance & Insurance	133.50	112.70	127.70	126.10	130.90	152.30	257.80	269.10	291.40	338.30
Real Estate & Bus. Serv.	61.30	59.60	64.60	96.10	88.80	82.70	96.80	92.20	114.20	281.30
Ownership of Dwellings	144.80	152.80	168.50	175.00	186.30	190.00	193.80	251.90	257.00	133.80
Public Administration	181.90	232.50	271.00	326.10	408.20	450.00	452.80	476.10	511.70	541.90
Education	225.00	274.00	319.10	361.90	423.90	471.90	469.70	515.20	577.70	647.80
Health	54.50	56.40	68.70	73.50	98.80	113.10	102.20	108.70	117.80	130.70
Other Services	36.70	40.20	43.60	48.80	53.40	58.00	62.40	67.60	77.20	84.00
Less: Imputed Bank Serv. Charg.	110.30	96.50	92.50	93.30	97.10	109.70	215.10	221.30	242.40	283.20
GDP at Factor Cost	2561.60	2944.50	3549.50	4199.40	4423.90	5034.90	5405.00	5986.80	6810.60	7538.70
Plus: Indirect taxes, Net	403.90	439.20	504.20	520.10	496.80	530.00	558.50	621.80	962.50	1079.20
GDP at Market Prices	2965.50	3383.70	4053.70	4719.50	4920.70	5564.90	5963.50	6608.60	7773.10	8617.90

Source: Bureau ofStatistics
* CBL Projections

Table A6

SUPPLY AND DEMAND FOR RESOURCES

(at Current Prices)

Million Maloti

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003*
Supply										
GDP at Market Prices	2965.50	3383.70	4053.70	4719.50	4920.70	5564.90	5963.50	6608.60	7773.10	8617.80
Imports of Goods & Services	3357.40	4066.10	4801.80	5287.60	5284.60	5275.60	5511.90	6458.30	8039.70	8284.60
Total supply	6322.90	7449.80	8855.50	10007.10	10205.30	10840.50	11475.40	13066.90	15812.80	16902.40
Demand										
Consump. Expenditure	4031.60	4682.50	5521.90	6199.40	6567.00	6810.90	7180.80	7656.30	8580.70	9419.90
Gross Fixed Cap. Form.	1693.10	2071.20	2360.20	2593.50	2411.00	2651.00	2657.10	2810.00	3254.60	3287.20
Changes in Stocks	-44.60	-24.30	7.80	-47.10	-93.40	56.20	-138.10	-171.10	-135.40	0.00
Exports of Goods & Services	642.80	720.40	965.60	1261.30	1320.70	1322.40	1775.60	2771.70	4112.90	4195.30
Total Demand	6322.90	7449.80	8855.50	10007.10	10205.30	10840.50	11475.40	13066.90	15812.80	16902.40

Source: Bureau of Statistics
* CBL Projections

Table A7

INCOME AND OUTLAY ACCOUNT

(at Current Prices)
Million Maloti

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003*
Income										
Dom. Factor Incomes	2567.70	2944.50	3549.50	4199.40	4423.90	5034.90	5405.00	5986.80	6810.60	7538.50
Plus:Indirect taxes, Net	403.90	439.20	504.20	520.10	496.80	530.00	558.50	621.80	962.50	1079.20
GDP at Market Prices	2971.60	3383.70	4053.70	4719.50	4920.70	5564.90	5963.50	6608.60	7773.10	8617.70
Factor Income from abroad, Net	1348.50	1410.90	1421.50	1538.90	1384.90	1492.50	1522.30	1509.00	1700.50	1823.20
Gross National Product	4314.00	4794.60	5475.20	6258.40	6305.60	7057.40	7485.80	8117.60	9473.60	10441.00
Transfers from abroad, Net	789.30	918.60	998.30	1137.90	967.30	998.10	1043.70	1284.80	1277.70	1273.80
National Disposable Income	5103.30	5713.20	6473.50	7396.30	7272.90	8055.50	8529.50	9402.40	10751.30	11714.70
Outlay										
Consumption	4031.60	4682.50	5521.90	6199.40	6567.00	6810.90	7180.80	7656.20	8580.70	9419.90
Gross Saving	1071.70	1030.70	951.60	1196.90	705.90	1244.60	1348.70	1746.10	2170.60	2294.80
National Disposable Income	5103.30	5713.20	6473.50	7396.30	7272.90	8055.50	8529.50	9402.40	10751.30	11714.70
Saving ratio %	24.84	21.50	17.38	19.12	11.19	17.64	18.02	21.51	22.91	21.98

Source: Bureau of Statistics
* CBL Projections

Table A8

NUMBER OF BASOTHO MINEWORKERS EMPLOYED IN RSA

(and average earnings)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Average number employed	112722	103744	101262	95913	80445	68604	64907	61412	62158	61415
Change over previous year (%)	-2.93	-7.96	-2.39	-5.28	-16.13	-14.72	-5.39	-5.38	1.21	-1.20
Average earnings (1)										
Maloti	14562	16801	19186	21193	24678	27657	30131	32030	35326	38333
Change over previous year (%)	9.01	15.38	14.20	10.46	16.44	12.07	8.95	6.30	10.29	8.51

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

Table A9

LESOTHO CONSUMER PRICE INDICES

(All Urban Households)
April 1997= 100

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

Source: Bureau of Statistics

Table A10

LESOTHO CONSUMER PRICE INDICES

April 1997= 100

Item	2001	2002	2003
All items	135.21	151.39	161.33
Food and non-alcoholic beverages	132.78	167.64	174.07
Alcoholic beverages & Tobacco	147.20	158.42	168.56
Clothing & footwear	134.78	139.24	144.83
Housing, electricity gas & other fuels	130.78	144.13	155.27
Furniture, households equipment & routine maintenance of house	140.07	147.09	158.64
Health	129.46	131.48	135.88
Transport	143.58	155.64	166.21
Communication	100.80	100.70	131.75
Leisure, entertainment & Culture	124.45	132.25	144.90
Education	114.03	115.60	119.78
Restaurant & Hotels	149.25	172.72	194.43
Miscellaneous goods & services	126.42	133.56	145.38
% Change from the previous year			
All Items		11.97	5.90
Alcoholic beverages & Tobacco		7.62	6.40
Clothing & footwear		3.31	4.02
Housing, electricity gas & other fuels		10.21	7.72
Transport		8.40	6.79
Communication		-0.10	30.83
Leisure, entertainment & Culture		6.27	9.57
Education		1.37	3.61
Restaurant & Hotels		15.72	12.57
Miscellaneous goods & services		5.65	8.85

Source: Bureau of Statistics, Lesotho

Table A 11

SUMMARY OF BALANCE OF PAYMENTS

(Million Maloti)

	1994	1995	1996	1997	1998	1999	2000	2001	2002+	2003*
I CURRENT ACCOUNT	-719.41	-1174.43	-1350.63	-1295.69	-1413.72	-1349.40	-1083.76	-837.32	-1255.72	-1240.92
Goods, Services and Income	-1368.56	-1936.28	-2154.82	-2227.37	-2255.89	-2252.43	-2019.87	-1990.18	-2533.44	-2524.48
a) GOODS	-2491.21	-2995.90	-3490.87	-3818.14	-3589.63	-3707.35	-3582.18	-3398.18	-4017.99	-4138.31
Merchandise Exports f.o.b.	509.28	580.57	812.13	903.98	1109.60	1054.09	1468.35	2425.97	3739.89	3557.37
Merchandise Imports f.o.b.	-3000.49	-3576.47	-4303.00	-4722.12	-4699.23	-4761.44	-5050.53	-5824.15	-7757.88	-7695.68
b) SERVICES	-31.87	-80.20	-86.86	46.69	-58.09	-38.51	-1.24	-99.72	-213.58	-260.53
c) INCOME	1154.52	1139.82	1422.91	1544.08	1391.83	1493.43	1563.55	1507.72	1698.13	1874.36
Labour Income	1206.11	1213.03	1390.21	1472.72	1409.56	1473.53	1553.81	1555.30	1712.81	1868.07
Other	-51.59	-73.21	32.70	71.36	-17.73	19.90	9.74	-47.58	-14.68	6.29
d) CURRENT TRANSFERS	649.15	761.85	804.19	931.68	842.17	903.03	936.11	1152.86	1277.72	1283.56
Government, net	635.34	749.04	792.58	921.40	826.39	891.46	919.84	1121.82	1241.21	1221.41
SACU Non-duty Receipts	532.72	599.52	682.62	804.25	709.84	792.76	803.22	1016.99	1097.22	1081.79
Other	102.62	149.52	109.96	117.15	116.55	98.70	116.62	104.83	143.99	139.62
Other Sectors	13.81	12.81	11.61	10.28	15.78	11.57	16.27	31.04	36.51	62.15
II CAPITAL AND FINANCIAL ACCOUNT	1192.27	1426.50	1699.85	1672.26	1595.84	922.70	762.18	924.57	1177.76	929.55
e) CAPITAL ACCOUNT	142.90	158.32	194.20	206.10	122.60	92.90	139.30	138.00	247.10	208.10
f) FINANCIAL ACCOUNT	1049.37	1268.18	1505.65	1466.16	1473.24	829.80	622.88	786.57	930.66	721.45
Special Financing - LHWP	817.92	913.64	1107.40	1093.78	1303.13	798.23	608.12	772.23	595.70	552.26
III RESERVE ASSETS	-461.55	-346.87	-487.40	-626.38	-589.10	-285.73	-92.00	-1637.18	1278.78	516.99
IV ERRORS AND OMISSIONS (1)	-11.31	94.80	138.18	249.81	406.98	140.98	413.47	1549.93	-1200.82	-205.62

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

Table A 12

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

(Million Maloti)

	1994	1995	1996	1997	1998	1999	2000	2001	2002+	2003*
Food and Livestock	26.00	35.10	34.00	46.10	44.20	49.70	54.40	81.60	123.16	117.91
Beverages and Tobacco	2.20	1.60	0.40	0.10	38.50	94.00	63.90	72.60	94.86	96.45
Crude Materials, Inedible	32.20	34.60	31.60	29.20	19.70	17.80	37.50	60.10	64.61	90.28
Minerals and Related Products	0.00	0.50	0.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Chemicals and Related Products	2.60	6.90	20.80	16.60	7.10	4.90	6.50	18.60	45.53	49.28
Manufactured Goods (classified by material)	10.10	13.10	30.70	38.70	26.40	17.40	25.00	38.50	64.43	59.30
Machinery and Transport Equipment	69.80	66.50	113.60	139.80	167.60	111.70	173.30	254.50	371.37	373.84
Miscellaneous and Manufactured Goods	366.20	422.20	580.40	633.20	794.80	751.00	1104.69	1894.49	2962.24	2759.45
Commodities n.e.s	0.20	0.10	0.40	0.30	11.30	7.60	3.12	5.49	13.69	10.86
TOTAL	509.30	580.60	812.10	904.00	1109.60	1054.10	1468.41	2425.88	3739.89	3557.37

Source : Bureau of Statistics and Customs Department
+ Revised Estimates
* Preliminary Estimates
n.e.s - not elsewhere specified

Table A13

DIRECTION OF TRADE - EXPORTS F.O.B.

(Million Maloti)

Region	1994	1995	1996	1997	1998	1999	2000	2001	2002+	2003*
World	509.30	580.50	812.10	904.00	1109.60	1054.10	1468.41	2426.00	3739.89	3557.37
Africa	261.80	306.60	406.20	581.40	728.60	569.50	730.00	899.10	856.44	695.62
SACU	258.90	299.60	394.00	580.00	726.90	568.20	727.30	897.00	856.01	689.68
SADC #	2.70	5.40	12.20	1.40	1.70	1.30	2.66	0.00	0.27	0.23
Other	0.20	1.60	0.00	0.00	0.00	0.00	0.00	2.10	0.16	5.71
Europe	53.20	54.20	74.40	13.50	6.00	2.50	1.19	3.50	8.07	3.73
EU	51.30	53.70	74.10	13.20	5.90	2.40	1.19	3.50	7.75	3.73
Other	1.90	0.50	0.30	0.30	0.10	0.10	0.00	0.00	0.32	0.00
North America	192.70	218.30	331.10	308.40	373.00	480.60	736.50	1522.50	2874.58	2849.09
Asia	1.60	1.40	0.40	0.70	1.60	0.30	0.72	0.90	0.80	8.89
Oceania	0.00	0.00	0.00	0.00	0.40	1.20	0.00	0.00	0.00	0.04

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

Table A14

DIRECTION OF TRADE - IMPORTS C.I.F.

(Million Maloti)

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

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

Table A15

FOREIGN EXCHANGE RATES

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Botswana Pula	1.324	1.309	1.294	1.267	1.307	1.315	1.358	1.464	1.660	1.522
ECU / EURO	4.225	4.753	5.405	5.276	6.124	6.504	6.398	7.718	9.846	8.514
French Franc	0.641	0.727	0.835	0.798	0.928	1.019	0.965	0.856	0.659	0.716
German Mark	2.193	2.533	2.841	2.683	3.110	3.394	3.271	3.917	5.179	4.359
Japanese Yen	0.035	0.039	0.039	0.038	0.042	0.054	0.064	0.071	0.083	0.065
Saudi Riyal	0.924	0.969	1.140	1.247	1.464	1.624	1.851	2.281	2.804	2.011
SDR	5.089	5.504	6.211	6.408	7.433	8.353	9.137	10.790	13.492	10.575
Swidish Kronor	0.461	0.510	0.637	0.611	0.690	0.744	0.757	0.812	0.925	0.932
Swiss Franc	2.605	3.072	3.460	2.619	3.777	4.064	4.110	5.095	6.702	5.617
UK Pound	5.442	5.726	6.667	6.221	9.079	9.884	10.496	12.407	15.677	12.344
US Dollar	3.553	3.628	4.274	4.671	5.483	6.105	6.943	8.619	10.416	7.562
Zimbabwe Dollar	0.435	0.419	0.431	0.366	0.236	0.160	0.159	0.155	0.189	0.027

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 - A S S E T S

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
FOREIGN ASSETS	1318.45	1802.01	2310.26	2929.82	3549.85	3349.33	3486.15	5136.94	3858.15	3341.14
Cash and Balances	1139.24	797.14	1455.89	2069.99	2425.22	1538.26	1211.91	3112.18	2590.78	2571.67
Investments	159.64	274.30	412.24	628.78	611.93	1277.72	1769.47	1498.50	854.71	426.08
IMF Accounts	19.57	20.31	29.85	29.00	36.28	37.03	39.91	59.58	46.51	38.71
Holdings of SDRs	1.67	1.27	6.21	5.86	7.12	7.18	5.03	6.92	5.15	4.29
Reserve Tranche	17.90	19.04	23.64	23.14	29.15	29.85	34.88	52.66	41.36	34.42
Other Foreign Assets	-	710.26	412.27	202.05	476.42	496.31	464.87	466.68	366.15	304.69
CLAIMS ON GOVERNMENT	234.18	287.65	308.22	163.76	139.70	107.84	104.95	246.60	191.31	173..76
CLAIMS ON PRIVATE SECTOR	-	8.91	8.69	10.52	11.54	12.20	13.90	13.56	13.53	14.99
UNCLASSIFIED ASSETS	55.22	62.17	110.16	98.28	53.53	65.82	47.06	99.25	141.48	177.45
Fixed Assets	39.15	39.82	41.15	28.58	29.19	48.27	35.88	78.30	117.25	134.69
Other Assets	16.07	21.89	57.33	64.64	18.04	15.11	11.18	20.95	24.23	42.76
TOTAL	1607.85	2160.74	2737.32	3202.37	3754.61	3535.18	3652.05	5496.35	4204.46	3707.34

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

Continued on next page

Table A16 (continued)

BALANCE SHEET OF THE CENTRAL BANK OF LESOTHO

(Million Maloti : End of Period)

B - LIABILITIES

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
FOREIGN LIABILITIES	149.48	261.78	292.62	264.26	283.56	368.13	369.97	509.86	646.75	488.00
IMF Deposits	-	116.08	128.31	124.13	138.57	256.25	281.67	317.41	445.87	306.39
IMF Accounts	142.94	140.00	158.10	133.88	138.30	105.23	84.04	180.57	189.04	173.71
Trust Fund Loans/ PRGF	93.73	98.25	120.48	113.05	127.08	102.68	84.04	180.57	189.04	173.71
Use of Fund Credit/SAF	49.21	41.75	37.62	20.83	11.21	2.55	0.00	0.00	0.00	0.00
Other Foreign Liabilities	6.54	5.70	6.21	6.26	6.69	6.65	4.25	11.89	11.84	7.89
RESERVE MONEY	249.17	312.16	336.83	381.00	528.38	703.93	646.90	293.27	338.81	364.93
Maloti in Circulation Outside CBL	75.91	97.97	107.04	111.24	153.40	148.71	172.56	187.51	223.08	234.99
Rand Notes and Coins	17.20	25.34	17.11	12.55	11.63	9.33	15.39	10.30	10.32	15.47
Bankers Deposits	156.06	188.85	212.68	257.21	363.35	545.89	458.95	95.45	105.41	114.47
DEPOSIT LIABILITIES	1128.90	1367.86	1669.04	2070.77	2137.27	1615.99	1379.28	1708.45	1419.41	1432.93
Government	1128.90	1350.20	1659.51	2062.83	2125.53	1602.61	1356.40	1502.35	1257.31	1263.91
Official Entities	-	14.05	5.92	3.32	5.55	5.47	15.19	195.33	151.33	158.36
Private Sector	-	3.61	3.60	4.61	6.19	7.90	7.68	10.76	10.77	10.66
CAPITAL ACCOUNTS	46.55	185.68	368.79	409.23	735.54	805.42	1208.97	2856.93	1771.79	1392.94
UNCLASSIFIED LIABILITIES	33.75	33.25	70.04	77.10	69.86	41.71	46.95	127.85	27.71	28.55
Other liabilities and payables	159.19	33.06	68.92	74.67	69.73	41.85	46.95	127.85	27.71	28.55
TOTAL	1607.85	2160.74	2737.32	3202.37	3754.61	3535.18	3652.05	5496.35	4204.46	3707.34

Table A17

CONSOLIDATED BALANCE SHEET OF COMMERCIAL BANKS

(Million Maloti: End of Period)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
RESERVES	178.45	165.68	245.58	245.22	490.59	573.72	506.81	127.06	159.15	181.10
Rand Notes and Coins	17.20	25.34	17.11	12.55	11.63	9.33	15.39	10.30	10.32	15.47
Maloti Notes and Coins	21.32	23.86	22.95	18.73	18.90	26.05	33.22	40.37	43.40	51.48
Balances due from CBL	139.93	116.49	205.51	213.94	460.06	538.34	458.20	76.38	105.44	114.16
FOREIGN ASSETS	314.29	237.24	273.27	203.46	427.59	494.65	609.09	789.61	772.31	837.34
CLAIMS ON PRIVATE SECTOR	553.50	665.46	667.27	979.29	227.87	270.83	258.60	301.68	373.94	402.58
CLAIMS ON STATUTORY BODIES	88.95	80.53	141.33	127.62	83.77	81.66	42.77	46.39	42.75	38.94
CLAIMS ON GOVERNMENT	30.92	74.91	74.35	74.23	51.53	586.38	586.20	691.32	806.75	991.45
UNCLASSIFIED ASSETS	236.25	404.15	264.37	340.33	953.81	1039.09	881.69	952.18	985.25	764.87
TOTAL	1402.36	1627.97	1666.15	1970.15	2235.16	3046.32	2885.15	2908.24	3140.15	3216.28

Continued on next page

Table A17 (continued)

CONSOLIDATED BALANCE SHEET OF COMMERCIAL BANKS

(Million Maloti: End of Period)

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

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
DEMAND DEPOSITS	466.97	481.36	589.36	730.20	912.37	897.69	941.42	1002.26	1162.90	1253.46
Private Sector	307.52	363.34	432.96	480.85	519.14	459.88	582.95	625.14	753.63	929.14
Government	37.68	35.45	41.36	43.63	75.45	76.42	67.69	63.22	63.74	68.25
Statutory Bodies	121.77	82.57	115.04	205.72	317.78	361.39	290.78	313.90	345.53	256.07
TIME DEPOSITS	98.63	120.79	168.18	173.29	173.25	158.60	120.98	136.51	157.18	208.95
Private Sector	84.18	109.10	155.78	139.30	116.19	109.64	80.78	69.30	100.24	129.60
Government	1.80	1.96	2.17	2.28	1.19	0.59	0.60	0.09	0.09	0.09
Statutory Bodies	12.65	9.73	10.24	31.71	55.87	48.37	39.60	67.13	56.85	79.27
SAVINGS DEPOSITS	406.35	429.77	472.47	519.81	573.56	527.63	506.52	521.82	527.01	507.05
Private Sector	405.95	429.37	472.04	519.37	571.19	527.32	506.21	521.60	526.78	506.97
Government	0.11	0.12	0.13	0.13	0.13	0.11	0.09	0.00	0.05	0.01
Statutory Bodies	0.29	0.29	0.30	0.31	2.24	0.20	0.23	0.22	0.19	0.07
DEFERRED PAY FUND	47.35	52.57	54.04	53.27	40.18	34.99	38.12	42.19	43.19	44.19
FOREIGN LIABILITIES	36.09	60.23	60.06	56.89	47.20	39.89	140.01	102.82	99.63	229.64
CAPITAL ACCOUNTS	147.09	119.12	56.11	-74.15	-38.31	209.92	318.90	279.18	287.36	303.43
UNCLASSIFIED LIABILITIES	199.88	364.13	265.93	510.84	526.92	1177.59	819.20	823.46	862.88	669.56
TOTAL	1402.36	1627.97	1666.15	1970.15	2235.16	3046.32	2885.15	2908.24	3140.15	3216.28

Table A18

MONETARY SURVEY

(Million Maloti: End of Period)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Foreign Assets, Net	1609.00	1717.24	2230.85	2812.12	3646.68	3435.95	3585.26	5313.88	3884.08	3460.84
Commercial Banks	278.20	177.01	213.21	146.57	380.39	454.76	469.08	686.80	672.68	607.70
Central Bank of Lesotho	1313.60	1514.89	2000.53	2653.00	3254.65	2971.87	3100.79	4616.78	3201.08	2837.68
Rand with Banks	17.20	25.34	17.11	12.55	11.63	9.33	15.39	10.30	10.32	15.47
Domestic Credit	-256.50	-270.28	-503.33	-753.46	-1687.89	-620.83	-418.36	-266.10	107.08	289.47
Claims on private sector & Statutory Bodies	584.40	754.90	817.28	1117.42	323.18	364.68	315.27	361.63	430.22	456.51
Claims on Government,net of deposits	-840.90	-1025.17	-1320.60	-1870.88	-2011.07	-985.52	-733.63	-627.73	-323.14	-167.04
Money Supply	1132.20	1138.73	1334.01	1530.99	1768.82	1677.83	1700.88	1992.71	2168.18	2297.85
Money	569.20	537.69	641.61	787.02	983.15	957.30	1035.95	1292.27	1440.94	1537.75
Maloti with public	54.60	74.11	84.09	92.51	134.50	122.66	139.34	147.14	179.68	183.52
Demand and call deposits	514.60	449.53	551.60	691.18	843.10	829.17	881.42	949.80	1109.93	1195.86
Official entities deposits with CBL	-	14.05	5.92	3.32	5.55	5.47	15.19	195.33	151.33	158.36
Quasi-money	562.90	601.05	692.40	743.97	785.67	720.52	664.94	700.44	727.24	760.10
Time deposits	156.70	171.39	220.06	224.29	212.24	193.00	158.51	178.62	200.28	253.06
Savings deposits	406.20	429.65	472.34	519.68	573.43	527.52	506.43	521.82	526.96	507.04
Other items, net	220.30	308.23	393.51	527.68	189.96	1137.30	1466.02	3055.06	1822.98	1452.46

Table A19

DOMESTIC CREDIT

(Million Maloti: End of Period)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Private Sector Total	553.50	674.37	675.95	989.81	239.41	283.03	272.49	315.24	387.47	417.57
Business Enterprises	373.00	408.55	431.74	485.12	130.44	132.76	100.26	113.53	145.68	146.05
Households	103.00	212.19	233.08	426.07	29.80	49.19	71.15	99.87	139.94	158.59
Other	77.50	53.63	11.13	78.62	79.16	101.08	101.08	101.84	101.84	112.93
Statutory bodies	30.90	80.53	141.33	127.62	83.77	81.66	42.77	46.39	42.75	38.94
Government (net)	-840.90	-1025.17	-1320.60	-1870.88	-2011.07	-985.52	-733.63	-627.73	-323.14	-167.04
Grand Total	-256.50	-270.28	-503.33	-753.46	-1687.89	-620.83	-418.36	-266.10	107.08	289.47

Table A20

BANKING SYSTEM'S NET FOREIGN ASSETS

(Million Maloti: End of Period)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Commercial Banks	278.20	177.01	213.21	146.57	380.39	454.76	469.08	686.80	672.68	607.70
Assets	314.30	237.24	273.27	203.46	427.59	494.65	609.09	789.61	772.31	837.34
Liabilities	-36.10	-60.23	-60.06	-56.89	-47.20	-39.89	-140.01	-102.82	-99.63	-229.64
Central Bank	1330.80	1540.23	2017.64	2665.55	3266.29	2981.19	3116.18	4627.08	3211.40	2853.14
Assets	1324.30	1802.01	2310.26	2929.82	3549.85	3349.33	3486.15	5136.94	3858.15	3341.14
Liabilities	-6.50	-261.78	-292.62	-264.26	-283.56	-368.13	-369.97	-509.86	-646.75	-488.00
Net Foreign Assets	1609.00	1717.24	2230.85	2812.12	3646.68	3435.95	3585.26	5313.88	3884.08	3460.84

Table A21

BANKING SYSTEM'S CLAIMS ON GOVERNMENT

(Million Maloti:End of Period)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Commercial Banks	49.30	37.38	30.69	28.19	-25.24	509.26	517.82	628.01	742.86	923.10
Claims	88.90	74.91	74.35	74.23	51.53	586.38	586.20	691.32	806.75	991.45
Less Deposits	39.60	37.53	43.66	46.04	76.77	77.12	68.38	63.31	63.89	68.35
Central Bank	-890.20	-1062.56	-1351.29	-1899.07	-1985.83	-1494.77	-1251.45	-1255.75	-1066.00	-1090.15
Claims	238.70	287.65	308.22	163.76	139.70	107.84	104.95	246.60	191.31	173.76
Less Deposits	1128.90	1350.20	1659.51	2062.83	2125.53	1602.61	1356.40	1502.35	1257.31	1263.91
Net Total	-840.90	-1025.17	-1320.60	-1870.88	-2011.07	-985.52	-733.63	-627.73	-323.14	-167.04
Memorandum Items: Securities held by Banks #										
Commercial Banks	82.50	68.01	70.90	70.68	47.98	586.08	585.77	693.27	806.08	989.92
Central Bank	12.00	147.92	160.68	32.51	7.58	5.16	20.91	66.04	2.28	0.05
Total	94.50	215.93	231.58	103.18	55.56	591.24	606.67	759.31	808.35	989.96

Figures at cost value

Table A22

HOLDINGS OF TREASURY BILLS
(Million Maloti)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total holdings	154.10	154.10	154.10	154.10	154.10	154.10	234.70	451.80	515.70	770.50
Banking system (1)	96.60	108.80	88.40	71.60	50.20	14.70	28.30	350.80	402.00	593.30
Central Bank	12.30	39.10	15.20	5.80	0.90	3.90	16.60	67.10	0.00	0.00
Commercial Banks	84.30	69.70	73.20	65.80	49.30	10.80	11.70	283.70	402.00	593.30
Non-Bank Sector	57.50	45.30	65.70	82.50	103.90	139.40	206.40	101.00	113.70	177.20
NBFIs (2)	30.80	19.30	11.20	15.50	15.40	15.80	90.10	36.10	23.70	102.10
Other entities	26.70	26.00	54.50	67.00	88.50	123.60	116.30	64.90	90.00	75.10
Memorandum Item										
Yield	10.40	13.00	14.30	14.00	16.60	9.90	9.97	10.99	13.18	10.46

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

Table A23

MAJOR MONEY MARKET INTEREST RATES

(Per cent Per Annum: End of Period)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Central Bank (1)										
91-Day T-Bill Rate	10.41	13.00	14.30	13.92	16.56	9.90	9.30	10.99	12.19	9.83
Call rate	8.85	11.00	15.00	13.17	15.99	8.88	7.88	7.88	0.00	0.00
31 days	9.45	11.50	15.25	13.50	16.25	9.33	15.00	13.00	0.00	0.00
Commercial Banks										
Time deposits										
31 days	7.50	10.25	10.00	8.80	11.00	4.00	4.00	4.00	4.75	3.75
1 year	10.50	13.60	11.25	10.50	10.35	5.50	5.50	6.00	6.25	6.00
Savings deposits - (range)	*6.12-7.35*	*6.15-10.00*	*6.00-11.00*	*6.00-9.65*	*4.00-7.00*	*0.00-3.50*	*0.00-3.50*	*2.17-4.00*	*2.58-4.00*	*1.68-2.48*
Prime lending	15.00	16.50	18.00	17.10	22.00	18.00	17.00	16.33	17.67	17.67
South Africa(2)										
Prime lending	16.25	18.50	20.25	19.25	19.34	15.50	14.50	13.00	17.00	11.5
Call deposits (3)	10.00-20.00	13.00-15.00	16.50-18.50	14.00-15.30	17.25-20.25	9.75-10.80	8.50-9.75	8.25-8.85	8.75-9.5	7.70-7.72

(1) In September 2001, the Central Bank introduced indirect instruments of monetary policy and also ceased to remunerate banks deposits

(2) **Source:** Financial Mail

(3) Maximum rate for deposits of R100,000+

Table A24

SUMMARY OF BUDGETARY OPERATIONS

(Million Maloti)

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	Revised 2002/03	Projections 2003/04
Total Receipts	1582.10	1844.80	2238.00	2426.40	2289.60	2442.80	2752.20	2976.30	3331.00	3644.90
Revenue	1438.50	1681.60	2034.60	2248.00	2169.60	2312.80	2626.60	2787.50	3034.70	3368.10
Tax revenue	1268.80	1413.50	1553.70	1795.10	1698.90	1888.80	1942.00	2325.30	2575.90	2872.90
Customs	840.90	906.50	1006.00	1172.80	1033.30	1183.10	1126.20	1438.50	1470.00	1421.60
Income Taxes	228.20	275.80	299.00	340.10	392.00	419.50	468.80	579.50	762.20	950.20
Individual Income Tax	140.10	184.10	204.60	221.70	278.00	306.50	356.30	371.80	663.30	850.90
Company Tax	65.20	74.10	52.60	69.70	65.00	58.50	75.10	159.20	86.30	86.30
Other Income Taxes	22.90	17.60	41.80	48.70	49.00	54.50	56.00	48.50	12.60	13.00
Taxes on Goods and Services	190.80	220.70	240.00	273.30	269.60	283.20	343.60	302.00	343.70	501.10
Other Taxes	8.90	10.50	8.70	8.90	4.00	3.00	3.40	5.30	0.00	0.00
Non-tax revenue	169.70	268.10	480.90	452.90	470.70	424.00	684.60	462.20	458.80	495.20
of which: Water Royalties	0.00	0.00	142.80	76.00	120.00	142.90	154.90	176.10	213.40	213.40
Grants	143.60	163.20	203.40	178.40	120.00	130.00	125.60	188.80	296.30	276.80
Total Expenditure & Net Lending	1432.80	1736.50	2052.70	2342.10	2438.40	2780.60	2957.00	3018.90	3656.10	3892.20
Recurrent expenditure	994.10	1118.10	1179.00	1473.80	1942.70	2300.70	2457.90	2393.30	2876.20	3165.00
Purchases of Goods & Services	782.80	892.10	970.40	1182.60	1341.70	1578.90	1774.10	1793.70	2147.10	2385.10
Personnel Emoluments	453.60	518.70	604.40	721.30	837.60	835.90	921.80	992.40	1082.10	1123.20
Other Goods & Services	329.20	373.40	366.00	461.30	504.10	743.00	852.30	801.30	1065.00	1261.90
Interest payments	56.10	59.20	66.30	90.00	128.50	183.40	252.40	203.30	219.70	215.10
External	28.80	32.00	36.60	59.90	96.20	101.60	148.20	126.00	109.50	90.30
Domestic	27.30	27.20	29.70	30.10	32.30	81.80	104.20	77.30	110.20	124.80
Subsidies & Transfers	155.20	166.80	142.30	201.20	472.50	538.40	431.40	396.30	509.40	564.80
of which: Bank Restructuring	0.00	0.00	0.00	50.00	237.70	22.00	0.00	0.00	0.00	0.00
LHDA	–	–	–	–	–	263.80	0.00	0.00	0.00	0.00
Capital Expenditure & net Lending	438.70	618.40	873.70	868.30	495.70	479.90	499.10	625.60	779.90	727.20
Surplus/Deficit Before grants	5.70	-54.90	-18.10	-94.10	-268.80	-467.80	-330.40	-231.40	-621.40	-524.10
Surplus/Deficit after grants	149.30	108.30	185.30	84.30	-148.80	-337.80	-204.80	-42.60	-325.10	-247.30
Financing	-149.30	-108.30	-185.30	-84.30	148.80	359.10	204.80	42.60	325.30	247.30
Foreign,net	103.20	211.20	352.00	345.50	18.10	-78.10	-221.70	31.90	53.40	-25.90
Domestic	-252.50	-319.50	-537.30	-429.80	130.70	437.20	426.50	10.70	271.90	273.20
Bank	-277.00	-309.70	-522.00	-448.20	116.20	415.90	403.20	62.40	320.80	191.40
Non-Bank	24.50	-9.80	-15.30	18.40	14.50	21.30	23.30	-51.70	-48.90	81.80

Source: Ministry of Finance and CBL Projections

Table A25

RECURRENT EXPENDITURE BY MAJOR FUNCTIONS OF GOVERNMENT

(Million Maloti)

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	Revised 2002/03	Projections 2003/04
GENERAL GOVERNMENT SERVICES	298.50	408.00	373.60	496.20	806.20	802.60	743.00	794.00	1032.20	1113.12
01 General Public Services	121.90	158.40	133.00	210.40	479.80	368.80	329.20	380.50	506.90	546.64
02 Defence Aaffairs & Services	98.20	133.50	118.00	137.00	159.30	224.50	207.90	199.20	208.50	224.85
03 Public Order & Safety Affairs	78.40	116.10	122.60	148.80	167.10	209.30	205.90	214.30	316.80	341.64
COMMUNITY & SOCIAL SERVICES	396.30	478.20	541.20	668.40	777.10	980.60	1048.30	1103.10	1346.60	1452.17
04 Education	246.50	284.60	355.40	443.60	491.60	673.40	720.50	696.00	867.30	935.30
05 Health	82.50	109.20	100.90	128.20	151.50	172.20	182.60	190.70	227.60	245.44
06 Social Security & Welfare	27.90	33.30	31.20	36.30	64.10	65.30	66.70	122.00	140.80	151.84
07 Housing & Community Amenities	17.20	22.20	25.70	25.40	29.10	28.30	25.40	40.30	62.00	66.86
08 Recreation & Cultural Affairs	22.20	28.90	28.00	34.90	40.80	41.40	53.10	54.10	48.90	52.73
ECONOMIC SERVICES	224.90	156.90	178.80	209.90	213.40	207.00	234.70	266.10	296.80	320.07
09 Fuel & Energy Affairs	2.50	3.20	2.70	3.30	3.90	6.50	18.50	3.80	5.70	6.15
10 Agriculture	39.50	43.10	48.90	60.20	69.90	82.80	61.20	126.30	138.00	148.82
11 Mining & Industry	15.10	17.90	20.20	25.20	21.10	28.30	32.40	34.80	40.40	43.57
12 Transport & Communications	42.20	56.50	58.10	66.70	69.90	69.80	101.60	79.80	93.50	100.83
13 Other Economic Services	125.60	36.20	48.90	54.50	48.60	19.60	21.00	21.40	19.20	20.71
UNCLASSIFIED EXPENDITURE	74.40	74.90	84.20	98.60	146.00	317.30	431.90	230.00	259.40	279.74
14.0.1 Public debt	56.10	59.20	72.20	90.00	128.50	228.70	252.40	203.30	224.50	242.10
14.0.2 Other transfers	18.30	15.70	12.00	8.60	17.50	88.60	179.50	26.70	34.90	37.64
Total Recurrent Expenditure	994.10	1118.00	1177.80	1473.10	1942.70	2307.50	2457.90	2393.20	2935.00	3165.10

Source: Ministry of Finance and CBL Projections

Table A26

DEBT OUTSTANDING BY REMAINING MATURITIES

(Million Maloti)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1-5 Years	242.10	269.50	161.10	63.30	23.80	0.00	0.00	0.00	0.00	0.00
6-10 Years	290.20	426.50	400.70	343.90	331.20	260.60	187.30	125.10	64.30	17.20
11-15 Years	671.70	382.90	366.20	343.90	318.00	288.10	257.50	226.00	193.80	160.60
16 Years & above	3964.30	3533.00	3649.70	3715.90	3714.00	3670.50	3586.10	3497.30	3393.40	3285.50
Total	5168.30	4611.90	4577.70	4467.00	4387.00	4219.20	4030.90	3848.40	3651.50	3463.30
In Per Cent of Total										
1-5 Years	4.68	5.84	3.52	1.42	0.54	0.00	0.00	0.00	0.00	0.00
6-10 Years	5.61	9.25	8.75	7.70	7.55	6.18	4.65	3.25	1.76	0.50
11-15 Years	13.00	8.30	8.00	7.70	7.25	6.83	6.39	5.87	5.31	4.64
16 Years & above	76.70	76.61	79.73	83.19	84.66	87.00	88.97	90.88	92.93	94.87
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)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
A. EXTERNAL DEBT	1704.40	1861.50	2283.60	2313.40	3185.10	3121.90	4319.60	6246.50	5130.50	4432.00
1. Bilateral Loans	*166.40*	*179.60*	*299.70*	*266.00*	*365.40*	*340.80*	*626.10*	*592.00*	*451.60*	*504.40*
Concessional	163.20	176.60	257.30	225.90	322.00	301.20	380.50	431.40	201.90	205.30
Non-concessional	3.20	3.00	42.40	40.10	43.40	39.60	245.60	160.60	249.70	299.10
2. Multilateral Loans	*1457.00*	*1555.80*	*1907.60*	*1883.90*	*2549.20*	*2518.50*	*3181.70*	*4968.60*	*4139.40*	*3485.80*
Concessional	1354.90	1462.20	1806.70	1850.40	2468.50	2460.00	3088.20	4310.70	3397.50	2997.70
Non-concessional	102.10	93.60	100.90	33.50	80.70	58.50	93.50	657.90	741.90	488.10
3. Financial Institutions	*66.70*	*107.80*	*70.80*	*144.10*	*247.10*	*244.60*	*357.50*	*443.70*	*383.80*	*343.80*
Concessional	2.10	0.70	35.60	29.80	32.00	30.10	54.60	18.90	1.00	0.80
Non-concessional	64.60	107.10	35.20	114.30	215.10	214.50	302.90	424.80	382.80	343.00
4. Suppliers' Credit	*14.30*	*18.30*	*5.50*	*19.40*	*23.40*	*18.00*	*154.30*	*242.20*	*155.70*	*98.00*
B. DOMESTIC DEBT	387.40	270.20	303.30	190.20	160.10	730.20	788.50	906.00	929.00	1159.70
5. Banks	*325.20*	*224.90*	*237.60*	*108.20*	*56.20*	*590.80*	*603.70*	*777.40*	*815.30*	*982.50*
Long-term	6.60	7.40	3.80	3.60	3.60	288.00	287.70	310.90	287.70	287.70
Short-term	318.60	217.50	233.80	104.60	52.60	302.80	316.00	466.50	527.60	694.80
of which :										
treasury bills	96.60	108.80	88.40	72.10	50.20	302.70	306.30	340.90	527.00	693.30
6. Non-bank	*62.20*	*45.30*	*65.70*	*82.00*	*103.90*	*139.40*	*184.80*	*128.60*	*113.70*	*177.20*
Short-term	62.20	45.30	65.70	82.00	103.90	139.40	184.80	128.60	113.70	177.20
treasury bills	57.50	45.30	65.70	82.00	103.90	139.40	184.80	128.60	113.70	177.20
compulsory savings	4.70	-	-	-	-	-	-	-	-	-
7. TOTAL (A + B)	2091.80	2131.70	2586.90	2503.60	3345.20	3852.10	5108.10	7152.50	6059.50	5591.70

Continued on next page

Table 27 (continued)

OUTSTANDING PUBLIC DEBT

(Million Maloti)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
C. MEMORANDUM ITEMS (In Million Maloti)										
8. GDP	2965.50	3383.70	4053.70	4719.50	4920.70	5564.90	5963.50	6608.60	7530.70	8349.80
9. GNI	4313.80	4794.70	5475.10	6258.50	6305.40	7057.40	7543.30	7986.00	9188.30	10441.00
10. Foreign debt service	74.70	102.90	106.70	167.10	213.70	294.40	322.70	313.50	127.90	-57.70
11. Exports of goods & services, incl. factor services	2134.40	2440.90	2605.40	2816.00	2987.00	2976.10	3344.60	4747.69	6281.86	6426.00
12. Exports of goods & non-factor services	581.20	652.10	929.70	1022.70	1221.10	1198.60	1572.00	2743.05	4113.12	4198.56
Ratios										
Total debt as a % of GDP	70.54	63.00	63.82	53.05	67.98	69.22	85.66	108.23	80.46	66.97
External debt as a % of GDP	57.47	55.01	56.33	49.02	64.73	56.10	72.43	94.52	68.13	53.08
Domestic debt as a % of GDP	13.06	7.99	7.48	4.25	3.25	13.12	13.22	13.71	12.34	13.89
External debt as a % of total	81.48	87.32	88.28	135.19	95.21	81.04	84.56	87.33	84.67	79.26
Domestic debt as a % of total	18.52	12.68	11.72	7.60	4.79	18.96	15.44	12.67	15.33	20.74
Concessional as a % of external debt	89.19	88.07	91.94	91.04	88.62	89.41	81.57	76.22	70.18	72.29
Debt service (1)	3.50	4.22	4.10	5.93	7.15	9.89	9.65	6.60	2.04	-0.90
Debt service (2)	12.85	15.78	11.48	16.34	17.50	24.56	20.53	11.43	3.11	-1.37

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.