CENTRAL BANK OF LESOTHO

MALOTI

BANKA E KHOLO EA LESOTHO

Central Bank of Lesotho

Annual Report

2007

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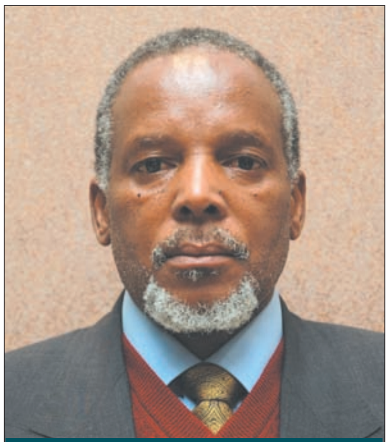
2007

Maseru, March 2008

Central Bank of Lesotho


M. Senaoana
Governor & Chairman (Board)


R. Matlanyane
Deputy Governor I


E.K. Molemohi
Director


P.M. Makhetha
Director


M.G. Tau-Thabane
Director


P.M.I.S. Ledimo
Director


J.Q. Lesitha
Director


M. Malope
Board Secretary

BOARD OF DIRECTORS

M. P. Senaoana[1]	- Governor & Chairman (Board)
A.R. Matlanyane[2]	- Deputy Governor I
Vacant	- Deputy Governor II
P. M. Makhetha[3]	- Director
M. G. Tau-Thabane	- Director
P. M. I. S. Ledimo	- Director
J. Q. Lesitha	- Director
E. K. Molemohi	- Director

MANAGEMENT

M. P. Senaoana	- Governor
A. R. Matlanyane	- Deputy Governor I
Vacant	- Deputy Governor II
T. Namane	- Director of Operations
M. Mofelehetsi	- Director of Supervision
L. Kirstein	- Director of Administration
M.G. Makenete	- Director of Financial Markets
M. S. Mahooana	- Director of Information & Communication Technology (acting)
M. Monyau	- Director of Research
T. Makara	- General Manager – Lehakoe Recreation and Cultural Centre

DIVISIONAL HEADS

GOVENOR'S OFFICE

M. Malope[4]	- Board Secretariat
N. E. Mashologu	- Public Relations
J. Nts'ekhe	- Internal Audit
L. Khaka	- Accounts & Budget

ADMINISTRATION

M. Molekane	- Human Resources
T. Malataliana	- General Services & Maintenance
M. 'Nyane	- Security Services (Acting)

FOOT NOTES

[1] Appointed in April 2007
[2] Appointed in April 2007
[3] Until October 2007
[4] Appointed in October 2007

DIVISIONAL HEADS

INFORMATION AND COMMUNICATIONS TECHNOLOGY

M.S. Mahooana	-	Business Solutions Development
T. Mpheteng	-	Infrastructure & Operations

OPERATIONS

A. M. Letsie	- Banking Operations
M. Phate	- Currency
M. Motebang	- National Payment Systems
M. Tabane	- Development Finance
N. Bereng	- Rural Finance

SUPERVISION

M.F. Mohasoa	- Financial Institutions Supervision
T. Metsing	- Supervisory Policies & Regulation
F. Morokole	- Insurance Supervision
M. Keta	- Policy, Regulations & Exchange Control
Vacant	- Non-Bank Supervision

FINANCIAL MARKETS

B. Phakoe	- Dealing and Strategy
F. M. Hloaele[5]	- Treasury Operations

RESEARCH

Vacant	- Real Sector
L. M. Lephoto[5]	- Finance
Vacant	- Macroanalysis

[5] On Secondment

Lehakoe Recreation and Cultural Centre - CBL

Central Bank of Lesotho
P O Box 395
MASERU 100
Lesotho

March 31, 2008

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

Honourable Minister

I have the honour to transmit the Annual Report of the Central Bank of Lesotho for the year 2007, which includes:

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

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

i) the Bank's annual accounts for the year ended December 31, 2007, certified by Sheeran & Associates assisted by Pricewaterhouse Coopers; and

ii) a report on the Bank's operations and statement of affairs during 2007.

Yours faithfully

M. Senaoana (**PhD**)
GOVERNOR

FOREWORD BY GOVERNOR

The economy of Lesotho has remained sound during the review period. Economic growth as measured by Gross Domestic Product (GDP) was 5.1 per cent. The economy was negatively affected by the worst drought in 40 years which led to a plunge in domestic cereal production. However, the rapidly growing diamond mining industry curbed the impact on the overall growth. Budgetary operations registered an overall surplus equivalent to 10.3 per cent of GDP. The current account also recorded a surplus equivalent to 1.9 per cent as a share of GDP. However, the rate of inflation rate was considered high at 7.9 per cent. This emanated from the increases in the prices of oil and food. Although challenging, inflationary pressures are expected to abate in future. Despite the positive performance of the economy and prudence in macroeconomic management, there are challenges that the economy still faces.

A stable political climate is a necessary condition for a stable macroeconomic environment and growth in any economy. During 2007, a number of stay-aways from work related to the political climate, negatively affected productivity and output and hence income in the economy. It is important to note that these instances also affect investor sentiments adversely. In addition, the loss of wages for households due to lost work days and incomes does not augur well for the Government's efforts in poverty reduction.

The growth and stability of the financial sector has been proved to be a vital and major stimulant of economic growth. Stability in the financial sector is maintained through the rule of law and prudent regulation and supervision of financial institutions by authorities charged with such responsibilities. In turn, it is essential that regulatory authorities should possess adequate capacity to discharge their duties in a meaningful and sound manner. The importance of prudence in regulation and supervision cannot be over emphasised as it reduces the risks that are systemic and inherent in the financial sector. The current overlapping of licensing powers of some cadres of deposit taking financial institutions creates a problem of invasive behaviour, thus resulting in unlawful and unregulated activities that are also difficult to detect. It is therefore vital that the Central Bank of Lesotho partners with other licensing and regulatory authorities in the country to remove these overlaps and streamline their activities to avoid conflict and the emergence and operation of illegal financial institutions that may have negative impacts to financial sector stability.

During the year, the Government of Lesotho received a multi million grant from the US Government under the Millennium Challenge Corporation for improvements in water related infrastructure, health sector and private sector development. Our infant financial sector stands to benefit significantly from this grant. The grant will assist in the establishment of the commercial court, the national identity system and the credit bureau which are expected to reduce hassles currently experienced by the financial sector in their credit extension activities. Furthermore, the payment and settlement system will be upgraded by the introduction of automated clearing and alternative payment options. These activities will deepen the financial integration between Lesotho and South Africa and reduce costs and times associated with funds transfer.

The Government of Lesotho also signed an agreement of a concessional loan with the International Fund for Agricultural Development (IFAD) intended to promote and improve rural financial intermediation over the next seven years commencing 2008. The programme proposes cooperation between the Ministry of Finance and Development Planning (MoFDP), the Central Bank of Lesotho, the Department of Cooperatives under the Ministry of Trade, Industry, Cooperatives and Marketing (MTICM) in strengthening the supervision of non-bank financial institutions and streamlining their activities to better serve the rural poor.

It is envisaged that the current on-going negotiations under the Economic Partnership Agreements will yield positive results for the economy. The role and importance of Lesotho's trade to the growth of the economy has been widely acknowledged.

M. P. Senaoana (PhD)
GOVERNOR

PAGE NO.

PART 1: DEVELOPMENT OF INDIGENOUS FINANCIAL INSTITUTIONS IN LESOTHO

1.1 Background

The financial sector of Lesotho has undergone various stages of development through the years. The late 1990s saw the restructuring of two state own banks, which resulted in liquidation of one and privatisation of another. In addition, the Bank introduced new central bank and financial institutions legislation. The former strengthened supervisory and regulatory powers of the Bank and clarified its mandate while the latter introduced modern prudential practices. These measures reversed the precarious financial state of the banking system by adding more capital, restructuring the loan books and returning profitability, amongst others. However, the closure of state-owned banks left a large gap in the provision of banking services to low-income households, especially those dwelling in rural areas. This gap was narrowed by the establishment of the Lesotho Postbank (LPB) in 2004, which utilised a wide network of branches across the country. The LPB operates under a restricted licence by which it mobilises deposits but does not extend credit. Thus, a large portion of demand for credit by small entities and individuals was still left unaddressed. Efforts to increase competition by attracting more foreign owned banks only worked in improving the choice of banking services faced by urban dwellers. In this regard, the Central Bank in its newly defined strategic plan identifies the facilitation of development of indigenous banks that will address the needs of the rural poor as a focus area.

This article presents arguments around the development of indigenous banks in the Lesotho's financial sector. First, service gaps in the banking system are identified. Second, a discussion on the envisaged structure of indigenous banks is presented while the last section gives the way forward.

1.2 The Current Situation

Lesotho's financial sector is currently comprised of three commercial banks and a state owned Postbank, five insurance companies and money lenders. All commercial banks are subsidiaries of South African banks. Since the restructuring of state-owned banks, services of commercial banks have been concentrated in urban areas which are mostly located in the lowlands. As a result, only 37.6 per cent of household heads had a bank account in 2002/03, according to the Household budget Survey report released in November 2006.

The distribution of credit amongst those who have access to banking services is also skewed in favour of a few large institutions and companies. In December 2007, the top 20 borrowers accounted for close to 38 per cent of total loans extended by commercial banks. In addition, the level of credit extended to the private sector as a whole is considered low. The ratio of credit to deposits of the private sector indicates that only 37 per cent of deposits mobilised from the private sector had been issued as credit in 2007 (see Table 1). Although this ratio has been increasing in recent years, this level is considered low. Commercial banks currently have the potential to lend close to 70 per cent of their deposit liabilities without contravening the current liquidity requirements, set at 25 per cent of admissible liabilities.

Table 1

CREDIT DEPOSIT RATIO
(Percentages)

	2000	2001	2003	2005	2006	2007
Credit Deposit ratio	23	25	26	47	33	37

Deposits not issued as credit are either invested in domestic treasury bills, mainly to meet the liquidity requirements, or transferred to South Africa. The latter option is generally favoured for the alleged reasons that a risk differential exists between Lesotho and South Africa, and there is limited investment opportunities in the local market. The presumed risk differential is compensated for by adding a premium on domestic lending rates which keeps them higher than comparable rates in South Africa.

The purported existence of risk differential might be inaccurate given the generally similar finance-related legislation in the two countries, and the free movement of funds within countries in the CMA region. However, a number of weakness in the financial sector exist which might influence the conservative approach of commercial banks in Lesotho. The process of handling commercial cases has not been efficient due to delays with the operation of the commercial courts. This makes it a challenge to realise values from collateral pledged on defaulted loans. In addition, the absence of credit bureaux means that information for use in assessing credit worthiness of borrowers is limited. Lack of identification (ID) cards and use of passports for identification leads to changing identity numbers of individuals, making it difficult to trace borrowers who default. The underdeveloped nature of the private sector could mean that bankable projects are limited as commercial banks claim.

Most of the bottlenecks are currently being addressed as part of private sector development under the funding of MCC. The civil legal system is being reformed to allow the operation of commercial courts, reduce litigation costs and the time it takes to settle disputes. These would be achieved by introducing a modern case management system; alternative dispute resolution process and easy small claims procedures. The Bank along with the Government and the US through its Millennium Challenge Compact is working on the establishment of credit bureaux and a national ID system to address the problem of identification of borrowers. Efforts are underway to facilitate the development of the private sector by improving the use of land as an economic asset through the reform of the lease issuance system and simplification of business registration procedures. Legislation addressing issues of equality of men and women in marriage in terms ability to contract legally came into effect in 2006. These reforms will raise the credit worthiness of most businesses and households by allowing them to pledge their properties as collateral. The new legislation will enhance the economic potential of women, who form the majority of residents and heads of an increasing number of households.

As mentioned earlier, the LPB was established to reduce the banking services gap left by the restructuring of state-owned banks. The volume of deposits mobilised by LPB has more than quadrupled since it started operations in January 2005. Thus, success is observed on the deposit mobilisation side, but capacity constraints and the limited license has resulted in zero credit and weak financial performance. Limited credit from the formal banking sector has resulted in rampant emergence of unregistered money lenders who charge exorbitant interest rates. Instead of improving the economic situation of borrowers, these lenders suppress them by creating debt traps.

The Bank established a Credit Guarantee Fund (CGF) and a linkage programme by which it encourages rural financial intermediation by helping informal rural savings and credit groups to formalise their operations through registration and keeping proper account in order to receive credit from commercial banks. Commendable progress has been achieved on some groups and evidence shows that others are now encouraged to develop their operations as well. In addition, the emergence of cooperatives that attempt to fill the banking void has been observed. These institutions have presented a challenge to the Bank by mobilising deposits from non-members (as this is privilege of banks registered and subjected to the stringent requirements of the Financial Institutions Act of 1999 for protection of depositors).

1.3 Envisaged Structure of Indigenous Financial Institutions

Financial intermediation to the majority of individuals, households and smaller business has been limited as a result of urban-concentrated banks. Attracting more foreign banks has improved services availed to urban dwellers and made a small dent on credit extension. This leaves the facilitation of privately owned domestic banks as an area of focus for the Central Bank. Thus, facilitating the development of indigenous banks is core within the strategic plan of the Bank.

Indigenous banks in this context refer to banks established by domestic entities in the form of individuals, cooperatives or companies. They can take the form of commercial banks, investment banks, mutual funds, cooperative banks or microfinance institutions, amongst others. A possible role of government is also envisaged, in the beginning, due to the demands of establishing a bank in terms of capital requirements; expertise; infrastructure and legal requirements. However, focus will be placed on private sector ownership, in line with the overall objective of developing entrepreneurial culture specified in Vision 2020.

It is expected that due to their knowledge of the domestic economy, resident entities would be in a better position to meet the needs of the market. The relatively small size of indigenous banks would allow them to introduce specialised products targeted at different segments of the market. A large portion of their profits is likely to be reinvested domestically and have a stronger effect on overall economic growth. A possible large network of these banks across the country would serve rural households while raising incomes through creation of employment. The experience of banking activities of cooperatives has shown that they are able to mobilise customers rapidly, are more generous in granting credit and more innovative in product designs.

1.4 Way Forward

The present legislation envisaged large commercial banks with a minimum start-up capital requirement and other requirements safeguarding complex commercial banking activities. Therefore, it acts as an obstacle to the emergence of small indigenous banks and encourages the emergence of relatively large microfinance institutions and cooperatives operating as banks. Thus the review of the legislation is one of the first activities to be undertaken.

The CBL is embarking on the review of legislation of the money lenders and cooperatives under an International Fund for Agricultural development (IFAD) sponsored programme, the Rural Financial Intermediation Programme (RUFIP). Under the same programme, the CBL is going to draw new legislation to allow it to regulate and supervise microfinance institutions and other non-bank financial institutions. The system will entail a tier system with differing regulatory requirements such as minimum capital and liquidity levels, in line with the types and sizes of institutions. The Central Bank plans to regulate all deposit taking microfinance and non-bank financial institutions and leave non-deposit taking institutions to the supervision of other appropriate authorities. The programme also envisages the transformation of some of the groups that are currently under the CBL's credit guarantee fund and linkage programme into cooperatives supervised under the Ministry of Trade. The Department of Cooperatives in this Ministry is to be strengthened and capacitated to undertake this task.

RUFIP comprises three key components. The first component is intended at developing formal and semi-formal member-based financial institutions in order to meet demand of grassroots financial services. This would be achieved by building capacity of financial cooperatives; rural savings and credit groups and informal financial groups. The second component will facilitate the development of formal financial institutions to better meet rural financial intermediation needs. The component will focus on strengthening the Lesotho Postbank through upgrading of the institutional and operational framework, as well as undertaking market studies, project development and linkage programme.

The third component would create an enabling environment by facilitating the development of related legal and regulatory framework by implementing institutions such as the Central Bank and Department of Cooperatives. On the Central Bank side, the Financial Institutions Act (FIA) will be reviewed to broaden its definition of collateral with a view to facilitating commercial bank lending to the rural poor. This process will also entail a study of collateral arrangements dictated by South African banking standards, which guide parent companies of most commercial banks in Lesotho. In addition, a sound regulatory framework for non-bank financial institutions will be put in place and capacity building in the form of strengthening the non-banks supervision division of the Central Bank undertaken. The latter will be achieved through several training programmes and study tours; preparation of supervision manuals as well as guidelines on reporting and audit for different types of non-bank financial institutions.

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

2. Introduction

The global economy lost momentum during 2007. The slowdown was greatest in advanced economies, particularly in the United States (US), where the developments in the housing market continue to exacerbate financial stress. Growth in Europe has also decelerated, although economic activity in Japan has shown admirable resilience. The emerging markets, such as China and India, and developing countries have been less affected by financial market developments in the US and have also continued to grow rapidly. Global headline inflation has also increased during the year under review, boosted largely by high food and oil prices.

Within this framework, the economy of Lesotho remains highly vulnerable to changes in SA in particular, due to proximity and strong trade and financial linkages. Water, diamonds, textiles and clothing constitute its primary export products. The economy is also dependent on agriculture, livestock and migrant mineworkers' remittances from South Africa. A large proportion of Lesotho's diamond exports is destined to the Euro-zone while the United States (US) imports a large proportion of textiles and clothing from Lesotho under the African Growth and Opportunities Act (AGOA). Lesotho is also a price taker in most of the markets in a sense that the country cannot influence prices in international markets. It is a member of regional economic integration blocks such as Southern African Customs Union (SACU) and Common Monetary Area (CMA), which allow for free trade and capital mobility in the region.

2.1 Industrialised Countries

2.1.1 The United States (US)

Economic growth in the US slowed to 2.2 per cent in 2007 compared with 3.3 per cent recorded in 2006 mainly due to the sub-prime mortgage lending crisis[6]. The crisis led to a deceleration in consumer spending, reduced factory inventories, and a decline in exports. As a result of the slower US economic growth rate in 2007, the IMF estimated that the unemployment rate for the year under review would remain roughly unchanged at 4.7 per cent.

The rate of inflation remained unchanged at 2.8 per cent in 2007. This emanated from a slowdown in consumer demand. At this rate, inflation is still considered to be high since it is above the psychological rate of 2.0 per cent. Although the inflation rate was high during the year, the impeding slower economic growth influenced the Federal Reserve Bank's Open Market Committee (FOMC) to reduce its benchmark lending rate by 100 basis points during the year from 5.25 per cent at the end of 2006 to 4.25 per cent.

The slower US economic growth and higher inflation rate do not bode well for the economy of Lesotho as a large share of Lesotho's exports is destined to the US market.

[6] See Box 1.

BOX 1: The Sub Prime Lending Crisis in the United States: An Overview

Sub-prime lending is the practice of lending to borrowers who do not qualify under the normal market interest rates because of their weak credit ratings, characterised by a history of defaults, no down-payments and no verification of assets. This type of lending is effected on terms of higher interest rates than market rates because of the risk involved. Proponents of sub-prime lending maintain that the practice extends financial services to people who would otherwise not have access to them.

The sub-prime lending became a crisis when rising interest rates led to the decline in house prices and inability to service the mortgages by the sub-prime borrowers. This led to the loss of houses through foreclosures by many households in the US. Bank's obligations were initially taken onto the balance sheets, but were removed at a later stage through securitisation. The crisis manifested itself through liquidity shortages in major financial institutions exposed to defunct sub-prime linked securities and a credit crunch driven by risk averse lenders. The problem extended beyond the sub-prime mortgage sector in the US and elsewhere as credit conditions tightened across the board and parts of the credit markets in various countries ceased to function effectively leading to a restriction on the availability of credit in the world financial markets.

As a consequence of the sub-prime mortgage lending problem, building activity fell by 16.9 per cent in the US during the year, the biggest decline in twenty five years. In addition, some regions of the world were affected by the sub-prime mortgage lending problem. For instance, Northern Rock bank in the United Kingdom was affected and encountered liquidity shortages. Other banks in other developed countries such as France, Germany and the United Kingdom announced the presence of liquidity constraints. Therefore, various financial institutions in these countries undertook a desperate attempt to obtain funding in the inter-bank market. The emergence of uncertainty about risk led to a decline in confidence and hence liquidity.

In 2007, emerging markets did not experience the same magnitude of disruptions in their financial markets as the developed economies. This could be a confirmation of the decoupling argument that non-US economies such as China and India will continue to drive global economic activity. However, a sustained slowdown in the US economy resulting from the sub-prime lending crisis could adversely affect

2.1.2 The Euro-Zone

Real GDP in the Euro-zone[7] grew by 2.6 per cent in 2007 against 2.8 per cent realised in 2006. The slower economic growth was realised in one of the largest Euro-zone economies, France.

The economic slowdown in the region was not strong enough to adversely affect employment levels as unemployment rate in the region fluctuated between 7.2 and 7.5 per cent during the year compared to 7.8 per cent realised in 2006. This implies positive business confidence in the

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

region.
According to IMF projections, annual average inflation rate in the region, as measured by changes in the Harmonised Index of Consumer Prices (HICP), closed the year at 2.0 per cent in 2007 against 2.2 per cent realised in 2006. At this rate, it is at the European Central Bank's (ECB) targeted rate. The ECB raised its benchmark-lending rate during the year from 3.25 per cent to 4.0 per cent.

Economic developments in the Euro-zone have an effect on Lesotho's economy as most of Lesotho's diamond exports are destined to this region. Furthermore, the European Union (EU) is also South Africa's (SA) main trading partner. Shocks to the SA economy could be transmitted to Lesotho. Thus the slowdown in economic activity in the Euro-Zone does not augur well for both SA and Lesotho economies.

2.2 Emerging Markets

Economic growth in Emerging Asia[8] remained rapid in 2007 as a result of strong economic performance in China and India. Economic expansion in China was driven by acceleration in exports and investment while domestic demand in India led to higher investment expenditure. Economic growth also accelerated in other major countries such as Indonesia, Korea, The Philippines and Singapore. However, political uncertainty in Thailand undermined confidence and domestic demand. The IMF estimated that the region would realise a real GDP growth of 9.2 per cent in 2007 as opposed to 9.3 per cent observed in the previous year. Growth for 2007 was recorded at 11.4 per cent for China and projected at 8.9 per cent for India.

High oil and food prices continue to exert upward pressure on regional inflation rate, which was estimated at an annual rate of 4.9 per cent in the review year compared with 3.7 per cent in 2006. The observed acceleration in the inflation rate in the region could exert upward pressure on the cost of raw materials to Lesotho's manufacturing firms, thereby increasing the country's import bill, as most of the local textile firms source raw materials from Asia.

[8] Consists of developing Asia, newly industrialised Asian economies, and Mongolia

The current account surplus in emerging Asia was projected to increase to 6.6 per cent of GDP in 2007, from 5.8 per cent realised in 2006. Foreign direct investment dominated net capital inflows and is a major source of foreign exchange for India, Korea and Vietnam, in particular. However, current account deficits were observed in other countries in the region such as India and Pakistan.

Economic activity in Latin America was expected to weaken in 2007, due to spill-overs emanating from the slowdown of economic activity in the US through trade linkages as well as slower remittances from migrant workers. Furthermore, the end of the hotel construction boom in the Caribbean was also expected to contribute towards a slowdown. The IMF projections indicated a deceleration in the growth rate of GDP from 5.4 per cent realised in 2006 to 5.3 per cent in 2007.

Signals observed in emerging markets could lead to negative implications for developing countries like Lesotho. Inflation in emerging Asia could adversely affect Lesotho exports competitiveness through increased costs, and weakness in Latin American economic activity could reduce profits and investments of sister manufacturing companies operating in Lesotho.

2.3 South Africa

Real GDP in SA increased by 5.1 per cent in 2007 compared with 5.4 per cent in 2006 despite the energy crisis that SA is experiencing and that is expected to have adversely affected production. The main contributors to the increase were the finance, real estate and business services (1.6 per cent), wholesale, retail trade, hotels and restaurants (0.7 per cent), manufacturing and construction (0.6 per cent each), transport and communication (0.5 per cent) and general government (0.4 per cent).

The rate of inflation, as measured by changes in the consumer price index excluding interest on mortgage bonds (CPIX) closed the year higher than at the end of the previous year. It breached the upper limit of the target range of 3.0 to 6.0 per cent. On average, the CPIX increased by 6.5 per cent in the review year compared to 4.6 per cent realised during 2006. It was recorded higher at 8.6 per cent in December 2007 compared to 5.0 per cent during the same period in 2006. The high inflation rate was attributable to, among others, high crude oil prices, strong increases in food prices, increases in administered prices, and higher consumer spending in the economy.

On average, producer price inflation (PPI) increased by an annual rate of 9.2 per cent during 2007 compared to 7.7 per cent in 2006. It closed the year at 9.1 per cent in 2007 compared with 9.3 per cent recorded in 2006.

The inflation trend influenced the South African Reserve Bank's (SARB) Monetary Policy Committee (MPC) to increase the key interest rate by 200 basis points during the year. Thus the repo rate closed the year at 11.0 per cent compared to 9.0 per cent at the end of 2006.

The upward pressure on prices led to increasing inflation rates in Lesotho and the decelera-

Table 2

SELECTED ECONOMIC INDICATORS, 2002 – 2007*
(Percentage changes unless otherwise stated)

Indicators	2003	2004	2005	2006	2007*
World Output	**4.0**	**5.3**	**4.8**	**5.4**	**5.2**
Advanced Economies	**1.9**	**3.2**	**2.5**	**2.9**	**2.5**
Other Emerging Markets and					
Developing Countries	**6.5**	**7.7**	7.5	**8.1**	**8.1**
Africa	4.6	5.5	5.6	5.6	5.7
Central and Eastern Europe	4.6	6.5	5.6	6.3	5.8
Commonwealth of					
Independent states	7.9	8.4	6.6	7.7	7.8
Developing Asia	8.1	8.8	9.2	9.8	9.8
Middle East and Europe	6.5	5.5	5.4	5.6	5.9
Western Hemisphere	2.2	5.7	4.6	5.5	5.0
Consumer Prices					
Advanced Economies	1.8	2.0	2.3	2.3	2.1
Other emerging market and					
Developing Countries	6.0	5.6	5.2	5.1	5.9
World Trade Volume	5.4	10.6	7.5	9.2	6.6
(Goods and Services)					
Imports					
Advanced Economies	4.1	9.1	6.1	7.4	4.3
Other emerging market and					
Developing Countries	11.1	16.4	12.1	14.9	12.5
Exports					
Advanced Economies	3.1	8.8	5.8	8.2	5.4
Other emerging market and					
Developing Countries	10.8	14.6	11.1	11.0	9.2

Source: IMF World Economic Outlook October 2007. *Globalization and Inequality.*
* IMF Projections

tion in SA economic growth rate could lead to a slowdown in Lesotho's exports destined to SA.

2.4 Commodity Price Developments

2.4.1 Gold Prices

The price of gold has maintained an upward trend in recent years. It increased by 15.3 per cent from an annual average of US$604.65 an ounce in 2006 to US$697.08 an ounce. In the review year, the minimum and maximum price levels were recorded at US$607.4 and US$840.50, respectively, compared to the minimum and maximum price levels of US$516.88 and US$714.80 an ounce, respectively, during 2006. The surge in the price of gold was mainly influenced by high demand by European investors as the metal became cheaper due to the depreciation of the US Dollar against major currencies. In Rand terms, the annual average price increased from R4,099.82 per ounce in 2006 to R4,618.82 per ounce in 2007, increasing profitability of the SA mining sector as well as employment levels and remittances of Lesotho migrant mine workers.

2.4.2 Oil Prices

The oil market was characterised by dramatically high prices during the year under review. In 2007, the minimum and maximum price levels of crude oil were recorded at US$52.8 and US$91.91 per barrel, respectively, compared to US$53.37 and US$72.64 per barrel, respectively, in 2006. It closed the year at US$90.82 per barrel compared to US$56.0 per barrel at the end of 2006. On average, it registered US$69.21 per barrel in 2007 compared to US$61.19 in 2006.

The increase in international oil prices resulted largely from high global demand, mounting geopolitical concerns in Nigeria and Middle East and supply restrictions by the Organisation of the Petroleum Exporting Countries (OPEC). The upward pressure also stemmed from tight US fuel supplies amid a series of US refinery interruptions, hurricane-related concerns and large declines in US crude oil inventories.

On average, the Loti price of crude oil increased by 10.5 per cent from M414.92 per barrel in 2006 to M458.58 at the end of 2007. In line with global developments, there were several upward revisions of prices of fuel in the country during the review year. Prices of oil products in Lesotho closed the review year higher at M7.05 per litre of petrol, M7.95 per litre of diesel and M5.70 per litre of illuminating paraffin. These compare with M5.65 per litre of petrol, M6.30 per litre of diesel and M4.25 per litre of illuminating paraffin at the end of 2006.

The continued increase in the international oil prices exerts pressure on inflation, the cost of production and therefore lower profitability and employment level.

2.5 Lesotho in the Context of Regional Economic Integration

Lesotho's strong commitment to economic cooperation continued throughout 2007 with active participation in activities of regional economic groupings such as the Southern African Customs Union (SACU)[9], Southern African Development Community (SADC)[10] and the Common Monetary Area (CMA)[11] , amongst others.

During the review year, SACU continued to negotiate various free trade agreements (FTA) with major trading blocs and countries outside its borders, and in particular, it participated in the Doha Development Agenda negotiations. The negotiations were intended to address an imbalance against the developing countries

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

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

[11] CMA comprises: Lesotho, Namibia, South Africa and Swaziland.

that existed in the world trade system. The purpose of the meeting, held in Potsdam (Germany) in June 2007, was to set the foundation for what could have become a major breakthrough in the Doha Development Agenda. Furthermore, the negotiations intended to reduce the trade barriers between member states and liberalise trade and investment rules. Negotiations were suspended due to disagreements over opening up agricultural and industrial markets in various countries.

SACU's agenda focused on a number of trade negotiations in 2007. These include, the resumption of the Doha Round negotiations, the SADC Economic Partnership Agreement (EPA) negotiations with the European Union (EU); ongoing SACU negotiations to finalise a preferential Trade Agreement (PTA) between SACU and the European Free Trade Association (EFTA); discussions with the US on a possible Trade, Investment and Development Cooperation Agreement (TIDCA); and the envisaged trade negotiations with India and SACU's trade liberalisation commitments under the SADC Trade Protocol.

In June 2007, a trilateral agreement between India, *Mercado Comun del Sur* (Mercosur)[12] and SACU was declared to be under consideration. This was intended to widen the scope of South-South Cooperation. Therefore the agreement is expected to promote trade and economic cooperation between India, Mercosur and SACU members. This PTA will come into force once it is ratified by Brazil and Argentina.

Progress was also made with regard to SADC activities. In November 2007 the European Commission (EC) and the SADC initialised an interim Economic Partnership Agreement (EPA) including a WTO-compatible market access schedule and provisions on development co-operation and other issues. This agreement will apply initially to the EU side and to Botswana, Lesotho, Swaziland and Mozambique on the SADC side. Angola conveyed its interest to join as soon as possible. South Africa and Namibia expressed interest for possible future participation. The agreement is open for participation of other parties in the region. The negotiations towards a full EPA are expected to be concluded in 2008.

A broader economic integration is expected to have positive implications for the economy of Lesotho. Firstly, it could lead to increased access of Lesotho's products in international markets, which is in line with the on-going Government's initiative for local firms to diversify their markets in terms of exporting to a variety of countries and regions. Diversification of markets is also envisaged to reduce Lesotho's dependence on SA. Secondly, a broader economic integration could also attract more foreign direct investment (FDI) into the country. Consequently this could lead to higher employment prospects in the country and hence poverty reduction. Thirdly, Lesotho's export earnings could increase and hence lead to the improvement in the Balance of Payments (BOP) position.

On the negative side, reduction in tariffs is likely to reduce customs revenue pool and hence adversely affect the fiscal and BOP positions which rely heavily on this revenue source.

[12] In English: Southern Common Market comprises – Argentina, Brazil, Paraguay and Uruguay.

PART III DOMESTIC ECONOMIC DEVELOPMENTS

3.1 Real Sector Developments

3.1.1 Trends in Output and Income

The performance of the domestic economy slowed down in 2007 as a result of a fall in performance of the primary sector. Real GDP growth was estimated at 5.1 per cent in 2007, compared to 7.2 per cent in 2006.

The performance of the primary sector declined because of a spell of drought that resulted in a 40.0[13] per cent fall in grain production for the harvesting period 2006/2007[14]. The fall resulted in food shortage in the country and necessitated intervention and mitigating factors to be introduced by Government. In the planting season 2007/2008, the Government implemented two famine relief programs, namely food subsidy equivalent to M10.0 million in selected food items used by poorer households and an input subsidy with 385 tonnes of seed disbursed to farmers. It is expected that the situation will be reversed given these remedial measures.

Real Gross National Income (GNI) was estimated to have grown from 3.1 per cent in 2006 to 4.9 per cent in 2007. The increase is consistent with increases in miners' remittances which benefited from better than expected gold prices in the international market. Miners' remittances increased by 27.7 per cent in 2007 compared to 22.8 per cent in 2006. GNI per capita also reaffirmed a positive growth to 4.0 per cent in 2007 from 3.1 per cent in 2006.

[13] 2007 Food Agricultural Organisation (FAO)/World Food Program (WFP) Crop and Food Supply Assessment Mission to Lesotho Report.

[14] See Box 2.

Table 3

AGGREGATE ECONOMIC INDICATORS
(Percentage Change, 1995 = 100)

	2003	2004	2005	2006	2007*
Constant 1995 Prices					
GDP	2.7	4.2	2.9	7.2	5.1
GNI	5.4	7.9	5.5	3.1	4.9
GDP Per Capita	2.6	4.1	2.8	7.1	4.0
GNI Per Capita	4.9	7.8	5.4	3.0	4.0

Source: Bureau of Statistics
* CBL Projections

3.1.2 Sectoral Performances

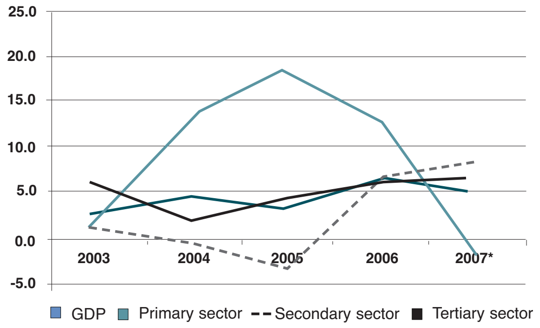
(a) Developments in the Primary Sector

Growth in the primary sector declined by 1.6 per cent in 2007 contrary to an increase of 12.3 per cent in the previous year, mainly as a result of a 40.0 per cent fall in the performance of the crops sub-sector. The latter overshadowed an increase in mining and quarrying which increased by 37.5 per cent in 2007, from 38.9 per cent in the previous year.

The FAO/WFP crop and food supply assessment for 2007 indicated that the average yield in maize, sorghum and wheat was 0.43, 0.42, 0.52 tonnes per hectare respectively for 2006/2007 cropping season. The yield amounted to a decrease of 42.0 per cent, 25.0 per cent and 4.0 per cent for maize, sorghum and wheat respectively. The estimated yield for 2007 represented a shortfall of 42.0 per cent from the previous year and an estimated shortfall of 40.0 percent for a five year average.

The increase in the performance of the mining and quarrying sub-sector was driven largely by growth in the diamond mining industry, which benefited from additional investment, hence efficiency gains. The industry also benefited from a favourable outlook on the price of precious stones in the international market. In addition to the currently two fully operational mines, four other mines are at prospecting stage.

Figure 1: Sectoral Real Growth Rates (1995=100)



Source: Bureau of Statistics
* CBL Projections

(b) Developments in the Secondary Sector

The secondary sector, constituting manufacturing, electricity and water and building construction, recorded a growth of 7.9 per cent in the review period from 6.9 per cent in the previous year.

This growth resulted from increased investments in the manufacturing and construction sub-sectors, while electricity and water experienced a slower growth during the period. The performance of the manufacturing sub-sector increased from 10.5 per cent to 11.0 per cent in the review period. Most factories, in particular, textiles and clothing operated at near full capacity especially in the first half of the year. The situation slightly deteriorated in the second half of the year due to weakening international demand, particularly from the US.

The construction sub-sector increased from 0.6 per cent in 2006 to 3.5 per cent in 2007 as Government is currently implementing infrastructure related projects in schools, roads, and water.

The sub-category of electricity and water slowed down from 11.2 per cent in 2006 to 8.7 per cent in 2007 as a result of a lag in the implementation of infrastructure related to rural electrification project and supply of water to Maseru peripheral areas and other urban centres across the country. The projects are rescheduled to start at the beginning of 2008.

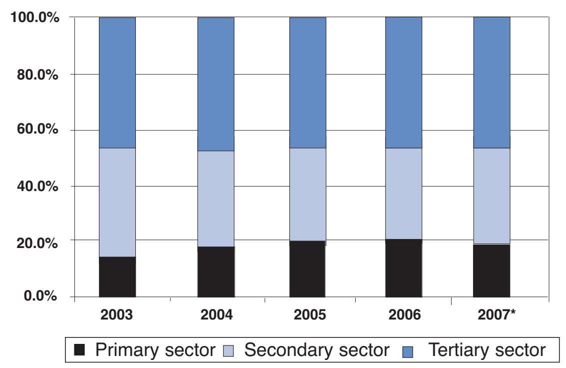
(c) Developments in the Tertiary Sector

The sector slowed down from 6.6 per cent in 2006 to 6.3 per cent in 2007. This was underpinned by a deceleration of 6.5 per cent in 2007 from 8.9 per cent in the previous year in wholesale and retail trade sub-sector driven by sluggish consumer demand in the second half of the year as interest rates increased. It is however expected that inflation will subside and drag with it interest rates.

Another deceleration was realised in restaurants and hotels sub-sector which is used as an indicator of tourism activities in the country. The sub-sector rose by 8.0 per cent from 8.7 per cent in the review period. However, the current efforts to transform tourism as a growth anchor are likely to improve the performance of the sub-sector.

Financial intermediation also experienced lower growth during the year as it recorded 14.5 per cent in 2006 compared with 12.0 per cent in 2007.

Figure 2: Sectoral Shares in GDP at Factor Cost (In Percentages)



Source: Bureau of Statistics
* CBL Projections

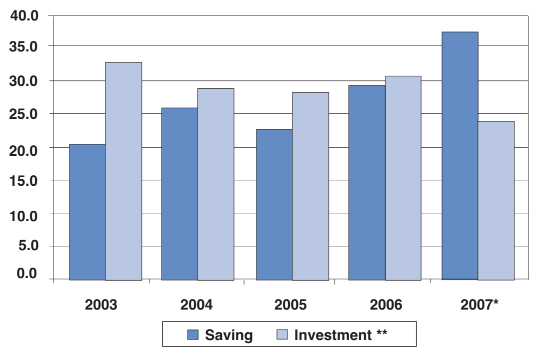
3.1.3 Savings and Investment

The Saving-Investment gap as a share of GNI was recorded at 9.6 per cent. Gross national savings alone was estimated at 36.6 per cent of GNI in 2007 compared with 29.7 per cent of GNI in 2006. Total investment was registered at 33.8 per cent of GNI in 2007 from 32.7 per cent of GNI in 2006. This is consistent with the surplus recorded in the current account.

The increase in savings was mainly driven by private sector savings which grew to 16.6 per cent of GNI compared with 14.6 per cent in 2006, consistent with private sector activity as proxied by increases in private sector credit. Government savings declined to 12.3 per cent of GNI in the review period from 15.0 per cent in 2006. Investment was driven by a higher government investment, while private sector-related investment slowed down to 19.0 per cent of GNI during the year. Government capital expenditure is consistent with current government commitments as outlined in the 2007 budget speech. The commitments are mainly on roads, health centres and water-related infrastructure.

Saving as a ratio of Gross National Disposable Income (GNDI) was estimated at 27.7 per cent in the review year compared with 24.4 per cent recorded in 2006 following an increase in net current transfers, particularly SACU revenue.

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



Source: Bureau of Statistics
* CBL Projections

BOX 2: Effects of Drought on the Domestic Economy

Lesotho experienced drought and food shortages during the period 2002 to 2004. In July 2002 the UN launched a consolidated appeal for vital food and non-food aid for Lesotho, Malawi, Mozambique, Swaziland, Zambia and Zimbabwe. A second consolidated appeal was launched in July 2003 and followed by a declaration of a state of emergency by the Government of Lesotho in February 2004.

The 2007 FAO/WPF crop and food supply assessment report highlighted a decrease in the average yield per hectare of maize and sorghum for the 2006/07 cropping season by 42.0 per cent and 25.0 per cent respectively. Area planted also fell by 15.0 per cent for maize and 20.0 per cent for sorghum.

An immediate economic implication of this development is that an estimated 401 200 people will experience a food deficit for the marketing year 2007/2008. The majority of people, more than 45.0 per cent in every district are dependant on casual labour to earn their living, while at least 30.0 per cent are depended on both food assistance and casual labour. This implies a high food insecurity situation given the high dependence on food assistance and unreliable casual labour income.

It is estimated that the primary sector constitutes about 17.0 per cent of national output, and it services more than 70.0 per cent of the population. Therefore its performance directly affects livelihoods. Growth in the primary sector which constitutes agriculture declined by 1.6 per cent in 2007, reflecting a 40.0 per cent decline in crops.

Lesotho - National Cereals Supply-Demand Balance, April 2007 - March 2008 (in '000 tonnes)

	Maize	Wheat	Sorghum	Rice	Total
Domestic Availability	**64**	**27**	**11**	**0**	**102**
Opening stocks	13	17	0	0	30
Production	51	10	11	0	72
Total Utilization	**238**	**92**	**16**	**13**	**359**
Food use	226	85	15	13	339
Other use (PH losses, seed, feed)	3	0	1	0	4
Closing stocks	9	7	0	0	16
Import Requirement	**174**	**64**	**5**	**13**	**256**
Anticipated Commercial Imports	142	64	0	13	219
Confirmed Food Aid	7	0	0	0	7
Uncovered Deficit	**25**	**0**	**5**	**0**	**30**

Source: FAO/WFP 2007

The table above indicates total cereal need estimated at 256 000 tonnes for the covered period. However, assistance from development partners is likely to improve the situation.

3.2 Employment, Wages and Prices

3.2.1 Employment

Employment in LNDC-assisted[15] companies increased by 10.2 per cent in the review year to 48 710 employees, underpinned by buoyant performance of the manufacturing sector, in particular textile and clothing. Most firms operated at near full capacity with sales and orders covering a longer horizon. However, some firms closed during the year resulting in a loss of about 4.0 per cent of jobs.

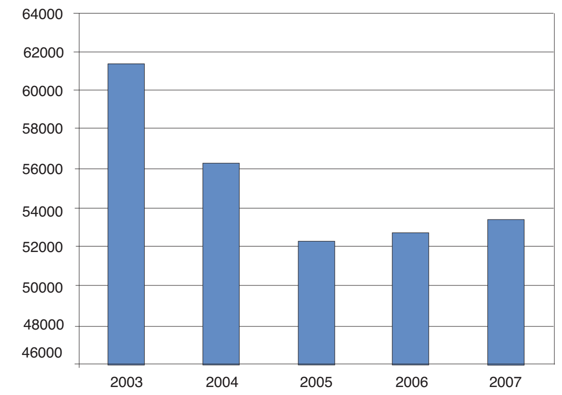
On the other hand, employment in Government increased by 4.1 per cent to 40 649 at the end of the review period owing to a continuous increase in teachers consistent with enrolment of free primary school graduates into secondary education. Employment of civil servants in general increased due to expansion to accommodate local government structures.

The number of migrant mineworkers increased by 1.2 per cent to 53 467 employees due to favourable performance of the gold and platinum mines as commodity prices continued to increase worldwide.

3.2.2 Wages

The general minimum wage increased by 10.0 per cent during the review year from the previous period. Other sectors such as manufacturing, construction, wholesale, retail sector, hospitality, transport, small business and domestic workers increased their minimum wages in varying degrees ranging from 3.9 per cent to 10.0 per cent based on their respective performance.

Figure 4: Average Number of Basotho Mineworkers in SA



Source: The Employment Bureau of Africa (TEBA)

Government introduced a tax relief programme for low income earners, by revising the threshold of taxable income from M11 643 to M14 000, resulting in 20.0 per cent gain. In addition, government employees benefited from an across-the-board salary increase of 10.0 per cent.

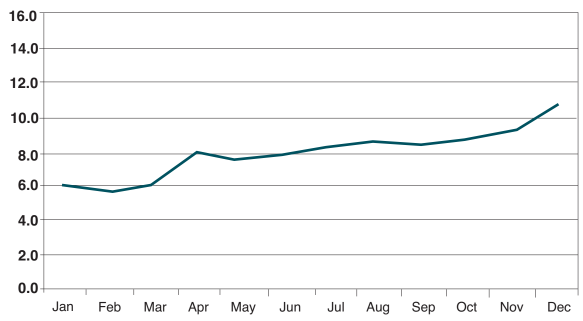
3.2.3 Price Developments

The annual rate of inflation increased to 7.9 per cent in the review period from 6.0 per cent in the previous year, mainly driven by high prices of fuel and food. The latter resulted from increasing cereal prices as a result of increasing use of maize in bio-fuels production and the prevailing drought in the region. The petrol pump price increased by 16.5 per cent, diesel by 6.6 per cent, and illuminating paraffin by 10.0 per cent between January and December 2007. Because of the high weight of food in the Lesotho CPI basket, food prices tend to influence the overall CPI more that oil prices.

Inflation is expected to gradually moderate in the following year, with anticipation of better harvests, and stabilisation of the price of crude oil.

[15] LNDC-assisted companies include textiles and clothing: leather and footwear, retail, sandstone and hotels.

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



Source: Bureau of Statistics

3.3 Balance of Payments (BOP)

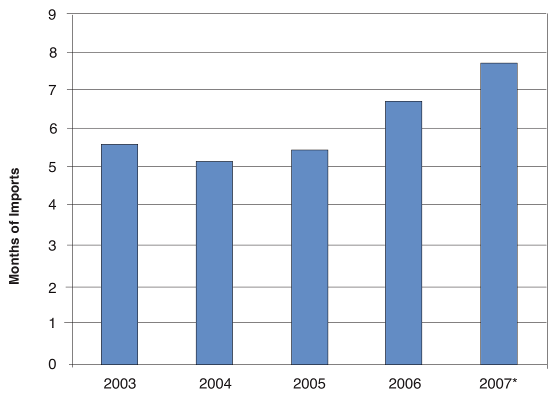
3.3.1 Overall Balance

The external sector position continued to show improvements in 2007 as evidenced by the overall balance that recorded a surplus equivalent to M1.9 billion during the review period compared with M1.3 billion registered in the previous year. The BOP surplus indicates that earnings from economic transactions between Lesotho residents and the rest of the world during the year exceeded the payments. This implies that country is currently building up foreign reserves. The build-up in the foreign reserves is important for Lesotho as they serve to underwrite the fixed exchange rate regime between the Rand and the Loti, and for financing shortages that may emerge. Thus reserves enhance the investor's perception about the country.

The overall balance excluding the effects of currency fluctuations, transaction balance, improved from M932.1 million recorded in 2006 to M1.9 billion registered in 2007, due to positive developments in the current account balance. The current account balance improved as a result of an increase in the current transfers emanating from a rise in non-duty SACU receipts. The capital and financial account also continued to register net inflow at the back of receipt of grants coupled with increases in foreign direct investment.

Gross official reserves increased from M4.9 billion recorded in 2006 to M6.8 billion in 2007. In months of import cover, foreign reserves rose to 7.8 months in the review period from 6.7 months recorded in the previous year.

Figure 6: Reserves in Months of Imports



*Preliminary estimates

Table 4

SUMMARY OF BALANCE OF PAYMENTS
(As a percentage of GDP)

	2003	2004	2005	2006	2007*
Current Account	-13.6	-5.7	-7.0	4.4	11.9
Capital and Financial Account	11.8	7.2	4.4	0.8	7.1

*Preliminary estimates

3.3.2 Current Account

As a percentage of GDP, the current account registered a surplus equivalent to 11.9 per cent during the review period compared with a surplus of 4.4 per cent observed in the previous year. This position was mainly driven by SACU non duty receipts which rose significantly by 73.4 per cent in 2007. In addition, the positive developments in merchandise exports and labour income also contributed to the surplus.

3.3.3 Income and Trade in Goods and Services

Merchandise exports, in nominal terms, were projected to have strengthened significantly in 2007. The value of exports was estimated to increase by 23.8 per cent in the review period compared with 14.5 per cent rise in the previous year. As a share of GDP, exports registered 51.6 per cent in 2007, following 46.8 per cent observed in 2006. The growth in exports was influenced by diamond exports which rose significantly by 83.9 per cent, due to increased diamond production. As a share of total exports, the value of diamond exports was recorded at 19.5 per cent during the period compared with 10.4 per cent recorded in the previous year. Although global demand during the year was uncertain, the US economy where the bulk of Lesotho exports are destined, remained relatively strong for most part of the year.

The nominal value of merchandise imports was estimated to increase by 26.3 per cent in the review period compared with a rise of 11.3 per cent registered in the previous year. Expressed as percentage of GDP, imports were recorded at 102.9 per cent in 2007, following 91.5 per cent observed in 2006. The performance of imports to a large extent reflected the improved private sector activity and increased spending by Government.

The services account registered a net payment of M231.9 million in 2007 from M238.9 million in 2006 due to an increase in travel earnings which overshadowed an increase in travel payments. Travel earnings rose by 65.5 per cent compared with a decline of 1.4 per cent in the previous period. Water royalties also recorded an increase.

Net income registered a slower growth of 10.5 per cent during the year under review compared with a rise of 33.2 per cent observed in the previous year. The deterioration of net income resulted from high payments of interest on official loans. In addition, net investment income declined from M236.9 million in 2006 to M39.4 million in 2007. However, earnings on central and commercial banks foreign assets increased due to relatively higher regional interest rates and increased stock of foreign assets. The central bank foreign assets were influenced by the healthy government budget outturn.

3.3.4 Capital and Financial Account

The capital and financial account improved to net inflow of M811.7 million in 2007 compared to that of M85.5 million in 2006. As a share of GDP, net inflows were 7.1 per cent compared with 0.8 per cent registered in the previous period. Capital transfers which includes grants in government budget increased to M206.5 million in 2007 from M75.5 million recorded in the previous period. The performance of the grants in budgets is indicative of improved implementation of projects by government.

The financial account recorded a net inflow equivalent to M605.2 million compared with M10.0 million in 2006. This improvement resulted from a rise in foreign direct investment in manufacturing and mining industries. This was also due to a fall in outflows of 'other investments' category as a result of a decline in commercial banks' foreign assets. Furthermore, official loans showed an inflow of M48.4 million compared with outflow of M84.3 million registered in the previous year.

3.3.5 Foreign Exchange Rates

The Loti which is pegged at par to SA Rand strengthened against the US dollar in the review period. On average, the Loti appreciated by 2.3 per cent in 2007. This was influenced by among others, the weakness of the US Dollar due to a slowdown of the US economy. Furthermore, an increase in SA interest rates added to the attractiveness of the Rand-denominated assets and therefore led to a higher portfolio investment inflows into the SA market. Appreciation of the Rand was also supported by high commodity prices, particularly gold and platinum, during the period. However, the currency depreciated by 1.6 per cent, 0.1 per cent and 0.1 per cent, against Pound Sterling, Euro and Special Drawing Rights (SDR), respectively.

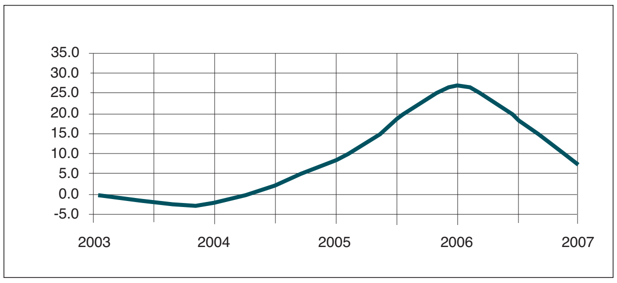
3.4 Money and Banking

3.4.1 Money Supply

At 18.5 per cent in 2007, growth in money supply was significantly lower than the preceding year's increase of 35.4 per cent. In real terms, the slowdown in money growth was more pronounced in 2007 due to increased inflation rate, registering 7.9 per cent. In 2006, real monetary growth was estimated at 29.0 per cent. This deceleration was driven by lower growth in net foreign assets of the banking system of 36.2 per cent relative to 46.0 per cent registered in 2006. Total domestic credit remained on the downward trend during the review period, but declined at a slower rate compared to the previous year. It fell more than three-fold in the review period against an approximate six-fold plunge in 2006.

The rise in money supply reflected growth in its major components, narrow money (M1) and quasi money. Narrow money grew by 14.0 per cent, which reflected a 9.7 per cent increase in currency in the hands of the public and a 14.6 per cent rise in demand and call deposits. Deposits of official entities held with the central bank declined by 21.2 per cent during the same period, partially dampening the effect of currency in circulation and demand deposits on M1. Quasi money grew by 33.0 per cent in 2007, higher than the 7.7 per cent increase realised a year earlier. A significant 70.0 per cent rise in time deposits undermined the effect of a slight decline in saving deposits on quasi money.

Figure 7: Real Money Supply Growth
(Annual Percentage Change: End of Period)



3.4.2 Domestic Credit

As mentioned in 3.4.1, total credit continued to decline in 2007, although at a slower rate. The significant decline reflected the strong build-up of government deposits with the banking system, which more than offset increases in credit to the private sector and official entities. Significant revenue growth and prudent expenditure management continued to result in government budgetary surpluses, which in turn increased the net creditor position of Government with the domestic banking system.

Credit to the private sector and statutory bodies, excluding non-performing loans, rose by 40.8 per cent in 2007 against 13.3 per cent in the preceding year. The improvement was influenced by a rebound in credit to statutory bodies, which nearly doubled in 2007 compared to a 47.9 per cent fall in 2006. As a percentage of total credit, credit to statutory bodies accounts for only 3.0 per cent. Credit to the private sector accelerated to 37.4 per cent in the review period following a rise of 16.3 per cent realised at end of 2006. The robust growth in 2007 was despite increasing interest rates in the domestic economy, which implies strong economic fundamentals and private sector confidence.

3.4.3 Net Foreign Assets

The net foreign assets of the banking system rose by 36.2 per cent in 2007, following a 46.0 per cent growth recorded at the end of 2006.

Both net foreign assets held by commercial banks and the central bank increased, registering growths of 24.1 and 41.1 per cent respectively (see Table 5).

The slower growth in CBL net foreign assets in the review year was influenced partly by a 9.5 per cent revaluation loss as the currency appreciated against major currencies, compared to a strong revaluation gain realised in 2006. External reserves of the banking system continued to grow despite the negative effect of exchange rate movements due to strong SACU non-duty receipts, net exports, labour income (mainly comprising miners' remittances); increased grants to government and higher foreign direct investment. Prudent government financial management during the period led to realisation of a fiscal surplus, as well as the build-up of external reserves in the banking system.

The growth in external assets of the banking system is a welcome development. It raises confidence in the country's ability to absorb foreign currency shocks that may occur and also acts as a buffer against any deterioration in the foreign currency earning capacity of the country. Lastly, strong foreign reserves keep the Rand-Loti peg intact.

Table 5

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

	2003	2004	2005	2006	2007
Commercial banks	607.7	1117.9	1135.0	1772.4	2200.3
Assets	837.3	1253.8	1241.8	1845.4	2273.7
Liabilities	-229.6	-135.9	-106.9	-72.9	-73.4
Central Bank	2853.1	2854.5	3076.2	4377.2	6177.3
Assets	3341.1	3351.5	3625.6	4918.7	6786.3
Liabilities	-488.0	-497.0	-549.3	-541.5	-609.0
Net Foreign Assets	3460.8	3972.4	4211.2	6149.7	8377.6

Foreign liabilities of commercial banks have been declining in recent years while foreign assets continue to increase. This confirms that the banks have been sourcing an increasing portion of their foreign assets from domestic sources. In addition, it implies that domestic banks are not borrowing money abroad to invest in local treasury bills market, possibly due to yields that are currently lower than those offered by similar instruments in South Africa.

3.4.4 Commercial Banks' Liquidity

Liquidity of commercial banks declined slightly to 73.6 per cent at the end of 2007 from 74.9 per cent at the end of December 2006[16]. The decline in the ratio was driven by growth in deposit and liquid balances from banks abroad, which overshadowed an increase in liquid assets. A shift in the holding of liquid assets was also observed in the review period. Holding of domestic treasury bills fell in favour of interbank placements and transfers abroad.

The credit to deposit ratio increased from 26.5 per cent at the end of December 2006 to 30.9 per cent in 2007. The 16.2 per cent improvement was influenced by a stronger (33.7 per cent) growth in credit relative to deposit growth. Credit has been growing steadily in the past years but was overshadowed by a higher deposits mobilisation rate, leading to subdued credit deposit ratios. A reversal of this trend in the review period bodes well for the economy. It indicates an effort on the side of commercial banks to extend more credit to the private sector. If sustained, such a trend would have positive spin-offs on economic growth, banking sector's profitability and public confidence in the financial sector.

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

3.4.5 Interest Rates

Interest rates in Lesotho maintained an upward trend observed in 2006. Continuing inflationary pressures driven by food and oil prices influenced policy makers in the region to increase interest rates. This was contrary to interest rate cuts in the US, which sought to address economic slowdown threat.

The average prime lending rates in Lesotho ended the review year at 15.43 per cent, which was higher than the 13.50 per cent recorded at end of 2006. Changes in this rate followed those in the SA prime lending rate, which rose from 12.00 per cent in 2006 to 14.50 per cent in 2007. The rise in the SA lending rate tracked a series of upward adjustments of the repo rate by the SARB. The divergence in movements of regional and international interest rates implies the gap between these interest rates has widened. This contributed to the appreciation of currencies in the region against the US Dollar.

Contrary to the decline observed in 2006, the Lesotho 91-day treasury bill rate rose by 206 basis points to 8.82 per cent in the review period. The counterpart South African rate rose by 170 basis points during the same period. This means that the margin between these two rates narrowed to 114 basis points compared to 150 basis point margin in 2006. As in the previous year, the Lesotho treasury bill rate remained below the South African rate for the whole year of 2007. This reflected strong demand for Lesotho securities by domestic investors, mainly commercial banks, which use this interest earning asset to meet prudential limits on liquidity.

The banks' deposit rates also increased during the review period, though at a slower rate. The one year deposit rate reached a maximum of 8.00 per cent, which was the highest deposit rate in the economy. At this rate, it was 250 basis points below the end of year inflation rate of 10.5 per cent. Thus, real deposit rates in the economy remained negative. The comfortable rate of deposit mobilization vis-à-vis credit extension has a dampening effect on deposit rates.

Box 3: The Millennium Challenge Account

During the year 2007, the Government of Lesotho signed a five year grant worth US$362 million with the United States Government under the Millennium Challenge Corporation. The grant intends to assist Lesotho to unlock its economic growth potential in order to reduce poverty. This is based on the notion that economic growth is crucial for poverty reduction.

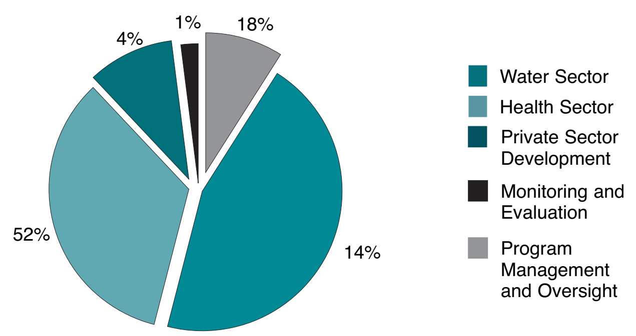
The grant will focus on three areas which are strategic for Lesotho's long-term economic growth profile. Water, normally termed Lesotho's white gold, is a crucial input in the country's industrial sector, which is mainly dominated by the production of textiles and garments. These 'wet industries' were facing an expansion constraint due, mainly to the shortage of water supply. The industries provide employment opportunities to a sizable number of Basotho, being the largest formal domestic sector employer. In addition, water sector component will give access to clean water to both rural and urban households, in turn improving livelihoods in the country. The water sector project include the following activities; construction of Metolong dam bulk water conveyance system, urban and rural water network activity, rural water supply and sanitation activity and wetlands restoration and conservation activity.

The second component is the health sector project, which would increase access to life saving antiretroviral therapy (ART) for residents suffering from HIV and AIDS. Data on HIV prevalence shows that Lesotho is the third highest with 24 per cent prevalence rate. This poses challenges for long-term labour supply and productivity and hence economic growth. The project would upgrade health infrastructure and training of health personnel. Specific activities to be implemented include the health centres, ART clinics, central laboratory, blood transfusion service, National Health Training College (NHTC), health systems strengthening and medical waste management.

The grant will also assist with private sector development. It is now well accepted that finance is important for economic growth. The project will improve access to credit by Basotho through assisting in the establishment of the credit bureau and national identification card system. Furthermore, the transaction costs would be reduced as the payment and settlement systems are improved. The other contribution is to improve women's ability to contract legally and improve land administration in the country. Activities to be implemented under the private sector development project include the credit Bureau and National Identification card, payments and settlement systems, land administration reform, civil legal reform activity, and training and public awareness to support gender equality in economic rights.

The implementation of this grant is expected to increase the construction activities in the country, through construction of Metolong Dam conveyance system as well as health centres. Thus, employment opportunities will be generated in the construction sector and supporting services.

Breakdown of the Grant



3.5 Government Finance

3.5.1 Fiscal Reforms in Recent Years

The government of Lesotho has undertaken a number of reforms to realise efficiency in public service delivery. Improvement of financial management and accountability is one such reform that is ongoing. To implement this project, the Government has resolved to adopt Integrated Financial Management Information System (IFMIS) to address problems observed with the Government of Lesotho Financial Information System (GOLFIS) which is deemed outdated and inefficient. The new system is expected to modernise public financial management in Lesotho, through automation of a number of functions and transactions. Problems such as delays in processing payments and overspending could be minimised as the system will ensure that only authorised expenditures are undertaken and payments are made timeously. Furthermore, through automation, line ministries will be able to communicate with Treasury Department from the time when the transaction is initiated, throughout the process, to when payment is made.

Another milestone was decentralisation of procurement procedures, an exercise carried out in the 2006/07 financial year. Through this initiative, agents can now engage suppliers who meet their requisite demands without going through the old centralised system. This has potential for minimising time taken by the public sector to implement projects and reducing the apparent bureaucracy. In addition, the Government observed that putting the systems in place was not a sufficient condition for improvement of procurement procedures. As a result, efforts were undertaken to provide necessary training to relevant officials to address skills shortage, and build both finance and procurement cadre in order to realise efficiency.

The period also coincided with the time when the Government was realising consecutive fiscal surpluses due to, among others, SACU windfall revenue. The surpluses have enabled government to improve social services through education, health and social welfare. Government now offers free primary education, and supports secondary education with book rentals schemes. It further runs bursary schemes for orphaned and vulnerable children (OVCs). In response to these, government expenditure on education has more than doubled since the year 2000.

Old age pensions were introduced in November 2004 with approximately 70,000 beneficiaries aged 70 years and above. The payment was initially set at M150.00 per person per month, and has since been revised to M200.00. Free primary health care and drugs were also introduced in December 2007 to advance health services to the nation at large. Consequently, there is a need to expand health-related infrastructure to meet the increased demand, as did the education sector. The measures undertaken in public financial management will facilitate efficiency in pursuing the foregoing reforms.

In addition, the government is running private sector competitiveness and diversification project in partnership with the donor community.

3.5.2 Fiscal performance in 2007/08

The budget outturn for the fiscal year 2007/08 was projected to result in a surplus equivalent to 10.3 per cent of GDP following 12.4 per cent realised in 2006/07. This was largely on account of an increase in SACU and domestic tax revenue during the year, and a relatively lower increase in expenditure.

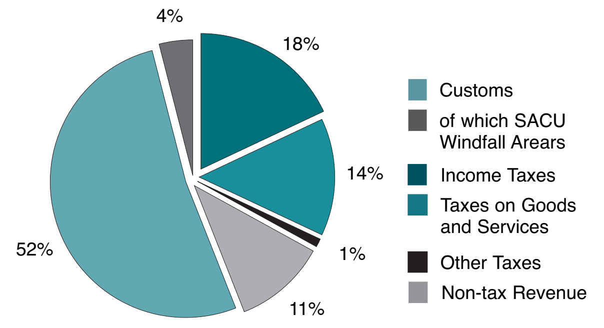
(a) Revenue

Total revenue, including grants, increased by an estimated 16.6 per cent in 2007/08. This was largely due to 11.3 per cent increase in tax revenue following backward adjustments made on SACU revenue during the year. Income tax collections were estimated to have improved by 33.3 per cent, driven by the increase in all income tax components. Personal income tax grew by 26.6 per cent partly in response to a 10.0 per cent salary increase for civil servants, that was effected at the beginning of the fiscal year. Despite a downward adjustment of the company tax rate effected in the last fiscal year, collections from this source grew by 74.3 per cent during the period under review. The other income tax component, which comprises fringe benefits and withholding taxes, rose by 5.0 per cent during the same period. Value Added Tax (VAT) collections rose by 29.4 per cent, following a 1.6 per cent growth observed in the previous period. This was in response to inflation developments observed during the year, strong economic performance and revenue enhancement measures undertaken by Lesotho Revenue Authority (LRA).

Non-tax revenue was expected to grow by 39.7 per cent during the period under review. The increase was supported by a 13.4 per cent rise in water royalties, together with income from dividends, diamond royalties and interest on loans on-lent to semi-autonomous institutions.

The level of capital grants surged more than two-fold during the period under review. The funds were expended on provision of infrastructure in health, education, tourism and public works.

Figure 8: Sources of Government Revenue



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

(b) Expenditure

Total government expenditure was expected to grow by 22.2 per cent during the year 2007/08 on account of an 18.5 per cent increase in recurrent spending. Expenditure on goods and services was estimated to be the main driving force behind the rise in recurrent spending, accelerating by 23.2 per cent. In response to Government's commitment to expedite service delivery at both national and local government levels, employment, particularly at professional level increased. Accordingly expenditure on personal emoluments grew by 17.0 per cent.

Total interest payments were expected to increase by 1.1 per cent during the period under review on account of domestic interest payments which more than offset the decline in interest paid on external debt. The rise in domestic interest payments largely reflected the upward trend observed in treasury bill rates.

Subsidies and transfers rose by 19.4 per cent during the year. This was mainly driven by subventions to educational institutions which embarked on infrastructure investment. Transfer payments in the form of pensions paid to elderly people aged 70 years and above, and support to HIV and AIDS affected people also contributed to the rise in this expenditure item. Pensions paid to elderly people were revised upwards in 2007.

Government continued to fulfil its commitment pledged on provision of infrastructure. This is supported by improvements observed in the implementation of development projects in which capital expenditure was estimated to grow by 43.0 per cent during the period under review. This expenditure financed construction of roads, schools and health-related infrastructure. Government-funded projects accounted for 51.6 per cent of these outlays while loans and grants funded projects contributed 22.8 per cent and 25.6 per cent, respectively.

3.5.3 The Overall Budget Balance and Financing

An overall fiscal surplus equivalent to 10.3 per cent of GDP was expected during the period under review. The surplus was expected to augment government deposits, and cushion Government budgetary operations.

3.5.4 Recurrent Expenditure by Functions of Government

Recurrent expenditure was estimated to surge to M5.2 billion in contrast to M4.4 billion recorded in the last financial year. Community and social services category remained the largest recipient of recurrent expenditure at 49.3 per cent. Education sub-sector received the largest share of this category at 55.2 per cent. This

Table 6

SUMMARY OF BUDGETARY OPERATIONS
(Million Maloti)

	2003/04	2004/05	2005/06	Revised 2006/07	Projections 2007/08
Total Receipts	3594.5	4361.8	4559.9	6431.9	7498.1
Revenue	3416.7	4130.4	4476.3	6339.5	7214.5
Customs	1421.6	2012.4	2306.0	3943.2	4097.7
Grants	177.8	231.4	83.6	92.4	283.6
Total Expenditure	3532.2	3613.5	4293.2	5137.9	6279.3
Recurrent expenditure	2906.8	2919.7	3590.9	4363.2	5171.7
Purchases of Goods & Services	2059.1	2002.5	2378.5	2777.6	3338.3
Capital Expenditure & net Lending	625.4	693.8	702.3	774.7	1107.7
Surplus/Deficit before grants	-115.5	516.9	183.1	1201.7	935.2
Surplus/Deficit after grants	62.3	748.3	266.7	1294.1	1218.8
Government Savings	687.7	1442.1	969.0	2068.8	2326.5
Financing					
Foreign, net	-25.7	-63.7	-282.7	-28.8	54.2
Domestic	-36.5	-684.6	16.0	-1265.3	-1273.0
Bank	104.0	-638.7	-102.1	-1248.0	-1273.3
Non-Bank	-140.5	-45.9	118.1	-17.2	0.3
In per cent of GDP (unless indicated otherwise)					
Revenue (excluding Grants)	42.6	47.5	46.9	60.8	61.2
Customs (in % of revenue)	41.6	48.7	51.5	62.2	56.8
Grants	2.2	2.7	0.9	0.9	2.4
Total Expenditure	44.0	41.5	45.0	49.3	53.3
Surplus/Deficit before grants	-1.4	5.9	1.9	11.5	7.9
Surplus/Deficit after grants	0.8	8.6	2.8	12.4	10.3
Government Savings	8.6	16.6	10.2	19.8	19.7
Memorandum item: GDP in current prices	8025.9	8704.0	9328.9	10429.5	11787.1

Source: MoFDP and CBL Projections

share reflected Government commitment to provision of quality education. Expenditure on education was directed to infrastructure development, bursaries and subventions to institutions of higher learning.

Social security and welfare allocation surpassed health sector share, accounting for 23.1 per cent. This was attributable to support to vulnerable people, such as the elderly and OVCs. In response to the HIV and AIDS scourge and other chronic illnesses, expenditure on the health sub-sector took the third largest share, occupying 15.4 per cent. This spending went towards provision of drugs and preventive measures in the form of awareness campaigns.

Expenditure on general government services accounted for 32.9 per cent of total recurrent expenditure. It comprised the general public service, public order and safety, and defence. Expenditure on economic services constituted 8.4 per cent of recurrent spending. Agriculture was estimated to constitute 45.1 per cent of the economic services, followed by transport and communication, as well as mining and industry.

3.6 Public Debt

3.6.1 Overview

Outstanding public debt grew by 3.4 per cent during 2007 due to a 3.7 per cent growth in external debt. This was at the back of the overall improvement in implementation of government projects during the year. External debt accounted for 87.4 per cent compared with 12.6 per cent for domestic debt.

As a ratio of GDP, public debt stood at 47.2 per cent, compared with 51.2 per cent recorded in the previous year. The ratio dropped marginally on account of good performance of the economy during the year. Domestic debt was mainly issued for monetary policy purposes. It is noteworthy that total debt to GDP ratio is lower than the 60 per cent sustainability threshold[17] and the debt service ratio of 15.0 per cent. Including factor income, debt service ratio deteriorated from 4.2 per cent in the previous year to 6.8 per cent, mainly reflecting accelerated payments made on non-concessional debt during the year.

[17] The Maastricht Rule of Thumb and SADC Convergence Criteria (use Net Present Value of Debt to GDP).

Table 7

PUBLIC DEBT INDICATORS FOR END OF YEAR
(Percentages)

	2003	2004	2005	2006	2007
Total debt as % of GDP	71.1	55.9	51.4	51.2	47.1
External debt as % of GDP	56.4	48.3	44.3	44.6	41.2
Domestic debt as % of GDP	14.8	7.6	7.1	6.6	5.9
External debt as % of total	79.3	86.4	86.2	87.2	87.4
Domestic debt as % of total	20.7	13.6	13.8	12.8	12.6
Concessional as % of External debt	72.3	78.5	83.7	84.4	93.6
Debt service ratio(1)	3.3	7.1	10.3	4.2	6.8
Debt service ratio(2)	5.8	11.6	17.0	7.0	10.9

Source: MoFDP

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

3.6.2 External Debt

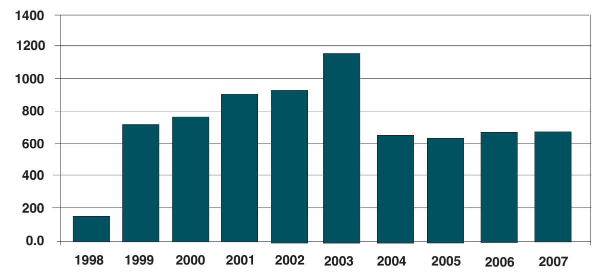
The level of external debt grew by 3.7 per cent during the period under review, mainly due to 6.4 per cent rise in multilateral loans directed to provision of infrastructure. Loans from bilateral creditors and financial institutions dropped by 23.4 and 2.3 per cent, respectively. Consequently, the share of concessional debt increased to 93.6 per cent, against 84.4 per cent in the previous period. As a ratio of GDP, external debt dropped marginally to 41.2 per cent.

Multilateral loans accounted for 90.2 per cent of the external debt portfolio, while loans from bilateral creditors and financial institutions constituted 6.3 per cent and 2.1 per cent of foreign debt, respectively. The largest share of debt, 24.7 per cent, went towards financing of ground transport, followed by education at 17.7 per cent and energy accounted for 16.4 per cent.

3.6.3 Domestic Debt

Domestic debt increased slightly by 1.4 per cent during the period under review mainly as a result of a 31.6 per cent increase in holding of short-term debt by the non-banking sector. Short-term debt continued to be issued mainly for monetary policy operations, while long term component represented a 10 year bond issued during restructuring of the financial sector in 1999.

Figure 9: Government Domestic Debt (Million Maloti)



Source: MoFDF

4.1 Department of Supervision

4.1.1 Supervision of Banks and Non-Bank Financial Institutions

The year 2007 witnessed a marked improvement in outreach by the banking industry. A total of three new branches were opened and seven automated teller machines (ATM) were installed. Judging by the number of advertisements placed by the major banks, in both the newspapers and on the radio during the year, competition for clients is taking off. However, this has not yet manifested itself in the improvement in the quality of service and the reduction of bank charges which currently appear to be on the high side.

For a number of years the promotion of financial intermediation has been at the forefront of CBL's agenda. The signing of the Compact between the Millennium Challenge Corporation (MCC) of the United States of America and the Government of Lesotho in July 2007 signified a breakthrough in the resolution of some of the impediments to effective intermediation. Among the projects to be financed under the MCC programme are the automation of the clearing house; the establishment of a credit bureau which will facilitate easy access to financial information of borrowers by banks and non-bank financial institutions; and the strengthening of the commercial court. All these projects are scheduled to take off in 2008.

With the supervision of banks and the insurance industry now firmly in place, attention has been turned to the development and supervision of non-bank financial institutions. To this end, a new division responsible for non-banks was established within the Supervision Department during the course of the year. With the aim of developing the microfinance sub-sector, technical assistance in the form of funding and experts has been negotiated under the Rural Financial Intermediation Programme (RUFIP) of the International Fund for Agricultural Development (IFAD); and the Centrum fur Internationale Migration und Entwicklung (CIM). It is expected that these efforts will come to fruition in 2008.

One of the challenges facing CBL as the Commissioner of Financial Institutions has been the illegal acceptance of deposits by some institutions in the country. It became necessary for the Central Bank to obtain an interim court injunction against two such entities. On 27 November 2007 the Bank made an ex-parte application to the High Court of Lesotho and was granted permission to investigate the activities of those entities including investments placed by the public with those entities and what became of those deposits. In these investigations CBL is assisted by a reputable, international firm of accountants. CBL is expected to report its findings back to the High Court of Lesotho and to seek further direction within ninety days of the Court Order

One of the two institutions cooperated with the Bank in its investigations and provided the required information and documents speedily. The case against that institution was heard in the High Court of Lesotho on 13 December 2008. Judgement is expected in February 2008. Some resistance was experienced with the second entity and this led to delays in the investigation process. The return date for the case, which had been set for 13 December 2007, has been postponed to 4 February 2008. In the meantime the assets of the two institutions remain frozen. This action was taken in order to protect public deposits.

4.1.2 Supervision of the Insurance Industry

The Insurance Act no. 18 of 1976 mandates the CBL to supervise the insurance industry. During the period under review the industry consisted of 26 insurance brokers and five insurance companies. Four insurance brokers applied for deregistration on claims that the industry was too competitive for small insurance brokers. Two insurance brokers were deregistered by

CBL due to non-compliance with Regulation 19(2) of the Insurance Regulations of 1985 which requires an insurance broker to transmit the insurance premiums collected from the policyholders within 60 days of receipt.

On-site inspections of all insurance companies were conducted in 2007 by CBL through the Insurance Supervision Division. The main objectives of the inspections were to determine the financial condition and soundness of the insurance companies as well as the compliance with statutory and prudential requirements of the Insurance Act no. 18 of 1976 and its' implementing regulations. One company did not comply with section 45 of the Insurance 1976 which deals with margin solvency. A directive in this regard has been requiring the company to comply on or before 31st March 2008.

In an effort to promote interaction between insurance companies and the insurance brokers, CBL continued to hold quarterly meetings with the Chief Executives of both insurance companies and insurance broking companies. In these meetings, all issues of concern were discussed and measures taken whenever possible to deal with them. During these meetings a resolution was made to establish association of insurance brokers which will be used to police the industry especially with regard to unlicensed insurance brokers operating in the insurance industry. The association would also be responsible to take action against its members who contravene the law and are involved in malpractices in the industry.

4.1.3 Policy and Exchange Control

(a) Exchange Control Regime

The Bank is responsible for the administration of Exchange Control laws in the country. During the year, the Ministry of Finance and Development Planning formally appointed the as the agent of Government in the administration of Exchange Control by legal notice no. 190 of 2007. This would make the CBL the custodian of Exchange Control laws and policies.

(b) Applications to Sell Foreign Currencies

Lesotho acceded to the IMF Article VIII in 1997. By so doing, all the restrictions on current account transactions were abolished except for the transactions which still have indicative limits.

During the year under review, forty applications were submitted by authorised dealers to Exchange Control for approval. The total amount transferred was M204,965,221.00. The payments were in respect of professional services, management fees, dividends, royalties, insurance premiums, etc.

(c) Capital Account Liberalisation

Since the introduction of limited Capital Account liberalisation in 2003 the number of people (natural persons) who maintain Foreign Currency Accounts (FCAs) has been steadily declining. During 2007 there were only three holders of such accounts as compared to eight in 2006. These accounts are mostly for personal use and the fact that very little interest is paid by the banks makes holding such accounts unattractive to the customers.

Customer Foreign Currency Accounts (CFCs) increased from thirty-four (34) in 2006 to forty (40) by the end of 2007. Although there was a small increase in the number of CFC account holders, there was a remarkable increase in amounts held in those accounts. More companies, including some international organisations/agencies, held foreign currency balances in excess of M1,000,000.

Despite the minimal interest paid on these accounts the main attraction is the hedge against fluctuations in exchange rates. The manufacturing companies which constitute the majority of CFC account holders manage exchange rates risk through these accounts when they make payments for raw materials and related expenses.

(d) Cross Border Foreign Exchange Reporting System

The Cross Border Foreign Exchange Reporting System for the inward and outward foreign exchange transactions operating within the Common Monetary Area (CMA) continued to experience difficulties in relation to one of the banks. This particular bank encountered a problem on classification of transactions. On inspection, the examiners agreed with the bank on the modalities to solve the problem.

The Reporting system has been found to be a useful tool by all CMA countries since it reflects the actual outflows and inflows of transactions within and outside the CMA.

(e) Anti Money Laundering/Combating Financing of Terrorism (AML/CFT)

Considerable progress was made in the fight against money laundering and financing of terrorism when the Anti-Money Laundering and Proceeds of Crime Bill was tabled before parliament towards the end of the year. Prior to the tabling, members of the Anti Money Laundering Task Team, of which CBL is a founder member, had highlighted salient points of the Bill to parliamentarians in a special workshop. It is expected that the bill will be passed into law in the next session of parliament. The enactment of the Bill will pave the way for the implementation of institutional framework such as the Financial Intelligence Unit (FIU). The primary function of the Unit will be to receive, analyse and disseminate suspicious financial information to and from various stakeholders for their action. Information sharing is central to the effective curbing of money laundering and other illicit financial activities.

In an effort to foster and to enhance profound understanding of money laundering the Bank invited IMF to deliver an anti-money laundering workshop which was attended by the whole spectrum of stakeholders including law enforcement agencies, institution of higher learning, accountable institutions and financial institutions.

The national strategy guiding the Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT) was further improved and is awaiting adoption by Cabinet.

(f) Other Developments

During this period a comprehensive review of the Manual of Exchange Control Rulings was also carried out. The banks were provided with the revised version of the Manual. Apart from the Minister's formal appointment of the Central Bank as his agent he also appointed Green Financial Services as an Authorised Dealer in Foreign Exchange with Limited Authority. Green Financial Services is expected to commence operations in early 2008 as the country's first independent Bureaux de Change.

(g) Regional Meetings

The Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) has two statutory meetings per annum. The Division attended both the March and August meetings held in Arusha, Tanzania and Gaborone, Botswana respectively. The Government of Lesotho, through the Ministry of Finance, pays annual membership subscription which was in 2007 raised from $US20,000 to $US40,000. CBL and other members attend to participate in deliberations related to their own sectors. CBL participates in financial sector issues whereby it networks and exchanges invaluable information with other regulators.

According to the CMA Multilateral Monetary Agreement, the CMA member countries should meet annually to discuss the issues of interest in the administration of the controls in CMA. During the year under review the Division attended the three Quarterly Exchange Control meetings in Lesotho Namibia and South Africa. Due to the Strategy workshop held by the Bank in May the Swaziland meeting was not attended as it coincided with the workshop.

4.2 Department of Operations

4.2.1 Currency Management

Currency management by the Bank involves, inter alia, handling of bulk deposits and withdrawals by commercial banks, sorting of Maloti notes and coins and the systematic issue of new and reissuable currency. Since Maloti is not legal tender in South Africa, an agreement has been reached with ABSA to collect Maloti on behalf of CBL to a central location in Bloemfontein, from where it is repatriated to CBL.

Whilst the South African currency enjoys legal tender status in Lesotho, the policy of CBL has been to promote the use of Maloti currency in the country and in that regard; local commercial banks are also expected to issue rand to the public only in the event of need for rand currency. The collected rand currency by commercial banks, through deposits by the public, has to be deposited with CBL for onward repatriation to South African Reserve Bank (Bloemfontein Branch) in accordance with bi-lateral agreement between Lesotho and South Africa.

During the year under review, the bank received a large consignment of new banknotes in denominations of M10, M20 and M100. These notes came with additional security features to safeguard against counterfeits and to keep up with current developments in banknote printing. New supplies of M20 banknotes were immediately put into circulation due to the high demand of them in the latter half of the year. It was not possible to determine the cause of this sudden high demand of M20 banknotes apart from the knowledge that they have become the preferred denomination by the public and they are widely used in automated teller machines (ATMs).

The Bank has also adopted a new Economic Order Quantity model that entails new increased levels of stock orders to meet the current and future demands for cash.

Table 8
MALOTI CURRENCY IN CIRCULATION
(Million Maloti: End of Period)

	2003	2004	2005	2006	2007
Maloti Notes Issued	226.1	247.8	286.2	366.2	390.1
Maloti Coins ssued	9.4	9.4	10.0	11.8	13.0l
Total	**235.5**	**257.2**	**296.0**	**378.0**	**403.1**

The respective values of both banknotes and coins in circulation for the past five years are shown in Table 8 above. At the end of 2007, currency in circulation registered an increase of 6.6 percent over the growth of 27.7 percent in 2006. This increase may be attributed to infla-

Table 9

WITHDRAWALS BY COMMERCIAL BANKS

	New Notes		Reissuable Notes		Total Withdrawals	
Year	Million Maloti	Percentage Change	Million Maloti	Percentage Change	Million Maloti	Percentage Change
2004	425.1		771.7	14.0	1,196.8	
2005	902.9	112.4	1,042.1	35.0	1,945.0	62.5
2006	343.4	-62.0	1,618.6	55.3	1,962.0	0.9
2007	403.6	17.5	1,823.0	12.6	2,226.6	13.5

tion and increased public demand of money. Table 9 above shows that both new and reissuable notes increased slightly in 2007. Since the acquisition of BPS 1000 notes processing machine in 2006, the Bank had been able to produce more reissuable notes and taken out unfit notes from circulation.

Table 10

MALOTI /RAND REPATRIATION

	Value of Maloti collected from South Africa		Value of Rand repatriated to South Africa	
Year	Million Maloti	Percentage Change	Million Maloti	Percentage Change
2004	223.8	17.4	321.4	114.6
2005	227.6	1.7	303.7	-5.5
2006	184.4	-19.0	329.5	8.5
2007	200.6	8.1	407.4	23.6

Over the past four years, the value of Maloti repatriated from South Africa has fluctuated as illustrated by table 10. The reporting period recorded a total of slightly over M 200 million. On the other hand, Rand currency repatriated to South Africa rose steadily since 2005. In percentage terms, the Maloti collected rose by only 8.1 percent compared to the 23.6 percent increase for Rand repatriated in 2007.

4.2.2 National Payment Systems

The Bank is still in pursuance of modernising the Lesotho National Payment Systems to the achievement of its Vision 2015. *"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."* Among the main strategies identified to achieve the vision, progress was made with the following:

(a) Legal and regulatory framework

- The **National Payment Systems Draft Bill**: - Though the National Payment System act is not yet promulgated Lesotho Wire Rule Book continues to govern the operations. The draft

- **Maseru Clearing and Settlement House (MCSH)**:-
  Efforts are underway to establish Automated Clearing House (ACH) for small value big volume payments. The MCSH rules are in the process to be reviewed to cater for domestic and gross border payments. However, with the anticipated ACH, there shall be a need for participants to review the current Clearing House rules.

bill is still with the Law Office.

(b) Performance of Lesotho Wire (LSW)

For the year under review, payment instructions processed by the real time gross settlement system amounted to M12.3 billion made up of 11,439 transactions. Of this amount payments made by commercial banks were M8.5 billion in value and 6,415 in volume of transactions.

These amounts excluded participant credits[18] which amounted to M11.3 billion with 1,983 numbers of transactions. Participant debits[19] were 1,992 transactions valued at M13.5 billion

Table 11

PARTICIPANTS' CREDITS AND DEBITS

Banks	Value (M billion)	Volume
Central Bank	3.8	5,024
Participants credits	11.3	1,983
Participants debits	13.5	1,992
Commercial banks	8.5	6,415
Total	**37.1**	**13,422**

(see Table 11).

(a) Automated Clearing House

Preparations are at an advanced stage for the Automated Clearing House (ACH) Project which is meant to handle small value big volume payments

The preparations for installation are underway, though the roll out date for the project funding will be on the third quarter of the year 2008. The Implementation of this project is going to be funded by the MCC. The MCC have involved itself in ACH implementation aiming that ACH will alleviate poverty by increasing economic activity, by facilitating the extension of low cost financial services to the banked and unbanked in the country. It is envisaged that the ACH will use a well established regional service provider in the effort to cut down costs and to pave the way for cross border payments.

(b) Oversight Function

The oversight section is within the NPS Division. The oversight section was established in 2005 and was manned with Section Head only. In August 2007, two analysts were recruited as a way of strengthening the section which is not yet fully operational and is expected to commence intensive oversight functions in 2008.

4.2.3 Development Finance

During the year, the Division conducted a study of guarantee schemes in the region as it is the intention of the Lesotho Government to establish a similar scheme. The study has revealed that in order for the scheme to be sustainable the following conditions should prevail:

Firstly, there should be an agency relationship between the Government as a principal and the

- The Agent should serve the Principal on the term of the agreement with all due and proper diligence, observe all reasonableinstructions given by the Principal as to its best endeavours to operate efficiently.
- The Agent should pass on promptly to the Principal all information useful for the business of the Principal.
- The Principal should not directly submit offers or quotations nor enter into any negotiations with nor effect any instruction or orders for the guarantee of any Financial Institution or to any person in the country under the context of the agreement.

Central Bank as an agent.

Secondly, financing institutions which participate and are eligible, should meet the following criteria:

- Be registered banks and non-bank financial

[18] Participant Credits are transactions initiated by CBL to directly credit commercial bank account held at CBL.

[19] Participant Debit is transactions initiated by CBL to directly debit commercial bank account held at CBL.

institutions as per the laws of the country.

- Satisfy the prudential regulations specified by the laws of the country and shall continue to satisfy these regulations for the entire period for which guarantee cover is provided the participating institution.

Thirdly, for the individual members of the business community who qualify, should be registered businesses and the majority shareholding should be with Lesotho citizens. They should also be ready to offer any enforceable collateral including personal guarantee and third party guarantee. All projects are to be covered by the scheme as long as they meet the terms which are laid down in the operational manual of the scheme.

The study covers a spectrum of issues other than those mentioned above. These include the following; durations of the loans, the maximum loan amount, extent of coverage, instruments, (that is a method to be used in scoring and appraisal of the loan applications), collateral, risk sharing, recovery procedures, claims management and payout.

Based on the results of this study a proposal for the implementation of this scheme is being reviewed and analysed.

4.2.4 Rural Finance

During the year 2007, the CBL conducted workshops for all stakeholders across the country on the operations of Rural Savings and Credit Scheme (RSCGs) as a tool for strengthening participation under the scheme. The workshops covered the Southern Region, Northern Region, Thaba–Tseka and Mokhotlong while Maseru and Qacha's Nek would be covered in 2008. In addition to the above, sensitisations campaigns were made throughout Lesotho together with several enquiries/request for training from groups and individuals interested to participate under the scheme. The above requests were attended to through the assistance of The Ministry of Agriculture and Food Security (MAFS) together with NGOs engaged in 2006 to assist groups in several fields of operation.

In 2007, four group loans were approved under Credit Guarantee Fund (CGF) from the districts of Mafeteng, Berea and Leribe, while one group loan from Maseru was being processed by December 2007. Upon monitoring groups financed under CGF by the end of 2007, performance of these groups was satisfactory recorded at 99% repayment.

An increase in ready groups and active groups was noted mostly due to the engagement and commitment of NGOs assigned the duties of mobilisation, training in business management, technical aspects and monitoring of groups' activities. A total of 26 groups were assisted by NGOs and are at different stages of operation in Mafeteng, Mohales' Hoek, Maseru, Leribe and Butha-Buthe districts.

CBL assisted thirteen groups to register and amend their constitutions in 2007, while several others are being pursued. The division further coordinated drafting and amending groups' constitutions through both MAFS and NGOs engaged in 2006.

The following milestones were achieved in the field of rural intermediation during the year

- Improved performance of NGOs as evidenced by increased number of groups formed, linked with commercial banks through saving and accessing commercial loans.
- Improved yields on CGF investments. Satisfactory repayment of bank loans by groups with minimal exceptions to qualification for repeated loan cycles.
- Enthusiasm of rural groups in promoting income generating activities to the level of servicing international markets.

under review:

4.3 Financial Markets Department

4.3.1 Portfolio Management

The CBL continued to manage the country's foreign exchange reserves in line with The Investment Policy and Guidelines, with a view to honour the Bank and the country's obligations, to preserve the value of the reserves and finally, to enhance returns on the reserves. In 2007, the portfolio grew by 45 per cent compared to 31 per cent in 2006. The growth was mainly attributable to a surge in SACU receipts of 110 per cent in the first quarter and 24 percent in the subsequent quarters of the year.

The Board approved that the Bank should participate in the World Bank's three years Reserves Advisory Management Programme with effect from January 2008. The purpose of the programme is to enhance the capacity of staff in the reserves management area and the return of the investments of the Bank.

A staff member of the Financial Markets Department responsible for the operations of the SWIFT system attended the annual regional SWIFT conference and meetings in Dakar, Senegal. The purpose of participating in these meetings is to obtain first hand information with respect to the current developments around the system, and its future direction.

4.3.2 Securities Trading

The CBL continued to conduct auctions of both 91 and 182 day Treasury bills securities. For the year under review, twelve 91 day Treasury bill auctions and six 182 day Treasury bill auctions were conducted. A total of 203 and 757 bids were processed in respect of 91 day and 182 day Treasury bills maturities respectively.

The rates in the Lesotho 91 day Treasury bills market, of which is 85% was held by commercial banks continued to fall below those of the same market in SA. The margin by which the rates were higher in SA at the end of 2006 was 1.65 percent and it closed wider at 1.8 percent at the end of 2007. In the 182 day market, the rates in Lesotho also remained below those in SA to close the review period lower by a margin of 1.05 percent

A study of measures to develop the money and capital markets in Lesotho was completed during the year and the recommendations were adopted. A phased implementation plan is scheduled to begin with short term measures in the Treasury bills market in early 2008. In the main, the proposed measures to improve the Treasury bill auction system include the following:

- Introduction of longer-dated instruments being the 273 and 364-day bills,

- Reduction of the auction bid size for competitive bids from M250,000 to M100,000,

- Introduction of shorter settlement procedures involving the investors clearing through the commercial banks as opposed to depositing funds at the Central Bank.

Two officers responsible for the securities trading operations attended annual regional meetings of the Committee of Insurance, Securities and Non-Banking Financial Authorities (CISNA) in Namibia and Tanzania. The main purpose of attending these meetings from the Financial Markets Department side is to participate in the activities of the sub-committee on capital markets, as this market is at its developmental stage in the Lesotho, and experiences can be

Table 12

91-DAY TREASURY BILL AUCTIONS

Auction Date	Amount Offered (Million Maloti)	Amount Issued (Million Maloti)	Lesotho Discount Rate	RSA Discount Rate	Spread	No of bids
3-Jan-07	160	160	7.02	8.49	-1.47	13
31-Jan-07	170	170	7.3	8.87	-1.57	27
28-Feb-07	170	170	7.46	8.41	-0.95	13
4-Apr-07	160	160	7.49	8.26	-0.77	10
2-May-07	170	170	7.5	8.32	-0.82	27
30-May-07	170	170	7.56	8.68	-1.12	12
4-Jul-07	170	170	7.62	9.1	-1.48	16
1-Aug-07	170	170	7.76	8.86	-1.1	19
29-Aug-07	160	160	8.12	9.3	-1.18	13
3-Oct-07	160	160	8.32	9.43	-1.11	19
31-Oct-07	160	160	8.72	9.96	-1.24	22
28-Nov-07	150	150	8.82	10.62	-1.8	12
						203

Table 13

182-DAY TREASURY BILL AUCTIONS

Auction Date	Amount Offered (Million Maloti)	Amount Issued (Million Maloti)	Lesotho Discount Rate	RSA Discount Rate	Spread	No of bids
10-Jan-07	50	50	7.3	8.58	-1.28	129
7-Mar-07	20	20	7.46	8.35	-0.89	120
8-May-07	50	30	7.45	8.38	-0.93	142
10-Jul-07	50	31.98	8.8	9.42	-0.62	116
7-Sep-07	20	20	8.9	9.67	-0.77	105
8-Nov-07	30	30	8.9	9.95	-1.05	145
						757

gained from more developed regional partners.

4.4 Research Department

The primary objective of the CBL is to conduct monetary policy through the targeting of NIR. The mandate is conducted through routine publications namely; Monthly Economic Reviews, Quarterly Reviews and Annual Reports. The Research Department is charged with undertaking all research related activities of the Bank. The department is divided into three divisions namely; Macro Analysis, Real Sector and Finance Divisions. The following research work was undertaken in the Macro Analysis; Private Capital Flow 2006 Survey Report, Interest rates determination in Lesotho, Resource-led growth in Lesotho, Remittances and economic development. The division also coordinated activities related to Monetary Policy Committee meetings. The Real Sector Division conducted the following research papers; Life begins at 40: An overview of Lesotho's economy since independence; A proxy estimate of rand in circulation in Lesotho, and in addition participated in the review of the compilation of national accounts. The Finance Division conducted the following research papers; Monetary policy shocks and their impact on output, International practice on liquidity requirements, The role of fiscal policy in Lesotho, and Dynamic effects of fiscal policy, and in addition embarked on migration to Monetary and Financial Statistics Manual 2000 (MFSM 2000). All divisions participated in the sitting of the Research and Publications Technical Committee during 2007.

International and Regional Meetings

The Bank participated in a number of meetings during the review period. These included participation and contribution to CCBG meetings, first in the first half of the year and later in the last half of the year. The meetings concentrated on progress made by SADC member countries in achieving the macroeconomic convergence benchmarks, which are leading indicators for integration in the region. The other most important agenda item was the harmonisation of institutional management of central banks in the region by adopting a framework for a model central bank. The Bank also participated in the IMF and World Bank 2007 annual meetings which were overshadowed by the sub-prime default in the US and possible implications on the global financial architecture. The problem was particularly paramount in that it had implications on the slowdown of global growth as the US economy slows down.

4.5 Department of Administration

4.5.1 Human Resource Management

(a) Schemes of Service Review

During 2007 the Bank started the review of its Schemes of Service with particular reference to the review of organisation structures, job analysis & grading structures, job evaluation & banding structure, remuneration strategy and policy, pay scales and performance management strategy as well as the overhauling of the Staff Rules and Regulations to benchmark them against the best human resource practices globally.

(b) Strategic Plan

In 2007, the Bank embarked on an extensive exercise of developing a five- year strategic plan (2008 -2012). This was the first time the Bank undertook development of a medium-term strategic plan. The norm has been to develop annual work plans based on emerging priorities and needs. The Bank saw the need to develop a long-term strategic plan in order to define the strategic direction that the Central Bank of Lesotho will take in its quest to improve its effectiveness and efficiency in fulfilling its mandate of formulating and implementing the national monetary policy and providing sound advice on financial and fiscal policies to the Government of Lesotho.

The exercise was divided into two major phas-

es. The first phase involved the following:
a) Review of the vision and mission, and defining of corporate values of the Central Bank of Lesotho.
b) Formulation of development goals that the Bank will pursue in the short, medium and long terms.
c) Development if a 5-year Corporate Strategic Plan comprising strategic objectives, strategies, performance indicators, means of verification, and important assumptions that need to be made for the successful implementation of the Strategic Plan.
d) Review of departmental business plans and align them with the newly developed Corporate Strategic plan.

The second phase involved:
e) Development of a Performance Monitoring and Evaluation framework to assist monitoring of the implementation of the Strategic Plan.
f) Development of a Change Management Strategy that will guide/support implementation of the Strategic Plan.

(c) Recruitment

Following the filling of two Executive positions of Governor and Deputy Governor I during the year, the Bank continued to recruit new staff to fill both vacant and newly created positions throughout the year. A total of 20 positions at all non-executive levels were filled from April to December this year with the highest number of eight new members of staff at Professional level, followed by General Services with five positions.

By the end of the year, vacancies continued to exist due to resignations, dismissals, promotions, retirement, and secondment. The recruitment function of the Bank therefore continues to ensure that positions are filled as vacancies occur. Appropriately qualified and experienced Basotho are sourced at all times in order to enable the Bank to effectively carry out its mandate.

(d) Training

As the Bank grows, training needs emerge in respective areas of its operations with the demand for more qualified staff who could keep up with the challenges of a growing organization. Staff training therefore, particularly long-term for acquisition of higher academic qualifications has increased from seven in 2006 to twelve in 2007 for full time students. Seven of these were pursuing post graduate qualifications including one PhD student. Twenty four members of staff are pursuing further qualifications on part time basis.

(e) Separation

This year a total of eleven members of staff separated from the Bank during the year from the levels of Section Head to General Services. Seven were resignations while the other four were dismissals. All were permanent and pensionable. In addition to this, a contract term of one expatriate came to an end during the middle of the year.

(f) Staff Welfare Issues

Staff welfare issues continue to take place at the Bank and appear to be more frequent with the growth of the Bank. This year twenty two deaths of next-of-kin of staff were reported and the necessary procedures followed. Four births were also reported by staff.

(g) Promotions & Staff Movement

Movement of staff has been another activity that occurred significantly this year due to vacancies that existed. This year a total of eighteen members of staff were promoted bank-wide and four interdepartmental transfers took place.

(h) Community Service

As part of social responsibility, staff of CBL this year identified the Kananelo Centre for the Deaf at Ha Buasono in the Berea district as a place that required intervention. Management and staff visited the centre taking with them a wide range of donations for the children at the Centre.

4.5.2 Safety, Health & Environment (SHE) Section

This year a new SHE section was moved from Security Services to be incorporated in Human Resources Division. Throughout the year the activities of the section concentrated on compliance to the Labour Code by making efforts to detect any occupational diseases; conducting inspections to determine safety issues; conducting environmental survey looking at lighting, ergonomics and ventilation with the aim of taking corrective measures where necessary.

4.5.3 Department of Corporate Affairs

The Board approved establishment of a new department, Department of Corporate Affairs, to address structural inadequacies experienced as a result of deployment of legal personnel in various divisions within the Bank. The Bank has come to appreciate the need for streamlining legal services within one domicile, while at the same time fortifying the services to enable the Bank to respond to corporate secretarial services, provision of sound legal advice, public relations functions, adequate representation before the Courts of Law and other tribunals, as well as performing other functions provided for within the scope of legal services, such as compliance and regulations. Functions of this newly-established department include drafting of legislation for line Departments through consultation with the relevant stakeholders; negotiation of and execution of contract with parties with whom the Bank has business relations such as suppliers, consultants for service, commercial banks, Bank employees, etc); preparation for and representation of the Bank in litigation processes in any forum; responsibility over public relations activities; and provision of legal advice to management on matters having a bearing on the rights, privileges, interests and obligations of the Bank.

CENTRAL BANK OF LESOTHO
ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2007

BANK INFORMATION

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

CONTENTS

CENTRAL BANK OF LESOTHO
CORPORATE GOVERNANCE STATEMENT
for the year ended 31 December 2007

The Central Bank of Lesotho is committed to the principles of transparency, integrity, accountability and openness in its dealings with all its stakeholders and subscribes to the Code of Corporate Practices and Conduct as embodied in the King II Report. The Board Secretariat is of the opinion that the Bank complies in all material respects with the principles enshrined in the aforementioned code. The Governor and Board of Directors are committed to ascertaining that compliance with corporate governance principles remains an integral part of the manner in which the Bank conducts its business.

The Bank has a unitary Board of Directors which comprises five non-executive directors and three executive directors. The non-executive directors represent a wide range of skills and have financial, economic, commercial and legal experience. They are fully aware of their duties to ensure that the Bank maintains a high standard of corporate governance.

The Board of Directors exercises responsibility for the performance of the affairs of the Bank, and retains full and effective control over the Bank. It determines strategic direction of the Bank and monitors executive management in the implementation and execution of its strategies. The Bank continues to publish Annual Reports, Monthly Economic Review, and Quarterly Economic Review and Monetary Policy Statements for the benefit of stakeholders and the general public. During the year 2007, the Board met 10 times to review strategy, operational performance, capital expenditure, internal controls and other material aspects pertaining to the Bank's business. The Board's committees, namely the Audit Committee and the Remuneration Committee also convened to deliberate upon matters requiring specialised attention.

All directors of the Bank have had access to the advice and services of the Secretary to the Board, who is responsible for ensuring that board procedures are followed and that applicable rules and regulations are complied with.

Mr. M.G. Malope (Adv.)
Secretary to the Board

CENTRAL BANK OF LESOTHO
STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS
for the year ended 31 December 2007

The Directors are responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and related information. The Auditors are responsible for reporting on the fair presentation of the financial statements. The financial statements presented on pages 42 - 87 have been prepared in accordance with International Financial Reporting Standards (IFRS) in all material respects as applicable to central banks, and in the manner required by the Central Bank of Lesotho Act, No. 2 of 2000.

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

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

The financial statements were approved by the Board of Directors on 6 August 2008 and are signed on its behalf by:

Dr. M.P. Senaoana
Governor

Mr. J.Q.Lesitha
Director

SHEERAN
& ASSOCIATES
Chartered accountants (Lesotho)

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REPORT OF INDEPENDENT AUDITORS TO THE MINISTER OF FINANCE

We have audited the accompanying annual financial statements of the Central Bank of Lesotho, which comprise the directors' report, the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 42 to 87.

Directors' Responsibility for the Financial Statements

The directors of the Central Bank of Lesotho are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Central Bank of Lesotho at 31 December 2007 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Sheeran & Associates

SHEERAN & ASSOCIATES
CHARTERED ACCOUNTANTS (LESOTHO)

DATE: 05 December 2008

CENTRAL BANK OF LESOTHO
REPORT OF THE DIRECTORS
for the year ended 31 December 2007

The Directors present their annual report, which forms part of the audited financial statements of the Central Bank of Lesotho, for the year ended 31 December 2007. The financial statements are expressed in Maloti, the national currency of Lesotho.

Nature of business

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

Financial results

The financial results of the Bank are set out in the income statement on page 45. The residual profits after a transfer of the foreign exchange currency translation to designated foreign currency translation reserves, and after appropriations have been allocated to the general and other reserves, are paid over to the Government of Lesotho Consolidated Fund as dividends in accordance with Section 21 of the Act. These appropriations have been fully disclosed in the statement of changes in equity on page 46.

Dividends

Dividends paid to the Government of Lesotho Consolidated Fund in terms of Section 21 (5) of the Act are set out in the statement of changes in equity on page 46.

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.

Board of Directors of the Central Bank of Lesotho

Name	**Date of appointment**	**Position held**
Dr M Senaoana	April, 2007	Governor and Chairman of the Board
Dr R Matlanyane	April, 2007	Deputy Governor I
Mrs P.M.I.S.Ledimo	November, 2005	Non-Executive Director
Mrs M G Tau-Thabane	July, 2005	Non-Executive Director
Mr E.K.Molemohi	July, 2006	Non-Executive Director
Mr J Q Lesitha	December, 2005	Non-Executive Director
Dr P M Makhetha[1]	October, 2004	Non-Executive Director

Secretary

Mr. M.G. Malope (Adv.)	October 2007	Secretary to the Board

CENTRAL BANK OF LESOTHO
REPORT OF THE DIRECTORS
for the year ended 31 December 2007

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), Assisted by Pricewaterhouse Coopers Inc. carried out the statutory audit of the Bank.

Dr. M.P. Senaoana
Governor

Mr. J.Q. Lesitha
Director

CENTRAL BANK OF LESOTHO
BALANCE SHEET
as at 31 December 2007

	Notes	2007 M '000	2006 M '000
ASSETS			
Cash and Balances with Banks	1	**2 810 129**	2 090 684
Accrued interest due from Banks	2	**39 121**	30 440
Treasury Bills	3	**432 569**	415 968
Treasury Notes & Bonds	4	**3 110 027**	1 978 861
IMF Subscription Account	5	**385 061**	316 413
IMF Holding of Special Drawing Rights	6	**43 848**	1 302
IMF Funded PRGF Advances	7	**247 145**	218 952
Lesotho Government Securities	8	**62**	39
Deferred Currency Expenditure	9	**7 438**	1 641
Claims on Staff	12	**21 260**	20 446
Other Assets	13	**3 891**	4 492
Property, Plant and Equipment	10	**174 796**	177 256
Non-current Assets held for Sale	32	**-**	34 500
Intangible Asset - Computer Software	34	**2 245**	4 664
TOTAL ASSETS		**7 277 592**	5 295 658
LIABILITIES AND EQUITY			
LIABILITIES			
Notes and Coins Issued	14	**402 221**	377 712
Deposits	15	**412 320**	371 779
Lesotho Government Deposits		**3 927 858**	2 213 342
IMF Maloti Currency Holding	16	**345 509**	283 912
IMF Special Drawing Rights Allocation	17	**41 253**	33 899
IMF - PRGF Facility	18	**247 145**	218 952
Income Taxation Liabilities	19	**33 280**	14 596
Due to Government of Lesotho Consolidated Fund	20	**192 625**	79 004
Accruals	21	**52 565**	43 442
Deferred Tax Liability	11	**319 303**	326 598
Non-current Liability held for Sale	32	**-**	13 000
TOTAL LIABILITIES		**5 974 079**	3 976 236
EQUITY			
Share Capital	22	**25 000**	25 000
General Reserve		**102 499**	102 486
Other Reserves		**1 176 014**	1 191 936
TOTAL EQUITY		**1 303 513**	1 319 422
TOTAL LIABILITIES AND EQUITY		**7 277 592**	5 295 658

The notes on pages 49 - 87 are an integral part of these financial statements.

CENTRAL BANK OF LESOTHO
INCOME STATEMENT
for the year ended 31 December 2007

	Notes	2007 M '000	2006 M '000
Revenue			
Interest Income	23	**450 370**	274 093
Interest Expense	24	**(48 307)**	(33 308)
Net Interest Income		**402 063**	240 784
Revaluation Surplus on Foreign exchange activities		**243 188**	357 754
Other Income	25	**30 018**	7 791
Total Income		**675 269**	606 330
Operating Costs		**(105 253)**	(81 095)
Personnel Expenses	26	**(53 911)**	(48 161)
Other Operating Expenses	27	**(51 342)**	(32 934)
Profit before taxation		**570 016**	523 623
Indirect Taxes	33	**-**	(1 612)
Profit after indirect taxes		**570 016**	522 011
Corporate Taxation	28	**(143 574)**	(150 846)
Net Profit for the year		**426 442**	371 165
Attributed to:			
The apportionment to Reserves and the Consolidated Fund (GOL)		**240 822**	113 818
Transfer to Foreign Exchange Reserves		**185 620**	257 347
		426 442	371 165

The notes on pages 49 - 87 are an integral part of these financial statements.

CENTRAL BANK OF LESOTHO
STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2007

	Accumulated Profit	Share Capital	General Reserve	Rand Compensatory Reserve	SDR Revaluation Reserve	Foreign Exchange Revaluation Reserve	Property Revaluation Reserve	Bond Revaluation Reserve	Total
	M '000	M '000	M '000	M '000	M '000	M '000	M '000	M '000	M '000
Balance at 1 January 2006	-	25 000	83 530	186 545	28 655	737 286	44 018	-	1 105 034
Profit after tax	371 165	-	-	-	-	-	-	-	371 165
Transfer of foreign exchange - translation to designated reserves (1)	(257 347)	-	-	-	(43 872)	301 219	-	-	-
Transfer to reserves	(18 969)	-	18 969	-	-	-	-	-	-
Interim dividend paid	(15 845)	-	-	-	-	-	-	-	(15 845)
Final dividend payable	(79 004)	-	-	-	-	-	-	-	(79 004)
Rand compensatory receipts	-	-	-	19 536	-	-	-	-	19 536
Asset Revaluation	-	-	-	-	-	-	38 896	-	38 896
Fair value adjustment on bonds	-	-	-	-	-	-	-	(145 087)	(145 087)
Deferred tax arising on Reserves	-	-	-	-	-	-	(11 532)	36 272	24 740
Balance at 31 December 2006	-	25 000	102 499	206 081	(15 217)	1 038 505	71 382	(108 815)	1 319 435
Profit after tax	**426 442**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**426 442**
Transfer of foreign exchange - translation to designated reserves (1)	(185 620)	-	-	-	- 64 260	121 360	-	-	- - -
Interim dividend paid	(48 197)	-	-	-	-	-	-	-	(48 197)
Final dividend payable	(192 625)	-	-	-	-	-	-	-	(192 625)
Rand compensatory receipts	-	-	-	22 149	-	-	-	-	22 149
Fair value adjustment on bonds	-	-	-	-	-	-	-	(205 117)	(205 117)
Deferred tax arising on Reserves	-	-	-	-	-	(57 568)	9 310	51 279	3 021
Asset Revaluation Realised	-	-	-	-	-	-	(21 595)	-	(21 595)
Balance at 31 December 2007	**-**	**25 000**	**102 499**	**228 230**	**49 043**	**1 102 297**	**59 097**	**(262 653)**	**1 303 513**
				*	*	*	*	*	

*** = Total Other Reserves 1 176 014**

(1) = transfer of foreign exchange translation to SDR Revaluation Reserve and Foreign Exchange Revaluation Reserve in terms of Central Bank of Lesotho Act (see explanatory note)

The notes on pages 49 - 87 are an integral part of these financial statements.

CENTRAL BANK OF LESOTHO
STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2007

Explanatory notes

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

Dividends

The residual amounts after transfers to General Reserve are paid as dividends to the Government of Lesotho's Consolidated Fund in terms of Section 21(5) of the Central Bank of Lesotho Act of 2000.

Road Compensatory Reserve

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

Foreign Exchange Revaluation Reserve Account

In terms of Section 54 of the Central Bank of Lesotho Act No. 2 of 2000, the gains and losses arising from any changes in the valuation of the Bank's assets or liabilities in, or denominated in, gold or foreign currencies, or Special Drawing Rights as a result of changes in the exchange rate for the Maloti or of any change in the values, parities or exchange rates of such assets with respect to the Maloti shall be carried to a special account called the Revaluation Reserve Account. The profits or losses arising from such change are included in the income statement of the Bank and are then transferred from distributable reserves to the non-distributable Foreign Revaluation Reserve in terms of Section 54 of the Central Bank of Lesotho Act No. 2 of 2000.

CENTRAL BANK OF LESOTHO
CASH FLOW STATEMENT
for the year ended 31 December 2007

	Notes	2007 M '000	2006 M '000
Cash flow from operating activities			
Cash flow from operating activities	29	**2 039 343**	1 056 704
Taxation paid	19	**(65 161)**	(41 772)
Indirect taxes paid	34	**-**	(1 612)
Rand compensatory receipts		**22 149**	19 536
Payment to Government of Lesotho Consolidated Fund	20	**(127 201)**	(60 372)
Net cash flow from / (utilised by) operations		**1 869 130**	972 484
Cash flow from investing activities			
Additions to property and equipment		**(7 646)**	(19 330)
Proceeds from sale of fixed assets		**56 462**	-
Additions to intangible asset - Computer software	33	**(367)**	(6 591)
(Increase)/decrease in claims on staff	12	**(812)**	(730)
Decrease/(increase) in other assets	13	**602**	676
Net increase in local investments	8	**(22)**	102
Net decrease/(increase) in treasury bills	3	**(20 668)**	(366 648)
Net increase in foreign investments	4	**(1 190 757)**	(486 636)
Deferred currency expenditure	9	**(10 987)**	(345)
Purchase and disposal of foreign exchange	1	**(719 445)**	(175 360)
Net cash flow from investing activities		**(1 893 640)**	(1 054 863)
Cash flow from financing activities			
Notes and coins issued	14	**24 510**	82 379
Net cash flow from financing activities		**24 510**	82 379
Net increase in cash and cash equivalents		**-**	-
Cash and cash equivalents at the beginning of the year		**-**	-
Cash and cash equivalents at the end of the year	2	**-**	-

The notes on pages 49 - 87 are an integral part of these financial statement.

CENTRAL BANK OF LESOTHO
ACCOUNTING POLICIES
for the year ended 31 December 2007

1 The principal accounting policies applied in the preparation of these financial statements are set out below.
These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1

Basis of preparation

These financial statements are prepared in accordance with, and comply with International Financial Reporting Standards and the Central Bank of Lesotho Act, No. 2 of 2000. The financial statements are prepared in accordance with the going concern principle under the historical cost basis as modified by the revaluation of financial instruments classified as available-for-sale, financial assets and liabilities held at fair value through profit and loss and derivative instruments. All monetary figures appearing in the financial statements, unless otherwise indicated, are stated in Maloti.

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

a) Standards, amendments and interpretations effective in 2007

Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective 1 January 2007). The amendment to IAS 1 introduces disclosures about the level of the Bank's capital and how it manages its capital.

IFRS 7, Financial Instruments: Disclosures, and consequential amendments to IFRS 4 Implementation guidance (effective 1 January 2007). IFRS 7 introduces new requirements to improve the information on financial instruments that is given in the Bank's financial state-
1.2 ments. It requires disclosures about the significance of financial instruments for the Bank's financial position and performance. These disclosures incorporate many of the requirements previously in IAS 32. The IFRS also requires information about the extent to which the Bank is exposed to risks arising from financial instruments, and a description of management's objectives, policies and processes for managing those risks.

a) Standards, amendments and interpretations effective in 2007 (continued)

IFRIC 9 Reassessment of Embedded Derivatives (effective 1 June 2006). IFRIC 9 considers whether the treatment of an embedded derivative has to be reassessed subsequently if certain events occur. The Interpretation concludes that subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required.

IFRIC 8 Scope of IFRS 2 (effective 1 May 2006). IFRIC 8 clarifies that IFRS 2 applies to arrangements where Bank makes share-based payments for apparently nil or inadequate consideration. The Interpretation explains that, if the identifiable consideration given appears to be less than the fair value of the equity instruments granted or liability incurred, this situation typically indicates that other consideration has been or will be received. This interpretation is not relevant to the Bank’s operations.

IFRIC 10 Interim Financial Reporting and Impairment (effective 1 November 2006). IFRIC 10 prohibits the reversal of the impairment losses recognised in an interim period on goodwill and investments in equity instruments and financial assets carried at cost, at a subsequent balance sheet date. This interpretation is not relevant to the Bank’s operations.

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective 1 March 2007). IFRIC 11 addresses how to apply IFRS 2 to share-based payment arrangements involving a Bank's own equity instruments or equity instruments of another Bank in the same group (e.g. equity instruments of its parent). This interpretation is not relevant to the Bank’s operations.

b) Standards, amendments and interpretations issued but not yet effective in 2007 and not early adopted

IFRS 8 Operating Segments (effective 1 January 2009). IFRS 8 requires a Bank to adopt the ‘management approach' to reporting on the financial performance of its operating segments. The Standard sets out requirements for disclosure of information about the Bank’s operating segments and also about the Bank’s products and services, the geographical areas in which it operates, and its major customers. The disclosure should enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

b) Standards, amendments and interpretations issued but not yet effective in 2007 and not early adopted (continued)

IAS 23 Borrowing Costs – Revised (effective 1 January 2009). The main change from the previous version of IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale.

IAS 1 Presentation of Financial Statements – Revised (effective 1 January 2009). The revised IAS 1 requires information in the financial statements to be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income. This will enable readers to analyse changes in a company's equity resulting from transactions with owners in their capacity as owners separately from 'non-owner' changes. The revisions include changes in the titles of some of the financial statements to reflect their function more clearly (for example, the balance sheet is renamed a statement of financial position). The new titles are not mandatory for use in the financial statements.

Amendment to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of financial statements - Puttable Financial Instruments and Obligations Arising on Liquidation (effective 1 January 2009). The amendments require entities to classify the following types of financial instruments as equity, provided they have particular features and meet specific conditions: a) puttable financial instruments (for example, some shares issued by co-operative entities); b) instruments, or components of instruments, that impose on the Bank an obligation to deliver to another party a pro rata share of the net assets of the Bank only on liquidation (for example, some partnership interests and some shares issued by limited life entities). Additional disclosures are required about the instruments affected by the amendments.

c) Standards, amendments and interpretations issued but not yet effective in 2007 and not relevant

IAS 27 Consolidated and Separate Financial Statements (effective 1 July 2009). IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the Bank is re-measured to fair value and a gain or loss is recognised in profit or loss.

IFRS 3 Business Combinations (effective 1 July 2009). The new standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently re-measured at fair value through income. Goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest. All transaction costs will be expensed.

Amendment to IFRS 2 Share-Based Payment: Vesting Conditions and Cancellations (effective 1 January 2009). The amendment deals with two matters. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the Bank or by other parties, should receive the same accounting treatment.

IFRIC 12 Service Concession Arrangements (effective 1 January 2008). IFRIC 12 addresses how service concession operators should apply existing IFRSs to account for the obligations they undertake and rights they receive in service concession arrangements.

IFRIC 13 Customer Loyalty Programmes (effective 1 July 2008). IFRIC 13 addresses accounting by entities that grant loyalty award credits to customers who buy other goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services to customers who redeem award credits.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 1 January 2008). IFRIC 14 provides general guidance on how to assess the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected when there is a statutory or contractual minimum funding requirement.

1.2 Cash and Cash Equivalents

Cash and cash equivalents disclosed in the cash flow statement consist of cash and balances with banks and short-term negotiable securities. Cash flows arising from operating funds are stated after excluding the impact of foreign currency translation differences on asset and liability classes.

Cash and balances with banks comprise coins and bank notes and balances with other central and commercial banks. Short-term negotiable securities are highly liquid investments of maturities less than 3 months that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

1.3 Foreign currency translation

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised first in the income statement (and included in the net profit for the year) and then transferred on the statement of changes in equity to foreign currency reserves as required by the Central Bank of Lesotho Act, No. 2 of 2000 (also refer to the explanatory notes to the statement of changes in equity and note 33).

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amounts are recognised in equity.

Translation differences on non-monetary items, such as equities held at fair value through profit and loss, are reported as part of the fair value gain or loss. Translation differences on nonmonetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

1.4 Financial assets

The bank classifies its financial assets into the following categories: financial assets at fair value through profit and loss; held-to-maturity investments; available-for-sale financial assets and cash and cash equivalents. Management determines the classification of its investments at initial recognition.

Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit and loss at inception.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Financial assets and financial liabilities are designated at fair value through profit and loss when:

a) Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for such as loans and advances to customers or banks and debt securities in issue;

b) Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and

c) Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in 'net income from financial instruments designated at fair value'.

1.4 Financial assets (continued

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

(a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit and loss;

(b) those that the entity upon initial recognition designates as available for sale; or

(c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the bank's management has the positive intention and ability to hold to maturity. If the bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale.

Available-for-sale financial assets

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Regular-way purchases and sales of financial assets at fair value through profit and loss, held to maturity and available for sale are recognised on trade-date – the date on which the bank commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit and loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

Available-for-sale financial assets (continued)

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit and loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the bank establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

1.5 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1.6 Impairment of financial assets

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. A financial asset or group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but before the balance sheet date, that indicates that it is probable that the bank will be unable to collect all amounts due. The carrying amount of a financial asset identified as impaired is reduced to its estimated recoverable amount.

Financial assets at fair value through profit and loss

The recoverable amount of a financial asset at fair value through profit and loss is the quoted market price for quoted instruments. For unquoted instruments, the recoverable amount is the present value of expected cash flows discounted at the current market rate of interest for a similar financial asset.

An available-for-sale-instrument is generally considered impaired if a significant or prolonged decline in the fair value of the security below its cost has occurred. Where an available-for-sale asset which has been remeasured to fair value directly through equity is impaired, and a loss on the financial asset was previously recognised directly in equity, the cumulative net loss that had been recognised in equity is transferred to the income statement and is recognised as part of the impairment loss.

Available-for-sale financial assets

Where an available-for-sale asset is impaired, and an increase in the fair value of the financial asset was previously recognised in equity, the increase in fair value of the financial asset recognised in equity is reversed to the income statement to the extent that the asset is impaired and recognised as part of the impairment loss. Any additional impairment loss is recognised in the income statement. If in a subsequent period, the amount relating to an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, where the instrument is a debt instrument, the write-down is reversed through the income statement. An impairment loss in respect of an equity instrument classified as available- for-sale is not reversed through the income statement.

1.6 Impairment of financial assets (continued)

Financial assets carried at amortised cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment
• Delinquency in contractual payments of principal or interest;
• Cash flow difficulties experienced by the borrower;
• Breach of loan covenants or conditions; and
• Initiation of bankruptcy proceedings;

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

Financial assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement in impairment charge for credit losses.

1.7 Property, Plant and Equipment

Owner-occupied properties

Property, Plant and Equipment comprises owner occupied properties and equipment held foruse 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, plant and equipment are reflected at a valuation based on open-market fair value as determined every year end by independent professional valuers, less accumulated depreciation.

Unrealised surpluses or deficits arising on revaluation of property, plant and equipment are transferred to a Revaluation Reserve Account.

The most recent independent valuation was performed at 31 December 2006.

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

1.7 **Property, Plant and Equipment (continued)**

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating expenses in the income statement.

1.8 **Non-current assets held for sale**

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

1.9 **Lessee accounting**

Leases, where the bank assumes substantially all the benefits and risks of ownership, are classified as finance leases. Finance leases are capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are separated using the interest rate implicit in the lease to identify the finance cost, which is charged against income over the lease period, and the capital repayment, which reduces the liability to the lessor.

Leases of assets are classified as operating leases if the lessor effectively retains all the risks and benefits. Payments made under operating leases are charged to the income statement on a straightline basis over the period of the lease.

1.10 Accrual for leave pay

Employee benefits in the form of annual leave entitlements are provided for when they accrue to employees with reference to services rendered up to the balance sheet date.

1.11 Other provisions

Provisions for restructuring costs and legal claims are recognised when: the bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1.12 **Tax**

Deferred Income Tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions and other post-retirement benefits and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the bank and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and subsequently recognised in the income statement together with the deferred gain or loss.

Indirect tax

Indirect taxes, including non-recoverable value added tax (VAT) are separately disclosed in the income statement.

1.13 Revenue and expenditure

Revenues described below represent the most appropriate equivalent of turnover. Revenue is derived substantially from the business of banker to the Government of Lesotho and related activities and comprises net interest income and non-interest revenue.

Interest income and expenses are recognised in the income statement for all interest-bearing instruments on an accrual basis using the effective interest method. In terms of the effective interest method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the carrying amount on the financial statements. Direct incremental transaction costs incurred and origination fees received as a result of bringing margin-yielding assets on balance sheet, are capitalised to the carrying amount of financial instruments (excluding financial instruments at fair value through profit and loss) and amortised through interest income over the life of the asset.

Where financial assets have been impaired, interest income continues to be recognised on the impaired value based on the original effective interest rate. Net interest income includes fair value adjustments on interest-bearing financial instruments held at fair value, excluding financial instruments held for trading. Dividends received on lending activities are included in interest income.

Non-interest revenue

Non-interest revenue includes dividends from investments, fees and commission from banking, insurance and related transactions, net revenue from exchange and securities trading and net gains on the realisation or revaluation of investment banking assets.

1.14 Pensions, other post-retirement benefits and termination benefits

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

CENTRAL BANK OF LESOTHO
ACCOUNTING POLICIES
for the year ended 31 December 2007

1.15 Deferred Currency expenditure

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

1.16 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

1.17 Share Capital

(a) Share issue costs
Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.
(b) Dividends on ordinary shares
Dividends paid to the Government of Lesotho Consolidated Fund in terms of Section 21 (5) of the Central Bank Act are set out in the statement of changes in equity and recognised in the period in which it was earned.

1.18 Intangible Asset: Deferred Computer Software expenditure

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three years).
Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform with changes in presentation in current year.

2. Financial Risk Management

The bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on financial performance.

The bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to date information systems. The bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

Refer to the Risk Management Statements on pages 81-87.

3. *Fair values*

All financial assets are disclosed at values approximating their fair values. The following bases are used in determining fair value:

a) Balances due to and from banks

The amounts include inter-bank placement and items in course of collection.
The fair value of floating rate placements and overnight deposits is their carrying amount.
Fixed deposits are shown at current value including accrued interest.

b) Loans and advances

Loans and advances are shown net of provisions for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Where significant concentrations of non-market related loans exist appropriate impairment has been effected.

c) Investment securities

Investment securities held as available for sale are shown at market value. Other instruments such as treasury bills are based on the contracted value, including accrued discount, which is considered to approximate the current market value.

CENTRAL BANK OF LESOTHO
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

	2007 M '000	2006 M '000
1 Cash and cash equivalents		
Foreign Cash	**215**	781
Rand Currency Holding	**47 724**	33 303
ZAR Coins Holding	**-**	-
ZAR Notes Holding	**47 724**	33 303
Balances with banks	**2 762 190**	2 056 600
Current and Call Accounts:		
Overseas Banks	**192 080**	505 568
South African Banks	**504 349**	452 003
Total Current and Call Accounts	**696 429**	957 571
Fixed deposits:		
Overseas Banks	**1 159 389**	297 958
South African Banks	**906 372**	801 071
Total Fixed deposits	**2 065 761**	1 099 029
Total Cash and cash equivalents	**2 810 129**	2 090 684

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

	2007 M '000	2006 M '000
2 Due from Banks		
Accrued Interest receivable:		
Due from banks		
ZAR Call Accounts	**116**	223
ZAR Fixed Deposit Accounts	**31 200**	25 909
NON ZAR Call Accounts	**7 805**	4 308
	39 121	30 440

CENTRAL BANK OF LESOTHO
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

	2007 M '000	2006 M '000
3 Treasury Bills		
US Treasury bills at fair value:		
Maturing within 1 month	**-**	105 185
Maturing within 1 to 3 months	**236 735**	135 652
ZAR Treasury bills at fair value:		
Maturing within 1 month	**49 068**	39 791
Maturing within 1 to 3 months	**146 766**	135 340
	432 569	415 968
The movements in investments are:		
Opening carrying amount	**415 968**	49 320
Additions	**1 278 100**	1 028 804
Disposals	**(1 257 432)**	(662 888)
Exchange revaluation	**(4 067)**	732
Closing carrying amount	**432 569**	415 968

Treasury bills are debt securities issued by the US treasury department for a term of three months, six months or a year. All bills are subject to fixed interest rate risk (2006: variable/fixed).

	2007 M '000	2006 M '000
4 Treasury Notes & Bonds		
US Bonds at fair value	**967 039**	693 706
ZAR Bonds at fair value	**1 978 383**	1 285 155
US Bonds accruals	**12 272**	-
ZAR Bonds accruals	**152 333**	-
	3 110 027	1 978 861
The movements in investments are:		
Opening carrying amout	**1 978 861**	1 423 832
Additions	**1 966 558**	690 197
Disposals	**(611 196)**	(88 161)
Exchange revaluation	**(19 079)**	98 080
Fair value adjustment	**(205 117)**	(145 087)
Closing carrying amount	**3 110 027**	1 978 861

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

CENTRAL BANK OF LESOTHO
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

		2007 M '000	2006 M '000
5	**IMF Subcription Account**		
	Balance at 01 January	**316 413**	364 657
	Exchange revaluation	**68 648**	(48 244)
	Balance at 31 December	**385 061**	316 413

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 0.0906351 (2006: 0.110299).

		2007 M '000	2006 M '000
6	**IMF Holding of Special Drawing Rights**		
	Balance at 1 January	**1 302**	3 249
	Net transactions	**39 580**	(1 152)
	Exchange revaluation	**2 966**	(795)
	Balance at 31 December	**43 848**	1 302

The value of SDR3,974,184 allocated by the International Monetary Fund less utilisation is converted at 0.0906351 (2006: SDR143,659 at 0.110299).

		2007 M '000	2006 M '000
7	**IMF Funded PRGF Advances**		
	Balance at 01 January	**218 952**	255 993
	Paid during the year	**(15 868)**	(3 693)
	Exchange revaluation	**44 061**	(33 348)
	Balance at 31 December	**247 145**	218 952

These are funds secured under the IMF Poverty Reduction and Growth Facility and on-lent through the Government of Lesotho. The SDR equivalents and translation thereof are shown in note 18.

CENTRAL BANK OF LESOTHO
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

	2007 M '000	2006 M '000
8 Lesotho Government Securities		
Maturing within 1 month	**61**	39
Maturing within 1 to 3 months	**-**	-
Maturing within 3 to 6 months	**-**	-
Total treasury bills stated at fair value	**61**	39

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

	2007 M '000	2006 M '000
9 Deferred Currency Expenditure (notes and coins)		
Balance at 1 January	**1 641**	2 824
Expenditure during the year	**10 987**	345
Amortised during the year	**(5 190)**	(1 528)
Balance at 31 December	**7 438**	1 641

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

CENTRAL BANK OF LESOTHO
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

10. Property, Plant and Equipment

	CBL Building M '000	Work in Progress M '000	Residential Building M '000	Lehakoe Building M'000	Agric Bank Building M'000	Motor Vehicles M '000	Office Computer M '000	Office Comp Lehakoe M' 000	Office Equipment M '000	Housing Equipment M '000	Security Equipment M '000	Sports/Music Equipment M '000	Lehakoe Furniture M '000	Office Furniture M '000	Housing Furniture M '000	TOTAL M '000
Cost/Valuation																
At 31.12.2006	60 581	2 739	4 346	80 278	34 500	3 951	6 183	284	23 430	202	7 324	7 522	3 707	5 294	667	241 009
Additions	202	2 480	-	314	-	1 340	1 341	72	399	-	31	1 069	170	228	-	7 646
Disposals	-	-	-	-	(34 500)	(596)	-	-	(33)	(12)	-	-	-	(127)	-	(35 268)
Transfers	1 010	(1 041)	-	28	-	-	-	-	3	-	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
At 31.12.2007	**61 793**	**4 178**	**4 346**	**80 620**	**-**	**4 695**	**7 524**	**356**	**23 799**	**190**	**7 355**	**8 591**	**3 877**	**5 395**	**667**	**213 386**
Accumulated Depreciation																
At 31.12.2006	4 377	-	324	3 192	-	2 150	4 601	64	8 320	100	663	2 532	919	1 821	190	29 253
On Disposal	-	-	-	-	-	(473)	-	-	(27)	(7)	-	(1)	-	(70)	-	(578)
For the year	935	-	67	1 219	-	972	332	77	2 117	22	1 412	1 475	372	830	85	9 915
At 31.12.2007	**5 312**	**-**	**391**	**4 411**	**-**	**2 649**	**4 933**	**141**	**10 410**	**115**	**2 075**	**4 006**	**1 291**	**2 581**	**275**	**38 590**
Carrying Amount																
At 31.12.2006	56 204	2 739	4 022	77 085	-	1 802	1 583	220	15 111	102	6 662	4 989	2 788	3 473	477	177 257
At 31.12.2007	**56 481**	**4 178**	**3 955**	**76 209**	**-**	**2 046**	**2 591**	**215**	**13 389**	**75**	**5 280**	**4 585**	**2 586**	**2 814**	**392**	**174 796**
Transfer to Non-Current Assets held for sale:			-	-	-	-	-	-	-	-	-	-	-	-	-	-
Carrying Amount 31.12.07	**56 481**	**4 178**	**3 955**	**76 209**	**-**	**2 046**	**2 591**	**215**	**13 389**	**75**	**5 280**	**4 585**	**2 586**	**2 814**	**392**	**174 796**

CENTRAL BANK OF LESOTHO
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

	2007 M '000	2006 M '000
11 Deferred Taxation		
Balance at 1 January	**326 598**	244 969
(Reversing) in current year	**(7 295)**	(791)
Arising in the current year	**-**	82 420
Balance at 31 December	**- 319 303**	326 598
Deferred Taxation comprises:		
Capital allowances	**1 264**	74
Provisions	**(2 960)**	(1 984)
Deferred Expenses	**2 421**	1 576
Off-market loans	**1 434**	129
Fair value adjustment of fixed assets	**958**	11 532
Assets available for sale	**-**	5 375
Foreign exchange Revaluation as restated	**403 737**	346 168
Bond Revaluation Reserve	**(87 551)**	(36 272)
Balance at 31 December	**319 303**	326 598
Deferred tax arising on:		
Foreign currency translation	**57 569**	100 407
Other Income Statement items	**2 159**	5 170
Reserves	**259 575**	221 021
	319 303	326 598
12 Claims on Staff		
Housing Loans	**9 958**	9 613
Car Loans	**8 490**	8 372
Furniture Loans	**927**	936
Other Loans & Advances	**1 885**	1 525
	21 260	20 446

CENTRAL BANK OF LESOTHO
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

	2007 M '000	2006 M '000
13 **Other Assets**		
Cheques for collection and uncleared items	**2 139**	2 174
Other Prepayments	**820**	1 394
Other Claims	**932**	924
	3 891	4 492
14 **Notes and Coins Issued**		
Notes		
Coins	**389 224**	365 870
	12 997	11 842
	402 221	377 712

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

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

	2007 M '000	2006 M '000
15 **Deposits**		
Deposits from Banks - Non-interest bearing		
Bankers	**208 444**	126 299
Other Deposits - Non-interest bearing	**2 257**	2 616
International Institutions	**191 809**	230 982
Parastatals and others		
Other Deposits - Interest bearing	**9 810**	11 882
Staff call account	**412 320**	371 779
Total Deposits		

CENTRAL BANK OF LESOTHO
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

	2007 M '000	2006 M '000
16 IMF Maloti Currency Holding		
Securities account	**245 447**	245 447
General resources accounts	**100 062**	38 465
	345 509	283 912
17 IMF Special Drawing Rights Allocation		
Balance at 1 January	**33 899**	39 067
Exchange Revaluation	**7 354**	(5 168)
Balance at 31 December	**41 253**	33 899

Lesotho's allocation by IMF of SDR3,739,000 converted at 0.0906351 (2006: 0.110299)

	2007 M '000	2006 M '000
18 IMF-PRGF Facility		
	218 952	255 993
Balance at 1 January	**(15 868)**	(3 693)
Paid during the year	**44 061**	(33 348)
Exchange revaluation	**247 145**	218 952
Balance at 31 December		

This IMF loan was secured under the Poverty Reduction and Growth Facility. The Ministry of Finance tranche is now accounted for through the Bank's records to present the amount due to the IMF. The balance due to the IMF amounted to SDR22,400,000 converted at 0.0906351 as at 31 December 2007 (2006: 0.110299). The loan has been on-lent as per note 7. Interest expense and exchange rate differences are borne by the Government of Lesotho.

	2007 M '000	2006 M '000
19 Taxation Liabilities		
	14 596	11 099
Balance at 1 January	**(14 596)**	(11 099)
Paid during the year	**83 846**	45 269
Current year charge	**(50 566)**	(30 673)
Provisional payments made	**33 280**	14 596
Balance at 31 December		

CENTRAL BANK OF LESOTHO
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

	2007 M '000	2006 M '000
20 Due to Government of Lesotho Consolidated Fund		
Balance at 1 January	**79 004**	44 527
Prior year final dividend paid in current year	**(79 004)**	(44 527)
Profit appropriations for the current year	**240 822**	94 849
Current year interim dividend paid	**(48 197)**	(15 845)
Balance due at 31 December	**192 625**	79 004
21 Accruals		
Donations suspense - Government's Referral Hospital	**31 337**	27 988
Accrued Severance pay	**10 453**	6 867
Various Accruals	**6 850**	2 914
Promissory Note to Agric. Bank Building	**-**	13 000
Divisional Cheques A/Cs	**1 223**	2 966
Other	**2 702**	2 707
	52 565	56 442
Less: Transfer to non-current liabilities held for sale (see note 32)	**-**	(13 000)
	52 565	43 442
22 Share Capital		
Authorised		
Authorised capital	**100 000**	100 000
Issued		
Issued and fully paid	**25 000**	25 000

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

	2007 M '000	2006 M '000
23 Interest Income		
Foreign Currency Deposits	**214 369**	125 188
Foreign Currency Investments	**235 572**	147 970
Government Securities	**10**	5
Staff loans	**419**	401
IAS 39 Interest - off-market loan adjustment	**-**	517
Other institutions	**-**	12
	450 370	274 093

CENTRAL BANK OF LESOTHO
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

		2007 M '000	2006 M '000
24	**Interest Expense**		
	Parastatal and Government deposits	**28**	26
	Local bank deposits	**1**	11
	IMF SDR allocation account	**1 638**	1 957
	Other Investments	**46 640**	31 314
	Staff call account	**-**	-
		48 307	33 308
25	**Other Income**		
	Rent received	**695**	2 131
	Lehakoe proceeds	**6 374**	4 884
	Profit on sale of Property, Plant and Equiptment	**21 770**	-
	Other	**1 179**	776
		30 018	7 791
26	**Personnel Costs**		
	Staff Welfare expenses	**3 354**	1 816
	Non-executive directors' fees	**138**	119
	Executive directors' salaries	**1 802**	1 085
	Key management	**2 618**	3 418
	Staff salaries and expenses	**38 647**	37 123
	Pension fund contributions	**2 194**	2 066
	Gratuity and severance expenses	**5 158**	2 534
		53 911	48 161

Key management refers to departmental heads.

		2007 M '000	2006 M '000
27	**Other Operating Costs and Expense per nature**		
	Administration and other expenses	**25 036**	13 517
	Auditors' remuneration - current year	**351**	591
	Deferred currency expenses amortised	**5 190**	1 527
	Deferred computer software expenses amortised	**2 786**	3 870
	Depreciation	**9 915**	6 715
	Property expenses	**8 064**	8 326
		51 342	34 546

CENTRAL BANK OF LESOTHO
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

	2007 M '000	2006 M '000
28 **Taxation**		
Normal tax for the year	**83 846**	45 269
Deferred tax arising on foreign currency translation	**57 569**	100 407
Deferred tax arising on other income statement items	**2 159**	5 170
	143 574	150 846
Reconciliation of tax expense:		
Chargeable Profit	**326 826**	164 258
Tax calculated at 25%	**81 706**	45 171
Add:		
Donations	**59**	84
Severance pay Provision	**883**	226
Gratuity Provision	**92**	37
Training Expenses	**722**	801
Depreciation	**2 479**	1 847
50 % Entertainment	**21**	11
Less:		
Capital Allowances	**(1 214)**	(1 765)
Staff loans interest unwound	**-**	(142)
Training expenses 125%	**(902)**	(1 001)
Income tax expens	**83 846**	45 269

CENTRAL BANK OF LESOTHO
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

29 Cash Flow from Operating Activities

	2007 M '000	2006 M '000
Reconciliation of profit before tax to cash generated from operations:		
Profit before tax	**570 013**	523 625
Adjustments for:		
Depreciation		
Deferred currency expenses amortised	**9 914**	6 715
Deferred computer software expenses amortised	**5 190**	1 527
Net Profit/loss on disposal of fixed assets	**2 786**	
Fair value adjustment on bonds	**(21 770)**	-
Unrealised Exchange rate fluctuations	**205 117**	145 087
	(267 557)	-
Net cash generated by operating activities		
	503 693	676 954
Changes in working capital:		
Balances due from other banks and other debtors' accounts	**(173 287)**	(15 663)
Deposit accounts	**1 755 057**	751 420
Creditors and other liability accounts	**9 122**	(12 897)
Liabilities available for sale	**(13 000)**	13 000
Changes in IMF Maloti Currency holding	**61 597**	(43 379)
Exchange rate fluctuations	**-**	(357 755)
Changes in IMF Subscription account	**(68 648)**	48 246
Changes in Special Drawing Rights holding account	**(42 546)**	1 947
Changes in Special Drawing Rights allocation account	**7 355**	(5 169)
Cash utilised by changes in working capital	**1 535 650**	379 750
Cash flow from operating activities	**2 039 343**	1 056 704

	2007 M '000	2006 M '000

30 Capital Commitments

There were capital commitments at the end of 2007 in respect of the office building in the amount of M2.1 million and for a Document Management System and Midas Upgrade in the amount of M2.0 million.

31 Post retirement obligations

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

32 Non-current Asset and Liabilities held for sale

	2007 M '000	2006 M '000
Non-current assets held for sale:		
Building transferred from Property, Plant and Equipment (note 10)	-	34 500
Non-current liabilities held for sale:		
Promissary notes transferred from accruals (note 21)	-	13 000

Transferred out of property, plant and equipment is a property held by Kotulo Properties (Pty) Ltd to the value of M 34.5 million. This company was formed by the Bank specifically to own the property of the liquidated Lesotho Agricultural Development Bank that the Government of Lesotho allocated to the Bank for the purpose of providing office space for another commercial bank to enter the financial market in Lesotho.

CENTRAL BANK OF LESOTHO
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

	2007 M '000	2006 M '000
32 Non-current Asset and Liabilities held for sale (continued)		

The process of voluntary winding-up of Kotulo Properties (Pty) Ltd was concluded. The shareholders of Kotulo Properties (Pty) Ltd had been holding the shares on behalf of the Bank and therefore the property and accompanying rent collected were included in the financial statements. With the voluntary winding-up, the property of the liquidated Lesotho Agricultural Development Bank was vested directly in the Central Bank of Lesotho. The process of disposal of the property by public tender had commenced by 31 December 2006, and were finalised during March 2007. The promissory notes issued in respect of the Lesotho Agricultural Development Bank to the value of M13m in favour of the Government of Lesotho was paid on 10 July 2007.

33 Indirect Taxes

	2007 M '000	2006 M '000
Indirect Taxes that are not recoverable due to the nature of the Bank	**-**	1 612

34 Intangible Asset - Deferred Computer Software

	2007 M '000	2006 M '000
Balance at 1 January	**4 664**	1 943
Paid during the year	**367**	6 591
Amortised during the year	**(2 786)**	(3 870)
Balance at 31 December	**2 245**	4 664

35 Related party transactions

The Bank is owned by the Government of Lesotho.

A number of banking transactions are entered into with the Government as the Central Bank also acts as banker to the Government in the normal course of business.

The deposits with the Bank held by the Government is disclosed separately in the Balance Sheet.

All payments relating to taxes, property rates and service utilisation are at arms length.

CENTRAL BANK OF LESOTHO
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

		2007 M '000	2006 M '000

36 Related party transactions (continued)

Loans to staff are disclosed in note 12.

		2007 M '000	2006 M '000
Gross advances made to:			
Directors:	House	**-**	-
	Car	**299**	344
	Furniture	**20**	28
Heads of Divisions:	House	**1 139**	-
	Car	**1 987**	1 161
	Furniture	**103**	41
Balances due at year end:			
Directors:	House	**-**	316
	Car	**237**	21
	Furniture	**12**	1 184
Heads of Divisions:	House	**1 036**	2 041
	Car	**1 754**	101
	Furniture	**56**	
Interest charged for the year:	House	**-**	-
Directors:	Car	**5**	4
	Furniture	**1**	-
	House	**18**	20
Heads of Divisions:	Car	**31**	35
	Furniture	**3**	2

No advances were made to the Governors and accordingly no balance is outstanding.

No provisions have been recognised in respect of loans given to related parties and none is required.

The loans issued to directors and other key management personnel during the year are repayable monthly and have interest rates of 3%.

The Central Bank however requires and accordingly has the following as collateral
- termination benefits
- title deeds
- registered mortgages

Further, all short term and long term loans are covered by insurance policies to ensure recoveries in instances of death of employees.

CENTRAL BANK OF LESOTHO
RISK MANAGEMENT STATEMENT
for the year ended 31 December 2007

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

Management structures

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

Risk elements

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

Market price risk

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

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

The following table summarises the Bank's exposure to Foreign currency exchange rate fluctuations as at 31 December 2007:

Currency	Value of	Exchange	Maloti Equivalent M'000
Cash and Balances with Ranks			
South Africa	3 836 590	1.0000	3 836 590
United States	236 987	6.8115	1 614 240
Botswana	6	1.1268	7
England	22 742	13.6508	310 449
European Union	63 632	10.0255	637 943
Switzerland	366	6.0550	2 217
SDR	235	10.7520	2 529
LSL	(6 395 464)	1.0000	(6 395 464)
Treasury Bills			
South Africa	195 834	1.0000	195 834
USA	34 755	6.8115	236 735
Treasury Notes & Bonds			
South Africa	2 130 716	1.0000	2 130 716
United States	143 773	6.8115	979 311

CENTRAL BANK OF LESOTHO
RISK MANAGEMENT STATEMENT
for the year ended 31 December 2007

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.

CENTRAL BANK OF LESOTHO
CREDIT RISK ANALYSIS
for the year ended 31 December 2007

The table below shows the investment spread of the funds of the Bank globally and the credit rating of such institutions

	M '000 Carrying amount	M '000 Maximum exposure	Held in Deno-mination	Type of collateral held	Credit rating
CASH AND BALANCES WITH BANKS	2 810 129				
Cash	47 939	-		none	n/a
Cash in ZAR	47 724		ZAR		
Cash in USD	183		USD		
Cash in GBP	3		GBP		
Cash in EUR	29		EUR		
Balance with Banks	2 762 190	2 762 190			
Call and Current A/CS	696 429				
Swiss Bank	542	542	CHF		n/a
B.I.S	1 674	1 674	CHF		n/a
Deutsche Bundesbank	427	427	EUR	none	n/a
B.I.S	90 783	90 783	EUR	none	n/a
Bank de Belgique	14	14	EUR	none	n/a
Commerz	10 070	10 070	EUR	none	F1/A
Bank of England	1 568	1 568	GBP	none	n/a
Standard Chartered London	5 953	5 953	GBP	none	F1/A+
Crown Agents	1 414	1 414	GBP	none	F1/A
B.I.S	65 823	65 823	GBP	none	n/a
Federal Reserve Bank of N.Y	1 036	1 036	GBP	none	n/a
BankTrust.N.Y	298	298	USD	none	n/a
B.I.S. Basle	2 260	2 260	USD	none	n/a
Bank of N.Y	167	167	USD	none	F1+/AA-
CITI N.Y	7 730	7 730	USD	none	F1+/AA
Crown Agents	2 310	2 310	USD	none	F1/A
South African Reserve Bank	372 743	372 743	USD	none	n/a
ABSA Bank	8 168	8 168	ZAR	none	F1+AAA
Investec Bank	41 399	41 399	ZAR	none	F1+/AA-
First Rand	6 539	6 539	ZAR	none	F1+/AA+
Citi Bank	30 860	30 860	ZAR	none	F1+/AA
Bank of N.Y	5	5	ZAR	none	F1+/AA-
NedBank	9 313	9 313	ZAR	none	F1+/AA
Standard Bank	6 334	6 334	ZAR	none	F1+/AA+
Standard Merchant	1 307	1 307	ZAR	none	F1+/AA+
ACT.ABSA	27 685	27 698	ZAR	none	F1+/AAA
Standard Chartered London	7	7	BWP	none	
Fixed Deposits	2 065 761				
B.I.S	360 918	360 918	EUR	none	n/a
Firstrand	100 255	100 255	EUR	none	F1+AA+
Crown Agents	70 179	70 179	EUR	none	F1/A
Crown Agents	157 996	157 996	GBP	none	n/a
BIS	75 377	75 377	GBP	none	n/a
FedralReseve N.Y	252 026	252 026	USD	none	n/a
Bank of N.Y	21 657	21 657	USD	none	F1+/AA-
Crown Agents	120 981	120 981	USD	none	F1/A
ABSA Bank	120 000	120 000	ZAR	none	F1+/AAA
Investec	296 372	296 372	ZAR	none	F1+/AA-
Firstrand	100 000	100 000	ZAR	none	F1+AA+
CitiBank	100 000	100 000	ZAR	none	F1+/AA
NedBank	180 000	180 000	ZAR	none	F1+/AA-
Standard Bank	110 000	110 000	ZAR	none	F1+AA+
Staff Loans (refer note 12 and 35)	21 260	21 260	ZAR	refer note 35	

CENTRAL BANK OF LESOTHO
SENSITIVITY ANALYSIS
for the year ended 31 December 2007

The following tables below show the sensitivity of both currency and foreign investment risk should the interest rate move either +5% or -5% (500 basis points) directions. The overall impact on profit before tax and equity. However, unrealised gains and losses are first accounted for in the income statement and then transfered to reserves in the statement of changes in equity statement in line with the Central Bank Act of 2000.

Data for Currency and Foreign Investment Risk (figures in original currencies)

	31-Dec-06			31-Dec-07	
	Portfolio level	exchange rate		Portfolio level	exchange rate
zar	2 765 634	1.000	zar	3 836 590	1.000
usd	166 960	6.993	usd	236 987	6.812
eur	42 768	9.213	eur	63 632	10.026
gbp	14 042	13.727	gbp	22 742	13.651
bwp	2	1.169	bwp	6	1.127
chf	373	5.768	chf	366	6.055
sdr	(3 435)	10.272	sdr	235	10.752

Base Case
Data for Currency and Foreign Investment Risk (figures in LSL)

	31-Dec-06			31-Dec-07		
	Portfolio level	Portfolio level in %	exchange rate	Portfolio level	Portfolio level in %	exchange rate
zar	2 765 634	61.49%	1.000	3 836 590	59.91%	1.000
usd	1 174 750	26.12%	6.993	1 614 240	25.21%	6.812
eur	396 295	8.81%	9.213	637 943	9.96%	10.026
gbp	193 835	4.31%	13.727	310 449	4.85%	13.651
bwp	3	0.00%	1.169	7	0.00%	1.127
chf	2 151	0.00%	5.768	2 217	0.03%	6.055
sdr	(35 287)	-0.01%	10.272	2 529	0.04%	10.752
	4 497 381			6 403 975		

CENTRAL BANK OF LESOTHO
SENSITIVITY ANALYSIS
for the year ended 31 December 2007

5% increase in exchange rate
Data for Currency and Foreign Investment Risk (figures in LSL)

	29-Dec-06				31-Dec-07			
	Portfolio level	Level Change	Port. Level in %	exchange rate	Portfolio level	Port. level in %	Level Change	exchange rate
zar	2 765 634	-	61.49%	1.000	3 836 590	59.91%	-	1.000
usd	1 225 844	(51 094)	27.26%	7.342	1 694 952	26.47%	(80 712)	7.152
eur	413 721	(17 426)	9.20%	9.674	669 840	10.46%	(31 897)	10.527
gbp	202 384	(8 549)	4.50%	14.413	325 972	5.09%	(15 522)	14.333
bwp	3	-	0.00%	1.228	8	0.00%	-	1.183
chf	2 259	(108)	0.00	6.056	2 328	0.04%	(111)	6.358
sdr	(37 051)	1 764	(0.01)	10.785	2 655	0.04%	(126)	11.290
Total	4 572 793				6 532 345			
% Change					-2%			

5% decrease in exchange rate
Data for Currency and Foreign Investment Risk (figures in LSL)

	29-Dec-06				31-Dec-07			
	Portfolio level	Level Change	Port. Level in %	exchange rate	Portfolio level	Port. level in %	Level Change	exchange rate
zar	2 765 634	-	62.85%	1.00	3 836 590	61.13%	-	1.000
usd	1 109 097	65 653	25.20%	6.64	1 533 528	24.44%	80 712	6.471
eur	374 319	21 976	8.51%	8.75	606 045	9.66%	31 897	9.524
gbp	183 109	10 726	4.16%	13.04	294 927	4.70%	15 522	12.968
bwp	2	-	0.00%	1.11	7	0.00%	-	1.070
chf	2 044	108	0.05%	5.48	2 107	0.03%	111	5.752
sdr	(33 523)	(1 764)	-0.76%	9.76	2 402	0.04%	126	10.214
Total	4 400 683				6 275 606			
% Change					2%			

CENTRAL BANK OF LESOTHO
LIQUIDITY RISK
for the year ended 31 December 2007

Analysis of financial assets and liabilities by remaining contractual maturities
The table below summarises the remaining contractual maturities of the Bank's financial liabilities based on undiscounted cash flows:

	Note	Redeemable on demand 2007 M'000	Maturing within 1 month 2007 M'000	Maturing after 1 month but within 6 months 2007 M'000	Maturing after 6 months but within 12 months 2007 M'000	Maturing after 12 months but within 5 years 2007 M'000	Maturing after 5 years 2007 M'000	Total 2007 M'000	Total 2006 M'000
Financial assets									
Cash and balances with banks	1	744 278	712 871	1 352 980	-	-	-	2 810 129	2 090 684
Due from banks	2	115	13 459	25 547	-	-	-	39 121	30 440
Treasury Bills	3	-	49 068	383 501	-	-	-	432 569	415 968
Treasury Notes & Bonds	4	-	-	-	-	1 841 925	1 268 102	3 110 027	1 978 861
IMF accounts	5,6,7	-	-	-	-	-	676 054	676 054	536 667
Lesotho Government Securities	8	-	61	-	-	-	-	61	39
Claims on staff	12	-	-	-	1 885	9 417	9 958	21 260	20 446
Total Financial Assets		**744 393**	**775 459**	**1 762 028**	**1 885**	**1 851 342**	**1 954 114**	**7 089 221**	**5 073 105**
Financial liabilities									
Notes & Coins inssued	14	402 221	-	-	-	-	-	402 221	377 712
Deposits	15	412 320	-	-	-	-	-	412 320	371 779
Lesotho Government Deposits		3 927 858	-	-	-	-	-	3 927 858	2 213 342
IMF Accounts	16,17,18	-	-	-	-	-	633 907	633 907	536 763
Total Financial liabilities		**4 742 399**	**-**	**-**	**-**	**-**	**633 907**	**5 376 306**	**3 499 596**
Net Total recognised financial instruments		**(3 998 006)**	**775 459**	**1 762 028**	**1 885**	**1 851 342**	**1 320 207**	**1 712 915**	**1 573 509**
Letters of credit and financial guarantees									
Financial guarantees									
Irrevocable unutilised facilities									
Total unrecognised financial instruments		-	-	-	-	-	-	-	-
Net liquidity gap		**(3 998 006)**	**775 459**	**1 762 028**	**1 885**	**1 851 342**	**1 320 207**	**1 712 915**	**1 573 509**

CENTRAL BANK OF LESOTHO
CAPITAL RISK MANAGEMENT
for the year ended 31 December 2007

In terms of the Central Bank of Lesotho Act 2000, in the case of any year at the end of which the general reserve of the Bank does not exceed the minimum paid-up capital of the Bank, one third of the net profits will be allocated to general reserve and in case where general reserve exceeds paid up capital but not less than four times, one sixth of the net profits will be allocated to general reserve. However, where the general reserve of the Bank exceeds four times the paid-up capital, with the approval of the Minister, further allocations may be made from time to time to the general reserve to increase it beyond four times the minimum paid-up capital. At the end of 2007 the general reserve had reached more than four times the paid-up capital of the Bank and further allocations were not made to the general reserve.

TABLE OF CONTENTS FOR STATISTICAL APPENDIX

Table A1

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007*
Primary Sector:	**642.60**	**659.50**	**726.50**	**659.40**	**619.30**	**621.30**	**705.40**	**832.30**	**935.00**	**919.80**
Agriculture	640.00	656.80	723.30	655.90	615.80	616.40	604.70	594.50	604.80	465.80
Mining & Quarrying	2.60	2.70	3.20	3.50	3.50	4.90	100.70	237.80	330.20	454.00
Secondary Sector:	**1289.00**	**1301.00**	**1370.40**	**1434.00**	**1529.90**	**1542.10**	**1533.90**	**1481.00**	**1583.50**	**1708.40**
Manufacturing	542.00	540.10	563.80	607.90	650.20	687.20	701.80	641.20	708.70	786.70
Electricity & Water	168.40	226.00	219.90	230.20	243.50	249.70	253.60	280.80	312.20	339.40
Building & Construction	578.60	534.90	586.70	595.90	636.20	605.20	578.50	559.00	562.60	582.30
Tertiary Sector:	**1522.40**	**1551.00**	**1602.50**	**1654.70**	**1726.30**	**1831.80**	**1869.50**	**1946.80**	**2075.10**	**2205.40**
Wholesale and Retail Trade, repairs	309.40	294.00	281.60	**288.60**	301.50	317.40	319.30	323.80	352.60	375.50
Hotels and Restaurants	43.50	49.70	54.70	53.40	55.60	60.60	63.30	67.70	73.60	79.50
Transport & Communication	131.00	137.90	144.20	153.80	160.00	184.30	197.10	220.90	241.70	265.40
Transport and Storage	72.20	70.40	70.60	71.50	75.50	76.90	79.70	82.20	84.30	86.80
Post and Telecommunicatios	58.80	67.50	73.60	82.30	84.50	107.40	117.40	138.70	157.40	178.60
Financial Intermediation	102.90	136.10	201.50	210.40	267.70	295.10	285.20	303.90	348.10	389.90
Real Estate & Business Services	231.90	226.90	227.70	227.50	235.90	238.70	242.50	249.90	258.60	263.80
Owner-occupied Dwellings	162.20	165.40	168.70	172.10	175.50	179.00	182.60	186.30	190.00	193.80
Other Real Estate & Business Services	69.70	61.50	59.00	55.40	60.40	59.70	59.90	63.60	68.60	70.00
Public Administration	283.30	277.90	269.60	279.30	259.40	268.60	280.40	286.00	296.30	304.90
Education	307.40	313.10	316.00	331.00	337.60	356.30	370.10	381.00	388.50	407.90
Health & Social Work	71.50	73.30	64.50	67.50	64.80	66.40	66.60	68.40	69.90	72.10
Community, Social & Personal Services	41.50	42.10	42.70	43.20	43.80	44.40	45.00	45.20	45.80	46.40
GDP at Factor Cost (unadjusted)	**3454.00**	**3511.50**	**3699.40**	**3748.10**	**3875.50**	**3995.20**	**4108.80**	**4260.10**	**4593.60**	**4833.60**
Less: Imputed Bank Serv. Charg.	74.20	99.90	164.30	169.10	224.40	242.50	211.20	224.70	266.20	298.10
GDP at Factor Cost	**3379.80**	3411.60	**3535.10**	**3579.00**	**3651.10**	**3752.70**	**3897.60**	**4035.40**	**4327.40**	**4535.50**
Plus: Indirect taxes, Net	457.20	424.00	98.70	424.60	466.40	475.80	507.50	496.00	528.40	570.10
GDP at Market Prices	**3837.00**	**3835.60**	**3933.80**	**4003.60**	**4117.50**	**4228.50**	**4405.10**	**4531.40**	**4855.80**	**5105.60**

Source: Bureau of Statistics
* CBL Projections

Table A2

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007*
Primary Sector:	**5.41**	**2.63**	**10.16**	**-9.24**	**-6.08**	**0.32**	**13.54**	**17.99**	**12.34**	**12.34**
Agriculture	5.47	2.63	10.12	-9.32	-6.11	0.10	-1.90	-1.69	1.73	1.73
Mining & Quarrying	-7.14	3.85	18.52	9.37	0.00	40.00	1955.10	136.15	38.86	38.86
Secondary Sector:	**-11.82**	**0.93**	**5.33**	**4.64**	**6.69**	**0.80**	**-0.53**	**-3.45**	**6.92**	**6.92**
Manufacturing	-3.32	-0.35	4.39	7.82	6.96	5.69	2.12	-8.63	10.53	10.53
Electricity & Water	-30.98	34.20	-2.70	4.68	5.78	2.55	1.56	10.73	11.18	11.18
Building & Construction	-11.96	-7.55	9.68	1.57	6.76	-4.87	-4.41	-3.37	0.64	0.64
Tertiary Sector:	**1.14**	**1.88**	**3.32**	**3.26**	**4.33**	**6.11**	**2.06**	**4.13**	**6.59**	**6.59**
Wholesale and Retail Trade, repairs	-4.24	-4.98	-4.22	2.49	4.47	5.27	0.60	1.41	8.89	8.89
Hotels and Restaurants	-11.59	14.25	10.06	-2.38	4.12	8.99	4.46	6.95	8.71	8.71
Transport & Communication	-4.66	5.27	4.57	6.66	4.03	15.19	6.95	12.08	9.42	9.42
Transport and Storage	-7.55	-2.49	0.28	1.27	5.59	1.85	3.64	3.14	2.55	2.55
Post and Telecommunicatios	-0.84	14.80	9.04	11.82	2.67	27.10	9.31	18.14	13.48	13.48
Financial Intermediation	-0.29	32.26	48.05	4.42	27.23	10.24	-3.35	6.56	14.54	14.54
Real Estate & Business Services	-2.93	-2.16	0.35	-0.09	3.69	1.19	1.59	3.05	3.48	3.48
Owner-occupied Dwellings	2.01	1.97	2.00	2.02	1.98	1.99	2.01	2.03	1.99	1.99
Other Real Estate & Business Services	-12.77	-11.76	-4.07	-6.10	9.03	-1.16	0.34	6.18	7.86	7.86
Public Administration	11.36	-1.91	-2.99	3.60	-7.12	3.55	4.39	2.00	3.60	3.60
Education	2.95	1.85	0.93	4.75	1.99	5.54	3.87	2.95	1.97	1.97
Health & Social Work	20.17	2.52	-12.01	4.65	-4.00	2.47	0.30	2.70	2.19	2.19
Community, Social & Personal Services	1.22	1.45	1.43	1.17	1.39	1.37	1.35	0.44	1.33	1.33
GDP at Factor Cost (unadjusted)	**-3.43**	**1.66**	**5.35**	**1.32**	**3.40**	**3.09**	**2.84**	**3.68**	**7.83**	**7.83**
Less: Imputed Bank Serv. Charg.	-1.72	34.64	64.46	2.92	32.70	8.07	-12.91	6.39	18.47	18.47
GDP at Factor Cost	**-3.47**	**0.94**	**3.62**	**1.24**	**2.01**	2.78	**3.86**	**3.54**	**7.24**	**7.24**
Plus: Indirect taxes, Net	-10.07	-7.26	-5.97	6.50	9.84	2.02	6.66	-2.27	6.53	6.53
GDP at Market Prices	**-4.30**	**-0.04**	**2.56**	**1.77**	**2.84**	**2.70**	**4.18**	**2.87**	**7.16**	**7.16**

Source: Bureau of Statistics
* CBL Projections

Table A3

GROSS DOMESTIC PRODUCT BY KIND OF ECONOMIC ACTIVITY

(At Current Prices)
Million Maloti

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007*
Primary Sector:	**749.80**	**836.70**	**968.50**	**1009.70**	**1078.90**	**1228.80**	**1450.60**	**1778.40**	**2056.80**	**2075.00**
Agriculture	745.90	831.90	960.90	1000.60	1068.90	1215.90	1275.90	1356.80	1460.60	1190.50
Mining & Quarrying	3.90	4.80	7.60	9.10	10.00	12.90	174.70	421.60	596.20	884.50
Secondary Sector:	**1713.90**	**2071.40**	**2212.20**	**2477.90**	**2761.20**	**2882.40**	**2851.30**	**2953.30**	**3276.10**	**3815.60**
Manufacturing	775.60	823.20	910.10	1054.40	1352.30	1421.70	1380.50	1402.40	1607.00	1924.70
Electricity & Water	225.30	322.30	317.80	367.20	347.10	350.30	370.20	430.60	479.70	562.60
Building & Construction	713.00	925.90	984.30	1056.30	1061.80	1110.40	1100.60	1120.30	1189.40	1328.30
Tertiary Sector:	**2016.00**	**2216.40**	**2395.80**	**2615.80**	**2948.00**	**3301.50**	**3469.40**	**3561.00**	**4038.20**	**4614.20**
Wholesale and Retail Trade, repairs	408.10	425.40	490.30	545.10	636.60	770.80	814.30	665.50	768.60	883.20
Hotels and Restaurants	56.30	69.00	80.40	83.90	102.20	146.70	160.40	153.30	206.80	241.00
Transport & Communication	161.30	182.90	189.60	212.60	277.50	342.90	359.30	408.70	446.00	522.80
Transport and Storage	104.60	107.20	107.70	129.40	150.90	161.50	169.80	190.60	207.20	230.30
Post and Telecommunicatios	56.70	75.70	81.90	83.20	126.60	181.40	189.50	218.10	238.80	292.50
Financial Intermediation	130.90	173.40	257.80	269.10	345.80	387.30	397.50	440.20	531.00	641.70
Real Estate & Business Services	275.10	272.70	290.60	344.10	371.20	386.70	403.80	428.70	461.60	508.10
Owner-occupied Dwellings	186.30	190.00	193.80	251.90	257.00	262.10	267.30	272.70	278.10	306.10
Other Real Estate & Business Services	88.80	82.70	96.80	92.20	114.20	124.60	136.50	156.00	183.50	202.00
Public Administration	408.20	450.00	452.80	476.10	490.40	511.80	561.60	627.70	695.50	772.20
Education	423.90	471.90	469.70	508.60	533.70	554.30	568.80	604.10	680.50	771.00
Health & Social Work	98.80	113.10	102.20	108.70	113.40	117.20	123.40	140.10	148.60	165.30
Community, Social & Personal Services	53.40	58.00	62.40	67.60	77.20	83.80	80.30	92.70	99.60	108.90
GDP at Factor Cost (unadjusted)	**4479.70**	**5124.50**	**5576.50**	**6103.40**	**6788.10**	**7412.70**	**7771.30**	**8292.70**	**9371.10**	**10504.80**
Less: Imputed Bank Serv. Charg.	97.10	130.80	215.10	221.30	295.90	322.30	293.40	326.30	410.10	495.60
GDP at Factor Cost	**4382.60**	**4993.70**	**5361.40**	**5882.10**	**6492.20**	**7090.40**	**7477.90**	**7966.40**	8961.00	10009.20
Plus: Indirect taxes, Net	496.80	530.00	558.50	593.10	750.70	771.40	1041.10	1098.80	1158.90	1349.20
GDP at Market Prices	**4879.40**	**5523.70**	**5919.90**	**6475.20**	**7242.90**	**7861.80**	**8519.00**	**9065.20**	**10119.90**	**11358.40**

Source: Bureau of Statistics
* CBL Projections

Table A4

SUPPLY AND DEMAND FOR RESOURCES

(At Current Prices)
Million Maloti

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007*
Supply									10119.90	
GDP at Market Prices	4879.40	5523.70	5919.90	6475.20	7242.90	7861.80	8519.00	9065.20	9968.00	11358.40
Imports of Goods & Services	5284.60	5275.60	5511.90	6458.30	8560.10	8526.10	9042.00	9065.60		12002.50
Total supply	**10164.00**	**10799.30**	**11431.80**	**12933.50**	**15803.00**	**16387.90**	**17561.00**	**18130.80**	**20087.90**	**23360.90**
Demand									11635.20	
Consump. Expenditure	6567.00	6769.70	7137.40	7547.70	8675.50	9220.00	9579.10	10533.60	3367.30	13578.60
Gross Fixed Cap. Form.	2411.00	2651.00	2657.10	2810.00	3150.80	3186.10	3045.10	3120.60	-24.80	3407.70
Changes in Stocks	-93.40	56.20	-138.10	-171.10	-135.40	49.10	8.70	-26.00	5110.50	0.00
Exports of Goods & Services	1320.70	1322.40	1775.60	2747.00	4111.90	3932.70	4928.10	4502.70		6374.60
Total Demand	**10205.30**	10799.30	**11432.00**	**12933.60**	**15802.80**	**16387.90**	**17561.00**	**18130.90**	**20088.20**	**23360.90**

Source: Bureau of Statistics
* CBL Projections

Table A5

INCOME AND OUTLAY ACCOUNT
(At Current Prices)
Million Maloti

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007*
Income										
Dom. Factor Incomes	4382.60	4993.70	5361.40	5882.10	6492.20	7090.40	7477.90	7966.40	8961.00	10009.20
Plus: Indirect taxes, Net	496.80	530.00	558.50	593.10	750.70	771.40	1041.10	1098.80	1158.90	1349.20
GDP at Market Prices	4879.40	5523.70	5919.90	6475.20	7242.90	7861.80	8519.00	9065.20	10119.90	11358.40
Factor Income from abroad, Net	1384.90	1492.50	1522.30	1506.30	1697.50	1873.40	1949.60	1932.20	2569.70	2845.90
Gross National Income	6305.60	7016.20	7442.40	7981.80	8941.70	9735.40	10468.70	10997.50	12689.60	14204.20
Transfers from abroad, Net	967.30	998.10	1043.70	1284.80	1516.90	1470.60	1795.00	2028.80	2709.20	4569.30
National Disposable Income	7272.90	8014.30	8486.10	9266.60	10458.60	11206.00	12263.70	13026.30	15398.80	18773.50
Outlay										
Consumption	6567.00	6769.70	7137.40	7547.70	8675.50	9220.00	9577.90	10533.60	11635.20	13578.60
Gross Saving	705.90	1299.00	1632.90	1664.90	1802.30	1985.90	2684.50	2492.70	3764.00	5194.90
National Disposable Income	7272.90	8014.30	8486.10	9266.60	10458.60	11206.00	12263.70	13026.30	15398.80	18773.50
Saving - GNI ratio (%)	11.19	18.51	21.94	20.86	20.16	20.40	25.64	22.67	29.66	36.57
Saving - NDI ratio (%)	9.71	16.21	19.24	17.97	17.23	17.72	21.89	19.14	24.44	27.67

Source: Bureau of Statistics
* CBL Projections

Table A6

ESTIMATED AREA PLANTED AND SHARE HARVESTED FOR MAIN CROPS

(Area planted in hectares; share harvested in percentage)

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06*
Maize										
Area planted	161813	98131	140800	170102	195037	145762	131025	129434	122338	144719
Share harvested	89.10	99.90	94.00	92.70	91.00	94.25	97.29	98.60	99.59	96.15
Sorghum										
Area planted	39578	13409	31952	27802	55082	30070	26442	29378	33179	34830
Share harvested	91.10	99.90	93.60	91.80	95.30	93.81	95.32	99.37	99.87	96.73
Wheat										
Area planted	20930	21249	12663	14284	20532	17486	15998	16032	16858	17381
Share harvested	98.90	99.90	98.90	89.90	97.21	95.36	98.57	97.92	98.41	97.49
Beans										
Area planted	16767	8835	12707	13948	15188	9788	12364	9261	8672	11055
Share harvested	84.60	84.60	91.60	81.50	81.43	73.98	90.33	92.53	96.07	86.87
Peas										
Area planted	4807	5553	4079	5123	6594	5463	3276	2710	2400	4089
Share harvested	93.90	99.90	94.20	86.30	95.27	82.17	91.97	93.94	96.46	91.96

Source: Bureau of Statistics
* CBL Projections

Table A7

ESTIMATED PRODUCTION (1) AND AVERAGE YIELD (2) OF MAIN CROPS - 1996/97 TO 2005/06

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06*
Maize										
Production	141.50	118.70	124.50	106.80	158.19	111.21	82.08	81.00	74.98	74.98
Yield	8.80	12.10	8.80	6.30	8.11	6.71	4.67	4.61	4.24	5.67
Sorghum										
Production	29.10	22.40	33.30	20.50	45.35	11.92	11.95	10.30	10.32	10.32
Yield	7.30	11.50	10.40	7.30	8.23	6.17	6.19	5.20	5.06	6.17
Wheat										
Production	33.60	26.90	15.40	23.20	37.41	18.96	13.11	11.65	11.13	11.13
Yield	16.10	12.70	12.10	16.20	18.22	13.67	9.45	8.27	7.42	11.41
Beans										
Production	14.20	8.20	9.30	14.30	7.86	4.36	3.70	4.83	5.23	5.23
Yield	8.50	9.30	3.70	10.30	5.18	3.89	3.30	4.30	4.92	4.32
Peas										
Production	3.40	3.80	3.00	2.80	3.67	3.04	3.04	1.50	1.36	1.36
Yield	7.10	6.90	7.30	5.50	5.57	4.18	4.18	1.40	1.27	3.32

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

Table A8

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Average number employed	80445	68604	64907	61412	62158	61415	58014	52450	52852	53467
Change over previous year (%)	-16.13	-14.72	-5.39	-5.38	1.21	-1.20	-5.54	-9.59	0.77	1.16
Average earnings (1) Maloti	24678	27657	30131	32030	35326	38513	42116	44758	53859	67135
Change over previous year (%)	16.44	12.07	8.95	6.30	10.29	9.02	9.36	6.27	20.33	24.65
Remittances	96576	91983	87441	102797	122496	118333	131793	167387	48885	10054
Change over previous year (%)	-25.02	-4.76	-4.94	17.56	19.16	-3.40	11.37	27.01	-70.80	-79.43

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

Table A8.1

TOTAL NUMBER OF GOVERNMENT EMPLOYEES

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total Number of Employees	35721	35514	36109	35441	36787	36146	36555	37908	39065	40649
Change over previous year (%)	1.42	-0.58	1.68	-1.85	3.80	-1.74	1.13	3.70	3.05	4.05

EMPLOYEES IN LNDC ASSISTED COMPANIES*

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total Number of Employees	35917	35917	37258	38569	43773	51187	50607	43131	44213	44213
Change over previous year (%)	0.00	0.00	3.73	3.52	13.49	16.94	-1.13	-14.77	2.51	0.00

*The numbers include textile firms

Table A9

LESOTHO CONSUMER PRICE INDICES
All Urban Households)
April 1997= 100

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

Source: Bureau of Statistics

Table A10

LESOTHO CONSUMER PRICE INDICES

April 1997= 100

Item	2002	2003	2004	2005	2006	2007
All Items	150.10	161.33	169.43	175.30	185.91	200.78
Food and non-alcoholic beverages	166.10	173.84	181.24	186.04	202.76	231.45
Alcoholic beverages & Tobacco	157.59	173.33	189.25	200.41	212.75	224.48
Clothing & footwear	138.83	144.83	149.02	153.14	157.36	161.97
Housing, electricity gas & other fuels	142.91	155.93	164.49	175.78	191.83	207.32
Furniture, households equipment & routine maintenance of house	146.23	158.64	165.23	168.79	176.16	178.99
Health	131.18	135.80	140.55	143.02	145.32	143.42
Transport	155.39	166.30	177.01	190.13	198.03	204.88
Communication	100.70	131.75	151.83	154.30	157.39	159.60
Leisure, entertainment & Culture	132.33	144.92	152.16	152.33	154.70	153.43
Education	115.60	120.08	125.16	126.38	127.68	130.77
Restaurant & Hotels	172.64	194.43	199.90	207.18	225.14	267.29
Miscellaneous goods & services	133.61	145.48	151.73	155.67	159.99	164.86
% Change from the previous year						
All Items		7.48	5.02	3.46	6.05	8.00
Food and non-alcoholic beverages		4.66	4.26	2.65	8.99	14.15
Alcoholic beverages & Tobacco		9.99	9.18	5.90	6.16	5.51
Clothing & footwear		4.32	2.89	2.76	2.75	2.93
Housing, electricity gas & other fuels		9.11	5.49	6.86	9.13	8.08
Furniture, households equipment & routine maintenance of house		8.49	4.15	2.15	4.37	1.61
Health		3.52	3.50	1.76	1.61	-1.31
Transport		7.02	6.44	7.41	4.15	3.46
Communication		30.83	15.24	1.63	2.00	1.40
Leisure, entertainment & Culture		9.51	5.00	0.11	1.56	-0.82
Education		3.88	4.23	0.97	1.02	2.42
Restaurant & Hotels		12.62	2.82	3.64	8.67	18.72
Miscellaneous goods & services		8.88	4.30	2.60	2.78	3.04

Source: Bureau of Statistics, Lesotho
Note: Compilation methodology changed in January 2002
(for both coverage and classification)

Table A11

SUMMARY OF BALANCE OF PAYMENTS
(Million Maloti)

	1998	1999	2000	2001	2002	2003	2004	2005	2006+	2007*
I CURRENT ACCOUNT	**-1413.72**	**-1349.40**	**-1083.76**	**-820.84**	**-1489.06**	**-1021.61**	**-488.76**	**-629.48**	**451.60**	**1356.00**
Goods, Services and Income	-2255.89	-2252.43	-2019.87	-1990.18	-2766.78	-2305.17	-2085.72	-2539.59	-2183.60	-3213.30
a) GOODS	-3589.63	-3707.35	-3582.18	-3398.18	-4250.31	-3917.13	-3826.90	-4175.70	-4519.19	-5827.30
Merchandise Exports f.o.b.	1109.60	1054.09	1468.35	2425.97	3739.89	3557.37	4533.40	4138.00	4736.65	5863.90
Merchandise Imports f.o.b.	-4699.23	-4761.44	-5050.53	-5824.15	-7990.2	-7474.50	-8360.30	-8313.70	-9255.84	-11691.20
b) SERVICES	-58.09	-38.51	-1.24	-99.72	-214.60	-262.40	-208.40	-296.12	-238.90	-231.90
c) INCOME	1391.83	1493.43	1563.55	1507.72	1698.13	1874.36	1949.58	1932.23	2574.50	2845.90
Labour Income	1409.56	1473.53	1553.81	1555.30	1712.81	1868.07	2006.88	1921.79	2337.46	2806.40
Other	-17.73	19.90	9.74	-47.58	-14.68	6.29	-57.30	10.44	232.24	39.50
d) CURRENT TRANSFERS	842.17	903.03	936.11	1169.34	1277.72	1283.56	1596.96	1910.11	2635.26	4569.30
Government, net	826.39	891.46	919.84	1138.30	1241.21	1221.41	1538.00	1842.50	2515.84	4449.40
SACU Non-duty Receipts	709.84	792.76	803.22	1017.01	1097.22	1081.79	1396.26	1745.21	2424.40	4262.40
Other	116.55	98.70	116.62	121.30	143.99	139.62	141.74	97.19	91.40	186.90
Other Sectors	15.78	11.57	16.27	31.04	36.51	62.15	58.96	67.61	119.42	119.90
II CAPITAL AND FINANCIAL ACCOUNT	**1595.84**	**922.70**	**773.68**	**924.57**	**1177.80**	**929.55**	**611.66**	**389.87**	**85.50**	**811.72**
e) CAPITAL ACCOUNT	122.60	92.90	150.70	138.00	247.10	208.10	216.30	133.30	75.50	206.50
f) FINANCIAL ACCOUNT	1473.24	829.80	622.98	786.57	930.70	721.45	395.36	256.57	10.00	605.22
Special Financing - LHWP	1303.13	798.23	608.12	772.23	595.70	552.26	457.16	224.17	137.36	159.20
III RESERVE ASSETS	**589.10**	**-285.73**	**-92.00**	**-1637.18**	**1278.78**	**516.99**	**-75.57**	**-274.75**	**-1294.30**	**-1939.39**
IV ERRORS AND OMISSIONS (1)	**406.98**	**142.10**	**84.68**	**39.73**	**-26.16**	**21.94**	**117.92**	**421.54**	**394.97**	**-583.49**
of which Valuation Adjustments	303.26	-1.12	328.80	1510.20	-940.31	-446.76	-165.10	92.90	362.2	6.70

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

Table A12

VALUE OF EXPORTS BY S.I.T.C. SECTION
(Million Maloti)

	1998	1999	2000	2001	2002	2003	2004	2005	2006+	2007*
Food and Livestock	44.20	49.70	54.40	81.60	123.16	117.91	98.90	101.00	126.70	205.68
Beverages and Tobacco	38.50	94.00	63.90	72.60	94.86	96.45	100.00	134.60	145.80	152.67
Crude Materials,Inedible	19.70	17.80	37.50	60.10	64.61	90.28	27.80	28.40	15.50	15.09
Minerals and Related Products	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Chemicals and Related Products	7.10	4.90	6.50	18.60	45.53	49.28	24.60	12.10	23.70	3.14
Manufactured Goods (classified by material)	26.40	17.40	25.00	38.50	64.43	59.30	758.50	689.40	718.90	1443.48
Machinery and Transport Equipment	167.60	111.70	173.30	254.50	371.37	373.84	272.20	329.10	394.10	584.24
Miscellaneous and Manufactured Goods	794.80	751.00	1104.69	1894.49	2962.24	2759.45	3235.90	2824.40	3295.35	3450.66
Commodities	11.30	7.60	3.12	5.49	13.69	10.86	15.20	10.04	16.60	8.94
TOTAL	**1109.60**	**1054.10**	**1468.41**	**2425.88**	**3739.89**	**3557.37**	**4533.10**	**4138.04**	**4736.65**	**5863.90**

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

Table A13

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

Region	1998	1999	2000	2001	2002	2003	2004	2005	2006+	2007*
World	**1109.60**	**1054.10**	**1468.30**	**2426.00**	**3739.89**	**3557.33**	**4533.30**	**4138.00**	**4736.64**	**5863.90**
Africa	728.60	569.50	607.50	899.10	856.44	695.62	657.50	816.00	1072.82	1802.93
SACU	726.90	568.20	607.10	897.00	856.01	689.68	622.20	717.00	969.12	1661.31
SADC **	1.70	1.30	0.40	0.00	0.27	0.23	0.00	0.00	17.80	21.83
Other	0.00	0.00	0.00	2.10	0.16	5.71	35.30	99.00	85.90	119.77
Europe	6.00	2.50	1.80	3.50	8.07	3.73	695.00	710.40	629.30	1169.59
EU	5.90	2.40	1.80	3.50	7.75	3.73	692.00	710.40	629.30	1169.59
Other	0.10	0.10	0.00	0.00	0.32	0.00	3.00	0.00	0.00	0.00
North America	373.00	480.60	858.30	1522.50	2874.58	2849.09	3168.60	2597.80	3016.22	2875.09
Asia	1.60	0.30	0.60	0.90	0.80	8.89	12.20	13.80	18.30	16.32
Oceania	0.40	1.20	0.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Source: Bureau of Statistics and Customs Department
+ Revised Estimates
* CBL Projections
** SADC member states, excluding SACU

Table A14

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

Region	1998	1999	2000	2001	2002	2003	2004	2005	2006+	2007*
World	**5199.80**	**5287.80**	**5611.30**	**6399.76**	**8547.51**	**8411.73**	**9036.20**	**9135.71**	**10159.96**	**12247.00**
Africa	4615.70	4736.70	4876.90	5305.99	6300.31	7242.86	6628.30	7577.70	7929.90	9568.58
SACU	4612.20	4734.10	4870.00	5296.60	6291.70	7234.30	6584.00	7539.20	7854.00	9477.95
SADC **	0.80	1.70	6.60	6.43	7.04	4.08	38.20	36.70	64.30	77.16
Other	2.70	0.90	0.30	2.96	1.57	4.48	6.10	1.80	11.60	13.47
Europe	117.80	97.80	45.80	46.51	93.18	12.13	73.20	56.70	71.50	86.95
EU	103.60	82.70	42.70	44.53	82.50	10.76	70.40	53.00	55.70	67.36
Other	14.20	15.10	3.10	1.98	10.68	1.37	2.80	3.70	15.80	19.59
North America	70.10	50.00	104.80	41.72	53.35	15.09	97.50	32.80	25.60	30.62
Asia	372.20	372.40	526.00	953.33	2021.70	1109.67	2183.50	1462.71	2103.66	2525.33
Oceania	24.00	30.90	57.80	52.21	78.97	31.98	53.70	5.80	29.30	35.52

Source: Bureau of Statistics and Customs Department
+ Revised Estimates
* CBL Projections
** SADC member states, excluding SACU

Table A15

FOREIGN EXCHANGE RATES

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Botswana Pula	1.307	1.315	1.358	1.464	1.660	1.522	1.369	1.255	1.163	1.141
ECU / EURO	6.124	6.504	6.398	7.718	9.846	8.514	7.932	7.915	8.520	8.531
French Franc	0.928	1.019	0.965	0.856	0.659	0.716	0.829	0.829	0.779	0.761
German Mark	3.110	3.394	3.271	3.917	5.179	4.359	4.055	4.048	4.353	4.497
Japanese Yen	0.042	0.054	0.064	0.071	0.083	0.065	0.061	0.058	0.058	0.057
Saudi Riyal	1.464	1.624	1.851	2.281	2.804	2.011	1.691	1.699	1.805	1.764
SDR	7.433	8.353	9.137	10.790	13.492	10.575	9.415	9.412	9.976	9.990
Swidish Kronor	0.690	0.744	0.757	0.812	0.925	0.932	0.870	0.853	0.921	0.944
Swiss Franc	3.777	4.064	4.110	5.095	6.702	5.617	5.145	5.115	5.409	5.449
UK Pound	9.079	9.884	10.496	12.407	15.677	12.344	11.742	11.577	12.507	12.704
US Dollar	5.483	6.105	6.943	8.619	10.416	7.562	6.326	6.371	6.780	6.626
Zimbabwe Dollar	0.236	0.160	0.159	0.155	0.189	0.027	0.001	0.001	0.431	0.000

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

Table A16

BALANCE SHEET OF THE CENTRAL BANK OF LESOTHO
(Million Maloti: End of period)

A - ASSETS

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
FOREIGN ASSETS	**3549.85**	**3349.33**	**3486.15**	**5136.94**	**3858.15**	**3341.14**	**3351.53**	**3625.55**	**4918.69**	**6786.26**
Cash and Balances	2425.22	1538.26	1211.91	3112.18	2590.78	2571.67	2437.03	1920.65	2129.78	2848.21
Investments	611.93	1277.72	1769.47	1498.50	854.71	426.08	366.93	1335.64	2239.75	3362.37
IMF Accounts	36.28	37.03	39.91	59.58	46.51	38.71	34.55	36.02	40.12	39.14
Holdings of SDRs	7.12	7.18	5.03	6.92	5.15	4.29	3.60	3.73	2.28	0.43
Reserve Tranche	29.15	29.85	34.88	52.66	41.36	34.42	30.95	32.28	37.84	38.71
Other Foreign Assets	476.42	496.31	464.87	466.68	366.15	304.69	513.03	333.25	509.05	536.54
CLAIMS ON GOVERNMENT	**139.70**	**107.84**	**104.95**	**246.60**	**191.31**	**173.76**	**183.51**	**222.16**	**257.56**	**263.48**
CLAIMS ON PRIVATE SECTOR	**11.54**	**12.20**	**13.90**	**13.56**	**13.53**	**14.99**	**16.30**	**19.48**	**20.10**	**22.19**
UNCLASSIFIED ASSETS	**53.53**	**65.82**	**47.06**	**99.25**	**141.48**	**177.45**	**217.65**	**260.43**	**222.18**	**279.26**
Fixed Assets	29.19	48.27	35.88	78.30	117.25	134.69	130.63	133.66	175.50	177.71
Other Assets	18.04	15.11	11.18	20.95	24.23	42.76	87.02	126.77	46.67	101.55
TOTAL	**3754.61**	**3535.18**	**3652.05**	**5496.35**	**4204.46**	**3707.34**	**3768.99**	**4127.63**	**5418.53**	**7351.19**

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

Table A16 (continued)

BALANCE SHEET OF THE CENTRAL BANK OF LESOTHO

(Million Maloti: End of period)

B - LIABILITIES

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
FOREIGN LIABILITIES	**283.56**	**368.13**	**369.97**	**509.86**	**646.75**	**488.00**	**497.02**	**549.33**	**541.45**	**608.95**
IMF Deposits	138.57	256.25	281.67	317.41	445.87	306.39	313.52	327.29	283.91	345.51
IMF Accounts	138.30	105.23	84.04	180.57	189.04	173.71	183.48	222.02	257.52	263.42
Trust Fund Loans/ PRGF	127.08	102.68	84.04	180.57	189.04	173.71	183.48	222.02	257.52	263.42
Use of Fund Credit/SAF	11.21	2.55	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Foreign Liabilities	6.69	6.65	4.25	11.89	11.84	7.89	0.02	0.02	0.02	0.02
RESERVE MONEY	**528.38**	**703.93**	**646.90**	**293.27**	**338.81**	**364.93**	**379.40**	**574.78**	**490.62**	**535.05**
Maloti in Circulation Outside CBL	153.40	148.71	172.56	187.51	223.08	234.99	256.93	297.97	377.71	402.22
Rand Notes and Coins	11.63	9.33	15.39	10.30	10.32	15.47	7.71	29.47	33.30	47.72
Bankers Deposits	363.35	545.89	458.95	95.45	105.41	114.47	114.76	247.34	112.91	132.83
DEPOSIT LIABILITIES	**2137.27**	**1615.99**	**1379.28**	**1708.45**	**1419.41**	**1432.93**	**1599.22**	**1610.85**	**2421.55**	**4144.42**
Government	2125.53	1602.61	1356.40	1502.35	1257.31	1263.91	1411.84	1422.01	2231.49	3992.30
Official Entities	5.55	5.47	15.19	195.33	151.33	158.36	175.90	176.72	178.25	140.38
Private Sector	6.19	7.90	7.68	10.76	10.77	10.66	11.48	12.12	11.81	11.74
CAPITAL ACCOUNTS	**735.54**	**805.42**	**1208.97**	**2856.93**	**1771.79**	**1392.94**	**1204.22**	**1338.41**	**1859.09**	**1962.43**
UNCLASSIFIED LIABILITIES	**69.86**	**41.71**	**46.95**	**127.85**	**27.71**	**28.55**	**89.15**	**83.73**	**105.82**	**100.33**
other liabilities and payables	69.73	41.85	46.95	127.85	27.71	28.55	89.15	83.73	105.82	100.33
TOTAL	**3754.61**	**3535.18**	**3652.05**	**5496.35**	**4204.46**	**3707.34**	**3769.01**	**4157.10**	**5418.53**	**7351.19**

Table A17

CONSOLIDATED BALANCE SHEET OF COMMERCIAL BANKS

(Million maloti: End of Period)

A - ASSETS

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
RESERVES	**490.59**	**573.72**	**506.81**	**127.06**	**159.15**	**181.10**	**172.46**	**275.41**	**238.32**	**233.93**
Rand Notes and Coins	11.63	9.33	15.39	10.30	10.32	15.47	7.71	20.26	59.25	44.95
Maloti Notes and Coins	18.90	26.05	33.22	40.37	43.40	51.48	52.40	85.19	68.29	62.91
Balances due from CBL	460.06	538.34	458.20	76.38	105.44	114.16	112.36	169.95	110.77	126.07
FOREIGN ASSETS	**427.59**	**494.65**	**609.09**	**789.61**	**772.31**	**837.34**	**1253.79**	**1241.81**	**1845.39**	**2273.70**
CLAIMS ON PRIVATE SECTOR	**227.87**	**270.83**	**258.60**	**301.68**	**373.94**	**402.58**	**441.18**	**772.17**	**784.64**	**1162.03**
CLAIMS ON STATUTORY BODIES	**83.77**	**81.66**	**42.77**	**46.39**	**42.75**	**38.94**	**52.16**	**33.37**	**17.39**	**51.47**
CLAIMS ON GOVERNMENT	**51.53**	**586.38**	**586.20**	**691.32**	**806.75**	**991.45**	**543.43**	**461.65**	**598.26**	**559.28**
UNCLASSIFIED ASSETS	**953.81**	**1039.09**	**881.69**	**952.18**	**985.25**	**764.87**	**885.39**	**1139.65**	**689.96**	**705.44**
TOTAL	**2235.16**	**3046.32**	**2885.15**	**2908.24**	**3140.15**	**3216.28**	**3348.42**	**3924.07**	**4173.95**	**4985.85**

Table A17 (continued)

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

B - LIABILITIES

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
DEMAND DEPOSITS	**912.37**	**897.69**	**941.42**	**1002.26**	**1162.90**	**1253.46**	**1255.16**	**1599.62**	**2308.32**	**2723.12**
Private Sector	519.14	459.88	582.95	625.14	753.63	929.14	968.40	1024.96	1712.15	1968.79
Government	75.45	76.42	67.69	63.22	63.74	68.25	57.66	171.75	121.12	151.20
Statutory Bodies	317.78	361.39	290.78	313.90	345.53	256.07	229.11	402.90	475.05	603.13
TIME DEPOSITS	**173.25**	**158.60**	**120.98**	**136.51**	**157.18**	**208.95**	**275.12**	**284.71**	**403.96**	**685.79**
Private Sector	116.19	109.64	80.78	69.30	100.24	129.60	190.88	193.68	299.60	556.89
Government	1.19	0.59	0.60	0.09	0.09	0.09	0.05	0.00	0.01	0.04
Statutory Bodies	55.87	48.37	39.60	67.13	56.85	79.27	84.20	91.03	104.35	128.87
SAVINGS DEPOSITS	**573.56**	**527.63**	**506.52**	**521.82**	**527.01**	**507.05**	**463.42**	**437.25**	**417.10**	**407.59**
Private Sector	**571.19**	**527.32**	**506.21**	**521.60**	**526.78**	**506.97**	**463.34**	**437.10**	**415.15**	**403.94**
Government	0.13	0.11	0.09	0.00	0.05	0.01	0.06	0.13	1.95	3.55
Statutory Bodies	2.24	0.20	0.23	0.22	0.19	0.07	0.02	0.03	0.00	0.10
DEFERRED PAY FUND	**40.18**	**34.99**	**38.12**	**42.19**	**43.19**	**44.19**	**45.19**	**38.70**	**0.00**	**0.00**
FOREIGN LIABILITIES	**47.20**	**39.89**	**140.01**	**102.82**	**99.63**	**229.64**	**135.90**	**106.86**	**72.94**	**73.36**
CAPITAL ACCOUNTS	**-38.31**	**209.92**	**318.90**	**279.18**	**287.36**	**303.43**	**345.75**	**403.83**	**312.32**	**413.07**
UNCLASSIFIED LIABILITIES	**526.92**	**1177.59**	**819.20**	**823.46**	**862.88**	**669.56**	**827.88**	**1053.10**	**659.31**	**681.93**
TOTAL	**2235.16**	**3046.32**	**2885.15**	**2908.24**	**3140.15**	**3216.28**	**3348.42**	**3924.07**	**4173.95**	**4985.85**

Table A18

MONETARY SURVEY
(Million Maloti: End of Period)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Foreign Assets, Net	**3646.68**	**3435.95**	**3585.26**	**5313.88**	**3884.08**	**3460.84**	**3934.13**	**4211.18**	**6149.69**	**8377.64**
Commercial Banks	380.39	454.76	469.08	686.80	672.68	607.70	1117.90	1134.95	1772.44	2200.34
Central Bank of Lesotho	3254.65	2971.87	3100.79	4616.78	3201.08	2837.68	2816.23	3076.23	4377.24	6177.30
o/w Rands with Commercial Banks	11.63	9.33	15.39	10.30	10.32	15.47	7.71	20.26	59.25	44.95
Central Bank of Lesotho*	…	…	…	…	…	…	35.74	29.47	33.303	47.72
Domestic Credit	**-1687.89**	**-620.83**	**-418.36**	**-266.10**	**107.08**	**289.47**	**-202.44**	**-85.05**	**-676.63**	**-2071.06**
Claims on private sector & Statutory Bodies	323.18	364.68	315.27	361.63	430.22	456.51	509.64	825.03	822.13	1235.69
Claims on Government,net of deposits	-2011.07	-985.52	-733.63	-627.73	-323.14	-167.04	-712.08	-910.08	-1498.76	-3324.32
Money Supply (M2)	**1768.82**	**1677.83**	**1700.88**	**1992.71**	**2168.18**	**2297.85**	**2373.05**	**2590.01**	**3505.77**	**4154.15**
Narrow Money (M1)	**983.15**	**957.30**	**1035.95**	**1292.27**	**1440.94**	**1537.75**	**1589.42**	**1829.48**	**2686.68**	**3063.36**
Maloti with public	134.50	122.66	139.34	147.14	179.68	183.52	204.54	212.78	309.42	339.31
Demand and call deposits	843.10	829.17	881.42	949.80	1109.93	1195.86	1208.98	1439.98	2199.00	2583.66
Official entities deposits with CBL	5.55	5.47	15.19	195.33	151.33	158.36	175.90	176.72	178.25	140.38
Quasi-money	**785.67**	**720.52**	**664.94**	**700.44**	**727.24**	**760.10**	**783.63**	**760.54**	**819.10**	**1090.79**
Time deposits	212.24	193.00	158.51	178.62	200.28	253.06	320.27	323.41	403.95	686.75
Savings deposits	573.43	527.52	506.43	521.82	526.96	507.04	463.36	437.13	415.15	404.04
Other items,net	**189.96**	**1137.30**	**1466.02**	**3055.06**	**1822.98**	**1452.46**	**1358.64**	**1520.68**	**2067.09**	**2069.71**

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

Table A19

DOMESTIC CREDIT
(Million Maloti: End of Period)

	1998	1999	2000	2001	2002	2003	2004	2005	2006*	2007
Private Sector Total	**239.41**	**283.03**	**272.49**	**315.24**	**387.47**	**417.57**	**457.48**	**791.66**	**799.98**	**1098.96**
Business Enterprises	130.44	132.76	100.26	113.53	145.68	146.05	162.04	316.63	409.53	494.78
Households	29.80	49.19	71.15	99.87	139.94	158.59	256.64	369.28	390.45	603.18
Other	79.16	101.08	101.08	101.84	101.84	112.93	38.80	105.75	0.00	0.00
Statutory bodies	**83.77**	**81.66**	**42.77**	**46.39**	**42.75**	**38.94**	**52.16**	**33.37**	**17.39**	**51.47**
Government (net)	**-2011.07**	**-985.52**	**-733.63**	**-627.73**	**-323.14**	**-167.04**	**-712.08**	**-910.08**	**-1498.76**	**-3324.32**
Grand Total	**-1687.89**	**-620.83**	**-418.36**	**-266.10**	**107.08**	**289.47**	**-202.44**	**-85.05**	**-681.39**	**-2174.89**

* Following the merger of Lesotho Bank and Standard Bank, this figure disappeared in consolidation.

Table A20

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Commercial Banks	**380.39**	**454.76**	**469.08**	**686.80**	**672.68**	**607.70**	**1117.90**	**1134.95**	**1772.44**	**2200.34**
Assets	427.59	494.65	609.09	789.61	772.31	837.34	1253.79	1241.81	1845.39	2273.70
Liabilities	-47.20	-39.89	-140.01	-102.82	-99.63	-229.64	-135.90	-106.86	-72.94	-73.36
Central Bank	**3266.29**	**2981.19**	**3116.18**	**4627.08**	**3211.40**	**2853.14**	**2816.23**	**3076.23**	**4377.24**	**6177.30**
Assets	3549.85	3349.33	3486.15	5136.94	3858.15	3341.14	3343.82	3625.55	4918.69	6786.26
Liabilities	-283.56	-368.13	-369.97	-509.86	-646.75	-488.00	-527.59	-549.33	-541.45	-608.95
Net Foreign Assets	**3646.68**	**3435.95**	**3585.26**	**5313.88**	**3884.08**	**3460.84**	**3934.13**	**4211.18**	**6149.69**	**8377.64**

Table A21

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Commercial Banks	**-25.24**	**509.26**	**517.82**	**628.01**	**742.86**	**923.10**	**485.67**	**289.77**	**475.17**	**404.50**
Claims	51.53	586.38	586.20	691.32	806.75	991.45	543.43	461.65	598.26	559.28
Less Deposits	76.77	77.12	68.38	63.31	63.89	68.35	57.76	171.88	123.09	154.79
Central Bank	**-1985.83**	**-1494.77**	**-1251.45**	**-1255.75**	**-1066.00**	**-1090.15**	**-1197.75**	**-1199.85**	**-1973.93**	**-3728.81**
Claims	139.70	107.84	104.95	246.60	191.31	173.76	214.09	222.16	257.56	263.48
Less Deposits	2125.53	1602.61	1356.40	1502.35	1257.31	1263.91	1411.84	1422.01	2231.49	3992.30
Net Total	**-2011.07**	**-985.52**	**-733.63**	**-627.73**	**-323.14**	**-167.04**	**-712.08**	**-910.08**	**-1498.76**	**-3324.32**
Memorandum Items: Securities held by Banks #										
Commercial Banks	47.98	586.08	585.77	693.27	806.08	989.92	542.38	461.11	598.26	559.28
Central Bank	7.58	5.16	20.91	66.04	2.28	0.05	0.03	0.14	0.04	0.06
Total	**55.56**	**591.24**	**606.67**	**759.31**	**808.35**	**989.96**	**542.41**	**461.25**	**598.30**	**559.34**

Figures at cost value

Table A22

HOLDINGS OF TREASURY BILLS
(Million Maloti)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total holdings	**154.10**	**154.10**	**234.70**	**451.80**	**515.70**	**770.50**	**532.30**	**530.20**	**576.40**	**560.20**
Banking system (1)	**50.20**	**14.70**	**28.30**	**350.80**	**402.00**	**593.30**	**427.90**	**359.90**	**497.99**	**470.62**
Central Bank	0.90	3.90	16.60	67.10	0.00	0.00	0.00	0.00	0.00	0.32
Commercial Banks	49.30	10.80	11.70	283.70	402.00	593.30	427.90	359.90	497.99	470.3
Non-Bank Sector	**103.90**	**139.40**	**206.40**	**101.00**	**113.70**	**177.20**	**104.40**	**170.30**	**78.36**	**89.61**
NBFIs (2)	15.40	15.80	90.10	36.10	23.70	102.10	33.90	108.30	0.46	0.31
Other entities	88.50	123.60	116.30	64.90	90.00	75.10	70.50	62.00	77.90	89.30
Memorandum Item										
Yield	16.60	9.90	9.97	10.99	13.18	10.46	8.27	7.27	7.05	9.33

(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)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Central Bank (1)										
91-Day T-Bill Rate	16.56	9.90	9.30	10.99	12.19	9.83	7.86	6.95	6.76	8.82
Call rate	15.99	8.88	7.88	7.88	0.00	0.00	0.00	0.00	0.00	0.00
31 days	16.25	9.33	15.00	13.00	0.00	0.00	0.00	0.00	0.00	0.00
Commercial Banks										
Time deposits										
31 days	11.00	4.00	4.00	4.00	4.75	3.75	3.10	3.50	3.50	4.88
1 year	10.35	5.50	5.50	6.00	6.25	6.00	4.00	4.75	6.50	8.00
Savings deposits - (range)	4.00-	0.00-	0.00-	2.17-	2.58	1.68-	0.96-	0.97-	1.00-	3.00-
	7.00	3.50	3.50	4.00	4.00	2.48	1.35	2.00	5.00	6.75
Prime lending	22.00	18.00	17.00	16.33	17.67	17.67	12.17	11.50	13.50	15.43
South Africa (2)										
91-Day T-Bill Rate	17.03	10.17	10.25	9.47	12.42	7.54	7.32	6.80	8.26	9.96
Prime lending	19.34	15.50	14.50	13.00	17.00	11.50	11.00	10.50	12.00	14.50
Call deposits (3)	17.25-	9.75-	8.50-	8.25-	8.75-	7.70-	7.70-	6.00-	7.50-	10.00-
	20.25	10.80	9.75	8.85	9.50	7.72	8.72	6.50	8.50	10.50
Repo	19.33	12.14	11.75	9.50	13.5	8.00	7.50	7.00	8.50	10.50

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

Table A24

SUMMARY OF BUDGETARY OPERATIONS
(Million Maloti)

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	Revised 2006/07	Projections 2007/08
Total Receipts	**2289.60**	**2442.80**	**2752.20**	**2976.30**	**3331.00**	**3594.50**	**4361.80**	**4559.91**	**6431.93**	**7498.12**
Revenue	2169.60	2312.80	2626.60	2787.50	3034.70	3416.70	4130.40	4476.31	6339.54	7214.53
Tax revenue	1698.90	1888.80	1942.00	2325.30	2575.90	2887.50	3678.30	4003.06	5784.14	6438.91
Customs	1033.30	1183.10	1126.20	1438.50	1470.00	1421.60	2012.40	2306.02	3943.16	4097.68
Income Taxes	392.00	419.50	468.80	579.50	663.30	852.50	901.90	924.64	973.14	1296.89
Individual Income Tax	278.00	306.50	356.30	371.80	404.10	504.00	567.40	611.96	627.94	794.83
Company Tax	65.00	58.50	75.10	159.20	142.90	244.90	219.20	194.88	201.41	351.07
Other Income Taxes	49.00	54.50	56.00	48.50	116.30	103.60	115.30	117.79	143.78	150.98
Taxes on Goods and Services	269.60	283.20	343.60	302.00	435.90	602.90	749.80	722.99	778.93	1007.68
Other Taxes	4.00	3.00	3.40	5.30	6.70	10.50	14.20	49.42	88.91	36.65
Non-tax revenue	470.70	424.00	684.60	462.20	458.80	529.20	452.10	473.25	555.40	775.62
of which: Water Royalties	120.00	142.90	154.90	176.10	213.40	193.10	194.70	235.92	262.27	297.41
Grants	120.00	130.00	125.60	188.80	296.30	177.80	231.40	83.60	92.39	283.59
Total Expenditure & Net Lending	**2438.40**	**2780.60**	**2957.00**	**3018.90**	**3656.10**	**3532.20**	**3613.50**	**4293.18**	**5137.85**	**6279.32**
Recurrent expenditure	1942.70	2300.70	2457.90	2393.30	2876.20	2906.80	2919.70	3590.88	4363.16	5171.68
Purchases of Goods & Services	1341.70	1578.90	1774.10	1793.70	2147.10	2059.10	2002.50	2378.51	2777.61	3338.30
Personnel Emoluments	837.60	835.90	921.80	992.40	1082.10	1123.20	1174.30	1263.68	1359.44	1590.88
Other Goods & Services	504.10	743.00	852.30	801.30	1065.00	935.90	828.20	1114.83	1418.17	1747.42
Interest payments	128.50	183.40	252.40	203.30	219.70	216.40	152.20	223.87	322.84	326.30
External	96.20	101.60	148.20	126.00	109.50	90.50	87.10	175.10	274.60	243.92
Domestic	32.30	81.80	104.20	77.30	110.20	125.90	65.10	48.77	48.24	82.42
Subsidies & Transfers	472.50	538.40	431.40	396.30	509.40	631.30	765.00	988.50	1262.71	1507.02
of which:Bank Restructuring	237.70	22.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
LHDA	--	263.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Capital Expenditure & net Lending	**495.70**	**479.90**	**499.10**	**625.60**	**779.90**	**625.40**	**693.80**	**702.30**	**774.69**	**1107.70**
Surplus/Deficit Before grants	-268.80	-467.80	-330.40	-231.40	-621.40	-115.50	516.90	183.13	1201.69	935.21
Surplus/Deficit after grants	-148.80	-337.80	-204.80	-42.60	-325.10	62.30	748.30	266.73	1294.07	1218.80
Financing	148.80	359.10	204.80	42.60	325.30	-62.20	-748.33	-266.73	-1294.07	-1218.80
Foreign,net	18.10	-78.10	-221.70	31.90	53.40	-25.70	-63.70	-282.70	-28.80	54.20
Domestic	130.70	437.20	426.50	10.70	271.90	-36.50	-684.63	15.97	-1265.28	-1273.00
Bank	116.20	415.90	403.20	62.40	320.80	104.01	-638.73	-102.08	-1248.05	-1273.30
Non-Bank	14.50	21.30	23.30	-51.70	-48.90	-140.51	-45.90	118.06	-17.23	0.30

Source: Ministry of Finance and CBL Projections

Table A25

RECURRENT EXPENDITURE BY MAJOR FUNCTIONS OF GOVERNMENT
(Million Maloti)

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	Revised 2006/07	Projections 2007/08
GENERAL GOVERNMENT SERVICES	**806.20**	**802.60**	**743.00**	**794.00**	**1032.20**	**1022.32**	**921.17**	**1170.30**	**1608.26**	**1700.96**
01 General Public Services	479.80	368.80	329.20	380.50	506.90	502.05	369.87	521.30	849.16	745.02
02 Defence Aaffairs & Services	159.30	224.50	207.90	199.20	208.50	206.50	201.47	217.90	252.50	318.08
03 Public Order & Safety Affairs	167.10	209.30	205.90	214.30	316.80	313.77	349.83	431.10	506.60	637.86
COMMUNITY & SOCIAL SERVICES	**777.10**	**980.60**	**1048.30**	**1103.10**	**1346.60**	**1333.71**	**1501.03**	**1802.66**	**2070.31**	**2551.70**
04 Education	491.60	673.40	720.50	696.00	867.30	859.00	959.92	1021.86	1200.37	1408.03
05 Health	151.50	172.20	182.60	190.70	227.60	225.42	222.07	324.40	446.77	391.94
06 Social Security & Welfare	64.10	65.30	66.70	122.00	140.80	139.45	228.08	349.30	285.29	588.17
07 Housing & Community Amenities	29.10	28.30	25.40	40.30	62.00	61.41	78.00	96.60	93.16	107.17
08 Recreation & Cultural Affairs	40.80	41.40	53.10	54.10	48.90	48.43	12.96	10.50	44.72	56.39
ECONOMIC SERVICES	**213.40**	**207.00**	**234.70**	**266.10**	**296.80**	**293.96**	**279.71**	**297.68**	**428.02**	**436.49**
09 Fuel & Energy Affairs	3.90	6.50	18.50	3.80	5.70	5.65	17.85	14.38	16.69	28.90
10 Agriculture	69.90	82.80	61.20	126.30	138.00	136.68	97.00	122.60	193.08	197.07
11 Mining & Industry	21.10	28.30	32.40	34.80	40.40	40.01	87.89	44.00	76.27	76.21
12 Transport & Communications	69.90	69.80	101.60	79.80	93.50	92.60	55.26	39.00	47.30	96.77
13 Other Economic Services	48.60	19.60	21.00	21.40	19.20	19.02	21.71	77.70	94.68	37.54
UNCLASSIFIED EXPENDITURE	**146.00**	**310.50**	**431.90**	**230.10**	**259.40**	**256.92**	**217.78**	**320.27**	**256.55**	**482.51**
14.0.1 Public debt	128.50	228.70	252.40	203.30	224.50	222.35	152.20	223.90	141.64	399.33
14.0.2 Other transfers	17.50	81.80	179.50	26.80	34.90	34.57	65.58	96.37	114.91	83.18
TOTAL RECURRENT EXPENDITURE	**1942.70**	**2300.70**	**2457.90**	**2393.30**	**2935.00**	**2906.90**	**2919.69**	**3590.91**	**4363.14**	**5171.66**

Source: Ministry of Finance and CBL Projections

Table A26

EXTERNAL DEBT OUTSTANDING BY REMAINING MATURITIES
(Million Maloti)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1-5Years	144.80	49.60	11.40	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6-10Years	475.40	428.60	376.10	308.40	234.20	169.80	117.90	72.60	57.00	0.80
11-15Years	173.30	171.20	161.20	145.60	128.20	110.60	93.00	75.20	57.30	39.80
16Years & above	3639.80	3759.40	3878.40	3969.70	3964.30	3917.00	3802.00	3674.10	3541.50	3397.80
Total	**4433.30**	**4408.80**	**4427.10**	**4423.70**	**4326.70**	**4197.40**	**4012.90**	**3821.90**	**3655.80**	**3438.40**
					<u>**In Per Cent of Total**</u>					
1-5Years	3.27	1.13	0.26	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6-10Years	10.72	9.72	8.50	6.97	5.41	4.05	2.94	1.90	1.56	0.02
11-15Years	3.91	3.88	3.64	3.29	2.96	2.63	2.32	1.97	1.57	1.16
16Years & above	82.10	85.27	87.61	89.74	91.62	93.32	94.74	96.13	96.87	98.82
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Source: Ministry of Finance

Table A27

OUTSTANDING PUBLIC DEBT
(Million Maloti)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
A. EXTERNAL DEBT	**3185.10**	**3121.90**	**4319.60**	**6246.50**	**5130.50**	**4432.00**	**4112.84**	**4011.64**	**4514.32**	**4680.60**
1. Bilateral Loans	***365.40***	***340.80***	***626.10***	***592.00***	***451.60***	***504.40***	***531.44***	***396.94***	***386.94***	**296.30**
Concessional	322.00	301.20	380.50	431.40	201.90	205.30	432.02	369.87	327.06	250.60
Non-concessional	43.40	39.60	245.60	160.60	249.70	299.10	99.42	27.07	59.88	45.70
2. Multilateral Loans	***2549.20***	***2518.50***	***3181.70***	***4968.60***	***4139.40***	***3485.80***	***3183.68***	***3399.11***	***3968.44***	**4220.80**
Concessional	2468.50	2460.00	3088.20	4310.70	3397.50	2997.70	2737.38	2985.93	3480.73	4099.30
Non-concessional	80.70	58.50	93.50	657.90	741.90	488.10	446.30	413.18	487.71	121.50
3. Financial Institutions	***247.10***	***244.60***	***357.50***	***443.70***	***383.80***	***343.80***	***315.78***	***141.51***	***101.13***	**98.80**
Concessional	32.00	30.10	54.60	18.90	1.00	0.80	60.06	2.56	2.33	29.40
Non-concessional	215.10	214.50	302.90	424.80	382.80	343.00	255.72	138.95	98.8	69.40
4. Suppliers' Credit	***23.40***	***18.00***	***154.30***	***242.20***	***155.70***	***98.00***	***81.94***	***74.08***	***57.81***	**64.70**
B. DOMESTIC DEBT	**160.10**	**730.20**	**788.50**	**906.00**	**929.00**	**1159.70**	**648.11**	**644.62**	**665.51**	**674.56**
5. Banks	***56.20***	***590.80***	***603.70***	***777.40***	***815.30***	***982.50***	***543.61***	***474.32***	***587.95***	**584.96**
Long-term	3.60	288.00	287.70	310.90	287.70	287.70	114.66	114.66	114.66	114.66
Short-term	52.60	302.80	316.00	466.50	527.60	694.80	428.95	359.66	473.29	470.30
of which:										
treasury bills	50.20	302.70	306.30	340.90	527.00	693.30	427.90	359.90	473.29	470.30
6. Non-bank	***103.90***	***139.40***	***184.80***	***128.60***	***113.70***	***177.20***	***104.50***	***170.30***	***77.56***	**89.60**
Short-term	103.90	139.40	184.80	128.60	113.70	177.20	104.50	170.30	77.56	89.60
treasury bills	103.90	139.40	184.80	128.60	113.70	177.20	104.50	170.30	77.56	89.60
7. TOTAL (A + B)	**3345.20**	**3852.10**	**5108.10**	**7152.50**	**6059.50**	**5591.70**	**4760.95**	**4656.26**	**5179.83**	**5355.16**

Table A27 (continued)

OUTSTANDING PUBLIC DEBT
(Million Maloti)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
C. MEMORANDUM ITEMS (In Million Maloti)										
8. GDP	4920.70	5523.70	5920.10	6475.50	7242.90	7862.00	8513.10	9065.20	10119.90	11358.30
9. GNI	6305.60	7016.20	7442.40	7981.80	8941.70	9735.40	10468.70	10997.50	12689.60	14204.20
10.Foreign debt service	213.70	294.40	322.70	313.50	127.90	206.10	527.00	704.08	333.70	649.11
11.Exports of goods & services, incl. factor services	2987.00	2976.10	3766.91	4747.62	6275.30	6214.51	7390.87	6838.44	7896.43	9597.07
12.Exports of goods & non-factor services	1221.10	1198.60	1468.36	2425.97	3739.89	3557.37	4533.4	4138.04	4736.70	5976.10
Ratios										
Total debt as a % of GDP	67.98	69.74	86.28	110.45	83.66	71.12	55.92	51.36	51.18	47.15
External debt as a % of GDP	64.73	56.52	72.96	96.46	70.83	56.37	48.31	44.25	44.61	41.21
Domestic debt as a % of GDP	3.25	13.22	13.32	13.99	12.83	14.75	7.61	7.11	6.58	5.94
External debt as a % of total	95.21	81.04	84.56	87.33	84.67	79.26	86.39	86.16	87.15	87.40
Domestic debt as a % of total	4.79	18.96	15.44	12.67	15.33	20.74	13.61	13.84	12.85	12.60
Concessional as a % of external debt	88.62	89.41	81.57	76.22	70.18	72.29	78.52	83.72	84.40	93.56
Debt service (1)	7.15	9.89	8.57	6.60	2.04	3.32	7.13	10.30	4.23	6.76
Debt service (2)	17.50	24.56	21.98	12.92	3.42	5.79	11.62	17.01	7.04	10.86

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.

Notes