Central Bank of Lesotho

Annual Report

2009

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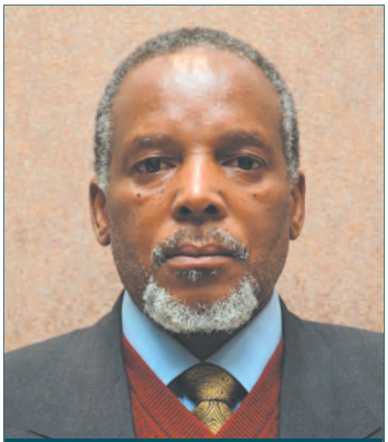
Maseru, March 2010

Central Bank of Lesotho


M. Senaoana
Governor & Chairman (Board)


R. Matlanyane
Deputy Governor I


P.M. Mangoaela
Director


M.G. Tau-Thabane
Director


M. Posholi
Director


M. Fako
Director


J.Q. Lesitha
Director


M. Malope
Board Secretary

BOARD OF DIRECTORS

M. P. Senaoana	- Governor & Chairman (Board)
A.R. Matlanyane	- Deputy Governor I
Vacant	- Deputy Governor II
M. G. Tau-Thabane	- Director
J. Q. Lesitha	- Director
P. M. Mangoela	- Director
M. Posholi	- Director
M. Fako	- Director

MANAGEMENT

M. P. Senaoana	- Governor
A. R. Matlanyane[1]	- 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[2]
M. P. Makhetha	- Director of Research
M. Malope	- Director of Corporate Affairs
T. Makara[3]	- General Manager – Lehakoe Recreation and Cultural Centre
F. Morokole[4]	- General Manager – Lehakoe Recreation and Cultural Centre (Acting)

DIVISIONAL HEADS

GOVENOR'S OFFICE

P. Letlela[5]	- Internal Audit
L. Khaka	- Accounts & Budget
T. Malataliana	- Currency
M. 'Nyane	- Security (Acting)

ADMINISTRATION

M. Molekane	- Human Resources
S. Phate	- General Services & Maintenance

FOOT NOTES

[1] On Secondment since August 2009
[2] Confirmed in December 2009
[3] Up to July 2009
[4] Since August 2009
[5] Since December 2009

DIVISIONAL HEADS

INFORMATION AND COMMUNICATIONS TECHNOLOGY

M. Sekoati	- Business Solutions Development (Acting)
T. Mpheteng	- Infrastructure & Operations

OPERATIONS

J. Ntšekhe[6]	- Banking Operations
M. Motebang	- National Payment Systems
M. Tabane	- Development Finance
Vacant	- Rural Finance

SUPERVISION

T. 'Mokose	- Financial Institutions Supervision (Acting)
F. Morokole	- Insurance Supervision
L. Leuta	- Policy, Regulations & Exchange Control (Acting)
N. Bereng	- Non-Bank Supervision

FINANCIAL MARKETS

B. Phakoe	- Investments and Market Operations
M. Mohapi	- Treasury Operations

RESEARCH

T. Bereng	- Real Sector
L. M. Lephoto[7]	- Finance
R. Masenyetse	- Macroanalysis

CORPORATE AFFAIRS

N. Mokitimi	- Legal Services (Acting)
T. Ntlhakana	- Corporate Governance (Acting)
M. F. Mohasoa	- Public Relations

[6] Since April 2009, transferred from Internal Audit Division
[7] On secondment

Lehakoe Recreation and Cultural Centre - CBL

Central Bank of Lesotho
P O Box 1184
MASERU 100
Lesotho

March 31, 2010

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 2010, 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, 2009, certified by Sheeran & Associates assisted by Pricewaterhouse Coopers; and

ii) a report on the Bank's operations and statement of affairs during 2009.

Yours faithfully

M. Senaoana (**PhD**)
GOVERNOR

FOREWORD BY GOVERNOR

Global economic developments continue to be characterised by uncertainty as efforts to support the emerging recovery from the recession that spelled for the past one year and half continue. The second round effects of the crisis continue to pose challenges to Lesotho's economy. The International Monetary Fund (IMF) projects that the world economy will grow by 3 per cent and 4 per cent in 2010 and 2011, respectively. The economy of Lesotho, measured by growth in real Gross Domestic Product (GDP), slowed down to 1.9 per cent in 2009 from 4.4 per cent in the previous year. Important sector in the economy, manufacturing and mining sector continued to deteriorate in the backdrop of the global recession. The level of orders remained low and a strong exchange rate of the loti against major currencies worsened the situation.

The Government of Lesotho established the Trade Finance Scheme to support the manufacturing sector during the recovery phase. The scheme would be administered by the Central Bank of Lesotho through participating commercial banks. The key challenge remains to be the restrictions that are to be imposed on the Duty Credit Certificate Scheme (DCCS) as they may result in liquidity shortage. In respect of the mining sub-sector, the recovery in the price of rough diamonds observed in the second quarter of 2009 has not raised the prices to the pre-crisis level. As a result, significant output growth has not been observed in the sector. The construction sub-sector is expected to stimulate the performance of the economy. The ongoing construction of Tsepong Hospital and health clinics across the country as well as the planned construction of Metolong Dam and roads, is expected to stimulate growth. Moreover, the construction of Polihali dam in Mokhotlong is expected to have significant impact on growth in the medium term.

In line with the global developments, inflationary pressures in Lesotho abated. Inflation, measured by changes in Consumer Price Index (CPI) averaged 7.3 per cent in 2009 compared with 10.6 per cent in the previous year. This was mainly due to the decline in the price of crude oil coupled with weak global demand.

The financial crisis has further strengthened our position about the importance of sound financial supervision. In addition, banking supervision should be broadened to include macroeconomic prudential supervision. The Bank is in the process of reviewing the Financial Institutions Act of 1999 to ensure that Lesotho's financial system remains stable. With the assistance from International Fund for Agricultural Development (IFAD), the Bank is working towards promotion and improvement of financial intermediation in the Country.

The development of sound money and capital markets remains an important priority of the Central bank of Lesotho as it will provide significant benefits to the economy of Lesotho. The measures implemented in 2007 to improve the money market have set the stage for the Bank to focus on capital market. It is expected that the Government of Lesotho's Treasury bonds will be floated before the end of 2010. This will not only play an important role in the development of the real sector of the economy, as the proceeds will be directed to specific capital projects, but will also provide additional investment opportunity for Basotho. Efforts are also in place to improve regulation of the insurance and pensions industry. The new insurance bill is being considered by Parliamentary Counsel of Lesotho. Pension funds can also be an important vehicle for infrastructure development as they are long term in nature. Therefore, there is a need for a comprehensive regulatory framework.

M. P. Senaoana (PhD)
GOVERNOR

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PART 1: FISCAL POLICY CHALLENGES FACING THE ECONOMY OF LESOTHO: FOCUS ON DWINDLING SOUTHERN AFRICAN CUSTOMS UNION (SACU) REVENUE

1.1 Introduction

Lesotho's budgetary position has, for many years, relied on revenue derived from the common revenue pool of the Southern African Customs Union (SACU). The customs and excise revenue is distributed according to a revenue sharing formula based on total intra-SACU imports. As relates to excise revenues, 85 per cent is distributed according to Gross Domestic Product (GDP) and the remaining 15 per cent is allocated to the development fund and shared using the inverse of GDP per capita. It has been clear with the advent of the ongoing trade liberalisation process in line with World Trade Organization (WTO) commitments that the pool would gradually decline in the long term. However, the severe negative impact of the unfolding recessionary conditions subsequent to the financial crisis has brought the decline in the size of the pool in the short term. This was evidenced when Lesotho accrued a liability of M750 million to the pool for overpayment in the fiscal year 2007/2008. Lesotho's share of SACU revenue is expected to decline by 57 per cent in the next fiscal year, thereby resulting in a revenue gap of M2.0 billion. In the short term, it is important that the government continue to be prudent in spending to ensure fiscal sustainability. In the medium term, measures should be designed to diversify away from SACU revenue.

1.2 Southern African Customs Union (SACU)

The Southern African Customs Union (SACU) has its origins from 1910. Following the independence of the Botswana, Lesotho and Swaziland (BLS) states, a new agreement was signed in 1969. Namibia joined after its independence in 1990. This agreement was renegotiated and signed in 2002 thereby incorporating more democratic principles in the management of the union. The revenue from the SACU pool has been a historical fiscal bulwark for the economy of Lesotho, supporting an enormous chunk of government expenditure.

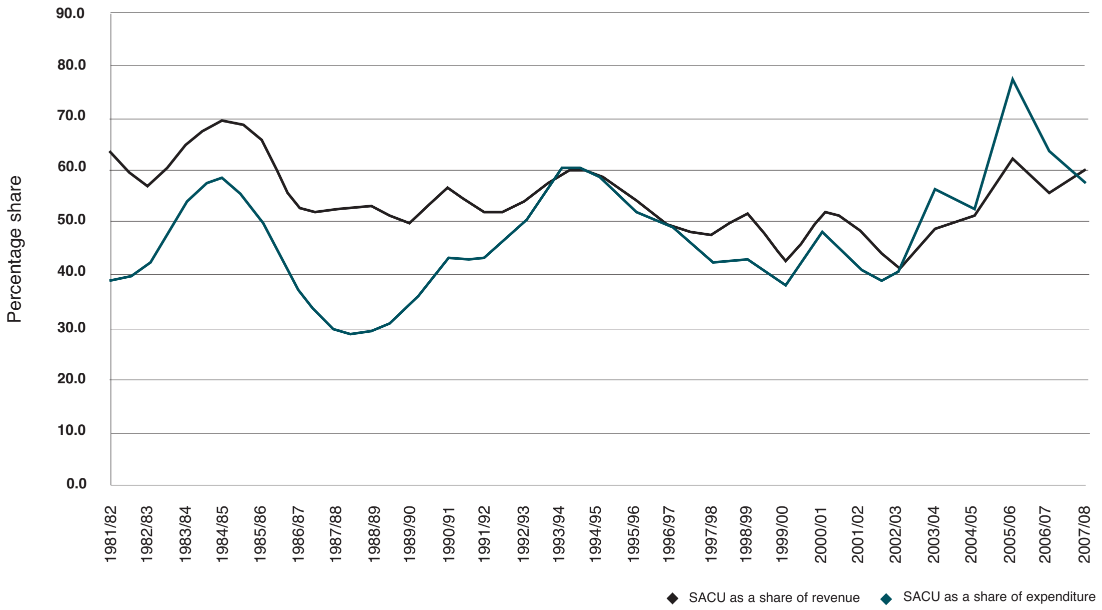
1.2.1 Importance of SACU to Lesotho's revenue

The importance of SACU revenue to the Government of Lesotho (GOL) cannot be overemphasized. For a long time, SACU revenue has been the largest source of Government revenue accounting for more than half of the total revenue and grants. In the current fiscal year, SACU revenue is budgeted to account for 59.8 per cent of total revenue. Non SACU revenue consists of domestic revenue and non tax revenue which account for 30 per cent and 10.0 per cent, respectively. Figure 1 below presents the share of SACU revenue, to total revenue and to total expenditures during the period 1981 to 2009. Relative to total revenue, SACU has averaged 54.5 per cent during the period. Following the implementation of the new SACU agreement in 2004, Lesotho's share of revenue rose significantly to reach a high of 62.2 per cent.

It is evident that the bulk of Lesotho Government's expenditure projects rely on SACU revenue and a reduction in SACU revenues has a negative effect on Government's activity in Lesotho through (1) a direct effect on government revenues; and (2) an indirect effect resulting from slower growth of consumption[8]. Such a decline would have serious implications on fiscal and debt sustainability in the country, particularly because the factors driving the decline are permanent in nature. Preliminary estimates indicate that for the 2010/11 fiscal year, SACU revenue will decline by 57 percent. Almost certainly, the Government will increase its borrowing to close the shortfall.

[8] Fiscal Challenges in Lesotho: Diagnosis and Options for Reform. World Bank (2009)

Figure 1: SACU as a Share of Revenue and Expenditures



1.2.2 Threats to SACU

While Botswana, Lesotho, Namibia and Swaziland (BLNS) depend heavily on the revenue from the customs pool, it is important to note that the pool is faced with a number of threats in the short to medium term. The second round effects of the financial crisis have resulted in the downturn of the business cycle leading to significant declines in imports of goods and services coming into SACU region, hence the decline in revenues from import duties. The domestic demand for excisable goods has also declined putting pressure on the excise component of SACU revenue.

Following the formation of World Trade Organization (WTO) in the late 1990s, regional trade arrangements and individual countries started a process of tariff reduction and trade liberalisation. In SACU, the signing of the Trade Development Cooperation Agreement (TDCA) by RSA with the European Union (EU) at the beginning of the decade remains a milestone. The agreement would result in significant tariff reduction by both parties during its implementation. Subsequent to its launch, the SACU secretariat has been spearheading a series of trade negotiations with various regions. In May 2008, SACU signed a free trade agreement with European Free Trade Association (EFTA)[9]. Measures are now being taken towards its implementation. In April 2009, all the SACU Member States signed the Preferential Trade Agreement between SACU and *Mercado Comun del Sur* (Mercosur)[10]. The process of ratification is expected to lead to implementation at the beginning of 2010. There has also been significant progress in negotiations with India and the United States (US). Since all members of SACU are also members of SADC, the efforts were made

[9] EFTA comprises: Iceland, Liechtenstein, Norway and Switzerland.

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

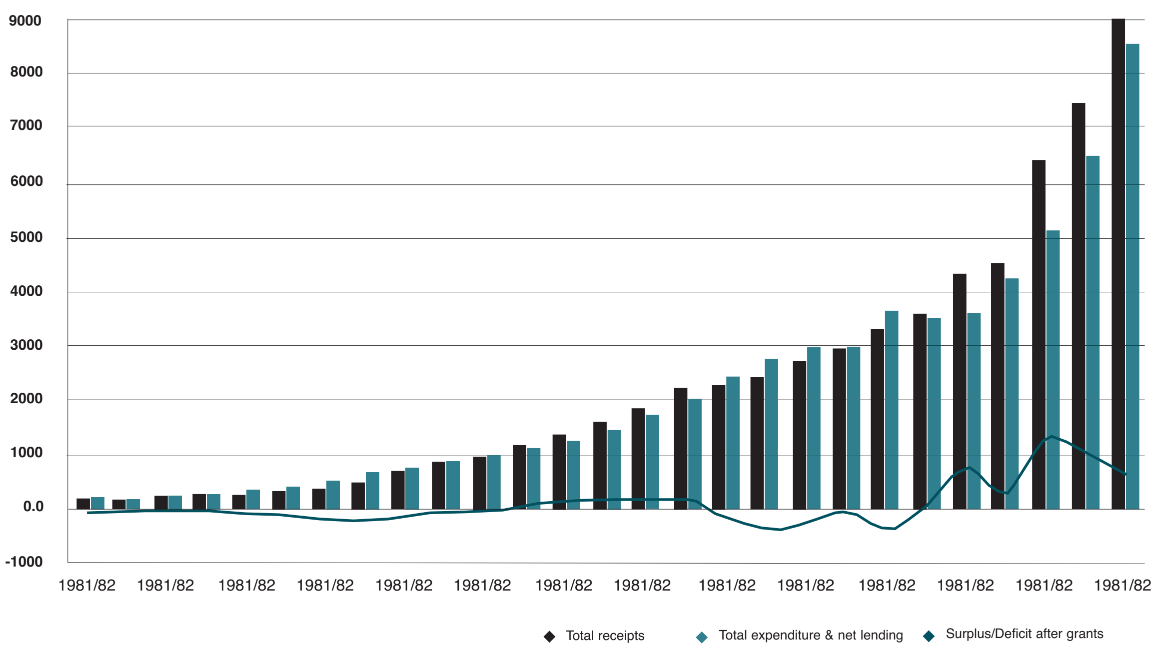
to implement SADC regional integration programme which includes Free Trade Area by 2008, customs union in 2010, common market in 2015, monetary union in 2016 and a single currency in 2018.

The revenue sharing formula has been the most contentious part of the SACU agreement. The critical element is that the revenue shares are not based on each member contribution to the pool, but compensates BLNS countries for the loss of investment to RSA. The absence of a formal framework for quantifying the actual loss by BLNS exposes the agreement to further renegotiations. Indeed, the SACU council commissioned a task force to review options for modernization of SACU.

1.3 Fiscal Policy in Lesotho

Figure 2 below presents evolution of total receipts, total expenditures and overall balance during the period 1980 to 2009. Budgetary performance in Lesotho has been relatively balanced with few points of pronounced deficits. This includes the periods, 1988 to 1990, 1999 to 2001 and 2003. In recent years, the budgetary performance has been registering surpluses. On average, budgetary performance has registered a surplus of M790 million per year since 2004. The surpluses have been used to offload the government liabilities and to build up some reserves for unforeseen shocks.

Figure 2: Total Receipts, Total Expenditures and overall balance (1981-2009) (Million Maloti)



1.4 Challenges to Fiscal Policy in Lesotho

The declining SACU revenue poses a number of challenges for fiscal policy in Lesotho. First, as mentioned earlier, the country is highly reliant on SACU revenue, accounting for 60 per cent of total revenue. Thus, almost invariably, there is a revenue gap that needs to be filled to ensure that government continues to meet its obligations in the short term. Preliminary analysis estimates the revenue gap at M2.0 billion which is roughly 10 per cent of GDP. Second, the reduced financial resources are likely to pose a major challenge for the Government to continue implementation of some projects particularly in health and education. Lesotho has made significant strides towards reversal of the negative effects of HIV/AIDS pandemic and providing adequate infrastructure necessary to achieve education for all. Third, government efforts to undertake countercyclical fiscal policy during the current economic downturn is not possible. In addition, the slump is occurring at the time when the Government is considering the growth strategy paper, which seeks to identify key sectors that have potential to drive the economy of Lesotho to towards broad, sustainable and shared economic growth. Once the process is finalised, the budget processes would then be informed by these identified key sectors. The growth strategy is a step towards promoting dynamic economic growth and broadening the tax base. However, the scope of fiscal intervention may be curtailed by inadequacy of resources, especially in the medium to long term.

1.5 Way Forward

The fiscal position is expected to deteriorate considerably into deficits over the short to medium term. Nevertheless, the fiscal surpluses realised over the recent past have put Lesotho in a relatively good position to meet the expenditure requirements. The importance of prudent spending policies to ensure long term sustainability cannot be over-emphasised, given that the threats to SACU revenue seem to be long term in nature. The existing limited financial resources will have to be targeted effectively to sectors that have potential to maximise economic growth and reduce reliance on SACU revenue by broadening the tax base.

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

2. Introduction

The global economy recovered from recession in the first half of 2009, but at a slower rate, as wide range of intervention by fiscal and monetary authorities, together with measures deployed by the International Monetary Fund (IMF), supported demand and lowered uncertainty and risk in financial markets. The recovery in the global economy was driven by the strong performance of Asian economies and modest recovery in the US, as led by rebound in manufacturing and a turn in the inventory cycle. The improvement was also supported by stabilization of retail sales, returning of consumer confidence and steady housing markets. However, employment continued to drop and is expected to fall until later in 2010. On the inflation front, US and Euro Area started the year with negative inflation rates, which turned to positive in the second half of 2009 along with global economic activity gains.

According to latest IMF projections, the global output is expected to register a contraction of 1.1 per cent in 2009. Real output in advanced economies is projected to contract by 3.4 per cent in 2009, while economic growth in emerging markets and developing countries is expected to grow by 1.7 per cent over the same period. The global economic performance indicated a stronger growth in the second half of 2009. It is estimated to rise by 3.0 per cent in the quarter ending June 2009 compared with contraction of 6.5 per cent during the first quarter. It is further projected to grow by 0.8 per cent in the quarter ending December 2009.

2.1 Industrialised Countries

2.1.1 The United States (US)

According to the IMF World Economic Outlook (October 2009), the economic growth in the US is projected to have contracted by 2.7 per cent in 2009 compared with the growth of 0.4 per cent in 2008. The output declined substantially in the first half of 2009, while the signs of recovery started to be realised in the period July to December 2009, reflecting the continuing fiscal boost and recoveries in both business inventory and housing market that stabilised consumer spending and financial markets. The revival in economic output estimates registered a growth of 3.5 per cent in the third quarter of 2009, from contraction of 5.5 per cent and 1.0 per cent recorded in the first and second quarters of 2009, respectively.

Despite the recovery of economic activity, the US unemployment rate remained at the high level during the first three quarters of 2009. It is projected to register 9.3 per cent in 2009 compared with 5.8 per cent observed in 2008.

The US inflation rate is expected to register a decline of 0.4 per cent in 2009 in contrast with the growth of 3.8 per cent in 2008. Although the inflation rate, on average, showed negative signs during the first three consecutive quarters of 2009, positive signs emerged in the fourth quarter of 2009. For the period ending December 2009, inflation rate rose to 2.7 per cent compared with -0.8 per cent observed in December 2008. This was largely driven by an increase in energy prices.

Due to slower recovery of the US economy, the Federal Reserve Bank's Open Market Committee (FOMC) decided to maintain its benchmark lending rate at near zero level at 0.25 per cent in December 2009. The FOMC indicated that it would continue to conduct non-conventional measures to support the functioning of financial markets and stimulate the economy.

The recovery in the US economy bodes well for exports of Lesotho's manufactured goods, especially, textiles and clothing.

2.1.2 The Euro-Zone

The IMF projections indicate that real GDP in the Euro-area[11] is estimated to contract by 4.2 per cent in 2009 compared with the growth of 0.7 per cent registered in 2008. The decline of output across the region was driven by a combination of falling domestic demand, declining investments and shrinking trade. During the second quarter of 2009, GDP contracted by 4.8 per cent in the Euro Area. This is slightly lower than the contraction of 4.9 per cent registered in the first quarter. The turnaround in economic activity was mostly noticeable in the third quarter when the Euro Area registered economic growth of 1.5 per cent, largely due to a sharp rebound in the output from the industrial sector. The improvement also emanated from a rise in inventories and a recovery in exports, as well as from the significant macroeconomic stimuli and other measures taken to restore the functioning of the financial system.

The Euro-zone's labour market remains bleak as a result of declining economic activity in 2009. The unemployment rate is estimated to be 9.9 per cent in 2009 from 7.6 per cent realised in 2008. During the first, second and third quarters of 2009, unemployment rate registered 8.0 per cent, 9.4 per cent and 9.7 per cent, respectively.

The inflation rate in the Euro-zone, measured by changes in the Harmonised Index of Consumer Prices (HICP), is projected to have increased to 0.3 per cent in 2009 compared with the growth of 3.3 per cent in 2008, due to severe downturn in economic activity and the sharp declines in commodity prices. Consequently, the European Central Bank (ECB) kept benchmark-lending rate at 1.0 per cent at the end of the review year compared with 2.5 per cent realized at the end of 2008.

The recovery in the Euro-zone economy during the second half of 2009 had a positive direct effect on Lesotho's economy as most of Lesotho's diamond exports are destined for the region. In addition, the Euro area is one of South Africa's (SA) main trading partners. As a result, shocks to the SA economy can easily be transmitted to Lesotho's economy since the two countries are closely linked.

2.2 Emerging Markets

Economic activity in the emerging market economies generally slowed down in 2009. According to IMF projections, real GDP in the region is estimated to have registered 5.0 per cent in the review year, following 6.7 per cent observed in 2008, as a result of collapse in external demand which hit hard the Asian export sub-sector. The projections indicated that all economic activity in Asian economies contracted except in China, India, Indonesia, Vietnam,

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

Bangladesh, Pakistan and Philippines. The Asian emerging markets' economies started to grow further in the first half of 2009, due to rapid rebound in China's economy where the growth accelerated by 7.1 per cent in the first half of the year, driven by domestic demand. This could support recoveries in other parts of Asia. The rebound in Asian economic activities can be linked to three factors: (i) expansionary fiscal and monetary policies, (ii) a rebound in financial markets and capital inflows which eased financial constraints for small exporters and improved consumer and business confidence, and (iii) the growth impulse for industry following large inventory adjustments.

In the labour market front, unemployment rate in the industrialized Asian economies is estimated to have registered 4.5 per cent during the review year compared with 3.4 per cent observed in 2008. The annual inflation rate was projected to have grown by 2.7 per cent in 2009 compared with 7.0 per cent recorded in the previous year, due to low levels of capacity utilization in the region.

The current account surplus in the emerging Asian economies was projected to have declined to 5.2 per cent of GDP in 2009 from 5.6 per cent observed in the previous year. The deceleration largely emanated from current account deficits which were registered in Pakistan, Vietnam and India. In addition, appreciation of foreign exchange rates in the Asian economies reduced import prices and thereby strengthening domestic demand, and influencing businesses to shift more of their supply to the domestic sector.

The observed slowdown in inflation in the region could exert downward pressure on the cost of raw materials to Lesotho's manufacturing firms, thereby lowering the country's import bill, as most of the local firms source raw materials from Asian countries.

2.3 South Africa

The IMF projections indicate that SA economic performance deteriorated in 2009. The estimates show that real GDP contracted by 2.2 per cent in the review year compared with growth rate of 3.1 per cent realized in 2008. A recovery of SA's economy was expected to resume in the second half of 2009. This was evidenced by real GDP growth rate of 0.9 per cent registered during the third quarter of 2009, from a contraction of 6.4 per cent and 2.8 per cent in the first and second quarters of 2009. The improvement was supported by expansionary fiscal and monetary policies, as well as the recovery in the global trade.

The rate of inflation, measured by changes in the consumer price index, is estimated to have registered an annual average of 7.1 per cent in 2009 compared with 10.3 per cent in 2008. The deceleration was largely driven by slowdown in food and non-alcoholic beverages prices. It recorded 6.3 per cent in December 2009 compared with 9.5 per cent realised in December 2008.

On average, producer price inflation (PPI) increased by an annual rate of 0.1 per cent in 2009 compared with 14.2 per cent during 2008. It closed the year at 0.7 per cent compared with 11.0 per cent registered at the end of 2008.

In response to the declining inflation rate, coupled with global and domestic economic and financial developments, the South

African Reserve Bank's (SARB) Monetary Policy Committee (MPC) lowered the key interest rate to 7.0 per cent in the quarter ending December 2009 from 9.5 per cent realized in the first quarter of 2009.

Table 1

SELECTED ECONOMIC INDICATORS, 2005 – 2009*
(Percentage changes unless otherwise stated)

Indicators	2005	2006	2007	2008	2009*
World Output	4.5	5.1	5.2	3.0	-0.8
Advanced Economies	2.6	3.0	2.7	0.6	-3.2
Of which:					
United States	3.1	2.7	2.1	0.4	-2.5
Euro Area	1.7	2.9	2.7	0.7	-3.9
Japan	1.9	2.0	2.3	-0.7	-5.3
United Kingdom	2.2	2.9	2.6	0.7	-4.8
Emerging & Developing Economies					
Of which:					
Africa	5.7	6.1	6.3	5.2	1.9
Sub-Saharan	6.0	5.7	7.0	5.6	1.6
South Africa	5.0	5.3	5.1	3.1	-2.2
Developing Asia					
China	10.4	11.6	13.0	9.6	8.7
India	9.2	9.8	9.4	7.3	5.6
Consumer Price Index					
Advanced Economies	2.3	2.4	2.2	3.4	0.1
Of which:					
United States	3.4	3.2	2.9	3.8	-0.4
Euro Area	2.2	2.2	2.1	3.3	0.3
Japan	-0.3	0.3	0.0	1.4	-1.1
United Kingdom	2.0	2.3	2.3	3.6	1.9
Emerging & Developing Economies					
Of which:					
Africa	7.1	6.4	6.0	10.3	9.0
Sub-Saharan	8.2	7.3	6.8	11.9	10.5
South Africa	3.4	4.7	7.1	11.5	7.2
Developing Asia					
China	1.8	1.5	4.8	5.9	-0.1
India	4.2	6.2	6.4	8.3	8.7
World Trade Volume (Goods and Services)	7.6	9.3	7.3	2.8	-12.3
Exports					
Advanced Economies	6.1	8.4	6.3	1.8	-12.1
Emerging & developing Economies	10.8	11.0	9.8	4.4	-11.7
Imports					
Advanced Economies	6.4	7.5	4.7	0.5	-12.2
Emerging & developing Economies	12.0	14.7	13.8	8.9	-13.5

Source: IMF World Economic Outlook October 2009 and January 2010. *Sustaining the Recovery.* * IMF Projections

The revival of SA economic growth augurs well for Lesotho's economy. The favorable inflation outlook and low interest rate in SA imply positive conditions for trade between the two countries.

2.4 Commodity Price Developments

2.4.1 Gold Prices

The price of gold increased by 11.6 per cent to US$973.54 per ounce in the review year from an annual average of US$872.52 an ounce in 2008. The surge in price of gold was largely influenced by the weakness in the US economy, with the depreciation of the US Dollar against the major currencies, which prompted investors to switch from dollar denominated assets to holdings of gold. It closed the year at US$1 090.95 per ounce compared with US$882.05 per ounce at the end of 2008. In Rand terms, the average annual price of gold rose by 15.0 per cent to R8 144.42 per ounce in 2009 compared with R7 082.82 per ounce realised in the previous year.

An increase in price of gold, in both Dollar and Rand terms, bodes well for recovery of the SA mining sector as it could result in the improved profitability of the SA mining companies. This can also encourage SA mining industry to increase production and thus boost employment prospects for Basotho migrant mineworkers.

2.4.2 Oil Prices

The oil market was characterised by weak prices during the year. This was due to low demand for crude oil as a result of low global economic activity. In 2009, the minimum and maximum price levels of crude oil were recorded at US$35.58 and US$77.88 per barrel respectively, compared with US$33.36 and US$140.73 per barrel in 2008. It closed the year at US$77.16 per barrel in the review year compared with US$35.58 per barrel at the end of 2008. On an annual average, it fell to US$ 60.84 per barrel in 2009 from US$ 94.39 per barrel in 2008.

On average, the Loti price of crude oil decreased by 33.9 per cent to M501.37 in 2009 from M758.43 per barrel in 2008. In line with global developments, there were several, generally downward, revisions of prices of fuel in the country during the year. Price of petrol in Lesotho closed the review year at M6.90 per litre, while that of diesel and illuminating paraffin closed the year at M7.20 per litre and M4.95 per litre, respectively, compared with M6.55 per litre of petrol, M8.75 per litre of diesel and M6.20 per litre of illuminating paraffin at the end of 2008.

2.4.3 Platinum prices

The annual average price of platinum plummeted by 23.1 per cent to US$1,208.56 per ounce in 2009 from US$1,571.83 per ounce observed in the previous year. In Rand terms, the average price of platinum fell by 20.1 per cent to M10 059.78 per ounce in the review year from M12 594.50 per ounce in 2008.

2.4.4 Maize prices

In US dollar terms, the average spot prices, for both white and yellow maize fell during the year under review. The annual average spot price of white maize dropped by 16.9 per cent to US$186.78 per tonne in 2009 from US$224.74 per tonne in 2008, while that of yellow maize decreased by 24.4 per cent to US$172.43 per tonne in the review year. In Maloti terms, white and yellow maize declined by an annual average of M1 565.53 and M1 445.18 per tonne in 2009, respectively, compared with M1 830.67 and M1 854.26 per tonne registered in 2008.

2.4.5 Wheat prices

The annual average spot price of wheat declined by 33.0 per cent to US$220.07 per tonne in the review year compared with US$328.35 recorded in 2008. In Maloti terms, the average spot price of wheat fell by 30.0 per cent per tonne to M1 860.53 per tonne in the review year from M2 658.11 per tonne realised in the previous year.

2.5 Lesotho in the Context of Regional Economic Integration

Lesotho continued to show strong commitment to economic cooperation throughout 2009 by actively participating in activities of regional economic organisations such as the Southern African Customs Union (SACU)[12], Southern African Development Community (SADC)[13] and the Common Monetary Area (CMA)[14], amongst others.

During the review year, SACU continued with implementation of the 2002 SACU agreement and to negotiate various free trade agreements (FTA) with major trading blocs and countries. At the 18th SACU

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

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

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

Council meeting held in Maseru, Lesotho, in April 2009, all the SACU Member States signed the Preferential Trade Agreement (PTA) between SACU and *Mercado Comun del Sur* (Mercosur)[15]. This was followed by the process of ratification which is expected to lead to implementation of the agreement at the beginning of 2010. The main objective behind this agreement is to promote trade between the two parties on a number of selected products. The agreement contains 1000 tariff lines on both sides for which trade preferences in the form of reduced customs duties will be granted. Progress was also made with regard to SACU-India PTA. The fourth round of negotiations was held in October 2009.

As relates to the SACU-European Free Trade Association (EFTA)[16], a Free Trade Agreement (FTA) was signed in May 2008, and measures were taken towards its implementation. The Joint Committee overseeing the implementation of the trade agreement held its inaugural meeting in Pretoria in February 2009. The Joint Committee considered the following matters:

- Rules of procedures for the Joint Committee;
- Reports of the two sub-committees;
- Exchange of information on economic and trade developments on both sides;
- Status regarding the implementation of the Free Trade Agreement;
- Economic cooperation and technical assistance and publicity of the FTA; and
- Notification of the FTA to the WTO.

SACU completed the third Trade Policy Reviews by World Trade Organisation (WTO). According to WTO agreements, member countries should be subjected to a review of trade and related policies at regular intervals for purposes of transparency. Trade Policy Reviews are also used to monitor any significant developments that may have an impact on the global trading system. The first SACU Trade Policy Review was held in 1998, while the second took place in 2003.

In respect of SADC, efforts towards implementation of the Finance and Investment Protocol (FIP) and regional integration structures were intensified. FIP intends to harmonise activities in SADC in areas of macroeconomic convergence, tax and elimination of exchange controls. Macroeconomic convergence in the region is measured by the following indicators:

- The rate of inflation in Member States;
- The ratio of budget deficit to GDP in Member States;
- The ratio of public and publicly guaranteed debt to GDP, taking account of the sustainability of such debt, and
- The balance and structure of the current account in member States.

Following launch of the SADC Free Trade Area in 2008, SADC intends to establish a customs union in 2010; a common market in 2015; a monetary union in 2016 and a single currency in 2018. It is important to note the challenge that regional integration in SADC faces. There are several overlapping regional integration forms already in existence. SACU was established in 1910 and it now consists of Lesotho, South Africa, Botswana, Swaziland and Namibia which are also members of SADC. SACU

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

[16] SEFTA comprises: Iceland, Liechtenstein, Norway and Switzerland.

plays an important role in the region as it pools the customs and excise revenue that is shared among members using the agreed formula. This revenue accounts for a significant share of the revenue of the smaller members' budgets. Other members of SADC Angola, DRC, Malawi, Mauritius, Swaziland, Zambia and Zimbabwe are members of Common Market for Eastern and Southern Africa (Comesa). Furthermore, Tanzania is a member of East Africa Community (EAC).

The benefits of regional integration cannot be overemphasised. This is particularly important at this time when the global economy is showing signs of recovery. First, Lesotho-based producers would have access to new increased market. The SADC region represents cumulative gross domestic product (GDP) of US$431 billion and a population of 247 million people. This compares to SACU's GDP and population of US$307 and 54.4 million, respectively. Thus regional integration is an important avenue for firms in Lesotho to have diversified markets for their products. This will enable firms to increase production, employment, and therefore boost economic growth in the domestic economy. Moreover, increased competition in the product market would reduce prices, to the benefit of domestic consumers, as firms would be forced to introduce cost effective methods of production.

3.1 Real Sector Developments

3.1.1 Trends in Output and Income

The performance of the domestic economy grew at a slower pace in 2009 due to a decline in performance of the primary sector. Real GDP growth was estimated at 1.9 per cent in 2009, compared to 4.4 per cent in 2008.

The performance of the primary sector declined against the backdrop of pressure on diamond mining. As a result of the global financial crisis, the diamond market remained weak mainly due to the decline in the prices of rough diamonds. Prices of rough diamonds fell by 50.0 per cent during the first quarter of 2009. The Euro area, the world's largest market for diamonds, remained relatively weak throughout the year 2009, delaying recovery of the prices of rough diamonds. However, starting from the second quarter of 2009, rough diamond prices rebounded, though not to the pre-crisis level.

Real Gross National Income (GNI) is estimated to have grown by 0.7 per cent in 2009 from the growth of 11.4 per cent recorded in 2008. GNI per capita is estimated to have increased by the same rate as GNI in 2009, compared with 11.3 per cent in 2008. The decline in the growth rate of GNI mainly reflects the fall in both miners' remittances and investment income from abroad. Miners' remittances were negatively affected by the global financial crisis, which reduced the South African mining production significantly, especially the gold mines. Investment income fell as a result of lower interest rates abroad.

Table 2

AGGREGATE ECONOMIC INDICATORS
(Percentage Change, 2004 = 100)

	2005	2006	2007	2008	2009*
Constant 1995 Prices					
GDP	1.4	6.6	2.3	4.4	1.9
GNI	-2.9	2.4	1.7	11.4	0.7
GDP Per Capita	1.7	6.5	2.2	4.3	1.9
GNI Per Capita	-2.6	2.3	1.6	11.3	0.7

Source: Bureau of Statistics
* CBL Projections

3.1.2 Sectoral Performances

(a) Developments in the Primary Sector

Growth in the primary sector declined by 3.1 per cent in 2009 compared with the positive growth rate of 9.4 per cent registered in the previous year. The decline was a result of downward pressure on mining activity driven by the global slump in commodity prices during the year.

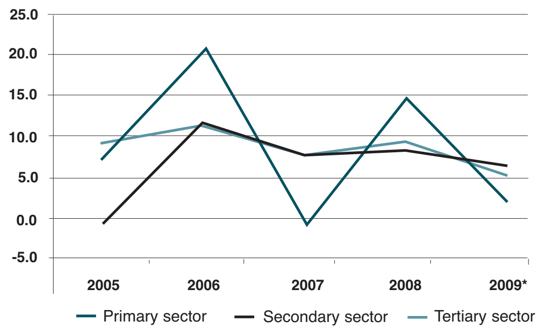
The Agriculture, forestry and fishing subsector is estimated to have grown at slower pace of 1.1 per cent in 2009 compared with 9.4 per cent in the previous year. The positive growth was on account of improvement in livestock production, the largest subsector in the primary sector. The crops subsector contracted further by an estimated 2.3 per cent in 2009 compared with the decline of 4.3 per cent in 2008, mainly reflecting poor performance in maize production. According to the preliminary report on crop forecasting, maize production declined further by a projected 9.3 per cent while sorghum is expected to have grown by 56.8 per cent[17]. The expected decline in Maize production is attributable to, among other things, the minimal use of inorganic fertilisers because of high costs.

[17] Bureau of Statistics-2008/09 Crop Forecasting

Block farming could be one of the factors that contributed to the smallest contraction in the crops subsector. Agricultural extension services registered a smaller increase of 0.2 per cent in 2009 from a decline of 3.5 per cent in 2008.

Performance of the mining and quarrying subsector is estimated to have declined by 15.0 per cent in 2009, compared to the growth of 33.4 per cent in 2008. The decline is attributable to low prices of rough diamonds in the international markets, which lasted till the first half of the year as a result of the global economic crisis. The mining sector is expected to have remained under strain during the review year.

Figure 3: Sectoral Real Growth Rates (1995=100)



Source: Bureau of Statistics
* CBL Projections

(**b**) Developments in the Secondary Sector

The secondary sector which comprises manufacturing, electricity and water, as well as building and construction subsectors is estimated to have grown by 1.5 per cent in 2009 from a revised increase of 3.4 per cent in 2008.

Lesotho's manufacturing subsector comprises textiles, clothing, footwear, and leather, which account for 63.4 per cent; food products and beverages which account for 17.8 per cent and other manufacturing at 18.8 per cent of the manufacturing subsector's production. The global economic slowdown, especially in the first half of 2009, impacted negatively on textiles and clothing firms. A number of Lesotho based manufacturing firms realised a decline in orders from US based enterprises and as a consequence had to scale down operations. However, as the year progressed, the global economy started showing signs of recovery, especially in the second half of 2009, which is expected to have moderated the decline in manufacturing production as orders increased slightly and firms increased production and rehired workers who were laid off. In addition, the entry of a new firm, Phillips Pty (Ltd), in Lesotho's non-textile-and-clothing sector, is expected to have impacted positively on the 'other manufacturing' subsector.

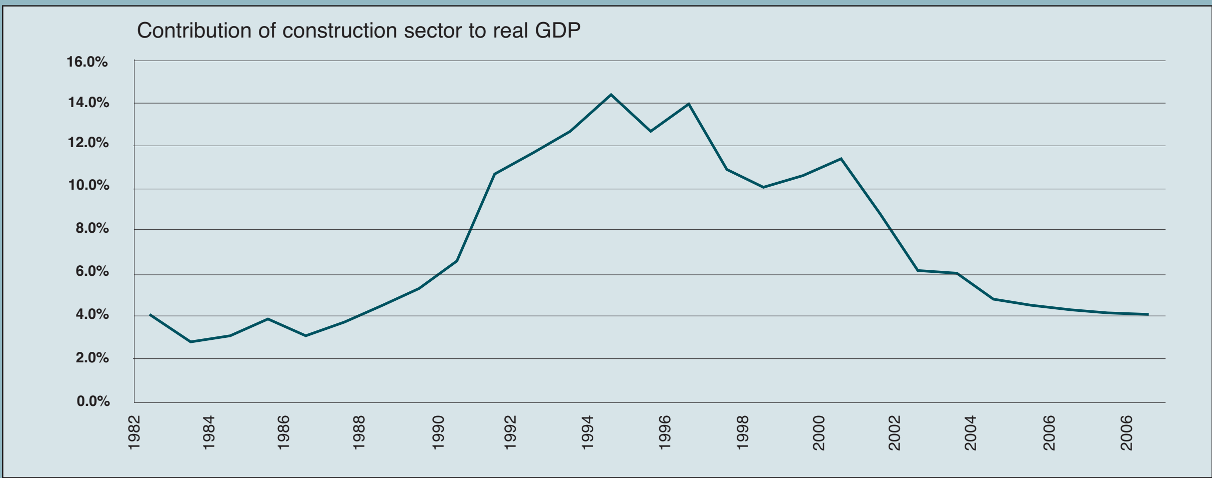
The Electricity and Water subsector is expected to have been boosted mainly by high level of activity in the building and construction subsector. The modest performance of other manufacturing subsector during the latter half of the year may have also had a positive impact. This subsector is estimated to have grown by 5.6 per cent in 2009 from 2.3 per cent in 2008.

Building and construction subsector increased from 7.7 per cent in 2008 to 7.9 per cent in 2009, manly due to the construction and building projects such as the national referral hospital, the new pioneer mall, Mohlapiso bridge and the parliament building, to mention a few. The construction of several roads such as access road to Metolong dam also improved performance of the subsector.

BOX 1: Contribution of construction to Economic growth in Lesotho: - evolution and prospects

The construction industry is widely considered to be one of the major contributors of economic growth and development in any economy. The activities of the industry have great significance to the achievement of national socio-economic development goals of providing infrastructure and livelihood. It is regarded as a mechanism of generating the employment and offering job opportunities to millions of unskilled, semi-skilled and skilled work force.

In the 1990's, the construction sector emerged as the mainstay of the economy of Lesotho, largely driven by the advent of Phase I of the multi-million Lesotho Highlands Water Project (LHWP). In terms of its contribution to Gross Domestic Product (GDP), the sector was in the lead till mid-1990's. It reached a peak of 11.0 per cent of real GDP in 1996 (see graph below). During 1995 and 1997, with intense construction activities involving LHWP, Lesotho registered an impressive economic performance – the real GDP growth rate made Lesotho one of the top performers in Africa at that time. However, following the completion of the project, this sector went into a relapse until 2008.



In terms of the outlook, the sector is expected to rebound given the construction projects taking place as well as those in the pipeline. These include the ongoing construction of the new public referral hospital and refurbishment of the other existing filter clinics in Maseru urban. The construction of the National Referral Hospital is estimated to cost approximately M1.0 billion. Constructions of a number of rural and urban roads are in progress, as well as construction of bridges such as Mohlapiso Bridge that will run across the Senqu River at Qacha's Nek district. Mohlapiso Bridge is estimated to cost approximately M173 million and expected to run for two years ending in April 2011. In addition, the recent years have seen an increase in property development companies, who are constructing residential and commercial buildings in urban areas, especially in the capital city Maseru.

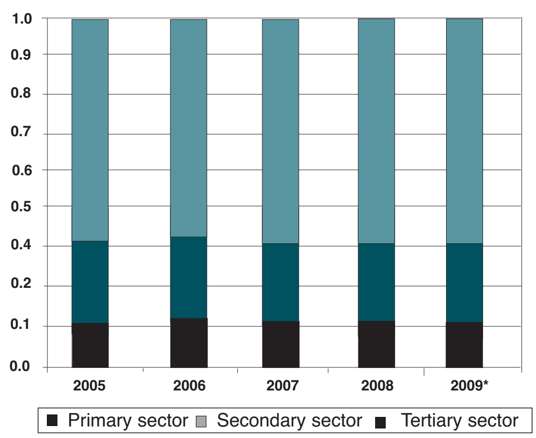
Projects in the pipeline include phase II of the LHWP, Metolong Water Project, other MCA related projects, construction of roads and bridges as well as private property development projects. The second phase of LHWP (which involves construction of the 165-m-high, 2.2-billion-cubic-metres reservoir Polihali Dam, in the Mokhotlong District) is estimated at about M7.3 billion. The project would ensure continuing water supply to the Gauteng province in South Africa. The project is expected to get off the ground in 2011 and would be completed by 2017. Metolong Dam (which will supply water to Maseru and the neighbouring towns – Mazenod, Roma and Morija), is expected to cost approximately M3.0 billion and was expected to kick-start in late 2009. Other projects include Water and Sewage Authority's (WASA's) Maseru Wastewater project, the new Lesotho Road Management System (LRMS) project as well as several other construction activities. The Maseru Wastewater project, which would focuses on rehabilitation, upgrading and construction of sewer networks and pumping stations at Ratjomose and part of Mabote and Maqalika areas, is estimated to cost more than M200 million and expected to be completed in 2012.

These construction activities come at the opportune time, when two key sectors (manufacturing and mining sectors) are facing a number of challenges posed by problems such as the global economic downturn. As such, they are expected to boost the economic performance of the country.

(c) Developments in the Tertiary Sector

The tertiary sector is estimated to have slowed down from 4.0 per cent in 2008 to 2.7 per cent in 2009. This was underpinned largely by a deceleration of 5.0 per cent in transport and communication in 2009 from 12.0 per cent in the previous year. The slowdown in transport and communication was mainly attributable to the slump in global demand, and international trade as well as job losses caused by the global financial crisis that emerged in 2008 in developed countries. However, the wholesale and repair subsector is expected to have moderated the slowdown in the tertiary sector, benefiting from the decline in inflation during the review period. Restaurants and hotels activities also slowed down during the review period compared with the growth of 3.5 per cent in 2008, but the medium term prospects for the subsector point to improvement mainly due to new and improved accommodation facilities in preparation for FIFA 2010 world cup in South Africa.

Figure 4: Sectoral Shares in GDP at Factor Cost (In Percentages)



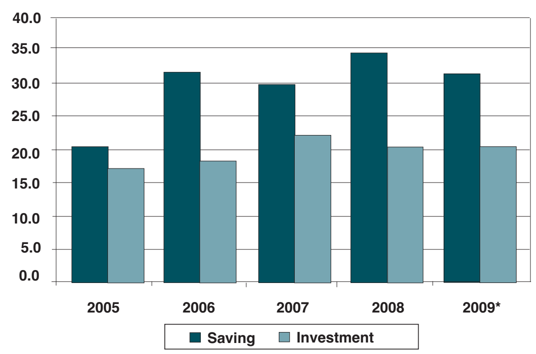
Source: Bureau of Statistics
* CBL Projections

3.1.3 Savings and Investment

The Saving-Investment gap as a share of GNI was recorded at 10.5 per cent in the year under review. Gross national savings alone was estimated at 31.0 per cent of GNI in 2009 compared with 34.3 per cent of GNI in 2008. Total investment as a share of GNI remained constant at 20.5 per cent in 2009 compared with 2008. This is consistent with the decline in savings and a relatively flat GNI.

The decline in savings was driven mainly by government savings due to the projected fiscal deficit in 2009/10 fiscal budget. The flat GNI was at the back of lower factor income from abroad driven mainly by declines in migrant mineworkers. Government savings fell to 7.9 per cent of GNI compared with 10.5 per cent in 2008 while private sector savings declined moderately to 23.2 per cent of GNI in the review period from 23.8 per cent in 2008.

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



Source: Bureau of Statistics
* CBL Projections

Saving as a ratio of Gross National Disposable Income (GNDI) is projected at 23.7 per cent in the review year compared with 25.4 per cent recorded in 2008, following a decline in net current transfers, particularly SACU revenue.

3.2 Employment, Wages and Prices

3.2.1 Employment

Employment in LNDC-assisted companies[18] is projected to have declined to 45 334 in

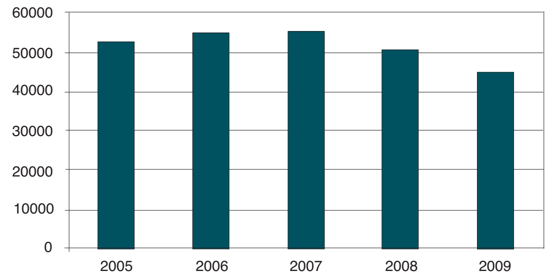
[18] LNDC-assisted companies include textiles and clothing; leather and footwear, retail, sandstone and hotels.

December 2009 from 47 204 registered at the end of 2008, owing to a decline in the performance of the manufacturing subsector, especially textile and clothing. This represented a decline of 4.0 per cent. The poor performance by this subsector was driven by the decline in global demand resulting from the global economic recession. Sales orders dropped significantly and those that remained were processed mostly on short-term basis, leading to most firms cutting their operations while several shutdown completely.

Employment in the public sector increased by 2.1 per cent from 42 352 employees at the end of 2008 to 43 124 employees at the end of the review period. The increase was mainly influenced by categories of general civil servants and armed forces with 3.4 and 2.8 per cent respectively. The category of daily paid employees on the other hand showed a decline of 4.3 per cent while teacher's employment slowed to 0.3 per cent by December 2009.

The number of migrant mineworkers continued to follow a downward trend in 2009. The number of migrant mineworkers closed the year at 45 276 employees from 50 686 registered in December 2008. This represents a decline of about 10.7 per cent. The decline in this category was mainly due to the pressure in mining of gold and platinum, brought about by movements in worldwide prices of commodities. However, prices of gold and platinum recovered in the latter part of the review period, which could have eased the situation in the mining sector had the Rand not appreciated significantly against major currencies and offset the recovery.

Figure 6: Average Number of Basotho Mineworkers in SA



Source: The Employment Bureau of Africa (TEBA)

3.2.2 Wages

The general minimum wage as determined by the Wages Advisory Board increased by an annual average of 8.1 per cent during the review year. This increase is lower than the 10.0 per cent increase that was effected by the Board in the previous period, consistent with lower inflation expectations that are currently prevailing. Specific sectors such as manufacturing, construction, wholesale, retail sector, hospitality, transport, small business and domestic workers increased their minimum wages in varying degrees ranging from 2.9 per cent to 8.6 per cent based on their respective performances and inflation in 2009. In addition, government employees benefited from an across-the-board salary increase of 8.5 per cent in the fiscal year 2009/2010.

3.2.3 Price Developments

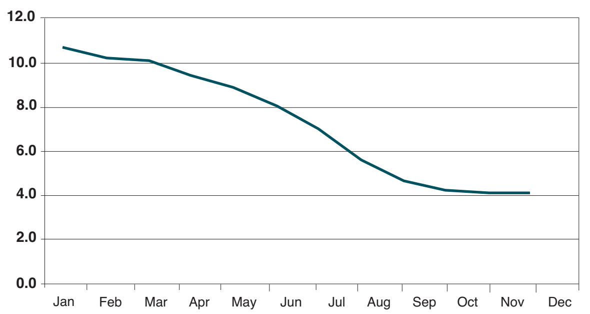
The rate of inflation, measured by the change in the CPI, slowed to 7.3 per cent on average in 2009 from 10.7 per cent recorded in 2008 as a result of lower prices of fuel and food. Inflation opened the year under review with the high of 10.7 per cent in January. It started to decelerate in the second quarter and settled at 4.2 per cent in December 2009.

The oil price in Maloti terms declined from an annual average of M758.43 per barrel in 2008 to M501.38 per barrel in 2009, constituting 33.9

per cent decline. The cereal prices also declined significantly over the period. Annual inflation rate in South Africa was 2.1 percentage points higher than that of Lesotho in December 2009. This can be explained by differences in their respective baskets for the category of food and non-alcoholic beverages at 15.68 per cent for South Africa and 39.8 per cent for Lesotho.

South Africa's inflation rate is expected to fall within the target band (3-6 per cent) in 2010. Since big proportion of Lesotho's inflation is imported from South Africa through trade links, then it is expected that Lesotho's inflation rate will be in the region of 5-9 percent in 2010. Low inflation is desirable since it does not erode purchasing power of consumers significantly.

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



Source: Bureau of Statistics

3.3 Balance of Payments (BOP)

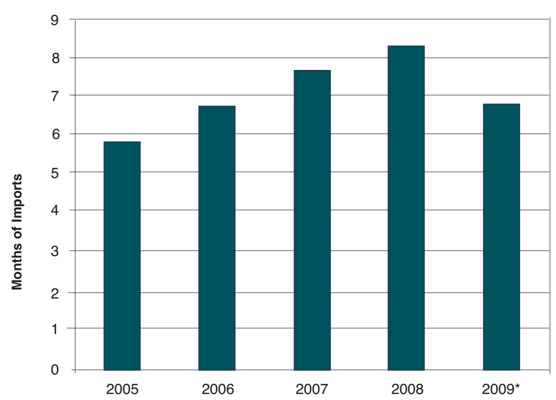
3.3.1 Overall Balance

For the first time since 2003, the overall balance recorded a deficit of M643.9 million in the review year compared with a surplus equivalent to M2.2 billion in 2008. The deterioration of the overall balance was mainly a reflection of the strengthening of the Loti against major currencies which resulted in negative valuation of M959.4 million.

The transaction balance, which represents the overall balance without the effect of currency movements, contracted to a surplus of M516.8 million in 2009 from surplus of M1.2 billion observed in the previous year. This was brought about by the deterioration in the current account which was driven by a decline in the trade balance as well as in services and income accounts. However, capital and financial account continued to register net inflows because of a fall in outflows of "other investment category".

Gross official reserves declined by 7.2 per cent in 2009, compared with a rise of 32.4 per cent observed in the previous year. The decline was influenced by contraction in export earnings and returns on investment portfolios. In months of import cover, foreign reserves fell to 6.8 months in the review period, from 8.4 months recorded in the previous year.

Figure 8: Reserves in Months of Imports



*Preliminary estimates

Table 3

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

	2005	2006	2007	2008	2009*
Current Account	-14.0	16.6	37.5	36.8	-6.6
Capital and Financial Account	14.6	1.2	11.1	2.2	9.6

*Preliminary estimates

3.3.2 Current Account

The current account of the balance of payments recorded a deficit equivalent to M309.9 million in 2009 from a surplus of M1.7 billion recorded in the previous year. This is the first deficit in four years. The deficit was a result of deterioration in merchandise export, in particular, clothing and textiles and diamond exports, coupled with a fall in labour income and investment income, which was stronger than the increase in current transfers. Lesotho's external sector position has been negatively affected by the second round effects of the global financial crisis. Relative to GDP, the current account registered a deficit of 6.6 per cent in 2009 compared with a surplus of 36.7 per cent recorded in the preceding year.

BOX 2: Recent Reforms on Duty Credit Certificates - Impact on Lesotho's Manufacturing

The Duty Credit Certificate Scheme (DCCS) is a SACU-wide export incentive scheme which was initially introduced in 1993. The main objective of the scheme is to enhance global competitiveness of clothing and textile manufacturers in SACU region by providing access to cheaper imported inputs. Under the scheme, clothing and textile manufacturers in SACU member countries can earn duty rebates on imported production inputs for clothing and textiles based on the value of their exports to non-SACU destinations.

Receivers of the DCCs comprise all registered textile and clothing companies which produce either partially or solely for export purposes. Participants in the DCCS are classified into three main categories, namely, A, B and C, catagorises. As part of the DCC requirement, each participating exporter is required to spend a certain portion of its revenue towards training of labor to improve their skills, efficiency and effectiveness and therefore quality of output. The level of benefit that an exporter can gain on their DCC is divided into two levels; level 1 for exporters whose sales turnover is less than 15% of total sales turnover in a particular export period and level 2 for company exporting over 15% of its total sales turnover. The benefits are biased towards clothing and accessories classified in the following four categories; clothing and clothing accessories (30%), household textiles (20%), fabric and other textiles (15%) and yarn (10%).

In relation to claim procedure, beneficiaries of the scheme are entitled to claim a Duty Credit Certificate with the International Trade Administration Commission (Or DCC administrator in the case of Lesotho), on a monthly, quarterly or annual basis, once they have exported eligible goods outside the SACU region and repatriated the full invoiced value for such goods. Claim must be made within 18 months of the export date.

Initially, the certificates had full tradability and could be traded between textile and clothing manufacturers and also retail outlets. These practice proved detrimental to regional textile and clothing companies (particularly in smaller SACU member states like Lesotho) and therefore it was abolished in 2008 following concern over abuse of this system. They can only be traded within the manufacturers. However, this proves troublesome to exporters in the smaller SACU member states like Lesotho, who depended on funds from DCC sales as part of their liquid capital.

The DCCS have a number of implications on Lesotho's manufacturing sector, particularly the competitiveness of Lesotho's textile exports. The duty credit provided by the scheme on imported inputs, serves to reduce the cost of production through reduced cost of inputs. This does help in lowering the final price charged to customers in the market or increasing profits of exporters, hence making the exports more competitive in global market.

In terms of Quality control, the scheme's Training Requirement imposed on every participating firm improves labor skills over time. This has a potential to improve the overall quality of the final product, thus favoring competitiveness. This aspect is crucial for Lesotho, whose labor, although considered cheap, is not favored by investors in some instances due to lack of skills and training. In addition, it has a potential of skills development for workers in the export sector which is likely to bring about sustainability of the sector in the country.

Needless to say, the abolishment of full tradability of certificates for cash is likely to have a negative effect on the domestic exporters. Previously, companies could trade their earned certificates to boost their cash flow and liquidity, which could also be used for other production costs like, labor costs and payment of utilities. However under the extension it would be difficult for companies that depended on funds from DCC sales to raise liquid capital.

3.3.3 Income and Trade in Goods and Services

Preliminary estimates indicate that merchandise exports slowed down in 2009. Merchandise exports, in nominal terms, declined by 16.8 per cent during the year compared with a rise of 26.8 per cent observed in the previous year. As a share of GDP, merchandise exports recorded 90.4 per cent in the review period following 108.8 per cent registered in the preceding year. The performance of merchandise exports was largely driven by the second round effects of the financial crisis, which resulted in low demand for Lesotho's products by major trading partners, particularly the US and South Africa. The performance of the clothing and textile exports remained sluggish as the global recession deepened in 2009. Diamond exports also declined as the price of diamonds remained below the pre-crisis levels. Liqhobong diamond mine's operations remain suspended following its closure in December 2008.

The nominal value of merchandise imports is projected to have increased by 3.5 per cent in the review period compared with a revised 21.2 per cent rise recorded in the previous year. Domestic demand driven by government expenditure was stronger than the fall in demand for inputs by the textiles and clothing sectors. The Government expenditure was mainly directed towards construction of major roads across the country and the Tšepong Referral Hospital. Relative to GDP, merchandise imports registered 211.1 per cent in 2009, following a revised 203.9 per cent observed in 2008.

Trade in services registered a higher net outflow of M486.5 million in the review year from M360.5 million in the previous year. The increase emanated from higher payments on transportation services coupled with a rise in expenditure by Lesotho embassies abroad.

Net income declined by 10.1 per cent in 2009 compared with an increase of 38.0 per cent registered in 2008, mainly on account of a decline in labour income and earnings on investment portfolios by the Central Bank and commercial banks. The returns on investment portfolios were negatively affected by lower regional interest rates. Furthermore, an increase in interest paid on official loans contributed to the deterioration in the net income.

3.3.4 Capital and Financial Account

The capital and financial account continued to record a surplus, evidenced by net inflows of M632.0 million during the review period compared with M148.0 million recorded in the preceding year. The growth was largely driven by both capital transfers and other investment categories. As a percentage of GDP, capital and financial account increased to 9.6 per cent in 2009 compared with 2.2 per cent observed in the previous year.

The financial account rose to a net inflow of M499.9 million during the year from that of M33.4 million recorded in the previous year. Commercial banks' foreign assets increased by163.4 million in 2009 compared with M754.6 million in 2008. Capital transfers, which include grants in government, increased from M114.6 million in 2008 to M132.1 million during the review year.

3.3.5 Foreign Exchange Rates

The Loti, which is pegged at par to the SA Rand strengthened against major currencies during the review year. On an annual average, the Loti depreciated by 1.8 per cent against the US dollar in 2009, due to among other factors, the continued uncertainty in the global economy. However, the Loti appreciated by 13.3 per cent, 3.1 per cent and 0.4 per cent, against Pound Sterling, Euro and Special Drawings Rights (SDR), respectively.

3.4 Money and Banking

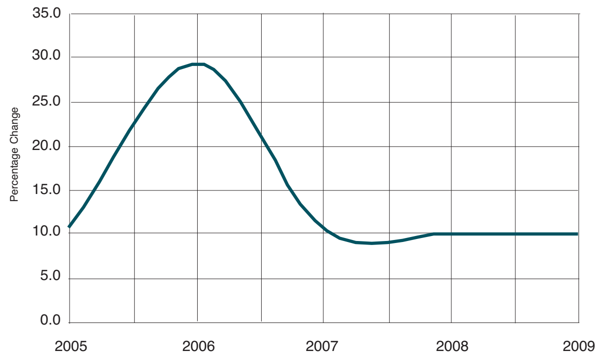
3.4.1 Money Supply

The broad money supply (M2)[19] grew at a rate of 9.9 per cent at the end of December 2009 compared with a 10.1 per cent increase recorded at the end of the previous year. The increase in money supply in 2009 was mainly attributable to an increase in domestic credit including net claims on government, which overshadowed the decline in the overall banking system's net foreign assets. The growth in money supply was expected to boost economic growth by supporting productive investment in the economy.

The growth observed in M2 was in line with the upward trend in M1 and quasi money. M1 registered a 7.7 per cent increase at the end of the review period compared with a 26.6 per cent increase recorded at the end of the previous year. The increase in M1 was mainly due to a 19.8 per cent rise in maloti with public as well as a 6.2 per cent increase in demand and call deposits. Furthermore, quasi money saw a substantial 37.2 per cent rise at the end of December 2009, following an increase of 3.7 per cent recorded at the end of the previous year. The main driver for the increase in this component was an increase of 57.7 per cent in time deposits coupled with a rise of 11.3 per cent in savings deposits. The stronger growth in time deposits relative to savings deposits could be attributed to the general downward trend in interest rates, which could influence the savers to be more sensitive to interest rates and favour instruments paying the higher rates of return.

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

Figure 9: Real Money Supply Growth
(Annual Percentage Change: End of Period)



Source: CBL Monetary Survey, December 2009

3.4.2 Domestic Credit

Excluding net claims on government and non-performing loans, domestic credit rose by 25.2 per cent at the end of the 2009 compared with 21.1 per cent recorded at the end of 2008. The increase was mainly driven by the growth observed in credit granted to the private sector which offset the decline in credit extended to statutory bodies.

Credit to the private sector increased by a faster 29.2 per cent at the end of 2009 compared with 22.8 per cent registered at the end of the previous year. The faster growth in credit to this sector reflected the positive impact of declining interest rates, which culminated in lower borrowing costs. Moreover, the growth indicated that commercial banks have regained confidence in the private sector and have innovatively widened the scope of credit instruments. However, banks continued to hold significant levels of liquid assets which they invest in the domestic treasury bill market and other instruments in South Africa.

Meanwhile, the Central Bank continued to expend efforts towards the establishment of a Credit Bureau. This initiative will go a long way in helping commercial banks to access information that is crucial in assessing credit worthiness of a customer. Accurate information is critical in risk assessment and would enhance commercial banks' confidence in the private sector and thereby boost credit extension in the economy with an attendant effect on economic growth.

The outstanding amount of funds lent to statutory bodies sustained a steep downward trend. It further slumped by 100.0 per cent at the end of the review year compared with 14.9 per cent observed at the end of 2008. The size of credit granted to the sub-sector increasingly accounted for the smallest portion of domestic credit. The slump reflected the full settlement of loans associated with the statutory bodies in line with the privatisation programme that the government embarked upon.

BOX 3: Survey on demand and supply of commercial bank credit

Over the past decade, commercial banks in Lesotho have been characterised by relatively low (poor) credit extension, particularly to the private sector; estimated at about 30 per cent of private sector deposits. This has been a major concern to the Central Bank of Lesotho (CBL). It is viewed as limiting private sector development and thus constraining the country's economic growth and development. It also resulted in excess liquidity in the banking system which has proved costly to mop up. To this end, the Bank undertook a survey on the determinants of demand and supply of credit in Lesotho.

The Survey investigated the demand for credit by customers who have the basic requirement for loan approval by commercial bank, a current account. The population for the survey consisted of customers from the three commercial banks licensed to issue credit in the country, namely; Nedbank, Standard Lesotho Bank, and First National Bank.

The Survey showed strong demand for credit amongst current account holders. However, the average loan amount approved could be small relative to total loanable funds available. The results showed that close to 70 per cent of the respondents (75.2 per cent of which were private persons while 58.5 per cent were business enterprises) have applied for a loan at least once. The demand for credit does not differ significantly across industries. Savings was reported as the most common major source of finance amongst the respondents, though most respondents had applied for a loan. There was a strong demand for credit by respondents who selected their bank on the basis of perceived willingness to lend and 86 per cent of them received loans from banks.

The results further showed that demand for credit increases with length of relationship with a bank and most respondents who applied for a loan had more than one account. Demographic factors such as sex of applicant, marital status, educational qualification, number of children, occupation and employment status did not appear to have an influence on demand for loans nor approval of loan applications. The majority of respondents who did not apply for a loan cited that they did not need loan.

With regard to overdrafts, the results showed that they are less popular than loans. Only 24 per cent of respondents applied for them, compared with 67.7 per cent for respondents who applied for a loan. Still, over 80 per cent of overdraft applicants had their applications approved by the banks.

The results indicated that commercial banks generally grant some credit (both for loan and overdraft) to their current account holders. Both individuals and business applicants receive high levels of credit approvals. Over 80 per cent of all credit applicants were ultimately granted loans by banks, meaning that 57 per cent of all respondents received loans. Of all respondents who received loans, 36.4 per cent did not pledge any collateral for their loans, while 34.4 per cent pledged ‘investments’. Land and building accounted for 21.7 per cent of collateral types used.

Loan approval was not dependent on type of business entity applying; location of business or dwelling; sex, age, marital status, number of children, occupation or employment status. However, in the case of overdrafts facility, it was noted that educational attainment had a positive effect on supply of bank overdrafts. Banking history or length of relationship with bank plays an important role in terms of supply of bank overdrafts. The most predominant reason for rejection of a loan application was lack of adequate or acceptable collateral.

These results imply that there is strong demand for bank credit amongst current account holders. Demand is more pronounced for long term credit in the form of loans compared with short term credit in the form of overdrafts. In addition, commercial banks are generally forth coming in meeting this demand. However, the credit to deposit ratio of just over 30 per cent suggests that the average loan amount approved could be small relative to total loanable funds at the disposal of commercial banks. This is evidenced by a large proportion of loans approved without collateral, 36.4 per cent of all loan approvals. Therefore, Government’s efforts to streamline the issuance of titles for land and speedy transfer of property ownership would go a long way in improving the credit worthiness of most businesses and individuals. Most respondents, whose loan applications were rejected, cited lack of or inadequate collateral as the predominant reason for the rejection. In addition, policies designed to stimulate/encourage the culture of entrepreneurship could also increase economic activity and demand for credit. In addition, improvement of business environment such as establishment of easier entry and exit regulations and procedures could boost economic activity and extension for credit.

3.4.3 Net Foreign Assets

The net foreign assets of the overall banking system decreased by 5.6 per cent in 2009 in contrast with a 33.4 per cent rise registered at the end of last year. Table 4 below shows that the decline was mainly driven by a fall in net foreign assets of the central bank which offset the rise in commercial banks’ net foreign assets. The net foreign assets of the commercial banks saw an increase of 2.2 per cent while the Central Bank’s net foreign assets plummeted by 7.1 per cent.

The decline in CBL net foreign assets in December 2009 resulted from a contraction in the CBL foreign asset portfolio in local currency terms which reflected a sizeable reduction in foreign exchange earnings from diamond sales and revaluation losses during the year. The increase in the net foreign assets of commercial banks was mainly due to a jump of 9.4 per cent in foreign assets at the back of net transfers abroad in search for alternative investment opportunities.

Table 5

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

	2005	2006	2007	2008	2009
Commercial banks	1135.0	1772.5	2200.3	2921.1	2986.7
Assets	1241.8	1845.4	2273.7	3013.7	3297.2
Liabilities	-106.9	-72.9	-73.4	-92.7	-310.5
Central Bank	3076.2	4377.2	6177.3	8251.6	7664.9
Assets	3625.6	4918.7	6786.3	8989.2	8345.4
Liabilities	-549.3	-541.5	-609.0	-737.7	-680.5
Net Foreign Assets	4211.2	6149.7	8377.7	11172.6	10651.6

3.4.4 Commercial Banks' Liquidity

The liquidity ratio[20] measures banks' ability to sufficiently honour customers' demands in making withdrawals. At the end of the review year, the ratio fell from 80.1 per cent observed at the end of December 2008 to 76.8 per cent. The decline in the ratio mainly reflected a fall in both domestic and foreign holdings of short term securities by commercial banks in 2009.

The credit to deposit[21] ratio gained momentum by rising from its previous level of 29.6 per cent at the end of December 2008 to 34.1 per cent recorded at the end of December 2009. Since the volume of deposits increased during the same period, the increase in the credit to deposit ratio reflected that commercial banks were willing to extend credit to the private sector at a faster rate than the rate at which they mobilised deposits from the same sector. The increase in credit extension may provide an impetus for faster growth of the economy.

3.4.5 Interest Rates

Major money market rates in Lesotho generally followed the downward trend observed in similar rates in the region. The rates decreased largely reflecting policy attempts to accelerate the recovery of the regional economy, given the moderate inflationary pressures during the year under review.

The average prime lending rate in Lesotho declined from 16.58 per cent registered at the end of 2008 to 11.67 per cent in 2009. The fall resembled the observed decrease in the SA prime lending rate from its 2008 level of 15.00 per cent to 10.50 per cent. It could be observed that, even though the two rates saw similar trends, the magnitude of the change was different. The decline in Lesotho's rate was 491 basis points compared with a fall of 450 basis points in the South African rate. This reduced the margin between the two rates by 41 basis points between 2008 and 2009, bringing it close to 100 basis points.

Similarly, commercial banks' deposit rates followed the downward trends. For example, the one year deposit rate was 7.57 per cent at the end of 2008, and a reduction to 3.35 per cent at the end of 2009. As a result, the real interest rate on this type of deposit was negative 0.85 per cent. This indicates that commercial banks are not willing to incur any additional costs to compensate depositors against loss of purchasing power of their money.

The 91-day treasury bills rate plummeted from 10.05 per cent in December 2008 to 6.66 per cent in December 2009. At this level, the rate was 0.40 per cent below its SA counterpart. The lower treasury bill rate in Lesotho was influenced by excessive demand for securities in the domestic economy, driven by highly liquid commercial banks.

[20] Liquidity is measured by the ratio of commercial banks' notes and coins holdings, liquid 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.

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

3.5 Government Finance

3.5.1 Fiscal reforms in recent years

The introduction of Integrated Financial Management Information System (IFMIS) has become a core component of financial reforms to promote efficiency, security of data management and comprehensive financial reporting in most economies. Similarly, the Government of Lesotho finally implemented IFMIS as part of its public financial reforms in 2009/10. This system replaced the old system called Government of Lesotho Financial Information System (GOLFIS) which was found to be cumbersome.

IFMIS is an integrated computerised financial package to enhance effectiveness and transparency of public resource management. There are two benefits of choosing IFMIS over the old financial information system. First, IFMIS seeks to enhance budget planning and execution by providing timely and accurate data for budget management. Second, it lowers operational costs by reducing administrative tasks and civil servants' workload.

Nonetheless, experiences of most countries show that implementation of IFMIS often comes with challenges. The common challenges encountered in most of the countries include limited technical and human resource capacity. Therefore, IFMIS implementation requires capacity building through-out the entire government.

3.5.2 Fiscal performance in 2009/10

Following a 4.6 per cent of GDP fiscal surplus realised in the 2008/09 fiscal year, Government is projected to register a 3.8 per cent of GDP surplus in the current fiscal year. Contrary to the previous years' surplus which was reflective of moderate expenditures, the present performance was mainly attributed to the significant growth in grants for capital projects.

a) Revenue

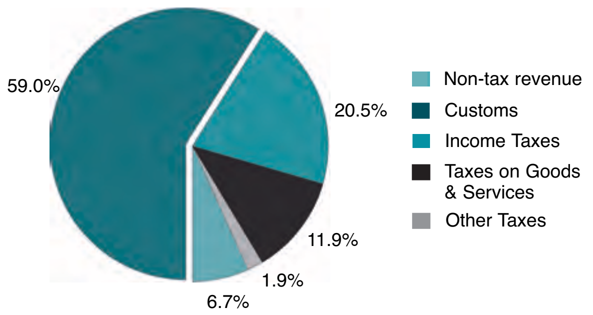
Total revenue, including grants, was estimated to grow by 10.0 per cent in 2009/10. This was mainly on account of 5.5 per cent surge in tax revenue. The rise in both income tax and SACU receipts led to the observed growth in total revenue. Income tax rose by 20.5 per cent while SACU receipts increased by 6.1 per cent. As Figure 8 shows, the combined contribution of both components constituted approximately 80 per cent of total revenue.

The growth in income tax was mostly due to the 98.4 per cent upsurge in company tax which more than offset the 7.4 per cent drop in personal income tax. The growth in company tax was largely a result of the rise in profitability of corporations. Value Added Tax (VAT) collections dropped by 2.3 per cent, following a 0.8 per cent expansion observed in the previous period.

Non-tax revenue contracted by 33.8 per cent in the review period. The decline was mainly attributed to the fall in other property revenue. Despite the observed drop in property income, water royalties increased by 3.2 per cent. Property income comprises dividends, diamond royalties, interest on loans on-lent to semi-autonomous institutions and rand monetary compensation.

Capital grants increased almost four-fold during the period under review. This huge increase in capital grants was in line with on-going capital projects in the economy including construction of several urban and rural roads.

Figure 10: Sources of Government Revenue



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

b) Expenditure

Total government expenditure is expected to increase by 11.7 per cent during the fiscal year 2009/10 largely due to the 24.8 percent growth in capital expenditure. The growth in capital expenditure was in accordance with capital projects planned for the 2009/10 fiscal year, inter alia, construction of urban and rural roads, the referral hospital, renovation of sports facilities and construction of schools. Recurrent expenditure, which constitutes a greater share of overall expenditures rose marginally by 0.7 per cent. The main culprit behind the marginal increase in expenditures was the 47.0 per cent rise in expenditures on personnel emoluments. However, the decline in spending on transfers and subsidies, goods and services moderated the growth.

The 47.0 per cent growth in expenditure on personnel emoluments reflected largely the 8.0 per cent salary adjustment effected at beginning of April 2009, coupled with an increase in government employment as discussed in sub-section 3.2. Total interest payments are expected to rise by 3.5 per cent during the period under review due to the rise in external interest payments.

Table 5

SUMMARY OF BUDGETARY OPERATIONS
(Million Maloti)

	2005/06	2006/07	2007/08	Revised 2008/09	Projections 2009/10
Total Receipts	4559.9	6431.9	7512.3	8616.8	9089.0
Revenue	4476.3	6339.5	7264.0	8427.7	8185.1
Customs	2306.0	3943.2	4097.7	4901.0	4918.0
Grants	83.6	92.4	248.3	189.1	753.9
Total Expenditure	4293.2	5137.9	6484.1	8004.6	8546.7
Recurrent expenditure	3590.9	4363.2	4973.8	5975.4	6014.2
Purchases of Goods & Services	2378.5	2777.6	3002.3	3996.5	4456.1
Capital Expenditure & net Lending	702.3	774.7	1510.3	2029.2	2532.5
Surplus/Deficit before grants	183.1	1201.7	780.0	423.0	-361.6
Surplus/Deficit after grants	266.7	1294.1	1028.3	612.1	542.3
Government Savings	969.0	2068.8	2538.6	2641.3	3074.8
Financing					
Foreign, net	-282.7	-28.8	-4.5	57.6	2.7
Domestic	16.0	-1265.3	-1023.8	-669.7	-545.0
Bank	-102.1	-1248.0	-998.5	-648.3	-605.4
Non-Bank	118.1	-17.2	-25.3	-21.4	60.4
In per cent of GDP (unless indicated otherwise)					
Revenue (excluding Grants)	46.9	60.8	60.0	62.7	57.0
Customs (in % of revenue)	51.5	62.2	56.4	58.2	59.0
Grants	0.9	0.9	2.1	1.4	5.3
Total Expenditure	45.0	49.3	53.6	59.5	59.1
Surplus/Deficit before grants	1.9	11.5	6.4	3.2	-2.52
Surplus/Deficit after grants	2.8	12.4	8.5	4.6	3.78
Government Savings	10.2	19.8	21.0	19.6	21.4
Memorandum item: GDP in current prices	9328.9	10429.5	12101.9	13443.5	14358.1

Source: MoFDP and CBL Projections

3.5.3 The overall budget balance and financing

The budget outturn is projected to result in a surplus equivalent to 3.8 per cent of GDP during the period under review. The surplus was largely a result of the huge increase in capital grants. In view of the expected decline in SACU receipts in the coming years, Government should strive to curb its expenditures since grants are an unsustainable source of revenue.

3.5.4 Recurrent Expenditure by Functions of Government

The bulk of recurrent expenditure for 2009/10 continued to go towards provision of community and social services. This accounted for 45.97 per cent of total recurrent expenditure. The education subsector received the largest share of this category at 26.9 per cent. Expenditure on education was directed to infrastructure development, bursaries and subventions to institutions of higher learning. This share reflected Government's commitment to provision of quality education from primary through tertiary level.

Health was the second in spending, 13.8 per cent was spent on social services. A large percentage of expenditure on health was incurred on construction of the 400 bed referral hospital and construction of filter clinics. The referral hospital is a one billion Maloti partnership between Government of Lesotho and Netcare.

General government services continued to be the second largest spending category at 35.3 per cent of total recurrent expenditure. This channelled towards the general public service, public order and safety, and defence. Expenditure on economic services stood at 9.8 per cent of recurrent spending. Mining and Industry was estimated to constitute the largest share, largely reflective of the on-going construction activities in the economy.

3.6 Public Debt

3.6.1 Overview

Outstanding public debt dropped by 19.7 per cent during 2009 following a 32.9 per cent growth in the previous year. The decline was on the back of currency appreciation. External debt continued to constitute a greater proportion of overall debt. It accounted for 90.0 per cent of total public debt compared with 10.0 per cent of domestic debt. As a result, a slight currency movement dictates direction of debt growth.

As a ratio of GDP, public debt stood at 40.1 per cent, in contrast to 55.5 per cent recorded in the previous year. External debt constituted 36.1 per cent of GDP, compared with a 4.0 per cent for the domestic component. Domestic debt was mainly issued for monetary policy purposes. The ratio of public debt as percentage of GDP remains below the 60 per cent sustainability threshold[22], and the nature and structure of Lesotho's debt still makes it sustainable. Concessional debt as a share of external debt stood at 94.7 per cent, with an average lifespan of 40 years.

Table 6

PUBLIC DEBT INDICATORS FOR END OF YEAR
(Percentages)

	2005	2006	2007	2008	2009
Total debt as % of GDP	51.4	51.2	45.5	55.0	40.1
External debt as % of GDP	44.3	44.6	39.7	49.9	36.1
Domestic debt as % of GDP	7.1	6.6	5.7	5.1	4.0
External debt as % of total	86.2	87.2	87.4	90.7	90.0
Domestic debt as % of total	13.8	12.8	12.6	9.3	10.0
Concessional as % of External debt	83.7	84.4	93.6	97.0	94.7
Debt service ratio(1)	10.3	4.2	6.8	6.8	2.1
Debt service ratio(2)	17.0	7.0	11.5	10.9	3.3

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

22 The Maastricht Rule of Thumb and SADC Convergence Criteria.

3.6.2 External Debt

External debt constitutes loans from bilateral, multilateral, and financial institutions sources. Multilateral loans continue to account for a greater portion of external debt at 90.0 per cent, followed by loans from bilateral creditors at 4.0 per cent of foreign debt. The level of external debt dropped by 20.3 per cent during the period under review, chiefly due to appreciation of the loti vis-à-vis the currencies in which the debt is denominated. Loans from bilateral creditors and multilateral institutions fell by 38.6 per cent and 21.9 per cent, respectively.

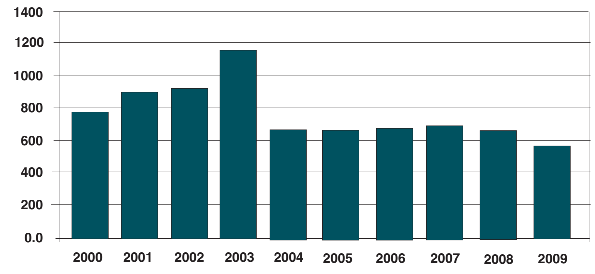
Concessional debt as a proportion of external debt dropped from 97.0 per cent in the previous period to 94.7 per cent in the current fiscal year. External debt sustainability indicators indicated that external debt remained within the sustainability guidelines. The 40.0 per cent external debt to GDP ratio is low in comparison to most developing countries. The debt service ratio was recorded at 2.1 per cent compared with 2.5 per cent in the previous period. Excluding factor income, debt service ratio improved from 3.9 per cent in the previous year to 3.3 per cent in the 2009/10 fiscal year.

3.6.3 Domestic Debt

Domestic debt comprises treasury bills issued for monetary policy purposes, and a 10 year bond issued for restructuring of the financial sector. Domestic debt fell by 13.0 per cent in the period under review, and this was largely a result of the maturity of the 10 year bond issued for restructuring of the financial sector.

Short-term debt, which was held by the bank and non-bank sectors, rose by 5.0 per cent. This largely reflected a 71.0 per cent surge in holding of debt by the non-bank public. The increase in holding of treasury bills by the non-bank sector reflected, amongst others, the introduction of longer dated treasury bill tenors. The banking sector continued to dominate in the holding of short term debt at 89.2 per cent.

Figure 11: Government Domestic Debt (Million Maloti)



Source: ??

4.1 Supervision Department

4.1.1 Supervision of Banks

In 2009, the Financial Institutions Supervision Division continued to carry out its function of enhancing and maintaining a financially sound and healthy banking sector that stimulates economic activities to the betterment of the welfare of the public. To achieve this objective, the Division ensures that banks are in compliance with statutory and regulatory requirements through off-site and on-site monitoring.

In November 2008, a decision was taken by the Division to enhance sophistication and efficiency levels of its supervisory processes by adopting a risk-based supervisory approach. This approach is different from the traditional approach to supervision that the Division had been using all these years. The traditional approach, which could be described as rules-based or compliance-based, primarily focussed on assessing banks' compliance with the legislative and regulatory requirements to minimise the risk of failure. The approach also focussed on the accuracy of the balance sheet and income statement, including the loan loss reserves as well as adequacy of the internal controls.

The risk-based supervision approach, on the other hand, recognises the fact that banking has become more complex and banking groups have diverse business and risk management models. This approach identifies the most critical risks that face each bank and focuses supervisor's attention to management of those risks.

Work on the risk-based supervision approach began in 2009. A policy paper on risk-based supervision was developed and approved by Management of the Central Bank. The objective of the paper was to assess the need to adopt a risk-based approach to supervision of banks and to indicate its advantages and challenges. Following this, a survey was carried out in the banking sector to assess their awareness and level of preparedness for the risk management process. Another major achievement was the development of risk management guidelines. These are in line with internationally accepted risk management principles and best practices. They are also aligned with the revised core principles for effective supervision which the Basel Committee published in 2006. The guidelines were approved and adopted by Management of the Central Bank of Lesotho and were issued to the banks for implementation. The banks were requested to submit their risk management programmes to the Central Bank of Lesotho by end of 2009, one bank out of a total of four had submitted.

4.1.2 Supervision of Non-Banks Financial Institutions

The year under review saw encouraging developments within the NBSD, which aims at promoting sustainable functioning of the non-bank financial sector. In pursuit of this objective, lack of adequate policy and regulation for development of the sector was identified. As a result, the Oxford Policy Management consultants were sub-contracted by FIRST Initiative consultants through assistance of the World Bank to develop NBFIs policy, regulatory and supervisory framework for the Central Bank of Lesotho. The consultants delivered an inception report and broad policy outline before year end.

Supervision of two Collective Investment Schemes and two Ancillary Financial Service Providers was duly undertaken. However, the shortcomings of the provisions guiding their operations was yet to be addressed through revision of existing regulation or promulgation of new laws as deemed fit.

The Registry of Moneylenders for the year 2009 recorded a decline in the number of registered money lenders, from 113 in the previous period to 66 at the end of the review year. The obsolete legislation guiding moneylenders' operations, the Moneylenders Act 1993 as amended, has continuously posed serious problems. Hence, revamping or repealing of this act was proposed and the Bank awaits expert opinion from OPM consultants. The inadequacy of the law brought about a dispute between lenders and borrowers resulting in a Court Case presided against moneylenders, whose verdict rendered operations of the money lenders null and void. This judgment was based on lack of disclosure and bad practices on the side of the money lenders, including charging clients exorbitant interest rates.

4.1.3 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 5 insurance companies. Four insurance brokers applied for deregistration, citing strong competition as the reason for applying for deregistration. 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 to the insurance company within 60 days of receipt.

Onsite inspections of all insurance companies were conducted in 2009 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 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 Act 1976 which deals with margin solvency. A directive was issued, which required the company to comply on or before 31 March 2010.

The accuracy and completeness of the statutory returns submitted periodically to the Central Bank of Lesotho were also verified.

In an effort to promote interaction between insurance companies and the insurance brokers, CBL continued to hold quarterly meetings with the Chief Executives of the insurance companies and Chief Executives of the insurance broking companies. In both 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 an 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 is also expected to take action against members who contravene the law and engage in malpractices in the industry.

Challenges

The Insurance Act 1976 is not aligned with current developments in the industry and the modern Insurance Core principles. It has become very difficult to regulate and supervise the insurance industry in Lesotho as a result of the outdated Act.

In an effort to address this challenge, the Bank has drafted a new Insurance Bill. This bill has been submitted to the Parliamentary Counsel for certification and subsequent submission to the Parliament for enactment.

4.1.4 Policy and Exchange Control

(a) Exchange Control Regime

The Bank is responsible for administration of Exchange Control laws under powers delegated by the Minister of Finance and Development Planning. In addition to Exchange Control laws, the Bank carries out this mandate as a specific function in terms of Section 7 of the Central Bank of Lesotho Act 2000.

(b) Applications to sell Foreign Currencies

Lesotho acceded to the IMF Article VIII in 1997. Consequently, it embarked on a substantial, but gradual abolition of many restrictions over current account transactions. A lot of restrictions on capital account transactions were also relaxed.

In view of Lesotho's peculiar circumstances of an economy that is intertwined with that of another, South Africa, and its membership in the Common Monetary Area (CMA), the Central Bank has a responsibility to ensure that the country is not used unlawfully as a conduit through which South African exchange controls can be undermined.

In 2009, ninety-six (96) applications were submitted by Authorised Dealers for approval. The total amount of M492.5 million was approved compared to M734.2 million in 2008 for outward transfer. The payments were in respect of professional services, management fees, dividends, royalties, insurance premiums and offshore investments by institutional investors.

(c) Capital Account Liberalisation

The gradual move away from stringent controls brought new developments in the realm of capital account transactions. These developments included the opportunity for residents to make capital investments outside the CMA. The indicative limits for these transactions were categorised into regions like SADC, Africa and the rest of the world. However, there seems to be little or no interest in investing outside the CMA area. That notwithstanding, the thresholds for limits on personal and corporate investments abroad were increased.

Another development was the opportunity for residents to operate foreign currency accounts in Lesotho. The number of Foreign Currency Accounts (FCAs) held by individuals remained small at only six (6) accounts during 2009. The small number reflects lack of interest on the part of individuals for this type of service because it brings little reward by way of interest earned.

On the contrary, in the number of accounts held by juristic persons, namely Customer Foreign Currency Accounts (CFCs) remained high. The number of these accounts dropped slightly from forty four (44) in 2008 to forty two (42) in 2009. Although the change in the number of accounts was insignificant, many of the accounts recorded big increases in amounts held. The balances of these accounts stood at an all tune high of M1.6 billion during the review period.

Although the accounts offer a hedge against fluctuations in exchange rate, there seems to be little interest in operating them. The manufacturing companies, who constitute the bulk of CFC account holders, manage exchange rate risk through these accounts when they make payments for raw materials and related trade expenses. Other entities that operate CFC accounts are parastatals engaged in donor – funded projects, Embassies and International agencies.

(d) Cross-Boarder Foreign Exchange Transactions Reporting System

Since its introduction in 2006, the Cross Border Foreign Exchange Transactions Reporting System has been plagued by a number of problems. During 2009, two of the Authorised Dealers (ADs) continued to experience difficulties during transaction reporting. One AD encountered problems of classification of transactions while the other one had difficulty in reporting transactions to the CBL. Although by the year end there have been improvements at both institutions, the situation is still far from ideal. A South African Reserve Bank (SARB) technical team that originally installed the system assisted CBL in the resolution of the problems.

The Reporting System is a useful tool for reporting actual inflows and outflows of funds among and between member countries of the CMA. The reports give a comprehensive picture of funds movements for balance of payments and other purposes.

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

Following the enactment of the Money Laundering and Proceeds of Crime Act (MLPC) in April 2008, the challenge which arose was with regard to its implementation. The Act criminalises money laundering and financing of terrorism (ML/FT). In order to perform this duty efficiently, the Act has set up among others the two important functions which are; the Anti-Money Laundering Authority (AMLA) and the Financial Intelligence Unit (FIU). The AMLA will be housed at the Directorate on Corruption and Economic Offences offices, while the FIU will be an administrative type, independent unit housed within the Central Bank temporarily before building its offices.

In an effort to implement the legislation, the Government of Lesotho sought the technical assistance from the US Treasury to effectively implement the AML/CFT regime. The plan is to start with the development of the FIU.

The US Treasury technical assistance resumed its duties in August 2009; it specifically focused on the following areas:

(i) The setting up of the FIU as per the Act;

(ii) Assistance in driving the operationalisation of the FIU through:

- drafting of FIU Regulations;
- development of policies and procedures for employment of FIU staff including terms of reference for FIU staff.
- developing policies and procedures of operations of FIU, such as date acquisition,
- analysis and dissemination of information;
- promote national and international cooperation and information sharing
- assist the FIU in meeting standards imposed by the Egmont Group (FIU setters and guide the FIU in the Egmont membership process.

(iii) Assistance in providing expertise to investigatory and prosecutory authorities in addressing financial crimes, particularly money laundering, corruption (with specific reference to procurement processes) and terrorist financing, and in the seizing and confiscation of proceeds of crime.

(iv) Assistance of financial institutions and /or accountable institutions to detect, deter and report suspicious transactions.

(v) Assistance of the FIU on handling and dealing with suspicious transactions report and other related information. In particular assist in developing guidelines, policies and procedures.

(vi) Assistance in raising continued awareness of AML/CFT to relevant institutions and members of the public.

Awareness campaigns and public education are already on the programme in preparations for the opening of the FIU office.

4.2 Currency Management

The Central Bank of Lesotho through its Currency Operations Division is involved, amongst other duties, in handling of bulk deposits and withdrawals, sorting of Maloti notes and coins and systematic issue of new and re-issuable currency to the three (3) commercial banks, namely Standard Lesotho Bank (SLB), First National Bank (FNB) and Nedbank Lesotho.

A bi-lateral agreement between Lesotho and the Republic of South Africa allows the Central Bank of Lesotho to collect Maloti banknotes circulating in the latter at ABSA branch in

Bloemfontein. Since the South African Rand (ZAR) is a legal tender in Lesotho, all the its banknotes and coins collected are repatriated to the South African Reserve Bank (SARB) and Standard Barclays & Volkskas / ABSA (SBV) Bloemfontein in accordance with the stipulated limits.

In February and March 2009, the Bank received consignments of new banknotes from banknote printers in denominations of M10, M20, M50 and M100, and these notes were immediately put into circulation.

Counterfeiting of banknotes is growing at an alarming rate, world wide, and this poses a serious threat on economies. Lesotho is no exception as there are several reported cases of counterfeit banknotes. During the review period, reported cases of counterfeits banknotes in Lesotho amount to M300 000 and R400 000. With this high rate of counterfeits, the Bank notes with concern that this undermines credibility both of the currency and the Central Bank. It could also weaken the economy of Lesotho, especially during this period of global recession. Counterfeits normally defraud the person holding them, because the holder cannot use them anywhere as they have no value. It is therefore proper to frequently re-design the currency banknotes by including improved security features that can discourage counterfeiters.

It is against this background that the Central Bank of Lesotho decided to start the process of re-designing new series of banknotes with improved security features as a measure to combat counterfeits.

The table below indicates values of genuine maloti banknotes and coins in circulation for the past five (5) years.

Table 7

MALOTI CURRENCY IN CIRCULATION

(Million Maloti: End of Period)

	2005	2006	2007	2008	2009
Maloti notes issued	286.2	366.2	390.1	532.4	583.8
Maloti coins issued	10.0	11.8	13.01	14.1	14.8
Total	**296.0**	**378.0**	**403.1**	**546.5**	**598.6**

4.3 Operations Department

4.3.1 National Payment Systems

Subsequent to implementation and installation of Lesotho's Real Time Gross Settlement (RTGS) system called Lesotho Wire (LSW) in 2006, the National Payment System (NPS) Division embarked on the next strategy of the modernisation project, which is the implementation of Automated Clearing House (ACH). Implementation of ACH is extensively financed by the United States of America through the Millennium Challenge Corporation (MCC). In the Millennium Challenge Account (MCA), Government of Lesotho is responsible for all MCC financed projects in Lesotho. However, the Central Bank of Lesotho is spearheading the implementation process of the ACH and is also contributing financial and human resources.

(a) Legal and Regulatory Framework

The National Payment System (NPS) Bill, which was drafted through IMF Technical assistance in 2005, has not yet been promulgated. The Bill is currently with the drafting office of the Attorney General. The National Payment System Bill is aimed at regulating payment systems in the country as well as to regulate payment system participants and operators. The Bill also gives the Bank powers to undertake oversight of the national payment systems. In cognisance of the fact that the Act has not been promulgated, NPS currently uses legally binding Rules and Procedures to operate the two systemically important payment systems: Lesotho Wire and Maseru Clearing and Settlement House. Participants in the afore-mentioned systems, the commercial banks, have duly signed these Rules and Procedures and have confirmed their commitment to adhere to them. Once the ACH is fully implemented, the Rules and Procedures for each payment stream will be developed and will be aligned to the existing Rules and Procedures.

(b) Automated Clearing House

Subsequent to live operation of LSW, implementation of ACH project continued in 2009. ACH will cater for retail or small value, high volume payments, as the Lesotho Wire system processes large value and time critical payments. There are three types of payment streams that will be cleared through ACH namely; cheques, Electronic Fund Transfers and card transactions (debit and credit cards). Implementation of ACH is expected to improve commercial activity through increased speed at which funds will be transferred by reducing the clearing cycle. Bankserv, the South African clearing house, was identified as the service provider for Lesotho ACH. Bankserv is expected to sign a three year contract with MCA Lesotho and another two year contract with Payments Association of Lesotho. MCA Lesotho has undertaken to finance the annual subscription for Bankserv services for the first three years and the remaining two years will be financed by Payments Association of Lesotho. Bankserv is expected to commence implementation early 2010 and the first stream completion is anticipated in June 2010. The ACH Project Manager has been engaged to spearhead the implementation process for a two year period commencing January 2010.

(c) Payments Association of Lesotho

The Central Bank of Lesotho together with the commercial banks established the Payments Association of Lesotho (PAL) which was incorporated on 23 July 2009. The main objectives of PAL are: to manage the Lesotho payments, clearing and settlement system and to provide safe and sound payment system for Lesotho banking industry. PAL is also expected to further foster modernisation of the Lesotho payment system.

PAL is governed by a Board of Directors made up of all the Chief Executives of the commercial banks (including Lesotho Postbank) and chaired by the Central Bank of Lesotho Governor. PAL will recruit an Operations Manager who will be responsible for daily management of PAL activities as well as acting as the Secretary of the Board.

(d) Lesotho Wire Performance

LSW is primarily for processing large value and time critical payments and is only open to commercial banks and the Bank as a participant for its own payments and on behalf of the Government of Lesotho. Plans are underway to interface LSW with the Bank’s anticipated Central Depository System in order to smooth the treasury bills operations and improve the Intraday Loan Facility arrangements. Plans are also at an advanced stage to interface the Government of Lesotho accounting system, Intergrated Financial Management Information System (IFMIS) with LSW. The integration of these systems will reduce the manual intervention and will improve data quality and integrity as well as reduce fraud.

For the year under review, payment instructions processed by LSW stood at 26,889 transactions with the total value of M92.65 billion. The total volume and value of payments processed rose by 59 per cent and 69 per cent in 2008 and 2009, respectively. The Bank undertook 6,211 transactions in 2008 and 9 637 transactions in 2009 reflecting an increase of 55 per cent, while the value jumped by 27 per cent. The volume of participant credit payments was 2 271 in 2008 and 2 910 in 2009, whilst the value for those payments stood at M19.00 billion and M30.95 billion, respectively. In 2008, the participant debits payments volume was 2 088, rising by 23 per cent to 2 561 in 2009. Commercial banks made payments totalling 6 334 in 2008 which rose by 10 per cent to 6 969 in 2009. Their value increased by 4 per cent indicating that payments were of high value. The analysis in Table 8 below provides a comparative analysis of LSW performance for 2008 and 2009.

Table 8

LESOTHO WIRE PERFORMANCE

Banks	**2008**		**2008**		**Percentage increase /decrease**	
Payments	Volume	Value (M billion)	Volume	Value (M billion)	Volume %	Value %
Central Bank	6,211	5.29	9637	6.70	+55%	+27%
Participants credits	2,271	15.21	2,910	15.41	+28%	+25
Participants debits	2,088	17.91	2561	19.00	+23%	-14
Commercial banks	6,334	16.39	6,969	17.00	+10%	+4%
Total	**16,904**	**54.67**	**26,889**	**92.65**	**+59%**	**+69%**

(e) Maseru Clearing and Settlement House (MCSH)

This is another systemically important payment system, which has rules and procedures to be adhered to. MCSH is for clearance of cheques and other small retail payments. The cheque payments reached the highest volume of 32 254 in March 2009 and this could be due to the year end payments to the government suppliers. The lowest volume of 21 545 was recorded in May 2009. The reason for the down turn could be attributable to the launch of the new Integrated Financial Management System (IFMIS) that was implemented in the government sector. From April 2009, the IFMIS steadily recovered from learning curve effects and payments increased gradually. The system closed the year with the volume of 27 880 in December 2009. The average volume for interbank cheque payments amounted to 2 6447 and the total volume of payments for the year 2009 amounted to 317 370 transactions. Figure 12 shows movement in volumes of cheques cleared through MSCH.

Figure 12: MCSH Performance in 2009

(f) Oversight Function issues

The oversight section of the NPS division was established in 2005 and is manned by three officers: a section head and two analysts. The section has primarily been involved with the NPS Oversight framework, which was approved early 2009. The approval of National Payment System Oversight framework was marked as a successful step in laying down the NPS Oversight mandate. The Section has started maintaining the statistical database that will aid in monitoring the payments. The visits to the participant's sites for on site examination are scheduled in 2010 annual work plan. The section undertook a comprehensive assessment of the LSW system and it was concluded that the system largely complies with the Core Principles for systemically important payment systems, safe from the fact that the NPS Bill has not yet been enacted.

4.4 Financial Markets Department

4.4.1 Portfolio Management – Investments and Market Operations

The Board approved the new Reserves Management Policy and Guidelines in August 2009. The implementation was phased due to the maturity profile of investments and in line with major cash flow structure. Phase one was implemented immediately after the approval, while the remaining phases are to be completed in the second quarter of 2010. The new Policy and Guidelines are based on the Strategic Asset Allocation (SAA).

SAA is an optimal-weighting allocation process, which gives the best possible combination of assets with which an institution can maximize returns with the smallest probability of a loss, given its risk tolerance. It aims to make a proportional combination of assets based on historic rates of return for each asset class. This process entails five steps namely; “tranching” of the reserves; review of the currency composition; risk tolerance and measurement; and portfolio performance attribution and measurement.

Money and Capital Market Development

Phase one of the development was implemented in 2008 where the maturity profile of treasury bills was extended to one year.

The second phase of the development of Money and Capital Markets comprised publishing of new Treasury Trading Regulations and preparations for issuance of Government of Lesotho bonds.

Local Loans (Government Treasury Securities) (Trading) Regulations 2009, were published in April. This was an improvement as trading regulations of 2008 only covered Treasury bills and they were reviewed to include Treasury bonds. A proposal to issue government bonds was made by the Bank to the Ministry of Finance and Development Planning (MOFDP). The proposal was granted and the Bank will issue bonds on behalf of the Government in 2010 in two tenors, the 3 and 5 year maturities. The 3 and 5 year bonds are based on the fact that the market is still at the initial stage of development. Going forward, the maturity profile will improve and longer-term maturities will be introduced.

Subsequent to the granting of the proposal, the Bank began the process of preparing for the debut issuance of Government of Lesotho bonds. A contract was awarded to a vendor to supply and install a Central Securities Depository System with capabilities of registering ownership of securities in both the primary and the secondary markets and facilitation of delivery versus payment. It is expected that the system will be in place by August 2010 which is target time for the launch of Government bonds.

Other matters such as public education and awareness campaigns and market canvassing are scheduled to be undertaken in the early months of 2010.

4.4.2 Securities Trading

The Bank continued to conduct successful auctions for all four tenors of Treasury bills twice every month throughout the year. The Treasury bills settled at T+0 and all settlements are effected through commercial banks. Bidding for auctions can also be done at all commercial banks, and this is an improvement from the previous system where participants had to queue at the Central Bank.

Table 10 below shows average annual discount rates for the four maturities and also average amounts that were issued per auction:

Table 9

SECURITIES TRADING

Maturity (days)	Average discount	Average Issue discount amount (millions of maloti)
91	7.692	10.42
182	7.813	9.65
273	8.385	6.36
364	8.283	5.74

4.5 Research Department

The primary mandate of The Central Bank of Lesotho is to conduct monetary policy through targeting the Net International Reserves (NIR). To achieve this objective, The Bank disseminates information of the Lesotho economic environment and its relationship with the international community through its publications such as; Monthly Economic Reviews, Quarterly Reviews and Annual Reports. Research papers were also produced in view of advising government and management of the Bank. In 2009, the following research assignments were undertaken:

- Demand and Supply of credit in Lesotho: Survey Report
- Critical analysis of Duty Credit Certificate Schemes.

The Bank continued to conduct annual Private Capital Flow's (PCF) survey in order to improve the Balance of Payments and International Investment Position Statistics. The cycle next of the PCF was undertaken in 2009.

4.6 Administration Department

4.6.1 Human Resource Management

The Human Resource Division continued to carry out its functions of among others, implementing and ensuring adherence to the Bank's policies and procedures; evaluating such implementation and proposing reviews as necessary.

(a) Recruitment

A newly revised Recruitment Policy was implemented for the first time during 2009 following its approval by the Board of Directors. The main highlight is that applicants who have been successful during the oral interview for positions of Head of Section upwards have to undergo psychometric testing in order to assess other related competencies and suitability to the job for the selection of the most suitable candidate.

A total of eighteen new members of staff joined the services of the Bank in 2009. Half of these vacancies were in the Security Services Division that were newly created following the Board of Directors' resolution for the Bank to migrate from seconded security personnel to the Bank's own. All security staff recruited during the year are at sub-professional level. In addition to these, five professional staff were recruited together with one head of section, one general service level staff and one more sub-professional staff. Vacancies occurred due to various reasons such as lateral transfer, resignations, dismissal and newly created positions.

(b) Training

Training has continued to take place per the identified needs in the respective specialised areas required in the Bank's operations. A total of seven members of staff on long term full time training were newly approved and/or confirmed for further studies. Out of those, two are pursuing PhD studies; three post graduate qualifications while the other two are studying towards first degrees. However, two of the post graduate staff and one undergraduate staff successfully completed their studies during the same year.

(c) Administrative Policies and Procedures

Since these were developed by the consultants during the review of the schemes of service exercise, the Board has continued to examine and accordingly make the necessary changes on the documents. By the end of the year the Division was capturing the amendments to be ready for implementation during the following year.

(d) Separation

A total of three professional staff from various departments resigned from the service of the Bank.

During the said period one professional and one general service staff retired from the Bank through early exit by mutual consent.

Only one Sub-professional staff was dismissed from the service of the Bank.

Sadly the Bank lost two members of staff through death in 2009. May their souls rest in peace.

(e) Safety, Health and Environment (SHE)

Activities of the section continued to focus on health and general welfare of staff throughout the year. Stated Benefits and Workmen's Compensation in excess of M296,000.00 were paid to individual staff for injuries/disabilities sustained. Other members of staff continued to undergo treatment during the year and several claims were made.

(f) Medical Aid Scheme

In recognition of the importance of good staff health for productivity in an organization, the Bank moved away from its own internal medical aid scheme to join a conventional one with effect from September 2009 in terms of the Board of Directors' resolution. Accompanying challenges and teething problems of this new scheme have continued to be addressed until the end of the year. Of particular concern are two major issues namely, the lack of technology locally to administer the scheme efficiently in an effective manner as well as the reality that medical aid providers are South Africa based and therefore staff are faced with cross-border business constraints. However, it is hoped that acceptable standards of stability will be achieved during the following year as new administrators have been appointed.

(g) Social Activities

There were no SADC inter-central-bank activities during 2009 and therefore the Bank neither hosted nor was hosted anywhere within SADC. However, such activities are expected to take place in 2010. In-house sporting teams continued to challenge and be challenged by other teams from various organisations including local commercial banks on friendly competitions. There was also a tournament organized by the Ministry of Public Service for Public Service Day in 2009 where the central bank enthusiastically participated in football and volleyball.

The Bank continued to implement its Donations Policy, which caters for local communities in areas of development aimed at uplifting the overall social and economic sectors of the country.

Two schools, namely, Dahon High School and Mapoteng Community High School were assisted with used computers as contribution to their Computer Literacy Programmes.

Financial assistance was also distributed among the following beneficiaries:

- Bethsaida Home of Orphans at Lithabaneng, Ha Kepi
- Centre for the Poor and Less Privileged at Sekamaneng
- Sentebale
- Scott Hospital, Morija
- Lesotho Save the Children.

(h) Community Service

This is an annual tradition of community service where staff identifies areas where there is need for intervention as part of social responsibility. This year staff in consultation with the Ministry of Forestry planted trees in Rothe, ‘Mahuu, approximately fifty kilometres south of the capital city Maseru.

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

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 best extent possible the Code of Corporate Practices and Conduct as embodied in the King III Report. The office of Director of Corporate Affairs, as the secretariat to the Board, holds 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 office of Deputy-Governor 2, one of the three executive directors, is currently vacant. The other seven directors represent a wide range of skills and have financial, economic, commercial, accounting, governance 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 2009, 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 Director of Corporate Affairs as Secretary of the Board. The Secretary 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 2009

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 45 to 101 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 some foreseeable future.

The financial statements were approved by the Board of Directors on 29 March 2010 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 2009, 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 43 to 99.

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 2009 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: 31 December 2010

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 2009. The financial statements are expressed in Maloti, the national currency of Lesotho and the functional currency of the Bank. The requirements of the King Report on corporate governance are dealt with in the corporate governance statement which appears on page 40.

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 statement of comprehensive income 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 47 - 48. Amounts paid and due in terms of the Act over the past two years were as follows:

	M'000
31 December 2009	568,538
31 December 2008	505,469

Dividends

Dividends payable 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 47 - 48.

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.P Senaoana	April, 2007	Governor
Dr R. Matlanyane	April, 2007	Deputy Governor I
Mrs. M.G. Tau-Thabane (Adv.)	July, 2005	Non-Executive Director
Mr. J.Q. Lesitha	December, 2005	Non-Executive Director
Dr. P. Mangoaela	December, 2008	Non-Executive Director
Mr. M. Fako	December, 2008	Non-Executive Director
Mr. M. Posholi	December, 2008	Non-Executive Director

Secretary of the Board

Mr. M.G. Malope (Adv.)	October, 2007	Head of Corporate Affairs

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
STATEMENT OF FINANCIAL POSITION
as at 31 December 2009

	Notes	2009 M '000	2008 M '000
ASSETS			
Cash and Balances with Banks	2	**4 501 267**	3 975 935
Accrued interest due from Banks	3	**57 596**	63 821
Treasury Bills (Held to Maturity)	4	**606 989**	769 875
Treasury Notes & Bonds held by CBL	5	**2 760 439**	3 679 700
IMF Subscription Account	6	**443 836**	429 309
IMF Holding of Special Drawing Rights	7	**397 525**	44 201
IMF Funded PRGF Advances	8	**195 847**	236 796
Lesotho Government Securities (Held to Maturity)	9	**23**	183
Deferred Currency Expenditure	10	**10 868**	4 275
Claims on Staff	11	**26 938**	23 666
Other Assets	12	**4 630**	9 724
Property, Plant and Equipment	13	**164 356**	164 711
Intangible Asset - Computer Software	14	**714**	1 435
TOTAL ASSETS		**9 171 028**	9 403 631
LIABILITIES AND EQUITY			
LIABILITIES			
Notes and Coins Issued	15	**584 987**	464 030
Deposits	16	**483 433**	323 512
Lesotho Government Deposits		**4 609 823**	4 728 364
IMF Maloti Currency Holding	17	**398 320**	385 283
IMF Special Drawing Rights Allocation	18	**418 123**	45 994
IMF - PRGF Facility	19	**195 847**	236 796
Income Taxation Liabilities	20	**5 663**	57 279
Due to Government of Lesotho Consolidated Fund	21	**568 538**	505 469
Other Liabilities	22	**53 071**	110 873
Long-term Employee Benefits	23	**48 892**	78 822
Deferred Tax Liability	24	**300 171**	433 022
TOTAL LIABILITIES		**7 666 868**	7 369 444
EQUITY			
Share Capital	25	**25 000**	25 000
General Reserve		**137 372**	137 372
Other Reserves		**1 341 788**	1 871 815
TOTAL EQUITY		**1 504 160**	2 034 187
TOTAL EQUITY AND LIABILITIES		**9 171 028**	9 403 631

The notes on pages 50 - 87 and the Risk Management Statements on pages 88 - 89 are an integral part of these financial statements.

CENTRAL BANK OF LESOTHO
STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2009

	Notes	2009 M '000	2008 M '000
Revenue			
Interest Income	26	**509 452**	**635 631**
Interest Expense	27	**(36 755)**	**(45 207)**
Net Interest Income		**472 697**	**590 424**
Other Income	28	**44 383**	**429 386**
Total Income		**517 080**	**1 019 810**
Operating Expenses			
Operating Expenses	29	**(794 351)**	**(151 630)**
Profit before taxation		**(277 271)**	**868 180**
Taxation	30	**(122 943)**	**(180 036)**
Net profit for the year		**(400 214)**	**688 144**
Other comprehensive income:			
Bond revaluation reserve:			
(Decrease)/Increase in bond fair values		**(96 809)**	**483 868**
Tax effect		**24 202**	**(120 967)**
Nett movement		**(72 607)**	**362 901**
Property revaluation reserve:			
Asset revaluation realised in profit and loss		**(42)**	**(1 064)**
Tax effect		**10**	**266**
Nett movement		**(32)**	**(798)**
Rand Compensatory reserve:			
Increase in reserve		**28 472**	**24 855**
Tax effect		**-**	**-**
Nett movement		**28 472**	**24 855**
Other comprehensive income for the year, net of tax		**(44 167)**	**386 958**
Total comprehensive income for the year		**(444 381)**	**1 075 102**

The notes on pages 50 - 87 and the Risk Management Statements on pages 88 - 89 are an integral part of these financial statements.

CENTRAL BANK OF LESOTHO
STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2009

	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 2008	-	25 000	137 372	228 230	49 043	1 102 297	59 097	(262 653)	1 338 386
Profit after tax	688 144	-	-	-	-	-	-	-	688 144
Asset revaluation realised in profit and loss	-	-	-	-	-	-	(798)	-	(798)
(Decrease)/Increase in bond fair values	-	-	-	-	-	-		362 901	362 901
Total comprehensive income/(loss)	688 144	-	-	-	-	-	(798)	362 901	1 050 247
Transfer of foreign exchange - translation									-
to designated reserves (1)	(308 843)	-	-	-	4 479	405 819	-	-	101 455
									-
Deferred tax arising on Reserves		-	-	-		(101 455)	-	-	(101 455)
Interim dividend paid	-	-	-	-	-	-	-	-	-
Final dividend payable	(379 301)	-	-	-	-	-	-	-	(379 301)
Rand compensatory receipts	-	-	-	24 855	-	-	-	-	24 855
Balance at 31 December 2008	-	25 000	137 372	253 085	53 522	1 406 661	58 299	100 248	2 034 187
Profit/(loss) after tax	(400 214)	-	-	-	-	-	-	-	(400 214)
Asset revaluation realised in profit and loss	-	-	-	-	-	-	(32)		(32)
(Decrease)/Increase in bond fair values	-	-	-	-	-	-		(72 607)	(72 607)
Total comprehensive income/(loss)	(400 214)	-	-	-	-	-	(32)	(72 607)	(472 853)
Transfer of foreign exchange - translation									
to designated reserves (1)	655 908	-	-	-	(348)	(655 560)	-	-	-
									-
Deferred tax arising on Reserves		-	-	-		170 048	-	-	170 048
Interim dividend paid	-	-	-	-	-	-	-	-	-
Final dividend payable	(255 694)	-	-	-	-	-	-	-	(255 694)
Rand compensatory receipts	-	-	-	28 472	-	-	-	-	28 472
Balance at 31 December 2009	**-**	**25 000**	**137 372**	**281 557**	**53 174**	**921 149**	**58 267**	**27 641**	**1 504 160**
				*	*	*	*	*	

*** = Total Other Reserves 1 341 788**

(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 50 - 87 and the Risk Management Statements on pages 88 - 89 are an integral part of these financial statements.

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
STATEMENT OF CASH FLOWS
for the year ended 31 December 2009

	Notes	2009 M '000	2008 M '000
Cash flow from operating activities			
Cash generated from operating activities	31	**(352 690)**	2 107 817
Taxation paid	20	**(136 923)**	(108 741)
Rand compensatory receipts		**28 472**	24 855
Payment to Government of Lesotho Consolidated Fund	21	**(192,625)**	-
Interest received		**289,524**	321 248
Net cash flow generated / (utilised by) operations		**(364 242)**	2 345 179
Cash flow from investing activities			
Additions to property, plant and equipment		**(10 734)**	(4 377)
Proceeds from sale of fixed assets		**49**	210
Additions to Intangible asset - Computer software	14	**(771)**	(399)
(Increase)/decrease in claims on staff	11	**(3 272)**	(2 406)
Decrease/(increase) in other assets	12	**5 094**	(5 833)
Net increase in local investments	9	**160**	(121)
Net decrease/(increase) in treasury bills	4	**112 953**	(387 463)
Net increase in foreign investments	5	**679 670**	(840 764)
Deferred currency expenditure	10	**(14 531)**	(30)
Purchase and disposal of deposit held by foreign banks	2.2	**1 543 227**	(682 999)
Net cash flow from investing activities		**2 311 844**	(1 924 182)
Cash flow from financing activities			
Movement in Notes and coins issued	15	**120 957**	61 809
Net cash flow from financing activities		**120 957**	61 809
Net increase in cash and cash equivalents		**2 068 559**	482 807
Cash and cash equivalents at the beginning of the year		**2 087 202**	1 604 395
Cash and cash equivalents at the end of the year		**4 155 761**	2 087 202

The notes on pages 50 - 87 and the Risk Management Statements on pages 88 - 89 are an integral part of these financial statements.

1 ACCOUNTING POLICIES

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 (IFRS) 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 land and buildings, 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 IFRS requires the use of certain critical accounting estimates, judgments 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.

Changes in accounting policies

The accounting policies are consistent with those applied in the previous year, except for the following amendments to IFRS and interpretations:

Adoption of new standards and interpretations effective for the current financial year

The bank has adopted the following new and amended IFRSs as of 1 January 2009 that have had an effect on the Bank's financial statements:

- *Revised IAS 1 - Presentation of Financial Statements*

As a result of adopting this revised standard, the Bank presents all owner changes in equity in the statement of changes in equity. All non-owner changes in equity are presented in the income statement and the statement of comprehensive income.

Comparative information has been restated to conform to the revised standard.

1.1 **Basis of preparation (continue)**

- *Amendments to IFRS 7 - Improving Disclosures about Financial Instruments.*

The amendments require enhanced fair value measurement and liquidity risk disclosures. In particular, the amendment required disclosure of fair value measurements by measure of a fair value measurement hierarchy.

Standards, amendments and interpretations to existing standards that are not yet effective and have been early adopted by the Bank.

The IASB has amended IAS 24, 'Related party disclosures' which was issued in November 2009, to simplify the disclosure requirements for government-related entities and to clarify the definition of a related party. The amended standard applies for annual periods beginning on or after 1 January 2011 but was early adopted by the Bank.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank.

The following standards and amendments to existing standards have been published and are mandatory for the Bank's accounting periods beginning on or after 1 January 2009 or later periods, but the Bank has not early adopted them:

IFRS 3 (Business Combinations – Revised) (Effective 1 Jul 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.

IAS 27 Consolidated and Separate Financial Statements – Revised (Effective 1 Jul 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 entity is re-measured to fair value and a gain or loss is recognised in profit or loss.

(Amendments to IAS 39)Amendments to IAS 39 Financial Instruments: Recognition and Measurement Eligible Hedged Items(Effective 1 July 2009), The amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges.

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**

(a) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates (‘the functional currency’). The financial statements of the Bank are presented in Lesotho Maloti, which is the functional currency of the bank.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. 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 to the statement of changes in equity under foreign currency reserves as required by the Central Bank Act, No. 2 of 2000 (also refer to the explanatory note to the statement of changes in equity).

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within ‘finance income or cost’. All other foreign exchange gains and losses are presented in the income statement within ‘other (losses)/gains – net.

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 amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

1.3 **Foreign currency translation (continue)**

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 non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

1.4 **Financial assets**

Classification

The Bank classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets. Subsequent to initial recognition these assets are measured at fair value

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets. Subsequent to initial recognition loans and receivable are carried at amortised cost using the effective interest method less any provision for impairment.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the statement of financial position date. Subsequent to initial recognition available for sale financial assets are carried at fair value.

(c) Available-for-sale financial assets (continue)

The main classes of the financial assets classified as available for sale assets are Treasury notes and Bonds

(d) Held-to-maturity investments

Held to maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets.

1.5 **Recognition and measurement**

Regular purchases and sales of financial assets are recognised on the settlement-date. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or 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 investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are presented in the income statement within ‘other (losses)/gains – net’ in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Bank’s right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available for sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in equity.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as ‘gains and losses from investment securities’.

1.5 **Recognition and measurement (continue)**

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Bank's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

1.6 **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.

Impairment of financial assets

An entity shall assess at the end of each reporting period whether there is any 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 if, and 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. It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognised.

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.

1.6 **Offsetting financial instruments (continue)**

Impairment of financial assets (continue)

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.

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.

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 loss include:

- 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.

1.6 Offsetting financial instruments (continue)

Financial assets carried at amortised cost (continue)

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 as per Incurred Loss model) 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.

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, 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.

Financial liabilities measured at amortised cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are deposits from banks or customers, debt securities in issue for which the fair value option is not applied, convertible bonds and subordinated debts.

1.7 Property, plant and equipment

Owner-occupied properties

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

1.7 **Property, plant and equipment (continue)**

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the income statement.

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.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

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 (continue)

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.

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.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (losses)/gains – net' in the income statement.

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

1.8 Intangible assets

Computer software

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 of three years. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

1.9 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.

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

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. Depreciation ceases once classified as Held for sale.

1.11 **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 probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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 **Current and deferred income tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

1.12 **Current and deferred income tax (continue)**

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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 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.

Deferred income tax assets are recognised only to the extent that 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 on 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 temporary 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 **Employee benefits**

(a) Post employment 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.

1.13 **Employee benefits (continue)**

(b) Other long-term employee benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

Long-term employee benefits include:
- Severance pay - this is calculated as two weeks salary for each completed year of service from 1993
- Gratuity - this is calculated at 12.5% of annual salary for each completed year of service.

(c) Actuarial gains/losses

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the defined benefit obligation are charged or credited to income in full.

(d) 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 statement of financial position date.

1.14 **Claims on staff**

Claims on staff represent financial assets (receivables) and are initially recongised at fair value, using a market discount rate. Any difference between the fair value and the face value on initial recognition is treated as part of employee costs.

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 **Share Capital**

Ordinary shares are classified as equity.

(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.

1.17 **Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost by using the effective interest rate method.

1.18 **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.

1.18 **Revenue and expenditure (continue)**

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.

1.19 **Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the Bank are classified as operating leases. Payments received under operating leases are recognised in the income statement on a straight-line basis over the period of the lease. Leases of property where the Bank has substantially all the risks and rewards of ownership are classified as operating leases.

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.

1.20 **Dividend distribution**

Dividend distribution to the Government of Lesotho is recognised as a liability in the Bank's financial statements in the period in accordance with the Central Bank Act No 2 of 2000.

1.21 **Notes and coins**

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 are measured at the face value. Issued notes and coins held by the Bank are netted off against currency in circulation.

1.22 **IMF Holding of Special Drawing Rights and IMF subscription account**

Upon joining the International Monetary Fund (IMF), Lesotho was allocated a special drawing right, currently amounting to 34 900 000 units and an IMF subscription account, the 34 900 000 is the subscription itself. The The Central Bank of Lesotho administers the Special Drawing Rights on behalf of Government and accounts for the allocation in the financial records of the Bank.

The units are translated daily using a basket of 4 major currencies. The IMF holding and subscription accounts are stated at amortised cost by using the effective interest rate method. The Special Drawing Rights were initially recorded by accounting for the Allocation of the Special Drawing Rights as a liability and corresponding entry as the Holdings of Special Drawing rights under external assets. As the Special Drawing Rights are utilised by the Government, the Holdings of the Special Drawing Rights are decreased. The allocation of Special Drawing Rights accrues interest expense at an average rate of 2.02% and the Holdings of Special Drawing Rights an income of 2.02%. The interest rate is determined every Friday by the IMF and adjusted by the Bank accordingly. Annually, the rights are translated at the ruling SDR rate and the difference on revaluation is taken to the SDR Revaluation Reserve.

1.23 **IMF Funded PRGF Advances**

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 loan has been on-lent to the Government of Lesotho. The IMF loan is stated at amortised cost by using the effective interest rate method. Interest expense and exchange rate differences are borne by the Government of Lesotho.

1.24 **Comparative figures**

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

1.25 **General Reserve**

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

1.26 **Dividends**

The entire profit as defined by the Central Bank of Lesotho Act of 2000 Section 21(5) (net profit after allocations to reserves) is payable as dividends to the Government of Lesotho's Consolidated Fund and therefore the amount Due to Lesotho Consolidated Fund is raised as a financial liability for the amount payable.

1.27 **Rand Compensatory Reserve**

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

1.28 **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.

1.29 **SDR Revaluation Reserve**

The SDR Revaluation Reserve represents unrealised gains and losses on the revaluation of SDR denominated balances.

1.30 **Property Revaluation Reserve**

The Property Revaluation Reserve represents unrealised gains and losses on the revaluation of Property, plant and equipment.

1.31 **Bond Revaluation Reserve**

The Bond Revaluation Reserve represents unrealised gains and losses on the revaluation of Bonds held by the Bank.

1.32 **Financial Risk Management**

1.32.1 **Financial risk factors**

The Bank's activities expose it to a variety of financial risks. Taking risks is core to the financial business and sometimes losses are inevitable consequences. The bank's aim is therefore to achieve a balance between risk and return and minimize potential adverse effects on its financial performance. There are written policies that address specific areas of risk, such as foreign exchange risk, interest rate risk and credit risk.

(a) Market Risk

(i) Foreign Exchange Risk

The bank does business internationally, with some of its obligations in foreign currencies. This exposes it to the foreign exchange risk, which arises from future transactions, liabilities and investments which are denominated in a currency which is not the bank's functional currency.

In order to manage the foreign exchange risk exposure, the bank holds functional currencies in which its obligations are denominated in the ratio of their historic cash flows. As at 31st December 2009, if the currency had weakened/strengthened by 5% against the functional currencies, the bank's foreign assets would have been 2% higher/lower as a result of foreign exchange losses/gains on valuation of foreign currency denominated assets.

(ii) Interest Rate Risk

Interest rate risk is the uncertainty associated with value of an interest paying asset due to the variability in interest rates. The Bank owns significant interest paying assets and this makes it exposed to interest rate risk.

1.32.1 **Financial risk factors (continue)**

In order to manage the interest rate risk, the Bank spreads its investments across the yield curve as per its risk profile. To introduce stability of the returns, the Bank makes investments in different proportions in maturity buckets, providing some degree of diversification.

As at 31st December, if interest rates had fallen by 1%, the Bank's revenue would decline by 15%, based on the simulation performed. However, if rates had increased by 1%, revenue would increase by 20%.

(b) Credit risk

Credit risk arises from a possibility of counterparties failing to honour their obligations in favour of the Bank on financial instruments and deposit with them. The Bank has credit exposure to banks, sovereign and supranational institutions. Credit exposure to these institutions is monitored frequently with limits set for individual institutions. For banks, only independently rated institutions that are rated at least 'medium grade investment' (grade B), are accepted. During the period, no limits were exceeded and counterparties rating have been within acceptable grades.

(c) Liquidity risk

Liquidity risk is the risk that the Bank's liquid assets will be unable to provide for foreseen and unforeseen financial obligations. In managing this risk, the Bank sets aside and monitors closely a portion of reserves in the working capital tranche to cater for these obligations. The limits of this tranche were determined by the analysis of historical payment patterns over a period of time.

Refer to the Risk Management Statements on pages 88 - 89.

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 2008 and 2009 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.

1.33 IMF Currency Holding Account

The IMF Holdings of Maloti are represented by the Non-Interest Bearing Note of SDR19 300 206 (2008: SDR19 953 268) issued by the Government of Lesotho (GOL) in favour of the IMF. GOL chose to substitute non-interest bearing notes for a portion of the balance held in its Fund's No. 1 account and the securites substituted for currency are recorded in the Securities Account. GOL's holding in IMF SDR Department is posted in Account no 1 and is used for the Fund's operational transactions e.g. purchases and repurchases, whereas the No 2 account is used for the payment of operational expenses incurred by the Fund in the maloti, both accounts are translated at the prevailing SDR rate.

1.34 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Income taxes

The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(b) Employee benefits

The present value of the severance pay and gratuity obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions.

The assumptions used in determining the net cost include future salary increases, future inflation rate, staff remaining in service up to date of retirement and the discount rate. Any changes in these assumptions will impact the carrying amount of the severance pay and gratuity obligations. The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the employment benefit obligations. In determining the appropriate discount rate, the Bank considers the interest rates of Government of Lesotho Treasury Bills that are denominated in the currency in which the benefits will be paid.

The assets and liabilities relating to the employees of the company cannot be seperately determined and is therefore treated as defined contribution plan. Refer to further disclosure in note 33.

(c) Fair values

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

i) 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.

ii) 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.

iii) Investment securities

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

1.34 **Critical accounting estimates and judgements (continue)**

Critical judgements in applying the Bank's accounting policies

(d) Impairment of available-for-sale financial assets

The Bank follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

		2009 M '000	2008 M '000
2	**Cash and Balances with banks**		
2.1	**Cash and Cash Equivalents**		
	Foreign Cash	**495**	493
	Rand Currency Holding	**51 235**	70 373
	ZAR Notes Holding	**51 235**	70 373
	Balances with banks (with a maturity shorter than 3 months)	**4 104 031**	2 016 336
	Current and Call Accounts:		
	Overseas Banks	**117 667**	249 591
	South African Banks	**596 940**	991 409
	Total Current and Call Accounts	**714 607**	1 241 000
	Fixed deposits (with maturity shorter than 3 months):		
	Overseas Banks	**2 558 205**	508 230
	South African Banks	**831 219**	267 106
	Total Fixed deposits (with maturity shorter than 3 months)	**3 389 424**	775 336
	Sub-total (Cash and Cash Equivalents)	**4 155 761**	2 087 202
2.2	**Fixed deposits (with maturity longer than 3 months)**:		
	Overseas Banks	**73 719**	866 807
	South African Banks	**271 787**	1 021 926
	Total Fixed deposits (with maturity longer than 3 months)	**345 506**	1 888 733
	Total Cash and Balances with banks	**4 501 267**	3 975 935
3	**Due from Banks**		
	Accrued Interest receivable:		
	Due from banks	**173**	242
	ZAR Call Accounts	**3**	-
	ZAR Current Accounts	**38 268**	53 511
	ZAR Fixed Deposit Accounts	**793**	10 068
	NON ZAR Call and Fixed Deposit Accounts	**39 237**	63 821
	Currency in transit	**18 359**	-
		57 596	63 821

	2009 M '000	2008 M '000

4 Treasury Bills

	At fair value through profit and loss	**Held to Maturity**	**2009 Total**
US Treasury bills at fair value:			
Maturing within 1 month	-	-	-
Maturing within 1 to 3 months	-	-	-
Maturing within 3 to 6 months	-	110 512	110 512
Maturing within 6 to 12 months	-	-	-
ZAR Treasury bills at fair value:			
Maturing within 1 month	-	298 416	298 416
Maturing within 1 to 3 months	-	198 061	198 061
Maturing within 3 to 6 months	-	-	-
	-	606 989	606 989

	At fair value through profit and loss	**Held to Maturity**	**2008 Total**
US Treasury bills at fair value:			
Maturing within 1 month	-	139 486	139 486
Maturing within 1 to 3 months	-		-
Maturing within 3 to 6 months	-	138 804	138 804
Maturing within 6 to 12 months	10 956	-	10 956
ZAR Treasury bills at fair value:			
Maturing within 1 month	-	189 108	189 108
Maturing within 1 to 3 months	-	99 003	99 003
Maturing within 3 to 6 months	-	192 518	192 518
	10 956	758 919	769 875

Treasury bills are debt securities issued by the US and SA treasury departments for a term of three months, six months or a year and are treated as securirties held-to-maturity. All bills are subject to fixed interest rate risk (2008: variable/fixed). In addition, treasury bills managed by the World Bank, starting in 2008, through Reserves Advisory Management Program (RAMP) are treated as securities held-for -trading and are stated at fair value through profit and loss.

	2009 M '000	2008 M '000

5 **Treasury Notes & Bonds**

	At fair value through profit and loss	Available for sale	2009 Total
US Bonds at fair value	385 023	631 148	1 016 171
ZAR Bonds at fair value	-	1 682 928	1 682 928
US Bonds - movements	1 684	7 000	8 684
ZAR Bonds - movements	-	52 656	52 656
	386 707	2 373 732	2 760 439

	At fair value through profit and loss	Available for sale	2008 Total
US Bonds at fair value	464 270	898 612	1 362 882
ZAR Bonds at fair value	-	2 197 620	2 197 620
US Bonds - movements	3 587	12 581	16 168
ZAR Bonds - movements	-	103 030	103 030
	467 857	3 211 843	3 679 700

The Treasury Notes & Bonds held by the Bank are treated as available for sale instruments and revaluations are done quarterly. However, Treasury Notes and Bonds managed by the World Bank, starting in 2008, through Reserves Advisory Management Program (RAMP) are treated as held-for-trading instruments and are stated at fair value through profit and loss.

6 **IMF Subcription Account**

	2009 M '000	2008 M '000
Balance at 01 January	429 309	385 061
Exchange revaluation	14 527	44 248
Balance at 31 December	443 836	429 309

The Lesotho Government Quota in the International Monetary Fund is SDR 34,900,000. The local currency equivalent of the subscription account at statement of financial position date is converted at the rate of 0.078632800 (2008: 0.0812935).

		2009 M '000	2008 M '000
7	**IMF Holding of Special Drawing Rights**		
	Balance at 01 January	**44 201**	43 848
	Net transactions - increase in rights	**345 976**	(4 203)
	Exchange revaluation	**7 348**	4 556
	Balance at 31 December	**397 525**	44 201

The value of SDR31,258,572 allocated by the International Monetary Fund less utilisation is converted at 0.078632800 (2008: SDR3,593,248 at 0.0812935).

		2009 M '000	2008 M '000
8	**IMF Funded PRGF Advances**		
	Balance at 01 January	**236 796**	247 145
	Paid during the year	**(48 147)**	(34 755)
	Exchange revaluation	**7 198**	24 406
	Balance at 31 December	**195 847**	236 796

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 19.

		2009 M '000	2008 M '000
9	**Lesotho Government Securities**		
	Maturing within 1 month	**23**	183
	Maturing within 1 to 3 months	**-**	-
	Maturing within 3 to 6 months	**-**	-
	Total treasury bills stated at amortised cost	**23**	183

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.

		2009 M '000	2008 M '000
10	**Deferred Currency Expenditure (notes and coins)**		
	Balance at 1 January	**4 275**	7 438
	Expenditure during the year	**14 531**	30
	Amortised during the year	**(7 938)**	(3 193)
	Balance at 31 December	**10 868**	4 275

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

		2009 M '000	2008 M '000
11	**Claims on Staff**		
	Housing Loans	**11 243**	10 075
	Car Loans	**10 883**	8 995
	Furniture Loans	**931**	1 046
	Other Loans & Advances	**3 881**	3 550
		26 938	23 666
12	**Other Assets**		
	Cheques for collection and uncleared items	**1 320**	1 477
	Other Prepayments	**1 125**	5 818
	Other Receivables	**2 185**	2 429
		4 630	9 724

13. Property, Plant and Equipment

	CBL Building M '000	Work in Progress M '000	Residential Building M '000	Lehakoe 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 31.12.2008	61 793	1 761	4 346	80 777	5 730	8 353	356	22 411	190	7 381	8 027	3 927	6 140	675	211 867
Additions	-	8 802	108	-	-	1 190	4	435	-	-	166	26	4	-	10 735
Disposals	-	-	-	-	-	(162)	-	(4)	-	-	-	-	(69)	(159)	(394)
Transfers	(6)	(50)	-	-	-	-	-	-	-	-	-	-	-	-	(56)
Revaluation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
At 31.12.2009	**61 787**	**10 513**	**4 454**	**80 777**	**5 730**	**9 381**	**360**	**22 842**	**190**	**7 381**	**8 193**	**3 953**	**6 075**	**516**	**222 154**
Accumulated Depreciation															
At 31.12.2008	6 257	-	457	5 627	3 669	5 624	219	11 212	134	3 449	5 027	1 719	3 401	361	47 156
On Disposal	-	-	-	-	-	-	-	(92)	-	-	-	-	(73)	(68)	(233)
For the year	945	-	67	1 218	796	784	69	3 122	19	1 309	1 178	407	876	86	10 876
At 31.12.2009	**7 202**	**-**	**524**	**6 845**	**4 465**	**6 408**	**288**	**14 242**	**153**	**4 758**	**6 205**	**2 126**	**4 204**	**379**	**57 799**
Carrying Amount															
At 31.12.2008	55 536	1 761	3 889	75 150	2 061	2 729	137	11 199	56	3 932	3 000	2 208	2 739	314	164 711
At 31.12.2009	**54 585**	**10 513**	**3 930**	**73 932**	**1 265**	**2 973**	**72**	**8 600**	**37**	**2 623**	**1 988**	**1 827**	**1 871**	**137**	**164 355**
Transfer to Non-Current Assets held for sale:															
Carrying Amount 31.12.09	**54 585**	**10 513**	**3 930**	**73 932**	**1 265**	**2 973**	**72**	**8 600**	**37**	**2 623**	**1 988**	**2 208**	**1 871**	**137**	**164 356**

		2009 M '000	2008 M '000
14	**Intangible Asset - Deferred Computer Software**		
	Balance at 1 January 2009	**1 435**	2 245
	Additions	**771**	399
	Amortised during the year	**(1 492)**	(1 209)
	Balance at 31 December 2009	**714**	1 435
15	**Notes and Coins Issued**		
	Notes	**570 229**	449 854
	Coins	**14 758**	14 176
		584 987	464 030

The Bilateral Monetary agreement between the Govern- ment 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.

		2009 M '000	2008 M '000
16	**Deposits**		
	Deposits from Banks - Non-interest bearing		
	Bankers	**294 685**	142 484
	Other Deposits - Non-interest bearing		
	International Institutions	**2 178**	2 178
	Parastatals and others	**186 570**	178 850
		483 433	323 512
	Total Deposits		
17	**IMF Maloti Currency Holding**		
	Securities account	**245 447**	245 447
	General resources accounts	**152 873**	139 836
		398 320	385 283
18	**IMF Special Drawing Rights Allocation**		
	Balance at 1 January 2009	**45 994**	41 253
	Net Transactions - increase in rights	**364 408**	-
	Exchange Revaluation	**7 721**	4 741
	Balance at 31 December 2009	**418 123**	45 994

Lesotho's allocation by IMF of SDR32,878,186 converted at 0.078632800 (2008:SDR 3,739,000 @ 0.0812935).

		2009 M '000	2008 M '000
19	**IMF-PRGF Facility**		
	Balance at 1 January	**236 796**	35 087
	Paid during the year	**(48 147)**	68 377
	Exchange revaluation	**7 198**	1 329
	Balance at 31 December	**195 847**	11 873

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 SDR15,400,000 converted at 0.078632800 as at 31 December 2009 (2008: SDR19,250,000 at 0.0812935). The loan has been on-lent as per note 8. Interest expense and exchange rate differences are borne by the Government of Lesotho.

		2009 M '000	2008 M '000
20	**Taxation (Assets)/Liabilities**		
	Balance at 1 January 2009	**57 279**	33 280
	Paid during the year	**(57 279)**	(33 280)
	Current year charge	**85 307**	132 740
	Provisional payments made	**(79 644)**	(75 461)
	Balance at 31 December 2009	**5 663**	57 279
21	**Due to Government of Lesotho Consolidated Fund**		
	Balance at 1 January	**505 469**	126 168
	Payment on prior year profit appropriations	**(192 625)**	-
	Profit appropriations for the current year	**255 694**	379 301
	Balance due at 31 December	**568 538**	505 469

The profit appropriations for the current year is done in terms of Section 21 of the Central Bank of Lesotho Act of 2000.

The Foreign exchange differences are eliminated from the Profit after tax, before transferred to the Government of Lesotho Consolidated Fund

	2009 M '000	2008 M '000
Profit after tax appropriated as follows:		
Profit/(Loss) after tax	**(400 214)**	688 144
Foreign exchange (profit)/loss	**655 908**	308 843
Profit appropriations for the current year	**255 694**	379 301

	2009 M '000	2008 M '000

22 Other Liabilities

Donations Suspense-Goverment-Referral Hospital	**37 840**	247 145
Various Accruals	**6 948**	(34 755)
Divisional Cheques A/Cs	**1 381**	24 406
Other	**6 902**	236 796
	53 071	

The Donations suspense account relate to the construction expenses that will be reimbursed for a hospital that is being built. The project started over 10 years ago. The money received was invested in a bank account to earn interest.

23 Long-term Employee Benefits

	2009 M '000	2008 M '000
Provision for Severance pay		
Opening obligation	**15 659**	12 414
Interest cost	**1 865**	1 331
Current Service Cost	**1 863**	2 169
Actuarial Gain/Loss	**(7 869)**	-
Benefits Paid	**(218)**	(255)
Closing Obligation	**11 300**	15 659
Provision for Gratuity		
Opening Obligation	**63 163**	51 516
Interest	**7 030**	5 518
Current Service Cost	**4 777**	9 140
Actuarial Gain/Loss	**(32 761)**	-
Benefits Paid	**(4 617)**	(3 011)
Closing Obligation	**37 592**	63 163
Total	**48 892**	78 822

Net expense recognised in the income statement

	2009 M '000	2008 M '000
Current service cost	**6 640**	11 309
Interest cost	**8 895**	6 849
	15 535	18 158

	2009 M '000	2008 M '000

23 **Long-term Employee Benefits (continue)**

Key assumptions used
Assumptions used on last valuation on 31 December 2009:
Mortality and pre-retirement is determined based on the SA 85-90 Ultimate table

Chance of withdrawal: 2009

Age	Rate
20-24	15.0%
25-29	10%
30-34	7%
35-39	4%
40-44	2%

	2009	2008
Discount rate	**9.50%**	10.71%
Inflation rate	**5.75%**	10.70%
Salary increase rate	**7.00%**	12.70%

24 **Deferred Taxation**

Balance at 1 January 2009	**433 022**	308 776
Reversing in the current year	**(132 851)**	124 246
Movements in profit and loss	**(5 613)**	(3 715)
Movements in equity	**(127 238)**	127 961
Balance at 31 December 2009	**300 171**	433 022

Deferred Taxation comprises:

Capital allowances	**522**	1 684
Provisions	**(12 223)**	(6 826)
Deferred Expenses	**2 373**	1 428
Foreign exchange Revaluation	**300 284**	454 748
Bond Revaluation Reserve	**9 214**	(18 012)
Balance at 31 December	**300 171**	433 022

	2009 M '000	2008 M '000

24 Deferred Taxation (continue)

There is an uncertain tax position regarding the tax treatment of foreign currency translation differences. The Bank's view is that realised and unrealised foreign exchange differences should not attract any tax because the Central Bank of Lesotho Act (Act of 2000) excludes these from net profit. A formal ruling to confirm this view was asked from the Lesotho Revenue Authority (LRA).

Due to the uncertainty, the Bank have accounted for tax at 25% against all cumulative realised and unrealised foreign exchange differences and has raised a deferred tax liability inclusive of an adjustment to account for cumulative tax on both realised and unrealised foreign exchange differences, untill such time that the ruling has been obtained. If the ruling from the LRA upholds the view of the Bank, the deferred tax liability would decrease by M 300 284 078 (2008: M 452 599 250), and the foreign exchange revaluation reserve will increase with M 300 284 078 (2008: M 452 599 250).

25 Share Capital

	2009 M '000	2008 M '000
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.

26 Interest Income

	2009 M '000	2008 M '000
Foreign Currency Deposits	**234 299**	311 013
Government Securities	**-**	-
Other institutions	**-**	68
Interest on Treasury Bills	**50 549**	52 523
Interest on Bonds	**224 604**	272 027
	509 452	635 631

27 Interest Expense

	2009 M '000	2008 M '000
Parastatal and Government deposits	**-**	36
Local bank deposits	**1**	2
IMF SDR allocation account	**442**	1 414
Interest expense on bonds	**36 312**	43 755
	36 755	45 207

	2009 M '000	2008 M '000
28 Other Income		
Rent received	**350**	181
Profit on sale of Treasury Bills	**212**	85
Profit on sale of Bonds	**3 830**	-
Gain/Loss on instruments designated as fair value through profit and loss	**942**	6 792
Interest on Staff loans	**521**	440
Lehakoe proceeds	**9 000**	6 555
Profit on sale of Property, Plant and Equiptment	**-**	705
Revaluation Surplus on Foreign exchange activities	**-**	411 791
Actuarial gain	**25 095**	-
Other	**4 433**	2 837
	44 383	429 386
29 Operating Costs and Expense per nature		
Administration and other expenses	**32 601**	48 763
Auditors' remuneration - current year	**784**	762
Deferred currency expenses amortised	**7 938**	3 193
Deferred computer software expenses amortised	**1 492**	1 209
Depreciation	**10 876**	12 299
Loss on foreign exchange activities	**655 908**	-
Loss on revaluation of Treasury Bills and Bonds	**7 438**	-
Personnel costs:	**66 466**	75 241
Staff welfare expenses	**3 865**	1 930
Non-executive directors' fees	**377**	175
Executive directors' salaries	**2 618**	2 395
Key management (Departmental heads)	**3 602**	2 959
Staff salaries and expenses	**50 236**	46 185
Pension fund contributions	**2 965**	2 641
Gratuity and severance expenses	**2 803**	18 956
Property expenses	**10 848**	10 163
	794 351	151 630
30 Taxation		
Normal tax for the year	**85 307**	132 740
Deferred tax arising on foreign currency translation	**43 249**	51 011
Deferred tax arising on other income statement items	**(5 613)**	(3 715)
	122 943	180 035

	2009 M '000	2008 M '000
30 Taxation (continue)		
Reconciliation of tax expense:		
Chargeable Profit	**378 637**	456 391
Statutory tax rate	**25%**	25%
Permanent differences:		
Donations	**0.01%**	0.00%
50 % Entertainment	**0.00%**	0.00%
Training expenses additional 25%	**-0.02%**	-0.01%
Cumulative differences on foreign exchange movements (also see note 24)	**7.48%**	14.45%
Effective tax rate	**32.47%**	39.45%

31 Cash Flow from Operating Activities

Reconciliation of profit before tax to cash generated from operations:

	2009 M '000	2008 M '000
Profit before tax	**(277 271)**	868 180
Adjustments for:		
Depreciation	**10 876**	12 299
Deferred currency expenses amortised	**7 938**	3 193
Deferred computer software expenses amortised	**1 492**	1 209
Net Profit/loss on disposal of fixed assets	**13**	(705)
Actuarial Gains	**40 630**	-
Loss on revaluation of Treasury Bills and Bonds	**7 438**	-
Unrealised Exchange rate fluctuations	**(376 689)**	315 544
Net cash generated by operating activities	**(585 572)**	1 199 720

		2009 M '000	2008 M '000
31	**Cash Flow from Operating Activities (continue)**		
	Changes in working capital:		
	Balances due from other banks and other debtors' accounts	**6 225**	(24 700)
	Deposit accounts	**41 380**	721 508
	Creditors and other liability accounts	**167 962**	211 375
	Changes in IMF Maloti Currency holding	**13 037**	39 774
	Changes in IMF Subscription account	**(14 527)**	(44 248)
	Changes in Special Drawing Rights holding account	**(353 324)**	(353)
	Changes in Special Drawing Rights allocation account	**372 129**	4 741
	Cash utilised by changes in working capital	**232 882**	908 097
	Cash flow from operating activities	**(352 690)**	2 107 817

32 Capital Commitments

	2009	2008
Contracted	**5 525**	6 248

These capital commitments are in respect of the purchase of a petrol bowser, budget solution and central depository system in 2009 which will be funded from internal resources. The 2008 capital commitments related to the purchase of currency which were funded through internal resources.

	2009	2008
Uncontracted	**136 790**	45 444

These capital commitments are in respect of the purchase of various capital assets as per approved capital budget which will be funded from internal resources.

33 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 assests are held in Corporate Bodies Pension Scheme managed by Lesotho National Insurance Company and the appropriations to the different contributors are not performed. The assets and liabilities relating to the employees of the company cannot be seperately determined and is therefore treated as defined contribution plan.

	2009	2008
Total employer contributions	**2 965**	2 641

34 Contingent Liability

On 15th August 2005 Facility Management Company (Pty) Ltd demanded payment of an amount of M4 047 000 from the Bank arising from the termination of a Management contract between the Bank and the Company. The Bank has denied liability. The parties have agreed to refer the dispute to arbitration. The arbitration proceedings have not commenced. The Bank has good prospects of success according to the lawyers involved.

		2009 M '000	2008 M '000

35 Related party transactions (continued)

Loans to staff are disclosed in note 12.

		2009 M '000	2008 M '000
Gross advances made to:			
Heads of Departments	Car	**-**	300
	Furniture	**65**	-
Heads of Divisions:	Car	**-**	293
	Furniture	**107**	101
Balances due at year end:			
Heads of Departments	Car	**337**	469
	Furniture	**42**	14
Heads of Divisions:	House	**834**	557
	Car	**1 105**	1 279
	Furniture	**136**	96
Interest charged for the year:			
Heads of Departments	Car	**10**	6
	Furniture	**1**	-
Heads of Divisions:	House	**14**	10
	Car	**34**	27
	Furniture	**2**	1

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

Annual remuneration to key management which includes car allowances and housing allowances:

	2009 M '000	2008 M '000
Executive Directors' salaries	**2 618**	2 395
Key management salaries	**3 602**	2 959

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.

2009
M '000

36 **Financial Instruments by category**

	Loans and receivables	Available for sale	Assets at fair value through profit and loss	Held to Maturity	Total
31 December 2009					
Financial Assets as per balance sheet					
Cash and Balances with Banks	4 501 267	-	-	-	4 501 267
Accrued interest due from Banks	39 237	-	-	-	39 237
Treasury Bills			-	606 989	606 989
Treasury Notes and Bonds	-	2 373 732	386 707	-	2 760 439
IMF Subscription Account	443 836	-	-	-	443 836
IMF Holding of Special Drawing Rights	397 525	-	-	-	397 525
IMF Funded PRGF Advances	195 847	-	-	-	195 847
Lesotho Government Securities	23	-	-	-	23
Claims on Staff	26 938		-	-	26 938
Total	5 604 673	2 373 732	386 707	606 989	8 972 101

	Other Financial Liabilities	Total
Financial Liabilities as per balance sheet		
Notes and Coins Issued	584 987	584 987
Deposits	483 433	483 433
Lesotho Government Deposits	4 609 822	4 609 822
IMF Maloti Currency Holding	398 320	398 320
IMF Special Drawing Rights Allocation	418 123	418 123
IMF PRGF Facility	195 847	195 847
Total	6 690 532	6 690 532

2008
M '000

31 December 2008	Loans and receivables	Available for sale	Assets at fair value through profit and loss	Held to Maturity	Total
Financial Assets as per balance sheet					
Cash and Balances with Banks	3 975 935	-	-	-	3 975 935
Accrued interest due from Banks	63 821	-	-	-	63 821
Treasury Bills			10 956	758 919	769 875
Treasury Notes and Bonds	-	3 211 843	467 857	-	3 679 700
IMF Subscription Account	429 309	-	-	-	429 309
IMF Holding of Special Drawing Rights	44 201	-	-	-	44 201
IMF Funded PRGF Advances	236 796	-	-	-	236 796
Lesotho Government Securities	183	-	-	-	183
Claims on Staff	23 666	-	-	-	23 666
Total	4 773 911	3 211 843	478 813	758 919	9 223 486

			2008
			M '000

36 **Financial Instruments by category (continue)**

		Other Financial Liabilities	**Total**
	Financial Liabilities as per balance sheet		
	Notes and Coins Issued	464 030	464 030
	Deposits	323 512	323 512
	Lesotho Government Deposits	4 728 365	4 728 365
	IMF Maloti Currency Holding	385 283	385 283
	IMF Special Drawing Rights Allocation	45 994	45 994
	IMF PRGF Facility	236 796	236 796
	Total	6 183 980	6 183 980

The fair values of the financial instruments approximate their carrying values.

37 **Operating Leases**

	Amount receivable within 12 months	147	280
	Amount receivable within 13 to 24 months		132
	Total	**147**	**412**

The above income is for the rental of houses owned by the Bank. The lease contracts are all for a period of 24 months.

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 2009:

Currency	Value of	Exchange	Maloti Equivalent M'000
Cash and Balances with Ranks			
South Africa	1 751 181	1.0000	1 751 181
United States	274 677	7.3719	2 024 890
Botswana	227	1.1073	251
England	8 924	11.8892	106 095
European Union	58 073	10.6176	616 594
Switzerland	315	7.1573	2 257
Treasury Bills			
South Africa	496 477	1.0000	496 477
USA	14 991	7.3719	110 512
Treasury Notes & Bonds			
South Africa	1 735 584	1.0000	1 735 584
United States	139 022	7.3719	1 024 855

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

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

CENTRAL BANK OF LESOTHO
CREDIT RISK ANALYSIS
for the year ended 31 December 2009

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

	2009					2008				
	M'000 Carrying amount	**M'000 Maximum exposure**	**Held in Denomination**	**Type of collateral held**	**Credit rating**	**M'000 Carrying amount**	**M'000 Maximum exposure**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
CASH AND BALANCES WITH BANKS	**4 501 268**					3 975 935				
Cash	**51 729**		ZAR			70 866				
Cash in ZAR	**51 235**		USD	none	n/a	70 373		ZAR	none	n/a
Cash in USD	**450**		GBP			426		USD		
Cash in GBP	**36**		EUR			59		GBP		
Cash in EUR	**8**					8		EUR		
Balance with Banks	**4 449 539**					3 905 069				
Call and Current A/CS	**714 609**					1 240 999				
ABSA Bank	**14 167**	14 167	ZAR	none	P-2/A3	26 983	26 983	ZAR	none	P-2/Baa1
ACT.ABSA	**25 543**	25 587	ZAR	none	P-2/A3	13 085	25 569	ZAR	none	P-2/Baa1
B.I.S	**1 861**	1 861	CHF	none	n/a	2 863	2 863	CHF		n/a
B.I.S	**51 641**	51 641	EUR	none	n/a	168 080	168 080	EUR	none	n/a
B.I.S	**35 080**	35 080	GBP	none	n/a	61 135	61 135	GBP	none	n/a
B.I.S. Basle	**1**	1	USD	none	n/a	1	1	USD	none	n/a
Bank de Belgique	**11**	11	EUR	none	n/a	13	13	EUR	none	n/a
Bank of England	**333**	333	GBP	none	n/a	3 643	3 643	GBP	none	n/a
Bank of N.Y	**125**	125	USD	none	P-1/Aaa	10	10	USD	none	P-1/Aaa
Bank of N.Y	**51**	51	ZAR	none	P-1/Aaa	(66)	(66)	ZAR	none	P-1/Aaa
BankTrust.N.Y	**345**	345	USD	none	n/a	436	436	USD	none	n/a
Citi Bank	**29 198**	29 198	ZAR	none	P-1/A2	20 282	20 282	ZAR	none	P-1/A1
CITI N.Y	**7 574**	7 574	USD	none	P-1/A2	3 134	3 134	USD	none	P-1/A1
Commerz	**12 410**	12 410	EUR	none	P-1/Aa3	2 678	2 678	EUR		P-1/Aa3
Crown Agents	**92**	92	GBP	none	n/a	7	7	GBP	none	n/a
Crown Agents	**70**	70	USD	none	n/a	88	88	USD	none	n/a
Deutsche Bundesbank	**347**	347	EUR	none	n/a	845	845	EUR	none	n/a
Federal Reserve Bank of N.Y	**1 089**	1 089	USD	none	n/a	941	941	USD	none	n/a
First Rand	**3 632**	3 632	ZAR	none	P-1/A3	2 411	2 411	ZAR	none	P-1/Baa1
Investec Bank	**55 610**	55 610	ZAR	none	P-2/A3	46 076	46 076	ZAR	none	P-2/Baa1
NedBank	**11 046**	11 046	ZAR	none	P-2/A3	11 601	11 601	ZAR	none	P-2/Baa1
South African Reserve Bank	**440 653**	440 653	ZAR	none	n/a	852 854	852 854	ZAR	none	n/a
Standard Bank	**15 722**	15 722	ZAR	none	P-2/A3	14 883	14 883	ZAR	none	P-2/Baa1
Standard Chartered Botswana	**251**	251	BWP	none	n/a	10	10	BWP	none	
Standard Chartered London	**5 613**	5 613	GBP	none	P-2/Baa2	3 967	3 967	GBP	none	P-2/A3
Standard Merchant	**1 320**	1 320	ZAR	none	P-2/A3	3 301	3 301	ZAR	none	P-2/Baa1
Swiss Bank	**396**	396	CHF	none	n/a	404	404	CHF		n/a
World Bank (IBRD)	**429**	429	USD	none	n/a	1 334	1 334	USD		

CENTRAL BANK OF LESOTHO
CREDIT RISK ANALYSIS
for the year ended 31 December 2009

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

	2009					2008				
	M'000 Carrying amount	**M'000 Maximum exposure**	**Held in Denomination**	**Type of collateral held**	**Credit rating**	**M'000 Carrying amount**	**M'000 Maximum exposure**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
Fixed Deposits	**3 734 930**					**2 664 070**				
ABSA Bank	**180 000**	180 000	ZAR	none	P-2/A3	**220 000**	220 000	ZAR	none	P-2/Baa1
B.I.S	**472 541**	472 541	EUR	none	n/a	**390 923**	390 923	EUR	none	n/a
Bank of N.Y	**4 289**	4 289	ZAR	none	P-1/Aaa	**168 826**	168 826	USD	none	P-1/Aaaa
BIS	**221 157**	221 157	USD	none	n/a	**64 976**	64 976	GBP	none	n/a
CitiBank	**120 000**	120 000	ZAR	none	P-1/A2	**160 000**	160 000	ZAR	none	P-1/A1
Crown Agents	**79 636**	79 636	EUR	none	n/a	**162 505**	162 505	EUR	none	n/a
Crown Agents	**64 941**	64 941	GBP	none	n/a	**219 143**	219 143	GBP	none	n/a
Crown Agents	**163 723**	163 723	USD	none	n/a	**111 533**	111 533	USD	none	n/a
FedralReseve N.Y	**1 629 927**	1 629 927	USD	none	n/a	**125 634**	278 291	USD	none	n/a
Firstrand	**-**	-	EUR	none	P-1/A3	**131 498**	131 498	EUR	none	P-1/Baa1
Firstrand	**180 000**	180 000	ZAR	none	P-1/A3	**120 000**	120 000	ZAR	none	P-1/Baa1
Investec	**218 602**	218 602	ZAR	none	P-2/A3	**320 668**	236 008	ZAR	none	P-2/Baa1
NedBank	**208 327**	208 327	ZAR	none	P-2/A3	**237 417**	237 417	ZAR	none	P-2/Baa1
Standard Bank	**191 787**	191 787	ZAR	none	P-2/A3	**230 947**	230 947	ZAR	none	P-2/Baa1
Due from Banks	**39 236**					**63 821**				
ABSA	**6 669**	6 668	ZAR	none	P-2/A3	**13 163**	13 163	ZAR	none	P-2/Baa1
Bank of N.Y	**6**	6	ZAR	none	P-1/Aaa	**806**	806	USD	none	P-1/Aaaa
BIS	**383**	383	EUR	none	n/a	**3 259**	3 259	EUR	none	n/a
BIS	**-**		USD	none	n/a	**7**	7	GBP	none	n/a
BIS	**28**	28	GBP	none	n/a			USD		P-1/A1
Citibank	**4 172**	4 172	ZAR	none	P-1/A2	**5 012**	5 012	ZAR	none	P-1/A1
Citibank	**-**		ZAR	none	P-1/A2	**12**	12	ZAR	none	n/a
Crown Agents	**31**	31	EUR	none	n/a	**2 444**	2 444	EUR	none	n/a
Crown Agents	**39**	39	USD	none	n/a	**2 381**	2 381	GBP	none	n/a
Crown Agents	**310**	310	GBP	none	n/a	**608**	608	USD	none	n/a
Federal Reserve	**-**	-	USD	none	n/a	**-**	-	USD	none	P-1/Baa1
Firstrand	**-**	-	EUR	none	P-1/A3	**561**	561	EUR	none	P-1/Baa1
Firstrand	**5 786**	5 786	ZAR	none	P-1/A3	**3 907**	3 907	ZAR	none	P-2/Baa1
Investec	**6 525**	6 525	ZAR	none	P-2/A3	**14 488**	14 488	ZAR	none	P-2/Baa1
Nedbank	**7 379**	7 379	ZAR	none	P-2/A3	**9 317**	9 317	ZAR	none	n/a
South African Reserve Bank	**155**	155	ZAR	none	n/a	**223**	223	ZAR	none	P-2/Baa1
Standard Bank	**7 754**	7 754	ZAR	none	P-2/A3	**7 624**	7 624	ZAR	none	P-2/Baa1
Standard Bank	**-**		ZAR	none	P-2/A3	**7**	7	ZAR	none	P2/A3
Standard Chartered	**-**	-	GBP	none	P2/A3	**2**	2	GBP	none	

CENTRAL BANK OF LESOTHO
CREDIT RISK ANALYSIS
for the year ended 31 December 2009

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

	2009					2008				
	M'000 Carrying amount	**M'000 Maximum exposure**	**Held in Denomination**	**Type of collateral held**	**Credit rating**	**M'000 Carrying amount**	**M'000 Maximum exposure**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
Treasury Bills	**606 989**					**-**			none	
South Africa	**496 477**	496 477	ZAR	none		**-**	-	ZAR	none	
United States	**110 512**	110 512	USD	none		**-**	-	USD		
Treasury Notes & Bonds	**2 760 439**					**-**			none	
South Africa	**1 735 584**	1 735 584	ZAR	none		**-**	-	ZAR	none	
United States	**1 024 855**	1 024 855	USD	none		**-**	-	USD		
Staff Loans	**26 938**					**23 666**			Title Deeds	
Housing Loans	**11 243**	11 243	LSL	Title Deeds		**10 075**	10 075	LSL	Terminal Benefits	
Car Loans	**10 883**	10 883	LSL	Terminal Benefits		**8 995**	8 995	LSL	Terminal Benefits	
Furniture Loans	**931**	931	LSL	Terminal Benefits		**1 046**	1 046	LSL	Terminal Benefits	
Other Loans and Advances	**3 881**	3 881	LSL	Terminal Benefits		**3 550**	3 550	LSL		

All financial assets were fully performing at year end.

AAA - Obligations rated AAA are judged to be of the highest quality, with minimal credit risk.
Aa - Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
A - Obligations rated A are considered upper-medium grade and are subject to low credit risk.
B - Obligations rated B are considered speculative and are subject to high credit risk.
P-1 - Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.

P-2 - Issuers (supporting institutions) rated Prime-2 have a strong ability to repay short-term debt obligations.

n/a - Cash and reserve banks do not have a credit rating.

CENTRAL BANK OF LESOTHO
SENSITIVITY ANALYSIS
for the year ended 31 December 2009

The following tables below show the sensitivity of both currency and foreign investment risk should the interest rate move either +5% or -5% directions. The overall impact on profit before tax and equity. However, unrealised gains and losses are only dealt with 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-09			31-Dec-08	
	Portfolio level	**exchange rate**		**Portfolio level**	**exchange rate**
zar	3 983 242	1.00	zar	5 144 576	1.00
usd	428 690	7.37	usd	223 585	9.31
eur	58 073	10.62	eur	65 138	13.15
gbp	8 924	11.89	gbp	26 214	13.46
bwp	227	1.11	bwp	8	1.23
chf	315	7.16	chf	371	8.81
sdr	-	11.52	sdr	2 930	14.40

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

	31-Dec-09			31-Dec-08		
	Portfolio level	**Portfolio level in %**	**exchange rate**	**Portfolio level**	**Portfolio level in %**	**exchange rate**
zar	3 983 242	50.62%	1.00	5 144 576	60.67%	1.00
usd	3 160 257	40.16%	7.37	2 080 725	24.54%	9.31
eur	616 594	7.84%	10.62	856 550	10.10%	13.15
gbp	106 095	1.35%	11.89	352 929	4.16%	13.46
bwp	251	0.00%	1.11	10	0.00%	1.23
chf	2 257	0.03%	7.16	3 267	0.04%	8.81
sdr	-	0.00%	11.52	42 201	0.50%	14.40
	7 868 696	**100%**		**8 480 258**	**100%**	

CENTRAL BANK OF LESOTHO
SENSITIVITY ANALYSIS
for the year ended 31 December 2009

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

	31-Dec-09				31-Dec-08			
	Portfolio level	**Port. Level in %**	**Level Change**	**exchange rate**	**Portfolio level**	**Port. Level in %**	**Level Change**	**exchange rate**
zar	3 983 242	49.40%	-		5 144 576	59.50%	-	1.00
usd	3 318 270	41.15%	(158 013)	1.00	2 184 762	25.27%	(104 037)	9.77
eur	647 424	8.03%	(30 830)	7.74	899 378	10.40%	(42 828)	13.81
gbp	111 400	1.38%	(5 305)	11.15	370 576	4.29%	(17 647)	14.14
bwp	264	0.00%	(13)	12.48	10	0.00%	-	1.29
chf	2 370	0.03%	(113)	1.16	3 431	0.04%	(163)	9.25
sdr	-	0.00%	-	7.52	44 311	0.51%	(2 110)	15.12
Total	**8 062 969**	**100%**		12.09	**8 647 043**	**100%**		
% Change	**2.47%**				**-1.97%**			

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

	31-Dec-09				31-Dec-08			
	Portfolio level	**Port. Level in %**	**Level Change**	**exchange rate**	**Portfolio level**	**Port. level in %**	**Level Change**	**exchange rate**
zar	3 983 242		-	1.00	5 144 576	61.88%	-	1.00
usd	3 002 244	51.90%	158 013	7.00	1 976 689	23.78%	104 036	8.84
eur	585 764	39.12%	30 830	10.09	813 723	9.79%	42 827	12.49
gbp	100 790	7.63%	5 305	11.29	335 283	4.03%	17 646	12.79
bwp	238	1.31%	13	1.05	9	0.00%	-	1.16
chf	2 144	0.00%	113	6.80	3 104	0.04%	163	8.37
sdr	-	0.03%	-	10.94	40 091	0.48%	2 110	13.68
Total	**7 674 423**	0.00%			**8 313 475**	**100%**		
		100%						
% Change	**2.47%**				**1.97%**			

CENTRAL BANK OF LESOTHO
SENSITIVITY ANALYSIS
for the year ended 31 December 2009

Interest rate risk 2009

The table below indicates the sensitivity to a reasonable possible change in interest rates, with all other varibales held constant, of the group's income statement:

Sensitivity of equity

Currency	Sensitivity of net interest income 2009 M'000	Cash	0 to 6 months 2009 M'000	6 months to 1 year 2009 M'000	1 year to 5 years 2009 M'000	More than 5 years 2009 M'000	Total
Rand		51.23477	2,196	260	1,388	87	3,983.24
USD		0.45000	2,289	102	605	164	3,160.26
GBP		0.03600	106				106.10
EUR		0.00800	617				616.59
Others			2.51				2.51
Increase in Yields	1.00%						7,869
Decrease in Yield	-1.00%						

Base Case Yields	0 - 6 months		1 - 5 Years	5 Years +
Rand	7.51%	8.03%	10.25%	8.25%
USD	0.28%	0.56%	3.82%	4.50%
GBP	0.34%			
EUR	0.36%			
Other	0.02%			

100 Basis points increase in Yields	0 - 6 months	6 months - yr	1 - 5 Years	5 Years +
Rand	8.51%	9.03%	11.25%	9.25%
USD	1.28%	1.56%	4.82%	5.50%
GBP	1.34%			
EUR	1.36%			
Other	1.02%			

100 Basis points decrease in Yields	0 - 6 months	6 months - yr	1 - 5 Years	5 Years +
Rand	6.51%	7.03%	9.25%	7.25%
USD	0.00%	0.00%	2.82%	3.50%
GBP	0.00%			
EUR	0.00%			
Other	0.00%			

Nominal Return in Base Case Yields	0 - 6 months	6 months - yr	1 - 5 Years	5 Years +		
Rand	164.93	20.91	142.26	7.16		
USD	6.41	0.57	23.10	7.38		
GBP	0.36					
EUR	2.22				**Nominal Income**	**% Change**
Other	0.00				375.31	-

Nominal Return in Increasing Yields	0 - 6 months	6 months - yr	1 - 5 Years	5 Years +		
Rand	186.89	23.52	156.15	8.03		
USD	29.30	1.60	29.15	9.02		
GBP	1.42					
EUR	8.39				**Nominal Income**	**% Change**
Other	0.03				453.48	21%

Nominal Return in Decreasing Yields	0 - 6 months	6 months - yr	1 - 5 Years	5 Years +		
Rand	142.97	18.31	128.38	6.29		
USD	-	-	17.06	5.74		
GBP	-					
EUR	-				**Nominal Income**	**% Change**
Other	-				318.74	-15%

Sensitivity: For a 1 percentage increase in yields, Income increase by 21 %
For a 1 percentage decrease in yields, income decreses by -15 %

Interest rate risk 2008

The table below indicates the sensitivity to a reasonable possible change in interest rates, with all other varibales held constant, of the group's income statement:

Sensitivity of equity

Currency	Sensitivity of net interest income 2009 M'000	Cash	0 to 6 months 2009 M'000	6 months to 1 year 2009 M'000	1 year to 5 years 2009 M'000	More than 5 years 2009 M'000	Total
Rand		70	2,457	915	298	1,405	5,144.58
USD		0	726	80.82	1,141	132.33	2,080.73
GBP		0	352.87				352.93
EUR		0	856.54				856.55
Others			45.48				45.48
Increase in Yields	1.00%						8,480
Decrease in Yield	-1.00%						

Base Case Yields	0 - 6 months	6mnth-1yr	1 - 5 Years	5 Years +
Rand	10.80%	9.75%	11.66%	7.82%
USD	0.04%	0.16%	4.30%	4.82%
GBP	0.73%			
EUR	1.47%			
Other	0.02%			

100 Basis points increase in Yields	0 - 6 months	6 months - yr	1 - 5 Years	5 Years +
Rand	11.80%	10.75%	12.66%	8.82%
USD	1.04%	1.16%	5.30%	5.82%
GBP	1.73%			
EUR	2.47%			
Other	1.02%			

100 Basis points decrease in Yields	0 - 6 months	6 months - yr	1 - 5 Years	5 Years +
Rand	9.80%	8.75%	10.66%	6.82%
USD	0.00%	0.00%	3.30%	3.82%
GBP	0.00%			
EUR	0.47%			
Other	0.00%			

Nominal Return in Base Case Yields	0 - 6 months	6 months - yr	1 - 5 Years	5 Years +		
Rand	265.32	89.23	34.69	109.83		
USD	0.29	0.13	49.11	6.38		
GBP	2.58					
EUR	12.59				Nominal Income	% Change
Other	0.01				570.17	0

Nominal Return in Increasing Yields	0 - 6 months	6 months - yr	1 - 5 Years	5 Years +		
Rand	289.89	98.39	37.66	123.88		
USD	7.55	0.94	60.53	7.70		
GBP	6.10					
EUR	21.16				Nominal Income	% Change
Other	0.46				654.26	15%

Nominal Return in Decreasing Yields	0 - 6 months	6 months - yr	1 - 5 Years	5 Years +		
Rand	240.76	80.08	31.71	95.79		
USD	-	-	37.70	5.05		
GBP	-					
EUR	4.03				Nominal Income	% Change
Other	-				495.12	-13%

Sensitivity: For a 1 percentage increase in yields, Income increase by 15 %
For a 1 percentage decrease in yields, income decreses by -13 %

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	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 6 months but within 12 months	Maturing after 12 months but within 5 years	Maturing after 5 years	Total
		M'000	M'000	M'000	M'000	M'000	M'000	M'000
2009								
Financial assets								
Cash and balances with banks	2	766 337	2 548 657	1 186 273	-	-	-	4 501 267
Due from banks	3	-	26 775	12 462	-	-	-	39 237
Treasury Bills	4	-	298 416	308 573	-	-	-	606 989
Treasury Notes & Bonds	5	-	-	153 728	362 823	1 993 131	250 756	2 760 438
IMF accounts	6, 7, 8	-	-	-	-	-	1 037 208	1 037 208
Lesotho Government Securities	9	-	23	-	-	-	-	23
Claims on staff	11	-	-	-	3 881	11 814	11 243	26 938
Total Financial Assets		**766 337**	2 873 871	1 661 036	366 704	2 004 945	1 299 207	8 972 100
Financial liabilities								
Notes & Coins inssued	15	584 987	-	-	-	-	-	584 987
Deposits	16	483 433	-	-	-	-	-	483 433
Lesotho Government Deposits		4 609 823	-	-	-	-	-	4 609 823
IMF Accounts	17, 18, 19	-	-	-	-	-	1 012 290	1 012 290
Total Financial liabilities		5 678 243	-	-	-	-	1 012 290	6 690 533
Net Total recognised financial instruments		**(4 911 906)**	**2 873 871**	**1 661 036**	**366 704**	**2 004 945**	**286 917**	**2 281 567**
Letters of credit and financial guarantees								
Financial guarantees								
Irrevocable unutilised facilities								
Total unrecognised financial instruments		-	-	-	-	-	-	-
Net liquidity gap		**(4 911 906)**	**2 873 871**	**1 661 036**	**366 704**	**2 004 945**	**286 917**	**2 281 567**

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	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 6 months but within 12 months	Maturing after 12 months but within 5 years	Maturing after 5 years	Total
		M'000	M'000	M'000	M'000	M'000	M'000	M'000
2008								
Financial assets								
Cash and balances with banks	2	3 975 935	-	-	-	-	-	3 975 935
Due from banks	3	95	19 289	35 341	9 096	-	-	63 821
Treasury Bills	4	-	328 594	430 325	10 956	-	-	769 875
Treasury Notes & Bonds	5	-	-	639 581	-	2 140 089	900 030	3 679 700
IMF accounts	6, 7, 8	-	-	-	-	-	710 306	710 306
Lesotho Government Securities	9	-	183	-	-	-	0	183
Claims on staff	11	-	-	-	3 550	10 041	10 075	23 666
Total Financial Assets		3 976 030	348 066	1 105 246	23 602	2 150 130	1 620 411	9 223 486
Financial liabilities								
Notes & Coins inssued	15	464 030	-	-	-	-	-	464 030
Deposits	16	323 512	-	-	-	-	-	323 512
Lesotho Government Deposits		4 728 364	-	-	-	-	-	4 728 364
IMF Accounts	17, 18, 19	-	-	-	-	-	668 073	668 073
Total Financial liabilities		5 515 906	-	-	-	-	668 073	6 183 979
Net Total recognised financial instruments		**(1 539 876)**	**348 066**	**1 105 246**	**23 602**	**2 150 130**	**952 338**	**3 039 507**
Letters of credit and financial guarantees								
Financial guarantees								
Irrevocable unutilised facilities								
Total unrecognised financial instruments		-	-	-	-	-	-	-
Net liquidity gap		**(1 539 876)**	**348 066**	**1 105 246**	**23 602**	**2 150 130**	**952 338**	**3 039 507**

Analysis of fair value determination

The following table provides an analysis of the basis for valuing financial assets measured at fair value in the financial statements.

	2009	**2008**
	M '000	**M '000**
	Quoted market price	Quoted market price
Trading fanancial assets	**386 707**	467 857
Availabe-for sale financial assets	**2 373 732**	3 211 843
	2 760 439	3 679 700

TABLE OF CONTENTS FOR STATISTICAL APPENDIX

Table A1

GROSS DOMESTIC PRODUCT BY KIND OF ECONOMIC ACTIVITY

(2004 = 100)

Million Maloti

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*
Primary Sector:	**869.45**	**981.97**	**698.73**	**754.38**	**769.99**	**787.23**	**908.92**	**857.53**	**938.45**	**909.10**
Agriculture	859.06	970.21	685.02	708.45	701.98	640.63	758.48	652.65	693.70	701.10
Mining & Quarrying	10.39	11.76	13.70	45.93	68.01	146.60	150.44	204.88	244.75	208.00
Secondary Sector:	**1759.96**	**1910.70**	**2105.55**	**2280.34**	**2295.70**	**2163.69**	**2306.35**	**2360.96**	**2440.66**	**2476.41**
Manufacturing	810.35	1026.21	1330.84	1505.54	1594.92	1401.59	1529.62	1548.05	1598.04	1577.14
Electricity & Water	287.56	298.15	305.13	323.69	336.57	383.25	402.83	419.98	424.06	447.64
Building & Construction	662.06	586.33	469.58	451.11	364.21	378.85	373.91	392.93	418.56	451.64
Tertiary Sector:	**3742.19**	**3814.78**	**3990.09**	**4092.73**	**4188.13**	**4362.34**	**4632.56**	**4759.72**	**4961.20**	**5107.30**
Wholesale and Retail Trade, repairs	438.01	450.79	468.28	493.19	496.95	553.98	584.05	605.31	613.66	621.10
Hotels and Restaurants	93.30	92.65	91.60	99.39	104.23	106.07	114.75	109.59	112.25	113.80
Transport & Communication	306.2	337.0	374.8	391.6	425.4	484.5	538.0	601.3	673.2	706.90
Transport and Storage	192.88	197.87	209.60	218.62	226.83	250.92	253.21	258.44	269.64	271.00
Post and Telecommunicatios	113.35	139.14	165.17	173.00	198.53	233.57	284.84	342.89	403.58	435.90
Financial Intermediation	243.99	254.57	261.97	279.53	325.19	333.93	410.25	424.57	472.95	512.20
Real Estate & Business Services	1087.60	1069.66	1100.55	1091.10	1087.58	1121.90	1154.82	1184.20	1218.35	1224.40
Owner-occupied Dwellings	711.23	722.01	738.70	751.93	766.05	786.38	802.72	818.32	832.96	837.10
Other Real Estate & Business Services	376.37	347.65	361.86	339.18	321.53	335.52	352.11	365.88	385.39	387.30
Public Administration	682.07	707.17	779.89	844.45	866.22	873.69	913.39	938.54	965.09	996.00
Education	648.84	659.08	668.90	646.11	637.65	640.49	662.59	641.55	648.91	671.60
Health & Social Work	147.60	151.85	151.26	153.47	149.43	151.23	155.45	153.83	153.76	157.10
Community, Social & Personal Services	94.55	91.99	92.87	93.85	95.53	96.57	99.21	100.79	103.01	104.20
GDP at Factor Cost (unadjusted)	**6371.61**	**6707.45**	**6794.36**	**7127.44**	**7253.82**	**7313.26**	**7847.84**	**7978.20**	**8340.30**	**8492.81**
Less: Imputed Bank Serv. Charg.	-47.93	-68.03	-79.78	-78.04	-67.37	**-60.44**	-87.43	-100.32	-115.26	-130.40
GDP at Factor Cost	**6323.68**	**6639.41**	**6714.58**	7049.40	7186.45	**7252.82**	**7760.40**	**7877.88**	**8225.04**	**8362.41**
Plus: Indirect taxes, Net	631.01	620.05	574.92	587.85	622.38	**668.28**	682.11	758.38	787.53	822.60
GDP at Market Prices	**6954.69**	**7259.46**	**7289.50**	**7637.25**	**7808.83**	**7921.09**	**8442.51**	**8636.26**	**9012.57**	**9185.01**

Source: Bureau of Statistics
* CBL Projections

Table A2

GROSS DOMESTIC PRODUCT BY KIND OF ECONOMIC ACTIVITY

(2004 = 100)

Percentage Changes

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*
Primary Sector:	**-3.92**	**12.94**	**-28.84**	**7.96**	**2.07**	**2.24**	**15.46**	**-5.65**	**9.44**	**-3.13**
Agriculture	-4.39	12.94	-29.39	3.42	-0.91	-8.74	18.40	-13.95	6.29	1.07
Mining & Quarrying	61.38	13.22	16.50	235.17	48.08	115.57	2.62	36.18	19.46	-15.02
Secondary Sector:	**16.74**	**8.56**	**10.20**	**8.30**	**0.67**	**-5.75**	**6.59**	**2.37**	**3.38**	**1.46**
Manufacturing	17.71	26.64	29.69	13.13	5.94	-12.12	9.13	1.20	3.23	-1.31
Electricity & Water	2.65	3.68	2.34	6.08	3.98	13.87	5.11	4.26	0.97	5.56
Building & Construction	22.81	-11.44	-19.91	-3.93	-19.26	4.02	-1.30	5.09	6.52	7.90
Tertiary Sector:	**4.50**	**1.94**	**4.60**	**2.57**	**2.33**	**4.16**	**6.19**	**2.74**	**4.23**	**2.94**
Wholesale and Retail Trade, repairs	-3.47	2.92	3.88	5.32	0.76	11.47	5.43	3.64	1.38	1.21
Hotels and Restaurants	12.24	-0.70	-1.13	8.50	4.87	1.77	8.18	-4.49	2.43	1.38
Transport & Communication	3.41	10.05	11.21	4.50	8.61	13.90	11.05	11.76	11.95	5.00
Transport and Storage	2.74	2.59	5.93	4.30	3.76	10.62	0.91	2.07	4.33	0.51
Post and Telecommunicatios	4.57	22.75	18.71	4.74	14.75	17.65	21.95	20.38	17.70	8.01
Financial Intermediation	24.87	4.34	2.90	6.70	16.33	2.69	22.86	3.49	11.39	8.30
Real Estate & Business Services	-0.38	-1.65	2.89	-0.86	-0.32	3.16	2.93	2.54	2.88	0.50
Owner-occupied Dwellings	1.67	1.51	2.31	1.79	1.88	2.65	2.08	1.94	1.79	0.50
Other Real Estate & Business Services	-4.05	-7.63	4.09	-6.27	-5.20	4.35	4.95	3.91	5.33	0.50
Public Administration	6.99	3.68	10.28	8.28	2.58	0.86	4.54	2.75	2.83	3.20
Education	10.19	1.58	1.49	-3.41	-1.31	0.44	3.45	-3.18	1.15	3.50
Health & Social Work	4.51	2.88	-0.39	1.46	-2.64	1.21	2.80	-1.04	-0.05	2.17
Community, Social & Personal Services	1.36	-2.70	0.95	1.06	1.78	1.09	2.74	1.60	2.20	1.15
GDP at Factor Cost (unadjusted)	**6.31**	**5.27**	**1.30**	**4.90**	**1.77**	**0.82**	**7.31**	**1.66**	**4.54**	**1.83**
Less: Imputed Bank Serv. Charg.	63.67	41.96	17.27	-2.18	-13.68	-10.29	44.67	14.74	14.89	13.13
GDP at Factor Cost	**6.02**	**4.99**	**1.13**	**4.99**	**1.94**	**0.92**	**7.00**	**1.51**	**4.41**	**1.67**
Plus: Indirect taxes, Net	-1.21	-1.74	-7.28	2.25	5.87	7.37	2.07	11.18	3.84	4.45
GDP at Market Prices	**5.32**	**4.38**	**0.41**	**4.77**	**2.25**	**1.44**	**6.58**	**2.29**	**4.36**	**1.91**

Source: Bureau of Statistics
* CBL Projections

Table A3

GROSS DOMESTIC PRODUCT BY KIND OF ECONOMIC ACTIVITY

(At Current Prices)
Million Maloti

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*
Primary Sector:	**606.44**	**740.73**	**662.37**	**714.74**	**769.99**	**948.53**	**1267.67**	**1638.91**	**2130.94**	**2103.84**
Agriculture	598.39	731	649.60	671.02	701.98	648.03	848.17	818.62	932.55	1010.83
Mining & Quarrying	8.05	9.75	12.77	43.72	68.01	300.50	419.50	820.29	1198.39	1093.01
Secondary Sector:	**1520.66**	**1851.31**	**2169.66**	**2177.07**	**2295.70**	**2329.26**	**2743.14**	**2951.14**	**3291.26**	**3564.44**
Manufacturing	679.05	1068.50	1445.96	1424.86	1594.92	1532.59	1872.92	2013.75	2257.83	2382.52
Electricity & Water	243.66	255.68	304.39	315.65	336.57	413.88	459.99	477.51	501.51	566.09
Building & Construction	597.94	527.13	419.31	436.55	364.21	382.78	410.22	459.89	531.91	615.83
Tertiary Sector:	**2840.63**	**3083.41**	**3596.38**	**3850.46**	**4188.13**	**4632.78**	**5162.88**	**5947.41**	**7151.65**	**7906.23**
Wholesale and Retail Trade, repairs	324.12	365.35	433.00	470.75	496.95	582.27	668.97	756.46	884.28	960.31
Hotels and Restaurants	66.41	70.69	84.17	95.56	104.23	109.64	127.66	134.94	154.32	167.91
Transport & Communication	227.22	267.95	337.25	342.78	425.36	522.57	584.11	662.48	765.67	858.03
Transport and Storage	137.94	158.42	183.98	199.04	226.83	281.80	297.45	323.37	363.80	392.31
Post and Telecommunicatios	89.29	109.52	153.27	143.74	198.53	240.77	286.66	339.12	401.87	465.72
Financial Intermediation	212.88	229.97	265.33	309.28	325.19	364.28	464.94	608.01	828.84	963.21
Real Estate & Business Services	819.18	867.96	1020.70	1059.96	1087.58	1159.65	1261.38	1389.22	1561.18	1683.02
Owner-occupied Dwellings	527.90	575.30	677.24	725.11	766.05	813.42	880.71	969.92	1093.56	1179.32
Other Real Estate & Business Services	291.28	292.66	343.46	334.85	321.53	346.23	380.67	419.30	467.62	504.30
Public Administration	533.71	590.86	690.50	760.03	866.22	935.85	1013.91	1127.62	1334.74	1478.02
Education	473.69	496.11	548.12	580.94	637.65	699.81	760.20	961.27	1271.61	1412.20
Health & Social Work	115.36	121.85	134.36	141.46	149.43	158.64	172.44	186.96	215.38	236.21
Community, Social & Personal Services	68.07	72.68	82.97	89.70	95.53	100.07	109.27	120.44	135.64	147.32
GDP at Factor Cost (unadjusted)	**4967.73**	**5675.45**	**6428.41**	**6742.27**	**7253.82**	**7910.57**	**9173.69**	**10537.46**	**12573.86**	**13574.51**
Less: Imputed Bank Serv. Charg.	-45.83	-65.97	-84.78	-89.60	-67.37	-58.88	-90.05	-170.10	-276.50	-335.60
GDP at Factor Cost	**4921.89**	**5609.48**	**6343.64**	**6652.67**	**7186.45**	**7851.69**	**9083.64**	**10367.36**	**12297.36**	**13238.91**
Plus: Indirect taxes, Net	331.95	366.26	449.25	541.99	622.38	562.58	532.36	760.39	878.14	1008.20
GDP at Market Prices	**5253.85**	**5975.74**	**6792.89**	**7194.66**	**7808.83**	**8414.27**	**9616.00**	**11127.75**	**13175.50**	**14247.11**

Source: Bureau of Statistics
* CBL Projections

Table A4

SUPPLY AND DEMAND FOR RESOURCES

(At Current Prices)
Million Maloti

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*
Supply										
GDP at Market Prices	5253.85	5975.74	6792.89	7194.66	7808.83	8414.27	9616.00	11127.75	13175.50	14247.11
Imports of Goods & Services	7237.76	8328.24	9982.37	10240.38	10368.33	10529.06	11536.25	13296.57	15544.72	14039.10
Total supply	**12491.60**	**14303.98**	**16775.26**	**17435.04**	**18177.16**	**18943.33**	**21152.26**	**24424.32**	**28720.22**	**28286.21**
Demand										
Consump. Expenditure	8384.96	8668.19	10259.87	10928.57	11544.61	12248.82	13248.09	14998.53	17639.24	18856.90
Gross Fixed Capital Formation	2268.69	2232.41	2129.00	2218.57	2115.60	2023.40	2388.68	3133.17	3601.88	3864.80
Changes in Stocks	31.78	32.88	45.70	-33.10	43.26	88.41	56.83	145.02	35.06	0.00
Exports of Goods & Services	1865.03	3275.28	4581.22	4403.68	4493.52	4253.02	5181.18	6137.59	7546.14	7014.80
Total Demand	**12550.46**	**14208.75**	**17015.79**	**17517.73**	**18196.99**	**18613.66**	**20874.78**	**24414.31**	**28822.32**	**29736.50**

Source: Bureau of Statistics
* CBL Projections

Table A5

INCOME AND OUTLAY ACCOUNT
(At Current Prices)
Million Maloti

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*
Income										
Dom. Factor Incomes	4921.89	5609.48	6343.64	6652.67	7186.45	7851.69	9083.64	10367.36	12297.36	13238.91
Plus: Indirect taxes, Net	331.95	366.26	449.25	541.99	622.38	562.58	532.36	760.39	878.14	1008.20
GDP at Market Prices	5253.85	5975.74	6792.89	7194.66	7808.83	8414.27	9616.00	11127.75	13175.50	14247.11
Factor Income from abroad, Net	3255.21	3192.71	3674.08	3759.87	3627.72	3186.38	3001.67	3010.24	4381.66	4592.70
Gross National Income	8509.06	9168.45	10466.97	10954.54	11436.55	11600.65	12617.68	14138.00	17557.16	18839.81
Transfers from abroad, Net	1987.19	2294.92	2478.00	2476.25	2888.81	3180.34	4549.72	5100.75	6103.67	5865.60
Gross National Disposable Income	10496.25	11463.38	12944.97	13430.79	14325.36	14780.99	17167.39	19238.75	23660.83	24705.41
Outlay										
Consumption	8384.96	8668.19	10259.87	10928.57	11544.61	12248.82	13248.09	14998.53	17639.24	18856.90
Gross Saving	2111.28	2795.19	2685.10	2502.22	2780.75	2532.16	3919.30	4240.22	6021.60	5848.51
Gross National Disposable Income	10496.25	11463.38	12944.97	13430.79	14325.36	14780.99	17167.39	19238.75	23660.83	24705.41
Saving - GNI ratio (%)	24.81	30.49	25.65	22.84	24.31	21.83	31.06	29.99	34.30	31.04
Saving - GNDI ratio (%)	20.11	24.38	20.74	18.63	19.41	17.13	22.83	22.04	25.45	23.67

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)

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Maize										
Area planted	170101	195037	145762	137583	129435	120012	180078	190598	277798	211325
Share harvested	92.88	91.01	94.85	92.65	98.60	93.58	93.72	90.35	71.11	97.19
Sorghum										
Area planted	27802	55082	30034	26441	29378	30646	42175	48190	17901	26080
Share harvested	92.91	95.31	93.92	95.32	99.37	96.88	81.61	84.66	99.22	100.00
Wheat										
Area planted	27934	31749	17486	15999	16031	11795	10367	17546	67658	43969
Share harvested	74.75	45.26	168.79	45.27	98.37	88.27	99.81	98.23	97.88	95.75
Beans										
Area planted	13948	15177	9788	12363	6261	11467	30975	33781	47266	27679
Share harvested	96.26	81.49	73.99	90.35	136.88	76.62	89.57	88.14	96.19	97.54
Peas										
Area planted	25640	13028	5462	3275	2709	2803	2038	1279	1748	2556
Share harvested	18.42	97.61	85.01	92.00	96.94	66.64	93.87	98.91	81.69	100.00

Source: Bureau of Statistics
* CBL Projections

Table A7

ESTIMATED PRODUCTION (1) AND AVERAGE YIELD (2) OF MAIN CROPS

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Maize										
Production	277.69	158.19	111.21	85.03	81.00	100.72	100.82	72.64	68.94	84.59
Yield	16.32	8.11	7.63	6.18	6.26	6.60	5.11	4.22	3.50	4.10
Sorghum										
Production	26.81	45.36	11.92	11.95	11.48	18.53	11.33	7.82	13.56	19.37
Yield	9.64	8.23	3.97	4.52	3.91	6.00	1.59	1.90	2.00	4.60
Wheat										
Production	15.55	50.76	18.96	19.24	11.65	2.05	1.98	1.55	2.00	17.21
Yield	10.88	19.64	10.84	8.19	7.27	1.70	5.11	0.89	1.10	6.60
Beans										
Production	14.38	7.86	4.36	3.70	4.83	2.46	0.75	1.31	4.39	9.93
Yield	10.31	5.18	4.45	2.99	5.22	2.15	0.24	0.39	1.00	3.65
Peas										
Production	2.86	6.43	3.04	1.30	1.50	0.95	0.88	0.25	0.49	0.96
Yield	5.47	4.26	5.57	3.98	5.53	3.37	4.31	1.96	3.40	3.70

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)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Average number employed	64933	59861	63297	61414	58009	52042	54105	54729	50686	45276
Change over previous year (%)	-5.35	-7.81	5.74	-2.97	-5.54	-10.29	3.96	1.15	-7.39	-10.67
Average earnings (1) Maloti	30131	32030	35326	38513	42116	44758	53859	67066	82076	82075
Change over previous year (%)	8.95	6.30	10.29	9.02	9.36	6.27	20.33	24.52	22.38	0.00
Remittances	87441	102797	122496	118333	131793	167387	48885	10054	19895	32018
Change over previous year (%)	-4.94	17.56	19.16	-3.40	11.37	27.01	-70.80	-79.43	97.88	60.94

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

Table A8.1

TOTAL NUMBER OF GOVERNMENT EMPLOYEES

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total Number of Employees	36109	35441	36787	36146	36555	37908	39065	40649	42352	43259
Change over previous year (%)	1.68	-1.85	3.80	-1.74	1.13	3.70	3.05	4.05	11.72	10.74

EMPLOYEES IN LNDC ASSISTED COMPANIES*

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total Number of Employees	37258	38569	43773	51187	50607	43131	47462	46633	47204	45334
Change over previous year (%)	3.73	3.52	13.49	16.94	-1.13	-14.77	10.04	-1.75	9.44	-4.48

*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										
Food, Beverages & Tobacco	63.35	72.13	77.30	85.00	92.70	100.60	108.45	117.83	125.05	133.70
Clothing & Footwear	62.73	69.23	73.60	83.80	91.80	100.30	109.30	118.20	124.75	133.15
Water, Fuel & Power	71.58	83.30	83.00	86.90	94.40	101.40	110.20	120.90	126.40	133.88
Furniture & Household Equipment	50.13	54.70	79.88	79.83	88.15	99.95	106.35	109.98	115.55	129.63
Transport & Communication	67.58	78.03	80.00	85.00	93.50	101.10	109.30	122.30	130.80	139.08
Other Goods & Services	63.28	68.98	82.70	83.20	96.80	101.00	103.90	111.00	125.88	141.50
	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	2008	2009*
All Items	150.40	161.30	169.40	175.30	185.90	200.80	222.00	238.23
Food and non-alcoholic beverages	166.10	174.10	181.20	186.00	202.80	231.50	267.70	291.41
Alcoholic beverages & Tobacco	158.40	173.30	189.30	200.40	212.80	224.50	236.60	253.08
Clothing & footwear	139.30	144.80	149.00	153.60	157.40	162.00	172.40	182.17
Housing, electricity gas & other fuels	144.20	155.90	164.40	177.00	191.80	207.30	237.90	239.81
Furniture, households equipment & routine maintenance of house	147.10	158.70	165.20	169.20	176.20	179.00	186.20	198.00
Health	131.50	135.90	140.60	143.60	145.30	143.40	145.60	148.13
Transport	155.40	166.30	177.00	190.70	198.00	204.90	226.40	239.95
Communication	100.70	131.70	149.40	154.30	157.40	159.60	159.60	159.60
Leisure, entertainment & Culture	132.30	145.20	152.20	152.60	154.70	153.40	156.50	165.79
Education	115.60	120.10	125.10	126.50	127.70	130.80	134.10	137.59
Restaurant & Hotels	172.60	194.40	199.90	208.00	225.10	267.30	302.80	328.48
Miscellaneous goods & services	133.60	145.50	151.70	156.00	160.00	164.80	174.50	185.88
% Change from the previous year								
All Items		7.25	5.02	3.48	6.05	8.02	10.56	7.31
Food and non-alcoholic beverages		4.82	4.08	2.65	9.03	14.15	15.64	8.86
Alcoholic beverages & Tobacco		9.41	9.23	5.86	6.19	5.50	5.39	6.97
Clothing & footwear		3.95	2.90	3.09	2.47	2.92	6.42	5.67
Housing, electricity gas & other fuels		8.11	5.45	7.66	8.36	8.08	14.76	0.80
Furniture, households equipment & routine maintenance of house		7.89	4.10	2.42	4.14	1.59	4.02	6.34
Health		3.35	3.46	2.13	1.18	-1.31	1.53	1.74
Transport		7.01	6.43	7.74	3.83	3.48	10.49	5.98
Communication		30.78	13.44	3.28	2.01	1.40	0.00	0.00
Leisure, entertainment & Culture		9.75	4.82	0.26	1.38	-0.84	2.02	5.93
Education		3.89	4.16	1.12	0.95	2.43	2.52	2.60
Restaurant & Hotels		12.63	2.83	4.05	8.22	18.75	13.28	8.48
Miscellaneous goods & services		8.91	4.26	2.83	2.56	3.00	5.89	6.52

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)

	2000	2001	2002	2003	2004	2005	2006	2007	2008+	2009*
I CURRENT ACCOUNT	**-1083.76**	**-820.84**	**-1489.06**	**-1021.61**	**-435.90**	**-665.70**	**446.00**	**1555.90**	**1955.00**	**594.90**
Goods, Services and Income	-2019.87	-1990.18	-2766.78	-2305.17	-2032.8	-2575.7	-2188.5	-2868.3	-2263.7	-3816.60
a) GOODS	-3582.18	-3398.18	-4250.31	-3917.13	-3827.1	-4175.70	-4519.2	-5629.4	-6053.3	-7093.10
Merchandise Exports f.o.b.	1468.35	2425.97	3739.89	3557.37	4533.4	4138.00	4736.65	5664.30	7183.90	6454.70
Merchandise Imports f.o.b.	-5050.53	-5824.15	-7990.2	-7474.50	-8360.30	-8313.70	-9255.84	-11293.70	-13237.20	-13547.70
b) SERVICES	-1.24	-99.72	-214.60	-262.40	-155.30	-325.5	-243.50	-238.80	-351.70	-472.50
c) INCOME	1563.55	1507.72	1698.13	1874.36	1949.58	1925.50	2574.20	3000.00	4141.40	3749.00
Labour Income	1553.81	1555.30	1712.81	1868.07	2006.88	1914.3	2337.46	2933.40	3412.60	3128.00
Other	9.74	-47.58	-14.68	6.29	-57.30	11.2	236.74	66.70	728.80	621.00
d) CURRENT TRANSFERS	936.11	1169.34	1277.72	1283.56	1597.00	1910.00	2634.40	4424.20	4218.70	4411.50
Government, net	919.84	1138.30	1241.21	1221.41	1538.00	1842.4	2515.84	4417.20	4205.00	4353.60
SACU Non-duty Receipts	803.22	1017.01	1097.22	1081.79	1396.26	1745.21	2424.40	4262.40	4082.20	4212.90
Other	116.62	121.30	143.99	139.62	141.74	97.19	91.40	154.80	122.80	140.70
Other Sectors	16.27	31.04	36.51	62.15	59.00	67.61	118.60	7.00	13.70	57.90
II CAPITAL AND FINANCIAL ACCOUNT	**773.68**	**924.57**	**1177.80**	**929.55**	**611.66**	**966.60**	**101.80**	**837.40**	**1340.90**	**1630.70**
e) CAPITAL ACCOUNT	150.70	138.00	247.10	208.10	216.30	133.30	75.50	226.40	114.60	132.10
f) FINANCIAL ACCOUNT	622.98	786.57	930.70	721.45	395.36	833.3	26.30	611.00	1226.30	1498.60
Special Financing - LHWP	608.12	772.23	595.70	552.26	457.16	224.17	137.36	172.20	134.80	119.00
III RESERVE ASSETS	**-92.00**	**-1637.18**	**1278.78**	**517**	**-75.57**	**-274.75**	**-1294.30**	**-1867.56**	**-2202.99**	**523.34**
IV ERRORS AND OMISSIONS (1)	**84.68**	**39.73**	**-26.16**	**21.94**	**64.9**	**-119.03**	**384.32**	**-403.28**	**-2024.97**	**-1789.49**
of which Valuation Adjustments	328.80	1510.20	-940.31	-446.76	-165.10	92.9	362.2	-122.50	932.10	-959.40

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

Table A12

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

	2000	2001	2002	2003	2004	2005	2006	2007+	2008+	2009*
Food and Livestock	54.40	81.60	123.16	117.91	98.90	101.00	126.70	205.68	315.66	236.17
Beverages and Tobacco	63.90	72.60	94.86	96.45	100.00	134.60	145.80	152.67	162.52	171.81
Crude Materials,Inedible	39.19	61.60	68.38	93.97	568.16	666.06	600.19	1169.75	1766.89	1146.45
Minerals and Related Products	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.37	1.99
Chemicals and Related Products	6.50	18.60	45.53	49.28	24.60	12.10	23.70	3.14	6.41	8.48
Manufactured Goods (classified by material)	23.31	37.00	60.66	55.61	218.14	51.74	134.21	288.82	171.04	187.51
Machinery and Transport Equipment	173.30	254.50	371.37	373.84	272.20	329.10	394.10	584.24	1014.20	961.21
Miscellaneous and Manufactured Goods	1104.69	1894.49	2962.24	2759.45	3235.90	2824.40	3295.35	3251.06	3697.76	3223.87
Commodities	3.12	5.49	13.69	10.86	15.20	19.04	16.60	8.94	17.95	34.33
TOTAL	**1468.41**	**2425.88**	**3739.89**	**3557.37**	**4533.10**	**4138.04**	**4736.65**	**5664.30**	**7155.80**	**5971.82**

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

Table A13

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

Region	2000	2001	2002	2003	2004	2005	2006	2007+	2008*	2009*
World	**1468.30**	**2426.00**	**3739.89**	**3557.33**	**4533.30**	**4138.00**	**4736.64**	**5664.30**	**7155.80**	**5971.63**
Africa	607.50	899.10	856.44	695.62	657.50	816.00	1244.78	1739.62	2849.40	2629.83
SACU	607.10	897.00	856.01	689.68	622.20	717.00	1145.23	1554.58	2727.22	2556.97
SADC **	0.40	0.00	0.27	0.23	0.00	0.00	13.58	7.68	21.57	9.42
Other	0.00	2.10	0.16	5.71	35.30	99.00	85.97	177.36	100.61	63.44
Europe	1.80	3.50	8.07	3.73	695.00	710.40	631.41	1186.44	1742.49	1139.98
EU	1.80	3.50	7.75	3.73	692.00	710.40	631.41	1186.41	1742.49	1138.92
Other	0.00	0.00	0.32	0.00	3.00	0.00	0.00	0.03	0.00	1.06
North America	858.30	1522.50	2874.58	2849.09	3168.60	2597.80	2842.27	2709.78	2536.68	2179.99
Asia	0.60	0.90	0.80	8.89	12.20	13.80	18.18	27.57	24.18	16.18
Oceania	0.10	0.00	0.00	0.00	0.00	0.00	0.00	0.83	3.05	5.65

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	2000	2001	2002	2003	2004	2005	2006	2007+	2008*	2009*
World	**5611.30**	**6399.76**	**8547.51**	**8411.73**	**9036.20**	**9135.71**	**10159.96**	**12410.50**	**14811.20**	**14821.60**
Africa	4876.90	5305.99	6300.31	7242.86	6628.30	7577.70	7929.90	9732.08	11176.61	10376.02
SACU	4870.00	5296.60	6291.70	7234.30	6584.00	7539.20	7854.00	9641.45	11078.69	10114.14
SADC **	6.60	6.43	7.04	4.08	38.20	36.70	64.30	77.16	84.03	248.56
Other	0.30	2.96	1.57	4.48	6.10	1.80	11.60	13.47	13.89	13.32
Europe	45.80	46.51	93.18	12.13	73.20	56.70	71.50	86.95	329.12	150.65
EU	42.70	44.53	82.50	10.76	70.40	53.00	55.70	67.36	247.59	149.92
Other	3.10	1.98	10.68	1.37	2.80	3.70	15.80	19.59	81.53	0.73
North America	104.80	41.72	53.35	15.09	97.50	32.80	25.60	30.62	93.20	19.52
Asia	526.00	953.33	2021.70	1109.67	2183.50	1462.71	2103.66	2525.33	3129.53	4227.86
Oceania	57.80	52.21	78.97	31.98	53.70	5.80	29.30	35.52	82.74	47.55

Source: Bureau of Statistics and Customs Department

+ Revised Estimates

* CBL Projections

** SADC member states, excluding SACU

Table A15

FOREIGN EXCHANGE RATES

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Botswana Pula	1.358	1.464	1.660	1.522	1.369	1.255	1.163	1.1406	1.2051	1.1754
ECU / EURO	6.398	7.718	9.846	8.514	7.932	7.915	8.520	8.5310	12.0714	11.6921
French Franc	0.965	0.856	0.659	0.716	0.829	0.829	0.779	0.7607	0.5204	0.5636
German Mark	3.271	3.917	5.179	4.359	4.055	4.048	4.353	4.4965	6.1697	5.9993
Japanese Yen	0.064	0.071	0.083	0.065	0.061	0.058	0.058	0.0574	0.0802	0.0943
Saudi Riyal	1.851	2.281	2.804	2.011	1.691	1.699	1.805	1.7640	2.2043	2.2479
SDR	9.137	10.790	13.492	10.575	9.415	9.412	9.976	9.9904	13.0197	12.9608
Swidish Kronor	0.757	0.812	0.925	0.932	0.870	0.853	0.921	0.9442	1.2526	1.1012
Swiss Franc	4.110	5.095	6.702	5.617	5.145	5.115	5.409	5.4489	7.6134	7.7429
UK Pound	10.496	12.407	15.677	12.344	11.742	11.577	12.507	12.7035	15.1093	13.1038
US Dollar	6.943	8.619	10.416	7.562	6.326	6.371	6.780	6.6260	8.2671	8.4197
Zimbabwe Dollar	0.159	0.155	0.189	0.027	0.001	0.001	0.431	0.0001	0.0001	0.0001

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
FOREIGN ASSETS	**3486.15**	**5136.94**	**3858.15**	**3341.14**	**3351.53**	**3625.55**	**4918.69**	**6786.26**	**8989.24**	**8345.35**
Cash and Balances	1211.91	3112.18	2590.78	2571.67	2437.03	1920.65	2129.78	2848.21	4081.90	4560.22
Investments	1769.47	1498.50	854.71	426.08	366.93	1335.64	2239.75	3362.37	3913.73	2882.8
IMF Accounts	39.91	59.58	46.51	38.71	34.55	36.02	40.12	39.14	52.43	41.91
Holdings of SDRs	5.03	6.92	5.15	4.29	3.60	3.73	2.28	0.43	0.58	0.46
Reserve Tranche	34.88	52.66	41.36	34.42	30.95	32.28	37.84	38.71	51.85	41.45
Other Foreign Assets	464.87	466.68	366.15	304.69	513.03	333.25	509.05	536.54	941.18	861.42
CLAIMS ON GOVERNMENT	**104.95**	**246.60**	**191.31**	**173.76**	**183.51**	**222.16**	**257.56**	**263.48**	**529.86**	**308.33**
CLAIMS ON PRIVATE SECTOR	**13.90**	**13.56**	**13.53**	**14.99**	**16.30**	**19.48**	**20.10**	**22.19**	**26.11**	**27.03**
UNCLASSIFIED ASSETS	**47.06**	**99.25**	**141.48**	**177.45**	**217.65**	**260.43**	**222.18**	**279.26**	**281.92**	**250.61**
Fixed Assets	35.88	78.30	117.25	134.69	130.63	133.66	175.50	177.71	182.70	169.43
Other Assets	11.18	20.95	24.23	42.76	87.02	126.77	46.67	101.55	99.23	81.18
TOTAL	**3652.05**	**5496.35**	**4204.46**	**3707.34**	**3768.99**	**4127.63**	**5418.53**	**7351.19**	**9827.12**	**8931.32**

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
FOREIGN LIABILITIES	**369.97**	**509.86**	**646.75**	**488.00**	**497.02**	**549.33**	**541.45**	**608.95**	**738.21**	**680.46**
IMF Deposits	281.67	317.41	445.87	306.39	313.52	327.29	283.91	345.51	385.28	398.32
IMF Accounts	84.04	180.57	189.04	173.71	183.48	222.02	257.52	263.42	352.90	282.12
Trust Fund Loans/ PRGF	84.04	180.57	189.04	173.71	183.48	222.02	257.52	263.42	352.90	282.12
Use of Fund Credit/SAF	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Foreign Liabilities	4.25	11.89	11.84	7.89	0.02	0.02	0.02	0.02	0.03	0.02
RESERVE MONEY	**646.90**	**293.27**	**338.81**	**364.93**	**379.40**	**574.78**	**490.62**	**535.05**	**580.32**	**819.61**
Maloti in Circulation Outside CBL	172.56	187.51	223.08	234.99	256.93	297.97	377.71	402.22	481.25	584.24
Rand Notes and Coins	15.39	10.30	10.32	15.47	7.71	29.47	33.30	47.72	70.37	53.08
Bankers Deposits	458.95	95.45	105.41	114.47	114.76	247.34	112.91	132.83	99.07	235.37
DEPOSIT LIABILITIES	**1379.28**	**1708.45**	**1419.41**	**1432.93**	**1599.22**	**1610.85**	**2421.55**	**4144.42**	**4900.59**	**4858.07**
Government	1356.40	1502.35	1257.31	1263.91	1411.84	1422.01	2231.49	3992.30	4762.46	4661.68
Official Entities	15.19	195.33	151.33	158.36	175.9	176.72	178.25	140.38	126.66	136.37
Private Sector	7.68	10.76	10.77	10.66	11.48	12.12	11.81	11.74	11.473	60.02
CAPITAL ACCOUNTS	**1208.97**	**2856.93**	**1771.79**	**1392.94**	**1204.22**	**1338.41**	**1859.09**	**1962.43**	**3149.37**	**1752.19**
UNCLASSIFIED LIABILITIES	**46.95**	**127.85**	**27.71**	**28.55**	**89.15**	**83.73**	**105.82**	**100.33**	**459.18**	**821.00**
other liabilities and payables	46.95	127.85	27.71	28.55	89.15	83.73	105.82	100.33	459.18	821.00
TOTAL	**3652.05**	**5496.35**	**4204.46**	**3707.34**	**3769.01**	**4157.10**	**5418.53**	**7351.19**	**9827.12376**	**8931.32**

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

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	2008	2009
RESERVES	**490.59**	**573.72**	**506.81**	**127.06**	**159.15**	**181.10**	**172.46**	**275.41**	**238.32**	**233.93**	**210.76**	**347.29**
Rand Notes and Coins	11.63	9.33	15.39	10.30	10.32	15.47	7.71	20.26	59.25	44.95	56.35	65.87
Maloti Notes and Coins	18.90	26.05	33.22	40.37	43.40	51.48	52.40	85.19	68.29	62.91	79.17	97.06
Balances due from CBL	460.06	538.34	458.20	76.38	105.44	114.16	112.36	169.95	110.77	126.07	75.24	184.36
FOREIGN ASSETS	**427.59**	**494.65**	**609.09**	**789.61**	**772.31**	**837.34**	**1253.79**	**1241.81**	**1845.39**	**2273.70**	**3013.73**	**3297.17**
CLAIMS ON PRIVATE SECTOR	**227.87**	**270.83**	**258.60**	**301.68**	**373.94**	**402.58**	**441.18**	**772.17**	**784.64**	**1162.03**	**1437.04**	**1832.76**
CLAIMS ON STATUTORY BODIES	**83.77**	**81.66**	**42.77**	**46.39**	**42.75**	**38.94**	**52.16**	**33.37**	**17.39**	**51.47**	**43.83**	**0.00**
CLAIMS ON GOVERNMENT	**51.53**	**586.38**	**586.20**	**691.32**	**806.75**	**991.45**	**543.43**	**461.65**	**598.26**	**559.28**	**453.96**	**384.12**
UNCLASSIFIED ASSETS	**953.81**	**1039.09**	**881.69**	**952.18**	**985.25**	**764.87**	**885.39**	**1139.65**	**689.96**	**705.44**	**1005.29**	**1498.70**
TOTAL	**2235.16**	**3046.32**	**2885.15**	**2908.24**	**3140.15**	**3216.28**	**3348.42**	**3924.07**	**4173.95**	**4985.85**	**6164.60**	**7360.03**

Table A17 (continued)

CONSOLIDATED BALANCE SHEET OF COMMERCIAL BANKS

(Million maloti: End of Period)

B - LIABILITIES

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
DEMAND DEPOSITS	**941.42**	**1002.26**	**1162.90**	**1253.46**	**1255.16**	**1599.62**	**2308.316**	**2723.12**	**3525.972**	**3518.013**
Private Sector	582.95	625.14	753.63	929.14	968.40	1024.96	1712.146	1968.79	3128.15	3420.01
Government	67.69	63.22	63.74	68.25	57.66	171.75	121.12	151.20	191.36	25.18
Statutory Bodies	290.78	313.90	345.53	256.07	229.11	402.90	475.05	603.13	206.46	72.82
TIME DEPOSITS	**120.98**	**136.51**	**157.18**	**208.95**	**275.12**	**284.71**	**403.96**	**685.79**	**582.14**	**941.53**
Private Sector	80.78	69.30	100.24	129.60	190.88	193.68	299.60	556.89	445.16	929.68
Government	0.60	0.09	0.09	0.09	0.05	0.00	0.01	0.04	0.03	0.03
Statutory Bodies	39.60	67.13	56.85	79.27	84.20	91.03	104.35	128.87	136.95	11.82
SAVINGS DEPOSITS	**506.52**	**521.82**	**527.01**	**507.05**	**463.42**	**437.25**	**417.10**	**407.59**	**425.73**	**627.69**
Private Sector	506.21	521.60	526.78	506.97	463.34	437.10	415.15	403.94	422.95	626.02
Government	0.09	0.00	0.05	0.01	0.06	0.13	1.95	3.55	2.68	1.559
Statutory Bodies	0.23	0.22	0.19	0.07	0.02	0.03	0.00	0.10	0.11	0.11
DEFERRED PAY FUND	**38.12**	**42.19**	**43.19**	**44.19**	**45.19**	**38.70**	**0.00**	**0.00**	**0.00**	**0.00**
FOREIGN LIABILITIES	**140.01**	**102.82**	**99.63**	**229.64**	**135.90**	**106.86**	**72.94**	**73.36**	**92.67**	**310.48**
CAPITAL ACCOUNTS	**318.90**	**279.18**	**287.36**	**303.43**	**345.75**	**403.83**	**312.32**	**413.07**	**464.69**	**631.69**
UNCLASSIFIED LIABILITIES	**819.20**	**823.46**	**862.88**	**669.56**	**827.88**	**1053.10**	**659.31**	**681.93**	**1072.40**	**1330.63**
TOTAL	**2885.15**	**2908.24**	**3140.15**	**3216.28**	**3348.42**	**3924.07**	**4173.95**	**4985.85**	**6164.60**	**7360.03**

Table A18

MONETARY SURVEY
(Million Maloti: End of Period)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Foreign Assets, Net	**3585.26**	**5313.88**	**3884.08**	**3460.84**	**3934.13**	**4211.18**	**6149.69**	**8377.64**	**11172.63**	**10651.58**
Commercial Banks	469.08	686.80	672.68	607.70	1117.90	1134.95	1772.44	2200.34	2921.06	2986.69
Central Bank of Lesotho	3100.79	4616.78	3201.08	2837.68	2816.23	3076.23	4377.24	6177.30	8251.57	7664.89
o/w Rands with Commercial Banks	15.39	10.30	10.32	15.47	7.71	20.26	59.25	44.95	56.35	65.87
Central Bank of Lesotho*	...	...	...	...	35.74	29.47	33.303	47.72	70.37	50.49
Domestic Credit	**-418.36**	**-266.10**	**107.08**	**289.47**	**-202.44**	**-85.05**	**-676.63**	**-2071.06**	**-2465.73**	**-2136.21**
Claims on private sector & Statutory Bodies	315.27	361.63	430.22	456.51	509.64	825.03	822.13	1235.69	1506.976	1859.80
Claims on Government,net of deposits	-733.63	-627.73	-323.14	-167.04	-712.08	-910.08	-1498.76	-3324.32	-3972.70	-3996.00
Money Supply (M2)	**1700.88**	**1992.71**	**2168.18**	**2297.85**	**2373.05**	**2590.01**	**3505.77**	**4154.15**	**4881.10**	**5744.03**
Narrow Money (M1)	**1035.95**	**1292.27**	**1440.94**	**1537.75**	**1589.42**	**1829.48**	**2686.68**	**3063.36**	**3874.83**	**4176.40**
Maloti with public	139.34	147.14	179.68	183.52	204.54	212.78	309.42	339.31	402.08	487.18
Demand and call deposits	881.42	949.80	1109.93	1195.86	1208.98	1439.98	2199.00	2583.66	3346.09	3552.85
Official entities deposits with CBL	15.19	195.33	151.33	158.36	175.90	176.72	178.25	140.38	126.66	136.37
Quasi-money	**664.94**	**700.44**	**727.24**	**760.10**	**783.63**	**760.54**	**819.10**	**1090.79**	**1006.16**	**1567.63**
Time deposits	158.51	178.62	200.28	253.06	320.27	323.41	403.95	686.75	583.11	941.50
Savings deposits	506.43	521.82	526.96	507.04	463.36	437.13	415.15	404.04	423.06	626.13
Other items,net	**1466.02**	**3055.06**	**1822.98**	**1452.46**	**1358.64**	**1536.12**	**1967.28**	**2152.43**	**3825.91**	**2771.34**

* 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)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Private Sector Total	**272.49**	**315.24**	**387.47**	**417.57**	**457.48**	**791.66**	**799.98**	**1098.96**	**1353.31**	**1758.12**
Business Enterprises	100.26	113.53	145.68	146.05	162.04	316.63	409.53	494.78	601.22	851.13
Households	71.15	99.87	139.94	158.59	256.64	369.28	390.45	603.18	752.09	905.99
Other	101.08	101.84	101.84	112.93	38.80	105.75	0.00	0.00	0.00	0.00
Statutory bodies	**42.77**	**46.39**	**42.75**	**38.94**	**52.16**	**33.37**	**17.39**	**51.47**	**43.83**	**0.00**
Government (net)	**-733.63**	**-627.73**	**-323.14**	**-167.04**	**-712.08**	**-910.08**	**-1498.76**	**-3324.32**	**-3972.70**	**-3996.00**
Grand Total	**-418.36**	**-266.10**	**107.08**	**289.47**	**-202.44**	**-85.05**	**-681.39**	**-2173.89**	**-2575.57**	**-2237.89**

* 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)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Commercial Banks	**469.08**	**686.80**	**672.68**	**607.70**	**1117.90**	**1134.95**	**1772.44**	**2200.34**	**2921.057**	**2986.69**
Assets	609.09	789.61	772.31	837.34	1253.79	1241.81	1845.39	2273.70	3013.726	3297.17
Liabilities	-140.01	-102.82	-99.63	-229.64	-135.90	-106.86	-72.94	-73.36	-92.67	-310.48
Central Bank	**3116.18**	**4627.08**	**3211.40**	**2853.14**	**2816.23**	**3076.23**	**4377.24**	**6177.30**	**8251.57**	**7664.90**
Assets	3486.15	5136.94	3858.15	3341.14	3343.82	3625.55	4918.69	6786.26	8989.24	8345.35
Liabilities	-369.97	-509.86	-646.75	-488.00	-527.59	-549.33	-541.45	-608.95	-737.67	-680.46
Net Foreign Assets	**3585.26**	**5313.88**	**3884.08**	**3460.84**	**3934.13**	**4211.18**	**6149.69**	**8377.64**	**11172.63**	**10651.58**

Table A21

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Commercial Banks	**517.82**	**628.01**	**742.86**	**923.10**	**485.67**	**289.77**	**475.17**	**404.50**	**259.90**	**357.35**
Claims	586.20	691.32	806.75	991.45	543.43	461.65	598.26	559.28	453.96	384.12
Less Deposits	68.38	63.31	63.89	68.35	57.76	171.88	123.09	154.79	194.06	26.77
Central Bank	**-1251.45**	**-1255.75**	**-1066.00**	**-1090.15**	**-1197.75**	**-1199.85**	**-1973.93**	**-3728.814**	**-4232.60**	**-4353.35**
Claims	104.95	246.60	191.31	173.76	214.09	222.16	257.56	263.48	529.86	308.33
Less Deposits	1356.40	1502.35	1257.31	1263.91	1411.84	1422.01	2231.491	3992.30	4762.46	4661.68
Net Total	**-733.63**	**-627.73**	**-323.14**	**-167.04**	**-712.08**	**-910.08**	**-1498.76**	**-3324.32**	**-3972.70**	**-3996.00**
Memorandum Items: Securities held by Banks #										
Commercial Banks	585.77	693.27	806.08	989.92	542.38	461.11	598.26	559.28	453.96	384.12
Central Bank	20.91	66.04	2.28	0.05	0.03	0.14	0.04	0.06	176.96	26.21
Total	**606.67**	**759.31**	**808.35**	**989.96**	**542.41**	**461.25**	**598.30**	**559.34**	**630.92**	**410.33**

\# Figures at cost value

Table A22

HOLDINGS OF TREASURY BILLS
(Million Maloti)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total holdings	**234.70**	**451.80**	**515.70**	**770.50**	**532.3**	**530.20**	**576.40**	**560.20**	**544.62**	**573.76**
Banking system (1)	**28.30**	**350.80**	**402.00**	**593.30**	**427.90**	**359.90**	**497.99**	**470.62**	**485.78**	**473.12**
Central Bank	16.60	67.10	0.00	0.00	0.00	0.00	0.00	0.32	0.32	0.32
Commercial Banks	11.70	283.70	402.00	593.30	427.90	359.90	497.99	470.3	485.46	472.8
Non-Bank Sector	**206.40**	**101.00**	**113.70**	**177.20**	**104.40**	**170.30**	**78.36**	**89.61**	**58.84**	**100.64**
NBFIs (2)	90.10	36.10	23.70	102.10	33.90	108.30	0.46	0.31	0.96	63.41
Other entities	116.30	64.90	90.00	75.10	70.50	62.00	77.90	89.30	57.88	37.23
Memorandum Item										
Yield	9.97	10.99	13.18	10.46	8.27	7.27	7.05	9.33	10.71	6.95

(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)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Central Bank (1)										
91-Day T-Bill Rate	9.30	10.99	12.19	9.83	7.86	6.95	6.76	8.82	10.05	6.66
Call rate	7.88	7.88	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
31 days	15.00	13.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Commercial Banks										
Time deposits										
31 days										
1 year	4.00	4.00	4.75	3.75	3.10	3.50	3.50	4.88	5.54	1.65
Savings deposits - (range)	5.50	6.00	6.25	6.00	4.00	4.75	6.50	8.00	7.57	3.35
	0.00-	2.17-	2.58	1.68-	0.96-	0.97-	1.00-	3.00-	3.64-	0.75-
Prime lending	3.50	4.00	4.00	2.48	1.35	2.00	5.00	6.75	7.25	5.00
South Africa (2)	17.00	16.33	17.67	17.67	12.17	11.50	13.50	15.43	16.58	11.67
91-Day T-Bill Rate										
Prime lending										
Call deposits (3)	10.25	9.47	12.42	7.54	7.32	6.80	8.26	9.96	10.84	7.14
	14.50	13.00	17.00	11.50	11.00	10.50	12.00	14.50	15.00	10.50
Repo	8.50-	8.25-	8.75-	7.70-	7.70-	6.00-	7.50-	10.00-	11.00	6.50
	9.75	8.85	9.50	7.72	8.72	6.50	8.50	10.50	---	---
	11.75	9.50	13.5	8.00	7.50	7.00	8.50	10.50	11.50	7.00

(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)

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Revised 2008/09	Projections 2009/10
Total Receipts	**2752.20**	**2976.30**	**3331.00**	**3594.50**	**4361.80**	**4559.91**	**6431.93**	**7512.33**	**8265.30**	**9089.03**
Revenue	2626.60	2787.50	3034.70	3416.70	4130.40	4476.31	6339.54	7264.05	8076.20	8185.13
Tax revenue	1942.00	2325.30	2575.90	2887.50	3678.30	4003.06	5784.14	6440.80	7229.20	7624.20
Customs	1126.20	1438.50	1470.00	1421.60	2012.40	2306.02	3943.16	4097.68	4635.20	4918.00
Income Taxes	468.80	579.50	663.30	852.50	901.90	924.64	973.14	1291.85	1415.20	1705.50
Individual Income Tax	356.30	371.80	404.10	504.00	567.40	611.96	627.94	821.81	850.60	787.80
Company Tax	75.10	159.20	142.90	244.90	219.20	194.88	201.41	351.86	368.80	731.60
Other Income Taxes	56.00	48.50	116.30	103.60	115.30	117.79	143.78	148.18	281.50	186.10
Taxes on Goods and Services	343.60	302.00	435.90	602.90	749.80	722.99	778.93	1006.61	1014.80	991.60
Other Taxes	3.40	5.30	6.70	10.50	14.20	49.42	88.91	44.66	164.00	159.10
Non-tax revenue	684.60	462.20	458.80	529.20	452.10	473.25	555.40	823.25	847.00	560.93
of which: Water Royalties	154.90	176.10	213.40	193.10	194.70	235.92	262.27	292.41	324.10	334.30
Grants	125.60	188.80	296.30	177.80	231.40	83.60	92.39	248.28	189.10	753.90
Total Expenditure & Net Lending	**2957.00**	**3018.90**	**3656.10**	**3532.20**	**3613.50**	**4293.18**	**5137.85**	**6484.07**	**7653.4**	**8546.70**
Recurrent expenditure	2457.90	2393.30	2876.20	2906.80	2919.70	3590.88	4363.16	4973.76	5975.44	6014.20
Purchases of Goods & Services	1774.10	1793.70	2147.10	2059.10	2002.50	2378.51	2777.61	3002.34	3996.54	4456.10
Personnel Emoluments	921.80	992.40	1082.10	1123.20	1174.30	1263.68	1359.44	1604.00	1864.4	2752.70
Other Goods & Services	852.30	801.30	1065.00	935.90	828.20	1114.83	1418.17	1398.34	2132.14	1703.40
Interest payments	252.40	203.30	219.70	216.40	152.20	223.87	322.84	322.40	138.5	143.40
External	148.20	126.00	109.50	90.50	87.10	175.10	274.60	242.22	65.80	84.70
Domestic	104.20	77.30	110.20	125.90	65.10	48.77	48.24	80.18	72.7	58.70
Subsidies & Transfers	431.40	396.30	509.40	631.30	765.00	988.50	1262.71	1649.02	1840.4	1414.80
of which:Bank Restructuring	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	15.80	0.00
LHDA	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Capital Expenditure & net Lending	**499.10**	**625.60**	**779.90**	**625.40**	**693.80**	**702.30**	**774.69**	**1510.31**	**2029.20**	**2532.50**
Surplus/Deficit Before grants	-330.40	-231.40	-621.40	-115.50	516.90	183.13	1201.69	779.98	422.8	-361.57
Surplus/Deficit after grants	-204.80	-42.60	-325.10	62.30	748.30	266.73	1294.07	1028.26	611.9	542.33
Financing	204.80	42.60	325.30	-62.20	-748.33	-266.73	-1294.07	-1028.26	-612.1	-542.30
Foreign,net	-221.70	31.90	53.40	-25.70	-63.70	-282.70	-28.80	-4.49	57.60	2.70
Domestic	426.50	10.70	271.90	-36.50	-684.63	15.97	-1265.28	-1023.76	-669.7	-545.00
Bank	403.20	62.40	320.80	104.01	-638.73	-102.08	-1248.05	-998.51	-648.30	-605.40
Non-Bank	23.30	-51.70	-48.90	-140.51	-45.90	118.06	-17.23	-25.26	-21.40	60.40

Source: Ministry of Finance and CBL Projections

Table A25

RECURRENT EXPENDITURE BY MAJOR FUNCTIONS OF GOVERNMENT
(Million Maloti)

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
GENERAL GOVERNMENT SERVICES	**743.00**	**794.00**	**1032.20**	**1022.32**	**921.17**	**1170.30**	**1608.26**	**1635.87**	**2209.15**	**2120.00**
01 General Public Services	329.20	380.50	506.90	502.05	369.87	521.30	849.16	716.51	1107.95	898.30
02 Defence Aaffairs & Services	207.90	199.20	208.50	206.50	201.47	217.90	252.50	305.91	331.04	451.80
03 Public Order & Safety Affairs	205.90	214.30	316.80	313.77	349.83	431.10	506.60	613.45	770.16	769.90
COMMUNITY & SOCIAL SERVICES	**1048.30**	**1103.10**	**1346.60**	**1333.71**	**1501.03**	**1802.66**	**2070.31**	**2454.06**	**3668.41**	**2764.78**
04 Education	720.50	696.00	867.30	859.00	959.92	1021.86	1200.37	1354.15	1540.33	1619.60
05 Health	182.60	190.70	227.60	225.42	222.07	324.40	446.77	376.94	682.34	827.10
06 Social Security & Welfare	66.70	122.00	140.80	139.45	228.08	349.30	285.29	565.66	1216.05	30.70
07 Housing & Community Amenities	25.40	40.30	62.00	61.41	78.00	96.60	93.16	103.07	108.09	59.18
08 Recreation & Cultural Affairs	53.10	54.10	48.90	48.43	12.96	10.50	44.72	54.23	121.6	228.20
ECONOMIC SERVICES	**234.70**	**266.10**	**296.80**	**293.96**	**279.71**	**297.68**	**428.02**	**419.79**	**459.4**	**589.50**
09 Fuel & Energy Affairs	18.50	3.80	5.70	5.65	17.85	14.38	16.69	27.79	40.53	52.40
10 Agriculture	61.20	126.30	138.00	136.68	97.00	122.60	193.08	189.53	202.67	216.00
11 Mining & Industry	32.40	34.80	40.40	40.01	87.89	44.00	76.27	73.29	87.83	218.00
12 Transport & Communications	101.60	79.80	93.50	92.60	55.26	39.00	47.30	93.07	93.03	34.50
13 Other Economic Services	21.00	21.40	19.20	19.02	21.71	77.70	94.68	36.10	35.33	68.60
UNCLASSIFIED EXPENDITURE	**431.90**	**230.10**	**259.40**	**256.92**	**217.78**	**320.27**	**256.55**	**464.05**	**418.86**	**539.90**
14.0.1 Public debt	252.40	203.30	224.50	222.35	152.20	223.90	141.64	322.40	137.72	153.90
14.0.2 Other transfers	179.50	26.80	34.90	34.57	65.58	96.37	114.91	141.64	281.14	386.00
TOTAL RECURRENT EXPENDITURE	**2457.90**	**2393.30**	**2935.00**	**2906.90**	**2919.69**	**3590.91**	**4363.14**	**4973.76**	**6755.82**	**6014.18**

Source: Ministry of Finance and CBL Projections

Table A26

DEBT INDICATORS
(Million Maloti)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2009
C. MEMORANDUM ITEMS (In Million Maloti)										
8. GDP	5523.70	5920.10	6475.50	7244.20	7862.00	8513.10	9065.20	10119.90	11358.30	14247.40
9. GNI	7016.20	7442.40	7981.80	8941.70	9735.40	10468.70	10997.50	12689.60	14204.20	18840.10
10.Foreign debt service	294.40	322.70	313.50	127.90	206.10	527.00	704.08	333.70	649.11	216.90
11.Exports of goods & services, incl. factor services	2976.10	3766.91	4747.62	6275.30	6214.51	7390.87	6838.44	7896.43	9597.07	10537.85
12.Exports of goods & non-factor services	1198.60	1468.36	2425.97	3739.89	3557.37	4533.4	4138.04	4736.70	5976.10	6511.85
Ratios										
Total debt as a % of GDP	69.74	86.28	110.45	83.65	71.12	55.92	51.36	51.18	47.15	40.12
External debt as a % of GDP	56.52	72.96	96.46	70.82	56.37	48.31	44.25	44.61	41.21	36.10
Domestic debt as a % of GDP	13.22	13.32	13.99	12.82	14.75	7.61	7.11	6.58	5.94	4.02
External debt as a % of total	81.04	84.56	87.33	84.67	79.26	86.39	86.16	87.15	87.40	89.97
Domestic debt as a % of total	18.96	15.44	12.67	15.33	20.74	13.61	13.84	12.85	12.60	10.03
Concessional as a % of external debt	89.41	81.57	76.22	70.18	72.29	78.52	83.72	84.40	93.56	94.65
Total Debt to Revenue	157.69	185.60	240.32	181.91	155.56	109.15	102.11	80.53	71.28	69.84
Total Debt to Exports	129.43	135.60	150.65	96.56	89.98	64.42	68.09	65.60	55.80	95.73
Total Debt to GNI	54.90	68.64	89.61	66.58	58.41	44.14	42.56	39.54	35.40	30.34
Debt service (1)	9.89	8.57	6.60	2.04	3.32	7.13	10.30	4.23	6.76	2.06
Debt service (2)	24.56	21.98	12.92	3.42	5.79	11.62	17.01	7.04	10.86	3.33

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.

Table A27

OUTSTANDING PUBLIC DEBT
(Million Maloti)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
A. EXTERNAL DEBT	**4319.60**	**6246.50**	**5130.50**	**4432.00**	**4112.84**	**4011.64**	**4514.32**	**4680.60**	**6457.10**	**5143.10**
1. Bilateral Loans	***626.10***	***592.00***	***451.60***	***504.40***	***531.44***	***396.94***	***386.94***	***296.30***	**390.60**	**239.70**
Concessional	380.50	431.40	201.90	205.30	432.02	369.87	327.06	250.60	348.24	239.70
Non-concessional	245.60	160.60	249.70	299.10	99.42	27.07	59.88	45.70	42.36	0.00
2. Multilateral Loans	***3181.70***	***4968.60***	***4139.40***	***3485.80***	***3183.68***	***3399.11***	***3968.44***	***4220.80***	**5932.60**	**4635.60**
Concessional	3088.20	4310.70	3397.50	2997.70	2737.38	2985.93	3480.73	4099.30	5891.98	4609.10
Non-concessional	93.50	657.90	741.90	488.10	446.30	413.18	487.71	121.50	40.62	28.50
3. Financial Institutions	***357.50***	***443.70***	***383.80***	***343.80***	***315.78***	***141.51***	***101.13***	***98.80***	**75.70**	**71.90**
Concessional	54.60	18.90	1.00	0.80	60.06	2.56	2.33	29.40	21.46	19.00
Non-concessional	302.90	424.80	382.80	343.00	255.72	138.95	98.80	69.40	54.24	52.90
4. Suppliers' Credit	***154.30***	**242.20**	**155.70**	**98.00**	**81.94**	**74.08**	**57.81**	**64.70**	**58.20**	195.90
B. DOMESTIC DEBT	**788.50**	**906.00**	**929.00**	**1159.70**	**648.11**	**644.62**	**665.51**	**674.56**	**659.27**	**573.40**
5. Banks	***603.70***	***777.40***	***815.30***	***982.50***	***543.61***	***474.32***	***587.95***	***584.96***	**600.43**	**472.80**
Long-term	287.70	310.90	287.70	287.70	114.66	114.66	114.66	114.66	114.66	0.00
Short-term	316.00	466.50	527.60	694.80	428.95	359.66	473.29	470.30	485.78	472.80
of which:										
treasury bills	306.30	340.90	527.00	693.30	427.90	359.90	473.29	470.30	485.78	472.80
6. Non-bank	***184.80***	***128.60***	***113.70***	***177.20***	***104.50***	***170.30***	***77.56***	***89.60***	**58.84**	**100.60**
Short-term	184.80	128.60	113.70	177.20	104.50	170.30	77.56	89.60	58.84	100.60
treasury bills	184.80	128.60	113.70	177.20	104.50	170.30	77.56	89.60	58.84	100.60
7. TOTAL (A + B)	**5108.10**	**7152.50**	**6059.50**	**5591.70**	**4760.95**	**4656.26**	**5179.83**	**5355.16**	**7116.37**	**5716.50**

Source: Ministry of Finance