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Lesotho: Recent Economic Developments and Selected Issues

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LESOTHO

Recent Economic Developments and Selected Issues

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Approved by the African Department

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Contents	Page
Basic Data	3
I. Recent Developments in the Real Sector	4
A. Main Sectoral Developments	4
B. Prices, Employment, and Wages	7
II. The Lesotho Highlands Water Project	9
A. Economic impact	10
B. Project financing	12
III. Key Factors Affecting The Recent and Prospective Evolution of the External Sector	14
A. The Contribution of the Lesotho Highlands Water Project	14
B. Worker Remittances	15
C. SACU	16
D. Manufactured Exports	16
E. Trade Liberalization	17
IV. Financial Sector Reform	24
A. Background	24
B. Restructuring of State-Owned Banks	25

Figure

1. Real and Nominal Effective Exchange Rates, January 1994–April 1999..... 19

Text Tables

1. Summary Balance of Payments, 1994/95–2003/04 20

2.	Expenditures and Financing for the Lesotho Highlands Water Project, 1988/89–2002/03	21
3.	LHWP Balance of Payments, 1994/95–2003/04	22
4.	Balance of Payments, excluding LHWP, 1994/95–2003/04	23

Statistical Appendix Tables

5.	Gross Domestic Product by Sector (at Constant 1995 Prices), 1994/95–1998/99	30
6.	Gross Domestic Product by Sector (at Current Prices), 1994/95–1998/99	31
7.	Gross Domestic Product by Expenditure, 1994/95–1998/99	32
8.	Consumer Price Indices, January 1995–January 1999	33
9.	Basic Monthly Minimum Wages, 1992–98	34
10.	Public Service Employment, 1993/94–1997/98	35
11.	Central Government Operations, 1994/95–1998/99	36
12.	Government Revenue and Grants, 1994/95–1998/99	37
13.	Southern African Customs Union (SACU) Operations, 1994/95–1998/99	38
14.	Economic Classification of Government Expenditure, 1994/95–1998/99	39
15.	Functional Classification of Government Expenditure, 1994/95–1998/99	40
16.	Outstanding Government Domestic Debt by Instrument and Holder, 1994–98	41
17.	Monetary Survey, March 1994–March 1999	42
18.	Assets and Liabilities of the Central Bank of Lesotho, March 1994–March 1999	43
19.	Assets and Liabilities of Commercial Banks, March 1994–March 1999	44
20.	Principal Aggregates of Commercial Banks' Operations, March 1993–December 1998	45
21.	Sectoral Distribution of Commercial Bank Credit to the Private Sector and Statutory Bodies, March 1994–December 1998	46
22.	Interest Rates Paid by the Central Bank on Commercial Bank Deposits, March 1993–December 1998	47
23.	Interest Rates at Commercial Banks, March 1994–December 1998	48
24.	Comparative Money Market Rates, March 1993–December 1998	49
25.	Balance of Payments (in Millions of U.S. Dollars), 1994/95–1998/99	50
26.	Balance of Payments (in Millions of Maloti), 1994/95–1998/99	51
27.	Services and Income Account, 1994/95–1998/99	52
28.	Basotho Miners in South Africa, 1994–98	53
29.	Composition of Recorded Exports, 1994–98	54
30.	Direction of Trade, 1994–98	55
31.	Public and Publicly Guaranteed External Debt Outstanding, 1994/95–1998/99	56

Appendixes

I.	Summary of the Tax System, February 1999	57
II.	Exchange and Trade System	65

Lesotho: Basic Data 1/

Area, population, and income

Area (thousands sq. kms)	30,355
Population (1996; in millions)	2.0
Annual demographic growth rate (1989-96; in percent)	2.2
GNP per capita (1997; in U.S. dollars)	670

	1994/95	1995/96	1996/97	1997/98	1998/99
National accounts					
	(In millions of maloti, unless otherwise specified)				
GDP at current market prices	3,074.5	3,551.5	4,226.2	4,745.9	4,841.2
<i>Of which</i> : agriculture	480.7	559.5	671.0	702.5	752.9
manufacturing	431.3	498.2	609.7	693.9	741.4
GNP at current market prices	4,274.4	4,798.7	5,639.7	6,271.5	6,139.5
Real GDP growth (percent)	3.7	6.0	9.7	4.1	-5.4
Real GNP growth (percent)	0.3	2.7	8.3	3.0	-9.1
Prices					
Consumer price index (percent change; end of period)	10.0	9.9	8.8	7.3	8.8
Employment					
	(In thousands)				
Migrant mine workers 2/	112.7	103.7	101.2	96.5	76.1
Central government finance					
	(In millions of maloti)				
Revenue	1,438.5	1,685.3	2,034.6	2,247.0	2,151.0
<i>Of which</i> : SACU 3/	840.9	906.5	1,006.0	1,172.7	1,033.4
Total expenditure and net lending	1,419.3	1,723.3	2,051.5	2,341.4	2,406.4
Current	980.6	1,104.9	1,177.8	1,473.1	1,910.6
Capital	438.7	618.4	873.7	868.3	495.7
Overall balance before grants	19.2	-38.0	-16.9	-94.4	-255.3
Grants from abroad	143.6	163.2	203.4	178.7	120.0
Overall balance after grants	162.8	125.2	186.5	84.3	-135.3
Foreign financing (net)	104.1	203.9	347.2	345.5	18.1
Domestic financing (net)	-246.9	-327.2	-536.8	-429.8	116.3
Residual	-20.0	-1.9	3.1	0.0	0.9
Monetary survey					
	(In millions of maloti; end of period)				
Foreign assets (net)	1,736.5	2,018.6	2,539.6	3,480.4	3,684.6
Domestic credit	-266.5	-465.7	-855.1	-1,195.9	-1,103.8
Government (net)	-873.2	-1,190.7	-1,712.1	-2,162.6	-2,046.3
Statutory bodies	38.5	92.8	166.6	124.0	237.5
Private sector	568.2	632.2	690.4	842.7	705.0
Money and quasi money	1,163.8	1,221.9	1,400.7	1,744.9	1,764.8
Other items (net)	306.2	331.0	283.8	539.6	816.0
Balance of payments					
	(In millions of U.S. dollars, unless otherwise specified)				
Current account deficit (-)	-227.9	-312.6	-216.7	-242.4	-187.0
<i>Of which</i>					
Exports, f.o.b.	149.5	155.2	191.1	196.5	175.4
Imports, f.o.b.	-939.0	-1,037.8	-989.4	-1,014.8	-789.7
<i>Of which</i> : LHWP 4/	-122.6	-135.8	-121.9	-153.4	-77.6
Miners' remittances	337.4	357.0	299.7	310.5	191.5
Unrequited transfers	231.3	247.5	214.1	239.0	185.1
Capital account	301.0	257.4	294.6	391.2	204.2
Long-term capital (net)	291.0	293.2	291.5	345.4	213.3
<i>Of which</i> : LHWP investment 4/	222.8	232.4	206.9	233.6	198.6
Short-term capital (net)	10.0	-35.8	3.1	45.8	-9.1
Errors and omissions	30.7	150.6	28.9	-21.7	15.5
Overall balance	103.7	95.4	106.9	127.1	32.7
Net official reserves (in months of imports)	5.1	5.6	6.8	8.8	9.0
External debt					
Disbursed and outstanding	550.7	584.4	601.6	628.5	641.3
Debt service ratio (as percent of exports of goods and services, and factor income)	4.0	4.8	4.3	4.8	8.2
Exchange rate (maloti per U.S. dollar; end-of-period)	3.59	3.98	4.42	5.03	5.88

Sources: Lesotho authorities; World Bank; and staff estimates.

1/ Fiscal year is April-March.

2/ Average number employed in South Africa; data refers to calendar years.

3/ Southern African Customs Union.

4/ Lesotho Highlands Water Project.

I. RECENT DEVELOPMENTS IN THE REAL SECTOR

1. Lesotho's overall economic situation deteriorated significantly in 1998/99 after registering a slowdown in 1997/98; the economy had witnessed high annual average growth rates of over 6 percent in the decade ended 1996/97.¹ The strong growth was spurred largely by the construction of the Lesotho Highlands Water Project (LHWP) and the rapid expansion of the export manufacturing sector. Real GDP growth decelerated sharply from 9.7 percent in 1996/97 to 4.1 percent in 1997/98 and then declined by 5.4 percent in 1998/99 (Table 5). This decline is attributed to (i) the tapering off of construction activity on the LHWP, owing to the completion of the first phase of the project; (ii) weak growth in manufacturing output; and (iii) the slowdown in agricultural production on account of adverse weather conditions. Moreover, with the exception of public administration, education, and health, which benefited from a sharp expansion in government current outlays, all the other sectors registered decreases during the year. Value added in the construction sector fell by 12.6 percent, pulled down in part by the 40 percent drop in the capital outlays of the government. The contraction in output was exacerbated by political instability in the aftermath of the May 1998 elections, which culminated in riots and military intervention by a Southern African Development Community (SADC) force. The riots resulted in large-scale destruction of property and increased insecurity, which negatively influenced business confidence and foreign investment.

2. Since the mid-1980s, GNP has grown at a much slower rate than GDP, owing to the fall in the share of net factor income from abroad in national disposable income. In 1997/98 and 1998/99, net factor income from abroad is estimated to have accounted for 32 percent of GDP and 26.8 percent of GDP, respectively (Table 6), compared with 81.4 percent in 1986/87. Miners' remittances, which constitute the largest share of net factor income from abroad, have, over the years, declined in importance as the slump in the price of gold in the world market and the introduction of new capital-intensive technology in the gold mining industry have led to a reduction in the number of Basotho miners in South Africa from 113,000 in 1994 to 76,000 in 1998.²

A. Main Sectoral Developments

Agriculture

3. The importance of agriculture in national output has declined considerably over the years. From a contribution of about one third of Lesotho's GDP at independence in 1966, it fell to 20 percent by 1990; and in 1997/98 and 1998/99, the share of agriculture in GDP was about

¹ Fiscal year beginning April 1.

² The average number of Basotho miners working in South Africa fell from 180,000 in 1980 to 93,243 in 1997.

15 percent. This decline reflects the combined effects of the degradation of arable land owing to soil erosion; overgrazing by an increasing population of livestock; and unfavorable weather conditions in the form of intermittent droughts and, lately, the El Niño effect. Most of Lesotho's land is rugged mountainous terrain, which is considered unsuitable for agriculture. Persistent soil erosion has further eroded the quality of the limited arable land. Less than 11 percent of the land area is now considered arable, compared with 13 percent in the 1960s. The authorities' failure to significantly increase agricultural output after two decades of price subsidies and controls on the import of cereals persuaded the government in 1996 to revise agricultural policies in favor of market-determined prices, as well as the diversification of production toward nontraditional export crops, such as asparagus, fruits, and flowers.

4. After declining by 2.3 percent in 1995/96, the agricultural sector expanded by a substantial 28 percent in 1996/97, as a result of increased production of maize and sorghum and a significant improvement in their yield. However, owing to poorly distributed rains during the cropping season, both the production and yield of maize and sorghum deteriorated and crop output is estimated to have declined in 1997/98 and 1998/99.

5. The livestock population in 1998 (estimated at 588,621 cattle, 937,804 sheep, and 811,250 goats) is believed to have declined from the previous year's levels as a result of the adverse weather conditions. Besides weather conditions, the economic importance of the livestock subsector is diminishing owing to fluctuations in the prices of wool and mohair. Moreover, the government now favors a reduction in the size of the livestock to limit the effects of overgrazing. Despite the declining importance of the livestock sub-sector, it is estimated that a substantial proportion of rural dwellers depends on it as a major source of income and employment.

Manufacturing

6. The manufacturing sector consists of (i) state-owned enterprises, mostly subsidiaries of the Lesotho National Development Corporation (LNDC); (ii) foreign-owned enterprises; and (iii) numerous small microenterprises. The sector's contribution to GDP has increased significantly since 1991. During 1991-96, manufacturing output increased at an average rate of 9.9 percent per annum, reflecting primarily a substantial expansion in clothing and textile exports, which, in turn, benefited from the lifting of quotas by the United States on textile products originating in Lesotho. During this period, the LNDC also succeeded in attracting a large number of manufacturers of leather goods, footwear, electronics, and other products. About 30 percent of the total value added of the manufacturing sector originates in the clothing and textile industry, which has also benefited from most of the foreign direct investment coming from South Africa and the Far East.

7. The expansion of the manufacturing sector, however, has been constrained in recent years by the limited availability of financial resources for the construction of infrastructure, including factory shells. The high cost of utilities, especially water and electricity, has also become a major disincentive to manufacturers. Furthermore, growth prospects in the sector have been adversely

affected by the weak linkages between the larger export-oriented firms and microenterprises in other sectors. Environmental pollution has also been cited as a factor limiting the expansion of the textile industry in Lesotho. Most of the textile companies currently dump their waste into rivers that flow into South Africa. There are concerns that beyond a certain limit the South African authorities may not tolerate additional textile companies in Lesotho unless current toxic waste disposal practices are changed. This slowdown in the growth of manufacturing output accelerated during 1998, owing to labor disputes and the 1998 civil unrest that followed the general elections. The ensuing riots that engulfed the main urban centers resulted in the burning, vandalization, and looting of both government and private property. Eight manufacturing companies closed down during 1998, resulting in a loss of about 2,000 jobs. In 1998/99, manufacturing value added is estimated to have declined by about 1 percent.

Other activities

8. The share of mining and quarrying in GDP declined substantially from 5.6 percent in 1980/81 to an estimated 0.1 percent in 1998/99. The last De Beers diamond mine was closed in 1982 when falling world diamond prices made exploitation of the mine uneconomic. Some informal diamond mining has still been undertaken by small investors, but the output has not been significant. However, there appears to be some prospects for a revival of the diamond mining industry as some investors are reportedly interested in exploiting a kimberlite mine at Kao through a process of commercial open-cast recovery; this venture, if successful, could raise diamond output in Lesotho considerably.³ Other special stones, such as basalt, dolorites, and sandstones have also been exploited in limited quantities.

9. The building and construction subsector has witnessed exceptionally high growth rates since the commencement of the LHWP. However, with the winding up of phase 1 of the LHWP, value added from this subsector has dropped sharply. The decline in activity was exacerbated by the sharp contraction of public capital expenditure in 1998/99 and last year's political unrest, which resulted in a considerable destruction of property. GDP originating from the building and construction industry fell by 5.4 percent during 1997/98 and by an estimated 26 percent in 1998/99.

10. The electricity and water subsector contributed about 2 percent of GDP through 1995/96. Since then its share has risen to about 6 percent of GDP, reflecting the exports of water to South Africa. After registering significant growth in 1997/98, value added from this sector is expected to decline by about 5 percent in 1998/99.

11. The services sector has traditionally been the largest contributor to GDP; its share is estimated to have risen from about 37 percent in 1997/98 to about 38 percent in 1998/99. Within

³ Kimberlite is an igneous rock that contains several minerals, including diamonds. Kimberlite was named for the rock associated with diamonds in Kimberley, South Africa.

this sector the most important are public services and wholesale and retail trading. The share of public services in this sector, which averaged about 7 percent in the five-year period to 1997/98, is estimated to rise to 8.4 percent in 1998/99. However, the contribution to GDP of the wholesale and retail sectors, which averaged 8.0 percent in the five years to 1997/98, is estimated to fall to 7.1 percent in 1998/99 in response to the disruption in trading activity caused by the September 1998 civil unrest. Other services, including catering, transport, communications, real estate services, and ownership of dwellings, registered decreases in 1998/99 after expanding robustly in the five years to 1997/98. Migrant miners' remittances have considerably influenced activity in the nonpublic services sector. The decline in these remittances is therefore expected to adversely affect performance of this sector.

B. Prices, Employment, and Wages

Prices

12. Annual average inflation, as measured by changes in the consumer price index (CPI), was 7.8 percent in 1998.⁴ The trend shows a gradual but persistent decrease in average inflation from 9.1 percent in 1996 and 8.5 percent in 1997. However, inflationary pressures have resurfaced in the aftermath of the September 1998 disturbances. Year-on-year inflation rose significantly to 9.1 percent and 9.8 percent in the quarters ended October 1998 and January 1999, respectively. This rise mainly reflected increases in food prices, which have a large weight in the CPI.⁵ The food items index rose by 10.7 percent during this period. Other items that increased faster than the CPI during 1998 were clothing, footwear, furniture, and household appliances.⁶

Wages

13. Minimum wages for different occupations are determined annually by the government on the basis of recommendations made by a tripartite Advisory Committee, consisting of representatives from the government, employers, and the labor unions. Increases in minimum wages have generally followed changes in public sector wages. In general, wages of government employees have increased in line with inflation. Public sector wages were raised by 10 percent in 1998. Minimum wages have on average increased by 10 percent during 1995-98.⁷ Wages for Basotho miners employed in South African mines rose by an average of 13.6 percent in 1998. Labor unions play an active role in Lesotho, with the largest being the Union of Public Employees and the Teacher-Employees Trade Union.

⁴ The CPI covers only six towns, including the capital, Maseru.

⁵ Food, beverages, and tobacco have a weight of 43.1 percent in the calculation of the CPI.

⁶ The combined weight of these items in the CPI is 33.9 percent.

⁷ The increases were 9 percent each in 1995 and 1997, and 11 percent each in 1996 and 1998.

Employment

14. The 1997 Labor Force Survey provides the most recent data on employment in Lesotho.⁸ According to the survey, the employment market is characterized by a growing number of unskilled and semiskilled workers, sluggish growth in employment opportunities, and high unemployment. In 1997, the population of Lesotho was estimated at 2.17 million,⁹ with 1.46 million falling between 10 years and 65 years and 35 percent in the 10–19 years age group. During the same year, the total labor force was estimated at 701,997,¹⁰ of which 15.5 percent were migrant workers in the mines in South Africa. Out of this total labor force, 54.5 percent were males and 45.5 percent females.

15. Unemployment is high in Lesotho. The strong output growth in the 1980s and 1990s has not generated enough employment to offset the significant growth of the labor force. This failure has been attributed to the weak links between the engines of this growth—the LHWP and the manufacturing sector—and the other sectors of the economy. The situation has been complicated by the growing number of younger people in the population and the retrenchment of Basotho miners from South Africa. With only 60 percent of the nonmigrant labor force employed in 1997, the unemployment rate was 40 percent.

16. In Lesotho, the informal sector provides employment for a majority of the labor force. However, its potential for increased job creation is constrained by the limited domestic demand, the underdevelopment of the tourism industry, and limited export facilities. In 1997, 51.3 percent of the working population was employed in the subsistence farming sector, 35.6 percent in the private sector, and 11.1 percent in the public sector (including parastatals). The government's total workforce was estimated at 34,660 in 1997, making it the single largest employer in the formal sector.¹¹

⁸ The results of this survey were released in December 1998.

⁹ A population census is conducted in Lesotho every ten years. The last exercise was held in 1996.

¹⁰ Labor Force Survey 1997.

¹¹ The formal sector comprises the public sector, the large manufacturing companies, banking institutions, hotels, and the LHWP.

II. THE LESOTHO HIGHLANDS WATER PROJECT

17. The Lesotho Highlands Water Project (LHWP), one of the world's largest infrastructure projects, is a five-phase interbasin water project that is being undertaken jointly by the Kingdom of Lesotho and the Republic of South Africa, with the objective of supplying water to the Gauteng Province in the Republic of South Africa. This project involves the transportation of water from Lesotho's Senqu-Orange Rivers system through a series of dams and tunnels into the Vaal River system in South Africa (water transfer component) and the generation of hydroelectric power for Lesotho (hydropower component). In addition, both governments are allowed to undertake ancillary development projects within their territory.¹² The LHWP Treaty was signed on October 24, 1986 between the governments of the Kingdom of Lesotho and the Republic of South Africa.¹³

18. The responsibility for implementing, operating, and maintaining the LHWP in Lesotho is entrusted to a statutory body, the Lesotho Highlands Development Authority (LHDA). In addition, the LHDA is conferred with general functions relating to water resources, electricity, education and training of its employees, monitoring activities, and land transactions within the project area. The Trans-Caledon Tunnel Authority (TCTA) has the responsibility for managing the LHWP-related operations in the Republic of South Africa. A Joint Permanent Technical Commission, consisting of delegations from Lesotho and South Africa, has monitoring, advisory, and approval authority over the implementation of LHWP, including design of works, tender procedures, cashflow forecasts, and the allocation of costs and financing arrangements.

19. Phase 1 is divided in two parts: phases 1A and 1B. The principal features of phase 1A are a 182-meter dam at Katse, the highest dam in Africa; a 55-meter dam at Muela; a 72 megawatt underground hydropower plant at Muela; and a 82 kilometer interconnecting tunnel system. The water transfer component of phase 1A was completed in 1997 and was officially inaugurated in January 1998.¹⁴ Water deliveries to South Africa commenced in January 1998 according to the agreed schedule between the two countries. The Muela hydropower station was inaugurated in January 1999.

20. The civil works for phase 1B began in 1998 and are expected to be completed in 2003. Phase 1B is substantially smaller than 1A, with an expected cost of \$1.1 billion compared with

¹² Ancillary developments include the provision of water for irrigation, and the development of fisheries, tourism, and other projects for economic and social development.

¹³ The treaty commits the two countries to the implementation of phase 1 only.

¹⁴ The water flow capacity to South Africa under phase 1A is 18 cubic meters per second. After the completion of phase 1B, capacity will increase to 30 cubic meters, and to 70 cubic meters following the completion of phase 5.

\$2.5 billion for phase 1A.¹⁵ Phase 1B consists of the construction of the 146-meter-high Mohale Dam, a smaller dam on the Matsoku River and 40 kilometer of interconnecting tunnels. Phase 2 of the LHWP is currently under negotiation. Phases 2 through 5, potentially subject to major revisions, are expected to be completed by 2020.

A. Economic impact

21. The economic benefits to Lesotho of phases 1A and 1B of the LHWP consist of transitional benefits, accruing during the construction phase and dissipating after the project's completion, and permanent benefits.¹⁶ Both the transitional and permanent benefits accruing to Lesotho under phase 1B will be smaller than those of phase 1A, given the smaller size of phase 1B. Transitional benefits include labor earnings, contracting and supply opportunities, and increased government revenues. During phase 1A, approximately 88 percent of construction-related employment went to Basotho nationals, leading to the creation of 7,000 new jobs (mostly unskilled labor). If this ratio holds under phase 1B, 2,200 jobs would be created for Basotho nationals.¹⁷ The minimum wages paid for the major contracts under both phases 1A and 1B are pegged to those of the Free State Province of South Africa, which are twice as high as Lesotho's. Under phase 1A, wage earnings to Basotho employees were approximately M 400 million (1995 prices); under phase 1B, wage earnings are expected to be approximately M 275 million (1995 prices). Apart from the labor earnings generated from construction, both phases are expected to also generate income for Basotho employees from the maintenance operations of the project.

22. Another transitional benefit of the LHWP to Lesotho is the contracting and supply opportunities. These were below expectations under phase 1A but are expected to rise under phase 1B. During phase 1A Basotho companies received about M 84 million in infrastructure and consulting contracts, and about M 100 million for supplying goods and services, for a total of M 184 million. However, an earlier study on the potential economic impact of the project estimated that these benefits would total M 290 million.¹⁸ The participation of indigenous enterprises was below expectations, in part because of the lack of preparedness on the part of Basotho companies and inadequate inducements for using local contractors. Primary contractors in phase 1B are mandated to utilize a larger number of local subcontractors and suppliers. Benefits of M 140 million are expected for Basotho companies for contracting and supplying goods and services under contracts already awarded under phase 1B. Additional transitory benefits include increased

¹⁵ The Economist Intelligence Unit, *Country Report Lesotho*, 3rd quarter 1998.

¹⁶ The discussion on the benefits of phases 1A and 1B is drawn from the LHDA Economics Section, *The Economics of Phase 1B*, April 1998.

¹⁷ Based only on the major contracts. Other contracts should increase the number of jobs created.

¹⁸ A report on the potential economic impact of phase 1A was prepared by Coopers & Lybrand in 1989-90.

fiscal revenue arising from LHWP expenditures, including customs duty receipts, as well as increased tax revenue through income, sales, and company taxes resulting from the increased economic activity.

23. In addition to the transitory benefits of phases 1A and 1B of the LHWP, Lesotho receives water royalty payments, consisting of a fixed and a variable component. The fixed component is based on the cost differential between the LHWP and a more expensive alternative source and is linked to the producers' price index in South Africa.¹⁹ Lesotho has been receiving the fixed portion of the royalties, approximately M 6 million per month, since November 1996. The variable portion depends on the actual water delivered, which comprises an agreed minimum quantity, as stipulated in the LHWP Treaty to meet South Africa's annual basic demand, as well as any excess supply of water.²⁰ The variable portion of the royalties relates to operation and maintenance of the water transfer component, and is linked to the producers' price index in South Africa, as well as to the difference in electricity costs attributable to pumping operations; this, in turn, is indexed to the average annual electricity price in South Africa.²¹ Lesotho began receiving the variable component of the royalties in January 1998. Between April and December 1998, water royalties totaled M 119 million.²² All royalties from the sale of water to South Africa, including advance payments through the Southern African Customs Union, accrue to the government of Lesotho, which, in turn, contributes a portion (M 75 million during 1997/98 and 1998/99) to the Development Fund to be used for investment and community-based development programs.

24. Additional permanent benefits related to the LHWP include the training and capacity building of the workforce, and the creation of permanent infrastructure. In addition to the project-related infrastructure, the rural development program for the resettlement of the affected communities will provide housing, improved road access, water supply schemes, and schools. The rural development program also includes an environmental action plan to ensure that the implementation, operation, and maintenance of the LHWP do not endanger environmental resources.

¹⁹ The cost differential between the LHWP and alternative schemes is based on a 1982-83 study; 56 percent of the cost differential is covered by Lesotho and 44 percent by South Africa.

²⁰ The royalties for excess water are half the royalties of the basic amount.

²¹ Average annual electricity prices in South Africa refer to the average unit price of all electricity sold in any one year by the Electricity Supply Commission of South Africa (ESCOM).

²² The fiscal year runs from April to March, but the latest available information is for April-December 1998. In this period, the variable royalties have ranged between M 1.7 million and M 7 million per month.

25. The generation of hydropower through the Muela plant is considered to be an additional permanent benefit for Lesotho because its production costs are reportedly lower than the import parity price. Until the end of 1998, the Lesotho Electricity Corporation (LEC), the parastatal body responsible for buying and distributing electricity in Lesotho, purchased electricity from the Electricity Supply Commission of South Africa (ESCOM) at 13 cents per kilowatt and sold electricity at an average price of 20 cents per kilowatt. In January 1999, Muela became the LEC's main electricity supplier. In order, however, to meet Muela's operating and debt-servicing costs, its average selling price of electricity will need to be raised to 22 cents per kilowatt, well above the regional average price. This increase will have serious implications for Lesotho's industrial competitiveness. If, however, Muela's electricity prices are at import parity, the government will need to provide subsidies to the LHDA.

B. Project financing

26. The costs of implementing, operating, and maintaining phases 1A and 1B of the LHWP are shared by the governments of Lesotho and South Africa; the former is responsible for the hydroelectric power component and the associated ancillary projects in Lesotho, while the latter is responsible for the costs of the water transfer component.²³ As of March 1998, the total project costs of the water transfer component amounted to M 8.7 billion. All foreign-denominated loans related to the water transfer component are subject to forward cover. The ancillary developments are funded directly by the government of Lesotho.

27. Project funding for the Muela hydropower station is procured for the government of Lesotho by the LHDA. As of January 1999, the cost of the Muela project was M 925 million, of which M 351 million was in the form of grants, M 43 million in concessionary loans, and M 531 in commercial loans obtained from banks in Lesotho, the Common Monetary Area (CMA), and outside the CMA. In addition, the LHDA has issued bonds in the South African capital market. The cost of CMA loans is high as they currently carry an interest rate of 17.8 percent. Foreign-denominated loans for the Muela project are not subject to forward cover, unlike those for the water transfer component.

28. The Lesotho Bank (LB) and Nedbank are the two domestic commercial banks that have provided the LHDA with credit facilities for the Muela project. The facility with the LB—in the amount of M 200 million—was set up in December 1994 after a concessionary loan with the African Development Bank fell through. In October 1998, a facility with Nedbank—in the amount of M 80 million—was set up in order to refinance part of the LB facility; the latter could not be accessed as a result of the bank's restructuring.²⁴ The Nedbank facility was, in turn, used to meet

²³ The allocation of costs between the water transfer and hydropower components is subject to agreement between Lesotho and South Africa. The costs incurred after 1993 have yet to be allocated between the two countries.

²⁴ In effect, the LHDA has defaulted on its M 120 million loan from the LB.

the LHDA's operating costs and to refinance short-term maturing loans. These two facilities constitute nearly 40 percent of the LHDA's commercial finance. The LHDA's dependence on financing by domestic banks has risen since 1995 as its operating costs and financial obligations have grown. Of the M 531 million of commercial loans contracted by the LHDA for the Muela project, approximately M 330 million was provided by external creditors with government guarantees.

29. In addition to servicing debt obligations amounting to M 38 million in 1999/2000, the LHDA is expected to pay M 104 million to various contractors for cost overruns sustained when construction of the Muela project was suspended in September 1998. The operating cost of the LHDA is financed from resources subvented annually by the government.

III. KEY FACTORS AFFECTING THE RECENT AND PROSPECTIVE EVOLUTION OF THE EXTERNAL SECTOR

30. In the five years ended 1998/99 (April-March), Lesotho's balance of payments was characterized by large current account deficits (averaging the equivalent of about 20 percent of GNP) (Table 1). Within the current account, the trade balance registered large deficits, which were partially offset by sizable miners' remittances, and Southern African Customs Union (SACU) transfers and, more recently, water royalties from the Lesotho Highlands Water Project (LHWP). Capital inflows, almost all related to LHWP, however, more than compensated for the deficits on the current account, thereby contributing to a substantial accumulation of reserves. Several key factors largely influenced this outcome, including: (i) the LHWP project, (ii) migrant labor remittances, (iii) SACU transfers, and (iv) manufactured exports. The trade liberalization initiatives that have recently been introduced in the subregion do not appear to have had a significant influence although their effects are expected to grow over time.

31. In the four-year period ended 1997/98, exports grew at an annual average rate of 20 percent, driven by the expansion of manufactured exports, particularly garment exports to the United States and South Africa (see below). Despite this impressive performance, the current account deficit (before grants) remained high, averaging 37.9 percent of GNP per year as imports also grew strongly during this period. The increase in imports was fueled by the high pace of investment activity; total investment averaged 42.8 percent of GNP per year in the 4-year period reflecting a peaking in the construction of phase 1A of the LHWP (Table 2) and commencement of construction of the Muela Hydroelectric Project and a pick-up in the government building program. However, the current account deficit, after grants contracted moderately as SACU nonduty receipts rose during the period. Although private investment inflows associated with the LHWP were steady, long term capital inflows increased reflecting a rise in official disbursements. This contributed to a significant accumulation of the foreign reserves of the Central Bank of Lesotho (CBL).

32. During 1998/99, the current account deficit narrowed somewhat as the contraction in aggregate investment equivalent to 14.5 percent of GNP was largely offset by a fall in savings. The decline in investment reflected the winding down of phase 1A of the LHWP and the near completion of the Muela Hydroelectric Project. Notwithstanding the moderate fall in the current account deficit, the overall balance of payments position weakened substantially as a result of the marked drop in official disbursements. Private capital inflows also fell. As a result, the build up in the foreign reserves of the CBL was substantially below the amounts achieved in the previous four years.

A. The Contribution of the Lesotho Highlands Water Project

33. The LHWP has played a significant role in the recent evolution of Lesotho's balance of payments. The impact of the project on the external current account was large as in the four years to 1997/98, LHWP imports averaged more than 10 percent of GNP per year. Imports also expanded on account of the increased economic activity and employment resulting from the

project. Moreover, transfer payments associated with the repatriation of earnings by foreign personnel employed on the project rose markedly. However, on balance, the project has positively benefited the economy as private capital inflows financed a substantial proportion of local goods and services utilized by the project. In addition, the high levels of imports linked to the LHWP bolstered SACU receipts, with positive balance of payments effects, as they were paid by nonresident enterprises with externally generated resources (Tables 3 and 4).

34. Reflecting the near completion of the Muela hydroelectric project and the winding down of phase 1A of the LHWP, which resulted in a halving of LHWP-related imports, the current account deficit contracted by 1.1 percent of GNP in 1998/99. A modest 0.6 percent of GNP expansion in the deficit is foreseen in 1999/2000, as LHWP-related imports are projected to fall by 25 percent during the year. However, as the pace of activity of phase 1B of the project picks up momentum from 2000/01 onward, the deficit is expected to widen markedly. Excluding the LHWP, the current account deficit would widen substantially in 1999/2000 as a result of a pickup in public and private reconstruction activity and a projected stagnation in exports reflecting full utilization of capacity in the manufacturing sector.

B. Worker Remittances

35. Remittances of Lesotho contract workers in the South African gold mines have been a significant feature of Lesotho's balance of payments in the decade ended 1998/99, although their size shrunk from the equivalent of 61.7 percent of GNP in 1988/89 to 18.0 percent of GNP in 1998/99. In percent of imports, these remittances fell from 51.8 percent in 1988/89 to 22.6 percent in 1998/99.

36. Several factors account for this decline. First, during the past decade, the gold-mining industry contracted substantially as a result of the drop in the price of gold from about US\$450 per ounce in the late 1980s to about US\$300 during the 1990s. Second, the grade of ore extracted from the mines deteriorated markedly, which has led to the closure of some mines. Third, wages of South African miners rose substantially during the period. Finally, there was a shift to capital-intensive production techniques. As a consequence, the number of Lesotho miners employed in South African mines fell from about 127,000 workers in 1990 to only 76,000 in 1998. Moreover, the October 1995 decision of the South African government to grant permanent residence status to foreign workers employed in the mining industry for more than five years also contributed to the fall in workers' remittances. This decision represented a sharp change from the system in effect before then, under which foreign mine workers were given one-year contracts and were not allowed to bring their families, except for short visits. Under that system, workers remitted about 71 percent of their income. After the change in residency status, the proportion of miners' earnings remitted to Lesotho fell to 61 percent in 1998. Over the medium term, remittances are expected to rise as the overall number of Lesotho workers is expected to stabilize, while the growth in the number of skilled Basotho personnel working in South Africa is projected to continue.

C. SACU

37. SACU receipts have played an important role in the recent evolution of Lesotho's balance of payments. These receipts rose from the equivalent of 12.6 percent of GNP or 16.2 percent of imports in 1988/89 to 14.3 percent of GNP or 17.4 percent of imports in 1998/99, reflecting largely the implementation of the LHWP.²⁵ However, SACU receipts are expected to decline substantially over the medium term as a result of shifts in some of the fundamental determining factors. First, the revision in the SACU revenue-sharing formula is expected to lead to a significant fall in such receipts. Second, the envisaged decline in tariff levels in line with the trade liberalization in the region would reduce the size of the overall pool of receipts from the customs union. Third, LHWP-related activities are expected to be at a much lower level in the coming five years. As SACU receipts represent a significant source of support for Lesotho's current account position, these changes imply a considerable deterioration in the current account position over the next few years. These receipts, which amounted to M 875 million, or about 19 percent of current account receipts, including transfers, in 1998/99, are expected to decline by 20 percent by 2003/04.

D. Manufactured Exports

38. Despite the small size of Lesotho's market, it has been relatively successful in attracting foreign direct investment. Approximately 50 manufacturing firms in the country employ about 20,000 workers. In 1996, manufacturing exports amounted to about US\$168 million, or about 93 percent of exports. Clothing and footwear companies are particularly important, accounting for almost 80 percent of manufacturing exports and about 15,000 jobs. Although specific trade policies do not appear to have played a significant role in attracting foreign direct investment, Lesotho benefited from relatively high foreign direct investment on account of the following factors: (i) a stable and prosperous economy, before the September 1998 civil unrest; (ii) a plentiful supply of low-cost and skilled workers; (iii) relatively peaceful labor-management relations; (iv) a low corporate income tax rate of 15 percent for manufacturing enterprises (35 percent for other enterprises), with no withholding taxes on dividends; (v) duty-free access to member countries of SACU, including South Africa, and preferential access to developed country markets through Lesotho's relation with the European Union under the Lomé Convention and the nonapplicability of U.S. textile quotas; (vi) an investment promotion agency (the Lesotho National Development Corporation), that provides factory shells, grants for training, and

²⁵ Under the current SACU framework, 1998/99 customs duty and nonduty receipts are based on 1996/97 imports, which fell by about 5 percent. Negotiations on a new SACU revenue sharing framework have recently been concluded. While details of the new arrangement have not yet been released, general expectations are that Lesotho's share of the SACU revenue pool will fall substantially from 2000/01.

financing arrangements; (vii) sales tax exemptions on capital equipment for manufacturing; and (viii) double-taxation agreements protecting against excessive taxation of dividends.²⁶

39. From 1994 to 1998, the nominal and real effective exchange rates of the loti, based on trading partner countries excluding South Africa, depreciated by about 36 percent and 20 percent, respectively (see Figure 1), thus significantly strengthening Lesotho's competitive position vis-a-vis the United States, Europe, and other non-Common Monetary Area (CMA) African countries. This depreciation does not, however, appear to have influenced the performance of the manufacturing export sector. Nevertheless total exports increased sharply in the five years to 1998/99 boosted by the expansion in the manufactured products. The share of exports to South Africa and other CMA member countries rose from 51 percent of the total in 1994 to 65 percent in 1998, while the share of exports to Europe and Asia actually declined. At the same time, exports to the United States rose from M 192.7 million in 1994 to M 333.1 million in 1998, a gain of 73 percent, but their share of exports declined from 38 percent to 33 percent over that period. The growth of trade with the United States does not seem to have been driven by exchange rate considerations as almost all of the expansion came from the textile sector, which had been established in Lesotho by private Asian investors to take advantage of the Multifiber Agreement. Under the agreement, textile exports to the United States and Canada from Lesotho are not subject to quota restrictions. However, under the Uruguay Round trade agreement, quotas on textiles are to be eliminated in 2005.

E. Trade Liberalization

40. As a member of SACU, Lesotho trades freely with Namibia, Swaziland, Botswana, and South Africa, but tariffs with other countries have been high. Tariff structure and policy has been largely determined by South Africa, which pursued fairly protectionist policies until the early 1990s, when it began to significantly lower tariff rates; between 1990 and 1998, average tariff rates on manufactured goods fell from about 32 percent to 10 percent. Nevertheless, the tariff structure remains complex, and the rates of protection among sectors remain widely dispersed.

41. The trade liberalization initiatives now under way in the region are likely to significantly alter Lesotho's competitive advantage. In this connection, South Africa has recently concluded a free trade agreement (FTA) with the European Union,²⁷ and the Southern African Development Community (SADC) has agreed on a free trade protocol (FTP) for its members. Negotiations on a

²⁶ Lesotho's incentive structure for attracting foreign direct investment appears weaker than those in other countries in the subregion. In this regard, Namibia, Malawi, and Zimbabwe have export processing zones with no corporate income taxes.

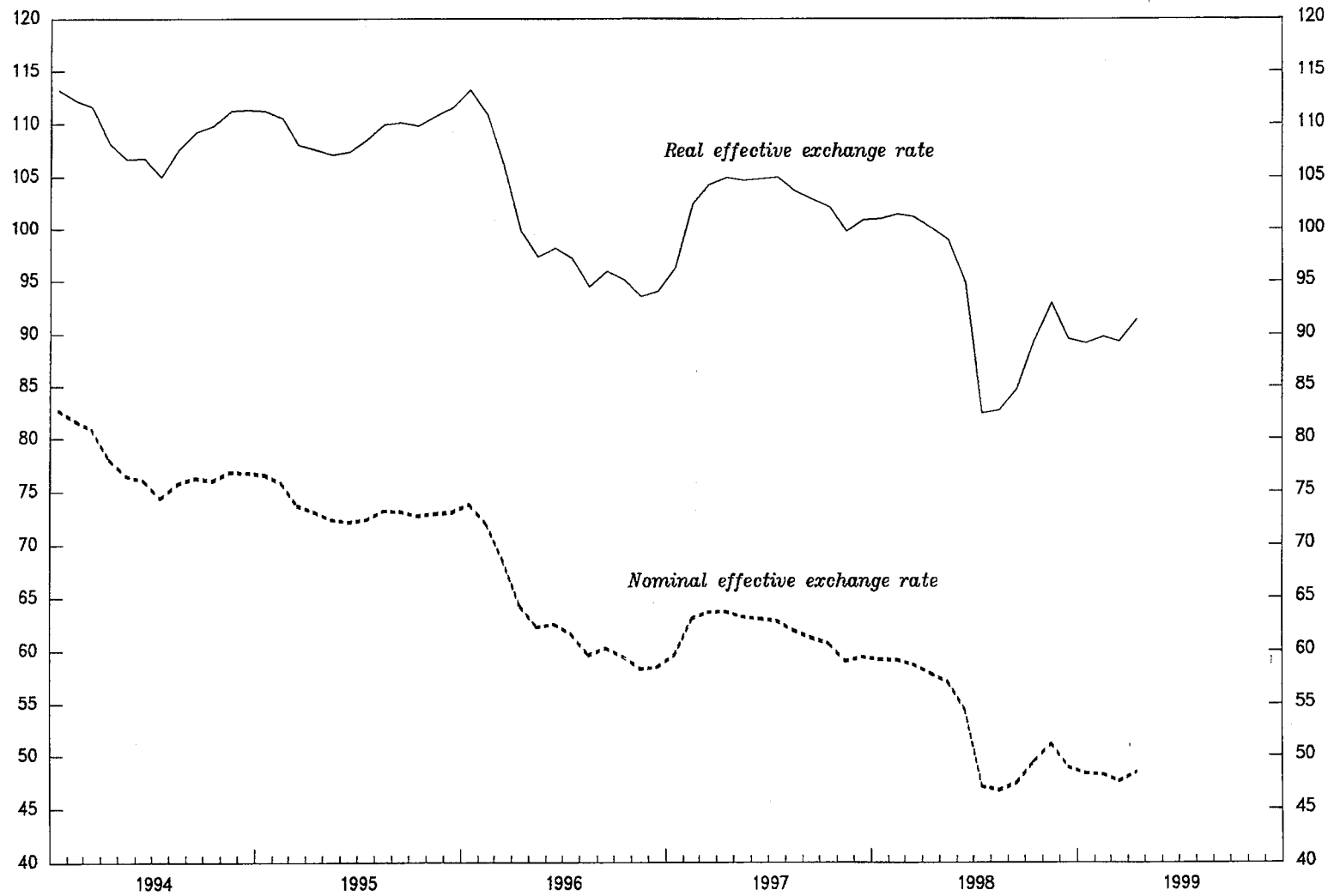
²⁷ The FTA agreement is expected to come into force by the end of the year and will reduce tariffs and trade restrictions by about 90 percent over a 13 year period.

new Lomé arrangement between the European Union and the African, Caribbean, and Pacific countries are also proceeding.

42. The implementation schedule for the FTA, however, should significantly ease the adverse adjustment costs for Lesotho, as the European Union will implement the agreement over a four-year period ending 2002 while SACU will have a 13-year implementation period (through 2011). Moreover, the EU may well offer special dispensation for certain exports from Lesotho and the other less developed members of SACU, thus further cushioning the impact. However, these factors will be counterbalanced somewhat by the five-year period required for the implementation of the SADC FTP for SACU member countries, as against the eight years granted to non-SACU members.

43. On balance, over the long term, the positive benefits of the liberalization initiatives are likely to predominate, but in the short term the picture is not clear. Efficiency gains stemming from the ongoing liberalization could be considerable as the cost of inputs provided either by South Africa directly or from third parties are lowered. However, adjustment by Lesotho to the changing external environment may adversely affect certain firms and industries and dislocate product and factor markets.

Figure 1. Lesotho: Real and Nominal Effective Exchange Rates
January 1994–April 1999 1/
(Period average; 1990=100)



Source: IMF; Information Notice System.

1/ Excluding South Africa.

Table 1. Lesotho: Summary Balance of Payments, 1994/95-2003/04 1/

(In millions of maloti)

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Projections									
Goods and services	-1,645.4	-2,060.4	-1,931.5	-2,281.5	-2,166.6	-2,367.5	-2,358.2	-2,431.2	-2,645.5	-2,662.3
Trade balance	-2,828.5	-3,246.7	-3,579.7	-3,877.8	-3,577.1	-3,839.0	-4,031.8	-4,202.2	-4,484.1	-4,537.5
Exports	535.5	570.8	856.8	931.0	1,021.0	1,049.5	1,083.9	1,119.0	1,150.4	1,180.7
Imports, f.o.b.	-3,364.0	-3,817.5	-4,436.5	-4,808.8	-4,598.2	-4,888.5	-5,115.7	-5,321.2	-5,634.4	-5,718.1
Services (net)	-16.8	-61.0	234.6	70.8	112.2	33.1	29.1	37.1	41.8	73.7
Receipts	175.9	189.9	536.0	387.0	437.9	371.3	388.7	411.5	435.2	476.2
Payments	-192.72	-250.92	-301.4	-316.3	-325.7	-338.3	-359.6	-374.4	-393.3	-402.5
Income (net)	1,199.9	1,247.3	1,413.6	1,525.6	1,298.3	1,438.4	1,644.5	1,734.0	1,796.7	1,801.5
Labor income (net)	1,231.6	1,305.6	1,352.4	1,487.3	1,237.1	1,272.6	1,431.5	1,579.8	1,723.3	1,832.0
Investment income (net)	-31.7	-58.3	61.2	38.3	61.2	165.9	213.0	154.2	73.4	-30.5
Unrequited transfers	828.7	910.4	959.9	1,132.7	1,077.6	1,259.3	1,106.2	1,041.0	975.4	908.5
Official	819.2	900.9	951.0	1,125.9	1,070.8	1,250.7	1,097.4	1,032.0	966.2	899.2
SACU nonduty receipts	546.1	624.2	692.6	838.3	875.0	1,001.7	926.6	851.5	776.3	701.2
LHWP (hydropower) 2/	60.8	48.5	37.9	90.4	14.3	0.0	0.0	0.0	0.0	0.0
Other grants	212.4	228.2	220.5	197.2	181.5	249.0	170.8	180.6	189.9	198.0
Private	9.5	9.5	8.9	6.8	6.8	8.6	8.8	9.0	9.1	9.3
Current account (including official transfers)	-816.7	-1,150.0	-971.6	-1,148.8	-1,089.0	-1,108.2	-1,252.0	-1,390.2	-1,670.1	-1,753.8
Long-term capital net	1,042.5	1,078.7	1,307.3	1,636.6	1,242.1	879.3	726.3	575.6	422.3	379.8
Official (net)	91.1	126.7	252.8	384.6	17.2	185.9	59.9	77.8	102.2	83.0
Disbursements	147.5	206.4	336.8	481.3	168.6	392.2	217.2	238.1	257.6	227.3
Repayments	-56.4	-79.7	-84.0	-96.7	-151.4	-206.3	-157.3	-160.3	-155.5	-144.3
Private loans (net)	-1.8	-4.9	-5.8	-3.9	1.7	-0.9	4.0	2.0	0.0	0.0
Private foreign investment	953.1	956.9	1,060.3	1,255.9	1,221.5	695.3	662.4	495.8	320.2	296.8
Other private	0.0	0.0	0.0	0.0	1.7	-0.9	0.0	0.0	0.0	0.0
Short-term capital (net)	35.8	-131.8	13.8	217.2	-52.9	-135.4	38.0	149.6	403.8	351.5
Errors and omissions (excluding valuation)	109.9	554.0	129.7	-102.7	90.1	0.0	0.0	0.0	0.0	0.0
Overall surplus/deficit 3/	371.5	350.8	479.2	602.3	190.3	-364.2	-487.6	-665.0	-844.0	-1,022.5

Sources: Central Bank of Lesotho; and staff estimates and projections.

1/ Fiscal year begins April 1.

2/ Lesotho Highlands Water Project (LHWP).

3/ Excludes valuation.

Table 2. Lesotho: Expenditures and Financing for the Lesotho Highlands Water Project, 1988/89 - 2002/03 1/

(In millions of maloti)

	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Expenditures															
Water transfer (phase 1A)															
Capital expenditures	102.1	163.7	387.4	613.8	446.6	581.5	782.5	738.2	687.2	582.4	44.9	25.2	22.1	21.0	21.3
Imports of goods	51.8	83.1	196.6	311.5	226.6	295.1	397.1	374.6	348.8	295.6	22.8	12.8	11.2	10.7	10.8
Imports of services	20.2	32.3	76.5	121.2	88.2	114.8	154.5	145.8	135.7	115.0	8.9	5.0	4.4	4.1	4.2
Local goods and services	30.1	48.3	114.3	181.1	131.7	171.5	230.8	217.8	202.7	171.8	13.2	7.4	6.5	6.2	6.3
Water transfer (phase 1B)															
Capital expenditures	0.0	0.0	0.0	0.0	1.2	7.7	20.3	118.1	250.2	563.4	756.2	648.9	611.9	435.9	250.5
Imports of goods	0.0	0.0	0.0	0.0	0.6	3.9	10.3	59.9	127.0	285.9	383.8	329.3	310.5	221.2	127.1
Imports of services	0.0	0.0	0.0	0.0	0.2	1.5	4.0	23.3	49.4	111.3	149.3	128.2	120.9	86.1	49.5
Local goods and services	0.0	0.0	0.0	0.0	0.4	2.3	6.0	34.8	73.8	166.2	223.1	191.4	180.5	128.6	73.9
Hydropower	4.6	1.0	0.2	24.6	4.1	15.9	86.5	159.3	155.9	310.1	95.5	0.0	0.0	0.0	0.0
Ancillary development	0.0	8.9	29.3	48.4	19.8	1.7	3.3	4.4	22.7	28.5	25.9	21.7	20.2	14.6	16.1
Hydropower (including ancillary development)															
Capital expenditures	4.6	9.9	29.5	73.0	23.9	17.6	89.8	163.7	178.6	338.6	121.4	21.7	20.2	14.6	16.1
Imports of goods	2.3	5.0	15.0	37.0	12.1	8.9	45.6	83.1	90.6	171.8	61.6	11.0	10.3	7.4	8.2
Imports of services	0.9	2.0	5.8	14.4	4.7	3.5	17.7	32.3	35.3	66.9	24.0	4.3	4.0	2.9	3.2
Local goods and services	1.4	2.9	8.7	21.5	7.1	5.2	26.5	48.3	52.7	99.9	35.8	6.4	6.0	4.3	4.7
Total expenditures	106.7	173.6	416.9	686.8	471.7	606.8	892.6	1,020.0	1,116.0	1,484.4	922.5	695.8	654.2	471.5	287.9
Water delivery royalties	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	157.0	80.6	119.3	92.2	102.7	113.7	125.4
Power sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	26.9	69.1	78.1	90.3	105.8
Financing															
Total disbursements	106.7	173.5	416.9	686.8	471.7	606.8	892.6	1,020.0	1,116.0	1,484.4	922.5	695.8	654.2	471.5	287.9
Water transfer (phase 1A)															
South African investment	95.1	154.9	379.3	604.5	445.5	580.9	782.4	738.2	687.2	582.4	44.9	25.2	22.1	21.0	21.3
External grants	5.8	7.5	8.1	9.3	1.1	0.6	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Government of Lesotho	1.2	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	102.1	163.6	387.4	613.8	446.6	581.5	782.5	738.2	687.2	582.4	44.9	25.2	22.1	21.0	21.3
Water transfer (phase 1B)															
South African investment	0.0	0.0	0.0	0.0	1.2	7.7	20.3	116.7	240.6	524.5	728.6	633.6	596.5	422.2	235.8
External grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Government of Lesotho	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.4	9.6	38.9	27.6	15.3	15.4	13.7	14.7
Total	0.0	0.0	0.0	0.0	1.2	7.7	20.3	118.1	250.2	563.4	756.2	648.9	611.9	435.9	250.5
Hydropower															
External loan	4.4	0.8	0.0	19.7	2.1	1.0	25.1	98.0	98.2	199.5	52.9	0.0	0.0	0.0	0.0
External grants	0.2	9.1	29.5	37.2	14.6	9.7	55.6	48.5	37.9	90.4	14.3	0.0	0.0	0.0	0.0
Domestic resources	0.0	0.0	0.0	16.1	7.2	6.9	9.1	17.2	42.5	48.7	54.2	21.7	20.2	14.6	16.1
Total	4.6	9.9	29.5	73.0	23.9	17.6	89.8	163.7	178.6	338.6	121.4	21.7	20.2	14.6	16.1

Source: Lesotho Highlands Development Authority.

1/ Fiscal year begins April 1.

Table 3. Lesotho: LHWP Balance of Payments, 1994/95-2003/04 1/2/

(In millions of maloti)

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
								Projections		
Goods, services, and income	-742.2	-882.2	-780.9	-1,069.4	-722.0	-432.8	-312.4	-194.1	-48.1	22.2
Trade balance	-439.3	-499.5	-546.6	-726.9	-451.8	-340.7	-320.4	-230.9	-141.0	-112.6
Exports	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Imports	-439.3	-499.5	-546.6	-726.9	-451.8	-340.7	-320.4	-230.9	-141.0	-112.6
Net services and income	-302.9	-382.7	-234.3	-342.4	-270.2	-92.1	7.9	36.8	92.9	134.8
Services	-15.4	-17.5	123.7	57.9	104.2	108.1	116.0	126.7	138.0	164.2
Receipts (water royalties)	0.0	0.0	142.8	83.3	120.0	120.0	127.2	134.8	142.9	168.1
Payments	-15.4	-17.5	-19.1	-25.4	-15.8	-11.9	-11.2	-8.1	-4.9	-3.9
Income	-287.5	-365.2	-358.0	-400.3	-374.4	-200.1	-108.0	-89.9	-45.1	-29.4
Receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payments	-287.5	-365.2	-358.0	-400.3	-374.4	-200.1	-108.0	-89.9	-45.1	-29.4
Labor income	-160.3	-183.2	-190.4	-194.1	-105.4	-101.3	-60.3	-43.4	-26.5	-16.2
Distributed earnings	-127.2	-182.0	-167.6	-206.2	-269.0	-98.8	-47.8	-46.5	-18.6	-13.2
<i>Of which</i> : interest payments	0.0	0.0	0.0	0.0	-25.1	-16.1	-17.1	-15.3	-13.5	-11.8
Transfers	60.8	48.5	37.9	90.4	14.3	0.0	0.0	0.0	0.0	0.0
LHWP (Hydropower) 2/	60.8	48.5	37.9	90.4	14.3	0.0	0.0	0.0	0.0	0.0
Current account	-681.4	-833.7	-743.0	-979.0	-707.7	-432.8	-312.4	-194.1	-48.1	22.2
Excluding transfers	-742.2	-882.2	-780.9	-1,069.4	-722.0	-432.8	-312.4	-194.1	-48.1	22.2
Capital account	823.5	952.9	1,026.0	1,306.4	1,198.2	635.2	593.4	418.0	231.8	200.4
Loans	25.1	98.0	98.2	199.5	52.9	0.0	0.0	0.0	0.0	0.0
Repayments	0.0	0.0	0.0	0.0	-11.2	-23.6	-25.2	-25.2	-25.3	-20.7
Foreign direct investment	798.4	854.9	927.8	1,106.9	1,156.5	658.8	618.6	443.2	257.1	221.1
Overall balance	142.1	119.2	283.0	327.4	490.5	202.4	281.0	223.9	183.7	222.6

Sources: Lesotho Highlands Development Authority; Central Bank of Lesotho; and staff estimates and projections.

1/ Fiscal year begins April 1.

2/ Lesotho Highlands Water Project (LHWP).

Table 4. Lesotho: Balance of Payments, Excluding LHWP, 1994/95-2003/04 1/2/

(In millions of maloti)

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
								Projections		
Trade balance	-2,389.2	-2,747.2	-3,033.1	-3,150.9	-3,125.3	-3,498.3	-3,711.4	-3,971.3	-4,343.1	-4,424.9
Exports	535.5	570.8	856.8	931.0	1,021.0	1,049.5	1,083.9	1,119.0	1,150.4	1,180.7
Imports, f.o.b.	-2,924.8	-3,318.0	-3,890.0	-4,081.9	-4,146.4	-4,547.8	-4,795.3	-5,090.3	-5,493.4	-5,605.5
Services (net)	-1.4	-43.5	110.9	12.9	8.0	-75.0	-86.8	-89.6	-96.1	-90.5
Receipts	175.9	189.9	393.2	303.7	317.9	251.3	261.5	276.7	292.3	308.1
Payments	-177.3	-233.4	-282.3	-290.8	-309.9	-326.3	-348.4	-366.3	-388.4	-398.6
Income (net)	1,487.4	1,612.5	1,771.6	1,925.9	1,672.7	1,638.6	1,752.6	1,823.9	1,841.8	1,830.9
Labor income (net)	1,391.9	1,488.8	1,542.8	1,681.4	1,342.5	1,373.9	1,491.8	1,623.2	1,749.8	1,848.2
Investment income (net)	95.5	123.7	228.8	244.5	330.2	264.7	260.8	200.6	92.0	-17.4
Transfers	767.9	861.9	922.0	1,042.3	1,063.3	1,259.3	1,106.2	1,041.0	975.4	908.5
Current account (including transfers)	-135.3	-316.4	-228.6	-169.8	-381.3	-675.4	-939.5	-1,196.1	-1,622.0	-1,776.0
Capital account	254.7	-6.0	295.1	547.4	-9.0	108.7	170.9	307.2	594.3	530.9
Long-term capital net	220.7	130.7	287.1	334.1	40.5	246.0	128.9	155.6	190.5	179.4
Official (net)	66.0	28.7	154.6	185.1	-24.5	209.5	85.1	103.0	127.5	103.7
Private foreign investment	154.7	102.0	132.5	149.0	65.0	36.5	43.8	52.6	63.1	75.7
Short-term capital (net) and other private loans	34.0	-136.7	8.0	213.3	-49.5	-137.3	42.0	151.6	403.8	351.5
Errors and omissions	109.9	553.9	129.7	-102.7	90.1	0.0	0.0	0.0	0.0	0.0
Overall surplus/deficit	229.3	231.6	196.2	274.9	-300.2	-566.6	-768.6	-888.9	-1,027.7	-1,245.1

Sources: Central Bank of Lesotho; and staff estimates and projections.

1/ Fiscal year begins April 1.

2/ Lesotho Highlands Water Project (LHWP).

IV. FINANCIAL SECTOR REFORM

A. Background

44. The formal financial sector in Lesotho consists of the Central Bank of Lesotho (CBL), three banks, two development finance companies, three insurance companies, several brokers, and an agent for a South African life insurer.²⁸ One of the banks is government owned, and two are subsidiaries of South African commercial banks. The state-owned Lesotho Bank (LB), is the country's largest commercial bank with approximately two-thirds of the domestic market.²⁹ Another state-owned bank, the Lesotho Agricultural Development Bank (LADB), which specialized in rural finance was closed in July 1998. The two private banks, Standard Bank and Nedbank, began operations in 1995 and 1997, respectively, after acquiring the local subsidiaries of Barclays Bank and Standard Chartered Bank, respectively; in June 1998, these two banks combined controlled 35 percent of total deposits and 20 percent of total outstanding credit. The government-funded development companies are the Lesotho National Development Corporation, which is responsible for promoting foreign investment in the industrial sector, and the Basotho Enterprise Development Corporation, which is responsible for promoting smaller indigenous enterprises.

45. The financial sector in Lesotho is very small. Banks provide only basic services; they accept savings from the urban wage earners and rural households and lend on a limited basis. Deposits are also dependent on miners' remittances. Since the mid-1990s bank credit has grown rapidly. A significant share of the credit growth has been linked to activities related to the Lesotho Highlands Water Project (LHWP) and investments in the electricity, gas, and water sectors.

46. The 1973 Financial Institutions Act (FIA), and the 1978 CBL Act, provide the CBL with broad powers to conduct its central banking functions but with limited authority to regulate and supervise banks and other financial institutions. More specifically, the CBL is limited in its ability to inspect, intervene, and take remedial measures without ministerial and cabinet approval or without going through a lengthy judicial process. Furthermore, under the 1973 FIA, the prudential regulatory system was not comprehensive enough to handle the challenges of the financial market deregulation taking place in the Southern African region.

47. The government initiated a redrafting of both the FIA and the CBL Acts in the mid-1990s. In May 1999, a revised FIA, replacing the 1973 FIA, was enacted by parliament. The new act provides the basis for strengthening prudential regulation and supervision of financial institutions and for aligning regulations with international standards.

²⁸ The informal financial intermediaries include marketing cooperative societies and credit unions.

²⁹ Government plans to sell 70 percent of its shares in Lesotho Bank to private interests in the near future.

B. Restructuring of State-Owned Banks

Lesotho Bank

48. The Lesotho Bank, the country's largest banking institution, was established in 1972. It operated as a commercial bank (it was originally envisaged as a commercial and development bank) acting as a banker to public enterprises and handling the accounts of the Miners' Deferred Pay Fund (MDPF) and the civil service.³⁰ The LB also inherited a substantial mortgage portfolio from the Lesotho Building Finance Corporation when it merged with it in August 1993. By 1998, the LB had 16 branches and 7 agencies across the country, a staff of 690, and it controlled over 75 percent of outstanding credit and about 60 percent of total deposits (see Table below).

Lesotho Bank's Market Share, 1985-98								
(End of year; in millions of maloti, unless specified otherwise)								
	1985	1987	1990	1993	1995	1996	1997	1998
Total assets								
All banks	375.6	478.0	790.7	1,141.8	1,292.8	1,463.7	1,534.1	1,738.9
<i>Of which:</i> Lesotho Bank	235.5	301.4	474.6	783.9	755.8	801.8	1,004.5	1,069.8
Lesotho Bank's share (in percent)	62.7	63.1	60.0	68.7	58.5	54.8	65.5	61.5
Loans and advances ¹								
All banks	128.3	175.7	290.8	569.1	680.7	714.7	925.5	937.1
<i>Of which:</i> Lesotho Bank	75.2	93.2	136.3	379.0	466.8	500.3	704.0	726.6
Lesotho Bank's share (in percent)	58.6	53.0	46.9	66.6	68.6	70.0	76.1	77.5
Deposits ²								
All banks	256.7	345.6	607.2	902.6	1,031.9	1,230.0	1,385.3	1,527.2
<i>Of which:</i> Lesotho Bank	131.3	187.8	337.9	604.0	669.8	714.6	766.7	894.4
Lesotho Bank's share (in percent)	51.1	54.3	55.6	66.9	64.9	58.1	55.3	58.6

Sources: *Lesotho Bank Annual Reports*, and Central Bank of Lesotho.

¹ From 1994, loans and advances include mortgages and treasury bills held by banks, and exclude loans and advances to nonresidents.

² Excludes Miners' Deferred Pay Fund and deposits of nonresidents.

49. During the first two decades of its operation, the LB was profitable, liquid, and adequately capitalized. Its financial performance, however, deteriorated rapidly in the 1990s, as the expansion

³⁰ Beginning on April 1, 1991, 30 percent of the basic wages of migrant miners working in South Africa were remitted directly to the MDPF to be accessed by them upon their return. From 1973, when the MDPF was established, until 1991, 60 percent of the wages were remitted.

of its loan portfolio was unmatched by the growth in deposits.³¹ Weak credit risk management policies led to an increase in doubtful debts, and to a decline in LB's performing assets and interest income. Nonetheless, staff size and salaries rose, generating an increase in operating expenses and a decline in bank profits (see Table below).³²

Lesotho Bank—Indicators of Performance, 1991-98							
	1991	1992	1993	1994	1995	1996	1998 ¹
	(In millions of maloti)						
Operating income	46.8	51.4	61.1	67.0	52.3	47.4	73.4
Net interest income	38.0	41.1	53.0	55.1	38.6	26.7	36.8
Interest income	82.7	81.8	90.4	93.1	86.1	85.5	206.1
Interest expense	44.7	40.7	37.4	38.0	47.5	58.8	169.2
Fee income	8.8	10.3	8.1	11.9	13.7	20.7	36.6
Operating expenses	18.6	25.1	32.2	44.7	50.2	48.6	144.7
Less: loan loss provision	6.1	9.4	12.2	14.7	60.5	0.5	643.0
Net income	22.1	16.9	16.7	7.6	-58.4	-1.7	-714.3
Memorandum items:	(In percent)						
Return on assets	3.9	2.7	2.1	1.0	-7.7	-0.2	...
Expenses to total assets	3.3	4.0	4.1	5.6	6.6	6.1	...
Loans to deposit	48.9	51.2	62.7	68.8	69.6	70.0	81.2

Sources: *Lesotho Bank Annual Reports*; Lesotho Bank; and Central Bank of Lesotho.

¹ Based on profit and loss accounts for two years (1997-98) ended December 31, 1998.

50. The LB's financial records and control system collapsed in June 1997, while the bank was attempting to upgrade its information system, further compounding the bank's deteriorating financial position. From then on, the bank's accounts could not be reconciled and financial statements could not be produced, with the result that creditor and debtor suspense accounts grew substantially, as indicated by the December 1997 draft accounts.³³

51. As a result of the continued poor financial performance, which brought the LB into noncompliance with statutory and prudential regulations, the government placed it under conservatorship in December 1997. The management was suspended and replaced by a team of external consultants. The tasks of the conservators were to stabilize the LB's operations, restore

³¹ Between 1991 and 1995 the LB's deposit base increased by 60 percent and its loan portfolio by 127 percent.

³² Between 1992 and 1995 the number of bank staff rose by 42 percent.

³³ Suspense accounts are interim accounts that are not supported by valid records.

financial control, and, with the assistance of a sales advisor, prepare the bank for divestiture.³⁴ In view of the collapse of the information system in June 1997, the conservators focused on reconciling the bank's accounts and on updating information regarding the bank's balance sheet, income, and cashflow situation, which had not been produced since May 1997.³⁵ Under the conservatorship, substantial progress was made in reconciling the LB's accounts; moreover, debit and credit suspense account balances declined from over M 2 billion each in December 1997 to M 25 million and M 45 million, respectively, in August 1998. As of December 1998, however, some 600,000 transactions were still in suspense accounts. Beginning in September 1998, the LB started to produce daily cashflow positions and monthly trial balance sheets.

52. With a view to alleviating the liquidity problems of the bank, the government decided in December 1997 to provide financial support through an overdraft facility at the CBL. The total amount of the facility of M 97.7 million, which was extended at an annual interest rate of 22 percent, was fully drawn by June 1998.³⁶ After the closure of the LADB in July 1998 (see below), the government transferred its deposits, totaling M 135 million to the LB. At about the same time, the government injected additional liquidity of M 140 million into the latter bank. Additional cash totaling M 45 million was injected effected in February 1999 to support the LB's operations.

53. The process of restructuring and privatizing the LB moved at a fast pace during the first half of 1999. In early 1999, a strategic partner/potential investor for LB was identified. Beginning in April 1999, the strategic partner took over the management of the bank for a period of three months. The target date for the bank's privatization is July 1, 1999. At that time, the LB will be recapitalized on a 70:30 basis; the strategic partner will maintain majority interest while the government will retain 30 percent for subsequent sale to Basothos.

54. Prior to the LB's recapitalization, the government intends to undertake an asset swap, which will involve the replacement of the bank's nonperforming loan portfolio with interest-bearing long-term government securities. It is estimated that, as of January 1999, the entire loan portfolio of M 740 million was nonperforming. The budgetary cost of restructuring the LB, includes, in addition to the cash support and interest payments, the cost of retrenching LB's employees following the bank's privatization. Assuming that a majority of the employees are retrenched and offered a severance package similar to that given to employees of the LADB, the

³⁴ The tasks of the conservators excluded the removal of staff, the sale or closing of branches, and a major sale of assets. The conservators could however, impose a freeze in recruitment, salaries, and bonuses. The LB remained under conservatorship until February 1999.

³⁵ The last audited accounts were prepared in December 1996.

³⁶ The government has since repaid the amount it borrowed from the CBL as well as the accrued interest. In December 1998, the M 97.7 million loan was converted into equity.

additional budgetary impact could be as high as M 23 million, bringing the fiscal costs of the LB restructuring to M 167 million in 1999/2000.³⁷

Lesotho Agricultural Development Bank

55. The Lesotho Agricultural Development Bank (LADB) was established in 1976 to undertake agricultural financing. Beginning in 1983, however, it began to accept deposits and to operate as a commercial bank. By end-June 1998, the LADB had 8 branches, 7 agencies, 290 employees, and a market share of 10 percent. At that time, 125,000 of its 150,000 accounts had balances of less than M 2,000. The total value of those small deposits was approximately M 35 million, 30 percent of the value of the LADB's total deposits.

Lesotho Agricultural Development Bank—Indicators of Performance, 1985-96							
	1985	1986	1988	1990	1992	1995	1996
	(In thousands of maloti)						
Operating income	1,542	1,459	2,544	6,358	5,914	285	-3,260
Net interest income	1,101	1,032	1,759	2,004	2,021	-858	-4,171
Interest income	1,135	1,126	2,535	5,707	9,953	6,569	5,893
Interest expense	34	94	776	3,703	7,932	7,427	10,064
Fee income	441	427	785	4,354	3,893	1,143	911
Operating expenses	1,041	1,309	3,206	6,202	16,666	23,386	38,689
Less: loan loss provision	0	1,947	0	0	0	0	0
Net income	501	-1,797	-662	156	-10,752	-23,101	-41,949
Memorandum items:	(In percent)						
Return on assets	5.3	-19.5	-2.5	0.2	-11.8	23.0	-34.8
Return on equity	6.5	-30.1	-14.4	-10.5	-2.2	-177.7	-145.0
Operating expenditure/total assets	11.6	14.1	14.2	9.2	18.4	23.2	32.0
Loans-to-deposits ratio	689.6	138.1	10.5	54.2	41.3	45.2	29.8
Sources: Lesotho Agricultural Development Bank; and Central Bank of Lesotho.							

56. The financial performance of the LADB began to deteriorate in the mid-1980s as the rapid growth in its deposit base fueled a sharp increase in loans and advances in an environment of weak management. Between 1986 and 1995, deposits rose from M 1.8 million to M 110.8 million, and loans and advances from M 2.5 million to M 50 million. By 1997, the LADB's liabilities exceeded assets by M 100 million, and its loan portfolio was estimated to be 95 percent nonperforming, with little hope for recovery. As the asset base deteriorated, the interest income

³⁷ The actual retrenchment costs of the LADB were M 5.2 million for 290 employees.

on loans fell short of deposit interest payments and other operating expenses (see table above). By the time the bank was put under conservatorship in December 1997, it was insolvent. The conservators' role was to minimize the LADB's losses, conserve its assets, and prepare a plan for its closure.

57. External auditors were appointed to oversee the closure of the LADB, which took place in September 1998. Deposit accounts with balances over M 2,000 were transferred to the LB, and depositors with balances of M 2,000 or less were paid through LADB branches.³⁸ The liquidation of LADB, which was approved by parliament in February 1999, cost the government about M 145 million; it comprised the difference between the bank's deposit liabilities and its performing assets, the severance package for LADB's employees, and other administrative costs.

³⁸ By the end of 1998, the administrators had paid out 68 percent of the small depositors.

Table 5. Lesotho: Gross Domestic Product by Sector (at Constant 1995 Prices), 1994/95-1998/99 1/ 2/

(In millions of maloti)

	1994/95	1995/96	1996/97	1997/98 Est.	1998/99 Est.
Primary sector	544.4	548.5	621.3	622.5	619.9
Crops	331.2	323.4	414.8	401.8	388.8
Livestock	180.7	190.5	170.3	183.4	192.6
Agricultural services	32.6	34.6	36.3	37.3	38.6
Secondary sector	1,088.6	1,182.3	1,309.2	1,400.7	1,227.2
Mining and quarrying	1.0	3.2	3.1	3.4	3.4
Manufacturing and handcraft	446.1	485.8	541.5	557.8	553.5
Electricity and water	76.2	85.1	130.8	240.0	227.9
Construction	307.1	316.8	294.4	303.8	265.4
LHWP construction 3/	258.2	291.4	339.4	295.7	177.1
Tertiary sector	1,218.4	1,288.1	1,383.9	1,433.1	1,384.7
Wholesale and retail	264.0	280.0	304.2	305.4	253.0
Hotel and restaurants	35.0	41.8	47.4	47.2	41.6
Transport and storage	68.2	72.5	75.7	76.8	73.2
Post and telecommunication	42.0	46.4	49.3	53.0	48.7
Financial intermediation	137.7	113.7	112.8	100.0	94.2
Owner-occupied dwellings	150.6	153.6	156.6	158.8	158.7
Other real estate and business services	64.2	59.5	64.4	79.8	79.7
Public administration	208.8	239.8	265.0	278.9	290.4
Education	262.9	275.3	284.2	301.3	307.3
Health and social work	59.3	58.8	65.7	64.8	66.1
Community, social, and personal services	40.3	40.3	40.6	41.2	42.0
Less: financial services indirectly measured	-114.6	-93.4	-82.0	-74.1	-70.2
GDP at producers' prices	2,851.5	3,019.0	3,314.4	3,456.4	3,231.9
Plus: taxes on products	422.2	451.3	492.1	507.5	517.3
GDP at purchasers' prices	3,273.8	3,470.3	3,806.4	3,963.9	3,749.2
Plus: net factor income from abroad	1,288.6	1,217.1	1,269.2	1,266.3	1,005.5
Gross national income at purchasers' prices	4,562.3	4,687.4	5,075.7	5,230.3	4,754.7

Sources: Lesotho Bureau of Statistics; Central Bank of Lesotho; Lesotho Highlands Development Authority; and staff estimates.

1/ Fiscal year begins April 1.

2/ Fiscal year estimates based on sectoral calendar-year data compiled by the Bureau of Statistics.

3/ Lesotho Highlands Water Project (LHWP).

Table 6. Lesotho: Gross Domestic Product by Sector (at Current Prices), 1994/95-1998/99 1/ 2/

(In millions of maloti)

	1994/95	1995/96	1996/97	1997/98 Est.	1998/99 Est.
Primary sector	480.7	559.5	671.0	702.5	752.9
Crops	287.8	333.6	454.7	448.1	467.3
Livestock	162.6	190.4	174.6	205.8	231.6
Agricultural services	30.3	35.6	41.7	48.7	54.0
Secondary sector	1,037.3	1,213.9	1,483.4	1,740.5	1,658.7
Mining and quarrying	1.0	3.2	3.1	3.7	3.9
Manufacturing and handicraft	431.3	498.2	609.7	693.9	741.4
Electricity and water	71.2	92.7	171.6	316.6	324.7
Construction	289.9	315.7	300.8	348.7	332.9
LHWP construction 3/	243.8	304.1	398.2	377.7	255.8
Tertiary sector	1,143.8	1,325.0	1,572.0	1,774.1	1,850.8
Wholesale and retail	249.4	286.9	342.8	380.3	345.3
Hotel and restaurants	32.8	42.9	53.0	57.4	55.1
Transport and storage	66.6	76.9	96.5	109.2	112.4
Post and telecommunication	41.6	46.1	47.7	50.8	50.6
Financial intermediation	128.3	116.5	126.9	124.7	127.0
Owner-occupied dwellings	146.8	156.7	170.1	178.2	191.6
Other real estate and business services	60.9	60.9	72.5	97.9	105.1
Public administration	194.5	246.7	304.8	363.8	405.8
Education	237.2	285.7	331.7	373.6	409.2
Health and social work	55.0	60.2	73.7	81.7	89.5
Community, social, and personal services	37.6	41.0	44.9	50.0	54.8
Less: financial services indirectly measured	-106.9	-95.5	-92.7	-93.5	-95.7
GDP at producers' prices	2,661.8	3,098.5	3,726.4	4,217.2	4,262.4
Plus: taxes on products	412.7	453.0	499.8	528.7	578.8
GDP at purchasers' prices	3,074.5	3,551.5	4,226.2	4,745.9	4,841.2
Plus: net factor income from abroad	1,199.9	1,247.3	1,413.6	1,525.6	1,298.3
Gross national income at purchasers' prices	4,274.4	4,798.7	5,639.7	6,271.5	6,139.5

Sources: Lesotho Bureau of Statistics; Central Bank of Lesotho; Lesotho Highlands Development Authority; and staff estimates.

1/ Fiscal year begins April 1.

2/ Fiscal year estimates based on sectoral calendar-year data compiled by the Bureau of Statistics.

3/ Lesotho Highlands Water Project (LHWP).

Table 7. Lesotho: Gross Domestic Product by Expenditure, 1994/95-1998/99 1/ 2/

	1994/95	1995/96	1996/97	1997/98 Est.	1998/99 Est.
	(In millions of maloti)				
Gross domestic product	3,074.5	3,551.5	4,226.2	4,745.9	4,841.2
Net factor income from abroad	1,199.9	1,247.3	1,413.6	1,525.6	1,298.3
Gross national product	4,274.4	4,798.7	5,639.7	6,271.5	6,139.5
Unrequited transfers	828.7	910.4	959.9	1,132.7	1,077.6
Gross national disposable income 3/	5,103.2	5,709.1	6,599.6	7,404.2	7,217.1
Consumption	4,167.2	4,736.7	5,165.0	5,852.5	6,550.9
Government consumption	552.5	682.5	817.4	1,383.1	1,544.1
Private consumption	3,614.6	4,054.2	4,347.6	4,469.4	5,006.8
Gross national savings 4/	936.0	972.4	1,434.6	1,551.7	666.2
Public savings 5/	656.3	804.2	1,132.4	1,042.6	726.9
Private savings 6/	279.7	168.2	302.2	509.1	-60.7
Investment	1,752.7	2,122.5	2,406.2	2,700.5	1,755.2
Gross fixed capital formation	1,792.2	2,138.7	2,412.2	2,700.5	1,755.2
Government	438.7	618.4	873.7	868.3	495.7
Private	460.9	500.3	422.5	347.8	337.0
LHWP 7/	892.6	1,020.0	1,116.0	1,484.4	922.5
Change in stocks	-39.6	-16.3	-5.9	...	...
Gross national savings less investment 8/	-816.7	-1,150.0	-971.6	-1,148.8	-1,089.0
	(In percent of GNP)				
Gross domestic product	71.9	74.0	74.9	75.7	78.9
Net factor income from abroad	28.1	26.0	25.1	24.3	21.1
Gross national product	100.0	100.0	100.0	100.0	100.0
Unrequited transfers	19.4	19.0	17.0	18.1	17.6
Gross national disposable income 3/	119.4	119.0	117.0	118.1	117.6
Consumption	97.5	98.7	91.6	93.3	106.7
Government consumption	12.9	14.2	14.5	22.1	25.2
Private consumption	84.6	84.5	77.1	71.3	81.6
Gross national savings 4/	21.9	20.3	25.4	24.7	10.9
Public savings 5/	15.4	16.8	20.1	16.6	11.8
Private savings 6/	6.5	3.5	5.4	8.1	-1.0
Investment	41.0	44.2	42.7	43.1	28.6
Gross fixed capital formation	41.9	44.6	42.8	43.1	28.6
Government	10.3	12.9	15.5	13.8	8.1
Private	10.8	10.4	7.5	5.5	5.5
LHWP 7/	20.9	21.3	19.8	23.7	15.0
Change in stocks	-0.9	-0.3	-0.1	...	...
Gross national savings less investment 8/	-19.1	-24.0	-17.2	-18.3	-17.7

Sources: Lesotho authorities; and staff estimates.

1/ Fiscal year beginning in April.

2/ Fiscal year estimates based on calendar-year estimates compiled by the Bureau of Statistics.

3/ Gross national product plus unrequited transfers.

4/ Gross national disposable income less consumption.

5/ Government revenues plus grants less government current expenditures (excluding interest payments)

6/ Estimated as a residual.

7/ Lesotho Highlands Water Project (LHWP).

8/ Equivalent to the external current account balance.

Table 8. Lesotho: Consumer Price Indices, January 1995-January 1999
(April 1997 = 100)

	Weights	1995				1996				1997				1998				1999
		Jan.	Apr.	July	Oct.	Jan.	Apr.	July	Oct.	Jan.	Apr.	July	Oct.	Jan.	Apr.	July	Oct.	Jan.
Consumer price index (CPI) 1/	100.0	81.9	83.6	86.4	87.6	89.5	91.9	93.7	95.6	97.2	100.0	102.1	103.1	104.9	107.3	109.1	112.5	115.1
Food, beverages, and tobacco	43.1	80.2	82.7	85.3	86.8	88.1	91.3	92.7	94.6	96.2	100.0	102.3	102.8	104.5	108.2	110.5	114.1	115.7
Bread and cereals	19.3	77.4	78.7	84.5	86.9	88.7	92.0	93.6	95.5	97.0	100.0	101.0	101.2	101.1	105.1	107.0	109.4	110.4
Meat and meat products	4.1	85.8	87.8	87.9	90.8	92.0	91.9	92.9	94.8	96.3	100.0	99.2	102.2	107.1	109.5	111.0	113.2	115.3
Fruits and vegetables	4.0	82.4	84.6	88.2	88.2	89.8	91.3	91.3	93.2	94.7	100.0	105.0	107.2	114.2	119.7	123.8	129.8	136.6
Alcoholic beverages and tobacco	8.1	79.2	85.7	81.3	81.8	82.2	89.5	90.0	91.8	93.3	100.0	101.9	102.0	103.6	107.5	109.9	114.6	114.9
Food and drinks	7.6	89.2	90.4	95.3	96.9	89.6	92.8	94.2	96.1	97.7	100.0	102.3	105.9	107.3	109.9	112.5	118.0	119.2
Clothing and footwear	15.8	81.7	85.4	90.3	90.2	91.5	93.0	95.7	97.7	99.3	100.0	102.2	104.7	106.8	108.9	110.7	114.9	118.2
Blankets	3.3	81.7	81.3	89.5	90.3	91.6	93.5	98.1	100.1	101.8	100.0	102.4	105.0	105.0	107.3	109.7	111.5	114.2
Other clothing	6.3	74.4	80.6	85.5	89.0	90.7	92.0	94.1	96.0	97.5	100.0	102.3	104.4	106.3	109.3	110.9	112.7	116.1
Footwear	6.2	94.9	97.0	99.7	92.5	92.7	94.3	97.2	99.1	100.8	100.0	101.8	105.9	108.2	109.3	111.0	119.1	122.0
Gross rent, fuel, and power 2/	3.9	81.5	81.5	81.5	81.4	81.4	88.9	92.3	94.2	95.7	100.0	100.3	101.2	104.1	104.5	107.2	109.5	110.3
Gross rent and water charges 2/	0.6	100.2	101.7	101.7	100.2	100.2	100.0	100.0	102.0	103.7	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Fuel and power	3.3	80.4	80.4	80.4	80.4	80.4	88.3	91.9	93.7	95.3	100.0	100.4	101.4	104.6	105.3	108.4	111.1	111.6
Furniture and household operation	18.1	82.8	84.4	86.9	88.1	90.5	92.5	94.9	96.9	98.5	100.0	102.4	104.3	107.1	108.1	109.1	113.6	118.0
Transport and communications	8.4	82.7	81.1	83.9	85.0	95.7	96.0	97.4	99.4	101.1	100.0	100.9	101.6	103.0	103.3	103.9	106.2	108.3
Other goods and services	10.5	86.6	87.7	89.8	91.4	92.2	93.2	94.6	96.5	98.1	100.0	101.3	101.8	103.9	104.2	105.5	106.3	109.4
Memorandum item:																		
Annual CPI inflation rates (end of period)		10.3	10.0	10.4	8.5	9.3	9.9	8.5	9.2	8.6	8.8	8.9	7.8	7.9	7.3	6.7	9.1	9.8

Source: Lesotho Bureau of Statistics.

1/ Covers all households in six low-land towns including Maseru.

2/ Since January 1994, rent has been excluded from CPI calculations because of data collection problems.

Table 9. Lesotho: Basic Monthly Minimum Wages, 1992-98 1/

	1992	1994	1995	1996	1997	1998
	Sep.	July	Aug.	Nov.	Oct.	Dec
	(In maloti)					
Copy typist	301.5	346.7	378.0	419.5	457.3	508.0
Driver						
Car and light van	350.0	402.6	438.8	487.1	530.9	589.0
Medium-size vehicle	383.7	441.2	481.0	533.9	581.9	646.0
Heavy vehicle	491.3	565.0	615.9	683.6	745.2	827.0
Operator (hammer mill)	255.4	293.7	320.1	355.3	387.3	430.0
Junior clerk	301.5	346.7	378.0	419.5	457.3	508.0
Machine operator	350.0	402.6	438.8	487.1	530.9	589.0
Messenger	255.4	293.6	320.1	355.3	387.3	430.0
Machine attendant	301.5	346.7	378.0	419.5	457.3	508.0
Receptionist	301.5	346.7	378.0	419.5	457.3	508.0
Shop assistant	281.5	323.7	352.8	391.7	426.9	474.0
Telephone operator	301.5	346.7	378.0	419.5	457.3	508.0
Ungraded artisan (heavy physical work)	325.3	374.1	407.8	452.6	493.4	548.0
Unskilled labor						
Heavy physical work	281.5	323.7	352.8	391.7	426.9	474.0
Light physical work	255.4	293.7	320.1	355.3	387.3	430.0
Waiter	289.5	332.9	362.9	402.8	439.1	487.0
Watchman	266.9	306.9	446.1	495.2	539.7	599.0
Weaver						
Training (six months)	255.4	293.7	320.1	355.3	387.3	430.0
Trained	267.8	308.0	335.7	372.6	406.2	451.0
Sewing machine operator						
Training (six months)	255.4	293.7	320.1	355.3	387.3	430.0
Trained	267.8	308.0	335.7	372.6	406.2	451.0
Small business	...	200.0	218.0	242.0	263.8	293.0
Domestic servant	...	100.0	109.0	121.0	131.9	146.0
	(Annual percentage change)					
Memorandum items:						
General increase 2/	...	15.0	9.0	11.0	9.0	11.0
Exception: watchman	...	15.0	45.3	11.0	9.0	11.0

Source: Ministry of Labor.

1/ Based on legal notices issued in August 1992, July 1994, July 1995, October 1996, September 1997, and December 1998. There were no changes in the minimum wages in 1993.

2/ Rate of increase for all categories unless specified as exception.

Table 10. Lesotho: Public Service Employment, 1993/94-1997/98 1/

	1993/94	1994/95	1995/96	1996/97	1997/98
Established civil service 2/					
Professional and administrative	1,752	1,813	1,863	1,649	...
Executive	4,960	4,990	5,073	3,371	...
Clerical	10,624	10,881	11,054	13,364	...
Total	17,336	17,684	17,990	18,384	...
Actual employment					
Civil service 2/	15,521	15,686	16,780	17,685	18,810
Defense and public order	5,653	4,881	4,881	4,942	6,247
Teachers	8,903	9,396	9,601	9,868	10,216
Total	30,077	29,963	31,262	32,495	35,273

Source: Ministry of Public Service.

1/ Fiscal year is April-March.

2/ The established civil service posts exclude teachers, members of armed forces, and daily paid workers, but include chiefs, parliamentarians, senators, and statutory positions.

Table 11. Lesotho: Central Government Operations, 1994/95-1998/99 1/

	1994/95	1995/96	1996/97	1997/98	1998/99	1998/99
		Actual			Budget	Est.
(In millions of maloti)						
Revenue	1,438.5	1,685.3	2,034.6	2,247.0	2,231.4	2,151.0
Tax revenue	1,268.8	1,413.5	1,553.8	1,794.9	1,715.8	1,675.7
Customs revenue	840.9	906.5	1,006.0	1,172.7	1,033.4	1,033.4
Noncustoms tax revenue	427.9	507.0	547.8	622.2	682.4	642.3
Income taxes	228.2	275.8	299.0	340.1	363.3	363.8
Sales tax	149.8	174.0	193.9	223.5	252.0	238.6
Oil levy	39.3	45.6	46.0	47.4	53.8	35.9
Other tax revenues	10.6	11.6	8.9	11.2	13.3	4.0
Nontax revenue	169.7	271.8	480.8	452.1	515.6	475.3
Water royalties	0.0	0.0	142.8	83.3	142.0	120.0
Interest received	...	109.8	150.7	177.7	218.0	222.9
Other nontax revenues	169.7	162.0	187.3	191.1	155.6	132.4
Total expenditure and net lending	1,419.3	1,723.3	2,051.5	2,341.4	2,830.1	2,406.4
Current expenditure	980.6	1,104.9	1,177.8	1,473.1	2,158.9	1,910.6
Wages and salaries	453.6	518.7	604.4	721.3	884.9	837.6
Interest payments	54.8	60.6	72.2	90.0	135.5	128.5
Of which: external interest	27.5	33.4	42.5	59.9	88.8	96.2
Goods, services, and transfers	472.2	525.6	501.2	661.8	1,138.5	944.5
Goods and services	317.0	358.8	261.1	322.9	991.5	...
Transfers and subsidies	155.2	166.8	240.1	338.9	147.0	...
Capital expenditure and net lending	438.7	618.4	873.7	868.3	671.2	495.7
Domestically funded	129.0	179.6	252.3	247.4	333.8	233.2
Of which: Development Fund	0.0	71.2	86.5	33.0	75.0	52.5
Externally funded	309.7	438.8	621.4	620.9	337.4	262.6
Grant funded	143.6	163.2	193.4	178.7	142.8	120.0
Loan funded	166.1	275.6	428.0	442.2	194.6	142.6
Overall balance before grants	19.2	-38.0	-16.9	-94.4	-598.7	-255.3
Grants from abroad	143.6	163.2	203.4	178.7	142.8	120.0
Overall balance after grants	162.8	125.2	186.5	84.3	-455.9	-135.3
Total financing	-162.8	-125.2	-186.5	-84.3	455.9	135.3
Financing abroad	104.1	203.9	347.2	345.5	83.1	18.1
Loan drawings	166.1	275.6	428.0	442.2	194.6	142.6
Amortization	-62.0	-71.7	-80.8	-96.7	-111.5	-124.4
Domestic financing	-246.9	-327.2	-536.8	-429.8	372.8	116.3
Bank	-271.6	-317.4	-521.5	-448.2	362.8	116.3
Nonbank	24.7	-9.8	-15.3	18.4	10.0	0.0
Residual	-20.0	-1.9	3.1	0.0	0.0	0.9
(In percent of GNP)						
Revenue	33.7	35.1	36.1	35.8	36.3	35.0
Customs revenue	19.7	18.9	17.8	18.7	16.8	16.8
Noncustoms tax revenue	10.0	10.6	9.7	9.9	11.1	10.5
Nontax revenue	4.0	5.7	8.5	7.2	8.4	7.7
Total expenditure and net lending	33.2	35.9	36.4	37.3	46.1	39.2
Current expenditure	22.9	23.0	20.9	23.5	35.2	31.1
Wages and salaries	10.6	10.8	10.7	11.5	14.4	13.6
Other expenditure	12.3	12.2	10.2	12.0	20.8	17.5
Capital expenditure and net lending	10.3	12.9	15.5	13.8	10.9	8.1
Overall balance before grants	0.4	-0.8	-0.3	-1.5	-9.8	-4.2
Grants from abroad	3.4	3.4	3.6	2.8	2.3	2.0
Overall balance after grants	3.8	2.6	3.3	1.3	-7.4	-2.2
Financing abroad	2.4	4.2	6.2	5.5	1.4	0.3
Domestic bank financing	-6.4	-6.6	-9.2	-7.1	5.9	1.9
Memorandum item:						
GNP at current market prices (in millions of maloti)	4,274.4	4,798.7	5,639.7	6,271.5	6,139.5	6,139.5

Sources: Ministry of Finance, and staff estimates.

1/ Fiscal year is April-March.

Table 12. Lesotho: Government Revenue and Grants, 1994/95-1998/99 1/

(In millions of maloti)

	1994/95	1995/96	1996/97	1997/98	1998/99 Budget April-Dec.	
Taxes on net income and profits	228.2	275.8	299.0	340.1	363.3	282.7
Company tax	65.2	56.1	52.6	69.7	70.2	40.4
Income tax (pay as you earn)	140.1	195.1	204.6	221.7	248.9	204.7
Gaming tax	3.7	2.5	2.9	3.0	3.0	1.7
Withholding tax	19.2	18.4	23.4	26.7	38.2	23.2
Other income and profit taxes	0.0	3.7	15.5	19.0	3.0	12.7
Taxes on goods and services	190.8	220.7	241.6	273.3	307.8	196.0
Sales tax	149.8	174.0	193.9	223.5	252.0	172.2
Trade licenses	1.7	1.1	1.7	2.4	2.0	1.1
Petrol levy	39.3	45.6	46.0	47.4	53.8	22.7
Taxes on international trade and transactions	840.9	906.5	1,006.0	1,172.7	1,033.4	775.1
Customs duties	840.9	906.5	1,006.0	1,172.7	1,033.4	775.1
Livestock import levy	0.0	0.0	0.0	0.0	0.0	0.0
Export duties on diamonds	0.0	0.0	0.0	0.0	0.0	0.0
Other taxes	8.9	10.5	7.2	8.8	11.3	1.9
Stamp duty	0.8	1.4	2.0	2.1	3.0	0.7
Other taxes	8.1	9.1	5.2	6.7	8.3	1.2
Total tax revenue	1,268.8	1,413.5	1,553.8	1,794.9	1,715.8	1,255.7
Administrative fees, charges, and nonindustrial sales	53.9	85.0	82.0	106.9	66.4	25.1
Attestation fees	0.9	1.0	0.5	0.8	1.5	0.4
Fines and forfeits	0.9	1.1	3.2	4.3	3.7	2.9
Property and other income	114.0	184.7	395.1	340.1	444.0	278.2
Interest on deposits	...	109.8	150.7	177.7	218.0	171.5
Water royalties	0.0	0.0	142.8	83.3	142.0	90.0
Rand monetary compensation	...	28.6	64.7	34.6	64.7	0.0
Dividends	...	17.5	15.6	14.6	3.0	9.1
Other property income	...	28.8	21.3	29.9	16.3	7.6
Total nontax revenue	169.7	271.8	480.8	452.1	515.6	306.6
Total revenue	1,438.5	1,685.3	2,034.6	2,247.0	2,231.4	1,562.3
Grants	143.6	163.2	203.4	178.7	142.8	105.3
Total revenue and grants	1,582.1	1,848.5	2,238.0	2,425.7	2,374.2	1,667.6

Sources: Ministry of Finance; and staff estimates.

1/ Fiscal year is April-March.

Table 13. Lesotho: Southern African Customs Union (SACU) Operations, 1994/95-1998/99

Revenue Year 1/ Data Year 2/	1994/95 1992/93	1995/96 1993/94	1996/97 1994/95	1997/98 1995/96	1998/99 1996/97
	(In percent)				
Basic rate 3/	8.7	9.1	8.0	7.5	6.5
Revenue ("compensation") rate 4/	12.3	12.9	11.4	10.7	9.2
Stabilization factor 5/	3.8	3.5	4.3	4.7	5.4
Stabilized rate (calculated) 6/	16.2	16.5	15.7	15.3	14.6
Stabilized rate (actual) 7/	17.0	17.0	17.0	17.0	17.0
	(In millions of maloti, unless otherwise specified)				
Dutiable base 8/ Growth rate (in percent)	3,656.7 17.3	4,224.6 15.5	4,787.3 13.3	5,561.6 16.2	5,433.0 -2.3
First estimate (payment) 9/	621.6	718.2	813.8	945.5	923.6
First adjustment (payment) 10/	219.2	188.3	192.2	227.3	109.8
Final adjustment (payment) 11/	0.0	0.0	0.0	0.0	0.1
Actual receipts 12/ Growth rate (in percent)	840.9 12.7	906.5 7.8	1,006.0 11.0	1,172.7 16.6	1,033.4 -11.9
Memorandum item: First estimate based on basic rate only 13/	317.3	384.4	383.0	417.1	353.1

Sources: Department of Customs and Excise; and staff estimates.

1/ Fiscal year (April-March) in which indicated revenue payments are received.

2/ Fiscal year of data on which calculations are based (rates and dutiable base).

3/ Customs and excise revenues as percent of dutiable base (imports and excisable production, and duties) for SACU as a whole (data year).

4/ Basic rate multiplied by 1.42, as initial compensation for disadvantages to smaller members.

5/ One-half of difference between 20 percent and revenue (compensation) rate.

6/ Revenue (compensation) rate plus stabilization factor.

7/ At least 17.0 percent and no more than 23.0 percent; the calculated stabilized rate applies if it falls between 17 percent and 23 percent. In recent years, the lower limit of 17.0 percent has been the operative rate applied to the dutiable base.

8/ Lesotho's imports (c.i.f. and duty paid, adjusted to include electricity, estimated border shopping, etc.), excisable goods produced and consumed, and duties collected in the data year.

9/ Stabilized rate (actual) times dutiable base. Referred to as "accrued receipts" of data year.

10/ Stabilized rate (actual) times increase in dutiable base from two years earlier (as allowance for growth in dutiable base to revenue year).

11/ Minor adjustments made to account for revisions in base data, usually of previous data year. Calculated here as a residual.

12/ As reported in government revenue data.

13/ Basic rate times dutiable base. Referred to as "accrued receipts based on basic rate only."

Table 14. Lesotho: Economic Classification of Government Expenditure, 1994/95-1998/99 1/

(In millions of maloti)

	1994/95	1995/96	1996/97	1997/98	1998/99	
					Budget	Apr.-Dec.
Current expenditure	980.6	1,104.9	1,177.8	1,473.8	2,158.9	1,378.8
Goods and services	770.6	877.5	865.5	1,044.9	1,620.1	999.2
Wages and salaries	453.6	518.7	604.4	721.3	884.9	623.5
Other purchases	317.0	358.8	261.1	323.6	735.2	375.7
Interest payments	54.8	60.6	72.2	90.0	135.5	67.2
External	27.5	33.4	42.5	59.9	88.8	44.3
Domestic	27.3	27.2	29.7	30.1	46.7	22.9
Subsidies and transfers	155.2	166.8	240.1	338.9	403.3	312.4
Pensions	18.8	20.6	29.8	22.9	31.3	33.2
Subventions and transfers	136.4	146.2	210.3	316.0	372.0	279.2
<i>Of which</i> : social safety net	10.0	8.0	6.0	5.0	...	...
Capital expenditure and net lending	438.7	618.4	873.7	868.3	671.2	362.8
Acquisition of assets	304.7	512.5	835.6	830.3	621.2	338.7
Transfers and subventions	57.2	45.3	27.1	38.0	50.0	24.1
Net lending	76.8	60.6	11.0	...	...	...
Total expenditure and net lending	1,419.3	1,723.3	2,051.5	2,342.1	2,830.1	1,741.6

Sources: Ministry of Finance; and staff estimates.

1/ Fiscal year is April-March.

Table 15. Lesotho: Functional Classification of Government Expenditure, 1994/95-1998/99 1/

(In millions of maloti)

	1994/95	1995/96	1996/97	1997/98	1998/99	
					Budget	Apr.-Dec.
Current expenditure	980.6	1,104.9	1,177.8	1,473.1	2,158.9	1,378.7
General public service	279.7	336.3	369.1	550.0	864.2	573.4
Public order, safety, and defense	149.5	187.3	203.0	303.7	386.3	254.7
<i>Of which</i> : defense	87.4	96.9	109.8	143.4	165.6	111.6
Other services	130.2	149.0	166.1	246.3	477.9	318.7
Health, social security, and welfare	123.3	128.7	131.3	151.2	213.5	135.1
Education and community services	284.6	360.5	370.9	453.6	564.3	345.7
Economic services	207.9	197.4	214.7	260.0	256.5	151.6
Agriculture and rural development	91.1	105.2	107.8	129.2	105.0	64.0
Commerce, tourism, and industry	22.8	17.4	19.8	21.2	31.7	22.4
Water, energy, and mining	14.4	12.3	15.5	20.4	22.4	16.9
Roads	51.3	53.7	55.8	74.5	79.3	36.4
Other transport and communication	28.3	8.8	15.8	14.7	18.1	11.9
Unallocable and other purposes 2/	85.1	82.0	91.8	58.3	260.4	172.9
Capital expenditure and net lending	438.7	618.4	873.7	868.3	671.2	362.7
General public service	15.0	42.2	119.1	123.4	64.9	44.3
Public order, safety, and defense	5.2	4.1	17.2	23.2	21.5	13.2
<i>Of which</i> : defense	0.6	0.5	0.0	0.0	11.9	0.0
Other services	9.8	38.1	101.9	100.2	43.4	31.1
Health, social security, and welfare	48.1	46.5	73.1	39.2	36.0	22.5
Education and community services	76.1	77.0	101.7	70.6	75.1	58.6
Economic services	295.8	448.9	577.2	635.1	495.1	237.3
Agriculture and rural development	52.1	102.7	115.6	104.3	75.9	37.9
Commerce, tourism, and industry	28.7	27.4	0.9	8.1	31.6	25.7
Water, energy, and mining	106.1	215.1	266.2	202.5	162.7	81.3
Roads	95.3	99.8	116.7	291.2	221.0	84.2
Other transport and communication	13.6	3.9	77.8	29.0	4.0	8.2
Unallocable and other purposes 2/	3.7	3.8	2.6	0.0	0.0	0.0
Total expenditure and net lending	1,419.3	1,723.3	2,051.5	2,341.4	2,830.1	1,741.4
General public service	294.7	378.5	488.2	673.4	929.1	617.7
Public order, safety, and defense	154.7	191.4	220.2	326.9	407.8	267.9
<i>Of which</i> : defense	88.0	97.4	109.8	143.4	177.5	111.6
Other services	140.0	187.1	268.0	346.5	521.3	349.8
Health, social security, and welfare	171.4	175.2	204.4	190.4	249.5	157.6
Education and community services	360.7	437.5	472.6	524.2	639.4	404.3
Economic services	503.7	646.3	791.9	895.1	751.6	388.9
Agriculture and rural development	143.2	207.9	223.4	233.5	180.9	101.9
Commerce, tourism, and industry	51.5	44.8	20.7	29.3	63.3	48.1
Water, energy, and mining	120.5	227.4	281.7	222.9	185.1	98.2
Roads	146.6	153.5	172.5	365.7	300.3	120.6
Other transport and communication	41.9	12.7	93.6	43.7	22.1	20.1
Unallocable and other purposes 2/	88.8	85.8	94.4	58.3	260.4	172.9

Sources: Ministry of Finance; and staff estimates.

1/ Fiscal year is April-March.

2/ Calculated as a residual.

Table 16. Lesotho: Outstanding Government Domestic Debt
by Instrument and Holder, 1994-98

(In millions of maloti)

	1994	1995	1996	1997	1998
	March 31				
Commercial banks					
Gross lending 1/	95.8	93.5	65.8	63.5	58.8
Long term	6.5	5.7	6.2	4.1	3.6
Bonds	0.0	0.0	0.0	0.0	0.0
Loans	6.5	5.7	6.2	4.1	3.6
Short term	89.3	87.8	59.6	59.4	55.2
Loans	1.0	0.5	0.1	0.0	0.0
Treasury bills	88.3	87.3	59.5	59.4	55.2
Less government deposits (-)	-49.2	-41.7	-37.5	-50.9	-48.6
Net total	46.6	51.8	28.3	12.6	10.2
Central bank					
Gross lending 1/	331.2	144.9	233.3	152.0	61.4
Long term	1.8	0.9	0.5	0.0	0.0
Bonds	0.0	0.0	0.0	0.0	0.0
Loans	1.8	0.9	0.5	0.0	0.0
Short term	329.4	144.0	232.8	152.0	61.4
Loans	315.3	127.1	184.2	124.8	63.4
Treasury bills	14.1	16.9	48.6	27.2	-2.0
Less government deposits (-)	-972.0	-1,068.4	-1,441.7	-1,873.5	-2,231.6
Net total	-640.8	-923.5	-1,208.4	-1,721.5	-2,170.2
Nonbank 2/					
Long term	0.0	0.0	0.0	0.0	0.0
Bonds	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Short term	55.8	57.8	43.3	67.5	100.9
Treasury bills	51.7	49.9	46.0	67.5	100.9
Compulsory savings	4.1	7.9	-2.7	0.0	0.0
Promissory notes	0.0	0.0	0.0	0.0	0.0
Total nonbank	55.8	57.8	43.3	67.5	100.9
Total domestic debt, net	-538.4	-813.9	-1,136.8	-1,641.4	-2,059.1
Gross debt outstanding	482.8	296.2	342.4	283.0	221.1
Less government deposits (-)	-1,021.2	-1,110.1	-1,479.2	-1,924.4	-2,280.2

Source: Central Bank of Lesotho.

1/ Data differ slightly in coverage from banking statistics and may not fully reflect revisions made there.

2/ The nonbank sector includes insurance, bank pension schemes, public servants' promissory notes and compulsory savings, and public enterprises, as well as the general public.

Table 17. Lesotho: Monetary Survey, March 1994-March 1999

	1994	1995	1996	1997				1998				1999
		March		March	June	Sep.	Dec.	March	June	Sep.	Dec.	March
(In millions of maloti; stocks at end of period)												
Foreign assets (net)	1,319.5	1,736.5	2,018.6	2,539.6	2,708.8	2,949.6	3,087.1	3,480.4	3,573.6	3,798.0	3,722.6	3,684.6
Central bank	1,006.4	1,407.5	1,801.4	2,310.3	2,478.7	2,671.4	2,774.4	3,034.0	3,268.5	3,436.5	3,363.2	3,400.5
Commercial banks 1/	313.1	329.0	217.2	229.3	230.1	278.1	312.7	446.4	305.1	361.5	359.4	284.1
Domestic credit	-43.3	-266.5	-465.7	-855.1	-1,029.0	-978.9	-1,028.2	-1,195.9	-1,155.9	-1,227.0	-1,192.3	-1,103.8
Claims on government (net)	-601.6	-873.2	-1,190.7	-1,712.1	-1,880.4	-1,916.3	-1,953.6	-2,162.6	-2,145.5	-2,135.0	-2,129.5	-2,046.3
Central bank	-646.1	-923.8	-1,217.6	-1,722.4	-1,897.4	-1,934.6	-1,979.8	-2,171.1	-2,146.1	-2,147.3	-2,112.5	-2,015.2
Commercial banks	44.5	50.6	26.9	10.3	17.0	18.4	26.1	8.6	0.5	12.3	-17.0	-31.2
Credit to the economy	558.3	606.7	725.0	857.0	851.4	937.4	925.5	966.7	989.7	907.9	937.2	942.5
Private sector	529.2	568.2	632.2	690.4	708.3	811.7	801.2	842.7	865.7	741.7	711.6	705.0
Statutory bodies	29.1	38.5	92.8	166.6	143.1	125.7	124.3	124.0	124.0	166.3	225.6	237.5
Money and quasi money	1,027.1	1,163.8	1,221.9	1,400.7	1,439.3	1,541.2	1,658.2	1,744.9	1,754.8	1,884.1	1,842.2	1,764.8
Narrow money	501.1	595.6	596.8	706.9	739.6	820.8	899.4	975.2	1,015.5	1,244.6	1,112.5	1,091.4
Maloti with public	50.1	61.4	75.9	86.8	84.4	90.0	89.9	91.1	106.7	129.8	145.1	127.5
Demand and call deposits	451.0	534.2	520.9	620.1	655.2	730.8	809.5	884.1	908.8	1,114.8	967.3	963.9
Of which: MDPF 2/	5.4	5.4	4.8	5.7	5.4	5.3	4.7	3.3	1.8	3.9	3.9	4.9
Quasi money	526.0	568.2	625.1	693.8	699.7	720.3	758.7	769.7	739.3	639.5	729.7	673.4
Time deposits	155.0	161.2	183.9	219.9	223.8	221.6	226.2	220.5	205.3	137.9	164.9	157.9
Of which: MDPF 2/	48.5	48.7	43.6	51.2	48.4	48.0	42.7	29.3	16.0	34.9	34.9	44.3
Savings deposits	371.0	407.0	441.2	473.9	475.9	498.8	532.5	549.2	534.0	501.6	564.8	515.5
Other items (net)	249.1	306.2	331.0	283.8	240.5	429.5	400.8	539.6	662.9	686.9	688.2	816.0
(Annual percentage change)												
Memorandum items:												
Broad money	25.5	13.3	5.0	14.6	2.8	10.0	18.4	24.6	0.6	8.0	5.6	1.1
Net foreign assets	60.5	31.6	16.2	25.8	6.7	16.1	21.6	37.0	2.7	9.1	7.0	5.9
Total domestic credit	-128.0	-515.5	-74.7	83.6	20.3	-14.5	-20.2	39.8	-3.3	2.6	-0.3	7.7
Credit to government (net)	-146.1	-45.1	-36.4	43.8	-9.8	-11.9	-14.1	26.3	-0.8	-1.3	-1.5	5.4
Credit to the economy	-39.9	-8.7	-19.5	18.2	-0.7	9.4	-14.9	12.8	2.4	-6.1	-3.1	-2.5
(Changes as a percentage of opening broad money)												
Net foreign assets	60.8	40.6	24.2	42.6	12.1	29.3	39.1	67.2	5.3	18.2	13.9	11.7
Total domestic credit	-24.2	-21.7	-17.1	-31.9	-12.4	-8.8	-12.4	-24.3	2.3	-1.8	0.2	5.3
Credit to government (net)	-43.6	-26.4	-27.3	-42.7	-12.0	-14.6	-17.2	-32.2	1.0	1.6	1.9	6.7
Credit to the economy	19.5	4.7	10.2	10.8	-0.4	5.7	4.9	7.8	1.3	-3.4	-1.7	-1.4

Source: Central Bank of Lesotho.

1/ Includes rand notes and coins.

2/ Miners' Deferred Pay Fund.

Table 18. Lesotho: Assets and Liabilities of the Central Bank of Lesotho, March 1994-March 1999

(In millions of maloti; end of period)

	1994	1995	1996	1997				1998				1999
	March	March	March	March	June	Sep.	Dec.	March	June	Sep.	Dec.	March
Foreign assets	1,012.0	1,413.2	1,808.1	2,316.5	2,485.0	2,677.7	2,780.7	3,040.9	3,275.1	3,443.2	3,369.9	3,407.4
Claims on government	325.9	144.6	224.1	151.1	131.1	9.8	33.0	60.5	123.2	115.5	7.6	71.0
Unclassified assets	59.3	59.5	61.7	93.7	108.0	84.0	104.5	152.8	171.9	94.6	59.3	56.4
Total assets = total liabilities	1,397.2	1,617.3	2,093.9	2,561.3	2,724.1	2,771.5	2,918.2	3,254.2	3,570.1	3,653.2	3,436.8	3,534.9
Reserve money	175.7	192.4	230.2	241.1	254.8	353.8	367.9	397.5	420.6	516.2	515.9	516.3
Maloti in circulation	61.1	73.9	91.5	107.2	107.1	111.8	111.9	109.5	126.1	135.4	154.0	149.0
Bankers' deposits	114.6	118.5	138.7	133.9	147.7	242.1	256.0	288.0	294.5	380.8	361.9	367.3
Foreign monetary liabilities	5.6	5.7	6.7	6.2	6.3	6.3	6.3	6.9	6.6	6.6	6.7	6.9
Government deposits	972.0	1,068.4	1,441.7	1,873.5	2,028.5	1,944.4	2,012.8	2,231.6	2,269.3	2,262.8	2,120.1	2,086.2
Other deposits	39.0	106.2	98.3	80.9	73.6	81.4	80.6	98.0	93.9	84.0	73.2	99.3
Capital accounts	62.0	67.3	71.4	79.6	79.2	80.7	80.6	83.1	86.8	93.3	94.9	81.8
Capital and reserves	43.7	48.2	50.1	56.1	55.7	58.0	57.9	60.3	64.0	63.3	64.0	64.0
Allocation of SDRs	18.3	19.1	21.3	23.5	23.5	22.8	22.7	22.8	22.8	29.9	30.9	17.8
Unclassified liabilities	142.9	177.3	245.6	280.0	281.7	304.9	369.4	437.2	693.0	690.3	626.0	744.3

Source: Central Bank of Lesotho.

Table 19. Lesotho: Assets and Liabilities of Commercial Banks, March 1994-March 1999

(In millions of maloti; end of period)

	1994	1995	1996	1997				1998				1999
		March		March	June	Sep.	Dec.	March	June	Sep.	Dec.	March
Reserves	123.0	92.8	151.4	146.6	166.8	239.6	244.1	313.2	317.0	406.3	479.2	384.6
Maloti on hand	10.0	12.5	15.7	20.4	22.7	21.8	22.0	18.3	19.4	5.6	8.9	21.5
Rand on hand	6.9	6.6	6.3	6.7	8.8	6.5	12.6	8.5	9.0	3.8	11.6	5.3
Balances with central bank	106.1	73.7	129.4	119.5	135.3	211.3	209.4	286.4	288.5	396.8	458.7	357.7
Foreign assets	342.7	352.1	272.0	255.9	290.3	425.9	544.6	746.6	877.1	484.4	479.2	356.0
Claims on government	93.7	92.3	64.4	61.2	63.5	68.6	74.3	57.2	48.6	59.0	51.5	35.2
Claims on statutory bodies	29.1	38.5	92.8	166.6	143.1	125.7	124.3	124.0	124.0	166.3	225.6	237.5
Claims on private sector 1/	529.2	568.2	632.2	690.4	708.3	811.7	801.2	842.7	865.7	741.7	711.6	705.0
Unclassified assets	140.3	148.9	183.4	129.3	161.0	55.8	159.6	50.5	106.5	105.2	14.6	219.9
Total assets = total liabilities	1,258.0	1,292.8	1,396.2	1,450.0	1,533.0	1,727.2	1,948.0	2,134.2	2,338.8	1,962.8	1,961.6	1,938.2
Demand and call deposits 2/	412.3	435.2	418.0	533.7	576.2	644.1	724.2	782.9	813.1	1,026.9	890.2	859.7
Savings and time deposits 2/	452.2	507.0	581.5	642.6	651.3	672.3	716.1	740.4	723.3	604.6	694.8	629.1
Savings deposits	352.5	407.0	441.2	473.9	475.9	498.8	532.5	549.2	534.0	501.6	564.8	515.5
Time deposits	99.7	100.0	140.3	168.7	175.4	173.6	183.6	191.1	189.3	103.0	130.0	113.6
Miners' Deferred Pay Fund	53.9	54.1	48.4	56.9	53.8	53.3	47.4	32.6	17.8	38.8	38.8	49.2
Foreign liabilities	36.5	29.7	61.1	33.3	69.0	154.3	244.5	308.7	581.0	126.8	131.4	77.3
Government deposits	49.2	41.7	37.5	50.9	46.5	50.2	48.1	48.7	48.1	46.7	68.5	66.4
Capital accounts	117.3	155.9	158.4	44.5	34.0	-54.3	-69.5	-120.7	-138.2	-26.9	-38.3	102.7
Unclassified liabilities	136.6	69.2	91.2	88.1	102.2	207.2	237.2	341.7	293.7	145.9	176.2	153.9

Source: Central Bank of Lesotho.

1/ Includes mortgages from March 1994.

2/ Excludes Miners' Deferred Pay Fund and nonresidents' deposits.

Table 20. Lesotho: Principal Aggregates of Commercial
Banks' Operations, March 1993-December 1998

(In millions of maloti, unless otherwise specified; end of period)

	Deposits 1/	Loans and Advances 2/	Credit- Deposit Ratio 3/	Liquid Assets 4/	Liquidity Ratio 5/
1993					
March	746.0	480.6	64.4	383.6	51.4
June	806.4	503.6	62.5	353.1	43.8
September	807.5	526.1	65.2	257.6	31.9
December	885.8	516.9	58.3	328.6	37.1
1994 6/					
March	935.0	597.0	63.9	270.4	28.9
June	923.6	634.2	68.7	248.9	26.9
September	920.5	629.5	68.4	262.9	28.6
December	976.7	611.2	62.4	329.6	33.7
1995					
March	983.9	642.5	65.3	221.1	22.5
June	959.9	658.3	68.9	288.2	30.2
September	971.9	664.0	68.3	288.7	29.7
December	1,031.9	680.7	66.0	294.3	28.5
1996					
March	1,037.0	639.5	61.7	320.9	30.9
June	1,115.9	657.0	58.9	330.9	29.7
September	1,122.5	693.0	61.7	211.7	18.9
December	1,230.0	714.7	58.1	410.1	33.3
1997					
March	1,227.2	759.2	61.9	255.8	20.8
June	1,274.0	751.9	59.0	251.4	19.7
September	1,326.9	810.4	61.1	375.4	28.3
December	1,380.2	792.7	57.4	344.4	24.9
1998					
March	1,453.0	818.3	56.3	487.1	32.9
June	1,494.5	825.4	55.2	469.9	31.4
September	1,537.5	786.1	51.1	588.9	38.3
December	1,547.5	804.9	52.0	658.9	42.6

Source: Central Bank of Lesotho.

1/ Excludes Miners' Deferred Pay Fund and deposits of nonresidents.

2/ Excludes loans and advances to nonresidents. Includes treasury bills held by banks.

3/ Loans and advances as a percentage of deposits.

4/ Cash reserves, call or demand deposits with banks in the Common Monetary Area, and short-term government securities.

5/ Liquid assets as percentage of deposits.

6/ From 1994, loans and advances include mortgages.

Table 21. Lesotho: Sectoral Distribution of Commercial Bank Credit to the Private Sector and Statutory Bodies, March 1994-December 1998 1/

(In millions of maloti; end of period)

	1994	1995	1996	1997				1998			
		March		March	June	Sep.	Dec.	March	June	Sep.	Dec.
Agriculture	37.9	36.4	39.7	41.0	45.7	51.8	55.7	52.5	50.1	42.8	41.7
Mining and quarrying	0.5	0.7	0.9	0.8	0.8	0.8	1.2	5.1	1.7	0.9	0.9
Manufacturing	59.0	63.6	62.8	67.6	82.0	68.7	72.7	73.6	77.9	80.4	73.8
Electricity, gas, and water	13.3	9.2	70.3	76.4	66.9	72.7	77.4	98.6	81.7	90.5	132.6
Construction	87.8	97.7	146.8	221.0	188.4	181.5	179.8	201.6	228.4	164.6	163.1
Trade, hotels, and restaurants	69.4	76.9	64.4	68.5	75.6	61.0	70.3	65.4	76.2	72.8	64.5
Transport, storage, and communications	42.5	57.1	50.6	57.5	63.7	68.6	68.8	76.7	71.3	63.4	62.9
Nonbank financial institutions, real estate, and business services	32.2	30.8	42.7	51.3	48.4	51.8	66.8	63.3	62.5	54.7	63.3
Community, social, and personal services	49.6	40.1	36.1	37.5	47.2	140.4	76.8	66.0	75.9	61.4	67.9
Personal loans 2/	166.1	184.1	210.7	235.3	283.3	295.0	311.8	309.8	305.8	318.2	308.3
Other 3/	0.0	10.1	-0.2	0.1	-50.5	-55.0	-55.7	-45.8	-41.8	-41.8	-41.7
Total claims on the economy	558.3	606.7	725.0	857.0	851.4	937.4	925.5	966.7	989.7	907.9	937.2
Private sector	529.2	568.2	632.2	690.4	708.3	811.7	801.2	842.7	865.7	741.7	711.6
Business enterprises	363.1	384.1	421.5	455.1	425.0	516.7	489.4	532.8	559.9	423.5	403.3
Personal loans 2/	166.1	184.1	210.7	235.3	283.3	295.0	311.8	309.8	305.8	318.2	308.3
Statutory bodies	29.1	38.5	92.8	166.6	143.1	125.7	124.3	124.0	124.0	166.3	225.6

Sources: Central Bank of Lesotho, *Quarterly Reviews* and *Annual Reports*; and staff estimates.

1/ Does not include investments and certain securities.

2/ Includes mortgages from March 1994.

3/ Calculated as residual.

Table 22. Lesotho: Interest Rates Paid by the Central Bank
on Commercial Bank Deposits, March 1993-December 1998

(In percent per annum; end of period)

	Call	31 Days	88 Days	6 Months	1 Year
1993					
March	9.3	9.6	9.8	9.7	9.4
June	9.3	9.6	9.8	9.7	9.4
September	9.3	9.6	9.8	9.7	9.4
December	8.1	8.7	9.1	9.2	9.3
1994					
March	8.1	8.7	9.1	9.2	9.3
June	8.1	8.7	9.1	9.2	9.3
September	8.1	8.7	9.1	9.2	9.3
December	8.9	9.5	10.1	10.5	12.3
1995					
March	10.3	10.9	12.1	12.7	13.6
June	11.0	11.5	12.8	13.2	14.5
September	11.0	11.5	12.8	13.2	14.5
December	11.0	11.5	12.8	13.2	14.5
1996					
March	11.0	11.5	12.8	13.2	14.5
June	13.8	14.2	15.3	15.5	15.4
September	13.6	13.9	14.1	14.1	14.0
December	15.0	15.3	15.5	15.4	15.2
1997					
March	15.0	15.3	15.5	15.4	15.2
June	13.6	14.2	14.5	14.5	14.5
September	13.6	14.0	13.9	13.9	13.9
December	13.2	13.6	13.7	13.5	13.5
1998					
March	12.6	12.9	12.9	12.8	12.7
June	14.2	16.8	16.9	15.0	14.5
September	19.3	19.7	20.5	20.6	20.6
December	16.0	16.3	16.3	16.2	15.8

Source: Central Bank of Lesotho.

Table 23. Lesotho: Interest Rates at Commercial Banks, March 1994-December 1998

(In percent per annum; end of period)

	1994				1995				1996				1997				1998			
	March	June	Sep.	Dec.	March	June	Sep.	Dec.	March	June	Sep.	Dec.	March	June	Sep.	Dec.	March	June	Sep.	Dec.
Lending rates 1/																				
Minimum	14.0	14.0	14.0	15.0	16.5	16.5	16.5	16.5	16.5	16.5	18.0	18.5	18.5	18.1	18.1	17.1	17.1	18.5	23.5	22.0
Maximum	24.0	24.0	24.0	25.0	26.5	26.5	26.5	26.5	26.5	29.0	28.0	28.5	28.1	28.1	28.1	28.1	27.1	18.5	33.5	22.0
Deposit rates																				
Savings deposits 2/	6.0	6.0	6.0	6.1	6.1	6.2	6.2	6.2	6.2	6.0	6.0	6.0	6.0	6.0	6.0	6	6.0	6.0	6.0	4.0
Time deposits																				
31 days	6.7	6.7	6.7	7.5	10.3	10.3	10.3	10.3	10.3	11.0	10.0	10.0	10.0	9.6	8.8	8.8	8.8	9.6	12.0	11.0
1 year	7.5	7.5	7.5	10.5	13.6	13.6	13.6	13.6	13.6	13.8	11.5	11.3	11.25	10.6	10.5	10.5	10.5	10.5	12.0	10.4
Memorandum items:																				
South African rates																				
Prime overdraft	15.3	15.3	16.3	16.3	17.5	17.5	18.5	18.5	18.5	20.5	19.3	20.3	20.3	20.3	20.3	19.3	19.3	22.3	25.5	22.0
Deposit rates																				
Notice (31 days)	10.3	10.5	11.5	11.8	12.5	13.0	13.5	14.3	14.3	15.8	15.3	17.0	16.3	15.5	15.5	14.5	13.0	18.0	20.9	17.8
Fixed (12 months)	9.8	11.0	12.3	13.7	14.3	15.0	14.5	13.9	13.5	15.1	14.9	16.0	15.4	14.8	14.1	14.0	12.6	15.8	21.0	17.4

Sources: Central Bank of Lesotho, *Quarterly Review*; and South African Reserve Bank, *Quarterly Bulletin*.

1/ Minimum and maximum lending rates are not statutory rates; they simply indicate the range of interest rates reported by banks.

2/ Minimum deposit rates.

Table 24. Lesotho: Comparative Money Market Rates, March 1993-December 1998

(In percent per annum; end of period)

End of Period	Discount Rate		Treasury Bills		Treasury Bonds Lesotho 3/		
	CBL 1/	SARB 2/	Lesotho	South Africa	Two years	Three years	Five years
1993							
March	15.0	13.0	11.1	11.2	10.0	12.0	14.0
June	15.0	13.0	10.1	11.9	...	...	...
September	15.0	13.0	10.0	11.1	...	...	...
December	13.5	12.0	9.9	11.2	...	...	...
1994							
March	13.5	12.0	9.9	10.2	...	...	...
June	13.5	12.0	9.3	10.7	...	...	...
September	13.5	13.0	9.3	10.9	...	...	...
December	13.5	13.0	10.4	12.7	...	...	...
1995							
March	13.5	14.0	10.4	12.8	...	...	...
June	15.5	15.0	12.3	14.1	...	...	...
September	15.5	15.0	13.0	14.0	...	...	...
December	15.8	15.0	13.0	14.2	...	...	...
1996							
March	15.8	15.0	13.0	14.2	...	...	...
June	15.8	16.0	15.5	15.7	...	...	...
September	16.0	16.0	14.3	15.1	...	...	...
December	17.0	17.0	14.3	16.1	...	...	...
1997							
March	17.0	17.0	15.7	15.8	...	...	...
June	16.0	17.0	15.2	15.2	...	...	...
September	16.6	17.0	14.2	14.7	...	...	...
December	15.6	16.0	13.9	14.7	...	...	...
1998							
March	15.6	16.0	13.1	12.9	...	...	...
June	17.0	16.0	17.2	18.8	...	...	...
September	21.0	16.0	20.7	20.1	...	...	...
December	19.5	16.0	16.6	17.0	...	...	...

Source: Central Bank of Lesotho.

1/ Central Bank of Lesotho.

2/ South African Reserve Bank.

3/ Treasury bond transactions have been discontinued since June 1993.

Table 25 Lesotho: Balance of Payments, 1994/95-1998/99 1/

	1994/95	1995/96	1996/97	1997/98	1998/99 Est.
	(In millions of U.S. dollars)				
Trade balance	-789.5	-882.6	-798.3	-818.4	-614.3
Exports	149.5	155.2	191.1	196.5	175.4
Imports, f.o.b.	-939.0	-1,037.8	-989.4	-1,014.8	-789.7
<i>Of which: LHWP 2/</i>	-122.6	-135.8	-121.9	-153.4	-77.6
Services (net)	-4.7	-16.6	52.3	14.9	19.3
Receipts	49.1	51.6	119.5	81.7	75.2
Payments	-53.8	-68.2	-67.2	-66.7	-55.9
Income (net)	334.9	339.1	315.2	322.0	223.0
Labor income (net)	343.8	354.9	301.6	313.9	212.5
Receipts	402.8	425.7	360.5	372.5	254.3
<i>Of which: miners' wages</i>	337.4	357.0	299.7	310.5	191.5
Payments	-59.0	-70.7	-58.9	-58.6	-41.9
Investment income (net)	-8.9	-15.8	13.7	8.1	10.5
Receipts	46.4	65.5	67.7	68.3	60.7
Payments	-55.3	-81.3	-54.1	-60.2	-50.2
<i>Of which: interest on debt</i>	-10.4	-11.8	-13.3	-14.2	-20.1
Unrequited transfers	231.3	247.5	214.1	239.0	185.1
Official	228.7	244.9	212.1	237.6	183.9
Southern African Customs Union nonduty receipts	152.4	169.7	154.5	176.9	150.3
LHWP (hydropower) 2/	17.0	13.2	8.5	19.1	2.5
Other grants	59.3	62.0	49.2	41.6	31.2
Private	2.7	2.6	2.0	1.4	1.2
Current account	-227.9	-312.6	-216.7	-242.4	-187.0
Long-term capital net	291.0	293.2	291.5	345.4	213.3
Official loans (net)	25.4	34.4	56.4	81.2	3.0
Disbursements	41.2	56.1	75.1	101.6	29.0
Repayments	-15.7	-21.7	-18.7	-20.4	-26.0
Private loans (net)	-0.5	-1.3	-1.3	-0.8	0.6
Private foreign investment	266.0	260.1	236.5	265.0	209.8
<i>Of which: LHWP 2/</i>	222.8	232.4	206.9	233.6	198.6
Short-term capital (net)	10.0	-35.8	3.1	45.8	-9.1
Errors and omissions	30.7	150.6	28.9	-21.7	15.5
Overall surplus/deficit	103.7	95.4	106.9	127.1	32.7
Change in reserves (increase -)	-103.7	-95.4	-106.9	-127.1	-32.7
Memorandum items:	(In percent of GNP, unless otherwise indicated)				
Current account (excluding official transfers)	-38.3	-42.7	-34.1	-36.3	-35.2
Current account (including official transfers)	-19.1	-24.0	-17.2	-18.3	-17.7
Gross official reserves (in millions of U.S. dollars)	393.6	454.2	523.8	604.0	580.0
Net official reserves (in millions of U.S. dollars)	392.0	452.5	522.4	602.6	578.8
Gross official reserves (in months of imports) 3/	5.1	5.6	6.8	8.8	8.9
Stock of external debt (in millions of U.S. dollars)	550.7	584.4	601.6	628.5	641.3
Stock of external debt	46.3	48.5	47.2	50.5	61.4
Debt-service ratio (in percent of exports, services, and factor income)	4.0	4.8	4.3	4.8	8.2
Export growth (in percent) 4/	6.0	-3.1	28.0	1.7	-1.3
Import growth (in percent) 4/ and 5/	5.2	4.0	3.4	0.0	-8.3
Exchange rate (maloti per U.S. dollars, average)	3.6	3.7	4.5	4.7	5.8

Sources: Central Bank of Lesotho; and Fund staff estimates and projections.

1/ Fiscal year beginning in April.

2/ Lesotho Highlands Water Project (LHWP).

3/ Based on next year's imports and excludes LHWP.

4/ In real terms.

5/ Excludes LHWP imports.

Table 26. Lesotho: Balance of Payments, 1994/95 - 1998/99 1/

	1994/95	1995/96	1996/97	1997/98	1998/99 Est.
	(In millions of maloti)				
Trade balance	-2,828.5	-3,246.7	-3,579.7	-3,877.8	-3,577.1
Exports	535.5	570.8	856.8	931.0	1,021.0
Imports, f.o.b.	-3,364.0	-3,817.5	-4,436.5	-4,808.8	-4,598.2
<i>Of which: LHWP 2/</i>	-439.3	-499.5	-546.6	-726.9	-451.8
Services (net)	-16.8	-61.0	234.6	70.8	112.2
Receipts	175.9	189.9	536.0	387.0	437.9
Payments	-192.7	-250.9	-301.4	-316.3	-325.7
Income (net)	1,199.9	1,247.3	1,413.6	1,525.6	1,298.3
Labor income (net)	1,231.6	1,305.6	1,352.4	1,487.3	1,237.1
Receipts	1,443.0	1,565.8	1,616.4	1,764.9	1,480.8
<i>Of which: miners' wages</i>	1,208.8	1,313.3	1,343.7	1,471.2	1,115.2
Payments	-211.4	-260.3	-264.1	-277.6	-243.7
Investment income (net)	-31.7	-58.3	61.2	38.3	61.2
Receipts	166.3	240.9	303.7	323.5	353.4
Payments	-198.0	-299.2	-242.5	-285.2	-292.2
<i>Of which: interest on debt</i>	-37.2	-43.5	-59.6	-67.1	-117.2
Unrequited transfers	828.7	910.4	959.9	1,132.7	1,077.6
Official	819.2	900.9	951.0	1,125.9	1,070.8
Southern African Customs Union nonduty receipts	546.1	624.2	692.6	838.3	875.0
LHWP (hydropower) 2/	60.8	48.5	37.9	90.4	14.3
Other grants	212.4	228.2	220.5	197.2	181.5
Private	9.5	9.5	8.9	6.8	6.8
Current account (including official transfers)	-816.7	-1,150.0	-971.6	-1,148.8	-1,089.0
Long-term capital net	1,042.5	1,078.7	1,307.3	1,636.6	1,242.1
Official loans (net)	91.1	126.7	252.8	384.6	17.2
Disbursements	147.5	206.4	336.8	481.3	168.6
LHWP (hydropower) 2/	25.1	98.0	98.2	199.5	52.9
Other	122.4	108.4	238.6	281.8	115.7
Repayments	-56.4	-79.7	-84.0	-96.7	-151.4
LHWP (hydropower) 2/	0.0	0.0	0.0	0.0	-11.2
Other	-56.4	-79.7	-84.0	-96.7	-140.2
Private loans (net)	-1.8	-4.9	-5.8	-3.9	3.4
Private foreign investment	953.1	956.9	1,060.3	1,255.9	1,221.5
<i>Of which: LHWP 2/</i>	798.4	854.9	927.8	1,106.9	1,156.5
Short-term capital (net)	35.8	-131.8	13.8	217.2	-52.9
Errors and omissions	109.9	554.0	129.7	-102.7	90.1
Overall surplus/deficit 3/	371.5	350.8	479.2	602.3	190.3
Change in reserves (increase -) 3/	-371.5	-350.8	-479.2	-602.3	-190.3
Memorandum items:	(In percent of GNP, unless otherwise indicated)				
Current account (including official transfers)	-19.1	-24.0	-17.2	-18.3	-17.7
Net official reserves (in millions of maloti)	1,407.5	1,801.4	2,310.3	3,034.0	3,400.5
Net official reserves (in months of imports) 4/	5.1	5.6	6.8	8.8	8.9
Debt-service ratio (in percent of exports, services and factor income)	4.0	4.8	4.3	4.8	8.2
Stock of external debt	46.3	48.5	47.2	50.5	61.4

Sources: Central Bank of Lesotho; and staff estimates.

1/ Financial year is April-March.

2/ Lesotho Highlands Water Project (LHWP).

3/ Excludes the effects of valuation.

4/ Based on next year's imports and excludes LHWP.

Table 27. Lesotho: Services and Income Account, 1994/95-1998/99 1/

(In millions of maloti)

	1994/95	1995/96	1996/97	1997/98	1998/99 Est.
Nonfactor services (net)	-16.8	-61.0	-234.6	70.8	112.2
Credit	175.9	189.9	536.0	387.0	437.9
Shipment	0.0	0.0	0.0	0.0	0.0
Other transportation	10.3	8.3	10.1	11.9	12.2
Travel	61.6	73.2	100.2	108.9	111.1
Sales of water (and power)	0.0	0.0	142.8	83.3	120.0
Other official	68.4	70.5	235.2	143.3	149.1
Other private	35.6	38.0	47.7	39.6	45.6
Debit	-192.7	-250.9	-301.4	-316.3	-325.7
Shipment	-125.0	-147.9	-167.6	-186.8	-178.6
Other transportation	-13.8	-16.3	-17.7	-16.2	-17.9
Travel	-32.7	-48.4	-108.5	-61.9	-78.7
Other official	-10.3	-8.5	-3.3	-43.6	-39.7
Other private	-10.9	-29.8	-4.4	-7.7	-10.9
Factor incomes (net)	1,199.9	1,247.3	1,413.6	1,525.6	1,298.3
Credit	1,609.3	1,806.7	1,920.1	2,088.4	1,834.2
Investment income	166.3	240.9	303.7	323.5	353.4
Interest earned by commercial banks	51.5	61.8	61.1	27.9	27.8
Interest earned by the central bank	114.8	179.0	242.6	295.5	325.5
Labor income	1,443.0	1,565.8	1,616.4	1,764.9	1,480.8
Debit	-409.4	-559.4	-506.6	-562.8	-535.9
Investment income	-198.0	-299.2	-242.5	-285.2	-292.2
Dividends and profits	-160.8	-255.6	-183.0	-218.1	-175.0
Interest	-37.2	-43.5	-59.6	-67.1	-117.2
Labor income	-211.4	-260.3	-264.1	-277.6	-243.7
Total services and income (net)	1,183.1	1,186.3	1,648.2	1,596.4	1,409.4

Source: Central Bank of Lesotho.

1/ Financial year is April-March.

Table 28. Lesotho: Lesotho Miners in South Africa, 1994-98

	1994	1995	1996	1997	1998
Total average number employed (in thousands)	112.7	103.7	101.2	96.5	76.1
Annual percentage change	-2.9	-8.0	-2.4	-4.7	-21.1
<i>Of which: employed through TEBA 1/</i>					
Average number (in thousands)	89.1	87.9	85.7	79.5	62.0
Annual percentage change	-1.0	-1.3	-2.5	-7.2	-22.0
Employed through TEBA/total employed (in percent)	79.0	84.8	84.7	82.4	81.5
Average annual earnings (in maloti) 2/	14,562.0	16,801.0	19,186.0	21,193.0	24,084.0
Annual percentage change	9.0	15.4	14.2	10.5	13.6
Total earnings (in millions of maloti)	1,641.5	1,743.0	1,942.3	2,045.1	1,832.8
Annual percentage change	5.8	6.2	11.4	5.3	-10.4
Miners' remittances (in millions of maloti) 3/	1,170.5	1,242.4	1,384.3	1,329.3	1,118.0
Deferred pay 4/	320.0	410.6	415.3	355.7	260.4
<i>Of which: TEBA 1/</i>	264.1	281.0	183.9	159.2	152.9
Remittances through TEBA 1/	166.5	209.2	311.3	249.2	353.0
Unrecorded remittances 5/	684.0	622.6	657.7	724.4	504.6
Miners' remittances (as percentage of total earnings)	71.3	71.3	71.3	65.0	61.0
Miners' remittances (annual percentage change)	6.0	6.1	11.4	-4.0	-15.9

Sources: Central Bank of Lesotho; Department of Labor; and the Employment Bureau for Africa.

1/ The Employment Bureau for Africa, an agency of the South African Chamber of Mines.

2/ Average for Lesotho miners, including overtime payments and repatriation allowances, as reported by the South African Chamber of Mines.

3/ Estimated by the Central Bank of Lesotho as approximately 71 percent of total earnings, except for 1997 and 1998, which are based on incomplete data of the Department of Labor published in the the Central Bank's *Quarterly Review*.

4/ Compulsory deposits to Miners' Deferred Pay Fund; 30 percent of basic wages since April 1995.

5/ Calculated as residual.

Table 29. Lesotho: Composition of Recorded Exports, 1994-98

	1994	1995	1996	1997	1998
(In millions of maloti, unless otherwise indicated)					
Foodstuffs, etc.	21.1	31.2	33.8	43.8	41.2
Cereals	7.7	7.2	9.2	18	19.4
Beans, peas, and other vegetables	3.8	2.5	1.3	4.9	5.0
Animal feed	4.1	8.4	8.4	15.7	7.3
Beverages and tobacco	2.2	1.6	0.5	0.1	0.0
Other foodstuffs	3.3	11.5	14.4	5.1	9.5
Live animals	7.1	3.9	1.6	2.3	4.0
Cattle	6.1	2.7	1.6	2.3	4.0
Sheep and goats	0.7	1.1	0.0	0.0	0.0
Pigs	0.3	0.1	0.0	0.0	0.0
Livestock materials	32.2	34.6	32.9	29.2	24.4
Wool	22.7	27.4	22.7	23.5	21.0
Mohair	8.6	5.2	9.4	4.9	2.0
Hides and skins	0.9	1.5	0.7	0.8	1.4
Crude materials	0.0	0.5	0.1	0.0	0.0
Diamonds	0.5	1.6	1.6	1.3	0.4
Other	448.4	509.3	742.2	827.2	928.5
Chemicals and petroleum	2.5	7.4	24.7	16.6	9.0
Leather products	0.9	0.0	0.3	0.0	0.0
Wood products	0.1	0.0	0.3	0.0	0.0
Yarn and textiles, etc.	2.2	4.3	3.2	6.3	7.0
Road vehicles	10.4	34.3	18.5	32.7	16.1
Furniture and parts	40.5	10.1	10.8	11.3	3.1
Clothing, etc.	279.0	284.1	368.8	403.4	472.2
Footwear	35.1	44.7	153.1	177.4	253.6
Other manufactures	77.5	124.3	162.0	178.9	155.8
Unclassified	0.2	0.1	0.5	0.6	11.7
Total value	509.3	580.6	812.1	903.8	998.5
Change (in percent)	16.0	14.0	39.9	11.3	10.5
(Volume as indicated)					
Wool (in metric tons)	1,686.0	1,957.8	2,082.5	1,861.3	950.8
Mohair (in metric tons)	407.0	142.3	373.7	258.5	1,999.2
Diamonds (in thousands of carats)	1.2	13.9	1.2	0.6	0.4
Value per carat (in maloti)	416.7	115.0	169.5	136.1	164.1

Source: Central Bank of Lesotho.

Table 30. Lesotho: Direction of Trade, 1994 - 98 1/

(In millions of maloti)

	1994		1995		1996		1997		1998	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
World	3,391.8	509.3	3,994.7	580.6	4,815.6	812.1	5,253.5	902.5	4,915.7	998.7
Africa	2,881.2	261.8	3,623.7	306.6	4,462.3	569.6	4,704.4	581.4	4,436.1	654.9
Common customs area	2,866.5	258.9	3,621.3	299.6	4,417.7	562.6	4,687.1	580.0	4,408.0	652.9
Other Africa	14.7	2.9	2.4	7.0	44.6	7.0	17.3	1.4	28.1	2.0
European Union	78.7	51.3	85.3	53.8	55.4	43.6	87.5	11.7	40.5	7.4
Belgium	0.9	...	1.6	...	1.0	...	7.5	...	2.9	...
Denmark	10.1	...	2.5	...	0.9	...	0.4	...	0.9	...
France	13.8	...	36.7	...	16.2	...	27.9	...	3.2	...
Germany	16.7	...	19.6	...	18.3	...	4.0	...	2.2	...
Italy	17.9	...	7.9	...	3.5	...	2.7	...	2.8	...
Netherlands	2.3	...	0.7	...	1.0	...	2.0	...	5.5	...
United Kingdom	17.0	...	15.2	...	14.5	...	43.1	...	23.1	...
Other Europe	3.7	1.9	36.2	0.5	19.4	0.1	11.4	0.3	26.9	0.2
North America 2/	44.9	192.7	29.0	218.3	23.7	198.5	52.5	308.4	84.2	333.1
Canada	4.3	...	13.9	...	9.5	...	33.9	...	49.5	...
United States	40.6	...	15.1	...	14.2	...	18.6	...	34.7	...
Asia	377.2	1.6	219.5	1.4	254.0	0.3	394.8	0.7	309.2	2.2
Japan	46.8	...	21.0	...	24.6	...	24.7	...	21.0	...
Hong Kong, S.A.R.	102.3	...	30.1	...	8.2	...	22.6	...	19.2	...
Taiwan Province of China	150.0	...	114.8	...	154.5	...	192.1	...	183.5	...
Other	78.1	...	53.6	...	66.7	...	155.4	...	85.6	...
Oceania	6.1	0.0	1.0	0.0	0.8	0.0	2.9	0.0	18.9	0.9

Source: Central Bank of Lesotho.

1/ Imports are c.i.f., duty exclusive, and excluding donated food; exports are f.o.b.

2/ Almost all of these exports are to the United States.

Table 31. Lesotho: Public and Publicly Guaranteed External Debt Outstanding, 1994/95-1998/99 1/

	1994/95	1995/96	1996/97	1997/98	1998/99
(In millions of U.S. dollars)					
Multilateral sources	469.1	479.7	485.5	497.4	512.5
IMF	42.7	37.3	33.6	25.1	21.9
World Bank Group	194.3	208.1	226.7	229.2	241.3
IBRD	42.8	54.1	62.5	65.5	61.1
International Development Association	151.6	154.1	164.3	163.7	180.2
African Development Bank	28.1	24.2	19.1	15.4	15.7
African Development Fund	142.1	147.1	156.9	150.4	158
Other	64.0	26.6	83.0	77.3	75.6
Bilateral sources	57.0	61.5	65.9	61.4	59.6
Commercial	24.6	43.2	50.2	69.7	69.2
Commercial banks	21.4	37.8	45.1	59.0	56.8
Export credits	3.2	5.4	5.1	10.7	12.4
Total	550.7	584.4	601.6	628.5	641.3
(As percent of total debt)					
Multilateral	85.2	82.1	80.7	79.1	79.9
Bilateral	10.4	10.5	11.0	9.8	9.3
Commercial	4.5	7.4	8.3	11.1	10.8
(As percent of GNP) 2/					
Multilateral	42.7	42.5	39.0	45.0	54.0
Bilateral	5.0	5.2	4.8	5.6	6.3
Commercial	2.2	3.8	4.0	6.3	7.3
Total	53.0	48.2	51.8	59.1	67.5
Memorandum items:					
External debt/GNP ratio	46.3	48.5	47.2	50.5	61.4
GNP (in millions of maloti)	4,274.4	4,798.7	5,639.7	6,271.5	6,139.5
Maloti per U.S. dollar (end of fiscal year)	3.6	4.0	4.2	5.0	5.9

Source: External Debt Unit, Ministry of Finance; and staff estimates.

1/ End of fiscal year (April-March).

2/ Based on debt data in maloti at end-period exchange rates.

Lesotho: Summary of the Tax System, February 1999

(All amounts in maloti)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1. Taxes on net income and profits			
1.1 Taxes on companies, corporations, or enterprises			
1.1.1 Income tax Income Tax Act 1993, Order No. 9 of 1993 (this act repeals the 1981 Income Tax Act); Income Tax (Amendment) Act 1994; and Income Tax (Amendment) Act 1996.	A tax on the current year's income from all geographical sources (in the case of resident companies) including on specified fringe benefits to employees. Dividends paid by a resident company to a resident shareholder are exempt but advance corporate tax applies.	Deductions include normal operating costs, expenditures for repair and maintenance, and depreciation of plant and machinery. Expenditure on the training of Basotho workers is deductible up to 125 percent of actual expenditure incurred. The income of pension funds, life insurance companies, and charitable institutions is exempt.	For all sectors of activity other than manufacturing, 35 percent; a reduced rate (15 percent) is applicable to all manufacturing companies other than those approved for Pioneering Industries benefits before August 3, 1990 (see Item 6, below). For nonresident companies, 25 percent.
1.1.2 Gambling levy The Casino Act, No. 26 of 1969; Legal Order No. 42 of 1971. Casino Order No. 4 of 1989.	A levy on gross profits of gambling casinos.		15 percent

Lesotho: Summary of the Tax System, February 1999

(All amounts in maloti)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.2 Taxes on individuals			
1.2.1 Income tax Income Tax Act 1993.	<p>A tax on the current year's income from all geographical sources (in the case of residents).</p> <p>Gross income includes incomes in kind, except for benefits subject to fringe benefits tax.</p> <p>Tax is withheld at source at a rate of 10 percent on interest paid (in excess of the exempt amounts) and at 5 percent on payments made by government to Lesotho resident contractors and subcontractors. Such amounts are a credit against the final amount of tax assessed for the recipient.</p>	<p>Exempt incomes include: the first M 500 of interest from savings; income from subsistence farming; scholarships; and foreign-source property income of expatriate taxpayers.</p> <p>Deductions include expenses of deriving income.</p> <p>A uniform personal tax credit of M 2,640 per taxpayer was introduced in April 1996.</p>	<p>Residents marginal rate (%)</p> <p>First M 30,000 25 percent Over M 30,000 35 percent</p> <p>Nonresidents marginal rate (%)</p> <p>All chargeable Income 25 percent</p>
1.2.2 Withholding tax Income Tax Act 1993.	<p>A tax on income from dividends, interest, royalties, natural resource payments, management charges, or services contracts earned within Lesotho by nonresidents.</p>	<p>Dividends from manufacturing companies are exempt.</p>	<p>Withholding tax is 25 percent.</p> <p>For royalties from nonmanufacturing companies, 15 percent.</p> <p>On service contracts earned within Lesotho by nonresidents, 10 percent.</p>

Lesotho: Summary of the Tax System, February 1999

(All amounts in maloti)

Tax	Nature of Tax	Exemptions and Deductions	Rates
2. Taxes on property			
2.1 Property rates Valuation and Rating Act 1980; Urban Government Act 1993; and Legal Notice No. 10 of 1997.	Taxes on urban land and improvements based on capital value of property, as assessed periodically. Improvements valued on basis of depreciated replacement value.	These taxes are currently applied only within Maseru, Teyateyaneng, and Mafeteng. Government pro- perty is subject to a grant in lieu.	Rates of 0.25 percent on residential property; 2.0 percent on commercial property; and 2.75 percent on industrial property.
2.2 Ground rents Land Act No. 17 of 1979; Land Regulations, Legal Notice No. 15 of 1980; and Legal Notice No. 131 of 1991.	A fee for use right to occupy land. Charged according to area of land and location.	Owner-occupiers are exempted.	M 0.05-0.10 per annum per square meter for residential land; M 0.25- 0.30 per annum per square meter for commercial land. Levy of 5 percent for late payment.
2.3 Death taxes			
2.3.1 Estate duty Proclamation No. 20 of 1935 as amended.	A duty paid by the estate in respect of property passing on the death of the person who owned the property at the time of death.	Any amount received under an insurance policy is not subject to tax.	Three ten thousandths M 2 for every M 200 or part thereof, subject to a maximum rate of M 0.67 per M 2. A rebate of M 600 is deducted from the amount of duty calculated.
2.3.2 Succession duty Proclamation No. 20 of 1935 as amended.	A duty levied on all successions accruing to any person.	Successions accruing to a surviving spouse, to the Lesotho government, and to nonprofit public institutions within Lesotho are exempt.	A rate of duty varying according to the degree of relationship of the successor from 3 percent to 12 percent of the dutiable amount. A 1 percent surcharge is levied on dutiable successions exceeding M 20,000.

Lesotho: Summary of the Tax System, February 1999

(All amounts in maloti)

Tax	Nature of Tax	Exemptions and Deductions	Rates
2.4 Transfer duty Transfer Duty Act, 1965, No. 7 of 1966; Transfer Duty Order, 1972, Order No. 1 of 1972.	A duty levied on the transfer of immovable property (including lease contracts for at least ten years and any rights to minerals).	The following are exempt: the Lesotho government and its departments, the Lesotho Electricity Corporation, the Lesotho Bank, the Lesotho Airways Corporation, the Lesotho National Development Corporation; local authorities; nonprofit public institutions and public hospitals; and a surviving spouse for the estate of a deceased spouse.	A duty of 3 percent on the first M 10,000 of value and 4 percent on the excess value.

Lesotho: Summary of the Tax System, February 1999

(All amounts in maloti)

Tax	Nature of Tax	Exemptions and Deductions	Rates												
3.	Taxes on goods and services														
3.1	General Sales Tax														
Sales Tax Act 1995, No. 14 of 1995, published April 29, 1996, implemented from August 31, 1996 (this act repealed the Sales Tax Act 1982 except for certain transitional administrative arrangements).	<p>A sales tax imposed on every taxable supply in Lesotho and on every import of goods and services. The act provides for the imposition of a single-stage sales tax at retail level. The act also paves the way for value-added tax (VAT) in that it provides for the claiming of credit for import tax paid in respect of certain supplies to, or certain imports by, a taxable vendor. It also provides for a credit for certain taxes paid on goods on hand at the time a person becomes registered.</p> <p>The act provides for mandatory and voluntary applications by vendors and compulsory registration by the Commissioner. Where the vendor has been registered, the Commissioner is obliged to issue a sales tax registration certificate. However, the Commissioner may refuse to issue a sales tax exemption certificate to be registered person.</p>	<p>Under Section 6(2) the act exempts from sales tax imports of goods prescribed in Schedule II (diplomatic purchases, passengers' baggage, household furniture and effects of new residents, relief and supplies, temporary imports, etc.). It further exempts the goods acquired by the vendor as raw materials for use in manufacturing or for re-supply in substantially the same state, and capital goods supplied to, or imported by, a manufacturer. The following sales or supplies are also exempted: goods as part of the transfer of an enterprise; goods to, or imports by, an employee of a foreign government or public international organization seconded to Lesotho; water; public postal services; passenger transport by road or air; medical and dental services; specified financial services; insurance services; and educational services. Government purchases are exempt.</p>	<p>Rates are prescribed by the minister by notice in the official gazette. The existing rates are:</p> <table style="margin-left: 20px;"> <thead> <tr> <th style="text-align: left;">Goods</th> <th style="text-align: left;">Rate (in percent)</th> </tr> </thead> <tbody> <tr> <td>General</td> <td>10</td> </tr> <tr> <td>Liquor</td> <td>20</td> </tr> <tr> <td>Telecommunications</td> <td></td> </tr> <tr> <td>And electricity</td> <td>5</td> </tr> <tr> <td>Exports</td> <td>nil</td> </tr> </tbody> </table>	Goods	Rate (in percent)	General	10	Liquor	20	Telecommunications		And electricity	5	Exports	nil
Goods	Rate (in percent)														
General	10														
Liquor	20														
Telecommunications															
And electricity	5														
Exports	nil														
3.2	Excise taxes														
Customs and Excise Consolidated Act, No. 10 of 1982.	<p>A tax on certain goods manufactured and imported into Lesotho, including beer, spirits, matches, tobacco, cigars, cigarettes, petroleum oils, motor vehicles, and tractors.</p>	<p>Exports and purchases by charitable organizations are exempt.</p>	<p>Both specific and ad valorem rates.</p>												

Lesotho: Summary of the Tax System, February 1999

(All amounts in maloti)

Tax	Nature of Tax	Exemptions and Deductions	Rates
3.3 Trade licenses Trading Enterprise Order, 1993; and Order No. 11 of 1997	Payable by traders carrying on business.	Charitable, religious, and nonprofit institutions are exempt.	Ranging from M 20 to M 500 depending on the type and size of establishment.
3.4 Petrol levy Fuel and Service Control Act 1983, No. 23 of 1983. Section 3(d) empowers the Minister to impose and collect a levy on fuel. Amended by Legal Notice No. 63, August 1988.	A levy on petrol of all grades or distillate supplied by any person.	Paraffin (kerosene) is exempt.	Rates are 43 lisente per liter on petrol sold to public for private cars, and 37 lisente per liter for diesel used in industry, agriculture, and public buses. In addition, there is an Equal- ization Fund levy of 3 lisente per liter.
4. Taxes on international trade and transactions			
4.1 Customs duties Customs and Excise Act, No. 10 of 1982.	A duty on all goods imported into Lesotho. A three-column tariff scheduled based on the Customs Cooperation Council (CCC) nomenclature with fiscal, general, and most-favored nation (MFN) rates of duty used. Goods originating from countries enjoying MFN status pay the fiscal and customs duties. There is no preferential rate of duty.	There are free-trade agreements with Botswana, Namibia, South Africa, and Swaziland.	Ad valorem duties charged on the domestic value of the goods at varying rates.
Customs Union Agreements, Legal Notice No. 71 of 1969 (effective March 1, 1970).	A duty collected by the Republic of South Africa and other partners (at port of arrival) and contributed to a common customs union pool held with Botswana, Namibia, South Africa, and Swaziland. Lesotho's share is calculated according to a fixed formula.		

Lesotho: Summary of the Tax System, February 1999

(All amounts in maloti)

Tax	Nature of Tax	Exemptions and Deductions	Rates
4.2 Livestock importation levy Legal Notice No. 196 of 1991.	A duty collected by the Ministry of Agriculture when the import permits are issued.		For private persons: M 30 and M 15 for each head of large and small stock, respectively. For licensed butchers: M 7.50 and M 3.75 for each head of large and small stock, respectively.
4.3 Sand and stones levy	A tax on the use of sand and stones for commercial purposes.		M 1 per ton.
4.4 Diamond sales tax Precious Stones Order 1970, No. 24 of 1970.	A sales tax on the value of every diamond found in Lesotho and exported therefrom.	Diamonds exported solely for exhibition or display purposes are exempt.	15 percent of the true market value of every diamond.
5. Other taxes			
5.1 Attestation fees	Fees on registration of migrant Basotho workers in South African mines.		M 10.15 per contract of 120 to 270 working days, payable at the time of worker's departure for mines.
5.2 Stamp duty Proclamation 16/07 as amended: Stamp Duties (Amendment) Order No. 20 of 1972; and Legal Notice No. 58 of 1988.	Duties levied on a range of instruments, including arbitrations and awards, bills of exchange, bonds, acts or deeds of donation, leases, transfers, and insurance policies.	The Lesotho government and its departments, the Lesotho Electricity Corporation, and the Lesotho Bank, are exempt.	Rates of duty varying depending on the nature of the instrument, the matter to which it relates, and its value.
5.3 Toll gate fees Toll Gate Act of 1976. Legal Notice No. 18 of 1988; and Legal Notice No. 1 of 1992.	Fees levied on vehicles leaving Lesotho.	Ministers on duty, His Majesty, ambulances, and South African Railway vehicles are exempt.	M 2 for cars, M 6 for trucks, applied each time leaving Lesotho.

Lesotho: Summary of the Tax System, February 1999

(All amounts in maloti)

Tax	Nature of Tax	Exemptions and Deductions	Rates
6. Pioneer Industries Pioneer Industries Encouragement Act, 1969, No. 19 of 1969, as amended.	Applicable to manufacturers and related industries and building companies establishing their operations in Lesotho that had already been approved for tax benefits to encourage pioneering industries by August 3, 1990.	Approved manufacturers may opt for ten years' exemption from income tax, with five more years carry-forward of assessed losses or a package of tax allowances, which can be extended for approved expansion. An approved existing manufacturer or a hotel or casino-keeper is limited to the package of allowances. The incentives can be revoked, varied, or extended according to the performance of the approved manufacturer, with the approval of the Minister of Trade.	Option for companies approved for tax benefits (mentioned in adjoining column) by August 3, 1990 of surrendering such benefits and immediately switching over to the 15 percent company tax rate or of retaining these benefits and paying the tax rate of 35 percent upon expiry of existing tax holidays. Most tax holiday companies already exercised this option—even before the report of the Pioneering Industries Encouragement Act.

Source: Ministry of Finance.

Lesotho: Exchange and Trade System

(Position as of December 31, 1998)

Subject Measure	Existence	Description
I. Status Under IMF Articles of Agreement		
Date of membership		July 25, 1968.
1. Article VIII	Yes	Date of acceptance: March 5, 1997.
2. Article XIV	No	
II. Exchange Arrangements		
1. Currency	Yes	The currency of Lesotho is the Lesotho loti.
Other legal tender	Yes	The South African rand is also legal tender.
2. Exchange rate structure	-	
a. Unitary	Yes	
b. Dual		
c. Multiple		
3. Classification	-	
a. Exchange rate, no separate legal tend		
b. Currency board arrangements		
c. Conventional pegged arrangement	Yes	The loti is pegged to the South African rand at M 1 per R 1.
d. Pegged exchange rate within bands		
e. Crawling peg		
f. Crawling band		
g. Managed floating, no preannounced path		
h. Independently floating		
4. Exchange tax	No	
5. Exchange subsidy	No	
6. Forward exchange market	Yes	Authorized dealers are permitted to conduct forward exchange operations through their correspondent banks abroad at rates quoted by the latter. Forward exchange cover, however, is not common in Lesotho.

Lesotho: Exchange and Trade System

(Position as of December 31, 1998)

Subject Measure	Existence	Description
Official coverage	n.a.	
III. Arrangements for Payments and Receipts		
1. Prescription of currency requirements	Yes	Settlements by or to residents of the Common Monetary Area (CMA) with all countries outside the CMA may be made in rand to and from a nonresident account and in any foreign currency.
2. Payments arrangements	Yes	
a. Bilateral payment agreement	No	
(1) Operative	No	
(2) Inoperative	No	
b. Regional arrangement	Yes	As Lesotho is part of the CMA, payments within the CMA are unrestricted and unrecorded except for statistical and customs purposes. In its relations with countries outside the CMA, Lesotho applies exchange controls that are largely similar to those applied by South Africa and Swaziland.
c. Clearing agreement	No	
d. Barter agreement and open accounts	No	
3. Administration of control	Yes	The Central Bank of Lesotho (CBL) controls foreign exchange transactions and delegates to commercial banks the authority to approve certain types of current payments up to established limits. Permits are issued by the Department of Customs and Excise based on the recommendation of the Department of Trade and Industry. Licenses for financial institutions accepting deposits and insurance companies, brokers, and agents are issued by the CBL.
4. International security restrictions	No	
a. In accordance with Executive Board decision No. 144(52/51)	No	
b. According to UN Sanctions	No	
5. Payment arrears	No	
a. Official	No	
b. Private	No	
6. Controls on trade in gold (coins/bullions)	Yes	

Lesotho: Exchange and Trade System

(Position as of December 31, 1998)

Subject Measure	Existence	Description
a. On domestic ownership/trade	Yes	Only authorized dealers may trade in gold, but anyone may hold gold.
b. On external trade	Yes	Exports of gold from the CMA are prohibited.
7. Controls on banknotes	Yes	
a. On exports	Yes	
(1) Domestic currency	Yes	Exports of currency from Lesotho are prohibited.
(2) Foreign currency	Yes	Exports of foreign currency from the CMA by residents are prohibited; visitors may reexport the unspent portion of foreign currency brought into the country.
b. On imports	No	
(1) Domestic currency	No	
(2) Foreign currency	No	
IV. Resident Accounts		
1. Foreign exchange accounts permitted	Yes	Banks may hold foreign exchange accounts abroad.
a. Held domestically	Yes	
Approval required	Yes	
b. Held abroad	Yes	Only banks may hold these accounts.
Approval required	Yes	
2. Accounts in domestic currency convertible in foreign currency	Yes	Approval is required.
V. Nonresident Accounts		
1. Foreign exchange accounts permitted	Yes	Loti accounts of nonresidents are divided into nonresident accounts and emigrant blocked accounts.
Approval required	N.a.	
2. Domestic currency accounts	Yes	
Convertible into foreign currency	Yes	
Approval required	Yes	
3. Blocked accounts	Yes	Funds in emigrant blocked loti accounts may be invested in quoted securities and other such investments approved by the CBL. The free transfer of income from an emigrant's blocked assets is limited to

Lesotho: Exchange and Trade System

(Position as of December 31, 1998)

Subject Measure	Existence	Description
		M 300,000 a family unit a year.
VI. Imports and Import Payments		
1. Foreign exchange budget	No	
2. Financing requirements for imports	Yes	
a. Minimum financing requirements	No	
b. Advance payments requirements	Yes	Payments are not normally allowed before the date of shipment or dispatch, except with the prior approval or special authorization from the CBL. Authorized dealers can permit, without the CBL's approval, advance payment of up to 33.3 percent of the ex-factory cost of capital goods if suppliers require it or if it is normal practice in the trade concerned.
c. Advance import deposits	No	
3. Documentation requirements for release of foreign exchange for imports		
a. Domiciliation requirements	Yes	
b. Preshipment inspection	Yes	
c. Letters of credit	Yes	
d. Import licenses used as exchange licenses	Yes	
e. Other	Yes	
4. Import licenses and other nontariff measures	Yes	Lesotho is a member of the Southern African Customs Union (SACU), and all imports, except certain food imports, originating in any country of the SACU are unrestricted. Imports from countries outside the SACU are usually licensed in conformity with the import regulations of the SACU. Lesotho reserves the right to restrict certain imports. Import permits are valid for all countries and entitle the holder to buy the foreign exchange required to make payments for imports from outside the SACU.
a. Positive list	No	
b. Negative list	Yes	With certain exceptions, imports from outside the SACU must conform to a negative list and be licensed., (example, ammunition, flora and fauna, illegal drugs, etc.).
c. Open general licenses	No	

Lesotho: Exchange and Trade System

(Position as of December 31, 1998)

Subject Measure	Existence	Description
d. Licenses with quotas	No	Certain food imports from within the SACU are subject to import licensing.
e. Other nontariff measures	No	
5. Import taxes/tariffs	Yes	Lesotho applies the external customs tariffs of the SACU.
Taxes collected through the exchange system	No	
6. State import monopoly	No	
VII. Exports and Export Proceeds		
1. Repatriation requirements	Yes	All export proceeds must be repatriated within six months.
Surrender requirements	Yes	Unless otherwise permitted, all export proceeds must be surrendered to authorized dealers within six months of the date of the export transaction.
2. Financing requirements	Yes	A state-supported export credit scheme is in effect, involving credit guarantees, and pre-and postshipment credits.
3. Documentation requirements	n.a.	
a. Letter of credit	n.a.	
b. Guarantees	n.a.	
c. Domiciliation	n.a.	
d. Preshipment inspection	n.a.	
e. Other	No	
4. Export licenses	Yes	
a. Without quotas	Yes	Certain exports are subject to licensing for revenue purposes; this requirement, in practice, is limited to the exportation of diamonds. Most exports are shipped without license to or through South Africa.
b. With quotas	No	
5. Export taxes	No	
a. Collected through the exchange system	No	
b. Other export taxes	No	

Lesotho: Exchange and Trade System

(Position as of December 31, 1998)

Subject Measure	Existence	Description
VIII. Payments for Invisible Transactions and Current Transfers		
Controls on these payments	Yes	
1. Trade-related payments	No	
a. Prior approval	No	
b. Quantitative limits	No	
c. Indicative limits/bona fide tests	No	
2. Investment-related payments	Yes	Profit and dividend transfers are not restricted, provided the funds were not obtained through excessive use of local borrowing facilities. Information is not available for payment of amortization of loans or depreciation of direct investments.
a. Prior approval	No	
b. Quantitative limits	Yes	Emigrants are allowed to transfer through normal banking channels, up to M 300,000 of earnings on blocked assets.
c. Indicative limits/bona fide tests	n.a.	There is no indicative limit or bona fide test for the payment of commissions.
3. Payments for travel	Yes	
a. Prior approval	No	
b. Quantitative limits	Yes	There is a limit of M 100,000 for adults and M 30,000 for children under 12 years of age, per calendar year.
c. Indicative limits/bona fide tests	Yes	Larger allowances may be obtained for business travel.
4. Personal payments	Yes	
a. Prior approval	Yes	There is prior approval for payment of study abroad costs.
b. Quantitative limits	Yes	For studies abroad the limits are M 80,000 per annum for a single student or M 160,000 per annum for a student accompanied by a spouse who is not studying.
c. Indicative limits/bona fide tests	No	
5. Foreign workers' wages	No	
a. Prior approval	No	
b. Quantitative limits	No	
c. Indicative limits/bona fide tests	No	

Lesotho: Exchange and Trade System

(Position as of December 31, 1998)

Subject Measure	Existence	Description
6. Credit card use abroad	No	
a. Prior approval	No	
b. Quantitative limits	No	
c. Indicative limits/bona fide tests	No	
7. Other payments	No	
a. Prior approval	No	
b. Quantitative limits	No	
c. Indicative limits/bona fide tests	No	
IX. Proceeds from Invisible Transactions and Current Transfers		
1. Repatriation requirements	Yes	
Surrender requirements	Yes	Proceeds must be surrendered within seven days of the date of accrual, unless an exemption is obtained.
2. Restrictions on use of funds	No	
X. Capital Transactions		
1. Controls on capital and money market instruments	Yes	
a. On capital market securities	Yes	
(1) Shares or other securities of a participating nature	Yes	
(a) Purchase locally by nonresidents	Yes	
(b) Sale or issue locally by nonresident	Yes	
(c) Purchase abroad by residents	Yes	
(d) Sale or issue abroad by residents	No	
(2) Bonds or other debt securities	n.a.	
(a) Purchase locally by nonresidents	n.a.	
(b) Sale or issue locally by nonresident	n.a.	
(c) Purchase abroad by residents	n.a.	
(d) Sale or issue abroad by residents	No	

Lesotho: Exchange and Trade System

(Position as of December 31, 1998)

Subject Measure	Existence	Description
b. On money market instruments	Yes	
(1) Purchase locally by nonresidents	No	
(2) Sale or issue locally by nonresident	No	
(3) Purchase abroad by residents	No	
(4) Sale or issue abroad by residents	No	
c. On collective investment securities	No	
(1) Purchase locally by nonresidents	No	
(2) Sale or issue locally by nonresident	No	
(3) Purchase abroad by residents	No	
(4) Sale or issue abroad by residents	No	
2. Controls on derivatives and other instruments	No	
a. Purchase locally by nonresidents	No	
b. Sale or issue locally by nonresidents	No	
c. Purchase abroad by residents	No	
d. Sale or issue abroad by residents	No	
3. Controls on credit operations	Yes	
a. Commercial credit	Yes	
(1) By residents to nonresidents	Yes	Export credits are available for up to six months; in certain circumstances, the maturity can be extended by six months. Longer-term credits require exchange control approval.
(2) To residents from nonresidents	Yes	These credits require exchange control approval.
b. Financial credit	Yes	
(1) By residents to nonresidents	Yes	These credits require prior approval. However, nonresident, wholly owned subsidiaries may borrow locally up to 100 percent of the total shareholder's investment.
(2) To residents from nonresidents	Yes	Prior approval is required to ensure that repayments and servicing of the loans do not disrupt the balance of payments and to ensure that the level of interest rates paid is reasonable in terms of prevailing international rates.

Lesotho: Exchange and Trade System

(Position as of December 31, 1998)

Subject Measure	Existence	Description
c. Guarantees, sureties, and financial backup securities	n.a.	
(1) By residents to nonresidents	n.a.	
(2) To residents from nonresidents	n.a.	
4. Controls on direct investment	Yes	The rulings on applications for inward and outward capital transfers may depend on whether the applicant is a temporary resident foreign national, a nonresident, or a resident.
a. Outward direct investment	Yes	Outward direct investment is prohibited.
b. Inward direct investment	No	
5. Controls on liquidation of direct investment	No	
6. Controls on real estate transaction	Yes	
a. Purchase abroad by residents	Yes	Prior approval is required.
b. Purchase locally by nonresidents	No	
c. Sales locally by nonresidents	No	
7. Controls on personal capital movements	n.a.	
a. Loans	n.a.	
(1) By residents to nonresidents	n.a.	
(2) To residents from nonresidents	n.a.	
b. Gifts, endowments, inheritances, and legacies	n.a.	
(1) By residents to nonresidents	n.a.	
(2) To residents from nonresidents	n.a.	
c. Settlements of debt abroad by immigrants	n.a.	
d. Transfer of assets	n.a.	
(1) Transfer abroad by emigrants	n.a.	
(2) Transfer into the country by immigrants	n.a.	

Lesotho: Exchange and Trade System

(Position as of December 31, 1998)

Subject Measure	Existence	Description
e. Transfer of gambling/prize earnings	Yes	Prior approval is required.
8. Specific controls on transactions by commercial banks and other credit institutions	Yes	
a. Borrowing abroad	Yes	Prior approval is required.
b. Maintenance of accounts abroad	N.a.	
c. Lending to nonresidents (loans, financial or commercial credit)	Yes	Authorized dealers may lend up to M 20,000, provided that the total available to the borrower from any source does not exceed this amount. Facilities in excess of such an amount need prior approval.
d. Lending locally in foreign exchange to residents	n.a.	
e. Purchase of locally issued securities denominated in foreign exchange	n.a.	
f. Differential treatment of deposit accounts in foreign exchange	n.a.	
(1) Reserve requirements	n.a.	
(2) Liquid asset requirements	n.a.	
(3) Interest rate controls	n.a.	
(4) Credit controls	n.a.	
g. Differential treatment of nonresident deposit accounts or deposit accounts in foreign exchange	n.a.	
(1) Reserve requirements	n.a.	
(2) Liquid asset requirements	n.a.	
(3) Interest rate controls	No	
(4) Credit controls	No	
h. Investment regulations	n.a.	
(1) Abroad by banks	No	
(2) In banks by nonresidents	No	
i. Open foreign exchange position limit	n.a.	
(1) On nonresident assets and liabilities	n.a.	

Lesotho: Exchange and Trade System

(Position as of December 31, 1998)

Subject Measure	Existence	Description
(2) On resident assets and liabilities	n.a.	
9. Provisions specific to institutional investors	n.a.	
a. Limits (max.) on securities issued by nonresidents and on portfolio invested abroad	n.a.	
b. Limits (max.) on portfolio invested abroad	n.a.	
c. Limits (min.) on portfolio invested locally	n.a.	
d. Currently matching regulations on assets/liabilities composition	n.a.	
10. Other controls imposed by securities laws	n.a.	