

Annual profile: Lesotho

January 2003



<p>Government</p> <p>Government type: Parliamentary constitutional monarchy.</p> <p>Capital: Maseru</p> <p>Independence: 4 October 1966 (from UK).</p> <p>Chief of state: King Letsie III (since 7 February 1996).</p> <p>Elections: According to the constitution, the leader of the majority party in the assembly automatically becomes prime minister. The monarchy is hereditary and is a "living symbol of national unity" with no executive or legislative powers. Under traditional law the college of chiefs has the power to determine who is next in the line of succession, who shall serve as regent in the event that the successor is not of age, and may even depose the monarch. The bicameral Parliament consists of the Senate and the Assembly; the last elections were held in May 2002; next elections to be held in May 2007.</p> <p><i>Source: CIA World Factbook</i></p>	<p>Background</p> <p>Basutoland was renamed the Kingdom of Lesotho on gaining independence from the UK in 1966. Constitutional government was restored in 1993 after 23 years of military rule.</p>
<p>People</p> <p>Population: 2.1 million</p> <p>Population growth rate: 1.33% (2002 est.)</p> <p>Life expectancy at birth: total population: 47 years male: 46.3 years female: 47.8 years (2002 est.)</p> <p>Ethnic groups: Sotho 99.7%, Europeans, Asians and other 0.3%.</p> <p>Religions: Christian 80%, indigenous beliefs 20%.</p> <p>Languages: Sesotho (southern Sotho), English (official), Zulu, Xhosa.</p> <p>Adult literacy rate: Definition: % of population aged 15 and over that can read and write. 1999 (est.): 83%.</p> <p><i>Source: CIA World Factbook, UNDP</i></p>	<p>Geography</p> <p>Area: Total: 30 355 sq km. Land: 30 355 sq km.</p> <p>Land boundaries: Total: 909 km. Border countries: South Africa 909 km.</p> <p>Coastline: Landlocked</p> <p>Climate: Temperate; cool to cold, dry winters; hot, wet summers.</p> <p>Terrain: Mostly highland with plateaux, hills and mountains.</p> <p>Natural resources: Water, agricultural and grazing land, some diamonds and other minerals.</p> <p>Land use: Arable land: 11%. Permanent crops: 0%. Other: 89% (1998 est.)</p> <p>Irrigated land: 10 sq. km (1998 est.)</p> <p>Natural hazards: Periodic droughts.</p> <p>Environment: Population pressure forcing settlement in marginal areas results in overgrazing, severe soil erosion, and soil exhaustion; desertification; Highlands Water Project controls, stores and redirects water to South Africa.</p> <p><i>Source: CIA World Factbook</i></p>



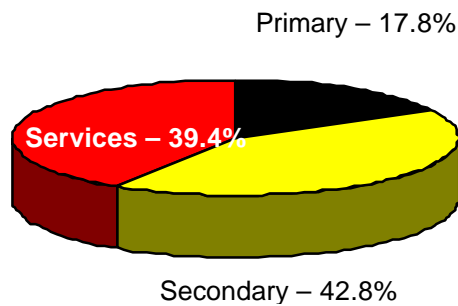
Health	Human development																																												
<p>People living with HIV/Aids: Adults (age 15-49) 2001: 31%. Woman (age 15-49) 2001: 180 000. Children (age 0-14) 2001: 27 000.</p> <p>Tuberculosis cases (per 100 000 people): 1999: 291.</p> <p>Undernourished people (1997/99): 25% of total population. Source: UNDP</p>	<p style="text-align: center;">HDI Ranking (2000) 132 out of 173 countries (1=most developed, 173= least developed)</p> <table> <tr> <td>Norway</td> <td style="text-align: right;">1</td> </tr> <tr> <td>Mauritius</td> <td style="text-align: right;">67</td> </tr> <tr> <td>South Africa</td> <td style="text-align: right;">107</td> </tr> <tr> <td>Gabon</td> <td style="text-align: right;">117</td> </tr> <tr> <td>Namibia</td> <td style="text-align: right;">122</td> </tr> <tr> <td>Swaziland</td> <td style="text-align: right;">125</td> </tr> <tr> <td>Botswana</td> <td style="text-align: right;">126</td> </tr> <tr> <td>Zimbabwe</td> <td style="text-align: right;">128</td> </tr> <tr> <td>Ghana</td> <td style="text-align: right;">129</td> </tr> <tr style="background-color: #cccccc;"> <td>Lesotho</td> <td style="text-align: right;">132</td> </tr> <tr> <td>Kenya</td> <td style="text-align: right;">134</td> </tr> <tr> <td>Madagascar</td> <td style="text-align: right;">147</td> </tr> <tr> <td>Nigeria</td> <td style="text-align: right;">148</td> </tr> <tr> <td>Uganda</td> <td style="text-align: right;">150</td> </tr> <tr> <td>Tanzania</td> <td style="text-align: right;">151</td> </tr> <tr> <td>Zambia</td> <td style="text-align: right;">153</td> </tr> <tr> <td>DRC</td> <td style="text-align: right;">155</td> </tr> <tr> <td>Ivory Coast</td> <td style="text-align: right;">156</td> </tr> <tr> <td>Angola</td> <td style="text-align: right;">161</td> </tr> <tr> <td>Malawi</td> <td style="text-align: right;">163</td> </tr> <tr> <td>Mozambique</td> <td style="text-align: right;">170</td> </tr> <tr> <td>Sierra Leone</td> <td style="text-align: right;">173</td> </tr> </table> <p>The Human Development Index (HDI) measures a country's achievements in three aspects of human development: longevity, knowledge and a decent standard of living. Longevity is measured by life expectancy at birth; knowledge is measured by a combination of the adult literacy rate and the combined gross primary, secondary, and tertiary enrolment ratio; and standard of living, as measured by GDP per capita.</p> <p><i>Source: UNDP</i></p>	Norway	1	Mauritius	67	South Africa	107	Gabon	117	Namibia	122	Swaziland	125	Botswana	126	Zimbabwe	128	Ghana	129	Lesotho	132	Kenya	134	Madagascar	147	Nigeria	148	Uganda	150	Tanzania	151	Zambia	153	DRC	155	Ivory Coast	156	Angola	161	Malawi	163	Mozambique	170	Sierra Leone	173
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<p style="background-color: #cccccc;">Corruption perceptions index (2002)</p> <p>Score: N/A (where 10 is "highly clean" and 0 is "highly corrupt"). Place: N/A (102 countries surveyed, 1 = least corrupt, 102 = most corrupt). (The surveys reflect the perceptions of business people, academics and country analysts. The surveys were undertaken over the past three years and no country has been included in the index without results from a minimum of three surveys).</p> <p>Source: Transparency International</p>																																													
<p style="background-color: #cccccc;">Restrictions on capital flows</p> <p>Lesotho is a member of the Common Monetary Area (CMA). Exchange controls are governed by the CMA. There are no foreign exchange restrictions between CMA members and it constitutes a single exchange control area. However, CMA members' exchange controls with the rest of the world cannot be less strict than South Africa's.</p>																																													
<p style="background-color: #cccccc;">Taxation</p> <p>The top income tax rate is 35%; the marginal rate for the average taxpayer is about 25%. The corporate tax rate is 35%.</p>	<p style="background-color: #cccccc;">Sovereign Credit Rating</p> <p>Standard & Poors Local currency Long-term: not rated Short-term: not rated Foreign currency Long-term: not rated Short-term: not rated Moody's Investor Service Foreign currency debt: not rated Foreign currency bank deposits: not rated Namibia Government</p> <p>Issuer rating –Foreign currency: not rated Issuer rating –Domestic currency: not rated Fitch Lesotho is one of only five sub-Saharan African countries (South Africa, Senegal, Botswana, Mauritius) to have sovereign credit rating, which it received in September 2002. Fitch rated the long-term foreign currency as B+ and the outlook stable, which implies a "highly speculative" credit environment. The short-term foreign currency is rated B or "speculative". The long-term local currency is rated BB or 'speculative' and the outlook stable.</p>																																												

Economy

Selected statistics

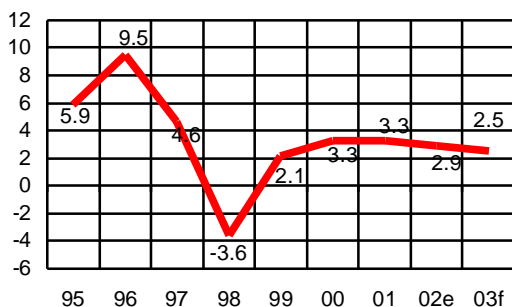
	1996	1997	1998	1999	2000	2001	2002(e)	2003(f)
Population (million)	2.0	2.1	2.1	2.0	2.04	2.2	2.1	2.0
Nominal GDP (US\$m)	1275.	1271.7	1069.2	1081.1	830.57	801.93	850	900
GDP/head (US\$)	647.6	602.7	519.0	535.2	405.3	364.51	404	450
Exchange reserves (US\$m)	460.5	571.7	575.1	499.6	417.9	386.5	402	381
Import cover (months)	5.5	6.7	8.0	7.7	6.9	6.96	6.1	5.0
External debt (US\$bn)	0.52	0.56	0.59	0.61	0.62	0.71
% of GDP	41.1	43.9	54.1	56.5	74.5	89.2

Economic structure



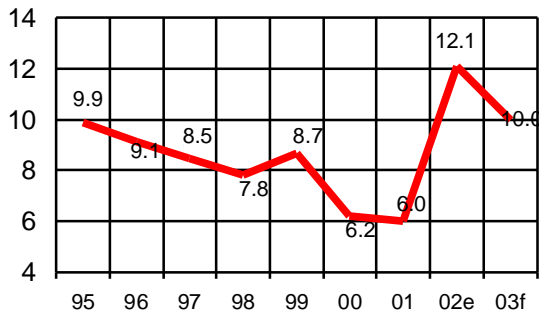
- Lesotho's economy is largely based on subsistence agriculture and livestock farming. About 80% of the population depends on agriculture for its livelihood.
- Remittances from migrant workers employed on South African mines are an important but declining source of income.
- The country's main natural resource is water, much of which it exports to South Africa.
- Within the secondary sector manufacturing and handcraft, and building and construction are the two largest sub-sectors.
- Construction of the initial phases of the Lesotho Highlands Water Project (LHWP) is winding down. Whether Phase 2 of the LHWP is going ahead is uncertain.
- Lesotho has a small manufacturing sector that is based on products from the milling, canning, leather and jute industries.
- The textiles and footwear sector is becoming more important as this sector expands under the US African Growth and Opportunity Act (AGOA).
- Public administration; education; wholesale and retail trade; and finance and insurance are important sub-sectors within the tertiary sector.
- The gross national product is larger than the gross domestic product because of the miners' remittances from South Africa.

Real GDP growth (%)



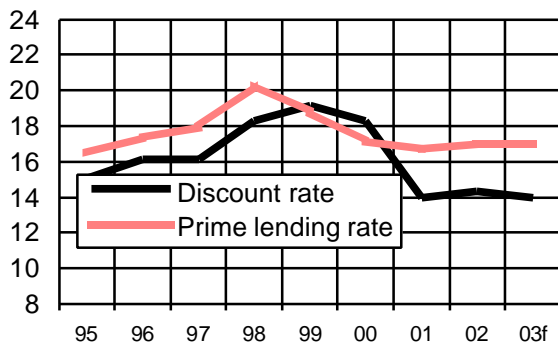
- In the decade up to 1997 the country experienced average real GDP growth of about 6% a year. This positive growth was based on the LHWP, expanding exports and higher manufacturing production.
- The LHWP now provides all of the kingdom's electricity needs, which were previously imported from South Africa.
- The LHWP project may possibly come to an end at the current phase, as South Africa's water requirements have been adjusted downwards.
- Widespread riots, looting and civil disorder in reaction to the outcome of the April 1998 elections destroyed 80% of the commercial infrastructure in the capital, Maseru, and other areas. The economy was adversely affected and real GDP growth contracted sharply in 1998.
- The election held in May 2002 was peaceful and declared free and fair by international election observers.
- Economic growth has subsequently recovered, but not to previous levels.

Consumer inflation (%)



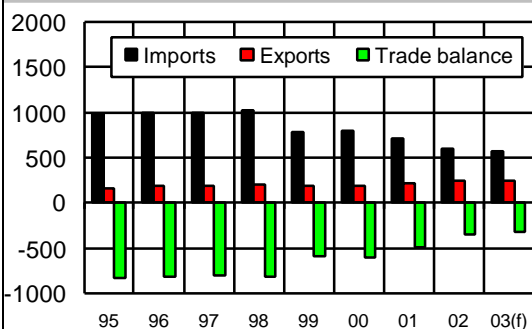
- Lesotho's monetary policy is closely linked to South Africa's as the country is a member of the Common Monetary Area (CMA). Other CMA members are South Africa, Namibia and Swaziland.
- As most of Lesotho's imports of goods and services are from South Africa, inflation rates closely track inflation trends in South Africa. The difference in weights in the consumer price index between the two countries, particularly for food, results in the inflation rate differentials between the two countries.
- Inflation has declined between 1995 and mid-2001 as a result of the maintenance of a relatively restrictive monetary policy stance.
- However, the depreciation of the loti/rand at the end of 2001 resulted in the inflation rate doubling in 2002.
- Food prices, particularly maize, have risen steeply. Food and non-alcoholic beverages make up 36% of the consumer price index.
- The inflation rate is expected to decline in 2003 as a result of the currency strengthening.

Interest rates (%)



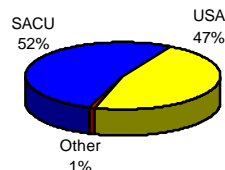
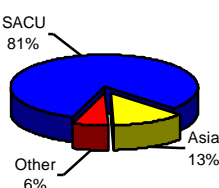
- Interest rates in Lesotho closely track those in SA.
- Since 1999 the Central Bank of Lesotho (CBL) has kept its discount rate at a higher level than South Africa to restrict expansion of money supply and curb inflation.
- Since the end of 1998 Lesotho's prime lending rates have exceeded South Africa's. The main reason for this is that interest rates were adjusted to more realistic levels after being controlled by the CBL. Lack of competition in the banking sector and high administration costs are mainly responsible.
- A monthly Treasury bill auction was introduced in September 2001 to drain excess liquidity from the highly liquid banking sector. It is aimed at encouraging local banks to invest their excess reserves in the country to build up foreign reserves.
- The CBL adopted the Lombard rate in the beginning of 2002. It is the CBL's overnight lending rate to the commercial banks. The rate is 400 basis points above the Treasury bill rate.

International trade (US\$m)



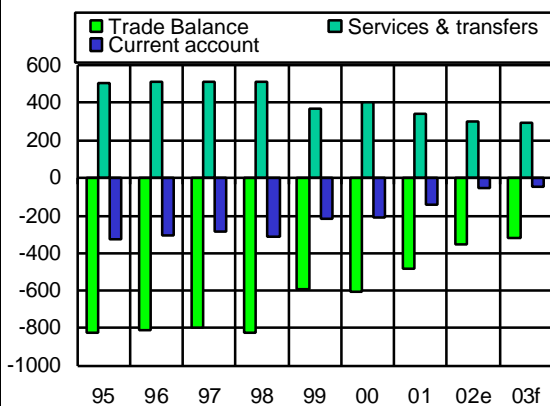
Source of Imports

Destination of exports



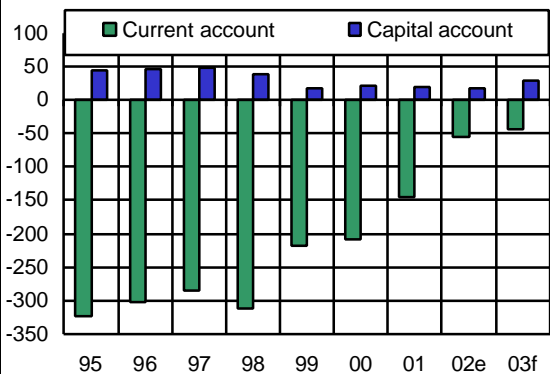
- Lesotho is a member of the Southern African Customs Union (SACU). Other members are South Africa, Swaziland, Namibia and Botswana.
- Imports were significantly higher than exports which resulted in relatively large, albeit declining, trade deficits.
- The trade deficit has declined since 1998 mainly due to declining imports, which have decreased in line with the economic slowdown. Lower import demand from the LHWP phase 1A also contributed.
- The main exports are clothing, beverages and tobacco, and cereals.
- Main export destinations are the US and SACU (particularly South Africa).
- The country's recent export performance in textiles under AGOA (and the GSP) has been impressive. Exports reached US\$293 million from January to November 2002.
- The main imports are food, building materials, vehicles, machinery, medicines and petroleum products.
- Imports are mainly from the SACU, particularly South Africa.

Current account (US\$m)



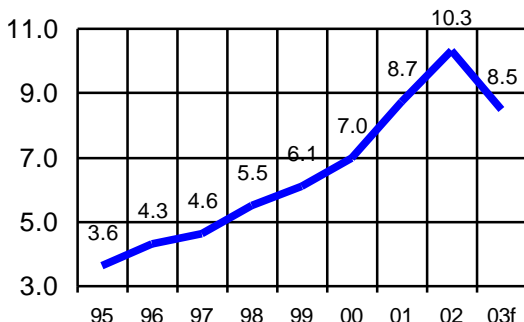
- Lesotho's merchandise trade balance is in deficit. However, there are significant net inflows from miners' wages, resulting in a net labour income. Transfers from the SACU further strengthen the services and transfers account. Water royalties from the LHWP also contributed to service receipts.
- Income from both miners' wages and SACU receipts reveal a declining trend, which is of concern to the authorities.
- The declining trade deficit has resulted in the current account also showing a declining trend.
- The current account balance is expected to decline in the short term, according to IMF estimates.
- Lesotho has managed to reduce the current account deficit in recent years to more manageable levels.

Capital flows (US\$m)



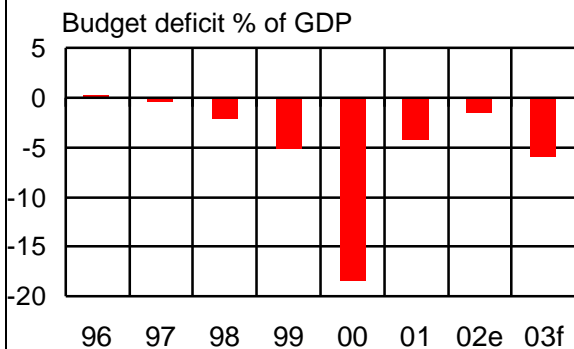
- Inflows from direct investment have been the largest contributor to the capital account. The LHWP was an important factor, but the winding down of the project has resulted in capital inflows from this source coming to an end.
- The general trend has been an improvement in the country's economic statistics, particularly the reduction in large trade deficits. This has favourably impacted on the current account balance.
- Smaller deficits should act as a stimulant to foreign direct investment in the country.

Maloti/US\$ (annual average rate)



- Lesotho maintains a fixed exchange rate regime with South Africa under the CMA agreement. The loti has a one-to-one exchange rate peg with the South African rand.
- Therefore, developments in the loti exchange rate can best be explained by analysing the factors that have been behind the rand's performance in recent years.
- Factors that have weighed heavily on the loti in recent years include the emerging market crisis which reached its peak in 1998, the strong performance of the US\$ on international currency markets and the sharp increase in international crude oil prices. Recently, regional instability and emerging market jitters resulted in accelerated depreciation.
- The loti/rand depreciated sharply in 2002, but recovered most of its losses in 2003.
- Lesotho's CMA membership has served it well in terms of macroeconomic stability. It is likely to remain a member for the foreseeable future.

Government finances



- Government finances deteriorated sharply in 2000, but the negative trend has been reversed. After growing gradually the budget deficit ballooned in 1999/2000. This is because revenue declined while expenditure rose due to special expenditure related to the restructuring of state assets, including the restructuring of two state-owned banks.
- SACU receipts have historically contributed about 50% to government revenue.
- SACU revenue is likely to decline in the medium term as a result of the renegotiation of the revenue-sharing formula and tariff reduction between members.
- The government is implementing tighter fiscal measures to reduce the budget deficit, and tax collection particularly will be tightened.
- The government will be under pressure to assist with poverty reduction and famine relief, particularly with the regional drought, which has affected a third of the population. The need for food aid will again put pressure on government spending.

Economic outlook

- Lesotho is a small open economy and therefore vulnerable to global economic volatility.
- The Lesotho authorities have launched the IMF-assisted economic programme supported by the Poverty Reduction and Growth Facility (PRGF). The main aim of the programme is to strengthen fiscal and monetary management. As a result, the outlook for growth has improved.
- Economic growth was boosted by investment in the LHWP. Phase 1B of the LHWP is much smaller than Phase 1A, which means lower investment inflows. The project is now winding down. There is also doubt whether phases II to V will go ahead as estimates of the Gauteng, South Africa, region's water requirement have been lowered. The project was planned in the 1980s and the demand assumptions appear to be optimistic.
- Prospects of employment in South Africa's gold mining industry for Lesotho citizens are now more positive as the gold price has been relatively high, which may result in higher employment and increased remittances. However, as miners' wages improve, mining jobs are increasingly being allocated to South African workers.
- Although the number of mining jobs for Lesotho citizens on South Africa's gold mines has declined, the number of workers outside Lesotho has partially compensated for the loss of mining jobs.
- Although Lesotho is a constitutional monarchy, the powers of the King, as head of state, are limited.
- The average earnings for Basotho miners has increased steadily in real terms over the last decade, somewhat offsetting the mining job losses.
- SACU receipts will also decline and the medium- to long-term outlook for this source of revenue is poor as the revenue-sharing agreement is being renegotiated.
- To attract investment and stimulate economic growth, the Lesotho authorities together with the World Bank have identified about 50 state-owned companies and parastatals for privatisation. Some have been sold and progress has been made with others. This should contribute to improved investor sentiment, as the government's share in the economy is large.
- Lesotho's eligibility for preferential trade treatment under the AGOA has enabled the country to significantly expand its textile exports. It has been one of the better AGOA performers in sub-Saharan Africa. It could also build on expanding manufacturing exports.
- The tourism industry has been designated as a growth source under the guidance of the new tourism authority.
- The regional drought has affected a third of the population, who need food aid.
- The government is collaborating with the IMF to improve financial markets and intermediation and to strengthen the sector.
- The country's political stability was jolted by the 1998 civil unrest, but the peaceful election in 2002, which was won by the ruling party, bodes well for political stability and growth prospects.

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