January 2004
IMF Country Report No. 04/23

Lesotho: Selected Issues And Statistical Appendix

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Price: $15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

LESOTHO

Selected Issues and Statistical Appendix

Prepared by Staff Team Consisting of Ekué Kpodar (head), John Green (former mission head), Shahabuddin Hossain, Lars Engstrom, Ashwini Jayaratnam (all AFR), Dmitriy Gershenson (FIN), and Jay Surti (MFD).

Approved by the African Department

January 8, 2004

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Lesotho: Basic Data 1/

Area, population, and income

Area (thousand sq. km)	30,355
Population (2002; in millions)	2.1
Annual demographic growth rate (2002; in percent)	1.1
GNI per capita (2001; in U.S. dollars)	530

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
National accounts		(In millions of maloti, unless otherwise specified)					
GDP at current market prices	4,220	4,770	5,082	5,669	6,137	6,839	7,731
Of which : agriculture	667	712	809	906	1,024	1,110	1,211
manufacturing	610	707	788	845	946	1,129	1,413
GNP at current market prices	5,631	6,311	6,492	7,183	7,685	8,374	9,466
Real GDP growth (percent)	9.5	4.8	-3.5	0.5	1.9	3.3	3.8
Real GNP growth (percent)	8.1	3.5	-6.5	-0.3	0.7	1.0	3.8
Prices							
Consumer price index (percent change; period average)	8.8	7.3	8.9	6.3	6.2	11.3	9.1
Employment			(In thousands)				
Migrant mine workers 2/	99.9	92.5	71.9	67.7	64.2	60.9	62.0
Central government finance			(In millions of maloti)				
Revenue	2,035	2,247	2,174	2,313	2,627	2,788	3,035
Of which : SACU 3/	1,006	1,173	1,034	1,183	1,126	1,438	1,470
Total expenditure and net lending	2,053	2,342	2,438	3,373	2,864	2,938	3,659
Current	1,179	1,474	1,943	2,319	2,434	2,312	2,857
Capital	874	868	496	480	473	746	834
Overall balance, before grants	-18	-95	-265	-1,061	-238	-150	-624
Grants from abroad	203	179	120	130	126	189	296
Overall balance, after grants	185	84	-145	-931	-112	39	-328
Foreign financing (net)	347	346	18	-71	-257	-54	56
Domestic financing (net)	-504	-474	182	1,048	390	16	272
Residual	-29	45	-55	-46	-21	0	0
Monetary survey			(In millions of maloti; end of period)				
Foreign assets (net)	2,393	3,170	3,754	3,583	3,670	5,229	3,722
Domestic credit	-754	-929	-881	54	424	432	321
Government (net)	-1,631	-2,044	-1,953	-938	-579	-511	-190
Rest of the economy	878	1,115	1,072	992	1,003	943	512
Money and quasi money	1,326	1,640	1,753	1,717	1,822	2,133	2,191
Other items (net)	314	600	1,120	1,920	2,272	3,528	1,852
Balance of payments		(In millions of U.S. dollars, unless otherwise specified)					
Current account deficit (-)	-285	-313	-219	-210	-153	-96	-138
Of which							
Exports, f.o.b.	191	197	191	188	223	294	399
Imports, f.o.b.	-989	-1,019	-781	-796	-717	-661	-840
Of which : LHWP 4/	-122	-147	-214	-51	-34	-34	-26
Miners' remittances	300	316	231	224	191	149	169
Unrequited transfers	186	202	140	156	127	122	140
Capital and financial account	52	191	431	306	209	201	129
Capital account	47	210	164	102	37	29	37
Financial account	5	-20	267	205	172	172	92
Direct investment	45	38	217	154	120	107	93
Other investment	73	24	-2	-31	-24	71	8
Change in reserve assets (minus sign indicates increase)	-113	-81	53	82	77	-6	-9
Errors and omissions	232	122	-212	-96	-57	-105	9
Gross official reserves (months of imports, f.o.b.)	5.8	8.7	7.9	8.8	7.2	5.3	4.4
External debt							
Disbursed and outstanding	573	600	639	671	581	537	601
Debt-service ratio (as percent of exports of goods and services, and factor income)	4.5	4.0	6.6	8.1	13.3	7.5	5.7
Exchange rate (maloti per U.S. dollar; end of period)	4.4	5.0	6.2	6.6	8.0	11.4	7.9

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

1/ Fiscal year is April-March.
2/ Average number employed in South Africa.
3/ Southern African Customs Union.
4/ Lesotho Highlands Water Project.

I. TEXTILES INDUSTRY: PERFORMANCE, CONSTRAINTS, AND FUTURE PROSPECTS[1]

1. The growth of Lesotho's textiles industry is a success story. Lesotho is now the largest exporter of textiles and clothing in sub-Saharan Africa, and textiles has become the main source of economic growth and employment in Lesotho. With the phasing out of the Multi-Fiber Agreement (MFA) beginning in 2005, Lesotho will face intense competition from low- cost regions, notably Asian countries. In order to remain competitive and diversify its export base, Lesotho must define a clear strategy to reduce production costs, improve the investment climate, and attract sizable foreign direct investment (FDI).

A. Introduction

2. Lesotho's textiles industry has its roots in the early to mid 1980s, when East Asian entrepreneurs moved factories and production lines from South Africa to Lesotho to avoid international sanctions imposed on South Africa. In the late 1980s, the main impetus to growth was preferential market access to the European Union (EU) provided under the Lomé Convention and to the United States under the Generalized System of Preferences (GSP). Investment promotion efforts by the Lesotho National Development Corporation (LNDC), as well as the provision of infrastructure and fiscal incentives, the availability of an educated work force, and relative political stability, facilitated the process.

3. Textiles exports registered a steady growth of about 24 percent a year during the decade through 2002; the industry has also attracted new investment and experienced an exceptional growth in production and employment during the period, particularly after 1999. This has been possible largely because of the duty- and quota-free access to the U.S. market that the African Growth and Opportunity Act (AGOA) has provided since 2000. Less-developed African countries that qualify for AGOA have received so-called LDC status, which relaxes the complex rules of origin until 2004. The LDC (less developed country) status is set to expire in 2004, even though AGOA itself will remain valid until 2008.

4. **Lesotho's textiles industry is at a critical juncture** because of the envisaged phasing out of both the LDC status under AGOA and the quota regime under the MFA, which governs global textiles exports (see further discussion below). There are two pressing issues facing the industry: (i) how to adjust and compete in a changing international market, in particular after the LDC status has expired and all MFA country quotas have been abolished; and (ii) how to diversify into new products while improving Lesotho's investment climate and its ability to compete, in order to continue to attract FDI and maintain steady growth.

5. This chapter discusses these and related issues in detail and is organized as follows. Subsection B provides an overview of trends and performance, highlighting export growth, value added, and employment during the decade through 2002. Subsection C presents an

[1] Prepared by Shahabuddin M. Hossain.

account of the structure and evolution of the textiles industry (profiles of entrepreneurs and the production process), highlighting key determinants of its growth—FDI induced by trade preferences and domestic incentives. Finally, section D discusses future prospects and key issues. In particular, it discusses the possible implications of the phasing out of AGOA and quota regimes and how Lesotho could diversify its exports by improving its competitive position in the world market. The paper is based on extensive discussions with representatives of Lesotho's textiles industries, officials in the Ministry of Trade, Industry and Marketing, and it draws as well from a number of background studies and reports listed in the reference section.

B. Trends and Performance of the Sector and the Global Trade in Textiles

6. **The textiles sector has become the major source of economic growth and employment in Lesotho.** Textiles exports in U.S. dollar terms increased at an average annual rate of about 24 percent during 1992-2002, while textiles value added grew at an annual rate of 15 percent during the same period.[2] Textiles had emerged as a major source of income and employment by 1997, and its share of GDP increased from about 3 percent in 1991 to about 8 percent in 2002 (Figure I.1 and Table I.1). Employment also grew from 7,400 in 1991 to about 39,000 in 2002, when it exceeded public services as the most important generator of employment in Lesotho (Figure I.1 and Table I.2).

7. **Growth has been extraordinary since 1997** (Figure I.1). The value of exports to the United States has increased in exponential terms in response to the duty- and quota-free access provided under AGOA. Lesotho's textiles exports increased from US$100 million in 1999 to US$262 million in 2002 (an average annual growth of about 54 percent) (Table I.3).

8. At present, more than 90 percent of Lesotho's textiles exports are directed to the U.S. market. There are some exports to the Southern African Development Community (SADC) countries, but exports to the European market are virtually nonexistent.

9. **Lesotho is the largest exporter of textiles and clothing (T&C) in sub-Saharan Africa (SSA),** and its exports exceeded those of South Africa. Table I.4 presents exports of T&C by individual countries across different regions. It shows that the market shares of SSA countries are small. For Lesotho more critical is the fact that its dependence on T&C exports is one of the highest in the world—T&C exports constituted as much as three-fourths of total

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[2] The available statistics on exports (value and volume) are incomplete and often inconsistent with the import data of the United States, the main destination of exports. They do, however, reveal the extraordinary growth in exports during the last decade. The reported statistics on textiles sector value added also include leather and footwear. The latter is a very small subsector.

exports in 2002 (Table I.3). This makes Lesotho extremely vulnerable to changes in the global textiles market.

C. Structure and Evolution of the Industry and Determinants of Its Growth

The production process and international marketing

10. **Lesotho's textiles sector is dominated by the ready-made garments industry**, which is divided into two distinct segments: factories producing garments manufactured from woven cloth (including denim jeans) and those producing garments manufactured from knitted cloth. One major factory producing fabric (jeans) has also emerged in 2003. Activities in ready-made garments are usually divided into cut, make, and trim (CMT). Consistent with the global trend to relocate labor-intensive operations to low-cost countries, only physical manufacturing takes place in Lesotho. Head offices overseas take care of design, sampling, purchase of raw materials, marketing of products, and financing of the operations.

11. The first stage of the production process is sampling and cutting the raw materials against specific orders. The next stage is printing or embroidery, if required; this is either done in-house or sent to subcontractors. The cut work is then loaded into the sewing floor. In the final stage, the garments will either receive a wash treatment, if needed, or they will be sent directly to pressing and packing. Most jeans require specialized washes to give them the desired finish. They are then sorted according to their orders and packed in cardboard cartons for transportation and shipping.

12. Sufficient orders are needed for uninterrupted production. More than 90 percent of Lesotho's textiles exports are directed to the U.S. market, and there are two major sources of orders for that market: those placed directly by major brands and retail stores and those placed by direct importers. The major brands and retailers usually have their own design and range development departments, which produce technical specification sheets for each garment to be purchased. These "tech sheets" specify the quantities, size breakdown, delivery date, fabric, trims, seam measurements, tolerance measurements, printing, embroidery, washing, and packaging, as well as a host of other data.

13. Selling prices are determined on the basis of quotations provided by manufacturers in different countries and the technical specifications of the product. Reliability factors based on past relationships and loyalties also play a critical role. The overseas holding company, which owns the factory in Lesotho, has the full information on raw materials, labor, and overhead costs of all its manufacturing operations and usually quotes the price of garments produced in Lesotho.

14. In 2002, the structure of Lesotho's textiles sector was as follows: (i) four company groups made denim jeans and employed about 11,000 people; (ii) nineteen company groups were manufacturing knit garments and employed about 18,500 wage earners; (iii) four company groups manufactured a mix of woven and knit garments and employed 2,200 employees; and (iv) two companies were pure service providers, supplying printing and

embroidery services. All companies were foreign owned, and FDI played a key role in the establishment and growth of the industry.

Trends in FDI and its role in the development of the subsector

15. **Lesotho does not possess the usual location advantages to attract FDI.** It is landlocked, of small size, and with a relatively underdeveloped infrastructure. Lesotho has, however, been successful in attracting sizable inflows of FDI, due to the preferential market access as well as government efforts and investment promotion activities undertaken by the Lesotho National Development Corporation (LNDC). FDI flows jumped in 1994 and peaked more recently in 2001-02. FDI inflows have been concentrated in export-oriented textiles manufacturing and activities related to the Lesotho Highlands Water Project (LHWP). Foreign entrepreneurs have been instrumental in setting up the textiles industry in Lesotho. Of a total of 40 textiles factories in 2002, owners of 26 were based in Taiwan Province of China, and another four had their headquarters in Hong Kong, China (mainland), and Singapore.

16. **About 90 percent of the FDI has gone into export-oriented garments manufacturing,** but firm estimates are not available. According to the UN Conference on Trade and Development (UNCTAD), inflows of FDI excluding LHWP related investment were relatively stable at low levels through most of the 1980s with a peak of US$21 million in 1988 (Figure I.2). A surge occurred in 1994, when FDI reached US$41 million, mainly because of investment in the garments sector. After having remained relatively stable during the second half of 1990s, the flows have peaked again during 2001–2003 as a result of trade preferences awarded under AGOA. It is estimated that FDI created 14,000 new jobs in 2001 alone. Beginning in 2001 a Taiwanese investor has started the largest single investment project in the textiles sector estimated at about US$90 million over three years, thereby adding about 5,300 people to the workforce.

Preferential market access: ACP-EU agreement, AGOA, and the ATC (Agreement on Textiles and Clothing)

17. Preferential market access provided under trade arrangements with the EU and the United States is the critical factor that has determined the flow of FDI into the garments sector. In addition, the global quota regime under the MFA has also influenced the evolution of the industry. These trade agreements and the nature of market access are summarized below:

ACP-EU agreement

18. Lesotho was a signatory of the Lomé Convention, which allowed duty-free access of clothing originating in ACP (Africa, Caribbean, Pacific) countries to the EU. Initially, the manufacturers were allowed to buy their inputs (mainly fabrics) from the cheapest source (e.g., East Asia). In the late 1980s, however, the EU began to apply "cumulation" to all ACP countries, requiring at least two stages of production (e.g., fabric making and garment manufacturing) to be carried out in the country of origin or another qualifying ACP country.

Lesotho received a special dispensation for eight years, and a new wave of FDI, mainly by Taiwanese companies, followed. After the end of the dispensation, several foreign investors downsized or closed their factories. Others shifted their exports to the U.S. market and took advantage of Lesotho's unused quota under the MFA. The exporters had to pay a duty of 17 percent on average, which applied to all exporters from developing countries, but they were allowed to buy their raw materials from the cheapest sources.

African Growth and Opportunity Act (AGOA)

19. As noted above, the AGOA was enacted in 2000 and has provided a major boost to the expansion of Lesotho's textiles sector. Under AGOA, qualifying SSA countries receive duty- and quota- free access to the U.S. market for a number of products, including textiles until 2008. The input (fabric) used by the garment sector must originate from either the United States or another qualifying SSA country.

20. An exception has, however, been provided to countries like Lesotho with an LDC status. The rules of origin do not apply to their clothing exports until 2004. This has driven the growth of the garments sector and supported a few big investment projects, like a denim jeans factory and two knitting factories, which are expected to be completed in 2004 and will produce fabrics for the production of ready-made garments. If the LDC status is not extended after 2004, Lesotho's garments sector must rely on fabrics produced in the United States, locally, or in another qualifying SSA country in order to maintain the duty-free access.[3]

Agreement on Textiles and Clothing (ATC) and the phasing out of quotas under the MFA

21. The industrial countries used to apply widespread and restrictive quotas against imports of textiles and clothing from developing countries under the MFA. In the Uruguay Round of Multilateral Trade Negotiations, it was agreed to integrate and liberalize the trade in textiles and clothing over a period of ten years, beginning in 1995.

22. The ATC is a transitional arrangement, regulating the trade in textiles over the transition period. Quotas are to be eliminated through a step-by-step removal of existing quotas ("integration") and expansion of remaining nonintegrated quotas ("liberalization"). Integration is to be carried out in three stages. Starting January 1995, World Trade Organization (WTO) members had to integrate 16 percent of the total volume of their 1990 imports. In January 1998, an additional 17 percent of the total volume of 1990 imports had to be integrated, and this was followed by another 18 percent in the third stage, which commenced in January 2002. Finally, the remaining 49 percent of the total volume of 1990 imports must be integrated in January 2005. The importing country can choose the products

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[3] Among others, Mattoo, A., D. Roy and A Subramanian (2002) indicate that the restrictive rules of origin imposed by AGOA significantly reduces the potential medium-term benefits to African countries relating to the textiles sector.

to integrate, but it must include at least one item from each of four major product groups: yarns and tops, fabrics, made-ups, and clothing. The ATC is binding for all members of the international trading system and administered and supervised by the WTO.

23. Review of the implementation through end-2001 showed that little real progress had been achieved. Although 33 percent of the volume of 1990 imports had been integrated to fulfill the minimum legal ATC requirement, the process had contributed little toward realization of the main objective of ATC — the progressive phasing out of quotas and the liberalization of trade. In the seven years since 1995, products selected for integration had been concentrated in lower-value-added items, such as tops, yarns, and fabrics, that is, products that were of little importance to the major importers. This back-loaded implementation strategy may make it difficult to implement the ATC on schedule without causing large disruptions in the market.

Infrastructure and the domestic business environment

24. **Domestic incentives** – like infrastructure, proximity to South African ports, fiscal incentives, and a well-organized workforce – **also played an important role in the development of the textiles sector.** Industry representatives and LNDC officials noted, however, that some of these factors had now begun to pose constraints to further growth:

- **Legal framework for FDI.** Lesotho's FDI policy and legal framework are weak. A foreign investment law and, with one exception, foreign ownership restrictions in sectoral licensing laws are missing. In practice, the government has promoted FDI in manufacturing activities, including the textiles sector.[4] Foreign investors are treated the same as national investors in most areas. A clear and major exception is the treatment of land leases. Only Lesotho citizens and commercial entities that are majority controlled by Lesotho citizens may lease land. Foreign investors may only sublease land from Lesotho citizens. All transactions in leases and subleases, including issues, transfers, and mortgages, require ministerial approval.

- **Factory shells, land, and water.** The LNDC has provided factory shells and utilities in the industrial estates, which has helped to develop the industry. However, because of the spurt of growth in recent years, the shortage of serviced factory shells and water supply is now constraining the expansion. To address this problem the LNDC has begun building additional industrial estates with factory shells. It has also facilitated land transfers to the denim mill company and a few other companies that are willing to build their own factory

[4] Lesotho's track record is, however, not perfect. In 1999, new trading enterprise regulations introduced reserve licenses that prohibited FDI in 17 business activities, mainly in the retail business and service sectors. Existing business activities were given 12 months to exit, and a number of businesses were closed as a result.

sites. Water is, however, a major constraint. The poor supply of groundwater and lack of adequate funds for investment have prevented the water company from expanding its network to new industries.

- **Container facility.** Severe capacity constraints at Mascon (Maseru Container Terminal) have emerged as the key constraint on the timely movement of raw materials and finished products. Expansion and development of the facility require sizable investment, which the private sector is willing to undertake only if appropriate land and property rights are provided.

- **Labor costs, labor markets, and regulatory environment.** All industry representatives cited labor costs, minimum wage regulations, and constraints on hiring and firing of workers as major problems. Every year, the industry is engaged in tripartite wage negotiations with the trade unions, which is both a time-consuming and difficult exercise. In addition, expatriate employees have difficulties in obtaining work and resident permits that are valid beyond three months.

D. Future Prospects: Key Issues

25. As noted at the outset of the paper, the two most pressing issues facing the industry are the following: (i) how to adjust and compete in a changing international market, in particular after the LDC status has expired and all MFA country quotas have been abolished; and (ii) how to diversify into new products by improving Lesotho's ability to compete, to continue to attract FDI, and to maintain a steady growth.

Impact of the phasing out of AGOA 1

26. Under AGOA, Lesotho has LDC status, which enables it to sell all products duty and quota free to the United States, while non-LDC countries pay duties averaging about 17 percent, and to procure inputs without restrictions until and including 2004 (AGOA 1). In the second phase (AGOA 2), from 2005 to 2008, Lesotho's garments industry will still be allowed to sell its products duty and quota free to the United States, but it must purchase its inputs locally, from the United States or from other qualifying SSA countries, including South Africa. It is possible that AGOA 1 could be extended beyond 2004, even though there is no indication that the United States authorities will do so.

27. The time-bound nature of AGOA 1 has provided incentives for Lesotho's textiles industry to integrate backward. One company has set up a denim mill, at a cost of about US$90 million over three years, which is expected to be fully operational in early 2004. The mill is expected to produce about 2 million meters of fabric a month out of a total demand in Lesotho estimated at 2.5 million meters a month. Another company has acquired a denim mill in KwaZulu Natal, South Africa, with a current capacity of 600,000 meters a month, which it will be eligible to use under the AGOA preference system.

28. The situation is more worrying in the knitted garments segment of the industry, which employs about 60 percent of the garments industry workforce. Some industrialists have stated that they would leave Lesotho if the advantages under AGOA 1 were lost, while others have discussed plans to manufacture knitted fabrics if the need should arise. A knitted fabric mill is smaller than a woven fabric mill, and the time span required for an investment is shorter. The industrialists are, therefore, in a position to defer any decision to set up knitted mills until they know the outcome of the negotiations to extend AGOA 1.

The impact of elimination of quota under the ATC

29. The elimination of ATC quotas, beginning in January 2005, is a potent threat to Lesotho and other smaller textile exporters. If current country-specific quotas are withdrawn, an influx of T&C exports from low-cost producers in China and South Asia will pose a competitive threat to small producers. Countries like Lesotho will face stronger competition, even if the AGOA tariff preference in favor of LDCs remains.

30. At the same time, Lesotho's tariff advantages will probably be eroded through new rounds of WTO talks, as United States and other major importers are expected to reduce their average level of tariffs on textiles products. It is not clear what kind of safeguards will be in place to prevent large exporters like China and India, from dominating the export market. Possible impacts are as follows:

- Removal of ATC quotas on yarn, fabrics, and clothing (ready-made garments) will open up international markets and expose exports from developing countries to increasing competition from countries that produce efficiently have large export capacities, and fully utilize their current quotas. Major competitors in different lines of production are as follows: (i) for yarn, India and Pakistan; (ii) for fabrics, East Asia (Malaysia, Thailand, Korea, and Hong Kong); and (iii) for clothing, China, India, Bangladesh, and Pakistan.

- Elimination of quotas—which have provided guaranteed market access for small and less efficient producers—will open markets to more efficient and larger suppliers that have filled their previous quotas. Countries (or product lines) that have been facing more binding quota restrictions will become more competitive, while those that have been less restricted by quotas may find it difficult to maintain their current market share.

31. Simulations by IMF staff indicate that the removal of MFA quotas would have a sizable negative effect on exports of Southern Africa Customs Union (SACU) countries. As much as one-fifth of the export of T&C could be eliminated, while the negative welfare impact would be about US$200 million. The information is not detailed enough to assess the possible impact on Lesotho, but industry representatives have indicated that profit margins are thin. A comparison of wages, which is a major cost element, shows that Lesotho is better placed than some countries in the region, but Lesotho's wages are higher than in Asian countries like Bangladesh and Indonesia (Table I.5). More critically, these countries have less stringent labor

laws that allow significantly longer working hours and set few limits on **minimum wages**, overtime, and the **hiring and firing of labor**.

Measures to improve competitiveness and promote diversification

32. To promote diversification into new product lines (within and outside the T&C industry), Lesotho must implement a systematic strategy to reduce production costs and improve its global competitiveness. Several elements are important:

- In the area of infrastructure, there is a need to provide land rights (long-term lease) to foreigners so as to attract private investment in infrastructure. In addition, a sizable up-front investment to expand water supply will pay off.

- There is a need to introduce more flexibility in the labor market and to improve the regulatory environment governing employment and investment. In particular, more flexibility in setting minimum wages without the use of centralized tripartite negotiations and a relaxation of hiring-and-firing rules may help the industry to cope with the competitive pressure.

- Industry representatives welcomed the recent liberalization of the foreign exchange regulations and capital account, in particular the relaxation of rules allowing Lesotho residents and nonresidents alike to hold foreign currency accounts in banks.[5]

- It was also suggested that selective time-bound fiscal incentives could be provided to promote few sectors/product lines in which Lesotho has a comparative advantage. Developing credit institutions and marked based instruments to improve access to finance while reducing its cost can also help diversify the export and production base of Lesotho.

- Diversification into higher grade products within textiles, into other products within light manufacturing (leather and footwear, consumer electronics, furniture and agro-processing), and diversification to other markets such as SADC will strengthen the industry's position in a competitive global market. This hinges on public policy to improve infrastructure and utilities, strengthen property rights, flexibility in the labor market and developing formal credit institutions noted above as well as simplifying regulations and facilitating the development of technical and entrepreneurship skills. Proactive measures, such as public-private initiatives in training, are needed to

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[5] Lesotho is considering reintroducing the Duty Credit Certificate (DCC) scheme, which was withdrawn owing to misuse, to encourage regional backward linkages. The DCC scheme would grant exporters an import duty credit based on a percentage of their exports. As a result, fabrics from South Africa may become price competitive with East Asian products.

promote diffusion of skills from the export sector to the rest of the economy and create institution for vocational/technical training.[6]

33. **Recent trade initiatives may favor Lesotho and other countries in the region.** Lesotho is likely to benefit from the ongoing negotiations of a free trade agreement (FTA) between the U.S. and the SACU countries, which is expected to be concluded in 2004 and become operational in 2005. The FTA will allow duty-free access of potentially thousands of product lines to the U.S. market, thus providing a great opportunity for export diversification. Lesotho should also gain from EU's Everything-But-Arms initiative, once the rules of origin are made clear. To seize the opportunity, Lesotho and other regional countries must improve their investment climate in order to attract sizable FDI in new product lines within the T&C industry, as well as in new industries.

E. Concluding Remarks

34. **The ready-made garments industry is a success story.** Rapid FDI-induced growth was facilitated by preferential trade arrangements and domestic incentives. This provided a much- needed boost to economic growth and employment in the face of declining workers' remittances and agricultural productivity. After more than a decade of steady growth, the industry now stands at a critical juncture. There is considerable uncertainty about the likely impact of the phasing out of AGOA 1 and global MFA textiles quotas.

35. **The key challenge is how to adjust and compete in a changing international market,** in particular when Lesotho's current LDC status under AGOA expires in 2004 and all MFA country quotas are abolished in 2005. The competitive pressure on smaller producers like Lesotho is likely to intensify, unless safeguards are introduced to minimize the disruptions caused by entries of big players like China and India. Lesotho cannot influence developments in the global market, but it can take measures to improve its ability to compete and to continue to attract a sizable amount of FDI in textiles. Such measures would be an improvement in property rights, up-front sizable investment in infrastructure, and improvement in the regulatory environment and labor markets. These measures, combined with efforts to reach out to new markets in the EU and the United States can provide the basis for a continued expansion of textiles exports, as well as a much-needed export diversification into new products.

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[6] World Bank, Lesotho – Growth and Employment Options Study, 2003.

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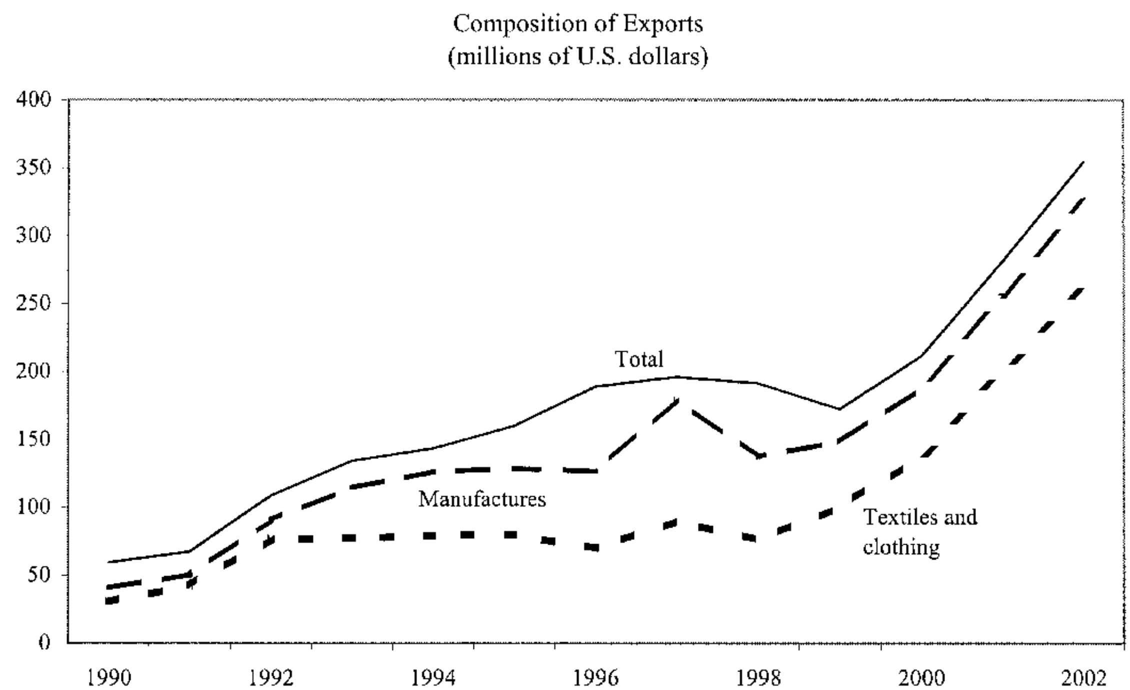
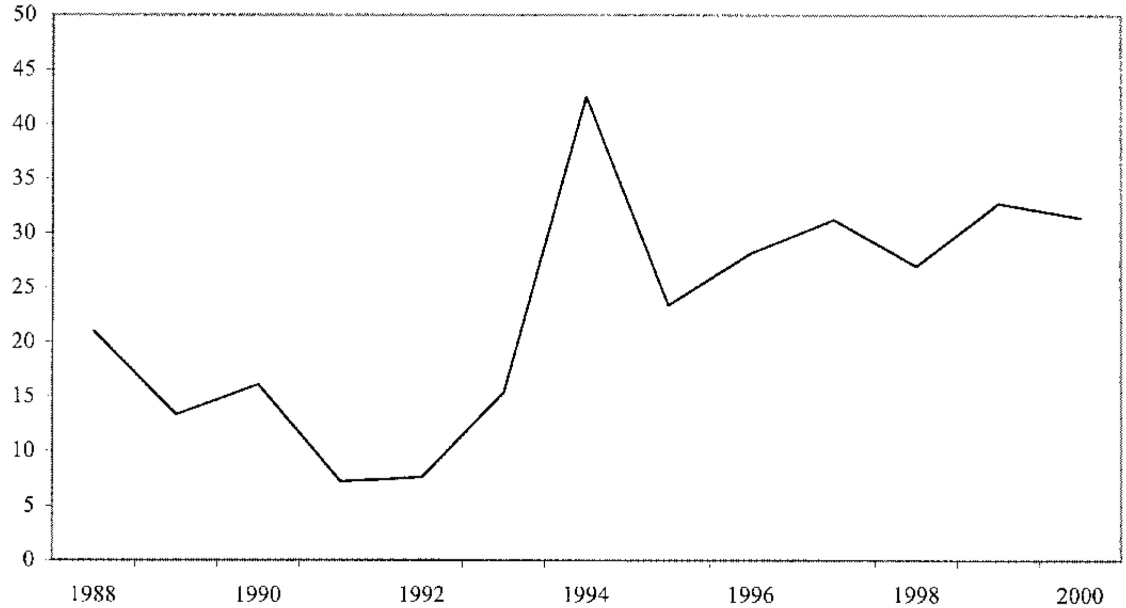
Figure I.1. Lesotho: Composition of Exports and Employment, 1990-2002



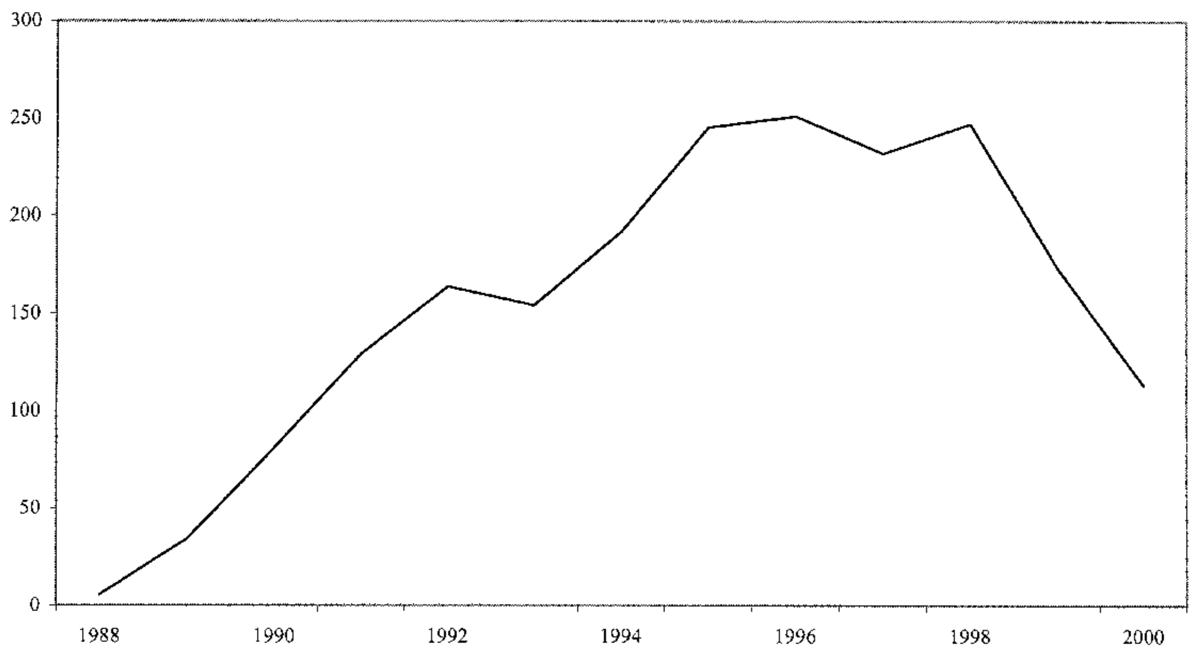
Sources: Central Bank of Lesotho; Ministry of Public Services; Lesotho National Development Corporation; and Fund staff estimates.

Figure I.2. Lesotho: FDI-and LHWP-Related Inflows, 1988-2000
(millions of U.S. dollars)

FDI Excluding LHWP-Related Inflows



LHWP-Related Inflows



Source: UNCTAD (2002).

Table I.1. Lesotho: Sectoral Shares of Economic Activities, 1990-2002
(Percent of GDP)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Primary industries 1/	26.8	20.8	19.6	20.8	19.5	17.9	19.2	17.7	19.0	19.6	19.7	19.3	18.0
Secondary industries	32.6	38.4	39.9	37.4	37.9	39.2	39.0	41.6	38.1	38.0	39.2	39.8	41.1
Manufacturing	12.4	13.1	13.8	15.1	15.5	15.9	16.6	15.9	16.0	15.8	16.1	16.9	17.5
Of which : textiles and clothing 2/	3.1	3.9	4.6	5.4	5.0	4.9	5.8	5.6	5.8	5.5	5.8	6.6	8.2
Utilities and construction	20.1	25.3	26.1	22.2	22.4	23.2	22.4	25.6	22.1	22.2	23.1	22.9	23.5
Tertiary industries	40.7	40.7	40.5	41.8	42.6	42.9	41.7	40.7	42.8	42.4	41.1	40.9	41.0
GDP at producers' prices	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Lesotho Bureau of Statistics; and staff estimates.

1/ Includes, crops, livestock, and mining.

2/ Includes also the category "Leather and footwear", which represents less than 5 percent of the value added of the subsector entitled "Textiles and clothing."

Table I.2. Lesotho: Number of People Employed in Public Service and Textiles and Clothing and Number of Migrant Workers, 1990-2002

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002 Est.
Public service	28,571	29,815	30,137	30,077	29,963	31,262	32,495	33,494	35,039	34,984	31,930	31,337	35,338
Civil service 1/	14,919	15,498	15,376	15,521	15,686	16,780	17,685	18,436	18,436	18,271	16,567	14,473	17,515
Defense and public order	4,983	5,581	5,669	5,653	4,881	4,881	4,942	4,942	6,394	6,288	4,677	5,572	6,669
Teachers	8,669	8,736	9,092	8,903	9,396	9,601	9,868	10,116	10,209	10,425	10,686	11,292	11,404
Migrant workers in South Africa	127,400	122,200	119,600	116,100	112,700	103,700	101,700	95,900	80,900	68,600	64,900	61,400	62,200
Textiles and clothing sector	7,400	9,640	11,760	14,210	13,750	14,261	16,961	16,373	14,023	17,593	18,690	32,605	38,780

Source: Ministry of Public Service and Lesotho National Development Corporation.

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

Table I.3. Lesotho: Composition of Recorded Exports (Including textiles and clothing), 1990-2002
(In millions of U.S. dollars, unless otherwise indicated)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Manufactures	40.7	50.4	90.7	114.6	126.2	128.7	126.5	179.4	137.6	148.6	188.4	256.1	326.3
Of which: textiles and clothing	30.6	42.2	76.9	77.1	79.2	79.6	70.1	90.1	76.2	100.7	137.5	200.4	261.1
Foodstuffs, etc.	9.4	11.4	8.5	7.9	5.9	9.0	5.4	9.1	7.4	19.5	16.1	16.4	18.8
Live animals	0.5	0.6	0.1	2.7	2.0	1.1	0.4	1.0	1.3	1.1	0.9	1.5	1.9
Livestock materials	6.0	3.7	6.8	6.8	9.1	9.6	5.8	6.3	3.4	2.5	5.3	7.0	6.1
Diamonds	2.5	1.2	0.7	1.3	0.1	1.6	0.4	0.3	0.1	0.1	0.2	0.2	0.4
Unclassified	0.3	0.0	2.1	1.0	0.1	10.1	50.5	0.1	41.8	0.7	0.5	0.6	1.3
Total value	59.4	67.4	109.0	134.3	143.4	160.1	188.9	196.2	191.5	172.5	211.5	281.8	354.8
Memorandum items:													
Growth in value of exports (in percent)	...	13.5	61.7	23.2	6.8	11.6	18.0	3.9	-2.4	-9.9	22.6	33.2	25.9
Growth in value of textile exports (in percent)	...	37.7	82.3	0.3	2.7	0.5	-11.9	28.5	-15.5	32.2	36.6	45.7	30.3
Share of textiles in total exports (in percent)	51.6	62.6	70.5	57.4	55.2	49.7	37.1	45.9	39.8	58.3	65.0	71.1	73.6

Sources: Central Bank of Lesotho; and staff estimates.

Table I.4. U.S. Imports of Textiles and Apparel (Clothing) from AGOA Beneficiary Countries, 2001-03
(In millions of U.S. dollars)

	2001	2002	2003 1/ Est.
SACU countries	460.2	622.8	613.6
Lesotho	214.9	320.7	282.6
South Africa	194.9	200.0	199.0
Botswana	2.5	6.3	4.9
Namibia	0.0	6.7	23.7
Swaziland	48.0	89.1	103.3
Other sub-Saharan Africa	493.9	484.1	520.0
Ghana	0.3	0.5	3.6
Ethiopia	0.7	1.3	1.4
Kenya	64.7	125.9	145.7
Tanzania	0.4	0.3	1.3
Mauritius	238.3	254.7	216.6
Mozambique	0.2	0.5	1.8
Madagascar	178.1	89.4	131.0
Malawi	11.2	11.4	17.6
Uganda	0.0	0.0	1.0

Source: U.S. Department of Commerce.

1/ Refers to imports during the first nine months of 2003.

Table I.5. Wage Comparisons in Selected Competitor Countries

Country	Wages per Hour (In U.S. cents)
Lesotho	27
Bangladesh	13-20
Indonesia	20
China	30-60
Kenya	29
Mauritius	63
South Africa	93
United States of America unregistered factory	300-400

Source: World Bank (2003).

II. THE FISCAL IMPACT OF HIV/AIDS IN LESOTHO[7]

36. HIV/AIDS could have a significant negative impact on real GDP. Given current trends, economic growth could be reduced by over 3 percent a year over the next decade. In turn, slower economic growth reduces the growth of the tax base, which may result in a substantially larger fiscal deficit within ten years. The first subsection provides an overview of the HIV/AIDS situation in Lesotho and an informal discussion of the resulting growth impact. The next two subsections present an analytic growth model that estimates the output impact of HIV/AIDS in Lesotho, and discuss the underlying assumptions and results; and the fourth subsection discusses the resulting fiscal impact.

A. Introduction

37. **The current HIV/AIDS prevalence rate is estimated at 31 percent of the adult population in Lesotho**. The Joint UN Program on HIV/AIDS (UNAIDS) 2002 reported an estimated total of 330,000 cases of HIV infections for people in the 15 – 49 age group at end-2001. AIDS-related deaths were estimated to have been as high as 25,000, or over 1 percent of the total population in 2001. The number of orphans was estimated at 73,000, or over 10 percent of the total population in the age group 0 – 14 at end-2001.

38. **While the macroeconomic impact of HIV/AIDS will be considerable,[8] its magnitude will – in general – be sensitive to country-specific factors**. Manufacturing is the engine of growth in Lesotho, and the ratios of labor and capital to output in this sector are important in determining the growth impact. Labor-intensive technologies are more vulnerable to reductions in the labor force than capital-intensive technologies. Therefore, Lesotho's labor-intensive textiles sector could be hard hit, but the actual impact will also depend on the ability to pull labor into this sector from other sectors. The textiles industry should be an attractive employer, as there is surplus labor in agriculture. The government's health strategy could significantly affect the spread of the infection and the length of time infected individuals can remain in the labor market.[9] In this section, we will not formally analyze the impact of

[7] Prepared by Jay Surti.

[5] Haacker (2002) in a study of a group of nine Southern African economies estimated that in the medium term, per capita output could be reduced by 4 percent to 10 percent. The estimate for Lesotho was a cumulative reduction of 7 percent over the medium term.

[9] In particular, a comprehensive program of antiretroviral treatment has the potential to significantly lengthen the life span of infected individuals and improve their quality of life. Governments in southern Africa, with the exception of Botswana and South Africa, are not in a position to provide financing for such programs on a wide scale.

alternate forms of government response but focus attention on the impact of the epidemic through the savings and labor force channels.

39. **The skills of the labor force are of immediate relevance to an analysis of the medium-term economic impact of the epidemic.** At present, an estimated 80 percent of Lesotho's population resides in rural areas, where subsistence agriculture is practiced. Agriculture is characterized by primitive modes of production and a large pool of unskilled labor, which could take up textile jobs. Skilled labor is in short supply, and, given the high prevalence rates among civil servants, teachers, and college students, the situation may worsen over the next decade. A recent World Bank study (2000) estimated that the HIV prevalence rate among public sector employees was close to 20 percent and over 25 percent for college students and teachers.

40. **The textiles sector has been the engine of growth in Lesotho over the last five years**. Production in this sector is labor intensive and does not require costly and lengthy training of new workers. As Lesotho has a significant pool of surplus labor in agriculture, as well as retrenched miners from South Africa, labor can – in principle – be pulled out from agriculture into textiles, provided the cost of migration is limited. Therefore, a two-sector extension of the model is discussed in Subsection D. Surplus labor is transferred from subsistence agriculture to manufacturing, and we analyze the extent to which this mitigates the adverse output impact of HIV/AIDS.

41. **The overall fiscal position is likely to deteriorate due to HIV/AIDS**. On the revenue side, HIV/AIDS has a negative impact on the tax base: as population growth declines, personal income, consumption, and imports will also fall. Moreover, a loss of civil servants could reduce tax collection levels, and higher morbidity and mortality rates may affect the tax administration adversely. On the expenditure side, certain categories, such as health spending, pensions and benefits to the infected and their families, and personnel costs (due to increased turnover), will increase.

B. The Model and Results

42. **HIV/AIDS has a negative impact on both the size of the labor force and savings, which will reduce output and growth in the medium term**. A number of recent papers have analyzed the output impact of HIV/AIDS through these channels. The common assumption in most of these papers is to assume permanent reductions in the savings rate and the labor force growth rates. As a result, the steady state capital-labor ratio will decline, which

reduces the capital stock and, hence, total output.[10] In this subsection, we will develop a simple growth model along these lines.

43. Real GDP in period t, denoted Y_t, is given as a function of the input of capital and labor by:

$$Y_t = K_{t-1}^{\alpha} L_t^{1-\alpha}; \qquad \alpha \in (0,1), \tag{1}$$

where, for each t,

$$\begin{aligned} &(Labor\ Force): \frac{L_t}{L_{t-1}} = n_t + 1; \quad -1 < n_t < \infty \\ &(Capital\ Stock) K_t = s_t Y_t + (1-\delta_t) K_{t-1}; \ \delta_t \in (0,1),\ s_t \in (0,1) \end{aligned} \tag{2}$$

Here, s_t is the savings rate in period t; δ_t is the rate of depreciation of capital; n is the growth rate of the labor force; and α is the output share of capital.

44. **The parameters s and n will vary with the impact and level of the epidemic; we allow these variables to vary over time.**[11] Using (2), we may define the capital-labor ratio as

$$k_t \equiv \frac{K_t}{L_t} = s_t \frac{Y_t}{L_t} + (1-\delta)\frac{K_{t-1}}{L_t} = s_t \left(\frac{k_{t-1}}{n_t+1}\right)^{\alpha} + (1-\delta) k_{t-1} \frac{1}{n_t+1} \tag{3}$$

Finally, the rate of growth of real GDP, g_t is given by

$$g_t \equiv \frac{Y_t}{Y_{t-1}} - 1 = \left(\frac{k_{t-1}}{k_{t-2}}\right)^{\alpha} (n_{t-1}+1)^{\alpha} (n_t+1)^{1-\alpha} - 1 \tag{4}$$

45. **The epidemic has a significant negative impact on the size of the labor force and the rate of savings**. Our projections of the labor force are based on the estimates of the U.S. Census Bureau's International Populations Center. Because of higher mortality rates and

[10] See, for example, Haacker (2002) for an application of this method to southern African economies. This paper also contains a comprehensive bibliography of the literature that investigates the savings and labor force channels.

[11] The rate of depreciation of capital, δ, will be assumed constant throughout, as will the share of capital in output, α.

lower fertility rates, the annual rate of labor force growth will decline from the current level of 1 percent to less than ⅓ of 1 percent by 2010 and less than 1/10 of 1 percent by 2020. On the savings side, some of the reduction in the savings rate over the next five years is explained by the completion of Phase 1 of the Lesotho Highlands Water Project by 2008, which will reduce gross capital formation. Beyond 2008, we estimate a further reduction of 6 percent in the savings rate over a five-year period, as families with HIV patients stop saving or dissave to finance care for the infected.[12]

46. **Slower labor force growth and lower savings rates, which reduce capital formation, will lower output growth.** We expect that a combination of these factors will reduce GDP growth over the medium and long term. Annual real GDP growth decreases by an average of 0.4 percent each year between 2005 and 2014, falling from 4 percent to 0.5 percent (Figure II.1). Consequently, in an AIDS scenario compared with a non-AIDS scenario, nominal GDP is projected to be 23 percent lower over this ten-year period and may fall back further by 2020.

47. **The adverse impact on output and growth will be mirrored by a decline in the quality of life and will push a greater proportion of people below the poverty line**. As in some other southern African countries, the general population in Lesotho is not covered by any social security-type arrangement, and hence the death of income-earning adults will necessarily reduce the families' net wealth.

C. The Impact of Surplus Agricultural Labor and Labor Mobility

48. **The declining real GDP growth projected in the previous subsection is mainly due to the steady decline in the growth of the labor force.** Labor training costs are, however, low in the textiles sector and there is a surplus of labor in agriculture. Specifically, most production in Lesotho's textiles sector has an assembly-line character; hence, the need to invest in sector-specific skills for new employees is limited (relative to the profit margins). The growth of the labor force in textiles can to a certain extent be supported by attracting labor from subsistence agriculture.

49. **One implication of our analysis is that the slower growth rate of the labor force in manufacturing will raise the capital-labor ratio and, hence, the wage rate in manufacturing**. This makes it easier to attract labor into the textiles sector, provided that migration costs do not increase as much as the wage rate.[13] A straightforward simulation,

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[12] An appendix provides further details on the methodology used to estimate the impact on the savings rate.

[13] We are assuming here that labor is paid its marginal product; i.e., the labor market is competitive.

boosting the labor force growth rate in the model, establishes that output growth rises as labor flows into textiles. It follows that as long as there is surplus labor in agriculture and training costs remain at current levels, it may be possible to maintain current growth rates in textiles and, hence, avoid a big drop in real output in the medium term. Textiles and manufacturing are the engines of growth in Lesotho, and transferring labor from low-productivity agriculture to higher-productivity manufacturing will have a positive net effect on aggregate output.

50. **However, the ability of agriculture to export labor to the textiles sector depends crucially on the impact of the epidemic upon the size of the labor force**. If our assumptions understate the adverse impact on the population size and the labor force shrinks faster in the medium term, then most of the surplus labor in agriculture will be absorbed more quickly, and it will become more expensive to replace this shrinking labor force. In this event, the impact on growth would be more negative and closer to that described in the previous subsection.

D. Fiscal Impact of HIV/AIDS in Lesotho

51. **The HIV/AIDS policy of the government is primarily focused on preventive strategies, with donors, including the UN, providing most of the financial support to mitigate the effects of the disease and care for the infected**. In particular, the government is not in a position to fund a comprehensive and wide-ranging antiretroviral program, nor can it bear the entire financial burden of importing the essential drugs necessary to fight opportunistic diseases among the infected. The hope is that this funding will be forthcoming from donors, nongovernmental organizations (NGOs), and the private sector. The government is planning on increasing financial support for public awareness campaigns to prevent the further spread of the infection in the country and reverse the trend in the prevalence rates.

52. **The current HIV/AIDS policy leads to two main assumptions in order to estimate the medium-term fiscal impact of the epidemic.** On the revenue side, the revenue-to-GDP ratio is assumed to be unaffected by the HIV/AIDS epidemic. As discussed in the introduction, the negative impact on revenues is generated primarily through a reduction in the tax base, owing, in turn, to a reduction in national income, with possibly a much smaller impact ensuing from factors that affect the revenue-to-GDP ratio, including problems with tax administration.[14] On the expenditure side, we assume that the projected level of total government expenditures remains the same.[15, 16] We feel that this is a reasonable assumption

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[14] Through 2008, we adopt the medium-term staff projections of the revenue-to-GDP path, and, for 2009 and beyond, we assume that this ratio grows annually at the average annual percent change between 2003 and 2008.

[15] Based on staff projections through 2008 and for 2009 and beyond, we assume that the annual rate of growth in total expenditure is the average annual percent change between 2003 and 2008.

over the medium term and may in fact understate the impact on expenditures, given that certain items, such as health, pensions, and personnel costs, may incur substantially higher expenditures than at present.

53. **The estimated impact of HIV/AIDS on the fiscal position of the government is considerable**; the fiscal burden is reflected in an additional deterioration of the overall fiscal balance of 5 percent of GDP by 2010, from an estimated current impact of 1 percent of GDP. In the longer term (2010 through 2020), HIV/AIDS may become the dominant factor affecting the fiscal balance and it could generate a much wider fiscal gap by 2020, if prevalence rates remain unchanged.[17]

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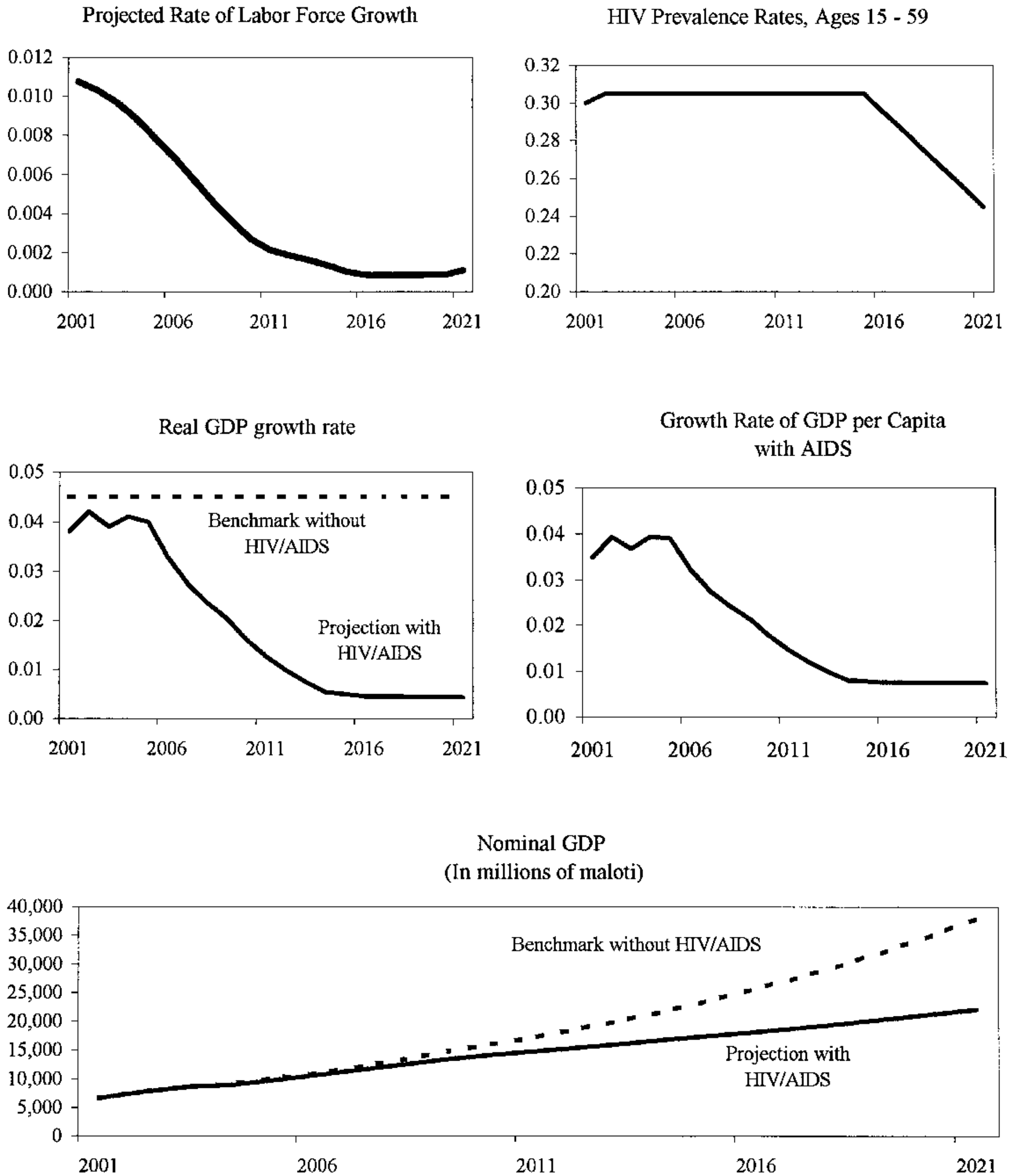
[16] Hence, the revenue-to-GDP ratio and the level of total government expenditures is assumed to be the same in the AIDS and non-AIDS scenario. Since nominal GDP is lower in the AIDS scenario, the expenditure-to-GDP ratio and the fiscal deficit will be higher in the AIDS scenario than in the non-AIDS scenario.

[17] The long-term numbers are meant to be indicative—as opposed to precise calculation—of the substantially larger impact in the long term over the medium term that may be expected of an epidemic left unchecked.

Figure II.1. Lesotho: Macroeconomic Effects of HIV/AIDS, 2001-21
(In percent, unless otherwise indicated)



Source: Fund staff estimates and projections.

Appendix: Model Assumptions; Initial Condition and Parameterization

54. **Initial conditions.** We take calendar year 2000 to be $t = 0$, and set k_{2000} to be a steady state value,[18] corresponding to the parameter values for that year (see below). In order to do so, we need the values of the savings rate, s_{2000}, the rate of growth of labor force, n_{2000}, and assumptions about the values of the output share of capital, α, and the annual rate of depreciation of capital, δ. The savings rate is obtained from data reported in the national accounts by the Lesotho Bureau of Statistics. We assume that $\alpha = 1/10$ and $\delta = 0.08$.

55. **Labor force.** The growth rate of the labor force is computed using demographic estimates and projections for Lesotho made by the U.S. Census Bureau's International Populations Center for the period 1985 through 2050. We assume that the labor force is constituted of people between the ages of 15 and 59. We assume a constant labor force participation rate and, consequently, a growth rate of the labor force that is identical to the growth of the population within this age group.

56. **HIV/AIDS prevalence and savings rate.** UNAIDS estimates that the adult HIV/AIDS prevalence rate at end-2001 is 31 percent. We assume in the model simulations that the prevalence rate among the labor force remains at this level through 2015 and thereafter declines at a constant rate of 1 percent per annum through 2020.[19] Savings rates through 2002 reflect data and estimates provided by the Lesotho Bureau of Statistics, and for 2003-08 are based on latest IMF staff projections. From 2009 onward, we assume that the savings rate declines over a five-year period from its 2008 level, reflecting the weaker savings propensities of HIV/AIDS patients and their families. From 2013 onward, we assume that HIV/AIDS patients do not save at all.[20]

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[18] The steady state value of capital is obtained by holding fixed n and s at their CY 2000 values, $k^* = \left(\frac{s}{n+1+\delta}\right)^{\frac{1}{1-\alpha}}(n+1)$.

[19] In earlier studies, the World Bank (2000) estimated that prevalence rates among the age group 15 – 49 would continue to rise through 2010, while Haacker (2002) held labor force prevalence rates constant for his medium-term growth impact analysis.

[20] Our assumptions regarding the savings propensities of HIV/AIDS patients is weaker than Haacker's (2002), who assumes that they do not save throughout the forecasting horizon. In the case of Lesotho, our weaker assumption may be justified on the grounds that, in the short to medium term, capital formation will largely be driven, as at present, by investments in the textiles industry (financed by entrepreneurs through foreign sources of finance) and in the Lesotho Highlands Water Project (financed primarily through grants from South Africa and Lesotho government financing), both of which are relatively unaffected by the epidemic.

(continued)

57. **Real and Nominal GDP.** A benchmark [4.5] percent annual rate of real GDP growth for the medium term in the absence of the epidemic forms the basis for a comparison with an AIDS scenario. In the absence of a sectoral GDP deflator series, nominal GDP for Lesotho is projected forward, using projections of the real GDP growth and the consumer price inflation. Specifically,

$$NGDP_{t+1} = NGDP_t\left(1+g_{t+1}\right)\left(1+\pi_{t+1}\right) \tag{5}$$

However, investment in textiles may reach a saturation point in the medium term, and the water project is expected to wind down by 2008.

III. Measures To Enhance Financial Intermediation in Lesotho[21]

58. Lesotho is pursuing an agenda of financial sector reform. This paper reviews the current situation and the measures that the authorities have adopted to enhance financial intermediation. There are three main conclusions: (i) stronger measures are needed to improve the institutional environment; (ii) the ongoing capital account liberalization is essential to harmonize Lesotho's regulations with those of other members of the Common Monetary Area (CMA); and (iii) measures to support rural finance are important.

A. Introduction

59. Financial intermediation is poor in Lesotho. Banks are reluctant to provide credit to local enterprises and consumers. In many parts of the country, banking services are simply not available. Lesotho is in a vicious cycle of poor financial intermediation and a low level of development. While partly a result of the low level of development, poor financial intermediation is itself an impediment to Lesotho's economic growth because the banking system does not facilitate the flow of resources between lenders and borrowers.

60. Two factors are to blame for this difficult situation. One is weak institutions, particularly weak enforcement of contracts. Anticipating the difficulties in loan recovery, banks avoid making retail loans and concentrate on dealing with the government instead. The second is dominance by South Africa, an economy with a much more sophisticated banking system.

B. Background and Recent Developments

61. The striking fact about Lesotho's banking sector is the discrepancy between the abundance of cash and the paucity of credit. The banks are highly liquid; their private sector credit-to-deposit ratio is at a very low 28 percent, compared to 81 percent in Swaziland, 113 percent in Namibia, and 157 percent in South Africa.[22] At the same time, the demand for banking services remains unmet for many people, especially in the rural areas.

62. The sources of this discrepancy are structural. They can be broadly grouped into two categories: internal and external. Internally, the existing institutional and physical infrastructure is not adequate:[23]

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[21] Prepared by Dmitriy Gershenson.

[22] All data for September 2003. For Lesotho, the data are provided by the authorities. For other countries, the data are from IMF (2003).

[23] For a detailed review of structural impediments to financial intermediation, see Vumbukani and Patel (2002).

- Property rights are often not well-defined because of the uncertainty regarding the legal status and even the location of the assets.[24]

- In many cases the credit history for a particular borrower is not available, as the credit bureau is not yet operational. Moreover, the identity of the borrowers is difficult to verify because there is no uniform identification system and a borrower can easily change his or her name to evade the lenders.

- The existing laws on land ownership make it almost impossible to use land as collateral.

- Contract enforcement is difficult because the judicial system is slow and inefficient; the commercial court is in its infancy and is not very effective.

- Married women have few legal rights. A married woman is considered a minor and is, therefore, ineligible for credit without a written permission from her husband.

- Poor physical infrastructure (lack of electricity and inadequate roads) hampers the extension of banking services to the remote rural areas.

63. The internal impediments to financial intermediation are exacerbated by Lesotho's small size and its proximity to South Africa. The economy supports a small banking sector consisting of only two independent banks.[25] Moreover, both the banks and their potential customers have easy access to the much better developed South African market. Many of the best customers prefer to take their business to South Africa. At the same time, instead of looking for investment opportunities in Lesotho, the banks can always invest their excess liquidity in South African securities.

64. These internal and external impediments leave many of the Basotho, especially the rural poor, without access to formal banking services. To satisfy their demand for credit, many Basotho have to resort to the services provided by the informal sector, represented mostly by the money lenders and the credit societies.[26] There are no available estimates of how much

[24] For example, many buildings cannot be precisely identified because they are built on unnumbered sites.

[25] The NED Bank and Standard Bank. The third bank, Lesotho Bank (1999), is jointly owned by the Standard Bank and the government of Lesotho. The ratio of total banking sector assets to GDP is low at slightly above one-third.

[26] Only a fraction of the money lenders are licensed by the central bank. Credit societies are informal associations that finance consumption expenditure, for example during the festive season, and funeral expenses. The activities of credit societies are not regulated.

money passes through the informal sector, but the anecdotal evidence suggests that the amount is substantial.

65. In recent months, the authorities introduced a series of measures to boost financial intermediation within the country and to facilitate transactions between Lesotho and the rest of the world:

- To facilitate the extension of credit to the private sector, the government has approved the creation of a credit bureau.
- In June, Lesotho partially liberalized capital account transactions. Companies and private individuals can now open foreign currency accounts outside the CMA, subject to limits and to approval by the central bank. In addition, all restrictions have been lifted on long-term capital inflows.
- To make credit more accessible for the rural residents, the Central Bank of Lesotho has established the M 2.5 million Rural Savings and Credit Guarantee Fund. This fund will guarantee 50 percent of the loans extended by the commercial banks to credit societies in the rural areas.

66. Looking ahead, the government plans to submit the new Land Act to parliament. The act will stipulate women's rights to acquire, hold, and use land. It will also simplify land transactions and make it easier to use land as collateral. In addition, the central bank has outlined the Vision for the Development of a Payments and Settlement System in Lesotho. Over the medium term, the Vision aims to develop a payments system that is reliable, secure, accessible, and cost-effective.

C. Assessment

67. Lesotho has embarked upon a course of reform to improve financial intermediation. The questions are whether the scope of reform is appropriate and what can be expected from the implementation.

68. Empirical evidence suggests that financial development is essential for economic growth. This is true for both industrial and developing countries. A well-developed financial system promotes growth by efficiently allocating the society's savings and by mitigating the risks.[27] This result supports the overall objective of Lesotho's reform program.

69. The remainder of this subsection is devoted to the analysis of the steps that the government is taking to improve intermediation. These steps are (i) measures to improve the institutional environment, (ii) capital account liberalization, and (iii) support for rural finance.

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[27] For a review of recent findings on this subject, see Levine (2003).

Measures to improve the institutional environment

70. Lesotho's economic performance suffers from poorly defined property rights, the inefficient enforcement of contracts, and the lack of accessible information about assets and their owners. These deficiencies severely limit business opportunities because, in such an environment, a person can transact only with people whom he or she personally knows and trusts.

71. Accordingly, to enhance financial intermediation and to improve growth prospects, the government must address these institutional weaknesses. Well-defined property rights, good contract enforcement, and accessible information accelerate economic growth by dramatically expanding the set of potential business partners to encompass, at the limit, the entire society.[28]

72. The steps being taken are, unfortunately, far from adequate. The credit bureau, an essential provider of information on borrowers, is not yet operational; its establishment has been announced only recently. No action has been taken to introduce a uniform personal identification system for the Basotho.

73. The authorities are well advised to address these issues as soon as possible, since the benefits for the economy could be substantial. Several steps can be suggested:

- Develop a comprehensive and easily accessible property registry.
- Make the credit bureau operational.
- Address the issue of multiple identities.
- Strengthen the judicial system.

Capital account liberalization

74. Capital account liberalization facilitates transactions between Lesotho and the rest of the world. At the same time, it may subject the economy to excessive volatility and to shocks originating well beyond the country's borders. In a review of the recent research on this subject, Prasad and others (2003) conclude that financial integration in itself does not lead to economic growth. Echoing that result, Gorinchas and Jeanne (2003) note that, while the direct

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[28] The importance of property rights, the legal enforcement of contracts, and the availability of information is discussed by Soto (2001).

benefits from financial integration for the developing countries are small, financial integration may promote growth through a positive impact on domestic allocative efficiency.[29]

75. Capital account liberalization affects domestic allocative efficiency through the entry of efficient foreign banks and the imposition of market discipline on domestic macroeconomic policies (Gorinchas and Jeanne, 2003). These channels are, however, unlikely to be of great significance for the present-day economy of Lesotho. First, there is no room for entry by another bank in the near term, since the existing banks are well capitalized and have difficulty finding good customers for their products. In addition, there are already no restrictions on entry by the banks from South Africa and from other members of the CMA. Second, domestic macroeconomic policies are already constrained by the loti's peg to the South African rand.

76. Nevertheless, additional circumstances necessitate financial integration between Lesotho and the rest of the world. First, as a member of the CMA, Lesotho should aim to make its policies compatible with those of the other members. As South Africa and other CMA members gradually liberalize their capital accounts, Lesotho cannot lag far behind. Second, capital account liberalization will make it easier for foreign entrepreneurs to conduct business in Lesotho. This is especially true for the vital textiles sector, which is being developed mostly by Taiwanese investors.

77. In sum, capital account liberalization will not produce a windfall. However, it will benefit the economy by raising the productivity of foreign capital already in Lesotho, and by making new investments easier to undertake.

Support for rural finance

78. It does not follow automatically that access to credit for the poor Basotho will improve because the formal domestic financial sector is becoming more efficient. Mosley (1999), in a study of four African countries including Lesotho, argues that availability of credit in the formal sector does not necessarily lead to better access to credit for the rural poor. Notwithstanding the situation in the formal sector, banks are reluctant to lend to these poor because of a lack of collateral and uncertainty about the borrowers' repayment intentions.

79. In this respect, the recent establishment of the Rural Savings and Credit Guarantee Fund is a welcome development. By encouraging the commercial banks to lend to the credit societies in the countryside, the government and the central bank aim to use the existing credit channels to provide additional resources to the rural Basotho. This strategy capitalizes on the

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[29] In the same vein, Edison and others (2002) indicate that the evidence on whether capital account liberalization promotes growth is mixed. Nsouli, Rached, and Funke (2003) argue that to promote growth, capital account liberalization must be accompanied by the reform of domestic financial markets.

strengths of the credit societies—such as superior local knowledge and high repayment rates—while gradually making them a part of the formal financial system.

80. The proposed rural finance scheme relies upon four pillars: formalization; noncredit assistance; emphasis on savings and investment; and loan guarantees[30]:

- **Formalization.** To become eligible for funds, credit societies must register with the central bank, must adhere to basic accounting principles, and must open and hold active accounts in the commercial banks.

- **Noncredit assistance.** Selected nongovernmental organizations will train the credit societies in the areas of accounting and fund management.

- **Emphasis on savings and investment.** Credit societies must save; their savings accounts in the commercial banks will be used as collateral. The funds received from the commercial banks should be used for investment purposes and not for consumption.

- **Loan guarantees.** To reduce the risk faced by the commercial banks, the Rural Savings and Credit Guarantee Fund will cover 50 percent of the potential losses; the rest will be covered by the credit societies and by the commercial banks themselves (20 percent and 30 percent, respectively).

81. How do the proposed features bode for the success of the rural finance scheme? While the scheme itself has barely started, several points can be made, based on the experience of other countries:

- First, reliance on credit societies, the institution that is already functioning and well understood by the Basotho, is a sound policy. In contrast, if the new banking practices run counter to the existing customs, they would be unlikely to succeed because personal relationships are the basis for credit extension in the rural areas.[31]

- Second, an inclusion of noncredit assistance is a welcome feature. McKernan (2002) shows that noncredit assistance (such as vocational training and information sharing among members) is important in raising the living standards of the borrowers.

[30] As described in Central Bank of Lesotho (2001 and no date).

[31] The available evidence suggests that simply transplanting unfamiliar banking practices from one region to another may be counterproductive. For example, Pickering and Mushinski (2001) note that peer pressure—a crucial component of rural lending in Asia and other regions—was not effective among the Lakota Indians in the United States because of the Lakota's deep-rooted aversion to intervene in other people's affairs.

- Third, loan guarantees, introduced with proper safeguards and with risk shared by all the parties involved, are important in attracting the commercial banks. The banks are not familiar with the rural market, where the return may be high, but so is the risk. Moreover, the banks do not need to penetrate the rural market to prosper. Therefore, an additional incentive to attract the banks to the rural areas is necessary.

- Fourth, while encouraging the borrowers to save and invest seems like a laudable idea, the results of such a policy are not obvious. In an environment where investment opportunities are few, the best way for the borrowers to increase their well-being may be to channel the money to other uses (for example, to on-lend the money in the informal market).[32] The requirement to save in such an environment becomes simply an additional cost that must be incurred by the borrowers to secure the access to credit (Masanjala, 2002). Therefore, the policy to promote business opportunities in the rural areas—by extending the road network and access to electricity, for example— would greatly complement the emphasis on savings and investment.

- Finally, rural finance is not a panacea for rural poverty. The experience of other countries suggests that credit extended by the rural finance institutions, while helping the poor, does not reach "the poorest of the poor."[33] The credit societies are not charities, and the "the poorest of the poor," with their low and highly variable income, are a bad credit risk. Therefore, the rural finance scheme must be accompanied by programs that target the most vulnerable segments of society.

D. Conclusion

82. The authorities recognize the value of sound financial intermediation for economic growth and the necessity for action. The reforms being introduced include measures to improve the institutional environment, gradually liberalize the capital account, and support rural finance.

83. This paper has reviewed the progress to date. More vigorous measures to improve the institutional environment are needed, such as developing a comprehensive and easily accessible property registry, making the credit bureau operational, addressing the issue of multiple identities, and strengthening the judicial system. Capital account liberalization is necessary to harmonize Lesotho's regulations with those of other members of the CMA and

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[32] Fujita (2000), based on a study of credit flows in two Bangladeshi villages, argues that the poorer farmers use the available funds to lend to the richer farmers.

[33] Amin, Rais and Topa (2003) note this phenomenon in their study of the credit extended by the Grameen Bank in rural Bangladesh.

to facilitate foreign investment. The initiative to support rural finance is also beneficial because access to credit for the rural Basotho is unlikely to improve on its own.

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IV. THE NEW SACU AGREEMENT AND ITS EFFECT ON REVENUES[34]

84. The new 2002 Southern African Customs Union (SACU) agreement is expected to be implemented over the next few years. The new agreement is more democratic than previous SACU agreements and is, therefore, likely to improve the foundation for regional cooperation and integration. The democratic gains do, however, come at a cost to Lesotho and other BLNS (Botswana, Lesotho, Namibia, and Swaziland) countries. The BLNS countries may lose significant fiscal revenue as a consequence of the new 2002 agreement, in combination with new tariff-reducing trade agreements.

A. The Institutional Framework

85. **The SACU was launched in 1910, and it is the oldest existing customs union in the world.** Current members are Botswana, Lesotho, Namibia, and Swaziland—the so-called BLNS countries—and South Africa.

86. **Three agreements have been crucial for the development of SACU:** (i) the initial 1910 Customs Union Arrangement, (ii) the 1969 agreement, and (iii) the 2002 agreement, which was signed in the fall of 2002 and is now pending ratification by the parliament of each member country. The agreement is expected to come into use in fiscal year 2005/06 (April-March).

87. **According to the arrangement initially agreed in 1910, all member states applied the same rate of import duty**, set by South Africa. The common customs revenue pool was administered by South Africa and distributed among members on the basis of fixed (i.e., not trade-related) percentage shares, which left South Africa with 98.7 percent of the revenue.

88. The attainment of independence of the three previous High Commission Territories–Bechuanaland, Basotholand, and Swaziland – necessitated the negotiation of the new 1969 agreement. South Africa was allowed to maintain most of the management of the customs union. For example, the South African tariff remained the common external tariff of SACU and the same arrangement applied to excise duties. The 1969 agreement does, however, contain special provisions with respect to infant industry protection to benefit the industrial growth of the smaller SACU members.

89. The 1969 agreement distributed the customs union revenue through a formula that calculates revenue shares for each BLNS country, with South Africa's share as a residual. The formula is designed to allocate customs and excise duties to each BLNS country according to its share of total extra- and intra-SACU imports and excisable goods consumed within the customs union. The formula also contains an extra compensation that enhances each BLNS country's revenue receipts by 42 percent. Revenues are distributed with a lag of two years.

[34] Prepared by Lars Engstrom.

That is, revenue distributions in fiscal year 2003/04 are based on customs and excise duties collected in fiscal year 2001/02, as well as trade data for that fiscal year.

90. **An important addition was made in 1977, when a so-called stabilized revenue rate was introduced**, promising minimum receipts equal to 17 percent of the total value of SACU imports and excisable value to the BLNS countries as a group. The guarantee is binding, and, as a result, SACU revenue receipts are higher than they would have been otherwise. This is important, as SACU revenue is a significant fiscal resource for the BLNS countries. In the case of Lesotho, SACU revenue accounted for about half of total fiscal revenue and grants in the early 1990s, and the share is currently 39 percent.

B. The 2002 Agreement

91. **The 2002 SACU Agreement introduces a structure with six new institutions:** a Council of Ministers, Customs Union Commission, Secretariat, Tariff Board, Technical Liaison Committees, and a Tribunal:

- The Council of Ministers is the highest decision-making authority. It is responsible for the overall policy direction and functioning of SACU institutions and the appointment of the Executive Secretary and the members of the Tariff Board.

- The Customs Union Commission is responsible for implementing the agreement, overseeing the management of the common revenue pool, and supervising the work of the Secretariat. The commission consists of senior officials from each member state.

- The Secretariat is responsible for the day-to-day administration of the agreement and keeps record of all transactions into and out of the common revenue pool. The Secretariat will be based in Namibia, where the headquarters of SACU will be established. So far, South Africa has been the sole custodian of the common revenue pool, in accordance with the 1969 agreement.

- The Tariff Board is responsible for recommending tariff changes to the Council of Ministers. The Tariff Board is an independent institution, consisting of experts drawn from member states.

- Four Technical Liaison Committees advise and assist the commission in its work on matters related to agriculture, customs, trade and industry, and transport. The Council of Ministers has the authority to determine the precise formation of each committee.

- The Tribunal passes a judgment on any issue concerning the application or interpretation of the agreement, at the request of the Council of Ministers. The determination of the Tribunal is final and binding. The parties to a dispute choose the members of the Tribunal from among a pool of names approved by the Council of Ministers.

92. **The 2002 agreement includes a new formula for sharing custom and excise duties.** The new revenue-sharing formula consists of three parts:

- **The customs component.** Total customs duties collected in all member countries will be distributed to each country in proportion to its share of intra-SACU imports, that is, the share of imports by SACU countries from other members of the customs union.

- **The excise component.** Of total excise duties collected in all member countries, 85 percent will be distributed to each country in proportion to its share of SACU GDP. In 1998/99, the shares were as follows: South Africa, 92.6 percent; Botswana, 3.4 percent; Lesotho, 0.6 percent; Namibia, 2.4 percent; and Swaziland, 0.9 percent.

- **The development component.** Of total excise duties collected in all member countries, 15 percent will be set aside for redistribution of revenue. In the first step of the calculation, each member country will be allocated 20 percent of the development component. In the next step, each share will be adjusted for differences in per capita GDP, in order to make an additional redistribution from high to low-income members. The net effect of the second-step redistribution is, however, tiny. The difference in per capita GDP between South Africa and Lesotho is large, as Lesotho's per capita GDP is less than 15 percent of South Africa's. Despite this major inequality, Lesotho's share of the component will be raised from 20 percent to 22 percent only, while South Africa's share will be reduced from 20 percent to 19 percent.

93. **Each year, approximately in October or November, the SACU governments and the SACU Secretariat will hold a joint meeting deciding** (i) the size of the total revenue pool that will be allocated over the following fiscal year – starting on April 1 – and (ii) the share of each member country:

- **The size of the revenue pool will be based on projections.** All later deviations of total revenue collections from the projected size of the pool will be adjusted during the second fiscal year after the actual allocations. For example, if actual revenue collected were to exceed the projections for 2005/06, then the extra collections would be distributed in 2007/08.

- **The actual proportion received by each member country will be based on the three components described above** and macroeconomic data on intra-SACU imports, national GDP, and per capita GDP in the five member countries. In order to reduce the risk of preliminary and inaccurate numbers' muddling the distribution, data will be lagged about three years. For example, the proportion allocated in 2005/06 will probably be based on macroeconomic data for 2002/03. The proportion is fixed once it has been determined, that is, a country that has been allocated a proportion of x percent would not get an upward adjustment, even if later revisions of intra-SACU imports, GDP, and per capita GDP were to indicate that the country had received a proportion that was too small.

94. **The new 2002 agreement is more democratic than the previous 1969 agreement.** All member countries will now take part in the management of the customs union and have a voice in the discussion of new customs tariffs, whereas this was previously an issue for South Africa's Board on Tariffs and Trade. The decisions of all SACU institutions except the Tribunal will be made by consensus. This should improve the foundation for regional cooperation and integration. However, the actual trade regime remains basically unchanged.

C. New Trade Agreements

95. **The SACU countries are beginning a long process of multiple trade negotiations** that will determine the future extent and volume of trade between SACU and its trading partners:

- The European Union (EU) and South Africa signed the so-called Trade and Development Cooperation Agreement (TDCA) in 1999. One consequence is the creation of a free trade area that will reduce duties on industrial and agricultural products traded between the EU and South Africa over the next ten years. Although the BLNS countries have not signed the agreement, the 1969 SACU Agreement requires that they concur with the terms of the TDCA.

- SACU has commenced negotiations with the United States toward an extensive free trade agreement, which is scheduled to be concluded before the end of 2005.

- Discussions with MERCOSUR (the Common Market of the South) are also under way, and South Africa has expressed a willingness to lead SACU into bilateral trade agreements with Nigeria, China, and India.

96. **New free trade agreements will have significant fiscal effects for the SACU member countries.** Average import tariffs will gradually decline, and this is estimated to reduce the size of the customs pool significantly over the medium term.

D. Projections of Revenue

97. **We have compared previous revenue allocations with the new formula**, that is, we have simulated what each member country would have received if the formula had been implemented earlier. There is, however, a significant margin of uncertainty because of the lack and weak quality of trade data. The new formula allocates the customs pool in proportion to the member countries' share of intra-SACU imports. To simulate the hypothetical distribution of the historical customs pool, ideally we would need five time series with historical data on intra-SACU imports in each member country. Unfortunately, these series do not exist. Instead, we used the 1998/99 shares of intra-SACU imports as reported in Kirk and Stern (2003), who derived their estimates from Customs Union Commission reports. The shares of intra-SACU imports are assumed to be as follows: South Africa, 20 percent; Botswana, 27 percent; Lesotho,13 percent; Namibia, 25 percent; and Swaziland, 15 percent.

However, there are no official and agreed numbers on intra-SACU imports and analysts used different assumptions for the calculations made in preparation of the 2002 arrangement. For example, some calculations assumed that Lesotho's share of intra-SACU imports was less than 10 percent in 1998/99.

98. **The simulations indicate that the BLNS countries would have gained financially, if the new formula had been implemented earlier** (Figure IV.1). About R 10,000 million would have been reallocated from South Africa to the BLNS countries over the 11 years from 1993/94 to 2003/04. This would have raised fiscal revenue in the BLNS countries by about 1½ percent of GDP a year.

99. **However, the simulations give an overly favorable projection of future SACU revenues in the BLNS countries.** New tariff-reducing trade agreements are expected to shrink the size of the customs pool, which generates about 80 percent of the SACU revenues received by the BLNS countries at current tariff rates. The BLNS countries would have been insured against this negative fiscal effect if they had preserved the old 1969 agreement. The stabilized revenue rate promised the BLNS countries as a group minimum receipts equal to 17 percent of the tax base; that is, the total value of SACU imports and excisable value. This promise has now come to an end, together with the old 1969 agreement.

100. **In order to illustrate the potential effects of new tariff-reducing agreements, we have made an ad hoc simulation and assumed that tariff cuts would reduce the size of the customs pool by 40 percent, starting in 2005/06.**[35] As a result, South Africa would lose revenue of about 0.1 percent of GDP each year, while the BLNS countries as a group would lose revenue of about 3 percent of their GDP each year. We have also broken down the simulations for each BLNS country (Figure IV.2). If the customs pool is cut by 40 percent, Lesotho would lose fiscal revenue equal to almost 6 percent of GDP each year, while Swaziland would lose about 4½ percent of GDP. Botswana and Namibia would both lose revenue of about 2¾ percent of their GDP each year. It is obvious that South Africa is fiscally better protected than other SACU members. At current tariff rates, the customs component generates only about 20 percent of South Africa's total SACU revenues.

101. **To support the financially weaker countries, all SACU members could agree to reallocate revenues in the event of new tariff-reducing trade agreements.** A clear-cut solution would be to reallocate excise duties from the excise component to the development component. Such reallocations are envisaged in the 2002 agreement. However, South Africa is the only expected net contributor to the development component, and all member countries must give their consent before any reallocation. It is unclear how amenable South Africa would be to requests to raise the share of the development component.

[35] Some assessments indicate that the customs pool would drop by about 40 percent in 2005/06 if SACU were to reduce its most-favored-nation (MFN) tariffs at a similar rate as the new tariff schedule agreed by the EU and South Africa.

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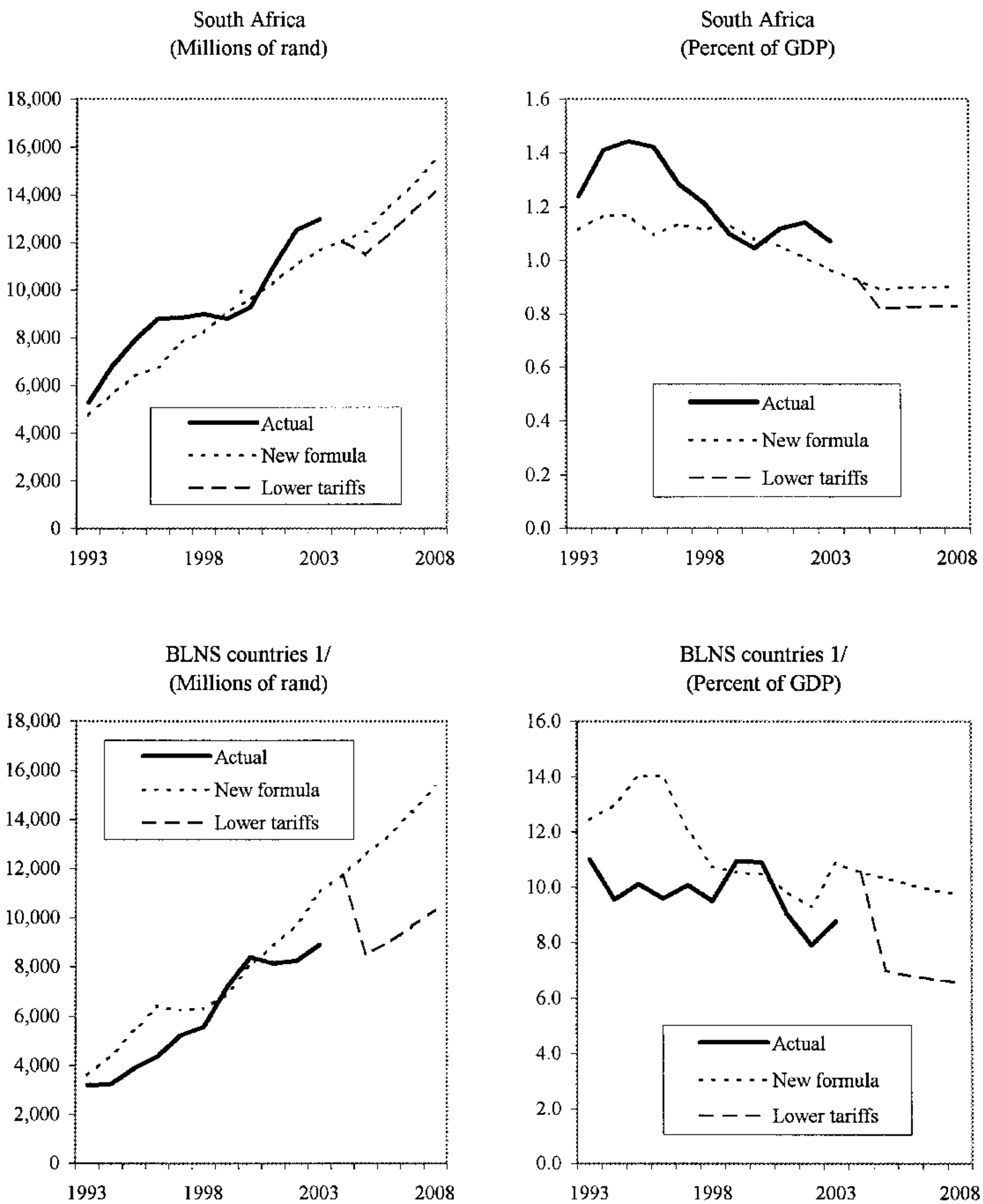
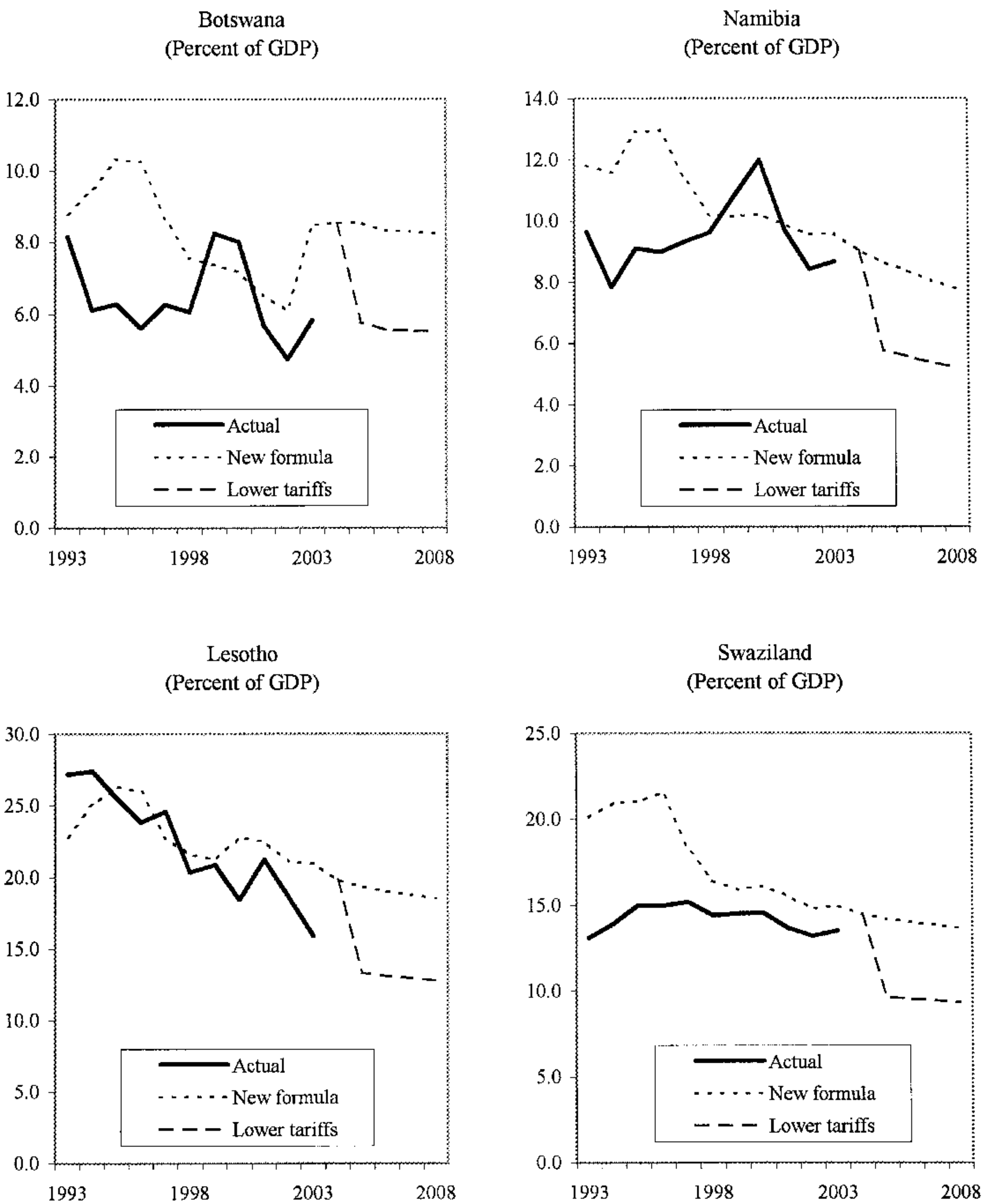
Figure IV.1. SACU: Actual and Simulated Revenues, 1993-2008



Source: Fund staff estimates and projections.

1/ BLNS countries = Botswana, Lesotho, Namibia, and Swaziland.

Figure IV.2. BLNS Countries: Actual and Simulated SACU Revenues, 1993-2008 1/



Source: Fund staff estimates.

1/ BLNS countries = Botswana, Lesotho, Namibia, and Swaziland.

Table 1. Lesotho: Gross Domestic Product by Sector (At constant 1995 prices), 1996/97-2002/03 1/ 2/

(In millions of maloti)

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Primary sector	618.1	625.2	646.9	672.3	687.4	683.1	661.3
Crops	414.8	399.9	383.9	392.5	434.6	439.7	398.0
Livestock	169.9	189.9	229.1	249.1	224.5	219.1	240.3
Agricultural services	33.4	35.4	34.0	30.7	28.4	24.2	23.1
Secondary sector	1,312.7	1,421.8	1,294.6	1,321.2	1,389.3	1,458.8	1,548.2
Mining and quarrying	3.1	3.3	2.6	2.8	3.3	3.4	3.7
Manufacturing and handicraft	541.5	555.9	541.5	546.0	574.9	618.6	659.1
Electricity and water	130.9	225.1	182.8	224.5	222.5	231.8	237.7
Construction	280.6	264.2	296.9	361.7	443.8	457.4	558.0
LHWP construction 3/	356.6	373.3	270.8	186.1	144.9	147.5	89.7
Tertiary sector	1,366.0	1,434.6	1,449.0	1,449.2	1,450.0	1,481.9	1,533.2
Wholesale and retail	304.2	319.7	305.6	290.9	283.4	291.8	304.9
Hotel and restaurants	47.4	47.8	45.1	51.0	54.4	54.0	56.1
Transport and storage	75.5	76.7	71.8	70.5	71.1	73.6	77.1
Post and telecommunications	50.5	59.2	61.0	69.0	75.3	80.3	80.5
Financial intermediation	113.2	103.1	111.2	152.5	203.7	214.5	230.0
Owner-occupied dwellings	156.6	159.8	163.0	166.2	169.6	173.0	176.6
Other real estate and business services	64.4	77.4	67.7	60.9	58.1	56.7	60.9
Public administration	247.5	261.6	282.0	276.7	271.8	268.3	270.7
Education	285.7	300.8	308.8	314.2	320.7	333.8	349.2
Health and social work	62.4	62.5	72.0	71.1	64.6	65.5	67.6
Community, social, and personal services	40.6	41.1	41.7	42.3	42.8	43.4	44.0
Less: financial services indirectly measured	-82.0	-75.1	-80.6	-116.0	-165.5	-172.8	-184.5
GDP at producer prices	3,296.8	3,481.6	3,390.5	3,442.7	3,526.6	3,623.8	3,742.7
Plus: taxes on products	499.7	495.6	448.9	417.8	405.5	436.6	472.7
GDP at purchasers' prices	3,796.4	3,977.1	3,839.5	3,860.4	3,932.1	4,060.4	4,215.5
Plus: net factor income from abroad	1,269.2	1,266.3	1,065.4	1,031.3	991.6	911.4	945.6
Gross national income at purchasers' prices	5,065.7	5,243.5	4,904.8	4,891.7	4,923.7	4,971.7	5,161.1

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 2. Lesotho: Gross Domestic Product by Sector (At current prices), 1996/97-2001/02 1/ 2/

(In millions of maloti)

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Primary sector	667.4	711.5	808.7	905.5	1,024.0	1,110.3
Crops	454.7	454.3	495.3	544.9	660.6	735.9
Livestock	174.2	210.4	263.0	310.5	315.3	330.7
Agricultural services	38.5	46.8	50.4	50.2	48.2	43.7
Secondary sector	1,497.3	1,766.3	1,807.4	2,111.9	2,285.5	2,596.7
Mining and quarrying	3.1	3.7	4.1	5.5	8.0	9.3
Manufacturing and handicraft	609.7	706.9	787.5	844.8	945.7	1,129.1
Electricity and water	171.2	291.6	249.6	321.2	329.8	361.5
Construction	294.8	292.2	385.0	647.4	749.9	824.0
LHWP construction 3/	418.5	471.8	381.3	293.1	252.3	272.8
Tertiary sector	1,547.4	1,777.9	1,960.6	2,114.1	2,253.3	2,485.8
Wholesale and retail	342.8	397.7	412.4	441.6	504.0	568.0
Hotel and restaurants	53.0	58.1	59.5	71.9	81.3	88.5
Transport and storage	96.4	107.8	105.3	107.9	115.6	137.7
Post and telecommunications	48.6	55.3	61.5	77.3	84.9	95.9
Financial intermediation	127.3	127.3	141.5	194.5	260.6	274.7
Owner-occupied dwellings	170.1	177.8	187.2	191.0	208.3	253.2
Other real estate and business services	72.5	94.3	87.3	86.2	95.7	97.7
Public administration	284.8	346.6	418.7	452.2	463.1	485.0
Education	329.8	377.4	435.9	474.0	489.0	530.8
Health and social work	69.9	79.8	102.4	110.4	103.8	111.0
Community, social, and personal services	44.9	50.0	54.6	59.1	63.7	70.0
Less: financial services indirectly measured	-92.7	-94.3	-105.5	-151.9	-216.7	-226.6
GDP at producer prices	3,712.0	4,255.7	4,576.7	5,131.6	5,562.8	6,192.8
Plus: taxes on products	508.2	514.3	505.1	537.1	574.3	646.4
GDP at purchasers' prices	4,220.2	4,770.0	5,081.8	5,668.7	6,137.2	6,839.1
Plus: net factor income from abroad	1,410.9	1,541.2	1,410.1	1,514.3	1,547.7	1,535.1
Gross national income at purchasers' prices	5,631.1	6,311.2	6,491.8	7,183.0	7,684.8	8,374.2

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 3. Lesotho: Gross Domestic Product by Expenditure, 1996/97-2002/03 1/ 2/

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
	(In millions of maloti)						
Gross domestic product	4,220.2	4,770.0	5,081.8	5,668.7	6,137.2	6,839.1	7,731.4
Net factor income from abroad	1,410.9	1,541.2	1,410.1	1,514.3	1,547.7	1,535.1	1,734.4
Gross national product	5,631.1	6,311.2	6,491.8	7,183.0	7,684.8	8,374.2	9,465.7
Unrequited transfers	833.5	951.6	811.0	961.2	932.7	1,164.8	1,306.3
Gross national disposable income 3/	6,464.6	7,262.7	7,302.8	8,144.2	8,617.5	9,538.9	10,772.1
Consumption	5,328.1	6,249.3	6,159.7	6,778.1	7,187.4	7,347.0	9,080.4
Government consumption	1,112.7	1,383.8	1,814.2	2,135.1	2,163.4	2,109.0	2,637.2
Private consumption	4,215.4	4,865.5	4,345.5	4,643.0	5,024.0	5,238.0	6,443.2
Gross national savings 4/	1,136.5	1,013.5	1,143.0	1,366.1	1,430.1	2,191.9	1,691.7
Public savings 5/	921.9	863.2	359.4	177.7	463.2	678.8	397.5
Private savings 6/	214.6	150.3	783.6	1,188.4	966.9	1,513.1	1,294.2
Investment	2,412.6	2,489.2	2,415.0	2,660.1	2,548.9	3,107.2	2,983.1
Gross fixed capital formation	2,418.5	2,547.9	2,471.0	2,652.5	2,695.3	3,269.4	3,084.6
Government	873.7	868.3	495.7	479.9	473.0	826.7	747.5
Private	-515.3	121.4	731.3	1,257.1	1,373.8	1,570.3	1,738.9
LHWP 7/	2,060.1	1,558.2	1,244.0	915.5	669.6	872.4	598.3
Change in stocks	-5.9	-58.7	-56.0	7.6	-146.4	-162.2	-101.5
Gross national savings less investment 8/	-1,276.1	-1,475.8	-1,272.0	-1,294.0	-1,118.9	-915.3	-1,291.4
	(In percent of GDP)						
Gross domestic product	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Net factor income from abroad	33.4	32.3	27.7	26.7	25.2	22.4	22.4
Gross national product	133.4	132.3	127.7	126.7	125.2	122.4	122.4
Unrequited transfers	19.8	19.9	16.0	17.0	15.2	17.0	16.9
Gross national disposable income 3/	153.2	152.3	143.7	143.7	140.4	139.5	139.3
Consumption	126.3	131.0	121.2	119.6	117.1	107.4	117.4
Government consumption	26.4	29.0	35.7	37.7	35.3	30.8	34.1
Private consumption	99.9	102.0	85.5	81.9	81.9	76.6	83.3
Gross national savings 4/	26.9	21.2	22.5	24.1	23.3	32.0	21.9
Public savings 5/	21.8	18.1	7.1	3.1	7.5	9.9	5.1
Private savings 6/	5.1	3.1	15.4	21.0	15.8	22.1	16.7
Investment	57.2	52.2	47.5	46.9	41.5	45.4	38.6
Gross fixed capital formation	57.3	53.4	48.6	46.8	43.9	47.8	39.9
Government	20.7	18.2	9.8	8.5	7.7	12.1	9.7
Private	-12.2	2.5	14.4	22.2	22.4	23.0	22.5
LHWP 7/	48.8	32.7	24.5	16.2	10.9	12.8	7.7
Change in stocks	-0.1	-1.2	-1.1	0.1	-2.4	-2.4	-1.3
Gross national savings less investment 8/	-30.2	-30.9	-25.0	-22.8	-18.2	-13.4	-16.7

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 4. Lesotho: Consumer Price Indices, April 1997 - April 2003
(April 1997 = 100, unless otherwise indicated)

		1997	1998	1999	2000	2001			2002				2003	
	Weights	Apr.	Apr.	Apr.	Apr.	Apr.	July	Oct.	Jan.	Apr.	July	Oct.	Jan.	Apr.
Consumer price index (CPI) 1/	100.0	100.0	107.3	116.9	124.3	133.0	135.4	138.7	144.0	150.6	153.4	154.1	156.6	159.8
Food, beverages, and tobacco	43.1	100.0	108.2	117.2	124.8	132.5	135.3	139.8	149.5	169.2	173.8	172.0	173.9	175.7
Bread and cereals	19.3	100.0	105.1	110.6	116.8	122.3	123.6	124.5	141.6	171.1	176.8	177.1	176.3	176.9
Meat and meat products	4.1	100.0	109.5	115.3	120.0	132.1	135.6	135.0	141.3	146.9	150.1	154.2	160.1	162.9
Fruits and vegetables	4.0	100.0	119.7	138.5	151.5	173.8	177.0	181.5	187.3	186.2	188.5	202.2	212.4	214.7
Alcoholic beverages and tobacco	8.1	100.0	107.5	120.6	133.7	142.3	143.3	148.4	152.1	159.3	158.8	159.6	162.0	170.2
Food and drinks	7.6	100.0	109.9	...	...	...	...	...	...	...	...	...	...	...
Clothing and footwear	15.8	100.0	108.9	120.8	125.4	133.0	135.3	136.5	137.0	138.0	139.8	141.8	141.8	143.4
Blankets	3.3	100.0	107.3	114.4	114.3	124.8	126.1	129.9	131.7	132.5	136.7	136.7	135.2	137.4
Other clothing	6.3	100.0	109.3	119.9	123.9	131.5	133.3	134.9	136.2	137.3	138.0	141.8	142.9	144.5
Footwear	6.2	100.0	109.3	124.6	132.1	138.4	141.7	141.3	140.3	141.1	142.9	144.2	144.2	145.3
Gross rent, fuel, and power 2/	3.9	100.0	104.5	109.7	113.4	128.4	131.0	133.1	136.7	141.1	144.5	147.9	152.2	154.6
Gross rent and water charges 2/	0.6	100.0	100.0	100.0	101.5	101.5	101.5	103.2	107.4	107.4	107.4	107.4	107.4	107.4
Fuel and power	3.3	100.0	105.3	110.9	115.0	131.9	134.9	137.2	141.0	146.0	149.8	153.6	158.5	161.2
Furniture and household operations	18.1	100.0	108.1	120.9	128.8	138.5	140.0	141.0	142.4	144.8	146.9	149.6	153.5	155.3
Transport and communications	8.4	100.0	103.3	109.6	125.3	140.0	144.8	147.0	150.4	153.9	156.5	158.3	160.4	165.3
Other goods and services	10.5	100.0	104.2	110.7	115.7	120.3	121.5	126.9	128.4	129.9	135.2	136.9	139.7	142.5
Memorandum item:														
Annual CPI inflation rates (in percent; end of period)		8.8	7.3	8.9	6.3	7.0	7.6	7.6	9.0	11.1	13.2	13.3	11.1	8.7

Source: Lesotho Bureau of Statistics.

1/ Covers all households in six lowland towns, including Maseru.
2/ Since January 1994, rent has been excluded from CPI calculations because of data collection problems.

Table 5. Lesotho: Basic Monthly Minimum Wages, 1996-2003 1/

	1996 Nov.	1997 Oct.	1998 Dec.	1999 Oct.	2000 Oct.	2001 Sep.	2002 Oct.	2003 Oct.
	(In maloti)							
Copy typist	419.5	457.3	508.0	554.0	593.0	631.0	694.0	732.0
Driver								
Car and light van	487.1	530.9	589.0	642.0	687.0	732.0	805.0	849.0
Medium-sized vehicle	533.9	581.9	646.0	704.0	753.0	802.0	882.0	931.0
Heavy vehicle	683.6	745.2	827.0	901.0	964.0	1,026.0	1,129.0	1,191.0
Operator (hammer mill)	355.3	387.3	430.0	469.0	502.0	535.0	589.0	621.0
Junior clerk	419.5	457.3	508.0	554.0	593.0	631.0	694.0	732.0
Machine operator	487.1	530.9	589.0	642.0	687.0	732.0	805.0	849.0
Messenger	355.3	387.3	430.0	430.0	502.0	535.0	589.0	621.0
Machine attendant	419.5	457.3	508.0	554.0	593.0	631.0	694.0	732.0
Receptionist	419.5	457.3	508.0	554.0	593.0	631.0	694.0	732.0
Shop assistant	391.7	426.9	474.0	517.0	553.0	589.0	648.0	684.0
Telephone operator	419.5	457.3	508.0	554.0	593.0	681.0	694.0	732.0
Ungraded artisan (heavy physical work)	452.6	493.4	548.0	597.0	639.0	681.0	749.0	790.0
Unskilled labor								
Heavy physical work	391.7	426.9	474.0	517.0	553.0	589.0	648.0	684.0
Light physical work	355.3	387.3	430.0	469.0	502.0	535.0	589.0	621.0
Waiter	402.8	439.1	487.0	531.0	568.0	605.0	666.0	703.0
Watchman	495.2	539.7	599.0	653.0	699.0	714.0	818.0	863.0
Weaver								
Training (six months)	355.3	387.3	430.0	469.0	502.0	535.0	589.0	621.0
Trained	372.6	406.2	451.0	492.0	528.0	560.0	616.0	650.0
Sewing machine operator								
Training (six months)	355.3	387.3	430.0	469.0	502.0	535.0	589.0	621.0
Trained	372.6	406.2	451.0	492.0	526.0	560.0	616.0	650.0
Small business	242.0	263.8	293.0	319.0	341.0	363.0	399.0	421.0
Domestic servant	121.0	131.9	146.0	159.0	170.0	181.0	199.0	210.0
	(Annual percentage change)							
Memorandum items:								
General increase 2/	11.0	9.0	11.1	9.1	7.0	6.4	10.0	5.5
Exception: watchman	11.0	9.0	11.0	9.0	7.0	2.1	14.6	5.5

Source: Ministry of Labor.

1/ Based on legal notices issued in July 1995, October 1996, September 1997, December 1998, October 1999, October 2000, September 2001, October 2002, and October 2003.

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

Table 6. Lesotho: Public Service Employment, 1996/97-2002/03 1/

	Grade	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Established civil service 2/								
Professional and administrative	G - L	1,649	1,748	2,004	2,030	2,008	2,061	...
Professional and administrative 3/	H - L	...	...	...	...	...	...	955
Professional and administrative 3/	F - G	...	...	...	...	...	...	3,464
Executive	E - F	3,407	3,453	3,639	3,667	4,203	4,299	...
Executive 3/	E	...	...	...	...	...	...	1,443
Clerical	A - D	13,442	13,540	14,822	14,993	13,346	13,375	14,481
Total		18,498	18,741	20,465	20,690	19,557	19,735	20,343
Actual employment								
Civil service 2/		17,685	18,436	18,436	18,271	16,567	14,473	17,515
Defense and public order		4,942	4,942	6,394	6,288	4,677	5,572	6,669
Teachers		9,868	10,116	10,209	10,425	10,686	11,292	11,404
Total		32,495	33,494	35,039	34,984	31,930	31,337	35,338

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 workers.
3/ Apply in 2002/03 and onward.

Table 7. Lesotho: Central Government Operations, 1996/97-2002/03 1/

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
	(In millions of maloti)						
Revenue	2,035	2,247	2,174	2,313	2,627	2,788	3,035
Tax revenue	1,554	1,795	1,695	1,889	1,942	2,378	2,576
Customs revenue	1,006	1,173	1,034	1,183	1,126	1,438	1,470
Noncustoms tax revenue	548	622	661	706	816	940	1,106
Income taxes	299	340	387	420	469	580	663
Sales tax	194	224	233	238	280	302	344
Oil levy	46	47	36	44	62	51	86
Other tax revenues	9	11	5	5	5	7	13
Nontax revenue	481	452	479	424	685	410	459
Water royalties	143	83	120	138	135	176	213
Interest received	151	178	223	76	63	15	24
Other nontax revenues	187	191	136	210	487	219	222
Total expenditure and net lending	2,053	2,342	2,438	3,373	2,864	2,938	3,659
Current expenditure	1,179	1,474	1,943	2,319	2,434	2,312	2,857
Wages and salaries	604	721	838	836	925	992	1,082
Interest payments	66	90	129	183	271	203	220
Of which: external interest	37	60	96	102	160	126	110
Goods, services, and transfers	508	663	977	1,299	1,238	1,117	1,555
Goods and services	268	324	504	1,029	905	720	1,046
Transfers and subsidies	240	339	473	270	333	396	509
Capital expenditure and net lending	874	868	496	1,055	430	626	802
Domestically funded	252	247	233	250	183	277	171
Externally funded	621	621	263	230	240	373	512
Grant funded	193	179	120	130	126	167	236
Loan funded	428	442	143	100	115	206	276
Overall balance before grants	-18	-95	-265	-1,061	-238	-150	-624
Grants from abroad	203	179	120	130	126	189	296
Overall balance after grants	185	84	-145	-931	-112	39	-328
Total financing	-185	-84	145	931	112	-39	328
Financing abroad	347	346	18	-71	-257	-54	56
Loan drawings	428	442	143	100	115	206	276
Amortization	-81	-97	-124	-171	-372	-260	-220
Domestic financing	-504	-474	182	1,048	390	16	272
Bank	-528	-508	167	1,025	367	67	321
Nonbank	24	33	15	23	23	-52	-49
Residual	-29	45	-55	-46	-21	0	0
	(In percent of GDP, unless otherwise indicated)						
Revenue	48.2	47.1	42.8	40.8	42.8	40.8	39.3
Customs revenue	23.8	24.6	20.4	20.9	18.3	21.0	19.0
Noncustoms tax revenue	13.0	13.0	13.0	12.4	13.3	13.7	14.3
Nontax revenue	11.4	9.5	9.4	7.5	11.2	6.0	5.9
Total expenditure and net lending	48.6	49.1	48.0	59.5	46.7	43.0	47.3
Current expenditure	27.9	30.9	38.2	40.9	39.7	33.8	37.0
Wages and salaries	14.3	15.1	16.5	14.7	15.1	14.5	14.0
Other expenditure	13.6	15.8	21.7	26.2	24.6	19.3	23.0
Capital expenditure and net lending	20.7	18.2	9.8	18.6	7.0	9.1	10.4
Overall balance before grants	-0.4	-2.0	-5.2	-18.7	-3.9	-2.2	-8.1
Grants from abroad	4.8	3.7	2.4	2.3	2.0	2.8	3.8
Overall balance after grants	4.4	1.8	-2.8	-16.4	-1.8	0.6	-4.2
Financing abroad	8.2	7.2	0.4	-1.3	-4.2	-0.8	0.7
Domestic bank financing	-12.5	-10.6	3.3	18.1	6.0	1.0	4.1
Memorandum item:							
GDP at market prices (in millions of maloti)	4,220	4,770	5,082	5,669	6,137	6,839	7,731

Sources: Ministry of Finance; and staff estimates.

1/ Fiscal year is April-March.

Table 8. Lesotho: Government Revenue and Grants, 1996/97-2002/03 1/

(In millions of maloti)

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Taxes on net income and profits	299.0	340.1	387.0	419.5	468.8	579.5	663.3
Company tax	52.6	69.7	65.0	58.5	126.3	159.2	142.9
Income tax (pay as you earn)	204.6	221.7	278.0	306.5	314.7	371.8	404.1
Gaming tax	2.9	3.0	1.7	3.8	2.7	0.0	0.0
Withholding tax	23.4	26.7	28.8	40.2	21.1	0.0	0.0
Other income and profit taxes	15.5	19.0	13.5	10.5	4.0	48.5	116.3
Taxes on goods and services	241.6	273.3	270.9	283.2	343.6	355.0	435.9
Sales tax	193.9	223.5	233.3	238.0	279.8	302.0	343.7
Trade licenses	1.7	2.4	1.7	1.6	1.8	2.1	5.9
Petrol levy	46.0	47.4	35.9	43.6	62.0	50.9	86.3
Customs duties	1,006.0	1,172.7	1,034.4	1,183.1	1,126.1	1,438.2	1,470.0
Other taxes	7.2	8.8	2.4	3.0	3.4	5.3	6.7
Stamp duty	2.0	2.1	0.6	0.9	1.6	2.7	4.1
Other taxes	5.2	6.7	1.8	2.1	1.8	2.6	2.6
Total tax revenue	1,553.8	1,794.9	1,694.7	1,888.8	1,941.9	2,378.0	2,575.9
Administrative fees, charges, and nonindustrial sales	82.0	106.9	67.8	142.7	162.4	52.3	62.3
Attestation fees	0.5	0.8	0.6	0.6	0.4	0.7	0.8
Fines and forfeits	3.2	4.3	3.9	6.4	5.1	6.2	6.9
Property and other income	395.1	340.1	403.6	274.3	516.8	350.6	388.8
Interest on deposits	150.7	177.7	222.9	76.0	63.2	14.6	24.0
Water royalties	142.8	83.3	120.0	138.3	135.0	176.1	212.5
Rand monetary compensation	64.7	34.6	43.0	42.0	66.0	0.0	43.9
Dividends	15.6	14.6	9.1	2.4	174.8	36.4	46.2
Other property income	21.3	29.9	8.6	15.6	77.8	123.5	62.2
Total nontax revenue	480.8	452.1	478.9	424.0	684.7	409.8	458.8
Total revenue	2,034.6	2,247.0	2,173.6	2,312.8	2,626.6	2,787.8	3,034.7
Grants	203.4	178.7	120.0	130.0	125.6	188.8	296.3
Total revenue and grants	2,238.0	2,425.7	2,293.6	2,442.8	2,752.2	2,976.6	3,331.0

Sources: Ministry of Finance; and staff estimates.

1/ Fiscal year is April-March.

Table 9. Lesotho: Southern African Customs Union (SACU) Operations, 1996/97-2002/03

Revenue Year 1/ Data Year 2/	1996/97 1994/95	1997/98 1995/96	1998/99 1996/97	1999/00 1997/98	2000/01 1998/99	2001/02 1999/00	2002/03 2000/01
				(In percent)			
Basic rate 3/	8.0	7.5	6.5	6.2	6.3	7.3	7.3
Revenue ("compensation") rate 4/	11.4	10.7	9.2	8.7	9.0	9.6	7.8
Stabilization factor 5/	4.3	4.7	5.4	5.7	5.5	5.2	6.1
Stabilized rate (calculated) 6/	15.7	15.3	14.6	14.4	14.5	14.8	13.9
Stabilized rate (actual) 7/	17.0	17.0	17.0	17.0	17.0	17.0	17.0
				(In millions of maloti, unless otherwise specified)			
Dutiable base 8/	4,787.3	5,561.6	5,433.0	6,260.5	6,021.1	7,327.8	7,334.0
Growth rate (in percent)	13.3	16.2	-2.3	15.2	-3.8	21.7	0.8
First estimate (payment) 9/	813.8	945.5	923.6	1,064.3	1,023.6	1,245.7	1,246.8
First adjustment (payment) 10/	192.2	227.3	109.8	118.8	100.0	181.4	223.2
Final adjustment (payment) 11/	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Actual receipts 12/	1,006.0	1,172.7	1,033.4	1,183.1	1,126.2	1,438.2	1,470.0
Growth rate (in percent)	11.0	16.6	-11.9	14.5	-4.8	27.7	2.2
Memorandum item:							
First estimate based on basic rate only :	383.0	417.1	353.1	388.2	381.6	534.9	535.4

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 Southern African Customs Union 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.

Table 10. Lesotho: Economic Classification of Government Expenditure, 1996/97-2002/03 1/

(In millions of maloti)

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Current expenditure	1,179.0	1,473.8	1,942.7	2,318.5	2,434.2	2,312.3	2,856.9
Wages and salaries	604.4	721.3	837.6	835.9	925.1	992.4	1,082.1
Goods and services	268.2	323.6	504.1	1,028.8	905.0	720.3	1,045.7
Subsidies and transfers	240.1	338.9	472.6	270.4	333.3	396.3	509.4
Pensions	29.8	22.9	53.7	53.0	74.9	89.6	105.4
Subventions and transfers	210.3	316.0	418.9	217.4	258.4	306.7	404.0
Of which : social safety net	6.0	5.0	6.0	3.0	0.0	0.0	0.0
Interest payments	66.3	90.0	128.5	183.4	270.8	203.3	219.7
External	36.6	59.9	96.2	101.6	159.7	126.0	109.5
Domestic	29.7	30.1	32.3	81.8	111.1	77.3	110.2
Capital expenditure and net lending	873.7	868.3	495.7	1,054.9	430.0	625.6	802.2
Acquisition of assets	873.7	868.3	495.7	479.9	423.0	649.5	682.6
Transfers and subventions	0.0	0.0	0.0	0.0	50.0	96.1	151.3
Net lending	0.0	0.0	0.0	575.0	-43.0	-120.0	-31.7
Total expenditure and net lending	2,052.7	2,342.1	2,438.4	3,373.4	2,864.2	2,937.9	3,659.1

Sources: Ministry of Finance; and staff estimates.

1/ Fiscal year is April-March.

Table 11. Lesotho: Functional Classification of Government Expenditure, 1996/97-2002/03 1/

(In millions of maloti)

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Current expenditure	1,179.0	1,473.8	1,942.7	2,318.5	2,434.2	2,312.3	2,856.9
General public service	369.1	550.0	801.4	957.3	882.8	714.2	913.6
Public order, safety, and defense	203.0	303.7	390.9	469.1	395.4	464.9	513.1
Of which: defense	109.8	143.4	159.8	160.6	195.2	177.3	174.8
Other services	166.1	246.3	410.5	488.2	487.4	249.3	400.5
Health, social security, and welfare	131.3	151.2	210.3	200.4	273.4	312.1	370.2
Education and community services	370.9	453.6	532.2	585.8	544.6	633.9	841.9
Economic services	214.7	260.0	219.0	281.3	260.0	271.9	449.7
Agriculture and rural development	107.8	129.2	80.2	99.0	101.1	113.2	261.4
Commerce, tourism, and industry	19.8	21.2	29.0	34.1	38.0	31.9	44.8
Water, energy, and mining	15.5	20.4	24.0	40.4	33.8	35.5	38.2
Roads	55.8	74.5	69.7	66.2	51.7	48.5	48.9
Other transport and communication	15.8	14.7	16.1	41.6	35.4	42.8	56.4
Unallocable and other purposes 2/	93.0	59.0	179.8	293.7	473.4	380.2	281.5
Capital expenditure and net lending	873.7	868.3	495.8	1,054.9	430.0	625.6	802.2
General public service	119.1	123.4	34.7	666.6	2.0	182.3	162.3
Public order, safety, and defense	17.2	23.2	3.7	20.7	2.0	0.0	0.0
Of which: defense	0.0	0.0	0.0	13.9	2.0	0.0	0.0
Other services	101.9	100.2	31.0	645.9	0.0	182.3	162.3
Health, social security, and welfare	73.1	39.2	17.2	43.5	13.0	96.8	37.5
Education and community services	101.7	70.6	120.4	108.5	29.7	117.2	210.5
Economic services	577.2	635.1	323.5	236.3	47.8	383.0	372.4
Agriculture and rural development	115.6	104.3	45.2	52.7	7.1	41.8	41.5
Commerce, tourism, and industry	0.9	8.1	20.4	17.2	1.5	71.7	57.4
Water, energy, and mining	266.2	202.5	97.7	99.2	1.1	101.4	89.8
Roads	116.7	291.2	158.6	50.7	36.1	168.1	181.4
Other transport and communication	77.8	29.0	1.6	16.5	2.0	0.0	2.3
Unallocable and other purposes 2/	2.6	0.0	0.0	0.0	337.6	-153.7	19.5
Total expenditure and net lending	2,052.7	2,342.1	2,438.5	3,373.4	2,864.2	2,937.9	3,659.1
General public service	488.2	673.4	836.1	1,623.9	884.8	896.5	1,075.9
Public order, safety, and defense	220.2	326.9	394.6	489.8	397.4	464.9	513.1
Of which: defense	109.8	143.4	159.8	174.5	197.2	177.3	174.8
Other services	268.0	346.5	441.5	1,134.1	487.4	431.6	562.8
Health, social security, and welfare	204.4	190.4	227.5	243.9	286.4	408.9	407.7
Education and community services	472.6	524.2	652.6	694.3	574.3	751.1	1,052.4
Economic services	791.9	895.1	542.5	517.6	307.8	654.9	822.1
Agriculture and rural development	223.4	233.5	125.4	151.7	108.2	155.0	302.9
Commerce, tourism, and industry	20.7	29.3	49.4	51.3	39.5	103.6	102.2
Water, energy, and mining	281.7	222.9	121.7	139.6	34.9	136.9	128.0
Roads	172.5	365.7	228.3	116.9	87.8	216.6	230.3
Other transport and communication	93.6	43.7	17.7	58.1	37.4	42.8	58.7
Unallocable and other purposes 2/	95.6	59.0	179.8	293.7	811.0	226.5	301.0

Sources: Ministry of Finance; and staff estimates.

1/ Fiscal year is April-March.
2/ Calculated as a residual.

Table 12. Lesotho: Outstanding Government Domestic Debt
by Instrument and Holder, 1996-2003

(In millions of maloti)

	1996	1997	1998	1999	2000	2001	2002	2003
				March 31				
Commercial banks								
Gross lending 1/	65.8	63.5	58.8	36.0	584.1	687.0	815.3	967.1
Long term	6.2	4.1	3.6	3.9	287.7	287.7	287.7	287.7
Bonds	0.0	0.0	0.0	0.0	287.7	287.7	287.7	287.7
Loans	6.2	4.1	3.6	3.9	0.0	0.0	0.0	0.0
Short term	59.6	59.4	55.2	32.1	296.4	399.3	527.6	679.4
Loans	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Treasury bills	59.5	59.4	55.2	32.1	296.4	399.3	527.6	679.4
Government deposits (-)	-37.5	-50.9	-48.6	-66.4	-74.4	-63.3	-63.9	-60.7
Net total	28.3	12.6	10.2	-30.4	509.7	623.7	751.4	906.4
Central bank								
Gross lending 1/	233.3	152.0	61.4	71.1	150.4	312.7	193.6	196.1
Long term	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short term	232.8	152.0	61.4	71.1	150.4	312.7	193.6	196.1
Loans	184.2	124.8	63.4	64.7	142.9	246.6	191.3	196.1
Treasury bills	48.6	27.2	-2.0	6.4	7.5	66.0	2.3	0.1
Government deposits (-)	-1,441.7	-1,873.5	-2,231.6	-2,086.2	-1,694.9	-1,502.4	-1,257.3	-1,162.1
Net total	-1,208.4	-1,721.5	-2,170.2	-2,015.1	-1,544.5	-1,189.7	-1,063.7	-966.0
Nonbank 2/								
Long term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short term	43.3	67.5	100.9	115.5	138.2	128.6	113.7	118.6
Treasury bills	46.0	67.5	100.9	115.5	138.2	128.6	113.7	118.6
Compulsory savings	-2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Promissory notes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total nonbank	43.3	67.5	100.9	115.5	138.2	128.6	113.7	118.6
Total domestic debt, net	-1,136.8	-1,641.4	-2,059.1	-1,930.0	-896.6	-437.4	-198.6	59.0
Gross debt outstanding	342.4	283.0	221.1	222.6	872.7	1,128.3	1,122.6	1,281.8
Government deposits (-)	-1,479.2	-1,924.4	-2,280.2	-2,152.6	-1,769.3	-1,565.7	-1,321.2	-1,222.8

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 13. Lesotho: Monetary Survey, March 1997- September 2003

	1997	1998	1999	2000	2001	2002				2003		
	March					March	June	Sep.	Dec.	March	June	Sep.
	(In millions of maloti; stocks at end of period)											
Foreign assets (net)	2,393	3,170	3,754	3,583	3,670	5,229	4,755	4,605	3,884	3,722	3,636	3,431
Central bank	2,164	2,916	3,331	3,004	3,075	4,475	3,940	3,857	3,201	2,950	3,060	2,680
Commercial banks 1/	229	254	423	579	595	754	815	748	683	773	575	750
Domestic credit	-440	-329	238	-1,600	-1,848	-3,096	-2,533	-2,418	-1,716	-1,531	-1,381	-1,219
Claims on government (net)	-1,631	-2,044	-1,953	-939	-579	-511	-482	-342	-322	-190	-86	-197
Central bank	-1,641	-2,054	-1,927	-1,490	-1,067	-1,297	-1,241	-1,098	-1,066	-792	-966	-971
Commercial banks	10	10	-26	551	487	786	759	756	744	602	880	774
Claims on the rest of the economy 2/	878	1,115	1,072	943	1,003	943	956	1,007	1,013	512	540	564
Other items (net) 2/	-314	-600	-1,120	-1,604	-2,272	-3,528	-3,007	-3,083	-2,408	-1,852	-1,836	-1,585
Money and quasi money	1,326	1,640	1,753	1,737	1,822	2,133	2,222	2,187	2,168	2,191	2,254	2,212
Narrow money	632	831	988	976	1,145	1,413	1,471	1,450	1,441	1,444	1,396	1,423
Maloti with public	86	91	126	147	143	164	168	181	180	179	176	188
Demand and call deposits	539	730	853	829	802	1,032	1,089	1,080	1,099	1,103	1,060	1,064
Quasi money	694	809	765	733	678	720	751	737	727	747	859	789
Time and savings deposits	694	809	765	733	678	720	751	737	727	747	859	789
Memorandum items:	(Annual percentage change)											
Broad money	17.2	23.7	6.9	-1.0	4.9	17.0	18.3	15.7	8.8	2.7	1.5	1.1
Net foreign assets	27.7	32.5	18.4	-4.6	2.4	42.5	27.9	11.0	-26.9	-28.8	-23.5	-25.5
Total domestic credit	-1,124.7	-25.3	-172.5	-771.1	15.5	67.6	37.7	7.1	-48.3	-50.5	-45.5	-49.6
Credit to government (net)	49.1	25.3	-4.5	-51.9	-38.3	-11.8	-34.2	-55.4	-48.8	-62.8	-82.2	-42.4
Credit to the economy 2/	17.8	27.1	-3.9	-12.0	6.4	-6.0	-1.4	4.0	2.6	-45.8	-43.5	-44.0
	(Changes as a percentage of opening period broad money)											
Net foreign assets	45.9	58.6	35.6	-9.8	5.0	85.5	-22.2	-6.7	-33.0	-7.5	-4.0	-9.1
Total domestic credit	-42.7	8.4	34.6	-104.9	-14.3	-68.5	26.4	5.2	32.1	8.5	6.8	7.2
Credit to government (net)	-47.4	-31.2	5.6	57.8	20.7	3.7	1.4	6.3	0.9	6.1	4.8	-4.9
Credit to the economy 2/	11.7	17.9	-2.7	-7.4	3.5	-3.3	0.6	2.3	0.3	-23.1	1.3	1.0

Source: Central Bank of Lesotho.

1/ Includes rand notes and coins.

2/ Claims on the rest of the economy and other items (net) affected by a write-off of bad loans in February 2003.

Table 14. Lesotho: Assets and Liabilities of the Central Bank of Lesotho, March 1997-September 2003

(In millions of maloti; end of period)

	1997	1998	1999	2000	2001	2002				2003		
			March			March	June	Sep.	Dec.	March	June	Sep.
Foreign assets	2,447.1	3,188.0	3,687.0	3,368.7	3,475.0	5,010.0	4,465.8	4,541.8	3,858.2	3,575.4	3,576.3	3,184.6
Claims on government	293.3	194.0	201.8	247.7	108.8	231.8	192.0	225.1	191.3	184.0	196.1	183.2
Claims on private sector	9.4	10.4	11.2	13.1	13.8	13.4	13.5	13.5	13.5	13.2	13.8	13.8
Unclassified assets	82.9	140.2	47.5	49.2	71.9	127.4	100.3	114.8	141.5	150.2	147.4	148.5
Total assets = total liabilities	2,832.7	3,532.6	3,947.4	3,678.8	3,669.6	5,382.6	4,771.6	4,895.2	4,204.5	3,922.7	3,933.5	3,530.1
Reserve money	254.8	414.6	530.6	603.6	748.6	494.5	477.9	485.7	500.9	482.8	552.7	436.1
Maloti in circulation	106.2	107.3	147.3	129.8	160.2	196.2	198.3	209.3	223.1	210.3	213.3	222.9
Bankers' deposits	135.0	289.3	368.8	458.3	384.3	78.4	62.0	82.2	105.4	104.4	173.0	34.7
Private and public deposits	7.0	10.7	9.2	9.6	199.7	216.6	213.3	188.9	162.1	161.8	160.3	171.2
Rand notes and coins	6.7	7.3	5.3	5.9	4.4	3.2	4.3	5.4	10.3	6.3	6.1	7.3
Foreign monetary liabilities	276.7	264.6	351.0	359.0	395.6	532.2	521.1	679.3	646.7	619.5	510.0	497.2
Government deposits	1,934.7	2,248.3	2,128.4	1,695.2	1,175.4	1,528.8	1,432.9	1,322.8	1,257.3	976.2	1,162.1	1,154.3
Capital accounts	303.3	449.0	846.6	917.0	1,296.2	2,566.3	2,340.6	2,381.4	1,771.8	1,580.9	1,682.8	1,408.6
Capital and reserves	280.4	423.8	815.2	883.9	1,258.4	2,512.2	2,289.5	2,329.4	1,728.1	1,540.2	1,643.5	1,371.8
Allocation of SDRs	22.9	25.1	31.4	33.0	37.8	54.1	51.1	52.0	43.7	40.7	39.3	36.8
Unclassified liabilities	63.1	156.2	90.9	104.0	53.8	260.7	-0.9	26.0	27.7	263.3	25.9	33.9

Source: Central Bank of Lesotho.

Table 15. Lesotho: Assets and Liabilities of Commercial Banks, March 1997-September 2003

(In millions of maloti; end of period)

	1997	1998	1999	2000	2001	2002				2003		
			March			March	June	Sep.	Dec.	March	June	Sep.
Foreign assets	256.0	301.6	466.0	655.1	638.1	830.7	857.3	829.8	772.3	835.7	651.1	875.9
Reserves	146.6	316.2	385.6	491.5	372.1	135.7	112.0	110.6	159.2	287.8	216.5	78.5
Maloti on hand	20.4	16.7	21.2	18.7	17.7	32.1	30.0	27.9	43.4	31.7	37.5	34.7
Rand on hand	6.7	7.3	5.3	5.9	4.4	3.2	4.3	5.4	10.3	6.3	6.1	7.3
Balances with central bank	119.5	292.2	359.1	466.9	350.0	100.4	77.8	77.3	105.4	249.8	173.0	36.4
Claims on government	61.2	57.2	35.2	584.1	559.3	830.6	794.2	814.9	808.4	675.0	960.7	846.0
Claims on statutory bodies	166.6	130.4	237.5	109.5	48.1	40.2	42.1	53.5	42.8	36.7	38.9	40.7
Claims on private sector 1/	701.5	974.5	822.9	869.0	941.4	889.8	900.2	939.9	957.2	461.8	487.6	509.2
Unclassified assets	323.0	200.0	325.7	933.4	334.0	310.4	262.1	328.8	400.4	480.0	486.0	574.9
Total assets = total liabilities	1,655.0	1,980.0	2,272.9	3,642.6	2,893.0	3,037.4	2,967.9	3,077.5	3,140.1	2,777.0	2,840.9	2,925.1
Foreign liabilities	33.4	55.3	47.9	81.7	47.4	79.5	46.8	86.9	99.6	69.4	81.8	132.8
Demand and call deposits 2/	539.4	730.0	852.7	871.5	802.5	1,032.4	1,089.4	1,080.2	1,099.2	1,103.4	1,059.6	1,063.6
Savings and time deposits 2/	693.9	808.9	765.4	725.1	677.7	719.9	750.9	736.9	727.2	747.5	858.6	788.7
Government deposits	50.9	47.4	61.4	74.4	72.0	44.6	35.5	59.3	63.9	73.1	80.5	71.9
Capital accounts	44.5	-127.2	-42.3	264.7	346.5	322.3	319.0	346.1	287.4	249.6	253.4	303.0
Unclassified liabilities 1/	293.0	465.7	588.0	1,625.2	947.0	838.6	726.3	768.1	862.9	534.1	507.0	565.1

Source: Central Bank of Lesotho.

1/ Claims on private sector and unclassified liabilities affected by a write-off of bad loans in February 2003.

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

Table 16. Lesotho: Principal Aggregates of Commercial Banks' Operations, March 1996-June 2003

(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/
1996					
March	1,004.4	807.7	80.4	209.5	20.9
June	1,076.8	748.8	69.5	247.5	23.0
September	1,088.2	786.8	72.3	198.8	18.3
December	1,191.8	808.2	67.8	316.5	26.6
1997					
March	1,182.0	868.1	73.4	203.8	17.2
June	1,233.0	865.6	70.2	234.0	19.0
September	1,282.1	908.3	70.8	304.6	23.8
December	1,382.6	1,106.9	80.1	487.6	35.3
1998					
March	1,491.0	1,105.0	74.1	642.1	43.1
June	1,499.3	1,105.6	73.7	665.2	44.4
September	1,430.9	1,052.8	73.6	702.1	49.1
December	1,582.4	1,055.2	66.7	930.1	58.8
1999					
March	1,580.9	1,060.4	67.1	845.5	53.5
June	1,559.1	1,123.6	72.1	742.3	47.6
September	1,469.6	1,164.4	79.2	1,287.8	87.6
December	1,506.8	950.6	63.1	1,607.7	106.7
2000					
March	1,548.4	978.5	63.2	1,685.2	108.8
June	1,502.6	970.9	64.6	1,635.7	108.9
September	1,469.4	942.3	64.1	1,571.7	107.0
December	1,500.5	948.3	63.2	1,522.2	101.4
2001					
March	1,434.9	960.7	66.9	1,240.3	86.4
June	1,500.2	968.0	64.5	1,204.2	80.3
September	1,513.1	954.3	63.1	999.4	66.1
December	1,599.3	973.8	60.9	1,328.7	83.1
2002					
March	1,715.1	930.0	54.2	1,561.8	86.9
June	1,795.6	942.3	52.4	1,455.8	77.6
September	1,778.2	994.4	55.9	1,607.5	85.7
December	1,791.9	999.9	55.8	1,565.0	82.8
2003					
March 6/	1,814.3	498.5	27.5	1,708.7	88.8
June 6/	1,870.2	516.5	27.6	1,740.5	87.1

Source: Central Bank of Lesotho.

1/ Excludes Miners' Deferred Pay Fund and deposits of nonresidents.
2/ Excludes loans and advances to nonresidents.
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/ Numbers on loans and advances affected by nonperforming loans, which were written off in February 2003.

Table 17. Lesotho: Sectoral Distribution of Commercial Bank Credit to the Private Sector and Statutory Bodies, March 1996-June 2003 1/

(In millions of maloti; end of period)

	1996	1997	1998	1999	2000	2001				2002				2003	
	March					March	June	Sep.	Dec.	March	June	Sep.	Dec.	March	June
Agriculture	39.7	41.0	22.3	15.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Mining and quarrying	0.9	0.8	5.2	0.8	0.9	0.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Manufacturing	62.8	67.6	73.6	82.7	54.2	36.5	42.7	47.7	23.3	24.8	25.9	25.8	32.2	26.9	24.0
Electricity, gas, and water	70.3	76.4	98.6	88.4	46.6	7.4	5.3	5.3	5.4	4.5	4.7	5.8	7.7	8.3	8.5
Construction	146.8	221.0	208.6	199.2	78.6	74.5	75.9	80.0	119.3	82.0	106.2	112.8	96.6	92.8	86.1
Trade, hotels, and restaurants	64.4	68.5	58.6	69.1	65.0	18.5	16.5	17.2	19.7	16.0	15.9	20.9	23.8	18.0	20.6
Transport, storage, and communications	50.6	57.5	67.9	58.5	87.3	8.4	4.7	4.2	6.3	7.0	6.1	6.4	7.1	6.4	7.6
Nonbank financial institutions, real estate, and business services	42.7	51.3	63.3	54.7	39.7	5.7	3.7	3.8	3.4	3.5	3.2	3.2	4.2	4.0	4.2
Community, social, and personal services	36.1	37.5	66.0	57.7	58.9	8.9	9.1	7.6	6.3	6.2	4.7	19.6	23.7	21.7	23.0
Personal loans	0.0	0.0	415.2	417.9	432.0	410.7	135.9	154.0	139.5	144.1	166.7	194.3	195.3	178.1	174.1
Other 2/ 3/	210.5	235.4	-52.8	-62.6	13.2	298.6	541.0	514.1	530.2	521.4	488.3	484.1	488.8	35.3	61.3
Total claims on the economy	725.0	857.0	1,026.3	981.5	877.4	869.7	835.3	833.8	853.3	809.5	821.7	872.9	879.4	391.5	409.4
Private sector	632.2	690.4	895.9	744.0	767.9	821.6	792.1	790.9	806.9	769.3	779.6	819.4	836.6	354.8	370.4
Business enterprises 3/	426.2	460.6	480.8	358.6	337.9	673.4	640.5	647.9	651.5	613.1	624.9	641.6	649.3	192.6	195.0
Personal loans	205.9	229.8	415.1	385.4	430.0	148.2	151.6	143.0	155.4	156.2	154.8	177.8	187.4	162.1	175.4
Statutory bodies	92.8	166.6	130.4	237.5	109.5	48.1	43.2	42.9	46.4	40.2	42.1	53.5	42.8	36.7	38.9

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

1/ Does not include investments and certain securities.

2/ Calculated as residual.

3/ Numbers affected by nonperforming loans, which were written off in February 2003.

Table 18. Lesotho: Interest Rates Paid by the Central Bank on Commercial Bank Deposits, March 1995-August 2001

(In percent per annum; end of period)

	Call	31 Days	88 Days	6 Months	1 Year
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
1999					
March	13.1	13.2	13.1	12.7	13.9
June	11.4	11.7	11.7	11.7	12.0
September	9.4	9.7	9.7	10.1	10.5
December	8.9	9.3	9.6	9.7	10.1
2000					
March	7.9	8.3	8.5	8.7	9.6
June	7.9	8.6	8.9	9.3	10.5
September	8.0	8.7	8.8	9.0	9.5
December	7.9	8.9	9.1	9.4	9.8
2001					
March	9.9	8.9	9.0	9.1	9.4
June	8.8	8.2	8.4	8.5	8.8
August 1/	8.5	7.8	8.2	8.2	8.3

Source: Central Bank of Lesotho.

1/ In order to encourage commercial banks to invest in treasury bills, the Central Bank of Lesotho ceased to pay interest on commercial bank deposits starting in September 2001.

Table 19. Lesotho: Interest Rates at Commercial Banks, March 1996-June 2003

(In percent per annum; end of period)

	1996	1997	1998	1999	2000	2001				2002				2003	
	March					March	June	Sep.	Dec.	March	June	Sep.	Dec.	March	June
Lending rates 1/															
Minimum	16.5	18.5	17.1	19.6	17.0	17.0	16.7	16.3	16.3	16.3	17.0	17.3	17.7	17.7	16.5
Maximum	26.5	28.1	27.1	25.3	27.0	25.3	25.0	24.7	24.7	24.7	25.3	24.0	26.0	26.0	23.2
Deposit rates															
Savings deposits 2/	6.2	6.0	6.0	4.0	3.5	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	3.5
Time deposits															
31 days	10.3	10.0	8.8	6.0	4.0	4.0	4.0	4.0	4.0	4.0	4.5	4.5	4.8	4.8	4.4
1 year	13.6	11.3	10.5	6.9	5.5	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.3	6.3	5.5
Memorandum items:															
South African rates															
Prime overdraft	18.5	20.3	19.3	20.0	14.5	14.5	13.8	13.0	13.0	13.0	13.0	17.0	17.0	17.0	15.0
Deposit rates															
Notice (31 days)	14.3	16.3	13.0	14.8	9.5	9.3	8.8	8.8	8.3	9.8	11.7	12.8	13.0	13.5	11.6
Fixed (12 months)	13.5	15.4	12.6	13.7	10.5	10.3	9.6	8.8	8.9	11.5	12.8	14.0	13.0	12.9	10.0

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; from December 1999, they are maximum deposit rates.

Table 20. Lesotho: Comparative Money Market Rates, March 1996-June 2003

(In percent per annum; end of period)

	Discount Rate		Treasury Bills	
	CBL 1/	SARB 2/	Lesotho	South Africa
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	21.9	20.7	20.1
December	19.5	19.3	16.6	17.0
1999				
March	19.5	16.5	15.5	14.4
June	19.0	15.5	12.6	12.9
September	19.0	12.6	10.5	10.8
December	19.0	12.0	9.9	10.7
2000				
March	19.0	11.8	9.1	9.8
June	19.0	11.8	9.1	10.4
September	19.0	11.8	9.1	10.2
December	15.0	11.8	9.3	10.3
2001				
March	15.0	12.0	9.3	10.3
June	15.0	11.0	9.4	9.7
September	13.0	9.5	8.5	8.9
December	13.0	9.5	11.0	9.5
2002				
March	13.0	11.5	11.0	10.2
June	13.0	12.5	10.0	11.4
September	15.5	13.5	11.5	12.4
December	16.2	13.5	12.2	12.4
2003				
March	18.5	13.5	13.1	12.7
June	16.8	12.5	12.8	9.7

Source: Central Bank of Lesotho.

1/ Central Bank of Lesotho.

2/ South African Reserve Bank.

Table 21. Lesotho: Balance of Payments, 1996/97-2002/03 1/

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
				(In millions of U.S. dollars)			
Trade balance	-798.3	-822.0	-589.9	-608.0	-493.8	-367.7	-441.3
Exports	191.1	197.3	191.5	188.4	223.1	293.7	399.1
Imports, f.o.b.	-989.4	-1019.3	-781.4	-796.4	-716.9	-661.4	-840.4
Services (net)	13.2	-19.2	-11.1	-3.5	2.2	-11.5	-22.4
Receipts	69.3	47.8	39.9	43.8	46.9	36.5	40.8
Payments	-56.1	-67.0	-51.0	-47.4	-44.8	-48.0	-63.2
Income (net)	314.6	326.7	242.6	245.7	211.4	161.0	185.6
Labor income (net)	301.0	318.5	238.6	244.7	214.0	165.3	185.9
Receipts	359.9	377.4	284.5	278.2	240.8	189.0	210.4
Of which : miners' wages	299.7	316.0	231.1	224.0	191.2	148.6	169.5
Payments	-58.9	-58.8	-45.9	-33.5	-26.7	-23.6	-24.5
Investment income (net)	13.7	8.1	4.0	1.0	-2.6	-4.3	-0.2
Receipts	67.7	68.6	64.8	44.1	34.0	23.5	25.4
Payments	-54.1	-60.4	-60.8	-43.1	-36.6	-27.8	-25.6
Of which: interest on debt	-13.3	-14.2	-17.8	-17.4	-21.0	-13.5	-12.9
Unrequited transfers	185.9	201.7	139.5	155.9	127.4	122.2	139.8
Official	183.3	199.4	136.9	153.9	125.0	118.8	134.9
Southern African Customs Union nonduty receipts	154.5	177.7	115.2	135.7	109.4	113.7	118.5
Other grants	18.3	11.9	11.6	8.1	6.6	5.0	10.2
Private	2.6	2.3	2.7	2.1	2.4	3.4	4.9
Current account (including official transfers)	-284.6	-312.8	-218.9	-209.9	-152.8	-96.0	-138.2
Capital and financial account	52.2	190.5	431.2	306.1	266.2	219.1	96.9
Capital account (transfers received)	47.2	210.1	164.0	101.6	37.3	29.3	37.4
Of which : LHWP 2/	14.5	8.0	2.4	0.0	0.0	0.0	0.0
Financial account	5.0	-19.6	267.2	204.5	228.9	189.7	59.5
Direct investment	45.1	37.8	217.0	153.9	119.7	107.1	92.6
Other investment	73.3	23.6	-2.3	-31.3	32.5	89.0	-24.4
Assets	3.5	-59.6	18.3	-30.7	1.7	7.0	-33.4
Liabilities	69.8	83.3	-20.5	-0.7	30.8	82.0	8.9
Loans	76.1	79.7	5.7	4.6	40.8	80.4	42.4
General government	77.4	80.5	5.8	-12.7	-30.3	3.9	-8.2
Disbursements	95.4	93.7	26.1	15.0	21.0	29.4	27.5
Repayments	-18.0	-13.2	-20.3	-27.7	-51.3	-25.5	-35.7
Private loans (net)	-1.3	-0.8	-0.1	-0.2	-0.4	-0.2	-0.5
Other liabilities	-6.3	3.6	-26.2	-5.3	-10.0	1.6	-33.5
Change in reserve assets (minus sign indicates increase)	-113.4	-81.0	52.5	82.0	76.8	-6.4	-8.7
Errors and omissions	232.4	122.3	-212.4	-96.2	-113.4	-123.1	41.3
Memorandum items:			(In percent of GDP, unless otherwise indicated)				
Current account (excluding official transfers)	-49.7	-50.7	-40.7	-36.5	-33.1	-29.9	-33.0
Current account (including official transfers)	-30.2	-30.9	-25.0	-22.8	-18.2	-13.4	-16.7
Gross official reserves (in millions of U.S. dollars)	The	0.0	0.0	0.0	0.0	0.0	0.0
Gross official reserves 3/	5.8	8.7	7.9	7.4	6.7	5.3	4.3
Stock of external debt (in millions of U.S. dollars)	573.1	599.9	639.0	671.0	581.0	537.0	601.0
Stock of external debt	60.9	59.3	73.1	72.9	69.3	74.9	76.1
Debt-service ratio (in percent of exports, services, and factor income)	4.5	4.0	6.6	8.1	13.3	7.5	5.7
Export growth (in percent) 4/	28.0	4.1	2.5	-4.0	18.5	35.5	24.5
Import growth (in percent) 4/ 5/	5.7	0.0	-27.8	31.8	0.7	5.5	16.8
Exchange rate (maloti per U.S. dollar, average)	4.5	4.7	5.8	6.2	7.3	9.5	9.8

Sources: Central Bank of Lesotho; and staff estimates.

1/ Fiscal year beginning in April.
2/ Lesotho Highlands Water Project (LHWP).
3/ In months of imports of goods and services.
4/ In real terms.
5/ Excludes LHWP imports.

Table 22. Lesotho: Balance of Payments, 1996/97 - 2002/03 1/

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
	(In millions of maloti)						
Trade balance	-3,579.7	-3,877.8	-3,428.5	-3,747.7	-3,615.0	-3,505.8	-4,123.1
Exports	856.8	931.0	1,112.8	1,161.1	1,632.9	2,800.2	3,728.9
Imports, f.o.b.	-4,436.5	-4,808.8	-4,541.3	-4,908.8	-5,247.9	-6,306.0	-7,851.9
Services (net)	59.3	-90.7	-64.5	-21.8	15.8	-109.3	-209.1
Receipts	310.7	225.4	232.0	270.3	343.5	348.2	381.3
Payments	-251.5	-316.1	-296.5	-292.1	-327.7	-457.4	-590.3
Income (net)	1,410.9	1,541.2	1,410.1	1,514.3	1,547.7	1,535.1	1,734.4
Labor income (net)	1,349.7	1,502.9	1,387.0	1,508.1	1,566.9	1,576.5	1,736.5
Receipts	1,613.7	1,780.5	1,653.7	1,714.6	1,762.5	1,801.6	1,965.5
Of which: miners' wages	1,343.7	1,490.9	1,343.4	1,380.5	1,400.0	1,416.5	1,583.3
Payments	-264.1	-277.6	-266.6	-206.5	-195.6	-225.2	-229.0
Investment income (net)	61.2	38.3	23.0	6.2	-19.3	-41.4	-2.2
Receipts	303.7	323.5	376.5	271.8	248.8	224.0	237.2
Payments	-242.5	-285.1	-353.5	-265.5	-268.1	-265.4	-239.4
Of which: interest on debt	-59.6	-67.1	-103.2	-107.0	-154.0	-128.4	-120.3
Unrequited transfers	833.5	951.6	811.0	961.2	932.7	1,164.8	1,306.3
Official	821.9	940.6	795.5	948.5	915.1	1,132.2	1,260.7
Southern African Customs Union nonduty receipts	692.6	838.3	669.7	836.5	800.5	1,084.2	1,106.8
Rand compensation	47.1	46.1	58.3	62.2	66.1	0.0	58.3
Other grants	82.2	56.2	67.5	49.8	48.5	48.0	95.7
Private	11.6	11.0	15.5	12.7	17.7	32.6	45.6
Current account (including official transfers)	-1,276.1	-1,475.8	-1,272.0	-1,294.0	-1,118.9	-915.3	-1,291.4
Capital and financial account	234.1	725.8	2,091.6	1,635.2	1,178.8	939.4	1,181.8
Capital account (transfers received)	211.5	991.2	953.2	626.2	273.1	279.8	349.8
Of which: LHWP 2/	65.1	37.7	14.1	0.0	0.0	0.0	0.0
Financial account	22.6	-265.4	1,138.4	1,009.0	905.7	659.6	832.0
Direct investment	202.2	178.2	1,261.0	948.5	876.2	1,021.4	865.2
Other investment	328.7	159.4	-44.7	-323.2	-235.2	-163.7	-158.6
Assets	15.7	-281.3	106.2	-189.1	12.5	-192.6	-14.8
Liabilities	313.0	440.7	-150.9	-134.1	-247.7	28.9	-143.9
Loans	341.4	375.8	33.2	-79.3	-224.8	-189.6	-63.5
General government	347.2	379.7	33.7	-78.0	-221.8	20.4	19.4
Disbursements	428.0	442.2	151.9	92.6	154.0	280.4	257.0
Repayments	-80.8	-62.5	-118.2	-170.6	-375.8	-260.0	-237.6
Private (net)	-5.8	-3.9	-0.5	-1.3	-3.0	-210.0	-82.9
Other liabilities	-28.4	64.9	-184.1	-54.8	-22.9	218.6	-80.4
Change in reserve assets 3/	-508.4	-724.5	-369.6	320.8	-61.8	-1,329.3	1,229.0
Valuation changes on reserves (gains +)	0.0	121.5	291.6	62.8	326.6	1,131.1	-1,103.5
Errors and omissions	1,042.0	750.0	-819.6	-341.2	-60.0	-24.1	109.6
Memorandum items:	(In percent of GDP, unless otherwise indicated)						
Current account (including official transfers)	-30.2	-30.9	-25.0	-22.8	-18.2	-13.4	-16.7
Net official reserves (in millions of maloti)	2,310.3	3,034.0	3,284.7	2,987.8	3,038.3	3,236.5	3,111.1
Net official reserves (in months of imports) 4/	6.7	11.0	8.6	7.2	6.1	4.9	4.9
Stock of external debt	60.9	59.3	73.1	72.9	69.3	74.9	76.1
Debt-service ratio (in percent of exports, services, and factor income)	4.5	4.0	6.6	8.1	13.3	7.5	5.7

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

1/ Financial year is April-March.
2/ Lesotho Highlands Water Project.
3/ Transaction-based data that exclude the effects of exchange rate changes. A minus sign indicates increasing reserves.
4/ Total import of goods and services excluding import by the Lesotho Highlands Water Project.

Table 23. Lesotho: Services and Income Account, 1996/97-2002/03 1/

(In millions of maloti)

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Nonfactor services (net)	59.3	-90.7	-64.5	-11.0	-21.8	-129.7	-213.6
Credit	310.7	225.4	232.0	281.1	303.2	327.8	374.6
Shipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transportation	7.5	11.9	5.7	3.9	3.8	3.7	4.3
Travel	114.2	104.5	109.2	154.9	165.5	176.5	210.0
Water royalties	152.2	67.3	76.6	79.9	90.3	100.8	113.4
Other official	35.9	37.1	40.8	44.3	47.5	50.8	51.1
Other private	0.9	4.6	-0.3	-1.9	-3.8	-4.1	-4.2
Debit	-251.5	-316.1	-296.5	-292.1	-325.0	-457.4	-588.2
Shipment	-167.6	-186.8	-175.8	-190.3	-200.7	-242.4	-298.7
Other transportation	-17.7	-16.2	-17.0	-21.0	-21.9	-22.7	-24.3
Travel	-58.9	-61.9	-83.2	-69.3	-67.8	-89.1	-161.9
Other official	-3.3	-43.6	-16.4	-12.3	-28.6	-101.9	-102.6
Other private	-4.0	-7.6	-4.1	0.7	-5.9	-1.3	-0.7
Factor incomes (net)	1,410.9	1,541.2	1,410.1	1,514.3	1,563.7	1,309.9	1,499.5
Credit	1,917.4	2,103.9	2,030.2	1,986.4	2,029.4	1,800.5	1,970.8
Investment income	303.7	323.5	376.5	271.8	248.8	224.0	237.2
Interest earned by commercial banks	61.1	27.9	27.9	28.9	39.7	54.6	66.0
Interest earned by the central bank	242.6	295.5	348.7	242.9	209.2	169.4	171.2
Labor income	1,613.7	1,780.5	1,653.7	1,714.6	1,780.6	1,576.5	1,733.6
Debit	-506.6	-562.7	-620.1	-472.1	-465.7	-490.6	-471.3
Investment income	-242.5	-285.1	-353.5	-265.5	-263.9	-265.4	-239.4
Dividends and profits	-183.0	-218.1	-250.3	-158.6	-114.1	-137.0	-119.2
Interest	-59.6	-67.1	-103.2	-107.0	-149.8	-128.4	-120.3
Labor income	-264.1	-277.6	-266.6	-206.5	-201.8	-225.2	-231.9
Total services and income (net)	1,470.1	1,450.5	1,345.6	1,503.3	1,541.9	1,751.8	1,518.3

Source: Central Bank of Lesotho.

1/ Financial year is April-March.

Table 24. Lesotho: Lesotho Miners in South Africa, 1997-2002

	1997	1998	1999	2000	2001	2002
Total average number employed (in thousands)	95.9	80.4	68.6	64.9	61.4	62.2
Annual percentage change	-5.3	-16.2	-14.7	-5.4	-5.4	1.3
Of which: employed through TEBA 1/						
Average number (in thousands)	78.8	66.2	55.4	51.7	49.9	52.4
Annual percentage change	-8.1	-16.0	-16.3	-6.7	-3.4	4.9
Employed through TEBA/total employed (in percent)	82.2	81.8	80.7	79.7	83.4	84.4
Average annual earnings (in maloti) 2/	21,193	24,678	27,657	30,131	32,030	35,326
Annual percentage change	10.5	16.4	12.1	8.9	6.3	10.3
Total earnings (in millions of maloti)	2,032.4	1,984.1	1,897.3	1,955.5	1,966.6	2,197.3
Annual percentage change	4.6	-2.4	-4.4	3.1	0.6	11.7
Miners' remittances (in millions of maloti) 3/	1,449.1	1,414.7	1,352.8	1,394.3	1,402.2	1,566.7
Miners' remittances (as percentage of total earnings)	71.3	71.3	71.3	71.3	71.3	71.3
Miners' remittances (annual percentage change)	4.6	-2.4	-4.4	3.1	0.6	11.7

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 central bank's Quarterly Review.

Table 25. Lesotho: Composition of Recorded Exports, 1996-2002

	1996	1997	1998	1999	2000	2001	2002
	(In millions of maloti, unless otherwise indicated)						
Foodstuffs, etc.	23.2	41.8	40.7	119.3	111.7	141.3	197.6
Cereals	7.6	18.0	16.2	36.2	28.0	44.9	75.7
Beans, peas, and other vegetables	1.3	5.2	4.9	2.3	1.1	0.2	0.4
Animal feed	8.5	15.7	4.2	2.4	3.8	4.3	5.6
Beverages and tobacco	0.3	0.1	11.3	73.4	63.9	72.6	94.9
Other foodstuffs	5.4	2.7	4.0	5.0	15.0	19.3	21.1
Live animals	1.8	4.5	7.0	6.5	6.6	12.9	20.4
Cattle	1.6	2.3	3.1	3.0	4.9	9.7	13.4
Sheep and goats	0.0	0.0	0.0	0.1	0.0	0.1	0.3
Pigs	0.0	0.0	0.0	0.0	0.0	0.2	0.8
Poultry	0.2	2.1	3.9	3.5	1.7	2.9	5.9
Livestock materials	24.8	29.2	18.8	15.5	37.0	60.1	64.6
Wool	17.1	23.6	16.7	14.6	32.2	56.8	56.1
Mohair	7.0	4.8	1.2	0.9	4.1	1.3	0.0
Hides and skins	0.7	0.7	0.9	0.1	0.7	2.0	8.5
Crude materials	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Diamonds	1.6	1.3	0.5	0.7	1.7	1.5	3.8
Manufactures	543.8	826.9	760.6	908.0	1,307.8	2,204.6	3,439.8
Chemicals and petroleum	17.3	16.7	6.6	5.8	6.5	18.6	45.5
Leather products	0.3	0.0	0.0	0.2	0.3	1.0	3.0
Wood products	0.3	0.1	0.5	0.1	0.1	0.2	0.7
Yarn and textiles, etc.	4.9	6.4	5.6	2.4	1.4	2.9	7.1
Road vehicles	18.6	32.4	15.5	4.8	11.3	17.7	29.6
Furniture and parts	8.6	11.2	4.9	5.9	9.5	26.0	37.4
Clothing, etc.	296.4	408.7	415.4	612.5	953.2	1,722.5	2,745.2
Footwear	101.4	174.4	176.5	143.5	132.6	124.4	135.1
Other manufactures	95.9	176.9	135.6	132.7	192.8	291.3	436.1
Unclassified	217.0	0.3	231.1	4.0	3.1	5.5	13.7
Total value	812.1	904.0	1,058.6	1,054.1	1,467.9	2,426.0	3,739.9
Wool (in metric tons)	2,082.5	1,861.3	950.8	...	...	...	...
Mohair (in metric tons)	373.7	258.5	1,999.2	...	...	...	...
Diamonds (in thousands of carats)	1.2	0.6	0.4	...	...	...	...
Value per carat (in maloti)	169.5	136.1	164.1	...	...	...	...

Source: Central Bank of Lesotho.

Table 26. Lesotho: Direction of Trade, 1998 - 2002 1/

(In millions of maloti)

	1998		1999		2000		2001		2002	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
World	5,199.9	1,071.1	5,288.8	1,054.1	5,611.2	1,468.3	6,399.8	2,426.0	8,517.5	3,739.9
Africa	4,615.7	690.0	4,737.7	555.0	4,876.9	607.5	5,306.0	899.1	6,270.3	856.4
Common customs area	4,614.9	689.5	4,736.4	554.5	4,309.3	606.9	5,296.6	897.0	6,261.7	856.0
Other Africa	0.8	1.3	1.3	1.6	6.9	0.7	3.0	2.1	1.6	0.2
Europe	119.9	6.0	97.8	2.1	45.8	1.8	46.5	3.5	93.2	8.1
European Union	105.7	6.0	83.7	1.9	42.7	1.8	44.5	3.5	82.5	7.8
Belgium	2.7	0.0	4.1	0.2	1.4	0.2	0.4	0.1	3.9	0.0
Denmark	1.3	0.0	1.5	0.4	0.8	0.0	1.7	0.0	9.2	0.0
France	5.1	0.0	4.3	0.0	0.4	0.0	2.9	0.1	4.6	0.0
Germany	49.0	5.2	23.7	1.2	6.4	0.7	20.9	0.0	9.4	2.2
Italy	0.1	0.0	17.5	0.0	5.5	0.0	5.0	0.0	16.0	0.0
Netherlands	16.4	0.0	1.7	0.0	3.1	0.0	0.0	0.0	0.0	0.0
United Kingdom	31.1	0.5	27.6	0.1	14.1	0.9	0.6	0.0	24.9	0.0
Spain	0.0	0.0	3.3	0.0	6.7	0.0	11.9	0.0	11.3	0.9
Portugal	0.0	0.0	0.0	0.0	4.3	0.0	0.0	3.2	0.0	4.6
Other Europe	14.2	0.3	14.1	0.2	3.1	0.0	2.0	0.0	10.7	0.3
North America 2/	70.1	371.6	50.0	494.9	104.8	858.3	41.7	1,522.5	53.4	2,874.6
Canada	45.1	3.8	41.9	5.7	97.2	22.5	34.5	35.0	12.1	15.9
United States	25.0	367.8	8.1	489.2	7.6	835.8	7.2	1,487.5	41.3	2,858.7
Asia	370.9	1.6	372.4	0.2	526.0	0.6	953.3	0.9	2,021.6	0.8
Japan	56.2	0.0	23.3	0.0	34.6	0.0	11.6	0.4	33.2	0.0
Hong Kong SAR	22.2	0.0	31.0	0.1	70.3	0.0	224.3	0.0	483.8	0.0
China	0.6	1.4	0.2	0.1	0.0	0.0	74.2	0.0	355.7	0.0
Taiwan Province of China	203.1	0.2	192.2	0.0	294.6	0.6	527.1	0.0	913.2	0.8
Israel	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	88.8	0.0	125.7	0.0	126.5	0.0	109.8	0.5	192.5	0.0
Oceania	23.3	0.0	30.9	0.9	57.7	0.1	52.2	0.0	79.0	0.0

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 27. Lesotho: Public and Publicly Guaranteed External Debt Outstanding, 1996/97-2002/03 1/

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
				(In millions of U.S. dollars)			
Multilateral sources	439.2	442.2	449.7	446.7	423.4	428.6	485.5
World Bank Group	157.0	163.7	178.7	184.6	181.2	191.0	222.9
African Development Bank	18.3	15.1	13.6	12.5	9.2	7.5	6.7
African Development Fund	149.8	150.3	153.8	154.5	147.1	148.2	162.5
European Union	41.9	42.0	39.5	39.5	35.2	29.5	37.8
IMF	32.0	26.1	19.9	14.6	12.9	17.5	20.3
Other	40.2	45.0	44.2	41.1	37.9	34.9	35.2
Bilateral sources	73.2	73.6	98.8	99.4	57.3	51.6	51.5
Commercial	60.7	84.1	90.5	124.5	100.2	57.0	64.4
Commercial banks	28.8	42.3	44.2	66.2	51.5	37.7	47.1
Export credits	11.3	9.6	12.6	25.0	22.9	19.2	17.3
Other	20.6	32.2	33.7	33.3	25.8	0.0	0.0
Total	573.1	599.9	639.0	670.6	580.8	537.2	601.3
				(As percent of total debt, unless otherwise indicated)			
Multilateral	76.6	73.7	70.4	66.6	72.9	79.8	80.7
Bilateral	12.8	12.3	15.5	14.8	9.9	9.6	8.6
Commercial	10.6	14.0	14.2	18.6	17.2	10.6	10.7
				(As percent of GDP)			
Multilateral	46.7	43.7	51.4	48.6	50.5	59.7	61.4
Bilateral	7.8	7.3	11.3	10.8	6.8	7.2	6.5
Commercial	6.4	8.3	10.4	13.5	11.9	7.9	8.1
Total	60.9	59.3	73.1	72.9	69.3	74.9	76.1
Memorandum items:				(In units indicated)			
External debt/GDP ratio (in percent)	60.9	59.3	73.1	72.9	69.3	74.9	76.1
GDP (in millions of maloti)	4,220.2	4,770.0	5,081.8	5,668.7	6,137.2	6,839.1	7,731.4
Maloti per U.S. dollar (period average)	4.5	4.7	5.8	6.2	7.3	9.5	9.8

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

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

Lesotho: Summary of the Tax System, July 2003
(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, July 2003
(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.	A tax on the current year's income from all geographical sources (in the case of residents). Gross income includes incomes in kind, except for benefits subject to fringe benefits tax. 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.	Exempt incomes include: the first M 500 of interest from savings; income from subsistence farming; scholarships; and foreign-source property income of expatriate taxpayers. Deductions include expenses of deriving income. A uniform personal tax credit of M 2,640 per taxpayer was introduced in April 1996.	Residents marginal rate (in percent): First M 30,000 25 percent Over M 30,000 35 percent Nonresidents marginal rate (in percent): All chargeable Income 25 percent
1.2.2 Withholding tax Income Tax Act 1993.	A tax on income from dividends, interest, royalties, natural resource payments, management charges, or services contracts earned within Lesotho by nonresidents.	Dividends from manufacturing companies are exempt.	Withholding tax is 25 percent. For royalties from non manufacturing companies, 15 percent. On service contracts earned within Lesotho by nonresidents, 10 percent.

Lesotho: Summary of the Tax System, July 2003

(All amounts in maloti)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.2.3 Income Tax (Amendment Act, 1999)	A tax on farm income.		Rated at 15 percent.
1.2.4 Income Tax (Amendment Act, 2000)	Taxation of activities by Lesotho Highlands Development Authority (LHDA) in terms of Protocol V to the Lesotho Highlands Water Treaty.	Exemptions as specified in Protocol V to the Lesotho Highlands Water Treaty between Lesotho and South Africa.	Differential rates applied to companies contracted by LHDA.
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 property 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.

Lesotho: Summary of the Tax System, July 2003

(All amounts in maloti)

	Tax	Nature of Tax	Exemptions and Deductions	Rates
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.
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, July 2003
(All amounts in maloti)

Tax	Nature of Tax	Exemptions and Deductions	Rates
3. Taxes on goods and services			
3.1 Value-Added Tax (VAT) Value-Added Tax Act No. 9 of 2001 (as amended), implemented from July 1 2003 (this act repealed the Sales Tax Act 1995). VAT (Amendment) Act No.6 of 2003	A value-added tax imposed on every taxable supply in Lesotho and every import of goods and services. The act provides for the application of a relevant rate of VAT to the taxable value of a transaction. The rate of VAT imposed on an export of goods or services from Lesotho by a vendor is zero. Credit is allowed for input tax on utilities (electricity and telecommunications). Four rates are chargeable, including a zero rate. Determination and duration of the zero rate is dictated by the extent to which such items are regarded as basic necessities. Zero rates are also allowed where goods are supplied in the course of repairing, renovating, or modifying a taxable supply.	Under Section 6(2), the act exempts from VAT imports of goods prescribed in schedule II (diplomatic, heads of state and other foreign representative purchases, passengers baggage = household furniture and used personal and sporting and recreational equipment, effects of new residents, relief and supplies, temporary imports, etc.); and import of goods and services that would be exempt if supplied in Lesotho. It further exempts the following supplies: supply of public, postal, transportation, medical or dental, financial, insurance or education services; supply of unimproved land; supply by way of lease or letting of immovable property where (i) the tenant is a manufacturer; (ii) the property is used by the manufacturer principally for carrying on a manufacturing enterprise; (iii) the supply is of low-income housing development schemes by an association, co-operative of scheme; (iv) the supply of any accommodation in a dwelling under an agreement for the leasing, letting, hiring or sale of accommodation; (v) the supply of a hostel or boarding establishment, which operates as a nonprofit-making establishment; supply of water and any supply prescribed by the minister in regulations as an exempt supply. Also exempted is: supply by an amateur sporting organization of sport activities, where such activities are deemed for the purpose of this act to be nonprofessional; supply of cultural activities provided that such activity is a nonprofit supply or service; and supply of charity arrangements undertaken by an organization or institution deemed by the Commissioner General to engage in or conduct charitable activities or work, provided that after such event, audited accounts are filed with Lesotho Revenue Authority; and where such arrangements were made by a permanent establishment, such establishment shall first apply for exemption at least two months after the end of the financial year.	The existing rates are: <u>Goods</u> — <u>Rate (in percent)</u> General — 14 Liquor — 15 Telecommunications, water and electricity — 5 Exports — nil Zero-rated basic items — nil Zero-rated basic items are: Agricultural inputs (fertilizers, seeds, pesticides, etc.) Beans Bread Lentils Livestock, feed and poultry feed Maize (grain) Maize meal Milk Paraffin (for use as fuel for cooking, illuminating or heating) Peas Sorghum meal Unmalted sorghum grain Wheat grain Wheat flour

Lesotho: Summary of the Tax System, July 2003

(All amounts in maloti)

	Tax	Nature of Tax	Exemptions and Deductions	Rates
3.2	Excise taxes Customs and Excise Consolidated Act, No. 10 of 1982.	A tax on certain goods manufactured and imported into Lesotho, including beer, spirits, wines, matches, tobacco, cigars, cigarettes, petroleum oils, motor vehicles, tractors and electronic products such as televisions.	Exports and purchases by charitable organizations are exempt.	Both specific and ad valorem rates.
3.3	Trade licenses Trading Enterprises Regulations 1999; Trading Enterprise Order, 1993.	Payable by traders carrying on business.	Charitable , religious, and nonprofit institutions are exempt.	Ranging from M 500 to M 1,000 for foreigners and M 75 to M 500 for nationals 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 Equalization Fund levy of 3 lisente per liter.

Lesotho: Summary of the Tax System, July 2003

(All amounts in maloti)

Tax	Nature of Tax	Exemptions and Deductions	Rates
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 schedule 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.	Free trade agreements with Botswana, Namibia, South Africa, and Swaziland.	Ad valorem duties charged on the domestic value of 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 that has been revised but is yet to be ratified by members.		

Lesotho: Summary of the Tax System, July 2003

(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 Mineral levy	Royalty paid to the state based on the selling price of the product.		0.05 percent of the selling price of the product.
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 there from.	Diamonds exported solely for exhibition or display purposes are exempt or for commercial mines of which royalty is negotiated.	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.

Lesotho: Summary of the Tax System, July 2003

(All amounts in maloti)

Tax	Nature of Tax	Exemptions and Deductions	Rates
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 5 for cars, M 6 for trucks, applied each time leaving Lesotho.
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.	An approved existing manufacturer or a hotel or casinokeeper 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.	15 percent charged to manufacturing companies and 35 percent to other companies.

Source: Ministry of Finance.

Lesotho: Exchange and Trade System

(Position as of July, 2003)

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		
Unitary	Yes	
Dual		
Multiple		
3. Classification		
Exchange rate, no separate legal tender		
Currency board arrangements	n.a.	
Conventional pegged arrangement	Yes	The loti is pegged to the South African rand at M 1 per R 1.
Pegged exchange rate within bands		
Crawling peg		
Crawling band		
Managed floating, no preannounced path		
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.
Official coverage	n.a.	

Lesotho: Exchange and Trade System

(Position as of July, 2003)

Subject Measure	Existence	Description
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	
Bilateral payment agreement	No	
Operative	No	
Inoperative	No	
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, Swaziland and Namibia.
Clearing agreement	No	
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, as well as for insurance companies, brokers, and agents, are issued by the CBL.
4. International security restrictions	No	
In accordance with Executive Board decision No. 144(52/51)	No	
According to UN Sanctions	No	
5. Payment arrears	No	
Official	No	
Private	No	
6. Controls on trade in gold (coins/bullions)	Yes	
On domestic ownership/trade	Yes	Only authorized dealers may trade in gold, but anyone may hold gold.

Lesotho: Exchange and Trade System

(Position as of July, 2003)

Subject Measure	Existence	Description
On external trade	Yes	Exports of gold from the CMA are prohibited.
7. Controls on banknotes	Yes	
On exports	Yes	
Domestic currency	Yes	Exports of currency from Lesotho are prohibited.
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.
On imports	No	
Domestic currency	No	
Foreign currency	No	
	IV. Resident Accounts	
1. Foreign exchange accounts permitted	Yes	Banks may hold foreign exchange accounts abroad.
Held domestically	Yes	
Approval required	No	
Held abroad	Yes	Only banks may hold these accounts.
Approval required	No	
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	Yes	
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 M 300,000 a family unit a year.

Lesotho: Exchange and Trade System

(Position as of July, 2003)

Subject Measure	Existence	Description
	VI. Imports and Import Payments	
1. Foreign exchange budget	No	
2. Financing requirements for imports	Yes	
Minimum financing requirements	No	
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.
Advance import deposits	No	
3. Documentation for release of foreign exchange for imports		
Domiciliation requirements	Yes	
Preshipment inspection	Yes	
Letters of credit	Yes	
Import licenses used as exchange licenses	Yes	
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.
Positive list	No	
Negative list	Yes	With certain exceptions, imports from outside the SACU must conform to a negative list and be licensed (for example, ammunition, flora and fauna, illegal drugs, etc.).
Open general licenses	No	
Licenses with quotas	Yes	Certain food imports from within the SACU are subject to import licensing.
Other nontariff measures	No	

Lesotho: Exchange and Trade System

(Position as of July, 2003)

Subject Measure	Existence	Description
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	Yes	
Letter of credit	Yes	
Guarantees	Yes	
Domiciliation	Yes	
Preshipment inspection	Yes	
Other	No	
4. Export licenses	Yes	
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.
With quotas	No	
5. Export taxes	No	
Collected through the exchange system	No	
Other export taxes	No	
	VIII. Payments for Invisible Transactions and Current Transfers	
Controls on these payments	No	
1. Trade-related payments	No	
Prior approval	No	

Lesotho: Exchange and Trade System

(Position as of July, 2003)

Subject Measure	Existence	Description
Quantitative limits	No	
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.
Prior approval	Yes	
Quantitative limits	Yes	Emigrants are allowed to transfer through normal banking channels, up to M 300,000 of earnings on blocked assets.
Indicative limits/bona fide tests	No	There is no indicative limit or bona fide test for the payment of commissions.
3. Payments for travel	Yes	
Prior approval	Yes	
Quantitative limits	Yes	There is a limit of M 130,000 for adults and M 40,000 for children under 12 years of age, per calendar year.
Indicative limits/bona fide tests	Yes	Larger allowances may be obtained for business travel.
4. Personal payments	Yes	
Prior approval	Yes	There is prior approval for payment of study abroad costs.
Quantitative limits	Yes	For studies abroad the limits are M 160,000 per annum for a single student or M 180,000 per annum for a student accompanied by a spouse who is not studying.
Indicative limits/bona fide tests	No	
5. Foreign workers' wages	No	
Prior approval	No	
Quantitative limits	No	
Indicative limits/bona fide tests	No	
6. Credit card use abroad	No	
Prior approval	No	
Quantitative limits	No	
Indicative limits/bona fide tests	No	

Lesotho: Exchange and Trade System

(Position as of July, 2003)

Subject Measure	Existence	Description
7. Other payments	No	
Prior approval	No	
Quantitative limits	No	
Indicative limits/bona fide tests	No	
IX. Proceeds from Invisible Transactions and Current Transfers		
1. Repatriation requirements	No	
Surrender requirements	Yes	Proceeds must be surrendered within 180 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	
On capital market securities	Yes	
Shares or other securities of a participating nature	Yes	
Purchase locally by nonresidents	Yes	
Sale or issue locally by nonresidents	Yes	
Purchase abroad by residents	Yes	
Sale or issue abroad by residents	Yes	
Bonds or other debt securities	Yes	
Purchase locally by nonresidents	No	
Sale or issue locally by nonresidents	No	
Purchase abroad by residents	Yes	
Sale or issue abroad by residents	Yes	
On money market instruments	Yes	
Purchase locally by nonresidents	No	
Sale or issue locally by nonresidents	No	
Purchase abroad by residents	Yes	

Lesotho: Exchange and Trade System

(Position as of July, 2003)

Subject Measure	Existence	Description
Sale or issue abroad by residents	Yes	
On collective investment securities	No	
Purchase locally by nonresidents	No	
Sale or issue locally by nonresidents	No	
Purchase abroad by residents	Yes	
Sale or issue abroad by residents	Yes	
2. Controls on derivatives and other instruments	n.a.	
Purchase locally by nonresidents	n.a.	
Sale or issue locally by nonresidents	n.a.	
Purchase abroad by residents	n.a.	
Sale or issue abroad by residents	n.a.	
3. Controls on credit operations	Yes	
Commercial credit	Yes	
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.
To residents from nonresidents	Yes	These credits require exchange control approval.
Financial credit	Yes	
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.
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.
Guarantees, sureties, and financial backup securities	No	
By residents to nonresidents	No	
To residents from nonresidents	No	

Lesotho: Exchange and Trade System

(Position as of July, 2003)

Subject Measure	Existence	Description
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.
Outward direct investment	Yes	Outward direct investment is prohibited.
Inward direct investment	No	
5. Controls on liquidation of direct investment	No	
6. Controls on real estate transactions	Yes	
Purchase abroad by residents	Yes	Prior approval is required.
Purchase locally by nonresidents	No	
Sales locally by nonresidents	No	
7. Controls on personal capital movements	No	
Loans	No	
By residents to nonresidents	No	
To residents from nonresidents	No	
Gifts, endowments, inheritances, and legacies	No	
By residents to nonresidents	No	
To residents from nonresidents	No	
Settlements of debt abroad by immigrants	No	
Transfer of assets	No	
Transfer abroad by emigrants	No	
Transfer into the country by immigrants	No	
Transfer of gambling/prize earnings	Yes	Prior approval is required.
8. Specific controls on transactions by commercial banks and other credit institutions	Yes	
Borrowing abroad	Yes	Prior approval is required.
Maintenance of accounts abroad	Yes	
Lending to nonresidents (loans, financial or	Yes	

Lesotho: Exchange and Trade System

(Position as of July, 2003)

Subject Measure	Existence	Description
commercial credit)		
Lending locally in foreign exchange to residents	Yes	
Purchase of locally issued securities denominated in foreign exchange	Yes	
Differential treatment of deposit accounts in foreign exchange	No	
Reserve requirements	Yes	
Liquid asset requirements	Yes	
Interest rate controls	No	
Credit controls	No	
Differential treatment of nonresident deposit accounts or deposit accounts in foreign exchange	No	
Reserve requirements	No	
Liquid asset requirements	No	
Interest rate controls	No	
Credit controls	No	
Investment regulations	No	
Abroad by banks	No	
In banks by nonresidents	No	
Open foreign exchange position limits	Yes	10 percent single limit and 20 percent overall exposure.
On nonresident assets and liabilities	Yes	
On resident assets and liabilities	Yes	
9. Provisions specific to institutional investors	Yes	
Limits (max.) on securities issued by nonresidents and on portfolio invested abroad	No	
Limits (max.) on portfolio invested abroad	No	
Limits (min.) on portfolio invested locally	No	

Lesotho: Exchange and Trade System

(Position as of July, 2003)

Subject Measure	Existence	Description
Currently matching regulations on assets/liabilities composition	No	
10. Other controls imposed by securities' laws	No	