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EBD/85/255

September 27, 1985

To: Members of the Executive Board
From: The Acting Secretary
Subject: Lesotho - Exchange Arrangements and System

There is attached for the information of the Executive Directors a paper on a recent change in the exchange arrangements and system of Lesotho.

Mr. Bonvicini (ext. 8524) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Lesotho--Exchange Arrangements and System

Prepared by the African
and the Exchange and Trade Relations Department

(In consultation with the Legal Department)

Approved by A.D. Ouattara and S. Kanesa-Thasan

September 27, 1985

In a communication dated September 23, 1985, the Central Bank of Lesotho informed the Fund that, with effect from September 2, 1985 the authorities of Lesotho reintroduced the dual exchange rate system that had been discontinued in February 1983. As mentioned in the communication, this measure was adopted in conjunction with the reintroduction of the "financial rand" mechanism by South Africa. The communication also states that the loti continues to be equal in value to the South African rand, and that Lesotho has not suspended foreign debt payments. Lesotho forms part of the Rand Monetary Area.

Under the "financial rand" mechanism, local sales proceeds of Rand Monetary Area securities and other investments owned by nonresidents cannot be transferred in foreign currency, but must be retained in the form of "financial rand" balances. Such balances are transferable among nonresidents at a freely determined exchange rate. This scheme gives rise to a multiple currency practice applicable to capital transactions. No action by the Executive Board is being proposed.

Attachment

ATTACHMENT

September 23, 1985

TO: INTERFUND, WASHINGTON, D.C.

ATTN: OUATTARA
AFRICAN DEPARTMENT

WE REFER TO YOUR TELEX OF SEPTEMBER 4, 1985 REQUESTING NOTIFICATION OF CHARGES IN LESOTHO'S EXCHANGE RATE SYSTEM AND COMMENT AS FOLLOWS:

- 1) LOTI IS STILL PEGGED TO AND AT PAR WITH, THE SOUTH AFRICAN RAND AND ITS EXCHANGE RATE WILL CONTINUE TO BE AFFECTED BY THE SOUTH AFRICAN RESERVE BANK'S INVOLVEMENT IN THE FOREIGN EXCHANGE MARKET IN ITS EFFORT TO STABILISE THE RAND.
- 2) BEING A MEMBER OF THE RAND MONETARY AREA WE HAVE ADOPTED THE TWO-TIER EXCHANGE RATE SYSTEM FOLLOWING THE REINTRODUCTION OF THE "FINANCIAL RAND" MECHANISM BY SOUTH AFRICA WITH EFFECT FROM SEPTEMBER 2, 1985. FINANCIAL RAND CONSISTS OF THE SALE PROCEEDS OF RAND MONETARY AREA SECURITIES, REAL ESTATE AND OTHER INVESTMENTS OWNED BY NON-RESIDENTS. IT IS AVAILABLE MOSTLY FOR INVESTMENTS PURPOSES AND MAY BE SOLD BY NON-RESIDENTS TO OTHER NON-RESIDENTS ONLY. THE PURPOSE FOR ITS REINTRODUCTION WAS TO STOP THE OUTFLOW OF FOREIGN EXCHANGE THROUGH DISINVESTMENT BY NON-RESIDENTS.
- 3) WITH THE EXCEPTION OF DISINVESTMENT AND INVESTMENT, EMMIGRATION AND UNMMIGRATION, MOST OTHER TRANSACTIONS WILL CONTINUE TO BE SETTLED BY MEANS OF THE NORMAL COMMERCIAL RATE OF THE LOTI. TRANSACTIONS RELATING TO THE FOUR MENTIONED EXCEPTIONS MAY BE SETTLED ONLY BY MEANS OF THE FINANCIAL RAND.
- 4) LESOTHO IS NOT PARTY TO THE SUPENSION ON REPAYEMNT OF FOREIGN CAPITAL WHICH HAS BEEN IMPOSED BY SOUTH AFRICA.

REGARDS,
E.H. PHOOFOLO
DEPUTY GOVERNOR

Received in Cable Room: September 23, 1985