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To: Members of the Executive Board

From: The Secretary

Subject: **Kingdom of Lesotho—Selected Issues and Statistical Appendix**

This paper provides background information to the staff report on the 2005 Article IV consultation discussions with the Kingdom of Lesotho (SM/05/325, 8/18/05), which is tentatively scheduled for discussion on **Monday, September 19, 2005**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of the Kingdom of Lesotho indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Basu (ext. 37856), Mr. J.-Y. Wang (ext. 37675), Ms. Masha (ext. 35939), and Mr. Gons (ext. 37688) in AFR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Monday, September 12, 2005; and to the African Development Bank, the European Commission, the European Investment Bank, the Food and Agriculture Organization, and the United Nations Development Programme, following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND

KINGDOM OF LESOTHO

Selected Issues and Statistical Appendix

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Approved by the African Department

September 1, 2005

Contents	Page
Basic Data	4
I. The Institutional Arrangements of the Common Monetary Area and Policy Implications for Lesotho.....	5
A. Introduction.....	5
B. Broad Objectives.....	6
C. Currency Arrangements	6
D. Movement of Funds within CMA.....	6
E. Access to the South African Financial Markets	7
F. Gold and Foreign Exchange Transactions.....	7
G. Compensation Payments	8
H. Other Provisions.....	8
I. Policy Implications for Lesotho	8
II. Competitiveness and export Performance in Lesotho.....	12
A. Introduction and Background	12
B. Trade Preferences.....	13
C. Exchange Rate Developments.....	14
D. Wage Costs and Firm Profitability.....	16
E. Nonwage Costs and Investment Climate.....	21
F. Conclusions	24
III. The Management of HIV/AIDS in the Kingdom of Lesotho	27
A. Background	27
B. The Overall Strategy	27
C. Progress in implementing the strategy	28

Text Figures

I.1 Common Monetary Area: Terms of Trade Index, 1999-2004.....	9
II.1 Evolution of Garment Exports to the United States.....	13
II.2 Exchange Rate (US\$/Loti), 1995-2005.....	15
II.3 Effective Exchange Rate, 1995-2005.....	15
II.4 Nominal Effective Exchange Rates, 1995-2005.....	16
II.5 Real Effective Exchange Rates, 1995-2005.....	16
II.6 Nominal Exchange Rate, 2000-2005.....	16
II.7 Unit-Labor Costs of Selected Garment Exporters, 2002.....	19
II.8 Lesotho Monthly Wages, 1998-2004.....	19
II.9 Unit Value of US Garment Imports, 1995-2005.....	20
II.10 Garment Sector Estimated Profitability Development, 1998-2004.....	21
II.11 Median Firm Losses due to Crime and Security Costs.....	24
II.12 Regulatory Burden (percent of management time spent dealing with government regulation), 2004.....	24

Text Tables

I.1. Selected Economic Indicators.....	5
II.1 Garment Sector Wages for Selected Countries, 2002.....	18
II.2 Electricity Costs and Reliability.....	22
III.1 HIV/AIDS Programs, Outcome Indicators and Targets, 2003-07.....	29

Statistical Appendix Tables

1. Gross Domestic Product by Sector (At constant 2003 prices), 1998/99–2004/05.....	31
2. Gross Domestic Product by Sector (At current prices), 1998/99–2004/05.....	32
3. Gross Domestic Product by Expenditure, 1998/99–2004/05.....	33
4. Consumer Price Indices, April 1998 – April 2005.....	34
5. Basic Monthly Minimum Wages, 1997–2004.....	35
6. Public Service Employment, 1997/98–2004/05.....	37
7. Central Government Operations, 1998/99–2004/05.....	38
8. Government Revenue and Grants, 1998/99–2004/05.....	39
9. Southern African Customs Union (SACU) Operations, 1998/99–2004/05.....	40
10. Economic Classification of Government Expenditure, 1998/99–2004/05.....	41
11. Functional Classification of Government Expenditures, 1998/99–2004/05.....	42
12. Outstanding Government Domestic Debt by Instrument and Holder, 1998–2005.....	43
13. Monetary Survey, March 1999 – September 2005.....	44
14. Assets and Liabilities of the Central Bank of Lesotho, March 1999–March 2005.....	45
15. Assets and Liabilities of Commercial Banks, March 1999–March 2005.....	46
16. Principal Aggregates of Commercial Banks' Operations, March 1999–March 2005.....	47
17. Sectoral Distribution of Commercial Bank Loans and Advances to the Private Sector and Statutory Bodies, March 1999–March 2005.....	48

18. Interest Rates Paid by the Central Bank on Commercial Bank Deposits, March 1998–August 2001	49
19. Interest Rates at Commercial Banks, March 1999–March 2005	50
20. Comparative Money Market Rates, March 1998–March 2005	51
21. Balance of Payments (in millions of U.S. dollars), 1998/99–2004/05	52
22. Balance of Payments (in millions of maloti), 1998/99-2004/05	53
23. Services and Income Account, 1998/99-2004/05	54
24. Lesotho Miners in South Africa, 1997-2004	55
25. Composition of Recorded Exports, 1998-2004	56
26. Direction of Trade, 1999-2003	57
27. Public and Publicly Guaranteed External Debt Outstanding, 1998/99-2004/05	58

Appendices

I. Summary of the Tax System, July 2005	59
II. Exchange and Trade System	68

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)	1.8
Gross national income per capita (2003; in U.S. dollars)	630

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
<hr/>							
National accounts	(In millions of maloti, unless otherwise specified)						
GDP at current market prices	5,082	5,665	6,114	6,766	7,564	8,251	8,644
<i>Of which</i> : agriculture	809	906	1,024	1,107	1,202	1,312	1,346
manufacturing	788	845	946	1,129	1,373	1,457	1,499
GNP at current market prices	6,492	7,179	7,661	8,301	9,303	10,184	10,701
Real GDP growth (percent)	-3.5	-0.6	1.6	2.8	3.2	3.3	2.0
Real GNP growth (percent)	-6.8	-1.3	0.4	0.7	3.4	3.6	2.3
Prices							
Consumer price index (percent change; period average)	8.9	6.3	6.2	9.2	9.6	6.4	4.3
Employment							
Migrant mine workers (in thousands) 2/	71.9	67.7	64.0	61.6	62.0	60.6	55.3
Central government finance	(In millions of maloti)						
Revenue	2,174	2,313	2,627	2,788	3,035	3,439	3,856
<i>Of which</i> : SACU 3/	1,034	1,183	1,126	1,438	1,470	1,422	2,012
Total expenditure and net lending	2,438	3,373	2,864	2,938	3,659	3,555	3,762
Current	1,943	2,319	2,434	2,312	2,857	2,929	3,098
Capital	496	1,055	430	626	802	625	665
Overall balance, before grants	-265	-1,061	-238	-150	-624	-115	564
Grants from abroad	120	130	126	189	296	178	224
Overall balance, after grants	-145	-931	-112	39	-328	62	788
Foreign financing (net)	18.1	-70.9	-257.1	-54.3	56.4	-25.7	-60.2
Domestic financing (net)	181.6	1,048.0	390.2	15.6	271.9	-37.3	-727.9
Residual	-55	-46	-21	0	0	1	0
Monetary survey							
Foreign assets (net)	3,754	3,583	3,670	5,229	3,722	3,478	4,266
Domestic credit	-881	4	424	432	321	276	-312
Government (net)	-1,953	-939	-579	-511	-190	-318	-958
Rest of the economy	1,072	943	1,003	943	512	593	646
Money and quasi money	1,753	1,737	1,822	2,133	2,191	2,308	2,452
Other items (net)	-1,120	-1,850	-2,272	-3,528	-1,852	-1,446	-1,502
Balance of payments	(In millions of U.S. dollars, unless otherwise specified)						
Current account deficit (-)	-219	-208	-157	-100	-144	-124	-39
<i>Of which</i> :							
Exports, f.o.b.	191	188	223	294	381	503	686
Imports, f.o.b.	-781	-796	-717	-664	-815	-1,036	-1,294
<i>Of which</i> : LHWP 4/	-79	-51	-34	-34	-24	-32	-28
Miners' remittances	285	278	241	189	202	296	345
Unrequited transfers	140	156	127	122	133	180	277
Capital and financial account	276	201	169	119	98	60	-1
Capital account	9	14	11	11	18	17	21
Financial account	267	187	157	108	80	44	-22
Direct investment	217	154	120	107	89	121	123
Other investment	-2	-49	-39	7	0	-49	-74
Change in reserve assets (minus sign indicates increase)	53	82	77	-6	-9	-28	-71
Errors and omissions	-45	10	0	10	24	18	28
Gross official reserves (months of imports, f.o.b.)	7.9	7.4	6.6	5.5	4.3	3.8	4.5
External debt							
Disbursed and outstanding	695	634	586	554	640	718	716
Debt-service ratio (as percent of exports of goods and services, and factor income)	16.7	19.3	27.2	12.4	8.7	7.5	6.8
Exchange rate (maloti per U.S. dollar; average)	5.8	6.2	7.3	9.5	9.7	7.2	6.3

Sources: Lesotho authorities; World Bank; and IMF 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. THE INSTITUTIONAL ARRANGEMENTS OF THE COMMON MONETARY AREA AND POLICY

IMPLICATIONS FOR LESOTHO

A. Introduction

1. Lesotho, because of its history, geographical location, and membership in various regional institutions, has very close economic and financial ties with South Africa. When Botswana, Lesotho, and

Table I.1. Selected Economic Indicators

Indicator	2004/05
Share of Rand in currency in bank vaults, in percent	15
Imports from South Africa, in percent of total imports	86
Worker's remittances, in percent of GDP	25
SACU revenue, in percent of GDP	23
Net International Reserves of the CBL, in percent of broad money	120

Source: Lesotho authorities and Fund staff estimates.

Swaziland gained political independence in the 1960s, they were already members of a common customs area—the Southern African Customs Union (SACU)—and also de facto members of a currency union with South Africa.¹ The currency union was formally established on December 5, 1974, with the signing of the Rand Monetary Area (RMA) agreement. The RMA was revised in April 1986 to establish the Common Monetary Area (CMA) of Lesotho, Swaziland, and South Africa. Under the terms of the CMA Agreement, the South African rand would continue to be legal tender in Lesotho and Swaziland, which would also have the right to issue their own national currencies.² When these countries issued their own currencies, they became responsible—albeit to a very limited extent—for their own monetary policy and assumed control of their own financial institutions. Bilateral agreements governed their access to the South African foreign exchange market. In January 1980, Lesotho established its own central bank and issued its national currency, the loti.³ In 1990, Namibia joined the CMA.

2. This chapter reviews the broad objectives and key institutional features of the CMA relating to currency arrangements, the movement of funds within the CMA, access to the South African financial markets, gold and foreign exchange transactions, compensation payments, and other provisions. It concludes with a discussion of the main policy implications for Lesotho as a result of its membership in the CMA.

¹ The SACU was established in 1910, with membership comprising South Africa, Botswana, Namibia, Lesotho, and Swaziland. In 1921, after the establishment of the South African Reserve Bank, the South African pound became the sole medium of exchange and legal tender in South Africa, Bechuanaland (now Botswana), Lesotho, Namibia, and Swaziland.

² Botswana, however, withdrew from the RMA in 1975, mainly because it was not willing to surrender its ability to formulate and implement monetary policy and wished to have the option of adjusting the exchange rate, if necessary, in response to shocks affecting its economy (see Collings, et al (1978) and Guma (1985)).

³ See Foulo (2003).

B. Broad Objectives

3. The CMA's broad objectives are set out in the preamble to the CMA Agreement (Article 2), to which all participating members are signatories. These are to confer the advantages of a common monetary area on its members, provide for the sustained economic development of the CMA as a whole, encourage the advancement of the less developed members, and afford to all parties equitable benefits arising from the maintenance and development of the CMA.

C. Currency Arrangements

4. Under the CMA Agreement, Article 2 gives the three small member countries (Lesotho, Namibia, and Swaziland) the right to issue national currencies, and their bilateral agreements with South Africa define the areas in which their currencies are legal tender. In general, the local currencies issued by the three members are legal tender only in their respective countries. The South African rand, however, is legal tender throughout the CMA area. The national currencies issued by the three small countries are the loti in Lesotho, the lilangeni in Swaziland, and the Namibian dollar.

5. Article 2 of the bilateral agreement between Lesotho and South Africa also requires both countries to permit authorized dealers within their territories to convert, at par, notes issued by the Central Bank of Lesotho (CBL) or the South African Reserve Bank (SARB) without restriction and subject only to normal handling charges. Similar arrangements exist between the other two CMA members and South Africa.

6. The CBL is required (under Article 4 of the Lesotho–South Africa bilateral agreement) to maintain foreign reserves equivalent to the total amount of maloti (the plural of loti) currency that it issues.⁴ Such reserves may comprise the CBL's holdings of rand balances, the rand currency the CBL holds in a Special Rand Deposit Account with the SARB, South African government stock (up to 10 percent of total reserves), and its investments with the Corporation for Public Deposit in South Africa.

D. Movement of Funds within CMA

7. Under the terms of the CMA Agreement (Article 3), no restrictions can be imposed on the transfer of funds, whether for current or capital transactions, to or from any member country. The only exceptions result from the member countries' investment or liquidity requirements prescribed for financial institutions. The small member countries view the investment and liquidity requirements as a measure of savings mobilization for development purposes. The regulations requiring the investment of funds by financial institutions in

⁴ The aggregate amount of Maloti currency issued is measured at any given time by the average of such currency in circulation during the immediately preceding 14 days.

domestic securities or credits to local businesses or individuals are, in effect, minimum local asset requirements. These regulations are meant to address the concern of the three small, less developed, CMA members that funds generated in their territories and deposited with local financial institutions tended to flow to the more developed capital markets of South Africa.⁵ Lesotho's minimum local assets to total deposits ratio, which has been reduced in recent years, is 5 percent at present.

E. Access to the South African Financial Markets

8. The CMA Agreement provides for the three small member countries to have access to the South African capital and money markets, but only through prescribed investments or approved securities that can be held by financial institutions in South Africa. Access to the South African capital market is, however, made subject to a ceiling of 1.5 percent of the required minimum amount that such institutions hold as prescribed investments and approved securities. The terms and timing of such issues are subject to consultation and agreement with the South African government, and the issues have the same rating as South African municipal bonds. So far, Lesotho has not made use of such financing.

9. As regards the short-term money market, there are no regular arrangements for the taking up in South Africa of treasury bills issued by the other CMA member countries. However, the CMA Agreement recognizes the right of the other member countries, in special circumstances, to enter into bilateral negotiations with South Africa to obtain temporary central bank credit.

F. Gold and Foreign Exchange Transactions

10. Although the three small CMA members have the right to authorize foreign transactions of local origin, and are responsible for doing so, the CMA Agreement (Article 5) requires their exchange control regulations to be—in all material aspects—similar to those in effect in South Africa.

11. Under a surrender requirement, gold and foreign exchange receipts accruing to a country's residents have to be surrendered to an authorized dealer appointed by that country. At the same time, the authorized dealers are required to sell the gold and foreign exchange they purchase to the national central bank, although they may maintain minimum working balances within limits determined by the central bank.

⁵ To some extent, such flows are facilitated by the fact that Lesotho's banking system comprises four banks, three of which are South African. At the same time, however, foreign direct investment (stock) from South Africa is sizable, equivalent to about one-fifth of Lesotho's GDP.

12. The bilateral agreement between Lesotho and South Africa also stipulates that the gold and foreign exchange reserves maintained by the Central Bank of Lesotho and authorized dealers must not exceed 35 percent of Lesotho's total holdings of such reserves and its rand balances. Thus, the bulk of Lesotho's gold and foreign exchange are held at the SARB, which is responsible for managing these reserves. The SARB's reciprocal obligation is to make foreign exchange available for foreign transactions authorized by the other CMA countries.

G. Compensation Payments

13. Since the rand is legal tender in all CMA countries (but the currencies of the three small CMA members are not legal tender in South Africa), South Africa compensates them for forgone seigniorage. Compensation is based on a formula equal to the product of (i) two-thirds of the annual yield on the most recently issued long-term South African government stock, and (ii) the volume of rand estimated to be in circulation in the member country concerned. The ratio of two-thirds was established on the assumption that it approximated the yield of a portfolio of reserve assets comprising both long-term and short-term maturities, assuming that the average yield would be less than the full long-term yield.

H. Other Provisions

14. To facilitate the implementation of the CMA Agreement, the member countries have established a commission in which each of them has one representative (along with some advisors, as needed). The commission holds regular consultations—at least once a year—with the aim of reconciling the interests of member countries on common issues pertaining to monetary and foreign exchange policies. It also convenes at other times at the request of a member country.

15. In April 1989, the CMA Agreement was amended to remove the exchange restrictions arising from the limitation on the conversion of balances upon termination of the agreement or withdrawal of any one party. The members ratified these amendments at end-1989, thus eliminating the restrictions on the making of payments and transfers for current international transactions on the part of Lesotho and Swaziland that arose under the agreement.

16. Article 9 of the CMA Agreement provides for the establishment of a tribunal to arbitrate disputes that might arise between member countries regarding the interpretation or application of the agreement.

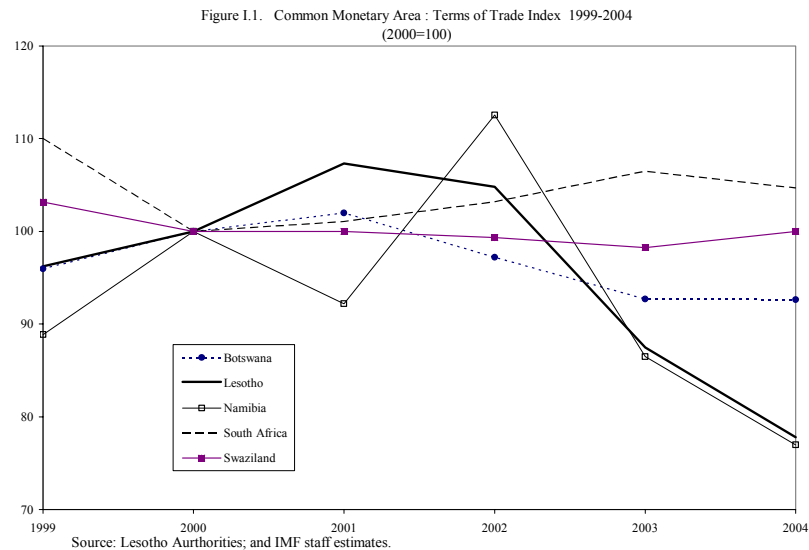
I. Policy Implications for Lesotho

17. Lesotho's exchange rate arrangement under the CMA shares certain characteristics of a currency board—all maloti currency issued by the CBL is backed entirely by the central bank's foreign exchange reserves. Such an arrangement has the advantage of insulating monetary policy from possible political interference and hence helps enhance the credibility

of macroeconomic policies. However, the CMA arrangement for Lesotho is different from a currency board in one important respect: a currency board is typically prohibited by law from acquiring any domestic assets, so all the currency it issues is automatically backed fully by foreign reserves.⁶ There is no such legal restriction for Lesotho under the CMA. So far, the CBL has been prudent in managing its domestic assets and its net international reserves have exceeded the monetary base.

18. The peg of the loti to the rand, the parallel circulation of the loti and the rand, currency convertibility, and regional capital mobility imply that Lesotho (like the other small CMA countries) does not have any independent control of its money supply. The demand for loti depends importantly on the public's confidence in the exchange rate parity given the extensive financial linkages between Lesotho and South Africa. Lesotho's monetary base basically expands (or contracts) in line with central bank purchases (or sales) of foreign exchange. Spreads on government paper between Lesotho and South Africa have been small (below 40 basis points as of end-March 2005). Given the small size of its economy relative to that of South Africa, interest rate movements in Lesotho largely mirror those in South Africa, except for a spread that reflects country risk.

19. As suggested in the literature on optimal currency areas, the net gains for a country from joining a monetary union depend importantly on its economic characteristics, including its vulnerability to economic shocks and the degree of factor mobility within the monetary union.⁷ Lesotho is the poorest of the CMA countries, with much narrower production and export bases (especially



compared with South Africa's). It has experienced large negative terms of trade shocks since 2001/02, as the exchange rate appreciation vis-à-vis the U.S. dollar and the removal of textile quotas had a relatively strong downward effect on Lesotho's terms of trade, given the large share in total exports of garments destined to the U.S. market.⁸ In contrast, the terms of trade have been improving in South Africa and have remained broadly unchanged in Swaziland. The economies of these countries are also more diversified than that of Lesotho. On factor

⁶ See Humpage and McIntire.

⁷ See Mundell (1961), McKinnon (1979), and Cobham and Robson (1994).

⁸ See Chapter II, "Competitiveness and Export Performance in Lesotho," for more details.

mobility, although there are virtually no restrictions on capital movements between South Africa and Lesotho, employment in South Africa requires a work permit. Moreover, given the lack of skills and training, Lesotho's workers would have difficulty finding a job in South Africa. In the past, opportunities for unskilled and semi-skilled Lesotho workers to get employed in South Africa were greater, particularly in the mining sector. These opportunities have been reduced in part due to the ongoing restructuring of the mining sector in South Africa. This suggests that the benefits of the CMA may have weakened from what they were originally. Moreover, for Lesotho to attract significant new investment flows (such as foreign direct investment), it must first remove various structural obstacles (including low labor productivity, regulatory and administrative impediments to private investment, bottlenecks in infrastructure, and an underdeveloped financial sector).

20. Furthermore, with the exchange rate peg and lack of monetary independence, Lesotho will have to rely heavily on fiscal adjustment to cope with shocks. Efforts should continue to be made to restructure and realign expenditure priorities in line with the country's poverty reduction strategy and to contain the public sector wage bill in the context of public sector reform. However, with progress in the ongoing trade liberalization discussions between the SACU and its trading partners, Lesotho is likely to receive lower SACU (tariff) revenues. This means that this fiscal transfer mechanism would become less important for Lesotho.

21. Under these circumstances, Lesotho's adjustment effort will need to focus on strengthening competitiveness, mainly through the conduct of prudent fiscal policy and domestic structural reforms. The latter should focus on overcoming labor market and wage rigidities by encouraging the parties in wage negotiations to take into account productivity and terms of trade developments. It would also be important to boost labor productivity through an industry-led, demand-driven skills development program, with the private sector and donors sharing the cost. Legal and regulatory reforms would have to be implemented to develop the financial sector and remove obstacles to private sector development.

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II. COMPETITIVENESS AND EXPORT PERFORMANCE IN LESOTHO⁹

A. Introduction and Background

1. **This chapter assesses Lesotho's external competitiveness.** The country's exports have risen spectacularly since the late 1990s, and, despite its small size, Lesotho has become Africa's largest garment exporter. However, this achievement is at risk, and the present level of exports may not be sustainable. The next sections analyze four areas that are central to Lesotho's competitiveness: (i) the trade preferences regime; (ii) exchange rate developments relative to main trading partners and competitors; (iii) wage costs and profitability; and (iv) non-wage costs and the investment climate compared with those of competitor countries. The chapter concludes with some recommendations for improving Lesotho's competitiveness and its investment climate. In view of its importance (as well as data limitations), the chapter focuses on Lesotho's garment industry, but its conclusions have a bearing on other sectors as well.

2. **Lesotho's export growth, driven mostly by garment exports to the United States, has been exceptional since the late 1990s** (Figure II.1).¹⁰ Lesotho's garment exports to the U.S. increased from US\$100 million in 1998 to about US\$450 million in 2004 (an average annual growth rate of more than 50 percent).¹¹ Employment in the garment sector grew from 7,400 in 1991 to a peak of 50,000 in early 2004, and the garment industry became the largest employer in the country. This performance 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.

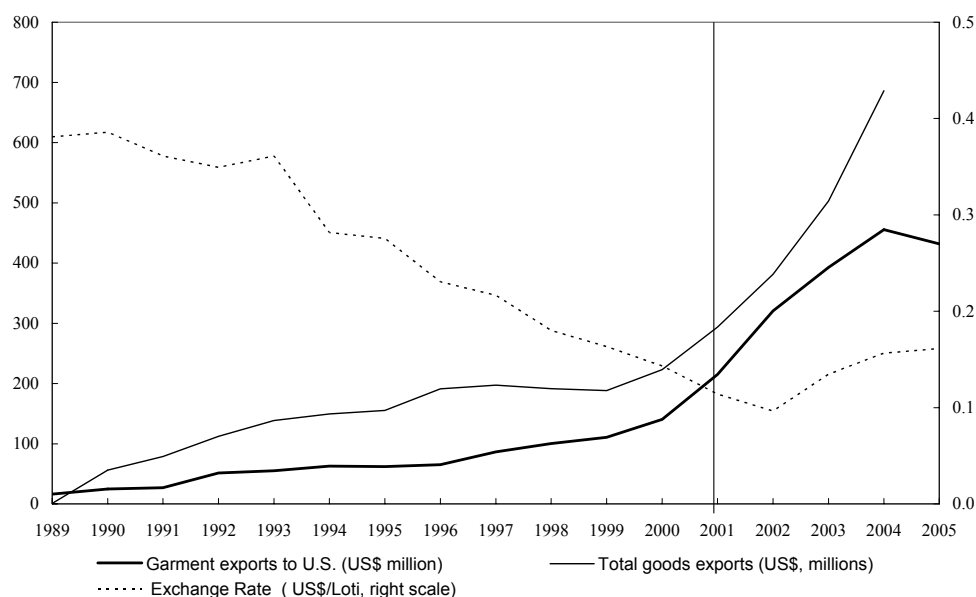
3. **However, the current environment poses several challenges to Lesotho's external competitiveness and, ultimately, to its ability to maintain or expand its exports.** The loti has appreciated strongly since end-2001. External competitiveness has been compromised further by the erosion of trade preferences through the phasing out of textile quotas under the Uruguay Round Agreement on Textiles and Clothing (ATC) at the start of 2005, and approximately 10,000 workers have been laid off. At the structural level, Lesotho's competitiveness is further compromised by the low labor productivity in the garment sector and an investment climate affected by serious bottlenecks in the provision of utilities and infrastructure, high security-related costs, and a relatively burdensome regulatory environment.

⁹ Prepared by Victor Lledo, Jan Kees Martijn and Jacob Gons.

¹⁰ Garment exports, of which more than 90 percent destined for the United States, constituted about 80 percent of total exports in 2003 and 2004.

¹¹ Since 2002, nongarment manufacturing exports have actually declined.

Figure II.1. Evolution of Garment Exports to the United States, 1989-2005



B. Trade Preferences

4. **Trade preferences have constituted a key factor behind the development of Lesotho's garment sector and strong export performance.** Lesotho has maintained a garment sector since the early 1980s. But since 2000, sizable inward investments, in particular from Taiwan Province of China, have been reflected in large increases in production and exports. Lesotho's garment exports have benefited, in particular, from AGOA's "third party fabric provision" granted to least developed countries (LDCs). As an LDC, Lesotho is entitled to import inputs from nonmembers of AGOA without repercussions for its free access to the U.S. market. With relevant U.S. import tariffs at more than 15 percent, on average, and with foreign inputs accounting for at least 50 percent of total costs, value added in Lesotho is effectively protected at a rate of 30 percent or more.¹²

5. **However, the erosion of Lesotho's trade preferences poses a serious threat to the survival of its garment sector.** Since textile quotas under the ATC ended at the beginning of 2005, exports by low-cost producers that are no longer quota-constrained, in particular China, have increased.¹³ Producers in Lesotho have reported a decline in garment prices of

¹² Thus, for given foreign input costs, the cost of finishing garment products (the "cut, make, and trim" phase) could be at least 30 percent higher in Lesotho than in a country not receiving these preferences, at the same after-tariff import costs.

¹³ Under the ATC, which superseded the Multifiber Arrangement (MFA), these bilateral quotas were to be eliminated in four phases over the period 1995-2005 (1995-98; 1998-2002; 2002-04; and the

(continued)

10-15 percent. Indeed, in the first quarter of the year, unit values of U.S. garment imports from Lesotho fell by almost 12 percent in U.S. dollar terms. Further adverse shocks are likely over the coming years:

- The “third party fabric provision” under AGOA is scheduled to be phased out in the fall of 2007. Maintaining tariff-free access to the U.S. market would then require sourcing fiber inputs from AGOA sources—which are generally more expensive than the current inputs, most of which originate in Asia.
- The safeguards imposed by the United States in May 2005 on garment imports from China (renewable on an annual basis) will expire by mid-2008. These safeguards limit the annual growth of garment imports from China to 7.5 percent.
- Multilateral tariff reduction of nonagricultural products under the Doha round is likely to gradually erode the significance of tariff-free market access.

C. Exchange Rate Developments

6. **Lesotho’s external competitiveness is strongly influenced by its currency peg to the South African rand.** In the context of the Common Monetary Area (CMA),¹⁴ the loti is pegged to the rand at par.

- On the one hand, the monetary arrangement has precluded any exchange rate movement against Lesotho’s main trading partner, South Africa. Conditioned by this regime, domestic price movements in Lesotho have been largely similar to those in South Africa.
- On the other hand, between end-2001 and end-2004, the strength of the rand combined with the general depreciation of the U.S. dollar, has led to a sizable appreciation of the loti relative to the dollar, by 51 percent in nominal terms and 57 percent in real terms (Figure II. 2). Considered over a longer horizon, this appreciation has merely restored the exchange rate level that existed in 2000. During the first half of 2005, the loti weakened against the U.S.dollar by about 10 percent.

beginning of 2005). The last ATC phase was expected to have the largest impact because it applied to products that were highly quota-constrained and that account for the bulk of Lesotho’s exports such as trousers and T-shirts. These are products in which China and other low-cost producer countries are expected to increase their market share following the quota removal.

¹⁴ See Chapter I, The Institutional Arrangement of the Common Monetary Area and Policy Implications for Lesotho.

Figure II. 2 : Exchange Rate (U.S dollar-loti), 1995-2005 (Index: 2000=100)

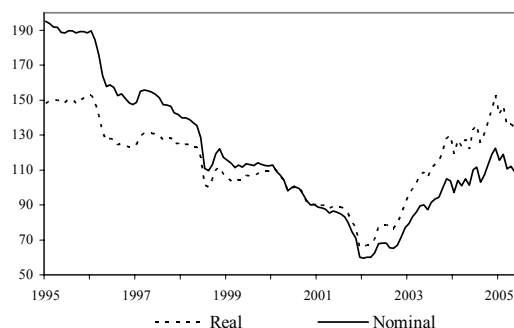
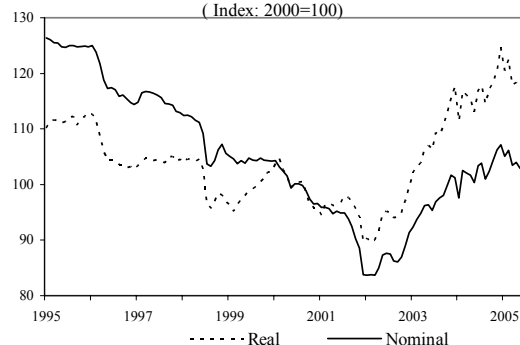


Figure II. 3: Effective Exchange Rate, 1995-2005 (Index: 2000=100)



Source : International Financial Statistics

7. **The loti's sharp rise vis-a-vis the U.S. dollar resulted in a 23 percent real effective appreciation from end-2001 to mid-2005.** Indicators of nominal and real effective exchange rates provide a widely used initial snapshot of overall competitiveness.¹⁵ The evolution of the effective exchange rates is illustrated in Figure II.3, and is based on 2002 data on partner country weights that reflect each country's relative share in Lesotho's trade (imports plus exports).

8. **However, Lesotho's effective appreciation essentially stems from developments on the export side.** In the case of Lesotho, adding up imports and exports creates a picture of effective exchange rates that is hard to interpret, given that the trade patterns on the import and export sides are very different. In 2002—the base year—74 percent of imports stemmed from South Africa and 21 percent from Asia (including inputs for the garment sector). Almost 77 percent of exports were destined for the U.S. market (virtually all garments) and 23 percent for South Africa. Therefore, a more meaningful analysis distinguishes between effective exchange rates (nominal and real) for the import side and for the export side (Figures II. 4 and II. 5).¹⁶ Although the effective exchange rates on the import side have remained relatively stable, those on the export side have mirrored the fluctuations in the loti-dollar rate.

¹⁵ The real effective exchange rates were calculated on the basis of Lesotho's consumer price index (CPI). An alternative and more appropriate methodology, given the focus on cost competitiveness, would have been to use unit labor costs, but data limitations prevented this.

¹⁶ In theory, imports of garment sector inputs could be included as a negative item in the calculation of export weights (rather than as a positive item in the calculation of import weights) in order to derive an indicator of the effective exchange rate for net exports—as opposed to the current one, which relates to gross exports. However, data limitations precluded such a calculation.

Figure II. 4: Nominal Effective Exchange Rates, 1995-2005; (Index: 2000=100)

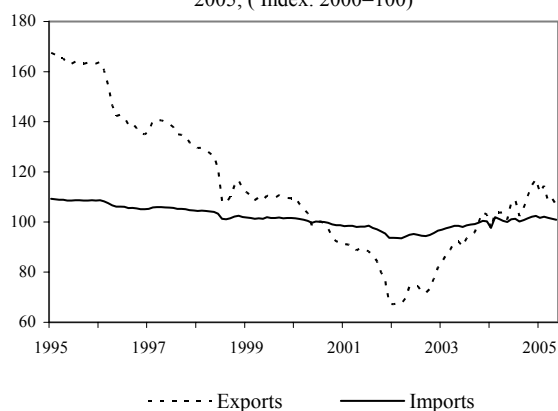


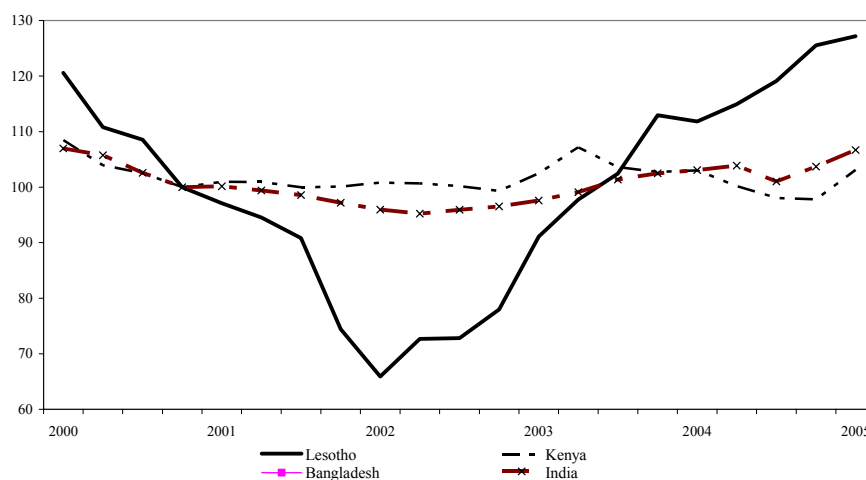
Figure II. 5: Real Effective Exchange Rates, 1995-2005; (Index : 2000=100)



Source : International Financial Statistics

9. **Exchange rate appreciation has also been strong relative to other garment exporters to the U.S.** During 2001-04, the Indian rupee appreciated by 7 percent in nominal terms, and the Kenya shilling depreciated by 2 percent (Figure II. 6). During this period, the Chinese yuan was pegged to the U.S. dollar.

Figure II.6 . Nominal Exchange Rate, 2000-05
(Index: 2000 =100, U.S dollar / national currency)



Source : International Financial Statistics

D. Wage Costs and Firm Profitability

10. **Given Lesotho's dependence on garment sector exports, a closer look at export competitiveness should take into account developments in this sector concerning wages, prices and the relative costs of key competitors.** The calculation of the effective exchange rate implicitly assumes that the partner countries' overall price and exchange rate levels are

the relevant standard for measuring Lesotho's export competitiveness. However, a more in-depth assessment of Lesotho's attractiveness as a location for—largely footloose—garment producers should also take account of other factors, which will be explored in some detail in this section:

- First, the profitability of garment production in Lesotho depends on the domestic costs of production and on garment prices in Lesotho's core market, the United States, rather than on CPI-based indicators.¹⁷ Lesotho's fixed exchange rate heightens the importance of domestic cost control for maintaining competitiveness. In particular, wage costs are conditioned by countrywide minimum wages, which are set for each sector based on tripartite negotiations involving unions, enterprise representatives, and the government.
- Second, with the recent elimination of import quotas, international competition in garments has increased. Accordingly, the comparative costs of production of Lesotho and its key competitors are crucial.
- Finally, given that Lesotho depends on only a few very large U.S. importers, their sourcing strategy is of great importance. Indeed, given the market power of the U.S. buyers, Lesotho's competitiveness in the garment sector may not be reflected clearly in its profitability, because lower costs or other advantages are captured in large part by the buyers—in the form of lower prices. The introduction of AGOA illustrates this phenomenon: the tariff preferences were barely reflected in higher fob export sales prices (see below); instead, the U.S. buyers largely captured the tariff rents in the form of lower cif import prices.¹⁸ However, the implied small increase in profitability supported the expansion of production capacity in Lesotho, and demand increased as U.S. buyers turned to the country.¹⁹

11. Garment sector wages have usually been found to be lower in Lesotho than in most competitor countries (Table 1). Wages in the garment sector, based on 2002 data, are below those in China and other major African garment exporters such as South Africa and Mauritius, and in line with most other Asian competitors.

¹⁷ Profitability per unit can be expressed as: $\pi = (p^s - \alpha * p_i^s) - E_{\$/M} * [w * (L/Q) + C_{nw}]$, where p^s and p_i^s are the dollar-denominated output and input prices, α is the input coefficient (of imported fabric), $E_{\$/M}$ is the U.S. dollar-loti exchange rate, w is the wage rate, L/Q represents the labor input share, and C_{nw} stands for the per unit nonwage costs. Because of data limitations, the analysis focuses mainly on output prices and wage costs.

¹⁸ For further analysis, see Olarreaga and Ozden (2005). Across Africa the average price increase for products benefiting from AGOA preferences was 6 percent, with U.S. buyers capturing the remaining 14 percent (given a 20 percent average tariff). The price increase was smaller for smaller countries (like Lesotho) and those with higher importer concentration.

¹⁹ Lesotho's largest buyer, GAP, recently announced that it would continue sourcing from Lesotho, even if China were cheaper, in the context of the company's membership in the Ethical Trading Initiative (The Independent (United Kingdom), May 18, 2005).

Table II.1 : Garment sector wages for selected countries, 2002

Country	Wages per Hour (In U.S. Dollars)
Lesoth	0.45
SACU	
South Africa	1.38
Swaziland	0.86 2/
Kenya	0.3
Mauritius	1.25
Madagascar	0.33
Asia	
China	0.78
India	0.3
Bangladesh	0.3
Sri Lanka	0.48
Pakistan	0.4

Source : USITC(2004), Cadot and Nasir (2001), USAID (2004)

Notes

1/ Mid-range of monthly wages as reported in USITC (US 80-100) and a 50 hour week as reported in USITC

2/ Estimated based on a US\$155 monthly wage reported in USAID and a 45 hour work week.

3/ 2001 data computed in Cadot and Nasir (2001)

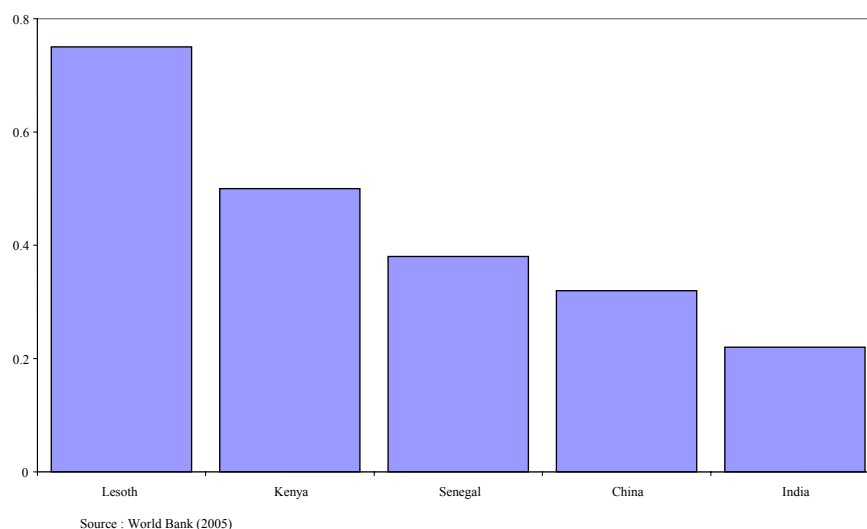
4/ Mid-range between US\$ 0.68-0.88 as reported in USITC

12. **Although labor costs are relatively low in Lesotho, so is labor productivity.** The situation is particularly critical in the garment sector where very low productivity levels cause unit labor costs to be higher than in most competitor countries. Labor productivity in Lesotho's manufacturing sector is more than 50 percent lower than in Kenya, India and China.²⁰ These findings regarding labor productivity appear consistent with other studies that have used different methodologies. For instance, a value-chain analysis of a large T-shirt factory in Lesotho found that the average worker produced about 16 T-shirts a day, compared with between 20 and 25 in Kenya.²¹ As a result, garment manufacturers in Lesotho have reported unit-labor costs, defined as the share of wages in value added, as high as 75 percent, against 50 percent in Kenya and less than 30 percent in both India and China (Figure 7).

²⁰ See World Bank (2005).

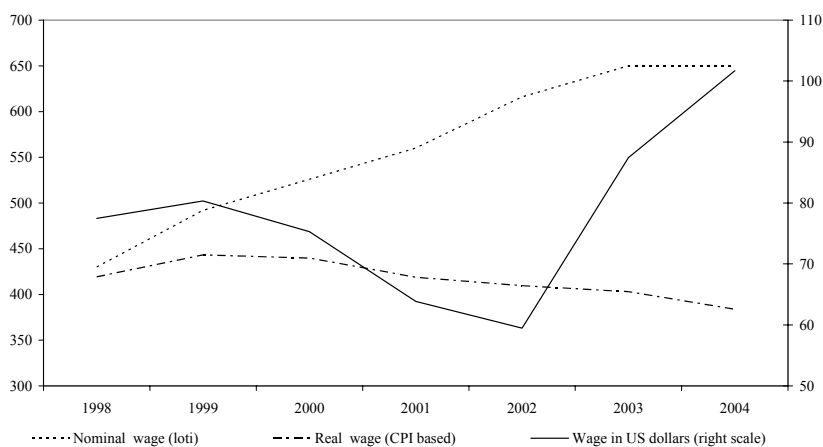
²¹ See Global Development Solutions (2004).

Figure II.7 : Unit-Labor Costs of Selected Garment Exporters, 2002



13. **Moreover, Lesotho's wage competitiveness has been eroded with the appreciation of the loti.** Wage costs, while declining in real terms, have increased in terms of U.S. dollars. Actual wages in the garment sector are reported to be very close to the applicable minimum wage. The minimum wage for trained employees has risen by more than 50 percent in local currency terms between 1998 and 2004, implying an 8 percent decline in real terms (Figure II.8). The annual increase appears to have been largely independent of the changes in the exchange rate. However, given the loti's appreciation relative to the U.S. dollar, minimum wages have increased sharply in dollar terms since end-2001, and, by 2004 were about 30 percent above the 1998 level.

Figure II.8. Monthly Wages, 1998-2004 1/

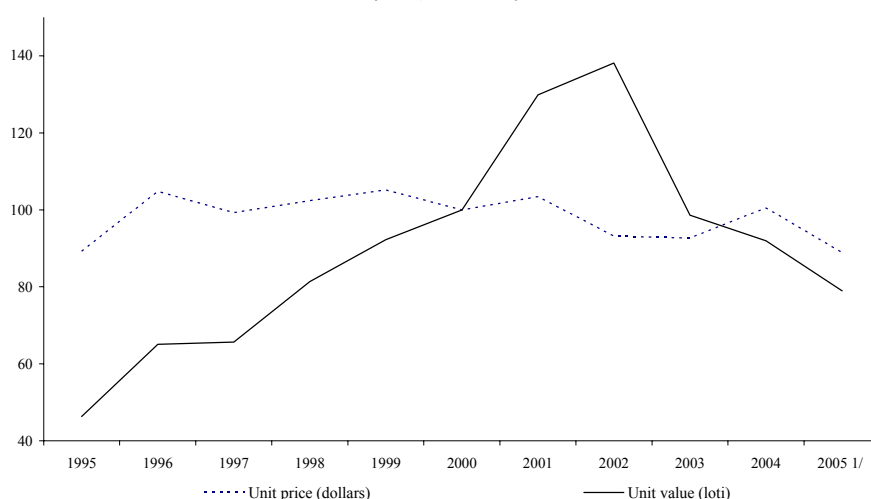


Source : Lesotho authorities and Fund staff estimates.

1/ Minimum wage for a trained weaver (1998-2003) or a trained manufacturing worker (2004).

14. **Export prices in dollar terms (on a fob basis) have remained fairly constant since the mid-1990s** (Figure II.9). The large U.S. importers set prices in terms of U.S. dollars. Accordingly, exchange rate changes are reflected in loti prices. Dollar-denominated unit values of Lesotho's garment exports to the United States have not increased with domestic U.S. prices, did not go up with the introduction of AGOA in 2000, and fell by 2 percent in real terms between 1998 and 2004 (based on the U.S. CPI). This decline can be attributed largely to gradual trade liberalization (and, in fact, testifies to the benefits of liberalization for the United States).

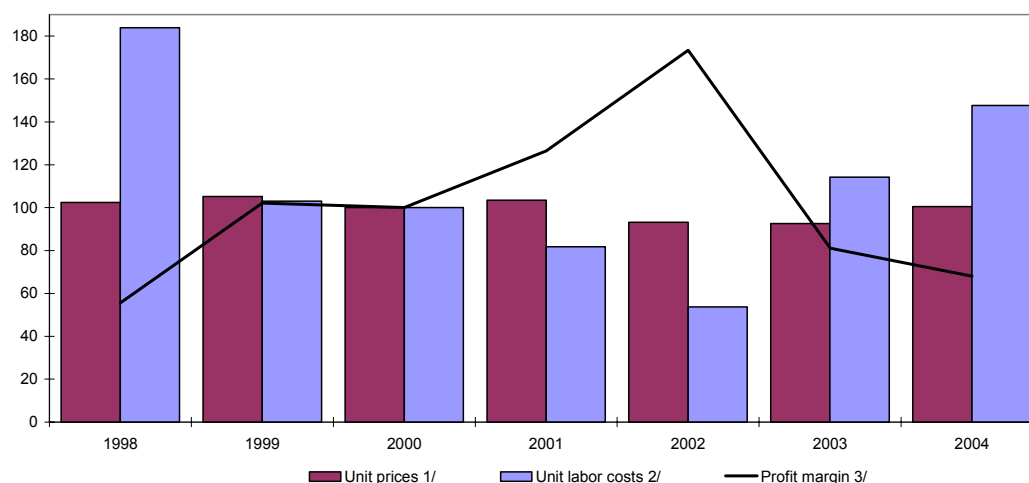
Figure II. 9. Unit value of U.S. Garment Imports, 1995-2005
(Index, 2000 = 100)



Source : U.S. Department of Commerce and Fund staff estimates

15. **Reflecting these developments in garment prices, exchange rates, and wages, the profitability of garment production in Lesotho appears to have decreased significantly.** Indicators of the profit of garment production in Lesotho are presented in Figure II.10. For the companies that were established shortly after the start of AGOA, profit margins, proxied by the ratio between unit prices and unit-labor costs, have declined continuously by more than 60 percent since 2002.

Figure II.10. Garment Sector Estimated Profitability Developments, 1998-2004



Source : Lesotho authorities, U.S. Department of Commerce and Fund staff estimates.

1/ In U.S. dollars per square meter (Index: 2000=100).

2/ Nominal Wages in U.S. dollars / Real value-added per worker in constant 2000 U.S. dollars (Index: 2000=100)

3/ Unit Prices/ Unit-Labor Costs (Index: 2000=100)

16. **The above analysis of price and cost developments confirms that the Lesotho garment sector is at risk.** A favorable exchange rate and the introduction of AGOA greatly improved the attractiveness of Lesotho as a location for garment production for the U.S. market after 2000. Although most of the tariff rents were captured by US importers, production remained sufficiently profitable. However, since 2002 profit margins have been eroded by the combined development of wage increases and—especially—exchange rate appreciation. The sectoral boom continued nonetheless, probably reflecting the lagged response to the strong demand by U.S. firms for Lesotho’s garments. Moreover, with the elimination of the import quota regime at the start of 2005, Lesotho’s low productivity in comparison with other producers has become a serious handicap.

E. Nonwage Costs and Investment Climate

17. **Lesotho’s relatively low nominal wages seem to indicate that increased labor productivity and lower nonwage costs will have to be the main sources of improvements in competitiveness.** This section compares Lesotho with other countries in sub-Saharan Africa and key competitors in Asia, based on preliminary results obtained in a recent World Bank Investment Climate Assessment (ICA) as well as reports from the authorities and representatives of garment companies obtained during the last two Article IV consultation

missions.^{22, 23} The focus will be on four areas identified as most problematic: (i) provision of utilities; (ii) transportation; (iii) security; and (iv) regulation and governance.

Utilities (energy, water)

18. **Cost augmentations stemming from the poor delivery of utilities, rather than from the direct costs of the utilities, have been identified as one of the crucial factors undermining the competitiveness of Lesotho's firms.**

19. **Although the cost of power is not high by international standards, output losses caused by power outages are higher than in most sub-Saharan countries.** The median firm in Lesotho reported that energy and fuel costs were equal to about 2.5 percent of sales in 2002—lower than in any of the comparators in sub-Saharan Africa, except South Africa, but slightly higher than in India and considerably higher than in China (Table II.2). On the other hand, Lesotho has more frequent power outages than China and South Africa, with the resulting losses (as a percentage of sales) even higher than those observed in African countries with more frequent power outages, such as Senegal.

Table II.2 . Electricity Costs and Reliability

Country	Expenditures	Power Outages	
	Median (percent of sales)	Median number (year)	Median losses (percent of sales)
Lesotho	2.5	12	2
China	0.5	...	0
India	2.0	...	5
South Africa	1.0	0	0
Kenya	5.8	24	3
Mozambique	5.0	...	...
Senegal	3.5	15	0

Source : World Bank (2005).

20. **Water supply is also considered inadequate.** It represents a major capacity constraint for the garment sector and a critical element in investor decisions to deepen the local supply chain by introducing a knitted-fabric mill.²⁴ The frequency of shortages has been a major source of concern of the garment sector. On top of that, it is estimated that between 30-40 percent of the water supply is lost through leakage.²⁵ Lesotho's prolonged drought has amplified the problem.

²² See World Bank (2005). Some of this report's data may still be revised due its preliminary nature.

²³ For a more detailed analysis of the performance and constraints of the garment sector, see Hossain (2004).

²⁴ Without access to water, the dyeing, bleaching and washing cycles, which constitute the core of textile production, cannot be completed.

²⁵ See Global Development Solutions (2004).

Transportation

21. **Lesotho's cost-competitiveness is also affected by bottlenecks in the Maseru railhead that connects Lesotho's capital with the South African railroad system.** The railhead has a single station that lacks adequate storage facilities and is operating at full capacity with only a single track suitable for loading and unloading. It takes up to 30 days to transport containers from the nearest sea port to Maseru and vice versa. Many firms opt for road transportation, which costs 75 percent more but takes only one day for the same journey.²⁶ Improvements await an agreement between the South Africa rail service and Lesotho's government.

Security

22. **In the ICA, security was ranked as the most serious obstacle to enterprise operations and growth,** with about 85 percent of manufacturing firms reporting security-related losses in 2004. Overall, such losses are estimated at about 4 percent of sales. These figures are much higher than in most comparator countries (Figure II.11).

Governance and regulation

23. **Lesotho performed better than average for sub-Saharan Africa in most of the governance indicators²⁷,** and was particularly well ranked on corruption.²⁸ Corruption and other governance drawbacks are usually perceived to be a direct outcome of a highly restrictive regulatory environment. On the basis of this favorable governance environment, Lesotho's regulatory burden should thus be expected to be relatively modest, but cross-country comparisons of business surveys convey a different message. Managers reported spending about 22 percent of their time dealing with regulations and inspections, compared with less than 15 percent in Tanzania, Kenya, Senegal, South Africa, India, or Mozambique (see Figure II.2). Entry restrictions were also reported to be relatively higher in Lesotho resulting in a longer and costlier process to set up businesses.²⁹

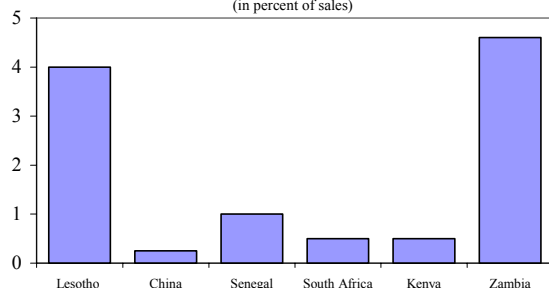
²⁶ See Global Development Solutions (2004).

²⁷ See Kauffman, Kraay and Mastruzzi (2003).

²⁸ Evidence from business surveys conveys a similar message. Relative to China and most countries in the region, firms in Lesotho are less likely to report that bribes are needed to "get things done", and that bribes are lower when they are needed (World Bank 2005).

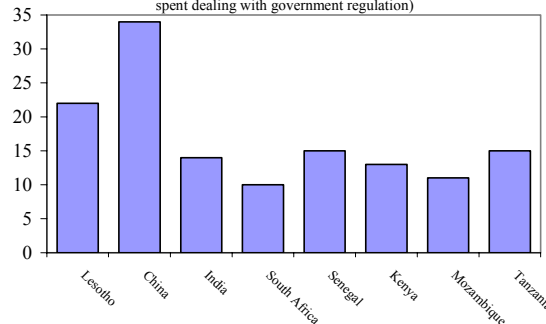
²⁹ It takes about 92 days and US\$ 500 to set up a business in Lesotho. This is longer than observed in most comparator countries (India, China, Kenya, South Africa).

Figure II.11. Median Firm Losses due to Crime and Security Costs, 2004
(in percent of sales)



Source: World Bank (2005).

Figure II. 12. Regulatory Burden, 2004 (in percent of management time spent dealing with government regulation)



Source: World Bank (2005).

24. **Problems of land ownership and customs clearance are additional deterrents to investment.** The Land Act of 1979 restricts foreign ownership of land. In lieu of ownership, foreign investors may lease land for a period of 30 years from the Lesotho National Development Corporation (LNDC). Given that the return on investment may require more than 30 years, the regulation creates a disincentive for investment (Public Private Infrastructure Advisory Facility, 2004).

25. **Finally, enterprises that rely on expatriate staff and are heavily dependent on imported inputs, like the garment sector, face additional regulatory burdens.** Obtaining a visa to enter Lesotho is relatively expensive and time consuming. Because it does not have extensive diplomatic missions, foreigners may need to travel to third countries to obtain a visa, as visas are not granted at ports of entry in Lesotho. The issuance of work permits is equally burdensome. Finally, import document clearance procedures are cumbersome, taking between 7 and 30 days.³⁰

F. Conclusions

26. **As the combined positive effects of a depreciated exchange rate and favorable trade preferences come to an end, and because the remaining trade preferences are likely to erode further over the coming years, Lesotho's garment sector is at risk.** Although the appreciation of the loti since 2001 seems to have played an important role in the sharp increase in wage costs and in the decline of firm profitability, Lesotho's export performance has recently started to weaken, with the removal of ATC quotas.

27. **To maintain a competitive garment sector, Lesotho needs to implement wide-ranging reforms to reduce unit labor costs and improve the country's investment climate.** Its main priorities should be to:

³⁰ Export regulations are substantially less cumbersome. Generally, the private sector does not find the processing of export documentation, which takes less than a week, to be problematic.

- Train workers to help address the very low labor productivity.
- Introduce wage flexibility, by taking into account productivity and terms of trade movements in the wage-setting process, and to restrain public sector wages to avoid spillover effects.
- Improve the quality and reliability of utilities and infrastructure. These reforms, in turn, would also be essential for attracting a knitted-fabric mill, which would allow Lesotho garment producers to source inputs within the country, and thereby maintain tariff free access to the U.S. market after 2007.
- Implementation of an action plan to improve the investment climate, with efforts to reduce the high security-related costs and streamline the relatively burdensome regulatory regime.

28. Effective implementation of the above measures would also improve the competitiveness of other sectors and lay a firm foundation for product and market diversification, which would reduce Lesotho's vulnerability to external shocks.

Although the rapid growth of the garment sector has brought Lesotho large benefits in the form of higher employment and income, the economy has become overly dependent on a footloose industry that is facing increasing global competition. Key to diversification will be efforts to strengthen the focus on regional markets (in particular, South Africa) and to promote agriculture and agroprocessing, diamond and sandstone mining, and tourism. In addition, diversification should also involve the garment sector itself, with a move toward higher-quality products and new markets.

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III. THE MANAGEMENT OF HIV/AIDS IN THE KINGDOM OF LESOTHO³¹

A. Background

1. Lesotho has the third highest HIV/AIDS prevalence rate in the world, estimated by UNAID/WHO to be in the range of 28.9-31 percent in 2003. Of the total population of 2.2 million, it is estimated that 320,000 people, including about 22,000 children up to the age of 14 years, have been infected with HIV/AIDS. Orphans and vulnerable children up to the age of 17 years are estimated to number 100,000.
2. The pandemic poses a serious challenge to the achievement of the government's objectives of poverty reduction, economic diversification, and growth. Lesotho's recently completed poverty reduction strategy paper declared that HIV/AIDS was a cause of poverty, and also that "poverty is a factor contributing to increased vulnerability to infection." According to the paper, the workplace, the health care system, and schools are the three areas where the disease has had the greatest impact. Furthermore, the paper notes that the pandemic has weakened Lesotho's economic performance through high absenteeism, lower productivity, and reduced savings. The government of Lesotho has formulated a strategic response to the epidemic, whose overriding goal is to reduce the prevalence rate by 15 percent by 2007.
3. The rest of this paper outlines the government's strategy for addressing the incidence of HIV/AIDS³² and reviews its progress in implementing the strategy.

B. The Overall Strategy

4. In 2000, the government adopted the National Policy Framework for HIV/AIDS, which is premised on the judgment that HIV/AIDS is not just a health problem but also a multi-faceted development issue that has social, economic, and cultural implications. The National Policy Framework enlists the efforts of both government and non-government organizations to fight HIV/AIDS and also calls for integrating the core elements of the government's HIV/AIDS-related policies into all other policies and programs.
5. Lesotho's first National Strategic Plan for the period 2002/03-2004/05 was drawn from the HIV/AIDS policy framework. In October 2003, it was complemented by a working document entitled "Turning Crisis into an Opportunity: Strategies for Scaling Up the National Response to HIV/AIDS." (Government of Lesotho, 2003). The document adopts the "Three Ones", formulated by the WHO as guiding principles, namely that there should be one agreed HIV and AIDS action plan that provides the basis for coordinating the

³¹ Prepared by Iyabo Masha.

³² For studies on the economic impact of HIV/AIDS in Lesotho, see Kpodar and others, 2004 and Haacker (2002).

interventions of all stakeholders, one national AIDS coordinating authority with a broad-based multisectoral mandate, and one monitoring and evaluation system.

6. In light of the above principles, the institutions that were initially launched to manage and coordinate HIV and AIDS programs and activities are being reviewed by the newly established National AIDS Commission. Its mandate is to propose revisions to the National Strategic Plan and the existing institutional framework to bring these in line with the three principles mentioned above.

7. Along with the review of existing institutions, the government has decided to focus efforts on the activities and programs simultaneously on two broad fronts. First, it plans to intensify its efforts to arrest the spread of infection through education campaigns and aims to create an environment that is conducive to the prevention of HIV/AIDS. Second, it will scale up its efforts to mitigate the adverse impact on the infected individuals, as well as on their families and communities. As part of its efforts, the government will assist people living with HIV/AIDS and the growing number of orphans, and will expand the use of anti-retroviral drugs by making them more widely available.

C. Progress in implementing the strategy

8. The government has made progress in carrying out the planned improvements in the institutional environment. The bill establishing the National AIDS Commission was approved by the cabinet in June 2005 and was subsequently presented to parliament, with the expectation that it would be enacted by end-September. The bill stipulates that the commission's mandate is to develop and coordinate strategies and programs for combating HIV/AIDS; facilitate the implementation, monitoring, and evaluation of programs; and provide policy for, and guidance over, the implementing structures. The commission has been launched with the appointment of a chief executive officer, and the design of its organization structure is being finalized. These new institutions are expected to be fully operational by the end of 2005.

9. The strategy of reducing the prevalence rate by 2007 is being implemented through four main programs: the HIV/AIDS infection prevention program; the prevention of mother to child transmission program; the treatment, care, and support program; and the program on impact mitigation.³³ Prevention, focusing primarily on youths, is designed to increase their access to condoms, reproductive health information, and health services in general. The prevention of mother-to-child transmission program, as its name implies, provides treatment for pregnant women to prevent the transmission of HIV at birth. The treatment, care, and support component focuses on strengthening hospital and home-based care for people living with AIDS with effective linkages to the community and referrals. In addition, hospital services for the diagnosis of HIV/AIDS and treatment of opportunistic infections will be strengthened in the facilities of both government and nongovernmental organizations. The

³³ A similar program is being implemented in Botswana. For details see Masha (2004).

impact mitigation program focuses on providing support for the dependents of victims of HIV/AIDS, mostly orphans and vulnerable children. Each of these programs is supported by a comprehensive set of goals, impact indicators, and targets, some of which are presented in Table III.1 below.³⁴

Table III. 1.: HIV/AIDS Programs, Outcome Indicators and Targets; 2003-07

Outcome Indicator / Target ^{1/}	Baseline	Targets			
	Year 1 2003	Year 2 2004	Year 3 2005	Year 4 2006	Year 5 2007
Prevention of HIV infection					
Percent of youths reached by peer education program	20	40	70	90	100
Percent of youth using condom	9	20	50	70	80
Prevention of mother-to-child transmission (PMTCT)					
Percent of women being counseled on PMTCT	40	60	80	...	...
Percent of children in PMTCT program testing HIV negative after 18 months	0	20	40	...	...
Treatment, care and support					
Number of health service areas with continuum of care facilities	...	6	9	15	18
Percent of people living with AIDS (PLWA) with access to community home-based care		20	40	60	80
Percent of clinically eligible PLWA receiving antiretroviral therapy		5	20	30	50
Number of districts with at least 2 functional sites	2	6	10	10	10
Impact mitigation					
Percent of OVC receiving basic package of care and support	10	20	35	50	60
Develop faith-and community based OVC care and support protection programs	10	30	...	...	...

Source: Government of Lesotho (2002)

1/ The list of outcome indicators and targets is not exhaustive.

10. Efforts have been made to strengthen community-based organizations and networks, especially at the local levels, and to improve cooperation with domestic and international development partners. Moreover, steps are being taken to address the problems of red tape, lack of coordination, and weak implementation capacity, which have hitherto hindered the country's implementation of HIV/AIDS-related programs.

11. To integrate HIV/AIDS prevention and impact mitigation programs with ministries' recurrent budget allocations, about 2 percent of such allocations are being earmarked for HIV/AIDS-related programs. Over the past two years, about 60 million maloti has been spent annually for this purpose.

12. Lesotho has made progress toward the targets set for the programs. The national HIV prevention and voluntary counseling and testing program has been launched in stand-alone centers. The program for the prevention of mother-to-child transmission is being implemented. Through a universal counseling and testing service that covers, among other sites, line ministries, factories, private sector institutions, and some villages, more and more people are now able to learn their HIV status. HIV testing and counseling services are being provided on a routine basis within such integrated sites as tuberculosis clinics, antenatal clinics, and hospital out-patient departments. Patients in any of those clinics and in clinics in

³⁴ The comprehensive program was presented in the grant application proposal to The Global Fund to Fight AIDS, Tuberculosis and Malaria in 2002 for implementation over a five year period, 2003-2007. Due to delay in commencement of implementation, the program was rolled back to 2004-2008.

which sexually transmitted infections are treated are also routinely being provided with diagnostic testing. Moreover, the government has launched several behavioral change communications and education programs.

13. To mitigate the impact of HIV/AIDS in affected households, the government has taken a number of steps. It has opened 18 antiretroviral therapy sites in eight districts, where it provides highly subsidized antiretroviral drugs. It has begun to promote community-based support groups to care for infected people, as well as AIDS orphans and vulnerable children. The government is also promoting activities to generate income for orphans and vulnerable children and for support groups that provide home-based care in their communities.

14. Progress has also been made in mobilizing foreign assistance for HIV/AIDS-related programs. The Global Fund for HIV/AIDS has committed to providing grants totaling US\$34 million in 2004-2008, of which \$6 million has been disbursed. The UNDP, the Southern Africa Development Community, and other bilateral donors have also provided financial support. To ensure that these funds are used effectively, the World Bank has committed \$5 million to Lesotho for technical assistance and capacity building.

15. However, key challenges remain. Although the government has made substantial progress, it could be difficult to meet annual program targets. For example, out of 28,000 patients targeted to receive antiretroviral therapy by end-2005, only 5,000 had been reached by mid-2005. Considering the generous funding available, the challenges are mainly human and physical capacity constraints, which contribute to overcrowding at clinics and poor follow-up. As a result of limitations in some of the programs, only about 60 percent of approved Global Fund financing for 2004-05 has been disbursed, implying a slower implementation rate than envisaged. As these constraints cannot be overcome in the short term, a clear action plan to mitigate the problem is called for.

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Table 1. Lesotho: GDP by Sector (at constant 2003 prices), 1998/99-2004/05 1/ 2/

	(In millions of						
	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Primary sector	1,310.2	1,359.2	1,398.2	1,390.1	1,330.7	1,305.5	1,309.1
Crops	816.8	835.1	924.6	934.6	829.4	775.9	750.1
Livestoc	425.2	462.4	416.6	406.5	453.4	481.7	510.9
Agricultural services	68.2	61.7	57.0	49.0	47.8	47.9	48.0
Secondary	2,539.7	2,519.7	2,630.6	2,743.9	2,912.7	3,055.0	3,088.3
Mining and	8.3	8.9	10.3	10.8	11.2	16.1	36.6
Manufacturing and	1,161.9	1,163.2	1,216.0	1,300.1	1,379.9	1,450.5	1,463.9
Electricity and water	259.3	318.4	315.6	331.3	349.3	364.7	377.9
Construction	594.7	716.0	827.7	909.9	960.7	995.1	1,061.0
LHWP construction 3/	515.4	313.1	261.0	191.8	211.5	228.7	149.0
Tertiary sector	2,798.6	2,782.0	2,769.9	2,825.8	2,904.7	3,028.8	3,138.9
Wholesale and	742.0	706.4	688.1	708.7	741.8	780.4	815.4
Hotel and restaurants	109.2	123.3	131.6	130.6	137.6	148.2	154.0
Transport and	150.7	147.9	149.4	154.1	160.4	167.8	174.2
Post and telecommunications	113.0	127.9	139.6	151.0	158.8	167.5	174.5
Financial	145.5	199.4	266.5	294.0	358.5	388.4	408.4
Owner-occupied	238.6	243.4	248.3	253.2	258.3	263.4	268.7
Other real estate and business	141.2	127.1	121.3	118.2	125.7	124.9	126.5
Public administration	566.1	553.8	540.2	532.9	524.2	539.4	559.4
Education	487.5	495.4	504.4	524.0	540.1	570.2	600.0
Health and social	133.2	131.7	119.7	120.3	120.6	123.2	126.2
Community, social, and personal services	78.7	79.7	80.8	81.8	83.0	84.1	85.2
Minus financial services indirectly measured	-107.2	-154.2	-220.0	-243.1	-304.3	-328.8	-353.5
GDP at producer's	6,648.4	6,660.9	6,798.6	6,959.9	7,148.1	7,389.3	7,536.3
Plus taxes on products	769.7	716.2	695.1	747.3	804.1	822.4	843.0
GDP at purchaser's	7,418.1	7,377.1	7,493.8	7,707.2	7,952.1	8,211.7	8,379.3
Plus net factor income from	2,058.3	1,972.1	1,897.0	1,748.6	1,829.0	1,923.6	1,994.1
Gross national income at purchaser's prices	9,476.5	9,349.3	9,390.8	9,455.7	9,781.2	10,135.2	10,373.4

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

1/ Fiscal year begins April 1.

2/ Fiscal year estimates based on sectoral calendar-year data.

3/ Lesotho Highlands Water Project.

Table 2. Lesotho: GDP by Sector (at current prices), 1998/99-2004/05 1/ 2/

	(In millions of						
	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Primary sector	808.7	905.5	1,024.0	1,107.3	1,202.2	1,312.5	1,345.9
Crops	495.3	544.9	660.6	732.8	743.6	779.9	771.2
Livestoc	263.0	310.5	315.2	330.5	412.9	484.4	525.3
Agricultural services	50.4	50.2	48.2	44.0	45.7	48.2	49.4
Secondary	1,807.4	2,111.9	2,286.1	2,565.5	2,855.7	3,066.1	3,146.6
Mining and	4.1	5.5	8.0	9.3	10.4	11.9	16.0
Manufacturing and	787.5	844.8	945.7	1,129.1	1,372.9	1,456.9	1,499.1
Electricity and water	249.6	321.2	330.2	362.2	350.6	366.7	388.5
Construction	441.7	714.9	798.4	899.3	920.6	1,000.8	1,090.8
LHWP construction 3/	324.5	225.6	203.9	165.6	201.2	229.8	152.2
Tertiary sector	1,960.6	2,110.0	2,236.6	2,460.7	2,738.4	3,045.6	3,284.9
Wholesale and	412.4	441.6	504.0	568.0	670.2	784.8	838.3
Hotel and restaurants	59.5	71.9	81.3	88.5	113.3	149.1	158.3
Transport and	105.3	107.9	115.6	137.3	156.6	168.7	179.1
Post and telecommunications	61.5	77.3	82.2	93.3	134.0	168.5	179.4
Financial	141.5	194.5	260.6	288.3	355.2	390.6	448.8
Owner-occupied	187.2	191.0	208.3	253.2	258.3	264.9	276.2
Other real estate and business	87.3	86.2	95.7	97.7	116.8	125.6	130.0
Public administration	418.7	450.7	458.6	479.7	501.3	542.4	575.1
Education	435.9	471.4	479.4	514.9	540.7	573.4	616.8
Health and social	102.4	110.4	103.8	109.9	115.7	123.8	129.7
Community, social, and personal services	54.6	59.1	63.7	70.0	78.9	84.5	87.6
Minus financial services indirectly measured	-105.5	-151.9	-216.7	-240.0	-302.5	-330.7	-334.5
GDP at producer's	4,576.7	5,127.4	5,546.6	6,133.4	6,796.2	7,424.2	7,777.4
Plus taxes on products	505.1	537.1	567.2	632.5	767.4	826.9	866.6
GDP at purchaser's	5,081.8	5,664.6	6,113.8	6,765.9	7,563.6	8,251.2	8,644.0
Plus net factor income from	1,410.1	1,514.3	1,547.7	1,535.0	1,739.7	1,932.8	2,057.1
Gross national income at purchaser's	6,491.8	7,178.9	7,661	8,301	9,303	10,184	10,701

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

1/ Fiscal year begins April 1.

2/ Fiscal year estimates based on sectoral calendar-year data.

3/ Lesotho Highlands Water Project.

Table 3. Lesotho: GDP by Expenditure, 1998/99-2004/05 1/

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
(In millions of maloti)							
Gross domestic product	5,081.8	5,664.6	6,113.8	6,765.9	7,563.6	8,251.2	8,644.0
Net factor income from abroad	1,410.1	1,514.3	1,547.7	1,535.0	1,739.7	1,932.8	2,057.1
Gross national product	6,491.8	7,178.9	7,661.4	8,301.0	9,303.2	10,184.0	10,701.1
Unrequited transfers	811.0	961.2	932.7	1,164.8	1,297.4	1,290.8	1,734.9
Gross national disposable income 2/	7,302.8	8,140.1	8,594.1	9,465.7	10,600.6	11,474.8	12,436.0
Consumption	6,034.1	6,888.2	7,197.4	7,658.7	8,763.7	9,019.9	9,662.5
Government consumption	1,814.2	2,135.1	2,163.4	2,109.0	2,637.2	2,712.9	2,941.5
Private consumption	4,219.9	4,753.1	5,034.0	5,549.7	6,126.5	6,307.0	6,721.0
Gross national savings 3/	1,268.7	1,251.9	1,396.8	1,807.0	1,836.9	2,454.9	2,773.5
Public savings 4/	479.4	307.7	588.8	867.6	693.8	904.2	1,138.8
Private savings 5/	789.3	944.2	807.9	939.4	1,143.1	1,550.7	1,634.7
Investment	2,540.7	2,535.3	2,549.0	2,759.0	3,242.1	3,342.2	3,015.0
Gross fixed capital formation	2,535.9	2,566.2	2,695.3	2,921.2	3,330.5	3,302.5	2,974.3
Government	495.7	479.9	473.0	826.7	833.9	634.9	650.5
Private	871.9	1,390.5	1,568.1	1,622.9	1,940.6	2,205.1	2,031.3
LHWP 6/	1,168.3	695.8	654.2	471.5	556.0	462.5	292.4
Change in stocks	4.8	-30.9	-146.4	-162.2	-88.3	39.7	40.7
Gross national savings less investment 7/	-1,272.0	-1,283.4	-1,152.2	-952.0	-1,405.2	-887.2	-241.5
(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	27.7	26.7	25.3	22.7	23.0	23.4	23.8
Gross national product	127.7	126.7	125.3	122.7	123.0	123.4	123.8
Unrequited transfers	16.0	17.0	15.3	17.2	17.2	15.6	20.1
Gross national disposable income 2/	143.7	143.7	140.6	139.9	140.2	139.1	143.9
Consumption	118.7	121.6	117.7	113.2	115.9	109.3	111.8
Government consumption	35.7	37.7	35.4	31.2	34.9	32.9	34.0
Private consumption	83.0	83.9	82.3	82.0	81.0	76.4	77.8
Gross national savings 3/	25.0	22.1	22.8	26.7	24.3	29.8	32.1
Public savings 4/	9.4	5.4	9.6	12.8	9.2	11.0	13.2
Private savings 5/	15.5	16.7	13.2	13.9	15.1	18.8	18.9
Investment	50.0	44.8	41.7	40.8	42.9	40.5	34.9
Gross fixed capital formation	49.9	45.3	44.1	43.2	44.0	40.0	34.4
Government	9.8	8.5	7.7	12.2	11.0	7.7	7.5
Private	17.2	24.5	25.6	24.0	25.7	26.7	23.5
LHWP 6/	23.0	12.3	10.7	7.0	7.4	5.6	3.4
Change in stocks	0.1	-0.5	-2.4	-2.4	-1.2	0.5	0.5
Gross national savings less investment 7/	-25.0	-22.7	-18.8	-14.1	-18.6	-10.8	-2.8

Sources: Lesotho authorities; and IMF staff estimates.

1/ Fiscal year beginning in April. Fiscal-year estimates based on calendar-year estimates.

2/ GNP plus unrequited transfers.

3/ Gross national disposable income less consumption.

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

5/ Estimated as a residual.

6/ Lesotho Highlands Water Project.

7/ Equivalent to the external current account balance.

Table 4. Lesotho: Consumer Price Indices, April 1998 - April 2005 1/
(April 1997 = 100, unless otherwise indicated)

	Weights 2/	1998	1999	2000	2001	2002	2003			2004			2005			
		Apr.	Apr.	Apr.	Apr. 3/	Apr.	Jan.	Apr.	Jul.	Oct.	Jan.	Apr.	Jul.	Oct.	Jan.	Apr.
Consumer price index (CPI)	100.0	107.3	116.9	124.3	133.0	150.6	156.6	159.8	162.2	164.1	165.8	167.9	169.5	171.6	172.9	173.7
Food, alcoholic beverages and tobacco	46.3	108.2	117.2	124.8	...	...	...	...	...	...	...	...	...	...	...	...
Food and non-alcoholic beverages	39.9	...	...	...	132.5	169.2	174.1	175.7	172.7	173.5	176.6	179.8	182.1	183.5	184.3	184.3
Bread and cereals	22.0	105.1	110.6	116.8	120.3	171.1	176.6	176.9	166.1	162.2	165.8	172.7	175.2	176.4	176.7	175.0
Meat	3.9	109.5	115.3	120.0	132.1	146.9	160.4	162.9	167.9	172.0	177.1	178.0	181.2	180.2	181.9	188.7
Fish	0.4	...	...	...	130.5	154.8	162.5	174.4	186.0	194.9	198.2	200.8	205.8	210.7	207.7	210.5
Fruits and vegetables	4.3	119.7	138.5	151.5	173.8	186.2	212.4	214.7	218.9	229.4	233.7	224.1	227.7	231.7	234.7	236.2
Milk and eggs	1.8	...	...	...	132.6	141.5	157.4	161.3	168.8	171.8	177.9	178.9	177.8	178.8	178.5	178.1
Oils and fats	1.3	...	...	...	128.6	168.9	173.2	173.7	177.8	186.0	187.7	190.9	189.0	187.3	187.2	188.0
Other food products	4.7	...	...	...	133.9	149.0	159.4	163.6	173.3	180.4	178.7	179.3	181.2	183.2	184.5	184.5
Non-alcoholic beverages	1.5	...	...	...	121.3	127.1	134.9	138.4	145.9	147.9	148.4	150.5	150.5	153.2	155.8	156.3
Alcoholic beverages and tobacco	6.4	107.5	120.6	133.7	146.5	159.3	162.0	170.2	177.9	179.5	179.6	188.2	189.5	193.2	193.9	198.0
Clothing and footwear	15.6	108.9	120.8	125.4	133.0	138.0	141.8	143.4	145.8	146.8	147.4	148.0	148.7	150.8	151.0	152.5
Blankets	3.1	107.3	114.4	114.3	124.8	132.5	135.2	137.4	140.9	140.4	141.0	143.9	143.8	145.7	145.7	147.3
Other clothing	6.0	109.3	119.9	123.9	131.5	137.3	142.6	144.5	146.1	146.6	147.7	147.3	147.4	148.3	148.8	149.5
Footwear	6.5	109.3	124.6	132.1	138.4	141.3	144.2	145.3	147.8	150.2	150.1	150.8	152.2	155.5	155.6	157.7
Housing, water, electricity, and other fuels 4/	3.7	104.5	109.7	113.4	128.4	141.1	152.2	154.6	156.7	158.4	160.6	162.0	164.1	166.5	171.3	172.8
Water charges	0.2	100.0	100.0	101.5	103.2	107.4	107.4	107.4	107.4	107.4	107.4	107.4	107.4	107.4	116.8	126.1
Electricity	0.2	...	...	...	100.0	100.0	100.0	100.0	105.0	105.0	123.9	123.9	123.9	123.9	146.2	146.2
Other fuels	3.3	105.3	110.9	115.0	131.9	146.0	158.5	161.2	163.3	165.2	166.4	168.0	170.3	172.4	176.4	177.6
Furniture and household operations	17.0	108.1	120.9	128.8	138.5	144.8	154.1	155.3	159.7	163.1	164.2	164.0	165.5	166.1	167.3	168.4
Transport and Communications	8.0	103.3	109.6	125.3	...	...	...	...	...	...	...	...	...	...	...	...
Transport	7.8	...	...	...	141.9	153.9	160.4	165.3	164.8	171.3	170.6	171.6	173.8	182.7	187.9	188.5
Communications	0.2	...	...	...	100.7	100.7	100.7	137.5	144.4	144.4	144.4	144.4	144.4	154.3	154.3	154.3
Other Goods and Services	9.4	104.2	110.7	115.7	...	...	...	...	...	...	...	...	...	...	...	...
Leisure, entertainment and culture	1.2	...	...	...	122.6	131.5	136.7	143.2	147.9	148.5	150.3	152.6	152.4	153.6	151.7	151.9
Health	1.4	...	...	...	127.8	130.6	133.8	134.0	135.5	138.2	138.7	141.2	141.3	140.8	141.1	142.3
Education	3.2	...	...	...	113.1	115.8	116.1	119.9	120.3	121.1	124.7	125.1	125.2	125.3	125.5	126.6
Restaurants and Hotels	0.4	...	...	...	145.0	167.0	192.4	193.2	194.5	196.6	196.6	201.2	199.0	199.0	202.6	205.7
Miscellaneous goods and services	3.2	...	...	...	123.5	129.9	139.7	142.5	146.8	149.2	150.6	150.3	151.4	153.7	154.9	155.6
Memorandum item:																
Annual CPI inflation rates (in percent; end of period)		7.3	8.9	6.3	7.0	13.2	11.1	6.1	7.3	6.5	5.9	5.1	4.5	4.6	4.3	3.5

Source: Lesotho Bureau of Statistics.

- 1/ Covers all households in six lowland towns, including Maseru.
- 2/ Based on 2000 Household Survey. CPI for preceding years was revised accordingly.
- 3/ Start of new series based on revised classification system.
- 4/ Since January 1994, rent has been excluded from CPI calculations because of data collection problems.

Table 5. Lesotho: Basic Monthly Minimum Wages, 1997-2004 1/ 2/

	1997 Oct.	1998 Dec.	1999 Oct.	2000 Oct.	2001 Sep.	2002 Oct.	2003 Oct.
(In maloti)							
Copy typist	457.3	508.0	554.0	593.0	631.0	694.0	732.0
Driver							
Car and light van	530.9	589.0	642.0	687.0	732.0	805.0	849.0
Medium-sized vehicle	581.9	646.0	704.0	753.0	802.0	882.0	931.0
Heavy vehicle	745.2	827.0	901.0	964.0	1,026.0	1,129.0	1,191.0
Operator (hammer mill)	387.3	430.0	469.0	502.0	535.0	589.0	621.0
Junior clerk	457.3	508.0	554.0	593.0	631.0	694.0	732.0
Machine operator	530.9	589.0	642.0	687.0	732.0	805.0	849.0
Messenger	387.3	430.0	430.0	502.0	535.0	589.0	621.0
Machine attendant	457.3	508.0	554.0	593.0	631.0	694.0	732.0
Receptionist	457.3	508.0	554.0	593.0	631.0	694.0	732.0
Shop assistant	426.9	474.0	517.0	553.0	589.0	648.0	684.0
Telephone operator	457.3	508.0	554.0	593.0	681.0	694.0	732.0
Ungraded artisan (heavy physical work)	493.4	548.0	597.0	639.0	681.0	749.0	790.0
Unskilled labor							
Heavy physical work	426.9	474.0	517.0	553.0	589.0	648.0	684.0
Light physical work	387.3	430.0	469.0	502.0	535.0	589.0	621.0
Waiter	439.1	487.0	531.0	568.0	605.0	666.0	703.0
Watchman	539.7	599.0	653.0	699.0	714.0	818.0	863.0
Weaver							
Training (six months)	387.3	430.0	469.0	502.0	535.0	589.0	621.0
Trained	406.2	451.0	492.0	528.0	560.0	616.0	650.0
Sewing machine operator							
Training (six months)	387.3	430.0	469.0	502.0	535.0	589.0	621.0
Trained	406.2	451.0	492.0	526.0	560.0	616.0	650.0
Small business	263.8	293.0	319.0	341.0	363.0	399.0	421.0
Domestic servant	131.9	146.0	159.0	170.0	181.0	199.0	210.0
(Annual percentage change)							
Memorandum items:							
General increase 3/	9.0	11.1	9.1	7.0	6.4	10.0	5.5
Exception: guard	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 September 1997, December 1998, October 1999, October 2000, September 2001, October 2002, October 2003, and September 2004. The schedule of minimum wages by occupational category was revised in September 2004.

2/ The data for 2004 are not directly comparable with that of 1997-2003 because a new classification system for occupational categories was introduced.

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

Table 5. Lesotho: Basic Monthly Minimum Wages, 1997-2004 1/, 2/ (cont.)

	2004 Sep.
	(In maloti)
Manufacturing	
Trainee	621
Trained	650
Construction	
Construction worker	722
Construction machine operator	1257.0
Retail	
Wholesale and retail	742.0
Wholesaler	...
Bakery	
Supermarket	...
Furniture shop	...
Retailers	722
Mini-markets	...
Café	...
Food caterer	...
Hotels	742.0
Motels	...
Lodge	...
Restaurants	722.0
Service sector	
Security	911.0
Funeral parlour	742.0
Small bussiness	444.0

Source: Ministry of Labor.

1/ Based on legal notices issued in September 1997, December 1998, October 1999, October 2000, September 2001, October 2002, October 2003, and September 2004. The schedule of minimum wages by occupational category was revised in September 2004.

2/ The data for 2004 are not directly comparable with that of 1997-2003 because a new classification system for occupational categories was introduced.

Table 6. Lesotho: Public Service Employment, 1997/98-2004/05 1/

	Grade	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Established civil service 2/									
Professional and administrative	G - L	1,748	2,004	2,030	2,008	2,061	...	...	...
Professional and administrative 3/	H - L	...	...	...	...	...	955	1,057	1,075
Professional and administrative 3/	F - G	...	...	...	...	...	3,464	3,331	3,376
Executive	E - F	3,453	3,639	3,667	4,203	4,299	...	...	...
Executive 3/	E	...	...	...	...	...	1,443	2,519	2,573
Clerical	A - D	13,540	14,822	14,993	13,346	13,375	14,481	13,739	13,693
Total		18,741	20,465	20,690	19,557	19,735	20,343	20,646	20,717
Actual employment									
Civil service 2/		18,436	18,436	18,271	16,567	14,473	17,515	17,203	17,120
Defense and public order		4,942	6,394	6,288	4,677	5,572	6,669	6,579	6,545
Teachers		10,116	10,209	10,425	10,686	11,292	11,404	11,772	12,225
Total		33,494	35,039	34,984	31,930	31,337	35,338	35,554	35,890

Source: Ministry of Public Service.

1/ Fiscal year is April-March.

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

3/ Applies from 2002/03 onward.

Table 7. Lesotho: Central Government Operations, 1998/99-2004/05 1/

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
(In millions of maloti)							
Revenue	2,174	2,313	2,627	2,788	3,035	3,439	3,856
Tax revenue	1,695	1,889	1,942	2,378	2,576	2,888	3,376
Customs revenue	1,034	1,183	1,126	1,438	1,470	1,422	2,012
Noncustoms tax revenue	661	706	816	940	1,106	1,466	1,364
Income taxes	387	420	469	580	663	853	729
Sales tax	233	238	280	302	344	519	542
Oil levy	36	44	62	51	86	81	36
Other tax revenues	5	5	5	7	13	14	57
Nontax revenue	479	424	685	410	459	552	480
Water royalties	120	138	135	176	213	193	195
Interest received	223	76	63	15	24	14	7
Other nontax revenues	136	210	487	219	222	344	279
Total expenditure and net lending	2,438	3,373	2,864	2,938	3,659	3,555	3,762
Current expenditure	1,943	2,319	2,434	2,312	2,857	2,929	3,098
Wages and salaries	838	836	925	992	1,082	1,123	1,177
Interest payments	129	183	271	203	220	216	156
Of which: external interest	96	102	160	126	110	91	91
Goods, services, and transfers	977	1,299	1,238	1,117	1,555	1,590	1,765
Goods and services	504	1,029	905	720	1,046	958	986
Transfers and subsidies	473	270	333	396	509	631	779
Capital expenditure and net lending	496	1,055	430	626	802	625	665
Domestically funded	233	250	183	277	171	218	190
Externally funded	263	230	240	373	512	321	352
Grant funded	120	130	126	167	236	140	169
Loan funded	143	100	115	206	276	180	183
Overall balance before grants	-265	-1,061	-238	-150	-624	-115	564
Grants from abroad	120	130	126	189	296	178	224
Overall balance after grants	-145	-931	-112	39	-328	62	788
Total financing	145	931	112	-39	328	-62	-788
Financing abroad	18	-71	-257	-54	56	-26	-60
Loan drawings	143	100	115	206	276	180	183
Amortization	-124	-171	-372	-260	-220	-206	244
Domestic financing	182	1,048	390	16	272	-37	-728
Bank	167	1,025	367	67	321	-130	-639
Nonbank	15	23	23	-52	-49	92	-89
Residual	-55	-46	-21	0	0	1	0
(In percent of GDP, unless otherwise indicated)							
Revenue	42.8	40.8	43.0	41.2	40.1	41.7	44.6
Customs revenue	20.4	20.9	18.4	21.3	19.4	17.2	23.3
Noncustoms tax revenue	13.0	12.5	13.3	13.9	14.6	17.8	15.8
Nontax revenue	9.4	7.5	11.2	6.1	6.1	6.7	5.5
Total expenditure and net lending	48.0	59.6	46.8	43.4	48.4	43.1	43.5
Current expenditure	38.2	40.9	39.8	34.2	37.8	35.5	35.8
Wages and salaries	16.5	14.8	15.1	14.7	14.3	13.6	13.6
Other expenditure	21.7	26.2	24.7	19.5	23.5	21.9	22.2
Capital expenditure and net lending	9.8	18.6	7.0	9.2	10.6	7.6	7.7
Overall balance before grants	-2.8	-16.4	-1.8	0.6	-4.3	0.8	9.1
Grants from abroad	2.4	2.3	2.1	2.8	3.9	2.2	2.6
Overall balance after grants	-2.8	-16.4	-1.8	0.6	-4.3	0.8	9.1
Financing abroad	0.4	-1.3	-4.2	-0.8	0.7	-0.3	-0.7
Domestic bank financing	3.3	18.5	6.4	0.2	3.6	-0.5	-8.4
Memorandum item:							
GDP at market prices (in millions of maloti)	5,082	5,665	6,114	6,766	7,564	8,251	8,644

Sources: Ministry of Finance; and IMF staff estimates.

1/ Fiscal year is April-March.

Table 8. Lesotho: Government Revenue and Grants, 1998/99-2004/05 1/

(In millions of maloti)

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Taxes on net income and profits	387.0	419.5	468.8	579.5	663.3	852.5	729.2
Company tax	65.0	58.5	126.3	159.2	142.9	...	...
Income tax (pay as you earn)	278.0	306.5	314.7	371.8	404.1	...	...
Gaming tax	1.7	3.8	2.7	0.0	0.0	...	...
Withholding tax	28.8	40.2	21.1	0.0	0.0	...	...
Other income and profit taxes	13.5	10.5	4.0	48.5	116.3	...	...
Taxes on goods and services	270.9	283.2	343.6	355.0	435.9	602.9	579.6
Sales tax	233.3	238.0	279.8	302.0	343.7	519.3	541.7
Trade licenses	1.7	1.6	1.8	2.1	5.9	3.0	2.1
Petrol levy	35.9	43.6	62.0	50.9	86.3	80.6	35.8
Customs duties	1,034.4	1,183.1	1,126.1	1,438.2	1,470.0	1,421.6	2,012.4
Other taxes	2.4	3.0	3.4	5.3	6.7	10.5	57.2
Stamp duty	0.6	0.9	1.6	2.7	4.1	7.3	3.3
Other taxes	1.8	2.1	1.8	2.6	2.6	3.2	53.9
Total tax revenue	1,694.7	1,888.8	1,941.9	2,378.0	2,575.9	2,887.5	3,376.3
Administrative fees, charges, and nonindustrial sales	67.8	142.7	162.4	52.3	62.3	84.9	80.7
Attestation fees	0.6	0.6	0.4	0.7	0.8	0.7	0.5
Fines and forfeits	3.9	6.4	5.1	6.2	6.9	34.9	29.9
Property and other income	403.6	274.3	516.8	350.6	388.8	431.3	368.6
Interest on deposits	222.9	76.0	63.2	14.6	24.0	14.4	6.5
Water royalties	120.0	138.3	135.0	176.1	212.5	193.1	194.5
Rand monetary compensation	43.0	42.0	66.0	0.0	43.9	97.7	55.0
Dividends	9.1	2.4	174.8	36.4	46.2	65.7	59.6
Other property income	8.6	15.6	77.8	123.5	62.2	60.4	53.0
Total nontax revenue	478.9	424.0	684.7	409.8	458.8	551.8	479.7
Total revenue	2,173.6	2,312.8	2,626.6	2,787.8	3,034.7	3,439.3	3,856.0
Grants	120.0	130.0	125.6	188.8	296.3	177.8	224.3
Total revenue and grants	2,293.6	2,442.8	2,752.2	2,976.6	3,331.0	3,617.1	4,080.3

Sources: Ministry of Finance; and IMF staff estimates.

1/ Fiscal year is April-March.

Table 9. Lesotho: Southern African Customs Union (SACU) Operations, 1998/99-2004/05

Revenue Year 1/ Data Year 2/	1998/99 1996/97	1999/00 1997/98	2000/01 1998/99	2001/02 1999/00	2002/03 2000/01	2003/04 2001/02	2004/05 2002/03
	(In percent)						
Basic rate 3/	6.5	6.2	6.3	7.3	7.3	4.9	5.5
Revenue ("compensation") rate 4/	9.2	8.7	9.0	9.6	7.8	7.0	7.8
Stabilization factor 5/	5.4	5.7	5.5	5.2	6.1	6.5	6.1
Stabilized rate (calculated) 6/	14.6	14.4	14.5	14.8	13.9	13.5	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/	5,433.0	6,260.5	6,021.1	7,327.8	7,334.0	7845.4	9585.8
Growth rate (in percent)	-2.3	15.2	-3.8	21.7	0.8	7.0	22.2
First estimate (payment) 9/	923.6	1,064.3	1,023.6	1,245.7	1,246.8	1333.7	1629.6
First adjustment (payment) 10/	109.8	118.8	100.0	181.4	223.2	88.0	382.8
Final adjustment (payment) 11/	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Actual receipts 12/	1,033.4	1,183.1	1,126.2	1,438.2	1,470.0	1421.7	2012.4
Growth rate (in percent)	-11.9	14.5	-4.8	27.7	2.2	-3.3	41.5
Memorandum item:							
First estimate based on basic rate only	353.1	388.2	381.6	534.9	535.4	668.8	783.5

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

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

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

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

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

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

6/ Revenue (compensation) rate plus stabilization factor.

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

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

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

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

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

12/ As reported in government revenue data.

Table 10. Lesotho: Economic Classification of Government Expenditure, 1998/99-2004/05 1/

(In millions of maloti)

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Current expenditure	1,942.7	2,318.5	2,434.2	2,312.3	2,856.9	2,929.3	3,097.7
Wages and salaries	837.6	835.9	925.1	992.4	1,082.1	1,123.2	1,176.9
Goods and services	504.1	1,028.8	905.0	720.3	1,045.7	958.4	985.5
Subsidies and transfers	472.6	270.4	333.3	396.3	509.4	631.3	779.1
Pensions	53.7	53.0	74.9	89.6	105.4	118.9	194.5
Subventions and transfers	418.9	217.4	258.4	306.7	404.0	512.4	584.6
<i>Of which</i> : social safety net	6.0	3.0	0.0	0.0	0.0	0.0	0.0
Interest payments	128.5	183.4	270.8	203.3	219.7	216.4	156.2
External	96.2	101.6	159.7	126.0	109.5	90.5	91.1
Domestic	32.3	81.8	111.1	77.3	110.2	125.9	65.1
Capital expenditure and net lending	495.7	1,054.9	430.0	625.6	802.2	625.4	664.6
Acquisition of assets	495.7	479.9	423.0	649.5	682.6	538.6	541.7
Transfers and subventions	0.0	0.0	50.0	96.1	151.3	96.3	108.8
Net lending	0.0	575.0	-43.0	-120.0	-31.7	-9.5	14.1
Total expenditure and net lending	2,438.4	3,373.4	2,864.2	2,937.9	3,659.1	3,554.7	3,762.3

Sources: Ministry of Finance; and IMF staff estimates.

1/ Fiscal year is April-March.

Table 11. Lesotho: Functional Classification of Government Expenditure, 1998/99-2004/05 1/

	(In millions of maloti)						
	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Current expenditure	1,942.7	2,318.5	2,434.2	2,312.3	2,856.9	2,929.3	3,097.7
General public service	801.4	957.3	882.8	714.2	913.6	898.1	955.3
Public order, safety, and defense	390.9	469.1	395.4	464.9	513.1	513.3	590.9
<i>Of which</i> : defense	159.8	160.6	195.2	177.3	174.8	181.2	211.6
Other services	410.5	488.2	487.4	249.3	400.5	384.8	364.4
Health, social security, and welfare	210.3	200.4	273.4	312.1	370.2	406.8	358.0
Education and community services	532.2	585.8	544.6	633.9	841.9	1,009.9	1,002.7
Economic services	219.0	281.3	260.0	271.9	449.7	273.2	282.8
Agriculture and rural development	80.2	99.0	101.1	113.2	261.4	116.0	118.0
Commerce, tourism, and industry	29.0	34.1	38.0	31.9	44.8	44.4	62.2
Water, energy, and mining	24.0	40.4	33.8	35.5	38.2	24.2	21.6
Roads	69.7	66.2	51.7	48.5	48.9	48.8	44.4
Other transport and communication	16.1	41.6	35.4	42.8	56.4	39.8	36.6
Unallocable and other purposes 2/	179.8	293.7	473.4	380.2	281.5	341.3	498.9
Capital expenditure and net lending	495.8	1,054.9	430.0	625.6	802.2	625.4	664.6
General public service	34.7	666.6	2.0	182.3	162.3	171.2	99.9
Public order, safety, and defense	3.7	20.7	2.0	0.0	0.0	3.8	0.9
<i>Of which</i> : defense	0.0	13.9	2.0	0.0	0.0	0.0	0.0
Other services	31.0	645.9	0.0	182.3	162.3	167.4	99.0
Health, social security, and welfare	17.2	43.5	13.0	96.8	37.5	48.6	125.1
Education and community services	120.4	108.5	29.7	117.2	210.5	83.1	120.8
Economic services	323.5	236.3	47.8	383.0	372.4	332.0	258.9
Agriculture and rural development	45.2	52.7	7.1	41.8	41.5	36.3	35.5
Commerce, tourism, and industry	20.4	17.2	1.5	71.7	57.4	46.7	43.8
Water, energy, and mining	97.7	99.2	1.1	101.4	89.8	71.5	0.0
Roads	158.6	50.7	36.1	168.1	181.4	177.5	178.8
Other transport and communication	1.6	16.5	2.0	0.0	2.3	0.0	0.8
Unallocable and other purposes 2/	0.0	0.0	337.6	-153.7	19.5	-9.5	59.9
Total expenditure and net lending	2,438.5	3,373.4	2,864.2	2,937.9	3,659.1	3,554.7	3,762.3
General public service	836.1	1,623.9	884.8	896.5	1,075.9	1,069.3	1,055.2
Public order, safety, and defense	394.6	489.8	397.4	464.9	513.1	517.1	591.8
<i>Of which</i> : defense	159.8	174.5	197.2	177.3	174.8	181.2	211.6
Other services	441.5	1,134.1	487.4	431.6	562.8	552.2	463.4
Health, social security, and welfare	227.5	243.9	286.4	408.9	407.7	455.4	483.1
Education and community services	652.6	694.3	574.3	751.1	1,052.4	1,093.0	1,123.5
Economic services	542.5	517.6	307.8	654.9	822.1	605.2	541.7
Agriculture and rural development	125.4	151.7	108.2	155.0	302.9	152.3	153.5
Commerce, tourism, and industry	49.4	51.3	39.5	103.6	102.2	91.1	106.0
Water, energy, and mining	121.7	139.6	34.9	136.9	128.0	95.7	21.6
Roads	228.3	116.9	87.8	216.6	230.3	226.3	223.2
Other transport and communication	17.7	58.1	37.4	42.8	58.7	39.8	37.4
Unallocable and other purposes 2/	179.8	293.7	811.0	226.5	301.0	331.8	558.8

Sources: Ministry of Finance; and IMF staff estimates.

1/ Fiscal year is April-March.

2/ Calculated as a residual.

Table 12. Lesotho: Outstanding Government Domestic Debt
by Instrument and Holder, 1998-2005

(In millions of maloti)

	1998	1999	2000	2001	2002	2003	2004	2005
	March 31							
Commercial banks								
Gross lending 1/	58.8	36.0	584.1	687.0	815.3	967.1	761.2	312.3
Long term	3.6	3.9	287.7	287.7	287.7	287.7	287.7	114.7
Bonds	0.0	0.0	287.7	287.7	287.7	287.7	287.7	114.7
Loans	3.6	3.9	0.0	0.0	0.0	0.0	0	0
Short term	55.2	32.1	296.4	399.3	527.6	679.4	473.463	197.6
Loans	0.0	0.0	0.0	0.0	0.0	0.0	1.61	1
Treasury bills	55.2	32.1	296.4	399.3	527.6	679.4	471.853	196.6
Government deposits (-)	-48.6	-66.4	-74.4	-63.3	-63.9	-60.7	-59.73	0
Net total	10.2	-30.4	509.7	623.7	751.4	906.4	701.433	312.3
Central bank								
Gross lending 1/	61.4	71.1	150.4	312.7	193.6	196.1	196.1	232.6
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
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short term	61.4	71.1	150.4	312.7	193.6	196.1	196.1	232.6
Loans	63.4	64.7	142.9	246.6	191.3	196.1	195.6	232.5
Treasury bills	-2.0	6.4	7.5	66.0	2.3	0.1	0.4	0.0
Government deposits (-)	-2,231.6	-2,086.2	-1,694.9	-1,502.4	-1,257.3	-1,162.1	-1,217.4	-971.4
Net total	-2,170.2	-2,015.1	-1,544.5	-1,189.7	-1,063.7	-966.0	-1,021.4	-738.8
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	100.9	115.5	138.2	128.6	113.7	118.6	139.7	103.4
Treasury bills	100.9	115.5	138.2	128.6	113.7	118.6	139.7	103.4
Compulsory savings	0.0	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	100.9	115.5	138.2	128.6	113.7	118.6	139.7	103.4
Total domestic debt, net	-2,059.1	-1,930.0	-896.6	-437.4	-198.6	59.0	-180.2	-323.1
Gross debt outstanding	221.1	222.6	872.7	1,128.3	1,122.6	1,281.8	1096.956	648.3
Government deposits (-)	-2,280.2	-2,152.6	-1,769.3	-1,565.7	-1,321.2	-1,222.8	-1277.15	-971.4

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 comprises 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 1999- March2005

	1999		2000		2001		2002		2003		2004		2005	
	Mar.	Dec.	Mar.	Dec.	Mar.	Dec.	Mar.	Dec.	Mar.	Dec.	Mar.	Dec.	Mar.	Dec.
(In millions of maloti; stocks at end of period)														
Foreign assets (net)	3754	3583	3670	5229	3722	3478	3858	4006	3972	4266				
Central bank	3331	3004	3075	4475	2950	2566	2823	2773	2847	2950				
Commercial banks 1/	423	579	595	754	773	912	1035	1233	1126	1317				
Net domestic assets	-2001	-1846	-1848	-3096	-1531	-1170	-1505	-1532	-1599	-1814				
Domestic credit	-881	4	424	432	321	276	75	31	-134	-312				
Claims on government (net)	-1953	-939	-579	-511	-190	-317	-539	-539	-743	-958				
Central bank	-1927	-1490	-1067	-1297	-792	-1019	-1205	-1066	-1228	-1144				
Commercial banks	-26	551	487	786	602	702	666	527	486	186				
Claims on the rest of the economy 2/	1072	943	1003	943	512	593	614	570	609	646				
Other items (net) 2/	-1120	-1850	-2272	-3528	-1852	-1446	-1579	-1562	-1465	-1502				
Money and quasi money (M ₁)	1753	1737	1822	2133	2191	2308	2353	2474	2373	2452				
Narrow money	988	976	1145	1413	1444	1539	1589	1663	1589	1698				
Currency outside deposit money banks	126	147	143	164	179	208	190	220	205	213				
Demand and call deposits	853	829	802	1032	1103	1163	1230	1273	1198	1297				
Quasi money	765	733	678	720	747	769	765	812	784	753				
Time and savings deposits	765	733	678	720	747	769	765	812	784	753				
(Annual change in percent of beginning-of-year M ₁ , unless otherwise specified)														
Net foreign assets	-9.8	5.0	85.5	-70.6	-11.1	9.9	25.7	22.3	34.1					
Central bank	-18.6	4.1	76.8	-71.5	-17.5	-10.5	3.9	0.4	16.6					
Commercial banks	8.9	0.9	8.7	0.9	6.4	20.4	21.8	21.9	17.5					
Net domestic assets	8.8	0.0	-68.5	73.4	16.5	-5.5	-13.8	-19.0	-27.9					
Claims on central government (net)	57.8	20.7	3.7	15.0	-5.8	-20.1	-15.1	-25.1	-27.8					
Claims on the rest of the economy	-7.4	3.5	-3.3	-20.2	3.7	3.2	0.3	2.7	2.3					
Claims on the rest of the economy (yearly change)	-12.0	6.4	-6.0	-45.8	16.0	13.5	1.1	11.1	8.8					
Other items (net)	-41.7	-24.3	-68.9	78.6	18.6	11.4	1.1	3.4	-2.4					
Money and quasi money (M ₁)	-1.0	4.9	17.0	2.7	5.3	4.4	11.9	3.3	6.2					
Quasi money (yearly change)	-4.3	-7.5	6.2	3.8	2.9	-10.9	2.9	3.1	-2.1					

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 1999-March 2005

(In millions of maloti; end of period)

	1999	2000	2001	2002	2003	2004				2005
			Mar.			Mar.	Jun.	Sep	Dec	Mar.
Foreign assets	3687	3369	3475	5010	3575	3083	3335	3350	3352	3471
Claims on government	202	248	109	232	184	196	192	199	184	198
Claims on private sector	11	13	14	13	13	15	16	16	16	17
Unclassified assets	47	49	72	107	150	228	189	269	218	265
Total assets = total liabilities	3947	3679	3670	5383	3923	3522	3732	3834	3769	3951
Reserve money	531	604	749	494	633	479	466	526	567	638
Maloti in circulation	147	130	160	196	210	251	225	263	257	271
Bankers' deposits	369	458	384	78	254	51	64	85	115	168
Private and public deposits	9	10	200	217	162	168	169	170	187	189
Rand notes and coins	5	6	4	3	6	9	8	7	8	11
Foreign liabilities	351	359	396	532	619	507	503	537	497	511
Government deposits	2128	1695	1175	1529	976	1217	1398	1298	1412	1342
Capital accounts	847	917	1296	2566	1581	1291	1347	1359	1204	1373
Capital and reserves	815	884	1258	2512	1540	1256	1313	1324	1172	1338
Allocation of SDRs	31	33	38	54	41	35	34	35	33	35
Unclassified liabilities	91	104	54	35	113	29	18	115	89	87

Source: Central Bank of Lesotho.

Table 15. Lesotho: Assets and Liabilities of Commercial Banks, March 1999-March2005

(In millions of maloti; end of period)

	1999	2000	2001	2002	2003	2004				2005
			Mar.			Mar.	June	Sep.	Dec.	Mar.
Foreign assets	466	655	638	831	836	1070	1191	1240	1254	1410
Reserves	386	492	372	136	288	123	114	133	172	232
Maloti on hand	21	19	18	32	32	39	35	44	52	58
Rand on hand	5	6	4	3	6	9	8	7	8	11
Balances with central bank	359	467	350	100	250	75	71	82	112	163
Claims on government	35	584	559	831	675	761	725	585	543	273
Claims on statutory bodies	237	110	48	40	37	46	53	48	52	63
Claims on private sector 1/	823	869	941	890	364	439	451	494	441	470
Unclassified assets	326	933	334	310	578	720	640	728	885	1131
Total assets = total liabilities	2273	3643	2893	3037	2777	3163	3174	3228	3348	3379
Foreign liabilities	48	82	47	79	69	166	164	94	136	103
Demand and call deposits 2/	853	871	802	1032	1103	1163	1230	1273	1198	1297
Savings and time deposits 2/	765	725	678	683	711	731	720	764	745	724
Government deposits	61	74	72	45	73	60	58	58	58	88
Capital accounts	-42	265	346	322	250	317	297	311	346	354
Unclassified liabilities 1/	588	1625	947	839	571	725	706	729	867	1014

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 1999-March 2005

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

	Deposits 1/	Credit 2/	Credit- Deposit Ratio 3/	Liquid Assets 4/	Liquidity Ratio 5/
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	1,514.6	82.8
2003					
March 6/	1,814.3	400.8	22.1	1,698.1	85.2
June 6/	1,876.9	429.3	22.9	1,730.0	83.2
September	1,814.5	450.7	24.8	1,435.3	69.8
December	1,913.9	441.5	23.2	1,814.1	80.9
2004					
March	1,894.7	484.9	25.6	1,669.1	77.3
June	1,949.8	504.5	25.9	2,009.3	90.6
September	2,036.4	541.3	26.6	2,173.2	97.2
December	1,942.3	493.3	25.4	2,370.9	109.0
2005					
March	2,020.5	533.0	26.4	2,488.9	111.0

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 total 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 Loans and Advances to the Private Sector and Statutory Bodies, March 1999-March 2005 1/

(In millions of maloti; end of period)

	1999	2000	2001	2002	2003	2004				2005
						March	June	Sep.	Dec.	March
Agriculture	15.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Mining and quarrying	0.8	0.9	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Manufacturing	82.7	54.2	36.5	24.8	24.5	23.9	23.1	25.8	28.7	28.2
Electricity, gas, and water	88.4	46.6	7.4	4.5	7.5	8.7	8.7	8.9	8.0	8.7
Construction	199.2	78.6	74.5	82.0	90.3	108.3	121.3	117.5	132.5	140.0
Trade, hotels, and restaurants	69.1	65.0	18.5	16.0	16.8	20.8	16.7	17.7	20.2	20.7
Transport, storage, and communications	58.5	87.3	8.4	7.0	5.8	5.8	7.0	8.0	7.5	5.6
Nonbank financial institutions, real estate, and business services	54.7	39.7	5.7	3.5	3.7	5.1	5.7	7.0	7.6	7.3
Community, social, and personal services	57.7	58.9	8.9	6.2	19.7	24.5	28.1	31.3	9.4	7.8
Personal loans 2/	417.9	432.0	410.7	144.1	0.0	0.0	0.0	0.0	0.0	0.0
Other 2/	-62.6	13.2	298.6	521.4	0.0	0.0	0.0	0.0	0.0	0.0
Total claims on the economy	981.5	877.4	869.7	809.5	168.2	197.0	210.5	216.2	213.8	218.3
Private sector	744.0	767.9	821.6	769.3	168.2	197.0	210.5	216.2	213.8	218.3
Business enterprises 2/	358.6	337.9	673.4	613.1	131.5	151.0	157.0	168.5	161.6	155.5
Personal loans 2/	385.4	430.0	148.2	156.2	0.0	0.0	0.0	0.0	0.0	0.0
Statutory bodies	237.5	109.5	48.1	40.2	36.7	46.0	53.5	47.7	52.2	62.8

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

1/ Does not include investments and certain securities.

2/ 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 1998-August 2001

(In percent a year; end of period)

	Call	31 Days	88 Days	6 Months	1 Year
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/ 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 1999-March 2005

(In percent a year; end of period)

	1999	2000	2001	2002	2003	2004				2005
			Mar.			Mar.	Jun.	Sep.	Dec.	Mar.
Lending rates 1/										
Minimum	19.6	17.0	17.0	16.3	17.7	12.5	12.5	12.2	12.2	12.2
Maximum	25.3	27.0	25.3	24.7	26.0	17.5	19.2	18.8	17.2	17.2
Deposit rates										
Savings deposits 2/	4.0	3.5	4.0	4.0	4.0	2.3	2.1	1.4	1.4	1.4
Time deposits										
31 days	6.0	4.0	4.0	4.0	4.8	3.8	3.8	3.1	3.1	3.1
1 year	6.9	5.5	6.0	6.0	6.3	6.0	6.0	4.7	4.0	4.0
Memorandum items:										
South African rates										
Prime overdraft	20.0	14.5	14.5	13.0	17.0	11.5	11.5	11	11	11
Deposit rates										
Notice (31 days)	14.8	9.5	9.3	9.8	13.5	7.7	8.3	7.5	7.2	7.2
Fixed (12 months)	13.7	10.5	10.3	11.5	12.9	8.7	9.1	7.7	7.4	7.4

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

1/ Minimum and maximum lending rates are not statutory rates; they 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 1998-March 2005

(In percent a year; end of period)

	Central Bank rates		Treasury Bills	
	CBL 1/	SARB 2/	Lesotho	South Africa
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	11.0	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
September	15.0	10.0	11.0	9.0
December	15.0	8.0	9.8	7.5
2004				
March	13.0	8.0	8.8	7.8
June	13.0	8.0	8.8	7.9
September	13.0	7.5	8.1	8.1
December	13.0	7.5	7.9	7.3
2005				
March	13.0	7.5	7.9	7.3

Source: Central Bank of Lesotho.

1/ Central Bank of Lesotho overdraft rate.

2/ South African Reserve Bank marginal lending rate.

Table 21. Lesotho: Balance of Payments, 1988/99 - 2004/05 1/

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05 Est
(In millions of U.S. dollars)							
Trade balance	-589.9	-608.0	-493.8	-370.6	-433.5	-533.5	-607.9
Exports, f.o.b.	191.5	188.4	223.1	293.7	381.1	503.0	686.2
Imports, f.o.b.	-781.4	-796.4	-716.9	-664.3	-814.7	-1,036.5	-1,294.1
Services (net)	-11.1	-1.8	-2.4	-12.4	-22.3	-39.2	-36.9
Receipts	39.9	45.6	42.4	35.7	38.6	51.1	65.9
Payments	-51.0	-47.4	-44.8	-48.1	-61.0	-90.2	-102.8
Income (net)	242.6	245.7	211.4	161.0	178.5	269.3	328.9
Labor income (net)	238.6	244.7	214.0	165.3	178.8	269.7	316.1
Receipts	284.5	278.2	240.8	189.0	201.7	296.4	344.7
<i>0</i>	231.1	224.0	191.2	148.6	162.5	242.1	279.8
Payments	-45.9	-33.5	-26.7	-23.6	-22.9	-26.7	-28.6
Investment income (net)	4.0	1.0	-2.6	-4.3	-0.3	-0.4	12.8
Receipts	64.8	44.1	34.0	23.5	24.3	29.3	43.8
Payments	-60.8	-43.1	-36.6	-27.8	-24.6	-29.7	-31.0
<i>Of which: interest on debt</i>	-17.8	-17.4	-21.0	-13.5	-12.4	-13.2	-12.0
Unrequited transfers	139.5	155.9	127.4	122.2	133.1	179.8	277.4
Official	136.9	153.9	125.0	118.8	128.5	171.8	268.5
Southern African Customs Union nonduty receipts	115.2	135.7	109.4	113.7	113.6	145.0	245.2
Rand compensation	10.0	10.1	9.0	0.0	6.0	18.1	11.7
Other	11.6	8.1	6.6	5.0	8.9	8.7	11.5
Private	2.7	2.1	2.4	3.4	4.7	8.0	8.9
Current account (including official transfers)	-218.9	-208.2	-157.4	-99.8	-144.2	-123.6	-38.6
Current account (excluding official transfers)	-355.7	-362.1	-282.4	-218.6	-272.7	-295.4	-307.1
<i>Of which: LHWP 2/</i>	-174.2	-102.4	-70.9	-62.1	-42.7	-54.7	-36.0
Capital and financial account	276.4	201.0	168.7	119.1	98.2	60.1	-0.9
Capital account (transfers received)	9.2	14.0	11.3	11.0	17.8	16.5	21.5
Financial account	267.2	187.0	157.4	108.1	80.4	43.6	-22.3
Direct investment (excl. LHDA) 3/	25.5	32.4	30.7	26.1	30.2	45.1	56.0
Financing LHWP (net)	191.5	121.4	89.0	81.0	58.6	75.8	66.8
Other investment	-2.3	-48.8	-39.0	7.3	0.3	-48.9	-74.3
Assets 4/	18.3	-30.7	1.7	7.0	-33.4	-62.8	-58.4
Liabilities	-20.5	-18.1	-40.7	0.3	33.7	14.0	-15.9
Loans	5.7	-12.9	-30.7	1.9	0.2	-4.9	-8.5
Public and publicly guaranteed	5.8	-12.7	-30.3	2.1	0.6	-4.9	-8.5
Disbursements	26.1	15.0	20.6	29.4	24.2	23.7	31.0
Repayments	-20.3	-27.7	-50.8	-27.3	-23.5	-28.6	-39.5
Private (net)	-0.1	-0.2	-0.4	-0.2	-0.4	-0.1	0.0
Other liabilities	-26.2	-5.3	-10.0	-1.6	33.5	18.9	-7.4
CBL liabilities	4.2	-2.0	-5.4	-2.7	31.7	1.5	2.1
Commercial banks' liabilities	-30.4	-3.3	-4.7	1.1	1.8	17.3	-9.5
Change in reserve assets 4/	52.5	82.0	76.8	-6.4	-8.7	-28.5	-70.8
Valuation adjustment	-12.5	-2.5	-11.2	-29.7	21.6	44.8	16.1
Errors and omissions	-45	10	0	10	24	18	28
Memorandum items:	(In percent of GDP, unless otherwise indicated)						
Current account (including official transfers)	-25.0	-22.7	-18.8	-14.1	-18.6	-10.8	-2.8
Current account (excluding official transfers)	-40.7	-39.4	-33.8	-30.8	-35.1	-25.8	-22.6
Gross official reserves (in millions of U.S. dollars)	552.9	470.1	393.3	400.2	407.6	436.9	507.7
Gross official reserves (in months of imports)	7.9	7.4	6.6	5.5	4.3	3.8	4.5
Stock of external debt (in millions of U.S. dollars)	695.3	634.0	586.3	554.2	640.2	717.8	716.3
Stock of external debt	79.5	69.0	70.2	78.1	82.5	62.7	52.7
Debt-service ratio (in percent of exports)	16.7	19.3	27.2	12.4	8.7	7.5	6.8
Export growth (volume, in percent)	5.7	-3.2	22.9	43.1	26.4	19.9	26.5
Import growth (volume, in percent)	-11.4	4.2	-2.9	8.0	15.1	-5.6	7.3
Exchange rate (maloti per U.S. dollar, average)	5.8	6.2	7.3	9.5	9.7	7.2	6.3

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

1/ Financial year is April-March.

2/ Lesotho Highlands Water Project.

3/ Lesotho Highlands Development Authority.

4/ Transaction-based data; a minus sign indicates an increase in reserves.

Table 22. Lesotho: Balance of Payments, 1988/89 - 2004/05 1/

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05 Est
	(in millions of maloti)						
Trade balance	-3,429	-3,748	-3,615	-3,533	-4,225	-3,830	-3,802
Exports, f.o.b.	1,113	1,161	1,633	2,800	3,714	3,610	4,292
Imports, f.o.b.	-4,541	-4,909	-5,248	-6,333	-7,938	-7,440	-8,095
Services (net)	-65	-11	-18	-119	-218	-281	-231
Receipts	232	281	310	340	377	367	412
Payments	-297	-292	-328	-459	-594	-648	-643
Income (net)	1,410	1,514	1,548	1,535	1,740	1,933	2,057
Labor income (net)	1,387	1,508	1,567	1,576	1,743	1,936	1,977
Receipts	1,654	1,715	1,762	1,802	1,966	2,128	2,156
Of which : miners' wages	1,343	1,381	1,400	1,417	1,583	1,738	1,750
Payments	-267	-207	-196	-225	-223	-192	-179
Investment income (net)	23	6	-19	-41	-3	-3	80
Receipts	377	272	249	224	237	210	274
Payments	-354	-266	-268	-265	-240	-213	-194
Of which : interest on debt	-103	-107	-154	-128	-121	-94	-75
Unrequited transfers	811	961	933	1,165	1,297	1,291	1,735
Official	795	949	915	1,132	1,252	1,234	1,679
Southern African Customs Union nonduty receipts	670	837	801	1,084	1,107	1,041	1,534
Rand compensation	58	62	66	0	58	130	73
Other	67	50	48	48	87	63	72
Private	16	13	18	33	46	57	56
Current account (including official transfers)	-1,272	-1,283	-1,152	-952	-1,405	-887	-242
Current account (excluding official transfers)	-2,067	-2,232	-2,067	-2,084	-2,657	-2,121	-1,921
Of which: LHWP 2/	-1,013	-631	-518.8	-591.7	-415.6	-392.8	-225.0
Capital and financial account	900	1,032	662	-158	2,174	1,201	143
Capital account (transfers received)	53	86	82	105	173	118	134
Financial account	847	946	579	-264	2,001	1,082	9
Direct investment (excl. LHDA) 3/	148	200	224	249	294	324	350
Financing LHWP (net)	1,113.0	748.5	651.8	772.4	570.6	544.3	417.9
Other investment	-45	-323	-235	44	-93	-278	-372
Assets 4/	106	-189	12	-193	-15	-234	-260
Liabilities	-151	-134	-248	237	-78	-44	-111
Loans	33	-79	-225	18	2	-35	-53
Public and publicly guaranteed	34	-78	-222	20	6	-35	-53
Disbursements	152	93	151	280	236	170	194
Repayments	-118	-171	-372	-260	-229	-205	-247
Private (net)	-1	-1	-3	-2	-4	0	0
Other liabilities	-184	-55	-23	219	-80	-8	-58
CBL liabilities	-7	-35	11	187	-70	-105	5
Commercial banks' liabilities	-177	-20	-34	32	-10	97	-63
Change in reserve assets 4/	-370	321	-62	-1,329	1,229	492	-388
Valuation adjustment	292	63	327	1,131	-843	-378	60
Errors and omissions	80	188	164	-21	75	64	39
Memorandum items:	(In percent of GDP, unless otherwise indicated)						
Current account (including official transfers)	-25.0	-22.7	-18.8	-14.1	-18.6	-10.8	-2.8
Current account (excluding official transfers)							
Gross official reserves (in millions of U.S. dollars)	552.9	470.1	393.3	400.2	407.6	436.9	507.7
Gross official reserves (in months of imports)	7.9	7.4	6.6	5.5	4.3	3.8	4.5
Stock of external debt (in millions of U.S. dollars)	695.3	634.0	586.3	554.2	640.2	717.8	716.3
Stock of external debt	79.5	69.0	70.2	78.1	82.5	62.7	52.7
Debt-service ratio (in percent of exports)	16.7	19.3	27.2	12.4	8.7	7.5	6.8
Export growth (volume, in percent)	5.7	-3.2	22.9	43.1	26.4	19.9	26.5
Import growth (volume, in percent)	-11.4	4.2	-2.9	8.0	15.1	-5.6	7.3
Exchange rate (maloti per U.S. dollar, average)	5.8	6.2	7.3	9.5	9.7	7.2	6.3

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

1/ Financial year is April-March.

2/ Lesotho Highlands Water Project.

3/ Lesotho Highlands Development Authority.

4/ Transaction-based data; a minus sign indicates an increase in reserves.

Table 23. Lesotho: Services and Income Account, 1998/99-2004/05 1/
(In millions of maloti)

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05 Est.
Nonfactor services: credit	232.0	280.9	310.1	340.1	376.5	366.5	411.9
Transportation	5.7	3.9	3.8	3.7	4.3	3.8	3.8
Travel	109.2	154.6	159.8	175.4	211.8	201.9	214.4
Sales of water (and power)	76.6	79.9	90.3	100.8	113.4	109.5	110.4
Other official	40.8	44.3	60.1	63.9	50.8	52.0	54.1
Other private	-0.3	-1.9	-3.8	-3.7	-3.7	-0.7	29.2
Nonfactor services: debit	-296.5	-292.1	-327.7	-458.7	-594.1	-647.8	-642.9
<i>of which</i> : LHWP	-179.3	-118.8	-143.4	-114.8	-109.8	-91.3	0.0
Shipment	-175.8	-190.3	-203.5	-243.5	-304.6	-304.0	-299.9
Other transportation	-17.0	-21.0	-21.9	-22.7	-24.3	-31.9	-45.0
Travel	-83.2	-69.3	-67.8	-89.1	-161.9	-201.2	-202.3
Other official	-16.4	-12.3	-28.6	-101.9	-102.6	-110.8	-95.4
Other private	-4.1	0.7	-5.9	-1.6	-0.8	0.1	-0.2
Nonfactor services (net)	-64.5	-11.2	-17.6	-118.6	-217.6	-281.3	-231.0
Factor income: credit	2,030.2	1,986.4	2,011.3	2,025.6	2,202.7	2,337.9	2,429.9
Investment income	376.5	271.8	248.8	224.0	237.2	210.0	273.8
Interest earned by CBL	348.7	242.9	209.2	169.4	171.2	130.9	166.7
Interest earned by commercial banks	27.9	28.9	39.7	54.6	66.0	79.2	107.1
Labor income	1,653.7	1,714.6	1,762.5	1,801.6	1,965.5	2,127.8	2,156.1
Factor income: debit	-620.1	-472.1	-463.7	-490.6	-463.1	-405.0	-372.8
Investment income	-353.5	-265.5	-268.1	-265.4	-240.1	-213.1	-193.7
Dividends and profits	-250.3	-158.6	-114.1	-137.0	-119.2	-118.6	-119.0
Interest	-103.2	-107.0	-154.0	-128.4	-121.0	-94.5	-74.8
Payments to expatriates	-266.6	-206.5	-195.6	-225.2	-223.0	-192.0	-179.1
Factor income (net)	1,410.1	1,514.3	1,547.7	1,535.0	1,739.7	1,932.8	2,057.1
Total services and income (net)	1,345.6	1,503.1	1,530.0	1,416.4	1,522.1	1,651.6	1,826.0

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

Table 24. Lesotho: Lesotho Miners in South Africa, 1997-2004

	1997	1998	1999	2000	2001	2002	2003	2004
Total average number employed (in thousands)	95.9	80.4	68.6	64.9	61.4	62.2	61.4	58.0
Annual percentage change	-5.3	-16.2	-14.7	-5.4	-5.4	1.3	-1.2	-5.5
Average annual earnings (in maloti) 2/	21,193	24,678	27,657	30,131	32,030	35,326	38,513	42,116
Annual percentage change	10.5	16.4	12.1	8.9	6.3	10.3	9.0	9.4
Total earnings (in millions of maloti)	2,032.4	1,984.1	1,897.3	1,955.5	1,966.6	2,196.5	2,364.8	2,442.1
Annual percentage change	4.6	-2.4	-4.4	3.1	0.6	11.7	7.7	3.3
Miners' remittances (in millions of maloti) 3/	1,449.1	1,414.7	1,352.8	1,394.3	1,402.2	1,549.8	1,686.1	1,795.0
Miners' remittances (as percentage of total earnings)	71.3	71.3	71.3	71.3	71.3	70.6	71.3	73.5
Miners' remittances (annual percentage change)	4.6	-2.4	-4.4	3.1	0.6	10.5	8.8	6.5

Source: Central Bank of Lesotho.

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, 1998-2004

	1998	1999	2000	2001	2002	2002	2003	2004
(In millions of maloti)								
Foodstuffs, etc.	40.7	119.3	111.7	141.3	197.6	197.6	194.0	180.8
Cereals	16.2	36.2	28.0	44.9	75.7	75.7	71.2	55.2
Beans, peas, and other vegetables	4.9	2.3	1.1	0.2	0.4	0.4	0.4	0.3
Animal feed	4.2	2.4	3.8	4.3	5.6	5.6	5.2	13.0
Beverages and tobacco	11.3	73.4	63.9	72.6	94.9	94.9	96.5	98.5
Other foodstuffs	4.0	5.0	15.0	19.3	21.1	21.1	20.7	13.7
Live animals	7.0	6.5	6.6	12.9	20.4	20.4	20.4	16.8
Cattle	3.1	3.0	4.9	9.7	13.4	13.4	12.2	12.5
Sheep and goats	0.0	0.1	0.0	0.1	0.3	0.3	0.4	0.4
Pigs	0.0	0.0	0.0	0.2	0.8	0.8	1.2	1.3
Poultry	3.9	3.5	1.7	2.9	5.9	5.9	6.6	2.6
Livestock materials	18.8	15.5	37.0	60.1	64.6	64.6	90.3	3.3
Wool	16.7	14.6	32.2	56.8	56.1	56.1	80.6	1.8
Mohair	1.2	0.9	4.1	1.3	0.0	0.0	0.0	1.5
Hides and skins	0.9	0.1	0.7	2.0	8.5	8.5	9.6	0.0
Crude materials	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Diamonds	0.5	0.7	1.7	1.5	3.8	3.8	3.8	3.8
Manufactures	760.6	908.0	1,307.8	2,204.6	3,439.8	3,439.8	3,238.1	4,433.3
Chemicals and petroleum	6.6	5.8	6.5	18.6	45.5	45.5	49.3	21.0
Leather products	0.0	0.2	0.3	1.0	3.0	3.0	2.9	1.2
Wood products	0.5	0.1	0.1	0.2	0.7	0.7	0.7	1.9
Yarn and textiles, etc.	5.6	2.4	1.4	2.9	7.1	7.1	8.4	12.9
Bricks	...	...	...	6.9	18.5	31.7	27.6	13.7
Telecommunication equipment	...	...	...	148.2	210.9	291.7	289.7	153.6
Machinery	...	...	...	13.8	25.9	50.0	53.9	55.1
Road vehicles	15.5	4.8	11.3	17.7	29.6	29.6	30.2	13.1
Furniture and parts	4.9	5.9	9.5	26.0	37.4	37.4	33.1	2.9
Clothing, etc.	415.4	612.5	953.2	1,722.5	2,745.2	2,745.2	2,555.6	3,462.0
Footwear	176.5	143.5	132.6	124.4	135.1	135.1	130.5	128.7
Books	...	...	...	0.8	1.5	23.0	21.0	0.4
Other manufactures	135.6	132.7	192.8	121.6	179.4	39.8	35.2	566.8
Unclassified	231.1	4.0	3.1	5.5	13.7	13.7	10.9	14.2
Total value	1,058.6	1,054.1	1,467.9	2,426.0	3,739.9	3,739.9	3,557.4	4,652.2

Source: Central Bank of Lesotho.

Table 26. Lesotho: Direction of Trade, 1999 - 2003 1/

(In millions of maloti)

	1999		2000		2001		2002		2003	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
World	5,288.8	1,054.1	5,611.2	1,468.3	6,399.8	2,426.0	8,517.5	3,739.9	8411.6	3557.3
Africa	4,737.7	555.0	4,876.9	607.5	5,306.0	899.1	6,270.3	856.4	7242.7	695.6
Common customs area	4,736.4	554.5	4,309.3	606.9	5,296.6	897.0	6,261.7	856.0	7234.1	689.7
Other Africa	1.3	1.6	6.9	0.7	3.0	2.1	1.6	0.2	8.6	5.9
Europe	97.8	2.1	45.8	1.8	46.5	3.5	93.2	8.1	12.1	3.7
European Union	83.7	1.9	42.7	1.8	44.5	3.5	82.5	7.8	8.9	3.7
Belgium	4.1	0.2	1.4	0.2	0.4	0.1	3.9	0.0	0.0	0.0
Denmark	1.5	0.4	0.8	0.0	1.7	0.0	9.2	0.0	1.3	0.0
France	4.3	0.0	0.4	0.0	2.9	0.1	4.6	0.0	0.1	0.0
Germany	23.7	1.2	6.4	0.7	20.9	0.0	9.4	2.2	0.1	0.6
Greece	...	...	...	...	...	...	4.7	0.0	3.2	0.0
Italy	17.5	0.0	5.5	0.0	5.0	0.0	16.0	0.0	0.1	0.0
Spain	3.3	0.0	6.7	0.0	11.9	0.0	11.3	0.9	0.2	0.0
Netherlands	1.7	0.0	3.1	0.0	0.0	0.0	0.0	0.0	2.7	2.0
United Kingdom	27.6	0.1	14.1	0.9	0.6	0.0	24.9	0.0	1.4	1.2
Portugal	0.0	0.0	4.3	0.0	0.0	3.2	0.0	4.6	0.0	0.0
Turkey	...	...	...	...	...	...	2.2	...	1.4	...
Other Europe	14.1	0.2	3.1	0.0	2.0	0.0	3.8	0.3	1.8	0.0
North America	50.0	494.9	104.8	858.3	41.7	1,522.5	53.4	2,874.6	15.1	2849.1
Canada	41.9	5.7	97.2	22.5	34.5	35.0	12.1	15.9	0.6	19.7
United States	8.1	489.2	7.6	835.8	7.2	1,487.5	41.3	2,858.7	14.5	2829.4
Asia	372.4	0.2	526.0	0.6	953.3	0.9	2,021.6	0.8	1141.7	8.9
Japan	23.3	0.0	34.6	0.0	11.6	0.4	33.2	0.0	11.3	1.2
Hong Kong SAR	31.0	0.1	70.3	0.0	224.3	0.0	483.8	0.0	401.3	0.9
China	0.2	0.1	0.0	0.0	74.2	0.0	355.7	0.0	241.8	0.2
Taiwan Province of China	192.2	0.0	294.6	0.6	527.1	0.0	913.2	0.8	367.6	0.7
Other	125.7	0.0	126.5	0.0	109.8	0.5	192.5	0.0	119.7	5.8
Oceania	30.9	0.9	57.7	0.1	52.2	0.0	79.0	0.0	32.0	0.0

Source: Central Bank of Lesotho.

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

Table 27. Lesotho: Public and Publicly Guaranteed External Debt Outstanding, 1998/99-2004/05 1/

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05		
							Nominal	NPV	Grant element
(In millions of U.S. dollars)									
Multilateral sources	449.7	446.7	414.8	421.4	480.1	538.0	564.5	338.9	40.0
<i>of which:</i>									
World Bank Group	178.7	184.6	181.2	191.0	222.8	252.5	264.9	145.5	45.1
African Development Bank	9.2	7.5	9.4	7.5	6.7	5.8	4.0	3.8	3.6
African Development Fund	147.1	148.2	147.3	148.4	163.0	173.0	182.7	97.1	46.9
IMF	19.9	14.6	13.2	17.9	20.7	31.0	37.0	28.6	22.6
Bilateral sources	98.8	99.4	107.3	78.6	100.3	109.8	95.3	63.4	33.5
Commercial	90.5	124.5	64.2	54.2	59.8	70.0	61.7	67.8	-9.9
Commercial banks	44.2	66.2	44.9	33.1	40.4	53.2	49.1	55.7	-13.4
Export credits	12.6	25.0	19.3	21.1	19.4	16.7	12.6	12.1	3.8
Other	33.7	33.3	0.0	0.0	0.0	0.0	0.0	0.0	...
Total	639.0	670.6	586.3	554.2	640.2	717.8	721.6	470.1	34.9
(As percent of total debt, unless otherwise indicated)									
Multilateral	70.4	66.6	70.7	76.0	75.0	75.0	78.2	...	...
Bilateral	15.5	14.8	18.3	14.2	15.7	15.3	13.2	...	...
Commercial	14.2	18.6	10.9	9.8	9.3	9.7	8.5	...	...
(As percent of GDP)									
Multilateral	51.4	48.6	49.7	59.4	61.9	47.0	41.6	...	...
Bilateral	11.3	10.8	12.9	11.1	12.9	9.6	7.0	...	...
Commercial	10.4	13.5	7.7	7.6	7.7	6.1	4.5	...	...
Total	73.1	73.0	70.2	78.1	82.5	62.6	53.1	...	...
Memorandum items:	(In units indicated)								
External debt/GDP ratio (in percent)	73.1	73.0	70.2	78.1	82.5	62.6	53.1	...	...
GDP (in millions of maloti)	5081.8	5664.6	6113.8	6765.9	7563.6	8251.0	8497.6	...	...
Maloti per U.S. dollar (period average)	5.8	6.2	7.3	9.5	9.7	7.2	6.3	...	...

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

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

Lesotho: Summary of the Tax System, July 2005
(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. Up to 125 percent of expenditure incurred on the training of Basotho workers is deductible. The income of life insurances 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 2005
(All amounts in maloti)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.2 Taxes on individuals			Residents marginal rate (in percent):
1.2.1 Income tax	A tax on the current year's income from all geographical sources (in the case of residents).	Exempt incomes include the first M 500 of interest from savings, income from subsistence farming, scholarships, and foreign-source property income of expatriate taxpayers.	First M 31,500 25 percent
Income Tax Act 1993.	Gross income includes incomes in kind, except for benefits subject to fringe benefits tax.		Over M 31,500 35 percent
	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.	A uniform personal tax credit of M 2,640 per taxpayer was introduced in April 1996.	Nonresident marginal rate (in percent):
			All chargeable Income 25 percent
1.2.2 Withholding tax	A tax on income from dividends, interest, royalties, natural resource payments, management charges, or service contracts earned within Lesotho by nonresidents.	Dividends from manufacturing companies are exempt.	Withholding tax is 25 percent.
Income Tax Act 1993.			For royalties from nonmanufacturing companies, 15 percent.
			On service contracts earned within Lesotho by nonresidents, 10 percent.

Lesotho: Summary of the Tax System, July 2005

(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.		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 of tax.	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 a year per square meter for residential land; M 0.25-0.30 a year per square meter for commercial land. Levy of 5 percent for late payment.

Lesotho: Summary of the Tax System, July 2005

(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 10 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 hospital, 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 2005

(All amounts in maloti)

Tax	Nature of Tax	Exemptions and Deductions	Rates												
3. Taxes on goods and services		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 imports of goods and services that would be exempt if supplied in Lesotho. It further exempts the following: supply of public, postal, transportation, medical and dental, financial, insurance and 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 non profit-making establishment; supply of water and any supply prescribed by the minister in regulations as an exempt supply. Also exempted are: 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:												
3.1 Value-added tax (VAT)	A VAT 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 are 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.		<table><tr><th>Goods</th><th>Rate (in percent)</th></tr><tr><td>General</td><td>14</td></tr><tr><td>Liquor</td><td>15</td></tr><tr><td>Telecommunications, water and electricity</td><td>5</td></tr><tr><td>Exports</td><td>0</td></tr><tr><td>Zero-rated basic items</td><td>0</td></tr></table>	Goods	Rate (in percent)	General	14	Liquor	15	Telecommunications, water and electricity	5	Exports	0	Zero-rated basic items	0
Goods	Rate (in percent)														
General	14														
Liquor	15														
Telecommunications, water and electricity	5														
Exports	0														
Zero-rated basic items	0														
		Zero-rated basic items are:													
		Agricultural inputs (fertilizers, seeds, pesticides, etc.)													
		Beans													
		Bread													
		Eggs													
		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 2005
(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 outside SACU and purchases by His Majesty and diplomatic corps are exempt.	Specific or ad valorem rates or both.
3.3 Trade licenses Trading Enterprise 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 2005
(All amounts in maloti)

Tax	Nature of Tax	Exemptions and Deductions	Rates
4. Taxes on international trade and transactions			
4.1 Customs duties	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.	Specific or ad valorem duties or both charged on Free on Board (FOB) 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 2005
(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 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 10 for meat in bulk quantities, 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.		3 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 therefrom.	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 and 7 percent of diamonds directly exported by producers.
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 2005
(All amounts in maloti)

Tax	Nature of Tax	Exemptions and Deductions	Rates
<p>5.3 Toll gate fees Toll Gate Act of 1976. Legal Notice No. 18 of 1988; and Legal Notice No. 1 of 1992.</p>	<p>Fees levied on vehicles leaving Lesotho.</p>	<p>Ministers on duty, His Majesty, ambulances, and South African Railway vehicles are exempt.</p>	<p>M 5 for cars, M 6 for trucks, applied each time on entering Lesotho.</p>
<p>6. Pioneer industries Pioneer Industries Encouragement Act, 1969, No. 19 of 1969, as amended.</p>	<p>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.</p>	<p>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.</p>	<p>15 percent charged to manufacturing companies and 35 percent to other companies.</p>

Lesotho: Exchange and Trade System

(Position as of June, 2005)

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		
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	Yes	

Lesotho: Exchange and Trade System

(Position as of June, 2005)

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	Lesotho is a member of the CMA, within which payments are unrestricted, except that transactions must be reported 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 and		

Lesotho: Exchange and Trade System

(Position as of June, 2005)

Subject Measure	Existence	Description
or/ bullions)	Yes	
Controls on domestic ownership and /or trade	Yes	Only authorized dealers may trade in gold, but anyone may hold gold.
Controls 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	
Held domestically	Yes	Effective June 27, 2003, residents may deposit up to the equivalent of M 250,000 in foreign exchange accounts with an authorized dealer in Lesotho. Previously, approval was required to open these accounts
Held abroad	No	
Accounts in domestic currency held Abroad	No	
Accounts in domestic currency convertible in foreign currency	No	

V. Nonresident Accounts

1. Foreign exchange accounts permitted	No	
2. Domestic currency accounts	No	
Convertible into foreign currency	Yes	
Approval required	Yes	
3. Blocked accounts	Yes	Funds in an emigrant's blocked loti accounts may be invested

Lesotho: Exchange and Trade System

(Position as of June, 2005)

Subject Measure	Existence	Description
		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 per family unit a year.
VI. Imports and Import Payments		
1. Foreign exchange budget	No	
2. Financing requirements for imports	Yes	
Advance payments requirements	Yes	Payments are not normally allowed before the date of shipment except with the prior approval of, 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.
3. Documentation for release of foreign exchange for imports		
Domiciliation requirements	Yes	
Preshipment inspection	Yes	
Letters of credit	Yes	
Import licenses used as exchange license	Yes	
Other	Yes	
4. Import licenses and other nontariff measures	Yes	Lesotho is a member of the Southern African Customs Union (SACU); all imports originating in any country of the SACU are unrestricted, except certain food items. 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.
Negative list	Yes	With certain exceptions, imports from outside the SACU must be licensed and conform to a negative list (e.g., ammunition, flora and fauna, illegal drugs, etc.).
Licenses with quotas	Yes	Some food imports from countries within the SACU are subject to import licensing.
5. Import taxes/tariffs	Yes	Lesotho applies the external customs tariffs of the SACU
6. State import monopoly	No	

Lesotho: Exchange and Trade System

(Position as of June, 2005)

Subject Measure	Existence	Description
VII. Exports and Export Proceeds		
1. Repatriation requirements	Yes	All export proceeds must be repatriated within six months.
Surrender requirements	Yes	Effective June 27, 2003, residents may retain their export proceeds in foreign currency accounts with authorized dealers for six months, after which balances have to be surrendered to authorized dealers. Previously, the only requirement was that, unless otherwise permitted, all export proceeds had to be surrendered 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.
5. Export taxes	No	

VIII. Payments for Invisible Transactions and Current Transfers

Controls on these payments

1. Investment-related payments

Profit and dividend transfers are not restricted, provided the funds were not obtained through excessive use of local borrowing facilities.

Quantitative limits

Emigrants may transfer up to the equivalent of M 300,000 of earnings on blocked assets.

Indicative limits/bona fide tests

Yes

2. Payments for travel

Lesotho: Exchange and Trade System

(Position as of June, 2005)

Subject Measure	Existence	Description
<i>Quantitative limits</i>		For study abroad, the limits are the equivalent of M 160,000 a year; the limit for a child under 12 years of age is M 40,000.
<i>Indicative limits/bona fide tests</i>		Larger allowances may be obtained for business travel.
3. Personal payments		
<i>Quantitative limits</i>	Yes	For study abroad, the limits are the equivalent of M 160,000 a year for a single student or M 180,000 a year for a student accompanied by a spouse who is not studying.
4. Credit card use abroad		
<i>Quantitative limits</i>		The limit for credit card use abroad is the equivalent of M 20,000.
<i>Indicative limits/bona fide tests</i>	Yes	

IX. Proceeds from Invisible Transactions and Current Transfers

1. Repatriation requirements	Yes	
Surrender requirements		Proceeds must be surrendered within 30 days of the date of accrual unless an exemption is obtained.
2. Restrictions on use of funds	No	

X. Capital Transactions

Controls on capital transactions	Yes	
1. Controls on capital and money market instruments		Effective June 27, 2003, nonresidents may invest freely in Lesotho if the maturity of the investment exceeds 365 days. CBL notification is required for nonresidents to acquire securities of any kind, regardless of maturity.
On capital market securities		
<i>Shares or other securities of a participating nature</i>		Controls apply on these transactions.
<i>Bonds or other debt securities</i>	Yes	
Purchase abroad by residents	Yes	
Sale or issue abroad by residents	Yes	
On money market instruments		The regulations governing bonds or other debt securities apply.

Lesotho: Exchange and Trade System

(Position as of June, 2005)

Subject Measure	Existence	Description
On collective investment securities		The regulations governing bonds or other debt securities apply.
2. Controls on derivatives and other instruments		These instruments are not available in Lesotho.
3. Controls on credit operations		
Commercial credit		
By residents to nonresidents		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		These credits require exchange control approval.
Financial credit		
By residents to nonresidents		These credits require prior approval. However, wholly nonresident-owned subsidiaries may borrow locally up to 100 percent of the total shareholder's investment.
To residents from nonresidents		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.
4. Controls on direct investment		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		Effective June 27, 2003, residents are free to invest abroad through domestic banks up to the equivalent of M 250,000 a person. Subject to CBL approval, resident corporations and businesses are allowed to invest abroad up to the equivalent of M 50 million in SACU countries or M 30 million in other countries. Previously, outward direct investments were prohibited.
Inward direct investment		Effective June 27, 2003, nonresidents may invest freely in Lesotho if the maturity of the investment exceeds 365 days. However, nonresidents may acquire securities of any kind, regardless of maturity, only upon the approval of the CBL.
5. Controls on liquidation of direct investment	No	
6. Controls on real estate transactions	Yes	
Purchase abroad by residents		Prior approval is required.
Purchase locally by non-resident	No	
7. Controls on personal capital		

Lesotho: Exchange and Trade System

(Position as of June, 2005)

Subject Measure	Existence	Description
movements		
Loans		Prior approval is required for these transactions
By residents to nonresidents	Yes	
To residents from nonresidents	Yes	
Transfer of assets		
Transfer abroad by emigrants		Emigrants may transfer up to the equivalent of M 300,000 a year.
Transfer of gambling/prize earnings		Prior approval is required.
8. Provisions specific to commercial banks and other credit institutions		
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		
Reserve requirements	Yes	
Liquid asset requirements	Yes	
Open foreign exchange position limits		Limits of 10 percent currency and 20 percent overall exposure apply.
On nonresident assets and liabilities	Yes	
On resident assets and liabilities	Yes	
9. Provisions specific to institutional investors		
Limits (max.) on investment portfolio held abroad		The limit is up to 20 percent of assets under management.
10. Other controls imposed by securities' laws		
	No	