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October 23, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Lesotho - Staff Report for the 1985 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with Lesotho, which will be brought to the agenda for discussion on a date to be announced. A draft decision appears on page 16.

Mr. Martey (ext. 6514) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

LESOTHO

Staff Report for the 1985 Article IV Consultation

Prepared by the Staff Representatives for the 1985 Consultation with Lesotho

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

October 22, 1985

I. Introduction

The 1985 Article IV consultation discussions with Lesotho were held in Maseru during the period August 6-21, 1985. The representatives for Lesotho included the Minister of Finance (the Honorable Mr. Rakhetla), the Permanent Secretaries for Finance (Mr. Waddington) and Planning (Mr. Monyake), the Governor of the Central Bank (Mr. Schoenberg), and other senior officials of ministries and agencies concerned with economic and financial matters. The staff representatives were Mr. Emmanuel K. Martey (head-AFR), Mr. Joshua E. Greene (AFR), Mr. Michael E. Massourakis (AFR), Mr. A.L. Bovenberg (FAD), and Miss Olga E. Siwicky (secretary-RES).

The last Article IV consultation with Lesotho was concluded on August 28, 1984. Lesotho continues to avail itself of the transitional arrangements of Article XIV. Summaries of Lesotho's relations with the Fund and with the World Bank Group, and of outstanding statistical issues are provided in Appendices I, II, and III, respectively. Series on basic data, the medium-term fiscal and balance of payments outlook, and debt projections are presented in Appendices IV, V, VI, and VII, respectively.

II. Background

Lesotho is a small, mountainous kingdom with limited natural resources. Although subsistence agriculture and livestock rearing constitute the main economic activity for about 85 percent of the resident population, the soil has suffered extensive erosion, and only about 13 percent of the land is cultivable. The main known unexploited natural resource is upstream water; the known diamond deposits are presently uneconomical to exploit on a large scale at current world market prices.

Lesotho is a landlocked country surrounded by the Republic of South Africa (RSA) with which it is linked economically and financially through membership in the Rand Monetary Area (RMA) and the Southern African Customs Union (SACU); the latter also includes Botswana and

Swaziland. Over one half (about 140,000) of Lesotho's male labor force is employed in the RSA, primarily in mines, and their remittances exceed Lesotho's gross domestic product (GDP). About two thirds of government revenue derive from SACU receipts, representing primarily a reimbursement of customs and excise duties collected by the RSA on Lesotho's behalf. Lesotho's currency, the loti (plural maloti), is pegged to and fully convertible at par into the South African rand, which is also legal tender in Lesotho.

The Lesotho economy recorded impressive growth during the 1970s when the favorable impact of expansions in both migrant remittances and government expenditures resulting from increased SACU receipts were reinforced by a sharp increase in export receipts from a rapid growth in diamond production. Real GDP and GNP grew at an annual average rate of about 8 percent. The onset of droughts and a virtual stagnation in SACU receipts during 1980/81-1982/83 (April/March) contributed to a decline in real GDP during 1981/82-1983/84, while the growth of GNP eased to an average rate of 5.7 percent (Table 1 and Chart 1).

Indications are that there is considerable unemployment in the economy; the labor force is increasing by about 15,000-20,000 persons per annum, but domestic employment opportunities are increasing only marginally. More important, employment opportunities in the RSA for Basotho have virtually stagnated, due to preferences being given increasingly to persons from RSA homelands and labor being displaced through mechanization of mining operations.

From an overall surplus equivalent to 4 percent of GDP (2.3 percent of GNP) in 1978/79, the fiscal situation deteriorated rapidly to a peak deficit equivalent to 17 percent of GDP (9.5 percent of GNP) in 1981/82, reflecting an expansionary fiscal stance. The ratio of revenue plus grants to GDP rose from 36.8 percent to 37.1 percent, while that of total expenditure to GDP expanded from 33.1 percent to 54.6 percent. Moreover, the deficit was financed largely by short-term external borrowing at high interest rates. During 1982/83-1983/84, in an effort to improve the fiscal situation, the authorities introduced a sales tax in 1982/83 and restrained total expenditure through a virtual freeze on recruitment into the civil service and reductions in capital outlays in real terms. The fiscal deficit was reduced to the equivalent of 10.6 percent of GDP in 1982/83 and further to the equivalent of 6.1 percent in 1983/84. The rate of expansion in domestic credit decelerated from 76 percent in 1981/82 to an average of 7 percent in 1982/83-1983/84, and the growth in broad money fell by more than one half to 12.4 percent. Moreover, the overall balance of payments, which recorded a large (SDR 36 million) deficit in 1981/82, shifted into surpluses in the two succeeding years. With increased migrant worker remittances the external current account position improved steadily, moving from a deficit equivalent to 16 percent in 1981/82 to only 2 percent of GDP in 1983/84. Long-term capital inflows also increased.

Table 1. Lesotho: Selected Economic and Financial Indicators, 1980/81-1985/86 1/

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86 Proj.
			(Annual percentage changes)			
National income and prices						
GDP at constant prices	4.5	-1.2	-0.5	-0.5	3.4	0.5
GNP at constant prices	5.9	6.2	8.7	2.3	3.0	--
GNP deflator	11.1	12.4	15.2	11.9	13.2	15.0
Consumer prices (low-income) 2/	17.3	9.5	19.1	9.8	14.3	15.0
External sector (on the basis of SDRs)						
Exports, f.o.b.	33.1	-25.1	-12.2	-8.4	-2.7	-16.0
Imports, f.o.b.	15.3	10.7	1.9	16.5	-6.2	-12.4
Migrant labor remittances	20.9	21.2	21.7	15.8	-5.5	-15.2
Nominal effective exchange rate (-depreciation)	-0.7	0.6	--	0.1	-1.3	...
Real effective exchange rate (-depreciation)	2.3	0.7	-1.3	-0.9	-2.0	...
Government finances						
Revenue (excluding grants)	11.2	6.5	21.3	26.0	27.9	12.2
Of which: SACU	(--)	(-0.8)	(8.3)	(43.3)	(37.9)	(6.3)
Revenue (including grants)	12.4	-0.6	15.5	24.2	30.9	11.3
Total expenditure	30.3	10.7	0.7	10.9	23.5	18.4
Money and credit						
Domestic credit	80.9	76.0	11.0	2.8	-4.2	10.1
Government	750.0	147.0	19.3	-12.8	-29.6	19.1
Nongovernment	6.2	29.2	0.6	26.2	21.8	5.0
Money and quasi-money (M2)	13.8	27.4	26.1	12.4	18.2	2.9
Velocity (GNP relative to M2)	4.2	3.9	3.9	4.0	3.9	4.4
Prime lending rate (annual average)	11.0	15.0	17.0	15.0	20.0	20.0
Savings deposit rate 3/	5.0	6.0	6.0	8.0	12.0	12.0
Time deposit rate 3/	9.5	11.0	6.0	13.0	17.5	14.0
			(In percent of GDP)			
Central government overall surplus or deficit (-) (including grants)	-13.4	-17.5	-10.6	-6.1	-3.8	-6.7
Domestic financing	9.9	11.9	4.1	-0.6	-0.2	-0.9
Of which: bank	(...)	(11.0)	(3.1)	(-2.2)	(-3.0)	(...)
Foreign financing	3.5	5.6	6.5	6.6	4.0	...
External current account balance	-4.9	-15.6	-7.8	-2.0	8.8	1.3
External debt	15.4	29.9	37.6	36.7	53.5	48.4
			(In percent of GNP; unless otherwise stated)			
External current account balance	-2.9	-8.5	-3.9	-0.9	4.3	0.6
External debt	9.0	16.2	18.7	17.7	25.8	23.8
Debt service ratio 4/	1.1	3.1	5.8	5.7	6.9	4.7
			(In millions of SDRs)			
Overall balance of payments surplus or deficit (-)	41.2	-36.3	12.7	25.2	0.7	-13.3
Gross official reserves (in months of imports, f.o.b.)	1.6	1.1	1.3	1.6	1.8	1.4 5/
Net foreign asset of banking system	64.7	36.3	74.1	96.1	105.5	132.3 5/

Sources: Data provided by the Lesotho authorities; and staff estimates.

1/ April/March. Money and credit data for 1985/86 relate to developments during the first quarter of 1985/86.
2/ End period.
3/ Highest rates on savings and time deposits at end of period.
4/ Ratio of debt service on government external debt relative to exports of goods and factor services. Excludes debt service for loans contracted by Central Bank and on-lent to Government.
5/ As of August 15, 1985.

III. Economic and Financial Developments During 1984/85

The economic and financial situation of Lesotho improved significantly during 1984/85. Domestically, real GDP recovered, the fiscal deficit fell, and inflation (as measured by the GDP deflator) remained relatively modest notwithstanding a large depreciation of the rand and, hence, the loti. In the external sector, the overall balance of payments recorded a surplus for the third consecutive year, but the level of external debt and debt service payments increased substantially.

After three successive years of decline, real GDP rebounded in 1984/85, with a growth of about 3.4 percent; real GNP also rose by 3 percent, while the population growth is estimated at 2.3 percent. The expansion in economic activity reflected primarily a marked increase in government investment (53 percent), which was heavily concentrated on the construction sector, and strong export growth following the recovery of the agricultural sector from years of drought. Although the resource gap widened, the deterioriation was not as marked as in the preceding year, since imports in local currency terms rose less rapidly and export receipts, as noted earlier, improved.

Notwithstanding a sharp increase in total expenditure in 1984/85, the overall budget deficit declined to 3.8 percent of GDP from 6.1 percent in 1983/84 (Appendix IV). While total expenditure rose rapidly (24 percent), total revenue and grants were even more bouyant, with the largest single increase in customs union receipts in recent years, M 41.6 million, accounting for 88 percent of the increase in total revenue. Moreover, foreign grants nearly doubled to M 17.1 million. The accelerated growth in total expenditure reflected largely a 45 percent increase in capital outlays, mostly for large construction projects. Although there was a 40 percent average increase in civil service salaries in January 1985 resulting in a 17 percent rise in the wage bill for 1984/85, recurrent expenditure rose by only 14 percent or about the same rate as domestic inflation because of lower interest payments made possible by prepayment of some commercial debt during the year. Subventions and transfers, however, rose by about 22 percent. In financing the deficit, the Government relied on external resources.

Monetary and credit developments were broadly in line with the general economic situation. Total domestic credit fell by 4 percent on account of a reduction in claims on Government, but claims on the private sector and parastatals rose by 22 percent. With continued increases in deposits of miners' deferred pay 1/ and substantial expansion in savings deposits, broad money rose by 18 percent, compared with 12 percent in

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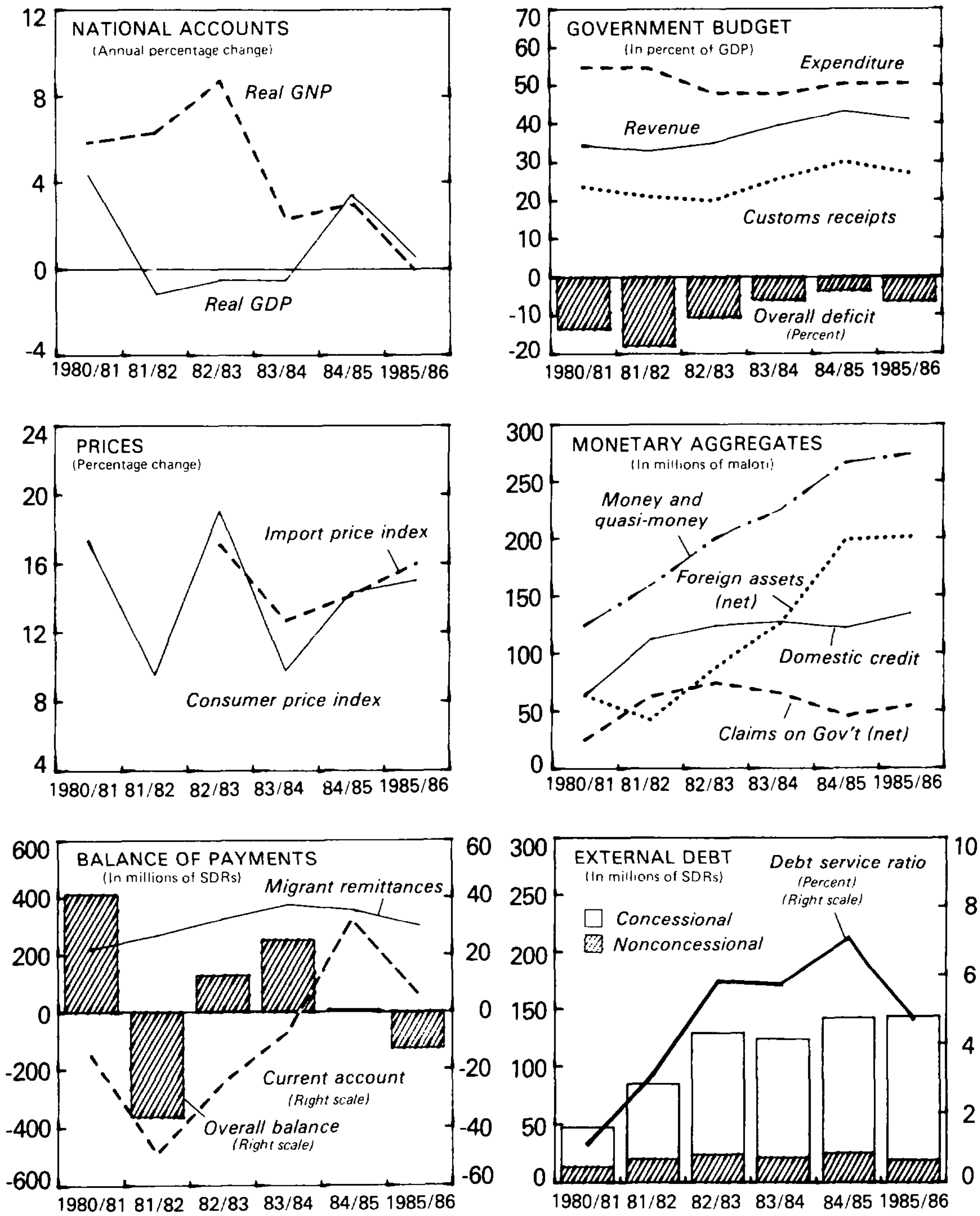
1/ The existing understanding between the RSA mines and the Lesotho authorities requires that 60 percent of a miner's income be deferred and transferred to Lesotho to be made available to the miner when he returns home.

CHART 1

LESOTHO

SELECTED ECONOMIC AND FINANCIAL INDICATORS, 1980/81-1985/86



Sources: Data provided by the Lesotho authorities, and staff estimates

1983/84. In the event, the commercial banks, faced with considerable surplus funds, invested substantial resources abroad, and, together with increased net foreign assets of the Central Bank, contributed to an almost 58 percent increase in the net foreign assets of the banking system. In concert with interest rate developments in the RSA, interest rates were adjusted flexibly during 1984/85: the Central Bank's call money rate was adjusted periodically from 15.5 percent to 19 percent, and its 31-day deposit rate was raised by 3 percentage points. In response, the commercial banks raised their time deposit rates by 1-4.5 percentage points to 11-17.5 percent, the maximum time deposit rate by 4.5 percentage points to 17.5 percent, and the prime lending rate by 2.5 percentage points to 17.5 percent.

The substantial expansion in aggregate demand, together with the large depreciation of the loti, contributed to considerable domestic inflationary pressures which were, however, moderated by the improved food crop situation and an increase in rand-denominated imports. Besides the larger government expenditures, including higher salaries for civil servants, minimum wage rates in the economy at large were raised by an average of 39 percent effective October 1984. In the event, the GDP deflator rose by 13.2 percent, compared with 11.9 percent in 1983/84.

In 1984/85 the overall balance of payments recorded a surplus amounting to SDR 0.7 million, compared with SDR 25.2 million in 1983/84. The sharply reduced surplus, notwithstanding a major turnaround in the current account position to a surplus of SDR 30 million, reflected a significant reduction in official long-term capital inflow, increased debt amortization, and substantial short-term capital outflows from commercial banks seeking investment outlets for surplus funds. In terms of foreign currency, the trade deficit narrowed largely on account of a reduction in imports, and migrant remittances fell. Unrequited transfers, primarily customs union compensation, rose by one third to SDR 98 million, leading to the current account surplus noted above. Net long-term capital inflow fell by 39 percent to SDR 16.5 million, as official net capital inflow declined by half and loan repayments nearly doubled to SDR 11.8 million.

Lesotho's external disbursed public debt, in foreign currency terms, increased by 19 percent in 1984/85 to SDR 142.4 million or triple the stock of debt at end-1980/81 (Appendix VII). Some 82 percent of the external debt, however, represents concessional obligations mainly to multilateral organizations. Except for 1984/85, most of the nonconcessional obligations were contracted in 1981/82, and in 1984/85 the Government paid off nearly SDR 6.6 million of these obligations to financial institutions, raising the ratio of debt service to exports of goods and factor services for the year to 6.9 percent from 5.7 percent in 1983/84.

The effective exchange rate of the loti depreciated by 1.3 percent in nominal terms and 2.0 percent in real terms during the 12-month period ended March 1985, when the loti depreciated by 30 percent in foreign currency terms with respect to the SDR (Table 1 and Chart 2). The RSA continued to be Lesotho's dominant trading partner, accounting for an estimated 93 percent of Lesotho's external trade. For the 16 months ended July 1985, the nominal effective depreciation of the loti amounted to 2.7 percent while the depreciation against the SDR reached 42 percent.

Since the return of the mission, Lesotho has, together with other members of the RMA, adopted a two-tier exchange rate system following the reintroduction of the 'financial rand' mechanism by the RSA effective September 2, 1985. Under the 'financial rand' mechanism, local sales proceeds of Rand Monetary Area securities and other investments owned by nonresidents cannot be transferred in foreign currency, but must be retained in the form of 'financial rand' balances. Such balances are transferable among nonresidents at a freely-determined exchange rate. It might be noted that Lesotho was not party to the suspension of foreign debt repayments which was imposed by the RSA.

IV. Report on the Discussions

1. Supply-oriented policies

In reviewing recent economic developments, the Lesotho representatives conceded that the Third Five-Year Development Plan (1980/81-1984/85) had effectively lapsed and there was currently no comprehensive national development plan. The prevailing policies for the various sectors of the economy, primarily agriculture and livestock, manufacturing, and tourism, would need to be incorporated into a single document that reconciles policy objectives, implementation procedures, and domestic and external financing requirements. To this end, the authorities were preparing a document to be presented to prospective donors in 1986. The authorities expect to cooperate with the World Bank in the preparation of this document.

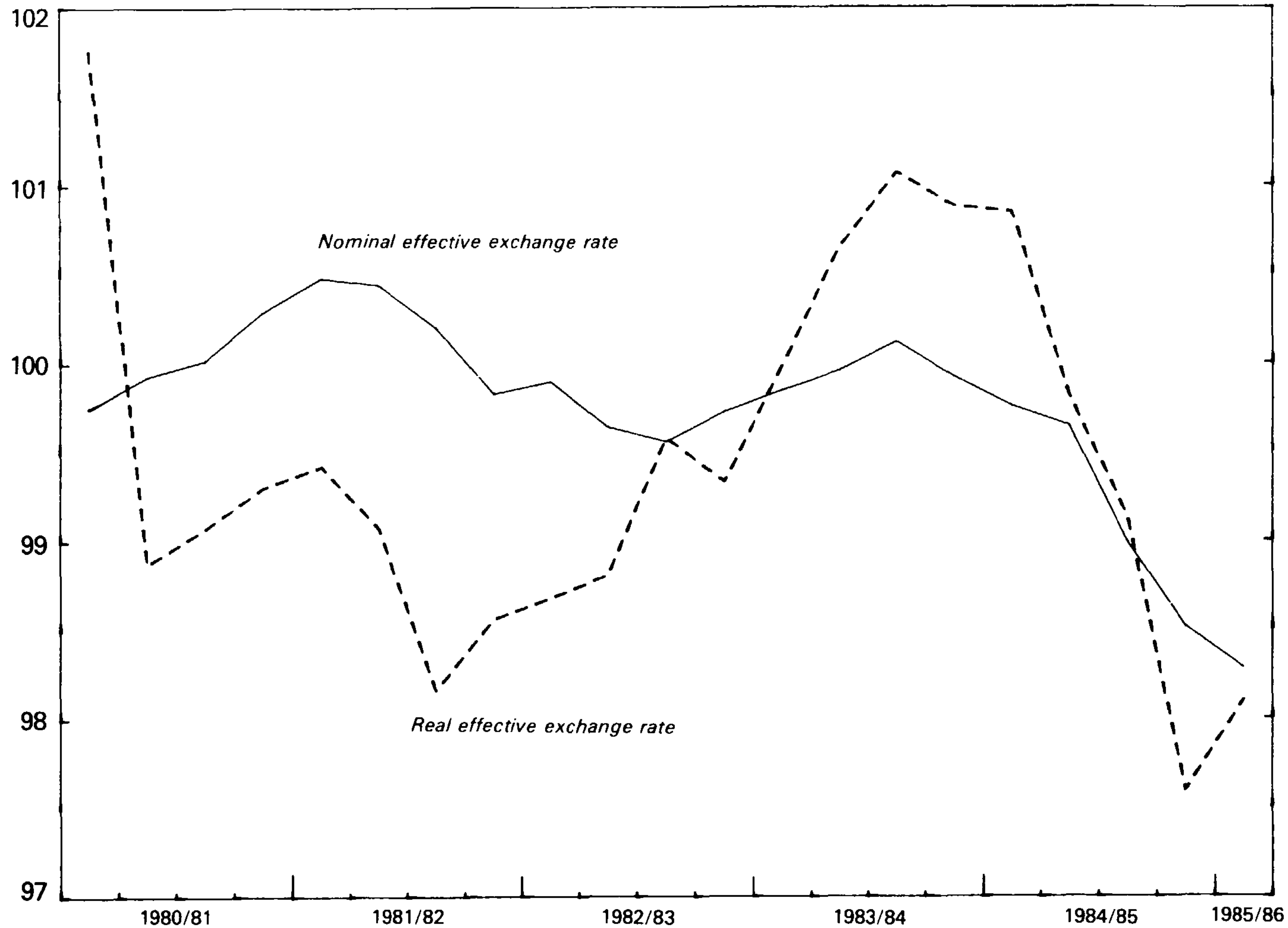
In reviewing current developments and policies with respect to the agricultural and livestock sectors, the Lesotho representatives stated that, besides improved weather conditions, the recovery of agricultural output in 1984/85 also reflected a reorientation to agricultural policy that gives greater emphasis to farmer participation in crop production under government-supported programs. Farmers now undertook preparation of the land as well as weeding. The Technical Operations Unit (TOU) of the Ministry of Agriculture was employed in planting, in order to attain optimum results. Pari passu with phasing down the role of the Food for Self-Sufficiency Program (FSSP), which aimed at transforming subsistence agriculture through the application of capital-intensive methods, the authorities were now employing the Agricultural Development Bank to provide financial credit to farmers while Coop Lesotho was providing farmers with packaged inputs--including seeds, fertilizer, and insecticides--at subsidized prices. For the period ahead, the authorities anticipated concentrating on expanding output of various horticultural crops, and high value fruits for export. In this connection, the authorities were seeking FAO technical assistance. With respect to livestock, the decision to improve the quality of the herd and reverse the soil

CHART 2

LESOTHO

EFFECTIVE EXCHANGE RATES, 1980/81-1985/86

(1980 = 100)



Sources: IMF, *International Financial Statistics;* and staff estimates.

erosion resulting from extensive overgrazing would be reinforced through sales of high breed cattle to farmers in exchange for low quality cattle to feed the national abattoir to be commissioned soon in Maseru. The Lesotho representatives also entertained the possibility of a tax on imports of inferior cattle to complement their efforts to achieve these policy objectives.

Regarding the industrial sector, the recovery in output in 1984/85 reflected the entry into production of newly established import substituting industries--mainly for clothing, footwear, and agricultural implements--which also created employment for some 1,300 persons, compared with some 20,000 school leavers who graduate each year. During the year, the Lesotho National Development Corporation approved 13 projects with a total investment of M 13.6 million, including resources from IDA and the EC. Industrial policy would emphasize labor-intensive, export promotion, import-substitution industries, particularly those utilizing local raw materials. The authorities were reviewing the industrial code in consultation with the World Bank and the ILO, with a view to improving incentives to prospective investors. However, the Lesotho representatives cautioned that Lesotho would not be able to compete effectively with the massive subsidies being provided to investors in the neighboring homelands. Those subsidies would continue to place constraints on the pace of industrialization of Lesotho.

The Lesotho representatives stated that official attempts at diversification of the economy would emphasize tourism, encourage handicrafts production, and seek and exploit the mineral and large water resources of the country. In the area of tourism, efforts were being made to improve lodging facilities and enhance contacts with foreign tour operators, while the Lesotho Tourist Board was formulating, for EC funding, a feasibility study of various tourist projects.

2. Fiscal and monetary policies

The staff team reviewed with the Lesotho representatives the 1984/85 fiscal outturn in the context of the commendable voluntary stabilization efforts of 1982/83-1983/84. The staff team noted that the overall deficit of M 19 million in 1984/85, while an improvement on the M 26 million in 1983/84, fell considerably short of the budgetary target of a surplus of M 4 million, reflecting disquieting new developments in both expenditures and revenues. The Lesotho representatives explained that the overall deficit resulted primarily from an unbudgeted 40 percent average increase in salaries of government employees effective January 1985, widespread expenditure overruns on nonwage outlays, and increased subventions and transfers--mainly to parastatals. Moreover, although the shortfall in capital expenditure exceeded the higher recurrent expenditure, domestic revenue was below target because of an M 14 million loss arising from an M 9 million (14 percent of actual non-SACU collections) write-off of payments obligations of farmers, the abolition of the poll tax, and the abolition of the identity card fee. Foreign grants received were also only slightly above one third of projections, reflecting the shortfall in capital expenditure. The Lesotho representatives explained that the wage award had been necessitated by the erosion in real wages that had occurred since June 1980 when the last general increase (50 percent) in salaries was granted; since then the authorities had provided an annual salary increase of 6 percent, compared with an annual average rate of inflation of some 14 percent during the period. Moreover, the civil service had sustained a loss of skilled personnel due to higher wages in the RSA. The Lesotho representatives argued that the poll tax was abolished because it was considered regressive. The staff noted the absence of measures designed to offset the revenue loss indicated above.

As background to the 1985/86 fiscal situation, the Lesotho representatives explained that, in the absence of a formal budget and pending the election of a new Parliament, the business of government had continued initially for four months under appropriations warranted by the Minister of Finance as provided under the Finance Act. Authorizations for expenditures from August up to the convening of Parliament derived from powers conferred by the Queen of Lesotho.

On the basis of these authorizations which provide for a sharp (46 percent) increase in total expenditure over the 1984/85 outturn, the overall budget deficit for 1985/86 will, in the absence of any new revenue measures, amount to M 73.8 million or nearly four times the 1984/85 outturn. Already, by the end of the first five months of 1985/86, the fiscal situation had become difficult. In contrast to developments during the corresponding period of the three preceding years when substantial fiscal effort was made, the fiscal situation had compelled the Government to have considerable recourse to both domestic bank and nonbank borrowing. By end-June the banking system's claims on Government rose by M 8.7 million, compared with reductions of M 4.4 million and M 2.3 million during the corresponding periods of 1984 and 1983, respectively. Additionally, the nonbank sector's holdings of government securities rose by M 3.8 million between end-March and end-August.

The Lesotho representatives regarded the above development as exceedingly worrisome, but they observed that the capital budget, as in earlier years, was likely to be underspent. Nonetheless, even allowing for the same nominal level of capital expenditure as in 1984/85, the commitments entailed in the 1985 wage awards would, together with a modest adjustment in nonwage outlays, give rise to an overall budget deficit about twice the level in 1984/85. An important factor in this development is that, reflecting developments in previous years' imports, SACU receipts are projected to rise by only 6 percent, compared with 38 percent in 1984/85. In view of these developments, the Lesotho representatives shared the staff's view on the need for a wide range of revenue and expenditure measures during fiscal 1985/86 in order to contain the situation. Revenue measures discussed with the Lesotho representatives include an increase in the sales tax rate, a tax on imported inferior cattle, and taxation of miners' remittances both to achieve equity (since the miners are among the middle income group in Lesotho) 1/ and to broaden the tax base. A rationalization of the revenue collecting system, which currently comprises at least four government departments, was also deemed necessary.

Regarding expenditure, substantial reductions in both the authorized capital outlays and subsidies and transfers were called for. A virtual freeze of the government wage bill might also be called for (given the increase in the size of the civil service in 1984/85), together with a firm decision not to initiate any major project until a multi-year development plan has been formulated. The Lesotho representatives concurred on the need for stricter budgetary controls to ensure that government departments adhere to approved budgets, for a comprehensive budget that incorporates the considerable expenditures currently carried out outside the main budget, and the focusing of resources on directly productive activities. Stricter financial control of parastatals and appropriate pricing of their services will be necessary if the Government is to reduce the current large subsidies and transfers to these entities. In financing the budget, the authorities would endeavor to abstain from recourse to nonconcessional foreign resources.

As regards monetary and credit developments during 1984/85, the Lesotho authorities stated that they were reasonably satisfied with the overall situation. Within the constraints of the available monetary instruments and the workings of the Rand Monetary Area, interest rates had been adjusted flexibly, although the authorities had pursued a policy of moral suasion, including the setting of minimum deposit rates and issuing guidelines for lending rates. In the event, some deposit rates in real terms became positive during the year. However, faced with limited opportunities for domestic lending, the commercial banks had placed some M 43.2 million (SDR 8.7 million) abroad. The staff suggested that the authorities might consider introducing new monetary instruments and improving the institutional framework in order to provide a local outlet for productive investment of some of the liquid resources of the banking system, and this might require liberalization of lending rates as well as judicious use of the resources generated by the minimum local assets instrument 2/ of the Central Bank. The staff noted in this regard that virtually all the M 8 million 2-5-year bonds issued by the Government on July 1, 1985 were held by the banking system; the commercial banks held M 5.2 million. While most of the M 20 million Treasury bills issued in August 1985 replaced existing issues, the nonbank sector increased its holdings by M 3.7 million, compared with only an M 1.4 million increase by the banking system.

1/ In 1985 the annual wage of the surface mine worker was M 4,426 (M 4,908 for an underground miner). This in Lesotho compares with M 1,251 for a machine operator, M 1,512 for a school teacher, and M 7,488 for an upper level executive grade 4 officer in the civil service--all after the recent salary increases.

2/ This instrument requires commercial banks to maintain a certain proportion (currently 85 percent) of their liabilities to the public in local assets. Funds thus collected by the Central Bank and reinvested, generate profits for the Bank.

3. Prices, wages, and employment policies

In reviewing price and wage developments, the Lesotho representatives stated that for 1984/85 the inflationary pressures had been moderated by the improved food crop situation. They acknowledged, however, the implications of the large wage awards on the inflation rate. In the event, the recorded inflation might have been higher if the tariffs for electricity, water, and telecommunications, and the prices of petroleum products had been adjusted in line with the emerging costs of producing these goods and services. They recognized the need for timely adjustment of these tariffs and user fees in order to enable the parastatals to meet at least their operating costs and alleviate the necessity for government subventions. To constrain the rate of expansion of wage rates in the parastatal sector, the authorities have decided that the Cabinet will review all prospective salary adjustments of parastatals. Given the fiscal situation, the Lesotho representatives concurred with the staff on the need also to maintain a civil service size that is appropriate to the economic circumstances of the country.

The Lesotho representatives expressed considerable concern regarding the emerging unemployment problem. They stated that the precise magnitude of the problem was not known, but that the Bureau of Statistics was currently conducting a survey of the labor force that would provide some indications by the end of 1985. There was also a shortage of skilled labor, partly on account of losses to neighboring countries. In the event, in addition to providing ad hoc employment, mainly on roads, through the Labor Construction Unit of the Ministry of Works, the authorities were working with the World Bank to improve the education system, including development of technical skills.

4. External sector policies

The Lesotho representatives recognized that the fiscal restraint of 1982/83-1983/84 had had a positive impact on the overall balance of payments (as measured by changes in net official reserves), and that the relaxation of the fiscal stance in early 1985 was already exerting an adverse impact on official reserves; between end-March and end-June 1985, net official reserves declined by SDR 10.6 million. They stated, however, that in 1984/85, possibly due to a lag effect, the sharp depreciation of the rand, to which the loti is pegged, did not have a major impact on the cost of imports, particularly since the RSA remained the dominant trading partner. The import price index rose by 14 percent in the twelve months ended April 1985, compared with nearly 13 percent in the preceding year. By contrast, reflecting improved unit values, there was a 44 percent increase in the value of mohair and wool exports which contributed importantly to the turnaround in total export receipts. A 14 percent rise in miners' wage rates in 1984 had also contributed to the increase in migrant remittances in local currency terms during 1984/85, when the number of mine workers fell from 115,300 to 114,100. Above all, SACU receipts and migrant remittances continued to dominate the performance of the external sector. The Lesotho representatives hoped that the current labor disputes in the RSA would not have long-term adverse consequences for migrant earnings, particularly considering the highly experienced Basotho mine labor force. In the final analysis, Lesotho's membership in the RMA and the SACU and its geographical location all severely constrain the Lesotho authorities' capacity to influence external economic and financial policies, including adjusting the exchange rate.

With respect to external debt, the Lesotho representatives noted that the recent depreciation of the loti had raised substantially current debt service obligations and the potential burden (in terms of local currency) of the stock of debt; debt service payments in 1984/85 were equivalent to 7 percent of exports of goods and factor services, and the stock of disbursed debt was equivalent to 48 percent of GDP (Appendix VII). They noted, however, that the Government virtually eliminated debt relating to suppliers' credit and prepaid a substantial portion of existing nonconcessional obligations (SDR 6.6 million) to foreign financial institutions during 1984/85. Nevertheless, the Government had guaranteed considerable amounts of external loans to parastatals, and it was not certain that these entities could service these obligations in the period ahead. In the circumstances, the authorities intended to abstain from incurring new nonconcessional obligations to the extent possible in the period ahead.

Finally, the Lesotho representatives stated that the Lesotho authorities intend to continue to maintain a trade and payments system that is free of restrictions on current international transactions.

V. Medium-Term Outlook

On the basis of economic and financial policies in effect at the time of the mission, the financial situation of Lesotho for the medium-term is likely to be difficult. The staff's assessment of the medium-term outlook of the Government's fiscal operations and the balance of payments are summarized in Appendices V and VI. The results would, however, be sensitive to developments in the RSA, particularly prospects regarding migrant labor remittances and the evolution of the formula relating to SACU receipts. No account has been taken of the financial implications of the Highland Water Project on which firm financial decisions have yet to be made.

1. Fiscal outlook

On the basis of current wage commitments and assuming no increase in the size of the civil service, but allowing for assumed rates of inflation or a 13 percent increase in recurrent and development outlays in 1986/87 and 10 percent thereafter, the fiscal situation is likely to come under considerable pressure in the medium term. Based on official estimates, which assume a constant level of real capital expenditure, nominal capital outlays in 1989/90 will reach M 137.5 million or equivalent to 13.2 percent of GDP, compared with 8.8 percent in 1984/85. In the event, in the five years ending 1989/90, total expenditure (excluding interest from any new debt commitments) will increase by two thirds or at an annual average rate of 11 percent. By contrast, revenue (excluding grants) is likely to increase at an annual average rate of 9.5 percent to M 339 million. Accordingly, the ratio of the overall budget deficit to GDP will rise from 3.8 percent in 1984/85 to 9 percent in 1986/87 before declining to 6 percent in 1989/90.

Given known prospective disbursements from existing external commitments as well as likely resource flows from the civil servants' compulsory savings program, the resulting financing gap will reach some M 55 million or 5.3 percent of GDP by 1989/90. Implicit in this estimate is the assumption that the public enterprises will be able to service their government-guaranteed debt from their own resources. Moreover, the servicing of debt procured to meet the financing gap from year to year will add to the overall fiscal financing requirements.

As stated earlier, the above estimates have not taken into account the financial aspects of the Highland Water Project. The project, which is estimated to cost US$1.5 billion (at 1983 prices), is intended primarily to export water to RSA. Hydroelectricity for local consumption is also expected to be generated as a by-product of the scheme. The water project, which is anticipated to be fully self-financing, is expected to be financed largely by loans from commercial sources not yet determined, with possible participation by the World Bank. The second and final phase of the feasibility study of the project, financed by the EC and the UNDP, is expected to be completed this year. The first construction phase is scheduled to start in mid-1988, following the preparation of detailed designs and the establishment of a project authority in 1986-88 with possible financing (about US$40 million) from IDA, EC, UNDP, and bilateral sources.

2. Balance of payments prospects

The balance of payments projections have taken into account the above levels of government expenditure, prospective SACU receipts, and probable migrant remittances, assuming current levels of migrant employment, but adjusting salaries for projected rates of inflation--13 percent in 1986/87 and 10 percent thereafter. In general, the overall balance of payments position is likely to be difficult for the medium term as a whole (Appendix VI).

Export performance is likely to improve, partly on account of exports of meat products and partly from growth in horticultural products, wool, and mohair. However, notwithstanding the recent coming on stream of some import-substituting industries, mainly textiles, import payments are likely to grow in nominal terms by at least 10 percent per annum, contributing to a widening of the trade deficit. SACU receipts are projected to grow in accordance with the present formula and the above projected import payments. In the circumstances, the current account (excluding new interest payments) is estimated to remain in significant deficit over the medium term. Prospective interest payments on external resources procured to fill the financing gap in the government budget may well give rise to considerable current account deficits. This argues for avoidance of nonconcessional new obligations in the period ahead.

On the basis of existing official commitments, the pattern of aid receipts, and the probable development of the private sector, net long-term capital inflows are expected to fall in 1985/86 and again during the last two years of the period under review. It is assumed that short-term capital outflows, resulting mainly from commercial banks placing funds abroad, will diminish sharply after 1985/86.

Lesotho's committed and disbursed external debt is projected to rise by 37 percent to SDR 194.8 million between 1984/85 and 1989/90 (Appendix VII). Provided no new nonconcessional obligations are incurred, the share of concessional obligations will rise steadily from 82.4 percent in 1984/85 to 88.3 percent in 1989/90. During the same period, debt service payments will fall from SDR 22.1 million (6.9 percent of exports of goods and factor services) to SDR 11.1 million (2.2 percent).

VI. Staff Appraisal

With the authorities' adoption of a restrained fiscal stance, Lesotho's internal and external financial situation improved substantially during 1982/83-1984/85: the rate of domestic credit expansion decelerated markedly, inflation moderated, and the overall balance of payments recorded a turnaround into surpluses from a substantial deficit in 1981/82. Moreover, in 1984/85 real GDP rebounded to 3.4 percent after three successive years of negative growth largely associated with drought.

Financial developments during the early part of 1985/86, however, give cause for concern. The higher civil service wage commitments, increased subventions and transfers, and the incipient recurrent outlays of recent large capital expenditures are beginning to exert pressures on both the internal and external financial situation. In particular, the fiscal situation is likely to worsen significantly in 1985/86 as a whole, in the absence of new revenue measures and concerted efforts at expenditure control. Moreover, given official intentions to maintain the current level of capital outlays in real terms, the medium-term fiscal prospects are also likely to be difficult. Prudent fiscal management requires that the full implications of capital expenditures for prospective recurrent outlay, contribution to overall economic performance, and debt servicing are assessed. In this connection, it is encouraging that the authorities are working on guidelines for a multi-year development program and that they intend to review the program with prospective donors. It is to be hoped that the prospective medium-term plan will be comprehensive and will enable the authorities to incorporate in the annual government budget projects that are currently implemented outside these yearly budgets.

In the event, there will be need for current expenditure restraint, judicious selection of development projects that avoid raising the external debt burden unduly, and appropriate tariff policies to eliminate the budgetary transfers to parastatals and improve their savings performance. Restraint in future wage awards might also be called for. Furthermore, within the constraints of Lesotho's membership in the RMA, continuation of the current flexible interest rate policy should help savings mobilization, which, together with a flexible lending rate policy for banks, should facilitate the channeling of some of the liquid resources of the financial system into the productive sectors of the economy.

Regarding the external sector, in foreign currency terms the balance of payments surplus was much diminished in 1984/85, and there is the real possibility of a deficit in 1985/86. Considering that the level of official external reserves is currently below two months' imports, the extent of the overall deficit that can be sustained is very limited. The medium-term balance of payments outlook does not look substantially different from that of 1985/86 and would require continued efforts to maintain prudent financial policies and to attract external aid in support of productive projects. External public debt rose by 19 percent in foreign currency terms in 1984/85. Additionally, considerable nonconcessional publicly-guaranteed debt has been incurred by public enterprises. In the circumstances, the authorities would need to concentrate on procuring concessional resources in the period ahead.

Lesotho continues to maintain a trade and payments system that is virtually free of restrictions. The 'financial rand' scheme gives rise to a multiple currency practice applicable solely to capital transactions.

It is recommended that the next Article IV consultation with Lesotho be held on the standard 12-month cycle.

VII. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision in concluding the 1985 Article XIV consultation with Lesotho, in the light of the 1985 Article IV consultation with Lesotho conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Lesotho continues to maintain an exchange system that is free of restrictions on payments and transfers for current international transactions.

Lesotho--Relations with the Fund
(As of September 30, 1985)

I. Membership status

a.	Date of membership	July 25, 1968
b.	Status:	Article XIV

A. Financial Relations

II. General Department (General resources account)

a.	Quota:	SDR 15.1 million
b.	Fund holdings of Lesotho maloti:	SDR 13.9 million (91.7 percent of quota)
c.	Fund holdings subject to repurchase and charges	--
d.	Reserve tranche position:	SDR 1.3 million
e.	Current operational budget:	--
f.	Lending to the Fund:	--

III. Current stand-by or extended arrangement and special facilities

a.	Current stand-by or extended arrangement:	--
b.	Stand-by and extended arrangements during last ten years:	--
c.	Special facilities	--

IV. SDR Department

a.	Net cumulative allocation:	SDR 3.7 million
b.	Holdings:	SDR 0.8 million (21.4 percent of net cumulative allocation)
c.	Current designation plan:	--

V. Administered accounts

a.	Trust Fund loans:	
	1. Disbursed	SDR 4.9 million
	2. Outstanding	SDR 3.6 million
b.	SFF subsidy account:	--

VI. Overdue obligations to the Fund --

B. Nonfinancial Relations

VII. Exchange rate arrangement

The currency of Lesotho, the loti (plural maloti), is pegged to the South African rand at a rate of M 1 = R 1.

VIII. Article IV consultation

The 1984 Article IV consultation discussions with Lesotho were held in Maseru during the period May 17-June 1, 1984. The staff report (SM/84/181) was discussed by the Executive Board on August 29, 1984, and the following decision was adopted:

1. The Fund takes this decision in concluding the 1984 Article IV consultation with Lesotho, in the light of the 1984 Article IV consultation with Lesotho conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Lesotho continues to maintain an exchange system which is free of restrictions on payments and transfers for current international transactions.

IX. Technical assistance

(a) CBD: CBD has provided to the Central Bank of Lesotho a bank supervision inspector during July-December 1984, a Research Advisor (beginning October 1984), and a Director of Bank Supervision (beginning February 1985), and to the Ministry of Finance an external debt advisor (beginning August 1985). On June 10, 1985 management agreed to the appointment of a General Manager for the Central Bank.

(b) FAD: None

(c) The Bureau of Statistics conducted an extensive review of the statistical bureau in Lesotho during February-March 1985.

X. Resident Representative/Advisor: None

Lesotho: World Bank Lending Operations as of July 31, 1985

As of July 31, 1985, IDA had approved 15 credits amounting to US$97.7 million, of which US$59.1 million had been disbursed and US$51.4 million in borrower's obligations 1/ were outstanding. These credits were in respect of educational, road, rural and urban development, rural water supply, and health and population projects, as well as the financing of the Lesotho National Development Corporation.

Currently, IDA has included in its lending program two additional projects totaling about US$14.5 million: US$6.5 million for agriculture and US$8 million for engineering designs for the proposed Highland Water Project, a major project to export water into the RSA's main industrial area. The IBRD has also scheduled during the 1989 fiscal year US$50 million for the first construction phase of the latter project, the total cost of which is estimated to exceed US$1.5 billion.

The following table summarizes the World Bank's lending operations as of July 31, 1985:

Projects	IDA Disbursed	IDA Undisbursed	IBRD	Total
	(In millions of U.S. dollars)			
Current status				
Education	17.8	12.3	--	30.1
Transportation	19.4	14.8	--	34.2
Agriculture/Rural development	9.4	2.2	--	11.6
Industry	3.5	2.8	--	6.3
Water supply	5.0	1.0	--	6.0
Urban development	4.0	2.0	--	6.0
Health and population	--	3.5 2/	--	3.5
Subtotal	59.1	38.6	--	97.7
FY 1986-89				
Lending program				
Highlands water	--	8.0	50.0	58.0
Agriculture	--	6.5	--	6.5
Total	59.1	53.1	50.0	162.2

Source: IBRD

1/ Total disbursements less repayment adjusted for exchange rate changes.

2/ Credit not yet effective.

Lesotho - Statistical Issues

1. Outstanding Statistical Issues

a. Real sector

In response to a request by the authorities, a technical assistance mission visited Maseru in February 1985 and reviewed the statistical organization and the methodologies underlying the compilation of statistics on the national accounts, production, prices, and external trade. The mission's report emphasized the need for (a) providing more resources to Lesotho's Bureau of Statistics so that the execution of the major statistical projects is not exclusively dependent on foreign technical assistance; (b) long-term technical assistance in the revision and establishment of a new system of national accounts; (c) initiating work on the computation of external trade indices (unit value and volume) once the backlog in the processing of the 1983 and 1984 import value data has been cleared; (d) expanding in the coverage of industrial production statistics; and (e) updating the weights for the consumer price index.

b. Government finance

The 1984 GFS Yearbook includes central government data for the period 1973-77. In response to the authorities' request for technical assistance in the compilation of statistics on government operations, a mission visited Maseru in April 1985 and set up a derivation table based on the 1983/84 Abstract of Accounts provided by the Treasury and classification keys pertaining to the GFS Yearbook tables on revenue and grants, the economic and functional classifications of current and capital expenditures, and financing by type of debt holder and by type of debt instrument. In collaboration with the GFS correspondent, the procedures established by the mission were tested with reference to the execution of the 1984/85 budget as of November 1984. The authorities agreed to (a) compile government finance statistics when 1982/83 final accounts become available, and (b) update data for 1983/84, 1984/85, and future years.

2. Coverage, Currentness, and Reporting of Data in IFS

The table below shows the currentness and coverage of data published in the country page for Lesotho in the September 1985 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Central Bank of Lesotho, which during the past year have been provided on a timely basis, although the coverage and currentness of the data on the real sector could be improved somewhat.

Status of IFS Data

		Latest Data in September 1985 IFS
Real Sector	- National Accounts	1983/84
	- Prices (retail prices)	Q1 1985
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	n.a.
	- Financing	n.a.
	- Debt	n.a.
Monetary Accounts	- Monetary Authorities	April 1985
	- Deposit Money Banks	April 1985
	- Other Financial Institutions	January 1985
External Sector	- Merchandise Trade: Value - exports	1983
	- imports	1984
	Prices	n.a.
	- Balance of Payments	1983 1/
	- International Reserves	July 1985
	- Exchange Rates	July 1985

1/ Data for 1984 have been received and will be included in a future issue of IFS.

LESOTHO - Basic Data

Area, population, and income

Area	30,444 square kilometers
Population	
Total (mid-1985 estimate)	1.4 million
Growth rate	2.3 percent
GDP per capita (mid-1985)	SDR 188
GNP per capita (mid-1985)	SDR 386

	1981/82	1982/83	1983/84	1984/85	1985/86 Proj.
National accounts	(In millions of maloti)				
GDP at current market prices	336.7	385.8	429.4	502.8	594.1
Of which: agriculture	(67.1)	(77.4)	(94.3)	(121.7)	(...)
GNP at current market prices	621.8	778.5	891.1	1,039.0	1,208.1
Of which: migrant labor income	(285.8)	(393.8)	(457.3)	(524.2)	(602.8)
Gross domestic expenditure at current market prices	739.3	858.7	990.2	1,139.7	1,332.3
External resource gap	-402.6	-472.9	-560.8	-630.1	-738.9
Employment	(In thousands)				
Mine workers 1/	123.5	117.3	115.3	114.1	113.0

	1981/82	1982/83	1983/84	1984/85		1985/86 2/	
				Budget	Prelim. act.	Budget	Staff proj.
Central government finances	(In millions of maloti)						
Revenue and grants	124.8	144.2	179.1	276.5	234.4	297.2	261.0
Revenue	111.1	134.8	169.9	229.7	217.3	239.1	243.9
Of which: Customs Union	(70.8)	(76.7)	(109.9)	(151.5)	(151.5)	(161.1)	(161.1)
Grants	13.7	9.4	9.2	46.8	17.1	58.1	17.1
Total expenditure	183.7	185.0	205.1	271.9	253.4	371.0	299.9
Current	117.1	121.9	141.5	151.7	161.4	206.5	208.5
Capital and net lending	66.6	63.1	63.6	120.2	92.0	164.5	91.4
Overall surplus/Deficit (-)	-58.9	-40.8	-26.0	4.6	-19.0	-73.8	-38.9
Financing	58.9	40.8	26.0	-4.6	19.0	73.8	38.9
Foreign (net)	18.8	25.1	28.5	...	20.0	...	18.7 3/
Domestic (net)	40.1	15.7	-2.5	...	-1.0	...	...
Banking system	(37.1)	(12.0)	(-9.5)	(...)	(-19.2)	(...)	(...)
Other	(3.0)	(3.7)	(7.0)	(...)	(18.2)	(...)	(...)

LESOTHO - Basic Data (concluded)

	1981/82	1982/83	1983/84	1984/85	1985/86 2/ Proj.
Monetary survey (end period)			(In millions of maloti)		
Foreign assets (net)	42.5	87.5	126.3	199.1	201.6
Domestic credit	111.9	124.2	127.7	122.3	134.7
Government (net)	62.3	74.3	64.8	45.6	54.3
Statutory bodies	10.1	11.3	13.8	11.9	11.7
Private sector	39.4	38.6	49.1	64.7	68.7
Money and quasi-money	159.0	200.5	225.4	266.5	274.3
Other items (net)	-4.6	11.2	28.6	54.9	62.0
			(In millions of SDRs)		
Balance of payments					
Current account surplus/Deficit (-)	-49.1	-24.8	-7.0	30.1	3.9
Exports	36.8	32.3	29.6	28.8	24.2
Imports (f.o.b.)	-396.6	-404.2	-470.7	-441.7	-387.0
Workers remittances	267.0	325.0	376.4	355.6	301.4
Other services and income (net)	-16.9	-19.4	-16.8	-10.5	-5.8
Unrequited transfers	60.6	41.5	74.6	97.9	71.1
Capital account	13.4	-1.3	30.1	7.8	-17.1
Long-term capital (net)	20.8	23.8	26.9	16.5	11.9
Short-term capital (net)	-7.9	-25.1	3.2	-8.7	-29.0
SDR allocation	0.5	--	--	--	--
Errors and omissions	-0.6	38.8	2.1	-37.3	--
Overall balance	-36.3	12.7	25.2	0.7	-13.3
Gross official reserves	33.1	46.4	58.0	51.7	47.3 4/
External debt					
Disbursed and outstanding	64.5	103.2	113.4	142.4	143.8
Debt service (as percent of exports of goods and factor services)	3.1	5.8	5.7	7.7	4.7
Debt service (as percent of exports of goods and non-factor services)	15.3	38.7	43.5	59.5	36.5

1/ In the RSA at end of calendar years beginning 1981.
2/ 1985/86 data represent staff projections, except for monetary data which are actuals as of end-June 1985.
3/ On the basis of existing commitments and repayment schedule.
4/ As of August 15, 1985.

Lesotho: Medium-Term Projections of Government Budgetary Operations, 1985/86-1989/90

(In millions of maloti)

	1985/86	1986/87	1987/88	1988/89	1989/90
Total revenue and grants	261.0	262.4	307.9	344.4	365.1
Revenue	243.9	243.1	286.6	321.0	339.4
Customs	(161.1)	(149.5)	(183.6)	(207.7)	(214.8)
Other	(82.8)	(93.6)	(103.0)	(113.3)	(124.6)
Foreign grants	17.1	19.3	21.3	23.4	25.7
Expenditure and net lending	299.9	323.6	354.9	389.5	427.5
Current expenditure	208.5	220.3	241.3	264.6	290.0
Salaries	(108.1)	(122.2)	(134.4)	(147.8)	(162.6)
Interest	(24.3)	(12.2)	(12.3)	(12.7)	(13.0)
Other	(76.1)	(86.0)	(94.6)	(104.1)	(114.5)
Capital expenditure and net lending	91.4	103.3	113.6	125.0	137.5
Overall surplus/Deficit (-)	-38.9	-61.2	-47.0	-45.1	-62.4
Financing	38.9	61.2	47.0	45.1	62.4
Foreign (net) 1/	18.7	34.2	34.4	15.8	17.6
Domestic (net) 2/	-38.6	-10.0	-0.1	2.9	-10.2
Financing gap	58.8	37.0	12.7	26.4	55.0
Memorandum items: (ratio to GDP; in percent)					
Overall surplus/Deficit (-)	6.7	8.9	5.9	5.0	6.0
Total revenues and grants	44.9	38.0	38.7	38.0	35.1
Total expenditure	51.6	46.9	44.6	42.8	41.1

Sources: Data provided by the Lesotho authorities; and staff estimates.

1/ On the basis of existing commitments and repayment schedule.
2/ Includes net receipts from the civil servants' compulsory savings scheme and repayments of other existing domestic debt.

Lesotho: Medium-Term Balance of Payments, 1985/86-1989/90

(In millions of SDRs)

	1985/86	1986/87	1987/88	1988/89	1989/90
Current account surplus/ Deficit (-)	3.9	-11.6	-12.6	-9.1	-14.8
Exports (f.o.b.)	24.2	27.3	30.2	33.3	36.8
Imports (f.o.b.)	-387.0	-425.0	-463.7	-507.8	-555.9
Trade balance	-362.8	-397.7	-433.5	-474.5	-519.1
Workers' remittances	301.4	340.6	374.7	412.1	453.3
Other services and income (net)	-5.8	-9.7	-15.6	-18.1	-21.4
Unrequited transfers	71.1	55.2	61.8	71.4	72.4
Capital account	-17.1	12.5	13.8	4.3	4.8
Long-term capital	11.9	20.1	20.4	11.5	12.8
Official (net)	(9.0)	(16.8)	(16.7)	(7.4)	(8.3)
Private (net)	(2.9)	(3.4)	(3.7)	(4.1)	(4.5)
Short-term capital) Errors and omissions)	-29.0	-7.6	-6.6	-7.2	-8.0
Overall surplus or deficit (-)	-13.3	0.9	1.2	-4.8	-10.0

Source: Staff estimates.

Lesotho: External Public Debt 1/, 1981/82-1989/90

(In millions of SDRs; end of period)

	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
						Projections			
Concessional	44.6	79.2	92.1	117.3	124.3	136.1	151.9	161.2	172.1
Multilateral	42.0	74.8	87.0	108.8	115.0	125.7	141.5	150.9	161.6
Of which: IDA	(13.5)	(39.9)	(47.6)	(58.3)	(60.5)	(65.1)	(70.9)	(72.5)	(74.3)
Bilateral	2.6	4.4	5.1	8.4	9.3	10.4	10.4	10.3	10.5
Nonconcessional	41.3	43.8	27.7	25.1	19.5	24.8	26.2	24.8	22.8
Suppliers' credit	1.7	6.1	3.4	2.2	0.5	0.1	--	--	--
Financial institutions	16.1	12.5	11.5	6.4	--	--	--	--	--
Multilateral	1.7	2.3	3.3	13.7	17.2	23.9	25.8	24.2	22.0
Bilateral	0.3	3.0	3.1	2.9	1.9	0.8	0.5	0.7	0.8
Central Bank 2/	21.4	19.8	6.4	--	--	--	--	--	--
Total	85.9	123.0	119.8	142.4	143.8	160.9	178.1	186.0	194.8
Debt service	8.7	21.9	22.1	22.1	16.3	10.4	10.0	11.0	11.1
Amortization	1.8	16.0	17.2	13.7	12.7	6.5	5.9	6.8	6.8
Interest	6.9	5.9	4.9	8.4	3.6	3.9	4.2	4.2	4.3
Memorandum items				(Ratios - in percent)					
External debt/GDP	29.9	37.6	36.7	48.4	49.5	46.6	44.8	40.9	37.5
External debt/GNP	16.2	18.7	17.7	25.8	23.8	23.4	23.1	21.5	20.1
Debt service/Exports of goods and nonfactor services	15.3	38.7	43.5	53.7	36.6	20.5	18.0	17.8	16.3
Debt service/Exports of goods and factor services	3.1	5.8	5.7	6.9	4.8	2.7	2.4	2.4	2.2

Source: Data provided by the Lesotho authorities.

1/ Disbursed and outstanding. Excludes publicly guaranteed debt on which comprehensive data are not available.
2/ Relates to resources procured by the Central Bank and on-lent to the Government.