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# **Staff Country Reports**

## **Kingdom of Lesotho: Selected Issues and Statistical Appendix**

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INTERNATIONAL MONETARY FUND

KINGDOM OF LESOTHO

**Selected Issues and Statistical Appendix**

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Approved by the African Department

November 2, 2007

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## I. PROMOTING GROWTH AND PRIVATE INVESTMENT IN LESOTHO<sup>1</sup>

### A. Introduction

1. **This paper discusses the challenge of achieving broad based growth in Lesotho.** It examines the main constraints to growth and discusses policy initiatives under way to promote growth and private investment in Lesotho. It is based on a review and synthesis of existing research produced to support the drafting of various developmental initiatives in Lesotho in the last few years (see references).
2. **Lesotho has made considerable progress in macroeconomic stability in the past few years.** The government's fiscal position and external current account have improved markedly, the inflation rate has slowed, and net international reserves have increased. However, poverty, aggravated by a high incidence of HIV/AIDS, remains widespread.
3. **Economic growth has been inconsistent.** In the 1990s, Lesotho grew as fast as 6 percent per year. More recently its growth had slowed down to about 3 percent on average, before surging to 7 percent in 2006. Economic growth in the past has been weakened by the cumulative impact of several shocks. These shocks include a substantial real appreciation of the exchange rate of the rand, to which the loti is pegged; the removal of textile quotas by industrial countries; a continuing decline in the terms of trade; and persistent drought. Lesotho's economic prospects could be affected by further trade preference erosion, a possible decline in revenue receipts from the Southern African Customs Union (SACU), and falling remittances from Lesotho workers in South Africa.
4. **Lesotho is facing the challenge of restoring external competitiveness and promoting rapid and broad based growth to reduce poverty and achieve the Millennium Development Goals (MDGs).** Economic growth in Lesotho needs to be broad based for the country to visibly reduce poverty and raise the standard of living to an acceptable level. Appropriate actions will also be needed to ensure that an adequate share of the growing income is devoted to reducing poverty by, for example, improving the delivery of social services. In view of the low level of per capita income in the country, redistribution cannot provide a solution to the problem of poverty unless the size of the national cake increases remarkably.
5. **The remainder of the paper is organized as follows.** Section B discusses the sources of growth in Lesotho using a social accounting matrix model and a growth accounting framework. Section C discusses the main constraints to growth and private investment and growth in Lesotho. Section D then outlines current policy initiatives under

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<sup>1</sup> Prepared by Charles Amo Yartey.

way to promote broad based growth and private investment in Lesotho. The conclusion of the paper is presented in Section E.

## B. Accounting for Sources of Growth

### The Social Accounting Matrix (SAM)

6. **The World Bank has produced a Social Accounting Matrix (SAM) to analyze the impacts of a variety of economic shocks on growth in Lesotho.** The model is utilized to decompose the marginal contribution to growth, employment and poverty of the following structural shocks: decline in miners' remittances, Lesotho Highland Water Project (LHWP) investment, and expansion of the textile and garment industry (World Bank, 2005). The analysis shows that during the high LHWP period (1987/88-1998/99), the model yields GDP growth rates averaging 6.2 percent per annum, close to the actual growth rates of 6 percent per annum. This rate of growth can be decomposed as follows: 4.8 percent growth associated with LHWP investments; 2.3 percent growth from the increase in garment exports; and 1.0 percent reduction in growth due to declining migrant remittances.

7. **At the sectoral level, the model simulations reproduce history with reasonable accuracy and shed light on the backward and forward linkages between sectors as well as the goods, services and the labor market.** The model shows that the primary sector, for instance, gained about 4 percent in response to the LHWP and garment sector shocks. However, half of this growth was offset by dampened demand due to shrinking remittance incomes. Growth in the manufacturing sector at 10 percent per annum (the actual was also 10 percent) was driven by garment exports, which increased at over 8 percent, creating many new jobs and boosting household incomes. The model also shows that LHWP related activity raised demand for manufactured products by an additional 2 percent, but half of this was trimmed away by declining remittances.

Table I.1. Accounting for Growth During the High LHWP Period (1987/88–1998/99)—Simulations from the SAM Based Model (In percent, unless otherwise stated)

	Decline in remittances	Increase in LHWP investment	Rise in garment exports	Combined effects of all 3 shocks
<i>Contribution to:</i>				
GDP growth	-1	4.8	2.3	6.2
Number of jobs created (Number)	-7600	14,000	10,000	17,000
Employment	-1.6	3.1	2.3	3.7
<i>Household income effect:</i>				
Change in income distribution	-2.1	2.5	1.2	1.7
--High income households	-1.9	2.5	1.2	1.7
--Low income households	-3.3	2.2	1.3	2.1
--Urban households	-1	1.6	0.9	1.5
--Rural households	-4.1	4.3	2	2.2

Source: World Bank (2005).

8. **A key insight of the model is that while real GDP growth was sustained at 6.2 percent per annum for a decade, it was accompanied by neither sufficient job creation nor sufficient increase in household incomes.** Per annum growth in employment was less than 4 percent and in average incomes less than 2 percent far below the growth rates needed to reduce poverty.

9. **Why did high GDP growth during the high LHWP period not lead to job creation and reduce poverty?** The model shows that the narrow base and pattern of growth explains much of this conundrum.

- First, the sectors that support the poor grew slowly. A substantial contraction in the share of primary sector GDP during the high LHWP period triggered large scale losses in rural job opportunities.
- Second, growth was capital intensive while decline in remittances adversely affected job creation. Economy wide job creation predicted by the model at a rate of 3.7 percent per annum was insufficient to reduce unemployment rates of over 25 percent.
- Third, rural areas benefited little from the LHWP and the garment sector growth. Approximately 40 percent of the new jobs were in the primary sector, in which the average earnings are not high enough to pull households out of poverty. This was offset by job losses resulting from declining remittances.
- Last, the bulk of the jobs created were in manufacturing and or urban areas. The model estimates that about 32 percent of new jobs were in manufacturing, an urban activity that provides low wages (still above the poverty line), especially in textiles.

Table I.2. Accounting for Growth During the Post LHWP Period (1998/99–2000/01)—Simulations from the SAM Based Model (In percent, unless otherwise stated)

	Decline in remittances	Increase in LHWP investment	Rise in garment exports	Combined effects of all 3 shocks
<i>Contribution to:</i>				
GDP growth	-2.3	3	2.8	3.6
Number of jobs created (Number)	-18200	9,000	13,000	3,800
Employment	-4	2	3	1
<i>Household income effect:</i>				
Change in income distribution	-5	1.6	1.6	-1.7
--High income households	-4.6	1.6	1.6	-1.9
--Low income households	-7.9	1.4	1.6	-0.3
--Urban households	-2.4	1	1.1	-0.2
--Rural households	-9.9	2.7	2.5	-4.6

Source: World Bank (2005).

10. **The model is also useful in explaining how GDP growth declined to 3-4 percent per annum in the post LHWP period (1998-2000/01).** The model yields GDP growth of 3.6 percent after 1999/00, a combined effect of the following: a) 2.3 percent decline in GDP



fueled by persistently declining remittances; b) 3 percent growth in GDP related to LHWP investments which, although declining, were still fairly large; and c) 2.8 percent growth in GDP attributable to the steady performance of garment exports.

11. **Since 2004, growth has been driven mainly by the garment and mining sectors with agriculture playing a limited role.** The Mining sector has recorded strong growth between 2004 and 2006, contributing roughly 65 percent to real GDP growth over the period as a result of the reopening of the diamond mines. Two diamond mines in Letseng and Lihobong are operational. Other mines are expected to be opened in Kao, Mothae and Kolo. Diamond production in Lesotho reached 97,097 carats in 2006 compared with 47,633 a year earlier (Central Bank of Lesotho, 2007). The performance of the garment sector has been strong except in 2005 as a result of a more competitive operating environment caused by the strong exchange rate and the end of quotas under the International Agreement on Textiles and Clothing. About 10,000 jobs were lost between December 2004 and June 2005 through factory closures and reductions in production lines. However, the sector rebounded in 2006 contributing roughly 10 percent to GDP growth. The agriculture sector has contributed minimally to GDP growth because of adverse weather conditions. The rebound of the garment sector and the growing diamond mining are expected to continue to drive medium term growth in Lesotho.

Table I.3. Lesotho: Sectoral Contribution to Real GDP Growth (2004–06)

	2004	2005	2006 Estimates
<b>Primary sector</b>	-7.6	0.7	3.2
Crops	1.9	2.0	4.9
Livestock	-7.0	-2.6	-1.3
Agric. services	-1.7	1.2	-0.5
<b>Secondary sector</b>	79.1	130.4	60.1
Mining	56.0	104.0	28.5
Manuf.&handicraft	11.6	-54.7	20.8
Food products and beverages	-2.6	-3.2	5.0
Textiles, clothing, footwear and leather	16.2	-49.1	11.2
Other manufacturing	-5.0	3.4	4.5
Electricity & Water	2.3	31.5	9.7
Construction	-12.9	9.3	1.1
<b>Tertiary sector</b>	8.1	-1.2	26.8
<b>GDP at constant factor cost</b>	86.3	144.0	90.0
Net taxes on products	13.9	-48.6	10.0
<b>GDP at constant 1995 market prices(incl. LHWP)</b>	100.0	100.0	100.0
<b>Real GDP Growth</b>	4.0	3.1	7.2

Source: National authorities and staff estimates

### Growth Accounting Exercise

12. **The result from a growth accounting exercise suggests that economic growth in Lesotho has been driven mainly by factor accumulation.** Between 1960 and 2002, real

GDP posted a positive annual growth rate of 3.4 (table I.4). Factor accumulation took place on an annual rate of 3.5 percent, accounting for roughly 105 percent of growth, with physical capital and labor accounting for roughly 74 and 31 percent respectively (Tahari, Ghura, Akitoby and Aka, 2004). The country, however, experienced total factor productivity growth of -0.1 percent during the period, representing a contribution of -5 percent to real GDP growth.

Table I.4. Sources of Real GDP Growth in Selected Sub-Saharan African Countries, 1960-2002

	Investment/GDP	Real GDP growth	Contribution of		
			Physical capital	Labor	Total factor productivity
Sub-Saharan Africa	19.9	3.2	1.8	1.5	0
Angola	18.1	2.3	2.1	1.6	-1.4
Botswana	27.5	7.5	3.8	1.7	2
<b>Lesotho</b>	<b>44.2</b>	<b>3.4</b>	<b>2.5</b>	<b>1.1</b>	<b>-0.1</b>
Madagascar	13.1	1.2	0.8	1.6	-0.2
Malawi	14.6	3.5	2.1	1.4	0
Mauritius	23.9	5.3	2.5	1.6	1.2
Mozambique	20.4	3.6	2.3	1	0.3
Namibia	20.5	1.9	1.5	1.5	-1.1
South Africa	18.9	<b>3.1</b>	<b>1.5</b>	<b>1.4</b>	<b>0.1</b>
Swaziland	22.4	<b>4.6</b>	<b>1.6</b>	<b>1.6</b>	<b>1.4</b>
Zambia	14.3	2.3	1.7	1.6	-1
Zimbabwe	16.8	2.6	1.6	1.8	-0.7

Notes: Investment is average gross fixed capital formation as a percentage of GDP from 1980-2004.

Source: Tahari, Ghura, Akitoby and Aka, 2004 and World Development Indicators

13. **The growth accounting exercise also shows a high contribution of physical capital to growth and little contribution from labor.** Lesotho has one of the highest investments to GDP ratios in sub-Saharan Africa but real GDP growth has been lower than in countries with lower investment to GDP ratios. In addition, Lesotho has one of the lowest contributions to growth from labor in SSA. Productivity growth has also been slightly lower than the sub-Saharan African average.<sup>2</sup>

14. **The empirical literature on the determinants of total factor productivity growth identify good quality institutions, human capital development, favorable macroeconomic environment, and economic diversification as factors that positively influence TFP growth.** Better institutions promote rule of law, secure property rights, enforce contracts, and limit the powers of political leaders, thereby increasing incentives for

<sup>2</sup> The high investment to GDP ratio in Lesotho is due to the huge investment undertaken during the Lesotho Highland Water Project. In addition any ratio to GDP in Lesotho is likely to be misleading because of the large size of remittances and transfers, which are part of GNDI but not of GDP.

investment. A well educated and healthy workforce increases human knowledge, encourages innovations, and facilitates the adoption of new technologies. Diversification of the economic base is crucial for TFP growth. Berthelemy and Soderling (2001) shows that countries in SSA that have been successful at diversifying their economic base from agriculture to secondary and tertiary sectors have experienced higher TFP growth.

### **C. Promoting Growth in Lesotho: Key Constraints and Challenges**

#### **Cross Cutting Constraints**

15. **Lesotho has a small market and a peculiar location.** The country is highly dependent on South Africa but this dependence has declined in recent years. A challenge for Lesotho is to exploit the proximity to South Africa and tailor the spillover to its own advantage. This could imply using the design of South Africa's institutions as a template for its own institutions (with appropriate modifications); using South Africa's superior services more proactively to promote its own development goals, and partnering with South Africa's tourism authorities to include and promote Lesotho as a destination.

16. **Agriculture—the backbone of the rural economy and the sector that employs most of the poor—has been stagnant since the early-1990s.** The economy is largely based on limited agricultural and pastoral production and on light manufacturing. About 70 percent of Lesotho's population lives in the rural regions and mountainous areas where income is generated from traditional, largely subsistence, low-value-added agriculture and herding. The average household plot holding is about half a hectare, only two-thirds of households have access to land, and 70 percent of the plots are sharecropped informally. The poor performance of the agricultural sector in recent years has led to negative per-capita growth in agriculture output with serious consequences for food security. In addition, agricultural performance is heavily affected by an eroding natural resource base, lack of infrastructure, vulnerability to drought, and the high HIV/AIDS prevalence.

17. **Another challenge to the growth outlook is the expiration of the Multi Fiber Arrangement (MFA) and the uncertainty after 2012 of the AGOA rules of origin clauses.** Lesotho's exports include a narrow range of products to a single market (the US) financed largely by FDI. With the expiration of the MFA, Lesotho's textile exports have to compete with some of the most efficient producers in the world, including China and India. Unless the productivity of labor improves, it will be difficult for the garment industry to diversify into higher value added products which face reduced competition. There is also the risk that FDI may relocate to more competitive countries. Related to this is the uncertainty after 2012 when AGOA's new rules of origin clause will kick in. This clause will require firms in Lesotho (which presently import almost all materials from China) to use fabric produced in AGOA to benefit from tariff-free access to the US markets.

18. **Infrastructure is inadequate and constrains economic growth and human development.** In particular, the absence of good roads prevents access to the mountain areas

with tourism potential. It also prevents the rural population from accessing markets, schools and health facilities. In Maseru, where roads in general are adequate, the neglect of the railhead at Maseru Station is hampering the development of the sandstone quarrying and other manufacturing sectors. The poor quality of many infrastructure services has been a serious problem for the private sector in Lesotho. Although the quality of telecommunications service is relatively poor and the availability of water is placing constraints on the garment industry, the poor performance of the power and transportation sectors appear to be the greatest constraints. Despite price increases at the beginning of 2004, the cost of power does not appear to be high by international standards but the quality of service is poor. Although outages are less common than in most SSA countries, firms had greater losses due to outages than in several African countries with more outages because firms in Lesotho are less likely to have generators (World Bank, 2007). Public infrastructure needs to be further developed to improve the efficiency of the road, rail and energy sectors and harness the country's water resources for human, industrial and irrigation needs.

**19. Over the medium term, the most worrisome and potentially most devastating development is the impact of HIV/AIDS.** Lesotho has one of the highest HIV/AIDS prevalence rates among all sub-Saharan African countries. The results of a population-based HIV prevalence survey conducted in 2004 showed that 24 percent of the adult population is HIV-positive.<sup>3</sup> Prevalence rates are found to be higher in urban areas (29 percent) than in rural areas (22 percent). The most worrisome trend is that one in nine persons aged 15-24 is HIV-infected, with 15 percent among young women and 6 percent among young men. The impact on households is severe, often leading to depletion of assets to cover medical and burial costs, and to a loss of income as productive members of the household become ill and die. Preliminary estimates indicate that the cost to the economy and the public sector of the HIV/AIDS pandemic are very high. Slower labor force growth and a lower savings rate, which reduces capital formation, could lower output growth by an average of 0.4 percent per year between 2005 and 2014. The impact of HIV/AIDS on the fiscal position of the government could also be considerable, although donors finance a significant proportion of the efforts against HIV/AIDS.

### **Constraints to Firm Growth**

**20. The private sector faces constraints related to the weak property rights and rule of law, access to finance, and bureaucratic red tape.** A firm level survey in Lesotho found crime, access to finance, tax administration, and exchange rate instability as constraints to growth (World Bank, 2007). Over 40 percent of managers rated each of these issues as a major or very severe problem. These were not the only obstacle to firm investment and growth—corruption, electricity shortage, policy uncertainty, access to land, weak legal

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<sup>3</sup> Lesotho Demographic and Health Survey, 2004. Ministry of Health and Social Welfare and Bureau of Statistics, Maseru, Lesotho, February 2006.

systems, poor telecommunication infrastructure, and skill shortage were also mentioned as major problems by smaller percentages of firms.

### ***Inadequate Access to Finance***

21. **The firm level survey finds that about half of firms in Lesotho rated the cost of financing as a major or very severe problem and close to 40 percent rate access to financing the same way.** Lesotho's financial sector is small and concentrated. The banking sector, which is small and relatively underdeveloped, is dominated by three South African owned banks, while the non banking financial sector is also very small. Commercial banks provide little finance to small and medium enterprises limiting their services to overdraft facilities for large customers in the service and trade sectors. The legal framework is also a deterrent to financial intermediation. The slow execution of due process manifested by slow court proceedings, lender's inadequate access to timely foreclosure procedures, the absence of credit assessment information, and weak enforcement of property rights all undermine financial intermediation. Moreover, the legal system puts married women at a legal disadvantage because matrimonial law in Lesotho treats them as minors.<sup>4</sup>

### ***Crime and Security***

22. **In contrast to most other areas of the investment climate, there was broad agreement among the firms covered by the survey that crime and security is a serious problem.** About 47 percent of manufacturing enterprises and 53 percent of construction firms rate crime, theft and disorder as a major or very severe problem. Moreover, complaints about crime and security were common among foreign and domestic enterprises. Employee theft appears to be an especially serious problem in Lesotho. In the manufacturing sector, managers attributed close to three quarters of losses to employee theft. Managers of garment firms were particularly concerned about employee theft—attributing over 90 percent of losses due to crime to employee theft. This is considerably higher than South Africa, where only about 43 percent of direct losses were attributed to employee theft.

### ***Corruption and Regulation***

23. **Corruption and the burden of regulation have been impediments to private investment in Lesotho.** Lesotho has been fairly successful in attracting foreign investors to take advantage of its trade preferences (the Lesotho National Development Corporation is playing an important role in attracting investors). These temporary advantages need to be consolidated by public interventions that will continue to attract new investments. The challenge for the government is to reduce corruption and the burden of regulation to retain existing investors and attract new investors to Lesotho's textiles industry. Even though

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<sup>4</sup> A law has recently been enacted to improve the status of married women and ensure the access of married women to property rights.

corruption remains a concern for firm growth, it is less of a problem in Lesotho than in most SSA. Lesotho ranks relatively well on many corruption indices. In 2007 edition of the Transparency International's Corruption Perception Index, Lesotho ranked 84<sup>th</sup> out of 179 countries—higher than most SSA countries. Lesotho also scores well on other aggregate indices related to other governance measures (for example, government effectiveness and the rule of law). About 45 percent of managers interviewed mentioned that gifts or informal payments were needed to get things done with regards to taxes, licenses, regulations, and services but the median reported payment was lower than in most African countries. Although corruption is relatively low, the burden of regulation is not. Managers in Lesotho reported spending more time dealing with government regulations, inspections and required meetings than managers in South Africa. Starting a business can also be complicated. In 2005, it took nine procedures and 92 days to start a standard business. This is higher than in most countries. The cost is also higher both in dollar terms (\$453) and as a percent of per capita income (61.2). By reducing procedures and the time to complete each procedure, the government could seriously reduce entry cost. It is also important to develop and implement a modern legal framework to lay the foundation for a business friendly legal and regulatory environment.

### ***Exchange Rate Instability***

24. **Exchange rate instability is considered a major constraint to firm growth.** About 40 percent of firm managers in Lesotho, mainly exporters, rated exchange rate instability as a serious concern. Although the peg with the rand means that there has been little instability with respect to the rand, the rand has varied greatly against the US dollar in recent years. This is especially problematic for garment exporters because about 93 percent of garment exports from Lesotho are bound for the U.S. due to AGOA. This emphasizes the need to diversify exports away from the United States. Diversifying export markets outside of the United States and exports out of the garment sector would reduce concern about the dollar-rand exchange rate and make the economy less vulnerable to exchange rate fluctuations.

### ***Tax Administration***

25. **About 43 percent of firms rated tax rates as a major or very severe obstacle.** Although this might suggest that taxes are too high, it is important to emphasize that taxes are needed to finance public expenditures including those needed to improve the investment climate and that tax rates typically rate among the largest constraints especially in low income countries. The World Bank's latest Doing Business report calculated the amount of taxes that a manufacturing enterprise would pay under a set of standardized assumptions about profitability, ownership, and other enterprise characteristics. Under these assumptions, the enterprise would pay less in taxes in Lesotho than it would in most SSA countries. In addition to perception based measures, firms were asked about the number of tax inspections that they faced during the previous year. The median enterprise in Lesotho reported 7

inspections or required meetings. In comparison, the median enterprise in South Africa, Mozambique, Kenya and Tanzania reported 1, 1, 2, and 6 inspection(s) respectively.

### ***Education and Training***

26. **The investment climate assessment shows that worker education and skills limit the growth and productivity of the private sector, especially export oriented industries such as the garment industry.** In spite of the recent improvements in educational infrastructure, the demand for education beyond primary levels and the success rates are unacceptably low. Some survey evidence suggests that the high cost of secondary education is one of the reasons for low demand. To improve the productivity of its abundant but low skilled labor, the government needs to improve the delivery and outcomes of both education and training and develop and expand technical education. Attention also needs to be paid to vocational training, as the country does not have the institutions that develop the kinds of skills that are required in the economy. Special efforts need to be made to facilitate the diffusion of skills from the export oriented sector. In addition, proactive measures, such as public private initiatives in training are needed to integrate the export sector with the rest of the economy.

### ***Growth Policies in Lesotho***

27. **Promoting total factor productivity growth is important for growth in Lesotho.** Lesotho's long run growth prospects depend importantly on policies and institutions that will help to maintain TFP growth, reduce unemployment by enhancing job skills, and improve the investment environment. The policies to boost TFP include efforts to improve education and skills development, governance institutions, and private sector development.

28. **Boosting TFP alone will not be sufficient to raise economic growth rates in Lesotho to levels required to significantly reduce poverty.** It will also be essential to boost the level and quality of public and private investments. Concerning private investment, recent empirical work suggests that it can be boosted by increases in government investment, a stable macroeconomic environment, financial deepening, and improvement in the quality of institutions. It is also important to encourage employment friendly investments and to keep labor market institutions flexible.

29. **The government is developing a Growth Strategy Paper (GSP) with the objective of achieving broad based and sustainable growth.** The GSP sets out the opportunities and most binding constraints facing the economy. Furthermore, it sets out the policy framework and makes sectoral level recommendations on prioritized actions to be implemented. The GSP aims to achieve its objectives by linking itself to the budget process. This document, expected to become an implementation tool for the growth component of the Vision 2020 and the PRS, will be the basis for Budget Framework Papers. In addition, the GSP is expected to provide an analysis of the potential growth sectors and make recommendations on the potential short, medium and long term sources of growth. It is expected that the GSP

will enable the budget process to be geared toward higher, broad based and sustainable growth.

30. **The government has initiatives designed to alleviate some of the constraints to growth.** Important efforts are ongoing to improve access and affordability of basic physical infrastructure (power, telecommunications, and water). In addition, the government recently outlined key reform that will be fast tracked for implementation in the areas of the judiciary and administration of justice, the financial sector, and the land tenure and mortgage regimes. These reforms should improve the availability of finance as firms will be able to pledge land as collateral. Many of these reforms are expected to be funded by the Millennium Challenge Corporation and the World Bank's Private Sector Competitiveness Project.

31. **The government has signed a \$362.6 million Compact with the Millennium Challenge Corporation to promote growth and reduce poverty.** The Compact is focused on improving the provision of water supplies for industrial and domestic use, improving health outcomes and removing barriers to foreign and domestic private sector development. The water sector project will provide essential infrastructure (the construction of Metolong dam) to deliver water to garment and textile operations. The health sector project is expected to mitigate the economic impacts of poor maternal health, HIV/AIDS and other diseases by substantially strengthening the country's health care infrastructure and human resources for health capacity. The private sector development project is designed to increase private sector economic activity by improving access to bank finance, reducing transactions costs and increasing the participation of women in the formal economy.

32. **In the agriculture sector, the government has initiatives to increase food production.** The main priority is to move away from maize-driven food self-sufficiency to food security by developing production where the country has a comparative advantage and access to markets, such as in certain vegetables and fruits and through production support aimed directly at the poor. The key elements to achieve these objectives include: development of a national land policy; intensification of agricultural production, piloting a block farming approach in horticulture and fruit trees and strengthening and decentralization of the extension service. Further efforts are still needed to increase agriculture investment, promote cash cropping and encourage agro processing.



### Box I.1. Lesotho: Structural Reform Agenda

Key elements of the structural reform agenda developed jointly with the support of the World Bank and bilateral donors include:

#### Removing regulatory constraints

- Restructure and consolidate registration processes to reduce the time it takes to register a business to under one week;
- Convert mandatory trade licensing to a reporting requirement, eliminate the licensing boards and the pioneer industries board to significantly reduce the time and costs of obtaining both trade and industrial licenses;
- Simplify and streamline immigration, customs and work permit procedures;
- Reduce the compliance costs to tax payers; and
- Make the commercial courts functioning

#### Improving the Private Sector's Access to Bank Credit

- Put in place a comprehensive and easily accessible property registry;
- Introduce a national identification system;
- Amend the Matrimonial Act to allow married women access to bank credit without their husbands' permission;
- Simplify and streamline land transfer procedures; and
- Develop leasing facilities

#### Assisting adjustment of Private Investors

- Develop a strategy for a competitive textile sector—emphasizing product and market diversification—in the context of the “Multi Fiber Agreement”
- Attract new FDI through public-private cooperation in the inter-ministerial task force;
- Improve labor productivity through industry led, demand driven skills development programs;
- Invest in utilities, roads, and solid waste and water facilities; and
- Launch outreach marketing programs to secure and improve market access.

Source: IMF Country Report No. 06/404

33. **Initiatives are also under way to reduce the spread of HIV/AIDS but more needs to be done to strengthen social safety nets and care for HIV/AIDS affected.** With the support of the Global Fund, the government has initiated a treatment campaign to roll out anti retroviral drugs (ARV), widen the distribution of protective measures like condoms, and scale up HIV/AIDS prevention. It is expected that by the end of 2010, ARV would reach about 80 percent of ARV needed population. The pace of implementation of these programs, however, remains slow and efforts are needed to speed up the process. Direct measures are needed to improve the welfare of the poor, as the bulk of the children and elderly are in poor households. Families faced catastrophic illnesses such as HIV/AIDS and death of productive members, and those caring for orphans also need direct public assistance through safety nets

provision. HIV/AIDS still remain a major challenge to the health sector and a major risk to the achievement of any substantial improvement in health outcomes.

#### **D. Conclusion**

34. **Lesotho has made considerable progress in macroeconomic stability in the past few years but sustaining fast growth remains a challenge.** Growth has recently surged but has at times been weakened by the persistent drought, the real appreciation of the loti, and the removal of textile quotas by industrial countries. The country is facing the challenge of restoring external competitiveness and promoting rapid and broad based growth to reduce poverty and achieve the Millennium Development Goals (MDGs).

35. **Accelerating economic growth in Lesotho requires multiple policy reforms in several core areas:** property rights, infrastructure, education and skills development, agricultural development, governance, private sector development, and social safety nets. The government has started to implement a number of reforms designed to alleviate some of the constraints to growth. Important efforts are ongoing to improve access and affordability of basic physical infrastructure. In addition, the government recently outlined key reform that will be fast tracked for implementation in the areas of the judiciary and administration of justice, the financial sector, and the land tenure and mortgage regimes. These reforms should improve the availability of finance. Further efforts are still needed to exploiting the growth potential of the rural economy, improve the regulatory and institutional framework, improve transportation links to South Africa, strengthen education and skills development programs, improve labor productivity and accelerate diversification. The multiplicity of needs and constraints calls for action on several fronts, but also for an effort to prioritize. The work on the Growth Strategy Paper, which is closely aligned with the production of a new PRS, is expected to be key in this regard.

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## II. ASSESSING LESOTHO'S REAL EXCHANGE RATE AND COMPETITIVENESS<sup>1</sup>

### A. Introduction

1. **There are several methods for assessing the real exchange rate**, among them, the absolute purchasing power parity (PPP) approach, the macro-balance (MB) approach, the external sustainability approach (ES), and the Behavioral Equilibrium Exchange Rate (BEER) approach.<sup>2</sup> In this chapter,

- A number of approaches are used to compare Lesotho's real exchange rate with its equilibrium exchange rate; and to quantify where possible any uncertainty about the estimated equilibrium exchange rate. We also discuss the problems that arise in applying these methods to Lesotho.
- Recognizing the limitation of any model-based exchange rate assessment, alternative indicators are also used to assess Lesotho's competitiveness.

#### **The main findings are that**

- Taking the PPP approach, Lesotho's currency, the loti, would seem to be undervalued, but the undervaluation is not statistically significant. The MB approach produces a current account norm that is 1¾ points of GDP weaker than projected for 2007. The ES approach indicates that the current account balance that would stabilize the ratio of net foreign assets to GDP at the 2006 level would be 1 percent of GDP weaker than projected for 2011. These estimates should be taken with caution given their large margins of error.
- The ES approach indicates that Lesotho is likely to see a strengthening of its net foreign asset position in the next several years. That is consistent with the results of the debt sustainability analysis (DSA), which in the baseline scenario shows continued accumulation of external assets over the medium term.<sup>3</sup> This is a welcome prospect in view of the uncertainty around key external variables in the medium and long term.
- Unit labor costs indices (adjusted for productivity) in Lesotho's textile sector have been rising faster than in the manufacturing sectors of China and Kenya, two

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<sup>1</sup> Prepared by Hamid R. Davoodi.

<sup>2</sup> See International Monetary Fund (2006).

<sup>3</sup> See supplement 2 to the Staff Report for the 2007 Article IV Consultation.

representative competitors; but Lesotho's 2006 tax cuts and the depreciation of the rand against the U.S. dollar have helped restore some lost ground.

- Survey-based indicators of competitiveness rank Lesotho low in many of the areas the government has already identified as weaknesses and which it is targeting in its structural reform agenda.

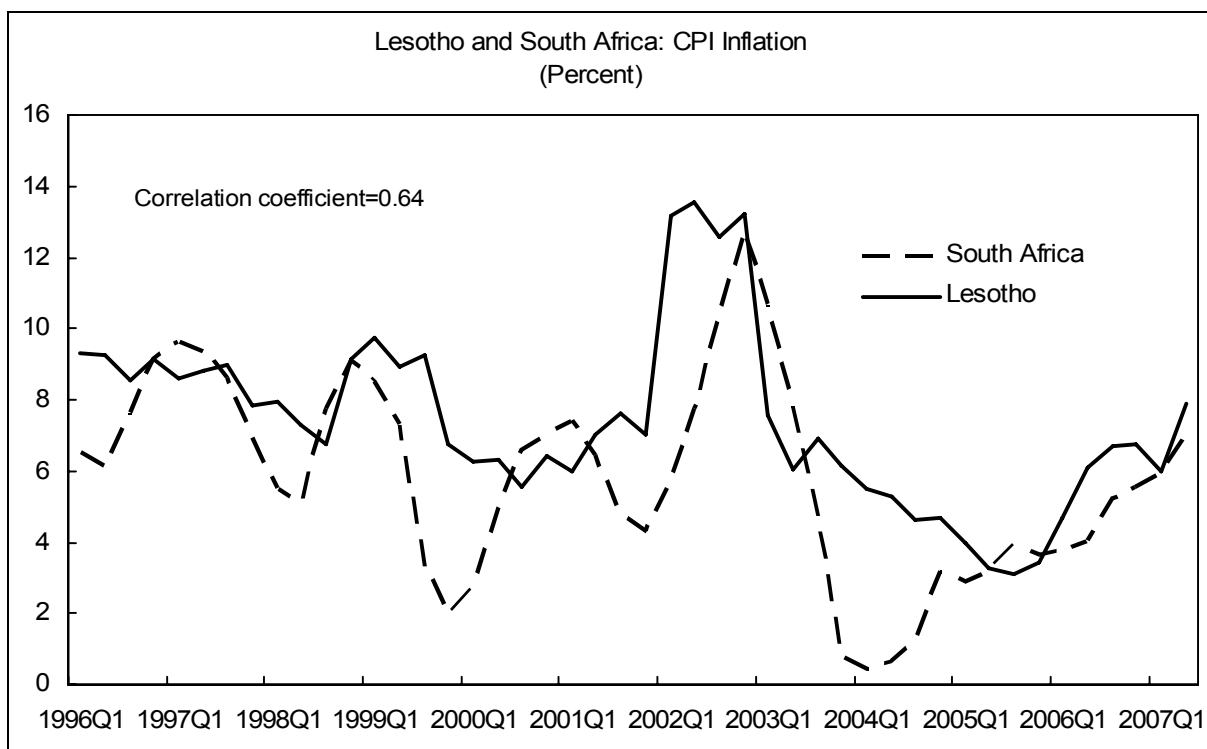
## **B. Background**

### **2. Lesotho is a small, open economy highly dependent on trade with South Africa.**

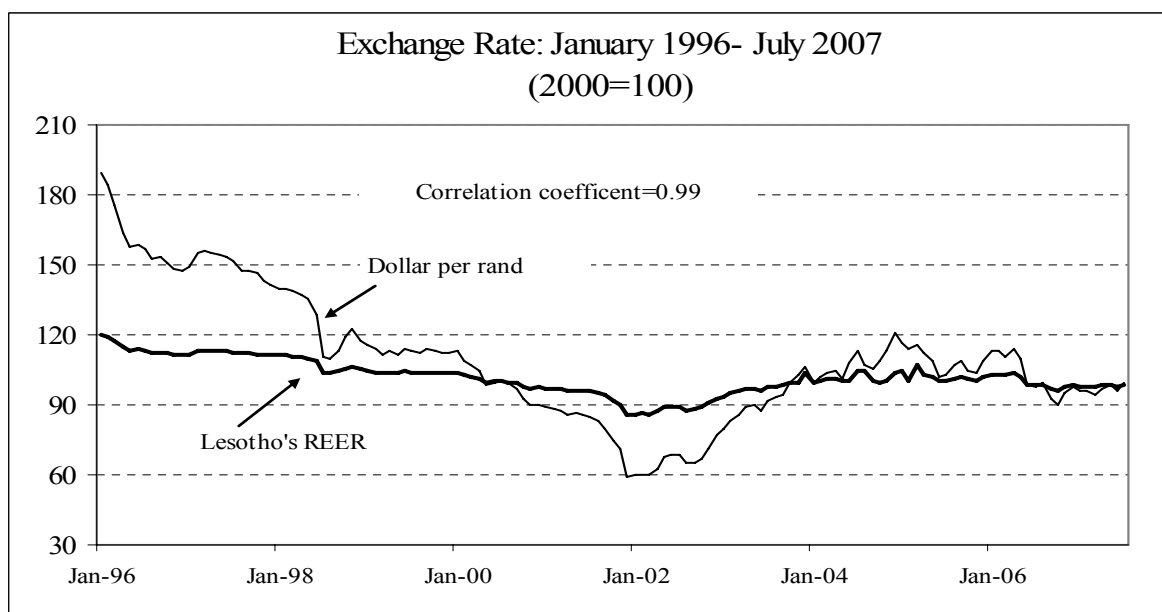
It has a small population (1.8 million vs. 47.5 million for South Africa) living in an area that is roughly 2½ percent of South Africa's area. Lesotho is landlocked and relies primarily on South Africa for its access to trade with the rest of the world. The volume of its trade amounts to 140 percent of GDP. About 80 percent of its imports come from South Africa, but 80 percent of its exports move outside Africa, primarily to the United States.

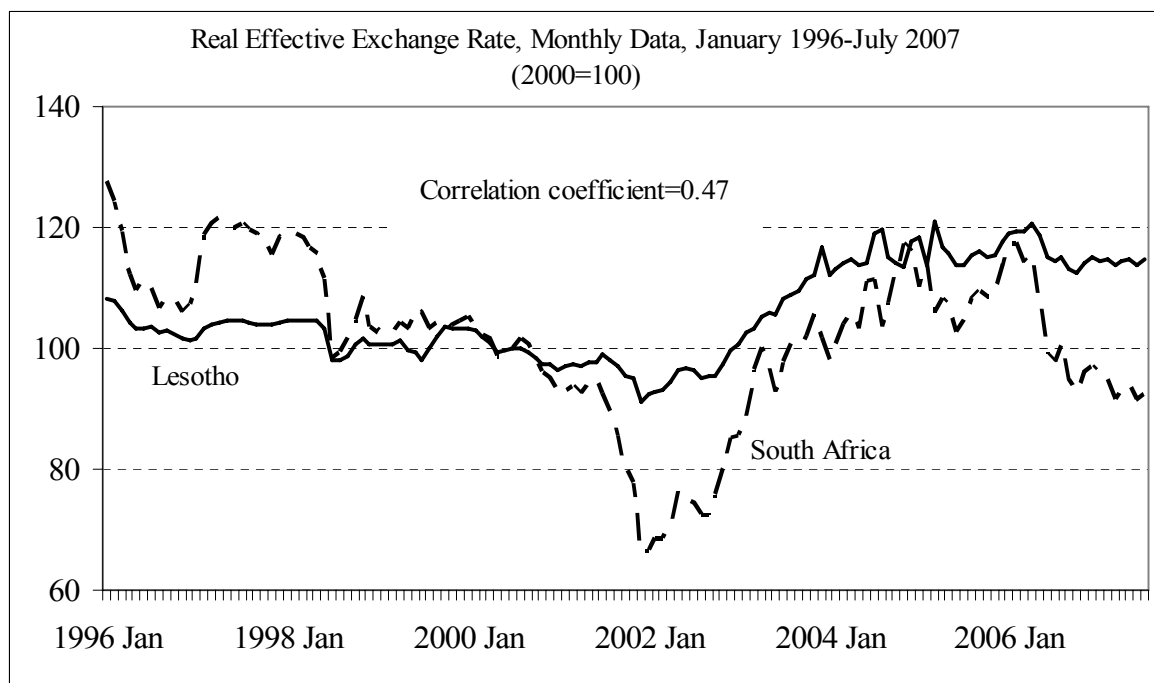
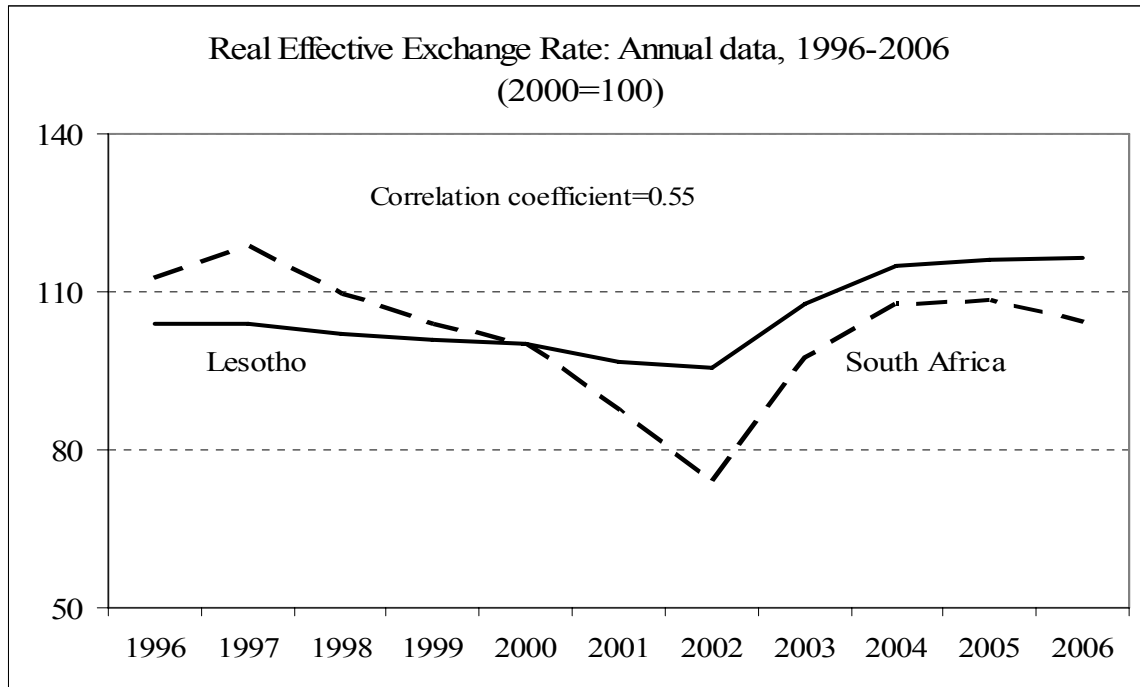
**3. The Loti is pegged at par to the South African rand.** This exchange rate regime is at the core of the Common Monetary Area (CMA), the other member of which are South Africa, Swaziland and Namibia. The CMA is not a monetary union—each CMA member has its own central bank and issues its own currency; there is no pooling of central bank reserves—but the rand is legal tender in all member countries. With free capital mobility within the CMA, the interest rate policy of the South African Reserve Bank (SARB), South Africa's central bank, influences monetary conditions throughout the CMA. The target for central bank reserves in Lesotho (as well as in Namibia and Swaziland) is guided primarily by the commitment of each country to maintain the peg to the rand within the CMA arrangement.

**4. Lesotho's CPI inflation rate closely tracks that of South Africa, which has an inflation targeting framework,** because of both the peg to the rand and the large dependence on trade with that country. Recent econometric evidence suggests that South Africa's inflation rate Granger causes Lesotho's inflation rate there is not no evidence of reverse causality (Wang et al, 2007).



5. **Movements in the loti's real exchange rate are largely exogenous to developments in Lesotho.** The loti's real effective exchange rate (REER) is dominated by movements in the rand-U.S. dollar exchange rate. As a small open economy, Lesotho simply cannot influence the relative price of the national currencies of its two major trading partners, the United States and South Africa.





6. The BEER approach and similar methods are, therefore, of little value in assessing Lesotho's real exchange rate.<sup>4</sup> Moreover, South Africa and Lesotho have

<sup>4</sup> A common specification of the BEER approach models REER as a function of a certain fundamentals: ratio of net foreign assets to GDP or exports, productivity differential with trading partners), commodity terms of trade, (continued)

different export structures: precious metals dominate South Africa's exports and textiles dominate Lesotho's. Commodity terms of trade, which is an important factor in BEER models, could therefore move in favor of or against Lesotho without affecting Lesotho's conventionally estimated REER. Indeed, the correlation coefficient between South Africa's terms of trade and Lesotho's is not different from zero at the conventional statistical levels. Other explanatory variables used in BEER models, such as government consumption would also be of little value in assessing Lesotho's REER since Lesotho's government consumption, about 1 percent of South Africa's, is too small to influence the value of the rand.

7. **However, Lesotho's *absolute price level* can differ from South Africa's**, due to being a landlocked country, which adds to transportation costs, prices of non-tradable goods and services, and other factors that affect the cost of doing business in the two countries. This is particularly relevant in the absolute version of the PPP approach.

8. **The MB and ES approaches to exchange rate can be useful in assessing the sustainability of the current account balance, but not the exchange rate—although even in this limited role these approaches should be interpreted with caution.** In most applications, the last step of both approaches is to calculate the change in the real exchange rate that is needed to close the gap between the underlying current account and the current account norm, given an estimate of the elasticity of the current account with respect to the real exchange rate. This crucial step assumes that a country's saving-investment balance will be equilibrated over time through changes in its REER, but this is clearly not a realistic assumption for Lesotho. That is not to suggest that Lesotho cannot or should not try to influence its saving-investment balance for external stability purposes, given its commitments to the CMA and the peg; it merely means that such efforts will not have major repercussions on Lesotho's measured REER. Moreover, Lesotho's current account depends heavily on factors unrelated to its REER such as trade preferences under the African Growth and Opportunity Act (AGOA) that allows Lesotho to export textiles to the U.S. without tariffs and quotas.

9. **However, adverse movements in Lesotho's REER (perhaps brought about by movements in the rand-dollar exchange rate) could hurt the competitiveness of Lesotho's textile exports.** This could easily happen if Lesotho's competitors in garments are better positioned in terms of their exchange rate against the U.S dollar; but it could also happen if Lesotho were less competitive in other areas, such as labor costs and factors related to costs of doing business, that operate independently of the exchange rate (see section D).

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and ratio of government consumption to GDP. Some BEER approaches augment this "real" model with monetary variables such as interest rate differentials.



10. **No model of exchange rate assessment is without shortcomings.** Notwithstanding their problems, the MB and ES can be of interest. So is the PPP approach whose strengths and weaknesses are discussed next.

### C. Exchange Rate Assessment

#### The Absolute PPP Approach

11. **The international comparison of price levels is one way to assess the deviation of a country's real exchange rate from its long-run equilibrium level.** The theory of absolute PPP holds that prices of an identical consumption basket should be the same in all countries when expressed in a common currency.<sup>5</sup> If the resulting exchange rate—the absolute PPP exchange rate—is the same as the market exchange rate, there is no misalignment. However, departures from absolute PPP are the norm rather than the exception. While the departures can be large and narrow only very gradually, they usually indicate the direction of future real exchange rate developments—toward the equilibrium long-run PPP level—if there are no other shocks. PPP can thus be a useful tool for assessing exchange rate misalignments.

12. **However, not all deviations from the absolute PPP should be seen as misalignment of the real exchange rate.** They could simply reflect errors in measuring absolute prices in a given country or over time. More fundamentally, they could reflect economic factors that influence the long-run equilibrium exchange rate. Indeed, one factor that may account for the deviation of the exchange rate from absolute PPP is productivity differentials between the countries—commonly known as the Balassa-Samuelson effect.

13. **The Balassa-Samuelson (B-S) effect refers to the idea that the long-run equilibrium exchange rate depends on relative productivity differentials.** Countries with higher productivity growth in the tradable sector than the nontradable sector tend to experience a real appreciation. In essence, higher productivity in tradables pushes up wages in that sector, which leads to higher wages in the nontradable sector, and thus to higher prices for nontradables. Since tradable prices respond to international markets and not domestic market conditions, the price of nontradables relative to tradables rises. As the overall (consumer) price level is a weighted average of both tradable and nontradable prices, the higher price of nontradables pushes up overall prices. Moreover, assuming that relative per capita GDP differentials across countries are a reasonable proxy for relative productivity differentials, the B-S effect implies that as a country's per capita income rises over time, its

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<sup>5</sup> *Absolute* PPP is often contrasted with *relative* PPP, a weaker version of the theory, which requires that only *changes* in national price levels be equal; this implies that the inflation differential is zero when using the same numeraire or that inflation differentials between two countries are fully offset by nominal exchange rate changes. Hence, *changes* in the real exchange rate must be zero or tend towards zero in the long run after a shock. In practice, even relative PPP does not hold, at least not in the short run.

real exchange rate will appreciate. It also implies that countries with higher per capita income tend to have a higher national price level or a more appreciated real exchange rate.

14. **The estimated B-S effect is remarkably strong.** Using the Heston-Summers-Aten's data set, which provides internationally comparable measures of absolute price level and real per capita GDP in PPP terms,<sup>6</sup> the following regression is estimated for a cross-section of 172 countries in 2006:

$$\ln(P_i / P_{us}) = -0.09 + 0.33 \ln(Y_i / Y_{us}) + \hat{u}_i \quad R^2=0.43$$

(-1.40)      (11.38)

where t-ratios are in parentheses,  $P_i$  and  $P_{us}$  refer to the price level for country  $i$  and the United States, respectively;  $Y_i$  and  $Y_{us}$  refer to real per capita GDP in PPP-adjusted U.S. dollars for country  $i$  and the United States. The ratio  $P_i / P_{us}$  is the measure of the real exchange rate, for country  $i$  versus the United States and  $\hat{u}_i$ , the residual of the regression, is the estimated deviation of country  $i$ 's real exchange rate from its absolute PPP exchange rate, adjusted for productivity differentials. The estimated regression conforms to the B-S effect. Countries with higher per capita income differential vis-à-vis the United States tend to have on average a higher national price level or a more appreciated real exchange rate.

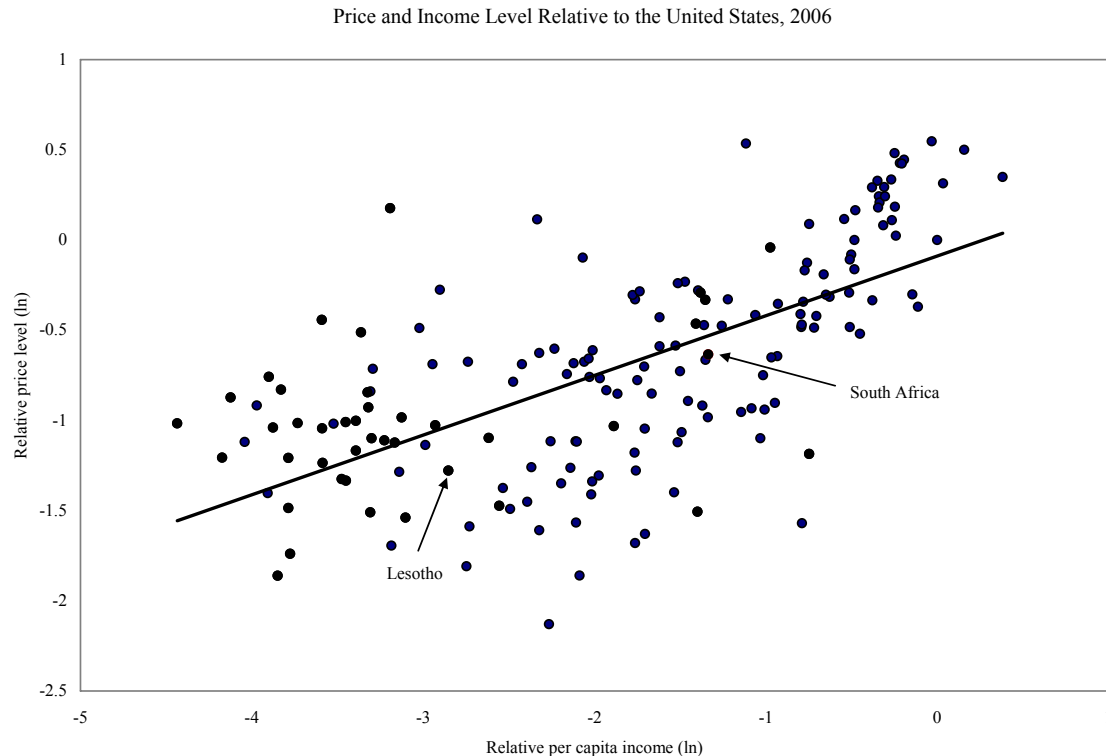
15. **The estimated elasticity of the B-S effect is close to those found in the literature** (Rogoff, 1996; Bergin, Glick and Taylor, 2004; Frankel, 2005). Estimating the same specification individually for each year from 2000 to 2005 produces elasticities ranging from 0.33 to 0.38, with 0.34 representing the mode. Rogoff (1996) estimated an identical specification for 1990 for over 100 countries using an older version of the same data set, and produced a B-S elasticity of 0.37 and an  $R^2$  of 0.42.

16. **According to the estimated regression, Lesotho's real exchange rate against the U.S dollar may have been undervalued as of end-2006 (See Figure II.1).** More precisely, Lesotho's real exchange rate was undervalued by 24 ½ percent in logarithmic terms and 22 percent in levels as of end-2006. The first estimate is the value of  $\hat{u}_i$  from the B-S regression, expressed in percent; this is the vertical distance from the fitted line in the figure. The second estimate is simply  $[\exp(\hat{u}_i) - 1] * 100$ , where *exp* is the exponential function.

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<sup>6</sup> See data appendix for details.

Figure II.1. The B-S Effect and Deviation from the Absolute PPP



17. **Lesotho’s real effective exchange rate may be undervalued too, but by a smaller margin.** More precisely, Lesotho’s REER was undervalued by some 17 percent and 19 percent in logarithmic terms and levels, respectively. These estimates are obtained by taking into account exchange rate “misalignments” (assessed against the same B-S regression) of Lesotho’s main trading partners, the United States and South Africa, which account for 90 percent of Lesotho’s trade. Lesotho’s REER shows smaller undervaluation than the real dollar-loti exchange rate due to the combined effect of a smaller real undervaluation of the rand vis-à-vis the US dollar, and South Africa’s large weight in Lesotho’s trade ( $\frac{3}{4}$  for South Africa and  $\frac{1}{4}$  for the United States).

18. **However, the statistical evidence shows that the loti is not misaligned.** The visual inspection of Figure II.1 shows that the loti’s real exchange rate in 2006 was “close” to the fitted line, with the South African rand even closer. The equilibrium real exchange rate for the loti in logarithmic terms is -1.03 whereas the actual real exchange rate is -1.28. The estimated 90 percent confidence interval for the equilibrium real exchange rate, (-1.78,-0.29), includes the actual real exchange rate. In other words, the null hypothesis of zero misalignment cannot be rejected at the 10 percent level.

## The MB and ES Approaches

19. **The MB approach compares the current account balance projected over the medium term with an estimated equilibrium current account (CA) balance or “CA norm” driven by some fundamental factors.** Estimates of the CA norm for Lesotho over 2007-11 were obtained each year by applying the coefficients from the MB regression of the Consultative Group on Exchange Rate Issues (CGER) (IMF, 2006, Table 1, p. 10, column 1) to values of Lesotho’s fundamentals over the same period. These fundamentals are: the fiscal balance (which incorporates a projected reduction in SACU transfers as a ratio to GDP), the old-age dependency ratio, population growth, oil balance and relative income.

20. **The application of the MB approach to Lesotho using parameters from the GCER regressions has important problems, which requires taking its results with caution.** The CGER parameters were estimated for a sample of high- and middle- income countries, and comparable parameters have not been convincingly estimated for African countries.<sup>7</sup> This means that the result from this method for Lesotho will be subject to especially large margins of error. However, the use of this approach may still be of interest, as some relationships between the current account balance and key fundamentals, such as the fiscal balance, should be qualitatively similar in most countries. The signs of those relationships are correctly identified by CGER regressions.

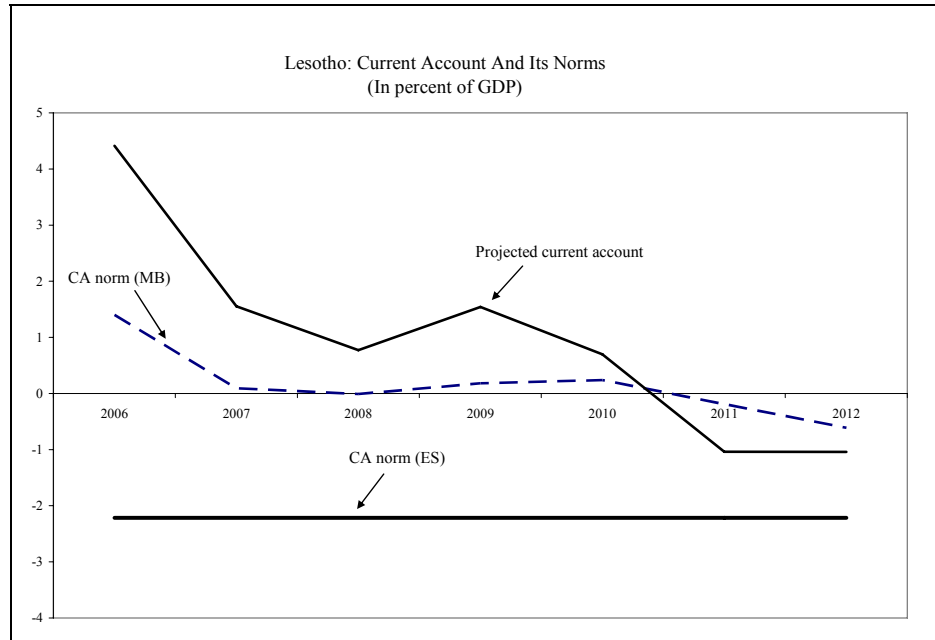
21. **The MB approach produces a current account norm that is weaker than projected for Lesotho.** A comparison of the 2007 current account—a surplus of 1 ½ percent of GDP—with the CA norm in 2011 suggests that current account should deteriorate by about 1 ¾ percent of GDP to close the gap. A comparison of the current account projection averaged over the 2007-11 period with the average CA norm over same period shows a smaller gap (½ percent of GDP).

22. **The ES approach also produces a current account norm that is weaker than projected.** Under the ES approach, the current account norm that stabilizes the ratio of net foreign assets to GDP at end-2006 level is a deficit of 2.2 percent of GDP, against a projected CA deficit of 1 percent of GDP in 2011 (with surpluses projected in the intervening years).<sup>8</sup> Therefore, in the baseline scenario projected by staff, Lesotho should be able to strengthen its

<sup>7</sup> The only country from Africa in the CGER sample is South Africa. The existing MB regressions that use data from sub-Saharan Africa alone have produced counterintuitive results and wrong signs on some of the fundamentals; see Isard, Faruquee, Kinkaid and Fetherston (2001, Table 3, p.33;) and Chinn and Ito (2005). Using the parameters from the fixed effect regressions for African countries reported by Isard et al (2001) would have required strong assumptions about the size of the fixed effect for Lesotho due to exclusion of Lesotho from the regressions.

<sup>8</sup> The net foreign assets to GDP ratio in 2006 was -22 percent. To compute the current account norm we use the average rates of growth of real output and the GDP deflator projected for the period 2007-2011, of 5.3 and 6.1 percent, respectively. The use of end-2006 NFA for this calculations should not be regarded as implying that such a level is “optimal” or desirable. This is just a convenient reference point.

net foreign asset position over the next several years, a welcome prospect in view of long-term uncertainties. This finding indicates that such a scenario does not contain immediate threats to external stability. These results are consistent with those of the Debt Sustainability Analysis carried out as part of the 2007 Article IV consultation.



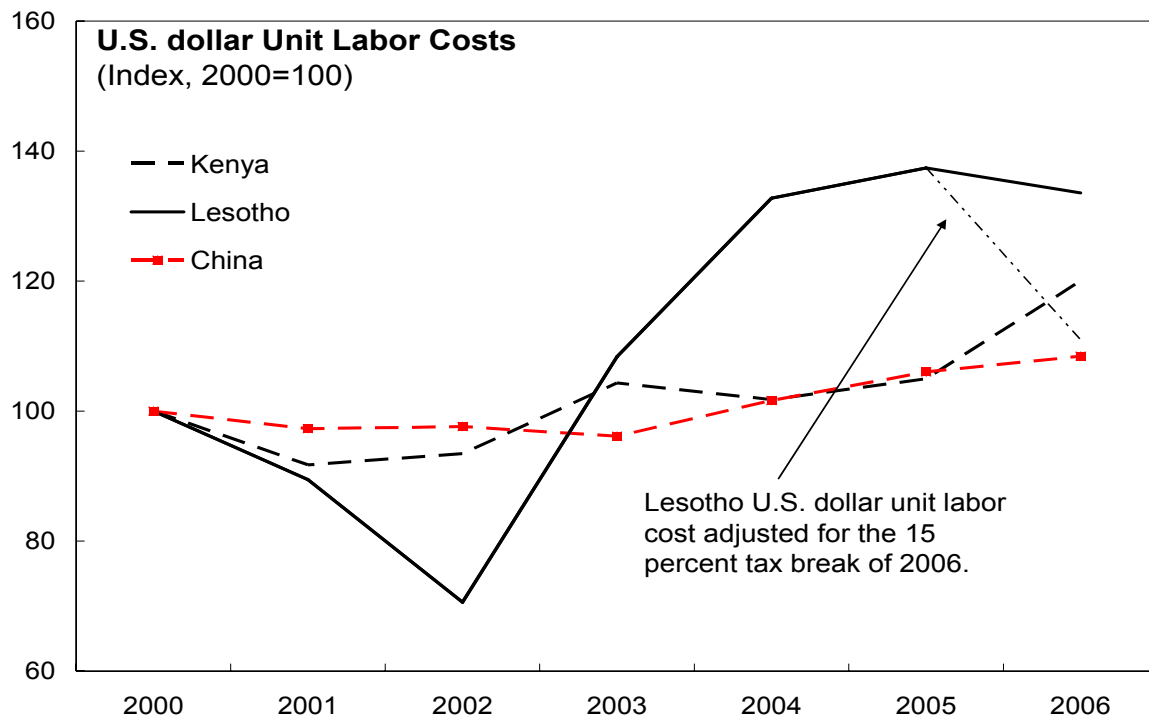
#### D. Alternative Measures of Competitiveness

23. **The standard estimate of the REER has serious shortcomings in the case of Lesotho, some of which have already been discussed.** This suggests that it might be useful to look at other indicators as well. A useful indicator for analyzing competitiveness, according to IMF (2005), is the manufacturing wage in dollar terms. Below we construct a related unit labor cost measure for Lesotho and two comparator countries, Kenya and China. Survey-based indicators such as the World Bank's Doing Business index and the World Economic Forum's Global Competitiveness index also provide a useful snapshot.

24. **In 2006, Lesotho's labor cost competitiveness was supported by the depreciation of the rand against the U.S. dollar, and tax cuts for exporters.** The evolution of the dollar wage in Lesotho's manufacturing sector reflects the combined effect of a trend increase in loti wages (though slower than the increase in the price level in Lesotho) and major swings in the dollar-rand exchange rate. These trends pushed dollar labor costs in 2006 up about 40 percent higher than in 2000, after adjusting for changes in worker productivity. In 2006, to offset the impact on exporters of the stronger rand, the government reduced the profit tax rate for firms exporting outside SACU—a measure that, on average, provides a benefit roughly

equivalent to a reduction of 17 percent in labor costs.<sup>9</sup> Figure II.2 shows both the labor cost index and a version of the index adjusted for the labor-cost equivalent of the benefit to exporters from the tax reform. For comparison, similar unit labor cost indices were estimated for the manufacturing sectors of China, a major beneficiary of the end of the Multi-Fiber Agreement (MFA) and thus a competitor of Lesotho, and Kenya, another country taking advantage of AGOA. The figure demonstrates that the gap in labor costs that had opened (relative to the position of these countries in 2000) as a result of appreciation of the rand seems to have been reduced recently, and to have been largely offset by the 2006 tax cut.

Figure II.2. U.S. Dollar Labor Costs in Lesotho and Comparator Countries



Source: Lesotho Authorities; ComMark; National Bureau of Statistics of China; Republic of Kenya Economic Survey, 2007; WEO; Kim and Kuijs, "Price and Wage Pressures and Profitability in China's Industry" (forthcoming World Bank working paper); and Fund staff estimates.

25. **Survey-based indicators of competitiveness reveal the difficulties of engaging in private business in Lesotho**, which ranks 126<sup>th</sup> out of 178 countries in the 2007 Doing Business index, and 115<sup>th</sup> out of 128 countries in the 2007 Global Competitiveness index.

<sup>9</sup> The income tax rate for these firms was lowered from 15 percent to zero. In 2006, the wage bill was 47 percent of value added, and we roughly approximate the tax base by the rest of value added.

- According to the Doing Business indicators, Lesotho ranks relatively well in the areas of paying taxes and employing workers, but ranks poorly in starting a business, registering property protecting investors, and dealing with licenses. Notably, Lesotho also ranks poorly on trading across borders (Table II.1).
- Lesotho ranks especially high in the macroeconomic pillar of the Global Competitiveness Index; in the institutions pillar it also ranks better than might be expected given its overall ranking. Lesotho's worse rankings are in business sophistication, infrastructure, market efficiency and skills. Survey respondents cited low access to credit, government inefficiency and inadequate infrastructure as the main impediments to doing business, in each case with more than 10 percent of respondents (Table II.1).
- In terms of competitiveness with other SADC countries, Lesotho scores better than some (e.g., Mozambique and Angola), but needs to improve significantly to catch up with Mauritius, South Africa, Namibia and Botswana; see Table II.2.

Table II.1. Lesotho: Survey Based Indicators of Competitiveness

<b>Doing Business</b>	<b>Rank</b>	<b>Global Competitiveness</b>	<b>Rank</b>
Overall rank out of 178	124	Overall rank out of 128	115
Dealing with licenses	146	Business sophistication	125
Protecting investors	141	Infrastructure	121
Registering property	132	Market efficiency	120
Trading across borders	129	Innovation	120
Starting a business	126	Higher education and training	118
Getting credit	115	Health and primary education	112
Enforcing contracts	99	Technological readiness	112
Employing workers	69	Institutions	89
Closing a business	62	Macroeconomy	54
Paying taxes	49		

Source: World Bank, 2007 and WEF, 2007

Table II.2. SADC: Competitiveness, 2007

	Doing Business Rank (out of 178)		Global Competitiveness Rank (out of 128)
Mauritius	27	South Africa	46
South Africa	35	Mauritius	58
Namibia	43	Botswana	83
Botswana	51	Namibia	88
Swaziland	95	Tanzania	108
Zambia	116	Madagascar	113
<b>Lesotho</b>	<b>124</b>	<b>Lesotho</b>	<b>115</b>
Malawi	127	Zambia	117
Tanzania	130	Malawi	120
Mozambique	134	Zimbabwe	121
Madagascar	149	Mozambique	124
Zimbabwe	152	Angola	128
Angola	167	Swaziland	...
Democratic Republic of Congo	178	Democratic Republic of Congo	...

Sources: www.doingbusiness.org and the World Economic Forum.

26. **The government is targeting many of the areas flagged by these surveys in its structural reform agenda.** The Private Sector Competitiveness Program, the Public Sector Improvement Program, and the private sector development component of the compact with the Millennium Challenge Corporation specify promising measures in all of these areas (see Chapter I of this paper).

### E. Conclusion

27. **The various methods employed suggest that there is no threat to external stability nor significant evidence of exchange rate misalignment.** In fact, confirming the findings of the DSA, there is a likelihood that Lesotho's net external position will strengthen in the next few years. Conventional methods must be applied with caution to Lesotho, given its characteristics as a small open economy participating in the Common Monetary Area of the rand. Indicators of competitiveness rank Lesotho relatively low in some key areas targeted for improvement in government programs. The challenge now is for Lesotho to embark vigorously on the implementation of its agenda.



## Data Appendix

### Price level and real PPP per capita GDP

The data used in the B-S regression in the main text of the chapter are taken from the Heston-Summers-Aten's data set, of which version 6.2 is the latest available (the ICP project with the World Bank). The data on price levels in the S-H-A data set are the *price level of Gross Domestic Product* ( $p$  in the S-H notation) and *chain weight per capita PPP GDP in 2000 international dollar prices* ( $rgdpch$  in the S-H-A notation). However, data on  $p$  and  $rgdpch$  in the data set end in 2004. Data for later years on  $p$  and  $rgdpch$  for each country were obtained by applying the growth rate of the implicit GDP price deflator and real GDP in local currency to the level of the indicator ( $p$  and  $rgdpch$ ) from the S-H-A data set, respectively.

### Net Foreign Assets

Though this indicator shows up in the MB and ES approaches, at present there is no official information Lesotho's international investment position which is the ideal measure of net foreign assets for both approaches. As a proxy, we use net foreign asset of the central bank plus NFA of the rest of the banking system minus public external debt minus stock of foreign direct investment liabilities (from the United Nations' World Investment Report). The NFA for future years is generated by adding the current account for the current year to the NFA of the previous year.

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## Statistical Appendix Tables

Table 1. Lesotho: Gross Domestic Product by Sector, Constant (1995) Prices, 2000-06  
(Millions of Maloti)

	2000	2001	2002	2003	2004	2005	2006 Est.
Primary sector	723.3	655.8	616.7	616.4	604.7	594.5	604.8
Crops	465.1	418.4	351.5	335.2	338.4	334.7	350.6
Livestock	228.6	211.8	240.5	257.5	245.5	237.9	233.8
Services	29.6	25.7	24.8	23.7	20.8	21.9	20.4
Secondary sector	1,374.2	1,437.4	1,516.2	1,547.1	1,634.6	1,718.7	1,914.0
Mining and quarrying	3.4	3.5	3.6	4.9	100.7	237.8	330.2
Manufacturing	564.3	607.9	650.0	687.2	701.8	641.2	708.7
Food products and beverages	226.5	218.9	187.6	173.7	165.9	163.0	166.1
Textiles, clothing, footwear and leather	202.8	236.4	304.0	351.4	364.1	309.0	368.1
Other manufacturing	135.0	152.6	158.4	162.1	171.8	169.2	174.5
Electricity and water	219.9	230.2	243.5	249.7	253.6	280.8	312.5
Construction	586.7	595.9	619.1	605.2	578.5	559.0	562.6
Tertiary sector	1,437.4	1,485.7	1,519.6	1,589.3	1,658.4	1,721.9	1,808.9
Wholesale and retail trade, repairs	281.6	288.6	301.5	317.4	319.3	323.8	352.6
Hotels and restaurants	54.7	53.4	55.6	60.6	63.3	68.5	73.6
Transport, and communication	143.3	153.7	163.8	184.3	197.1	220.3	241.7
Transport and storage	69.0	71.5	74.2	76.9	79.7	81.6	84.3
Post and telecommunications	74.3	82.3	89.5	107.4	117.4	138.6	157.4
Financial intermediation	201.5	210.4	267.7	295.1	285.2	303.9	348.1
Real estate and business services	227.8	227.5	235.9	238.7	242.5	249.9	258.6
Owner-occupied dwellings	168.7	172.1	175.5	179.0	182.6	186.3	190.0
Other real estate and business services	59.0	55.4	60.4	59.7	59.9	63.6	68.6
Public administration	269.6	279.3	270.1	268.6	280.4	286.0	296.3
Education	316.0	331.0	338.6	356.3	370.1	381.0	388.5
Health and social work	64.5	67.5	67.0	66.4	66.6	68.0	69.9
Community, social and personal services	42.7	43.2	43.8	44.4	45.0	45.2	45.8
Minus financial services indirectly measured	-164.3	-169.1	-224.4	-242.5	-211.2	-224.7	-266.2
GDP at producer's prices	3,535.0	3,578.9	3,652.6	3,752.8	3,897.7	4,035.1	4,327.7
Plus taxes on products	398.7	424.6	465.3	475.8	507.5	496.0	528.4
GDP at purchaser's prices	3,933.6	4,003.5	4,117.9	4,228.6	4,405.3	4,531.1	4,856.1

Source: Lesotho Bureau of Statistics

Table 2. Lesotho: GDP by Sector, Current Prices, 2000-06  
(Millions of Maloti)

	2000	2001	2002	2003	2004	2005	2006 Est.
Primary sector	960.9	1,000.6	1,068.9	1,215.9	1,275.9	1,356.8	1,460.6
Crops	594.2	647.1	631.5	703.3	750.5	805.3	899.9
Livestock	317.0	309.8	392.4	467.4	483.7	503.4	515.5
Agricultural services	49.7	43.7	45.0	45.2	41.7	48.1	45.2
Secondary sector	2,219.8	2,487.0	2,771.2	2,895.3	3,026.0	3,374.8	3,872.3
Mining and quarrying	7.6	9.1	10.0	12.9	174.7	421.6	596.2
Manufacturing and handicraft	910.1	1,054.4	1,352.3	1,421.7	1,380.5	1,402.3	1,607.0
Food products and beverages	354.0	363.7	436.0	414.0	415.5	426.1	478.9
Textiles, clothing, footwear and leather	375.6	476.2	677.2	765.1	688.5	658.3	783.0
Other manufacturing	180.5	214.5	239.1	242.6	276.5	317.9	345.1
Electricity and water	317.8	367.2	347.1	350.3	370.2	430.6	479.7
Construction	984.3	1,056.3	1,061.8	1,110.4	1,100.6	1,120.3	1,189.4
Tertiary sector	2,180.9	2,394.8	2,653.4	2,979.4	3,179.1	3,234.7	3,628.1
Wholesale and retail	490.3	545.1	636.6	770.8	814.3	665.5	768.6
Hotel and restaurants	80.4	83.9	102.2	146.7	160.4	153.3	206.8
Transport and storage	110.1	129.4	150.9	161.5	169.8	190.6	207.2
Post and telecommunications	81.9	83.2	126.6	181.4	183.6	218.1	238.8
Financial intermediation	257.8	269.1	345.8	387.3	397.5	440.2	531.0
Owner-occupied dwellings	193.8	251.9	257.0	262.1	267.3	272.7	278.1
Other real estate and business services	96.8	92.2	114.2	124.6	136.5	156.0	183.5
Public administration	452.8	476.1	490.4	511.8	561.6	627.7	695.5
Education	469.7	508.6	533.7	548.3	568.8	604.1	680.5
Health and social work	102.2	108.7	113.4	117.2	123.4	140.1	148.6
Community, social, and personal services	62.4	67.6	77.2	83.8	89.2	92.7	99.6
Minus financial services indirectly measure	-217.3	-221.0	-294.6	-316.2	-293.4	-326.3	-410.1
GDP at producer's prices	5,361.6	5,882.4	6,493.5	7,090.6	7,481.0	7,966.3	8,961.0
Plus taxes on products	558.5	593.1	750.7	771.4	1,041.1	1,098.8	1,158.9
GDP at purchaser's prices	5,920.1	6,475.5	7,244.2	7,862.0	8,522.1	9,065.1	10,119.9

Source: Lesotho Bureau of Statistics

Table 3. Lesotho: Gross Domestic Product by Expenditure, 2000-06  
(Millions of Maloti)

	2000	2001	2002	2003	2004	2005	2006
Gross domestic product	5,920.1	6,475.5	7,244.2	7,862.0	8,522.0	9,065.2	10,119.9
Net factor income from abroad	1,580.3	1,535.2	1,728.3	1,930.9	2,001.0	1,932.2	2,569.7
Gross national product	7,500.4	8,010.7	8,972.5	9,792.9	10,523.0	10,997.4	12,689.5
Unrequited transfers	936.1	1,152.9	1,277.7	1,283.6	1,597.0	1,910.2	2,635.4
Gross national disposable income <sup>2</sup>	8,436.6	9,163.5	10,250.2	11,076.5	12,119.9	12,907.6	15,324.9
Consumption	7,314.0	7,571.0	8,597.8	9,432.6	9,913.6	10,996.0	12,422.4
Government consumption	2,156.3	2,122.6	2,505.2	2,677.1	2,915.7	3,281.9	3,828.8
Private consumption	5,157.7	5,448.4	6,092.7	6,755.5	6,997.9	7,714.1	8,593.5
Gross national savings <sup>3</sup>	1,122.6	1,592.5	1,652.4	1,643.9	2,206.3	1,911.6	2,902.6
Public savings <sup>4</sup>	269.6	577.7	521.7	634.3	1,117.3	1,112.5	2,068.6
Private savings <sup>5</sup>	853.0	1,014.8	1,130.7	1,009.6	1,089.0	799.1	834.0
Investment	2,519.0	2,638.9	3,119.2	2,608.8	2,674.0	2,542.1	2,456.2
Gross fixed capital formation	2,657.1	2,810.0	3,254.6	2,558.9	2,665.3	2,531.0	2,444.7
Government	474.7	677.5	811.8	684.7	627.6	679.3	724.3
Private	1,517.8	1,615.4	1,907.9	1,388.4	1,534.0	1,722.4	1,720.4
LHWP <sup>6</sup>	664.6	517.2	534.9	485.9	503.7	129.4	0.0
Change in stocks	-138.1	-171.1	-135.4	49.9	8.7	11.0	11.5
Gross national savings less investment <sup>7</sup>	-1,396.4	-1,046.4	-1,466.8	-965.0	-467.7	-630.5	446.4
(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	26.7	23.7	23.9	24.6	23.5	21.3	25.4
Gross national product	126.7	123.7	123.9	124.6	123.5	121.3	125.4
Unrequited transfers	15.8	17.8	17.6	16.3	18.7	21.1	26.0
Gross national disposable income <sup>2</sup>	142.5	141.5	141.5	140.9	142.2	142.4	151.4
Consumption	123.5	116.9	118.7	120.0	116.3	121.3	122.8
Government consumption	36.4	32.8	34.6	34.1	34.2	36.2	37.8
Private consumption	87.1	84.1	84.1	85.9	82.1	85.1	84.9
Gross national savings <sup>3</sup>	19.0	24.6	22.8	20.9	25.9	21.1	28.7
Public savings <sup>4</sup>	4.6	8.9	7.2	8.1	13.1	12.3	20.4
Private savings <sup>5</sup>	14.4	15.7	15.6	12.8	12.8	8.8	8.2
Investment	42.5	40.8	43.1	33.2	31.4	28.0	24.3
Gross fixed capital formation	44.9	43.4	44.9	32.5	31.3	27.9	24.2
Government	8.0	10.5	11.2	8.7	7.4	7.5	7.2
Private	25.6	24.9	26.3	17.7	18.0	19.0	17.0
LHWP <sup>6</sup>	11.2	8.0	7.4	6.2	5.9	1.4	0.0
Change in stocks	-2.3	-2.6	-1.9	0.6	0.1	0.1	0.1
Gross national savings less investment <sup>7</sup>	-23.6	-16.2	-20.2	-12.3	-5.5	-7.0	4.4

Sources: Lesotho Bureau of Statistics; and Fund staff estimates.

<sup>1</sup> Calendar year

<sup>2</sup> GNP plus unrequited transfers.

<sup>3</sup> Gross national disposable income less consumption.

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

<sup>5</sup> Estimated as a residual.

<sup>6</sup> Lesotho Highlands Water Project.

<sup>7</sup> Equivalent to the external current account balance.

Table 4. Lesotho: Consumer Price Indices, 2000 - 06 <sup>1</sup>  
(Dec 1997= 100, unless otherwise indicated)

	Weights <sup>2</sup>	2000 Dec.	2001 Dec.	2002 Dec. <sup>3</sup>	2003 Dec.	2004 Dec.	2005 Dec.	2006 Dec.
Consumer price index (CPI)	100.0	130.6	139.7	155.4	164.7	172.6	178.7	190.2
Food, alcoholic beverages and tobacco	46.3	126.8	137.0	...	...	...	...	...
Food and non-alcoholic beverages	39.8	124.6	135.3	173.3	174.5	184.0	189.8	211.1
Bread and cereals	22.0	116.8	124.5	176.2	163.1	176.5	178.4	208.2
Meat	3.9	121.3	135.0	158.6	175.8	180.8	199.4	211.4
Fish	0.4	126.8	141.1	160.5	195.0	208.5	215.5	237.7
Fruits and vegetables	4.2	160.7	181.5	212.1	231.9	234.3	251.0	267.8
Milk and eggs	1.8	124.8	132.0	151.8	171.8	178.7	183.8	191.4
Oils and fats	1.3	126.6	152.9	173.1	186.4	187.1	189.7	197.2
Other food products	4.6	130.0	139.3	158.6	178.9	184.2	189.9	196.6
Non-alcoholic beverages	1.5	...	...	133.8	148.1	155.5	158.7	162.9
Alcoholic beverages and tobacco	6.4	136.4	144.5	161.6	179.6	194.1	204.9	216.2
Clothing and footwear	15.6	129.1	136.5	141.7	147.1	150.7	156.3	156.9
Blankets	3.1	123.3	129.9	135.7	140.4	145.7	152.9	148.2
Other clothing	6.0	127.2	134.9	142.1	147.3	148.2	153.2	156.0
Footwear	6.5	133.7	141.3	144.3	150.3	155.4	160.8	162.0
Housing, water, electricity, and other fuels <sup>4</sup>	3.7	120.6	133.1	151.3	158.8	170.0	184.7	198.7
Water charges	0.2	103.2	103.2	107.4	107.4	116.8	126.1	132.4
Electricity	0.2	100.0	100.0	100.0	105.0	123.9	146.2	166.7
Other fuels	3.3	123.1	137.2	157.5	165.6	176.4	191.0	205.0
Furniture and household operations	17.0	134.5	141.0	152.2	164.0	167.0	172.3	177.3
Transport and Communications	8.3	132.5	145.7	...	...	...	...	...
Transport	7.8	128.8	146.4	159.5	170.6	188.4	194.7	201.9
Communications	0.1	100.7	100.7	100.7	144.4	154.3	154.3	159.6
Other Goods and Services	9.7	116.8	122.5	...	...	...	...	...
Leisure, entertainment and culture	1.2	...	...	135.4	150.6	151.7	154.6	153.7
Health	1.4	...	...	133.5	138.7	142.0	145.5	142.9
Education	3.2	106.9	113.5	115.9	121.1	125.5	126.6	127.7
Restaurants and Hotels	0.4	...	...	188.4	196.6	202.6	212.4	244.3
Miscellaneous goods and services	3.2	112.2	114.5	139.2	150.1	154.3	157.9	161.9
Memorandum item:								
Annual CPI inflation rates (percent; end of period)		5.5	7.0	11.2	5.9	4.8	3.5	6.4

Source: Lesotho Bureau of Statistics

<sup>1</sup> Covers all households in eight lowland towns, including Maseru.

<sup>2</sup> Based on 2000 Household Survey. Weights applied from 2002.

<sup>3</sup> Start of new series based on revised classification system.

<sup>4</sup> Since January 1994, rent has been excluded from CPI data because of data collection problems.

Table 5. Lesotho: Monthly Minimum Wages, 2000-2007  
(Maloti) <sup>1</sup>

	2000 Oct	2001 Sep	2002 Oct	2003 Oct
Copy typist	593	631	694	732
Driver				
Car and light van	687	732	805	849
Medium-sized vehicle	753	802	882	931
Heavy vehicle	964	1,026	1,129	1,191
Operator (hammer mill)	502	535	589	621
Junior clerk	593	631	694	732
Machine operator	687	732	805	849
Messenger	502	535	589	621
Machine attendant	593	631	694	732
Receptionist	593	631	694	732
Shop assistant	553	589	648	684
Telephone operator	593	681	694	732
Ungraded artisan (heavy physical work)	639	681	749	790
Unskilled labor				
Heavy physical work	553	589	648	684
Light physical work	502	535	589	621
Waiter	568	605	666	703
Watchman	699	714	818	863
Weaver				
Training (six months)	502	535	589	621
Trained	528	560	616	650
Sewing machine operator				
Training (six months)	502	535	589	621
Trained	526	560	616	650
Small business	341	363	399	421
Domestic servant	170	181	199	210

*continued...*

Table 5 (concluded). Lesotho: Monthly Minimum Wages,  
2000-2006 (Maloti) <sup>1</sup>

	2004 Sep.	2005 Sep.	2006 Sep.
Manufacturing			
Trainee	621	643	660
Trained	650	686	710
Construction			
Construction worker	722	794	818
Construction machine operator	1,257	1,400	1442
Wholesale and retail			
Wholesaler	742	779	830
Retailers	722	758	810
Hotels and Restaurants			
Hotels	742	779	840
Restaurants	722	758	800
Service sector			
Security	911	934	800
Funeral parlour	742	779	982
Small bussiness	444	466	490
Domestic worker		230	252
General minimum wage <sup>2</sup>		673	697

Source: Ministry of Labor.

<sup>1</sup> Based on legal notices. The schedule of minimum wages by  
was revised in September 2004.

<sup>2</sup> All other sectors.

Table 6. Lesotho: Public Service Employment, 2000/01-2006/07 <sup>1</sup>  
(Units)

	Grade	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Established civil service <sup>2</sup>								
Professional and administrative	G - L	2,008	2,061	...	...	...	...	...
Professional and administrative	H - L	...	...	955	1,057	1,075	1,109	1,187
Professional and administrative	F - G	...	...	3,464	3,331	3,376	3,332	3,475
Executive	E - F	4,203	4,299	...	...	...	...	...
Executive	E	...	...	1,443	2,519	2,573	2,511	2,693
Clerical	A - D	13,346	13,375	14,481	13,739	13,693	13,013	12,980
Total		19,557	19,735	20,343	20,646	20,717	19,965	20,335
Actual employment								
Civil service		16,567	14,473	17,515	17,203	17,120	6,616	17,482
Defense and public order		4,677	5,572	6,669	6,579	6,545	17,098	6,893
Teachers		10,686	11,292	11,404	11,772	12,225	12,428	12,721
Total		31,930	31,337	35,338	35,554	35,890	36,142	37,096

Source: Ministry of Public Service.

<sup>1</sup> Fiscal year is April-March.

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



Table 7. Lesotho: Central Government Operations, 2000/01-2006/07 <sup>1</sup>

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
(Millions of Maloti)							
Revenue	2,626.6	2,787.8	3,034.7	3,416.7	4,169.9	4,495.8	6,386.8
Tax revenue	1,941.9	2,378.0	2,575.9	2,887.5	3,693.0	4,005.9	5,787.1
Customs revenue	1,126.1	1,438.2	1,470.0	1,421.6	2,012.4	2,306.0	3,945.0
Noncustoms tax revenue	815.8	939.8	1,105.9	1,465.9	1,680.6	1,699.9	1,842.1
Income taxes	468.8	579.5	663.3	852.5	901.8	924.6	973.1
Sales tax	279.8	302.0	343.7	519.3	659.8	655.7	714.6
Oil levy	62.0	50.9	86.3	80.6	88.3	82.5	65.6
Other tax revenues	5.2	7.4	12.6	13.5	30.7	37.1	88.8
Nontax revenue	684.7	409.8	458.8	529.2	476.9	489.9	599.7
Water royalties	135.0	176.1	212.5	193.1	194.5	236.0	286.8
Interest received	63.2	14.6	24.0	14.4	6.5	7.6	5.0
Other nontax revenues	486.5	219.1	222.3	321.7	275.9	246.3	307.9
Total expenditure and net lending	2,864.2	2,937.9	3,659.1	3,532.2	3,787.1	4,291.4	4,799.4
Current expenditure	2,434.2	2,312.3	2,856.9	2,906.8	3,147.8	3,604.0	4,075.5
Wages and salaries	925.1	992.4	1,082.1	1,123.2	1,178.6	1,282.1	1,433.2
Interest payments	270.8	203.3	219.7	216.4	157.0	225.1	96.7
Of which: external interest	159.7	126.0	109.5	90.5	91.9	179.3	55.3
Goods, services, and transfers	1,238.3	1,116.6	1,555.1	1,567.2	1,812.2	2,096.8	2,545.6
Goods and services	905.0	720.3	1,045.7	935.9	991.0	1,119.2	1,436.3
Transfers and subsidies	333.3	396.3	509.4	631.3	821.2	977.6	1,109.3
Capital expenditure and net lending	430.0	625.6	802.2	625.4	639.3	687.4	723.9
Domestically funded	182.7	277.0	170.7	304.8	345.1	401.8	474.7
Externally funded	240.3	372.5	511.9	320.6	294.2	285.6	249.2
Grant funded	125.6	166.8	235.9	140.2	182.6	171.4	92.4
Loan funded	114.7	205.7	276.0	180.4	111.6	114.2	156.8
Overall balance before grants	-237.6	-150.1	-624.4	-115.5	382.8	204.4	1587.4
Grants from abroad	125.6	188.8	296.3	177.8	238.4	171.4	92.4
Overall balance after grants	-112.0	38.7	-328.1	62.3	621.2	375.8	1679.8
Total financing	112.0	-38.7	328.1	-62.4	-621.2	-375.8	-1,679.8
Financing abroad	-257.1	-54.3	56.4	-25.7	-38.3	-276.6	-266.1
Loan drawings	114.7	205.7	276.0	180.4	207.1	114.2	156.8
Amortization <sup>2</sup>	-371.8	-260.0	-219.6	-206.1	-245.4	-390.8	-422.9
Domestic financing	390.2	15.6	271.9	-36.7	-582.9	-99.2	-1,413.7
Bank	366.9	67.3	320.8	-129.6	-605.2	-102.1	-1,248.0
Nonbank	23.3	-51.7	-48.9	92.9	22.3	2.9	-165.7
(Percent of GDP, unless otherwise indicated)							
Revenue	42.8	40.8	39.3	42.6	48.2	48.2	61.4
Customs revenue	18.3	21.0	19.0	17.7	23.2	24.7	37.9
Noncustoms tax revenue	13.3	13.7	14.3	18.3	19.4	18.2	17.7
Nontax revenue	11.2	6.0	5.9	6.6	5.5	5.3	5.8
Total expenditure and net lending	46.7	43.0	47.3	44.0	43.7	46.0	46.1
Current expenditure	39.7	33.8	37.0	36.2	36.4	38.6	39.2
Wages and salaries	15.1	14.5	14.0	14.0	13.6	13.7	13.8
Other expenditure	24.6	19.3	23.0	22.2	22.7	24.9	25.4
Capital expenditure and net lending	7.0	9.1	10.4	7.8	7.4	7.4	7.0
Overall balance before grants	-3.9	-2.2	-8.1	-1.4	4.4	2.2	15.3
Grants from abroad	2.0	2.8	3.8	1.7	2.1	1.8	0.9
Overall balance after grants	-1.8	0.6	-4.2	0.8	7.2	4.0	16.1
Financing abroad	-4.2	-0.8	0.7	-0.3	-0.4	-3.0	-2.6
Domestic bank financing	6.0	1.0	4.1	-0.5	-6.7	-1.1	-13.6
Memorandum item:							
GDP at market prices (millions of maloti)	6,137.2	6,839.1	7,731.4	8,027.0	8,657.8	9,328.9	10,408.3

Sources: Ministry of Finance; and Fund staff estimates.

<sup>1</sup> Fiscal year is April-March.<sup>2</sup> including arrears payment in 2006/07

Table 8. Lesotho: Government Revenue and Grants, 2000/01-2006/07 <sup>1</sup>

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
	(Millions of Maloti)						
Taxes on net income and profits	468.8	579.5	663.3	852.5	901.8	924.6	973.1
Company tax	126.3	159.2	142.9	236.5	219.1	192.0	199.6
Income tax (pay as you earn)	314.7	371.8	404.1	493.8	567.5	615.0	629.5
Gaming tax	2.7	...	...	...	...	...	...
Withholding tax	21.1	...	...	...	...	...	...
Other income and profit taxes	4.0	48.5	116.3	122.2	115.2	117.6	144.0
Taxes on goods and services	343.6	355.0	435.9	602.9	750.3	740.7	780.2
Sales tax	279.8	302.0	343.7	519.3	659.8	655.7	714.6
Trade licenses	1.8	2.1	5.9	3.0	2.2	2.5	...
Petrol levy	62.0	50.9	86.3	80.6	88.3	82.5	65.6
Customs duties	1,126.1	1,438.2	1,470.0	1,421.6	2,012.4	2,306.0	3,945.0
Other taxes	3.4	5.3	6.7	10.5	28.5	34.7	88.8
Stamp duty	1.6	2.7	4.1	7.3	1.2	2.1	1.6
Other taxes	1.8	2.6	2.6	3.2	27.3	32.6	87.2
Total tax revenue	1,941.9	2,378.0	2,575.9	2,887.5	3,693.0	4,006.0	5,787.1
Nontax Revenue	684.7	409.8	458.8	551.8	476.9	489.9	599.7
Administrative fees, charges, and nonindustrial sales	162.4	52.3	62.3	84.9	86.2	104.6	102.8
Attestation fees	0.4	0.7	0.8	0.7	0.5	0.5	0.9
Fines and forfeits	5.1	6.2	6.9	34.9	28.2	2.4	15.5
Property and other income	516.8	350.6	388.8	431.3	362.0	382.4	480.5
Interest on deposits	63.2	14.6	24.0	14.4	6.6	7.6	5.0
Water royalties	135.0	176.1	212.5	193.1	194.5	236.0	286.8
Rand monetary compensation	66.0	0.0	43.9	97.7	48.9	58.6	69.4
Dividends	174.8	36.4	46.2	65.7	58.9	4.8	69.8
Other property income	77.8	123.5	62.2	60.4	53.1	75.4	49.5
Total revenue	2,626.6	2,787.8	3,034.7	3,439.3	4,169.9	4,495.9	6,386.8
Grants	125.6	188.8	296.3	177.8	238.4	171.4	92.4
Total revenue and grants	2,752.2	2,976.6	3,331.0	3,617.1	4,408.3	4,667.3	6,479.2

Sources: Ministry of Finance; and staff estimates.

<sup>1</sup> Fiscal year is April-March.

Table 9. Lesotho: Southern African Customs Union (SACU) Operations, 2000/01-2006/07

Revenue Year <sup>1</sup> Data Year <sup>2</sup>	Old revenue sharing formula discontinued in 2004/05					New formula	
	2000/01 1998/99	2001/02 1999/00	2002/03 2000/01	2003/04 2001/02	2004/05 2002/03	2005/06 2004/05	2006/07 2005/06
	(Percent)						
Basic rate <sup>3</sup>	6.3	7.3	7.3	4.9	5.5		
Revenue ("compensation") rate <sup>4</sup>	9.0	9.6	7.8	7.0	7.8		
Stabilization factor <sup>5</sup>	5.5	5.2	6.1	6.5	6.1		
Stabilized rate (calculated) <sup>6</sup>	14.5	14.8	13.9	13.5	13.9		
Stabilized rate (actual) <sup>7</sup>	17.0	17.0	17.0	17.0	17.0		
	(Millions of Maloti, unless otherwise specified)						
Dutiable base <sup>8</sup>	6,021.1	7,327.8	7,334.0	7,845.4	9,585.8		
Growth rate (in percent)	-3.8	21.7	0.8	7.0	22.2		
First estimate (payment) <sup>9</sup>	1,023.6	1,245.7	1,246.8	1,333.7	1,629.6		
First adjustment (payment) <sup>10</sup>	100.0	181.4	223.2	88.0	382.8		
Final adjustment (payment) <sup>11</sup>	0.0	0.0	0.0	0.0	0.0		
Actual receipts <sup>12</sup>	1,126.2	1,438.2	1,470.0	1,421.7	2,012.4		
Growth rate (in percent)	-4.8	27.7	2.2	-3.3	41.5		
Memorandum item:							
First estimate based on basic rate only <sup>13</sup>	381.6	534.9	535.4	668.8	783.5		
Gross Customs Pool						10,500.0	18000
Secretariat Budget						0.0	44.3
Net Customs Pool (less Secretariat Budget)						10,500.0	17,976.5
Lesotho Share (%) <sup>14</sup>						13.76%	12.18%
Lesotho Share (M)						1,444.5	2,189.5
Gross Excise Pool						14,580.0	15870
Net Excise Pool (less Secretariat Budget)						14,580.0	15,849.3
Excise Component (= 85% of Net Excise Pool) <sup>15</sup>						12,393.0	13,471.9
Lesotho Share (%)						0.58%	0.58%
Lesotho Share (M)						71.9	78.1
Development Component (= 15% of Excise Pool) <sup>16</sup>						2,187.0	2,377.4
Lesotho Share (%)						21.64%	21.60%
Lesotho Share (M)						473.3	513.5
Common Revenue Pool						25,080.0	33870
Current year combined share from common revenue pool						1,989.6	2,781.2
Percent of common revenue pool						7.90%	8.20%
Adjustment payment <sup>17</sup>						316.4	1163.79
Actual fiscal year SACU receipt						2,306.0	3,945.0
In percent of GDP						24.7	37.9

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

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

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

<sup>3</sup> Customs and excise revenues as percent of dutiable base (imports and excisable production, and duties) for Southern African Customs Union as a whole (data year).

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

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

<sup>6</sup> Revenue (compensation) rate plus stabilization factor.

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

<sup>8</sup> Lesotho's imports (c.i.f.).

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

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

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

<sup>12</sup> As reported in government revenue data.

<sup>13</sup> Basic rate times dutiable base. Referred to as "accrued receipts based on basic rate only."

<sup>14</sup> Based on share of intra-SACU trade in the previous period.

<sup>15</sup> Based on share of intraSACU GDP.

<sup>16</sup> Distributed inversely to GDP per capita.

<sup>17</sup> Adjustment payments for deviation of actual import duty and excise receipts from previous year estimate.

Table 10. Lesotho: Economic Classification of Government Expenditure, 2000/01-2006/07 <sup>1</sup>  
(Millions of Maloti)

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Current expenditure	2,434.2	2,312.3	2,856.9	2,906.8	3,147.8	3,604.0	4,075.5
Wages and salaries	925.1	992.4	1,082.1	1,123.2	1,178.6	1,282.1	1,433.2
Goods and services	905.0	720.3	1,045.7	935.9	991.0	1,119.2	1,436.3
Subsidies and transfers	333.3	396.3	509.4	631.3	821.2	977.6	1,109.3
Pensions	74.9	89.6	105.4	118.9	193.9	296.1	296.1
Subventions and transfers	258.4	306.7	404.0	512.4	627.3	681.5	813.2
<i>Of which: social safety net</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest payments	270.8	203.3	219.7	216.4	157.0	225.1	96.7
External	159.7	126.0	109.5	90.5	91.9	179.3	55.3
Domestic	111.1	77.3	110.2	125.9	65.1	45.8	41.4
Capital expenditure and net lending	430.0	625.6	802.2	625.4	639.3	687.4	723.9
Acquisition of assets	423.0	649.5	682.6	538.6	457.4	506.0	580.5
Transfers and subventions	50.0	96.1	151.3	96.3	167.8	191.3	152.8
Net lending	-43.0	-120.0	-31.7	-9.5	14.1	-9.9	-9.4
Total expenditure and net lending	2,864.2	2,937.9	3,659.1	3,532.2	3,787.1	4,291.4	4,799.4

Sources: Ministry of Finance; and Fund staff estimates.

<sup>1</sup> Fiscal year is April-March.

Table 11. Lesotho: Functional Classification of Government Expenditure, 2000/01-2006/07 <sup>1</sup>  
(Millions of Maloti)

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Current expenditure	2,434.2	2,312.3	2,856.9	2,929.3	3,097.7	3,476.2	4,276.2
General public service	882.8	714.2	913.6	898.1	955.3	865.4	1,522.0
Public order, safety, and defense	395.4	464.9	513.1	513.3	590.9	418.7	850.2
<i>Of which</i> : defense	195.2	177.3	174.8	181.2	211.6	220.8	267.3
Other services	487.4	249.3	400.5	384.8	364.4	446.7	671.7
Health, social security, and welfare	273.4	312.1	370.2	406.8	358.0	663.5	685.5
Education and community services	544.6	633.9	841.9	1,009.9	1,002.7	1,245.6	1,315.4
Economic services	260.0	271.9	449.7	273.2	282.8	310.3	317.5
Agriculture and rural development	101.1	113.2	261.4	116.0	118.0	138.4	138.9
Commerce, tourism, and industry	38.0	31.9	44.8	44.4	62.2	65.5	61.3
Water, energy, and mining	33.8	35.5	38.2	24.2	21.6	22.3	22.1
Roads	51.7	48.5	48.9	48.8	44.4	42.3	55.0
Other transport and communication	35.4	42.8	56.4	39.8	36.6	41.8	40.2
Unallocable and other purposes <sup>2</sup>	473.4	380.2	281.5	341.3	498.9	391.4	435.9
Capital expenditure and net lending	430.0	625.6	802.2	625.4	664.6	741.1	632.9
General public service	2.0	182.3	162.3	171.2	99.9	80.9	81.4
Public order, safety, and defense	2.0	0.0	0.0	3.8	0.9	0.0	0.0
<i>Of which</i> : defense	2.0	0.0	0.0	0.0	0.0	0.0	0.0
Other services	0.0	182.3	162.3	167.4	99.0	80.9	81.4
Health, social security, and welfare	13.0	96.8	37.5	48.6	125.1	118.2	76.1
Education and community services	29.7	117.2	210.5	83.1	120.8	165.8	223.4
Economic services	47.8	383.0	372.4	332.0	258.9	171.4	261.4
Agriculture and rural development	7.1	41.8	41.5	36.3	35.5	26.8	30.2
Commerce, tourism, and industry	1.5	71.7	57.4	46.7	43.8	24.9	12.3
Water, energy, and mining	1.1	101.4	89.8	71.5	0.0	28.9	6.1
Roads	36.1	168.1	181.4	177.5	178.8	82.5	140.4
Other transport and communication	2.0	0.0	2.3	0.0	0.8	8.3	72.4
Unallocable and other purposes <sup>2</sup>	337.6	-153.7	19.5	-9.5	59.9	204.8	-9.4
Total expenditure and net lending	2,864.2	2,937.9	3,659.1	3,554.7	3,762.3	4,217.3	4,909.1
General public service	884.8	896.5	1,075.9	1,069.3	1,055.2	946.2	1,603.4
Public order, safety, and defense	397.4	464.9	513.1	517.1	591.8	418.7	850.2
<i>Of which</i> : defense	197.2	177.3	174.8	181.2	211.6	220.8	267.3
Other services	487.4	431.6	562.8	552.2	463.4	527.5	753.1
Health, social security, and welfare	286.4	408.9	407.7	455.4	483.1	781.7	761.6
Education and community services	574.3	751.1	1,052.4	1,093.0	1,123.5	1,411.4	1,538.8
Economic services	307.8	654.9	822.1	605.2	541.7	481.7	578.9
Agriculture and rural development	108.2	155.0	302.9	152.3	153.5	165.2	169.2
Commerce, tourism, and industry	39.5	103.6	102.2	91.1	106.0	90.4	73.6
Water, energy, and mining	34.9	136.9	128.0	95.7	21.6	51.2	28.2
Roads	87.8	216.6	230.3	226.3	223.2	124.9	195.4
Other transport and communication	37.4	42.8	58.7	39.8	37.4	50.1	112.5
Unallocable and other purposes <sup>2</sup>	811.0	226.5	301.0	331.8	558.8	596.3	426.5

Sources: Ministry of Finance; and staff estimates.

<sup>1</sup> Fiscal year is April-March.

<sup>2</sup> Calculated as a residual.

Table 12. Lesotho: Outstanding Government Domestic Debt by Instrument and Holder, 2000-06  
(Millions of Maloti)

	2000	2001	2002	2003	2004	2005	2006
<b>Commercial banks</b>							
Gross lending <sup>1</sup>	661.3	783.2	929.2	811.4	424.1	479.6	508.4
Long term	287.7	287.7	287.7	287.7	157.9	114.7	111.6
Bonds	287.7	287.7	287.7	287.7	157.9	114.7	111.6
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short term	373.6	495.5	641.5	523.7	266.2	364.9	396.8
Loans	0.0	0.0	0.0	0.0	0.8	0.3	0.0
Treasury bills	373.6	495.5	641.5	523.7	265.4	364.7	396.8
Government deposits (-)	-66.1	-63.7	-61.5	-60.0	-43.1	-138.3	-167.2
Net total	595.2	719.5	867.7	751.5	381.0	341.3	341.2
<b>Central bank</b>							
Gross lending <sup>1</sup>	272.1	223.4	195.5	196.1	223.4	228.6	223.1
Long term	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
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short term	272.1	223.4	195.5	196.1	223.4	228.6	223.1
Loans	220.7	205.1	194.9	195.7	223.3	224.8	217.4
Treasury bills	51.4	18.2	0.6	0.3	0.1	3.8	3.6
Government deposits (-)	-1,550.5	-1,318.6	-1,185.9	-1,203.6	-1,363.2	-1,419.5	-1,407.0
Net total	-1,278.4	-1,095.2	-990.4	-1,007.5	-1,139.8	-1,190.9	-1,183.9
<b>Nonbank <sup>2</sup></b>							
Long term	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
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short term	131.0	117.4	117.4	134.5	112.5	104.2	103.1
Treasury bills	131.0	117.4	117.4	134.5	112.5	104.2	103.1
Compulsory savings	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
Total nonbank	131.0	117.4	117.4	134.5	112.5	104.2	103.1
Total domestic debt, net	-552.2	-258.3	-5.4	-121.6	-646.2	-745.4	-739.6
Gross debt outstanding	1,064.4	1,124.0	1,242.0	1,142.0	760.0	812.4	834.5
Government deposits (-)	-1,616.6	-1,382.3	-1,247.4	-1,263.6	-1,406.3	-1,557.7	-1,574.2

Source: Central Bank of Lesotho.

<sup>1</sup> Data differ slightly in coverage from banking statistics and may not fully reflect revisions made there.

<sup>2</sup> The nonbank sector includes insurance, bank pension schemes, public servants' promissory notes and compulsory savings, and public enterprises, as well as the general public.

Table 13 Lesotho: Monetary Survey, 2000-2006

	2000	2001	2002	2003	2004	2005	2006
(Millions of maloti at end-December)							
Net foreign assets	3,585.2	5,313.9	3,884.1	3,460.7	3,972.4	4,231.4	6,205.3
Central bank	3,100.7	4,616.8	3,201.1	2,837.5	2,846.8	3,076.2	4,373.6
Commercial banks	484.5	697.1	683.0	623.2	1,125.6	1,155.2	1,831.7
Net domestic assets	-1,884.3	-3,321.2	-1,715.9	-1,162.8	-1,599.4	-1,641.4	-2,697.4
Domestic credit	228.7	359.2	691.9	380.6	-133.9	-100.5	-576.8
Claims on central government (net)	-733.5	-628.1	-321.5	-167.0	-742.7	-910.1	-1,498.8
Central bank	-1,251.3	-1,255.7	-1,066.0	-1,090.1	-1,228.3	-1,199.9	-1,973.9
Commercial banks	517.8	627.6	744.5	923.1	485.7	289.8	475.2
Claims on the rest of the economy	962.2	987.4	1,013.4	547.7	608.7	809.6	921.9
Other items (net)	-2,113.0	-3,680.4	-2,407.8	-1,543.4	-1,465.4	-1,540.9	-2,120.6
Money and quasi-money (M2)	1,700.9	1,992.7	2,168.2	2,297.8	2,373.0	2,590.0	3,507.9
Money	1,036.0	1,292.3	1,440.9	1,537.7	1,589.4	1,829.5	2,688.8
Of which: currency outside dep. Banks	139.3	147.1	179.7	183.5	204.5	212.8	309.4
demand deposits	873.7	939.0	1,099.2	1,185.2	1,197.5	1,427.9	2,379.4
Quasimoney	664.9	700.4	727.2	760.1	783.6	760.5	819.1
Of which: time and savings deposits	664.9	700.4	727.2	760.1	783.6	760.5	819.1
(Annual change in percent of beginning-of-year M2, unless otherwise indicated)							
Net foreign assets	8.9	101.6	-71.8	-19.5	22.3	10.9	76.2
Central bank	7.7	89.1	-71.0	-16.8	0.4	9.7	50.1
Commercial banks	1.2	12.5	-0.7	-2.8	21.9	1.2	26.1
Net domestic assets	-7.5	-84.5	80.6	25.5	-19.0	-1.8	-40.8
Claims on central government (net)	14.9	6.2	15.4	7.1	-25.1	-7.1	-22.7
Claims on the rest of the economy	0.0	1.5	1.3	-21.5	2.7	8.5	4.3
Claims on the rest of the econ. (yearly change)	-0.1	2.6	2.6	-46.0	11.1	33.0	13.9
Other items (net)	-22.4	-92.2	63.9	39.9	3.4	-3.2	-22.4
Money and quasimoney (M2)	1.4	17.2	8.8	6.0	3.3	9.1	35.4

Sources: Central Bank of Lesotho, and Fund staff estimates and projections.

Table 14. Lesotho: Assets and Liabilities of the Central Bank of Lesotho, 2001-2006  
(Millions of Maloti, end of period)

	2001	2002	2003	2004	2005	2006
Foreign assets	4,714.1	3,523.3	3,055.4	3,101.2	3,373.2	4,626.9
Claims on government	246.6	191.3	173.8	214.1	222.2	257.6
Claims on private sector	13.6	13.5	15.0	16.3	19.5	20.1
Unclassified assets	72.3	-6.2	113.4	58.5	101.1	119.9
Total assets = total liabilities	5,046.5	3,722.0	3,357.5	3,390.0	3,716.0	5,024.4
Monetary Base	489.1	490.6	518.5	559.1	734.1	680.7
Maloti in circulation	187.5	223.1	235.0	256.9	298.0	377.7
Bankers' deposits	95.5	105.4	114.5	112.3	244.8	110.8
Private and public deposits	206.1	162.1	169.0	189.9	191.4	192.2
Rand notes and coins	...	...	...	...	...	...
Foreign liabilities	196.8	202.0	182.2	214.8	221.5	253.2
Government deposits	1,502.4	1,257.3	1,263.9	1,411.8	1,422.0	2,231.5
Capital accounts	2,858.3	1,772.0	1,392.9	1,204.3	1,338.3	1,859.0
Capital and reserves	2,858.3	1,772.0	1,392.9	1,204.3	1,338.3	1,859.0
Allocation of SDRs	...	...	...	...	...	...
Unclassified liabilities	...	...	...	...	...	...

Source: Central Bank of Lesotho.



Table 15. Lesotho: Assets and Liabilities of Commercial Banks, December 2001-06  
(Millions of Maloti, end of period)

	2001	2002	2003	2004	2005	2006
Foreign assets	799.9	669.4	852.8	1,261.5	1,262.1	1,904.6
Reserves	116.8	148.8	165.6	164.8	255.1	179.1
Maloti on hand	40.4	43.4	51.5	52.4	85.2	68.3
Rand on hand	...	...	...	...	...	...
Balances with central bank	76.4	105.4	114.2	112.4	170.0	110.8
Claims on government	691.3	812.4	991.4	543.4	461.6	598.3
Claims on statutory bodies	46.4	42.8	38.9	52.2	35.7	24.7
Claims on private sector <sup>1</sup>	873.0	1,008.4	453.6	496.8	754.4	877.1
Unclassified assets	367.9	334.5	274.8	225.5	427.0	180.0
Total assets = total liabilities	2,895.2	3,016.3	2,777.2	2,744.2	3,196.0	3,763.8
Foreign liabilities	102.8	99.6	229.6	135.9	106.9	72.9
Demand and call deposits <sup>2</sup>	939	1,099	1,185	1,198	1,428	2,187
Savings and time deposits <sup>2</sup>	700	727	760	784	761	819
Government deposits	63	64	68	58	172	123
Capital accounts	279	287	303	346	403	316
Unclassified liabilities <sup>1</sup>	810	740	231	224	325	246

Source: Central Bank of Lesotho.

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

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

Table 16. Lesotho: Principal Aggregates of Commercial Banks' Operations, 2000-March 2007  
(Millions of maloti, unless otherwise specified; end of period)

	Deposits <sup>1</sup>	Credit <sup>2</sup>	Credit- Deposit Ratio <sup>3</sup>	Liquid Assets <sup>4</sup>	Liquidity Ratio <sup>5</sup>
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 <sup>6</sup>	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	2,085.5	94.1
September	2,036.4	541.3	26.6	1,821.9	69.1
December	1,942.3	493.3	25.4	1,982.9	71.4
2005					
March	2,020.5	533.0	26.4	2,254.2	74.8
June	1,893.4	546.9	28.9	1,944.3	71.3
September	2,082.9	576.3	27.7	2,415.6	77.3
December	2,149.7	805.6	37.5	2,505.7	78.4
2006					
March	2,126.9	725.0	34.1	2,359.3	78.7
June	2,271.5	709.3	31.2	2,605.3	79.8
September	2,649.4	755.2	28.5	2,159.5	76.2
December	3,006.3	802.0	26.7	2,876.7	79.6
2007					
March	3242.1	863.1	26.6	2980.5	78.4

Source: Central Bank of Lesotho.

<sup>1</sup> Excludes Miners' Deferred Pay Fund and deposits of nonresidents.

<sup>2</sup> Excludes loans and advances to nonresidents.

<sup>3</sup> Loans and advances as a percentage of deposits.

<sup>4</sup> Cash reserves, call or demand deposits with banks in the Common Monetary Area, and short-term government securities.

<sup>5</sup> Liquid assets as percentage of total deposits.

<sup>6</sup> 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 2000-March 2007 <sup>1</sup>  
(Millions of maloti; end of period)

	2000	2001	2002	2003	2004				2005				2006				2007
	March				March	June	Sep.	Dec.	March	June	Sep.	Dec.	March	June	Sep.	Dec.	March
Agriculture	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	1.6	1.3	1.7
Mining and quarrying	0.9	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	13.5	3.0	2.8	26.5
Manufacturing	54.2	36.5	24.8	24.5	23.9	23.1	25.8	28.7	28.2	46.0	41.3	47.8	20.4	15.6	44.01	45.7	44.3
Electricity, gas, and water	46.6	7.4	4.5	7.5	8.7	8.7	8.9	8.0	8.7	3.8	3.6	5.3	5.5	35.2	45.6	53.1	52.6
Construction	78.6	74.5	82.0	90.3	108.3	121.3	117.5	132.5	140.0	126.8	120.9	132.6	133.3	99.1	97.8	108.0	112.5
Trade, hotels, and restaurants	65.0	18.5	16.0	16.8	20.8	16.7	17.7	20.2	21.1	42.2	45.9	27.5	16.1	6.7	12.0	12.3	11.3
Transport, storage, and communications	87.3	8.4	7.0	5.8	5.8	7.0	8.0	7.5	6.4	1.1	7.1	129.9	146.0	148.9	194.4	202.6	219.4
Nonbank financial institutions, real estate, and business services	39.7	5.7	3.5	3.7	5.1	5.7	7.0	7.6	7.5	5.1	6.0	6.9	3.3	3.3	0.7	0.7	0.9
Community, social, and personal services	58.9	8.9	6.2	19.7	24.5	28.1	31.3	9.4	8.4	1.0	0.1	0.1	3.1	3.4	0.3	0.4	0.5
Personal loans <sup>2</sup>	432.0	410.7	144.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other <sup>2</sup>	13.2	298.6	521.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total claims on the economy	877.4	869.7	809.5	168.2	197.0	210.5	216.2	213.8	220.8	225.9	225.7	350.0	339.6	325.8	399.3	426.9	469.8
Private sector	767.9	821.6	769.3	168.2	197.0	210.5	216.2	213.8	220.8	225.9	225.7	350.0	339.6	307.8	384.0	409.5	452.2
Business enterprises <sup>2</sup>	337.9	673.4	613.1	131.5	151.0	157.0	168.5	161.6	158.0	171.4	179.0	316.6	310.3	307.8	384.0	409.5	452.2
Personal loans <sup>2</sup>	430.0	148.2	156.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statutory bodies	109.5	48.1	40.2	36.7	46.0	53.5	47.7	52.2	62.8	54.5	46.7	33.4	29.4	17.9	15.4	17.4	17.6

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

<sup>1</sup> Does not include investments and certain securities.

<sup>2</sup> Numbers affected by nonperforming loans, which were written off in February 2003.

Table 18. Lesotho: Interest Rates at Commercial Banks, March 2000-March 2007  
(Percent a year; end of period)

	2000	2001	2002	2003	2004				2005				2006				2007
		Mar.			Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.
Lending rates <sup>1</sup>																	
Minimum	17.0	17.0	16.3	17.7	12.5	12.5	12.2	12.2	12.2	11.5	11.5	11.5	11.63	12	12.33	13.5	13.58
Maximum	27.0	25.3	24.7	26.0	17.5	19.2	18.8	17.2	17.2	16.88	16.75	16.75	16.75	17.06	17.06	18.0	18.0
Deposit rates																	
Savings deposits <sup>2</sup>	3.5	4.0	4.0	4.0	2.3	2.1	1.4	1.4	1.35	2.0	2.0	2.0	2.0	2.0	3.0	5.0	5.0
Time deposits																	
31 days	4.0	4.0	4.0	4.8	3.8	3.8	3.1	3.1	3.1	3.5	3.25	3.5	3.5	3.5	3.2	3.5	3.5
1 year	5.5	6.0	6.0	6.3	6.0	6.0	4.7	4.0	4.0	4.75	4.75	4.75	4.75	4.75	6	6.5	6.5
Memorandum items:																	
South African rates																	
Prime overdraft	14.5	14.5	13.0	17.0	11.5	11.5	11	11	10.5	10.5	10.5	10.5	10.5	11.0	11.5	12.0	12.0
Deposit rates																	
Notice (31 days)	9.5	9.3	9.8	13.5	7.7	8.3	7.5	7.2	7.2	6.8	6.83	6.79	6.86	7.28	7.84	8.76	8.89
Fixed (12 months)	10.5	10.3	11.5	12.9	8.7	9.1	7.7	7.4	7.4	7.08	7.32	7.26	7.24	8.34	9.35	9.65	9.64

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

<sup>1</sup> Minimum and maximum lending rates are not statutory rates; they indicate the range of interest rates reported by banks.

<sup>2</sup> Minimum deposit rates; from December 1999, they are maximum deposit rates.

Table 19. Lesotho: Major Money Market Interest Rates  
(Percent per annum: End of Period)

	2000	2001	2002	2003	2004	2005	2006
<b>Central Bank <sup>1</sup></b>							
91-Day T-Bill Rate	9.30	10.99	12.19	9.83	7.86	6.95	6.76
Call rate	7.88	7.88	0.00	0.00	0.00	0.00	0.00
31 days	15.00	13.00	0.00	0.00	0.00	0.00	0.00
<b>Commercial Banks</b>							
<b>Time deposits</b>							
31 days	4.00	4.00	4.75	3.75	3.10	3.50	3.50
1 year	5.50	6.00	6.25	6.00	4.00	4.75	6.50
Savings deposits - (range)	0.00-3.50	2.17-4.00	2.58-4.00	1.68-2.48	0.96-1.35	0.97-2.00	1.00-5.00
Prime lending	17.00	16.33	17.67	17.67	12.17	11.50	13.50
<b>South Africa <sup>2</sup></b>							
91-Day T-Bill Rate	10.25	9.47	12.42	7.54	7.32	6.80	8.26
Prime lending	14.50	13.00	17.00	11.50	11.00	10.50	12.50
Call deposits <sup>3</sup>	8.50-9.75	8.25-8.85	8.75-9.50	7.70-7.72	7.70-8.72	6.00-6.50	7.50-8.50
Repo	11.75	9.50	13.5	8.00	7.50	7.00	9.00

Source: Central Bank of Lesotho.

<sup>1</sup> In September 2001, the Central Bank introduced indirect instruments of monetary policy and also ceased to remunerate banks deposits.

<sup>2</sup> Source: Financial Mail

<sup>3</sup> Maximum rate for deposits of R100,000+

Table 20. Lesotho: Balance of Payments, 2000- 2006  
(Millions of U.S. dollars)

	2000	2001	2002	2003	2004	2005	2006 Est.
Trade balance	-516.2	-394.7	-398.5	-517.8	-592.5	-656.6	-667.4
Exports, f.o.b.	211.6	281.8	354.8	470.3	660.0	650.7	699.5
Of which: garments	0.0	200.1	259.5	337.8	501.3	527.7	567.2
Imports f.o.b. <sup>1</sup>	-727.8	-676.5	-753.3	-988.1	-1,252.4	-1,307.3	-1,366.9
Of which: garment inputs	...	...	-111.7	-145.4	-215.8	-227.1	-244.2
Services (net)	0.3	-11.1	-19.9	-34.7	-36.9	-46.7	-35.4
Receipts	43.6	37.3	35.3	49.6	61.1	56.6	59.8
Of which: water royalties	12.5	11.4	10.6	14.7	17.0	18.1	18.4
Payments	-43.3	-48.4	-55.1	-84.3	-98.1	-103.4	-95.2
Income (net)	227.7	178.3	164.0	255.3	309.8	303.8	379.5
Labor income (net)	226.3	183.8	165.4	254.4	304.2	302.2	345.2
Receipts	254.0	209.3	186.5	281.3	333.8	319.1	356.6
Of which: miners' wages	201.7	164.5	150.2	229.7	271.0	253.8	292.8
Payments	-27.6	-25.4	-21.1	-26.9	-29.5	-16.9	-11.4
Investment income (net)	1.4	-5.5	-1.4	0.8	5.5	1.6	34.3
Receipts	36.5	26.8	22.1	27.9	38.3	50.2	55.5
Payments	-35.1	-32.3	-23.5	-27.0	-32.8	-48.6	-21.2
Of which: interest on debt	-20.0	-16.1	-12.0	-12.8	-11.9	-37.9	-13.8
Unrequited transfers	134.9	133.9	121.2	169.7	247.2	300.4	389.2
Official	132.5	130.3	117.8	161.5	238.1	289.7	371.6
SACU nonduty receipts	115.7	118.1	104.1	143.0	216.1	274.4	358.0
Rand compensation	9.0	7.7	5.5	8.7	9.9	11.5	11.5
Other	7.8	4.5	8.1	9.7	12.0	3.8	2.0
Private	2.3	3.6	3.5	8.2	9.1	10.6	17.6
Current account (including official transfers)	-153.3	-93.6	-133.2	-127.6	-72.4	-99.1	65.9
Current account (excluding official transfers)	-285.8	-223.9	-250.9	-289.0	-310.5	-388.9	-305.6
Of which: LHWP <sup>2</sup>	-78.1	-76.2	-49.3	-62.3	-53.0	-26.3	-15.4
Capital and financial account	184.2	147.4	242.2	176.1	56.0	19.9	-213.5
Capital account (transfers received)	20.1	16.0	23.4	18.3	22.4	21.0	11.1
Financial account	164.2	131.4	218.7	157.7	33.6	-1.1	-224.7
Direct investment (excl. LHDA) <sup>3</sup>	31.5	28.2	26.8	41.9	53.2	57.3	57.0
Financing LHWP (net)	87.6	89.7	56.5	73.0	70.8	35.3	20.3
Other investment	-36.9	-17.9	14.1	-25.5	-88.7	-50.4	-110.8
Assets	-17.1	16.2	-25.0	-37.1	-95.0	1.9	-89.1
Liabilities	-19.7	-34.1	39.1	11.6	6.3	-52.3	-21.7
Change in reserve assets	81.9	31.4	121.3	68.3	-1.6	-43.2	-191.1
Valuation adjustment	-11.8	-43.9	22.3	49.9	33.4	14.6	53.5
Errors and omissions	-19.1	-10.0	-131.3	-98.4	-17.0	64.7	94.1
<i>Memorandum items:</i>	(Percent of GDP, unless otherwise indicated)						
Trade balance	-47.8	-42.4	-46.8	-40.0	-36.4	-38.0	-35.6
Net remittances	26.5	24.4	24.1	24.5	23.1	21.2	23.1
Current account (including official transfers)	-18.0	-12.4	-19.4	-12.3	-5.5	-7.0	4.4
Current account (excluding official transfers)	-33.5	-29.8	-36.5	-27.8	-23.5	-27.3	-20.5
Excluding LHWP	-26.1	-21.6	-31.3	-24.0	-20.3	-26.7	-20.7
Gross official reserves (Millions of U.S. dollars)	458.6	422.8	445.4	501.6	503.3	546.5	737.6
Gross official reserves (Months of imports of goods and services)	7.1	6.5	6.0	5.6	4.5	4.6	6.1

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

<sup>1</sup> Adjusted for SACU duty receipts

<sup>2</sup> Lesotho Highlands Water Project.

<sup>3</sup> Lesotho Highlands Development Authority.

Table 21. Lesotho: Balance of Payments, 2000- 2006  
(Millions of Maloti)

	2000	2001	2002	2003	2004	2005	2006 Est.
Trade balance	-3,582.2	-3,398.2	-4,200.3	-3,917.2	-3,827.1	-4,175.7	-4,519.2
Exports, f.o.b.	1,468.4	2,426.0	3,739.9	3,557.4	4,263.2	4,138.1	4,736.7
Of which: garments	...	1,722.5	2,735.4	2,555.6	3,238.0	3,355.5	3,841.1
Imports f.o.b. <sup>1</sup>	-5,050.5	-5,824.2	-7,940.2	-7,474.6	-8,090.3	-8,313.7	-9,255.9
Of which: garment inputs	...	-854.6	-1,177.4	-1,100.0	-1,393.8	-1,444.3	-1,653.4
Services (net)	2.2	-95.7	-209.3	-262.2	-238.5	-297.2	-239.5
Receipts	302.8	321.1	372.0	375.3	395.0	360.1	405.1
Of which: water royalties	86.8	98.2	111.2	111.2	109.8	114.9	124.8
Payments	-300.6	-416.7	-581.3	-637.5	-633.5	-657.3	-644.6
Income (net)	1,580.3	1,535.2	1,728.3	1,930.9	2,001.0	1,932.2	2,569.7
Labor income (net)	1,570.6	1,582.8	1,743.0	1,924.7	1,965.3	1,921.8	2,337.4
Receipts	1,762.5	1,801.6	1,965.5	2,127.8	2,156.1	2,029.2	2,414.8
Of which: miners' wages	1,400.0	1,416.5	1,583.3	1,737.9	1,750.4	1,614.3	1,983.0
Payments	-191.9	-218.9	-222.5	-203.2	-190.9	-107.4	-77.4
Investment income (net)	9.7	-47.6	-14.7	6.3	35.7	10.4	232.3
Receipts	253.5	230.5	233.4	210.8	247.4	319.4	375.7
Payments	-243.8	-278.1	-248.1	-204.5	-211.7	-309.0	-143.4
Of which: interest on debt	-138.9	-138.6	-126.1	-96.5	-77.2	-240.8	-93.6
Unrequited transfers	936.1	1,152.9	1,277.7	1,283.6	1,597.0	1,910.2	2,635.4
Official	919.8	1,121.8	1,241.2	1,221.4	1,538.0	1,842.6	2,516.0
SACU nonduty receipts	803.2	1,017.0	1,097.2	1,081.8	1,396.3	1,745.2	2,424.4
Rand compensation	62.2	66.1	58.3	66.0	64.3	73.3	78.2
Other	54.4	38.7	85.7	73.6	77.5	24.0	13.4
Private	16.3	31.0	36.5	62.2	59.0	67.6	119.4
Current account (including official transfers)	-1,063.5	-805.8	-1,403.5	-965.0	-467.7	-630.5	446.4
Current account (excluding official transfers)	-1,983.4	-1,927.6	-2,644.8	-2,186.4	-2,005.7	-2,473.0	-2,069.6
Of which: LHWP <sup>2</sup>	-541.8	-656.3	-519.3	-471.0	-342.3	-167.2	-104.6
Capital and financial account	1,278.5	1,269.3	2,552.6	1,331.9	361.8	126.4	-1,445.9
Capital account (transfers received)	139.3	138.0	247.1	138.6	144.6	133.3	75.5
Financial account	1,139.2	1,131.3	2,305.5	1,193.3	217.2	-6.9	-1,521.4
Direct investment (excl. LHDA) <sup>3</sup>	218.3	242.9	282.7	316.6	343.7	364.4	385.9
Financing LHWP (net)	608.1	772.2	595.7	552.3	457.2	224.2	137.4
Other investment	-255.7	-153.9	148.3	-192.6	-573.0	-320.7	-750.4
Assets	-118.9	139.3	-263.7	-280.5	-613.9	12.0	-603.6
Liabilities	-136.8	-293.3	412.1	87.9	40.9	-332.7	-146.8
Change in reserve assets	568.5	270.0	1,278.8	517.0	-10.6	-274.8	-1,294.3
Valuation adjustment	-82.2	-377.6	235.1	377.1	215.6	92.9	362.2
Errors and omissions	-132.8	-85.9	-1,384.2	-744.1	-109.7	411.2	637.3
<i>Memorandum items:</i>	(Percent of GDP, unless otherwise indicated)						
Trade balance	-47.8	-42.4	-46.8	-40.0	-36.4	-38.0	-35.6
Net remittances	26.5	24.4	24.1	24.5	23.1	21.2	23.1
Current account (including official transfers)	-18.0	-12.4	-19.4	-12.3	-5.5	-7.0	4.4
Current account (excluding official transfers)	-33.5	-29.8	-36.5	-27.8	-23.5	-27.3	-20.5
Excluding LHWP	-26.1	-21.6	-31.3	-24.0	-20.3	-26.7	-20.7
Gross official reserves (Millions of U.S. dollars)	3182.5	3639.6	4694.3	3794.7	3251.0	3475.2	4994.8
Gross official reserves (Months of imports of goods and services)	7.1	6.5	6.0	5.6	4.5	4.6	6.1
Exchange rate (maloti per U.S. dollar, average)	6.9	8.6	10.5	7.6	6.5	6.4	6.8

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

<sup>1</sup> Adjusted for SACU duty receipts<sup>2</sup> Lesotho Highlands Water Project.<sup>3</sup> Lesotho Highlands Development Authority.

Table 22. Lesotho: Services and Income Account 2000-2006  
(Millions of Maloti)

	2000	2001	2002	2003	2004	2005	2006 Est.
Non-factor services: credit	302.8	321.0	372.0	375.3	395.0	360.1	405.2
Shipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transportation	3.2	3.8	3.8	4.2	3.8	4.0	3.6
Travel	158.7	163.7	184.5	209.3	215.9	196.8	245.4
<i>Of which</i> : total expats spending	31.6	33.9	45.4	59.9	47.9	45.8	41.5
<i>Of which</i> : LHWP expats spending	33.2	34.5	38.7	29.9	27.2	19.6	20.2
Sales of water (and power)	90.7	101.2	107.4	111.2	109.8	114.9	124.8
Other official	54.4	59.9	83.8	57.7	62.5	40.1	46.6
Other private	-1.0	-3.8	-3.7	-3.0	6.8	8.3	-11.6
Non-factor services: debit	-300.6	-416.7	-581.3	-637.5	-633.5	-657.3	-644.6
of which: LHWP	-35.9	-136.3	-134.6	-105.2	-68.5	0.0	0.0
Shipment	-165.8	-210.6	-303.8	-334.4	-303.0	-296.5	-302.8
Other transportation	-21.2	-22.1	-33.1	-26.2	-34.8	-45.6	-39.5
Travel	-62.6	-102.3	-118.8	-171.7	-194.7	-205.9	-227.4
Other official	-49.5	-76.9	-117.1	-104.7	-101.1	-109.1	-74.7
Other private	-1.5	-4.8	-8.6	-0.5	0.0	-0.2	-0.2
Non-factor services (net)	2.2	-95.7	-209.3	-262.3	-238.5	-297.2	-239.4
Factor incomes: credit	2015.9	2032.1	2198.9	2338.6	2403.4	2348.6	2790.5
Investment income	253.5	230.5	233.4	210.8	247.4	319.4	375.7
Interest earned by CBL	207.6	187.1	175.9	162.2	161.2	208.1	243.1
Interest earned by commercial banks	45.9	43.4	57.5	48.6	86.2	111.3	132.6
Labor income	1762.4	1801.6	1965.5	2127.8	2156.1	2029.2	2414.8
Miners' wages	1400.0	1416.5	1583.3	1737.9	1750.4	1614.3	1983.0
Other	362.4	385.1	382.2	389.9	405.7	414.9	431.8
Factor incomes: debit	-435.7	-497.0	-470.6	-407.7	-402.7	-416.3	-220.8
Investment income	-243.8	-278.1	-248.1	-204.5	-211.8	-308.9	-143.4
Dividends and profits	-104.9	-139.5	-122.0	-108.0	-134.6	-68.1	-49.8
LHWP distributed earnings	-95.3	-110.4	-107.6	-84.3	-95.6	-51.3	-32.1
Other	-9.6	-29.1	-14.3	-23.7	-39.0	-16.8	-17.7
Interest	-138.9	-138.6	-126.1	-96.5	-77.2	-240.8	-93.6
Payments to expatriates	-191.9	-218.9	-222.5	-203.2	-190.9	-107.4	-77.4
<i>Of which</i> : LHWP	-96.0	-113.8	-113.5	-107.7	-103.1	-59.1	-38.7
Factor incomes (net)	1580.2	1535.1	1728.3	1930.9	2000.8	1932.2	2569.7
Total services and income (net)	1582.4	1439.5	1519.0	1668.6	1762.3	1635.0	2330.3

Source: Central Bank of Lesotho.



Table 23. Lesotho: Lesotho Miners in South Africa, 2000-2006

	2000	2001	2002	2003	2004	2005	2006
Total average number employed (thousands)	64.9	61.4	62.2	61.4	58.0	50.8	50.2
Annual percentage change	-5.4	-5.4	1.3	-1.2	-5.5	-12.4	-1.2
Average annual earnings (maloti)	30,131	32,030	35,326	38,513	42,116	43,202	53,670
Annual percentage change	8.9	6.3	10.3	9.0	9.4	2.6	24.2
Total earnings (millions of maloti)	1,955.5	1,966.6	2,196.5	2,364.8	2,442.1	2,196.2	2,694.3
Annual percentage change	3.1	0.6	11.7	7.7	3.3	-10.1	22.7
Miners' remittances (millions of maloti)	1,400.0	1,416.5	1,583.3	1,737.9	1,750.4	1,614.3	1,983.0
Miners' remittances (percentage of total earnings)	71.3	71.3	70.6	71.3	73.5	73.5	70.6
Miners' remittances (annual percentage change)	3.1	0.6	10.5	8.8	6.5	-7.8	22.8

Source: Central Bank of Lesotho, and IMF staff estimates.

Table 24. Lesotho: Composition of Recorded Exports, 2000-2006  
(Millions of Maloti)

	2000	2001	2002	2003	2004	2005	2006
Foodstuffs, etc.	111.7	141.3	203.1	194.0	185.5	61.4	72.9
Cereals	28.0	44.9	75.7	71.2	65.2	6.2	6.8
Beans, peas, and other vegetables	1.1	0.2	0.4	0.4	0.3	0.5	0.2
Animal feed	3.8	4.3	5.6	5.2	13.0	3.1	3.6
Beverages and tobacco	63.9	72.6	94.9	96.5	98.5	50.4	61.2
Other foodstuffs	15.0	19.3	26.6	20.7	8.5	1.2	1.1
Live animals	6.6	12.9	20.4	20.4	16.8	3.3	1.3
Cattle	4.9	9.7	13.4	12.2	12.5	2.9	1.1
Sheep and goats	0.0	0.1	0.3	0.4	0.4	0.3	0.2
Pigs	0.0	0.2	0.8	1.2	1.3	0.0	0.0
Poultry	1.7	2.9	5.9	6.6	2.6	0.1	0.0
Livestock materials	37.0	60.1	67.8	83.1	22.0	12.1	7.9
Wool	32.2	56.8	56.1	73.4	12.9	10.3	6.1
Mohair	4.1	1.3	3.2	0.0	1.5	1.1	1.3
Hides and skins	0.7	2.0	8.5	9.6	7.6	0.7	0.5
Crude materials	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Diamonds	1.7	1.5	3.8	3.8	270.4	391.1	474.6
Water	63.9	69.5	94.9	97.2	100.2	99.5	138.2
Manufactures	1,243.9	2,135.1	3,336.2	3,148.1	3,654.1	3,565.7	4,039.7
Chemicals and petroleum	6.5	18.6	45.5	49.3	32.6	13.2	15.6
Leather products	0.3	1.0	3.0	2.9	1.2	0.0	0.0
Wood products	0.1	0.2	0.7	0.7	1.9	0.0	0.0
Yarn and textiles, etc.	1.4	2.9	7.1	8.4	12.9	11.2	8.7
Bricks	...	6.9	18.5	17.6	13.7	9.2	6.2
Telecommunication equipment	...	148.2	210.9	209.7	133.6	70.5	72.3
Machinery	...	13.8	25.9	53.9	50.1	12.3	8.8
Road vehicles	11.3	17.7	29.6	30.2	13.1	11.6	6.4
Furniture and parts	9.5	26.0	37.4	33.1	25.6	2.3	5.6
Clothing, etc.	953.2	1,722.5	2,735.4	2,555.6	3,238.0	3,355.5	3,841.1
Footwear	132.6	124.4	135.1	130.5	92.3	65.8	60.2
Books		0.8	1.5	21.0	0.4	1.2	1.5
Other manufactures	128.9	52.1	85.6	35.2	38.7	12.9	13.3
Unclassified	3.6	5.5	13.7	10.9	14.2	5.1	2.1
Total value	1,468.4	2,426.0	3,739.9	3,557.3	4,263.2	4,138.1	4,736.7

Source: Central Bank of Lesotho.

Table 25. Lesotho: Direction of Trade, 2000 - 2006 <sup>1</sup>  
(Millions of Maloti)

	2000		2001		2002		2003		2004		2005		2006	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
World	5,611.1	1,468.4	6,399.8	2,426.0	8,547.5	3,739.9	8,411.6	3,557.4	9,036.2	4,263.2	9,135.7	4,138.1	10,160.0	4,736.7
Africa	4,876.8	607.5	5,306.0	899.1	6,292.4	856.4	7,242.7	695.6	6,628.5	618.3	7,709.9	813.3	8,574.3	930.9
SACU <sup>2</sup>	4,309.2	606.9	5,296.6	897.0	6,283.8	856.0	7,234.1	689.7	6,583.8	585.1	7,665.2	714.2	8,524.6	817.5
Other Africa	6.9	0.7	3.0	2.1	1.6	0.2	8.6	5.9	44.7	33.2	44.7	99.1	49.7	113.4
Europe	45.8	1.8	46.5	3.5	93.5	8.1	12.1	3.7	73.1	653.6	65.7	711.0	73.1	813.8
European Union	42.7	1.8	44.5	3.5	82.8	7.8	8.9	3.7	70.3	650.8	61.5	711.0	68.4	813.8
Belgium	1.4	0.2	0.4	0.1	3.9	0.0	0.0	0.0	0.8	585.8	1.5	702.4	1.7	804.0
Denmark	0.8	0.0	1.7	0.0	9.2	0.0	1.3	0.0	5.4	0.0	3.9	0.0	4.4	0.0
France	0.4	0.0	2.9	0.1	4.6	0.0	0.1	0.0	22.0	0.0	2.8	0.0	3.1	0.0
Germany	6.4	0.7	20.9	0.0	9.4	2.2	0.1	0.6	4.4	10.4	11.4	0.3	12.7	0.3
Greece	0.0	0.0	0.0	0.0	4.7	0.0	3.2	0.0	1.8	0.0	0.0	0.0	0.0	0.0
Italy	5.5	0.0	5.0	0.0	16.0	0.0	0.1	0.0	23.6	0.0	18.2	0.1	20.3	0.1
Spain	6.7	0.0	11.9	0.0	11.4	0.9	0.2	0.0	0.2	0.1	0.3	0.4	0.4	0.5
Netherlands	3.1	0.0	0.0	0.0	0.0	0.0	2.7	2.0	10.0	0.6	11.7	0.1	13.0	0.1
United Kingdom	14.1	0.9	0.6	0.0	25.0	0.0	1.4	1.2	2.1	53.9	11.6	7.6	12.9	8.7
Portugal	4.3	0.0	0.0	3.2	0.0	4.6	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1
Turkey	0.0	0.0	0.0	0.0	2.2	0.0	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Europe	3.1	0.0	2.0	0.0	3.8	0.3	1.8	0.0	2.8	2.8	4.2	0.0	4.6	0.0
North America	104.8	858.3	41.7	1,522.5	53.5	2,874.6	15.1	2,849.1	97.5	2,979.8	38.1	2,600.0	42.3	2,976.1
Canada	97.2	22.5	34.5	35.0	12.1	15.9	0.6	19.7	0.0	45.4	6.3	56.1	7.0	64.3
United States	7.6	835.8	7.2	1,487.5	41.4	2,858.7	14.5	2,829.4	97.5	2,934.4	31.8	2,543.8	35.4	2,911.8
Asia	526.0	0.6	953.3	0.9	2,028.8	0.8	1,141.7	8.9	2,183.4	11.5	1,315.3	13.8	1,462.8	15.8
Japan	34.6	0.0	11.6	0.4	33.3	0.0	11.3	1.2	65.8	0.9	13.9	1.3	15.5	1.5
Hong Kong SAR	70.3	0.0	224.3	0.0	485.5	0.0	401.3	0.9	623.9	8.7	386.3	0.9	429.6	1.0
China	0.0	0.0	74.2	0.0	356.9	0.0	241.8	0.2	457.4	0.0	238.9	0.0	265.7	0.0
Taiwan Province of China	294.6	0.6	527.1	0.0	916.4	0.8	367.6	0.7	670.4	0.1	448.4	0.8	498.7	0.9
Other	126.5	0.0	109.8	0.5	193.1	0.0	119.7	5.8	366.0	1.8	227.8	10.8	253.3	12.4
Oceania	57.7	0.1	52.2	0.0	79.2	0.0	32.0	0.0	53.7	0.0	6.7	0.0	7.5	0.0

Source: Central Bank of Lesotho.

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

<sup>2</sup> SACU members, other than Lesotho, are Botswana, Namibia, South Africa, and Swaziland.

Table 26. Lesotho: Public and Publicly Guaranteed External Debt Outstanding, 2000-2006  
(Millions of U.S. dollars)

	2000	2001	2002	2003	2004	2005	2006
Multilateral sources	414.8	421.4	480.1	537.7	564.5	552.3	560.0
<i>of which:</i>							
World Bank Group	181.2	191.0	222.8	252.4	265.1	262.3	268.4
African Development Bank	9.4	7.5	6.7	5.8	4.0	2.4	1.4
African Development Fund	147.3	148.4	163.0	172.6	182.1	173.6	184.8
EU	30.7	25.5	34.4	1.7	3.3	34.1	34.3
IMF	10.2	14.4	18.6	23.3	32.5	35.6	35.2
Bilateral sources	100.5	73.8	93.4	101.2	86.8	49.6	43.1
Commercial sources	64.2	54.2	59.8	67.2	60.4	30.7	23.2
Banks	44.9	33.1	40.4	50.5	47.9	18.8	14.5
Export credits	19.3	21.1	19.4	16.7	12.6	11.8	8.7
Total	579.5	549.4	633.3	706.1	711.7	632.6	626.3
Total (Percent of GDP)	75.8	78.3	73.5	58.1	46.9	46.5	43.1

Source: External Debt Unit, Ministry of Finance.

**Table 27. Lesotho: Summary of the Tax System, June 2007**  
(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 business, and charitable institutions is exempt.	25 percent is levied on all sectors of activity other than manufacturing and farming; 10 percent on manufacturing and farming and 0 percent on manufacturing of goods destined for extra-SACU  For nonresident companies, 10 percent Withholding Tax and is a final tax.
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 collections of gambling casinos.		15 percent.

**Lesotho: Summary of the Tax System, June 2007**  
(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 Income Tax Act 1993.	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/primary farming, scholarships, and foreign-source property income of expatriate taxpayers.	First M 33,075	25 percent
		Gross income includes incomes in kind, except for benefits subject to fringe benefits tax.		Over M 33,075	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 and non-government withholding agents 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 2,911 per taxpayer was introduced in April 2006.	Nonresident marginal rate (in percent):	
				All chargeable Income	25 percent
1.2.2	Withholding tax Income Tax Act 1993.	A tax on income from dividends, interest, royalties, natural resource payments, management charges, or service contracts earned within Lesotho by nonresidents.	Dividends from manufacturing companies are exempt.	Withholding tax is 25 percent. For royalties from non-manufacturing companies, 15 percent. On service contracts earned within Lesotho by nonresidents, 10 percent.	

# **Lesotho: Summary of the Tax System, June 2007**

(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.		10 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, June 2007**

(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, except to the extent attributable to premiums for which a deduction was allowed.	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, June 2007

(All amounts in maloti)

Tax	Nature of Tax	Exemptions and Deductions	Rates												
3. Taxes on goods and services															
3.1 Value-added tax (VAT) Value-Added Tax Act No. 9 of 2001 (as amended), implemented from July 1 2003 (this act repealed the Sales Tax Act 1995). VAT (Amendment) Act No. 6 of 2003.	A 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 and sale of a business as a going concern.	Under Section 6, 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.	<p>The existing rates are:</p> <table><thead><tr><th>Goods And Services</th><th>Rate (in percent)</th></tr></thead><tbody><tr><td>General</td><td>14</td></tr><tr><td>Liquor</td><td>15</td></tr><tr><td>Telecommunications 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></tbody></table> <p>Zero-rated basic items are:</p> <p>Agricultural inputs (fertilizers, seeds, pesticides, etc.)</p> <p>Beans</p> <p>Bread</p> <p>Eggs</p> <p>Lentils</p> <p>Livestock, feed, and poultry feed</p> <p>Maize (grain)</p> <p>Maize meal</p> <p>Full Cream Milk</p> <p>Paraffin (for use as fuel for cooking, illuminating or heating)</p> <p>Peas</p> <p>Sorghum meal</p> <p>Unmalted sorghum grain</p> <p>Wheat grain</p> <p>Bread flour</p> <p>Samp ( not further prepared or processed)</p> <p>Animal Feeds</p>	Goods And Services	Rate (in percent)	General	14	Liquor	15	Telecommunications and electricity	5	Exports	0	Zero-rated basic items	0
Goods And Services	Rate (in percent)														
General	14														
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**Lesotho: Summary of the Tax System, June 2007**  
(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 specified goods manufactured locally and/or imported into Lesotho, for example beer, spirits, wines, tobacco, cigars, cigarettes, petroleum oils, motor vehicles, tractors, and electronic products such as televisions, perfumery and beauty and make up preparations.	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 from Road Maintenance Levy, Oil Levy, third party motor vehicle assurance levy and duty	Oil Levy rates are 44 lisente per litre on petrol sold to public for private cars, and 37 lisente per litre for diesel used in industry, agriculture, and public buses. In addition, there is an Equalization Fund levy of 3 lisente per litre (1.7 lisente on paraffin), a Road Maintenance Levy of 30 lisente per litre (petrol) 40 lisente (diesel) and third party motor vehicle assurance levy of 8 lisente per litre.

**Lesotho: Summary of the Tax System, June 2007**  
(All amounts in maloti)

Tax	Nature of Tax	Exemptions and Deductions	Rates
4. Taxes on international trade and transactions			
4.1 Customs duties Customs and Excise Act, No. 10 of 1982.	A duty on all goods imported into Lesotho. A three-column tariff schedule based on the World Customs Organisation (WCO) 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.	Customs Union Agreement with Botswana, Namibia, South Africa, and Swaziland. Exemptions may apply under Technical Assistant Agreements entered into between Government of Lesotho and third parties in which Government Lesotho has agreed to exempt goods imported under such agreements from payment of taxes.	Specific or ad valorem duties or both charged on Free on Board (FOB) value of goods at varying rates.

**Lesotho: Summary of the Tax System, June 2007**  
(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, June 2007**  
(All amounts in maloti)

	Tax	Nature of Tax	Exemptions and Deductions	Rates
5.3	Toll gate fees Toll Gate Act of 1976. Legal Notice No. 18 of 1988; and Legal Notice No. 1 of 1992.	Fees levied on vehicles entering Lesotho.	Ministers on duty, His Majesty, ambulances, diplomatic corps and South African Railway vehicles are exempt.	M5 for cars, (M20 proposed)  M15 for medium vehicles (tare weight over 2001kg – Landcruisers, minibuses etc. M40 proposed)  Two and three axle vehicles M25 (M60 proposed) Four axle M25 (M140 proposed)  Applied each time on entering Lesotho
5.4	Airport departure tax	Airport departure tax for international travel	Ministers on duty, His Majesty, diplomatic corps.	M 20