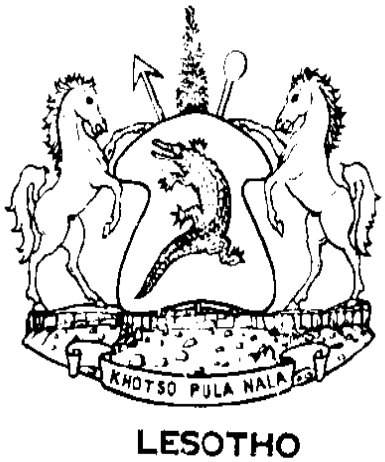
BACKGROUND TO THE

2012/13 BUDGET



Ministry of Finance and Development Planning

Government of Lesotho

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1.1 Policies and Background to the 2012/13 Budget

Lesotho's economy has grown at an annual average rate of 3.9 percent over the last decade. However, this rate is not sufficient to make a meaningful dent on poverty and create required jobs given the current unemployment rate. More investment is required that should be complemented by improvements in the quality of government's capital expenditure to attain annual growth rate of 5 percent.

Despite the 2008/09 global economic and financial crisis, the economy has shown signs of recovery since 2010/11. However, uncertainty remains with respect to the global economic recovery and to Lesotho's recovery as well. Contrary to expectations that the crisis would be subdued in the short term through effective policy responses, these policies have not delivered results as quickly as expected. The crisis has held on to date and global economic growth continues undesirably slow. This has then continued exerting enormous pressures on the fiscal policies of most world economies. Austerity fiscal measures have become pervasive with resultant social unrest in the developed countries. Yet the situation has further been exacerbated by daunting sovereign debt crises in major economies and conspicuously in the Euro-zone.

Therefore in preparation of the 2012/13 budget and the medium-term, the Government has transformed expenditure policies to yield a highly result-oriented budget in a move towards a sustainable fiscal balance. This will help ensure that the reserves that were drastically reduced during the crisis are rebuilt to maintain the required level of foreign reserves that covers at least three months of imports, crucial for macro-economic sustainability and preservation of the loti-rand peg. This result-oriented budget will also lead to sustainable levels of debt to GDP of less than 40 percent in the medium- term.

In order to achieve the above mentioned targets, the Government continues to closely monitor the implementation of the reforms through the Extended Credit Facility (ECF) arrangement with the International Monetary Fund (IMF). This is a three year program, which started in 2010/11 to assist the Government to redress the impact of the 2008 global financial and economic crisis on Lesotho. The performance of the program remains strong. It is important for the Government to maintain and strengthen this applaudable performance in order to quickly achieve fiscal consolidation and lay foundation for an enabling investment climate and competitiveness. This also remains important to preserve the confidence of the cooperating development partners and to be able to attract much needed budget support to complement financing of the projected budget deficits.

1.2 National Economic Policy Goals

The adopted policies guiding the 2012/13 budget through the medium-term, derive from the following national economic goals:

- Increasing economic growth towards a sustainable level of 5 percent per annum as a basis for enhancing poverty eradication and improving the quality of life for all Basotho.

- Increasing employment by supporting SMMEs, attracting large scale foreign and local private sector investments, improving investment climate and the availability of relevant technical skills that will facilitate the absorption of annual increments in the labour force.

- Increasing access to and improving the quality of health, education and training and water supply and sanitation for all Basotho as well as reducing social vulnerability also in line with MDGs.

The policy objectives, which are also core to the National Strategic Development Plan-NSDP *(see Annex 1)*, include the following;

- To develop infrastructure so as to make economic opportunities accessible to all segments of the population and to provide the basis for rapid industrialization and job creation.

- To reverse the downward trend in agricultural production by increasing targeted support for agricultural production, marketing, storage, irrigation and introducing high value cash crops.

- To integrate youth and gender issues in all Government policies and programs.

- To scale-up maternal and child health, and the prevention of HIV and AIDS.

- To invest in the expansion of ICT networks throughout the country, improve information systems and security and their use in government and widen access to internet communication for many Basotho (schools, hospitals, police, etc).

- To embark on feasibility studies for wind, hydro, solar and other green energy technologies.

- To update geological studies as well as review the Mining legislation with a view to encouraging value addition.

- To improve Lesotho's international competitiveness by reversing the decline in "doing business indicators".

- To develop a plan and related infrastructure to attract more tourists into the country and encourage private sector investment in the hospitality facilities.

- To diversify the manufacturing base and export markets.

- To consolidate democracy, peace and stability by fighting crime, promoting safety and security and by enhancing the role of Parliament, accountability and transparency. Endemic stock theft and general increase in the crime rate have undermined the country's safety and security efforts, and these have had a negative impact on its development.

- To promote efficiency and effectiveness in the delivery of public services through reducing corruption; improving transparency and accountability; and enhancing public and financial management and audit of Government operations.

- To continue participation in Regional Integration initiatives.

1.3 Fiscal Strategy

Based on the above policy objectives an optimal fiscal strategy proposed for adoption by Government involves the following actions, most of which were recommended during the 2011/12 budget preparations. The actions are still valid and require an accelerated implementation and fine tuning during 2012/13. These include:

1.3.1 Revenue Reforms

- Improve mobilization of domestic and concessional external resources for investment in productive activities. This will require critical exploration of new revenue sources, without increasing the burden of taxation on the poor. For instance, selected fees, penalties and charges that have not been revised in the past several years will be increased;

- Undertake annual efficiency and effectiveness analyses for both tax and nontax revenues, and implementing corrective measures where necessary as well as identifying new sources of revenue.

1.3.2 Expenditure Reforms

- Increase investment to productive sectors where growth and jobs are created;

- Review the civil service structure to determine the appropriate staff complement for efficient and effective delivery of government development programmes.

- Continue the shift in the composition of resource allocation from recurrent to capital expenditures by keeping the level of recurrent budget constant in real terms or allowing only increases associated with new productive investments.

- Enhance efficiency and quality of spending through; i) a comprehensive review of the size of government's vehicle fleet with the view to reducing the fleet; ii) reducing cost of local subsistence for all ministries; iii) pursuing a year-round prioritization of international travel for all government ministries to minimize cost on international fares and subsistence; iv) restricting workshops and training to areas crucial for effective service delivery; and v) subjecting all capital projects to appraisal based on economic growth, job creation and income generation;

- Strengthen management and operationalisation of the revolving fund under the tertiary bursary scheme. The ongoing review through the assistance of the World Bank will propose an optimal alternative to improve the delivery of the NMDS scheme. Effective recovery of loan bursaries will provide additional resources for the scheme while releasing annual revenue collections for funding other development programmes;

- Improve management and maintenance of public assets. National assets have often suffered waste due to lack of maintenance and eventually become very expensive to rehabilitate or reconstruct.

- Expedite review of government housing policy in an effort to improve efficiency of expenditure on management of the government houses.

- Develop a procurement policy to ensure standardization of special expenditure across all government Ministries Department and Agencies (MDA) and asset management. Type and frequency of procurement of office equipment and furniture should be based on the hierarchical level of officers and nature of work, as well as determination of realistic asset depreciation rates. This will help curb a seemingly pervasive discretion on procurement of these assets, which is proving to be costly to government;

- Review selected areas of government to ascertain activities that can be brought together to be performed in a merged arrangement like the One-Stop Business Facilitation Centre (OBFC).

- Improve on the internet infrastructure already in place to support paperless communication between ministries; implementation of cost-effective communication within the government and with citizens to cut telephone bills: e.g. promote use of emails, PBX systems for internal communications etc.

1.3.3 Public Financial Management Reforms

- Improve financial administration and supervision, accounting and auditing in order to eliminate fraud, corruption and resource leakages;

- Improve monitoring and evaluation of the annual budgets in order to readily determine when certain activities should fall out of the annual allocations.

2 Chapter 2: The Economic Setting

Lesotho is a landlocked country completely surrounded by the Republic of South Africa. It has a population of about 1.88 million (2006 census), which is estimated to be growing at an annual average rate of 0.17 percent. Its GDP Per Capita in 2010/11 was about M8393.94 million (US$1172.34 using M7.16 exchange rate). The country is a member of economic groupings such as, the Common Monetary Area (CMA), the Southern African Customs Union (SACU) and Southern African Development Community (SADC). Lesotho is also a member of international organizations such as the World Bank (WB) and the International Monetary Fund (IMF).

2.1 Key Macroeconomic Indicators

The average Gross Domestic Product (GDP) growth rate, for the past ten years recorded 3.9 percent, with average per capita GDP of around M5,425.27 million. Inflation has seen the high of 10.7 percent in 2008/09 with an average of 7.3 percent between 2007/08 and 2010/11. The cost of borrowing also escalated as a result of a 9.9 percent hike in the 91 Day Treasury Bills in 2008/09. On this Treasury bill rate, a certain margin is added to establish the interest rate that the borrower must pay.

SACU receipts declined by 47 percent in 2010/11 and this exposed the country to a massive fiscal deficit. The fiscal balance in the government account has seen surpluses from 2003/04, due to a windfall from SACU which resulted in accumulation of huge reserves and an import cover reaching a peak of 6.8 months of imports in 2008/09. However, these reserves were depleted to finance deficits of 6.4 percent and 6.6 percent of GDP in 2009/10 and 2010/11, respectively as the after effects of the crisis hit hard on the Common Revenue Pool (CRP) and different sectors of the economy.

The current account balance has not been an exception to the crisis. The current account registered an average surplus of M890.3million from 2006/07 to 2008/09. However, there were massive deficits of M556.4 million and M2504.1 million in 2009/10 and 2010/11 respectively at the back of expansion in imports of goods and services and the slowdown in SACU receipts. The distinct nature of Lesotho's economy is such that Gross National Income (GNI) and Gross National Disposable Income (GNDI) are seen as the appropriate measures of economic activity. This is due to the fact the country receives substantial amount of primary income from the rest of the world. These incomes include compensation of mine workers in South Africa, dividends accruing from investment income and subsidies (specifically for Lesotho Highlands Development Authority LHDA). Although the number of mine workers has declined by 1.5 percent from 2007/08 to 2010/11, their average wages increased leading to an increase of M5, 287.00 million in nominal GNI in that period.

The country also receives sizeable current transfers, which includes SACU receipts. Between 2007/08 and 2010/11, the transfers contributed to an increase of 23.4 percent of nominal GNDI. However, national savings declined significantly by 41.7 percent as a result of, among others, approximately 37 percent increase in both private and public final consumption. The increase in the private consumption was influenced heavily by

activities in the public sector. The expansion of public final consumption resulted in deficit, which led to government's adoption of expenditure reduction policy in 2009/10.

2.2 International and Regional Performance and Prospects

2.2.1 International Performance and Prospects

The world economic growth has recovered massively from a decline of 0.5 percent in 2009 to 5.1 percent in 2010. In 2009, global economic activity weakened and became more uneven leading to loss of confidence and a rise in down side risks. In 2010 however, regardless of the uncertainty in emerging markets, advanced economies were able to counter the effects of weaker foreign demand on output as they resorted to policy tightening measures.

In 2011 and 2012, the global economic growth is expected at 3.6 and 4.1 percent respectively, driven largely by growth in the emerging market economies. The growth in advanced economies is expected at 1.5 and 2.0 percent respectively as a result of gradual unwinding of temporary forces that have held back activities. However, the ensuing debt crisis in Europe poses a major threat to global economy which could trigger a huge economic depression. The high debt levels of Japan and USA also pose a threat to the projected growth.

2.2.2 Developments in Emerging and Developing Economies

From 2009, to 2010, output in the *emerging economies* recorded 2.8 percent and 7.3 percent, respectively. The main driver of this growth was a significant increase in output of developing countries such as China and India, which realized a combined growth of 7.2 and 9.5 percent respectively. China introduced home ownership limits, property tax trials and the construction of low-income housing.

In 2009 the world trade volume declined by 10.7 percent. Much effect came from the *advanced economies* which recorded a decline of 12.4 percent in imports. There was a corresponding decline in exports of *advanced economies* of 7.7 percent. However, in 2010, a 12.8 percent recovery in trade volume was realized due to strong export growth of 12.3 and 13.6 percent in advanced and emerging economies, respectively. With a narrowing trade deficit, the pressure for allowing the appreciation of the Yen lessened in the first half of the year, playing a positive role in stabilizing export growth.

Output in *emerging and developing economies* is expected to register an average growth of 6.4 percent due to expected high output growth in China (9.2 percent) and India (7.3 percent).

World inflation, on the other hand, was dominated by inflation in emerging and developing countries which recorded a rate of around 10 percent in 2008. In 2009, however, it declined to an average rate of 5.2 percent for emerging and developing economies compared with 0.1 percent in advanced economies as a result of a 36.3 percent decline in commodity prices especially oil prices. There was an average

increase of 6.1 percent in emerging and developing economies' inflation in 2010 due to a hike in oil and non fuel price of 27.9 percent and 26.3 percent respectively.

Growing demand for food from the emerging markets will be one source of upward pressure on global food prices in 2011 and 2012. Inflation is expected to register an average rate of 6.9 and 5.1 respectively.

2.2.3 Regional Performance and Prospects

Economic growth in the SADC region grew from 2.3 percent in 2009 to 5.4 percent in 2010. This has been a result of increased Mining activity at the back of favourable commodity prices and increased public investment coupled with private sector investment. Other factors include stimulus packages – both expansionary monetary and fiscal policies, which were aimed at mitigating the adverse effects of the global financial crisis. Manufacturing activity also improved and major capital flows were observed.

There are however major risks to the global economic activity. These include high oil and food prices, climate change, as well as threat posed by the debt situation in Europe.

2.3 National Accounts

Real GDP grew at an average of 4.7 percent between 2007/08 and 2010/11 *(see Annex 2 – Tables 1 to 3)*. In 2007/08 and 2008/09 it grew by 4.9 percent and 4.7 percent respectively, due to, mining, construction, telecommunication, financial intermediation and manufacturing. However, in 2009/10, growth slowed down to 3.6 percent due to reduction in manufacturing and Agriculture. In 2010/11, GDP grew by 5.7 percent. The main contributing sectors to this performance are Agriculture (crops), construction and *other manufacturing*. Growth in 2011/12 is estimated to slow down from 5.7 percent to 4.2 percent, with Agriculture (crops) declining by 33.5 percent due to floods, thus expected to impact on production. The medium-term forecasts indicate an average real GDP growth of 4.4 percent for 2011/12 through 2014/15 due to Mining, manufacturing and construction. Though fragile, the global economic recovery is expected to have a positive impact on Mining and manufacturing. Construction activities related to Metolong Dam, Millennium Challenge Compact (MCC) and Phase II of the Lesotho Highlands Water Project, coupled with other Government investment in infrastructure development will also contribute to the expected growth in real GDP in 2012/13 through 2014/15.

2.3.1 Primary Industry

Over the period 2007/08 and 2010/11, the primary industry grew by an average of 7.5 percent, with agriculture and mining both contributing an average of 7.4 percent of GDP. Agriculture grew by an average of 6.1 percent over the review period. This was due to a significant growth in livestock, registering 12.1 and 15.2 percent in 2007/08 and 2008/09, respectively. However, in 2009/10, agriculture declined due to a reduction in services and livestock by 10.3 and 6.5 percent, respectively. Services saw a decline attributed to the government policy of freezing new positions while livestock experienced theft and outbreak of foot and mouth disease.

Mining sector grew by an average of 11.8 percent from 2007/08 to 2010/11, despite suffering the secondary effects of the 2008 world financial and economic crisis in 2010.

The strong growth resulted from the leading mine (Letšeng) which doubled its capacity, thereby offsetting the effects of the closure of the two mines, Kao and Liqhobong, in 2009.

The prospects are that the primary industry will grow by an average of 10.3 percent from 2011/12 to 2014/15 as a result of the following upcoming activities:

- Construction of a third plant by Letšeng in 2012/13 and 2013/14, which is expected to increase production in 2014/15 by about 50 percent.
- Expansion of Liqhobong from pilot plant to main plant in 2011/12 thereby increasing production by 100 thousand carats. In 2014/15, production is estimated to increase to 885 thousand carats.
- Kao Mining starting production in 2011/12 and commissioning phase 1 plant, with production estimated at 293 thousand carats in 2012/13 and 313 thousands carats in 2013/14.
- Establishment of cutting and polishing factory by Letšeng around 2013/14.

2.3.2 Secondary Industries

The Secondary Industry registered a 4.1 percent average growth from 2007/08 to 2010/11, with the main contributors being construction and manufacturing. Construction registered an average real growth of 15.1 percent resulting from government expenditure–switching policy from recurrent to capital expenditure as well as implementation of Millennium Challenge Account (MCA) projects in the health and water sectors.

The manufacturing sector recorded an average growth of 1.6 percent, from 2007/08 to 2010/11, arising from other manufacturing, excluding textiles, and food products and beverages. Other manufacturing, excluding textiles, grew heavily because its market (SACU) kept on being strong despite the 2008 crisis. On the other hand, textiles registered an average decline of 1.4 percent resulting from the low demand and increased competition from Asian producers to the US market, which is the main consumer of Lesotho's textiles and apparel exports. The textiles sector also suffered increased production costs due to elimination of the subsidies – Duty Credit Certificate (DCC) in 2009/10, although it remained resilient.

The secondary industry is expected to grow by an average of 3.3 percent between 2011/12 and 2014/15. This will mainly come from the construction sector which is expected to grow by an average of 3.0 percent. However, the construction sector is expected to decline in the last two years of the projection period due to completion of the Metolong Dam and MCC projects. Manufacturing, on the other hand, is expected to continue to recover by an average of 3.6 percent supported by a moderate growth in the textile sector. Market diversification program is already yielding fruitful results in the SACU region and this is expected to be intensified in the medium to long term. Lesotho National Development Corporation (LNDC) continues to provide complementary infrastructure as a platform for attraction of further Foreign Direct Investment.

2.3.3 Tertiary Industries

The tertiary industry grew by an average of 4.1 percent in 2007/08 to 2010/11 as a result of strong growth in transport and communications, financial intermediation, public administration. Transport and communication saw a strong growth of 11.5 percent attributed to post and telecommunication. There has been increase in the number of subscribers and new connections due to increased access to services with the ongoing expansion of infrastructure. Financial intermediation also grew by an average of 11.1 percent as a result of increased competition from new insurance companies and banks, reforms affecting the eligibility to acquire credit and changed attitude towards financial services. Public administration grew, although, marginally by an average of 1.1 percent at the back of declining rate of new hires.

The tertiary sector is expected to grow by an average of 3.6 percent from 2011/12 to 2014/15. The expansion of financial intermediation is expected to slow down in the medium-term given the expectation of non recurrence of the recent large expansion of domestic credit. Telecommunication is expected to register a slower growth due to diminishing returns of providing services in remote areas. Public administration is expected to grow on average by 0.9 percent reflecting implementation of the government's expenditure-switching policy which focuses on growth enhancing investment while reducing growth in recurrent expenditure in the medium-term. Other sectors, such as, *wholesale and retail trade and hotels and restaurant,* are projected to grow in line with general economic activity.

2.4 Balance of Payments

Balance of Payments (BoP) is a statistical statement that summarizes the external position of the country, representing transactions, between residents and non-residents, involving goods, services, income, financial claims on and liabilities to, the rest of the world. The key indicators in BoP, analysed below, are summarized in Annex 2 – Table 4.

2.4.1 Current Account

The current account balance (CAB) reflected an average surplus of 7.2 percent of GDP between 2007/08 and 2008/09. This was influenced by an increase in SACU receipts, which boosted current transfers. However, 2009/10 saw a deterioration of the CAB, which recorded a deficit of 3.4 percent of GDP and continued to worsen to a deficit of 13.8 percent of GDP in 2010/11. The deficit in 2009/10 was attributed to an increase in merchandise imports associated with construction activities and a decline in merchandise exports following the decline in global demand. The decline In 2010/11 was due to a significant drop in SACU receipts.

From 2011/12 to 2013/14 the current account balance is expected to worsen with a deficit of M3,560.0 to M4,535.9 million, before recovering to a deficit of M2,910.3 million in 2014/15. On average, the current account deficit is expected to be 15.2 percent of GDP over the projection period. Even though improvement in current transfers underpinned by SACU receipts would be expected to reduce the deficit, the decline in net income and the widening trade deficit will more than off-set the improvement in SACU receipts, thus deterioration of the current account deficit.

2.4.2 Trade in Merchandise Goods and Services

Between 2007/08 and 2010/11, the trade balance recorded an average deficit of M9, 449.5 million. The continuing deterioration of the trade balance was due to increased investment activities which resulted in booming imports. In 2007/08 through 2010/11, merchandise exports registered an average growth of 7.3 percent. However, the negative effects of the global recession on the mining sector resulted in a decline in diamond exports[1] by 14.1 percent in 2009/10. The textile exports grew at the rate of 3.8 percent in 2008/09 but declined by 17.7 percent in 2009/10 at the back of decreasing orders from the US. There was a recovery from M3, 089.9 million in 2009/10 to M3, 252.3 million in 2010/11, reflecting recovery in the global demand.

Over the projection period, merchandise exports are expected to increase further. The improvement is mainly attributed to diamonds, textiles and other manufacturing. On average, the diamond exports are expected to grow by 35.5 percent, as a result of Letšeng diamonds doubling its production after investing in third plant. Textiles exports are also expected to grow by 7.3 percent on average while other manufacturing is expected to grow by 11.5 percent which will be supported by government investment in infrastructure.

Merchandise imports are expected to increase from M14,483.4 to M19,942.6 million in 2010/11 to 2012/13. The growth of 8.7 percent on average in imports of goods is attributed to expected recovery in textile as well as imports for construction activities related to Phase II of Lesotho Highlands Water Project (LHWP).

2.4.3 Income

From 2007/08 to 2010/11, income net showed an upward trend, registering an average growth of 8.5 percent. This was due to increases in compensation of employees. Even though the number of mine workers in SA declined in 2007/08 through 2010/11, (53 284 to 52 502 workers), the average wages grew by 8.0 percent from 2008/09 to 2010/11. Subsidies grew from M530.4 million in 2006/07 to M570.9 million in 2008/09 and deteriorated significantly in 2010/11 at the back of phasing out of Duty Credit Certificates (DCCs).

Income net is expected to decline from M3, 543.4 to M2,116.5 million between 2011/12 through 2014/15. This reduction is at the back of increased outflow of dividends from direct investment.

2.4.4 Current Transfers

Current transfers registered an average growth of 5.7 percent between 2007/08 and 2010/11. However, 2010/11 saw a significant decline in current transfers mainly attributed to the decline in SACU receipts.

The current transfers are expected to increase from M4,843.2 to M7,357.7 millions, growing at an annual rate of 15.4 percent, between 2011/12 through 2014/15. However, in 2012/13, the current transfers are expected to reach a high of M8,244.3 million and to immediately flatten in the following years. This improvement is attributed to the projected

[1] The mining sector saw an increase in production in 2009 but this is not captured in BOP as that increase did not translate in exports as they held their produce waiting for best prices, so there is a decline in exports in that year.

increase in SACU receipts and higher *other sectors remittances*. SACU receipts are expected to increase from M2,627.9 million in 2010/11 to M5,431.4 million in 2014/15.

2.4.5 Capital and Financial Account

For Foreign Direct Investment (FDI), there has been a consistent increase in foreign operating surplus thus a corresponding increase in FDI is expected as these firms tend to reinvest about 25 percent of their profits. Consequently, FDI grew at an average of 19.2 percent from 2007/08 to 2010/11. The capital account is expected to register an annual average decline of 10.2 percent from 2011/12 to 2014/15 as a result of an expected decline in donor capital grants to government.

2.5 Depository Corporation Survey

The key objective of monetary policy in Lesotho is achievement and maintenance of price stability. Under the fixed exchange arrangement between Lesotho and South Africa, this is achieved through targeting an adequate level of net international reserves (NIR). As at December 2011 the target was maintained at US$825 million and continues to be consistent with both the Extended Credit Facility (ECF) program obligations and maintenance of loti-rand peg. The policy choice of pegging loti to the rand bodes well for Lesotho's economy, as South Africa is renowned for its sound macro-economic policy which has helped maintain a low inflation rate throughout the Common Monetary Area (CMA). The arrangement also facilitates transactions between the CMA member countries. However, the peg limits Lesotho's scope for an independent monetary policy.

In Lesotho, the preferred measure of money supply is M2, which is equal to narrow money (M1) and quasi-money. On the asset side M2 is defined as Net Foreign Assets (NFA) and Net Domestic Assets (NDA) less *Other Items Net (OIN).*

2.5.1 Money Supply

Broad money supply (M2) constitutes currency in circulation (Maloti with public), demand deposit (including deposits of official entities) and time deposit with depository corporations. Money supply in Lesotho is understated by the amount of rands in circulation. This is because currently there is no plausible method of measuring the amount of rands in circulation. This measure is also understated by exclusion of deposits mobilized by other depository corporation such as credit co-operatives. Nevertheless, measurement of Maloti component is an important indicator of the development in the growth of M2.

M2 grew at the rate of 14.4 percent in 2007/08 and registered 31.7 percent in 2008/09 *(see Annex 2 – Table 5)*. The latter emanated from a substantial increase in demand and call deposits and currency outside banks. While the global prices of food and crude oil picked in September 2008, they were followed by a decline in the following quarters of 2008/09. The decline was sustained as prices of crude oil stabilized. As such, the South African Reserve Bank (SARB) reduced the repo rate, thus attracting the CBL to follow suit. However, in 2009/10 and 2010/11, M2 registered low growth rates of 8.1 and 2.9 percent, respectively.

2.5.2 Net Foreign Assets

In 2007/08, the Net foreign Assets (NFA) of the overall banking system grew at a rate of 30.5 percent due to an increase in net foreign assets of the central. The net foreign assets were influenced by strong SACU receipts, labour income (from miners' remittances), increased grants to government as well as higher foreign direct investment. The growth slowed down to 23.2 percent in 2008/09 as a result of declining growth in NFA of CBL which recorded 18.9 percent. In 2009/10 there was a decline of 6.9 percent in NFA which was brought about by a 9.0 percent decrease in NFA of CBL.

The NFA is expected to grow at an average of 12.1 percent as a result of a projected average growth of 16.7 percent in the CBL net foreign assets largely influenced by a recovery in SACU receipts.

2.5.3 Net Domestic Credit

In 2007/08 the overall Net Domestic credit (NDC) grew by 31.3 percent resulting from net credit to government registering 44.0 percent. In 2009/10, NDC declined by 15.5 percent due to the reduction of 2.2 percent in government claims. There were substantial withdrawals of government deposit to finance capital expenditure in a quest to stimulate the economy. In 2010/11, the government deposits declined further by 13.6 percent to finance the deficit of 6.6 percent of GDP. Credit to the private sector increased by an average growth of 24.6 percent in line with relatively lower interest rate environment at the time and availability of information to Basotho households.

But as the government is looking to accumulate deposits over the next three years government deposits are expected to increase from M2,606.5 million in 2011/12 to M4,403.4 million in 2014/15. The government plans to issue more T-bills and bonds thus it is expected that net claims on government will grow from M703.5 million in 2011/12 to M837.0 million in 2014/15.

The last main factor influencing Net domestic credit is credit to private sector. This is mainly consumer loans, mortgages, and loans to firms from commercial banks. There have in recent years been large increases in private credit, averaging 20 percent growth over the last 10 years. However, for the forecast it is expected this growth will slow down to single digits to around 8 percent.

2.5.4 Reserve Position

Change in Reserve assets of the Central Bank is closely correlated with Government deposits at the CBL. Reserve assets increased during the same years as the government ran surpluses and started decreasing once the government started running deficits.

The Official International Reserves have been accumulating for the past five years. They reached M8,921.9 million in 2008/09 as a result of massive increase of 19.6 percent in SACU receipts. Consequently, the import cover also reached the high of 6.8 months. However, in 2009/10 and 2010/11, it declined to 5.7 and 4.3 months respectively due to a decline in SACU receipts and draw down of government deposits to finance budget deficit.

In 2011/12, the reserves are expected to be at M6,037.7 million while the import cover is expected to decline further to 3.6 months. The decline in import cover will be as a result of increase in imports. The continued decline in import cover would put pressure on the rand-loti peg. In 2014/15, the reserves are estimated to reach M8,016.5 million improving import cover to the levels of 3.7 months.

2.6 Prices

2.6.1 Inflation

Inflation in Lesotho is driven primarily by price developments in South Africa, which remains the source of almost 90 percent of the country's imports for final consumption. Imported inflation is estimated to constitute 60 to 70 percent of Lesotho inflation, while the residual is domestically generated.

In 2008/09, Lesotho experienced a huge price surge, recording an inflation rate of 10.7 percent *(see Annex 2 – Table 6)* as a result of rising global food and oil prices. In 2009/10, Lesotho's inflation declined to 5.7 percent as a result of reduced oil prices. In 2010/11, inflation declined further to 3.6 percent due to weak demand and strong South African rand.

In medium-term, inflation is expected to move in line with that prevailing in South Africa. This is a consequence of Lesotho's monetary policy choice of pegging the local currency (Loti) with the South African rand.

Though inflation pressures are starting to build up as a result of increasing oil prices and other imported goods, the long-term inflation outlook remains modest. Inflation is projected to register 5.6, 5.2 and 4.6 percent for 2011/12, 2012/13 and 2013/14 respectively. However, the rains that started late in 2011/12 pose a downside risk to the inflation outlook as about 40 percent of Lesotho's consumer price index consists of mainly food items which will inevitably be affected by low food production (especially of maize, wheat and sorghum). The risk is also posed by the supply-side shocks, international oil prices and global food prices.

2.6.2 Interest rates

Lesotho's monetary indicators track those of South Africa as a result of its membership in the Common Monetary Area (CMA).

In 2008/09, the Treasury bill rate (TB rate) increased by 160 basis points to 9.9 percent from 8.3 percent registered in 2007/08 as a result of fluctuations of the repo rate[2] by the SARB in their bid to contain the inflation pressures *(see Annex 2 – Table 6)*. This influenced the commercial banks in both Lesotho and South Africa to hike their lending and deposit rates (in particular, by end of September 2008).

However, in March 2010, South Africa adopted a loose monetary policy, which saw the repo rate being cut to 6.50 percent. Following this cut, major money market rates in

[2] The rate at which banks borrow money from the Monetary Authority in exchange of securities in order to finance short-term liquidity needs. It is used as a benchmark for the cost of funds in the economy.

Lesotho followed a downward trend as well. The TB rate registered 8.5 percent in 2009/10, down from 9.9 percent in 2008/09. A further decline of 6.4 percent was registered in 2010/11 reflecting monetary policy easing by the South African monetary authorities.

The TB rate is expected to remain low at about 6.4 percent throughout the medium-term. Though the decline augurs well for household consumption, the commercial banks' profitability will be constrained as low interest rate implies less interest income for banks.

2.6.3 Exchange Rate

The benchmark currency that this section focuses on is the Loti/US dollar exchange rate as almost all the extra SACU transactions are settled in US Dollars, hence indicates the country's competitiveness vis-à-vis the rest of the world.

The Loti depreciated strongly by 20.8 percent in 2008/09 recording 8.7 loti/dollar against 7.2 Loti/US dollar recorded in 2007/08 due to amongst other factors, the risk aversion of South African investors in the uncertain global environment. However, 2009/10 experienced a reversal as the exchange rate appreciated by 11.8 percent, closing the year with an annual average exchange rate of 7.7 against the US dollar. 2010/11 also recorded an appreciation of 6.9 percent registering 7.2 against the dollar. This was a consequence of strong commodity prices, in particular, gold and platinum in the international markets as well as high interest rate in South Africa compared to those prevailing in the developed economies, which attracted portfolio investment flows into the South African market.

The Loti exchange rate is forecasted to depreciate slightly in the medium-term but maintain its relatively strong position against the dollar due to the anticipated strong regional export performance as commodity prices continue to recover. The Loti-dollar exchange rate is projected to register 7.4, 7.8 and 8.1 in 2011/12, 2012/13 and 2013/14, respectively.

3 Chapter 3: An Overview of Fiscal Position

In 2007/08 and 2008/09, the Government operations recorded surpluses of 10.7 and 4.2 percent of GDP, respectively *(see Annex 2 – Table 6).* The surpluses were as a result of continued significant SACU receipts and increased tax revenue. Following the global crisis, the government introduced the stimulus package in 2009/10 which increased total expenditure, contributing to a deficit of 6.4 percent of GDP. In 2010/11, there was a drastic decline in SACU receipts. However, the deficit improved to 6.1 percent of GDP due to increase in *other revenue.*

In 2011/12, the deficit is estimated to worsen to 12.3 percent of GDP as a result of expected increase in government expenditure. However, in 2012/13 through 2014/15, an average deficit of 0.7 percent of GDP is projected.

3.1 Revenue

The total revenue increased by an average of 13.0 percent from M7, 285.3 million in 2007/08 to M9, 399.8 million in 2009/10. The increased revenue was as a result of SACU and tax revenue. It declined in 2010/11 as a result of 47.0 percent fall in SACU receipts. The estimated outturn for 2011/12 is expected to be M9,235.4 million due to increases in grants, tax revenue and SACU. In 2012/13, the total revenue is projected to improve to M13, 332.5 million, largely from a recovery in SACU receipts.

3.1.1 Tax Revenue

Tax revenue increased from M2, 271.8 million in 2007/08 to M3, 499.1 million in 2010/11. The major contributors to this increase were income tax and value added tax (VAT), which improved significantly. In 2008/09, there was a downward revision of 10 percentage points in the standard corporate tax rate and 4 percentage points for manufacturing firms exporting intra SACU. The effects of these revisions were realised in 2009/10 when corporate tax collections grew by 81 percent. In 2010/11, as more businesses opened in Lesotho after the opening of Pioneer Shopping Center, domestic shopping activity in Lesotho improved, thus leading to increases in VAT.

In 2011/12 through 2014/15, tax revenue is projected to increase by an average of 11.2 percent per annum due to income tax payable by individuals and *other income tax.* The increase in individual income tax is expected to result from expansion in the private sector. On the other hand, VAT is expected to decline in 2011/12 as a result of slowdown in economic activity, but pick up in 2012/13 through the medium-term due to improvement in economic activity.

3.1.2 Grants

Grants increased from M294.1 million in 2007/08 to M1,200.1 million in 2010/11 resulting from major inflow of capital grants and budget support from development partners. On average, capital grants increased by M546.0 million per annum as Millennium Challenge Corporation (MCC) continued to support development activities in Lesotho. Budget support grants were also received from African Development Bank (ADB), International Development Association (IDA) and European Union (EU). In 2008/09, M68.0 million was recorded as budget support and in 2010/11, there was a disbursement of M372.1 million from ADB, IDA and EU.

The grants are projected to grow on average by M1, 325.3 million per annum from 2011/12 to 2014/15. In 2011/12 and 2012/13, M212.8 million and M300.0 million, respectively, is expected to be received from IDA and EU. In 2013/14, capital grants are estimated to decline by 41.0 percent as MCC activities are expected to phase-out even though M300.0 million is expected to be received from EU and IDA. In 2014/15, there will be a further decline as only M120.0 million is expected to be received from IDA.

3.1.3 Non-Tax Revenue

Over the years, the main components of non-tax revenue have been *sales of goods and services* (in particular water royalties), which contribute about 37 percent to non-tax revenue and property income (mainly dividends), constituting about 57 percent of non-tax revenue. In 2007/08 and 2008/09, non-tax revenue increased by an average of 27.0 percent due to a once-off payments of dividends in arrears by the Central Bank. However, in 2009/10, it declined by 6.3 percent as a result of a drop in dividends due to outstanding payments from CBL. In 2010/11, there was a massive increase of 57.0 percent in non tax revenue due to double payment of dividends by CBL. Moreover, water royalties increased significantly by an average of 11.3 percent in the review period.

In 2011/12 non-tax revenue is expected to decline by M 189.8 million in line with declining levels of CBL dividends[3]. However, in 2012/13 through 2014/15, it is expected to recover by an average of M91.9 million per annum, as a result of increases in water royalties and dividends.

3.1.4 SACU

SACU revenue has always played an important role in Lesotho's fiscal position. However, in recent years, SACU receipts have been vulnerable to developments in the global economy and have thus proved to be highly volatile, pushing Lesotho to closely manage its expenditures while improving collection of domestic revenue. Between 2007/08 and 2010/11, Lesotho received SACU revenues amounting to an average of 48.3 percent of total revenue per annum. It reached a peak of M4, 917.0 million in 2009/10 but declined by 46.6 percent to M2, 627.9 million in 2010/11, exerting pressure on the national budget. The 2010/11 amount reflected adjustments both positive (M446.3 million) and negative (M1,350.7 million) on the basic allocation of M2,907.4.

From 2011/12 to 2014/15, the SACU revenues are projected to grow at an average of 28.1 percent per annum. However, in 2011/12, the receipts are confirmed to show no recovery as they will remain at M2, 752.6 million. This continues to exert pressure on the budget. In 2012/13 the revenues are expected to recover to M5, 966.3 million easing the deficit to decline to 0.7 percent of GDP. This will also include positive adjustment of M1,016.0 million. Between 2013/14 and 2014/15, SACU receipts are projected to remain at their historical levels.

[3] CBL dividends were exceptionally high in 2010/11 due to payments of arrears in relation to profits for 2008/09 and 2009/10.

Box 1: Developments in the Southern African Customs Union

SACU plays an important role in Lesotho's budget. It is a customs union between five countries - Lesotho, SA, Botswana, Swaziland and Namibia, formed in the spirit of enhancing economic development, diversification, industrialization and competitiveness. The basis of the Customs Union is an agreement to abolish customs duties amongst member countries and jointly collect Customs and Excise Duties, which are then deposited in a Common Revenue Pool and finally distributed using a specific Revenue Sharing Formula (RSF).

The Revenue Sharing Formula has three components:

- The Customs Component which distributes the customs revenue according to the member states' share to intra-SACU trade.
- The Excise Component, which distributes excise duties collected in Member States in accordance to their share of GDP in the total SACU GDP.
- The Development Component, which consists of 15 percent of the excise component and is distributed in accordance to GDP per capita.

The shares are paid up front based on projected customs and excise revenues for a given year. If actual customs and excise collections are different from projected, an adjustment is made in a second year (t+2). This creates a situation where SACU member states need to pay back the excess to the SACU Revenue Pool if incomes were overestimated and will receive extra revenue if incomes were underestimated. Consequently, the SACU receipts have proven to be volatile and pro-cyclical due to their dependence on global economic activity. This has invited the following criticisms of the current RSF:

- SACU's Customs Revenue is itself volatile and performs exceptionally well in the times of economic prosperity and plummets in times of a recession.
- The pre-payment mechanism further aggravates the volatility because in times of recession when customs and excise revenue is low Members States have to pay back negative adjustments from previous years. In the past 4 years, the average forecasting error of these projections amounted to 2.7 billion or 3 percent of the total pool.
- Compensations for the 'cost-rising effect' and the 'loss of tariff revenue' are argued to be higher than the actual economic cost of these effects to BLNS and, therefore, represent a net transfer of resources from South Africa to BLNS. This then is assumed to violate 'the spirit of equality' between Members. It is, however, important to note that adequate quantification of these effects is very difficult and should not be underestimated. The SACU tariff structure contains several tariff peaks which are intended to protect some South African industries from international competition. These tariff peaks are particularly prevalent in agriculture, automotive and garment sectors. As a result, BLNS importers face higher prices in relation to world prices in those protected industries which can preclude these to industrialize and diversify the export base (the cost-rising effect).
- The Development Component of the RSF formula does not seem to support development objectives of the Custom Union.

These criticisms have called for the policy proposal to review the RSF and the development components of the RSF.

3.2 Expenditure

From 2007/08 to 2009/10, increases in revenue gave room for recurrent expenditure to increase relatively. However, in 2010/11, expenditure declined following a reduction in total domestic revenue and grants. Recurrent budget expenses are dominated by two items, compensation of employees and use of goods and services. Compensation of employees has been on a rising trend over the review period mainly due to nominal wage increases and notches. Use of goods and services increased from 2007/08 to 2008/09, but started declining in 2009/10 and 2010/11. This was a result of government's objective of prioritising expenditure due to impact of global financial crisis, and cutting down on some expenses. Student grants rose significantly in 2009/10, and maintained high levels, due to increased number of sponsored students following the opening of Limkokwing University as well as fee hikes at various tertiary institutions. Expenses on recurrent budget are projected to remain constant in real terms in line with government's policy of fiscal consolidation.

3.2.1 Compensation of Employees

The two components of compensation of employees are wages and salaries and employer contributions. *Compensation of employees* has always been within budget for the years 2007/08 through 2010/11, indicating 92.8 percent annual expenditure as percentage of budget. This implies that budgeting has been done appropriately in line with the past trends of expenditure outturn. For 2011/12, the budget for compensation of employees is M3, 602.0 million and outturn is estimated at M3, 600.7 million (99.9 percent of budget).

Growth in the budget for wages and salaries has been in line with changes in inflation (nominal wage increase adjusted for inflation). Notch increases also influence the rise in expenditure on wages and salaries. Since 2007/08 through 2010/11, wages and salaries outturn had always been within budget, recording annual average of 95.2 percent of the budget. It is estimated that outturn for the year 2011/12 will follow the past trends, and increase by 6.7 percent from 2010/11.

Employer contributions have lately evolved around the Government's introduction of the contributory pension scheme in late 2008/09, where government contributes 11.2 percent of the gross salaries of public officials towards their pensions upon retirement[4]. In 2009/10 and 2010/11, a total of M130 million was government's contribution towards the scheme. In 2011/12, the contribution of the government is estimated at M445.7 million.

Another important component of employer contribution is *unfunded social contributions,* which includes payments to civil pensioners who retired before introduction of the contributory pension scheme and statutory gratuities. From 2007/08 to 2010/11, government paid out M871.8 (82.6 percent of the budget) towards *unfunded social contributions*.

The medium term projections for compensation of employees indicate an annual average increase of 8.3 percent. Wages and salaries are projected to remain constant in

[4] Employees, on the other hand, contribute 5 percent towards pensions upon their retirement.

real terms except for notch increases. Employer contributions are also projected to grow by inflation.

3.2.2 Use of goods and services

Use of goods and services increased by an annual average of 4 percent from 2007/08 to 2010/11. There was a significant once off increase of 40 percent in 2008/09, due to a rise in domestic travel and transport resulting from additional government fleet. In 2010/11, there was a considerable decline of 21.9 percent due to adoption of expenditure reduction policy. Under operating costs, all the items were cut except health care materials that were increased as a result of protecting social welfare. Major deductions in that year were seen on purchases of materials by M128 million. These reductions in budget led to declines in overall outturn on operating costs by 21.4 percent.

In 2011/12, use of goods and services is estimated to increase by 1.4 percent due to an expected increase in health care services (from M118.1 million to M351.2 million). The reason for a huge increase in health care services is that government has out sourced services that were provided by Queen Elizabeth II hospital to private operators at the new hospital (Queen 'Mamohato Memorial Hospital). A further increase of M297.4 million is projected on health care services in 2012/13 as the new hospital becomes operational for the first full year. From 2013/14 health care services is projected to increase by 10.5 percent annually.

3.2.3 Transfers and Subsidies

From 2007/08 through 2010/11, grants declined slightly by an annual average of 1 percent. This was a result of significant reductions of grants to extra budgetary and local government over the review period. In 2011/12, it is expected that grants will grow by 77.8 percent due to significant increases in extra budgetary units, most of which is directed to national elections. From 2012/13 through 2014/15, grants are expected to decline by an annual average of 9 percent.

From 2007/08 through 2010/11, *Other expenses* which are made up of, among other categories students loans, grew by an annual average of 19.5 percent. This is due to significant increases in student loans especially, in 2009/10, when the Limkokwing University was opened. In 2011/12, *Other expenses* are expected to increase by 32.0 percent due to a significant increase in student loans. In 2012/13, they are expected to decline slightly by 4.4 percent, but to recover in the subsequent years.

Subsidies recorded zero balance in 2007/08. From 2008/09 to 2010/11, subsidies have been growing at an annual average of 6.0 percent. In 2008/09, subsidies registered M204.0 million, 94 percent of which was dedicated to private enterprise (block farming project). In 2009/10, they increased by 31 percent registering M267.4 million, which was a subsidy to public corporations. In 2011/12, they are expected to increase by 15.4 percent due to significant increases to public corporations and on products. An average decline of 0.7 percent is projected from 2012/13 through the medium term, resulting from a slash in subsidies to public corporations.

3.2.4 Social Benefits

Social benefits recorded a significant increase from 2007/08 to 2010/11 with an average growth rate of 46 percent. The main drivers for this growth were Old Age Pension (OAP) and introduction of school feeding programme. In 2009/10, particularly, the settlement of OAP arrears and payments for the *newly introduced* school feeding programme led to over 100 percent increase in social benefits.

In the medium term, growth in social benefits is projected to be at an annual average of 8.2 percent in line with the government's policy to maintain social responsibility.

3.3 Capital Budget: Expense and Acquisition of Non Financial Assets

Capital expenditure registered an average increase of 34.8 percent from 2007/08 through 2010/11. The increase of 53.2 and 52.1 percent in 2008/09 and 2009/10, respectively, was a result of the additional capital injection from the Government of Lesotho as well as increased counterpart funding of projects. There was a slight decline in 2010/11 due to adoption of expenditure reduction policy and the significant decline in foreign loans. As a result, nonfinancial assets grew by the average of 50.5 percent. This included among others, up-grading of the Likalaneng to Thaba-Tseka road, construction of secondary schools, and construction of a new referral hospital.

Capital expenditure is expected to register 39.2 percent in 2011/12 and forecasted to increase by 27.8 percent in 2012/13. This is because the Metolong project will be at full scale in the two subsequent years. An average decline of 18.6 percent is expected in the medium term because the MCA projects will be phasing out. It is projected that nonfinancial assets will grow by an annual average of 9.5 percent.

3.4 Financing

During 2007/08 and 2008/09, the government's deposits at the Central bank increased by M967.9 and M472.8 million, respectively. These increases were mainly a result of increased SACU receipts and improved tax revenue. In 2009/10 and 2010/11, however, the deposits declined by M163.0and M645.6 million respectively, due to the financing of fiscal deficits. The reduction of government deposits has negative implications on the level of international reserves at the Central Bank.

The deposits are projected to continue to decline by M1045.4 million in 2011/12, as the fiscal deficit increases to 12.3 percent of GDP. However, from 2012/13 to 2014/15, the deposits are expected to increase by an annual average of M599.0 million, following the projected recovery in SACU revenue and prudent fiscal policy management.

The financial liabilities increased by M20.1 million in 2007/08 as result of accumulation of foreign loans, mostly for financing capital projects. There were also Financial liabilities are projected to increase by an average of M786.4 in the medium-term, because of continued estimated increase in capital projects and expected new bond issuance and IMF loans, amounting to M39.2 million. From 2008/09 to 2010/11, the financial liabilities decreased by an average of M279.1 million, mainly due to government payment of Lesotho Bank recapitalization bonds of M114 million in 2009/10. There was also a decline of M600 million in pension liabilities in 2010/11 due to a switch from defined benefit to defined contributory pension scheme.

4 Chapter 4: Public Debt

4.1 Composition of Public Debt

Lesotho debt portfolio comprises of both Domestic and External Debt. Trends in the debt stock have, through the years, been fluctuating following movements in exchange rates. Between 2007/08 and 2008/09, the nominal debt stock increased significantly from M6,397.4 million to M6,966.1 million *(see Annex 2 – Table 16)* . The increase was driven by sharp depreciation of the Loti against major currencies such as the US Dollar and the Euro, and the basket of currencies such as the Special Drawing Rights of the International Development Association (IDA) and the International Monetary Fund (IMF), and the Unit of Account of the African Development Fund (ADF). However, the Loti started to appreciate in subsequent years leading to 16.8 percent reduction in the debt stock from the 2008/09 high of M6,966.1 million to M5, 793.4 in 2010/11.

4.1.1 External Debt

The proportion of external debt in total public debt portfolio, however, declined from 88 percent in 2007/08 to 86 percent in 2010/11. The external debt is composed of bilateral, multilateral, export credits and commercial[5] debt. Among these, multilateral creditors have traditionally been an important source of credit accounting for 84 percent of external credit in 2007/08 and 77 percent in 2010/11. Within this category, IDA and ADF have taken a bigger share, making up 73 percent of the total external debt in 2007/08 and 74.2 percent in 2010/11.

4.1.1.1 Currency Composition of External Debt

The currency composition of Lesotho's external debt has historically been dominated by the Special Drawing Rights and the US Dollars with both currencies constituting 69 percent of the total external both in 2007/08 and 2010/11. Since the euro was introduced in 1999, it remained the third major currency in the external debt currency composition.

4.1.1.2 The Concessionality of External Debt Portfolio

Lesotho's external debt has historically been concessional. The concessionality of debt is determined mainly by the grant element of individual loans in the debt portfolio. The Grant element is in turn determined by the maturity structure, interest rate, and the grace period of the loan. Between 2007/08 and 2010/11, the concessionality of the external debt portfolio has remained at an average of 92 percent.

4.1.2 Domestic Debt

Lesotho's domestic debt portfolio has traditionally been dominated by the banking sector as the biggest holder of Government paper (mainly treasury bills) and it has been short-term in nature.

From 2007/08 to 2009/10, the domestic debt stock recorded an annual average of M576.4 million mainly contracted for monetary policy purposes. During 2010/11,

[5] The only external commercial debt is with respect to European Investment Bank for bridging the financing gap of the Metolong Dam.

domestic debt rose by 37.3 percent to M820.2 million resulting from M250 million treasury bonds issued to finance the capital projects.

4.2 Debt Service

In 2007/08 and 2010/11, total debt service declined from M463.5 and M253.3 million as a result of a significant drop in interest payments *(see Annex 2 – Table 19).* Total debt service constituted interest payments of M245.2 million and principal repayments of M218.3. In 2008/09, total debt service declined to M301.6 to M65.2 million. In 2009/10, interest payments dropped to M61.3 million and similarly, principal repayments dropped to M226.0 million thus a decline in total debt service to M287.3 million. In 2010/11, both interest payments and principal payments dropped hence a further decline in total debt service.

In 2011/12, principal repayment and interest payment are expected to diminish to M124.6 million and M39.2 million respectively. Consequently, total debt service will drop to M163.8 million. From 2012/13 to 2015/16, debt service is expected to increase as a result of expected increase in interest payments. During the same period, principal repayments are also expected to increase except in 2014/15 whereby they will slightly decline.

4.3 The debt sustainability Framework (DSF)

The Country Policy and Institutional Assessment (CPIA) is a measure of debt sustainability which relates a country's risk of debt crisis and grant eligibility to the quality of its policies and institutions. For Lesotho, the CPIA is currently 3.48, which classifies the country as a medium policy performer and moderately indebted, subject to the following benchmarks:

Solvency Indicators

- The Present Value (PV) of debt to GDP not exceeding 40 percent
- PV of debt to exports should not exceed 150 percent
- PV of debt to revenue should be up to a maximum of 250 percent

  Liquidity Indicators

- Ratio of external debt service to exports not exceeding 20 percent
- Ratio of debt service to Government revenue not exceeding 30 percent

From 2007/08 to 2010/11, all thresholds were met, except for the Net Present Value (NPV) of Debt to GDP for 2010/11 which is above the threshold by 6 percent. This was due to additional external funding that was required to finance the shortfall of Metolong Dam Project.

The Debt Sustainability Framework (DSF)

The debt sustainability Framework (DSF) for Low income countries (LICs) is used in analyzing sustainability of Lesotho's public debt. The primary aim of the DSF is to guide borrowing decisions of low-income countries in a way that matches their need for funds with their current and prospective ability to service debt, tailored to their specific circumstances. The World Bank (IDA) and IMF use the tool to give guidance to creditors on appropriate terms of lending to low income countries. The forward-looking nature of the DSF serves as an early warning system of the potential risks of debt distress so that preventive action can be taken in time.

Consequently, the DSF relates a country's risk of debt crises and grant eligibility to the quality of its policies and institutions, measured by the country policy and institutional assessment (CPIA). It has been empirically proven that a country's chance of debt distress is determined by the quality of its policies and institutions and its susceptibility to shocks. The DSF, therefore, uses the CPIA, but also uses inbuilt customizable stress tests to determine the susceptibility of a country's debt. Table 5 above shows the specific thresholds for different CPIA ratings.

5 Chapter 5: Conclusion

Between fiscal years 2003/04 and 2008/09 government annual fiscal surpluses averaged 5 percent of GDP resulting from buoyant revenue receipts and spending which was generally lower than appropriations. Resulting savings were kept for bridging budget financing gaps in the future. Indeed, since 2009/10, a bigger proportion for financing the budget deficit has come from the accumulated government deposits and supplemented by borrowing and general budget support from the cooperating partners.

However, financing of the budget deficits through drawdown of government deposits at the Central Bank has decreased public savings as well as net international reserves. It is, therefore, critical that government should start rebuilding the reserves to be able to support the peg of the Loti to the South African Rand. This is also critical as a buffer for future years when there would be need to use deposits for financing public expenditure and to have savings for any future financing gap.

Although the medium term fiscal projections show improvements in the budget deficits, the challenge is still to make improvements in the resource allocations that target strategic areas of the economy with highest economic and social returns. These should be areas that pull in the majority of Basotho into economic activities in order to be able to generate sustainable incomes and improve their livelihoods.

The way forward is broadening the revenue base by improving administration. Tradeoffs and prioritization in resource allocation, including improvements in the quality and outcomes of public spending, should receive serious consideration. To maximise economic and social returns of development projects, screening and appraisal of individual projects is crucial. This should be a precondition for inclusion of all projects in the budget.

A successful implementation of the NSDP is also an imperative if potential for growth and development is to be fully exploited. The NSDP has a potential for growth, employment creation and income generation. This could constitute a virtuous cycle and a systematic approach to fiscal sustainability. But a gradual decrease of public spending as a share of GDP is also crucial to create room for the private sector, and should be complemented by a financial landscape that provides credit to and supports private sector investment.

Regular reviews and evaluations of all national development programmes would also have to be put in place to put public resources to good use and to keep making improvements going forward.

6 Annex 1: National Strategic Development Plan 2012/13 - 2016/17

The National Strategic Development Plan (NSDP) recognises, as a point of departure, the need and urgency for Lesotho to radically transform its economy, intellectual and skills profiles by taking advantage of its location and defining a future that is characterized by the capacity to produce goods and services for the large Southern African markets, the African continent and global markets. This requires political stability, social cohesion, a favourable investment climate, a labour force with the necessary technical skills and institutions that are capable of meeting the challenges of global competitiveness, responding quickly to changing circumstances and dealing with the challenges that are brought about by economic transformation. Together, these factors will help to ensure that Lesotho achieves broad-based and sustainable economic growth and employment generation resulting in long-term reductions in poverty.

Therefore, to achieve the National Vision goals, reduce poverty and achieve sustainable development, SIX strategic objectives will be pursued over the Plan period.

To promote high, shared and employment creating economic growth by increasing production capacity and diversifying the economy and markets. The key drivers for economic growth in the plan period are:

- Expansion of production capacity in mining
- Investments mobilised for construction works of Metolong dam, LHWP II and power generation plants, including hydro-power and pump storage and construction of one of the biggest wind power generation plants
- The expected recovery of the manufacturing sector as the US economy rebounds and diversification of markets for textiles, value-addition in mining and mobilisation of investment in agro-processing and other products
- Agricultural diversification and commercialisation takes off though grain and irrigated horticulture block farms, integrated value-chain development for horticulture, poultry, piggery and milk production. The potential in inland fisheries also need to be tapped
- Deep reforms to improve investment climate, particularly reducing cost of doing business and creating a more responsive financial system will bring about productivity gains and growth in output. Special consideration will be made for MSMEs to increase survival rate and growth, promote integration between large enterprises and MSMEs and between international companies abroad and local firms.
- Promotion of trade through commodity systems and value chain development, market diversification, customs facilitation, reducing uncompetitive behaviour in local markets by instituting proper standards and strengthening inspection and aggressive investment and trade promotion
- Facilitate tourism product development and linkage, increase community participation, cooperative marketing in the region and linkages with the rest of the world through ICT solutions and improvement of customer service culture

To Develop key infrastructure or Minimum Infrastructure Platform by:

- Meeting basic services in terms of water, roads, energy, ICT and other social infrastructure
- Developing infrastructure for trade facilitation and industrial development– national roads, dry port, boarder post access and customs facilitation, industrial infrastructure
- Improve ICT ecosystem to facilitate growth, facilitating access to broad band and strengthen e-government services to enhance business climate, public financial management, health and education services and make giant steps towards universal access of ICT

To enhance the skills and technology base and foundation for innovation, based on the quest for excellence by:

- Transforming institutions of higher learning to produce competitive and relevant skills
- Improving infrastructure for maths and science
- Increasing quality and capacity for technical and vocational training

- Improving the foundation for skills development through continuing the efforts to improve access, quality and infrastructure at primary, secondary and high school levels, including ICT literacy

- Continuing to reform education financing and bursary policy to improve equity and relevance of skills produced

To reverse environmental degradation and adapt to climate change by:

- Promoting integrated land and water management
- Improve environmental services and implement the principle of the polluter pays
- Promotion of waste recycling culture and tap the waste and recycling economy to create jobs
- Promote integrated physical and economic planning and coordination with future perspective

To improve health, combat HIV and AIDS and reduce vulnerability by:

- Increasing access and providing quality primary health care
- Improving the management, accountability and smart use of limited key health personnel
- Improve systems for HIV and AIDS prevention, ART coverage and cost effective mitigation measures
- Consolidate social protection programmes and administration, improve labour information systems and ease job search and strengthen capacity for disaster risk management

To promote peace, democratic governance and build effective institutions by:

- Offering people centred and efficient service delivery
- Combating crime and corruption
- Implementing reforms to dispense justice quickly, including operationalization of the commercial court and capacity to resolve disputes and build social cohesion
- Deepening decentralisation
- Facilitate the development of effective institutions in the public sector, private sector, civil society and media, for them to play effective role in growth and development
- Contributing effectively in the policy development of regional and multi-lateral systems and increasing efficiency in promoting cooperation
- Enhancing capacity to deal with emerging national security issues

Enable greater political and economic participation of youth and women and deliver on special programmes for the children, elderly and people with disability as well as special groups such as returning mine workers from RSA and young boys that graduated from initiation schools

7 Annex 2: Tables

Table 1: National Accounts – Constant Prices (% Changes)

	FY07/08	FY08/09	FY09/10	FY10/11	FY11/12	FY12/13	FY13/14	FY14/15
Industry Constant Prices								
Agriculture	3.3%	10.3%	-1.2%	11.9%	-10.8%	0.7%	0.7%	0.7%
Crops	-9.4%	-1.8%	11.2%	47.0%	-33.5%	0.7%	0.7%	0.7%
Livestock	12.1%	15.2%	-6.4%	0.2%	0.7%	0.7%	0.7%	0.7%
Services	-11.1%	28.8%	-10.3%	-8.6%	-2.0%	0.0%	0.0%	0.0%
Forestry	2.3%	2.2%	8.4%	3.8%	0.7%	0.7%	0.7%	0.7%
Mining and quarrying	33.6%	6.2%	14.2%	-6.7%	36.2%	22.1%	1.4%	50.9%
Primary industries	**12.4%**	**8.8%**	**4.1%**	**4.8%**	**5.1%**	**10.1%**	**1.0%**	**25.2%**
Manufacturing	2.0%	-0.3%	-3.2%	7.9%	3.3%	3.6%	3.8%	3.8%
Food products and beverages	7.6%	2.4%	0.3%	6.9%	3.0%	4.4%	4.1%	4.0%
Textiles, clothing, footwear and leather	-2.0%	-3.9%	-6.0%	6.4%	2.5%	2.5%	2.9%	2.9%
Other manufacturing	18.6%	14.5%	4.7%	14.3%	6.4%	6.4%	6.4%	6.4%
Electricity and water	2.8%	1.5%	2.9%	-0.4%	3.9%	2.8%	2.6%	2.0%
Electricity	6.5%	1.5%	2.9%	2.1%	7.4%	7.2%	6.9%	4.7%
Water	1.1%	1.5%	2.9%	-1.5%	2.3%	0.6%	0.3%	0.4%
Construction	7.7%	24.6%	14.9%	13.3%	6.7%	11.3%	-1.0%	-5.1%
Secondary industries	**3.1%**	**4.2%**	**1.5%**	**7.7%**	**4.2%**	**5.4%**	**2.4%**	**1.3%**
Wholesale and retail trade, repairs	6.3%	5.0%	1.4%	5.8%	3.0%	4.4%	4.1%	4.0%
Hotels and restaurants	1.4%	-0.5%	-0.6%	1.0%	3.0%	4.4%	4.1%	4.0%
Transport, and communication	11.9%	11.6%	12.2%	10.3%	7.5%	7.5%	6.9%	6.5%
Transport and storage	3.5%	4.9%	3.3%	3.8%	3.0%	4.4%	4.1%	4.0%
Post and telecommunications	18.9%	16.6%	18.1%	14.0%	9.9%	9.0%	8.2%	7.6%
Financial intermediation	10.1%	8.9%	14.1%	11.3%	14.0%	6.0%	3.1%	5.4%
Real estate and business services	2.4%	1.6%	2.6%	3.3%	2.4%	3.0%	2.9%	2.9%
Owner-occupied dwellings	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Other real estate and business services	3.0%	1.1%	3.5%	5.1%	3.0%	4.4%	4.1%	4.0%
Public administration	3.2%	1.8%	-0.9%	0.1%	1.4%	2.1%	-1.5%	1.6%
Education	-2.8%	-0.8%	1.6%	2.2%	1.2%	2.1%	-1.5%	1.6%
Health and social work	-0.8%	2.0%	7.1%	3.7%	1.6%	2.1%	-1.5%	1.6%
Community, social and personal services	1.8%	1.7%	1.0%	0.6%	3.0%	4.4%	4.1%	4.0%
Tertiary industries	**4.0%**	**3.7%**	**4.1%**	**4.7%**	**4.3%**	**4.0%**	**2.4%**	**3.6%**
Financial services indirectly measured	33.7%	25.4%	18.5%	18.0%	14.0%	6.0%	3.1%	5.4%
All industries at producers' prices	**4.4%**	**4.2%**	**3.1%**	**5.3%**	**4.2%**	**5.2%**	**2.2%**	**5.8%**
Net taxes on products	7.6%	7.1%	4.8%	8.8%	4.2%	5.2%	2.2%	5.8%
Subsidies on products	-5.6%	-8.4%	-14.7%	2.9%	2.5%	2.5%	2.9%	2.9%
GDP at purchasers' prices	**4.9%**	**4.7%**	**3.6%**	**5.7%**	**4.2%**	**5.2%**	**2.2%**	**5.9%**

Table 2: National Accounts (Constant Prices)

	FY07/08	FY08/09	FY09/10	FY10/11	FY11/12	FY12/13	FY13/14	FY14/15
Industry Constant Prices								
Agriculture	658.2	725.8	717.0	802.3	716.0	720.8	725.7	730.6
Crops	165.5	162.5	180.7	265.7	176.6	177.9	179.1	180.4
Livestock	384.3	442.7	414.4	415.3	418.3	421.3	424.3	427.3
Services	36.6	47.1	42.2	38.6	37.8	37.8	37.8	37.8
Forestry	71.9	73.5	79.6	82.7	83.3	83.9	84.5	85.1
Mining and quarrying	362.4	384.8	439.3	409.6	557.9	681.3	690.9	1,042.6
Primary industries	**1,020.7**	**1,110.6**	**1,156.3**	**1,211.9**	**1,273.9**	**1,402.1**	**1,416.6**	**1,773.3**
Manufacturing	1,570.8	1,566.4	1,516.7	1,636.3	1,690.9	1,751.4	1,818.2	1,887.6
Food products and beverages	254.6	260.6	261.5	279.5	288.0	300.5	312.8	325.3
Textiles, clothing, footwear and leather	1,092.6	1,049.8	987.3	1,050.7	1,077.1	1,104.2	1,136.5	1,169.8
Other manufacturing	223.6	256.0	267.9	306.2	325.8	346.7	368.9	392.5
Electricity and water	416.9	423.3	435.5	433.9	450.9	463.7	475.6	485.0
Electricity	130.6	132.6	136.5	139.4	149.7	160.6	171.7	179.8
Water	286.3	290.7	299.0	294.5	301.1	303.1	304.0	305.3
Construction	403.7	503.2	578.1	655.1	699.1	778.1	769.9	731.0
Secondary industries	**2,391.4**	**2,492.9**	**2,530.4**	**2,725.3**	**2,840.9**	**2,993.1**	**3,063.8**	**3,103.7**
Wholesale and retail trade, repairs	626.0	657.6	666.9	705.4	726.9	758.6	789.6	821.2
Hotels and restaurants	117.6	117.0	116.2	117.4	120.9	126.2	131.4	136.6
Transport, and communication	616.5	688.2	772.3	851.4	915.4	983.6	1,051.6	1,119.8
Transport and storage	260.8	273.5	282.7	293.5	302.4	315.6	328.5	341.6
Post and telecommunications	355.7	414.7	489.6	558.0	613.0	668.1	723.1	778.1
Financial intermediation	447.8	487.9	556.9	620.1	707.2	749.7	772.7	814.1
Real estate and business services	1,222.7	1,242.4	1,274.5	1,316.0	1,348.0	1,388.4	1,428.5	1,469.5
Owner-occupied dwellings	721.6	735.7	750.1	764.8	780.1	795.7	811.6	827.8
Other real estate and business services	501.1	506.8	524.4	551.2	568.0	592.7	616.9	641.7
Public administration	953.6	971.2	962.7	964.0	977.6	997.8	982.4	998.5
Education	639.1	634.1	644.4	658.5	666.6	680.4	669.9	680.9
Health and social work	153.8	157.0	168.1	174.3	177.2	180.8	178.0	181.0
Community, social and personal services	101.4	103.1	104.1	104.8	108.0	112.7	117.3	122.0
Tertiary industries	**4,878.6**	**5,058.5**	**5,266.2**	**5,511.8**	**5,747.8**	**5,978.2**	**6,121.5**	**6,343.6**
Financial services indirectly measured	-114.4	-143.5	-170.0	-200.6	-228.8	-242.6	-250.1	-263.4
All industries at producers' prices	**8,176.2**	**8,518.4**	**8,782.8**	**9,248.5**	**9,633.8**	**10,130.8**	**10,351.9**	**10,957.1**
Net taxes on products	1,041.5	1,115.9	1,169.4	1,271.9	1,324.9	1,393.3	1,423.7	1,506.9
Subsidies on products	-151.9	-139.1	-118.6	-122.1	-125.2	-128.3	-132.1	-135.9
GDP at purchasers' prices	**9,065.8**	**9,495.2**	**9,833.6**	**10,398.3**	**10,833.6**	**11,395.8**	**11,643.5**	**12,328.1**

Table 3: National Accounts (Current Prices)

	FY07/08	FY08/09	FY09/10	FY10/11	FY11/12	FY12/13	FY13/14	FY14/15
Industry Current Prices								
Agriculture	840.7	1,000.2	1,074.4	1,288.7	1,217.1	1,288.5	1,356.7	1,428.9
Crops	235.5	243.5	280.7	419.3	294.3	311.7	328.3	346.0
Livestock	469.6	589.9	611.5	679.9	723.2	765.9	806.8	850.0
Services	47.3	68.3	68.8	67.2	69.5	73.1	76.5	80.0
Forestry	88.3	98.5	113.4	122.3	130.1	137.8	145.2	152.9
Mining and quarrying	907.2	1,090.5	975.0	1,180.3	1,773.8	2,420.9	2,637.1	4,244.5
Primary industries	**1,747.9**	**2,090.7**	**2,049.5**	**2,469.0**	**2,990.9**	**3,709.4**	**3,993.9**	**5,673.4**
Manufacturing	2,053.4	2,283.3	2,032.6	1,770.6	1,915.2	2,088.8	2,271.1	2,462.4
Food products and beverages	325.3	373.3	383.2	411.5	447.8	491.4	535.0	582.1
Textiles, clothing, footwear and leather	1,459.6	1,577.5	1,298.4	955.6	1,013.9	1,090.0	1,171.4	1,251.7
Other manufacturing	268.6	332.4	350.9	403.5	453.4	507.4	564.6	628.5
Electricity and water	485.2	515.8	564.4	708.4	751.5	814.4	863.7	914.3
Electricity	137.6	129.6	125.1	114.8	130.2	146.8	164.2	179.8
Water	347.6	386.1	439.3	593.6	621.3	667.6	699.6	734.5
Construction	484.3	658.1	821.5	951.3	1,072.1	1,254.6	1,298.4	1,289.7
Secondary industries	**3,022.9**	**3,457.1**	**3,418.5**	**3,430.3**	**3,738.8**	**4,157.9**	**4,433.2**	**4,666.4**
Wholesale and retail trade, repairs	852.8	1,008.0	1,032.2	1,150.9	1,252.4	1,374.4	1,496.2	1,628.0
Hotels and restaurants	148.9	159.5	156.3	166.2	180.9	198.5	216.1	235.2
Transport, and communication	684.1	778.9	875.2	986.1	1,112.2	1,251.0	1,393.2	1,546.7
Transport and storage	333.3	376.3	409.4	444.0	483.2	530.2	577.3	628.1
Post and telecommunications	350.9	402.6	465.8	542.1	629.0	720.8	816.0	918.6
Financial intermediation	677.7	834.5	905.9	928.4	1,118.2	1,246.6	1,343.8	1,481.2
Real estate and business services	1,475.9	1,642.1	1,785.3	1,908.7	2,064.7	2,235.8	2,405.7	2,588.6
Owner-occupied dwellings	878.5	982.6	1,062.7	1,121.7	1,208.3	1,296.0	1,382.6	1,475.4
Other real estate and business services	597.4	659.5	722.6	786.9	856.4	939.8	1,023.1	1,113.2
Public administration	1,190.8	1,453.9	1,755.5	1,767.4	1,895.6	2,150.5	2,191.5	2,305.3
Education	905.0	1,087.3	1,369.4	1,514.8	1,634.7	1,854.5	1,889.9	1,988.0
Health and social work	191.5	223.0	281.2	300.7	324.0	367.6	374.6	394.0
Community, social and personal services	124.0	137.2	148.3	158.0	171.9	188.7	205.4	223.5
Tertiary industries	**6,250.8**	**7,324.3**	**8,309.3**	**8,881.2**	**9,754.6**	**10,867.5**	**11,516.4**	**12,390.5**
Financial services indirectly measured	-195.0	-278.4	-302.2	-295.5	-355.9	-396.8	-427.8	-471.5
All industries at producers' prices	**10,826.6**	**12,593.8**	**13,475.1**	**14,485.0**	**16,128.3**	**18,338.0**	**19,515.7**	**22,258.8**
Net taxes on products	1,364.9	1,552.5	1,685.1	1,825.3	2,008.0	2,220.5	2,373.0	2,627.8
Subsidies on products	-392.1	-445.8	-294.9					
GDP at purchasers' prices	**11,799.5**	**13,700.4**	**14,865.3**	**16,310.3**	**18,136.3**	**20,558.5**	**21,888.7**	**24,886.6**

Table 4: Balance of Payment

	FY07/08	FY08/09	FY09/10	FY10/11	FY11/12	FY12/13	FY13/14	FY14/15
I. CURRENT ACCOUNT	650.6	1,430.7	-556.4	-2,504.1	-3,560.0	-2,878.9	-4,535.9	-2,910.3
GOODS and SERVICES, net	-7,620.9	-8,271.1	-10,699.1	-11,206.9	-11,946.6	-14,330.7	-15,235.1	-12,384.5
a) GOODS, net	-5,131.1	-5,579.4	-7,439.2	-7,643.7	-8,325.3	-10,442.5	-11,285.4	-8,324.0
Merchandise, exports	5,939.9	7,173.6	6,088.8	6,839.7	8,088.5	9,500.0	10,318.0	13,140.6
Merchandise, imports	-11,071.0	-12,752.9	-13,528.0	-14,483.4	-16,413.8	-19,942.6	-21,603.4	-21,464.6
b) SERVICES, net	-2,489.8	-2,691.8	-3,259.9	-3,563.2	-3,621.3	-3,888.2	-3,949.7	-4,060.6
Transportation, net	-2,489.8	-2,691.8	-3,259.9	-3,563.2	-3,621.3	-3,888.2	-3,949.7	-4,060.6
Travel, net	-1,675.0	-1,830.7	-2,028.2	-2,172.2	-2,355.1	-2,443.9	-2,537.7	-2,632.5
Communication, net	10.8	-1.4	-31.5	-0.2	-1.2	-3.3	-2.3	-5.5
Insurance services, net	-98.8	-103.0	-89.9	-101.1	-100.3	-114.1	-118.8	-114.8
Financial services, net	-21.3	-23.5	-42.3	-44.4	-50.5	-58.0	-61.8	-71.1
Computer and information services, net	-3.7	-4.1	-7.3	-7.7	-8.7	-10.0	-10.7	-12.3
Royalties and licence fees, net	-12.5	-13.8	-24.8	-26.0	-29.6	-33.9	-36.2	-41.6
Business services, net	-178.4	-159.2	-250.8	-449.9	-364.4	-402.3	-301.2	-257.1
Government services, net	-129.8	-171.0	-271.7	-161.1	-170.3	-178.7	-187.8	-197.1
Other services, imports, net	-57.0	-63.0	-113.3	-118.9	-135.1	-155.1	-165.2	-190.3
c) INCOME, net	3,154.9	3,649.7	4,000.7	3,964.0	3,543.4	3,207.5	3,120.3	2,116.5
Compensation of employees, credit	4,472.6	4,902.1	5,218.1	5,470.5	5,727.7	5,947.8	6,177.0	6,411.7
Investment income, net	-1,881.9	-1,823.3	-1,754.9	-1,910.9	-2,329.1	-2,892.6	-3,215.9	-4,461.8
Subsidies	564.3	570.9	537.5	404.4	144.8	152.2	159.2	166.6
d) CURRENT TRANSFERS	5,116.6	6,052.1	6,142.0	4,738.8	4,843.2	8,244.3	7,578.9	7,357.7
Government, net	4,199.7	5,015.8	5,012.2	3,519.6	3,555.2	6,892.7	6,160.6	5,870.6
Other sectors, net	917.0	1,036.4	1,129.8	1,219.2	1,288.0	1,351.7	1,418.3	1,487.1
II. CAPITAL AND FINANCIAL ACCOUNT	-528.1	-734.6	240.7	878.0	2,034.7	3,748.9	4,700.1	2,010.4
e) CAPITAL ACCOUNT	189.8	80.8	704.2	956.8	1,200.6	1,352.8	775.4	493.7
Government: Grants in budget, credit	248.3	120.8	753.9	1,146.6	1,372.1	1,546.0	886.2	564.3
Other sectors: migrants' transfers, debit	-58.5	-40.0	-49.7	-189.8	-171.5	-193.3	-110.8	-70.5
f) FINANCIAL ACCOUNT	-717.9	-815.3	-463.5	-78.8	834.1	2,396.2	3,924.6	1,516.7
Direct investment in Lesotho, net	804.4	911.8	851.5	861.6	1,481.7	2,569.5	4,322.7	2,800.7
Portfolio investment in Lesotho, net	-0.3	-0.3	-0.4	-0.4	-0.6	-0.4	-0.4	-0.4
Other assets	-1,638.2	-2,073.7	-1,263.7	-1,312.1	-1,159.7	-1,036.4	-1,245.8	-1,530.1
Other liabilities	116.2	346.9	-51.0	372.1	512.7	863.4	848.2	246.5
III. ERRORS AND OMISSIONS	1,084.7	277.2	773.6	374.5	872.7	-55.5	336.7	1,377.6
IV. RESERVE ASSETS	-1,617.9	-1,361.5	792.8	1,394.2	652.6	-814.5	-500.9	-477.6
V. VALUATION ADJUSTMENT	410.7	388.3	-1,250.7	-142.7				

Table 5: Depository Corporation Survey

(Millions of Maloti: (end of period)	FY07/08	FY08/09	FY09/10	FY10/11	FY11/12	FY12/13	FY13/14	FY14/15
Foreign Assets (net) (cc tbl3 # 10)	-9,334.5	-11,496.3	-10,706.8	-9,303.7	-8,806.9	-9,564.9	-10,161.2	-10,943.8
Net foreign assets-cbl (cc tbl3 # 6)	-6,887.2	-8,191.2	-7,457.8	-5,800.5	-5,147.9	-5,962.4	-6,463.3	-6,940.9
Foreign assets-cbl	-7,560.4	-8,921.9	-8,129.2	-6,524.9	-6,037.7	-6,976.0	-7,538.8	-8,016.5
Foreign liabilities (cc tbl3 # 5)	673.2	730.8	671.3	724.4	889.8	1,013.6	1,075.5	1,075.5
Net foreign assets-comm bnks (cc tbl3 # 9)	-2,447.3	-3,305.1	-3,249.0	-3,503.2	-3,659.0	-3,602.5	-3,697.9	-4,002.9
Domestic Credit	1,903.5	2,061.6	1,771.1	372.8	-1,328.4	-898.8	-669.3	-612.8
Claims on central govt. (net)	3,249.9	3,622.7	3,637.5	2,922.5	1,412.9	2,088.1	2,558.8	2,890.7
Claims on central government-cbl (net)	3,660.0	4,115.0	4,024.4	3,477.4	2,116.5	2,928.0	3,399.0	3,727.6
Claims on central government-comm bnks (net)	-410.1	-492.4	-386.9	-554.9	-703.5	-839.9	-840.1	-837.0
Claims on state & Local Government				0.0	0.0			
Claims on official entities	-50.1	-40.0	0.0	-2.5	-1.5	-18.8	-12.6	-7.1
Claims on private sector	-1,296.3	-1,521.1	-1,866.4	-2,325.9	-2,734.2	-2,962.3	-3,209.9	-3,490.7
Claims on other banking insts.		0.0	0.0	-221.3	-5.7	-5.7	-5.7	-5.7
Money (M2)	4,234.5	5,575.6	6,025.7	6,201.9	6,943.1	7,507.4	7,896.4	8,535.9
Money (M1)	3,074.8	4,357.8	4,538.9	2,343.7	2,884.6	3,239.7	3,432.9	3,866.2
Currency outside bnk syst	293.2	404.3	435.0	529.2	638.5	656.4	665.7	771.2
Deposits of official entities-cbl	141.1	129.8	136.7					
Private sector demand deposits-cbl	10.8	28.7	2.5					
Demand deposits-comm bnks	2,629.7	3,795.0	3,964.8	1,814.5	2,246.1	2,583.3	2,767.2	3,095.0
Quasi Money	1,159.8	1,217.8	1,486.8	3,858.3	4,058.5	4,267.7	4,463.5	4,669.6
Time and savings deposits, comm Bnks	1,159.8	1,217.8	1,486.8	3,821.9	4,021.8	4,231.1	4,426.9	4,633.0
Time and savings deposits, CBL				36.3	36.6	36.6	36.6	36.6
Capital Accounts	3,248.8	3,870.7	2,471.2	2,393.7	2,794.3	2,742.6	2,781.6	2,883.5
Capital accounts-cbl	2,781.7	3,331.6	1,801.3	1,633.2	1,955.8	1,952.9	2,010.3	2,067.6
Capital accounts-comm bnks	467.1	539.1	669.9	760.5	838.5	789.7	771.4	815.9
Other Items (net)	-52.3	-11.5	438.9	335.3	397.9	213.6	152.5	137.3

Table 6: Prices

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Prices								
CPI inflation (period averages)	9.17%	10.65%	5.66%	3.60%	5.61%	5.16%	4.59%	4.62%
Interest rate (91 day bills)	8.28%	9.87%	8.50%	6.43%	6.43%	6.43%	6.43%	6.43%
Exchange rate Maloti/US$	7.18	8.72	7.69	7.16	7.39	7.76	8.12	8.43

Table 7: Fiscal Framework

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Revenue	7,285.3	9,094.0	9,399.8	8,559.4	9,235.4	13,332.5	12,682.0	12,775.7
1. Tax revenue	2,271.8	2,858.0	3,058.9	3,499.1	3,855.4	4,412.9	4,878.3	5,341.9
2. Social Contributions								
3. Grants	294.0	494.8	635.4	1,200.1	1,584.9	1,846.0	1,186.2	684.3
4. Other revenue	621.8	840.6	787.4	1,232.3	1,042.5	1,107.3	1,161.2	1,318.1
5. SACU	4,097.7	4,900.6	4,918.0	2,627.9	2,752.6	5,966.3	5,456.4	5,431.4
Expense	-5,420.0	-6,585.9	-8,373.3	-7,458.3	-8,769.3	-9,828.8	-9,882.1	-10,277.1
1. Compensation of Employees	-1,903.2	-2,328.3	-3,151.8	-3,199.0	-3,600.7	-4,062.2	-4,185.4	-4,409.5
2. Use of goods and services	-1,796.7	-2,345.3	-2,588.2	-1,918.0	-2,012.6	-3,064.7	-2,979.3	-3,043.4
4. Interest Payments	-314.3	-129.2	-137.0	-96.0	-151.3	-223.3	-244.6	-281.3
5. Subsidies	0.0	-204.0	-273.7	-231.5	-357.7	-310.0	-274.1	-279.9
6. Grants	-805.8	-808.3	-995.2	-706.8	-1,153.7	-731.1	-722.5	-741.4
7. Social Benefits	-223.0	-226.9	-555.7	-599.7	-574.7	-717.1	-722.9	-735.2
8. Other expense	-377.0	-543.8	-671.7	-707.3	-918.6	-720.4	-753.3	-786.3
Net Worth and its Changes	-1,580.4	-2,146.6	-1,889.6	-718.4	-466.0	-3,503.8	-2,799.9	-2,498.6
1 Nonfinancial assets	-610.6	-1,324.7	-1,725.9	-1,922.6	-2,694.7	-3,698.3	-3,128.8	-2,362.9
2. Financial assets	-989.9	-365.8	177.7	1,244.0	1,171.7	-944.1	-535.4	-331.1
3. Liabilities	20.1	-456.1	-341.4	-39.7	1,057.0	1,138.7	864.3	195.4
Gross operating balance	1,865.3	2,508.1	1,026.4	1,101.1	466.1	3,503.8	2,799.9	2,498.6
Net lending/borrowing	1,254.7	1,183.5	-699.4	-821.5	-2,228.6	-194.5	-328.9	135.7
Overall fiscal balance	1,267.5	1,184.6	-699.4	-821.5	-2,228.6	-194.5	-328.9	135.7
Fiscal Deficit (GoL)	1,265.8	581.7	-950.3	-1,071.5	-2,228.6	-233.3	-331.4	133.3
Overall fiscal balance (financing side)	982.5	823.1	163.7	-1,204.3	-2,228.6	-194.5	-328.9	135.7
MTFF fiscal balance (financing side)	980.9	220.2	-87.2	-1,454.3	-2,228.6	-233.3	-331.4	133.3
As a per cent of GDP:								
Overall fiscal balance	10.7%	8.6%	-4.7%	-5.0%	-12.3%	-0.9%	-1.5%	0.5%
Fiscal Deficit (GoL)	10.7%	4.2%	-6.4%	-6.6%	-12.3%	-1.1%	-1.5%	0.5%
Overall fiscal balance (financing side)	8.3%	6.0%	1.1%	-7.4%	-12.3%	-0.9%	-1.5%	0.5%
MTFF fiscal balance (financing side)	8.3%	6.0%	1.1%	-7.4%	-12.3%	-0.9%	-1.5%	0.5%

Table 8: Total Revenue by Source

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Tax Revenue	2,271.8	2,858.0	3,058.9	3,499.1	3,855.4	4,412.9	4,878.3	5,341.9
Income tax	1,216.4	1,538.5	1,772.4	1,957.1	2,281.5	2,560.1	2,881.0	3,112.2
Income tax - individuals	785.4	850.7	866.2	1,164.0	1,421.7	1,595.5	1,755.4	1,899.7
Income tax - corporations	293.7	383.3	694.0	467.5	476.5	529.8	621.3	661.5
Income tax - other	137.4	304.5	212.2	325.6	383.3	434.7	504.3	551.1
Taxes on Property (RMC)	0.0	74.6	95.7	105.5	137.9	141.8	143.8	166.6
Taxes on goods and services	977.5	1,097.7	1,165.7	1,414.3	1,369.1	1,520.9	1,646.8	1,733.6
Value Added Tax (Sales)	847.9	987.7	1,035.0	1,276.4	1,271.7	1,401.7	1,520.3	1,589.5
Excises (Oil levy)	118.1	98.9	116.9	112.6	92.1	105.8	112.7	129.8
Taxes on specific services	5.5	5.0	8.5	20.3	0.5	7.9	8.4	9.1
Licensing	6.1	6.1	5.3	5.1	4.9	5.5	5.4	5.2
Taxes on Int. Trade (exports)	71.2	139.2	20.5	18.2	63.4	186.1	202.7	326.3
Other Taxes (stamp duty)	6.6	8.0	4.7	4.0	3.5	4.1	4.0	3.3
Grants	294.0	494.8	635.4	1,200.1	1,584.9	1,846.0	1,186.2	684.3
Non-Tax Revenue	621.8	840.6	787.4	1,232.3	1,042.5	1,107.3	1,161.2	1,318.1
Property income	107.5	376.9	224.2	652.1	440.0	436.8	464.6	575.1
Interest on deposits	7.3	10.5	7.4	7.5	5.3	7.6	7.6	7.1
Dividends	96.9	362.4	117.5	560.0	332.9	370.6	387.3	485.2
Rent	3.3	4.0	99.3	84.6	101.9	58.6	69.7	82.8
Sales of goods and services	446.9	420.0	502.2	530.6	571.0	621.6	651.3	697.2
Electricity Muela	91.2	27.1	94.3	56.4	66.0	75.8	80.7	93.0
Water royalties	292.4	324.1	336.6	432.2	447.7	480.0	500.5	523.4
Administrative fees	28.0	26.6	27.5	12.4	16.5	18.9	20.2	23.2
Incidental sales by nonmarket establishments	35.3	42.2	43.7	29.7	40.9	46.9	50.0	57.6
Fines	0.8	1.4	6.5	1.2	0.2	0.2	0.2	0.2
Miscellaneous Income	66.7	42.4	54.5	48.4	31.3	48.7	45.0	45.6
SACU	4,097.7	4,900.6	4,918.0	2,627.9	2,752.6	5,966.3	5,456.4	5,431.4
TOTAL DOMESTIC REVENUE	6,991.3	8,599.2	8,764.4	7,359.4	7,650.5	11,486.5	11,495.8	12,091.5
REVENUE & GRANTS	7,285.3	9,094.0	9,399.8	8,559.4	9,235.4	13,332.5	12,682.0	12,775.7

Table 9: Expenditure

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Expense (current budget)	-4,667.9	-5,738.4	-7,024.4	-6,506.9	-7,486.1	-8,431.7	-8,779.3	-9,246.7
Compensation of Employees	-1,820.3	-2,203.5	-3,008.6	-3,026.4	-3,336.3	-3,815.6	-3,990.8	-4,227.7
Wages and salaries	-1,653.1	-2,017.7	-2,548.3	-2,708.4	-2,890.6	-3,325.6	-3,445.6	-3,647.5
Employer contributions	-167.2	-185.7	-460.3	-318.1	-445.7	-490.0	-545.1	-580.2
Use of goods and services	-1,330.2	-1,874.9	-1,846.0	-1,448.5	-1,468.8	-2,160.7	-2,265.6	-2,376.7
Interest Payments	-314.3	-129.2	-137.0	-96.0	-151.3	-223.3	-244.6	-281.3
Nonresidents	-246.6	-65.8	-66.5	-52.8	-74.7	-90.4	92.7	92.4
Residents other than general government	-67.7	-63.4	-70.5	-43.2	-76.5	-132.9	151.9	189.0
Subsidies	0.0	-204.0	-267.4	-216.4	-249.6	-268.9	-241.7	-249.6
Grants	-647.3	-564.8	-605.0	-505.1	-897.6	-566.8	-592.8	-620.2
Foreign Governments	0.0	-5.0	0.0	0.0	0.0	0.0	0.0	0.0
International organizations	-5.5	-19.3	-13.0	-13.4	-11.2	-34.3	-35.8	-37.5
Extra Budgetary Units	-424.5	-364.7	-361.8	-301.5	-668.8	-327.2	-342.2	-358.0
Local Government	-217.3	-175.8	-230.2	-190.2	-217.7	-205.4	-214.8	-224.7
Social benefits	-223.0	-226.9	-541.6	-590.9	-559.4	-676.0	-690.5	-704.9
Other expense	-332.7	-535.1	-618.9	-623.6	-822.9	-720.4	-753.3	-786.3
Student Grants	-280.0	-350.0	-586.7	-596.1	-795.1	-694.7	-726.6	-760.1
Household - other	-48.4	-155.5	0.0	0.0	0.0	0.0	0.0	0.0
Other expense	-4.3	-29.6	-32.2	-27.5	-27.8	-25.7	-26.7	-26.2
Expense (capital budget)	-752.2	-847.5	-1,348.9	-951.4	-1,283.3	-1,397.0	-1,102.9	-1,030.4
Compensation of Employees	-82.9	-124.9	-143.3	-172.6	-264.4	-246.5	-194.6	-181.8
Wages and salaries	-82.9	-124.9	-143.3	-172.6	-264.4	-246.5	-194.6	-181.8
Employer contributions								
Use of goods and services	-466.5	-470.4	-742.2	-469.5	-543.8	-904.0	-713.6	-666.7
Subsidies			-6.3	-15.1	-108.1	-41.1	-32.4	-30.3
Grants	-158.4	-243.5	-390.3	-201.7	-256.1	-164.4	-129.7	-121.2
Capital	-158.4	-243.5	-390.3	-201.7	-256.1	-164.4	-129.7	-121.2
Social benefits			-14.1	-8.8	-15.3	-41.1	-32.4	-30.3
Other expense	-44.3	-8.7	-52.8	-83.7	-95.6	0.0	0.0	0.0
Other expense	-44.3	-8.7	-52.8	-83.7	-95.6	0.0	0.0	0.0

Table 10: Compensation of Employees (Recurrent Budget)

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
SGO (Outurn/Projected)								
Compensation of Employees	-1,820.3	-2,203.5	-3,008.6	-3,026.4	-3,336.3	-3,815.6	-3,990.8	-4,227.7
Wages and salaries	-1,653.1	-2,017.7	-2,548.3	-2,708.4	-2,890.6	-3,325.6	-3,445.6	-3,647.5
Wages and salaries in cash	-1,653.1	-2,017.7	-2,546.8	-2,684.1	-2,864.6	-3,284.9	-3,445.6	-3,647.5
Wages and salaries in kind	0.0	0.0	-1.5	-24.3	-26.0	-40.7	-45.5	-50.9
Employer contributions	-167.2	-185.7	-460.3	-318.1	-445.7	-490.0	-545.1	-580.2
Social contributions	0.0	0.0	-146.6	-113.8	-160.0	-180.0	-213.6	-225.3
Unfunded social contributions	-167.2	-185.7	-313.6	-204.2	-285.7	-310.0	-331.5	-354.9

Table 11: Use of Goods and Services (Recurrent Budget)

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
SGO (Outurn/Projected)								
Food and Beverages			-95.8	-88.5	-62.2	-81.5	-85.3	-89.2
Fuel and Lubricants	-88.9	-138.3	-82.2	-60.0	-82.9	-79.5	-83.2	-87.0
Printing	-14.0	-14.3	-22.6	-11.9	-17.9	-27.7	-28.9	-30.3
Stationery	-16.5	-26.1	-36.4	-30.5	-28.5	-36.6	-38.3	-40.0
Books and Publications	-0.8	-10.3	-29.6	-8.2	-0.8	-9.4	-9.9	-10.3
Health care materials	-54.5	-84.9	-151.6	-172.9	-51.8	-211.2	-220.9	-231.1
Ammunition			-26.1	-10.2	-1.2	-5.4	-5.6	-5.9
Purchases of Materials	-93.2	-116.7	-364.9	-236.7	-168.7	-231.6	-242.2	-253.4
Vehicle Maintenance and Repairs	-105.1	-134.1	-157.0	-148.1	-132.8	-143.6	-150.1	-157.1
Maintenance of Public Assets	-89.3	-113.6	-96.2	-63.1	-49.8	-56.8	-59.4	-62.2
Minor Works	-26.9	-32.0	-36.1	-28.3	-8.7	-32.1	-33.5	-35.1
Power	-42.8	-56.7	-62.6	-61.7	-52.4	-63.1	-66.0	-69.0
Water and Sewerage			-12.5	-14.9	-14.4	-17.3	-18.1	-18.9
Communications	-58.1	-71.0	-73.2	-68.5	-62.1	-61.7	-64.5	-67.5
Fares Local	-2.2	-3.3	-5.0	-3.7	-3.1	-3.0	-3.1	-3.3
Fares International	-41.9	-57.8	-62.1	-42.6	-58.9	-56.9	-59.5	-62.3
Subsistence Local	-49.7	-68.7	-74.6	-56.1	-41.0	-84.7	-88.6	-92.7
Subsistence International	-37.5	-57.2	-64.5	-39.8	-47.4	-50.0	-52.3	-54.7
Freight Charges	-4.2	-6.5	-9.5	-9.5	-10.9	-12.4	-13.0	-13.6
Short Term Hire of Vehicles	-29.8	-75.4	-18.1	-4.0	-4.4	-6.0	-6.3	-6.6
Other transport costs	-0.5	-1.4	-1.7	-0.8	-0.1	-2.2	-2.3	-2.4
Finance costs (bank charges)			-0.7	-1.1	-0.6	-0.9	-0.9	-1.0
Rent of buildings			-112.1	-96.9	-117.4	-111.1	-116.2	-121.6
Business services & subscriptions			-21.2	-11.2	-17.6	-33.2	-34.7	-36.3
Training Costs	-6.8	-7.6	-44.9	-5.5	-2.7	-12.2	-12.7	-13.3
Health care services			-125.7	-118.1	-351.0	-570.6	-607.1	-646.2
Membership Subscriptions			-49.9	-46.2	-71.6	-51.5	-53.9	-56.4
Official gifts and entertainment	-5.7	-8.5	-9.1	-9.2	-7.3	-6.5	-6.8	-7.1
Miscelaneous	-561.6	-790.4	0.0	-0.4	-0.7	-102.0	-102.1	-102.2
Total	-1,330.2	-1,874.9	-1,846.0	-1,448.5	-1,468.8	-2,160.7	-2,265.6	-2,376.7

Table 12: Subsidies and Grants (Recurrent Budget)

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
SGO (Outurn/Projected)								
Subsidies		-204.0	-267.4	-216.4	-249.6	-268.9	-241.7	-249.6
To public corporations		-11.6	-267.4	-206.4	-228.8	-268.9	-241.7	-249.6
Nonfinancial public corporations			-257.5	-197.0	-211.7	-224.1	-217.9	-221.0
Financial public corporations		-11.6	-9.9	-9.5	-17.1	-44.8	-23.8	-28.6
To private enterprise		-192.4						
Nonfinancial private enterprises		-192.4						
On products			0.0	-10.0	-20.9			
SGO (Outurn/Projected)								
Grants	-647.3	-564.8	-605.0	-505.1	-897.6	-566.8	-592.8	-620.2
Foreign governments		-5.0						
Current		-5.0						
International organizations	-5.5	-19.3	-13.0	-13.4	-11.2	-34.3	-35.8	-37.5
Current	-5.5	-19.3	-13.0	-13.4	-11.2	-34.3	-35.8	-37.5
General government units	-641.9	-540.5	-592.0	-491.7	-886.5	-532.5	-557.0	-582.7
Current	-641.9	-540.5	-592.0	-491.7	-886.5	-532.5	-557.0	-582.7
Extra Budgetary Units	-424.5	-364.7	-361.8	-301.5	-668.8	-327.2	-342.2	-358.0
Local Government	-217.3	-175.8	-230.2	-190.2	-217.7	-205.4	-214.8	-224.7
SGO (Outurn/Projected)								
Social Benefits	-223.0	-226.9	-541.6	-590.9	-559.4	-676.0	-690.5	-704.9
Social assistance benefits	-222.7	-225.9	-539.9	-589.3	-557.6	-671.3	-683.9	-699.3
Cash	-222.7	-225.9	-336.4	-370.7	-330.8	-448.8	-451.2	-455.8
Kind			-203.5	-218.6	-226.7	-222.6	-232.8	-243.5
Employer social benefits	-0.3	-1.0	-1.6	-1.6	-1.9	-4.6	-6.5	-5.6
Cash	-0.3	-1.0	-1.6	-1.6	-1.9	-4.6	-6.5	-5.6
SGO (Outurn/Projected)								
Other expense	-332.7	-535.1	-618.9	-623.6	-822.9	-720.4	-753.3	-786.3
Property expense other than interest			-10.6	-7.6	-9.7	-9.7	-9.7	-9.7
Rent			-10.6	-7.6	-9.7	-9.7	-9.7	-9.7
Miscellaneous other expense	-332.7	-535.1	-608.3	-616.0	-813.2	-710.7	-743.6	-776.7
Current	-332.7	-535.1	-608.3	-616.0	-813.2	-710.7	-743.6	-776.7
Transfers to NPIs	-3.4	-28.6	-0.2	-0.5	-1.5	-1.7	-1.6	-1.7
Household - students	-280.0	-350.0	-586.7	-596.1	-795.1	-694.7	-726.6	-760.1
Household - other	-48.4	-155.5						
Other expense	-0.9	-1.0	-21.4	-19.4	-16.6	-14.3	-15.4	-14.9

Table 13: Nonfinancial Assets (Recurrent Budget)

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
SGO (Outurn/Projected)								
Nonfinancial assets	-92.4	-227.6	-113.8	-34.3	-24.5	-42.4	-42.4	-42.4
Fixed Assets	-92.4	-228.7	-113.8	-34.3	-24.5	-42.4	-42.4	-42.4
Buildings and structures	-14.8	-55.0	-3.0	-2.3	-1.8	-0.7	-0.7	-0.7
Dwellings	0.0	0.0	0.0		0.0	0.0	0.0	0.0
Nonresidential buildings	-14.8	-46.6	-2.9	-2.3	-1.7	-0.7	-0.7	-0.7
Other structures	0.0	-8.4	-0.1		0.0	0.0		
Machinery and equipment	-77.5	-173.8	-110.8	-31.9	-22.7	-41.7	-41.7	-41.7
Transport equipment	-6.7	-54.1	-24.9	-7.9	-2.4	-3.4	-3.4	-3.4
Other machinery and equipment	-70.8	-119.7	-85.9	-24.1	-20.3	-38.2	-38.2	-38.2
Nonproduced assets	0.0	1.2	0.0					
Land	0.0	1.2	0.0					

Table 14: Financing

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Net Worth and its Changes	-1,580.4	-2,146.6	-1,889.6	-718.4	-466.0	-3,503.8	-2,799.9	-2,498.6
Nonfinancial assets	-610.6	-1,324.7	-1,725.9	-1,922.6	-2,694.7	-3,698.3	-3,128.8	-2,362.9
Financial assets	-989.9	-365.8	177.7	1,244.0	1,171.7	-944.1	-535.4	-331.1
Domestic	-988.2	-363.0	178.6	1,244.0	1,171.7	-935.3	-532.9	-328.7
Deposits	-1,001.0	-364.1	178.6	1,244.0	1,171.7	-935.3	-532.9	-328.7
Loans	12.7	1.1	0.0	0.0	0.0	0.0	0.0	0.0
Capital Subscriptions	-1.6	-2.9	-0.9	0.0	0.0	-8.8	-2.5	-2.4
Financial Liabilities	20.1	-456.1	-341.4	-39.7	1,057.0	1,138.7	864.3	195.4
Domestic	-13.9	-628.6	-360.9	-205.0	588.8	321.1	62.3	-5.3
Securities	-53.1	28.4	-138.5	143.3	273.3	227.3	0.4	-5.3
Loans	39.2	-57.0	27.5	-98.3	315.5	123.8	61.9	0.0
Pension Liabilities	0.0	-600.0	-250.0	-250.0	0.0	-30.0	0.0	0.0
Foreign	33.9	172.5	19.5	165.3	468.2	817.6	802.0	200.6
Loans	33.9	172.5	19.5	165.3	468.2	817.6	802.0	200.6
Disbursements	220.6	409.3	273.5	365.7	645.7	1,079.5	1,087.2	468.5
Repayments	-186.6	-236.8	-254.0	-200.4	-177.6	-262.0	-285.2	-267.9

Table 15: Capital Expenditure

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
SGO (Outurn/Projected)								
Capital expenditure by source of funds	1,271.4	1,947.8	2,961.0	2,839.8	3,953.4	5,053.0	4,189.2	3,350.9
Government of Lesotho	756.8	1,111.8	2,052.2	1,884.1	2,072.0	2,427.4	2,215.8	2,318.2
Foreign loans	220.6	409.3	273.5	127.7	509.3	1,079.5	1,087.2	468.5
Non-Metolong		408.0	268.3	90.2	132.7	135.4	141.7	148.2
Metolong		1.3	5.2	37.5	376.5	944.1	945.6	320.3
Foreign grants	294.0	426.6	635.4	828.0	1,372.1	1,546.0	886.2	564.3
non-MCA	294.0	348.7	485.0	533.3	633.3	515.7	539.3	564.3
Millennium Challenge Account		77.9	150.5	294.7	738.7	1,030.3	346.8	0.0
Capital expenditure by type	-1,270.9	-1,947.0	-2,961.0	-2,839.8	-3,953.5	-5,053.0	-4,189.2	-3,350.9
Expense	-752.7	-849.9	-1,348.9	-951.4	-1,283.3	-1,397.0	-1,102.9	-1,030.4
Compensation of Employees	-82.9	-124.9	-143.3	-172.6	-264.4	-246.5	-194.6	-181.8
Use of goods and services	-466.5	-470.4	-742.2	-469.5	-543.8	-904.0	-713.6	-666.7
Subsidies	0.0	0.0	-6.3	-15.1	-108.1	-41.1	-32.4	-30.3
Transfers	-158.4	-243.5	-390.3	-201.7	-256.1	-164.4	-129.7	-121.2
Social benefits	-0.5	-2.3	-14.1	-8.8	-15.3	-41.1	-32.4	-30.3
Other expense	-44.3	-8.7	-52.8	-83.7	-95.6	0.0	0.0	0.0
Nonfinancial assets	-518.2	-1,097.1	-1,612.1	-1,888.4	-2,670.2	-3,655.9	-3,086.4	-2,320.5

Table 16: Public Debt

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
External Debt (existing)								
Disbursed Outstanding Debt (Total)	5,630.7	6,294.0	5,182.9	4,955.1	5,599.8	6,739.7	7,888.3	8,400.8
Disbursements	221.8	414.7	286.1	370.8	645.7	1,079.5	1,087.2	468.5
Interest Payments	245.2	65.2	61.3	52.8	67.4	90.4	92.7	92.4
Principal Repayments	218.3	236.4	226.0	200.5	177.6	209.9	256.7	241.1
Total Debt Service	463.5	301.6	287.3	253.3	245.0	300.3	349.4	333.5
Domestic (Stock levels)								
Securities (dom debt stats)	647.7	676.1	537.6	784.4	1,057.5	1,284.8	1,285.1	1,279.9
T-Bills	533.0	561.4	537.6	534.4	507.5	534.8	535.1	529.9
Bonds	114.7	114.7	0.0	250.0	550.0	750.0	750.0	750.0
Interest Payments on domestic debt	-67.7	-63.4	-70.5	-43.2	-76.5	-132.9	-151.9	-189.0
Foreign Debt	5,630.7	6,294.0	5,182.9	4,955.1	5,599.8	6,739.7	7,888.3	8,400.8
Domestic Debt	647.7	676.1	537.6	784.4	1,057.5	1,284.8	1,285.1	1,279.9
Loans (IMF)	327.7	345.5	273.0	174.5	490.0	613.8	675.7	675.7
IMF (728 report)	280.9	259.9	148.2	173.7	153.7	123.2	82.0	58.2
Total	6,325.1	7,055.6	5,845.3	5,740.3	6,993.5	8,515.0	9,767.1	10,298.2

Table 17: Public Debt by Source

CREDITOR	2006/07	2007/08	2008/09	2009/10	2010/11
Total Public Debt	5529.5	6397.4	6966.1	5725.2	5793.4
Domestic Debt	688.6	624.9	589.7	514.6	820.2
External Debt	4840.9	5772.5	6376.4	5210.6	4973.2
Multilateral	4418.9	5357.9	5832.8	4678	4462
IDA	2016.3	2493	2795.6	2214.2	2272.1
ADF	1364.3	1710.1	1912.1	1674.3	1421.5
IMF	256.9	280.9	259.9	148.2	173.7
Others	575.6	732.1	782.8	613.6	576.4
Bilateral	258.6	273.7	256.3	222.4	216.2
Export Credits	64.7	59.5	212.1	239.6	227.1
Commercial	98.7	81.3	75.3	70.6	67.9

Source: Debt Department

Table 18: Concessionality of External Debt Portfolio

CONCESSIONALITY	2006/07	2007/08	2008/09	2009/10	2010/11
Concessional	4,204.60	5,165.60	5,842.00	4,836.90	4,560.70
Non-concessional	430.6	465.1	452	346	394.4
% of Disbursed Outstanding Debt (DOD)					
Concessional	90.71	91.74	92.82	93.32	92.04
Non-concessional	9.29	8.26	7.18	6.68	7.96
Disbursed Outstanding Debt	4635.2	5630.7	6294	5182.9	4955.1

Source: Debt Department

Table 19: Outstanding Debt and Debt Service

Year	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Disbursed Outstanding debt	5,630.70	6,294.00	5,182.90	4,955.10	6,007.60	6,468.10	6,761.70	7,042.70
Disbursements	221.8	414.7	286.1	370.8	237.8	692.7	563.3	525.8
Principal Repayments	218.3	236.4	226	200.5	124.6	232.2	269.8	244.7
Interest Payments	245.2	65.2	61.3	52.8	39.2	94.5	118	140.2
Total debt Service	464.5	303.5	288.4	254.3	164.9	328.3	388.9	385.6

Source: Debt Department

Table 20: Domestic Debt by Instrument Holder

Year	2006/07	2007/08	2008/09	2009/10	2010/11
Domestic Debt Stock	688.58	624.91	589.66	514.6	820.2
Banks	599.91	556.39	511.26	503.3	806
Non-Banks	88.67	68.52	78.4	11.3	14.3

Source: Debt Department

Table 21: IDA & IMF (Rating 2008) - Country Performance Assessment

Lesotho : IDA & IMF (Rating 2008) – Country Performance Assessment (CPA)		
Country Policy & Institutional Assessment (CPIA)	Country Portfolio Performance Rating (CPPR)	Country Performance Assessment (CPA)
3.47	4	3.48

Source: Debt Department

Table 22: Debt Burden Indicators

Assessment of Institutional Strength and Quality of Policies			
Debt Burden Indicators	Weak	Medium	Strong
	CPIA < 3.25	3.25 ≤ CPIA ≤ 3.75	CPIA > 3.75
NPV of debt to GDP	30	40	50
NPV of debt to exports	100	150	200
NPV of debt to revenue	200	250	300
Debt service to exports	15	20	25
Debt service to revenue	25	30	35

Source: Debt Department

Table 23: External Debt Burden Situation for Lesotho

Year	2006/07	2007/08	2008/08	2009/10	2010/11
Net Present Value of External Debt (NPV)	3,905.25	4,096.00	4,213.00	5,062.25	7,545.50
Exports of goods & services (XGS)	73	65	57	75	106
GDP	39	35	31	34	46
Revenue	205	180	147	165	216
Total Debt Service (TDS)/XGS	11	9	5	5	4
TDS/REVENUE	32	24	13	11	7

Source: Debt Department