BACKGROUND TO THE

2011/12 BUDGET

LESOTHO

Review for 2006/07 – 2009/10 and Prospects for 2010/11 – 2013/14

Ministry of Finance and Development Planning

Government of Lesotho

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Chapter 1

1 Policies and Background to the 2011/12 Budget

1.1 Introduction

1.1.1. The 2011/12 budget has been prepared in a period of extremely stressful financial situation and needs policy decisions that will protect the Government from a financial crisis. Over the last decade, Government adopted a sustainable deficit guideline of 3 percent of GDP which helped to accumulate deposits and reserves that are currently being used to finance the budget deficit. The budget projections based on current Government policies, reflect the largest budget deficit of around 15 percent. This is mainly due to a decline in domestic and SACU revenue and increased expenditure. The situation therefore, implies that greater care must be exercised in how the Government allocates its resources for 2011/12 budget.

1.1.2. The situation has led to a three-year Extended Credit Facility (ECF) agreement between the Government and the International Monetary Fund (IMF) in June 2010. This is mainly aimed at assisting the Government to redress the impact of the current global financial and economic crisis on Lesotho. There are Structural and Quantitative benchmarks which have been agreed upon to monitor the progress of this arrangement. The Government has also developed some policy goals for the medium-term which will also help to boost economic growth towards a sustainable level of 6 to 7 percent per annum. The on-going exercise of the development of the National Development Plan would help to ensure that the growth is not only high but broad-based to increase employment and benefit many people.

1.2 National Economic Policy Goals

1.2.1. The following goals would remain critical for the medium to long term:

- Creating jobs to reduce unemployment and absorb the annual increment in the labour force;

- Improving the quality of and increasing access to education and training for all Basotho;

- Developing 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;

- Enhancing food security by improving agricultural productivity and introducing high value cash crops, better farm management practices, irrigation, water harvesting and afforestation;

- Integrating youth, children and gender issues in all Government policies and programs;

- Scaling up the fight against HIV/AIDS;

- Consolidating democracy, peace and stability by fighting crime, promoting safety and security and by enhancing the role of Parliament, accountability and transparency; and

- Promoting efficiency and effectiveness in the delivery of public services through enhanced public and financial management and audit of Government operations.

1.2.2. It is however, critical that the Government focuses on a few priorities on which it will be able to deliver in the medium term. In line with the national objective of increased growth towards a sustainable level, the short to medium term should focus on industrial infrastructure, improvement and expansion of national power generation and distribution networks and water supply and sanitation.

1.3 Fiscal Strategy

1.3.1 Based on the above policy goals, an optimal fiscal strategy proposed for adoption by Government should involve:

- The allocation of increased investment to productive sectors where jobs are created, income generated and revenue collection emphasized;

- Mobilisation of more domestic and concessional external resources for investment in productive activities. It will require critical exploration of new revenue sources, without increasing the burden of taxation on the poor. It will also mean the adoption of a more focused and robust approach to dialogue with Lesotho's development partners;

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

- A shift in the current composition of resource use 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. In 2011/12 through the medium, recurrent budget may have to be reduced so that only critical activities for service delivery are maintained;

1.3.2 In order to achieve the Goals and implement the Strategies mentioned above, the Government developed some expenditure reforms for the 2011/12 budget.

1.4 Proposed Expenditure Reforms

1.4.1. Given the above fiscal environment, it is proposed that the following measures be implemented in the 2011/2012 through the medium term;

- Freezing all new positions and vacancies at least for the next two years while salary adjustments should only be linked to the cost of living in order to keep the wage bill constant in real terms. This should also include limited recruitment of army, police and prisons personnel;
- Reducing expenditure on Goods and Services with the exception of items that would result in major policy reversals like health drugs and primary school feeding programme;

- Reducing international travel (fares and subsistence) below the budgeted 2010/11 levels.

Chapter 2:

2 The Economic Setting

2.1 Introduction and Key Macroeconomic Indicators

2.1.1. Lesotho is a landlocked country completely surrounded by the Republic of South Africa. It has a population of about 1.88 million (2006 Census), growing at an annual average rate of 0.17 percent. Its Real GDP Per Capita in 2009/10 was about M5165.8 million (US$645.73 Using M8.00 exchange rate)**.** The country is a member of the Common Monetary Area (CMA) and the Southern African Customs Union (SACU) and benefits from the fixed exchange rate regime between South Africa and itself. Lesotho also benefits from SACU revenue, which has contributed about 60 percent of its total revenue in the past – down to 30 percent in 2010/11 and 2011/12. As a result of the loti/rand peg, Lesotho has a limited Monetary Policy and therefore overall macroeconomic management is driven by fiscal policy.

2.1.2. Lesotho felt the secondary effects of the recent world economic crisis during 2009/10, to the extent that for the first time after at least five years, she started to register fiscal and current account deficits. This was the result of higher growth in expenditure relative to revenue. The deficits are projected to widen further from **2010**/11 due to a significant reduction in total revenue as a result of a decline in the country's share of its most important source of income, SACU. The continuation in fiscal deficits will start to endanger the credibility of Lesotho as a country in terms of its policies of macroeconomic stability and fiscal prudence. The country therefore has to reverse its expenditure patterns, which have sky-rocketed compared to 2005/06. They should be reversed to sustainable levels especially if government revenue continues to grow marginally compared to expenditure.

2.1.3. Lesotho, like other countries, uses the Gross Domestic Product (GDP)[1], as a measure of the country's economic performance. However, she has a peculiar economy in that she receives a substantial amount of her income from abroad, implying that an appropriate measure of economic growth in the country could be Gross National Income (GNI) rather than GDP. The country also receives a significant amount of net transfers from abroad mainly because of SACU receipts.

Inflation

2.1.4. Inflation in Lesotho is influenced mainly by price developments in South Africa, which accounts for about 90 percent of Lesotho's imports for final consumption. Inflation has been fluctuating between 5.7 percent and 10.7 percent between 2005/06 and 2009/10, registering an average inflation rate of 7.1 percent over that period. This can be attributed to the continued hike in food and oil prices which commenced around 2007/08.

2.2 Regional And International Performance And Prospects

World output

2.2.1 The World Economic Outlook (2009), compiled by the International Monetary Fund, confirms that the full effects of the 2008 financial crisis were felt in 2009. From a growth rate of 2.8 percent in 2008, the world economy experienced a recession of 0.6 percent in 2009. Although a recovery to 4.8 percent is estimated in 2010 global financial markets remain fragile which could lead to deterioration in fiscal balances and increase debt sustainability risks. The extent of economic recovery differs considerably across regions and economies, with Asia in the lead. The United States and Japan experienced a noticeable slowdown during that quarter, while growth accelerated in Europe and stayed strong in emerging and developing economies.

[1] GDP measures the total value added of all goods and services produced within the country by residents in a given period of time

2.2.2 Indications are that developing countries, particularly low-income countries that rely on aid flows to finance their development, came under severe fiscal pressure following similar pressures in the donor countries. So far, the crisis has caused government deficits in low-income countries to increase by an average of 1.3 percent of GDP in 2008, suggesting that many were able to take advantage of relatively good fiscal positions, and ample reserves going into the crisis to buffer its effects on spending. However, the initial cushions have been exhausted, and the ability of low-income countries to maintain spending in the face of a slow recovery is uncertain.

Price developments:

2.2.3 Inflation in advanced economies has declined by less than expected, considering the depth of the recession which caused U.S. inflation to drop by 1 percent from 2008 to 2010. It is estimated to stay low amid continued excess capacity and high unemployment in 2010. The recovery of commodity prices has raised the level of consumer prices. With market indicators suggesting that commodity prices should remain stable and with the downward pressure on wages gradually diminishing, headline and core inflation in advanced economies should recover to about 1.25 percent in 2011, and in emerging economies to about 5 percent. Inflation pressures are more elevated in economies that have had a history of unstable inflation or that are operating closer to capacity.

Financial markets:

2.2.4 International financial markets have experienced considerable recovery from the worst of the crisis since the first quarter of 2010. Notwithstanding recent turmoil, interbank lending rates and developing country bond spreads have returned to close-to-normal levels; stock markets in high-income and emerging economies have recovered much of the value they lost, and most developing-country currencies have regained their pre-crisis levels against the dollar, with some having appreciated. Despite the recovery, industrial production remains about 10 percent below potential in many developing countries and unemployment is high. Increasingly, the pace of the recovery at the national and regional level will depend on the extent to which private-sector activities recover, and measures are taken to address longer-term structural factors (including fiscal sustainability, banking-sector restructuring, and underlying productivity)

2.3 National Accounts

<u>SECTORAL ANALYSIS</u>

2.3.1 Following the period when Lesotho's economic growth was mainly driven by Phase 1 of the Lesotho Highlands Water Project, the country's growth was influenced by the developments in the textile sector coupled with the re-opening of Letšeng diamond mine in 2003/04 and opening of new mines from 2005/06. However, the expiration of the Multi-Fiber Agreement in December 2004 had adverse impact on real GDP in 2004/05 and 2005/06.

2.3.2 During the period 2005/06 to 2009/10 real GDP growth averaged 4.1 percent mainly due to developments in the primary, secondary and tertiary industries. In 2009/10, real GDP registered a sluggish growth of about 3.1 percent as a result of the global economic downturn, which affected the mining and textile sectors to the extent that two mines (Kao and Liqhobong) were shut down and a third mine (Letšeng) scaled down its operations. In addition, three major textile firms were shut down further affecting employment as well as the amount of exports.

Table 1: Real GDP Growth by Sector, 2005-2013

	FY06/07	FY07/08	FY08/09	FY09/10	FY10/11	FY11/12	FY12/13	FY13/14
Industry Constant Prices								
Agriculture	-8.1%	2.3%	10.5%	6.5%	0.2%	0.2%	0.2%	0.2%
Crops	-7.4%	-9.4%	-0.6%	3.6%	0.2%	0.2%	0.2%	0.2%
Livestock	-11.2%	10.2%	15.7%	10.5%	0.2%	0.2%	0.2%	0.2%
Services	2.2%	-11.1%	25.7%	-20.3%	0.0%	0.0%	0.0%	0.0%
Forestry	0.7%	2.3%	1.2%	6.2%	0.2%	0.2%	0.2%	0.2%
Mining and quarrying	28.2%	33.6%	0.6%	0.0%	14.1%	11.6%	49.6%	12.0%
Primary industries	**0.4%**	**11.7%**	**7.0%**	**4.3%**	**4.6%**	**4.2%**	**18.7%**	**5.8%**
Manufacturing	6.7%	1.9%	1.0%	-5.1%	6.0%	4.2%	4.1%	4.1%
Food products and beverages	2.7%	6.6%	2.8%	3.4%	0.7%	3.9%	0.5%	-0.9%
Textiles, clothing, footwear and leather	6.7%	-2.2%	-3.6%	-9.7%	6.3%	3.2%	3.6%	4.0%
Other manufacturing	12.2%	20.3%	21.0%	4.7%	10.2%	8.0%	8.6%	8.4%
Electricity and water	4.7%	3.0%	2.1%	3.2%	2.8%	3.2%	3.0%	2.7%
Electricity	11.7%	6.5%	1.7%	3.8%	7.3%	7.4%	7.2%	6.9%
Water	1.9%	1.5%	2.2%	2.9%	0.7%	1.2%	0.8%	0.4%
Construction	-0.3%	4.2%	8.3%	10.0%	3.5%	12.2%	4.9%	4.6%
Secondary industries	**5.1%**	**2.5%**	**2.4%**	**-1.0%**	**4.9%**	**5.6%**	**4.1%**	**4.0%**
Wholesale and retail trade, repairs	4.3%	4.1%	2.4%	-3.0%	0.7%	3.9%	0.5%	-0.9%
Hotels and restaurants	3.7%	-2.4%	2.5%	2.5%	0.7%	3.9%	0.5%	-0.9%
Transport, and communication	11.1%	11.3%	11.0%	11.5%	0.7%	3.9%	0.5%	-0.9%
Transport and storage	0.9%	2.5%	3.7%	0.7%	0.7%	3.9%	0.5%	-0.9%
Post and telecommunications	21.4%	18.8%	16.3%	18.5%	0.7%	3.9%	0.5%	-0.9%
Financial intermediation	20.1%	14.6%	13.8%	15.6%	0.7%	3.9%	0.5%	-0.9%
Real estate and business services	1.5%	1.6%	1.9%	3.2%	1.5%	2.8%	1.4%	0.8%
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	0.9%	1.1%	1.7%	5.1%	0.7%	3.9%	0.5%	-0.9%
Public administration	4.4%	3.2%	3.2%	4.2%	-0.5%	-0.2%	1.1%	1.1%
Education	1.8%	-2.8%	-1.5%	-1.4%	-0.5%	-0.2%	1.1%	1.1%
Health and social work	1.8%	-0.8%	1.5%	6.6%	-0.5%	-0.2%	1.1%	1.1%
Community, social and personal services	2.4%	1.7%	1.7%	0.7%	0.7%	3.9%	0.5%	-0.9%
Tertiary industries	**5.1%**	**3.7%**	**4.1%**	**4.5%**	**0.5%**	**2.3%**	**0.9%**	**0.2%**
Financial services indirectly measured	38.4%	33.7%	25.4%	18.5%	0.7%	3.9%	0.5%	-0.9%
All industries at producers' prices	**4.2%**	**4.0%**	**3.6%**	**2.7%**	**2.3%**	**3.4%**	**4.3%**	**2.2%**
Net taxes on products	7.9%	7.3%	7.2%	3.9%	2.3%	3.4%	4.3%	2.2%
Subsidies on products	3.8%	-5.6%	-8.4%	-19.5%	6.3%	3.2%	3.6%	4.0%
GDP at purchasers' prices	**4.7%**	**4.5%**	**4.2%**	**3.1%**	**2.2%**	**3.4%**	**4.3%**	**2.1%**

2.3.3 In 2010/11, real GDP growth is expected to deteriorate to a low of 2.2 percent as the country continues to experience the after effects of the financial crisis. It is however, expected that in 2011/12 and 2012/13 real GDP growth will improve to 3.4 and 4.3 percent, respectively due to an expected boom in construction activities associated with the Metolong Dam and the second phase of the Lesotho Highlands Water Project.

Primary Industry

2.3.4 The primary industry improved significantly from 0.4 percent registered in 2006/07 to 11.7 percent and 7.0 percent in 2007/08 and 2008/09 respectively, before recording a slower growth of 4.3 percent in 2009/10. The growth was at the back of improved performance in the Mining and Quarrying sector coupled with growth in the Agricultural sector. Mining continued to register a higher growth of 33.6 percent in 2007/08 percent relative to 28.2 percent recorded in 2006/07. However, growth slowed down to 0.6 percent in 2008/09 and remained constant in 2009/10 as a result of decline in global demand and attendant decline in commodity prices.

2.3.5 Agriculture, on the other hand, improved during the review period from a negative growth of 8.1 percent recorded in 2006/07 to a positive 2.3 percent, 10.5 percent and 6.5 percent in 2007/08, 2008/09 and 2009/10 respectively due to a significant growth in Livestock. In 2007/08, the region was hit by severe drought, which impacted negatively on crop production from a decline of 7.1 percent in 2006/07 to a further decline of 9.4 percent and 0.6 percent in 2007/08 and 2008/09 respectively before improving to a growth of 3.6 percent in 2009/10. However, livestock continued to grow significantly from a decline of 11.2 percent in 2006/07 to a growth of 10.2 percent, 15.7 percent and 10.5 percent in 2007/08, 2008/09 and 2009/10, respectively. This was on account of government measures to combat stock theft and animal diseases.

2.3.6 The primary industry is projected to register an annual average growth of 8.3 percent during the projection period (2010/11-2013/14). This can be attributed to the expected continued recovery in the world economy, which is expected to influence production in the mining and quarrying sector as demand for diamond as well as commodity prices continue to pick up. Apart from the projected rise in Letšeng production, during the forecast period, the reopening of Kao and subsequently, Liqhobong, coupled with the opening of the new Mothae mine towards the end of 2010/11, is expected to contribute to the projected growth in mining and quarrying sector. This is estimated to move from a constant growth registered in 2009/10 to an average growth of 21.8 percent by 2013/14.

2.3.7 Agricultural sector on the other hand, is projected to register a growth rate of 0.2 percent from 2010/11 to the end of the projection period. The growth in agricultural sector is forecast to increase at the same rate as the population growth.

Secondary Industries

2.3.8 The African Growth and Opportunity Act (AGOA) created an opportune market for Lesotho's textile exports and therefore contributed substantially to the country's economic growth until 2003/04. It also attracted additional Foreign Direct Investment resulting in the creation of job opportunities. The secondary industries grew at an average of 2.3 percent from 2006/07 to 2009/10 largely due to manufacturing, and electricity and water sectors. However, the textile and clothing sub-sector declined by 3.6 percent in 2008/09 and 9.7 percent in 2009/10 due to the impact of the financial crisis on the USA demand for Lesotho's exports.

2.3.9 Despite the low growth in the secondary industries the construction sector registered a relatively high average growth of 5.6 percent between 2006/07 and 2009/10. This can be attributed to, amongst others, advanced infrastructure in preparation for the construction of Metolong Dam, other government projects and the Millennium Challenge Compact (MCC) that was signed between Lesotho and the United States of America. Major construction activities under the compact commenced towards the end of 2009 to early 2010.

2.3.10 The secondary industry is projected to grow at an average of 4.6 percent, from 2010/11 to 2013/14 due to an increase in production and diversification of the market to South Africa. Construction is also expected to contribute significantly to the industry as Metolong Dam and Phase II of the Lesotho Highlands Water Project are scheduled to commence in the medium term.

Tertiary Industries

2.3.11 The tertiary industry, on the other hand, registered an average growth of 4.4 percent, between 2006/07 to 2008/09, resulting from an increase in the number of subscribers in telecommunications. There was also a general increase in financial intermediation as the number of local insurance companies increased and the commercial banks relaxed their lending procedures. Furthermore, Public Administration grew in line with the government's payroll in that period.. In the medium term most activities in the industry are projected to grow in line with the general economic indicator as the industry is will grow at an average of 1.0 percent. The public Administration will also contract by an average 0.4 percent.

2.4 Balance of Payments

Current account

2.4.1 The current account recorded an annual average surplus of 4.9 percent of GDP between 2006/07 and 2008/09 supported by substantial increases in the current transfers and income from abroad. However, due to a decline of exports by about M1.0 billion, the current account recorded a deficit of 3.0 percent of GDP in 2009/10. The estimated revenue for 2010/11 is around 17.7 percent and it is projected to further worsen to 21 percent of GDP in 2011/12. However, the current account balance will improve to an average deficit of 16.4 percent of GDP in 2012/13 and 2013/14, largely due to a recovery in SACU receipts.

Trade in goods

2.4.2 Exports increased by M1,833.7 million to M7,173.6 million in 2008/09 from M5,339.9 million in 06/07, mainly due to a rapid growth of manufactured goods and diamonds to the USA and Europe. However, in 2009/10 exports declined by about M1,063.2 million from 2008/09 level to M6,110.4 million due to the recent financial crisis. Exports are expected to recover in the medium-term by 45.3 percent between 2011/12 and 2013/14 as the world markets rebound. Imports, on the other hand, increased from M9,963.2 million to M13,345.0 million between 2006/07 and 2009/10, primarily due to a surge in demand of manufactured goods and oil. They are expected to grow from M13,772.4 million in 2010/11 to M 18,693.1 in 2013/14.

Net Income from abroad

2.4.3 Lesotho's earnings from abroad increased by an average of M3416.8 million between 2006/07 and 2009/10 due to an increase in worker remittances of M1.2 billion. In 2010/11 income is expected to decline by 8.7 percent to M3,581.6 million due to outflow of investment income. The earnings are expected to grow at an average of M3,577.2 million between 2010/11 and 2013/14.

Current Transfers

2.4.4 The main component of current transfers is the revenue from SACU. On average, transfers recorded a substantial increase of 18.2 percent between 2006/07 and 2009/10, with SACU increasing by an average of 23.7 percent. On the other hand, as the effects of the economic meltdown continue to influence imports into the SACU region, transfers are expected to fall to M4.2 billion with SACU receipts declining by about 45.6 percent in 2010/11. With a marginal recovery of the SACU receipts to M2.7 billion in 2011/12, the transfers are projected to grow at an average of 17.1 percent per annum from 2011/12 to 2013/14 due to the recovery of the world markets.

Table 2: Balance of Payments, 2006/07 – 2013/14

	FY06/07	FY07/08	FY08/09	FY09/10	FY10/11	FY11/12	FY12/13	FY13/14
I. CURRENT ACCOUNT	**188.4**	**1049.3**	**803.5**	**-475.0**	**-3190.0**	**-4364.9**	**-3367.9**	**-3735.6**
GOODS and SERVICES, net	-6784.8	-7251.3	-8826.6	-10508.3	-10992.3	-12811.7	-13311.2	-14008.0
a) GOODS, net	-4621.5	-4812.4	-6068.1	-7234.5	-7601.6	-8901.1	-9055.4	-9437.2
Merchandise, exports	5341.7	5939.9	7173.6	6110.4	6370.9	7021.5	8358.4	9255.9
Merchandise, imports	-9963.2	-10752.3	-13241.7	-13345.0	-13972.4	-15922.6	-17413.8	-18693.1
b) SERVICES, net	-2163.3	-2438.9	-2758.5	-3273.7	-3390.8	-3910.6	-4255.8	-4570.8
Transportation, net	-266.7	-309.0	-414.3	-513.2	-348.6	-398.1	-437.3	-471.0
Travel, net	-1504.4	-1642.4	-1786.7	-1927.0	-2199.8	-2397.4	-2630.4	-2893.7
Communication, net	29.2	10.8	-1.4	-22.0	-23.0	-27.1	-30.4	-33.0
Insurance services, net	-85.1	-95.7	-121.5	-112.5	-95.6	-102.5	-108.8	-113.0
Financial services, net	-19.5	-21.3	-23.5	-42.3	-45.1	-52.0	-58.2	-63.7
Computer and information services, net	-3.4	-3.7	-4.1	-7.3	-7.8	-9.0	-10.1	-11.0
Royalties and licence fees, net	-11.4	-12.5	-13.8	-24.8	-26.4	-30.4	-34.1	-37.3
Business services, net	-130.0	-178.4	-159.2	-239.5	-296.4	-506.5	-521.4	-487.8
Government services, net	-120.1	-129.8	-171.0	-271.7	-227.6	-248.4	-269.2	-290.1
Other services, imports, net	-52.0	-57.0	-63.0	-113.3	-120.6	-139.1	-155.8	-170.3
c) INCOME, net	2914.3	3184.0	3646.2	3922.6	3581.6	3621.6	3485.5	3620.2
Compensation of employees, credit	4020.8	4472.6	4902.1	5240.1	5637.1	6162.1	6760.0	7423.1
Investment income, net	-1636.8	-1852.9	-1826.8	-1855.0	-2215.3	-2709.7	-3452.6	-3989.6
Direct investment in Lesotho, debit (dividends)	-1790.0	-2271.6	-2663.1	-2478.2	-2685.1	-3073.8	-3829.5	-4355.3
Other investment, net (interest)	153.2	418.7	836.3	623.1	469.8	364.1	377.0	365.7
Subsidies	530.4	564.3	570.9	537.5	159.7	169.2	178.0	186.7
d) CURRENT TRANSFERS	4058.9	5116.6	5983.9	6110.7	4220.8	4825.3	6457.8	6652.1
Government, net	3127.2	4199.7	4947.6	4976.5	3021.6	3555.1	5115.6	5237.1
Other, net	891.5	872.3	987.3	1081.9	1142.8	1208.5	1274.7	1340.8
II. CAPITAL AND FINANCIAL ACCOUNT	**-1228.3**	**-609.8**	**-792.5**	**620.0**	**663.0**	**2472.5**	**3204.1**	**3636.2**
e) CAPITAL ACCOUNT	49.4	189.8	149.0	712.7	1361.2	2123.9	2432.8	2980.9
Government: Grants in budget, credit	78.5	248.3	189.0	753.9	1498.4	2414.5	2730.3	3249.6
Other sectors: migrants' transfers, debit	-29.1	-58.5	-40.0	-41.2	-137.1	-290.6	-297.5	-268.7
f) FINANCIAL ACCOUNT	-1277.7	-799.6	-941.5	-92.7	-698.2	348.6	771.3	655.3
Direct investment in Lesotho, net	466.1	790.0	902.0	1099.4	933.7	1100.3	1296.6	1527.9
Portfolio investment in Lesotho, net	-1.7	-0.3	-0.3	-0.6	-1.5	-0.9	-0.7	-0.8
Other assets	-1793.4	-1638.2	-2073.7	-1137.1	-1989.0	-1561.6	-1739.2	-1752.5
Other liabilities	51.5	49.0	230.5	-54.3	358.6	810.8	1214.6	880.8
III. ERRORS AND OMISSIONS	**2743.0**	**767.7**	**962.3**	**312.8**	**832.7**	**293.8**	**663.1**	**491.5**
IV. RESERVE ASSETS	**-2141.0**	**-1617.9**	**-1361.5**	**792.8**	**1694.3**	**1598.5**	**-499.3**	**-392.1**
V. VALUATION ADJUSTMENT	**437.9**	**410.7**	**388.3**	**-1250.7**				

Capital and Financial Account

2.4.5 The net balance of resources on the Capital and Financial Account has shown a net financial outflow of M1.2 billion, M609.8 million and M792 million in 2006/07, 2007/08 and 2008/09 respectively due to an increase in claims abroad. In 2009/10 there was an inflow of M543 million consistent with the deficit depicted by the current account balance. Foreign direct investment grew at an average rate of 35.2 percent per annum between 2007/08 and 2009/10, an inflow of foreign capital. It is then expected to grow at average rate of 9.6 percent from 2010/11 to 20013/14 due to the financing of the Metolong Dam and the Phase II of the Lesotho Highlands Water Project.

Reserve Position

2.4.6 The Balance of Payments shows an annual fluctuation in official reserve assets (i.e. those held by the Central Bank) resulting from a combination of developments in the Current Account and the Capital and Financial Accounts, Errors and Omissions and the Valuation Adjustment. Official reserves increased by an average of M1.7 billion between 2006/07 and 2008/09. However, in 2009/10 there was a decrease in reserves of M792 million and they is an expected further draw-down of 5.7 percent per annum between 2010/11 and 2013/14.

2.5 Public Debt

2.5.1 Lesotho's external debt portfolio has been dominated by project financing from official creditors, mainly multilaterals which on average accounted for 90.5 percent of the external debt portfolio between 2005/06 and 2009/10. Bilateral and commercial debt declined from 7.1 percent and 3.0 percent of total debt in 2005/06 to 4.3 percent and 1.4 percent by the end of 2009/10, respectively. The decrease in these two debt categories was mainly due to full retirement and prepayment of some expensive loans from commercial creditors, including full payment of the liability which the Government of Lesotho inherited from the Lesotho Highlands Water Authority. The prepayment arrangements have saved the Government M346.3 million net of all costs.

2.5.2 The disbursed outstanding external debt increased by an average of 17.7 percent between 2006/07 and 2008/09 followed by a decrease of 17.6 percent between 2008/09 and 2009/10. It is evident from this trend that Lesotho Government fully repaid its debt. On the other hand, the appreciation of loti against major world currencies such as the US dollar and the Euro played a key role in reducing the debt stock. Therefore, a mix of some loan retirement, the routine debt service and the strengthening of loti against major currencies influenced the reduction in Lesotho's external debt stock.

Table 3: External Debt, 2005/06 -2009/10 (In Millions of Maloti)

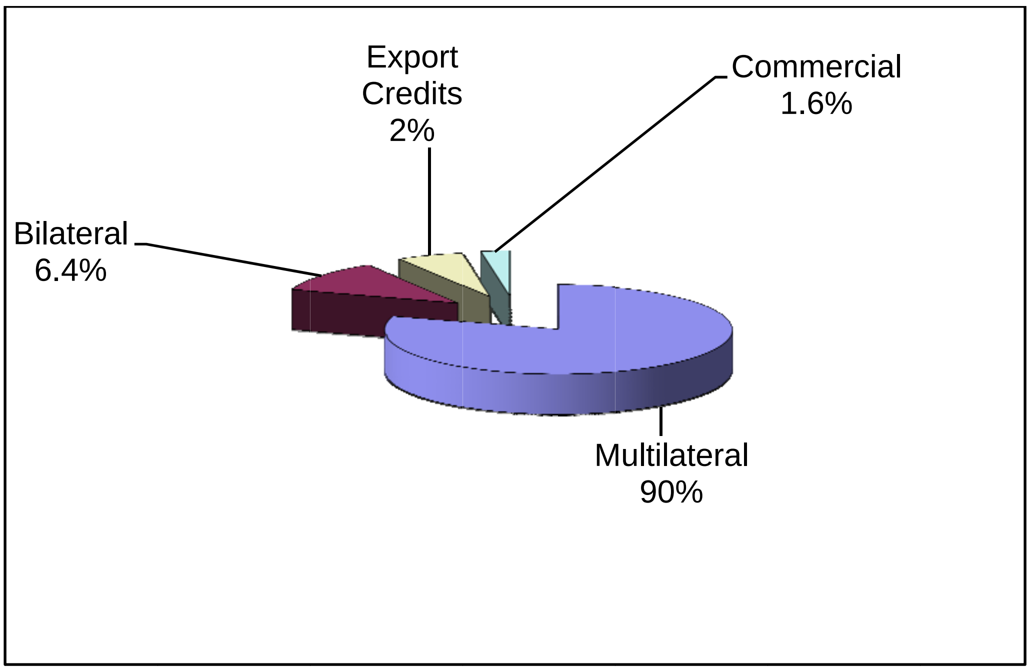
Year	2005/06	2006/07	2007/08	2008/09	2009/10
Total Disbursed Outstanding External Debt	3,867.7	4,635.1	5,630.7	6,294.0	5,183.2
Disbursements	142.6	240.7	221.8	414.7	286.2
Interest Payments	73.6	273.9	245.2	65.2	61.9
Principal Repayments	388.6	254.5	218.3	235.8	226.1
Total Debt Service	462.3	528.4	463.5	301	287.9
External Debt as a percent of GDP	46.8	53.6	62.3	66.8	53.3

Source: Ministry of Finance and Development Planning

Table 4: The Structure of the External Debt Portfolio By Creditor Category (in Millions of Maloti)

Year	2005/06	2006/07	2007/08	2008/09	2009/10
Total Debt Stock	3,867.7	4,635.1	5,630.7	6,294.0	5,183.2
Multilateral (percent)	87.8	91.1	92.6	91.3	89.7
Bilateral (percent)	7.1	5.4	4.9	4.1	4.3
Commercial (percent)	3.0	2.1	1.4	1.2	1.4
Export Credits (percent)	2.1	1.4	1.1	3.4	4.6

Figure 1: External Debt Stock by Creditor Category (2005/06 – 2009/10)



2.5.3 Multilateral Debt: - Of the multilateral creditors, International Development Association (IDA) has traditionally been a major source of credit to Lesotho Government. Its financing was mainly used to fund road infrastructure, the privatization programme, health and the education sectors. The African

Development Bank (AfDB) Group loans are a second major source mainly financing health and education sectors. The other main multilateral creditors are the European Investment Bank (EIB) which mainly finances projects in the water sector, and the IMF which supports macroeconomic stabilization.

Currency Composition of Lesotho's Debt

2.5.4 External Loans are contracted from different creditors hence in various currencies. The currency composition of any debt portfolio is important since it has a critical bearing on the country's future ability to service its debt. Therefore, the right currency mix is ideal to minimize the exchange rate risks. In order to mitigate the negative impact of the volatility of exchange rates, countries usually prefer to match as closely as possible the currency composition of their external debt with that of their foreign earnings or reserves. The IMF Special Drawing Rights (SDR), the AfDB Unit of Account (BUA) and USD account for over 60 percent of the total debt stock. This dominance and rise in share of debt denominated in SDR, BUA and US dollar has over the years been influenced by the increase in IDA, AfDB, Arab Bank for African Development (BADEA) and Organization of Petroleum Exporting Countries (OPEC) Fund loans. The Euro has increased drastically in Lesotho's External Debt Portfolio since January 1999, after the conversion of the former European currencies to Euro.

Concessionality of Lesotho's External Debt

2.5.5 A conventional measure of concessionality of a loan is the grant element, and the extent to which the terms of a loan are below the normal commercial rates obtainable at the time. It is usually expressed as a percentage of the face value of the loan and it is influenced by the following factors: the grace period, the maturity period and the interest rate on a loan. Loans with long grace and maturity periods, and low interest rates/service charges usually have a high grant element. Conventionally, loans with a grant element of 35 percent or above are considered concessional.

2.5.6 Lesotho’s debt portfolio has been highly concessional throughout the years, averaging 96 percent. The main reasons for high concessional debt are firstly that, most loans were contracted from the International Development Association (IDA) and the African Development Fund (ADF), which are both the soft loan windows of the World Bank and the African Development Bank respectively, charging the Lesotho Government a fixed rate of 0.75percent in service charge on the Disbursed Outstanding Debt (DOD) and secondly, it is fueled by the consistent reduced borrowing from commercial and export credits.

Table 5: Concessionality of Lesotho Government Disbursed Outstanding External Debt

Year	2006	2007	2008	2009	2010
Concessional debt percent	93	94	96	97	98
Non-concessional Debt percent	7	6	4	3	2

Source: Ministry of Finance and Development Planning

External Debt Forecasts

2.5.7 It is important for a country to project its debt obligations and hence forecast the expected debt flow including debt service particularly to determine sustainability.

Table 6: Summary Debt Data (in Millions of Maloti)

Year	2011/12	2012/13	2013/14	2014/15	2015/16
Disbursed Outstanding Debt	5,350.2	5,659.4	5,887.9	6,039.1	5,846.6
Disbursements	648.2	497	441.8	356.5	62.5
Principal Repayments	66.4	86	103.6	120	129.7
Interest Payments	187.1	187.8	219.3	199.3	254.9
Total Debt Service	253.5	273.8	322.9	319.3	384.6
External Dt forecastets as a percent of GDP	52.1	52.9	54.0		

Source: Ministry of Finance and Development Planning

External Debt Forecasts

2.5.8 Lesotho's outstanding external debt is projected to range between M5.3 billion and M6.0 billion between 2011/12 and 015/16, based on the current exchange rate, with the total cumulative debt service expected at approximately M1.6 billion. Based on the developments in the Metolong Dam Project, it is expected that construction will commence in the next fiscal year and this explains the increase in the projected disbursements for 2011/12 and the resulting increase in interest payments.

Domestic Debt

2.5.9 Domestic debt has been dominated by treasury bills issued for monetary policy management. The tenure of the treasury bills was 91 and 182 days until 2008 when the 273 and 364 days were introduced. The 10 year bond of M114.7 million, which was issued in 1999 for recapitalization of the old Lesotho Bank, was retired in July 2009. The banking sector remained the major holder of the treasury bills since 1999, with the commercial banks constituting at least 84 percent of the total domestic debt holding, while non-bank accounted for the remainder.

2.5.10 In line with the Government domestic financing needs for the medium term, government issued M250 million worth of bonds of 3 year and 5 year tenure in 2010/11. In 2011/2012, Government will issue an additional M 500 million of bonds, which will be followed by M250 million in both 2012/13 and 2013/14. The purpose of issuance of the bonds is twofold - to finance the fiscal deficit and to develop a financial market in securities.

Table 7: Domestic Debt (in Millions of Maloti)

Year	2005/06	2006/07	2007/08	2008/09	2009/10
Total Stock	644.8	700.7	647.7	676.1	552.7
Treasury Bills	530.2	586.1	533.0	561.4	552.7
Long Term (10 yr Bond)	114.7	114.7	114.7	114.7	0.00
Domestic Debt Stock as a percent of GDP	7.8	8.1	7.2	7.2	5.7

Source: Ministry of Finance and Development Planning, Central Bank of Lesotho

Debt Indicators

2.5.11 In Lesotho the Disbursed Outstanding Debt to GDP or Government revenue ratio is useful in that it relates debt to the underlying source of repayment, the country's revenue base. The critical thresholds are used to measure the indebtedness level of a country. They are used to classify the country in three categories: - Severely/Heavily Indebted (HI), Moderately Indebted (MI) and Less Indebted (LI).

Table 8: Critical Debt Indicators

Classification	PV/XGS	PV/GNI	DOD/GNI	TDS/XGS	DOD/XGS
HI	> 200percent	> 80percent	> 80percent	> 30percent	> 280percent
MI	≥ 60percent	≥ 60percent	≥ 60percent	≥ 15percent	≥ 165percent
LI	< 60percent	< 60percent	< 60percent	< 15percent	< 165percent

Source: Ministry of Finance and Development Planning

2.5.12 Lesotho, with a CPIA of 3.48, is classified as a medium performer. The recent Debt Sustainability Analysis (DSA) of May 2010 indicates that Lesotho faces a moderate risk of debt distress in the short to medium term. Although the country remains liquid in terms of debt servicing, there is a potential risk of switching resources from the critical social needs towards debt servicing.

Table 9: Indicative Debt Burden Indicators

	Weak CPIA<3.25	Medium 3.25<CPIA<3.75	Strong CPIA>3.75
NPV of Debt /XGS (percent)	30	40	50
NPV of Debt /GDP (percent)	100	150	200
NPV of Debt /Revenue (percent)	200	25	300
TDS/ XGS (percent)	15	20	25
TDS/ Revenue (percent)	25	30	35

Source: International Monetary Fund

Chapter 3:

3 An Overview of the Fiscal Position

3.1 Between 2006/07 and 2008/09 the Government recorded budget surpluses, ranging from 14.2 percent of GDP to 4.3 percent, while in 2009/10 a deficit of 5.2 percent of GDP was registered for the first time since 2002/03. The 14.2 percent registered in 2006/07 was the result of the highest SACU adjustment receipt in history of the Union. On the other hand, a deficit of 5.2 percent recorded in 2009/10 was a policy response to stimulate the economy and ameliorate the impact of the global financial crisis on Lesotho.

Revenue

3.2 Over a four year period, total revenue has seen a sharp increase of 47 percent from M6,464.5 million in 2006/07, reaching M9,554.7 million in 2009/10. The high increases in the total revenue could be attributed predominantly to tax revenue and SACU receipts. Tax revenue showed a phenomenal increase of 70.5 percent between 2006/07 and 2009/10 fiscal years, from M1,907.4 million to M3,251.5 million. This is partly a result of improvement in tax collection by Lesotho Revenue Authority (LRA). The reduction in the standard company tax rate from 35 percent to 25 percent and from 19 percent to 15 percent for manufacturing firms exporting within SACU, in 2008, has considerably improved compliance. On the other hand, the SACU revenue has increased by 25 percent from M3,945.0 million in 2006/07 to M4,918.0 million in 2009/10.

3.3 The estimated total revenue outturn for the current fiscal year is expected to drop to M8, 906.2 million from M9,554.7 million recorded in 2009/10. The main cause is a fall in SACU revenue which declined by more than 50 percent and a further decline in domestic tax revenue, following the crisis of global economic down turn. There is, however, an estimated increase of 12.7 percent in total revenue from M8,906.2 million in 2010/11 to M10,038.3 million in 2011/12. These increases are due to the projected growth in SACU revenue from M2,627.9 million in 2010/11 to M2,752.6 million in 2011/12 and an increase of 6.7 percent in tax revenue. In the medium term, total revenue is projected to grow by 41 percent from M8,906.2 million in 2010/11 to M12,561.9 million in 2013/14. The main contributors to this increase will be SACU which will grow by 70.5 percent from M2,6,27.9 million to M4,480.1 million in 2013/14 resulting from an expected rebound in imports, while tax revenue will grow by 37.5 percent from M3,469.0 million to M4,769.1 million.

3.4 For the past five years, assistance in the form of foreign grants has been increasing. Grant revenue has increased from M92.4 million in 2006/07 to M693.4 million in 2009/10. This was mainly due to an injection of M513.4 million for implementation of projects under Millennium Challenge Account (MCA) while the non-MCA grant was M180 million. The estimated grant for 2010/11 is M1,545.4 million which is an increase of about 123 percent from 2009/10. The increase was attributed to grants from other Development Partners including the Budget Support of M618.5 million. For the next three years 2011/12 to 2013/14, the grant revenue is expected to fall from M2,414.5 million in 2011/12 to M2,249.6 million in 2013/14. This is mainly due to winding up of the projects that are implemented by the MCA.

Table 10: Summary Fiscal Performance and Outlook, 2006/07-2013/14

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Revenue	**6464.5**	**7183.0**	**8888.5**	**9554.7**	**8906.2**	**10038.3**	**12115.2**	**12561.9**
1. Tax revenue	1907.4	2271.8	2858.0	3251.5	3469.0	3952.6	4349.2	4769.1
2. Social Contributions								
3. Grants	92.4	191.7	289.3	693.4	1498.4	2414.5	2480.3	2249.6
4. Other revenue	519.8	621.8	840.6	691.7	1310.9	918.6	998.7	1063.0
5. SACU	3945.0	4097.7	4900.6	4918.0	2627.9	2752.6	4287.0	4480.1
Expense	**-4684.1**	**-5361.4**	**-6518.8**	**-8325.2**	**-8224.8**	**-10082.8**	**-10155.2**	**-10537.4**
1. Compensation of Employees	-1584.4	-1898.0	-2329.1	-3136.8	-3253.0	-3907.5	-4085.9	-4367.7
2. Use of goods and services	-1594.8	-1771.7	-2331.4	-2566.5	-2575.2	-3064.2	-3249.9	-3284.3
4. Interest Payments	-308.1	-296.1	-118.9	-117.2	-89.6	-240.5	-265.5	-290.5
5. Subsidies	0.0	0.0	-204.0	-273.8	-233.7	-109.0	-115.5	-119.6
6. Grants	-670.7	-797.1	-771.0	-1001.5	-783.0	-1058.7	-1145.7	-1145.7
7. Social Benefits	-170.9	-223.0	-226.9	-556.1	-587.2	-621.7	-601.2	-613.5
8. Other expense	-355.2	-375.5	-537.5	-673.3	-703.1	-1081.1	-691.5	-716.1
Net Worth and its Changes	**-1680.6**	**-1519.2**	**-2001.2**	**-1917.4**	**-764.9**	**44.4**	**-1960.0**	**-2024.5**
1 Nonfinancial assets	-375.6	-549.4	-1179.3	-1757.2	-1986.6	-2669.8	-2980.8	-2821.9
2. Financial assets	-1369.1	-989.9	-365.8	177.7	1042.2	1458.9	-378.0	-271.9
3. Liabilities	64.1	20.1	-456.1	-338.0	179.5	1255.2	1398.8	1069.3
Analytical Measures								
Gross operating balance	1780.4	1821.6	2369.7	1229.5	681.4	-44.4	1960.0	2024.5
Net lending/borrowing	1404.8	1272.2	1190.5	-527.6	-1305.2	-2714.2	-1020.8	-797.5
Overall fiscal balance	1414.2	1284.9	1191.6	-527.6	-1305.2	-2709.5	-1017.1	-795.6
Fiscal Deficit (GoL)	1412.9	1283.2	588.7	-778.5	-1643.3	-2712.3	-1018.7	-797.2
Overall fiscal balance (financing side)	1314.4	982.5	823.1	160.3	-1221.7	-2709.5	-1017.1	-795.6
MTFF fiscal balance (financing side)	1313.1	980.9	220.2	-90.6	-1559.8	-2712.3	-1018.7	-797.2
As a per cent of GDP:								
Overall fiscal balance	14.2%	11.0%	8.8%	-3.5%	-8.2%	-15.0%	-5.1%	-3.7%
Fiscal Deficit (GoL)	14.2%	11.0%	4.3%	-5.2%	-10.3%	-15.0%	-5.1%	-3.7%
Overall fiscal balance (financing side)	13.2%	8.4%	6.1%	1.1%	-7.7%	-15.0%	-5.1%	-3.7%
MTFF fiscal balance (financing side)	13.2%	8.4%	6.1%	1.1%	-7.7%	-15.0%	-5.1%	-3.7%

Expenditure

3.5 The revenue increase between 2006/07 and 2009/10 fiscal years created room for Government to accordingly expand its development agenda. This resulted in total expenditure increasing by an average of 20.5 percent during the same period. The biggest expenditures were on compensation of employees and use of goods and services which increased by 98 and 61 percent, respectively. Subventions to extra budgetary units increased by 11 percent in 2007/08 from M382 million to M424.5 million but started to decline in 2008/09 through 2010/11. Furthermore, Student loans administered by the National Manpower Development, increased by an average of M623.1 million in the medium-term.

3.6 In 2010/11, with the drop in revenue, the Government maintained recurrent budget below levels of 2009/10. Use of goods and services was specifically cut by 4.6 percent. Furthermore, new positions were frozen to maintain the wage bill constant in real terms.

3.7 Nonfinancial assets were initially budgeted at M1, 688.9 million and increased through a supplementary budget by M250 million in the course of the year. As a result there was an overall increase of 10.9 percent in capital budget in 2010/11.

3.8 In the medium term, the total recurrent expenditure is forecasted to grow minimally from M6,817.1 million in 2010/11 to M8,346.5 million in 2013/14. Other than the Government's commitment for the operation of the new referral hospital, use of goods and services is generally budgeted to decrease in nominal terms from 2010/2011 in most categories. Compensation of employees is budgeted not to include substantial salary increases but to adjust wages and salaries to the cost of living (inflation-indexing). Nonfinancial assets are forecasted to increase by 39.4 percent from M1,986.6 million in 2010/11 to M2,422.6 million in 2013/14. The drop in 2013/2014 is due to the unwinding of the Millennium Challenge Corporation.

3.9 The capital expenditure increased from M1,252.1 million in 2006/07 to M3,450.4 million in 2009/10. There was a particularly large increase of 60 percent in

2009/10 from 2008/09 following an increase of M800 million by Government. There was also over a M300 million increase in capital grants. The recent trends in capital budget are attributable to MCA funding.

3.10 Nonfinancial assets are forecasted to increase by 42.1 percent from M1,986.6 million in 2010/11 to M2,821.9 million in 2013/14. The drop in 2013/2014 is due to the unwinding of the Millennium Challenge Corporation

3.11 The expected rebound of revenue in the medium term, coupled with the announced government policy to restrain expenditure, especially of the recurrent nature, have implications for a reduced deficit, from 8,2 percent in 2010/11 to 3.7 percent in 2013/14.

Financing

3.12 Government deposits declined during 2009/2010 and 2010/2011 and are predicted to continue to fall, while financial liability increase, both for capital projects and due to the new Bond issuance program of the government. This is due to the need to finance the government deficit.

3.13 In the past years Lesotho has been a net creditor to the Banking sector as its deposits consistently exceeded its obligations. The deposits accumulated from M1,367.8 million in 2006/07 to M363.0 million in 2008/09. A significant growth of M1,367.8 million was realized in 2006/07 as a result of a substantial increase in SACU receipts. 2009/10 however, saw a reversal of this trend where deposits were reduced heavily to M178.6 to finance the fiscal deficit. Deposits are projected to decline further in 2010/11 and 2011/12 but are expected to rebound to M380.1 million in 2012/13 and to M272.1 million and this will cushion the reserve level suitable for maintaining the Loti/rand peg.

Table 11: Financing Account, 2006/07 – 2013/14

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Net Worth and its Changes	**-1680.6**	**-1519.2**	**-2001.2**	**-1917.4**	**-764.9**	**44.4**	**-1960.0**	**-2024.5**
Nonfinancial assets	-375.6	-549.4	-1179.3	-1757.2	-1986.6	-2669.8	-2980.8	-2821.9
Financial assets	-1369.1	-989.9	-365.8	177.7	1042.2	1458.9	-378.0	-271.9
Domestic	-1367.8	-988.2	-363.0	178.6	1042.3	1461.7	-376.4	-270.2
Deposits[2]	-1377.2	-1001.0	-364.1	178.6	1042.3	1457.0	-380.1	-272.1
Loans	9.4	12.7	1.1	0.0	0.0	4.7	3.7	1.9
Capital Subscriptions	-1.3	-1.6	-2.9	-0.9	0.0	-2.8	-1.6	-1.6
Financial Liabilities	64.1	20.1	-456.1	-338.0	179.5	1255.2	1398.8	1069.3
Domestic	111.1	-13.9	-628.6	-357.5	-128.8	500.0	244.6	245.5
Securities	55.9	-53.1	28.4	-138.5	255.4	500.0	244.6	245.5
Loans	55.2	39.2	-57.0	30.9	-46.2	0.0	0.0	0.0
Pension Liabilities	0.0	0.0	-600.0	-250.0	-338.1	0.0	0.0	0.0
Foreign	-47.0	33.9	172.5	19.5	308.3	755.2	1154.2	823.8
Loans	-47.0	33.9	172.5	19.5	308.3	755.2	1154.2	823.8
Disbursements	182.0	220.6	409.3	273.5	504.7	1040.0	1451.9	1146.9
Repayments	-229.0	-186.6	-236.8	-254.0	-196.4	-284.7	-297.8	-323.1

[2] A positive number indicates that Government is drawing down or decreasing its deposits in order to finance expenditure while a negative number indicates that Government is increasing its level of deposits.

Chapter 4:

4 Monetary Survey

4.1 Lesotho is a member of the Common Monetary Area (CMA), with Namibia, Swaziland and South Africa. In terms of the CMA agreement, the national currency, the loti, continues to be fixed at par to the Rand. The latter is also recognized as the legal tender and is allowed to co-circulate with the loti in Lesotho. Though the arrangement facilitates transactions between the CMA member countries, it limits the scope for an independent monetary policy. However, there is still role for effective monetary management.

4.2 Lesotho's monetary policy therefore continues to focus on preserving the loti/rand peg. This is achieved by maintaining an adequate level of net international reserves (NIR) which is currently US$650 million- US$700 million. Since the signing of the Extended Credit Facility (in May 2010), the level of international reserves have been pushed above the normal target. For the period January to March 2011, the agreed minimum stock of NIR (between IMF and the government of Lesotho) is US$796 million.

4.3 In Lesotho, the preferred money supply variable is M2, which includes all liabilities of the banking system, defined as the sum of narrow money (M1) and quasi money. M2 is also defined as net foreign assets plus net domestic credit less other items net. The other items net constitutes a small part of M2 and it is comprised of mainly unclassified assets and liabilities of the central bank.

Table 12: Monetary Aggregates, 2007/08 – 2012/13

	FY06/07	FY07/08	FY08/09	FY09/10	FY10/11	FY11/12	FY12/13	FY13/14
Foreign Assets (net)	**-7159.3**	**-9258.6**	**-11392.8**	**-10740.3**	**-9724.2**	**-8055.4**	**-8347.4**	**-8212.0**
Net foreign assets-Central Bank of Lesotho	-5326.8	-6887.2	-8191.2	-7457.8	-5763.6	-4165.1	-4664.4	-5056.4
Foreign assets-CBL	-5942.6	-7560.4	-8921.9	-8129.2	-6388.5	-4956.7	-5456.0	-5848.1
Foreign liabilities-CBL	615.8	673.2	730.8	671.3	624.9	791.6	791.6	791.6
Net foreign assets-Commercial Banks	-1832.4	-2371.4	-3201.6	-3282.5	-3960.6	-3890.4	-3683.0	-3155.6
Foreign assets	-1969.6	-2448.4	-3333.3	-3345.1	0.0			
Foreign liabilities	137.2	77.0	131.7	62.6	0.0			
Domestic Credit	**1276.9**	**1930.6**	**2045.8**	**1770.8**	**287.8**	**-2344.3**	**-2747.6**	**-3298.5**
Claims on central government (net)	2275.3	3273.8	3645.7	3637.5	2550.3	426.6	562.0	588.7
Claims on official entities	-17.6	-50.1	-40.0	-30.6	0.0	-27.7	-29.7	-25.6
Claims on private sector	-970.7	-1267.0	-1559.8	-1836.1	-2262.5	-2743.2	-3280.0	-3861.5
Claims on other banking institutions	-10.0	-26.0	0.0	0.0	0.0	0.0	0.0	0.0
Money (M2)	**3701.7**	**4140.2**	**5451.9**	**6059.2**	**6753.7**	**7878.1**	**8465.8**	**8820.3**
Money (M1)	**2813.2**	**3076.2**	**4360.6**	**4538.9**	**5014.2**	**6036.2**	**6527.1**	**6786.9**
Quasi Money	**888.5**	**1063.9**	**1091.3**	**1520.3**	**1739.6**	**1842.0**	**1938.7**	**2033.4**
Capital Accounts	**2399.5**	**3240.8**	**3852.2**	**2474.7**	**2375.3**	**2432.8**	**2542.5**	**2652.2**
Capital accounts-Central Bank of Lesotho	2040.8	2781.7	3331.6	1801.3	1621.5	1756.0	1821.6	1887.3
Capital accounts-Commercial Banks	358.7	459.1	520.7	673.4	753.8	676.9	720.9	765.0
Other Items (net)	**-218.9**	**-53.0**	**42.8**	**435.7**	**307.4**	**88.8**	**86.7**	**37.9**

Net Foreign Assets

4.4 Total net foreign assets of the banking system increased by 50 percent from 2006/07 through 2009/10. This was a result of the increase in both the net foreign assets (NFA) of the Central bank (which grew 40 percent) and commercial banks (which grew by 79.1 percent). The growth in NFA of the CBL was mainly from the high export earnings, revaluation gains and recapitalization whereas the commercial bank's increase emanated from the growth in deposits invested in

South African investment instruments. 2009/10 however, saw a decline of -5.7 percent which was a result of -9.0 percent decline in NFA of the CBL following the secondary effects of the recent economic downturn which impacted negatively on the export sector thereby reducing the government's ability to acquire foreign assets.

4.5 The NFA of commercial banks is expected to fluctuate in the medium-term, while the NFA of the CBL is forecasted to decline by 22.7 and 27.7 in 2010/11 and 2011/12 respectively and increase by 12.0 and 8.4 in 2012/13, 2013/14 respectively. The numbers reflect government's commitment to significantly review its expenditure in order to maintain the financial assets.

Net Domestic Assets

4.6 Since early 2000s, the financial sector has implemented various reforms intended to encourage a more insistent lending policy as it was evident that banks were unwilling to extend credit to the private sector. The reforms included the establishment of the commercial court, passing of the Financial Institution Act and the Central Bank Act, and also measures to remove structural rigidities in the financial sector and provision of in-house credit bureau services.

4.7 Since 2006/07, government has been consistently increasing its net bank balances reaching a peak in 2008/09. However, 2009/10 saw a reversal of this trend recording a decline of 0.2 percent in government's net bank balances. This was a result of the government's withdrawals to finance capital expenditure in a quest to stimulate the economy. In 2010/11 and 2011/12, Government's balances are forecasted to decline further as government draws down its deposits to finance the projected deficit. The trend is projected to reverse in 2012/13.

4.8 On the other-hand credit to the private sector has been increasing over the review period and is projected to continue with this positive trend in the medium-term. This indicates that banks are responding positively to the financial reforms that have been pursued since the beginning of the new millennium.

Chapter 5:

5 Prices

5.1 Inflation

5.1.1 The rate of inflation as measured by the changes in the CPI, indicates a rise in consumer index. In Lesotho, inflation is driven primarily by price developments in South Africa, which supplies about 90 percent of Lesotho's imports for final consumption. In 2007/08, inflation increased substantially by 9.2 percent from 6.4 percent recorded in 2006/07 as a result of the 2007 global food and oil price surge. Recent studies indicate that the demand shock from bio-fuels (due to diversion of crops to produce bio-fuels), coincided with weather induced production declines in a number of major producing countries resulting in the surge in food prices. The 2007/08 price hikes persisted throughout 2008/09 where the annual inflation rate recorded a high of 10.7 percent as shown the table below. However, 2009/10 saw a reversal of this trend registering 5.7 percent on the back of the global economic slowdown.

Table 13: Price Indicators, 2007-2013

	FY06/07	FY07/08	FY08/09	FY09/10	FY10/11	FY11/12	FY12/13	FY13/14
Prices								
Cpi index	146.48	159.92	176.95	186.97	194.50	205.95	216.76	227.35
Cpi projection	6.37%	9.17%	10.65%	5.66%	4.03%	5.89%	5.25%	4.89%
Import Price Index	108.89	117.74	130.87	139.31	147.15	155.62	164.13	172.65
Import Inflation		8.13%	11.16%	6.45%	5.63%	5.75%	5.47%	5.19%
Exchange rate (M / US$)	7.12	7.18	8.72	7.69	7.12	7.32	7.50	7.66
Interest rate (91 day bills)	6.96%	8.28%	9.87%	8.50%	7.00%	7.00%	7.00%	7.00%

5.1.2 In 2010/11, inflation is expected to decline to 4.0 percent from 5.7 percent registered in 2009/10 due to subdued inflationary pressures from the leading world economies. Inflation is expected to remain significantly lower than the 2008/09 level throughout the medium-term.

5.2 Interest Rates

5.2.1 In 2007/08, the TB rate increased by 130 basis points to 8.3 percent from 7.0 percent registered in 2006/07. The upward trend continued in 2008/09 where it reached 9.9 percent. These increases were a result of multiple hikes of the repo rate[3] by the SARB in their bid to contain the inflation pressures which in turn influenced the commercial banks in both Lesotho and South Africa to hike their lending and deposit rates.

5.2.2 As a result of the loosening of the monetary policy by the South African Reserve Bank (SARB), which saw the repo rate being cut to its lowest level (6.50 with effect from March 2010) since introduction of the inflation targeting monetary regime in 2000, major money market rates in Lesotho followed the downward trend as well. The TB rate registered 8.5 percent in 2009/10, down from 9.9 percent in 2008/09.

5.2.3 The TB rate is expected to stabilize at around 7.0 percent in the medium term as inflationary pressures ease. In general the decline in the interest rate implies improved consumption and production indicators. However the commercial bank's profitability will be reduced as they derive most of their interest income from holding Government securities.

5.3 Exchange Rate

5.3.1 The Loti continues to be pegged at par to the rand. This arrangement augurs well for the Lesotho economy as it facilitates trade, investment and cross border activities. However it limits the scope for an independent Monetary Policy.

5.3.2 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. Therefore the Loti annual average exchange rate against the US dollar

[3] 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.

plays a major role in assessing our competitiveness vis-à-vis the rest of the world. The exchange rate between the Loti and the US dollar are shown in table 9 above. The loti depreciated by 11.4 percent in 2006/07 registering 7.12 against the dollar from the strong position in 2005/06, where the exchange rate was 6.39. This was driven by the relative strength of the US dollar despite the growing concern of the US economic downturn. Though the loti continued to depreciate in 2007/08, though by a smaller margin compared to the previous year. The SARB's adjustment of the repo rate by 50 basis points in December 2007 (to curb the inflation rate resulting from the 2007 food and fuel price surge), had a positive impact on the exchange rate leading to a marginal depreciation of 0.8 percent. In 2008/09, the Loti depreciated further by 21.5 percent recording 8.72 against the US dollar from 7.18 in 2007/08. However, 2009/10 experienced a reversal of this trend as the exchange rate appreciated strongly by 11.8 percent, closing the year with an annual average exchange rate of 7.69 against the US dollar. This was a consequence of a high interest rate (due to multiple hikes of the repo rate by the SARB) in response to high inflation rate which was way above the South African target. The high interest rate continued to enhance attractiveness of the rand denominated assets and therefore attracted portfolio investment flows into the SA economy.

5.3.3 Though the Loti exchange rate is forecasted to depreciate slightly, it is expected to stabilize below 8.0 due to the anticipated strong export performance as a result of the continuing recovery in commodity prices. The Loti-rand exchange rate is projected to register 7.12, 7.32 and 7.50 in 2010/11, 2011/12 and 2012/13 respectively.

5.3.4 It is therefore important to note that, the relatively strong rand could impact negatively on the ailing textiles and clothing sector, the mining sector as well as the gold mining sector in South Africa thus leading to layoffs.

Chapter 6:

6 Conclusions

6.1. The impact of the global financial and economic crisis has been very severe on the Government's revenue as well as on the balance of payments. It has undermined progress made in macroeconomic management since 2003/04 with a reversal to a financial stress that now demands an immediate fiscal consolidation to protect the country from plunging into a financial crisis given the role of fiscal policy in the country's economy.

6.2. The situation calls for improvements in domestic revenue mobilization as well as in the quality and efficiency of the national budget in order to help improve public service delivery and support the private sector development for competitiveness and productivity. It also means the need for enhancement in the execution of the budget to speed up public sector reforms that started several years ago so that the country can catch up with other reformers in the world.

6.3. The developments affecting the SACU receipts should represent a lesson that exogenous benefits are naturally not reliable and subject to influences over which Lesotho does not have any control. Future use of SACU receipts should therefore be directed to strategic investment areas that will help with sustainable economic development.

6.4. Another important challenge to Lesotho, being a member of the Common Monetary Area, is the extent to which it is able to preserve adequate foreign reserve levels which are critical to support its peg to the rand. This is fundamental to Lesotho's economy to continue taking advantage of the positive developments in South Africa in the areas of price stability, interest rates, and foreign exchange rate stability that continues to preserve investor confidence.

6.5. The conclusive challenge is for Lesotho to speed up its fiscal consolidation programme so that Government can continue with its objective of promoting high shared economic growth and protection of the vulnerable sections of the society.

7 Annex: Tables

Table 14: National Accounts

	FY06/07	FY07/08	FY08/09	FY09/10	FY10/11	FY11/12	FY12/13	FY13/14
Industry Constant Prices								
Agriculture	-8.1%	2.3%	10.5%	6.5%	0.2%	0.2%	0.2%	0.2%
Crops	-7.4%	-9.4%	-0.6%	3.6%	0.2%	0.2%	0.2%	0.2%
Livestock	-11.2%	10.2%	15.7%	10.5%	0.2%	0.2%	0.2%	0.2%
Services	2.2%	-11.1%	25.7%	-20.3%	0.0%	0.0%	0.0%	0.0%
Forestry	0.7%	2.3%	1.2%	6.2%	0.2%	0.2%	0.2%	0.2%
Mining and quarrying	28.2%	33.6%	0.6%	0.0%	14.1%	11.6%	49.6%	12.0%
Primary industries	**0.4%**	**11.7%**	**7.0%**	**4.3%**	**4.6%**	**4.2%**	**18.7%**	**5.8%**
Manufacturing	6.7%	1.9%	1.0%	-5.1%	6.0%	4.2%	4.1%	4.1%
Food products and beverages	2.7%	6.6%	2.8%	3.4%	0.7%	3.9%	0.5%	-0.9%
Textiles, clothing, footwear and leather	6.7%	-2.2%	-3.6%	-9.7%	6.3%	3.2%	3.6%	4.0%
Other manufacturing	12.2%	20.3%	21.0%	4.7%	10.2%	8.0%	8.6%	8.4%
Electricity and water	4.7%	3.0%	2.1%	3.2%	2.8%	3.2%	3.0%	2.7%
Electricity	11.7%	6.5%	1.7%	3.8%	7.3%	7.4%	7.2%	6.9%
Water	1.9%	1.5%	2.2%	2.9%	0.7%	1.2%	0.8%	0.4%
Construction	-0.3%	4.2%	8.3%	10.0%	3.5%	12.2%	4.9%	4.6%
Secondary industries	**5.1%**	**2.5%**	**2.4%**	**-1.0%**	**4.9%**	**5.6%**	**4.1%**	**4.0%**
Wholesale and retail trade, repairs	4.3%	4.1%	2.4%	-3.0%	0.7%	3.9%	0.5%	-0.9%
Hotels and restaurants	3.7%	-2.4%	2.5%	2.5%	0.7%	3.9%	0.5%	-0.9%
Transport, and communication	11.1%	11.3%	11.0%	11.5%	0.7%	3.9%	0.5%	-0.9%
Transport and storage	0.9%	2.5%	3.7%	0.7%	0.7%	3.9%	0.5%	-0.9%
Post and telecommunications	21.4%	18.8%	16.3%	18.5%	0.7%	3.9%	0.5%	-0.9%
Financial intermediation	20.1%	14.6%	13.8%	15.6%	0.7%	3.9%	0.5%	-0.9%
Real estate and business services	1.5%	1.6%	1.9%	3.2%	1.5%	2.8%	1.4%	0.8%
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	0.9%	1.1%	1.7%	5.1%	0.7%	3.9%	0.5%	-0.9%
Public administration	4.4%	3.2%	3.2%	4.2%	-0.5%	-0.2%	1.1%	1.1%
Education	1.8%	-2.8%	-1.5%	-1.4%	-0.5%	-0.2%	1.1%	1.1%
Health and social work	1.8%	-0.8%	1.5%	6.6%	-0.5%	-0.2%	1.1%	1.1%
Community, social and personal services	2.4%	1.7%	1.7%	0.7%	0.7%	3.9%	0.5%	-0.9%
Tertiary industries	**5.1%**	**3.7%**	**4.1%**	**4.5%**	**0.5%**	**2.3%**	**0.9%**	**0.2%**
Financial services indirectly measured	38.4%	33.7%	25.4%	18.5%	0.7%	3.9%	0.5%	-0.9%
All industries at producers' prices	**4.2%**	**4.0%**	**3.6%**	**2.7%**	**2.3%**	**3.4%**	**4.3%**	**2.2%**
Net taxes on products	7.9%	7.3%	7.2%	3.9%	2.3%	3.4%	4.3%	2.2%
Subsidies on products	3.8%	-5.6%	-8.4%	-19.5%	6.3%	3.2%	3.6%	4.0%
GDP at purchasers' prices	**4.7%**	**4.5%**	**4.2%**	**3.1%**	**2.2%**	**3.4%**	**4.3%**	**2.1%**

Table 15: Depository Corporation Survey

	FY06/07	FY07/08	FY08/09	FY09/10	FY10/11	FY11/12	FY12/13	FY13/14
Foreign Assets (net)	**-7159.3**	**-9258.6**	**-11392.8**	**-10740.3**	**-9724.2**	**-8055.4**	**-8347.4**	**-8212.0**
Net foreign assets-Central Bank of Lesotho	-5326.8	-6887.2	-8191.2	-7457.8	-5763.6	-4165.1	-4664.4	-5056.4
Foreign assets-CBL	-5942.6	-7560.4	-8921.9	-8129.2	-6388.5	-4956.7	-5456.0	-5848.1
Foreign liabilities-CBL	615.8	673.2	730.8	671.3	624.9	791.6	791.6	791.6
Net foreign assets-Commercial Banks	-1832.4	-2371.4	-3201.6	-3282.5	-3960.6	-3890.4	-3683.0	-3155.6
Foreign assets	-1969.6	-2448.4	-3333.3	-3345.1	0.0			
Foreign liabilities	137.2	77.0	131.7	62.6	0.0			
Domestic Credit	**1276.9**	**1930.6**	**2045.8**	**1770.8**	**287.8**	**-2344.3**	**-2747.6**	**-3298.5**
Claims on central government (net)	2275.3	3273.8	3645.7	3637.5	2550.3	426.6	562.0	588.7
Claims on official entities	-17.6	-50.1	-40.0	-30.6	0.0	-27.7	-29.7	-25.6
Claims on private sector	-970.7	-1267.0	-1559.8	-1836.1	-2262.5	-2743.2	-3280.0	-3861.5
Claims on other banking institutions	-10.0	-26.0	0.0	0.0	0.0	0.0	0.0	0.0
Money (M2)	**3701.7**	**4140.2**	**5451.9**	**6059.2**	**6753.7**	**7878.1**	**8465.8**	**8820.3**
Money (M1)	**2813.2**	**3076.2**	**4360.6**	**4538.9**	**5014.2**	**6036.2**	**6527.1**	**6786.9**
Quasi Money	**888.5**	**1063.9**	**1091.3**	**1520.3**	**1739.6**	**1842.0**	**1938.7**	**2033.4**
Capital Accounts	**2399.5**	**3240.8**	**3852.2**	**2474.7**	**2375.3**	**2432.8**	**2542.5**	**2652.2**
Capital accounts-Central Bank of Lesotho	2040.8	2781.7	3331.6	1801.3	1621.5	1756.0	1821.6	1887.3
Capital accounts-Commercial Banks	358.7	459.1	520.7	673.4	753.8	676.9	720.9	765.0
Other Items (net)	**-218.9**	**-53.0**	**42.8**	**435.7**	**307.4**	**88.8**	**86.7**	**37.9**

Table 16: Revenue

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Revenue	**6464.5**	**7183.0**	**8888.5**	**9554.7**	**8906.2**	**10038.3**	**12115.2**	**12561.9**
1. Tax revenue	1907.4	2271.8	2858.0	3251.5	3469.0	3952.6	4349.2	4769.1
1.1. Taxes on income, profits, and capital gains	970.7	1216.4	1538.5	1772.4	1940.7	2212.5	2467.6	2787.0
1.1.1. Income tax - payable by individuals	629.5	785.4	850.7	866.2	1128.3	1322.1	1421.2	1525.2
1.1.2. Income tax - payable by corporations	199.6	293.7	383.3	694.0	428.3	480.3	564.6	707.7
1.1.3. Income tax – other	141.7	137.4	304.5	212.2	384.2	410.1	481.7	554.1
1.3. Taxes on property	66.5	0.0	74.6	95.7	100.0	106.1	119.8	132.4
1.3.2. Recurrent taxes on net wealth	66.4	0.0	74.6	95.7	100.0	106.1	119.8	132.4
1.4. Taxes on goods and services	788.5	977.5	1097.7	1289.0	1401.1	1600.7	1710.2	1790.2
1.4.1. General taxes on goods and services	714.6	847.9	987.7	1035.0	1244.0	1435.0	1525.3	1588.8
1.4.2. Excise taxes	65.6	118.1	98.9	242.7	131.9	152.2	170.4	186.3
1.4.4. Taxes on specific services	2.9	5.5	5.0	8.2	20.7	8.4	9.6	10.4
1.4.5. Taxes on the use of goods and on permissions	5.5	6.1	6.1	3.0	4.5	5.0	4.9	4.7
1.5. Taxes on international trade and transactions	73.3	71.2	139.2	90.3	26.1	30.8	48.2	56.5
1.5.2. Taxes on exports	73.3	71.2	139.2	90.3	26.1			
1.6. Other taxes	8.4	6.6	8.0	4.2	1.1	2.4	3.3	3.0
1.6.3. Other taxes: stamp taxes	8.4	6.6	8.0	4.2	1.1			
3. Grants	**92.4**	**191.7**	**289.3**	**693.4**	**1498.4**	**2414.5**	**2480.3**	**2249.6**
3.1. From foreign governments & international orgs.	92.4	191.7	289.3	693.4	1498.4	2414.5	2480.3	2249.6
4. Other revenue	**519.8**	**621.8**	**840.6**	**691.7**	**1310.9**	**918.6**	**998.7**	**1063.0**
4.1. Property income	78.2	107.5	376.9	128.6	640.3	196.3	219.9	242.4
4.1.1. Interest	5.0	7.3	10.5	7.4	7.5	7.5	8.0	8.2
4.1.2. Dividends	69.8	96.9	362.4	117.5	630.3	185.4	208.5	230.8
4.1.5. Rent	3.3	3.3	4.0	3.7	2.6	3.4	3.4	3.4
4.2. Sales of goods and services	412.9	446.9	420.0	502.2	615.2	670.2	719.7	764.2
4.2.1. Sales by market establishments	333.1	383.6	351.2	430.9	538.3	581.5	620.4	655.6
4.2.2. Administrative fees	27.0	28.0	26.6	27.5	29.4	34.0	38.0	41.6
4.2.3. Incidental sales by nonmarket establishments	52.8	35.3	42.2	43.7	47.4	54.7	61.3	67.0
4.3. Fines & forfeits	17.1	0.8	1.4	6.5	7.0	7.4	7.8	8.1
4.5. Miscellaneous and unidentified revenue	11.6	66.7	42.4	54.5	48.4	44.7	51.3	48.3
5. SACU	**3945.0**	**4097.7**	**4900.6**	**4918.0**	**2627.9**	**2752.6**	**4287.0**	**4480.1**

Table 17: Expenses Recurrent Budget

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Expense (current budget)	-4232.8	-4649.7	-5728.0	-6949.0	-6817.1	-8008.8	-7837.9	-8346.5
Compensation of Employees	-1521.3	-1820.3	-2203.5	-2989.6	-3051.9	-3632.5	-3778.6	-4077.2
Wages and salaries	-1394.9	-1653.1	-2017.7	-2527.3	-2570.7	-3154.1	-3271.9	-3532.1
Employer contributions	-126.4	-167.2	-185.7	-462.3	-481.2	-478.4	-506.7	-545.0
Use of goods and services	-1356.3	-1330.2	-1874.9	-1806.5	-1724.2	-1864.6	-1909.6	-2017.1
Interest Payments	-308.1	-296.1	-118.9	-117.2	-89.6	-240.5	-265.5	-290.5
Nonresidents	-266.7	-246.6	-65.8	-66.1	-52.4	-73.7	-73.7	-73.7
Residents other than general government	-41.4	-49.5	-53.1	-51.1	-37.2	-166.8	-191.8	-216.8
Subsidies	0.0	0.0	-204.0	-267.4	-217.3	-95.8	-100.8	-105.7
Grants	-545.6	-647.3	-564.8	-607.2	-548.4	-574.2	-604.3	-633.9
Foreign Governments	0.0	0.0	-5.0	0.0	0.0	0.0	0.0	0.0
International organizations	-30.2	-5.5	-19.3	-13.4	-18.5	-19.6	-20.6	-21.6
Extra Budgetary Units	-382.0	-424.5	-364.7	-363.5	-290.7	-368.6	-388.0	-407.0
Local Government	-133.4	-217.3	-175.8	-230.2	-239.2	-185.9	-195.7	-205.3
Social benefits	-170.9	-223.0	-226.9	-541.7	-572.4	-604.8	-582.3	-595.6
Other expense	-330.6	-332.7	-535.1	-619.4	-613.3	-996.4	-596.8	-626.6
Student Grants	-280.0	-280.0	-350.0	-588.0	-595.1	-717.5	-575.8	-604.0
Household - other	-49.8	-48.4	-155.5	0.0	0.0	0.0	0.0	0.0
Other expense	-0.8	-4.3	-29.6	-31.4	-18.2	-278.9	-21.0	-22.6

Table 18: Goods and Services (Recurrent Budget)

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Food and Beverages				-95.9	-88.7	-81.2	-86.0	-91.1
Fuel and Lubricants	-73.7	-88.9	-138.3	-79.7	-79.7	-65.6	-69.5	-73.6
Printing	-7.7	-14.0	-14.3	-21.8	-9.8	-30.2	-32.0	-33.8
Stationery	-22.6	-16.5	-26.1	-36.1	-32.0	-30.2	-31.9	-33.8
Books and Publications	-10.3	-0.8	-10.3	-29.9	-0.8	-9.1	-9.6	-10.2
Health care materials	-45.4	-54.5	-84.9	-151.7	-189.7	-253.5	-268.5	-284.3
Ammunition				-26.2	-14.4	-11.3	-12.0	-12.7
Purchases of Materials	-85.7	-93.2	-116.7	-359.0	-273.1	-196.4	-208.0	-220.2
Vehicle Maintenance and Repairs	-104.6	-105.1	-134.1	-147.8	-208.6	-122.8	-70.1	-74.2
Maintenance of Public Assets	-66.7	-89.3	-113.6	-95.8	-66.3	-74.6	-79.0	-83.7
Minor Works	-18.8	-26.9	-32.0	-36.1	-22.9	-23.0	-24.3	-25.8
Power	-38.5	-42.8	-56.7	-60.4	-66.1	-60.8	-64.3	-68.1
Water and Sewerage				-11.9	-15.4	-20.4	-21.6	-22.9
Communications	-50.5	-58.1	-71.0	-72.3	-80.4	-57.2	-60.6	-64.2
Fares Local	-1.9	-2.2	-3.3	-4.0	-1.4	-1.9	-2.0	-2.1
Fares International	-32.3	-41.9	-57.8	-56.7	-55.5	-54.9	-58.1	-61.5
Subsistence Local	-36.5	-49.7	-68.7	-74.1	-63.4	-59.4	-62.9	-66.6
Subsistence International	-27.9	-37.5	-57.2	-61.5	-47.5	-41.3	-43.8	-46.3
Freight Charges	-3.9	-4.2	-6.5	-6.6	-5.3	-9.9	-10.5	-11.1
Short Term Hire of Vehicles	-14.7	-29.8	-75.4	-14.9	-6.6	-5.3	-5.6	-6.0
Other transport costs	-0.8	-0.5	-1.4	-1.7	-0.4	-1.1	-1.1	-1.2
Finance costs (bank charges)				-0.9	0.0	-1.1	-1.2	-1.3
Rent of buildings				-104.3	-114.5	-112.3	-118.9	-125.9
Business services & subscriptions				-21.2	-11.9	-25.7	-27.3	-28.9
Training Costs	-4.7	-6.8	-7.6	-43.9	-6.4	-7.9	-8.3	-8.8
Health care services				-125.7	-178.3	-352.3	-373.0	-395.0
Membership Subscriptions				-58.9	-76.2	-49.6	-52.5	-55.6
Official gifts and entertainment	-4.9	-5.7	-8.5	-7.4	-9.0	-6.6	-6.9	-7.4
Miscellaneous	-704.0	-561.6	-790.4	0.0	0.0	-98.9	-99.8	-100.8
Total	-1356.3	-1330.2	-1874.9	-1806.5	-1724.2	-1864.6	-1909.6	-2017.1

Table 19: Financing

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Net Worth and its Changes	**-1680.6**	**-1519.2**	**-2001.2**	**-1917.4**	**-764.9**	**44.4**	**-1960.0**	**-2024.5**
Nonfinancial assets	-375.6	-549.4	-1179.3	-1757.2	-1986.6	-2669.8	-2980.8	-2821.9
Financial assets	-1369.1	-989.9	-365.8	177.7	1042.2	1458.9	-378.0	-271.9
Domestic	-1367.8	-988.2	-363.0	178.6	1042.3	1461.7	-376.4	-270.2
Deposits	-1377.2	-1001.0	-364.1	178.6	1042.3	1457.0	-380.1	-272.1
Loans	9.4	12.7	1.1	0.0	0.0	4.7	3.7	1.9
Capital Subscriptions	-1.3	-1.6	-2.9	-0.9	0.0	-2.8	-1.6	-1.6
Financial Liabilities	64.1	20.1	-456.1	-338.0	179.5	1255.2	1398.8	1069.3
Domestic	111.1	-13.9	-628.6	-357.5	-128.8	500.0	244.6	245.5
Securities	55.9	-53.1	28.4	-138.5	255.4	500.0	244.6	245.5
Loans	55.2	39.2	-57.0	30.9	-46.2	0.0	0.0	0.0
Pension Liabilities	0.0	0.0	-600.0	-250.0	-338.1	0.0	0.0	0.0
Foreign	-47.0	33.9	172.5	19.5	308.3	755.2	1154.2	823.8
Loans	-47.0	33.9	172.5	19.5	308.3	755.2	1154.2	823.8
Disbursements	182.0	220.6	409.3	273.5	504.7	1040.0	1451.9	1146.9
Repayments	-229.0	-186.6	-236.8	-254.0	-196.4	-284.7	-297.8	-323.1

Table 20: Capital Budget

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Capital expenditure by source of funds	**755.5**	**1169.1**	**1742.2**	**3022.3**	**3351.7**	**4709.1**	**5261.7**	**4974.6**
Government of Lesotho	481.1	756.8	1111.8	2055.4	1988.0	1615.0	1699.7	1782.8
Foreign loans	182.0	220.6	409.3	273.5	266.7	769.6	1181.6	1042.2
Non-Metolong						629.3	662.3	694.7
Metolong					151.3	140.3	519.3	347.5
Foreign grants	92.4	191.7	221.1	693.4	1097.0	2324.5	2380.3	2149.6
non-MCA				180.0	618.5	1791.8	1885.9	1978.0
Millennium Challenge Account				513.4	478.5	532.7	494.4	171.6
Capital expenditure by type	**-755.6**	**-1168.9**	**-1742.4**	**-3022.3**	**-3351.7**	**-4709.1**	**-5261.7**	**-4974.6**
Expense	-451.3	-711.8	-790.7	-1376.2	-1407.7	-2074.0	-2317.3	-2190.9
Compensation of Employees	-63.0	-77.7	-125.6	-147.2	-201.1	-275.0	-307.3	-290.5
Use of goods and services	-238.6	-441.5	-456.5	-760.0	-851.1	-1199.6	-1340.4	-1267.2
Subsidies	0.0	0.0	0.0	-6.4	-16.4	-13.2	-14.7	-13.9
Transfers	-125.1	-149.7	-206.2	-394.3	-234.6	-484.5	-541.4	-511.9
Social benefits	0.0	0.0	0.0	-14.4	-14.8	-16.9	-18.9	-17.9
Other expense	-24.6	-42.8	-2.4	-53.8	-89.8	-84.7	-94.7	-89.5
Nonfinancial assets	-304.4	-457.1	-951.7	-1646.1	-1944.0	-2635.1	-2944.4	-2783.7