2015/16 Annual Public Debt Bulletin

Prepared by Department of Public Debt Management
Ministry of Finance

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1. Introduction

This public debt bulletin presents the major public debt management activities that took place between 2011/12 and 2015/16. It reports key data and ratios on the public debt portfolio and how those have been changing over the five years.

Section 2: addresses the framework for public debt management operations

Section 3: covers:

- Macroeconomic developments
- External debt borrowing
- Disbursements of external loans

Section 4: is an overview of the public debt portfolio and some risk indicators

Section 5: discusses debt service issues

Section 6: reports government guarantees

2. The Framework for Debt Management Operations

The objective of public debt management is to meet the government's financing needs at minimum cost and at a prudent degree of risk, whilst supporting the deepening and widening of the domestic financial market.

The Department of Public Debt Management within the Ministry of Finance is the institution with the primary responsibility for public debt management, while the domestic debt market is the responsibility of the Central Bank of Lesotho.

2.1 Legislative Arrangements

After the Debt Management Performance Assessment (DeMPA) exercise identified a number of weaknesses to the operations of debt management in Lesotho, the government in conjunction with the IMF reviewed the law that governs public borrowing and debt management policy as well as debt management institutional arrangements. This new law proposed to be named the Public Debt and Aid Management Act of 2016 is yet to be tabled before the National Assembly.

The Loans and Guarantees Act No. 15 of 1967 as amended by Act No. 14 of 1975 and No. 1 of 1976 guides debt management policy. The Act provides that only the Minister of Finance or anyone legally assigned by him/her on his behalf can negotiate loans and their conditions; make borrowings externally and enter into agreements with donors/ creditors on behalf of the government. In terms of external borrowings, the law provides a ceiling. For external debt the law "provides that the total sum outstanding at any time in respect of a loan……shall not exceed the audited total recurrent revenue for the last three years as recorded in the latest available estimates of revenue presented to the Assembly…..".

The decision to review this law was a result of a realisation that the Loans and Guarantees Act (LGA) of 1967 and its amendments not only needed modernisation but the legal framework governing debt management was made up of a number of laws with overlapping provisions. This resulted in inconsistencies and contradictions between the Loans and Guarantees Act 1967; the Local Loans Act (2001); and the Public Financial Management and Accountability Act (2011). An example of these inconsistencies regarding the borrowing powers is that under the LGA, the law clearly states that it is the Minister of Finance who has the power to negotiate and sign for loans on behalf of the government although under the Local Loans Act, there is no such a clear provision. Furthermore, the three laws were not comprehensive enough to include grants.

The new legislation will not only address these flaws regarding the old legislation but would also provide for the existence of a Fiscal Agency Agreement between the Ministry of Finance and the Central Bank of Lesotho in order to detail clearly what the roles of each institution are regarding management of domestic debt. This new law would also provide for the Department of Public Debt and Aid Management (DPDAM) to prepare for approval of cabinet a Medium Term Debt Strategy (MTDS) and a clear borrowing plan which would reflect government borrowing requirement for the medium term, which shall be reviewed on an annual basis.

2.2 Institutional Arrangements

The Department of Public Debt Management (DPDAM) is housed within the Ministry of Finance and is headed by the Director DPDAM, who is directly answerable to the Principal Secretary of the Ministry of Finance.

The department shall among its many functions prepare annually, the MTDS and a borrowing plan. The department would lead the negotiations of loans with the creditors; analyse and advise the minister accordingly regarding costs and risks associated with any potential borrowing. It will also be the function of the department to analyse and monitor debt levels in order to be in position to advise the minister as to the sustainability of public debt in Lesotho.

In order to effectively monitor debt levels and risks, there exists a Public Debt Management Committee whose function is to advise the minister of the formulation of the MTDS and debt reports. The committee will also advise the minister in matters relating to external and domestic borrowing. The Public Debt Management Technical Committee will make recommendations to the minister through the Public Debt Management Committee regarding government borrowing and issuance of debt securities by the Central Bank. The department also operates a system called the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) in which all debt transactions are recorded. This system allows the department to produce timely debt reports necessary for the monitoring of debt levels.

2.3 Role of the Central Bank of Lesotho

While the Central Bank of Lesotho's (CBL) principal objective is to achieve and maintain price stability, it plays an important role in debt management. It acts as a fiscal agent for the Government and this it achieves by selling through an auction, the treasury bills and bonds, as well as redeeming them. It is envisaged that the proposed debt management law will come into operation together with the fiscal agent agreement, which is currently in a draft form. This will spell out the working relationship between the Government of Lesotho and the CBL. The CBL has a system, the Central Depository System (CDS) that records all transaction from these domestic market operations.

3. Developments in the Past Year

3.1 Macroeconomic Development

Gross Domestic Product (GDP)

Real GDP grew at an average of 4.5 percent between 2011/12 and 2013/14, due to strong growth realised in mining, construction, financial intermediation, wholesale and retail trade and health and social welfare. In 2014/15, real GDP declined to 3.7 percent as a result of a decline in the construction activities that had come to completion especially Millennium Challenge Corporation (MCC) Projects and some of the major roads under construction were nearing completion. The medium term forecasts indicate an average real GDP growth of 2.7 percent due to moderate growth expected in financial intermediation, transport and communication, and agriculture. Though global economic recovery continues to be weak and uneven, it is expected to have a positive impact on mining.

Fiscal Balance

The deposits grew by LSL 816.1 million in 2014/15, as the fiscal balance turned to a surplus of 0.4 per cent of GDP from a deficit of 3.6 per cent in 2013/14. This followed the government policy to rebuild reserves to guard against future economic shocks. In the medium term, the deposits are projected to go down by LSL 1,138 million on average, following continued government's intentions to intensify implementation of NSDP coupled with an estimated nose-dive of LSL 779.7 million in SACU revenue during 2015/16.

The Current Account

In 2011/12, the current account balance registered a deficit of 16.4 percent as a share of GDP. The massive increase in the deficit is ascribed mainly to subdued current transfers due to low SACU receipts coupled with a substantial decline in income account and a broadened trade deficit. Between 2012/13 and 2013/14, the deficit improved by the average of 10.2 percent as a share of GDP at the back of an improvement in SACU receipts. Although trade deficit deteriorated tremendously in 2012/13 particularly due to construction related activities which increased imports, the recovery in current transfers counteracted the negative impact.

The current account deficit is expected to persist over the outlook period. This is to a large extent ascribed to a widening trade deficit mainly driven by final consumption of the private sector, government final consumption and gross fixed capital formation. The other factors underpinning the persistent increase in deficit are; expected decline in current transfers at the back of the anticipated decline in SACU receipts and the confined increase in income level due to high levels of investment income payments.

Inflation

Lesotho's production base is highly compensated by that of South Africa; therefore, most inflation developments in the former are assumed to draw down from the latter. Some other factors that continue to dominate the inflation movements domestically are food and nonalcoholic beverages, housing, clothing and footwear. Between 2011/12 and 2014/15, domestic inflation displayed on average terms a single digit of 5.3 percent. In 2015/16 it is expected to stay at 5.8 percent.

Revenue

Total Revenue

In 2011/12, total revenue amounted to LSL 9,627.2 million ensuing from tax revenue which assumed a greater share of total revenues. In 2012/13, it recuperated to LSL 13,144.9 million emanated from a recovery in SACU receipts that more than doubled and an upsurge in VAT which was brought by a rapid increase in construction activities and improvements in domestic shopping activity that led to increases in VAT. In 2013/14, it slightly increased to LSL 13,274.4 million and further increased to LSL 14,593.6 million in 2014/15 due to a significant improvement in SACU receipts.

From 2015/16 through 2017/18, total revenue is projected to increase by an annual average rate of 5.8 percent mainly due to continuous increases in tax revenues.

Tax Revenue

Tax revenue increased by an average of M4,675.6 million from 2011/12 through 2013/14 resulting from significant improvements in both income tax and value added tax (VAT) collections. This was attributable to expanded pool of VAT venders resulting from opening of new malls. A further increase in VAT collections resulted in tax revenue recording LSL 5,715.2 million in 2014/15. In 2015/16, tax revenue is estimated to rise to LSL 6,689.1 million due to an anticipated increase in VAT collections.

Taxes on Income, Profits, and Capital gains

Income tax recorded LSL 2,395.0 million in 2011/12 against the budget of LSL 2,212.5 million reflecting M136.1 million over performance. This was mainly due to private sector PAYE that grew by 44 percent. The mining and communications sectors submitted a large payment in corporate tax in March 2012, which reflected profitability in the midst of the global economic crisis. In 2012/13 however, taxes on income fell by LSL 205 million below the target of LSL 2,560 million. This also presented a decline from the previous year and was due to administration and wholesale sectors which did not meet their projected annual targets. There was a further under performance of LSL 458.1 million from the target of LSL 3,147.7 million in 2013/14. This low performance is attributed to, amongst others, the structural reforms within collecting agency which are assumed to improve collections with a lag.

The 2014/15 outturn declined by 13.3 percent against the target. Income tax is expected to grow at an average of 10.3 percent from 2015/16 through 2017/18 in line with economic growth and inflation. This is also in line with the assumption that the structural reforms will positively affect the collections in the medium term.

Excise Taxes

Excise taxes averaged around LSL 165.5 million between 2011/2012 and 2013/14 mainly influenced by growth in economic activity measured by cash GDP (GDP excluding Agriculture and Owner's dwelling).

The excise taxes amounted to LSL 206.7 million in 2014/15 and are projected to average LSL 412.9 million in the medium term. From 2015/16 through the medium term, excise taxes, mainly taxes on petroleum, are projected on the basis of changes in economic activity measured by cash GDP.

Taxes on International trade and transactions

The taxes on international trade and transactions are influenced by the performance of the mining sector and the exchange rate. As the Loti depreciates, it is expected that the value of diamond exports would rise. The taxes on exports are charged at 8 percent of the total value of exports of diamonds. They averaged around LSL 293.3 million from 2011/12 to 2013/14 driven by the continued depreciation of the Loti against the US dollar thereby positively influencing the value of taxes on exports.

The export taxes are forecast to average around LSL 316.3 million in the medium term boosted by the anticipated improvement in diamond production, favorable diamond prices coupled with the continued depreciation of the Loti against the US dollar.

Non-Tax Revenue

Non-tax revenue increased by an average of LSL 1,019.5 million from 2011/12 through 2013/14 attributable to persistent improvements in sales of goods and services particularly water royalties. In 2014/15, non-tax revenue registered LSL 1,301.6 million and is projected to average LSL 1,634.5 million in the medium term resulting from further developments in both dividends and water royalties.

Expenditure

Compensation of employees

Compensation of employees includes wages and salaries and employer contributions. The wages and salaries averaged LSL 3,764.00 million while employer contributions consumed LSL 549 million in the period 2011/12 to 2013/14. The fiscal year 2013/14 contributed a significant growth of 18.8 percent as the civil servants salaries were reviewed. This salary review together with the inflation indexing at 6 percent demanded an additional disbursement of LSL 595 million resting compensation of employees as a percent of GDP at 19.6. In respect of the review, there were also spillover effects upon employer contributions to both pension contributions and civil pensions at a growth magnitude of 63.9 and 42.2 percent respectively.

The government's policies are by expectation to result in a declining trend of compensation of employees as a percentage of GDP from 21.2 percent in 2014/15 to 14 percent in the long term, to free resources in order to meet the nation's increasing infrastructure and social services' needs.

Use of Goods and Services (G&S)

Use of goods and services is the second largest component of the recurrent expenditure. It grew by an annual average rate of 18 percent from 2011/12 to 2013/14, driven by a significant increase on health care services. The government engaged the public private partnership initiative with Netcare which turns out to be costly for the government. The health care services have tripled in three years and increased further to LSL 837.9 million in 2014/15.

Exports

Total imports constituted on average 105 percent of GDP from 2011/12 to 2013/14 due to a rise in grants from MCC including Metolong project while total exports constituted 43 percent of GDP. In the medium-term, the trend is expected to continue with total imports averaging 109 percent of GDP and total exports averaging 40 percent of GDP due to a decline in textiles exports.

Merchandise exports, of which the textile exports accounts for the largest share followed by diamond exports, posted an average growth of 9.2 percent between 2011/12 and 2013/14. In 2011/12, there was a drastic improvement of 46.9 percent in diamond exports at the back of strong global demand at destination markets, coupled with favourable diamond prices. In 2013/14, diamond volumes deteriorated as a result of Mothae undergoing care and maintenance and Liqhobong undertaking a project aimed at moving to an open pit mine and developing its Main Treatment Plant (MTP). However, the favourable prices coupled with a weaker Loti mitigated the lower production levels hence leading to a positive growth in diamond exports.

The sectoral outlook indicates the average growth of 7.3 percent. The higher growth of 9 percent is expected in 2016/17 as Liqhobong will be operating with its Main Treatment Plant capable of an annual production of 3.6 million tonnes yielding in excess of 1 million carats. Early stage commissioning is currently scheduled for the first quarter of 2016 and full production volumes achieved in the third Quarter of 2016 according to Liqhobong mine.

Textile exports on the other hand registered an average growth rate of 3.3 percent between 2011/12 and 2013/14. The low average growth rate of 2.6 is expected in the medium term.

3.2 External Debt Borrowing

Table 3.1 presents expected new borrowings together with their respective loan amounts for the year 2016/17.

New borrowings[1]:

Table 3.1

	Project	Amount
1	Moshoeshoe I International Airport	LSL 1,028.69mn
2	Public Sector Modernisation	LSL 160.73mn
3	TB & Health Systems Support	LSL 642.93mn
4	Social Development	LSL 321.46mn
5	Transport Sector Development	LSL 482.20mn
6	Education Sector Development	LSL 642.93mn
7	LEC Phase II	LSL 199.43mn
8	Upgrading of 92 km Road Project	LSL 1,600mn

The government has a policy to borrow at concessional terms, that is, borrowings with at least 35% grant element; longer grace period and longer

[1] USD 1 = LSL16.07
BUA 1 = LSL22.16 as at 01/02/2016

maturity terms. The following table illustrates the average terms of new borrowing and it is clear that government has been consistent with the above outlined policy.

Table 3.2

Average Terms of New Loans					
	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**
INTEREST (%)	0.6	2.2	0.6	1.2	1.2
MATURITY (Years)	32.7	20.9	37.3	28.3	25.1
GRACE PERIOD (Years)	8.4	5.8	10.0	7.1	6.3
GRANT ELEMENT (%)	46.4	30.0	57.1	45.3	54.8

The government policy has always been to go for grants where possible. In the event that this is not possible, the government seeks to secure concessional funding and the above table consistently shows grant element that is above 35% except in the year 2012/13. For the entire period, borrowing has largely been sourced from IDA, whose terms are highly concessional. The major reason for outlier in 2012/13 is the loan signed with Abu Dhabi to finance Metolong Dam Supply project whose original grant element was 14.9%, with a grace period of 3 years; and to a lesser extent, the loans from Saudi Fund financing the same project as well as the Five Towns Water Supply Project.

3.3 Disbursements of External Loans (LSLm)

Total disbursements of external loans increased steadily from LSL547.8m in 2011/12 sharply peaking at LSL1,069.1m in 2014/15, before declining to LSL549.7m the following financial year. The increase had been driven mainly by Metolong Water Project.

Table 3.3

TOTAL	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**
Disbursed Outstanding Debt	5,907.8	7,394.0	9,076.0	9,991.1	13,081.7
Disbursements	547.8	643.1	719.6	1,069.1	549.7
Principal Repayments	228.2	254.5	315.8	317.0	437.6
Net Flows On Debt	319.6	388.6	403.8	752.1	112.1
Interest Payments	71.7	85.9	110.2	130.9	193.6
Net Transfers On Debt	247.8	302.6	293.6	621.2	-81.6
Total Debt Service	301.9	341.2	427.2	455.6	632.5

From 2011/12 to 2014/15, Net Transfers on Debt had been positive and increasing and peaked in 2014/15, indicating a build-up in foreign exchange reserves. In 2015/16, Lesotho registered a negative net transfer which could have translated into drawdowns on reserves because Lesotho paid out more than what was coming in. One of the contributing factors was a sharp depreciation of local currency against the major world currencies.

4. Debt Portfolio

Table 4.1 below shows debt burden indicators relating to Lesotho debt portfolio. One notable change is with regard to the evolution of total nominal debt stock over the five years. There has been just over 100% increase in Lesotho total public debt over the five years under review, from LSL7,000m in 2011/12 to LSL14,158m in 2015/16.

Comparing external debt and the PV of external debt, one notices that the PV of debt is consistently above the external debt until 2014/15. This is a cause for concern regarding the rate at which debt accumulates mainly aggravated by the increase in non-concessionality of new loans extended to Lesotho, namely the EIB and Abu Dhabi financing of the Metolong Dam Water Project. In 2015/16, although the PV of debt is lower than the external debt, the shift can be attributed to a sharp depreciation of the Lesotho Loti against the major world currencies. The impact was an increase in debt stock from LSL 9,991.1m in 2014/15 to LSL 13,081.7m in 2015/16.

Under the Country Policy and Institutional Assessment (CPIA), Lesotho has been scored at 3.25, which means Lesotho is a medium performer and right at the border line to being a weak performer. Critical Debt Burden Thresholds, under the new Debt Sustainability Framework categorises Lesotho as a medium policy performer, with the PV of total debt to GDP at 40% or below. From table 4.1 below, it is clear that this has already been breached considering that the PV of External Debt to GDP is well above the 40% in all the years under review. However for the rest of the indicators Lesotho is well below the prescribed threshold, therefore Lesotho is classified as a moderately indebted country.

Table 4.1

Main Debt Indicators (LSLm)						**Thresholds**
	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**	
Gross Central Debt	7,000.03	8,562.65	10,101.05	11,158.09	14,158.25	
External Debt	5,907.8	7,394.0	9,076.0	9,991.1	13,081.7	
PV of External Debt	10,669.5	11,045.5	11,363.3	11,440.8	11,445.8	
Solvency Ratios						
PV of External Debt to GDP (%)	57.26	55.14	51.72	46.90	43.55	40%
PV of External Debt to Exports (%)	130.7	131.6	139.3	121.5	114.5	150%
PV of External Debt to Revenue	112%	84%	86%	78%	74%	250%
Liquidity Ratios						
External Debt Service to Revenue (%)	3.12%	2.59%	3.21%	3.07%	4.09%	30%
External Debt Service to Exports (%)	3.68%	4.06%	5.22%	4.76%	6.31%	20%
TDS to Revenue (%)	21%	20%	21%	17%	20%	
TDS to Exports (%)	23%	31%	35%	26%	31%	
Total Debt to GDP	37.56%	42.74%	45.97%	45.74%	53.87%	62%
External Debt to Reserves (%)	4.59	3.78	4.12	3.57	4.08	
Domestic Debt	1,092.23	1,168.65	1,025.05	1,166.99	1,076.55	
Domestic Debt to GDP (%)	5.86	5.83	4.67	4.78	4.10	

Debt Service (LSLm)

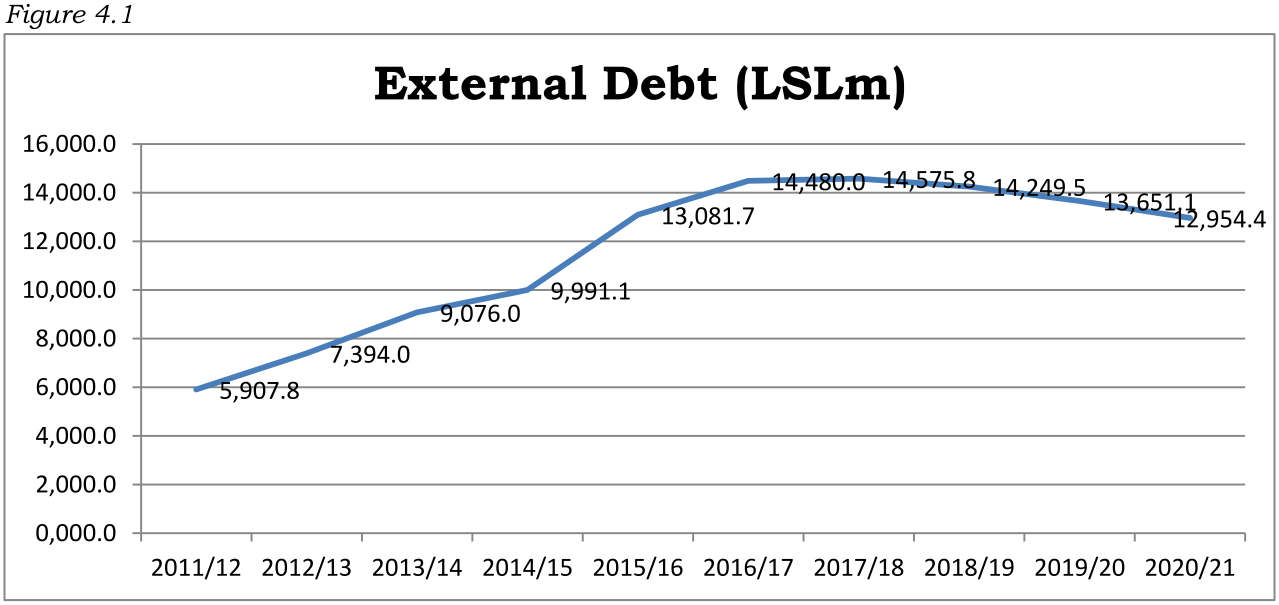
Table 4.2

	2011/12	2012/13	2013/14	2014/15	2015/16
External Principal	228.	255	316	317	438
External Interest	72	86	110.	131	194
Total External Debt Service (TEDS)	300.0	341	426	448	631
Domestic Principal	0	0	130	0	0
Domestic Interest	68	82	80	44	79
TDS	368	423	506	492	710
TEDS as a % of Total Debt Service (TDS)	81.5%	80.6%	84.2%?	91.1%	88.9%
Revenue	9,627.2	13,144.9	13,274.5	14,593.6	15,441.3
Exports	8,162.0	8,394.0	8,155.2	9,414.9	9,997.5
TEDS as % of Exports	3.68%	4.06%	5.22%	4.76%	6.31%

Evolution of External Debt

The steady increase in external debt between 2011/12 and 2014/15 can be attributed to the implementation of Metolong Dam Project. The sharp increase of 31% from 2014/15 to 2015/16 was result of depreciation of the exchange rate between the Lesotho Loti and the major world currencies. From 2015/16, the trend stabilises and then tapers off due to the completion of the heavily disbursing projects such as the Metolong Dam projects. The analysis takes into account only existing debt.

Figure 4.1



4.1 Portfolio Risks

Risk constitutes the likelihood that the expected cost may increase due to uncertainty or unforeseen changes in circumstances and macroeconomic variables. Examples of risks are refinancing risk, exchange rate risk, interest rate risk etc

Proportion of Short Term Debt to Long Term Debt

Short term debt is defined as debt from those instruments whose original maturity is less than one year, plus long term debt whose debt service falls due within one year. This measure of risk gives a picture of how exposed the government is to rollover risk. It is evident from table 4.3 below that the share of short term debt is very low and does not therefore pose much by way of risk.

Table 4.3

	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**
ST Debt (LSLm)+debt service	865.93	890.54	947.00	1,042.15	1,223.78
LT Debt (LSLm)	6,662.30	8,237.11	9,391.80	9,897.06	14,201.15
Share of ST to LT Debt	**13.00%**	**10.81%**	**10.08%**	**10.54%**	**8.62%**

Average Term to Maturity (ATM)

This is a measure of the average life of debt. It measures how many years on average it will take for the whole of Lesotho debt portfolio to fall due i.e. how long, before debt faces refinancing risk. The analysis is confined to external debt due to bias, which constitutes around 88% of Lesotho debt.

ATM of External Debt

Data range that was used here spanned 46 years from 2016/17 to 2061/62.

$$ATM = \frac{\sum_{t=0}^{n} txP_t}{DOD} = 12.84\ years$$

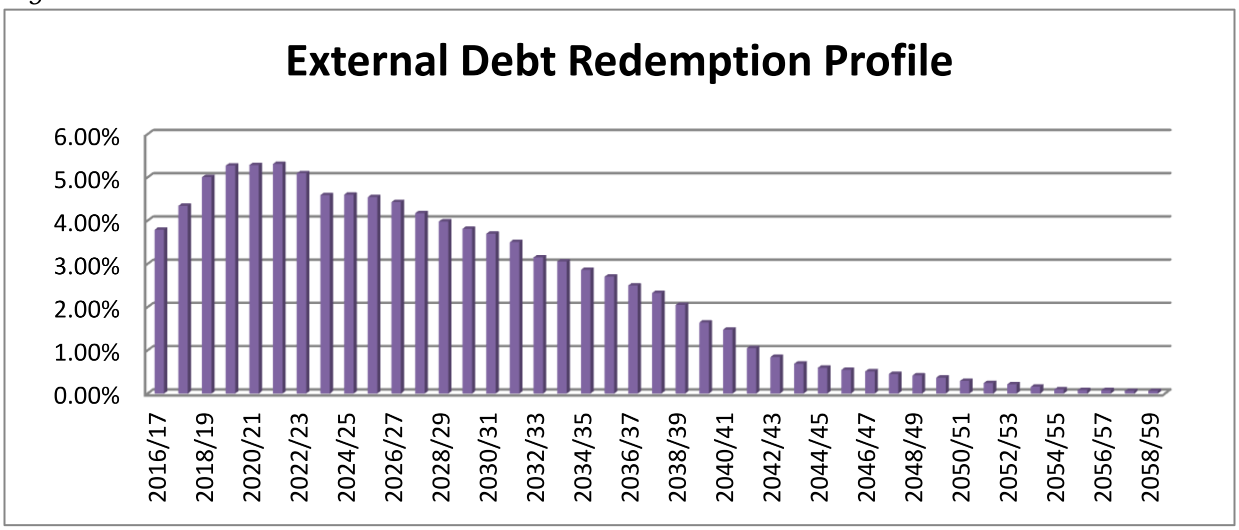
Where t = 1,........n

A large value of this ATM is an indication of a low refinancing risk going into the future. Thirteen years represent a low refinancing risk exposure.

4.2 Redemption Profile

Table 4.4 below depicts redemption profile distribution of Lesotho external debt. This table measures the risk pertain to the proportion of debt that matures within a certain period. About 86.86% of the total outstanding debt will be redeemed after three financial years while about 70.99% will be redeemed after six years. Although a bit humped between 2019 and 2023, this distribution shows that there is generally a smooth distribution of principal repayments such that the government will not find itself a large repayment to be made within a short period of time.

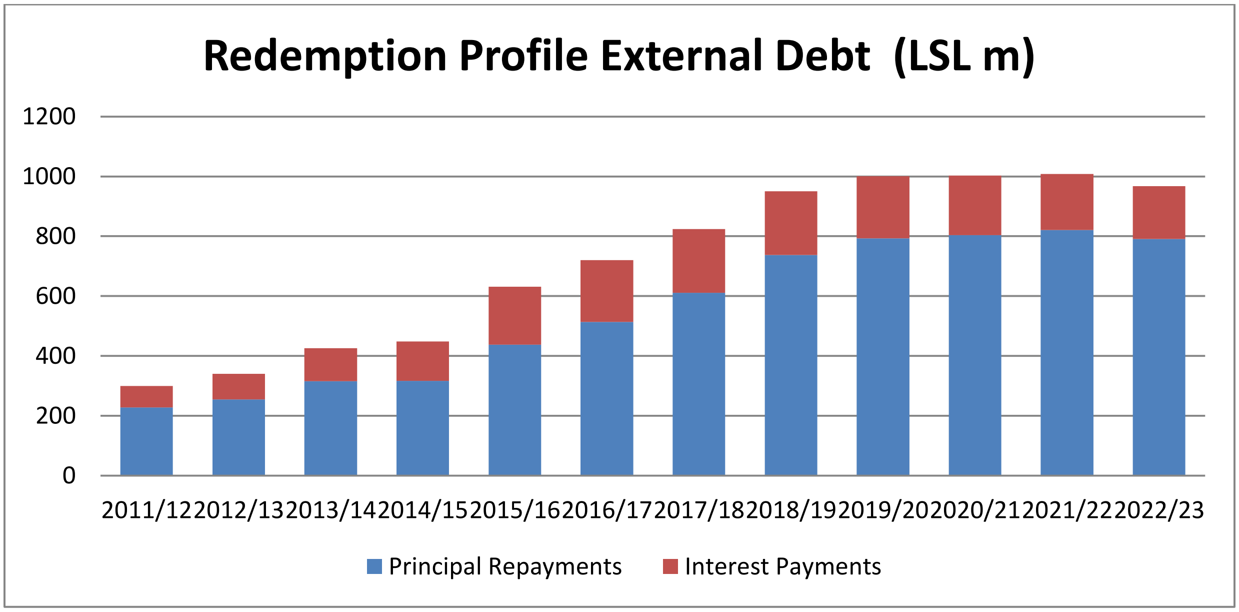
Figure 4.2



Redemption profile 2011/12 – 2022/23

Figure 4.3 below depicts for external debt redemption profile. This depiction is important because it gives an indication of the amount of debt service that the economy will need to honour. One thing to note here is that there is a steady increase of debt service over the next five years. The absence of large outliers means that the planning of the budget process will not have problems.

Figure 4.3



4.3 Domestic Debt

4.3.1 Domestic Debt by Instrument

Figure 4.4a and b below compare the proportion of both treasury bills and treasury bonds to total domestic debt for the years 2011/12 and 2015/16.

Figure 4.4a

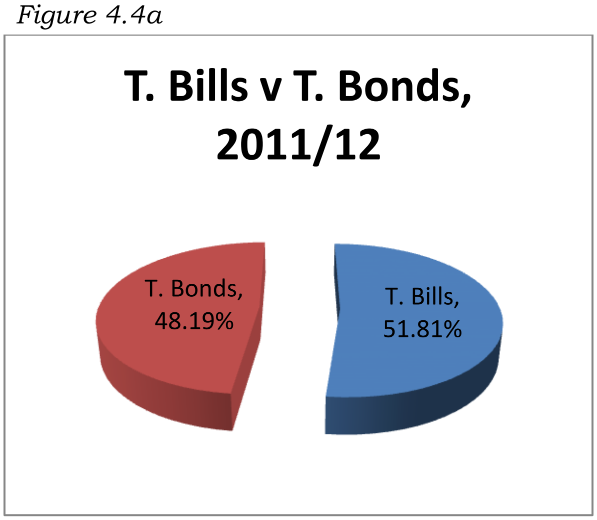
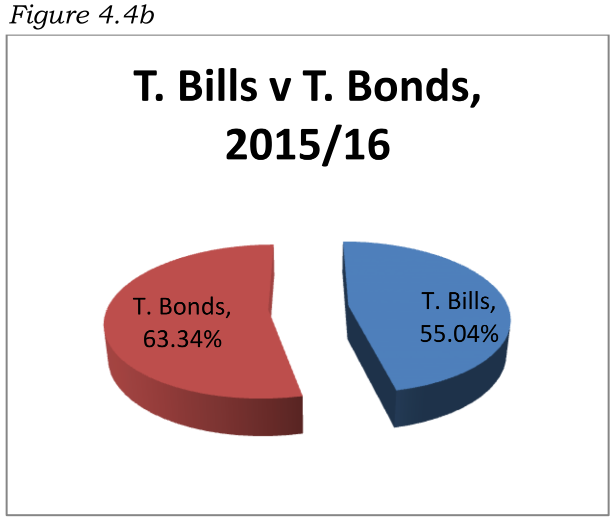


Figure 4.4b



4.3.2 Domestic Debt by Holder (LSLm)

Table 4.4

Holder	2011/12		2015/16		Change
	Amount	%	Amount	%	
Banking System	806.79	73.87	866.40	80.48	59.61
Non-Bank Sector	285.44	26.13	407.93	37.89	122.48
Total	**1,092.23**	**100**	**1,076.55**	**100**	**182.10**

4.3.3 Outstanding Treasury Bills by Holder (LSLm)

Table 4.5

Holder	2011/12		2015/16		Change
	Amount	%	Amount	%	
Banking System	431.9	76.32	394.7027	66.62	-9.70
Non-Bank Sector	134.03	23.68	197.7782	50.11	26.43
Total	**565.93**	**100**	**592.48**	**100**	**16.73**

4.3.4 Outstanding Treasury Bonds by Holder (LSLm)

Table 4.6

Holder	2011/12		2015/16		Change
	Amount	%	Amount	%	
Banking System	374.89	71.23	471.70	69.18	-2.05
Non-Bank Sector	151.41	28.77	210.15	30.82	2.05
Total	**526.30**	**100**	**681.85**	**100**	**0.0**

4.4 External Government Debt

Table 4.7

Year	External Debt (LSLm)	Total External Debt to GDP (%)	Total Debt Service to Exports (%)
2011/12	5,907.80	31.70	3.68
2012/13	7,394.00	36.91	4.06
2013/14	9,076.00	41.31	5.22
2014/15	9,991.10	40.95	4.76
2015/16	13,081.70	49.77	6.31

4.5 External Debt by Creditor Category

At the end of 2011/12 according to figure 4.9a, Lesotho external debt was largely dominated by debt from multilateral creditors whose debt constituted 88% of total external debt. This situation continued into 2015/16 as depicted by figure 4.9b. Major multilateral creditors are IDA, ADF, EIB and IMF. Debt stocks from these creditors are 33%, 20%, 15% and 8% respectively. The proportion of external debt from multilateral sources had been reduced to 86%

though. The change has been compensated by an increase from 5% to 9% in the category of bilateral sources. The main reason for this change in that category is been an increased participation by the Saudi Fund and Abu Dhabi.

Figure 4.5a

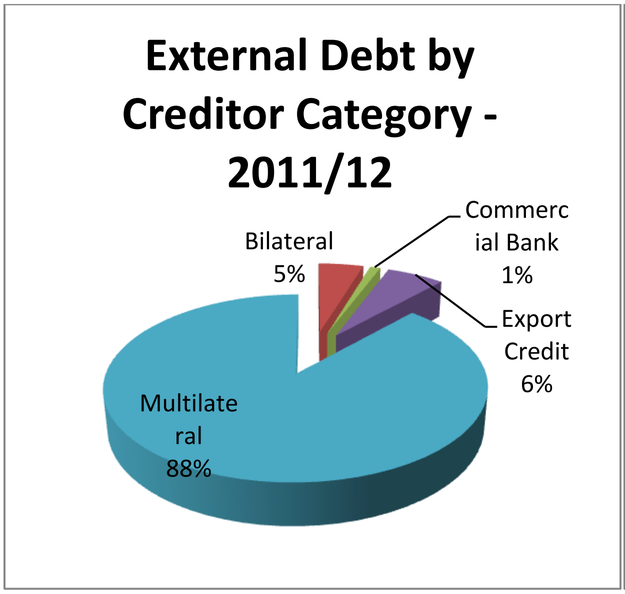
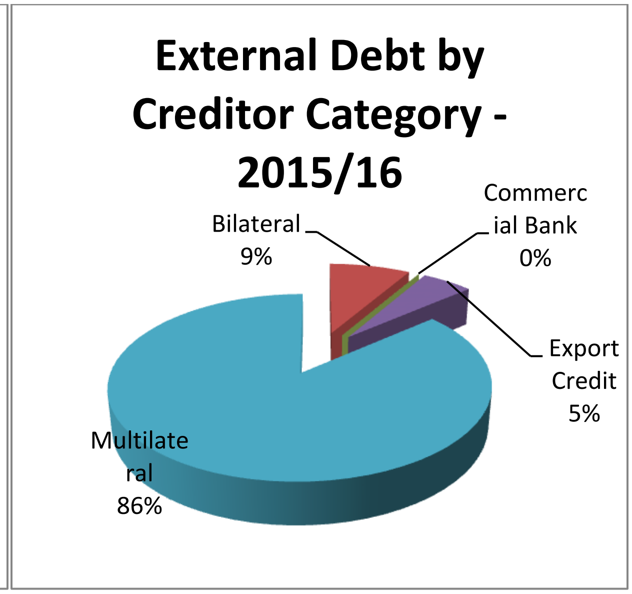


Figure 4.5b



4.5.1 External Debt by Currency Composition

The following charts depict the composition of Lesotho public debt by currency for the financial years 2011/12 and 2015/16. While the dominant repayment currency is the US Dollar, it is imperative to mention that these depictions are based on the currency in which debt was committed and not necessarily the repayment currency, hence 43% that represents the XDR. There is a remarkable increase in funding from currencies from bilateral sources, especially the Arab states.

Figure 4.6a

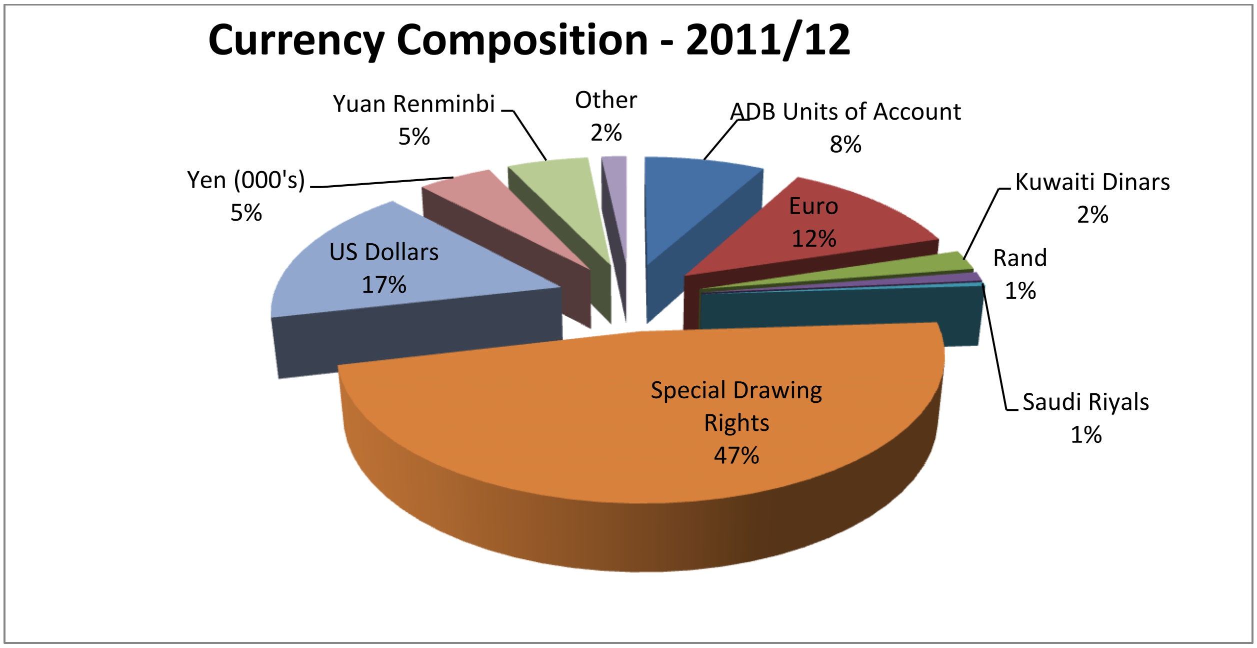
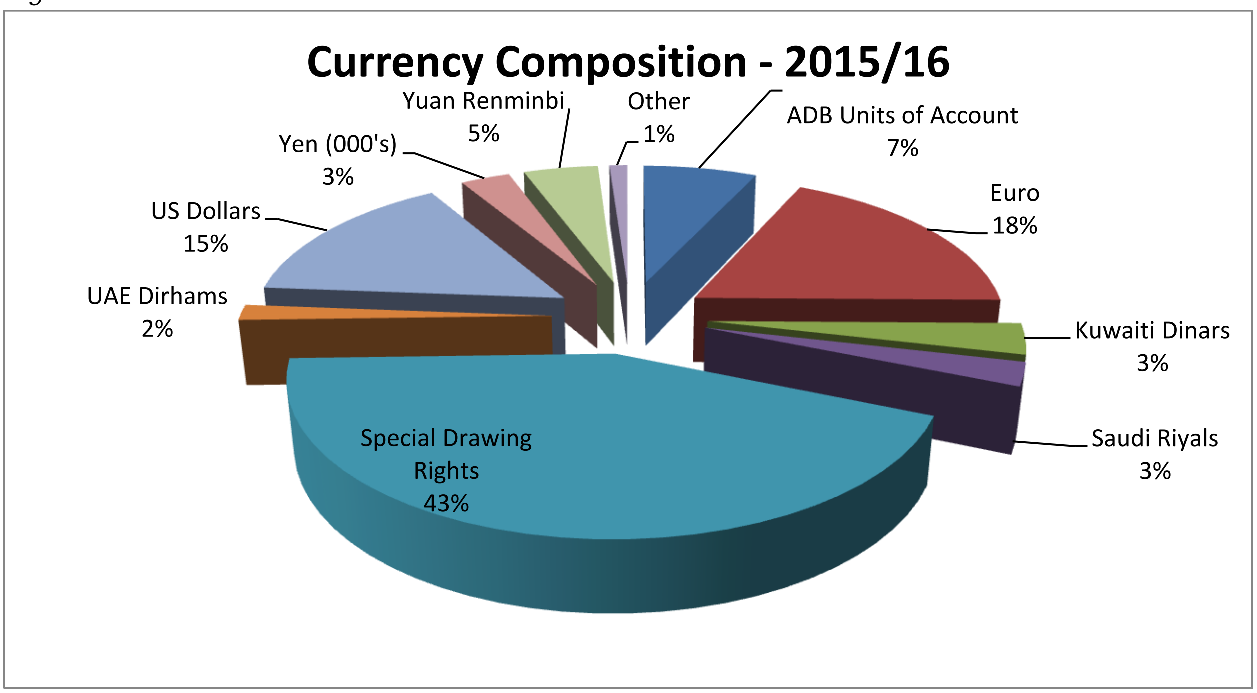


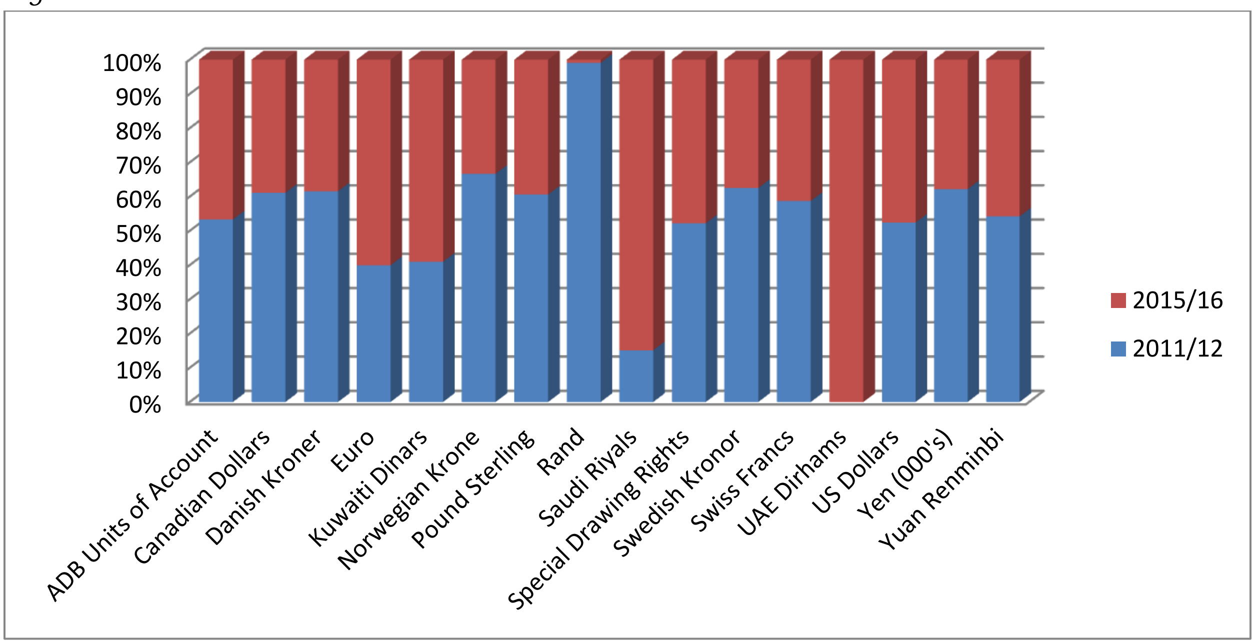
Figure 4.6b



Given the fact that Lesotho public debt is largely denominated in foreign currencies, this therefore means that a larger proportion of our debt is highly exposed to adverse foreign exchange movements, which have the ability to raise our debt beyond sustainable levels. This in turn calls for the 'right' mix of currencies when contracting debt so as to be in a position to minimise such risk. This has a bearing on the government's ability to honour its obligations and service its debt.

Figure 4.7 below compares currency composition of Lesotho debt portfolio between 2011/12 and 2015/16. It is evident that currencies such as the US Dollar, ADB Unit of Account, XDR and Chinese Yuan have maintained almost the same proportion in terms of their composition. The Canadian Dollar, the Danish Kroner, the British Pounds, Swedish Kroner and Japanese Yen have had their composition reduced by 10% over the two periods, while the Kuwait Dinars and the Euro have increased their proportions to just over 60%. Saudi Riyals have increased to almost 90%. The South African Rand and UAE Dirhams have almost swapped places with the Rand composition almost down to zero.

Figure 4.7



5. Debt Service

5.1 External Debt Service by Creditor Category (LSLm)

Total external debt service (TEDS) increased by 110.4% from LSL 300m in 2011/12 to LSL 631.3m in 2015/16. Principal repayments increased significantly from LSL 228.2m in 2011/12 to LSL 437.6m while interest payments registered a 170% increase from 2011/12 to 2015/16. Of the total LSL 631.3m TEDS in 2015/16, 68.9% was serviced to the multilateral sources.

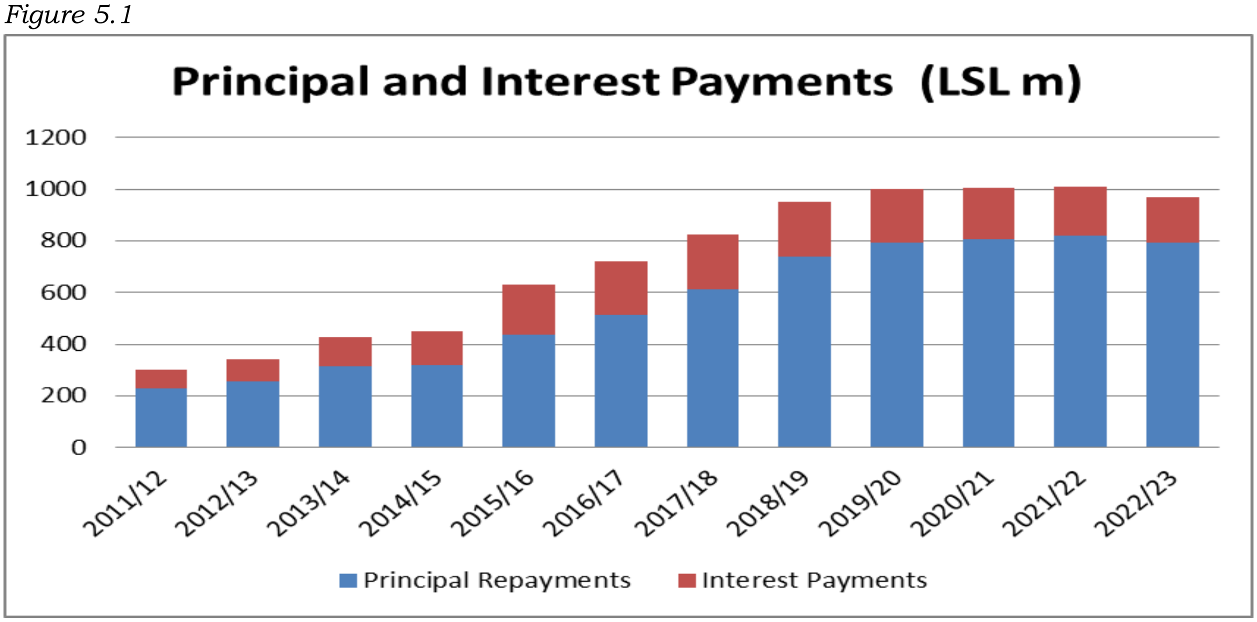
Table 5.1

CREDITOR	Payments	2011/12	2012/13	2013/14	2014/15	2015/16
Bilateral	Principal	23.9	28.4	37.8	42.7	60.9
	Interest	4.1	5.0	8.0	10.3	18.9
	TEDS	28.0	33.4	45.8	53.1	79.8
Commercial Bank	Principal	4.3	5.4	4.8	5.5	53.8
	Interest	9.8	9.3	8.8	8.1	7.6
	TEDS	14.1	14.7	13.6	13.6	61.4
Export Credit	Principal	3.1	3.9	28.1	31.7	38.2
	Interest	7.4	8.4	9.9	10.7	17.2
	TEDS	10.5	12.4	37.9	42.5	55.4
Multilateral	Principal	197.0	216.8	245.1	237.0	284.8
	Interest	50.5	63.2	83.5	101.7	150.0
	TEDS	247.4	280.0	328.6	338.7	434.7
TOTAL	Principal	228.2	254.5	315.8	317.0	437.6
	Interest	71.7	85.9	110.2	130.9	193.6
	TEDS	300.0	340.5	426.0	447.9	631.3

5.2 Principal and Interest Payments

Figure 5.2 below is a depiction of the amounts of principal repayment and interest payment paid out in the last five financial years including projections ending in 2022/23. One notable point is the makeable increase in these payments from 2016/17 to 2019/20 which then flattens out and slowly declines. It is worth noting that the decline only comes as a result of the fact that the impact of the potential new borrowings has not been factored in.

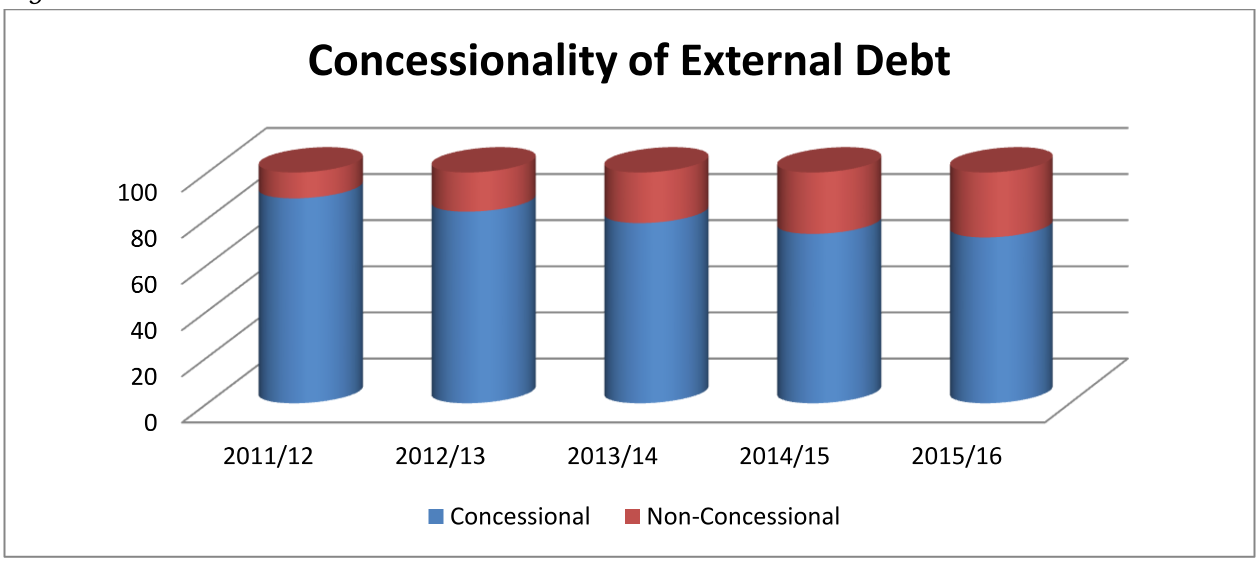
Figure 5.1



Concessionality of External Debt

Due to the economic challenges encountered by the world advanced economies in the form of the recent global financial crisis as well as the Euro crisis, sources of concessional funding have been declining over the review period. This is evident on figure 5.2 where between 2011/12 and 2015/16, there has been a decline of 16.97%. Another reason for this shift is the change in borrowing terms from multilateral sources where the terms have become more stringent.

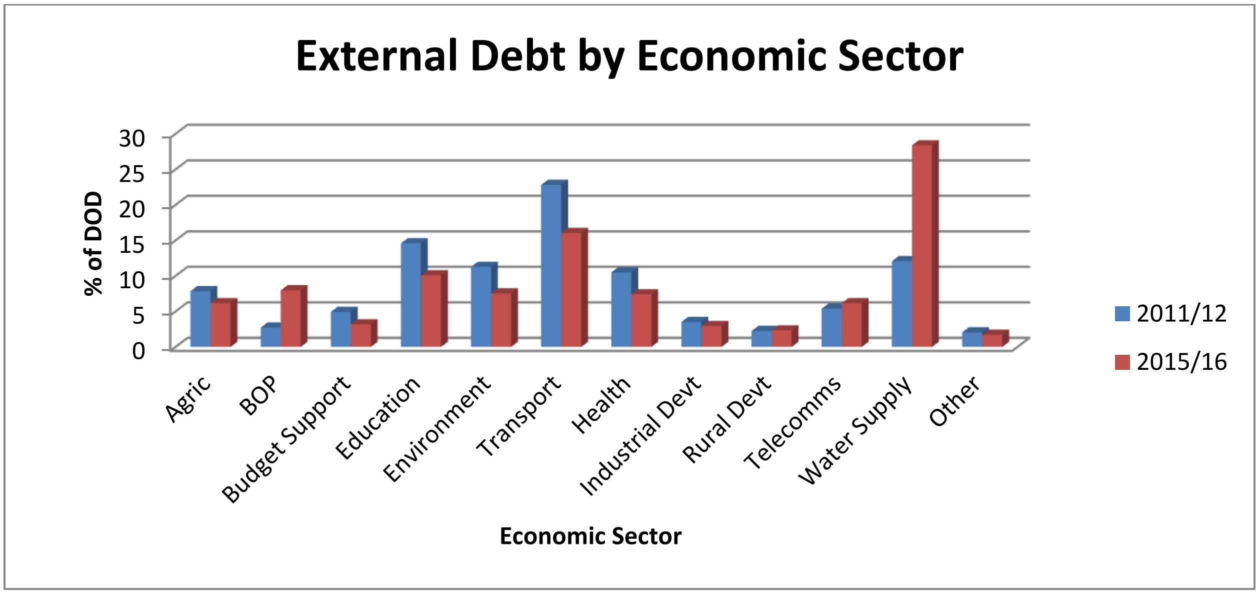
Figure 5.2



Debt by Economic Sector

Figure 5.3 below displays external debt by economic sector in the years 2011/12 and 2015/16. It is clear from the graph that there has been a shift in funding from infrastructure to social sectors. There has been a 16.32% increase in the funding for the water supply sector in 2015/16 as against 2011/12. With the advent of Lesotho experiencing fiscal deficits, there has also been an increase in the funding for BOP.

Figure 5.3



6. Loan Guarantees

Table 6.1

Project Description	Donor	Amount	Status
1. Lesotho Highlands water Project Phase II	IBRD	$20,433,737	Repaying
2. Members of Parliament & Statutory positions		Each member qualifies for M500,000 while PM and DPM qualify for M650,000 each	Repaying and new commitments
3. Maseru Peri- Urban	Nedbank	M20,000,000	On- going
4. Lesotho Freight Bus Corporation	Standard Bank	M250,000	On- going
5. Maseru e-textile		$1,200,000	On- going
6. Tlotliso	Standard Bank	M9,000,000	Called
7. TZICC	Standard Bank	$8,372,200	On- going
8. CGM	Standard Bank	$13,074,100	On- going

There is no policy direction to give guidance on how guarantees should be contracted, monitored and managed, especially when it comes to the private sector. However the proposed Public Debt Management law explicitly disallows guarantees on private debt.