



## Private Capital Flows Survey: Benefits for Lesotho Economy

*The Central Bank of Lesotho (CBL) in collaboration with other stakeholders is conducting a survey on private capital flows to collect information from the local private business community...*

### Background

Private capital flows<sup>1</sup> (PCF) to developing countries and emerging markets have been highly volatile; as a consequence, they have been a major factor in causing financial crises. Their volatility has implications for macroeconomic policy and stability since they are an essential source of investment for most countries. This has been evident from financial crises in the following countries: Russia in 1994, East Asia in 1997/98 and Brazil in 1999. The impact of PCF volatility warrants a prudential and sound monitoring system. The monitoring of PCF has gained prominence in macroeconomic policy-making. Countries have now found it prudent to know the magnitude, the composition and the sectors within economies to which capital is flowing. In addition, it is also important to know where these flows are coming from.

In the case of Lesotho, monitoring of the PCF is particularly important for various reasons. Firstly, private sector activity in the country has grown and continues to grow considerably. As a result, it is expected that foreign direct investment (FDI) and other capital flows would accompany this growth. Secondly, Lesotho's membership to the Common Monetary Area (CMA) - with South Africa, Namibia and Swaziland – which allows for free mobility of capital among member countries, increases statistical challenges for the country. Lastly, the CBL is following gradual reforms in the capital account in an endeavour to harmonise exchange control regulations and therefore be in a position to maintain the peg between the South African *rand* and the Lesotho *loti*. This is expected to stimulate the movement of capital between Lesotho and the rest of the world.

The CBL intends to undertake a series of surveys on an annual basis in order to monitor these PCF. The CBL, Central Bank of Swaziland and Bank of Namibia, jointly sought technical assistance from the International Monetary Fund (IMF) in order to equip their respective staff members with the skills and techniques to undertake the survey of this magnitude.

### Objectives of the PCF Survey

The survey will facilitate data collection on foreign assets and liabilities (FAL) and therefore provide baseline data for the compilation of the Lesotho's Balance of Payments (BOP) and International Investment Perceptions (IIP) statistics. The data will be used as an important tool in understanding the nation's relationship with the rest of the world and facilitate the monitoring of these flows between Lesotho and the rest of the world. More specifically, the objectives of the survey are therefore as follows:

- To analyse the scale and composition of capital flows in the economy of Lesotho.
- To examine the determinants of FDI in Lesotho.
- To identify sectors that get affected by flows of FDI

<sup>1</sup> Denotes foreign investments (direct, portfolio and other investments)

- To link the type and magnitude of flows to issues of sustainability.
- To assess macroeconomic effects and implications of capital flows.

### **Benefits of the Survey**

In recent years, inward private investment has increased significantly, especially in the manufacturing sub-sector due to the Africa's Growth and Opportunities Act (AGOA) and this has benefited Lesotho by way of economic growth. However, this growth has also meant that Lesotho is less able to monitor these flows for purposes of formulating policies that would sustain this growth. Therefore, by quantifying inward and outward investment, the country can assess and influence confidence in the economy and therefore design policies that encourage private sector investment. Furthermore, good economic statistics are necessary for better decision-making and to meet international standards and codes in reporting which include General Data Dissemination System (GDDS), System of National Accounts (SNA) and Balance of Payments Manual Fifth Edition (BPM5).

Data relating to flows accruing to Government (official flows) and the Commercial Banks are already captured in the BOP statement. However, data relating to flows accruing to the private sector are not yet captured in the statement. Hence the need to develop improved and more comprehensive estimates of such PCF, associated stock positions and income. Timely, reliable and comprehensive data is essential for sound economic policy-making. A high quality database would result in quality formulation of policies and improved efforts to eradicate poverty in the country.

The private sector will benefit from the macro-economic stability resulting from the formulation of better policies. In addition, both the private and public sectors are interested in knowing the sectors to which capital is flowing. Furthermore, the results of the survey will provide information that will allow for increased partnership with the private sector and enhancement of the investment climate.

### **Stakeholders of the Survey**

The CBL found it important to involve the other two institutions within the country, which are deemed to be having the mandate on the same area. Hence the Bureau of Statistics (BOS), Lesotho National Development Corporation (LNDC) and the CBL signed the Memorandum of Understanding (MOU) to undertake the series of these surveys jointly on an annual basis. According to the Lesotho BOS Act (2001), the LNDC Act (1990) and the CBL Act (2000), enterprises are legally bound to provide the information requested and are encouraged to do so voluntarily. The National Working Group (NWG) on PCF was hence established and consists of members from CBL, BOS being the principal data collecting and disseminating agency responsible for coordinating, monitoring and supervising the national statistical system on matters specified in that law, LNDC, being an agency responsible for gathering and recording data on private sector investment, Ministry of Finance and Development Planning (MOFDP), being the Ministry responsible for collecting and analysing data on public debt and Lesotho Textiles Exporters Association (LTEA). The NWG-PCF is responsible for the implementation and coordination of the PCF project.

The information collected is going to be used for economic, statistical and policy purposes only and will be published only in aggregate form. This ensures confidentiality on individual company's position.

### **Private Sector Sensitisation**

In 2005, the CBL conducted an exploratory survey to identify all entities operating in Lesotho which have significant FAL and which could then be targeted for follow-up with a main survey questionnaire.

The sensitisation campaign, before conducting the main BOP survey, had to be carried out in order to inform the private sector about the need and importance of undertaking the surveys of this magnitude. This took the form of a media briefing and a sensitisation seminar.

The media briefing was conducted on the 18<sup>th</sup> September by radio and mainly focused on informing the general public at large about the aims and benefits for undertaking the PCF survey. On the other hand, the sensitisation seminar was hosted on the 21<sup>st</sup> September 2006 and the deliberations targeted the Chief Executive Officers, Managing Directors and representatives of enterprises that were deemed to have significant FAL

### **Way Forward**

The field work is scheduled to run for twenty five days starting from the 23<sup>rd</sup> October to the 24<sup>th</sup> November 2006. The enterprises are requested to participate in this survey as the results of this exercise are important for sound policy formulation and implementation by the Government. The CBL has provided support in terms of data administrators in this regard.

The data collected during the survey will then be captured and analysed. As already mentioned, the results will be published in aggregate form only. The report is expected to be published in 2007 and the dissemination workshop will be held then. Hard copies of the report will be freely available to the general public and will also be posted on the CBL's website.

**Table 1. Monetary and Financial Indicators+**

	June	July	August
<b>1. Interest rates (Percent Per Annum)</b>			
1.1 Prime Lending rate	12.00	12.25	12.25
1.2 Prime Lending rate in RSA	11.00	11.50	11.50
1.3 Savings Deposit Rate	1.24	1.32	1.32
1.4 Interest rate Margin( 1.1 – 1.3)	10.76	10.93	10.93
1.5 Treasury Bill Yield (91-day)	6.90	6.90	6.86
<b>2. Monetary Indicators (Million Maloti)</b>			
2.1 Broad Money (M2)	2704.00	2997.9	3128.2
2.2 Net Claims on Government by the Banking System	-1283.97	-1793.79	-1492.36
2.3 Net Foreign Assets – Banking System	5075.7	5840.6	5814.9
2.4 CBL Net Foreign Assets	3700.5	4323.6	4249.4
2.5 Domestic Credit	-461.9	-948.1	-712.1
2.6 Reserve Money	438.80	379.03	439.14
<b>3. Spot Loti/US\$ Exchange Rate (Monthly Average)</b>	6.9904	7.0769	6.9483
<b>4. Inflation Rate (Annual Percentage Changes)</b>	6.6	6.4	6.8
<b>5. External Sector (Million Maloti)</b>	<b>2005</b>	<b>2006</b>	
	<b>QIV</b>	<b>QI</b>	<b>QII</b>
5.1 Current Account Balance (Excl. LHWP)	-51.90	26.67	215.48
5.2 Capital and Financial Account Balance (Excl. LHWP)	102.73	99.88	-229.39
5.3 Reserves Assets	-86.9	-177.17	-441.12

+These indicators refer to the end of period. Prime and deposit (savings) rates are averages of all commercial banks' rates operating in Lesotho. The Statutory Liquidity Ratio in Lesotho is 25 percent of commercial banks' short-term liabilities.

**Table 2. Selected Economic Indicators**

	2003	2004	2005	2006*
<b>1. Output Growth( Percent)</b>				
1.1 Gross Domestic Product – GDP	2.7	4.0	2.7	4.8
1.2 Gross Domestic Product Excluding LHWP	4.3	4.5	3.2	5.1
1.3 Gross National Product – GNI	6.0	6.1	3.4	5.7
1.4 Per capita –GNI	3.7	3.9	2.2	4.4
<b>2. Sectoral Growth Rates</b>				
2.1 Agriculture	0.3	13.5	20.0	10.7
2.2 Manufacturing	5.7	2.1	-8.0	1.2
2.3 Construction	-4.9	-4.4	2.5	2.8
2.4 Services	6.1	2.6	3.5	2.8
<b>3. External Sector – Percent of GNI Excluding LHWP</b>				
3.1 Imports of Goods	84.0	84.5	69.5	77.7
3.2 Current Account	-6.3	-1.2	-1.0	8.6
3.3 Capital and Financial Account	3.9	1.5	2.0	2.3
3.4 Official Reserves (Months of Imports)	5.6	5.2	6.4	7.1
<b>4. Government Budget Balance (Percent of GDP)</b>	-0.4	5.6	4.4	9.3

\* Preliminary estimates