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GRAY/20/2711

July 28, 2020

**Statement by Mr. Sun and Ms. Cai on Kingdom of Lesotho
(Preliminary)
Executive Board Meeting 20/84
July 29, 2020**

We thank staff for the concise report and Mr. Mahlinza and Ms. Nainda for the useful buff statement. We support the authorities' request for a disbursement under the RCF and RFI in the amount of SDR 34.9 million to meet the country's urgent balance of payments need. We would like to limit our comments to the following for emphasis.

We welcome the authorities' efforts to contain the virus and mitigate its health and economic impacts by expanding social protection and supporting food production, among others. We agree that the authorities' immediate priority is to preserve macroeconomic stability. Once the pandemic abates, fiscal discipline should remain one of the central pillars to support sustainable and inclusive growth. Lesotho's fiscal revenue is below that of the historical average in the Southern African Customs Union (SACU), and its government payment arrears. Therefore, reprogramming domestic expenditure is necessary. Given the difficulties in implementing the expenditure cut measures, we encourage the authorities to develop a contingent plan to ensure the success of the fiscal adjustment. Meanwhile, fiscal consolidation should be conducted in a growth-friendly way while ensuring better protection of the most vulnerable people.

Notwithstanding Lesotho's stable financial sector, more needs to be done to address the issues of low financial intermediation and high concentration risk. While we understand the need to ensure system-wide liquidity through temporary easing of the regulatory requirements, we encourage the authorities to continue to closely monitor the impact of the pandemic on the banking sector and implement macro-prudential measures when needed. To address the structural impediments is important for long-term growth. One of the priorities should be to raise the efficiency of education and health spending with an aim to improve

productivity and reduce inequality. More efforts are also needed to address high unemployment, by developing productive and labor-intensive sectors and by increasing wage flexibility, among others.

With these remarks, we wish the authorities every success in their policy endeavors.