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July 28, 2020

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

1. We thank the staff for the report and Mr. Mahlinza and Ms. Nainda for a helpful Buff statement. Lesotho's economy has been severely hit by the COVID pandemic, and they have sought financing under RCF and RFI to mitigate the resource gap.
2. We note that even prior to the pandemic, Lesotho's economy was facing several challenges – subdued growth, high inequality, extreme poverty, difficult political scenario, and the highest rate of HIV infection in the world. These challenges point to the vulnerability of Lesotho, even though there are very few cases of COVID. Lockdowns imposed to contain the spread of COVID and spillover from other economies has disrupted the economy. The economic slowdown in South Africa, USA, and supply disruption from China has affected output in key sectors, viz., textile and diamond. The sharp drop in remittances from abroad has added to the downturn. Authorities have devised a comprehensive package of social protection, economic relief to vulnerable sections, and support to businesses.
3. While the economic slowdown is expected to cause a fall in revenue by more than 7 percent of GDP, COVID related expenditure is likely to be about 5 percent of GDP during 2020-21. Thus, despite reorientation of expenditure, the net fiscal gap is expected to be -6.3 percent of GDP and current account balance may widen to -6.7 percent of GDP.
4. The authorities have requested a disbursement under RCF and RFI in the amount of SDR 34.9 million equivalent to 50 percent of quota to be used for BoP support.
5. We welcome authorities' commitment to ensure enhanced transparency and accountability of COVID-19 related spending and to publish COVID-related procurement documentation (including tenders, bids, and names of awarded companies and their beneficial ownership) on their website.

6. We take positive note of authorities' plans to go ahead with fiscal consolidation measures in the post-pandemic period with the help of the Fund. Envisaged measures include wage restraint, removing ghost workers, rationalizing expenditure, and reducing the scope for misuse of public resources. These adjustments should help in reducing the stress related to public debt in the medium term.

7. As per DSA, debt remains sustainable, and the capacity to repay to Fund is adequate. Obligations to the Fund would remain below 1.1 percent of government revenue and below 1.2 percent of exports of goods and services and 0.5 percent of GDP throughout the forecast horizon.

8. We wish authorities all the best in their future endeavors.