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May 27, 2022

**Statement by Mr. Velloso and Ms. Cruz on Kingdom of Lesotho  
(Preliminary)  
Executive Board Meeting  
June 1, 2022**

We thank staff for the report and Ms. Mannathoko, Mr. Damane, and Ms. Nainda for their helpful statement. We agree with the thrust of the staff appraisal and would like to offer the following comments.

**Lesotho is facing challenges that precede the pandemic and have been exacerbated by the health crisis.** Despite the authorities' prompt policy response, including a relatively successful vaccination strategy and measures to ease the socioeconomic impact of the pandemic, recurrent natural disasters and poverty continue to afflict most of the population. Also, the impact of the war in Ukraine on international commodity prices is weighing particularly heavily on the most vulnerable. Against this background and considering downside risks to the outlook, including from political instability and spending pressures in the run-up to the upcoming elections, we encourage the authorities to achieve, over time, higher and more sustainable and inclusive growth that is focused on the private sector. In this regard, we take positive note that, as noted in the BUFF statement, reforms under the National Strategic Development Plan II sought to transform Lesotho into a producer-based economy led by the private sector and its successor plan, under preparation, will build on progress to date.

**Spending control is critical to debt sustainability.** While we acknowledge that spending related to fighting the pandemic remains critical, we encourage the authorities to rationalize other spending, particularly wages, while prioritizing safety nets and key productive investment projects. Also, strengthening PFM systems with technical support from the Fund and other specialized institutions is vital to improving the quality of spending and containing domestic payments arrears. *Could staff provide an update on the timeline for the issuance and adoption of new regulations to ensure multi-year budget commitments and for the publication of the arrears clearance strategy?*

**Structural reforms should boost the economy's efficiency and competitiveness.** Business environment reforms, if steadfastly implemented, would strengthen growth and the country's external position, making the economy more resilient to shocks. In this regard, we support staff's recommendations, inter alia, to enhance investments in human capital that would upgrade labor force skills in line with market needs and provide proper access to finance to micro, small, and medium-sized enterprises (MSMEs) and better connectivity. We also believe that elaborating and implementing a financial sector development strategy could be helpful in addressing the challenges of this critical sector of the economy.

With these remarks we wish the authorities success in their future endeavors.