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May 27, 2022

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

We thank staff for this report and Ms. Mannathoko, Mr. Damane, and Ms. Nainda for the informative Buff statement. Lesotho is facing a difficult recovery from COVID-19, compounded by spillovers from Russia's war in Ukraine. Beyond these near-term challenges, we appreciate staff's candor about the lack of private sector development, political and governance issues, the growing presence of the government in the economy, and the resulting impact on potential growth and competitiveness. **Going forward, we strongly urge the authorities to (1) slow the pace of growth in expenditures to improve Lesotho's debt dynamics and to right-size the government's role in the economy, (2) allow the economy to adjust internally in order to improve the competitiveness of exports and slow the loss of reserves, and (3) continue to improve central bank capacity and independence.**

**Although the authorities are working to increase fiscal revenues, we remain concerned that they are increasing expenditures even faster, leading to higher Fund staff projections for Lesotho's debt-to-GDP going forward.** We are encouraged that the authorities have imposed taxes on the mining sector. We are also heartened by better-than-forecasted revenue performance in FY20/21. Nevertheless, we are troubled by staff's projections for large increases in public sector wages in the near term. We agree that high public sector arrears add to the difficult fiscal picture and that the authorities should move to an accrual-based accounting system. We also echo that the authorities should improve public financial management by finalizing and implementing the PFMA bill. Finally, we note that the high degree of contingent liabilities poses significant risks to Lesotho's debt dynamics.

**We are concerned about declining reserve coverage, which is already down to 4.5 months of imports and staff project will fall below adequate levels based on current trends.** We agree with staff that Lesotho's SDRs should continue to bolster reserves. We note the downward trend in FDI, which reflects the country's declining competitiveness and

could make it difficult to finance the current account deficit sustainably. *In light of staff's assessment that the currency is likely overvalued, we would appreciate additional views on how to address this issue since Lesotho is part of a currency union. Given the myriad issues facing the country and the authorities' stated interest in a program, we would also welcome views from staff on the prospects for a UCT program.*

**With 80 percent of the population's livelihoods directly or indirectly reliant on rainfed agriculture, climate change poses significant fiscal, BOP, and humanitarian risks to Lesotho.** *Would staff consider Lesotho to be a good candidate for a Climate Macroeconomic Assessment Program?* Further, we note that the authorities plan to subsidize 60 percent of seed and fertilizer costs going forward. We encourage the authorities to work with staff to target the subsidies to the most vulnerable and reduce or eliminate the subsidies as soon as feasible to reduce the long-term implications for debt sustainability.

**We note the central bank's statements regarding rapid growth in the nonbank sector and the lack of capacity for supervision, and we encourage the authorities to seek capacity development (CD) on this front.** We also encourage the authorities to take steps to allow for greater private sector credit growth, particularly given that SMEs report lack of access to credit as the main obstacle to growth. We strongly support staff's work with the authorities to strengthen central bank independence.